"Datamatics Global Services Limited
Q4 & Full Year FY2020 Earnings Conference Call"

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MODERATOR: **MR. DIWAKAR PINGLE, CHRISTENSEN IR**

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Datamatics Global Services Limited Q4 FY ’20 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 for an operator by pressing ‘*’ and then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Diwakar Pingle from Christensen IR. Thank you and over to you, Sir.

Diwakar Pingle: Thank you, Stanford. It gives me a great pleasure to invite all of you for the Q4 and full year FY20 earnings call for Datamatics Global Services Limited. This is the first time that the company is doing an earnings call. The results and the investor presentation have been mailed to you and is also available on our website, www.datamatics.com. In case anyone does not have a copy of the press release, please do write to us, we will be happy to send the press release and presentation to you.

To take us through the results today and answer your questions, we have with us the top management of the company represented by Rahul Kanodia, Vice Chairman and CEO; Sandeep Mantri, CFO; and Mitul Mehta, Senior VP & Head Marketing and Communications. We will be starting the call with a brief overview of the company given by Rahul which will then be followed by financials given by Sandeep. We will then take the Q&A session.

The normal safe-harbor clause applies, with that said, I now like to hand over the call to Rahul. Over to you, Rahul.

Rahul Kanodia: Thanks Diwakar, and Welcome and thank you everyone who has joined this call. This is our first earnings call as Diwakar mentioned and we are glad to have all of you on the call today. I sincerely hope that you and your families are safe in this unprecedented and challenging times.

We announced our Q4 and FY19-20 annual results on the May 14^{th} detailing out our operational performance. Since this is the first earnings call, I would like to start off with a brief overview of the company. We are a global technology, Business Process Management and Digital Solutions company, building intelligent solutions for data-driven businesses to increase productivity and enhance customer experience. The key focus for us are in two areas, one is IT services, one is BPM services. The IT services comprises of about Rs 707 crores for us which is about 58.8% of our revenue. Within that, we have an Application Management practice which focuses on Customer Application Development Management, managing bespoke software system for customers. The next one is around Enterprise Document Management. This is where we do intelligent document processing and digital process automation and here we partnered with open text and IBM FileNet plus we have our own products called TruCap+. Third area of focus is open source where we implement open source solutions for customers.

The next area is of course Digital Solutions. And in the Digital Solutions, our footprint covers Cloud where we help customers migrate to the cloud. We have partnered with Amazon web services and we have also hosted several of our products on the cloud, which is TruFare, TruBot, and TruBI. I will talk about some of these as we go along. Mobility solutions, where we have built several apps for leading e-commerce companies and aggregators, artificial intelligence which is focused on deploying artificial intelligence within our projects. We build solutions using natural language processing for contextual data processing using genetic algorithms and deploying it in projects where we do balance sheet analysis, email analytics, or claims processing, that is where this technology is used and then we have the intelligent document processing where I mentioned that we have our own product called TruCap, which includes cognitive capture.

In the Robotics area, which is a very important area for us, we have recently launched TruBot 4.0. TruBot is our robotics product and TruBot 4.0 has built into that TruCap+ as an integrated cognitive capture module. Getting a very good response right now from the market since we have launched it about a month-and-a-half ago and we have appointed over a hundred channel partners and they have started generating healthy pipeline and we have already started servicing some very marquee and leading logos around the world. We have also built a whole partner ecosystem where we built partner-specific collaterals, demos, training, programs, partner for bot programs, go-to market strategies with our partners and our entire ecosystem has been built over the last one year and we have invested significantly in building this as a platform that we can take to market.

The next area in the Technology space is Automatic Fare Collection. Here, we are the only Indian company with a very strong footprint in this space. We have been in this space for the last 20 years and we have done over 25 projects. We have done projects like New York, London, Dubai, Hong Kong, Melbourne, where we have done the fare collection for the metro systems in these cities. We have started working in India as well where we have done Lucknow Metro, we are working on Mumbai Metro. Our competitors Samsung, LG, Thales, Indra these are all MNCs, so there is really no Indian player and also these MNCs are scaling down their operations in India because they are not able to manage the Indian situation. Once again here we have our own product called TruFare that does give us a significant edge in the market.

Now, switching to the other area of focus, which is Business Process Management, that area comprises of about Rs 496 crores of revenue for us, which is about 41.2% of our revenue. Here, we focus on Content Management and that goes into two industries, one is a Publishing industry, the brick and mortar publishing industry where we do content creation, content management, layout of books, layout of magazines, and journals and things like that. The other one focuses on E-retail, where we do all the content that goes on to retail websites, the webpage, the content that is on the webpage, the images, the pricing, the description of products all those kinds of things and we are servicing some top global E-commerce companies. Then in the F&A space, we focus on accounts payable, accounts receivable, P2P, O2C, essentially this practice focuses on automation of the CFO's back-office. It is a platform-driven offering and again we have incorporated artificial intelligence into that, so that gives us a significant edge when we compete in the market.

The next area is BFSI where we do back-office operations for banks and insurance companies, we do things like claims processing, KYC account opening, account reconciliation, so the back-office operations and also for credit rating agencies where we do balance sheet analysis and financial analysis, and finally, the last one is around customer support services where we do customer responses, email support, technical helpdesk, customer service, and analytics, so with all of that us in the BPO space and BPM space. We continue to invest in building our robotics product. We have recently launched as I mentioned TruBot 4.0 and our total spend on this product during the year was about Rs 18 crores and we have not capitalized these expenses, so we have actually written off these expenses. We have also built the entire partner ecosystem that I talked about earlier that enables the partners to sell in the market. We launched a very specific COVID offer for our robotics product where we were giving three bots free for use till September 30, 2020. Organizations we felt are under stress and we believe that this will really help them automate their processes and increase the efficiency and reduce cost. This program has got a lot of interest from customers and I am sure that will help us capture market share.

From a delivery perspective, we have centres spread across multiple geographies, so in the US we are based out of the Lavonia that is next to Detroit for our production centre there, in Philippines we have operations in Manila, and in India of course we have operations in Mumbai, Nashik, Chennai, Pondicherry, Bangalore, and Ahmedabad.

In terms of our geographical footprint, the US comprises 57% of our business, Europe is another 16%, India is 19%, and the rest of the world is about 8%.

In terms of the industry footprint, the largest segment for us is the BFSI segment which is 28% of our revenue. The publishing and E-retail I talked about earlier is 26% of our revenue, manufacturing is 9%, international organizations are 3%, transport is 2%, and then we have got miscellaneous industries, which totals up to 32%.

I would now like to spend some time on our annual and quarterly financials. In Financial Year 2020, our revenue stood at Rs 1,203 crores reflecting a growth of 6.2% in rupee terms. In terms of the business segment, our IT solutions contributed 59% of our revenue and the EBITDA there was about 11.1%. The BPM services contributed 41% of our total revenue with an EBITDA of 9.1%. The earnings per share diluted stood at about Rs. 10.83 for FY '20 as against Rs 12.53 for the previous year '19. In Q4, our revenue stood at Rs 310 crores which is of 1.1% on a year-on-year basis and 1.4% on a quarter-on-quarter basis. COVID-19 of course has adversely impacted our revenues by about Rs 9 crores and our margins were about Rs 8 crores in Q4, and our earnings per share for Q4 itself was Rs. 1.96 as against Rs 4.27 in the Q4 of 2019, and Rs 2.23 in Q3 of 2020, so in the wake of COVID-19, we had our business continuity plan ready and in matter of a few days, we were able to get most of our employees working from home, so that augured quite well. We are currently entering the Fiscal Year 2021 in a very challenging, uncertain, and rapidly changing environment. The COVID pandemic is impacting daily life across the globe, it is a difficult time. We have clearly defined our priorities which includes focus on employee well-being, servicing and retaining customers, and managing our cash flows.

I would like to assure all of you that every Datamatician is working relentlessly to deliver our services and commitments to all our stakeholders. While we all understand, the financial performance in Fiscal Year 2021 will be impacted by the pandemic, our goal is to manage what is within our control, continue to invest and not lose sight of long-term opportunities in digital automation. I am proud of Datamatics team's response to this unprecedented challenge and their commitment. Our employees have come together to innovate and address global business continuity scenarios that have never been experienced before.

In April, May, and June quarter, the US GDP shrunk by about 30%. Consequently, we see a deterioration in many of our clients businesses and the outlook remains highly uncertain and volatile. Additionally, travel restrictions and business disruption have reduced deal flow, new transitions and project ramp ups. The magnitude of their impact will be a function of how long this global pandemic lasts, on a global basis and how long it takes for our clients businesses to stabilize and eventually recover. Therefore, we have decided not to provide any annual guidance for now, however, we assure you that we are entering this crisis in a strong financial position. Datamatics currently has Rs 123.8 crores net cash, it is a capitalized business model, and an operating cost stability that enhances our ability to generate profit at free cash flows even in these difficult times. We have an experience and strong leadership team that has very client-centric goals. This pandemic will serve as a catalyst for growth for outsourcing businesses as the need for cost-cutting reduction will be felt more than ever before and that is where the opportunity lies for outsourcing companies. We remain confident that the market will provide more opportunities for digital company like ours.

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

Sandeep Mantri: Thank you, Rahul. Good Evening to everyone on the call today and I must thank you for joining us on our first earning call for Q4 and FY '19-20. Hope you all are safe at home during this challenging COVID times.

Let me start with the key financials for FY '19-20 and then fourth quarter ended on March 31, 2020. Datamatics' net revenue for FY 2020 was at Rs. 1203 crores, which was up 6.2% from Rs 1,133 crores reported last year. On a constant currency basis, we were up by 5.5%. The estimated net impact of COVID-19 on our annual revenue was about 9 crore, which reduced our top line growth by about 0.8% year-on-year, so had the COVID not been there, we would have grown by about 7% which is now 6.2%. As far as EBITDA margin is concerned in FY '19-20, we were at 10.3% as compared to 11.8% reported last year. Year-on-Year EBITDA decreased as a result of spend on RPA which Rahul mentioned about Rs 18 crores. Then we had one-time lease termination for one of the facilities in US because that was a surplus and we decided to terminate the lease, so we had to pay one-time penalty on that lease. The impact of COVID-19 and our annual wage increases have also unfavorably impacted the EBITDA, but there was an offset because of Ind-AS accounting change wherein the rental for long term facilities are to be treated as depreciation and that is why it has been shifted from EBITDA to PBT, so that was a favorable impact on EBITDA.

The company's other income for the year was Rs 20.5 crores compared to Rs 10.8 crores in last year, the increase I will primarily attribute to exchange gain on account of hedging, which has resulted in better realization than the average rate during the various month of the financial year. At this time, we have recorded our non-recurring one-time charge of Rs 15.8 crores, which was pertaining to goodwill of a step down subsidiary called Duo. We recognized the impairment because we sold the company business to a third-party and subsequently sold the equity in the company in April. This was a non-core business for the company and the impairment charge was necessary given the sale of the business and subsequent sale of equity in the step down subsidiary. The adjusted profit for the year without considering goodwill impairment was Rs 103.7 crores or 8.6% compared to Rs 114.8 crores or 10.1% in the last year. When we talk about tax, our effective tax charge was Rs 26.1 crores, which is 25.1% on adjusted profits compared to Rs 30.3 crores or 26.4% in the last year, so we have a favorable tax rate this year. I will attribute the tax rate change primarily to two things, one is the work which is getting delivered from tax incentive facilities and the mix of profit between geographies. Our diluted earnings were Rs 10.83 per share for the year compared to Rs 12.53 in the last year. If we remove the impact on this one-time goodwill impairment of Rs 15.8 crores from profits, the diluted EPS will be Rs 13.51 versus Rs 12.53 in last year, so without this one-time charge our earning per share has improved.

Our cash flow from operations were at Rs 83.5 crores as compared to Rs 89.6 crores in the last year. The reason for operating cash flow reduction, we will attribute mainly to the lockdown in second fortnight of March '20 which has resulted into slower collections for that 10-15 days period and that resulted in the lower operating cash flow. As on March 31, 2020, our cash and liquid investment totaled to Rs 220.3 crores and we had Rs 96.5 crores of debt. In this year, we took net additional debt of approximately Rs. 69 crores to stay more liquid in view of ongoing COVID situation. We will definitely review the payment in next couple of quarters, and we will repay the same if the market situation is back to normal, so this is about the annual financials.

Now, coming to the fiscal fourth quarter performance, our net revenues came in at about Rs 310.4 crores, which is 1.1% up from last year same quarter and net revenue on sequential basis is up 1.4%. The impact of COVID-19 on the Q4 revenue was Rs 9 crores or about 3% on the top line growth, so had the COVID not been there, we would have grown 4.1% year -on-year or 4.4% sequentially. Our EBITDA margin in the quarter was 9.1% as compared to 12.8% reported in the same quarter of last year and 8.6% of last quarter. I have already explained the reason for drop in EBITDA margin in my annual statement, so those remains even for the quarter as well. Other income for the company for the quarter was Rs 7.4 crores compared to Rs 4.7 crores in the same quarter of last year and Rs 5.3 crores in the last quarter, the increase can be attributed to exchange rate on account of hedging resulting to better realization than average rate. Adjusted profit without considering this one time goodwill impairment of Rs 15.8 crores for the quarter remained at Rs 25.8 crores or 8.3% compared to Rs 35.5 crores or 11.6% in the last year quarter and Rs 21 crores or 6.9% in the last quarter.

Our effective tax rate for the quarter was 24% compared to 25.5% in the last year and 24.2% in the last quarter. Our diluted earnings for the quarter were Rs 1.96 per share in Q4 versus Rs 4.27 in the fourth quarter of last year and Rs. 2.23 in the last quarter. However, if we remove this impact of one time goodwill impairment from profits, the diluted EPS will be Rs 4.64 versus Rs 4.27 in the fourth quarter of last year and Rs 2.23 in the last quarter, so if we remove one time impact then we have improved as far as profit is concerned.

As mentioned by Rahul, we have decided not to give any annual guidance keeping in mind the uncertainty lying in business due to the COVID-19 situation, however, despite the current lack of visibility, we enter fiscal 2021 with a strong balance sheet and financial flexibility. We also have low CAPEX requirement this time and some ability to adjust our operating cost to manage profitability and cash flow. I am hopeful that we will come out with the current situation strongly.

I will now pass on the call to operator to open the floor for questions. Thank you very much for your patience and appreciate your continued interest in Datamatics.

Moderator: Thank you very much, Sir. Ladies and Gentlemen, we will now begin the question and answer session. The first question is from the line of Keshav Garg from Counter Cyclical Investments. Please go ahead.

Keshav Garg: Sir, I want to ask you that 15 years back, 2005, our share was Rs. 100, today it is Rs. 50 after 15 years and Sir 15 years back, we paid Rs. 1.25 dividend, last year we paid Rs. 1 and this year we have skipped all together, Sir Rs. 1 dividend would have led to a cash outflow of around Rs 5 crores to 6 crores whereas we have Rs 124 crores net cash, Rs 83 crores operating cash flow and around Rs 130 crores EBITDA, so why should investors be interested in buying shares of Datamatics, can you please explain to us?

Rahul Kanodia: Sure, one is 15 years ago, the share was a Rs. 10 share, today we are talking about a Rs. 5, so if you correlate that it is effectively a Rs. 2 dividend on Rs. 10, point number one. Point number two, the share market value is something that we cannot control and with the current situation, it is extremely volatile so that is something for the market forces to do, there is not much we can talk about other than the operations of the company. To your last question on the money that is in the company, the money if it is across multiple subsidiaries in different geographies and to extract that money from the different geographies through a dividend process, will be a very inefficient way of pulling the money out because you will end up paying a lot of heavy taxes, and therefore, we are using that in the operation of the company rather than bringing it back and declaring dividends because you will lose a very large component on two taxes.

Keshav Garg: Also Sir, on standalone basis we have significant cash, so if we could consider a share buyback, what will happen, company is trading at around 1.4 times EV/EBITDA and are around 2.0 times EV to operating cash flow, so if the company can buy back its own shares, so basically our share capital will contract, number of shares outstanding will contract and earnings per share will increase permanently, so it is also very tax efficient, so please…?

Rahul Kanodia: We lost you somewhere, but fine we take your point and we will think about it.

Moderator: Thank you. The next question is from the line of Subhankar Ojha from SKS Capital. Please go ahead.

Subhankar Ojha: I know it is difficult for you to give any guidance, but in terms of the response from your clients over the last three months, two months what is your internal assessment of FY '21, are you likely to see some growth, that is one? Secondly, what are the measures that you have taken in terms of cost efficiency or cost reduction, if you can talk about these two?

Rahul Kanodia: In terms of the impact, there will be an impact. We are in an industry that is sort of Wave two if I use the term. The frontline industries were the airlines, the hotels, the travel industry, the retail stores, they got impacted first with this lockdown. They are our customers, so by the time they have the full impact and they come back to the outsourcing industry and say look our business is impacted, we need to cut the cost or we need to reduce our volumes of work with you, that comes out maybe three or four months later or two months later, so there will be an echo wave and we expect that there will be some impact, we are not quite sure what that impact will be, so far we have not had any customers going bad in terms of bad debts, so cash flows have not been a major challenge other than being delayed, but it has been going okay. In terms of the cost-cutting measures that we have done, we have done several things, we have let go of some of the offices that we had on rental because now people are working from home and they seem to be quite comfortable. We have also renegotiated the prices downwards so that helped us contain cost. For some customers, we were able to increase volume of business actually because their other vendor were in stress and they could not deliver, so those volumes came to us and we were fortunate enough that we could deliver, so those are some of the cost control measures.

Sandeep Mantri: In fact, we are looking at in each and every department of the company, like in my case we are looking for what activities we can process through this robotic processes and all that, and we have actually implemented some of our processes through robots as well, so those will deliver efficiencies in the coming future may not be immediate, but on a long-term they will definitely deliver better productivity and this is a message across the organization. Further to that, as Rahul mentioned that we have vacated few of the offices of the company due to which we have significant savings. We are trying to see in the internal organization wherever we can improve the efficiency through automation or innovation, we are regularly looking at and in fact we are having calls on every week or on a regular basis, so these are the things which are on right now, critical priority for us to contain the cost as far as possible.

Rahul Kanodia: Finally of course there is a always a natural hedge in terms of travel, because travel has come down, there is a natural saving there anyway.

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

Vaibhav Badjatya: Just wanted to understand more about our publisher business, if you can highlight that within publishing business, what are the various segments whether it is books in general or what kind of exposure we have to the extent of delivery, and secondly, there is a recent merger which has been cancelled, any impact positive or negative because of this merger being called off?

Rahul Kanodia: Publishing comprises of 26% of our business and the advantage that we have is we do the core activity within publishing, so the customers become very dependent on us and that business becomes very sticky. It is not easy for them to withdraw from any vendors once they get into the core operations, so the mergers or demergers that happen in the market do not impact our business because the customers are very dependent on us, so in that sense we do not see an impact. A little more about publishing, so there are two arms of publishing for us, one is where we do work for McGraw Hill, Pearson, Cengage, Wiley those type of companies, these are publishing houses and we do core operations for publishing, pagination, content creation, content management, repurposing the content because you will keep having new additions for releases of whether the book or a journal or magazine including the images and all of that, so that is on the brick and mortar side of the industry. Then we have the E-retail part, now the reason E-retail falls under publishing is that you are publishing information about the product on the website on a E-commerce site or something, so Amazon, E-Bay, Wal-Mart, these are large E-commerce companies and they would publish information on these websites, so we treat that as publishing and this is very, very dynamic because you change information about a product very rapidly as you can very dynamically change it, so if you see an image on the screen, Datamatics does that kind of image processing.

If you see prices about a product we do that and we track the price points of about a million products and we inform our customers if there is any change, so to give you an example, Christmas time is a peak sales season in the US, and Amazon and Wal-Mart they compete against each other. The moment one entity drops a price even by say 10 cents or 50 cents, the other one has to mimic that within probably 15 seconds or 20 seconds, so the window of opportunity is so short that you drop your prices by one dollar, I drop it within 10-15-20 seconds immediately and this is monitored across millions of products constantly and that is the kind of work we do, so we do the pricing, we do the description of the products, we do the images of the products. When you click on one product it shows you alternative products, so we do all that where it shows you the alternative products as well and allows you to choose which one you want, so that is what we do in the publishing space, the E-retail as well as the brick and mortar publishing.

Vaibhav Badjatya: E-retail would be how much out of this 26%?

Rahul Kanodia: About a third of this 26% and about two-thirds would be the brick and mortar.

Vaibhav Badjatya: Lastly, we have a property in Nashik which was purchased long time back as per your IPO, can you provide a broad sense as to what will be the market value of the property right now?

Sandeep Mantri: The market value, we have not checked in the market, but mostly it will be in a range of Rs 30 to 40 crores.

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

Keshav Garg: Sir, recently there was a postal ballot wherein we were selling some U.S.-based subsidiary and the promoters themselves voted against this resolution and this was called off, and Sir, last year also I recall that there was some demerger which was again voted down by the shareholders, can you explain that why this is happening with regular frequency and what kind of impression it gives to the outside investors?

Rahul Kanodia: There are two things, one is the US subsidiary that you talked about where the promoters voted against it and that is because the spill of structure was not what the promoters were looking for, it was a share swap kind of a structure, and therefore, the promoters were not happy with that. We continue to remain in dialogue with companies to see if it is more shareholder friendly structure that we can have, so that is on the US subsidiaries. On the other one that you talked about, we were looking at a demerger of one of the subsidiaries. This got shot down by the minority shareholders because it required a MoM, majority and minority to vote and for some reasons the minority shareholders felt that it was not in their interest to demerge that piece, so that is a 100% subsidiary of the company, so there is no problem in terms of operations.

Keshav Garg: Sir, how are we looking to utilize that cash balance of around Rs 125 crores?

Rahul Kanodia: Right now, we are investing very heavily into robotics and that will require a fair amount of money and that is an opportunity that is very ripe, it is a window for the next two to five years and we can encash on that opportunity, so we do expect to use our funds available to invest into robotics and help that business grow.

Keshav Garg: Sir, are we looking at some acquisition or R&D because you likely just said that, we are expensing out the product developments charges to the P&L, so in that case this Rs 125 crores, how will we use it?

Rahul Kanodia: When you launch a product, you have to do a lot of work on marketing, on sales, on promotion and things like that and of course on R&D and building the product also, so we are spending a fair amount of money in building the product and now that we have launched a new version, we will spend a lot of money on marketing and sales.

Keshav Garg: Sir, my point is that all these marketing expenses will be debited off to the P&L, so in that case that cash line on the balance sheet, how will it get used?

Sandeep Mantri: Marketing will be in the future, till now we have not done enough marketing, so going forward there will be lot of marketing to market this product and that is where the cash will get utilized. Having said that, we do not capitalize any of these expenses on a conservative basis. We expense out whether it is product development, whether it is marketing which can give benefit for multiple years, but we expense out everything in the year in which these are incurred..

Keshav Garg: Sir, as far as this current financial year is concerned, FY ’21, do you think that we will be able to basically hold on to what we did last year in terms of top line and EBITDA?

Rahul Kanodia: It is a tough question because I think the current COVID situation is very fluid and it is really hard to predict, therefore, we are not really giving any guidance, so I think we will look at each quarter as it comes and see what is happening.

Sandeep Mantri: As the time passes by, we will see if there is any stability in the future, right now we cannot predict except for one quarter or so, so whenever the time stabilize then we will see and we will start putting again some guidance, as of now we cannot put any guidance.

Moderator: Thank you. The next question is from the line of Ankit Sharma, an Individual Investor. Please go ahead.

Ankit Sharma: I had one question, while we do understand that this COVID-19 has impacted most of our verticals, I am just thinking is there any particular vertical where we see opportunity from the current crisis as the pandemic accelerated the adoption of digital services?

Rahul Kanodia: Yes, we see a lot of interest in robotics and automation and we see a lot of interest in cloud, so these are two areas that are particularly getting a lot of interest after the COVID-19 hit everybody end of March. Some of the other businesses are slow or impacted because the customers are kind of going slow, but these two areas particularly have seen a spike in terms of opportunities and customer enquiries. However, as we said, these are still relatively smaller business practices for Datamatics.

Ankit Sharma: My last question, talking about our peers, so how do you expect to compete against the likes of Automation Anywhere and Blue Prism and others who have an edge or head start over us?

Rahul Kanodia: We have two things that go in our favor, one is that we have a very strong built-in component on cognitive capture. The others do not have that and that gives Datamatics significant edge when we compete with the market against these guys. The second is that if you look at, there is something called a bot mortality rate where once the customer buys a robot, question is whether he renews it the next year or not and the industry norm is running at about 60%, so 60% bot mortality is what is going on in the industry, that means out of hundred bots that are purchased, 60 are not renewed the next year and only 40 are renewed. In the case of Datamatics, our bot mortality rate is virtually zero, so 100% of our bots get renewed year after year and that is because our bots are able to handle more complex processes then the others that Automation Anywhere and Blue Prism are handling, so we are able to compete, but there are larger companies and they have a wider reach than we do, but we have not had too many challenges when we compete with them.

Ankit Sharma: Sir, if you could talk about any deals pipeline, if there are any in this current environment here?

Rahul Kanodia: No, there is a pipeline of course, there are deals that we are negotiating. We have closed a few deals as well during the COVID crisis, however, the deal flow has slowed down a little bit because customers themselves are slowing down, they are not able to meet you, you cannot fly down and meet them, they are also working from home. Their own businesses are also uncertain, so the deal flow has slowed down, but deals are there. There is a pipeline that is still fairly robust and stable. Having said that, we cannot predict when they will materialize basis when the customers operations opens up or when they are ready to take the decisions, everybody is sort of in a wait and watch mode right now, but there are some good pipelines that we have.

Moderator: Thank you. The next question is from the line of Nitin Gandhi from KIFS Trade Capital. Please go ahead.

Nitin Gandhi: How much is RPA contributed in revenue last year?

Sandeep Mantri: As of now, RPA is very small in terms of business contribution to the company and we have just not started releasing the number of RPA because it is very small segment for us right now. Whenever appropriate time comes, we will release the key metrics for RPA as well, but right now it is very small segment for us.

Mitul Mehta: Thanks Sandeep. I think from a revenue perspective as Sandeep mentioned it is currently a small percentage of our overall revenue. Nevertheless, I think the progress what we have made in the last one year, adding some real marquee customers, so that has been pretty encouraging enough, and hopefully, we should be able to do better in this financial year as Rahul also mentioned, there is traction on the automation front.

Sandeep Mantri: Also, we have got the significant number of leads from partner ecosystems and from our direct clients in this year. We have seen significant traction in this business segment of the company in this year.

Rahul Kanodia: I think what is happening is because of the cost pressures that everybody is now facing, everybody wants to automate and that is where we are seeing a huge interest in automation as well as robotics.

Nitin Gandhi: We are saying that at present RPA 85% of the market is untapped and to tap 15% of the market you spent roughly Rs 8 to 10 crores, is it based on what we have commissioned of whatever interaction you have given, right?

Rahul Kanodia: We have spent Rs 18 crores in building the product, Rs 8 to 10 crores higher than the previous year.

Nitin Gandhi: To reach that critical mass, how much TruBot activity is required, which are right now it is 4000 and how many processes you will require?

Rahul Kanodia: I suspect in timeline it will take about 12 months to 18 months to get to a good momentum.

Nitin Gandhi: By the time, how many TruBot needs to be active?

Rahul Kanodia: It is hard to say that because of the COVID situation we really do not know, you could very easily get one customer that buys 1000 bots and most of the customers buy on an average about three bots to start with and then once it is success, some of them scale very well, some of them stagnate, so right now very hard to say exactly what is going to happen in the market.

Nitin Gandhi: We have 100 customers at present tapped and servicing 4000 active TruBot, right?

Rahul Kanodia: Yes.

Nitin Gandhi: So that means some customers have above hundred TruBots also?

Rahul Kanodia: Yes, of course.

Nitin Gandhi: Are the margins better than the average margin of 12% which company has?

Rahul Kanodia: We have invested very heavily, and we have written off that, so if you look at the margin on an overall basis, you will not get the clear picture but yes, as the volume grows the margins will certainly improve

Nitin Gandhi: At the moment we achieve critical mass, it will be 12% to 15%, right?

Sandeep Mantri: Then it will be like product companies market, which is normally between 20% to 30% range for this business particularly.

Nitin Gandhi: Last year, the employee spend has gone up significantly particularly in last quarter, what is the reason for that?

Sandeep Mantri: Last quarter is two things, one is we have a tax season for which we employ people on temporary basis, so this time also we have employed and that was the main reason, however, our tax revenue were affected because of COVID and as I explained that the tax revenues are not corresponding to costs

Nitin Gandhi: This is every full year phenomenon, right?

Rahul Kanodia: Yes.

Nitin Gandhi: Now, coming to the goodwill side, you have just Rs 203 crores of goodwill, have you any plans like, I am sure you must be evaluating product wise what are the revenue generated and what is the impairment, can you share that how many are generating revenue less than the goodwill at this point of time?

Sandeep Mantri: Right now, I do not have the number on them, but we regularly test for impairment at least once in a year, so normally along with audit except this Rs 15.8 crores write-off, overall goodwill are recoverable in my opinion and we carry out this impairment along with auditors and valuators.

Nitin Gandhi: Sir, this Rs 15.8 crores is pertaining to the company which is sold off, right?

Sandeep Mantri: Correct.

Nitin Gandhi: It is not out of the total block which you have…?

Sandeep Mantri: It is not out of the total, I am saying this is what we impaired, other than that whatever goodwill we have on the book is primarily on account of the subsidiary. We feel that nothing to be impaired now.

Nitin Gandhi: Since accounting standard and everything is better off, I do not know you may think over it, but will it be better that you reduce your balance sheet size by proportionately keep writing off over 5 years or 10 years depending upon the product life, that is just to think over?

Sandeep Mantri: We will think over it, but these are mostly goodwill arising out of the reasons, on consolidation. We were sitting whatever money we have paid purchasing those businesses, we will consider your suggestion and everything, but as of now whenever we test goodwill for impairment, I do not see any impairment coming in.

Nitin Gandhi: Right to use assets, is it versus lease liability and other financial assets?

Sandeep Mantri: Yes, that is only because of Ind-AS 116.

Nitin Gandhi: Do you think that FY '21 there will be degrowth based on whatever first quarter feedback on whatever, 60 and 70 days we have passed in currently?

Sandeep Mantri: I do not know FY '20-21, we really do not know because every day is dynamic, every day is changing so we really cannot predict what will happen nine months later or next three quarters but having said that we will have some de-growth ….in Q1.

Nitin Gandhi: We are already in first quarter, second quarter you already have the clarity, so based on this six months, you think you will be degrowing?

Rahul Kanodia: I do not think we have full clarity of Q2. Q1 we have got two months into it and I think Sandeep on Q1 maybe you can comment.

Sandeep Mantri: Q1 I think we will degrow to some extent, Q2 I do not have full clarity, but Q1 I may say that we will degrow.

Nitin Gandhi: Q1 is taken and accepted for everybody, it is going to be…?

Sandeep Mantri: Q1, we will degrow, whenever we have the call in next quarter we will update about Q2 onwards.

Nitin Gandhi: My last question, can you share some color on automated fare collection, how you propose to stick it up with so many metros coming up, I understand the visibility at this point of time because Metro shutdown is different, but whatever you envisaged three months back and where do you think that is going to shape up for you being a pure Indian player?

Rahul Kanodia: The bulk of the projects we have done if you recollect, I talked about doing 125 projects, these are all global projects. We have done Dubai, Hong Kong, Melbourne, New York, New Jersey, London, so we started working in India only very recently. The first project we did was Lucknow Metro which was really successfully delivered, it was delivered in record time. No Metro has ever been delivered anywhere in the world at the speed that we delivered Lucknow Metro. We delivered a very small project on Vaishno Devi for the cable cars ticketing and now we are working on Mumbai Metro. Mumbai Metro had multiple lines. Line 1 was the very old line, Line 3 is the one that was dug up, the whole city is dug up because of Line 3. The ones that we are doing is Line 2A, 2B, and Line 7, so these are three lines that we are currently working on. Mumbai altogether has nine lines, so the others will come up for tendering and as they come up, we will be bidding for that. Outside of Mumbai, India, is looking at about 25 Metro projects and each of these projects would range from an automatic fare collection point of view anywhere from Rs 30 crores to 100 crores depending on the city that you are looking at. Bangalore is doing that, Hyderabad is doing that, Pune has got some metros, Noida is doing that, Kanpur, Agra, these are all metros that will be coming up, so each one is at a different phase, so India in itself is looking at about 25 Metro projects over the next say five years, so therefore we are looking at a very robust market, because we are the only Indian player who is so well entrenched in that space.

Outside of India, we are also focusing on the US, so we have recently done San Diego Metro for mobile ticketing. We have started our new project with Memphis in the US, so we are targeting those cities as well and we seem to be winning right now. Some of the cities already have ticketing systems and they just need an upgrade to mobile and QR code and those types of things, so there we are just doing an upgrade. Very few cities in Europe or the US would go fresh, like India is a fresh project where they never had a Metro, but in those countries they already have something, and therefore, it is more of an upgrade of the system or overall of an old system with a new one, so project there is slightly different, but we just completed San Diego and we are currently executing Memphis, so we do not have a challenge in targeting the international market.

Sandeep Mantri: Strategically this business is going in right direction and we see a significant play in next two to three years as far as this business is concerned to Datamatics.

Nitin Gandhi: Whatever investment you are making, what is that internal rate of return, benchmark return which you have internally kept beyond which every product you are trying to generate the return?

Sandeep Mantri: Whatever new investments we see, we see that within five to seven years, we recover money there, that is our philosophy, that is our practice we keep following. In last 2-3 years, we acquired two companies and we will be recovering the money which we invested in those two companies in next two to three years or max 5 years..

Nitin Gandhi: Any IRR or some return which you can share?

Sandeep Mantri: Three to five years you can convert into IRR.

Nitin Gandhi: But this is a project, okay, it is general, it is not only those two.

Sandeep Mantri: Correct, it is general, whatever we see, we see with maximum five to seven years of project period.

Moderator: Thank you. Ladies and Gentlemen, we will take the last question for today now which is from the line of Keshav Garg from Counter Cyclical Investments. Please go ahead.

Keshav Garg: Sir, last year we had Rs 10 crores of bad debt and this year we had Rs 4.5 crores and now with COVID situation, how do you see this receivable position panning out, are customers asking for more credit periods and also are customers asking for discounts and also are customers delaying our or do you see any significant bad debts?

Sandeep Mantri: Just to give you a perspective how the provision for the receivables, so there are multiple inputs which we take when we provide for the receivables, one is of course the regular collection calls which happens with our sales people and who get the input from market from the field. Second is my past history or past data, which tells me that which customer is on the verge of default or which customer is paying regularly and then we create quarterly sensitive analysis for receivables and then we see whatever is not collectable , we provide, so there is a lengthy process as far as the receivable provision is concerned and we are very careful in providing for the receivable always. This year we have provided about I think Rs 5 to 5.5 crores compared to last year of Rs 10 crores, mostly our receivables whatever we have not provided to my view those are collectable and so far we have not come across any of our customers which is panning into bad or which is asking for significant price discounts, I am saying for our top 50 kind of customers. For future billing, some of the customers are asking for price discounts but not for the past billing.

Keshav Garg: Sir, last year we purchased fixed assets of Rs 21 crores and year before Rs 26 crores, so what exactly are we purchasing in fixed assets?

Sandeep Mantri: Those are typically the servers, the computers, the licenses, Microsoft licenses or the licenses pertaining to the businesses which we use to deliver the services, then the leasehold improvement, furniture for the new facilities and then there are some additions because of the new companies which we added in, so those all put together are like Rs 21-25 crores last year; having said that, this year it should be slightly reduced.

Keshav Garg: Lastly, Sir please consider a share buyback, the shareholders are really suffering?

Sandeep Mantri: As Rahul said, we will definitely consider your point and we will come back on that.

Moderator: Thank you very much. As there are no further questions, I now hand the conference over to the Management for closing remarks. Over to you, team.

Rahul Kanodia: I thank everybody for coming on to this call, I really appreciate this. It was our first earnings call and in this current situation and the current crisis, I am very happy to listen to all of you and feed your questions and once again thank you very much, and I am confident that we will come out of this COVID crisis in a very strong way because we have a fairly healthy balance sheet, so we do not see any challenges on that front. Thank you very much.

Moderator: Thank you very much members of Management. Ladies and Gentlemen, on behalf of Datamatics Global Services Limited, that concludes today's conference call. Thank you all for joining us and you may now disconnect your lines.