

# Hexaware Technologies

<b>BSE SENSEX</b>	<b>S&amp;P CNX</b>
39,059	11,604
<b>Bloomberg</b>	<b>HEXW IN</b>
Equity Shares (m)	302
M.Cap.(INRb)/(USD\$b)	109.3 / 1.5
52-Week Range (INR)	439 / 295
1, 6, 12 Rel. Per (%)	-2/4/-12
12M Avg Val (INR M)	439
Free float (%)	37.6

## Financials & Valuations (INR b)

Y/E Dec	2018	2019E	2020E
Net Sales	46.5	55.5	64.7
EBITDA	7.3	8.6	10.5
PAT	5.8	6.4	7.5
EPS (INR)	19.3	21.3	24.9
Gr. (%)	16.5	10.1	17.1
BV/Sh (INR)	79.7	92.8	110.6
RoE (%)	26.5	24.7	24.5
RoCE (%)	24.7	23.4	23.2
P/E (x)	18.9	17.2	14.7
P/BV (x)	4.6	3.9	3.3

<b>Estimate change</b>	↔
<b>TP change</b>	↔
<b>Rating change</b>	↔

**CMP: INR366 TP: INR400(+9%) Neutral**

## Acquisition-driven revenue growth; organic growth moderates due to client-specific issue

- **Operational performance in line:** HEXW's 3QCY19 CC revenue grew 12.3% QoQ (in line). GPM expanded 140bp QoQ to 33.8% (170bp beat), led by superior billing rates at Mobiquity. EBIT margin of 13.9% was in line with our estimate. PBT increased 4.5% YoY to INR2,223m, while PAT was up 9.2% QoQ to INR1,512m (in-line). Higher-than-expected depreciation during the quarter was offset by a lower ETR (18% v/s estimate of 20%). In last six months of FY20, revenue/EBIT/PAT grew by 19%/10%/3% YoY respectively.
- **Acquisition-fuelled revenue growth, partly offset by weakness at key client:** Mobiquity contributed USD21m in the quarter (of which incremental revenue was ~USD18m). Strong growth was partially offset by weakness at one of the top-3 clients (growth impact of -2%). Barring this account, revenue growth would have been stronger at 13.4% QoQ (CC).
- **Marginal cut in guidance:** Revenue growth guidance for FY19 was revised downward to 17-18% (from 19% YoY). The wide range of the guidance was based on the uncertainty around [1] higher-than-normal furloughs in 4Q and [2] the impact of weakness at one of the top-3 clients.
- **Valuation view:** While revenue growth was in line, we expect organic growth to moderate on the back of client-specific issue in BFSI. In that context, we cut our revenue growth estimate by 90bp/370bp for CY19/20. Our margin and EPS estimates remain largely unchanged. Our price target of INR400 discounts forward earnings by 15x. Maintain **Neutral**.

## Quarterly Performance (Indian GAAP)

Y/E Dec	CY18				CY19E				(INR M)			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE	CY18	CY19E	Est. 3QCY19	Var. (% / bp)
Revenue (USD m)	162.2	168.3	171.1	176.1	180.0	188.5	210.5	212.6	678	792	210.2	0.1
QoQ (%)	3.9	3.8	1.7	2.9	2.2	4.7	11.7	1.0	11.6	16.8	11.5	13bp
Revenue (INR m)	10,490	11,367	12,096	12,524	12,640	13,083	14,814	14,956	46,477	55,492	14,843	-0.2
YoY (%)	9.2	15.6	21.8	24.6	20.5	15.1	22.5	19.4	17.9	19.4	22.7	-25bp
GPM (%)	32.9	31.8	32.8	31.6	30.2	32.4	33.8	33.0	32.2	32.4	32.0	171bp
SGA (%)	17.4	16.2	16.0	16.3	15.3	17.5	17.7	17.3	16.5	17.0	15.8	191bp
EBITDA	1,626	1,773	2,023	1,913	1,887	1,947	2,377	2,342	7,335	8,553	2,412	-1.4
EBITDA Margin (%)	15.5	15.6	16.7	15.3	14.9	14.9	16.0	15.7	15.8	15.4	16.2	-20bp
EBIT Margin (%)	14.1	14.0	15.4	14.0	13.8	13.3	13.9	13.5	14.4	13.6	13.9	-4bp
Other income	204	327	264	-215	-42	99	171	40	580	268	79	115.4
ETR (%)	20.0	20.0	19.1	19.9	18.4	17.9	17.4	17.8	19.7	17.8	18.5	
PAT	1,343	1,534	1,722	1,234	1,385	1,512	1,837	1,692	5,833	6,425	1,746	5.2
QoQ (%)	10.9	14.2	12.3	-28.3	12.2	9.2	21.5	-7.9			15.5	596bp
YoY (%)	17.9	25.3	21.3	1.9	3.1	-1.4	6.6	37.1	16.8	10.2	1.4	523bp
EPS (INR)	4.5	5.1	5.7	4.1	4.6	5.0	6.1	5.6	19.3	21.3	5.8	
Headcount	14,619	15,357	16,050	16,205	16,492	18,294	19,062	19,111	16,205	19,111	20,293	-6.1
Utilization (%)	81.3	78.2	79.0	78.7	79.0	80.7	79.0	81.5	80.9	81.7	81.5	-250bp
Attrition (%)	13.4	14.4	15.7	17.0	18.2	18.2	17.3	0.0			0.0	
Offshore rev. (%)	34.6	34.8	35.1	36.1	36.6	37.0	37.3	39.9	35.2	37.8	38.9	-162bp

E: MOFSL Estimates

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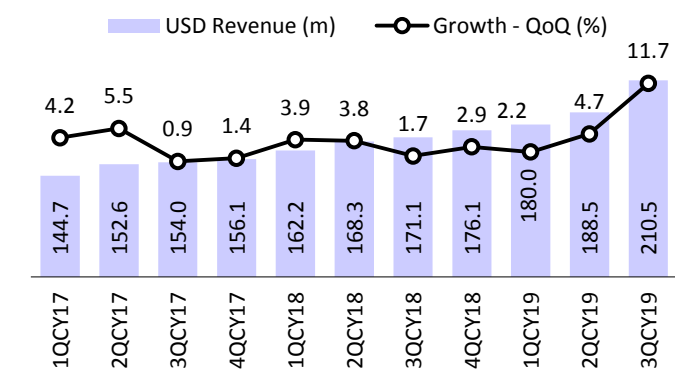
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**Investors are advised to refer through important disclosures made at the last page of the Research Report.**

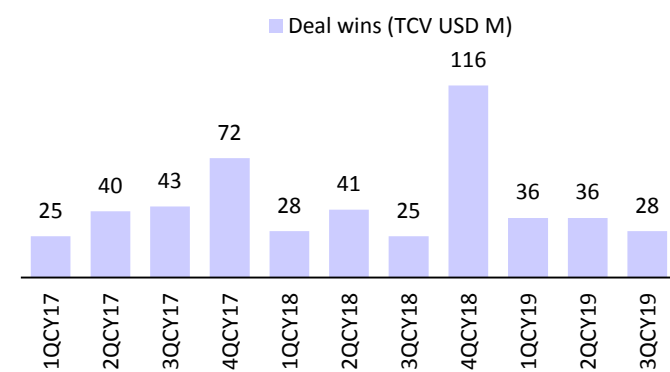
Motilal Oswal research is available on [www.motilaloswal.com/Institutional-Equities](http://www.motilaloswal.com/Institutional-Equities), Bloomberg, Thomson Reuters, Factset and S&P Capital.

**In-line operational performance**

- HEXW's 3QCY19 CC revenue growth of 12.3% QoQ was in line with estimate of 12.0% (24.4% YoY CC – full-year guidance at 17-18%). Organic growth stood at ~3% QoQ CC while incremental revenue from Mobiquity during the quarter is estimated at ~USD17m ( total of ~21m).
- In USD terms revenue grew at 11.7% QoQ, in-line with estimate of 11.5% QoQ.

**Exhibit 1: Revenue growth in line with estimate**

Source: MOFSL, Company

**Exhibit 2: Net-new deal wins remain healthy**

Source: MOFSL, Company

**Exhibit 3: Revenue growth analysis - strong volume growth**

Factors	Contribution to sequential revenue growth (\$ m)
Volume	21.5
Calendar	2.8
Bill rates	1.8
Mix	-2.9
FX	-1.1
<b>Total</b>	<b>22.0</b>

Source: Company, MOFSL

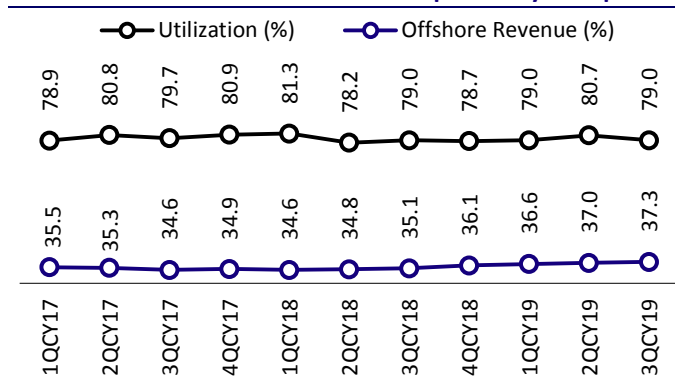
- GPM increased 140bp QoQ to 33.8%, (beat of 170bp) this was led by higher pricing in acquired entity.
- On a reported basis EBITDA margin was 16.1% (flattish QoQ).

**Exhibit 4: Reported EBITDA margin analysis**

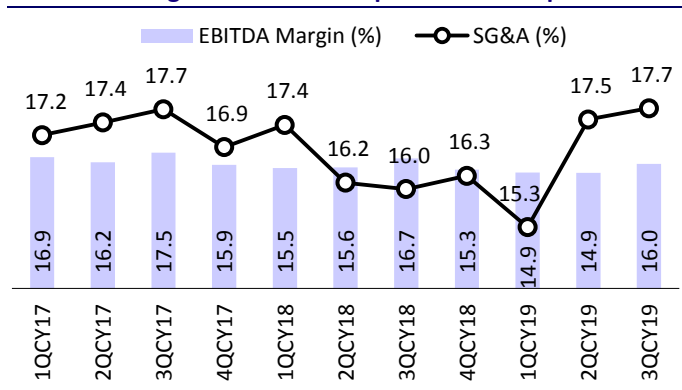
Factors	Contribution to sequential margin change (pp)
Forex	0.1
H1B Visa	0.7
Calendar	0.9
Bill Rates	0.7
Mix	0.3
Utilization	-0.9
SGA	-1.6
Salary Increments	-0.3
<b>Total</b>	<b>-0.1</b>

Source: Company, MOFSL

- EBIT margin at 13.9% inched up 60bp QoQ; below in-line with our expectations.
- PAT increased 21.5% QoQ to INR1,1837m, compared to our estimate of INR1,746m (+5.2% QoQ). PAT beat was primarily due to higher than anticipated forex gains ( -INR197m vs. exp. of INR.109m).

**Exhibit 5: Utilization increased in the quarter by 170bp**

Source: MOFSL, Company

**Exhibit 6: Margins remain under pressure with uptick in SGA**

Source: MOFSL, Company

- 3QCY19 EPS at INR6.16, up 21.3% QoQ. HEXW announced interim dividend of INR2 per share.

**Segment-wise performance:**

- Growth during the quarter was led by Europe (+32.3% QoQ), while Americas grew 9.7% QoQ and APAC declined (-3.0% QoQ).
- Among verticals, growth was broad based. Manufacturing/ Consumer led growth and was up 19.4% QoQ. Rest all of the verticals grew between 11.4% - 12.4% QoQ except BFSI which was up 8.4% QoQ (below company growth rate).
- Amongst service lines, ADM was up 26.6% YoY. Softness was seen in DA, Business Intelligence which declined marginally sequentially. IMS grew 1.7% QoQ

**Exhibit 7: Growth largely driven by ADM, BPO, ES**

Services	Contr to Rev. (%)	QoQ %	YoY %
ADM	41.8	26.6	43.3
ES	9.2	8.9	16.4
DA	15.7	-1.1	9.5
BI & Analytics	10.9	-0.9	-7.2
BPO	8.2	13.1	36.1
IMS	14.2	1.7	17.4
Total	100	11.7	23.1

Source: Company, MOFSL

**Exhibit 8: Manufacturing, BFSI were weak in the quarter while others grew strongly**

Verticals	Contr to Rev. (%)	QoQ %	YoY %
Banking and Capital Markets	38.6	8.4	11.7
Travel and Transportation	10.1	12.4	18.4
Healthcare and Insurance	19.3	11.9	26.3
Manufacturing and Consumer	17.1	19.4	40.9
Professional Services	14.9	11.4	38.6
Total	100	11.7	23.1

Source: Company, MOFSL

**Exhibit 9: Growth led by Europe and US**

Geographies	Contr to Rev. (%)	QoQ %	YoY %
Americas	75.4	9.7	20.0
Europe	16.5	32.3	52.9
RoW	8.0	-3.0	6.0
Total	100	11.7	23.1

Source: Company, MOFSL

**Healthy Net-new (NN) deal wins, attrition stabilizing**

- HEXW signed five new clients in 3QCY19 with TCV of USD28m v/s USD36m in 2QCY19 and USD 25m in 3QCY18.
- Attrition was 17.3%, a decline of 90bps QoQ.
- Utilization was 79.0%, a decline of 170bps QoQ

**Takeaways from management commentary****Revenue performance and outlook**

- Single client (a top 3 client) contributed to headwind of 2pp for the quarter. Excluding that, quarter revenue growth would have been 13.4% QoQ CC. Decline more than what was expected. Except for that client, demand outstripped supply in rest of the clients.
- Additionally some softness continues to be present in BFSI for both Hexaware's traditional business and Mobiquity due to sector specific issues.
- Apart from BFSI, all verticals are shaping up well.
- Guidance of 1.6%-2.8% QoQ for 4Q – majority of variance is on account of furloughs and client specific uncertainty

**Margin and Wage hike:**

- One of the tailwind for Margin improvement was improvement in mix which was due to one large client.
- Wage hike impact in the quarter was 50bps. (GA – 30bps, S&M – 20bps)
- Wage hike will be 40bp impact in the next quarter.
- **IMS:** Past 4 years growth was astronomical. It has some near term weakness but it will come around.
- **Mobiquity:** Mobiquity has a strong presence in Europe. Though Europe is doing well beyond Mobiquity as well. Growth is expected to taper off now from 25% but still expected to remain high.
- **ETR:** One of the lowest in the industry, it was 17.4% for the quarter. It was aided by tax shield from recent acquisition.
- **Utilization:** it declined 170QoQ to 79% (planned level). It is to shore up bench strength for anticipated growth in 4Q and future.
- **Attrition:** have stabilized for now but not sure on sustainability
- **SGA:** increase in SGA was mainly due to integration of Mobiquity which structurally has higher SGA. This is going to be the new normal.

■ **Top clients:**

- Top 10 client contribution to revenue decreased from 52.2% to 44.4% mainly due to Mobiquity acquisition. In the bracket of USD 5-10m, no of clients have increased from 15 to 22 of which only 3 have come from acquisition while the rest have been brought in organically.
- Though only one client has been soft as well. It is expected to bottom out in 4Q. New CEO has been brought for the client. Outsourcing is restricted to 30%. Though revenues for HEXW have declined, it has not lost any market share.

- **Dividend:** Announced a dividend of INR 2 per share for the quarter

**Exhibit 10: Change in estimates**

Change in Estimates	Revised			Earlier			Change		
	CY18	CY19E	CY20E	CY18	CY19E	CY20E	CY18	CY19E	CY20E
INR/USD	68.6	70.1	71.0	68.6	70.2	71.0	0.0%	-0.2%	0.0%
USD Revenue (m)	677.7	791.6	911.5	677.7	797.7	948.3	0.0%	-0.8%	-3.9%
USD rev growth (%)	11.6	16.8	15.2	11.6	17.7	18.9	0bp	-90bp	-370bp
EBITDA Margin (%)	15.8	15.4	16.2	15.8	15.5	16.1	0bp	-10bp	10bp
EBIT Margin (%)	14.4	13.6	13.9	14.4	13.6	13.8	0bp	0bp	10bp
EPS (INR)	19.3	21.3	24.9	19.3	21.0	25.3	0.0%	1.4%	-1.4%

Source: Company, MOFSL

### Valuation and view

- HEXW's long-term strategic decision of being a disruptor in Enterprise through technology-led cannibalization can be a rewarding one, and one that needs continued investments towards building capabilities in areas like Automation. That said; its traction within its top accounts can help it grab wallet share in the names, if it can achieve the skill sets.
- Volatility in the performance of top accounts has driven inconsistent financial performance at HEXW over the last few years. However, strong traction in top-10 accounts has driven strong revenue growth in CY15 and CY16. These accounts have contributed 79% to the incremental growth in CY15 and 74% in CY16. This cooled off to 28% in CY17, due to a slowdown in two of the top-10 accounts.
- It has also begun ramping up efforts to win new clients, which gets substantiated from the fact that it won deals worth USD210m in CY18, USD180m in CY17, compared to USD151m in CY16 and USD120m in CY15 from new customers — a consistent and credible growth. The ramp-up of these accounts is evident from the fact that the non-top 10 accounts contributed 72% to the incremental growth in CY17 — a trend opposite of what was seen over the last two years. Volatility in top accounts is taking a toll on performance in CY17 and CY18.
- Costs in CY15 increased to a much greater extent than revenue, and that trend hasn't seen much relief. Although investment intensity is maybe lesser than earlier, ramp-up of new deal wins, onsite-driven growth and continued pressures in supply have driven historical low GPM, and despite bottoming out, will cap margin upside in the near term.

- While revenue growth was in-line, we expect organic growth to moderate on the back of client specific issue BFSI. In that context, we reduced our revenue growth estimates by 90/370bp for CY19/CY20. Our margin and EPS estimates remain largely unchanged. Our price target of INR400 discounts forward earnings by 15x. Maintain Neutral.

**Key triggers**

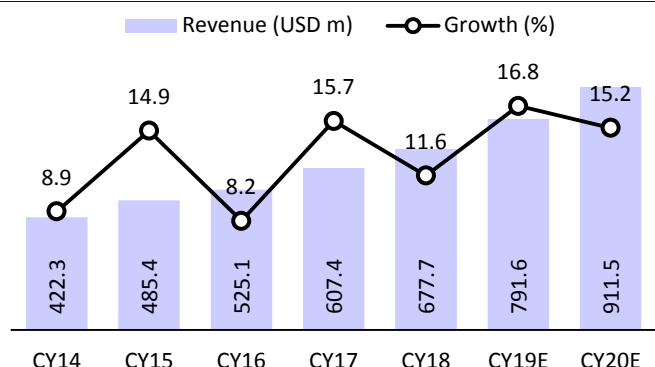
- Large deal wins
- Continued momentum in revenue growth
- Offshore shift lever to reverse the trend margins

**Key risks**

- Further reduction in gross margins due to supply pressures
- Setback in business from top clients
- Continued supply-side issues

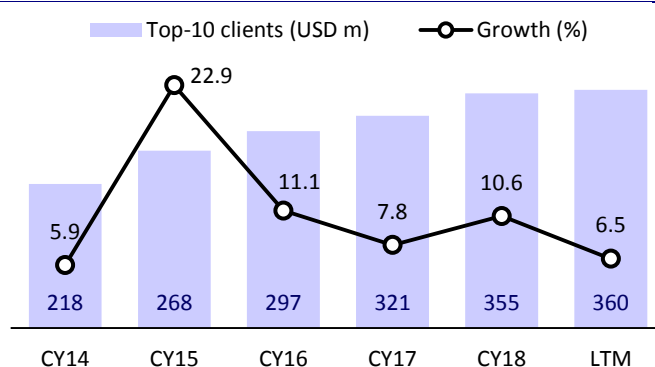
## Story in charts

**Exhibit 11: Visibility for high teen growth in CY19 despite sluggish BFS**



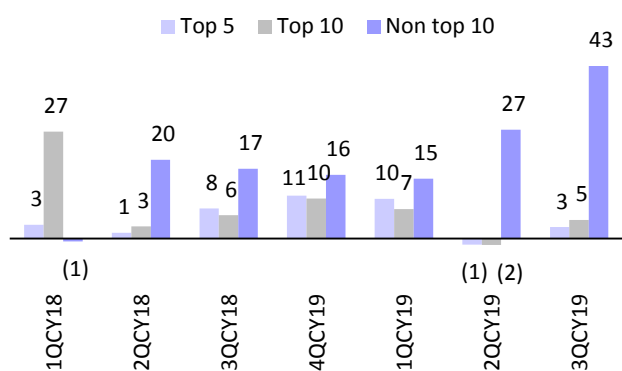
Source: Company, MOFSL

**Exhibit 12: Performance in top-10 clients been volatile lately**



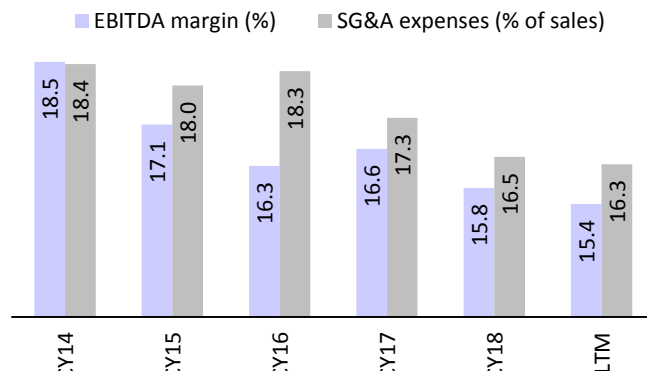
Source: Company, MOFSL

**Exhibit 13: Top clients have been soft recently (YoY%)**



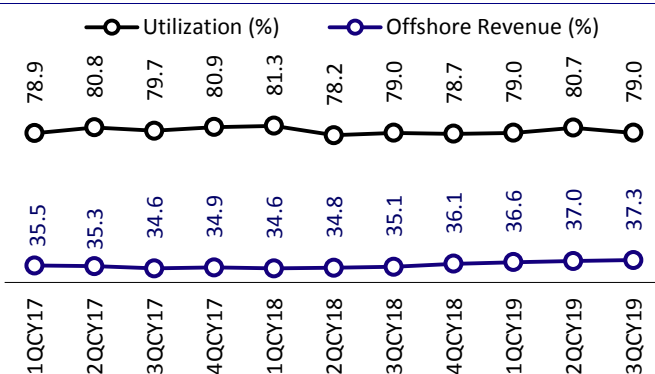
Source: Company, MOFSL

**Exhibit 14: Margins would have plummeted, but for SGA**



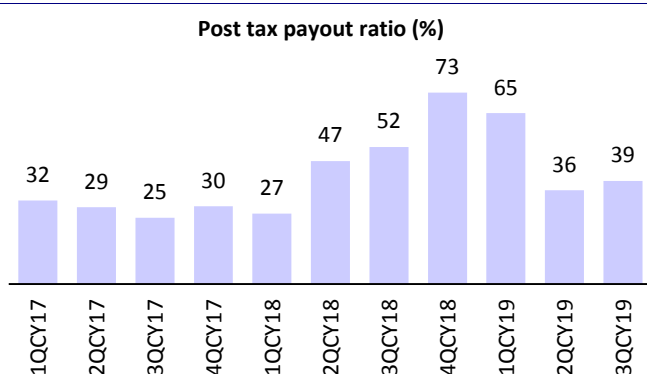
Source: Company, MOFSL

**Exhibit 15: Utilization decreased 170bp QoQ in 3QCY19**



Source: Company, MOFSL

**Exhibit 16: Dividend payout ratio have reduced**



Source: Company, MOFSL

## Operating metrics

Exhibit 17: Operating metrics

	3QCY17	4QCY17	1QCY18	2QCY18	3QCY18	4QCY18	1QCY19	2QCY19	3QCY19
<b>Revenue - Verticals (%)</b>									
Banking and Capital Markets	43.4	44.4	43.7	42.8	42.1	42.1	40.8	39.8	38.6
Travel and Transportation	13.2	12.0	13.1	11.1	9.9	9.9	9.5	10.1	10.1
Healthcare and Insurance	16.6	16.7	16.0	17.1	19.1	19.1	18.3	19.2	19.3
Manufacturing and Consumer	13.4	13.9	15.1	16.1	15.2	15.2	17.2	16	17.1
Professional Services	13.4	13.0	12.1	12.9	13.8	13.8	14.3	14.9	14.9
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Revenue - Service Lines (%)</b>									
Application Devt & Maint (ADM)	36.3	37.2	35.9	36.6	36.0	35.1	34.5	37.0	41.8
Enterprise Application Services (EAS)	11.3	10.8	10.9	10.5	9.7	9.5	9.5	9.4	9.2
Testing	20.0	19.5	19.1	18.4	17.7	17.5	17.5	17.7	15.7
Business Intelligence & Analytics	13.8	13.8	14.2	13.5	14.5	13.1	13.1	12.3	10.9
BPO	7.3	7.0	6.9	7.2	7.4	7.3	7.6	8.0	8.2
RIMS	11.3	11.7	13.0	13.8	14.7	17.5	17.8	15.6	14.2
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Revenue - Geography (%)</b>									
Americas	79.1	77.7	75.3	77.0	77.4	76.9	76.1	76.8	75.4
Europe	11.3	12.1	12.5	12.7	13.3	13	12.6	14	16.6
RoW	9.6	10.2	12.2	10.3	9.3	10.1	11.3	9.2	8.0
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Onsite: Offshore Revenue Mix (%)</b>									
Onsite	65.4	65.1	65.4	65.2	64.9	63.9	63.4	63	62.7
Offshore	34.6	34.9	34.6	34.8	35.1	36.1	36.6	37	37.3
<b>Client Metrics</b>									
Repeat Business (%)	95.3	94.3	94.3	94.3	93.8	95.6	93.9	96.4	94.4
Clients billed	218	221	224	226	223	224	36.6	255	261
Clients added	8	8	5	7	9	5	7	15	11
<b>Client Concentration (%)</b>									
Top 1									0
Top 5	43.5	42.8	42.1	42.4	42.1	42	41.7	37.3	35.2
Top 10	54.8	52.9	52.8	52.8	52.2	51.6	51.1	46.4	44.4
<b>Client Size (Nos)</b>									
More than USD 1 Mn +	82	88	89	93	95	99	99	120	124
Between USD 1 to 5 Mn	64	71	69	71	70	72	71	85	89
Between USD 5 to 10 Mn	9	7	10	12	15	18	19	24	22
Over USD 10 Mn	4	6	6	6	6	4	4	6	7
DSO Days - Billed	47	49	47	47	58	60	51	54	51
DSO Days - Unbilled	72	71	74	75	83	81	74	77	76

Source: MOFSL, Company



**Exhibit 18: Operating metrics**

	3QCY17	4QCY17	1QCY18	2QCY18	3QCY18	4QCY18	1QCY19	2QCY19	3QCY19
<b>Employee Metrics (%)</b>									
Billable Personnel									
Onsite	18	18	18	19	18	19	19	19	19
Offshore	45	46	46	47	46	46	46	46	46
<b>Total</b>	<b>63</b>	<b>64</b>	<b>64</b>	<b>65</b>	<b>64</b>	<b>65</b>	<b>65</b>	<b>65</b>	<b>65</b>
Marketing (Incl. Sales Support)	3	3	3	3	3	3	3	3	3
Others (Incl. Tech. Support)	5	5	5	5	4	4	5	5	5
Grand Total	100	100	100	100	100	100	100	100	100
<b>Total Headcount</b>	<b>13488</b>	<b>13705</b>	<b>14619</b>	<b>15357</b>	<b>16050</b>	<b>16205</b>	<b>16509</b>	<b>18294</b>	<b>19062</b>
Utilization (%)	79.7	80.9	81.3	78.2	79.0	78.7	79.0	80.7	79.0
Attrition Rate (%)	14	13	13	14	16	17	18	18	17
Period Closing rate	65	64	65	68	72	71	69	69	71
Period average rate	64	64	65	68	71	70	70	69	70
<b>Vertical Growth - QoQ (%)</b>									
Banking and Capital Markets	1.1	3.7	2.3	1.6	1.0	2.0	-0.9	2.2	8.3
Travel and Transportation	-0.6	-7.9	13.4	-12.1	-3.8	-3.0	-1.9	11.3	11.7
Healthcare and Insurance	7.4	2.0	-0.4	10.9	11.8	4.6	-2.1	9.9	12.3
Manufacturing and Consumer	0.9	5.1	12.9	10.6	-5.9	5.0	15.7	-2.6	19.3
Professional Services	-5.4	-1.7	-3.3	10.6	4.8	6.8	5.9	9.1	11.7
<b>Total</b>	<b>0.9</b>	<b>1.4</b>	<b>3.9</b>	<b>3.8</b>	<b>1.7</b>	<b>3.0</b>	<b>2.2</b>	<b>4.7</b>	<b>11.7</b>
<b>Service Line Growth - QoQ (%)</b>									
Application Devt & Maint (ADM)	0.4	3.9	0.3	5.8	0.0	0.3	0.5	12.3	26.2
Enterprise Application Services (EAS)	-1.7	-3.1	4.9	0.0	-6.1	0.8	2.2	3.6	9.3
Testing / BTO	2.4	-1.2	1.8	0.0	-2.2	1.8	2.2	5.9	-0.9
Business Intelligence & Analytics	-0.5	1.4	6.9	-1.4	9.2	-7.0	2.2	-1.7	-1.0
BPO	2.3	-2.8	2.4	8.3	4.5	1.5	6.4	10.2	14.5
Remote IMS	3.7	5.0	15.5	10.1	8.3	22.5	4.0	-8.2	1.6
<b>Total</b>	<b>0.9</b>	<b>1.4</b>	<b>3.9</b>	<b>3.8</b>	<b>1.7</b>	<b>2.9</b>	<b>2.2</b>	<b>4.7</b>	<b>11.7</b>
<b>Geography Growth QoQ (%)</b>									
Americas	-1.2	-0.4	0.7	6.1	2.2	2.3	1.2	5.7	9.6
Europe	1.8	8.5	7.3	5.4	6.5	0.6	-0.9	16.4	32.4
RoW	21.1	7.7	24.3	-12.4	-8.2	11.8	14.4	-14.7	-2.9
<b>Total</b>	<b>0.9</b>	<b>1.4</b>	<b>3.9</b>	<b>3.8</b>	<b>1.7</b>	<b>2.9</b>	<b>2.2</b>	<b>4.7</b>	<b>11.7</b>
<b>Revenue Growth QoQ (%)</b>									
Top 5	-4.8	-0.3	2.2	4.5	0.9	2.7	1.5	-6.3	5.4
Top 10	-2.1	-2.2	3.7	3.8	0.5	1.7	1.2	-4.9	6.9
Non Top 10	4.9	5.6	4.1	3.8	3.0	4.2	3.3	14.8	15.8

## Financials and Valuations

### Key Assumptions

Y/E December	CY12	CY13	CY14	CY15	CY16	CY17	CY18	CY19E	CY20E
INR/USD Rate	53.5	58.9	61.1	64.3	67.3	64.9	68.6	70.1	71.0
Revenues (USD m)	364	388	422	485	525	607	678	792	912
Total Headcount	9,069	8,845	10,016	11,375	12,115	13,705	16,205	19,111	22,178
Net Addition	752	-224	1,171	1,359	740	1,590	2,500	2,906	3,067
Per Capita Productivity (USD)	40,181	43,847	42,163	42,673	43,343	44,320	41,820	41,419	41,101
Utilization uncl. Trainees (%)	68.3	71.7	72.9	72.3	73.9	81.4	80.9	81.7	81.5

### Income statement

Y/E December	CY12	CY13	CY14	CY15	CY16	CY17	CY18	CY19E	CY20E
<b>Sales</b>	<b>19,482</b>	<b>22,854</b>	<b>25,817</b>	<b>31,235</b>	<b>35,349</b>	<b>39,420</b>	<b>46,477</b>	<b>55,492</b>	<b>64,720</b>
Change (%)	34.3	17.3	13.0	21.0	13.2	11.5	17.9	19.4	16.6
Cost of Services	11,846	13,826	16,278	20,262	23,134	26,049	31,496	37,513	43,184
SG&A Expenses	3,562	3,904	4,763	5,618	6,468	6,817	7,646	9,427	11,049
<b>EBITDA</b>	<b>4,074</b>	<b>5,124</b>	<b>4,776</b>	<b>5,355</b>	<b>5,747</b>	<b>6,554</b>	<b>7,335</b>	<b>8,553</b>	<b>10,486</b>
% of Net Sales	20.9	22.4	18.5	17.1	16.3	16.6	15.8	15.4	16.2
Depreciation	324	386	440	482	559	633	650	1,001	1,508
Other Income	290	58	(90)	173	394	484	580	268	178
<b>PBT</b>	<b>4,040</b>	<b>4,796</b>	<b>4,247</b>	<b>5,046</b>	<b>5,582</b>	<b>6,405</b>	<b>7,265</b>	<b>7,819</b>	<b>9,156</b>
Tax	764	1,004	980	1,114	1,411	1,411	1,432	1,394	1,630
Rate (%)	18.9	20.9	23.1	22.1	25.3	22.0	19.7	17.8	17.8
<b>PAT</b>	<b>3,276</b>	<b>3,792</b>	<b>3,267</b>	<b>3,932</b>	<b>4,171</b>	<b>4,997</b>	<b>5,834</b>	<b>6,427</b>	<b>7,526</b>
Extraordinary	25	-	(66)	-	-	-	-	-	-
<b>Net Income</b>	<b>3,251</b>	<b>3,792</b>	<b>3,333</b>	<b>3,932</b>	<b>4,171</b>	<b>4,997</b>	<b>5,834</b>	<b>6,427</b>	<b>7,526</b>
Change (%)	21.9	16.6	(12.1)	18.0	6.1	19.8	16.7	10.2	17.1

### Balance Sheet

Y/E December	CY12	CY13	CY14	CY15	CY16	CY17	CY18	CY19E	CY20E
Share Capital	593	601	602	603	604	594	595	597	597
Reserves	11,445	11,392	12,304	13,729	16,507	19,510	23,400	27,414	32,794
<b>Net Worth</b>	<b>12,038</b>	<b>11,993</b>	<b>12,906</b>	<b>14,332</b>	<b>17,111</b>	<b>20,104</b>	<b>23,995</b>	<b>28,011</b>	<b>33,391</b>
Loan	-	205	294	353	475	-	-	1,422	1,422
<b>Capital Employed</b>	<b>12,038</b>	<b>12,198</b>	<b>13,200</b>	<b>14,685</b>	<b>17,586</b>	<b>20,104</b>	<b>23,995</b>	<b>29,433</b>	<b>34,813</b>
Gross Block	7,192	9,047	9,816	11,648	14,191	12,470	13,129	26,295	27,895
Less : Depreciation	1,993	2,379	2,819	3,301	3,860	4,493	5,143	6,144	7,652
<b>Net Block</b>	<b>5,199</b>	<b>6,668</b>	<b>6,997</b>	<b>8,347</b>	<b>10,331</b>	<b>7,977</b>	<b>7,986</b>	<b>20,151</b>	<b>20,243</b>
<b>Curr. Assets</b>	<b>10,381</b>	<b>11,417</b>	<b>10,363</b>	<b>11,604</b>	<b>13,051</b>	<b>16,140</b>	<b>21,456</b>	<b>19,826</b>	<b>27,647</b>
Debtors	3,649	3,236	3,656	4,406	4,376	7,729	10,761	10,288	11,969
Cash & Bank Balance	1,969	3,011	2,865	3,864	4,126	5,147	8,232	6,572	12,297
Other Current Assets	4,763	5,170	3,842	3,334	4,549	3,264	2,463	2,965	3,381
<b>Current Liab. &amp; Prov</b>	<b>3,616</b>	<b>5,839</b>	<b>4,336</b>	<b>5,520</b>	<b>5,798</b>	<b>5,349</b>	<b>7,341</b>	<b>12,432</b>	<b>14,966</b>
Current Liabilities	222	53	77	871	364	2,204	3,300	3,592	3,592
Other liabilities	3,394	5,786	4,259	4,649	5,434	3,145	4,041	8,840	11,374
<b>Net Current Assets</b>	<b>6,765</b>	<b>5,578</b>	<b>6,027</b>	<b>6,084</b>	<b>7,253</b>	<b>10,791</b>	<b>14,115</b>	<b>7,393</b>	<b>12,681</b>
Deferred Tax	73	(48)	175	256	-	1,336	1,894	1,888	1,888
<b>Application of Funds</b>	<b>12,038</b>	<b>12,198</b>	<b>13,200</b>	<b>14,685</b>	<b>17,584</b>	<b>20,104</b>	<b>23,995</b>	<b>29,433</b>	<b>34,813</b>

E: MOFSL Estimates

## Financials and Valuations

### Ratios

Y/E December	CY12	CY13	CY14	CY15	CY16	CY17	CY18	CY19E	CY20E
<b>Basic (INR)</b>									
EPS	10.9	12.6	10.6	12.9	13.7	16.6	19.3	21.3	24.9
Cash EPS	12.0	13.9	12.1	14.6	15.6	18.5	21.5	24.6	29.9
Book Value	40.3	39.9	42.9	47.4	56.3	66.0	79.7	92.8	110.6
DPS	5.4	11.1	8.5	8.7	5.5	4.0	8.0	7.5	6.0
Payout %	48.7	85.8	77.4	64.5	38.6	23.5	40.2	34.2	23.4
<b>Valuation (x)</b>									
P/E	33.6	29.0	34.5	28.3	26.7	22.1	18.9	17.2	14.7
EV/EBITDA	25.8	20.4	21.9	19.4	18.0	15.6	13.5	11.9	9.2
EV/Sales	5.4	4.6	4.1	3.3	2.9	2.6	2.1	1.8	1.5
Price/Book Value	9.1	9.2	8.5	7.7	6.5	5.5	4.6	3.9	3.3
Dividend Yield (%)	1.5	3.0	2.3	2.4	1.5	1.1	2.2	2.0	1.6
<b>Profitability Ratios (%)</b>									
RoE	29.3	31.6	25.7	28.9	26.5	26.9	26.5	24.7	24.5
RoCE	30.3	33.3	27.6	27.7	24.2	24.6	24.7	23.4	23.2
ROIC	36.9	38.9	34.2	35.9	31.9	32.5	34.9	32.1	32.5
<b>Turnover Ratios</b>									
Debtors (Days)	68	52	52	51	45	72	85	68	68
Fixed Asset T/O (x)	4.0	3.9	3.8	4.1	3.8	4.3	5.8	3.9	3.2

### Cash Flow Statement

(INR M)

Y/E December	CY12	CY13	CY14	CY15	CY16	CY17	CY18	CY19E	CY20E
CF from Operations	2,989	3,217	4,437	4,686	4,927	5,663	5,903	7,159	8,857
Cash for Working Capital	(791)	140	(309)	(755)	(197)	(901)	(239)	5,388	436
<b>Net Operating CF</b>	<b>2,198</b>	<b>3,357</b>	<b>4,128</b>	<b>3,931</b>	<b>4,730</b>	<b>4,762</b>	<b>5,664</b>	<b>12,547</b>	<b>9,293</b>
Net Purchase of FA	(741)	(392)	(603)	(1,364)	(2,223)	(957)	(659)	(13,167)	(1,600)
<b>Free Cash Flow</b>	<b>1,457</b>	<b>2,965</b>	<b>3,525</b>	<b>2,567</b>	<b>2,507</b>	<b>3,805</b>	<b>5,005</b>	<b>(620)</b>	<b>7,693</b>
Net Purchase of Invest.	(1,743)	(770)	1,796	1,505	249	11	108	58	88
<b>Net Cash from Invest.</b>	<b>(2,484)</b>	<b>(1,162)</b>	<b>1,193</b>	<b>141</b>	<b>(1,974)</b>	<b>(946)</b>	<b>(551)</b>	<b>(13,109)</b>	<b>(1,512)</b>
Proc. from equity issues	60	79	48	31	13	12	1	2	-
Proceeds from LTB/STB	(2)	(2)	(1)	(1)	(1)	(1,380)	517	1,601	105
Dividend Payments	(1,956)	(1,333)	(5,400)	(3,172)	(2,506)	(1,428)	(2,874)	(2,701)	(2,161)
<b>Net Cash Flow</b>	<b>(2,165)</b>	<b>1,059</b>	<b>(27)</b>	<b>1,003</b>	<b>262</b>	<b>1,020</b>	<b>2,757</b>	<b>(1,660)</b>	<b>5,724</b>
<b>Opening Cash Bal.</b>	<b>4,132</b>	<b>1,950</b>	<b>2,891</b>	<b>2,860</b>	<b>3,864</b>	<b>4,126</b>	<b>5,475</b>	<b>8,232</b>	<b>6,572</b>
Add: Net Cash	(2,165)	1,059	(27)	1,003	262	1,020	2,757	(1,660)	5,724
<b>Closing Cash Bal.</b>	<b>1,969</b>	<b>3,011</b>	<b>2,865</b>	<b>3,864</b>	<b>4,126</b>	<b>5,147</b>	<b>8,232</b>	<b>6,572</b>	<b>12,297</b>

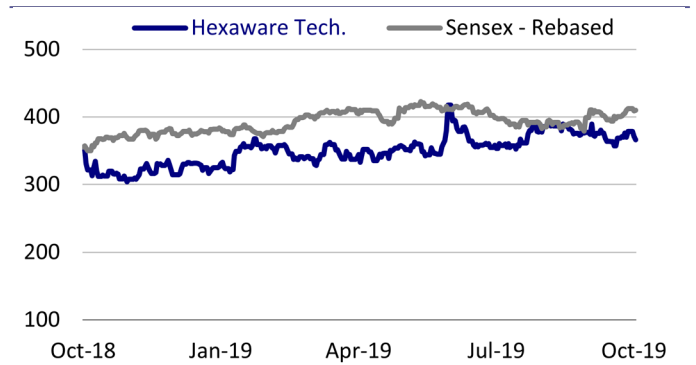
E: MOFSL Estimates

## Corporate profile

### Company description

Hexaware is a global provider of IT and Process outsourcing services, having clocked LTM revenues of USD492m with the help of 16,492 people strong headcount. The company's key offerings include managing large IT applications in real time as well as in providing high value services around packaged enterprise applications such as SAP and PeopleSoft. Hexaware's global operations are located in North America, Europe and Asia Pacific.

### Exhibit 1: Sensex rebased



Source: MOFSL/Bloomberg

### Exhibit 2: Shareholding pattern (%)

	Sep-19	Jun-19	Sep-18
Promoter	62.5	62.5	62.8
DII	11.6	11.9	8.3
FII	17.9	16.8	19.6
Others	8.1	8.8	9.4

Note: FII Includes depository receipts

Source: Capitaline

### Exhibit 3: Top holders

Holder Name	% Holding
HDFC TRUSTEE COMPANY LTD A/C - HDFC CHILDREN'S GIFT FUND - INVESTMENT PLAN	6.7
T. ROWE PRICE INTERNATIONAL DISCOVERY FUND	2.2
INVESCO TRUSTEE PRIVATE LIMITED - A/C INVESCO INDIA EQUITY SAVINGS FUND	1.4
SBI MAGNUM MIDCAP FUND	1.3

Source: Capitaline

### Exhibit 4: Top management

Name	Designation
Atul K Nishar	Chairman
Jimmy Mahtani	Vice Chairman
R Srikrishna	Executive Director & CEO
Gunjan Methi	Company Secretary

Source: Capitaline

### Exhibit 5: Directors

Name	Name
R Srikrishna	Meera Shankar
Bharat Shah	P R Chandrasekar
Dileep Choksi	

\*Independent

### Exhibit 6: Auditors

Name	Type
BSR & Co LLP	Statutory
Makarand M Joshi & Co	Secretarial Audit
PricewaterhouseCoopers	Internal

Source: Capitaline

### Exhibit 7: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
CY19	21.3	21.5	-0.8
CY20	24.9	24.3	2.3

Source: Bloomberg

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

\*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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