

## MANAGEMENT DISCUSSION AND ANALYSIS

### Industry Outlook

The fifteen months of pandemic threw open several challenges as well as opportunities. While the uncertainty in economy persists as we cannot rule out a roller-coaster economy, the world has shown strong resilience. World equity markets have remained on the highs, signifying the indomitable human spirit and indicating that the situation is only going to improve in future.

Global impact of the COVID-19 pandemic has led to two major resets or shifts – an acceleration in the pace of digital transformation and a novel, hybrid work model that has redefined the dimensions of already evolving workplace and work culture, as per NASSCOM.

Enterprises are re-balancing their technology spends to prioritize digitization. The industry witnessed 146 M&A deals in 2020, 90% of which were digitally focused. Companies saw a significant rise of 80% in cloud adoption during H1 FY 2021 Vs H2 FY 2020. Further, Continental Europe, APAC emerged as one of the strongest growth geographies in FY 2021.

Vaccination and stricter adherence to preventive measures have made a difference. Though there is again a rise in infections across several countries, healthcare readiness has also improved. The new world has risen together, ready to face the pandemic and other challenges like global warming, or increased inflation uptake, observed in US. We are quite optimistic by the end of this year; we should sail through the pandemic and economy will get stable.

IT industry has been in the middle of building resilience against a global economic collapse and we see a larger role for IT in coming times. Most industries have been thriving on remote IT operational capabilities and ability to work out of home. Your company has been instrumental in maintaining customer operations as well as transforming customers to the new cloud, cybersecurity and business resilient technologies.

IT investments primarily across the US, our biggest market outside India, have been on the rise. Large as well as small companies in the US are continuously embracing technologies for cloud operations as well as automation, DevOps transformation and machine learning based analytics platforms. The most striking trend has been the increased focus on cybersecurity. Remote working norms, mobile phone triggered frauds and increased enterprise security loose-ends have been a playground for an exponential rise in ransomware attacks. Globally, the industries are almost in a stage of shock, by the fast-changing ways of cyberattacks. They are seeking professional help from companies like us, to ward off the threat.

Indian corporates and Government also see huge upcoming rise in cybercrime. Several recent big cybercrimes both in enterprise and Government sector are worrisome. RBI and regulatory bodies are issuing new alerts on cybercrime. We predict a big demand for cybersecurity services in India and are already experiencing large opportunities in managed cybersecurity services business.

As we predicted last year, businesses who have adopted digitalization as the new norm have been doing far better than others. Interestingly, as the industry looks forward to leaner structures with more flexibility and faster adoption of cloud-based products and services in 2021. With hyper-digitization and technology adoption accelerating across sectors, 2021 will put the spotlight on the emergence of growth verticals like healthcare, pharma, medical devices, software & internet, consumer electronics.

As India stands at the cusp of a re-imagined world of technology, 2021 will redefine the industry narrative for the future.

### Our Business

For ADSL, the numbers speak for themselves. It has been a fabulous year. Strong leadership, agility and decades old experience has kept us galloping smoothly. Our proactiveness with remote service delivery model, which has paid huge dividends. Your company once again scaled new heights of excellent service delivery. The managed services business continues to add new customers on a rapid pace. Our smart city and systems integration business in India, has once again retained its leadership position, seamlessly delivering multiple projects during these times. As new opportunities of transformation in the cloud and cybersecurity grew globally, we have been able to grab them and deliver successfully. We have now a strong foothold not just in cloud support services, but also in Cloud Engineering DevOps, Cybersecurity and real-time analytics platforms for transformation.

The excellent job done by our operations teams and has been amply enabled by the enabling teams. Human resources worked shoulder-to-shoulder in mainstream operations. They played a noteworthy role in keeping the workforce motivated, ensuring a low attrition and adhering to all compliances. Finance teams have been exceptional in further reducing debt, maintaining cash flow and making your company debt free. The global legal teams have stretched long hours reviewing and renewing contracts seamlessly. The “Wow” factor has come in from our sales team, which has outperformed, with their continued exemplary relationship with partners and prospects, giving us big new business.

Before the pandemic, we expanded into Europe and continue to expand to other geographies. We have opened office in Japan, are completing the formalities of opening offices in China and Brazil. Today, ADSL is delivering projects in all continents, spanning more than 70 countries.

Our commitment for excellence, bold vision and patronage of our investors, has helped scale newer heights and win large business deals. ADSL management is pleased to share that, recently, your company has been selected as a vendor of choice to deliver large contracts around the globe, as well as in India. These contracts, which are of multiyear durations, have propelled your company into the next big league of global IT service providers and system integrators.

Our continued focus on business model innovation and skill upgradation has helped us build a strong future roadmap of growth.

### Core Offerings: Infrastructure Management Services

In India, our deal pipeline continues to be strong. We are positioned well with large customers looking for leading IT managed service providers and master system integrators. We have bagged one of the largest managed IT infrastructure service enterprise deals in India. Our cloud transformation business is growing rapidly. We have also won and delivered two comprehensive cybersecurity projects for a large enterprise in automobile industry as well as a financial services major.

US operations have witnessed a good revenue growth. Though, the company faced strong headwinds on profit margins due to the discounts offered by some customers for covid impact, we have managed to close the year on a higher EBTDA as well as extremely good growth on our topline. We added several customers, few large in healthcare and FMCG. We are closing the first financial quarter of this year with a big bang. As indicated above, two large deal closures are for delivering end user workplace transformation for a global Europe based automotive giant in close to 35+ countries, an order worth USD 100 Million for 5 years and the other, ₹ 200 crores plus, IT outsourcing contract from one of India's top 10 conglomerates.

We continue to bring valuable customer insights leveraging, powerful analytics. Though, the Europe business witnessed a sluggish growth, we made an interesting win on driving IT operations for a top UK based covid testing center leveraging the new ADiTaaS Platform.

Our ADiTaaS Platform has been adding new feathers in the cap. The platform is now PinkVERIFY Certified, and enters the elite league of very few companies certified amongst several hundred ITSM product companies. ADiTaaS product is now also available in Azure Cloud Marketplace. We continue to drive our "center of excellence" in service delivery by offering smart governance portals to give our customers and partners 360-degree insights into the delivered services.

Apart from our flagship offerings of global workplace services and remote enterprise managed services, we continue our focus on IMS, cloud transformation, smart cities-IoT, cybersecurity, analytics and automation, defining the six focus areas of the company.

### Smart Cities Solutions

We completed five years of Pune Metro Safe City project and are currently serving extension. It has been one of the most successful achievements of Allied Digital. In these covid times, we have continued to delight the customer - Government of Maharashtra by our exceptional performance. It is also important to highlight continuous progress of delivering other smart city projects including Rajkot City, Kalyan-dombivli, Aurangabad and Bidkin. Our Kalyan-Dombivli project shared the best smart city award recently alongside Varanasi Smart city.

Our re-skilled engineering services division is now bidding for international IoT based system integration projects. Our current smart city pipeline is robust and awaiting new closures.

### Trending Technologies - Artificial Intelligence and DevOps

Artificial intelligence adoption continues to gather pace, as machine learning and analytics are gaining focus as every business is wanting to gain more insights. As cloud has become a de-facto standard in infrastructure architectures, clients are leveraging DevOps frameworks and tools to automate their cloud environments on a larger scale.

ADiTaaS next generation Digital Service platform is already cloud native and DevOps enabled. ADSL has been proactively training workforce in cloud engineering and DevOps, empowering them to deliver complex and critical projects. The company shall continue to optimize its services offerings, leveraging AI technologies, developing prescriptive analytics for its clients.

### Financial Highlights

The key financial highlights of the company for the financial year ended March 31, 2021 are given below:

(₹ In Lakhs)

Particulars	Standalone			Consolidated		
	FY 2020-21	FY 2019-20	Y-o-Y Change	FY 2020-21	FY 2019-20	Y-o-Y Change
Revenue	9,619	9,379	3%	35,808	33,014	8.46%
EBITDA	2,399	2,819	-15%	4,872	5,324	-8.49%
EBITDA Margin	24%	28%	-	13%	16%	-
PBT	784	831	-6%	2,349	2,404	-2%
PBT Margin	8%	8%	-	6%	7%	-
PAT	777	789	-1%	1,922	1,922	0%
PAT Margin	8%	8%	-	5%	6%	-

## Key Financial Ratios:

Particulars	Standalone		Consolidated	
	FY 2020-21	FY 2019-20	FY 2020-21	FY 2019-20
Debtors Turnover	0.66	0.65	1.97	1.68
Inventory Turnover	0.17	0.16	1.50	1.39
Interest Coverage Ratio	6.91	4.56	13.22	7.62
Current Ratio	2.91	2.70	2.75	2.67
Debt Equity Ratio	0.01	0.02	0.01	0.02
Operating Profit Margin (%)	24	28	13	16
Net Profit Margin (%)	8	8	5	6

- Debtors turnover and Inventory turnover ratios has improved marginally mainly due to higher turnover achieved during the year.
- Interest Coverage Ratio has improved considerably mainly due to reduction in debt and corresponding reduced finance costs during the year.
- Net profit margin also stood in line with last year.

## Key Drivers of Growth

### Innovation and Adaptability

Your company has delivered exceptionally well and kept the flame of innovation burning. Our workforce has been well trained into newer technologies and we have been continuously innovating our services and solutions; such as automation, infrastructure analytics and ADiTaaS, which has scaled new frontiers in Cloud DevOps and Automation with AI enabled chatbot capable of natural language processing. Our unique partner customer analytics portal is gaining market share.

We have reached new horizons in leveraging latest trending industry tools and platforms in cybersecurity, which has further helped in winning good projects. We have embarked on the initiative of supporting some prestigious universities in India to setup IoT and smart cities Centres of Excellence.

Our company is actively promoting startups adding to the innovation agenda of the country. We are also supporting non-profit organizations to drive new technology enabled initiatives.

Putting Design Thinking methodologies in practice within the company, the leadership continues to ideate and build new customer solutions for newly defined problems. Design thinking based discovery workshops have been initiated for the clients to join in for co-creation agenda.

### New markets

In these tough times, technology has proven to be the key enabler for bringing business resilience. Our plan massive growth last year, has paid results. We see new horizons of growth in countries like Japan and Latin America.

As we see the situation of pandemic improving, ADSL will soon invest its energy into building new partnerships for business growth strategically in Europe as well as rest of the world. Our new partnerships are also flourishing, while the older partnerships are yielding us very large and strategic business opportunities.

### Human Resource

Human resource practices have been hugely instrumental in the company's growth. On all counts, be it handling resources efficiently, hiring new resources for rapidly scaling existing or new projects, the human resource division has been a pillar of strength. The team has played a leadership role in ensuring smooth service delivery by driving "Work from home" policies as well as motivating employees while ensuring all compliance metrics are met with. The department has been driving continuous communication and providing extra care to support and field staff across the globe.

HR has been leading big initiatives such as vaccination for the employees as well as their families. Another area where our global HR has exceeded expectations is in hiring new leadership roles and massive hiring scalability; Your company is in process of hiring over 500 employees this year. The total permanent employees strength as on March 31, 2021 is 700.

### Government Initiatives

In the financial year gone by, Allied Digital has completed its facility capacity refresh and expansion to fuel technology and business mentorship to startups as well as to impart training and awareness programs in the area of AI and cybersecurity. New support initiative to drive student innovation projects is already in action with various well-known engineering institutes. Due to pandemic interruptions, there is some delay in reforms, however, India is expected to be back on the growth path soon. Technology will play a significant role in implementing the transformation.

## Risks and Concerns

### Volatile Global Outlook

The global presence of your company exposes it to interest rate risk, currency fluctuations, credit risk and regulatory risks. In the US, the increased inflation as well as Government's financial support has put some challenges in workforce shortage. However, we are pro-actively working to ensure the business growth is not hampered. Company's internal audits ensure a robust risk management readiness. Risks are reviewed on the quarterly basis by the management. Some global and India related macroeconomic risks are posing challenges due to imposing India border related issues, climate change and post-pandemic economic changes.

### Technology

Technology is directly related to innovation and change is eminent. This means we have to be forward adoption mode for new technologies and promote innovative solutions, enhancing the potential to tap new business opportunities. The company continuously engages in training and skill development programs to update the knowledge base. Allied Digital has clearly defined its six technology towers to do business. It now has a clear roadmap for next three years of its operation and will focus on new opportunities. It will continue to invest into R&D to develop new offerings across the geographies.

Today the biggest risk for managed service providers and industry as a whole is cybersecurity. This year, an extra budget and resources are being invested to revamp our internal operations with enhanced IT security. This is the need of the hour and due to new large business contracts coming this year, we have also enhanced our cybersecurity limits.

### 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 the company to legal and financial penalties and dilute the brand equity. Identified key stakeholders across sales and business units and corporate functions ensure compliance of all applicable laws on a continuous basis. Any changes in the applicable regulations are updated and monitored by respective departments. The company has appointed third-party agencies, to support standard compliance in certain countries, for reducing local statutory risks.

This year, from operations perspective, we have refreshed our ISO as well as CMMI level 3 compliance and also added SOC2 compliance.

### Delivery Risk

There is a constant risk of competition trying to take clients away. Clients demand continuous value augmentation from service providers. Especially in India, the enterprises put constant pressure to not just exceed the KPI but also give discounts because of pandemic as well as free value-add. Your company has extended some discounts and done some value-additions to the customers. We address this situation in two parts. One is through shift left automation, which implies routine tasks get automated. For example, our managed services team has built smart dashboard analytics for customers and partners. About 300 different daily routine tasks are digitalized and automated. The other approach is to take care of increased operational costs into pricing for new prospects.

Payment delays are frequent, at different levels across the globe. However, our finance team does rigorous follow-ups to get the receivables and has been largely successful in managing this risk. Of course, in covid times, this has been more painful but yet we maintained seamless cashflows, without taking additional debt pinches.

### 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 standardized contracts and are constantly putting efforts on stronger contract management and building deeper insights into customer's environment to avoid risks of service failure at desired levels. Our contracts team is constantly fine tuning new and renewal contracts in the current business context.

### Employee Related Risk

As a service-centric, talent-driven organization, we are strengthening our Employer Brand to attract and retain the best talent, with highly specialized skills in each part of our business. Over the decades of operations, we have matured the model of balancing the right levels at the right locations, at the appropriate time, to maximize the speed and quality of delivery for our clients.

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

We are also embarking on larger pool of fresh workforce from institutions, giving them training and larger roles. This helps in managing attrition as well as keeping the cost of lateral hiring in control. Adequate business insurance policies are also in place on errors, omissions and general liability.

### Internal Control Systems

Adequate internal controls ensure that transactions are authorized, recorded, reported correctly and assets are safeguarded against loss from unauthorized use or disposition. In addition, operational controls and fraud risk controls, cover the entire spectrum of internal

financial controls. Your company continues to put a lot of emphasis on improving the internal control systems in multiple areas such as Finance, Sales, Purchase and HR.

- In finance, the internal checks and balances are managed by internal team of professionals and subsequently by a formal system of internal audit. Alert mechanism is in place for regulatory changes. The Company has appointed, M/s. Satya Prakash Natani & Co., Chartered Accountants, Mumbai as Internal Auditors of the Company to carry out the Internal Audit.
- In Sales, emphasis continues to be given on due diligence of the customers, their credit checks, profitability and sales closures.
- In purchases, emphasis continues to be given on comparative multiple quotes, discounts, delivery terms and quality of products.
- On the delivery and operations end, we improved on alerts communication, automation and customer systems health checks. This is constantly improving quality of delivery.
- We have embarked on a major initiative of CMMI Level 3 compliance 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

- Last year has been wonderful and growing. This year, due to increased revenues and compliance, we expect to scale new heights, as the year looks even more brighter for business.
- The Pune City project extension is already under-way. We hope to renew take this project for another five years.
- Our new partnerships and geographical expansion continue across the globe.
- The finance and HR support teams are doing a spectacular job in managing cost of operations.
- We have aggressively improved our marketing efforts, to increase our brand visibility. Your company got recognized with **"CIO Choice" Awards for the year 2021** for "Managed IT services" category. This is one of the awards where the customers have appreciated our services by voting for us.

The management is currently looking at various alternatives to monetize the Hard Assets (Real Estate) of the company as the real estate market has been sluggish during the pandemic. This includes creating a value-added shared offices infrastructure management, AI based incubation center development.

In summary, a wonderful year, pandemic related challenges but have excelled in service delivery. Moreover, the number of customers are growing across the globe. This financial year, we have already been successful in closing very large wins in India as well as in the US. We continue to see a sharper upward growth, with increasing brand value and continue to deliver some pioneering projects in trending technologies. Our motto of "Passion, Teamwork and Innovation" continues to drive us along with your good wishes.