

Covid, Italy business impact revenues...

eClerx Services reported dismal Q4FY20 revenues. Dollar revenues declined 7.9% QoQ while EBIT margins declined 593 bps QoQ to 16.8%. Revenues were impacted by Covid supply constraints (half of the QoQ fall is attributable to this) while the other half of QoQ decline was due to planned roll offs (that were not replaced by new sales) and the impact on the company's business in Italy. Margins were impacted by a sharp fall in revenues and higher general & administration expenses.

Revival in revenue only in FY22E

In the near term, the company is expected to face a significant revenue impact due to some supply side challenges, lower demand, impact in voice and exposure to retail & travel vertical (that we believe together may account for 10% of revenues). As a result, we expect a sharp fall in Q1FY21E revenues. We expect the company to witness a marginal improvement from Q2FY21E onwards and to reach Q4FY20 revenues in Q4FY21E (as indicated by management). Based on our assumptions, we expect dollar revenues to decline 8.4% YoY in FY21E. However, we expect the company to witness an improved trajectory in FY22E led by higher exposure to banking, telecom and hi tech clients and revival in growth. Hence, we expect the company to report 9.3% YoY growth in FY22E. In addition, the company plans to grow inorganically (we have not factored in the same) as it has healthy cash on its balance sheet. This could further boost revenues in future.

Margins to remain subdued in near term

EBIT margins have seen improved traction in the past few quarters. However, margins saw a dip in Q4FY20 mainly led by lower revenues and higher cost. In the near term, we expect the company to continue to witness margin pressure due to higher work from home cost and sharp dip in Q1FY21E revenues. We expect some cost saving measures like lower travel cost, lease rental rationalisation, administrative cost savings & deferral of promotions & increment undertaken by the company to cushion the impact of a dip in margins. We expect FY21E margin to dip 227 bps YoY and recover to FY20 level in FY22E (leading to 250 bps YoY margin improvement).

Valuation & Outlook

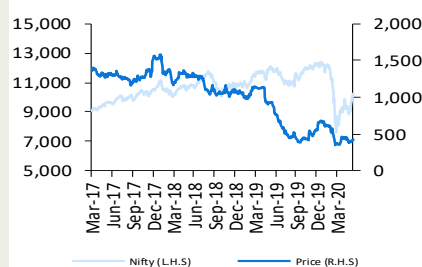
The company is expected to witness near term pressure on revenues mainly led by some supply side challenges, lower demand, impact in voice and exposure to retail & travel vertical (that we believe together may account for 10% of revenues). Further, margins are also expected to witness pressure due to higher work from cost and sharp dip in Q1FY21E revenues. However, most negatives are already factored in the stock and expected recovery in FY22E prompt us to maintain our **HOLD** rating on the stock with a revised target price of ₹ 400. Key trigger for the stock can be buyback (which may not be possible in near term due to uncertainties and cash conservation).

eClerx

Particulars

Particular	Amount
Market Cap (₹Crore)	1,485.5
Total Debt (₹Crore)	0.9
Cash & Investments (₹Crore)	771.1
EV (₹Crore)	715.3
52 week H/L	946/ 323
Equity capital	36.1
Face value	10.0

Price Performance



Key Highlights

- FY21E to witness sharp dip in revenues due to fall in Q1FY21E revenues. We expect FY22E to witness healthy growth led by higher exposure to banking, telecom and hi-tech clients and revival in growth
- Expect EBIT margins to witness healthy growth in FY22E
- Maintain HOLD rating on stock

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Key Financial Summary

Key Financials	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY20-22E)
Net sales	1,365	1,431	1,438	1,358	1,484	1.6%
EBITDA	367	308	324	272	334	1.6%
EBITDA Margin (%)	26.9	21.5	22.5	20.0	22.5	
Net Profit	290	228	209	174	219	2.3%
EPS (₹)	72.9	60.0	57.3	48.3	60.5	
P/E	5.6	6.8	7.1	8.4	6.7	
RoNW (%)	24.1	16.5	16.0	12.2	14.0	
RoCE (%)	28.2	21.5	19.9	15.6	17.9	

Source: Company, ICICI Direct Research

Financial summary

Exhibit 1: Profit and loss statement		₹ crore			
	FY19	FY20	FY21E	FY22E	
Total Revenues	1,431	1,438	1,358	1,484	
Growth (%)	4.8	0.5	(5.5)	9.3	
Employee expenses	706	762	733	757	
Other Expenditure	417	352	353	393	
EBITDA	308	324	272	334	
Growth (%)	(16.2)	5.2	(16.0)	22.9	
Depreciation	45	71	64	70	
Other Income	49	47	47	50	
Interest expense	-	19	19	19	
PBT before Exceptional Items	311	281	236	295	
Growth (%)	(13.2)	(9.9)	(16.0)	25.4	
Tax	83	72	61	77	
PAT before Exceptional Items	228	209	174	219	
Exceptional items	-	-	-	-	
PAT before MI	228	209	174	219	
Minority Int & Pft. from associa	0	0	-	-	
PAT	228	209	174	219	
Growth (%)	(21.4)	(8.4)	(16.6)	25.4	
EPS	60	57	48	61	
EPS (Growth %)	(17.7)	(4.5)	(15.7)	25.4	

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement		₹ crore			
	FY19	FY20	FY21E	FY22E	
Net profit before Tax	311	281	236	295	
Depreciation	45	71	64	70	
(inc)/dec in Current Assets	(16)	31	(15)	(6)	
(inc)/dec in current Liabilities	(93)	(59)	(61)	(77)	
CF from operations	206	333	169	245	
Other Investments	(121)	(137)	-	-	
Other income	18	19	0	10	
(Purchase)/Sale of Fixed Ass	(52)	(34)	(84)	(92)	
CF from investing Activities:	(231)	18	(38)	(42)	
Inc / (Dec) in Equity Capital	(45)	1	-	-	
Dividend & Dividend tax	(5)	(4)	(52)	(87)	
Interest Paid on Loans	(0)	(45)	-	-	
CF from Financial Activities	(54)	(308)	(53)	(87)	
Exchange rate differences	1	6	-	-	
Opening cash balance	440	452	334	413	
Other adjustments	(0)	-	-	-	
Closing cash	452	334	413	529	

Source: Company, ICICI Direct Research;

Exhibit 3: Balance sheet		₹ crore			
	FY19	FY20	FY21E	FY22E	
Equity	38	36	36	36	
Reserves & Surplus	1,344	1,270	1,392	1,523	
Networth	1,381	1,306	1,428	1,559	
Minority Interest	1	1	1	1	
Loans	2	1	1	1	
Other liabilities	67	199	199	199	
Source of funds	1,450	1,506	1,628	1,759	
Gross Block	226	420	504	596	
Acc.dep	143	214	277	347	
Net Block	83	206	226	249	
CWIP	0	1	1	1	
Other Intangible assets	47	47	47	47	
Other non current assets	65	42	40	43	
Investments	286	437	437	437	
Goodwill	218	227	227	227	
Debtors	243	238	253	259	
Cash & Cash equivalents	452	334	413	529	
Loans and advances	-	-	-	-	
Other current assets	204	204	201	206	
Trade payables	12	14	13	14	
Current liabilities	65	128	121	132	
Provisions	70	88	83	91	
Application of funds	1,450	1,507	1,628	1,759	

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios		₹ crore			
	FY19	FY20	FY21E	FY22E	
Per share data (₹)					
EPS	60.0	57.3	48.3	60.5	
Cash EPS	71.7	76.7	66.0	79.9	
BV	363.0	357.9	395.6	432.0	
DPS	1.0	1.0	14.5	24.2	
Cash Per Share	118.7	91.6	114.3	146.5	
Operating Ratios (%)					
EBITDA Margin	21.5	22.5	20.0	22.5	
PBT Margin	21.8	19.5	17.3	19.9	
PAT Margin	16.0	14.5	12.8	14.7	
Debtor days	62	60	68	64	
Creditor days	3	4	4	4	
Return Ratios (%)					
RoE	16.5	16.0	12.2	14.0	
RoCE	21.5	19.9	15.6	17.9	
RoIC	36.9	34.4	26.7	33.3	
Valuation Ratios (x)					
P/E	6.8	7.1	8.4	6.7	
EV / EBITDA	2.4	2.2	2.3	1.6	
EV / Net Sales	0.5	0.5	0.5	0.4	
Market Cap / Sales	1.0	1.0	1.1	1.0	
Price to Book Value	1.1	1.1	1.0	0.9	
Solvency Ratios					
Debt/E BITDA	0.0	0.0	0.0	0.0	
Debt / Equity	0.0	0.0	0.0	0.0	
Current Ratio	3.0	1.9	2.1	2.0	
Quick Ratio	3.0	1.9	2.1	2.0	

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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