

## Latent View Analytics: Decision Point acquisition strengthens RetailCPG presence; Buy

Rating: **Buy**

Target price (12-mth): Rs. 630

Share price: Rs.508

- Acquired 70% stake in analytics company Decision Point for \$39m (4.4x EV/sales FY24e), with the balance 30% to be acquired in FY27.
- Decision Point (FY24 revenue: \$12.8m, +19% y/y, EBITDA margin 30%) is strong in the RetailCPG vertical in LatAm, the US and India. Offerings are on the revenue side- demand forecasting, pricing analytics, personalisation and market segmentation.
- Adds new capabilities to LatentView, with no major client overlap. Decision Point brings more Fortune 500 companies as clients.
- To be fully integrated from Q2 FY25.

Key financials (YE Mar)	FY22	FY23	FY24e	FY25e	FY26e
Sales (Rsm)	4,078	5,388	6,417	8,944	11,253
Net profit (Rsm)	1,295	1,554	1,571	1,814	2,317
EPS (Rs)	6.8	7.6	7.6	8.7	11.2
PE (x)	81.4	67.8	67.1	58.1	45.5
EVEBITDA (x)	77.5	65.0	69.7	43.7	33.6
PBV (x)	10.3	8.7	7.7	7.2	6.5
RoE (%)	17.7	13.9	12.2	12.8	15.1
RoCE (%)	12.3	9.8	7.5	9.6	11.4
Dividend yield (%)	-	-	-	0.8	0.8
Net debt/equity (x)	-0.9	-0.9	-0.9	-0.7	-0.6

Key data	LATENTVI IN
52-week high / low	Rs545 / 320
Sensex / Nifty	73651 / 22327
3-m average volume	\$7m
Market cap	Rs105bn / \$1253.5m
Shares outstanding	206m

Shareholding (%)	Dec'23	Sep'23	Jun'23
Promoters	65.4	65.7	65.7
- of which, Pledged	-	-	-
Free float	34.6	34.3	34.3
- Foreign institutions	2.5	2.6	1.8
- Domestic institution	2.5	1.6	1.7
- Public	29.6	30.1	30.8

**Mohit Jain**  
Research Analyst

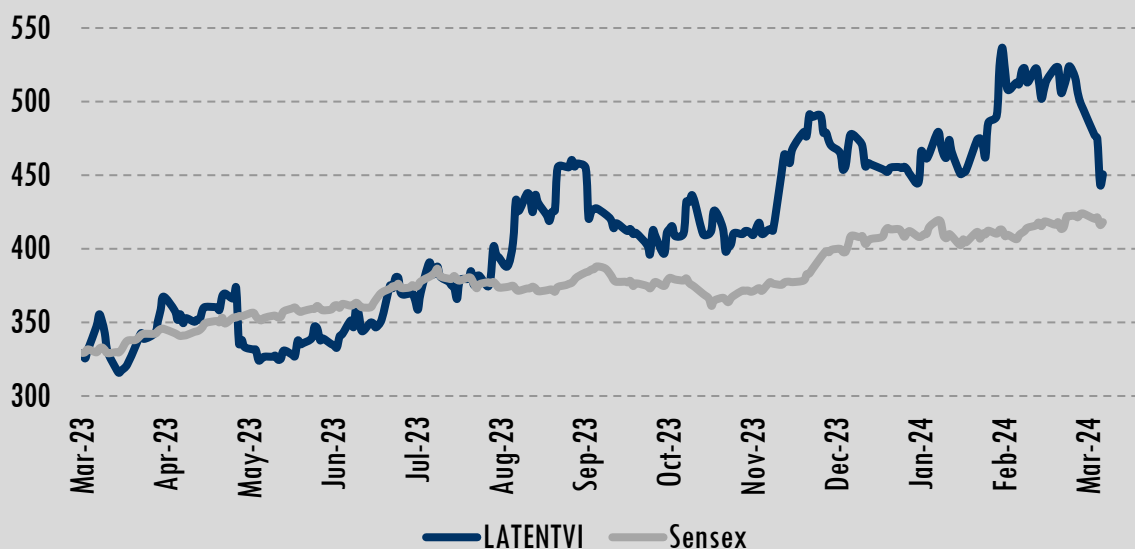
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Research Associate

# Latent View Analytics - Decision Point acquisition strengthens RetailCPG presence; Buy

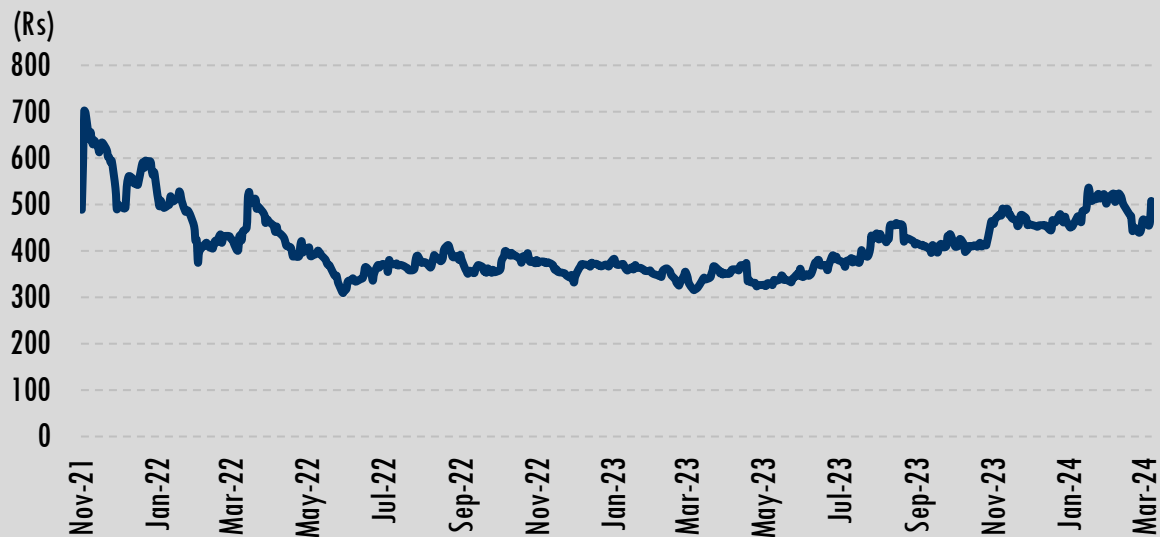
Decision Point's FY24 revenue is ~\$12.8m, growing at ~50-60% CAGR. The company grew 19% in FY24, with 30% EBITDA margin. LatentView's 70% stake in it is valued at \$39.1m, ~4.4x EV/sales (FY24e) and 21x PE (FY24e), on a no cash/debt basis. LatentView has ~\$147m cash reserves as of FY24, and therefore would have balance of ~\$110m after the payout. The remaining 30% stake would be acquired by Q1 FY27, although we have assumed associated outflow in FY26e. The acquisition will add 17% to LatentView's revenue, with the consolidated entity reaching \$108m in FY25e. Decision Point operates almost entirely offshore and hence is more profitable. The integration would result in a meaningful change in FY25e and FY26e, although the EBIT increase is slightly less due to our assumptions around amortisation. PAT may not see a meaningful change due to loss of other income. We maintain a Buy, expecting synergies beyond FY26 to be reflected in the higher multiple, and revise our TP to Rs630 (from Rs585), 53x FY26e EPS.

- **Retail CPG to become the second largest vertical.** LatentView will gain foothold in the RetailCPG vertical; in areas of revenue growth management and supply chain along with Fortune 500 clients with minimal overlap. In addition, Decision Point derives ~8% revenue from Beagle GPT (the GenAI app used by Fortune 500 RetailCPG clients for analytics), which offers non-linearity. After the integration, RetailCPG will become the second largest (20% of revenue by FY25e) vertical for the company.
- **New clients, regions and RetailCPG offer diversification benefits.** LatentView has strong presence in the US (95% of revenue), in Hi-Tech (71%), but few clients (the top-5, 63%). Decision Point will bring new large clients in the non-Hi-tech vertical (RetailCPG), and in new regions- LatAm (the clients are largely US firms and are billed in \$) and India. LatentView will become more diversified and resilient by FY25. Decision Point, being a higher margin business, can play a role in expanding LatentView's margins. The acquired entity will add >300 skilled professionals to the current workforce.
- **Retain a Buy.** We now expect 32%/44%/25% revenue/EBITDA/PAT CAGRs for LatentView over FY24-26. By FY26, we expect the EBITDA margin at 24.9% (21.1% in FY24). The stock now trades at 45x FY26e EPS, which we still find attractive. Our TP is based on 53x FY26e EPS, which reflects the high-growth phase and smaller size of the company. Risk: First large M&A integration for the company.

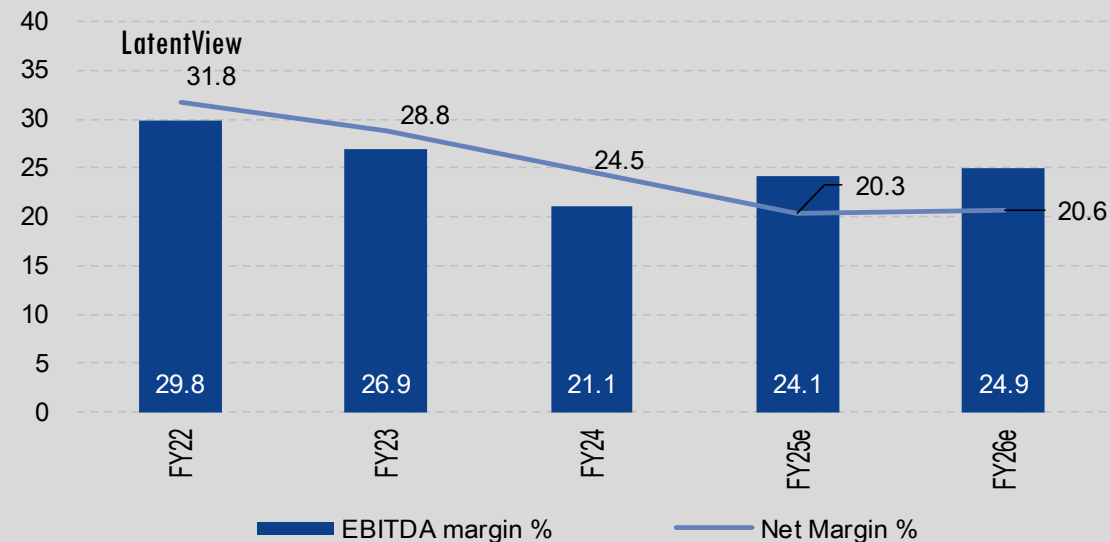
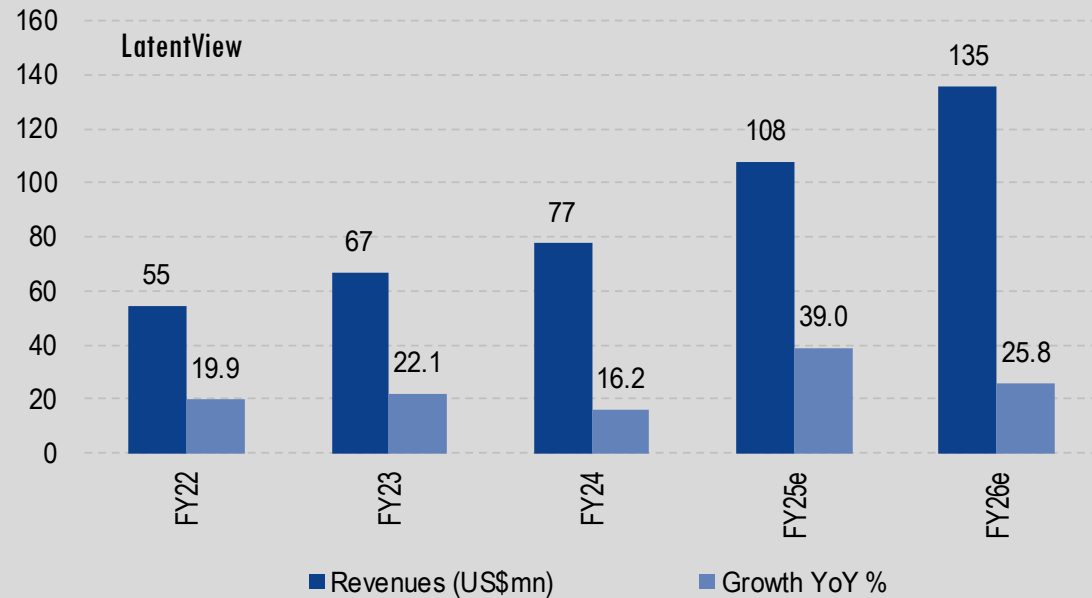
Relative-price performance



Price movement



# Conference call takeaways



- Decision Point brings in complementary offerings and clients. There is just one common client between the two companies and hence, cross-selling opportunities are significant.
- The two companies' client profile is similar with Decision Point also having Fortune 500 clients, just like LatentView.
- Revenue per employee of Decision Point is low at ~\$43,000 pa compared to LatentView's \$65,000. Management believes that this is because the latter operates ~80% offshore, compared to Decision Point's 95%. Also, their US business contribution is lower at ~30%.
- Decision Point's product, Beagle (revenue of \$1m) is finding early success in the RetailCPG vertical, but LatentView believes that the product can be used in other industry verticals as well, thereby offering synergy and non-linearity opportunities.
- Beagle helps B2B users of analytics and decision-makers, which would add to GenAI revenue for LatentView.
- LatentView is expected to complete the transaction by mid-Q1 FY25, hence the full benefit of integration would be seen by Q2.
- LatentView intends to retain Decision Point's top management. Mr Ravi Shankar, the founder and CEO of Decision Point will lead the combined RetailCPG vertical for LatentView.
- There are incentives for Decision Point to achieve its business target for the earnout along with incentives to achieve its RetailCPG vertical target as that's the core rationale behind this acquisition.
- While EBITDA margin is likely to go up, we have made certain assumptions on amortisation and on loss of other income, which may keep net margin expansion under check over the next two years. Since most of these are fixed costs, the flow-through of higher EBITDA margin to higher net margin would be seen after FY26. This is one of the reasons for ascribing a higher target PE.

## Conference call takeaways

- For Decision Point, growth in CY21-22 was due to expansion in Latin America. However, FY24 growth has been driven by the US, which grew from \$500,000 to \$3.5m. The company is finding success in the US.
- Gross margin for both the businesses is comparable; the offshore business of LatentView is in line with the acquired company.
- Decision Point has made huge investments in the product development team of BeagleGPT, which has resulted in lower margins and possible tailwind as the product achieves higher revenues.
- LatentView is evaluating more M&A opportunities and will be closing them after Decision Point is integrated.

# Factsheet

## Revenue-split, by industry

(%)	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Technology	69.0	70.3	67.5	69.2	71.2	71.3
Retail & CPG	11.3	8.9	10.5	9.7	8.4	8.6
BFSI	8.5	8.9	7.7	7.5	6.7	7.6
Others	11.2	11.9	14.3	13.6	13.7	12.5

## Revenue-split, by region

(%)	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
North America	95.0	95.1	95.1	96.5	95.4	94.5
Continental Europe	2.2	3.5	2.2	0.3	1.3	2.2
RoW	2.8	1.4	2.7	3.2	3.3	3.3

## Client concentration % (LTM)

	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Top 5	59	59	57	60	63	63
Top 10	72	72	71	73	76	76
Top 20	87	87	88	90	92	90

## Operational performance

	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
<b>Growth, by vertical (Y/Y)</b>						
Technology	30.4	28.9	22.0	17.3	17.9	14.4
Retail & CPG	11.7	-27.1	-39.1	10.9	-15.1	8.9
BFSI	33.3	41.9	23.9	17.1	18.3	9.0
<b>Growth, by key regions Y/Y</b>						
North America	29.9	22.9	10.5	18.4	14.7	12.0
Continental Europe	-5.7	43.3	21.4	-85.4	-32.5	-29.1
RoW	20.0	-14.0	-0.7	43.5	34.6	165.8

## Client profiles (LTM)

	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
<b>Client profiling</b>						
< Rs 50m	39	41	38	44	45	38
Rs50m+	19	20	22	21	23	23
Rs100m+	10	10	10	13	14	14
Rs500m+	2	2	2	3	3	3
<b>Client additions (LTM)</b>						
< Rs 50m	-	-	1	5	6	(3)
Rs50m+	-	-	3	4	4	3
Rs100m+	-	-	2	4	4	4
Rs500m+	-	-	-	1	1	1
Active Clients	58	61	60	65	68	61
Client additions	2	3	-	5	3	(7)

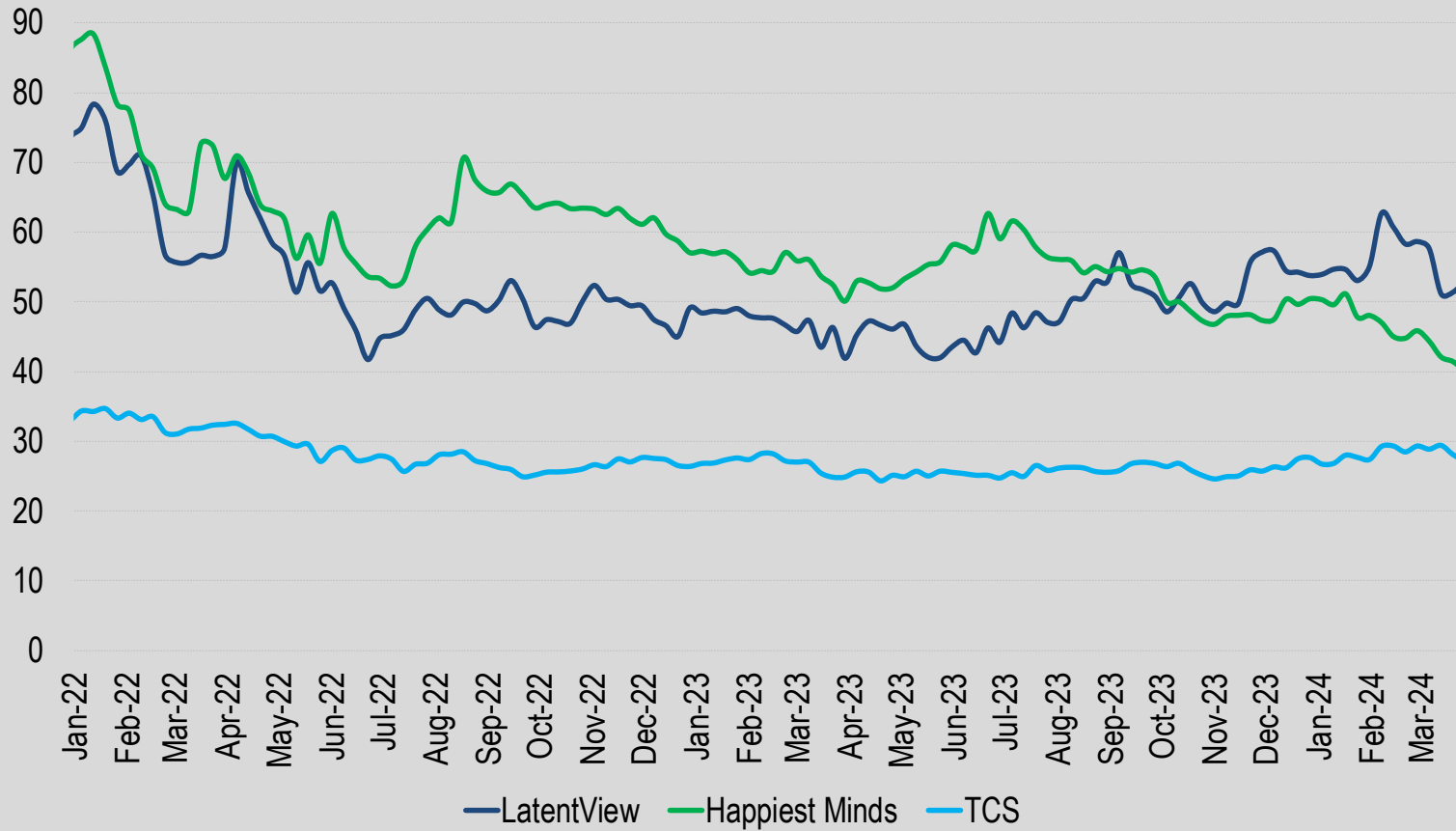
# Estimates revision: Raise revenue by 13%/15% and EBITDA by 19% each for FY25 and FY26

(Rs m)	FY24			FY25			FY26		
	New	Old	% Change	New	Old	% Change	New	Old	% Change
Revenues (US\$m)	77	78	(0.4)	108	95	12.9	135	117	15.3
Revenues	6,417	6,446	(0.4)	8,944	7,939	12.7	11,253	9,776	15.1
EBITDA	1,353	1,364	(0.8)	2,156	1,816	18.8	2,804	2,361	18.8
EBITDA margin %	21.1%	21.2%	-8 bps	24.1%	22.9%	124 bps	24.9%	24.1%	77 bps
EBIT	1,256	1,267	(0.9)	1,862	1,716	8.5	2,428	2,261	7.4
EBIT margin %	19.6%	19.7%	-9 bps	20.8%	21.6%	-80 bps	21.6%	23.1%	-155 bps
PBT	2,008	2,019	(0.6)	2,512	2,628	(4.4)	3,245	3,305	(1.8)
PAT	1,571	1,580	(0.6)	1,884	1,971	(4.4)	2,434	2,479	(1.8)

## Key estimates and changes

- Factoring in Decision Point's acquisition from Q2 FY25, we raise our FY25e/FY26e revenue estimates respectively 12.9%/15.3% and EBITDA by 18.8% for both years. DP is operating at a higher margin and the integration should benefit LatentView's margins.
- We expect LatentView to post 32% revenue CAGR over FY24-26, with 44% EBITDA and 25% PAT CAGRs.
- We expect it to deliver a margin of 21% in FY24 (vs. 22% in Q3), which can improve to 24.9% by FY26, as growth sustains, Europe achieves critical mass and the operating leverage kicks in. Our margin assumption is in line with management's goal of 25%-28% margins by H2FY25.

# Valuations



- The company trades at 45.5x FY26e EPS of Rs11.2. However, recurring EPS for the company is estimated at Rs11.7, adjusted for completion of transaction and therefore, minority interest.
- The multiple, we believe, is attractive despite being on the higher side as LatentView is achieving scale and capabilities. Therefore, its ability to surprise on growth and margins is perceived to be higher.
- Investments made last year have begun to yield positive results. Additionally, acquiring Decision Point will help LatentView gain foothold in the RetailCPG vertical, its second after Hi-Tech.
- The acquisition, in turn, should also enable the company to improve margins back to historical levels, as the acquired company operates more offshore and at higher margins.
- We expect LatentView to maintain industry-leading growth in Q4, despite the prevailing tough environment, followed by strong growth in FY25 supported by Decision Point's integration.
- By FY26, margins would likely return to ~25%, leading to even higher EBITDA CAGR.
- The company will have ~Rs9bn cash post acquisition in FY24, after paying ~Rs3.2bn for Decision Point.
- We assign LatentView a target multiple of 53x, to reflect its strong growth potential and relatively lower net margins in the short term.

## Risk

- First large M&A integration for the company.

# Quick glance- Financials and valuations

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY22	FY23	FY24e	FY25e	FY26e
Revenues (US\$m)	55	67	77	108	135
Growth (%)	19.9	22.1	16.2	39.0	25.8
Net revenues (Rs m)	4,078	5,388	6,417	8,944	11,253
Employee & Direct Costs	2,422	3,361	4,366	6,012	7,583
Gross Profit	1,656	2,026	2,051	2,932	3,670
Gross Margin %	40.60	37.61	31.96	32.78	32.61
SG&A	440	576	698	776	866
<b>EBITDA</b>	<b>1,216</b>	<b>1,451</b>	<b>1,353</b>	<b>2,156</b>	<b>2,804</b>
EBITDA margins (%)	29.8	26.9	21.1	24.1	24.9
- Depreciation	82	88	97	294	376
Other income	438	558	783	680	846
Interest Exp	31	26	31	30	30
PBT	1,542	1,893	2,008	2,512	3,245
Effective tax rate (%)	16	18	22	25	25
+ Associates/(Minorities)	-	-	-	-70	-117
Net Income	1,295	1,554	1,571	1,814	2,317
WANS	189	206	207	207	207
<b>FDEPS (Rs/share)</b>	<b>6.8</b>	<b>7.6</b>	<b>7.6</b>	<b>8.7</b>	<b>11.2</b>

Fig 3 – Cash Flow statement (Rs m)

Year-end: Mar	FY22	FY23	FY24e	FY25e	FY26e
PBT	1,542	1,893	2,008	2,512	3,245
+ Non-cash items	-271	-324	97	294	376
Operating profit before WC	1,271	1,569	2,105	2,806	3,621
- Incr./(decr.) in WC	125	328	-27	324	219
Others including taxes	-271	-267	-1,023	-1,221	-1,558
<b>Operating cash-flow</b>	<b>874</b>	<b>974</b>	<b>1,109</b>	<b>1,261</b>	<b>1,843</b>
- Capex (tangible + Intangible)	65	32	38	121	152
<b>Free cash-flow</b>	<b>809</b>	<b>942</b>	<b>1,071</b>	<b>1,141</b>	<b>1,692</b>
Acquisitions	-	-	-	-3,245	-1,412
- Dividend (including buyback & taxes)	-	-	-	830	830
+ Equity raised	4,740	-	-	-	-
+ Debt raised	-	-	-3	-	-
- Fin Investments	5,365	3,146	-989	-	267
- Misc. Items (CFI + CFF)	-788	-289	-753	-650	-817
Net cash-flow	972	-1,915	2,809	-2,284	-1

Source: Company, Anand Rathi Research

Fig 2 – Balance sheet (Rs m)

Year-end: Mar	FY22	FY23	FY24e	FY25e	FY26e
Share capital	200	205	205	205	205
Net worth	10,264	12,074	13,646	14,630	16,117
Total debt (including Pref)	4	3	-	-	-
Minority interest	-	-	-	70	187
DTL/(Asset)	-308	-236	-236	-236	-236
<b>Capital employed</b>	<b>9,960</b>	<b>11,842</b>	<b>13,410</b>	<b>14,464</b>	<b>16,068</b>
Net tangible assets	287	232	172	323	240
Net Intangible assets					
Goodwill	0	0	0	2,921	4,192
CWIP (tangible and intangible)	-	-	-	-	-
Investments (Strategic)					
Investments (Financial)	6,958	9,887	8,898	8,898	9,165
Current Assets (ex Cash) Incl LT assets	1,080	1,742	1,738	2,209	2,604
Cash	2,368	534	3,343	1,059	1,059
Current Liabilities (ex ST Loan/Current Portion) i	732	553	741	946	1,191
Working capital	348	1,189	997	1,263	1,413
<b>Capital deployed</b>	<b>9,960</b>	<b>11,842</b>	<b>13,410</b>	<b>14,464</b>	<b>16,068</b>
Contingent Liabilities					

Fig 4 – Ratio analysis

Year end Mar	FY22	FY23	FY24e	FY25e	FY26e
<b>P/E (x)</b>	<b>81.4</b>	<b>67.8</b>	<b>67.1</b>	<b>58.1</b>	<b>45.5</b>
EV/EBITDA (x)	77.5	65.0	69.7	43.7	33.6
EV/sales (x)	23.1	17.5	14.7	10.5	8.4
P/B (x)	10.3	8.7	7.7	7.2	6.5
<b>RoE (%)</b>	<b>17.7</b>	<b>13.9</b>	<b>12.2</b>	<b>12.8</b>	<b>15.1</b>
RoCE (%) - After tax	12.3	9.8	7.5	9.6	11.4
RoIC (%) - After tax	82.2	70.5	53.6	40.7	31.2
DPS (Rs per share)	-	-	-	4.0	4.0
Dividend yield (%)	-	-	-	0.8	0.8
Dividend payout (%) - Inc. DDT	-	-	-	45.7	35.8
Net debt/equity (x)	-0.9	-0.9	-0.9	-0.7	-0.6
Receivables (days)	76	71	72	73	74
Inventory (days)					
Payables (days)	5	4	7	8	9
<b>CFO: PAT%</b>	<b>68</b>	<b>63</b>	<b>71</b>	<b>67</b>	<b>76</b>
<b>FCF: PAT% - includ M&amp;A payout</b>	<b>62</b>	<b>61</b>	<b>68</b>	<b>-116</b>	<b>12</b>

Source: Company, Anand Rathi Research

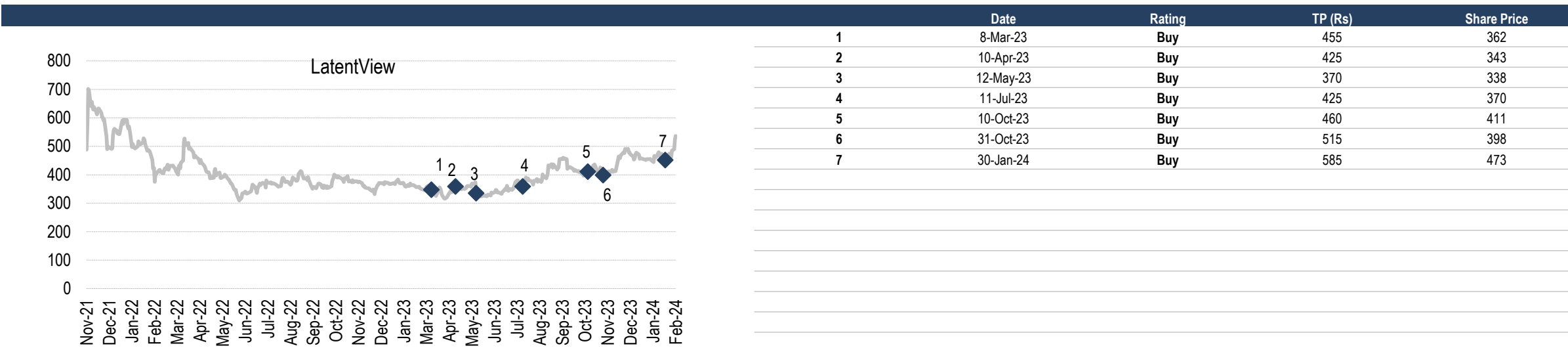


Appendix

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