

eClerx

Rs654
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IT Services

Emerging Star Conference Note

Mkt Cap: Rs18.9bn; US\$413m

We recently hosted the management of eClerx at our IDFC Emerging Star Conference 2011. Incorporated in 2000, eClerx is a leading player in India's growing Knowledge Process Outsourcing (KPO) space. The company enjoys a strong position in certain high-opportunity segments like data analytics, data management and customized process improvement solutions. It provides business solutions to global enterprise clients by leveraging its cost-effective combination of people, process and technology. eClerx's growth has been aided by its ability to forge multi-year relationships with marquee clients.

□ Key takeaways from the meetings

Business units: eClerx provides service offerings in two key business units: a) Financial Services, and b) Sales and Marketing Support.

Size, employee strength and infrastructure: eClerx clocked revenues of Rs2.6bn in FY10. It has 3,600 employees working across five delivery centers in Mumbai and Pune, of which 600 are sales and management personnel and the rest execution resources (equally split between the two business units). Attrition rate has been 30-35% over the past several years, helping the company keep average wage costs low. eClerx has 3,200 seats which can accommodate 4,800 employees. About 60% of its revenues are delivered from SEZ and the rest from STPI locations.

Clients and related details: The company has 50 active clients, with 15-20 in financial services and 30-35 in sales and marketing support business unit. It has ~500 engagements across its clientele, which includes more than 20 Fortune 500 companies. The top5 clients accounted for ~86% of revenues in Q3FY11.

Client contacts and business model: Most of eClerx's client relationships are governed by MSA (master service agreements). About 80% of the company's contracts are 2-3 year rolling contracts (usually extended at the end of the contract life) and have a largely fixed billing rate of ~US\$30,000pa. The billing rate has historically been revised only for a few key customers, led by inflation and forex changes. About 90% of the engagements are time and material based, with the rest being fixed-price projects.

Cost structure and EBIT margins: Employee cost is a major cost component for eClerx, accounting for ~44% of revenues (including ~14% onsite wage bill). G&A expenses (ex employee costs) form ~13% of revenues, while S&M (ex employee costs) expenses account for ~5%. Depreciation is ~3% of revenues, leading to recurring EBIT margin of 32-35%.

M&A: eClerx acquired Ingentica Group in 2007 for US\$3m. Target company had revenue run rate of ~US\$2m and the key driver for acquisition was company's seven blue-chip clients. eClerx has not acquired any other company since then, but plans to do so in the coming 12-18 months. It is looking to acquire non-voice BPO companies, with revenues in the range of US\$15m-40m. The company recently got Board approval to raise Rs10bn mainly for funding acquisition.

Hedge: 75% of company's revenues are US\$ denominated, with a 10-15% natural hedge from USD denominated costs. eClerx employs 18-month rolling hedges.

Key differentiators: eClerx provides highly specialized services based on deep domain expertise in target industries. Its strength lies in technology and knowledge management, with a focus on simplifying the processes thereby reducing people dependency and the average employee cost for moderately complex activities.

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Key Financials

(Rs m)	FY07	FY08	FY09	FY10	9mth-FY11
Revenue	861	1,217	1,973	2,570	2,466
Growth (%)	82	41	62	30	-
EBITDA	432	492	724	844	1,062
EBITDA margin (%)	50	40	37	33	43
EBIT	399	447	650	774	999
EBIT margin (%)	46	37	33	30	41
Net profit	397	446	618	735	929
Growth (%)	62	12	39	19	-
Fully diluted shares	23	26	29	30	30
EPS - fully diluted (Rs)	17.29	16.91	21.67	24.76	30.91
Growth (%)	8	(2)	28	14	-
Valuations					
PE (Price Rs654)	37.8	38.7	30.2	26.4	-

Source: Company

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