February 11, 2025

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 for Datamatics Global Services Limited (DGSL) factors in its established operational track record and extensive experience of the promoters in the IT services and business process management (BPM), DGSL's diversified customer base across sectors, along with its continued efforts to enhance its product offering by investing in research and development (R&D).

In line with the industry trend, DGSL also reported a moderate YoY revenue growth of 6.2% in FY2024 and 7.8% in 9M FY2025 in rupee terms due to lower discretionary spending by clients amid persistent macro-economic headwinds in the key markets of the US and Europe. While the operating margin remained stable in FY2024, it reduced to 12.6% in 9M FY2025 from 15.8% in 9M FY2024 due to annual wage hikes, higher R&D expenses and geographical revenue mix. However, ICRA expects the growth momentum and the operating margin to pick up over the medium term.

In 9M FY2025, DGSL acquired Dextara Digital Private Limited (Dextara) and TNQ Tech Private Limited (TNQ Tech), partly funded through debt. Despite carrying out debt-funded acquisitions, the company's capital structure remained comfortable on the back of its net debt negative position, strong coverage metrics and healthy liquidity position. ICRA also notes the company's continued plans to grow inorganically 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 ratings, however, remain constrained by DGSL's moderate scale of operations and profitability compared to other major IT services players. Also, with a significant presence in the US, the company's business remains vulnerable to any regulations restricting outsourcing, as well as to the prevailing macro-economic headwinds in this market. Further, operating in the highly competitive IT industry exposes DGSL's profit margins to pricing pressure. Additionally, in line with industry participants, DGSL remains exposed to wage inflation, foreign currency fluctuations and talent acquisition and retention.

The Stable outlook on the long-term rating reflects ICRA's opinion that despite continued moderate growth 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 & solutions 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 more than 300 significant customers worldwide. The company is present across sectors, such as banking, financial services and insurance (BFSI), technology and consulting, education and publishing, manufacturing, logistics, and international organisations, among others. Its largest segment, technology and consulting, generated 27% of its revenues in FY2024 (26% in 9M FY2025), while its education and publishing business generated 12% in FY2024 (15% in 9M FY2025). Also, its top five customers accounted for ~23% of total revenues in FY2024.

Healthy financial profile, characterised by strong earnings and net debt-free status — DGSL's revenue growth moderated to 6.2% on a YoY basis in FY2024 and 7.8% in 9M FY2025, against 21.5% in FY2023 largely in line with the trend witnessed at an industry level. The company's revenue growth is likely to remain moderate over the near term due to prevailing macro-economic headwinds in some of the key markets. Nonetheless, the company's strong execution and client additions in the recent quarters provide healthy revenue visibility. DGSL's financial profile continued to remain healthy, supported by its steady accruals, healthy capital structure and cash and liquid investment balance of ~Rs. 393 crore and non-current investments of ~Rs. 247 crore as on September 30, 2024. The company availed an aggregate debt of ~Rs. 150 crore in December 2024 to fund the acquisition of TNQ Tech. Despite the same, its net debt position remains negative, supported by strong liquidity. Going forward, the credit metrics are expected to remain strong, backed by healthy cash accrual generation and a strong liquidity position.

Credit challenges

Exposed to relatively moderate scale of operations and geographical concentration risk compared to large IT companies — DGSL's scale of operations continues to remain relatively moderate compared to some large domestic IT services companies, restricting its pricing flexibility and margins to some extent. DGSL earned an aggregate revenue of Rs. 1,549.9 crore in FY2024 and Rs. 1,226.2 crore in 9M FY2025. Moreover, its high exposure in India and West Asia resulted in relatively lower margins compared to other IT players with wider presence in the US and European markets. Nonetheless, the company continues with its efforts to increase its presence in the US market.

Margins vulnerable to competition, wage inflation and forex fluctuations — The highly competitive IT industry exposes DGSL's profit margins to pricing pressure and wage inflation. Further, a significant portion of the revenues and margins is exposed to forex risks, although the company's hedging mechanisms mitigate the same to some extent. As it is present in a highly labour-intensive business, availability and retention of a skilled workforce are the key challenges. Nonetheless, the attrition rate moderated to 12% in 9M FY2025 from 17.9% in FY2024.

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. The prevailing macro-economic headwinds in these geographies could impact the company. DGSL's revenue contribution from Europe is expected to increase to ~17% from FY2026 against 12% in FY2024, post the acquisition of TNQ Tech.

Environmental and social risks

Environmental concern: 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 concern: 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 lapse on this front could result in substantive liabilities, fines, or penalties and reputational impact. Also, the company remains exposed to the risk of changes in immigration laws in the key developed markets, where it provides its services. While such changes would be influenced by social and political considerations of those nations, they could increase competition among IT players for skilled workforce, leading to higher attrition rates and may have an adverse impact on the profitability. Managing various facets of human capital, including skills, compensation, and training, are key differentiating factors among IT companies.

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. 81.1 crore in H1 FY2025. Also, the company has sizeable cash and liquid investments of ~Rs. 393 crore and non-current investments of Rs. ~Rs. 247 crore (as on September 30, 2024), along with a sizeable cushion in the form of unutilised working capital limits. The company has repayment obligation of Rs. 50 crore in FY2026 against the debt availed to fund the acquisition of TNQ Tech, which is expected to be comfortably serviced through future accrual generation.

Rating sensitivities

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

Negative factors – 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) weakens the debt coverage indicators or liquidity position. Specific credit metrics that could lead to ratings downgrade include 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 for 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 II.

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, education and publishing, technology and consulting, manufacturing, logistics 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	FY2023	FY2024	H1 FY2025*
Operating income	1459.2	1549.9	800.7
PAT	185.3	197.1	86.0
OPBDIT/OI	16.7%	16.2%	12.5%
PAT/OI	12.7%	12.7%	10.7%
Total outside liabilities/Tangible net worth (times)	0.2	0.2	0.2
Total debt/OPBDIT (times)	0.1	0.1	0.2
Interest coverage (times)	56.6	68.2	128.4

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. Crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

		Current rating (FY2025)			Chronology of rating history for the past 3 years							
	Instrument	Type	Amount Rated (Rs. crore)	Feb 11, 2025	FY2024		FY2023		FY2022			
					Date	Rating	Date	Rating	Date	Rating	Date	Rating
1	**Fund based/Non-fund based facilities**	Long term and short term	180.0	**[ICRA]A+ (Stable)/ [ICRA]A1+**	Jan 08, 2024	[ICRA]A+ (Stable)/ [ICRA]A1+	Jan 05, 2023	[ICRA]A+ (Stable)/ [ICRA]A1+	Dec 20, 2021	[ICRA]A+ (Stable)/ [ICRA]A1+	Nov 16, 2021	[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	100%	Full Consolidation
Datamatics Global Services BV	100%	Full Consolidation
Datamatics Global Services Corp	100%	Full Consolidation
Datamatics Global Services FZ LLC (Dubai)	100%	Full Consolidation
Datamatics Global Services Inc	100%	Full Consolidation
Datamatics Global Services Pty Limited (Australia)	100%	Full Consolidation
Datamatics Global Technologies AG (Switzerland)	100%	Full Consolidation
Datamatics Global Technologies Limited (Mauritius) (dissolved w.e.f December 02, 2024)	100%	Full Consolidation
Datamatics Infotech Limited	100%	Full Consolidation
Datamatics Robotics Software Inc	90%	Full Consolidation
Datamatics Robotics Software Limited	90%	Full Consolidation
Datamatics Professional Services Limited (formerly known as Datamatics Staffing Services Limited)	100%	Full Consolidation
Datamatics Foundation	100%	Full Consolidation
Datamatics Cloud Solutions Private Limited	100%	Full Consolidation
Luminad.AI. Limited (formerly known as 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 (dissolved w.e.f November 14, 2024)	100%	Full Consolidation
Datamatics Technologies FZ LLC (UAE)	100%	Full Consolidation
Lumina Datamatics Corp	100%	Full Consolidation
Diacritech Technologies Private Limited (merged with Lumina Datamatics Limited w.e.f December 26, 2024)	100%	Full Consolidation
Diacritech Inc	100%	Full Consolidation
Dextara Digital Private Limited	80%	Full Consolidation
Dextara Digital (USA) Inc	80%	Full Consolidation
Dextara Digital (UK) Private Limited (striked off w.e.f September 10, 2024)	80%	Full Consolidation
TNQ Tech Private Limited	80%	Full Consolidation

Source: Company's results

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545328
shamsherd@icraindia.com

Kinjal Shah
+91 22 61143400
kinjal.shah@icraindia.com

Deepak Jotwani
+91 124 4545 870
deepak.jotwani@icraindia.com

Aruna Ganesh
+91 22 6114 3459
aruna.ganesh@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

HELPLINE FOR BUSINESS QUERIES

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

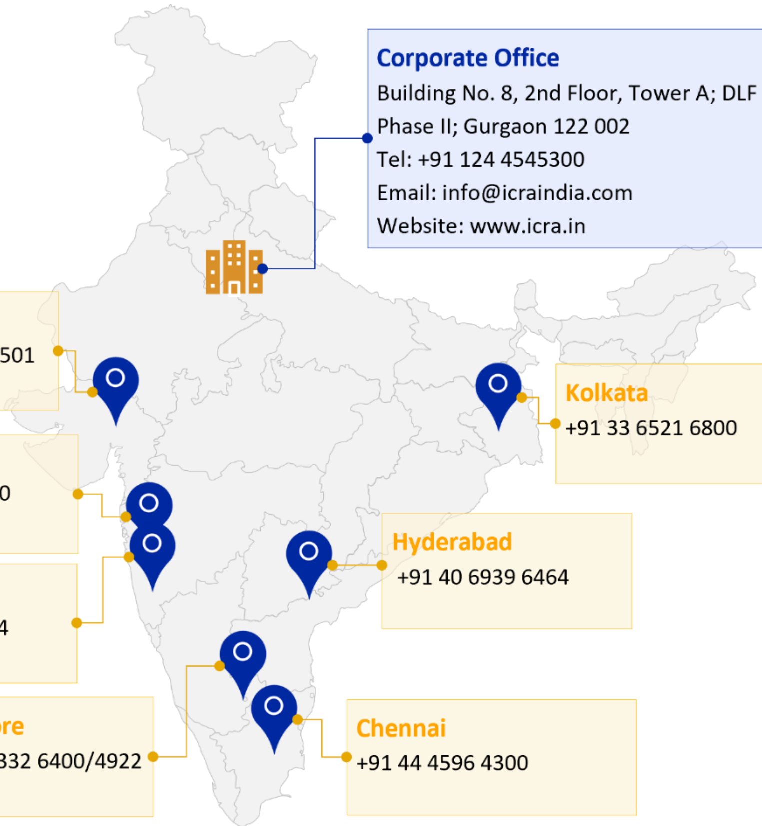
For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148 Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches



Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Ahmedabad
+91 79 4027 1500/501

Mumbai
+91 22 6169 3300

Pune
+91 20 2556 1194

Bangalore
+91 80 4332 6400/4922 5500

Kolkata
+91 33 6521 6800

Hyderabad
+91 40 6939 6464

Chennai
+91 44 4596 4300

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.