

Strong operating performance

Information Technology ▶ Result Update ▶ November 11, 2023

TARGET PRICE (Rs): 2,400

eClerx's Q2 operating performance came well ahead of estimates. Revenue grew 4.4% QoQ to USD87.6mn, on the back of traction in financial markets and customer operations. EBITDAM expanded by 390bps QoQ to 28.4%, driven by revenue-growth-led operating leverage and stable delivery costs (on account of change in offshore employee mix and lower tech headcount). Subsequent to the impressive Q2 margin performance, the management now expects adjusted EBITDAM to register its targeted range of 28-32% for FY24; it had earlier estimated that Company will miss the target post Q1. Despite the macro headwinds, eClerx remains cautiously optimistic and expects to see sequential growth in Q3. The stock has rallied over 23%/59% in the last 3M/6M. While valuation is undemanding, the stock is likely to take some breather in the near term, as investors await clarity on the medium-term growth plan under the new CEO. We upgrade FY24E-FY26E EPS by 1.5%-7.2%, to factor-in the Q2 beat; we raise our target multiple to 18x (from 16x), considering the better earnings growth trajectory; retain BUY, with revised TP of Rs2,400 (18x Sep-25E EPS).

eClerx Services: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	21,603	26,479	29,187	32,139	35,051
EBITDA	6,620	7,225	7,987	8,808	9,649
Adj. PAT	4,174	4,888	5,142	5,748	6,346
Adj. EPS (Rs)	82.1	97.3	104.9	122.1	139.4
EBITDA margin (%)	30.6	27.3	27.4	27.4	27.5
EBITDA growth (%)	42.6	9.1	10.6	10.3	9.5
Adj. EPS growth (%)	50.2	18.4	7.8	16.4	14.1
RoE (%)	27.2	29.8	26.1	25.1	26.3
RoIC (%)	51.4	50.4	52.7	58.3	65.1
P/E (x)	26.2	22.1	20.5	17.6	15.4
EV/EBITDA (x)	15.8	14.4	12.0	10.3	8.9
P/B (x)	7.0	6.3	4.7	4.3	3.9
FCFF yield (%)	3.5	3.7	4.8	5.8	6.6

Source: Company, Emkay Research

Results summary

eClerx's revenue grew 4.4% QoQ to USD87.6mn (4.4% CC), above our estimates. BPaaS revenue grew 0.4% QoQ in Q2. EBITDAM expanded by 390bps QoQ to 28.4%, above our estimate of 25.7%, on the back of strong revenue growth-led operating leverage, flat delivery costs due to change in employee mix and reduction in tech headcount, and Rupee depreciation. Adjusted EBITDAM (incl. other income) expanded by 440bps QoQ to 29.7%. Geography-wise, North America and RoW each grew 5.9% QoQ, whereas Europe declined 1.8% QoQ. Offshore voluntary attrition inched up, to 23.8% vs 21.0% in Q1. Total headcount was up by 607 QoQ to 16,333 employees, at 3.9% QoQ. Top-5 clients grew 8.0% QoQ. Top 6-10 clients stayed subdued sequentially, and their combined revenue remained within the narrow range in last four quarters. Emerging clients' revenue grew 3.0% sequentially, in Q2. Onshore revenue grew 12.5% QoQ, while offshore revenue grew 2.6% QoQ. Staff utilization (delivery) inched up by 60bps QoQ to 75.4%. **What we like:** all-round operating beat in Q2 performance, steady cash conversion (OCF/EBITDA at ~78%), and guidance of growth continuity in Q3. **What we do not like:** Continued softness in Europe (-1.8% QoQ).

Earnings call KTAs

i) The management indicated that there has been no marked change in the deal pipeline, nor in the deal conversion cycle, over the last few months. ii) Management is cautiously optimistic about Q3 and expects sequential revenue growth in Q3 while prefer to wait for a few weeks before commenting on the Q4 growth outlook, as clients finalize their budgets. iii) Hitech remains tepid and the management continues to be cautious in this segment. iv) Company retains caution in the luxury segment, as some key clients in the segment have been hit post the pent-up demand after the pandemic; this is normalizing. v) Company does not plan any structural change under the leadership transition, and continues to invest in sales and marketing. New MD&CEO Kapil Jain will present his medium-term plan at the end of FY24 which will outline his 3-year growth strategy. vi) The management expects adjusted EBITDAM in H2 to track levels similar to those in Q2 (~29.7%). vii) Growth in the Delivery headcount has been largely at the bottom of the pyramid. Further, headcount in Tech has reduced due to planned streamlining of the bench since the last two quarters. Both factors have led to flat delivery cost sequentially. viii) Company is witnessing an increased number of active discussions related to GenAI and is in 55 active discussions, with most in areas of content operations, care ops and insights on demand. ix) Company is open to an attractive acquisition opportunity, in the absence of which, it will continue with its past distribution policy.

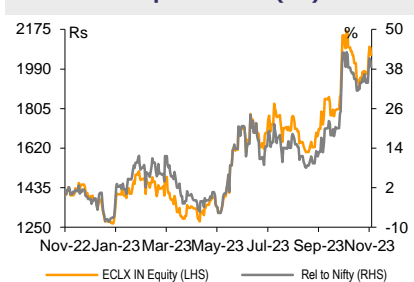
Target Price – 12M	Sep-24
Change in TP (%)	14.3
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	11.5
CMP (10-Nov-23) (Rs)	2,151.9

Stock Data	Ticker
52-week High (Rs)	2,250
52-week Low (Rs)	1,221
Shares outstanding (mn)	49.0
Market-cap (Rs bn)	105
Market-cap (USD mn)	1,266
Net-debt, FY24E (Rs mn)	-9,277
ADTV-3M (mn shares)	-
ADTV-3M (Rs mn)	226.8
ADTV-3M (USD mn)	2.7
Free float (%)	44.0
Nifty-50	19,425
INR/USD	83.3
Shareholding, Sep-23	
Promoters (%)	53.6
FPIs/MFs (%)	12.1/21.7

Price Performance

(%)	1M	3M	12M
Absolute	3.1	23.4	56.6
Rel. to Nifty	4.5	24.2	45.3

1-Year share price trend (Rs)



Dipesh Mehta

dipeshkumar.mehta@emkayglobal.com
+91 22 6612 1253

Ayush Bansal

ayush.bansal@emkayglobal.com
+91 22 6612 1344

Pulkit Chawla

pulkit.chawla@emkayglobal.com
+91 22 6642 4258

Exhibit 1: Quarterly snapshot

(Rs mn)	Q2FY24	Q1FY24	QoQ (%)	Q2FY23	YoY (%)
Revenue (USD terms)	87.6	83.9	4.4	82.5	6.2
Net sales	7,218	6,845	5.4	6,503	11.0
Operating expenses	5171	5170		4688	
EBITDA	2,047	1,675	22.2	1,815	12.8
- Margin (%)	28.4	24.5		27.9	
Depreciation	303	284		274	
EBIT	1,744	1,391	25.4	1,541	13.2
- Margin (%)	24.2	20.3		23.7	
Interest paid	61.4	59.0		50.8	
Forex Gains/(Losses)	46	0		153	
Other income	96	75		54	
Pre-tax profit	1,824	1,406	29.7	1,698	
Tax provided	463	340		438	
Profit after tax	1,361	1,067		1,260	
Emkay - Net profit	1,360	1,063	27.9	1,259	8.0
EPS (Rs)	27.7	21.7	27.9	24.8	11.8

Source: Company, Emkay Research

Exhibit 2: Actuals vs estimates

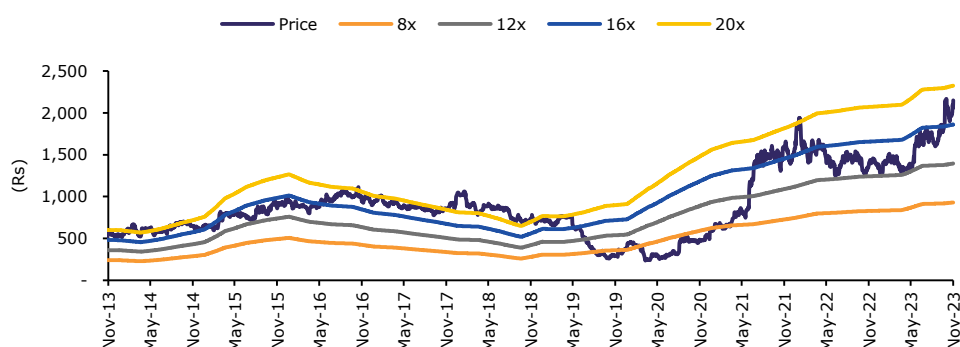
(Rs mn)	Actual	Estimate		Variation		Comment
		Emkay	Consensus	Emkay	Consensus	
Sales (in USD terms)	87.6	86.0	85.4	1.9%	2.6%	Revenues were ahead of our expectations
Sales (in INR terms)	7,218	7,072	7,054	2.1%	2.3%	
EBIT	1,744	1,503	1,555	16.1%	12.2%	
EBIT margin	24.2%	21.3%	22.0%	290 bps	210 bps	Margins beat expectations on the back of operating leverage
PAT	1,361	1,134	1,178	20.1%	15.5%	Net profit beat estimates due to operating performance beat

Source: Company, Bloomberg, Emkay Research

Exhibit 3: Changes in estimates

(Rs mn)	FY24E			FY25E			FY26E		
	Old	New	Chg	Old	New	Chg	Old	New	Chg
Revenues (USD mn)	348	353	1.5%	374	382	2.0%	404	412	2.0%
YoY growth (%)	4.7	6.2		7.5	8.0		8.0	8.0	
Revenue	28,737	29,187	1.6%	31,499	32,139	2.0%	34,354	35,051	2.0%
EBIT	6,345	6,749	6.4%	7,323	7,477	2.1%	8,069	8,221	1.9%
EBIT margin (%)	22.1	23.1		23.3	23.3		23.5	23.5	
Net profit	4,796	5,142	7.2%	5,643	5,748	1.9%	6,256	6,346	1.4%
EPS (Rs)	97.8	104.9	7.2%	119.9	122.1	1.9%	137.4	139.4	1.5%

Source: Company, Emkay Research

Exhibit 4: eClerx – One-year forward P/E

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
Revenue	21,603	26,479	29,187	32,139	35,051
Revenue growth (%)	38.1	22.6	10.2	10.1	9.1
EBITDA	6,620	7,225	7,987	8,808	9,649
EBITDA growth (%)	42.6	9.1	10.6	10.3	9.5
Depreciation & Amortization	1,032	1,140	1,238	1,331	1,428
EBIT	5,588	6,085	6,749	7,477	8,221
EBIT growth (%)	46.0	8.9	10.9	10.8	9.9
Other operating income	0	0	0	0	0
Other income	232	657	382	524	610
Financial expense	215	212	250	286	313
PBT	5,605	6,530	6,881	7,715	8,518
Extraordinary items	0	0	0	0	0
Taxes	1,427	1,638	1,734	1,967	2,172
Minority interest	(4)	(4)	(5)	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	4,174	4,888	5,142	5,748	6,346
PAT growth (%)	47.7	17.1	5.2	11.8	10.4
Adjusted PAT	4,174	4,888	5,142	5,748	6,346
Diluted EPS (Rs)	82.1	97.3	104.9	122.1	139.4
Diluted EPS growth (%)	50.2	18.4	7.8	16.4	14.1
DPS (Rs)	0.7	1.0	1.0	1.0	1.0
Dividend payout (%)	0.8	1.0	1.0	0.8	0.7
EBITDA margin (%)	30.6	27.3	27.4	27.4	27.5
EBIT margin (%)	25.9	23.0	23.1	23.3	23.5
Effective tax rate (%)	25.5	25.1	25.2	25.5	25.5
NOPLAT (pre-IndAS)	4,165	4,558	5,048	5,571	6,125
Shares outstanding (mn)	50.8	50.3	49.0	47.1	45.5

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
PBT	5,605	6,530	6,881	7,715	8,518
Others (non-cash items)	1,222	1,050	1,238	1,331	1,428
Taxes paid	(1,642)	(1,782)	(1,734)	(1,967)	(2,172)
Change in NWC	(704)	(873)	(397)	(180)	(176)
Operating cash flow	4,482	4,926	5,988	6,899	7,598
Capital expenditure	(625)	(901)	(932)	(1,012)	(1,082)
Acquisition of business	(138)	0	0	0	0
Interest & dividend income	43	65	0	0	0
Investing cash flow	380	(844)	(932)	(1,012)	(1,082)
Equity raised/(repaid)	(3,548)	(3,773)	0	(4,448)	(4,971)
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
Financing cash flow	(4,163)	(4,401)	(49)	(4,495)	(5,016)
Net chg in Cash	698	(319)	5,007	1,392	1,500
OCF	4,482	4,926	5,988	6,899	7,598
Adj. OCF (w/o NWC chg.)	5,186	5,798	6,385	7,079	7,774
FCFF	3,856	4,025	5,056	5,887	6,516
FCFE	3,684	3,878	4,806	5,601	6,203
OCF/EBITDA (%)	67.7	68.2	75.0	78.3	78.7
FCFE/PAT (%)	88.3	79.3	93.5	97.4	97.7
FCFF/NOPLAT (%)	92.6	88.3	100.2	105.7	106.4

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	21,761	23,034	24,383
Net worth	15,676	17,149	22,242	23,494	24,825
Minority interests	12	17	22	22	22
Deferred tax liability (net)	(233)	(403)	(403)	(403)	(403)
Total debt	1	10	10	10	10
Total liabilities & equity	15,457	16,772	21,870	23,123	24,453
Net tangible fixed assets	922	1,060	883	747	640
Net intangible assets	1,256	1,175	1,020	867	710
Net ROU assets	1,194	1,530	1,556	1,526	1,444
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
Cash & equivalents	4,936	4,279	9,287	10,678	12,178
Current assets (ex-cash)	6,277	7,379	8,509	9,309	10,099
Current Liab. & Prov.	4,862	5,564	6,297	6,918	7,531
NWC (ex-cash)	1,414	1,815	2,212	2,392	2,568
Total assets	15,457	16,772	21,870	23,123	24,453
Net debt	(4,935)	(4,269)	(9,277)	(10,668)	(12,168)
Capital employed	15,457	16,772	21,870	23,123	24,453
Invested capital	8,540	9,540	9,630	9,492	9,322
BVPS (Rs)	308.4	341.2	453.7	499.1	545.2
Net Debt/Equity (x)	(0.3)	(0.2)	(0.4)	(0.5)	(0.5)
Net Debt/EBITDA (x)	(0.7)	(0.6)	(1.2)	(1.2)	(1.3)
Interest coverage (x)	0.0	0.0	0.0	0.0	0.0
RoCE (%)	38.4	41.8	36.9	35.6	37.1

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	26.2	22.1	20.5	17.6	15.4
P/CE(x)	21.0	17.9	16.5	14.3	12.6
P/B (x)	7.0	6.3	4.7	4.3	3.9
EV/Sales (x)	4.8	3.9	3.3	2.8	2.4
EV/EBITDA (x)	15.8	14.4	12.0	10.3	8.9
EV/EBIT(x)	18.7	17.1	14.3	12.1	10.4
EV/IC (x)	12.2	10.9	10.0	9.5	9.2
FCFF yield (%)	3.5	3.7	4.8	5.8	6.6
FCFE yield (%)	3.4	3.6	4.6	5.5	6.3
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
DuPont-RoE split					
Net profit margin (%)	19.3	18.5	17.6	17.9	18.1
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
RoE (%)	27.2	29.8	26.1	25.1	26.3
DuPont-RoIC					
NOPLAT margin (%)	19.3	17.2	17.3	17.3	17.5
IC turnover (x)	2.7	2.9	3.0	3.4	3.7
RoIC (%)	51.4	50.4	52.7	58.3	65.1
Operating metrics					
Core NWC days	23.9	25.0	27.7	27.2	26.7
Total NWC days	23.9	25.0	27.7	27.2	26.7
Fixed asset turnover	2.0	2.2	2.2	2.2	2.3
Opex-to-revenue (%)	69.4	72.7	72.6	72.6	72.5

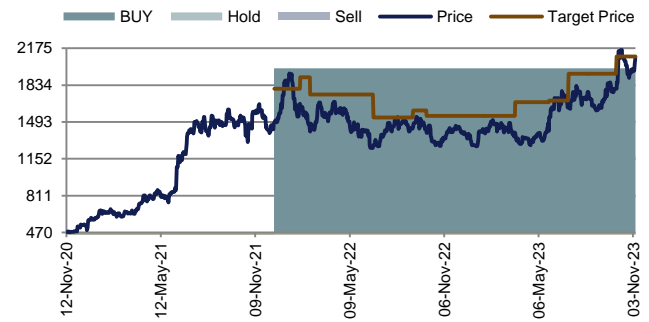
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
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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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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