On Cloud Nine

Given the increasing demand of cloud computing and remote management services, Allied Digital Services is well poised to grow

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ALLIED Digital Services has gained traction in the IT infrastructure management services (IMS) segment, which has got mass visibility after the economic slowdown pushed corporates to cut down operating costs. According to a recent Nasscom Mickinsey report, India is expected to benefit from $13-15 billion worth of opportunities in the remote infrastructure management space globally.

TAKE TWO

BUSINESS

Mumbai-based Allied Digital Services (ADSL) offers a range of IT infrastructure services and solutions, including managed services and physical and information security solutions. The company, which was incorporated in 1995, serves a vast customer base spread across 132 locations within India and over 40 locations across the US and Australia. Its presence in the US market can be attributed to the inorganic route adopted by the company. It had acquired En Pointe Global Service in 2008.

GROWTH OUTLOOK

Recently, the company has entered into a strategic partnership with Intel's global investment organization, Intel Capital. The deal seeks an investment of ₹32crore from Intel to hold a 2.8% stake in ADSL. Leveraging on Intel's technology expertise, ADSL will now be able to enhance its offerings in the remote infrastructure management space and cloud-based services. Also, the deal would help ADSL expand its customer base in the newer geographies of South East Asia, Europe and west Asia.

The company, which has a presence in the US through its fully-owned subsidiary, foresees a decent growth momentum in the country in the coming quarters. Also, the company has bagged large deals form transportation and telecommunication players in the US during the September 2010 quarter.

Of late, the company was seeking an acquisition of a European company, but the deal was called off due to lack of synergies between businesses.

Going forward, the company looks to enter into more joint ventures and merger and acquisitions in order to boost its product portfolio that would in turn help it expand its customer base and market reach. The company's management looks to fund the anticipated deals through debt and internal accruals.

FINANCIALS

ADSL posted robust growth during the September 2010 quarter. Its consolidated top line grew 18% to ₹196.5 crore against the year-ago period. While the services arm contributed nearly 57% to the total revenue, the balance came from the hardware intensive solutions segment.

During the quarter, although the raw material costs rose significantly as a percentage of net sales against the year ago period, its operating margin remained more or less stagnant at 21%. This led to a 19% jump in bottom line, which is in tandem with the increase in the net sales for the same period.

The company continues to witness improvement in its order book primarily in the solutions business which indicates a healthy revenue visibility in the coming quarters.

FIGURE WATCH

Allied Digital Services' Consolidated Financials

	Qtr Ended Sept '10	Year Ended Sept '10	Y-o-Y Chg (%)*
Net Sales	196.5	771.3	21.3
Cost of Raw Materials	124.6	488.0	25.1
Operating Profit	41.4	160.5	38.3
Interest	1.9	5.5	-7.6
Depreciation	3.6	11.8	79.9
Tax Expense	7.4	27.4	72.8
Net Profit	29.7	121.0	37.9
Profit Margin (%)	15.10	15.70	190 bps
Operating Margin (%)	21.10	20.80	250 bps

*Y-o-Y % change over year ended Sept '09 bps = basis points (₹ Crore)
Source: Capitaline

Sections	Numbers
Beta	.92
Institutional Holding	32.4%
Dividend Yield	-
Current P/E	7.4
Current M-Cap	₹819.1cr
CMP	₹176.2

VALUATION

At the current market price of ₹199.1, the stock of the company trades at nearly eight times its earnings for the trailing 12 months. Given the increasing demand of cloud computing and remote management services, the company is well poised to grow in the coming quarters.

CONCERN

Services arm is the major contributor to the company's top line. Over 60% of the services business comes from foreign markets, especially from the US. This makes the company's revenue vulnerable to currency exchange rates.

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