

ANNUAL REPORT

2012-2013

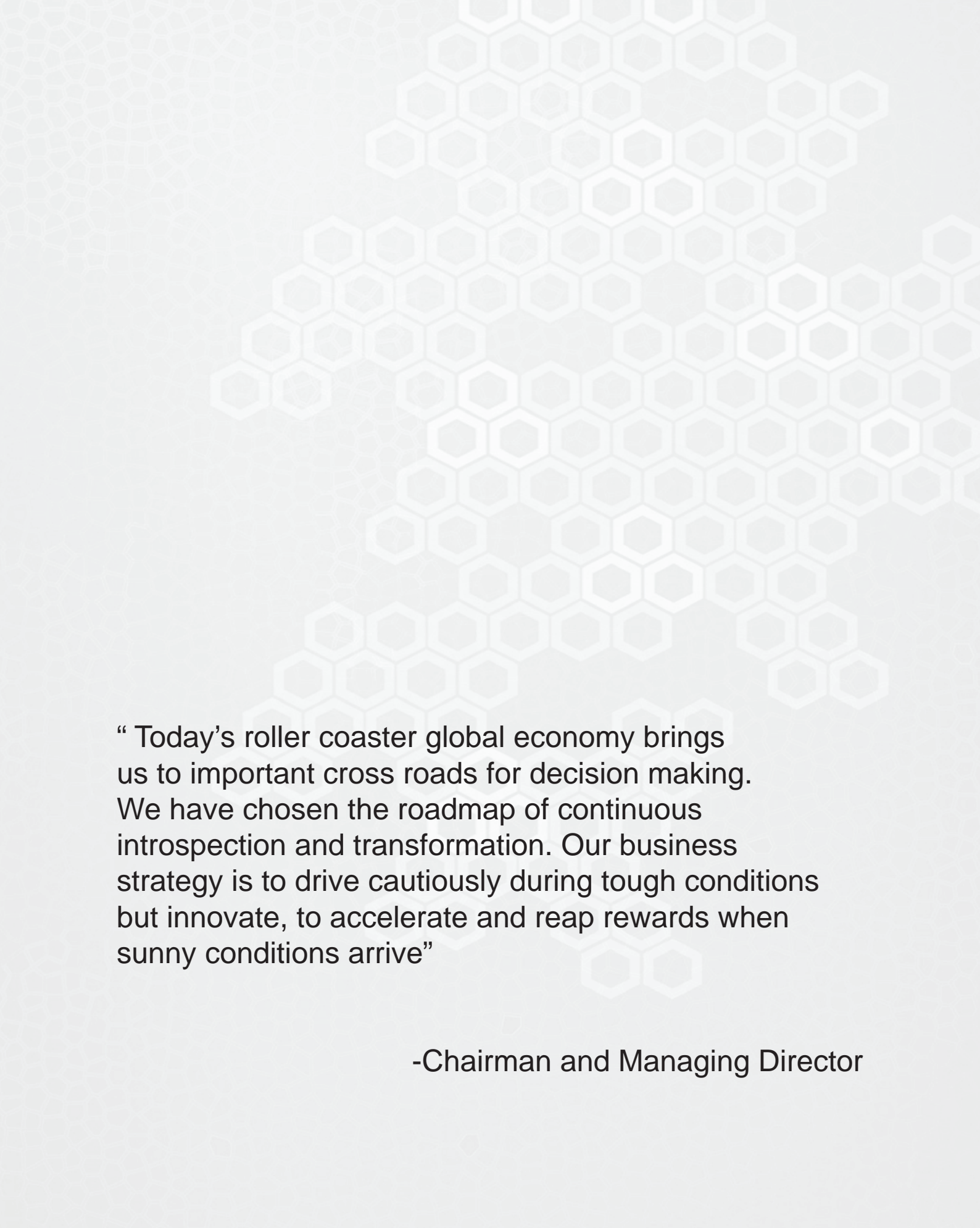
Transnovation
(Transformation + Innovation)



2014



**“WILL REACH DEAD END
IF NOT CHANGED THE COURSE”**



“ Today’s roller coaster global economy brings us to important cross roads for decision making. We have chosen the roadmap of continuous introspection and transformation. Our business strategy is to drive cautiously during tough conditions but innovate, to accelerate and reap rewards when sunny conditions arrive”

-Chairman and Managing Director

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Corporate Information

BOARD OF DIRECTORS

Mr. Nitin D. Shah

Chairman and Managing Director

Mr. Prakash D. Shah

Executive Director- Commercial

Mr. Paresh Shah

Executive Director & CEO

Prof. Venugopal Iyengar

Independent Director

Dr. Shrikant Parikh

Independent Director

Dr. Roopkishan Dave

Independent Director

COMPANY SECRETARY & COMPLIANCE OFFICER

Mr. Ravindra Joshi

REGISTERED OFFICE

Premises No.13A, 13th Floor,
Earnest House,
Backbay Reclamation,
NCPA Road, Block III,
Nariman Point, Mumbai-400 021.

CORPORATE OFFICE

Allied Digital Services Limited.
81, Harchandrai House, 5th Floor,
Maharashi Karve Road, Marine Lines,
Mumbai 400 002.
Boardline: +91-22-66816681
Fax: +91-22-22064170
For more information contact us at:
investors@allieddigital.net
www.allieddigital.net

AUDITORS

K.M. Kapadia & Associates

BANKERS

State Bank of India
Standard Chartered Bank
Barclays Bank

REGISTRAR & TRANSFER AGENT

Linkintime India Private limited.
C-13, Pannalal Silk Mills Compound,
L.B.S Marg, Bhandup,
Mumbai 400 078. India.
Tel: +91-22-25946970
Fax: +91-22-25946969
Website: www.linkintime.co.in



Mr. Nitin Shah

Dear Shareholders,

The technology sector has been broadly mixed so far this year due to uncertainty surrounding some of its top players, weak overseas demand and overall reduction in global information technology spending. This coupled with the macroeconomic situation across the globe with rising interest rates, volatility in the dollar rate and the crude oil fluctuations has vitiated the already gloom and doom atmosphere to a situation where industries across the world are finding it tough to grow.

Global growth dropped to almost 3 percent in 2012, which indicates that about a half a percentage point has been shaved off the long-term trend since the crisis emerged. This slowing trend will likely continue. Mature economies are still healing the scars of the 2008-2009 crisis. But unlike in 2010 and 2011,

emerging markets did not pick up the slack in 2012, and won't do so in 2013. Uncertainty across the regions – from the postelection 'fiscal debate' question in the U.S. to the Chinese leadership transition and reforms in the Euro Area – will continue to have global impacts in sluggish trade and tepid foreign direct investment.

Across the advanced economies, the global economic outlook predicts 1.2 percent growth in 2013, compared to 1.1 percent in 2012. The slight uptick is largely due to Europe, which is expected to return to very slow growth of 0.3 percent after the 0.2 percent contraction in 2012. U.S. growth is expected to fall from 2.2 percent in 2012 to 1.6 percent in 2013.

Business Overview

The general market conditions impacted the performance of your Company for the last fiscal and we ended the year with revenues of Rs. 422.5 crore and an EBITDA of

Rs. 43.5 crore. Services contributed 31% while solutions contributed 69%. As you must be aware and as stated in my communication to you last year, the Company has been taking a transformation initiative coupled with key innovations to make the business future ready. This unique mix of

"Transformation" and "Innovation" hence lends the name "Transnovation" to the annual report which you must have seen. Key among the initiatives under this program is skilling the entire organization in terms of technology, process and leadership to ensure that the organization is ahead of the curve when the opportunities present itself to it. We have laid great emphasis on sustaining profitability as we move ahead and one of the key drivers for this will be a change in customer focus where their buying patterns are moving

from a capex model to an opex model. In our early days, we focused on selling hardware to the clients while the present focus is on selling solution and services there by benefiting the customer as well as adding to our bottom line. From a business model perspective, we continue to focus on the Infrastructure Management Services vertical where we believe the fastest growth is predicted to happen. The IMS industry currently accounts for US\$ 524 billion, nearly a quarter of the US\$2.3 trillion overall IT spend and is moving towards a remote delivery model where services are increasingly delivered by vendors from low-cost locations.

Infrastructure architectures are being increasingly centralised and standardised with assets physically decoupled from the support teams that manage them. Remote management tools have evolved from point tools for device management, to integrated offerings that support end-to-end management of IT services. As a result, the

focus of IT managers has shifted from managing infrastructure to managing associated labour costs and productivity. Three factors have accelerated this trend:

- Decline in hardware prices, virtualisation and the adoption of open source, that make labour the largest addressable cost in total infrastructure spend.
- Simplification and integration of IT management and governance tools that help improve governance, reduce costs, and create unprecedented transparency.
- Consolidation and remote location of data centres coupled with the increased productivity of telecom networks that decouple physical infrastructure from users and administrators.

This is leading to a fundamental change in value creation for customers as their focus is swiftly moving from hardware utilisation, procurement and financing capabilities, to architecture flexibility, device and labour productivity.

Further, along the lines of streamlining operations and dedication to providing industry-leading innovation

to our clients, we unveiled Allied Digital's Integrated Tool-as-a-Service (ADiTaaS) this past year. ADiTaaS is built on our proprietary Integrated Service Delivery Framework (ISDF) with the key objectives of bringing standardized processes, comprehensive asset control, strong adaptive and integration friendly architecture in a single "IT Service-in-a-Box" that will considerably reduce an organization's IT management costs. ADiTaaS is compliant with IT Service Management (ITSM) and IT Infrastructure Library (ITIL) best practices. This solution has allowed many of our customers to increase visibility into critical components of their own environment, while allowing them to make better decisions for their business.

As public cloud computing gains greater adoption across enterprises, there's an increased level of spending occurring on infrastructure-related services including Infrastructure-as-a Service (IaaS). Enterprises are prioritizing how to get cloud platforms integrated with legacy systems to make use of the years of data they have accumulated. From legacy Enterprise

Resource Planning (ERP) to Customer Relationship

Management (CRM) systems, integrating legacy systems of record to cloud-based platforms will accelerate through 2016. Global spending on public cloud services is expected to grow 18.6% in 2012 to \$110.3B, achieving a CAGR of 17.7% from 2011 through 2016. Allied Digital is offering ADiTaaS on the cloud space and we already have seen a huge traction in the market. We are confident of offering this under public clouds like Amazon and other large private clouds.

The other key change that we are witnessing is that organizations of all sizes are migrating from analog to IP-based physical access control solutions, drawn by increased security, increased operational efficiency and better availability. The shift to IP reflects what's already happened in voice communications and, more recently, in video surveillance. Shifting physical access control from analog proprietary serial communications to IP provides benefits like Protecting access control data; Accelerating response to alarms; Helping to ensure business continuance; Streamlining operations; and Lowering door cable costs.

Your Company has claimed a leadership position in the field of IP Surveillance and Homeland Security systems. If not for an unfortunate turn of events that led the Company to losing a large order in the last fiscal, we would have been comfortably placed in the current year itself. However, such setbacks make our determination stronger to succeed in this tough market and we are confident that the current fiscal will see some positive developments in the Home and Security space.

Our subsidiary Digicomp has turned in yet another year of sustained growth and servicing customers across the spectrum of industries. We are proud of the fact that your Company identified this Company at a fledgling state and has nurtured it to a level where it can

be counted as a world beater in the areas of reverse logistics, after market services and IT Asset recovery. Success in growing Digicomp has increased our desire to incubate many more such up and coming companies to give them a platform where they can succeed.

The Learning and development initiative that was started last year continues to make important strides. The focus is to create an employee - friendly work environment, empowering employees at all levels and maintaining wellstructured reward and recognition mechanisms. Employees are the key assets of your organization and we strive to retain and attract talent that we have with us. During the year, your Company organized Learning and Development programs for its employees. Besides multiple technical programs we organized programs such as such as Conflict Management, Inter-departmental communication skills, leadership development, communication skills etc.

Your Company has also been bestowed with many awards and recognitions during the fiscal in recognition of its leadership and innovative practices in many segments that we are present in. To name a few, Allied Digital won the prestigious world-wide MSP of the year 2012 from LANDesk Software, USA. We also were named the 'Top Solutions Provider' and 'Solution Champ – Managed Security Services' by DQ Channels. Other awards include India Inc. 500 award for 2013, Maharashtra Information Technology Award 2012 and Spirit of Partnership award from DELL. All these awards further strengthen our commitment to provide the best possible services to our customers using the latest technology.

Corporate Social Responsibility (CSR) activities continue to be an important facet of ADSL's commitment to give back to the society. Allied Digital through the Padmapragna trust works towards the empowerment of women by providing them with necessary skills training and other facilities in a manner that they can be self-reliant. This apart, we also have focused on the education of needy children, provided healthcare facilities to the poor and also committed our time to spiritual and religious activities. This is a small way of showing our gratitude to the almighty who has showered us with his benevolence. We would like to place our heartfelt gratitude and regard to

all our customers, employees and most importantly

shareholders who have supported us in the best and worst of our times. We do hope that your confidence in us will propel us to work harder in the years to come and ultimately deliver maximum shareholder value to all our stakeholders.

Mr. Nitin Shah
Chairman and Managing Director





CEO

Mr. Paresh Shah

Dear Shareholders,

The fiscal year 2012-13 was probably one of the toughest years for your company. Frankly, it was not just IT that was hurt but also the entire Indian economy, which grew at an average growth rate of less than 5% in the first quarter of 2013, which by far is the worst quarters in last 10 years.

As we look at the business in the last fiscal, the Indian IT demand did go up in solutions business as organizations invested for scaling up their business and hence the need for more infrastructure. As far as services are concerned, the market remained approximately the same as the previous year. The much hyped question on cloud computing adoption did show signs of traction and the future does look promising. Globally, the US markets showed some signs of improvement in IT demand, but Europe remained to worry and drag the US market.

In all, your company had tough time getting new services and solutions business as cost pressures meant that clients looked for cheap local services and decreased demand for new solutions was the order of the day. Also, as a strategy, the company has been concentrating on weeding out low margin hardware business, which has depressed the topline of the company. The volatility of the rupee against the dollar is adding further pressure to the hardware business. However, we are confident that the fortunes of the US business will improve as the economy in the US is improving. The last two years have been tough for the Company due to macro and certain company specific issues, but I am confident that

we are entering a phase where we would see uptick in the overall business going forward.

Current Industry Scenario

Indian local IT business for the year 2013-14 is not yet looking marginally positive. Corporates are cautious in their new IT spend or are taking baby steps. Government sector is going to be unique due to forthcoming elections. Projects awaiting decisions and CCTV surveillance projects including citizen facing projects such as e-governance would see the light.


Markets in the US are already on growth path. With the new immigration law being underway, the local US IT services business will see acceleration. The UK market is cautious, and the rest of Europe barring couple of countries, are still struggling to revive the economy.

The India business is showing a radical change from its stand on cloud services compared to last year. Now many organizations are ready to move to cloud based services. The apprehension for security in cloud is declining. Data analytics is also an area of attraction globally. Mobile enablement of applications continues to get focus globally. The IT surveillance business is going to be a big one in the current year globally. IT infrastructure transformation continues to be of prime importance.

Our last fiscal Year

The sluggish economy and cash liquidity pressure not only affected our customers but also us. Indian corporates for first time, in last 20 years, saw a significantly downward trend throughout the year, which gave pressure to IT business. Spending in the corporate sector decreased. Though the quantity of new work decreased, your company worked on quality projects. Some worth mentioning, are, end-to-end IT infrastructure for India's first theme park, designing a mobility management solution for a large insurance company and a smart video analytics solution for a top pharma company.

Our internal processes have improved, while we are constantly striving to improve as part of our transformation process. Our US operations are very stable with improved credit rating and our UK operations are getting stabilized. Your company recently completed its fifth anniversary in the US. Globally, the company in its transformation journey has revamped its offering with a new branding called "ADiCube". The six faces of cube represent six vertical offerings of your company. We offer operational services & transformational solutions via ADiTaaS (our ITSM platform), ADiUser (end user management), ADiInfra (enterprise infrastructure), DiApps (industry applications), ADiCloud (cloud



navigation services) and ADiInsight (Master Systems Integration-Solutions).

Our “Integrated Service Delivery Framework”, has matured into a successful product venture “ADiTaaS (Allied Digital integrated Tool-as-a-Service). I am proud to tell you, that we are among the few companies nationwide in the IT infrastructure today, which provides services and a robust ITSM platform to manage IT. We have progressed well in developing mobile enabled work force management. Allied has embarked in cloud business in a bigger way. It has become a cloud consulting partner of Amazon, the world’s largest public cloud infrastructure company.

The pipeline of opportunities in the new service business has been lesser than expected, an area that we are focusing on to increase our sales. Nevertheless, our integrated solution business is seeing good traction, as there is growing demand for surveillance and intelligent building management systems. We see this as a major revenue earner in coming recent years.

Allied Positioning

Your company, due to its technology leadership, early transformation steps and specialized business focus such as smart city solutions, intelligent building management threaded with innovation, has been able to survive tough times, better than some other similar IT companies. Also, we are leaving no stone unturned to ensure that we grow better than last year. This year may still show some slowdown in initial months, but I am very positive, that Allied will end the year on a positive side. We the management at Allied, are constantly striving not just to shelter during the rainy days but also to make hay when the sun appears from the clouds. Your shareholder value is always in our sight.

Mr. Paresh Shah

Chief Executive Officer





Mr. Jawahar Ali

The importance of Information Communication Technology (ICT) in Physical Safety and Security (PSS) application has created a need for Master Systems Integrator (MSI) having experience in both ICT as well as Physical Safety and Security (PSS) systems. Allied Digital is now acknowledged as a leading Master Systems Integrator with a proven track record of deploying IT infrastructure as well as Video Surveillance, Access Control and Fire Alarm systems.

Till 2000 the PSS market comprised of disparate systems for CCTV, building management, HVAC control and other systems. The integration of these systems were offered on a proprietary platform by security companies that locked in the customer for the solution lifecycle. 2008 witnessed the emergence of open systems standards for Security Systems that would allow combining products from multiple OEMs in an integrated solution. Systems based on open standards found favour with the system integrators and the customers as they provided wider choice at better price points. This also resulted in customers signing the Service level Agreement with the SI for solution life cycle support rather than Product OEM.

As a Master Systems Integrator Allied Digital now carries a larger portfolio of solutions that includes Video

Surveillance, Access Control, Intelligent Traffic and Toll Management systems, Building Management and Energy Management systems.

Adoption of ICT in PSS has further strengthened Allied Digital's presence in the market as a total Systems Integration solution provider as compared to traditional Physical Security Systems OEMs who are now product focussed.

The emerging technology in PSS has made the selling process very complex as it involves challenging integration of various sub systems such as Video surveillance, Intelligent Traffic Systems, Data Centres and also setting up of a Command and Control Centre where the entire system can be monitored for prompt response to any critical situation. In this scenario Return on Investment (ROI) and Total Cost of Ownership (TCO) assumes significant factors for purchase decision.

As a Master Systems Integrator of ICT and PSS, Allied Digital provides greater depth of solution and support to its customers combined with a single point of responsibility and accountability. This has helped Allied Digital to sign several on-going sales agreements instead of one off sale agreement with Banks, Retail chains and other multi locational customers who are interested in dealing with a single MSI having Pan India presence instead of signing multiple contracts with regional / local systems Integrators. This provides cumulative growth opportunity for the Physical Safety and Security business as well as increased customer retention for Allied Digital.

Mr. Jawahar Ali
Chief Executive Officer
Integrated Solutions Group