

### Market statistics

|                         |         |
|-------------------------|---------|
| Current stock price (₹) | 430     |
| Shares O/S (cr.)        | 3.7     |
| Mcap (₹ cr)             | 1,588   |
| 52W H/L (₹)             | 948/323 |
| Bloomberg               | ECLX.IN |

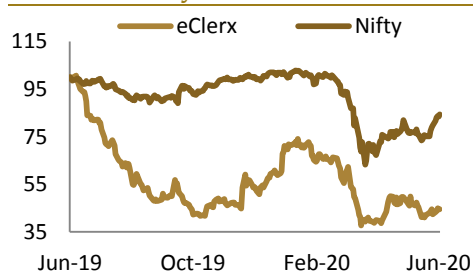
eClerx reported lower-than-expected results. US\$ revenue was lower by 7.9% QoQ. EBIT margin at 16.9% (lower by 585bps QoQ) on account of weak revenue trajectory. We had initially thought that FY21 could mark a reversal in the company's deteriorating operational performance, with noticeable improvements seen in Sep'19 and Dec'19 quarters and cost optimization measures in addition to pricing upticks in several top clients. But the pandemic could likely stretch eClerx's weak performance to FY21 as well. Nonetheless, valuations remain extremely cheap limiting significant downsides in the stock price, with cash at ~50% of the market cap. We maintain our BUY recommendation on the stock on account of superior cash generation and valuation comfort.

### Shareholding pattern

|  |       |
|--|-------|
| Promoters                                | 50.76 |
| Domestic Institution                     | 21.23 |
| Foreign Institution                      | 17.56 |
| Non-institution<br>of which more than 1% | 10.45 |

**Q4FY20 P&L break up - revenue lower-than-expected.** eClerx's 4QFY20 was weak, owing to the Covid-19-related supply side challenges. That, coupled with an otherwise soft outlook for the quarter due to project roll offs, reflected in a ~7.9% QoQ fall in revenue and a sharp 585bps QoQ drop in EBIT margins to 16.9%. Net profit was aided by higher forex gains even as operational performance missed estimates. The company expects the June'20 quarter to be the trough quarter on both revenues and margins, and expects improving trajectory in the subsequent quarters as the onshore business returns to normalcy in recent weeks. The company cut headcount yet again, with a sequential reduction of 235 people during the Mar'20 quarter (headcount fell in 7 of the past 8 quarters), another indication of the struggle that the company has faced through the years on multiple counts.

### eClerx vs Nifty



**Growth recovery gradual but certain:** The company operates into three key segments: Digital (40% of revenues), Financial Services (40% of revenues) and Customer Operations (20% of revenues). In the Digital business, a significant part of the work is already cutting-edge for e-commerce and has decent growth prospects with little risk from automation. In the Financial Services segment, the business has seen significant changes as volumes in markets have gone down with many OTC products getting listed on exchanges post the GFC. However, it is now getting compensated by tighter regulatory controls in the western markets, leading to higher demand on the compliance side, such as KYC. Customer Operations should drive growth as in this segment, the company provides advisory support to the Cable and Wireless companies to improve the productivity, call-agents-audit, high customer satisfaction, and revenue assurance which are more on optimization and non-linear aspect.

### Capital efficiency & valuations

| Particulars       | FY20  | FY21E  | FY22E |
|-------------------|-------|--------|-------|
| RoE (%)           | 17.0  | 13.7   | 13.9  |
| EPS (₹)           | 56.4  | 46.2   | 55.4  |
| CEPS (₹)          | 75.6  | 67.4   | 79.0  |
| P/E (x)           | 6.5   | 9.3    | 7.8   |
| P/BV (x)          | 1.0   | 1.1    | 1.0   |
| EV/EBITDA (x)     | 1.7   | 1.8    | 1.1   |
| Income growth (%) | 0.5   | (10.0) | 7.9   |
| EBITDA growth (%) | 5.0   | (13.9) | 16.8  |
| PAT growth (%)    | (8.6) | (17.5) | 20.0  |

**eClerx's revenue growth challenges set to continue into FY21 as well:** eClerx's revenues have been stuck up at around US\$200mn levels since FY17, with revenues in FY21E expected to decline organically due to the pressure expected in the 1QFY21 despite expecting improvement through the subsequent quarters. It would be important to note that eClerx's onshore business that includes CLX and onshore customer operations may recover swiftly as well as supply side constraints fade and economies open.

**Recovery in growth rates to drive re-rating:** Covid-19 will delay the reversal in eClerx's constantly deteriorating financial performance since FY17, with FY21 also likely to mark a fall in earnings even though some improvements seem to be emerging around the onshore Customer Operations business. eClerx maintained 50% of its Net income to be paid out to shareholders (either in a dividend or in Buyback form). It has Rs.213/share in cash & cash equivalents (~50% of Mcap in cash), which provides downside cushion.

**Outlook:** The pandemic could likely stretch eClerx's weak performance to FY21 as well. Nonetheless, valuations remain extremely cheap limiting significant downsides in the stock price, with cash at ~50% of the market cap. We maintain our BUY recommendation on the stock on account of superior cash generation and valuation comfort.

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**Exhibit 1: Quarterly details**

| ₹ mn                             | 4QFY19       | 3QFY20       | 4QFY20       | QoQ (%)         | YoY (%)      | Comments   |
|----------------------------------|--------------|--------------|--------------|-----------------|--------------|--|
| <b>Revenues (US\$m)</b>          | <b>51.2</b>  | <b>51.8</b>  | <b>47.7</b>  | <b>(7.9)</b>    | <b>(6.8)</b> | Revenue was down 6.4% in YoY cc terms. Q4 YoY cc decline of 7.7% Offshore and decline of 1.7% Onshore. |
| <b>Revenues</b>                  | <b>3,651</b> | <b>3,755</b> | <b>3,509</b> | <b>(6.5)</b>    | <b>(3.9)</b> |  |
| - Operating costs                | 2,844        | 2,725        | 2,732        | 0.2             | (3.9)        |  |
| <b>EBITDA</b>                    | <b>808</b>   | <b>1,029</b> | <b>777</b>   | <b>(24.5)</b>   | <b>(3.7)</b> | EBIT margin was lower QoQ due to weak revenue trajectory.  |
| <b>EBITDA margin (%)</b>         | <b>22.1</b>  | <b>27.4</b>  | <b>22.1</b>  | <b>(526)bps</b> | <b>3bps</b>  |  |
| - Interest expense               | 0            | 48           | 49           | -               | -            |  |
| - Depreciation                   | 128          | 176          | 185          | 5.2             | 45.0         |  |
| + Other income, net (incl forex) | 96           | 117          | 168          | 42.6            | 75.3         |  |
| <b>PBT</b>                       | <b>775</b>   | <b>923</b>   | <b>711</b>   | <b>(23.0)</b>   | <b>(8.4)</b> |  |
| - Taxes                          | 183          | 222          | 157          | (29.3)          | (14.2)       | Tax rate to be in the range of 25-26% in FY21.   |
| Effective tax rate (%)           | 23.6         | 24.0         | 22.1         | (197)bps        | (150)bps     |  |
| <b>PAT</b>                       | <b>593</b>   | <b>701</b>   | <b>554</b>   | <b>(21.0)</b>   | <b>(6.6)</b> |  |
| Net margin (%)                   | 16.2         | 18.7         | 15.8         | (289)bps        | (45)bps      |  |
| <b>Reported profits</b>          | <b>593</b>   | <b>701</b>   | <b>554</b>   | <b>(21.0)</b>   | <b>(6.6)</b> |  |

Source: Company

**Exhibit 2: Change in estimates**

| ₹ mn              | FY21E  |        |          | FY22E  |        |         |
|-------------------|--------|--------|----------|--------|--------|---------|
|                   | Old    | New    | %Chg     | Old    | New    | %Chg    |
| Revenue (US\$ mn) | 216    | 177    | (18.1)   | 235    | 191    | (18.7)  |
| Revenue           | 15,116 | 12,937 | (14.4)   | 16,474 | 13,960 | (15.3)  |
| EBITDA margin (%) | 23.4   | 21.5   | (190)bps | 24.0   | 23.3   | (70)bps |
| EPS (₹)           | 61.6   | 46.2   | (25.0)   | 69.9   | 55.4   | (20.7)  |

Source: Trust Research

**Quarterly details:** Half of the QoQ revenue decline attributed to Covid Supply constraints - a) rest of decline is normal planned roll offs; could not be replaced due to demand environment, b) Italian business and onshore consulting affected the most.

**Exhibit 3: Operating metrics**

| Details                  | Q4FY18       | Q1FY19       | Q2FY19       | Q3FY19       | Q4FY19       | Q1FY20       | Q2FY20       | Q3FY20       | Q4FY20       |
|--------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| US                       | 59.0         | 64.0         | 64.0         | 64.0         | 65.0         | 67.0         | 67.0         | 66.0         | 68.0         |
| Europe                   | 35.0         | 28.0         | 29.0         | 29.0         | 29.0         | 27.0         | 27.0         | 28.0         | 26.0         |
| RoW                      | 6.0          | 8.0          | 7.0          | 7.0          | 6.0          | 6.0          | 6.0          | 6.0          | 6.0          |
| <b>Total</b>             | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> |
| India Staff count (Nos.) | 9,429        | 9,363        | 9,583        | 9,520        | 9,509        | 9,495        | 9,123        | 8,785        | 8,550        |
| Revenue (US\$m)          | 52.3         | 49.2         | 50.2         | 50.2         | 51.2         | 50.9         | 50.1         | 51.8         | 47.7         |
| Top 10 clients (%)       | 67           | 70           | 70           | 70           | 68           | 66           | 65           | 65           | 67           |
| DSO (Days)               | 89           | 93           | 89           | 85           | 84           | 87           | 78           | 78           | 88           |
| <b>Cash/share (₹)</b>    | <b>157.3</b> | <b>159.2</b> | <b>172.0</b> | <b>190.1</b> | <b>195.8</b> | <b>146.5</b> | <b>173.8</b> | <b>196.0</b> | <b>213.4</b> |

Source: Company



## Financials

### Income Statement (₹ mn)

| Year End-March  | FY18          | FY19          | FY20          | FY21E         | FY22E         |
|-----------------|---------------|---------------|---------------|---------------|---------------|
| <b>Revenues</b> | <b>13,651</b> | <b>14,306</b> | <b>14,376</b> | <b>12,937</b> | <b>13,960</b> |
| Op. Expenses    | 9,988         | 11,226        | 11,140        | 10,151        | 10,705        |
| <b>EBITDA</b>   | <b>3,663</b>  | <b>3,080</b>  | <b>3,236</b>  | <b>2,786</b>  | <b>3,255</b>  |
| Other Income    | 402           | 486           | 467           | 500           | 550           |
| Depreciation    | 482           | 447           | 709           | 790           | 880           |
| <b>EBIT</b>     | <b>3,583</b>  | <b>3,119</b>  | <b>2,994</b>  | <b>2,496</b>  | <b>2,925</b>  |
| Interest        | -             | -             | -             | -             | -             |
| <b>PBT</b>      | <b>3,583</b>  | <b>3,119</b>  | <b>2,994</b>  | <b>2,496</b>  | <b>2,925</b>  |
| Tax             | 896           | 832           | 715           | 575           | 689           |
| <b>PAT</b>      | <b>2,687</b>  | <b>2,288</b>  | <b>2,278</b>  | <b>1,921</b>  | <b>2,236</b>  |
| Ex. ordinary    | (213)         | -             | -             | -             | -             |
| <b>Adj Pat</b>  | <b>2,899</b>  | <b>2,288</b>  | <b>2,278</b>  | <b>1,921</b>  | <b>2,236</b>  |

### Key Parameters

| Year End-March             | FY18   | FY19   | FY20  | FY21E  | FY22E |
|----------------------------|--------|--------|-------|--------|-------|
| <b>Per share (₹)</b>       |        |        |       |        |       |
| EPS                        | 69.6   | 59.1   | 56.4  | 46.2   | 55.4  |
| CEPS                       | 82.0   | 70.6   | 75.6  | 67.4   | 79.0  |
| BVPS                       | 311.9  | 356.8  | 352.6 | 394.7  | 449.1 |
| DPS                        | 1.0    | 1.0    | 1.0   | 1.0    | 1.0   |
| Payout (%)                 | 1.7    | 2.0    | 1.8   | 2.2    | 1.8   |
| <b>Valuation (x)</b>       |        |        |       |        |       |
| P/E                        | 17.3   | 19.5   | 6.5   | 9.3    | 7.8   |
| P/BV                       | 3.9    | 3.2    | 1.0   | 1.1    | 1.0   |
| EV/EBITDA                  | 10.9   | 12.3   | 1.7   | 1.8    | 1.1   |
| Dividend Yield (%)         | 0.1    | 0.1    | 0.3   | 0.2    | 0.2   |
| <b>Return ratio (%)</b>    |        |        |       |        |       |
| EBIDTA Margin              | 26.8   | 21.5   | 22.5  | 21.5   | 23.3  |
| PAT Margin                 | 19.7   | 16.0   | 15.8  | 14.8   | 16.0  |
| ROAE                       | 24.0   | 17.7   | 17.0  | 13.7   | 13.9  |
| ROACE                      | 29.6   | 24.1   | 22.3  | 17.8   | 18.2  |
| <b>Leverage Ratios (x)</b> |        |        |       |        |       |
| Long Term D/E              | -      | -      | -     | -      | -     |
| Net Debt/Equity            | (0.3)  | (0.3)  | (0.5) | (0.5)  | (0.6) |
| Debt/EBITDA                | -      | -      | -     | -      | -     |
| Interest Coverage          | -      | -      | -     | -      | -     |
| Current ratio              | 6.4    | 7.9    | 5.1   | 6.3    | 6.9   |
| <b>Growth Ratios (%)</b>   |        |        |       |        |       |
| Income growth              | 2.6    | 4.8    | 0.5   | (10.0) | 7.9   |
| EBITDA growth              | (20.3) | (15.9) | 5.0   | (13.9) | 16.8  |
| PAT growth                 | (24.1) | (14.9) | (8.6) | (17.5) | 20.0  |
| <b>Turnover Ratios</b>     |        |        |       |        |       |
| F.A Turnover x             | 20.8   | 17.2   | 18.3  | 14.6   | 13.9  |
| Debtors Days               | 60     | 61     | 61    | 71     | 72    |
| Payable days               | 8      | 6      | 5     | 5      | 5     |

### Balance Sheet (₹ mn)

| Year End-March                  | FY18          | FY19          | FY20          | FY21E         | FY22E         |
|---------------------------------|---------------|---------------|---------------|---------------|---------------|
| Equity Share Capital            | 381           | 378           | 361           | 361           | 361           |
| Reserves & Surplus              | 11,666        | 13,435        | 12,701        | 14,585        | 16,783        |
| <b>Total Shareholders Fund</b>  | <b>12,047</b> | <b>13,813</b> | <b>13,062</b> | <b>14,946</b> | <b>17,144</b> |
| <b>Minority Interest</b>        | <b>5</b>      | <b>6</b>      | <b>6</b>      | <b>6</b>      | <b>6</b>      |
| <b>Non-current liabilities</b>  | <b>509</b>    | <b>471</b>    | <b>1,604</b>  | <b>1,442</b>  | <b>1,534</b>  |
| Deferred tax liabilities        | 31            | (71)          | (255)         | (255)         | (255)         |
| Other LT liabilities & prov     | 478           | 542           | 1,859         | 1,697         | 1,789         |
| <b>Current Liabilities</b>      | <b>1,627</b>  | <b>1,479</b>  | <b>2,303</b>  | <b>2,119</b>  | <b>2,235</b>  |
| Short term Liabilities          | 57            | 9             | 6             | 6             | 6             |
| Trade payables                  | 205           | 116           | 139           | 139           | 147           |
| Other cur liabilities & Prov    | 1,365         | 1,354         | 2,158         | 1,975         | 2,082         |
| <b>Total Liabilities</b>        | <b>14,189</b> | <b>15,769</b> | <b>16,975</b> | <b>18,513</b> | <b>20,919</b> |
| <b>Assets</b>                   |               |               |               |               |               |
| <b>Non-current Assets</b>       | <b>3,814</b>  | <b>4,129</b>  | <b>5,228</b>  | <b>5,150</b>  | <b>5,391</b>  |
| Fixed assets                    | 655           | 830           | 786           | 886           | 1,006         |
| Non-current investments         | 2,782         | 2,653         | 2,740         | 2,740         | 2,740         |
| Long-term loans & adv           | 377           | 646           | 1,702         | 1,524         | 1,645         |
| <b>Current assets</b>           | <b>10,375</b> | <b>11,640</b> | <b>11,747</b> | <b>13,362</b> | <b>15,527</b> |
| Current investments             | 1,650         | 2,860         | 4,366         | 4,366         | 4,366         |
| Trade receivables               | 2,328         | 2,426         | 2,378         | 2,658         | 2,869         |
| Inventories                     | 4             | 4             | 3             | 4             | 4             |
| <b>Cash &amp; bank balances</b> | <b>2,030</b>  | <b>1,256</b>  | <b>1,746</b>  | <b>3,374</b>  | <b>5,095</b>  |
| Short-term loans & adv          | 500           | 610           | 531           | 478           | 516           |
| Other current assets            | 3,862         | 4,484         | 2,724         | 2,481         | 2,677         |
| <b>Total Assets</b>             | <b>14,189</b> | <b>15,769</b> | <b>16,975</b> | <b>18,513</b> | <b>20,919</b> |

### Cash flow Statement

| Year End-March                  | FY18           | FY19           | FY20           | FY21E        | FY22E          |
|---------------------------------|----------------|----------------|----------------|--------------|----------------|
| <b>PBT</b>                      | <b>3,583</b>   | <b>3,119</b>   | <b>2,994</b>   | <b>2,496</b> | <b>2,925</b>   |
| Depreciation                    | 345            | 345            | 525            | 790          | 880            |
| Others                          | 213            | 1              | 0              | -            | -              |
| <b>CF before W.cap</b>          | <b>4,140</b>   | <b>3,465</b>   | <b>3,519</b>   | <b>3,286</b> | <b>3,805</b>   |
| Inc/dec in W.cap                | 2,034          | 1,134          | (2,976)        | 154          | 357            |
| <b>Op CF after W.cap</b>        | <b>2,105</b>   | <b>2,331</b>   | <b>6,495</b>   | <b>3,131</b> | <b>3,448</b>   |
| Less Taxes                      | 896            | 832            | 715            | 575          | 689            |
| Net CF From Operations          | 1,210          | 1,499          | 5,779          | 2,557        | 2,759          |
| Inc/(dec) in F.A + CWIP         | 418            | 622            | 665            | 890          | 1,000          |
| (Pur)/sale of Investments       | (634)          | 1,080          | 1,592          | -            | -              |
| <b>CF from Invst Activities</b> | <b>215</b>     | <b>(1,702)</b> | <b>(2,257)</b> | <b>(890)</b> | <b>(1,000)</b> |
| Loans raised/(repaid)           | 53             | (49)           | (3)            | -            | -              |
| Equity Raised                   | (2,960)        | (477)          | (2,992)        | -            | -              |
| Dividend                        | 45             | 45             | 37             | 37           | 37             |
| <b>CF from Fin Activities</b>   | <b>(2,952)</b> | <b>(571)</b>   | <b>(3,032)</b> | <b>(37)</b>  | <b>(37)</b>    |
| Net inc / (dec) in cash         | (1,527)        | (774)          | 489            | 1,629        | 1,721          |
| <b>Op. bal of cash</b>          | <b>3,557</b>   | <b>2,029</b>   | <b>1,255</b>   | <b>1,745</b> | <b>3,374</b>   |
| <b>Cl. balance of cash</b>      | <b>2,030</b>   | <b>1,256</b>   | <b>1,745</b>   | <b>3,374</b> | <b>5,095</b>   |



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|----------------|--|
| Buy            | More than 15%                                |
| Hold           | 15% to -15%                                  |
| Sell           | Less than -15%                               |

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