

DATAMATICS GLOBAL SERVICES LTD



BSE :532528 NSE:DATAMATICS | CMP: 582 | RATINGS: HOLD

52 Week High/Low : 679 / 256 STOCK PE: 17.4x MARKET CAP: INR 3448 Cr

Key Metrics

Return on Equity (ROE): 19.5%
Return on Capital Employed : 24.8%
Dividend Yield : 0.65%
Price to Book Value (P/BV): 3.28
3 Year Compounded Profit Growth: 38%
Cash conversion cycle: 67 days
Promoter Holding : 66.50% (Jun 23)
PEG: 0.70
Return on Assets 12m : 15.5%
Price to Free cashflow : 29.95
Debt to Equity : 0.02

Financials

LAST 3 YEARS PERFORMANCE (on a consolidated basis)

Particulars (in INR Cr)	Mar-21	Mar-22	Mar-23
Sales	1,149	1,201	1,459
Growth		5%	21%
Expenses	1,005	1,007	1,217
Operating Profit	144	194	243
OPM %	12%	16%	17%
Other Income +	10	35	39
Interest	5	4	3
Depreciation	39	33	35
Profit before tax	109	192	243
Tax %	23%	19%	24%
Net Profit +	84	155	185
NPM %	7%	13%	13%
EPS in Rs	13.53	26.71	32.05
Dividend Payout %	0%	14%	16%

In the last 3 years, the company has reported an increase in EPS by almost 2.46x. The stock price has increased 4.76x from INR 113 at the end of March 21 to CMP of INR 582. The company is significantly trailing the average industry PE of 37.9x

Q-o-Q PERFORMANCE (in INR Cr)
(on a consolidated basis)

Particulars	Jun-22	Sep-22	Dec-22	Mar-23
Sales	327	343	373	416
Growth %		4.9%	8.7%	11.5%
Expenses	279	292	314	332
Operating Profit	48	52	59	84
OPM %	15%	15%	16%	20%
Net Profit	43	39	45	58
NPM%	13.1%	11.4%	12.1%	13.9%
EPS in Rs	7.36	6.78	7.78	10.13

About the company

Datamatics (hereinafter referred to as “Company”) is engaged in providing information technology solutions, data management and business process management services. The company was incorporated in the year 1987 and currently, has presence across America, Australia, Asia and Europe. The company was founded by Dr. Lalit Kanodia, an IITian and a PhD holder from MIT. Before starting Datamatics, he played a key role in starting Tata Computer Center (now known as “Tata Consultancy Services”).

Source: wikipedia, company website

Price trend - last 3 years



Product/Service Offerings

The company offers a wide range of product/services such as

Products : TruBot (Robotic Process Automation), TruCap (Data capture with ML/AI), TruBI (Data visualisation), TruAI, TruFare (Automatic Fare Collection) and similar automation tools.

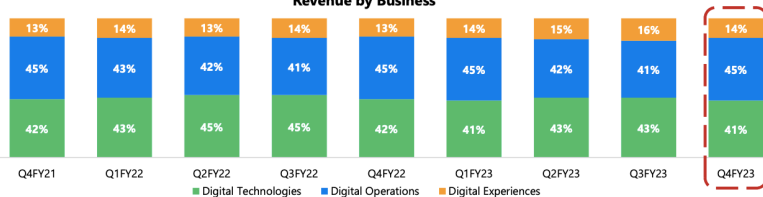
Services : The company segments its services in three main categories:

Digital Operations: Digital solutions to automate operations in the finance, banking, accounting, Insurance, Healthcare and other domains.

Digital Technology: Offerings in the domain of Cloud & DevOps, CRM, AI & Cognitive Sciences, etc.

Digital experiences: Customer management, consumer research & analytics and Digital Proctoring

Revenue by Business



Source : Company presentation

Peer Comparison

Name	M Cap		Sales INR			
	CMP	INR Cr	Cr	EPS	PEG	P/E
Tata Elsi	7,191	44,785	3,269	122	2.3	59
Persistent Sys	4,647	35,514	8,794	123	1.5	37
Oracle Fin.Serv.	3,804	32,906	5,758	210	2.3	18
PB Fintech.	721	32,442	2,558	(11)		
KPIIT Technol.	1,077	29,525	3,777	16	0.2	69
Coforge	4,727	28,883	8,406	116	1.8	39
Cyient	1,500	16,586	6,452	51	4.5	27
Datamatics Glob.	543	3,199	1,459	32	0.7	17

As compared to its peers, the company is the smallest player in terms of both market capitalisation and revenue. The PEG ratio for the company is 0.7 and PE is 17x v/s industry average PE 37x. In spite of intense competition from peers, company has done well to grow without impacting OPM which is in the range of 12-15%.

SWOT Analysis

Strengths:

1. Strong management with more than 5 decades of experience in the IT industry
2. Large client base. Low client concentration.
3. Focused on expanding its presence in new cutting-edge technology solutions
4. Decent sales pipeline. Stable margins.

Weakness:

1. Company gets > 50% revenue from US. Due to softness in US markets, growth might be adversely impacted.
2. BFSI contributes 24% of the company's revenue. The segment is currently facing some slowdown.

Opportunities:

The company can leverage its strong cash position to grow inorganically through acquisitions and further strengthen its offerings

Threats:

Overall the industry is witnessing headwinds which might impact revenue growth and margins as clients may cut down on discretionary spends and negotiate lower prices

RATINGS

All ratings mentioned in this report refer to a 12 month horizon, unless mentioned otherwise

RATINGS	-
BUY	>15% Return
HOLD	5% to 15% Return
REDUCE	0 to 5% Return
SELL	Negative Return

About the Analyst

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Revenue Mix

Geography mix In FY23, the company derived ~54% of its revenue from USA alone, whereas India contributed 27%, UK/Europe 12% and ROW 7%.

Industry mix In FY23, BFSI contributed 24% of the total revenue, followed by Education & Publishing at 22%, Technology & consulting at 19% and remaining from manufacturing (12%), Retail (8%), Non-Profit(12%) and others.

Client concentration Top 5- 24% of revenue, Top 10- 37%, Top 20- 52%

Clientele: 300+ clients worldwide, 21 new added in Q4 FY23.

Order book: The company won contracts worth \$20million (-INR 1600 Cr) in Q4FY23 and expects the rate of winning to continue in the range of \$16-20 million each quarter (this translates to roughly INR 5000 Cr) worth of orders. Revenue for FY24 is expected to be in the range of INR 1700-1800 Cr (-15% higher than FY23)

If product mix and segment-wise margins in FY24 remain similar to those in FY23, then revenue (in Cr) and EBIT (in Cr) looks as below:

Segment	FY23	FY24E	FY23	FY24E	-
	REVENUE	REVENUE	EBIT	EBIT	EBIT %
Digital Operations	630	725	140	160	22%
Digital Technology	610	702	10	12	2%
Digital Experience	218	251	57	66	26%
TOTAL	1458	1677	207	238	14%

As per management estimate, digital technology segment is likely to have higher margins in FY24 as seen in Q4FY23 (-9 %). Also, overall margins would be better since full impact of price increases (5-30%) done in FY23 will be realised in FY24.

Valuation & Financial Outlook

Given the company's strong track record and robust sales pipeline, outlook for FY24 looks positive. Even if we apply a modest PE multiple of 17x for FY24E and FY25E earnings, the target price is in the range of 593- 682 in the medium to long run.

In the event of any acquisition by the company, the future outlook would alter significantly leading to accelerated growth trajectory for the company

Particulars (in INR Cr)	FY21	FY22	FY23	FY24E	FY25E
Sales	1,149	1,201	1,459	1678	1930
Growth		5%	21%	15%	15%
Net Profit	84	155	185	201	232
NPM %	7%	13%	13%	12%	12%
EPS in INR	13.5	26.7	32.1	34.9	40.1
PE			17	17	17
Price (INR)			545	593	682

Disclosures

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