

eClerx reported strong results in Q2FY25; revenue growth and margin were both better than our estimates. Revenue growth was led by Financial Market supported by Customer Operations, whereas Digital saw mixed performance. The strong margin performance was aided by: i) Stronger revenue growth, ii) Higher utilizations, and iii) One-offs to the tune of 85bps. New deals ACV was down 1.7% YoY, attributable to longer decision making by clients, particularly in the digital segment. While the overall market remains volatile, pipeline remains healthy and broad-based. Roll-offs increased in Q2, compared to Q1, and its full impact should be seen in Q3. Management has maintained its guidance for top quartile growth among its peer group, 24-28% adjusted EBITDA margin, and absolute EBITDA growth for FY25. We increase our FY25-27E EPS 2.3-4%, factoring in Q2 performance. We also hike our TM to 25x (from 23x) given stronger growth profile and steady execution. We retain ADD on the stock and revise TP to Rs3,500 at 25x Sep-26E EPS.

eClerx Services: Financial Snapshot (Consolidated)					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	26,479	29,255	33,683	38,071	42,791
EBITDA	7,225	7,750	8,260	9,464	10,685
Adj. PAT	4,888	5,133	5,324	6,058	6,986
Adj. EPS (Rs)	99.7	104.3	111.7	130.8	155.1
EBITDA margin (%)	27.3	26.5	24.5	24.9	25.0
EBITDA growth (%)	9.1	7.3	6.6	14.6	12.9
Adj. EPS growth (%)	20.7	4.6	7.1	17.0	18.6
RoE (%)	29.8	25.9	23.4	25.2	26.4
RoIC (%)	50.4	47.0	45.5	50.6	56.2
P/E (x)	32.9	31.4	29.4	25.1	21.2
EV/EBITDA (x)	21.7	19.9	18.1	15.1	12.8
P/B (x)	9.4	7.2	6.8	6.1	5.3
FCFF yield (%)	2.5	2.9	3.1	3.7	4.5

Source: Company, Emkay Research

Result summary

eClerx's revenue grew 6% QoQ to USD98.8mn (5.7% CC). BPaaS revenue grew 0.8% QoQ. EBITDAM surprised positively with expansion of 480bps QoQ to 26%. Adj. EBITDAM (incl other income) expanded by 380bps QoQ to 27.1% on account of operating leverage, improved utilization, and few one-offs (85bps impact). Geography-wise, North America and RoW grew 7.4% and 7% QoQ, respectively, whereas Europe declined slightly by 0.4% QoQ. Offshore voluntary attrition increased to 22.8% vs 18.1% QoQ. Total headcount was up by 478 QoQ (2.7% QoQ) to 18,227 employees. Top-5 clients grew 9.3% QoQ and top 6-10 clients grew 6.1% QoQ. Emerging clients' revenue grew 1.9% sequentially. Onshore and offshore revenue rose 5.7% and 6.1% QoQ, respectively. Staff utilization (delivery) grew by 200bps QoQ to 74.1%. **What we like:** Broad-based revenue growth momentum, margin expansion, and cash conversion (90% OCF/EBITDA). **What we do not like:** Europe remains under pressure.

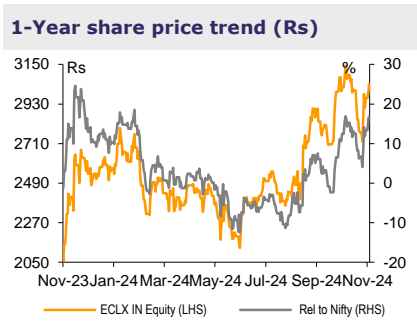
Earnings call KTAs

1) The strong growth in financial markets division was driven by offshore and onshore growth in the client lifecycle business, particularly from the compliance and regulatory perspective. The company continues to see broad-based opportunities and is also seeing a pickup in demand for transformational services in this segment. 2) Customer operations growth was primarily driven by execution as the industry continues to face pressure in revenue and subscriber growth. 3) Digital division had a mixed Q2 as growth in data operations was offset by slowdown in the creative business. 4) The company is seeing initial success in cross selling its Martech and data engineering services to its existing clients. 5) The QoQ margin was impacted to the tune of 85bps by few one-offs in Q1 of sign-on bonuses, higher 401K contributions, and change in calculation method for leave encashment provision. Hence, margins in Q3 are expected to be lower sequentially. 6) The new offices in Chandigarh and Pune will be operational in Q3 and the Mumbai office will be operational in Q4. As a result, G&A are expected to increase in H2 (50-70bps impact in Q3 and lower in Q4). 7) The management expects improvement in budget outlook on hitech, retail, manufacturing, and distribution. 8) Roll offs (pertaining to short-term projects which have come to an end) were higher sequentially in Q2, and its full impact should be seen in Q3. 9) Focus areas for M&As include: a) adding consulting capabilities in financial markets, b) creative and analytics in Digital, c) salesforce implementation capabilities on the tech front, and d) near-shore presence on the customer operation front. 10) The company has combined technology and analytics under a single leadership for better positioning.

Target Price – 12M	Sep-25
Change in TP (%)	9.4
Current Reco.	ADD
Previous Reco.	ADD
Upside/(Downside) (%)	6.5
CMP (06-Nov-24) (Rs)	3,284.9

Stock Data	Ticker
52-week High (Rs)	3,345
52-week Low (Rs)	1,963
Shares outstanding (mn)	47.7
Market-cap (Rs bn)	157
Market-cap (USD mn)	1,857
Net-debt, FY25E (Rs mn)	-7,026
ADTV-3M (mn shares)	-
ADTV-3M (Rs mn)	469.7
ADTV-3M (USD mn)	5.6
Free float (%)	44.0
Nifty-50	24,484
INR/USD	84.3
Shareholding, Sep-24	
Promoters (%)	53.8
FPIs/MFs (%)	10.3/24.0

Price Performance			
(%)	1M	3M	12M
Absolute	8.7	32.1	60.8
Rel. to Nifty	11.1	29.5	27.5



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Exhibit 1: Quarterly snapshot

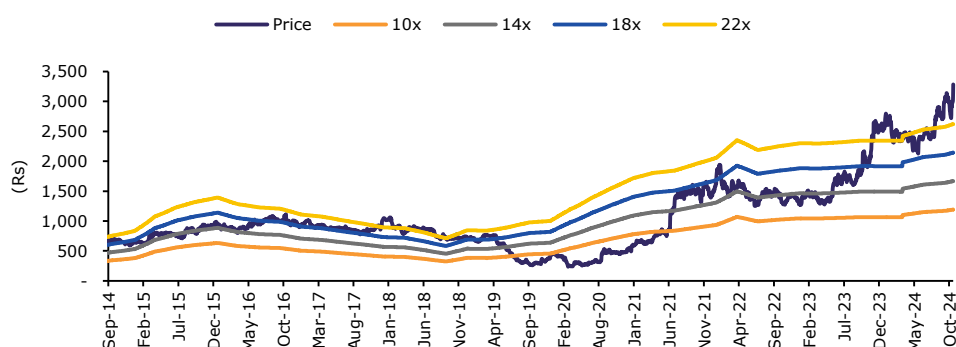
(Rs mn)	Q2FY25	Q1FY25	QoQ (%)	Q2FY24	YoY (%)
Revenue (USD)	98.8	93.3	6.0	87.6	12.8
Net sales	8,318	7,819	6.4	7,218	15.2
Operating expenses	6159	6159		5171	
EBITDA	2,159	1,661	30.0	2,047	5.5
- Margin (%)	26.0	21.2	470.0	28.4	(240.0)
Depreciation	328	317		303	
EBIT	1,831	1,344	36.3	1,744	5.0
- Margin (%)	22.0	17.2	480.0	24.2	(220.0)
Interest paid	81.2	77.2		61.4	
Forex Gains/(Losses)	1	7		46	
Other income	127	205		96	
Pre-tax profit	1,879	1,479	27.0	1,824	
Tax provided	484	359		463	
Profit after tax	1,395	1,120		1,361	
Emkay - Net profit	1,402	1,116	25.7	1,360	3.1
EPS (Rs)	29.4	22.8	29.3	27.7	6.1

Source: Company, Emkay Research

Exhibit 2: Changes in estimates

(Rs mn)	FY25E			FY26E			FY27E		
	Old	New	Change	Old	New	Change	Old	New	Change
Revenue (USD mn)	393	400	1.8%	438	447	2.1%	487	498	2.2%
YoY growth (%)	11.0	13.1		11.5	11.8		11.1	11.2	
Revenue	33,078	33,683	1.8%	37,295	38,071	2.1%	41,873	42,791	2.2%
EBIT	6,536	6,816	4.3%	7,656	7,831	2.3%	8,662	8,940	3.2%
EBIT margin (%)	19.8	20.2		20.5	20.6		20.7	20.9	
Net profit	5,120	5,324	4.0%	5,913	6,058	2.5%	6,754	6,986	3.4%
EPS (Rs)	107.5	111.7	4.0%	127.8	130.8	2.3%	150.1	155.1	3.3%

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	33,683	38,071	42,791
Revenue growth (%)	22.6	10.5	15.1	13.0	12.4
EBITDA	7,225	7,750	8,260	9,464	10,685
EBITDA growth (%)	9.1	7.3	6.6	14.6	12.9
Depreciation & Amortization	1,140	1,258	1,444	1,633	1,746
EBIT	6,085	6,492	6,816	7,831	8,940
EBIT growth (%)	8.9	6.7	5.0	14.9	14.2
Other operating income	0	0	0	0	0
Other income	657	655	622	639	801
Financial expense	212	235	316	339	363
PBT	6,530	6,912	7,123	8,132	9,378
Extraordinary items	0	(18)	0	0	0
Taxes	1,638	1,776	1,802	2,074	2,391
Minority interest	(4)	(3)	3	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	4,888	5,115	5,324	6,058	6,986
PAT growth (%)	17.1	4.6	4.1	13.8	15.3
Adjusted PAT	4,888	5,133	5,324	6,058	6,986
Diluted EPS (Rs)	99.7	104.3	111.7	130.8	155.1
Diluted EPS growth (%)	20.7	4.6	7.1	17.0	18.6
DPS (Rs)	1.0	1.0	1.0	1.0	1.0
Dividend payout (%)	1.0	1.0	0.9	0.8	0.6
EBITDA margin (%)	27.3	26.5	24.5	24.9	25.0
EBIT margin (%)	23.0	22.2	20.2	20.6	20.9
Effective tax rate (%)	25.1	25.7	25.3	25.5	25.5
NOPLAT (pre-IndAS)	4,558	4,824	5,091	5,834	6,660
Shares outstanding (mn)	49.0	49.0	47.7	46.3	45.1

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
PBT	6,530	6,912	7,123	8,132	9,378
Others (non-cash items)	1,050	1,370	1,444	1,633	1,746
Taxes paid	(1,782)	(1,723)	(1,802)	(2,074)	(2,391)
Change in NWC	(873)	(1,281)	(643)	(795)	(828)
Operating cash flow	4,926	5,259	6,121	6,896	7,904
Capital expenditure	(901)	(643)	(1,211)	(1,202)	(1,312)
Acquisition of business	0	0	0	0	0
Interest & dividend income	65	206	0	0	0
Investing cash flow	(844)	(4,879)	(1,211)	(1,202)	(1,312)
Equity raised/(repaid)	(3,773)	(314)	(4,757)	(3,860)	(4,251)
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)	(4,296)
Net chg in Cash	(319)	(685)	105	1,787	2,297
OCF	4,926	5,259	6,121	6,896	7,904
Adj. OCF (w/o NWC chg.)	5,798	6,540	6,764	7,691	8,732
FCFF	4,025	4,616	4,910	5,694	6,592
FCFE	3,878	4,588	4,594	5,355	6,229
OCF/EBITDA (%)	68.2	67.9	74.1	72.9	74.0
FCFE/PAT (%)	79.3	89.7	86.3	88.4	89.2
FCFF/NOPLAT (%)	88.3	95.7	96.4	97.6	99.0

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	480	482	469	455	443
Reserves & Surplus	16,668	21,993	22,525	24,690	27,394
Net worth	17,149	22,475	22,994	25,146	27,836
Minority interests	17	20	17	17	17
Deferred tax liability (net)	(403)	(495)	(545)	(595)	(645)
Total debt	10	0	0	0	0
Total liabilities & equity	16,772	21,999	22,465	24,567	27,207
Net tangible fixed assets	1,060	1,274	1,248	1,135	1,082
Net intangible assets	1,175	815	664	509	350
Net ROU assets	1,530	2,347	2,492	2,549	2,548
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	7,026	8,814	11,110
Current assets (ex-cash)	7,379	9,275	10,381	11,682	13,076
Current Liab. & Prov.	5,564	6,699	7,413	8,188	9,025
NWC (ex-cash)	1,815	2,576	2,969	3,494	4,052
Total assets	16,772	21,999	22,465	24,567	27,207
Net debt	(4,269)	(6,921)	(7,026)	(8,814)	(11,110)
Capital employed	16,772	21,999	22,465	24,567	27,207
Invested capital	9,540	11,006	11,366	11,680	12,025
BVPS (Rs)	349.8	458.4	482.6	542.8	617.9
Net Debt/Equity (x)	(0.2)	(0.3)	(0.3)	(0.4)	(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	33.5	36.0	37.6

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	32.9	31.4	29.4	25.1	21.2
P/CE(x)	26.7	25.2	23.1	19.8	16.9
P/B (x)	9.4	7.2	6.8	6.1	5.3
EV/Sales (x)	5.9	5.3	4.4	3.8	3.2
EV/EBITDA (x)	21.7	19.9	18.1	15.1	12.8
EV/EBIT(x)	25.8	23.7	21.9	18.3	15.3
EV/IC (x)	16.4	14.0	13.2	12.3	11.4
FCFF yield (%)	2.5	2.9	3.1	3.7	4.5
FCFE yield (%)	2.4	2.8	2.9	3.5	4.2
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
DuPont-RoE split					
Net profit margin (%)	18.5	17.5	15.8	15.9	16.3
Total asset turnover (x)	1.6	1.5	1.5	1.6	1.7
Assets/Equity (x)	1.0	1.0	1.0	1.0	1.0
RoE (%)	29.8	25.9	23.4	25.2	26.4
DuPont-RoIC					
NOPLAT margin (%)	17.2	16.5	15.1	15.3	15.6
IC turnover (x)	2.9	2.8	3.0	3.3	3.6
RoIC (%)	50.4	47.0	45.5	50.6	56.2
Operating metrics					
Core NWC days	25.0	32.1	32.2	33.5	34.6
Total NWC days	25.0	32.1	32.2	33.5	34.6
Fixed asset turnover	2.2	2.1	2.2	2.2	2.3
Opex-to-revenue (%)	72.7	73.5	75.5	75.1	75.0

Source: Company, Emkay Research

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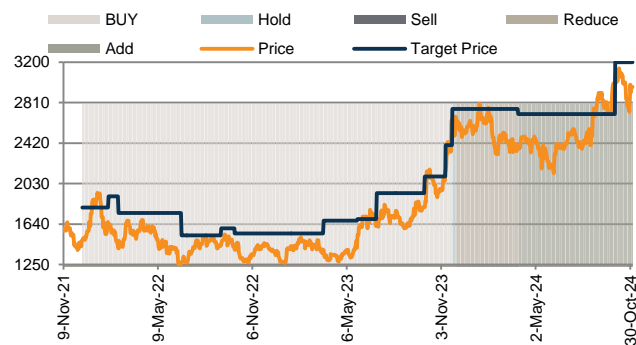
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Date	Closing Price (INR)	TP (INR)	Rating	Analyst
01-Oct-24	3,079	3,200	Add	Dipeshkumar Mehta
15-Aug-24	2,402	2,700	Add	Dipeshkumar Mehta
31-Mar-24	2,367	2,700	Add	Dipeshkumar Mehta
29-Mar-24	2,367	2,700	Add	Dipeshkumar Mehta
01-Mar-24	2,499	2,750	Reduce	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
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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