PHOTOS: SANJAY BORADE

*Our journey has just begun, says Shah*

# Allied to growth

**After a successful IPO, Allied Digital has embarked on a journey of strategic acquisitions which will change its revenue mix**

His father was a stockbroker in the BSE and it was easy for Nitin Shah to continue in the family business and make his fortune, but he decided to pursue a degree in electrical engineering from VJTI, Mumbai with the aim of setting up his own business. A fresher from the 1977 batch, Shah started as a mainframe support engineer at CMC. At that time CMC had just taken over the technical support and maintenance of IBM machines, which gave Shah a huge exposure to all kinds of mainframes.

Although Shah harboured dreams of becoming an entrepreneur, he was waiting for the right opportunity, which came knocking when R.H. Bengalee, the head of Mafatlal Consultancy Services suggested that he turn support services into a business proposition. "I grabbed this opportunity and made third party maintenance and support a line of business in 1984," recalls Shah, CMD of the almost Rs300 crore Allied Digital Services Ltd (ADSL). From a systems integrator and IT infrastructure management services outfit, the company has now grown into a global service delivery centre with two strategic business units – a network operating centre (NOC) and security operating centre (SOC), a space occupied by big software service giants like TCS, Wipro, Infosys etc. "However, ADSL's business model is slightly different. Unlike the competition, which relies on a people outsourcing model where the work force sits at the customers' end and manages the business, at ADSL the staff sits at their own office," explains an IT manager who has been using ADSL's infrastructure management services.

Post-IPO, on the bourse, ADSL opened at Rs331. Although it dropped to Rs274 (52-week low on 21 August 2007), it zoomed to Rs1,129 (52-week high on 8 January 2008). Now in a year's time, with Shah delivering what he promised – setting up the delivery centre and growing inorganically – during the IPO, ADSL is changing hands at Rs775 despite the bearish sentiment, four times the IPO price. Further, analysts tracking the company have come out with 'buy' reports, targeting a price of between Rs1,240 and Rs1,410.

"ADSL has started its remote managed services (RMS) centre in September 2007, rightly positioning itself in the growing remote infrastructure management and IT security management space. The opportunities are immense and ADSL with the technical understanding from Singapore-based E-cop, a pioneer in managed security services, can penetrate deep," explains Jishna Nair, an analyst at India Capital Markets, pointing to the transformation of ADSL from a low end system integrator and infrastructure management company into an integrated service provider. "Remote management services will be the growth driver."

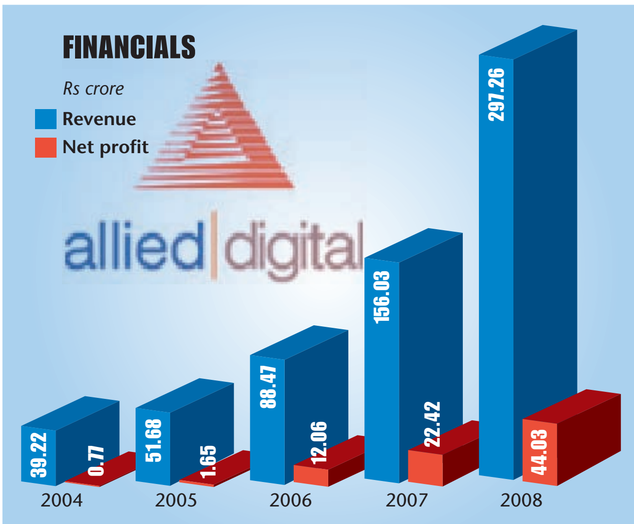
"NOC and SOC are the two pillars on which ADSL will build its future," adds Shah, who in July 2007 raised close to Rs86 crore through the initial public offer (IPO) giving investors handsome returns. In the IPO, through the book building process, Shah diluted 25 per cent stake at Rs190 per share (the upper end of the price band). With the earnings per share (EPS) of Rs13.3, the offer was made at a price to earnings (P/E) ratio of 14.3 times.

Out of the IPO proceeds, ADSL has invested close to Rs33 crore in its global service delivery centre (GSDC) at Mahape in Navi Mumbai that houses the NOC and SOC. This serves as the centralised control and monitoring centre for the company's operations around the country. "At one place, our people handle multiple customers. Thus, the cost of delivery drops. In this, we have moved from people to a technology-oriented business model," explains Bimal Raj, CEO, ADSL.

"Remote management services is the first step to move up the value chain," says Parikshit Kandpal of Ambit Capital, which is also tracking ADSL. "It has leveraged its expertise in the system integration business by investing in setting up new strategic business units – NOC and SOC – this is a natural extension to the existing business lines."

ADSL's NOC service works 24x7, staffed with experts having experience on desktops, servers, operating systems, messaging, databases, directory servers and backup systems. The NOC service is charged on a monthly pay-as-you-go basis per device. It covers monitoring and management of a wide variety of devices, platforms and applications.

Remote service enhances ADSL's network support portfolio and improves profitability by achieving more revenue per employee as the same specialist resource addresses multiple customers using NOC. "To start with, ADSL has targeted its existing customers and will gradually take it to international markets with highly competitive pricing that takes advantage of lower costs of technical manpower in India," observes Kandpal.




**Proactive protection**

ADSL's second SBU – SOC – provides proactive protection and risk management for enterprise security to its customers round-the-clock. It is one of the early movers in the country to provide managed security services (MSS) – such as a highly specialised 24x7 information security surveillance service powered by the advanced event correlation engine and incident handling technology. "SOC will be operational 24x7x365, managing one of the most difficult and complex tasks in information security today," explains Raj, talking about the company's recent strategic tie-up with E-cop and how he plans to leverage this arrangement to garner international business.

Although the concept of remote security services is relatively young, analysts are betting big on it. Yankee group, an international research group estimates the market for remote MSS to have a CAGR of 14 per cent from 2006 (at $4 billion) through 2010 and states that there are very few players providing end-to-end services. E-cop, one of the leading commercial security operations players, has fully functional commercial SOCs in Malaysia, Hong Kong, Tokyo and West Asia. "ADSL through its SOC would address the large corporates, and BFSI (banking financial services insurance) companies in India and overseas, who are most vulnerable to security threats and want to mitigate the same in an efficient manner. E-cop hasn't just provided us with its proven technology to set up the SOC but will also outsource services to us for its existing clients. We will jointly pitch for new business around the globe," adds Shah.

According to analysts, the key growth drivers for ADSL's SOC in the international market would be the regulatory compliance of acts like HIPAA (health insurance portability and accounting act) and Basel-II. In most of the corporates, security compliance is just a voluntary forensic audit, but with these acts coming into force, the 'Information Security Compliance Reporting' would become mandatory, observes the Ambit report.

HIPAA implementation has been advanced by a year from 2009 to 2008 and Basel-II from 2010 to 2009. The market size for information security monitoring and compliance monitoring was pegged at $68 million in 2007. Independent studies by Frost & Sullivan project this market to grow to $86 billion or over a thousand times by 2011, again pegging their hopes on HIPAA and Basel-II. Khandpal of Ambit Capital reiterates this unprecedented growth potential by "more than a thousandfold" in the next few years.

Presently, on the global scene, the market share is split between Counter Paine (a subsidiary of British Telecom), E-cop, EDS and Secure Source (a UK government enterprise, which is more like a forensic operator rather than a sales organisation), while other players like IBM Global Services is looking at entering this space by 2010.

"ADSL currently has an agreement

for technology transfer with E-cop. But we are planning to take the relationship to the next level with the possibility of forming an Allied-E-cop JV marketing company, the talks are in advance stages and a marketing pact would seal a long term relationship," says Raj. Currently, ADSL pays 8 per cent royalty to E-cop for each product licence and in the event of a JV, ADSL's billing structure would undergo a change.

At present, ADSL has a client base of 38 with 11 domestic (including three big banks) and the rest global players. "Another 80 prospective clients are in a 'Vulnerability Scan & Penetration Testing' (VSPT) stage, a basic check stage before we sign on clients. Typically, this takes around 45 days. We believe that ITeS companies are using it as a tool for client acquisition and hence are converting voluntarily, while the banks intend to secure their business data as some vulnerability audits by ADSL has shown security threats on their network," explains Raj, who, having signed non-disclosure agreements (NDAS), could not name the clients. However, looking into the tremendous potential in SOC, he is ramping up ADSL's 20-seater SOC to accommodate 150-seats by December 2008. The company is also in the process of ramping up its NOC from 22 to 150 seats by August 2008 through a combination of organic and inorganic initiatives.

Shah's other objective to go public and raise funds was to create a war-chest of funds to fuel inorganic growth. Last month, ADSL acquired an 80.5 per cent stake in the US-based En Pointe Global Services, an IT infrastructure management and remote management services provider for $30 million. "The transaction is a combination of cash and equity swap, entailing an upfront cash payment of $10 million and issuance of 7.45 lakh equity shares of ADSL to En Pointe, with an additional cash infusion of $4 million in En Pointe Global. With this acquisition, we expect to strengthen our position in remote IT infrastructure and security management in the US market," explains Shah, who is committed to expanding across geographies. "En Pointe gives us a base to expand our presence and leverage on the tremendous cross-selling opportunity in remote management services and managed security segment in the US."

## A platform for growth

This acquisition is expected to strengthen the company's presence in the US market for its remote service offering (NOC and SOC). "We will also use the acquired entity as a platform for several other inorganic growth initiatives across the globe," reveals Raj. En Pointe Global has contracted revenues of $40 million, with gross margins of 35 per cent from a client base which includes several Fortune 1000 companies.

*Raj: we have moved from people to a technology-oriented model*

On the domestic turf, ADSL, in line with the system integration skills, has ventured into integrated solutions, offering complete security surveillance solutions like digital CCTV/IP surveillance systems, smart cards, biometric access control, fire detection, asset tracking devices using RFIDS (radio frequency identification), video conferencing/communication solutions, intelligent building management systems and energy management systems. For this it has a technology tie-up with Echelon for its intelligent building management system (IBMS) and energy management solutions (EMS). The IBMS solution ranges from lighting control systems, HVAC controls, access control and security systems and are based on Lonworks Device Networking platform designed for Control Networks.

"EMS helps in saving energy and can be deployed in buildings, homes and factories, thereby reducing 30-40 per cent of energy costs. An average deal size in IBMS could be in the range of Rs60-150 million with gross margins as high as 18 per cent, which is higher than the normal gross margins of 11 per cent for system integration. This line of business will improve the overall revenue mix related to the solutions business and provide value addition to the clients as energy costs will be effectively under control," states the Ambit Capital report on ADSL.

"ADSL through the IBMS and EMS initiative wants to target malls, hotels, multiplexes, airports, SEZS etc. Recently the company has bagged the GMR order in this space for the Delhi airport, worth Rs1,000 million to be executed till the fiscal year 2010," adds Shah.

Meanwhile, on the financial front, while ADSL's revenue in the last three years has posted a compounded annual growth rate (CAGR) of 45 per cent to Rs297 crore (March 2008), the profits have registered a CAGR of 70 per cent to touch Rs42.9 crore. For the first quarter of the current year, ADSL on revenues of Rs90.20 crore has reported a PAT of Rs15.7 crore, up 38 per cent and 73 per cent respectively, as compared to the same period last year.

"Our journey has just begun," says Shah, who has just embarked on an aggressive organic and inorganic growth plan and has already started scouting for targets in the UK and Europe. Hoping to maintain a robust 65 per cent CAGR in topline, ADSL will definitely get into the Rs1,000 crore league by March 2010.

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