

November 7th, 2009

BUY

HIGH RISK

PRICE Rs. 472

TARGET Rs.585

TECHNOLOGY

EARLIER RECO

Buy	
Price	Rs.379
Target	Rs.535
Date	14 th Aug, 09

SHARE HOLDING (%)

As on 30th September,2009

Promoters	55.6
FII	12.9
FI / MF	5.2
Body Corporate	7.6
Public & Others	18.7

STOCK DATA

Reuters Code	ADIS.BO	
Bloomberg Code	ALDS@IN	
BSE Code	532875	
NSE Symbol	ADSL	
Market Capitalization	Rs. 10884 mn US\$ 231.6 mn	
Shares Outstanding	23.06 mn	
52 Weeks (H/L)	Rs.559/ 146	
Avg. Daily Volume (6m)	83480 Shares	
Price Performance (%)		
1M	3M	6M
2	23	66
200 Days EMA Rs.406		

Part of  Classic

Decent Q2FY10 Performance

- During Q2FY10, ADSL's consolidated revenues stood at Rs. 1,666.7 mn, registering a growth of 4.9% on QoQ basis. During the quarter, its Revenues from Solution's business grew marginally by 1.5% QoQ to Rs. 726 mn, while its IMS business, which also includes revenues of EPGS (Enpointe Global Services) grew by 7.6% QoQ to Rs. 938.9 mn. The lower growth in Solution's business was because of less emphasis on low-margin hardware business.
- Its consolidated EBITDA for Q2FY10 increased by 14.0% QoQ to Rs. 339.2 mn with its EBITDA margins improving by 160 bps QoQ to 20.4%, mainly due to expansion in margins of its subsidiary EPGS. ADSL has completed the shifting process of its RMS operations (of EPGS) to India, which has resulted in margin improvement. The Company expects more improvement in its EBITDA margins during H2FY10.
- ADSL's consolidated APAT increased by 10.1% QoQ to Rs. 250.7 mn, while its APAT margins improved by 70 bps QoQ to 15.0%.
- During the quarter, ADSL raised Rs. 2134 mn through an issue of 4.9 mn equity shares to QIB's. 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. The capex for setting up DRC would be about US\$ 9-10 mn.
- The order book position of the Company stood very healthy at Rs. 5080 mn, out of which, the services business order book is close to around Rs. 3980 mn to be executed in next twelve months, and on the solution side order book is close to Rs. 1100 mn for the next six months.

OUTLOOK & VALUATION

During H1FY10, ADSL has witnessed significant traction happening in US and India for its RMS (Remote Management Services) business. In Q1FY10, ADSL was successful in striking an alliance with Lenovo (OEM - PC server manufacturer) to provide remote management services to their customers, which is expected to contribute meaningfully to its Revenues from Q4FY10. ADSL is also in contractual negotiation with other networking majors. Hence, given its strong order book and proposed order pipeline, ADSL plans to double the capacity of its current NOC/SOC facility in India by adding 225 seats. Moreover, the Company is looking at an acquisition opportunity in European market, which could be EPS accretive.

Going forward, with decent H1FY10 performance, we have revised our estimates for FY10E & FY11E. We now expect its FY10E & FY11E Revenues to grow by 21.9% & 19.1% to Rs. 6,773 mn & Rs. 8,064.3 mn respectively and its FY10E & FY11E APAT to grow by 38.0% & 27.1% to Rs. 1,061 mn & Rs. 1,349 mn respectively. At the CMP of Rs. 472, the stock is available at 10.3x & 8.1x of its FY10E & FY11E earnings of Rs. 46.0 & Rs. 58.5 respectively, which we believe is very attractive. We maintain our "BUY" rating on the stock, with an increased target price target of Rs. 585 (10x FY11 Earnings).

KEY FINANCIALS (Consolidated)

Y/E	SALES (Rs mn)	APAT (Rs mn)	APAT (%Ch.)	EPS (Rs.)	PER (x)	ROCE (%)	ROE (%)	EV/EBITDA (x)
FY09	5557.5	769.1	76.6	42.5	11.1	26.1	30.0	9.3
FY10E	6773.0	1061.3	38.0	46.0	10.3	19.8	22.5	6.4
FY11E	8064.3	1348.7	27.1	58.5	8.1	18.1	19.5	4.8

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QUARTERLY RESULTS (Consolidated) (Rs.mn)

Y/E March	Q4FY09	Q1FY10	Q2FY10
Total Revenues	1475.7	1589.5	1666.7
% Ch. QoQ	5.6	7.7	4.9
Cost of sales	909.3	982.0	1006.1
% Ch. QoQ	6.7	8.0	2.5
% STO	61.6	61.8	60.4
Staff Cost	190.9	203.1	201.3
% Ch. QoQ	5.5	6.4	(0.9)
% STO	12.9	12.8	12.1
Other Expenses	102.7	106.8	120.1
% Ch. QoQ	(3.2)	4.0	12.5
% STO	7.0	6.7	7.2
Total Expenditure	1202.9	1291.9	1327.5
% Ch. QoQ	5.6	7.4	2.8
% STO	81.5	81.3	79.6
EBITDA	272.8	297.6	339.2
% Ch. QoQ	5.8	9.1	14.0
% Margin	18.5	18.7	20.4
Interest	15.2	15.4	15.3
% Ch. QoQ	20.6	1.3	(0.6)
% of STO	1.0	1.0	0.9
EBDT	257.6	282.2	323.9
% Ch. QoQ	5.0	9.5	14.8
% Margin	17.5	17.8	19.4
Depreciation	14.1	16.0	18.5
% Ch. QoQ	(0.7)	13.5	15.6
% of STO	1.0	1.0	1.1
PBT excl. OI	243.5	266.2	305.4
% Ch. QoQ	5.4	9.3	14.7
% Margin	16.5	16.7	18.3
Other Income	6.0	1.3	1.7
% Ch. QoQ	42.9	(78.3)	30.8
% Margin	0.4	0.1	0.1
PBT incl OI	249.5	267.5	307.1
% Ch. QoQ	6.0	7.2	14.8
% Margin	16.9	16.8	18.4
Tax	29.2	37.0	51.3
% of PBT	11.7	13.8	16.7
APAT	220.3	230.5	255.8
% Ch. QoQ	12.5	4.6	11.0
% Margin	14.9	14.5	15.3
Minority Interest		2.9	5.1
APAT after min. int.	220.3	227.6	250.7
Extraordinary Items	0.0	0.0	0.0
RPAT	220.3	227.6	250.7

PROFIT & LOSS (Consolidated) (Rs. mn)

Y/E March	FY08	FY09	FY10E	FY11E
Total Revenues	2970.4	5557.5	6773.0	8064.3
% Ch. YoY	90.4	87.1	21.9	19.1
Cost of sales	1997.4	3446.1	4073.0	4798.3
% Ch. YoY	93.7	72.5	18.2	17.8
% STO	67.2	62.0	60.1	59.5
Staff Cost	223.2	736.7	833.5	983.5
% Ch. YoY	74.8	230.0	13.1	18.0
% STO	7.5	13.3	12.3	12.2
Other Expenses	82.2	378.5	473.1	544.0
% Ch. YoY	15.3	360.4	25.0	15.0
% STO	2.8	6.8	7.0	6.7
Total Expenditure	2302.9	4561.3	5379.5	6325.8
% Ch. YoY	87.2	98.1	17.9	17.6
% STO	77.5	82.1	79.4	78.4
EBITDA	667.5	996.2	1393.5	1738.5
% Ch. YoY	102.2	49.2	39.9	24.8
% Margin	22.5	17.9	20.6	21.6
Interest	13.8	56.2	64.3	72.0
% Ch. YoY	25.5	306.0	14.4	12.0
% of STO	0.5	1.0	0.9	0.9
EBDT	653.7	940.0	1329.3	1666.6
% Ch. YoY	104.9	43.8	41.4	25.4
% Margin	22.0	16.9	19.6	20.7
Depreciation	32.9	49.7	78.5	104.1
% Ch. YoY	282.2	51.2	57.9	32.7
% of STO	1.1	0.9	1.2	1.3
PBT excl. OI	620.8	890.3	1250.8	1562.5
% Ch. YoY	99.9	43.4	40.5	24.9
% Margin	20.9	16.0	18.5	19.4
Other Income	25.8	22.3	84.0	170.1
% Ch. YoY	1415.4	(13.5)	277.1	102.5
% Margin	0.9	0.4	1.2	2.1
PBT incl OI	646.5	912.6	1334.8	1732.6
% Ch. YoY	107.1	41.1	46.3	29.8
% Margin	21.8	16.4	19.7	21.5
Tax	211.0	167.6	255.0	363.8
% of PBT	32.6	18.4	19.1	21.0
APAT	435.6	745.0	1079.8	1368.7
% Ch. YoY	90.0	71.0	44.9	26.8
% Margin	14.7	13.4	15.9	17.0
Minority Interest	0.0	2.8	18.5	20.0
APAT after min. int.	435.6	742.1	1061.3	1348.7
Extraordinary Items		27.0	0.0	0.0
RPAT	435.6	769.1	1061.3	1348.7

Source: Company, SFSPL Research Estimates

BALANCE SHEET (Consolidated)

(Rs.mn)

As on 31 st March	FY08	FY09	FY10E	FY11E
SOURCES OF FUNDS				
Eq. Share Capital	172.9	181.1	230.6	230.6
Sh. Premium A/c	835.4	1450.7	3715.9	3715.9
Res. & Surplus	801.8	1531.4	2477.4	3687.8
Net Worth	1810.1	3163.2	6423.9	7634.3
Minority Interest	-	36.1	40.0	40.0
Secured Loans	107.2	841.3	791.3	741.3
Unsecured Loans	50.0	60.0	60.0	60.0
Total Loan funds	157.2	901.3	851.3	801.3
Capital Employed	1967.3	4100.7	7315.3	8475.6
APPLICATION OF FUNDS				
Gross Block	225.9	508.3	908.3	1208.3
Less: Depreciation	63.5	91.6	170.0	274.1
Net Block	162.3	416.7	738.2	934.1
Cap. WIP	40.1	338.6	80.0	80.0
Fixed Assets	202.4	755.3	818.2	1014.1
Investments	474.6	50.0	50.0	50.0
Goodwill	0.0	1125.2	1125.2	1125.2
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	2869.7	3393.2
Loans & Advances	254.6	330.5	450.0	600.0
Curr Assets, Loans & Adv	1854.1	2873.5	6162.5	7250.7
Curr Liab & Prov	562.7	687.2	824.7	948.4
Net Current Assets	1291.4	2186.2	5337.8	6302.3
Net Deferred Tax	(1.2)	(16.0)	(16.0)	(16.0)
Total Assets	1967.3	4100.7	7315.3	8475.6

FINANCIAL RATIOS (Consolidated)

Y/E March	FY08	FY09	FY10E	FY11E
GROWTH (%)				
Net Sales	90.4	87.1	21.9	19.1
Adjusted Net Profit	90.0	71.0	44.9	26.8
EBITDA	102.2	49.2	39.9	24.8
EPS	40.3	62.6	12.3	27.1
CEPS	51.0	67.5	7.4	27.5
Gross Fixed Assets	130.7	125.0	78.7	33.0
Capital Employed	195.4	108.4	78.4	15.9
VALUATION				
EPS (Rs.)	25.2	42.5	46.0	58.5
CEPS (Rs.)	27.5	46.0	49.4	63.0
BVPS (Rs)	104.7	174.6	278.6	331.1
PER (x)	18.7	11.1	10.3	8.1
PEG (x)	0.5	0.2	0.8	0.3
P/CEPS (x)	17.2	10.3	9.5	7.5
P/BVPS (x)	4.5	2.7	1.7	1.4
EV/EBITDA (x)	12.4	9.3	6.4	4.8
EV/Net Sales (x)	2.8	1.7	1.3	1.0
PROFITABILITY (%)				
ROCE (%)	33.8	26.1	19.8	18.1
ROE (%)	36.4	30.0	22.5	19.5
EBIDTA Margin (%)	22.5	17.9	20.6	21.6
EBDTA Margin (%)	22.0	16.9	19.6	20.7
Net Profit Margin (%)	14.7	13.4	15.9	17.0
Tax/PBT (%)	32.6	18.4	19.1	21.0
TURNOVER				
Debtor Days	182	149	147	142
Creditor Days	103	73	74	72
Net Fixed Assets(x)	18.3	13.3	9.2	8.6
Total Assets (x)	1.5	1.4	0.9	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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