Arihant Capital
Generating Wealth

Q1FY27 Result Update
13th August 2026

Allied Digital Services Ltd

10,000 Mn Milestone Achieved; Management Guides Margin Recovery to 12-13% as AI Automation Scales, Order Pipeline Set to Reaccelerate

CMP: INR 114

Rating: Buy

Target Price: 151

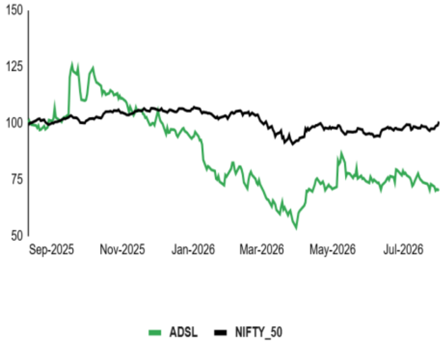
Stock Info	
BSE	532875
NSE	ADSL
Bloomberg	ALDS IN
Reuters	ADIS.BO
Sector	IT
Face Value (INR)	5
Equity Capital (INR Mn)	282.6
Mkt Cap (INR Mn)	6,490
52w H/L (INR)	209 / 86
Avg Yearly Vol (in 000')	428

Shareholding Pattern %

(As on june, 2026)

Promoters	51.03
Public & Others	48.97

ADSL Vs Nifty



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Q1FY27 Financial Performance: Allied Digital Services Ltd (ADSL) reported consolidated revenue of INR 2,600 Mn in Q1FY27, up 19% YoY though down 3% QoQ from the seasonally strong Q4FY26 base, pushing trailing-twelve-month revenue past the INR 10,000 Mn milestone to INR 10,090 Mn , an aspiration targeted nearly three years ago. EBITDA (excluding Other Income) stood at INR 230 Mn, up 21% YoY but down 11% QoQ, with margin flat YoY at 9%; including Other Income (down 57% QoQ on lower forex gains post the US subsidiary's debt-to-equity reclassification), reported EBITDA came in at INR 250 Mn, up 18% YoY, with margin at 10% versus 12% in Q4FY26. PBT grew a healthy 19% YoY to INR 170 Mn on continued cost optimization, even as employee costs rose on annual wage revisions and finance costs increased on higher working capital deployment for large projects entering execution; however, PAT stood at INR 120 Mn, down 14% YoY, as the quarter absorbed a total tax provision of ~INR 45 Mn versus a one-time net tax benefit of INR 3 Mn in Q1FY26 , a base effect masking the underlying improvement in operating profitability , with PAT margin at 5% (vs. 7% YoY) and Basic EPS at INR 2.19 (vs. INR 2.34 in Q1FY26).

Investment Rationale

Order Book Inflection Point With Near-Term Visibility

Fresh bookings of INR 1,200+ Mn this quarter, including ADSL's first US Enterprise Application Services win and new government/enterprise contracts, come as OEM hardware pricing volatility stabilizes. The company had earlier walked away from ~INR 1,800–2,000 Mn of railway orders and slowed bidding for two quarters due to price uncertainty. Stabilizing prices could support an order-momentum recovery in Q2/Q3 FY27, while the 10x growth in 10 years (~20% CAGR) ambition provides a longer-term growth framework.

AI/Digital Desk as a Genuine Margin-Expansion Lever

ADSL's proprietary, PinkVERIFY-certified, CMMi Level 3/SOC2 platform, Digital Desk, is already deployed across 100+ customers, providing a tangible automation asset rather than just an AI narrative. Management targets EBITDA margin expansion from 10–11% to 12–13% as adoption scales, with recent wins increasingly linked to AI/automation, including FMCG and construction use cases demonstrating headcount-independent support scaling. Successful execution could therefore become a credible re-rating catalyst.

Scaled, Diversified, Balance-Sheet-Light Platform Entering Its Next Growth Phase ADSL has crossed the INR 10,000 Mn TTM revenue mark with 19% YoY growth, while structurally improving its revenue mix Services (recurring/annuity) now contribute 83% vs 75% YoY, and international markets 73%, reducing dependence on lumpy, price-volatile Indian government projects. This is supported by a net debt-free balance sheet (D/E 0.11x), INR 1,340 Mn cash, and a completed governance clean-up with an unqualified audit report for the first time, providing flexibility to fund growth or bolt-on capabilities.

Outlook and Valuation: ADSL's Q1FY27 consolidated revenue grew 19% YoY to INR 2,600 Mn, taking TTM revenue past the INR 10,000 Mn milestone to INR 10,090 Mn, validating its scaling strategy. Governance also improved, with the first unqualified audit report, alongside leadership restructuring to sharpen execution. Order intake of INR 1,200+ Mn, including its maiden US Enterprise Application Services win and continued Australia, ICCC and IT asset management wins, signals broader account penetration. Revenue mix continues to improve, with Services at 83% and international markets at 73%. EBITDA margin at 10% (INR 250 Mn) remains below the FY22-FY25 12–14% range due to wage inflation, working-capital costs and OEM price volatility, which led to selective deal exits. With pricing stabilizing and RFP activity expected to recover from Q2/Q3FY27, management targets 12–13% EBITDA margins, supported by AI-led automation through Digital Desk. The 10x-in-10-years (~20% CAGR) aspiration and diversified pipeline offer upside, though near-term earnings depend on order-book recovery and AI-led margin improvement.**We used DCF model to arrive at a target price of INR 151 per share. Accordingly, we maintain our "BUY" rating on the stock**

Exhibit 1: Financial estimates

Particulars (in INR Mn)	Q1FY27	Q4FY26	Q1FY26	YoY%	QoQ%
Revenue	2,605	2,678	2,190	18.9%	-2.7%
Cost of Goods Sold (COGS)	1625	1684	1319	23.2%	-3.5%
Gross Profit	980	994	871	12.4%	-1.4%
Employee cost	569	502	478	19.0%	13.5%
Other Expenses	183	594	205	-10.5%	-69.1%
EBITDA	227	-101	188	20.8%	-
EBITDA margin %	*8.73%*	*-3.78%*	*8.60%*	0bps	13bps
Depreciation	50	51	51	-0.8%	-1.2%
EBIT	177	-152	138	28.7%	-
EBIT margin %	6.8%	-5.7%	6.3%	1bps	12bps
Finance costs	35	35	23	50.4%	0.3%
PBT	169	-126	142	19.1%	-234.3%
Tax Expense	45	-92	-3	-1823.1%	-148.8%
Effective tax rate %	26.6%	73.1%	-1.8%		
PAT	123.90	-33.80	144.20	-14.1%	-466.6%
MI & Associates	0	-0.1	0	-	-100.0%
Consolidated PAT	123.90	-33.90	144.20	-14.1%	-465.5%
Reported PAT	124	-34	144	-14.1%	-465.5%
PAT margin %	*4.8%*	*-1.3%*	*6.6%*	-2bps	6bps
EPS (INR)	2.2	-0.6	2.6	-16.7%	-465.0%

Source: Arihant Research, Company

Allied Digital Services – Q1FY27 Concall KTAs

Q1FY27 revenue grew 19% YoY to INR 2,600 Mn, with EBITDA up 18% and PBT up 19% to INR17 Cr, reflecting disciplined execution and healthy customer engagement.

Trailing 12-month revenue crossed INR 10,090 Mn, achieving an aspiration set nearly 3 years ago and marking a key milestone in ADSL's growth journey.

Macroeconomic and geopolitical uncertainties have made customers more measured, with longer, more rigorous procurement cycles emphasizing governance and ROI , though management views this as a delay in timing, not a demand decline.

ADSL booked orders worth INR 1,200+ Mn during the quarter across new wins and multi-year contract renewals.

Won an application maintenance and support engagement with a leading NYSE-listed electronics design/testing company, marking ADSL's entry into the Enterprise Application Services space in the US.

Secured a workspace services deal with a customer-owned mutual bank in Australia (Melbourne, Sydney, Adelaide), reinforcing the company's expanding international footprint.

Won a turnkey system integration project with the Punjab Department of School Education and a managed services engagement with a Government of India organization under the Ministry of Commerce.

Renewed multiple strategic customer engagements across pharmaceuticals, chemicals, real estate, BFSI, medical devices, and retail design sectors, reflecting strong long-term customer trust.

Announced senior leadership changes with Nehal Shah elevated to Joint Managing Director, Paresh Shah moving to the newly created Chief Innovation Officer role, and Arun Pathak joining as CEO for Cloud & Infrastructure Services (India and Middle East).

Segment & Geographic Mix

India's share of revenue fell from 37% to 27% YoY while Rest of World rose to 73%, reflecting continued international diversification; within segments, Services (recurring/annuity) grew to 83% of revenue (INR 2,150 Mn) from 75%, while Solutions (project-based) shrank to 17% (INR 450 Mn) from 25%; customer mix also shifted sharply toward Enterprise (82% vs 68% YoY) with Government share down to 18% from 32%, indicating a deliberate tilt toward higher-visibility, recurring, private-sector revenue.

Growth Guidance

Management reiterated its existing long-term aspiration of 10x growth over 10 years (~20% CAGR), noting quarter-to-quarter variability due to macro factors but affirming the company remains strategically on track from a customer acquisition standpoint.

Margin Pressure

Management acknowledged rising competitive intensity over the last 4-8 quarters, driven by heavy investment in hiring, leadership build-out and AI/technology, plus pricing pressure in the US market linked to tariff/trade-war-related disruption over the past 3-4 quarters that has forced margin concessions to win business; historical EBITDA margin has slid from 14% (FY22) to 11% (FY26) and PAT margin from 8% to 4%, and management expects relief only once AI-led automation is deployed at scale to optimize service delivery costs.

AI a Threat?

Management firmly positioned AI as an opportunity rather than a threat ,a new technology wave that opens doors to new customers even as it changes the rules of competition; the company is realigning its people and service portfolio around AI, though it caveated that the actual quantifiable benefit will only be clear once AI implementation and cost optimization are rolled out at the customer level; Nitin Shah added that AI will be a "boon" given not every competitor can adapt, and ADSL's 42-year legacy and innovation focus should keep it ahead of the curve.

AI Causing Revenue Deflation?

Management clarified that recent topline softness is not AI-driven deflation but stems from hardware/OEM product price volatility in India (linked to the tariff situation), which made the company deliberately cautious about aggressively bidding for large, lower-margin government deals over the last two quarters; pricing is now stabilizing, OEMs are giving positive signals on price consistency, and management expects fresh order wins and a return to the growth trajectory from Q2/Q3 FY27 onward.

Margins Bottom Out

Management said the entire industry is currently in a "flux" as customers push for pricing discounts in anticipation of automation benefits, so margin pressure is broad-based and not company-specific; once AI platforms mature and become more widely deployed, companies further ahead in automation (like ADSL) should see margins recover faster than peers, though no specific timeline or FY28 guidance was given beyond expressing confidence that the turn will come "soon."

Product-Price Uncertainty

Management cited a concrete example ,~INR 1,800–2,000 Mn of railway orders were walked away from after OEM/product prices rose 25-30% mid-bid, which made the company more selective on long-decision-cycle government projects and led to two quiet quarters on large order announcements; pricing volatility is now easing, with OEMs offering more consistent/guaranteed pricing, giving management confidence in resuming aggressive bidding and expecting good order-win news in the next couple of quarters.

EBITDA Margin Trajectory through FY27

Current EBITDA margin stands at 10-11%; management expects this to improve to 12-13% over the next few quarters as larger deals convert and AI-driven investments in service delivery and governance start yielding efficiency gains, alongside continued investment in leadership and delivery capability.

DCF Valuation

Valuation Assumptions	
g (World Economic Growth)	3%
Rf	7%
Rm	13%
Beta (2 Yr)	1.5
CMP (INR)	114

WACC	
We	84.7%
Wd	15.3%
Ke	16.0%
Kd	31.6%
WACC	**18.41%**

Valuation Data	
Total Debt (long term borrowings) (2026)	1,168
Cash & Cash Equivalents (2026)	1,496
Number of Diluted Shares (2026)	57
Tax Rate (2026)	25.0%
Interest Expense Rate (2026)	42.1%
MV of Equity	6,443
Total Debt	1,168
Total Capital	**7,611**

FCFF & Target Price

FCFF & Target Price	Explicit Forecast Period						Linear Decline Phase					Terminal Yr
Year	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**	**2037**	**2038**
EBIT * (1-Tax Rate)	721	1,066	1,459	1,936	2,486	3,088	3,704	4,286	4,778	5,124	5,278	5,436
Dep	229	264	303	440	541	672	806	933	1,040	1,115	1,149	1,183
Purchase of Assets	291	366	461	638	802	996	1,195	1,383	1,541	1,653	1,702	1,754
Changes in Working Capital	977	331	509	638	844	1,048	1,257	1,455	1,622	1,739	1,791	1,845
FCFF	(318)	633	792	1,100	1,382	1,716	2,058	2,382	2,655	2,847	2,933	3,021
% Growth in Post Tax EBIT		47.8%	36.9%	32.7%	28.4%	24.2%	20.0%	15.7%	11.5%	7.2%	3.0%	3.0%
As % of Post Tax EBIT												
Dep	31.8%	24.7%	20.8%	22.8%	21.8%	21.8%	21.8%	21.8%	21.8%	21.8%	21.8%	21.8%
Purchase of Assets	40.4%	34.3%	31.6%	32.9%	32.3%	32.3%	32.3%	32.3%	32.3%	32.3%	32.3%	32.3%
Changes in Working Capital	135.5%	31.0%	34.9%	33.0%	33.9%	33.9%	33.9%	33.9%	33.9%	33.9%	33.9%	33.9%
FCFF	(318)	633	792	1,100	1,382	1,716	2,058	2,382	2,655	2,847	2,933	3,021
Terminal Value												19,604
Total Cash Flow	**(318)**	**633**	**792**	**1,100**	**1,382**	**1,716**	**2,058**	**2,382**	**2,655**	**2,847**	**2,933**	**22,624**

	8,224
Less: Debt	**1,168**
Add: Cash	**1,496**
Equity Value	**8,552**
Equity Value per share (INR)	**151**
% Returns	**32.73%**
Rating	**BUY**

WACC (%)	g(%)								
151	2.00%	2.25 %	2.50 %	2.75 %	3.00 %	3.25 %	3.50 %	3.75 %	4.00%
17.41%	158	160	162	164	166	168	170	172	175
17.66%	155	157	158	160	162	164	166	168	170
17.91%	151	153	155	157	158	160	162	164	166
18.16%	148	150	151	**153**	155	157	158	160	162
18.41%	145	146	148	150	**151**	153	155	157	159
18.66%	142	143	145	146	148	**150**	151	153	155
18.91%	139	140	142	143	145	146	148	150	151
19.16%	136	137	139	140	142	143	145	146	148
19.41%	133	134	136	137	139	140	142	143	145

Source: Company reports, Arihant Capital Research, Figures are in INR Mn. except share price and percentage data

Key Financials

Income Statement (INR Mn)					
Year End-March	**FY25**	**FY26**	**FY27E**	**FY28E**	**FY29E**
Revenues	8,071	9,679	11,660	14,074	17,058
Change (%)	17.5%	19.9%	20.5%	20.7%	21.2%
Other Income	446	204	225	247	272
Cost of Goods Sold (COGS)	4,664	5,863	7,054	8,304	9,894
Gross Profit	**3,853**	**4,020**	**4,830**	**6,017**	**7,436**
Employee costs	1,617	1,974	2,215	2,660	3,207
Other expenses	1,249	1,280	1,283	1,548	1,876
Total Expenses	**7,530**	**9,117**	**10,552**	**12,512**	**14,977**
EBITDA	**541**	**562**	**1,108**	**1,562**	**2,081**
EBITDA Margin	**6.70%**	**5.81%**	**9.50%**	**11.10%**	**12.20%**
Adj EBITDA (Exc one time prov)	-	**922**	-	-	-
Adj EBITDA Margin	-	**9.53%**	-	-	-
Depreciation	296	199	229	264	303
EBIT	**245**	**363**	**878**	**1299**	**1778**
Interest	83	118	95	101	105
PBT	**608**	**449**	**1,008**	**1,445**	**1,945**
Exceptional Items	-2	0	0	0	0
PBT after exceptional Items	**606**	**449**	**1,008**	**1,445**	**1,945**
Tax	285	81	252	361	486
Rate (%)	*4.0%*	*3.8%*	*6.5%*	*7.7%*	*8.6%*
PAT	**321.0**	**368.5**	**755.8**	**1,083.5**	**1,458.8**
PAT Margin (%)	4.0%	3.8%	6.5%	7.7%	8.6%

Balance Sheet (INR Mn)					
Year End-March	**FY25**	**FY26**	**FY27E**	**FY28E**	**FY29E**
Sources of Funds					
Share Capital	281.9	282.6	274.2	274.2	274.2
Reserves & Surplus	5,736	5,854	7,484	8,568	10,027
Net Worth	**6,018**	**6,136**	**7,758**	**8,842**	**10,301**
Loan Funds	**721**	**1,168**	**721**	**721**	**721**
MI, Deferred Tax & other Liabilities	144	0	0	0	0
Capital Employed	**9,254**	**10,582**	**11,362**	**12,956**	**14,910**
Application of Funds					
Gross Block	**2,477**	**3,377**	**4,277**	**5,177**	**6,077**
Less: Depreciation	**1,152**	**1,388**	**1,688**	**2,050**	**2,475**
Net Block	**1,326**	**1,989**	**2,590**	**3,127**	**3,602**
CWIP	-	-	-	-	-
Other Non-current Assets	**115**	**17**	**19**	**21**	**23**
Other Current Assets	**197.6**	**367.7**	**404.5**	**444.9**	**489.4**
Net Fixed Assets	**1,639**	**2,374**	**3,013**	**3,593**	**4,114**
Investments	**60.10**	**61.60**	**64.68**	**67.91**	**71.31**
Debtors	**1,875**	**1,401**	**1,457**	**1,759**	**2,132**
Inventories	**491**	**479**	**641**	**755**	**899**
Cash & Bank Balance	**1,881**	**1,341**	**3,266**	**4,617**	**5,316**
Loans & Advances & other CA	1,412	2,171	2,388	2,747	3,158
Total Current Assets	**6,351**	**7,833**	**8,554**	**10,861**	**12,615**
Current Liabilities	2,105	3,111	2,519	3,002	3,466
Provisions	619	381	391	401	413
Net Current Assets	**4,246**	**4,722**	**6,035**	**7,860**	**9,149**
Total Assets	**9,254**	**10,582**	**11,362**	**12,956**	**14,910**

Cash Flow Statement (INR Mn)					
Year End-March	**FY25**	**FY26**	**FY27E**	**FY28E**	**FY29E**
PBT	**606**	**449**	**1,008**	**1,445**	**1,945**
Adjustments: Add	221	1,181	131	1,231	1,572
Change in assets & Liabilities	(318)	619	(977)	(331)	(509)
Net Cash From Operations	221	1,181	131	1,231	1,572
Capex	**(141)**	**(121)**	**(247)**	**(302)**	**(345)**
Cash From Investing	494	232	(129)	697	(231)
Other financiang activities	127	(1,688)	1,604	15	1
Finance cost paid	**(82.90)**	**(117.80)**	**(95.21)**	**(100.98)**	**(104.59)**
Cash From Financing	47	(2,059)	2,147	(421)	(561)
Net Increase/ Decrease in Cash	**763**	**-645**	**2149**	**1507**	**780**
Cash at the beginning of the year	**1,379**	**2,142**	**1,496**	**3,645**	**5,152**
Cash at the end of the year	2,142	1,496	3,645	5,152	5,933

Key Ratios					
Year End-March	**FY25**	**FY26**	**FY27E**	**FY28E**	**FY29E**
Per share (INR)					
EPS	5.9	6.7	13.8	19.8	26.6
BVPS	115	119	152	172	198
Valuation (x)					
P/E	19.5	17.0	8.3	5.8	4.3
P/BV	1.0	1.0	0.8	0.7	0.6
EV/EBITDA	7.2	9.2	2.6	0.9	0.4
Return ratio (%)					
EBIDTA Margin	6.7%	5.8%	9.5%	11.1%	12.2%
PAT Margin	4.0%	3.8%	6.5%	7.7%	8.6%
ROE	5.0%	5.5%	9.1%	11.5%	13.4%
ROCE	2.6%	3.4%	7.7%	10.0%	11.9%
Leverage Ratio (%)					
Total D/E	0.04	0.08	0.03	0.03	0.02
Turnover Ratios					
Asset Turnover (x)	1.3	1.2	1.4	1.3	1.4
Inventory Days	38	30	33	33	33
Receivable Days	85	53	46	46	46
Payable days	27	43	33	37	37

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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