June 4, 2024

To,
Corporate Relationship Department
BSE Limited
P.J. Towers, Dalal Street
Mumbai — 400 001

Scrip Code: 532875

To,
Listing Compliance Department
National Stock Exchange of India Limited
Exchange Plaza, 5th Floor Plot No. C-1,
G-Block, Bandra-Kurla Complex,
Bandra (East), Mumbai- 400 051

Scrip Symbol: ADSL

Sub: Transcripts of Conference Call pertaining to financial results for the quarter and year ended March 31, 2024

Dear Sir / Madam,

In accordance with Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("Listing Regulations"), we are submitting the Transcripts of Conference Call held on Monday, May 27, 2024, in respect of the financial results for the quarter and year ended March 31, 2024.

The same can also be viewed at https://www.allieddigital.net/in/earning-conference-call

This is for your information and records.

Thanking you,

Yours faithfully,
For Allied Digital Services Limited

NEHAL SHAH
Digitally signed by NEHAL SHAH
Date: 2024.06.04 16:50:50 +05'30'

Nehal Shah
Director
DIN: 02766841

Allied Digital Services Limited

Q4 FY2024 Earnings Call Transcript

May 27, 2024

Call Duration	• 49 minutes and 31 seconds
Management Attendees	• Mr. Nitin D Shah, Founder, Chairman & Managing Director • Mr. Nehal Shah, Whole-time Director • Mr. Paresh Shah, Global CEO • Mr. Gopal Tiwari, Chief Financial Officer
Participants during Q&A session	• Narendra – Robo Capital • Divyang – Navkar • Pratik Dedhia – Individual Investor • Tushar Vausja – Yogya Capital • Shweta – Vogabe Advisors • Sameera Middha – Individual Investor

Moderator: Ladies and gentlemen, good day and welcome to Allied Digital Services Limited's Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and anyone who wishes to ask a question may enter star and one on their touchtone phone. To remove yourself from the queue, you may please enter star and two. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Mayank Vaswani from CDR India. Thank you and over to you, sir.

Mayank Vaswani: Thank you, Michelle. Good afternoon everyone and thank you for joining us on Allied Digital Services Limited's earnings call for the Fourth Quarter of Financial Year 2023-'24.

We have with us on the call today, Mr. Nitin Shah, Founder and CMD, Mr. Nehal Shah, Whole-Time Director, Mr. Sunil Bhatt, Board Member and Chief Technology Officer, Mr. Paresh Shah, Global CEO and Mr. Gopal Tiwari, Chief Financial Officer. We also have Mr. Ramanan Ramanathan on today's call.

We will open with comments from the Chairman, following which Mr. Nehal Shah will cover recent developments across the business. Mr. Paresh Shah will then cover the operational performance and order wins, followed by Mr. Gopal Tiwari, who will walk us through the financial highlights. Thereafter, we shall open the call for the Q&A session.

Before we begin, I would like to point out that some of the statements made in today's call may be forward-looking in nature and a disclaimer to this effect has been included in the earnings documents that have been shared with all of you earlier.

I would now like to hand over the floor to our Chairman, Mr. Nitin Shah, for his opening remarks. Over to you, sir.

Nitin Shah: Thank you, Mayank. Good afternoon, everyone and thanks for taking time out to attend our earnings call.

The first important thing that I would like to announce, we are very pleased to give 30% dividend this year to all our investors and shareholders. A very important milestone about our company this year is that we are completing 40 years, so we have come a long way, starting from 1984, before the PC era, where we were supporting mainframe computers, to what you are seeing today, which I consider is the post-PC era, because people are using now access devices like tablets, notebook, mobile phone and all to do business transactions.

We have done very well in Indian territory, very good wins, hiring recruits, though we are very cautiously growing and we have selected only those kind of deals, which help us making our bottom line more powerful. As always, we are not too much top line driven company and we are quite satisfied and we have been able to get 15% of EBITDA margin in Indian business, which we are now aiming to improve and increase up to 20%.

Important thing that we have done in last quarter is that we have renamed ADiTaaS, which is a 'Software-as-a-Service' (SaaS) kind of platform, which is very important for us. We have renamed it as 'Digital Desk' and have added a lot of features on artificial intelligence and automation. As you know that the world is changing very fast, the productivity tools are also becoming more and more powerful and the latest innovation, which is coming from Google, Microsoft and all, in terms of using generative AI, prompt engineering and LLM, so we are incorporating those features to make our ADiTaaS platform, which is now renamed as 'Digital Desk', more robust, which will help our client to do a lot of automation.

Now I am introducing Mr. Ramanan Ramanathan, who will be talking about himself. He has been working in our company to have a strategic role in terms of expansion globally, our company, and bringing a lot of innovations in the business model. Mr. Raman, you can introduce yourself.

Ramanan Ramanathan: Thank you, Nitinji. It's wonderful to be part of this particular call and thank you everyone for joining in. As mentioned by Nitinji, I'm delighted to be part of the strategic team of Allied Digital.

By way of background, some of you may know me, but I've been the Mission Director for the Atal Innovation Mission, which was a national mission to drive innovation and entrepreneurship across the length and breadth of the country. I was an Additional Secretary at the NITI Aayog and this particular mission, the Atal Innovation Mission, was the direct responsibility of the PMO, the Prime Minister's Office. And essentially over the last six, seven years, I've been actively associated with how you ensure innovation, entrepreneurship, not just in governmental organizations, but also in the private sector, in universities, in schools, in NGO institutions, and in large corporates.

Before that, I was the managing director and CEO of CMC Limited. Some of you would be aware that CMC was Computer Maintenance Corporation, was a Government of India organization that was acquired by the Tata Group in 2001. And I led it as the MD and CEO until 2016, when it was amalgamated into TCS. And I've been part of TCS since 1981, when I joined the company. I superannuated from TCS in 2021, as the senior vice president of the company.

So that's my background. And as Nitinji said, there is a tremendous opportunity for infrastructure management services, as well as related IT services in the next few years, as a result of all the changes that are happening in technology. And with AI-powered systems and AI-driven infrastructure management services, the future looks exciting. And I hope to play a contributory role in the growth of Allied Digital.

Nitin Shah: Thank you, Mr. Ramanan. Now I'll hand it over to Mr. Nehal to speak about the operational aspect of Allied Digital.

Nehal Shah: Thank you, sir. Good afternoon to everyone. Thank you for taking time to join our earnings call. I trust that all of you had a chance to review our earnings documents, which were shared earlier.

I would like to begin by highlighting a significant milestone in our journey. We recently completed our 40th anniversary as an organization. From simple beginnings and through many stages of evolution, we have grown to serve global and multinational clients, as well as emerge as pioneers in the Smart City space. This transition reflects a deep commitment to innovation, excellence, and our ability to adapt to the ever-changing landscape.

Moving to the operational highlights, I am pleased to report that the business environment in India continues to be buoyant, as we indicated in the previous call. Towards the end of the quarter, the upcoming election season did cause some slowing of decision-making in the short term, which we believe will carry forward into quarter one. Thereafter, we are confident that the awarding of government projects will resume. We have reported a number of new wins and renewals, which have enabled us to add orders worth over Rs. 300 crore in quarter four.

Customers in global markets are feeling pressure of the overall macro environment, with concerns around intensifying inflation combined with related uncertainty driving belt tightening. As a result, even as business opportunities continue to be abundant, customers are indicating highly aggressive expectations in terms of pricing, which is resulting in a mismatch of sorts and elongating the decision-making cycle. As expectations are rebalanced on both sides of the value chain, we believe that activity levels will begin to pick up once more.

Another key development to highlight this quarter has been the rebranding of our SaaS platform ADiTaaS to Digital Desk. And we expect these refreshed offerings, which continues to see upgrades and enhancements, to enjoy greater recognition and adoption by the potential customers. Our teams have been actively deploying these tools across operations, contributing to our development momentum.

Coming to our performance of Q4 FY24, we reported consolidated revenues of Rs. 177 crore, growing 4% on a quarter-over-quarter basis. Within this, the growth in our domestic business has been a strong double-digit kind of growth, and the outlook remains buoyant. However, given the backdrop in global markets that I just covered, especially the US, the blended growth is more moderate. The revenue split by geography shows the clear outperformance of the India business, which has grown 33% year-over-year in Q4 FY24 and by 51% year-over-year in FY24 the whole year.

The revenue split by segment reflects a strong momentum in the solutions business, which constituted 21% of our revenues in Q4 FY24, compared to 12% in Q4 FY23. This has been driven by the progress of smart city projects in Lucknow and Solapur, which have moved into the advanced implementation stage. As a result, the revenue split by customer type shows that revenues from government customers constitute around 21% of our overall revenues in Q4 FY24 compared to 13% in Q4 FY23.

Before I close, I would like to share that we are also seeing interesting opportunities emerging in the Middle East. We believe the markets here are attractive and customers are in the right mindset towards digitalization and next-gen technologies. Earlier this month, we have incorporated a subsidiary company, Allied Smart IT Infrastructure Services LLC and set up a sales office in Dubai.

With that, I would like to hand over to our Global CEO, Mr. Paresh Shah, to share key insights about the operational performance and key developments during the quarter.

Paresh Shah: Thank you, Nehal. A very good afternoon to everyone. I will now brief you through the operational performance and key developments during this quarter.

A key highlight to this quarter has been our ability to generate additional revenues from existing customers, a practice we refer to as 'Farming'. This success has been aided by a steady pace of renewals. Additionally, we have a healthy pipeline of deals totaling approximately $26 million in TCV, with a projected closure in the next three to six months.

During this quarter, we secured several significant orders, which I will walk through them.

First, a bank, a subsidiary of a Spanish group, headquartered out of Boston, has selected Allied Digital to provide managed services for the bank and consumer's field services support organization. Operating in the northeastern United States, this bank offers a wide range of financial services, including personal and business banking, commercial banking, and wealth management. Our scope includes on-site dedicated resources for pre-defined locations and dispatch to branches as required. Additionally, we are setting up a walk-up support, a Genius Bar, Tech Bar, and a Kiosk support to enhance the user experience.

Next, a subsidiary of BP Americas focused on oil and natural gas exploration and production has selected Allied Digital, and it is headquartered in Denver, Colorado. And operating primarily in Texas and Louisiana, this customer requests streamlined production technology support, including PCs, laptops, regularized handheld devices, IoT devices, sensors, and SCADA endpoints. We are also performing a technology refresh project in the first three months to upgrade their devices and software.

The third important one also, additionally, we won a contract with a global infrastructure firm headquartered in Dallas, Texas. This customer provides design, engineering, construction and management services across several sectors, such as transportation, water energy, and environment projects. They have chosen Allied Digital to provide Managed Services for 20,000 end users in the Asia-Pacific region, spanning 17 countries. Our scope includes deskside support, smart hands support, on-demand dispatch and asset management.

Lastly, to add, we have partnered with Enercon, a leading German wind turbine manufacturer headquartered in Aurich, Germany known for their pioneering technology and innovative designs. Enercon specializes in the development, production and maintenance of wind energy converters. We also will streamline their IT operations in the German production facilities, providing factory IT support, corporate support and remote support for all their European offices.

These order wins highlight our commitment to deliver comprehensive and innovative solutions to our clients across various industries and regions.

Talking about India, in January 2024, we were selected as an MSI for integrating CCTV surveillance with the existing ITMS control room for the Ayodhya Smart City project. This project gained a lot of prominence, including setting up a multi-location CCTV surveillance system. The capital expenditure and implementation phase is expected in the next three months, followed by a five-year operational and maintenance period.

In February 2024, we received a Letter of Intent for Taloja Smart Industrial City contract in Navi, Mumbai. This groundbreaking initiative will span an 18-month implementation phase, followed by a 60-month operations and maintenance period. The product ranges from the CCTV surveillance command and control center, and also it includes the corporate headquarters, as well as the industry township. The ICCC software will seamlessly integrate with a cloud-based data center and disaster recovery system. Additionally, the project involves deploying a cutting-edge CCTV-based surveillance system to enhance security and monitoring capability.

These order wins underline our commitment to deliver comprehensive solutions in the smart city domain also.

Next, I am pleased to share that we have also witnessed significant traction in our Cybersecurity offerings with the addition of new customers towards the end of this quarter. As you know, we have been strengthening our partnerships with large IT service firms and global consulting firms to jointly serve customers.

These partnerships have led to a significant inflow of new customers, including several marquee global names. Over the past two or three years, we have built a richer client mix and a more comprehensive track record. Now we are refining our direct sales and marketing channels in further expanding our business this year.

As mentioned by Nehal, we are optimistic about the opportunities in the pipeline. Although delays in customer decisions have extended the time to close contracts in recent months, we expect to see better traction in the IT business. The momentum in the US market is likely to be accompanied by growing interest in the European and APAC markets in the coming quarters.

With that, I would like to hand it over to our CFO, Mr. Gopal Tiwari, to cover the financial highlights for the quarter under review.

Gopal Tiwari: Thank you, Paresh bhai, and good afternoon, everyone. I'll now quickly cover the financial highlights for the period under review.

For Q4 FY24, consolidated revenue was Rs. 177 crore, higher by 4% on a Q-o-Q basis from Rs. 171 crore in Q3 FY24 and higher by 6% Y-o-Y from Rs. 166 crore in Q4 FY23.

Consolidated EBITDA for the quarter was Rs. 24 crore as compared to Rs. 21 crore in Q3 FY24. Consolidated EBITDA was higher by 30% on a Y-o-Y basis from Rs. 19 crore in Q4 FY23. We have reported an improved EBITDA margin of 14% in Q4 FY24, higher than 12% in Q3 FY24 and 11% in Q4 FY23.

Profit after tax for Q4 FY24 was Rs. 17 crore as compared to Rs. 12 crore in Q3 FY24 and Rs. 10 crore in Q4 FY23.

As Nitin bhai just mentioned, I am pleased to inform you that the Board of our company have declared the highest ever dividend at a rate of 30% for the year ended 31st March 2024.

The bright spot in our financials this year has been the strong performance of the India business. This is best represented by our stand-alone financial performance for FY24. Stand-alone revenue were Rs. 287 crore, a 36% increase from Rs. 210 crore last year. EBITDA was Rs. 43 crore, up by 113% from Rs. 20 crore. EBITDA margin was 15% compared to 10% in FY23. Profit after tax was Rs. 22 crore as compared to Rs. 9 crore in FY23, higher by 138% Y-o-Y basis.

Now due to project-based funding requirements, gross debt increased to about Rs. 60 crore as against Rs. 51 crore at the end of FY23. The liquid cash position has improved to Rs. 127 crore compared to Rs. 77 crore as of last year and increased by Rs. 50 crore. We continue to be debt-free on a net basis since last year and our net cash position has improved to Rs. 67 crore against Rs. 26 crore end of the last year.

In our pursuit of continued working capital efficiency, DSOs have further reduced to 81 days as against 84 days last year and we will endeavor to improve this further.

With this solid financial foundation, we are well-equipped to fund our growth initiatives and deliver sustainable value to our stakeholders.

Thank you. I'll now ask the moderator to open the forum for Q&A session.

Moderator: Thank you very much sir. The first question is from the line of Narendra from Robo Capital. Please go ahead.

Narendra: Congratulations on a good set of margin performance. So my first question would be is this margin sustainable and if yes, where do we go from here? In the next couple of years, how much more improvement is possible if you could give an idea about that?

Nitin Shah: I think we are quite satisfied with the kind of current margin, but our aspiration, our aim is to take it up to 20%. More and more higher-income projects we try to plug in. I'm sure we'll be able to improve our margins. 15% what we have achieved looks good from current market.

Narendra: And my second question is regarding our revenues, they have been constant over the past few quarters. We had an ambition of Rs. 1,000 crore by FY25-26 end I guess. So, when do we expect that run rate to come in and also we had a few deals that were expected to be signed in Q4? So, where are we on that and any idea when the Rs. 250 odd crore kind of revenue could come in every quarter?

Nehal Shah: So, Narendra, we haven't changed our target of the Rs. 1,000 crore in the next 2 years. We are still on that from the operations perspective, I don't see that we should not be reaching there. However, deals that are there in the global market are taking a little bit more time to close. We are in the advanced negotiation stages with few of them and hopefully we'll have some wins probably either this quarter or next quarter.

While I just spoke about the Middle East operations that we started in Dubai there also we are talking an advanced stage with a large bank, and we should be able to get some news on that probably by this month end or mid of next month. So, we are absolutely on target to reach the Rs. 1,000 crore market. And I don't see that not happening in the next two years.

Narendra: Okay. All right. Just to clarify so the deals are getting postponed it is not that it is being given to someone else or something like that.

Nehal Shah: Yes. So, deals are getting postponed. So, incumbent vendor is getting extension maybe by 3 months or 6 months. That's why the delay is there. Because of the uncertainty in the US and the inflation is running so high and US also going in elections this year people are just keeping a tight watch on what is going to happen.

So, sometimes they are just extending the contract of their current incumbent vendor by a quarter or two and they are still negotiating with us to get a better perspective, but I am sure that that should stabilize in the coming one or two quarters and we should be getting in both orders. While the inquiries are still strong. So, if you look at our pipeline, the pipeline is growing and there is no shortage of inquiries that are coming in.

So whenever you get a new customer there is a price and margin pressure that is going to be there and we are always on the task to make sure that our margins are kept intact and we just don't pick up orders with low margins. That's our strategy and I think we will continue to do that.

Narendra: Okay. And in your opening remarks you mentioned that you had a USD26 million pipeline to be executed over 3 to 6 months, am I right I heard that right?

Nehal Shah: So, yes so that pipeline that we spoke is only from the US perspective in the near short term deals that doesn't cover the Indian pipeline that we have. So, the pipeline put together in the next one or two quarters is going to be more than that, but we are in advanced negotiation stages everywhere.

For example, like the Indian government, there are close to about two or three tenders that we have already applied for but are awaiting a result. Because of the elections everything is pushed post-mid of June. So, we will see a lot of traction in the next quarter, and we'll keep you guys updated as and when we have got significant wins we'll have press releases done accordingly.

Narendra: So, keeping in mind the current status of your operations and the current orders that we have what kind of revenue growth can we see this year, if you could provide us?

Nehal Shah: So, generally we don't give you the growth perspective. The idea is to, of course, outdo what we have been doing for the previous 3 years 4 years and we will continue to do that. And that's what the target is. While internally, we have got very uppish targets, but for the market we've tried to make sure that we outdo what we've been doing for the previous 3 years, 4 years.

Moderator: Thank you. The next question is from the line of Divyang from Navkar. Please go ahead.

Divyang: Yes, I was just asking one question. What is the current order book at the end of FY24, total order book in hand to be executed?

Gopal Tiwari: Actually speaking, the kind of businesses we are in, we don't maintain such a typical order book position, because we have got a lot of Farming goes on.

Nehal Shah: So, thanks Gopal Ji. I'll just take that up. So, Divyang, the problem with our kind of business is that I cannot give you a concrete order book. Because if a number that I spill out now, most of the time, we have seen that our investors divide that number over three or five years. But what happens during the course of the year is that we do a lot of Farming, that is getting more business from our existing customers.

There are projects that come up, which are not a plan of that order book, because those projects come, some of them are short-term projects, which get over within a quarter or within two quarters. So, coming up with an order book number, we have seen typically, it doesn't give the correct picture. So, instead of that, what we are focusing on is to outdo our previous growth, is what we are telling to all our investors.

Because I can tell you a number right away, but that number will not make any sense. Reason is because the orders that we have won over the years, there are a lot of billing that also keeps on happening. And because of that, an accurate number is always a challenge.

Divyang: Okay, but normally, each and every IT company provides order book in hand. If it is not possible, then how can we judge what is the order book and if that much percentage is going to execute it? How can we take a target for the year?

Nehal Shah: I can give you a number. Yes, I can give you a number setting we currently have about Rs. 1,400 crore of order books in hand. But what will happen that will not be correctly said if I say that it will be executed in the next few years. So, the reason being because during the year, we will have a lot of renewals that will take place. And that number I cannot add in this current order book. And the new orders that we win over the year will also not be added in this.

Nitin Shah: I would put it in this way. We have a lot of annuity business and that is making our company very strong financially. So, at the beginning of the year, we have a certain business already booked. For example, Rs. 1,400 crore that we talked about is I think almost booked for three to four years. And all the effort that we put in currently is going to only add up there because we do only annuity business, services business. In US, we don't supply product. So, we have a very good pipeline currently and all any business that we will get from now onwards will be addition to that pipeline.

Moderator: The next question is from the line of Pratik Dedhia, an Individual Investor. Please go ahead.

Pratik Dedhia: So, in your presentation you, in your opening remarks, you mentioned that you are looking to increase the margins on the government contract. Can you give a little bit more idea how is that going to happen? What factors are going to lead to increased margins on the government project? And also, second part is, are there any payment issues government long term?

Nitin Shah: So, second part I'll tell you, because being in the industry for 40 years, I can tell you, we never used to earlier about a decade back, used to work with government. Things have got completely changed now. They cannot stop payment of ours, provided we meet the deadlines or SLAs. And there is a compulsion. So, I think it's far superior and better. The right kind of company would always get the payment. So, though we do very selective government contract and government new business very cautiously, and we have not lost even single money till now, in last almost about 10 years. So, that is number 2.

Number 1, when we bid for government tender, there is stringent pre-qualification requirement. So, the number of players are not so many. So, we feel that when to win that, probably capex we might have to put if required so, and we might have to be very competitive. But subsequently, 5 years, that's where we earn money.

So, operation and maintenance is our forte, and we have been providing unmatched support to all our existing customers. So, we are trying to figure out that we try to put more margins for the subsequent 5 years. That's how we are working on that.

Nehal Shah: Just to add to what Sir said, apart from the government business, the increase in EBITDA and other margins will happen when we start selling our software product 'Digital Desk', which is just recently renamed and rebranded. And we are seeing a lot of traction on that happening from a margin perspective.

And from payment, I just wanted to add one more thing that all the projects that we are doing currently are from the Homeland Security perspective. So, it's for the security of the nation that the projects are getting implemented. So, the government understands and they realize that if there are any payment delays, and some of the things are not functioning because of that, it will cause a huge chaos if there is an incident that occurs. So, they are also very, very proactive when it comes to payment release. Rather, we have seen that most of the times even the government authorities are very quick in responding to any kind of queries that we have regarding payments. And the payments generally are absolutely on time. When I say on-time is that when we raise a bill, we generally get it anywhere between 60-90 days. That's how it is.

Pratik Dedhia: Okay, got it. All right. So, my second question to follow up, you mentioned that you generate margins on the O&M part. So, are there specific O&M contracts also being where you are bidding for the projects that you implemented and outside of projects that you probably not implemented, but there are O&M contracts also being the - there are options going on for O&M contracts as well. So, that is what I wanted to understand.

Nehal Shah: That's a good question, Pratik. We constantly keep on harping that O&M is our core strength. IMS business is the core strength that we have been doing for years altogether. And there are a lot of large opportunities that are coming to us for O&M of the already executed projects by some other vendors. So, however, we are being picky and choosy regarding which ones to apply for. But you are right, there are a lot of opportunities at hand.

And we are the right partner that most of our competitors also feel when it comes to doing the O&M because the O&M that we have done for our existing projects has been absolutely outstanding. Continuously giving more than 98%, 99% uptime quarter-over-quarter, year-over-year for the last 8, 10 years has shown our strength when it comes to O&M. So, I hope I have answered your question.

Pratik Dedhia: In your existing projects which you are implementing for the government, on the O&M side, once the O&M part gets over, say suppose you have an execution project of CCTV cameras, where you have done say 2, 3 years of implementation and then post that 5 years of O&M is completed. Do you get automatic O&M after that as well or the government takes over?

Nehal Shah: So, in most cases, generally what happens is government tends to extend. For example, in our Pune project, which we had for 5 years, the 5 years got over way back in 2021. But after that we have supported for next 4 years.

And we see that trend continuing in all the existing projects as well. The only issue comes up when after 9 or 10 years, most of your hardware that you have implemented goes to the end of life is when they come up with a new RFP. But other than that, we see that the extension of O&M generally tends to take place with the incumbent vendor year-over-year.

So, that's not a challenge. And the more O&M gets extended, it is beneficial for us. We can better our margins. As we get a large scale, so a period of 8 or 9 or 10 years helps us in improving our margins as well. And that's why you see that a lot of our margins in India business have improved. The EBITDA has improved over years.

Pratik Dedhia: Got it. Okay. And can you give some ballpark on O&M contract margin if that's possible?

Nehal Shah: So, generally the gross margin are anywhere ranging from 25%-35%.

Pratik Dedhia: And EBITDA level?

Nehal Shah: EBITDA level, I will have to come back to you. Maybe in the range of mid-teens.

Moderator: Thank you. The next question is from the line of Tushar Vasuja from Yogya Capital. Please go ahead.

Tushar Vasuja: So, thank you for the opportunity. I just had one question, sir. We have some Rs. 130 odd crore of cash in our hands. I just want to know how we are planning to utilize that?

Nehal Shah: So, there are two things Tushar that we have. One is, of course, we have kept those reserves for any large contracts that we get, either from government or from international contracts. So, we can invest that money and we don't have to run around to raise the capital. Apart from that, other thing, if that is happening, other than that, we are also constantly looking at inorganic growth avenues. So, if something significant comes up, we could be using that cash to do that as well. So, inorganic growth is like doing any kind of acquisition.

Tushar Vasuja: Okay. And do you have any opportunity in mind right now, speaking of inorganic growth? Are you looking at some other vendors?

Nehal Shah: Yes. So, we've kept our eyes and ears open for companies in Cyber Security and in the Cloud arena. If we get something significant, which suits our business lineup and our growth, we will go forward for it. Right now, it's in a very novice stage. Once we have something more significant, we will share it with our investors.

Moderator: Thank you, sir. The next question is from the line of Shweta from Vogabe Advisors Private Limited. Please go ahead.

Shweta: Yes. So, first of all, I would like to congratulate the whole team for the journey so far. My first question is, as we see from the balance sheet, there is a debt gone up. So, why the reason behind this? Can you please explain?

Nehal Shah: So, ma'am, most of the debt that has gone up is regarding the project loans that we have taken to execute our smart city projects. So, those are all working capital or short-term debts, which project loans, which will reduce as soon as we go live with the project and start getting the money back. So, otherwise, we are completely net debt-free, and we don't intend to have any long-term loans in the company.

Shweta: Okay, because we are seeing that the cash balance is also increasing. But at the same time, the debt has also gone up. That's why the question is.

So, another question is, that is the reason that cash balance is increasing, and debt is also gone up?

Nehal Shah: No. So, debt is only for project loans.

Shweta: How come the cash balance so increased?

Nehal Shah: Ma'am, this cash balance is on a consolidated balance sheet perspective. So, there is some cash lying in our US subsidiary also and some with us as well. And we have kept this money to make sure that if there is any large opportunity that comes up, we don't have to run around to take money. However, for doing our regular business, at times when we want to work on multiple projects, if there are any projects that come up and there, we see a finite period of time that we require cash, we go to the bank and we take short-term project loans. And that keeps our watch list always ready so that if there is anything that comes up, we can leap on it.

Gopal Tiwari: To add to that, we are into that smart city projects. The ticket size for those projects is generally in hundreds of crore. So, we want to keep ourselves always prepared to take care of any eventuality, any sudden win or anything coming to our lap. So, we should not be running here and there to get the funding at the last moment. So, that gives us a lot of confidence in bidding for large projects also.

Shweta: Okay. So, my next question is, as our understanding that smart city businesses gives 12% margin and as you talk in your earlier commentary that India's business giving margin of 15%. So, what is Allied doing differently to realize this margin?

Nehal Shah: I am not sure from where the 12% margin of smart city has come in. We have always been stating that smart city has been a good churn of margins for us. The reason for us to get a better margin is that we do not use any third party. We have our core team who will go and implement the projects. The O&M is also done by ourselves. We have people onboarded on our payroll. We do not outsource any of these activities. That gives us a lot of leverage in improving and increasing our margins.

Shweta: Okay. So, my next question is has billing started on Taloja and Ayodhya smart city orders or there was a part second order for Ayodhya, so when can we expect that?

Nehal Shah: So, ma'am for newer projects like phase two and other things we will have to wait for second quarter once the government is formed. Until then there is a silent period that is going on right now. So, more about it probably in the next quarter meeting that we have. We will give you an update.

Regarding the billing, yes, we have done close to about 8%, 10% of our billing for both the projects put together in the last quarter.

Shweta: Why has ADiTaaS been rebranded? What is the customer traction there and will it be made into a separate company?

Paresh Shah: Yes. So, ADiTaaS has been rebranded to 'Digital Desk'. We see a lot of traction. We have 100 plus customers directly and indirectly on ADiTaaS. Okay, either they are buying our services or bundling the product directly and this is all global. So, we see a lot of traction. We wanted to focus more on our brand. We have named this. So, that's why it's a 'Digital Desk'.

I'll also update you that the last quarter has been more focused on enhancing the product line also into AI where we have both come up with conversational AI as well as generative AI. This is primarily to improve the end-user productivity in terms of automation of workflows and processes and we see that this broad platform will take up another leap for 'Digital Desk', which is now renamed now.

Nitin Shah: Very importantly, ADiTaaS where we used to talk people were not able to understand. They used to mix up with Adidas. So, it was slightly difficult to pronounce it and to remember. So, we opened this new name contest to all our employees. The best opinion which came was a service desk. It looks very relevant today. I'm sorry, 'Digital Desk' because everything that we do digital on that automation and all. So, I think we thought all of us were in sync to say that let's rename that as 'Digital Desk'. So, it was a very conscious moment. Nothing to do with that we want to offshoot or hive out or something at the moment.

Shweta: Okay. And my last question is can there be a further improvement in debtor days?

Gopal Tiwari: Yes. So, we have improved a lot in the last few years. So, we have this year also this year also we have further reduced from 84 to 81 days and our endeavor is always there to improve it further.

Moderator: The next question is from the line of Sameera Middha, an individual investor. Please go ahead.

Sameera Middha: Hello, sir. Very good afternoon. Thanks for giving me the opportunity. So, I can see in the investor presentation that this quarter we received two smart city projects and so far, we have completed 14 projects?

Nitin Shah: Correct.

Nehal Shah: So, we have completed 12 and addition to this is the 2 new wins so 12 and 2 is equal to 14.

Sameera Middha: So, sir I want to know what is the opportunity size do you see in the smart city project in the next 2 years to 3 years. I mean what is the outlook that you have seen regarding the tenders, and have you applied for any of the tenders?

Nehal Shah: Thank you, Sameera, for joining in. I will just answer that quickly. I had previously stated in my call as well that we see a lot of traction coming up in the smart city space, if you remember 10 years back, Mr. Modi had announced 100 smart cities. The next phase to that is going to be 1,000 more small-towns rather than cities which will become smart. So, we are seeing that every city would be in the range of Rs. 30 to Rs. 50 crore. So, that leads us to an opportunity of about Rs. R50,000 crore to work on in the next five years. And I think that's the market size or that's the kind of size that we are looking at currently.

And from further smart city projects perspective, quarter one was a little silent period due to elections. So, there are a lot of new smart cities that are going to be coming up in the pipeline for which our team has already started working on. And we will be starting to apply for those or rather bidding for those tenders in the second quarter, June, July, August.

Sameera Middha: And how many other players are also there in the same field? I mean, I want to know the competitive intensity in the bidding.

Nehal Shah: Thank you. So, that's again a good question. Typically, we see five or six of these large companies who bid for these kinds of contracts. Some of them to name are L&T, KEC, NEC. Honeywell are the ones that bid alongside us and we compete. In some cases, we compete with them. In some cases, we bid jointly with them. So, it's a quite sorted market, not more than six, seven players we have seen so far working and bidding on this kind of large projects.

Moderator: Thank you. The next question is from the line of Pratik Dedhia, an individual investor. Please go ahead.

Pratik Dedhia: Okay. Thanks for the opportunity again. I wanted to understand on the data center side. So, what are you doing and what are the future projects that you're looking at on the data center side?

Nitin Shah: So, you talk about we providing data center services or we provide data center build. So, we are very much active when it comes to build and operate as far as data center is concerned. But we are not going to be in the market where we build our own data center like another Hyperscale or very large players and compete with them.

It's a highly capital-intensive business and we do a lot of skill intensive business. So, every data center, anybody else makes it, we will be there to support them or build them. So, we are in the data center on the build side of it, not in terms of owning and renting it out. I hope I'm understood.

Pratik Dedhia: Yes. And do you provide data center services as well?

Nehal Shah: So, we generally, for example, for all our smart cities, we have built data centers and command centers at the respective locations. So, typically, even for enterprise customers, we do manage their existing data centers and even if they want to go on the cloud journey, we have them in that migration journey as well. So, yes, all of that we do. The only thing as rightly said by our Chairman is that we don't intend to get into the business of owning data centers and give those data centers out on rent.

Nitin Shah: Two decades of practice on building data centers and we have got very large clients for whom we have built data centers.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to the management for closing comments. Over to you, sir.

Nehal Shah: Thank you for your participation and engagement during this call. If you have any additional questions or require further information about our company, please reach out to our team or contact CDR India. We look forward to interacting again in the next quarter. Thanks a lot.

Moderator: Thank you, members of the management. Ladies and gentlemen, on behalf of Allied Digital Services Limited, concludes this conference. We thank you for joining us and you may now disconnect your lines. Thank you.