



RATING RATIONALE

Allied Digital Services Limited

16 Oct 2019

Brickwork Ratings assigns the ratings for the Bank Loan Facilities of Rs. 57.08 Crores of Allied Digital Services Limited.

Particulars

| Facility | Amount (Rs. Crs) | Tenure | Rating* |
|-----------------------|------------------|-------------------------------------------------------|----------------------------|
| Fund based | | | |
| Term Loan | 30.58 | Long Term | BWR BB+ (Stable) |
| Non Fund Based | | | |
| Bank Guarantee | 26.50 | Short Term | BWR A4+ |
| Total | 57.08 | Rupees Fifty Seven Crores and Eight lakhs Only | |

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

** Details of Bank facilities is provided in Annexure-I

RATING ACTION / OUTLOOK

Allied Digital Services Limited (ADSL or “The Company”) has been assigned the rating on account of steady topline for past 4 years but increasing profit y-o-y basis, moderate financial risk, moderate order book position of Rs. 122.83 Crs as on August 2019.

Along with the above, the ratings also factor in its business growth owing to the government's initiatives of Digital India and development of smart cities. They have currently 3 smart city projects to be executed and a few more projects would be added by the end of the year. The company is engaged in both Government entities and private corporates orders which also factors in the experience of its core team and management.

The rating are, however, constrained by modest scale of business, highly working capital intensive, timely realisation of payments, project completion risk, majority concentration of business, forex risk, tender based nature of business, intense competition

Outlook: Stable

The outlook is expected to be stable over medium term on account of its business growth along with its experienced management, moderate order book and financial risk profile

KEY RATING DRIVERS

Credit Strengths:

Establishment and experience of the promoters: Allied Digital Services Limited (ADSL) was established in 1984 as ‘Digital Data Services’ and was then incorporated as Allied Digital Services Private limited in 1995. ADSL became a public limited company in 2006 . The company is listed in both BSE and NSE. ADSL is promoted by Mr. Nitin Shah, Mr. Prakash Shah, Mr. Paresh Shah, Mr. Jawahar Ali who



have more than 25 years of experience in their varied fields of interests. Their expertise helps for business and to maintain a healthy relations with customers and suppliers to continue to support their business.

Moderate financial risk profile and average order book position: The company has maintained moderate financial risk profile marked by gearing ratio of 0.16 times. Due to their relatively lower debt of Rs. 64.54 Crs with respect to its net worth of Rs. 411.74 Crs the company has maintained healthy debt protection metrics with ISCR and DSCR of 3.05 times and 3.51 times respectively in FY19.

Credit Risks:

Modest scale of operations:

The company is operating at a relatively modest scale of operations and same has marginally improved in FY19 over the previous year. The company derives revenue primarily from IT Infrastructure Services, Enterprise Application & Integrated Solutions and related services. It follows percentage completion method which results in fluctuation in revenue. However, the company presently has unexecuted order book position of Rs. 122.83 Crs as on 31.08.2019 of which major portion is from smart city projects. Further, the company is bidding for several government projects including Digital India and smart city projects which is expected to significantly improve the revenue in the medium to near term if the tender is won by the company. Sales and profitability are subject to volatility due to tender based nature of operations.

Highly Working Capital Intensive: The operations of the company is highly working capital intensive on account of the high receivables days which stood at 698 days for FY19. The elongated receivable days are due to the delays in payment by the government entities. Hence, BWR expects the operations to remain working capital intensive in nature going forward as the company derives the majority of the revenue from the government contracts.

Exposure to risk and tender based operations: Major portion of company's revenue is generated from the United States reflecting geographic concentration risk, interest rate risk, and currency fluctuations. Since entire sales is tender-based, revenue and profitability entirely depend on the ability of the company to win tenders.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

For arriving at its ratings, BWR has considered the standalone performance of ADSL along with the business linkages with its subsidiaries providing financial services. BWR has applied its rating methodology as detailed in the Rating Criteria (*hyperlinks provided at the end of this rationale*).

RATING SENSITIVITIES

Going forward, the Company's ability to improve its scale of operations and improvement in working capital cycle, including recoveries to manage its working capital efficiently, execute the orders in a timely manner would be the key rating sensitivities.

Positive: The rating may be upgraded if the company is able to achieve significant growth in revenue and profitability backed by a favourable demand prospects, sustained improvement in capital structure and working capital management.

Negative: The rating may be downgraded, on account of lower than expected growth in revenues and profitability coupled with increase in the working-capital requirements of the company adversely impacting the liquidity position of the company.



LIQUIDITY POSITION: ADEQUATE

The company has maintained adequate liquidity position as evident from cash/cash equivalents of Rs. 4.58 Crs as on March 31, 2019 and Cash accrual of Rs. 38.22 Crs which will be sufficient for meeting working capital requirements over the medium term. Current Ratio of the company stood at 2.16 times in FY19.

COMPANY PROFILE

Allied Digital Services Limited (ADSL) was established in 1984 as Digital Data Services and was then incorporated as Allied Digital Services Private limited in 1995. ADLS became a Public company in 2006. The Company is listed in BSE and NSE. Allied Digital Services Ltd has its registered office in Nariman Point, Mumbai. ADSL is a Global IT Transformation Architect, with a track record for designing, developing, deploying and delivering end-to-end IT Infrastructure services. The companies operations are spread in 35 countries across 5 continents.

KEY FINANCIAL INDICATORS

| Key Parameters | Units | Standalone | | Consolidated | |
|------------------------|---------|------------|---------|--------------|---------|
| | | FY18 | FY19 | FY18 | FY19 |
| Result Type | | Audited | Audited | Audited | Audited |
| Total Operating Income | Rs. Crs | 74.23 | 75.23 | 224.90 | 239.73 |
| OPBDIT | Rs. Crs | 31.49 | 25.82 | 46.86 | 38.54 |
| PAT | Rs. Crs | 4.98 | 9.63 | 9.97 | 12.37 |
| Tangible Net Worth | Rs. Crs | 395.24 | 411.77 | 273.08 | 297.39 |
| Gearing Ratio | Times | 0.21 | 0.16 | 0.34 | 0.31 |
| ISCR | Times | 6.47 | 3.05 | 8.55 | 3.84 |

KEY COVENANTS OF THE FACILITY RATED: NA

NON-COOPERATION WITH PREVIOUS RATING AGENCY: NA

RATING HISTORY

| Facilities | Current Rating (2019) | | | Rating History | | |
|----------------|-----------------------|------------------|-------------------------------------------------------|----------------|------|------|
| | Tenure | Amount (Rs. Crs) | Rating | 2018 | 2017 | 2016 |
| Fund Based | Long Term | 30.58 | BWR BB+ (Stable) | NA | NA | NA |
| Non Fund Based | Short Term | 26.50 | BWR A4+ | | | |
| Total | | 57.08 | Rupees Fifty Seven Crores and Eight lakhs Only | | | |

COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Services Sector](#)

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ANNEXURE I Details of Bank Facilities rated by BWR

| Sl. No. | Name of the Bank | Type of Facilities | Long Term (Rs. Crs) | Short Term (Rs. Crs) | Total (Rs. Crs) |
|--------------|---------------------|--------------------|---------------------|----------------------|-----------------|
| 1. | Kotak Mahindra Bank | Term Loan | 11.50 | - | 38.00 |
| | | Bank Guarantee | - | 26.50 | |
| 2. | Barclays | Term Loan | 19.08 | - | 19.08 |
| TOTAL | | | | | 57.08 |



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