

Press Release

Allied Digital Services Limited

January 18, 2023



Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	53.00	ACUITE BBB Stable Assigned	-
Bank Loan Ratings	10.00	-	ACUITE A3+ Assigned
Total Outstanding Quantum (Rs. Cr)	63.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Erratum: In the original PR dated January 17, 2023, the order book details was incorrect which has now been revised in this version.

Rating Rationale

Acuite has assigned the long-term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) and short-term rating of '**ACUITE A3+**' (**Acuite A three plus**) on Rs. 63.00 crore bank facilities of Allied Digital Services Limited (ADSL). The outlook is '**Stable**'.

Rationale for rating assigned

The rating assigned draws comfort from the established track record of operations of the group of more than three decades in the IT industry. The rating also derives strength from Allied Group (AG)'s healthy financial risk profile and strong operating performance supported by its diverse revenue streams. The above-mentioned strengths are partly offset by the intensive nature of its working capital operations and exposure of the group to intense competition in the IT industry.

About Company

Incorporated in 1984, Allied digital services limited (ADSL) is an IT consulting and services company. The company offers a wide range of IT services which include cybersecurity, Infrastructure management services, software solutions, workplace management, software solutions and cloud services and has presence in eight countries across the world. The company is promoted by Mr. Nitin Shah who is the Chairman and Managing Director of ADSL who has over 2 decades of experience in the IT industry.

About the Group

Incorporated in 1984, Allied digital services limited (ADSL) is an IT consulting and services company. The company also has a total of 11 subsidiary (refer Annexure 2 for consolidated entities) companies in various countries engaged in a similar line of business. ADSL along with the subsidiaries is herein referred to as Allied Group (AG).

Analytical Approach

Extent of Consolidation

- Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support

Acuite has consolidated the business and financial risk profiles of Allied Digital Service Limited (ADSL) and its eleven subsidiaries (given in the *Annexure 2), as all the entities have common shareholding, common line of business and have significant operational linkages. The group is herein referred to as Allied Group (AG).

Key Rating Drivers

Strengths

Established track record of operations and experienced management

Incorporated in 1984, Allied Group (AG) has an established track record of operation of over three decades in the IT services industry. The group provides a wide range of services across 70 plus countries and has its subsidiaries in eight countries around the world. The operations of the group are managed by a qualified and well experienced senior management team who are ably supported by a strong line of mid-level managers. The extensive experience of the management has helped the group to establish long and healthy relationship with reputed customers and suppliers over the years. The key customers of the company include names such as Tata Motors, Vedanta, Accenture, Air India and Infosys among others. Further, the group is a leading player in providing Smart City Solutions for various state governments in India. The group has completed various Smart City project in the past as a systems integrator in cities like Pune, Aurangabad, Rajkot and Kalyan-Dombivli.

Acuite believes that the management's experience and reputed clientele is expected to support the group in improving its business risk profile over the medium term.

Healthy operating performance

Allied Group (AG) currently has six major revenue streams namely cloud services, cybersecurity, smart city solutions, Infrastructure management services, software solutions and workplace management services. Operating performance of the group has seen a healthy growth with a 35% Y-o-Y growth in the revenue. Revenue of the group stood at Rs. 484.68 crore in FY2022 as against Rs.358.08 crore in FY2021. Growth seen in the revenue is on account of increased demand for IT services and solutions globally on account of reopening of businesses. Further, the company has also seen a robust performance on a standalone level. ADSL provides Smart City solutions to various state governments in India. AG in 2013 has taken up its first smart city solution project at Pune to set up, implement and maintain CCTV surveillance systems across the city. The company subsequently also worked on other smart city projects in Aurangabad, Rajkot and Kalyan-Dombivli. In the current year the company has bagged 5 new Smart City projects in Solapur, Lucknow, Amritsar, Sultanpur and Jalandar. Further, the company also has an unexecuted order book of Rs. 1,566 crore to be completed over next 4-5 years which gives strong revenue visibility for the near to medium term. Operating margin of AG stood at 14.73 percent in FY2022 as against 12.92 percent in FY2021. Improvement in the operating margins are on account of increase in scale of operations and prudent cost optimisation by the group. The profitability of the group stood at Rs. 61.02 crore in FY2022 as against Rs. 19.23 crore in FY2021. The increase in profitability in FY 2022 is majorly due to waiver of a business loan of USD 3,219,918 under Paycheck Protection Program (PPP) from the United States Federal Government. Hence, Rs.23.80 crore of extraordinary gain is recognised in FY2022. The normalised profitability margins excluding the exceptional gain stood at 7.68 percent in FY2022 as against 5.37 percent in FY2021.

Acuite believes that the business risk profile of the group is likely to continue to improve on the back of reputed clientele and healthy demand expected over the near to medium term.

Healthy financial risk profile

Financial risk profile of the group is healthy with a healthy network, low gearing and above-average debt protection metrics. Tangible network of the company stood at Rs. 435.74 crore as on 31 st March, 2022 as against Rs. 354.53 crore as on 31 st March, 2021. Growth in the network is on account of accretion of profits to reserves. Gearing of the group stood low at 0.11 times as on 31 st March, 2022 and has lowered from its peak gearing levels at 0.17 times as in 31st March, 2020. Total outside liabilities to Tangible net worth (TOL/TNW) has seen a declining trend. TOL/TNW stood at 0.31 times as on 31st March 2022 as against 0.44 times as on 31st March 2021 and 0.47 times as on 31st March, 2020. DSCR of the company stood at 19.47 times in FY2022 as against 7.94 times in FY2021. Interest coverage ratio stood at 36.80 time in FY2022 as against 13.21 times in FY2021.

Acuite believes that the financial risk profile is likely to remain healthy in the absence of any debt-funded capital expenditure and any large deviations in incremental working capital requirements.

Weaknesses

Working capital intensive nature of operations

Working capital operations of the group are intensive marked by GCA days of 294 days in FY2022 as against 352 days in FY2021. Higher GCA days are on account of higher debtor collection period and other current assets. Debtor collection period stood at 150 days in FY2022 as against 167 days in FY2021. Debtors for the smart city solutions segment are state governments and payments for such projects are delayed beyond the credit period offered. Hence, on a standalone basis the debtor days stood at 412 days in FY2022 as against 520 days in FY2021. Other current assets of the group stood at Rs.97.54 crore in FY2022 as against Rs.88.55 crore in FY2021. Other current assets majorly includes unbilled revenue of Rs.33.11 crore in FY2022 as against Rs.36.83 crore in FY2021. Despite the elongated receivable days, the company's reliance on working capital limits is moderate with average utilisation of fund-based limits at 57% for 6 months ended November, 2022 Further, the company has maintained cash balance of Rs.55.59 crore in FY2022 as against Rs. 57.67 crore in FY2021.

Acuite believes that the working capital operations of the company will remain intensive over the medium term and will continue to remain a key rating sensitivity.

Highly competitive nature of the IT industry

The global IT services industry is dominated by several large players and small niche technology players. Allied Group faces stiff competition from domestic as well as international IT service companies leading to intense margin pressure. The industry is highly technology oriented which keeps on changing time to time. Thus, the company has to keep upgrading the services it offers according to the needs of the clients and changes in the industry. However, the established relationship with clients and vendors, diversified geographical presence and experienced management mitigates the risk to some extent. Further, the ability of the company to manage industry specific risks such as wage inflation and employee attrition levels determine the companies ability to sustain its business risk profile and will remain a key rating sensitivity.

Rating Sensitivities

- Improvement in the scale of operation while maintaining its profitability margin at the current level.
- Any deterioration or stretch in the working capital cycle on account of further elongation in debtor collection period leading to stretched liquidity

Material Covenants

None

Liquidity Position Adequate

Liquidity of the group is adequate with sufficient net cash accruals to meet its debt service obligation. Net cash accruals of the company stood at Rs.57.49 crore as against debt repayment obligation of Rs. 1.69 crores. AG is expected to generate adequate cash accruals to meet its debt obligations. Bank limit utilisation remained low at 57% for six months ended November 2022. Current ratio of the company stood high at 4.50 times as on 31 st March 2022 as against 3.32 times as on 31 st March 2021. AG maintains unencumbered cash balance of Rs.55.59 crore as on 31 st March, 2022.

Acuité believes that the liquidity of the group is likely to remain adequate over the medium term on account of healthy cash accruals to its maturing debt obligation.

Outlook: Stable

Acuité believes that the group will continue to maintain a 'Stable' outlook over near to medium term owing to its established track record and experienced management. The outlook may be revised to 'Positive' in case the company achieves higher than expected growth in revenues and improvement in profitability, working capital management and debt protection metrics. Conversely, the outlook may be revised to 'Negative' in case of a significant decline in revenues and operating profit margins, or deterioration in the capital structure and liquidity position on account of higher-than-expected debt and working capital requirements.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	484.68	358.08
PAT	Rs. Cr.	61.02	19.23
PAT Margin	(%)	12.59	5.37
Total Debt/Tangible Net Worth	Times	0.11	0.15
PBDIT/Interest	Times	36.80	13.21

Status of non-cooperation with previous CRA (if applicable)

None

Any Other Information

None

Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Consolidation Of Companies: <https://www.acuite.in/view-rating-criteria-60.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Service Sector: <https://www.acuite.in/view-rating-criteria-50.htm>

Note on Complexity Levels of the Rated Instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite' s categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History:
Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Indian Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	5.00	ACUITE A3+ Assigned
Indian Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	15.00	ACUITE BBB Stable Assigned
Not Applicable	Not Applicable	Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	5.00	ACUITE A3+ Assigned
Not Applicable	Not Applicable	Proposed Working Capital Demand Loan	Not Applicable	Not Applicable	Not Applicable	Simple	22.00	ACUITE BBB Stable Assigned
Indian Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	1.60	ACUITE BBB Stable Assigned
Indian Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	2.50	ACUITE BBB Stable Assigned
Barclays Bank	Not Applicable	Working Capital Demand Loan (WC DL)	Not available	Not available	Not available	Simple	11.90	ACUITE BBB Stable Assigned

***Annexure 2 - List of Entities (applicable for Consolidation or Parent / Group / Govt Support)**

Subsidiary	% Shareholding of ADSL
Allied Digital Services LLC (USA)	51.00
Allied digital Inc (USA)	100.00
Allied digital Singapore Pte Ltd	100.00
Allied digital Asia pacific Pty Ltd (Australia)	100.00

Allied Digital Services UK Ltd	95.00
Allied eCop Surveillance Pvt Ltd	80.01

Allied Digital Services (Ireland) Ltd	100.00
En Pointe Technologies India Pvt Ltd	100.00
Allied Digital Services Japan G.K.	100.00
Allied Digital services Do Brazil Ltd	100.00
Allied Digital IT Services (Beijing) Co Ltd	100.00

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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