

October 21, 2010

Reco	Previous Reco
Accumulate	Accumulate
CMP	Target Price
Rs 618	Rs 670
EPS change FY11E/12E (%)	7/12
Target Price change (%)	44
Nifty	20,161
Sensex	6,102

Price Performance

(%)	1M	3M	6M	12M
Absolute	16	29	65	131
Rel. to Nifty	16	15	44	97

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	IT Services
Bloomberg	ECLX@IN
Equity Capital (Rs mn)	287
Face Value(Rs)	10
No of shares o/s (mn)	29
52 Week H/L	638/243
Market Cap (Rs bn/USD mn)	17/383
Daily Avg Volume (No of sh)	90968
Daily Avg Turnover (US\$m)	1.1

Shareholding Pattern (%)

	S'10	J'10	M'10
Promoters	59.6	59.8	60.0
FII/NRI	18.1	17.9	22.3
Institutions	10.1	11.2	7.8
Private Corp	3.7	2.8	2.0
Public	8.7	8.3	8.0

Source: Capitaline

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- **Sep'10 results in line with revenues at US\$ 18 mn (+7% QoQ). EBITDA margins at 36.2% , down by ~50 bps sequentially (V/s expectations of ~40 bps QoQ increase)**
- **Rampups in European top clients drives top 5 client revenues up by ~7.1% QoQ. Co exercises call option to expand into 2nd phase of Airoli facility(600 seats)**
- **Tweak est for (1) higher revenues, (2) reset in FY12E tax rates to 12% (V/s 16% earlier) , (3) US\$/INR reset to Rs 44/\$ and (4) building in hedging gains from co's favorable hedges**
- **Retain ACCUMULATE with a revised DCF based March'12 TP of Rs 670(V/s Rs 465 earlier), implying ~13.5x/12.5x March'12/March'13 earnings.**

Continues to deliver along expected lines

eClerx continues to deliver per investment thesis growing revenues by ~7% sequentially to US\$ 18 mn. Operating margins declined by ~50 bps QoQ to 36.2%. Profits at Rs 276 mn came in line with expectations driven by in line revenues/margin performance. Co added ~207 people on a net basis taking the total employee count to 3,331(note that headcount addition remains strong and is now up by ~42% YoY). Revenues from top clients were up by ~7.1% sequentially driven primarily by ramp ups in some top European customers. Revenues from SEZ facility increased to 58% of overall revenues (V/s 52% in June'10 quarter)

Increase FY11E/12E earnings by ~7%/12% increase to Rs 40.2/Rs 48.9

We tweak our earnings estimates for (1) higher revenues (as we now build in 36%/27% revenue growth for FY11/12 V/s 34%/24% earlier), (2) change in tax rate assumptions to 12% for FY12(V/s 16% earlier), (3) reset in US\$/INR assumptions to Rs 44/\$ for H2FY11/FY12 and (4) incorporation of hedging gains on co's hedge position (we now build in forex hedging gains of ~Rs 5/share and Rs 3/share for FY11 and FY12) thereby resulting in increase in FY11E and FY12E earnings to Rs 40.2/48.9 (V/s Rs 37.7 and Rs 43.7 earlier)

Retain ACCUMULATE with a March'12 TP of Rs 670

We retain ACCUMULATE with a revised DCF based March'12 TP of Rs 670 , which essentially implies ~13.5x/12.5x March'12/March'13 earnings of Rs 48.9 and Rs 53 respectively. Key risks to our call remain in the form of higher than expected currency appreciation (on a/c of higher margin sensitivity to US\$/INR at ~55-60 bps V/s 35-40 bps for Tier 1 Tech players).

Financials

Y/E March (in Rs mn)	Net Sales	EBITDA	EBITDA %	PAT	EPS (Rs)	ROE %	P/E(x) (x)	EV/EBITDA (x)	P/B (x)
FY10	2,570	1,004	39.1	736	24.9	40.3	24.2	16.5	8.9
FY11E	3,350	1,222	36.5	1,190	40.2	51.3	15.0	13.2	6.7
FY12E	4,179	1,523	36.4	1,448	48.9	47.9	12.3	10.2	5.2
FY13E	5,259	1,914	36.4	1,568	53.0	41.0	11.4	7.8	4.2

Quarterly performance

Rs mn	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	YoY (%)	QoQ (%)	YTD'11	YTD'10	YoY (%)
Revenue	623	691	713	771	823	32.1	6.7	1,594	1,167	36.6
Operating Expenditure	369	412	452	488	525	42.2	7.6	1,013	702	44.2
Cost of revenues	253	282	312	358	371	46.5	3.5	729	484	50.7
as % of sales	40.6	40.8	43.8	46.5	45.1			45.7	41.5	
SG&A expenses	116	130	140	130	154	32.8	18.9	284	219	29.8
as % of sales	18.7	18.8	19.6	16.8	18.8			17.8	18.8	
EBITDA	254	279	261	283	298	17.3	5.2	581	464	25.1
Depreciation	18	18	19	15	23	31.0	51.0	38	33	17.7
EBIT	236	261	242	268	275	16.3	2.6	542	431	25.7
Other Income	(52)	(20)	26	66	38			105	(111)	
PBT	184	241	268	334	313	70.0	(6.3)	647	320	101.9
Total Tax	23	27	25	41	37	61.3	(9.7)	77	40	93.2
Adjusted PAT	161	213	242	293	276	71.3	(5.9)	569	280	103.2
(Profit)/loss from JV's/Ass/MI	0	0	0	0	0			0	0	
APAT after MI	161	213	242	293	276	71.3	(5.9)	569	280	103.2
Extra ordinary items	0	0	0	0	0			0	-	
Reported PAT	161	213	242	293	276	71.3	(5.9)	569	280	103.2
Reported EPS	5.4	7.2	8.2	9.9	9.3	71.3	(5.9)	19.2	9.5	103.2

Margins (%)						(bps)	(bps)			
EBIDTA	40.7	40.3	36.6	36.7	36.2	(455)	(51)	36.4	39.8	(335)
EBIT	37.9	37.7	33.9	34.7	33.4	(453)	(133)	34.0	37.0	(297)
EBT	29.5	34.8	37.5	43.3	38.0	849	(531)	40.6	27.5	1313
PAT	25.9	30.9	34.0	38.0	33.5	768	(450)	35.7	24.0	1171
Effective Tax rate	12.4	11.3	9.5	12.2	11.8	(64)	(43)	12.0	12.5	(54)

Source: Company, Emkay Research

Revenue growth continues to be strong for eClerx

	Q3FY09	Q4FY09	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11
Revenues (in US\$ mn)	10.5	10.7	11.4	12.9	14.9	15.8	16.8	18.0
YoY growth, %	22.9	14.4	12.9	17.3	41.9	47.7	47.4	39.5
QoQ growth, %	-4.5	1.9	6.5	13.2	15.5	6.0	6.3	7.1

Source: Company, Emkay Research

FY11E/FY12E earnings upgrades mainly on a/c of incorporation of forex hedging gains into our estimates

(in Rs mn, except EPS)	FY11E			FY12E			FY13E
	Old	New	change	Old	New	change	
Revenues(US\$ mn)	74	74.7	1.4%	91.4	95.0	3.9%	119.5
Revenues	3,389	3,350	-1.1%	4,204	4,179	-0.6%	5,259
EBITDA	1,234	1,222	-1.0%	1,507	1,523	1.1%	1,914
Net Profits	1,115	1,190	6.7%	1,294	1,448	11.9%	1,568
EPS	37.7	40.2	6.7%	43.7	48.9	11.9%	53

Financials

Income Statement

Y/E, Mar (Rs. m)	FY10	FY11E	FY12E	FY13E
Net Sales	2,570	3,350	4,179	5,259
Growth (%)		30	25	26
Total Expenditure	(1,567)	(2,128)	(2,656)	(3,344)
Growth (%)		36	25	26
EBIDTA	1,004	1,222	1,523	1,914
Growth (%)		22	25	26
EBIDTA %	39.1	36.5	36.4	36.4
Other Income	(105)	215	224	173
Depreciation	(70)	(86)	(102)	(127)
EBIT	828	1,352	1,645	1,960
Interest	-	-	-	-
EBT	828	1,352	1,645	1,960
Tax	(93)	(162)	(197)	(392)
EAT	736	1,190	1,448	1,568
Growth (%)		62	22	8
EAT (%)	28.6	35.5	34.6	29.8

Balance Sheet

Y/E, Mar (Rs. m)	FY10	FY11E	FY12E	FY13E
Equity share capital	193	288	288	288
Reserves & surplus	1,806	2,349	3,119	3,954
Minority Interest	-	-	-	-
Networth	1,999	2,637	3,407	4,242
Secured Loans	-	-	-	-
Unsecured Loans	-	-	-	-
Loan Funds	-	-	-	-
Total Liabilities	1,999	2,637	3,407	4,242
Goodwill	101	101	101	101
Gross Block	446	637	836	1,052
Less: Depreciation	(246)	(332)	(435)	(561)
Net block	300	406	503	592
Capital WIP	22	22	22	22
Investment	775	775	775	775
Current Assets	1,366	2,061	2,971	4,013
Inventories	-	-	-	-
Sundry debtors	392	532	664	836
Cash & bank balance	472	886	1,494	2,154
Loans & advances	206	275	343	432
Other current assets	295	367	469	591
Current Liab & Prov	471	633	870	1,167
Current liabilities	220	294	412	562
Provisions	251	340	458	605
Net current assets	895	1,427	2,101	2,846
Misc exps	-	-	-	-
Deferred Tax	7	7	7	7
Total Assets	1,999	2,637	3,407	4,242

Cash Flow	FY10	FY11E	FY12E	FY13E
Net Profit after Tax	736	1,190	1,448	1,568
Add : Depreciation	70	86	102	127
Add : Misc exp w/off				
Net changes in WC	(0)	(118)	(184)	(232)
Operational Cash Flows	805	1,334	1,482	1,579
Capital expenditure	(82)	(191)	(199)	(216)
Investments				
Investing Cash Flows	(82)	(191)	(199)	(216)
Borrowings	-	-	-	-
dividend paid	(390)	(672)	(677)	(734)
Issue of shares	133	121	(0)	(0)
Share Premium				
Financing Cash Flows	(257)	(551)	(677)	(734)
changes in cash	466	592	606	629
Opening balance	213	472	886	1,494
Closing balance	472	886	1,494	2,154

Key ratios	FY10E	FY11E	FY12E	FY13E
EPS (Rs)	24.9	40.2	48.9	53.0
CEPS (Rs)	27.2	43.1	52.4	57.3
Book Value Per Share (Rs)	67.5	89.1	115.1	143.3
Dividend Per Share (Rs)	11.3	19.4	19.6	21.2
Valuations Ratios (x)				
PER	24.2	15.0	12.3	11.4
P/CEPS	22.7	14.3	11.8	10.8
P/BV	8.9	6.7	5.2	4.2
EV/EBIDTA	16.5	13.2	10.2	7.8
EV/Sales	6.4	4.8	3.7	2.8
M-Cap/sales	6.9	5.3	4.3	3.4
Profitability Ratios (%)				
RoCE	51.1	49.0	47.0	46.7
RoNW	40.3	51.3	47.9	41.0
EBITDA Margin	39.1	36.5	36.4	36.4
EBIT Margins	36.3	33.9	34.0	34.0
Net Profit Margin	28.6	35.5	34.6	29.8

Recommendation History: eClerx – ECLX IN

Date	Reports	Reco	CMP	Target
30/07/2010	eClerx Q1FY11 Result Update	Accumulate	445	465
26/05/2010	eClerx Q4FY10 Result Update	Buy	489	540
28/01/2010	eClerx Q3FY10 Result Update	Buy	438	540
20/01/2009	eClerx Q3FY09 Result Update	Not Rated	92	NA

Recent Research Reports

Date	Reports	Reco	CMP	Target
21/10/2010	HCL Technologies Q1FY11 Result Update	Hold	426	430
15/10/2010	Infosys Q2FY11 Result Update	Accumulate	3,080	3,300
11/10/2010	Mahindra Satyam Re-Initiating Coverage	Reduce	86	81
26/08/2010	Mphasis Result Update	Hold	626	630

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