DATAMATICS

"Datamatics Global Services Limited
Q4 FY'24 Earnings Conference Call"

May 09, 2024

MANAGEMENT:	**MR. RAHUL KANODIA – VICE CHAIRMAN AND CHIEF EXECUTIVE OFFICER** **MR. SANDEEP MANTRI – EXECUTIVE VICE PRESIDENT AND CHIEF FINANCIAL OFFICER** **MR. MITUL MEHTA – EXECUTIVE VICE PRESIDENT AND CHIEF MARKETING OFFICER**
MODERATOR:	**MR. PRATIK JAGTAP – E&Y INVESTOR RELATIONS**

Moderator: Ladies and gentlemen, good day, and welcome to Q4 FY'24 Earnings Conference Call of Datamatics Global Services 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 Investor Relations. Thank you, and over to you.

Pratik Jagtap: Thank you, Yashashri. Good afternoon to all participants in the call today. Welcome to the Q4 and full year FY'24 Earnings Call of Datamatics Global Services Limited. The results and presentation have been already mailed to you, and it is also available on the website of Datamatics. In case anyone has not received a copy of this release and presentation, please do write to us, and we will be happy to send you all.

To take us through the results today and to answer your questions, we have with us the top management of the company represented by Rahul Kanodia, Vice Chairman and CEO; Sandeep Mantri, EVP and Chief Financial Officer; and Mitul Mehta, EVP and Chief Marketing Officer. Rahul will start the call with a brief overview of the quarter on business, which will be then followed by Sandeep talking on financials and then we will open the floor for Q&A session.

I would like to remind you that anything that said on this call, which gives any outlook for the future or which can be construed as forward-looking statements 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 now hand over the call to Rahul sir. Over to you, sir.

Rahul Kanodia: Thank you, Pratik. A very warm welcome, and thank you, everyone, for joining our quarterly Q4 FY'24 call today. We are glad to have you all on this call with us. I will briefly discuss some of the key quarterly and full year highlights, while Sandeep will provide an update on the financials, after which we will open the floor for Q&A.

We are happy to end the Q4 FY'24 on a healthy note. Our revenue increased by 11.8% and EBIT increased by 27.8% on a quarter-on-quarter basis. For the FY'24, we witnessed a revenue growth of 6.2% over FY'23, and we're able to maintain double-digit EBITDA margins at 15.7%. We added 10 new customers during the Q4FY'24. Our Digital Experiences margin has taken a hit during the year. However, we have eliminated the loss-making projects. Therefore, we will see an improvement in margins through the course of the next financial year. Our Digital Technologies margin should also improve for multiple reasons. One, we have installed a new leadership team and implemented several cost control measures. Two, we are putting a greater focus on hyperscalers. And three, we are foreseeing a growth in revenues from our intelligent automation products.

Last quarter, I had updated to you that Datamatics featured in the Forbes Asia's 200 Best Under a Billion Company. I am happy to share that we are now part of Dun & Bradstreet list of top 500 value creators. It is a recognition for the value we have created for all our stakeholders as well as our outstanding corporate performance over the years. I'm happy to share that we have recommended a total dividend of INR 5 per share, that is 100% of the face value of INR 5 each for the year ended March 2024.

As we step into FY'25, we will continue to focus on the Western markets, strengthen capabilities along hyperscalers and penetrate deeper into existing accounts. In line with this, we recently acquired Dextara Digital, a platinum-level provider of Salesforce services. Dextara acquisition aligns with our growth strategy of focusing on hyperscalers and the US market. Dextara brings an extremely capable management team and a broad clientele across industries that is of specific interest to us. 25% of Datamatics customers use Salesforce as a platform. And with Dextara's strong credentials, we will be able to service our customers better and look forward to helping them go deep in Salesforce.

For FY'25, we remain bullish on the opportunities that artificial intelligence presents to us. We have stepped up our investments in AI and are working closely with Microsoft and Google. We have built our own customizable, small language model and copilot and we will be showcasing these capabilities at various industry events in the coming year. We have also built an AI framework for our digital experiences business. Through the financial year, we have executed 10 projects in AI. Furthermore, we have incorporated GenAI in our intelligent automation suite of products and have rolled it out to over 30 customers. On a separate note, we have strengthened our management team and inducted several senior members into the organization. We will continue to augment the team through the course of the next year. We see the Western world slowing down on their technology and outsourcing spends due to the uncertain macroeconomic environment. However, we expect a growth of 7% to 8%, while maintaining the current margins for the next financial year.

I take this opportunity to thank all our stakeholders, including employees, customers, and shareholders for being an integral part of our journey. With that, I will now hand over the call to our CFO, Mr. Sandeep Mantri. Sandeep, over to you.

Sandeep Mantri: Thank you, Rahul. Welcome, everyone, and thank you for joining us in Q4 FY'24 earnings call. Let me start with the financial performance for the Q4 FY'24 and then I'll take you through the full year 2024 numbers as well.

Our Q4 FY'24 revenue stood at INR 412.7 crores, which is a growth of 11.8% on a sequential basis and a marginal drop of 0.9% on a Y-o-Y basis. Our EBITDA for this quarter was at INR 64.7 crores, which is up by 22.8% on a sequential basis. Our EBITDA margin for the quarter was up at 15.7% as compared to 14.3% in the last quarter. Our EBIT for the quarter was at INR 55.9 crores, which is up 27.8% on a sequential basis. EBIT margin was at 13% as compared to 11.8% last quarter. Other income stood at INR 15.9 crores, grew by 49.7% sequentially, primarily due to investment income and sale of Nashik property. PAT after NCI was at INR 52.5 crores, which is up by 27.2% on a sequential basis and down by 12% on a Y-o-Y basis. Our EPS for the quarter was at INR 8.9 per share, which was higher than last quarter, which was at INR 7.01, but lower than last year same quarter, it was at INR 10.13 per share.

Talking about segment-wise revenue performance. Our Digital Operations revenue was at INR 202.4 crores, which is a growth of 26.2% on a sequential basis and 8.1% on a Y-o-Y basis. Digital Operations EBIT margin was at 23.5%, and its contribution to total revenue was 49%. Our Digital Experience revenue was at INR 61.8 crores, which is a growth of 7.4% on a sequential basis and 3.8% on a Y-o-Y basis. Its contribution to total revenue was 15%. EBIT margin for Digital Experience was 11.8%. Our Digital Technologies revenue was at INR 148.5 crores, declined 1.9% on a sequential basis and 12.4% on a Y-o-Y basis. EBIT margin is 0.7%. The contribution of Digital Technologies to total revenue was 36%.

Talking about FY'24 financials, our revenue was at INR 1,549.9 crores, which is a growth of 6.2% on a Y-o-Y basis. EBITDA was at INR 244 crores, and EBITDA margin was at 15.7%. Our EBIT was at INR 207.7 crores and margin was at 13.4%. Our other income was at INR 45.1 crores as compared to INR 38.7 crores last year. Tax rate for FY'24 was 21.4% compared to 23.9% in previous year. So there is an improvement in that rate. Our PBT was at INR 250.8 crores as compared to INR 243.4 crores in last year. PAT after NCI was at INR 198.2 crores compared to INR 188.9 crores in last year.

For the full financial full year, if we see segment, our Digital Operations revenue was INR694.4 crores, which is 10.1% up from previous year. Digital Operations EBIT margin remains healthy at 19.9%. Our Digital Experience revenue was to INR 244 crores, which is 11.2% growth over previous year. And Digital Experience EBIT margin remains at 17.1% on a full year basis. Our Digital Technologies revenue was at INR 611.5 crores, which is slight up 0.4%. EBIT margin for Technology business was at 4.6%.

We continue to maintain a healthy balance sheet. As of March 31, 2024, our total cash and investment, we have zero debt, it stood at INR 653 crores. Post this, we have paid approximately INR 110 crores towards Dextara acquisition. Our DSO was at 67 days as of March '24, which is same as in March '23. In terms of geographical footprint, US remains our largest geo, with 54% of our business coming from US market, followed by U.K. and Europe at 13% and the rest of the world, including India at 33%.

In terms of industry footprint, technology and consulting was the largest segment for us, which constituted 27% of our revenue, followed by BFSI, which stood at 25%, then education and publishing, which is 12% and then manufacturing, infra and logistic, which is at 12%, non-profit or non-government organization were at 11%, retail at 9% of our business, other segment contributed about 4% of our total revenue. In terms of client concentration, it remains very healthy with top 5, 10 and 20 clients contributing 23%, 35% and 51%, respectively.

With this, I will now pass on the call to operator to open the floor for questions. Thank you for your patience and continued interest in Datamatics.

Moderator: Thank you very much. We will now begin with the question-and-answer session. We'll take a first question from the line of Grishma Shah from Envision Capital.

Grishma Shah: Sir, curious to know why in quarter 4 the Digital Technologies divisions have seen such as sharp drop in margins?

Rahul Kanodia: Yes. So primarily, as I mentioned in my address that we have invested very heavily in the AI space. So that is an important element. We've built our own small language models. We built our copilots. We've built frameworks for our Digital Experiences. So that requires investment. And therefore, you see the margin drop. As you know, we don't capitalize any of the IP development that we are doing. So that's the primary reason.

Grishma Shah: And you also mentioned that some of the low-margin clients you have done away with.

Rahul Kanodia: That is in the Digital Experiences space.

Grishma Shah: That is in the Digital Experiences space. Okay. Is that the reason that our collections have improved this year compared to last year?

Rahul Kanodia: Our current collections are steady at 67 days last year as well as this year. So it remains steady. Of course, quarter-by-quarter, there's some degree of fluctuation, but by and large, it is steady.

Grishma Shah: Dextara will be incorporated or included in our numbers from quarter 1?

Rahul Kanodia: That is correct, yes.

Grishma Shah: How much more money will there be there in the payout, INR 110 crores already given?

Rahul Kanodia: Yes. The balance payout is based on certain performance parameters. It depends on them hitting certain targets, but it could range somewhere around INR 60 crores, INR 70 crores depending on performance.

Grishma Shah: We also have done some small acquisition of 23% remaining in a JV. What is that?

Rahul Kanodia: We had a small joint venture, which was focused on Salesforce. But after we acquired Dextara, we felt we did not need another entity also focusing on Salesforce. We acquired that, and we will roll this piece of business into the Dextara business.

Grishma Shah: So was that like a very big?

Rahul Kanodia: No, it was a very small joint venture because we wanted to start the Salesforce business. We formed the JV and that started doing business. But since we acquired Dextara, we do not want to have 2 different entities doing the same Salesforce business. We acquired that 23%. It's now 100% subsidiary of Datamatics. And we'll merge the business with Dextara.

Grishma Shah: 7% growth guidance is with Dextara or without Dextara?

Rahul Kanodia: It is inclusive of Dextara. So organic growth, I would expect approximately 3% and about 4% will come from Dextara.

Grishma Shah: What is it that you are picking up from the environment because we have been growing 3%, 4% organic.

Rahul Kanodia: Yes. So right now, we do see a slowdown in the world in terms of outsourcing and in terms of technology spend. And if you see many of the companies, they are looking at a very slow, single-digit kind of growth numbers. We are seeing that slowdown. And we expect that we will grow organic about 4%, and Dextara will contribute about 4%, which is inorganic, totalling to about 8% top line growth.

Grishma Shah: But Dextara will also continue to grow because it's on a smaller base and is a faster growing company.

Rahul Kanodia: That is correct. But we've just acquired them. They presented the plan. If they hit the plan, we should exceed it, but that needs to be seen because it's only been 1.5 months since we acquired them.

Grishma Shah: Okay. And next year, tax rate would be?

Sandeep Mantri: Tax rate would be more or less same, Grishma, which will be between 20% to 22% like last year.

Moderator: We'll take our next question from the line of Nikhil Poptani from SMC Family Office.

Nikhil Poptani: So my first question is on the pipeline. Like in the quarter 3 con call, you said that we had a pipeline of INR 245 million. Where is the pipeline right now?

Rahul Kanodia: The pipeline is slowing down. And right now, it stands at about INR 200 million, and we can see that slowdown happening. And that's why we've been also a little soft on our projections for growth next year.

Nikhil Poptani: But we have increased our spending on marketing and sales, right? So how is that playing out?

Rahul Kanodia: We are increasing our spend on sales, not so much on marketing. We are seeing an uptake in the product business; we are seeing an uptake in the AI space. We see a very strong pipeline also in the Digital Experiences space. However, in the Technologies space, the pipeline is a little soft.

Nikhil Poptani: And my question is on the AFC front. Like there is a lot of rebuilding happening in the United States the infrastructures. How are we targeting that? Are we eligible for those big orders or something like that? Do we have some kind of criteria?

Rahul Kanodia: Yes. There are 3 segments in the US. One is the road transport, one is a train transport and the third is metro. We're not targeting the train. We're targeting the metro and the roads. And road means buses and things like that.

And in the metros, there are multiple segments. The top ones like you have Chicago or New York City, these are very large, they are $500 million-plus deals. We will not qualify for those deals. Then the multitude of these that are between $10 million to $40 million. Datamatics qualifies for those deals very well. And there's a third segment, which is sub-$10 million. So we will qualify for that anyway.

But we are looking at those $10 million to $30 million- $40 million deals, that's the segment that we are targeting. We've got a decent pipeline there. And as far as India is concerned, we have bid for Pune Metro, and we are currently evaluating Mumbai Metro Line 4, 5, 6 and 9. For the others, we are sort of evaluating. So as we be bid for this, the pipeline will certainly become much stronger.

Nikhil Poptani: And sir, my question is now on Digital Technologies. The margins are shrinking. And so you said that you've changed a little senior management in the digital space side. Sir, can you elaborate more on that? And can you elaborate more on this AI developments that you have done, like co-piloting, small LLM models, sir, can you elaborate more on that?

Rahul Kanodia: Yes. On the management front, we've hired Bala Gopalakrishnan, who is now the President of the Digital Technologies business and under him, we've hired 2 or 3 more senior people. And we've also churned some of the other erstwhile management team members of Datamatics. There's been some churn in the leadership in that space.

We've also hired global sales head in the US, Dinesh Kumar, and he's on board, so we should see that. And then, of course, finally, as through the acquisition of Dextara, we have with us now Sreekanth Lapala, who have very strong background where he has managed over 25,000 people on a global base with Virtusa. He has handled very large projects and strong capabilities. We have him as part of the management team as well. So that's as far as the churn in management is concerned. What was the other question?

Nikhil Poptani: So just about AI.

Rahul Kanodia: The artificial intelligence investment, yes. We've built the small language models. The small language models have been built on top of large language models because that gives you a much more precise and accurate answer and response to what's been happening. We've also been able to integrate Microsoft, OpenAI and Google Gemini. And then underlying this, we built out BERT models, we as with others. So, the BERT models have been built. The small language models have been built and we've integrated with OpenAI as well as Gemini. Then we've built a lot of copilots. Copilots of 2 types. One is the Microsoft Copilot, which we have incorporated that into the legacy systems. Plus, we built our own copilots because not everybody has Microsoft Teams or Microsoft as a platform. So, we built our own copilot that could interact with legacy applications and help our customers. We've spent a fair amount of time and effort in building these solutions. This year, we will be taking them to the market, showing them to our customers and showcasing them in the events that we participate as well.

Nikhil Poptani: So right now, you said that you have access to 30 customers. So how was the response there?

Rahul Kanodia: The response has been decent. They are still dirtying their hands, so they started using it. We piloted it, so we rolled out this is part of our TruBot and TruCap+ products. And we've incorporated it, rolled it out to these 30 customers. We are right now collecting feedback. So far, the feedback has been very positive. They're very happy with the way it's working. But once they get into full-fledged production, that's when we know what happens. But right now, the feedback has been very good, and they've been very happy with the way it's performing.

Nikhil Poptani: I also have a few questions on KPIs. Like what is the head count in each of the segments, like in Digital Operations, Experience and Technologies? And sir, what is the onshore, offshore mix? And what is the effort mix over there?

Rahul Kanodia: I don't have that breakup of head count by each of these handy right now. We'll just send it to you separately.

Nikhil Poptani: And sir, like what will be our blended utilization, like on-site utilization, offshore utilization and blended?

Rahul Kanodia: I would imagine that our utilization is in the range of 90% to 95%. We don't carry a very heavy bench. But as you know, we are investing in building some of these IPs and products. So that's where the utilization rate does not fully fit because you're investing in building IP. And that does not go on the utilization rate. But yes, you can roughly take between 90% and 95%, depending on the business unit that you look at.

Nikhil Poptani: So that's, sir, blended or is it onsite?

Rahul Kanodia: No, blended across. On-site is almost 100%, 99%, 98%. So onsite, we don't keep much of a bench. The bench pretty much remains offshore.

Nikhil Poptani: And then I have a few questions on what is the book-to-bill ratio? What is our billing rate?

Rahul Kanodia: Yes. The billing rate is difficult to give you an overall number because it varies by each business and the commercial model that we have with the customers. Some of them are unit-based pricing. Some of them are time and materials, some of them are fixed price and milestone based. So, it varies. And therefore, one can't really have an overall company level billing rate. For example, when you do the AFC business, these are large milestones that happen once in 5 months, 6 months. If you do T&M, then it's monthly, some of them are volume based, so depending on number of documents we process, whether it's invoices or bill of lading or what have you, it varies on that, so.

Nikhil Poptani: Our book-to-bill ratio? You might have that, book-to-bill ratio.

Sandeep Mantri: Book-to-bill ratio. Basically, what do you mean by that?

Nikhil Poptani: So like our orders to our invoices ratio or something like that?

Sandeep Mantri: You are saying order book. We don't disclose order book as of now. in every business unit, there will be different type of contracts. Like in volume rate, it is always MSA based billing. So you'll not have a clear order book, but you have MSA on which volumes are driven and every year we've been like. Then you have Experience where it is more T&M or output driven pricing, then you have Digital Technologies where you have T&M plus fixed price. In technologies, you have projects which are running for 3 to 5 years as well.

Nikhil Poptani: Sir, I just wanted to know like in Digital Technologies, like our margins are low this time around. What are the levers that are play a role in expansion? And sir what is the going ahead strategy in the Digital Technologies space?

Rahul Kanodia: I think there are a couple of things. One is in the AFC business, as we mentioned earlier, that we will pivot to the Western world. And as we focus on those markets, the margins will improve. India is a very price sensitive market, as we are all aware of. So that's one piece of it. The other piece of it is really going for the larger deals in existing customers and the hyperscalers, because the hyperscalers command a better premium. So that's the other area that we are focusing on, and the margin should improve. Having said that, I did mention it in my address that we have taken some cost control measures, and we have tightened our belt. So that also helped impacting the margins as we tighten the belt in some of the Digital Technology areas. The product revenues once we see a good pickup in the product revenues, so once that happens, also, you see that impact on the margins as well.

Sandeep Mantri: And you should start seeing that impact effective this year, FY’24-'25.

Nikhil Poptani: What is our strategy to improve the wallet share?

Rahul Kanodia: Yes. So that's really talking about mining and having a deeper engagement with customers. We are in the process of changing a lot of the sales focus to mine existing customers versus hunt new logos. And based of that we've changed certain policies within the organization, et cetera. So we should start seeing an impact of that, hopefully, in this financial year.

Nikhil Poptani: Can you just discuss how many Fortune 500 companies are we doing businesses with?

Sandeep Mantri: Fortune 1000, will be above 80 to 100 such companies will be part of our Fortune 2000 companies.

Nikhil Poptani: And sir, can you just give me a number how many of those like $10 million plus account, 1 $10 million plus account?

Sandeep Mantri: We don't disclose those numbers. We are disclosing the customer concentration wherein you see that top 5 customers are about 23% of total revenue. Top 10 customers are about 35% of revenue and top 20 customers are about 51% of revenue. So, beyond that, we don't share any information right now.

Nikhil Poptani: If I have further questions, where can I reach you?

Sandeep Mantri: You can reach to E&Y, Pratik of E&Y, they will connect to us.

Moderator: We'll take the next question from the line of NGN Puranik from Enam.

NGN Puranik: If you can elaborate on the Dextara. The founder of Dextara has a large experience in building sales organization and delivery organization. So how do you use that experience and their own ability in building SFO partnership into Datamatics, reorganizing the Datamatics sales organization. And focusing on large deals in your organization. So if you can give more colour to that because that's what's important from a long-term perspective, how do you use their ability to construct more tangible Salesforce practice within your company?

Rahul Kanodia: There are two or three things happening with Dextara. So one is that they were a relatively small company when we acquired them. Total revenue was about $7 million top line. But the people who come from there, they have experience of working with large customers and large projects. So, the management team has very strong capabilities. It's just that because they were small, they were doing smaller projects. So, a couple of things happen. One is that with Datamatics they can themselves bid for larger projects because now they will be eligible for larger projects, point number one. Point number two, Datamatics itself has a very good pipeline in Salesforce. With this thing coming in, we would be in a position to convert a lot of that pipeline. Last year and year before, we could not convert many because we didn't have the credentials. But Dextara has the credentials, and they have the team who has done these large deals. So therefore, they will be able to close several larger deals that we bring to the table. The third is that we have a team that's focused on the relationship with Salesforce. And as we were focusing on the hyperscalers, there is a team in Datamatics that focuses with Microsoft, with Crowdbotics, with OutSystems, with Salesforce. So Dextara and our team will work together because we are engaging with Salesforce directly.

So, the third is that as we build for some large deals, we will use the expertise and experiences of the Dextara team to -- be party to that whole program and go along with us in building it. The last element is that we are now conducting our sales enablement program in the US. This entire team will be flying down to the US as well. I'm working with our sales team on how we target these large deals, how do we leverage existing relationships to get to $5 million, $10 million, $20 million deals.

NGN Puranik: And their experiences in what vertical, in the sales?

Rahul Kanodia: So right now, at Dextara, they have a deep expertise in Salesforce, but the team comes with a lot more expertise –in BFSI, manufacturing, healthcare. They've done a lot of work there.

NGN Puranik: So have you worked on the probable features that you can work with them because these guys will have a larger, experience in fortune 500 companies, working with them.

Rahul Kanodia: Yes. As I mentioned, we are having a meeting in the first of this month, the 24th of this month in the US, where we will have all the discussions. So first, since we acquired them on here first of April, the first 1 or 2 months was more settling down, getting the administrative things in place, HR connect and all that. But now we will get it plugged into the sales.

NGN Puranik: How many from original Virtusa sales you're getting here?

Rahul Kanodia: Their sales team is thin; their sales team is about 3-odd people in the US. They were only 7 people, but it's not the sales team, as much as the management team. The management team is a very strong team.

NGN Puranik: Sreekanth and company.

Rahul Kanodia: Yes. Sreekanth and 1 or 2 people under him.

NGN Puranik: And the other thing is about you talked about the small LM you have built on that. So can you elaborate on how this was built and how you're going to use it? For every customer, you're going to customize it, and do it and you use it as a productivity tool or you are going to license it for someone to use it and do you do managed services, how will you do this?

Rahul Kanodia: Fundamentally, in a layman's language, large language models are trained on billions of parameters, 500 billion, 1.7 trillion parameters, things like that. So, they are general purpose models. They can pretty much do everything. Then we have the small language models where they function like experts in a particular area. Where they're expert in one area, then you go deep into that area. You don't have to be trained on every function and every facet. So, the small language models are much lighter. The small language models work as experts, and they're trained on particular data sets for the customer. They'll have to be customized for customers and that's where we will build the services revenue of building small language models for our customers. And they tend to be much lighter and lightweight, so therefore, the cost is much lower. And the accuracy levels are much higher as well as the turnaround time in particular. The infrastructure they use is also much lower. So, the cost comes down, the accuracy goes up and they are customized for each customer. So therefore, they tend to work much better. And these can be independent, or they can sit on top of the large language model. You could even have a combination with sitting on top of a large language model and further improving the output of the LLM.

NGN Puranik: What chip they will run on?

Rahul Kanodia: The chip doesn't matter to us because the hardware is not what we are concerned with. We are concerned with the software part of it. So ultimately, at the end, they will use an Intel or Nvidia or whatever, but that's not for us to worry about because that's the hardware configuration.

NGN Puranik: So the scope for you, the services, what are services revenue you are expecting to a single client on this?

Rahul Kanodia: A single client can give you anywhere from $0.5 million, a couple of million dollars just to build these things, depending on what they're looking at. It's not only about the language model. It's about the entire system that we build around that because ultimately, it's the biggest output. The language model is only algorithm. Beyond the algorithm, you need a whole solution.

NGN Puranik: Analytics layer also you will be building for it?

Rahul Kanodia: Yes, yes, absolutely.

NGN Puranik: So you're building a data lake and the analytics layer also.

Rahul Kanodia: Yes, you have to.

NGN Puranik: Good. So when will the launch happen? You have started anchoring some customers?

Rahul Kanodia: As I said, we are having a meeting in the US end of this month, 21st, 24th of this month. Then we will have our whole sales team in sync with this, and then we will launch it.

NGN Puranik: I think your DNA in automation and all that will also help you in this process. So isn't it?

Rahul Kanodia: Most certainly.

Moderator: We'll take the next question from the line of Parvati Rai from Equintis Wealth.

Parvati Rai: So while you did give explanations around the Digital Technologies, so I mean slightly more, yes, I wanted to understand. So last quarter, when we spoke, right, we did mention that the margins were stabilizing. So now we have a subpar of 1% and then we also kind of alluded at a 7% to 8% that could be there next year as a guidance, given the automation and the other activities that were undertaken.

I mean the number is coming at 0.7%. So we would have been aware of the investments that we're already making, right, into GenAI, people. So just wanted some clarity around what are we looking at for next year because see, I mean I have 0.7% when we already say that it was stabilizing. So while these investments might have been ongoing, wouldn't have been only 1 quarter, some clarity around that?

Rahul Kanodia: Yes. The investments were ongoing, but we stepped up, we fast tracked a lot of the investments because the space of AI is moving very, very fast. And we needed to make sure that we are in sync with the market. So we did build a lot of these models much faster than we had originally anticipated. So the expense actually increased. So fundamentally, that's what's driving it.

Parvati Rai: From the next year's perspective, when we guided last quarter when we spoke, you did mention that a 7% to 8% EBIT margin from this vertical. So now we have stepped up the investments and for the full year, it's come slightly low. So what is the kind of range or outlook that we are kind of anticipating?

Sandeep Mantri: Yes. So Parvati for next year, as Rahul suggested that we have a new leadership team, then we are seeing a lot of growth in product and automation, plus we are focusing a lot more on hyperscaler. So I think for next year, the margin should be certainly better than the annual margin of this year, which is about 4.6% I believe, right? So it will definitely be far better than what we have today

Rahul Kanodia: I think we should get into the higher single digits for sure. The other thing that has impacted the margins as we mentioned that we did introduce new leadership team. So by the time the new leadership team came and we had a churn in the erstwhile team, there's an overlap. So we had some degree of extra cost for certain periods of time because of the overlap.

Parvati Rai: And with respect to the Digital Operations, there the margins have come in considerably higher to the last couple of quarters that we were seeing around 16%, 18%, to 23%. What was that kind of drove this expansion? And what are we looking at for next year around?

Rahul Kanodia: So what does happen in Datamatics, in particular, is the Digital Operations piece tends to have a spike in quarter 4. And some of the expenses of that come in quarter 3. So for Q3 tends to be a little softer. Q4 always tends to spike. And that is a cyclical business we do have within the operations piece. Also this year, we are now implementing more and more automation into that space. So I think next year, at the worst case, we'll sustain it, but it will probably improve because as we automate some of our processes, it will give us better margins.

Parvati Rai: With respect to sustaining at the control level of margins that you've guided for, so kind of building in the acquisition, Dextara, which is at a 16.5% EBIT margin. So I'm just trying to understand, will it be dilutive? Will Dextara going further go down when we have the synergies in the first year? Or how would that be? Because some of the other investments that we are making.

Sandeep Mantri: Dextara will be margin accretive because we are at 16%, 16.5%. But because the size is very small, so it will not impact that much. It will be like 30, 40 basis points. That kind of impact we'll have on margin. But at the same time, we have other businesses also, and we have invested in AI. So to some extent, those will be offset. What we are trying to say is basically, we will maintain same kind of margin for next year as well, which is about 15.7% or 16% on EBITDA and 13.5% to 14% on EBIT.

Parvati Rai: So kind of sustained.

Sandeep Mantri: Growing a little bit.

Parvati Rai: And the other question would be when we did give the outlook for the top line which, almost a 4% organic growth and the rest coming from the acquisition. So how do we see this between the first half, so Q1 and Q2 to Q3 and Q4, so would Q1 and Q2 be relatively weak given the current macro headwinds and most of this growth would also be on the second half? Primarily from your organic perspective is what I'm asking.

Sandeep Mantri: Yes. So Q1 may be a little bit steady type of growth. But Q2 onwards, Q2, Q3, Q4 should be seen as good growth. On an annual basis, we should achieve about 7% to 8%, but quarter-on-quarter, one quarter may be soft, another quarter may be strong.

Rahul Kanodia: Q1 particularly, I don't think there'll be a huge uptake, because we are already into May.

Parvati Rai: Rahul, when you were mentioning that now with the acquisition, that overall otherwise what you all are pitching in for the large deal size, which makes us eligible. So could you help me understand the size of these large deals given the sales that you're operating in? So I mean, each company has its own definition when we term it as large deal. So what is the range of the sweet spot that we are kind of understanding?

Rahul Kanodia: For Datamatics, I think between $5 million to $30 million. I'm not including AFC particularly because those fundamentally are larger deal, but $5 million to $30 million deal would be large deals.

Parvati Rai: Some colour on the key verticals on how you're expecting them, at least in the first half of midyear, BFSI and technology and consulting, given these are the major vertical. I mean from a growth perspective or will the environment remain muted?

Rahul Kanodia: I think it will remain muted. I don't see any particular vertical picking up right now.

Moderator: We'll take the next question from the line of Nikhil Poptani from SMC Family Office

Nikhil Poptani: My question is on Dextara acquisition. Sir, what will be our first focus while integrating the Dextara? Would it be cost optimization, or we are going to jump to sales?

Rahul Kanodia: No, sales is the number one.

Sandeep Mantri: Growth is the number one priority. I think anyway, they are at 16%, 17% margin. So cost is not really a concern. The primary objective of this is how do we grow from here; how do you multiply this.

Nikhil Poptani: So sir, the next question is like our revenue move by industry. Technology and consulting revenue increased to 26%. And BFSI 20% to 25%. So what are you seeing demand in technology and consulting side or BFSI mix trend?

Sandeep Mantri: It is more or less same as BFSI last year was also at 25%, 26% only. I think the mix will continue 1% or 2% here or there in these industries. So otherwise, it will not change drastically. BFSI may become 25% to 26% or consulting and technology, maybe become 27% or 25% something like that. But overall, mix will remain like this only.

Moderator: We'll take our next question from the line of Shreya Pawar, an individual investor.

Shreya Pawar: So while talking, you spoke about the AI project. So I would like to know what kind of work you are doing in the AI, please?

Rahul Kanodia: We are doing a couple of things as I mentioned. One is we've built copilots. Our copilots are kind of front-end tools that interact with the legacy systems in an organization, and they can impact with multiple legacy systems simultaneously. Just to give you an example, if you are a bank and you have got your own core banking and your other applications. And somebody says I want to know what the history of this person in terms of his loan is that he has drawn. So it can query all the legacy systems, look at it his account balance, look at his loans he's taken, look at this payment schedule and give you the answers in simple English. So you are interacting via simple English, and the LLM and the GenAI is working behind to mine all this information and give you the answers you're looking for. So that's one area. The other one is we are doing application mining, where we are using GenAI to extract business rules from legacy applications. Extract business rules, document them, create test cases and things like that. So that's all on application mining.

The other area is, as I said, talking about the small language models and large language models. So we are processing documents for customers. When you come to travel and logistics, you're talking about bill of lading. And you're talking about financial documents, it's like invoices or you've got your insurance claims documents, all of these and particularly, when you get handwritten notes, for example, if you see a handwritten note from a doctor, very few people can read it because the handwritten notes are so bad. So that's why we are using GenAI to accurately pull that information. And that is a huge opportunity because that's right now done manually, and that's very painful. So if you can use GenAI to extract that kind of information, a lot of industries can deploy these solutions. So that's what we've been doing.

And then, of course, our whole customer management where we prompt our engineers or our customer service representatives, with the right kinds of questions when you're talking to a customer. So while you're talking live to a customer, he's transcribing, it's extracting information, it's prompting him as to what to say, what not to say or how to cross-sell, while the conversation is going on. So that makes them far more productive than what he has been doing. So this is when you're deploying it for customers where they're doing conversion of sales, you're selling a travel package or you're selling something of that kind. It has improved your performance and productivity. So several sort of fronts, but we've dabbled in all of these areas that I mentioned, and then there are a few more as well.

Moderator: We'll take the next question from the line of Devam from Ardeko.

Devam: Yes, just wanted to check on what are the annual hikes that have been given for FY'25?

Rahul Kanodia: The average is around about 9%. Having said that, it varies depending on performance of the people.

Devam: And typically, what you mentioned the price hikes at the customer end will be through the year. So this will sort of be less absorbed in the first quarter and then gradually get more absorbed through the year, right?

Rahul Kanodia: Yes. Q1, obviously, your margin will shrink because your increments have happened, and the customer does that. But then finally, there are some churns in people, there's productivity improvements, things like that, which then sort of normalize the margins.

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

Rahul Kanodia: Yes. Thank you all for being on the call today. I really appreciate the Q&A that we had, and I look forward to meeting you in the end of next quarter. So thank you once again, and we'll meet again.

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