June 07, 2019

Datamatics Global Services Limited: [ICRA]A1 assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Short-term Fund-based/Non-fund Based Limits	75.0	[ICRA]A1; assigned
Total	75.0	

**Instrument details are provided in Annexure-1*

Rationale

The assigned rating favourably factors in Datamatics Global Services Limited's (DGSL's) comfortable financial profile, given low debt on its books (Rs. 35.9 crore as on March 31, 2019) and healthy liquidity position (as reflected in cash and cash equivalent plus liquid investments of Rs. 118.9 crore as on March 31, 2019). The rating also draws comfort from DGSL's established and diversified customer profile given its moderate scale of operations, with presence across sectors such as banking, financial services and insurance (BFSI), manufacturing, hospitality, and international organisation, among others. The rating also favourably factors in the extensive experience of promoters in the information technology (IT) and business process management (BPM) services industry.

DGSL's key operating geographies are the US (contributed 62% to the revenues in FY2019) and Europe (18%). Any regulation restricting outsourcing in its key markets may have a detrimental impact on the company's business. DGSL's scale of operations remains modest compared to other IT services players, thereby exposing it to intense competition from companies in India and other low-cost countries. ICRA acknowledges the company's increasing focus on value-added digital services, which are expected to improve its business risk profile. The rating is also constrained by the susceptibility of profitability to foreign exchange fluctuations, since it derives a significant portion of its revenues in US dollar, euro and British pound. However, the company's policy of hedging a sizeable portion of its receivables provides comfort.

Outlook: Not applicable

Key rating drivers

Credit strengths

Extensive experience of promoters in IT and BPM services industry - Dr. Lalit S. Kanodia incorporated DGSL in November 1987, prior to which he was instrumental in the setting up of Tata Consultancy Services. The operations are currently managed by him, along with his son, Mr. Rahul L. Kanodia, who is the Vice Chairman and chief executive officer (CEO). 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 - Given the moderate scale of DGSL's operations, the customer profile remains diversified (500 plus customers) with presence across sectors such as BFSI, manufacturing, publishing, hospitality, and international organisation, among others. BFSI and publishing business each contributed 27% to the total revenues in FY2019, followed by manufacturing at 10%, and other verticals contributing the balance 36% during the same period.

Favourable financial profile given low debt, and healthy cash and cash equivalents - As on March 31, 2019, the company at consolidated level had cash and cash equivalent plus liquid investments of Rs. 118.9 crore, compared to a debt of Rs. 35.9 crore. Low debt levels, along with healthy accruals, resulted in strong debt coverage indicators as reflected in total debt/OPBDITA of 0.3x and net cash accruals/total debt of 304% in FY2019.

Credit challenges

Revenues vulnerable to outsourcing restrictions in key markets - The company derived 62% of its revenues from the US in FY2019, followed by Europe (18%) and India (15%). Any regulation restricting outsourcing in these key markets (the US and Europe) may have a detrimental impact on the company's business.

Competition from other companies in India and low-cost countries - DGSL's scale of operations remains modest compared to other IT services players, thereby exposing it to intense competition from other companies in India and low-cost countries. DGSL is shifting its focus towards value-added digital services/product business to counter the competition. However, currently the revenue contribution from digital business remains limited at ~10% of its total revenues.

Exposure to foreign currency fluctuations - Approximately 80% of DGSL's revenues are in US dollar, euro and British pound, thereby exposing the company's profit margins to foreign exchange fluctuations. However, the company's policy of hedging a sizeable portion of its receivables provides comfort.

Liquidity position

DGSL's consolidated liquidity profile remains healthy, as reflected in its cash and cash equivalent plus liquid investments of Rs. 118.9 crore as on March 31, 2019. At a standalone level, the company has cash and equivalents of Rs. 26.5 crore against a total debt of Rs. 26.3 crore. Further, utilisation of fund-based working capital limits remained moderate in the last 12 months, providing additional liquidity cushion in terms of unutilised working capital limits. Overall, free cash and liquid investments, unutilised working capital limits and expected healthy cash accruals would be sufficient to meet term loan repayments, regular capital expenditure and incremental working capital requirements.

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 segments. DGSL's headquarter is in Mumbai (Maharashtra) and it has offices across the US, Europe, Australia, Asia, and the Middle East through its subsidiaries. DGSL caters to customers in various sectors such as BFSI, manufacturing, hospitality, publishing, and international organisation, among others. The company is headed by Dr. Lalit S. Kanodia, who is currently the Chairman, and Mr. Rahul L. Kanodia, who is the Vice Chairman and CEO.

Key financial indicators (audited)

Consolidated	FY2018	FY2019
Operating Income (Rs. crore)	910.3	1,133.5
PAT (Rs. crore)	69.2	83.6
OPBDIT/ OI	9.0%	11.8%
RoCE	14.1%	17.5%
Total Debt/ TNW(times)	0.1	0.1
Total Debt/ OPBDIT (times)	0.8	0.3
Interest Coverage (times)	20.4	28.1

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, and Taxes; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth (TNW) + Deferred Tax Liability - Capital Work in Progress - Capital Advances)

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Type	Current Rating (FY2020) Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating June 2019	Chronology of Rating History for the Past 3 years Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017
1	Fund-based/Non-fund Based Limits	Short Term	75.0	-	[ICRA]A1	-	-	-

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the 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
NA	Short-term Fund-based/Non-fund Based Limits	NA	NA	NA	75.0	[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	100.0%	Full Consolidation
Datamatics Infotech Limited	100.0%	Full Consolidation
Datamatics Global Services Pty. Limited	100.0%	Full Consolidation
Datamatics Global Technologies Limited	100.0%	Full Consolidation
Datamatics Global Technologies AG	100.0%	Full Consolidation
Datamatics Global Services FZ LLC	100.0%	Full Consolidation
Datamatics Global Services Corp	100.0%	Full Consolidation
LD Publishing & eRetail Limited	100.0%	Full Consolidation
Datamatics Digital Limited	81.1%	Full Consolidation
Techjini Inc	81.1%	Full Consolidation
Datamatics Robotics Software Inc	100.0%	Full Consolidation
Cignex Datamatics Corporation	61.8%	Full Consolidation
Cignex Datamatics Inc	61.8%	Full Consolidation
Cignex Datamatics Technologies Limited	61.8%	Full Consolidation
Cignex Datamatics Pte. Limited	61.8%	Full Consolidation
Cignex Datamatics GmbH	61.8%	Full Consolidation
Cignex Datamatics UK Limited	61.8%	Full Consolidation
Duo Consulting, Inc.	40.79%	Full Consolidation
Attune Infocom Private Limited	31.52%	Full Consolidation
Datamatics Software Service Limited	41.91%	Full Consolidation
Lumina Datamatics Limited	98.0%	Full Consolidation
LDR eRetail Limited	98.0%	Full Consolidation
Lumina Datamatics Inc	98.0%	Full Consolidation
Lumina Datamatics GmbH	98.0%	Full Consolidation
Lumina Datamatics Assessment and Analytics, LLC	63.7%	Full Consolidation
Cybercom Datamatics Information Solutions Limited	50.5%	Equity Method

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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