

May 18, 2011

Reco	Previous Reco
Accumulate	Accumulate
CMP	Target Price
Rs 737	Rs 840
EPS change FY12E/13E (%)	0.4 / 7.3
Target Price change (%)	13
Nifty	5,421
Sensex	18,086

Price Performance (%)	1M	3M	6M	12M
Absolute	2	10	9	118
Rel. to Nifty	8	11	20	104

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	798/318
Market Cap (Rs bn/USD mn)	21/466
Daily Avg Volume (No of sh)	14244
Daily Avg Turnover (US\$mn)	0.2

### Shareholding Pattern (%)

	Mar-11	Dec-10	Sep-10
Promoters	59.3	59.4	59.6
FII/NRI	22.9	20.1	18.1
Institutions	8.2	9.2	10.1
Private Corp	1.7	3.1	3.7
Public	7.9	8.3	8.7

Source: Capitaline

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- eClerx's March'11 results yet again exhibit the consistent and impressive execution with US\$ revenues up by ~7.7% QoQ and margins improving by ~230 bps on a like to like basis
- Reported profits at Rs 295 mn(-18%QoQ) below expectations impacted by goodwill write-off of ~Rs 103 mn Adjusted profits at Rs 398, significantly beat expectations ( Rs 346 mn)
- Tweak estimates for higher US\$ revenues (31.7%/28.4% YoY growth V/s 28.3%/26% earlier) driving a 0.4%/7.3% raise in FY12/13E earnings to Rs 51.4/61.9( refer section below)
- Retain ACCUMULATE with a revised DCF based March'12 TP of Rs 840(V/s Rs 740 earlier), implying ~13.5x March'13 earnings

### Continues to impress on flawless and consistent execution

eClerx reported March'11 qtr revenues of US\$ 21.1 mn (+7.7% QoQ), marginally ahead of Emkay estimates of ~US\$ 20.8mn. Operating margins improved by ~30 bps sequentially on reported basis (note that margin expansion was higher at ~230 bps on a like to like basis given that Q3FY11 margins benefited from certain cost reversals) While reported profits at Rs 295 mn (-18% QoQ) missed estimates, they were impacted by goodwill write-off of ~Rs 103 mn. Net employee addition during the quarter was relatively soft at 131, taking the yr end headcount to 3,908 (+28% YoY). Revenue growth during the quarter was led by North America (+14% QoQ) with revenues from Europe and ROW flat on a QoQ basis. Company indicated that it was continuing to drive investments in the client facing role which should help reduce client concentration (given that 3-4 non top 5 clients are reaching inflection points with revenues inching towards US\$ 1 mn+

### Dividend payout at ~55%, good work on working capital management

eClerx has announced a final dividend of Rs 22.5/share, translating into a dividend payout of ~55% and a dividend yield of ~3% which is decent in our view. We also highlight that the company has done a good job at working capital management during the year with working capital (ex Cash) reducing by ~50% in FY11.

### Retain ACCUMULATE with a revised TP of Rs 840

We tweak our earnings estimates for (1) higher US\$ revenues (now build in ~ 32%/28% YoY revenue growth V/s 28%/26% earlier) and (2) higher tax rates in FY12 (V/s 12% earlier) thereby driving a 0.4%/7.3% raise in our FY12/13E earnings to Rs 51.4/61.9 respectively. We continue to like eClerx for its flawless and consistent execution, strong cash generation backed by high return ratios (ROE's to be 50%+ over FY11-13E) despite increase in cash/share to Rs 90/share V/s ~Rs 60/share currently. Retain ACCUMULATE with a revised March'12 TP of Rs 840 implying ~13.5x March'12 earnings

### Financials

Y/E March (in Rs mn)	Net Sales	EBITDA	EBITDA %	PAT	EPS (Rs)	ROE %	P/E (x)	EV/ EBITDA	P/B (x)
FY10	2,570	1,004	39.1	736	24.9	40.3	29.7	20.5	10.9
FY11	3,421	1,346	39.3	1,224	40.6	60.6	16.7	15.2	9.3
FY12E	4,474	1,790	40.0	1,548	51.4	56.7	14.3	11.3	7.2
FY13E	5,746	2,271	39.5	1,865	61.9	52.1	11.9	8.6	5.5

## Quarterly performance

Rs mn	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3 FY11	Q4 FY11	YoY (%)	QoQ (%)	FY 11	FY 10	YoY (%)
<b>Revenue</b>	<b>691</b>	<b>713</b>	<b>771</b>	<b>823</b>	<b>872</b>	<b>955</b>	<b>34.0</b>	<b>9.6</b>	<b>3,421</b>	<b>2,570</b>	<b>33.1</b>
<b>Operating Expenditure</b>	<b>412</b>	<b>452</b>	<b>488</b>	<b>525</b>	<b>508</b>	<b>554</b>	<b>22.6</b>	<b>9.1</b>	<b>2,075</b>	<b>1,567</b>	<b>32.5</b>
Cost of revenues	282	312	358	371	367	381	22.0	3.9	1,477	1,078	37.0
as % of sales	40.8	43.8	46.5	45.1	42.1	39.9			43.2	41.9	
SG&A expenses	130	140	130	154	141	173	24.0	22.9	599	489	22.5
as % of sales	18.8	19.6	16.8	18.8	16.2	18.2			17.5	19.0	
<b>EBITDA</b>	<b>279</b>	<b>261</b>	<b>283</b>	<b>298</b>	<b>364</b>	<b>401</b>	<b>53.7</b>	<b>10.2</b>	<b>1,346</b>	<b>1,004</b>	<b>34.1</b>
Depreciation	18	19	15	23	25	27	42.3	7.9	91	70	30.4
<b>EBIT</b>	<b>261</b>	<b>242</b>	<b>268</b>	<b>275</b>	<b>339</b>	<b>374</b>	<b>54.6</b>	<b>10.3</b>	<b>1,255</b>	<b>934</b>	<b>34.3</b>
Other Income	(20)	26	66	38	61	74			240	(105)	
<b>PBT</b>	<b>241</b>	<b>268</b>	<b>334</b>	<b>313</b>	<b>400</b>	<b>448</b>	<b>67.3</b>	<b>11.9</b>	<b>1,494</b>	<b>828</b>	<b>80.4</b>
Total Tax	27	25	41	37	40	50	95.7	23.6	167	93	80.6
<b>Adjusted PAT</b>	<b>213</b>	<b>242</b>	<b>293</b>	<b>276</b>	<b>360</b>	<b>398</b>	<b>64.3</b>	<b>10.6</b>	<b>1,327</b>	<b>736</b>	<b>80.4</b>
(Profit)/loss from JV's/Ass/MI	0	0	0	0	0				0	0	
<b>APAT after MI</b>	<b>213</b>	<b>242</b>	<b>293</b>	<b>276</b>	<b>360</b>	<b>398</b>	<b>64.3</b>	<b>10.6</b>	<b>1,327</b>	<b>736</b>	<b>80.4</b>
<b>Extra ordinary items</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-103</b>			<b>-103</b>	<b>-</b>	
<b>Reported PAT</b>	<b>213</b>	<b>242</b>	<b>293</b>	<b>276</b>	<b>360</b>	<b>295</b>	<b>21.9</b>	<b>(17.9)</b>	<b>1,224</b>	<b>736</b>	<b>66.4</b>
<b>Reported EPS</b>	<b>7.2</b>	<b>8.2</b>	<b>9.9</b>	<b>9.3</b>	<b>12.2</b>	<b>9.8</b>	<b>19.8</b>	<b>(19.4)</b>	<b>41.2</b>	<b>24.9</b>	<b>65.7</b>

Margins (%)							(bps)	(bps)			
EBIDTA	40.3	36.6	36.7	36.2	41.8	42.0	538	23	39.3	39.1	28
EBIT	37.7	33.9	34.7	33.4	38.8	39.1	521	27	36.7	36.3	34
EBT	34.8	37.5	43.3	38.0	45.9	46.9	933	100	43.7	32.2	1146
PAT	30.9	34.0	38.0	33.5	41.3	41.7	769	40	38.8	28.6	1017
Effective Tax rate	11.3	9.5	12.2	11.8	10.1	11.1	160.9	104.9	11.2	11.2	1

Source: Company, Emkay Research

Revenues growth during the quarter was led completely by North America

Revenue by Geography (%)	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11	Q4FY11
North America	61%	61%	63%	60%	58%	61%
North America revenues(in US\$ mn)	9.1	10	10.6	10.9	11.4	12.9
QoQ growth, %	20.8%	6.0%	9.8%	2.7%	4.6%	13.2%
Europe	35%	32%	30%	34%	34%	32.0%
European Revenues(in US\$ mn)	5.2	5.0	5.04	6.1	6.7	6.8
QoQ growth, %	10.0%	-4.5%	1.2%	21.0%	9.3%	1.3%
Rest of the World	4.0%	7.5%	7%	5.1%	8%	7.0%
ROW Revenues(in US\$ mn)	0.6	1.2	1.2	0.91	1.6	1.5
QoQ growth, %	-5.4%	98.3%	-0.5%	-22.4%	71.9%	-5.8%

Co's attempts at reducing client exposure through greater mining beginning to yield results

Client contribution to revenue (in US \$mn except %)	Dec'09	March'10	June'10	Sep'10	Dec'10	March'11
Top 5, %	82.6	84.5	87.0	87.0	86.0	86.0
<b>Top 5 client revenues</b>	<b>12.3</b>	<b>13.3</b>	<b>14.6</b>	<b>15.7</b>	<b>16.9</b>	<b>18.1</b>
QoQ growth, %	16.7	8.4	9.5	7.1	7.6	7.7
<b>Non Top 5 client revenues</b>	<b>2.6</b>	<b>2.5</b>	<b>2.2</b>	<b>2.3</b>	<b>2.7</b>	<b>3.0</b>
QoQ growth, %	10.0	-5.3	-10.9	7.1	17.3	7.7

Source: Company, Emkay Research

Increase our FY12/13E earnings by 0.4% / 7.3% to Rs51.4 / 61.9 respectively

(in Rs mn, except EPS)	FY12E			FY13E		
	Old	New	change	Old	New	change
Revenues(US\$ mn)	96.6	99.4	2.9%	121.6	127.7	5.0%
Revenues	4,349	4,474	2.9%	5,474	5,746	5.0%
EBITDA	1,656	1,790	8.1%	2,087	2,271	8.8%
Net Profits	1,542	1,548	0.4%	1,707	1,865	9.2%
EPS	51.2	51.4	0.4%	57.7	61.9	7.3%

## Financials

## Income Statement

Y/E, Mar (Rs. m)	FY10	FY11	FY12E	FY13E
<b>Net Sales</b>	2,570	3,421	4,474	5,746
Growth (%)		33	31	28
<b>Total Expenditure</b>	(1,567)	(2,075)	(2,684)	(3,475)
Growth (%)		32	29	29
<b>EBIDTA</b>	1,004	1,346	1,790	2,271
Growth (%)		34	33	27
<b>EBIDTA %</b>	39.1	39.3	40.0	39.5
Other Income	(105)	137	268	198
Depreciation	(70)	(91)	(122)	(137)
<b>EBIT</b>	<b>828</b>	<b>1,392</b>	<b>1,936</b>	<b>2,331</b>
Interest	-	-	-	-
<b>EBT</b>	<b>828</b>	<b>1,392</b>	<b>1,936</b>	<b>2,331</b>
Tax	(93)	(167)	(387)	(466)
<b>EAT</b>	<b>736</b>	<b>1,224</b>	<b>1,548</b>	<b>1,865</b>
Growth (%)		66	26	20
EAT (%)	28.6	35.8	34.6	32.5

## Balance Sheet

Y/E, Mar (Rs. m)	FY10	FY11	FY12E	FY13E
Equity share capital	193	291	291	291
Reserves & surplus	1,806	2,092	2,791	3,783
Minority Interest	-	-	-	-
<b>Networth</b>	<b>1,999</b>	<b>2,383</b>	<b>3,082</b>	<b>4,075</b>
Secured Loans	-	-	-	-
Unsecured Loans	-	-	-	-
<b>Loan Funds</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Liabilities</b>	<b>1,999</b>	<b>2,383</b>	<b>3,083</b>	<b>4,075</b>
Goodwill	101	-	-	-
Gross Block	446	684	895	1,149
Less: Depreciation	(246)	(338)	(460)	(597)
<b>Net block</b>	<b>300</b>	<b>347</b>	<b>435</b>	<b>552</b>
<b>Capital WIP</b>	<b>22</b>	<b>23</b>	<b>23</b>	<b>23</b>
<b>Investment</b>	<b>775</b>	<b>279</b>	<b>279</b>	<b>279</b>
<b>Current Assets</b>	<b>1,366</b>	<b>2,873</b>	<b>3,270</b>	<b>4,489</b>
Inventories	-	-	-	-
Sundry debtors	392	659	797	1,023
Cash & bank balance	472	1,515	1,677	2,443
Loans & advances	206	698	368	472
Other current assets	295	-	429	551
<b>Current Liab &amp; Prov</b>	<b>471</b>	<b>1,144</b>	<b>931</b>	<b>1,275</b>
Current liabilities	220	349	441	614
Provisions	251	795	490	661
<b>Net current assets</b>	<b>895</b>	<b>1,728</b>	<b>2,339</b>	<b>3,214</b>
<b>Misc exps</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Deferred Tax</b>	<b>7</b>	<b>7</b>	<b>7</b>	<b>7</b>
<b>Total Assets</b>	<b>1,999</b>	<b>2,383</b>	<b>3,082</b>	<b>4,075</b>

## Cash Flow

Y/E, Mar (Rs. m)	FY10	FY11	FY12E	FY13E
Net Profit after Tax	736	1,224	1,548	1,865
Add : Depreciation	70	91	122	137
Add : Misc exp w/off				
<b>Net changes in WC</b>	<b>(147)</b>	<b>(229)</b>	<b>(144)</b>	<b>(280)</b>
<b>Operational Cash Flows</b>	<b>659</b>	<b>1,263</b>	<b>1,642</b>	<b>1,838</b>
<b>Capital expenditure</b>	<b>(82)</b>	<b>(138)</b>	<b>(211)</b>	<b>(255)</b>
Investments				
<b>Investing Cash Flows</b>	<b>(82)</b>	<b>(138)</b>	<b>(211)</b>	<b>(255)</b>
Borrowings	-	-	-	-
dividend paid	(686)	(793)	(725)	(873)
Issue of shares	429	125	(0)	(0)
Share Premium				
<b>Financing Cash Flows</b>	<b>(257)</b>	<b>(668)</b>	<b>(725)</b>	<b>(873)</b>
changes in cash	<b>183</b>	<b>547</b>	<b>162</b>	<b>766</b>
Opening balance	<b>1,064</b>	<b>1,247</b>	<b>1,794</b>	<b>1,956</b>
<b>Closing balance</b>	<b>1,247</b>	<b>1,794</b>	<b>1,956</b>	<b>2,721</b>

## Key Ratios

Y/E, Mar	FY10E	FY11	FY12E	FY13E
EPS (Rs)	24.9	40.6	51.4	61.9
CEPS (Rs)	27.2	47.1	55.4	66.4
Book Value Per Share (Rs)	67.5	79.1	102.3	135.2
Dividend Per Share (Rs)	21.3	22.5	20.6	24.8
<b>Valuations Ratios (x)</b>				
PER	29.7	16.7	14.3	11.9
P/CEPS	27.1	15.7	13.3	11.1
P/BV	10.9	9.3	7.2	5.5
EV/EBIDTA	20.5	15.2	11.3	8.6
EV/Sales	8.0	6.0	4.5	3.4
M-Cap/sales	8.5	6.5	5.0	3.9
<b>Profitability Ratios (%)</b>				
RoCE	51.1	57.3	61.0	59.6
RoNW	40.3	60.6	56.7	52.1
EBITDA Margin	39.1	39.3	40.0	39.5
EBIT Margins	36.3	36.7	37.3	37.1
Net Profit Margin	28.6	35.8	34.6	32.5

**Recommendation History: eClerx – ECLX IN**

Date	Reports	Reco	CMP	Target
06/04/2011	<a href="#">eClerx Company Update</a>	Accumulate	685	740
27/01/2011	<a href="#">eClerx Q3FY11 Result Update</a>	Accumulate	686	740
21/10/2010	<a href="#">eClerx Q2FY11 Result Update</a>	Accumulate	618	670
30/07/2010	<a href="#">eClerx Q1FY11 Result Update</a>	Accumulate	445	465

**Recent Research Reports**

Date	Reports	Reco	CMP	Target
10/05/2011	<a href="#">Infinite Computer Q4FY11 Result Update</a>	Buy	164	250
28/04/2011	<a href="#">Hexaware Q1CY11 Result Update</a>	Accumulate	70	80
27/04/2011	<a href="#">Wipro Q4FY11 Result Update</a>	Reduce	451	440
21/04/2011	<a href="#">TCS Q4FY11 Result Update</a>	Accumulate	1,192	1,275

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