

Robust performance on revenue, margin front...

eClerx Services reported healthy Q2FY21 revenues, up 7.1% QoQ (in constant currency terms) and 8.1% QoQ in reported terms mainly led by growth in Europe (up 31.8% QoQ). EBIT margins improved 490 bps to 24.5% mainly led by higher utilisation, lower work from home cost and G&A cost. Net profit increased 17.8% QoQ to ₹ 61 crore. The company declared a dividend of ₹ 1/share. eClerx expects H2FY21E to be better than H1FY21.

Revenues to witness improving trajectory

The company reported healthy growth in the current quarter mainly led by improving demand especially in Europe. eClerx has seen improving growth in the CLX business (that we believe contributes 18% to topline). Going forward, we expect the company to continue to generate healthy revenues from CLX business. In addition, eClerx has been seeing healthy deal wins that is also driving growth in non-top 10 clients (as seen in the current quarter). We expect this trend to continue leading to improving revenues over the coming quarters. However, a significant dip in Q1FY21 revenues prompts us to build a conservative estimate of 4.3% YoY decline in FY21E dollar revenues. We expect the company to see an improved trajectory in FY22E & FY23E led by higher exposure to banking, telecom and hi-tech clients (~70% of topline) and revival in growth. Hence, we expect eClerx to report 8.0% CAGR in FY21E-23E in dollar terms. Also, 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 taper off in FY22E, FY23E

The company, in the quarter, witnessed healthy EBIT margin expansion due to healthy demand, lower facility and travel cost partially offset by wage hikes. We expect H2FY21E margins to remain strong. This, coupled with high base in H1FY21E, we expect FY21E margins to improve 393 bps to 21.5%. However, we expect margins to taper down from FY21E levels due to tapering of lower work from home cost benefits, increase in attrition and other facility cost. Hence, we expect EBIT margins of 18.3%, 18.5% in FY22E, FY23E, respectively, albeit above FY20 levels.

Valuation & Outlook

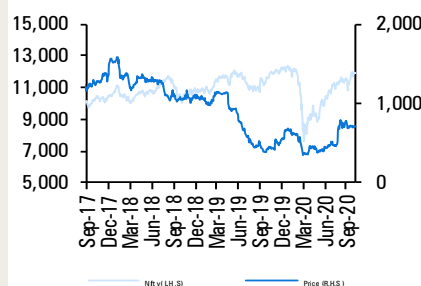
We expect the company to witness a gradual improvement in revenues mainly led by improved deal wins, traction in digital and CLX revenues. Hence, we revise our revenues, EPS estimates & target price upwards. This coupled with reasonable valuation, healthy balance sheet & the company's aspiration to reach industry level growth prompt us upgrade stock from HOLD to **BUY** rating with a revised target price of ₹ 830 (11x FY23E EPS).

eClerx

Particulars

Particular	Amount
Market Cap (₹ Crore)	2,589.4
Total Debt (₹ Crore)	0.9
Cash & Investments (₹ Crore)	771.1
EV (₹ Crore)	1,819.2
52 week H/L	815/ 323
Equity capital	36.1
Face value	10.0

Price Performance



Key Highlights

- Revenues to improve in coming quarters. We expect FY22E & FY23E to witness healthy growth led by higher exposure to banking, telecom & hi-tech clients and revival in growth
- Expect EBIT margins to taper off in FY22E & FY23E but remain above FY20 levels
- Upgrade to BUY from HOLD

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Key Financial Summary

Key Financials	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Net sales	1,431	1,438	1,428	1,532	1,676	5.3%
EBITDA	308	324	383	355	392	6.6%
EBITDA Margin (%)	21.5	22.5	26.8	23.2	23.4	
Net Profit	228	209	228	222	250	6.1%
EPS (₹)	60.0	57.3	66.2	64.6	72.5	
P/E	11.8	12.4	10.7	11.0	9.8	
RoNW (%)	16.5	16.0	16.0	14.8	15.6	
RoCE (%)	21.5	19.9	20.4	18.9	20.0	

Source: Company, ICICI Direct Research

Financial summary

Exhibit 1: Profit and loss statement				
	₹ crore			
	FY20	FY21E	FY22E	FY23E
Total Revenues	1,438	1,428	1,532	1,676
Growth (%)	0.5	(0.7)	7.3	9.4
Employee expenses	762	750	812	888
Other Expenditure	352	296	365	396
EBITDA	324	383	355	392
Growth (%)	5.2	18.3	(7.1)	10.3
Depreciation	71	76	75	82
Other Income	47	24	43	51
Interest expense	19	19	19	19
PBT before Exceptional Items	281	312	305	342
Growth (%)	(9.9)	11.4	(2.5)	12.4
Tax	72	84	82	92
PAT before Exceptional Items	209	228	222	250
Exceptional items	-	-	-	-
PAT before MI	209	228	222	250
Minority Int & Pft. from associate	0	-	-	-
PAT	209	228	222	250
Growth (%)	(8.4)	9.1	(2.5)	12.4
EPS	57	66	65	73
EPS (Growth %)	(4.5)	15.7	(2.5)	12.4

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement				
	₹ crore			
	FY20	FY21E	FY22E	FY23E
Net profit before Tax	281	312	305	342
Depreciation	71	76	75	82
(inc)/dec in Current Assets	40	(24)	(49)	(60)
(inc)/dec in current Liabilities	(59)	(84)	(82)	(92)
CF from operations	333	280	249	272
Other Investments	24	-	-	-
Other income	28	24	43	51
(Purchase)/Sale of Fixed Asset	(34)	(33)	(35)	(39)
CF from investing Activities	18	(9)	8	12
Inc / (Dec) in Equity Capital	(258)	(109)	-	0
Dividend & Dividend tax	(4)	(3)	(137)	(154)
Interest Paid on Loans	(46)	(0)	-	-
CF from Financial Activities	(308)	(143)	(172)	(194)
Exchange rate differences	6	-	-	-
Opening cash balance	452	334	462	547
Other adjustments	-	-	-	-
Closing cash	334	462	547	638

Source: Company, ICICI Direct Research;

Exhibit 3: Balance sheet				
	₹ crore			
	FY20	FY21E	FY22E	FY23E
Equity	36	35	35	35
Reserves & Surplus	1,270	1,386	1,472	1,568
Networth	1,306	1,421	1,507	1,603
Minority Interest	1	1	1	1
Loans	1	1	1	1
Other liabilities	199	199	199	199
Source of funds	1,506	1,621	1,707	1,803
Gross Block	420	482	553	631
Acc.dep	214	289	364	447
Net Block	206	193	188	185
CWIP	1	1	1	1
Other Intangible assets	47	47	47	47
Other non current assets	42	42	44	47
Investments	437	437	437	437
Goodwill	227	227	227	227
Debtors	238	237	253	277
Cash & Cash equivalents	334	462	547	638
Loans and advances	-	-	-	-
Other current assets	205	204	208	213
Trade payables	14	14	15	16
Current liabilities	128	127	136	149
Provisions	88	87	94	103
Application of funds	1,506	1,621	1,707	1,803

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios				
	₹ crore			
	FY20	FY21E	FY22E	FY23E
Per share data (₹)				
EPS	57.3	66.2	64.6	72.5
Cash EPS	76.7	88.2	86.4	96.4
BV	357.9	412.7	437.5	465.5
DPS	1.0	1.0	39.7	44.6
Cash Per Share	91.6	134.3	158.9	185.2
Operating Ratios (%)				
EBITDA Margin	22.5	26.8	23.2	23.4
PBT Margin	19.5	21.9	19.9	20.4
PAT Margin	14.5	16.0	14.5	14.9
Debtor days	60	60	60	60
Creditor days	4	4	4	4
Return Ratios (%)				
RoE	16.0	16.0	14.8	15.6
RoCE	19.9	20.4	18.9	20.0
RoIC	34.4	42.6	38.8	42.6
Valuation Ratios (x)				
P/E	12.4	10.7	11.0	9.8
EV / EBITDA	5.6	4.4	4.5	3.9
EV / Net Sales	1.3	1.2	1.0	0.9
Market Cap / Sales	1.8	1.8	1.7	1.5
Price to Book Value	2.0	1.7	1.6	1.5
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	1.9	1.9	1.8
Quick Ratio	1.9	1.9	1.9	1.8

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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