DATAMATICS

“Datamatics Global Services Limited

Q3 FY '25 Earnings Conference Call”

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MODERATOR: **MR. PRATIK JAGTAP – E&Y INVESTOR RELATIONS**

Moderator: Ladies and gentlemen, good day, and welcome to Datamatics Global Services Limited Q3 FY '25 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star, then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Pratik Jagtap from E&Y Investor Relations. Thank you, and over to you, sir.

Pratik Jagtap: Thank you, Manav. Good afternoon to all the participants in the call today. Welcome to the Q3 FY '25 Earnings Call of Datamatics Global Services Limited. The results and presentation have been already mailed to you, and it is also available on the website of Datamatics. In case anyone has not received a copy of press release or presentation, please do write to us, and we will be happy to send you all.

To take us through the results today and to answer your questions, we have with us the top management of company represented by Rahul Kanodia, Vice Chairman and CEO; Ankush Akar, SVP and Chief Financial Officer; Mitul Mehta, EVP and Chief Marketing Officer. Rahul will start the call with a brief overview of the quarter on business, which will be then followed by Ankush, who will take us through the financials. We will then open the floor for Q&A session.

I would like to remind you that anything that is said on this call, which gives any outlook for the future or which can be construed as a forward-looking statement must be viewed in conjunction with the risks and uncertainties that we face. These risks and uncertainties are included but not limited to what we have mentioned in the prospectus filed with SEBI and subsequent annual reports, which you can find on our website.

With that said, I now hand over the call to Rahul sir. Over to you, Rahul sir.

Rahul Kanodia: Thanks, Pratik, and a very warm welcome and wishing everyone a very Happy New Year. Thank you all for joining our Q3 FY '25 earnings call. I will briefly discuss some of the key quarterly performance highlights, while Ankush will provide an update on the financials, after which we will open the floor for a Q&A session.

Our total revenues for quarter 3 stood at INR 425.5 crores, giving us a revenue growth of 15.2% on a year-on-year basis and a 4.6% on a quarter-on-quarter basis. Our revenue growth has been healthy across Digital Technologies, Operations and Experiences. Our EBIT for Q3 stood at INR 44.7 crores, and we improved our EBIT margin by 84 basis points to 10.5%, driven by a focus on cost optimization and disciplined execution.

Artificial intelligence continues to be a strategic priority for us. Agentic AI is gaining popularity. We have started building innovative and customized Agentic AI solutions for our customers and have also incorporated this technology into our platforms, FINATO and TruBot. Last week, we were at Davos during the World Economic Forum Week and engaged with global industry leaders to share our AI vision. The sentiment across the industry is highly optimistic about the potential of AI with a strong focus on achieving impactful outcomes.

Our business continues to progress according to plan. This quarter, we expanded our client portfolio by adding 12 new customers, including 1 AFC customer. We have expanded our operations in the Philippines with the inauguration of our fourth delivery center in Cebu City.

Our integration of Dextara is going smoothly. We have successfully cross-sold Salesforce services into 5 of our customers. We acquired TNQTech on the 31st of December 2024. TNQTech manages digital content for scientific journals. TNQTech brings along a modern technology platform and several patents in content enrichment, besides it increases our presence in the European market. With this acquisition, we will serve 9 of the 10 largest publishers in the world, solidifying our position as market leaders in the digital content space.

I take this opportunity to thank all our stakeholders, including employees, customers and shareholders for being an integral part of our journey.

With that, I will now hand over the call to our CFO, Mr. Ankush Akar. Ankush, over to you.

Ankush Akar: Thank you, Rahul. Welcome, everyone, and thank you for joining us in Q3 FY '25 earnings call. Let me start with the financial performance for Q3 FY '25. Our Q3 FY '25 revenue stood at INR 425.5 crores, reflecting a growth of 4.6% on a quarter-on-quarter basis and 15.2% on a year-on-year basis. Our cost optimization efforts and disciplined execution helped us improve our EBITDA. Our EBITDA for the quarter stood at INR 54.6 crores, which grew by 11.9% on a quarter-on-quarter basis. Our EBITDA margin for the quarter stood at 12.8%. Our EBIT for the quarter stood at INR 44.7 crores, which grew by 13.7% on a quarter-on-quarter basis. Our EBIT margin for the quarter stood at 10.5%. Our PAT after NCI stood at INR 74.3 crores. Our PAT margin for the quarter was 17%. Our tax rate for the quarter was 15.3% compared to 19.9% in the last quarter. Our EPS for the quarter was at INR 12.58 per share compared to INR 7.18 per share in the last quarter.

Exceptional items during the quarter represent exchange gains arising from the buyback of equity share capital held by an overseas subsidiary and expenses incurred on the acquisition of TNQTech. We have acquired 80% shareholding of TNQTech on 31st of December 2024 and remaining 20% will be acquired by 31st of July 2026. Current quarter includes revenue and margin only for 1 day. Full impact of the acquisition on our consolidated revenue and margin will reflect from the next quarter.

In terms of segment, Digital Technologies contribution to total revenue was at 41%, Digital Operations contribution at 42% and Digital Experiences contribution at 17%. We continue to maintain a healthy balance sheet. As on 31st of December 2024, our cash and investments stood at INR 512 crores and debt stood at INR 186 crores, resulting in net cash and investments of INR 326 crores. This is after payment for the acquisition of TNQTech. Our billed DSO was at 58 days as on 31st of December 2024 as compared to 58 days as of September 2024.

In terms of geographical footprint, USA remains our largest geography with 53% of our business coming from here, followed by India at 23% and the rest of the world, including U.K. and Europe at 24%. Our client concentration remains healthy with top 5, 10 and 20 clients contributing to 22%, 36% and 50%, respectively.

With this, I will now pass on the call to operator to open the floor for questions. Thank you for your patience and continued interest in Datamatics.

Moderator: Thank you very much, sir. We will now begin the question-and-answer session. The first question is from the line of Hemant Shah from Seven Islands PMS.

Hemant Shah: So just one question. What is the expenses with respect to the acquisition of TNQ for this quarter, which we have provided?

Rahul Kanodia: So we had an intermediary firm that helped us strike this deal and the fees paid to that firm are the expenses that you're referring to.

Hemant Shah: Okay. What would be the quantum, sir?

Ankush Akar: It's INR 5 crores.

Hemant Shah: Okay. So I'm just trying to assess the one-off expense. That is one. And second, with respect to this TNQ, now we have acquired through Lumina Datamatics, right?

Rahul Kanodia: That's correct.

Hemant Shah: So if you can just provide some, perspective with respect to market reach, strategic positioning with respect to the integration of these 2 companies going forward. And secondly, this is absolutely a mirror company like MPS what we see. Only the domain is different. I think you are more focusing more on the science publications. MPS, is into the almost every publication, right? If you can just throw some light with respect to the integration? And how do we differentiate ourselves with MPS?

Rahul Kanodia: Sure. So as far as the integration is concerned, we acquired this on the 31st of December. So that is not even 1 month. Today, we are on the 30th of January. So it's just about a month old. So far, we've had good engagements with the leadership team but the integration process is now beginning. So as such, there's not been too much integration in the last 30 days. But yes, it's beginning to do that, point number one. So far, it's going smooth.

In terms of the strategic advantage to us, one is by virtue of this acquisition, we now service as 9 out of the top 10 publishers worldwide. So that consolidates our position as a dominant player in this space. TNQ has a very good technology platform, which augments our platform as well. So it expands the reach and the coverage that our technology basically provides, and then we can take the same thing to our customers.

The third is that they have several patents with them, and that gives us an edge as we take this platform and the patents to our customer base. And finally, of course, being powered in Datamatics, there's a lot of technology that we have within Datamatics, and we will certainly bring all of that to the table in the customer base that TNQ has. So that will give TNQ a significant advantage as well.

So that's in a nutshell where we are. Of course, finally, it gives us a larger presence in Europe. Our presence in Europe was not as deep in this space. But with this acquisition, we have a much bigger footprint in the European market.

Hemant Shah: Okay. Okay. Wonderful. And how do we differentiate ourselves with MPS? Or we are in the absolutely similar line of business, right?

Rahul Kanodia: Well, it is similar but I think what does differentiate us is the technology that we bring to the table because Datamatics is a very strong technology house, and it's a technology that we bring to the table that makes a difference.

Hemant Shah: Okay. Okay. But that means going forward, we'll be having a better margins for this Lumina plus TNQ put together?

Rahul Kanodia: As I said, they've come with a strong technology platform already. So they have very healthy margins. I think going forward, what will happen is we'll be able to provide more value-added services. So it's more from a value-add point of view rather than squeezing margins because they're a very efficiently run company already.

Hemant Shah: Okay. Wonderful. Wonderful. And secondly, if I may ask, I think the total revenue combined entities, Lumina as well as plus TNQ, I think last year, it is almost INR 700 crores.

Rahul Kanodia: Approximately.

Hemant Shah: Yes. And the profitability is, I think, INR 127 crores, right?

Rahul Kanodia: I don't have that last year data. Last year, TNQ was not part of our operation. But they are very profitable. I think that segment is running at about yes, 24%, 25% EBITDA.

Hemant Shah: Okay. Correct. So I mean, where do we see, Rahul, Lumina plus TNQ going forward for the next 3 years? I mean this is where we expect definitely a good growth. And personally, we feel the cross synergies and cross-selling opportunities are really there to unlock true potential of the combined entity.

Rahul Kanodia: Yes. So I think we are on a good wicket given that we are consolidating our position as a dominant player in that space. And this is a very sticky business. So I think it will maintain stability and stickiness with all the large customers. In fact, all the customers were very positive with this move. So it only reinforces our position with all of them. So I think we are well placed.

Moderator: The next question is from the line of Harsh Chaurasia from Vallum Capital.

Harsh Chaurasia: So basically, what I wanted to understand is basically in Q3 FY '23, we announced $85 million TCV win, which accounted for $70 million large deal, which was about to be executed in 3 to 5 years and the rest $15 million was about to be executed in 1 to 2 years. And I think in FY '23 only, we also had Delhi-Meerut Metro Station deal, the deal tenure was for 3 to 5 years. So what I wanted to understand is since then, so it's almost around 6 to 7 quarters but the incremental revenue is INR 217 crores, if I annualize your FY '25 number. So I wanted to know like what is the update on that deal. Like is it turning late or what is happening on that side?

Rahul Kanodia: Yes. So I'm not specifically recollecting the numbers that you're sharing but nevertheless, there's one large deal that I remember we signed. And then at the very early stage, we had some challenges on payment terms with the customer. And we were the ones who actually terminated that contract. And that was, I think, in November '23, if I'm not mistaken, $35 million, thereabouts. So there was a $35 million deal, which we did sign and then we exited that deal consciously because of the payment issues that we were having. So that was one.

The Delhi-Meerut project is going smooth. We continue to service them, and it is very much on track and we're going quite well actually. And along with the Delhi Metro, we had also signed around the same time, Kolkata Metro, RVNL that is, and that is also going smooth.

Harsh Chaurasia: One more question to understand Datamatics more better. So if you can just give me a broad bifurcation between of your total revenue mix, how much would be the discretionary and how much would be the legacy?

Rahul Kanodia: Discretionary -- I don't.

Harsh Chaurasia: So I'll just tell. So basically, discretionary deals, which are like Salesforce, you are working with hyperscaler or digital transformation deals, and legacy, which are like automation, the old like publishing type of the overall bifurcation between those two?

Rahul Kanodia: We would not have that data because we don't break it up that way.

Mitul Mehta: But most of our revenues are coming from Digital Technologies or not discretionary. I'm just using the words, which we typically use. It's Digital Technologies and then the legacy systems. But most of our revenues now are from the digital space. So we are now no longer bifurcating between what's my Digital Technologies share. Digital Technologies is a predominant share of revenue.

Moderator: The next question is from the line of Grishma Shah from Envision Capital.

Grishma Shah: Curious to know if you could highlight how Dextara has done. I believe it now be more than 12 months that Dextara is part of Datamatics. So over the last 12 months, how has Dextara performed? And particularly in this quarter, what has been the growth for Dextara?

Rahul Kanodia: Yes. So Dextara has been with us for 9 months now, 3 quarters. We've been able to cross-sell, as I mentioned in my address, about 5 new customers of Datamatics that we've been able to cross-sell Salesforce services. By and large, the company remains stable. Our sales cycle on an average is about 9 to 12 months. So it takes that long to really generate business.

So I think we are well placed. The team is stable. We've had no attrition challenges there whatsoever. So I think we are well placed but it's been stable. The growth has not been as aggressive as we thought it would be, and that's important to call out but we are not having any major problems.

Grishma Shah: So now is Dextara on path to do 30%, 40% kind of growth rates, which they used to do before we did the acquisition? Is it on that stellar growth run rate or we will take some more time as we are integrating?

Rahul Kanodia: No, we will take some more time. The integration exercise is fairly almost done another 2, 3 months and it will be over. The integration has gone up very smoothly. They have not crossed the 30% growth that we were expecting. But I think next year should be a better year because the pipeline is looking quite strong.

Grishma Shah: Okay. And the other question is on the revenue growth. While the revenue growth has been decent this quarter, given that the first 2 quarters of this year, we've struggled with our growth rates but margins have not inched up as anticipated. So what is the outlook on that? And also some color as to how the core business is going to shape up over the next 12 months, given that we are in the beginning of the year, how are the conversations happening? If you could provide some color.

Rahul Kanodia: So the margins have improved a little bit, if you notice. Yes. So having said that, we always have a spike in Q4. You would know that from our previous calls. And for that, we ramp up in Q3. So the ramp-up that happens in quarter 3 tends to dampen the margins a little bit and the benefits are accrued in Q4. But margin has been retained at a decent level. So I'm not too worried about the margin front. Having said that, yes, we have taken steps to do more and more automation and tighten our belts and that exercise, of course, continues. Your second question was?

Grishma Shah: Sir, if you could provide an outlook as to how each of our 3 business segments are shaping up now that you would have started conversations for the year, beginning of the new calendar year.

Rahul Kanodia: They're all looking good. We are right now in the process of doing our planning for the next year. Our year, as you know, begins 1st of April. So before the end of this quarter, we will certainly have all our plans in place and see that. Now the only sort of unknown element there is a little bit of the U.S. market, although it's looking very positive and upbeat. But with the new administration in place, one has to look at their outlook towards outsourcing, and they may come. The policies around that is a little unclear. So that is something that we still are observing. But generally, the mood is positive.

Grishma Shah: Okay. So we've kind of moved in a very good revenue range this quarter. Sequential growth of 5% is also good and 15% sales growth year-on-year. Both the numbers look really good. So is this kind of a run rate or the absolute number that we intend to clock over the next few quarters or there were certain one-offs in this quarter?

Rahul Kanodia: We will maintain a certainly healthy growth going into the next quarter. As I mentioned, the pipeline is looking good. But obviously, this December ending quarter is always a little soft quarter because the world goes to sleep, there's Christmas vacations, Thanksgiving vacations, all of that. So given that, I think we've had a good performance, and I think we'll continue a very healthy trajectory going forward. Yes, Q4 should be also strong.

Moderator: Sir, the participant got disconnected. The next question is from the line of Riddhi, a shareholder.

Riddhi: Congratulations on good numbers, first of all, sir. And my first question was actually regarding the EBITDA margin only, which you just answered. But I have another point of view on this question that from last 3 quarters, we have seen 13%, 12% EBITDA margins, whereas before that, we haven't seen such low margins for like 3 years. So first of all, what is the reason behind this? And can we actually look forward for good mid-teen margins from next year?

Rahul Kanodia: Yes. So we are in the process of little more tightening our belt. You're right that the last 3 years has been better. But I think as we tighten our belt in this quarter, we will see better margins in the next year.

Riddhi: Okay. Second question would be, sir, we all know the global cues regarding the sector, AI and everything, the DeepSeek, the problems created by China on U.S. also. I would like to know the management outlook on this and whether it will impact our company's operations and financials.

Rahul Kanodia: So the release from China of the new platform will not impact our margins or our performance. They certainly launched a very good product, no doubt. But there is a fair amount of skepticism right now. The largest consumer market is still the Western world and the Western world is very vary with China, with their IP rights and things like that. So I don't know where that will go.

As far as AI is concerned, as I mentioned even with my visit to Davos that it's a very optimistic outlook. Everybody is very excited about that, very positive about that. But the projects are still small. Customers are still experimenting with AI. So nobody has gone down the path of large projects and a big bang. So they're all flirting with it. They're experimenting with it, they're testing it and small projects are being done. I think it will be another 12 to 18 months by the time we see some sizable projects coming down the path of AI. But that's a new frontier of technology. And therefore, every company has no choice but to focus on that area.

Riddhi: Definitely, we believe that there is space in this sector for everyone. Last question would be, sir, that it's a very good positive point for our company about the partnership with Microsoft, Google and Salesforce. I just need to confirm and reassure as a shareholder that will this be continued for future, like how many years? And is there any plans to get business or anything like that?

Rahul Kanodia: Yes. So we are in dialogue with them for joint business and joint go-to-market. And we've had some very fairly decent traction with both of them. Both Google and Microsoft are leaders as far as the AI space is concerned. For the next 2, 3 years, easily, I see a stronger relationship building with them because the joint go-to-market will deliver the results. But they are the leaders in AI and that's what we are focusing on. So we do see a significant improvement in that engagement.

Mitul Mehta: I remind you that this is a technology partnership. It is where we get access to some of those cutting-edge technologies before it really hits the market and goes to a wider set of enterprises. So this relationship would give us the access so that we can build solutions for our customers on this and also jointly go to market with Microsoft and Google to some of the larger enterprises.

Moderator: We have a follow-up question from the line of Grishma Shah from Envision Capital.

Grishma Shah: Sorry, sir, I got disconnected. I also am keen to understand how are each of these 3 segments shaping up for us? And with the new acquisition getting consolidated for the full quarter, what kind of run rate are we expecting from that acquisition?

Rahul Kanodia: So the acquisition will consolidate next quarter. This quarter, we've not had any impact of that because we acquired it on the 31st of December. Going forward, so roughly the revenue stream of that company is about INR 285 crores or thereabouts. So that's what will get added on to our numbers next financial year. So therefore, if you look at that, we are talking about roughly INR 2,000-odd crores in revenue in next financial year on an overall consolidated basis, we've not yet baked in our growth strategies and growth plans, so that will come in.

Grishma Shah: Okay. So overall, on a consolidated basis, roughly INR 2,000 crores of sales for next year and INR 285 crores, particularly from this acquisition for the entire year. That's what you are saying?

Rahul Kanodia: That is correct.

Mitul Mehta: Roughly adding about $10 million (Please read this as approx. $8 million) on a quarterly basis.

Grishma Shah: Okay. And you mentioned the margins are 25% at the EBITDA level. Does it slow down equally well at the bottom line?

Rahul Kanodia: Yes, it slows down equally well, yes.

Grishma Shah: Okay. And can you give us some color as to how each of our segments are looking for the next financial year or calendar year, given that we've seen some challenges across 2 of the segments for sure, how things are shaping up?

Rahul Kanodia: No, I think that Digital Technologies and Digital Experiences are looking good. Digital Operations with this acquisition as it is get bolstered. So I think we are in a good place across the board or across all 3 of them.

Grishma Shah: Okay. And we also had some of our top clients scaling down. Are they back? Are they doing more business with us now? Or you see that possibility coming over?

Rahul Kanodia: Yes. So some of them are scaling up with us, and we see that happening already. So some of them did move some work to the captives but we also see them parallelly working with us and in fact, increasing their wallet share with us. So I think we are in a decent place.

Grishma Shah: Will it also be fair to assume that FY '26 would be a good year of consolidation and growth compared to one more M&A or you are still looking out for acquisitions?

Rahul Kanodia: So certainly, a lot of energy will be spent on the integration of TNQTech. We don't have any hot deals on the table. But yes, we are in touch with companies. We continue our dialogue. You never know what comes through. But yes, the focus will be more on the integration rather than going out and making several more acquisitions. Having said that, of course, we remain in touch with a few companies to keep exploring the market.

Moderator: The next question is from the line of Jyoti Singh from Arihant Capital Markets.

Jyoti Singh: Sir, just wanted to understand on the TNQTech side. Like currently, we are having 13% revenue contribution from Europe. So as you clearly mentioned, we'll be enhancing more on the Europe side because of the TNQTech. So going forward, what our expectation on the revenue contribution side, it will going to increase? And also any bigger client that we got access through TNQTech on the Europe side?

Rahul Kanodia: Yes, so we were already working with a large client. And their wallet share was larger than ours. And with this acquisition, we've further consolidated our position with that large client. So did we acquire any new logo versus the acquisition? Not really. It was more of a consolidation strategy rather than a new logo acquisition strategy. Their presence in Europe in this space, particularly digital content was stronger than ours. We were more focused on the U.S. They were U.S. and Europe. So this gives us a stronger presence now in the European market.

Jyoti Singh: Okay. And sir, just wanted to understand with the synergy of TNQTech, we are seeing any visibility to acquire more clients in Europe on a larger scale basis?

Rahul Kanodia: Because we have a stronger presence in Europe, of course, the acquisition of new customers naturally goes up. Of their revenue, 47% comes from Europe and 53% comes from the U.S. So, of the INR 285 crores that I mentioned earlier, you can roughly estimate about 53% from the U.S. and 47% from the European market. So it does give us a much stronger presence in Europe.

Jyoti Singh: Okay. And sir, another on the number side, like this time, exceptional item one-time in consol basis. So obviously, it will not going to be in the upcoming quarters. So like can you guide us on the top line and bottom line, what our expectations or how optimistic we are?

Rahul Kanodia: Yes. As you see, we had a good quarter, Q3, and Q3 is always a slow quarter, relatively speaking, globally for all companies. So given that, I think I'm quite optimistic about Q4 and then the next year as well. So, we don't typically give a very specific guidance around Q4 numbers. But yes, we are very optimistic about Q4.

Moderator: We have our next question from the line of Sanjay, an individual investor.

Sanjay: Congratulations on good revenue for this quarter. I guess this is the highest ever revenue given by the company. I mean you can confirm that but I think it's the highest revenue. The question is about seasonally, Q4 is the strongest quarter. So is that situation still stays? I mean, are you seeing the deals and the closures will be happening in Q4? Or there will be some spillover will go into Q1 and the revenue may get impacted?

Rahul Kanodia: No, I don't see revenues spilling over from Q4 to Q1. Deal flow will continue. I mean it's an ongoing everyday situation, yes. So there's no such pattern that you might see between quarters 3 and quarter 4. But revenues, I don't see any major spillovers.

Sanjay: Sure. But the seasonality, Q4 is going to be the strongest, right, better than Q3.

Rahul Kanodia: Traditionally for us, it has always been the strongest. And yes, that will continue. Well, also next quarter, you will also have a spike because of the TNQ consolidation of that quarter. But generally have a Q4 spike anyway.

Sanjay: And should there be any impact in margins because of the TNQ revenue or it will be in similar lines?

Rahul Kanodia: No, it will improve a little bit for sure. But it's only quarter 1 quarter. So it will not be huge but there will be a positive impact.

Moderator: The next question is from the line of Deekshant B. from DB Wealth.

Deekshant B.: Congratulations on the great numbers, sir. Sir, the first question is out of the 2 acquisitions that we have recently made, what was the contribution of these 2 acquisitions to our top line?

Rahul Kanodia: So the first one, Dextara contributed about $7 million to the top line on an annualized basis. TNQ has not impacted our top line because we will consolidate in Q4. Q1, technically, there was a consolidation of 1 day, which is really insignificant.

Deekshant B.: Okay. So on our core business, what has been the growth that we have registered for our core business?

Rahul Kanodia: So whatever growth you see is all the core business because like TNQ does not impact because it will come next quarter. And Dextara and Salesforce, we already had the Salesforce practice and that, as I mentioned earlier in one of the earlier questions, that will remain stable with some growth, not the 30% growth that we were expecting. So by and large, whatever growth you see is the core business of Datamatics.

Deekshant B.: I think you understand the line of thought process here is that what we are looking at is the 7%, 8% growth that we are seeing, what would be the contribution of the new acquisitions versus the stable business that we are having, sir? So that's the whole thought process here. Could you just shed some light on this, please?

Rahul Kanodia: So we had talked about a projection of about 4% impact with the Dextara and 4% organic growth totaling to about 8% for the year. That's what we had given in our earlier call.

Rahul Kanodia: Annualized basis.

Mitul Mehta: Not the quarterly basis. If you look at the quarterly numbers, quarterly growth Y-o-Y is about 15% and quarter-on-quarter is about 4.6%. and we are talking about a 4% impact on revenue top line through Dextara acquisition, which is now 9 months old, which is 3 quarters. TNQTech, that acquisition, the impact has not yet felt on any of the top line or the bottom line with a very, very marginal impact, if I have to put, which is for 1 day, which is negligible. What you will see from Q4 onwards, you will see a TNQTech impact on the quarter numbers.

Deekshant B.: Sir, what kind of growth do we think that TNQ can build us like in a year time?

Mitul Mehta: So TNQ will add a top line of roughly about $40 million (Please read this as approx . $33 million) in a year and about $7 million will come from Dextara. So purely from an inorganic, if you want to put it, then those 2 numbers you can add to the top line of Datamatics.

Deekshant B.: Wonderful. Sir, would this be margin accretive to us as in that would we be seeing better margin trajectory? Or do we think that the margins would be the same as TNQ is being amalgamated with the company?

Rahul Kanodia: It will be accretive. There will be margin improvement.

Deekshant B.: Okay. Sir, overall, what do you think are the growth drivers for us right now because we have done some inorganic acquisitions and the management has told us that we are still looking for more opportunities. So what is the growth driver for us going forward, how we can go from a single digit to double-digit number?

Rahul Kanodia: I think the key element would be really the investments that we are making, and we are hoping that some of them will start giving the results. The focus that we have on hyperscalers continues. And the engagements with all these hyperscaler big tech companies should give us results fairly soon. Also, the renewed focus, in fact, we are right now in the midst of relooking at our strategy and account penetration and some of those account penetration should give us a better market. Then finally, of course, we've also increased our penetration in the European market. So the increase in presence in Europe, account penetration and the hyperscalers, I think as a combination will give us the upside that we're looking for.

Deekshant B.: Okay. Sir, a follow-up on this is, so right now, from a lot of peers in the same domain, people are preparing for an up cycle and up cycle is being seen. Sir, do you think that in, let's say, 6 to 8 quarters from now, we can see a top line growth of 20% plus?

Rahul Kanodia: A lot of it depends on some of the newer technologies that are now coming out into the world, particularly around AI. I think the jury is still out as far as that technology platform is concerned. I think in the next 6 to 12 months, you'll get a much better visibility as to what's happening in that space. The basis that we'll be able to be more confident talking about those kind of growth numbers.

Deekshant B.: Sure, sir. Sir, last question is on U.S. versus Europe. Sir, do you see better spending happening in Europe still? Or is it much more of a competitive market than U.S. because like the economy of U.S. versus Europe, there are quite significant differences, right?

Rahul Kanodia: Yes. So the U.S. is much more vibrant as a market, certainly a much faster decision-making larger deals. Europe is having their own set of economic challenges. So I wouldn't say it's more competitive but they are having a lot of pressure because of the current soft economy that we see pretty much across Europe. So in that sense, it is a softer market than the U.S. Our focus is therefore going to be more on the U.S. than in Europe. Of course, having said that, it's still a better market than India or the Middle East or some of the other parts of the world.

Deekshant B.: Of course. Sir, just a last follow-up, sir, current, if you can just give even ballpark figures that what are we expecting post amalgamation, what would be our revenue share from U.S. and Europe, even if you could with any sort of timeline that you feel comfortable?

Rahul Kanodia: Yes. I think if you -- right now, our U.S. share is about 53%. Europe is about 23-odd percent. So together, I think that's 75%, 76%.

Rahul Kanodia: Yes. And 23% is India. That should go up to upwards of 80%, 85% with the acquisition of TNQ. So Europe and U.S. will both increase.

Deekshant B.: A major part of this will be U.S. or Europe?

Rahul Kanodia: 53% of that is U.S. and 47% is Europe. So major part will be U.S.

Ankush Akar: So broadly, from a revenue mix perspective, the U.S. will remain in the same range of 53%, 54% at overall level. Our Europe mix will go up with the TNQ acquisition, and that is what we will see from the next quarter.

Deekshant B.: Are we looking to acquire more?

Rahul Kanodia: As I said, we continue to be in dialogue with some companies, nothing serious. Right now, our focus will be more on integration of this company rather than acquisition. But yes, we continue some dialogue here and there.

Moderator: We have a follow-up question from the line of Hemant Shah from Seven Islands PMS.

Hemant Shah: I have 2 questions again. We have been spending, a lot in terms of technology since last maybe 1.5, 2 years, right? Maybe a newer technology, AI, you have been speaking on every call, right?

Rahul Kanodia: Yes.

Hemant Shah: So I mean, is this spending of last maybe 1.5, 2 years is going to yield positively in terms of EBITDA margins going forward? And what would be the quantum, which we are burning actually?

Rahul Kanodia: Yes. So we have mentioned in earlier calls that we are burning roughly about INR 40 crores to INR 50 a year on this technology. And that right now continues. We are still very hopeful of seeing the ROI on this investment because these are investments on all the latest technologies that we've been talking about, the whole area of intelligent document processing, IDP, robotics and now Agentic AI. So all of these technologies are critical for future growth because that's where the wave is and not being at the forefront of cutting-edge technology, you can be relegated and become obsolete very, very fast. So that will continue.

And now I think some of these technologies are maturing, even generative AI for the last few years has made a lot of buzz but it's beginning to mature and you can see that maturity coming in. So yes, we are still very hopeful of getting a good ROI on those investments.

Hemant Shah: Wonderful. But quantum , this spend is going to continue for even the current year, FY '26 as well, same quantum? Or I think, as you said, the maturity level has reached, I think the quantum would be lower?

Rahul Kanodia: No. The investments will continue. Hopefully, we'll get better deals, more deals than the larger deals but the investments will continue. Because this area of technology is moving very, very fast in multiple different directions. And any slowdown, then we will certainly fall back and we do need to keep pace with the current market. Particularly, the U.S. and China are way ahead as far as this technology is concerned. And it's important that we somehow keep pace with those guys to be able to adopt it.

Hemant Shah: Okay. So what would be your expectation of the ROI on this spending, Rahul, if I may.

Rahul Kanodia: I think another 1 year will give us a very good picture. In 12 months from now, we'll be in a very good place to know because by then, we have really matured and we would have started seeing a decent deal flow coming in.

Hemant Shah: Yes. Why I'm asking is because this is going to play a very critical role in improvement of the margin overall besides TNQ, right?

Rahul Kanodia: That's correct.

Hemant Shah: TNQ and \ Lumina Datamatics are the 2 entities, which are yielding almost 23% to 25% EBITDA margins. And the other part of the business, which is almost INR 1,500 crores of the business, which is yielding negligible margin, I would say, on a stand-alone basis, if you see. So I'm just trying to do a math. If the margins are going to improve, what would be a good margin where you will be satisfied technologically as well as I think, even after adoption of the AI in your whole organization?

Rahul Kanodia: So if you look at the mid-teens, it's certainly very, very doable.

Hemant Shah: Okay. Because if I do a pure clear math, we have done an EBITDA of INR 250 crores last year, INR 246 crores precisely. And the TNQ is going to be added for the next year and which is yielding 25% EBITDA, okay, on a top line of Indian rupees is around INR 290 crores, which is almost INR 70 crores. So INR 320 crores is the EBITDA, which is coming actually on a turnover of INR 2,000 crores, which is already having an EBITDA margin of 16%. So on and above that, what kind of delta we can expect by the spend of this AI, which we have been investing?

Rahul Kanodia: That's what I'm saying. So a lot of the AI projects and the technology projects today are still small pilots. They're still experimenting. The larger deal flow has not yet started. But certainly, when we compare ourselves with some of our other competitors, we are absolutely at the cutting edge of where technology is. So, I'm very optimistic about the deal flow coming in as this technology matures. We are still waiting for the larger deal flows to come in, but we are seeing the maturity coming in already. So, wo years, they've all sort of flirted with it. They get a better sense of where it's going and how to deploy it. So I'm quite optimistic as to next year should be a good year in that space. Now if you're asking for a very specific number, I don't know because I don't have a buzz of who is going to take what decision.

Moderator: Thank you. Ladies and gentlemen, that would be the last question for today. And I now hand the conference over to the management for closing comments. Over to you, sir.

Rahul Kanodia: Thank you, everyone, for being on the call with us today. Once again wish you a very Happy New Year and look forward to meeting you in the next quarter. Thank you for being on the call.

Moderator: Thank you. On behalf of Datamatics Global Services Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.

Note: This transcript has been edited for readability and does not purport to be a verbatim record of the proceedings.