

Stock Update Datamatics Global Services Ltd.

Dec 22, 2023





Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
IT Enabled Services	Rs. 707.80	Buy in the Rs 701-715 band & add more on dips to Rs. 622-634 band	Rs. 782	Rs. 829	2-3 quarters

HDFC Scrip Code	DATMAT
BSE Code	532528
NSE Code	DATAMATICS
Bloomberg	DATA IN
CMP Dec 21, 2023	707.80
Equity Capital (Rs Cr)	29.5
Face Value (Rs)	5.0
Equity Share O/S (Cr)	5.9
Market Cap (Rs Cr)	4,172.4
Book Value (Rs)	191.0
Avg. 52 Wk Volumes	480,998
52 Week High	790.2
52 Week Low	256.4

Share holding Pattern % (Sept, 2023)	
Promoters	66.5
Institutions	3.5
Non Institutions	30.0
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

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Our Take:

Datamatics Global Services Ltd. is a technology solution and services company, providing solutions for data driven enterprises. 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 added 15 new customers in Q2FY24, mainly in the US and European markets with 58% YoY increase in the active customer pipeline. The deal pipeline increased by 99% YoY and 28% QoQ, with a significant increase in the US pipeline by 300% over the last year. Total customers stood at 300+. 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 15% and 17% revenue growth in FY25E and FY26E, respectively.

On Aug 29, 2023, we had issued a stock Update report on Datamatics Global Services Ltd. ([Link](#)) and recommend to buy in the Rs. 530-550 band & add more on dips to Rs. 470-488 band for base case target of Rs 604 and bull case target of Rs 646 over the next two to three quarters. The stock achieved its both targets before expiry of the period. Given healthy growth outlook and expectation of strong set of numbers in H2FY24, we have now tweaked earnings estimates and target price. Despite the fact that Q3 is generally soft for the entire industry, Datamatics may still do better in Q3 than in Q2.

Valuation & Recommendation:

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. Company is focused on emerging business and expanding its reach by partnership and acquisitions. We think the company could get increased opportunities in Automation, Robotics and Artificial Intelligence because of an early entry in the segment.

Datamatics' 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. It could get less impacted by the current slowdown given the spread of its service, geographies, and reasonable valuations. Also the stock has corrected well after making a top in early December.



Investors can buy in the Rs 701-715 band and add on dips in the Rs 622-634 band (13.5x Dec'25E EPS). We believe the base case fair value of the stock is Rs 782 (16.5x Dec'25E EPS) and the bull case fair value of the stock is Rs 829 (17.5x Dec'25E EPS) over the next 2-3 quarters. At the LTP of Rs 707.80, the stock is trading at 14.9x Dec'25E EPS.

Financial Summary (Consolidated)

Particulars (Rs Cr)	Q2FY24	Q2FY23	YoY-%	Q1FY24	QoQ-%	FY22	FY23	FY24E	FY25E	FY26E
Total Operating Income	376.8	343.4	9.7	391.1	-3.7	1,201.1	1,459.2	1,560.1	1,796.2	2,101.5
EBITDA	58.9	51.7	14.1	67.8	-13.1	193.2	242.6	261.0	309.8	369.9
Depreciation	9.3	8.8	6.1	9.2	1.9	33.3	35.0	37.1	37.6	38.8
Other Income	9.4	9.6	-2.2	9.1	3.5	35.0	38.7	39.0	38.6	42.0
Interest Cost	0.5	1.0	-52.6	0.5	-11.5	2.9	2.9	2.0	1.8	1.5
Tax	9.6	12.3	-21.7	12.6	-23.4	36.7	58.1	56.7	68.0	81.7
APAT	49.3	40.0	23.3	55.1	-10.6	150.5	189.0	205.7	242.7	291.4
Diluted EPS (Rs)	8.4	6.8	23.3	9.3	-10.6	25.5	32.1	34.9	41.2	49.4
RoE-%						19.1	19.8	18.2	18.5	19.2
P/E (x)						27.7	22.1	20.3	17.2	14.3
EV/EBITDA (x)						19.7	15.6	14.1	11.6	9.3

(Source: Company, HDFC sec)

Segment wise performance

Rs in Cr	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24
Revenue										
Digital Operations	125	127	123	142	147	143	153	187	167	165
Digital Experience	39	37	42	40	46	52	61	59	66	59
Digital Technologies	124	135	136	131	133	148	159	169	158	154
Revenue from Operations	288	299	301	313	327	343	373	416	391	391
Revenue-%										
Digital Operations	43.4	42.5	40.9	45.4	45.1	41.7	41.0	45.0	42.7	43.7
Digital Experience	13.5	12.5	13.8	12.8	14.1	15.3	16.4	14.3	16.9	15.5
Digital Technologies	43.1	45.0	45.2	41.8	40.7	43.0	42.6	40.7	40.4	40.8
EBIT Margin-%										
Digital Operations	20.3	21.4	17.2	20.7	23.3	22.7	19.5	23.0	34.0	30.7
Digital Experience	4.7	12.3	24	17	23.2	25.4	27.8	28.2	15.3	10.2
Digital Technologies	4.9	7.4	8.3	4.6	-4.3	-2	2.2	9.1	9.8	8.7



Q2FY24 Result Update

- Datamatics' consolidated revenue was down by 3.7% QoQ, due to the premature closure of a large project and delay in decision making by customers and grew by 9.7% YoY to Rs 377 crore in Q2FY24; it maintained growth momentum on YoY basis and deeper engagement with strategic clients.
- EBIT declined by 15.4% QoQ and grew by 15.7% YoY to Rs 50 crore. EBIT was impacted QoQ due to fall in revenue growth. EBIT margin slipped by 180bps QoQ and it increased by 70bps YoY to Rs 13.2% in Q2FY24.
- Net Profit was down by 10.6% QoQ and grew 23.3% YoY to Rs 49 crore and PAT margin slipped 100bps QoQ at 13.2% in Q2FY24 vs. 11.4% in Q2FY23.
- The company added 15 new clients in Q2FY24 vs. 14 new clients in Q1FY24. Total active clients during Q2FY24 was at 300+.

Key Updates

Strong client addition and healthy deal pipeline across the segments could help to generate revenue

Datamatics added 15 new customers in Q2FY24, mainly in the US and European markets, with 58% YoY increase in the active customer pipeline. The deal pipeline increased by 99% YoY and 28% QoQ, with a significant increase in the US pipeline by 300% over the last year. 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.

Datamatics is working on Automatic Fare Collection (AFC) opportunities, and the company expects to win new orders in near to medium term. Its AFC business have gone live with line 2A and line 7 and working on line 2B in Mumbai. The company has successfully implemented AFC solutions globally in locations such as, San Diego, Mumbai (Line 2A and 7), Kolkata, Lucknow, Katra in Jammu, NCRTC in New Delhi and now with this Memphis, USA. Recently, Datamatics implemented Automatic Fare Collection and Mobile Ticketing Systems for India's first Namoo Bharat RapidX train for Delhi-Meerut RRTS Corridor. In terms of the pipeline, the company is confident to win some AFC contracts going forward.

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.

Datamatics introduced FINATO in Q2FY24, powered by AI to drive Finance Transformation in global enterprises. Its contribution from AI is expected to increase in upcoming years to drive significant growth ahead.

On Nov 21, 2023, Datamatics has signed a contract with a US based company for Digital Experiences Business. The total client target spend over 5 years is estimated at USD 36 Mn. Datamatics has helped power imageOne's digital transformation through its intelligent automation solutions, TruCap+ Intelligent Document Processing (IDP) and TruBot Robotic Process Automation (RPA). These solutions have helped



imageOne automate various manual processes to gain business efficiency, scalability, and cost savings. Datamatics' TruCap IDP leverages AI and ML to automate high-volume, repetitive tasks involving data capture and classification from scanned documents and forms. TruBot RPA enables rapid automation of business processes through robotic process automation.

The company's pipeline has grown substantially, and there is a high level of curiosity and interest in AI. The company is actively participating in marketing events and has seen opportunities across multiple lines of businesses. 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.

Key deal wins in Q2FY24

- A leading US based logistics provider selects Datamatics for Digital Finance
- A multinational automotive manufacturing company selects Datamatics for automating finance function
- An engineering and applied technology company in US selects Datamatics for low-code enterprise application development
- A US based quality assurance company selects Datamatics for next generation digital services
- A leading manufacturer of electric goods selects Datamatics for transforming CFO back office operations
- A leading marketer of wines and spirits selects Datamatics for Intelligent Automation solutions

New products like Cutting-edge Generative AI-powered Solutions to bring earning momentum going forward

The company is committed to strengthening its AI capabilities and has integrated GenAI capabilities into its intelligent automation products. New GenAI-powered solutions have been launched, such as enterprise content mining, virtual assistance, financial data analytics, and revenue operations. The integration involves incorporating Generative AI into its Intelligent Automation Platform, which encompasses TruBot Robotic Process Automation (RPA), TruCap+ Intelligent Document Processing (IDP), and TruBI Business Intelligence products.

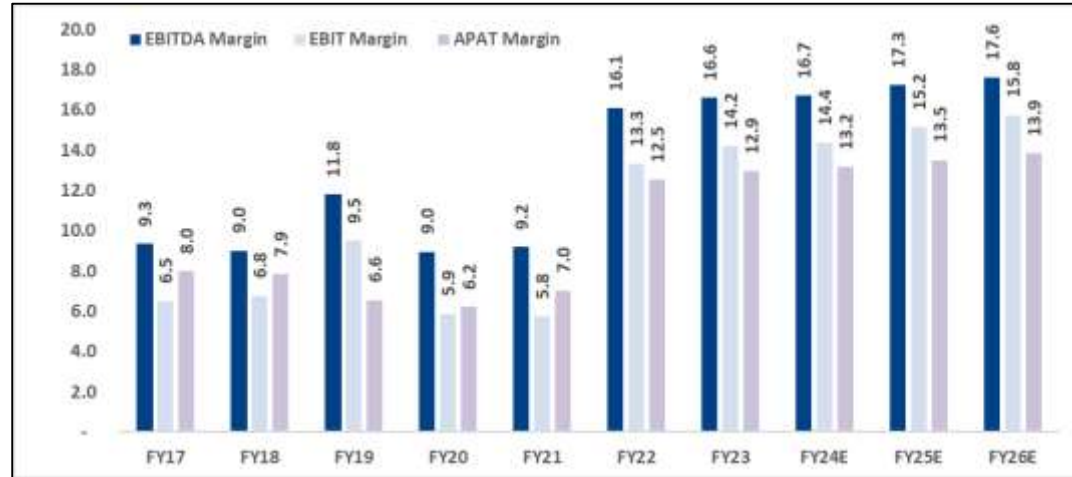
Datamatics has created a range of market-ready solutions in diverse domains, including Enterprise Content Mining, Virtual Assistants, Financial Data Analytics, and Revenue Operations (RevOps). TruCap+ product has been enhanced and is now available on the Microsoft Azure Marketplace. FINATO, an AI-powered platform for finance transformation in global enterprises, has been introduced.

Expectation of margins stability led by operational efficiencies

Datamatics reported EBITDA margin at 15.6% in Q2FY24 vs. 17.3% in Q1FY24 and 15% in Q2FY23. EBIT margin slipped by 180bps QoQ and it increased by 70bps YoY to Rs 13.2% in Q2FY24. However, EBIT margins improved to 14.1% in H1FY24 from 12.3% in the previous year.



Margins (%)



(Source: Company, HDFC sec)

Taking into the consideration the margin levers like cost rationalisation, low margin customers 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 be seen later in FY24E and beyond. Datamatics has initiated talks to renegotiate its pricing with several customers; this could add margins as and when finalised. The company expects the full scale impact of price hike to be witnessed in FY24E. The company expects improved margins in the Digital Technologies segment in the next two years, driven by focus on the US market and increased AI capabilities. The company also expects improved margins in the second half of FY24. Hence, we expect EBITDA margin at 17.3% for FY25E and 17.6% for FY26E and PAT margins at 13.5% and 13.9% for FY25E to FY26E.

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. The company reported a robust revenue growth of 14.6% in H1FY24.
- We expect consolidated revenue to grow at a ~13% CAGR and net profit to grow at a ~16% over FY23-FY26E.
- The company's EBIT margin ramped 14.2% in FY23 and 14.1% in H1FY24, 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 14.4%/15.2%/15.8% in FY24E/FY25E/FY26E, respectively, largely supported by cost rationalisation efforts.



- 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 580.5 crore as on Sept 30, 2023 vs. Rs 555 crore as on June 30, 2023. The net receivable days decreased to 63 days in Q2FY24 vs. 67 days in FY23.
- 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 18-19.5% and RoCE at 18-19% over FY24E to FY26E, respectively.

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 67% of its operating revenue in Q2FY24 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 players 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.
- 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 7.8% over the last one year and stood at 66.5% as on Sept 30, 2023 (though no change from June 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 Sept 30, 2023.

Operating Metrics

Revenue By Industry

%	Q4FY22	Q1FY23	Q2FY23	Q3FY23	FY23	Q1FY24	Q2FY24
BFSI	27	25	24	24	24	25	25
Education & Publishing	24	23	23	22	22	20	20
Technology & Consulting	20	22	18	16	19	20	20
Mfg, Infra & Logistics	11	13	13	12	12	12	13
Retail	6	7	7	8	8	9	9
Not for profit/Govt	5	7	11	13	12	10	10
Others	7	3	4	5	3	4	3

Revenue By Geography

%	Q4FY22	Q1FY23	Q2FY23	Q3FY23	FY23	Q1FY24	Q2FY24
USA	60	55	54	54	54	55	54
UK & Europe	11	14	13	11	12	12	13
India	25	25	28	29	27	24	24
RoW	4	6	5	6	7	6	9

Client Concentrations

%	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	FY23	Q1FY24	Q2FY24
Top-5	26	27	27	22	25	26	24	24	25	24
Top-10	38	39	41	35	37	35	37	37	38	36
Top-20	52	52	53	47	50	50	52	52	52	51

Peer Comparison

Company, Rs in Cr	Mkt Cap, Cr	Sales			EBIT			PAT			ROE-%			P/E (x)		
		FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Mastek	8612.0	3096.0	3578.0	4085.0	453.0	577.0	678.0	322.0	433.0	512.0	17.7	20.3	20.3	27.6	20.5	17.3
Zensar Tech	14285.0	5023.0	5568.0	6274.0	751.0	807.0	951.0	643.0	662.0	763.0	19.5	17.8	18.1	22.2	21.6	18.7
Datamatics	4172.4	1560.1	1796.2	2101.5	223.9	272.3	331.0	205.7	242.7	291.4	18.2	18.5	19.2	20.3	17.2	14.3

(Source: Company, HDFC sec)



Financials (Consolidated)

Income Statement

(Rs Cr)	FY22	FY23	FY24E	FY25E	FY26E
Net Revenues	1201.1	1459.2	1560.1	1796.2	2101.5
Growth (%)	4.5	21.5	6.9	15.1	17.0
Operating Expenses	1007.8	1216.6	1299.1	1486.4	1731.6
EBITDA	193.2	242.6	261.0	309.8	369.9
Growth (%)	82.9	25.5	7.6	18.7	19.4
EBITDA Margin (%)	16.1	16.6	16.7	17.3	17.6
Depreciation	33.3	35.0	37.1	37.6	38.8
EBIT	159.9	207.6	223.9	272.3	331.0
Other Income	35.0	38.7	39.0	38.6	42.0
Interest expenses	2.9	2.9	2.0	1.8	1.5
PBT	192.1	243.4	260.9	309.1	371.5
Tax	36.7	58.1	56.7	68.0	81.7
RPAT	155.4	185.3	204.2	241.1	289.8
APAT	150.5	189.0	205.7	242.7	291.4
Growth (%)	86.5	25.5	8.9	18.0	20.1
EPS	25.5	32.1	34.9	41.2	49.4

Balance Sheet

As at March, (Rs Cr)	FY22	FY23	FY24E	FY25E	FY26E
SOURCE OF FUNDS					
Share Capital	29.5	29.5	29.5	29.5	29.5
Reserves	827.5	1018.5	1182.9	1375.5	1607.9
Shareholders' Funds	857.0	1047.9	1212.4	1404.9	1637.4
Long Term Debt	6.5	12.8	10.3	8.8	7.8
Net Deferred Taxes	-16.9	-13.9	-14.6	-15.4	-16.1
Long Term Provisions & Others	33.9	41.8	45.5	47.7	50.1
Minority Interest	-3.6	-7.2	-8.7	-10.3	-11.9
Total Source of Funds	876.9	1081.4	1244.8	1435.8	1667.3
APPLICATION OF FUNDS					
Net Block & Goodwill	187.5	218.1	216.2	217.0	221.3
CWIP	3.4	0.0	0.0	0.0	0.0
Other Non-Current Assets	78.6	131.9	137.6	143.6	150.0
Total Non Current Assets	269.5	350.0	353.8	360.6	371.3
Trade Receivables	244.5	268.9	299.2	344.5	403.0
Cash & Equivalents	431.7	401.3	504.4	612.8	747.1
Other Current Assets	147.1	247.2	271.9	312.7	359.5
Total Current Assets	823.4	917.4	1075.5	1269.9	1509.7
Short-Term Borrowings	56.6	8.4	13.4	10.9	8.4
Trade Payables	99.9	113.4	102.6	113.2	132.4
Other Current Liab & Provisions	59.5	64.2	68.5	70.6	72.9
Total Current Liabilities	216.0	186.0	184.5	194.7	213.7
Net Current Assets	607.4	731.4	891.0	1075.2	1296.0
Total Application of Funds	876.9	1081.4	1244.8	1435.8	1667.3

(Source: Company, HDFC sec)



Cash Flow Statement

(Rs Cr)	FY22	FY23	FY24E	FY25E	FY26E
Reported PBT	192.1	243.4	260.9	309.1	371.5
Non-operating & EO items	-6.6	1.1	-1.1	-1.2	-1.3
Interest Expenses	-5.1	-7.5	2.0	1.8	1.5
Depreciation	33.3	35.0	37.1	37.6	38.8
Working Capital Change	9.8	-93.4	-62.6	-74.5	-85.2
Tax Paid	-41.1	-47.8	-56.7	-68.0	-81.7
OPERATING CASH FLOW (a)	182.4	130.7	179.6	204.8	243.6
Capex	-27.3	-39.0	-40.0	-45.0	-50.0
Free Cash Flow	155.1	91.8	139.6	159.8	193.6
Investments	-110.7	-70.5	3.2	3.3	3.4
Non-operating income	3.8	10.5	1.1	1.2	1.3
INVESTING CASH FLOW (b)	-134.2	-99.0	-35.7	-40.5	-45.3
Debt Issuance / (Repaid)	27.5	-65.0	2.5	-4.0	-3.5
Interest Expenses	-2.3	-2.6	-2.0	-1.8	-1.5
FCFE	180.3	24.2	140.1	154.0	188.6
Share Capital Issuance	0.0	0.0	0.0	0.0	0.0
Dividend	-4.5	1.2	-41.3	-50.1	-58.9
FINANCING CASH FLOW (c)	20.7	-66.4	-40.8	-55.9	-64.0
NET CASH FLOW (a+b+c)	68.9	-34.7	103.1	108.4	134.4

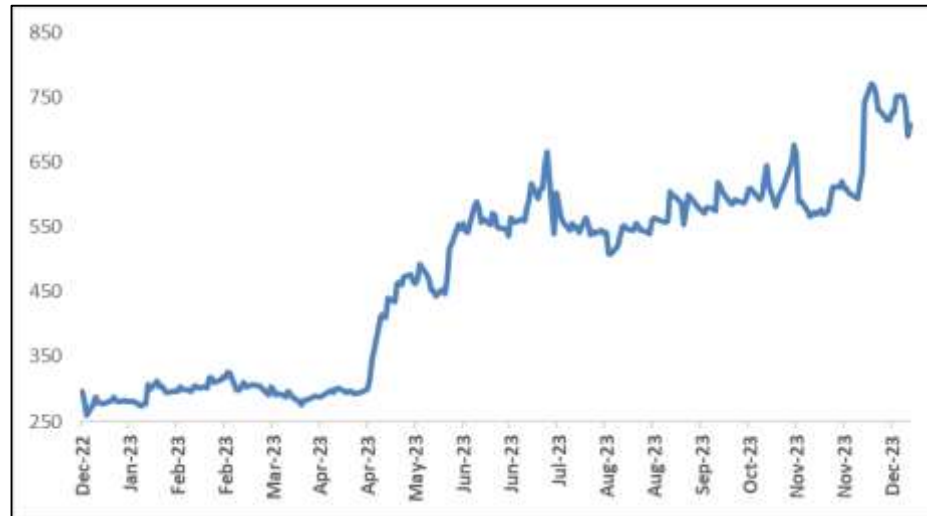
Key Ratios

Particulars	FY22	FY23	FY24E	FY25E	FY26E
Profitability Ratio (%)					
EBITDA Margin	16.1	16.6	16.7	17.3	17.6
EBIT Margin	13.3	14.2	14.4	15.2	15.8
APAT Margin	12.5	12.9	13.2	13.5	13.9
RoE	19.1	19.8	18.2	18.5	19.2
RoCE	18.5	19.2	18.0	18.3	19.0
Solvency Ratio (x)					
Debt/EBITDA	0.3	0.1	0.1	0.1	0.0
D/E	0.1	0.0	0.0	0.0	0.0
PER SHARE DATA (Rs)					
EPS	25.5	32.1	34.9	41.2	49.4
CEPS	31.2	38.0	41.2	47.5	56.0
BV	145.4	177.8	205.7	238.3	277.8
Dividend	0.0	0.0	3.8	5.0	7.0
Turnover Ratios (days)					
Debtor days	74	67	70	70	70
Creditors days	30	28	24	23	23
VALUATION (x)					
P/E	27.7	22.1	20.3	17.2	14.3
P/BV	4.9	4.0	3.4	3.0	2.5
EV/EBITDA	19.7	15.6	14.1	11.6	9.3
EV / Revenues	3.2	2.6	2.4	2.0	1.6
Dividend Yield (%)	0.0	0.0	0.5	0.7	1.0
Dividend Payout (%)	0.0	0.0	10.7	12.1	14.2

(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 cyclicity 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.

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