

NOT RATED**ECLERX SERVICES**

| IT Services

| 07 November 2024

Strong 2Q. Reiterates top quartile revenue growth in FY25

- **5.7% CC QoQ revenue growth and 480bps EBIT margin expansion was ahead of estimate driven by financial markets vertical and top clients**
- **It reiterated its guidance for FY25 at top quartile revenue growth and 24-28% EBITDA margin**
- **Should deliver low to mid-teens revenue growth in FY25 in USD terms. Will be initiating coverage soon**

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Revenue growth very strong: It was up 5.7% QoQ in CC terms (our estimate 2.6%) driven by growth in segments like financial markets, customer operations, North America and top 10 clients.

Better than expected margins too: EBIT margin at 22% (our estimate 20.1%) improved QoQ by 480bps due stronger revenue growth (leading to operating leverage), improved utilization (excess bench from 1Q became billable in 2Q), and some one-offs (One-offs from the previous quarter, such as sign-on bonuses, higher 401k contributions, and a change in leave provision calculations, contributing ~85 bps to margin expansion).

Upsell and cross sell efforts drives top 10 clients' growth: The company is focusing on new buying centers within its top clients and has seen some early success. It's been six months since the strategy was formulated. There is a focus on cross-selling productized services in areas like customer operations and finance & accounting. This will remain a key focus moving into 2H and the next year.

Business Segments:

- **Financial Markets:** Exceptional performance in 2Q with growth in offshore and onshore client lifecycle businesses.
- **Digital:** Showed mixed results, with growth in data operations offset by a slowdown in the creative business.

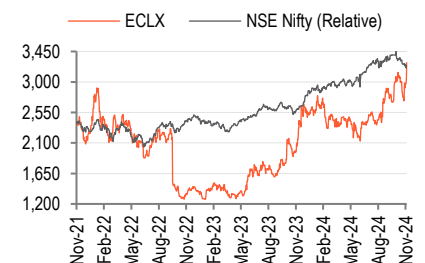
Growth Outlook:

- **Financial Markets:** Demand is driven by compliance and regulatory work, as well as increased activity in various asset classes supported by the company on the market side. The company does not anticipate a slowdown in this segment. The momentum in this business continues to be strong and demand is seen in both change and BAU areas of this business.
- **Digital Business:** Decline in fashion and luxury, with global fashion houses experiencing lower client demand, especially from China. This trend is expected to persist for the next couple of quarters. However, there is expectation of budget outlook improvement in high-tech, retail, manufacturing, and distribution. It is seeing a little bit longer timelines in terms of decision-making.
- **Customer Operations:** Growth is driven by existing clients and cross-sell opportunities across different verticals.

Ticker/Price	ECLX IN/Rs 3,285
Market cap	US\$ 1.8bn
Free float	45%
3M ADV	US\$ 6.2mn
52wk high/low	Rs 3,345/Rs 2,002
Promoter/FPI/DII	54%/10%/24%

Source: NSE | Price as of 6 Nov 2024

Stock performance



Source: NSE



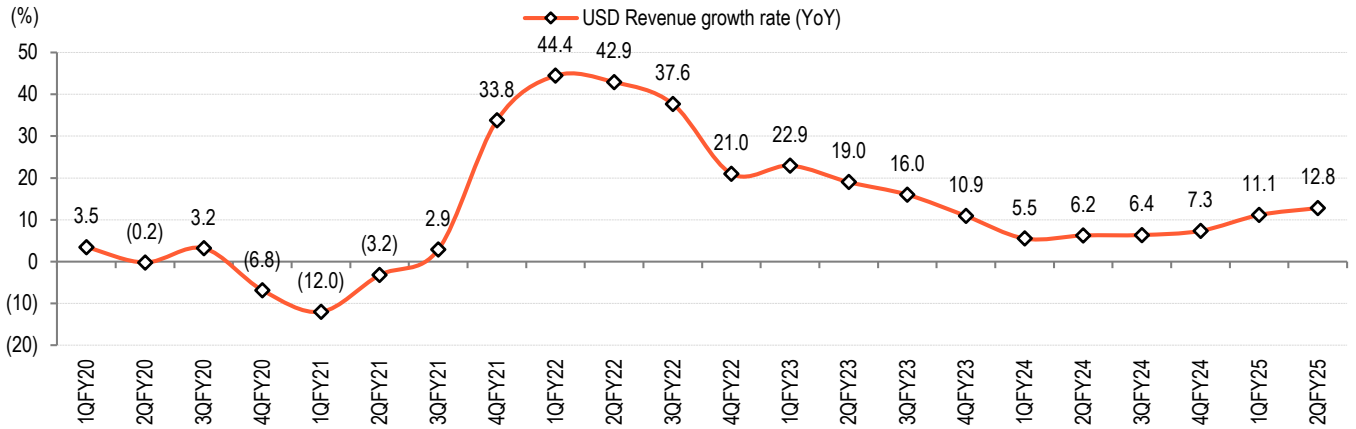
- **Deal Wins:** ACV for deal wins in 2Q was US\$28.9mn (down 2% YoY). Roll-offs were higher than in 1Q, primarily related to short-term projects coming to a planned end. The full impact of these roll-offs will be felt in 3Q. The roll-offs are due to project completions. These were short-term projects that began earlier in the year and have now come to a planned end.
- New office spaces in Chandigarh and Pune will go live in 3Q, and a new office in Mumbai will go live in early 4Q. This will lead to an increase in seat count, G&A, and depreciation costs in 3Q and 4Q. For 3Q, G&A costs are expected to increase by 50 bps to 70 bps as a % of revenue due to new facilities. In 4Q, the increase may be lower than that.

Fig 1 – Quarterly results: Comparison of actuals with estimates

Y/E Mar (Rs mn)	2QFY24	1QFY25	2QFY25	YoY (%)	QoQ (%)	2QFY25E	Deviation (%)
Net Sales (US\$ mn)	88	93	99	12.8	6.0	96	2.9
Net Sales	7,218	7,819	8,318	15.2	6.4	8,050	3.3
Cost of Sales	5,171	6,159	6,159	19.1	0.0	6,114	0.7
% of Sales	71.6	78.8	74.0			76.0	
EBITDA	2,047	1,661	2,159	5.5	30.0	1,936	11.6
% of Sales	28.4	21.2	26.0			24.0	
Depreciation	303	317	328	8.3	3.6	315	4.1
EBIT	1,744	1,344	1,832	5.0	36.3	1,621	13.0
EBIT Margin (%)	24.2	17.2	22.0			20.1	
Interest Expenses	61	77	81	32.2	5.2	50	62.3
Other Income	141	212	128	(9.3)	(39.5)	137	(6.6)
PBT	1,825	1,479	1,879	3.0	27.0	1,708	10.0
Provision for Tax	463	359	484	4.4	34.9	437	10.6
Effective Tax Rate	25.4	24.2	25.7			25.6	
Minorities	1.4	4.3	(7.5)			1.0	
PAT (Reported)	1,360	1,116	1,402	3.1	25.7	1,270	10.5
NPM (%)	18.8	14.3	16.9			15.8	6.9

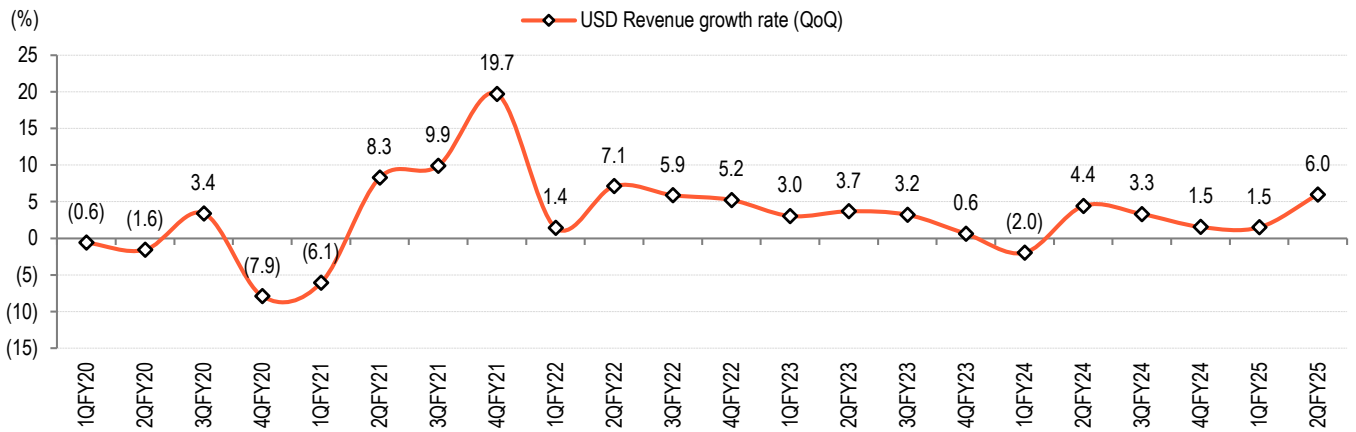
Source: Company, BOBCAPS Research

Fig 2 – YoY US\$ Revenue Growth



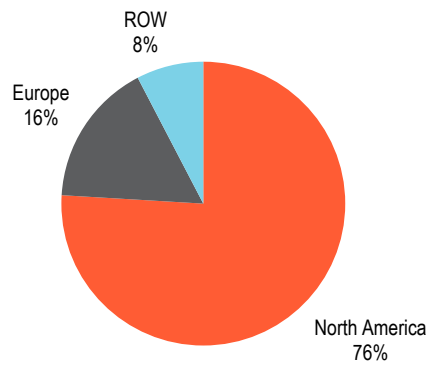
Source: Company, BOBCAPS Research

Fig 3 – QoQ US\$ Revenue Growth



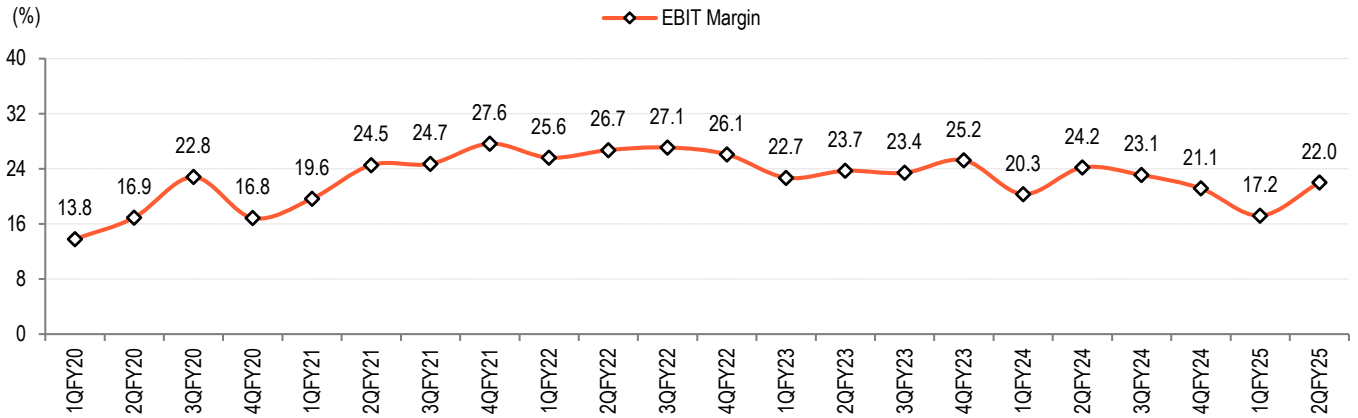
Source: Company, BOBCAPS Research

Fig 4 – 2QFY25 Geographical Revenue Mix



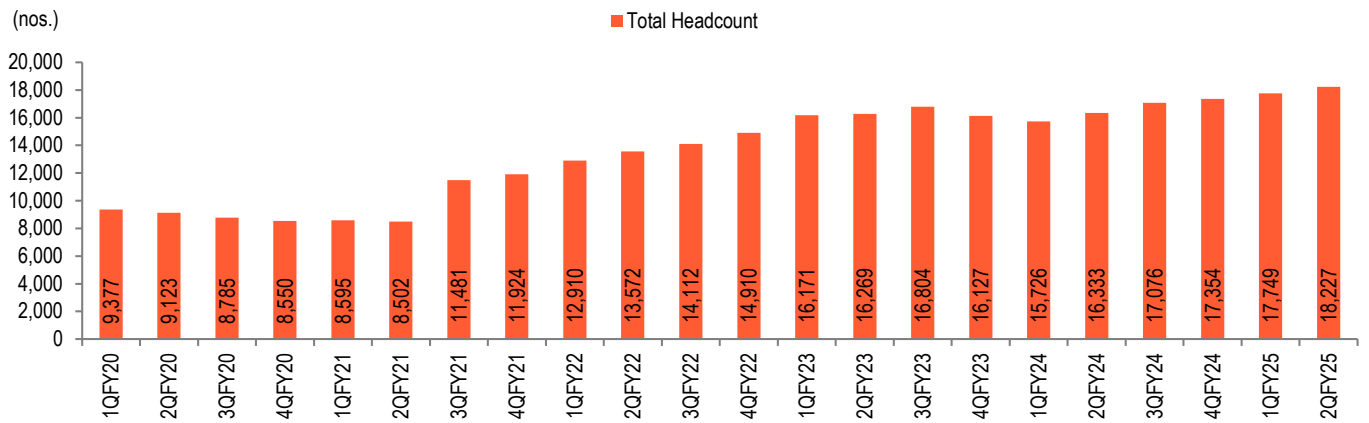
Source: Company, BOBCAPS Research

Fig 5 – EBIT Margin trend



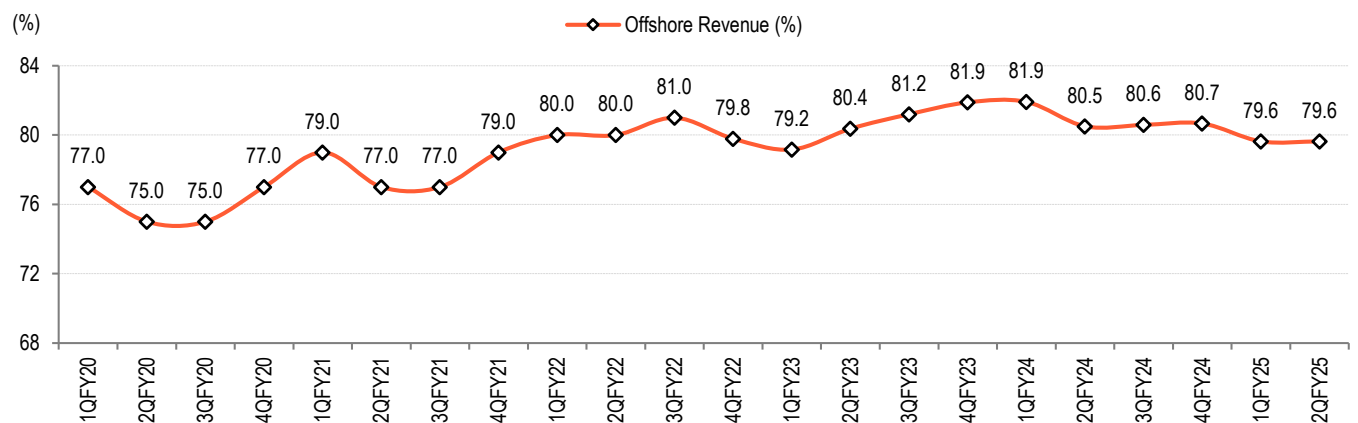
Source: Company, BOBCAPS Research

Fig 6 – Total Headcount trend



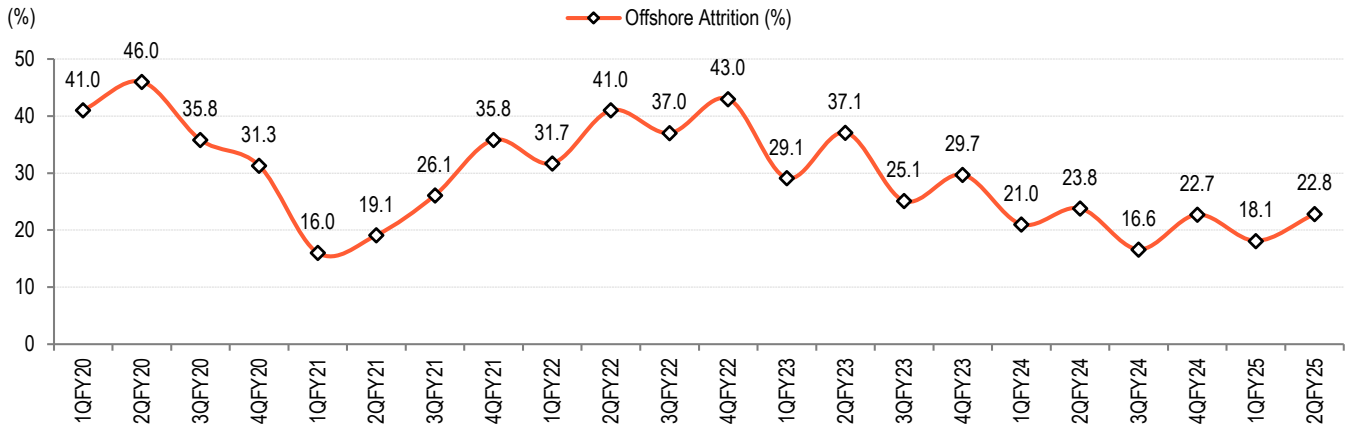
Source: Company, BOBCAPS Research

Fig 7 – Billing Mix (Offshore)



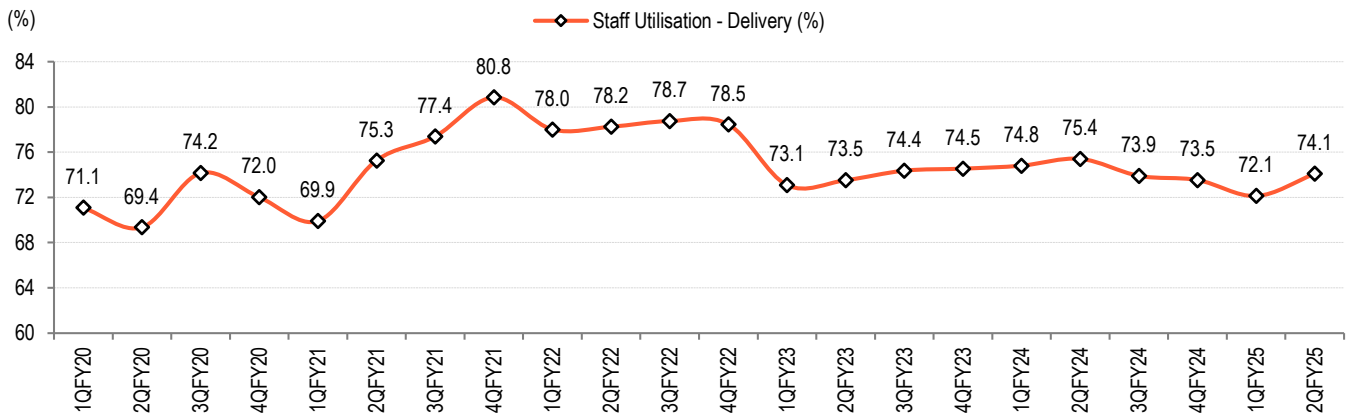
Source: Company, BOBCAPS Research

Fig 8 – Offshore Attrition Rate



Source: Company, BOBCAPS Research

Fig 9 – Staff Utilization – Delivery (%)



Source: Company, BOBCAPS Research

Fig 10 – Quarterly Snapshot

	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
INR/ US\$	77.2	79.8	82.1	82.2	82.2	82.7	83.2	83.0	83.4	83.8
Revenue (US\$ mn)	80	82	85	86	84	88	91	92	93	99
Rs mn										
Revenue	6,178	6,503	6,867	6,931	6,845	7,218	7,528	7,665	7,819	8,318
Gross margin	2,855	3,040	3,265	3,471	3,180	3,541	3,782	3,723	3,497	3,918
EBIT	1,402	1,541	1,607	1,748	1,390	1,744	1,737	1,620	1,344	1,832
Other income	-47	157	125	-3	16	80	131	152	135	47
PBT	1,355	1,698	1,732	1,745	1,406	1,825	1,868	1,772	1,479	1,879
Tax	360	438	419	421	340	463	477	473	359	484
PAT	992	1,259	1,312	1,325	1,063	1,360	1,386	1,305	1,116	1,402
Number of shares	50	50	50	49	48	48	48	48	48	47
EPS	20	25	26	27	22	28	29	27	23	30
YoY Growth (%)										
USD revenue	22.9	19.0	16.0	10.9	5.5	6.2	6.4	7.3	11.1	12.8
Revenue	27.0	24.3	22.8	17.1	10.8	11.0	9.6	10.6	14.2	15.2
Gross profit	18.5	15.5	14.4	18.8	11.4	16.5	15.8	7.3	9.9	10.6
EBIT	12.6	10.3	6.2	13.3	(0.8)	13.2	8.1	(7.3)	(3.3)	5.0
Net profit	8.6	24.3	23.0	11.6	7.2	8.0	5.7	(1.5)	5.0	3.1
QoQ Growth (%)										
USD revenue	3.0	3.7	3.2	0.6	(2.0)	4.4	3.3	1.5	1.5	6.0
Revenue	4.4	5.3	5.6	0.9	(1.2)	5.4	4.3	1.8	2.0	6.4
EBIT	(9.1)	9.9	4.3	8.8	(20.5)	25.5	(0.4)	(6.7)	(17.0)	36.3
Net profit	(16.5)	26.9	4.2	1.1	(19.8)	27.9	2.0	(5.8)	(14.5)	25.7
Margins (%)										
Gross margin	46.2	46.8	47.5	50.1	46.5	49.1	50.2	48.6	44.7	47.1
EBIT	22.7	23.7	23.4	25.2	20.3	24.2	23.1	21.1	17.2	22.0
PAT	16.1	19.4	19.1	19.1	15.5	18.8	18.4	17.0	14.3	16.9
SGA	23.5	23.1	24.1	24.9	26.2	24.9	27.2	27.4	27.5	25.1

Source: Company, BOBCAPS Research

Fig 11 – Key Metrics

	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
Total Headcount	16,171	16,269	16,804	16,127	15,726	16,333	17,076	17,354	17,749	18,227
Delivery and Support Staff										
Offshore Delivery	13,520	13,608	14,271	13,330	13,143	13,791	14,491	14,690	14,921	14,861
Onshore Delivery	681	645	607	599	535	585	611	630	683	637
Support Services	951	861	863	948	870	862	848	862	898	907
Tech Services	915	1,050	956	1,135	1,058	977	1,002	1,049	1,122	1,699
Selling and Distribution Staff (BD)	104	105	107	115	120	118	124	123	125	123
Revenue by Geography (%)										
North America	69.9	71.8	71.1	70.8	71.6	72.6	73.6	74.4	75.0	75.9
Europe	22.0	20.0	20.4	19.6	20.0	18.8	17.8	17.5	17.5	16.4
ROW	8.1	8.2	8.5	9.5	8.4	8.5	8.6	8.0	7.6	7.6
Billing Mix (%)										
Onshore Revenue	20.8	19.6	18.8	18.1	18.1	19.5	19.4	19.3	20.4	20.4
Offshore Revenue	79.2	80.4	81.2	81.9	81.9	80.5	80.6	80.7	79.6	79.6
BPaaS	25.0	24.0	25.0	26.0	25.0	24.1	24.1	24.0	21.2	20.1
Currency Concentration (%)										
USD	81.6	82.8	81.8	82.6	82.4	82.8	83.5	85.5	85.8	86.7
EURO	10.5	9.5	10.2	10.1	10.1	9.6	9.4	9.5	9.4	8.3
GBP	3.3	3.2	3.1	3.0	3.3	3.2	3.4	3.4	3.0	3.0
Client Concentration										
Top 5 contribution	42.2	42.5	40.0	39.9	39.5	40.8	42.3	45.5	45.5	46.9
Top 10 contribution	60.3	61.0	58.7	58.9	58.6	59.2	59.3	62.6	62.0	63.5
Non-Top 10 contribution	39.7	39.0	41.3	41.1	41.4	40.8	40.7	37.4	38.0	36.5
Offshore Attrition (%)	29.1	37.1	25.1	29.7	21.0	23.8	16.6	22.7	18.1	22.8
Overall Staff utilization (%)	68.4	68.4	68.5	68.3	69.1	70.0	68.8	68.4	66.6	68.4
Staff utilization (Delivery) (%)	73.1	73.5	74.4	74.5	74.8	75.4	73.9	73.5	72.1	74.1
Client Contribution										
US\$ 500k-1mm Clients	32.0	27.0	31.0	32.0	39.0	39.0	38.0	41.0	37.0	36.0
US\$ 1mm-3mm Clients	21.0	26.0	24.0	27.0	24.0	22.0	21.0	23.0	22.0	24.0
US\$ 3mm-5mm Clients	2.0	2.0	3.0	4.0	4.0	4.0	7.0	4.0	6.0	5.0
US\$ 5mm-10mm Clients	7.0	7.0	6.0	6.0	5.0	5.0	3.0	4.0	4.0	4.0
US\$ 10mm++ Clients	7.0	7.0	8.0	8.0	9.0	9.0	10.0	10.0	9.0	9.0
Seat Count	10,582.0	11,278.0	11,278.0	11,278.0	11,808.0	11,805.0	12,029.0	11,635.0	11,999.0	12,009.0
Profit and Loss Statement (in mn US\$)										
Revenue	79.5	82.5	85.1	85.6	83.9	87.6	90.5	91.9	93.3	98.8
EBIT	18.0	19.5	19.9	21.6	17.0	21.2	20.9	19.4	16.0	21.8
PAT	12.8	16.0	16.3	16.4	13.0	16.5	16.7	15.6	13.3	16.7
Productivity Metrics										
Per Capita (Annualised)										
Revenue	19,674	20,274	20,256	21,233	21,346	21,457	21,200	21,181	21,018	21,689
EBIT	4,465	4,804	4,742	5,356	4,336	5,186	4,892	4,477	3,613	4,775
PAT	3,159	3,926	3,869	4,061	3,316	4,042	3,904	3,607	3,000	3,657

Source: Company, BOBCAPS Research

Fig 12 – QoQ and YoY growth across various parameters

(%)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
QoQ Growth (%)										
Total Headcount	8.5	0.6	3.3	(4.0)	(2.5)	3.9	4.5	1.6	2.3	2.7
Delivery and Support Staff (%)										
Offshore Delivery	7.5	0.7	4.9	(6.6)	(1.4)	4.9	5.1	1.4	1.6	(0.4)
Onshore Delivery	0.9	(5.3)	(5.9)	(1.3)	(10.7)	9.3	4.4	3.1	8.4	(6.7)
Support Services	17.8	(9.5)	0.2	9.8	(8.2)	(0.9)	(1.6)	1.7	4.2	1.0
Tech Services	22.2	14.8	(9.0)	18.7	(6.8)	(7.7)	2.6	4.7	7.0	51.4
Selling and Distribution Staff (BD)										
US\$ Revenue (%)	3.0	3.7	3.2	0.6	(2.0)	4.4	3.3	1.5	1.5	6.0
Revenue by Geography										
North America	4.1	6.5	2.2	0.2	(0.9)	5.9	4.7	2.7	2.2	7.4
Europe	(0.9)	(5.6)	5.1	(3.1)	(0.2)	(1.8)	(2.5)	0.2	1.1	(0.4)
ROW	4.7	4.4	7.4	12.9	(13.4)	5.9	4.2	(5.2)	(4.4)	7.0
Billing Mix										
Onshore Revenue	6.2	(2.3)	(1.2)	(3.1)	(2.1)	12.5	2.9	1.1	6.9	6.0
Offshore Revenue	2.2	5.2	4.3	1.5	(1.9)	2.6	3.4	1.6	0.2	6.0
BPaaS	(4.6)	(0.5)	7.5	4.6	(5.7)	0.4	3.3	1.3	(10.5)	0.8
Currency Concentration										
USD	4.2	5.2	2.0	1.5	(2.2)	5.0	4.2	3.9	1.8	7.2
EURO	(5.2)	(6.3)	11.5	(0.4)	(2.0)	(1.6)	1.5	2.2	1.2	(7.3)
GBP	(0.2)	1.0	0.8	(2.0)	5.1	3.7	7.0	2.1	(10.1)	8.1
Client Concentration										
Top 5 contribution	0.9	4.3	(2.9)	0.4	(3.1)	8.0	7.0	9.2	1.6	9.3
Top 10 contribution	3.3	4.8	(0.6)	0.9	(2.5)	5.4	3.5	7.3	0.5	8.4
Non-Top 10 contribution	2.7	1.9	9.1	0.1	(1.2)	3.0	3.0	(6.8)	3.1	1.9
Client Contribution										
US\$ 500k-1mm Clients	28.0	(15.6)	14.8	3.2	21.9	0.0	(2.6)	7.9	(9.8)	(2.7)
US\$ 1mm-3mm Clients	(12.5)	23.8	(7.7)	12.5	(11.1)	(8.3)	(4.5)	9.5	(4.3)	9.1
US\$ 3mm-5mm Clients	(33.3)	0.0	50.0	33.3	0.0	0.0	75.0	(42.9)	50.0	(16.7)
US\$ 5mm-10mm Clients	0.0	0.0	(14.3)	0.0	(16.7)	0.0	(40.0)	33.3	0.0	0.0
US\$ 10mm++ Clients	16.7	0.0	14.3	0.0	12.5	0.0	11.1	0.0	(10.0)	0.0
Seat Count	(4.1)	6.6	0.0	0.0	4.7	0.0	1.9	(3.3)	3.1	0.1
YoY Growth (%)										
Total Headcount	25.3	19.9	19.1	8.2	(2.8)	0.4	1.6	7.6	12.9	11.6
Delivery and Support Staff										
Offshore Delivery	25.8	20.4	21.3	6.0	(2.8)	1.3	1.5	10.2	13.5	7.8
Onshore Delivery	3.5	(4.2)	(8.7)	(11.3)	(21.4)	(9.3)	0.7	5.2	27.7	8.9
Support Services	22.2	9.1	9.0	17.5	(8.5)	0.1	(1.7)	(9.1)	3.2	5.2
Tech Services	45.7	48.9	21.5	51.5	15.6	(7.0)	4.8	(7.6)	6.0	73.9
Selling and Distribution Staff (BD)										
US\$ Revenue	22.9	19.0	16.0	10.9	5.5	6.2	6.4	7.3	11.1	12.8
Revenue by Geography										
North America	22.8	23.9	17.8	13.5	8.0	7.5	10.1	12.8	16.4	17.9
Europe	17.5	(0.7)	2.9	(4.6)	(4.0)	(0.1)	(7.4)	(4.3)	(3.0)	(1.7)
ROW	42.2	38.6	40.6	32.6	9.6	11.2	7.9	(9.4)	0.1	1.1

(%)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
Billing Mix										
Onshore Revenue	28.1	16.8	14.8	(0.6)	(8.4)	5.5	9.8	14.6	25.1	17.8
Offshore Revenue	21.6	19.5	16.3	13.8	9.2	6.4	5.5	5.7	8.0	11.6
BPaaS	22.9	19.0	11.5	6.8	5.5	6.5	2.4	(0.9)	(5.9)	(5.6)
Currency Concentration										
USD	25.3	23.1	18.6	13.5	6.6	6.3	8.6	11.1	15.7	18.1
EURO	7.5	12.8	10.5	(1.3)	2.1	7.2	(2.4)	0.1	3.3	(2.7)
GBP	0.8	(24.0)	(19.1)	(0.4)	4.8	7.6	14.2	19.0	1.9	6.2
Client Concentration										
Top 5 contribution	13.9	11.9	2.6	2.7	(1.4)	2.1	12.5	22.3	28.2	29.7
Top 10 contribution	19.7	20.3	12.5	8.6	2.6	3.1	7.4	14.1	17.7	21.1
Non-Top 10 contribution	28.2	17.1	21.3	14.3	10.0	11.1	4.9	(2.4)	1.9	0.8
Client Contribution										
US\$ 500k-1mm Clients	52.4	17.4	72.2	28.0	21.9	44.4	22.6	28.1	(5.1)	(7.7)
US\$ 1mm-3mm Clients	5.0	30.0	(4.0)	12.5	14.3	(15.4)	(12.5)	(14.8)	(8.3)	9.1
US\$ 3mm-5mm Clients	(66.7)	(60.0)	0.0	33.3	100.0	100.0	133.3	0.0	50.0	25.0
US\$ 5mm-10mm Clients	75.0	40.0	(14.3)	(14.3)	(28.6)	(28.6)	(50.0)	(33.3)	(20.0)	(20.0)
US\$ 10mm++ Clients	40.0	16.7	33.3	33.3	28.6	28.6	25.0	25.0	0.0	0.0
Seat Count	(4.1)	2.2	2.2	2.2	11.6	4.7	6.7	3.2	1.6	1.7

Source: Company, BOBCAPS Research

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Name of the Research Entity: **BOB Capital Markets Limited**

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SEBI Research Analyst Registration No: **INH000000040 valid till 03 February 2025**

Brand Name: **BOBCAPS**

Trade Name: **www.barodaetrade.com**

CIN: **U65999MH1996GOI098009**



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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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