December 31, 2019

Datamatics Global Services Limited: Update

Summary of rating action

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

**Instrument details are provided in Annexure-1*

Rationale

On December 12, 2019, Datamatics Global Services Limited (DGSL) announced the divestment in the stake which is indirectly held by the company in its step down and material foreign subsidiary, CIGNEX Datamatics, Inc. (CIGNEX US), to Relevance Lab Pte Ltd., Singapore, through a share swap arrangement. Through its wholly-owned subsidiary, Datamatics Global Technologies Limited, Mauritius, DGSL at present holds 62.51% stake in CIGNEX Datamatics Corporation (CIGNEX BVI). CIGNEX BVI in turn holds 100% of the share capital of CIGNEX US. Post completion of the proposed divestment, CIGNEX Datamatics, Inc. will cease to be a subsidiary of CIGNEX Datamatics Corporation (CIGNEX BVI). CIGNEX BVI will hold 21% stake in the combined entity and become an associate company of DGSL. Apart from the share consideration, CIGNEX BVI will additionally receive cash consideration (cash in CIGNEX US and its subsidiaries) minus $1.96 million adjusted towards working capital and other adjustments). CIGNEX US generated 17.21% of the consolidated FY2019 revenues of DGSL. The deal is subject to shareholders' and necessary statutory and regulatory approvals. As per the management, the combined entity will have a stronger portfolio and expanded digital offerings and will allow DGSL's management to focus on its core IT and BPM portfolio and emerging growth areas including robotic process automation (RPA) and automated fare collection (AFC).

The rating remains unchanged at the earlier rating of [ICRA]A1. In ICRA's view, the proposed divestment is unlikely to materially alter DGSL's consolidated business and financial risk profile.

The rating continues to favourably factor in DGSL's comfortable financial profile, given low debt on its books (Rs. 23.7 crore as on September 30, 2019) and healthy liquidity position (as reflected in cash and cash equivalent plus liquid investments of Rs. 110.8 crore as on September 30, 2019). DGSL reported operating income of Rs. 586.9 crore and an adjusted EBITDA margin of 10.9% (adjusted for IND AS 116 impact and CSR provisioning impact) during H1 FY2020. The rating continues to draw comfort from DGSL's established and diversified customer profile, given its moderate scale of operations 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 the promoters in the information technology (IT) and business process management (BPM) services industries.

DGSL's key operating geographies are the US (contributed 56% to the revenues in H1 FY2020) and Europe (16%). 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

Dollar, Euro and British Pound. However, the company's policy of hedging a sizeable portion of its receivables provides comfort.

Key rating drivers

Credit strengths

Extensive experience of promoters in IT and BPM services industries - 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. 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, its customer profile remains diversified (over 500 customers) across sectors such as BFSI, manufacturing, publishing, hospitality and international organisation, among others. The BFSI and publishing businesses each drove 27% of the total revenue in H1 FY2020, followed by manufacturing (9%), and other verticals (37%) during the same period.

Favourable financial profile given low debt, and healthy cash and cash equivalents - As on September 30, 2019, at a consolidated level, the company had cash and cash equivalent plus liquid investments of Rs. 110.8 crore, compared to a debt of Rs. 23.7 crore. Low debt levels, along with healthy accruals, resulted in strong debt and interest coverage indicators as reflected in total debt/adjusted OPBDITA of 0.4 times and adjusted OPBDITA/adjusted interest and finance charges of 27.6 times during H1 FY2020.

Credit challenges

Revenues vulnerable to outsourcing restrictions in key markets - The company derived 56% of its revenues from the US market in FY2019, followed by India (18%) and Europe (16%). 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 the digital business remains limited at ~10% of its total revenues.

Exposure to foreign currency fluctuations - Approximately 80% of DGSL's revenues are in 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: Strong

DGSL's consolidated liquidity profile remains healthy, as reflected in its cash and cash equivalent plus liquid investments of Rs. 110.8 crore as on September 30, 2019. At a standalone level, the company reported unencumbered cash and equivalents of Rs. 6.9 crore as on September 30, 2019 against a total debt of Rs. 17.5 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 comfortable cash accruals would be sufficient to meet term loan repayments, 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 triggers – ICRA could upgrade DGSL's rating if there is a sustained improvement in the company's business and financial profile with concomitant increase in scale and profitability leading to RoCE exceeding 20%.

Negative triggers – Negative pressure on DGSL' rating could arise if revenue growth becomes stagnant with material decline in profitability. Also, weakening of gross TD/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 shared 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 RPA, advanced analytics, business intelligence and AFC segments. DGSL is headquartered in Mumbai with offices across North America, Europe, Australia and Asia 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

Consolidated	FY2018	FY2019
Operating Income (Rs. crore)	910.3	1,133.5
PAT (Rs. crore)	69.2	83.6
OPBDITA/ OI	9.0%	11.8%
RoCE	14.1%	17.5%
Total Debt/ TNW(times)	0.1	0.1
Total Debt/ OPBDITA (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 December 31, 2019	Date & Rating June 7, 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	[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 click here

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 (As on March 31, 2019)

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 Technologies GmbH	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 Staffing Services Limited	41.36%	Full Consolidation
Datamatics Robotics Software Inc	100.0%	Full Consolidation
Datamatics Robotics Software Limited	100.0%	Full Consolidation
RJ Globus Solutions Inc	75.0%	Full Consolidation
RJ Globus Inc	75.0%	Full Consolidation
RJ Globus Solutions Private Limited	75.0%	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
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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