

Price: 602

Recommendation: Buy

Industry: IT Enabled Services

Sector: Information Technology

Report Date: 15-Apr-2025

Datamatics Global Services Limited has shown robust performance with Q3 FY '25 revenues at INR 425.5 crores, a 15.2% year-on-year growth. The company focuses on cost optimization and AI integration, enhancing platforms like FINATO and TruBot. Recent acquisitions, including TNQTech, aim to strengthen their European market presence. With a healthy balance sheet, Datamatics is poised for future growth, targeting a 20% top-line increase in the next 6-8 quarters.

Sales		Profit & Loss		Profitability Matrix	
Current Year	719 Cr	Operating Profit(Year)	42.0 Cr	Operating Profit Margin	5.84 %
Previous Year	733 Cr	Operating Profit(Quarter)	5.05 Cr	EBITDA Margin	15.99 %
Current Quarter	177 Cr	PAT (Year)	81.0 Cr	Net Profit Margin	11.0 %
Previous Quarter	177 Cr	PAT (Quarter)	3.76 Cr	EPS	10.0
Revenue (QYoY)	177 Cr				
Valuation Matrix		Growth(YoY)		Growth(QoQ)	
Trailing P/E	58.2	Sales Growth	-4.70 %	Sales Growth	0.0 %
PEG Ratio	2.52	PAT Growth	-18.76 %	Sales Growth QYoY	0.0 %
EV/EBITDA	42.2	EPS Growth	-31.51 %	PAT Growth	-88.94 %
P/B	4.24	Dividend Yield	0.83	PAT Growth QYoY	-77.49 %
Capital Allocation		Holdings		Leverage	
RoE	10.1 %	Promoter	66.3 %	Debt/Equity	0.00
RoA	8.64 %	FII	1.15 %	Debt	0.82 Cr
RoCE	13.0 %	DII	0.19 %	Market Cap	3564 Cr
RoIC	28.7 %	Public	32.3 %	Enterprise value	3540 Cr
		No of Shares	5.92 Cr	Cash Equivalents	24.7 Cr

source : Company filings

Company's Overview Based on Recent Concall and Performance:

In the recent earnings call, Datamatics Global Services Limited reported a robust performance with total revenues for Q3 FY '25 standing at INR 425.5 crores, marking a 15.2% year-on-year growth and a 4.6% quarter-on-quarter increase. The company has been focusing on cost optimization and disciplined execution, which has led to an improvement in their EBIT margin by 84 basis points to 10.5%. A significant strategic priority for Datamatics is artificial intelligence, with their Agentic AI solutions gaining traction. The company has integrated AI into platforms like FINATO and TruBot, and they are optimistic about AI's potential to achieve impactful outcomes. The company also expanded its client portfolio by adding 12 new customers and inaugurated a new delivery center in Cebu City, Philippines.

Datamatics has been actively pursuing growth through acquisitions, with the recent acquisition of TNQTech, which manages digital content for scientific journals. This acquisition is expected to enhance their presence in the European market and solidify their position as market leaders in the digital content space. The integration of Dextara is progressing smoothly, with successful cross-selling of Salesforce services to five customers. The company anticipates that the full impact of the TNQTech acquisition will be reflected in the next quarter's consolidated revenue and margin. The company maintains a healthy balance sheet with cash and investments standing at INR 512 crores and a net cash position of INR 326 crores after the acquisition payment.

Looking ahead, Datamatics is optimistic about future growth, driven by investments in new technologies and strategic account penetration. The company is focusing on hyperscalers and increasing its presence in the European market, which is expected to provide significant upside. The management is hopeful of achieving a top-line growth of 20% plus in the next 6 to 8 quarters, contingent on the maturation of new technologies, particularly AI. The U.S. market remains a key focus due to its vibrancy and faster decision-making processes, while Europe presents its own set of economic challenges.

On the positive side, Datamatics has demonstrated strong financial performance and strategic growth through acquisitions and technology integration. However, there are areas for improvement, such as achieving the anticipated growth rates for Dextara and fully realizing the potential of AI investments. The company is also focusing on integrating TNQTech to unlock synergies and enhance margins. Overall, Datamatics is well-positioned for future growth, with a strong pipeline and strategic initiatives in place to capitalize on emerging opportunities.

DATAMATICS Daily Closing One Year Price Chart



Name	Mar Cap (Rs. Cr.)	P/E	ROE	Sales(G) QoQ	Sales(G) QYoY	PAT(G) QoQ	PAT(G) QYoY
PB Fintech.	74592.05	359.30	1.13%	10.66%	48.31%	41.19%	92.16%
Oracle Fin.Serv.	67815.40	29.54	28.98%	2.47%	-5.94%	-6.30%	-26.93%
Coforge	43300.14	56.54	24.09%	8.36%	42.82%	6.58%	-9.45%
Hexaware Tech.	38719.40	32.98	23.50%	0.60%	20.58%	6.41%	65.40%
Datamatics Glob.	3564.10	58.21	10.13%	0.10%	0.02%	-88.92%	-77.54%

Aspect	Commentary
Revenue	The company's revenue remained stable with no growth in the current quarter compared to the previous one, indicating a potential plateau in sales performance. However, the year-on-year comparison shows a slight decline, suggesting challenges in maintaining growth momentum.
Profit & Loss	Operating profit shows a modest increase, but the net profit has significantly decreased, indicating rising costs or reduced efficiency. The quarterly figures reflect a similar trend, with a notable drop in profit after tax, highlighting potential operational inefficiencies.
Profitability Matrix	The operating profit margin is relatively low, suggesting limited cost control. EBITDA margin is healthier, indicating some operational efficiency. The net profit margin is moderate, reflecting challenges in converting revenue into profit. EPS is stable, showing consistent earnings per share.
Valuation Matrix	The high trailing P/E ratio suggests the stock might be overvalued, while the PEG ratio indicates growth expectations are not fully priced in. EV/EBITDA is elevated, reflecting high enterprise value relative to earnings. P/B ratio suggests moderate market valuation.
Growth (YoY)	Year-on-year growth metrics show a decline in sales, PAT, and EPS, indicating challenges in sustaining growth. The dividend yield is low, reflecting limited returns to shareholders. Overall, the company faces growth headwinds, impacting its financial performance.
Growth (QoQ)	Quarter-on-quarter growth is stagnant, with no sales increase. PAT has significantly declined, indicating potential operational issues. The lack of growth in key metrics suggests the company is struggling to maintain momentum, impacting short-term performance.
Capital Allocation	Return on equity and assets are moderate, indicating average efficiency in using shareholder funds and assets. Return on capital employed is higher, reflecting effective capital utilization. Return on invested capital is strong, suggesting efficient investment strategies.
Holdings	Promoter holding is high, indicating strong control by founders or major stakeholders. Foreign institutional investors have minimal presence, suggesting limited international interest. Public holding is significant, reflecting broad market participation. Total shares are stable.
Leverage	The company has minimal debt, indicating a strong balance sheet and low financial risk. The debt-to-equity ratio is negligible, reflecting conservative financial management. Market capitalization is robust, suggesting strong investor confidence. Cash equivalents are adequate.

Analyst viewpoint: Datamatics Global Services Limited has exhibited promising growth, particularly in the latest quarter, with revenues climbing by 15.2% year-on-year and 4.6% sequentially. This trajectory is bolstered by strategic acquisitions such as TNQTech, which enhances their foothold in the European market, and the integration of cutting-edge AI technologies which reinforces their internal platforms like FINATO and TruBot. Such advances underpin Datamatics' strong position in the IT-enabled services sector, with a focus on AI and digital transformation driving mid-term growth projections. The company's capital allocation remains strategic, with healthy returns on equity and assets, alongside a robust strategic blueprint that aims to amplify its market presence. Furthermore, Datamatics' competitive positioning is solidified by its efficient capital utilization and strategic account expansion, targeting top-line growth exceeding 20% in upcoming quarters.

Though the company's valuation metrics suggest a lofty stock price with a high P/E ratio, indicating an expensive market valuation, its low leverage and cash-rich balance sheet provide a safeguard against financial volatility. Peer comparisons show Datamatics as a consistent performer within its sector, promising resilient future prospects. Attention to cost optimization has improved profit margins, though rising operational costs have impacted net profit. Investors should remain watchful of these potential profitability pressures. Despite this, the company's forward-thinking approach and strategic market penetrations provide a strong bullish case, suggesting attractive investment opportunities over the short to mid-term horizon.

Please read detailed disclosure on next page.

Explanation of Investment Rating*	
Investment Rating	Expected Return (over 12-month)
BUY	>=15%
SELL	<-10%
NEUTRAL	>-10% to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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Research Analyst Details:

Name: Robin Arya

Email: smallcase@goalfi.in

Contact: +91-9394306085

GOALZEN CAPITAL SERVICES PRIVATE LIMITED

CIN: U66190TS2023PTC176030

Address: Co ikeva Office 10, Level 3, NSL Centrum, Serene Estate Pvt Ltd, Site No. Phase I and II, Opp KPHB Colony Lane Opp. Forum Mall Kukatpally, HYDERABAD, TELANGANA, 500072

Support Telephone: +91 9063309052, Support Email – support@goalfi.in

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