

Time for a breather; downgrade to ADD

Information Technology ▶ Company Update ▶ June 12, 2025

CMP (Rs): 3,652 | TP (Rs): 3,950

We interacted with Srinivasan Nadadhur, CFO, to understand the demand environment and outlook. Key takeaways: i) The demand environment has largely been stable over the past few months. The company has not seen any noticeable changes in roll-off trends. ii) It expects revenue momentum to continue in the near term on the back of strong deal intake in H2FY25 and a healthy deal pipeline. Headcount addition remains a good indicator for near-term revenue growth. iii) The management expects deal momentum to sustain in FY26 with full-year ACV better than FY25. However, quarterly variation in booking is not ruled out. iv) The company has reiterated adj. EBITDAM guidance of 24-28%. Q1 margin may be impacted by a wage hike. v) Broad-based growth visibility is still in contention due to ongoing uncertainties around tariff, which has led to cautious client behavior in some sectors. vi) Capital allocation policy remains unchanged with a preference for buyback. We remain constructive on eClerx's medium-term growth prospects and raise target multiple to 24x (earlier 22x) on Jun-27E EPS. However, given limited upside after the sharp rally—the stock is up ~49%/41% in 1M/3M—we downgrade to ADD from Buy with a revised TP of Rs3,950.

Growth momentum to sustain in Q1 amid macro challenges

After delivering strong revenue growth in Q4 (4.4% CC QoQ), the management is optimistic about sustaining momentum in Q1, despite current macro challenges. Demand remains stable, particularly in BFSI, with healthy deal momentum across most verticals. Fashion remains soft, as a couple of top clients in the segment reported weak performance last quarter. Tariff-related discussions are slowing decision-making in Hi-Tech, M&D, and Retail, potentially affecting growth in these verticals. In CMT, some uptick in demand for voice-based roles has been observed, though this needs further monitoring. Europe has remained soft over the past few quarters, partly due to higher exposure to digital, which continued to see pressure. There are plans to hire a leader for Europe to improve traction in that market. G&A cost is likely to increase in Q1 due to the opening of new delivery centers in Egypt and Peru. Adj. EBITDAM guidance is maintained at 24-28%, though Q1 will see headwinds from wage hikes (~400bps gross impact).

Identified focus areas for M&A; capital allocation policy continues

The company will continue its policy of not accumulating excess cash on the balance sheet and pay out cash to shareholders either as dividend or through buyback, with preference for the latter. It is looking for M&A opportunities that align with its overall growth strategy and target capabilities, with a focus on three key areas – a) onshore consulting capabilities in BFSI, particularly in regulatory space; b) creative services in NA; and c) implementation capabilities technologies such as Salesforce and Databricks. It is comfortable allocating 10-20% of its annual revenue as consideration for such acquisitions.

| | |
|-----------------------|--------|
| Target Price – 12M | Jun-26 |
| Change in TP (%) | 9.7 |
| Current Reco. | ADD |
| Previous Reco. | BUY |
| Upside/(Downside) (%) | 8.2 |

| Stock Data | ECLX IN |
|-------------------------|-----------|
| 52-week High (Rs) | 3,877 |
| 52-week Low (Rs) | 2,116 |
| Shares outstanding (mn) | 47.7 |
| Market-cap (Rs bn) | 174 |
| Market-cap (USD mn) | 2,035 |
| Net-debt, FY26E (Rs mn) | (8,412.4) |
| ADTV-3M (mn shares) | 0 |
| ADTV-3M (Rs mn) | 268.8 |
| ADTV-3M (USD mn) | 3.1 |
| Free float (%) | 44.8 |
| Nifty-50 | 25,141.4 |
| INR/USD | 85.5 |

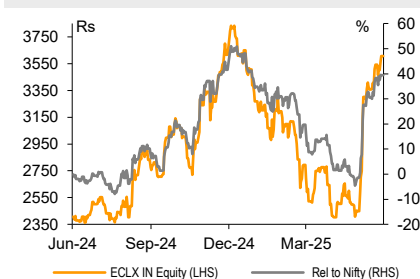
Shareholding, Mar-25

| | |
|---------------|-----------|
| Promoters (%) | 53.8 |
| FPIs/MFs (%) | 10.1/25.1 |

Price Performance

| (%) | 1M | 3M | 12M |
|---------------|------|------|------|
| Absolute | 49.1 | 40.9 | 52.0 |
| Rel. to Nifty | 42.4 | 26.1 | 40.6 |

1-Year share price trend (Rs)



eClerx Services: Financial Snapshot (Consolidated)

| Y/E Mar (Rs mn) | FY24 | FY25 | FY26E | FY27E | FY28E |
|---------------------|--------|--------|--------|--------|--------|
| Revenue | 29,255 | 33,659 | 39,142 | 44,498 | 50,045 |
| EBITDA | 7,750 | 8,209 | 9,649 | 11,109 | 12,494 |
| Adj. PAT | 5,133 | 5,411 | 6,160 | 7,167 | 8,330 |
| Adj. EPS (Rs) | 104.7 | 113.6 | 132.9 | 159.0 | 184.8 |
| EBITDA margin (%) | 26.5 | 24.4 | 24.7 | 25.0 | 25.0 |
| EBITDA growth (%) | 7.3 | 5.9 | 17.5 | 15.1 | 12.5 |
| Adj. EPS growth (%) | 5.0 | 8.5 | 17.0 | 19.6 | 16.2 |
| RoE (%) | 25.9 | 23.8 | 25.5 | 26.8 | 25.8 |
| RoIC (%) | 45.4 | 43.4 | 47.6 | 52.4 | 56.0 |
| P/E (x) | 35.0 | 32.2 | 27.5 | 23.0 | 19.8 |
| EV/EBITDA (x) | 22.2 | 21.0 | 17.8 | 15.5 | 13.8 |
| P/B (x) | 8.0 | 7.5 | 6.7 | 5.9 | 4.5 |
| FCFF yield (%) | 2.7 | 3.1 | 3.3 | 3.7 | 4.4 |

Source: Company, Emkay Research

Dipeshkumar Mehta

dipeshkumar.mehta@emkayglobal.com
+91-22-662121253

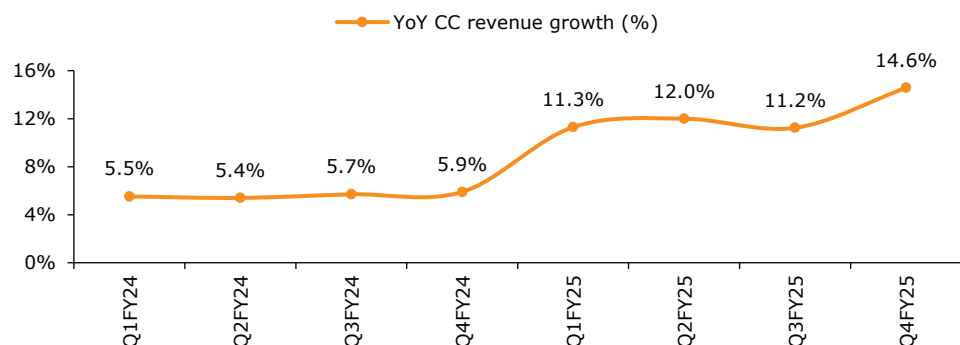
Jimit Gandhi

jimit.gandhi@emkayglobal.com
+91-22-662121255

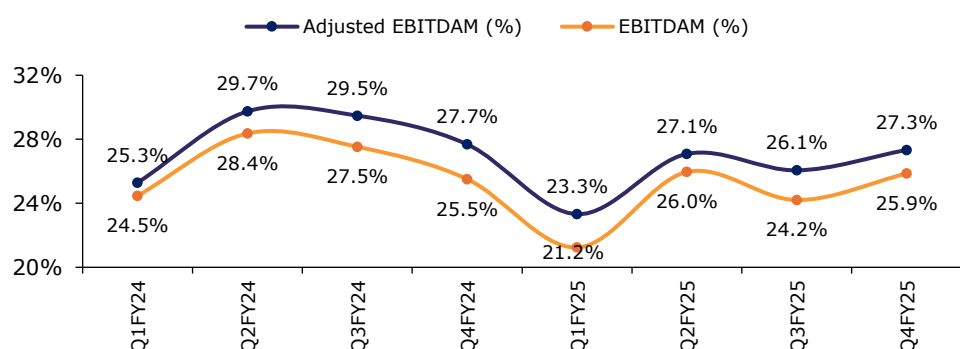
Shivang Bagla

shivang.bagla@emkayglobal.com
+91-22-66242491

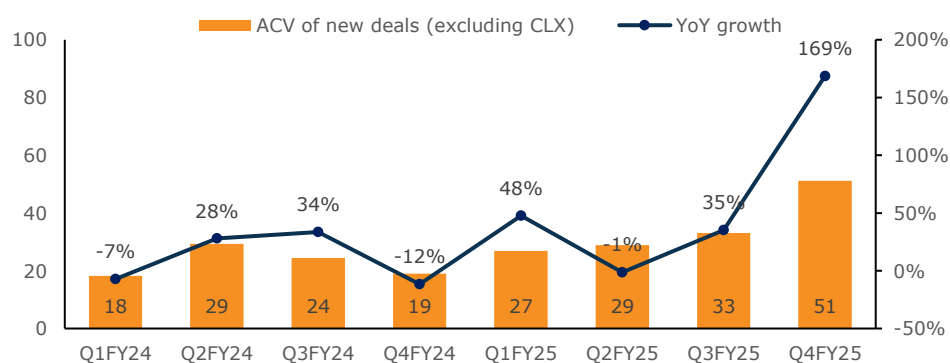
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Exhibit 1: Revenue growth momentum steadily inched up on YoY basis

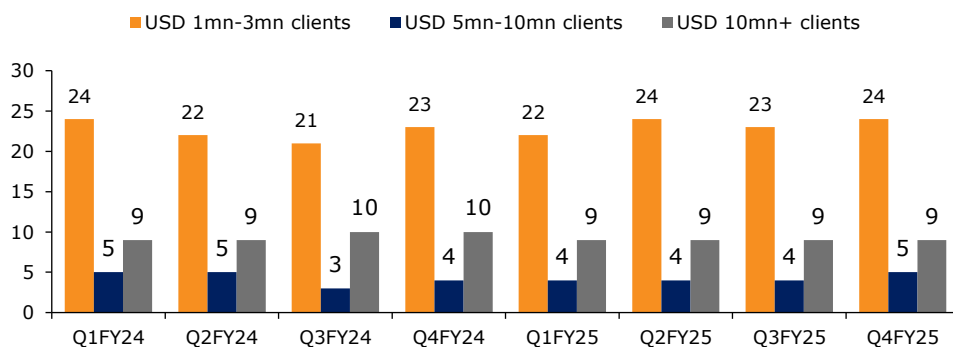
Source: Company, Emkay Research

Exhibit 2: Reported adj. EBITDAM (incl. other income) at mid-point of guided range in FY25

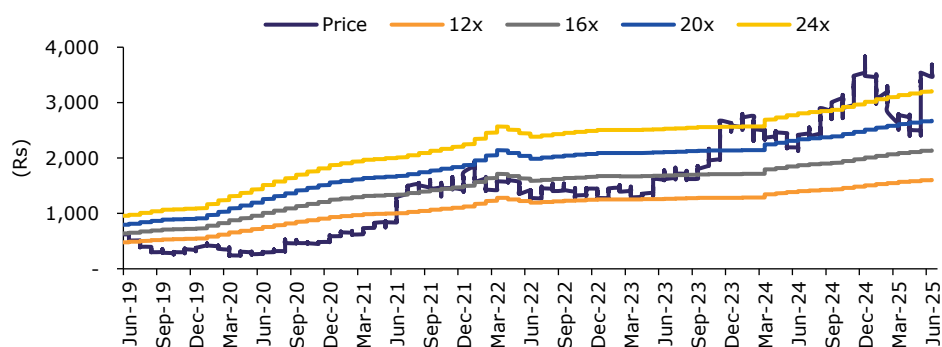
Source: Company, Emkay Research

Exhibit 3: Deal ACV reported strong growth in FY25, up 53.8% YoY

Source: Company, Emkay Research

Exhibit 4: Client buckets remain steady over the quarters

Source: Company, Emkay Research

Exhibit 5: eClerx -- One-year forward P/E

Source: Company, Emkay Research

Exhibit 6: Changes in estimates

| (Rs mn) | FY26E | | | FY27E | | | FY28E | | |
|------------------|--------|--------|--------|--------|--------|--------|-------|--------|--------|
| | Old | New | Change | Old | New | Change | Old | New | Change |
| Revenue (USD mn) | 453 | 453 | 0.0% | 508 | 508 | 0.0% | NA | 569 | NA |
| YoY growth (%) | 14.0 | 14.0 | | 12.0 | 12.0 | | NA | 12.0 | NA |
| Revenue | 39,142 | 39,142 | 0.0% | 44,498 | 44,498 | 0.0% | NA | 50,045 | NA |
| EBIT | 7,990 | 7,990 | 0.0% | 9,222 | 9,222 | 0.0% | NA | 10,371 | NA |
| EBIT margin (%) | 20.4 | 20.4 | | 20.7 | 20.7 | | NA | 20.7 | NA |
| Net profit | 6,160 | 6,160 | 0.0% | 7,167 | 7,167 | 0.0% | NA | 8,330 | NA |
| EPS (Rs) | 132.9 | 132.9 | 0.0% | 159.0 | 159.0 | 0.0% | NA | 184.8 | NA |

Source: Company, Emkay Research

eClerx Services: Consolidated Financials and Valuations

| Profit & Loss | | | | | |
|-----------------------------|--------|--------|--------|--------|--------|
| Y/E Mar (Rs mn) | FY24 | FY25 | FY26E | FY27E | FY28E |
| Revenue | 29,255 | 33,659 | 39,142 | 44,498 | 50,045 |
| Revenue growth (%) | 10.5 | 15.1 | 16.3 | 13.7 | 12.5 |
| EBITDA | 7,750 | 8,209 | 9,649 | 11,109 | 12,494 |
| EBITDA growth (%) | 7.3 | 5.9 | 17.5 | 15.1 | 12.5 |
| Depreciation & Amortization | 1,258 | 1,412 | 1,659 | 1,887 | 2,123 |
| EBIT | 6,492 | 6,797 | 7,990 | 9,222 | 10,371 |
| EBIT growth (%) | 6.7 | 4.7 | 17.5 | 15.4 | 12.5 |
| Other operating income | - | - | - | - | - |
| Other income | 655 | 737 | 664 | 786 | 1,202 |
| Financial expense | 235 | 349 | 386 | 388 | 392 |
| PBT | 6,912 | 7,185 | 8,268 | 9,619 | 11,181 |
| Extraordinary items | (18) | 0 | 0 | 0 | 0 |
| Taxes | 1,776 | 1,773 | 2,108 | 2,453 | 2,851 |
| Minority interest | (3) | (2) | 0 | 0 | 0 |
| Income from JV/Associates | - | - | - | - | - |
| Reported PAT | 5,115 | 5,411 | 6,160 | 7,167 | 8,330 |
| PAT growth (%) | 4.6 | 5.8 | 13.8 | 16.3 | 16.2 |
| Adjusted PAT | 5,133 | 5,411 | 6,160 | 7,167 | 8,330 |
| Diluted EPS (Rs) | 104.7 | 113.6 | 132.9 | 159.0 | 184.8 |
| Diluted EPS growth (%) | 5.0 | 8.5 | 17.0 | 19.6 | 16.2 |
| DPS (Rs) | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| Dividend payout (%) | 0.9 | 0.9 | 0.8 | 0.6 | 0.5 |
| EBITDA margin (%) | 26.5 | 24.4 | 24.7 | 25.0 | 25.0 |
| EBIT margin (%) | 22.2 | 20.2 | 20.4 | 20.7 | 20.7 |
| Effective tax rate (%) | 25.7 | 24.7 | 25.5 | 25.5 | 25.5 |
| NOPLAT (pre-IndAS) | 4,824 | 5,120 | 5,953 | 6,870 | 7,726 |
| Shares outstanding (mn) | 49 | 48 | 46 | 45 | 45 |

Source: Company, Emkay Research

| Balance Sheet | | | | | |
|-----------------------------|---------|---------|---------|---------|----------|
| Y/E Mar (Rs mn) | FY24 | FY25 | FY26E | FY27E | FY28E |
| Share capital | 482 | 470 | 457 | 444 | 444 |
| Reserves & Surplus | 21,993 | 22,588 | 24,854 | 27,667 | 35,952 |
| Net worth | 22,475 | 23,058 | 25,311 | 28,111 | 36,396 |
| Minority interests | 20 | 22 | 22 | 22 | 22 |
| Non-current liab. & prov. | (495) | (659) | (709) | (759) | (809) |
| Total debt | 0 | 0 | 0 | 0 | 0 |
| Total liabilities & equity | 24,657 | 26,001 | 28,134 | 30,904 | 39,169 |
| Net tangible fixed assets | 1,274 | 1,696 | 1,719 | 1,695 | 1,588 |
| Net intangible assets | 815 | 712 | 572 | 428 | 309 |
| Net ROU assets | 2,347 | 3,253 | 3,883 | 4,395 | 4,771 |
| Capital WIP | 8 | 2 | 2 | 2 | 2 |
| Goodwill | 3,993 | 4,079 | 4,079 | 4,079 | 4,079 |
| Investments [JV/Associates] | 4,065 | 3,090 | 3,090 | 3,090 | 3,090 |
| Cash & equivalents | 6,921 | 7,391 | 8,412 | 9,952 | 17,171 |
| Current assets (ex-cash) | 9,275 | 10,507 | 11,951 | 13,527 | 15,157 |
| Current Liab. & Prov. | 4,042 | 4,728 | 5,574 | 6,264 | 6,999 |
| NWC (ex-cash) | 5,234 | 5,779 | 6,377 | 7,263 | 8,159 |
| Total assets | 24,657 | 26,001 | 28,134 | 30,904 | 39,169 |
| Net debt | (6,921) | (7,391) | (8,412) | (9,952) | (17,171) |
| Capital employed | 24,657 | 26,001 | 28,134 | 30,904 | 39,169 |
| Invested capital | 11,316 | 12,265 | 12,747 | 13,465 | 14,134 |
| BVPS (Rs) | 458.4 | 483.9 | 546.1 | 623.7 | 807.5 |
| Net Debt/Equity (x) | (0.3) | (0.3) | (0.3) | (0.4) | (0.5) |
| Net Debt/EBITDA (x) | (0.9) | (0.9) | (0.9) | (0.9) | (1.4) |
| Interest coverage (x) | 30.4 | 21.6 | 22.4 | 25.8 | 29.5 |
| RoCE (%) | 36.0 | 33.1 | 35.8 | 37.4 | 35.9 |

Source: Company, Emkay Research

| Cash flows | | | | | |
|------------------------------|---------|---------|---------|---------|---------|
| Y/E Mar (Rs mn) | FY24 | FY25 | FY26E | FY27E | FY28E |
| PBT (ex-other income) | 6,893 | 7,185 | 8,268 | 9,619 | 11,181 |
| Others (non-cash items) | 1,370 | 1,822 | 1,659 | 1,887 | 2,123 |
| Taxes paid | (1,723) | (1,640) | (2,108) | (2,453) | (2,851) |
| Change in NWC | (1,281) | (821) | (648) | (935) | (946) |
| Operating cash flow | 5,259 | 6,546 | 7,170 | 8,118 | 9,507 |
| Capital expenditure | (643) | (1,151) | (1,542) | (1,720) | (1,896) |
| Acquisition of business | 0 | 0 | 0 | 0 | 0 |
| Interest & dividend income | 206 | 271 | 0 | 0 | 0 |
| Investing cash flow | (4,879) | 1,305 | (1,542) | (1,720) | (1,896) |
| Equity raised/(repaid) | (308) | (4,462) | (3,850) | (4,312) | 0 |
| Debt raised/(repaid) | (10) | 0 | 0 | 0 | 0 |
| Payment of lease liabilities | (458) | (362) | (701) | (492) | (346) |
| Interest paid | (235) | (349) | 0 | 0 | 0 |
| Dividend paid (incl tax) | (48) | (47) | (46) | (45) | (45) |
| Others | (6) | (876) | (10) | (10) | 0 |
| Financing cash flow | (1,065) | (6,096) | (4,607) | (4,859) | (391) |
| Net chg in Cash | (685) | 1,755 | 1,021 | 1,539 | 7,220 |
| OCF | 5,259 | 6,546 | 7,170 | 8,118 | 9,507 |
| Adj. OCF (w/o NWC chg.) | 6,540 | 7,367 | 7,819 | 9,054 | 10,453 |
| FCFF | 4,616 | 5,395 | 5,628 | 6,399 | 7,610 |
| FCFE | 4,588 | 5,317 | 5,242 | 6,010 | 7,219 |
| OCF/EBITDA (%) | 67.9 | 79.7 | 74.3 | 73.1 | 76.1 |
| FCFE/PAT (%) | 89.7 | 98.3 | 85.1 | 83.9 | 86.7 |
| FCFF/NOPLAT (%) | 95.7 | 105.4 | 94.6 | 93.1 | 98.5 |

Source: Company, Emkay Research

| Valuations and key Ratios | | | | | |
|---------------------------|------|------|-------|-------|-------|
| Y/E Mar | FY24 | FY25 | FY26E | FY27E | FY28E |
| P/E (x) | 35.0 | 32.2 | 27.5 | 23.0 | 19.8 |
| EV/CE(x) | 7.7 | 7.5 | 6.8 | 6.1 | 4.7 |
| P/B (x) | 8.0 | 7.5 | 6.7 | 5.9 | 4.5 |
| EV/Sales (x) | 5.9 | 5.1 | 4.4 | 3.9 | 3.4 |
| EV/EBITDA (x) | 22.2 | 21.0 | 17.8 | 15.5 | 13.8 |
| EV/EBIT(x) | 26.5 | 25.3 | 21.5 | 18.7 | 16.6 |
| EV/IC (x) | 15.2 | 14.0 | 13.5 | 12.8 | 12.2 |
| FCFF yield (%) | 2.7 | 3.1 | 3.3 | 3.7 | 4.4 |
| FCFE yield (%) | 2.6 | 3.1 | 3.0 | 3.5 | 4.1 |
| Dividend yield (%) | - | - | - | - | - |
| DuPont-RoE split | | | | | |
| Net profit margin (%) | 17.5 | 16.1 | 15.7 | 16.1 | 16.6 |
| Total asset turnover (x) | 1.5 | 1.5 | 1.7 | 1.8 | 1.6 |
| Assets/Equity (x) | 1.0 | 1.0 | 1.0 | 1.0 | 0.9 |
| RoE (%) | 25.9 | 23.8 | 25.5 | 26.8 | 25.8 |
| DuPont-RoIC | | | | | |
| NOPLAT margin (%) | 16.5 | 15.2 | 15.2 | 15.4 | 15.4 |
| IC turnover (x) | 2.8 | 2.9 | 3.1 | 3.4 | 3.6 |
| RoIC (%) | 45.4 | 43.4 | 47.6 | 52.4 | 56.0 |
| Operating metrics | | | | | |
| Core NWC days | 65.3 | 62.7 | 59.5 | 59.6 | 59.5 |
| Total NWC days | 65.3 | 62.7 | 59.5 | 59.6 | 59.5 |
| Fixed asset turnover | 2.4 | 2.5 | 2.6 | 2.7 | 2.7 |
| Opex-to-revenue (%) | 73.5 | 75.6 | 75.3 | 75.0 | 75.0 |

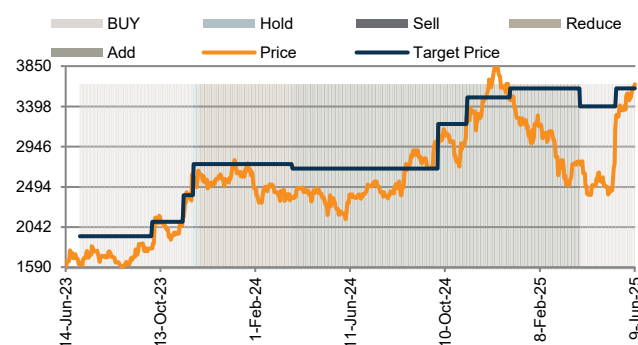
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

| Date | Closing Price (INR) | TP (INR) | Rating | Analyst |
|-----------|---------------------|----------|--------|-------------------|
| 16-May-25 | 3,302 | 3,600 | Buy | Dipeshkumar Mehta |
| 31-Mar-25 | 2,777 | 3,400 | Buy | Dipeshkumar Mehta |
| 31-Jan-25 | 3,058 | 3,600 | Add | Dipeshkumar Mehta |
| 01-Jan-25 | 3,467 | 3,600 | Add | Dipeshkumar Mehta |
| 07-Nov-24 | 3,295 | 3,500 | Add | Dipeshkumar Mehta |
| 01-Oct-24 | 3,079 | 3,200 | Add | Dipeshkumar Mehta |
| 15-Aug-24 | 2,402 | 2,700 | Add | Dipeshkumar Mehta |
| 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 |

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Bloomberg, Company, Emkay Research

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Emkay Global Financial Services Ltd.

CIN - L67120MH1995PLC084899

7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India

Tel: +91 22 66121212 Fax: +91 22 66121299 Web: www.emkayglobal.com

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