February 07, 2025

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: <u>Transcripts of Conference Call pertaining to Financial Results for the quarter and nine months ended December 31, 2024</u>

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, February 03, 2025, in respect of the financial results for the quarter and nine months ended December 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: 2025.02.07 18:26:15 +05'30'

Nehal Shah
Whole-Time Director
DIN: 02766841

Allied Digital Services Limited

Q3 & 9M FY2025 Earnings Call Transcript

February 03, 2025

Call Duration	• 49 minutes and 05 seconds
Management Attendees	• Mr. Nitin D Shah, Founder, Chairman & Managing Director • Mr. Nehal Shah, Whole-time Director • Mr. Paresh Shah, Global CEO • Mr. Ramanan Ramanathan, Global Head Strategy responsible for Growth, Innovation and Partnerships • Mr. Gopal Tiwari, Chief Financial Officer
Participants during Q&A session	• Pratik Dedhia – Individual Investor • Arjun Agarwal – Individual Investor • Jyoti Singh – Arihant Capital Markets • Gaurav Desai – Individual Investor • Hiten Boricha – Sequent Investments

Moderator: Ladies and gentlemen, good afternoon 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 there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touch-tone 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.

Mayank Vaswani: Thank you, Yashasri. Good afternoon and thank you for joining us on Allied Digital Services Limited's Earnings Call for the third quarter of Financial Year 2024-25.

We have with us on the call today, Mr. Nitin D. Shah – Founder and CMD, Mr. Ramanan Ramanathan – Global Head of Strategy for Growth, Innovation and Partnerships, Mr. Nehal Shah – Whole Time Director, Mr. Paresh Shah – Global CEO and Mr. Gopal Tiwari – Chief Financial Officer.

We will begin with comments from Mr. Nehal Shah who 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 will 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 call to Mr. Nehal Shah for his Opening Remarks. Over to you, Nehal.

Nehal Shah: Thank you, Mayank. Good afternoon, everyone, and welcome to today's earning call. Thank you for joining us. I trust you have had the opportunity to review the earnings material shared earlier.

Despite a modestly challenging microeconomic environment, we are pleased to report a strong performance this quarter. For Quarter 3, '25, consolidated revenue reached Rs. 220 crore, reflecting a 29% year-over-year increase. This marks the second consecutive quarter of revenues exceeding the Rs. 200 crore threshold, maintaining the improved momentum in our business performance.

Our India operations continue to excel with standalone revenues growing 45% year-over-year during this quarter, reinforcing the solid growth trajectory in the domestic market. We are also pleased to report strong growth in EBITDA and PAT with a sharp improvement in margins.

Given evolving market dynamics and persistent cost headwinds, combined with our investment in talent development and geographic expansion, we are delighted to report a rebound in margins, especially on a sequential quarter basis.

In India, business remains robust, driven by a healthy pipeline of demand across both Enterprise and Government sectors. The Union Budget's commitment to capital investments along with measures to support manufacturing and consumption should result in improved economic activity in the coming quarters, aiding the prospects of the domestic market.

Internationally, we are encouraged by the signs of renewed momentum in the U.S. market following the presidential election, which is expected to have favourable spillover effects across the global markets as well.

We are pleased to report order intake of Rs. 200 crore plus this quarter, further strengthening our order book. Over recent quarters, consistent high-quality order wins have resulted in a more diversified portfolio, strengthening the visibility of our long-term growth. Paresh Shah, our global CEO, will cover the order wins in greater detail.

Our business is positioned to capitalize on key market tailwinds:

- Increased technology spending by global enterprises, particularly in digital engineering, cloud and cyber security solutions
- Growing maturity of Indian enterprises as they scale, driving demand for advanced solutions.

We have seen all of these levers start to play out over the past few years.

Further, our ability to compete and win larger, more complex contracts with greater scope of transformative potential is enabling us to expand our total addressable market.

For the quarter, our entire geography U.S. witnessed improved traction. This enabled us to grow revenues from the rest of the world segment by 16% on a year-on-year basis. The India business continued its momentum to report revenue growth of 56% year-over-year and by 12% sequentially.

The Services segment reported revenue growth of 22% on a year-on-year basis while revenues from Solutions were higher by 59% year-on-year. As all of you are aware, the activity in the Solutions segment serves as a pipeline for the Services segment, indicating good visibility for our anchor segment representing recurring revenues.

Coming to the outlook for the remainder of the fiscal year, we continue to execute in an environment that is steadily moving in the right direction as we are seeing signs of recovery in discretionary spending. We have good momentum with us given the business added in the last two quarters and are in active discussion with several customers indicative of a strong pipeline.

That's it from me. I will now hand over the floor to Pareshbhai.

Paresh Shah: Yes, thank you, Nehal. Good afternoon, everyone.

Here is a quick summary of our Operational Highlights for the quarter.

Allied Digital secured over Rs. 200 crore in new orders and contract renewals. Key wins include:

- We are honored to have been selected by a leading US-based multinational investment bank to provide end-user and investor service desk solutions and services. Our team will deliver first-level assistance to employees, investment managers, and brokers across their offices in Ohio, USA, London, UK, Hong Kong, and Japan.
- Another win I want to announce is Allied Digital has been entrusted in transforming IT services for a major US-based eye care provider. We will manage their IT infrastructure, global services, end user support, and field services across the nation, nationwide clinics, ensuring seamless operations and enhanced user experience.
- We have been chosen also by a leading non-profit organization focused on education and job skills to optimize their IT operations

and reduce costs. Our scope includes digital workplace services, global services, end point management and field services.

- Allied Digital has secured a significant operational technology security engagement with the world's largest vaccine manufacturer. This reinforces our expertise in protecting critical infrastructure and delivering robust cyber resilience solutions.
- We will be providing IMS services including service desk and end user services for the corporate offices and plant operation of a joint venture multinational automotive brand. This project further strengthens our foothold in the global automotive sector.
- Allied Digital has been awarded a large-scale cloud deployment project aimed at simplifying and expediting the map and layout approval process. The initiative will enhance transparency and efficiency in land usage changes, FAR approvals, and other housing-related clearances.
- We are implementing driver monitoring systems and advanced driver assistance systems for a leading automotive Company headquartered in Mumbai, reinforcing our commitment to automotive innovation.
- We have received an additional work order for a smart industrial township project contributing to Maharashtra's industrial expansion and economic growth.
- To add to the wins, India's second largest public sector bank headquartered in Vadodara, Gujarat has entrusted Allied Digital to implement data center and data recovery solutions, enhancing the bank's resilience and operational efficiency.
- We have also secured network upgradation projects for a client engaged in the exploration, mining and processing of iron ore, ensuring operational efficiency and connectivity in a critical sector.

These contacts reflect our continued growth and expanding capabilities across diverse sectors. We remain committed to innovation, excellence and driving transformation change across industries.

Now, I will hand over to Mr. Gopal Tiwari, who will share the financial updates during the period under review. Over to you, Gopal.

Gopal Tiwari: Thank you, Paresh bhai. Good afternoon, everybody. I am sure all of you have reviewed the financial performance of the Company for Q3 FY '25.

I will now walk you through some key developments regarding financials:

As my colleagues have covered earlier, it has been a strong quarter with an acceleration in top-line growth. Further, we are encouraged that the improved growth has been accompanied by an improved margin profile.

I would like to invite your attention to Page No. 2 of our press release. As you can see from our table showing a 5-year trend of revenues for each successive 9 months period, revenues in 9 months FY '25 have picked up once again. The CAGR for the 5-year period is 23% and is now reverting to the CAGR of 25% plus that we delivered from FY '20 to FY '23.

I will now quickly turn to some of the line items in the consolidated financial statements:

Firstly, there has been a reclassification of employee costs in our U.S. operations. As a result, some of the costs that were earlier being booked in employee costs have been moved into direct expenses. Due to this accounting treatment, the gross margin in Q3 FY '25 was lower as compared to Q3 last year.

Secondly, there have been a mix of factors which have impacted employee cost this quarter. Costs have risen as we have increased the number of associates to serve the increased business. Further, there is the effect of wage hikes.

Factors that have contributed to the reduction in employee cost include the reclassification that I have just talked about as well as reduction in the notional loss on ESOPs which is accounted for each quarter. The net effect of these factors has meant that employee cost of Rs. 37.5 crore in Q3 FY '25 are higher by only 11% as compared to Q3 last year.

I would now like to invite your attention to Slide #13 of our investor presentation. This quarter, we have slightly modified the presentation of our P&L statement. As you may recall, in Q2 FY '25, there has been a change in treatment of interest earned by our subsidiary and the finance cost incurred by it. While these items were being set up earlier, from Q2 FY '25 onwards, these are being represented separately. As a result, other income has increased as has the finance cost on a Y-o-Y basis.

In order to enable a like-to-like comparison with earlier quarters, it is essential to include the other income while calculating the EBITDA and margin. Hence, we have shown the operating profit separately, which doesn't include other income while also showcasing the EBITDA, which is inclusive of other income. This enhanced disclosure will make the margin trajectory comparable with that of the earlier few quarters.

Thank you so much. I will now hand it over to the moderator to open the forum for Q&A session.

Moderator: Thank you very much. We will now begin the question-and-answer session. Anyone who wishes to ask a question may press "*" and "1" on their touchtone telephone. If you wish to remove yourself from the question queue, you may press "*" and 2. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. We will take our first question from the line of Pratik Dedhia, an individual investor. Please go ahead.

Pratik Dedhia: So, I have a question regarding your geographical distribution. So, a lot of revenue now comes from U.S., and we are seeing strong growth on the India side as well. So, more in terms of how you see your margins expanding given I assume that U.S. business would be on the higher side as compared to the India business. So, if you could give some color or trajectory towards that, and when do you see your margins expanding primarily from the U.S. business?

Nehal Shah: If you see currently, we have been telling in the previous quarter, previous years also, thank you for the question, by the way, 62% of our revenues currently come from the U.S. market or the global markets and about 38% of our revenue comes from India. We typically would want to continue in that range. However, keeping the business scenario in mind, this might change a little bit here and there.

Nitin D. Shah: So, I would like to add. We would not like to benchmark our international business with India business. What we are emphasizing and focusing is on the class of business that we do, and the kind of business that we keep getting, the kind of clientele that we address, and we have a lot of options coming but we are very cautiously growing. Hence in the process the question is very important factor or lever that we look upon while selecting the kind of an opportunity and the kind of clientele.

So, currently the traction is quite good in India. So, you may see here and there some deviation every quarter. But it purely depends upon the kind of good business that we get. And that's how we address the market. So, it's not a benchmark between U.S. or India..

R. Ramanathan: Yes, and if I can add, see our strategy is to look at long-term business, not just short-term business because short-term business has its own volatility. And therefore, long-term business means in the India scenario where we are doing large scale system integration projects, there is always a onetime solutioning part and then there is a continuous operational revenue part, which comes as a result of managing for multiple years.

The U.S. also and other parts and other geographies, we are looking at long-term business strategies. And therefore, there is always, even in such businesses, an initial investment that is required, followed by continued growth as well as revenues and increased profitability.

So, this is a multi-pronged strategy that we are involved in. And the fact that Allied Digital is very strong in smart cities and large-scale system integration, is a very good opportunity for us in India because India is a growing market, and it is also one of the desired markets of many other Western companies.

Pratik Dedhia: Okay, fair enough. So, I just have a follow up. So, you mentioned that you were looking at multi-pronged strategy in combination of investing, looking at long-term strategy and expanding profitability. Just throw some color in terms of how the margins would expand specifically for U.S. business.

R. Ramanathan: I think that we have a diversified strategy, not only just the U.S. geography, but multiple geographies, which are now demanding technology management services, you know, you are seeing a huge growth in demand for technology management services because of advances in technology, sensor technologies, GPU technologies, and so on and so forth. Obviously, there would be better margins in the U.S. market where there is service orientation concern.

At the same time, in the Indian market, you have large scale solutions and even solutions which are in the areas of our focus, we are not looking at opportunities which are just revenue driving. We are looking at opportunities which have core service component and innovation component and solutioning component which are much more profitable.

Our strategy is also to include more and more diversified set of tools and technologies which is helping in increased productivity and thereby increase profitability.

So, this is what I refer to as a multi-pronged strategy where we are looking at the diversity of geography, diversity of customer base, both direct through the partnership approach, which we have been very strong in, as well as direct clients whom we are increasingly being able to tap into. And in the India market, we are increasingly looking not just at government projects, but also at enterprise solutions and large-scale enterprises, where our solutions and services are very relevant to them because they are growing their size across the Indian market.

Moderator: Thank you. We will take our next question from the line of Arjun Agarwal, an individual investor. Please go ahead.

Arjun Agarwal: Yes, congratulations on a good set of results. Sir, my first question is what kind of guidance are you giving for like FY '26, and what contribution will be for the new projects, and what will be the contribution from the recurring one? And also, on EBITDA mix on both the verticals. This will be my question. Thank you.

Nehal Shah: Thank you, Arjun. In the past, previous quarters and previous years, we have been saying that FY '26 looks at a top line of about Rs. 1,000 crore, and that is what we are right now looking towards. The mix is going to be anywhere between 75% of our recurring revenue, 25% solutions business, that is the project business.

EBITDAs typically should be at a similar level, or we will try to improve it over the quarters depending upon the kind of business that we keep on closing in. Because as we are growing, as we are getting new business, we are also investing a lot of our money on getting new talents, expanding geographically. So, I would suggest that if we are able to sustain the margins and try and take an upward trend from here, it would be great.

Arjun Agarwal: Okay, thank you. And my next question is regarding the cybersecurity incident that was mentioned in the results. Can you throw some light on that, that what really happened over there?

Nehal Shah: So, this was regarding one of our customers, one of our clients, who had typically, there was a data breach that had happened before we had started onboarding the customer. Post that data breach, there was a person who impersonated one of the ex-employees and tried to enter the access systems to the password reset site. One of our agents mistakenly took that person to be the employee and gave him access, which resulted in a cybersecurity attack.

However, there are two things that are good for us. One is that the customer is still with us. We are continuing servicing since it was absolutely not our mistake, which was because of which the data was leaked. It was due to the previous vendor. And second is that we are absolutely covered with our cybersecurity insurance as well. So, we feel that it is not going to be too much impactful for us financially. However, since it was material information, we thought of sharing it with our investors.

Moderator: Thank you. Ladies and gentlemen, to ask a question, please press star and one on your phone now. We will take our next question from the line of Jyoti Singh from Arihant Capital Markets. Please go ahead.

Jyoti Singh: Yes, thank you for the opportunity. Sir, just my question on the previous participant that they have asked on the cyber security front. So, you mentioned not too much impact on the financials. So, how much exactly if you can explain on the financial side impact you have?

Nehal Shah: So, there has been a claim, and the claim is still not in the court. It is a claim from an existing customer. To answer and safeguard all our investors, the customer is still with us, and we are servicing them. The incident had taken place way back in December of 2023. We are presently in January 2025.

While we are speaking, we are still servicing that customer. And this is a process for which there has been a breach. So, they will have to go through the process of posting a claim on us. While we are talking, our lawyers are speaking and getting a solution out of it.

But to be rest assured, even if there is any claim, it will always be settled through the global insurance that we have taken. And we are absolutely more than two times covered. I think more than three times covered with our cyber security insurance. So, we don't see any impact financially coming on our books on through this claim.

Jyoti Singh: Okay, thank you, sir. And sir, on the margin side, if you can tell us about the impact, how much impact we are having in terms of wage hike and ESOPs. I mean, a little bit if you can elaborate us on that side.

Nehal Shah: So, margin side, I think we are trying to improve our margins every quarter. While we see that you are right, we are in a growing industry. While we are growing, we are also seeing a lot of wage hike and ESOPs being given to our employees to retain talent. And we will continue to do that. At present, we are at about 12% EBITDA. We will try to maintain 12% and try to improve from here on.

Having said that, I wouldn't want to block myself by giving a number. The reason is that while we are growing, there are a lot of things that we will be investing in expanding. And that's one of the reasons that we would want to sustain our margins at the current level that they are.

Jyoti Singh: Yes, sir. That is very useful. But sir, how much impact we are having on the wage hike side in this quarter margin?

Nehal Shah: So, wage hike is, typically, we have this quarter or the previous quarter, the wage hikes have been very minimal in the range of 7 to 8%. 7 to 8% is something that we are seeing. We don't see, exceptionally, of course, there are exceptional talents that we need to pay more to retain them. However, on a standard basis or a sequential basis, 7% is something that we are looking at.

Jyoti Singh: Okay. And sir, also you mentioned about you got a deal on the driver monitoring business. So, how big is this business and, you know, how much it will be revenue generation for us and margin trend and how big is this opportunity going forward, if you can a little bit explain on that, sir?

Nitin D. Shah: So, this probably may not be looked upon in terms of the scale at which we have got the business, but it's a very innovative idea that we are looking into it, and it's a solution developed by our digital engineering services team, and that's very innovative, where we keep monitoring continuously the driver fatigue systems and lot of other parameters and which is futuristic. So, we see a very large, two of the large clients have signed up with us and we see a good opportunity to scale this business up. So, currently, if you talk about the total business, it may not be very high compared to the total revenue that we have got.

R. Ramanathan: So, if I can just add to what Nitinji said, our strategy very clearly in an emerging world of AI is how to have an AI insight strategy in every solution and service that we are rendering. One of them is facilitated with the development of our own tools, which he mentioned about Digital Desk.

But the other is also to leverage tools out in the marketplace that are rapidly evolving. And these have a role to play in almost every aspect of the work that we do, whether it is in technology management, how do you use AI, for instance, in being able to detect or prevent incident management so that we are able to increase the productivity, reduce the cost, increase the reliability, and so on. That is one part.

Second is how can we also collaborate in developing new tools, because this is a very nascent marketplace along with our partners. And these are, you know, many of the OEM are our partners, and they are evolving tools, but there is a need for understanding the customer's domain, which we understand very well in the development of these tools.

And the third part, of course, is in the SI world that we are in, especially in India, there is going to be a large scope for leveraging AI in anything we do. For example, surveillance management, or we are talking about large scale system integration, or we are looking at database of information related to people, etc., from a safety point of view, or from an insurance point of view, or from an applications management point of view and so on.

So, we are seeing an increased scope for these sort of technologies to be used, technologies that are developed in-house by us, technologies that are developed by our partners and technologies and tools available outside. But the whole attempt and strategy is how do you leverage all of that to be able to increase productivity and thereby reduce costs and thereby increase our profitability.

Jyoti Singh: Thank you, sir. Sir, why I have asked this question, because already one or two companies, they are working toward this and also government is going to make the OBD-II mandatory from April onwards. And the Company who is already working on this data, a lot of insurance Company in U.S., using to provide the insurance because it gives the accurate data. So, that's the reason I ask how big this opportunity for us is going forward. So, if you can give us some idea on that, if we are targeting on a bigger picture.

R. Ramanathan: I just want to say that the opportunity is big, but it is big for the people who get it right. Because there are three parts, you know, one is the accuracy of data. Second is the cleansing of data, whatever is available. And the third is the analytics part with which we are able to derive newer and more innovative insights into the data that we get.

And therefore, while the opportunity is big and there are many companies who are trying it, I think the key is those who would get it right, who understand the domain and who already have involved themselves in the development of tools related to that. And that is where personally I think we have a slight edge in terms of both the base of customers we are dealing with today in India as well as in the overseas market and the type of services that we are rendering. But yes, this game is open to many, many other players and whoever gets it right and fast and quick are the ones that will succeed.

Paresh Shah: So, what I would like to say is, you were talking about the insurance companies, right? So that is one of the areas. Insurance companies are very keen to see how they can derive insurance through the driver's course. So, that's one of the areas. Also, logistics companies want to make sure their large trucks are being navigated well. And the third is, a lot of supply chain companies want to see that they can reduce pilferage and loss. So, yes, it has multiple applications. And this is one of the areas where automobile manufacturers are also trying to get into these solutions where they can build the solutions within their Company.

So, we are working with both the automobile manufacturers also where we are actually demonstrating this technology, as well as working with large companies like mining companies, oil industry where they want to make sure their pilferage and logistics are well managed. So, that's another area that is also being picked up. So, yes, it has a lot of scope.

Jyoti Singh: Yes, sir. Thank you so much, sir. And sir, if one more question I can ask on the smart city side is, we are working towards that and we have capabilities and long-standing relationship. But a lot of larger companies are also working towards this smart world side. So, are we facing any kind of competition on that front or we are fine with it and we are getting good orders?

Paresh Shah: Yes, see, we have secured a very unique position in smart cities. We are very hands-on technology players. There are large companies, but they are mainly outsourcing or they are just doing financing. But we are pretty much strategic players. We do right from the top to the bottom, right from the architecture, design, all the way to implementation. So, we are an end-to-end IT services integrator as well as service provider. So, that is a unique position which we carry, and we see that as a big strength in terms of our capabilities, and we have proved that over and over time in the last many years.

Nehal Shah: And just to add to what Paresh bhai said is that for the larger companies there are multiple business levers that they work on in multiple time. However, for us, this is our core business, and we are absolutely focused on getting more and more similar orders so that we keep on growing. So, this becomes a core business activity for us rather than just being one ancillary business. I hope that answers your query.

Jyoti Singh: Yes, sir. Thank you so much. And sir, just last question, like earlier, we have expanded in Dubai. So, similarly, we are targeting any other geography to expand further.

Nehal Shah: Yes, we could. There is always business opportunities that is coming in. However, we take a conscious decision whether we will open up our own subsidiary or not. We are getting a lot of larger client requirements coming in for various geographies in Europe as well. So, there is a possibility that in the coming quarters, we would be expanding some European geographies as well.

Moderator: Thank you. We will move on to the next question from the line of Gaurav Desai, an individual investor. Please go ahead.

Gaurav Desai: Yes. So, my question was more on the U.S. and the export business. Since we have long-term contracts which go over five years, do we calculate some kind of an average billing rate per resource that we are able to fetch on this contract, you know, on hourly basis or on a yearly basis?

Nehal Shah: So, thanks, Gaurav, for the question. For us, most of our revenue is booked on asset wise rather than hourly wise and band power wise. So, it depends on the customer's assets. So, we build per asset rather than doing it per hour or per employee. And in most of the cases, the prices are fixed per asset. So, if the asset of the customer grows, our billing grows. But however, there is a minimum asset confirmation that is or guarantee that is given by a customer, and we bill accordingly.

So, rather than doing it as a manpower wise or an employee wise, we do it as a managed services through the asset count wise. That gives us a lot of leverage on reducing and increasing the manpower as per the requirement of that particular client. And that's where the leverage comes in for us at a later date on a larger contract period to improve our margins as well.

R. Ramanathan: Just to add to that, the way Allied Digital works in all of these is how do we drive improved performance and how do we bring the benefit of the cost not only to ourselves as a vendor providing that service, but also to the customer. And that enables stickiness with the customer and that also enables us to increase the portion of the pie that the customer is willing to give to us because they see continuous value addition in the way we are delivering our services. And so, if it is purely manpower-based type of costing, then the customer doesn't benefit too much.

But if you are leveraging intelligently technology and now AI in all of this, then we have the opportunity of driving down the cost further, bringing benefit to the customer as well as bringing benefit to ourselves in the process. And so that is our sort of general strategy. At the same time, when we are penetrating new customers and so on, we are willing to work on flexible models that is advantageous to the customer but also not harmful to us.

Gaurav Desai: Okay. So, one additional question on that explanation was like, do we have to keep employees on site in these Indian projects or on the foreign projects? And what would be the ratio between the onsite and offsite?

Nehal Shah: Most of our clients, we have people who are on-site doing service delivery. And presently, we hire absolutely local employees there. So, people who are local citizens of that particular country. However, a portion of project management or other services could be offshored here. That is how typically a project from a longer perspective works.

There is another line of business that we do, where we do complete remote management services for our clients, wherein 100% of client service delivery is done out of India. So, there are two set of different customers that I am talking of currently. Hope that answers.

Gaurav Desai: Yes, and what could be the mix between the two?

Nitin D. Shah: Sorry. I think you must have asked that question from background regarding a bench. How many people that we keep on bench? Is that what you are asking about?

Gaurav Desai: No, I was asking more from the cost point of view. Like earlier I asked on the billing rate. Now, so, since more of the people are on site, I wanted to understand like what could be the cost structure.

Nitin D. Shah: Okay, I understood. Okay, sorry, I understood.

Paresh Shah: So, as Nehal pointed out, there are two different services. We have digital workplace services, which have more focus on on-site presence and less focus on offshore presence. But it all depends on the customer. Customer says we want more localized and US-based services, then that's where we go. Within this digital workplace, there could be a lot of offshore presence if the customer wants a lot of remote work.

Same thing, we have another enterprise infrastructure services, which is minorly on-site and majorly remote. Okay. Hardly 10% is on-site and 90% remote. So, that's how the on-site offshore model works. And we have customers who take their choice and figure out what portion they want on-site, what portion they want offshore. Okay. Usually, that's the kind of approach that we take.

You are talking about the billing point of view. So, you can just thumb rules basically. When it is offshore, obviously we have much better margins and obviously much better profits. When it is pure onsite, definitely there is a local impact there at the margin level. But definitely there is an offshore component which takes care of a lot of margin capabilities.

Moderator: We will take our next question from the line of Hiten Boricha from Sequent Investments. Please go ahead.

Hiten Boricha: Yes, thank you for the opportunity. So, I have only one question left. That's on the tax rate. So, our tax rate was down to around 12% this quarter. So, if you can throw some light on that and also if you can share what would be our rate in FY '26?

Gopal Tiwari: Our rate basically this is because of some adjustments in the tax expense because of deferred tax application, but overall, it will be in the range of 20% plus only, FY '26.

Hiten Boricha: 20% for next year and okay. Okay, so for next quarter it would be in the range of normal 20-25%, right?

Gopal Tiwari: Yes, around 20%, yes. It will be around that. It could be.

Moderator: Thank you. We will take our next follow-up question from the line of Pratik Dedhia, an individual investor. Please go ahead.

Pratik Dedhia: Okay, thank you. So, I have a question regarding the data centers. So, you mentioned that you received an order from a public sector bank. Can you throw some light on what kind of order it is, and what kind of work you are doing, and are you getting similar traction from other clients as well?

Paresh Shah: Yes, so this was an implementation project for one of the very well-known public sector banks. And this was mainly to, you know, they were actually moving their data center so there was a lot of relocation work to be done to move the assets to a new data center, implement transformation there, and ensure there is a good data recovery process also. So, we implemented a lot of changes in their data center as well as implemented new storage to manage their data recovery process. It was a very important exercise for the bank, which we have completed that project and received a lot of appreciation.

Nehal Shah: Yes, Pratik, just to add what Pareshbhai said, apart from this, there are lot of data center projects that we keep on getting. We have delivered close to about 16 cities, smart cities where we have made data center in each of them. Apart from that, we also manage a lot of data centers of our enterprise customers as well and data center management, data center migration from on-prem to cloud, all of this acts as our prime core business, and we have absolute in-house capability of delivering all of these projects.

Moderator: Thank you. We will take our next question from the line of Jyoti Singh from Arihant Capital Markets. Please go ahead.

Jyoti Singh: Yes, thank you for the follow-up opportunity. Sir, if you could just talk about on your revenue has been booked from the Pune project in Q3 and what kind of jump will be seen in Q4.

Nehal Shah: So, Jyoti, generally any smart city project that we get in, we do milestone wise billing. So, there are about two milestones that we have successfully achieved in this quarter for which some portion of the billing is done. In the next two quarters, there will be a remaining portion. So, the solution side of the numbers might be a little higher for the next two quarters while we are implementing the new project in the Pune city. And we expect, once the implementation is done, the recurring revenue for that will start from the third or the fourth quarter of next year.

Jyoti Singh: Okay. Thank you, sir. And sir, on the DSO front, we have reduced significantly. That is good. So, but what will be our target and a range that we are going, going forward?

Nehal Shah: So, currently, I would say that we would want to come down below 70 as fast as we can. We would be very happy if we can do anywhere between 60 to 65 days.

Jyoti Singh: Okay, and any target timeline, sir, for that?

Nehal Shah: We are constantly working towards it. If you see, historically, we will be improving every quarter. Our September half year, we have come down to 72. And hopefully, we will keep on improving. I don't have a timeline in mind because we think this is a continuous process and we have to keep on improving until, you know, we reach that milestone of 60 to 65 days.

Moderator: Thank you. We will take our next question from the line of Arjun Agarwal, an individual investor. Please go ahead.

Arjun Agarwal: Hello. Yes, I just want to ask that what is the cash on books and how management is planning to utilize it?

Nehal Shah: So, cash on book currently that I recollect of was about Rs. 180 crore, and we are keeping this money in our war chest for a larger customer that we acquire so that if we need to invest in acquiring those customers, we can invest upfront. Also, we are constantly keeping our eyes open for good acquisitions as well. So, if any of that happens, we want to make sure that we have good money at hand and we don't have to go and secure money from the banks. These are the two things typically that we have kept the money for.

Arjun Agarwal: Thank you, and I just wanted to know that regarding this DeepSeek impact, like, how industry is looking into it? Means will it help in growing the AI application or I just want to hear your thoughts on this. Thank you.

R. Ramanathan: So, you know, DeepSeek has actually just advanced the possibility of reducing the cost in ChatGPT type of applications, because essentially it is doing whatever ChatGPT was doing or ChatGPT-4 were doing, but at a highly reduced cost because of more efficient utilization of GPUs, floating point CPUs. They are using eight-point floating point CPUs. And they have also made some tremendous software modifications to ride on what has already been developed.

So, from the point of view of DeepSeek, what we need to see is how that can influence further application development using the tools that are being created in Generative AI. But the important thing is that the cost of Generative AI may come down as compared to what was originally being envisaged.

And so, from the point of view of our approach, one is, we are going to see how Digital Desk can be enhanced, leveraging new DeepSeek features if they are relevant and if, you know, the jury is still out on what are the limitations of DeepSeek. So, we need to carefully study that.

But at the end of the day, I think this is also going to lead into increased competition amongst the big players, whether it is Microsoft, Facebook, Meta, or OpenAI, to come up with less costlier models. And therefore, the pervasiveness of AI would increase. And since the pervasiveness of AI usage and generative AI usage would increase, it means that that becomes an increased opportunity for organizations to leverage or develop new tools on that.

This is my understanding of what is happening in the marketplace, but Paresh, you can add something to it.

Paresh Shah: There are a couple of areas DeepSeek is still to be talked about is on the security side. So, not much has been discussed that yet. But yes, it shows a lot of promise. And obviously, it will cut down the cost of GenAI. These are the two criteria that we see that's much valuable. And for us, it gives an opportunity to actually run more good AI projects also in India with a cheaper cost. Today, the cost of ChatGPT is much high.

Arjun Agarwal: Thank you for this elaborate answer. My final question is, what is our current order book?

Nehal Shah: So, Arjun, I think we have stopped giving the current order book numbers for the past previous quarters because there are a lot of factors that goes in the line of business that we do. We have a constant order booking that happens with respect to new orders being, net new orders being coming in apart from renewals that keep on happening and the new revenues in the existing account that we call as 'Farming'.

So, typically what happens is the number that I give in, the investors divide that number by the number of years that the business order is booked for. And that typically doesn't give an accurate number from the top line perspective. And that is the reason that we say that you keep on looking at us, that sequentially we will be growing. We have been announcing order wins and we have been every quarter giving out a number of new revenues that we have locked in.

Arjun Agarwal: Okay, fair enough, sir. Thank you. Thank you and all the best for the future.

Moderator: As there are no further questions, I would now like to hand the conference over to management for closing comments. Over to you, sir.

Nehal Shah: Thank you all for your participation and engagement in today's call. As we look ahead, we remain confident in our ability to sustain consistent and long-term growth. With the right strategies in place, we are well on track to achieve our goal of Rs. 1,000 crore in annual revenues in the coming quarters.

Encouraging signs of revival in key markets, coupled with stronger customer activity and improved decision making, further reinforces our optimism for the future. Our continued focus on direct customer onboarding, expansion in smart city initiatives and strengthening our global footprint will be key drivers of our momentum. As we move forward, we are committed to leveraging these opportunities to unlock even greater value.

Should you have any further questions or require additional insights, please feel free to reach out to our team or CDR India. We appreciate your support and look forward to connecting again in the next quarter. Thank you.

Moderator: Thank you, members of the Management Team. On behalf of Allied Digital Services, that concludes this conference. Thank you for joining us and you may now disconnect your lines.
