

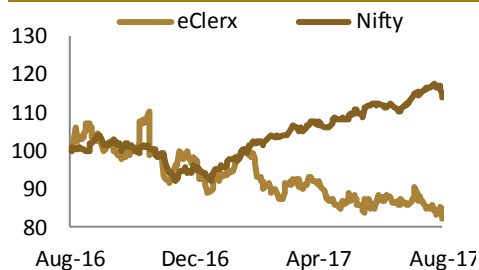
Market statistics

Current stock price (`)	1,285
Shares O/S (cr.)	4.0
Mcap (` cr)	5,124
52W H/L (`)	1,775/1,220
6m avg. volume	21,248
Bloomberg	ECLX.IN

Shareholding pattern

Promoters	50.21
Domestic Institution	11.63
Foreign Institution	30.71
Non-institution	7.45
of which more than 1%	
Matthews India Fund	6.78
Fidelity Puritan Trust Fidelity Low Priced Stock Fund	4.50

eClerx vs Nifty



Capital efficiency & valuations

Particulars	FY17	FY18E	FY19E
RoE (%)	30.8	22.9	21.9
EPS (`)	89.0	78.4	92.7
CEPS (`)	102.0	92.4	109.5
P/E (x)	14.9	16.4	13.9
P/BV (x)	4.3	3.4	2.7
EV/EBITDA (x)	9.6	9.9	7.6
Income growth (%)	1.2	(3.1)	10.2
EBITDA growth (%)	(5.6)	(14.5)	20.1
PAT growth (%)	(2.6)	(11.4)	19.0

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eClerx reported lower-than-expected results. US\$ revenue was up 1.9% QoQ (up 1.4% in cc terms). Operating margin at 29.7% (down 115bps QoQ) on account of INR appreciation and wage hikes. PAT stood at ` 792mn (vs an expected ` 809mn) helped by higher other income. eClerx anticipates organic growth in FY18 to be soft. We maintain our Hold recommendation on the stock on account of stretched valuations coupled with substantial growth contribution from short term projects. Revenues are expected to see further headwinds in the near term.

Q1FY18 P&L break up – revenue lower than expected. US\$ revenues was up 1.9% QoQ. Break up of EBIT margin QoQ: S&D expenses (-20bps), Employee cost (-240bps), Depreciation & Amortization (+90bps), G&A expenses (+50bps), Exchange movement (-150bps). Hence, a decrease of 260bps QoQ in EBIT margin. Q1 EBIT margin stood at 26.4%. Profits at ` 792mn (down 15.3% YoY) was lower-than-expectations (our expectation of ` 809mn) helped by non-operational item –higher OI. Top-10 clients decreased 2.7% YoY in US\$ terms. 2QFY17 and 3QFY18 are expected to be weak in terms of QoQ revenue growth. eClerx expects similar headwinds in near term from legacy business and automation impact are absorbed. The company also highlighted that weak global macros and tectonic shift in technologies reduces visibility in near term, though double digit growth in medium term should be possible going forward in long term.

Subdued outlook - Management highlighted 2-4% sequential revenue decline in 2Q. Topline growth challenges and higher onsite shift (North Carolina Centre operational at lower utilizations) will weigh on margins. While management alluded to an improving deal pipeline and progress in financial services segment, the recovery will be protracted. North Carolina delivery centre (eClerx' first US delivery centre) is expected to impact FY18 margin by -50 to -100bps, with a back-ended ramp-up.

Margins to see near-term pressure. We see at least three longer term margin challenges for eClerx: (a) given eClerx works on short term and smaller projects, with dynamic client needs, the ability to use fixed price/transaction based/outcome based pricing is limited; (b) with relatively lower utilization in faster growing Capital markets and Cable business, there remains lower scope for utilization expansion (furthermore, fastest growing Cable business has below company average margin profile); and (c) need to shift from 100% offshore delivery to global delivery model. Management also expects FY18 margins to moderate due to higher investments in future technologies and ESOP charge due to IND-AS adoption.

Conference call highlights. 1) Management expects 2H margins to trend to ~30%. Growth in 1Q was driven by recovery in financial services segment, as well as the digital segment. ~50% of the pipeline is from the digital segment, supported by CLX. G&A in 1Q was lower, based on lower CSR expenses (+40bps margin impact), which is expected to reverse over FY18E. Sub-contracting expense remained flat sequentially at 4.4%, and may reduce going ahead with increased onsite delivery

Valuation: eClerx's continues to struggle for growth in an overall improving demand environment for IT services. The Cable business has been leading the growth over the last couple of years (~50% CAGR). However, it has slowed down over the last couple of quarters given ongoing Cable industry consolidation uncertainty in the US. On the other hand, its Sales and Marketing Services (SMS) business (~40% of revenues) continues to struggle given growth stagnation in its top account. Although eClerx has taken initiatives to broad base its service offerings to the Capital market clients (outside the top 5 accounts), it seems to have achieved limited success. Retain Hold on eClerx given strong ROE's and superior cash generation.



Exhibit 1: Quarterly details

mn	1QFY17	4QFY17	1QFY17	QoQ (%)	YoY (%)	Comments
Revenues (In US\$m)	50.2	47.9	48.8	1.9	(2.8)	Revenue was up 1.4% in cc terms. Top 10 clients decreased 2.6% YoY in cc terms.
Revenues	3,403	3,315	3,332	0.5	(2.1)	
- Operating costs	2,144	2,292	2,342	2.2	9.2	
EBITDA	1,259	1,023	990	(3.2)	(21.4)	Break up of EBIT margin QoQ: S&D expenses (-20bps), Employee cost (-240bps), Depreciation & Amortization (+90bps), G&A expenses (+50bps), Exchange movement (-150bps)
EBITDA margin (%)	37.0	30.9	29.7	(114)bps	(730)bps	
- Interest expense	0	(0)	-			
- Depreciation	119	137	109	(20.3)	(9.0)	Q1FY18 had a no forex gain/loss.
+ Other income, net (incl forex)	100	20	96	371.7	(3.8)	
PBT	1,240	907	977	7.8	(21.2)	
- Taxes	281	159	185	16.5	(34.2)	Tax rate to be in the range of 19-20% in FY18
Effective tax rate (%)	22.6	17.5	18.9	142bps	(373)bps	
PAT	959	748	792	5.9	(17.4)	
Net margin (%)	28.2	22.6	23.8	122bps	(440)bps	
Reported profits	959	750	792	5.7	(17.4)	

Source: Company

Exhibit 2: Change in estimates

mn	FY18E			FY19E		
	Old	New	%Chg	Old	New	%Chg
Revenue (US\$ mn)	200	196	(2.0)	220	219	(0.5)
Revenue	13,199	12,893	(2.3)	14,537	14,214	(2.2)
EBITDA margin (%)	31.9	30.5	(140)bps	33.5	33.2	(30)bps
EPS (`)	82.1	78.4	(4.5)	93.2	92.7	(0.5)

Source: Trust Research

Quarterly details: Client metrics weakens - No. of US\$1mn+ clients decreased to 17 (down 1 QoQ).

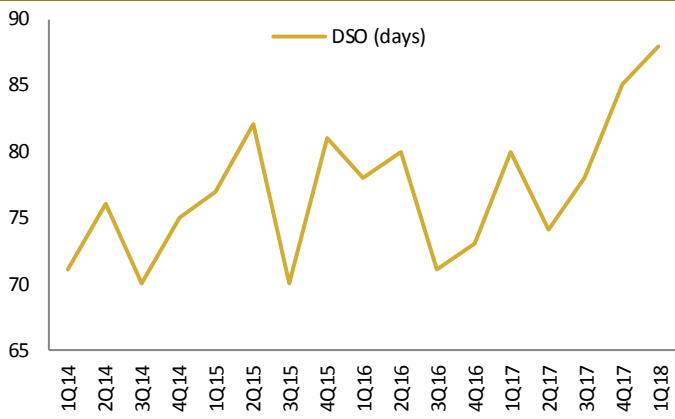
Exhibit 3: Operating metrics

Details	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q4FY17
US	72.0	67.0	67.0	66.0	66.0	68.0	69.0	67.0	69.0
Europe	25.0	29.0	29.0	30.0	30.0	29.0	27.0	28.0	26.0
RoW	3.0	4.0	4.0	4.0	4.0	3.0	4.0	5.0	5.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
FTE (%)	85	81	82	80	81	81	83	81	80
SEZ Revenue (%)	69.0	67.0	69.0	66.0	66.0	64.0	64.0	61.0	62.0
India Staff count (Nos.)	8,747	8,743	8,590	8,862	8,827	8,552	8,648	8,737	9,053
Revenue (US\$m)	46.4	50.2	51.8	50.7	50.2	48.9	47.2	47.9	48.8
Top 10 clients (%)	78	75	77	76	74	75	76	74	75.0
DSO (Days)	78	80	71	73	80	74	78	85	88
Cash/share (`)	118.0	97.2	104.7	133.6	146.5	172.3	139.4	152.6	161.9

Source: Company

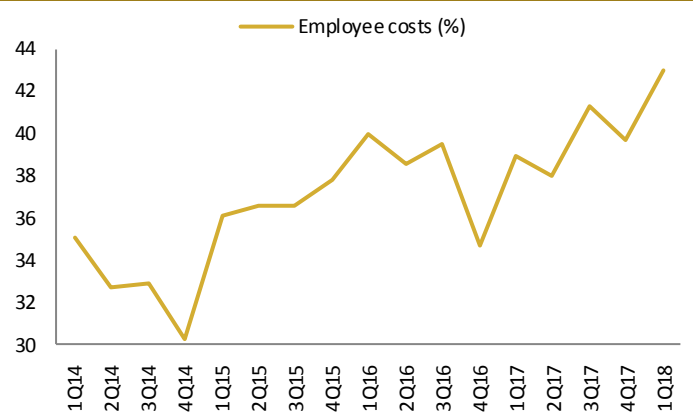


Exhibit 4: DSO days were up by 3 QoQ to 88



Source: Company, Trust

Exhibit 5: Margin lower on wage hikes & INR appreciation



Source: Company, Trust



Financials

Income Statement (` mn)

Year End-March	FY15	FY16	FY17	FY18E	FY19E
Revenues	9,421	13,143	13,300	12,893	14,214
Op. Expenses	6,258	8,274	8,705	8,962	9,494
EBITDA	3,163	4,869	4,595	3,931	4,720
Other Income	324	404	282	505	625
Depreciation	500	507	518	563	676
EBIT	2,987	4,766	4,359	3,873	4,669
Interest	-	-	-	-	-
PBT	2,987	4,766	4,359	3,873	4,669
Tax	683	1,132	819	735	934
PAT	2,304	3,634	3,540	3,138	3,735
Ex. ordinary	-	-	-	-	-
Adj Pat	2,304	3,634	3,540	3,138	3,735

Key Parameters

Year End-March	FY15	FY16	FY17	FY18E	FY19E
Per share (`)					
EPS	56.9	89.1	89.0	78.4	92.7
CEPS	69.3	101.5	102.0	92.4	109.5
BVPS	176.7	266.3	305.5	381.0	471.7
DPS	26.3	1.0	1.0	1.0	1.0
Payout (%)	53.9	1.3	1.3	1.5	1.3
Valuation (x)					
P/E	21.1	14.6	14.9	16.4	13.9
P/BV	6.8	4.9	4.3	3.4	2.7
EV/EBITDA	13.7	9.2	9.6	9.9	7.6
Dividend Yield (%)	2.2	0.1	0.1	0.1	0.1
Return ratio (%)					
EBITDA Margin	33.6	37.0	34.6	30.5	33.2
PAT Margin	24.5	27.6	26.6	24.3	26.3
ROAE	32.2	40.3	30.8	22.9	21.9
ROACE	41.8	52.9	37.9	28.3	27.3
Leverage Ratios (x)					
Long Term D/E	-	-	-	-	-
Net Debt/Equity	(0.6)	(0.5)	(0.5)	(0.6)	(0.7)
Debt/EBITDA	-	-	-	-	-
Interest Coverage	-	-	-	-	-
Current ratio	3.3	5.8	7.4	8.8	10.7
Growth Ratios (%)					
Income growth	12.0	39.5	1.2	(3.1)	10.2
EBITDA growth	(10.5)	53.9	(5.6)	(14.5)	20.1
PAT growth	(9.9)	57.7	(2.6)	(11.4)	19.0
Turnover Ratios					
F.A Turnover x	13.3	15.1	18.5	15.7	15.9
Debtors Days	44	43	55	60	56
Payable days	1	7	6	6	6

Balance Sheet (` mn)

Year End-March	FY15	FY16	FY17	FY18E	FY19E
Equity Share Capital	304	408	397	400	403
Reserves & Surplus	6,847	10,455	11,756	14,848	18,536
Total Shareholders Fund	7,150	10,863	12,154	15,248	18,939
Minority Interest	-	6	4	4	4
Non- current liabilities	163	277	462	464	481
Deferred tax liabilities	(52)	7	169	169	169
Other LT liabilities & prov	215	270	293	295	312
Current Liabilities	2,209	1,492	1,361	1,502	1,591
Short term Liabilities	-	35	4	4	4
Trade payables	17	138	129	147	156
Other cur liabilities & Prov	2,192	1,318	1,229	1,350	1,431
Total Liabilities	9,522	12,638	13,981	17,218	21,015
Assets					
Non- current Assets	2,332	3,960	3,860	3,937	4,069
Fixed assets	707	869	719	819	893
Non-current investments	975	2,531	2,552	2,552	2,552
Long-term loans & adv	650	560	589	565	623
Current assets	7,190	8,677	10,121	13,281	16,946
Current investments	1,553	2,191	2,514	2,514	2,514
Trade receivables	1,261	1,861	2,138	2,084	2,298
Inventories	-	5	2	7	7
Cash & bank balances	2,866	3,268	3,557	6,804	10,064
Short-term loans & adv	151	236	33	35	39
Other current assets	1,359	1,116	1,877	1,837	2,025
Total Assets	9,522	12,638	13,981	17,218	21,015

Cash flow Statement

Year End-March	FY15	FY16	FY17	FY18E	FY19E
PBT	2,987	4,766	4,359	3,873	4,669
Depreciation	467	566	680	563	676
Others	-	6	(1)	-	-
CF before W.cap	3,454	5,337	5,038	4,436	5,345
Inc/dec in W.cap	246	1,053	937	(253)	357
Op CF after W.cap	3,208	4,284	4,101	4,689	4,988
Less Taxes	683	1,132	819	735	934
Net CF From Operations	2,525	3,152	3,282	3,954	4,054
Inc/(dec) in F.A + CWIP	638	670	368	663	750
(Pur)/sale of Investments	384	2,194	345	-	-
CF from Invst Activities	(1,022)	(2,863)	(712)	(663)	(750)
Loans raised/(repaid)	-	35	(31)	-	-
Equity Raised	199	127	(2,203)	3	3
Dividend	1,243	48	47	47	47
CF from Fin Activities	(1,044)	114	(2,281)	(44)	(45)
Net inc /(dec) in cash	460	403	288	3,247	3,260
Op. bal of cash	2,406	2,866	3,268	3,557	6,804
Cl. balance of cash	2,866	3,268	3,557	6,804	10,064



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