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Stock Update

Allsec Technologies Ltd.

May 21, 2024

RETAILRESEARCH

Allsec Technologies Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
BPO &KPO	Rs 1053.85	Buy in Rs 1043-1065 band and add on dips in Rs 937-955 band	Rs 1162	Rs 1261	2-3 quarters

HDFC Scrip Code	ALLTEC
BSE Code	532633
NSE Code	ALLSEC
Bloomberg	ALLT IN
CMP May 17, 2024	1053.85
Equity Capital (Rs Cr)	15.2
Face Value (Rs)	10.0
Equity Share O/S (Cr)	1.5
Market Cap (Rs Cr)	1,605.9
Book Value (Rs)	161.1
Avg. 52 Wk Volumes	339591
52 Week High	1075.4
52 Week Low	420.0

Share holding Pattern % (March, 2024)	
Promoters	73.4
Institutions	1.4
Non Institutions	25.2
Total	100

* Refer at the end for explanation on Risk Ratings

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Our Take:

Allsec Technologies Ltd. (ATL) is one of the leading providers of outsourced solutions in customer engagement, human resource operations, sales and retention and quality assurance for businesses across varied industries with vast expertise in providing business process solutions across various industry verticals. The company operates two segments globally i.e. Employee Experience Management (EXM) covering HRMS, payroll services, time and attendance management and Customer Experience Management (CXM) which encompasses lead generation, customer retention and relationship management comprising both voice and non-voice processes. Both EXM and CXM businesses support domestic and international customers. Besides, the company also provides anti-money laundering and compliance services, with banks as its target segment.

ATL has been one of the fastest growing BPO companies registering a revenue growth CAGR of ~13.5% over the last nine years. The company added over 4 lakh new employee records in H2 and now processes 1.32 million employee records (up 10.1% YoY). The growth momentum is expected to continue. It expects favourable demand outlook in the industry. Opportunity for cross selling remains robust within established relationships and the new clients and new service platforms are expected to start contributing materially soon. We expect that company could report revenue growth of 16.9% and 16.2% for FY25E and FY26E, respectively.

Valuation & Recommendation:

With nearly two decades of experience, the company has grown with acquisitions across geographies and has extended its expertise to a wide gamut of processes that augment and support businesses. ATL believes in enhancing its clients' business experience by taking process responsibility, improving cost efficiencies and adding value through continuous process improvements and quality assurances.

ATL expects no significant challenges in the demand environment, and is poised to capitalize on market opportunities and expecting growth of 20-25% in EXM and high teens growth in CXM business. We believe that expected acceleration in revenue growth momentum, stability in margins, strong consistent execution, delivery on guidance and strong cash generation would support valuations.

Investors can buy in the Rs 1043-1065 band and add on dips in the Rs 937-955 band (14.25x FY26E EPS). We believe the base case fair value of the stock is Rs 1162 (17.5x FY26E EPS) and the bull case fair value of the stock is Rs 1261 (19x FY26E EPS) over the next 2-3 quarters. At the LTP of Rs 1053.85, the stock is trading at 15.9x FY26E EPS.

Financial Summary:

Particulars (Rs Cr)	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)	FY22	FY23	FY24	FY25E	FY26E
Total Operating Income	129.7	108.0	20.1	119.8	8.3	317	390	469	549	638
EBITDA	35.2	23.7	48.6	30.4	15.9	80	88	116	136	160
Depreciation	9.8	8.5	14.7	9.3	4.9	23	28	34	34	34
Other Income	1.7	0.9	87.5	0.8	120.0	6	8	7	9	11
Interest Cost	1.3	0.9	44.3	0.9	41.1	2	4	4	3	3
Tax	5.1	3.1	66.0	9.7	-47.1	26	16	21	26	33
APAT	20.7	12.1	71.0	11.3	84.1	36	49	64	81	101
Diluted EPS (Rs)	13.6	8.0	71.1	7.4	84.0	23.4	32.1	42.0	53.3	66.4
RoE-%						15.0	22.3	26.9	31.3	34.2
P/E (x)						45.1	32.9	25.1	19.8	15.9
EV/EBITDA (x)						18.9	17.1	13.1	11.0	8.8

(Source: Company, HDFC sec)

Q4FY24 Result Update

- ATL reported robust numbers in Q4FY24, revenue grew by 8.3% QoQ and 20.1% YoY at Rs 130 crore in Q4FY24. Full year revenue grew by 20% YoY, with CXM growing by 24% and EXM by 13.5%.
- EBITDA increased by 15.9% QoQ and 48.6% YoY to Rs 35.2 crore, supported by strong revenue growth and lower other expenses in the quarter. Other expense was at Rs 22.7 crore, down 2% QoQ and 8.6% YoY.
- EBITDA margin was at 27.2%, ramped up from 25.4% in Q3FY24 and 22% in Q4FY23.
- PAT stood at Rs 20.7 crore in Q4FY24 vs. Rs 11.3 crore in Q3FY24 and Rs 12.1 crore in Q4FY23, net profit growth was supported by lower tax expenses. Foreign tax credit charged off for dividend income from Manila had impacted PAT in Q3FY24.
- ATL added new employee records in excess of 4 lakhs in H2FY24, processing 1.32 million employee records.
- ATL’s staff attrition maintained at 7.2% per month in Q4FY24. Average headcount between FY23 and FY24 grew by about 12%.
- Split between domestic and international revenue was 57-43 for FY24.
- CXM business accounted for two-thirds of the revenue in FY24.
- ATL witnessed increased contribution of international sales to total sales by 12% in FY24.
- ATL added new lines of business in the healthcare account and acquired two new logos in CXM.
- In EXM revenue growth QoQ 4.1%, Q4 YoY 4.0% and YTD YoY 13.5% across existing and new clients. In CXM revenue growth QoQ 10.4%, YoY 29.3% and YTD YoY 23.8% across existing & new clients. Margins were 38% in EXM and 14.9% in CXM.

Key Updates

Expectation to add more contracts going forward

ATL has signed sales annual contract values of approximately Rs 52.4 crore in FY24 vs. Rs 45 crores in FY23, this is across EXM/HRO and CXM/DBS. The company added marquee logos and signed 56 logos for payroll segment with ACV of Rs 27 crore in FY24 (11 logos – value Rs.7 cr in Q4). Its transition plan for migration to Smart Pay v4 commenced and it completed projects to upgrade key platforms Smart Pay (Sp4) and HRMS. For CXM segment, the company reported ACV at Rs 25.4 crore in FY24 through account mining, primarily healthcare. The company expects that healthcare could continue to contribute to growth ahead.

ATL continues to look at new domestic geographies, western India particularly, cross sell across the payroll, compliance and domestic CXM customers and the company could enhance efforts on inside sales and digital marketing for international CXM. The company does not see any significant risk in the competitive landscape and will continue to balance between getting extra revenue from smaller logos and keeping overall margins in perspective.

ATL has continued to provide value added and digital services to the customers including but not limited to point automations, bundling PA in solutions etc. The company is well positioned to capitalize on market opportunities and could continue to make the right investments to further accelerate their growth strategy and expects to continue its incremental sales focus, operational efficiencies, and operational service excellence. ATL has witnessed an improvement in customer Net Promoter Scores and has been named best partner in some customers' league tables, providing value-added services.

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Strong global delivery capabilities could add new logos going forward

- ATL has an extensive presence in the business and long-term association with its key customers, has enabled revenue stability. Besides, the company has also been able to expand its business at a steady pace across geographies in India as well as in the exports market, which has enabled it to further scale up of operations.
- The company has strong global footprint and expending its services across the sectors by ~ 5,600 full time equivalent (FTE) workforce, seats capacity stood at 4300 in India location (Chennai-HQ, Bangalore, Noida) and ~1200 at Manila (Philippines). This includes 4731 FTE in CXM and 865 in EXM.
- The company has multi-Industry, multinational & multi-demographic coverage and owns multi-lingual hub offering 12+ International Languages using native speakers.
- ATL has five Inter-Connected Service Delivery Centers with site-to-site BCP, with ability to leverage Quess Corp group facilities at other major hubs in India for ramp ups. ATL could benefit from operational synergy and financial support from Quess, given the strategic importance of ATL to Quess Corp Ltd. (QCL). Quess holds 73.4% stake in ATL.
- ATL's expansion of Manila facility for international CXM growth could add revenue going forward.

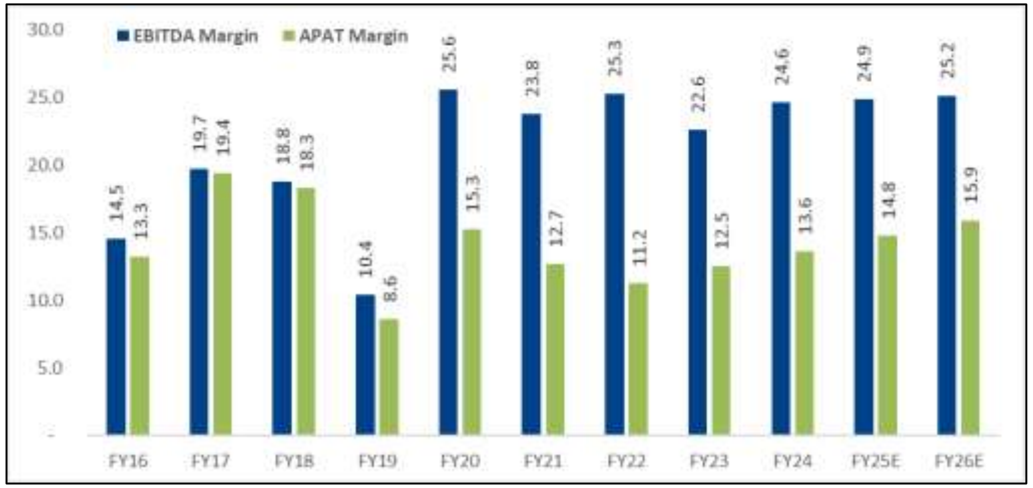
Margins could ramp up led by cost rationalisation efforts and operational efficiencies

ATL's EBITDA margin stood at 27.2%, ramped up from 25.4% in Q3FY24 and 22% in Q4FY23 and PAT margin increased by 640bps QoQ and 480bps YoY to 16% in Q4FY24. For FY24, EBITDA margin ramped up to 24.6% from 22.6% in FY23 and PAT margin increased to 13.6% in FY24 vs. 12.5% in FY23. Margin growth is led by increase in international business and improvement in productivity, which is Payslips per FTE, addition of new logos and cost-saving measures.

ATL is focused on operational and cost efficiencies, improving EBITDA margins and leveraging advanced tools and platforms including Intelligent Automation (IA) in a highly regulated environment, and strengthen relationships with its customers, while clients are able to achieve a low-cost operating model. The company has been adopting Digital Technologies which can benefit its businesses to improve user experience and improve operational efficiency in a cost effective manner. The company is providing cutting edge digital business services offerings across the sector like Customer Experience Management (CEM), Credit Risk Management, Transaction Processing, Compliance, Insurance, and Healthcare. The company has long term target of EBITDA margin around 35% at a steady state.

ATL took various measures to rationalise costs like lower discretionary spend and other cost efficiencies. Going forward, we expect a lot of cost pressures of the past to be offset and absorbed by digital transformation which will enable consistently higher and sustainable profitability. Taking the traction in outcome-based revenues, focus on higher margins vertical HRO and higher offshoring, revenue growth is expected to offset the headwinds. Consequently, we expect EBITDA Margin at 24.5-25.5% band and PAT margin at 14.5-16% band over FY24E-25E.

Margins-%



(Source: Company, HDFC sec)

Strong fundamentals led by healthy debt protection metrics and liquidity

- ATL has sustained healthy operating performance in the competitive BPO industry with steady increase in operating income over the years. The company reported revenue and PAT CAGR at 12.5% and 23% over the last five years. We expect consolidated revenue to grow at a 16.5% CAGR and net profit to grow at 25.7% over FY24-FY26E.
- The company's EBITDA margin has been volatile, in the 22.5-25% band and PAT margin at 11-13.5% over the last four years. We expect EBITDA margin at 24.5-25.5% and PAT margin at 14.5-16% in next two years, supported by cost rationalisation efforts.
- The company has continued to improve its financials aided by healthy cash accruals on the back of stable operating profitability and reduction in total debt. The company's financials remains healthy supported by its comfortable capital structure on the back of minimal reliance on external borrowings along with its strong networth position.
- ATL's coverage indicators remain healthy on the back of adequate operational cash flows. ATL has cash and cash equivalents of Rs 138 crore as on March 31, 2024 which provides additional liquidity back-up.
- ATL has attractive return ratios as its Return on Equity stood at 26.9% in FY24. Because of cost rationalization efforts, the company could see growth in profitability as well as better return ratios in the future.
- ATL has recommended a dividend of Rs 45 per equity share (F.V of Rs 10 per equity share) for FY24, dividend payout stood at 107.1% and dividend yield stood at 4.3% at current market price.
- The net receivable's days decreased to 51 days in FY24 vs. 55 days in FY23.

What could go wrong?

- The market for BPM services has become highly competitive over the years. Pressure from clients to cut costs through automation hurts revenue and entry of large IT players into BPO has further intensified competition as more clients look for integrated IT-BPO deals. Apart from this, most of large Companies are operating captive BPO centres.
- Indian BPO industry is facing stiff competition from low cost destinations like China, Philippines, Mexico, Brazil and Canada due to increasing domestic cost. Further rising attrition rate is impacting operating efficiency, productivity and profitability. Besides, pricing pressure and stricter information security and data protection regulations in US and UK could hit its business.
- For most of the Indian IT Services companies providing outsourced services, scale plays a critical role in withstanding pricing pressures. Being a relatively medium-scale player, ATL faces intense competition that limits its pricing flexibility and hence exposes the company to fluctuations in operating margins.
- ATL has a global presence with around 43% of its standalone revenues derived from exports and the same exposes it to margin fluctuations due to volatility in foreign exchange rates.
- Due to relatively short-term nature of contracts which spans around two to three years, the ability of the company to renew its contracts in profitable terms remains key in ensuring stability in revenues and profitability.

- Any steep decline in its operating margins on sustained basis and/or any moderation in its capital structure owing to any sizeable debt-funded acquisition made by the company for inorganic growth could impact its profitability.
- ATL's unbilled revenue increased in FY24 to 7.6% of total operating revenue from 7.2% in FY23, further rise in unbilled revenue could impact its working capital.
- Automation due to emerging tech Gen AI could impact its nature of business and revenue growth going forward.

Company Profile

Allsec Technologies Ltd. (ATL) is one of the leading providers of business outsource services with vast expertise in providing business process solutions across various industry verticals. ATL operates two segments globally viz (a) Employee Experience Management (EXM) or Human Resources Operation (HRO) covering HRMS, payroll services, time and attendance management and (2) Customer Experience Management (CXM) or Digital Business Services (DBS) which encompasses lead generation, customer retention and relationship management comprising both voice and non-voice processes. Both EXM and CXM business supports domestic and international customers.

Allsec serves a client base of ~600 including clients from fortune 100 companies. It supports clients across 42 countries and operates from 5 locations in India and overseas. ATL is a subsidiary of Quess Corp, holding 73.4% stake in ATL as on March 31, 2024. ATL has two wholly owned subsidiaries, Allsectech Inc., USA and Allsectech Manila Inc., Philippines.

Operating Metrics

CXM

Particulars	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24
Revenue by Geography									
Domestic	15.80	16.90	18.90	22.20	21.60	20.60	21.10	22.70	23.30
International	38.00	39.50	43.80	44.50	47.30	50.80	53.10	58.00	65.80
Total	**53.80**	**56.40**	**62.70**	**66.70**	**68.90**	**71.40**	**74.20**	**80.70**	**89.10**
Headcounts- DBS									
Domestic	2,285	2,227	2,589	2,745	2,804	2,816	2,741	2,906	2,567
International	1,190	1,253	1,371	1,387	1,272	1,361	1,553	1,663	1,896
Total	**3475**	**3480**	**3960**	**4132**	**4076**	**4177**	**4294**	**4569**	**4463**

EXM

Particulars	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24
Revenue									
Compliance	6.9	8.1	7.0	7.8	10.0	8.5	8.2	8.0	7.7
HRO	24.7	23.6	24.5	25.5	29.1	27.6	30.0	31.0	32.9
Total	**31.6**	**31.7**	**31.5**	**33.3**	**39.1**	**36.1**	**38.2**	**39.0**	**40.6**
No in Lacs									
Payslips Processed	32.3	33.0	34.0	34.5	35.9	37.1	38.4	39.8	39.7

Peer Comparison

Rs in Cr	Mkt Cap	Sales			EBITDA			PAT			RoE- (%)			P/E (x)		
		FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E
Allsec Technologies	1606	469	549	638	116	136	160	64	81	101	26.9	31.3	34.2	25.1	19.8	15.9
eClerx*	11600	2926	3263	3669	775	851	979	511	564	654	22.8	23.2	23.5	22.6	20.3	17.4
FSL*	13862	6333	7184	8089	956	1123	1302	515	633	768	13.9	16.4	17.6	26.8	21.8	18.0

(* Bloomberg Estimates)

(Source: Company, HDFC sec)

Financials

Income Statement

(Rs Cr)	FY22	FY23	FY24	FY25E	FY26E
Net Revenues	**317**	**390**	**469**	**549**	**638**
Growth (%)	14.6	23.1	20.2	16.9	16.2
Operating Expenses	237	302	354	412	477
EBITDA	**80**	**88**	**116**	**136**	**160**
Growth (%)	**21.7**	**10.2**	**30.7**	**18.0**	**17.6**
EBITDA Margin (%)	**25.3**	**22.6**	**24.6**	**24.9**	**25.2**
Depreciation	23	28	34	34	34
EBIT	**57**	**60**	**82**	**102**	**127**
Other Income	6	8	7	9	11
Interest expenses	2	4	4	3	3
PBT	**61**	**65**	**85**	**108**	**134**
Tax	26	16	21	26	33
RPAT	**36**	**49**	**64**	**81**	**101**
APAT	**36**	**49**	**64**	**81**	**101**
Growth (%)	1.5	37.1	31.0	26.9	24.6
EPS	23.4	32.1	42.0	53.3	66.4

Balance Sheet

As at March (Rs Cr)	FY22	FY23	FY24	FY25E	FY26E
SOURCE OF FUNDS					
Share Capital	15	15	15	15	15
Reserves	194	214	230	258	303
Shareholders' Funds	**209**	**230**	**245**	**273**	**318**
Long Term Debt	27	25	26	24	23
Net Deferred Taxes	-7	-7	-8	-8	-9
Long Term Provisions & Others	7	8	9	10	10
Minority Interest	**0**	**0**	**0**	**0**	**0**
Total Source of Funds	**237**	**256**	**273**	**299**	**343**
APPLICATION OF FUNDS					
Net Block & Goodwill	64	72	78	80	82
CWIP	0	0	0	0	0
Other Non-Current Assets	18	20	30	34	37
Total Non Current Assets	**81**	**92**	**109**	**114**	**119**
Trade Receivables	57	59	66	80	93
Cash & Equivalents	129	137	138	148	231
Other Current Assets	20	38	47	49	1
Total Current Assets	**206**	**235**	**251**	**277**	**324**
Short-Term Borrowings	16	19	18	16	14
Trade Payables	25	38	42	45	52
Other Current Liab & Provisions	10	14	26	31	33
Total Current Liabilities	**50**	**71**	**86**	**93**	**100**
Net Current Assets	156	164	165	185	224
Total Application of Funds	**237**	**256**	**273**	**299**	**343**

(Source: Company, HDFC sec)

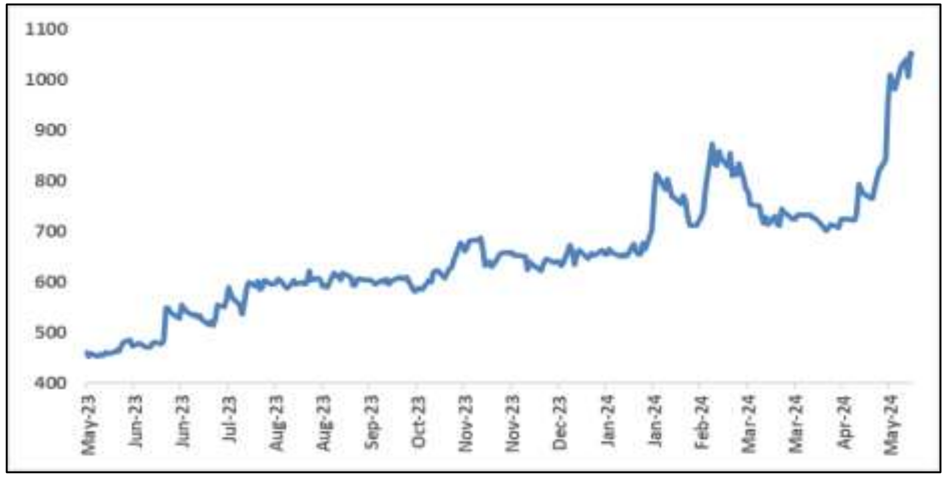
Cash Flow Statement

(Rs Cr)	FY22	FY23	FY24	FY25E	FY26E
Reported PBT	61	65	85	108	134
Non-operating & EO items	-4	0	-1	-9	-11
Interest Expenses	1	3	3	3	3
Depreciation	23	28	34	34	34
Working Capital Change	-8	-6	-9	-14	41
Tax Paid	-11	-12	-20	-26	-33
OPERATING CASH FLOW (a)	**64**	**78**	**92**	**96**	**169**
Capex	-13	-15	-17	-35	-34
Free Cash Flow	50	62	75	62	135
Investments	6	3	-6	0	0
Non-operating income	-11	-5	-6	9	11
INVESTING CASH FLOW (b)	**-19**	**-17**	**-30**	**-25**	**-23**
Debt Issuance / (Repaid)	-19	-17	-21	-4	-3
Interest Expenses	-2	-4	-4	-3	-3
FCFE	29	41	49	54	129
Share Capital Issuance	0	0	0	0	0
Dividend	-91	-30	-46	-53	-56
FINANCING CASH FLOW (c)	**-112**	**-52**	**-71**	**-61**	**-63**
NET CASH FLOW (a+b+c)	**-67**	**9**	**-8**	**10**	**83**

Key Ratios

Particulars	FY22	FY23	FY24	FY25E	FY26E
Profitability Ratio (%)					
EBITDA Margin	25.3	22.6	24.6	24.9	25.2
EBIT Margin	17.9	15.4	17.5	18.6	19.9
APAT Margin	11.2	12.5	13.6	14.8	15.9
RoE	15.0	22.3	26.9	31.3	34.2
RoCE	15.2	19.5	23.8	27.4	29.7
Solvency Ratio (x)					
Net Debt/EBITDA	-1.1	-1.1	-0.8	-0.8	-1.2
Net D/E	-0.4	-0.4	-0.4	-0.4	-0.6
Per Share Data (Rs)					
EPS	23.4	32.1	42.0	53.3	66.4
CEPS	38.8	50.6	64.0	75.9	88.5
BV	137.4	150.7	161.1	179.4	208.7
Dividend	60.0	20.0	45.0	35.0	37.0
Turnover Ratios (days)					
Debtor days	65.8	55.4	51.1	53.0	53.0
Inventory days	0.0	0.0	0.0	0.0	0.0
Creditors days	28.7	35.6	32.6	30.0	30.0
Valuation (x)					
P/E	45.1	32.9	25.1	19.8	15.9
P/BV	7.7	7.0	6.5	5.9	5.0
EV/EBITDA	18.9	17.1	13.1	11.0	8.8
EV / Revenues	4.8	3.9	3.2	2.7	2.2
Dividend Yield (%)	5.7	1.9	4.3	3.3	3.5
Dividend Payout(%)	256.5	62.4	107.1	65.7	55.7

One Year Price chart



(Source: Company, HDFC sec)

HDFC Sec Retail Research Rating description

Green Rating stocks
This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. This stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Yellow Rating stocks
This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions.
These stocks
have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks
This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicality of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

ABDUL KARIM

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Disclosure:

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