

CMP: ₹ 2109

Target: ₹ 2500 (19%)

Target Period: 12 months

May 25, 2022

BUY

## Margin guidance band maintained...

**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%

**Q4FY22 Results:** eClerx reported Q4FY22 results.

- Dollar revenues increased 5.2% QoQ to US\$77.2 million
- EBITDA margin declined 100 bps QoQ to 30.8%
- The company reported 20% organic revenue growth in FY22

**What should investors do?** eClerx' share price has grown by ~1.7x over the past five years (from ~₹ 1,265 in May 2017 to ~₹ 2,109 levels in May 2022).

- We maintain our **BUY** rating on the stock

**Target Price and Valuation:** We value eClerx at ₹ 2,500 i.e. 16x P/E on FY24E 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 18.1% CAGR in FY22-24E

**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 ₹ 365

# eClerx

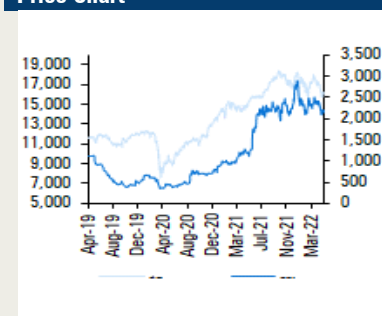
### Particulars

Particular	Amount
Market Cap (₹ Crore)	7,451
Total Debt (₹ Crore)	0
Cash & Investments (₹ Crore)	688
EV (₹ Crore)	6,764
52 week H/L	2970/ 1099
Equity capital	33.1
Face value	10.0

### Shareholding pattern

	Jun-21	Sep-21	Dec-21	Mar-22
Promoter	54	54	53	53
FII	19	16	15	14
DII	16	18	18	19
Public	11	13	14	13

### Price Chart



### Recent event & key risks

- Dividend of ₹1 per share
- Key Risk:** (i) Higher roll offs, (ii) Inability to sustain margins

### Research Analyst

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### Key Financial Summary

Key Financials	FY20	FY21	FY22	5 Year CAGR (FY17-22)	FY23E	FY24E	2 Year CAGR (FY22-24E)
Net sales	1,438	1,564	2,160	10.2%	2,606	3,019	18.2%
EBITDA	324	465	673	7.5%	735	851	12.5%
EBITDA Margin (%)	22.5	29.7	31.1		28.2	28.2	
Net Profit	209	283	430	3.9%	447	520	10.0%
EPS (₹)	57.3	81.3	121.6		134.3	156.0	
P/E	36.8	25.9	17.3		15.7	13.5	
RoNW (%)	16.0	18.8	27.4		25.7	26.8	
RoCE (%)	19.9	23.3	33.6		33.2	34.7	

Source: Company, ICICI Direct Research

## Key takeaways of recent quarter & conference call highlights

- Revenue in US\$ term grew 5.2% QoQ to US\$77.2 mn while in rupee terms, revenue grew 5.8% QoQ to ₹ 551.7 crore. In CC terms the company reported growth of 5.5% QoQ & 22% YoY. For FY22, it reported growth of 35.2% to US\$284.6mn, out of which 20% was organic growth while rest of the growth came from their recent acquisition 'Personiv'
- Revenue growth aided by North America market (69% mix), up 3.7% QoQ. Europe, RoW market reported growth of 5.2%, 20.2% QoQ, respectively
- Top 10 customers contribute 60% of the revenue mix for Q4 and reported revenue growth of 3.5% QoQ. In terms of client addition on a YoY basis, it added one client in US\$10mn+ category while it added five, three, six clients in US\$5-10mn, US\$1-3 mn, US\$500K-1mn categories, respectively
- EBITDA, EBIT grew 2.5%, 1.9% QoQ, respectively, while EBITDA, EBIT margins fell 100 bps each QoQ to 30.8%, 26.1%, respectively. EBITDA margins were impacted by 9.4% QoQ rise in employee expenses amid high attrition
- In Q4, the company added 806 employees in offshore delivery while 63 employees were added in onshore delivery/support services & Tech services respectively, taking its count in this services to 14,802. The company added five employees in the selling & distribution taking total headcount at the company level to 14,910 (869 net adds). India seat count has been constant at 11,039 in the last four quarters
- Offshore voluntary attrition stayed high at 42.6% for Q4, was up 520 bps QoQ
- eClerx indicated that the demand environment continues to be strong for the services that it offers. eClerx is not witnessing any slowdown there. The company also mentioned that it is not seeing any major roll-offs in the foreseeable future. The order pipeline in Q1FY23 is lower than last year
- The company also mentioned that in comparison to captive where the focus is on key employee's retention. Hence, the companies may end up paying higher costs in terms of salaries as cost inflation is higher, captive is not profitable business in the long term. In case of its model, it always has flexibility and control on costs
- eClerx, however, did not rule out any impact on its revenue trajectory in case of US market recession since the market contributes a large chunk to its revenues
- The company also indicated that it continues to explore M&A opportunity in the market. It mentioned that it is looking for some tuck in acquisitions with sales in the range of US\$30-50 mn. The company also mentioned that funding has been drying up in the market especially for many start-ups and also funding costs for PE players is also rising at the other end, which is creating opportunities for players like it in the market
- The company mentioned that they are committed of paying out 50% of the net income to the shareholders. The company also indicated that it may think of another buyback in the future
- The company indicated that the wage hike in FY23 will be higher than the earlier comparable years to retain talents & manage supply side constraints. The company also guided that the margins for Q1FY23 will be affected due to the wage hike but expects it to normalise in the remaining three quarters. It maintained margin guidance band of 28-32%
- The company also said it has negotiated some price hike with some of clients but indicated that it will not be enough to cover the wage hike
- The cash position stayed healthy at ₹ 680.5 crore for FY22 vs. ₹ 657.2 crore for FY21
- The company declared a dividend of ₹ 1 per equity share

**Exhibit 1: P&L**

	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	Comments
Revenue	591.7	472.8	25.1	559.2	5.8	Revenue was aided by US market which grew by 3.7% QoQ
Employee expenses	299.6	226.1	32.5	273.8	9.4	
Gross Profit	292.1	246.7	18.4	285.4	2.3	
Gross margin (%)	49.4	52.2	-282 bps	51.0	-167 bps	
SG&A expenses	109.8	91.6	19.9	107.5	2.1	
EBITDA	182.3	155.1	17.5	177.9	2.5	Margins declined due to higher employee cost
EBITDA Margin (%)	30.8	32.8	-200 bps	31.8	-100 bps	
Depreciation & amortisation	27.9	24.4	14.3	26.4	5.8	
EBIT	154.3	130.7	18.1	151.5	1.9	
EBIT Margin (%)	26.1	27.6	-155 bps	27.1	-100 bps	
Other income (less interest)	4.5	-1.8		-0.9		
PBT	159	129	23.3	151	5.5	
Tax paid	40.3	30.5	32.2	38.4	5.1	
PAT	119	99	20.3	107	11.4	

Source: Company, ICICI Direct Research

**Exhibit 2: Change in estimates**

(₹ Crore)	FY23E			FY24E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	2357	2,606	10.6	2,627	3,019	14.9	Increasing numbers on strong FY22 performance
EBITDA	713	735	3.1	803	851	6.0	
EBITDA Margin (%)	30.3	28.2	-205 bps	30.6	28.2	-236 bps	We are building in margins at lower end of the guidance band
PAT	440	447	1.7	498	520	4.4	
EPS (₹)	132.0	134.3	1.7	136.9	156.0	4.4	

Source: Company, ICICI Direct Research

## Financial summary

Exhibit 3: Profit and loss statement					₹ crore
	FY21	FY22	FY23E	FY24E	
<b>Total Revenues</b>	<b>1,564</b>	<b>2,160</b>	<b>2,606</b>	<b>3,019</b>	
Growth (%)	8.8	38.1	20.6	15.8	
Employee expenses	781	1,079	1,355	1,570	
Other Expenditure	319	409	516	598	
<b>EBITDA</b>	<b>465</b>	<b>673</b>	<b>735</b>	<b>851</b>	
Growth (%)	43.6	44.8	9.3	15.8	
Depreciation	82	103	128	148	
Other Income	18	25	36	40	
Interest expense	20	22	22	22	
PBT before Exceptional Items	381	573	622	722	
Growth (%)	35.8	50.3	8.6	16.1	
Tax	98	143	174	202	
PAT before Exceptional Items	283	430	448	520	
Exceptional items	-	-	-	-	
PAT before MI	283	430	448	520	
Minority Int & Pft. from associates	0	0	0	-	
<b>PAT</b>	<b>283</b>	<b>430</b>	<b>447</b>	<b>520</b>	
Growth (%)	35.4	51.9	4.2	16.2	
EPS	81	122	134	156	
EPS (Growth %)	42.0	49.6	10.5	16.2	

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement					₹ crore
	FY21	FY22	FY23E	FY24E	
Net profit before Tax	381	560	622	722	
Depreciation	82	103	128	148	
(inc)/dec in Current Assets	3	(51)	588	255	
(inc)/dec in current Liabilities	(100)	(164)	(174)	(202)	
<b>CF from operations</b>	<b>365</b>	<b>448</b>	<b>1,163</b>	<b>923</b>	
Other Investments	237	108	-	-	
Other income	13	4	36	40	
(Purchase)/Sale of Fixed Assets	(39)	(61)	(60)	(69)	
<b>CF from investing Activities</b>	<b>(5)</b>	<b>38</b>	<b>(24)</b>	<b>(30)</b>	
Inc / (Dec) in Equity Capital	(135)	(355)	(0)	-	
Dividend & Dividend tax	(3)	(3)	(275)	(320)	
Interest Paid on Loans	(50)	(58)	(0)	-	
<b>CF from Financial Activities</b>	<b>(188)</b>	<b>(416)</b>	<b>(316)</b>	<b>(360)</b>	
Exchange rate differences	3	1	-	-	
Opening cash balance	334	491	562	1,386	
Other adjustments	0	-	-	-	
<b>Closing cash</b>	<b>491</b>	<b>562</b>	<b>1,386</b>	<b>1,920</b>	

Source: Company, ICICI Direct Research;

Exhibit 5: Balance sheet					₹ crore
	FY21	FY22	FY23E	FY24E	
Equity	34	33	33	33	
Reserves & Surplus	1,467	1,534	1,707	1,907	
Networth	1,501	1,568	1,740	1,940	
Minority Interest	1	1	1	1	
Loans	0	0	0	0	
Other liabilities	220	199	199	199	
<b>Source of funds</b>	<b>1,723</b>	<b>1,768</b>	<b>1,940</b>	<b>2,140</b>	
Gross Block	513	531	630	740	
Acc.dep	295	319	447	595	
Net Block	217	212	184	145	
CWIP	0	2	2	2	
Other Intangible assets	138	126	126	126	
Other non current assets	42	45	135	153	
Investments	228	194	194	194	
Goodwill	373	375	375	375	
Debtors	293	329	597	476	
Cash & Cash equivalents	491	494	1,386	1,920	
Loans and advances	-	-	-	-	
Other current assets	225	293	627	691	
Trade payables	23	17	89	103	
Current liabilities	158	156	838	971	
Provisions	104	129	690	799	
<b>Application of funds</b>	<b>1,723</b>	<b>1,768</b>	<b>1,940</b>	<b>2,140</b>	

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios					₹ crore
	FY21	FY22	FY23E	FY24E	
<b>Per share data (₹)</b>					
EPS	81.3	121.6	134.3	156.0	
Cash EPS	104.7	150.8	172.6	200.4	
BV	431.4	443.7	522.3	582.4	
DPS	1.0	1.1	82.6	96.0	
Cash Per Share	141.1	139.7	416.1	576.3	
<b>Operating Ratios (%)</b>					
EBITDA Margin	29.7	31.1	28.2	28.2	
PBT Margin	24.3	26.5	23.9	23.9	
PAT Margin	18.1	19.9	17.2	17.2	
Debtor days	68	56	84	58	
Creditor days	5	3	13	13	
<b>Return Ratios (%)</b>					
RoE	18.8	27.4	25.7	26.8	
RoCE	23.3	33.6	33.2	34.7	
RoIC	38.2	52.8	142.3	754.2	
<b>Valuation Ratios (x)</b>					
P/E	25.9	17.3	15.7	13.5	
EV / EBITDA	14.5	10.1	8.0	6.3	
EV / Net Sales	4.3	3.1	2.3	1.8	
Market Cap / Sales	4.8	3.4	2.9	2.5	
Price to Book Value	4.9	4.8	4.0	3.6	
<b>Solvency Ratios</b>					
Debt/EBITDA	0.0	0.0	0.0	0.0	
Debt / Equity	0.0	0.0	0.0	0.0	
Current Ratio	1.8	2.1	0.8	0.6	
Quick Ratio	1.8	2.1	0.8	0.6	

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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