



RATING RATIONALE

Allied Digital Services Limited

3 March 2020

Brickwork Ratings revised the ratings for the Bank Loan Facilities of Rs. 27.27 Crores of Allied Digital Services Limited.

Particulars

Facility	Amount (Rs. Crs)		Tenure	Rating	
	Previous	Present		Previous (16 Oct 2019)	Present
Fund based					
Term Loan	30.58	27.27	Long Term	BWR BB+ (Stable)	BWR BBB- (Stable) Upgrade
Non Fund Based					
Bank Guarantee	26.50	-	Short Term	BWR A4+	Rating Withdrawn
Total	57.08	27.27	Rupees Twenty Seven Crores and Twenty Seven lakhs Only		

**Please refer to BWR website www.brickworkratings.com/ for definition of the ratings*

*** Details of Bank facilities is provided in Annexure-I*

RATING ACTION / OUTLOOK

The rating has been revised for Allied Digital Services Limited (ADSL or “The Company”) on account of growth in operations for 9MFY20) and healthy operational performance for the past 3 years with improved profitability, strong financial risk profile, moderate order book position of Rs. 184.01 Crs as of Dec 2019 providing revenue visibility.

The ratings also factors its business growth owing to the government's initiatives of Digital India and development of smart cities. They currently have 4 smart city projects and enterprise projects. The growth in operations is backed by experience management team and established track record which helps the company to secure new orders

The ratings are, however, constrained by modest scale of business, working capital intensive nature of operations, risk of delay in project completion, partial tender based nature of business, intense competition limiting price flexibility.

Outlook: Stable

The outlook is expected to be stable over medium term on account of its business growth along with its experienced management, moderate order book and strong financial risk profile



KEY RATING DRIVERS

Credit Strengths:

Establishment and experience of the promoters: Allied Digital Services Limited (ADSL) was established in 1984 as 'Digital Data Services' and was then incorporated as Allied Digital Services Private limited in 1995. ADSL became a public limited company in 2006. The company is listed in both BSE and NSE. ADSL is promoted by Mr. Nitin Shah, Mr. Prakash Shah, who have more than 40 & 30 years of experience respectively in their varied fields of interests. Their expertise and relations with customers have helped the company to secure new business

Strong financial risk profile and moderate order book position: The company has maintained a moderate financial risk profile marked by a healthy gearing ratio of 0.06 times. Due to their relatively lower debt of Rs. 28.60 Crs as on 9MFY20(Prov) with respect to its net worth of Rs. 418.56 Crs the company has maintained healthy debt protection metrics with ISCR and DSCR of 4.63 times and 3.55 times respectively as of 9MFY20(prov).

Healthy growth in operations:

The company reported a healthy growth in scale of operations with revenues for months ended Dec 2019 at Rs. 69.48 Crs on standalone basis and Rs. 240.01 Crs on a consolidated basis compared to Rs. 51.24 Crs on standalone basis and Rs. 181.69 Crs on consolidated basis for same period earlier. The company derives revenue primarily from IT Infrastructure Services, Enterprise Application & Integrated Solutions and related services. It follows a percentage completion method which results in fluctuation in revenue. However, the company presently has an unexecuted order book position of Rs. 184.01 Crs as on Dec 2019 of which major portion is from smart city projects. Further, the company is bidding for several government projects including Digital India and smart city projects which are expected to significantly improve the revenue in the medium to near term if the tenders are secured by the company.

Credit Risks:

Working Capital Intensive: The operations of the company is highly working capital intensive on account of the high receivables days which stood at 698 days for FY19 and 499 days for 9MFY20. The elongated receivable days are due to disputed debts which have been stuck since the last 24 months. The company is planning to write off the disputed drs gradually over a period of time and the same is not expected to impact the cash flows negatively going ahead. BWR expects the operations to remain working capital intensive in nature going forward as the company derives the partial revenue from the government contracts.

Exposure to risk and tender based operations: Major portion of company's revenue is generated from the United States reflecting geographic concentration risk, and currency fluctuations. Also, Since sales are tender-based, revenue and profitability partially depends on the ability of the company to secure new tenders.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

For arriving at its ratings, BWR has considered the standalone performance of ADSL along with the business linkages with its subsidiaries providing financial services. BWR has applied its rating methodology as detailed in the Rating Criteria ([hyperlinks provided at the end of this rationale](#)).

RATING SENSITIVITIES

Going forward, the Company's ability to improve its scale of operations and improvement in working capital cycle, including recoveries to manage its working capital efficiently, execute the orders in a timely manner and secure new orders would be the key rating sensitivities.



Positive: The rating may be upgraded if the company is able to achieve significant growth in revenue and profitability backed by favourable demand prospects and efficient working capital management.

Negative: The rating may be downgraded, on account of lower than expected growth in revenues and profitability coupled with increase in the working-capital requirements of the company adversely impacting the liquidity position of the company.

LIQUIDITY POSITION: ADEQUATE

The company has maintained adequate liquidity position as evident from cash/cash equivalents of Rs. 4.58 Crs as on March 31, 2019 and Cash accrual of Rs. 24.98 Crs which will be sufficient for meeting working capital requirements over the medium term. Current Ratio of the company stood at 2.50 times in FY19.

COMPANY PROFILE

Allied Digital Services Limited (ADSL) was established in 1984 as Digital Data Services and was then incorporated as Allied Digital Services Private limited in 1995. ADLS became a Public company in 2006. The Company is listed in BSE and NSE. Allied Digital Services Ltd has its registered office in Nariman Point, Mumbai. ADSL is a Global IT Transformation Architect, with a track record for designing, developing, deploying and delivering end-to-end IT Infrastructure services. The company's operations are spread in 35 countries across 5 continents.

KEY FINANCIAL INDICATORS

Key Parameters	Units	Standalone			Consolidated		
		FY18	FY19	9MFY20	FY18	FY19	9MFY20
Result Type		Aud	Aud	Prov	Aud	Aud	Prov
Total Operating Income	Rs. Crs	74.23	75.23	69.48	224.90	239.73	240.01
OPBDIT	Rs. Crs	31.49	26.56	18.55	46.86	38.54	39.45
PAT	Rs. Crs	4.98	9.63	5.02	9.97	12.37	16.39
Tangible Net Worth	Rs. Crs	395.24	413.54	418.56	273.08	297.39	313.78
Gearing Ratio	Times	0.21	0.16	0.06	0.34	0.31	0.27
ISCR	Times	6.47	2.88	4.63	8.55	3.84	8.34

KEY COVENANTS OF THE FACILITY RATED: NA

NON-COOPERATION WITH PREVIOUS RATING AGENCY: NA

RATING HISTORY

Facilities	Current Rating (2020)				Rating History		
	Tenure	Previous Amount (Rs. Crs)	Present Amount (Rs. Crs)	Present Rating	2019	2018	2017
Fund Based							
Term Loan	Long Term	30.58	27.27	BWR BBB- (Stable) Upgrade	BWR BB+ (Stable)	NA	NA
Non Fund Based							
Bank Guarantee	Short Term	26.50	-	Rating Withdrawn	BWR A4+	NA	NA
Total		57.08	27.27	Rupees Twenty Seven Crores and Twenty Seven lakhs Only			

COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Services Sector](#)

Analytical Contacts	Investor and Media Relations
<p>Noman Agashwala Associate Director - Ratings B :+ 91 022-67456630 noman.a@brickworkratings.com</p> <p>Netra Rathod Ratings Analyst B :+91 22 6745 6609 netra.r@brickworkratings.com</p>	<p>Liena Thakur Assistant Vice President - Corporate Communications M: +91 84339 94686 liena.t@brickworkratings.com</p>

ANNEXURE I
Details of Bank Facilities rated by BWR

Sl. No.	Name of the Bank	Type of Facilities	Long Term (Rs. Crs)	Short Term (Rs. Crs)	Total (Rs. Crs)
1.	Kotak Mahindra Bank	Term Loan	0.95	-	0.95
2.	Barclays	Short Term Loan	20.72	-	20.72
3.	Caparo Financial solutions	Term Loan	5.60	-	5.60
TOTAL					27.27

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