



Allied Digital Services Limited
Q2 FY2024 Earnings Call Transcript
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Call Duration	<ul style="list-style-type: none">• 1 hour and 4 minutes
Management Attendees	<ul style="list-style-type: none">• Mr. Nitin D Shah, Founder, Chairman & Managing Director• Mr. Nehal Shah, Executive Director• Mr. Paresh Shah, Global CEO• Mr. Gopal Tiwari, Chief Financial Officer
Participants during Q&A session	<ul style="list-style-type: none">• Gaurav Agrawal – Nine One Capital• Jyoti Singh – Arihant Capital Markets• Darshil Pandya – Finterest Capital• Raj Makwana – Arjav Partners• Sanjeev Kumar Dhamani – Skd Consulting• Jainis – Individual investor• Saumitra Joshi – Individual investor

Moderator: Ladies and gentlemen, good day and welcome to Allied Digital Services Limited Q2 FY24 Earnings Conference Call.

As a reminder, all participant lines will be in the listen-only mode and anyone who wishes to ask a question may enter '*' and '1' on the touch tone telephone. To remove yourself from the question queue, please enter star and two. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on a touch tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Mayank Vaswani from CDR India. Thank you and over to you, Mr. Vaswani.

Mayank Vaswani: Good afternoon and thank you for joining us on Allied Digital Services Limited Earnings Call for the Second Quarter of Financial Year 2023-24.

We have with us on the call today, Mr. Nitin Shah -- Founder and CMD; Mr. Nehal Shah -- Executive Director; Mr. Paresh Shah -- Global CEO and Mr. Gopal Tiwari -- Chief Financial Officer.

Mr. Nehal Shah will cover the Recent Developments, followed by Mr. Paresh Shah, who will then cover the Operational Performance and Order Wins, followed by Mr. Gopal Tiwari, who will walk us through the Financial Highlights, thereafter, we shall open the call for the Q&A Session.

Before we begin, I would like to point out that some of the statements made in today's call may be forward-looking in nature and a disclaimer to this effect has been included in the earnings document that was shared with all of you earlier.

I would now like to hand over the call to Mr. Nehal Shah for his opening remarks. Over to you Nehal.

Nehal Shah:

Thank you, Mayank. Good afternoon, everyone. Thank you for taking the time to join our earnings call. I trust that all of you have had a chance to review our earnings documents which was shared earlier including the investor presentation.

I will start with the key development this quarter, which is a Certification received from the Great Place to Work Institute. We have always followed positive people practices and have taken care to offer employees an engaging platform for growth, which is reflected in the attrition rate that was meaningfully lower than the industry.

The Certification by Great Place to Work Institute validates our practices. I'm sure this will help us to continue to attract the best talent at Allied Digital. The Certification from Great Place to Work is indicative of the progress that is being made across the organization. As we have shared earlier, there is a holistic transformation underway across ADSL covering functions such as service governance, customer support, human resources to name a few.

The endeavor is to graduate the company into higher orbit with larger size contracts, addition of high-profile customers and a clear 'right to win' to win in our businesses due to competencies and capabilities. The outcome of this transformation will be greater scale, an enriched margin profile, higher return ratios and greater value creation for stakeholders. We will continue to share our progress on key developments supporting this transformation each quarter.

As we have shared earlier, we offer a wide range of services with a focus on managed services for Global Enterprise customers as well as being a Master System Integrator. Our service capability metrics include Infrastructure Management, Cloud Enablement, Cyber Security, Integrated Solutions, Software Services and Workplace Management. By providing services, we integrate the appropriate building blocks from a

service capability metrics to create customized service offerings which ensure that each project receives the required skill set for successful execution.

Starting last quarter, we restructured our offerings into two distinct categories -- Services and Solutions. Under the Services bucket, we focus on providing continuous long-term support to our clients. These services are of an annuity or a recurring nature, while clients engaging in ongoing contracts to receive consistent and reliable assistance.

On the other hand, under the Solutions category, we deliver one-time implementation tailored to address specific needs or challenges faced by our clients. These projects could include transformative initiatives, upgradation projects or setting up infrastructure at the new locations.

We derive 70% of our revenues from the global customers through our rest of the world operations, which are dominated by a presence in the North American market through a subsidiary, Allied Digital Services LLC. Around 30% of our revenues are from India where we serve Enterprise customers as well as Government customers. This provides us with a natural hedge as we have seen some macroeconomic challenges in the US market for the last two quarters, impacting the growth from that region. However, the India business has been delivering robust growth, which is around 53% higher in Q2 on a year-on-year basis and 62% higher for the half year.

In that backdrop, I will briefly touch upon key aspects of our performance. In Q2, we reported revenues of Rs. 170 crore, an increase of 2% on a year-on-year basis. This we believe has been a resilient performance in the face of temporary macro headwinds.

While the overall opportunities set remains attractive and we continue to pursue large deals, there is a slight elongated cycle of evaluation due to macroeconomic condition and pressure in the IT sector globally.

Secondly, on EBITDA, I am sure that all of you have noted the progressive increase in EBITDA from Q4 '23 to Q1 '24 and a further improvement this quarter as well.

We have indicated a focus on higher value and more remunerative contracts as well as multiple actions and initiatives to drive margins higher and we continue to demonstrate progress in a positive direction.

Importantly, we remain highly excited about our growth prospects. We continue to engage with marquee customers and discussions are centered around leveraging deep capabilities to drive their IT transformation objectives. There are large contracts, and the pipeline is very solid. Our focus will be to convert this into contracted business at the earliest.

Now, I would like to hand over to our Global CEO – Mr. Paresh Shah, to share Key Insights about the Operational and Key Developments during the quarter. Thank you.

Paresh Shah:

Thank you, Nehal. A very good afternoon to everyone.

I will now briefly take you through the operational performance and key developments of the company during the quarter. As Nehal had mentioned, we have a very strong pipeline and that is making us very excited of the opportunities that are coming through. However, the contract evaluation processes, the cycles are getting slightly stretched due to macroeconomic factors and the addition of new customer is taking a bit longer than anticipated in previous quarters. Amidst the backdrop, we have added around Rs. 142 crore of new contracts this quarter.

Let me walk you through the India contracts first:

- Allied Digital Services Limited proudly announces acquisition and operationalization of a contract from Adani Wilmar Limited, a

leading FMCG company in India. The multifaceted agreement involves the delivery of business services, infrastructure management and operational management services, with the primary focus on enhancing infrastructure deployments as well as automation and governance of seamless IT service.

- Furthermore, ADSL has secured a substantial three-year contract from Coromandel International, spanning data center support services, workplace management services for their corporate offices and clients across India, including the management of 750 retail stores.
- Third, I want to highlight. And more opportunity, a significant achievement in a multi-year contract with SBI Life Insurance, a joint venture between India's largest bank and a prominent French financial institution. This agreement entails providing 24/7 IT managed services to support the critical infrastructure and application.

Let me also quickly go through some Master System Integration projects for Smart Cities. I'll give you some updates. As you know, we have been working last quarter for five smart cities actively.

One is the Lucknow project which we have completed phase-1 and has gone live. Proud to say that more than 500 cameras and 120 buses are already updated with the latest technology and obviously the data center and command Center is complete. The Solapur project, again, the command center, has gone live and operational. These are both very proud moments for Allied Digital. The Punjab Smart Cities also the work is in progress. The data center for the two Smart Cities is already completed. The cloud setup is also 75% complete.

I also want to highlight that all our smart city projects have zero penalty on all our services that we are doing.

Today, we have added lot of logos on the enterprise managed system integration projects such as Lodha group, Tata Motors group, the Vedanta group, this just makes us proud.

Let me go back to the international operations and I wanted to highlight that we are excited to share three new contract wins this quarter.

- The first is a large real estate firm in Midwest USA, which includes Infrastructure Managed Services, Cyber Security, Digital Workplace Services, Cloud Support and ADiTaaS platform.
- A central US-based bank for digital workplace services has also awarded us a three-year contract.
- A large energy company in Northeast USA has engaged us for digital workplace services.

Our contract with Spark Group as we mentioned last quarter is progressing very well. At the same time, we are implementing new scope of work as scope gets added into new technologies such as AI and Cyber Security. In fact, we continue to see more enriched scope of work coming to us from this large group and customers are seeking deeper and more complex solutions across the emerging technologies.

For those of you who have been following the company, you would know that we have been strengthening our partnership with large IT services firms and global consulting firms to jointly serve customers. Through these partnerships, there have been a significant inflow of new customers and that's why we see a very strong pipeline including several large marquee global names.

Having built a richer client base for the last two or three years with a more elaborative track record, we are now also reemphasizing on our direct channels for sales and marketing. These will be leveraged more comprehensively to add new business.

Now, I want to hand over to our Chief Financial Officer, Mr. Gopal Tiwari, to cover the Financial Highlights for the Quarter under review.

Gopal Tiwari:

Thank you, Paresh bhai. I'll now quickly cover the Financial Highlights for the period under review.

In Q2 FY24, our consolidated revenue reached Rs.170 crore, marking a 2% growth from Rs.167 crore in Q2 FY23. EBITDA for the quarter stood at Rs.21 crore in Q2 FY24 compared to Rs.26 crore in Q2 FY23. EBITDA margin was steady at 12% as compared to 15% in the corresponding quarter last year. Here, it is important to point out that the base quarter had slightly elevated margins due to reversal of provisions made earlier.

As we have pointed out, we have progressively improved our EBITDA margin from 10% in Q4 FY23 to 11% in Q1 FY24 and further to 12% in the current quarter under review. We have shared that our aspiration is to get EBITDA margin towards the mid-teen levels and are actively working to ensure the improved margins levels in the quarters ahead.

PAT for Q2 FY24 stood at Rs.12 crore as compared to Rs.18 crore in the same period last year. While our revenue grew by 1%, our EBITDA grew by 17% QoQ basis with the margin expansion of 100 basis points. PAT grew by 34% on quarter-on-quarter basis.

Looking at the half year financials, our revenue was Rs.339 crore, a 6% increase from Rs.320 crore and EBITDA stood at Rs.38 crore as against Rs.39 crore in H1 FY23. In H1 FY24, PBT stood at 8% compared to 10% in H1 FY23. PAT stood at Rs.20 crore as against Rs.25 crore in H1 FY23.

Now, turning to some insights in our quarterly performance. Firstly, our India business witnessed a 53% year-on-year growth, while the global business contributing around 2/3 of revenues, hence a softer quarter. We anticipate a resurgence in the activity level in H2 expecting increased wins and deliveries in the coming months.

Allied Digital maintains a robust balance sheet being a debt-free entity on a net debt basis, reflecting our prudent financial management and stability. Additionally, we have carefully managed capital expenditures with no significant Capex spend during this period. We also hold a cash and cash equivalent position of around Rs.99 crore across international and domestic operations providing the necessary liquidity and flexibility to meet operational and strategic requirements.

Our debt has remained stable and with the further increase in cash and equivalents on a net basis, we are a debt-free company and are well positioned to invest for growth.

All of you would have noted the further improvement in DSO days for the half year. This has been a key focus area for the last three or four years for which we have expended significant effort in order to streamline this. At 87 days for H1 period, we are now at par with the industry norms and the impact of our initiatives is visible on the improving ROCE profile and stronger cash generation. With this strong financial foundation, we are well prepared to seize opportunities, invest in growth initiatives and consistently deliver values to our stakeholders.

Now, I would hand over to our Chairman and Managing Director, Mr. Nitin Shah for his remarks.

Nitin Shah:

Thank you, Gopal. So, I will try to take you on a larger picture in the background. So, we have come a long way after 40-years. We have made the company completely relevant and ready for the future challenges, which is quite different than what it used to be five years ago and more and more rapidly it's changing, and in that process the new technology is going to disrupt the entire world in all businesses going to get disrupted further with after Web 3.0 which is going to become very popular, where AI is going to be completely, it's like a norm, by default AI will be there in Web 3.0.

Now, in this scenario, plenty of opportunities which are going to be coming towards us and we have made our company so robust on all kind of services to ease out the right kind of skill set, we have aligned them on the cloud skill set. So, there are major impetus which is going to be there on both AWS Cloud and Azure Cloud of Microsoft.

The second skill set we have developed huge is in terms of Cyber Security because that's going to be the fastest moving area in the world where there are plenty of new threats which are coming up and we are in a position to stop or intersect that exactly on the right time on real-time basis. So, Cyber Security is going to be our major focus.

The third one is of course; we have aligned our large force in terms of people towards Smart City. As you know, we have done almost more than 12 smart cities and that's our expertise which is proven in this country, we built several command-and-control data centers. It is a kind of a really good case studies involving all kind of technology including IoT, cloud, virtualization, video intelligence and all. So, I think that's our forte. Plenty of projects we are refusing because if we find some risk in that project being the government, we do not touch that, and we are only going for one which we feel is ideal for us. So, that is something which now has become a very, very matured service and I wouldn't be wrong if I say we are the market leader.

The fourth segment, which is our NOC & SOC, has become too strong in our country whereas we are at par with any large company that you compare in terms of practices that we are having. We have improved our service governance a lot and that's why large companies like Accenture, PwC, Infosys and all they are using our company for delivering their customer services. And I'm very proud because my entire 47 years of experience has gone only in IT services and today IT services is quite different than what it used to be in those days.

Then the next one comes is a very interesting for us is that we have created several skill set on our software division and we have created two patented software platforms. One is our ADiTaaS which is getting a lot of success everywhere across the globe and some of the large players have standardized on our ADiTaaS, which is now not just about service platform, but also it involves a lot of automations which are built in that and also converges in technology.

The future is going to be convergent because nobody has got time in this fast world to key in everything onto the either mobile or on your desktop or laptop. You need to just talk something and then you will get the result. And that's something which is getting adapted rapidly and we have taken a stride on that.

So, we have created banking software which is known as FinoAllied which is a conversation technology that we have used. So, more than 60 services that you can do just by speaking onto the mobile and your entire transaction will be taken care of.

The last one which we are talking about where we have invested a lot is the Workplace Management where we feel there are very few companies we have got that kind of presence footprint that we have got. So, today, as you know that we support 72 countries and some of all the European countries, UK, US, Canada, then you talk about Singapore, Australia, Japan, China, Brazil, we have our own direct forces. And that's the attempt which we are going to do that and very soon we'll add a couple of more countries, and the countries where we don't have presence, we use partners, and the idea is to make sure that we go direct in most of the cases that partner's margin is getting eliminated, so we increase our profit margins or ability to acquire new customers. So, these are the things that we have put in place and I'm very confident the growth is going to be very robust.

One thing I can tell you is so much of the skill set and strength that we have got with 3,500 people. At our size I would say positioning is so strong, but we are a highly underrated company. You will not find it anywhere in the world. So, I would request you to look into our company at a more micro level and see how we have changed completely in last six, seven years and we are in the path of fastest growth. Thank you.

Moderator: We will now begin the question-and-answer session. The first question is from the line of Gaurav Agrawal from Nine One Capital. Please go ahead.

Gaurav Agrawal: Sir, in terms of your revenue growth, how do you see the rest of the year and FY25? And if these large deals, which you have been referring to, if they come onboard, then what would be the revenue trajectory, if they don't, then what could be the revenue trajectory if you can just paint some kind of scenario to us?

Nehal Shah: Like we said in our last quarter call also, we are very, very focused on our 2025 numbers and the revenue target that we have given in the previous call as well, we stick by it that we are looking at closing to the four-digit top line by the year 2025 and we would want to continue on that.

Our large deals that are there in the pipeline, which are almost on the verge of closures, some places, further negotiations or there are some delays that are happening due to the overall macroeconomic in the US. But however, the pipelines remain strong, new requirements are coming in, and we are very, very, very excited about the next three to four quarters that are going to be coming up.

Moderator: Our next question is from the line of Jyoti Singh from Arihant Capital Markets Limited. Please go ahead.

Jyoti Singh: My question is on the employee cost reduction side that is sequentially almost 8% down. So, if you could elaborate on that?

Gopal Tiwari: See, the 8% reduction is mainly on account of last quarter being the first quarter of the year, lot of revision and appraisals happens, and some arrears are also paid, variables are paid to the employees. So, it is mainly because of that and there was some reduction was on account of ESOP hit. So, both things put together, this quarter we have got better number for employee cost.

Jyoti Singh: Similarly, we see some impact on other expenses, or this is because of some other reason?

Gopal Tiwari: That is cost optimization and better cost control, it is mainly because of that. As we have earlier also said that we are always on the path of improving our margins. So, one of the tools for that is cost optimization and cost control. So those things are also in place. So that is being reflected in this quarter also.

Jyoti Singh: Following to my previous question only like, are we on track on the hiring side or we are utilizing earlier employees that we hired, if you can update on that?

Nehal Shah: So, our hiring strategy is absolutely at place, there is always a bench that we keep for our future projects or that we envisage is the pipelines are going to be closed, and there is a constant reskilling and upskilling also that keeps on happening at our side. So, whenever a person has just got free from any project, will be put into the training room, I would say, and then from there we will keep him ready or on bench as soon as we get a new project to be deployed over there. It's a standard practice which is being followed across the IT industry.

Paresh Shah: Yes, just to add to what Nehal said, training is going to be key focus for us in the coming immediate quarters. The reason being we see lot of big pipeline especially in a lot of new technologies, especially Cyber Security and Cloud and also AI. So, we definitely encourage employees to take our trainings, learn more and more broader technologies and this is definitely

as we see the pipeline being strong, we would be quite keen in making sure that people are well equipped and obviously talent acquisition is very important and we are making sure that we are expanding our horizon to kind of make sure we can manage the pipeline requirement that is there.

Jyoti Singh: Sir, a follow up on the order book side that we have seen improvement in this quarter. So, we are seeking guidance on how this trend is expected to shape up for the full year if you can guide us?

Paresh Shah: We see a kind of a positive trend going quite up. There are some large deals, if they materialize, obviously, the order book will be really spiking up. So, right now we definitely see continuous growth. As you know, our order book comprises of two things; one is the contracts we have already won, so that is one aspect and obviously the contracts which we are going to win which are some large size contracts. So, we see pretty much a positive spike coming in the order book.

Jyoti Singh: Last question on the Smart City side, like we totally had done 12. So, any target on that front?

Paresh Shah: I will just quickly give an update on the recent five cities that we are talking about. So, we are moving very good. We finished some major milestones on these projects, the last five months being Lucknow Smart City, Solapur Smart City and three cities in Punjab. So, we achieved the phase-I, which was a very big phase for Lucknow City, the command center, the operational center has gone live. Same thing for Solapur, the command center has gone live. We are already entering phase-2 of Lucknow, also the three Punjab cities that is also the data center is already complete, the cloud part is already complete, 70%, 75%. So, we are doing a great progress in delivering in those smart cities also.

Nehal Shah: Just to add to what Paresh said, I would just add to say that there are a lot of other smart cities that are going to be coming up in the pipeline

from the Government of India in the phase-2 which we are expecting the announcements to come in in the first quarter and we might be bidding for many of them. The first smart city which came, the project was for 100 smart cities. This time we are seeing or hearing that they are going to be taking up 300 or 400 more smaller cities where they will be doing similar kind of projects. So, there is a huge scope and potential that we see in the coming year. Maybe this could be announced sometime near the Lok Sabha elections.

Moderator: Our next question is from the line of Gaurav Agrawal from Nine One Capital. Please go ahead.

Gaurav Agrawal: Sorry, sir, my call dropped. So, what I was asking is the revenue trajectory for the remaining two quarters and for FY25, provided the deal which you have been having in the pipeline is 55 and, in that case, if these deals doesn't come through in the next six months to one year?

Nehal Shah: So, Gaurav, we are very, very excited and happy and we are seeing a lot of progress happening on the deals that are there in the pipeline. Of course, the progress which we had anticipated that would have happened in the last one or two months, it's going a bit slow, but the progress is in the right space. The only thing is that what we are waiting for is a final go-ahead from the customer side and which we feel should be happening in the next one or two months. If that happens, of course, the growth trajectory is going to be huge. Supposedly, for some reason it doesn't happen, we are still sure that we will be growing with the additional business that are coming in the pipeline. Of course, the large projects that we are talking of will give us a huge, huge growth potential. But, however, the other projects which are also there in the pipeline will give us a steady run of top line that is happening. There is no particular one project that I'm talking of, these are multiple projects that are there in the pipeline, the large contract that we are talking of. So, one of them should materialize very soon is what we're looking at.

Gaurav Agrawal Sir, any base case growth that you're targeting for this year and for FY25?

Nehal Shah: FY25, we have still kept our targets very high. We have already given that in the last quarter call also that we intend to go by FY'25 or mostly by FY26 to be in the four-digit top line, that is what we are looking at and we feel that is achievable still.

Gaurav Agrawal Once we reach that stage, so will we be again at 11%, 12% kind of EBITDA margin company or those EBITDA margins can also inch up?

Nehal Shah: Generally, when the top line grows, there is a lot of possibility of optimizing the cost and we are sure that our EBITDA margins will also keep on improving as we move forward in that zone. Because your other fixed costs and other costs will not drastically go up, they will all be growing in a linear manner, but this growth will give us a lot of cost optimization opportunity.

Gaurav Agrawal Just on these pipelines which you have been referring to, whom are we competing these against and when the customers are taking a decision on these deals, is there a discussion around more on the scope of the work or more on the pricing side? One way is that maybe they are concerned about the pricing on their macroeconomic environment. The other would be just that they're discussing the scope of work, and that is what taking a longer time.

Nehal Shah: I would just say the scope of work and all is closed. What is happening is that because of this uncertainty, things that are happening, people do not want to go in for a change very easily. They are just delaying taking the decision of when they have to change. Just to tell you that I will not be able to name the thing because we are under strong NDA, but we are working with large four IoT players to compete and win; so, one of them is our partner and we are competing with the rest of the two.

Moderator: Our next question is from the line of Darshil Pandya from Finterest Capital Please go ahead.

Darshil Pandya: The first question was in ADiTaaS which we discussed in the month of September. So, you said that you will be soon, launching this version-6 or ADiTaaS. Any update on that?

Paresh Shah: So, we are already having a lot of traction for Version 6 because customer is very excited in moving a lot of things into AI. So, we already launched the 6.0 beta version where we are talking about conversational AI being added on top of ADiTaaS, which gives them tremendous capabilities to do automation of their processes. So, in fact, we are already doing a pilot with two customers already. So, that's how we are moving very fast on ADiTaaS to make sure that we may make it into production very soon.

Darshil Pandya: As you said, you are still confident of taking this separately as a segment in the next three to four quarters?

Paresh Shah: Yes, because it has now crossed over 100-plus customers where ADitaaS is being used direct and indirect and we see that as a major traction and as we have adopted AI as a part of this, we feel very confident that this will become a major channel of our business in coming years.

Darshil Pandya: Last time you said that you are targeting some regional/rural banks for this. So, have you got any anything on that? Have you added a bank?

Paresh Shah: We are still in processes. For getting those banks, still the conversations are going on for mid-sized banks. At the same time, we were leveraging this platform not just for now banking, we are going to do a cross leverage to a lot of other sectors also including HR and finance. So, we are also taking this platform to a lot of other opportunities including cyber security, we have integrated that. So, the bank is one avenue, but the same platform is being used for multiple industries now. So, that's the kind of major achievement that we are doing on conversational AI.

- Darshil Pandya:** So, when can we expect changing into numbers?
- Paresh Shah:** So that's why we are broadening the conversation AI platform, and we are already doing two pilots also. We are excited about it that we should convert this into major wins from the next year.
- As I mentioned in my topic, Spark Group in the US is very excited about this, we have demonstrated that, and they are very keen to take it into the retail industry to make sure we can customize a lot of automation for their business process. So, we see good traction. It is a matter of time how we kind of build this fast and make sure we make successful pilots with them.
- Darshil Pandya:** Last question was on FinoAllied where you are expecting some strong momentum, so there you said that you're also looking to target the banks as the top five banks have already deployed this system. So, what's the progress on that?
- Paresh Shah:** So, just focusing on the banking sector per se, since we have now more BFSI segment customers, we feel more confident to take this forward. But, yes, we still have to see the success into that.
- Nehal Shah:** So, what has happened is become a chicken-and-egg story, it's like who wants to be the first one. There are multiple discussions going on, but the question comes that if you have a reference that you have deployed this anywhere, please do come back to us. So, we are just figuring out and we have now gone ahead and even told that why don't you use that as a pilot and use it for free for six months and figure out how the usage is. So, there are breakthroughs that we are hoping and I think it should happen soon. Maybe by the first quarter we should be going there.
- Darshil Pandya:** Since we have this existing relationship with a lot of our partners, for example, Infosys, Denver and all this, have you got any business from this clients? have you added any new clients and if you can name any?

- Paresh Shah:** Yes, we basically are working very actively with all customers. So, to every partner we are adding business across the globe, whether it's Infosys or PwC or Deloitte. So, there's a lot of momentum on that. In fact, PwC has signed on our ADiTaaS platform, and they are taking to their customers across the globe. So, significant movement is happening with the partners.
- Nehal Shah:** There are certain deals that we have already closed this quarter with some of our partners. The pipeline is very strong with partners. As we said earlier also that in the US market, we typically work as a tier 2 partner to some of our large IoTs and other players. Most of the deals, even the announcement that we have done today, and the number that we have given, large portion of that has come through our partners.
- Darshil Pandya:** Since you said on opening remarks, what was the contract value that you have won for this quarter, I guess it was Rs. 143 crore or something?
- Nehal Shah:** Rs.142 crore of orders.
- Moderator:** Our next question is from the line of Raaj from Arjav Partners. Please go ahead.
- Raaj:** How much is the outstanding order book as on Q2 end?
- Gopal Tiwari:** Rs. 1,600 plus order book is still outstanding at this quarter end.
- Raaj:** And how much is the execution time for this?
- Gopal Tiwari:** On an average around three years period.
- Raaj:** We can expect out of the Rs. 1,600 crore, around Rs. 270 crore to be executed in H2?
- Nehal Shah:** Order book is something as I had said in the previous call also which doesn't give the actual outflow of our top line because order book

comprises of the orders that we have won, but it does miss out on things that we are doing farming, so there could be extra farming that we are doing. Sometimes we get orders confirmation for five years, however, we get the PO yearly. So, the order book, which comprises doesn't account to all of these numbers because it becomes really difficult for us to come up with a number. So, I would request that not to just add the Rs. 1,600 crore and divide the three years or five years and then come out. So, the reason behind is that because we are in a slightly different model, it's not that I will be able to give you a number that we get on day one and you just divide it by five years or four years. We are typically in a business where things keep on changing quarter-on-quarter. If we keep on winning, if there are renewals happening, there is more farming happening, it's little dynamic in nature. So, coming up with a number and then dividing it by three or five will not actually give us the actual top line.

Paresh Shah:

The IT world, it's not a typical FMCG or EPC company that you have a standard because as Nehal mentioned, when we have order book, these are on services. But a lot of projects keep coming with the customer on infrastructure enhancement, transformation, cloud stories. So that is all incremental revenue that is expected from the same order book added to that. So, that's a very key factor, because those projects are just ad hoc projects keep coming, and that adds to big revenues. The other thing is lot of spikes that we get either from the smart city projects or winning very large deals that completely kind of shoots up the order book. This is the base that what we're talking about.

Raaj:

And also, in H2, can we expect the execution to be good as compared to H1?

Paresh Shah:

Yes, from the execution point of view, we are continuously into making sure our deliveries are complete, that our profit margins improve, right. So that's very key, and for that there are few areas of risk that we want to tighten it as from the macroeconomic factors whether it is training,

making sure that people are not on the bench, so make cross train them to do many things. We deploy shared services, as you know, at a lot of our large projects. So, what happens is the efficiency just increases as more and more projects come and we are able to kind of cross train and add them.

The other risk we do is making sure that the employee performance, that's a very key thing that we focus on to make sure that he gets to deliver 100% of the work that he is doing. And the third is obviously making sure that the profitability continues to improve. So, that's very important for us to make sure that our cost of delivery is either remaining constant or being less. And as we scale more, definitely the EBITDA is going to improve on that. So that's how we see it.

Nehal Shah: Just to add to what Paresh said, the second half of the year is generally very, very active and we keep on boarding a lot of customers and there is a possibility that the top line and other things will also keep on going up. Most probably the last quarter is always heavy where a lot of budgets are getting used for and that's when we get a lot of one-time projects as well. We see that the trend would continue in the second half of the year and the other contracts that we're talking of, if we hit them, probably we could get some revenue coming in the top line in the last quarter as well of this financial year.

Moderator: Our next question is from the line of Sanjeev Kumar Dhamani from Skd Consulting. Please go ahead.

Sanjeev K. Damani: Actually, a lot of things have been clarified. Of course, I'm very new to this company. So, sir, I was just wondering about the balance sheet investment properties is one item of Rs. 77 crore shown. So, I mean, are we intending to realize it in days to come?

Nitin Shah: We had identified a few places, especially Hinjewadi. When we were growing in the first phase we thought we would be reaching more than

10,000 people so soon and hence what I thought probably the rate of construction is not increasing as much as the land cost is increasing. So, we have taken 7-acre land in Hinjewadi which is yet to be utilized. Two-acre land we have taken in Kalewadi right opposite to this Fujitsu and in that area, Capgemini is also there, Ethos is there. And there again we have a plan to create our own data center, but we have just kept it as an Option whenever we need to use them and when we grow. So, that's the kind of investment that we have done.

Sanjeev K. Damani: So, Sir, this entire investment property is reflected through the land that we own today and not the buildings and any other thing?

Nehal Shah: No, no that land is one part of it. There is a building at Navi Mumbai which is right now being used as a delivery center. We have got other offices in Seepz which are also being used for our delivery to global customers, and we have an office at Nariman Point, which is of course our corporate office from where we all are right now currently working out of. We just also invested in Calcutta, so in Calcutta also, we bought an office for our expansion. Typically, the building that we have in Mahape is about 56,000 square feet, the office at Seepz is about 20,000 square feet. That are the kind of requirements that we would be wanting to have with us for the growth that we see, the demand that we see, so that we don't have to run and spend money on acquiring real estate on rental purpose.

Sanjeev K. Damani: One thing is regarding trade receivable, which is now Rs. 133 crore on consolidated basis. So, these are all open credit that we give to our client, or it is supported by some sort of guarantees?

Gopal Tiwari: No, no, these are these are mostly open credit given to our enterprise customers and government customers also.

Nehal Shah: Most of this outstanding that we see is coming from the Allied LLC because those are large customers where the revenue or the billing that happens monthly is also a bigger number.

- Nitin Shah:** We have learned the hard way in our journey and hence we become extremely cautious and we don't touch those clients. If you see the kind of clients that we serve, these are all globally top clients, and we don't serve a SME as much. We are very clear, we will not take risk.
- Nehal Shah:** The client profile that we mentioned is also like Adani or Tatas or Coromandel of the world are all big, big conglomerates.
- Sanjeev K. Damani:** One more thing is equivalent of cash Rs. 91 crore is some sort of FDs or something like that or some other form of hundis that we have received from our client?
- Gopal Tiwari:** Actually, this comprises the combination of overseas cash in hand and domestic company also. So, in domestic company mostly that amount is in form of margin money given to the bank in form of FD against the bank guarantees given to our customers, and other amount is lying some in the FD form, some in the current account, just to take care in case of sudden requirement of working capital or to cater to our customers, so it is a combination of both.
- Sanjeev K. Damani:** Sir, there are two items; Rs. 55 crore in current assets and non-current assets are also Rs. 41 crore. So largely maybe provisions or something like that or some realizable value is there?
- Gopal Tiwari:** It must be realizable, but, but I cannot give you an answer on that off the cuff, I'll have to come back to you. You can share your mail-ID. I'll share that details.
- Moderator:** Our next question is from the line of Jainis who's an investor. Please go ahead.
- Jainis:** Continuing the previous question on cash in hand of Rs. 91 crore, so why are we not able to see any other income against the FDs that are there?

Gopal Tiwari: No, it is there definitely, but there is some other exchange loss also there in that other income, is just set off. The other income you are seeing is the net amount. The income and expense both are netted off and then balance amount is shown there.

Nitin Shah: So, we have kept certain war chest money for acquisition. You may hear very soon. We are constantly looking at something.

Gopal Tiwari: Entire amount is not in form of FD as I told you. I mean the portion of that amount is in the form of FD which is lying with the bank as margin money, rest of the amount is not earning that much.

Nehal Shah: The reason behind that is most of the amount which is lying with us is currently in the US and as we all know; the US FD rates are not equivalent to the India FD rates. That is the reason you would not be seeing large interest income on it.

Jainis: So, digging it a bit deeper, what kind of losses or expenses that you have mentioned as written off against that income, number one? I missed the part that are we looking for some kind of an inorganic opportunity as well?

Nehal Shah: Inorganic growth is always there in the eye. There is nothing that we have straight away on the table, but we are constantly in the view of looking at the companies which are of a size which is digestible by us, and which are in the line of business where we see a lot of growth in the future. So, there are companies that we are constantly looking at and the endeavor is there. But as soon as we come across material is something we'll announce, and we'll let all our investors know.

Jainis: What kind of losses are there which you just mentioned?

Gopal Tiwari: I will give you the details. Right now, it is not handy with me. I'll have to just check. I'll get back to you in case you require the details, and you can leave your mail ID.

Jainis: Secondly, what kind of Return on Equity is our endeavour to reach at?

Nehal Shah: ROE is typically just a formula-based match. So, I feel that if we keep on increasing our top line and we keep on increasing our bottom line, our ROE will keep on constantly going up. So that is not the lever that we are targeting and the lever that we are targeting right now is to constantly improve our top line and the EBITDA margin. We feel that if we are concentrating on the two of this, the output will eventually also help in increasing the ROE and ROCE both.

Gopal Tiwari: Last year, for the whole year, we achieved 10% plus ROE. So, this year we aspire to achieve better than that ROE.

Jainis: Just one suggestion, as an investor, the order book which you mentioned, can we get a detailed breakup in terms of how much is the government order book and how much is the private order book, and within private also how much is in India and outside India? And secondly, how much is the solutions order book and the services order book?

Nehal Shah: So typically, if you go through our earning presentation, we have mentioned our government, non-government business, our overseas, I mean the rest of the world business and India business, the breakup is already given in terms of percentage. Even the services solutions breakup is also given in. The earning presentation is already shared. I request you to go through it. After that if you have any further questions, you can get in touch with us again.

Jainis: No, no. That is the breakups in terms of your revenue, right, which is historical. What I'm asking is in terms of order book is forward-looking

which gives us an indication of how the business mix can look in coming time. So, that is the reason I'm asking for this information.

Nehal Shah: This is going to be in the similar line because that is what we are thinking. Our government business is typically more to do in India, which is typically 10% and we see that traction to go on at a range of 10% to 12%. The idea why I said to go through that is that even in the future order books, you will not drastically see something going up very fast or something coming down very slow. We want to be very predictable in nature. So yes, there could be some percentages, but 10% is government business, it might go to 12% or sometimes 9%. There won't be any drastic changes. So, by a large impact it is going to be similar to what we have shown in the previous year.

Jainis: In terms of your Solutions business, is that something that you're targeting rapidly because that I think gives a 'J' curve kind of a traction once it picks up and since it's a patented product, it definitely helps you open a lot of doors going forward. So, what are the kind of contract terms that are there in us in Solutions kind of a business is fixed plus AMC and if it is like that then what is the percentage of AMC business?

Nehal Shah: What we have done is that we have divided our segments into two things -- Solutions and Services. Solutions are the projects that we are doing one-time in nature. So those could be migration projects, those could be smart city, implementation projects or those could be any one-time transactional output that we need to give to our clients. So typically, there is always going to be margin, in some cases we will see a margin upstream, in some cases we will see a margin downstream. The reason behind that is that in the Solutions segment, we also have some products that we do. Whenever we are implementing a smart city or whenever we are doing a branch expansion for any of our clients there is a product piece that is also a part of that delivery. So, generally, as we are all aware in the IT industry, product margins are little less, and Services is

something which we eventually want to cater to more. Any output or any business that we do in the Solutions eventually gets converted into Services. So that is what is more important for us.

Nitin Shah: Our strategy is to look into Solutions like, say Cloud, it's all about migration, ultimately culminating into Managed Services. When we talk about cybersecurity, when we do complete consulting and analysis, it gets converted into real-time monitoring 24/7 and that's what we do and it's coming into the Services segment. Smart City, when we do designing, architecting, deployment, integration is a one-time which gets converted into O&M, again, it's coming into Services. And Software also when we develop and implement, it gets converted into support. So, eventually the strategy is to acquire new customers or new opportunities in the form of Solutions, but later on it gets converted into Services business.

Jainis: So, AMC is what you're targeting, right?

Nehal Shah: AMC is not the correct word, but O&M is the thing because that gives us a lot of leverage on cost optimization and steady growth rate as well.

Paresh Shah: It's a continuous client engagement. O&M brings a lot more opportunities also.

Jainis: So, what kind of margins do we make in O&M contracts generally typically?

Gopal Tiwari: It's in the range of you can say around 14% 15%-odd EBITDA minimum we make EBITDA.

Jainis: So, 14%, 15% of around 85%, 90% of the revenue is how one can look at it right?

Gopal Tiwari: Yes, absolutely.

Jainis: Is there any working capital blockage that we find in terms of Smart City contract because they are government contracts or are we getting timely realizations from the government?

Nehal Shah: Nowadays the contracts are very, very lucrative. Most of these contracts are well designed and there are milestones that we need to achieve when payments are given on the milestones. These milestones start as an advance also. So, we get an advance for doing certain work. As soon as the product is delivered, we get another amount for it. So, they are pretty much easy in terms of the payment, the payment cycle is also very good. Most of the time we get the payment on time. Generally, if there is a delay, the delay is about a week or two.

Gopal Tiwari: To add to that, in fact, our kind of projects are not typically the road construction and bridges sort of, it's very niche kind of projects. So, the commercial terms and conditions terms are made that way that no contractor or no service provider should be high and dry on payment side. So, by and large, our payments are well within time. So, you can see that our improvement in our DSO level, typically it is less than the industry standard.

Jainis: So, this 84, 87 or 90 days of debtor days will be a steady state number that one can look at, right?

Nehal Shah: That is the ideal thing that we want to be at.

Moderator: Our next question is from the line of Saumitra Joshi, an investor. Please go ahead.

Saumitra Joshi: One, what has happened that last year our margins were relatively higher in those quarters of Q2 and Q3 as compared to what we are guiding for now? The second question is with respect to sequentially now going on to Q3 and Q4 for the financial year of FY24, do we see that the EBITDA margins will sequentially take an uptick from here for this year also?

Gopal Tiwari: See, the first question, last year that Q2 FY23, as we had pointed out in our investor presentation also, it was mainly on account of some non-recurring type of reversal of expenses were done in that quarter on account of couple of customers where we had made certain provisions in anticipation of some SLA getting affected and we might have been penalized for that. So, we had made certain provisions in our books which got sorted out and we fortunately got that money back from the customer, and that's why that quarter had a spike in margin in Q2 FY23. So that should not be Q2 and three rather, and that should not be taken as a benchmark for our coming current quarters. But having said that, definitely for sure Q3 and Q4 is going to be better than this Q1 and Q2.

Saumitra Joshi: So, from the EBITDA margin perspective also, correct?

Gopal Tiwari: Yes, yes, absolutely.

Moderator: Thank you. Our next question is from the line of Narendra who's an investor. Please go ahead.

Narendra: Regarding the big orders that you are talking about, those multi-year contracts or the solutions contracts?

Nehal Shah: They are services multi-year contracts ranging from three, five to seven years.

Narendra: if we get those contracts then you are pretty much sorted for the next two, three years and the guidance that you have provided about Rs. 1,000 crore, so that is achievable?

Moderator: Your audio is not clear.

Narendra: So, I was saying that if we receive those contracts, then we are sorted for the next three years. But how confident are we of attaining that Rs. 1,000 crore if one or two of those contracts fall out?

Nehal Shah: Our pipeline is absolutely strong. If not this order, we will get a next order and the pipeline is constantly increasing as we talk. From the last quarter call to this quarter call also we have got a number of more large deals that we are bidding for, and the endeavor is to make sure that we keep on pursuing and start achieving those larger contracts because that larger contracts gives a lot of confidence to our people and our investors also. We are in that virtue of attaining and going after multi-million contracts. And when I say multi-million, these are all the sizes of about 80 million, 100 million or maybe more than that also. So, if not this, maybe next order. But the idea what I'm trying to put in is that we are on the right track, and we are sure that we will be able to crack one or the other large contract.

Moderator: Ladies and gentlemen, that was the last question of our question-and-answer session. As there are no further questions. I would now like to hand the conference over to the management for closing comments.

Nehal Shah: Thank you for your participation and engagement during this call. If you have any additional questions or require further information about our company, please reach out to our team or contact CDR India. From all of us at Allied Digital, Best Wishes for a Happy Diwali and a Prosperous New Year. We look forward to interacting again in the next quarter. Thank you.

Moderator: Ladies and gentlemen, that concludes this conference. Thank you for joining us. You may now disconnect your lines.

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