September 04, 2020

Datamatics Global Services Limited: Long-term rating of [ICRA]A(Stable) assigned; Short-term rating reaffirmed, rated amount enhanced

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	-	-
Long Term / Short Term - Fund based/Non-fund Based	-	110.0	[ICRA]A (Stable); Assigned/ [ICRA]A1; Reaffirmed
Total	**75.0**	**110.0**	

**Instrument details are provided in Annexure-1*

Rationale

The rating action factors in Datamatics Global Services Limited's (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 with presence across sectors such as banking, financial services and insurance (BFSI), publishing, manufacturing, hospitality, and international organisation, among others while the company's strong liquidity is reflected in unencumbered cash and liquid investments of Rs.220.3 crore as on March 31, 2020. The rating also favourably factors in the extensive experience of promoters in the information technology (IT) and business process management (BPM) services industry.

The operations of the company were impacted with the lock-down initiated by the Government of India in March 2020 to prevent the rapid spread of Covid-19 in India. The company witnessed a revenue loss of ~Rs. 9 crore in March 2020 which translated into an operating loss of ~Rs. 8 crore. Further, it is expected that the revenue growth for the company to remain muted in FY2021 owing to the disruption caused by the Covid-19 pandemic.

The ratings are constrained by DGSL's modest scale of operations and profitability compared to other IT services players and its exposure to intense competition from companies in India and other low-cost countries. Further with significant presence in US (contributed 57% to the revenues in FY2020) and Europe including UK (16%), the company's business remains vulnerable to any regulation restricting outsourcing from these key markets. ICRA also notes the company's investment in building Robotic Process Automation (RPA) products and other value-added digital services leading to short-term pressure on margins. The ratings are 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.

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 with presence across sectors such as BFSI, manufacturing, publishing, hospitality, and international organisation, among others. BFSI contributed 28% while publishing business contributed 26% to the total revenues in FY2020, followed by manufacturing at 9%, and other verticals contributing the balance 37% during the same period.

Comfortable financial profile with healthy cash and cash equivalents - As on March 31, 2020, the company at consolidated level had unencumbered cash and liquid investments of Rs. 220.3 crore and a debt of Rs. 96.5 crore compared to unencumbered cash and liquid investments of Rs. 115.1 crore and a debt of Rs. 35.9 crore as on March 31, 2019. The company had taken short-term debt in March 2020 to strengthen its liquidity to deal with any near-term uncertainty post the outbreak of Covid-19 pandemic. Although there was an increase in debt levels, the company's net cash position was higher YoY. DGSL's debt protection metrics are comfortable with total debt/OPBDITA of 0.8x, interest coverage of 20.9x and net cash accruals/total debt of 110% in FY2020 and healthy cash accruals from the business.

Credit challenges

Competition from other companies in India and low-cost countries - DGSL's scale of operations and profitability remains modest compared to other IT services players, and its exposure 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.

Revenues vulnerable to outsourcing restrictions in key markets - The company derived 57% of its revenues from the US in FY2020, followed by Europe (16%). Any regulation restricting outsourcing in these key markets (the US and Europe) may have a detrimental impact on the company's business.

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: Strong

DGSL's consolidated liquidity profile remains strong, as reflected in its unencumbered cash and liquid investments of Rs. 220.3 crore as on March 31, 2020. Further, the company has an average unutilized limit of ~Rs. 67 crore out of a total sanctioned limit of Rs. 110 crore for the 12-month ending with March 2020. 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 triggers – ICRA could upgrade DGSL's rating if there is a sustained improvement in the company's business and financial risk profile with increase in scale and profitability leading to RoCE exceeding 20%.

Negative triggers – Negative pressure on DGSL' rating could arise if there is a sustained pressure on revenue growth and 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 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)

	FY2019	FY2020
Operating Income (Rs. crore)	1,133.5	1,203.3
PAT (Rs. crore)	83.6	60.6
OPBDIT/OI (%)	11.9%	10.4%
PAT/OI (%)	7.4%	5.0%
Total Outside Liabilities/Tangible Net Worth (times)	0.3	0.4
Total Debt/OPBDIT (times)	0.3	0.8
Interest Coverage (times)	22.7	20.9

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Chronology of Rating History for the Past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2020		Date & Rating in FY2019	Date & Rating in FY2018
					4-Sep-20	31-Dec-19	7-Jun-19		
1	Fund-based/Non-fund Based Limits	Long Term / Short Term	110.0	-	[ICRA]A (Stable)/[ICRA]A1	-	-	-	-
2	Fund-based/Non-fund Based Limits	Short Term	-	-	-	[ICRA]A1	[ICRA]A1	-	-

Amount in Rs. Crore

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	Long Term / Short Term - Fund based/Non-fund Based	NA	NA	NA	110.0	[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	100.00%	Full Consolidation
Datamatics Infotech Limited	100.00%	Full Consolidation
Datamatics Global Services Pty. Limited	100.00%	Full Consolidation
Datamatics Global Technologies Limited	100.00%	Full Consolidation
Datamatics Global Technologies AG	100.00%	Full Consolidation
Datamatics Global Services FZ LLC	100.00%	Full Consolidation
Datamatics Global Services Corp	100.00%	Full Consolidation
LD Publishing & eRetail Limited	100.00%	Full Consolidation
Datamatics Global Services B.V.	100.00%	Full Consolidation
RJ Globus Solutions Inc	87.50%	Full Consolidation
RJ Globus Inc	87.50%	Full Consolidation
RJ Globus Solutions Private Limited	87.50%	Full Consolidation
Datamatics Digital Limited	100.00%	Full Consolidation
Techjini Inc	100.00%	Full Consolidation
Datamatics Robotics Software Inc	100.00%	Full Consolidation
Cignex Datamatics Corporation	62.51%	Full Consolidation
Cignex Datamatics Inc	62.51%	Full Consolidation
Cignex Datamatics Technologies Limited	62.51%	Full Consolidation
Cignex Datamatics Pte. Limited	62.51%	Full Consolidation
Cignex Datamatics GmbH	62.51%	Full Consolidation
Duo Consulting, Inc.	41.26%	Full Consolidation
Datamatics Staffing Service Limited	51.00%	Full Consolidation
Lumina Datamatics Limited	100.00%	Full Consolidation
LDR eRetail Limited	100.00%	Full Consolidation
Lumina Datamatics Inc	100.00%	Full Consolidation
Lumina Datamatics GmbH	100.00%	Full Consolidation
Lumina Datamatics Assessment and Analytics, LLC	65.00%	Full Consolidation
Cybercom Datamatics Information Solutions Limited	50.50%	Equity Method

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About ICRA Limited:

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