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Datamatics Global Services Limited
Q4 FY21 Earnings Conference Call

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

Moderator: Ladies and gentlemen, good day and welcome to Datamatics Global Services Limited Q4 FY21 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 the 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, Ma'am.

Asha Gupta: Good evening to all participants in the call. Welcome to this Q4 and Full Year FY21 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 brief overview of the quarter and year gone by which will be followed by 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 the future or which can be construed as forward-looking statement must be viewed in conjunction with risk and uncertainties that we face. These risk and uncertainties are included but not limited to what we have mentioned in the prospectus filed with SEBI and subsequent annual reports 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 4 and Full Year FY21 earnings call. Hope all of you are keeping safe in the second wave of the pandemic. We deeply appreciate all of you taking time out and joining us for this Conference today.

I will now share some business performance highlights and Sandeep will update you on the financials. Post that we will get into Q&A.

On a full year basis, we closed our revenue at Rs. 1,149 crores versus Rs. 1,203 crores in the last year resulting in a de-growth of 4.5%. However, we divested Cignex in the last quarter of the year. If we remove Cignex then our revenue for FY21 was Rs. 1,022 crores compared to Rs. 1,007 crores in FY20. This was resulted in a marginal increase of 1.5% year-on-year. Our adjusted quarterly revenue rate is now approximately Rs. 250 crores with a spike in the fourth quarter due to the tax return processing business that we do.

Our Q4 revenue on a quarter-on-quarter basis is Rs. 283 crores compared to Rs. 303 crores, a decrease of 6.5%. However, without Cignex we have grown 8.1% on a quarter-on-quarter basis and our BPM revenues grew at 13.6% while the IT revenue grew at 1.1%.

I am happy to note that the business is recovering to normalcy across all service lines, and we expect a good growth for this year. A shift in business operations due to the pandemic induced work from home is expected to favor the IT industry in the near term. The pandemic has compelled CIOs to revisit their planned strategies and increase investments in newer emerging technologies such as intelligent automation, artificial intelligence and machine learning, robotic process automation, analytics and cloud. These in turn have created significant opportunity for a company like us. We continue to see specific opportunities in the process automation and dynamic content management areas.

Our Cignex divestment has been successfully completed. Until 31st March we have received partial consideration and in this quarter we have already received the remaining consideration as per the agreement.

The key highlights for the quarter was double digit EBITDA margin at 14.8% which is an improvement of 568 basis points sequentially driven by our cost optimization efforts.

On a full year performance, I would say that FY21 was the year of testament of our resilient business model, strong relationships with customers and commitment demonstrated by Datamaticians. Despite headwinds created by the pandemic we performed well and our EBITDA witnessed a growth of 15%. We exited the year with a strong free cash and cash equivalent balance of Rs. 254.5 crores with no debt.

On the business front, our IT services, which constitutes 51% of our revenue witnessed a drop of 17% year-on-year in FY21. This decline was due to three main reasons.

First the Cignex divestment which contributed to 10.1% in drop in revenue and as we could not account for this revenue in Q4 because we have divested it.

Second as we communicated earlier, we lost one of our top 10 customers in Q1 FY20 which contributed to almost 5.1% of our total IT revenue. The margin impact was about 3.2% from last year of our IT EBITDA.

Third due to Covid some of our key customers cut their budgets and reduced their outsourcing. This has an impact of 2.9% on our IT revenue and the margin impact of this was 1.7% from last year's EBITDA. The deductions in these projects had an impact of 8% on our IT revenue and 4.9% on the IT margin causing our IT margins to shrink from 11.1% to in FY19-20 to 6.2% in FY20-21. However we were able to claw back 0.7% of our operating efficiencies and close the year at 6.9% EBITDA for our IT segment.

Additionally, as far as our products are concerned and more specifically TruBot and TruCap+ we have spent approximately Rs. 20 crores on product development and enhancement. All of the spend is expensed out in our IT business and we do not capitalize it. The margin impact of this product investment is about 3.8%. So, if you add this back to our operating EBITDA in the IT business it would be about 10.7%. TruBot and TruCap+ are getting good response from prospective customers for an integrated offering in IDP that is Intelligent Document Processing and RPA.

We are augmenting our sales teams in the US dedicated for selling these products and expect to invest approximately $5 million to $6 million which is approximately Rs. 40 crores in sales and marketing this year. Our products are featured in leading analyst reports. Some of the recent ones include Forrester 2021, RPA Wave, which recognized TruBot as a strong performer and Everest Group's 2021 IDP Peak Matrix which recognized TruCap+ as a star performer and a major contender.

Another update is that our joint venture, Cybercom Datamatics operations have closed effective January 2021, the JV will not have any significant impact as it was an immaterial component of our operations.

Our BPM services which constitutes 49% of our revenue witnessed a growth of 13.2% year-on-year. The growth was primarily driven by penetration in existing customers. Our BPM margins were at 18.1% compared to 9.1% last year. The significant improvement in margin was primarily due to cost optimization, moving work to low cost locations in India and saving in infrastructure and travel due to COVID. We expect that this margin will be sustainable.

With regards to our quarterly growth trends without Cignex we grew 8.6% in Quarter 3 over Quarter 2 and 8.1% in Quarter 4 over Quarter 3. In the current quarter of this new financial year that is FY22 we expect a growth of approximately 10% over Q1 of FY21. We see a strong demand environment and our pipeline continues to remain healthy.

This gives me the confidence to state that we have turned the corner and will have a healthy performance in the financial year. However in Q1 we will have a little lower margin because the salary increments will be declared. Although on a year-on-year basis we expect margins to remain at the same level.

As far as dividends are concerned for the financial year the board will take up the matter in the next board meeting. From a timeline perspective, dividend distribution requires the shareholder's approval hence it does not impact the distribution timelines as it will be only after the AGM. Our top priority at this point of time is the safety and support of our colleagues and their families and as good corporate citizens the support of our community as best as we can.

To this end we have been working with local authorities and municipal corporations in Mumbai, Nasik and Puducherry and helping them in fighting this pandemic. We are also supporting some hospitals in Delhi with oxygen plants and providing food for people who have been going hungry due to the current crisis at hand.

I would take this opportunity to thank our customers and shareholders for their continued support and trust. I also thank Datamaticians for their dedication and commitment shown during this difficult year. We remain confident of sustaining the growth momentum in the coming years. So, with that I will now handover the call to our CFO, Sandeep Mantri. Sandeep, over to you.

Sandeep Mantri: Thank you, Rahul. So, good evening everyone on the call today and thank you for joining us in our Q4 and full year FY21 earnings call. I hope that all of you and your families are keeping safe and healthy during these challenging times.

Let me start with the key financial for FY20-21 and I will then run you through fourth quarter ended on March 31 2021. So, our revenue for the year was at Rs. 1,149 crores which is a decline of 4.5% on a YoY basis. As mentioned by Rahul the de-growth is due to non-inclusion of Cignex's revenue in the current quarter as a result of Cignex divestment and impact of COVID pandemic in the initial quarter.

Revenue without Cignex in FY21 was Rs. 1,022 crores as compared to Rs. 1,007 crores in FY20. This is an increase of about 1.5% compared to last year. In FY21 our consolidated EBITDA stood at Rs. 142.2 crores which is demonstrating a growth of 15.1% on a yearly basis and consolidated EBITDA margin was at 12.4% as compared to 10.3% in FY20. If we remove Cignex divestment from the result then our EBITDA margin will be Rs. 122.7 crores instead of Rs. 142.2 crores or 12% in FY21 as compared to Rs. 99 crores or 9.8% in FY20.

And if we add the spend which Rahul talked about of product development which is the investment we are making in our RPA and other products then our Adjusted EBITDA margin for FY21 would be 14.3% as compared to 11.7% in last year. Talking about our BPM EBITDA margin is now 18.1% as compared to 9.1% in FY20. Our IT EBITDA margin however remains under pressure at 6.9% as compared to 11.1% last year. But Rahul has explained why the IT margins are low because we include product cost in our IT segment. So, the overall margin growth was largely driven by cost optimization effort taken by the company during the year and cost saving primarily due to COVID.

With respect to our other income, our other income is at Rs. 10.7 crores in FY21 as against Rs. 20.5 crores. The drop was primarily due to exchange gain booked last year, because last year there was a quite gap in hedged and realized rates. And that is why there were higher exchange gains. This year more or less rates are same so the exchange gains are not there comparative to last year. The share of net profit in our associates declined from Rs. 1.2 crores to Rs. 0.4 crores in FY21. This is basically the share in our Cybercom joint venture and the JV is closed now. So, that is why the share of profits also declined in this venture.

The tax rate for FY21 was at 23.2% as against 29.8% in FY20 and this is in line with our expected tax rate of 25%. This is below our expected tax rate of 25%. When we talk about PAT before non-controlling interest, it was Rs. 84 crores which shows a growth of 36.1% YoY and PAT margin was 7.3%. PAT after minority or non-controlling interest was at Rs 79.8 crores which also has grown by 25.1% on a yearly basis. Our diluted EPS stood at Rs. 13.53 in FY21 as compared to Rs. 10.8 in FY20 which also shows a growth of 25.1%.

Coming to balance sheet, our balance sheet continued to remain at a very healthy position and we have improved most of the parameters in the balance sheet. Today we are a debt free company. As on March 31 2021 our free net cash and liquid investments net of debt stood at Rs. 254.5 crores as compared to Rs. 123.9 crores last year. So, it is almost doubled. Our DSO is at 65 days as of March 21 as compared to 83 days in last year. Our current ratio is also healthy at 4.2x compared to 2.4x in March 2020. Our cash flow from operation was at Rs. 101.8 crores as compared to Rs. 83.5 crores in FY20. So, it has improved significantly, and this growth was primarily led by our consistent focus on liquidity and tighter cash management at our end. Our Return on Capital Employed improved from 11.4% in FY20 to 13.5% in FY21. So, you can see significant improvement in all balance sheet parameters.

We continue to remain cautious on current second wave of pandemic but we are confident of combating challenges and maintaining growth momentum.

Now I come to fourth quarter performance which is a quarter ending on March 31 2021. Our net revenue for this quarter was at Rs. 283.3 crores which is down by 6.5% on quarter-on-quarter basis. The revenue reduction during this quarter is because of non-inclusion of Cignex's revenue due to its divestment in this quarter. If we exclude Cignex revenue then Q4 FY21 revenue witnessed a growth of 8.1% on a quarterly basis and 8.5% on a YoY basis. The growth was mainly driven by our BPM business. The ratio of IT and BPM in this quarter was at 42% and 58%.

IT services revenue for the quarter were at Rs. 118.7 crores which is a drop of 25% compared to last quarter and a drop of 33.4% from the same quarter last year. The de-growth in IT services revenue was primarily due to this non-inclusion of Cignex revenue. If we compare without Cignex revenue then on a quarter-on-quarter basis we have registered a marginal growth of 1.1%. However on a year-on-year basis we de-grew by 7.9%.

On BPM revenue, our BPM revenue for this quarter was Rs. 164.6 crores which shows a growth of 13.6% sequentially and 24.5% over the same quarter last year.

The key highlight of this quarter is that our EBITDA margin for Q4 was 14.8% as compared to 12.8% in last quarter and 9.1% in previous year same quarter. So, now compared to both the quarter we have continued to improve our EBITDA margin and the EBITDA margins are in line with whatever we have said earlier and actually in fact we have improved in EBITDA margin despite the pandemic challenges, and we were able to maintain double digit EBITDA margin due to cost optimization and savings primarily due to COVID.

Coming to quarterly profit before tax (before exceptional item). It was Rs. 35.9 crores as compared to Rs. 32.1 crores in the last quarter and Rs. 25.8 crores in Q4 FY20 which is last year quarter. So, it has improved substantially when we compare to last quarter and same quarter last year.

The effective tax rate for the quarter was 17% as compared to 24.4% in Q3 FY21. This brings our annual tax rate down to 23.2% which is better than our expectation of 25% When we talk about PAT after non-controlling interest for the quarter, it was at Rs. 28.7 crores which shows a growth of 29.3% on a quarterly basis and almost 150% growth on YoY basis. Diluted EPS for the quarter was at Rs. 4.86 per share which is higher than Q3 FY21 and Q4 FY20 where we were at Rs. 3.76 and Rs. 1.96 respectively. So, Rs. 4.86 per share in this quarter.

In terms of our geographical footprint without considering Cignex because that will be the baseline for next year, the US comprised 56% of our business, India 23%, UK 10%, Continental Europe 5% and the rest of the world is 6%.

When we talk about sector or industry footprint our largest sector remains BFSI which is 28% of our revenue. Second largest is Education and Publishing which is 26%. Third one is Tech and Consulting which is 15%. E-Retail is 6%, Manufacturing is 5% and rest of the sectors are 20%.

When we talk about client concentration, our top five clients are contributing about 25%. Top 10 contributing 36% and top 20 contributing 49%.

Just to summarize we have divested Cignex and therefore our revenue and profit number for the year for FY21-22 will not include Cignex number so our baseline will change accordingly. So, FY20-21 our revenue without Cignex remains at Rs. 1,022 crores. EBITDA remains at Rs. 122.7 crores. PBT is Rs. 90 crores and PAT at Rs. 71.6 crores. So, these will be the baseline for next comparison in the coming quarter.

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

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question-and-answer session. The first question is from the line of Vaibhav Badjatya from HNI Investment. Please go ahead.

Vaibhav Badjatya: I wanted to understand more about the product business. So, you have said that you have invested nearly Rs. 20 crores in product development last year. So, can you let us know what was the number in last three years not just FY21 but what was it in FY19, FY20 and FY21 separately? And will there be further investment on product development side in to the future?

And secondly, you have also mentioned that you will be investing around Rs. 40 crores for sales for these products. So, will this be like only in the current year which will be FY22, or it will be like regular and we will be increasing it going forward?

Rahul Kanodia: So, the first question is the investments over the last three years. This year was about Rs. 20 crores. Last year was about Rs. 17 crores approximately and the year before that was about Rs. 14 crores or Rs. 15 crores. So, that gives you an idea of we have steadily increased it at a slow pace. In terms of the investments, this year the Rs. 40 crores is the budgeted expense for this year only. This figure will evolve depending on how the markets evolve, depending on how the pandemic unfolds and things like that. But we do expect commensurate revenues coming in as well. So, it will be set off with revenues that will come in. But we will calibrate it as we go through the year. But this year it is still a little uncertain in terms of the global pandemic.

Vaibhav Badjatya: And what will be the revenue model here? I mean will it be like perpetual licenses, or it will be recurring license revenue that we will get every year or what was the model here?

Sandeep Mantri: So, it will be - one recurring licenses, which is annual subscription type, and second revenue stream from the product will be implementing the product. So, these will be the main two revenues as far as this product is concerned.

Vaibhav Badjatya: And you expect it to be breakeven in FY22 or there will be losses from this additional investment initially for two, three years?

Rahul Kanodia: We expect the investments to be higher than the returns in the next two, three years.

Moderator: Thank you. The next question is from the line of Ravi Kumar, an investor. Please go ahead.

Ravi Kumar: Basically my question is like even in this pandemic period most of the IT companies have shown a significant growth so just want to know how Datamatics is different from other companies? I mean what we are lacking or how it is different and in fact even from 2004 from the day you have gone to IPO I did not see much performance related to compare to other peers?

Rahul Kanodia: So, in terms of the performance for this year I mentioned in my address Ravi Ji that there were primarily three reasons why our IT did not grow. One was the divestment of Cignex which contributed to 10% of our revenue. The second one was that right in the first quarter of last financial year we lost one of the top 10 customers and that contributed to about 5% of our revenue and approximately 3% of the IT EBITDA. And the third reason was during Covid a few key customers shrunk their budgets and reduced their outsourcing spent. And that has impacted the revenue by about 2.9% and the margin by about 1.7%. So, these were collectively the reasons why our IT did not grow as well as the rest of the industry. It was an unusual year. Normally we do not have this situation but that is what it is.

Ravi Kumar: Actually my question is I have been following with this company since 10 years. So, like something is lacking because when it compared to the opportunity in the IT market space and the peer companies that with I know how strong Datamatics management is, technocrats are there in the seat and still like if we benchmark I am not seeing that kind of performance. This is not just to point out or criticize but just wanted to understand for my knowledge. I think going forward there is a lot of opportunities. Lot of opportunities is there in the IT market space and why Datamatics is lacking and how this can be bridged?

Rahul Kanodia: Sure so Ravi Ji, going forward we are very optimistic about the future opportunity that is in-line for us. In terms of the historical analysis we can obviously have a separate meeting. I do not have all the data in this call but I can show you the trend that we have had since 2004 and what has been the performance or lack of it and then we could perhaps have a more detailed discussion around that.

Moderator: Thank you. The next question is from the line of Keshav Garg from CCIPL. Please go ahead.

Keshav Garg: So, basically I wanted to understand that in the fourth quarter the margins that we have done around 15% you think these margins and this EBITDA that we did in Q4 is sustainable going forward?

Rahul Kanodia: Yes, I do think it is sustainable. It might have an impact in Q1 of this year because of the increments but then that will settle down and I think that is sustainable.

Sandeep Mantri: Annual margins are sustainable but Q4 since we have higher revenue on account of tax business, so it always remains at high EBITDA margin but on an annual basis if we see our margins are at 12.4%. We believe and I trust that these are sustainable margin now.

Keshav Garg: And sir, also wanted to understand that every year there is some impairment of goodwill last year of Rs. 36 crores, year before that Rs. 16 crores and also there is a continuous purchase of fixed assets last year of Rs. 16 crores, before that Rs. 21 crores and before that also it was Rs. 25 crores. So, for basically impairment we understand that you made some acquisitions which did not turn out what you expected and that is was led to it. Sir, but if on a continuous basis this keeps on happening then I mean people get the wrong impression that okay something is going wrong over here?

Sandeep Mantri: No, I do not think. If you remember in last call also we have discussed about this goodwill and we have tried to rationalize everything now and I do not think such goodwill impairment will happen in future because we have cleaned everything now and I do not think anything is pending as far as goodwill is concerned.

Rahul Kanodia: Goodwill right now is very small. It is about Rs. 75 crores.

Sandeep Mantri: And on investment in CAPEX which is basically computer server I think this will continue because we are an IT company, and we always refresh our tech capabilities. These included of security and servers. These are our main core or heart of the business. So, we have to spend and refresh every year. So, this Rs. 15 crores to Rs. 20 crores worth of CAPEX should remain every year. And this is part of our business model.

Keshav Garg: And sir, generally IT companies rent these kinds of equipments?

Sandeep Mantri: Computer rentals will be far more costlier because in pandemic times we also rented because we wanted to immediately enable work from home. Seems like in one year I can recover the cost if I buy a computer compared to rentals.

Keshav Garg: Sir, and also trying to understand the last speaker his question that there is something wrong with Datamatics as compared to the rest of the sector. So, I think I can add some value to that question that if you see our dividend payout ratio from FY10 onwards where it was 33% next year 21% then 17%, 16%, 15%, 14%, 10%, 7%, 7% and then 0%. So, sir, if you see all the IT companies although you said that in the first quarter you will take up this issue, but I just wanted to convey this message that if you see the whole IT sector it is known for good corporate governance and payouts to shareholders forms part of corporate governance only. So, I think this is the only place where we are lagging otherwise our company is superior business from the plain vanilla IT companies which are only in service whereas we are investing such heavily on the product side also. So, if anything our company should be getting a premium, so I think if the company gives Rs. 50 crores dividend payouts then the market cap will go up by Rs. 500 crores. So, sir, it is just something to ponder over.

Sandeep Mantri: We will be discuss in the next board meeting and we will come back on this dividend. last time also we discussed the same issue and we said that we will definitely deliberate and discuss this issue and we will definitely come back with some reasonable answer in the next quarter.

Moderator: Thank you. The next question is from the line of Vaibhav Badjatya from HNI Investment. Please go ahead.

Vaibhav Badjatya: Continuing on the products business can you help us understand what problems these products solve so what would be the value to the customer actually and what activities these products cater to and what problems they solve and how can we as an outsider track the progress on the success of the products? So, are you going to give any order book or order wins on the product like most of the other companies do or as an industry publication or something that we can track as to how these products are doing?

Rahul Kanodia: Yes, so we can share some industry publications and the reports which covered Datamatics with you so if you write to us separately we can share those with you. We have been in the investment mode in this area and right now we have been expensing out all these expenses. So, therefore it is not highlighted separately. We do not track it separately.

To address your question on what problems it solves, basically at a very philosophical level when the agricultural industry was dominant and then the agriculture got automated through mechanizations with tractors and things like that. The people moved to manufacturing and over a period of time manufacturing got automated with robotics and then people move to services and offices.

Today we are automating the work people do in offices. So, when people are capturing information from documents people are typing information on the computer, people are searching the websites or something or you are accessing a database or some information, all that is manually done, and these products automate that area of capturing the information inputting information in to the computer automatically searching and then it uses Artificial Intelligence to understand the context of the transaction and basis that they takes micro decisions.

So, that is automating your back office and front office in the office environment and services companies. There is a huge demand for this because many services companies want to automate more and more so that they can give better and faster services to their customers.

And what is important is until now it was very transaction based automating transactions but the difference comes when you bring in artificial intelligence because it understands the context of the transaction and therefore functions differently. And that is what sets us apart.

So, when you do entire complex processes, for example you might do insurance claim processing, you are doing a death claim processing. So, when you do a death claim processing it has to capture the information from the customer who is making the claim. It has to validate that data against his policy to see whether it is valid, whether it is expired, or whether he has paid premiums, then do compute the amount that could be disbursed and then to adjudicate the claim.

So, all of that can be automated using these platforms and technology that we have.

Vaibhav Badjatya: Any specific industry these products will be useful to or?

Rahul Kanodia: Yes, very heavily in banking, insurance, manufacturing, logistics these are the dominant ones. But telecom is also a very potent industry for this. That way you can do your whole automation of your invoice processing, your back office, your CFO back-office can be automated things like that. Sorry Sandeep, you were saying something?

Sandeep Mantri: Yes, so I was saying even in transport businesses we have very good test cases in this business.

Rahul Kanodia: I will give you another interesting example. There is a bank that just wanted to do KYC. They give loans to people and in loans you fill out the form, the bank wants to check out on the website whether this person has got any track record of default or he had been a defrauder or faulty.

So, we have the technology that goes to website, searches in the web, understands whether this person was involved in a fraud or not in the past and gives that summary to the bank automatically. Now what happens is that if that person was let us say a CEO of a company and that company was involved in a fraud that does not mean that he was involved in a fraud.

The company was involved in a fraud. Now the software has the ability to differentiate between the company and the individual and therefore it pulls out the information and provides that to the bank in a KYC format. Now when you do that manually you might take a few days to search multiple websites and read multiple articles and this can run through multiple websites and articles in a matter of few minutes and give you a summary report.

So, it can be used for ESG. Now ESG is becoming very popular. The companies are putting a lot of pressure on you know the right social governance models and all. So, you can analyze reports and pull that information. So, these are examples but there are many, many such examples.

Vaibhav Badjatya: Just one request. I think I made it earlier also sometimes back in September con call if I am not wrong. If you can either give out a press release whenever you won a reasonable sized order so that we can at least understand that the product is moving in the right direction or on a quarterly bases in the segments you can separate products as a different segment and basically show the revenue and profitability on that front so that we can understand that how this business is moving?

Sandeep Mantri: Sure Vaibhav. But last time if you remember we discussed this and still is not a reportable segment as of today. This is very minor business immaterial business in our overall Datamatics' revenue. So, we discussed, and we communicated that we would start giving the metrics for this business once it becomes material to the operations. Once it becomes little bit sizeable then we will start giving all the metrics however we are giving some basic metrics when it comes to this product.

Rahul Kanodia: But I take your points into investing heavily in this area. We would like to talk about it and we will see how to highlight some of these aspects.

Moderator: Thank you. The next question is from the line of Riya Sharma, an investor. Please go ahead.

Riya Sharma: My question is can you elaborate more on channel partners and like what percentage of revenue coming from them?

Rahul Kanodia: Yes, right now the percentage of revenue is small. Our focus is really to activate the channel partner so we had on-boarded approximately 125 channel partners but our focus is now to get them active. Not all of them are very active. So, we have about 10 or 12 that are active, and we need to activate more. So, we are going through that process right now. The channel partners do give you access to some very good business opportunities where you do not have reach in different countries.

So, the agenda is to have somewhere between 20 to 40 very active and potent channel partners. So, we are right now going through and evaluating the partners that we have.

Moderator: Thank you. The next question is from the line of Keshav Garg from CCIPL. Please go ahead.

Keshav Garg: Sir, I wanted to understand the progress in our metro fair collections software business. Sir, I think in some past con call you mentioned that it is around the potential is around Rs. 100 crores. So, have you reached anywhere near that figure?

Rahul Kanodia: So, this year because of Covid lot of the metro projects have been delayed or gone slow. A lot of the tenders that were coming have been held back. So, we are doing as you may know Mumbai line 2A, 2B and line 7. We had already done Lucknow. In the next approximately 1.5 months to 2 months we will be submitting bids for Kolkata Metro, Mumbai line 4 as well as NCR. So, each of these projects are upwards of Rs. 100 crores. So, this year we expect that these tenders will start again because for the last one year they have been held back because of Covid.

So, we are still very bullish that you know, and we are the strongest Indian player, local player there is no other company out of India that is strong enough. So, that does give us an advantage. So, I think that market should be better this year.

Keshav Garg: And sir, basically wanted to understand this. The micro collection business so is it like it is a onetime income to us that can sell our software and we get the money. It is like that or is it like that we basically collect the fair for the government and it is a reoccurring kind of income. So, which of the two?

Sandeep Mantri: So, it is basically we implement software for them, and we hand it over to them. Collection of revenue from fare collection system is not in our scope. It is basically metro authority job only.

Rahul Kanodia: So, these projects typically last for approximately 3 years to 4 years each project. So, therefore the revenue is spread over 3 to 4 years. To your point about that gets into operations. If we get into operations of collecting the fare every time and doing the transactions and we do not do the operations of metro. We are just doing the technology part of it.

Keshav Garg: Okay sir but this Rs. 100 crores per bid that you are talking about it will come if we succeed that is it will come over three years and not in one go?

Rahul Kanodia: That is correct.

Keshav Garg: Sir, also our provisions for bad debts and also the advances last year was Rs. 7 crores before that Rs. 4.5 crores before that Rs. 10 crores. Sir, so basically why every year we are getting such kind of a hit?

Rahul Kanodia: Some of these bad debt actually happened about 7 years ago when we started doing some government projects in India and government projects have all kinds of problems. So, we have now stopped really doing government projects. So, some of these are lingering and these are mostly public sector type of projects where we have bad debts. That is a large part of it. There is some part of it where you have some problem with some customer where there is some disagreement on what you have delivered and the quality and all.

And that is every company will have some small component of bad debt for delivery related issues. But the large part in our case is the government projects and now we have stopped working with those government projects other than metros.

Keshav Garg: And also sir, our receivables that have fallen drastically this year FY21 so do you think that this level is sustainable 58 days outstanding debtor days?

Sandeep Mantri: This is not 58 days; this is 65 days because when we compute DSO it is based on continuing revenue which is basically without recognizing Cignex revenues. So, the DSO is 65 days not 58 days just for your information and where as these 65 days is sustainable or not I think our DSO will remain between 65 days to 72 days communicated earlier also.

Rahul Kanodia: Okay so it might increase from this level?

Sandeep Mantri: It will be more or less I would say between 60 to 72 days. One or two here or there basically.

Keshav Garg: Sir, for this financial year you gave us an idea about what to expect on the margin front. Sir, so as far as the top line is concerned any idea that you can give us that what rates in fourth quarter now we have come back to our pre-Covid level of business in fact higher than that after the divestment of our subsidiaries. So, going forward any idea on the revenue growth?

Sandeep Mantri: As Rahul said in his speech also in Q1 we expect about 10% to 11% growth compared to last year Q1 because Q4 is not comparable because of onetime revenue counting in Q4. So, about 10% we should expect, 10% to 11% growth.

Keshav Garg: And for the rest of the year?

Sandeep Mantri: Rest of the year may be we will come back in the next quarter call at least we have tried to calculate for this quarter.

Moderator: Thank you. The next question is from the line of Ashish Das from Sharekhan. Please go ahead.

Ashish Das: I wanted to understand more about your segmental margins. Like what I see your BPO business margin has improved substantially on year-on-year basis. Now that is basically most due to the cost savings due to the Covid and in IT services your margins declined due to loss of client as well as investments. Now when the things will normalize how the BPO margin will be going forward? Second on IT services margin even your investments will get over and you will get your margins at pre-Covid level?

Rahul Kanodia: So, the IT margins right now I do not see them sliding any further. We need to claw back those customers that were lost and that typically takes the sales cycle of 6 to 9 months. So, therefore I do not see IT margins bouncing back substantially. It will improve of course this year but I do not see them bouncing back to the level that we would expect because it takes time to get new customers. And also because we are investing in the product development and that the investment might actually increase a little bit therefore that margin will be tight. Now if we extract that investment out of the IT budget then you will see a little healthier margin because then you should look at the margin minus the investments that are being made in the product.

Ashish Das: So, one follow up on the IT business. When these investments will get over like how long you are going to invest on these products? Last three years your investments were?

Sandeep Mantri: Some of these we will be continuing but at the same time the revenue will start flowing in. Right now it is only spent not revenue to some extent so once the revenue starts flowing in into the company then the margin will automatically improve in this sector as well.

Ashish Das: Then the remaining will come?

Rahul Kanodia: Yes, so in terms of investments it may not necessarily reduce substantially but the revenues will flow in and therefore that will give you a better and healthier financial position.

Ashish Das: When we can expect the substantial revenue growth in that?

Rahul Kanodia: This year I think because we have invested and we are investing heavily on sales and marketing this year. We have already got a part of the team on-boarded in the US so I think this year we will start seeing the needle moving.

Ashish Das: So, second half of this FY22?

Rahul Kanodia: I expect we should start seeing some results.

Ashish Das: On the BPM side when the things normalize the margin will come down?

Rahul Kanodia: No, on the BPM side we expect that the margins will be sustained at the current levels.

Ashish Das: Even the things open out?

Sandeep Mantri: Yes, but on quarter-on-quarter you can see some fluctuation because of the nature of revenue otherwise on a long run basis these margins of 16% to 18% are sustainable.

Ashish Das: On the IT services growth like every IT services companies in India are experiencing strong growth client additions, they are getting deals. So, are we lacking any capability that we are not have so much confidence or adding any clients or can you give some quantitative thing there we are also making progress on deals and other things?

Rahul Kanodia: Actually if you see on an annual basis but if you see Q3 over Q2 we grew 8% and Q4 over Q3 also we grew 8%. A large part was because I mentioned earlier in my address because of the divestment of Cignex, because of the loss of one customer we had this right at the beginning of Q1 of last year and some customers who has squeezed their budget because of Covid. Those customers are bouncing back. So, I think it is a just a matter of now being more aggressive in sales. However, having said that we would rather focus our energy more on the product side more than services because services are increasingly becoming commodities so we are going through a little bit of a transformation in the company in terms of the profile and the portfolio of revenues that we might have.

Moderator: Thank you. The next question is from the line of Karthik Reddy, an investor. Please go ahead.

Karthik Reddy: I just want to know going forward the title companies give you a color on what their deal pipeline is and what they have achieved during the previous quarter and then what they have achieved. We are almost into the first quarter finishing the first quarter. I would like to know what is the deal pipeline is and how the outlook is?

Rahul Kanodia: So, we normally do not discuss that. I mean we can include it perhaps I do not have the data at the tip of my fingers right now. We will think through and see whether we need to may be in the next call or something like that we could highlight some elements of the deal pipeline so that gives you a visibility of what the future looks like. So, I take your point. I do not have the data at the tip of my fingers right now to talk about the current deals that are going on or the size and the numbers. Because it is unlike for example like the fair collection where there are two or three or four large deals here you have hundreds of smaller deals that keep happening. So, may be next call we can bring up some of those elements and highlight and give you some headlines around the deal pipeline.

Mitul Mehta: If I may add here something, Rahul. This is Mitul.

Rahul Kanodia: Yes, Mitul.

Mitul Mehta: So, normally deal pipeline keeps changing every week, almost every day depending on progression in multiple leads. So, just giving a deal pipeline number may not yield anything and I have not seen IT services companies giving a deal pipeline during the investor calls.

Sandeep Mantri: I think what he meant is basically if we can give some significant deals which are in pipe. So, something like that without naming may be some insights. So, we will discuss and debate and then we will come back in next call may be.

Moderator: Thank you. The next question is from the line of Sanjeev Hota from Sharekhan. Please go ahead.

Sanjeev Hota: I have few questions. Firstly on how much money you have spent let us say our last five years in this product business?

Rahul Kanodia: Similar question was asked earlier and I did give some indication of the last three years. So, this year we spent Rs. 20 crores, last year was approximately Rs. 17 crores and the year before that was about Rs. 14 crores to Rs. 15 crores. I do not have the data that is before three years but roughly those have been the spends in the product mix.

Sanjeev Hota: So, Rs. 60 crores, Rs. 70 crores would be last five years?

Rahul Kanodia: Approximately.

Sanjeev Hota: But you are saying that by second half we will see some part of our investment that we have made over last 4, 5 years is going to see in the revenue. So, I will ask you over next two, three years you must have an internal aspiration that the roadmap that you aspired to achieve let us say in terms of mix because you talked about the transformation that is currently taking. So, what is the aspiration to touch the mix and revenue, or margins let us say over next two, three years?

Rahul Kanodia: So, that would be a statement that will be a very forward-looking statement when we talk about aspirations and all of us aspire to become a billion-dollar company. So, I would shy away from giving you specifics right now but yes, we are very bullish because this market is extremely hot and there is a good demand and we have got very good products. Some of our competitors have looked at it and they have also said that you have got a very good product better than what they have. So, that gives us lot of confidence in pursuing this. We have high aspirations but I would shy away from giving numbers because that will be speculative number.

Sanjeev Hota: Why I am asking this question is that when we do impairment in our books and we keep on investing in products we have seen many such small and midcap IT companies which has went on a wrong path and the battle has been destroyed for the investor. So, you can give us something concrete that okay we have done this investment and we can do this is the roadmap that we have in the mind so that the investor will get some confidence that we are going in the right direction?

Rahul Kanodia: Sure, yes, we can see how to communicate that with the appropriate board approvals we can make and see how we can communicate something and may be if the board approves we can even consider putting it in the investor deck that goes out every quarter.

Sanjeev Hota: And what are you going to do with the cash that we are currently held within the books because our ROE is going to go down if we are not putting it in the right area?

Rahul Kanodia: Correct so we do plan to invest in this whole product area and that will require a significant investment but as I said earlier the investments will evolve basis how the market reacts. So, we will be very nimble in terms of tweaking our strategy. But yes, a lot of it will be used in investing in these products. What the good news is that if you look at the industry data and may be Mitul you can chime in over here. The market is large and the market is growing rapidly. Mitul, you can may be throw some light on that in terms of the Gartner opportunity and the Everest report you have?

Mitul Mehta: Yes, so the entire intelligent and automation market at license will be about $2 billion and services would be another $5 billion to $7 billion and growing at pre-Covid levels they were growing at about 60% per annum and now it is subdued a little to about 30%- 35% in last year 2020. So, to an extent it is one of the fastest growing enterprise software categories in the world that at this point of time which is RPA.

IDP is another category where we play with TruCap^{+}. So, that is another market which is expected to grow very fast again on back of RPA. However, those numbers there are no official numbers released by any analysts but the growth numbers in terms of USA is fairly again high in the 20s and the 30s per annum.

Rahul Kanodia: The benefit though we have just for your information is that as a company we operate in this space. So, it is not a product that we are building, and it is a totally different area. It is plugged into our operations anyway. So, we have a very good pulse of the market and what the customers need, and we are doing services in this space anyway. So, you are right when companies investing in products typically start ups to that they try to build something new and then it does not work and then they have to have a write off. But fortunately for us because we do already operate in this space, we have a fairly good pulse and confidence that it will be a successful venture.

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

Rahul Kanodia: So, once again I would like to thank everyone for being on this call and I hope that all of you keep yourself safe and remain safe. This pandemic is spreading havoc but I am confident that the Government of India is doing its best and getting it under control. Thank you for being on the call and supporting Datamatics and we look forward to talking to you in the next investor call.

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