

Datamatics Global Services Ltd.

ADD

Choice

Robust pipeline and Push towards AI first to offer growth

Datamatics Global Services Ltd. reported disappointing revenues at INR3,768mn (below our estimates), down 3.7% QoQ but up 9.7% YoY. The decline was due to premature closure of a project in Consumer & Retail space and slowdown in client decision making. The topline growth YoY was broad based across the three business segments with Digital Operations segment growing 15% YoY. The company reported EBIT of INR496mn, down 15.4% QoQ but up 15.7% YoY. Reported consolidated PAT stood at INR493mn (+23.3% YoY). The company added 15 new clients in Q2FY24. It has a robust pipeline of \$290mn, up 99% YoY.

- Investment in AI first capabilities:** DGSL has integrated Generative AI capabilities into their Intelligent Automation products, consisting of TruBot, TruCap+ and TruBI. They have launched a range of GenAI-powered solutions, such as Enterprise Content Mining, Virtual Assistants, Financial Data Analytics, and Revenue Operations. They are also showcasing them at some of the World's leading IT shows across the US and Europe. Management is constantly incorporating AI in their Technologies, Operations, Experiences, and Products businesses. DGSL introduced FINATO (powered by AI) in Q2 to drive Finance Transformation in global enterprises. Management believes that contribution from AI shall increase in upcoming years and shall drive significant growth.
- Digital Operations segment gaining more share:** The company reported that the Digital Operations segment gained more share, with a revenue mix of ~44% compared to ~42% in Q2FY23. The segment's revenue stood at INR1,646mn, down 1.4% sequentially but up 15.0% YoY. Revenue for the Digital Experiences segment stood at INR585mn, accounting for 15.5% of the revenue mix in Q2FY24, compared to 15.3% in Q2FY23. The premature closure of a project took place in this segment and hence it affected its revenues and margins. The Digital Operations segment had higher EBIT margins of 18.6% compared to the Digital Experiences segment's reported EBIT margin of 17.5%. The Digital Technologies segment reported a revenue of INR1,537mn and an EBIT margin of 5.7% for the quarter. Management expects its margins to be in the range of 7-8% for FY24E.
- Margin improvement visibility:** Operating margins for Q2FY24 stood at 13.2%, down 183bps QoQ but up 68bps YoY. The decline in margin can be attributed to the premature closure of a project of a top 10 client. The management has claimed it has been able to renegotiate its prices with several customers which shall aid margin growth. It expects the full scale impact of price hike to be witnessed in FY24E.
- Outlook and Valuation:** Robust pipeline, introduction of FINATO, push towards AI first and organizational re-shuffling are identified as the growth drivers. However, given the macro-environment challenge and delays in discretionary spending, it has withdrawn its guidance of 14-15% for FY24E. Management expects Q3 to be softer and Q4 to be the strongest due to cyclicality and is confident on seeing ramp ups from the client who prematurely closed the deal. We have introduced FY26E and expect Revenue/EBIT/PAT CAGR of 13.9%/16.8%/16.8% resp. over FY23-FY26E. We maintain **ADD** to arrive at a target price of INR650 implying a P/E of 14x on SeptFY26E EPS of INR46.

Financial Snapshot

Year end: March	FY22	FY23	FY24E	FY25E	FY26E
Revenue (INR Mn.)	12,010	14,591	15,628	17,982	21,537
Gross Profit (INR Mn.)	4,165	5,585	5,729	6,700	8,129
Gross Margin (%)	34.7	38.3	36.7	37.3	37.7
EBIT (INR Mn.)	1,600	2,075	2,255	2,672	3,305
EBIT Margin	13.3	14.2	14.4	14.9	15.3
EPS (INR)	26.7	32.1	36.0	41.2	51.1

Source: Company, CEBPL

Nov 3, 2023

CMP (Rs.)	588
Target Price (Rs.)	650
Potential Upside (%)	10.3

Company Info

BB Code	DATA IN EQUITY
ISIN	INE365B01017
Face Value (Rs.)	5.0
52 Week High (Rs.)	699.0
52 Week Low (Rs.)	256.3
Mkt Cap (Rs bn.)	34.7
Mkt Cap (\$ Mn.)	0.42
Shares o/s (Mn.)/Float (%)	58.9/33
FY23 EPS (Rs.)	32.1
FY26E EPS (Rs.)	51.1

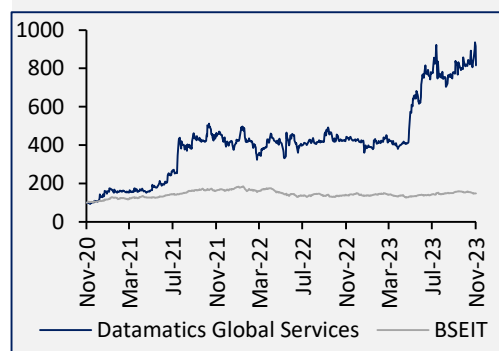
Shareholding Pattern (%)

	Sep-23	Jun-23	Mar-23
Promoters	66.50	66.50	70.91
FII's	3.14	2.55	2.70
DII's	0.33	0.19	0.00
Public	30.03	30.76	26.39

Relative Performance (%)

YTD	3Y	2Y	1Y
BSE IT	48.7	(9.1)	6.2
Datamatics	715.0	76.0	88.9

Rebased Price Performance



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Sequential Operating Performance

	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
Income Statement						
Revenues (INR Mn.)	3,269	3,434	3,726	4,162	3,911	3,768
Gross Profit (INR mn.)	1,118	1,201	1,427	1,831	1,466	1,310
Gross Margin (%)	34.2	35.0	38.3	44.0	37.5	34.8
EBIT (INR mn.)	393	429	502	752	586	496
EBIT Margin (%)	12.0	12.5	13.5	18.1	15.0	13.2
PAT (INR mn.)	434	400	459	597	551	493
Basic EPS (INR)	7.4	6.8	7.8	10.1	9.3	8.4
Operating Metrics						
Revenue by Business (%)						
Digital Operations	45.1	41.7	41.0	45.0	42.7	43.7
Digital Experiences	14.2	15.3	16.4	14.3	16.9	15.5
Digital Technologies	40.7	43.0	42.6	40.7	40.4	40.8
Total	100.0	100.0	100.0	100.0	100.0	100.0
EBIT Margin by Business (%)						
Digital Operations	23.3	22.7	19.5	23.0	20.1	18.6
Digital Experiences	23.2	25.4	27.8	28.2	23.0	17.5
Digital Technologies	-4.3	-2.0	2.2	9.1	6.2	5.7
Total	12.0	12.5	13.5	18.1	15.0	13.2
Revenue by Industry (%)						
BFSI	25.0	24.0	24.0	23.2	25.0	25.0
Education & Publishers	23.0	23.0	22.0	20.4	20.0	20.0
Technology & Consulting	22.0	18.0	16.0	20.2	20.0	20.0
Manufacturing, Infra & Logistics	13.0	13.0	12.0	10.4	12.0	13.0
Retail	7.0	7.0	8.0	9.6	9.0	9.0
Not for Profit / Govt.	7.0	11.0	13.0	15.9	10.0	10.0
Others	3.0	4.0	5.0	0.4	4.0	3.0
Ecommerce	-	-	-	-	-	-
Total	100.0	100.0	100.0	100.0	100.0	100.0
Revenue by Geography (%)						
USA	55.0	54.0	54.0	53.2	55.0	54.0
India	25.0	28.0	29.0	26.0	24.0	24.0
UK & Europe	14.0	13.0	11.0	10.5	12.0	13.0
RoW	6.0	5.0	6.0	10.3	9.0	9.0
Total	100.0	100.0	100.0	100.0	100.0	100.0
Client Concentration (%)						
Top 5	25.0	26.0	27.0	17.4	25.0	24.0
Top 10	37.0	35.0	41.0	32.4	38.0	36.0
Top 20	50.0	50.0	53.0	50.2	52.0	51.0
Workforce Metrics						
Headcount	10,907	11,300	-	-	-	-
Attrition Rate % (LTM)	36.0	20.0	24.7	24.8	5.2	8.5

Source: Company, CEBPL

company disclosure did not report the employee headcount

CEBPL Estimates vs Actual for Q2FY24

Datamatics (INR Mn.)	Q2FY24	Q2FY23	YoY(%)	Q1FY24	QoQ (%)	CEBPL Est.	Dev. (%)
Revenues (INR mn.)	3,768	3,434	9.7	3,911	(3.7)	4,035	(6.6)
Employee Cost	2,458	2,233	10.1	2,445	0.5		
Gross Profit (INR mn.)	1,310	1,201	9.1	1,466	(10.6)	1,420	(7.8)
Gross Margin (%)	34.8	35.0	(19) bps	37.5	(271) bps	35.2	(43) bps
Other expenses	721	684	5.4	788	(8.5)		
Depreciation	93	88	6.1	92	1.9		
EBIT (INR mn.)	496	429	15.7	586	(15.4)	555	(10.6)
EBIT Margin (%)	13.2	12.48	68 bps	15.0	(183) bps	13.8	(59) bps
Other Income	94	96	(2.2)	91	3.5		
Finance Cost	5	10	(52.6)	5	(11.5)		
PBT (INR mn.)	586	515	13.6	672	(12.9)		
Tax	96	123	(21.8)	126	(23.5)		
Adj. PAT (INR mn.)	493	400	23.3	551	(10.5)	487	1.1
Basic EPS (INR)	8.4	6.8	23.3	9.3	(10.5)	8.3	1.1

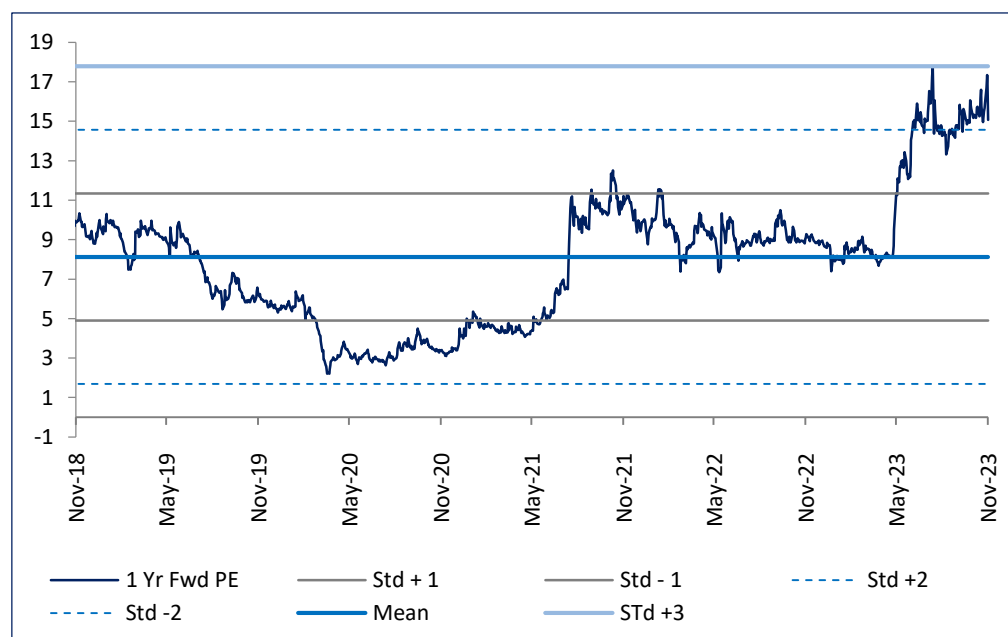
Source: Company, CEBPL

Change in estimates

Income Statement (INR Mn.)	FY24E			FY25E			FY26E
	Old	New	Dev. (%)	Old	New	Dev. (%)	New
Revenues	16,431	15,628	(4.9)	19,891	17,982	(9.6)	21,537
Gross Profit Margin (%)	36.6	36.7	1 bps	36.9	37.3	34 bps	37.7
EBIT	2,427	2,255	(7.1)	3,155	2,672	(15.3)	3,305
EBIT Margin (%)	14.8	14.4	(34) bps	15.9	14.9	(100) bps	15.3
EPS	36.6	36.0	(1.7)	44.1	41.2	(6.5)	51.1

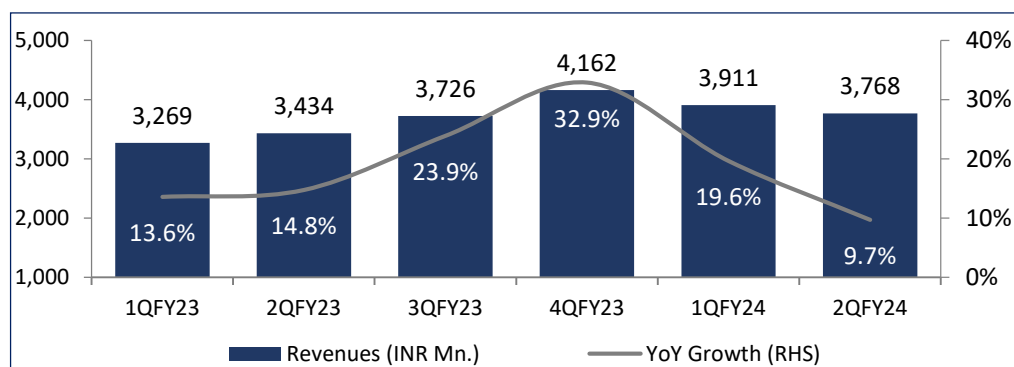
Source: Company, CEBPL

Historical 1 Yr Fwd PE Band indicates multiple moving towards average



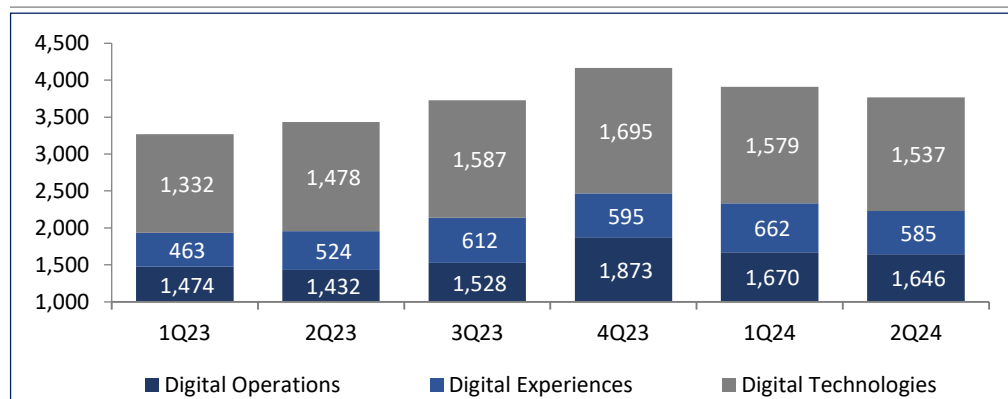
Source: Company, CEBPL

Revenues traction declined



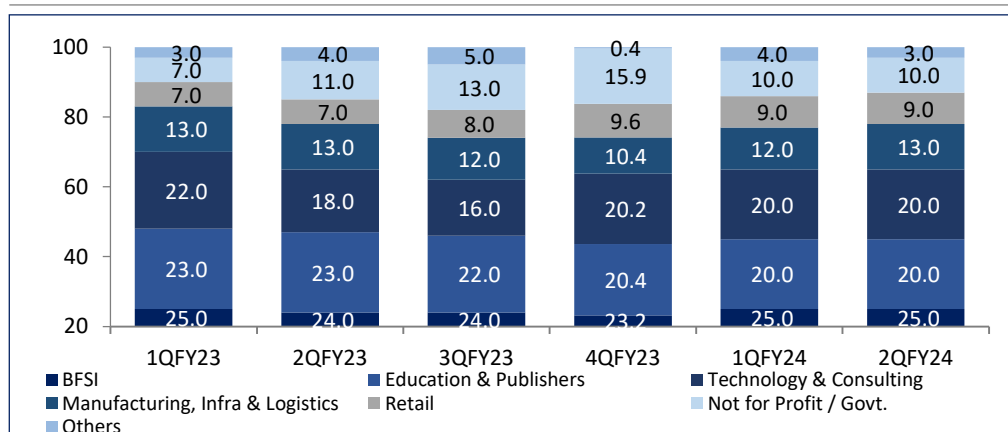
Source: Company, CEBPL

Revenue degrow in all segments



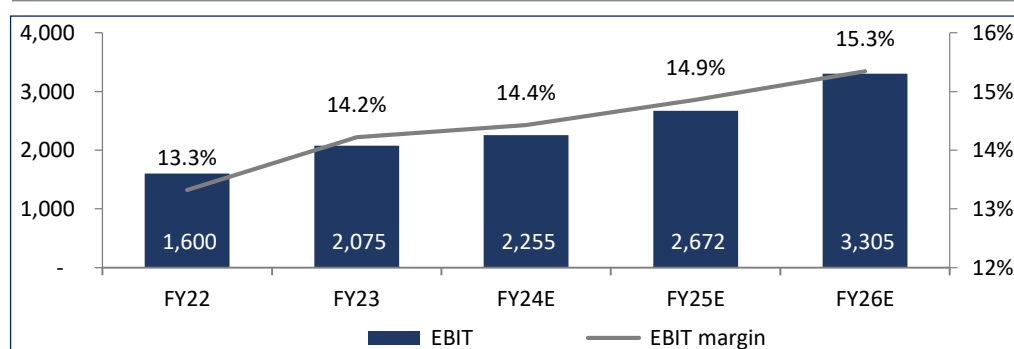
Source: Company, CEBPL

Revenue is diversified across industry verticals



Source: Company, CEBPL

We expect EBIT Margins to rise FY24E onwards



Source: Company, CEBPL

Financial Summary (Consolidated in INR Mn.)

Income Statement (INR Mn.)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	12,010	14,591	15,628	17,982	21,537
Gross profit	4,165	5,585	5,729	6,700	8,129
EBITDA	1,933	2,425	2,631	3,104	3,821
Depreciation	333	350	376	432	517
EBIT	1,600	2,075	2,255	2,672	3,305
Other income	263	387	376	432	517
Interest expense	29	29	18	18	30
PBT	1,920	2,433	2,613	3,086	3,791
PAT	1,575	1,890	2,122	2,429	3,012
EPS	26.7	32.1	36.0	41.2	51.1

Balance Sheet (INR Mn.)	FY22	FY23	FY24E	FY25E	FY26E
Tangible fixed assets	2,125	2,123	2,170	2,152	2,076
Goodwill & intangible assets	-	58	58	58	58
Investments	2,734	3,545	1,696	1,610	1,501
Cash & Cash equivalents	2,073	1,539	3,825	6,443	9,325
Other non-current assets	295	388	388	388	388
Other current assets	3,701	5,161	6,413	6,423	6,835
Total assets	10,929	12,813	14,550	17,074	20,184
Shareholder's funds	8,570	10,479	12,389	14,575	17,286
Borrowings	480	-	-	-	-
Other non-current liabilities	235	546	235	235	235
Other current liabilities	1,680	1,860	1,998	2,335	2,735
Total equity & liabilities	10,929	12,813	14,550	17,074	20,184

Cash Flows (INR Mn.)	FY22	FY23	FY24E	FY25E	FY26E
Cash flows from Operations	1,824	1,307	2,867	2,861	3,138
Cash flows from Investing	(1,342)	(990)	(47)	18	75
Cash flows from financing	207	(664)	(230)	(261)	(331)

Ratio Analysis	FY22	FY23	FY24E	FY25E	FY26E
Growth Ratios (%)					
Revenues	4.5	21.5	7.1	15.1	19.8
Gross Profit	13.3	34.1	2.6	17.0	21.3
EBITDA	38.5	25.5	8.5	18.0	23.1
EBIT	59.8	29.7	8.7	18.5	23.7
Margin Ratios (%)					
Gross Profit Margin	34.7	38.3	36.7	37.3	37.7
EBITDA Margin	16.1	16.6	16.8	17.3	17.7
EBIT Margin	13.3	14.2	14.4	14.9	15.3
Profitability (%)					
Return on equity	19.8	19.6	18.6	18.1	19.0
Return on invested capital	21.9	19.9	25.1	30.8	39.4
Return on capital employed	15.2	15.2	14.8	14.5	15.3
Valuation					
OCF / Net profit (%)	115.8	69.2	135.1	117.8	104.2
OCF / IC (%)	30.9	16.4	39.4	41.8	47.1
Book Value per share (x)	144.7	176.6	209.0	246.1	292.1
Free Cash flow yield (%)	9.0	5.2	11.1	11.1	12.3

Source: Company, CEBPL

Historical recommendations and target price: DATAMATICS



DATMATICS GLOBAL SERVICES LTD.

1. 07-09-2022	OUTPERFORM,	Target Price 425
2. 09-11-2022	OUTPERFORM,	Target Price 401
3. 25-01-2023	OUTPERFORM,	Target Price 395
4. 04-05-2023	ADD,	Target Price 447
5. 11-08-2023	Neutral,	Target Price 520
6. 25-09-2023	Add,	Target Price 615
7. 03-11-2023	Add,	Target Price 650

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ADD	The security is expected to generate greater than 5% to less than 15% returns over the next 12 months
NEUTRAL	The security expected to show downside or upside returns by 5% over the next 12 months
REDUCE	The security expected to show less than -5% to greater than -15% over the next 12 months
UNDERPERFORM	The security is expected to generate returns in excess of -15% over the next 12 months

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