

Price: 2,794

Recommendation: Buy

Industry: Business Process

Sector: Services

Report Date: 03-Apr-2025

eClerx Services Limited is advancing growth through strategic initiatives, focusing on digital and financial markets. Q3 revenue reached \$100.7 million, with a 1.8% increase. The company is expanding globally, setting up a subsidiary in Peru and enhancing operations in Manila. Investments in technology and analytics target banking, hi-tech, and retail sectors. Despite challenges, eClerx is committed to innovation and maintaining strong client relationships.

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	39.6	Sales Growth	15.5 %	Sales Growth	-0.49 %
PEG Ratio	3.66	PAT Growth	-5.68 %	Sales Growth QYoY	14.91 %
EV/EBITDA	24.4	EPS Growth	-3.02 %	PAT Growth	-14.75 %
P/B	11.4	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	13697 Cr
RoIC	41.5 %	Public	10.4 %	Enterprise value	13801 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 been focusing on expanding its digital and financial markets business, with operating revenue for Q3 reaching \$100.7 million, up 1.8% sequentially. A significant initiative is the geo-diversification strategy, which includes setting up a subsidiary in Peru and launching operations in late Q4. Additionally, eClerx plans to start providing Care support from its Manila delivery center. The company is also investing in technology and analytics, with a focus on banking, hi-tech, and retail clients, and has been recognized as a Major Contender in the Experience-Driven Integrated BFS Operations PEAK Matrix Assessment 2024.

The company is optimistic about future growth, driven by a healthy pipeline and strategic investments in new capabilities and offerings. eClerx's Analytics and Automation (A&A;) business saw a 9% sequential increase, driven by change and transformation work. The company is also seeing momentum in customer operations, with new logo acquisition and cross-sell success in its Care business. Despite challenges in the cable and telecom industry, eClerx is focusing on subscriber retention for its clients. The company is cautiously optimistic about the future, with a focus on cross-selling opportunities and leveraging its strong client relationships.

From a financial perspective, eClerx reported an EBITDA of INR 2,281 million with a 26.1% margin, and a PAT of INR 1,371 million at a 15.7% margin. The company has been investing in new facilities, which has increased costs but is expected to normalize in line with revenue growth. The company is committed to maintaining its margin band of 24% to 28% and is focused on medium to long-term growth. The company is also exploring new centers to enhance its ability to cross-sell and upsell with existing clients, and to bring in new clients.

While the company is making significant strides, there are areas for improvement. The company acknowledges the need to strengthen its invoicing processes to reduce DSO, which increased to 83 days. Additionally, while investments in GenAI and technology are ongoing, the company has not yet seen significant monetization from these efforts. However, eClerx remains committed to staying relevant for its clients by continuously investing in new capabilities and offerings. The company is also focused on maintaining a healthy pipeline and is cautiously optimistic about the future, despite the challenges posed by macroeconomic factors.

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.	71827.87	346.00	1.13%	10.66%	48.31%	41.19%	92.16%
Oracle Fin.Serv.	65880.43	28.76	28.98%	2.47%	-5.94%	-6.30%	-26.93%
Coforge	47866.88	62.55	24.09%	8.36%	42.82%	6.58%	-9.45%
Hexaware Tech.	41542.05	35.44	23.50%	0.60%	20.58%	6.41%	65.40%
KPIT Technologi.	33226.27	43.82	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 maintain consistent growth.
Profit & Loss	Operating profit remains strong, reflecting efficient cost management. However, a decline in quarterly PAT suggests potential short-term challenges. The company should focus on optimizing operational efficiencies to sustain profitability amidst fluctuating market conditions.
Profitability Matrix	The company maintains healthy profitability margins, with a strong operating profit margin and EBITDA margin. This indicates effective cost control and pricing strategies. However, the net profit margin suggests room for improvement in managing non-operational expenses.
Valuation Matrix	The company's valuation metrics indicate a high market valuation, with a trailing P/E ratio suggesting investor confidence. However, the PEG ratio indicates potential overvaluation relative to growth prospects, necessitating strategic growth initiatives to justify current valuations.
Growth (YoY)	Year-over-year growth shows positive sales growth, but a decline in PAT and EPS growth indicates challenges in translating revenue growth into bottom-line improvements. The company should focus on enhancing operational efficiencies and cost management to improve profitability.
Growth (QoQ)	Quarter-over-quarter growth shows a slight decline in sales and PAT, indicating potential short-term challenges. The company should investigate underlying factors affecting quarterly performance and implement strategies to stabilize and enhance growth momentum.
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. Continued focus on strategic investments will be crucial for sustained growth.
Holdings	The company's ownership structure shows a strong promoter holding, indicating confidence in the business. Institutional holdings suggest market trust, while public holding provides liquidity. Maintaining a balanced ownership structure will support long-term stability and growth.
Leverage	The company maintains a low debt-to-equity ratio, indicating prudent financial management and low financial risk. This provides flexibility for future investments and growth opportunities. Maintaining this leverage level will be crucial for financial stability and strategic expansion.

Analyst viewpoint: eClerx Services Limited presents a compelling investment opportunity with promising short to mid-term prospects, buoyed by strategic global expansion and innovative developments in its digital and financial markets vertical. Recent performance underscores a concerted effort to enhance revenue, with quarterly growth, despite slight dips, showcasing effective management. Valuation metrics reflect robust investor confidence, supported by a strong trailing P/E ratio. The company's proactive capital allocation and returns on equity and assets further bolster its position, evidenced by innovative strides in analytics and automation, which have driven significant sequential increases. Peer comparison highlights eClerx's competitive edge in delivering consistent growth, a testament to its strong market standing and operational efficiency.

In the recent earnings call, eClerx conveyed optimism about sustaining growth through strategic initiatives including the expansion into Peru and Manila to tap into emerging markets. This geographic diversification aligns with the company's focus on enlarging its client base through cross-sell and upsell strategies, particularly within the retail and banking sectors. While the company continues to invest in technology and new capabilities, a minor aspect to monitor is the prolonged days sales outstanding period, which could affect short-term liquidity. Nonetheless, eClerx's dedication to innovation and maintaining strong client relationships ensures it remains a formidable player in the industry, making it an attractive proposition for investors seeking growth.

Please read detailed disclosure on next page.

