

Initiating Coverage Datamatics Global Services Ltd.

June 12, 2023





Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
IT Enabled Services	Rs. 542.25	Buy in the Rs 532-552 band & add more on dips to Rs. 477-495 band	Rs. 599	Rs. 641	2-3 quarters

HDFC Scrip Code	DATMAT
BSE Code	532528
NSE Code	DATAMATICS
Bloomberg	DATA IN
CMP June 09, 2023	542.25
Equity Capital (Rs Cr)	29.5
Face Value (Rs)	5.0
Equity Share O/S (Cr)	5.9
Market Cap (Rs Cr)	3,196.5
Book Value (Rs)	177.8
Avg. 52 Wk Volumes	158,628
52 Week High	577.6
52 Week Low	256.4

Share holding Pattern % (March, 2023)	
Promoters	70.9
Institutions	2.7
Non Institutions	26.4
Total	100.0



**HDFCsec Retail research
stock rating meter**

for details about the ratings, refer at the end of the report

* Refer at the end for explanation on Risk Ratings

Fundamental Research Analyst

Abdul Karim

Abdul.karim@hdfcsec.com

Our Take:

Datamatics Global Services Ltd. is a technology solution and services company, providing solutions for data driven businesses to enhance their productivity and customer experience. The company is engaged in three key segments—digital operations, digital experience and digital technology. The company’s customer base is diversified across various sectors, such as BFSI, manufacturing, hospitality, publishing, and international organisations, among others. The company has also developed products in robotics process automation, advanced analytics, business intelligence, and automated fare collection. Datamatics is headquartered in Mumbai, with offices across North America, Europe, Australia and Asia, through its subsidiaries.

Datamatics plans to concentrate on Digital Transformation, Intelligent Automation, Automatic Fare Collection (AFC), using its proprietary IP Products (TruCap+, TruBot, iPM, TruBI, TruAI, TruFare). The company’s Digital Operation segment, which contributed 43% in FY23, is expected to report high volume of new work in the next 5 years, including industry-vertical-oriented operations and enterprise back office operations. Overall the demand environment looks positive. The deal pipeline for the next year remains strong and the company is likely to add clients going forward. We expect that the company could report 16.5% and 15% revenue growth in FY24E and FY25E, respectively.

Valuation & Recommendation:

Datamatics caters to a number of industry segments like banking and finance, insurance, manufacturing, telecom and retail and publishing. Company is focused on emerging business and expanding its reach by partnership and acquisitions. Datamatics has continued to focus its efforts towards offering a comprehensive suite of customized, smart and innovative solutions, powered by Artificial Intelligence and Machine Learning, Robotics, IoT, Cloud and Mobility. We expect, the company could get better opportunity in Automation, Robotics and Artificial Intelligence because of an early entry in the segment.

Robotic Process, Automation and Artificial Intelligence are emerging segments in the industry. Robotic Process Automation (RPA) could be another game changer for IT Industry. Datamatics has entered into the segment much before its peers. RPA solutions can help enterprises simplify, automate and transform customers’ businesses. Datamatics has been successfully using Robotic Process Automation (RPA) technology as a key enabler to help clients in their digital transformation journey.

Its strategy of focusing more on US/Europe markets and defocussing on India, hiring sales people on ground in US and separating sales team for product /IP led businesses have started to bear early fruits. Putting more technologies into internal operations could improve efficiency/productivity and successful integration of RJ Globus Philippines acquisition has helped stabilize margin profile.



Datamatic's strong order inflow, stable financial profile led by steady revenue growth, strong liquidity profile, healthy internal accrual generation, comfortable capital structure and extensive experience of promoters in IT and ITes industry gives us comfort.

Investors can buy in the Rs 532-552 band and add on dips in the Rs 477-495 band (11.75x FY25E EPS). We believe the base case fair value of the stock is Rs 599 (14.5x FY25E EPS) and the bull case fair value of the stock is Rs 641 (15.5x FY25E EPS) over the next 2-3 quarters. At the LTP of Rs 542.25, the stock is trading at 13.1x FY25E EPS.

Financial Summary (Consolidated)

Particulars (Rs Cr)	Q4FY23	Q4FY22	YoY-%	Q3FY23	QoQ-%	FY21	FY22	FY23P	FY24E	FY25E
Total Operating Income	416.3	313.3	32.9	372.6	11.7	1,149.1	1,201.1	1,459.2	1,699.4	1,953.7
EBITDA	84.1	50.0	68.4	59.0	42.7	105.6	193.2	242.6	277.0	315.5
Depreciation	8.9	9.2	-3.5	8.8	0.8	39.5	33.3	35.0	36.0	35.8
Other Income	5.3	12.2	-56.5	10.6	-50.1	46.4	35.0	38.7	33.1	34.2
Interest Cost	0.5	1.5	-66.2	0.5	-9.3	3.2	2.9	2.9	3.1	3.2
Tax	21.6	6.5	231.7	15.3	41.8	25.4	36.7	58.1	61.0	67.7
APAT	59.7	46.9	27.3	45.9	30.2	80.7	150.5	189.0	211.6	243.6
Diluted EPS (Rs)	10.1	8.0	27.3	7.8	30.2	13.7	25.5	32.1	35.9	41.3
RoE-%						11.5	19.1	19.8	18.7	18.5
P/E (x)						39.6	21.2	16.9	15.1	13.1
EV/EBITDA (x)						28.0	14.6	11.6	10.0	8.5

(Source: Company, HDFC sec)

Q4FY23 Result Update

- Datamatics reported robust performance in Q4FY23, consolidated revenue grew by 11.7% QoQ and 32.9% YoY to Rs 416 crore in Rupee terms.
- EBIT was up by 50% QoQ, and 84.5% YoY to Rs 75.3 crore and EBIT margin ramped up to Rs 18.1% in Q4FY23 vs. 13.5% in Q3FY23 and 13% in Q4FY22. Net Profit grew by 30.2% QoQ and 27.3% YoY to Rs 59.7 crore. PAT margin increased to 14.3% vs. 12.3% in Q3FY23 and 15% in Q4FY22.
- Consolidated revenue grew by 21.5% YoY to Rs 1459 crore and net profit was up by 25.5% to Rs 189 crore in FY23.

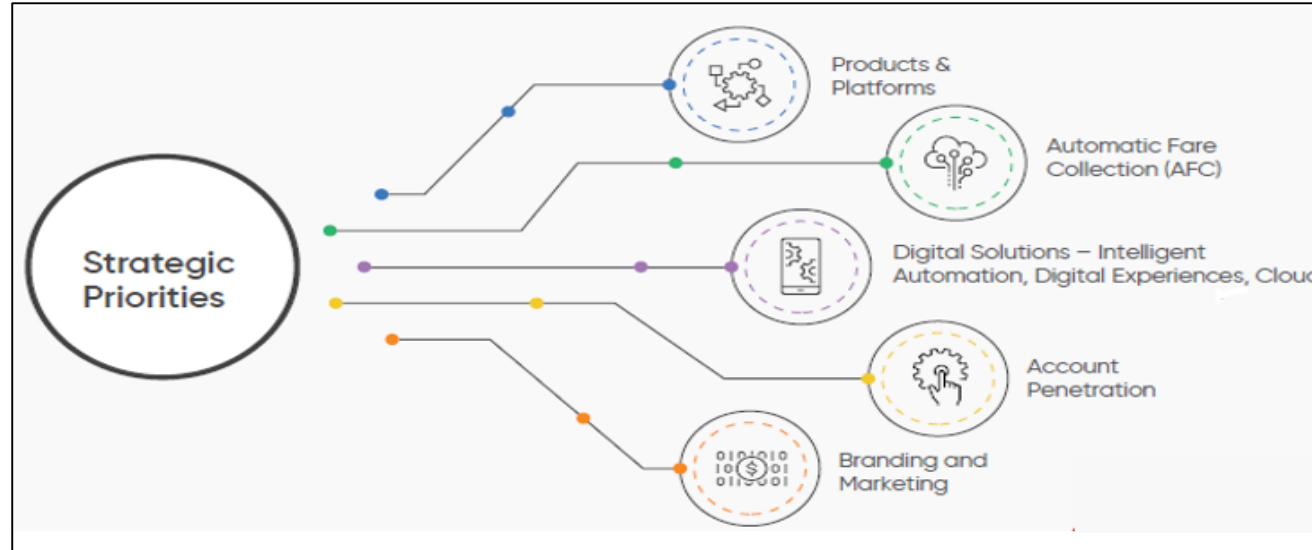
Recent Triggers

Datamatics identified the key strategic priorities to drive robust revenue growth and margin improvements going forward

Datamatics's solution and services are aligned with Digital Technologies, Digital Operations and, Digital Experiences. The company provides intelligent solutions for data-driven businesses to increase productivity and enhance the customer experience. With a complete digital approach, Datamatics portfolio spans across Digital Technology Solutions, Business Process Management and Engineering Services powered



by Artificial Intelligence. It has established products in Robotic Process Automation, Intelligent Document Processing, Business Intelligence and Automated Fare Collection.



(Source: Company, HDFC sec)

Product & Platforms: Datamatics is investing and renewing own IP solutions in the digital technology space. Datamatics Intelligent Automation Platform (IAP) is a unified platform to automate a series of tasks, processes, and unstructured and semi-structured data in documents. The IAP combines the capabilities of TruBot for Robotic Process Automation (RPA), TruCap+ for Intelligent Document Processing (IDP) along with artificial intelligence/Machine Learning models developed by Datamatics. The company has developed iPM for end to end workflow management, TruBI for business intelligence & data visualization and TruFare for Automatic Fare Collection. For Datamatics all these products and platforms are getting good traction in the market.

Automatic Fare Collection (AFC): Datamatics AFC has been one of key focus areas and seeing huge opportunity in US and emerging economies around the world. In India, recently phase 1 of Mumbai Metro (Lane 2A & 7) has become operational, and Datamatics has implemented Automatic Fare Collection (AFC) system. The company has made significance progress on phase 2 of Mumbai Metro (Line 2A &7) and Memphis Area Transit Authority (MATA), the public transportation provider for the Memphis area, USA.

The company has won the AFC contracts for Delhi – Meerut RRTS Corridor by National Capital Region Transport Corporation (NCRTC) and, for Kolkata Metro by Rail Vikas Nigam Ltd over the last two years. The company is likely to continue to scale talent globally, invest in employees and accelerate innovation and digital capabilities to capitalize on the expanding market opportunities. Though the margins in this segment are lower at this stage, the company visualises higher margins going forward.



Digital Solutions:

Datamatics has a strong footprint in the digital space providing new age solutions in Cloud, Mobility, Robotics, Digital Process Automation and Artificial Intelligence. Datamatics now has a strong “product portfolio” in Robotic Process Automation (TruBot), Intelligent Document Processing (TruCap+), Business Intelligence & Advanced Analytics (TruBI), Artificial Intelligence (TruAI) and Automatic Fare Collection (TruFare) which are key focus areas and it could result in generating revenues going forward.

With a growing demand for Digital Technologies, the company delivers deep expertise in Cloud, Digital Workplace, LCNC (low-code-no-code) platforms, DevOps, Analytics, and Artificial Intelligence.

The company has built products in Intelligent Automation to deliver the benefits of true automation. The Intelligent Automation Platform (IAP) comprises of Robotic Process Automation (TruBot), Intelligent Document Processing (TruCap+), AI/ML models (TruAI), and Business Intelligence (TruBI), that can be deployed as an integrated solution or as standalone products. The products are commercially licensed to various enterprises across Banking, Manufacturing, Logistics, Insurance, and Financial Services. The products are consistently recognised by leading analyst firms like Gartner, IDC, Forrester, Everest Group, and 451 Research in their reports.

Digital Operations

On Digital Operations, Datamatics manages front-office, mid-office, and back-office processes across Financial Services, Banking, and Insurance. The company is one of the major providers of Finance & Accounting Operations for global enterprises. The company’s digitally augmented suite of technologies power its operations to deliver process excellence. The suite consists of RPA, IDP (intelligent document processing), AI/ML models, smart workflows, and mobility. Besides, Its Digital content management service offering caters to publishing e-retail clients for creating innovative layouts for eBooks, organizing and designing of online magazines. The company also provides services like web page designing, layout formation for e-retailers such as eBay and Wall Mart, etc.

Digital Experiences

Digital Experiences solutions provide exceptional customer experience across all digital touchpoints. Datamatics’ expertise in customer management processes and technology ensures superior and consistent customer experiences across the entire customer life cycle. Besides, Datamatics has also been focusing on new-age Digital Technologies like the open loop, NFC, contactless mobile ticketing in Automatic Fare Collection and Smart transport as growth areas across the globe.

There is a robust demand environment across segments and industries Datamatics operates in. Datamatics priorities for the coming year include supply and talent integration, focus on the US market and tightly managing cash flows.

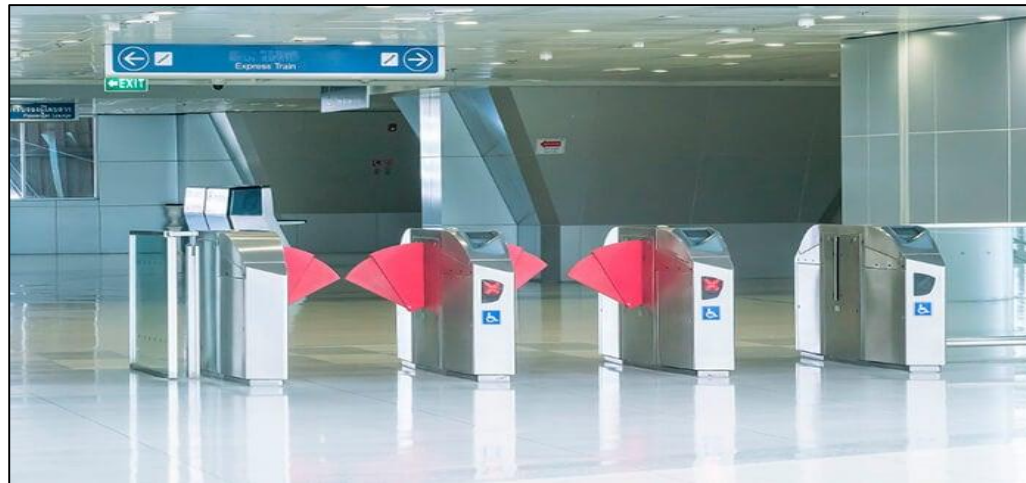


Rapid development in transportation including Metro and Roadway to bring AFC/CFC demand going forward

Automated Fare Collection or AFC systems are hardware units powered by secure and scalable AFC software solutions that are built to automatically handle fare collection in places of high footfall, such as, metro rails, railways, mass rapid transition systems, bus rapid transit systems, ferries, waterways, parking lots, etc. AFC systems are used for cash flow automation and sustained revenue assurance even while dissipating queues and crowds quickly during heavy rush hours.

Contactless Fare Collection (CFC) is a mobile application that allows passengers to book tickets and transit passes by using their mobile phones, even for multi-modal connected journeys across a railway, a waterway, and a roadway. It allows contact-free and cash free transactions, which are facilitated by UPI, credit cards, debit cards, and net banking.

AFC Central Clearing House System or CCHS is a fully automated, brick and mortar centralized operations facility that apportions a passenger-specific fare collected for a connected journey, across different transit operators, who manage different modes of travel. It uses processes similar to the apportioning of revenue collected for mobile calls engaging different mobile operators across different geographical zones.



(Source: Company, HDFC sec)

The proliferation of mass rapid transportation systems (MRTS), such as metro rails, bus rapid transit systems, and light rails have resulted in unprecedented passenger volumes. This changing business scenario has generated the need for next-generation, smart automatic fare collection (AFC) systems. These AFC systems and solutions not only pave way for leaner operations but also reduce the risks and costs associated with handling cash and infection due to contagions at crowded places of mass transit.



Key applications platforms

TruFare:

- TruFare is an end to end Automatic Fare Collection System for rapid transit Systems.
- Datamatics' TruFare is a highly secure, scalable, reliable, and state-of-the-art Automatic Fare Collection (AFC) solution built for the digitally savvy urban transport systems.
- It is highly scalable and is capable of handling large passenger volumes without any degradation in the response and user experience.
- The modularity of the TruFare AFC system allows integration with new technologies and fare media, such as open loop, EMV open loop, QR Code, NFC, account-based ticketing, card-based ticketing, and contactless mobile ticketing.
- It enhances the overall passenger commuting experience and reduces the total cost of ownership for the transit operators.

TrueFareMonitor:

- Monitor all field devices, such as automatic gates, validators, TVMs, etc., from a centralized location
- Ensure seamless remote monitoring of AFC system enabled business continuity at all times.

TruFareVend:

- Implement software suite for self-service kiosks such as ticket vending machines (TVM)
- Facilitate quick ticket issuance and quicker dispersion of crowds with TVMs placed strategically around heavy footfall areas

TruFareCH

- Facilitate Central Clearing House system (CCHS) enabled multi-modal, multi operator and multi fare transit with TruFareCH system
- Ensure seamless multiple stop journey with one nation one card one payment paradigm

TruFareToM

- Expedite ticketing operations by using the full feature manned point of sale (PoS) system for the ticket sales and customer support
- Accelerate the pace of manned operations for fast ticketing fulfillment and faster dispersion of long winding queues

TruFareGate

- Deploy software suite for automatic gates and validators
- Facilitate validation and fare deduction for various fare media such as, smart cards, QR code tickets, tokens, mobile tickets, etc.
- Facilitate contactless fare collection and contactless entry at crowded public places

TruFareSecure

- Install security module software application for encryption / decryption to make sure only valid tickets are accepted and only trusted devices communicate
- Ensure safe and secure payment transactions in a connected yet distributed large and small ecosystems



TruFareMobile

- Implement mobile application suite for mobile ticketing and passenger travel planning by using contactless modes
- Ensure zero latency multi-modal journeys through safe and secure AFC payment
- Ensure contagion-free payments through mobile phone applications

Datamatics AFC segment contributes ~6% to the revenue and the company has signed multiyear deals with Delhi, Kolkata Meerut Metro Rails for automatic fare collection (using the TrueFARE platform). These deals are at US\$85-100 mn. TCV deals has started to add incremental revenue from FY23 onwards for next three to five years. The company is working on key strategies like cost rationalization, negotiation with the existing clients and expanding into US market. Apart from this, the company is likely to continue to scale talent globally, invest in employees and accelerate innovation and digital capabilities to capitalize on the expanding market opportunities.

Strategic partnership with MST acquisition to derive revenue going forward

Datamatics has seen stable growth over the years, with prudent investments in the emerging technologies space, strategic partnerships, and growth in subsidiaries. This has also been a year of renewed partnerships and forging new alliances. Keeping in mind the upcoming trends in IT, Datamatics endeavors to create new business opportunities and invest in niche technologies in order to service a wider consumer demographic.

Datamatics has entered into a strategic partnership with Alkermes on May 03, 2023, a global biopharmaceutical company developing innovative medicines in the fields of neuroscience and oncology. Datamatics is helping clients globally by augmenting their support teams using customized process automation and AI/ML technology. Key facts are

- The partnership is focused on enhancing Alkermes' patient support services for people prescribed Alkermes medicines.
- Datamatics has deployed a remote patient coordinator service staffed with a team of individuals with healthcare experience to support patients in accessing their medicines and reminding them of their appointments.
- Datamatics is also helping modernize existing systems and processes to enable the Alkermes' Patient Access Services team to enhance the customer experience.

Datamatics continues to remain focused on 'Humanizing the Digital' and delivering experiences that are most sensitive and empathetic towards the needs of Alkermes' patients. The company looks forward to a long-term partnership because of Alkermes' ongoing expansion journey.

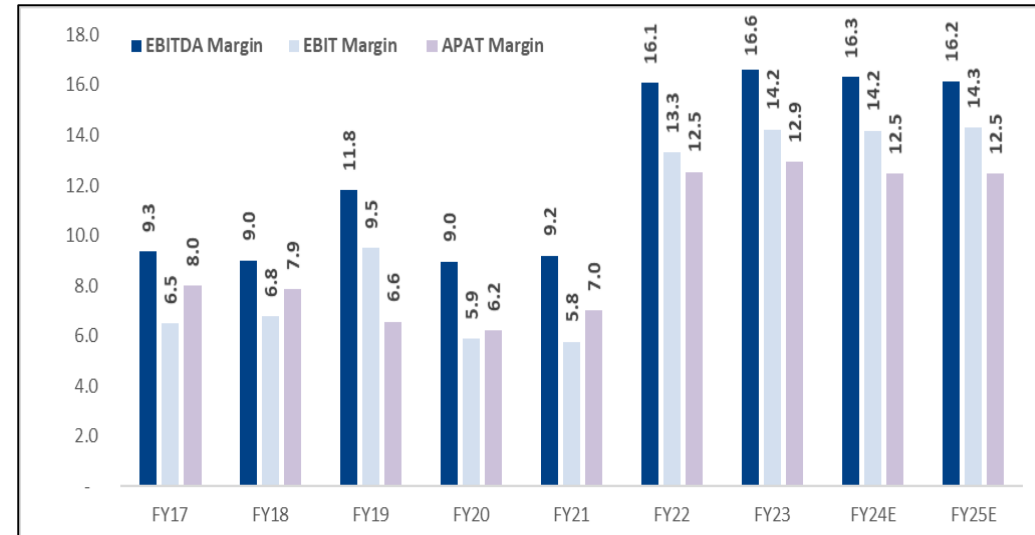


Margins stability led by operational efficiencies

Datamatics reported EBITDA margin at 20.2% in Q4FY23 vs. 15.8% in Q3FY23 and 15.9% in Q4FY22. EBIT margin ramped up to Rs 18.1% in Q4FY23 vs. 13.5% in Q3FY23 and 13% in Q4FY22. PAT margin increased to 14.3% vs. 12.3% in Q3FY23 and 15% in Q4FY22. Taking into the consideration the margin levers like cost rationalisation, low margin customer’s let go strategy, better mix of onshore and offshore business, expectation of price negotiation on upward trend, favourable currency movement, increasing trend of utilisation, traction in digital technology and other operational efficiencies, the margin stability/improvement could continue in FY24E and beyond.

The company guided EBITDA margin in the range of 16-18%. Hence, we expect EBITDA margins at a range of 16% to 16.5% for FY24E to FY25E and PAT margins at 12.5% for FY24E to FY25E.

Margins (%)



(Source: Company, HDFC sec)

Long term Triggers

Providing services and solution across the diversified sector

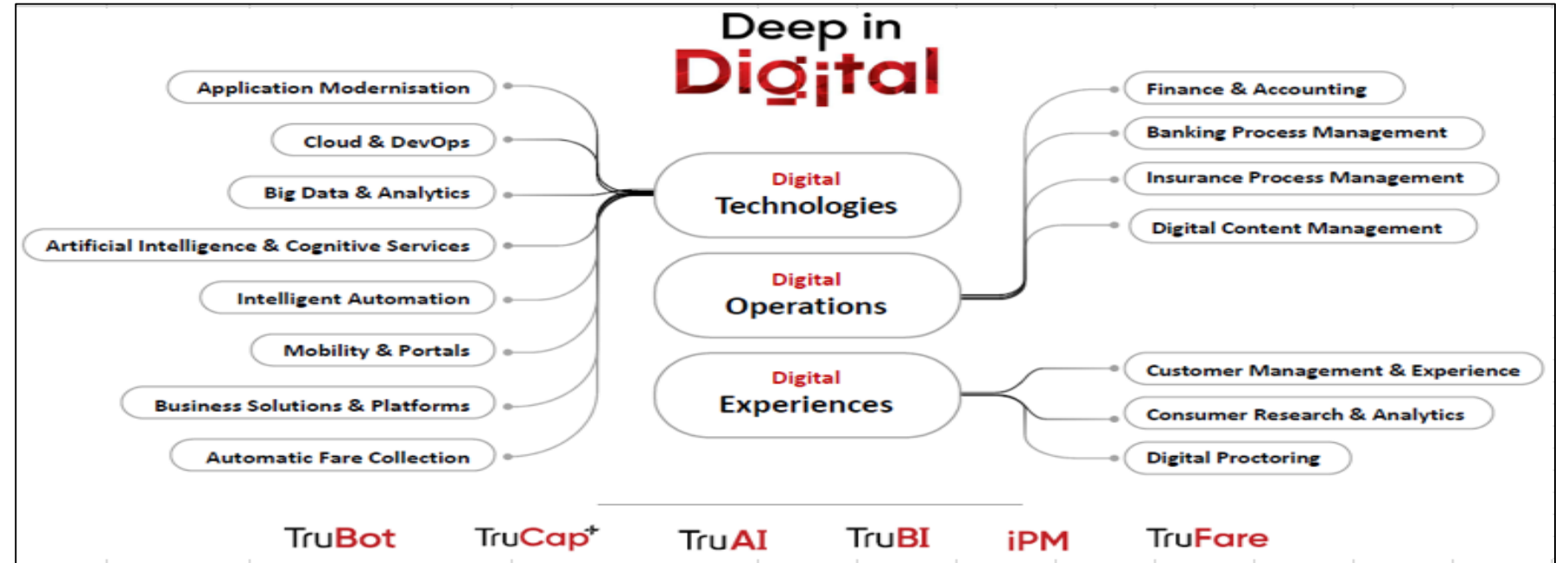
Datamatics’s primarily engaged in three categories of business, like Digital Technologies, Digital Operations and, Digital Experiences along with intelligent solutions for data-driven businesses to increase productivity and enhance the customer experience. With a complete digital approach, Datamatics portfolio spans across Digital Technology Solutions, Business Process Management and Engineering Services powered by Artificial Intelligence. The company has established products in Robotic Process Automation, Intelligent Document Processing, Business Intelligence and Automated Fare Collection.



Datamatics is engaged with global customers and diversified services across Banking, Financial Services, Insurance, Healthcare, Manufacturing, International Organizations, and Media & Publishing. The Company has presence across 4 continents with major delivery centers in the USA, India, and Philippines. Lumina Datamatics, is a key player in the Publishing and e-Commerce BPM space, has delivery centers in the USA and India.

Datamatics customer profile remains diversified across sectors, such as BFSI, manufacturing, publishing, hospitality, and international organisations, among others. The BFSI sector contributed 24% to the total revenues in FY23, Education and Publishing 22%, Technology and consulting 19%, Mfg, Infra & Logistics 12%, Retail 8% and Govt (not for Profit) 12% during the same period. The company's top five customers drove ~24% of its revenue in FY23.

Diversified Products and Services



(Source: Company, HDFC sec)

Inorganic acquisitions by Datamatics over time have helped add to its basket of services and acquire companies have all done well. Datamatics acquired two companies in the past 5 years. It divested stake in cignex in 2021 that it acquired in 2011.



Extensive experience of management

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. Promoters are highly qualified and experienced in related to responsibility's area and capabilities of the promoters and management inspires investor's confidence. The Founder and Chairman of Datamatics, Mr. Lalit Kanodia has been associated with the IT service industry for more than five decades.

Mr Lalit Kanodia (Chairperson & Executive Director), was the founding Managing Director of Tata Consultancy Services (TCS), and is a B.Tech from IIT and an MBA and PhD from MIT, USA and is regarded as one of the pioneers of the Indian software and offshore services industry.

Mr Rahul Kanodia is Executive Director and CEO of Datamatics and has over 25 years of work experience and has held several progressively senior and leadership positions. Rahul holds an MBA degree from Columbia University (USA), with a major in Business Strategy & Marketing and a minor in Mergers & Acquisitions and Turnaround Management.

Sandeep Mantri is CFO of the company, and has more than 22 years of work experience. He leads finance, accounts, admin and travel at Datamatics. He is responsible for Corporate Finance, Accounts, M&A, Investor Relations, Corporate Planning, Risk Management, Treasury, taxation, administration and travel. He is an alumni of Berkeley-HAAS school of business, IIM Calcutta, and holds CPA, FCA and ICWAI.

Strong fundamentals led by healthy debt protection metrics and liquidity

- Datamatics has reported stable and strong revenue growth in the past. In FY23, the company generated total revenue of Rs 1459 crore and net profit of Rs 189 crore, which grew at a CAGR of 10% and 21.6% over the past decade, supported by growth across geographies and segments. We expect consolidated revenue to grow at a ~16% CAGR and net profit to grow at a ~14% over FY23-FY25E.
- The company's reported margin has been volatile over the past, the company's EBIT margin was in the range of 5.8-7.8% till FY21. The company's EBIT margin ramped up to 13.3% in FY22 and 14.2% in FY23, supported by the cost rationalisation initiatives, negotiation with clients for price hike, better mix of offshore and onshore services, and shifting to own IP based product and platform. We expect margin at 14.2% and 14.3% in FY24E and FY25E, supported by cost rationalisation efforts. Digital Technology segment earns the lowest margins as product development spends are written off in the year of spend and not capitalised, AFC contracts have been obtained at a low margin to gain entry. Margins rose in FY22 as travel expenses fell in the backdrop of Covid, Datamatics gave up some offices and also reduced contractors. It also allowed low margin work/customers to attrite.
- The company has robust debt protection metrics and continued to rely on minimal debt and maintained a comfortable capital structure with gearing of 0.1x as on March 31, 2023.
- In the absence of any material capex or investments towards inorganic growth over the last two years, the cash and cash equivalent have increased, translating into strong liquidity position for the company. The total cash, cash equivalents and fair value of Mutual Funds stood at Rs 401 crore as on March 31, 2023 as compared to Rs 432 crore at the end of Dec 31, 2022.
- The net receivable days remain decreased 67 days YoY in FY23 from 74 days in FY22.



- We expect the FCF to remain positive, going forward, even after factoring in annual capex. Because of cost rationalization efforts, the company could see growth in profitability as well as better return ratios in the future.
- Rise in net profit margin could help to increase its return ratios, we expect RoE at 18-19% and RoCE at 18-18.5% over FY24E to FY25E, respectively.
- Datamatics' Robotic software subsidiaries are bleeding currently as they are in investment / testing phase. This could continue for a few more years.

What could go wrong?

- Indian rupee appreciation against the USD, pricing pressure, retention of the skilled headcount, strict immigration norms and rise in visa costs are key concerns.
- Datamatics derived 66% of its operating revenue in FY23 from the US, UK and EU markets; economic uncertainties and expectation of economic recession in these regions could impact demand and it could hit earning visibility.
- The company's margins are less than other major IT layers owing to its moderate scale of operations and high exposure to India and West Asian geographies, which have lower margins compared to the US and Europe.
- Given the intense competition in the industry, Datamatics' profit margins are susceptible 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 an extent.
- Datamatics attrition remained above 20%, it was at 24.8% in Q4FY23 vs. 24.7% in Q3FY23 and 30% in Q4FY22, led by intense competition and demand for talent. However, the company is looking to reduce attrition through wage hikes and the situation in IT hiring has slowed across the industry lately.
- Datamatics business depends on the quality of the workforce in niche and emerging segments. Failure to attract, retain and motivate key employees could impair the company's ability to offer the right quality of service to the clients.
- Datamatics faces different levels of competition across segments from domestic as well as multinational companies. Any non-renewal of contracts or higher discounts due to aggressive competition intensity could impact the sustainability and scalability from such clients. Slackening of pace of new large deals could impact the growth visibility.
- Promoter holding decreased by 3.4% in Q3FY23 and stood at 70.9% as on March 31, 2023; further stake sale by promoter in near future could hit investor sentiments towards the company.

Company Profile

Datamatics Global Services Ltd is a technology solution and services provider company, provides solutions for data driven businesses to enhance their productivity and customer experience. The company is engaged in three key 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.



The company is engaged with global customers and diversified across various sectors, such as Banking, Financial Services, Insurance, Healthcare, Manufacturing, International Organizations, and Media & Publishing. The Company has presence across 4 continents with major delivery centers in the USA, India, and Philippines, supported by ~12000 employees for more than 300 clients as on March 31, 2023. Datamatics is headquartered in Mumbai, with offices across North America, Europe, Australia and Asia, through its subsidiaries. The company is headed by Dr. Lalit S. Kanodia, the Chairman, and Mr. Rahul L. Kanodia, the Vice Chairman and CEO.

Operating Metrics

Segment wise performance

Rs in Cr	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23
Revenue									
Digital Operations	127	125	127	123	142	147	143	153	187
Digital Experience	38	39	37	42	40	46	52	61	59
Digital Technologies	119	124	135	136	131	133	148	159	169
Revenue from Operations	284	288	299	301	313	327	343	373	416
Revenue-%									
Digital Operations	44.7	43.4	42.5	40.9	45.4	45.1	41.7	41.0	45.0
Digital Experience	13.4	13.5	12.5	13.8	12.8	14.1	15.3	16.4	14.3
Digital Technologies	41.9	43.1	45.0	45.2	41.8	40.7	43.0	42.6	40.7
EBIT Margin-%									
Digital Operations	19.8	20.3	21.4	17.2	20.7	23.3	22.7	19.5	23.0
Digital Experience	11.2	4.7	12.3	24	17	23.2	25.4	27.8	28.2
Digital Technologies	2.6	4.9	7.4	8.3	4.6	-4.3	-2	2.2	9.1

Revenue By Industry

%	Q4FY22	Q1FY23	Q2FY23	Q3FY23	FY23
BFSI	27	25	24	24	24
Education & Publishing	24	23	23	22	22
Technology & Consulting	20	22	18	16	19
Mfg, Infra & Logistics	11	13	13	12	12
Retail	6	7	7	8	8
Not for profit/Govt	5	7	11	13	12
Others	7	3	4	5	3



Revenue By Geography

%	Q4FY22	Q1FY23	Q2FY23	Q3FY23	FY23
USA	60	55	54	54	54
UK & Europe	11	14	13	11	12
India	25	25	28	29	27
RoW	4	6	5	6	7

Client Concentrations

%	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	FY23
Top-5	25	26	27	27	22	25	26	24	24
Top-10	36	38	39	41	35	37	35	37	37
Top-20	49	52	52	53	47	50	50	52	52

Peer Comparison

Company, Rs in Cr	Mkt Cap, Cr	Sales			EBIT			PAT			ROE-%			P/E (x)		
		FY23P	FY24E	FY25E	FY23P	FY24E	FY25E	FY23P	FY24E	FY25E	FY23P	FY24E	FY25E	FY23P	FY24E	FY25E
Mastek	6341.0	2563.4	3007.1	3436.7	388.5	468.0	562.0	267.7	344.3	427.9	19.4	18.8	19.9	23.3	18.1	14.5
Zensar Tech	9043.3	4848.0	5200.0	5754.0	369.0	594.0	687.0	328.0	488.0	565.0	11.3	15.1	16.1	27.9	18.7	16.2
Datamatics Global	3196.5	1459.2	1699.4	1953.7	207.6	241.0	279.7	189.0	211.6	243.6	19.8	18.7	18.5	16.9	15.1	13.1

(Source: HDFC sec)



Financials (Consolidated)

Income Statement

(Rs Cr)	FY21	FY22	FY23P	FY24E	FY25E
Net Revenues	1149.1	1201.1	1459.2	1699.4	1953.7
Growth (%)	-4.5	4.5	21.5	16.5	15.0
Operating Expenses	1043.4	1007.8	1216.6	1422.4	1638.1
EBITDA	105.6	193.2	242.6	277.0	315.5
Growth (%)	-2.0	82.9	25.5	14.2	13.9
EBITDA Margin (%)	9.2	16.1	16.6	16.3	16.2
Depreciation	39.5	33.3	35.0	36.0	35.8
EBIT	66.2	159.9	207.6	241.0	279.7
Other Income	46.4	35.0	38.7	33.1	34.2
Interest expenses	3.2	2.9	2.9	3.1	3.2
PBT	109.4	192.1	243.4	271.0	310.7
Tax	25.4	36.7	58.1	61.0	67.7
RPAT	84.0	155.4	185.3	210.0	243.0
APAT	80.7	150.5	189.0	211.6	243.6
Growth (%)	7.9	86.5	25.5	12.0	15.1
EPS	13.7	25.5	32.1	35.9	41.3

Balance Sheet

As at March (Rs Cr)	FY21	FY22	FY23P	FY24E	FY25E
SOURCE OF FUNDS					
Share Capital	29.5	29.5	29.5	29.5	29.5
Reserves	686.5	827.5	1018.5	1188.8	1382.3
Shareholders' Funds	715.9	857.0	1047.9	1218.3	1411.8
Long Term Debt	10.5	6.5	12.8	10.3	12.6
Net Deferred Taxes	-15.4	-16.9	-13.9	-14.6	-15.4
Long Term Provisions & Others	27.8	33.9	41.8	39.0	33.6
Minority Interest	-0.7	-3.6	-7.2	-8.8	-9.4
Total Source of Funds	738.2	876.9	1081.4	1244.1	1433.2
APPLICATION OF FUNDS					
Net Block & Goodwill	213.4	187.5	218.1	255.0	239.4
CWIP	0.0	3.4	0.0	0.0	0.0
Other Non-Current Assets	37.8	78.6	131.9	113.0	124.3
Total Non Current Assets	251.2	269.5	350.0	368.0	363.7
Trade Receivables	183.5	244.5	268.9	344.5	406.8
Cash & Equivalents	258.5	431.7	401.3	443.3	537.3
Other Current Assets	199.5	147.1	247.2	271.9	312.7
Total Current Assets	641.5	823.4	917.4	1059.8	1256.8
Short-Term Borrowings	9.6	56.6	8.4	13.4	10.9
Trade Payables	89.5	99.9	113.4	111.7	123.1
Other Current Liab & Provisions	55.4	59.5	64.2	58.4	53.3
Total Current Liabilities	154.5	216.0	186.0	183.6	187.3
Net Current Assets	486.9	607.4	731.4	876.2	1069.5
Total Application of Funds	738.2	876.9	1081.4	1244.1	1433.2

(Source: Company, HDFC sec)



Cash Flow Statement

(Rs Cr)	FY21	FY22	FY23P	FY24E	FY25E
Reported PBT	108.9	192.1	243.4	271.0	310.7
Non-operating & EO items	-3.6	-6.6	1.1	-1.1	-1.2
Interest Expenses	0.1	-5.1	-7.5	3.1	3.2
Depreciation	39.5	33.3	35.0	36.0	35.8
Working Capital Change	-7.6	9.8	-93.4	-108.8	-98.0
Tax Paid	-25.6	-41.1	-47.8	-61.0	-67.7
OPERATING CASH FLOW (a)	111.6	182.4	130.7	139.3	182.8
Capex	-16.8	-27.3	-39.0	-35.0	-45.0
Free Cash Flow	94.8	155.1	91.8	104.3	137.8
Investments	-68.6	-110.7	-70.5	-21.4	8.6
Non-operating income	6.1	3.8	10.5	1.1	1.2
INVESTING CASH FLOW (b)	-79.3	-134.2	-99.0	-55.3	-35.3
Debt Issuance / (Repaid)	-116.1	27.5	-65.0	2.5	-0.3
Interest Expenses	-2.9	-2.3	-2.6	-3.1	-3.2
FCFE	-24.3	180.3	24.2	103.6	134.3
Share Capital Issuance	0.4	0.0	0.0	0.0	0.0
Dividend	9.8	-4.5	1.2	-41.3	-50.1
FINANCING CASH FLOW (c)	-108.8	20.7	-66.4	-41.9	-53.5
NET CASH FLOW (a+b+c)	-76.5	68.9	-34.7	42.0	94.0

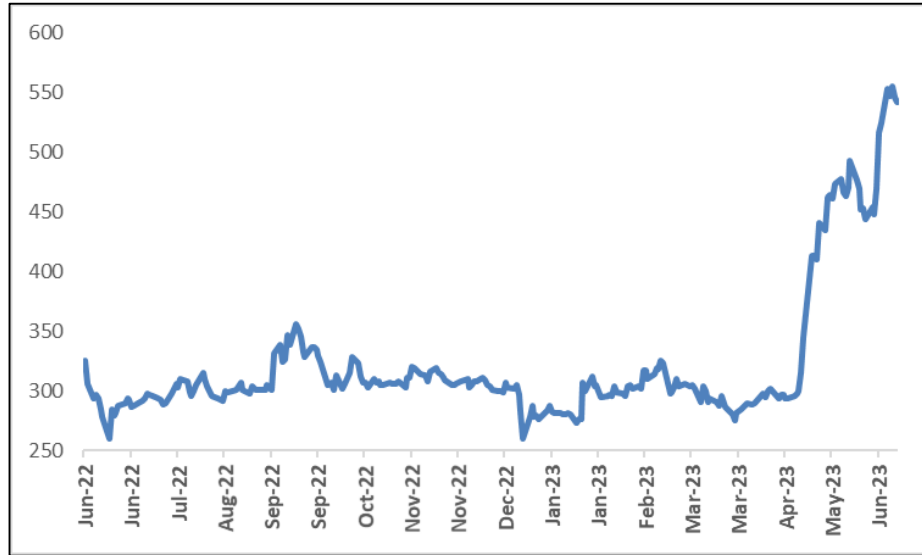
Key Ratios

Particulars	FY21	FY22	FY23P	FY24E	FY25E
Profitability Ratio (%)					
EBITDA Margin	9.2	16.1	16.6	16.3	16.2
EBIT Margin	5.8	13.3	14.2	14.2	14.3
APAT Margin	7.0	12.5	12.9	12.5	12.5
RoE	11.5	19.1	19.8	18.7	18.5
RoCE	10.8	18.5	19.2	18.5	18.4
Solvency Ratio (x)					
Debt/EBITDA	0.2	0.3	0.1	0.1	0.1
D/E	0.0	0.1	0.0	0.0	0.0
PER SHARE DATA (Rs)					
EPS	13.7	25.5	32.1	35.9	41.3
CEPS	20.4	31.2	38.0	42.0	47.4
BV	121.5	145.4	177.8	206.7	239.5
Dividend	1.3	0.0	0.0	3.8	5.0
Turnover Ratios (days)					
Debtor days	58	74	67	74	76
Creditors days	28	30	28	24	23
VALUATION (x)					
P/E	39.6	21.2	16.9	15.1	13.1
P/BV	4.5	3.7	3.1	2.6	2.3
EV/EBITDA	28.0	14.6	11.6	10.0	8.5
EV / Revenues	2.6	2.4	1.9	1.6	1.4
Dividend Yield (%)	0.2	0.0	0.0	0.7	0.9

(Source: Company, HDFC sec)



One Year Price Chart



(Source: Company, HDFC sec)

HDFC Sec Retail Research Rating description

Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. This stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Yellow Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclical of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.



Disclosure:

I, **(Abdul Karim)**, Research Analyst, **(MBA)**, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. SEBI conducted the inspection and based on their observations have issued advise/warning. The said observations have been complied with. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Research Analyst or his/her relative or HDFC Securities Ltd. **does not have** any financial interest in the subject company. Also Research Analyst or his relative or HDFC Securities Ltd. or its Associate may have beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of the Research Report. Further Research Analyst or his relative or HDFC Securities Ltd. or its associate **does not have** any material conflict of interest.

Any holding in stock – No

HDFC Securities Limited (HSL) is a SEBI Registered Research Analyst having registration no. INH00002475.

Disclaimer:

This report has been prepared by HDFC Securities Ltd and is solely for information of the recipient only. The report must not be used as a singular basis of any investment decision. The views herein are of a general nature and do not consider the risk appetite or the particular circumstances of an individual investor; readers are requested to take professional advice before investing. Nothing in this document should be construed as investment advice. Each recipient of this document should make such investigations as they deem necessary to arrive at an independent evaluation of an investment in securities of the companies referred to in this document (including merits and risks) and should consult their own advisors to determine merits and risks of such investment. The information and opinions contained herein have been compiled or arrived at, based upon information obtained in good faith from sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. Descriptions of any company or companies or their securities mentioned herein are not intended to be complete. HSL is not obliged to update this report for such changes. HSL has the right to make changes and modifications at any time.

This report is not directed to, or intended for display, downloading, printing, reproducing or for distribution to or use by, any person or entity who is a citizen or resident or located in any locality, state, country or other jurisdiction where such distribution, publication, reproduction, availability or use would be contrary to law or regulation or what would subject HSL or its affiliates to any registration or licensing requirement within such jurisdiction.

If this report is inadvertently sent or has reached any person in such country, especially, United States of America, the same should be ignored and brought to the attention of the sender. This document may not be reproduced, distributed or published in whole or in part, directly or indirectly, for any purposes or in any manner.

Foreign currencies denominated securities, wherever mentioned, are subject to exchange rate fluctuations, which could have an adverse effect on their value or price, or the income derived from them. In addition, investors in securities such as ADRs, the values of which are influenced by foreign currencies effectively assume currency risk. It should not be considered to be taken as an offer to sell or a solicitation to buy any security.

This document is not, and should not, be construed as an offer or solicitation of an offer, to buy or sell any securities or other financial instruments. This report should not be construed as an invitation or solicitation to do business with HSL. HSL may from time to time solicit from, or perform broking, or other services for, any company mentioned in this mail and/or its attachments.

HSL and its affiliated company(ies), their directors and employees may; (a) from time to time, have a long or short position in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.

HSL, its directors, analysts or employees do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of shares and bonds, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc.

HSL and other group companies, its directors, associates, employees may have various positions in any of the stocks, securities and financial instruments dealt in the report, or may make sell or purchase or other deals in these securities from time to time or may deal in other securities of the companies / organizations described in this report. As regards the associates of HSL please refer the website.

HSL or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

HSL or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction in the normal course of business.

HSL or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither HSL nor Research Analysts have any material conflict of interest at the time of publication of this report. Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. HSL may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Research entity has not been engaged in market making activity for the subject company. Research analyst has not served as an officer, director or employee of the subject company. We have not received any compensation/benefits from the subject company or third party in connection with the Research Report.

HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066

Compliance Officer: Murli V Karkera Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

For grievance redressal contact Customer Care Team Email: customercare@hdfcsec.com Phone: (022) 3901 9400

HDFC Securities Limited, SEBI Reg. No.: NSE, BSE, MSEI, MCX: INZ000186937; AMFI Reg. No. ARN: 13549; PFRDA Reg. No. POP: 11092018; IRDA Corporate Agent License No.: CA0062; SEBI Research Analyst Reg. No.: INH00002475; SEBI Investment Adviser Reg. No.: INA000011538; CIN - U67120MH2000PLC152193

Investment in securities market are subject to market risks. Read all the related documents carefully before investing.

Mutual Funds' Investments are subject to market risk. Please read the offer and scheme related documents carefully before investing.

Registration granted by SEBI, membership of BASL (in case of IAs) and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.