

January 30, 2010

BUY

HIGH RISK

PRICE Rs. 231

TARGET Rs.292

## TECHNOLOGY

### EARLIER RECO

<b>Buy</b>	
Price	Rs.236*
Target	Rs.292*
Date	7th Nov, 09


- Adjusted for split in face value from Rs.10 to Rs.5.

### SHARE HOLDING (%)

As on 31st December,2009

Promoters	43.5
FII/ FI / MF	35.2
Body Corporate	6.0
Public & Others	15.3

### STOCK DATA

Reuters Code	ADIS.BO	
Bloomberg Code	ALDS@IN	
BSE Code	532875	
NSE Symbol	ADSL	
Market Capitalization	Rs. 10723 mn US\$ 230.6 mn	
Shares Outstanding	46.42 mn	
52 Weeks (H/L)	Rs.280/ 73	
Avg. Daily Volume (6m)	109608 Shares	
Price Performance (%)		
1M	3M	6M
0	2	35
200 Days EMA Rs.214		
Part of  Bonanza		



### Excellent Q3FY10 Performance

- During Q3FY10, ADSL's consolidated revenues stood at Rs. 1,789.2 mn, registering a growth of 7.3% on QoQ basis. During the quarter, its Revenues from Solution's business grew by 7.9% QoQ to Rs. 783.3 mn, while its IMS business, which also includes revenues of Enpointe Global Services (EPGS), grew by 7.1% QoQ to Rs. 1005.1 mn. Revenues from EPGS for the quarter stood at US\$ 11 mn.
- Its consolidated EBITDA for Q3FY10 increased by 5.2% QoQ to Rs. 356.7 mn while its EBITDA margins stood at 19.9%. Going forward, the management expects its EBITDA margins to improve further with margin expansion of EPGS.
- ADSL's consolidated APAT increased by 8.4% QoQ to Rs. 271.1 mn, while its APAT margins improved by 20 bps QoQ to 15.2%.
- The order book position of the Company stood very healthy at Rs. 5370 mn, out of which, the services business order book was around Rs. 4220 mn (to be executed in next twelve months) and on the solution side, order book was close to Rs. 1150 mn (to be executed in the next six months).
- During the quarter, the Company has allotted 4.9 mn fully paid up equity shares of Rs.10 each at a premium of Rs. 462.3 per share aggregating to Rs. 2314.2 mn to Qualified Institutional Buyers. The money raised will be utilized mainly for setting up a Data recovery Center (DRC) in India with capacity of 225 seats, and also for a probable strategic acquisition in European market. However, ADSL is still in the process of due diligence of the target company (operating in European market). The capex for setting up DRC would be about US\$ 9-10 mn.

### OUTLOOK & VALUATION

ADSL has delivered decent performance during 9MFY10, mainly due to its high focus on RMS & IMS segments. During the period, ADSL through its US subsidiary EPGS, has been successful in striking alliances with networking majors to provide NOC services to their clients. During Q1FY10, the Company had made an alliance with Lenovo (OEM - PC server manufacturer) to provide remote management services to their customers, which has already started contributing to its Revenues & is expected to contribute meaningfully from Q4FY10. ADSL has strong order book of Rs.5370 mn. Moreover, the Company is looking at an acquisition opportunity in European market, which could be EPS accretive. ADSL also plans to double the capacity of its current NOC/SOC facility in India by adding 225 seats. Going forward, with strong 9MFY10 performance, we have increased our Revenues estimates for FY10E & FY11E, however, considering it's slightly lower than expected EBIDTA margins for 9MFY10, we have largely maintained our APAT estimates for FY10E & FY11E. We now expect its FY10E & FY11E Revenues to grow by 24.6% & 19.1% to Rs. 6,925.5 mn & Rs. 8,245.7 mn respectively and its FY10E & FY11E APAT to grow by 43% & 27.5% to Rs. 1,016.3 mn & Rs. 1,353.3 mn respectively. At the CMP of Rs. 231, the stock is available at 10.1x & 7.9x of its FY10E & FY11E earnings of Rs. 22.9 & Rs. 29.2 respectively, which we believe is very attractive. We maintain our "BUY" rating on the stock, with target price of Rs. 292.

### KEY FINANCIALS (Consolidated)

Y/E	SALES (Rs mn)	APAT (Rs mn)	AEPS (Rs.)	AEPS (%Ch.)	PER (x)	ROE (%)	ROE (%)	P/BV (x)
FY09	5557.5	742.1	20.5	62.6	11.3	26.1	30.0	2.6
FY10E	6925.5	1061.3	22.9	11.6	10.1	19.8	22.5	1.7
FY11E	8245.7	1353.3	29.2	27.5	7.9	18.1	19.5	1.4

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Please refer to important disclosures at the end of the report

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**QUARTERLY RESULTS (Consolidated)** (Rs.mn)

Y/E March	Q1FY10	Q2FY10	Q3FY10
<b>Total Revenues</b>	<b>1589.6</b>	<b>1666.7</b>	<b>1789.2</b>
% Ch. QoQ	7.7	4.9	7.3
Cost of sales	982.0	1006.1	1111.7
% Ch. QoQ	8.0	2.5	10.5
% STO	61.8	60.4	62.1
Staff Cost	203.1	201.3	199.8
% Ch. QoQ	6.4	(0.9)	(0.7)
% STO	12.8	12.1	11.2
Other Expenses	106.8	120.1	121.0
% Ch. QoQ	4.0	12.5	0.7
% STO	6.7	7.2	6.8
<b>Total Expenditure</b>	<b>1291.9</b>	<b>1327.5</b>	<b>1432.5</b>
% Ch. QoQ	7.4	2.8	7.9
% STO	81.3	79.6	80.1
<b>EBITDA</b>	<b>297.7</b>	<b>339.2</b>	<b>356.7</b>
% Ch. QoQ	9.1	13.9	5.2
% Margin	18.7	20.4	19.9
Interest	15.4	15.3	11.8
% Ch. QoQ	1.3	(0.6)	(22.9)
% of STO	1.0	0.9	0.7
<b>EBDT</b>	<b>282.3</b>	<b>323.9</b>	<b>344.9</b>
% Ch. QoQ	9.6	14.7	6.5
% Margin	17.8	19.4	19.3
Depreciation	16.0	18.5	26.5
% Ch. QoQ	13.5	15.6	43.2
% of STO	1.0	1.1	1.5
<b>PBT excl. OI</b>	<b>266.3</b>	<b>305.4</b>	<b>318.4</b>
% Ch. QoQ	9.4	14.7	4.3
% Margin	16.8	18.3	17.8
Other Income	1.3	1.7	15.8
% Ch. QoQ	(78.3)	30.8	829.4
% Margin	0.1	0.1	0.9
<b>PBT incl OI</b>	<b>267.6</b>	<b>307.1</b>	<b>334.2</b>
% Ch. QoQ	7.3	14.8	8.8
% Margin	16.8	18.4	18.7
Tax	37.0	51.3	57.3
% of PBT	13.8	16.7	17.1
<b>APAT</b>	<b>230.6</b>	<b>255.8</b>	<b>276.9</b>
% Ch. QoQ	4.7	10.9	8.2
% Margin	14.5	15.3	15.5
Minority Interest	2.9	5.1	5.2
<b>APAT after min. int.</b>	<b>227.7</b>	<b>250.7</b>	<b>271.7</b>
Extraordinary Items	0.0	0.0	0.0
<b>RPAT</b>	<b>227.7</b>	<b>250.7</b>	<b>271.7</b>

**PROFIT & LOSS (Consolidated)** (Rs. mn)

Y/E March	FY08	FY09	FY10E	FY11E
<b>Total Revenues</b>	<b>2970.4</b>	<b>5557.5</b>	<b>6925.5</b>	<b>8245.7</b>
% Ch. YoY	90.4	87.1	24.6	19.1
Cost of sales	1997.4	3446.1	4263.4	5029.9
% Ch. YoY	93.7	72.5	23.7	18.0
% STO	67.2	62.0	61.6	61.0
Staff Cost	223.2	736.7	810.0	955.8
% Ch. YoY	74.8	230.0	10.0	18.0
% STO	7.5	13.3	11.7	11.6
Other Expenses	82.2	378.5	472.0	531.0
% Ch. YoY	15.3	360.4	24.7	12.5
% STO	2.8	6.8	6.8	6.4
<b>Total Expenditure</b>	<b>2302.9</b>	<b>4561.3</b>	<b>5545.4</b>	<b>6516.7</b>
% Ch. YoY	87.2	98.1	21.6	17.5
% STO	77.5	82.1	80.1	79.0
<b>EBITDA</b>	<b>667.5</b>	<b>996.2</b>	<b>1380.1</b>	<b>1729.1</b>
% Ch. YoY	102.2	49.2	38.5	25.3
% Margin	22.5	17.9	19.9	21.0
Interest	13.8	56.2	52.5	49.9
% Ch. YoY	25.5	306.0	(6.5)	(5.0)
% of STO	0.5	1.0	0.8	0.6
<b>EBDT</b>	<b>653.7</b>	<b>940.0</b>	<b>1327.6</b>	<b>1679.2</b>
% Ch. YoY	104.9	43.8	41.2	26.5
% Margin	22.0	16.9	19.2	20.4
Depreciation	32.9	49.7	88.0	103.4
% Ch. YoY	282.2	51.2	77.1	17.5
% of STO	1.1	0.9	1.3	1.3
<b>PBT excl. OI</b>	<b>620.8</b>	<b>890.3</b>	<b>1239.6</b>	<b>1575.8</b>
% Ch. YoY	99.9	43.4	39.2	27.1
% Margin	20.9	16.0	17.9	19.1
Other Income	25.8	22.3	51.8	129.5
% Ch. YoY	1415.4	(13.5)	132.5	150.0
% Margin	0.9	0.4	0.7	1.6
<b>PBT incl OI</b>	<b>646.5</b>	<b>912.6</b>	<b>1291.4</b>	<b>1705.3</b>
% Ch. YoY	107.1	41.1	41.5	32.0
% Margin	21.8	16.4	18.6	20.7
Tax	211.0	167.6	211.4	332.5
% of PBT	32.6	18.4	16.4	19.5
<b>APAT</b>	<b>435.6</b>	<b>745.0</b>	<b>1080.0</b>	<b>1372.8</b>
% Ch. YoY	90.0	71.0	45.0	27.1
% Margin	14.7	13.4	15.6	16.6
Minority Interest	0.0	2.8	18.7	19.5
<b>APAT after min. int.</b>	<b>435.6</b>	<b>742.1</b>	<b>1061.3</b>	<b>1353.3</b>
Extraordinary Items		27.0	0.0	0.0
<b>RPAT</b>	<b>435.6</b>	<b>769.1</b>	<b>1061.3</b>	<b>1353.3</b>

Source: Company, SFSPL Research Estimates

## BALANCE SHEET (Consolidated)

(Rs.mn)

As on 31 <sup>st</sup> March	FY08	FY09	FY10E	FY11E
<b>SOURCES OF FUNDS</b>				
Eq. Share Capital	172.9	181.1	232.1	232.1
Sh. Premium A/c	835.4	1450.7	3715.9	3715.9
Res. & Surplus	801.8	1531.4	2499.9	3713.9
<b>Net Worth</b>	<b>1810.1</b>	<b>3163.2</b>	<b>6447.9</b>	<b>7661.9</b>
<b>Minority Interest</b>	<b>-</b>	<b>36.1</b>	<b>40.0</b>	<b>40.0</b>
Secured Loans	107.2	841.3	691.3	591.3
Unsecured Loans	50.0	60.0	60.0	60.0
<b>Total Loan funds</b>	<b>157.2</b>	<b>901.3</b>	<b>751.3</b>	<b>651.3</b>
<b>Capital Employed</b>	<b>1967.3</b>	<b>4100.7</b>	<b>7239.3</b>	<b>8353.3</b>
<b>APPLICATION OF FUNDS</b>				
Gross Block	225.9	508.3	1008.3	1508.3
Less: Depreciation	63.5	91.6	179.6	283.0
Net Block	162.3	416.7	828.7	1225.3
Cap. WIP	40.1	338.6	100.0	100.0
<b>Fixed Assets</b>	<b>202.4</b>	<b>755.3</b>	<b>928.7</b>	<b>1325.3</b>
<b>Investments</b>	<b>474.6</b>	<b>50.0</b>	<b>50.0</b>	<b>50.0</b>
<b>Goodwill</b>	<b>0.0</b>	<b>1125.2</b>	<b>1125.2</b>	<b>1125.2</b>
Inventories	49.7	105.9	116.5	122.4
Sundry Debtors	1480.1	2271.8	2726.2	3135.1
Cash & Bank Bal	69.7	165.2	2633.3	2959.6
Loans & Advances	254.6	330.5	500.0	600.0
<b>Curr Assets, Loans &amp; Adv</b>	<b>1854.1</b>	<b>2873.5</b>	<b>5976.1</b>	<b>6817.2</b>
<b>Curr Liab &amp; Prov</b>	<b>562.7</b>	<b>687.2</b>	<b>824.7</b>	<b>948.4</b>
<b>Net Current Assets</b>	<b>1291.4</b>	<b>2186.2</b>	<b>5151.4</b>	<b>5868.8</b>
<b>Net Deferred Tax</b>	<b>(1.2)</b>	<b>(16.0)</b>	<b>(16.0)</b>	<b>(16.0)</b>
<b>Total Assets</b>	<b>1967.2</b>	<b>4100.7</b>	<b>7239.3</b>	<b>8353.3</b>

## FINANCIAL RATIOS (Consolidated)

Y/E March	FY08	FY09	FY10E	FY11E
<b>GROWTH (%)</b>				
Net Sales	90.4	87.1	24.6	19.1
Adjusted Net Profit	90.0	71.0	45.0	27.1
EBITDA	102.2	49.2	38.5	25.3
EPS	40.3	62.6	11.6	27.5
CEPS	51.0	67.5	7.6	26.7
Gross Fixed Assets	130.7	125.0	98.4	49.6
Capital Employed	195.4	108.4	76.5	15.4
<b>VALUATION</b>				
EPS (Rs.)	12.6	20.5	22.9	29.2
CEPS (Rs.)	13.7	23.0	24.8	31.4
BVPS (Rs)	52.3	87.3	138.9	165.1
PER (x)	18.3	11.3	10.1	7.9
PEG (x)	0.5	0.2	0.9	0.3
P/CEPS (x)	16.8	10.0	9.3	7.4
P/BVPS (x)	4.4	2.6	1.7	1.4
EV/EBITDA (x)	12.1	9.1	6.4	4.9
EV/Net Sales (x)	2.7	1.6	1.3	1.0
<b>PROFITABILITY (%)</b>				
ROCE (%)	33.8	26.1	19.8	18.1
ROE (%)	36.4	30.0	22.5	19.5
EBIDTA Margin (%)	22.5	17.9	19.9	21.0
EBDTA Margin (%)	22.0	16.9	19.2	20.4
Net Profit Margin (%)	14.7	13.4	15.3	16.4
Tax/PBT (%)	32.6	18.4	16.4	19.5
<b>TURNOVER</b>				
Debtor Days	182	149	144	139
Creditor Days	103	73	71	69
Net Fixed Assets(x)	18.3	13.3	8.4	6.7
Total Assets (x)	1.5	1.4	1.0	1.0

Source: Company, SFSPL Research Estimates

## Rating Scale

This is a guide to the rating system used by our Equity Research Team. Our rating system comprises of six rating categories, with a corresponding risk rating.

### Risk Rating

Risk Description	Predictability of Earnings / Dividends; Price Volatility
Low Risk	High predictability / Low volatility
Medium Risk	Moderate predictability / volatility
High Risk	Low predictability / High volatility

### Total Expected Return Matrix

Rating	Low Risk	Medium Risk	High Risk
Buy	Over 15 %	Over 20%	Over 25%
Accumulate	10 % to 15 %	15% to 20%	20% to 25%
Hold	0% to 10 %	0% to 15%	0% to 20%
Sell	Negative Returns	Negative Returns	Negative Returns
Neutral	Not Applicable	Not Applicable	Not Applicable
Not Rated	Not Applicable	Not Applicable	Not Applicable

#### Please Note

- Recommendations with “Neutral” Rating imply reversal of our earlier opinion (i.e. Book Profits / Losses).
- \*\* Indicates that the stock is illiquid With a view to combat the higher acquisition cost for illiquid stocks, we have enhanced our return criteria for such stocks by five percentage points.

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