

Healthy organic revenue growth...

eClerx Services reported healthy Q4FY21 revenues, up 19.3% QoQ (in constant currency terms) and 19.7% QoQ in reported terms. Out of this, organic growth was 6.3% QoQ and rest was through acquisition of Personiv. EBIT margins improved 295 bps to 27.6% mainly led by lower S&D expenses and higher gross margins. PAT increased 39% QoQ to ₹ 98.8 crore. The company has proposed a dividend of ₹ 1/share.

Improving demand, pipeline key growth drivers

The company reported healthy growth in the quarter mainly led by lower roll offs, acquisition, healthy demand in analytics in customer & financial operations and improving demand from large clients. eClerx is seeing healthy growth in financial operations and offshore digital care business in top 10 clients. In addition, the company may benefit from cross sell and up sell to Personiv clients. Hence, although we expect certain short-term projects to get ramped down in the near term, we believe improving growth in CLX business, healthy deal wins, acquisition of Personiv and growth in non-top 10 clients would drive long term growth. In addition, healthy deal pipeline, lower roll offs from one-off client specific event, higher exposure to banking, telecom, hi-tech clients (~70% of topline) and revival in growth are expected to further boost revenues in coming years. Hence, we expect eClerx to register 14.6% CAGR dollar revenue growth in FY20-23E.

Margins to taper off in FY23E but expected to be healthy

The company, in the quarter, witnessed healthy EBIT margin expansion due to healthy demand, lower facility & travel cost and lower incentives. eClerx plans to give wage hikes effective April 2021. This, coupled with resumption of travel and increase in facility cost may act as a headwind to margins. However, with revenue growth and full impact of increase in cost to be visible in FY23E, we expect FY22E margins to improve 146 bps YoY to 31.2% and then taper to 29.7% in FY23E.

Valuation & Outlook

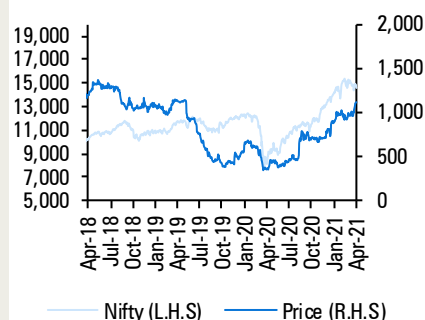
The company is witnessing improving growth in customer care, RPA, analytics and content development. In addition, eClerx could benefit from cross sell and up sell to Personiv clients. This, coupled with lower roll offs from one off client specific event, improving deal wins and revival in growth are expected to drive revenues. With this, coupled with higher revenues & margin assumption (compared to our previous estimates), we revise our EPS estimates upwards. This, along with reasonable valuations, healthy balance sheet prompt us to maintain **BUY** rating on the stock with a revised target price of ₹ 1,640 (15x PE on FY23E EPS, earlier target price ₹ 1,150).

eClerx

Particulars

Particular	Amount
Market Cap (₹ Crore)	4,919.3
Total Debt (₹ Crore)	0.5
Cash & Investments (₹ Crore)	719.2
EV (₹ Crore)	4,200.6
52 week H/L	1380/ 392
Equity capital	34.0
Face value	10.0

Price Performance



Key Risk

- Revenues are expected to improve in coming quarters. However, higher than expected roll offs could adversely impact revenue growth
- The company has made an acquisition. However, if the acquisition does not pan out as per expectations it could adversely impact financials

Research Analyst

Devang Bhatt
devang.bhatt@icicisecurities.com

Key Financial Summary

Key Financials	FY19	FY20	FY21	FY22E	FY23E	CAGR (FY21-23E)
Net sales	1,431	1,438	1,564	1,855	2,056	14.6%
EBITDA	308	324	465	578	610	14.6%
EBITDA Margin (%)	21.5	22.5	29.7	31.2	29.7	
Net Profit	228	209	283	368	375	15.1%
EPS (₹)	60.0	57.3	81.3	107.4	109.4	
P/E	18.8	23.5	16.6	12.6	12.3	
RoNW (%)	16.5	16.0	18.8	22.4	21.0	
RoCE (%)	21.5	19.9	23.3	27.6	27.1	

Source: Company, ICICI Direct Research

Financial summary

Exhibit 1: Profit and loss statement		₹ crore			
	FY20	FY21	FY22E	FY23E	
Total Revenues	1,438	1,564	1,855	2,056	
Growth (%)	0.5	8.8	18.5	10.9	
Employee expenses	762	781	927	1,038	
Other Expenditure	352	319	349	408	
EBITDA	324	465	578	610	
Growth (%)	5.2	43.6	24.4	5.5	
Depreciation	71	82	98	109	
Other Income	47	18	34	43	
Interest expense	19	20	23	23	
PBT before Exceptional Items	281	381	491	521	
Growth (%)	(9.9)	35.8	28.9	6.1	
Tax	72	98	123	146	
PAT before Exceptional Items	209	283	368	375	
Exceptional items	-	-	-	-	
PAT before MI	209	283	368	375	
Minority Int & Pft. from associate:	0	0	0	0	
PAT	209	283	368	375	
Growth (%)	(8.4)	35.4	30.1	1.9	
EPS	57	81	107	109	
EPS (Growth %)	(4.5)	42.0	32.1	1.9	

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement		₹ crore			
	FY20	FY21	FY22E	FY23E	
Net profit before Tax	281	381	491	521	
Depreciation	71	82	98	109	
(inc)/dec in Current Assets	40	3	(54)	(59)	
(inc)/dec in current Liabilities	(59)	(100)	(123)	(146)	
CF from operations	333	365	412	425	
Other Investments	24	237	-	-	
Other income	28	13	34	43	
(Purchase)/Sale of Fixed Assets	(34)	(39)	(43)	(47)	
CF from investing Activities	18	(5)	(9)	(5)	
Inc / (Dec) in Equity Capital	(258)	(135)	(0)	(0)	
Dividend & Dividend tax	(4)	(3)	(226)	(230)	
Interest Paid on Loans	(46)	(50)	(0)	-	
CF from Financial Activities	(308)	(188)	(262)	(271)	
Exchange rate differences	6	3	-	-	
Opening cash balance	452	334	491	633	
Other adjustments	-	0	-	-	
Closing cash	334	491	633	782	

Source: Company, ICICI Direct Research;

Exhibit 3: Balance sheet		₹ crore			
	FY20	FY21	FY22E	FY23E	
Equity	36	34	34	34	
Reserves & Surplus	1,270	1,467	1,608	1,753	
Networth	1,306	1,501	1,642	1,787	
Minority Interest	1	1	1	1	
Loans	1	0	0	0	
Other liabilities	199	220	220	220	
Source of funds	1,506	1,723	1,864	2,008	
Gross Block	420	513	590	678	
Acc.dep	214	295	394	503	
Net Block	206	217	197	175	
CWIP	1	0	0	0	
Other Intangible assets	47	138	138	138	
Other non current assets	42	42	45	47	
Investments	437	228	228	228	
Goodwill	227	373	373	373	
Debtors	238	293	346	385	
Cash & Cash equivalents	334	491	633	782	
Loans and advances	-	-	-	-	
Other current assets	205	225	242	254	
Trade payables	14	23	27	30	
Current liabilities	128	158	188	208	
Provisions	88	104	123	137	
Application of funds	1,506	1,723	1,864	2,008	

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios		₹ crore			
	FY20	FY21	FY22E	FY23E	
Per share data (₹)					
EPS	57.3	81.3	107.4	109.4	
Cash EPS	76.7	104.7	136.1	141.2	
BV	357.9	431.4	479.5	521.6	
DPS	1.0	1.0	66.0	67.3	
Cash Per Share	91.6	141.1	184.8	228.4	
Operating Ratios (%)					
EBITDA Margin	22.5	29.7	31.2	29.7	
PBT Margin	19.5	24.3	26.5	25.3	
PAT Margin	14.5	18.1	19.8	18.2	
Debtor days	60	68	68	68	
Creditor days	4	5	5	5	
Return Ratios (%)					
RoE	16.0	18.8	22.4	21.0	
RoCE	19.9	23.3	27.6	27.1	
RoIC	34.4	38.2	47.8	50.2	
Valuation Ratios (x)					
P/E	23.5	16.6	12.6	12.3	
EV / EBITDA	12.8	9.0	7.0	6.4	
EV / Net Sales	2.9	2.7	2.2	1.9	
Market Cap / Sales	3.4	3.1	2.7	2.4	
Price to Book Value	3.8	3.1	2.8	2.6	
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	1.7	1.7	
Quick Ratio	1.9	1.8	1.7	1.7	

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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