Datamatics Global Services Limited
Q2 FY22 Earnings Conference Call

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MANAGEMENT: **MR. RAHUL KANODIA – VICE CHAIRMAN & CEO, DATAMATICS GLOBAL SERVICES LIMITED**
MR. SANDEEP MANTRI – CFO, DATAMATICS GLOBAL SERVICES LIMITED
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MODERATOR: **MS. ASHA GUPTA, CHRISTENSEN ADVISORY, INDIA**

Moderator: Ladies and gentlemen, good day and welcome to Datamatics Global Services Limited Q2 FY22 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 Christensen IR. Thank you, and over to you.

Asha Gupta: Thank you. Good afternoon to all participants in the call today. Welcome to the Q2 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 all.

To take us through the results today and to answer your question, we have with us the top management of the company represented by Mr. Rahul Kanodia - Vice Chairman & CEO, Mr. Sandeep Mantri - Chief Financial Officer, Mr. Mitul Mehta - Senior VP & Head Marketing and communications. Mr. Rahul will start the call with brief overview of the quarter on business which will be then followed by financials, which will be 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 include forward looking statement must be viewed in conjunction with 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 now hand over the call to Mr. Rahul. Over to you sir.

Rahul Kanodia: Thanks Asha. Welcome and thank you everyone for joining our Q2 FY22 earnings call. We are glad to have you all on the call today and I would like to start by wishing a very happy Diwali in advance. I hope all of you remain safe and healthy through this festive season.

I will share with you some business performance highlights and Sandeep, our CFO will update you on our financials and post that we will get into a Q&A.

I am glad to inform you all that we are seeing business coming back to normalcy. We are witnessing strong demand environment across segments and industries we operate in. The overall industry is going through a large scale business transformation, especially in Cloud and digitization. We are also very well positioned to capture these opportunities and grow in the coming quarters.

Coming to the quarter performance, we reported another strong quarter backed by a broad-based revenue growth and robust margin expansion. Our revenues grew by 4.8% on a year-on-year basis and 4% on a quarter-on-quarter basis. However excluding CIGNEX, which has a subsidiary we divested in Q4 last year, we have grown 24.1% on a year-on-year basis. And despite the headwinds we have from salary increases and supply side challenges, we continue to maintain our double digit EBITDA margin at 16.7%, a growth of 513 basis points on a year-on-year basis.

We are seeing significant traction in our BPM business, which contributes 55% of revenues, and it grew at about 25.4% on a year-on-year basis. BPM EBITDA margin was at 23.5%, which is the highest over the last 11 quarters. The growth was aided by new logo acquisition, expansion of business from existing customers and continuous effort on cost optimization. We are confident of maintaining this margin performance on the back of revenue growth, increased automation and re-pricing our services.

Our IT revenues which contribute 45% of our revenues, grew at 8.6% on a quarter-on-quarter basis. The IT EBITDA margins stood at 8.3% for the quarter. However without considering the investments we are making in products, our EBITDA margin was at 12.1%. We have a very healthy pipeline of orders and are focusing on improving our margins in IT, which would be driven by growth and re-pricing of our services. Our AFC business has a strong pipeline and we should see some deals in the next few months. We are continuously focusing on account mining and cross selling and acquiring new logos. Several of our customers are increasing their wallet share with Datamatics, and we have acquired 33 new logos with several million dollar deals.

As mentioned in our earlier calls, I would like to reiterate that the challenges brought by the pandemic have accelerated the client spend and investments in platforms based digital solutions like digitalization, Cloud, automation, artificial intelligence and digital experiences, and this has created huge opportunities for companies like ours. We continue to see large opportunities in digital processing automation and dynamic content management.

As you are all aware, we provide BPM and IT services, which are driven by good quality talent in the company. This makes our supply and talent integration a very important piece to drive our future growth. The whole IT sector today is going through a challenging time when it comes to people and talent availability. We have taken several steps in stepping up our recruitment activities, particularly increasing the intake of freshers and giving increments to key talent to mitigate the risk of rising attrition and be better prepared for growth. The current situation will put margin pressures on our operations in the coming quarters, but we are mitigating that through re-pricing our services.

I just returned from a long trip to UK and USA, and the customer mood there is very upbeat. We have increased our focus on the US market and extending the US sales force to focus on digital transformation opportunities, including our intelligent automation products, that is TruBot in Robotics and TruCap+ in Intelligent Document Processing. We have recently received excellent ratings by global customers operating in the space. Basis this, we remain confident of the market opportunities and intelligent automation as a key driver for growth going forward.

I would like to take this opportunity to thank our customers and shareholders for continued support and trust. I would also like to thank all Datamaticians for their dedication shown during this difficult time. We are confident of sustaining of our growth momentum and margins for the remaining fiscal year.

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

Sandeep Mantri: Thank you Rahul. Welcome everyone and thank you for joining us on our Q2 FY22 earnings call. I hope that all of you are safe and healthy. Very warm wishes for the festive season in advance.

Let me start with the key financials for Q2 ended on September 30, 2021. So, our net revenue for this quarter was at Rs. 299.2 crores up 4% on quarterly basis and up 4.8% on year-on-year basis. Without CIGNEX if we talk about revenue, we reported a growth of 24.1% on year-on-year basis and the growth was broad based across all our business lines and all our verticals and geographies. The ratio of IT and BPM was at 45:55 during this quarter.

BPM revenue for the quarter was at Rs. 164.6 crores, which is a marginal growth of 0.5% sequentially and 25.4% over last year same quarter. BPM EBITDA margin was 23.5% for the quarter, which is up 285 basis point and it is highest over last 11 quarters.

IT services revenue for the quarter was at Rs. 134.6 crores, which is a growth of 8.6% on a sequential basis, and a decline of 12.8 % on year-on-year. But this decline is primarily due to the CIGNEX divestment which we did in Q4 of FY21 and if you remove the impact of CIGNEX divestment, then actually we have grown 22.6% on year-on-year basis. Our IT services EBITDA margin was 8.3% and as mentioned by Rahul, if we don't consider investment in product our EBITDA margin for IT was 12.1% for the quarter.

Our consolidated EBITDA grew by 51.4% on a year-on-year basis, while without CIGNEX it was up by 87.9% on a year-on-year basis. Our consolidated EBITDA margin for the quarter was 16.7% as compared to 14.4% in Q1 of FY22 and 11.5% in Q2 of last year. We were able to maintain and grow this double digit EBITDA margin primarily due to our continuous focus on cost optimization and automation, and as mentioned by Rahul, along with price increase in some of our customers. This was despite headwind due to increased salary and supply side pressure in our IT business side. As mentioned by Rahul we have taken several measures to get future ready and avoid any business losses due to the supply side challenges. Overall industry is facing this issue and we are not different for this situation. However we are confident of maintaining double digit EBITDA margin for the rest of the fiscal year.

We talk about PAT which is after non-controlling interest stood at Rs. 35.3 crores, which is a decline of 10.8% on quarterly basis and a growth of 129% on year-on-year basis. Without CIGNEX our PAT grew by 171.5% on year-on-year basis. However the quarter-on-quarter drop of 10.8% is due to the impact of exceptional item which is on account of one-time exchange gain of Rs. 10.2 crores, arising from buy back of equity capital and redemption of preferential capital held in one of our overseas subsidies in Q1 FY22. If we removed this one time gain, then on a quarter-on-quarter basis we would have grown 20% in terms of PAT.

Diluted EPS for the quarter was Rs 5.99 per share, which is higher than last year same period, which was at Rs 2.62.

Now coming to half yearly results, our revenue was at Rs. 586.9 crores, a growth of 4.3% on year-on-year basis. Our EBITDA was at Rs. 91.3 crores, which is a growth of 48.4% year-on-year basis. EBITDA margin for H1 FY22 was 15.6% as compared to 10.9% in last year as well, which is 462 basis point growth from the previous year margin. The growth is primarily driven by our disciplined execution and cost optimization measures. Our PBT before exceptional item stood at Rs. 82.8 crores, a growth of 93.9%. However PBT after including exceptional item on account of one time exchange gain of Rs. 10.2 crores in overseas subscriptions we were at Rs. 93.0 crores as compared to Rs. 42.7 crores in H1 FY22. Our EPS is at Rs. 12.7 per share as compared to Rs. 4.9 per share in the last year same period.

When we talk about balance sheet, we continue to remain healthy. As on September 30, 2021, our total cash and cash equipment plus liquid investment (net of debt) stood at Rs. 341 crores. Our free cash flow to PAT ratio was at 135%. Our DSO was at 65 days in as of 30th September 2021. We continue to remain cautious on the pandemic situation and are confident of combating challenges and maintaining growth momentum.

In terms of our geographical footprint, the US comprises 55% of our business while India is 26%, UK and Europe is 15%, and the rest of the world is 4%.

I would like bring to your notice that from this quarter, we have started reporting our revenue by industry in a more detailed manner. So, in term of industry footprint, BFSI continues to remain largest segment for us, which is 30% of our revenue. Education and Publishing is 23%, Technology and Consulting sector is giving 20%, Manufacturing, Infra & Logistics is 10%, Retail is 6% and Not for Profit or Government organization is giving 7% of business. Rest others which is over 4% of our total revenue.

Our client concentration remains healthy with top five clients contributing about 27%, top ten at 39% and top 20 contributing at 52%. We added 33 new client in this quarter. Our total head count for the quarter was 10,548 and our annualized attrition was at about 27%.

So, these were basically financials summary for the quarter. With this I will now pass on 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 Datamatics.

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 Ravi Gupta an individual investor, please go ahead.

Ravi Gupta: So I can see that we have cash of around Rs. 341 crores. So, how are you planning to utilize this? Any plans for any acquisitions or anything?

Rahul Kanodia: So there are two areas of deploying this cash. One is, we are looking at some acquisitions. Nothing in a very mature stage, but we are in dialogue with few companies. And the second is that we are investing more on the intelligent automation product suite that we have, which is TruBot and TruCap+, and we need to take that to market more aggressively. So these are the two areas where we consume some of the cash reserves that we have.

Ravi Gupta: Would it be also fair to assume that there can be some possibility for dividends or buybacks or everything is going to go into acquisitions or something like that?

Rahul Kanodia: Buybacks, we have explored and that does not make too much sense from a tax point of view, is not the most efficient structure. There were some loopholes that the government has plugged, so I don't think buyback makes sense. Dividends we will explore as the year passes and the Board takes decisions, then we will of course come back to the shareholders. So we will come to dividends when we come to the end of the year and see how the performance is.

Ravi Gupta: There is one more question that I had, regarding to what I can see the attrition being quite high at around 27%. So are we taking any steps to take control on this?

Sandeep Mantri: This is annual rate.

Rahul Kanodia: The attrition 27% is annualized, which is of course high but is not as high. Some of the industry players are having much higher attrition than that. Having said that, as I mentioned in my address that we are proactively recruiting very aggressively to offset the impact of attrition. We have key people; we are looking at giving increments to retain them and then we are re-pricing some of our services to our customers that will offset the increase in cost that we may have. Having said that, yes, it will put pressure on the system and it is doing that. But I think we will be able to manage the attrition issues reasonably well.

Moderator: Participant who would like to ask questions, please press '*', then '1'.

Rahul Kanodia: I guess, by and large the analyst community must be quite happy with the results we have declared. Therefore they may not have too many questions. Anyway, I think if there are no questions, then we can conclude the call shortly, although we are happy to fill any further questions. I am sure we will be able to continue to show some good performance in the next few quarters.

Gentlemen and ladies, thank you very much for being on the call. It was a pleasure talking to you and wishing you a very happy Diwali again in advance. Best wishes to everyone.

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