

DATAMATICS

“Datamatics Global Services Limited

TNQTech Acquisition Call”

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DATAMATICS



MANAGEMENT: MR. RAHUL KANODIA – VICE CHAIRMAN AND CHIEF EXECUTIVE OFFICER – DATAMATICS GLOBAL SERVICES LIMITED

MR. SAMEER KANODIA – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – LUMINA DATAMATICS

MR. ASHISH JAIN – CHIEF FINANCIAL OFFICER – LUMINA DATAMATICS

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

Moderator: Ladies and gentlemen, good day and welcome to the Datamatics Global Services Limited discussion on acquisition of TNQTech Private Limited done by Lumina Datamatics. As a reminder, all participant lines will remain 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 the operator by pressing star then zero on your touchtone telephone.

Please note that this conference is being recorded. I will 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, Ryan. Good afternoon to all participants and thank you for joining us in this call. This call is to discuss Lumina Datamatics acquisition of TNQTech Private Limited.

The press release has been already mailed to you and you can also view it on our website www.Datamatics.com. It is also uploaded on stock exchanges. We would recommend sticking to the questions only related to the acquisition that is a request.

To take us through the conference and answer your questions, we have with us the top management of the company, represented by Mr. Rahul Kanodia, Vice Chairman and CEO of Datamatics, Mr. Sameer Kanodia, Managing Director and CEO of Lumina Datamatics, Mr. Ashish Jain, CFO of Lumina Datamatics. Rahul will start the call with opening remarks, which will be then followed by Sameer, who will give brief update on transaction and then Ashish will share the financial details, after which we will open the floor for Q&A session.

As usual, I would like to remind you that anything that is said on this call, which gives any outlook for the future or which can constitute 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'll now hand over the call to Mr. Rahul. Over to you, sir.

Rahul Kanodia: Thank you very much, Pratik and good afternoon to all of you attending this call. The agenda for today's discussion is focused solely on the acquisition of the TNQTech. I'm delighted to share that this significant milestone in our digital content business under Lumina Datamatics, a subsidiary of Datamatics Global Services.

This acquisition aligns perfectly with our growth strategy, bolstering our position in the digital content services ecosystem and paving the way for an expanded opportunities and growth. Global data is following the Moore's law, which is doubling every two years. 90% of the world's content has been created in the last two years and by the next year, which is 2025, we will be generating about 175 zettabytes of data per annum, and that is one zettabyte is one billion terabytes. It gives you an idea of the magnitude of the explosion of data. Therefore, it becomes important for us to consolidate our position and take advantage of this growth opportunity. To

provide further details about this acquisition, I will invite Mr. Sameer Kanodia, Managing Director and CEO of Lumina Datamatics. Sameer, over to you.

Sameer Kanodia:

Thank you, Rahul. Good afternoon, everyone, and thank you for joining us today. I am pleased to announce a significant milestone for Lumina Datamatics, the acquisition of TNQTech, a leading player in the digital publishing industry with a strong track record of delivering value to blue-chip clients. TNQTech operates in the high-value niche market of scientific journals, an area known for its resilience, consistent demand, and growth potential.

Over the past five years, TNQTech has delivered a growth of CAGR of 10.2%, demonstrating its operational strength and market relevance. In FY23-24, the company achieved revenues of INR281 crores, and in H1 of 24-25, revenues already stand at INR148 crores, a solid indicator of sustained momentum. What makes this acquisition particularly compelling are TNQ's multiple patents across India, the US, and Europe, which underscore its innovative approach to content enrichment and technology-driven solutions. With this acquisition, Lumina Datamatics is strategically positioned to achieve global leadership in the content services space with the following key advantages for our investors.

Strengthened market leadership: We will now serve nine of the ten largest publishers worldwide, reinforcing our market dominance. **Geographical expansion.** This acquisition expands our presence in Europe and the UK from 18% to 33%, providing a more balanced geographical portfolio and access to new revenue streams and untapped opportunities.

Cross-selling synergies: TNQTech's expertise in journals complements Lumina Datamatics' leadership in books, unlocking significant cross-selling opportunities and revenue diversification.

Enhanced product and technology portfolio: Together, we will broaden our offerings, driving greater value for our global client base.

Increased scale and capabilities: Our combined headcount of 6,500 employees positions us for operational excellence and delivering at scale.

Strategically, this acquisition will accelerate growth, enhance profitability, and solidify our dominance in the market as a global content service provider. The integration of TNQTech will follow a phased approach to ensure seamless alignment across operations, technology, and sales. Our immediate focus is on realizing cross-selling opportunities, streamlining technological capabilities, and building a unified growth roadmap to drive value for our shareholders. In today's fast-evolving digital content ecosystem, this acquisition sets Lumina Datamatics on a clear path to deliver sustainable growth and long-term value. I want to thank the Lumina Datamatics team for their unwavering dedication, which has enabled us to achieve this important milestone.

With that, I'll now hand over to Ashish Jain, CFO of Lumina Datamatics, who will take you through the financial details and expected impact of this acquisition. Over to you, Ashish.

Ashish Jain: Thanks, Sameer, and good afternoon, everyone. TNQTech has demonstrated a track record of strong financial performance and operational excellence. For the FY'23-'24 TNQTech reported a revenue of INR281 crores. And in the current financial year, which is '24-'25, ending 30 September '24, first half, TNQTech achieved INR148 crores in revenue, with an impressive EBITDA margin range of 25% and EBIT margin range of 23%.

Talking on the revenue mix, 53% of the revenue of TNQTech comes from US market and 47% comes from Europe and UK, ensuring a well-diversified global presence. I'm just sharing some of the acquisition details. So Lumina Datamatics will acquire 80% of TNQTech by 31st December 2024 for a total consideration of INR336 crores. The remaining 20% will be acquired by 31st July 2026 contingent upon performance-linked metrics, ensuring alignment of growth and value creation. This acquisition enhances our scale, profitability, and market reach, driving greater value for our investors.

With that, I will now hand over to the moderator for the Q&A session. Thank you.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. The first question comes from the line of NGN Puranik from Enam AMC. Please go ahead.

NGN Puranik: What this acquisition will achieve? In terms of capability buildup, new capability that is going to be build up from expansion?

Rahul Kanodia: So, very quickly, geographic expansion will increase our footprint in Europe in particular. Our European footprint today is about 12%. It will go up to 17.5%. US will remain where it is. India will shrink proportionately from 21% to 18%. That's from a geography point of view. From a technology point of view, this company has a very robust platform on which they provide services, and that enhances our capability to provide better technology-based services to the customers that we have.

EBITDA is accretive, as Ashish mentioned. We have 25% EBITDA for this company, so therefore there's a net impact on the company. Overall, we will see 150 basis points to 200 points impact on overall Datamatics numbers, and revenue will be about 18% roughly, if you look at the current data, if you analyze it.

So, the real reason to acquire was that it consolidates our position in the digital content space, and as Sameer mentioned, that we will be servicing nine out of the top 10 customers, so that puts us in a very strong position in this space. In every market segment that we choose to operate, the agenda is how do we start dominating that space, so this is part of that strategy. Puranikji, I hope I could hear you and answer your questions correctly.

Moderator: Thank you. The next question comes from the line of Aruna Ganesh from ICRA Limited. Please go ahead.

Aruna Ganesh: Thank you for this opportunity. I just wanted to ask that this acquisition, how do we plan to fund it?

Rahul Kanodia: Ashish, maybe you can talk a little bit about it.

- Ashish Jain:** So, we will fund it with a combination of internal accruals and some borrowings.
- Aruna Ganesh:** Okay, internal. Any specifics on the numbers if possible?
- Rahul Kanodia:** The borrowings will be roughly in the range of INR100 crores-INR150 crores, so therefore, the debt equity ratio is insignificant in our books.
- Aruna Ganesh:** Okay, and the rest through accruals?
- Rahul Kanodia:** Yes, that's right.
- Aruna Ganesh:** Okay, and any idea on the repayment as in over a period of how many years will the repayment run through?
- Ashish Jain:** It will be over a period of four years.
- Aruna Ganesh:** Four years, okay. Yes, thank you. That's about it.
- Moderator:** Thank you. The next question comes from the line of Pratap Maliwal from Mount Intra Finance. Please go ahead.
- Pratap Maliwal:** Yes. Hi, thanks for taking my question. I just wanted to understand our acquisition a little bit better. You said that the company that we've acquired kind of operates in a high-value niche market. So, can you throw some more light on this and what the expected growth in this area is? Because the CAGR over the past five years, I think, has been about 10%. So, where do we see this going ahead?
- Sameer Kanodia:** Yes, the world of content is growing. It's growing at about 10%, which is a very healthy growth from the industry standpoint. We cater to some of the largest publishers. As I said, we have nine of the 10 largest publishers as our customers. The business is also very sticky in that sense. So, I don't think there will be issues to us from a growth standpoint.
- Pratap Maliwal:** Okay. And you said that their expertise complements ours. So, can you help me understand those synergies a little bit better?
- Sameer Kanodia:** So, we've got multiple divisions, and they are, in some sense, complementary skills and complementary services that we provide. They also have a good, strong technology front similar to ours, and we will be able to cross-utilize the technologies to increase efficiencies and perhaps even increase revenues.
- Rahul Kanodia:** In the publishing space, if you go into details, there are multiple sub-segments. TNQ focuses more on the journal side. Datamatics Lumina focuses more on the book side. And therefore, the combination of them is really complementary, and we don't encroach on each other. In fact, it augments. They complement each other.
- Pratap Maliwal:** Okay. Now, just one thing. We gave the breakup, right? The revenue and EBITDA breakup for FY '24 for our acquired company. What is the breakup, for example, for Lumina Datamatics? What are those corresponding numbers?

- Ashish Jain:** Lumina Datamatics margin is also in the range of 25%. And the revenue of Lumina Datamatics for FY'23-'24 was INR406 crores. And for the H1FY25, revenue of Lumina Datamatics is INR215 crores. And EBITDA is in the range of 25%.
- Pratap Maliwal:** Okay. Thank you. And just one last question. Could you please repeat? The line was a bit muffled for the previous participant. I couldn't actually get it. The expected benefit on our EBITDA margin and how it changes the geography next. Could you please repeat? That's my last question. Thank you.
- Rahul Kanodia:** So, on an overall basis, the US will remain at 55%. Our European footprint will grow from 12% to 17.5%. And India will shrink from 21.5% to 18.2%. And this is in line with our focus on America and Europe. And in terms of an overall impact on revenue, it's roughly about 18% of top line and an EBITDA impact of 150 basis points to 200 basis points.
- Pratap Maliwal:** Okay. EBITDA impact of 150 basis points, right?
- Rahul Kanodia:** Yes. That's on an overall consolidated basis.
- Moderator:** The next question comes from the line of Neil Shah, an Individual Investor.
- Neil Shah:** Just a quick question. Would it be fair to consider MPS Limited as a Peer here?
- Rahul Kanodia:** That is correct. Yes. MPS is a competitor.
- Moderator:** Thank you. The next question comes from the line of Manan Shah from Moneybee.
- Manan Shah:** Can you throw some light on how or whether we will be integrating the teams of Datamatics Lumina as well as the acquired company? And would there be any sort of synergies or cost savings that can happen once the synergies and both the companies are aligned?
- Sameer Kanodia:** So in terms of the integration is concerned, this will happen slowly and steadily. We will integrate our operations team, our support teams, our sales team, marketing team, technology team. So there will certainly be synergies. But this will happen over a period of time. These things won't happen overnight.
- As far as the Datamatics group is concerned, we've had several acquisitions in the past. And even for Lumina Datamatics, we've had a couple of acquisitions. And we've done this very seamlessly without losing customers or for the matter the leadership team in either of the organizations.
- Manan Shah:** Right. And would there be any cross-selling opportunities?
- Sameer Kanodia:** Yes, there will be cross-selling opportunities as well across customers, across geographies, across divisions.
- Manan Shah:** Okay. So was there any high customer overlap over here or it's totally new customers that we will be getting into this acquisition?

- Sameer Kanodia:** Well, the bulk of your customers will be new. There won't be much of an overlap.
- Moderator:** The next question comes from the line of Neil Shah, an Individual Investor.
- Neil Shah:** Slightly unrelated, but you had spoken about a tie-up with Google on the last con-call. Any updates on that?
- Rahul Kanodia:** That's, yes, nothing to do with this. I'll just mention very briefly that's going well. We are now in active dialogue in the US with them as well. But since this call is focused on this acquisition, I would come back to this. And we can certainly talk offline on that.
- Moderator:** We have a follow-up question from the line of Pratap Maliwal from Mount Intra Finance.
- Pratap Maliwal:** Thanks for letting me back in the queue. when I'm looking at the press release, so that we work with publishers, what is the service that they actually provide you and how does kind of our acquisition, what is the actual offering that we get to our publisher? What is the service that we provide you that's what I'm trying to understand?
- Sameer Kanodia:** We provide digital content services to different verticals. We cater to the world of journals, the world of books, the world of education, the world of content on the web and so on and so forth. So we're providing digital content services across the globe. Some of our customers include 9 of the 10 largest publishers worldwide and 3 of the 5 largest e-commerce companies worldwide.
- Rahul Kanodia:** So we get into the creation of the content and then, you've got to put technology behind it so that it's available on the net and a lot of that type of technology that goes behind for online publishing as well as offline publishing.
- Pratap Maliwal:** Okay, so when it comes to areas like generation of content and things like that then what is the possible impact is either positive or negative from new age, technological disruption from GenAI and could you shed some light on that?
- Rahul Kanodia:** Yes, so GenAI certainly is going to be generating a lot of content. We are using some of it ourselves to improve our productivity and also to enhance it. We do have to be a little careful about IP protection and those kinds of issues because GenAI is fraught with those risks, but yes the bottom line is we are using technology ourselves to deliver to our customers including GenAI, but we have to be a little cautious in terms of any IP violations, but it's helping us a lot in productivity right now.
- Pratap Maliwal:** Okay. Thanks a lot.
- Moderator:** Thank you. The next question comes from the line of Sagnik from Pune E Stock Broking Limited. Please go ahead.
- Sagnik:** Hi, thanks for the opportunity. Most of my questions have been answered. However, I wanted to understand if our clients could include universities, educational institutions. I mean if in case that would be the case then how sticky would the client be?

Sameer Kanodia: So some of our customers do include the world of academics. We do cater to the world of universities as well. By and large, the business is sticky in nature. I unfortunately can't mention customer names on this call. Keeping confidentiality in mind.

Sagnik: So for the company that you acquired, which sector would the client base be the highest on?

Sameer Kanodia: So they cater to the world of scientific journals. And that's where the bulk of the revenue comes from. And that is in some sense complementary to Lumina Datamatics capabilities. We cater to the world of journals as well, but our portfolio in the journal space is a lot smaller relative to TNQ.

Sagnik: Okay, understood. Thank you very much.

Moderator: Thank you. As there are no further questions, I would now hand the conference over to the management for the closing comments.

Rahul Kanodia: Thank you everyone for being on the call. We are very optimistic and bullish about this acquisition and I'm sure it will all go well for Datamatics. I'm looking forward to speaking to you again at the end of next quarter. Once again, thanks for being on the call and wishing you a Happy New Year in advance. Thank you very much.

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