

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Overview

Global Overview

In FY 2018, the global market for IT services is estimated to have grown to \$1.3 Trillion. Within that, outsourced IT-Business Process Management (BPM) services grew by 2.6% over the prior year. IT Services is estimated to have grown by 2.4% year on year, driven by digital demand, while BPM grew by 4% over the prior year on account of greater implementation of automation.

The world is bringing Artificial Intelligence (AI) at the center stage and every company is putting efforts to build smarter solutions for the customer. Leaders such as Microsoft, IBM, Google, Amazon, Facebook are emphasizing on development of Machine learning and Automation on the cloud. There is huge demand for data science resources and many projects are seeing light in the field of Machine Learning and AI.

Internet of Things (IoT) technology is prime enabler for active monitoring of process control points using cutting edge devices. IoT solutions will be implemented on large scale this year onwards as significant opportunities exist to improve industry processes. 5G is expected to become mainstream in most developed countries by next two quarters. This will generate demand for IT solutions in video technology and uninterrupted communication applications

The AI and Machine Learning market is expected to reach \$190.61 Billion by 2025 from \$21.46 Billion in 2018, at a CAGR of 36.62% during the forecast period. The IoT Market is expected to grow from the current \$250B now to \$450Billion by end of 2020, with CAGR of 28%.

India Overview

FY 18 was a defining year for India despite the disruptions due to demonetization and GST which led to a temporary dip in GDP growth. India has witnessed a cyclical recovery, driven by investments as well as consumption, and the average GDP growth was projected to reach 6.7 % in 2017-18 and accelerate to 7.3 % and 7.5 % in 2018-19 and 2019-20 respectively.

The Indian IT-BPM industry was projected to grow at 8% in 2017-18 from \$154 billion to \$167 billion (excluding e-commerce), in addition to providing 1,05,000 new jobs during the same period. Indian IT exports were projected to grow at 7-8% in 2017-18 to \$126 billion, contributing 24 % to the country's total exports, according to Industry lobby NASSCOM.

India has successfully established itself as a digital economy with 375+ million Internet subscribers. Projects like 'Smart Cities' (which will have IT driven systems to deliver urban utilities) will continue a wave of digitization, providing a significant boost to the sector in India. The 'Digital India' campaign has put the country on the path of becoming a digital economy and its outlook for future is extremely promising. India is on track to be a trillion-dollar digital economy backed by Government's collaborative approach to encourage private sector participation.

The IT and ITES sectors' contribution to GDP has dipped from a peak of 9.5 % in 2014-15 to about 6.35 % in the last three years.

Our Business

ADSL is adopting new technologies as it foresees massive growth in IT solutions and services in the domain of IoT, Smart cities and next generation automation solutions leveraging machine learning and AI.

ADSL is considering IoT as its main stream business, catering to both the government and other corporate verticals. It intends to develop and sell solutions for process automation and smart city based solutions. With machine learning adoption in cloud platforms, the company is also improving its AI capability in primary areas of IT service automation.

ADSL Group has registered a new company in Finland, and is associating with agencies of Finland government to spearhead work in AI, IoT and Intelligent command center framework stretching the ADiTaaS Platform (our flagship products) to new heights in coming years. Allied digital is also actively enhancing its capabilities and reach in Europe, especially out of the UK office.

Core Offering: Infrastructure Management Services

In India we have on-boarded a leading brand as a large Customer. We have played a major role in standardization and consolidation of IT services across the Enterprise for this Customer. We have added many medium enterprise government businesses for Network Operations Centre (NOC) and Security Operations Centre (SOC) services along with traditional Managed Services business. This line of business constitutes over 60 percent of the company's revenue.

In the US and Europe, we added three large logos - a premier Automobile company, world's largest vehicle transmission company and a large FMCG company of Europe along with a few small and medium sized enterprises. The same has greatly helped us to improve the topline and create a brand value. We have strengthened our worldwide offices and continue to partner relationships across the globe.

We had a major release of ADiTaaS 4.0, our flagship ITSM platform, with state of the art user friendly interface. This major release is already being implemented at one of the premium Tire brands as well as at one of the large banks in California. The roadmap that we have created for digital service management platform is well under execution. The newly developed ChatBot releasing in mid-August promises to significantly improve end user productivity for answering standard questions.

We are continuously growing our Cloud presence in Industry's top cloud platforms, bundling our managed services. We have made a giant leap in restructuring our NOC with advanced cloud enabled services and powerful analytics. This has now helped us to provide valuable insight to customers of their IT environment as well as provisioning automation. We are in process of delivering several self-remediation with machine learning capabilities as an "AI mesh".

The Company underwent a major revamp in security offerings, by collaborating with new technology vendors in IT security. As IT security requires constant upgrade, we have now the capability to do advanced threat management and machine learning of the correlated security logs to identify new anomalies. The upgrade has already fetched good results including winning a couple of opportunities in this space.

Smart Cities Solutions

The Company has made significant strides in competing for some key tenders for the smart city solutions. The entire business is currently working on the lowest tender winning the contract. We are witnessing reckless bidding and we believe at the current levels of bidding, it is a winners curse. The Company continues to focus on margins as well as bottom-line without gasping for breath for working capital and jeopardize other customer deliveries. Our smart cities business comprises close to 25-28 percent of our company's revenue.

The Company has made a significant mark with the deployment of smart traffic information display system for Pune city. The Company partnered with TomTom, a Dutch based navigation technology provider to deliver the Pune smart city project. This is one of the unique project, in which near-live traffic situation to reach prominent destinations in the city can be understood by the citizens and appropriate alternate routes are suggested.

The Pune city project will soon finish three years of top performance, matching or beating SLA (service level agreement), working on change request and new initiatives. The project is one of the major contributors to the total revenue.

Today, PCS project generates handsome revenues of close to 20% of our total revenues per year. Additional change requests augment to this number. There is already a plan to double the project soon. Also new requirements from Pune and PCMC smart city are bringing new opportunities.

IoT and Analytics Initiative

With the world getting digitized, IoT Domain is emerging to be at the center stage. This is a natural progression for Allied, as infrastructure is the DNA of the company and ADiTaaS platform serves the management platform. This opens up a huge opportunity, for both smart cities and corporates. ADSL is setting up the platform for driving large solutions in various verticals, especially for the government.

We have embarked and completed a proof of concept IoT project for collecting car parameters that will help insurance companies to analyze the driver behavior and car performance, based on which the insurance policies can be fine-tuned. This is one of the trends in Insurance Industry.

ADSL has also started working in the areas of agriculture using AI for plant analysis and IoT for soil analysis to improve crop efficiency and overall quality and yield that will improve farmer's income for the government as well as significantly cut down risks for corporates in agriculture.

ADSL has grossly improved the underlying technology platform to advanced levels so as to sustain competition and continue to bring in the differentiators. It has been successful in retraining people in new cloud certifications, security, analytics and IoT as well as in attracting top industry talent. ADSL has invested significantly in building strong industry relations globally. This will continue across both – the services and the solutions platform of ADSL.

Financial Highlights

The key financial highlights of the Company on a consolidated basis for the financial year ended March 31, 2018 are given below.

Particulars (In Lakhs)	FY 2017	FY 2018	Y-o-Y Change
Total Income	21,724	22,894	5.5%
EBITDA	4,705	4,860	3.3%
EBITDA Margin	21%	21%	
PBT	996	1,997	100%
PAT	421	1,094	160%
PAT Margin	2%	5%	

- The Company has recorded a Consolidated total income of INR 22,894 Lakhs for the year ended March 31, 2018 as compared to INR 21,724 Lakhs for the year ended March 31st, 2017. The Company achieved a growth of 5.5 % in total income.
- Consolidated EBITDA of the Company for the year ended March 31, 2018 stands at INR 4,860 Lakhs as against INR 4,705 Lakhs for the earlier year. Despite the sales growth, the Company has maintained the same level of EBITDA Margins of 21%.
- The Consolidated PAT for the year ended March 31, 2018 is INR 1,094 as compared to INR 421 Lakhs for the earlier year with an increase of 160% on a y-o-y basis. The Consolidated PAT margin of the Company has also grown from 2% during the earlier year to 5% during the year ended March 31, 2018.
- The Book Value of the Equity Shares of the Company equals to INR 90 / share.
- Substantial reduction in debts in F. Y. 2017-18, consequently more than 65% savings in Finance Cost.
- Considerable reduction in overdue statutory liabilities during the previous year

Key Drivers of Growth

Innovation and Adaptability

Company has been evolving with the development in the technology and changes in the trends of the industry. To maintain the competitiveness in an IT industry, every company needs to enhance its offerings. The company has strategically diversified into Analytics, Machine learning and AI and IoT domain to stay afloat with the market trends.

Opportunistic market

Technology is the enabler for change in almost all businesses and hence there is a tremendous opportunity for creating a disruption for every business, especially in India. Companies are realizing the importance of standardization and consolidation of IT services to enhance the productivity in the business. The transformation wave, is continuing to open opportunities for businesses to spend on new technologies to generate business growth in IT services and solutions in cloud, Business Automation, Security and IoT. We have now a dedicated cloud practice which helps customers easily navigate to cloud and to provision them a more collaborative, highly available and secure IT for their business. There are numerous opportunities that the company is already working for in smart cities initiative.

Human Resource

Being an IT centric organization, Human Capital is one of the most important asset of the Company. Special training programs and skill enhancement activities are in place to make sure that the skill-sets of the talent are updated with respect to the product requirements. The Company's endeavor has been to sustain its culture of continuous learning and leverage talent as the fundamental enabler of its business growth. This year, we have done major skill development in cloud, security, BI tools and IoT.

Government Initiatives

As a part of Union Budget 2018-19, NITI Aayog is going to set up a national level program that will enable efforts in AI and will help in leveraging AI technology for development in the country.

The push for “Digital India”, “Make in India”, “Skill India” is pumping new energy into the Indian IT industry. Today the Smart City initiatives, IT infrastructure and e-governance projects across the country provide ample opportunities.

The Government of India is going to explore new opportunities to achieve the target of making India a \$1 trillion digital economy. One of the key interest areas for the government is also Agriculture, to improve farmer’s income. Allied Digital is doing significant work in developing e-farming solutions.

Risks and Concerns

Volatile Global Outlook

Like any other corporate having business across the borders, the company is exposed to interest rate risk, currency fluctuations, credit risk and regulatory risks. The company conducts internal audit that ensures risk management process is in place. Risks are reviewed on the quarterly basis by the management.

Technology

The technology is directly related to innovation and the change is eminent. The company has been on constant endeavor to adopt change and innovate in this respect and it is ensuring that there is potential for new business opportunities. Company engages in various training and skill development programs to update the knowledge base. The company has now clear roadmap for next three years of its operation and will focus on new opportunities.

Compliance Risk

Company’s operations are spread across the globe and hence it becomes imperative for the Organization to comply with legal and regulatory laws of various countries. Failing to comply with the specific country’s laws and regulation may expose us to legal and financial penalties and also puncture the brand image. The company has identified key stakeholders across sales & business units and corporate functions to ensure compliance of all applicable laws on a continuous basis. Any changes in the applicable regulations are also updated and monitored by respective departments.

Delivery Risk

Ensuring high quality service by delivering top SLAs have been challenging but the company has been performing consistently well and has been able to get timely payments from government and corporates, thus controlling the receivables risk. Global delivery poses multiple challenges but current success stories assures confidence in delivering complex large-scale projects.

Contract Management

Sometimes ambiguities are created in the scope of work which lead to unaligned expectations from the parties involved in the project. We have realized the need for stronger contract management and more insight into customer’s environment to avoid risks of service failure at desired levels.

Employee Related Risk

As a talent-driven organization, one of our key goals is to have the best talent, with highly specialized skills in each part of our business, at the right levels in the right locations to enhance our differentiation and competitiveness.

Our attrition rate has been better than last year in India, though some challenges have popped up in the US as the local inflation is higher. Allied Digital is mitigating risks by cross-training and working diligently with in-house as well as third party recruiters. Also in Europe, due to immigration law changes, there are attrition issues, but Allied has developed a constant vigilance in its delivery operations so that the customer deliverables are never affected.

Adequate business insurance policies are also in place on errors, omissions and general liability.

Internal Control systems

Adequate internal control ensures transactions are authorized, recorded and reported correctly and assets are safeguarded against loss from unauthorized use or disposition. In addition, there are operational controls and fraud risk controls, covering the entire spectrum of internal financial controls. Your company has put a lot of emphasis on improving the internal control systems in multiple areas such as Finance, Sales, Legal and HR.

- In the area of finance, the internal checks and balances are managed by a formal system of internal audit. Alert mechanism is in place for regulatory changes. Transition to GST compliant processes was smooth.

- On the sales front, more emphasis is given to customer credit checks, profitability and sales closures.
- On the delivery and operations end, we improved on alerts communication, automation and customer systems health checks. This has vastly improved our overall quality of delivery, reducing customer concerns.
- We have embarked on a major initiative of CMMI Level 3 compliance for our software this year. The work is on the last stage for achieving the certification before this year end.

Other initiatives such as management performance audit were also successfully implemented last year. The quality management system of the company is ISO certified each year.

Way Forward

- The Company has been successfully running and maintaining PCS Project, the first of its kind of CCTV surveillance project in Pune. We have achieved almost 98% uptime, which is commendable as per international standards. Having completed a complex project, the Company is looking to onboard more prestigious projects.
- The Company is also looking to enter the market of sales and distribution of IT Equipment of well-known brands.
- Management is focused on reduction of the debt during the current year as well. The same would result in reduction of the finance costs and further improvement in profitability margins.
- The Company is planning to support start-ups and is in active discussions with various agencies to guide the startups in multiple ways. It plans to give them opportunity to leverage ADSL's global presence, infrastructure and skill base.
- The management is currently looking at various alternatives to monetize the Hard Assets (Real Estate) of the company.

In this roller-coaster global economy, the company continues to share the motto of "Passion", "Teamwork" and "Innovation" as its core pillars for growth and sticks to its commitment of "IT Managed, Responsibly" to its customers.