FIRST LIGHT

11 June 2021

RESEARCH

BOB Economics Research | Monthly Chartbook

India on path to recovery

eClerx Services | Target: Rs 1,620 | +21% | BUY

Upbeat FY22 outlook; upgrade to BUY

TOP PICKS

Large-cap ideas

Company	Rating	Target
TCS	Buy	3,780
Tech Mahindra	Buy	1,190
Tata Power	Buy	131

Mid-cap ideas

Company	Rating	Target
Alkem Labs	Buy	3,620
Ajanta Pharma	Buy	2,300
Alembic Pharma	Buy	1,230

Source: BOBCAPS Research

Daily macro indicators

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.49	(4bps)	(9bps)	76bps
India 10Y yield (%)	6.02	1bps	0bps	25bps
USD/INR	72.98	(0.1)	0.7	3.5
Brent Crude (US$/bbl)	72.22	0.0	5.8	73.1
Dow	34,447	(0.4)	(1.0)	27.6
Shanghai	3,591	0.3	5.0	22.0
Sensex	51,942	(0.6)	5.6	51.7
India FII (US$ mn)	**8 Jun**	**MTD**	**CYTD**	**FYTD**
FII-D	(33.1)	(102.7)	(2,683.3)	(656.0)
FII-E	527	1,139.9	7,726.0	399.7

Source: Bank of Baroda Economics Research

SUMMARY

India Economics: Monthly Chartbook

Our economic activity tracker shows that economy in May'21 was 19% below Feb'20 baseline compared with a 13% dip in Apr'21. While a number of high frequency indicators—E-way bills, toll collections, vehicle registration, GST collections—are showing MoM deceleration, the overall impact on the economy is far more benign than the first wave when our tracker went to as low as 43% below the baseline. A normal monsoon, gradual opening up of various sectors and vaccinations imply consumer demand and confidence will revert gradually. Centre's borrowing may exceed current estimates with extension of free foodgrain scheme till Nov'21 and GST compensation to states.

Click here for the full report.

eClerx Services

- ECLX reported Q4FY21 revenue growth of 19.3% CC QoQ, including 6.3% organic growth and the balance from its Personiv acquisition
- EBITDA margin at 32.8% was up 300bps QoQ. We raise FY22/FY23 EPS 13%/17% and roll over to a new Mar'22 TP of Rs 1,620 (vs. Rs 950)
- Upgrade from REDUCE to BUY at a higher target P/E of 12x (vs. 8x) on upbeat Q4 results and a better FY22 growth and margin outlook

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India on path to recovery

Our economic activity tracker shows that economy in May'21 was 19% below Feb'20 baseline compared with a 13% dip in Apr'21. While a number of high frequency indicators—E-way bills, toll collections, vehicle registration, GST collections—are showing MoM deceleration, the overall impact on the economy is far more benign than the first wave when our tracker went to as low as 43% below the baseline. A normal monsoon, gradual opening up of various sectors and vaccinations imply that consumer demand and confidence will revert gradually. Centre's borrowing may exceed current estimates with extension of free foodgrain scheme till Nov'21 and GST compensation to states.

State specific restrictions easing: India's Covid-19 daily addition in cases have seen a decline in Jun'21 (1-9 Jun 2021) to 0.1mn compared with 0.3mn increase in May'21. This has led to states announcing re-opening in a gradual manner. Google mobility index (workplace) have improved from a low of (-) 60% in May'21 to (-) 25% in Jun'21.

Slow and steady recovery: Closure of retail stores has had an impact on production volume and sales of passenger cars (-25% MoM), two-wheelers (-28% MoM), E-Way bills (-35% MoM), toll collections (-29% MoM)and GST collections (-27% MoM). RBI's consumer conficence also dropped to a record low (48.5 in May'21). However, economic impact of second wave is far more muted with non-oil-non-gold imports falling by 3% over a two-year horizon compared with 44% decline during Apr-May'20. IMD expects above normal monsoon which is positive for Kharif sowing.

Centre's borrowing to increase: Centre's tax collections during FY21 exceeded revised estimated by Rs 1.2tn led by indirect taxes. Fiscal deficit was at 9.3% versus revised estimate of 9.5%. In Apr'21 as well, revenue collections have been better than last year at Rs 1.3tn versus Rs 241bn last year. Centre has budgeted gross borrowing of Rs 12.1tn in FY22. States are likely to borrow ~Rs 8.5tn. Centre has indicated it will borrow to meet GST compensation gap (Rs 1.58tn). The extension of PMGKAY (foodgrains) scheme till Nov'21 and free vaccination for 18-44 age group will cost additional ~Rs 1tn.

Policy normalisation in Q4: During FYTD22, India's 10Y yield fell by 14bps. This was supported by RBI's liquidity measures ranging from OMOs (Rs 365bn) and GSAP-1.0 of Rs 1tn. RBI has announced another upfront Rs 1.2tn purchase of securities under GSAP-2.0. This has kept 10Y yield stable at ~6%. Going forward, supply constraints and pent up demand will keep inflation at ~5%. We expect policy normalisation from Q4FY22 when RBI is likely to reduce the wedge between repo and reverse repo rate.

INR rebounds: After depreciating by 1.3% in Apr'21, INR regained strength in May'21 and rose by 2%. A decline in Covid-19 cases and a weaker US$ (DXY fell by 1.6% in May'21) supported INR. Even in Jun'21, INR has traded with an appreciating bias supported by FII inflows and weakness in US$. However, with oil prices at a 2-year high, INR may come under some pressure.

Note: The source for all exhibits is 'CEIC and Bank of Baroda' unless otherwise specified

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RESULT REVIEW

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

BUY
TP: Rs 1,620 | ⮝ 21%

ECLERX SERVICES | IT Services | 10 June 2021

Upbeat FY22 outlook; upgrade to BUY

- **ECLX reported Q4FY21 revenue growth of 19.3% CC QoQ, including 6.3% organic growth and the balance from its Personiv acquisition**
- **EBITDA margin at 32.8% was up 300bps QoQ. We raise FY22/FY23 EPS 13%/17% and roll over to a new Mar'22 TP of Rs 1,620 (vs. Rs 950)**
- **Upgrade from REDUCE to BUY at a higher target P/E of 12x (vs. 8x) on upbeat Q4 results and a better FY22 growth and margin outlook.**

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Growth uptick: Q4 dollar revenue at US$ 64mn increased 19.7% QoQ USD (19.3% CC of which 6.3% CC was organic growth), below our estimate of US$ 69mn. Demand recovery has been faster than management expected driven by the incorporation of Personiv and increased utilisation (at 83.8%) as the 'work-from-home' environment stabilised. Utilisation increased 260bps QoQ and 870bps YoY. Attrition shot up to 35.8%, similar to the company's pre-Covid levels. EBIT margin at 27.6% (27% est.) expanded 290bps QoQ as offshore revenue increased 23% QoQ.

Synergy benefits from Personiv: Q4 annualised revenue from Personiv (acquisition completed on 23 Dec 2020) crossed the US$ 30mn run rate and the growth outlook remains positive based on revenue and cost synergies from the overlap in operating geographies. We expect the readily available talent pool and cross-selling opportunities to also aid a better performance in FY22.

Double digit organic growth outlook for FY22: On the heels of two consecutive quarters of good growth, management expects double-digit organic growth in FY22. The deal pipeline has been healthy over the last 6-12 months and the demand outlook for the digital business remains positive. In terms of margins, management is confident of preserving the ~200bps of gains seen in Q4FY21 on account of SG&A savings. However, it believes 100bps margin benefit due to office-related costs saving may reverse on return of workforce to office

Upgrade to BUY: Given the positive demand environment for digital services, double-digit organic growth outlook for FY22, EBIT margin guidance of >25% (despite wage hike due in Q1FY22) and better offshore delivery, we raise FY22/FY23 EPS 13%/17% and upgrade the stock from REDUCE to BUY. Our new TP of Rs 1,620 is set at a higher FY23E P/E of 12x (vs. 8x) given ECLX's strengthening business mix (shift towards offshore), potential synergies from Personiv and efficient use of margin levers. Nevertheless, we maintain that its business is more comparable to BPO companies than IT service players.

Key changes

Target	Rating
▲	▲

Ticker/Price	ECLX IN/Rs 1,344
Market cap	US$ 692.6mn
Free float	45%
3M ADV	US$ 1.1mn
52wk high/low	Rs 1,379/Rs 390
Promoter/FPI/DII	54%/20%/26%

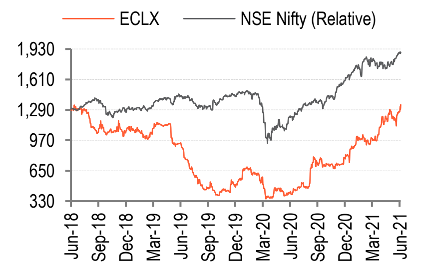
Source: NSE | Price as of 10 Jun 2021

Key financials

Y/E 31 Mar	FY21P	FY22E	FY23E
Total revenue (Rs mn)	15,644	20,066	22,393
EBITDA (Rs mn)	4,642	6,416	7,052
Adj. net profit (Rs mn)	2,828	4,128	4,609
Adj. EPS (Rs)	82.8	121.0	135.0
Cons. EPS (Rs)	77.0	88.0	96.0
Adj. ROAE (%)	18.7	22.9	23.3
Adj. P/E (x)	16.2	11.1	10.0
EV/EBITDA (x)	10.1	7.2	6.6
Adj. EPS growth (%)	49.4	46.0	11.6

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE

Disclaimer

Recommendation scale: 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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