

BUY

TP: Rs 3,727 | ▲ 24%

ECLERX SERVICES

| IT Services

| 31 January 2025

Should be among the faster growing Tier-2 players

- 3QFY25 broadly in line. A margin miss. Expect 4Q QoQ growth to be stronger. Expect low teen USD revenue growth in FY25-FY27.
- Expanding beyond the Top10 and selling to a wider set of verticals we think will sustain growth at the double digit levels.
- Upgrade to Buy due to stock price correction. Broadly maintain estimates. Marginal increase in TP. Target PE multiple maintained.

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Revenue Growth in line with our estimate: It was up 2.2% QoQ in CC terms (our estimate 2.1%), driven by growth in digital and financial markets businesses. Analytics and MarTech services within digital grew, with creative services also showing growth, although from a lower base in 2Q. Growth in financial markets was primarily in the trade lifecycle segment.

Margins below expectation: EBIT Margin was at 20.0% (our estimate 21%), decreased by 200 bps QoQ. Sequential reduction in the margin was mainly due to one-offs in 2Q and lower utilization in 3Q compared to 2Q. Higher legal fees were incurred for setting up a new entity and tax consulting services. Seating capacity increased by 1,800 seats with new facilities in Mohali, Pune, and Mumbai going live, resulting in higher facility-related costs. Full impact of increased costs from new facilities will be felt in 4Q.

Deal wins: ACV stood at INR33mn, showing a sequential increase of 15.1%, driven by increased discretionary spending. The pipeline remains healthy, with wins across various service lines, including financial markets, digital, and customer operations.

Demand Outlook:

- **In financial markets**, opportunities remain in client lifecycle, compliance, onshore delivery, and technology services.
- **In the digital business**, fashion and luxury showed minor recovery in 3Q, with the industry expecting low single-digit demand for CY25. Hi-tech, retail, manufacturing, and distribution performed in line with industry growth in customer operations.
- **In customer operations**, momentum is building around new logo acquisition and early success is being seen in cross-selling care business into other verticals.

Rating: While our earnings estimates have largely remained constant, we have revised our rating from 'Hold' to 'Buy'. This change is primarily due to the recent decline in the stock price.

Key changes

	Target	Rating
	▲	▲

Ticker/Price	ECLX IN/Rs 3,004
Market cap	US\$ 1.6bn
Free float	45%
3M ADV	US\$ 5.3mn
52wk high/low	Rs 3,877/Rs 2,114
Promoter/FPI/DII	54%/10%/24%

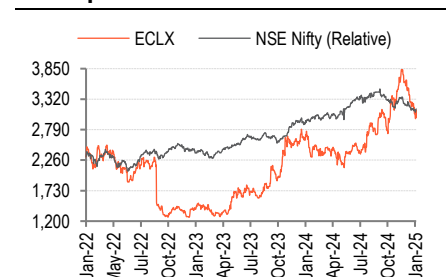
Source: NSE | Price as of 30 Jan 2025

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	29,255	33,706	39,561
EBITDA (Rs mn)	7,750	8,175	9,899
Adj. net profit (Rs mn)	5,115	5,365	6,496
Adj. EPS (Rs)	104.0	111.8	135.3
Consensus EPS (Rs)	104.0	112.1	133.0
Adj. ROAE (%)	25.8	21.3	20.9
Adj. P/E (x)	28.9	26.9	22.2
EV/EBITDA (x)	17.6	16.6	13.3
Adj. EPS growth (%)	5.8	7.5	21.1

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Key Points from the quarter and the earnings call

- Operating revenue was US\$100.7mn, up 1.8% QoQ and 11.2% YoY. In INR terms, revenue was INR8,538mn, up 2.6% QoQ
- The company crossed a US\$400mn run rate
- The analytics and automation businesses were up 9% sequentially, driven by a pickup in change and transformation work
- Exit headcount increased by ~415 to 18,642 and the attrition rate stood at 18.8%, within control.
- The top 10 client concentration was 62.3%. Growth was observed in the non-top 10 clients during the quarter.
- DSO increased to 83 days from 77 days in the previous quarter
- There is an ongoing focus on strengthening the pipeline, particularly in technology business, large deals, and cross-selling efforts.
- Focus on Geo diversification continues. A subsidiary has been set up in Peru, with operations expected to launch in late 4Q.
- The cable and telecom industry remains under pressure. The pressure in the cable and wireless business is industry-wide, not specific to any one client. Subscriber retention and minimizing churn are key focus areas for companies in this space to navigate these challenges
- In technology and analytics, continued traction is seen with banking, hi-tech, and retail clients, with wins in change, data engineering, and productized services.
- Roll-offs in 2Q were higher, but they decreased in 3Q. The performance in 4Q is expected to be better than in 3Q, assuming other factors remain constant.
- Regarding the impact of new facilities, G&A costs in 4Q are expected to be nearly the same as in 3Q, with a potential increase of 10 to 20 bps. The increase in housekeeping and transportation costs of the new facilities will be offset by a reduction in rent from temporary facilities that have been given up.
- Below the EBITDA level, the new facilities are expected to have a 50-bps negative impact in 4Q. Normalization of these costs is anticipated to occur in line with revenue growth, which could take at least one or two quarters
- The company remains cautiously optimistic about future growth
- The company expects to stay within the EBITDA margin range of 24% to 28% for FY25. This range is viewed as sustainable given the size of the business. The company will continue to focus on long-term growth and EBITDA, but no substantial margin expansion beyond the stated range is anticipated in the near term
- The company does not rely on H1B visa holders, as it hires local talent, so client decision-making is not expected to be impacted by the political shifts in the U.S. or the election-related headwinds

- The onshore delivery mix is primarily composed of staff with consulting skills who provide higher value services, which justifies higher billing rates compared to offshore staff.
- The sales team is focused on providing value rather than competing solely on price. Pricing is being adjusted efficiently to win deals, but there is no downward pressure on pricing. The strategy is to price services effectively, considering the value provided through technology, domain knowledge, and expertise.
- The company said that they are investing in GenAI and agentic AI, building use cases and enhancing their product offerings. They mentioned that although they are not seeing direct monetization from GenAI investments, the technology is still adding value. It is helping to improve their overall pipeline and contributing to business growth, even if the direct impact in terms of specific GenAI deals hasn't yet materialized
- The company noted that the budgets for 2025 are showing neutral to positive momentum. In the financial markets, many of their clients have posted strong results, which is a positive sign. However, there's caution surrounding the impact of current policies under the new administration. Clients are closely analyzing how these policies could affect their businesses, leading to some uncertainty
- View on the Indian IT services sector: We reinitiated coverage on the Indian IT Services with UW stance through a report on 1 January, 2025 (**Slow is the (new/old) normal**).
- Current valuations are disconnected with fundamentals. Since 1 June 2024, Nifty IT has outperformed Nifty significantly. However, consensus earnings for FY25 and FY26 have not moved much during this period. It has been an entirely PE expansion story. Tier-1 and Tier-2 Indian IT services stocks are trading at +1 SD and +2 SD above their five-year means respectively. The PE premium of Tier-2 to Tier-1 is at its historic peak.
- Current high PE multiples imply sharp growth pickup in FY25-FY27E. We think it will be slower. We do not believe structurally Indian IT services industry will see the pandemic's 'compressed transformation' type of demand in the foreseeable future. We believe the industry's structural USD organic revenue growth from here on will be lower than the ~7% CAGR – seen during FY15-FY20.
- 10-year study of valuations and earnings growth indicates that Indian IT stocks are currently trading at +2.1 SD to +18.3 SD higher valuations compared to the mean multiples during the FY15-FY20 period. Yes, we would admit that certain companies have undergone a structural change for the better, but not to the extent that the bulls assume and not all of them.

Multiple speed breakers post FY25 drives our underweight stance

- Trump policies raise uncertainty. The tariffs, the conditional tax breaks, the immigration push back, DOGE, etc all point to uncertainty in the coming days which may delay decision making.
- Higher for longer interest rate environment: One of reasons for optimism around the Indian IT service sector in recent quarters has been the view that US would achieve a

soft landing in 2025 (which we define as 0.5- 1.5% real GDP growth) and that Fed Funds rate would be gradually lowered from the recent peak of 5.25-5.5%, driven by lower inflation. This, the market felt, was the apt environment for a broader pick up in discretionary spending beyond that of North American BFSI sector, especially after two muted years when the constant refrain from vendors for the weak growth was of 'macro uncertainty'. However, recent inflation prints, stronger GDP growth, and a higher fiscal deficit have raised concerns. With US 10-year yields rising to 4.7% from a September 2024 low of 3.6%, there are fears that sustained high interest rates could reduce IT outsourcing demand, particularly in sectors like BFSI and Telecom, and dampen US consumption in areas like housing, autos and retail.

- Covid-induced pull forward of demand requires a multi-year unwind. We think there were excesses during the compressed transformation phase which are yet to be fully unwound.
- Gen AI – value compressive in the near term: Gen AI has significantly boosted revenue in semiconductors, data centers, and hyper scalers, but IT services have seen limited benefits. ROI remains a top concern arise due to heavy investment in surrounding services
- Massive hyper scaler AI capex should accentuate re-alignment in IT spend: Software players, including hyperscalers, are increasing capex on AI-related data centers. This will drive higher pricing, forcing enterprises to allocate more IT spend to cloud/SaaS
- Indian Tier-1 companies now face higher competition from Accenture, Tier-2 players, and Cognizant, likely slowing their growth compared to FY15-FY20. This is besides the fact that by FY25, Tier-1 revenue will reach \$85bn, double that in FY15. Due to the higher base now, growth may not be as rapid as it was when the base was lower
- The weak TCV for certain players in 1HFY25 and lack of any mega deal announcements in recent quarters points to a brewing growth problem for FY26
- **How we are valuing companies:** We are using PE methodology and using TCS as our industry benchmark. The target PE multiple used for TCS is 24.6x (which is the average PE multiple of TCS over the last 5 years less 1SD). This is by no means pessimistic. 24.6x is higher than the 23.6x multiple which was the mean multiple of the FY15-FY20 time frame when revenue growth was ~150bps faster. During the Global Financial Crisis (GFC) downturn, the stock traded in the single digit PE multiple territory. We are using a 1SD discount to the five-year PE as we believe that industry and TCS will see a 'slower for longer' growth situation.

Why use a PE multiple that is 1SD lower than 5-year mean of TCS:

- Through our choice of the benchmark Target PE multiple, we seek to capture the probability of downside risks to consensus growth expectations for FY26/FY27.
- While the strong consensus estimates seem to imply a soft-landing macro scenario in the US, the higher probability event is a 'no landing, higher-for-longer interest rate' scenario which we believe has a 50-60% probability. The probability of a recession is also not insignificant (20% based on Bloomberg estimates).
- Some of the speed breakers are industry/technology related, and some are related to the macro and policy environment especially in the US which is the key

market for Indian IT services firms. Besides the US, we believe the European market macro looks quite bad (Europe – including UK – forms about 30-40% of revenue for Indian IT services firms) and corporate IT spending would be muted

Tier- 2 valuation reflects growth gap between it and Tier-1:

- The Tier-2 set have been taking away market share from the Tier-1 set due to better execution and due to their smaller size. And unlike in the past cycles, they have performed better than the Tier-1 largely due to better management teams.
- However, the current PE premium to the Tier-1s is excessive as we believe that to deliver on the high consensus revenue growth expectations, they may be taking on more cost take out projects which are likely to impact their margins adversely.

Fig 1 – Quarterly results: Comparison of actuals with estimates

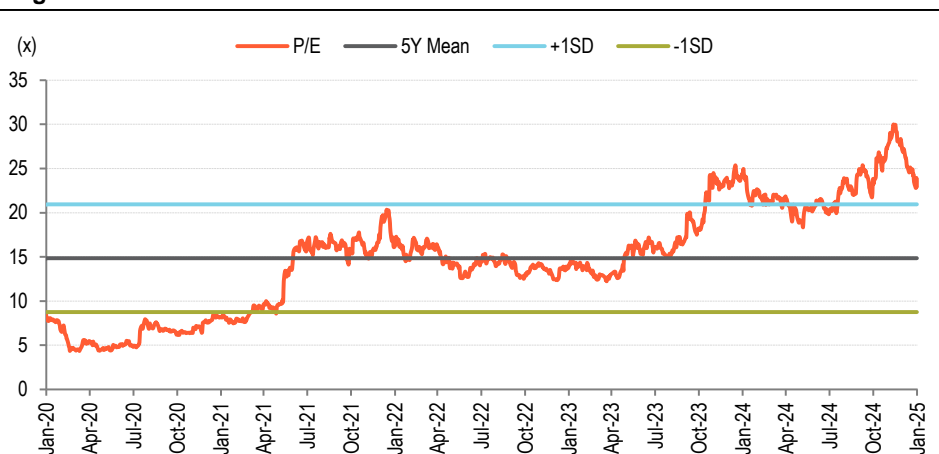
Y/E Mar (Rs mn)	3QFY24	2QFY25	3QFY25	YoY(%)	QoQ (%)	3QFY25E	Deviation (%)
Net Sales (USD mn)	91	99	101	11.2	1.8	100	0.4
Net Sales	7,528	8,318	8,538	13.4	2.6	8,461	0.9
Cost of Sales	5,455	6,159	6,472	18.6	5.1	6,354	1.9
% of Sales	72.5	74.0	75.8			75.1	
EBITDA	2,072	2,159	2,066	(0.3)	(4.3)	2,107	(1.9)
% of Sales	27.5	26.0	24.2			24.9	
Depreciation	335	328	358	6.7	9.1	328	9.1
EBIT	1,737	1,832	1,709	(1.6)	(6.7)	1,779	(3.9)
EBIT Margin (%)	23.1	22.0	20.0			21.0	
Interest Expenses	59	81	83	41.4	2.0	70	18.2
Other Income	208	128	214	3.0	66.9	137	55.9
PBT	1,886	1,879	1,840	(2.5)	(2.1)	1,846	(0.3)
Provision for Tax	477	484	468	(1.9)	(3.2)	473	(1.0)
Effective Tax Rate	25.3	25.7	25.4			25.6	
Minorities	4.3	(7.5)	1.3			1.0	
PAT (Reported)	1,405	1,402	1,371	(2.4)	(2.3)	1,373	(0.1)
NPM (%)	18.7	16.9	16.1			16.2	(1.0)

Source: Company, BOBCAPS Research

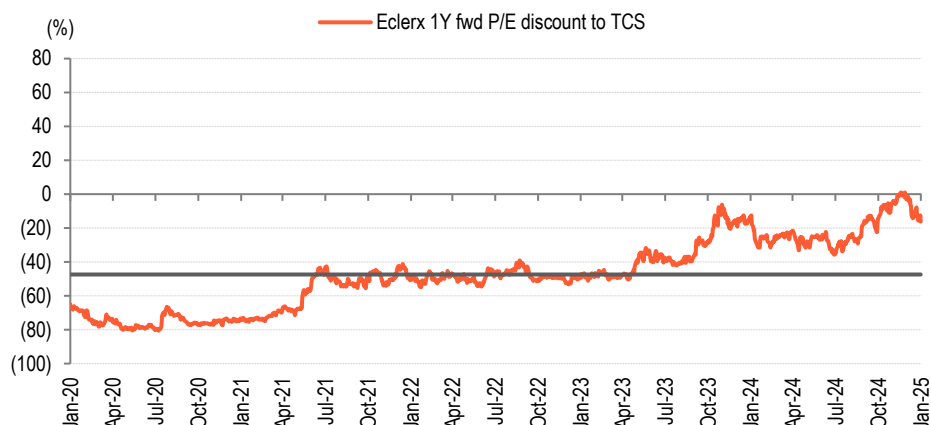
Fig 2 – Revised Estimates

Change in Estimates	New			Old			Change (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
INR/USD	84.4	87.3	89.3	84.1	85.4	86.6	0.4	2.1	3.1
USD Revenue (USD mn)	398	453	503	398	454	507	(0.0)	(0.0)	(0.7)
USD Revenue Growth (%)	12.4	14.0	11.0	12.4	14.0	11.7			
Revenue (Rsmn)	33,706	39,561	44,909	33,550	38,746	43,897	0.5	2.1	2.3
EBIT (Rsmn)	6,815	8,239	9,333	6,950	8,169	9,203	(1.9)	0.9	1.4
EBIT Margin (%)	20.2	20.8	20.8	20.7	21.1	21.0			
PAT (Rsmn)	5,364	6,500	7,536	5,424	6,487	7,476	(1.1)	0.2	0.8
FDEPS (Rs)	111.8	135.3	156.9	112.8	134.7	155.3	(0.9)	0.4	1.0

Source: Company, BOBCAPS Research

Fig 3 – 5 Year PE trend

Source: Company, BOBCAPS Research

Fig 4 – Premium/ Discount to TCS

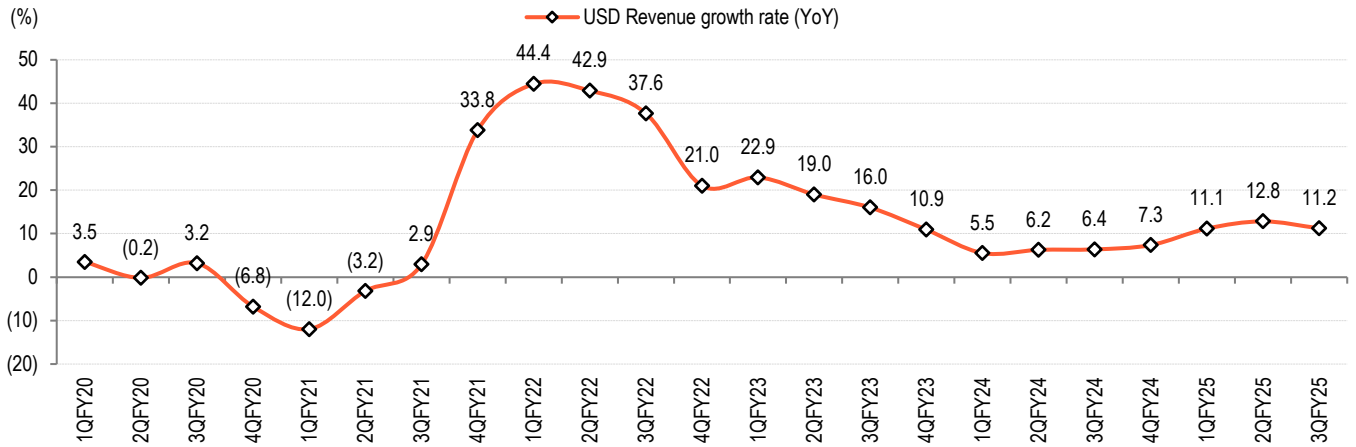
Source: Company, BOBCAPS Research

Fig 5 – P&L at a glance

Y/E March (Rs mn)	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Average INR/USD	68.5	68.7	71.2	71.7	74.4	75.9	79.6	82.7	84.4	87.3	89.3
Net sales (US\$m)	194.2	198.6	200.8	200.5	210.4	284.6	332.7	353.9	397.7	453.3	503.1
-Growth (%)		2.3	1.1	(0.1)	4.9	35.2	16.9	6.4	12.4	14.0	11.0
Net Sales	13,300	13,651	14,305	14,376	15,644	21,605	26,479	29,255	33,706	39,561	44,909
-Growth (%)		2.6	4.8	0.5	8.8	38.1	22.6	10.5	15.2	17.4	13.5
Direct cost	5,246	6,180	7,059	7,613	7,813	10,789	13,848	15,029	18,022	20,846	23,644
Gross Profit	8,054	7,470	7,246	6,763	7,831	10,816	12,631	14,226	15,684	18,715	21,265
Gross Margin	60.6	54.7	50.7	47.0	50.1	50.1	47.7	48.6	46.5	47.3	47.4
SGA Expenses	3,366	3,803	4,154	3,514	3,189	4,085	5,192	6,477	7,509	8,816	10,008
% of sales	25.3	27.9	29.0	24.4	20.4	18.9	19.6	22.1	22.3	22.3	22.3
Other operating income	-	-	-	-	-	-	-	-	-	-	-
EBITDA	4,688	3,668	3,092	3,249	4,642	6,731	7,439	7,750	8,175	9,899	11,257
% of sales	35.2	26.9	21.6	22.6	29.7	31.2	28.1	26.5	24.3	25.0	25.1
Depreciation & Amortisation	518	483	447	710	816	1,032	1,140	1,258	1,360	1,660	1,923
% of sales	3.9	3.5	3.1	4.9	5.2	4.8	4.3	4.3	4.0	4.2	4.3
EBIT	4,170	3,185	2,645	2,539	3,826	5,699	6,299	6,492	6,815	8,239	9,333
% of sales	31.4	23.3	18.5	17.7	24.5	26.4	23.8	22.2	20.2	20.8	20.8
Finance costs	-	-	-	188	203	201	212	235	324	331	331
Other income (net)	188	390	469	452	182	170	443	614	692	829	1,126
Exceptional Item	-	213	-	-	-	(57)	-	-	-	-	-
PBT	4,358	3,787	3,114	2,803	3,806	5,611	6,530	6,871	7,183	8,737	10,128
-PBT margin (%)	32.8	27.7	21.8	19.5	24.3	26.0	24.7	23.5	21.3	22.1	22.6
Provision for tax	819	896	832	715	978	1,427	1,638	1,753	1,818	2,237	2,593
Effective tax rate (%)	18.8	23.7	26.7	25.5	25.7	25.4	25.1	25.5	25.3	25.6	25.6
Net profit	3,539	2,891	2,282	2,087	2,828	4,184	4,892	5,117	5,364	6,500	7,536
Minority Interest	(1)	4	0	0	0	4	4	3	(1)	4	4
Net reported profit	3,541	2,887	2,283	2,087	2,828	4,180	4,888	5,115	5,365	6,496	7,532
-Growth (%)		(18.5)	(20.9)	(8.6)	35.5	47.8	16.9	4.6	4.9	21.1	15.9
-Net profit margin (%)	26.6	21.1	16.0	14.5	18.1	19.3	18.5	17.5	15.9	16.4	16.8

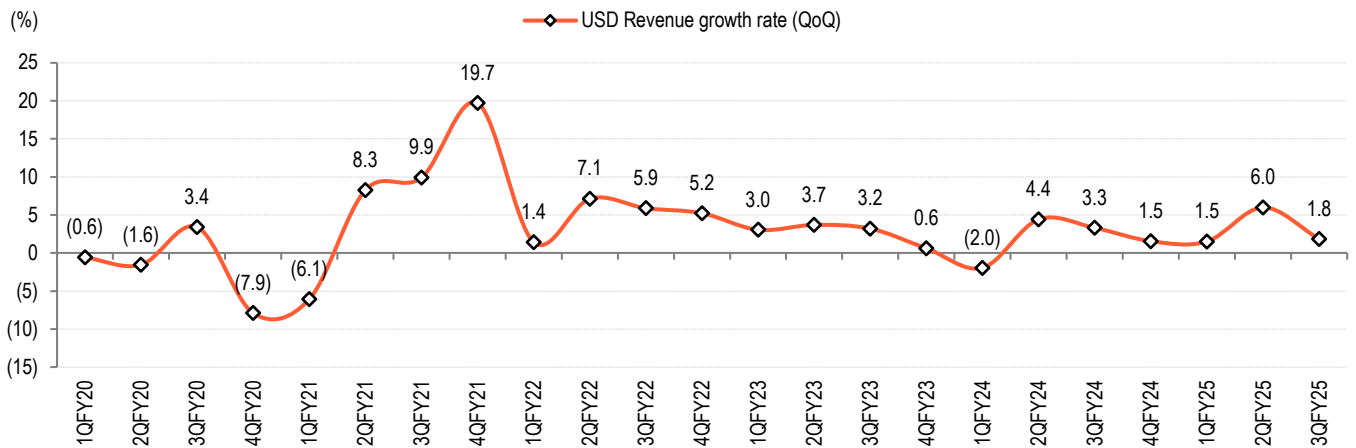
Source: Company, BOBCAPS Research

Fig 6 – US\$ Revenue Growth (YoY)



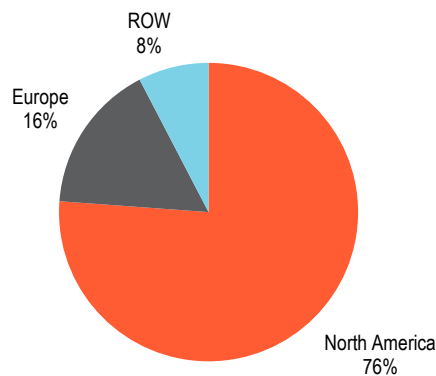
Source: Company, BOBCAPS Research

Fig 7 – US\$ Revenue Growth (QoQ)



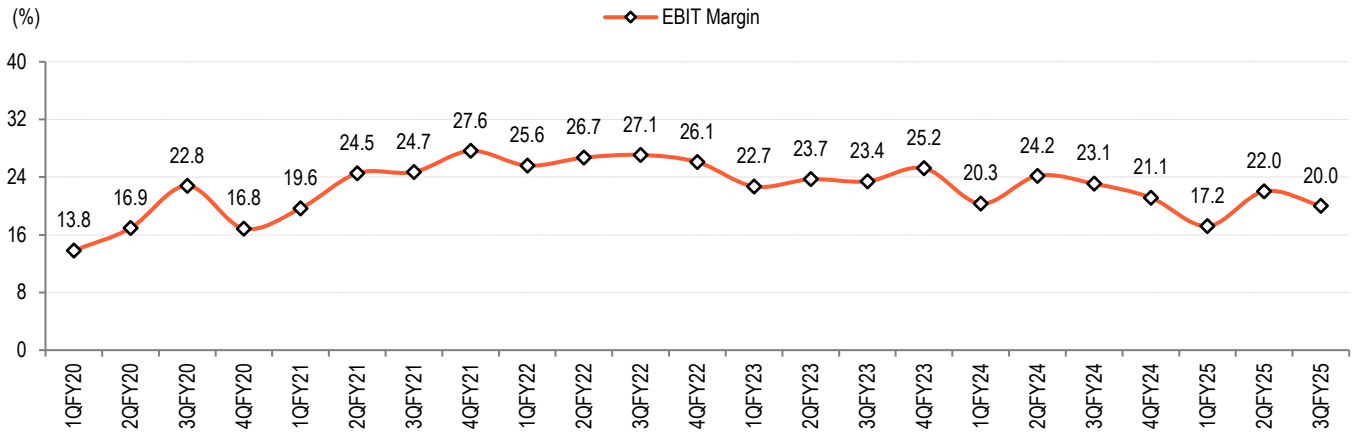
Source: Company, BOBCAPS Research

Fig 8 – 3QFY25 Geographical Revenue Mix



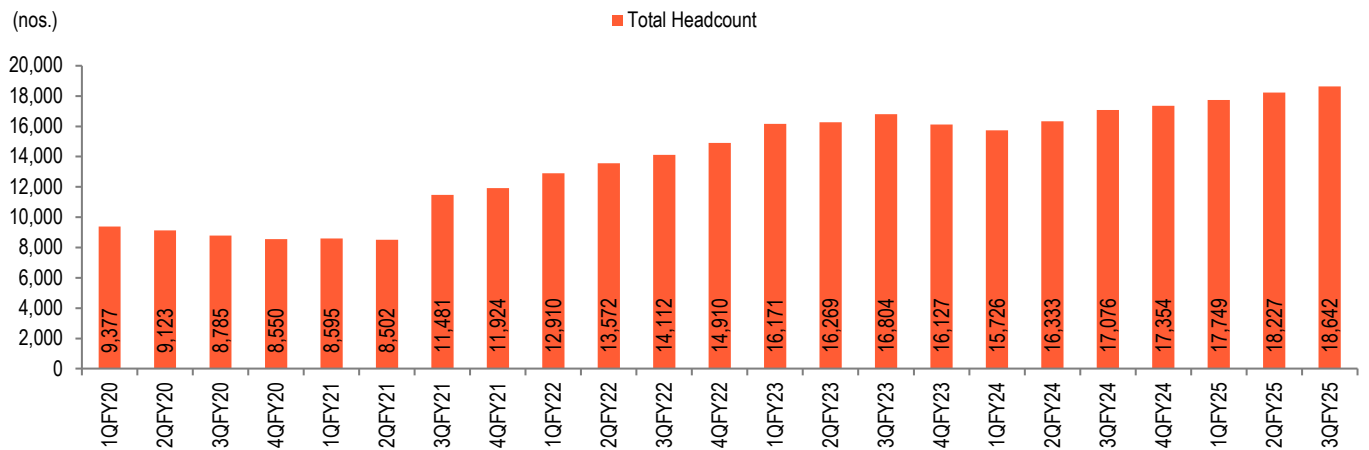
Source: Company, BOBCAPS Research

Fig 9 – EBIT Margin trend



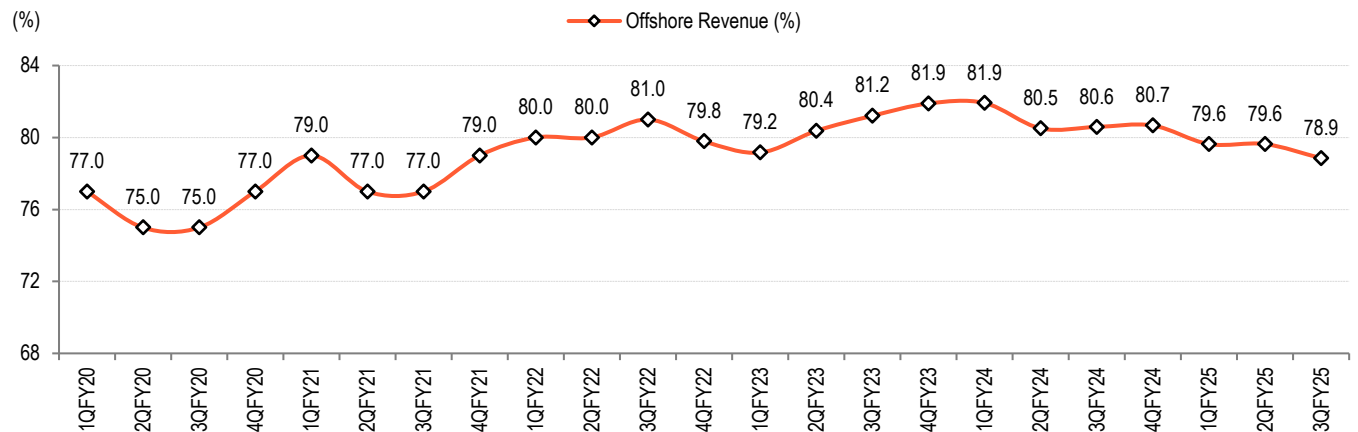
Source: Company, BOBCAPS Research

Fig 10 – Total Headcount trend



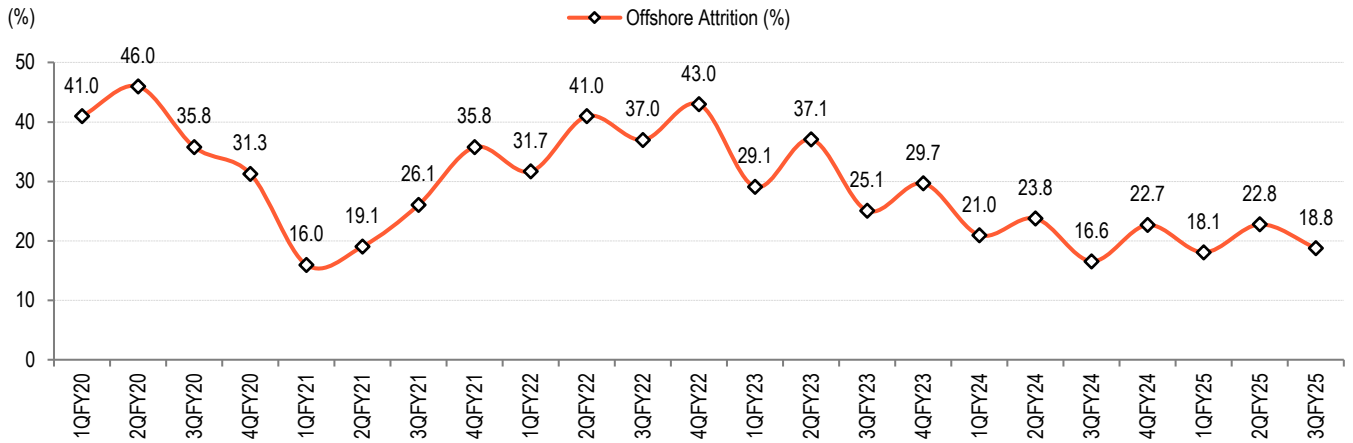
Source: Company, BOBCAPS Research

Fig 11 – Billing Mix (Offshore)



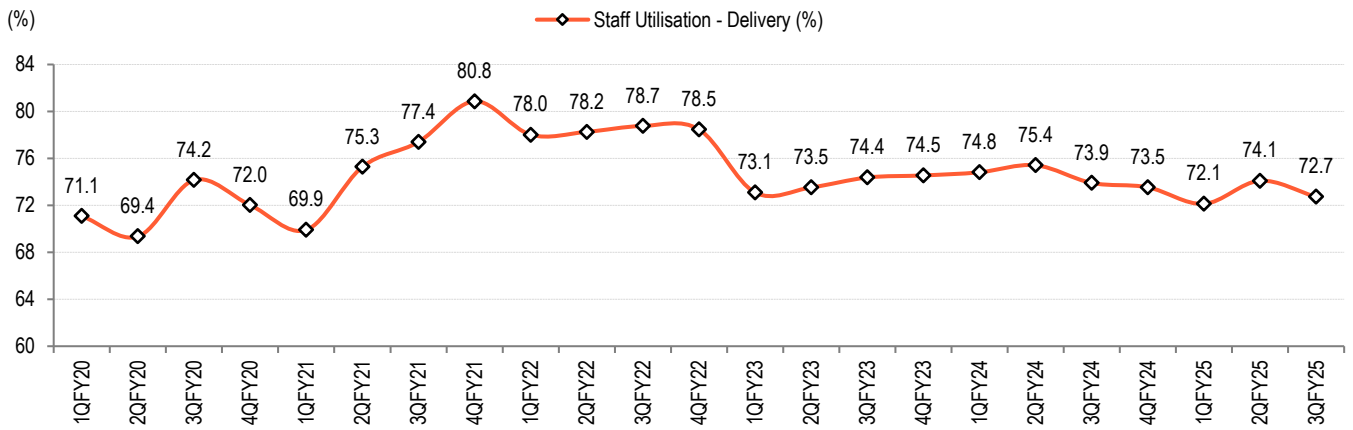
Source: Company, BOBCAPS Research

Fig 12 – Offshore Attrition Rate



Source: Company, BOBCAPS Research

Fig 13 – Staff Utilization – Delivery (%)



Source: Company, BOBCAPS Research

Fig 14 – Quarterly Snapshot

	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25
INR/ USD	77.2	79.8	82.1	82.2	82.2	82.7	83.2	83.0	83.4	83.8	84.5
Revenue (USD mn)	80	82	85	86	84	88	91	92	93	98.8	100.7
INR mn											
Revenue	6,178	6,503	6,867	6,931	6,845	7,218	7,528	7,665	7,819	8,318	8,538
Gross margin	2,855	3,040	3,265	3,471	3,180	3,541	3,782	3,723	3,497	3,918	3,969
EBITDA	1,651	1,815	1,906	2,067	1,675	2,047	2,072	1,955	1,661	2,159	2,066
EBIT	1,402	1,541	1,607	1,748	1,390	1,744	1,737	1,620	1,344	1,832	1,709
Other income	(47)	157	125	(3)	16	80	131	152	135	47	131
PBT	1,355	1,698	1,732	1,745	1,406	1,825	1,868	1,772	1,479	1,879	1,840
Tax	360	438	419	421	340	463	477	473	359	484	468
PAT	992	1,259	1,312	1,325	1,063	1,360	1,386	1,305	1,116	1,402	1,371
Number of shares	50	50	50	49	48	48	48	48	48	47	47
EPS	20	25	26	27	22	28	29	27	23	30	29
YoY Growth (%)											
USD revenue	22.9	19.0	16.0	10.9	5.5	6.2	6.4	7.3	11.1	12.8	11.2
Revenue	27.0	24.3	22.8	17.1	10.8	11.0	9.6	10.6	14.2	15.2	13.4
Gross profit	18.5	15.5	14.4	18.8	11.4	16.5	15.8	7.3	9.9	10.6	5.0
EBITDA	11.4	10.0	7.2	13.4	1.5	12.8	8.7	(5.4)	(0.8)	5.5	(0.3)
EBIT	12.6	10.3	6.2	13.3	(0.8)	13.2	8.1	(7.3)	(3.3)	5.0	(1.6)
Net profit	8.6	24.3	23.0	11.6	7.2	8.0	5.7	(1.5)	5.0	3.1	(1.1)
QoQ Growth (%)											
USD revenue	3.0	3.7	3.2	0.6	(2.0)	4.4	3.3	1.5	1.5	6.0	1.8
Revenue	4.4	5.3	5.6	0.9	(1.2)	5.4	4.3	1.8	2.0	6.4	2.6
EBITDA	(2.3)	6.5	7.4	6.3	(8.4)	11.3	6.8	(1.6)	(6.1)	12.0	1.3
EBIT	(9.1)	9.9	4.3	8.8	(20.5)	25.5	(0.4)	(6.7)	(17.0)	36.3	(6.7)
Net profit	(16.5)	26.9	4.2	1.1	(19.8)	27.9	2.0	(5.8)	(14.5)	25.7	(2.3)
Margins (%)											
Gross margin	46.2	46.8	47.5	50.1	46.5	49.1	50.2	48.6	44.7	47.1	46.5
EBITDA	26.7	27.9	27.8	29.8	24.5	28.4	27.5	25.5	21.2	26.0	24.2
EBIT	22.7	23.7	23.4	25.2	20.3	24.2	23.1	21.1	17.2	22.0	20.0
PAT	16.1	19.4	19.1	19.1	15.5	18.8	18.4	17.0	14.3	16.9	16.1
SGA	23.5	23.1	24.1	24.9	26.2	24.9	27.2	27.4	27.5	25.1	26.5

Source: Company, BOBCAPS Research

Fig 15 – Key Metrics

	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25
Total Headcount	16,171	16,269	16,804	16,127	15,726	16,333	17,076	17,354	17,749	18,227	18,642
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	15,260
Onshore Delivery	681	645	607	599	535	585	611	630	683	637	627
Support Services	951	861	863	948	870	862	848	862	898	907	923
Tech Services	915	1,050	956	1,135	1,058	977	1,002	1,049	1,122	1,699	1,704
Selling and Distribution Staff (BD)	104	105	107	115	120	118	124	123	125	123	128
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	76.2
Europe	22.0	20.0	20.4	19.6	20.0	18.8	17.8	17.5	17.5	16.4	16.2
ROW	8.1	8.2	8.5	9.5	8.4	8.5	8.6	8.0	7.6	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	21.1
Offshore Revenue	79.2	80.4	81.2	81.9	81.9	80.5	80.6	80.7	79.6	79.6	78.9
BPaaS	25.0	24.0	25.0	26.0	25.0	24.1	24.1	24.0	21.2	20.1	19.1
Currency Concentration (%)											
USD	81.6	82.8	81.8	82.6	82.4	82.8	83.5	85.5	85.8	86.7	86.3
EURO	10.5	9.5	10.2	10.1	10.1	9.6	9.4	9.5	9.4	8.3	8.4
GBP	3.3	3.2	3.1	3.0	3.3	3.2	3.4	3.4	3.0	3.0	3.2
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	44.9
Top 10 contribution	60.3	61.0	58.7	58.9	58.6	59.2	59.3	62.6	62.0	63.5	62.3
Non-Top 10 contribution	39.7	39.0	41.3	41.1	41.4	40.8	40.7	37.4	38.0	36.5	37.7
Offshore Attrition (%)	29.1	37.1	25.1	29.7	21.0	23.8	16.6	22.7	18.1	22.8	18.8
Overall Staff utilization (%)	68.4	68.4	68.5	68.3	69.1	70.0	68.8	68.4	66.6	68.4	67.2
Staff utilization (Delivery) (%)	73.1	73.5	74.4	74.5	74.8	75.4	73.9	73.5	72.1	74.1	72.7
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	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	23.0
US\$ 3mm-5mm Clients	2.0	2.0	3.0	4.0	4.0	4.0	7.0	4.0	6.0	5.0	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	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	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	13,810.0
Profit and Loss Statement (in mn USD)											
Revenue	79.5	82.5	85.1	85.6	83.9	87.6	90.5	91.9	93.3	98.8	100.7
EBIT	18.0	19.5	19.9	21.6	17.0	21.2	20.9	19.4	16.0	21.8	20.1
PAT	12.8	16.0	16.3	16.4	13.0	16.5	16.7	15.6	13.3	16.7	16.2
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	21,597
EBIT	4,465	4,804	4,742	5,356	4,336	5,186	4,892	4,477	3,613	4,775	4,322
PAT	3,159	3,926	3,869	4,061	3,316	4,042	3,904	3,607	3,000	3,657	3,467

Source: Company, BOBCAPS Research

Fig 16 – QoQ and YoY growth across various parameters

(%)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25
QoQ Growth (%)											
Total Headcount	8.5	0.6	3.3	(4.0)	(2.5)	3.9	4.5	1.6	2.3	2.7	2.3
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)	2.7
Onshore Delivery	0.9	(5.3)	(5.9)	(1.3)	(10.7)	9.3	4.4	3.1	8.4	(6.7)	(1.6)
Support Services	17.8	(9.5)	0.2	9.8	(8.2)	(0.9)	(1.6)	1.7	4.2	1.0	1.8
Tech Services	22.2	14.8	(9.0)	18.7	(6.8)	(7.7)	2.6	4.7	7.0	51.4	0.3
Selling and Distribution Staff (BD)	(3.7)	1.0	1.9	7.5	4.3	(1.7)	5.1	(0.8)	1.6	(1.6)	4.1
US\$ Revenue	3.0	3.7	3.2	0.6	(2.0)	4.4	3.3	1.5	1.5	6.0	1.8
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	2.1
Europe	(0.9)	(5.6)	5.1	(3.1)	(0.2)	(1.8)	(2.5)	0.2	1.1	(0.4)	0.6
ROW	4.7	4.4	7.4	12.9	(13.4)	5.9	4.2	(5.2)	(4.4)	7.0	1.6
Billing Mix											
Onshore Revenue	6.2	(2.3)	(1.2)	(3.1)	(2.1)	12.5	2.9	1.1	6.9	6.0	5.8
Offshore Revenue	2.2	5.2	4.3	1.5	(1.9)	2.6	3.4	1.6	0.2	6.0	0.8
BPaaS	(4.6)	(0.5)	7.5	4.6	(5.7)	0.4	3.3	1.3	(10.5)	0.8	(3.4)
Currency Concentration											
USD	4.2	5.2	2.0	1.5	(2.2)	5.0	4.2	3.9	1.8	7.2	1.3
EURO	(5.2)	(6.3)	11.5	(0.4)	(2.0)	(1.6)	1.5	2.2	1.2	(7.3)	3.9
GBP	(0.2)	1.0	0.8	(2.0)	5.1	3.7	7.0	2.1	(10.1)	8.1	7.9
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	(2.5)
Top 10 contribution	3.3	4.8	(0.6)	0.9	(2.5)	5.4	3.5	7.3	0.5	8.4	(0.1)
Non-Top 10 contribution	2.7	1.9	9.1	0.1	(1.2)	3.0	3.0	(6.8)	3.1	1.9	5.3
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)	0.0
US\$ 1mm-3mm Clients	(12.5)	23.8	(7.7)	12.5	(11.1)	(8.3)	(4.5)	9.5	(4.3)	9.1	(4.2)
US\$ 3mm-5mm Clients	(33.3)	0.0	50.0	33.3	0.0	0.0	75.0	(42.9)	50.0	(16.7)	0.0
US\$ 5mm-10mm Clients	0.0	0.0	(14.3)	0.0	(16.7)	0.0	(40.0)	33.3	0.0	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	0.0
Seat Count	(4.1)	6.6	0.0	0.0	4.7	0.0	1.9	(3.3)	3.1	0.1	15.0
YoY Growth (%)											
Total Headcount	25.3	19.9	19.1	8.2	(2.8)	0.4	1.6	7.6	12.9	11.6	9.2
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	5.3
Onshore Delivery	3.5	(4.2)	(8.7)	(11.3)	(21.4)	(9.3)	0.7	5.2	27.7	8.9	2.6
Support Services	22.2	9.1	9.0	17.5	(8.5)	0.1	(1.7)	(9.1)	3.2	5.2	8.8
Tech Services	45.7	48.9	21.5	51.5	15.6	(7.0)	4.8	(7.6)	6.0	73.9	70.1
Selling and Distribution Staff (BD)	2.0	1.9	3.9	6.5	15.4	12.4	15.9	7.0	4.2	4.2	3.2
US\$ Revenue	22.9	19.0	16.0	10.9	5.5	6.2	6.4	7.3	11.1	12.8	11.2
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	15.0
Europe	17.5	(0.7)	2.9	(4.6)	(4.0)	(0.1)	(7.4)	(4.3)	(3.0)	(1.7)	1.5
ROW	42.2	38.6	40.6	32.6	9.6	11.2	7.9	(9.4)	0.1	1.1	(1.5)

(%)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25
Billing Mix											
Onshore Revenue	28.1	16.8	14.8	(0.6)	(8.4)	5.5	9.8	14.6	25.1	17.8	21.1
Offshore Revenue	21.6	19.5	16.3	13.8	9.2	6.4	5.5	5.7	8.0	11.6	8.8
BPaaS	22.9	19.0	11.5	6.8	5.5	6.5	2.4	(0.9)	(5.9)	(5.6)	(11.8)
Currency Concentration											
USD	25.3	23.1	18.6	13.5	6.6	6.3	8.6	11.1	15.7	18.1	14.9
EURO	7.5	12.8	10.5	(1.3)	2.1	7.2	(2.4)	0.1	3.3	(2.7)	(0.4)
GBP	0.8	(24.0)	(19.1)	(0.4)	4.8	7.6	14.2	19.0	1.9	6.2	7.0
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	18.1
Top 10 contribution	19.7	20.3	12.5	8.6	2.6	3.1	7.4	14.1	17.7	21.1	16.8
Non-Top 10 contribution	28.2	17.1	21.3	14.3	10.0	11.1	4.9	(2.4)	1.9	0.8	3.1
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)	(5.3)
US\$ 1mm-3mm Clients	5.0	30.0	(4.0)	12.5	14.3	(15.4)	(12.5)	(14.8)	(8.3)	9.1	9.5
US\$ 3mm-5mm Clients	(66.7)	(60.0)	0.0	33.3	100.0	100.0	133.3	0.0	50.0	25.0	(28.6)
US\$ 5mm-10mm Clients	75.0	40.0	(14.3)	(14.3)	(28.6)	(28.6)	(50.0)	(33.3)	(20.0)	(20.0)	33.3
US\$ 10mm++ Clients	40.0	16.7	33.3	33.3	28.6	28.6	25.0	25.0	0.0	0.0	(10.0)
Seat Count	(4.1)	2.2	2.2	2.2	11.6	4.7	6.7	3.2	1.6	1.7	14.8

Source: Company, BOBCAPS Research

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Total revenue	26,479	29,255	33,706	39,561	44,909
EBITDA	7,439	7,750	8,175	9,899	11,257
Depreciation	1,140	1,258	1,360	1,660	1,923
EBIT	6,299	6,492	6,815	8,239	9,333
Net interest inc./(exp.)	(212)	(235)	(324)	(331)	(331)
Other inc./(exp.)	443	614	692	829	1,126
Exceptional items	0	0	0	0	0
EBT	6,530	6,871	7,183	8,737	10,128
Income taxes	1,638	1,753	1,818	2,237	2,593
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	4	3	(1)	4	4
Reported net profit	4,888	5,115	5,365	6,496	7,532
Adjustments	0	0	0	0	0
Adjusted net profit	4,888	5,115	5,365	6,496	7,532

Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	0	0	0	0	0
Other current liabilities	3,525	3,914	5,079	5,961	6,767
Provisions	99	124	185	217	246
Debt funds	10	0	0	0	0
Other liabilities	2,078	2,756	3,085	3,503	3,876
Equity capital	480	482	482	482	482
Reserves & surplus	16,685	22,012	27,330	33,783	41,271
Shareholders' fund	17,166	22,495	27,812	34,265	41,754
Total liab. and equities	22,877	29,290	36,161	43,946	52,643
Cash and cash eq.	4,279	6,921	12,505	18,458	25,616
Accounts receivables	4,405	4,960	5,541	6,503	7,382
Inventories	5	6	6	6	6
Other current assets	2,677	3,993	4,617	5,419	6,152
Investments	2,745	4,065	4,065	4,065	4,065
Net fixed assets	2,444	2,097	1,815	1,421	935
CWIP	208	8	8	8	8
Intangible assets	3,960	3,993	3,993	3,993	3,993
Deferred tax assets, net	541	591	664	757	840
Other assets	1,822	2,663	2,954	3,322	3,652
Total assets	22,877	29,290	36,161	43,946	52,643

Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Cash flow from operations	4,926	5,259	6,342	6,768	7,848
Capital expenditures	(901)	(643)	(1,079)	(1,266)	(1,437)
Change in investments	(540)	(1,064)	0	0	0
Other investing cash flows	597	(3,172)	368	497	795
Cash flow from investing	(844)	(4,879)	(711)	(769)	(642)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	0	0	0	0	0
Interest expenses	(4,368)	(1,017)	0	0	0
Dividends paid	(33)	(48)	(47)	(47)	(47)
Other financing cash flows	0	0	0	0	0
Cash flow from financing	(4,401)	(1,065)	(47)	(47)	(47)
Chg in cash & cash eq.	(319)	(685)	5,584	5,952	7,159
Closing cash & cash eq.	4,279	6,921	12,505	18,458	25,616

Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	99.7	106.1	114.2	138.2	160.3
Adjusted EPS	98.3	104.0	111.8	135.3	156.9
Dividend per share	1.0	1.0	1.0	1.0	1.0
Book value per share	350.3	466.5	591.8	729.1	888.4

Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	5.1	4.7	4.0	3.3	2.8
EV/EBITDA	18.3	17.6	16.6	13.3	11.2
Adjusted P/E	30.6	28.9	26.9	22.2	19.1
P/BV	8.6	6.4	5.1	4.1	3.4

DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	74.9	74.4	74.7	74.4	74.4
Interest burden (PBT/EBIT)	103.7	105.8	105.4	106.0	108.5
EBIT margin (EBIT/Revenue)	23.8	22.2	20.2	20.8	20.8
Asset turnover (Rev./Avg TA)	121.5	112.2	103.0	98.8	93.0
Leverage (Avg TA/Avg Equity)	1.3	1.3	1.3	1.3	1.3
Adjusted ROAE	29.8	25.8	21.3	20.9	19.8

Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
YoY growth (%)					
Revenue	22.6	10.5	15.2	17.4	13.5
EBITDA	10.5	4.2	5.5	21.1	13.7
Adjusted EPS	15.2	5.8	7.5	21.1	15.9
Profitability & Return ratios (%)					
EBITDA margin	28.1	26.5	24.3	25.0	25.1
EBIT margin	23.8	22.2	20.2	20.8	20.8
Adjusted profit margin	18.5	17.5	15.9	16.4	16.8
Adjusted ROAE	29.8	25.8	21.3	20.9	19.8
ROCE	28.7	24.4	20.2	19.7	18.3

Working capital days (days)

	FY23A	FY24A	FY25E	FY26E	FY27E
Receivables	53	58	57	56	56
Inventory	NA	NA	NA	NA	NA
Payables	NA	NA	NA	NA	NA

Ratios (x)

	FY23A	FY24A	FY25E	FY26E	FY27E
Gross asset turnover	11.4	12.9	17.2	24.4	38.1
Current ratio	3.9	4.9	5.1	5.6	6.2
Net interest coverage ratio	NA	NA	NA	NA	NA
Adjusted debt/equity	(0.2)	(0.3)	(0.4)	(0.5)	(0.6)

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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

BUY – Expected return >+15%

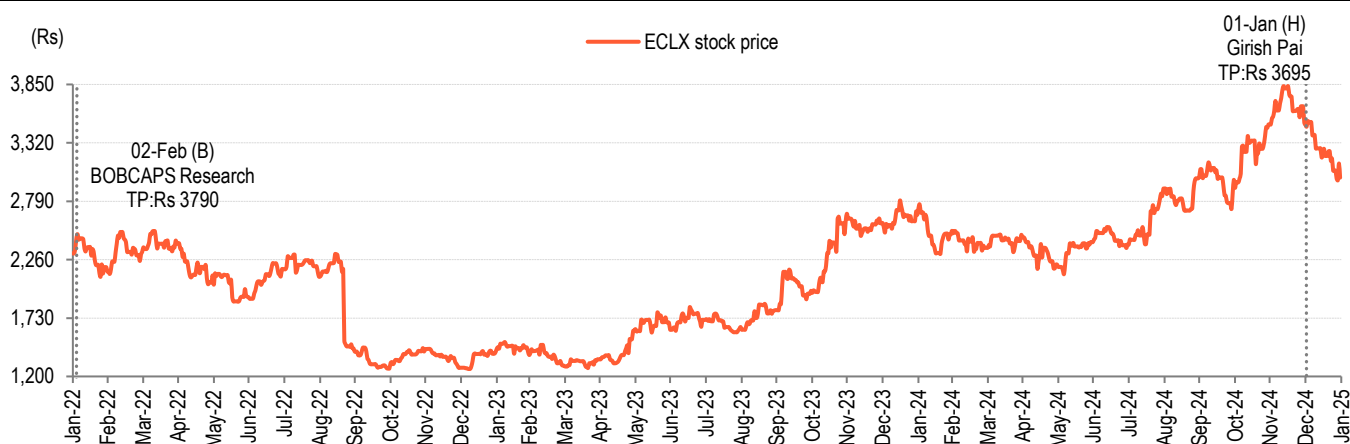
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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Ratings and Target Price (3-year history): ECLERX SERVICES (ECLX IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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