

Creditable margin performance stands out

July 30, 2010

ACCUMULATE

| | |
|------------------------|-------------------------------|
| Price Rs 445 | Target Price Rs 465 |
| Sensex | 17,868 |

Price Performance

| (%) | 1M | 3M | 6M | 12M |
|----------------|----|----|----|-----|
| Absolute | 10 | 21 | 49 | 135 |
| Rel. to Sensex | 9 | 18 | 37 | 102 |

Source: Bloomberg

Stock Details

| | |
|-----------------------------|-------------|
| Sector | IT Services |
| Reuters | ECLX.BO |
| Bloomberg | ECLX@IN |
| Equity Capital (Rs mn) | 286 |
| Face Value(Rs) | 10 |
| No of shares o/s (mn) | 29 |
| 52 Week H/L | 483/183 |
| Market Cap (Rs bn/USD mn) | 13/279 |
| Daily Avg Volume (No of sh) | 120571 |
| Daily Avg Turnover (US\$m) | 1.1 |

Shareholding Pattern (%)

| | J'10 | M'10 | D'09 |
|--------------|------|------|------|
| Promoters | 59.8 | 60.0 | 60.0 |
| FII/NRI | 17.9 | 22.3 | 24.7 |
| Institutions | 11.2 | 7.8 | 5.0 |
| Private Corp | 2.8 | 2.0 | 1.9 |
| Public | 8.3 | 8.0 | 8.4 |

Source: Capitaline

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- Revenues at US\$ 16.8 mn (+6.3% QoQ, +47.4% YoY) beats est. marginally. Mgn performance commendable with flat mgns QoQ at 36.7% despite wage increments
- Profits beat driven by better mgn performance and higher fx. gains. Hiring continues to be strong at 261, taking the total HC to 3,124
- Increasing FY11E/FY12E earnings by ~6.4%/3% to Rs 37.7/43.7 driven by marginal increase in revenue estimates
- Remain positive on eClerx though cut rating to ACCUM (V/s BUY earlier) with a revised TP of Rs 465 (V/s 425 earlier) on a/c of sharp stock out performance in the recent past

Revenues in line, margin performance commendable

eClerx reported revenues at US\$ 16.8 mn (+6.3% QoQ, +47.4% YoY), marginally ahead of expectations. Operating margins were flat QoQ at 36.7%, despite wage increments and strong hiring (gross margins down by ~270 bps QoQ) helped by ~370 bps declines in G&A expenses. Profits at Rs 293 mn (+21.1% QoQ, +146.4% YoY) beat expectations driven by better than expected operating profits and higher forex hedging gains of ~Rs 540 mn (V/s expectations of ~Rs 320 mn)

Strong hiring continues, top clients revenues drive superlative growth

Net employee addition continued to be strong with co adding ~261 employees on a net basis taking the total employee count to 3,124 (up 42% YoY). Top clients continued to drive growth with top 5 clients growing by ~9.5% QoQ. Revenues from US/Europe were up by ~10%/1.2% sequentially.

Management expects to see greater traction within top 5-20 clients

We appreciate eClerx's strategy of investing during the downturn to strengthen its onshore sales and a/c management team which continues to bear fruit (30% revenue growth in FY10). Co expects its investments in sales to help achieve greater mining within the top 5-20 client roster over the next 12-18 months. Further company remains confident of maintaining its organic growth rates and expects to explore inorganic growth opportunities more aggressively going forward

Increase FY11E/FY12E earnings by ~6.4%/3%

We increase our FY11E/FY12E earnings by ~6.4%/3% to Rs 37.7/43.7 respectively driven by marginal increase in US\$ revenue estimates. We continue to be positive on eClerx for its creditable execution, strong cash generation profile and high return ratios. However we cut our rating one notch to ACCUMULATE (V/s BUY earlier) with a revised price target of Rs 465 (V/s Rs 425 earlier)

| Year end Mar | Net Sales | EBITDA | EBITDA | PAT | EPS | ROE | P/E(x) | EV/EBITDA | P/B |
|--------------|-----------|--------|--------|-------|------|------|--------|-----------|-----|
| (in Rs mn) | | | % | | (Rs) | % | (x) | (x) | (x) |
| FY09 | 1,973 | 837 | 42.4 | 621 | 21.0 | 43.4 | 20.4 | 14.5 | 8.0 |
| FY10 | 2,570 | 1,004 | 39.1 | 736 | 24.9 | 41.6 | 17.9 | 12.0 | 7.0 |
| FY11E | 3,389 | 1,234 | 36.4 | 1,115 | 37.7 | 51.2 | 11.8 | 9.3 | 5.3 |
| FY12E | 4,204 | 1,507 | 35.8 | 1,294 | 43.7 | 45.9 | 10.2 | 7.8 | 4.2 |

Key Financials - Quarterly

| Rs mn | Q4FY09 | Q1FY10 | Q2FY10 | Q3FY10 | Q4FY10 | YoY (%) | QoQ (%) |
|--------------------------------|------------|------------|------------|------------|------------|--------------|--------------|
| Revenue | 544 | 623 | 691 | 713 | 771 | 41.8 | 8.1 |
| Operating Expenditure | 333 | 369 | 412 | 452 | 488 | 46.5 | 8.0 |
| Cost of revenues | 231 | 253 | 282 | 312 | 358 | 55.3 | 14.8 |
| as % of sales | 42.4 | 40.6 | 40.8 | 43.8 | 46.5 | | |
| SG&A expenses | 103 | 116 | 130 | 140 | 130 | 26.5 | (7.2) |
| as % of sales | 18.9 | 18.7 | 18.8 | 19.6 | 16.8 | | |
| EBITDA | 210 | 254 | 279 | 261 | 283 | 34.5 | 8.4 |
| Depreciation | 15 | 18 | 18 | 19 | 15 | 2.0 | (20.5) |
| EBIT | 195 | 236 | 261 | 242 | 268 | 37.0 | 10.7 |
| Other Income | (59) | (52) | (20) | 26 | 66 | (212.4) | 155.6 |
| PBT | 136 | 184 | 241 | 268 | 334 | 145.0 | 24.8 |
| Total Tax | 17 | 23 | 27 | 25 | 41 | 135.3 | 60.2 |
| Adjusted PAT | 119 | 161 | 213 | 242 | 293 | 146.4 | 21.1 |
| (Profit)/loss from JV's/Ass/MI | 0 | 0 | 0 | 0 | 0 | | |
| APAT after MI | 119 | 161 | 213 | 242 | 293 | 146.4 | 21.1 |
| Extra ordinary items | 0 | 0 | 0 | 0 | 0 | | |
| Reported PAT | 119 | 161 | 213 | 242 | 293 | 146.4 | 21.1 |
| Reported EPS | 4.0 | 5.4 | 7.2 | 8.2 | 9.9 | 146.4 | 21.1 |
| Margins (%) | | | | | | (bps) | (bps) |
| EBIDTA | 38.7 | 40.7 | 40.3 | 36.6 | 36.7 | (201) | 9 |
| EBIT | 35.9 | 37.9 | 37.7 | 33.9 | 34.7 | (123) | 81 |
| EBT | 25.1 | 29.5 | 34.8 | 37.5 | 43.3 | 1,825 | 578 |
| PAT | 21.9 | 25.9 | 30.9 | 34.0 | 38.0 | 1,615 | 406 |
| Effective Tax rate | 12.7 | 12.4 | 11.3 | 9.5 | 12.2 | (51) | 270 |

Source: Company, Emkay Research

Revenue momentum continues to be strong for eClerx.

Note that apart from Dec'08 quarter, eClerx has shown a positive QoQ growth in each of the quarters

| | Q2FY09 | Q3FY09 | Q4FY09 | Q1FY10 | Q2FY10 | Q3FY10 | Q4FY10 | Q1FY11 |
|------------------------|--------|--------|--------|--------|--------|--------|--------|--------|
| Revenues (in US\$ mn) | 11.0 | 10.5 | 10.7 | 11.4 | 12.9 | 14.9 | 15.8 | 16.8 |
| YoY growth, % | 75.1 | 22.9 | 14.4 | 12.9 | 17.3 | 41.9 | 47.7 | 47.4 |
| QoQ growth, % | 8.9 | -4.5 | 1.9 | 6.5 | 13.2 | 15.5 | 6.0 | 6.3 |

Source: Company, Emkay Research

| | Q4FY09 | Q1FY10 | Q2FY10 | Q3FY10 | Q4FY10 | Q1FY11 |
|-------------------------------------|------------|------------|-------------|-------------|-------------|-------------|
| North America, % | 64.0% | 64% | 58% | 61% | 61% | 63% |
| North America rev(in US\$ mn) | 6.8 | 7.3 | 7.5 | 9.1 | 10 | 10.6 |
| QoQ growth, % | 5.1% | 6.6% | 3.2% | 20.8% | 6.0% | 9.8% |
| Europe, % | 17% | 23% | 46% | 35% | 32% | 30% |
| European Rev(in US\$ mn) | 1.9 | 2.6 | 5.9 | 5.2 | 5.0 | 5.04 |
| QoQ growth, % | -50.8% | 40.9% | 124.4% | -11.4% | -4.5% | 1.2% |
| Top 5, % | 82% | 78% | 82% | 83% | 84% | 87% |
| Top 5 client rev(in US\$ mn) | 8.8 | 8.9 | 10.5 | 12.3 | 13.3 | 14.6 |
| QoQ growth, % | -0.1% | 1% | 19% | 17% | 8.4% | 9.5% |

Source: Company, Emkay Research

| (All fig in Rs mn except EPS) | FY11E | | | FY12E | | |
|-------------------------------|-------|-------|----------|-------|-------|----------|
| | Old | New | % change | Old | New | % change |
| Revenues(US\$ mn) | 72 | 73.7 | 1.8% | 90.0 | 91.4 | 1.5% |
| Revenues | 3,329 | 3,389 | 1.8% | 4,142 | 4,204 | 1.5% |
| EBITDA | 1,202 | 1,234 | 2.7% | 1,469 | 1,507 | 2.6% |
| Net profits | 1,048 | 1,115 | 6.4% | 1,260 | 1,294 | 2.7% |
| EPS | 35.4 | 37.7 | 6.4% | 42.6 | 43.7 | 2.7% |

Source: Emkay Research

Key Financials

Income Statement

| Y/E, Mar (Rs. m) | FY09 | FY10E | FY11E | FY12E |
|--------------------------|------------|------------|--------------|--------------|
| Net Sales | 1,973 | 2,570 | 3,389 | 4,204 |
| Growth (%) | | 30 | 32 | 24 |
| Total Expenditure | (1,136) | (1,567) | (2,155) | (2,697) |
| Growth (%) | | 38 | 38 | 25 |
| EBIDTA | 837 | 1,004 | 1,234 | 1,507 |
| Growth (%) | | 20 | 23 | 22 |
| EBIDTA % | 42.4 | 39.1 | 36.4 | 35.8 |
| Other Income | (67) | (105) | 125 | 135 |
| Depreciation | (73) | (70) | (81) | (101) |
| EBIT | 697 | 828 | 1,279 | 1,540 |
| Interest | - | - | - | - |
| EBT | 697 | 828 | 1,279 | 1,540 |
| Tax | (76) | (93) | (164) | (246) |
| EAT | 621 | 736 | 1,115 | 1,294 |
| Growth (%) | | 19 | 52 | 16 |
| EAT (%) | 31.5 | 28.6 | 32.9 | 30.8 |

Balance Sheet

| Y/E, Mar (Rs. m) | FY09 | FY10E | FY11E | FY12E |
|--------------------------------|--------------|--------------|--------------|--------------|
| Equity share capital | 190 | 288 | 288 | 288 |
| Reserves & surplus | 1,466 | 1,592 | 2,185 | 2,874 |
| Minority Interest | - | - | - | - |
| Networth | 1,657 | 1,880 | 2,473 | 3,161 |
| Secured Loans | - | - | - | - |
| Unsecured Loans | - | - | - | - |
| Loan Funds | - | - | - | - |
| Total Liabilities | 1,657 | 1,880 | 2,473 | 3,161 |
| Goodwill | 108 | 101 | 101 | 101 |
| Gross Block | 383 | 473 | 644 | 841 |
| Less: Depreciation | (182) | (252) | (332) | (434) |
| Net block | 309 | 323 | 413 | 509 |
| Capital WIP | 1 | - | - | - |
| Investment | 851 | 775 | 775 | 775 |
| Current Assets | 970 | 1,252 | 2,166 | 3,006 |
| Inventories | - | - | - | - |
| Sundry debtors | 451 | 392 | 557 | 691 |
| Cash & bank balance | 213 | 359 | 959 | 1,485 |
| Loans & advances | 101 | 211 | 279 | 346 |
| Other current assets | 205 | 290 | 371 | 484 |
| Current Liab & Prov | 482 | 471 | 882 | 1,129 |
| Current liabilities | 231 | 220 | 436 | 564 |
| Provisions | 251 | 251 | 446 | 564 |
| Net current assets | 488 | 781 | 1,284 | 1,877 |
| Misc exps | - | - | - | - |
| Deferred Tax | 7 | 7 | 7 | 7 |
| Total Assets | 1,657 | 1,880 | 2,473 | 3,161 |

| Cash Flow | FY09 | FY10E | FY11E | FY12E |
|-------------------------------|--------------|--------------|--------------|--------------|
| Net Profit after Tax | 621 | 736 | 1,115 | 1,294 |
| Add : Depreciation | 73 | 70 | 81 | 101 |
| Add : Misc exp w/off | 201 | | | |
| Net changes in WC | (401) | (93) | (97) | (185) |
| Operational Cash Flows | 493 | 713 | 1,276 | 1,326 |
| Capital expenditure | (121) | (82) | (171) | (197) |
| Investments | | | | |
| Investing Cash Flows | (121) | (82) | (171) | (197) |
| Borrowings | (40) | - | - | - |
| dividend paid | (277) | (513) | (522) | (605) |
| Issue of shares | (12) | 96 | 0 | 1 |
| Share Premium | | | | |
| Financing Cash Flows | (329) | (417) | (522) | (604) |
| changes in cash | 44 | 214 | 583 | 524 |
| Opening balance | 224 | 213 | 359 | 959 |
| Closing balance | 213 | 359 | 959 | 1,485 |

| Key Ratios | FY09 | FY10E | FY11E | FY12E |
|---------------------------------|------|-------|-------|-------|
| EPS (Rs) | 21.0 | 24.9 | 37.7 | 43.7 |
| CEPS (Rs) | 24.3 | 27.2 | 40.4 | 47.1 |
| Book Value Per Share (Rs) | 56.0 | 63.5 | 83.6 | 106.8 |
| Dividend Per Share (Rs) | 8.0 | 14.8 | 15.1 | 17.5 |
| Valuations Ratios (x) | | | | |
| PER | 20.4 | 17.9 | 11.8 | 10.2 |
| P/CEPS | 18.3 | 16.3 | 11.0 | 9.4 |
| P/BV | 8.0 | 7.0 | 5.3 | 4.2 |
| EV/EBIDTA | 14.5 | 12.0 | 9.3 | 7.8 |
| EV/Sales | 6.1 | 4.7 | 3.4 | 2.8 |
| M-Cap/sales | 6.7 | 5.1 | 3.9 | 3.1 |
| Profitability Ratios (%) | | | | |
| RoCE | 45.8 | 46.3 | 45.7 | 42.3 |
| RoNW | 43.4 | 41.6 | 51.2 | 45.9 |
| EBITDA Margin | 42.4 | 39.1 | 36.4 | 35.8 |
| EBIT Margins | 38.7 | 36.3 | 34.0 | 33.4 |
| Net Profit Margin | 31.5 | 28.6 | 32.9 | 30.8 |

Recommendation History: eClerx – ECLX IN

| Date | Reports | Reco | CMP | Target |
|------------|---|-----------|-----|--------|
| 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 |
|------------|---|------------|-----|--------|
| 29.07.2010 | HCL Technologies Q4FY10 Result Update | Accumulate | 382 | 430 |
| 27.07.2010 | Tech Mahindra Q1FY11 Result Update | Hold | 737 | 720 |
| 23.07.2010 | Wipro Q1FY11 Result Update | Reduce | 412 | 420 |
| 22.07.2010 | NIIT Q1FY11 Result Update | Accumulate | 71 | 80 |

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