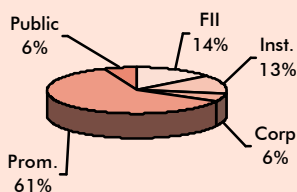


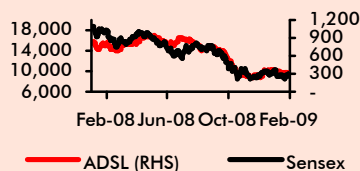
Buy**Price** Rs296**Target Price** Rs540 **% Upside** 82 ↑**Market Capitalisation** Rs5,233mn (US\$107mn)**52 wk range H/L (Rs)** 1,050/234**Shares o/s (mn)** 17.37 **Daily vol (mn shares)** 0.01**Reuters** ADIS.BO **Bloomberg** ALDS IN

Performance (%)	1M	3M	12M	YTD
Absolute (18.8)	0.8	(64.7)	(19.5)	
Relative (11.9)	13.5	(29.8)	(15.4)	

Source: Bloomberg

Shareholding pattern (%)

Source: Capitaline

Price performance

Source: Capitaline

Analyst

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Allied Digital

Surviving in tough environment

During Q3FY09, ADSL registered standalone operating income of Rs953.1 mn, a growth of 20.2% as compared to Rs792.9mn in the corresponding period of last year.

Its EBIDTA grew by 39.8% YoY to Rs227.8mn as against Rs163mn in the corresponding period last year. EBIDTA growth was higher than revenue growth due to EBIDTA margins expansion by 334bps. Its net profit grew by 53.9% YoY to Rs186.2mn as against Rs121mn YoY despite lower other income of Rs12.7mn and net margins expansion.

Enpointe Global Services (EPGS) contributed Rs435.7mn to the topline resulting in a YoY growth of 75.2% to Rs1388.8mn. Consolidated net profit stood at Rs195.8mn a growth of 61.8% YoY. The strong growth was led by 48% revenue contribution from solutions business and 52% by services.

ADSL's reported organic EBIDTA margins of 23.9% while consolidated margins came at 17.9% this was due to integration of EPGS which had a EBIDTA margins of 4.9%.

Going forward ADSL has guided for a 20-23% growth in System Integration business, while Integrated Solution within solution business is been guided for a 30-32% growth while domestic services and EPGS is guided for a close to 100% growth.

Target price reduced by 18% to Rs540(earlier Rs656): ADSL has delivered good Q3FY09 performance relative to the current macro-environment, which is seeing a cut in CAPEX. This has resulted in a lower growth in domestic sales. EPGS integration is on track but we are building in a lag in turnaround. The dual cost structure during migration to offshore has resulting in a delayed margins expansion. We believe that going into FY10 we would see this improving. Accordingly we have revised our estimates for the company as shown in the table below.

Change in estimates

(Rs mn)	New		Old		Change(%)	
	FY09E	FY10E	FY09E	FY10E	FY09E	FY10E
Income	5,494	8,339	6,157	9,372	(10.8)	(11.0)
EBITDA	1,219	2,151	1,473	2,540	(17.2)	(15.3)
PAT / Net profit	783	1,392	932	1,671	(16.0)	(16.7)
EPS(Rs)	43.4	77.2	51.7	92.6	(16.0)	(16.7)

Source:Company, Ambit Capital Research estimates

At the CMP of Rs296, the stock is available at 3.8x its consolidated FY10E EPS. We expect the stock to perform well as it delivers strong growth numbers over the next few quarters.

We retain our **BUY** rating on the stock with a reduced DCF target price of Rs540 (7x its FY10E Earnings of Rs77.2), indicating an upside of 82% from current levels.

Quarterly Performance

In Rs mn	Q3FY09	Q2FY08	YoY(%)	Q2FY08	YoY(%)	9MFY09	9MFY08	YoY(%)
Total Revenue	1388.8	792.9	75.2	1488.8	-6.7	3788.9	2152.5	76.0
EBIDTA	249.3	163.0	52.9	280.6	-11.2	753.1	460.3	63.6
EBIDTA mgn(%)	18.0	20.6	-2.6	18.8	-0.9	19.9	21.4	-1.5
Net Profit	195.8	121.0	61.8	240.6	-18.6	594.0	313.3	89.6
NPM (%)	14.1	15.3	-1.2	16.2	-2.1	15.7	14.6	1.1

Source: Company, Ambit Capital Research

Domestic CAPEX slowed down in Q3FY09 resulted in a 8-10% impact on topline; Situation improving now

ADSL Solutions business saw a slowdown during the quarter due to delay in corporate capex on the back of slowdown in the economy, but the situation doesn't look too grim for Q4FY09. ADSL is seeing new RFP's coming in for security surveillance post the terror attacks in Mumbai, besides new RFP's for System Integration are coming in from PSU's and other private companies. Presently company has a Rs1000mn order book for Integrated Solution .

Strong traction in EPGS -outsourced contracts to be offshored

At the time of acquisition the order book for EPGS was \$40mn which grew to \$53mn in Q2FY09 and \$59mn as of Q3FY09, the execution period is next 12 months. Also EPGS had outsourced service contracts worth \$107mn to third party vendors; these were for an average duration of 2.75 years. Going forward we expect \$35mn addition to current annuity orders each year, coming in from these contracts. The average duration of the annuity orders are 3 years.

The rationale behind outsourcing these contracts was that EPGS didn't had the competency to offer these services. With ADSL on board these contracts shall be migrated on an offshore delivery model, as and when they come for renewal. This would see incremental build up in the order book organically, though addition will also happen through new client acquisition.

Order book Mn\$

	at acquisition	Q2FY09	Q3FY09
Enpointe Annuity order book	40	53	59

Source: Company, Ambit Capital Research

Non-linear growth in Enpointe to come with lag

With good revenue visibility, margin expansion would lead to a non-linear profit growth. EPGS reported a 10.2% and 4.9% EBIDTA margins and a 5.6% and 2.2% PAT margins for Q2FY09 and Q3FY09 respectively as against ADSL's standalone EBIDTA and PAT margins of 24% and 20% for Q3FY09. Currently the services migration is happening resulting in a dual cost centre at EPGS and ADSL, as the migration gets over (which we believe will happen by Q1FY10), the offshore services delivery would result in a margins expansion resulting in a non-linear growth.

Enpointe

	Q2FY09	Q3FY09
Sales	459.70	435.70
EBIDTA	46.80	21.50
margins%	10.2%	4.9%
PAT	25.70	9.60
margins%	5.6%	2.2%

Source: Company, Ambit Capital Research

Monitoring devices seeing good built up

Devices - ADSL has about 4850 devices online now as against 3900 at the end of Q2FY09 and another 1500 are under migration. The majority of the devices are through Insurance clients won, through the joint efforts of EPT and ADSL. The devices build up has been attributed to HIPAA compliance .Going forward US is coming up with stringent regulation on Sec 429 compliance reporting under "SOX" ,which basically deals with "Rolls and Rights audit". ADSL believes that this could be a big opportunity going forward.

Devices count		
Devices	Q3FY09	under boarding
Enpointe	1400	
ADSL	3450	
Total	4850	1500

Source: Company, Ambit Capital Research

RMS update - visibility of 50% utilization for next financial year

RMS - Remote managed service built around NOC/SOC contributed about Rs 140mn to Q3FY09 as against Rs120mn in Q2FY09. There was some reclassification in the RMS revenues as some contracts routed through EPGS pre-acquisition where transferred back to the subsidiary so the total revenue for RMS stands at Rs420mn 9MFY09. RMS has 55 seats online now and another 25 seats are getting operational. ADSL has an overall 50% visibility for RMS utilization in FY10.

Debtor's improvement 20-25% for FY10

"Procurement assistance program" was set up by ADSL to help clients directly procure IT hardware from OEM's. This resulted in a lower topline (8-10%) growth for the Q3FY09. Earlier the direct purchase by ADSL has resulted in a high debtors days. Going forward company expects the debtors to come down by 20-25% going into FY10.

Financial summary

Balance Sheet

(Rs mn)(year end- Mar)	FY06	FY07	FY08	FY09E	FY10E
Cash & equivalents	26.9	29.4	151.4	427.5	1,355.4
Debtors	290.6	596.3	1,062.6	1,662.5	1,816.1
Inventory	10.7	12.9	38.2	45.0	35.0
Loans & advances	102.7	128.7	281.2	526.8	799.6
Investments	1.5	28.9	28.9	28.9	28.9
Fixed assets	16.9	103.9	804.1	968.5	1,197.7
Goodwill				1,075.0	1,075.0
Other assets	(0.5)	5.1	5.1	5.1	5.1
Total assets	448.8	905.2	2,371.4	4,739.3	6,312.8
Current liabilities & provisions	111.9	239.1	418.4	699.5	1,030.0
Debt	85.3	79.6	79.6	709.6	509.6
Minority Interest				28.7	80.1
Total liabilities	197.2	318.7	498.0	1,437.8	1,619.8
Shareholders' equity	47.4	127.7	172.9	180.4	180.4
Reserves & surpluses	205.5	458.8	1,700.5	3,121.1	4,512.7
Total networth	252.9	586.5	1,873.5	3,301.5	4,693.1
Net working capital	319.0	528.2	1,115.0	1,962.3	2,976.1
Net debt (cash)	58.4	50.2	(71.8)	282.1	(845.8)
Total liabilities & equities	448.8	905.2	2,371.4	4,739.3	6,312.8

Income statement

(Rs mn) (year end- Mar)	FY06	FY07	FY08	FY09E	FY10E
Operating income	883.5	1,562.5	2,972.6	5,493.5	8,339.1
% growth		77	90	85	52
Operating expenditure	714.9	1,232.4	2,310.4	4,274.4	6,187.6
EBITDA	168.6	330.1	662.2	1,219.1	2,151.5
% growth		96	101	84	76
Depreciation	5.6	8.6	32.9	64.1	109.2
EBIT	163.0	321.5	629.3	1,155.0	2,042.2
Interest expenditure	8.0	11.0	13.8	56.8	45.9
Non-operational inc. / Exceptional items	5.3	1.7	30.4	25.0	28.0
PBT	160.3	312.2	645.9	1,123.2	2,024.4
Tax	41.0	84.6	216.5	311.5	581.4
Minority Interest				28.7	51.4
PAT / Net profit	119.3	227.6	429.4	783.0	1,391.6
% growth		91	89	82	78

Key ratios (%)

	FY06	FY07	FY08	FY09E	FY10E
EBITDA margin	19.1	21.1	22.3	22.2	25.8
EBIT margin	18.4	20.6	21.2	21.0	24.5
Net profit margin	13.5	14.6	14.4	14.3	16.7
Return on capital employed	53.8	47.0	32.7	27.9	31.5
Return on equity	78.1	54.3	34.8	30.3	34.8
Current ratio (x)	3.9	3.2	3.7	3.8	3.9

Valuation parameters

	FY06	FY07	FY08	FY09E	FY10E
EPS (Rs)	6.9	13.2	24.7	43.4	77.2
Diluted EPS (Rs)	6.9	13.2	24.7	43.4	77.2
Book value per share (Rs)	14.5	33.9	108.3	183.0	260.2
P/E (x)	42.9	22.5	12.0	6.8	3.8
P/BV (x)	20.3	8.7	2.7	1.6	1.1
EV/EBITDA (x)	31.1	15.9	7.9	4.3	2.4
EV/Sales (x)	5.9	3.4	1.8	1.0	0.6

Source: Company, Ambit Capital Research estimates

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