

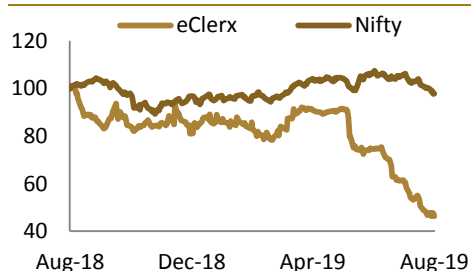
### Market statistics

Current stock price (₹)	575
Shares O/S (cr.)	3.7
Mcap (₹ cr)	2,128
52W H/L (₹)	1,289/556
6m avg. volume	27,913
Bloomberg	ECLX.IN

### Shareholding pattern

Promoters	50.76
Domestic Institution	16.44
Foreign Institution	22.58
Non-institution	10.22
of which more than 1%	

### eClerx vs Nifty



### Capital efficiency & valuations

Particulars	FY19	FY20E	FY21E
RoE (%)	17.7	13.5	13.7
EPS (₹)	59.1	53.8	62.0
CEPS (₹)	70.6	73.0	83.0
P/E (x)	19.5	10.7	9.3
P/BV (x)	3.2	1.4	1.2
EV/EBITDA (x)	12.3	3.5	2.2
Income growth (%)	4.8	1.5	7.6
EBITDA growth (%)	(15.9)	(6.7)	15.8
PAT growth (%)	(14.9)	(12.6)	16.2

ANALYST

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**eClerx reported lower-than-expected results. US\$ revenue was down 0.6% QoQ (down 0.4% in cc terms). Operating margin at 18.3% (down 385bps QoQ) on account of weak revenue trajectory, higher wage costs, absence of SEIS, campus hiring and S&M costs QoQ. PAT stood at ₹398mn (vs an expected ₹575mn) helped by lower tax expense. eClerx anticipates organic growth in FY20 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.**

**Q1FY20 P&L break up – revenue lower than expected.** US\$ revenues was down 0.6% QoQ. Operating margin at 18.3% (down 385bps QoQ) on account of weak revenue trajectory, higher wage costs, absence of SEIS, campus hiring and S&M costs QoQ. Delivery cost higher due to increase in onshore mix, salary increment and higher headcount. Depreciation increase due to rental depreciation under INDAS 116. Higher S&D due to increased BD investments. FY20 is expected to see similar trends of positive YoY revenue growth. H1FY20 should see similar YoY growth in revenue. 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 – still hazy -** Management highlighted US\$ revenue growth to be positive sequentially for 2Q. Margin levers in near term vs Q1– Higher hedged rates, SEIS notification, normalization of salary hike, improving margins on managed services and onshore, Pune consolidation benefits. While management alluded to an improving deal pipeline and progress in financial services segment, the recovery will be protracted.

**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 offshore delivery to global delivery model.

**Unexciting prospects:** eClerx has witnessed three consecutive years of US\$ revenue stagnation with declining profitability & cash generation. Return ratios have stumbled, RoE is at 18% (vs. >30% in FY17). Over the past three years, the twin troubles of offshore revenue leakage (–3.6% CAGR) and onsite business growth (+30.6% CAGR) with an inherently lower margin profile have subdued ECLX's operational performance. We see continued business risks from a lack of visibility on offshore business growth and deflation in revenue productivity. As to the latter, dollar revenue per delivery employee has declined at a 2.3% CAGR over FY17-FY19 despite the onsite revenue mix rising to 22.3% in FY19 vs. 13.5% in FY17. Moreover, onsite revenue productivity has fallen at a 19% CAGR for FY17-FY19.

**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 decent ROE's and superior cash generation.

**Exhibit 1: Quarterly details**

` mn	1QFY19	4QFY19	1QFY20	QoQ (%)	YoY (%)	Comments
<b>Revenues (In US\$m)</b>	<b>49.2</b>	<b>51.2</b>	<b>50.9</b>	<b>(0.6)</b>	<b>3.5</b>	Revenue was down 0.4% in cc terms. Top 10 clients decreased 3.5% QoQ in US\$ terms.
<b>Revenues</b>	<b>3,519</b>	<b>3,651</b>	<b>3,547</b>	<b>(2.8)</b>	<b>0.8</b>	
- Operating costs	2,750	2,844	2,899	2.0	5.4	
<b>EBITDA</b>	<b>770</b>	<b>808</b>	<b>648</b>	<b>(19.8)</b>	<b>(15.8)</b>	EBIT margin was lower QoQ due to weak revenue trajectory, higher wage costs, absence of SEIS, campus hiring and S&M costs.
<b>EBITDA margin (%)</b>	<b>21.9</b>	<b>22.1</b>	<b>18.3</b>	<b>(385)bps</b>	<b>(361)bps</b>	
- Interest expense	0	0	43			
- Depreciation	93	128	172	34.6	83.7	
+ Other income, net (incl forex)	198	96	96	0.4	(51.6)	
<b>PBT</b>	<b>874</b>	<b>775</b>	<b>529</b>	<b>(31.8)</b>	<b>(39.5)</b>	
- Taxes	274	183	131	(28.3)	(52.2)	Tax rate to be in the range of 25-27% in FY20
Effective tax rate (%)	31.3	23.6	24.8	119bps	(657)bps	
<b>PAT</b>	<b>600</b>	<b>593</b>	<b>398</b>	<b>(32.8)</b>	<b>(33.7)</b>	
Net margin (%)	17.1	16.2	11.2	(501)bps	(584)bps	
<b>Reported profits</b>	<b>600</b>	<b>593</b>	<b>398</b>	<b>(32.8)</b>	<b>(33.7)</b>	

Source: Company

**Exhibit 2: Change in estimates**

` mn	FY20E			FY21E		
	Old	New	%Chg	Old	New	%Chg
Revenue (US\$ mn)	214	209	(2.3)	235	225	(4.3)
Revenue	14,965	14,520	(3.0)	16,443	15,621	(5.0)
EBITDA margin (%)	22.3	19.8	(245)bps	23.2	21.3	(185)bps
EPS (`)	61.3	53.8	(12.2)	71.5	62.0	(13.3)

Source: Trust Research

**Quarterly details:** Top 10 clients decreased 3.5% QoQ in US\$ terms.**Exhibit 3: Operating metrics**

Details	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20
US	69.0	65.0	65.0	59.0	64.0	64.0	64.0	65.0	67.0
Europe	26.0	29.0	29.0	35.0	28.0	29.0	29.0	29.0	27.0
RoW	5.0	6.0	6.0	6.0	8.0	7.0	7.0	6.0	6.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
FTE (%)	80	79	78	NA	NA	NA	NA	NA	NA
SEZ Revenue (%)	62.0	60.0	61.0	NA	NA	NA	NA	NA	NA
India Staff count (Nos.)	9,053	9,223	9,091	9,429	9,363	9,583	9,520	9,509	9,495
Revenue (US\$m)	48.8	48.4	48.9	52.3	49.2	50.2	50.2	51.2	50.9
Top 10 clients (%)	75	71	71	67	70	70	70	68	66
DSO (Days)	88	81	81	89	93	89	85	84	87
<b>Cash/share (`)</b>	<b>161.9</b>	<b>194.1</b>	<b>197.3</b>	<b>157.3</b>	<b>159.2</b>	<b>172.0</b>	<b>190.1</b>	<b>195.8</b>	<b>146.5</b>

Source: Company



## Financials

### Income Statement ( ` mn)

Year End-March	FY17	FY18	FY19	FY20E	FY21E
<b>Revenues</b>	<b>13,300</b>	<b>13,651</b>	<b>14,306</b>	<b>14,520</b>	<b>15,621</b>
Op. Expenses	8,705	9,988	11,226	11,645	12,291
<b>EBITDA</b>	<b>4,595</b>	<b>3,663</b>	<b>3,080</b>	<b>2,875</b>	<b>3,330</b>
Other Income	282	402	486	471	550
Depreciation	518	482	447	717	784
<b>EBIT</b>	<b>4,359</b>	<b>3,583</b>	<b>3,119</b>	<b>2,629</b>	<b>3,096</b>
Interest	-	-	-	-	-
<b>PBT</b>	<b>4,359</b>	<b>3,583</b>	<b>3,119</b>	<b>2,629</b>	<b>3,096</b>
Tax	819	896	832	630	774
<b>PAT</b>	<b>3,540</b>	<b>2,687</b>	<b>2,288</b>	<b>1,999</b>	<b>2,322</b>
Ex. ordinary	-	(213)	-	-	-
<b>Adj Pat</b>	<b>3,540</b>	<b>2,899</b>	<b>2,288</b>	<b>1,999</b>	<b>2,322</b>

### Key Parameters

Year End-March	FY17	FY18	FY19	FY20E	FY21E
<b>Per share ( ` )</b>					
EPS	89.0	69.6	59.1	53.8	62.0
CEPS	102.0	82.0	70.6	73.0	83.0
BVPS	305.5	311.9	356.8	413.6	473.4
DPS	1.0	1.0	1.0	1.0	1.0
Payout (%)	1.3	1.7	2.0	2.2	1.9
<b>Valuation (x)</b>					
P/E	14.9	17.3	19.5	10.7	9.3
P/BV	4.3	3.9	3.2	1.4	1.2
EV/EBITDA	9.6	10.9	12.3	3.5	2.2
Dividend Yield (%)	0.1	0.1	0.1	0.2	0.2
<b>Return ratio (%)</b>					
EBITDA Margin	34.6	26.8	21.5	19.8	21.3
PAT Margin	26.6	19.7	16.0	13.8	14.9
ROAE	30.8	24.0	17.7	13.5	13.7
ROACE	37.9	29.6	24.1	17.8	18.3
<b>Leverage Ratios (x)</b>					
Long Term D/E	-	-	-	-	-
Net Debt/Equity	(0.5)	(0.3)	(0.3)	(0.4)	(0.4)
Debt/EBITDA	-	-	-	-	-
Interest Coverage	-	-	-	-	-
Current ratio	7.4	6.4	7.9	8.8	9.8
<b>Growth Ratios (%)</b>					
Income growth	1.2	2.6	4.8	1.5	7.6
EBITDA growth	(5.6)	(20.3)	(15.9)	(6.7)	15.8
PAT growth	(2.6)	(24.1)	(14.9)	(12.6)	16.2
<b>Turnover Ratios</b>					
F.A Turnover x	18.5	20.8	17.2	16.8	18.8
Debtors Days	55	60	61	61	60
Payable days	6	8	6	5	4

### Balance Sheet ( ` mn)

Year End-March	FY17	FY18	FY19	FY20E	FY21E
Equity Share Capital	397	381	378	372	374
Reserves & Surplus	11,756	11,666	13,435	15,391	17,669
<b>Total Shareholders Fund</b>	<b>12,154</b>	<b>12,047</b>	<b>13,813</b>	<b>15,762</b>	<b>18,043</b>
<b>Minority Interest</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>6</b>	<b>6</b>
<b>Non- current liabilities</b>	<b>462</b>	<b>509</b>	<b>471</b>	<b>472</b>	<b>502</b>
Deferred tax liabilities	169	31	(71)	(71)	(71)
Other LT liabilities & prov	293	478	542	542	572
<b>Current Liabilities</b>	<b>1,361</b>	<b>1,627</b>	<b>1,479</b>	<b>1,540</b>	<b>1,625</b>
Short term Liabilities	4	57	9	9	9
Trade payables	129	205	116	128	135
Other cur liabilities & Prov	1,229	1,365	1,354	1,404	1,482
<b>Total Liabilities</b>	<b>13,981</b>	<b>14,189</b>	<b>15,769</b>	<b>17,780</b>	<b>20,176</b>
<b>Assets</b>					
<b>Non- current Assets</b>	<b>3,860</b>	<b>3,814</b>	<b>4,129</b>	<b>4,173</b>	<b>4,188</b>
Fixed assets	719	655	830	864	829
Non-current investments	2,552	2,782	2,653	2,653	2,653
Long-term loans & adv	589	377	646	656	706
<b>Current assets</b>	<b>10,121</b>	<b>10,375</b>	<b>11,640</b>	<b>13,606</b>	<b>15,987</b>
Current investments	2,514	1,650	2,860	2,860	2,860
Trade receivables	2,138	2,328	2,426	2,466	2,653
Inventories	2	4	4	7	7
<b>Cash &amp; bank balances</b>	<b>3,557</b>	<b>2,030</b>	<b>1,256</b>	<b>3,081</b>	<b>4,881</b>
Short-term loans & adv	33	500	610	617	663
Other current assets	1,877	3,862	4,484	4,575	4,922
<b>Total Assets</b>	<b>13,981</b>	<b>14,189</b>	<b>15,769</b>	<b>17,780</b>	<b>20,176</b>

### Cash flow Statement

Year End-March	FY17	FY18	FY19	FY20E	FY21E
<b>PBT</b>	<b>4,359</b>	<b>3,583</b>	<b>3,119</b>	<b>2,629</b>	<b>3,096</b>
Depreciation	680	345	345	717	784
Others	(1)	213	1	-	-
<b>CF before W.cap</b>	<b>5,038</b>	<b>4,140</b>	<b>3,465</b>	<b>3,346</b>	<b>3,880</b>
Inc/dec in W.cap	937	2,034	1,134	90	516
<b>Op CF after W.cap</b>	<b>4,101</b>	<b>2,105</b>	<b>2,331</b>	<b>3,256</b>	<b>3,365</b>
Less Taxes	819	896	832	630	774
Net CF From Operations	3,282	1,210	1,499	2,625	2,591
Inc/(dec) in F.A + CWIP	368	418	622	750	750
(Pur)/sale of Investments	345	(634)	1,080	-	-
<b>CF from Invst Activities</b>	<b>(712)</b>	<b>215</b>	<b>(1,702)</b>	<b>(750)</b>	<b>(750)</b>
Loans raised/(repaid)	(31)	53	(49)	-	-
Equity Raised	(2,203)	(2,960)	(477)	(6)	3
Dividend	47	45	45	44	44
<b>CF from Fin Activities</b>	<b>(2,281)</b>	<b>(2,952)</b>	<b>(571)</b>	<b>(50)</b>	<b>(41)</b>
Net inc /(dec) in cash	288	(1,527)	(774)	1,826	1,800
<b>Op. bal of cash</b>	<b>3,268</b>	<b>3,557</b>	<b>2,029</b>	<b>1,255</b>	<b>3,081</b>
<b>Cl. balance of cash</b>	<b>3,557</b>	<b>2,030</b>	<b>1,256</b>	<b>3,081</b>	<b>4,881</b>



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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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