

# eClerx

## In-line Q3; optimistic H2 outlook

### Inline revenue with strong seasonality led growth in Top accounts.

eClerx (ECLX IN) reported 3.5% QoQ CC revenue growth and is in line with our estimates. Revenue at USD 90.5mn was up 3.3% QoQ. The key contributors to growth were financial markets (compliance and KYC regulation-led business) and customer operations businesses (seasonality from existing customers). The Top 10 clients continue to drive major growth, up 7.4% QoQ vs non-Top 10 clients growth of 1.0% QoQ. Revenue from managed services declined 1.8% YoY, forming 24% of revenue. Q3 was the third quarter of such negative YoY growth for the past 11 quarters. The deal pipeline remains healthy to drive demand, which may result in top-line growth from H2.

### Margin slightly below our estimates; attrition at a historical low

EBIT margin missed our estimates by 90bp at 23.1%, down 110bp QoQ. This was on account of higher payment toward the hiring agency, citing the company's investment toward sales personnel, reclassification of sales personnel, and uptick in travel cost. It added 743 employees QoQ of which 400-500 were transferred from the subsidiary; hence, net headcount addition is much lower. Attrition came in at an all-time low of 16.6%, up by 720bp QoQ. Utilization dropped 150bp QoQ to 73.9%.

### Valuation: retain Accumulate with a higher TP of INR 2,841

We prefer ECLERX for its business expansion under the new leadership, strong margin profile and business offerings. We retain **Accumulate**, led by in-line Q3 and margin resilience backed by healthy orderbook pipeline. However, margin is set to stay range-bound, as the company will be investing toward sales & delivery, facility and gAI. We factor in Q3 performance and roll forward to December 2025E. We trim our EPS by ~2% each for FY25E and FY26E. We expect a USD sales CAGR of 11%, an EBIT CAGR of 13% and a PAT CAGR of 14% during FY23-26E. We raise our TP to INR 2,841 from INR 2,500 based on 16.5x (unchanged) December 2025E earnings at a five-year mean +1 SD.

## Rating: Accumulate

Target Price: INR 2,841

Upside: 7%

CMP: INR 2,687 (as on 2 February 2024)

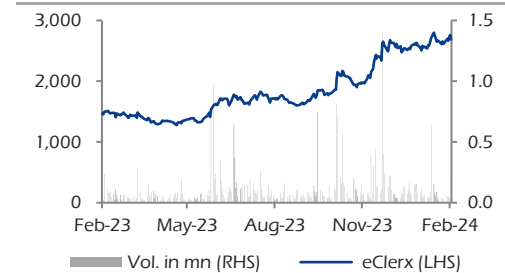
### Key data\*

Bloomberg/Reuters Code	ECLX IN/ECLXOL.BO
Current/Dil. Shares O/S (mn)	49/50
Mkt Cap (INR bn/USD mn)	132/1,589
Daily Volume (3M NSE Avg)	127,225
Face Value (INR)	10

1 USD = INR 82.9

Note: \*as on 2 February 2024; Source: Bloomberg

### Price & Volume



Source: Bloomberg

Shareholding (%)	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Promoter	53.6	53.6	53.6	53.6
Institutional Investors	32.8	33.5	33.8	34.7
Other Investors	4.8	4.5	4.3	4.0
General Public	8.8	8.4	8.3	7.7

Source: BSE

Price performance (%)	3M	6M	12M
Nifty	14.2	11.9	24.1
eClerx	35.9	57.7	85.0

Source: Bloomberg

(INR mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)
Revenue (USD mn)	90.5	85.1	6.3	87.6	3.3
Revenue	7,528	6,867	9.6	7,218	4.3
Operating Expenditure	5,455	4,961	10.0	5,171	5.5
EBITDA	2,073	1,906	8.8	2,047	1.3
Depreciation	335	299	12.0	303	10.6
EBIT	1,738	1,607	8.2	1,744	(0.3)
PBT	1,869	1,732	7.9	1,824	2.5
Total Tax	477	419	13.8	463	3.0
Adjusted PAT	1,392	1,312	6.1	1,361	2.3
Reported PAT	1,373	1,312	4.7	1,361	0.9
Reported EPS (INR)	28.2	26.0	8.5	27.9	1.3

### Key financials

YE	Revenue (INR mn)	YoY (%)	EBITDA (INR mn)	EBITDA Margin (%)	Adj PAT (INR mn)	YoY (%)	Fully DEPS (INR)	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
March	26,479	16.9	7,439	28.1	4,891	13.9	98.4	28.5	36.7	27.3	16.8
FY24E	29,401	6.9	8,039	27.3	5,286	8.2	106.4	27.5	35.1	25.2	15.6
FY25E	33,494	12.6	9,718	29.0	6,205	17.4	124.9	28.6	36.9	21.5	12.7
FY26E	37,635	12.8	11,106	29.5	7,163	15.4	144.2	29.1	37.4	18.6	10.9

Note: pricing as on 2 February 2024; Source: Company, Elara Securities Estimate

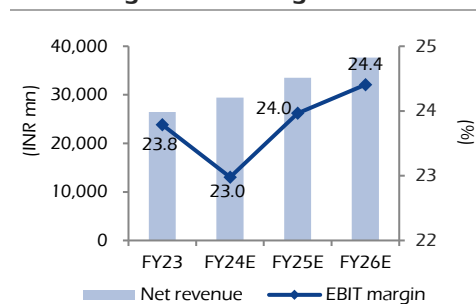
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## Consolidated Financials (YE March)

Income Statement (INR mn)	FY23	FY24E	FY25E	FY26E
Net Revenues	26,479	29,401	33,494	37,635
<b>EBITDA</b>	<b>7,439</b>	<b>8,039</b>	<b>9,718</b>	<b>11,106</b>
Less :- Depreciation & Amortization	1,141	1,283	1,691	1,921
<b>EBIT</b>	<b>6,298</b>	<b>6,756</b>	<b>8,027</b>	<b>9,185</b>
Add:- Non operating Income	102	537	381	506
<b>PBT</b>	<b>6,530</b>	<b>7,063</b>	<b>8,208</b>	<b>9,491</b>
Less :- Taxes	1,639	1,777	2,003	2,329
<b>Adjusted PAT</b>	<b>4,891</b>	<b>5,286</b>	<b>6,205</b>	<b>7,163</b>
<b>Reported PAT</b>	<b>4,887</b>	<b>5,286</b>	<b>6,205</b>	<b>7,163</b>
Balance Sheet (INR mn)	FY23	FY24E	FY25E	FY26E
Share Capital	480	480	480	480
Reserves	16,668	18,774	21,245	24,097
Minority Interest	17	32	17	17
Other Liabilities	138	138	138	138
<b>Total Liabilities</b>	<b>17,311</b>	<b>19,431</b>	<b>21,888</b>	<b>24,740</b>
Gross Block	6,895	7,836	8,908	10,112
Less:- Accumulated Depreciation	4,659	5,942	7,633	9,554
Net Block	2,444	2,102	1,483	766
Investments	3,311	3,311	3,311	3,311
Cash & cash equivalents	4,180	3,622	5,894	8,635
Net Working Capital	2,875	5,880	6,699	7,527
Other Assets	4,501	4,516	4,501	4,501
<b>Total Assets</b>	<b>17,311</b>	<b>19,431</b>	<b>21,888</b>	<b>24,740</b>
Cash Flow Statement (INR mn)	FY23	FY24E	FY25E	FY26E
Cash profit adjusted for non-cash items	5,798	8,039	9,718	11,106
Add/Less : Working Capital Changes	(873)	(3,005)	(819)	(828)
Operating Cash Flow	4,926	3,256	6,896	7,949
Less:- Capex	(901)	(941)	(1,072)	(1,204)
<b>Free Cash Flow to Firm</b>	<b>4,025</b>	<b>2,316</b>	<b>5,824</b>	<b>6,745</b>
Financing Cash Flow	(4,401)	(3,181)	(3,734)	(4,310)
Investing Cash Flow	(844)	(633)	(891)	(898)
Net change in Cash	(23)	(558)	2,272	2,741
Ratio Analysis	FY23	FY24E	FY25E	FY26E
Income Statement Ratios (%)				
Revenue Growth	16.9	6.9	12.6	12.8
EBITDA Growth	10.5	8.1	20.9	14.3
PAT Growth	13.9	8.2	17.4	15.4
EBITDA Margin	28.1	27.3	29.0	29.5
Net Margin	18.5	18.0	18.5	19.0
Return & Liquidity Ratios				
ROE (%)	28.5	27.5	28.6	29.1
ROCE (%)	36.7	35.1	36.9	37.4
Per Share data & Valuation Ratios				
Diluted EPS (INR)	98.4	106.4	124.9	144.2
EPS Growth (%)	13.9	8.2	17.4	15.4
BVPS (INR)	345.3	387.7	437.4	494.9
DPS (INR)	11.0	9.5	11.2	11.2
P/E (x)	27.3	25.2	21.5	18.6
EV/EBITDA (x)	16.8	15.6	12.7	10.9
Price/Book (x)	7.8	6.9	6.1	5.4
Dividend Yield (%)	0.4	0.4	0.4	0.4

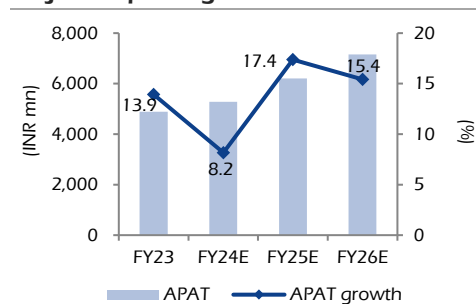
Note: pricing as on 2 February 2024; Source: Company, Elara Securities Estimate

## Revenue growth & margin trend



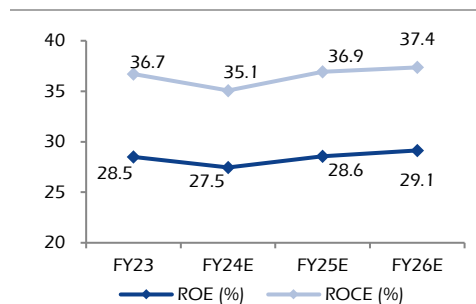
Source: Company, Elara Securities Estimate

## Adjusted profit growth trend



Source: Company, Elara Securities Estimate

## Return ratios



Source: Company, Elara Securities Estimate

## Conference call highlights

### Q3 outlook: cautious optimism

- One of the large client of Personiv (eclerx's subsidiary) is in sourcing 400-500 employees. Despite this Company's growth outlook for Q4 continues to be positive (guided for modest positive sequential growth in Q4).
- Within the financial markets, the company sees green shoots in the compliance area, KYC and in loans
- ECLX also sees demand from the buy side firms on tech and operations
- Domain-led tech and business process operations (BPO) continue to see positive momentum, led by its strong delivery capabilities.
- In customer operations, demand is from existing customers due to seasonality as well as new net additions
- In the digital space, it sees good demand across industries. High-end fashion, we believe is reverting to normal from high peak demand during COVID-19 and post-COVID because there was a lot of pent-up demand

### EBITDA margin outperforms

- S&D cost in this quarter includes a one-off reclass of cost from delivery to sales. Excluding this, S&D cost would have been similar to Q2 at ~12.5%

### Geography performance

- Among geographies, growth was driven by the US, up 4.7% QoQ and the RoW, up 3.3% QoQ.
- However, the EU declined by 2.1% QoQ for the third consecutive quarter, with a revenue drop

### Miscellaneous

- There is an exceptional charge of ~INR18.4mn in consolidated financial statements; this is the net impact of fees received for the transfer of personnel from ECLX subsidiary to one of its clients vs impairment charge of INR 225mn of customer relationship intangibles
- Related to this transaction, the company also has issued a notice to vacate premises at Gurugram, resulting in a one-time lease modification gain of INR 69mn. This lease modification gain is included as part of Other income
- Q3 cash & equivalents continue to remain robust at of ~INR 10.7bn or INR 221.7/share, up 17.2% from Q2 INR 9.1bn at INR 188.8/share. OCF of INR 1.8bn improved 13.4% over Q2, with an EBITDA conversion of 80%. Capex increased by 9.5% QoQ to INR 184mn

### Exhibit 1: Valuation

(INR)	FY25E
Current trailing twelve months (TTM) EPS	106
Current market price (CMP)	2,687
Target EPS	142
Target EPS period	Dec 2024E to Dec 2025E
Target multiple (x)	16.5
Target price (INR)	2,841
Upside (%)	7

Note: pricing as on 2 February 2024; Source: Elara Securities Estimate

**Exhibit 2: Change in estimates**

(INR mn)	Revised			Old			% Change		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue (USD mn)	356	400	451	350	392	443	1.5	2.1	1.8
YoY growth (%)	6.9	12.6	12.8	5.2	12.0	13.1			
Revenue	29,401	33,494	37,635	28,859	32,560	36,628	1.9	2.9	2.7
EBIT	6,756	8,027	9,185	6,765	8,198	9,361	(0.1)	(2.1)	(1.9)
EBIT margin (%)	23.0	24.0	24.4	23.4	25.2	25.6			
Net profit	5,286	6,205	7,163	5,180.9	6,343	7,309	2.0	(2.2)	(2.0)
EPS (INR)	106.4	124.9	144.2	104.3	127.7	147.2	2.0	(2.2)	(2.0)
<b>TP (INR)</b>			<b>2,841</b>			<b>2,500</b>			<b>14</b>

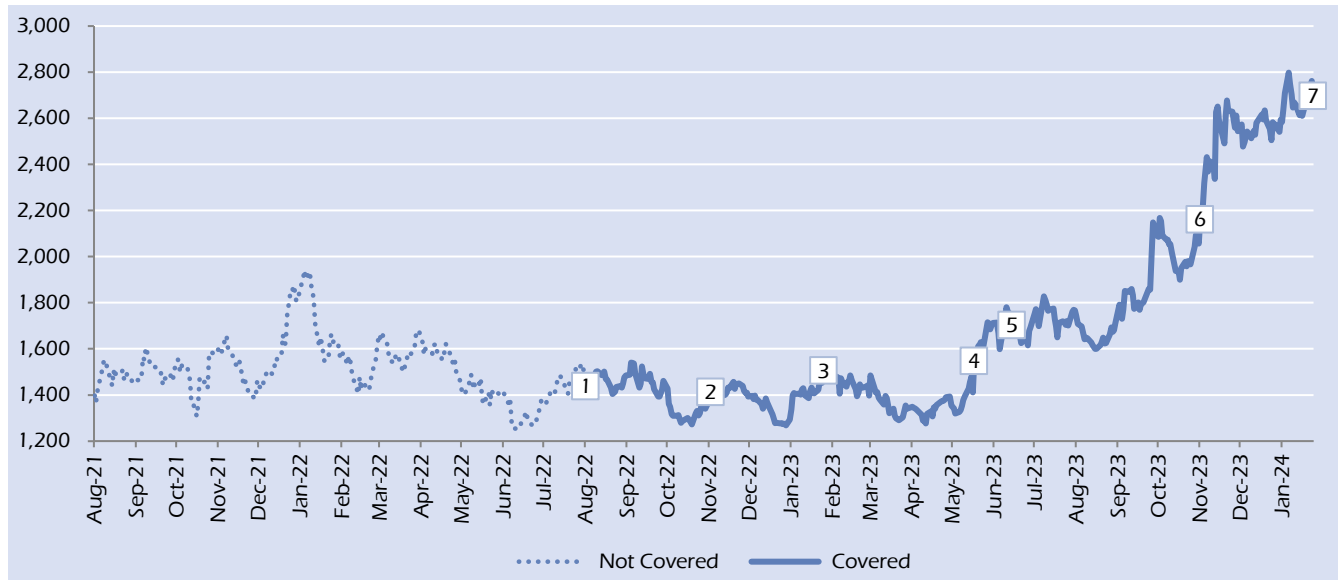
Source: Elara Securities Estimate

**Exhibit 3: Valuation**

	Ticker	Currency	Rating	Mcap	Price	TP	Upside	Turnover' 23	FY23-26E		EV/sales		P/E		Div. yield (%)		ROE (%)	
									Sales CAGR %	EPS CAGR %	FY24E (x)	FY25E (x)	FY24E (x)	FY25E (x)	FY24E	FY25E	FY24E	FY25E
				USD bn	INR	INR	(%)	USD mn										
<b>Large India IT services firms</b>																		
TCS	TCS IN	INR	Buy	167.7	3,959	4,430	12	27,927	5.8	9.4	5.9	5.5	31.3	28.8	1.3	1.4	47.9	42.9
Infosys	INFO IN	INR	Sell	83.4	1,693	1,260	(26)	18,212	4.7	6.3	4.3	4.1	28.6	27.2	1.7	1.8	29.4	29.1
Wipro	WPRO IN	INR	Reduce	29.5	484	450	(7)	11,232	1.9	6.8	2.5	2.3	22.5	20.8	0.4	0.5	12.7	12.3
HCL Technologies	HCLT IN	INR	Sell	50.6	1,584	1,430	(10)	12,586	8.1	9.2	3.7	3.4	27.2	24.1	2.8	3.1	23.6	25.9
Tech Mahindra	TECHM IN	INR	Buy	15.5	1,340	1,660	24	6,607	5.3	13.7	2.4	2.1	43.2	19.7	0.9	1.9	9.5	18.5
<b>Tier-1 IT AVG</b>								<b>15,313</b>	<b>5.1</b>	<b>9.1</b>	<b>3.8</b>	<b>3.5</b>	<b>30.6</b>	<b>24.1</b>	<b>1.4</b>	<b>1.7</b>	<b>24.6</b>	<b>25.7</b>
<b>Tier-1 IT Median</b>								<b>12,586</b>	<b>5.3</b>	<b>9.2</b>	<b>3.7</b>	<b>3.4</b>	<b>28.6</b>	<b>24.1</b>	<b>1.3</b>	<b>1.8</b>	<b>23.6</b>	<b>25.9</b>
<b>Mid-sized India IT services firms</b>																		
LTIMindtree	LTIM IN	INR	Accumulate	19.6	5,495	6,570	20	4,106	10.4	16.8	4.3	3.9	33.0	25.3	1.2	1.6	27.6	31.0
Mphasis	MPHL IN	INR	Accumulate	5.7	2,575	2,710	5	1,712	4.8	8.6	3.4	3.1	30.7	26.7	1.8	2.0	18.9	19.9
Persistent	PSYS IN	INR	Accumulate	7.8	8,500	8,300	(2)	1,036	14.4	23.2	6.4	5.5	57.3	45.0	0.7	0.9	23.4	24.2
Coforge	COFORGE IN	INR	Buy	4.6	6,454	8,100	26	1,002	14.6	31.2	4.2	3.6	42.9	30.2	2.3	3.3	25.9	30.8
eclerx	ECLX IN	INR	Accumulate	1.5	2,687	2,841	7	333	10.7	13.6	4.2	3.7	25.2	21.5	0.6	0.7	27.5	28.6
Sonata Software	SSOF IN Equity	INR	NR	2.5	766	NA	-	897	9.2	20.3	2.8	2.4	40.5	32.5	1.3	1.6	36.7	38.4
Happiest Minds	HAPPSTMN IN Equity	INR	NR	1.6	872	NA	-	172	16.6	11.2	7.6	6.4	54.8	43.8	0.0	0.0	23.3	23.3
Firstsource solutions	FSOL IN Equity	INR	NR	1.6	200	NA	-	721	8.0	10.6	2.4	2.1	26.3	21.5	2.2	2.5	15.7	17.9
Birlasoft	BSOFT IN Equity	INR	NR	2.7	844	NA	-	578	11.8	46.1	4.0	3.5	39.3	33.0	0.8	0.9	22.5	22.7
Zensar Tech	ZENT IN Equity	INR	NR	1.6	562	NA	-	584	5.0	38.7	2.4	2.2	20.2	20.1	1.3	1.4	19.5	16.9
Intellect design arena	INDA IN Equity	INR	NR	1.5	898	NA	-	269	14.3	27.8	4.8	4.2	35.6	27.6	0.3	0.4	16.1	17.9
Mastek	MAST IN Equity	INR	NR	1.0	2,908	NA	-	309	17.7	14.9	2.8	2.4	30.5	22.6	1.1	1.0	16.5	19.4
<b>Mid-size IT AVG</b>								<b>977</b>	<b>11.5</b>	<b>21.9</b>	<b>4.1</b>	<b>3.6</b>	<b>36.4</b>	<b>29.2</b>	<b>1.1</b>	<b>1.4</b>	<b>22.8</b>	<b>24.2</b>
<b>Mid-size IT Median</b>								<b>653</b>	<b>11.2</b>	<b>18.6</b>	<b>4.1</b>	<b>3.5</b>	<b>34.3</b>	<b>27.2</b>	<b>1.1</b>	<b>1.2</b>	<b>22.9</b>	<b>23.0</b>
<b>Indian IT ER&amp;D firms</b>																		
L&T Tech	LTTS IN	INR	Sell	6.9	5,529	4,240	(23)	990	14.3	11.9	5.5	5.0	44.9	39.8	0.8	0.9	25.5	24.8
Cyient	CYL IN	INR	Buy	2.7	2,115	2,590	22	746	12.8	25.4	3.3	2.9	27.9	23.4	1.8	2.1	22.7	24.0
Tata Elxsi	TELX IN	INR	Accumulate	5.7	7,635	8,610	13	390	15.9	15.0	12.7	10.5	58.3	49.2	0.7	0.8	40.2	32.2
KPIT Tech	KPIT IN	INR	Accumulate	4.7	1,575	1,570	(0)	418	25.8	39.6	8.7	7.1	71.8	56.2	0.5	0.6	32.4	33.4
Tata technologies	TATATECH IN Equity	INR	NR	5.6	1,100	NA	-	532	10.7	13.7	11.0	9.8	83.2	72.6	1.0	1.1	21.0	23.0
<b>Mid-tier IT AVG</b>								<b>615.1</b>	<b>15.9</b>	<b>21.1</b>	<b>8.2</b>	<b>7.0</b>	<b>57.2</b>	<b>48.2</b>	<b>0.9</b>	<b>1.1</b>	<b>28.3</b>	<b>27.5</b>
<b>Mid-tier IT Median</b>								<b>532</b>	<b>14.3</b>	<b>15.0</b>	<b>8.7</b>	<b>7.1</b>	<b>58.3</b>	<b>49.2</b>	<b>0.8</b>	<b>0.9</b>	<b>25.5</b>	<b>24.8</b>
<b>Global peers</b>																		
IBM	IBM US	USD	NA	158.8	186	NA		60,530	5.2	129.1	3.2	3.1	18.6	17.7	3.9	3.9	35.1	35.1
Accenture	ACN US	USD	NA	246.1	373	NA		61,594	7.3	10.4	3.7	3.4	30.6	27.8	1.4	1.5	28.2	28.2
Cognizant	CTSH US	USD	NA	38.6	78	NA		19,428	0.8	7.2	1.9	1.9	17.7	16.9	1.5	1.6	17.3	16.6
Capgemini	CAP FP	EUR	NA	38.3	206	NA		23,167	4.6	14.9	1.7	1.7	16.2	15.6	1.8	1.9	18.5	18.0
Endava	DAVA US	USD	NA	4.4	72	NA		871	16.1	18.3	4.2	3.6	34.3	25.7	-	-	14.4	18.1
EPAM	EPAM US	USD	NA	16.6	290	NA		4,825	0.4	23.1	3.2	3.1	28.2	27.4	-	-	19.0	16.2
Globant	GLOB US	USD	NA	9.8	250	NA		1,780	17.7	28.5	4.7	4.0	43.8	37.8	-	-	14.1	14.8
NAGARRO SE	NA9 GY Equity	USD	NA	1.4	89	NA		902	10.4	-5.1	1.6	1.5	20.2	16.5	-	-	32.0	30.5
<b>Global IT AVG</b>								<b>24,599</b>	<b>7.4</b>	<b>33.1</b>	<b>3.2</b>	<b>3.0</b>	<b>27.0</b>	<b>24.1</b>	<b>2.1</b>	<b>2.2</b>	<b>20.9</b>	<b>21.0</b>
<b>Global IT Median</b>								<b>19,428</b>	<b>5.2</b>	<b>18.3</b>	<b>3.2</b>	<b>3.1</b>	<b>28.2</b>	<b>25.7</b>	<b>1.6</b>	<b>1.8</b>	<b>18.5</b>	<b>18.0</b>

Note: pricing as on 2 February 2024; Bloomberg Consensus for Not Rated companies; Source: Elara Securities Estimate

## Coverage History



Date	Rating	Target Price	Closing Price
1 10-Aug-2022	Accumulate	INR 2,550	INR 2,144
21-Sep-2022*	Accumulate	INR 1,700*	INR 1,429*
2 11-Nov-2022	Buy	INR 1,760	INR 1,403
3 3-Feb-2023	Buy	INR 1,840	INR 1,496
4 26-May-2023	Accumulate	INR 1,840	INR 1,538
5 23-Jun-2023	Accumulate	INR 1,940	INR 1,694
6 10-Nov-2023	Accumulate	INR 2,500	INR 2,152
7 2-Feb-2024	Accumulate	INR 2,841	INR 2,687

Note: \*Bonus 1:2

## Guide to Research Rating

<b>BUY</b>	Absolute Return >+20%
<b>ACCUMULATE</b>	Absolute Return +5% to +20%
<b>REDUCE</b>	Absolute Return -5% to +5%
<b>SELL</b>	Absolute Return < -5%

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