

Consistent revenue growth...

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%

Rationale:

- Revenues in the past four to five years were subdued due to three to four large roll-offs, which took place during 2016-19. However, the company has been reporting strong growth in recent quarters and guided for 20%+ growth in FY22
- The company recently acquired personiv, an outsourcing provider with over 35+ years of experience with offices in US, India and Philippines. The acquisition would leverage synergies in digital and customer experience services. It would add ~US\$32 million annual revenues to eClerx
- Overall revenue mix has been inching towards offshoring as in the last four quarters, onshore revenue mix has come down from 23% to 20%, which is a tailwind to margin. The management do not expect materially different mix going forward; guided for healthy EBITDA margin band of 28-32%

What should investors do? eClerx' share price has grown by ~1.8x over the past five years (from ~₹ 1,357 in December 2016 to ~₹ 2,419 levels in December 2021).

- We remain positive on the stock and maintain BUY rating

Target Price and Valuation: We roll over valuations to FY24E and value eClerx at ₹ 2900 i.e. 21x 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 revenue CAGR of 16.7% over FY21-24E

Alternate Stock Idea: Apart from eClerx, in our IT coverage we also like Infosys

- Key beneficiary of improved digital demand, industry leading revenue growth and healthy capital allocation prompt us to be positive
- BUY with a target price of ₹ 2,060

eClerx

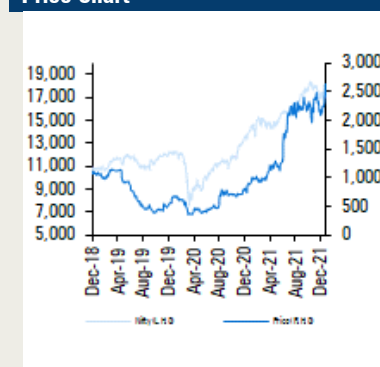
Particulars

Particular	Amount
Market Cap (₹ Crore)	8,057.6
Total Debt (₹ Crore)	0.5
Cash & Investments (₹ Crore)	719.2
EV (₹ Crore)	7,338.9
52 week H/L	2619/ 864
Equity capital	33.1
Face value	10.0

Shareholding pattern

	Dec-20	Mar-21	Jun-21	Sep-21
Promoter	54	54	54	54
FII	19	19	19	16
DII	14	15	16	18
Public	14	12	11	13

Price Chart



Recent event & key risks

- Buyback at ₹ 2850 per share
- Key Risk: (i) Higher roll offs, (ii) Inability to sustain margins.

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Key Financial Summary

Key Financials	FY19	FY20	FY21	5 Year CAGR (FY16-21)	FY22E	FY23E	FY24E	3 Year CAGR (FY21-24E)
Net sales	1,431	1,438	1,564	3.5%	2,072	2,293	2,488	16.7%
EBITDA	308	324	465	-0.7%	637	680	738	16.7%
EBITDA Margin (%)	21.5	22.5	29.7		30.8	29.7	29.7	
Net Profit	228	209	283	-3.7%	403	418	456	17.3%
EPS (₹)	60.0	57.3	81.3		121.1	125.5	136.9	
P/E	40.3	42.3	29.8		20.0	19.3	17.7	
RoNW (%)	16.5	16.0	18.8		25.2	23.8	23.6	
RoCE (%)	21.5	19.9	23.3		31.1	30.5	30.4	

Source: Company, ICICI Direct Research

Exhibit 1: Profit and loss statement				
	₹ crore			
	FY21	FY22E	FY23E	FY24E
Total Revenues	1,564	2,072	2,293	2,488
Growth (%)	8.8	32.4	10.7	8.5
Employee expenses	781	1,036	1,158	1,257
Other Expenditure	319	399	455	494
EBITDA	465	637	680	738
Growth (%)	43.6	37.2	6.7	8.5
Depreciation	82	102	112	122
Other Income	18	31	36	40
Interest expense	20	23	23	23
PBT before Exceptional Items	381	538	581	633
Growth (%)	35.8	41.3	8.0	9.0
Tax	98	135	163	177
PAT before Exceptional Items	283	404	418	456
Exceptional items	-	-	-	-
PAT before MI	283	404	418	456
Minority Int & Pft. from associates	0	0	0	-
PAT	283	403	418	456
Growth (%)	35.4	42.6	3.7	9.1
EPS	81	121	126	137
EPS (Growth %)	42.0	48.9	3.7	9.1

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement				
	₹ crore			
	FY21	FY22E	FY23E	FY24E
Net profit before Tax	381	538	581	633
Depreciation	82	102	112	122
(inc)/dec in Current Assets	3	(101)	15	(113)
(inc)/dec in current Liabilities	(100)	(135)	(163)	(177)
CF from operations	365	404	546	465
Other Investments	237	-	-	-
Other income	13	31	36	40
(Purchase)/Sale of Fixed Assets	(39)	(290)	(53)	(57)
CF from investing Activities	(5)	(260)	(17)	(17)
Inc / (Dec) in Equity Capital	(135)	(303)	(0)	-
Dividend & Dividend tax	(3)	(3)	(257)	(280)
Interest Paid on Loans	(50)	(0)	-	-
CF from Financial Activities	(188)	(342)	(297)	(320)
Exchange rate differences	3	-	-	-
Opening cash balance	334	491	294	525
Other adjustments	0	-	-	-
Closing cash	491	294	525	652

Source: Company, ICICI Direct Research

Exhibit 3: Balance sheet				
	₹ crore			
	FY21	FY22E	FY23E	FY24E
Equity	34	33	33	33
Reserves & Surplus	1,467	1,565	1,726	1,901
Networth	1,501	1,598	1,759	1,934
Minority Interest	1	1	1	1
Loans	0	0	0	0
Other liabilities	220	220	220	220
Source of funds	1,723	1,819	1,980	2,156
Gross Block	513	838	930	1,028
Acc.dep	295	397	509	631
Net Block	217	441	421	397
CWIP	0	0	0	0
Other Intangible assets	138	138	138	138
Other non current assets	42	47	50	52
Investments	228	228	228	228
Goodwill	373	373	373	373
Debtors	293	421	395	490
Cash & Cash equivalents	491	294	525	652
Loans and advances	-	-	-	-
Other current assets	225	255	268	280
Trade payables	23	30	34	36
Current liabilities	158	210	232	252
Provisions	104	138	153	166
Application of funds	1,723	1,819	1,980	2,156

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios				
	FY21	FY22E	FY23E	FY24E
Per share data (₹)				
EPS	81.3	121.1	125.5	136.9
Cash EPS	104.7	151.5	159.2	173.5
BV	431.4	479.6	528.0	580.6
DPS	1.0	1.0	77.2	84.2
Cash Per Share	141.1	88.2	157.7	195.8
Operating Ratios (%)				
EBITDA Margin	29.7	30.8	29.7	29.7
PBT Margin	24.3	26.0	25.3	25.4
PAT Margin	18.1	19.5	18.2	18.3
Debtor days	68	74	63	72
Creditor days	5	5	5	5
Return Ratios (%)				
RoE	18.8	25.2	23.8	23.6
RoCE	23.3	31.1	30.5	30.4
RoIC	38.2	41.3	46.3	48.3
Valuation Ratios (x)				
P/E	29.8	20.0	19.3	17.7
EV / EBITDA	15.8	11.8	10.7	9.7
EV / Net Sales	4.7	3.6	3.2	2.9
Market Cap / Sales	5.2	3.9	3.5	3.2
Price to Book Value	5.6	5.0	4.6	4.2
Solvency Ratios				
Debt/EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	1.8	1.8	1.6	1.7
Quick Ratio	1.8	1.8	1.6	1.7

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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