

DATAMATICS

“Datamatics Global Services Limited
Q4 FY '23 Earnings Conference Call”

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DATAMATICS



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MODERATOR: **MR. PRATIK JAGTAP – E&Y INVESTOR RELATIONS**

Moderator: Ladies and gentlemen, good day and welcome to Datamatics Global Services Limited Q4 FY'23 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 touch-tone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Pratik Jagtap from E&Y Investor Relations. Thank you, and over to you, sir.

Pratik Jagtap: Thank you, Aman. Good afternoon to all participants in the call today. Welcome to the Q4 and Full Year FY'23 Earnings Call of Datamatics Global Services Limited. The results and presentation have been already mailed to you, and it is also available on the website of the Datamatics. In case anyone has not received a copy of this release and presentation, please do write to us, and we will be happy to send you all.

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

I would like to remind you that anything that's 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. These risks 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 on our website.

With that said, I now hand over the call to Rahul sir. Over to you, sir.

Rahul Kanodia: Thank you, Pratik, and a very warm welcome. And thank you, everyone, for joining our Q4 FY'23 Earnings Call. We are glad to have you on the call today. I'm extremely pleased with the overall performance of the business during the year. This was the first quarter in which we surpassed the INR 400 crore revenue mark. This revenue growth was broad-based, driven by all three segments of Digital Operations, Digital Experiences, and Digital Technologies. Despite the global economic situation, we managed to maintain a healthy margin throughout the year. We had a strong EBITDA growth of 25.5%, with an EBITDA margin of 16.6% for FY'23.

I will briefly touch upon each of our segments and their performance. The Digital Technologies, our EBIT margins saw considerable improvement from 2.2% to 9.1% in quarter 4 of FY'23, primarily due to renegotiated prices and tighter cost controls. Going forward, we are actively focusing on hyperscalers and deepening our client relationship as our growth strategy. Our deal pipeline for the next year remains strong. In Digital Operations, we witnessed strong growth on the top line, and our EBIT margins improved from 19.5% to 23% on a sequential basis. Traditionally, our Q4 tends to be better than Q3 due to the cyclicity of some of our projects, which requires us to ramp up headcount in Q3 and execute in Q4.

In Digital Experiences, though our top line saw a slight decline in Q4, EBIT margins continue to be strong at 28.2%. We have a healthy pipeline, and our business will grow on the back of new customer acquisition. Going forward, we anticipate that these operations will continue to generate strong margins in the same range as this year. We are seeing supply side challenges easing off, which would help us in optimizing our costs for the next financial year. In Q4 FY'23, we signed a total contract of about \$20 million and added about 21 new customers. In line with the account growth, our capabilities and strengths demonstrated to our existing clients have resulted in several deal wins, which remain strong for the quarter. I'm happy to share that we have recommended a total dividend of 100%, which is INR 5 per share.

On a concluding note, I'd like to add that while there is some amount of slowdown across the globe due to macroeconomic factors, we do not see a material impact on the deal wins or existing client spend. We expect to see a sustained growth momentum for FY'23- FY'24, given a decent pipeline of opportunities. This makes us optimistic about our overall demand and confident of maintaining an overall revenue growth of 14% to 15% in FY'24.

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

Sandeep Mantri:

Thank you, Rahul. Welcome, everyone, and thank you for joining us in Q4 and Full Year Earnings Call. Let me start with the financial performance for Q4 FY'23, and then I will take you through the FY'23 numbers. Our Q4 FY'23 revenue stood at INR 416.3 crore, which is up by 11.7% on a sequential basis and 32.9% on a Y-o-Y basis. As Rahul highlighted, this was a milestone quarter for us as we exceeded the revenue mark of INR 400 crore for the first time ever in a single quarter and was ably supported by all the three segments. Our consolidated bid for the quarter was at INR 84.1 crore, which is up by 42.7% on a sequential basis and 63.5% on a Y-o-Y basis.

Our cost optimization strategy, coupled with other initiatives, helped us maintain a double-digit healthy EBITDA margin of 20.2%. Our consolidated EBIT for the quarter was INR 75.3 crore, reflecting tremendous growth of 50% on a sequential basis and 78% on a Y-o-Y basis. EBIT margin for the quarter was at 18.1%. Our other income on a consolidated basis stood at INR 5.3 crore, which is a decline of 50% sequentially and 56% on a Y-o-Y basis. The primary reason for the decline is the exchange gains, which were not there in this quarter.

Our quarterly PAT after NCI was at INR 59.7 crore, which is a growth of 30.2% on a sequential basis and 30.9% on a Y-o-Y basis. Our tax rate for this quarter was at 27%, compared to 25.3% in the last quarter, which is Q3 FY'23. Our EPS for this quarter is at INR 10.13 per share, which is higher than the last year's end period, which was at INR 7.73 per share. When we see segment-wise revenue performance, Digital Operations revenue was at INR 187.3 crore, which is a growth of 22.6% on a sequential basis and 31.6% on Y-o-Y basis. Digital Operations EBIT margin was at 23%. Its contribution to total revenue was 45%.

Our Digital Experience revenue was at INR 59.5 crore, which is a slight decline of 2.7% on a sequential basis, and there was a growth of 48.8% on a Y-o-Y basis. Its EBIT margin was at 28.2%, and its contribution to total revenue is 14%. Our Digital Technologies revenue was at INR 169.5 crore, which is a growth of 6.8% on a sequential basis and 29.4% on a Y-o-Y basis.

EBIT margin is 2.9.1%. Although the margins were negative in the first two quarters of FY'23, this segment has performed very well, and we will see continuous improvement in the margin trajectory of the Digital Technologies segment. Its contribution to total revenue was 41%.

Now, coming to annual numbers, FY'23 financials, our full year revenue was at INR 1,459.2 crore, which is a growth of 21.5%. Our EBITDA was at INR 242.6 crore, which is again up by 25.5% as compared to last year. EBITDA margin stood at 16.6% on an annual basis, and we aspire to maintain a similar kind of margin next year as well. Our EBIT was INR 207.6 crore, which is a growth of 29.8 on a Y-o-Y basis, and EBIT margin stood at 14.2%. Our other income for the year was at INR 38.7 crore, which is a growth of 47% on a Y-o-Y basis, primarily due to exchange gains, exchange incentive, and better investment income.

Our PBT before the exceptional item was INR 243.4 crore, which is a growth of 32.7%. Our PAT after NCI was at INR 189 crore, which is a growth of 20% on a Y-o-Y basis. The tax rate for the year was at 23.9%, which is slightly higher than our earlier expectation of 23%. Our EPS for the full year was at INR 32.05 per share as compared to INR 26.71 per share in the last year. Our EBIT margin was at 21.8%, which is a growth of 20% on a Y-o-Y basis. If you see our segment-wise revenue mix for FY'23, Digital Operations revenue was at INR 630.7 crore, which is up by 21.9%, and EBIT margin for the digital operation was at 22.2% on an annual basis.

Our Digital Experience revenue was at INR 219.3 crore, which is up by 38.8%, and margin was at 26.4%. Our Digital Technologies revenue was at INR 609.1 crore, up by 15.9%, and EBIT margin for the full year was at 1.6%. We continue to maintain a healthy balance sheet. As on March 31st, 2023, our total cash and investment net of debt, we are a zero-debt company, stood at INR 498.2 crore. Our DSO was at 67 days for the full year as compared to 74 days as on March 31st, 2022.

In terms of geographical footprint, US remains our largest geography with 54% of our business coming from here, followed by India at 27%, rest of the world including UK and Europe at 19%. In terms of industry footprint, BFSI continues to remain the largest segment of the company, which include 24% of our revenue, followed by education and publishing, which is 22%, then technology and consulting at 19%, non-profit or non-government organization at 12%, manufacturing, infra and logistics at 12%, retail at 8% of our business, and other segments at 3% of our total revenue.

Our client concentration remains very healthy, with the top 5, 10 and 20 clients contributing to 24%, 37% and 52% respectively. The board has recommended a total dividend of INR 5, which includes INR 3.75 as final dividend and INR 1.25 as a special dividend per share for the year ended March 31st, 2023.

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

Moderator:

Thank you very much. The first question is from the line of fellow Pallavi Deshpande from Sameeksha Capital. Please go ahead.

Pallavi Deshpande: Congratulations on a very good quarter. Just wanted to understand on the Digital Technologies side, how it's driving the turnaround and what would be the strategy going ahead? Like, you mentioned about the margins also being sustained. Did we see some new client additions?

Rahul Kanodia: Yes, so we are looking at new client addition quite significantly. Our margins improved because of better negotiation, as I mentioned, and also tighter cost control. Going forward, we will be focusing on hyperscalers, like Microsoft Power Apps, AI, Cloud, Analytics, all of those areas. We're beginning to get some very good traction on that, plus deepening our client relationship. So, these will be the main drivers for growth. Our focus on the US continues, and that's also getting us some very good traction.

In terms of margin stability, I think the margins will be stable. We may have a dip this quarter because of the increments. Every company goes through the increment cycle around April. So, in this first quarter, we'll have a dip, but it'll normalize through the course of the year. So, I think we should have a fairly healthy margin going forward.

Pallavi Deshpande: We saw a lot of volatility in the quarters in FY'23 for this division, I think because of the large client drop-off also. The stability we'll see is with respect to 4Q margins. Are we restricting to that what is the normalized?

Rahul Kanodia: No, the stability will be there. So, the client that shrunk has now stabilized. In fact, it's marginally grown. So, I don't see an issue on that front. Plus, we have got a very healthy pipeline with good margins coming in. As I said, we negotiated prices, so we should be okay. Having said that, of course, we see in the market a little bit of an issue with the BFSI segment, particularly in the US.

We think there'll be a little bit of softness in the BFSI, but our pipeline is healthy, and our pipeline is good. So, I'm not concerned from a Datamatics point of view, but yes, at the industry level, you may see a little bit of a slowdown, particularly in BFSI. But as far as Datamatics is concerned, I don't see that impacting us majorly.

Pallavi Deshpande: I just wanted to understand, in the RPA space, UiPath reported numbers, which showed that the burn rate is coming down for them. The losses were down. So, does that indicate to you, , more sanity in the marketplace in the RPA space in particular?

Rahul Kanodia: Yes, you're right. So, there is some sanity coming in. Valuations have become more realistic than they used to be. I think these companies have stopped burning the way they were. They were unnecessarily burning. We are getting fairly good traction. Our deal sizes are increasing. The customer acquisition rate has gone up. So, I think we are well positioned.

As far as the UiPath is concerned, some of our, we are also getting some customers moving out of the UiPath and switching over to our TruBot product. But overall, we are getting some very good traction in that space. And the annual coverage for our products has been extremely good. The customer feedback also has been very, very healthy.

Pallavi Deshpande: And in terms of the price negotiation, you mentioned what would be the kind of price uptake you've seen in there?

Rahul Kanodia: So, through the course of last year, at varying points, we negotiated with several customers, and we were able to raise prices anywhere from 5% to 30%. Of course, each customer, each project was very different. And that should go through for this year as well, because we have already renegotiated. So last year, because it happened through the course of the year, you did not see the full impact. This year, you will see the full impact.

And of course, we continue to talk to some many of our customers for revised prices. Fortunately, what's happening is that the Western world, America and Europe in particular, are going through huge inflation. So, their cost structures are going up. And because of that, they recognize that they may need to pay higher because their own cost structures are going up. So, we are finding it a little easier to negotiate prices with customers.

Pallavi Deshpande: And sir lastly, on the acquisition side, if you could update us on how I'm looking at that now. how close are we to completing or doing a deal here?

Rahul Kanodia: We have initiated dialogue with several customers or prospects, target companies. We are looking at making acquisitions somewhere in the range of \$20 million to \$50 million this year. We are not just going to buy a company for the sake of buying a company, so the due diligence has to be fairly thorough. And then it has to fit our strategy, it has to fit into our customer acquisition and deepening our expertise.

So, in that sense, we are looking for good fits. Fortunately, we are in dialogue with some companies, and I am very hopeful that in this financial year, we will be able to close some deals.

Pallavi Deshpande: And this will be in the Digital Technologies piece or?

Rahul Kanodia: That is correct.

Pallavi Deshpande: I'll come back in the queue for further questions. Thank you so much.

Moderator: Thank you. The next question is in the line of Pratap Maliwal from Mount Intra Finance. Please go ahead.

Pratap Maliwal: Okay, hi, and thanks for taking my question. Congrats on a good set of numbers. So last quarter, we said that we've taken some price hikes, that we've renegotiated certain deals with customers, and that some of that effect will come in in the next quarter, that is Q4. So, I just wanted to ask, we've got strong growth of about 11.7%, what portion of this growth is due to the price hikes and what portion maybe was due to the ramp up of deals won during the year?

Rahul Kanodia: I don't have that break up. Some of it is not easy to get because some of it would be an increase in business from customers for whom we've hiked the price. So, it's a combination of both, volume increase as well as price hikes. Some of them are new customers, so I don't have a breakup, but that number may not be the easiest one to calculate.

- Pratap Maliwal:** Okay, understood. Now, in the last quarter, we had given a guidance that we'll get about 15% growth for FY'24, and now despite such a strong quarter in Q4, we've kind of given a range of 14% to 15%. So just trying to understand, are we baking in some kind of conservatism in our outlook for FY'24, or has something changed material in the demand outlook? Could you just give us some clarity on that?
- Rahul Kanodia:** Yes, so there's no impact on the demand outlook that remains equally robust, but one is seeing some softness in the US BFSI sector, and one is seeing some headwinds, particularly out of US and Europe. Many other companies are predicting slower growth. So, we think that there could be some softness. However, as far as Datamatics is concerned, we're still seeing a very healthy pipeline, so I don't see that as an issue. But we are being a bit cautious, because you don't know which way the world will go in the next 12 months, because of the economic challenges that they're having, inflation and recession and things like that.
- Pratap Maliwal:** And you just called out that the deal win for the quarter was about \$20 million. Did I hear that correct?
- Rahul Kanodia:** That's correct.
- Pratap Maliwal:** And this is in range with our normal range, or what is the normal range of deals that we usually get?
- Rahul Kanodia:** Yes, it typically ranges about \$15 odd million, \$15-\$17 million, so \$20 million is in range with our regular things.
- Pratap Maliwal:** And we expect this to carry on even in FY'24?
- Rahul Kanodia:** Yes, we expect, as of today, where we stand, we expect that trend to continue.
- Pratap Maliwal:** Okay, sir, thank you. Thanks for taking my question, and congrats on a good set of numbers.
- Rahul Kanodia:** Thank you.
- Pratap Maliwal:** Yes.
- Moderator:** Thank you. The next question is in the line of Akshat Mehta from Sameeksha Capital. Please go ahead.
- Akshat Mehta:** Hi, congratulations on a good quarter, and thank you for the opportunity. I have a couple of questions here. You said that this quarter we will be taking some hikes in terms of employee costs. So, what is the kind of hike that you are planning, if you can share some light on that?
- Rahul Kanodia:** Yes, the increments would overall range, approximately averaging about 10%, 10.5%, but obviously it's not the same for everyone. Some high performers will be getting higher, some low performers will be lower. There's a churn. So yes, overall average approximately 10%, 10.5%.
- Akshat Mehta:** Okay.

Rahul Kanodia: So, you will see an impact in Q1, because obviously the increments come in now, but it will normalize over the course of the year.

Akshat Mehta: Okay. Secondly, out of which area, out of the three, segments that you have, operations, experience, and technologies, and obviously there are different solutions that you brought in that. Which areas are we seeing, the most growth coming out of at the moment?

Rahul Kanodia: Right now, we're getting a fairly even growth across the board. If you see our growth was highest in the digital experiences last year, but this year we're looking at a fairly balanced growth across all these three segments.

Akshat Mehta: Okay, thank you. I'll come back.

Rahul Kanodia: Thank you.

Moderator: Thank you. The next question is from the line of Darshan Jhaveri from Crown Capital. Please go ahead.

Darshan Jhaveri: Hello, good evening, sir, and thank you so much for taking my question. Congratulations on a great set of results. So, I just wanted to ask, we are planning for a 14%, 15% growth, but our margins, we are probably looking at the same range that we did this year, but will we also have some kind of operating leverage that could drive our margins even higher?

Rahul Kanodia: Yes, we are looking at some of those operating benefits and leverage, and we should be able to improve margins a little bit for sure. I think on an overall basis, we could be looking at plus or minus about 1%, so that could happen as we go through the course of the year. Through operational efficiencies, price negotiation, tightening the belt, so there will be a multitude of factors that will contribute to it, but you're right. So, there should be some improvement in margins as well.

Darshan Jhaveri: Correct, sir, and also our inorganic acquisition that we are looking at, so that will also give us a higher revenue than our 14%, 15%. So, our 14%, 15% would be our organic revenue, and whatever we get from our new acquisition would be another. Correct, sir? Is my understanding correct?

Rahul Kanodia: Yes, that is correct.

Darshan Jhaveri: Correct. Okay, sir. So around what kind of range are we looking at the acquisition in terms of which segment or when could we close, or could you just give some more details about the acquisition that we are planning?

Rahul Kanodia: So, we are looking at acquisitions in the hyperscaler areas, which I mentioned earlier, around Microsoft Power Apps, Salesforce, Cloud, those kinds of technology areas. We are looking at companies in the range of \$20 million to \$50 million. It could be one acquisition, or it could be two or three smaller ones. That is unclear as we go through the process of discussing with target companies and negotiating with them. So, it's not quite clear which way to go, but yes, it's somewhere in that range.

- Darshan Jhaveri:** Okay, sir. And any sort of timeline, like we could see it in the second half of the year? Nothing concrete, but just a small range that could help.
- Rahul Kanodia:** That is correct. Nothing so concrete, therefore I don't expect anything significant in this quarter or the first quarter, but depending on how the negotiations mature, there could be something in Q2 or Q3.
- Darshan Jhaveri:** Okay, sir. And sir, any other risks that you could see, that we could face, or we are on a stable pipeline of growth?
- Rahul Kanodia:** No, I think we are on a fairly stable pipeline. I don't, at this point, see any risks.
- Darshan Jhaveri:** Okay. Thank you so much for answering my question. All the best, sir. Looking forward to great numbers
- Rahul Kanodia:** Thank you.
- Moderator:** Thank you. The next question is on the line of Pranav Mashruwala from Dolat Capital. Please go ahead.
- Pranav Mashruwala:** I just wanted to ask about your India plans. So, India plans, India's about 27% of your revenue. And how do you see growth panning out for India and contributing to our FY'24 guidance?
- Rahul Kanodia:** So, India has traditionally grown very well for us. However, India tends to be a little lower margin. It's a very price-sensitive market. So, our focus is now increasingly focused on the US and Europe. So that's really very good. So, in that sense, in a proportionate ratio, India might slow down. Although India in itself is growing and will grow very healthy, but we will put more effort on the US and Europe. So therefore, proportionately, India will be a little lower.
- Pranav Mashruwala:** And BFSI segment, any particular specific pockets of areas where you see the slowdown to be more skewed?
- Rahul Kanodia:** Not in particular. We're not seeing, we see a fairly healthy pipeline. But yes, many of our customers who are in that segment are a little nervous right now. So, it's possible that some of them start tightening the purse strings. But right now, we don't see that happening. On the ground, in terms of my current deal pipeline and the flow, I don't see that. But given the situation in the US, it's possible that some of them could slow down a little bit. So, we are being cautious, but we are still optimistic because we don't see an impact on our pipeline.
- Pranav Mashruwala:** Finally, on the education learning segment, so how do you see the outlook?
- Rahul Kanodia:** So, the bulk of our business in that segment is mostly in the traditional education space, and not much in the Edtech. The Edtech has been impacted quite significantly. So, I don't see an impact on Datamatics because the larger part of our business is in the traditional education space.
- Pranav Mashruwala:** Thank you.

- Rahul Kanodia:** Thank you.
- Moderator:** Thank you. Our next question is from the line of Arpit Shah from Stallion Asset. Please go ahead.
- Arpit Shah:** Just wanted to understand if there were any one-offs in revenues this quarter, at least in Digital Operation, because you had a very high sequential growth of around 20% or so. Just wanted to understand if there was any one-off in Digital Operations?
- Rahul Kanodia:** No, no. There was no one-off deal. We do tend to have a little higher quarter in Q4, typically compared to Q3. That's been a traditional cycle that you see in Datamatics. So, I think it's that, and this quarter probably is stronger, but yes, there's no one-off deal that has caused a spike.
- Arpit Shah:** Got it. Just wanted to understand, are we seeing any kind of J-curve in Digital Technologies margins? Because we've probably moved from minus 2% to 9%. And are you seeing double-digit kind of margin in this business, or how does it look like going ahead?
- Rahul Kanodia:** So, if you're asking whether the 9% will go into double digits of maybe 12%, 13%, 14%, 15%, so that will happen as we improve our operations. And as price renegotiation has a full impact, so it should improve. But I don't have a figure to exactly where it'll end up for the year, but yes, it should improve in principle. Obviously, a quarter to quarter, there will be some fluctuation, as I mentioned earlier. Q1, it might go down a little bit because of the increments, but then it'll normalize through the course of the year. So, perceptually, it should improve a couple of percentage points.
- Arpit Shah:** Got it. And does the product business sit under Digital Technologies, products business?
- Rahul Kanodia:** That is correct, it does.
- Arpit Shah:** Okay, and even the AFC contracts, which you all have signed a couple of quarters back, that sits in Digital Technologies? That is also correct. So, is that ramping up very fast for you? Is that the reason the margin is 9%?
- Rahul Kanodia:** Ramping up, well, we've got several prospects that we are talking to. But these are very tender-driven projects, and they're semi-government in nature, so they take time to materialize. They're chunky deals, so when they materialize, suddenly you get a \$20 million, \$30 million, \$40 million deal. But yes, they do sit under Digital Technologies, and we are in active dialogue with several prospects, but nothing will close in the next, perhaps towards the end of this quarter, maybe early next quarter, we might have something happening.
- Arpit Shah:** Got it. Even in the third quarter of FY'22, we had seen a margin of around 8% on Digital Technologies. And after four or five quarters, we've moved again to 9%. So, do you see any risk that this number would move back to, let's say, lower single digits?
- Rahul Kanodia:** No, I don't see that at this point in time. There's a slight. We had a slight, largely because of our large customer had chosen a multi-vendor strategy, and therefore a large chunk had moved out, which of course, and also what happened last year is that the whole IT industry went through a

crazy phase of huge salary hikes. So, there is a combination of salary hikes plus the squeezing from some customers. What is the result? I don't expect that to happen now. We're already seeing the supply side easing off. So, I think that we should be okay.

Arpit Shah: Got it. And we saw about 11% to 12% of sequential revenue growth from Q4 to Q3. So why are we waiting for 14% to 15% kind of growth rates? Is it just trying to be conservative, or do you have any ramp downs or any different kind of revenue adjustments that you have to make? Or what is it? Why is this 14% to 15% revenue?

Rahul Kanodia: No, we don't have any ramp downs. So, we are just being a little cautious given the situation in the US is a little uncertain and volatile, particularly the BFSI segment. So, we are being cautious. As far as our deal pipeline is concerned, we don't see an impact, but we don't know which way the wind will blow in the US.

Arpit Shah: And the 20% margin which we have done this quarter, would that continue, or will it come back to 16% to 17% kind of number which we did for FY'23?

Rahul Kanodia: No, it'll come back. The 20% quarter is not going to sustain at that level. It'll come down a little bit.

Sandeep Mantri: So, on an annual basis, we had 16.6%. And I think for the next year also, we should be in the same range between 16% to 17.5%.

Arpit Shah: Okay. Thank you so much.

Moderator: The next question is a follow-up question from the line of Pallavi Deshpande from Sameeksha Capital. Please go ahead.

Pallavi Deshpande: On the Digital technologies side, if you could just share total client additions were 21 for the organization. So how many would have been on the Digital Technologies side?

Rahul Kanodia: In the quarter? Okay, I don't have that number for you.

Pallavi Deshpande: For the year.

Rahul Kanodia: For the year?

Pallavi Deshpande: Okay, yes, '21 was for the quarter, right? Either for the quarter or the year?

Rahul Kanodia: So, we are running at about, we had 79 for the year. So roughly 20 per quarter. A good chunk of them are coming from the Digital Technologies side. But I don't have that breakup handy with me right now. Yes. But suffice it to say, it would be about 40% to 50%.

Pallavi Deshpande: What would be the share of implementation work that you do on the Digital Technologies side?

Rahul Kanodia: I don't have that breakup either. How much is implementation versus software support, maintenance, development? We don't have that. We don't do that.

- Pallavi Deshpande:** On the educational learning side, or would that be lower margin than the overall margin side?
- Rahul Kanodia:** No. That's fairly healthy margins.
- Pallavi Deshpande:** What would be the employee hiring plans for FY'24?
- Rahul Kanodia:** So increasingly, we are going more on platforms and technology rather than headcount. So, we'll see a disproportionate increase in revenue versus employee headcount. But this year, we would have added approximately 1,200 employees at net increase. Next year, I think we should be in the range of about, depending on the growth rate, of course, at about maybe 1,300, 1,400 employees.
- Pallavi Deshpande:** Now, assuming a growth rate of 15% on the revenues, that would be 1,400?
- Rahul Kanodia:** That is correct. But our employee headcount may not increase in line with the revenue increase.
- Pallavi Deshpande:** The automatic fare of this system, which you have, and what would be the share of that in the India revenue? And would it be a major chunk of the India revenue?
- Rahul Kanodia:** So, our India revenue is about, in AFC, it's about a fourth, about a fourth of India. 25% of India comes from the AFC.
- Pallavi Deshpande:** I just didn't get that part, so I think you mentioned that lumpy and you expect all these there in the second and third quarter, is that right?
- Rahul Kanodia:** So, these projects tend to be lumpy and chunky because when they come, then it's a large deal, otherwise it doesn't go for a while. So, it's not that every month or two months you're signing new deals. And therefore, the next deal, and because it's very tender-driven, it depends on certain guidelines and timelines given by the government. And therefore, it's very hard to predict. But yes, I do expect sometime around the end of Q1 or early Q2, we should have potentially something maturing. But of course, that depends also whether we win the deal or not. So, yes, that's when we expect to hopefully sign the next deal.
- Pallavi Deshpande:** In terms of businesses, like we're hearing a lot about the low-code, no-code. How do you see that driving growth in the new areas?
- Rahul Kanodia:** So, we are implementing it. For us, it's going quite well. We are implementing several projects using low-code, no-code. So therefore, we're generating more and more business on those platforms. And the margins are also fairly healthy. So, we're quite optimistic about pushing the low-code, no-code solutions into the market. We are beginning to see some internal productivity benefit gains as well. But they're still in a little bit of a pilot phase, internally.
- Pallavi Deshpande:** In terms of the other business was this application modernization. How is that progressing?
- Rahul Kanodia:** So that's done well, and low-code, no-code is part of that application modernization.

- Pallavi Deshpande:** Lastly on the investments in the product space. I think you mentioned in the last call that we're nearly done with that. So, it's only on the marketing side that you need to ramp up that. What would be the kind of spend, and can that also be a drain on margins in the near term?
- Rahul Kanodia:** I think I mentioned in the previous quarter calls that we are spending about INR 40 crore to INR 50 crore in that spend. We will sustain that for now. And as we spend more on the marketing, and the growth will happen. So, the growth and the marketing increase will offset each other. But we will sustain the spend at about INR 40 crore to INR 50 crore.
- Pallavi Deshpande:** Right, okay, thank you so much.
- Rahul Kanodia:** Thank you.
- Moderator:** Thank you. The next question is on the line of Keshav from RakSan Investors. Please go ahead.
- Keshav:** Hi, good evening, sir. So just one clarity on the margin guidance. So, when we are expecting our Digital Technologies margins to hold above the current, and eventually move to a double-digit number, why are we guiding for sub-17 margins on an annual basis?
- Rahul Kanodia:** So, we're just being cautious because we really have some concerns on how the US market may pan out. As I mentioned earlier, our deal flow is equally robust, so we don't see that as far as Datamatics are concerned. But if the headwinds in the industry grow stronger, then we will not be able to push that back. So, we're being more cautious in that. So, however, we did mention that we do expect some improvement in the margin. So, I am hoping that we will see improvement, but it's very difficult to calculate that figure right now.
- Keshav:** Right, thanks, sir. That's all from me.
- Moderator:** Thank you. The next question is on the line of Arpit Shah from Stallion Asset. Please go ahead.
- Arpit Shah:** Just wanted to understand the capital allocation, the kind of acquisition you're looking out for. So, these would be mostly on the business processing side, or they would be more on the product side? How would that look like?
- Rahul Kanodia:** No, we are looking at acquiring in the product space. We have our own IP, and that's what we are going to push in the market. As I mentioned earlier, we're going to double down on that because we're getting very good traction from customers as well as the analysts. The acquisition will be more in the hyperscaler space, which is around cloud, power apps, low-code, no-code, Salesforce, those kinds of things. It's all on the services side.
- Arpit Shah:** Are you looking to add numbers through acquisition, or are you trying to add capabilities through acquisition?
- Rahul Kanodia:** We are augmenting our capability and competence. And of course, there will be a natural augmentation of some customers as well. It's more competent than customer based.
- Arpit Shah:** Good, and what are the typical, let's say, cap rate you're targeting, or the kind of paybacks you're targeting from acquisitions?

Rahul Kanodia: So, it depends, deal-to-deal. There's no formula, but we traditionally look at about five to eight times earnings, and if it goes well, then we can recover cash in less than five years. If it doesn't go well, then you would recover over 10 years. But five to eight is roughly the range we typically look at. But then, of course, it depends, deal to deal, and it depends on what area of technology the target company is in, and how much they have in terms of their own IP and platform versus pure services. So that would vary, but roughly, at a high level, that's the range we look at.

Arpit Shah: Good, good. Thank you so much.

Moderator: Thank you. The next question is from the line of Shreya Biwalkar, as an investor. Please go ahead.

Shreya Biwalkar: First of all, congratulations to Rahul sir and the Datamatics team for the wonderful result. My question is something related to everybody's talking nowadays, and it is about nothing but ChatGPT. So, I just wanted to know what is your take on ChatGPT, and how are you going to leverage it at Datamatics?

Rahul Kanodia: So, we are piloting about 20 odd projects using OpenAI and other AI technologies, which includes GPT and LLM. ChatGPT is, of course, the consumer version of it. That's not something that we are using at the enterprise level, because a lot of that information then goes to Microsoft.

But if you look at just GPT or LLM, there are several projects that we are currently implementing as a pilot level. Also testing out the efficacy of it from a legal perspective and compliance. So those things are being evaluated as we decide how do we implement this technology for our customers.

Shreya Bilwalkar: Okay. So that's it from my side. Thank you so much. And once again, congratulations.

Rahul Kanodia: Thank you.

Moderator: Thank you. The next question is in the line of Jhalk Manoj from Swan Investments. Please go ahead.

Jhalk Manoj: Thanks for the opportunity, and congrats on the good set of numbers. So, two questions quickly. My first question was, is it that the margins in particular in Digital Technologies business are varying? So, what is it? Is it an investment mode are we or how is it? Could you give some color to that? And secondly, I wanted to understand what would be the target margins do we see in this business going forward or in a good case scenario? Thanks.

Rahul Kanodia: Yes. So, the margins were varying last year because as we had mentioned that we, one of our larger customers decided to have a multi-vendor strategy. So, there was a squeeze on the revenues from there. It was a very healthy margin customer. Plus, at the same time, you had the salary hikes that were going in the IT industry which was absolutely crazy. The supply side challenges that we had at the industry level. So that really squeezed the margins.

Over the course of the last one or two quarters, we've improved that steadily. I do expect that to improve going forward as well. We clocked this last quarter at about a 9% margin. And that is

of course after all the investments that we are making in our products and our platforms and things like that. Given that our products and platforms should remain steady, and the revenue should grow, I do expect some improvement on margins there as well.

Plus, one or two customers that we talked about, larger ones have also stabilized. So, I think we should see an improvement in the margin. But having said that, we are equally being cautious, or conservative given some softness in the market in the US and Europe. And therefore, we are projecting a conservative number. Having said that, it's very hard to predict exactly where it'll be next year. But I do think that we will be significantly better than the last financial year.

- Jhalk Manoj:** Got it. Not just next year, but otherwise what is in a normal scenario as a market?
- Rahul Kanodia:** Normal scenario, it should get to the high teens for sure. And that is our agenda, that is our goal. Because in the next two to three years, we should certainly get there.
- Jhalk Manoj:** Got it. Fine, thanks a lot for the opportunity and best of luck. Thank you.
- Moderator:** Thank you. The next question is from the line of Dhruv Jhaveri from Seven Island PMS. Please go ahead.
- Dhruv Jhaveri:** Since you have high exposure to US markets, what is the forex gain in this year or in this quarter?
- Sandeep Mantri:** Forex gain in this quarter will be, so our other income is about INR 36 crore, INR 37 crore, which includes forex gain as well.
- Dhruv Jhaveri:** Can you give the exact number?
- Rahul Kanodia:** If you're talking about revenue, then it is about 4.5% because of forex. So, I think our constant currency growth is about 17.5%. And we declared 21.5 percent. So, between 17.5% and 21.5% is the currency impact.
- Dhruv Jhaveri:** Okay. Thank you, sir.
- Rahul Kanodia:** 4%, that's 4%.
- Moderator:** Thank you. The next question is from the line of Harshit Toshniwal from Bottoms Up Research. Please go ahead.
- Harshit Toshniwal:** Firstly, congratulations on a great set of numbers. It was truly out of the park. Two questions. So, on the technologies side, if you can give some breakup of what is the core product revenue and what is the services revenue within that? And the reason I'm asking is because you think that a large part of the margin improvement is because of our tie-up with hyperscalers. So, when you say that, you mean that our products like TruBot, TruAI, etcetera, all of those are now there on hyperscalers platform and we are getting more traction and business through that distribution channel. Is that the reason of margin improvement to a large extent? And the reason why I'm trying to separate is that because within the enterprise, this IT services business would be where we would want to do the acquisition. So, some color on what has been the trajectory on that particular part within technologies?

- Rahul Kanodia:** Yes, no, so we traditionally don't break up the products and the services business.
- Harshit Toshniwal:** Broad percentage mix.
- Rahul Kanodia:** The hyperscalers are all in the services space. The hyperscalers is not our product. Our product business is quietly different. Although it falls technically into the same hyperscaler area, but the ones that we are talking about are third-party platforms like Microsoft and Salesforce and Cloud and things like that. So that is where we are going to be focusing on. We do have practice in that already today, but our focus is going to increase in the next year.
- Harshit Toshniwal:** If I can, sorry to ask this, because I just wanted to understand that when we say that hyperscalers, then do we mean that our product is there or we work for Microsoft, Salesforce, etcetera, or do we work for implementation of Salesforce at different clients? I'm just trying to understand that our profile, or do we work directly for these hyperscalers?
- Rahul Kanodia:** The third one, where we implement these platforms at our client locations.
- Harshit Toshniwal:** Okay, that's typical IT service implementation business?
- Rahul Kanodia:** Yes, implementation, yes. And building solutions around it, on top of it.
- Harshit Toshniwal:** Okay, so the margin improvement has come because of the growth in that particular business?
- Rahul Kanodia:** Also, the other traditional IT business, both.
- Harshit Toshniwal:** And the other part which I'm asking that the investments in the product, that is something which we are doing in our own in-house built products of TruCap, etcetera, the three to four ones which we are having. Now that is something which is yet to yield revenue and there is some scope of margin improvement through that. If you can help us understand that particular segment, is that profitable right now in itself? And secondly, who is the distributor for all those products for us?
- Rahul Kanodia:** Yes, so we have multiple distributors, dealers, resellers in the US and in India. That product is not profitable. We are still in the investment mode. So, we are investing, as I mentioned earlier, we're investing about INR 40 crore to INR 50 crore a year and we sustain that level of investment. But it's beginning to show some very good traction. We're getting many, deals and little, larger size deals. So, we're still very bullish because that's an investment. You see the product business typically gives you returns for five to seven years, roughly. We are probably still in year three or year four. So, we still have the next two to three years to go from an investment strategy part of view to see the returns that we are expecting.
- Harshit Toshniwal:** Fairly, and that is actually positive which means that our services margin is actually much more than 9%. It is just that because of the product being there, it appears to be lower, but otherwise the real margins are much better than the ones which are reflected?
- Rahul Kanodia:** You're right.
- Harshit Toshniwal:** Okay, and one last question, if I may ask on the acquisition part, which you mentioned, that when you are saying that you are looking out for acquisitions, so does it mean some smaller

players who are doing implementation of Salesforce, etcetera, we are looking for some kind of players who have some revenue, obviously, in that segment, or anything specifically? Because the reason I asked was that when you say that 8 to 10 times earnings, I'm just wondering that the kind of assets which will be available at those kinds of valuations. So some more clarity on how exactly or what stage we are at? Should we expect something over the next six, seven months or over the coming year? Or do you think that it is still that we are not yet very close to where exactly we can find those kinds of opportunities?

Rahul Kanodia: No, we are in dialogue with some companies. So, finding opportunities is not a major challenge. I think the bigger challenge is making sure that the company is the right fit, and the financials are appropriate and things like that. So, we did look at some companies, we dropped them at the last minute because some reason we were not comfortable with that. So, companies are available, valuations are fair. Right now, as the market's coming down, we are getting better value from an acquisition point of view. And we will make sure that we acquire a good company, for sure.

Harshit Toshniwal: The type would be more IT, the service implementation ones?

Rahul Kanodia: Yes, these are the service implementation ones, you're right. And I expect that sometime in the this financial year, we should be able to close a deal or two.

Harshit Toshniwal: Understood., I think that's all. Just hope that this kind of result keeps on continuing. But thanks a lot.

Rahul Kanodia: Thank you.

Moderator: Thank you. We have a follow-up question from the line of Pallavi Deshpande from Sameeksha Capital. Please go ahead.

Pallavi Deshpande: We just wanted to understand the product side of the business. So which geographies would we be targeting? And you also mentioned it's showing good traction. So currently, where are they showing the traction? Which market?

Rahul Kanodia: So, the primary geography is the United States. That's by far the dominant market. There is some element in Europe as well. Since we are based in India, we have a footprint in India as well. Although our focus is more in the US and India. So, if you look at the largest patch, it would be America and India. America would be number one, then followed by India.

Pallavi Deshpande: Right. That's it from us.

Rahul Kanodia: Thank you.

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

Rahul Kanodia: Thank you, everyone, for participating on this call, and thank you for your confidence in Datamatics. We hope that next year remains robust, and I'm sure together we will enjoy the fruits of it. Thank you again for being on the call and look forward to talking to you next quarter. Thank you very much. Thank you.

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