

DATAMATICS

“Datamatics Global Services Limited
Dextara Digital Private Limited Acquisition
Conference Call”
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DATAMATICS



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MR. SANDEEP MANTRI - EVP AND CHIEF FINANCIAL OFFICER
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MODERATOR: **MR. PRATIK JAGTAP, E&Y LLP - INVESTOR RELATIONS**

Moderator: Ladies and gentlemen, good day, and welcome to the Datamatics Global Services Limited's discussion on acquisition of Dextara Digital Private Limited. 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Pratik Jagtap from E&Y LLP. Thank you, and over to you, Pratik, sir.

Pratik Jagtap: Thank you, Sagar. Good afternoon, all participants, and thank you for joining us in this call. This call is to discuss Datamatics' acquisition of Dextara Digital Private Limited. The press release have already been mailed to you and you all can also view it on website, www.datamatics.com. It is also uploaded on stock exchanges. We would recommend sticking to the questions only related to the acquisition, that is a request, and this is a 30-minute call, so hence, request all the participants to restrict your questions to one per person, so that the management can address most of the questions.

To take us through the conference today and to answer your questions, we have with us the top management of the company represented by Mr. Rahul Kanodia, Vice Chairman and CEO; Mr. Sandeep Mantri, EVP and Chief Financial Officer; Mr. Mitul Mehta, EVP and Chief Marketing Officer. Rahul start the call with a brief update on transaction, which will be then followed by Sandeep, who will share the financial details. We will then open the floor for Q&A session. As usual, I would like to remind you that anything that is said on this call, which gives any outlook for the future, or which can construed as a forward-looking statement must be viewed in conjunction with the risks and uncertainties that we face. These risks and uncertainties are included, but not limited to what we have mentioned in the prospectus filed with the SEBI and subsequent annual reports, which you can find on our website.

With that said, I'll now hand over the call to Mr. Rahul. Over to you, Rahul, sir.

Rahul Kanodia: Thank you very much, Pratik, and good afternoon to all of you attending this call this afternoon. The agenda of this call is essentially to discuss the acquisition we made of Dextara Digital. So obviously, since we are in the silent period post the quarter ending, we will restrict our discussions only to this acquisition.

The Dextara acquisition aligns with our growth strategy of focusing on hyperscalers and the U.S. market. Salesforce, as many of you may know, is one of the largest enterprise product companies in the world and 95% of the Fortune 100 companies use their platform. Dextara has been growing very rapidly and in the short span of 4 years, they have achieved the highest level of Summit partnership with Salesforce.

Along with the deep Salesforce expertise and products, Dextara brings with it an extremely capable management team that has managed global operations of \$1.2 billion with 20,000 people. They have a broad client base, as well as a good portfolio of industries that have specific interest to Datamatics.

The company has developed products such as Dextara CPQ, DXHealth+ and DXTemplates and these align with Datamatics strategy of continued differentiation and growing in a more linear fashion. This acquisition will enhance our ability to cross-sell Salesforce services into our existing customer base. The credentials and our scale will allow us to open up many more opportunities and improve our visibility and relationship with Salesforce.

With that said, I will now hand over to Sandeep Mantri, who will discuss the financials.

Sandeep Mantri:

Thank you, Rahul. As Rahul mentioned, this is a strategic acquisition for us in line with our strategy to grow in hyperscalers. Dextara was founded in 2019 and within a span of four years, they have grown to a revenue of \$7.2 million, with healthy EBIT margin of almost at 16.5%. This margin will be EBIT accretive to Datamatics. With this acquisition, our EBIT in digital technologies sales should grow by about 90 basis points, which is 0.9% of the EBIT with technologies business currently. In terms of revenue, this acquisition will help getting another 10% revenue growth in the coming year, so that's about the revenue and the margin.

On the revenue customer profile, approximately 85% of their revenue is coming from Western markets, within U.S. and U.K., and 15% will be from Asian market, primarily India. They are a pure-play Salesforce company. Salesforce business is growing business and growing 20%, 25% worldwide in the last three years, market is huge. So, it is estimated to be 50 billion by 2026. So, we have a lot of opportunity in this market. We will pay a total of \$17.3 million, out of which \$14.3 will be upfront and \$3 million will be over a period of two years. In addition to this, we will pay up to \$3.7 million on achievement of certain business targets in the next two years. All these things will be from internal accruals and internal resources. This is all about financials and consideration. And with this, I would like to hand over to moderator for Q&A. Thank you.

Moderator:

The first question is from the line of Grishma Shah from Envision Capital. Please go ahead.

Grishma Shah:

Congrats on the acquisition. And I just missed the EBIT margin numbers, Sandeep. Can you please repeat that?

Sandeep Mantri:

EBIT margin is about 16.5%.

Grishma Shah:

16?

Rahul Kanodia:

Yes, EBIT is 16.5% and EBITDA is about 19%.

Grishma Shah:

Okay.

Moderator:

The next question is from the line of Mihir Manohar from Carnelian Asset Management. Please go ahead.

Mihir Manohar:

Congratulations on this acquisition. This is a very interesting differentiated capability that we are trying to develop in this company. That's really good. Sir, I had questions on the synergy side. Likely wanted to understand how are we exactly going to drive the synergies? Will it be like Salesforce capability getting sold to our existing customers? Or the other way? If you have to throw some more light as to what kind of synergies could be there on revenue and margins?

And what will drive that? And how to understand 1 plus 1 in this structure? That was my first question.

Second question was on the retaining. I mean, are the promoter group and management going to be retained for a certain period of time? I just wanted to understand that.

Rahul Kanodia: So yes, we will retain the entire management team. When we buy services company, what we really have is a core team of people, and people are very critical. So yes, the agenda is to retain them. They do not have an exit agenda.

In terms of the synergy that we foresee, there are three elements that we expect: one is to cross-sell into our customer base. Datamatics has a large customer base of over 300 customers, and this will allow us to take Salesforce competence into the customer base and therefore, done a lot more business. So that's one.

Second is that this company has a few large accounts as well, and we will cross sell other services into those accounts. So that allows Datamatics to grow some of the other businesses. And the third is that with the scale that Datamatics brings to the table and the competence that they have, we will be able to target much larger deals. Until now, Dextara could not target very large deals. But with the Datamatics platform, they would be able to target much larger deals. So all of these three together will give us the benefits that we are planning to achieve through this acquisition.

Also, the management team has, in the past, run very large operations of over \$1.2 billion or 20,000 people. So the management team has a very deep intrinsic capability of running large and complex deals, which I think they will be able to leverage to the benefit of Datamatics.

Mihir Manohar: Sure. Sir, the 300 customers that you mentioned, I mean, how many customers have just accounted on limited Salesforce capability?

Rahul Kanodia: How many of our 300 customers have Salesforce? Approximately about 25% to 30% of them have Salesforce with them.

Mihir Manohar: Okay. So over there, you will need to discuss the existing vendors?

Rahul Kanodia: Yes, we have to cross-sell there.

Mihir Manohar: Ok sure. Yes that's it from my side

Moderator: Thank you. The next question is from the line of NGN Puranik from Enam Asset Management.

NGN Puranik: Rahul, congrats on this acquisition. Looks interesting.

Rahul Kanodia: Thank you very much, sir.

NGN Puranik: I want to understand what's the background of the founders of this company or where has been around?

Rahul Kanodia: So the founders have spent a large part of the career with Virtusa. They've lived in the U.S. as well as India. And they've grown the operation significantly. The main founder, Sreekanth has run an operation of 20,000 people under the \$1.2 billion operation, and he scaled it from a very small company to a large company, where he was Executive VP there.

There are one or two other senior people in the company. They come with the vast experience and background.

NGN Puranik: They have 150 clients and 600 projects. So the average revenue per client works out to be small. When they come into your fold, how will you get them to a meaningful size? So that will happen at the every deal level? So if your average transaction size is INR30 lakhs, INR40 lakhs, how do you take it to \$100,000, \$0.5 million? So a lot of enterprise cross-sell need to happen. So what solutions you have to bundle with?

Rahul Kanodia: Correct. So when we look at the profile of their Salesforce deals, which is what you're alluding to, and you look at our Salesforce deals. Because of their size, they started only 4 years ago. So they were very small. So for them to get larger deals is difficult and therefore, they have to take many small, small deals. As you likely pointed out, it's \$30,000, \$40,000, around \$50,000, maybe \$100,000. At Datamatics, these are in the range of about \$0.5 million. And sometimes, even \$1 million or \$2 million or \$3 million. So one is that by joining Datamatics, they can bid for larger deals, which they could not earlier because sense of the balance sheet that Datamatics brings to the table.

Second is that Datamatics itself is generating a pipeline of many large deals, which they could not do themselves because of the small size. So they can now plug into that and convert those deals. So we expect the deal conversion to go up and the deal value to go up as well significantly.

What we have really bought is a very strong capability and competence. Because of the Summit level partnership, the technical architecture they have in the organization, these things make a big difference and the ability to convert these large deals.

NGN Puranik: So you will be getting a number of market-facing guys in the team and plus the leadership level, you get have a couple of guys in this acquisition?

Rahul Kanodia: Absolutely. We will get that, and we also get a very good U.S. presence. They have about 20-odd people physically in the U.S., which are very good people, and that's really helps in engaging with the American customers. So we have local expertise in America as well as in India.

NGN Puranik: Right. How do you construct a \$0.5 million deal, so which include Salesforce and which includes your own stand-alone solutions?

Rahul Kanodia: So, I'm talking about \$0.5 million deals are around Salesforce itself. Now the moment you bundled Datamatics and services along that, those deals will become much larger. And these people have run large operations globally. So they are very comfortable with multi-competence or multiservice line transactions with customers.

NGN Puranik: And we will expect about 10 accounts at least to the \$1 million plus annual revenue?

- Rahul Kanodia:** We have just started. We just engaged with them. Now we will go into a deep dive with each account that we have. Make a business plan with them. All that like what will happen now.
- NGN Puranik:** So what exactly they do when they say Salesforce implementation? Is there any standard tools and methodologies which they use to implement Salesforce in an enterprise? How do they do?
- Rahul Kanodia:** Correct. So they have a couple of products that they have, which is Dextara CPQ, DXHealth+ and DXTemplates. These are 3 platform products that they've built, which helps them to sell. Outside of that, they have a deep expertise in Health cloud, Service cloud, Sales cloud. So a lot of these areas is where the customers really are spending today.
- NGN Puranik:** Excellent. So we can build an enterprise health care practice potentially?
- Rahul Kanodia:** Absolutely.
- NGN Puranik:** Wonderful. We are on target, congratulations.
- Rahul Kanodia:** Yes.
- Moderator:** Thank you. The next follow-up question is from the line of Grishma Shah from Envision Capital. Please go ahead.
- Grishma Shah:** I also wanted to understand, they do implementation, and they have these products. What is their revenue breakup in terms of platform products and implementation services? That's question one.
- Rahul Kanodia:** Yes. We don't have that breakup. They sell the platform in certain cases, and then they build on top of that, plus they provide services anyway. So they are not a hardcore product company. They're mostly a services company. The platform gives them an edge and it's a differentiator when they are selling it to the customer because they've got some very nice features and functionality in the product. But predominantly, it's a service itself. We will be able to take these products into our customer base.
- Grishma Shah:** Okay. What Dextara has done in, Feb '23, was they acquired Revolution Group's Salesforce Services Division, right?
- Rahul Kanodia:** Yes.
- Grishma Shah:** So, what expertise that Revolution bought into it? And did that help to grow them faster in FY '24. Is that the key reason for strong growth? Or what's the reason?
- Rahul Kanodia:** So obviously, whenever you do an acquisition, it does boost your growth. So yes, it did contribute to the growth, but they were growing organically anyway at a very rapid pace. The credentials of the certifications are all there. It's not that the acquisition of those credentials. As far as the acquisition is concerned, the key thing it gave them is good U.S. presence with strong technical expertise on the ground in the U.S.

So as you engage your customers there and you have strong technical architects and designers over there, that makes a big difference in the customer engagement and therefore, scaling those opportunities. That is a good move, I think, on their part to acquire this company so that they could get a U.S. presence, physical presence with strong technical capabilities.

Grishma Shah: So the entire team, top management team would stay with you? Or the delivery team will also be with us?

Rahul Kanodia: The entire team will stay with us.

Grishma Shah: Okay. And the operations will be managed out of Hyderabad?

Rahul Kanodia: It's global. Actually, we have operations in Mumbai and Bangalore as well as in the U.S. So their operations are largely in the U.S. and Hyderabad. This team will manage the entire Salesforce practice for Datamatics as well as Dextara, we'll just merge it all into one.

Grishma Shah: Okay. So what are we offering in Salesforce? So I know that they offer a lot of the CPQ solutions as they mentioned on their website. So what are we doing in Salesforce?

Rahul Kanodia: We have a much smaller footprint. But mostly, we are doing service cloud and our Salesforce generic practices. We've been able to implement some AI into our Salesforce practice, which we'll also put into their with the Gen AI and all of that sort of stuff. So we will incorporate those, and that will enhance their value proposition also.

Grishma Shah: So our expertise is different than what they do?

Rahul Kanodia: Yes, slightly different. There's some degree of overlap. We have a little more expertise on the AI front, but their expertise is much deeper and much broader, us is relatively smaller.

Grishma Shah: So basically, the team from Dextara would lead the entire Salesforce practice for us?

Rahul Kanodia: That is correct. Yes.

Grishma Shah: Okay. And one bookkeeping question. We're paying upfront \$14.5 million upfront. And what is it that we are paying later?

Sandeep Mantri: The \$14.3 million we are paying upfront, then \$3 million is fixed consideration, which will be paid over the next 2 years. And then we have additionally \$3.7 million various business parameters-based consolidation. So if they achieve those business parameters, we will pay. Otherwise, we will not.

Grishma Shah: Okay. Thank you so much and good luck.

Rahul Kanodia: Thank you.

Moderator: Thank you. The next question is from the line of Mihir Manohar from Carnelian Asset Management. Please go ahead.

Mihir Manohar: Hi. Thanks for taking the follow-up. So, I just wanted to understand that this company has achieved the summit level partnership, I mean, in a few years itself. So, I just wanted to understand how important is or how difficult or how easy is it to get that level of partnership? And in your sense, what is the USP of this company, again, the fact that in a four-year time period, it has become a INR60 crores revenue and also obtained the summit level partnership, which is there?

Second question was just on the vertical side, I mean, which are the key verticals, you mentioned healthcare. If you can provide the number bifurcation as to which are the verticals which are there? Or what percentage of revenue is coming from which verticals? And even the geography side? That will be useful.

Rahul Kanodia: So, geography side is mostly the U.S., which is our focus. As Sandeep Mantri mentioned that 85% is U.S. So, that's where it is. In terms of summit level partnership, it's not easy to achieve that in such a short period. I mean can you achieve that? The answer is yes. But a four-year period is a very short period. And therefore, I think they've really done a fantastic job and feels very well.

You need to have deep technical expertise and certifications approved by Salesforce to achieve that. So you've got to have a very successful track record, very good client references and deep technical depth. So, that makes a difference. Now this will also help us because the moment we engage, our engagement with Salesforce will go up several notches because we will be at that level of partnership. And then the scale that Datamatics brings to the table, roughly, our revenue is about \$200 million. So, that brings us into the radar of Salesforce and will be far more visible. And therefore, our relationship with Salesforce will improve, which, of course, will result in a better business.

Mihir Manohar: Sure, sure. And among verticals is it like healthcare is 70%, 75% of the business? How is it?

Rahul Kanodia: Manufacturing, healthcare and retail, these are three verticals.

Mihir Manohar: I just wanted to understand the pay-out that we are doing is all-cash consideration. I mean, given the fact that the management team is so good and plus the Salesforce implementation capability. Just so you're also looking to retain the talent. So, why not the share swap transaction and why all-cash transaction? I just wanted to have understanding on that.

Rahul Kanodia: So, we still believe that Datamatics is not fairly valued in the market. So, if we did a swap, we believe we'll be selling cheap. I think Datamatics needs to have a more realistic value on the stock market, and therefore, we didn't do a swap.

Mihir Manohar: Sure. So are we going to have any ESOP policy, for the talent that we're acquiring?

Rahul Kanodia: I can't talk about the ESOP policy. Right now, there's nothing. At some point, if the Board decides, we may offer, that's a different discussion. But right now, there's nothing.

Mihir Manohar: Sure sir. Thank you very much.

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

Rahul Kanodia: Thank you, everyone, for being on this call. It's been a pleasure talking to you, and we are very bullish about this acquisition. We hope that it will give us the upside that we're looking for. And the focus on the hyperscalers will just give us the push that we are strategizing to achieve. So, thank you very much for being on the call, and hopefully, we'll meet you again at our earnings call at the end of the quarter. Thank you, very much.

Moderator: Thank you. On behalf of Datamatics Global Services Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.