

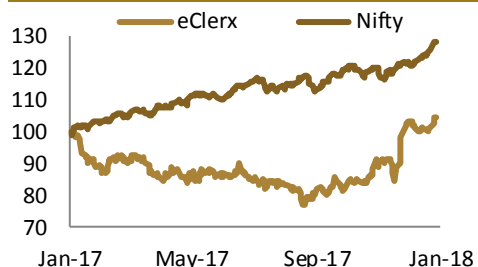
Market statistics

Current stock price (`)	1,531
Shares O/S (cr.)	4.0
Mcap (` cr)	6,113
52W H/L (`)	1,608/1,142
6m avg. volume	73,657
Bloomberg	ECLX.IN

Shareholding pattern

Promoters	50.11
Domestic Institution	15.72
Foreign Institution	25.26
Non-institution	8.90
of which more than 1%	
Matthews India Fund	6.77
Fidelity Puritan Trust Fidelity Low Priced Stock Fund	4.49

eClerx vs Nifty



Capital efficiency & valuations

Particulars	FY18E	FY19E	FY20E
RoE (%)	21.2	17.8	17.3
EPS (`)	66.6	72.4	83.1
CEPS (`)	78.7	86.4	97.1
P/E (x)	23.0	21.2	18.4
P/BV (x)	4.1	3.5	2.9
EV/EBITDA (x)	13.6	12.3	10.8
Income growth (%)	(0.2)	4.5	8.4
EBITDA growth (%)	(19.2)	2.8	9.5
PAT growth (%)	(24.6)	9.3	15.7

eClerx reported lower-than-expected results. US\$ revenue was up 1.2% QoQ (up 1.1% in cc terms). Operating margin at 26.5% (down 254bps QoQ) on account of weak revenue trajectory, lower utilization and higher costs QoQ. PAT stood at ` 575mn (vs an expected ` 729mn) further dented by lower OI. eClerx anticipates organic growth in FY19 to be soft, but better than FY18. 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.

Q3FY18 P&L break up – revenue lower than expected. US\$ revenues was up 1.2% QoQ. Break up of EBIT margin QoQ: S&D expenses (-110bps), Employee cost (-60bps), Depreciation & Amortization (-10bps), G&A expenses (-70bps), Exchange movement (+10bps). Hence, a decrease of 220bps QoQ in EBIT margin. Q3 EBIT margin stood at 22.8%. Profits at ` 575mn (down 33.6% YoY) was lower-than-expectations (our expectation of ` 729mn). Top-10 clients decreased 4% YoY in US\$ terms. 4QFY18 are expected to see positive US\$ revenue growth QoQ. 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.

Outlook better than 3Q - Management highlighted positive US\$ revenue growth sequentially for 4Q and margins are also expected to be better. 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.

Business to keep margin under check. 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.

Other details: 1) Management expects 4Q margins to trend higher compared to 3Q. 2) eClerx closed Twofour Consulting Asset Purchase Deal at Q2 end and inherited US\$4mn+ runrate. 3) In Q2, eClerx has accounted Incentives under "Service Exports from India Scheme" (SEIS) - Realized net Rs121mn for FY16 & accrued Rs82mn for FY17 which translates to an impact of 4% on Q2 PAT & 2% on H1 PAT on excluding above one off incentive. For Q3, Rs.64.83mn and YTD, Rs289mn has been accrued under SIES

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.

ANALYST

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Exhibit 1: Quarterly details

` mn	3QFY17	2QFY18	3QFY18	QoQ (%)	YoY (%)	Comments
Revenues (In US\$m)	47.2	48.3	48.9	1.2	3.7	Revenue was up 1.1% in cc terms. Top 10 clients decreased 4% YoY in cc terms.
Revenues	3,247	3,309	3,399	2.7	4.7	
- Operating costs	2,204	2,349	2,499	6.4	13.4	
EBITDA	1,043	960	900	(6.3)	(13.7)	Break up of EBIT margin QoQ: S&D expenses (-110bps), Employee cost (-60bps), Depreciation & Amortization (-10bps), G&A expenses (-70bps), Exchange movement (+10bps)
EBITDA margin (%)	32.1	29.0	26.5	(254)bps	(565)bps	
- Interest expense	0	0	0			
- Depreciation	134	119	126	5.6	(5.8)	
+ Other income, net (incl forex)	113	134	11	(92.1)	(90.6)	
PBT	1,023	975	784	(19.6)	(23.3)	
- Taxes	162	294	209	(28.8)	29.3	Tax rate to be in the range of 19-20% in FY19
Effective tax rate (%)	15.8	30.2	26.7	(346)bps	1,086bps	
PAT	861	681	575	(15.6)	(33.2)	
Net margin (%)	26.5	20.6	16.9	(367)bps	(959)bps	
Reported profits	860	681	575	(15.5)	(33.1)	

Source: Company

Exhibit 2: Change in estimates

` mn	FY18E			FY19E		
	Old	New	%Chg	Old	New	%Chg
Revenue (US\$ mn)	196	196	-	214	213	(0.5)
Revenue	13,071	13,276	1.6	13,886	13,869	(0.1)
EBITDA margin (%)	29.4	28.0	(135)bps	30.0	27.4	(235)bps
EPS (`)	74.3	66.6	(10.4)	84.1	72.4	(13.9)

Source: Trust Research

Quarterly details: Client metrics stays the same QoQ.

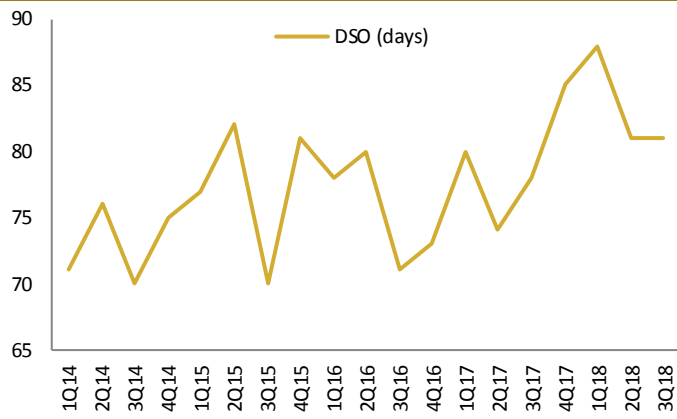
Exhibit 3: Operating metrics

Details	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18
US	67.0	66.0	66.0	68.0	69.0	67.0	69.0	65.0	65.0
Europe	29.0	30.0	30.0	29.0	27.0	28.0	26.0	29.0	29.0
RoW	4.0	4.0	4.0	3.0	4.0	5.0	5.0	6.0	6.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
FTE (%)	82	80	81	81	83	81	80	79	78
SEZ Revenue (%)	69.0	66.0	66.0	64.0	64.0	61.0	62.0	60.0	61.0
India Staff count (Nos.)	8,590	8,862	8,827	8,552	8,648	8,737	9,053	9,223	9,091
Revenue (US\$m)	51.8	50.7	50.2	48.9	47.2	47.9	48.8	48.4	48.9
Top 10 clients (%)	77	76	74	75	76	74	75.0	71.0	71.0
DSO (Days)	71	73	80	74	78	85	88	81	81
Cash/share (`)	104.7	133.6	146.5	172.3	139.4	152.6	161.9	194.1	197.3

Source: Company

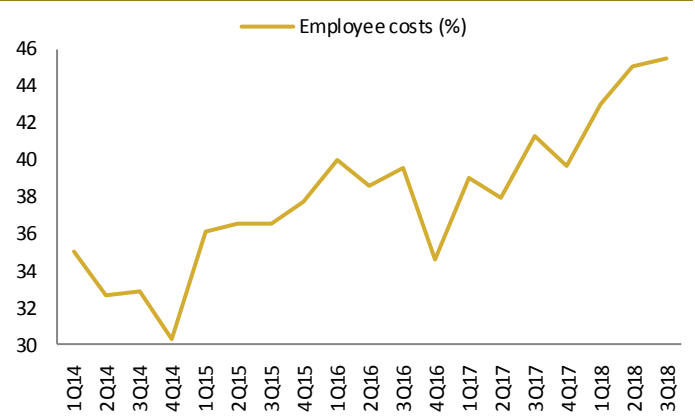


Exhibit 4: DSO days were flat QoQ at 81



Source: Company, Trust

Exhibit 5: Margin lower on lower utilization, weak revenue



Source: Company, Trust



Financials

Income Statement (` mn)

Year End-March	FY16	FY17	FY18E	FY19E	FY20E
Revenues	13,143	13,300	13,276	13,869	15,027
Op. Expenses	8,274	8,705	9,562	10,052	10,847
EBITDA	4,869	4,595	3,713	3,817	4,180
Other Income	404	282	272	351	605
Depreciation	507	518	483	567	567
EBIT	4,766	4,359	3,502	3,601	4,218
Interest	-	-	-	-	-
PBT	4,766	4,359	3,502	3,601	4,218
Tax	1,132	819	834	684	844
PAT	3,634	3,540	2,668	2,917	3,375
Ex. ordinary	-	-	-	-	-
Adj Pat	3,634	3,540	2,668	2,917	3,375

Key Parameters

Year End-March	FY16	FY17	FY18E	FY19E	FY19E
Per share (`)					
EPS	89.1	89.0	66.6	72.4	83.1
CEPS	101.5	102.0	78.7	86.4	97.1
BVPS	266.3	305.5	371.3	441.7	522.3
DPS	1.0	1.0	1.0	1.0	1.0
Payout (%)	1.3	1.3	1.8	1.6	1.4
Valuation (x)					
P/E	14.6	14.9	23.0	21.2	18.4
P/BV	4.9	4.3	4.1	3.5	2.9
EV/EBITDA	9.2	9.6	13.6	12.3	10.8
Dividend Yield (%)	0.1	0.1	0.1	0.1	0.1
Return ratio (%)					
EBITDA Margin	37.0	34.6	28.0	27.5	27.8
PAT Margin	27.6	26.6	20.1	21.0	22.5
ROAE	40.3	30.8	21.2	17.8	17.3
ROACE	52.9	37.9	25.8	21.9	21.6
Leverage Ratios (x)					
Long Term D/E	-	-	-	-	-
Net Debt/Equity	(0.5)	(0.5)	(0.6)	(0.6)	(0.7)
Debt/EBITDA	-	-	-	-	-
Interest Coverage	-	-	-	-	-
Current ratio	5.8	7.4	8.2	9.4	10.5
Growth Ratios (%)					
Income growth	39.5	1.2	(0.2)	4.5	8.4
EBITDA growth	53.9	(5.6)	(19.2)	2.8	9.5
PAT growth	57.7	(2.6)	(24.6)	9.3	15.7
Turnover Ratios					
F.A Turnover x	15.1	18.5	17.3	14.6	13.3
Debtors Days	43	55	58	57	57
Payable days	7	6	6	6	6

Balance Sheet (` mn)

Year End-March	FY16	FY17	FY18E	FY19E	FY20E
Equity Share Capital	408	397	400	403	406
Reserves & Surplus	10,455	11,756	14,582	17,452	20,779
Total Shareholders Fund	10,863	12,154	14,982	17,855	21,185
Minority Interest	6	4	4	4	4
Non- current liabilities	277	462	385	401	427
Deferred tax liabilities	7	169	71	71	71
Other LT liabilities & prov	270	293	314	330	357
Current Liabilities	1,492	1,361	1,602	1,684	1,817
Short term Liabilities	35	4	4	4	4
Trade payables	138	129	157	165	178
Other cur liabilities & Prov	1,318	1,229	1,441	1,515	1,635
Total Liabilities	12,638	13,981	16,974	19,944	23,433
Assets					
Non- current Assets	3,960	3,860	3,901	4,110	4,344
Fixed assets	869	719	767	950	1,133
Non-current investments	2,531	2,552	2,552	2,552	2,552
Long-term loans & adv	560	589	582	608	659
Current assets	8,677	10,121	13,073	15,834	19,089
Current investments	2,191	2,514	2,514	2,514	2,514
Trade receivables	1,861	2,138	2,146	2,242	2,429
Inventories	5	2	7	7	7
Cash & bank balances	3,268	3,557	6,478	9,057	11,957
Short-term loans & adv	236	33	36	38	41
Other current assets	1,116	1,877	1,891	1,976	2,141
Total Assets	12,638	13,981	16,974	19,944	23,433

Cash flow Statement

Year End-March	FY16	FY17	FY18E	FY19E	FY20E
PBT	4,766	4,359	3,502	3,601	4,218
Depreciation	566	680	385	567	567
Others	6	(1)	204	-	-
CF before W.cap	5,337	5,038	4,091	4,168	4,785
Inc/dec in W.cap	1,053	937	(239)	110	247
Op CF after W.cap	4,284	4,101	4,330	4,058	4,538
Less Taxes	1,132	819	834	684	844
Net CF From Operations	3,152	3,282	3,496	3,374	3,694
Inc/(dec) in F.A + CWIP	670	368	530	750	750
(Pur)/sale of Investments	2,194	345	-	-	-
CF from Invst Activities	(2,863)	(712)	(530)	(750)	(750)
Loans raised/(repaid)	35	(31)	-	-	-
Equity Raised	127	(2,203)	3	3	3
Dividend	48	47	47	47	48
CF from Fin Activities	114	(2,281)	(44)	(45)	(45)
Net inc /(dec) in cash	403	288	2,922	2,579	2,900
Op. bal of cash	2,866	3,268	3,557	6,478	9,057
Cl. balance of cash	3,268	3,557	6,478	9,057	11,957



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Recommendation **Expected absolute returns (%) over 12 months**

Buy More than 15%

Hold 15% to -15%

Sell Less than -15%

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