

# FIRST LIGHT

17 December 2020

## RESEARCH

### eClerx Services | Target: Rs 800 | -2% | REDUCE

Sizeable like-to-like acquisition to fuel inorganic growth

## SUMMARY

### eClerx Services

eClerx (ECLX) has acquired Personiv – an IT services firm with capabilities in the digital, back office and customer contact domains – for a cash consideration of US\$ 34mn. Personiv’s annual revenue is ~14% of ECLX’s. Earnouts will be payable for the next two years based on revenue and profit targets. We increase FY21/FY22/FY23 EPS by 6%/27/34% due to better overall margin estimates and the sizeable acquisition that comes with a good SMB client portfolio. Our Sep’21 TP rises from Rs 600 to Rs 800. We upgrade to REDUCE from SELL.

[Click here for the full report.](#)

## TOP PICKS

### LARGE-CAP IDEAS

Company	Rating	Target
<a href="#">Cipla</a>	Buy	900
<a href="#">GAIL</a>	Buy	155
<a href="#">Petronet LNG</a>	Buy	330
<a href="#">TCS</a>	Buy	3,180
<a href="#">Tech Mahindra</a>	Buy	1,040

### MID-CAP IDEAS

Company	Rating	Target
<a href="#">Alkem Labs</a>	Buy	3,600
<a href="#">Greenply Industries</a>	Buy	150
<a href="#">Laurus Labs</a>	Buy	410
<a href="#">Transport Corp</a>	Buy	300
<a href="#">Mahanagar Gas</a>	Sell	750

Source: BOBCAPS Research

## DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	0.91	1bps	1bps	(97bps)
India 10Y yield (%)	5.94	(1bps)	6bps	(81bps)
USD/INR	73.64	(0.1)	1.3	(3.8)
Brent Crude (US\$/bbl)	50.76	0.9	18.7	(23.2)
Dow	30,199	1.1	2.4	6.8
Shanghai	3,367	(0.1)	1.7	11.4
Sensex	46,263	0	6.5	11.9
India FII (US\$ mn)	14 Dec	MTD	CYTD	FYTD
FII-D	228.8	900.6	(13,718.6)	(3,959.1)
FII-E	472.8	4,447.7	20,553.4	27,156.4

Source: Bank of Baroda Economics Research

## BOBCAPS Research

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**REDUCE**

TP: Rs 800 | ▼ 2%

**ECLERX SERVICES**

| IT Services

| 16 December 2020

## Sizeable like-to-like acquisition to fuel inorganic growth

eClerx (ECLX) has acquired Personiv – an IT services firm with capabilities in the digital, back office and customer contact domains – for a cash consideration of US\$ 34mn. Personiv’s annual revenue is ~14% of ECLX’s. Earnouts will be payable for the next two years based on revenue and profit targets. We increase FY21/FY22/FY23 EPS by 6%/27/34% due to better overall margin estimates and the sizeable acquisition that comes with a good SMB client portfolio. Our Sep’21 TP rises from Rs 600 to Rs 800. We upgrade to REDUCE from SELL.

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**Acquisition of Personiv:** ECLX is acquiring Personiv through the purchase of Eclipse Global Holdings LLC. The firm provides services in the digital, creative, back office and customer contact segments, with offshore delivery centres in Manila, Coimbatore and Gurgaon. Last three-year average revenue stood at US\$ 27.6mn. The debt-free acquisition is expected to be closed by 29 Dec’20.

**EPS-accretive deal:** ECLX’s management expects Personiv to clock US\$ 28mn in revenue and ~15% EBITDA margins in CY20. Personiv will be fully incorporated into the company by Q3FY22. Per our calculations, consolidated EBITDA margin will stand at 25.4% for FY22, only slightly below the last four-quarter average of 26.1%. Overall, this is an EPS-accretive deal. Estimated ROCE rises slightly in FY22 to 35.6% vs. earlier estimates.

**Strong synergies:** This acquisition makes a good strategic and cultural fit for ECLX. Personiv’s client base provides opportunities to cross-sell and up-sell automation, analytics and other managed services. The deal also adds the SMB sector to ECLX’s portfolio which will be beneficial for the BPO business, besides enabling a wider geographic footprint. Its two delivery centres in the Philippines will be instrumental in getting new clients due to a lower cost per employee. Personiv’s offices in Austin (Texas) will also strengthen ECLX’s US presence.

Ticker/Price	ECLX IN/Rs 817
Market cap	US\$ 418.2mn
Shares o/s	38mn
3M ADV	US\$ 1.1mn
52wk high/low	Rs 844/Rs 320
Promoter/FPI/DII	50%/25%/25%

Source: NSE

## STOCK PERFORMANCE



Source: NSE

## KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	14,305	14,376	15,249	20,779	21,682
EBITDA (Rs mn)	3,092	3,249	3,935	5,285	6,005
Adj. net profit (Rs mn)	2,283	2,087	2,358	3,214	3,738
Adj. EPS (Rs)	60.1	55.5	68.0	92.6	107.7
Adj. EPS growth (%)	(19.4)	(7.7)	22.6	36.3	16.3
Adj. ROAE (%)	20.2	17.5	17.1	21.5	22.9
Adj. P/E (x)	13.6	14.7	12.0	8.8	7.6
EV/EBITDA (x)	8.7	8.6	7.1	5.1	4.6

Source: Company, BOBCAPS Research



## Disclaimer

### Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

**ADD** – Expected return from >+5% to +15%

**REDUCE** – Expected return from -5% to +5%

**SELL** – Expected return <-5%

**Note:** Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

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