December 20, 2021 (Revised)

Datamatics Global Services Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term / Short Term - Fund based/Non-fund Based	110.0	170.0	[ICRA]A+ (Stable) / [ICRA]A1+; reaffirmed/assigned
Total	**110.0**	**170.0**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation favourably factors in Datamatics Global Services Limited's (DGSL, or company) healthy financial performance, as demonstrated by its steady revenue growth, improvement in profit margins, robust debt protection metrics and strong liquidity profile (unencumbered cash/deposits/liquid investments of ~Rs. 364 crore as on September 30, 2021). The steady improvement in profit margins in FY2021 and H1 FY2022 have been driven by increased automation in its Business Process Management (BPM) division, offshoring of partial work to low-cost locations, constant optimisation of process and reduction in operational overheads. Moreover, healthy internal accrual generation has continued to result in low reliance on debt, translating into a comfortable capital structure and robust debt protection metrics.

Additionally, the ratings continue to factor in the extensive experience of promoters in the information technology (IT) and business process management (BPM) services industry, DGSL's established and diversified customer profile, its comfortable financial risk profile, and a strong liquidity position. The company's diversified customer profile is reflected in its presence across sectors such as banking, financial services and insurance (BFSI), publishing, manufacturing, hospitality, and international organisation. The company is focussed on enhancing its presence in IT services through Robotic Process Automation (RPA), Intelligent Data Processing (IDP) and Automated Fare Collection (AFC) products, which is expected to drive its future growth and profitability.

However, the ratings are constrained by DGSL's moderate scale of operations and profitability compared to other major IT services players and its exposure to intense competition from other established industry participants in India and other low-cost locations. Further, with significant presence in the US (drove 58% of revenues in FY2021) and Europe, including the UK (16%), the company's business remains vulnerable to any regulation restricting outsourcing from these key markets. The ratings are also constrained by the susceptibility of profitability to foreign exchange (forex) fluctuations, since a significant portion of its revenues is generated in foreign currency (US Dollar, Euro and British Pound), thereby exposing its profit margins to forex fluctuations. However, the company's policy of hedging a sizeable portion of its receivables mitigates the risk to an extent.

The Stable outlook on the [ICRA]A+ rating reflects ICRA's opinion that DGSL will continue to benefit from its established business profile and diverse customer base. Also, owing to the cost optimisation measures taken by the company, overall profitability is likely to be maintained over the near to medium term.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in IT and BPM services industry - The promoters, along with the company's other senior management, have extensive experience in the IT and BPM space, which has helped drive the company's growth over the years.

Diversified customer profile - DGSL's customer profile remains diversified across sectors, such as BFSI, manufacturing, publishing, hospitality, and international organisation, among others. The BFSI sector contributed 27% to DGSL's total revenues in FY2021, while the publishing business contributed 25%, followed by other verticals (48%) during the same period.

Improvement in profit margins led by cost optimisation initiatives - Backed by increasing automation in its BPM division, offshoring of partial work to low-cost locations, constant optimisation of process and reduction in operational overheads (lower rental and travelling expense), there has been a steady expansion of overall operating profit margin (OPBDITA/OI) from ~8.6% during Q3 FY2020 to ~16.7% during Q2 FY2022. The OPBDITA/OI improved to ~12.5% in FY2021 from ~10.4% in FY2020, which in turn led to improvement in net profit margin (NPM) to ~7.3% in FY2021 from ~5.0% in FY2020. On a half yearly basis, the OPBDITA/OI improved from ~10.9% in H1 FY2021 to ~15.6% in H1 FY2022. Higher operating profits, along with exceptional income arising out of forex gain from buyback of equity share capital and redemption of preference share capital held in overseas subsidiaries, the NPM to ~12.7% during H1 FY2022 against that of ~5.4% achieved during H1 FY2021.

Comfortable financial profile with healthy liquidity position - DGSL's capital structure remains comfortable owing to low debt levels of ~Rs. 20.1 crore (entirely as current and non-current lease liability, as external bank debt was nil) against a net worth of ~Rs. 715.9 crore along with unencumber cash, deposits and liquid investment of ~Rs. 254.52 crore as on March 31, 2021. The debt protection metrics continued to remain comfortable and further improved during FY2021. Total debt/OPBDITA stood at 0.1x (0.9x in previous year) and interest coverage at 30.6x (20.9x in previous year) during FY2021. Owing to continued lower debt levels (largely as current and non-current lease liability) along with unencumber cash, deposits and liquid investment of ~Rs. 364 crore as on September 30, 2021, improved profitability, lower interest and financial expenses during H1 FY2022, DGSL's financial profile and liquidity profile has strengthened further in H1 FY2022. The same is likely to sustain going forward, supported by healthy internal accrual generation and no major increase in the company's debt levels. Due to divestment in Cignex Datamatics Inc. (Cignex) during Q4 FY2021, the overall scale of operations witnessed a degrowth of ~4.5% during FY2021. However, on an adjusted basis, without considering revenues from Cignex, the scale of operations grew by ~1.5% during FY2021 w.r.t. the previous year. Also, during Q2 FY2022, the revenue grew by ~5% on a YoY basis, while on an adjusted basis without considering revenues from Cignex, the revenues grew by ~24% during Q2 FY2022, on a YoY basis.

Credit challenges

Competition from other companies in India and other low-cost locations - DGSL's scale of operations and profitability remains more moderate than other major IT services players and is exposed to intense competition from other established industry participants and low-cost locations. However, DGSL is focussed on enhancing its value-added digital services/product business to counter the competition to some extent. The company is focussed on enhancing its presence in digital solutions through RPA, IDP, and a research and development (R&D) team focussed on AI and digital solutions, which is expected to drive its future growth. Digital solutions and AI remain at the core of DGSL's offering in the IT and BPM space.

Revenues vulnerable to outsourcing restrictions in key markets - The company derived 58% of its revenues from the US market in FY2021, followed by Europe (16%). Any regulation restricting outsourcing in these key markets may have a detrimental impact on the company's business.

Exposure to foreign currency fluctuations - Approximately 75-80% of DGSL's revenues are generated in foreign currency, thereby exposing its profit margins to forex fluctuations. However, the company's policy of hedging a sizeable portion of its receivables mitigates the risk to a large extent.

Liquidity position: Strong

DGSL's consolidated liquidity profile remains **strong**, supported by healthy internal accrual generation, sizeable unencumbered cash, deposits and liquid investments (~Rs. 364 crore as on September 30, 2021), no major debt repayment liability or major capex plans Further, the average utilisation of fund-based and non-fund-based limits stood at ~38% during the last 18 months ended September 2021, indicating a considerable buffer from unutilised sanctioned limits. The company has an unutilised limit of ~Rs. 124.8 crore out of a total sanctioned limit of Rs. 170 crore as on September 30, 2021. Overall, free cash and liquid investments, unutilised working capital limits and expected comfortable cash accruals would be sufficient to meet regular capital expenditure and incremental working capital requirements. ICRA has not factored in any inorganic growth while estimating the company's liquidity position.

Rating sensitivities

Positive factors – ICRA could upgrade DGSL's rating if the company is able to sustain its revenue growth, improve its profit margins and strong liquidity profile over the medium term. Specific credit metrics include core RoCE exceeding 20% on a sustained basis.

Negative factors – Negative pressure on DGSL's rating could arise if there is a sustained pressure on revenue growth and profitability. Also, weakening of Gross Total Debt/OPBIDTA above 1.5 times on a sustained basis would exert a negative pressure on the company's rating.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Entities in the Information Technology (Services) Industry
Parent/Group Support	Not applicable
Consolidation/Standalone	The rating is based on the consolidated business and financial profile of the company. The list of consolidated companies is given in Annexure-2.

About the company

Incorporated in November 1987, DGSL provides IT, BPM, engineering, and big data and analytics services to its customers. The company has also developed products in robotics process automation, advanced analytics, business intelligence, and automated fare collection. DGSL is headquartered in Mumbai, with offices across North America, Europe, Australia and Asia, through its subsidiaries. DGSL's customer base is diversified across various sectors, such as BFSI, manufacturing, hospitality, publishing, and international organisation, among others. The company is headed by Dr. Lalit S. Kanodia, the chairman, and Mr. Rahul L. Kanodia, the vice chairman and CEO.

Key financial indicators (Audited)

Consolidated	FY2020	FY2021	H1FY2022*
Operating Income (Rs. crore)	1203.3	1149.1	587.0
PAT (Rs. crore)	60.5	83.6	74.4
OPBDITA/OI (%)	10.4%	12.5%	15.6%
PAT/OI (%)	5.0%	7.3%	12.7%
Total Outside Liabilities/Tangible Net Worth (times)	0.4	0.2	0.3
Total Debt/OPBDITA (times)	0.9	0.1	0.1
Interest Coverage (times)	20.9	30.6	102.7

PAT: Profit after Tax; OPBDITA: Operating Profit before Depreciation, Interest, Taxes and Amortisation
**unaudited*

Source: ICRA Research, Company data

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)					Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of March 31, 2021 (Rs. crore)	Date & Rating		Date & Rating in FY2021	Date & Rating in FY2020		Date & Rating in FY2019
					December 20, 2021	November 16, 2021	September 04, 2020	December 31, 2019	June 07, 2019	-
1	Fund-based/Non-fund Based Limits	Long Term / Short Term	170.0	-	[ICRA]A+ (Stable) / [ICRA]A1+	[ICRA]A+ (Stable) / [ICRA]A1+	[ICRA]A (Stable) / [ICRA]A1	-	-	-
2	Fund-based/Non-fund Based Limits	Short Term	-	-	-	-	-	[ICRA]A1	[ICRA]A1	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term/Short term – Fund based/Non-fund based	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
ICICI Bank	Fund based/Non-fund Based	NA	NA	NA	60.0	[ICRA]A+ (Stable)/ [ICRA]A1+
Citi Bank	Fund based/Non-fund Based	NA	NA	NA	40.0	[ICRA]A+ (Stable)/ [ICRA]A1+
Standard Chartered Bank	Fund based/Non-fund Based	NA	NA	NA	20.0	[ICRA]A+ (Stable)/ [ICRA]A1+
HDFC Bank	Fund based/Non-fund Based	NA	NA	NA	50.0	[ICRA]A+ (Stable)/ [ICRA]A1+

Source: Datamatics Global Services Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Datamatics Global Services Inc	100%	Full Consolidation
Datamatics Infotech Limited	100%	Full Consolidation
Datamatics Global Services Pty. Limited	100%	Full Consolidation
Datamatics Global Technologies Limited	100%	Full Consolidation
Datamatics Global Technologies AG	100%	Full Consolidation
Datamatics Global Services FZ LLC	100%	Full Consolidation
Datamatics Global Services Corp	100%	Full Consolidation
Datamatics Global Services BV	100%	Full Consolidation
Datamatics Staffing Services Limited	97%	Full Consolidation
Datamatics Robotics Software Inc	93%	Full Consolidation
Datamatics Robotics Software Limited	93%	Full Consolidation
RJ Globus Solutions Inc	100%	Full Consolidation
RJ Globus Inc	100%	Full Consolidation
RJ Globus Solutions Private Limited#	100%	Full Consolidation
Lumina Datamatics Limited	100%	Full Consolidation
LDR eRetail Limited	100%	Full Consolidation
Lumina Datamatics Inc	100%	Full Consolidation
Lumina Datamatics GmbH	100%	Full Consolidation
Lumina Datamatics Assessment and Analystics, LLC	65%	Full Consolidation
Datamatics Information Solutions Limited	99%	Full Consolidation

Source: Company

Corrigendum

Details of lenders have been updated in Annexure 1

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About ICRA Limited:

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