

**In-line revenue; margin miss**

Information Technology ▶ Result Update ▶ February 3, 2024

**TARGET PRICE (Rs): 2,750**

eClerx reported mixed operating performance in Q3 with in-line revenue, while margin missed expectations. Revenue grew 3.3% QoQ to USD90.5mn (3.5% CC), driven by traction in customer operations and financial markets. EBITDAM declined 90bps QoQ to 27.5%. Management highlighted that conversations within the digital segment show optimism and they expect growth to pick up in next couple of quarters. Within the digital segment, Company witnessed healthy demand in industrials and sees green shoots in Hi-Tech, with fashion and luxury showing signs of recovery. Despite the planned 400-500 employees transfer to a client effective Q4, the company remains confident of achieving modest sequential growth, factoring-in momentum in customer operations and financial markets. Management reiterated that its adjusted EBITDAM for FY24 will be within the guided range of 28-32%. We broadly retain our FY24-26E EPS post Q3. We await clarity on the medium-term growth plan under the new CEO, and his plan to balance revenue growth aspirations and margin trade-off. We retain REDUCE with TP of Rs2,750/share at 20x Dec-25E EPS.

eClerx Services: Financial Snapshot (Consolidated)					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	21,603	26,479	29,281	32,250	35,166
EBITDA	6,620	7,225	7,963	8,834	9,676
Adj. PAT	4,174	4,888	5,199	5,734	6,321
Adj. EPS (Rs)	82.6	99.7	106.1	121.8	140.1
EBITDA margin (%)	30.6	27.3	27.2	27.4	27.5
EBITDA growth (%)	42.6	9.1	10.2	10.9	9.5
Adj. EPS growth (%)	51.1	20.7	6.4	14.9	15.0
RoE (%)	27.2	29.8	26.4	25.0	26.2
RoIC (%)	51.4	50.4	51.5	55.9	61.5
P/E (x)	32.5	26.9	25.3	22.1	19.2
EV/EBITDA (x)	19.8	17.6	15.4	13.2	11.3
P/B (x)	8.7	7.7	5.9	5.4	4.9
FCFF yield (%)	2.8	3.1	3.7	4.5	5.3

Source: Company, Emkay Research

**Result summary**

eClerx’s revenue grew 3.3% QoQ to USD90.5mn (3.5% CC), in line with our estimates. BPaaS revenue grew 3.3% QoQ in Q3. EBITDAM declined 90bps QoQ to 27.5%, below our estimate of 28.2%. Adjusted EBITDAM (incl. other income) fell 20bps QoQ to 29.5%. Geography-wise, North America and RoW grew 4.7% and 4.2% QoQ, respectively, whereas Europe declined 2.5% QoQ. Offshore voluntary attrition moderated to 16.6% vs 23.8% in Q2. Total headcount was up 743 QoQ (4.5% QoQ) to 17,076 employees. Top-5 clients grew 7.0% QoQ, while Top 6-10 clients declined 4.2% QoQ. Emerging clients’ revenue grew 3.0% sequentially. Onshore and offshore revenue grew 2.9% and 3.4% QoQ, respectively. Staff utilization (delivery) declined 150bps QoQ to 73.9%. **What we like:** Continued revenue growth momentum, steady cash conversion (OCF/EBITDA at ~88%), and modest revenue growth in Q4, despite client-specific insourcing impact. **What we do not like:** Margin miss, continued softness in Europe (-2.5% QoQ).

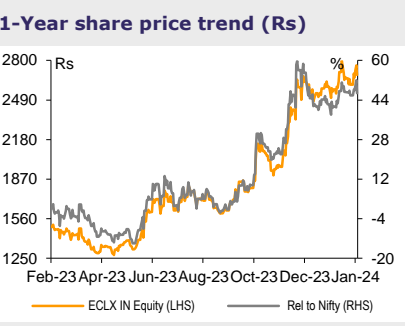
**Earnings call KTAs**

i) The company’s subsidiary – Personiv Contact Centers Private Limited, entered into an agreement with one of its clients (largest client served from Gurugram facility of Personiv; outbound sales work) to transfer its 400-500 employees (~20% of Personiv headcount) to the client’s subsidiary effective January. This will lead to USD7-8mn annual revenue run-rate loss effective Q4. ii) In financial markets, the management is cautiously optimistic on the back of healthy demand in KYC, compliance-related work, loans, buy-side firms (both on tech and ops), and domain-led tech ops. iii) On customer operations, it continues to witness demand from existing customers (due to seasonality), as well as from net-new addition. iv) Europe remained soft in 9MFY24 due to continued weakness in digital. It expects some softness in the near term, however, some green shoots in Hi-Tech, fashion, and luxury segments should augur well for growth recovery. v) G&A inched up 90bps QoQ to 9.3% of revenues in Q3, driven by higher recruitment fees (40-50bps impact; one-off), higher costs due to work from office, and costs associated with go-live of a small facility (200-300 seats) in Chandigarh. vi) S&M costs inched up 110bps QoQ to 13.4% of Q3 revenues due to reclassification from delivery to sales (prior quarters impact felt in Q3), BD hiring, and uptick in the travel cost. Excluding it, S&M costs would have been similar to that in Q2 (~12.5% of revenues). vii) Attrition in Q3 stood at 16.6%, which is the lowest company has seen, including the COVID year. Management expects it to inch up in the coming quarters. viii) Utilization moderated 150bps QoQ to 73.9% with the management considering range within 74-76% to be optimal. ix) Company issued notice to vacate one of their premises in Gurugram, resulting in a one-time lease modification gain of Rs69mn, included as part of other income.

Target Price – 12M	Dec-24
Change in TP (%)	-
Current Reco.	REDUCE
Previous Reco.	REDUCE
Upside/(Downside) (%)	2.3
CMP (02-Feb-24) (Rs)	2,687.1

Stock Data	Ticker
52-week High (Rs)	2,828
52-week Low (Rs)	1,272
Shares outstanding (mn)	49.0
Market-cap (Rs bn)	132
Market-cap (USD mn)	1,589
Net-debt, FY24E (Rs mn)	-9,041
ADTV-3M (mn shares)	-
ADTV-3M (Rs mn)	336.2
ADTV-3M (USD mn)	4.1
Free float (%)	44.0
Nifty-50	21,854
INR/USD	82.9
<b>Shareholding, Dec-23</b>	
Promoters (%)	53.6
FPIs/MFs (%)	11.8/22.9

Price Performance			
(%)	1M	3M	12M
Absolute	7.3	35.9	85.0
Rel. to Nifty	6.3	19.0	49.0



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**Exhibit 1: Quarterly snapshot**

(Rs mn)	Q3FY24	Q2FY24	QoQ (%)	Q3FY23	YoY (%)
Revenue (USD)	90.5	87.6	3.3	85.1	6.4
Net sales	7,528	7,218	4.3	6,867	9.6
Operating expenses	5455	5171		4960	
EBITDA	2,072	2,047	1.2	1,906	8.7
Margins (%)	27.5	28.4	-80.0	27.8	(20.0)
Depreciation	335	303		299	
EBIT	1,737	1,744	-0.4	1,607	8.1
Margins (%)	23.1	24.2	-110.0	23.4	(30.0)
Interest paid	58.6	61.4		52.8	
Forex Gains/(Losses)	-17	46		49	
Other income	225	96		129	
Pre-tax profit	1,886	1,824	3.4	1,732	
Tax provided	477	463		419	
Profit after tax	1,391	1,361		1,313	
Emkay Net profit	1,391	1,361	2.2	1,313	5.9
EPS (Rs)	28.3	27.7	2.0	25.8	9.4

Source: Company, Emkay Research

**Exhibit 2: Actuals vs estimates**

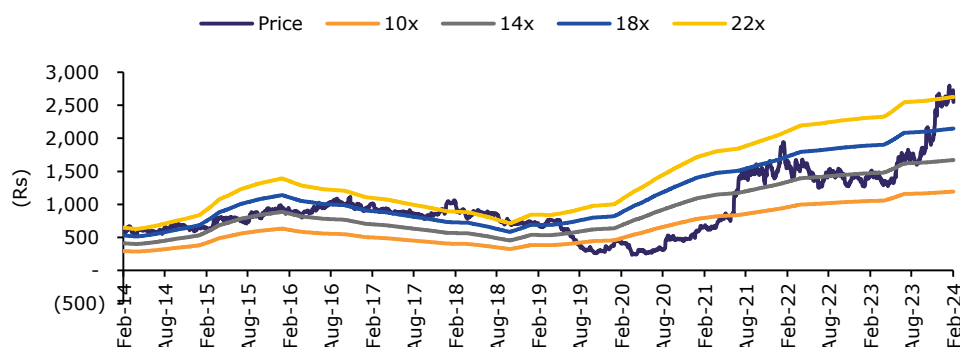
(Rs mn)	Actual	Estimate		Variation		Comment
		Emkay	Consensus	Emkay	Consensus	
Sales (USD mn)	90.5	90.1	90.1	0.5%	0.5%	Revenues were slightly ahead of our expectations
Sales (Rs mn)	7,528	7,484	7,502	0.6%	0.3%	
EBIT	1,737	1,788	1,843	-2.8%	-5.8%	
EBIT, margin	23.1%	23.9%	24.6%	-80 bps	-150 bps	Margins came below expectations
PAT	1,391	1,345	1,396	3.4%	-0.4%	Net profit beat estimates due to higher other income

Source: Company, Bloomberg, Emkay Research

**Exhibit 3: Changes in estimates**

(Rs mn)	FY24E			FY25E			FY26E		
	Old	New		Old	New		Old	New	
Revenue (USD mn)	353	354	0.4%	381	383	0.4%	412	413	0.4%
YoY growth (%)	6.1	6.5		8.0	8.0		8.0	8.0	
Revenue	29,174	29,281	0.4%	32,110	32,250	0.4%	35,018	35,166	0.4%
EBIT	6,745	6,697	-0.7%	7,469	7,437	-0.4%	8,212	8,168	-0.5%
EBIT margins (%)	23.1	22.9		23.3	23.1		23.5	23.2	
Net profit	5,139	5,199	1.2%	5,742	5,734	-0.1%	6,339	6,321	-0.3%
EPS (Rs)	104.8	106.1	1.2%	122.0	121.8	-0.1%	140.5	140.1	-0.3%

Source: Company, Emkay Research

**Exhibit 4: eClerx one-year forward PE**

Source: Company, Emkay Research

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## eClerx Services: Consolidated Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
<b>Revenue</b>	<b>21,603</b>	<b>26,479</b>	<b>29,281</b>	<b>32,250</b>	<b>35,166</b>
Revenue growth (%)	38.1	22.6	10.6	10.1	9.0
<b>EBITDA</b>	<b>6,620</b>	<b>7,225</b>	<b>7,963</b>	<b>8,834</b>	<b>9,676</b>
EBITDA growth (%)	42.6	9.1	10.2	10.9	9.5
Depreciation & Amortization	1,032	1,140	1,266	1,397	1,507
<b>EBIT</b>	<b>5,588</b>	<b>6,085</b>	<b>6,697</b>	<b>7,437</b>	<b>8,168</b>
EBIT growth (%)	46.0	8.9	10.1	11.1	9.8
Other operating income	0	0	0	0	0
Other income	232	657	505	546	629
Financial expense	215	212	244	286	313
<b>PBT</b>	<b>5,605</b>	<b>6,530</b>	<b>6,958</b>	<b>7,697</b>	<b>8,485</b>
Extraordinary items	0	0	0	0	0
Taxes	1,427	1,638	1,750	1,963	2,164
Minority interest	(4)	(4)	(9)	0	0
Income from JV/Associates	0	0	0	0	0
<b>Reported PAT</b>	<b>4,174</b>	<b>4,888</b>	<b>5,199</b>	<b>5,734</b>	<b>6,321</b>
PAT growth (%)	47.7	17.1	6.4	10.3	10.2
<b>Adjusted PAT</b>	<b>4,174</b>	<b>4,888</b>	<b>5,199</b>	<b>5,734</b>	<b>6,321</b>
<b>Diluted EPS (Rs)</b>	<b>82.6</b>	<b>99.7</b>	<b>106.1</b>	<b>121.8</b>	<b>140.1</b>
Diluted EPS growth (%)	51.1	20.7	6.4	14.9	15.0
<b>DPS (Rs)</b>	<b>0.7</b>	<b>1.0</b>	<b>1.0</b>	<b>1.0</b>	<b>1.0</b>
<b>Dividend payout (%)</b>	<b>0.8</b>	<b>1.0</b>	<b>0.9</b>	<b>0.8</b>	<b>0.7</b>
EBITDA margin (%)	30.6	27.3	27.2	27.4	27.5
EBIT margin (%)	25.9	23.0	22.9	23.1	23.2
Effective tax rate (%)	25.5	25.1	25.1	25.5	25.5
<b>NOPLAT (pre-IndAS)</b>	<b>4,165</b>	<b>4,558</b>	<b>5,013</b>	<b>5,541</b>	<b>6,086</b>
Shares outstanding (mn)	50.5	49.0	49.0	47.1	45.1

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
PBT	5,605	6,530	6,958	7,697	8,485
Others (non-cash items)	1,222	1,050	1,266	1,397	1,507
Taxes paid	(1,642)	(1,782)	(1,750)	(1,963)	(2,164)
Change in NWC	(704)	(873)	(422)	(169)	(177)
<b>Operating cash flow</b>	<b>4,482</b>	<b>4,926</b>	<b>6,053</b>	<b>6,962</b>	<b>7,651</b>
Capital expenditure	(625)	(901)	(1,232)	(1,212)	(1,282)
Acquisition of business	(138)	0	0	0	0
Interest & dividend income	43	65	0	0	0
<b>Investing cash flow</b>	<b>380</b>	<b>(844)</b>	<b>(1,232)</b>	<b>(1,212)</b>	<b>(1,282)</b>
Equity raised/(repaid)	(3,548)	(3,773)	0	(4,497)	(4,959)
Debt raised/(repaid)	(4)	8	0	0	0
Payment of lease liabilities	(363)	(391)	0	0	0
Interest paid	(215)	(211)	0	0	0
Dividend paid (incl tax)	(34)	(33)	(49)	(47)	(45)
Others	0	0	0	0	0
<b>Financing cash flow</b>	<b>(4,163)</b>	<b>(4,401)</b>	<b>(49)</b>	<b>(4,545)</b>	<b>(5,004)</b>
Net chg in Cash	698	(319)	4,772	1,205	1,365
OCF	4,482	4,926	6,053	6,962	7,651
Adj. OCF (w/o NWC chg.)	5,186	5,798	6,474	7,131	7,828
FCFF	3,856	4,025	4,821	5,750	6,369
FCFE	3,684	3,878	4,577	5,464	6,056
OCF/EBITDA (%)	67.7	68.2	76.0	78.8	79.1
FCFE/PAT (%)	88.3	79.3	88.0	95.3	95.8
<b>FCFF/NOPLAT (%)</b>	<b>92.6</b>	<b>88.3</b>	<b>96.2</b>	<b>103.8</b>	<b>104.7</b>

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	331	480	480	461	441
Reserves & Surplus	15,345	16,668	21,819	23,028	24,364
<b>Net worth</b>	<b>15,676</b>	<b>17,149</b>	<b>22,299</b>	<b>23,489</b>	<b>24,805</b>
Minority interests	12	17	26	26	26
Deferred tax liability (net)	(233)	(403)	(403)	(403)	(403)
<b>Total debt</b>	<b>1</b>	<b>10</b>	<b>10</b>	<b>10</b>	<b>10</b>
<b>Total liabilities &amp; equity</b>	<b>15,457</b>	<b>16,772</b>	<b>21,932</b>	<b>23,122</b>	<b>24,438</b>
Net tangible fixed assets	922	1,060	894	771	692
Net intangible assets	1,256	1,175	1,020	867	710
Net ROU assets	1,194	1,530	1,817	1,909	1,919
Capital WIP	22	208	208	208	208
Goodwill	3,753	3,960	3,960	3,960	3,960
Investments [JV/Associates]	1,959	2,745	2,745	2,745	2,745
<b>Cash &amp; equivalents</b>	<b>4,936</b>	<b>4,279</b>	<b>9,051</b>	<b>10,256</b>	<b>11,621</b>
Current assets (ex-cash)	6,277	7,379	8,534	9,339	10,130
Current Liab. & Prov.	4,862	5,564	6,297	6,933	7,547
<b>NWC (ex-cash)</b>	<b>1,414</b>	<b>1,815</b>	<b>2,237</b>	<b>2,406</b>	<b>2,583</b>
<b>Total assets</b>	<b>15,457</b>	<b>16,772</b>	<b>21,932</b>	<b>23,122</b>	<b>24,438</b>
Net debt	(4,935)	(4,269)	(9,041)	(10,246)	(11,611)
Capital employed	15,457	16,772	21,932	23,122	24,438
<b>Invested capital</b>	<b>8,540</b>	<b>9,540</b>	<b>9,928</b>	<b>9,912</b>	<b>9,864</b>
BVPS (Rs)	310.3	349.8	454.8	499.0	549.8
Net Debt/Equity (x)	(0.3)	(0.2)	(0.4)	(0.4)	(0.5)
Net Debt/EBITDA (x)	(0.7)	(0.6)	(1.1)	(1.2)	(1.2)
Interest coverage (x)	0.0	0.0	0.0	0.0	0.0
<b>RoCE (%)</b>	<b>38.4</b>	<b>41.8</b>	<b>37.2</b>	<b>35.4</b>	<b>37.0</b>

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	32.5	26.9	25.3	22.1	19.2
P/CE(x)	26.1	21.9	20.4	17.7	15.5
P/B (x)	8.7	7.7	5.9	5.4	4.9
EV/Sales (x)	6.1	4.8	4.2	3.6	3.1
EV/EBITDA (x)	19.8	17.6	15.4	13.2	11.3
EV/EBIT(x)	23.4	20.9	18.3	15.6	13.4
EV/IC (x)	15.3	13.4	12.4	11.7	11.1
FCFF yield (%)	2.8	3.1	3.7	4.5	5.3
FCFE yield (%)	2.7	2.9	3.5	4.3	5.0
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
<b>DuPont-RoE split</b>					
Net profit margin (%)	19.3	18.5	17.8	17.8	18.0
Total asset turnover (x)	1.4	1.6	1.5	1.4	1.5
Assets/Equity (x)	1.0	1.0	1.0	1.0	1.0
<b>RoE (%)</b>	<b>27.2</b>	<b>29.8</b>	<b>26.4</b>	<b>25.0</b>	<b>26.2</b>
<b>DuPont-RoIC</b>					
NOPLAT margin (%)	19.3	17.2	17.1	17.2	17.3
IC turnover (x)	2.7	2.9	3.0	3.3	3.6
<b>RoIC (%)</b>	<b>51.4</b>	<b>50.4</b>	<b>51.5</b>	<b>55.9</b>	<b>61.5</b>
<b>Operating metrics</b>					
Core NWC days	23.9	25.0	27.9	27.2	26.8
<b>Total NWC days</b>	<b>23.9</b>	<b>25.0</b>	<b>27.9</b>	<b>27.2</b>	<b>26.8</b>
Fixed asset turnover	2.0	2.2	2.2	2.2	2.2
Opex-to-revenue (%)	69.4	72.7	72.8	72.6	72.5

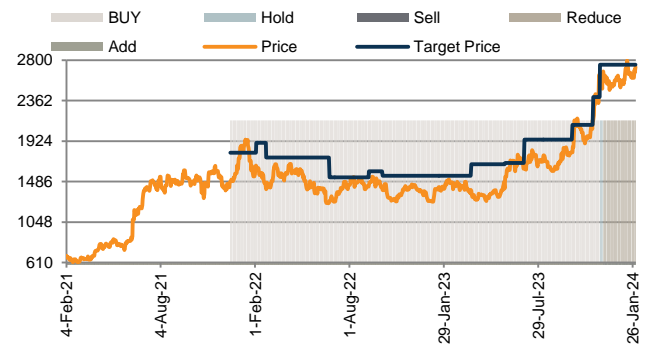
Source: Company, Emkay Research

## RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
31-Dec-23	2,592	2,750	Reduce	Dipeshkumar Mehta
30-Nov-23	2,677	2,750	Reduce	Dipeshkumar Mehta
24-Nov-23	2,589	2,750	Hold	Dipeshkumar Mehta
11-Nov-23	2,152	2,400	Buy	Dipeshkumar Mehta
05-Oct-23	2,022	2,100	Buy	Dipeshkumar Mehta
02-Oct-23	1,802	2,100	Buy	Dipeshkumar Mehta
21-Sep-23	1,833	1,940	Buy	Dipeshkumar Mehta
02-Jul-23	1,625	1,940	Buy	Dipeshkumar Mehta
26-May-23	1,538	1,690	Buy	Dipeshkumar Mehta
01-Apr-23	1,290	1,675	Buy	Dipeshkumar Mehta
22-Mar-23	1,386	1,675	Buy	Dipeshkumar Mehta
03-Oct-22	1,393	1,550	Buy	Dipeshkumar Mehta
07-Sep-22	1,450	1,600	Buy	Dipeshkumar Mehta
23-Jun-22	1,276	1,533	Buy	Dipeshkumar Mehta
01-Apr-22	1,571	1,747	Buy	Dipeshkumar Mehta
22-Feb-22	1,404	1,747	Buy	Dipeshkumar Mehta
03-Feb-22	1,628	1,907	Buy	Dipeshkumar Mehta
01-Jan-22	1,741	1,800	Buy	Dipeshkumar Mehta
15-Dec-21	1,488	1,800	Buy	Dipeshkumar Mehta

Source: Company, Emkay Research

## RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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