

January 08, 2024

Datamatics Global Services Limited: Ratings reaffirmed

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	180.00	180.00	[ICRA]A+ (Stable)/[ICRA]A1+ reaffirmed
Total	180.00	180.00	

*Instrument details are provided in Annexure-I

Rationale

The reaffirmation of ratings of Datamatics Global Services Limited (DGSL, or the company) factors in its established operational track record and extensive experience of its promoters in the IT services and business process management (BPM) industry. The company reported healthy revenue growth of 21.5% YoY to Rs. 1,459 crore in FY2023, translating into higher accrual generation. Nonetheless, in line with the industry trend, DGSL's growth declined slightly in H1 FY2024, and is likely to remain moderated over the near term. This is on account of macro-economic headwinds in the key markets of the US and Europe, and delays in client decision-making leading to re-evaluation of discretionary spends by customers. Nonetheless, DGSL's healthy deal pipeline (\$290 million as on September 30, 2023) provides revenue visibility over the medium term. The ratings also factor in DGSL's healthy financial profile supported by a comfortable capital structure on the back of nil debt (excluding lease), robust coverage metrics and strong liquidity position.

The ratings, however, remain constrained by DGSL's moderate scale of operations and profitability as compared to other major IT services players. Also, with significant presence in the US and Europe, the company's business remains vulnerable to any regulations restricting outsourcing, as well as to the prevailing macro-economic headwinds in these key markets. Further, operating in the highly competitive IT industry exposes DGSL's profit margins to pricing pressures. Additionally, in line with industry participants, DGSL remains exposed to wage inflation, foreign currency fluctuations, talent acquisition and retention.

ICRA notes the company's plans to grow inorganically through acquisitions in the near to medium term, which are likely to be funded through available surplus liquidity. However, any sizeable debt-funded acquisition can materially impact the company's financial risk profile and will be evaluated on a case to-case basis.

The Stable outlook on the rating reflects ICRA's opinion that despite some moderation in growth momentum in the near term, DGSL's credit profile will continue to remain healthy, supported by its established position in the industry, healthy cash flow generation from operations and strong liquidity position.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in IT services & solution and BPM industry — The promoters of the company, along with its other senior management, have an extensive experience in the IT and BPM space, which has aided DGSL's growth over the years. Moreover, the Founder and Chairman of DGSL, Mr. Lalit Kanodia, has been associated with the IT services and solutions industry for the last five decades.

Diversified customer profile — The company has a well-diversified customer base of more than 300 significant customers worldwide. The company is present across sectors, such as Banking, Financial Services and Insurance (BFSI), manufacturing, publishing, hospitality, and international organisations, among the others. Its largest segment, BFSI generated 24% of its

revenues in FY2023 (24% in H1 FY2024), while its education and publishing business generated 22% in FY2023 (20% in H1 FY2024). Also, its top five customers accounted for ~25% of the total revenues in FY2023.

Healthy financial profile characterised by strong earnings and net debt-free status — DGSL's revenues grew by 21.5% YoY in FY2023 supported by broad-based growth across sectors. However, the growth momentum slightly moderated to 14.6% YoY in H1 FY2024, due to prevailing macro-economic headwinds in some of the key markets and delays in client decision-making. Nonetheless, its deal pipeline remained robust at \$290 million as on September 30, 2023, which provides revenue visibility. DGSL's financial profile continued to remain healthy supported by its steady accruals, healthy capital structure and cash and investment balance of ~Rs. 581 crore as on September 30, 2023. Coupled with nil debt (excluding lease liabilities), its coverage metrics too were robust. Going forward as well, the credit metrics are expected to be in line with past trends and remain robust, backed by healthy cash accrual generation and a strong liquidity position.

Credit challenges

Relatively moderate scale of operations and geographical concentration risk compared to large IT companies — Despite a healthy top-line growth of 21.5% to Rs. 1,459 crore in FY2023, DGSL's scale of operations continue to remain relatively moderate as compared to some large domestic IT services companies, thereby restricting its pricing flexibility and margins to some extent. Moreover, its high exposure in India and West Asia has resulted in relatively lower margins as compared to other IT players with a wider presence in the US and European markets. Nonetheless, the company continues its efforts to increase its presence and revenues from the US market.

Margins vulnerable to competitive pressures, wage inflation and forex fluctuations — Operating in the highly competitive IT industry exposes DGSL's profit margins to pricing pressures and wage inflation. Further, much of the revenues and margins are exposed to forex risks, although the company's hedging mechanisms mitigate the same to some extent. Being in a highly labour-intensive business, the availability and retention of a skilled workforce are the key challenges. Nonetheless, the attrition rate moderated to 8.5% (half yearly) as on September 30, 2023, and ICRA expects this trend to continue, going forward, before stabilising at a long-term average in the next couple of quarters.

Exposure to policies and macroeconomic environment in key operating markets — DGSL derives more than 65% of its revenues from the US and Europe, thus exposing it to the macro-economic uncertainties and any adverse regulatory/legislative changes in these key markets. Also, the prevailing macro-economic headwinds in these geographies could have an impact on the company.

Liquidity position: Strong

DGSL's liquidity profile continues to be strong supported by steady internal accrual generation and healthy fund flow from operations (FFO) of ~Rs. 102.5 crore in H1 FY2024. Also, the company has sizeable cash and liquid investments of ~Rs. 581 crore (as on September 30, 2023), along with a sizeable cushion in the form of unutilised working capital limits and no debt repayment liability. ICRA expects the company to continue to scout for investment/ acquisition opportunities to support its inorganic growth initiatives. The impact, if any, of the same on DGSL's credit and liquidity profile will depend on the size of these investments/acquisitions and their operational and financial synergies.

Environmental and Social Risk

Environmental concerns — Given the service-oriented business, DGSL's direct exposure to environmental risks as well as those emanating from regulations or policy changes are not material.

Social concerns — Like other Indian IT service companies, DGSL faces the risk of data breaches and cyber-attacks that could affect the large volumes of customer data that it manages. Any material lapses on this front could result in substantive liabilities, fines, or penalties and reputational impact. Also, DGSL remains exposed to the risk of changes in immigration laws in the key developed markets where it provides services. Any such changes could have the effect of heightening the competition among IT players for skilled workforce leading to a higher attrition rate and may have an adverse impact on

profitability. Managing various facets of human capital, including skills, compensation, and training, is in any case a key differentiating factor among IT companies.

Rating sensitivities

Positive factors – ICRA could upgrade DGSL’s ratings if the company exhibits a sustained improvement in its business profile, supported by increase in scale of operations, while generating adequate returns and maintaining strong credit metrics and liquidity.

Negative factors – Negative pressure on DGSL’s ratings may arise in case of any significant reduction in the company’s revenues and profitability weakening the credit profile. The ratings may be downgraded if any increase in working capital intensity, or any significant debt-funded acquisition(s) weaken(s) the debt coverage indicators or liquidity position. Specific credit metrics that could lead to a rating downgrade include gross Total Debt/OPBDITA above 1.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology – IT - Software & Services
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of DGSL. The details of the consolidated entities are shared in Annexure 2.

About the company

Incorporated in November 1987, DGSL provides solutions for data-driven businesses to enhance their productivity and customer experience. The company’s services can be bifurcated into three segments—digital operations, digital experience, and digital technology. 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)

DGSL - Consolidated	FY2022	FY2023	H1 FY2024*
Operating income	1201.1	1459.2	767.9
PAT	155.4	185.3	103.6
OPBDIT/OI	16.2%	16.7%	16.5%
PAT/OI	12.9%	12.7%	13.5%
Total outside liabilities/Tangible net worth (times)	0.3	0.2	0.2
Total debt/OPBDIT (times)	0.3	0.1	0.1
Interest coverage (times)	47.1	56.6	129.3

Source: Company, ICRA Research; All ratios as per ICRA’s calculations; Amount in Rs. Crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; *unaudited and abridged financials; Financial ratios in the report are ICRA adjusted figures and may not be directly comparable with results reported by the company in some instances

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years				
		Amount rated (Rs. crore)	Amount outstanding as of Dec 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022		Date & rating in FY2021
				Jan 08, 2024	Jan 5, 2023	Dec 20, 2021	Nov 16, 2021	Sept 4, 2020
1 Fund-based/Non-fund Based Limits	Long term/ Short term	180.0	-	[ICRA]A+ (Stable)/ [ICRA]A1+	[ICRA]A+ (Stable)/ [ICRA]A1+	[ICRA]A+ (Stable)/ [ICRA]A1+	[ICRA]A+ (Stable)/ [ICRA]A1+	[ICRA]A (Stable)/ [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 are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund Based/Non-Fund Based	NA	NA	NA	180.0	[ICRA]A+ (Stable)/[ICRA]A1+

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis

Company Name	DGSL Ownership	Consolidation Approach
Datamatics Information Solutions Limited	98.81%	Full Consolidation
Datamatics Global Services BV	100%	Full Consolidation
Datamatics Global Services Corp	100%	Full Consolidation
Datamatics Global Services FZ LLC	100%	Full Consolidation
Datamatics Global Services Inc	100%	Full Consolidation
Datamatics Global Services Pty Limited	100%	Full Consolidation
Datamatics Global Technologies AG	100%	Full Consolidation
Datamatics Global Technologies Limited	100%	Full Consolidation
Datamatics Infotech Limited	100%	Full Consolidation
Datamatics Robotics Software Inc	90%	Full Consolidation
Datamatics Robotics Software Limited	90%	Full Consolidation
Datamatics Staffing Services Limited	100%	Full Consolidation
Datamatics Foundation	100%	Full Consolidation
Datamatics Cloud Solutions Private Limited	77%	Full Consolidation
LDR eRetail Limited	100%	Full Consolidation
Lumina Datamatics GmbH	100%	Full Consolidation
Lumina Datamatics Inc	100%	Full Consolidation
Lumina Datamatics Limited	100%	Full Consolidation
Lumina Datamatics UK Limited	100%	Full Consolidation
Sunrise Setting Limited	70%	Full Consolidation
RJ Globus Inc	100%	Full Consolidation
Datamatics Technologies FZ LLC	100%	Full Consolidation
Lumina Datamatics Corp	100%	Full Consolidation
Diacritech Technologies Private Limited	100%	Full Consolidation
Diacritech Inc	100%	Full Consolidation

Source: Company's FY2023 Annual Report Note: ICRA has taken a consolidated view of the parent (DGSL), its subsidiaries and associates while assigning the ratings.

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About ICRA Limited:

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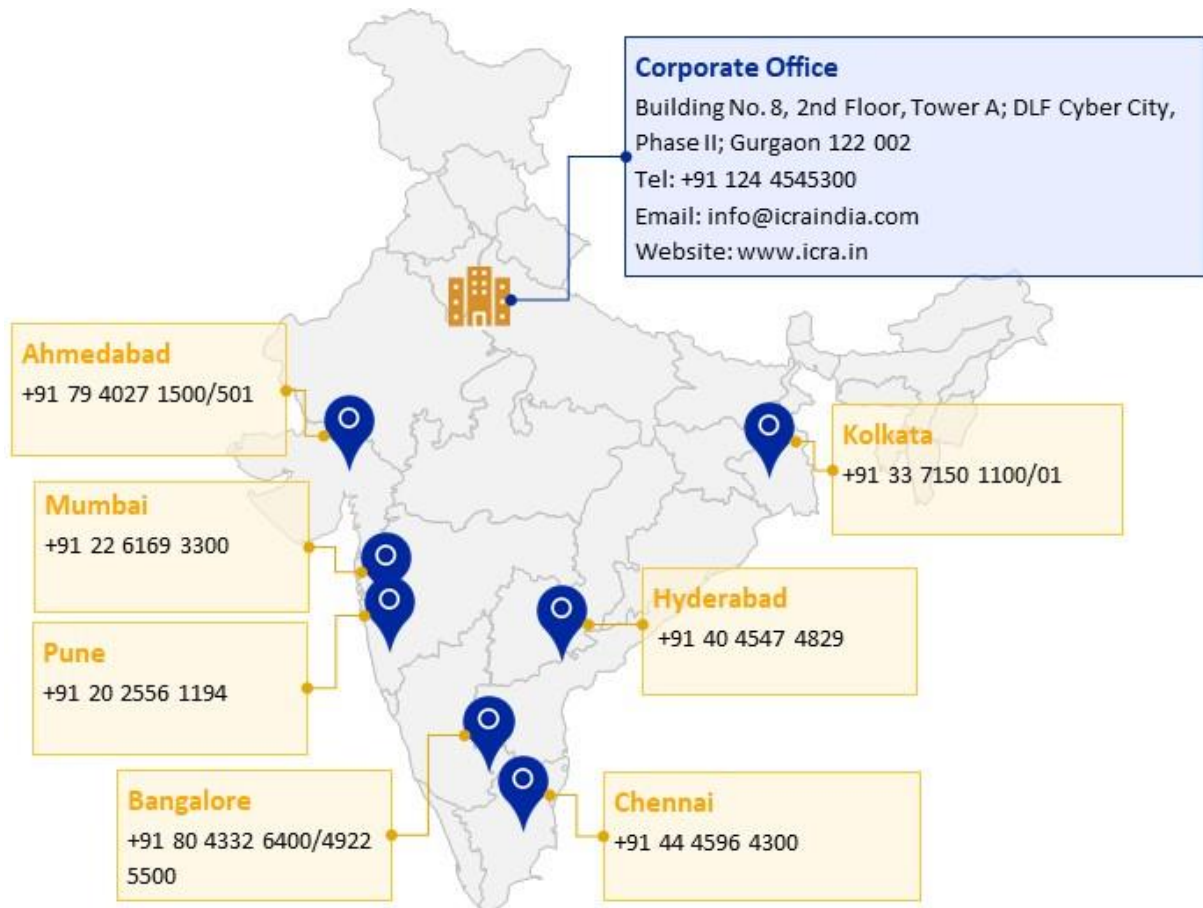
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