



# INDEPENDENT EQUITY RESEARCH

**eClerx Services Ltd**

**Q4FY11 Result Update**

**Enhancing investment decisions**

## Explanation of CRISIL Fundamental and Valuation (CFV) matrix

The CFV Matrix (CRISIL Fundamental and Valuation Matrix) addresses the two important analysis of an investment making process – Analysis of Fundamentals (addressed through Fundamental Grade) and Analysis of Returns (Valuation Grade) The fundamental grade is assigned on a five-point scale from grade 5 (indicating Excellent fundamentals) to grade 1 (Poor fundamentals) The valuation grade is assigned on a five-point scale from grade 5 (indicating strong upside from the current market price (CMP)) to grade 1 (strong downside from the CMP).

CRISIL Fundamental Grade	Assessment	CRISIL Valuation Grade	Assessment
5/5	Excellent fundamentals	5/5	Strong upside (>25% from CMP)
4/5	Superior fundamentals	4/5	Upside (10-25% from CMP)
3/5	Good fundamentals	3/5	Align (+-10% from CMP)
2/5	Moderate fundamentals	2/5	Downside (- 10-25% from CMP)
1/5	Poor fundamentals	1/5	Strong downside (<-25% from CMP)

### Analyst Disclosure

Each member of the team involved in the preparation of the grading report, hereby affirms that there exists no conflict of interest that can bias the grading recommendation of the company.

### Additional Disclosure

This report has been sponsored by NSE - Investor Protection Fund Trust (NSEIPFT).

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# eClerx Services Ltd

Strong business momentum continues

Fundamental Grade 4/5 (Superior fundamentals)

Valuation Grade 3/5 (CMP is aligned)

Industry IT Services

eClerx Services Ltd's (eClerx's) Q4FY11 revenues were in line with CRISIL Equities' expectations, while EBITDA margin surprised positively due to lower-than-expected employee additions combined with higher utilisation and lower selling & marketing (S&M) costs. Revenue growth was driven by higher mining of its top five clients, which has room for further growth. Also, the company is expected to increase S&M efforts for the non-top five clients over FY12-13. We remain confident of eClerx's growth and its ability to maintain high margins on the back of technology-led processes. Consequently, we maintain our fundamental grade of 4/5.

## Q4FY11 result analysis

- eClerx's Q4FY11 revenues grew by 8% q-o-q (37% y-o-y) in US\$ terms; up 9.6% q-o-q (34% y-o-y) in Indian rupees to Rs 955 mn. This was driven by demand from top five client accounts across both its verticals.
- EBITDA margin remained flat q-o-q at 42.0% (and improved 537 bps y-o-y) with reduction in employee costs being offset by higher G&A expenses.
- Adjusted PAT margin grew by 127 bps q-o-q (769 bps y-o-y) to 41.7% due to higher forex gains and other income. Adjusted EPS for Q4FY11 was Rs 13.8 compared to Rs 12.2 in Q3FY11.
- The company has migrated Igentica (acquired in FY08) into eClerx – Igentica now has no business in its name. Accordingly, following a conservative approach, eClerx wrote off Rs 103 mn goodwill from the acquisition of Igentica. We have adjusted FY11 PAT for the one-time exceptional write-off.

## Business momentum remains strong

The business has delivered strong growth across all clients. Top five client concentration continues to be high at 86%, thanks to deep client mining. As per the management, there is significant headroom to grow the top five clients. Increasing spend on online sales model and regulatory changes in the financial services sector continue to provide opportunities for eClerx. The company is focused to grow its non-top five clients and has now dedicated more than 50% of its sales team towards them.

## Valuations: Current market price is aligned

We continue to use the price to earnings ratio (PER) method to value eClerx and maintain our fair value of Rs 692 per share. Consequently, we retain the valuation grade of '3/5'.

## KEY FORECAST

(Rs mn)	FY09	FY10	FY11E#	FY12E	FY13E
Operating income	1,973	2,570	3,421	4,369	5,469
EBITDA	815	1,004	1,346	1,596	1,908
Adj PAT	618	735	1,327	1,399	1,535
Adj EPS-Rs	21.4	25.5	46.0	48.5	53.2
EPS growth (%)	38.6	19.0	80.5	5.4	9.7
Dividend yield	2.0	2.8	3.5	3.6	4.0
RoCE (%)	48.6	51.1	55.9	52.7	51.5
RoE (%)	41.4	40.2	59.2	49.9	44.3
PE (x)	34.4	28.9	16.0	15.2	13.9
P/BV (x)	12.8	10.6	8.5	6.8	5.6
EV/EBITDA (x)	15.8	12.7	14.7	12.2	9.8

#FY11 numbers based on abridged financials

NM: Not meaningful; CMP: Current Market Price

Source: Company, CRISIL Equities estimate

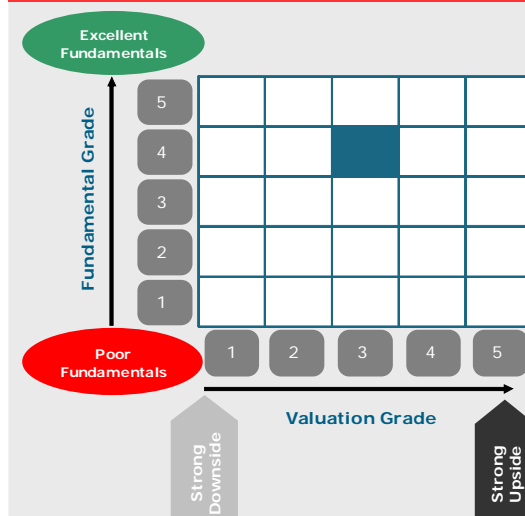


May 19, 2011

Fair Value Rs 692

CMP Rs 738

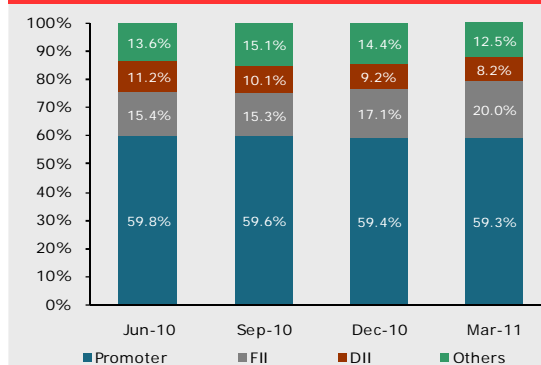
## CFV MATRIX



## KEY STOCK STATISTICS

NIFTY	5428
NSE ticker	ECLERX
Face value (Rs per share)	10
Shares outstanding (mn)	29
Market cap (Rs mn)/(US\$ mn)	21,277/473
Enterprise value (Rs mn)/(US\$ mn)	19,817/440
52-week range (Rs) (H/L)	799/435
Beta	0.95
Free float (%)	40.7
Avg daily volumes (30-days)	27,729
Avg daily value (30-days) (Rs mn)	2.0

## SHAREHOLDING PATTERN



## PERFORMANCE VIS-À-VIS MARKET

	Returns			
	1-m	3-m	6-m	12-m
ECLERX	3%	14%	9%	123%
NIFTY	-5%	-1%	8%	10%

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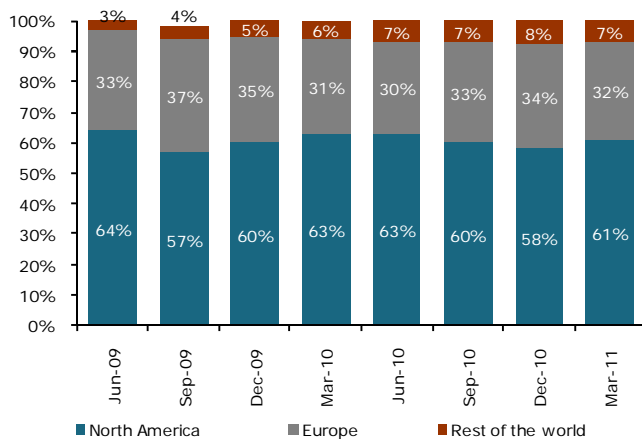
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## Q4FY11 Result Summary

(Rs mn)	Q4FY11	Q3FY11	Q4FY10	q-o-q (%)	y-o-y (%)	FY11	FY10	y-o-y (%)
<b>Net sales</b>	<b>955</b>	<b>872</b>	<b>713</b>	<b>9.6</b>	<b>34.0</b>	<b>3,421</b>	<b>2,570</b>	<b>24.9</b>
Employee cost	381	367	312	3.9	22.0	1,476	1,078	27.0
Employee cost (% of net sales)	39.9%	42.0%	43.8%	(219) bps	(392) bps	43.2%	41.9%	122 bps
Administration and other expenses	173	141	140	22.6	24.1	599	489	18.4
<b>EBITDA</b>	<b>401</b>	<b>364</b>	<b>261</b>	<b>10.2</b>	<b>53.7</b>	<b>1,346</b>	<b>1,004</b>	<b>25.4</b>
<b>EBITDA margin</b>	<b>42.0%</b>	<b>41.8%</b>	<b>36.6%</b>	<b>26 bps</b>	<b>537 bps</b>	<b>39.3%</b>	<b>39.1%</b>	<b>29 bps</b>
Depreciation	27	25	19	7.8	42.4	91	70	23.4
<b>EBIT</b>	<b>374</b>	<b>339</b>	<b>242</b>	<b>10.4</b>	<b>54.6</b>	<b>1,255</b>	<b>934</b>	<b>25.6</b>
Interest and finance charges	-	-	-	-	-	-	-	-
<b>Operating PBT</b>	<b>374</b>	<b>339</b>	<b>242</b>	<b>10.4</b>	<b>54.6</b>	<b>1,255</b>	<b>934</b>	<b>25.6</b>
Other Income	27	11	11	139.4	139.4	76	(89)	nm
Forex gain/(loss)	47	43	14	9.7	223.3	165	(17)	nm
Extraordinary Income/(expense)	(103)	-	-	nm	nm	(103)	-	nm
<b>PBT</b>	<b>345</b>	<b>393</b>	<b>268</b>	<b>(12.1)</b>	<b>28.9</b>	<b>1,392</b>	<b>828</b>	<b>40.5</b>
Tax	50	40	25	23.6	95.7	168	93	44.6
<b>Reported PAT</b>	<b>296</b>	<b>352</b>	<b>242</b>	<b>(16.1)</b>	<b>21.9</b>	<b>1,225</b>	<b>735</b>	<b>39.9</b>
<b>Adj PAT</b>	<b>398</b>	<b>352</b>	<b>242</b>	<b>13.0</b>	<b>64.3</b>	<b>1,327</b>	<b>735</b>	<b>44.6</b>
<b>Adj PAT margin</b>	<b>41.7%</b>	<b>40.4%</b>	<b>34.0%</b>	<b>127 bps</b>	<b>769 bps</b>	<b>38.8%</b>	<b>28.6%</b>	<b>1,019 bps</b>
No of equity shares (mn)	28.8	28.8	19.0	-	51.3	28.8	19.0	-
<b>Adj EPS (Rs)</b>	<b>13.8</b>	<b>12.2</b>	<b>12.7</b>	<b>13.1</b>	<b>8.6</b>	<b>46.1</b>	<b>38.6</b>	<b>16.1</b>

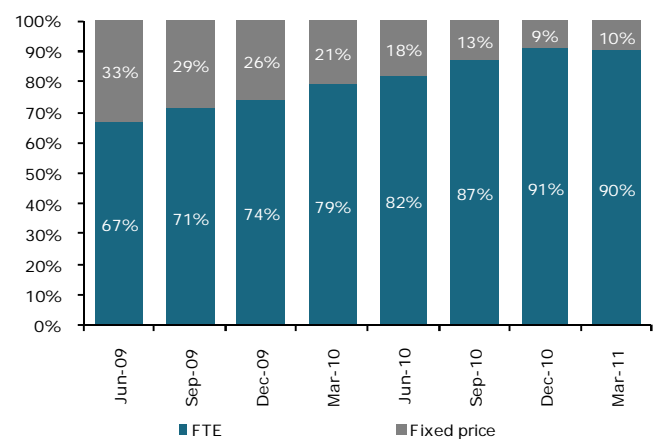
Source: Company, CRISIL Equities

### No major change in geographic distribution



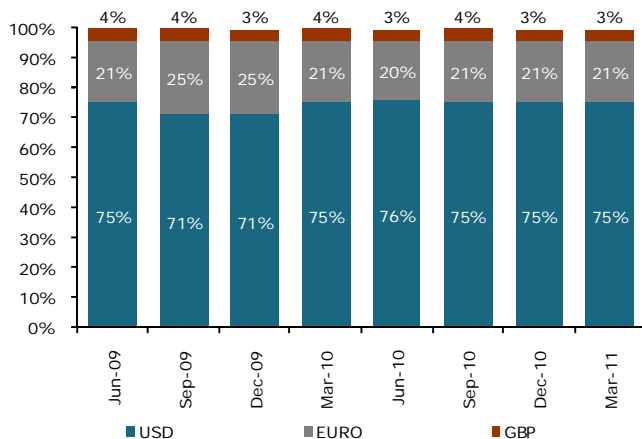
Source: Company, CRISIL Equities

### FTE-based revenues continue to remain high



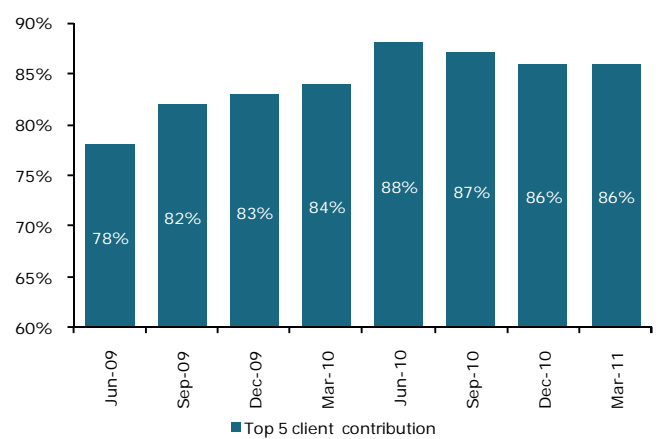
Source: Company, CRISIL Equities

### Currency profile remains constant



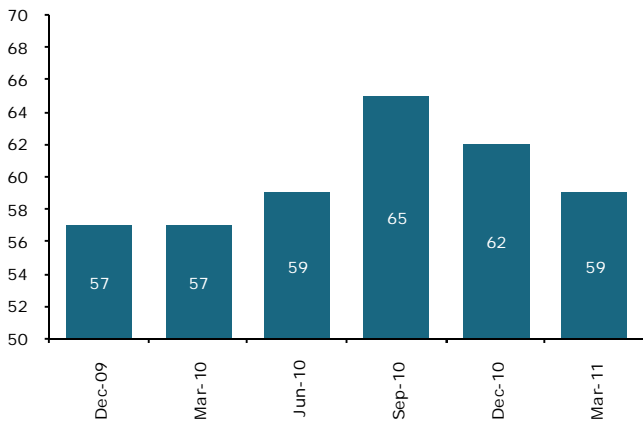
Source: Company, CRISIL Equities

### Client concentration remains in mid-80s



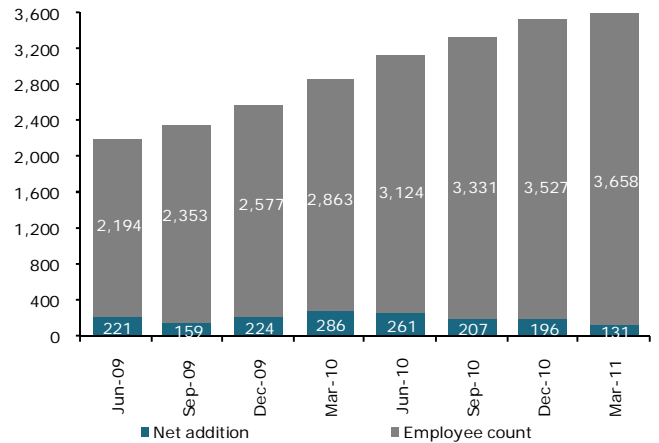
Source: Company, CRISIL Equities

## Debtor days continue to be stable



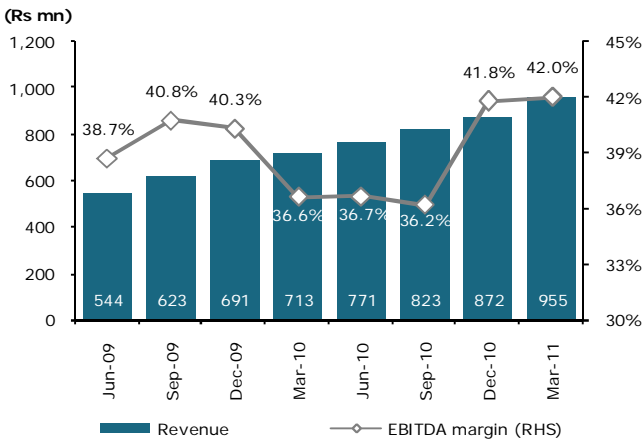
Source: Company, CRISIL Equities

## Slowdown in employee addition



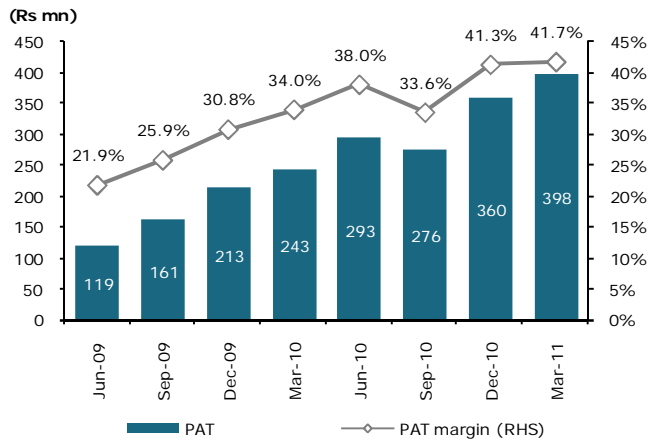
Source: Company, CRISIL Equities

## Strong revenue growth with high margins



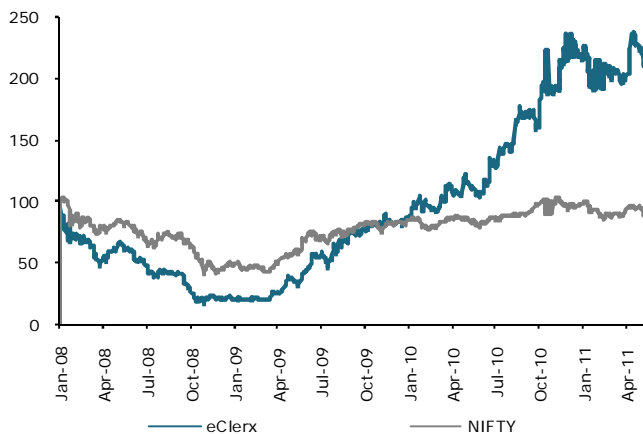
Source: Company, CRISIL Equities

## Adjusted PAT margin remains over 40%



Source: Company, CRISIL Equities

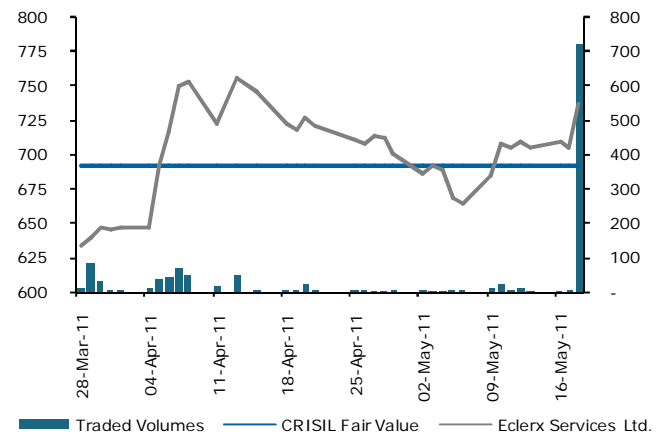
## Share price movement



-Indexed to 100

Source: NSE, CRISIL Equities

## Fair value movement since initiation



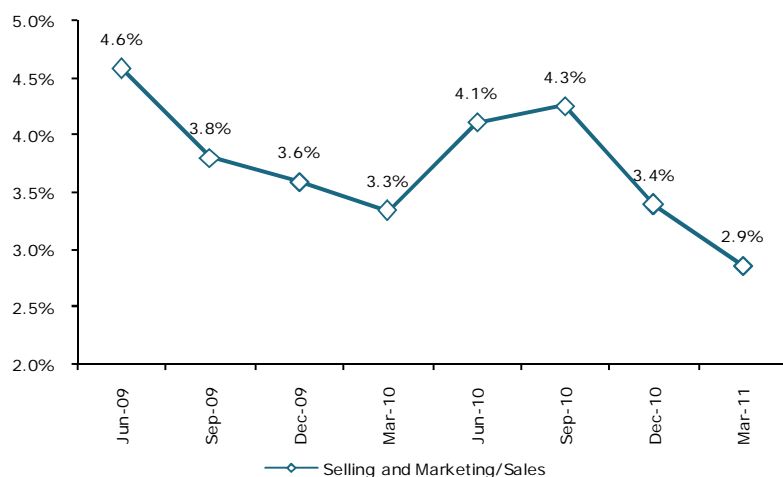
Source: NSE, CRISIL Equities

## KEY DEVELOPMENTS

### Takeaways from analyst concall

- eClerx's attrition level peaked to 38.7% in FY11 vs. 30.5% in FY10. Attrition has been higher in the previous two quarters compared to ~30% in H1FY11. However, eClerx has a robust recruitment process and the management believes that supply-side issues are manageable. The company expects high attrition to be a temporary phenomenon and will revert back to mean levels during FY12.
- About 11-11.5% wage hikes will be rolled out to offshore employees in FY12. This is lower than the average industry level of ~14%.
- With SEZ facilities coming under the MAT regime as per the new tax code, the tax rates for the company are expected to increase from ~12% in FY11 to ~20% over the next two years.
- The company expects lower S&M expenses during the quarter will be normalised over the next few quarters.

### Lower selling and marketing expenses expected to normalise

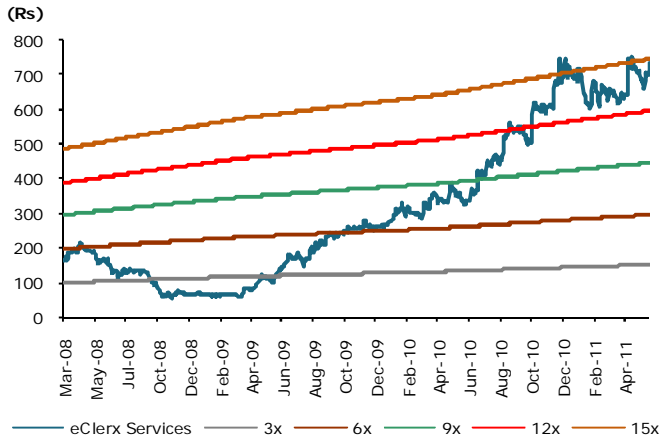


Source: Company, CRISIL Equities

## VALUATION

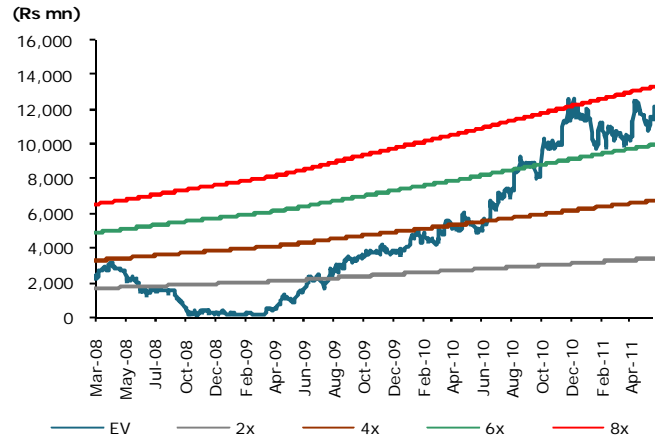
We continue to use the price to earnings ratio (PER) method to value eClerx. Based on a PER of 13x FY13E EPS of Rs 53.2, we maintain the fair value of Rs 692 per share. Consequently, we retain the valuation grade of **3/5**.

### One-year forward P/E band



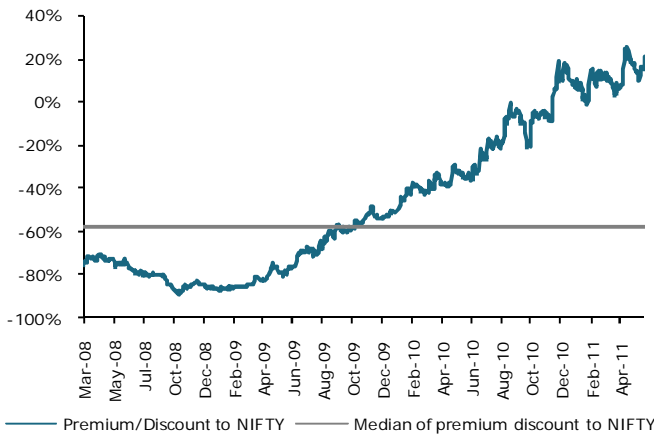
Source: NSE, CRISIL Equities

### One-year forward EV/EBITDA band



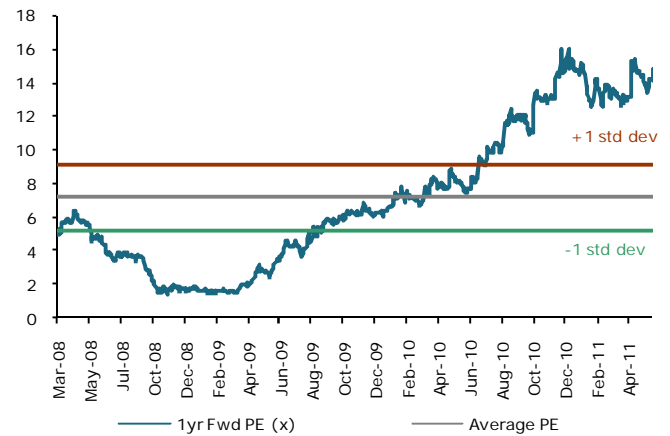
Source: NSE, CRISIL Equities

### P/E – premium/discount to NIFTY



Source: NSE, CRISIL Equities

### P/E movement



Source: NSE, CRISIL Equities

### CRISIL IER reports released on eClerx Services Ltd

Date	Nature of report	Fundamental grade	Fair value	Valuation grade	CMP (on the date of report)
28-Mar-11	Initiating coverage*	4/5	Rs 692	3/5	Rs 641
19-May-11	Q4FY11 result update	4/5	Rs 692	3/5	Rs 738

\* For detailed initiating coverage report please visit: [www.ier.co.in](http://www.ier.co.in)

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