

July 28, 2011

Reco	Previous Reco
Accumulate	Accumulate
CMP	Target Price
Rs 819	Rs 885
EPS change FY12E/13E (%)	1.6 / 3.2
Target Price change (%)	5
Nifty	5,488
Sensex	18,210

Price Performance (%)	1M	3M	6M	12M
Absolute	0	15	19	86
Rel. to Nifty	1	22	22	83

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	IT Services
Bloomberg	ECLX@IN
Equity Capital (Rs mn)	289
Face Value(Rs)	10
No of shares o/s (mn)	29
52 Week H/L	874/435
Market Cap (Rs bn/USD mn)	24/544
Daily Avg Volume (No of sh)	47447
Daily Avg Turnover (US\$m)	0.9

Shareholding Pattern (%)

	Jun-11	Mar-11	Dec-10
Promoters	55.1	59.3	59.4
FII/NRI	25.2	22.9	20.1
Institutions	9.1	8.2	9.2
Private Corp	1.5	1.7	3.1
Public	9.2	7.9	8.3

Source: Capitaline

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- eClerx 's June'11 operating performance in line with expectations with revenues at US\$ 22.3 mn(+5.7% QoQ) and margins down by ~280 bps QoQ to 39.2%
- Profits at Rs 351 mn (+19% QoQ) , marginally higher than expectations driven largely by higher other income. Net addition strong at 357(+10% QoQ) taking total HC to 4,015
- Top 5 clients drive growth with ~8% QoQ growth. Co remains confident of deal pipeline (2-3 opportunities within top clients) along with intent to reduce client concentration
- Retain ACCUMULATE with a revised DCF based March'12 TP of Rs 885(V/s Rs 840 earlier) as we tweak our FY12/13E EPS up by 1.6%/3.2% to Rs 52.2/63.9

Another strong quarter

eClerx continues to deliver consistently along our investment thesis with revenues up 5.7% QoQ to US\$ 22.3 mn. EBITDA margins declined by ~280 bps sequentially to 39.2% impacted largely by wage increments implemented during the quarter (co hiked salaries by ~14% at qtr start) as well as strong hiring (+10% QoQ with company hiring ~357 people during the quarter to take the total HC to 4,015). Top 5 clients grew by ~8% QoQ with company remaining confident of demand within the client base (citing atleast 23 large deal opportunities) despite the recent negative macro news flow. Profits at Rs 351 mn were marginally ahead of estimates aided by higher than expected other income. While DSO increased to 67 days (V/s 59 days at Q4FY11 end), co management indicated that it was on account of some collections delays which has been addressed at Q2FY12 start.

Strategic focus on reducing client concentration remains high

Investors (as well as us) have been worried about eClerx's high client concentration (with top 5 clients contributing ~85%+ of revenues). Although we do not see it changing for the better in the near term, management's focus on driving revenue diversification remains high with steps in the form of (1) increasing the size of onshore sales staff (increased from 21 to 30 over the past 4 quarters) with ~50% of sales staff actively focused on growing business outside the top 5 clients, (2) intent to increase onshore spends (plan to increase onshore spends further by ~1.5-2% of revenues going forward) as well as realignments of senior managers ESOP compensations to achieving set targets (Larger ESOP's vest of growth targets achieved/exceeded and vice versa)

Retain ACCUMULATE with a revised TP of Rs 885

We have tweaked our FY12/13E earnings up by ~1.6%/3.2% to Rs 52.2/63.9 driven by incorporation of higher hedging gains although operating performance estimates remain unchanged. We retain ACCUMULATE with a revised March'12 TP of Rs 885(V/s Rs 840 earlier)

Financials

Y/E March (in Rs mn)	Net Sales	EBITDA	EBITDA %	PAT	EPS (Rs)	ROE %	P/E (x)	EV/EBITDA (x)	P/B (x)
FY10	2,570	1,004	39.1	736	24.9	40.3	32.9	22.9	12.1
FY11	3,421	1,346	39.3	1,224	40.6	60.6	18.6	17.0	10.4
FY12E	4,474	1,792	40.1	1,573	52.2	57.4	15.7	12.7	8.0
FY13E	5,764	2,273	39.4	1,925	63.9	53.4	12.8	9.6	6.0

Quarterly performance

Rs mn	Q1FY11	Q2FY11	Q3 FY11	Q4 FY11	Q1 FY12	YoY (%)	QoQ (%)	YTD 12	YTD 11	YoY (%)
Revenue	771	823	872	955	996	29.2	4.3	996	771	29.2
Operating Expenditure	488	525	508	554	605	24.0	9.2	605	488	24.0
Cost of revenues	358	371	367	381	447	24.7	17.2	447	358	24.7
as % of sales	46.5	45.1	42.1	39.9	44.8			44.8	46.5	
SG&A expenses	130	154	141	173	159	22.3	(8.4)	159	130	22.3
as % of sales	16.8	18.8	16.2	18.2	15.9			15.9	16.8	
EBITDA	283	298	364	401	391	38.1	(2.6)	391	283	38.1
Depreciation	15	23	25	27	24	53.6	(14.2)	24	15	53.6
EBIT	268	275	339	374	367	37.2	(1.7)	367	268	37.2
Other Income	66	38	61	74	73			73	66	
PBT	334	313	400	448	440	31.7	(1.8)	440	334	31.7
Total Tax	41	37	40	50	88	116.0	76.9	88	41	116.0
Adjusted PAT	293	276	360	398	352	20.0	(11.6)	352	293	20.0
(Profit)/loss from JV's/Ass/MI	0	0	0					0	0	
APAT after MI	293	276	360	398	352	20.0	(11.6)	352	293	20.0
Extra ordinary items	0	0	0	-103	0			0	0	
Reported PAT	293	276	360	295	352	20.0	19.1	352	293	20.0
Reported EPS	9.9	9.3	12.2	9.8	11.7	17.8	19.1	11.7	9.9	17.8

Margins (%)						(bps)	(bps)			
EBIDTA	36.7	36.2	41.8	42.0	39.2	253	(276)	39.2	36.7	253
EBIT	34.7	33.4	38.8	39.1	36.9	216	(225)	36.9	34.7	216
EBT	43.3	38.0	45.9	46.9	44.1	82	(272)	44.1	43.3	82
PAT	38.0	33.5	41.3	41.7	35.3	(272)	(635)	35.3	38.0	(272)
Effective Tax rate	12.2	11.8	10.1	11.1	20.0	780	889.1	20.0	12.2	780

Source: Company, Emkay Research

Operating Metrics at Glance

	Q1 FY12	Growth %	
		% QoQ	% YoY
Revenue by Geography (%)			
North America	61.0%	5.7%	28.5%
Europe	31.0%	2.4%	37.2%
ROW	8.0%	20.8%	51.7%
Client contribution to revenue			
Top 5, %	88.0%	8.1%	34%
Non Top 5 client revenues	12.0%	-9.4%	23%
Total Employees			
	4,015	10%	29%
Currency Concentration			
USD	74.0%	5.7%	29.2%
Euro	21.0%	5.7%	39.4%
GBP	3.0%	9.2%	-0.4%
Billing Mix			
FTE	93.0%	9.2%	50.5%
SEZ Revenue	66.0%	12.5%	68.5%

Contribution from top 5 clients increased by ~200 bps....

Impressive Headcount addition during the quarter....

	Q1FY12	Q4FY11	Q1FY11
Active clients	52	48	48

Company added 4 new clients during the quarter....

Source: Company, Emkay Research

Tweak FY12/13E earnings up by ~1.6%/3.2% to Rs 52.2/63.9 driven by incorporation of higher hedging gains

(in Rs mn, except EPS)	FY12E			FY13E		
	Old	New	change	Old	New	change
Revenues(US\$ mn)	99.4	99.6	0.2%	127.7	128.1	0.3%
Revenues	4,474	4,474	0.0%	5,746	5,764	0.3%
EBITDA	1,790	1,792	0.1%	2,271	2,273	0.1%
Net Profits	1,548	1,573	1.6%	1,865	1,925	3.2%
EPS	51.4	52.2	1.6%	61.9	63.9	3.2%

Financials

Income Statement

Y/E, Mar (Rs. m)	FY10	FY11	FY12E	FY13E
Net Sales	2,570	3,421	4,474	5,764
Growth (%)		33	31	29
Total Expenditure	(1,567)	(2,075)	(2,682)	(3,491)
Growth (%)		32	29	30
EBIDTA	1,004	1,346	1,792	2,273
Growth (%)		34	33	27
EBIDTA %	39.1	39.3	40.1	39.4
Other Income	(105)	137	291	271
Depreciation	(70)	(91)	(116)	(138)
EBIT	828	1,392	1,967	2,406
Interest	-	-	-	-
EBT	828	1,392	1,967	2,406
Tax	(93)	(167)	(393)	(481)
EAT	736	1,224	1,573	1,925
Growth (%)		66	29	22
EAT (%)	28.6	35.8	35.2	33.4

Balance Sheet

Y/E, Mar (Rs. m)	FY10	FY11	FY12E	FY13E
Equity share capital	193	291	291	291
Reserves & surplus	1,806	2,092	2,804	3,828
Minority Interest	-	-	-	-
Networth	1,999	2,383	3,096	4,120
Secured Loans	-	-	-	-
Unsecured Loans	-	-	-	-
Loan Funds	-	-	-	-
Total Liabilities	1,999	2,383	3,096	4,120
Goodwill	101	-	-	-
Gross Block	446	684	895	1,153
Less: Depreciation	(246)	(338)	(454)	(592)
Net block	300	347	441	561
Capital WIP	22	23	23	23
Investment	775	279	279	279
Current Assets	1,366	2,873	3,278	4,529
Inventories	-	-	-	-
Sundry debtors	392	659	797	1,026
Cash & bank balance	472	1,515	1,685	2,476
Loans & advances	206	698	368	474
Other current assets	295	-	429	553
Current Liab & Prov	471	1,144	932	1,279
Current liabilities	220	349	441	616
Provisions	251	795	490	663
Net current assets	895	1,728	2,346	3,250
Misc exps	-	-	-	-
Deferred Tax	7	7	7	7
Total Assets	1,999	2,383	3,096	4,120

Cash Flow

Y/E, Mar (Rs. m)	FY10	FY11	FY12E	FY13E
Net Profit after Tax	736	1,224	1,573	1,925
Add : Depreciation	70	91	116	138
Add : Misc exp w/off				
Net changes in WC	(147)	(207)	(71)	(285)
Operational Cash Flows	659	1,286	1,735	1,894
Capital expenditure	(82)	(138)	(211)	(258)
Investments				
Investing Cash Flows	(82)	(138)	(211)	(258)
Borrowings	-	-	-	-
dividend paid	(686)	(793)	(736)	(901)
Issue of shares	429	125	(0)	(0)
Share Premium				
Financing Cash Flows	(257)	(668)	(736)	(901)
changes in cash	183	547	169	792
Opening balance	1,064	1,247	1,794	1,963
Closing balance	1,247	1,794	1,963	2,755

Key ratios

Y/E, Mar	FY10E	FY11	FY12E	FY13E
EPS (Rs)	24.9	40.6	52.2	63.9
CEPS (Rs)	27.2	47.1	56.1	68.4
Book Value Per Share (Rs)	67.5	79.1	102.7	136.7
Dividend Per Share (Rs)	21.3	22.5	20.9	25.5
Valuations Ratios (x)				
PER	32.9	18.6	15.7	12.8
P/CEPS	30.1	17.4	14.6	12.0
P/BV	12.1	10.4	8.0	6.0
EV/EBIDTA	22.9	17.0	12.7	9.6
EV/Sales	8.9	6.7	5.1	3.8
M-Cap/sales	9.4	7.2	5.5	4.3
Profitability Ratios (%)				
RoCE	51.1	57.3	61.2	59.2
RoNW	40.3	60.6	57.4	53.4
EBITDA Margin	39.1	39.3	40.1	39.4
EBIT Margins	36.3	36.7	37.5	37.0
Net Profit Margin	28.6	35.8	35.2	33.4

Recommendation History: eClerx – ECLX IN

Date	Reports	Reco	CMP	Target
18/05/2011	eClerx Services Q4FY11 Result Update	Accumulate	737	840
06/04/2011	eClerx Company Update	Accumulate	685	740
27/01/2011	eClerx Q3FY11 Result Update	Accumulate	686	740
21/10/2010	eClerx Q2FY11 Result Update	Accumulate	618	670

Recent Research Reports

Date	Reports	Reco	CMP	Target
28/07/2011	HCL Tech Q4FY11 Result Update	Hold	503	540
27/07/2011	Hexaware Tech. Q2CY11 Result Update	Accumulate	82	95
26/07/2011	Patni Computer Q2CY11 Result Update	Not Rated	322	Not Rated
20/07/2011	Wipro Q1FY12 Result Update	Reduce	399	420

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