



# **INDEPENDENT** **EQUITY** **RESEARCH**

**eClerx Services Ltd**

**Initiating coverage**

**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 (negative 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

A KPO prodigy in the making

Fundamental Grade 4/5 (Superior fundamentals)

Valuation Grade 3/5 (CMP is aligned)

Industry IT Services

KPO player eClerx Services Limited (eClerx) caters to the financial services industry and offers sales and marketing support (SMS) across retail, manufacturing and travel verticals. Having grown at a much faster pace than the industry over the past three years, eClerx continues its growth momentum due to strong domain focus and high client allegiance. We assign eClerx a fundamental grade of '4/5', indicating that its fundamentals are 'superior' relative to other listed securities in India.

## Expected to continue to outperform the industry

While the KPO industry is expected to grow at a 16% CAGR over the next five years, we expect eClerx to continue to outperform the industry due to: (a) higher growth (23% CAGR) expected from business analytics where eClerx is an established player with a niche service offering, (b) efficient internal processes which have helped eClerx utilise resources better, provide process control and systemise quality, and (c) the resultant client stickiness.

## Efficient systems at operational level sets eClerx apart from its peers

A large and dedicated IT team enables reengineering of internal processes, leading to automation of repetitive tasks. This has resulted in a broader employee pyramid and lower average employee costs. Also, eClerx is open to sharing the benefits of efficiency improvements with its clients which results in increased client allegiance and higher share of annuity-based contracts.

## Client concentration and currency exposure risks exist

eClerx's top five clients contribute ~85% of the company's total revenues. This dependence exposes the company to the risk of client concentration - any loss (in part or whole) in any of its top client accounts could severely impact eClerx's revenue growth and profitability. Further, ~100% offshore presence exposes eClerx to currency volatility (US\$ - 75% and Euro - 20% of revenues).

## Expect three-year revenue CAGR of 29%

We expect revenues to register a three-year CAGR of 29% to Rs 5.5 bn in FY13 driven by growth in the top five client accounts across verticals. EBITDA margin is expected to stabilise from ~39% in FY10 to ~35% in FY13 once the company ramps up its onsite presence. EPS is expected to rise at a three-year CAGR of 28% to Rs 53.2 in FY13.

## Valuations – the current price is 'aligned' with fair value

CRISIL Equities has used the price to earnings ratio (PER) method to value eClerx. Based on a PER of 13x FY13E EPS of Rs 53.2, we have arrived at a fair value of Rs 692 per share. We initiate coverage on eClerx with a valuation grade of '3/5'.

## KEY FORECAST

(Rs mn)	FY09	FY10	FY11E	FY12E	FY13E
Operating income	1,973	2,570	3,393	4,369	5,469
EBITDA	815	1,004	1,301	1,596	1,908
Adj Net income	618	735	1,230	1,399	1,535
Adj EPS-Rs	21.4	25.5	42.7	48.5	53.2
EPS growth (%)	38.6	19.0	67.2	13.8	9.7
PE (x)	29.9	25.1	15.0	13.2	12.0
P/BV (x)	11.2	9.2	7.1	5.7	4.7
RoCE (%)	48.6	51.1	52.7	50.5	49.6
RoE (%)	41.4	40.2	53.3	47.8	42.8
EV/EBITDA (x)	13.6	10.9	12.9	10.2	8.2

Source: Company, CRISIL Equities estimate

NM: Not meaningful; CMP: Current Market Price

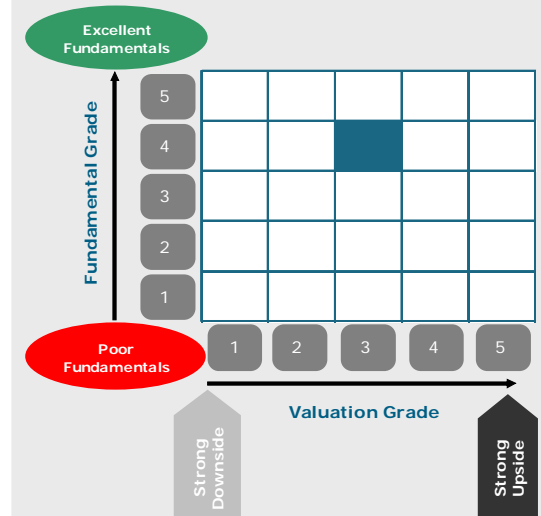
March 28, 2011

Fair Value Rs 692

CMP Rs 641



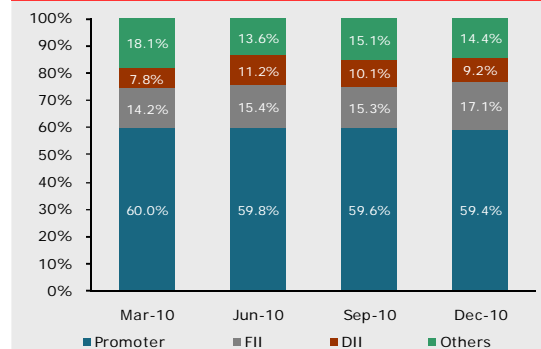
## CFV MATRIX



## KEY STOCK STATISTICS

NIFTY	5654
NSE ticker	ECLERX
Face value (Rs per share)	10
Shares outstanding (mn)	28.8
Market cap (Rs mn)/(US\$ mn)	18,481/411
Enterprise value (Rs mn)/(US\$ mn)	18,008/401
52-week range (Rs) (H/L)	799/435
Beta	0.95
Free float (%)	40.6%
Avg daily volumes (30-days)	37,921
Avg daily value (30-days) (Rs mn)	24.8

## SHAREHOLDING PATTERN



## PERFORMANCE VIS-À-VIS MARKET

	Returns			
	1-m	3-m	6-m	12-m
ECLERX	-3%	-6%	26%	81%
NIFTY	7%	-6%	-6%	7%

## ANALYTICAL CONTACT

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**Table 1: eClerx: Business environment**

Product / Segment	Financial Services	Sales and Marketing support (SMS)
<b>Revenue contribution (FY10)</b>	~50%	~50%
<b>Product / service offering</b>	<ul style="list-style-type: none"> <li>• Capacity planning, business analysis and process management</li> <li>• Trade life cycle management</li> <li>• Risk reporting and legal contract review</li> <li>• Data management</li> <li>• Finance and accounting</li> <li>• Systems migration, software design and development</li> </ul>	<ul style="list-style-type: none"> <li>• Web and ecommerce operations support</li> <li>• Data management services and business performance reporting</li> <li>• Competitive pricing and benchmarking</li> <li>• Analytics and business intelligence</li> <li>• Quality compliance and governance</li> <li>• Digital business process consulting</li> </ul>
<b>Number of employees (end of Q3FY11)</b>	~45% of the total of 3,527 employees	~55% of the total of 3,527 employees
<b>Geographic presence</b>	Serves clients in the US, UK and Asia-Pacific with service delivery from centres in India	
<b>Acquisitions</b>	--	FY08- Igentica, UK-based company operating in the travel and hospitality vertical
<b>Market position</b>	Tier I service provider	
<b>Demand drivers</b>	<ul style="list-style-type: none"> <li>• Increased demand for outsourcing due to cost pressures</li> <li>• Deeper client penetration leading to outsourcing of other allied services</li> <li>• With US moving out of recession and capital markets on the rebound, there will be increased demand for KPO services</li> <li>• Offshore captives looking to outsource complex processes</li> </ul>	<ul style="list-style-type: none"> <li>• Increasing demand for online business models from the traditional brick and mortar businesses</li> <li>• Increased demand for outsourcing due to cost pressures</li> <li>• Penetrating large MNC clients in different geographies</li> </ul>
<b>Key clients</b>	Large global investment banks	Retail, travel, hi-tech manufacturing, healthcare and media and entertainment companies
<b>Key competitors</b>	Wipro BPO, Infosys BPO, MNC captives	MuSigma, Accenture, Capgemini, Wipro BPO, MNC captives
<b>Key risks</b>	<ul style="list-style-type: none"> <li>• Advances in technology rendering some of the outsourced processes redundant</li> <li>• Inability to attract and retain talent at a reasonable cost</li> <li>• No effective business continuity (disaster management) plan in place for Eclerx</li> <li>• Regulatory changes in the US, Europe affecting the outsourcing business</li> </ul>	

Source: Company, CRISIL Equities

## Grading Rationale

### Consistently outperformed the industry

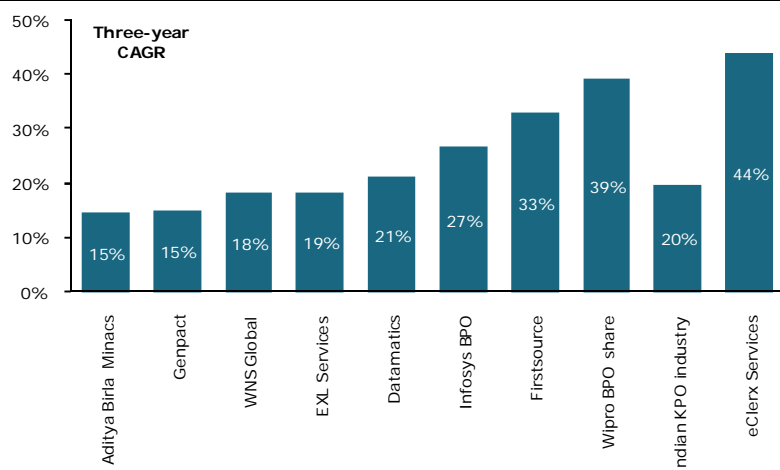
Having started as a small web-based developer in 2000, over the years eClerx has metamorphosed into a big-league KPO (knowledge process outsourcing) player. It caters to the financial services vertical - conducts middle and back office operations - and offers sales and marketing support - business analytics and market research - to retail, travel and manufacturing clients worldwide.

Over the past three years, eClerx's revenue growth of 44% CAGR was significantly higher than 20% CAGR of Indian KPO industry. However, the growth has been from a smaller base than for companies like Genpact (CY10 revenues of US\$ 1,259 mn) and WNS Global (FY10 revenues of US\$ 583 mn). In FY10, when the industry logged 6% growth in the backdrop of the global slowdown, eClerx clocked a robust top line growth of 30%.

**Vertical: Financial services**

**Horizontal: Sales and marketing support**

**Figure 1: Faster growth than that of peers over FY07-10**



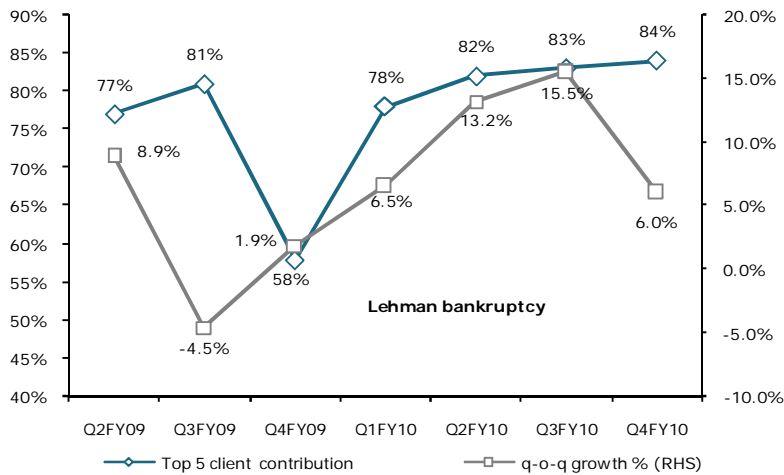
Source: CRISIL Research, CRISIL Equities

### Growth maintained even after bankruptcy of top client

eClerx displayed strong resilience even after the bankruptcy of Lehman Brothers, its top financial services client, in FY09. Growth was affected for a couple of quarters but eClerx still managed to increase its revenues by ~40% in FY09 while maintaining margins. eClerx continues to provide services to Lehman's acquirer. We believe this reflects the company's strong domain expertise, client stickiness and quality of service delivery.

**Undeterred by client bankruptcy amid high client concentration**

**Figure 2: Growth back on track in just a couple of quarters**



Source: Company, CRISIL Equities

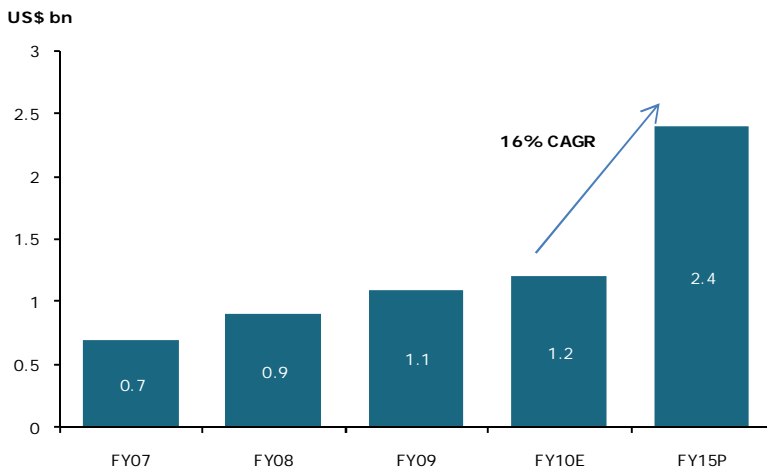
**Well positioned to benefit from KPO segment growth**

As per CRISIL Research, while demand for overall KPO services is expected to grow at a 16% CAGR over the next five years, the analytics segment, where eClerx is present, will grow at ~23% over the same period. The large and mid-sized corporations' focus on data analytics to accelerate revenue growth, optimise costs and differentiate themselves from competitors is expected to boost revenues from analytics to US\$ 600 mn in 2014-15.

eClerx not only has a niche service offering for some of the large Fortune/FT 500 companies but is also an established provider of analytical services for complex processes. Given its penetration into top investment banks (nine of the top 14 banks as its clients) and large IT companies, manufacturers and online retailers, we expect it to benefit from growth in this segment.

**Has 19 Fortune/FT 500 companies as its customers**

**Figure 3: Indian knowledge services exports growth**



Source: CRISIL Research

**Increasing demand from market research, legal processes outsourcing and business analytics in the retail and consumer products, healthcare and BFSI verticals likely to boost growth**

## KPO billing rates but BPO costs = higher profits

### *Thanks to technology*

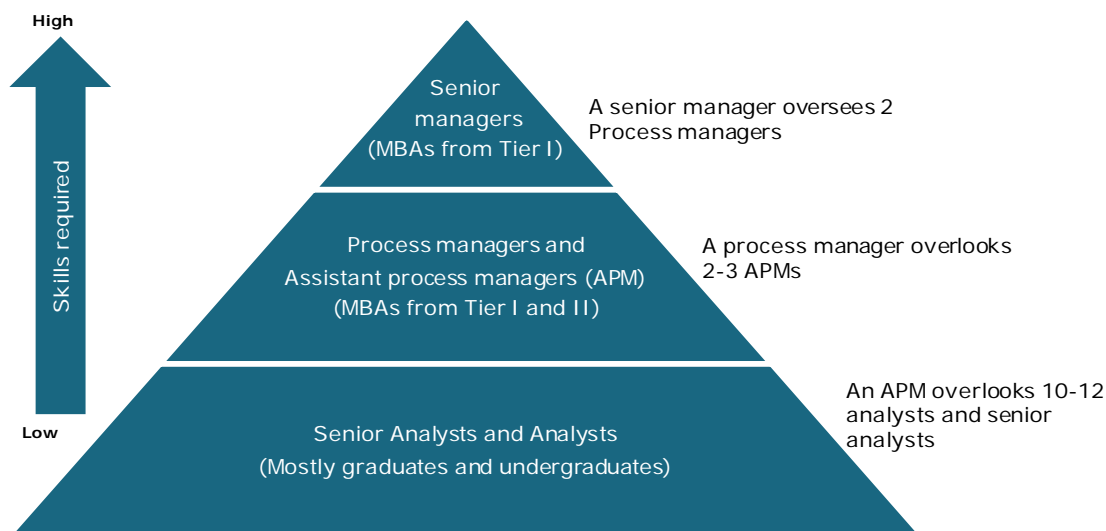
While the billing rates are the function of external environment, the key profitability differentiator lies in managing the employee costs effectively. In a competitive environment, the USP of eClerx lies not only in how it manages its growth but also how efficiently it manages the operations.

- **Information technology, a key differentiator:** eClerx has been successful in using IT not only as an enabler but as a differentiator too. eClerx has an indigenous IT team of over 150 professionals (~ 5% of the total workforce) exclusively for improving the efficiency of process delivery. This team, much larger than some of its peers, develops in-house software tools to re-engineer the delivery of services rather than follow the common 'lift and shift' of existing processes of its clients. eClerx automates processes that are repetitive in nature and require minimal human intervention.
- **Broad employee pyramid:** The next layer of processes is handled by the execution team consisting mostly of graduate analysts and senior analysts. Client interaction for eClerx is at the process manager level unlike other KPOs where the same is at the analyst level. This reduces the deployment of high skilled employees and lowers average employee cost. At the operational level, the company has an employee mix of 1:3:12 (figure 4) – this mix results in about 80% of the employees with 0-2 years of experience. The judgemental decisions remain within the smaller domain of process managers. With 40% attrition at the lower levels, the company can adeptly manage employee costs.
- **Strong KM system and training plans to manage attrition:** eClerx has a dedicated knowledge management (KM) system, institutionalising the knowledge gained from internal experts, client programs and industry initiatives into modular training programs. The company conducts ~1,800 training courses and associated tests, administered and evaluated through a managed training program. Thus, it is able to keep a check on attrition and helps in quick deployment of billable human resources on live projects.

**~80% of billable  
employees are graduates**

**Effective processes help  
tackle attrition and  
deployment of resources  
quickly**

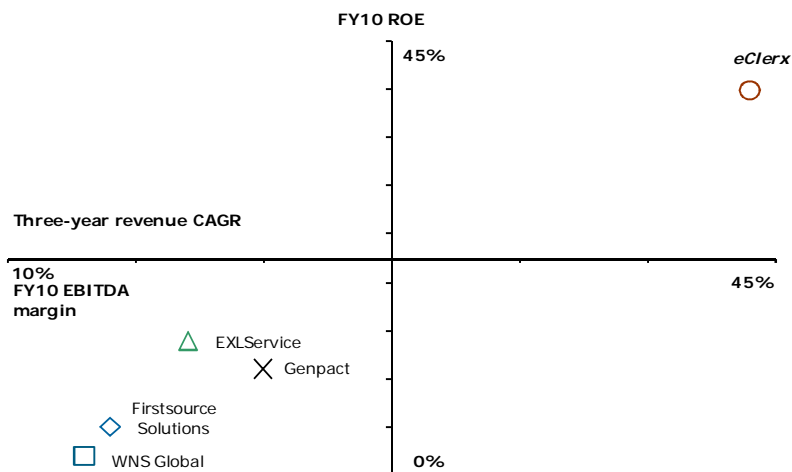
**Figure 4: Broader base of employee pyramid**



**Source: Company, CRISIL Equities**

Improving the efficiency of the internal systems has helped eClerx reduce headcount at the managerial level, utilise resources better, provide process control and systemise quality. Some of the tools have been adapted to service the needs of multiple customers in a single industry allowing the company to gain efficiencies of scale. eClerx has consistently operated at ~40% EBITDA margin and a RoE of more than 40% over FY08-10. We expect the investment in technology and reengineered processes will continue to hold the company in good stead.

**Figure 5: Efficient processes result in higher profitability**



**Source: Company, CRISIL Equities**

## Sharing technology benefits leads to client stickiness

eClerx, since its inception in 2000, has been associated with marquee clients.

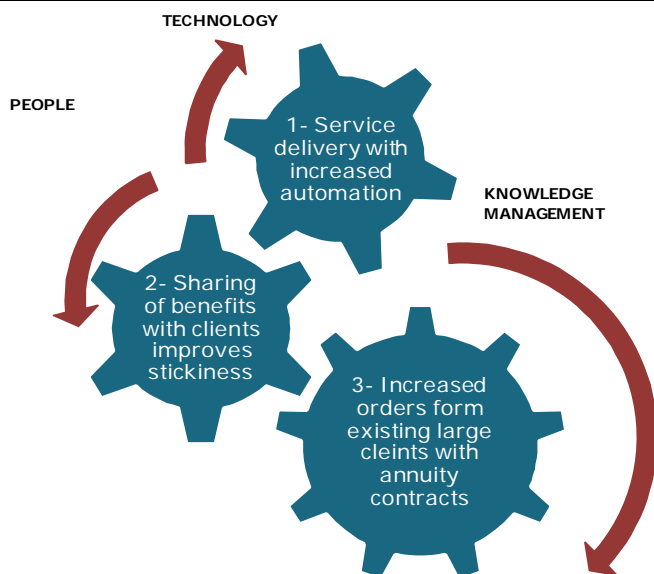
The company has grown on the back of:

1. Ability to acquire such large clients
2. Retain them with superior delivery of non-discretionary services
3. Mining to grow them into large accounts.

eClerx has been transparent with its clients with regard to sharing the benefits from increased use of automation. Generally, the tools developed by eClerx are deployed on client systems, giving them direct access to process results. Increased efficiency has in some cases reduced the FTE (full-time equivalent employee) requirement for certain tasks. Although this affects revenues in the near term, it helps fetch more business from the customers improving stickiness. As a result, the company has been able to bag new non-RFP based contracts from them. This lends eClerx the ability to enter into two-three year rolling contracts with its clients, offering high revenue visibility.

**Has been able to bag annuity contracts**

**Figure 6: Geared up for growth**



Source: Company, CRISIL Equities

## But client concentration risk remains

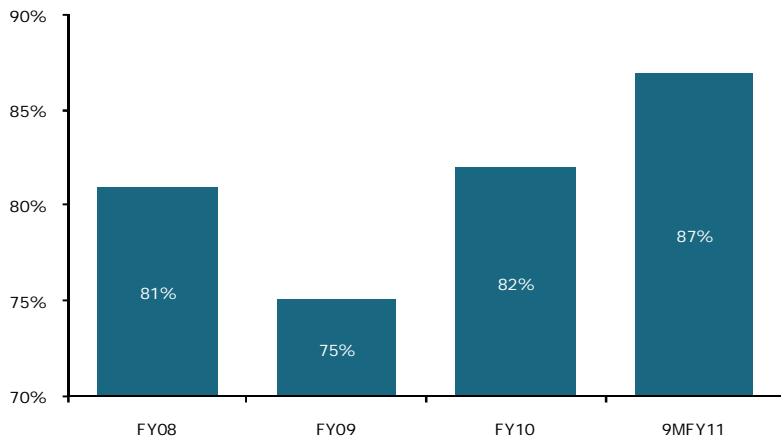
Having mentioned that eClerx has an established relationship with its clients, we cannot overlook the fact that its top five clients contributed more than 75% of revenues in FY08-10. But dependence on large clients exposes the company to client concentration risks. The collapse of Lehman Brothers in 2008 (one of eClerx's large clients) was a major threat to the company's growth but it managed to emerge unscathed.

**Collapse of one of its top clients could have been a potential roadblock**

Given the size of the company, the top five clients - in absolute terms - will still provide a significant potential for additional business. While eClerx will try to grow its smaller clients, the top five will continue to grow at a similar pace. Considering the business model, we expect the client concentration to continue

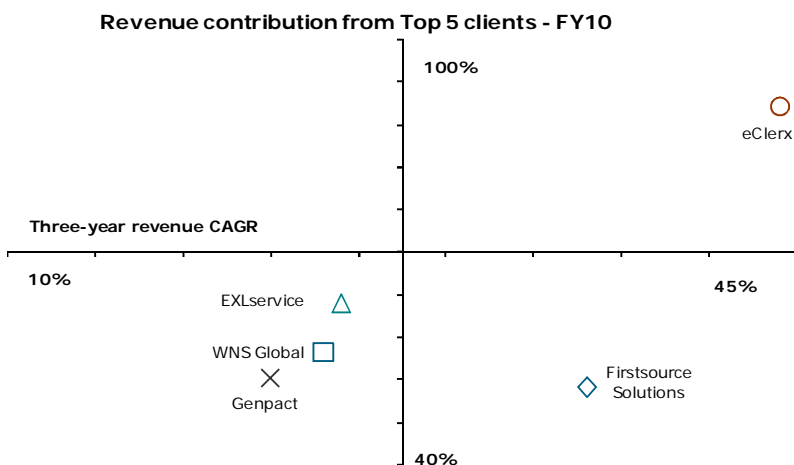
in the medium term. Thus, any loss (in part or whole) in any of its top five client accounts could severely impact eClerx's revenue growth and profitability.

**Figure 7: Contribution of top five clients**



Source: Company, CRISIL Equities

**Figure 8: Comparison with peers**



Source: Company, CRISIL Equities

## Cross-selling opportunities could provide an upside

With ample room to grow, eClerx is looking to garner more business from its larger clients.

- 1- **Across business units:** eClerx provides operational support to clients in the financial services vertical and web-based sales analytics across verticals in the SMS segment. The strong client relationships in both the verticals provide eClerx with cross-selling opportunities. It can draw upon its experience in the financial services vertical to provide similar services to its clients in the SMS business unit and vice-versa.
- 2- **Across geographies:** Most of eClerx's clients are large multinational companies which presents eClerx with opportunities to extend the services for these clients across various geographies.

Has always been above 75%; will continue to remain at such high levels

eClerx's revenue contribution from top five clients higher than peers

MNC clients present opportunity for extension of services

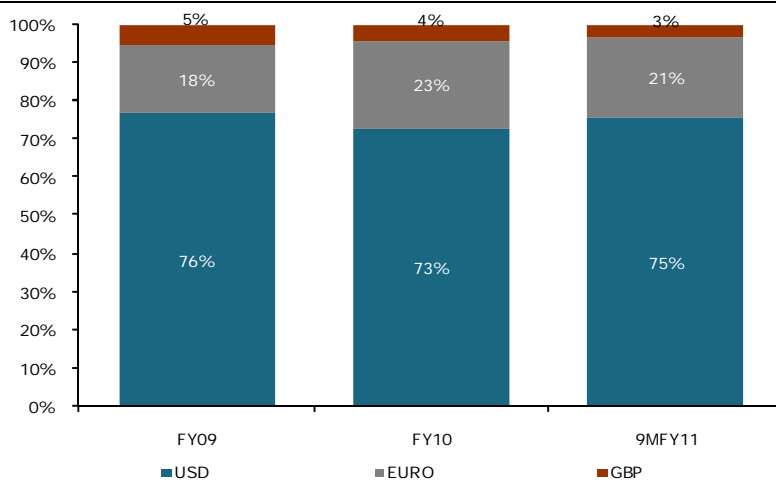
## Key risks

### Offshore operations expose eClerx to currency risks

eClerx derives over 95% of its revenues from the US, Europe and the UK. However, a majority of its costs are incurred from its offshore delivery centres in India. This exposes a major portion of the company's earnings to currency risks. The company maintains a hedging strategy to enter into forward contracts to cover forex risks. CRISIL Research expects the Indian rupee to appreciate to Rs 43.5-44.0 in FY11 and Rs 42.5-43.0 in FY12 against the dollar. Any further appreciation of the Indian rupee could impact the expected improvement in EBITDA margin. **Our analysis indicates that every 1% appreciation in the Indian rupee will lead to a ~50 bps decline in our FY12 EBITDA margin forecast.**

**Rupee appreciation to impact EBITDA margin**

**Figure 9: High offshore delivery share increases currency risk**



Source: Company, CRISIL Equities

### Change in regulations

Recently, the US government enacted the Dodd-Frank Wall Street Reform and Consumer Protection Act which propose an increase in regulations governing the US financial markets. The impact of the act on ability to outsource middle and back office work is uncertain. It may force clients in the BFSI vertical to modify existing processes that eClerx currently manages. The implications of the regulatory changes will remain a key monitorable in the near term.

### ITes business susceptible to global economic cycles

eClerx derives ~60% of its revenues from the US and ~35% from Europe. Any economic slowdown/slow recovery in these regions could act as a deterrent to the company's growth.

### Exposed to industry-wide risk of attrition

eClerx has historically operated at attrition levels of ~35-40% which is at average industry levels. Although such levels of attrition have helped the company manage employee costs, tackling the same on a larger employee base could be increasingly taxing for the management bandwidth. eClerx's ability to maintain attrition within tolerable limits will remain a key monitorable.

## Ability to integrate acquisition

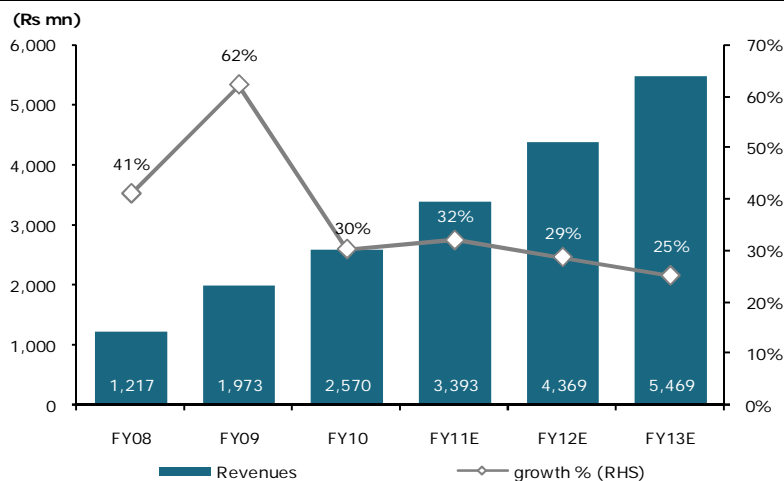
eClerx has planned an acquisition over the next 12-18 months. The company is looking at targets with revenues in the US\$ 20-40 mn range and a purchase price of US\$ 50-80 mn. While the company has successfully integrated its acquisition of Igentica in FY08, its ability to integrate relatively large acquisitions remains a key monitorable.

## Financial Outlook

### Revenues to grow at three-year CAGR of 29%

We expect eClerx's revenues to grow at a CAGR of 29% to Rs 5.5 bn in FY13 from Rs 2.6 bn in FY10, driven by growth in the major client accounts across both the financial services and SMS verticals.

**Figure 10: Strong revenue growth trajectory**



Source: Company, CRISIL Equities

### To continue to operate at high EBITDA margin

The financial services as well as SMS business units operate at the company's average EBITDA margin. eClerx has operated at EBITDA margins of over 40% in the past on account of

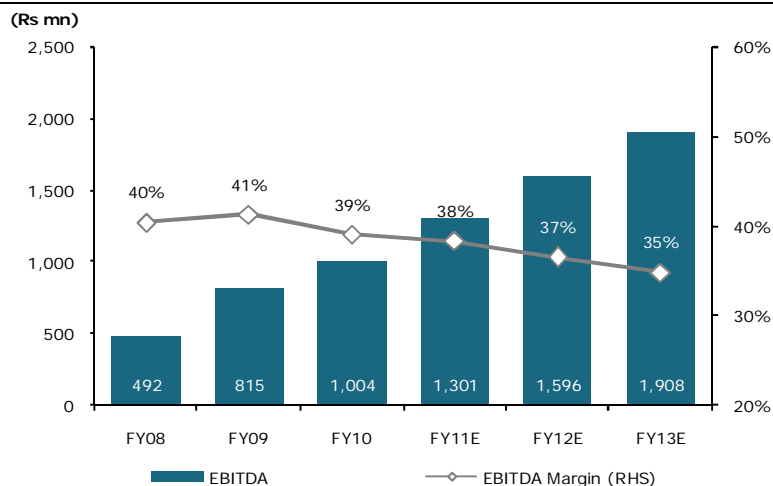
1. High-margin analytical services
2. Efficient delivery on account of technological capabilities
3. Nearly 100% offshoring

The company, to expand its service portfolio and provide end-to-end services, plans to set up an onsite delivery team in addition to the existing offshore delivery. This is likely to increase employee cost amid pricing pressure. Accordingly, we expect the EBITDA margin to stabilise by FY13. However, the company will still continue to operate at ~35% EBITDA margin which would be still above average industry levels.

**Revenue growth driven by growth in major client accounts across both the verticals**

**Increase in onsite delivery along with pricing pressures to stabilise EBITDA margin**

**Figure 11: EBITDA margin to stabilise over next two years**



Source: Company, CRISIL Equities

**PAT to grow at a three-year CAGR of 28%, EPS to increase from Rs 25.5 in FY10 to Rs 53.2 in FY13**

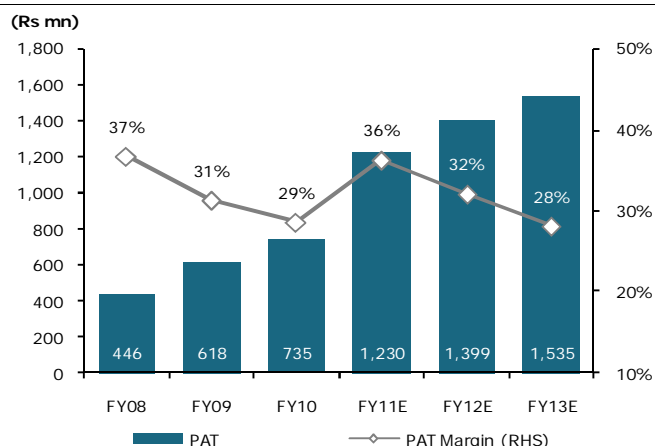
eClerx's PAT is expected to grow from Rs 735 mn in FY10 to Rs 1,535 mn in FY13, primarily driven by a strong growth in revenues. Also, the company will not raise debt as capex will be funded through internal accruals, eliminating interest payments. We expect eClerx to benefit from the forward contracts it has entered into over FY12 and to increase other income.

We expect the company's tax rate to increase as eClerx will have to start paying MAT on SEZ revenues as per the new budget guidelines. We have not factored in any favourable gains from forex hedges in FY13. Accordingly, the PAT margin is expected to decline to 28.1% in FY13 from ~36% in FY11. In line with the PAT growth, EPS is expected to increase from Rs 25.5 in FY10 to Rs 53.2 in FY13.

**Forward contracts worth US\$ 37 mn at Rs 47.7 over FY12**

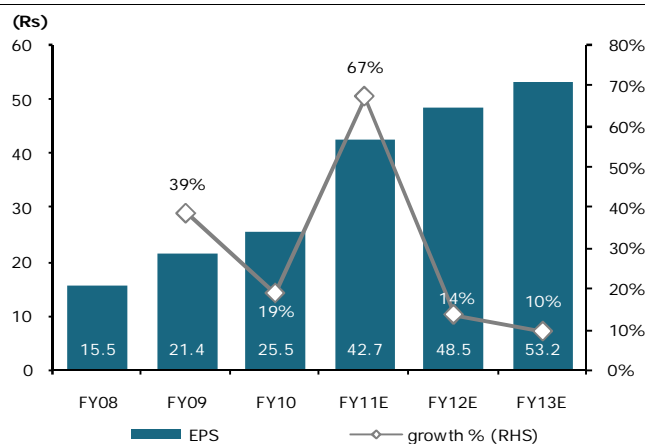
**Increasing tax rates to impact PAT margin**

**Figure 12: PAT margin to decline to 28% in FY13**



Source: Company, CRISIL Equities

**Figure 13: EPS to increase at a CAGR of 28%**

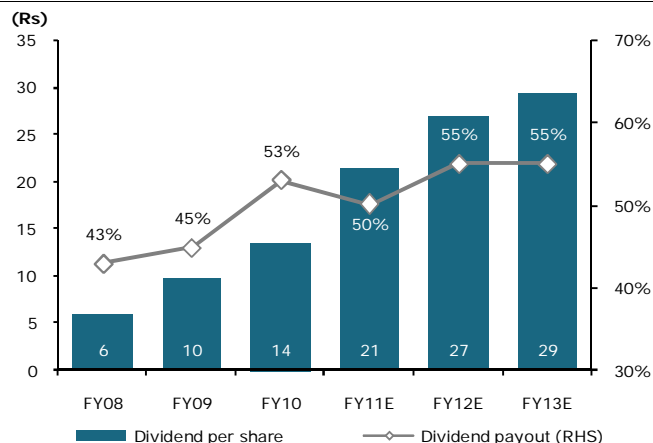


Source: Company, CRISIL Equities

## High dividend paying stock with high RoE

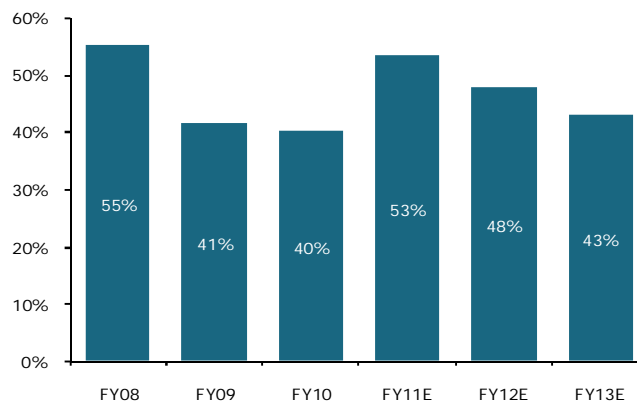
Historically, eClerx has been a high dividend paying stock with a payout ratio of above 40%. In July 2010, eClerx also declared a 2:1 bonus for its shareholders. It would also out pay excess cash as dividend if acquisition plans do not materialise over the next 12-18 months. High PAT margins along with high dividend payouts would continue to result in RoEs of over 40% over the next three years.

**Figure 14: High dividend payout contributing to...**



Source: Company, CRISIL Equities

**Figure 15: ... high RoE over the years**



Source: Company, CRISIL Equities

## Management Overview

CRISIL's fundamental grading methodology includes a broad assessment of management quality, apart from other key factors such as industry and business prospects, and financial performance.

### Demonstrated significant growth despite adverse environment

eClerx management have demonstrated strong growth despite adverse market conditions. eClerx has grown at a CAGR of 57% over the last five years. This was mainly due to strong management team headed by Mr P. D. Mundhra, co-founder and executive director, and Mr Anjan Malik, co-founder and director. Mr Mundhra has entrepreneurial experience in material handling products and has set up the consumer products manufacturing plant for Hindustan Unilever Ltd. Both of them have worked with Lehman Brothers in the past which was one of the first major clients acquired by the company. Mr Malik was involved in the Lehman-Wharton partnership that created the Wharton India Economic forum.

### Senior management ramped up at onsite locations

eClerx utilised the slowdown during FY09-10 to ramp up its onsite senior management team. eClerx now plans to invest a significant portion of its management bandwidth in scaling up its sales and marketing activities. The increased focus on acquiring/growing an existing client outside the top five will also help the company mitigate client concentration risk. The onsite senior management team includes personnel who have over 15 years of core domain experience in Fortune 500 companies.

### Entrepreneurial setup with strong second line

The management has adopted a professional approach towards managing the company. eClerx has a fairly strong and experienced second line of management with 8-10 years of relevant work experience. Based on our interaction, we feel the management is capable and has been given reasonable autonomy to take independent decisions.

**Promoted by Mr P. D. Mundhra and Mr Anjan Malik**

## Corporate Governance

CRISIL's fundamental grading methodology includes a broad assessment of corporate governance and management quality, apart from other key factors such as industry and business prospects, and financial performance. In this context, CRISIL Equities analyses the shareholding structure, board composition, typical board processes, disclosure standards and related-party transactions. Any qualifications by regulators or auditors also serve as useful inputs while assessing a company's corporate governance.

Overall, corporate governance at eClerx conforms to regulatory requirements supported by reasonably good board practices and an independent board.

### Board composition

eClerx's board consists of eight members, of whom four are independent directors, as per the requirement under Clause 49 of SEBI's listing guidelines. The directors have strong industry experience and are highly qualified. Given the background of directors, we believe the board is well experienced. The independent directors have a fairly good understanding of the company's business and its processes.

### Board's processes

The company's quality of disclosure can be considered good judged by the level of information and details furnished in the annual report, websites and other publicly available data. The company has all the necessary committees – audit, remuneration, and investor grievance - in place to support corporate governance practices. All the committees are chaired by independent directors.

**Corporate governance  
practices are good**

## Valuation

Grade: 3/5

We have used the price to earnings ratio (PER) method to value eClerx. We have assigned a fair value of Rs 692 per share based on a PER of 13x on FY13E earnings of Rs 53.2 per share. The stock is currently trading at Rs 641 per share. Consequently, we initiate coverage on eClerx with a valuation grade of '3/5', indicating that the current market price is 'aligned' with the fair value.

**Fair value Rs 692 per share**

### Undergone a re-rating

The stock has traded at an average P/E multiple of 7.8x post its listing in 2008. However, it has gone through a re-rating after recovering from the bankruptcy of its top client (Lehman Brothers). eClerx has traded at an average P/E multiple of 12x in FY11.

### We expect the discount with peers to narrow down further

eClerx is currently trading at a discount to larger global peers like Genpact and EXL Service, who are trading at 15-16x FY12 earnings. While the discount has narrowed down (it was ~80% in FY08, ~60% in FY10 and now ~20%) over the years due to faster earnings growth along with sustainable margins, we believe the current discount factors in the following concerns:

1. Sustainability of margins as the company grows in size
2. The tax rate for the company in FY11 is ~12% and expected to increase to ~20% over FY12-13. Going forward, with increasing tax rates, PAT growth is expected to lag behind revenue growth. The same is not true for the peers as most of them are already paying higher taxes
3. eClerx has a greater proportion of offshore employees compared to its peers, exposing the company to higher currency risks

However, there is potential for eClerx's multiple to expand (or discount to narrow), albeit scarcely, due to following:

1. eClerx has a higher RoE (~50%) compared to peers' ~12-15%
2. Better earnings growth expected (28% three-year CAGR) compared to peers' ~12%
3. More importantly, we expect the company to clock US\$ 100 mn in revenues by FY12 which would provide comfort to existing clients and help tap newer clients due to stronger balance sheet.

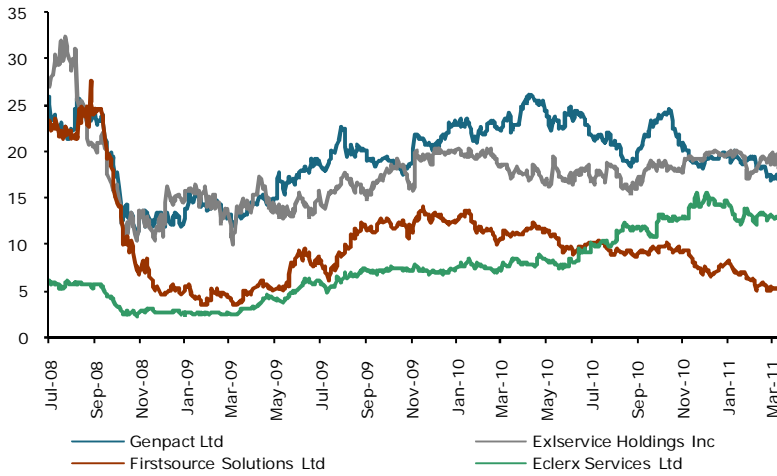
Accordingly, we believe eClerx would continue to trade at a discount to its larger peers and have assigned a P/E multiple of 13x.

### Peer comparison

Companies	Currency	M cap (Rs mn)	Price/earnings (x)			EV/EBITDA (x)			RoE (%)		
			FY10	FY11E	FY12E	FY10	FY11E	FY12E	FY10	FY11E	FY12E
eClerx Services Ltd	Rs	18,481	25.1	15.0	13.2	10.9	12.9	10.2	40.2	53.3	47.8
Genpact	US \$	3,013	18.5	17.5	15.1	11.1	9.8	8.4	12.0	23.2	9.0
WNS Global services	US \$	465	9.1	10.4	9.3	7.0	8.7	7.9	2.1	3.8	3.7
EXL Service Ltd	US \$	589	19.0	18.3	15.8	11.1	9.4	7.9	11.0	10.3	10.8
Firstsource Solutions Ltd	Rs	7,076	6.8	6.4	5.1	7.2	6.8	5.7	8.2	9.0	10.3

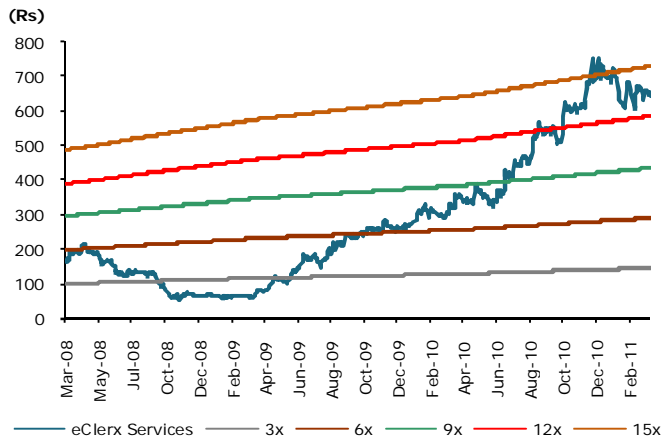
Source: CRISIL Equities

**Figure 16: Would continue to trade at a discount despite a narrower gap**



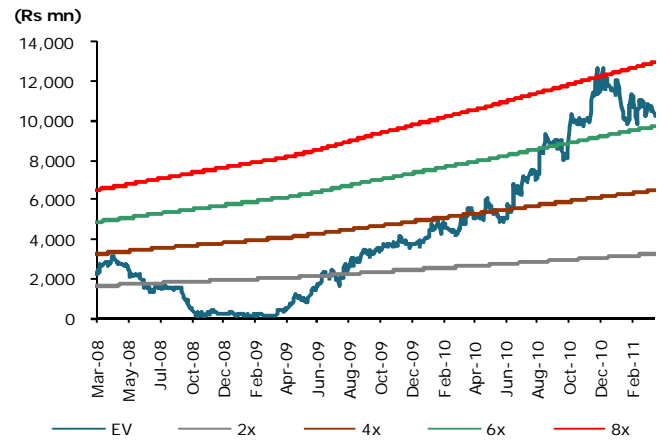
Source: NSE, CRISIL Equities

### One-year forward P/E band



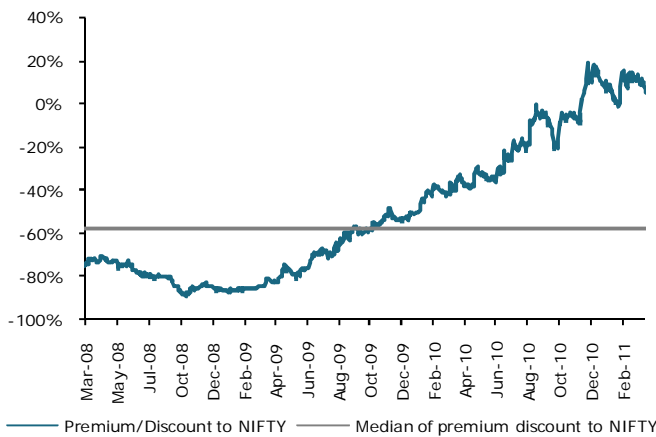
Source: NSE, CRISIL Equities

### One-year forward EV/EBITDA band



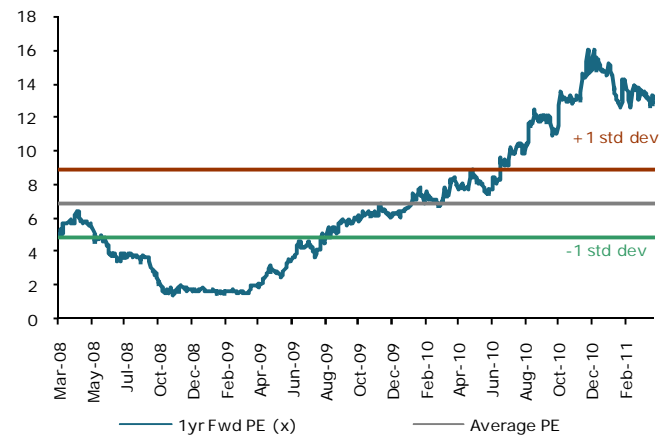
Source: NSE, CRISIL Equities

### P/E – premium / discount to NIFTY



Source: NSE, CRISIL Equities

### P/E movement



Source: NSE, CRISIL Equities

## Company Overview

Mumbai-based eClerx Services Ltd is a KPO company that services its global clients through two major segments – financial services and sales and marketing support. It serves over 50 active customers of which 19 are Fortune/FT 500 companies. Its clients include nine of the 12 Federal Reserve banks, nine of the top 14 global investment banks and five of the top 15 retailers. Most of the operations are executed out of the six delivery centres in India, where it employs ~3,500 people. It has sales offices in London, New York, Austin, Dublin and Singapore. Real-time support is provided to clients in the Americas, Europe and Asia Pacific.

Services across the two verticals include:

- 1. Financial services:** Services are provided to support financial transactions from trade closing through to settlement, clearing and exposure management, reference data and risk management. Services also include financial control, accounting and reporting and consulting related to efficiency improvement, risk reduction and regulatory compliance.
- 2. Sales and marketing support:** eClerx specialises in supporting digital activities through content development, online performance optimisation and customer experience management. It also provides operational, reporting data management, pricing, quality compliance and analytics outsourcing solutions for sales and marketing managers managing online operations and marketing campaigns.

**Table 2: Service lines**

Capital markets	Sales and marketing support
Consulting: Process review, capacity planning, project management, business analysis	Web and ecommerce operations support: Content management, ecommerce product-price management, customer experience management, online advertising support, social media support
Front, middle, back office services: Full trade life cycle management including trade booking, documentation, asset servicing, clearing, settlement and exposure management	Data management services and reporting: Lead and bid management, sales and CRM data enrichment, production data management, order support and business performance reporting
Risk management: Legal contract review and reconciliation, risk reporting and compliance related services	Competitive pricing and benchmarking: Price and catalogue benchmarking, product matching and category analysis, competitor benchmarking and pricing recommendations
Reference data management: Management of sourcing, normalizing, regulatory compliance, product and pricing data	Analytics and business support: Web and market analytics, channel and vendor management, customer analytics and campaign management, customer segmentation and scoring
Finance and accounting: Basel-II compliance, expense management, accounts payable management and reporting	Quality compliance: Quality assurance program, brand compliance, vendor funding compliance and rebate management
Ancillary services: Specialised services such as systems migration, metrics design and management, software design, software development	Digital business process consulting: Process discovery analysis, process transition management and process recommendations

**Source: Company, CRISIL Equities**

**Table 3: Client profile**

Segment	Clients
IT hardware, software & services distribution	Three of the world's largest distributors
Investment banking	Nine of the top 14 investment banks
High tech manufacturing	One of the world's largest computer manufacturers
Computer hardware	Two of top six computer hardware manufacturers
Pharmacies & general merchandise retail	Five of the largest bricks & mortar and online retailers in UK & US
Travel & leisure	Two of the world's top 5 integrated travel companies
Maintenance, repair, operations	Market leading North American distributor of MRO supplies
Media & entertainment	Two of the world's largest top media / entertainment companies

Source: Company, CRISIL Equities

### Milestones

2000	Incorporated as eClerx Services Ltd
2001	Sales office established in Austin, USA
2004	Offshore delivery centre established in Sewri (Mumbai)
2006	Obtained ISO 27001 certification Started second delivery centre in Ghatkopar (Mumbai)
2007	Acquired Igentica group Third delivery centre established in Ghatkopar, Mumbai
2008	Became a public-listed company and the first KPO to be listed on the NSE and BSE Fourth delivery centre set up in Pune Listed among 'Top 200 under a billion' companies by Forbes magazine
2009	Set up sales office in New York, USA Ranked as one of the '100 fastest growing companies in India' by The Economic Times
2010	Fifth delivery centre set up in Navi Mumbai. Featured in the 'Business Today 500' list of India's largest public companies Among top 20 global outsourcing firms in Black Book of Outsourcing
2011	Joined the WAA (Web Analytics Association) as a corporate member

## Annexure: Financials

### Income statement

(Rs mn)	FY09	FY10	FY11E	FY12E	FY13E
<b>Operating income</b>	<b>1,973</b>	<b>2,570</b>	<b>3,393</b>	<b>4,369</b>	<b>5,469</b>
<b>EBITDA</b>	<b>815</b>	<b>1,004</b>	<b>1,301</b>	<b>1,596</b>	<b>1,908</b>
<b>EBITDA margin</b>	<b>41.3%</b>	<b>39.1%</b>	<b>38.3%</b>	<b>36.5%</b>	<b>34.9%</b>
Depreciation	79	70	85	118	123
<b>EBIT</b>	<b>735</b>	<b>934</b>	<b>1,216</b>	<b>1,477</b>	<b>1,785</b>
Interest	91	160	-	-	-
<b>Operating PBT</b>	<b>644</b>	<b>774</b>	<b>1,216</b>	<b>1,477</b>	<b>1,785</b>
Other income	50	54	181	250	134
Exceptional inc/(exp)	-	-	-	-	-
<b>PBT</b>	<b>694</b>	<b>828</b>	<b>1,397</b>	<b>1,728</b>	<b>1,918</b>
Tax provision	77	93	168	328	384
Minority interest	-	-	-	-	-
<b>PAT (Reported)</b>	<b>618</b>	<b>735</b>	<b>1,230</b>	<b>1,399</b>	<b>1,535</b>
Less: Exceptionals	-	-	-	-	-
<b>Adjusted PAT</b>	<b>618</b>	<b>735</b>	<b>1,230</b>	<b>1,399</b>	<b>1,535</b>

### Ratios

	FY09	FY10	FY11E	FY12E	FY13E
<b>Growth</b>					
Operating income (%)	62.2	30.3	32.0	28.7	25.2
EBITDA (%)	65.6	23.2	29.6	22.7	19.6
Adj PAT (%)	38.6	19.0	67.2	13.8	9.7
Adj EPS (%)	38.6	19.0	67.2	13.8	9.7
<b>Profitability</b>					
EBITDA margin (%)	41.3	39.1	38.3	36.5	34.9
Adj PAT Margin (%)	31.3	28.6	36.2	32.0	28.1
RoE (%)	41.4	40.2	53.3	47.8	42.8
RoCE (%)	48.6	51.1	52.7	50.5	49.7
RoIC (%)	58.7	63.9	89.2	94.3	88.6
<b>Valuations</b>					
Price-earnings (x)	29.9	25.1	15.0	13.2	12.0
Price-book (x)	11.2	9.2	7.1	5.7	4.7
EV/EBITDA (x)	13.6	10.9	12.9	10.2	8.2
EV/Sales (x)	5.6	4.3	4.9	3.7	2.9
Dividend payout ratio (%)	44.8	53.0	50.0	55.0	55.0
Dividend yield (%)	2.3	3.2	3.3	4.2	4.6
<b>B/S ratios</b>					
Inventory days	-	-	-	-	-
Creditors days	73	51	52	54	56
Debtor days	83	56	61	63	65
Working capital days	46	50	52	50	47
Gross asset turnover (x)	7.2	6.9	7.8	7.5	7.4
Net asset turnover (x)	13.4	13.9	19.0	19.3	21.4
Sales/operating assets (x)	10.8	13.1	17.1	17.8	19.9
Current ratio (x)	3.9	4.6	4.8	4.6	4.4
Debt-equity (x)	-	-	-	-	-
Net debt/equity (x)	(0.6)	(0.6)	(0.7)	(0.7)	(0.7)
Interest coverage	8.1	5.8	NM	NM	NM

### Per share\*

	FY09	FY10	FY11E	FY12E	FY13E
Adj EPS (Rs)	21.4	25.5	42.7	48.5	53.2
CEPS	24.2	27.9	45.6	52.6	57.5
Book value	57.5	69.3	90.7	112.5	136.5
Dividend (Rs)	9.6	13.5	21.3	26.7	29.3
Actual o/s shares (mn)	18.9	19.0	28.8	28.8	28.8

\* adjusted for bonus issue in FY11

### Balance Sheet

(Rs mn)	FY09	FY10	FY11E	FY12E	FY13E
<b>Liabilities</b>					
Equity share capital	189	190	288	288	288
Reserves	1,467	1,809	2,325	2,955	3,646
Minorities	-	-	-	-	-
<b>Net worth</b>	<b>1,657</b>	<b>1,999</b>	<b>2,614</b>	<b>3,243</b>	<b>3,934</b>
Convertible debt	-	-	-	-	-
Other debt	-	-	-	-	-
<b>Total debt</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Deferred tax liability (net)	(7)	(7)	(7)	(7)	(7)
<b>Total liabilities</b>	<b>1,649</b>	<b>1,992</b>	<b>2,606</b>	<b>3,236</b>	<b>3,927</b>
<b>Assets</b>					
Net fixed assets	187	183	173	280	231
Capital WIP	1	22	19	19	19
<b>Total fixed assets</b>	<b>188</b>	<b>205</b>	<b>193</b>	<b>299</b>	<b>251</b>
<b>Investments</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Current assets</b>					
Inventory	-	-	-	-	-
Sundry debtors	451	392	564	757	969
Loans and advances	289	492	577	699	820
Cash & bank balance	213	472	978	1,381	2,030
Marketable securities	851	775	775	775	775
<b>Total current assets</b>	<b>1,804</b>	<b>2,132</b>	<b>2,894</b>	<b>3,611</b>	<b>4,595</b>
<b>Total current liabilities</b>	<b>465</b>	<b>463</b>	<b>597</b>	<b>792</b>	<b>1,036</b>
<b>Net current assets</b>	<b>1,339</b>	<b>1,669</b>	<b>2,296</b>	<b>2,820</b>	<b>3,559</b>
<b>Intangibles/Misc. expenditure</b>	<b>123</b>	<b>117</b>	<b>117</b>	<b>117</b>	<b>117</b>
<b>Total assets</b>	<b>1,649</b>	<b>1,992</b>	<b>2,606</b>	<b>3,236</b>	<b>3,927</b>

### Cash flow

(Rs Mn)	FY09	FY10	FY11E	FY12E	FY13E
Pre-tax profit	694	828	1,397	1,728	1,918
Total tax paid	(81)	(93)	(168)	(328)	(384)
Depreciation	79	70	85	118	123
Working capital changes	(50)	(147)	(122)	(120)	(90)
<b>Net cash from operations</b>	<b>643</b>	<b>659</b>	<b>1,193</b>	<b>1,398</b>	<b>1,568</b>
<b>Cash from investments</b>					
Capital expenditure	(127)	(82)	(72)	(225)	(75)
Investments and others	(197)	76	-	-	-
<b>Net cash from investments</b>	<b>(324)</b>	<b>(6)</b>	<b>(72)</b>	<b>(225)</b>	<b>(75)</b>
<b>Cash from financing</b>					
Equity raised/(repaid)	1	5	98	-	-
Debt raised/(repaid)	(40)	-	-	-	-
Dividend (incl. tax)	(277)	(390)	(615)	(770)	(844)
Others (incl extraordinary)	(13)	(9)	(98)	-	-
<b>Net cash from financing</b>	<b>(329)</b>	<b>(393)</b>	<b>(615)</b>	<b>(770)</b>	<b>(844)</b>
Change in cash position	(11)	259	506	403	649
Closing cash	213	472	978	1,381	2,030

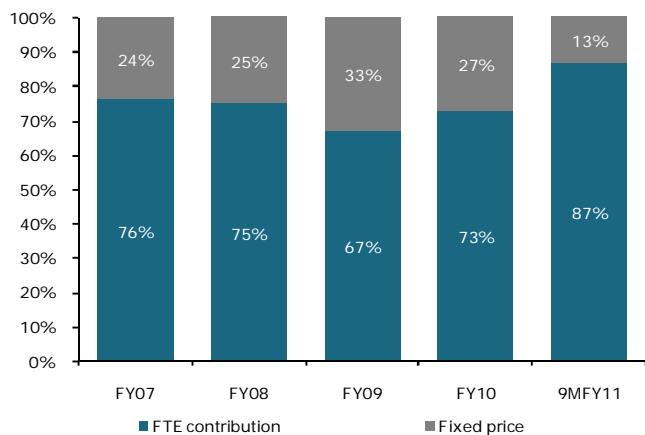
### Quarterly financials

(Rs Mn)	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11
<b>Net Sales</b>	<b>691</b>	<b>713</b>	<b>771</b>	<b>823</b>	<b>872</b>
Change (q-o-q)		3%	8%	7%	6%
<b>EBITDA</b>	<b>278</b>	<b>261</b>	<b>283</b>	<b>298</b>	<b>364</b>
Change (q-o-q)		-6%	8%	5%	22%
<b>EBITDA margin</b>	<b>40.3%</b>	<b>36.6%</b>	<b>36.7%</b>	<b>36.2%</b>	<b>41.8%</b>
<b>PAT</b>	<b>213</b>	<b>242</b>	<b>292</b>	<b>271</b>	<b>352</b>
<b>Adj PAT</b>	<b>213</b>	<b>242</b>	<b>292</b>	<b>271</b>	<b>352</b>
Change (q-o-q)		14%	21%	-7%	30%
<b>Adj PAT margin</b>	<b>30.8%</b>	<b>34.0%</b>	<b>37.9%</b>	<b>32.9%</b>	<b>40.4%</b>
<b>Adj EPS</b>	<b>7.4</b>	<b>8.4</b>	<b>10.1</b>	<b>9.4</b>	<b>12.2</b>

Source: CRISIL Equities

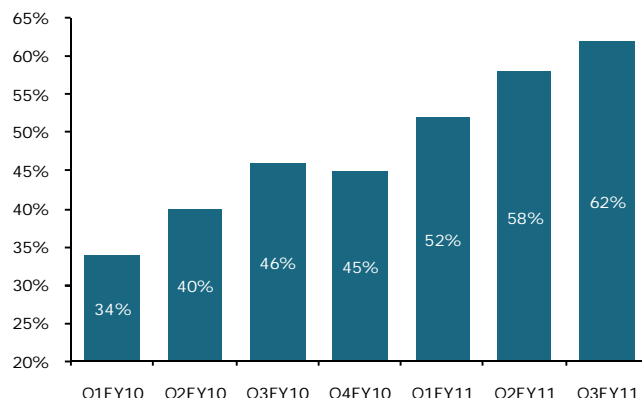
## Focus Charts

### FTE-based revenues on the rise



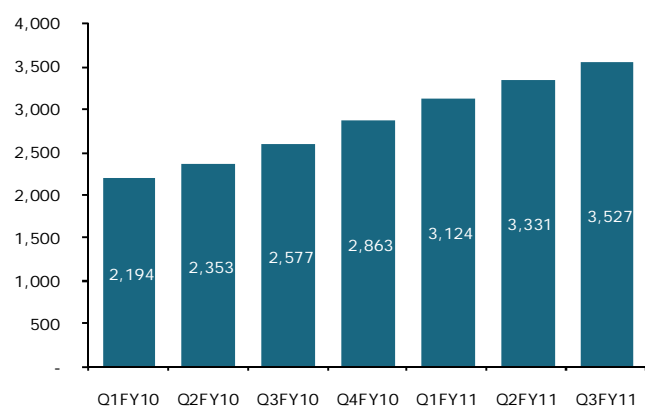
Source: Company, CRISIL Equities

### Share of revenues from SEZ have increased



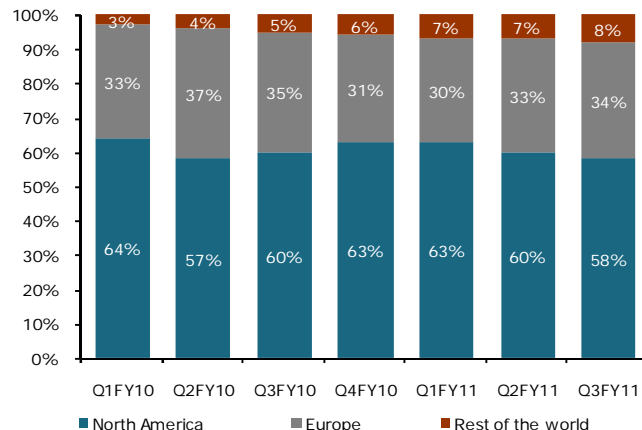
Source: Company, CRISIL Equities

### Total employee count



Source: Company, CRISIL Equities

### Geographic distribution of revenues



Source: Company, CRISIL Equities

### Comparison with NIFTY



Source: NSE, CRISIL Equities

### Stock performance

(Rs)	FY08*	FY09	FY10
Shares Bought	10		
Price per share	210		
Investment made	2,100		
Dividend per share	9.0	14.6	20.5
Total dividend income	90	146	205
Current market price	641		
Total return	4,661		
Total return (%)	222%		
Holding period - Years	3.2		
Yearly return	44%		

\*Post listing on NSE

Source: NSE, CRISIL Equities

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- ☞ IPO Grading
- ☞ White Labelled Research
- ☞ Valuation on companies for use of Institutional Investors, Asset Managers, Corporate

### **Other Services by the Research group include**

- ☞ CRISINFAC Industry research on over 60 industries and Economic Analysis
- ☞ Customised Research on Market sizing, Demand modelling and Entry strategies
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CRISIL is India's leading Ratings, Research, Risk and Policy Advisory Company.

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CRISIL Research is India's largest independent, integrated research house. We leverage our unique, integrated research platform and capabilities spanning the entire economy-industry-company spectrum to deliver superior perspectives and insights to over 750 domestic and global clients, through a range of subscription products and customised solutions.

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