

30th April 2008

CMP Rs. 840

MAINTAIN BUY

Key Share Data

BSE Code	532875
NSE Code	ADSL
Bloomberg	ALDS IN
Reuters	ADIS.BO
Industry	IT Sol. & Serv
Sensex	17287
Nifty	5165.9
Equity (Rs.Cr)	17.3
F.V (Rs.)	10
M.Cap (Rs. Cr)	1451.5
52 Wk H/L	1129/274
Avg Daily Volume	6386

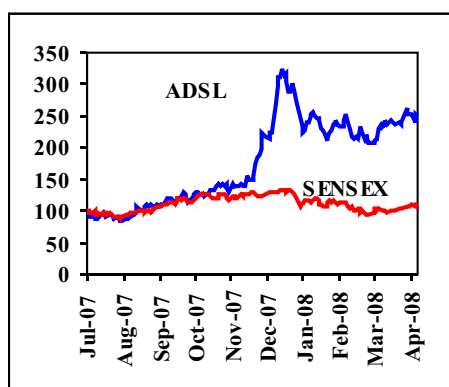
Absolute Returns (%)

	1m	3m	9m
Absolute	4	-2	459
Rel. to Sensex	-6	1	148

Shareholding Pattern (%): (31st Mar, 08)

Promoters	64.8
FII & Institutions	29.3
Public & Others	6.0

Relative Price Movement



ADSL posted a good growth YoY however it was marginally low than our expectation. Operating income for Q4FY08 grew by 69% YoY & PAT grew by 60% YoY. For the full year Operating Income grew by 90% YoY to Rs.297.3 Cr marginally lower than our expectation of Rs.301.5 Cr. Full year PAT stood at Rs.42.9 Cr up by 87% compared to previous year, however we had estimated PAT at Rs.47.1 Cr.

Growth Driver Remote Management Services (NOC/SOC)

The NOC/SOC center currently manages 700 devices which is expected to manage additional 1200 devices immediately & thus for the full year ADSL would manage ~1900 devices to be managed in FY09E. The per device realization stands at \$800 per month which would result in a revenue of ~Rs.60 Cr plus in FY09E from its RMS business. In the current year RMS has accounted to merely Rs.12.5 Cr in the total revenue of Rs.297.2 Cr. RMS is a high profitable business operating at ~65% EBITDA margins. Going ahead the company plans to grow this business to over 50% annually for the coming few years resulting in better profitability for the company.

Changing Business Mix to Improve Profitability

Currently the company has been focusing more on IT solutions segment which is a low margin business with around 15-17% operating margin barding its integrated solutions business which enjoys as high as 29% operating margin. IT solutions contributed nearly 78% & 70% to the top line in FY07 & FY08 respectively.(Integrated Solutions contributes merely 4% of the top line) where as balance was IT Services. Going ahead company plans to shift its focus on the IT Services segment which enjoys as high as 45-47% operating margins. This change in business mix would result in the improved profitability for the company. The EBITDA margin for the Q4FY08 stood at 24.6% as compared to maximum of 22% in the last three quarters. This was mainly due to increased contribution from its RMS segment (NOC/SOC) which is highly profitable segment.

ADSL has formed a JV with E-Cop to market its RMS services in the International Markets. The company has also signed an MoU with an arm of iFlex to offer SOC services as a package along with the banking software provided by E-Cop. These initiatives taken by the company would result in building RMS segment as a major growth driver moving ahead.

Acquisition To drive the company's Growth Story

Allied is looking at acquiring a US company for \$30m in infrastructure management services. It is also looking at companies in Australia and Europe in order to have a hold over various different markets globally. The other acquisition could be larger in size which may propel the revenue in a big way.

Valuations

The Revenues and PAT for FY08 has been marginally less than our estimates. However, in the FY09 (E) estimates we have not assumed revenues from the probable acquisitions as the exact quantum of revenue flow is difficult to predict. We will be revising our revenues, margins as well bottom-line figure as and when clarity emerges on that front. At the CMP of Rs.840 the stock is trading at 19.1x and 10.3x its FY09E EPS of Rs.44 & FY10E EPS of Rs.83 respectively. The current valuation does not factor in the expected acquisition & hence we MAINTAIN BUY.

We had initiated coverage on ADSL as on Nov'07 at a price of Rs.460 with a target price of Rs.700 which was achieved in Dec'07. Thereafter the stock has traded to a high of Rs.1129 which is nearly 162.6% up from our recommended price. Currently the stock is trading at Rs.840 which is still up by 82.6% from our recommended price.

Q4FY08 Result	Q4FY08	Q4FY07	YoY(%)	Q3FY08	QoQ(%)	FY08	FY07	YoY(%)
Operating Income	82.0	48.4	69%	79.3	3%	297.2	156.0	90%
EXPENDITURE :								
Cost of Sales	51.5	29.1	77%	53.7	-4%	199.7	103.1	94%
<i>% of Total Income</i>	<i>62.8</i>	<i>60.1</i>		<i>67.7</i>		<i>67.2</i>	<i>66.1</i>	
Employees Cost	7.0	5.2	34%	6.0	16%	22.1	12.8	73%
<i>% of Total Income</i>	<i>8.5</i>	<i>10.8</i>		<i>7.6</i>		<i>7.4</i>	<i>8.2</i>	
Adms Exp	3.4	2.4	42%	3.3	4%	9.3	7.1	31%
<i>% of Total Income</i>	<i>4.1</i>	<i>4.9</i>		<i>4.1</i>		<i>3.1</i>	<i>4.6</i>	
Total Expenditure	61.8	36.7	69%	63.0	-2%	231.0	123.0	88%
<i>% of Total Income</i>	<i>75.4</i>	<i>75.8</i>		<i>79.4</i>		<i>77.7</i>	<i>78.8</i>	
EBITDA	20.1	11.7	72%	16.3	23%	66.2	33.0	100%
<i>EBITDA (%)</i>	<i>24.6</i>	<i>24.2</i>		<i>20.6</i>		<i>22.3</i>	<i>21.2</i>	
Depreciation	1.1	0.4	163%	1.1	3%	3.3	0.9	283%
EBIT	19.0	11.3	69%	15.3	25%	62.9	32.2	96%
<i>EBIT (%)</i>	<i>23.2</i>	<i>23.3</i>		<i>19.2</i>		<i>21.2</i>	<i>20.6</i>	
Interest	0.4	0.1	186%	0.3	43%	1.4	1.1	25%
Other Income	0.9	0.1		1.6	-43%	3.0	0.2	
PBT	19.5	11.2	74%	16.5	18%	64.5	31.2	107%
<i>PBT (%)</i>	<i>23.8</i>	<i>23.2</i>		<i>20.9</i>		<i>21.7</i>	<i>20.0</i>	
Tax	7.1	3.5	104%	4.4	61%	21.7	8.3	161%
<i>% of PBT</i>	<i>36.5</i>	<i>31.1</i>		<i>26.8</i>		<i>33.6</i>	<i>26.6</i>	
Adj PAT	12.4	7.7	60%	12.1	2%	42.9	22.9	87%
<i>PAT(%)</i>	<i>15.1</i>	<i>16.0</i>		<i>15.2</i>		<i>14.4</i>	<i>14.7</i>	
Cal EPS	7.1	6.0	18%	7.0	2%	24.8	18.0	38%

KEY FINANCIALS

Valuation Table (Rs. Cr)	FY09E	FY10E
Revenue	451.0	700.0
<i>Growth (%)</i>	<i>51.7</i>	<i>55.2</i>
EBITDA	117.1	209.0
<i>EBITDA (%)</i>	<i>26.0</i>	<i>29.9</i>
PAT	76.1	143.4
<i>PAT (%)</i>	<i>16.9</i>	<i>20.5</i>
EPS (Rs)	44.0	83.0
P/E (x)	19.1	10.1
RONW (%)	26.5	33.3
ROCE (%)	35.9	43.6
P/BV	5.0	3.3
EV/EBITDA	11.9	6.5



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Disclosure of Interest Statement	Allied Digital Services Ltd.
1. Analyst ownership of the stock	Yes
2. Group/Directors ownership of the stock	Yes
3. Broking relationship with Company covered	No