

Initiating Coverage Expleo Solutions Ltd.

Aug 05, 2022





Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
IT Enabled Services	Rs. 1405	Buy in the Rs. 1398-1422 band & add more on dips to Rs. 1263-1287 band	Rs. 1548	Rs. 1664	2 quarters

HDFC Scrip Code	EXPSOL
BSE Code	533121
NSE Code	EXPLEOSOL
Bloomberg	EXPLEOSO IN
CMP Aug 04, 2022	1405
Equity Capital (Rs Cr)	10.2
Face Value (Rs)	10
Equity Share O/S (Cr)	1.02
Market Cap (Rs Cr)	1438.2
Book Value (Rs)	164.8
Avg. 52 Wk Volumes	35109
52 Week High	1874
52 Week Low	971.5

Share holding Pattern % (June, 2022)	
Promoters	56.2
Institutions	2.4
Non Institutions	41.4
Total	100.0



* Refer at the end for explanation on Risk Ratings

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Our Take:

Expleo Solutions Ltd. (ESL), is an India based software service provider primarily delivering software validation and verification services to the banking, financial services and insurance industry worldwide. The company is a specialised quality assurance company with expertise in the BFSI segment, enabling automation and digital transformation for its clients. It is backed by the Expleo group (the company is a subsidiary of Expleo Technology Germany GmbH, Germany), which is predominantly an ER&D service provider dominant in European region. The company has invested in four wholly owned subsidiaries in Singapore, USA, UK and UAE for market development and service delivery in the respective regions.

ESL holding company Expleo Technology Germany GmbH, Germany decided to merge its India based group companies with ESL for greater synergies. With the merger of engineering, design and testing capabilities of its companies, ESL could be a 'One Stop Solution' provider. Its investment in the high-growth next-gen testing segment, where it has a leadership position, has started to reap benefits. This merger could expand its expertise to the automotive and aerospace segment in the ER&D space along with making in-roads in the non-BFSI testing space.

The merger of group companies with ESL could bring flow of product development and engineering capabilities, industry expertise beyond BFSI, operational synergies, and larger outsourcing share from MNC parent (holding company). This amalgamation will enable the company to accelerate its shoring capabilities while leveraging scale; thereby transforming into an engineering, consultancy, design, and quality assurance company.

We expect, the company could report revenue at Rs 790 crore in FY23E and Rs 1001 crore in FY24E, considering the benefits of merger. The company could maintain EBITDA margin at 17%+ in FY23E and FY24E. Besides, the company is focusing on adding 2-3 more clients in the USD1mn+ category by strategically handling key 17-18 accounts. The company is focused on client acquisition with a larger share of client's wallets.

Valuation & Recommendation:

Given its niche areas, continued new logo additions, healthy deal pipeline, good client mining, and additional capabilities from the merger, ESL is expected to deliver strong performance in FY23E and beyond. Considering the consolidation of Expleo Solutions group companies, the combined entity could achieve a revenue guidance of Rs 1000 crore by FY24E.



The recent consolidation of businesses of Expleo group in India could raise the size of the company and derisk its business by having exposure to ER&D in addition to traditional business of software testing. ESL plans to raise headcount in the merged company from the current 4600+ to 10000 by 2025. This could also mean revenue growth in an organic manner.

Investors could buy in the Rs 1398-1422 band and add more on dips in the Rs. 1263-1287 (16.5x FY24E EPS). Base case fair value of the stock is Rs 1548 (20x FY24E EPS) and the bull case fair value of the stock is Rs 1664 (21.5x FY24E EPS) over the next 2 quarters. At the CMP of Rs 1405 the stock trades at 18.1x FY24E EPS.

Financial Summary (Consolidated)

Particulars (Rs cr)	Q4FY22	Q4FY21	YoY-%	Q3FY22	QoQ-%	FY20	FY21	FY22	FY23E	FY24E
Total Operating Income	114	79	43.1	106	7.3	270	301	405	790	1,001
EBITDA	25	17	51.0	17	45.3	53	70	77	133	172
Depreciation	2	1	54.4	2	6.0	6	6	8	21	22
Other Income	3	1	264.3	0	420.4	8	5	4	9	11
Interest Cost	0	0	9.4	0	94.4	1	1	1	2	1
Tax	6	4	39.9	4	58.2	14	18	18	30	40
APAT	19	11	69.8	11	63.8	40	50	54	90	120
Diluted EPS (Rs)	18.2	10.7	69.8	11.1	63.8	39	49.2	52.6	58.0	77.5
RoE-%							28.5	23.6	17.1	14.3
P/E (x)							43.2	40.4	24.2	18.1
EV/EBITDA (x)							29.3	26.2	14.4	10.7

(Source: Company, HDFC sec)

Q4FY22 Result Update

- ESL reported robust performance in Q4FY22, revenue grew by 7.3% QoQ and 43.1% YoY to Rs 114 crore, led by strong growth across verticals and geographies.
- EBITDA was up by 45.3% QoQ and 51% YoY to Rs 25 crore in Q4FY22, despite higher attrition and wage revision (14-15%), supported by strong revenue growth, absence of software purchase-related expenses and cost-efficiency measures. EBITDA margin ramped up by 570bps QoQ to 21.9%.
- Net profit was at Rs 19 crore, up 63.8% QoQ and 69.8% YoY, supported by higher other income. Net profit margin was up by 560 bps QoQ and 260 bps YoY to 16.4%.



Recent Triggers

Consolidation of group companies under Expleo Solutions

ESL and Expleo India Infosystems Pvt Ltd. (EIPL) announced a Scheme of Amalgamation involving Merger of EIPL (including its subsidiaries and step down subsidiary) into ESL. Pursuant to the above restructuring, ESL to issue 459 fully paid-up equity shares of Rs 10 each of ESL for every 10 equity shares of Rs 10 each held in EIPL. The paid-up share capital of the entity will be increased from the existing 1.02 crore equity shares of Rs 10 each to 1.55 crore equity shares of Rs 10 each. The scheme is subject to the customary approvals from the Stock Exchanges, SEBI, Jurisdictional National Company Law Tribunal, public shareholders, etc. Management expects the merger process to be completed by August/September 2022.

Current Indian business of Expleo Group consists of its following subsidiaries and step down subsidiary,

Expleo Solutions Ltd. (ESL): ESL is listed company and trusted partner for end-to-end, integrated quality services and management consulting for digital transformation for Treasury and Capital Markets, Retail, Private and Commercial Banking, Insurance, Cards & Payments and Asset Management.

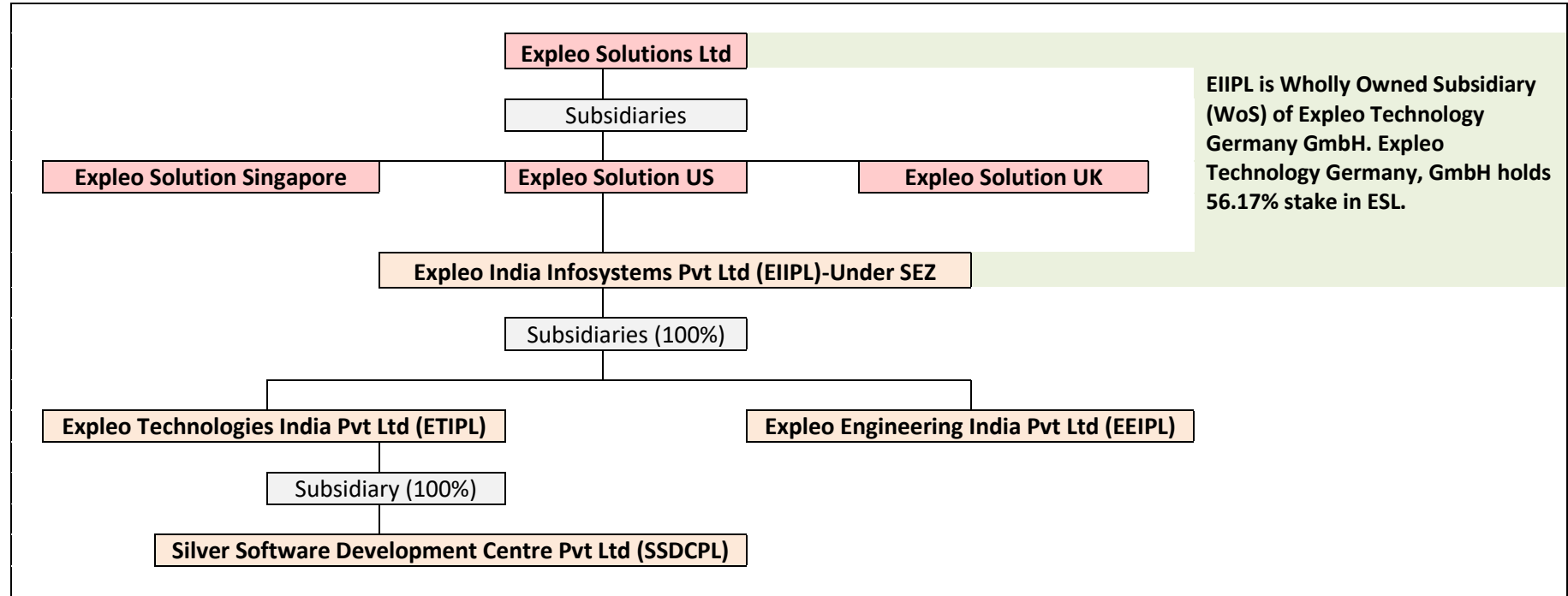
Expleo India Infosystems Pvt Ltd.(EIPL): EIPL is an unlisted private company of Expleo group in India. EIPL is on it owns and through its subsidiaries engaged in end-to-end, integrated quality services and management consulting for Automotive, Manufacturing, Gaming & Gambling, Energy & Utilities, Commodity Trading industries. EIPL is Wholly Owned Subsidiary (WoS) of Expleo Technology Germany GmbH. The company provides traditional Testing Services, Specialized Testing Services, New Gen Services/ Beyond Testing and Software Development & Production support services.

Expleo Technologies India Pvt Ltd. (ETIPL): EIPL holds 100% of shares in ETIPL, which provides software development, validation, verification, certification and engineering design services in the field of Aerospace, Automotive, Defence and Rail Transportation Domains.

Expleo Engineering India Pvt Ltd. (EEIPL): EIPL also holds 100% of shares in EEIPL.

Silver Software Development Centre Pvt Ltd (SSDCPL): SSDCPL is wholly owned subsidiary of ETIPL. Both EEIPL & SSDCPL do not have any business operations.

Currently, ETIPL & EEIPL are directly wholly-owned subsidiaries of EIPL and SSDCPL is a step down wholly owned subsidiary of EIPL. Further, EEIPL & SSDCPL does not have any operations and are getting consolidated just for simplifying ESL structure.



Proposed transaction

The proposed consolidation of group entities of Expleo Group will be executed in two parts:

(a) Acquisition of Equity Shares

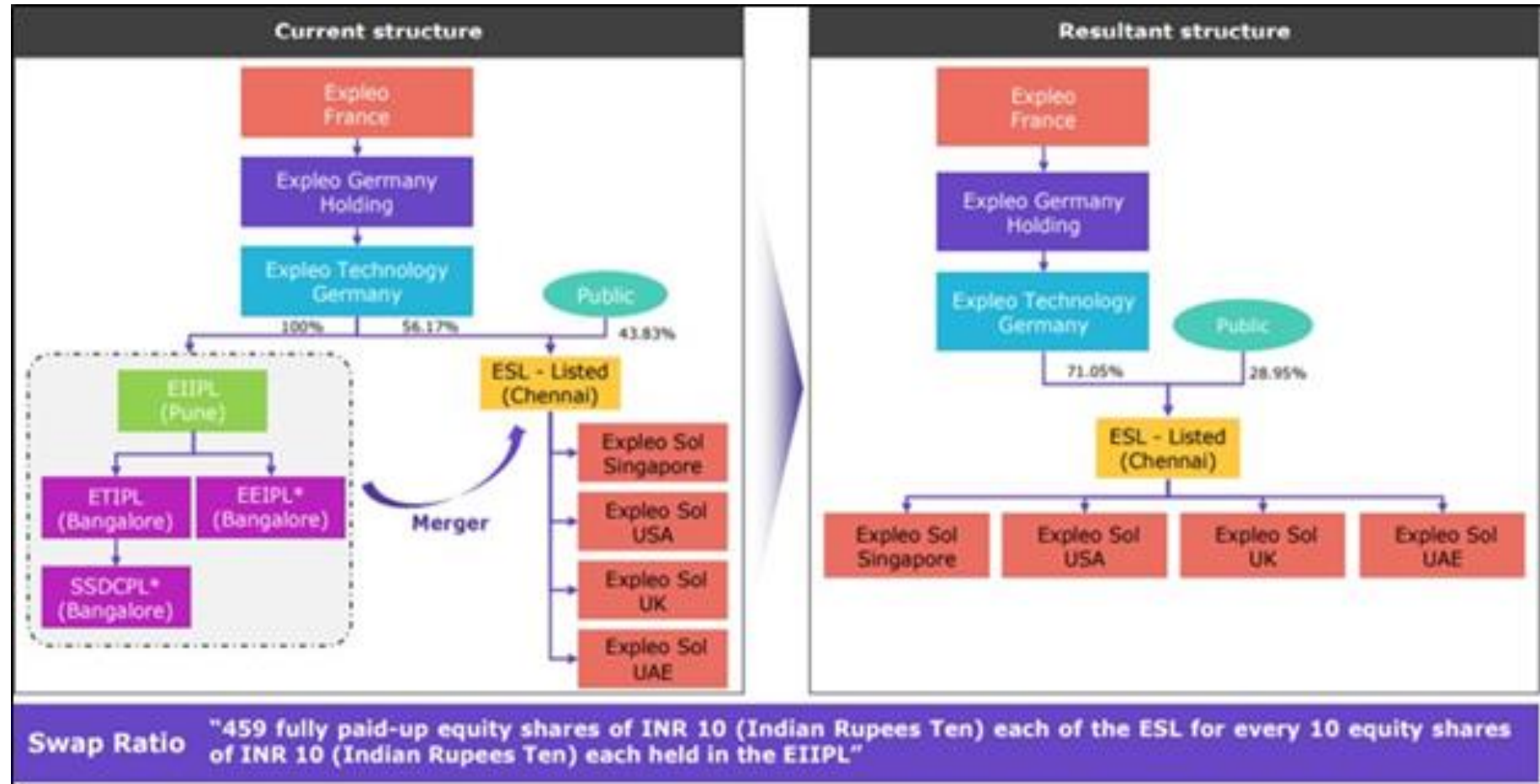
On 28th June 2021, EIPL entered into a Share Purchase Agreement (SPA) to acquire 100% stake of EEIPL and ETIPL for Rs 1.61 crores and Rs 132 crore respectively. This was likely to be done with an intention of simplifying the transaction & approval process as well as certain commercials like upstreaming the cash available with the private company.

(b) Merger

Immediately after the acquisition, the group announced a composite Scheme of Amalgamation (“Scheme”), providing for the merger of various other group entities with ESL.

The process/phases of the transaction (merger) with ESL as provided in the Scheme is as follow:

- (1) Merger of Expleo India Infosystems Pvt Ltd.
- (2) Merger of Expleo Technologies India Pvt Ltd.and Expleo Engineering India Pvt Ltd.
- (3) Silver Software Development Centre Pvt Ltd. with Expleo Solutions Ltd.



Brief details of change in shareholding pattern of listed entity, i.e. ESL:

Category of Shareholders	Pre-Amalgamation		Post-Amalgamation	
	No of Shares	% of Shares	No of Shares	% of Shares
Promoter (Expleo Technology Germany GmbH (formerly known as SQS Software Quality Systems AG))	57,58,804	56.17	1,10,26,058	71.05
Public	44,93,681	43.83	44,93,681	28.95
Total	1,02,52,485	100	1,55,19,739	100



Brief details of Net worth, Total Income & Total Assets

Company	Net Worth	Total Income	Total Assets
	As on March 31, 2021	As on March 31, 2021	As on March 31, 2021
Expleo India Infosystems Pvt Ltd	224.6	137.0	246.6
Expleo Technologies India Pvt Ltd	32.5	130.3	93.6
Expleo Engineering India Pvt Ltd	1.6	0.0	1.6
Silver Software Development Centre Pvt Ltd	0.0	0.0	0.0
Expleo Solution Ltd	1599.6	305.8	228.2

Management structure post consolidation

ESL will be classified into two segments, one is the engineering capability, and the other is the quality capability. Existing Managing Director & Chief Executive Officer of ESL, Balaji Viswanathan will be the CEO of the merged entity and Prashanth who is the Managing Director of EIPL will become Chief Operating Officer (COO). Balaji Viswanathan will continue to be the leader for everything related to Quality and Financial services and Prashant will continue to be the overall lead for delivering the Engineering services business.

Business mix pre and post consolidation

As the parent entity is focused on Engineering, EIPL & ETIPL have a considerable chunk of business coming from the parent entity. After the merger, the group business share for the combined entity will be approximately equal to 33% to 34%, and the direct business is approx.- 66% odd. The management expects that over the next two to three years, the group business contribution would probably be in the range of around 42% to 45%.

Synergy benefits

- The consolidation of the Group Businesses in India in a single listed entity - ESL is expected to enhance business focus, improve synergies and will pave the way for focused growth and sustained value creation for all the stakeholders over a period of time.
- The merger will help ESL in adding fast growing and niche Engineering Design Services business under its umbrella, currently part of Expleo Technologies India Pvt Ltd. (ETIPL), a wholly owned subsidiary of EIPL.
- This consolidation of Expleo group's businesses will bring an end-to-end Engineering, Consultancy and Quality Assurance provider across Industry sectors and domains in this market. This move will help to leverage global capabilities and build scale in India.
- This consolidation will also help in becoming a significant Engineering, Digital Transformation and Technology services provider in this market with over 4000+ Engineers spread across 4 cities.
- Further, the consolidation will also help in simplification of the Group Corporate Holding Structure in India by reducing number of active business entities.



Financial Overview (FY22)

Rs in Cr,	Listed ESL	Unlisted Companies	Merged Entity
Revenue	405	315	720
EBITDA	77	42	119
PAT	53	35	88
EBITDAM-%	19.1	13.3	16.6
PATM-%	13.2	11.1	12.3
EPS	52.6		57.0

Recent acquisitions to bring earning visibility, client additions and geographical reach

Acquisition of Lucid Technologies

ESL has considered and approved the definitive agreements to be entered with Lucid Technologies and Solutions and its subsidiary Lucid Technologies and Solutions LLC (Lucid) towards purchase of their specific assets i.e. Intellectual Property (IP) and Technical Knowhow in India and Customer Contracts in US. The definitive agreements will be executed with effective date as April 01, 2022.

Lucid is engaged in the activity of Data Governance, Data Security and analytics led by their IP driven accelerators, capabilities. Lucid partners with leading data governance platform vendors. They have marquee clients in the US delivering value through their proprietary tools, assets and Agile, CMMi and PSP methodologies. Expleo Solutions is an India based software service provider primarily delivering software validation and verification services to the banking, financial services and insurance industry worldwide.

Lucid has a topline of \$3 mn and the consideration is \$3-3.2 mn payable in 15 months.

Acquisition of Assystem Care by parent in move that reinforces its position in life sciences and chemical

Expleo signed a 28 mn-euro agreement to acquire Assystem Care in Dec 2021, the dedicated life sciences and chemical division of Assystem. Expleo plans to grow the newly acquired business into its fifth largest business revenue-wise.

Assystem Care's nearly 400-strong team is primarily located in France, with an additional presence in Belgium and Switzerland. With 30 years-experience in health and life sciences, Assystem Care works with some of the world's largest healthcare, biopharmaceutical, medical device, prognosis, agribusiness, fine chemicals, and cosmetics companies, to provide compliance, quality, and validation services. Its offer includes end-to-end engineering, quality, and performance management throughout the product lifecycle. For several years, Expleo has put its digital and engineering expertise to use in the areas of health and medicine. Its client portfolio features leading companies in the pharma, biotech, MedTech and in-vitro diagnostic sectors.



This acquisition will not affect on-going projects and will, in the long-term, make it possible to create synergies to support clients on new projects with larger scope, and an international footprint. This acquisition will enable Expleo to accelerate its development and branch out into growth markets. ESL will be indirectly benefitted by this acquisition as some portion of the work could get outsourced to low cost Indian operations.

ESL is likely to deliver strong revenue growth and expects to maintain EBITDA margin at 17-18% in FY23E

Despite ongoing Russia and Ukraine conflict, uncertain macro environment across the US and Europe, ESL continues to see positive demand environment led by acceleration in digital space and automation. Taking the recent macro challenges like higher interest rate in US, elevated attrition rate and slower growth of European and emerging nations, the company is cautious for near term growth. The company expects to report sequential revenue growth could be 6-7% in the next couple of quarters of FY23. Further, the company remains confident to achieve Rs 1000 crore revenue of the combined entity by FY24E from the current level of around Rs 700 crore, implying a 19.5% CAGR. We expect that company could report achieve this by strong client mining, healthy deal pipeline, strong traction for its offerings, incremental revenue from the acquisition, and new logo additions.

Despite the near term margin headwinds like higher travelling cost, cost burden due to wage revision, and high third party consultation cost, ESL expects EBITDA margin to remain at 17-18% in FY23 versus 19.1% EBITDA margin in FY22. We believe margin levers such as operating leverage from higher revenue growth, improving utilisation, and pyramid balancing could mitigate the near term margin headwinds to some extent. We forecast the company to report EBITDA margin of ~16.5% in FY23E. Targeted EBITDA margin of the combined entity would be 15-17% post the amalgamation, as the unlisted entity's EBITDA margin was lower than the listed company. Margin is also likely to be lower than that of the listed company owing to the margin profile of the ER&D entity wherein capabilities are currently skewed towards the low-margin mechanical side of ER&D.

Long term Triggers

Established market position in the software testing industry with strong parentage

Healthy relationships with reputed players in the banking, financial services, and insurance (BFSI) domain, and leading technology players, have helped Expleo (former name SQS) establish its market position. Further, longstanding presence of promoters, diversified geographical presence, qualified and experienced management, will continue to aid new customer acquisition and retention of key clients.

The company is a subsidiary of Expleo Technology Germany GmbH, Germany. Expleo is a global engineering, technology and consulting service provider that partners with leading organisations through their business transformation. Expleo benefits from more than 40 years of experience developing complex products, optimising manufacturing processes, and ensuring the quality of information systems. Leveraging its deep sector knowledge and wide-ranging expertise in fields including AI engineering, digitalisation, hyper-automation, cybersecurity and data science, the group's mission is to fast-track innovation through each step of the value chain. As a responsible and diverse organisation,



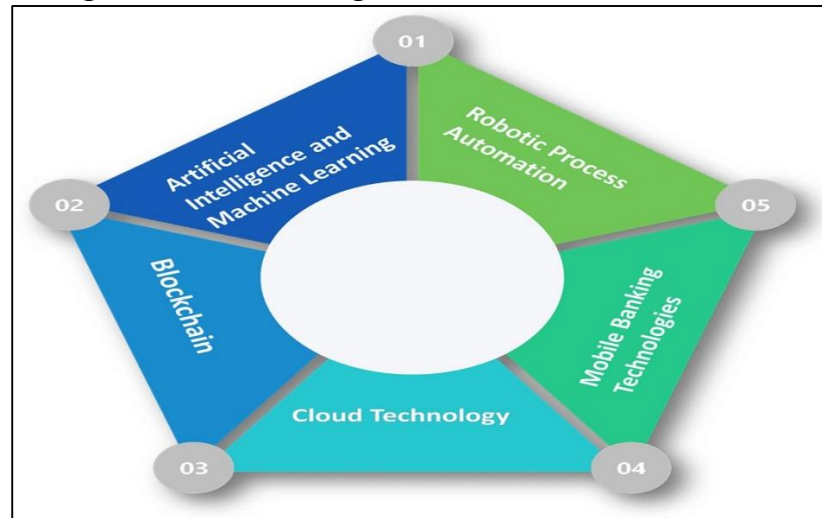
Expleo is committed to doing business with integrity and working towards a more sustainable and secure society. Expleo boasts an extensive global footprint, powered by 15,000 highly-skilled experts delivering value in 30 countries.

It has 4600+ employees and offices in Germany, the UK, the USA, Australia, Egypt, Finland, France, India, Ireland, Italy, Malaysia, the Netherlands, Norway, Austria, Singapore, Sweden, Switzerland, South Africa and the UAE. Its clients include Barclays, BP, Credit Suisse, Daimler, Deutsche Post AG, Dresdner Bank, Eurobet, Eurogate, MessageLabs, Phoenix, T-Mobile, T-Systems and Zurich Group. It counts half of the DAX 30, nearly a third of the STOXX 50, and 20% of the FTSE 100 companies in its client base.

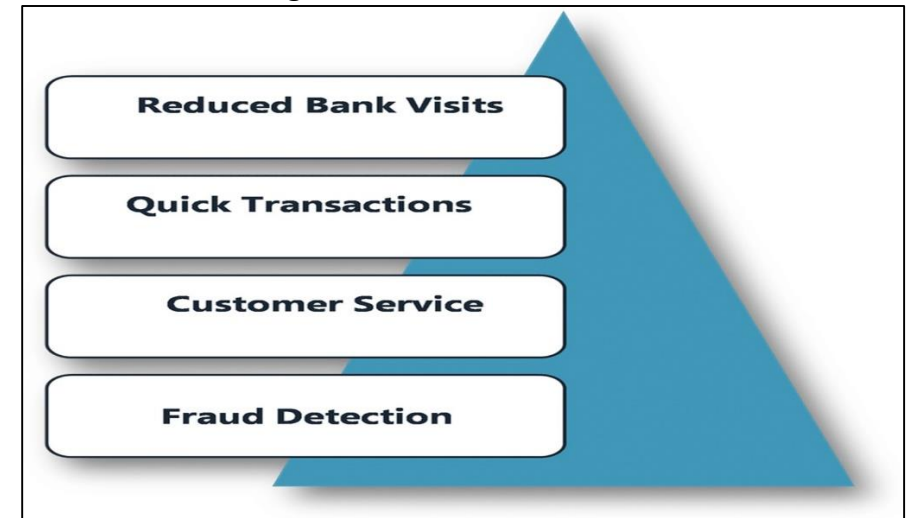
Technology adoption by financial companies could bring earning opportunity for ESL

Banking, Financial services and Insurance companies have been focused for technological adoption over the past, as they leverage technology for enhanced customer experience as well as cost reduction. The report from Mckinsey points that the adoption of technology in this sector is expected to reduce the operating costs by 30-40% across domains. Since the past few years, Indian banking industry began embracing technologies such as Artificial Intelligence, Machine Learning and Blockchain with a view to leverage existing data, to expand products and services and to revolutionize the customer experience. BFSI Companies are focusing more on digital strategy and rapidly increasing adoption of RPA, BlockChain, Artificial Intelligence (Big Data), IoT in a bid to win and retain customers.

Next-generation technologies can transform this sector



Benefits of technological addition



(Source: enterslice.com)



Experienced management

ESL has experienced management team and strong leadership;

Ralph Franz Gillessen (Chairman & Director-Non Executive): Ralph Franz Gillessen is board member of Expleo Germany Holding GmbH, providing the global leadership of the sales teams and is responsible for assuring client delivery and resource management for all Expleo Quality and Management Consulting activities. Ralph has joined SQS in 2002 and has worked in various senior sales and consultancy positions. He entered the SQS management board in January, 2013 and is member of Expleo Group Executive Committee since January, 2018.

Mr K Kumar (Deputy Chairman and Independent Director): Mr Kumar has over three decades of experience as a corporate manager, consultant, entrepreneur and in academia. Kumar holds a bachelor's degree in Electrical & Electronics Engineering (Madurai Kamaraj University) and obtained both the PGDM and Fellowship (Doctoral level) qualifications from the Indian Institute of Management, Bengaluru (IIM-B). His corporate experience includes a consulting role at Tata Consultancy Services (1991-95) and as CEO (1995-2001) and President (2005-2006) of Trigent Software Ltd.

Balaji Viswanathan (Managing Director & CEO): Balaji is the Managing Director and CEO of ESL. Balaji comes with 28 years of professional experience in the financial services and ITES domain of which 16 years have been in the Financial Services Industry and 10 years in the Outsourcing/Offshoring of Financial Services. Balaji also worked with Serco, Reliance Jio Payments Bank, Yes Bank and HDFC Bank across Sales, Product Management and Operations

Lilian Jessie Paul (Independent Director): As an entrepreneur, investor, board member, and marketing leader with 26 years of expertise across strategy and modern marketing; Jessie Paul has helped grow organizations from startup stage to global scale. She is the CEO and founder of Paul Writer a marketing consulting firm that helps global and Indian clients with market entry, positioning and customer outreach. She was Global Brand Manager of Infosys during its hectic growth era, headed marketing for challenger brand Quintant (acquired by iGATE), and Chief Marketing Officer of Wipro Technologies for five years.

Rajesh Krishnamurthy (Additional Director- Non-Executive): Rajesh Krishnamurthy is an Additional Director (Non-Executive) of Expleo Solutions Limited. Rajesh Krishnamurthy joined Expleo Group as Chief Executive Officer on July 15, 2020. He will accelerate Expleo Group strategic transformation roadmap, with a strong focus on digitalizing its services and scaling its global delivery capabilities. Rajesh, a Bachelor in Electronics Engineering from the University of Pune, India started his career in 1992 at Infosys, a global IT and consulting major and was an integral part of the Infosys success story and growth. In Infosys, he was President of company's business focused on the Energy, Utilities and Telco markets.



Sound financial profile

- ESL's financial profile remained comfortable in FY22 and the company enjoys high financial flexibility, strong revenue growth and healthy operating margin healthy over the past decade. The company reported revenue CAGR over a decade at 12.8% and the company reported margin at a range of 19-23% over the last four years. ESL revenue bounced back in FY22, and revenue grew by 34.4% YoY led by ramp up of large deals, strong demand for digital and specialised testing and broad based demand across the geographies and services after subdued growth over the last five years, revenue CAGR over the FY16 to FY21 was at 2.6%.
- ESL reported net profit CAGR of 16.8% over the last one decade. In FY22, net profit was up by 6.9% YoY, impacted by higher operating expenses due to wage hike and consolidation related expenses during the year.
- ESL is debt free company and it has also sufficient liquidity with healthy cash and bank balance of about Rs 156 crore as on March 31, 2022.
- The company has been regular in paying dividend and buyback during the FY08 to FY18. The company has not paid any dividend over the last three years. We expect that the company could start for paying dividend by FY23E, supported by availability of sufficient cash for dividend payment to shareholders. We expect Rs 18 and Rs 20 dividend per share to shareholders in FY23E and FY24E, respectively.

What could go wrong?

- INR appreciation against the USD, pricing pressure, retention of the skilled headcount, strict immigration norms and rise in visa costs are key concerns. The changing macro-economic scenario can have an impact on the growth plans of the company.
- Historically, the company has mainly grown on the back of standalone business. The financial performance of subsidiaries has been volatile over the past and most of the subsidiary companies' revenue and profitability are on declining trend.
- Post-merger of group companies with ESL, margins are expected to fall, as group companies' margins has been lower over the past. The company is looking to mitigate the headwinds by cost control initiatives and better utilization going forward.
- Any change in the contract nitty gritty from large clients like non-renewal of contracts or higher discounts due to aggressive competition intensity can impact the sustainability and scalability from such clients.
- Any reputation loss on account of breach in compliance can impact the growth prospects and new order inflows of the company.
- The company faces delivery and execution risk arising out of changing customer requirements, comprehension of those requirements, and timeliness of the response.
- Operating performance remains susceptible to cyclicity in the software industry, and any adverse economic conditions. Moreover, performance of software service providers is highly dependent on geo-political, or legislative conditions in countries of their respective customers.
- ESL is dependent to a large extent on automobile customers in France and Germany and Aircraft manufacturer in France. Any slowdown in growth in the Euro area could impact the order flow and revenues of ESL.



Company Profile:

Expleo Solutions Ltd. (earlier it was known as SQS India BFSI Ltd.), is a specialist in providing quality assurance services for Banking, Financial and Insurance (BFSI) Software, and an independent quality assurance service provider listed in India. SQS was established in 1998, as an independent software tester, based out of Chennai. The company is promoted by SQS Software Services AG, based out of Germany, and before SQS India BFSI Ltd, it was earlier known as Thinksoft Global Services Ltd.

The present Indian structure of the Expleo group is not created, but it inherited due to M&A (Merger & Acquisition) deals. We summarize the series of events as follows:

In 2013, Thinksoft Global Services Ltd, which was started by Indian promoters got acquired by SQS Software Quality Systems AG. At that time SQS AG already had a presence in India through SQS India Info systems Pvt Ltd having different products and services offering with little overlapping. SQS group decided to operate both entities separately. The name Thinksoft Global Services Limited got changed to SQS India BFSI Limited.

In 2017, SQS Software Quality Systems AG along with its Indian entities was acquired through a merger by Assystem Technologies SA to form “Expleo Group”. The acquisition not only led to the open offer but also change in the name of SQS India BFSI Limited and SQS India Infosystems Private Limited to Expleo Solutions Limited and Expleo India Infosystems Private Limited respectively. At that time, Assystems Group was having presence in India through Assystem Technologies India Private Limited which was renamed to Expleo Technologies India Private Limited.

Subsidiaries:

Rs in Cr	FY17	FY18	FY19	FY20	FY21
SALES, Rs in Cr					
SQL BFSI Inc, USA	20.9	18.4	11.3	3.6	4.9
SQS BFSI FZE, UAE	19.2	13.1	14.0	20.5	17.8
SQS BFSI UK Ltd., UK	18.8	40.5	31.6	19.7	17.8
SQL BFSI Pte Ltd Singapore	7.7	9.6	14.0	11.4	11.5
Total	66.6	81.5	70.9	55.2	52.0
PAT					
SQL BFSI Inc, USA	-0.4	1.1	1.6	1.2	0.4
SQS BFSI FZE, UAE	0.4	0.3	0.8	1.0	0.3
SQS BFSI UK Ltd., UK	1.1	2.2	1.0	1.4	3.0
SQL BFSI Pte Ltd Singapore	0.4	1.4	1.5	1.4	2.1
Total	1.5	4.9	4.8	4.9	5.9



Operating Metrics (ESL)

Revenue by Regions

%	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22
Europe	59	62.5	58.7	57.9	57.5	54.5	50.1	50.6
Asia	38.4	35.4	38	38.9	39.8	42.2	45.8	45.1
North America	2.6	2.1	3.3	3.2	2.7	3.3	4.1	4.3

Revenue by Practice

%	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22
Banking	38.5	37.4	37.1	35.7	36.7	35.1	36.5	36.8
Capital Market & Treasury	6.5	6.6	4.7	5.5	4.6	4.6	3.9	4.1
Cards & Payments	32.5	32.9	34	36.8	32.9	39.3	35.8	35.9
Insurance	22.5	23.1	24.2	22	23.1	21	23.8	23.2

Digital Revenue

%	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22
Digital Revenue		23.4	25.6	26.1	32	36.3	38.6	37.7

Client Concentration

%	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22
Top 5	37	36	36	38	44	46	44	41
Top 10	54	54	55	59	62	60	59	57

Client Detail

Nos	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22
Opening	73	71	73	74	68	77	80	90
Additions	5	7	6	3	11	7	14	12
Dropped	7	5	5	9	2	4	4	2
Active	71	73	74	68	77	80	90	100

Debtors Days

Nos	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22
Debtors Days	93	80	61	69	76	71	60	74



Customer Profile

Nos	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22
0.5 -\$1mn	13	13	17	17	14	14	15	16
Above \$ 1mn	10	10	9	10	12	11	11	11

Employee Detail

Nos	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22
No of Employees	941	938	973	1028	1140	1276	1692	1718

Peer Comparison

Company, Rs in Cr	Mkt Cap, Cr	Sales			EBIT			PAT			ROE-%			P/E (x)		
		FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Expleo Solutions	1438	405	790	1001	69	112	150	54	90	120	23.6	17.1	14.3	40.4	24.2	18.1
Tata Elxsi	55750	2471	3195	4039	710	921	1152	550	703	878	37.2	39.5	40.4	101.4	79.4	63.5
Cyient	9071	4534	5176	5822	630	688	784	522	538	618	17.2	16.6	17.4	17.4	16.9	14.7



Financials (Consolidated)

Income Statement

(Rs Cr)	FY20	FY21	FY22	FY23E	FY24E
Net Revenues	270	301	405	790	1001
Growth (%)	-4.4	11.4	34.4	95.2	26.7
Operating Expenses	217	231	327	656	829
EBITDA	53	70	77	133	172
Growth (%)	0.2	31.2	10.6	72.7	29.0
EBITDA Margin (%)	19.7	23.2	19.1	16.9	17.2
Depreciation	6	6	8	21	22
EBIT	47	64	69	112	150
Other Income	8	5	4	9	11
Interest expenses	1	1	1	2	1
PBT	54	68	72	120	160
RPAT	40	50	54	90	120
APAT	40	50	54	90	120
Growth (%)	10.3	26.4	6.9	66.7	33.7
EPS	38.5	49.2	52.6	58.0	77.5

Balance Sheet

As at March	FY20	FY21	FY22	FY23E	FY23E
SOURCE OF FUNDS					
Share Capital	10	10	10	16	16
Reserves	142	192	245	779	868
Shareholders' Funds	152	202	255	794	883
Long Term Debt	0	0	0	0	0
Net Deferred Taxes	-1	-2	-2	-2	-1
Long Term Provisions & Others	8	8	14	14	14
Minority Interest	0	0	0	0	0
Total Source of Funds	159	208	267	806	896
APPLICATION OF FUNDS					
Net Block & Goodwill	26	25	39	529	520
Other Non-Current Assets	9	12	14	13	12
Total Non Current Assets	35	37	53	542	531
Inventories	0	0	0	0	0
Trade Receivables	76	61	98	169	203
Cash & Equivalents	87	131	156	169	243
Other Current Assets	14	34	36	31	29
Total Current Assets	177	226	290	369	475
Short-Term Borrowings	0	1	2	10	7
Trade Payables	12	5	19	22	23
Other Current Liab & Provisions	42	48	54	73	80
Total Current Liabilities	53	55	76	105	110
Net Current Assets	124	171	214	264	365
Total Application of Funds	159	208	267	806	896

(Source: Company, HDFC sec)



Cash Flow Statement

(Rs Cr)	FY20	FY21	FY22	FY23E	FY24E
Reported PBT	54	68	72	120	160
Non-operating & EO items	-5	-2	-2	-9	-11
Interest Expenses	1	1	1	2	1
Depreciation	6	6	8	21	22
Working Capital Change	-27	13	-24	-43	-23
Tax Paid	-13	-20	-16	-30	-40
OPERATING CASH FLOW (a)	17	66	38	60	109
Capex	-2	-4	-13	-34	-12
Free Cash Flow	14	62	24	26	97
Investments	-8	-40	26	0	0
Non-operating income	2	1	2	9	11
INVESTING CASH FLOW (b)	-8	-43	15	-24	-1
Debt Issuance / (Repaid)	-3	-3	-3	8	-3
Interest Expenses	-1	-1	-1	-2	-1
FCFE	11	58	21	32	93
Share Capital Issuance	-26	0	0	0	0
Dividend	0	0	0	-28	-31
FINANCING CASH FLOW (c)	-30	-4	-3	-22	-35
NET CASH FLOW (a+b+c)	-22	20	50	13	74

Key Ratios

(Rs Cr)	FY20	FY21	FY22	FY23E	FY23E
Profitability Ratio (%)					
EBITDA Margin	19.7	23.2	19.1	16.9	17.2
EBIT Margin	17.5	21.3	17.1	14.2	15.0
APAT Margin	14.8	16.8	13.3	11.4	12.0
RoE	27.4	28.5	23.6	17.1	14.3
RoCE	28.0	28.8	23.6	17.2	14.3
Solvency Ratio (x)					
Net Debt/EBITDA	0.0	0.0	0.0	0.1	0.0
Net D/E	0.0	0.0	0.0	0.0	0.0
PER SHARE DATA (Rs)					
EPS	25.7	32.5	34.8	58.0	77.5
CEPS	29.5	36.3	39.9	71.6	91.8
BV	98.2	130.2	164.6	512.3	569.8
Dividend	0.0	0.0	0.0	18.0	20.0
Turnover Ratios (days)					
Debtor days	103	74	88	78	74
Inventory days	0	0	0	0	0
Creditors days	16	7	17	10	9
VALUATION (x)					
P/E	54.6	43.2	40.4	24.2	18.1
P/BV	14.3	10.8	8.5	2.7	2.5
EV/EBITDA	39.3	29.3	26.2	15.1	11.3
EV / Revenues	7.7	6.8	5.0	2.6	1.9
Dividend Yield (%)	0.0	0.0	0.0	1.3	1.4
Dividend Payout (%)	0.0	0.0	0.0	31.1	25.8



One Year Price Chart



HDFC Sec Retail Research Rating description

Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. This stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

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This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclical of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.



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