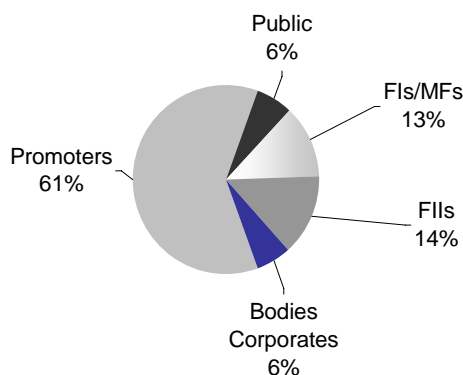


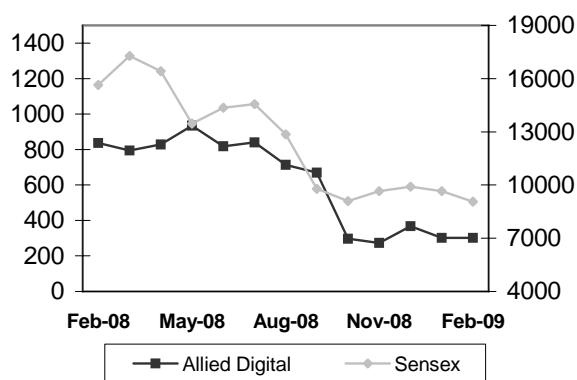
**CMP Rs 301**
**BUY**
**Target Rs 420**

Sensex	9067
Nifty	2767
BSE Code	532875
NSE Code	ADSL
Bloomberg Code	ALDS IN
Reuters Code	ADIS.BO

Out Standing Eq (No.of Shares)	18.11 mn
Mkt Cap	Rs.5451mn
52 wk Hi / Low	Rs.1050 /234
Avg Daily Vol(Wkly)	566
Face Value	Rs.10.00

**Share Holding Pattern**

**Stock Performance (%)**

	3Mths	6Mths	1Year
<b>Absolute</b>	1	-64	-67
<b>Relative</b>	14	-24	-19

**Price Movements**


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**ADSL's standalone Q3FY09 revenue dipped 7.4% on a sequential basis to Rs 953 mn (excluding exchange gains) led by 10.7 % fall in solution business while services were flat at Rs 283 mn. Consolidated revenue contracted by 6.7% to Rs 1.4 bn, with services at Rs 719 mn (excluding exchange gains) down 2.7% sequentially. Subsidiary reported a 5% sequential decline to Rs 436 mn (8% in Dollar terms). While revenue from ETGS nearly doubled this quarter, Digicomp reported a major dip in revenue. Consolidated EBIDTA margins were down by 90 bp sequentially. As the business from ETGS is still under the migration mode, dual cost incurred onsite as well as at the offshore centre has added considerable pressure on the margins. Moreover, It being the December ending quarter, certain additional provision were made at ETGS's end.**

**Though a slowdown in the project based Solution business was anticipated, drop in the services revenue, despite of dollar appreciation is slightly discomfoting. We believe that the traction in the IMS business is being lesser than anticipated by the company. Though the management have guided for a considerable growth in the RMS services in the time forward, it's still needs to be watched out for.**

- Revenue from subsidiary reported a 5% sequential decline in rupee terms (nearly 8% in dollar term). While ETGS contributed USD 8.25 mn (USD 4.7 mn Q209), revenue from Digicomp reported a considerable decline. The EBIDTA margins contracted by over 500 bp, as dual expenditure were incurred for certain business which are being migrated to ADSL's SOC/NOC facility. Moreover certain additional provisions were made, it being ETGS's year ending quarter. ETGS made a provision for Rs 16.5 mn, Receivable from Washington Mutual fund (since it had filled for Bankruptcy protection). However company clarified that there has been no decline in the business from that specific client as the contracts have been renewed by J.P. Morgan.
- Currently ADSL runs 55 seats at its SOC/NOC centre. It plans to increase it up by another 25 seats next quarter. ADSL have guided for a near optimum utilization for additional 150 seats by FY10 end.
- Though management sounded very optimistic about its IMS as well as other RMS business, we feel that the growth witnessed in the business is lesser than what was anticipated by the company. The heightened optimism of the management is out of the potential of business increased out of cross selling its services to its subsidiaries clients. Hence to that effect it needs to seen how things pans out in the coming quarters.

**Financial Snapshot**

Particulars	(Rs in Mns)			
	FY2007	FY2008	FY2009E	FY2010E
Revenue	1560	2974	6302	9363
EBIDTA (%)	21.2	22.0	24.6	24.4
PAT	229	436	896	1146
PAT(%)	14.7	14.6	14.2	12.2
EPS	18.0	25.2	51.8	66.3
ROCE (%)	51.1	44.2	34.0	29.9
ROE (%)	39.1	24.1	33.1	29.8
P/E x	17	12	6	5
EV/EBIDTA x	16	8	4	3

Source: Company, India Capital Markets Research

## Quarterly Analysis - Consolidated

Consolidated	Rs mn								
	Q3			Q2		9 Months		9 Months	
	FY09	FY08	Y-o-Y%	FY09	Q-o-Q %	FY09	FY08	Y-o-Y%	
Income from Operations	1389	793	75.2	1489	-6.7	3789	1444	162.3	
EBIDTA	249	163	52.9	281	-11.2	753	460	63.5	
Depreciation	14	11	35.2	13	11.8	36	22	63.2	
Interest	13	3	350.0	10	22.3	28	10	181.6	
Other Income	13	16	-17.9	31	-59.0	50	21	134.0	
PBT	235	165	42.3	289	-18.5	739	450	64.3	
Tax	40	44	-10.8	48	-18.2	145	136	6.5	
PAT	179	121	48.1	241	-25.4	577	313	84.2	
EBIDTA margins (%)	18.0	20.6		18.8		19.9	31.9		
PBT margins(%)	16.9	20.9		19.4		19.5	31.1		
PAT margins (%)	12.9	15.3		16.2		15.2	21.7		
Tax Rate (%)	16.8	26.8		16.7		19.7	30.3		

Segmental details	Q3			Q2		9 Months		9 Months	
	FY09	FY08	Y-o-Y%	FY09	Q-o-Q %	FY09	FY08	Y-o-Y%	
Solution Business	670	593	13.0	750	-10.7	2071	1545	34.1	
ServicesBusiness	719	200	259.6	738	-2.7	1717	608	182.6	

Revenue Break up	Q3			Q2		9 Months		9 Months	
	FY09	FY08	Y-o-Y%	FY09	Q-o-Q %	FY09	FY08	Y-o-Y%	
Standalone	953	793	20.2	1029	-7.4	2879	2153	33.7	
Digicomp	35	-	-	240	-86	290	-	-	
EGS	401	-	-	220	82	-	-	-	

Source : Company , India Capital Markets Research

- Revenue posted for the quarter is Rs 1.4 bn as against Rs 1.5 mn, down 7% sequentially. Though on a Y-o-Y comparison, revenue increased by nearly 75%, it doesn't make a valid comparison as the corresponding quarter last year didn't include revenue from Digicomp, ETGS as well as ADSL's RMS business.
- Contribution from Services business increased to 51.7% of the total revenue. This was mainly on account of dip in the SI business as well as increase in dollar denominated services revenue.
- As the business from ETGS is on a migration mode, it needs to be supported both from the ETGS end as well as ADSL's RMS centre. This has led to dual expenditure thereby adding considerable pressure on the margins.
- Foreign Exchange gain reported for the quarter is Rs 8.6 mn.

## Outlook & Valuations

Given the current environment, slower growth in the SI business is anticipated. However management has indicated increased opportunities in the maintenance part of the business. The increased optimism is out of off shoring the existing business out of its subsidiaries as well as cross selling its other RMS services to their clients. However we feel the traction in the said business is lesser than anticipated by the company. Hence it needs to be seen as to how ADSL scales up, that part of the business. Though we are very positive on the delivery expertise of the company and wide business potential of the IMS business, slower than anticipated growth can act as a drag to ADSL's price. We are leaving our estimates unchanged for the moment, however bringing down the target price. ADSL is currently trading at a P/E of 5 on FY10E earnings. We recommend a BUY.

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