

# DATAMATICS

## “Datamatics Global Services Limited Q1 FY2023 Earnings Conference Call”

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DATAMATICS



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**MODERATOR:** **MS. ASHA GUPTA - EY LLP, INVESTOR RELATIONS  
PRACTICE**

**Moderator:** Ladies and gentlemen, good day and welcome to Datamatics Global Services Limited Q1 FY2023 earnings conference call. As a reminder all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing “\*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Asha Gupta from Ernst &Young. Thank you and over to you Ms. Gupta!

**Asha Gupta:** Thank you Nirav. Good afternoon to all participants in the call today. Welcome to the Q1FY2023 earnings call of Datamatics Global Services Limited. The results and presentations have been already mailed to you and it is also available on the website [www.datamatics.com](http://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 you all. To take you through the results 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 & Chief Financial Officer, Mitul Mehta – EVP & Chief Marketing Officer. Rahul will start the call with brief overview of the quarter on the business which will be then followed by the financials given by Sandeep. 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 be construed as forward-looking statement must be viewed in conjunction with the risks and uncertainties that we face. This risk 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 will now hand over the call to Rahul. Over to you Rahul!

**Rahul Kanodia:** Thank you Asha and welcome and thank you everyone for joining our Q1 FY2023 earnings call. Before I start sharing the business update I would like to inform you all from this quarter we have reclassified our business into three segments, Digital Technologies, Digital Operations, and Digital Experiences. Till FY2022, we used to classify them into two segments which are IT services and Business Process Management. The relook at classification is primarily driven by three factors,

First, most customers are increasing their deployment of digital technologies and Datamatics has been playing an active role in supporting them in this journey. As legacy technologies are passe, the future market and growth lies in rapid adoption and migration to digital technologies which include cloud, DevOps, low-code no-code (LCNC) and SaaS platforms, digital workplace, analytics, and artificial intelligence.

Second, almost all of our back-office operations are delivered on the back of digital platforms and going forward this would be the mainstay in delivering operations

outsourcing. Our digitally augmented suite of technologies powers our operations to deliver process excellence. The suite comprises of smart workflows, mobility, robotic process automation (TruBot), intelligent document processing (TruCap+), AI/ML models (TruAI) and Business Intelligence which is TruBI.

Third, the customer experience has become central to success of all companies. Today, all these companies have a multi-channel engagement model with their customers with technology penetration permeating our lives, it becomes paramount for companies to deliver a seamless digital experience to an increasingly younger customer base. Our expertise in customer management processes and technologies ensure superior and consistent customer experience across the entire customer lifecycle. With all these factors coming together and with Datamatics well entrenched in delivering digital solutions to our customers it becomes imperative for Datamatics to reposition itself to capture market opportunities and more accurately represent our value proposition which enables enterprises to go deep in digital to boost their productivity, customer experience and competitive advantage.

Coming to the business updates, I am happy with the overall performance of the business. We have started the year on a strong note delivering a revenue growth of 13.6% on year-on-year basis the growth was broad based across all three segments. On a year-on-year basis our new deal closure has increased by 27% in Q1 of this year as compared to Q1 of last financial year. In this quarter we signed a total contract value of about \$19.3 million and for a sequential quarter comparison, we had signed a total contract value of \$14.5 million in Q4. Our EBIT margins of the year-on-year basis have shown a marginal improvement from 11.6% to 12% in the quarter; however, on a sequential basis it has dropped slightly by 148 basis points from 13.5% to 12% primarily due to annual salary increments and investments in our products. Although across the industry we have seen a drop in margins in this quarter; we are confident that our margins should be stable during this fiscal year.

Our margins in digital technologies were negative this is primarily for five reasons.

First, we have invested heavily in our Tru Suite of products and fare collection platforms business. Our expenses have increased by Rs.4.3 Crores in this quarter compared to Q1 of last year. These investments are now starting to yield results and in Q1 we acquired 10 new customers. Additionally, last year we signed two large AFC deals with Kolkata and NCRTC valued at Rs.350 Crores. These products have kicked off and this year we will see revenue accrual from both of them which will make us the leading player in AFC market.

Second, there is shrinkage in one of our large and highly profitable customers due to a multi-vendor strategy adopted by them recently.

Third, 77% of our revenues in digital technologies are generated from India and the Middle East. These regions are very price sensitive and low margin territories. We have started taking corrective action on this front by renegotiating our prices and focusing more on the US and European markets. I am happy to state that our efforts in the US are showing good results and our pipeline has increased by 32% over Q1 of last year.

Fourth, some of our services are low margin offerings and we also have some low profitability customers. Here, we are systematically changing our service portfolio to focus on more high margin solution areas and de-weeding low margin customers.

Fifth, the current market is facing strong head winds on the supply side resulting in an unusual increase in salaries and talent acquisition cost. To counter this, we have stepped up our investments in hiring, training, and upskilling all our employees.

Our margins in digital operations and digital experience are healthy at 23.3% and 23.2% respectively. We expect these operations to continue giving healthy margins in the same range. Although the macroeconomic environment with the war in Ukraine and the economic war with Russia and China coupled with the inflation in the US and Europe pose a concern in terms of a looming recession and therefore a shrinkage in demand we have not experienced a slowdown yet, although we remain cautious about the possible downturn to-date we have seen a very healthy demand environment for our services.

In conclusion, going forward we are optimistic about the overall demand environment and are confident of maintaining the growth of around 15% in the coming year. 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 Q1FY2023 earnings call. As explained by Rahul effective this quarter we are changing our segment reporting with our deep in digital approach and therefore we have changed segment reporting from traditional IT & BPM to digital technologies, digital experiences, and digital operations, and also effective this quarter we are reporting EBIT and not EBITDA for segment. With this now let me take you through the financial performance for the quarter ended on June 30, 2022. Our Q1 FY2022-2023 revenue stood at Rs.326.9 Crores which is 4.3% up on a sequential basis and 13.6% on year-on-year basis. Our consolidated EBIT grew by 17.9% on year-on-year basis. The EBIT margin for this quarter is 12% compared to 11.6% in last year same quarter. However on sequential basis our margin has dropped slightly from 13.5% to 12% due to higher increments and higher spend on product development and marketing. We saw the margin drop across industry in the range of 1.5% to 2.5% in this quarter. We aspire to maintain a healthy double-digit margin in the coming quarters. Our other income for the quarter was Rs.13.2 Crores compared to Rs.12.2 Crores in the last quarter which is an increase of about Rs.1 Crore on a quarterly basis, this is a combination

of one time income, investment income and exchange fluctuations. Our PBT before exceptional item was at Rs.51.6 Crores compared to Rs.53 Crores in the last quarter and Rs.36.7 Crores in the last year same quarter which is 2.7% less on quarter-on-quarter basis but 40.5% more on year-on-year basis. Our tax rate for the quarter is 17.3% compared to 19.1% in FY 2021-2022 we expect to maintain the tax rate north of 20% in this year. Our EPS for the quarter was at Rs.7.36 per share which is higher than last year same period, which stood at Rs.6.72 per share in the last year quarter.

Our segment wise results are as follows;

Our Digital Operations revenue was at Rs.147.5 Crores a growth of 3.6% sequentially and 18% on year-on-year basis. Digital operations EBIT margin was healthy at 23.3% which is 300 basis points up on a year-on-year basis and its contribution to total revenue was 45%. Our Digital Experiences revenue was at Rs.46.2 Crores, a growth of 15.7% sequentially and 18.9% year -on-year basis. Digital experiences EBIT margin was at 23.2% and its contribution to total revenue was 14%. Our Digital Technologies revenue was at Rs.133 Crores which is a growth of 1.6% sequentially and 7.5% on year-on-year basis. Our Digital Tchnologies EBIT margin for the quarter remains at negative 4.3% primarily due to higher spend on products/ platform development and sales and marketing as well as shrinkage in one of our last profitable customer due to a multi-vendor strategy adopted by them. Our digital technologies contribution to total revenue was 41%.

Coming to balance sheet we continue to remain healthy, as on June 30, 2022, our liquid and cash net of debt stood at Rs.388.6 Crores, our DSO was at 69 days as of June 2022 as compared to 74 days in March 2022. In terms of geographical footprint US is the largest geography with 55% of our business coming from US, India is 25% and the rest of the world including UK and Europe is 20%. In terms of industry footprint, BFSI continue to remain largest segment for us which is 25% of our revenue followed by education and publishing is 23% and then technology and consulting at 22%, manufacturing, infra and logistic at 13%, 7% is non-profit or non-government organization and rest 3% to our total revenue. Our client contribution remains very healthy with top 5, 10, 20 clients contributing to 25%, 37% and 50% respectively and this quarter we added 19 new clients in the quarter. These were the updates of the financial for the quarter. Thank you for your patience and continued interest in Datamatics. With this I will now pass on the call to operator to open the floor for question-and-answer session. Thank you.

**Moderator:**

Thank you very much. We will now begin the question-and-answer session. The first question is from the line of NGN Puranik from Enam Securities. Please go ahead.

**NGN Puranik:**

In the context of where the world is moving on digital some of your own digital assets that you have built over a period of time and you have nice set of digital assets, the automation

assets and digital modernization assets and the three businesses that you have they all have great potential going forward, so let us start from each of these businesses, starting from digital operations so this is a business where you have the high levels of productivity, high levels of margins and what is the outlook for this? This business can grow greater than what is today? How much can it get better? What I mean is how do you focus on large deals today? So how do you win larger deals and what you have been winning? How do you focus on many million dollar accounts, \$1 to \$5 to \$10 to \$20 million accounts, so that can happen only when you win large deals, large deals can construct number of million dollar account of high potential, so if you can take us through that, that will be useful, I also see some very interesting commentary on the operational side and the deal win qualities you have talked about five-six deal wins, if you can comment about potential of each deal wins that will be useful?

**Rahul Kanodia:**

On digital operations and digital experiences, the way we differentiate between the two is digital experience is more front office where there is customer engagement, multi-channel engagement with end customers, digital operations tend to be more back office, which is internal operations to the banks, insurance companies those types of companies, publishing houses. The opportunities are vibrant because a lot of these guys are now being driven on the back of digital platforms that we have and given that we are seeing good traction we are seeing also larger deal sizes. We have in the past won some we are on the verge of winning a few more. We have recently been covered by Gartner in their Magic Quadrant and that speaks volumes of our offerings, we have won a few deals that are million, two-million-dollar deals. They are in a relative strength still small but nevertheless larger than many deals but our US focus has given us access to a lot more larger deals and I am very optimistic about these deals. On the customer experience front we have an extremely good pipeline though these are also fairly large anywhere from a TCV of \$3 million, \$5 million to even upwards of \$10 million and we have won a few deals and we are right now in the race and several other deals which are looking extremely promising, so there is a lot of what we do is digital proctoring. So, this is not a call center, we do lot of work with data and proctoring and that is looking extremely promising more so than the digital operations not that this is a bad area but it is looking very, very promising. Our pipeline is looking very robust with large deals in the pipeline, so I am very confident that we will have a good run on these fronts. In terms of the details of deal wins I do not think I would be at liberty to disclose some of those details obviously because they are customer specific and sensitive but suffice to say that they are all large enterprises and they are potentially highly scalable, so once you are in a large customer you can scale and that could become several million dollar deals for us.

**NGN Puranik:**

What is the largest deal you have won recently?

- Rahul Kanodia:** In the AFC space as mentioned we won in the last quarter of last year two deals totaling to Rs.350 Crores in value, so those were the larger deals. In the digital experiences we got deals of \$10 to \$15 million and in the digital operations we have got deals in the pipeline I am talking about the pipeline between \$2 and \$5 million.
- NGN Puranik:** This \$10 to \$15 million single deal that we are talking about?
- Rahul Kanodia:** Yes.
- NGN Puranik:** Single deal of \$10 to \$15?
- Rahul Kanodia:** Yes, it is TCV (total contract value) obviously to be executed over maybe three to five years.
- NGN Puranik:** What kind of margins these deals will have?
- Rahul Kanodia:** There is a range, each deal is slightly different anyway from 40% to 60% depending on the deal and depending on how well it takes off, also it is right now in the current fluidity in the market with the way the costs are going up that the way salaries are going up is crazy and therefore we maintain margins and not something that is questionable. I just wanted to clarify these margins are termed as gross margins.
- NGN Puranik:** You are saying that the operations vertical is difficult to grow because there you have reached the potential already?
- Rahul Kanodia:** No, as I said I have a good healthy pipeline, our focus on the US is delivering results, US pipeline has also increased substantially and I do not think there is anything restricting the growth, as long as we deliver well and aggressively serve there is no challenge that we face on growth. Today, there is a bit of a challenge with the manpower shortage that you see in the industry, but I think that situation is probably going to be short lived and probably in six to nine months that should settle down.
- NGN Puranik:** Which group can grow faster, is it the operations, technology, or experience?
- Rahul Kanodia:** Of the three digital experiences will grow fastest, it is also partly because it is a smaller base followed by digital operations followed by digital technologies.
- NGN Puranik:** Digital experience is smallest or digital technology is smallest, digital technology I thought is smallest?
- Rahul Kanodia:** No, digital experience is smallest.

- NGN Puranik:** So, technology includes your metro and all that stuff?
- Rahul Kanodia:** Yes, that is correct.
- NGN Puranik:** I think your experience margin is very less now almost negative margin is not it, so how do you get?
- Rahul Kanodia:** 23.2% EBIT margins.
- NGN Puranik:** I am getting confused with technology; I think technology is the lower margin.
- Rahul Kanodia:** Yes, technology is low margin and as mentioned in in my address it is right now running at -4%. So I did talk about it in my address that there are five steps that we are taking, one is of course there is a huge investment we have made in the products but these investments are now beginning to show results because some of the deal wins will start delivering the benefits that we have invested for. The second is there was a slight shrinkage in one of our key customers which is a very profitable customer because they went with the multi-vendor strategy. The third was that we have 77% of our revenue is coming from India and Middle East and we are progressing out of India and Middle East towards the US and Europe and the results are right now in the US our pipeline has improved by about 32% which is very healthy and I am slowing down the efforts in India and Middle East and pushing more efforts in Europe and the US. The fourth was in terms of deweeding some low margin customers exiting from those projects and also changing our service portfolio and focusing more on the high margin offerings and projects and reducing the emphasis on the low margin ones. So, lot of internal pressures are moving away from those and finally we are trying to address the current head winds with the salary hike that we see across the industry but I suspect that should settle down in about six to nine months because the current trend cannot continue for so long.
- NGN Puranik:** What about the automation business?
- Rahul Kanodia:** It is much better as I mentioned we got 10 new customers in the first quarter of this year, if we continue that trajectory we should end up between 40 and 50 new customers in this financial year which is looking very healthy. Some of those deals are also large deals but as they materialize I am sure we will talk about during our quarterly earnings calls.
- NGN Puranik:** What are the deal sizes in this?
- Rahul Kanodia:** It ranges from very small value sometimes customers are just testing it and they were \$20,000, \$30,000 – \$50,000 dollars, some of the better ones would go to above a million dollars per annum kind of deal.



- NGN Puranik:** Then potentially this can be million-dollar kind of deals most of them?
- Rahul Kanodia:** They would always start small \$100 – \$ 200 thousand is normal over two or three years, say we are talking about \$60 – \$70 thousand per annum kind of a deal, they start like this and then they scale depending on how well it delivers. So far we have got very good traction the analyst coverage has been excellent, customer feedback has been excellent, so far we have had very, very good feedback from both the customers and I am talking about US and European customers not Indian customers and also the analysts like Gartner, Forrester, Everest these guys and they are benchmarking us with all the other products in the market and they are giving us extremely encouraging feedback.
- NGN Puranik:** What is the revenue on this sort of projects?
- Rahul Kanodia:** Right now, we have not called this out because of couple of reasons and that is why we do not disclose these numbers, one is that there is some component of direct customers and there is some component of indirect customers where we bundle it along with some services. So, we need to call that out and we will go through segregating our financials once we do that, we will be able to give a better picture.
- NGN Puranik:** Is there a license, transaction, maintenance, application, how does it work?
- Rahul Kanodia:** A lot of it is licenses and when it bundles with our thing it goes as a platform.
- NGN Puranik:** Platform?
- Rahul Kanodia:** It goes as a platform when it is bundled with our services, it can be a built on to our workflow, it can be a standalone, so it varies customer-to-customer depending on what they are looking for.
- NGN Puranik:** But is there implementation cost maintenance, implementation revenue also?
- Rahul Kanodia:** There is a small implementation revenue at the time of selling, very often we would even give that to our partner, and it is not yet forwarded but if the customer prefers Datamatics or implementing the partner is struggling then we step in and we implement it as well.
- NGN Puranik:** What is the ratio of license to implementation will it be 1:1, 1:0.5 and how much is that?
- Mitul Mehta:** Typically, it is about 1:4.
- NGN Puranik:** Then it is attractive if it is 1:4 it could be attractive.
- Mitul Mehta:** Yes, and implementation is first time and then the license cost goes every year.

- NGN Puranik:** So, 1:4 you mean 1 dollar: four dollars services?
- Mitul Mehta:** Yes. 4 dollars for services 1 dollar to license, services is time bound onetime, license is annual.
- NGN Puranik:** Then this business should grow faster than what it is today if it is 1:4 that is how the ERP business grew that is how the hyperscalers are growing, if that is the case why it is not growing?
- Rahul Kanodia:** The services part we are trying to give to our partners because the partners then get a new cycle.
- NGN Puranik:** Correct but unless if the partner gets 4 you would not get a million dollar which is very profitable?
- Rahul Kanodia:** That is correct.
- Mitul Mehta:** But this is recurring revenue stream at the same time it is license cost
- NGN Puranik:** This license is payable upfront or annually?
- Mitul Mehta:** It is paid annually and of course depending on the deal we tend to give payment structures and milestones if the customer wants but ideally we take it up front.
- NGN Puranik:** So it is more like a SaaS license?
- Mitul Mehta:** Absolutely, it is a SaaS license.
- NGN Puranik:** It is a SaaS license, so when do you see it kicks off, when you are saying it is 1:4 it should really kick off quickly unless the potential is going away what I see is when you see the stock prices of Automation Anywhere and all things are not looking good for the industry, so I think you should quickly deploy this and get into your partners making more money then only you can make money?
- Rahul Kanodia:** Correct, so we have stepped up our marketing activity and sales activity quite a bit this year.
- Mitul Mehta:** In fact, last December we also re-launched our partner program to keep our partners more active in this space and we are seeing good traction on that a lot of partners are much more active and upgrading their skill sets on the product and everything. So we have seen the green shoots if I have to summarize it, we are fairly hopeful on growing this business.
- NGN Puranik:** The global system integrators?

- Mitul Mehta:** Absolutely, while on one hand there are enterprises but there are global system integrators who are looking at larger solutioning deals to incorporate the products and also BPM vendors who are looking at automating processes at the core of their operations, so market is there.
- NGN Puranik:** Signed up with anybody, any global GSI?
- Mitul Mehta:** We have TCS as one of our global GSIs, we have many regional players as global GSIs and especially mid-size companies are more vertical focused, more region focused.
- NGN Puranik:** Do they have a serious team deployed for this cause or?
- Rahul Kanodia:** The smaller and the mid-sized ones have, the larger ones because they are carrying multiple offerings and multiple products have not yet fully kicked in as such not compared because they have other engagements with other companies but the smaller and middle ones are kicking quite well.
- NGN Puranik:** You see a big number coming next year?
- Rahul Kanodia:** This year we with current run rate of 10 logos in a quarter continues then we should have about 40-50 logos within this year or hopefully even more. I think this year will be very crucial for testing the waters and right now it is looking very promising.
- NGN Puranik:** So, when do you see a \$5-\$10-million-dollar kind of revenue coming from this?
- Rahul Kanodia:** I think towards the end of the year we will get a good sense of where we are, we now have three quarters to go, so I think we will be in good shape maybe after six months or nine months the quarter I think we can have another discussion here.
- NGN Puranik:** Excellent, thank you Rahul. Thank you.
- Moderator:** Thank you. The next question is from the line of Subhankar Ojha from SKS Capital. Please go ahead.
- Subhankar Ojha:** Thanks for the opportunity. Just wanted a better explanation on this digital technologies, why your margin dropped to negative 4.5% for what reason and what is the outlook here with respect to the margins?
- Sandeep Mantri:** As explained by Rahul, Subhankar a couple of reasons, one was we are investing heavily in our product space which is into product core development as well as marketing and sales. So, this time we have spent quite heavily on our sales and marketing product in addition to

the regular product development. Second is one of our key highly profitable customer has a shriking business because of a multi-vendor strategy which has resulted into shrinkage in revenue from that customer and that was highly profitable so to that extent our margin got compromised. Third thing is the demand environment in this IT space, technology space we have seen quite unusual increment this time and that has also resulted into cost increase and lower margin in this space. So I think in the next six to nine months we need to see next two to three quarters and the problem will recede but it will take its own time because of these reasons.

**Rahul Kanodia:** But I do feel that we will get the turnaround within this financial year two to three quarters from now we will see the results going up.

**Sandeep Mantri:** But if you see overall we are quite stable in terms of our margins with this business and other businesses the margins are stable and healthy and we continue to maintain at healthy margins.

**Subhankar Ojha:** With respect to this you started investing heavily in this is there a percentage of sales for this particular vertical that you are putting in?

**Sandeep Mantri:** Not as of now as percentage of sales because right now the strategy is more to basically capture market share in this space than putting a budget or putting a percentage to sales specifically in product and platform businesses.

**Subhankar Ojha:** You said that 15% of revenue growth for this year is likely and you expect a stable margin for this year?

**Sandeep Mantri:** Yes.

**Subhankar Ojha:** Despite this vertical not being achieving the earlier margin, is that assumption, right?

**Sandeep Mantri:** Yes, that is a correct assumption.

**Subhankar Ojha:** That is great. Thank you so much.

**Sandeep Mantri:** Thank you Subhankar.

**Moderator:** Thank you. The next question is from the line of Shreya, a Retail Investor. Please go ahead.

**Shreya:** My question is are you bidding for any AFC projects outside India?

**Rahul Kanodia:** Yes, we are bidding for some AFC projects out of India as well.

**Shreya:** So, can we have some details about it?

**Rahul Kanodia:** There are right now three odd large ones, and they would tantum out to approximately \$30 million total but I am not so sure I would want to give the details of these totally but we are increasingly focusing on opportunities outside of India.

**Shreya:** Okay, thank you.

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

**Rahul Kanodia:** Thank you everyone for spending your time with us on this call and we look forward to connecting with you again next quarter and thank you for your support and confidence in Datamatics. Have a good day.

**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.