

## RESEARCH

### eClerx Services | TP: Rs 440 | +3% | REDUCE

Valuation inexpensive but lacks catalysts

### Banking

Sharp reduction in term deposit rates in April

## SUMMARY

### eCLERX SERVICES

eClerx's (ECLX) Q4FY20 dollar revenue declined by a sharp 7.9% QoQ owing to onsite revenue contraction of 15%. EBIT margins at 16.8% reversed gains recouped over the last six quarters. The Q1FY21 outlook is also dim. We cut FY21/FY22 EPS by 27%/11% to factor in the Covid-19 hit and lower our Mar'21 TP to Rs 440 (vs. Rs 490 earlier). A strong cash position coupled with inexpensive valuations (7x FY22E EPS) would limit downsides. But a lack of catalysts will also cap any upsides – we recommend REDUCE vs. SELL earlier.

[Click here for the full report.](#)

## BANKING

As per latest RBI data, banks' fresh lending rates declined 52bps MoM to 8.3% in Apr'20, registering the steepest ever fall since Oct'14. A large part of the decline was driven by public sector banks (PSB) where fresh rates dropped 60bps to ~8% while private banks saw a 38bps decline to 8.9%. The lending rate on outstanding loans fell 11bps in Apr'20 and ~40bps over the last six months. Banks have been reducing MCLR on the back of lower policy rates, which has translated into lower fresh rates.

[Click here for the full report.](#)

## TOP PICKS

### LARGE-CAP IDEAS

Company	Rating	Target
<a href="#">Bajaj Finance</a>	Buy	3,000
<a href="#">Cipla</a>	Buy	690
<a href="#">Eicher Motors</a>	Buy	18,100
<a href="#">GAIL</a>	Buy	140
<a href="#">Petronet LNG</a>	Buy	330

### MID-CAP IDEAS

Company	Rating	Target
<a href="#">Alkem Labs</a>	Buy	2,950
<a href="#">Greenply Industries</a>	Buy	145
<a href="#">Laurus Labs</a>	Buy	630
<a href="#">Muthoot Finance</a>	Buy	950
<a href="#">Transport Corp</a>	Buy	240

Source: BOBCAPS Research

## DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	0.88	(2bps)	19bps	(127bps)
India 10Y yield (%)	6.02	0bps	5bps	(106bps)
USD/INR	75.54	0.1	0	(8.5)
Brent Crude (US\$/bbl)	40.80	(3.5)	31.7	(34.5)
Dow	27,572	1.7	13.3	5.8
Shanghai	2,938	0.2	1.5	3.0
Sensex	34,371	0.2	8.6	(13.6)
India FII (US\$ mn)	5Jun	MTD	CYTD	FYTD
FII-D	(48.7)	(225.7)	(14,281.0)	(4,521.5)
FII-E	1.3	2,598.1	(2,316.4)	4,286.5

Source: Bank of Baroda Economics Research

## BOBCAPS Research

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**REDUCE**

TP: Rs 440 | ▲3%

**ECLERX SERVICES**

| IT Services

| 09 June 2020

## Valuation inexpensive but lacks catalysts

eClerx's (ECLX) Q4FY20 dollar revenue declined by a sharp 7.9% QoQ owing to onsite revenue contraction of 15%. EBIT margins at 16.8% reversed gains recouped over the last six quarters. The Q1FY21 outlook is also dim. We cut FY21/FY22 EPS by 27%/11% to factor in the Covid-19 hit and lower our Mar'21 TP to Rs 440 (vs. Rs 490 earlier). A strong cash position coupled with inexpensive valuations (7x FY22E EPS) would limit downsides. But a lack of catalysts will also cap any upsides – we recommend **REDUCE** vs. **SELL** earlier.

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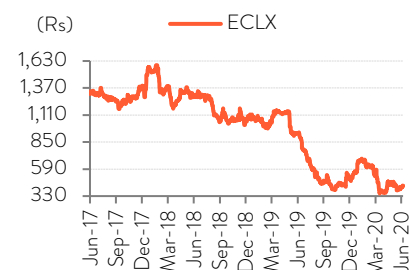
**Disappointing operating performance:** Q4FY20 dollar revenue declined by 7.9% QoQ (vs. -2.1% estimated), with 590bps EBIT margin contraction (vs. -120bps est.). Management attributed the sequential decline to Covid-led supply constraints and planned roll-offs. Italian business (CLX subsidiary) and onshore consulting were affected the most.

Ticker/Price	ECLX IN/Rs429
Market cap	US\$ 213.5mn
Shares o/s	38mn
3M ADV	US\$0.3mn
52wk high/low	Rs 949/Rs 320
Promoter/FPI/DII	50%/25%/25%

Source: NSE

**Dim outlook:** We expect a severe hit on the top and bottomline in Q1FY21 owing to demand headwinds in the wake of Covid-19. Work-from-home costs are expected to exceed Rs 110mn. Management believes Q1 would be the trough, after which it is hopeful of recovery. Capex and depreciation are guided to increase due to work-from-home costs. ECLX hopes to use levers such as delayed promotions, flat salary growth for top management, reduced travel costs and lower rentals to mitigate the impact on operating margins.

## STOCK PERFORMANCE



Source: NSE

**Stock lacks catalysts:** Following a 30%+ correction over the last four months, valuations at 9.4x/7x FY21E/FY22E P/E are inexpensive. However, the absence of catalysts cap upsides, with the Covid-19 crisis having pushed back hopes of growth and margin recovery. We recommend **REDUCE** vs. **SELL** earlier.

## KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
Total revenue (Rs mn)	13,651	14,305	14,376	13,667	15,791
EBITDA (Rs mn)	3,668	3,092	3,249	2,924	3,758
Adj. net profit (Rs mn)	2,887	2,283	2,087	1,716	2,300
Adj. EPS (Rs)	74.5	60.1	55.5	45.6	61.1
Adj. EPS growth (%)	(15.7)	(19.4)	(7.7)	(17.8)	34.0
Adj. ROAE (%)	23.9	20.2	17.5	12.5	15.9
Adj. P/E (x)	5.8	7.1	7.7	9.4	7.0
EV/EBITDA (x)	3.5	3.9	4.1	4.6	3.0

Source: Company, BOBCAPS Research



**BANKING**

09 June 2020

**Sharp reduction in term deposit rates in April**

**Fresh lending rates down 50bps MoM:** As per latest RBI data, banks’ fresh lending rates declined 52bps MoM to 8.3% in Apr’20, registering the steepest ever fall since Oct’14. A large part of the decline was driven by public sector banks (PSB) where fresh rates dropped 60bps to ~8% while private banks saw a 38bps decline to 8.9%. The lending rate on outstanding loans fell 11bps in Apr’20 and ~40bps over the last six months. Banks have been reducing MCLR on the back of lower policy rates, which has translated into lower fresh rates.

**Term deposit rates dip 30bps:** The weighted average domestic term deposit rate (WADTDR) of scheduled commercial banks (SCB) declined by 30bps to ~6.1% in Apr’20. Here too, PSBs fuelled the decline with a reduction of 34bps in WADTDR to ~6% (and 65bps since Nov’19) while that for private banks dipped 22bps to ~6.3%.

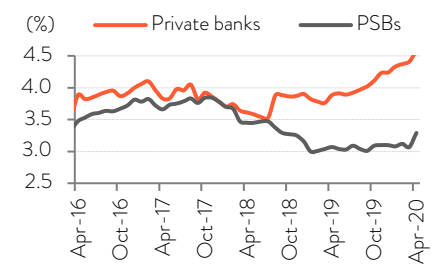
**Spreads increase further for private banks:** A sharper reduction in term deposit rates versus minor cuts in outstanding lending rates (down 5bps MoM to 10.9%) led to a further increase in spreads for private banks. As of Apr’20, spreads for private banks/PSBs stood at 4.6%/3.3%.

**Likely pressure on NIMs ahead:** The median MCLR of SCBs has dipped 15bps MoM to ~7.9% in May’20. A bulk of the banking sector’s loan portfolio is currently linked to MCLR where both large/mid-sized private banks and PSBs have cut rates by 15-65bps since Dec’19. We believe it won’t be long before surplus liquidity and weak credit growth start translating the policy rate cuts into lower lending rates. This apart, banks would also begin to register the impact of repo-linked loans. The resultant margin pressure is likely to be mitigated to some extent by reduced deposit rates.

Vikesh Mehta

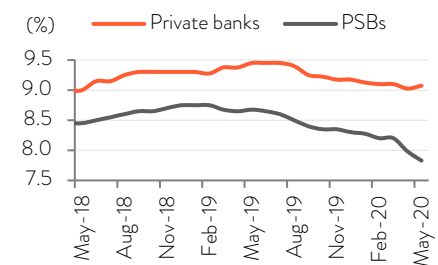
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**LENDING SPREADS OF PRIVATE BANKS CONTINUE TO INCH UP**



Source: RBI, BOBCAPS Research

**MEDIAN MCLR ON THE DECLINE**



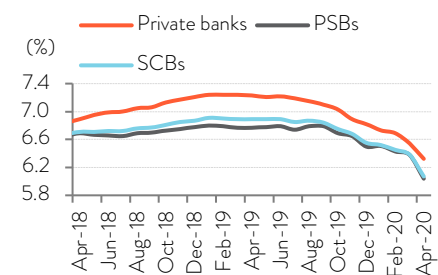
Source: RBI, BOBCAPS Research

**FIG 1 – MCLR OF BANKS DOWN >15BPS SINCE DEC’19**

Banks	1-year MCLR (%)						Change (bps) May-20 over Dec-19
	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	
AXSB	8.15	8.15	8.15	8.10	7.95	7.80	(35)
HDFCB	8.15	8.15	8.15	8.15	7.95	7.95	(20)
ICICIBC	8.25	8.20	8.20	8.15	8.00	7.75	(50)
IIB	9.40	9.30	9.30	9.25	9.25	9.25	(15)
KMB	8.40	8.40	8.35	8.35	8.10	7.90	(50)
CBK	8.35	8.35	8.20	8.20	7.85	7.85	(50)
SBIN	7.90	7.90	7.85	7.75	7.40	7.25	(65)

Source: RBI, BOBCAPS Research

**TERM DEPOSIT RATES HAVE BEGUN TO COME OFF**



Source: RBI, BOBCAPS Research



## Disclaimer

### Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

**ADD** – Expected return from >+5% to +15%

**REDUCE** – Expected return from -5% to +5%

**SELL** – Expected return <-5%

**Note:** Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

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