ADD

eClerx Services

Steady quarter; healthy pipeline to aid growth

Information Technology ▸ Result Update ▸ **August 15, 2024**

TARGET PRICE (Rs): 2,700

eClerx reported revenue growth of 1.5% QoQ to US$93.3mn (1.6% CC), mainly driven by momentum in financial markets. EBITM fell by 390bps QoQ to 17.2% due to wage hike and full-quarter impact of leadership hiring. The demand environment maintains status quo, per the management. The company has seen positive momentum across three segments in Q1. It is seeing green shoots in financial markets. It is also witnessing early signs of improvement in the digital business, with a healthy pipeline, though it is still seeing longer lead times for closure of deals. Healthy deal pipeline and pace of conversion, progress on cross sales, average size of deals, inbound flow, etc grant confidence to the management on its overall growth strategy and momentum sustainability. The mgmt expects margin to improve Q2 onward (improvement path in line with FY24) and reiterated its adjusted EBITDAM guidance of 24-28% for FY25, factoring in the planned investments in S&M and leadership augmentation. We cut FY24-26E EPS by 8-12%, building the Q1 performance and margin reset. We retain ADD on the stock and TP of Rs2,700/share at 20x Sept-26E EPS.

eClerx Services: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	26,479	29,255	32,701	36,696	40,960
EBITDA	7,225	7,750	7,811	9,051	10,101
Adj. PAT	4,888	5,133	5,024	5,793	6,575
Adj. EPS (Rs)	99.7	104.3	105.4	125.3	146.2
EBITDA margin (%)	27.3	26.5	23.9	24.7	24.7
EBITDA growth (%)	9.1	7.3	0.8	15.9	11.6
Adj. EPS growth (%)	20.7	4.6	1.1	18.8	16.7
RoE (%)	29.8	25.9	22.2	24.5	25.5
RoIC (%)	50.4	47.0	43.0	48.8	53.3
P/E (x)	24.1	22.9	22.8	19.2	16.4
EV/EBITDA (x)	15.7	14.3	13.8	11.3	9.7
P/B (x)	6.9	5.2	5.0	4.5	4.0
FCFF yield (%)	3.4	3.9	4.1	4.9	5.8

Source: Company, Emkay Research

Result summary

eClerx's revenue grew 1.5% QoQ to US$93.3mn (1.6% CC). BPaaS revenue declined 10.5% QoQ in Q1 due to lower transaction volumes due to seasonality. EBITDAM declined by 430bps QoQ to 21.2%. Adj. EBITDAM (incl. other income) declined by 440bps QoQ to 23.3% due to wage hike and full-quarter impact of leadership hiring. Geography-wise, North America and Europe grew 2.2% and 1.1% QoQ, respectively, whereas RoW declined 4.4% QoQ. Offshore voluntary attrition moderated to 18.1% vs 22.7% QoQ. Total headcount was up by 395 QoQ (2.3% QoQ) to 17,749 employees. Top-5 clients grew 1.6% QoQ, while the top 6-10 clients declined 2.2% QoQ. Emerging clients' revenue grew 3.1% sequentially. Onshore revenue grew 7.2% QoQ, while offshore revenue remained flat. Staff utilization (delivery) declined by 140bps QoQ to 72.1%. **What we like:** Broad-based revenue growth momentum, positive momentum in financials, healthy deal intake, and double-digit revenue growth aspiration for FY25. **What we do not like:** Margin miss.

Earnings call KTAs

i) eClerx saw healthy conversions in Q1, indicating positive growth momentum continuing in Q2. Growth was led by financials, followed by customer operations, while early signs of momentum build-up were seen in the digital business. ii) Financial markets segment is seeing healthy demand led by both, the client life cycle and trade life cycle. It has seen demand for remediation work, driven by regulatory needs. It continues to see rise in demand for onshore and nearshore staffing, across the change and BAU books. iii) Customer operations and Digital grew QoQ, albeit slower than financial markets. Growth in customer operations was mainly driven by field tech ops and the care business. eClerx is seeing early signs of improvement in Digital, with a healthy pipeline, though lead time for closure of deals is still longer. High-end fashion and luxury segment continues to be pressured due to headwinds from the China market. iv) Revenue from Analytics and Automation was US$16.9mn in Q1, seeing QoQ/YoY growth, which is encouraging. v) Seat-count rose by 364 QoQ in Q1 owing to temporary facilities going live in Mumbai and Pune. eClerx is creating permanent seating capacity in all 3 locations, likely to go live in Q3. vi) G&A costs inched up by 30bps QoQ due to higher rent/electricity cost of temporary facilities. vii) Roll-off ratio historically tracked in the 15-17% range. eClerx does not expect any uptick in FY25. viii) Focus areas for M&As include: a) creative agency in Digital, b) salesforce implementation capabilities on the tech front, as the company is effecting sizeable operational work on enterprise platforms like Adobe and Salesforce, c) expanding presence outside India (e.g. in LatAm) on the customer operation front, and d) adding onshore consulting capabilities in financial markets or areas like fraud and anti-money laundering which augments its client lifecycle business.

Target Price – 12M	Sep-25
Change in TP (%)	**-**
Current Reco.	ADD
Previous Reco.	ADD
Upside/(Downside) (%)	12.5
CMP (14-Aug-24) (Rs)	2,400.0

Stock Data	Ticker
52-week High (Rs)	2,828
52-week Low (Rs)	1,582
Shares outstanding (mn)	47.7
Market-cap (Rs bn)	114
Market-cap (USD mn)	1,362
Net-debt, FY25E (Rs mn)	-6,825
ADTV-3M (mn shares)	-
ADTV-3M (Rs mn)	218.0
ADTV-3M (USD mn)	2.6
Free float (%)	44.0
Nifty-50	24,144
INR/USD	83.9
Shareholding, Jul-24	
Promoters (%)	53.8
FPIs/MFs (%)	11.4/22.9

Price Performance

(%)	1M	3M	12M
Absolute	(6.0)	6.9	41.3
Rel. to Nifty	(4.6)	(1.6)	13.7

1-Year share price trend (Rs)

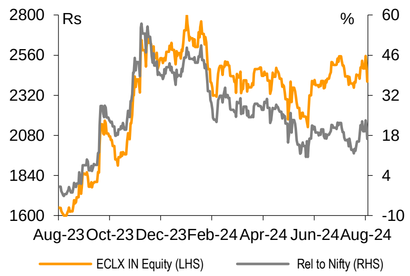

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Exhibit 1: Quarterly snapshot

(Rs mn)	Q1FY25	Q4FY24	QoQ(%)	Q1FY24	YoY(%)
Revenue (US$)	93.3	91.9	1.5	83.9	11.1
Net sales	7,819	7,665	2.0	6,845	14.2
Operating expenses	6159	5710		5170	
EBITDA	1,661	1,955	-15.1	1,675	-0.8
- Margin (%)	21.2	25.5	-430.0	24.5	(320.0)
Depreciation	317	335		284	
EBIT	1,344	1,620	-17.0	1,391	-3.4
- Margin (%)	17.2	21.1	-390.0	20.3	(310.0)
Interest paid	77.2	55.8		59.0	
Forex Gains/(Losses)	7	-8		0	
Other income	205	238		75	
Pre-tax profit	1,479	1,795	-17.6	1,406	
Tax provided	359	496		340	
Profit after tax	1,120	1,299		1,067	
Emkay - Net profit	1,116	1,305	-14.5	1,063	5.0
EPS (Rs)	22.8	26.6	-14.5	21.7	5.0

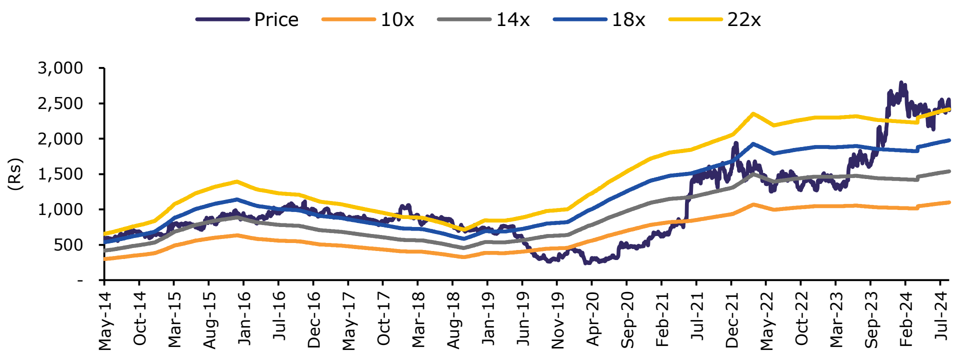
Source: Company, Emkay Research

Exhibit 2: Changes in estimates

(Rs mn)	FY25E			FY26E			FY27E		
	Old	New	Change	Old	New	Change	Old	New	Change
Revenue (US$ mn)	382	388	1.7%	412	431	4.5%		476	NA
YoY growth (%)	*8.0*	*9.7*		*8.0*	*11.0*			*10.5*	
Revenue	32,168	32,701	1.7%	35,078	36,696	4.6%		40,960	NA
EBIT	7,415	6,409	-13.6%	8,144	7,504	-7.9%		8,433	NA
EBIT margin (%)	*23.1*	*19.6*		*23.2*	*20.4*			*20.6*	
Net profit	5,713	5,024	-12.1%	6,293	5,793	-7.9%		6,575	NA
EPS (Rs)	119.8	105.4	-12.0%	135.5	125.3	-7.6%		146.2	NA

Source: Company, Emkay Research

Exhibit 3: eClerx – One-year forward P/E



Source: Company, Emkay Research

eClerx Services: Consolidated Financials and Valuations

Profit & Loss

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	**26,479**	**29,255**	**32,701**	**36,696**	**40,960**
Revenue growth (%)	22.6	10.5	11.8	12.2	11.6
EBITDA	**7,225**	**7,750**	**7,811**	**9,051**	**10,101**
EBITDA growth (%)	9.1	7.3	0.8	15.9	11.6
Depreciation & Amortization	1,140	1,257	1,401	1,547	1,667
EBIT	**6,085**	**6,492**	**6,409**	**7,504**	**8,433**
EBIT growth (%)	8.9	6.7	(1.3)	17.1	12.4
Other operating income	0	0	0	0	0
Other income	657	654	628	611	754
Financial expense	212	235	313	339	363
PBT	**6,530**	**6,912**	**6,725**	**7,776**	**8,825**
Extraordinary items	0	(18)	0	0	0
Taxes	1,638	1,776	1,696	1,983	2,250
Minority interest	(4)	(3)	(4)	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	**4,888**	**5,115**	**5,024**	**5,793**	**6,575**
PAT growth (%)	17.1	4.6	(1.8)	15.3	13.5
Adjusted PAT	**4,888**	**5,133**	**5,024**	**5,793**	**6,575**
Diluted EPS (Rs)	**99.7**	**104.3**	**105.4**	**125.3**	**146.2**
Diluted EPS growth (%)	20.7	4.6	1.1	18.8	16.7
DPS (Rs)	**1.0**	**1.0**	**1.0**	**1.0**	**1.0**
Dividend payout (%)	**1.0**	**1.0**	**0.9**	**0.8**	**0.7**
EBITDA margin (%)	27.3	26.5	23.9	24.7	24.7
EBIT margin (%)	23.0	22.2	19.6	20.4	20.6
Effective tax rate (%)	25.1	25.7	25.2	25.5	25.5
NOPLAT (pre-IndAS)	**4,558**	**4,824**	**4,793**	**5,591**	**6,283**
Shares outstanding (mn)	49.0	49.0	47.7	46.3	45.0

Source: Company, Emkay Research

Balance Sheet

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	480	490	477	463	450
Reserves & Surplus	16,668	21,985	22,218	24,119	26,596
Net worth	**17,149**	**22,475**	**22,695**	**24,582**	**27,046**
Minority interests	17	20	24	24	24
Deferred tax liability (net)	(403)	(495)	(545)	(595)	(645)
Total debt	**10**	**0**	**0**	**0**	**0**
Total liabilities & equity	**16,772**	**21,999**	**22,173**	**24,010**	**26,424**
Net tangible fixed assets	1,060	1,270	1,386	1,436	1,487
Net intangible assets	1,175	818	705	587	465
Net ROU assets	1,530	2,348	2,376	2,330	2,216
Capital WIP	208	8	8	8	8
Goodwill	3,960	3,993	3,993	3,993	3,993
Investments [JV/Associates]	2,745	4,065	4,065	4,065	4,065
Cash & equivalents	**4,279**	**6,921**	**6,825**	**8,310**	**10,423**
Current assets (ex-cash)	7,379	9,275	10,101	11,290	12,555
Current Liab. & Prov.	5,564	6,699	7,286	8,008	8,786
NWC (ex-cash)	**1,815**	**2,576**	**2,815**	**3,282**	**3,769**
Total assets	**16,772**	**21,999**	**22,173**	**24,010**	**26,424**
Net debt	(4,269)	(6,921)	(6,825)	(8,310)	(10,423)
Capital employed	16,772	21,999	22,173	24,010	26,424
Invested capital	**9,540**	**11,006**	**11,276**	**11,628**	**11,929**
BVPS (Rs)	349.8	458.4	476.3	531.5	601.4
Net Debt/Equity (x)	(0.2)	(0.3)	(0.3)	(0.3)	(0.4)
Net Debt/EBITDA (x)	(0.6)	(0.9)	(0.9)	(0.9)	(1.0)
Interest coverage (x)	0.0	0.0	0.0	0.0	0.0
RoCE (%)	**41.8**	**36.9**	**31.9**	**35.1**	**36.4**

Source: Company, Emkay Research

Cash flows

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
PBT	6,530	6,912	6,725	7,776	8,825
Others (non-cash items)	1,050	1,370	1,401	1,547	1,667
Taxes paid	(1,782)	(1,723)	(1,696)	(1,983)	(2,250)
Change in NWC	(873)	(1,281)	(490)	(737)	(757)
Operating cash flow	**4,926**	**5,259**	**5,940**	**6,603**	**7,485**
Capital expenditure	(901)	(643)	(1,231)	(1,212)	(1,262)
Acquisition of business	0	0	0	0	0
Interest & dividend income	65	206	0	0	0
Investing cash flow	**(844)**	**(4,879)**	**(1,231)**	**(1,212)**	**(1,262)**
Equity raised/(repaid)	(3,773)	(314)	(4,757)	(3,860)	(4,065)
Debt raised/(repaid)	8	(10)	0	0	0
Payment of lease liabilities	(391)	(458)	0	0	0
Interest paid	(211)	(235)	0	0	0
Dividend paid (incl tax)	(33)	(48)	(48)	(46)	(45)
Others	0	0	0	0	0
Financing cash flow	**(4,401)**	**(1,065)**	**(4,805)**	**(3,906)**	**(4,110)**
Net chg in Cash	(319)	(685)	(96)	1,485	2,113
OCF	4,926	5,259	5,940	6,603	7,485
Adj. OCF (w/o NWC chg.)	5,798	6,540	6,430	7,340	8,242
FCFF	4,025	4,616	4,709	5,391	6,223
FCFE	3,878	4,588	4,396	5,052	5,861
OCF/EBITDA (%)	68.2	67.9	76.0	73.0	74.1
FCFE/PAT (%)	79.3	89.7	87.5	87.2	89.1
FCFF/NOPLAT (%)	**88.3**	**95.7**	**98.2**	**96.4**	**99.1**

Source: Company, Emkay Research

Valuations and key Ratios

Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	24.1	22.9	22.8	19.2	16.4
P/CE(x)	19.5	18.4	17.8	15.1	13.1
P/B (x)	6.9	5.2	5.0	4.5	4.0
EV/Sales (x)	4.3	3.8	3.3	2.8	2.4
EV/EBITDA (x)	15.7	14.3	13.8	11.3	9.7
EV/EBIT(x)	18.6	17.1	16.8	13.7	11.6
EV/IC (x)	11.9	10.1	9.5	8.8	8.2
FCFF yield (%)	3.4	3.9	4.1	4.9	5.8
FCFE yield (%)	3.3	3.9	3.8	4.6	5.4
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
DuPont-RoE split					
Net profit margin (%)	18.5	17.5	15.4	15.8	16.1
Total asset turnover (x)	1.6	1.5	1.5	1.6	1.6
Assets/Equity (x)	1.0	1.0	1.0	1.0	1.0
RoE (%)	**29.8**	**25.9**	**22.2**	**24.5**	**25.5**
DuPont-RoIC					
NOPLAT margin (%)	17.2	16.5	14.7	15.2	15.3
IC turnover (x)	2.9	2.8	2.9	3.2	3.5
RoIC (%)	**50.4**	**47.0**	**43.0**	**48.8**	**53.3**
Operating metrics					
Core NWC days	25.0	32.1	31.4	32.6	33.6
Total NWC days	**25.0**	**32.1**	**31.4**	**32.6**	**33.6**
Fixed asset turnover	2.2	2.1	2.1	2.2	2.2
Opex-to-revenue (%)	72.7	73.5	76.1	75.3	75.3

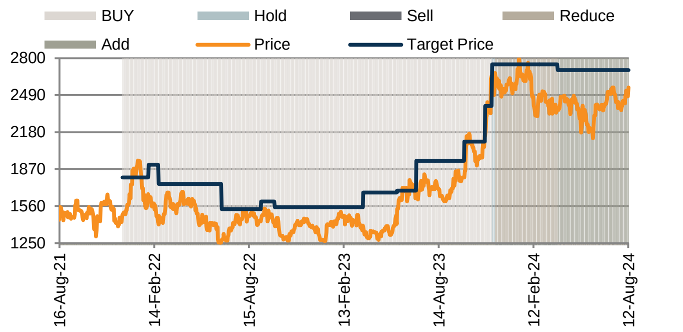
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
31-Mar-24	2,367	2,700	Add	Dipeshkumar Mehta
29-Mar-24	2,367	2,700	Add	Dipeshkumar Mehta
01-Mar-24	2,499	2,750	Reduce	Dipeshkumar Mehta
03-Feb-24	2,687	2,750	Reduce	Dipeshkumar Mehta
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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