

eClerx reported 6.1% Q2FY13 revenue growth at \$29.8mn (SPAe: \$30.4mn) on the back of 4.6% inorganic growth through Agilyst and 1.5% organic growth. Its EBIT Margins declined by 490bps to 32.4% sequentially on the back of higher employee and amortization cost. PAT margins came down to 15.6% from 33.5% in Q1FY13, cumulatively affected due to decrease in EBIT margins coupled with other income loss of INR 187mn. Thus, we have adjusted our FY13 EPS to inculcate this drop. However, we expect FY14 numbers to be inline with our existing estimates on the back of strong order pipeline. We continue to recommend BUY with a 18-month TP of INR 874.0

Revenue Growth – Inorganic Growth Driver

eClerx reported Q2FY13 revenue of \$29.8mn slightly below our expectation of \$30.4mn. It's 6.1% sequential USD revenue growth was driven by (i) Agilyst acquisition (4.6%) with Q2 being the first fully accounted quarter and (ii) Organic growth (1.5%) of which 3% was volume driven, partially offset by pricing cuts of 1.5% given to some clients as bulk discounts for business continuity. The company added 4 new clients with the total number of active clients being stable at 54.

Margin – Decline

The EBIT Margins (excl. Other Income) declined by 490bps QoQ on the back of (i) Sales and Delivery headcount at onsite increasing from 52 to 59 and higher employee cost due to increased attrition (-360bps) (ii) Goodwill amortization of Agilyst (-200bps) (iii) INR appreciation by the end of the quarter (-100bps) partially offset by G&A efficiency gains (+170bps). The PAT declined from 33.5% to 15.6% on account of EBIT Margin decline and Other Income loss of INR 187mn emanating out of Hedge Loss of INR 120mn and Revaluation loss of INR 88mn. We expect to see margins stabilize at these level in FY13 because of continuing S&M spend, integration charge and amortization cost.

Growth Avenues

The growth was mainly backed by US operations, with contribution of North America to overall business growing from 71% to 75%. Top-5 clients contributed less than 80% for the first time in 12 quarters. Revenues from SEZ business saw a decline causing a jump in tax rates. We expect the tax rates to stabilize at 23% for FY13.

Capex

The company has increased seating capacity in Pune to 4600 seats. It has signed a lease to take ~22k sq.ft. in Chandigarh to increase total capacity to 1200 seats there. It has expanded its office in London and Philadelphia and plans to expand New York office as well, in H2FY13. The company has estimated a total outflow of \$19-\$24mn for Agilyst acquisition.

Outlook and Recommendation

We have adjusted our FY13 EBIT and PAT numbers to inculcate the employee, integration and amortization costs for H2FY13/14. However we expect the company to clock 27% USD revenue CAGR over FY12-14E at lower but stable margins of 35.6%/34.1% in FY13E/14E. Thus, we continue to recommend BUY with 18-month TP of INR 874.0 at 12x FY14E earnings.

Shareholding-Sep' 12	% Holding
Promoter	54.2
FII's	20.3
DII's	13.1
Others	12.4

Key Data	
BSE Code	532927
NSE Code	ECLERX
Bloomberg Code	ECLX IN
Reuters Code	ECLX.NS
No. of Shares, mn	29.0
Face Value	10.0
Mcap, INR bn	23.3
52 week H/L	900.0 / 570.0
2 Week Avg. Qty. BSE	12,000
Free Float	45.16%
Beta	0.50

YE Mar (INR Mn)	FY11	FY12	FY13E	FY14E
Revenue	3,421.0	4,728.4	6,397.0	7,546.6
Growth %	33.1%	38.2%	35.3%	18.0%
EBIDTA	1,346.0	1,896.3	2,467.2	2,784.7
Net Income	1,224.8	1,595.8	1,721.2	2,134.3
Adj. EPS	40.7	54.9	59.2	73.4
Growth %	50.7%	34.9%	7.9%	24.0%
P/E	19.74	14.63	13.56	10.94
ROE	55.9%	58.6%	48.2%	45.0%
PBV	9.73	7.62	5.72	4.31
EV/EBIDTA	16.5	11.7	8.8	7.4

Rebased eClerx vs Sensex

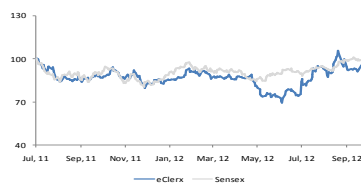


Fig 1. Quarterly Performance – 6.4% IP led and 3% Product Engineering

Quarterly Performance	Quarterly Numbers				QoQ Growth Trend (%)						(%)
	Q2FY13	Q2FY12	YoY	Q1FY13	Q2FY13	Q4FY12	Q1FY13	Q3FY12	Q4FY12	Q3FY12	Q2FY12
Revenues (USD Mn)	30	24	22.63%	28	6.05%	26	10.20%	25	0.39%	4.53%	8.97%
Revenues (INR Mn)	1,617	1,137	42.22%	1,537	5.20%	1,276	20.49%	1,320	-3.34%	16.07%	14.16%
Less: Employee Cost	745	498	49.52%	652	14.16%	575	13.38%	519	10.84%	4.22%	11.41%
Gross Profit	872	639	36.53%	885	-1.41%	700	26.34%	801	-12.53%	25.30%	16.39%
<i>Gross Margins</i>	53.95%	56.20%		57.57%		54.90%		60.67%			
Less: G&A	199	153	30.13%	238	-16.34%	187	27.27%	161	16.15%	5.23%	20.47%
Less: S&M	72	44	63.54%	35	103.27%	46	-23.25%	43	8.23%	-3.15%	37.50%
EBIDTA	601	442	36.05%	611	-1.65%	467	30.86%	597	-21.74%	35.08%	13.33%
<i>EBIDTA Margins</i>	42.06%	37.66%		38.62%		38.17%		44.19%			
Less: Depreciation	77	31		38		40		34			
EBIT	524	411	27.57%	573	102.78%	427	-5.88%	563	17.48%	10.85%	29.17%
<i>EBIT Margins</i>	36.67%	35.02%		36.22%		34.87%		41.65%			
Add: Exchng Diff	-	102		-		-		31			
Add: Other Income	(187)	37		46		(51)		31			
PBT	337	513		619		375		625			
Less: Taxes	85	108		105		71		126			
<i>Tax Rate</i>	25.31%	21.13%		16.98%		18.99%		20.14%			
PAT	252	405	-37.84%	514	-8.57%	304	34.33%	499	-24.14%	36.91%	12.30%
<i>PAT Margins</i>	30.60%	35.61%		30.60%		23.84%		37.85%			
Add: Extraordinary Items	-	-		21		-		-			
Net Income	252	405		493		304		499			
EPS (Diluted)	8.6	15.3	-43.73%	16.9	-49.05%	10.5	60.95%	17.3	-39.31%	13.07%	25.41%

(Source: Company, SPA)

Fig 2. Geographical Segment Performance

Geographical Breakdown	Share Proportion (%)				QoQ Growth Trend (%)						YoY Growth (%)
	Q2FY12	Q3FY12	Q4FY12	Q1FY13	Q2FY13	Q2FY13	Q1FY13	Q4FY12	Q3FY12	Q2FY12	
North America	61.00%	61.00%	63.00%	60.00%	58.00%	13.22%	5.69%	16.11%	12.57%	0.39%	41.50%
Europe	35.00%	34.00%	30.00%	33.00%	34.00%	1.32%	8.99%	-14.15%	-3.51%	-3.79%	-10.38%
RoW	4.00%	5.00%	7.00%	6.00%	8.00%	-5.80%	20.79%	22.59%	-30.32%	17.13%	-18.24%

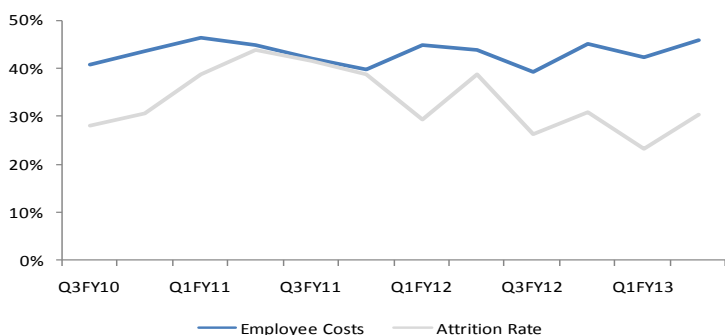
(Source: Company, SPA)

Fig 3. Client Segment Performance

Client Conc. Breakdown	Share Proportion (%)				QoQ Growth Trend (%)						YoY Growth (%)
	Q2FY12	Q3FY12	Q4FY12	Q1FY13	Q2FY13	Q2FY13	Q1FY13	Q4FY12	Q3FY12	Q2FY12	
Top 5 Clients	81.00%	82.00%	87.00%	87.00%	86.00%	40.06%	34.26%	33.45%	29.59%	22.26%	12.65%
Non Top 5	19.00%	18.00%	13.00%	13.00%	14.00%	3.87%	22.53%	45.38%	29.59%	12.22%	83.95%

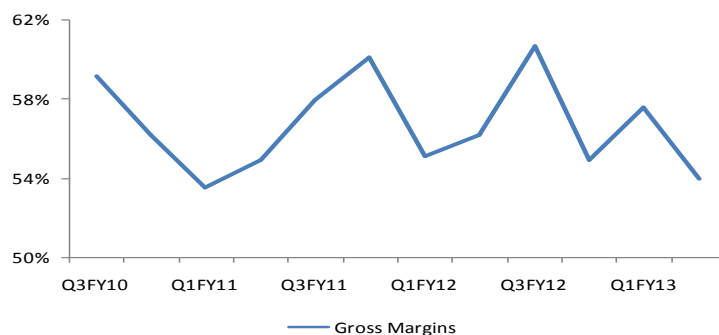
(Source: Company, SPA)

Fig 4. Employee Costs increased due to onsite employees and high attrition.



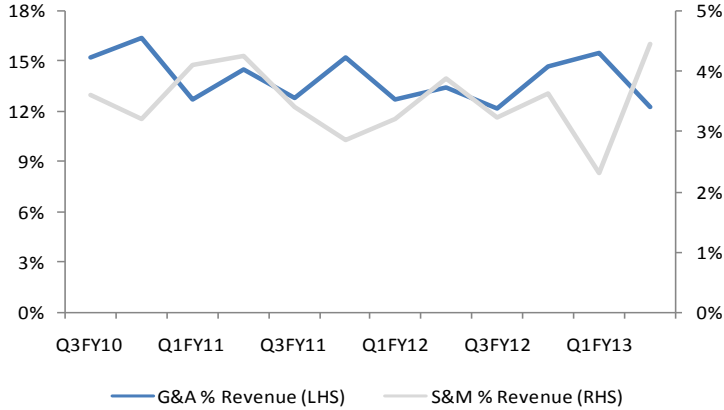
(Source: Company, SPA)

Fig 5. Higher employee cost led to decrease in gross margins.



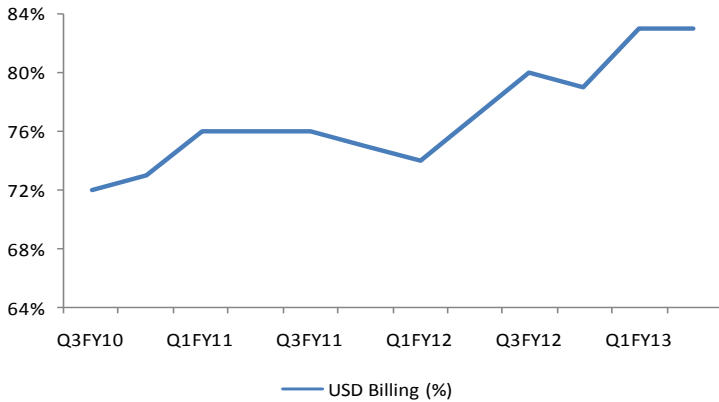
(Source: Company, SPA)

Fig 6. Sales Team was beefed up from 52 to 59, hence increase in S&M spend.



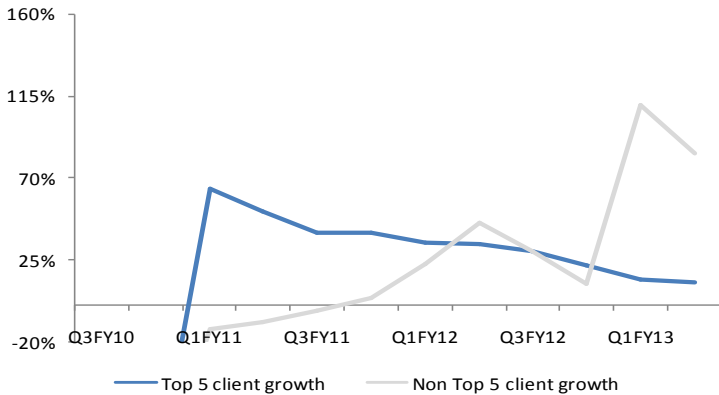
(Source: Company, SPA)

Fig 7. % USD Billing stable



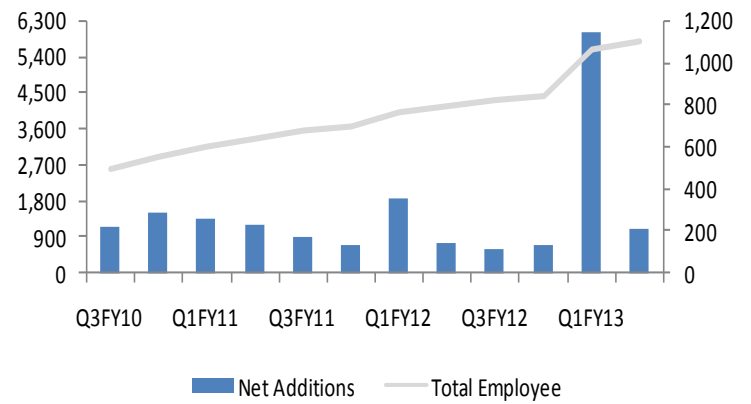
(Source: Company, SPA)

Fig 8. Non-top 5 clients continued to show good growth YoY on a lower base.



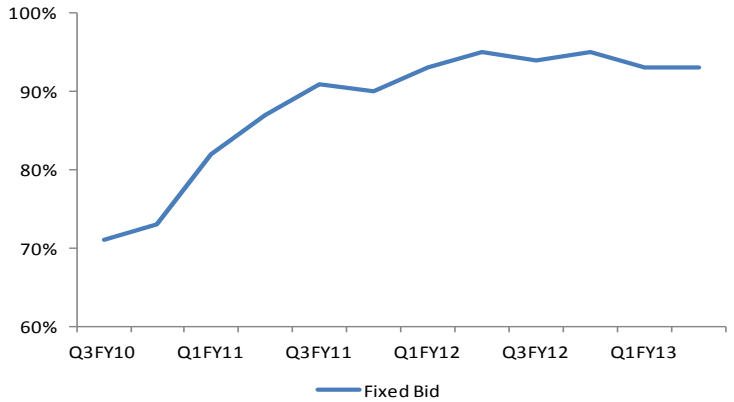
(Source: Company, SPA)

Fig 9. 215 net hires in Q2FY13 on the back of 1140 in the last quarter.



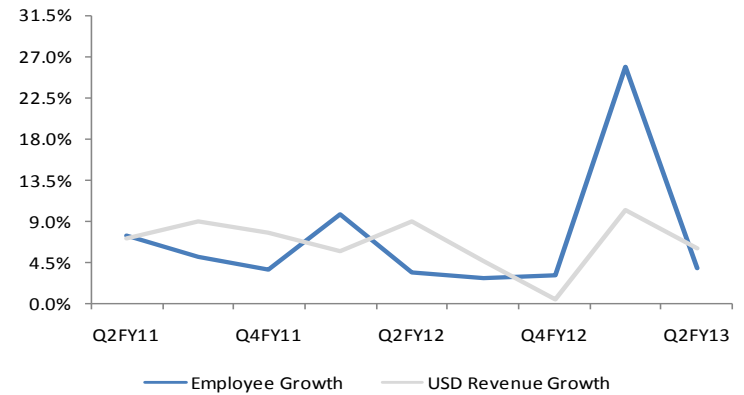
(Source: Company, SPA)

Fig 10. Fixed Bid contracts stable as a % of overall revenue



(Source: Company, SPA)

Fig 11. Employee growth catching up with USD revenue growth.



(Source: Company, SPA)

Finance

Income Stat. YE Mar (INR Mn)	FY11	FY12	FY13E	FY14E
Net Sales (USD Mn)	75.5	97.5	120.7	157.9
Growth (%)	37.23%	29.14%	23.79%	30.79%
Net Sales	3,421	4,728	6,397	7,547
Growth (%)	33.10%	38.22%	35.29%	17.97%
Employee Expenses	1,477	2,039	2,817	3,404
G&A	475	628	857	1,072
S&M	124	165	256	287
EBIDTA (excl OI)	1,346	1,896	2,467	2,785
EBIDTA Margin (%)	39.35%	40.11%	38.57%	36.90%
EBIDTA Growth (%)	59.49%	40.89%	30.10%	12.87%
Depreciation	91	130	91	113
EBIT	1,255	1,767	2,377	2,672
EBIT Margins (%)	36.68%	37.36%	37.15%	35.40%
Interest Expense	-	-	-	-
Other Income	240	223	(41)	313
PBT	1,495	1,990	2,335	2,984
Tax Expenses	168	394	514	750
PAT	1,328	1,596	1,821	2,234
PAT Margins (%)	38.80%	33.75%	28.47%	29.61%
PAT Growth (%)	80.54%	20.21%	14.12%	22.69%
Exceptionals	103	-	-	-
APAT	1,225	1,596	1,821	2,234
APAT Margins (%)	35.80%	33.75%	28.47%	29.61%
APAT Growth (%)	66.56%	30.30%	14.12%	22.69%

Key Ratios	FY11	FY12	FY13E	FY14E
Per Share Data (INR)				
Reported EPS	41.4	54.9	59.2	73.4
Adj. EPS	40.7	54.9	59.2	73.4
Growth (%)	9.60%	34.93%	7.85%	24.01%
CEPS	40.0	52.3	65.4	70.9
DPS	19.0	25.3	27.2	33.8
BVPS	82.6	105.4	140.4	186.3
FCFPS	54.3	49.1	55.6	83.2
Return Ratios (%)				
RoCE	50.37%	52.00%	49.00%	40.04%
RoIC	46.30%	46.24%	42.95%	35.13%

Du Pont Analysis	FY11	FY12	FY13E	FY14E
Tax Burden	87.96%	80.21%	77.00%	74.00%
Interest Burden	110.96%	112.62%	98.19%	112.15%
Sales Turnover	0.37	0.37	0.36	0.34
Asset Turnover	1.56	1.74	1.79	1.59
Debt Liabilities	1.00	1.00	1.00	1.00
RoE	55.89%	58.60%	48.20%	44.96%

Balance Sheet (INR Mn)	FY11	FY12	FY13E	FY14E
Share Capital	289	291	291	291
Stock Outstanding	3	3	2	2
Reserves and Surplus	2,092	2,769	3,787	5,122
Total Network	2,384	3,063	4,079	5,415
Long Term Provisioning	-	2	2	2
Secured / Unsecured	-	-	-	-
Deferred Tax Liability	-	2	7	-
Source of Funds	2,384	3,066	4,088	5,417
Net Block	370	236	231	250
CWIP	-	-	-	-
Goodwill	-	-	-	-
Investments	279	999	1,181	1,500
Current Assets	2,873	2,675	3,689	4,888
Current Liabilities	1,144	853	1,013	1,228
Net Current Assets	1,728	1,822	2,677	3,660
Deferred Tax Assets	7	10	-	6
Application of Funds	2,384	3,066	4,088	5,417

Cash Flow (INR Mn)	FY11	FY12	FY13E	FY14E
EBT	1,392	1,990	2,235	2,884
Misc. Expenditure	(1)	(1)	(1)	-
Add: Depreciation	91	130	191	213
Less: Taxes Paid	(168)	(394)	(514)	(750)
Change in Working Capital	209	(420)	(368)	(40)
CFs from Operations (a)	1,524	1,305	1,543	2,307
Change in Fixed Assets	(43)	(121)	(74)	(110)
Change in Investments	496	(720)	(182)	(319)
Others	-	-	-	-
CFs from Investments (b)	453	(841)	(256)	(429)
Change in Equity	-	-	-	-
Change in Debt	(0)	-	-	-
Dividend Paid	(509)	(746)	(888)	(1,023)
CFs from Financing (c)	(509)	(746)	(888)	(1,023)
Change in Cash (a+b+c)	1,469	(282)	398	855
Opening Cash	471	1,940	1,189	1,676
Closing Cash	1,940	1,658	1,587	2,531
FCF	1,567	1,426	1,617	2,418

Valuation Ratios	FY11	FY12	FY13E	FY14E
P/E (x)	19.74	14.63	13.56	10.94
P/BV (x)	9.73	7.62	5.72	4.31
PEG (x)	2.06	0.42	1.73	0.46
EV/ Sales (x)	6.50	4.69	3.39	2.75
EV/EBIDTA (x)	16.53	11.68	8.78	7.44
Payout Ratio (%)	53.82%	53.82%	53.82%	53.82%

Sharad Avasthi Dy Head - Equity Research sharad.avasthi@spagroupindia.com Tel.: +91-33-4011 4800 Ext.832

Disclaimer: This report is for the personal information of the authorized recipient and does not construe to be any investment, legal or taxation advice to you. SPA Securities Limited (hereinafter referred as SPA) is not soliciting any action based upon it. This report is not for public distribution and has been furnished to you solely for your information and should not be reproduced or redistributed to any other person in any form. This document is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The intent of this document is not in recommendatory nature. The views expressed are those of analyst and the Company may or may not subscribe to all the views expressed therein. The report is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon such. SPA or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. Neither the Firm, not its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information. SPA or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement. The recipients of this report should rely on their own investigations. SPA and/or its affiliates and/or employees may have interests/ positions, financial or otherwise in the securities mentioned in this report. SPA has incorporated a Disclosure of Interest Statement in this document. This should, however, not be treated as endorsement of the views expressed in the report.

Disclosure of Interest Statement

- | | |
|--|-------|
| 1. Analyst ownership of the stock | - Yes |
| 2. Group/Directors ownership of the stock | - No |
| 3. Broking relationship with company covered | - No |

This information is subject to change without any prior notice. SPA reserves the right to make modifications and alternations to this statement as may be required from time to time. Nevertheless, SPA is committed to providing independent and transparent recommendations to its clients, and would be happy to provide information in response to specific client queries.

SPA Securities Limited : SPA House, Nyay Sagar, Near Gurunanak Hospital, Bandra (E), Mumbai - 400051, Tel. No. : +91-022-4289 5600

For More Information Visit Us At : www.spasecurities.com

SPA CAPITAL SERVICES LIMITED SPA COMTRADE PRIVATE LIMITED

Investment Advisory services, AMFI Reg. No. ARN-0007	Member of NCDEX & MCX. NCDEX TMID-00729, NCDEX FMC No.NCDEX/TCM/CORP/0714
---	---

SPA CAPITAL ADVISORS LIMITED. SPA INSURANCE BROKING SERVICES LTD.

SEBI registered Category-1 Merchant Bankers SEBI Regn. No. INM000010825	Direct Broker for Life and General Insurance Broking IRDA Lic. Code No. DB053/03
---	--

SPA Securities Ltd	SEBI Reg. Nos.
NSE Cash	INB231178238
NSE Future & Option	INF231173238
NSE Currency Derivatives	INE231178238
BSE Cash	INB011178234
BSE Currency Derivatives	INE011178234
MCX-SX Currency Derivatives	INE261178238
OTCEI	INB200891838
PMS	INP000003179
CDSL DP	IN-DP-CDSL-485-2008
NSDL DP	IN-DP-NSDL-316-2009