



## Cashing in on 'Quality'

We retain our positive stance on Expleo Solutions with a Fair Value of Rs1,900. Our interaction with the management and incoming data points lead us to believe that the company is on the cusp of revenue growth acceleration (an unprecedented 23.1% revenue CAGR) driven by synergies from the merger and a better focus on the Indian entities by the MNC parent. Demand resilience and investments in next-generation technologies (highlighted in our recent [note](#)) are paying off, as evidenced by recent deal wins. The parent's intention to increase outsourcing further provides relatively low-risk revenue visibility. Historically, high-revenue periods have been rewarded with improvement in overall valuation and we believe Expleo Solutions can replicate that trend.

- **Set for 'never-seen before' high revenue growth:** Driven by i) synergies from the merger, ii) increasing outsourcing from the parent (especially on the engineering front) iii) traction in digital transformation deals and, iv) ability to leverage its initial investment in next-generation tools, we estimate a 23.1% CAGR revenue growth during FY21-24E. With demand buoyant across the industry, our conviction on the execution front is predicated on i) parent's top 10 global position in ER&D, ii) credible next-gen testing capabilities and, iii) multi-decadal experience with reputed clientele across industries. Expleo is well-qualified to benefit from its parent's stated intention to increase outsourcing.
- **Cusp of change:** Expleo Solution is at an inflection point led by i) addition of new capabilities with the merger ii) transition from quality assurance player to implementation partner iii) change in leadership at parent level with the intention to grow outsourcing to Indian entities iv) appointment of the new CEO by the parent, and v) laggard Europe increasing IT spends; all factors thereby improving the positioning of the company.
- **Synergies from the merger:** The company is in the process of merging its engineering, design, and testing capabilities and thereby the combined entity could bundle these services, leverage scale, compete for larger deals and pose as a 'One Stop Solution' provider. The merger would broaden range of offerings to include ER&D, ERP and PLM with the possibility of increasing penetration in non-BFSI sectors such as edtech, infrastructure and logistics apart from the legacy sectors (BFSI, Automotive and Aerospace).
- **Valuation and rating:** We believe that the company has transitioned from a pure play quality assurance player to an implementation partner, with specialised services in quality assurance and ER&D, coupled with domain expertise in BFSI, Automotive and Aerospace. Shorter deliveries, faster time to market, growing outsourcing trend and momentum in digital transformation deals provide tailwinds, while its positioning in Europe with an MNC parentage enhances our conviction. The merger of high-traction engineering division provides opportunities in the high-growth ER&D segment. Expleo is thus at the cusp of rapid revenue growth, which could lead to valuation expansion as well. Our blue sky case fair value is Rs2090.

Fair Value	1900
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CMP	1725
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### Price Performance (%)

	1M	6M	1Yr
EXPLEOSO IN	34.9	111.9	234.7
NIFTY	2.3	10.5	24.3

### About the company

Expleo Solutions, 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, which is predominantly an ER&D service provider dominant in European region.

Source: Company, MNCL Research

### Link to our recent reports:

Investment Idea: <https://bit.ly/3Bg3Vvf>

Update Note: <https://bit.ly/3cdIP9M>

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Y/E Mar (Rs mn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	Adj PAT	YoY (%)	Adj EPS	RoE (%)	P/E (x)
FY20	5,076	NM	1,065	21%	794	NM	51.2	21%	NM
FY21	5,538	9.1%	1,131	20.4%	883	11.2%	56.9	21%	30.3
FY22E	7,148	29.1%	1,229	17.2%	916	3.7%	59.0	19%	29.2
FY23E	8,718	22.0%	1,560	17.9%	1,184	29.3%	76.3	21%	22.6
FY24E	10,319	18.4%	1,919	18.6%	1,475	24.6%	95.0	22%	18.2

Source: Company, MNCL Research estimates.

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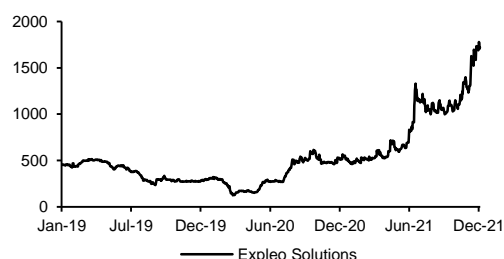
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### Expleo Solutions



Source: Bloomberg, MNCL Research

Analyst holding in stock: **NO**

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#### Key to MNCL Investment Rankings

Buy: Upside by >15%, Accumulate: Upside by 5% to 15%, Hold: Downside/Upside by -5% to +5%, Reduce: Downside by 5% to 15%, Sell: Downside by >15%

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