AXIS DIRECT

ECLERX SERVICES

IT - SERVICES

17 AUG 2017 | Quarterly Update

HOLD

Target Price: Rs 1,187

Steady Q1; project roll-offs to dent growth

Eclerx delivered in-line revenue growth (2% QoQ) in Q1, driven by strong deal wins in financial services in FY17. Operating margin (~27%) decreased ~260 bps QoQ owing to annual salary hikes and increase in delivery headcount.

Outlook: Q2 will be impacted due to project roll-offs and revenue is likely to decline by 2-4% QoQ. Management highlighted it does not see any further roll-offs after Q2. Deal pipeline is better YoY with 50% in Digital and management expects H2 to be better than H1. Eclerx entered into an agreement to acquire TwoFour Holdings LLC (to add 1% to FY18 revenue); provides consulting services for banks, brokerages, hedge funds, and asset managers.

CMP	: Rs 1,263
Potential Upside	: -6%

MARKET DATA

No. of Shares	: 40 mn
Free Float	: 50%
Market Cap	: Rs 50 bn
52-week High / Low	: Rs 1,775 / Rs 1,220
Avg. Daily vol. (6mth)	: 21,291 shares
Bloomberg Code	: ECLX IB Equity
Promoters Holding	: 50%
FII / DII	: 31% / 12%

Other highlights

- **Vertical commentary:** Management highlighted deal pipeline is healthy across the three segments of Financial Service, Cable and Telecom, and Digital. Digital accounted for 50% of the new wins. Clients continue to adopt automation across segments with Financial services seeing the most traction in robotics. (Eclerx has trained 5,000+ employees on Robowox – in-house automation platform)
- **Margin outlook:** Eclerx has set up a delivery center in North Carolina and this is likely to impact EBIT margin by 80-100 bps in FY18. Hence we expect margin to be around 28-29% in FY18
- **CLX acquisition seeing healthy demand:** Management highlighted CLX has been trending as per expectations, and is seeing healthy demand around digital asset creation and analytics

Financial summary (Consolidated)

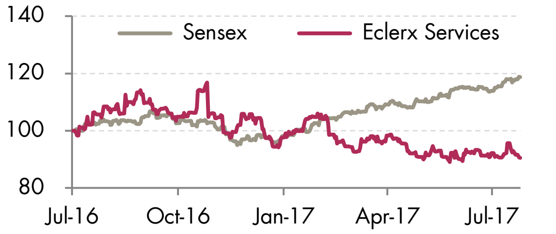
Y/E March	FY16	FY17	FY18E	FY19E
Sales (Rs mn)	13,143	13,300	12,883	14,130
Adj PAT (Rs mn)	3,407	3,539	3,381	3,636
Con. EPS* (Rs)	-	-	84	93
EPS (Rs)	82	86	85	91
Change YOY (%)	48.3	4.9	(1.4)	7.5
P/E (x)	15.4	14.7	14.9	13.8
RoE (%)	37.7	30.7	26.1	24.8
RoCE (%)	48.9	36.2	33.0	32.0
EV/E (x)	9.8	10.0	11.0	9.2
DPS (Rs)	1	1	37	39

Source: *Consensus broker estimates, Company, Axis Capital

Key drivers

(%)	FY17	FY18E	FY19E
Revenue (USD mn)	194	196	213
Revenue growth	-3%	1%	9%
EBIT margin	31%	28%	30%

Price performance



Results update

	Quarter ended					12 months ended		
(Rs mn)	Jun-17	Jun-16	% Chg	Mar-17	% Chg	Mar-18E	Mar-17	% Chg
Net Sales	**3,332**	**3,403**	**(2)**	**3,315**	**0**	**12,883**	**13,300**	**(3)**
EBITDA	1,004	1,259	(20)	1,116	(10)	4,077	4,688	(13)
Other income	82	100	-	(73)	-	776	188	-
PBIDT	**1,086**	**1,360**	**(20)**	**1,043**	**4**	**4,853**	**4,877**	**(0)**
Depreciation	109	120	-	137	-	424	518	-
Interest	0	0	-	(0)	-	0	0	-
PBT	**977**	**1,240**	**(21)**	**907**	**8**	**4,429**	**4,359**	**2**
Tax	185	281	-	159	-	1,048	819	-
Minority Interest	0	0	-	0	-	0	0	-
Adjusted PAT	**792**	**959**	**(17)**	**748**	**6**	**3,381**	**3,540**	**(4)**
Extra ordinary income/ (exp.)	0	0	-	0	-	0	0	-
Reported PAT	**792**	**959**	**(17)**	**748**	**6**	**3,381**	**3,540**	**(4)**
No. of shares (mn)	40	42	-	40	-	40	41	-
EBITDA margins (%)	30.1	37.0	(688)bps	33.7	(353)bps	31.6	35.2	(10.2)bps
PBIDT margins (%)	32.6	39.9	(735)bps	31.5	113 bps	37.7	36.7	2.7 bps
Rep. EPS - Annualized (Rs)	**79.6**	**92.3**	**(14)**	**74.8**	**6**	**84.9**	**86.1**	**(1)**

Source: Company, Axis Capital

Maintain HOLD

We trim our USD revenue growth estimates to 1%/9% in FY18/19 (earlier: 2%/11%) to factor in project roll-offs in Q2. We expect EBIT margin at 28%/30% leading to EPS of Rs 85/ Rs 91 (earlier: Rs 91/ 98). Our revised TP stand at Rs 1,187 (13x FY19E; earlier TP: Rs 1,268), implying downside of 6% from CMP of Rs 1,263. The stock trades at 15x/14x FY18/ FY19 EPS.

Financial summary (Consolidated)

Profit & loss (Rs mn)

Y/E March	FY16	FY17	FY18E	FY19E
Net sales	13,143	13,300	12,883	14,130
Other operating income	-	-	-	-
Total operating income	**13,143**	**13,300**	**12,883**	**14,130**
Cost of goods sold	(5,028)	(5,247)	(5,510)	(5,997)
Gross profit	8,115	8,054	7,373	8,133
Gross margin (%)	*62*	*61*	*57*	*58*
Total operating expenses	(3,291)	(3,365)	(3,296)	(3,391)
EBITDA	**4,824**	**4,688**	**4,077**	**4,742**
EBITDA margin (%)	*37*	*35*	*32*	*34*
Depreciation	(565)	(518)	(424)	(466)
EBIT	**4,258**	**4,170**	**3,653**	**4,275**
Net interest	-	-	-	-
Other income	351	188	776	573
Profit before tax	**4,609**	**4,358**	**4,429**	**4,848**
Total taxation	(1,200)	(819)	(1,048)	(1,212)
Tax rate (%)	*26*	*19*	*24*	*25*
Profit after tax	3,410	3,539	3,381	3,636
Minorities	(3)	-	-	-
Profit/ Loss associate co(s)	-	-	-	-
Adjusted net profit	3,407	3,539	3,381	3,636
Adj. PAT margin (%)	*26*	*27*	*26*	*26*
Net non-recurring items	(7)	-	-	-
Reported net profit	3,400	3,539	3,381	3,636

Balance sheet (Rs mn)

Y/E March	FY16	FY17	FY18E	FY19E
Paid-up capital	408	397	397	397
Reserves & surplus	10,525	11,761	13,397	15,157
Net worth	10,933	12,158	13,794	15,554
Borrowing	35	7	-	-
Other non-current liabilities	516	456	456	456
Total liabilities	**11,484**	**12,621**	**14,251**	**16,011**
Gross fixed assets	1,226	1,392	1,882	2,419
Less: Depreciation	(357)	(692)	(1,116)	(1,582)
Net fixed assets	869	701	766	837
Add: Capital WIP	-	19	19	19
Total fixed assets	869	719	785	856
Total Investment	4,972	5,064	5,064	5,064
Debtors	1,861	2,138	2,100	2,300
Cash & bank	3,285	3,557	5,351	6,761
Loans & advances	1,894	2,503	2,395	2,569
Current liabilities	1,407	1,361	1,444	1,540
Net current assets	5,633	6,837	8,401	10,090
Other non-current assets	11	1	1	1
Total assets	**11,484**	**12,621**	**14,251**	**16,011**
	-	-	-	-

Source: Company, Axis Capital

Cash flow (Rs mn)

Y/E March	FY16	FY17	FY18E	FY19E
Profit before tax	4,609	4,358	4,429	4,848
Depreciation & Amortisation	565	518	424	466
Chg in working capital	*(1,135)*	*(932)*	*230*	*(279)*
Cash flow from operations	**2,878**	**3,135**	**4,035**	**3,824**
Capital expenditure	*509*	*(185)*	*(490)*	*(537)*
Cash flow from investing	**(1,935)**	**(277)**	**(490)**	**(537)**
Equity raised/ (repaid)	*433*	*(11)*	*-*	*-*
Debt raised/ (repaid)	*35*	*(28)*	*(7)*	*-*
Dividend paid	*(49)*	*(63)*	*(1,745)*	*(1,876)*
Cash flow from financing	**418**	**(103)**	**(1,751)**	**(1,876)**
Net chg in cash	1,361	2,755	1,794	1,410

Key ratios

Y/E March	FY16	FY17	FY18E	FY19E
OPERATIONAL				
FDEPS (Rs)	82	86	85	91
CEPS (Rs)	96	99	96	103
DPS (Rs)	1	1	37	39
Dividend payout ratio (%)	1	2	43	43
GROWTH				
Net sales (%)	40	1	(3)	10
EBITDA (%)	53	(3)	(13)	16
Adj net profit (%)	48	4	(4)	8
FDEPS (%)	48.3	4.9	(1.4)	7.5
PERFORMANCE				
RoE (%)	37.7	30.7	26.1	24.8
RoCE (%)	48.9	36.2	33.0	32.0
EFFICIENCY				
Asset turnover (x)	2.2	1.6	1.5	1.6
Sales/ total assets (x)	1.2	1.0	0.9	0.9
Working capital/ sales (x)	0.1	0.2	0.2	0.2
Receivable days	51.7	58.7	59.5	59.4
Inventory days	-	-	-	-
Payable days	61.7	57.7	59.9	59.9
FINANCIAL STABILITY				
Total debt/ equity (x)	-	-	-	-
Net debt/ equity (x)	(0.4)	(0.3)	(0.4)	(0.5)
Current ratio (x)	5.0	6.0	6.8	7.6
VALUATION				
PE (x)	15.4	14.7	14.9	13.8
EV/ EBITDA (x)	9.8	10.0	11.0	9.2
EV/ Net sales (x)	3.6	3.5	3.5	3.1
PB (x)	4.8	4.3	3.6	3.2

Source: Company, Axis Capital

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