

**BUY**

TP: Rs 2,880 | ▲ 33%

**ECLERX SERVICES**

| IT Services

| 14 August 2021

**In-line quarter; robust outlook**

- Q1 revenue growth at 1.4% QoQ USD, roughly in line with our estimate of 1.7% QoQ USD
- Rs 3bn buyback announced at a maximum price of Rs 3,200/sh, ~50% premium to CMP
- Maintain BUY as we roll to a new Jun'22 TP of Rs 2,880 (vs. Rs 1,620) on a higher target P/E of 19.5x

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**In-line operating performance:** ECLX's Q1FY22 revenue grew 1.4% QoQ USD/ 1.2% CC, broadly in line with our USD estimate of 1.7%. Personiv revenue contributed US\$ 7.5mn during the quarter (~US\$ 30mn annual run-rate), with growth reaching a steady state. EBIT margin declined 200bps QoQ to 25.6% due to increased hiring and was broadly in line with our estimate of 25.9%. Attrition reduced 410bps QoQ but was still high at 31.7%. The company added 829 (organic) offshore employees in Q1 – a record high since it began this disclosure in Q1FY17, hinting at buoyant near-term demand. ECLX continues to pursue cross-selling and upselling with Personiv clients.

**Offshore demand increasing:** Due to work-from-home, the share of offshoring has increased from 77% a couple of quarters ago to 80% in Q1FY22. ECLX hired 800+ offshore staff in Q1, its highest ever organic employee additions in a quarter. Offshoring will be used as an important lever to defend margins against rising hiring and attrition-related costs.

**Outlook encouraging:** Per management, the demand environment remains positive, with BFSI seeing better traction. Although the company expects QoQ growth volatility to continue, it has signalled a positive outlook for FY22. However, labour conditions remain tight. There have been no client-level roll-offs yet in FY22, and top-10 client revenue has grown QoQ for the last four quarters. As of now, revenue addition has been bettering the revenue leakage from roll-offs. ECLX indicated that it is open to acquiring targets that are servicing unique clients in the BPO/KPO space, both tuck-in and sizeable like-to-like acquisitions.

**Buyback announced:** The board has approved buyback of equity shares through the tender offer route for an amount not exceeding Rs 3.03bn at a price not exceeding Rs 3,200/sh (47% premium to today's closing price).

**Maintain BUY:** We raise our target one-year forward P/E multiple to 19.5x (vs. 12x) on upbeat Q1 results, absence of roll-offs and a robust FY22 growth outlook. This represents a 35% discount to mid-cap IT services companies and translates to a revised Jun'22 TP of Rs 2,880 (vs. Rs 1,620).

**Key changes**

Target	Rating
▲	◀ ▶

Ticker/Price	ECLX IN/Rs 2,170
Market cap	US\$ 1.1bn
Free float	45%
3M ADV	US\$ 1.8mn
52wk high/low	Rs 2,380/Rs 632
Promoter/FPI/DII	54%/20%/26%

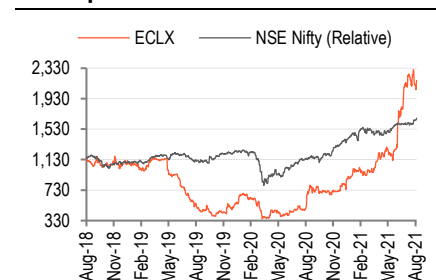
Source: NSE | Price as of 13 Aug 2021

**Key financials**

Y/E 31 Mar	FY21P	FY22E	FY23E
Total revenue (Rs mn)	15,644	20,743	23,831
EBITDA (Rs mn)	4,642	6,481	7,522
Adj. net profit (Rs mn)	2,828	4,156	4,939
Adj. EPS (Rs)	82.8	120.8	143.6
Consensus EPS (Rs)	82.8	100.0	108.0
Adj. ROAE (%)	18.7	23.0	24.9
Adj. P/E (x)	26.2	18.0	15.1
EV/EBITDA (x)	16.8	11.9	10.4
Adj. EPS growth (%)	49.4	45.9	18.8

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

**Stock performance**



Source: NSE



**Fig 1 – Quarterly performance**

(Rs mn)	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)
<b>Revenues (US\$ mn)</b>	<b>64.7</b>	<b>44.8</b>	<b>44.4</b>	<b>63.8</b>	<b>1.4</b>
Revenue	4,864	3,365	44.5	4,728	2.9
Operating Expenditure	3,382	2,531	33.6	3,177	6.5
Cost of revenues	2,454	1,809	35.7	2,261	8.5
as % of sales	50.5	53.8	-	47.8	-
SG&A expenses	928	722	28.5	916	1.3
as % of sales	19.1	21.5	-	19.4	-
EBITDA	1,482	834	77.6	1,551	(4.5)
Depreciation	237	173	36.9	244	(3.1)
<b>EBIT</b>	<b>1,245</b>	<b>661</b>	<b>88.3</b>	<b>1,307</b>	<b>(4.7)</b>
Other Income	82	115	-	37	-
Interest	54	49	-	56	-
Non-recurring items	(57)	-	-	-	-
<b>PBT</b>	<b>1,215</b>	<b>727</b>	<b>67.1</b>	<b>1,288</b>	<b>(5.7)</b>
Total Tax	295	209	41.4	305	(3.3)
<b>Adjusted PAT</b>	<b>920</b>	<b>518</b>	<b>77.5</b>	<b>983</b>	<b>(6.4)</b>
(Profit)/loss from JV's/Ass/MI	7	-	-	-	-
APAT after MI	913	518	76.1	983	(7.1)
Extra ordinary items	(57)	0	-	0	-
Reported PAT	856	518	65.2	983	(12.9)
Reported EPS	26.6	14.3	85.1	28.8	(7.8)
<b>Margins (%)</b>			<b>(bps)</b>		<b>(bps)</b>
EBITDA	30.5	24.8	570	32.8	(230)
EBIT	25.6	19.6	590	27.6	(200)
EBT	25.0	21.6	340	27.3	(230)
PAT	18.8	15.4	340	20.8	(200)
Effective Tax rate	24.3	28.7	(440)	23.7	60

Source: Company, BOBCAPS Research

**Fig 2 – Operating metrics**

(in US\$ terms)	Q1FY22 (% Contr. to Revenue)	Growth	
		QoQ (%)	YoY (%)
<b>Revenue by Geography</b>			
North America	70.0	1.4	42.4
Europe	23.0	1.4	44.4
ROW	7.0	1.4	68.5
<b>Client Concentration</b>			
Top 10	62.0	2.3	2.3
Non-Top 10 client revenues	38.0	0.0	0.0
<b>Total Employees</b>	12,842	8.0	7.7
<b>Billing Mix</b>			
FTE	75.0	4.2	4.2
Managed Services Revenues	25.0	(6.1)	50.4
<b>Onsite-Offshore Mix</b>			
Onsite Revenues	20.0	(3.4)	37.5
Offshore Revenues	80.0	2.7	46.2
<b>Currency Concentration</b>			
USD	80.0	2.7	2.7
Euro	12.0	1.4	1.4
GBP	4.0	1.4	1.4

Source: Company, BOBCAPS Research

## Valuation methodology

ECLX has demonstrated efficient cost management, helped by strong utilisation (81% in Q1FY22), higher offshoring (80%) and manageable attrition, enabling EBIT margin to hold at ~25% for the last two quarters. Post Q1FY22 results, we raise our FY22/23/24 EPS by 1.6%/6.3%/5.2% and our target one-year forward P/E to 19.5x (vs. 12x) considering the upbeat Q1 results, absence of roll-offs and robust growth outlook. Our new target multiple is at 35% discount to that of mid-cap IT services companies and, coupled with rollover, translates to a revised Jun'22 TP of Rs 2,880 (vs. Rs 1,620). Maintain BUY.

**Fig 3 – Revised estimates**

(Rs mn)	New			Old			Change (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenues (US\$ mn)	273	305	336	261	287	318	4.5	6.3	5.7
YoY growth (%)	29.7	11.7	10.1	24.1	9.9	10.7	-	-	-
Revenues	20,743	23,831	26,189	20,025	22,393	24,781	3.6	6.4	5.7
EBIT	5,545	6,532	7,093	5,440	6,072	6,665	1.9	7.6	6.4
EBIT margins (%)	26.7	27.4	27.1	27.2	27.1	26.9	-	-	-
Net Profits	4,163	4,939	5,405	4,104.6	4,609	5,102	1.4	7.2	6.0
EPS (Rs)	122.2	143.6	157.2	120.3	135.1	149.5	1.6	6.3	5.2

Source: BOBCAPS Research

**Fig 4 – Peer comparison**

Ticker	CMP (Rs)	Mkt Cap (US\$ bn)	Rating	Target Price (Rs)	US\$ revenue CAGR FY21-23E(%)	EPS (Rs)		P/E (x)	
						FY22E	FY23E	FY22E	FY23E
TCS	3,352	168.4	BUY	3,890	15.1	109.8	127.0	30.5	26.4
INFO	1,690	96.3	BUY	1,860	14.3	54.1	61.1	31.2	27.6
WPRO	606	44.8	HOLD	590	18.4	23.5	27.1	25.8	22.4
HCLT	1,097	39.8	BUY	1,260	11.3	52.2	59.0	21.0	18.6
TECHM	1,387	16.2	BUY	1,380	13.9	77.9	89.7	17.8	15.5
LTI	4,877	11.5	BUY	4,990	18.7	134.1	158.4	36.4	30.8
MPHL	2,764	6.9	HOLD	2,500	14.0	82.0	95.7	33.7	28.9
MTCL	2,926	6.4	SELL	2,270	15.8	87.7	93.9	33.4	31.2
PSYS	3,167	3.4	HOLD	2,920	21.0	74.0	91.4	42.8	34.6
COFORGE	4,847	3.9	BUY	5,530	26.8	131.8	174.3	36.8	27.8
ECLX	2,120	1.1	BUY	2,880	20.4	122.2	143.6	17.5	14.8

Source: BOBCAPS Research, Company

## Key risks

Key downside risks to our estimates are:

- volatility in top-10 clients,
- Personiv acquisition synergies failing to materialise, and
- high attrition.

## Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Coforge	COFORGE IN	4.0	4,811	5,530	BUY
eClerx Services	ECLX IN	1.1	2,170	2,880	BUY
HCL Technologies	HCLT IN	40.9	1,119	1,260	BUY
Info Edge	INFOE IN	9.4	5,429	2,880	SELL
Infosys	INFO IN	98.2	1,712	1,860	BUY
L&T Infotech	LTI IN	11.5	4,863	4,990	BUY
Mindtree	MTCL IN	6.5	2,921	2,270	SELL
Mphasis	MPHL IN	6.9	2,754	2,500	HOLD
Persistent Systems	PSYS IN	3.4	3,124	2,920	HOLD
Tata Consultancy Services	TCS IN	175.1	3,463	3,890	BUY
Wipro	WPRO IN	45.8	616	590	HOLD

Source: BOBCAPS Research, NSE | Price as of 13 Aug 2021

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21P	FY22E	FY23E	FY24E
<b>Total revenue</b>	<b>14,376</b>	<b>15,644</b>	<b>20,743</b>	<b>23,831</b>	<b>26,189</b>
EBITDA	3,249	4,642	6,481	7,522	8,246
Depreciation	710	816	936	989	1,153
EBIT	2,539	3,826	5,545	6,532	7,093
Net interest inc./(exp.)	(188)	(203)	(204)	(200)	(200)
Other inc./(exp.)	452	182	373	433	512
Exceptional items	0	0	(57)	0	0
EBT	2,803	3,806	5,657	6,766	7,405
Income taxes	715	978	1,494	1,827	1,999
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	7	0	0
<b>Reported net profit</b>	<b>2,087</b>	<b>2,828</b>	<b>4,156</b>	<b>4,939</b>	<b>5,405</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>2,087</b>	<b>2,828</b>	<b>4,156</b>	<b>4,939</b>	<b>5,405</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21P	FY22E	FY23E	FY24E
Accounts payables	0	0	0	0	0
Other current liabilities	2,058	2,143	2,842	3,264	3,588
Provisions	197	86	114	131	144
Debt funds	63	63	63	63	63
Other liabilities	129	129	129	129	129
Equity capital	358	358	358	358	358
Reserves & surplus	12,706	16,870	18,498	20,465	22,618
Shareholders' fund	13,065	17,228	18,857	20,824	22,976
<b>Total liab. and equities</b>	<b>15,513</b>	<b>19,650</b>	<b>22,005</b>	<b>24,412</b>	<b>26,900</b>
Cash and cash eq.	3,345	3,418	4,299	5,875	7,872
Accounts receivables	2,378	2,572	3,410	3,917	4,305
Inventories	0	0	0	0	0
Other current assets	1,520	2,786	3,694	4,244	4,664
Investments	4,368	7,139	7,139	7,139	7,139
Net fixed assets	1,246	1,079	807	580	264
CWIP	2	150	150	150	150
Intangible assets	2,272	2,272	2,272	2,272	2,272
Deferred tax assets, net	384	384	384	384	384
Other assets	0	0	0	0	0
<b>Total assets</b>	<b>15,513</b>	<b>19,650</b>	<b>22,005</b>	<b>24,412</b>	<b>26,900</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21P	FY22E	FY23E	FY24E
<b>Cash flow from operations</b>	<b>4,640</b>	<b>2,178</b>	<b>3,910</b>	<b>5,078</b>	<b>5,775</b>
Capital expenditures	(135)	(501)	(664)	(763)	(838)
Change in investments	0	(2,516)	0	0	0
Other investing cash flows	264	(21)	169	233	312
<b>Cash flow from investing</b>	<b>128</b>	<b>(3,037)</b>	<b>(495)</b>	<b>(529)</b>	<b>(526)</b>
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	0	0	0	0	0
Interest expenses	0	0	0	0	0
Dividends paid	(45)	(1,702)	(2,535)	(2,972)	(3,253)
Other financing cash flows	0	0	0	0	0
<b>Cash flow from financing</b>	<b>(45)</b>	<b>(1,702)</b>	<b>(2,535)</b>	<b>(2,972)</b>	<b>(3,253)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>4,723</b>	<b>(2,561)</b>	<b>881</b>	<b>1,576</b>	<b>1,997</b>
<b>Closing cash &amp; cash eq.</b>	<b>5,979</b>	<b>3,418</b>	<b>4,299</b>	<b>5,875</b>	<b>7,872</b>

### Per Share

Y/E 31 Mar (Rs)	FY20A	FY21P	FY22E	FY23E	FY24E
Reported EPS	55.5	82.8	120.8	143.6	157.2
Adjusted EPS	55.5	82.8	120.8	143.6	157.2
Dividend per share	1.0	41.8	61.9	72.6	79.4
Book value per share	347.1	457.7	501.0	553.2	610.4

### Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21P	FY22E	FY23E	FY24E
EV/Sales	5.5	5.0	3.7	3.3	2.9
EV/EBITDA	24.3	16.8	11.9	10.4	9.3
Adjusted P/E	39.1	26.2	18.0	15.1	13.8
P/BV	6.3	4.7	4.3	3.9	3.6

### DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21P	FY22E	FY23E	FY24E
Tax burden (Net profit/PBT)	74.5	74.3	73.5	73.0	73.0
Interest burden (PBT/EBIT)	110.4	99.5	102.0	103.6	104.4
EBIT margin (EBIT/Revenue)	17.7	24.5	26.7	27.4	27.1
Asset turnover (Rev./Avg TA)	91.2	89.0	99.6	102.7	102.1
Leverage (Avg TA/Avg Equity)	1.2	1.2	1.2	1.2	1.2
<b>Adjusted ROAE</b>	<b>15.5</b>	<b>18.7</b>	<b>23.0</b>	<b>24.9</b>	<b>24.7</b>

### Ratio Analysis

Y/E 31 Mar	FY20A	FY21P	FY22E	FY23E	FY24E
<b>YoY growth (%)</b>					
Revenue	0.5	8.8	32.6	14.9	9.9
EBITDA	5.1	42.9	39.6	16.1	9.6
Adjusted EPS	(7.7)	49.4	45.9	18.8	9.4
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	22.6	29.7	31.2	31.6	31.5
EBIT margin	17.7	24.5	26.7	27.4	27.1
Adjusted profit margin	14.5	18.1	20.0	20.7	20.6
Adjusted ROAE	15.5	18.7	23.0	24.9	24.7
ROCE	26.1	31.9	38.5	43.6	46.5
<b>Working capital days (days)</b>					
Receivables	61	58	53	56	57
Inventory	0	0	0	0	0
Payables	66	70	64	68	70
<b>Ratios (x)</b>					
Gross asset turnover	11.3	13.5	22.0	34.4	62.1
Current ratio	3.2	3.9	3.9	4.1	4.5
Net interest coverage ratio	NA	NA	NA	NA	NA
<b>Adjusted debt/equity</b>	<b>(0.3)</b>	<b>(0.2)</b>	<b>(0.2)</b>	<b>(0.3)</b>	<b>(0.3)</b>

Source: Company, BOBCAPS Research | Note: TA = Total Assets

## Disclaimer

### Recommendation scale: Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

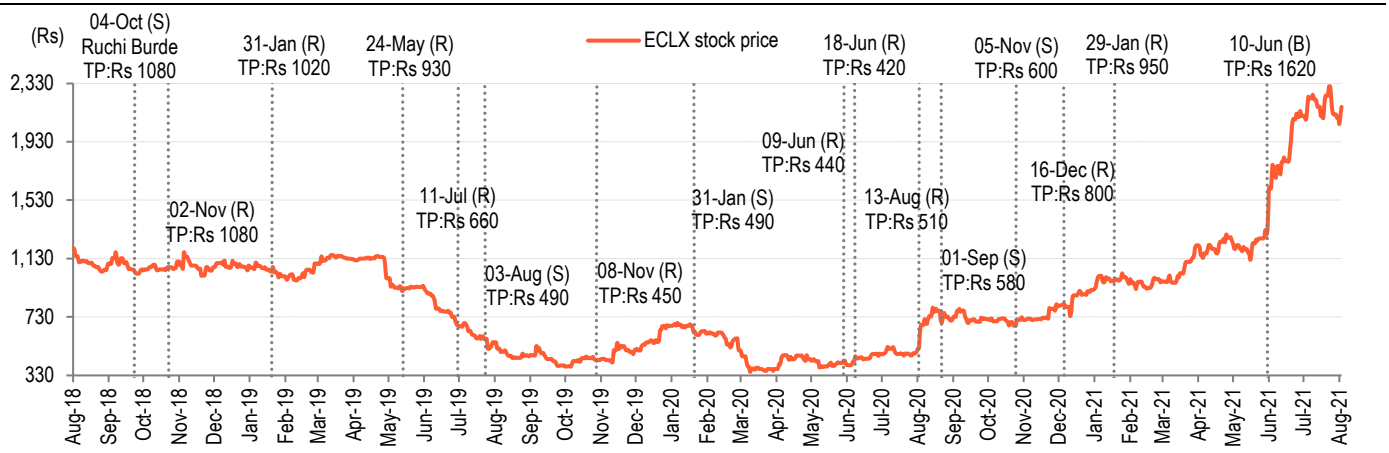
**HOLD** – Expected return from -6% to +15%

**SELL** – Expected return <-6%

**Note:** Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

### Ratings and Target Price (3-year history): ECLERX SERVICES (ECLX IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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