eClerx Services Limited

ISIN :INE738I01010 | NSE :ECLERX

Price: 2,739
Recommendation: Buy
Industry: Business Process
Sector: Services
Report Date: 02-Apr-2025

eClerx Services Limited is advancing growth through strategic initiatives in Analytics and Automation, achieving a 9% increase. The company is expanding geographically with a new Peru subsidiary and Manila operations. Focused on technology, large deals, and cross-selling, eClerx is recovering in digital sectors. Aiming to double revenues in 4-5 years, it maintains a 24-28% EBITDA margin, exploring GenAI for efficiency.

Sales		Profit & Loss		Profitability Matrix	
Current Year	2350 Cr	Operating Profit(Year)	515 Cr	Operating Profit Margin	21.9 %
Previous Year	1888 Cr	Operating Profit(Quarter)	127 Cr	EBITDA Margin	23.45 %
Current Quarter	609 Cr	PAT (Year)	349 Cr	Net Profit Margin	16.6 %
Previous Quarter	612 Cr	PAT (Quarter)	83.2 Cr	EPS	70.6
Revenue (QYoY)	530 Cr				
Valuation Matrix		**Growth(YoY)**		**Growth(QoQ)**	
Trailing P/E	38.8	Sales Growth	15.5 %	Sales Growth	-0.49 %
PEG Ratio	3.59	PAT Growth	-5.68 %	Sales Growth QYoY	14.91 %
EV/EBITDA	23.9	EPS Growth	-3.02 %	PAT Growth	-14.75 %
P/B	11.2	Dividend Yield	0.04	PAT Growth QYoY	-13.15 %
Capital Allocation		**Holdings**		**Leverage**	
RoE	26.1 %	Promoter	53.8 %	Debt/Equity	0.19
RoA	19.1 %	FII	10.3 %	Debt	229 Cr
RoCE	32.6 %	DII	24.2 %	Market Cap	13429 Cr
RoIC	41.5 %	Public	10.4 %	Enterprise value	13533 Cr
		No of Shares	4.90 Cr	Cash Equivalents	125 Cr

source : Company filings

Company's Overview Based on Recent Concall and Performance:

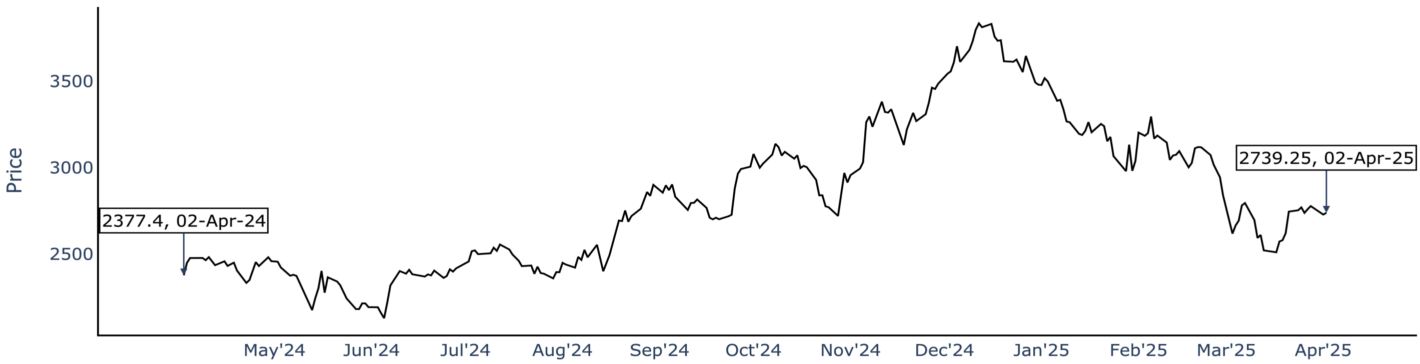
In the recent earnings call, eClerx Services Limited highlighted several new initiatives and business strategies aimed at driving growth and diversification. The company has made significant strides in its Analytics and Automation (A&A;) business, which saw a 9% sequential increase, driven by change and transformation work. The company is also focusing on geo-diversification, with a new subsidiary in Peru set to launch operations in late Q4, and plans to provide Care support from its Manila delivery center. This strategic initiative is part of their broader effort to expand into new geographies and bring new capabilities and offerings to stay relevant for clients and stakeholders.

The company's business strategies are centered around strengthening its pipeline, focusing on technology business, large deals, and cross-sell efforts. The Digital business, after a challenging Q2, showed signs of recovery in Q3, particularly in the fashion and luxury sectors. The company is also seeing momentum in Customer Operations with new logo acquisition and early success in cross-selling its Care business into other verticals. The company continues to invest in technology and analytics, with traction in banking, hi-tech, and retail clients, and wins in change, data engineering, and productized services.

Looking ahead, eClerx is cautiously optimistic about future growth and scaling. The company is working towards accelerated growth, aiming to double revenues in the next 4 to 5 years, although this is contingent on macroeconomic factors. The company plans to continue investing in new centers to enhance cross-sell and upsell opportunities with existing clients and bring in new clients. The leadership hiring is complete, and the company expects to maintain its EBITDA margin in the 24% to 28% range, with a focus on medium to long-term growth and EBITDA perspective.

On the positive side, the company has a healthy pipeline and is seeing green shoots in its strategic pillars, such as cross-sell opportunities. However, there are areas for improvement, such as the need to strengthen invoicing processes to reduce DSO and the potential for further margin downside due to new facility costs. The company is also exploring the potential of GenAI and other technologies to drive productivity and efficiency, although significant monetization from these investments has yet to be realized. Overall, eClerx is well-positioned for growth, with a strong focus on innovation and client-centric strategies.

ECLERX Daily Closing One Year Price Chart



Name	Mar Cap (Rs. Cr.)	P/E	ROE	Sales(G) QoQ	Sales(G) QYoY	PAT(G) QoQ	PAT(G) QYoY
PB Fintech.	72516.75	349.27	1.13%	10.66%	48.31%	41.19%	92.16%
Oracle Fin.Serv.	67272.02	29.36	28.98%	2.47%	-5.94%	-6.30%	-26.93%
Coforge	51964.84	67.86	24.09%	8.36%	42.82%	6.58%	-9.45%
Hexaware Tech.	42502.15	36.21	23.50%	0.60%	20.58%	6.41%	65.40%
KPIT Technologi.	35982.79	47.46	31.19%	0.45%	17.58%	-8.24%	21.17%

Aspect	Commentary
Revenue	The company shows a robust revenue increase from the previous year, indicating strong market demand and effective sales strategies. However, a slight decline in quarterly revenue suggests potential seasonal fluctuations or market challenges that need addressing to sustain growth momentum.
Profit & Loss	Operating profit remains strong, reflecting efficient cost management. However, a decline in quarterly profit after tax suggests potential cost pressures or revenue challenges. Maintaining profitability will require strategic cost control and revenue enhancement initiatives.
Profitability Matrix	The company maintains healthy profitability margins, with a strong operating profit margin and EBITDA margin. This indicates effective cost management and pricing strategies. However, the net profit margin suggests room for improvement in net income generation.
Valuation Matrix	The company's valuation metrics, such as a high P/E ratio and PEG ratio, suggest market optimism about future growth. However, the high EV/EBITDA and P/B ratios indicate potential overvaluation, necessitating careful monitoring of market conditions.
Growth (YoY)	Year-over-year growth shows a positive sales trend, but a decline in PAT and EPS growth indicates challenges in translating sales into net income. This suggests a need for strategic initiatives to enhance profitability and shareholder value.
Growth (QoQ)	Quarterly growth metrics reveal a slight decline in sales and a significant drop in PAT, indicating potential operational challenges. Addressing these issues will be crucial for maintaining investor confidence and achieving sustainable growth.
Capital Allocation	The company demonstrates strong capital allocation efficiency, with high returns on equity, assets, and capital employed. This reflects effective use of resources to generate shareholder value, supporting long-term financial stability.
Holdings	The ownership structure shows a balanced mix of promoters, institutional investors, and public shareholders. This diversified holding pattern can provide stability and support strategic decision-making, enhancing corporate governance.
Leverage	The company maintains a low debt-to-equity ratio, indicating prudent financial management and low financial risk. This conservative leverage strategy supports financial flexibility and resilience against market volatility.

Analyst viewpoint: eClerx Services Limited showcases robust growth potential, as evident from its strategic initiatives in Analytics and Automation which recently saw a notable 9% increase. The company is geographically expanding, establishing a new subsidiary in Peru and extending operations from Manila, targeting digital sector recovery and cross-sale efforts in fashion and luxury domains. From a valuation perspective, the high P/E and PEG ratios reflect market optimism about the company's future prospects, while the sound capital allocation metrics with impressive ROE and ROA suggest efficient resource utilization. Additionally, the company's strategic growth is reinforced by its ongoing investment in technology, with GenAI explorations aiming to heighten operational efficacy. eClerx's goal to double its revenues within the next 4-5 years aligns with its healthy pipeline and successful large deals, supported by maintaining a 24-28% EBITDA margin.

Nonetheless, while remaining bullish, it is crucial to address potential challenges such as the recent decline in quarterly sales and PAT, indicating possible operational hurdles. The high EV/EBITDA and P/B ratios may reflect an overvaluation risk that necessitates vigilant market condition monitoring. Additionally, the company's need to strengthen invoicing processes to mitigate DSO and potential margin downside from new facilities are areas requiring strategic attention to secure investor confidence and ensure sustained performance.

Please read detailed disclosure on next page.

Explanation of Investment Rating*	
Investment Rating	Expected Return (over 12-month)
BUY	>=15%
SELL	<-10%
NEUTRAL	>-10% to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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