

## Revenues continues to decelerate...

eClerx Services' dollar revenues declined 6.0% QoQ mainly due to supply and demand side challenges. However, EBIT margins increased 280 bps QoQ to 19.6% mainly led by lower travel and marketing expenses. The company expects a gradual increase in revenues. However, it expects margins to remain volatile due to wage hikes in Q2 & Q3 and return to office costs. The company has completed buyback of ₹ 109.5 crore.

## Gradual improvement in revenues expected in coming quarters

In the current quarter, eClerx witnessed demand and supply side challenges. However, we believe the company could see improving revenue growth in coming quarters led by receding supply side challenges and improving demand. eClerx also witnessed healthy deal wins upwards of quarter million dollars. A few deal wins include a Nordic banking client, food business client and higher wins from existing clients. In addition, the company expects CLX business (that we believe contributes 18% to topline) to see improvement in coming quarters. Hence, we expect eClerx to witness a gradual improvement in revenues in coming quarters. However, a significant dip in Q1FY21 revenues and possibility of roll offs in subsequent quarters prompt us to build a conservative estimate of 8.4% YoY decline in FY21E revenues. However, we expect the company to see an improved trajectory in FY22E led by higher exposure to banking, telecom and hi-tech clients (70% of topline) and revival in growth. Hence, we expect eClerx to report 9.3% YoY growth in FY22E dollar revenues. 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 witness gradual improvement

EBIT margins in the quarter improved due to lower travel & marketing expenses. In the near term, we expect the company to witness margin pressure due to wage hike and return to office costs. However, considering improving revenues in coming quarters, we conservatively assume a 50 bps YoY increase in EBIT margins in FY21E.

## Valuation & Outlook

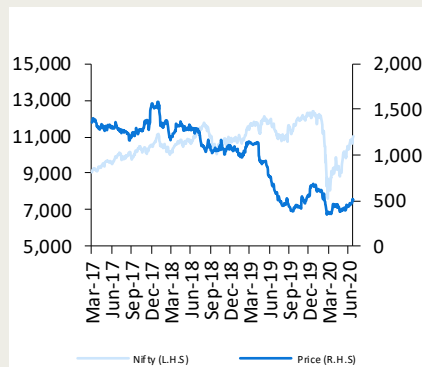
We expect the company to witness a gradual improvement in revenues in coming quarters mainly led by improved deal wins and stabilisation of CLX revenues. In addition, despite cost pressure, we expect margins to improve in FY21E led by cost rationalisation and improved revenue growth. However, revenues have been volatile in the past due to project roll offs and automation of business. In addition, eClerx' exposure to travel, retail and luxury retail segment keep us cautious on the stock. Hence, we maintain our **HOLD** rating on the stock with a revised target price of ₹ 570 (9x FY22E EPS).

# eClerx

### Particulars

Particular	Amount
Market Cap (₹Crore)	1,887.0
Total Debt (₹Crore)	0.9
Cash & Investments (₹Crore)	771.1
EV (₹Crore)	1,116.8
52 week H/L	711/ 323
Equity capital	36.1
Face value	10.0

### Price Performance



### Key Highlights

- FY21E to witness sharp dip in revenues due to fall in Q1FY21 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 improve gradually
- 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	1,377	1,504	2.3%
EBITDA	367	308	324	317	346	3.4%
EBITDA Margin (%)	26.9	21.5	22.5	23.0	23.0	
Net Profit	290	228	209	192	221	2.8%
EPS (₹)	72.9	60.0	57.3	54.8	63.4	
P/E	5.6	6.8	9.0	9.4	8.2	
RoNW (%)	24.1	16.5	16.0	14.2	15.3	
RoCE (%)	28.2	21.5	19.9	18.2	19.6	

Source: Company, ICICI Direct Research

## Financial summary

Exhibit 1: Profit and loss statement	₹ crore			
	FY19	FY20	FY21E	FY22E
<b>Total Revenues</b>	<b>1,431</b>	<b>1,438</b>	<b>1,377</b>	<b>1,504</b>
Growth (%)	4.8	0.5	(4.2)	9.3
Employee expenses	706	762	741	809
Other Expenditure	417	352	319	349
<b>EBITDA</b>	<b>308</b>	<b>324</b>	<b>317</b>	<b>346</b>
Growth (%)	(16.2)	5.2	(2.1)	9.3
Depreciation	45	71	67	74
Other Income	49	47	33	49
Interest expense	-	19	19	19
PBT before Exceptional Items	311	281	263	302
Growth (%)	(13.2)	(9.9)	(6.1)	14.8
Tax	83	72	71	82
PAT before Exceptional Items	228	209	192	221
Exceptional items	-	-	-	-
PAT before MI	228	209	192	221
Minority Int & Pft. from associa	0	0	-	-
<b>PAT</b>	<b>228</b>	<b>209</b>	<b>192</b>	<b>221</b>
Growth (%)	(21.4)	(8.4)	(8.0)	14.8
EPS	60	57	55	63
EPS (Growth %)	(17.7)	(4.5)	(4.3)	15.8

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement	₹ crore			
	FY19	FY20	FY21E	FY22E
Net profit before Tax	311	281	263	302
Depreciation	45	71	67	74
(inc)/dec in Current Assets	(57)	40	(30)	(50)
(inc)/dec in current Liabilities	(93)	(59)	(71)	(82)
<b>CF from operations</b>	<b>206</b>	<b>333</b>	<b>230</b>	<b>245</b>
Other Investments	(207)	24	-	-
Other income	28	28	33	49
(Purchase)/Sale of Fixed Ass	(52)	(34)	(55)	(68)
<b>CF from investing Activitie:</b>	<b>(231)</b>	<b>18</b>	<b>(22)</b>	<b>(19)</b>
Inc / (Dec) in Equity Capital	(45)	(258)	(109)	-
Dividend & Dividend tax	(5)	(4)	(38)	(132)
Interest Paid on Loans	(5)	(46)	(0)	-
<b>CF from Financial Activitie</b>	<b>(54)</b>	<b>(308)</b>	<b>(148)</b>	<b>(132)</b>
Exchange rate differences	1	6	-	-
Opening cash balance	440	452	334	394
Other adjustments	(0)	-	-	-
<b>Closing cash</b>	<b>452</b>	<b>334</b>	<b>394</b>	<b>487</b>

Source: Company, ICICI Direct Research;

Exhibit 3: Balance sheet	₹ crore			
	FY19	FY20	FY21E	FY22E
Equity	38	36	35	35
Reserves & Surplus	1,344	1,270	1,316	1,404
Networth	1,381	1,306	1,351	1,439
Minority Interest	1	1	1	1
Loans	2	1	1	1
Other liabilities	67	199	199	199
<b>Source of funds</b>	<b>1,450</b>	<b>1,506</b>	<b>1,550</b>	<b>1,639</b>
Gross Block	226	420	475	542
Acc.dep	143	214	281	355
Net Block	83	206	194	188
CWIP	0	1	1	1
Other Intangible assets	47	47	47	47
Other non current assets	65	42	41	43
Investments	286	437	437	437
Goodwill	218	227	227	227
Debtors	243	238	229	243
Cash & Cash equivalents	452	334	394	487
Loans and advances	-	-	-	-
Other current assets	204	205	202	207
Trade payables	12	14	13	15
Current liabilities	65	128	123	134
Provisions	70	88	84	92
<b>Application of funds</b>	<b>1,450</b>	<b>1,506</b>	<b>1,550</b>	<b>1,639</b>

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios	₹ crore			
	FY19	FY20	FY21E	FY22E
<b>Per share data (₹)</b>				
EPS	60.0	57.3	54.8	63.4
Cash EPS	71.7	76.7	74.0	84.6
BV	363.0	357.9	384.8	413.5
DPS	1.0	1.0	11.0	38.1
Cash Per Share	118.7	91.6	112.2	140.0
<b>Operating Ratios (%)</b>				
EBITDA Margin	21.5	22.5	23.0	23.0
PBT Margin	21.8	19.5	19.1	20.1
PAT Margin	16.0	14.5	14.0	14.7
Debtor days	62	60	61	59
Creditor days	3	4	4	4
<b>Return Ratios (%)</b>				
RoE	16.5	16.0	14.2	15.3
RoCE	21.5	19.9	18.2	19.6
RoIC	36.9	34.4	34.6	38.1
<b>Valuation Ratios (x)</b>				
P/E	6.8	9.0	9.4	8.2
EV / EBITDA	2.4	3.5	3.3	2.8
EV / Net Sales	0.8	0.8	0.8	0.6
Market Cap / Sales	1.3	1.3	1.4	1.3
Price to Book Value	1.1	1.4	1.3	1.3
<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	3.0	1.9	2.0	1.9
Quick Ratio	3.0	1.9	2.0	1.9

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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