Datamatics Global Services Limited
Q1 FY-22 Earnings Conference Call

August 17, 2021

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MODERATOR: **MS. ASHA GUPTA, CHRISTENSEN IR**

Moderator: Ladies and gentlemen, good day and welcome to Datamatics Global Services Limited Q1 FY22 Earnings Conference Call. As a reminder, all participants' 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, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Asha Gupta from Christensen IR. Thank you and over to you Mam.

Asha Gupta: Thank you Aman. Good morning to all participants in the call. Welcome to the Q1 FY22 Earnings Call of Datamatics Global Services Limited. The results and investor presentation have been already mailed to you and it is also available on our website www.datamatics.com. In case anyone has not received the copy of press release and presentation, please do write to us and we will be happy to send it to you.

To take us through the results 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 – Chief Financial Officer, Mr. Mitul Mehta – Senior VP & Head Marketing and Communications. Mr. Rahul will start the call with a brief overview of the quarter gone by which will be followed financials given by Mr. Sandeep. We will then open the floor for Q&A session.

As usual, I would like to remind you that anything that is said in this call which gives any outlook for future, or which can be construed as forward-looking statement must be viewed in conjunction with risk and uncertainties that we face. These risks and uncertainties are included but not limited to what we have mentioned in the prospectus filed with SEBI and subsequent annual report which you can find it on our website.

With that said, I now handover the call to Mr. Rahul, over to you sir.

Rahul Kanodia: Thanks Asha. Welcome and thank you everyone for joining our Quarter-1 FY22 earnings call. Congratulations to all as we enter into our 75th year of independence and hope all of you are safe and healthy. We appreciate you all taking time out and joining us for this conference today.

I will share with you some business performance highlights and Sandeep, our CFO will update you on the financials and post that we can get into a Q&A. We had a good start to the financial year, and I am glad to inform you that we are seeing business coming back to normalcy. We reported a revenue of Rs.287.8 crores as compared to Rs.277.1 crores last year, which is a growth of 3.8% on a year-on-year basis and 1.6% on a quarter-on-quarter basis. However, excluding CIGNEX, which was a subsidiary we divested in Q4 of last year, we have grown 21.6% on a year-on-year basis and 1.6% on quarter-on-quarter basis. Despite the challenges imposed due to the second wave of COVID -19, we sustained our double-digit EBITDA margins at 14.4% during the quarter as compared to 10.3% in Q1 of last year.

Our BPM revenues, which now constitute 57% of our revenue, grew at 35.5% on a year-on-year basis and marginally dropped by about 0.4% on a quarter-on-quarter basis. Our IT revenues which contributed to 43% of our revenues grew at 7.1% on a year-on-year basis and 4.4% on a quarter-on-quarter basis, excluding CIGNEX. Both of these areas experienced growth due to the increased customer demand and deeper customer engagement.

I am happy to inform you all that we declared an interim dividend of Rs. 2.5 per equity share, i.e., 50% of our equity share which was a Rs. 5 a share, in the board meeting held on the 13th of August 2021.

We are seeing a strong demand environment and our pipeline continues to remain healthy. As mentioned in the earlier calls as well, I would like to reiterate that the pandemic induced challenges have accelerated the spend and investment in platform based digital solutions like digitization, cloud, automation, artificial intelligence, and digital experiences, which in turn has created huge opportunities for companies like ours. We continue to see specific opportunities in the process automation and dynamic content management areas. In line with this trend, we are increasing our focus on digital transformation opportunities and the US market. We have strengthened our US sales team with a sharper focus on intelligent automation products including TruBot in Robotics and TruCap in Intelligent Document Processing.

With the growth coming back, demand for talent and skilled people has increased significantly across the industry. This is causing high attrition and increased pressure on salaries and recruitment. We are addressing these challenges by expanding our operations into Tier-2 cities and negotiating higher prices with customers.

Due to the second wave of COVID-19, Datamatics stepped up its CSR initiatives and donated oxygen plants to a hospital in Delhi through the Rotary Club of Delhi Premier. We also donated mobile toilets and bathrooms for the rehabilitation centers of COVID-19 patients at Puducherry. Additionally, Datamatics deployed it's TruBot technology to help Nashik Municipal Corporation manage antigen test data for ICMR.

I would like to take this opportunity to thank our customers and shareholders for their continued support and trust. I would also like to thank Datamaticians for all their dedication and commitment shown during this difficult time. We are well-positioned to adjust the headwinds created by the pandemic. We remain cautious and at the same time confident of sustaining the growth momentum in the coming year.

With that, I will now hand over the call to our CFO Sandeep Mantri. Sandeep, over to you.

Sandeep Mantri: Thank you Rahul. Good morning, everyone on the call today and thank you for joining for our Quarter-1 FY22 earnings call. I hope that all of you are keeping well and safe during this challenging times.

Let me start with the key financials for the quarter ended on June 30th, 2021:

As explained by Rahul, our net revenue was at Rs.287.8 crore, up 1.6% on quarterly basis and up 3.8% on year-on-year basis. Without CIGNEX, the revenue growth on a year-on-year basis was 21.6%. The growth was broad based across all our business lines and verticals. The ratio of IT and BPM during this quarter was at 43% and 57% during the quarter.

IT services revenue for the quarter were at Rs.123.9 crore, a growth of 4.4% on a quarterly basis and 7.1% on yearly basis, this is without CIGNEX we are talking. IT services EBITDA margin was 6.1% which is slightly higher from the last quarter margin. And if we don't consider investment in product, our adjusted EBITDA margin was 10.7%.

BPM revenue for the quarter was Rs.163.8 crores, which is a marginal decline of 0.4% sequentially and a growth of 35.5% over last year same quarter. As you all are aware, our Quarter-4 revenue includes seasonal tax revenue and that is why Quarter-4 BPM numbers are really not comparable with Quarter-1 BPM numbers. Our BPM margin was 20.7% for this quarter.

Now coming to EBITDA, our consolidated EBITDA grew by 45% YoY and if we exclude CIGNEX from last year Quarter-1, it was 85.5% YoY. Our consolidated EBITDA margin for this quarter was 14.4% as compared to 14.8% in Q4 of FY21 and 10.3% in Q1 of FY21. Without CIGNEX our EBITDA margin was 14.4%, which is a growth of almost 500 points on a YoY basis. So, despite pandemic challenges, we are able to sustain this double-digit EBITDA margin due to cost optimization measures and also some savings due to COVID and also there is a revenue growth during this quarter.

Our PBT for the quarter was at Rs.46.9 crore, a growth of 35.6% on a quarterly basis and 139.4% on a yearly basis. This jump you can see due to one-time exceptional gain of Rs. 10.2 crore arising from buyback of equity shares capital and redemption of preferential capital held in overseas subsidiaries. PBT without CIGNEX grew by 35.6% on a QoQ basis and 242.4% on a YoY basis.

Our effective tax rate for the quarter was 15.9% as compared to 17.0% in Quarter-4 FY21 and 28.2% in Quarter-1 FY21. Our PAT (after non-controlling interest) stood at Rs. 39.6 crores, a growth of 38.1% on a QoQ basis and 193.1% on a YoY basis. Without CIGNEX our PAT grew by 38.1% on a QoQ basis and 266.6% on a YoY basis.

Diluted EPS for the quarter was Rs. 6.72 per share, which is higher than Q4 of FY21 and Q1 FY21 where we were at Rs. 4.86 and Rs. 2.29 respectively. Without CIGNEX our diluted EPS grew at 38.1% on a QoQ basis and 266.6% on a YoY basis.

In terms of balance sheet, our balance sheet continues to remain at a healthy position. As mentioned in our earlier call, we are now a debt free company. As on June 30th, 2021, our total cash and cash equivalent and liquid stood at Rs. 351.0 crores as compared to Rs. 254.5 crores last quarter. Our DSO was at 70 days in Quarter-1 FY22, which is a slight increase from 65 days in Quarter-4 FY21. We continue to remain cautious about pandemic situation and we are confident of combating these challenges and maintaining a growth momentum.

In terms of our geographical footprint, US comprises 58% of our business, India is 22%, Europe is 15% and the rest of the world is 5%.

In terms of industry, BFSI continues to remain key segment for us, which is 26% of our revenue, Publishing is 28%, Technology and Consulting is 18%, Manufacturing is 4%, E-commerce is 6% and Others are at 18%.

Our client contribution remains healthy with top 5 client contributing 26%, top 10 at 38% and the top 20 contributing 52%.

With this I will now pass the call to operator to open the floor for Q&A. Thank you very much for your patience and I appreciate your continued interest in the Datamatics. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of NGN Puranik from ENAM Securities.

NGN Puranik: Hi Rahul, congrats on a wonderful quarter, a comeback quarter in terms of how you have stabilized on your old businesses and especially in terms of automation, the way you are going about, looks interesting. As part of the BPM business, which requires intensive automation, I want to understand how much of automation tools that are used to around TruBot and others you have used in BPM business? That's important to understand because the margin expansion and all shows that you have used it effectively. So that is the good lever when you go to the marketplace also.

Rahul Kanodia: The margin expansion is a combination of two things, increased automation as well as increased cost cutting. We reduced cost in the US and moved more work to India plus within India, we moved to Tier-2, Tier-3 cities and then we further automated it using a our automation tools like TruBot and TruCap+. Has the automation adoption increased in the company? Absolutely it's increased substantially. We are doing more. It has not been a completed exercise. I think for the next six months, we will implement more automation and therefore improve margins a little more on the BPM side.

NGN Puranik: What automation tools are being used in BPM today currently?

Rahul Kanodia: So, there are several tools. We are using our TruCap+ and TruBot, which we are taking to market as well. In addition to that, we have tools like TruAI, and TruBI. There are other tools that we are not taking to market, but we are building ourselves for improving our own productivity.

NGN Puranik: These tools also can go to the market once they are stabilized in BPM?

Rahul Kanodia: Possibly but not certainly, because when you take it to the market you have to productize it. Therefore, you have to make it a much more robust and package it in a way that it can be used by anybody. When we use tools internally, it's not something that any third party can use very easily. Depending on the effectiveness of the tool and how it plugs into TruBot or TruCap+, we will increase the features and functionality of TruBot or TruCap+ and plug them in addition to what we already have. We'll have to look at that case-by-case basis, rather than a blanket statement.

NGN Puranik: But is there any limitation to use TruBot or TruCap+ in BPM?

Rahul Kanodia: No, it's not restricting us, we just have to roll it out in a very systematic way, because the moment you put a new product, a new tool, it can create some disruption to the customer project, and we don't want that to happen. We are in a very steady way taking customer by customer and implementing these tools.

NGN Puranik: Correct, so you have to showcase with few anchor customers, if the process developed nicely, then you can take it further for the customer?

Rahul Kanodia: Absolutely. Each customer is always nervous when you're doing something new. So, you do a small little thing he gets the confidence then you increase it.

NGN Puranik: So, it's a transformation process that every customer is concerned, then if it happens for one or two customers then it becomes easier, it becomes a reference case and then you can deploy it with other customers.

Rahul Kanodia: That is also true.

NGN Puranik: Then you go to the market with this solution and with reference case becomes easier for you. Isn't it?

Rahul Kanodia: Yes.

NGN Puranik: Fantastic. How is the TruBot and TruCap's market today. So, the sales and marketing efforts are on?

Rahul Kanodia: As I mentioned in my address, we've increased the sales team in the US, they are beginning, and we've hired some good salespeople from our competitors. They're getting some very good traction in the market, and we are hoping now that will start moving fast. The analyst coverage has given us some very good coverage basis what they've seen in the products.

NGN Puranik: So, head of this practice has joined and stabilized well?

Rahul Kanodia: Yes. He is based in the US.

NGN Puranik: Based in the US, so what exactly is he going to be doing, goes to the market, looking to the market?

Rahul Kanodia: His primary focus is to get the sales activities going. So, he's got a team. We are further augmenting the team, and we are also building more partners in the US so that's going to be his primary focus because of product engineering, based out of India. They've done a good job and the analysts have compared our products feature by feature and given us a very good report on that. His primary objective is to focus on sales.

NGN Puranik: How do you motivate the alliance partners? So, it is going to be a combination of your own sales efforts and the alliance partners?

Rahul Kanodia: Yes. It is a combination of two things. One is the kind of commission or discount structure that you give to alliance partners. The second is the way you support them in making them successful. We are passing on some opportunities to them and whenever if they struggle, we support them in making sure that they successfully implement it for the customer. So, when they get the successful implementation and they get good commission from Datamatics and sometimes when we get business for them, they are more motivated to do more for us. It's a very symbiotic relationship. The more you do for them, the more they do for you,

NGN Puranik: When they sell this solution and they sell your product, standalone TruBot that goes into the market or is it any of their solution which gets bundled into it or their solution get bundled to our solution. How does it go?

Rahul Kanodia: Most of the cases it is for TruBot and TruCap+, in some cases they would plug it into their platform as well. Those types of partners are the OEM type of partners, so we have different categories of partners. So, some are large system integrators, then you have the consulting firms and then you have the resellers and then you have the value-added resellers, and you have OEM partners. OEM partners have their own platform in which they plug in TruBot or TruCap+. But other partners don't have their own platform.

NGN Puranik: What is the typical deal size in this transaction?

Rahul Kanodia: Typically, this starts around, $30,000 to $50,000, and then depending on the customer, it could scale to $200,000 to $300,000. Of course, some other larger customers can go to a million dollar also.

NGN Puranik: And that means that is the annual revenue.

Rahul Kanodia: Yes. Annual recurring revenue.

NGN Puranik: Recurring revenue, and the field size expands as you go by?

Rahul Kanodia: It expands basis the size of the customer, if the customer is the large customer, then obviously it'll expand. If it's a small customer tends to then plateau.

NGN Puranik: The sales guys will have to develop visibility for the opportunity.

Rahul Kanodia: That is correct.

NGN Puranik: So that process is still in place now?

Rahul Kanodia: It's in place, we have to expand it so that the core team is in place. The team has started moving in the market, but now we are in the process of expanding it further.

NGN Puranik: I see. The marketing efforts are done, sales efforts have to go now?

Rahul Kanodia: Both will go hand in hand. Lot of marketing effort has been done, but we need to do more of course, the sales effort has not started kicking in.

NGN Puranik: So, the sales process is what your own internal homegrown sales process, the sales process that it brings to the table from their latest experiences?

Rahul Kanodia: It's both, this is our own sales team, plus we have hired team from competitors who are very familiar with exactly how the competition is selling this product.

NGN Puranik: So that's what I mean. So, the new process is evolving?

Rahul Kanodia: Yes. It's falling into place quite well.

NGN Puranik: So how does the pipeline to look like?

Rahul Kanodia: Pipeline is beginning to increase now because now US is also opening up, they are coming out of COVID also, so meetings have started happening, physical meetings. It's now beginning to pick up, plus our marketing effort is also picking up steam. Now the momentum is good.

NGN Puranik: How is the combination looking? The internal and the alliance partner mix?

Rahul Kanodia: Right now, it's more the internal sales, the alliance partners are beginning to kick in, but they need to kick in little more. We need to support them a little more actively right now.

NGN Puranik: So, they need some reference case and the showcase. So then, more days from alliance partners will follow?

Rahul Kanodia: What happens is that they have references from Datamatics, but they need their own references also. Once they have one or two successful projects under their belt, then they will have their own references, which they can take advantage of. Right now, they are leaning on Datamatics references.

NGN Puranik: What about IT services? Is there any specific focus on cloud migration or customer?

Rahul Kanodia: Yes. It's more around cloud, it's around AI, around hyper automation, which kind of dovetails with the intelligent automation. Yes, there's more traction there, but that is from services angle versus a product field. We are beginning to see more of that happening as well.

NGN Puranik: So, the IT services will have a larger amount of automation component going forward?

Rahul Kanodia: Yes.

NGN Puranik: That's interesting. You will have the analytics as also part of that?

Rahul Kanodia: For analytics we have partly bundled it along with Robotics and IDP solutions. Partly we are taking analytics to our existing customer base within the existing service. So, versus a standalone offering and the standalone platform we are bundling. When we do, for example, finance and accounting services, we are doing for the customer spend analytics, bundled along with the finance and accounting services versus a standalone offering. That is getting better traction than the standalone, because then they see value add to the existing service.

NGN Puranik: And tools used are internal tools?

Rahul Kanodia: Yes, we have a tool called TruBI, which is a very important tool. So that's what we use mostly.

NGN Puranik: What do you think would be the potential of a tool like this? Because analytics is going to be very large market with the kind of data that is being thrown out? And the potential is a huge opportunity?

Rahul Kanodia: Potential is large, but the analytics market is a very crowded market. You have large companies, Tableau, QlickView, Microsoft with Power BI coming in. They are very well established, but they are pure play analytics. Therefore we, instead of taking these guys head on, because it's a much more mature market, we thought we go under the radar and service our customers through the existing services that we are offering.

NGN Puranik: Particularly spend analytics is overcrowded market. There are too many large-size, mid-size, small size guys were operating?

Rahul Kanodia: Correct, that is one example, but that kind of thing is what we're doing.

Moderator: The next question is from the line of VP Rajesh from Banyan Capital.

VP Rajesh: Just trying to understand the product business a little better, are you selling it as a product or is it just part of your IT services business?

Rahul Kanodia: No. The product business is, Robotics and Intelligent Document Processing, TruBot and TruCap+, those are the things sold as products. The IT services is different segment altogether. The IT services is what we've traditionally done, but that is also now getting into this intelligent automation, hyper automation as a service, which is different from our product sales. These products are being sold separately as a pure license.

VP Rajesh: What was the revenues from these product sales?

Rahul Kanodia: Right now, we are not tracking and disclosing those revenues separately. We are still in the early phases. The product has been featured very well by analysts who've reviewed it and covered us in their publications. Now we have to take it to market very aggressively.

VP Rajesh: Are the expenses related to products put in the IT services?

Rahul Kanodia: That’s correct.

VP Rajesh: By when do you think you will be in a position to talk about these products as a standalone or not as standalone, but as I said, separate business?

Rahul Kanodia: Probably sometimes in the next financial year, maybe a year from now.

VP Rajesh: Are you using BPM as well? Or if you can just talk about, how these products are helping you on the IT services or on the BPM business?

Rahul Kanodia: Yes, so it is doing both. We are using it in our BPM services also for our own productivity improvement. You can see some of the impact on the financials of the company. Second is that when we go to market with these products, you're getting different kinds of deal opportunities, which are potentially large, anywhere from $10 million to $40 million, which is a bundled offering, including products, including services and which has BPM and IT all altogether. We are getting a new pipeline of offering our services, which are very different from what we traditionally did, which are including the product services, IT and BPM all put together. That's opened up a new segment for us in these, which earlier we were not looking at all, they were not coming our way. Taking these products to market has helped us get a new line of, leads coming in. They have not materialized yet because it's still early, for the last quarter or last six months, I would say we've got some very interesting deals, but not materialized yet.

VP Rajesh: You were talking about earlier some recurring revenues. So, what is the quantum of that?

Rahul Kanodia: So that's all the product business. The product business will be annual recurring revenues because it's a subscription-based licensing model that we have adopted. We are not tracking that separately, but in that space, there's more stability because, revenue keeps repeating every year, unless there's a problem with the customer.

VP Rajesh: Actually, you will disclose it next year, what is the recurring revenues?

Rahul Kanodia: Yes sometime after about a year.

Moderator: The next question is from the line of Riya Sharma as an Investor.

Riya Sharma: As talent demand has increased, so what kind of supply challenges you are seeing and how we are tackling the same?

Rahul Kanodia: We are facing supply challenges in the sense that when you roll out offers to new prospective candidates. The dropout ratio is much higher than normal, dropout meaning, on the day he is supposed to join, the guy doesn't join he just drops out. That is a challenge, so what we have done is we are focusing more on the Tier-2 Tier-3 cities and expanding our head count there, compared to the Mumbai, Bangalore kind of cities. There we get a little better traction and of course the cost also little lower than these large Tier-1 cities. So, yes, it is a struggle the whole industry is going through that phenomenon, but so far we've managed reasonably well.

Riya Sharma: My second question is employee headcount and attrition rate for the quarter, like any plans for the new hiring and wages hike?

Rahul Kanodia: Our employees' headcount is about 10,300 right now. Our attrition rate is on annualized basis running at about 28%, so 7% for the quarter.

Riya Sharma: Right now, we have good cash in the book. How are we planning to use it, like any M&A plans?

Rahul Kanodia: On the M&A side, we keep looking at many opportunities, but our agenda is to acquire companies that fit with our core strategy, and that is a sweet deal. It has to be available at a good price. I don't want to be in a situation where we pay premium just to acquire a company. So that's been our traditional strategy. We've acquired over 20 companies in the last 20 years. We've had a run rate of about almost one acquisition a year barring for the last two years COVID period we didn't do any acquisition. So, we keep looking at it. We are in dialogue with a few companies, but once they come to a more serious stage, we'll know what's happening. So that's on the acquisition side. Our focus is going to be to invest a lot of our funds into the product business. We don't want to acquire there because we do need funds to invest in the product because that has a huge opportunity. We need to capitalize on that opportunity that is there in the market currently. We would rather spend on that front rather than spend it in too many acquisitions.

Moderator: The next question is a follow up question from the line of from VP Rajesh from Banyan Capital.

VP Rajesh: On the margins, EBITDA margin is about 14.4% this quarter. What's your guidance on this, especially given the investment that may be required for pushing the product business in the market?

Rahul Kanodia: We will maintain roughly that level of EBITDA margin, because the investments that we will make, hopefully we will recover through the sale. So, whatever we sell will get reinvested. So, I don't think it should have a huge negative impact on the margin. Having said that it could move by about 0.5% here or there and that's possible. But I'm not expecting because when you look at the whole year whatever we spend now, we start recovering maybe in three or four months from now. It should not have a huge impact., We are not capitalizing our expense. We are expensing them out. We had budgeted about Rs.40 crores spend for this year on sales and marketing. I mentioned this in my last earnings call. So that's where we are.

Sandeep Mantra: When we spend versus when we get revenue there may be some timing difference otherwise margins will be more or less in the similar line between 13% to 14% for this year.

VP Rajesh: The second question is on the revenue growth obviously you grew very well year over year. Any kind of growth we can see in the current year?

Rahul Kanodia: We will certainly, I think end up in the teens this year. The same performance may not sustain for all three quarters going forward, but yes, it should be in the teens.

Moderator: Ladies and gentlemen, that would be our last question for today. I now hand the conference over to the management for their closing comments. Thank you and over to you.

Rahul Kanodia: Thank you. I would once again like to thank all of you for spending time with us today on this earnings call and for your confidence in Datamatics and hopefully we will have a good year and we will look forward to meeting you again in the next earnings call one quarter from today. Thank you again for being with us.

Moderator: Thank you very much. Ladies and gentlemen on behalf of Datamatics Global Services Limited that concludes this conference. Thank you all for joining us and you may now disconnect your lines.