

eClerx Services Ltd (ECLSER)

₹ 730

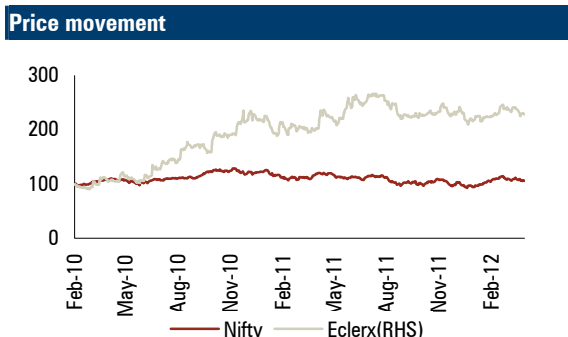
Rating Matrix	
Rating	: Buy
Target	: ₹ 820
Target Period	: 12 months
Potential Upside	: 12%

YoY Growth (%)				
	FY10	FY11	FY12E	FY13E
Net Sales	30.3	33.3	39.3	19.3
EBITDA	23.3	34.6	49.3	19.1
Net Profit	19.1	67.2	39.3	12.0

Current & target multiple				
	FY10	FY11	FY12E	FY13E
PE (x)	19.6	18.1	12.9	11.5
EV to EBITDA(x)	19.1	14.2	9.5	8.0
Price to book (x)	7.0	8.8	7.0	5.6
Target PE	22.1	20.4	14.4	12.9
Target EV/EBITDA	21.7	16.1	10.8	9.1
Target P/BV	9.4	7.8	9.9	7.9

Stock Data	
Bloomberg/Reuters Code	ECLX IN equity/ECLX.NS
Sensex	17058
Average Volumes (yearly)	11797
Market cap (₹ crore)	₹ 2118 crore
52 week H/L (₹)	875/617
Equity capital	₹ 29 crore
Face value	10
DII Holding (%)	10.5
FII Holding (%)	23.5

Comparative return matrix (%)				
Returns (%)	1M	3M	6M	12M
Eclerx	(3.9)	4.4	0.1	13.9
Mindtree	3.7	19.9	37.9	33.4
NIIT tech	5.3	44.2	29.7	38.3
KPIT Cummins	(5.7)	8.9	4.0	(9.8)



Analyst's name	
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Differentiated yet simple!

eClerx services (ESL), the only listed KPO service provider, continues to deliver a strong revenue & earnings performance with industry leading financial metrics. ESL operates in a strategically chosen sweet spot between pure play BPO & high end KPO (equity research). Current capital market client engagements have at most ~500-550 people/client while large organisations typically have ~5,000 such offshorable roles in high cost geographies & costs anywhere from ~\$60,000-75,000/annum. Back of the envelope calculation suggests an outsourcing market opportunity of \$2.25 billion from just 15 organisations alone. That said, Q4FY12E & Q1FY13E revenue growth could be soft led by CY12 budget spend delays for select customers. However, we would buy ESL in weaknesses caused by such earnings volatility. Rationale being revenue/earnings growth of 19.3%/12% (our estimate) in FY13E, modest relative to 41%/40% CAGR during FY08-11, yields FY11-13E CAGR of 28.9%/24.9%, respectively. This implies an attractive PE/G of 0.5x based on FY11-13E earnings CAGR. Attractive valuation coupled with superior RoE (56.5%) & dividend payout ratio (~53%) for FY12E influences our BUY rating.

Healthy balance sheet metrics

ESL's revenue/earnings grew at 41%/40% CAGR during FY08-11. Note, consistent operational performance was in conjunction with average 40% EBITDA margins. Cash generation from operation (CFO) remains healthy & grew at 46% CAGR during FY08-11 with 76% EBITDA converted to CFO. Measured capex led to a 10-fold jump in cash balance to ₹ 200 crore vs. ~₹ 22 crore in FY08 and ₹10 crore during IPO. We believe current PE could expand given healthy balance metric & industry leading growth.

Investment in technology, knowledge management to drive financial performance

ESL has ~200 dedicated software engineers who automate processes & help improve internal efficiency. Further, knowledge management & training reduces hiring lead time & ensures timely re-deployment of freshers. We believe investments in technology & knowledge management could help drive a consistent financial performance.

Valuations

ESL is trading at 12.9x & 11.5x our FY12E and FY13E diluted EPS estimate of ₹ 56.8 & ₹ 63.6, respectively. From a Mcap/sales & EV/EBITDA perspective, ESL is trading at 4.4x & 9.5x on FY12E; 3.7x & 8.0x on FY13E basis, respectively. We expect revenues/earnings to grow at 29%/25% CAGR during FY11-13E coupled with stable EBITDA margins. We value ESL at 12.9x our FY13E EPS estimate of ₹63.6 and initiate coverage on the stock with a BUY rating and a target price of ₹ 820.

Exhibit 1: Valuation Metrics

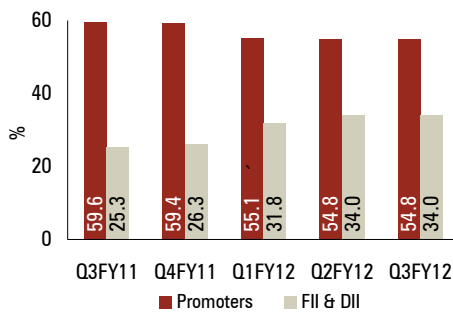
(₹ Crore)	FY09	FY10	FY11	FY12E	FY13E
Net Sales (₹ crore)	197	257	343	477	569
EBITDA (₹ crore)	81	100	135	202	240
Net profit (₹ crore)	62	74	123	171	192
EPS (₹) - diluted	32.5	37.2	40.2	56.8	63.6
PE (x)	22.5	19.6	18.1	12.9	11.5
EV to EBITDA(x)	23.6	19.1	14.2	9.5	8.0
Price to book (x)	8.3	7.0	8.8	7.0	5.6
RoNW (%)	37.3	36.8	51.6	56.5	51.1
ROCE(%)	44.7	51.1	57.5	69.8	65.9

Source: Company, ICICIdirect.com Research

Shareholding pattern (Q3FY12)

Shareholder	Holding (%)
Promoters	54.8
FII	23.5
DII	10.5
Others	11.2

FII & DII holding trend (%)



Company background

eClerx Services Limited (ESL) is a \$93.1 million revenue (last 12 month basis) company, providing knowledge process outsourcing (KPO) services. Incorporated in 2000, ESL optimises core day-to-day processes of its clients. With 4,271 employees the company earns revenues by providing middle/back office support to its clients through two business segments viz. capital markets and sales and marketing support (~50% of revenues each). The company offers services to clients in the financial services; retail and manufacturing industries while acquisition of UK based Igentica Travel Solutions led to its entry into the travel & hospitality segment. ESL has five development centres in India in Mumbai and Pune and executive and sales offices located in London, New York, Austin, and Singapore

The company provides services using a mix of data analytics and customised process solutions from its offshore delivery centres in India. ESL's services portfolio comprises data analytics, operations management, data audits, metrics management and reporting services while delivery teams consists of generalists, domain specialists, and in-house software professionals who automate and streamline existing clients' processes.

Full time equivalent (FTE) based pricing accounted for 94% of Q3FY12 revenues led by annuity contracts extending over two or three years. The company has over 500 processes with average three to five employees constituting one engagement while the largest could be 40-50 employees. Average annual realisations of \$30,000-33,000/employee yields an average engagement size of \$150,000-165,000. Typically, sales (onsite) and operation (offshore) leads engage the client to ensure effective mining.

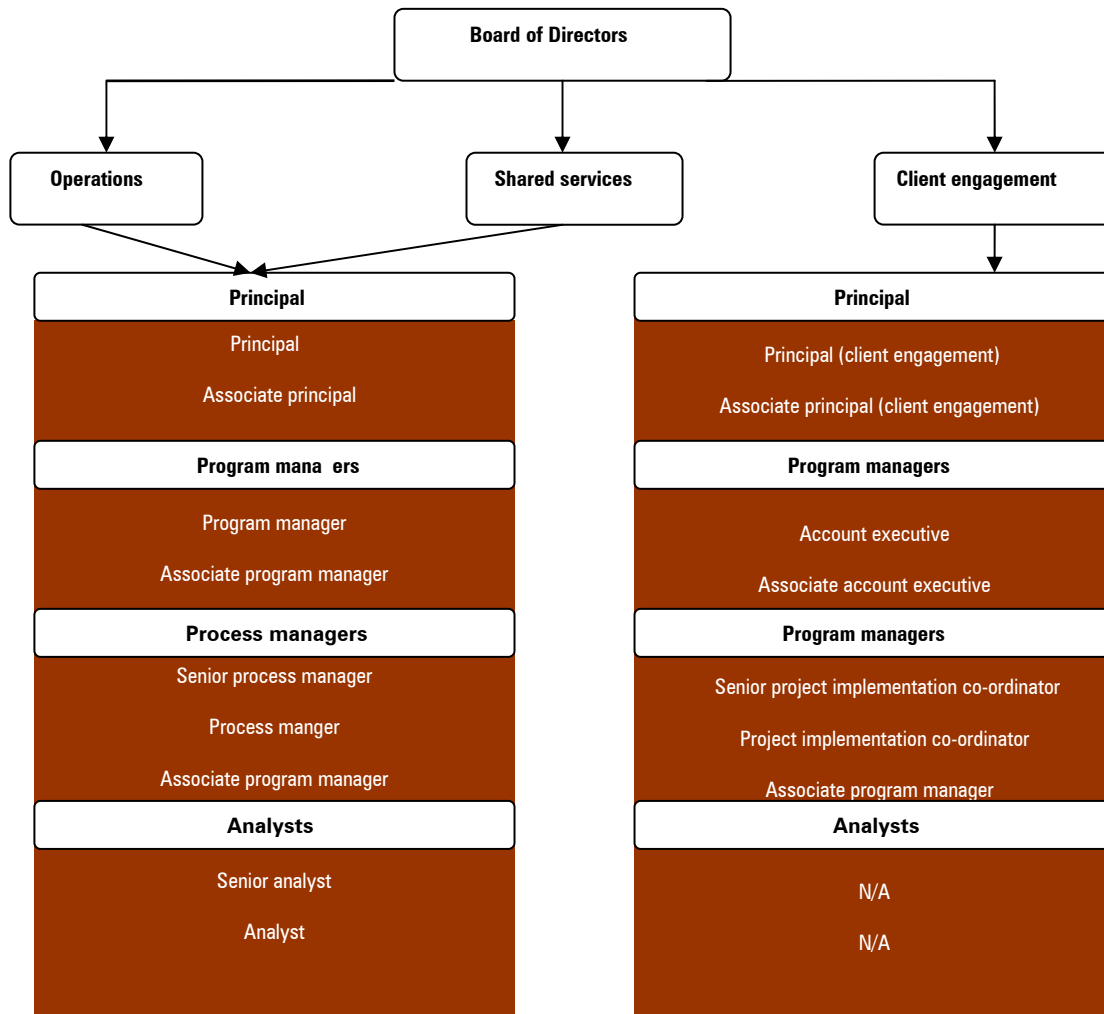
Financial services

ESL primarily provides transaction processing services to capital markets clients (both "buy-side & "sell-side") across the full trade life cycle. The company provides full front to back office services including, trade order management, trade enrichment, affirmations, confirmations, clearing, settlements, invoicing/billing, accounting, and reconciliations. The company also provides consulting services wherein it reviews & streamlines existing processes through the use of automation. ESL's client roster includes 9 of the top 14 investment banks.

Sales and marketing support

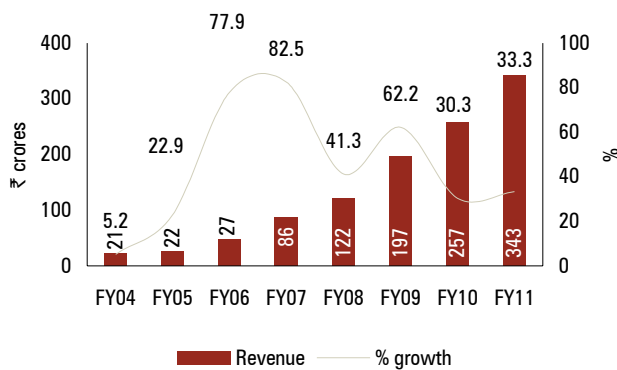
eClerx primarily works with retailers, hi-tech manufacturers, software publishers, travel & leisure companies, & media entertainment companies. The company provides content development & management, web analytics, catalogue management, product data management, customer relationship management (CRM) data analytics, pricing & competitive intelligence, & supply chain data management & analytic services. Key clients include a US based large computer manufacturer, two of the top six hardware manufacturers and five of the largest online retailers.

Exhibit 2: Organization structure



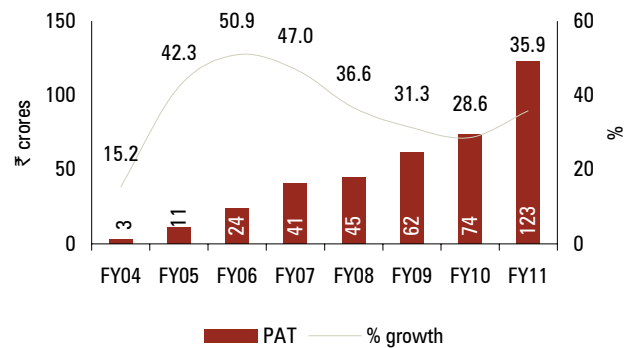
Source: Company, ICICIdirect.com Research

Exhibit 3: ESL revenues grow at 48.4% CAGR during FY04-11



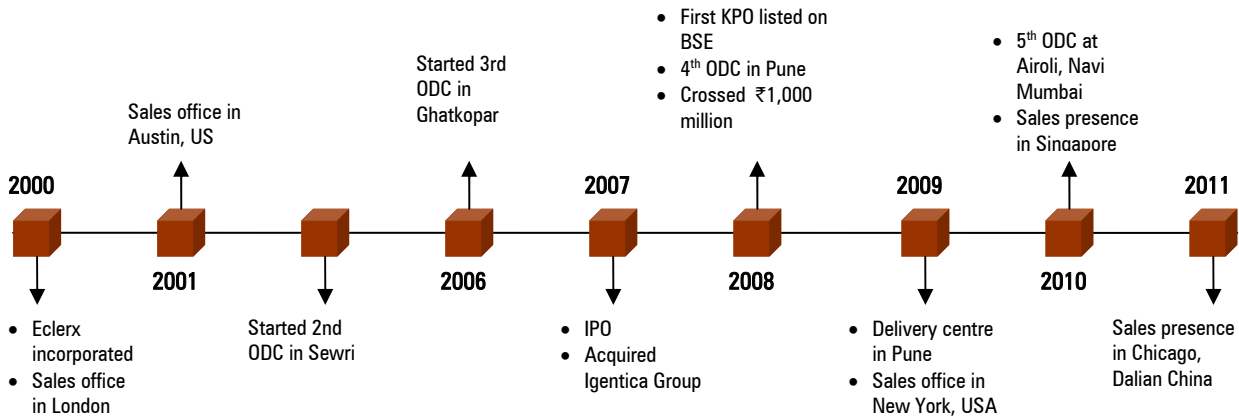
Source: Company, ICICIdirect.com Research

Exhibit 4: ESL's PAT grows at 68% CAGR during FY04-11



Source: Company, ICICIdirect.com Research

Exhibit 5: Growth timelines



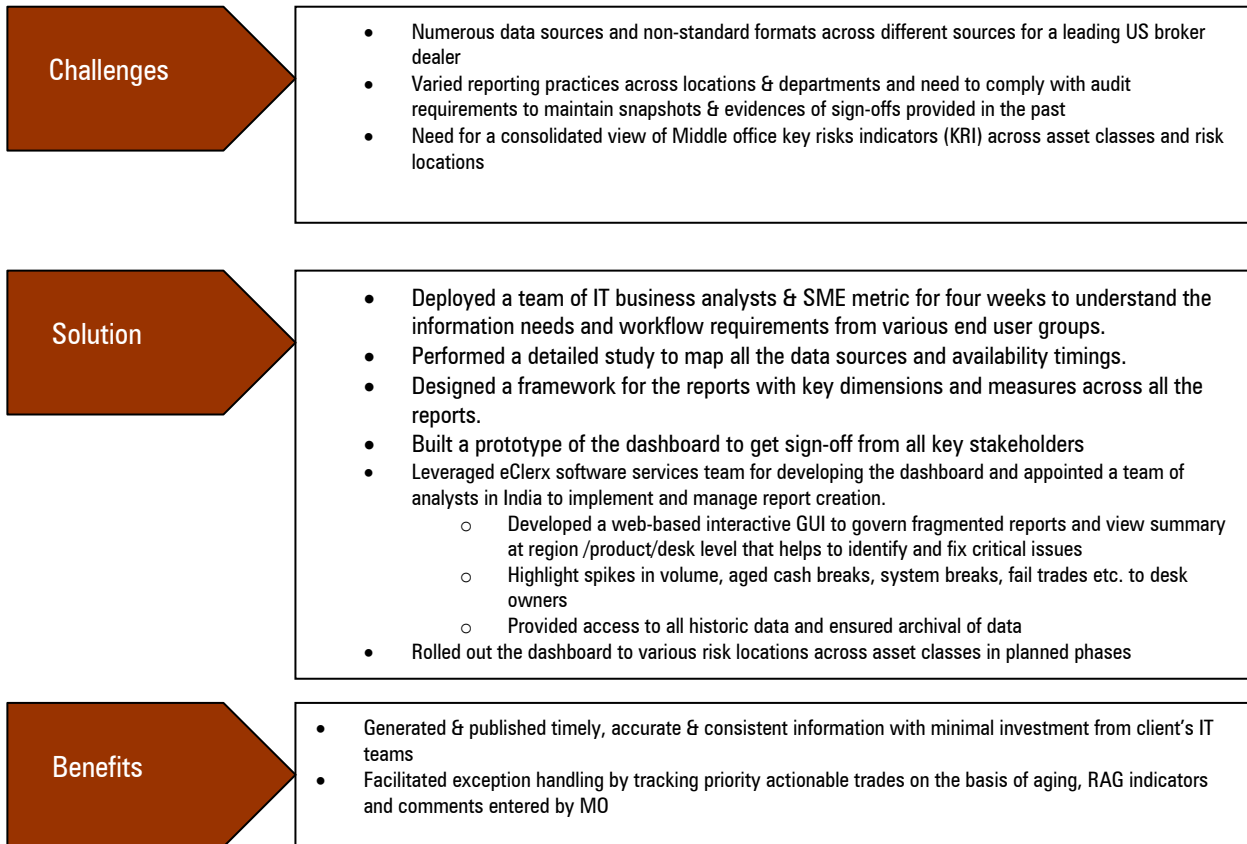
Source: Company, ICICIdirect.com Research

Exhibit 6: eClerx's service offerings

	Retail & Manufacturing	Financial Services
Data Analytics	Pricing Analytics Customer insight studies Product mix optimization	Portfolio matching and reconciliation Transaction maintenance Finance & Control
Operations Management	Online store support Technical content development Product/service configuration	Reference data maintenance Transaction documentation Cash settlement and Reconciliation
Audits/ Reconciliation	Online site audits Catalogue integrity checks Grey market and pricing monitoring	Legal contract review Reconciliations

Source: Company, ICICIdirect.com Research

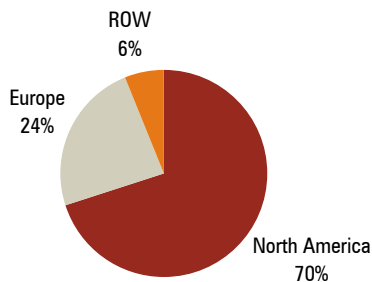
Exhibit 7: Case study emphasising services offered to US broker dealer



Source: Company, ICICIdirect.com Research

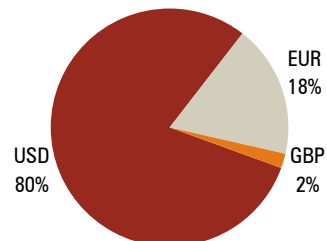
From a geographic perspective, ESL earned 70% of its Q3FY12 revenues from the US, 24% from Europe while the rest of the world (RoW) contributed 6%. From a currency contribution perspective, US dollar & Euro constituted 80% & 18% of Q3FY12 revenues, respectively, while GBP accounted for 2%.

Exhibit 8: Geographic contribution as of Q3FY12



Source: Company, ICICIdirect.com Research

Exhibit 9: Currency contribution as of Q3FY12



Source: Company, ICICIdirect.com Research

Management profile

Directors

V K Mundhra, 67 years, Chairman: Mr Mundhra has over 35 years of varied business experience having successfully run and looked after large scale manufacturing units in the field of steel, engineering and chemicals. He joined eClerx in March 2000 and holds a bachelor's degree in commerce from St Xavier's College, Calcutta.

P D Mundhra, co-founder & Executive Director, has 17 years of experience in the manufacturing and financial services industries. Prior experience includes Lehman Brothers' investment banking division and corporate treasury at Citibank. He holds a Master of Business Administration degree in finance from The Wharton School, University of Pennsylvania (US) and a Bachelors of Commerce from St Xavier's College, Calcutta (India).

Anjan Malik, co-founder & Director, ran the credit trading department for Lehman Brothers in London. Prior to Lehman, he worked as senior consultant with Accenture's European capital markets practice. Overall, he has over 19 years experience in global markets sales and trading, consulting and technology consulting. He holds a Master of Business Administration degree in finance from The Wharton School, University of Pennsylvania (US) and graduated from Imperial College of Science & Technology, London.

Business Development & client engagement

Alberto Corvo, Managing Principal, Financial Services, has over 16 years of experience in investment banking and banking technology. Mr Corvo joined eClerx in February 2009. Prior to joining eClerx, he ran the business development department for Murex NA, a derivatives software supplier, in North America. Prior to Murex, he worked as an investment banker with Lehman Brothers and ran the product development department for FICS, the first electronic banking software provider with an internet-based solution. He holds a Masters of Business Administration degree from the Yale School of Management (US) and a Masters degree in Electronic Engineering from Politecnico di Milano (Italy)

Scott Houchin, Managing Principal, Sales and Marketing Services, leads the Sales and marketing services division. With over 16 years experience, he joined eClerx in 2009. Prior to eClerx, he was the Director of EU Search Operations at Yahoo!. He has also held senior global marketing positions at Gateway and Dell. He holds a BSc in Business Management and English from the University of South Dakota (US).

Scott McCartney, Principal, Sales and Marketing Services, brings over 16 years experience in outsourcing and investment banking. He joined eClerx in November 2008. Prior to eClerx, he was in charge of global business development at Adventity. He has also worked in investment banking, research and consulting with Credit Suisse First Boston, Morgan Stanley and Price Waterhouse. He holds a Bachelors of Commerce degree in (Finance/Accounting) from the University of New South Wales (Australia) and a Masters of Business Administration degree in finance from New York University (US). He is a certified Chartered Accountant with the Institute of Chartered Accountants in Australia.

Delivery

Sandeep Dembi, Principal, Financial Services, manages financial services India operations. He joined eClerx in November 2009 and has an overall experience of 14 years. Prior to joining eClerx, he was responsible for

running a large scale life & pensions operation for a key client of WNS Global Services. He is an ex Master Black Belt from GE Capital, having worked in the Six Sigma area for close to four years. He holds a postgraduate diploma in management from XLRI Institute of Management (Jamshedpur) and a Bachelor of Technology degree from Punjab University, Chandigarh (India).

Hoshi Mistry, Principal, Sales and Marketing Services, has over 16 years of work experience and manages business operations and process re-engineering for the enterprise e-business services. He joined eClerx in April 2002 and has designed and set up the implementation of knowledge management and training programmes. Prior to eClerx, he was working with Emageware Technologies as a programme manager. He holds a Bachelors of Engineering degree, with computer science specialisation, from Ramrao Adik Institute of Technology, Mumbai (India) and a Masters of Technology degree, with a specialisation in computer science, from the Indian Institute of Technology, Bombay (India).

Shared Services

Kishore Poduri, Principal, Human Resources and Administrative services, has over 15 years of experience and runs the human resource, knowledge management and quality delivery teams. He joined eClerx in June 2006. Before joining eClerx, he was the regional head for human resources for the treasury, corporate, institutional and retail banking groups at HDFC Bank. He holds a Masters of Business Administration degree, with a specialisation in human resources from the Symbiosis Centre for Human Resource Development (SCMHRD), Pune (India) and a Bachelors of Science degree with a specialisation in computer science from Nagarjuna University (India).

Rohitash Gupta, Chief Financial Officer, manages the finance, secretarial, corporate development and investor relations of eClerx. He has over 14 years of experience in retail, manufacturing, IT & consulting industry and joined eClerx in November 2003. Before eClerx, he has worked with companies such as ABB, Tata Autocomps and Siemens Information Systems. He holds a Master of Management degree from IIT Mumbai and Bachelors of Technology from IIT Kanpur.

Sanjay Kukreja, Principal, Technology Services, who joined eClerx in September 2011, has 14 years of experience in consulting, technology, application & infrastructure outsourcing. He is responsible for managing both the software services and infrastructure teams driving application development, application maintenance and infrastructure deployment for both internal and client based needs. Prior to eClerx, he has worked with organisations like Accenture, Microsoft, SAP and BroadVision in varying roles. He holds a B. Tech (Electrical Engineering) from IIT Kanpur and a PGDCM from IIM Calcutta.

Investment Rationale

eClerx continues to deliver consistent revenue and earnings growth. During FY08-11, ESL's revenue/earnings grew at 41%/40% CAGR with average 40% EBITDA margins. Going forward, we expect sticky client relationships and disproportionate spending of incremental S&M budgets on 'hunting and farming' new customers to be key contributors of revenue growth. Operationally, revenue growth, knowledge management, re-engineering & training could help sustain superior EBITDA margins. We are modelling revenues will grow 39.3% and 19.3% YoY in FY12E and FY13E, respectively. We expect EBITDA margins to decline 76 bps QoQ (200 bps YoY improvement) in Q4FY12E to 44.5% vs. 45.2% in Q3FY12. Further, we have modelled FY13E EBITDA margins will modestly decline 10 bps YoY to 42.2%. At the CMP, ESL is trading at 11.5x FY13E EPS estimate of ₹ 63.6. On a PE/G basis, ESL is trades at 1x (based on FY13E EPS), 25% premium to peer group average of 0.8x. We believe ESL could trade at 1.08x PE/G i.e. at a 34% premium relative to peer group average, given its industry leading financial metric. Consequently, we have valued ESL at 12.9x our FY13E EPS estimate of ₹ 63.6 and initiated coverage on the stock with a BUY rating and a price target of ₹ 820.

Differentiated yet simple business model

eClerx primarily targets operation, support and market research outsourcing budgets of its customers. Typically, eClerx targets middle/back office roles, which cost anywhere between \$60,000-\$75,000/annum (cost-to-company) for clients. Currently, the company has ~500-550 people per client while large organisations usually have ~5000 such offshorable roles in high cost geographies. eClerx strategically chose the sweet spot between pure play business process outsourcing (BPO) and high-end knowledge process outsourcing (KPO). Pure play BPO, which generally focuses on voice based or rule based processing, have a low bill rate while high-end KPO, which caters to equity research, actuarial services and drug launch studies commands premium bill rates but are susceptible to seasonality and are largely dependent on skilled manpower.

Knowledge management module & technology platforms offer attrition buffer and scalable growth engine

eClerx has ~200 dedicated technology architects as part of shared services who use proprietary algorithms, technology, platforms to automate, re-engineer processes from the perspective of improving process efficiency. As of Q3FY12, the company had knowledge management/training modules for >2300 processes, which ensures eClerx could hire freshers and deploy them with a month of training. Further, completion of training earns credits, which add up during the appraisal cycle. Finally, the ability to hire graduates just-in-time for complex process intensive execution assures a scalable growth engine.

Sticky client relationships & non-RFP business ensure annuity business

A majority of eClerx' revenues arise from full time equivalents (FTE) relationships. Typically, the company works on a large number of small (two to five FTE) projects and signs two or three year rolling contracts for fixed number of FTEs governed by master services agreement (MSA). eClerx' ability to gain incremental work, primarily from non-RFP based projects, across departments led by internal referrals leads to successful mining, sticky relationship and annuity business. Note, eClerx continues to work with one of the acquirer of its top-5 client of 2008-09

Large capital market organisations typically have ~5,000 middle/back office offshorable jobs. Assuming average costs of ~\$60,000-\$75,000/annum yields an outsourcing market opportunity worth \$2.25 billion from 15 such organizations alone

ESL hires just-in-time & could deploy freshers in a month's time. Reliance on graduates/undergraduates for entry level jobs partially eases supply side concerns

Incremental sales & marketing investments are disproportionately invested to "hunt & farm" new customers

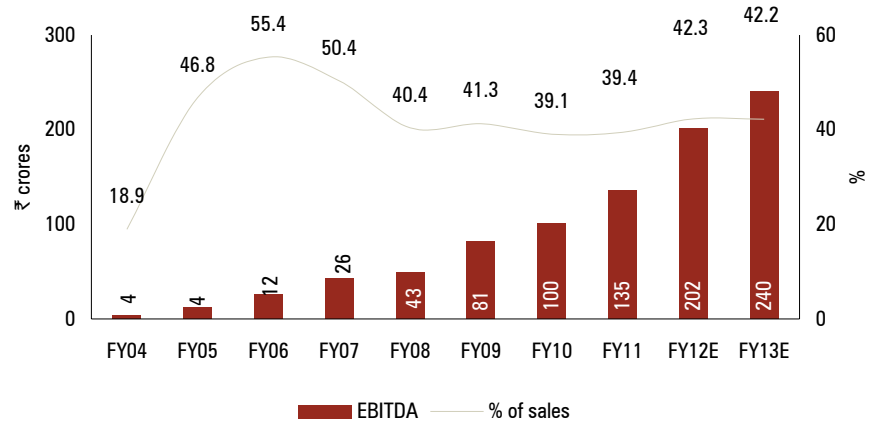
Onsite sales & marketing team to drive non-top5 client revenue growth

eClerx continues to earn significant portion of (86% in Q3FY12) revenues from top 5 clients. Though revenue contribution had declined to 75% during a top5 client bankruptcy in 2008-09, sales focus on top clients led to the contribution rising again to 86% level. However, during 9MFY12, eClerx consciously increased its onsite sales force to 41 vs. 24 in Q2FY11 with a mandate to drive revenue growth from non top 5 accounts.

Consistent & lofty EBITDA margins

During FY08-FY11 eClerx operated at an average EBITDA margin of 40% with 9MFY12 average at 41.1%. Rationale includes investment in technology, re-engineering, knowledge management and employee pyramid. Dedicated software team automates processes which helps improve internal efficiency and reduces the hiring lead time. Further knowledge management & training ensures new hires are billable with a month of training. This helps flatten the employee pyramid and optimize managerial headcount wherein each process manager overlooks 10-12 analyst/senior analyst while each senior manager oversees 2 process managers. Finally, lower cost structure (\$7,000-\$ 9,000 average salary) and investment in technology/knowledge management could help sustain superior operating margins.

Exhibit 10: During FY04-11, EBITDA grows at 65% CAGR coupled with average margin of 41.4%



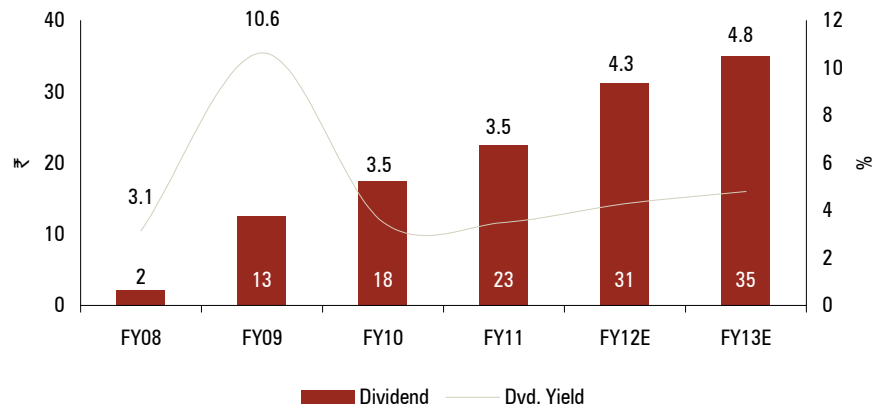
Source: Company, ICICIdirect.com Research

We believe ESL could raise the dividend payout ratio given a healthy ₹ 200 crore cash balance including unused IPO proceeds of ₹ 22 crore raised for M&A

Consistent dividend payout coupled with healthy profit margins yields high ROE's

Since its initial public offering (IPO) in December 2007, eClerx paid dividend every year with average payout ratio of 45% during FY08-FY11 period. Noticeably, eClerx is yet to utilise ₹ 22 crore it raised during its IPO for M&A. Comfortable cash balance of ₹200 crore, zero debt and no material acquisition in sight, we believe, the company could raise its payout ratio. Assuming a dividend payout ratio of 53% in FY12E yields an attractive dividend yield of 4.3%. Finally, consistent dividend payout ensures industry leading ROE's.

Exhibit 11: ESL has paid handsome dividends with average dividend payout of 45%

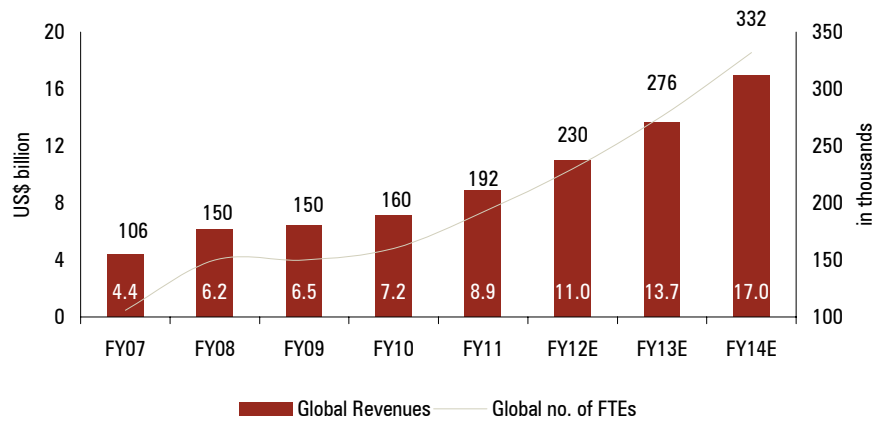


Source: Company, ICICIdirect.com Research

Positioned in a sweet spot between pure play BPO & high end KPO

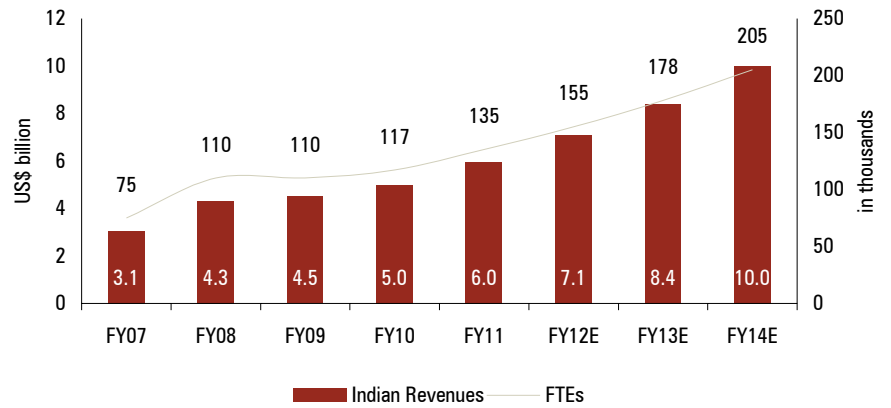
We expect the Indian Knowledge Process Outsourcing (KPO) industry to achieve \$10 billion in size, growing at a CAGR of 18.9% during FY11-FY14E period. Globally, KPO industry could grow at 24% CAGR during FY11-FY14E period. However, competition from China & Latin America could lead to decline in India's share to 59% vs. ~70% in FY06. Exhibit below highlights the typical services offered by KPO's & ESL positioning within that space.

Exhibit 12: Global KPO industry could grow at 24% CAGR during FY11-14E



Source: Evalueserve, ICICIdirect.com Research

Exhibit 13: Indian KPO industry could reach \$10 billion in size in FY14E



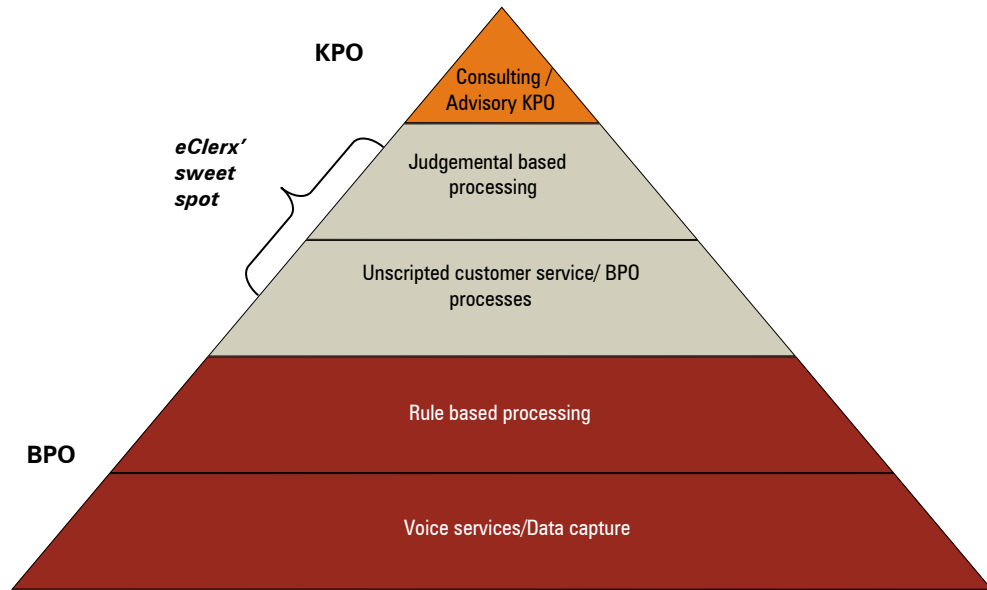
Source: Evalueserve, ICICIdirect.com Research

Exhibit 14: Services constituting KPO

Type of activity	Illustration
Equity and financial research and analytics	<ul style="list-style-type: none"> Investment research Financial modelling Credit risk management Valuation of companies
Business and market research and analytics	<ul style="list-style-type: none"> Market analysis Data mining Report preparation Customer analytics
Engineering and design services	<ul style="list-style-type: none"> Very large scale integration (VLSI) design Simulation Chip design Vehicle design support Prototype development
Pharmaceuticals research outsourcing	<ul style="list-style-type: none"> Offshore drug discovery Clinical research

Source: TPI, Company, ICICIdirect.com Research

Exhibit 15: ESL positioning...in a sweet spot between pure play BPO & high end KPO



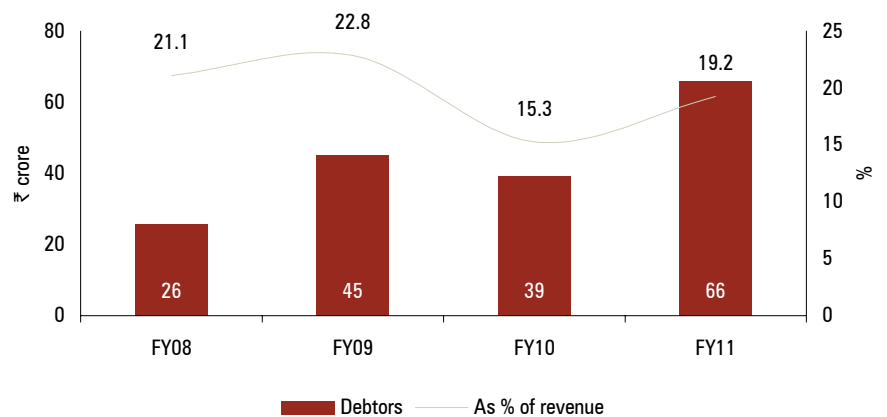
Source: Company, ICICIdirect.com Research

During FY08-11, accounts receivables and unbilled revenues grew at 37% & 35% CAGR, lower than revenue growth of 41.2%

Healthy balance sheet metrics

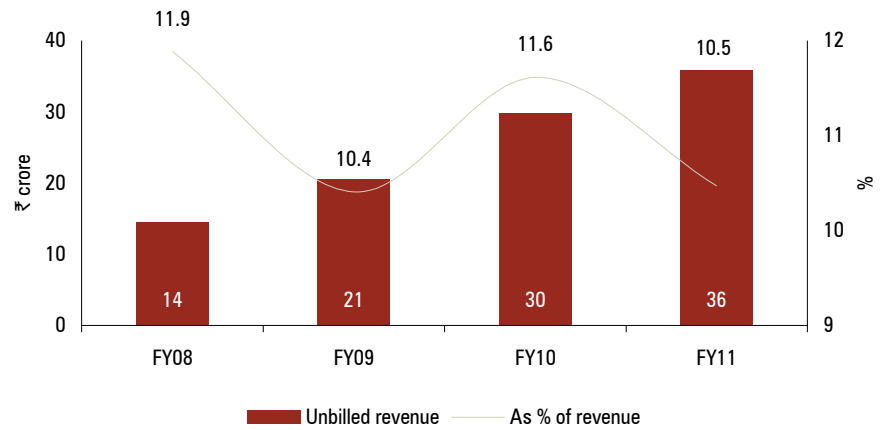
ESL has a healthy cash balance of ₹ 200 crore. During FY08-11, accounts receivables and unbilled have grown at 37% and 35% CAGR, respectively below revenue CAGR of 41.2%. At 52 days, days sales outstanding (DSO) is among the lowest in the industry & reflects healthy collection cycles.

Exhibit 16: Receivables grew at 37% CAGR during FY08-FY11 vs. 41.2% growth in revenues



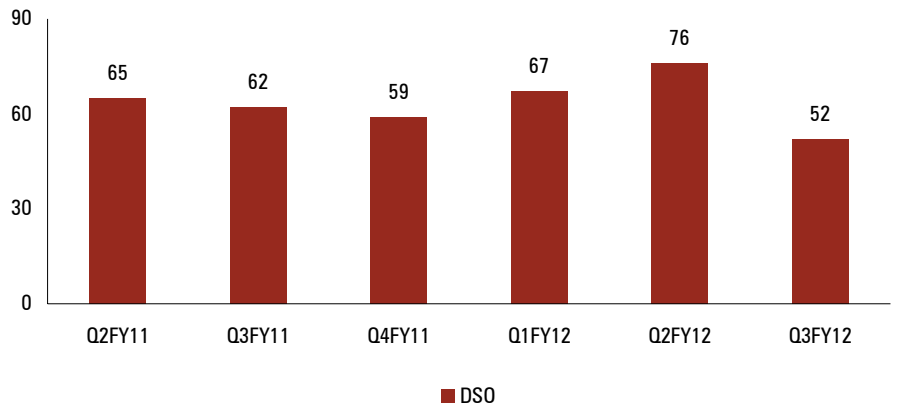
Source: Company, ICICIdirect.com Research

Exhibit 17: ...as is the case with unbilled revenues (35% vs. 41.2%)



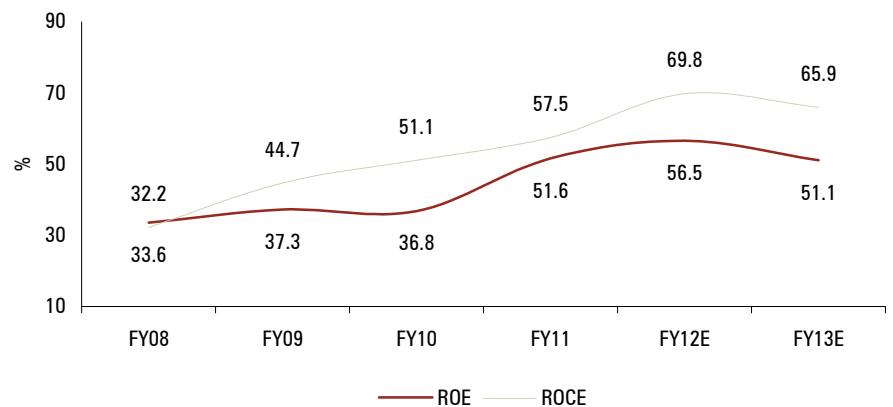
Source: Company, ICICIdirect.com Research

Exhibit 18: ESL continues to manage DSO's efficiently



unit - days, Source: Company, ICICIdirect.com Research

Exhibit 19: Industry leading financial metric



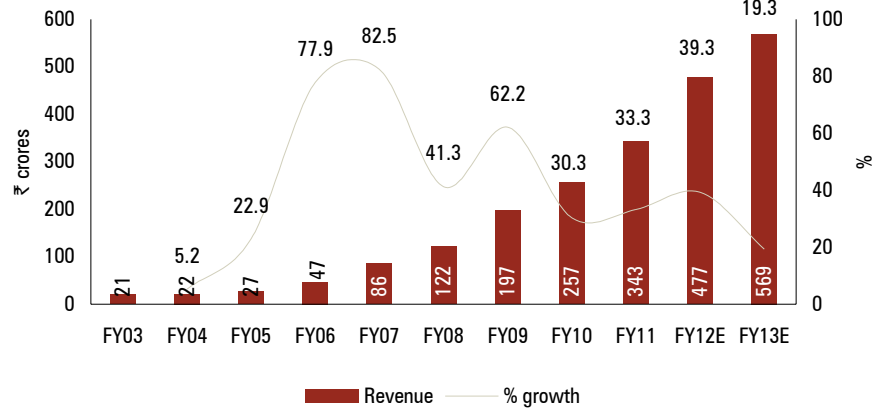
Source: Company, ICICIdirect.com Research

Financials

Modelling FY12E/FY13E revenues to grow 39.3% & 19.3%, respectively

We are modelling FY12E and FY13E revenues will grow 39.3% and 19.3% YoY to ₹ 477.3 crore and ₹ 569.3 crore, respectively. Going forward, we expect sticky relationships with existing clients and disproportionate spending of incremental S&M budgets on acquiring new customers to be key contributors of revenue growth. From a quarterly perspective, we are modelling flat revenue growth in Q4FY12 and 2.3% QoQ in Q1FY13.

Exhibit 20: Revenue growth forecasts for FY12-13E

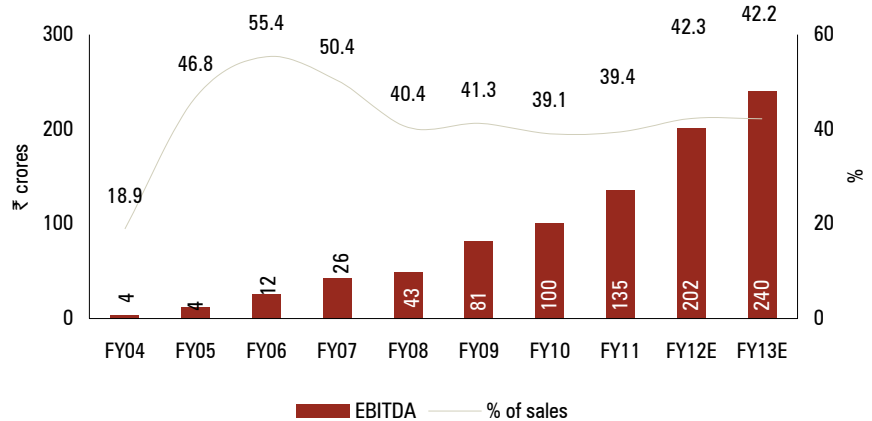


Source: Company, ICICIdirect.com Research

Modelling flat EBITDA margins in Q4FY12E & FY13E

We expect EBITDA margins to decline 76 bps QoQ (200 bps improvement YoY) in Q4FY12 to 44.5% vs. 45.2% in Q3FY12 primarily led by moderated growth and an appreciating rupee. Further, we have modelled FY13E EBITDA margins will decline a modest 10 bps YoY to 42.2%. Revenue growth, knowledge management, re-engineering and training could help sustain superior EBITDA margins. Our estimates assume average ₹/\$ rate of 48.5 for FY12E and 48.3 for FY13E. As a rule of thumb, every 1% appreciation of the rupee impacts margins by 40-50 bps. A significant appreciation or depreciation of the rupee could alter our estimates.

Exhibit 21: EBITDA margin trends for FY08-13E



Source: Company, ICICIdirect.com Research

0.5x PE/G based on FY11-13E earnings CAGR coupled with superior 56.5% RoE and dividend payout ratio of ~53% for FY12E influences our **BUY** rating

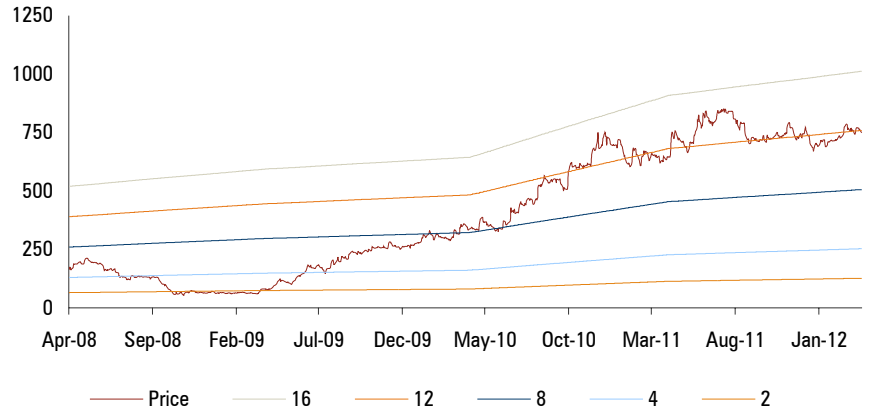
ESL is trading at 12.9x and 11.5x our FY12E and FY13E diluted EPS estimate of ₹ 56.8 and ₹ 63.6, respectively

ESL is trading at 1x PE/G based on FY13E earnings vs. peer group average of 0.8x However, Genpact, EXL Holdings and WNS are trading at 1x, 0.8x and 1.9x PE/G based on their respective FY13E earnings

Valuations

ESL is trading at 12.9x & 11.5x our FY12E and FY13E diluted EPS estimate of ₹ 56.8 & ₹ 63.6, respectively. From a Mcap/sales & EV/EBITDA perspective, ESL is trading at 4.4x & 9.5x on FY12E; 3.7x & 8.0x on FY13E basis, respectively. We expect revenues/earnings to grow at 29%/25% CAGR during FY11-13E coupled with stable EBITDA margins. We value ESL at 12.9x our FY13E EPS estimate of ₹63.6 and initiate coverage on the stock with a BUY rating and a target price of ₹ 820.

Exhibit 22: One year forward PE(x) chart



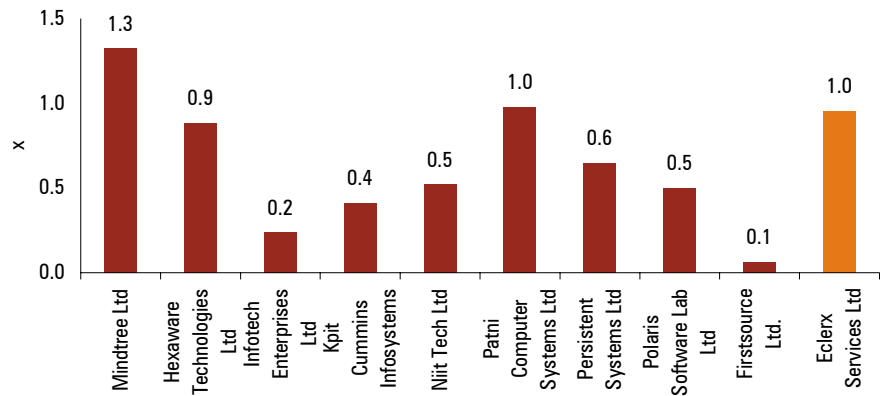
Source: Company, ICICIdirect.com Research

Exhibit 23: Trades at 1x PE/G based on FY13E earnings, a 25% premium in comparison to peer group average of 0.8x

Name	Price (₹)	Diluted EPS (₹)			P/E (x)			EV/EBIDTA (x)			PEG (x)		Mcap/Rev (x)		
		FY11	FY12E	FY13E	FY11	FY12E	FY13E	FY11	FY12E	FY13E	FY12E	FY13E	FY11	FY12E	FY13E
Mindtree Ltd	489.0	24.9	48.7	52.2	19.7	10.0	9.4	10.4	6.7	5.6	0.1	1.3	1.3	1.0	0.9
Hexaware Technologies Ltd	110.4	5.7	10.2	11.3	19.4	10.8	9.8	2.7	7.5	6.7	0.1	0.9	3.1	1.8	1.6
Infotech Enterprises Ltd	149.2	12.5	13.4	18.0	11.9	11.2	8.3	7.1	4.9	4.1	1.7	0.2	1.4	1.1	0.9
Kpit Cummins Infosystems Ltd	78.4	5.7	7.9	9.4	13.8	10.0	8.3	8.2	6.1	4.7	0.3	0.4	1.4	1.0	0.8
Niit Tech Ltd	259.5	30.5	34.3	38.7	8.5	7.6	6.7	5.7	5.1	4.1	0.6	0.5	1.3	1.0	0.8
Patni Computer Systems Ltd	485.0	46.4	32.8	37.2	10.5	14.8	13.0	7.6	6.5	5.8	NM	1.0	2.1	1.6	1.5
Persistent Systems Ltd	321.5	34.9	33.7	38.1	9.2	9.5	8.4	5.9	4.4	3.8	NM	0.6	1.7	1.3	1.1
Polaris Software Lab Ltd	159.0	5.8	22.1	25.0	27.6	7.2	6.4	26.4	4.9	4.3	0.0	0.5	3.6	0.8	0.6
Genpact Ltd.(₹)	16.4	0.2	0.9	1.1	102.2	17.2	14.9	56.4	10.8	9.5	0.0	1.0	11.0	1.9	1.7
Exlservice holdings(\$)	27.5	0.3	1.5	1.8	101.9	17.8	15.0	63.1	9.7	8.0	0.0	0.8	11.8	1.9	1.6
WNS holdings Ltd.(₹)	11.8	0.1	1.0	1.1	107.5	11.9	11.2	12.0	9.2	8.8	0.0	1.9	3.7	1.4	1.3
Firstsource Ltd.	9.5	2.7	1.5	2.4	3.6	6.3	3.9	5.0	7.7	5.5	NM	0.1	0.2	0.2	0.2
Average					13.8	9.7	8.2	8.8	6.0	5.0	0.3	0.8	1.8	1.1	0.9
Eclerx Services Ltd	730.0	40.7	56.8	63.6	17.9	12.9	11.5	14.2	9.5	8.0	0.3	1.0	6.2	4.4	3.7

Source: Bloomberg, ICICIdirect.com Research

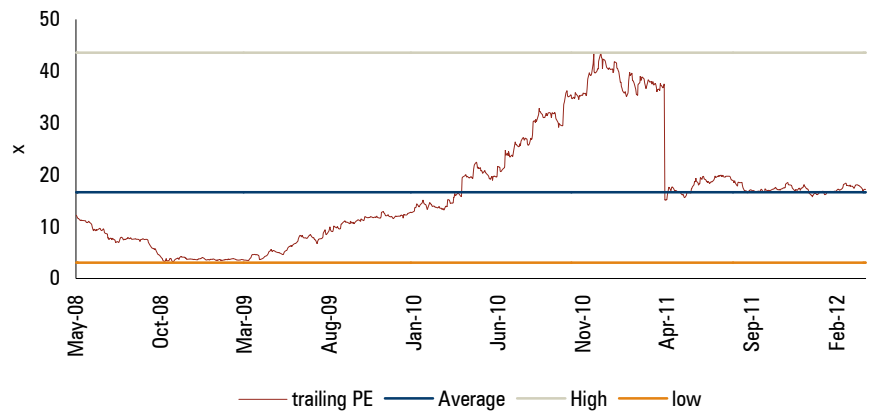
Exhibit 24: Trading at 1x PE/G, 25% premium relative to peer group average of 0.8x



Source: Company, ICICIdirect.com Research

ESL is trading at 17.5x its trailing twelve month (TTM) EPS, above its historical average of 16.6x

Exhibit 25: Trading at 17.5x its TTM EPS above its historical average of 16.6x



Source: Company, ICICIdirect.com Research

Risk & concerns

Elevated attrition may lead to above industry average wage inflation

At 26.3%, attrition remains very high at eClerx. This could likely be attributed to higher salaries paid by captives and high attrition at the analyst/senior analyst level. Though knowledge management modules help deploy freshers in a month, we believe sustained higher attrition could lead to higher wage revision. Remember, the company earned 94% of Q3FY12 revenues from FTE based pricing as it signs two or three year rolling contracts. Despite a likely build-in price escalation clause, higher than industry average wage revision could impact the EBITDA margin profile given that employee costs account for 39.3% of total revenues.

Regulation (Dodd Frank Act), process redundancy may hurt revenue growth

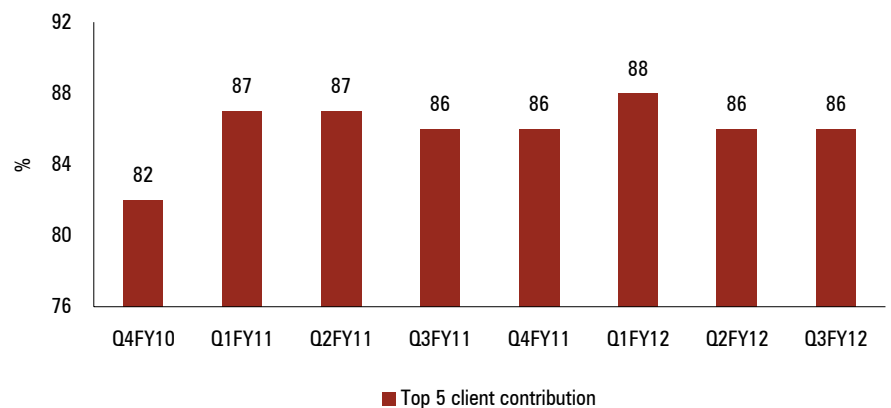
Increased regulatory changes affecting the US financial services industry could alter the outsourcing priorities of eClerx' customers. Though the exact impact of the change is being weighed, the material impact on the ability of clients to outsource middle/back office processes could lead to a retreat or changing of processes being outsourced to vendors such as eClerx. Additional risks include process redundancy. Note, the company helps clients automate processes requiring manual intervention. Over time with technology innovations a few processes become redundant necessitating the need to acquire new processes from clients.

High client concentration remains a concern

In spite of having 50+ clients including 19 Fortune 500 clients, top-5 clients contributed 86% of Q3FY12 revenues. While the sales force mandate aims to drive the non top-5 client revenues, current contribution poses inherent client contribution risk. Noticeably, deviation in the spending patterns of large clients could create quarterly volatility. Finally, though eClerx managed to grow revenues in FY09 despite a top-5 client bankruptcy, the historical performance does not assure future success.

Though client concentration remains a concern, ESL has managed top-5 client bankruptcy during the FY08-09 recession. Noticeably, retention of ESL's services by Lehman acquirer elucidates profound engagement levels with existing customers

Exhibit 26: Managing top5 client bankruptcy commendable



Source: Company, ICICIdirect.com Research

High offshore mix exposes company to foreign exchange fluctuations

eClerx' entire delivery is India based and leads to an INR cost base. Onsite costs, to an extent, provide a natural hedge to currency fluctuations. As a thumb rule, every 1% appreciation of the Indian rupee impacts EBITDA margins by 40-50 bps. Though the company hedges receivables over a 12-18 month horizon, a significant appreciation of the rupee could impact EBITDA margins and estimates.

Taxes to rise in FY13E

During December 2007-March 2011, eClerx paid an average tax rate of 11.4%. Sunset of the STPI clause led to payment of average 20% tax during 9MFY12 and could end FY12E/FY13E with average tax rate of 20%/22%, respectively.

Tables and ratios

Exhibit 27: Profit & loss account

(₹crore)	FY09	FY10	FY11	FY12E	FY13E
Total Revenues	197	257	343	477	569
Growth (%)		30.3	33.3	39.3	19.3
Total Operating Expenditure	117	28	30	30	30
EBITDA	81	100	135	202	240
Growth (%)		23.3	34.6	49.3	19.1
Depreciation	7	7	9	13	17
Other Income	(4)	(9)	8	14	16
Exchange difference		2	(16)	(11)	-
Interest	0	-	-	-	-
PBT before Exceptional Items	69	83	140	214	240
Growth (%)		19.3	68.7	53.2	12.0
Tax	8	9	17	43	48
PAT before Exceptional Items	62	74	123	171	192
Exceptional items	-	-	-	-	-
PAT before MI	62	74	123	171	192
Minority Interest & Pft. from associates	-	-	-	-	-
PAT	62	74	123	171	192
Growth (%)		19.1	67.2	39.3	12.0
EPS	32.5	37.2	40.2	56.8	63.6
EPS (Growth %)		14.4	8.3	41.2	12.0

Source: Company, ICICIdirect.com Research

Exhibit 28: Balance sheet

	FY09	FY10	FY11	FY12E	FY13E
Equity	19	19	29	29	29
Reserves & Surplus	147	181	209	274	346
Networth	166	200	238	303	375
Minority Interest	-	-	-	-	-
Loans	-	-	-	-	-
Source of funds	166	200	238	303	375
Gross Block	38	45	64	89	116
Acc.dep	18	25	33	46	63
Net Block	20	20	30	43	53
CWIP	0	2	7	7	7
Investments	85	77	28	28	28
Debtors	45	39	66	75	96
Cash & Cash equivalents	21	47	152	214	267
Loans and advances	31	50	70	97	108
Current liabilities	23	22	35	49	58
Provisions	25	25	79	112	125
Application of funds	166	200	238	303	375

Source: Company, ICICIdirect.com Research

Exhibit 29: Cash flow statement

	FY09	FY10	FY11	FY12E	FY13E
Net profit before Tax	69	83	139	214	240
Depreciation	7	7	9	13	17
(inc)/dec in Current Assets	(29)	(13)	(47)	(36)	(33)
(inc)/dec in current Liabilities	5	(0)	(17)	(43)	(48)
CF from operations	42	61	102	138	170
Other Investments	(23)	8	50	-	-
(Purchase)/Sale of Fixed Assets	(9)	(9)	(24)	(25)	(27)
CF from investing Activities	(27)	4	33	(11)	(11)
Inc / (Dec) in Equity Capital	0	1	3	-	-
Inc / (Dec) in sec.loan Funds	-	-	-	-	-
Dividend & Dividend tax	(10)	(39)	(34)	(75)	(107)
Interest Paid on Loans	(0)	-	-	-	-
CF from Financial Activities	(14)	(38)	(31)	(75)	(107)
Exchange rate differences	1	0	0	11	-
Opening cash balance	22	21	47	151	214
Closing cash	21	47	151	214	267

Source: Company, ICICIdirect.com Research

Exhibit 30: Key ratios

	FY09	FY10	FY11	FY12E	FY13E
Per Share Data					
					(₹)
EPS-diluted	32.5	37.2	40.2	56.8	63.6
Cash EPS	11.1	23.8	52.5	73.7	91.9
BV	88	105	83	104	129
Operating profit per share	39	49	44	65	77
Operating Ratios					
					(%)
EBITDA/Total Revenues	41.3	39.1	39.4	42.3	42.2
PBT/Total Revenues	35.2	32.2	40.8	44.9	42.1
PAT/ Total Revenues	31.3	28.6	35.9	35.9	33.7
Return Ratios					
					(%)
RoNW	37.3	36.8	51.6	56.5	51.1
RoCE	44.7	51.1	57.5	69.8	65.9
RoIC	31.3	17.3	37.5	31.6	22.7
Valuation Ratios					
					(x times)
P/E	22.5	19.6	18.1	12.9	11.5
EV / EBITDA	23.6	19.1	14.2	9.5	8.0
Price to Book Value	8.3	7.0	8.8	7.0	5.6
EV/Total Revenues	9.7	7.5	5.6	4.0	3.4
MCap/Total Revenues	10.7	8.2	6.2	4.4	3.7
Total Revenues/ Equity	1.2	1.3	1.4	1.6	1.5
Turnover Ratios					
					(x times)
Inventory Turnover	-	-	-	-	-
Debtors Turnover Ratio	83	56	70	57	62
Creditors Turnover Ratio	43	31	37	37	37
Fixed Asset Turnover ratio	37	30	31	33	35
Solvency Ratios					
					(x times)
Debt / Equity	-	-	-	-	-
Current Ratio	1.5	1.9	2.5	2.6	3.2
Quick Ratio	1.5	1.9	2.5	2.6	3.2
Debt / EBITDA	-	-	-	-	-

Source: Company, ICICIdirect.com Research

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