

Revenues to improve in coming quarters...

About the stock: eClerx Services (eClerx) provides business process management, automation and analytics services.

- It caters to financial services, communications, retail, media, manufacturing, travel and technology companies
- OCF to EBITDA of >80%, debt free and RoCE of >20%

Q1FY22 Results: eClerx reported Q1FY22 results.

- Dollar revenues increased 1.4% QoQ to US\$64.7 million
- EBITDA margin declined 240 bps QoQ to 30.4%
- Announced buyback at ₹ 3200/share for an amount of ₹ 303 crore

What should investors do? eClerx' share price has grown by ~1.4x over the past five years (from ~₹ 1570 in August 2016 to ~₹ 2,172 levels in August 2021).

- We continue to remain positive and retain our BUY rating on the stock

Target Price and Valuation: We value eClerx at ₹ 2,650 i.e. 21x P/E on FY23E EPS

Key triggers for future price performance:

- Traction in customer care, RPA, analytics & content development, cross sell and up sell to Personiv clients to drive growth
- Lower roll offs from one off client specific event, improving deal wins and revival in growth are expected to drive revenues
- Expect dollar revenues to grow at 19.7% CAGR in FY21-23E

Alternate Stock Idea: Apart from eClerx, in our IT coverage we also like Zensar.

- Turnaround led by new CEO, driving deal momentum and increasing annuity revenues key positive
- BUY with a target price of ₹ 505

eClerx

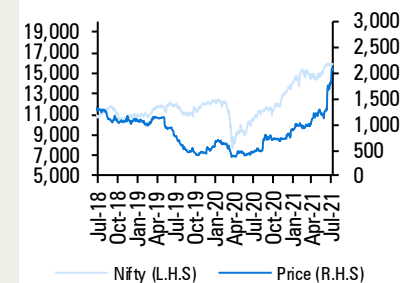
Particulars

Particular	Amount
Market Cap (₹ Crore)	7,927.6
Total Debt (₹ Crore)	0.5
Cash & Investments (₹ Crore)	719.2
EV (₹ Crore)	7,208.8
52 week H/L	2372/ 537
Equity capital	34.0
Face value	10.0

Shareholding pattern

	Sep-20	Dec-20	Mar-21	Jun-21
Promoter	54	54	54	54
FII	17	19	19	19
DII	16	14	15	16
Public	13	14	12	11

Price Chart



Recent event & key risks

- Buyback at ₹ 3200 per share
- Key Risk:** (i) Higher roll offs, (ii) Inability to sustain margins.

Research Analyst

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Key Financial Summary

Key Financials	FY19	FY20	FY21	5 Year CAGR (FY16-21)	FY22E	FY23E	2 Year CAGR (FY21-23E)
Net sales	1,431	1,438	1,564	3.5%	2,072	2,293	21.1%
EBITDA	308	324	465	-0.7%	637	680	21.0%
EBITDA Margin (%)	21.5	22.5	29.7		30.8	29.7	
Net Profit	228	209	283	-3.7%	403	418	21.6%
EPS (₹)	60.0	57.3	81.3		121.1	125.5	
P/E	36.2	37.9	26.7		17.9	17.3	
RoNW (%)	16.5	16.0	18.8		25.2	23.8	
RoCE (%)	21.5	19.9	23.3		31.1	30.5	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

Q1FY22 Earnings Conference Call highlights

- Revenues in the current quarter were driven by the Personiv acquisition and organic growth led by higher offshore revenues
- Revenue growth was driven by financial services, digital & customer operations. The company is seeing healthy traction across these verticals led by supply side constraints, clients distributing its work to third party to diversify risk and demand filling leakages
- The company has done robust hiring in the quarter (~7% of total revenues) to cater to demand and address attrition. We believe this will lead to healthy growth in coming quarters
- This, coupled with absence of pricing pressure, improving CLX business, traction in digital marketing and increase in volumes prompt us to build in dollar revenue growth of 19.7% CAGR over FY21-23E
- Margins during the quarter was impacted by wage hikes, increased offshore bench and one off cost of Personiv acquisition (~ ₹ 4.9 crore)
- We expect margins to improve 138 bps to 25.9%, led by higher revenue growth partially offset by Personiv acquisition related cost. However, we expect FY23E margins to taper off to 24.8% due to resumption of travel and increase in facility cost
- The company has announced a buyback of ~9.46 lakh shares for a share price of ₹ 3,200/share at ₹ 303 core. The buyback will take place via a tender offer. However, the price of buyback is subject to an approval of the buyback committee
- The company's debtor days have been declining due to lower debtor days in Personiv

Peer comparison

Exhibit 1: Peer Comparison

Company	Cmp (₹)	TP (₹)	Rating	Mcap (₹ Cr)	Revenue growth				Margins				P/E		
					FY20	FY21	FY22E	FY23E	FY19	FY20	FY21	FY20	FY21	FY22E	FY23E
eClerx	2,172	2,650	Buy	7,928	0.5	9	32	11	22	23	30	38	27	18	17
Firstsource	201	220	Hold	14,009	7.1	24	24	15	14	15	16	41	39	24	20
Zensar	418	505	Buy	9,436	5.0	(10)	11	14	12	12	18	36	32	23	18

Source: Company, ICICI Direct Research,

Financial summary

Exhibit 2: Profit and loss statement		₹ crore			
	FY20	FY21	FY22E	FY23E	
Total Revenues	1,438	1,564	2,072	2,293	
Growth (%)	0.5	8.8	32.4	10.7	
Employee expenses	762	781	1,036	1,158	
Other Expenditure	352	319	399	455	
EBITDA	324	465	637	680	
Growth (%)	5.2	43.6	37.2	6.7	
Depreciation	71	82	102	112	
Other Income	47	18	31	36	
Interest expense	19	20	23	23	
PBT before Exceptional Items	281	381	538	581	
Growth (%)	(9.9)	35.8	41.3	8.0	
Tax	72	98	135	163	
PAT before Exceptional Items	209	283	404	418	
Exceptional items	-	-	-	-	
PAT before MI	209	283	404	418	
Minority Int & Pft. from associate:	0	0	0	0	
PAT	209	283	403	418	
Growth (%)	(8.4)	35.4	42.6	3.7	
EPS	57	81	121	126	
EPS (Growth %)	(4.5)	42.0	48.9	3.7	

Source: Company, ICICI Direct Research

Exhibit 4: Balance sheet		₹ crore			
	FY20	FY21	FY22E	FY23E	
Equity	36	34	33	33	
Reserves & Surplus	1,270	1,467	1,565	1,726	
Networth	1,306	1,501	1,598	1,759	
Minority Interest	1	1	1	1	
Loans	1	0	0	0	
Other liabilities	199	220	220	220	
Source of funds	1,506	1,723	1,819	1,980	
Gross Block	420	513	838	930	
Acc.dep	214	295	397	509	
Net Block	206	217	441	421	
CWIP	1	0	0	0	
Other Intangible assets	47	138	138	138	
Other non current assets	42	42	47	50	
Investments	437	228	228	228	
Goodwill	227	373	373	373	
Debtors	238	293	421	395	
Cash & Cash equivalents	334	491	294	525	
Loans and advances	-	-	-	-	
Other current assets	205	225	255	268	
Trade payables	14	23	30	34	
Current liabilities	128	158	210	232	
Provisions	88	104	138	153	
Application of funds	1,506	1,723	1,819	1,980	

Source: Company, ICICI Direct Research

Exhibit 3: Cash flow statement		₹ crore			
	FY20	FY21	FY22E	FY23E	
Net profit before Tax	281	381	538	581	
Depreciation	71	82	102	112	
(inc)/dec in Current Assets	40	3	(101)	15	
(inc)/dec in current Liabilities	(59)	(100)	(135)	(163)	
CF from operations	333	365	404	546	
Other Investments	24	237	-	-	
Other income	28	13	31	36	
(Purchase)/Sale of Fixed Assets	(34)	(39)	(290)	(53)	
CF from investing Activities	18	(5)	(260)	(17)	
Inc / (Dec) in Equity Capital	(258)	(135)	(303)	(0)	
Dividend & Dividend tax	(4)	(3)	(3)	(257)	
Interest Paid on Loans	(46)	(50)	(0)	-	
CF from Financial Activities	(308)	(188)	(342)	(297)	
Exchange rate differences	6	3	-	-	
Opening cash balance	452	334	491	294	
Other adjustments	-	0	-	-	
Closing cash	334	491	294	525	

Source: Company, ICICI Direct Research;

Exhibit 5: Key ratios		₹ crore			
	FY20	FY21	FY22E	FY23E	
Per share data (₹)					
EPS	57.3	81.3	121.1	125.5	
Cash EPS	76.7	104.7	151.5	159.2	
BV	357.9	431.4	479.6	528.0	
DPS	1.0	1.0	1.0	77.2	
Cash Per Share	91.6	141.1	88.2	157.7	
Operating Ratios (%)					
EBITDA Margin	22.5	29.7	30.8	29.7	
PBT Margin	19.5	24.3	26.0	25.3	
PAT Margin	14.5	18.1	19.5	18.2	
Debtor days	60	68	74	63	
Creditor days	4	5	5	5	
Return Ratios (%)					
RoE	16.0	18.8	25.2	23.8	
RoCE	19.9	23.3	31.1	30.5	
RoIC	34.4	38.2	41.3	46.3	
Valuation Ratios (x)					
P/E	37.9	26.7	17.9	17.3	
EV / EBITDA	22.1	15.5	11.6	10.6	
EV / Net Sales	5.0	4.6	3.6	3.1	
Market Cap / Sales	5.5	5.1	3.8	3.5	
Price to Book Value	6.1	5.0	4.5	4.1	
Solvency Ratios					
Debt/EBITDA	0.0	0.0	0.0	0.0	
Debt / Equity	0.0	0.0	0.0	0.0	
Current Ratio	1.9	1.8	1.8	1.6	
Quick Ratio	1.9	1.8	1.8	1.6	

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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