

ExlService Holdings, Inc.

**Solid growth to continue into CY24;
reiterate Buy**

Reiterate Rating: BUY | PO: 36.50 USD | Price: 31.12 USD

Data services are helping win large deals

Q4 revenue growth of 10.1%yoy (cc basis) was largely along expected lines, driven by 13.4% growth in the digital operations segment. We think company's strength in data streamlining is helping win larger deals in both segments of digital operations as well as analytics. This appears to be particularly paying off in the insurance vertical. Growth in analytics remained below trend for the quarter (6.2%yoy), on account of sluggish demand for marketing analytics services and discretionary spends in banking / financial services. Adj. EBIT margin of 17.8% was down 20bp yoy with operating efficiencies more than offset by investments in sales and solutioning. CY24 revenue growth outlook of 9%-12%yoy is solid and is well supported by execution opportunities in large deals already won during CY23 as well as more such opportunities currently in the pipeline.

Well positioned to benefit from AI-led demand

Company's recent partnerships with Microsoft and AWS could help it leverage their cloud infrastructure and offer industry-specific / business focused services around it. We think this would be an additional opportunity for the company vs. the data streamlining services to enterprises. Interestingly, management highlighted that while some of its offerings around AI could cannibalize existing revenue, it is opening a bigger opportunity of newer engagements. Given the under-penetrated nature of EXL's offerings (and that of the broader BPO industry), we see it as well positioned to be a net beneficiary in the upcoming AI wave (see: 'IT services in an AI age,' 11 May 2023).

Uptick in buyback quantum to further support the stock

The buyback program has been enhanced to \$500mn over 2years starting March 1, 2024 vs. \$125mn in CY23. The new level represents a substantial proportion of our forecasted OCF. We tweak up CY23/CY24 adj. EPS & PO to \$36.5. We retain Buy expecting company to benefit from its data/analytics offerings by way of win rates in existing markets and participation in AI-focused spends. We also expect strong demand for cost take-out services to support growth for digital operations.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
Net Income (Adjusted - mn)	195	236	266	292	322
EPS	1.15	1.41	1.64	1.88	2.11
EPS Change (YoY)	19.0%	22.2%	16.3%	14.7%	12.3%
Dividend / Share	0	0	0	0	0
Free Cash Flow / Share	0.729	0.957	1.76	1.82	2.09
Valuation (Dec)					
P/E	27.05x	22.14x	19.03x	16.59x	14.78x
EV / EBITDA*	17.59x	15.07x	13.41x	12.12x	11.04x
Free Cash Flow Yield*	2.33%	3.05%	5.43%	5.36%	6.05%

* For full definitions of *IQmethod*SM measures, see page 8.

01 March 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	35.80	36.50
2024E EPS	1.60	1.64
2025E EPS	1.79	1.88
2026E EPS	NA	2.11

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Stock Data

Price	31.12 USD
Price Objective	36.50 USD
Date Established	1-Mar-2024
Investment Opinion	B-1-9
52-Week Range	25.17 USD-35.94 USD
Mrkt Val / Shares Out (mn)	5,223 USD / 167.8
Average Daily Value (mn)	25.86 USD
Free Float	82.0%
BofA Ticker / Exchange	EXLS / NAS
Bloomberg / Reuters	EXLS US / EXLS.OQ
ROE (2024E)	30.9%
Net Dbt to Eqty (Dec-2023A)	-10.70%

AI: Artificial Intelligence

BPO: Business Process Outsourcing

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Refer to important disclosures on page 9 to 11. Analyst Certification on page 7. Price Objective Basis/Risk on page 7.

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Timestamp: 01 March 2024 02:24AM EST

iQprofileSM ExlService Holdings, Inc.

Key Income Statement Data (Dec)	2022A	2023A	2024E	2025E	2026E
(US\$ Millions)					
Sales	1,412	1,631	1,804	1,983	2,178
Gross Profit	527	621	683	753	828
Sell General & Admin Expense	(278)	(332)	(360)	(395)	(434)
Operating Profit	192	239	266	296	326
Net Interest & Other Income	(2)	(1)	0	1	3
Associates	NA	NA	NA	NA	NA
Pretax Income	190	238	265	297	329
Tax (expense) / Benefit	(48)	(54)	(64)	(74)	(82)
Net Income (Adjusted)	195	236	266	292	322
Average Fully Diluted Shares Outstanding	169	168	163	156	153

Key Cash Flow Statement Data

Net Income	142	184	202	222	247
Depreciation & Amortization	56	50	58	62	67
Change in Working Capital	(52,890)	(71,324)	22,355	(12,944)	(13,722)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	52,858	71,300	(22,278)	12,992	13,776
Cash Flow from Operations	166	211	336	333	369
Capital Expenditure	(45)	(52)	(53)	(53)	(53)
(Acquisition) / Disposal of Investments	(48)	40	0	0	0
Other Cash Inflow / (Outflow)	4	0	0	0	0
Cash Flow from Investing	(89)	(12)	(53)	(53)	(53)
Shares Issue / (Repurchase)	(72)	(126)	(250)	(250)	(250)
Cost of Dividends Paid	NA	NA	NA	NA	NA
Cash Flow from Financing	(82)	(181)	(237)	(237)	(237)
Free Cash Flow	122	159	284	280	316
Net Debt	(53)	(95)	(142)	(185)	(264)
Change in Net Debt	0	(75)	(34)	(30)	(66)

Key Balance Sheet Data

Property, Plant & Equipment	83	100	95	86	71
Other Non-Current Assets	648	658	645	632	620
Trade Receivables	259	308	316	347	381
Cash & Equivalents	303	295	341	384	463
Other Current Assets	53	81	87	94	101
Total Assets	1,346	1,442	1,484	1,543	1,637
Long-Term Debt	220	135	135	135	135
Other Non-Current Liabilities	90	91	158	232	314
Short-Term Debt	30	65	65	65	65
Other Current Liabilities	248	262	298	323	351
Total Liabilities	588	553	656	755	864
Total Equity	758	889	829	788	772
Total Equity & Liabilities	1,346	1,442	1,484	1,543	1,637

iQmethodSM - Bus Performance*

Return On Capital Employed	17.2%	20.9%	22.2%	23.9%	25.3%
Return On Equity	26.8%	28.7%	30.9%	36.1%	41.3%
Operating Margin	13.6%	14.6%	14.7%	14.9%	15.0%
EBITDA Margin	21.1%	21.3%	21.7%	21.8%	21.8%

iQmethodSM - Quality of Earnings*

Cash Realization Ratio	0.9x	0.9x	1.3x	1.1x	1.1x
Asset Replacement Ratio	1.1x	1.5x	1.2x	1.1x	1.0x
Tax Rate (Reported)	25.1%	22.5%	24.0%	25.0%	25.0%
Net Debt-to-Equity Ratio	-7.0%	-10.7%	-17.1%	-23.4%	-34.1%
Interest Cover	18.0x	23.8x	25.7x	28.5x	31.4x

Key Metrics

* For full definitions of iQmethodSM measures, see page 8.

Company Sector

Information Processing

Company Description

EXL, a top 10 India-leveraged Business Process Management services provider is a leading player in the BPM segment with the Digital Operations & Solutions segment contributing to 54% of revenues & rest from the fast growing analytics segment.

Investment Rationale

We rate EXLS Buy given strong growth outlook for the analytics segment, aided by opportunities coming from generative AI adoption in the medium-term. EXLS is well-positioned and well-leveraged with 45%+ revenue exposure to the analytics segment. Growth prospects in digital operations have also improved, as reflected in recent consistent track record of new wins, and aided by success in digital offerings.

Stock Data

Price to Book Value

6.3x

4Q highlights

- Revenue growth of 0.8% cc qoq was led by digital operations segment (1.9% qoq cc) whereas analytics vertical declined 0.5%qoq cc.
- In the digital operations segment, growth was led the emerging segment (2.8%qoq cc) followed by the Insurance segment (1.9%qoq cc) whereas healthcare declined 0.8%qq cc.
- Employee headcount grew by 6.9%qoq to 50.4k & is up 19%yoy. On a YoY basis, headcount has grown at a faster pace for the Digital Operations segment as a result of investments and upcoming deal ramps. Headcount in the analytics business grew 8%yoy i.e. largely in-line with revenues.
- For CY23, attrition was down 580bps to 25.8% vs. 31.6% in CY22.

Exhibit 1: Q4CY23 variance table

Q4 was a largely in-line quarter on expectations

Income Statement (\$ Mil)	4QCY23	3QCY23	QoQ	4QCY22	YoY	BofA e	var
Revenues	414.1	411.0	0.8%	374.7	10.5%	411.0	0.8%
Cost of revenues	262.2	256.0	2%	237.4	10%	262.4	-0.1%
Gross Profit	151.8	155.0	-2%	137.3	11%	148.6	2.2%
Operating expenses							
G&A	53.7	52.2	3%	46.1	17%	52.2	2.9%
S&M	31.6	30.9	2%	26.0	22%	30.9	2.0%
Depreciation	9.1	8.4	8%	10.0	-9%	8.4	8.4%
Amortisation of intangibles	3.2	3.2	n/m	4.2	n/m	3.2	0.3%
Total operating expenses	97.6	94.7	3%	86.3	13%	94.7	3.0%
EBIT (gaap)	54.3	60.2	nm	51.0	6%	53.8	0.8%
Stock compensation	15.5	17.1	-9%	12.6	22%	17.1	-9.5%
Adjusted EBIT	73.5	82.2	-11%	67.3	9%	74.0	-0.7%
Forex gain	0.7	0.4	nm	1.5	n/m	0.4	nm
Interest & other income, net	1.1	-2.7	-141%	-8.0	-114%	-0.6	-298.7%
PBT	56.1	58.0	na	44.5	26%	53.7	4.4%
Income tax provision	15.8	14.2	nm	12.8	23%	13.1	20.2%
PAT (cont ops - gaap)	40.3	43.8	nm	31.7	27%	40.6	-0.7%
PAT (gaap)	40.3	43.8	nm	31.7	27%	40.6	-0.7%
PAT (adj gaap)	57.8	62.8	-8%	52.6	10%	56.8	1.7%

Source: Company, BofA Global Research estimates

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Exhibit 2: Q4CY23 margin variance table

Q4 margins were largely in-line with our expectations

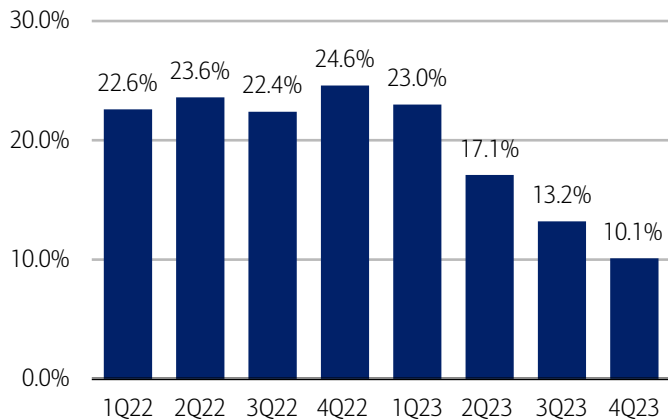
Margins	4QCY23	3QCY23	QoQ (bps)	4QCY22	YoY (bps)	BofA e	Var (bps)
Gross margin	36.7%	37.7%	-104	36.6%	3	36.1%	52
EBIT margin - gaap	13.1%	14.7%	-155	13.6%	-50	13.1%	1
EBIT margin - non gaap	17.8%	20.0%	-223	18.0%	-20	18.0%	-26
Net income margin - gaap	14.0%	15.3%	-132	14.0%	-10	13.8%	13

Source: Company, BofA Global Research estimates

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Exhibit 3: YoY cc organic growth

YoY constant currency revenue growth at 10.1% in Q4 2023

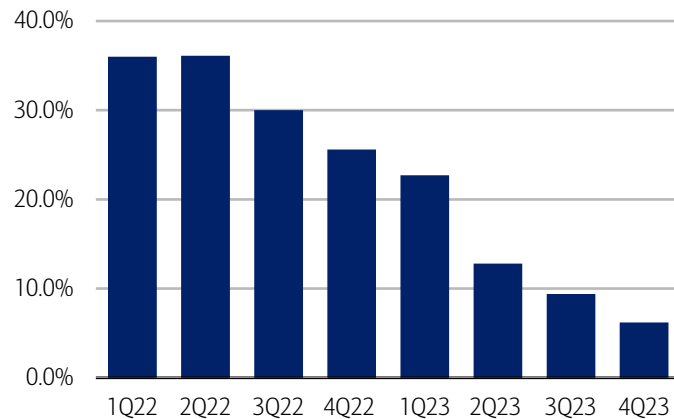


Source: Company, BofA Global Research

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Exhibit 4: YoY cc organic growth – Analytics segment

Analytics segment grew 6.2%yoy cc

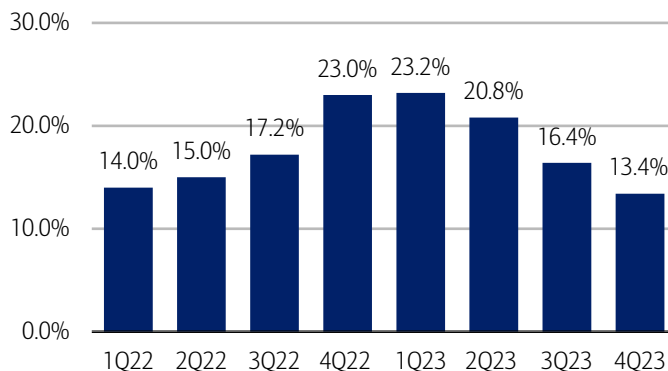


Source: Company, BofA Global Research

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Exhibit 5: Operations management segment growth (YoY cc)

Operations vertical remained resilient

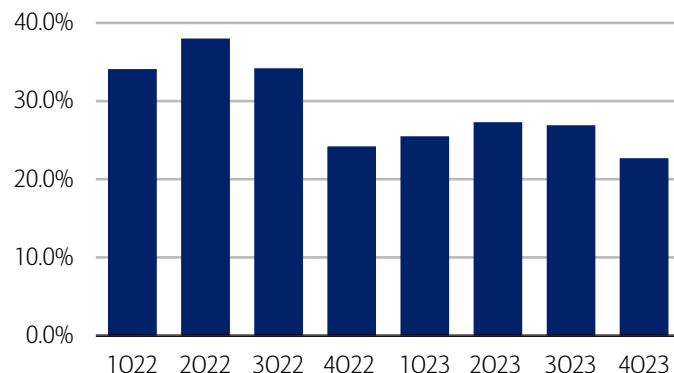


Source: Company BofA Global Research

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Exhibit 6: Attrition (%)

Attrition remains lower than trends seen in CY22

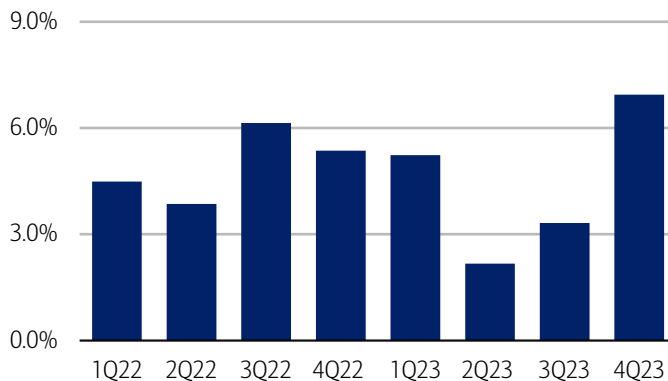


Source: Company, BofA Global Research

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Exhibit 7: Employee headcount qoq

Headcount grew 6.9% sequentially

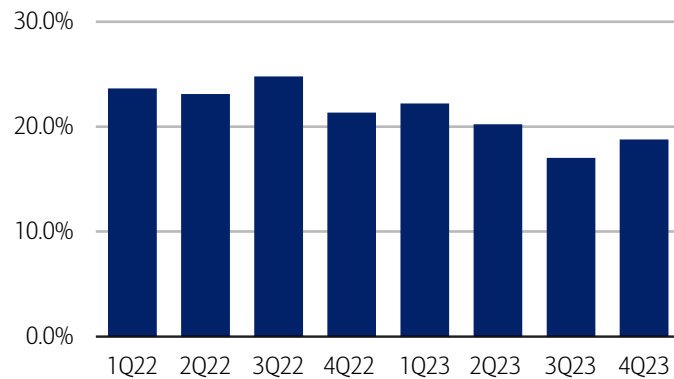


Source: Company, BofA Global Research

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Exhibit 8: Employee headcount yoy

Employee headcount is up 19%yoy



Source: Company, BofA Global Research

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Financial Summary

Exhibit 9: Profit and Loss Statement (US\$ '000) 21-26E

We expect the company to grow at 10.5%yoy cc in CY24

USD Million	CY21	CY22	CY23E	CY24E	CY25E	CY26E
Revenue	1122.3	1412.0	1630.7	1803.8	1983.2	2178.3
YoY Change	17.1%	25.8%	15.5%	10.6%	9.9%	9.8%
Cost of Revenue	682.1	885.3	1009.5	1120.8	1229.7	1350.7
YoY Change	10.5%	29.8%	14.0%	11.0%	9.7%	9.8%
Gross Profit	440.2	526.8	621.1	683.0	753.5	827.6
YoY Change	29.1%	19.7%	17.9%	10.0%	10.3%	9.8%
Operating expenses:						
General & Administrative	127.0	149.8	175.6	193.0	212.2	233.1
% of sales	11.3%	10.6%	10.8%	10.7%	10.7%	10.7%
Stock comp expenses	38.6	49.4	58.4	67.3	74.0	81.3
Selling and marketing expenses	69.5	79.1	97.9	99.2	109.1	119.8
% of sales	6.2%	5.6%	6.0%	5.5%	5.5%	5.5%
EBITDA post stock comp charge	205.0	248.4	289.2	323.5	358.2	393.4
EBITDA margin	18.3%	17.6%	17.7%	17.9%	18.1%	18.1%
YoY Change	27.7%	21.2%	16.4%	11.8%	10.7%	9.8%
Amortization of intangibles	12.8	17.1	14.7	12.7	12.7	12.7
Depreciation	36.4	39.2	35.8	45.1	49.6	54.5
Dep as a % of Revenue	3.2%	2.8%	2.2%	2.5%	2.5%	2.5%
EBIT post stock comp and amortization	155.9	192.2	238.8	265.7	295.9	326.3
EBIT margin	13.9%	13.6%	14.6%	14.7%	14.9%	15.0%
Other income (expense):						
Foreign exchange gain (loss)	4.3	6.2	1.5	0.8	0.0	0.0
Interest income	11.6	4.7	10.0	11.9	13.6	15.9
Interest expense	12.4	13.0	12.4	13.0	13.0	13.0
Interest expense - redeemable preferred stock	0.0	-0.4	-0.2	0.0	0.0	0.0
Other income (expense):	3.5	-2.5	-1.0	-0.3	0.6	2.9
Income before income taxes	159.4	189.7	237.8	265.5	296.6	329.2
YoY Change	37.9%	19.0%	25.4%	11.6%	11.7%	11.0%
Income tax provision	31.9	47.6	53.5	63.7	74.1	82.3
Income tax rate	20.0%	25.1%	22.5%	24.0%	25.0%	25.0%
Net income (loss) before preferred dividend	127.5	142.1	184.3	201.8	222.4	246.9
YoY Change	41.8%	11.4%	29.7%	9.5%	10.2%	11.0%
Dividends and accretion on preferred stock	0.0	0.0	0.0	0.0	0.0	0.0
GAAP Net income (loss) from cont ops	127.5	142.1	184.3	201.8	222.4	246.9
PAT Margin	11.4%	10.1%	11.3%	11.2%	11.2%	11.3%
YoY Change	41.8%	11.4%	29.7%	9.5%	10.2%	11.0%
Income from discount Ops (loss)	0.0	0.0	0.0	0.0	0.0	0.0
GAAP Net income to common stockholders	127.5	142.1	184.3	201.8	222.4	246.9
Non GAAP						
Stock comp expenses	38.6	49.4	58.4	67.3	74.0	81.3
Amortization of intangibles	12.8	17.1	14.7	12.7	12.7	12.7
Reimbursement of transition and disentanglement costs	0.0	0.0	0.0	0.0	0.0	0.0
Less: Tax impact	9.0	13.9	21.0	16.0	17.3	18.8
Non GAAP net income from cont ops	169.9	194.6	236.4	265.7	291.8	322.1
Non GAAP Net income to common stockholders	169.9	194.6	236.4	265.7	291.8	322.1

Source: Company, BofA Global Research estimates

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Exhibit 10: Key Margins 21-26E

We expect company to sustain CY23 EBIT margin levels in CY24/25

Margins	CY 2021	CY 2022	CY 2023	CY 2024E	CY 2025E	CY 2026E
Gross margins	39.2%	37.3%	38.1%	37.9%	38.0%	38.0%
GAAP EBIT margins	13.9%	13.6%	14.6%	14.7%	14.9%	15.0%
Non GAAP EBIT margins	18.6%	18.3%	19.3%	19.2%	19.3%	19.3%
GAAP PAT margins	10.2%	10.1%	11.3%	11.2%	11.2%	11.3%
Non GAAP PAT margins (cont ops)	14.8%	13.8%	14.5%	14.7%	14.7%	14.8%

Source: Company, BofA Global Research estimates

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Price objective basis & risk

ExlService Holdings, Inc. (EXLS)

Our price objective of USD36.5 is based on a target adjusted P/E multiple of 22.5x on 12 months ending Dec-24. Our target adjusted P/E is at parity to its 5 year average adj. PE multiple given our view on EXL's analytics practice being a beneficiary of genAI adoption in the medium-term gets balanced by the near-term demand uncertainty.

Downside risks to our PO are (1) slowdown in deal decision making cycles in the current macro (2) increased competitive intensity from integrated IT/BPM vendors & (3) deflation in non-analytics business from generative AI adoption

Upside risks are faster than expected growth in analytics on account of faster-than-expected adoption of generative AI

Analyst Certification

I, Kunal Tayal, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

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India - Software & IT Services Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	ExlService Holdings, Inc.	EXLS	EXLS US	Kunal Tayal
	Genpact Ltd	G	G US	Kunal Tayal
	WNS Holdings Ltd	WNS	WNS US	Kunal Tayal
NEUTRAL				
	HCL	XHCLF	HCLT IN	Kunal Tayal
	Infosys	INFYF	INFO IN	Kunal Tayal
	Infosys Tech - A	INFY	INFY US	Kunal Tayal
	Tata Consultancy	TACSF	TCS IN	Kunal Tayal
	Tata Technologies	XZTLF	TATATECH IN	Kunal Tayal
UNDERPERFORM				
	L&T Technology Services	XLNSF	LTTS IN	Kunal Tayal
	Tech Mahindra	TECHM	TECHM IN	Kunal Tayal
	Wipro	WIPRF	WPRO IN	Kunal Tayal
	Wipro	WIT	WIT US	Kunal Tayal

iQmethodSM Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) \times (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Return On Equity	Net Income	Amortization
Operating Margin	Operating Profit	Shareholders' Equity
Earnings Growth	Expected 5 Year CAGR From Latest Actual	Sales
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
		N/A
Quality of Earnings	Numerator	Denominator
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt – Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit	Numerator	Denominator
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap = Current Share Price × Current Basic Shares
Enterprise Value / Sales	$\text{EV} = \text{Current Share Price} \times \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Other LT Liabilities}$	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

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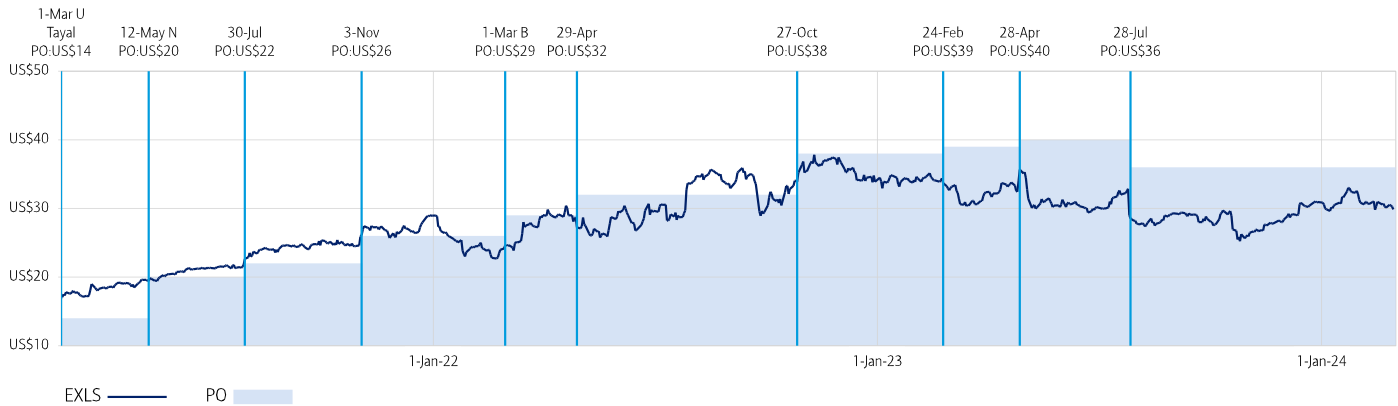
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ExlService Holdi (EXLS) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Technology Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	215	53.09%	Buy	111	51.63%
Hold	97	23.95%	Hold	45	46.39%
Sell	93	22.96%	Sell	24	25.81%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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