

CMP: ₹ 1615

Target: ₹ 1800 (11%)

Target Period: 12 months

HOLD

May 30, 2023

## Sequential revenue dip in Q1; double digit growth in FY24 looks challenging...

**About the stock:** eClerx Services (eClerx) provides business process management, automation and analytics services.

- It caters to financial services, communications, retail, media, manufacturing, travel and technology companies
- OCF to EBITDA of >80%, debt free and RoCE of >20%

### Q4FY23 Results: eClerx reported flat revenue growth in Q4FY23.

- Revenue was flat in CC terms in Q4 while in dollar terms it grew 0.6% QoQ
- EBITDA margins increased by ~80 bps QoQ to 30.4%
- Completed buyback of 17.14 lakh shares at buyback amount of ₹ 1,750 per share for total amount of ₹ 300 crore

**What should investors do?** eClerx' share price has grown by ~1.8x (adjusted bonus) over the past five years (from ~₹ 885 in May 2018 to ~₹ 1615 in May 2023).

- We change our rating on the stock from BUY to **HOLD**

**Target Price and Valuation:** We value eClerx at ₹ 1,800 i.e. 14x P/E on FY25E EPS.

### Key triggers for future price performance:

- Traction in customer care, RPA, analytics & content development, cross sell and up sell to Personiv clients to drive growth
- Lower roll-offs, improving deal wins and revival in growth are expected to drive revenues
- Expect dollar revenues to grow at 12.2% CAGR in FY23-25E

**Alternate Stock Idea:** Apart from eClerx, in our IT coverage we also like Persistent.

- Key beneficiary of growth in digital technologies and exposure to growth segments like healthcare & BFSI
- BUY with a target price of ₹ 5,170

# eClerx

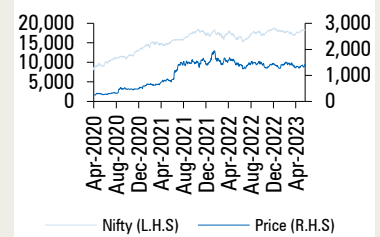
### Particulars

Particular	Amount
Market Cap (₹ Crore)	8,127
Total Debt (₹ Crore)	1
Cash & Investments (₹ Crore)	690
EV (₹ Crore)	7,438
52 week H/L	1677/ 1221
Equity capital	48.0
Face value	10.0

### Shareholding pattern

	Jun-22	Sep-22	Dec-22	Mar-23
Promoter	53	53	53	54
FII	13	12	12	13
DII	20	20	20	20
Public	13	14	15	14

### Price Chart (adj. bonus)



### Recent event & key risks

- Completed buyback of ₹ 300 crore at buyback price of ₹ 1,750 per share
- Key Risk:** (i) Higher than expected revenues, (ii) Lower than expected margins

### Research Analyst

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### Key Financial Summary

Key Financials	FY21	FY22	FY23	5 Year CAGR (FY18-23)	FY24E	FY25E	2 Year CAGR (FY23-25E)
Net sales	1,564	2,160	2,714	14.7%	2,933	3,463	13.0%
EBITDA	465	697	810	17.2%	859	1,028	12.7%
EBITDA Margin (%)	29.7	32.3	29.8		29.3	29.7	
Net Profit	283	417	489	11.0%	529	638	14.3%
EPS (₹)	81.3	81.1	97.2		106.4	128.4	
P/E	19.9	19.9	16.6		15.2	12.6	
RoNW (%)	18.8	26.6	28.5		23.6	22.2	
RoCE (%)	23.3	34.9	39.3		30.6	29.1	

Source: Company, ICICI Direct Research

## Key takeaways of recent quarter & conference call highlights

- The company in CC terms reported flat revenue growth sequentially while in YoY terms it grew 12.1%. In dollar terms, the company reported revenue of US\$85.6, up 0.6% QoQ & 10.9% YoY while in rupee terms revenue came at ₹ 693.1 crore, up 0.9% QoQ & 17.1% YoY
- Geography wise US (71% of mix) reported muted growth of 0.2% QoQ while Europe region (20% of mix) declined 3.1% QoQ. RoW region grew 12.9% during the quarter
- The company reported that its offshore revenue (81.9% of mix) grew 1.4% QoQ while onshore revenue (18.1% of mix) declined 3.1% QoQ. The company indicated that it expects the onshore revenue to remain at similar level of ~18% for couple quarters. Bpaas revenue (29% of mix) grew 12.2% QoQ & 14.8% YoY due to surge in volumes generally expected in Q4
- EBITDA margins (including other income) during the quarter improved ~80 bps QoQ to 30.4% due to decline in delivery cost & lower sub-contractor cost. Cost of delivery declined 390 bps QoQ
- The company, during the quarter, reported lower other income due to a decline in revaluation reserve due to appreciation of rupee against dollar during the quarter. The company reported other income of ₹ 5.3 crore in Q4 while PAT came in at ₹ 132 crore with a corresponding PAT margin of 19.1%
- The company for FY23 reported revenue of US\$332.7 mn, up 16.9% while in CC terms it grew 19%. The company for FY23 reported an EBITDA margin of 29.8%, down 210 bps against guidance of 28-32% of EBITDA margin for FY23. PAT margin for the year came in at 18.5%, down 80 bps
- Revenue from top five clients (39.9% of mix) grew 0.4% QoQ after declining in Q3 while revenue from top 10 clients (58.9% of mix) grew 0.9% QoQ. The company mentioned that its revenue from emerging clients was flattish on a sequential basis
- The company had earlier indicated that it expects softness in demand due to changes in the macro environment. The company mentioned that the revenue performance during the quarter was impacted by a slowdown in discretionary spending (it forms ~30% of the revenue mix as per company), which impacted the onshore & digital revenue contribution of the company. The company further added that decline was broad based across geographies & clients. The company mentioned that it is expecting revenue dip in Q1 while it is likely to pick up from Q2FY24 onwards. It indicated that it aspires for double digit revenue growth in FY24 but that number looks challenging in the backdrop of possible QoQ revenue decline in Q1. The company mentioned that demand pipeline is strong but deal conversions are taking time
- The company mentioned that it has appointed Kapil Jain as its Group CEO & MD to accelerate the growth of the company. Mr Jain has over two decades of experience in the industry with Infosys and in his last role he served as its Executive Vice President- Global Head of Sales & Enterprise Capability for the BPM business. The company mentioned that till the new strategy is formulated the existing strategy to focus on growing Bpaas, analytics & automation and productised services will continue. The company indicated that PD Mundhra and Anjan Malik will move to more strategic roles now while day to day operations will be handled by Mr Jain
- The company mentioned that it has set up a centre of excellence as part of its tech team, which is figuring out a relevant AI model, which can be incorporated as part of its services. eClerx indicated that in stage 1 the company makes itself familiar with the tech, in stage 2 it finds out how the tech can be implemented as part of its service offerings and in stage 3 it takes the bundled offerings to its clients. The company indicated that in generative AI space it is in between stage 1 and stage 2 and will likely move to stage 3 in the near term

- On the margin front for FY24 the company indicated that the EBITDA margins will likely to remain around 30% for FY24. The company mentioned that margin would be lower in Q1FY24 due to roll out of annual wage hikes and will increase subsequently
- The company's net employees during the quarter declined by 685 to 16,012. The company indicated that the reduction was due to anticipated slowdown in demand & its effort of rationalising the excess bench strength as the supply side challenges is easing out. The company's utilisation during the quarter increased marginally by 20 bps QoQ to 74.9%
- The company mentioned that it continues to gain wallet share among its clients. The company indicated that during the quarter it added one client to US\$3-5 mn revenue bucket list taking the total clients to four
- The company added that despite the slowdown there are enough opportunities in the market for the services it is offering. eClerx indicated that it will continue to grow its business in the segments of BpaaS, analytics & automation and productised services unless it goes for inorganic opportunity outside these segments
- The company mentioned that it enjoys significant cost arbitrage compared to the same work done in the US (one-fourth the cost). Also, compared to India the cost of BPO work done in Philippines is at ~1.5x/2.5x of the cost. The company also mentioned that Philippines region offer strong voice-based work and also finance & accounting related services since they are more familiar with US GAAP accounting due to which it enjoys better pricing compared to Indian BPO employees
- The company mentioned that capex in FY24 will higher as the two new floors in Airoli building will be operational by the end of Q1FY24. The company further mentioned that it has a presence across different cities like Mumbai, Pune, NCR, Coimbatore, etc
- The company mentioned that it completed buyback of 17,14,285 equity shares at a buyback amount of ₹ 1,750 per share for total buyback amount of ₹ 300 crore in February. eClerx also declared a final dividend of ₹ 1 per share for FY23. The company indicated that as per its payout policy it is planning to return excess cash to shareholders ( if they did not find a suitable asset for acquisition)

**Exhibit 1: P&L**

	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	Comments
Revenue	693.1	591.7	17.1	686.7	0.9	On sequential basis revenue was flat in CC terms & grew by 0.6% QoQ in dollar terms
Employee expenses	346.0	299.6	15.5	360.2	(3.9)	
Gross Profit	347.1	292.1	18.8	326.5	6.3	
Gross margin (%)	50.1	49.4	71 bps	47.5	253 bps	
SG&A expenses	140.4	109.9	27.8	135.9	3.3	
EBITDA	212.0	191.9	10.4	208.4	1.7	
EBITDA Margin (%)	30.4	31.9	-157 bps	29.6	77 bps	Margin improved despite muted revenue growth due to lower cost of delivery due to employee rationalization & lower sub con costs
Depreciation & amortisation	31.9	27.9	14.2	29.9	6.7	
EBIT	180.1	164.0	9.8	178.5	0.9	
EBIT Margin (%)	26.0	27.7	-174 bps	26.0	-1 bps	
Other income (less interest)	5.3	9.7	(45.8)	17.8	(70.5)	Other income during the quarter was lower due to decrease in revaluation income due to appreciation of INR against US\$
PBT	174.5	158.7	9.9	173.1	0.8	
Tax paid	42.1	40.3	4.5	41.9	0.5	
PAT	132.5	118.8	11.6	131.0	1.2	

Source: Company, ICICI Direct Research

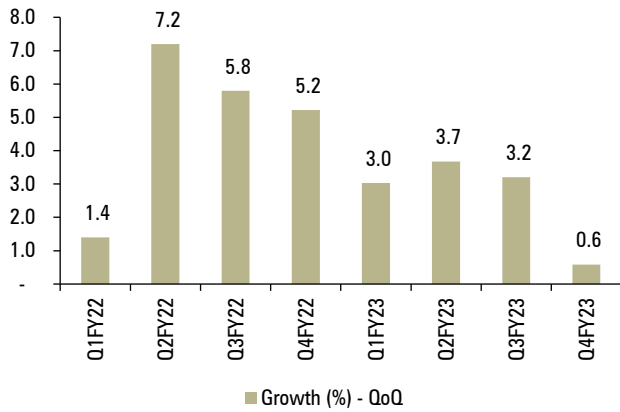
**Exhibit 2: Change in estimates**

(₹ Crore)	FY24E			FY25E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	2,974	2,933	(1.3)	3,203	3,463	8.1	Baking in some recovery in FY25
EBITDA	857	859	0.3	956	1,028	7.6	
EBITDA Margin (%)	28.8	29.3	47 bps	29.8	29.7	-14 bps	Increasing margins on ease of supply side pressure
PAT	550	529	(3.8)	615	638	3.7	
EPS (₹)	110.8	106.4	(3.8)	123.9	128.4	3.7	

Source: Company, ICICI Direct Research

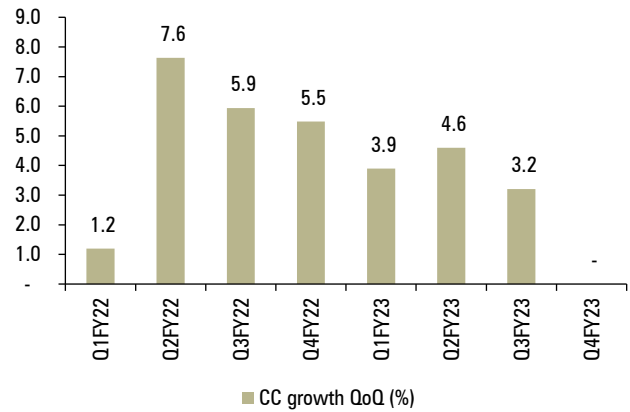
## Key Metrics

**Exhibit 3: Dollar QoQ revenue growth muted in Q4**



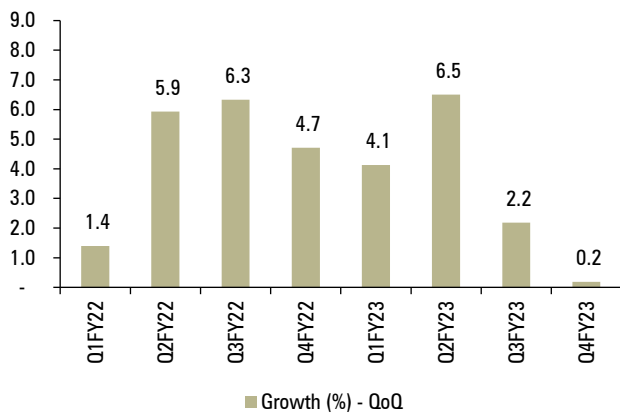
Source: Company, ICICI Direct Research

**Exhibit 4: CC QoQ growth flat in Q4**



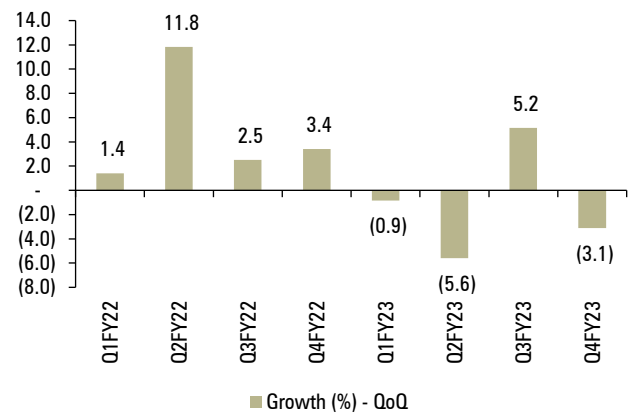
Source: Company, ICICI Direct Research

**Exhibit 5: US region growth moderates in Q4**



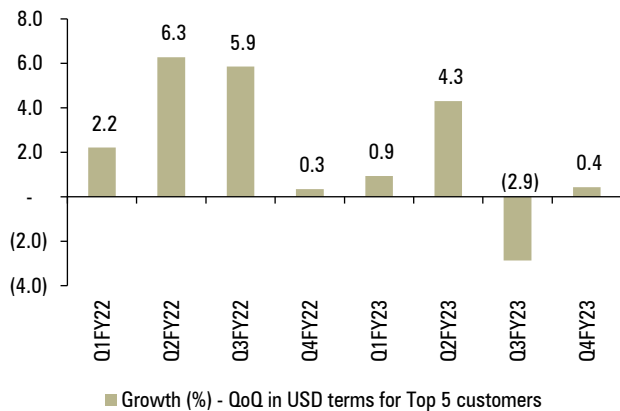
Source: Company, ICICI Direct Research

**Exhibit 6: While Europe declines**



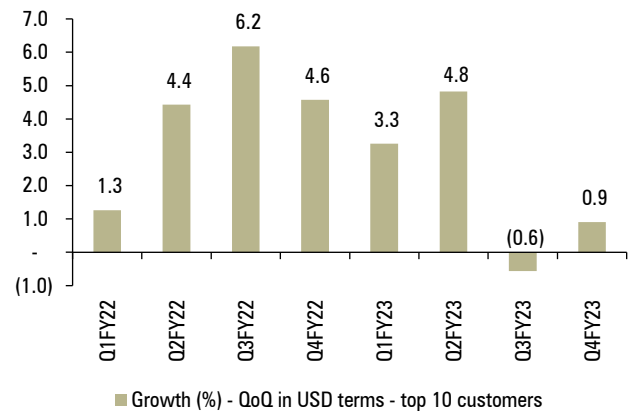
Source: Company, ICICI Direct Research

**Exhibit 7: Top five clients growth trend**



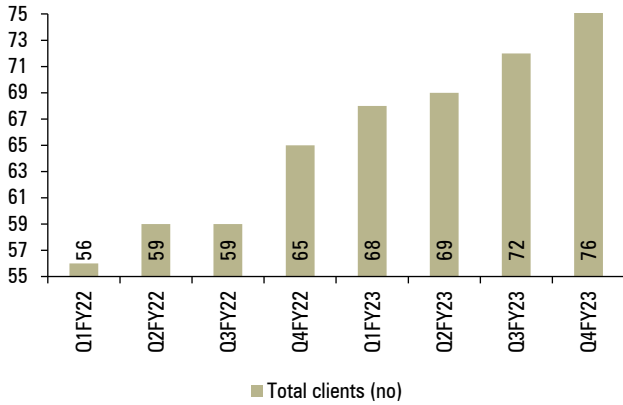
Source: Company, ICICI Direct Research

**Exhibit 8: Top 10 client growth trend**



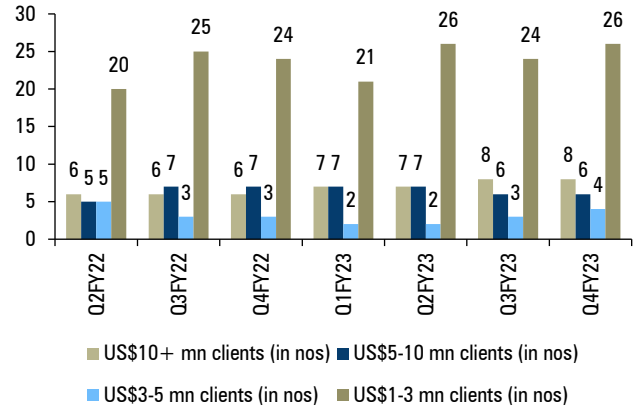
Source: Company, ICICI Direct Research

Exhibit 9: Total clients trend



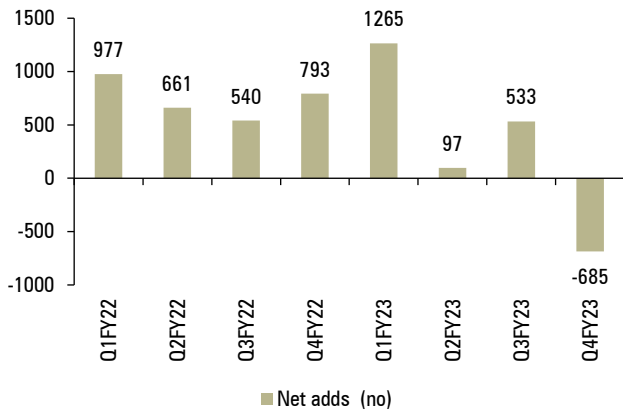
Source: Company, ICICI Direct Research

Exhibit 10: Added one client in US\$3-5 mn clients in Q4



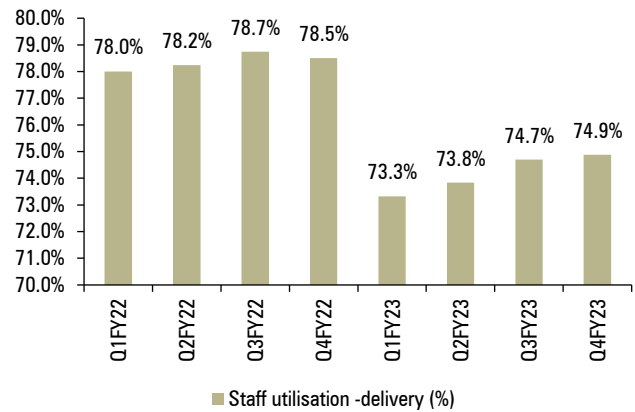
Source: Company, ICICI Direct Research

Exhibit 11: Employee declines due to rationalisation



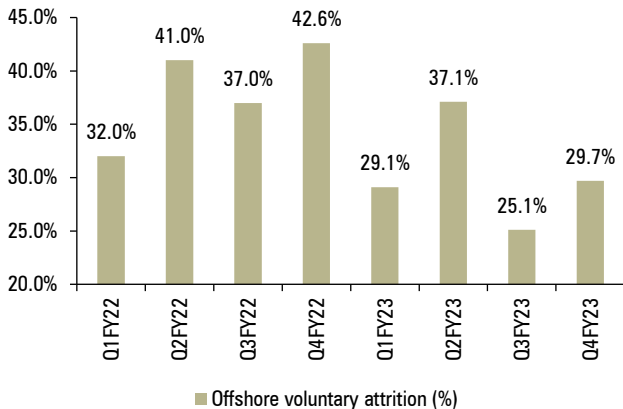
Source: Company, ICICI Direct Research

Exhibit 12: Utilisation gradually improving



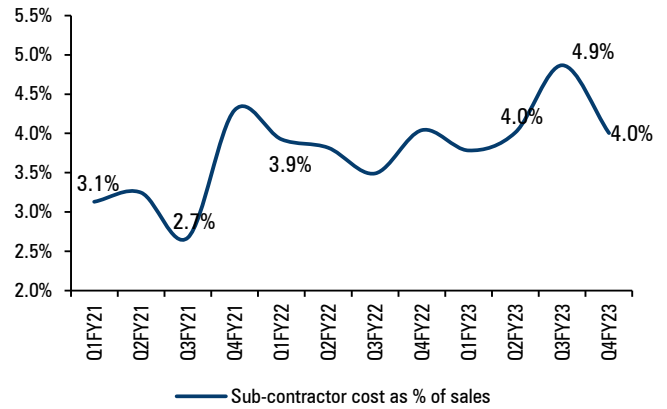
Source: Company, ICICI Direct Research

Exhibit 13: Attrition trend



Source: Company, ICICI Direct Research

Exhibit 14: Sub-contractor cost declining



Source: Company, ICICI Direct Research

## Financial summary

Exhibit 15: Profit and loss statement				
	₹ crore			
	FY22	FY23	FY24E	FY25E
<b>Total Revenues</b>	<b>2,160</b>	<b>2,714</b>	<b>2,933</b>	<b>3,463</b>
Growth (%)	38.1	25.6	8.1	18.0
Employee expenses	1,079	1,387	1,493	1,747
Other Expenditure	409	518	581	687
<b>EBITDA</b>	<b>697</b>	<b>810</b>	<b>859</b>	<b>1,028</b>
Growth (%)	50.0	16.2	6.1	19.7
Depreciation	103	114	131	155
Other Income	24	66	26	26
Interest expense	22	21	22	22
PBT before Exceptional Items	560	653	706	851
Growth (%)	47.2	16.5	8.1	20.6
Tax	143	164	177	213
PAT before Exceptional Items	418	489	530	639
Exceptional items	-	-	-	-
PAT before MI	418	489	530	639
Minority Int & Pft. from associates	0	0	0	0
<b>PAT</b>	<b>417</b>	<b>489</b>	<b>529</b>	<b>638</b>
Growth (%)	47.6	17.1	8.2	20.6
EPS	81.1	97.2	106.4	128.4
EPS (Growth %)	(0.3)	19.9	9.6	20.6

Source: Company, ICICI Direct Research

Exhibit 16: Cash flow statement				
	₹ crore			
	FY22	FY23	FY24E	FY25E
Net profit before Tax	560	653	706	851
Depreciation	103	114	131	155
(inc)/dec in Current Assets	(51)	(96)	(99)	(49)
(inc)/dec in current Liabilities	(164)	(178)	(177)	(213)
<b>CF from operations</b>	<b>448</b>	<b>493</b>	<b>562</b>	<b>744</b>
Other Investments	108	(1)	-	-
Other income	4	6	26	26
(Purchase)/Sale of Fixed Assets	(61)	(90)	(87)	(103)
<b>CF from investing Activities</b>	<b>38</b>	<b>(84)</b>	<b>(61)</b>	<b>(77)</b>
Inc / (Dec) in Equity Capital	(355)	(377)	(0)	(0)
Dividend & Dividend tax	(3)	(3)	(5)	(6)
Interest Paid on Loans	(58)	(20)	(1)	-
<b>CF from Financial Activities</b>	<b>(416)</b>	<b>(440)</b>	<b>(46)</b>	<b>(46)</b>
Exchange rate differences	1	30	-	-
Opening cash balance	349	494	428	883
Other adjustments	-	-	-	-
<b>Closing cash</b>	<b>494</b>	<b>428</b>	<b>883</b>	<b>1,503</b>

Source: Company, ICICI Direct Research;

Exhibit 17: Balance sheet				
	₹ crore			
	FY22	FY23	FY24E	FY25E
Equity	33	48	48	48
Reserves & Surplus	1,534	1,667	2,191	2,823
Networth	1,568	1,715	2,239	2,871
Minority Interest	1	2	2	2
Loans	0	1	0	0
Other liabilities	199	220	220	220
<b>Source of funds</b>	<b>1,768</b>	<b>1,938</b>	<b>2,461</b>	<b>3,093</b>
Gross Block	520	681	808	950
Acc.dep	308	422	553	707
Net Block	212	259	255	243
CWIP	2	21	21	21
Other Intangible assets	126	118	118	118
Other non current assets	45	57	59	65
Investments	194	262	262	262
Goodwill	375	396	396	396
Debtors	329	440	540	619
Cash & Cash equivalents	494	428	883	1,503
Loans and advances	-	-	-	-
Other current assets	293	308	312	321
Trade payables	17	18	20	23
Current liabilities	156	185	203	241
Provisions	129	147	161	190
<b>Application of funds</b>	<b>1,768</b>	<b>1,937</b>	<b>2,461</b>	<b>3,093</b>

Source: Company, ICICI Direct Research

Exhibit 18: Key ratios				
	₹ crore			
	FY22	FY23	FY24E	FY25E
<b>Per share data (₹)</b>				
EPS	81.1	97.2	106.4	128.4
Cash EPS	101.1	119.8	132.7	159.5
BV	304.4	340.8	450.4	577.5
DPS	1.0	1.0	1.0	1.2
Cash Per Share	95.9	85.0	177.5	302.3
<b>Operating Ratios (%)</b>				
EBITDA Margin	32.3	29.8	29.3	29.7
PBT Margin	25.9	24.1	24.1	24.6
PAT Margin	19.3	18.0	18.0	18.4
Debtor days	56	59	67	65
Creditor days	3	2	2	2
<b>Return Ratios (%)</b>				
RoE	26.6	28.5	23.6	22.2
RoCE	34.9	39.3	30.6	29.1
RoIC	55.0	56.7	56.2	66.8
<b>Valuation Ratios (x)</b>				
P/E	19.9	16.6	15.2	12.6
EV / EBITDA	10.7	9.2	8.1	6.2
EV / Net Sales	3.4	2.7	2.4	1.8
Market Cap / Sales	3.8	3.0	2.8	2.3
Price to Book Value	5.3	4.7	3.6	2.8
<b>Solvency Ratios</b>				
Debt/EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	2.1	2.1	2.2	2.1
Quick Ratio	2.1	2.1	2.2	2.1

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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