



Rating Rationale

Allied Digital Services Ltd.

18 March 2021

Brickwork Ratings reaffirms the ratings for the Bank Loan Facilities of ₹. 32.16 Crores of Allied Digital Services Ltd.

Particulars

Facility	Previous Amount (₹ Cr)	Present Amount (₹ Cr)	Tenure	Previous Rating (March, 2020)	Rating Recommendation
Fund based	27.27	32.16	Long Term	BWR BBB-Stable	BWR BBB-Stable Reaffirmed
Non Fund Based	0.00	(5.00)	Short Term	Withdrawn	BWR A3
Total	27.27	32.16	Rupees Thirty Two Crores and sixteen lakhs Only		

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

Rating 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.

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 smart city projects to be executed apart from 1 large project which is under O&M agreement. 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 ratings are, however, constrained by 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 moderate financial risk profile



Description of Key Rating Drivers

Credit Strengths:

- **Management Experience-** Established Company for more than 3 decades and management with more than 35-40 years of experience in this industry. Delivers IT services and solutions to a wide range of industries spanning 70 countries across 5 continents.
- **Growth in Operations-** Despite Covid and business being hampered the company reported a healthy growth in scale of operations with revenues Rs. 93.64crs in FY20 as compared to Rs. 75.02crs in FY19 (Standalone) .The 9months revenues stand stagnant as 9MFY21 stand at Rs. 69.89Crs on standalone as against 9MFY20 standing at Rs. 69.48crs.The company expects to achieve the total revenue for FY 20-21 of about INR 105.00 Crs on standalone basis as against actual revenue of INR 94 Crs in FY 19-20. Total Revenues for 2 months period (Jan-Feb) is around INR 20 Crs taking the revenues to Rs. 89.89crs upto Feb-2021.
- **Moderate Order book position-** The Company has smart city-based solutions with the current contract of Smart city project from Bidkin, Rajkot, Aurangabad, Kalyan Dombivali. There would be some extra invoicing for Smart City Projects as well as for ADSL LLC in the month of March-21. Based on the strong pipeline and order book, the company is expecting considerable growth in the revenue and profitability for FY 21-22 however the new order book is spread across 5 years for moving forward FY22.
- **Strong Capital structure-** Strong capital structure with healthy net worth standing at Rs.430.83crs in FY20 as compared to Rs. 413.54 crs in FY19, the increase is due to ploughing back of profits.Moderate gearing with Total debt/ TNW and TOL/TNW standing at 0.12x and 0.25x in FY20 it has improved as compared to 0.16x and 0.26x in FY19.
- **Moderate coverage-** Moderate Coverage with ISCR and DSCR standing at 3.65x and 4.06x in FY20 as compared to 2.88x and 3.32x in FY19.
- **Moderate profitability-** .Moderate profitability with NPM and OPM standing at 8.37% and 23.99% in FY20 as compared to 12.80% and 35.31% in FY19.
- **Moderate current ratio-** Moderate current ratio with improvement at 2.66x in FY20 as compared to 2.50x in FY 19.

Credit Risks:

- **Majority of the revenue is from the USA and Exposure to risk of tender based operations** - Major portion of the company's revenue is generated from the United States from Allied Digital Services LLC (USA) reflecting geographic concentration risk. The rest of the business is from India , of which majority is the Government of Maharashtra Contracts, so any changes in regulation, quality standards, trades policy will directly affect the business, hence revenues. Also, Since the majority of the sales is from the Government of Maharashtra,there is risk related to tender based operations. Revenue and profitability partially depends on the ability of the company to secure new tenders.
- **Exposure to risk related to Foreign Exchange-** Foreign exchange risk is also associated with it however it is mitigated by working capital facility in foreign exchange.



- **Highly Working Capital Intensive:** The operations of the company is highly working capital intensive on account of the high receivables days which stood at 526 days for FY20 as against 698 days for FY19. The elongated receivable days are due to the delays in payment by the government entities. Part of these receivables is disputed also. 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.

Analytical Approach

For arriving at its ratings, BWR has considered the standalone performance of ADSL along with the business linkages with its subsidiaries providing only enterprise IT 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 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 average CC utilization for the last 7 months stands at 48.35% . The cash and cash equivalents stand at Rs. 2.67 crs in FY20 as compared to Rs. 4.58 crs in FY19 . The current ratio stands at 2.66x in FY20 as compared to 2.50x in FY19 it estimates FY21 at 2.50x. The Net Cash Accruals to Long term debt stand at 3.74x in FY20 as compared to 1.90x in FY19. ISCR and DSCR stand at 3.65x & 4.06x respectively in FY20 as compared to 2.88x & 3.32x in FY19 it is estimated to further improve in FY21 at 10.91x and 6.04x respectively.

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 by virtue of listing on 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 company's operations are spread in 70 countries across 5 continents.

Key Financial Indicator

Key Parameters	Units	Standalone		Consolidated	
		FY19	FY20	FY19	FY20
Operating Revenue	₹ Cr	75.23	94.19	239.73	330.14
OPBDIT	₹ Cr	26.56	22.60	38.54	47.67
PAT	₹ Cr	9.63	7.88	12.37	19.24
Tangible Net worth	₹ Cr	413.54	430.83	297.39	330.26
Total Debt/Tangible Net worth	Times	0.16	0.12	0.31	0.17
Current Ratio	Times	2.50	2.66	2.16	2.66

KEY COVENANTS OF THE FACILITY RATED: NA

NON-COOPERATION WITH PREVIOUS RATING AGENCY: NA

Rating History for the last three years

Instrument /Facility	Current Rating			Rating History						
	Type	Amount (₹ Crs)	Rating	2020		2019			2018	
Fund Based	Long Term	32.16	BWR BBB-(Stable) Reaffirmed	Long Term	27.27	BWR BBB-(Stable) Upgraded	Long Term	30.58	BWR BB+(Stable)	-
Non Fund Based	Short Term	(5.00)	BWR A3	Short Term	0.00	Withdrawn	Short Term	26.50	BWR A4+	-
Total		32.16			27.27			57.08		

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Service Sector](#)
- [Short Term Debt](#)



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Allied Digital Services Limited

ANNEXURE-I Details of Bank Facilities rated by BWR

Sr. No.	Type of Facilities	Tenure	Amount
1.	Term Loan- Sanctioned	Long Term	22.66
2.	Cash Credit- Sanctioned		9.50
3.	Bank Guarantee- Sanctioned	Short term	(5.00)
	Rupees Thirty Two Crores and sixteen lakhs Only		32.16