

Datamatics Global Services Ltd.

SELL

Choice

Weak guidance amidst slowdown in macro environment

Datamatics Global Services Ltd. reported weak Q1 revenues at INR3,940mn, down 4.5% QoQ but marginally up 0.7% YoY. Organic growth declined mainly due to market slowdown in the US and Europe and stagnant business growth. Dextara Digital contributed 3.1% to the growth. Reported consolidated Q1 PAT fell to INR435mn (-21.0% YoY). The company expanded its client portfolio by adding 9 new customers, including a Fortune 500 company. It has a pipeline of \$170mn at the end of Q1.

- **Management focus areas:** Going forward in FY25E, management shall continue to focus on the Western markets, strengthen capabilities along hyper-scalers, and penetrate deeper into existing accounts. Digital Operations segment witnessed shrinkage in volumes and it is expected to bounce back in Q2 and Q3. Under Digital Technologies segment, certain projects got pushed out and are expected to come back in Q3. Management has guided for an organic growth of 4% and inorganic growth of 3.5% for FY25E. It is bullish on the opportunities that AI presents and have incorporated GenAI in its Intelligent Automation suite of products.
- **Digital Experiences segment gaining more share:** The company reported that the Digital Experiences segment gained more share, with a revenue mix of 17.2% compared to 16.9% YoY. The segment's revenue stood at INR679mn, up 9.9% QoQ and 2.4% YoY. Revenue for the Digital Operations segment stood at INR1,648mn, accounting for 41.8% of the revenue mix, compared to 42.7% YoY. The Digital Operations segment had higher EBIT margins of 15.5% (-460bps YoY) compared to the Digital Experiences segment's EBIT margins of 14.2% (-880bps YoY). The Digital Technologies segment reported a revenue of INR1,613mn and an EBIT margin of 4.6% (-160bps YoY) for the quarter. High-single digit margins are expected in FY25E.
- **Margins to remain range-bound:** Operating margins for the quarter stood at 10.8%, down 272bps QoQ and 417bps YoY. The decline in margin can be attributed to slow revenue growth, investment in AI projects and wage hikes. Margin improvement levers in Digital Technologies space are identified as gaining premiumisation by offering hyperscaler services and implementation of cost control measures. Management has guided for 12-13% level of margins in FY25E led by recovery in growth and operational efficiency.

Outlook and Valuation: Slow moving deal pipeline, given the macro-environment challenges and delay in discretionary spending has led to a weak revenue growth guidance for FY25E. DGSL has invested heavily in AI space and AI-first approach shall be the next growth driver. We have downgraded our rating to **SELL** amidst slowdown and arrive at a revised target price of INR590 implying a P/E of 14x on FY26E EPS of INR42.2.

Financial Snapshot

Year end: March	FY22	FY23	FY24	FY25E	FY26E
Revenue (INR Mn.)	12,010	14,592	15,499	16,529	19,298
Gross Profit (INR Mn.)	4,165	5,586	5,586	5,818	6,969
Gross Margin (%)	34.7	38.3	36.0	35.2	36.1
EBIT (INR Mn.)	1,600	2,076	2,077	2,106	2,608
EBIT Margin	13.3	14.2	13.4	12.7	13.5
EPS (INR)	26.7	32.1	33.6	34.9	42.2

Source: Company, CEBPL

Aug 02, 2024

CMP (Rs.)	600
Target Price (Rs.)	590
Potential Upside (%)	(1.6)

Company Info

BB Code	DATA IN EQUITY
ISIN	INE365B01017
Face Value (Rs.)	5.0
52 Week High (Rs.)	790.2
52 Week Low (Rs.)	455.0
Mkt Cap (Rs bn.)	35.4
Mkt Cap (\$ mn.)	422.8
Shares o/s (Mn.)/Float (%)	59.0/33
FY24 EPS (Rs.)	33.6
FY26E EPS (Rs.)	42.2

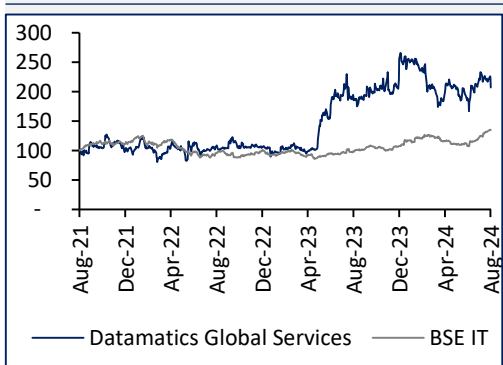
Shareholding Pattern (%)

	Jun-24	Mar-24	Dec-23
Promoters	66.44	66.44	66.44
FII's	2.19	2.33	2.81
DII's	0.16	0.19	0.36
Public	31.21	31.05	30.40

Relative Performance (%)

YTD	3Y	2Y	1Y
BSE IT	34.5	40.2	35.6
DGSL	106.8	90.6	8.4

Rebased Price Performance



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Sequential Operating Performance

	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25
Income Statement						
Revenues (INR Mn.)	4,162	3,911	3,768	3,693	4,127	3,940
Gross Profit (INR mn.)	1,831	1,466	1,310	1,311	1,499	1,294
Gross Margin (%)	44.0	37.5	34.8	35.5	36.3	32.8
EBIT (INR mn.)	752	586	496	437	559	426
EBIT Margin (%)	18.1	15.0	13.2	11.8	13.5	10.8
PAT (INR mn.)	597	551	493	413	525	435
Basic EPS (INR)	10.1	9.3	8.4	7.0	8.9	7.4
Operating Metrics						
Revenue by Business (%)						
Digital Operations	45.0	42.7	43.7	43.4	49.1	41.8
Digital Experiences	14.3	16.9	15.5	15.6	15.0	17.2
Digital Technologies	40.7	40.4	40.8	41.0	36.0	40.9
Total	100.0	100.0	100.0	100.0	100.0	100.0
EBIT Margin by Business (%)						
Digital Operations	23.0	20.1	18.6	16.5	23.5	15.5
Digital Experiences	28.2	23.0	17.5	15.4	11.8	14.2
Digital Technologies	9.1	6.2	5.7	5.5	0.7	4.6
Total	18.1	15.0	13.2	11.8	13.5	10.8
Revenue by Industry (%)						
BFSI	23.2	25.0	25.0	26.0	25.0	25.0
Education & Publishers	20.4	20.0	20.0	13.0	12.0	12.0
Technology & Consulting	20.2	20.0	20.0	24.0	27.0	27.0
Manufacturing, Infra & Logistics	10.4	12.0	13.0	12.0	12.0	12.0
Retail	9.6	9.0	9.0	10.0	9.0	9.0
Not for Profit / Govt.	15.9	10.0	10.0	11.0	11.0	10.0
Others	0.4	4.0	3.0	4.0	4.0	5.0
Ecommerce	-	-	-	-	-	-
Total	100.0	100.0	100.0	100.0	100.0	100.0
Revenue by Geography (%)						
USA	53.2	55.0	54.0	54.0	54.0	54.0
India	26.0	24.0	24.0	24.0	24.0	21.0
UK & Europe	10.5	12.0	13.0	13.0	13.0	13.0
RoW	10.3	9.0	9.0	9.0	9.0	12.0
Total	100.0	100.0	100.0	100.0	100.0	100.0
Client Concentration (%)						
Top 5	17.4	25.0	24.0	23.0	23.0	23.0
Top 10	32.4	38.0	36.0	35.0	25.0	37.0
Top 20	50.2	52.0	51.0	49.0	51.0	50.0
Workforce Metrics						
Headcount	-	-	-	-	-	-
Attrition Rate % (LTM)	24.8	5.2	8.5	12.2	17.9	4.7

Source: Company, CEBPL

company disclosure does not report the employee headcount

CEBPL Estimates vs Actual for Q1FY25

Datamatics (INR Mn.)	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)	CEBPL Est.	Dev (%)
Revenues (INR mn.)	3,940	3,911	0.7	4,127	(4.5)	4,126	(4.5)
Employee Cost	2,646	2,445	8.2	2,628	0.7		
Gross Profit (INR mn.)	1,294	1,466	(11.7)	1,499	(13.7)	1,522	(15.0)
Gross Margin (%)	32.8	37.5 (464) bps		36.3 (350) bps		36.9 (407) bps	
Other expenses	780	788	(1.1)	853	(8.6)		
Depreciation	88	92	(4.0)	88	-		
EBIT (INR mn.)	426	586	(27.3)	559	(23.7)	590	(27.8)
EBIT Margin (%)	10.8	14.99 (417) bps		13.5 (272) bps		14.3 (349) bps	
Other Income	139	91	52.0	159	(12.8)		
Finance Cost	4	5	(26.9)	5	(15.6)		
PBT (INR mn.)	530	672	(21.2)	713	(25.7)		
Tax	91	126	(27.3)	192	(52.4)		
PAT (INR mn.)	435	551	(21.0)	525	(17.2)	554	(21.5)
Basic EPS (INR)	7.4	9.3	(21.1)	8.9	(17.2)	9.4	(21.5)

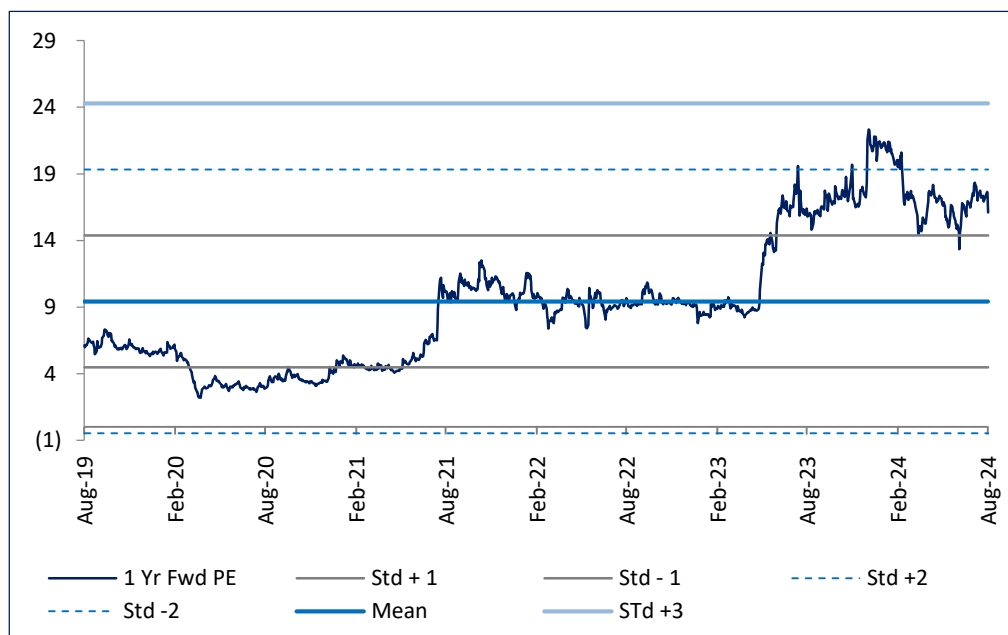
Source: Company, CEBPL

Change in estimates

Income Statement (INR Mn.)	FY25E			FY26E		
	Old	New	Dev. (%)	Old	New	Dev. (%)
Revenues	16,692	16,529	(1.0)	18,502	19,298	4.3
Gross Profit Margin (%)	36.2	35.2	(96) bps	37.5	36.1	(142) bps
EBIT	2,263	2,106	(7.0)	2,764	2,608	(5.6)
EBIT Margin (%)	13.6	12.7	(82) bps	14.9	13.5	(142) bps
EPS	36.3	34.9	(3.8)	43.9	42.2	(4.1)

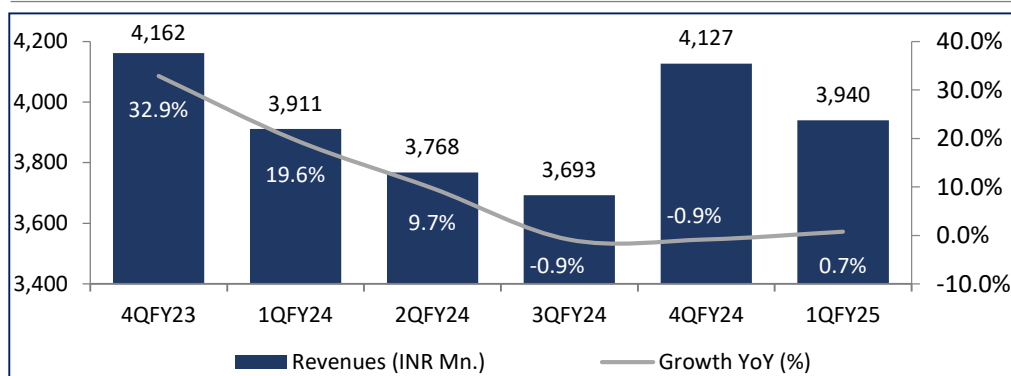
Source: Company, CEBPL

Historical 1 Yr Fwd PE Band



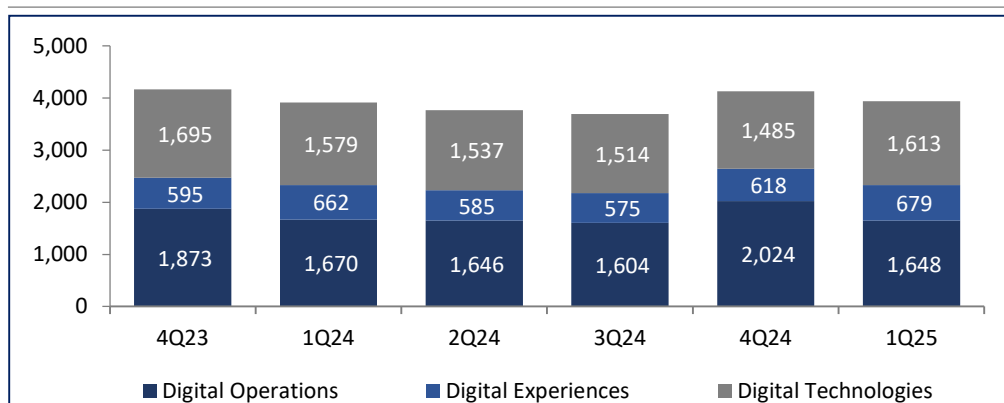
Source: Company, CEBPL

Decline in Revenue amidst macro headwinds



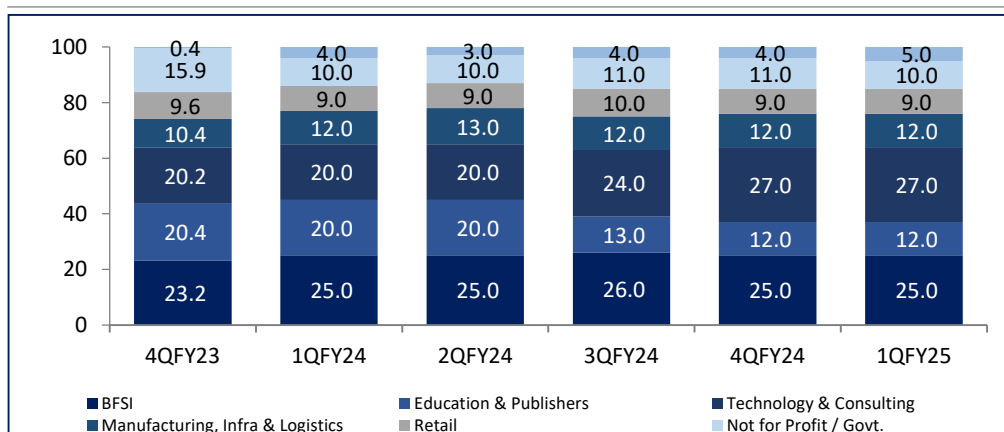
Source: Company, CEBPL

Revenue grew in Digital Experiences



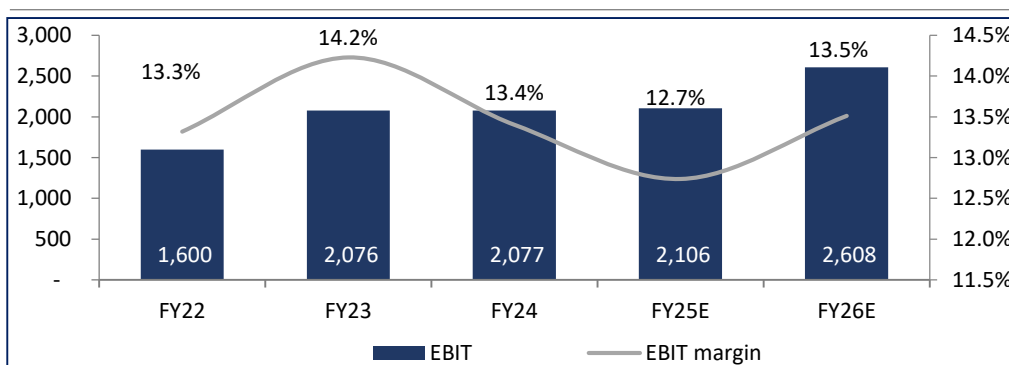
Source: Company, CEBPL

Revenue is diversified across industry verticals



Source: Company, CEBPL

EBIT Margins to remain range-bound



Source: Company, CEBPL

Management Call - Highlights

- Datamatics earned ISO 42001:2023 Certification for Artificial Intelligence Management Systems; and became one of the early receivers globally.
- Datamatics granted a patent for its proprietary AI-powered Intelligent Document Processing Software.
- During Q1FY25, the company's total cash and investments amounted to INR5,891mn. In April 2024, the company paid INR1,130mn from its cash balance for the acquisition of Dextara Digital Pvt. Ltd.
- In Q1FY25, DSO stood at 61 days, lesser than 67 days of FY24. Average annual hikes for the year were in the range of 9-9.5%.
- An American Supermarket chain selected Datamatics to implement advanced AI-driven video monitoring and analytics technology across 250 locations aimed at enhancing customers' experience while simultaneously mitigating instances of fraud.
- In Q2FY25, DGSL expects to grow topline and improve EBIT margin by 150-200 bps.
- A world-leading international university selected Datamatics for application modernization and cloud adaptability for efficiently managing workforce.
- An international law firm headquartered in Europe selected Datamatics to upgrade its cloud Strategy for its enterprise applications.
- A US-based management consulting firm has selected Datamatics TruCap+ for automating data capture from structured and unstructured documents leveraging AI for straight-through processing .

Financial Summary (Consolidated in INR Mn.)

Income Statement (INR Mn.)	FY22	FY23	FY24	FY25E	FY26E
Revenue	12,010	14,592	15,499	16,529	19,298
Gross profit	4,165	5,586	5,586	5,818	6,969
EBITDA	1,933	2,426	2,440	2,483	3,052
Depreciation	333	350	363	378	444
EBIT	1,600	2,076	2,077	2,106	2,608
Other income	263	387	450	491	560
Interest expense	29	29	20	16	19
PBT	1,920	2,434	2,508	2,580	3,149
PAT	1,575	1,889	1,982	2,062	2,488
EPS	26.7	32.1	33.6	34.9	42.2

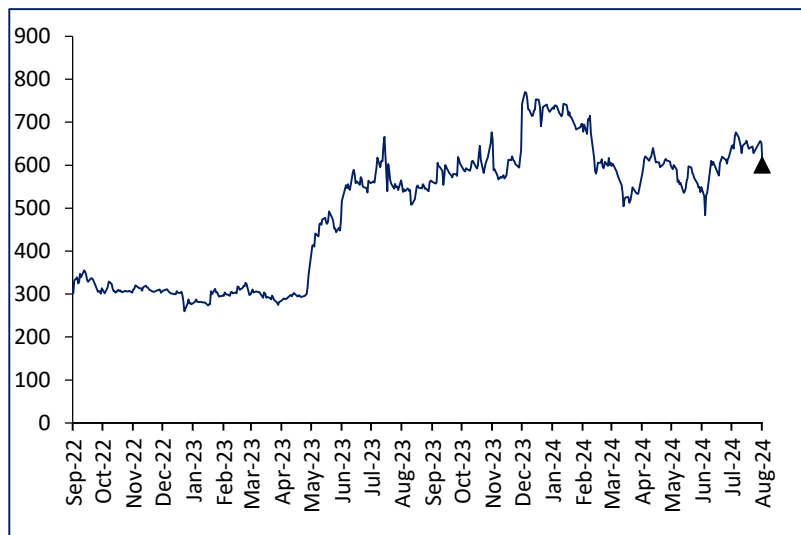
Balance Sheet (INR Mn.)	FY22	FY23	FY24	FY25E	FY26E
Tangible fixed assets	2,125	2,181	2,189	2,257	2,315
Goodwill & intangible assets	-	-	-	-	-
Investments	2,734	3,545	5,462	6,664	8,134
Cash & Cash equivalents	2,073	1,539	1,313	1,604	1,585
Other non-current assets	295	388	800	960	1,152
Other current assets	3,701	5,161	4,869	5,356	6,022
Total assets	10,929	12,813	14,633	16,842	19,208
Shareholder's funds	8,570	10,479	12,290	13,939	15,929
Borrowings	480	-	-	-	-
Other non-current liabilities	235	546	496	545	600
Other current liabilities	1,680	1,860	1,929	2,440	2,762
Total equity & liabilities	10,929	12,813	14,633	16,842	19,208

Cash Flows (INR Mn.)	FY22	FY23	FY24	FY25E	FY26E
Cash flows from Operations	1,824	1,307	1,839	1,397	1,328
Cash flows from Investing	(1,342)	(990)	(1,794)	45	59
Cash flows from financing	207	(664)	(385)	(387)	(467)

Ratio Analysis	FY22	FY23	FY24	FY25E	FY26E
Growth Ratios (%)					
Revenues	4.5	21.5	6.2	6.6	16.8
Gross Profit	13.3	34.1	0.0	4.2	19.8
EBITDA	38.5	25.5	0.6	1.8	22.9
EBIT	59.8	29.8	0.1	1.4	23.8
Margin Ratios (%)					
Gross Profit Margin	34.7	38.3	36.0	35.2	36.1
EBITDA Margin	16.1	16.6	15.7	15.0	15.8
EBIT Margin	13.3	14.2	13.4	12.7	13.5
Profitability (%)					
Return on equity	19.8	19.6	17.4	15.8	16.7
Return on invested capital	21.9	19.9	19.4	18.5	20.0
Return on capital employed	15.2	15.2	13.4	12.2	13.0
Valuation					
OCF / Net profit (%)	115.8	69.2	92.8	67.8	53.4
OCF / IC (%)	30.9	16.4	21.9	15.4	12.9
Book Value per share (x)	144.7	176.6	206.9	234.8	268.5
Free Cash flow yield (%)	9.0	5.2	7.9	4.3	3.8

Source: Company, CEBPL

Historical recommendations and target price: Datamatics Global Services Limited



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
8. 10-02-2024	Add,	Target Price 760
8. 18-03-2024	Buy,	Target Price 654
9. 10-05-2024	Reduce,	Target Price 571
10. 02-08-2024	Sell,	Target Price 590

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