

May 26, 2010

**BUY**

Price Rs 489	Target Price Rs 540
Sensex	16,022

**Price Performance**

(%)	1M	3M	6M	12M
Absolute	(15)	11	24	137
Rel. to Sensex	(6)	13	33	106

Source: Bloomberg

**Stock Details**

Sector	IT Services
Reuters	ECLX.BO
Bloomberg	ECLX@IN
Equity Capital (Rs mn)	190
Face Value(Rs)	10
No of shares o/s (mn)	19
52 Week H/L	605/189
Market Cap (Rs bn/USD mn)	10/213
Daily Avg Volume (No of sh)	53770
Daily Avg Turnover (US\$m)	0.6

**Shareholding Pattern (%)**

	D'09	S'09	J'09
Promoters	60.0	60.0	60.0
FII/NRI	22.3	24.7	24.8
Institutions	7.8	5.0	4.4
Private Corp	2.0	1.9	2.1
Public	8.0	8.4	8.6

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Revenues at US\$ 15.8 mn (+6% QoQ) beat expectations ( Emkay est. of US\$ 15.5 mn). However operating margins at 36.6% were down by ~370 bps sequentially on a/c of significant hiring ( co hired 286 employees at a net level during Q4FY10). Profits at Rs 242 mn (+13.5% QoQ,+50% YoY) were lower than expectations driven by lower margin performance and lower than estimated forex gains. Co continues to hire aggressively driven by up tick in revenue/demands (note that co's increased headcount by ~45% over the year) with further beef up in sales team abroad. It is worth noting that revenue momentum at eClerx continues to pick up with YoY revenue growth continuing to see improvement over the year (refer chart below).

eClerx continues to deliver in line with our positive thesis. We tweak our FY11E/12E earnings upwards marginally to Rs 51.5/Rs 61.5 (V/s Rs 51.3/Rs 60.4 earlier). Maintain BUY with an unchanged March'11 price target of Rs 540.

**Revenue growth momentum continues to pick up**

eClerx reported March'10 revenues at US\$ 15.8 mn (+6% QoQ) ahead of Emkay est. We note that given the improving demand environment, YoY revenue growth momentum at eClerx continues to pick up with YoY revenue growth accelerating to ~48% YoY in March'10 quarter V/s ~13% YoY revenue growth in June'09 quarter ( refer chart below). Operating profits at Rs 261 mn (-6.4% QoQ) were marginally lower than est on a/c of significant hiring during the quarter (net addition at 286, taking overall employee count to 2,863), with overall employee count up by ~45% over FY10. Profits came in at Rs 242 mn(+13.5% QoQ,+50% YoY).

**Hiring remains aggressive, does well on reducing debtor days**

eClerx continued to ramp up headcount on a/c of the improving macro environment with the overall headcount up by ~45% during the year. Further the company expects the 1<sup>st</sup> phase of it's newly acquired Airoli facility (44,000 sq ft) to come on-stream from June'10 onwards. We highlight that co management deserves appreciation in terms of bringing down debtors days to 56 in FY10 (V/s 83 in FY09)

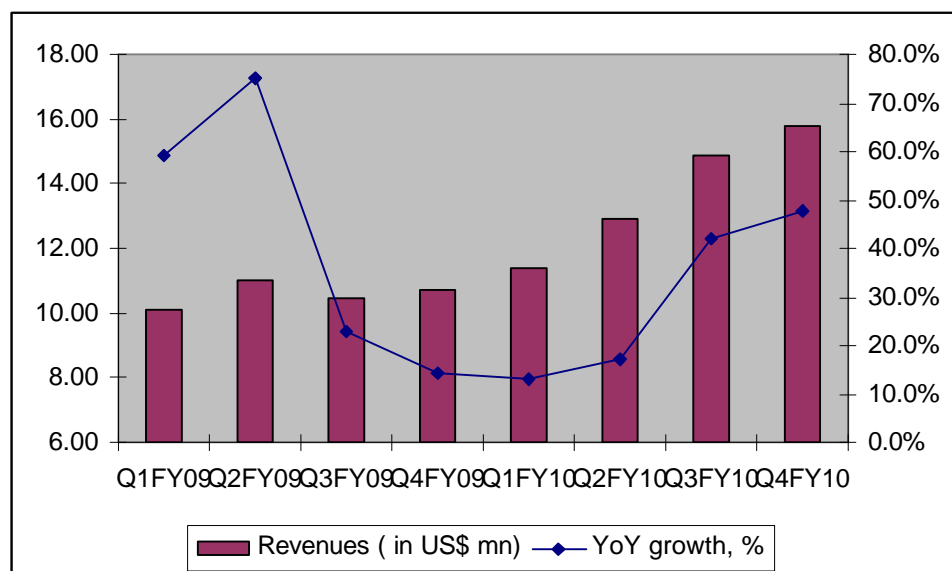
**Maintain BUY with an unchanged price target of Rs 540**

eClerx continues to deliver in line with our positive thesis driven by improving macro environment. We tweak our FY11E/FY12E earnings upwards to Rs 51.5/Rs 61.5 (V/s Rs 51.3/Rs 60.4 earlier) (our estimates based at US\$/INR of Rs 45/\$). Co has paid a final dividend of Rs 10/share, taking full year dividend paid to Rs 17.5/share (dividend payout ratio at ~46%). Maintain BUY with an unchanged March'11 price target of Rs540.

**Financial Snapshot**

Year end March (in Rs mn)	Net Sales	EBITDA	EBITDA %	PAT	EPS (Rs)	ROE %	EV/ EBITDA	P/B (x)	Div Yield (%)	P/E (x)
FY09	1,973	837	42.4	621	32.7	43.4	11.0	5.7	2.5	14.5
FY10	2,570	1,004	39.1	736	37.9	40.3	8.9	4.8	3.7	13.1
FY11E	3,257	1,143	35.1	998	51.5	44.1	7.3	3.8	4.2	9.6
FY12E	4,052	1,396	34.4	1,192	61.5	41.9	5.6	3.0	5.0	8.1

In Rs mn	Q4FY10A	Q3FY10	QoQ(%)	Q4FY09	YoY(%)
<b>Net sales</b>	<b>713</b>	<b>691</b>	<b>3.2%</b>	<b>543</b>	<b>31.3%</b>
Total Income	713	691		543	
Operating expenses	452	412		304	
<b>EBITDA</b>	<b>261</b>	<b>279</b>	<b>-6.4%</b>	<b>239</b>	<b>9.1%</b>
Margins (%)	36.6	40.3		44.1	
Depreciation	19	18		19	
<b>EBIT</b>	<b>242</b>	<b>261</b>	<b>-7.3%</b>	<b>220</b>	<b>9.9%</b>
Margins (%)	33.9	37.7		40.5	
Interest Paid	0	0		0	
Other income	26	-20		-34	
Non-recurring items	0	0		20	
<b>Pre-tax profit</b>	<b>268</b>	<b>241</b>	<b>11.3%</b>	<b>206</b>	<b>29.8%</b>
Tax provided	25	27		17	
Profit after tax	242	213		189	
<b>Emkay Net profit</b>	<b>242</b>	<b>213</b>	<b>13.5%</b>	<b>162</b>	<b>49.7%</b>
EPS, Rs	12.5	11.0		8.6	



## Key Financials

## Income Statement

Y/E, Mar (Rs. m)	FY09	FY10E	FY11E	FY12E
<b>Net Sales</b>	1,973	2,570	3,257	4,052
Growth (%)		30	27	24
<b>Total Expenditure</b>	(1,136)	(1,567)	(2,114)	(2,656)
Growth (%)		38	35	26
<b>EBIDTA</b>	837	1,004	1,143	1,396
Growth (%)		20	14	22
<b>EBIDTA %</b>	42.4	39.1	35.1	34.4
Other Income	(67)	(105)	94	135
Depreciation	(73)	(70)	(89)	(111)
<b>EBIT</b>	<b>697</b>	<b>828</b>	<b>1,148</b>	<b>1,419</b>
Interest	-	-	-	-
<b>EBT</b>	<b>697</b>	<b>828</b>	<b>1,148</b>	<b>1,419</b>
Tax	(76)	(93)	(149)	(227)
<b>EAT</b>	<b>621</b>	<b>736</b>	<b>998</b>	<b>1,192</b>
Growth (%)		19	36	19
EAT (%)	31.5	28.6	30.7	29.4

## Balance Sheet

Y/E, Mar (Rs. m)	FY09	FY10	FY11E
Equity share capital	190	193	193
Reserves & surplus	1,466	1,805	2,337
Minority Interest	-	-	-
<b>Networth</b>	<b>1,657</b>	<b>1,998</b>	<b>2,529</b>
Secured Loans	-	-	-
Unsecured Loans	-	-	-
<b>Loan Funds</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Liabilities</b>	<b>1,657</b>	<b>1,998</b>	<b>2,529</b>
Goodwill	108	101	101
Gross Block	383	473	619
Less: Depreciation	(182)	(252)	(341)
<b>Net block</b>	<b>309</b>	<b>323</b>	<b>379</b>
<b>Capital WIP</b>	<b>1</b>	<b>-</b>	<b>-</b>
<b>Investment</b>	<b>851</b>	<b>775</b>	<b>775</b>
<b>Current Assets</b>	<b>970</b>	<b>1,365</b>	<b>2,216</b>
Inventories	-	-	-
Sundry debtors	451	392	535
Cash & bank balance	213	472	1,056
Loans & advances	101	210	268
Other current assets	205	290	357
<b>Current Liab &amp; Prov</b>	<b>482</b>	<b>471</b>	<b>848</b>
Current liabilities	231	220	419
Provisions	251	251	428
<b>Net current assets</b>	<b>488</b>	<b>894</b>	<b>1,368</b>
<b>Misc exps</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Deferred Tax</b>	<b>7</b>	<b>7</b>	<b>7</b>
<b>Total Assets</b>	<b>1,657</b>	<b>1,998</b>	<b>2,529</b>

Cash Flow	FY09	FY10E	FY11E	FY12E
Net Profit after Tax	621	736	998	1,192
Add : Depreciation	73	70	89	111
Add : Misc exp w/off	201			
<b>Net changes in WC</b>	<b>(401)</b>	<b>(146)</b>	<b>(68)</b>	<b>(181)</b>
<b>Operational Cash Flows</b>	<b>493</b>	<b>660</b>	<b>1,197</b>	<b>1,239</b>
<b>Capital expenditure</b>	<b>(121)</b>	<b>(82)</b>	<b>(146)</b>	<b>(191)</b>
Investments				
<b>Investing Cash Flows</b>	<b>(121)</b>	<b>(82)</b>	<b>(146)</b>	<b>(191)</b>
Borrowings	(40)	-	-	-
dividend paid	(277)	(412)	(467)	(558)
Issue of shares	(12)	98	(3)	1
<b>Financing Cash Flows</b>	<b>(329)</b>	<b>(315)</b>	<b>(470)</b>	<b>(557)</b>
changes in cash	<b>44</b>	<b>263</b>	<b>580</b>	<b>491</b>
Opening balance	<b>224</b>	<b>213</b>	<b>472</b>	<b>1,056</b>
<b>Closing balance</b>	<b>213</b>	<b>472</b>	<b>1,056</b>	<b>1,545</b>

Key ratios	FY09	FY10	FY11E
EPS (Rs)	32.7	37.9	51.5
CEPS (Rs)	37.9	41.5	56.1
Book Value Per Share (Rs)	87.1	103.0	130.4
Dividend Per Share (Rs)	12.5	18.2	20.6
<b>Valuations Ratios (x)</b>			
PER	14.5	13.1	9.6
P/CEPS	12.9	11.8	8.7
P/BV	5.7	4.8	3.8
EV/EBIDTA	11.0	8.9	7.3
EV/Sales	4.7	3.5	2.6
M-Cap/sales	4.8	3.7	2.9
<b>Profitability Ratios (%)</b>			
RoCE	45.8	44.9	40.5
RoNW	43.4	40.3	44.1
EBITDA Margin	42.4	39.1	35.1
EBIT Margins	38.7	36.3	32.4
Net Profit Margin	31.5	28.6	30.7

**Emkay Global Financial Services Ltd.**

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