

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

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Other key updates

- Personiv's revenue growth slowed in CY18-CY19 due to weakness in one of its top clients. The CY20 YTD EBITDA margin has been weak due to one-off accounting treatment on office lease-related cost rationalisation.
- Personiv's presence in the Philippines will be beneficial to ECLX as it is a sought-after BPO destination.
- The acquisition adds 2,100 employees to the ECLX workforce.
- Personiv has high client concentration with 85% of revenue coming from its top-5 clients.

FIG 1 – PERSONIV FINANCIALS

Particulars	CY18	CY19	CY20TD
Revenue (US\$ mn)	31.4	31.9	21.0
EBITDA margin (%)	25.0	22.5	14.1

Source: BOBCAPS Research

Valuation methodology

Over the last three years, ECLX has witnessed a structural downward reset to operating margins led by a changing business mix in favour of onsite revenues. However, the company has demonstrated efficient cost management, helped by increased utilisation (at a four-year high of 79% in Q2FY21), offshoring and reduced attrition.

We raise FY21/FY22/FY23 EPS estimates by 6%/27%/34% factoring in better margin estimates and EPS accretion from the Personiv acquisition. The sizeable acquisition will provide an inorganic revenue growth boost for the next couple of years. It also gives ECLX access to more annuity-based business. EPS accretion will materialise from revenue synergies. We have a revised Sep'21 target price of Rs 800 (Rs 600 earlier), set at an unchanged 8x one-year forward P/E. We upgrade the stock to REDUCE from SELL.

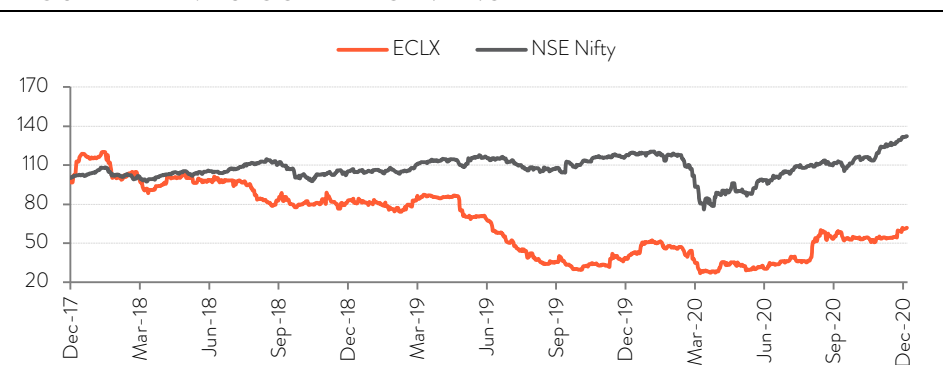
We have kept ECLX's target P/E at a low 8x due to its lumpy mix of non-annuity business which renders the company comparable to BPO rather than IT services players. In our view, the current stock price factors in upsides from the Personiv acquisition and while valuations at 11.8x/10.6x FY22E/FY23E P/E are inexpensive, they lack further catalysts.

FIG 2 – REVISED ESTIMATES

(Rs mn)	FY21E			FY22E			FY23E		
	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)
Revenues (US\$ mn)	192.8	202.9	5.2	219.2	266.5	21.6	243.4	277.9	14.2
YoY growth (%)	(3.9)	1.2	-	13.7	31.3	-	11.0	4.3	-
Revenues	14,474	15,249	5.4	17,092	20,779	21.6	18,993	21,682	14.2
EBIT	2,989	3,142	5.1	3,218	4,283	33.1	3,540	4,972	40.5
EBIT margins (%)	20.7	20.6	-	18.8	20.6	-	18.6	22.9	-
Net profits	2,231	2,358	5.7	2,542	3,214	26.5	2,795	3,738	33.8
EPS (Rs)	64.3	68.0	5.7	73.2	92.6	26.5	80.5	107.7	33.8

Source: BOBCAPS Research

FIG 3 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key upside risks

- Sharper recovery in demand, especially for the offshore business
- Stronger revival in CLX business
- Above-expected traction in large accounts
- Better synergy from acquisition

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue	14,305	14,376	15,249	20,779	21,682
EBITDA	3,092	3,249	3,935	5,285	6,005
Depreciation	447	710	793	1,002	1,032
EBIT	2,645	2,539	3,142	4,283	4,972
Net interest income/(expenses)	0	(188)	(199)	(200)	(200)
Other income/(expenses)	469	452	294	320	349
Exceptional items	0	0	0	0	0
EBT	3,114	2,803	3,237	4,403	5,121
Income taxes	832	715	879	1,189	1,383
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
Reported net profit	2,283	2,087	2,358	3,214	3,738
Adjustments	0	0	0	0	0
Adjusted net profit	2,283	2,087	2,358	3,214	3,738

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Accounts payables	0	0	0	0	0
Other current liabilities	1,960	1,969	2,089	2,846	2,970
Provisions	78	79	84	114	119
Debt funds	63	63	63	63	63
Other liabilities	152	152	152	152	152
Equity capital	384	384	384	384	384
Reserves & surplus	10,120	12,971	13,910	15,191	16,679
Shareholders' fund	10,505	13,355	14,295	15,575	17,064
Total liabilities and equities	12,758	15,619	16,683	18,751	20,368
Cash and cash eq.	1,256	4,357	2,910	3,421	5,068
Accounts receivables	2,352	2,363	2,507	3,416	3,564
Inventories	0	0	0	0	0
Other current assets	2,547	2,560	2,716	3,700	3,861
Investments	2,916	2,916	5,432	5,432	5,432
Net fixed assets	1,346	1,082	777	440	101
CWIP	150	150	150	150	150
Intangible assets	2,220	2,220	2,220	2,220	2,220
Deferred tax assets, net	121	121	121	121	121
Other assets	0	0	0	0	0
Total assets	12,758	15,619	16,683	18,751	20,368

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income + Depreciation	3,562	2,797	3,151	4,217	4,771
Interest expenses	(257)	(264)	(95)	(120)	(149)
Non-cash adjustments	0	0	0	0	0
Changes in working capital	(300)	(14)	(175)	(1,106)	(181)
Other operating cash flows	(943)	809	0	0	0
Cash flow from operations	2,062	3,328	2,882	2,990	4,442
Capital expenditures	(520)	(446)	(488)	(665)	(694)
Change in investments	(1,210)	0	(2,516)	0	0
Other investing cash flows	(567)	264	95	120	149
Cash flow from investing	(2,297)	(182)	(2,909)	(545)	(545)
Equities issued/Others	53	0	0	0	0
Debt raised/repaid	0	0	0	0	0
Interest expenses	(554)	0	0	0	0
Dividends paid	(38)	(45)	(1,419)	(1,934)	(2,249)
Other financing cash flows	0	0	0	0	0
Cash flow from financing	(539)	(45)	(1,419)	(1,934)	(2,249)
Changes in cash and cash eq.	(774)	3,101	(1,447)	511	1,647
Closing cash and cash eq.	1,256	4,357	2,910	3,421	5,068

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
Reported EPS	60.1	55.5	68.0	92.6	107.7
Adjusted EPS	60.1	55.5	68.0	92.6	107.7
Dividend per share	1.0	1.0	34.0	46.4	54.0
Book value per share	279.1	354.8	379.8	413.8	453.3

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
EV/Sales	1.9	1.9	1.8	1.3	1.3
EV/EBITDA	8.7	8.6	7.1	5.1	4.6
Adjusted P/E	13.6	14.7	12.0	8.8	7.6
P/BV	2.9	2.3	2.2	2.0	1.8

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21E	FY22E	FY23E
Tax burden (Net profit/PBT)	73.3	74.5	72.9	73.0	73.0
Interest burden (PBT/EBIT)	117.7	110.4	103.0	102.8	103.0
EBIT margin (EBIT/Revenue)	18.5	17.7	20.6	20.6	22.9
Asset turnover (Revenue/Avg TA)	105.7	101.3	94.4	117.3	110.9
Leverage (Avg TA/Avg Equity)	1.2	1.2	1.2	1.2	1.2
Adjusted ROAE	20.2	17.5	17.1	21.5	22.9

Source: Company, BOBCAPS Research | Note: TA = Total Assets

Ratio Analysis

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
YoY growth (%)					
Revenue	4.8	0.5	6.1	36.3	4.3
EBITDA	(15.7)	5.1	21.1	34.3	13.6
Adjusted EPS	(19.4)	(7.7)	22.6	36.3	16.3
Profitability & Return ratios (%)					
EBITDA margin	21.6	22.6	25.8	25.4	27.7
EBIT margin	18.5	17.7	20.6	20.6	22.9
Adjusted profit margin	16.0	14.5	15.5	15.5	17.2
Adjusted ROAE	20.2	17.5	17.1	21.5	22.9
ROCE	30.4	27.1	30.1	35.6	40.3
Working capital days (days)					
Receivables	60	60	58	52	59
Inventory	0	0	0	0	0
Payables	64	64	65	58	68
Ratios (x)					
Gross asset turnover	11.2	11.8	16.4	34.1	80.1
Current ratio	3.0	4.5	3.7	3.6	4.0
Net interest coverage ratio	NA	NA	NA	NA	NA
Adjusted debt/equity	(0.1)	(0.3)	(0.2)	(0.2)	(0.3)

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

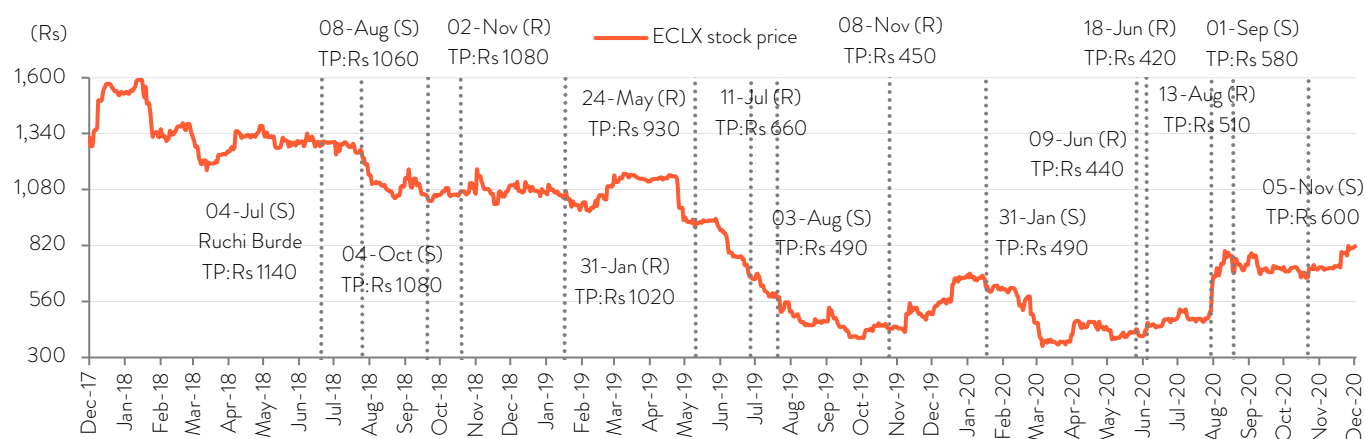
ADD – Expected return from >+5% to +15%

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)

RATINGS AND TARGET PRICE (3-YEAR HISTORY): ECLERX SERVICES (ECLX IN)



B – Buy, A – Add, R – Reduce, S – Sell

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