

## 1) Sales Growth

The company has grown at 12-13% cagr over last 10 years. Sales from 300 cr has come up to 910 cr in last 10 years. Further in last 4 qtrs the sales have further increased to 1010 cr. The sales becoming 3 times in 10 years. There were two periods of sales dropping by 12-14%. Those were fy-10 and fy-16.

It has been catering to clients America, Australia, Asia, Middle East & Europe and providing customized solutions. The key verticals for Datamatics Global Services Limited are Robotics / Artificial Intelligence and machine learning to make cutting edge customized solutions for their clients. about 60% + of their revenue comes from US markets.

Wide Service Offerings - Finance & Accounting, Mobility, BI & Analytics, Collaboration & Enterprise Portals, Engineering & Embedded Services, Enterprise Content Management.

Strong Domain Expertise across BFSI, Healthcare, Manufacturing, Market Research, Publishing, Retail & International Organizations.

Some of their products are as under: -

**COMPETITIVE ADVANTAGE**  
EXPANDING OUR IN-HOUSE IP ASSETS BASE



Smart Processes	Smart Data	Smart Systems	Smart Devices
<b>TruBot</b> Enables information retrieval across multiple s/w platforms and two way transfer of information between any two systems without the use of an API	<b>Synapsis</b> AI based platform that can ingeniously detect fraudulent transaction patterns	<b>DARTENIUM</b> High-productivity automation framework for web testing	<b>iMobile</b> Mobility platform used to develop end-to-end mobile App & solutions
<b>iQ</b> Path-breaking, intelligent information processing solution driven by Artificial Intelligence	<b>nSights</b> Point-and-click data visualization solution used to create highly interactive dashboards to drive timely, data based decisions	<b>IBPM</b> Service-oriented architecture (SOA) enabling easy integration and collaboration across various applications	
<b>IPM</b> Sophisticated web based workflow management framework to help enterprises optimize their financial operations	<b>Lexicon</b> AI based text analytics platform that intelligently extracts large volumes of static as well as streaming data		
<b>IDART</b> Smart document archival, retrieval and tracking solution			

**OUR PROPRIETARY PRODUCTS FOR CLIENTS' DIGITAL TRANSFORMATION**

The BFSI and Publishing business generate around 50% of the revenue stream. Their products TruBot and TruBI are getting good adaptability in the market which is giving them revenue boast. Cloud computing are the need of the hour and growing at immense pace. Datamatics Global Services has joined hands with Amazon Aws and Microsoft Azure and developed lots of products those interest the customers.

AFC (Automatized Fare Collection) has been key focus for the company which they are installing in Lucknow Metro and several key customers in tier 1 cities across the country.

The acquisition of Tej Jini gave them foothold in Mobility and Web development technologies. With the acquisition of RJ Global in Philippines they are into voice and text based services for their clients.

## 2) Profitability

Looking at the profitability of the company. The OPM have been in the range of 8-12% almost fluctuating every year. From the last 3 years it looks to be stabilized at 9%. Being an IT services company which do not have any significant raw material costs. The reason for the fluctuation of operating margins are

- a) Employee costs
- b) Selling and Distribution Expenses

The NPM has also seen fluctuating trend from 2% to 9%. In-spite the OPM stabilizing in last 3 years the NPM are still fluctuating. The depreciation amounts have increased over the years as the company has continuously invested in fixed assets to grow.

Few important reason for the low operating margins are clarified by the chairman in his message to the shareholders. Those are as under.

I believe that the IT Industry in India, and your Company is faced with several challenges and we need to address them.

First, the western world, our principal markets, are getting protectionist and creating barriers to trade, movement of our professionals, and a free flow of both goods and services.

Second, India is facing margin pressure with MNCs having high captive utilisation and financial institutions still leading the way with around 24%. Conventional IT Services and BPO are gradually becoming a commodity, with relatively low entry barriers, resulting in lower margins.

Third, there is a need to broaden our geographical reach and explore more markets. Today about 80% of our Software Exports are to the USA and UK, who on a combined basis form only 6% of the world population and contribute about 25% of the world's GDP.

Fourth, to circumvent reducing margins in both BPO and Software Services, we need to move up the value chain through development of intellectual property and Software products. Traditionally, Indian Software professionals had been accustomed to providing services against developing Software products. Today, products need creativity, rigorous testing, ergonomic orientation, larger marketing / sales budgets, and longer gestation periods.

### 3) Taxation

The company has always paid tax lower to the standard tax structure. Those are ranging from 7% to 25%.

#### 31.(b) Reconciliation of tax expense and accounting profit multiplied by statutory tax rates

Particulars	Year ended March 31, 2018	Year ended March 31, 2017
<b>Profit for the year</b>	<b>522.85</b>	<b>251.98</b>
Statutory tax rate applicable to Datamatics Global Services Limited	34.61%	34.61%
<b>Tax expense at applicable tax rate</b>	<b>180.95</b>	<b>87.21</b>
Tax effects of:		
Income taxed at higher/ (lower) rates	5.14	6.30
Amounts which are not deductible (taxable)	(13.12)	(28.92)
Income exempt from tax	(33.12)	(23.71)
Adjustments for current tax of prior periods	2.45	(3.33)
Basis difference that will reverse during tax holiday period	(0.04)	(2.29)
Indexation	(7.46)	3.13
Previously unrecognised tax losses now recouped to reduce current tax expense	(11.22)	(22.72)
Other	(6.82)	(11.54)
<b>Income tax expense</b>	<b>116.76</b>	<b>4.13</b>

The company is getting

- 1) adjustments for previous losses
- 2) Some sales under subsidiary in tax exempt zone
- 3) Adjustments which are not taxable

One should check in detail that for how long these adjustments / benefits are availed by the company as once these are over the net income could be lower.

### 4) Interest Coverage

The company has a comfortable interest cover. Further the interest cover has increased over the years showing some comfort as the size of business operations in respect to its Debt. The Debt to equity stands at 0.1 times.

## 5) Cash Flows

The business has been able to generate positive cash flows in last 3-4 years which have been consistent in-spite of the increasing size of operations.

The 10yCumulative CFO is 387 Cr v/s 10y Cumulative Pat of 356 cr which states that the company has been able to get its on time and the same are not getting blocked in working capital.

Out of the 387 Cr CFO the management invests 380 Cr in the business to grow the same going ahead. That leaves very less amount of only 7Cr as free cash flow.

The company paid dividend of 56 Cr in the last 10 years which was eventually funded via debt. Two aspects make that evident

- 1) rising debt to pay dividend
- 2) trouble in paying dividend thereby decreasing dividend payout as % to profits. The amount of dividend is kept const at 4 Cr (Without DDT).

## 6) Business Efficiency

Fixes Assets Turn:- The fixed assets turn for the company are in the range of 3.2 to 3.5. Plus the fixed assets turn are falling from the last 4 years. The Fa turn from 3.56 in fy14 has come down to 3.17 in fy 18. This means that the investment the company has been doing in its fixed assets are not giving the full potential for revenue generation for the company and are dragging its performance.

Receivable Days:- the Company is collecting from its debtors in 2 to 2.5 months. The receivable days are stable in the range from 70-80 days.

## Peer Analysis

On Comparing Datamatics Global Service on metric analysis with its peers some key learnings are obtained.

Metrics	Datamatics Global	First Source Solutions	Mindtree Limited
Sales Growth last 3 years	3.21 %	5.22%	15.32%
ROE	11.62	14.66	21.44
Debtor Days	82.12	39.08	67.85

Dividend Payout	7%	32%	32%
OPM	9%	13%	14%
NPM	7%	9%	10%
P/E	7.7	9.66	20.91

Data Source: Screener.IN

Mind Tree is a close competitor as they are also in BFSI services the main focus are for Datamatics Global.

### 7) Credit Rating Report

The company has 66 Cr of debt and 111 Cr of Cash and liquid investments making it a net cash positive business. The high debt coverage metrics and ample available liquidity with low gearing gives us an robust financial model for the company. Esteemed promoter Mr Lalit Kanodia who was also the co-founder of TCS Limited is with the said company. As per the report the key focus are (and 50% + revenue generation for the business) are Banking and Financial services & publishing business. The company has stable customer relationship which is helpful in the long run.

**Risks** are the major proportion of the revenue come from US where there are many companies in Silicon Valley which could be tough competition for the verticals the business operates into. The company is expanding its technologies and geographical locations to mitigate the concentration risk. There is also intense competition from local players in IT services business.

### 8) Margin of Safety in the business

SSGR 8-9% the company has grown about 12-13% over the last 10 years. The said growth has slowed down to 3% in the last 3 years (also consuming its cash on books from 193 cr down to 117 cr.)

The operating efficiency has gone down over the years as the net fixed asset turn is continuously going down in last 4 years with the collection days high at 2 – 2.5 months.

FCF 7 Cr. The business has barely managed to generate FCF as whatever cash they generated from their operations they had to invest back into the business for growth. The FCF generated was only 7 Cr.

The Dividend as a %, the Pay Out ratio has decreased in last 2-3 years.

The stock is available at a P/e of 8 which offers some margin of safety in the price.

### Additional Points

## **1) About the Company**

The company was setup in 1987 by Dr Lalit Kanodia, to provide non – voice based process outsourcing and software development services in the areas of content management, accounts and finance, research and analytics, telecommunications-embedded solutions, product management, independent testing, and enterprise applications. The group is headquartered in Mumbai and is present in the US, the UK, Germany, Australia, Mauritius, and Switzerland through subsidiaries. Strategic JV's by the company are as under:-

CIGNEX Datamatics has entered into a partnership with Salesforce (leading CRM and Cloud Computing Platform), UiPath (leader in Robotic Process Automation), OutSystems (leading Low Code Development Platform) and Oracle MySQL (leading Open Source RDBMS Platform).

## **2. Management**

The founder chairman of the company is Dr Kanodia who was also one of the founder members for TCS. Dr. Kanodia is the President of the IMC Chamber of Commerce & Industry and former President of the Indo American Chamber of Commerce (IACC). He was also the Honorary Consul General of Chile in Mumbai, India for over a decade (2002 – 2014). Dr Kanodia has 4 children, 2 of them (the second generation) are actively involved in the business. His Elder son Rahul Kanodia holds the post of Vice Chairman & CEO whereas his younger son Sameer Kanodia is the executive director. His 2 daughters are married. His wife Smt. Asha Kanodia is also lady director on the Board (she has designed most of the offices of the company and holds interest in designing). Its good to see that the full family is actively involved in the workings of the business. With the second generation actively working in day to day operations of the business its safe to presume that they take the company forward after Dr Kanodia retires. The family relationship is also mentioned in annual report.

Dr Kanodia also holds several directorships in other linked companies the significant one is RPG Life Sciences.

Rahul Kanodia holds similar cross linked directorships with a board seat on Safari (Industries)

Under their leadership the company has won several prestigious awards for product innovation, design and implementation, solving problems for the complex fast growing world.

The Management holds 73% of the company that gives us some comfort that there is enough skin in the game.

## **3) Opportunity Size**

The internet industry in India was likely to reach US\$ 250 billion by 2020, growing to 7.5 per cent of the GDP. The public cloud services market in India is slated to grow 35.9 per cent to

reach US\$ 1.3 billion, according to Gartner. The Indian Healthcare Information Technology market is valued at US\$ 1 billion currently and is expected to grow 1.5 times by 2020. India's business-to-business (B2B) e-commerce market is expected to reach US\$ 700 billion by 2020 whereas the business-to-consumer (B2C) e-commerce market is expected to reach US\$ 102 billion by 2020.

#### **4) Competitive Environment in Business**

The management states the following in their reports

*During the financial year, the margins of the Company have been reduced on account of increase in various costs.*

This shows that the business does not have the power to pass on these increases in costs to the customer. As stated in the deal in a competitive environment.

#### **5) Remuneration**

Management remuneration for the Datamatics Global is on the higher side of 4.5% to Net Profits. The business is growing on revenue front with 12-13% rate but all the cash flow the management is able to generate has to be invested back into the business for further growth. Taking salary on higher side should be taken with a pinch of salt.

#### **6) CSR Spends**

The net profits for the company were 640.9 million. The CSR Spend as per the stipulated rules should be 6.81 million. The company only spent 1.48 million and the balance 5.33 million they are unable to find good virtues to spend or lack the willingness.

#### **7) Related Party Transactions**

The company has not entered into any significant related party transactions in last year that could be considered significant as per companies related transaction policy as stated in AR but reading the related party transactions detail notes it is found that the company has incurred expenses for their subsidiary to the extent of 3 Cr, which is not that significant seeing the operations of the company.

The points of concern are

First they incurred expenses for their related parties to the extent of 8 Cr in fy15 then 4.2 Cr in fy16 then 3.4 Cr in fy17. 15-16 Cr in 3 years.

Second they company has provided corporate guarantee of 19-20 cr for loans given to subsidiaries.

As at March 31, 2018: Nil, as at March 31, 2017: 2,025,000, as at April 1, 2016: 2,025,000 fully paid equity shares of Data- matics Global Services GmbH of EURO 1 each		-	195.95	130.29
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Third they invest in their subsidiaries to the extent of and from next year onwards provides for diminishing value of investments by 6.5 cr then 13 cr which adds up to 19.5 cr eventually they write off these investments in their subsidiary in 2016 by 2.3 Cr and 19.5 Cr in 2017.

Fourthly the company has provided corporate guarantee of 19-20 cr for loans given to subsidiaries.

**Reading these notes in the reports gives an impression that the management is more concerned about their other business in their capacity rather than generating shareholder value in Datamatics Global.**

Though reading the subsidiary reports can give one better understanding of the said transactions.

## 8) Loans and Advances & Receivables

### Receivables

Sr. No.	Particulars	(i) A		
		2017-18	2016-17	2015-16
iii	Receivables	404.69	157.73	141.82
	Datamatics Global Services Inc.	253.56	98.43	61.58
	Datamatics Global Services GmbH	-	0.23	0.25
	Datamatics Global Technologies Limited	2.29	3.34	1.84
	Datamatics Infotech Limited	122.55	39.01	64.56
	Datamatics Global Services Pty. Limited	4.76	4.48	2.04
	Datamatics Global Technologies GmbH	-	1.85	2.01
	Datamatics Global Solutions GmbH	-	1.60	1.74
	Lumina Datamatics Limited	0.32	0.14	-
	Cignex Datamatics Technologies Limited	19.11	4.92	-
	Datamatics Global Technologies AG	-	2.33	-
	Cignex Datamatics Inc.	2.10	1.40	7.80
	Cybercom Datamatics Information Solutions Limited	-	-	-
	Datamatics Business Solutions Limited	-	-	-

Looks like the company has to face delays in collecting from subsidiaries. The quantum of which has risen over the years.

#### Note on advances

The Company has ₹ 10.94 million (FY 2016-17 ₹ 9.52 million) as outstanding loans and advances (Refer note no. 45 below) and ₹ 646.30 million (FY 2016-17 ₹ 646.30 million) as investment in two of its 100% Subsidiaries at the year end. The net worth of these subsidiaries has declined. The Company has assured financial support. These investments are for long term and are of strategic nature. As the Management is confident of turning around the subsidiaries in the near future provision for diminution in the value, if at all required, is not made.

**45. Loans and advances to Subsidiaries consist of following**

Particulars	Balance Outstanding as on March 31, 2018	Maximum amount outstanding during the year	Balance Outstanding as on March 31, 2017	Maximum amount outstanding during the year
Datamatics Global Services Inc.*	10.92	10.92	9.52	9.52
Datamatics Infotech Limited *	6.09	6.09	1.06	4.23
Datamatics Global Services Pty Limited *	0.93	0.95	0.29	0.38
Datamatics Global Technologies AG *	0.02	0.02	-	-
Lumina Datamatics Limited *	5.29	21.75	5.96	9.24
Cignex Datamatics Technologies Limited*	-	21.06	1.51	1.51
Cignex Datamatics Inc.*	-	3.09	3.09	3.09
Datamatics Global Services FZ LLC *	7.59	18.80	14.81	27.09
Lumina Datamatics GmbH *	0.05	0.05	-	-
Cignex Datamatics Pte. Ltd. *	0.02	0.02	-	-
<b>Total</b>	<b>30.91</b>	<b>82.75</b>	<b>36.24</b>	<b>55.06</b>

\* Interest free advances.

Loans given interest free and then accounted for diminishing value.

## 9) Investments

It is Strange to see that the company has increased their investment in their subsidiary Lumina Datamatics Limited from 57 Cr in 2016 to 90.7 Cr in 2017 and the said subsidiary hardly generates any revenue.

Particulars		March 31, 2018	March 31, 2017	April 1, 2016
<b>Investment in debentures - Quoted (at FVTPL)</b>				₹ in Millions)
As at March 31, 2018: 100, as at March 31, 2017: 100 Units of ₹ 100,000 each of Edelweiss Asset Reconstruction Company Limited - GSEC Linked Non Convertible Debentures		11.89	10.92	-
As at March 31, 2018: Nil, as at March 31, 2017: Nil, as at April 1, 2016: 30 debentures of ECL Finance Limited - E6F401 - NCD		-	-	3.05
As at March 31, 2018: Nil, as at March 31, 2017: Nil, as at April 1, 2016: 5,000 debentures of ₹ 1,000 each of India Info-line Investment Services Limited @ 11.70%		-	-	5.00
<b>Investment in equity instruments (fully paid-up)</b>				
<b>In subsidiaries - Wholly Owned - unquoted (at cost)</b>				
As at March 31, 2018: 1,000, as at March 31, 2017: 1,000, as at April 1, 2016: 1,000 no par value fully paid common stock in Datamatics Global Services Inc.		644.04	644.04	644.04
As at March 31, 2018: 20,000, as at March 31, 2017: 20,000, as at April 1, 2016: 20,000 fully paid equity shares of Datamatics Infotech Limited of GBP 1 each		1.71	1.71	1.71
As at March 31, 2018: 50,000, as at March 31, 2017: 50,000, as at April 1, 2016: 50,000 fully paid equity shares of Datamatics Global Technologies AG of CHF 1 each		2.26	2.26	2.26
As at March 31, 2018: 1,000,000, as at March 31, 2017: 1,000,000, as at April 1, 2016: 1,000,000 fully paid equity shares of Datamatics Global Technologies Limited of USD 1 each		46.05	46.05	46.05
As at March 31, 2018: 50,000, as at March 31, 2017: 50,000, as at April 1, 2016: 50,000 fully paid equity shares of Datamatics Global Services Pty Limited of AUD 1 each		1.56	1.56	1.56
As at March 31, 2018: 10,028,655 as at March 31, 2017: 10,028,655, as at April 1, 2016: 162,957 fully paid equity shares of Lumina Datamatics Limited of ₹ 10 each		907.60	907.60	577.60

The company has also increased their invested in unquoted preference shares of this Datamatics Global Services Pty LTD which they have increased form 9 Cr to 13 Cr over the years which also has negligible (fallowing revenue from fy16-17) revenue as compared to the size of the operations of the company.

<b>Unquoted (at FVTPL)</b>			
<b>In subsidiaries - Wholly Owned</b>			
As at March 31, 2018: 3,450,000, as at March 31, 2017: 3,450,000, as at April 1, 2016: 3,850,000 fully paid Series II & III Non Cumulative Redeemable 8% Preference shares of Datamatics Global Technologies Limited of USD 1 each		134.23	120.34
		91.03	

The revenue generated in fy17-18 by these investments. We should contact the management and ask more clarity about these investments.

Sr. No.	Particulars	(i) A	
		2017-18	2016-17
[A]	<u>Transactions during the year ended</u>		
i	<u>Revenue from operations</u>	934.20	861.63
	Datamatics Global Services Inc.	380.99	406.04
	Datamatics Global Technologies Limited	6.57	5.79
	Datamatics Global Services Pty. Limited	6.33	16.96
	Datamatics Infotech Limited	508.63	424.69
	Lumina Datamatics Limited	0.54	1.00
	Cignex Datamatics Inc.	15.08	2.80
	Cignex Datamatics Technologies Limited	16.06	4.35
	Datamatics Business Solutions Limited	-	-