

REDUCE

TP: Rs 420 | ▼ 12%

ECLERX SERVICES

| IT Services

| 06 July 2020

Announces Rs 1.09bn buyback – a transient trigger

Event: eClerx (ECLX) has announced a buyback worth Rs 1.09bn through the tender offer route at a maximum price of Rs 550/sh (16.7% premium over the last closing price before the board meeting intimation) – this translates into 1.99mn shares or ~5.5% of total paid-up equity shares. Unlike prior buybacks, this one will be through the open market and promoters do not intend to participate. Consequently, promoter shareholding post buyback will increase by 2.89% to 53.65%.

Financial implications: As per our calculations, the buyback is likely to be EPS-accretive by ~3% and will increase ROE by ~30bps. The buyback premium is significantly lower than the average ~37% premium over the prior three issues (which were through tender mechanism). Moreover, the issue size is lower than our estimate of Rs 2.5bn+ and will use only ~14% of cash & cash equivalents (of Rs 7.7bn as at end-Q4FY20).

A temporary trigger: The share price has fallen by a steep 25% in CY20 YTD and the buyback will help to arrest the decline. The stock has already inched up ~8% in the past week in the runup to the announcement. Nonetheless, we see this as a transient trigger in the absence of operational performance improvement (we forecast a 22%/23% EBIT/EPS decline in FY21).

Maintain REDUCE: Over the last three years, ECLX has witnessed a structural downward reset to operating margins led by a changing business mix in favour of onsite revenues. The impact of Covid-19 on its CLX business will ensure delayed recovery. REDUCE.

FIG 1 – ECLERX BUYBACK SUMMARY

Particulars	FY17	FY18	FY19	FY21
Buyback size (Rs mn)	2,340	2,580	2,620	1,095
No. of equity shares	1.17	1.29	1.63	1.99
% of equity	2.78	3.23	4.23	5.50
Buyback size (Rs per share)	2,000	2,000	1,600	550
Premium over last price (%)	40.2	33.3	39.6	16.7
Date of announcement (Board meeting)	14-Oct-16	22-Dec-17	14-Mar-19	3-Jul-20

Source: Company, BOBCAPS Research

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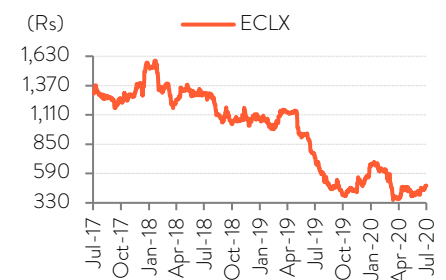
Ticker/Price	ECLX IN/Rs 477
Market cap	US\$ 240.3mn
Shares o/s	38mn
3M ADV	US\$ 0.7mn
52wk high/low	Rs 762/Rs 320
Promoter/FPI/DII	50%/25%/25%

Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY20P	FY21E	FY22E
Total revenue (Rs mn)	14,376	13,797	16,326
EBITDA (Rs mn)	3,249	2,837	3,710
Adj. net profit (Rs mn)	2,087	1,614	2,220
Adj. EPS (Rs)	55.5	42.9	59.0
Adj. EPS growth (%)	(7.7)	(22.7)	37.5
Adj. ROAE (%)	17.5	11.8	15.4
Adj. P/E (x)	8.6	11.1	8.1
EV/EBITDA (x)	4.7	5.4	3.5

Source: Company, BOBCAPS Research

STOCK PERFORMANCE

Source: NSE

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Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

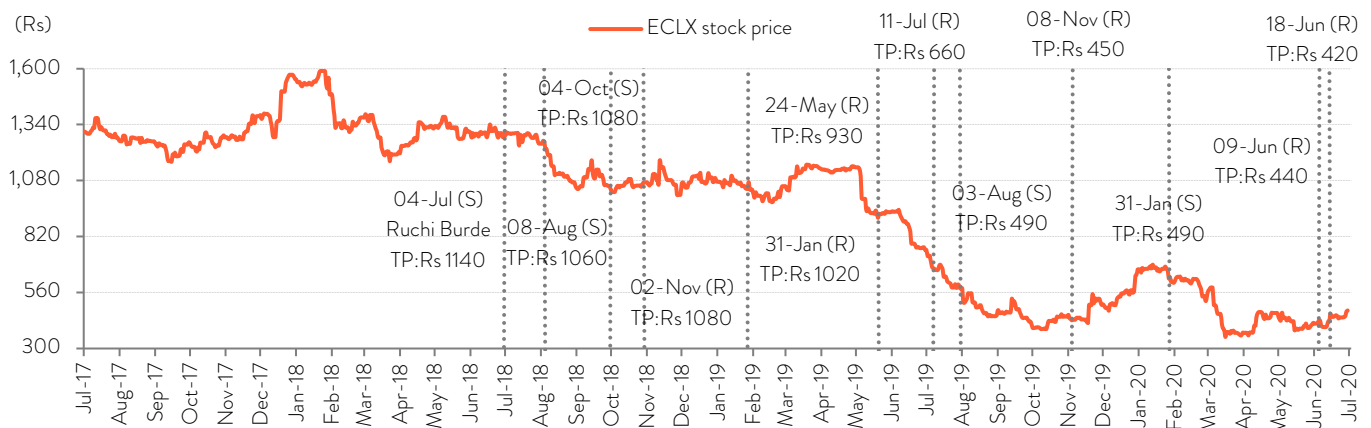
ADD – Expected return from >+5% to +15%

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)

HISTORICAL RATINGS AND TARGET PRICE: ECLERX SERVICES (ECLX IN)



Note: B – Buy, A – Add, R – Reduce, S – Sell

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