CLOCKVINE
Capital Advisors

Investment memo – Eclerx **Date:24/07/2023**

Mcap (Rs bn)	87	Shares O/S (mn)	48.8
Promoter shareholding	54%	Price (Rs)	1,785
Pre-tax ROCE (1)	40%	Trailing P/E (2)	18

Note:

1) Capital deployed includes cash and cash equivalents of ~Rs9 bn

2) Including other income and not reducing Mcap by cash holdings.

Investment Summary

Eclerx is poised to grow its sales and profits at a CAGR of ~12-15%, each, in the next 3-5 years as:

- Onboarding of Mr. Kapil Jain (24 years work-ex at Infosys BPM) as CEO, can open up access to relationships which can drive larger deals versus past. Combined with good execution track record of the company, it has the potential to improve growth profile in the coming years.
- We like the management – a) capital allocation has been responsible, b) feedback on execution is good, c) we understand top and middle mgmt. employees are happy; churn is low, d) promoter stake has been increasing (53.6% in Mar-23 from 50.8% in Jun-20).
- Wave of automation expected due to generative AI and its possible negative impact on volumes is the only big risk we see to our investment case.
- In our view, generative AI would have positive/neutral impact in the long term as – a) it will reduce costs and improve quality of service and hence can increase outsourcing penetration (~20-30% as of now), b) new use cases will emerge. Hence, in the hands of a good mgmt., generative AI is a tool which can create an edge versus competition, to gain market share.

We find the valuation at ~18X trailing P/E, fair, in the light of growth potential (~12-15% PAT CAGR) in the next couple of years. The stock could compound at a higher rate given potential for expansion in multiples if the story unfolds in the manner we expect.

Company Background

- Eclerx was founded in 2000 by Mr. P. D Mundhra and Mr. Anjan Malik. It is into Business Process Management (BPM) and Analytics (bit of BPO as well). It has 14k employees and provides services to over 50 Fortune 2000 companies. Almost 75% of the revenue of the company is from Fortune 500 companies.
- Eclerx started with services linked to E-comm sector in 2000. A large computer manufacturing company had come out with an RFP on its website. At the time, BPO services were only about call center and medical transcription services and hence no ready-made solution (offered by large IT services firms) existed. Eclerx bid for this order against large IT services companies and won (this was first large order for the company) based on the strength of its solution.
- Mr. Anjan Malik (second promoter) joined the company in 2004. Given his background in capital markets (he had worked at Lehman Brothers and Accenture before joining Eclerx), the company got into BPM solutions for middle and back office. These solutions were essentially providing trade processing (for OTC transactions) and reconciliations across disparate systems of the customer.

Principal Officer *Mobile: +91 9819066213*
Jasdeep Walia *Email: Jasdeep.walia@clockvinecapital.com*

Promoter	Designation	Details
Mr. P. D Mundhra	Co-founder	Has >20 years experience in the manufacturing, financial services industries and KPO / BPO sector. Mr. Mundhra co-founded eClerx in 2000, bringing with him experience from his tenure in Lehman Brothers' investment banking division and the corporate treasury at Citibank. He holds a Master of Business Administration degree in finance from The Wharton School, University of Pennsylvania (USA).
Mr. Anjan Malik	Co-founder	He has over 31 years experience in investment banking, capital markets, consulting and technological solutions. He has worked with Accenture in Europe and Lehman Brothers in US before starting Eclerx with Mr. Mundhra in 2000. Mr. Malik holds a Masters of Business Administration degree in finance from The Wharton School, University of Pennsylvania (USA) and a first class Bachelors of Science degree in Physics, with honors, from the Imperial College of Science and Technology, London (UK).

- Over the last 10 years the company has done 3 main acquisitions.

    a. In 2012, it acquired Agilyst (for US$16 mn when company sales were ~US$10 mn) and entered into CX (Customer Experience) space. However, the offering was niche – a) Revenue assurance. Eclerx was responsible for specifying the exact requirements of a new customer wanting a new cable connection so that the cable company could provision exactly to avoid wastage of resources, b) avoiding truck roll – trying to solve a customer query and avoiding a physical visit by the technician.
    b. In April-15 it acquired CLX for US$25 mn (trailing sales were Euro19.4 mn) which gave it entry into digital marketing and marketing analytics domain (services explained in later sections).
    c. In Dec-20, Eclerx acquire Personiv for US$34 mn (sales US$32 mn in CY19). The company provided digital, creative, back office (Finance and Accounting) and customer contact solutions.

	2018	2019	2020	2021	2022	2023	CAGR (%)
Revenue	13,651	14,306	14,376	15,645	21,603	26,479	14%
- Revenue ($ mn)	199	201	201	210	285	333	11%
- Analytics ($ mn)			37		60	71	24%
EBITDA	3,663	3,076	3,235	4,480	6,606	7,222	15%
EBITDA (%)	26.8	21.5	22.5	28.6	30.6	27.3	
PAT	2,687	2,283	2,090	2,826	4,174	4,888	13%
Billing mix							
-Managed services	45	54	58	61	74	90	15%
- Onshore	38	45	48	46	56	64	11%
- Offshore	161	156	152	164	228	268	11%
Geographic split							
-North America	64%	64%	67%	68%	69%	71%	
-Europe	30%	29%	27%	25%	23%	20%	
-ROW	6%	7%	6%	6%	7%	9%	
Client concentration							
-Top 5	60%	58%	55%	52%	45%	41%	
-Top 6-10	11%	12%	11%	14%	16%	19%	
Client base							
US$ 0.5-1 mn	17	20	21	19	25		
US$ 1-5 mn	17	18	22	26	26		
US$ >5 mn	6	7	7	7	13		

Nature of the industry

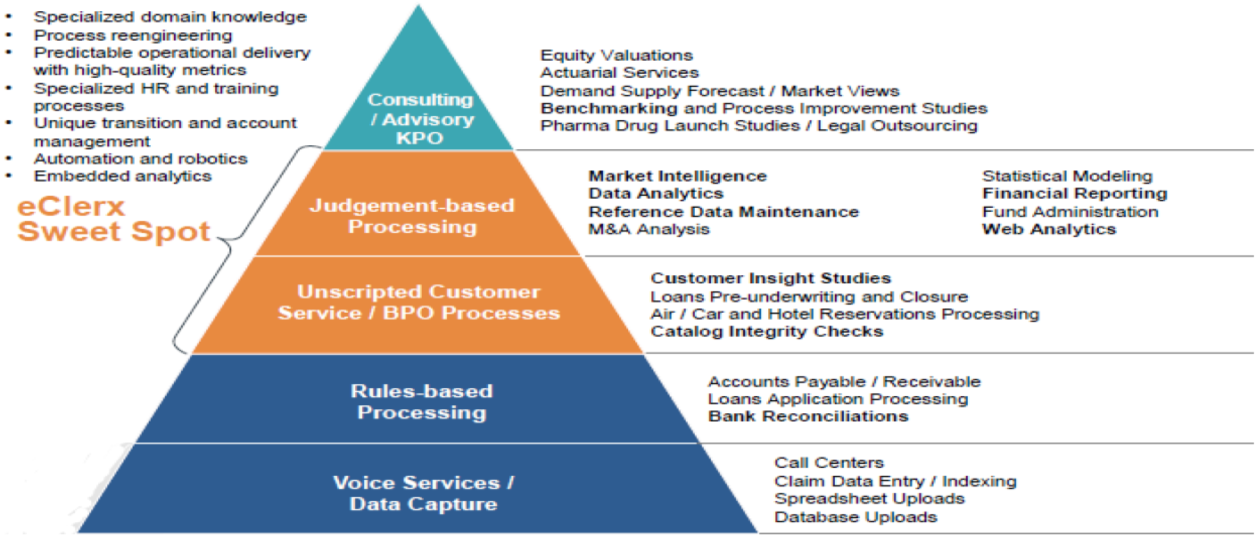
- Global BPO industry is estimated to be US$180 bn (CY21) out of which CX related outsourcing accounts for ~US$90 bn. It is projected to grow at a CAGR of 7% in the coming 3-5 years. The industry is segmented into – a) traditional BPO (US$101 bn) which is projected to grow at ~3% (next 3-5 years) due to automation led deflation, b) digital BPO (US$80 bn) which is projected to grow at ~12% CAGR (3-5 years). As per Teleperformance's presentation, size of the global BPM market is US$450 bn; we would presume it would also be growing at ~6-8% CAGR. Just for a perspective, Infosys BPM business (reported separately in a subsidiary) sales were ~US$1 bn in FY23. It has grown sales at 14% CAGR ($ terms) in the last 5 years.

- IT enabled services (proxy for BPO/BPM) exports from India have increased at a CAGR of ~9% in FY11-23 at the same rate as IT services exports; this is despite the larger than usual impact of waves of automation on ITES (versus IT services) seen in the last 10-15 years.
- As per our understanding derived from going through call transcripts of listed global BPOs, for the dominant companies, deflationary impact of automation has been to the extent of 3-7% on volumes, every year. The growth of ~10% CAGR (in $ terms) that has been witnessed in the past is after accounting for the deflationary impact of automation as higher volumes have more than compensated for the above deflation.
- BPO Industry is fragmented. Sales of largest listed BPO company, Teleperformance is ~Euro8.4 bn (CY23).
- As per our understanding penetration of outsourced CX and BPM related BPO services is between 25-30% and 20-25%, respectively as of CY22. Hence, opportunity to grow by increasing penetration is significant. We would assume that customers who are not outsourcing, could be doing so due to: a) large clients could keep CX or any business process in house as they find it critical to ensure quality of operations (in case of process) or they find it critical (for CX) part of the overall brand experience (like Amazon does ~70% of its deliveries through its own logistics arm) and b) clients don't have the scale to engage with a good quality vendors. In our view, as BPO companies improve quality of their processes to render improved SLAs, with the use of automation technologies, penetration of outsourcing should increase in the coming years.
- In our view, critical success factors in the industry are:
    - Ability to stitch together various software tools to keep on improving process efficiency levels. In our view, it is critical for BPO players to have their own IT services arms to be able to accomplish this. This will become even more important in the coming years when corporates/clients will initiate projects to incorporate AI into their workflows; for BPO companies to remain relevant it is important that they can partner with their clients in this endeavor.
    - One should be able to ride on new trends in technology to relentlessly pursue automation-agenda to drive costs down and win market share based on differentiated solutions versus competition.
    - Given the sheer volumes of transactions processed by BPO companies, their understanding of nitty gritty of the process is usually better than their customers'. Hence, they should be able to leverage this understanding to be able to – a) derive analytical inputs which could help their customers improve sales/reduce costs, b) to act as a consultants to guide their customers on possible process improvements and ways to achieve that.
    - BPO companies need to have their own software platforms (for example – mortgage processing software if the company is providing BPM services in that domain) which can be used as a base platform, to deliver their services. This helps to differentiate and provides an opportunity to move into managed services business model from an FTE based business model which is good for long term stability of the business and sustainability of margins.
    - Strong sales engine is required as competition is tough with many companies claiming similar capabilities.
- Needless to say, cash flow and return metrics for a reasonably run BPO are very strong as the business does not require much investment either into fixed assets or working capital. For example – Eclerx works with debtor days of around 60 and delivers pre-tax OCF to EBITDA of

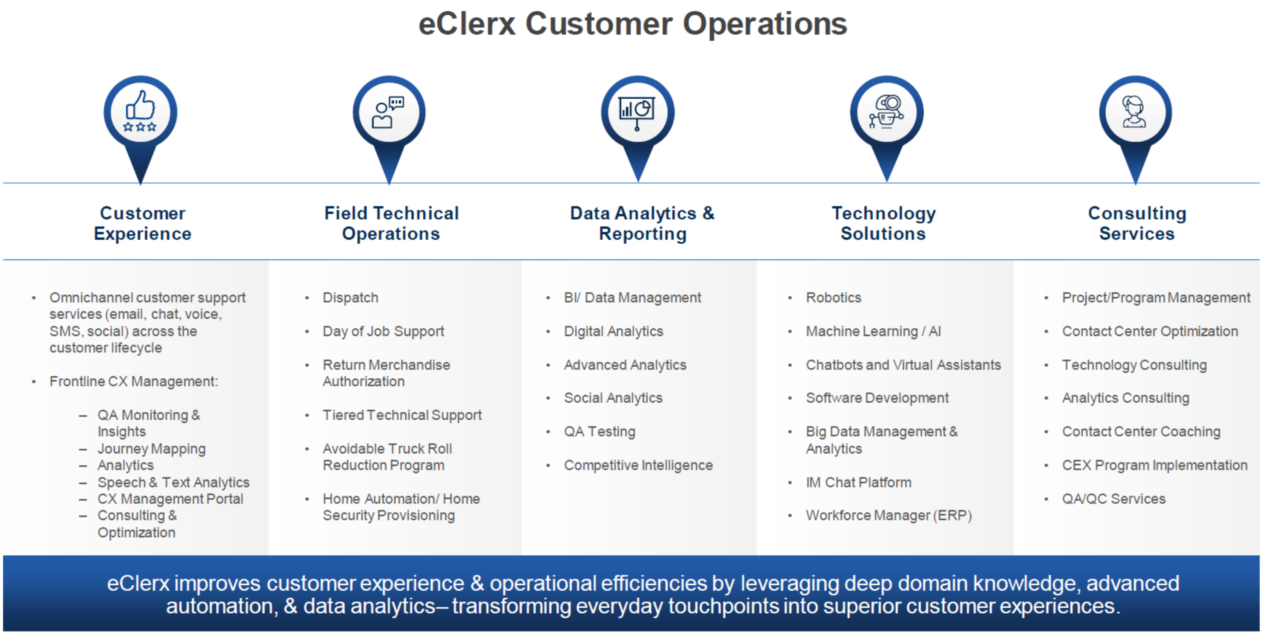
~90%. Typically, BPO companies need cash for acquisitions either to add new capabilities or to bulk up to defend better versus competition; this requires significant cash flow and is dependent on capital allocation outlook of promoters.

Nature of business

- On a very top down basis, BPO offering of Eclerx has the following characteristics – a) niche, b) low volumes and c) requires higher subjectivity and domain knowledge. Hence, Eclerx is not into either level-1 work in CX (first port of call for the customer) or into high volume BPM work like mortgage processing etc.



- In CX work (~20% of sales), Eclerx typically sits on top of another BPO (like a Concentrix, Teleperformance etc). The first level BPO handles basic call center queries of customers and whatever can't be handled there is moved to another (level 1.5 or2) BPO like Eclerx. For example – Eclerx does CX kind of work for some cable companies in developed markets. In these markets, customer places an order for a new connection either online or through a call center (run by a large BPO like Concentrix etc). However, in lot of cases, on account of poor understanding of packages by the customer or due to regulatory reasons (unlike India there are lot of regulations which companies need to follow) level 1 BPO, is not able to determine exact requirement of the customer and hence is not able to figure out which package can be offered depending on the applicable regulatory framework. These cases are moved to a Level-1.5/2 BPO like Eclerx which has a better domain knowledge to process exact requirement of the customer to enable the brand to provision (materials and service) exactly as per its customer's requirement which saves costs. Given this background, one could believe that Eclerx's competitive positioning is weak as the level 1 BPO working under it, which is usually much larger in terms of revenues and brand, could forward integrate and take business from Eclerx. However, our discussions with the mgmt. indicate that it has not happened so far. Possible reasons are: a) Typically, level 1 BPO is not interested in this business as it does not satisfy minimum scale requirement, b) Clients prefer different vendors as they can keep check on each other (maker-checker kind of phenomena).



- On the BPM side also, Eclerx is into work which requires higher level of domain knowledge or subjectivity. For example – In the financial markets segment which accounts for 40-45% of sales, Eclerx – a) Processes OTC derivative transactions for global sell-side institutions; work is similar to that of an RTA (Registrar and Transfer Agent for listed securities) but for OTC markets, b) does client lifecycle management under which Eclerx does KYC and onboarding for institutional clients. Job involves doing a bit of research on the entity being onboarded from documents available in the public domain or subscribed databases.

- In the digital domain (40% of sales), Eclerx's offering is similar to other companies offering marketing analytics/operations mgmt. services. Here, Eclerx offers services like –
  - For luxury retailers (LVMH, Carins etc), Eclerx provides services to assist them in their e-comm marketing operations. It provides a) data cleansing services before it is ready to be put on the website, b) campaign operation support (testing) and marketing

campaign management across multiple websites of the client, c) digital asset mgmt. – involves creating digital versions of all the products and managing those digital assets through their life cycle (Eclerx uses its own work flow software platform called Fluido for this).

- Eclerx also provides marketing analytics for e-comm businesses of large brands (mostly global computer manufacturers) where it provides them with competitive intelligence like -which price points is competition targeting, what are the product specs for each price point for competition versus client, which products are selling more versus others, etc etc. It also does consulting work on improving customer journey across the website to remove points of friction.

<u>Investment thesis</u>

- With onboarding of Mr. Kapil Jain (ex-Infosys), growth trajectory of the company should improve to 12-15% CAGR in the coming years.
  - As per our channel checks, Eclerx has been strong in execution. This is amply demonstrated by sales ($ mn) CAGR of ~11% in the last 10 years which is in line with growth reported by large BPO companies like Teleperformance, WNS, Concentrix. As per our understanding, in IT and BPO industry, there is constant vendor consolidation going on as none of the clients want to deal with more than 2-3 vendors for similar kind of work. Eclerx having grown at the same CAGR as large BPO companies despite having presence in Fortune 2000 accounts which are targeted by big IT services and BPO firms, implies that company has been able to defend or gain market share.
  - In our view, one big deficiency of Eclerx's business model has been: Lack of access to relationships which can drive large deal (TCV >$ 10 mn) momentum for the company. In our view, if Mr. Jain sticks around, he could possibly solve this problem and hence one could see growth of Eclerx accelerating versus past trends. Mr. Jain has spent 24 years at Infosys BPM; his last designation was Global Head of Sales and Enterprise Capability at Infosys BPM. Infosys BPM practice has grown impressively (numbers given above) in 2018-23, when Mr. Jain was part of the top mgmt. of the company. Hence, we believe that Mr. Jain can open large relationships for Eclerx, given that delivery capability of the company is already at a good level.

- Managed services and analytics would be growth drivers; rising contribution from these businesses makes case for a multiple re-rating in the long term. Managed services and analytics revenues (15% CAGR in 2018-23 and 24% CAGR in 2019-2023, respectively) have been growing much faster versus rest of the business (growing at ~8%-10 CAGR). We expect the trend to continue as this is one of the focus areas for the top mgmt. and sales incentives have been structured accordingly. We note:
    - Analytics offering seems to be high quality given the company makes EBITDA margins in the range of 25-30% atleast (as that's the range for the overall company) which is almost similar to Latent View Analytics (it is valued at 50X trailing EPS versus 18X of Eclerx; $ sales have grown at 16% CAGR in last 3 years which is lower than Eclerx) which is a pure play listed analytics company. Analytics practice of Eclerx has grown strongly at 24% CAGR in the last 3 years to reach sales of US$71 mn (similar level as Latent Analytics) in FY23. In our view, strong growth should continue in the coming years as well.
    - Managed services offering of the company is also strong backed by proprietary platforms. For example – the client onboarding offering (KYC for institutional clients) is backed by a proprietary software tool called 'Compliance Manager' which provides workflow for doing KYC. It also employs automated web crawlers which scour the internet – a) for any public documents available, b) any adverse news flow on subscribed or public databases; the information gathered is made available for the analyst to make a judgment.
- Promoter quality is good.
    - The company has been quite conservative in the acquisitions it has done so far. Acquisitions have been done at 1-1.5X sales (data given above).
    - Promotor stake has gone up from 50.3% in FY17 to 53.6% in FY23. Promoters have not participated in the various buy back offers of the company to the extent of their % shareholding which has resulted in their stake increasing over time.

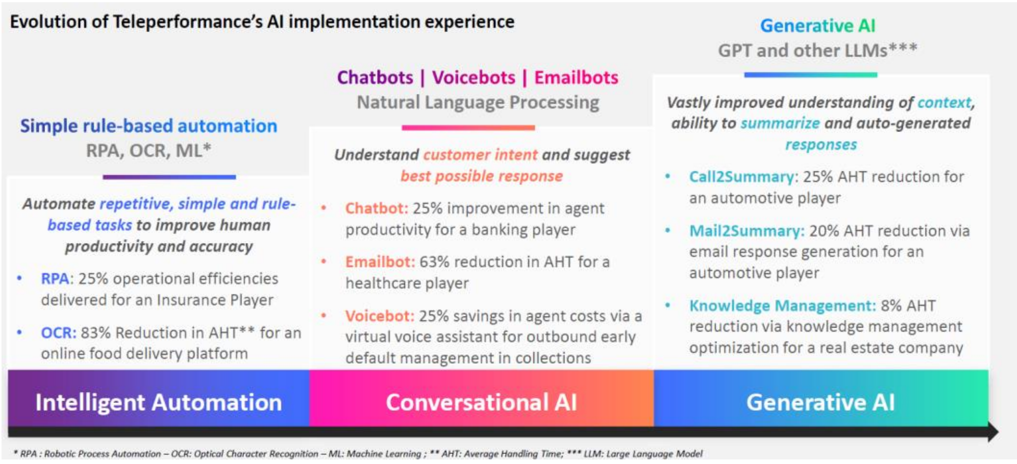
Eclerx's dividend and buyback history

(Rs mn)	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**
Dividend	48	47	46	45	34	34	49
Buyback	2,355	2,603		2,588	1,347	3,030	3,000
Total distribution	2,403	2,650	46	2,633	1,381	3,064	3,049
Net income	3,538	2,900	2,283	2,085	2,826	4,180	4,890
Total distribution as % of net income	68	91	2	126	49	73	62

    - Limited channel checks suggest that attrition at top and middle mgmt. level is low; these people are well taken care of and are happy. IT/BPO is a human resource driven business and hence lower attrition at the middle and senior mgmt. level (particularly in sales) helps in better client mining and new client addition.
    - $ revenue CAGR is also reflective of overall good top management and execution track record of the company. Given the size of Eclerx (in revenue terms) we would assume that it would be more vulnerable to be on adverse end of 'vendor consolidation' which is a continuous exercise happening in IT/BPO industry since the last 10-15 years; however, the company has managed to grow at better than the industry growth rate which implies that the company is delivering well on the ground.
- We believe Generative AI will bring in a wave of automation which would drive down cost of delivery and increase quality of service which would lead to higher volumes (higher outsourcing, new use cases) and hence overall growth of BPO companies would be maintained if they are able to use this new tool effectively. In our view, it is early days for a conclusive analysis on this subject, however we note the following –
    - There has been consistent deflationary impact of automation on volumes of BPO industry since the time industry started in early 2000s and inspite of that, industry has been growing at ~8% CAGR ($ terms) over the last 5-10 years. As per call transcripts of various

listed global BPO companies, Generative AI will increase automation of existing BPO volumes from a trend rate of 3-5% to 7-10% p.a, however, the companies seem to be confident of retaining their usual growth rate of ~8% $ CAGR, through new use cases and higher outsourcing penetration.

Automation has been a consistent phenomenon for the BPO industry since long

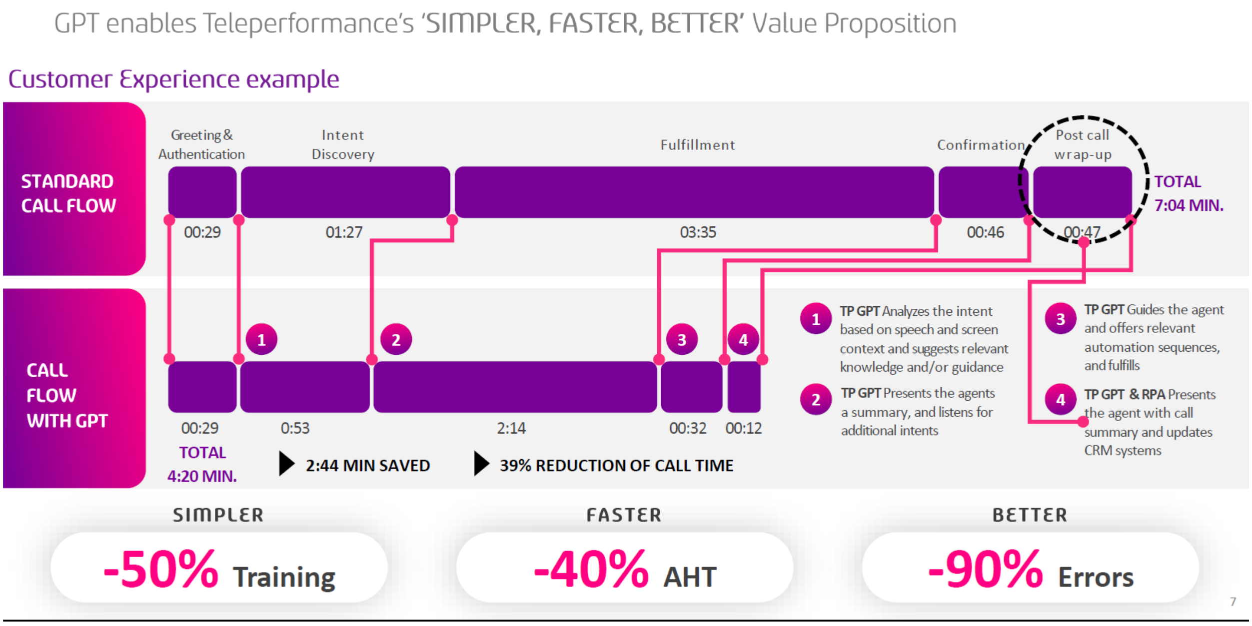


- If one takes example of call center operations, there have been multiple waves of automation – a) in early 2000's IVR (Interactive Voice Response) came in, b) advent of internet led to lot of information related customer queries moving into 'self-service' mode, c) advent of mobile apps further moved customer queries into 'self service' mode, d) Robotic Process Automation (RPA) came in from 2018 onwards which automated lot of rule based BPO work. Despite all this, customer service BPO industry revenues have kept on growing at ~8% ($ CAGR).
- In the content moderation industry, 97% of the volumes have been automated, but still the outsourcing industry has grown manifold as content generation has increased 61X versus 2010. Size of the global content moderation industry has increased from Euro2.1 bn in CY18 to Euro7.2 bn in CY23.

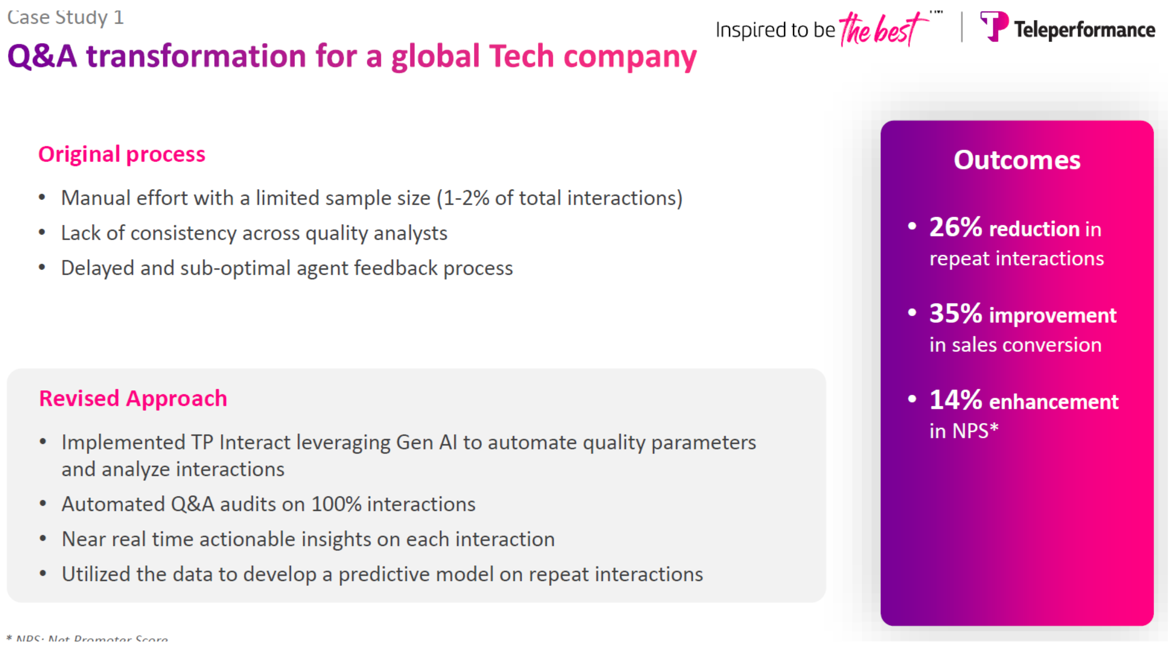
In our view, AI would have neutral/positive implications for the BPO industry as:

- AI would reduce cost of operations and increase quality of service enabling some of the 'well-run' BPO companies to offer better value proposition to their clients leading to higher penetration of outsourcing. As per our understanding, BPO industry penetration is 25-30% (it has been consistently increasing since 2010) and hence there is scope to grow led by increasing penetration of outsourcing.

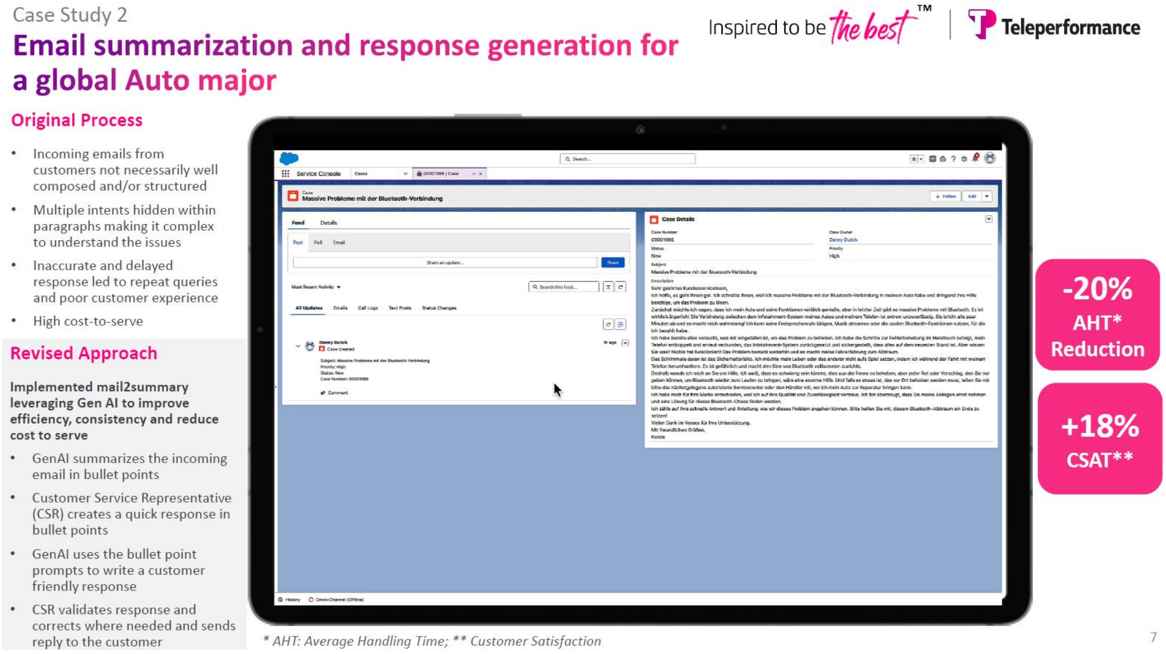
  Some examples on how quality of services can increase significantly.
  - In the exhibit below, Teleperformance has enumerated gains on various quality parameters by incorporating AI in call flows.



- We see significant potential of AI to increase quality levels of Q&A (Quality and Assurance) process. As of now, Q&A is done for only a small sample size (1-2% of interactions) while with AI incorporated systems, Q&A could be done for 100% of interactions thereby significantly improving quality.

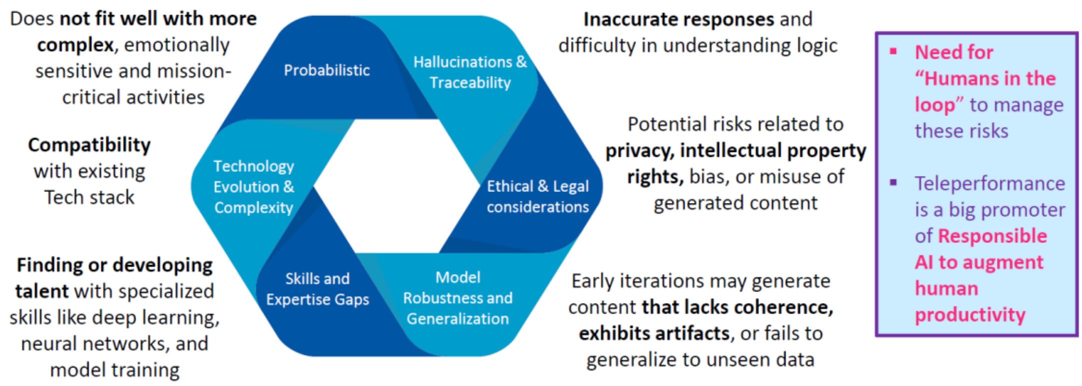


- A significant proportion (15-20%) of time of a call centre employee goes in documenting (post call) customer interactions. AI incorporated systems can be used to significantly reduce this time spent (AI will prepare call summary for documentation; employee will just check it), thereby increasing efficiency levels of call centre employees and increasing job satisfaction which would have positive impact on quality of service as well. AI led systems can also help call centre employees to pull out relevant information from company databases to service customer queries much more efficiently.



- As per our understanding, in a traditional call center, leakage or inability to service incoming customer calls, is still significant at ~20%, as per Liveagent. AI in theory could help in servicing almost 100% of calls.
- As per our understanding, 70% of ERP installations are still on-premise and hence vast data being generated by companies is not centralised (on the cloud) and hence there is significant opportunity for companies (BPO/IT services) to organise and consolidate these data sets to enable AI systems to work on them. We came across interesting statement (June 23) of senior mgmt. of Concentrix (BPO) which gives an idea of the current state of tech stacks of customers – "13% of current volumes can be automated now (without Generative AI)…problem is that client's tech stack is not ready". Hence, BPO companies (most have IT services/consulting arms as well) can participate in some parts of the journey of their customers as they go about renewing their tech stacks, specifically, related to 're-engineering' of the customer facing processes. In our view, BPO companies can leverage their understanding of client processes to act as consultants and system integrators to integrate AI into their client's systems/processes (front end).
- There are lot of issues with AI systems as of now related to – privacy, intellectual property rights, inaccurate responses (hallucinations etc). In our view, these issues would get ironed out to some extent in the coming years. Hence, clients would want partners who could guide them in embracing AI systems and guide them as technology evolves in the coming years. Here also, BPO firms have an opportunity to act as consultants for their clients.

According to Gartner, 70-80% of all AI projects have failed: need to be aware of these risks



- Customers would need BPO firms to train AI models on proprietary data sets which would create another service offering.
- Some of the global BPO companies (in their calls with investors) also mention that 'AI incorporated' solutions could also help the business in the following ways –
    - There is potential to move projects from FTE based pricing to managed services.
    - On account of the above, there could also be potential to improve margins as HR intensity of processes would go down.
- In our view, productivity gains enabled by use of AI can also be invested into improving customer experience and hence BPO companies which can showcase new solutions to that effect using AI would gain wallet share. As per Teleperformance (in the slide below), new customer acquisition cost is very high and hence it makes sense for companies to re-purpose cost savings enabled by AI to make investments into improving CX which would reduce churn in existing clients.

Why clients re-invest productivity gains?

Inspired to be *the best* | Teleperforn

Industry	CX spend[1] (% of Revenue)	Churn rate[2]	New customer acquisition cost[3]
Banking	3.0 – 5.0%	10 – 20%	US$250 – 800
Insurance	2.0 – 3.0%	20 – 25%	US$1,500 – 3,000
Telco	2.0 – 3.0%	10 – 20%	US$350 – 500
Retail & E-commerce	1.5 – 2.0%	8 – 12%	US$180 – 220
Travel & Hospitality	2.0 – 3.0%	15 – 20%	US$10 – 40
Healthcare (Provider)	1.5 – 2.5%	12 – 17%	US$250 – 500

Sources: **1. Customer Experience (CX) spend***
- Forbes
- American Customer Satisfaction Index
- Company Publications

Sources: **2. Customer churn rate***
- Banking: Industry article, Forbes 2020
- Insurance: Forbes, Whitepaper
- Retail & Ecommerce: Forbes, Statista
- Telcom: Bain & Company (Subscription Flow), Statista
- Travel & Hospitality: Statista
- Healthcare (Provider): ProviderTech, AthenaHealth Article

Sources: **3. Customer acquisition cost***
- Banking: Whitepaper
- Insurance: Forbes
- Retail & Ecommerce: Company Publications
- Telcom: Forbes
- Travel & Hospitality: Company Publications
- Healthcare: Company Publications

- Lastly, in our view, Eclerx will be less impacted in case AI actually proves to be a big deflationary force on the BPO business as:
    - Eclerx is into level 2 and 3 BPO services and not into plain vanilla level 1 service (first point of contact for the customer) and hence Eclerx deals with more nuanced calls

from the customers of its clients, handling of which requires some level of domain expertise and hence impact would be lower.

- Eclerx's size of the business is pretty small versus global BPO majors. That combined with the fact that it is a promoter driven company implies that its ability to pivot the business to – a) gain out of significant market shifts driven by AI or b) protect the business, is higher than global companies, as decision making at the top level would be much faster.

Perspective on valuation and potential for long term returns

The company is trading at ~18X trailing earnings. This is at a premium to valuations of some of the large listed global BPOs (Teleperformance, Genpact) which are trading at 12-18X trailing earnings. Globally BPO valuations have corrected substantially from 25-30X one-year fwd multiples, post the unveiling of Chat GPT in around April-May 2023. As per our understanding, globally, investors are concerned about possible negative impact of generative AI on BPO volumes in the long term. In all the global listed BPO calls we have listened to, question on 'AI and its impact' is amongst the top 3 questions asked by investors to company managements.

As explained above, we are taking the view, that, impact of generative AI, would be neutral to positive on volumes and hence we think that valuation of Eclerx is attractive. There is also potential for multiple re-rating (from 18X to 25X) in case the growth trajectory of company improves from the band of ~10% CAGR growth, to 12-15% CAGR in case the new CEO is able to bring some large deals to the company.

Hence, we expect the stock to give ~2X (12-15% CAGR in earnings and 30-40% upside from multiple re-rating) returns in 3 years.

				Sales		EBIT (%)	ROE (%)		Trailing P/E	Sales/emp	EBIT/emp
S No	Company	Currency	Mcap (US$ bn)	2019	2022	2022	2019	2022		2022	2022
1	Teleperformance	Euro	9.2	5,355	8,154	15.5	19.0	20.6	14.3	18,941	3,078
2	WNS	US$	3.3	793	1,162	20.7	25.4	23.9	17.8	19,446	4,028
3	Genpact	US$	6.9	3,520	4,371	16.4	23.7	28.2	19.5	37,746	6,200
4	Concentrix	US$	4.3	4,708	6,325	14.0	20.7	22.9	11.5	20,079	2,806
5	Eclerx	US$	1.03	201	300	23.0	17.6	29.8	18	20,778	4,764

Note:
1. For Eclerx and WNS CY22=FY23
2. WNS is March ending fiscal year
3. Concentrix is November ending fiscal year.
4. There would be significant component of inorganic growth in sales of global BPO companies

Risks

- There is a risk to our multiple re-rating theory in case the new CEO does not stick around for long.
- Our view on impact of generative AI on BPO volumes, is very theoretical. It is difficult to form a well-rounded view as of now, as things are in formative stages. Hence, there is a risk that our view is wrong and hence company's growth actually could slow down, instead of accelerating and hence returns could be significantly lower versus our base case.
- Client concentration is high for the company (data given in 'company background' section) though it has been coming down. In the past (FY16-20) the company has suffered on account of this; as 3-4 of its top clients reduced business (due to insourcing/onshoring) which lead to flattish trend in sales in FY16-20. Top 5 clients still contributed 41% to sales FY23 (61% in FY18) and hence there is risk to the growth story in case any of the top clients were to reduce business on account of any reason.

Financial summary

	2018	2019	2020	2021	2022	2023
P&L Statement						
Sales	13,651	14,306	14,376	15,645	21,603	26,479
EBITDA	3,663	3,076	3,235	4,480	6,606	7,222
EBITDA (%)	27	22	23	29	31	27
PBT	3,795	3,115	2,805	3,806	5,605	6,530
PAT	2,900	2,283	2,090	2,826	4,174	4,888
EPS	68	60	57	82	122	97
Balance sheet						
Equity	12,053	13,819	13,068	15,017	15,688	17,166
Other liabilities and prov.	2,125	2,015	4,152	4,913	4,802	5,456
Total sources of funds	**14,178**	**15,834**	**17,221**	**19,930**	**20,490**	**22,621**
Net fixed assets	654	829	778	846	922	1,060
Goodwill	2,780	2,651	2,738	5,107	5,010	5,135
Investments	2,030	3,509	6,070	4,035	3,606	4,158
Cash and cash equivalents	4,403	4,515	3,345	4,909	4,936	4,962
Loans, advances and other assets	2,114	2,041	2,043	2,250	2,911	2,950
Working capital	2,196	2,288	2,239	2,779	3,084	4,149
Total uses of funds	**14,178**	**15,834**	**17,221**	**19,930**	**20,490**	**22,621**
Capital deployed	12,053	13,819	13,068	15,017	15,688	17,166
Cash and cash equivalents	6,432	8,024	9,415	8,943	8,543	9,119
Cash flow statement						
Cash flow from operations (post-tax)	3,050	2,062	3,328	3,646	4,482	4,926
Capex	417	521	343	388	608	908
Free cash flow	**2,633**	**1,540**	**2,985**	**3,257**	**3,873**	**4,018**
Working capital days	**59**	**58**	**57**	**65**	**52**	**57**

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Clockvine Capital Advisors Private Limited
SEBI Registered Investment Adviser Registration No. INA000017462
(Type of Registration- Non-Individual, Validity of Registration- 20.12.2022 to Perpetual)
Registered Address: 1802-B, Tower 11, Gardenia, Lodha New Cuffe Parade, Wadala (E)
Mumbai, Maharashtra - 400037
Principal Officer: Mr. Jasdeep Walia
Contact No: +91 9819066213, Email: Jasdeep.Walia@clockvinecapital.com
SEBI regional/local office address - **SEBI Head Office (HO)**
Address: Plot No.C4-A, 'G' Block, Bandra-Kurla Complex, Bandra (East),
Mumbai - 400051, Maharashtra
Tel. Board: +91-22-26449000 / 40459000
E-mail: sebi@sebi.gov.in

JASDEEP SINGH WALIA

Digitally signed by JASDEEP SINGH WALIA
Date: 2023.07.24 09:26:59 +05'30'