

Allsec Technologies – Stock Idea

CMP: INR 660 | Market Cap: INR 10,254 Mn

About company: Allsec Technologies 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. Company has strong market leadership in processing 13 Mn pay slips monthly. It employs ~5,400 full-time equivalents across 5 interconnected service delivery centers. Company's revenue grew by 23.1% YoY basis to INR 3.90 bn in financial year 2023.

Revenue Mix

- DBS (Digital Business Services) (International)- 43%, DBS (Domestic)- 21%
- HRO (Human Resources Operations) (International) – ~8%, HRO (Domestic)- 28%

Q3 Overview: Consolidated revenue stood at INR 119.8 Cr, registering a growth of 19.7% YoY/6.6% QoQ. EBITDA stood at INR 30.4 Cr, registering a growth of 44.8% YoY/ 19.7% QoQ. On the margins front, EBITDA margin expanded by 440bps YoY/ 270bps QoQ to 25.4%. Consolidated PAT saw an increase of 56% YoY but a decrease of 30.7% QoQ to INR 11.3 Cr.

Investment Rationale

The Business Process Management sector is advancing with specialized capabilities in data monetization through cloud-based AI, analytics, and automation.

New employee addition in September: Company added new employee records in excess of 1.3 lakhs in H1 and now process 1.3 mn employee records at the end of September, remaining the clear market leader in the managed services space, continuing to be about 20%- 30% higher than competition volumes.

Increased ticket size of Employee Experience Management sales: The company has signed EXM sales with ACV of INR 170 Mn in H1 FY24, which is up ~40%. The company has added marquee logos, including targeted conversion of competitor logos besides focusing on mining of existing accounts, including accounts acquired in FY23. The Company has continued to invest in building capabilities for new Sales resulted in addition of 6 new logos for ACV of 190 Mn. Additionally, the company maintains its strategic focus on the North American market.

Added new capacity in Manila: Allsec has added additional 600 seat capacity in Manila, nearly doubling it to facilitate expansion to cater international growth demand. The first being increasing the ticket size of new EXM sales, the second being shortening transition time lines.

Company Advances Key Initiatives: Successful Integration of SP4 and HRMS Upgrades. With positive results from parallel runs of the upgraded payroll engine (SP4) and completion of Phase I user acceptance testing for the new HRMS platform, the company is now preparing transition plans for migrating existing customers to SP4 in the next few quarters. Additionally, H2 will see the market pilot of HRMS platform sales on a SaaS basis.

Strategic rebrand of CXM & EXM: The company's strategic rebranding introduces Customer Experience Management (CXM) and Employee Experience Management (EXM). In Q2FY24, CXM and EXM show

robust growth of 18.3% and 21.2%, respectively, with CXM gaining momentum through new healthcare LOBs and logos exceeding INR 5 crores. Business Process Management advances with focused expertise in cloud-based AI, analytics, and automation for data monetization

Surging Growth and Digital Transformation in the HRMS and HRO Markets: The HRMS market is thriving with a 12% CAGR, expected to reach USD 33.6 bn by 2030. In India, the HRO market is adopting a data-driven, digital approach for increased revenue and profitability.

Outlook

KPIs remains strong for both CXM and EXM, including being named as the best partner in some of the customers' league tables. Company continue to provide value-added services to the customers, including but not limited to point automation, bundling RPA in the solutions. New products and offerings for end to end EXM & HRO services expects to drive holistic growth. **At a CMP of INR 660, Allsec is trading at a PE of 20.5x to its FY23 EPS of INR 32.06. We have a Positive view on the stock.**

Risk: Continue to be a little mindful of the headwinds, particularly in the US economy and the potential impact on BFSI because that's where the largest vertical contribution for Allsec is.

Arihant Capital Markets Ltd