

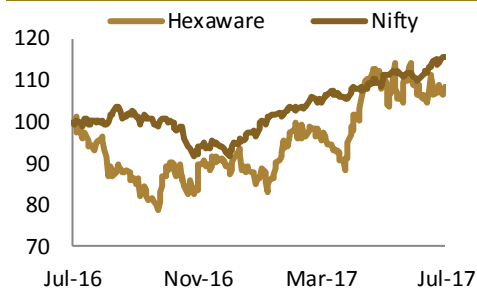
Market statistics

Current stock price (`)	262
Shares O/S (cr.)	29.7
Mcap (` cr)	7,774
52W H/L (`)	268/178
6m avg. volume	1,236,983
Bloomberg	HEXW IN

Shareholding pattern

Promoters	71.45
Domestic Institution	8.69
Foreign Institution	10.62
Non-institution	9.24
of which more than 1%	
HDFC TRUSTEE CO.LTD-A/C HDFC	6.18
MICCAP	
T ROWE Price International Discovery	2.25
Fund	

Hexaware vs Nifty



Capital efficiency & valuations

Particulars	CY16	CY17E	CY18E
RoE (%)	28.1	28.3	28.1
EPS (`)	14.6	15.5	17.0
CEPS (`)	16.4	19.1	20.9
P/E (x)	13.5	16.9	15.4
P/BV (x)	3.5	4.2	3.7
EV/EBITDA (x)	9.0	10.5	9.1
Income growth (%)	13.2	12.3	10.9
EBITDA growth (%)	7.9	14.6	12.3
PAT growth (%)	6.9	14.0	10.6

Hexaware's quarterly result was higher-than-expectation. The company's Q2CY17 revenue at US\$152.6mn, up 4.9% in cc terms QoQ. Volume growth was 6.4% QoQ. Company won new business worth TCV of US\$40mn this quarter (US\$120mn in CY15, US\$153mn in CY16, US\$65mn in 1HCY17). HEXW has invested in sales and marketing engine in CY15-16 to build base for future growth. We maintain our rating on the stock at Hold on account of rich valuations. HEXW's decision to develop core competence and differentiation in key areas - Capital Markets, Travel and Transportation, EAS and Testing - is the right approach for a relatively small player trying to develop a niche for itself.

Pressure on margin front going ahead. Q2CY17 revenues increased by 4.9% in cc terms and 5.4% QoQ in US\$ terms to US\$152.6mn. EBITDA margins for the quarter were flattish QoQ at 17.5% even after robust revenue growth. Margin pressure was on account of INR appreciation (-66bps), visa costs (-42bps), billing rates decline amongst 3 of Top-5 clients (-90bps). HEXW indicated loss of business in one of the Top-5 accounts and billing rate decline in 3 of the Top-5 clients, which would an effect of the revenue and margin going forward. Utilisation for the quarter stood at 80.8% (78.9% in 1QCY17). EPS for the quarter (excluding ESOPs) increased by 12.6% QoQ to `4.5. Foreign exchange gain stood at `138mn vs. `16mn in 1Q. **Vertical splits:** Banking and Financial Services was up 6.9% QoQ, while Travel & Transportation was up 3.9%, Healthcare & Insurance was down 4.8% and Manufacturing & Consumer was up 4.3% respectively.

Operating metrics – details. 1) Europe was up 7.3% QoQ. America was up 4.4%, while RoW increased 14% QoQ. HEXW lost 2 clients on a net basis to take the list to 220. Top 5 clients were up 6.6% QoQ, while #6-10 were down 1.2%. 2) Offshore: onsite mix of revenue share changed in favour of onsite by 20bps QoQ to 35.3:64.7. 3) Attrition (LTM) decreased 110 bps QoQ to 13.8% in Q2CY17. 4) HEXW employed 13,098 professionals (364 net added QoQ), 5) Hexaware has forward contracts worth US\$141.7mn @ `72.4/US\$ and hedges worth €4mn @ `81.2/US\$, GBP4.2mn @ `96.7/US\$ maturing over next eight quarters. 6) DSO, billed and including unbilled accruals decreased 1 days and 4 days QoQ to 45 and 70 respectively. 7) HEXW has signed US\$40mn worth of TCV deals (US\$120mn in CY15, US\$153mn in CY16, US\$65mn in 1HCY17). 8) **Services Lines Split:** ADM was up 6.6%, Testing +4.2%, IMS +8.4% while Business Intelligence was up 7%. Enterprise Solutions was up just 1.1%.

Guidance increased, but implies flattish growth for 2HCY17 CQGR: HEXW has increased its CY17 US\$ revenue guidance to 14-15% (from 10-12% earlier), which implies 0-1% CQGR over 3Q-4QCY17, which is a muted guidance after robust revenue growth this quarter.

Strong balance sheet, dividend payout lowered on account of preserving cash for acquisitions. Hexaware has US\$66.5m in net cash (`14.5/share). Hexaware declared an interim dividend of `1/share (`5.5/share in CY16, `2/share in 1HCY17). It had declared dividends of `8.65 and `9.45 in CY15 and CY14. The dividend declared in CY15/CY16 amounted to a dividend payout ratio of 74/44% respectively. HEXW is looking at acquiring companies going ahead. We believe a dividend payout of ~50%+ over CY17/18E is sustainable, and we build dividend payouts of ~7/7.5 per share in CY17/18E (HEXW wants to maintain a quarterly dividend yield).

Valuation: The company inked new customer deals of US\$40mn in 2QCY17, which instills confidence in revenue growth going ahead. Our revenue forecast for HEXW for CY16-18 is 13.9% CAGR. Stock valuations, at 16.9x/15.4x CY17/CY18E EPS, are rich leaving limited upside from the current level.

ANALYST

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Exhibit 1: Quarterly details

` mn	2QCY16	1QCY17	2QCY17	QoQ (%)	YoY (%)	Comments
Revenues (in US\$ mn)	129.7	144.7	152.6	5.4	17.7	Cc increase of 4.9%. Top 5 clients were up 6.6% QoQ, while #6-10 were down 1.2%.
Revenues	8,697	9,605	9,836	2.4	13.1	
- Operating costs	7,297	7,928	8,117	2.4	11.2	
EBITDA	1,400	1,677	1,719	2.5	22.8	
EBITDA margin (%)	16.1	17.5	17.5	2bps	138bps	Margin pressure was on account of INR appreciation (-66bps), visa costs (-42bps), billing rates decline amongst 3 of Top-5 clients (-90bps).
- Interest expense	-	-	-	-	-	
- Depreciation	139	157	157	0.0	12.9	
+ Other income, net (incl forex)	132	28	146	421.4	10.6	OI breakup: Forex gain of `138mn in Q2 vs. `16mn in the last quarter.
PBT	1,393	1,548	1,708	10.3	22.6	
- Taxes	347	355	363	2.3	4.6	
Effective tax rate (%)	24.9	22.9	21.3	(168)bps	(366)bps	Effective tax rate for CY17 to be between 23-24%
PAT	1,046	1,193	1,345	12.7	28.6	
Net margin (%)	12.0	12.4	13.7	125bps	165bps	
Reported profits	999	1,139	1,224	7.5	22.5	Hexaware took a hit of `121mn on account of a ESOP charge.

Source: Company

Exhibit 2: Change in estimates

` mn	CY17E			CY18E		
	Old	New	%Chg	Old	New	%Chg
Revenue (US\$ mn)	605	609	0.7	682	677	(0.7)
Revenue	39,976	39,681	(0.7)	45,010	43,997	(2.3)
EBITDA margin (%)	17.6	17.3	(25)bps	17.7	17.5	(20)bps
EPS (`)	16.1	15.5	(3.7)	18.5	17.0	(8.1)

Source: Trust Research

Geography wise Revenues: Europe was up 7.3% QoQ. America was up 4.4%, while RoW increased 14% QoQ.

Exhibit 3: Geographical wise Performance

Geographical mix	Q2CY15	Q3CY15	Q4CY15	Q1CY16	Q2CY16	Q3CY16	Q4CY16	Q1CY17	Q2CY17
US	81.0	80.8	81.3	81.4	80.9	82.0	82.5	81.6	80.8
Europe	13.4	13.8	13.1	12.0	12.5	11.6	11.1	11.0	11.2
RoW	5.6	5.4	5.6	6.6	6.6	6.4	6.4	7.4	8.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company

Services' wise Performance: Services Lines Split: ADM was up 6.6%, Testing +4.2%, IMS +8.4% while Business Intelligence was up 7%. Enterprise Solutions was up just 1.1%.

**Exhibit 4: Service offering segmentation**

Details	Q2CY15	Q3CY15	Q4CY15	Q1CY16	Q2CY16	Q3CY16	Q4CY16	Q1CY17	Q2CY17
Application dev & maintenance (ADM)	37.8	37.3	38.1	37.7	36.5	36.0	36.4	36.1	36.5
Enterprise application services (EAS)	14.3	14.6	14.3	13.7	13.3	13.0	12.7	12.1	11.6
Testing / QATS	20.9	20.8	20.6	20.3	20.1	20.3	20.9	20.9	19.7
Business intelligence & Analytics	15.1	14.7	14.0	15.2	15.6	15.2	14.1	13.8	14.0
BPO	5.2	5.7	5.7	5.8	6.5	6.8	6.8	6.4	7.2
Others	6.7	6.9	7.3	7.3	8.0	8.7	9.1	10.7	11.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company

Human Resources: Attrition (LTM) decreased 110 bps QoQ to 13.8% in Q2CY17. HEXW employed 13,098 professionals (364 net added QoQ).

Exhibit 5: Employee strength at HEXW

Details	Q1CY16	Q2CY16	Q3CY16	Q4CY16	Q1CY17	Q2CY17
Onsite (%)	20.5	20.5	20.9	21.0	20.9	20.9
Offshore (%)	71.0	70.7	70.6	70.7	71.0	71.2
Total billable (%)	91.5	91.2	91.5	91.7	91.9	92.1
Marketing (Incl. sales support, %)	3.5	3.8	3.5	3.3	3.2	3.3
Others (Incl. sales support, %)	5.0	5.0	5.0	5.0	4.9	4.6
Total (%)	100.0	100.0	100.0	100.0	100.0	100.0
Headcount (Nos.)	11,599	11,875	11,859	12,115	12,734	13,098
Utilisation	69.6	70.0	74.1	78.6	78.9	80.8
Attrition	16.0	16.6	16.5	16.1	14.9	13.8

Source: Company, Trust Research

Client Concentration: HEXW lost 2 clients on a net basis to take the list to 220. Top 5 clients were up 6.6% QoQ, while #6-10 were down 1.2%.

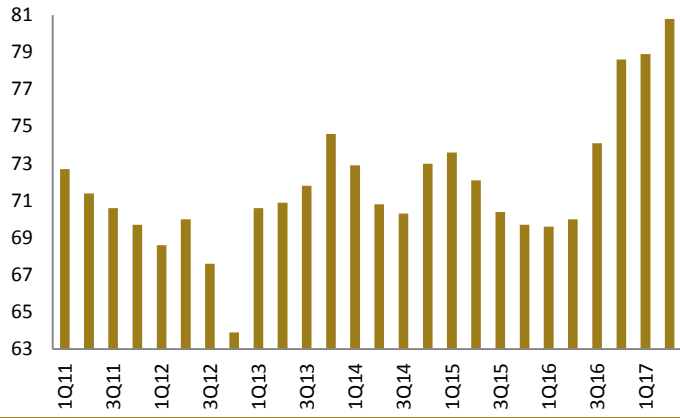
Exhibit 6: Client details

Details	Q2CY15	Q3CY15	Q4CY15	Q1CY16	Q2CY16	Q3CY16	Q4CY16	Q1CY17	Q2CY17
Top 5 clients (%)	44.4	42.7	42.2	42.9	43.1	47.0	46.3	45.6	46.1
Top 10 clients (%)	56.1	54.4	54.7	55.3	55.2	58.3	57.4	56.7	56.5
> US\$1m+	62	65	69	73	76	77	78	81	81
Between US\$1-5m	43	48	53	58	62	63	64	67	66
Between US\$5-10m	10	8	7	6	6	6	6	6	7
Between US\$10m-20m	5	8	5	5	3	3	3	3	3
Over US\$20m+	4	5	4	4	5	5	5	5	5
Clients added	9	9	9	10	6	7	7	6	9
Clients billed	225	223	226	229	226	222	220	222	220

Source: Company

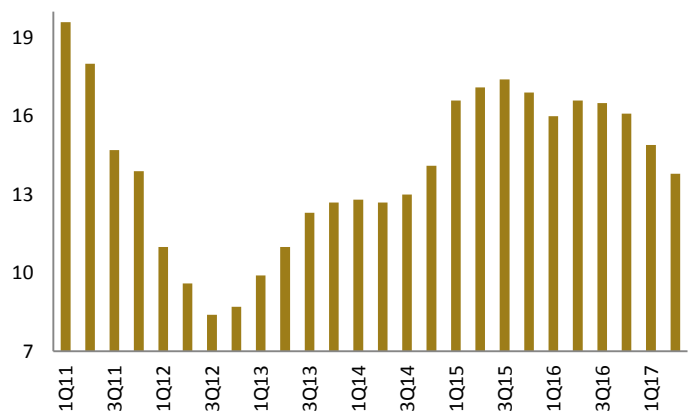


Exhibit 7: Utilisation being used as margin lever



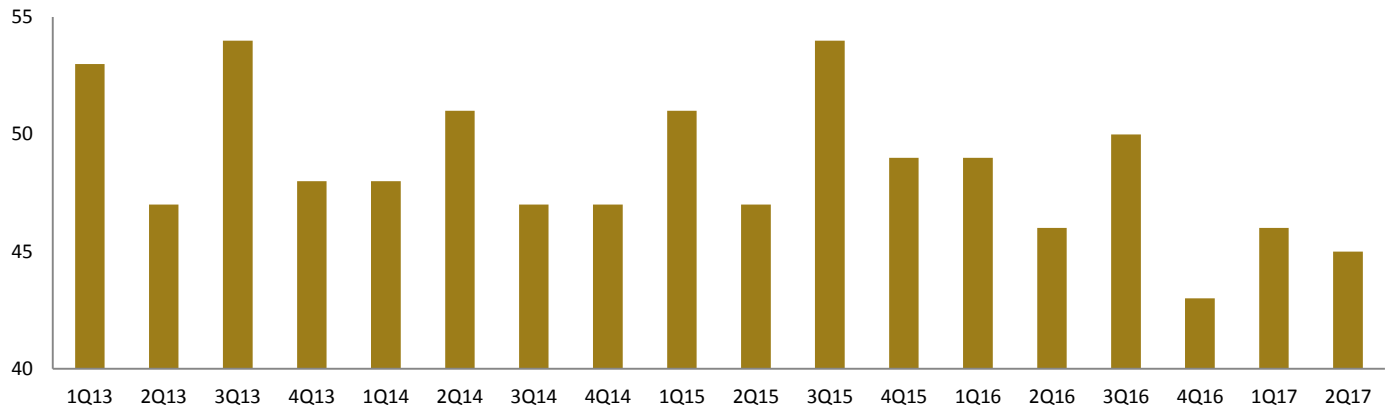
Source: Company, Trust

Exhibit 8: Attrition slowly going down



Source: Company, Trust

Exhibit 9: Billed DSO decreased 1 day QoQ to 45 days; unbilled DSO's were down 4 days QoQ to 70



Source: Company, Trust



Financials

Income Statement (` mn)

Year End-Dec	CY14	CY15	CY16	CY17E	CY18E
Revenues	25,817	31,235	35,349	39,681	43,997
Op. Expenses	21,041	25,680	29,356	32,814	36,282
EBITDA	4,776	5,555	5,993	6,867	7,715
Other Income	(90)	173	394	309	285
Depreciation	440	482	559	632	671
EBIT	4,246	5,246	5,828	6,544	7,329
Interest	-	-	-	-	-
PBT	4,246	5,246	5,828	6,544	7,329
Tax	980	1,114	1,411	1,507	1,759
PAT	3,266	4,132	4,417	5,037	5,570
Extra-ordinary items	66	200	246	417	484
Adj Pat	3,200	3,932	4,171	4,620	5,086

Valuations Summary

Year End-Dec	CY14	CY15	CY16E	CY17E	CY18E
Per share (`)					
EPS (incl. ESOP charge)	10.9	13.7	14.6	15.5	17.0
CEPS	12.4	15.3	16.4	19.1	20.9
BVPS	43.1	47.5	56.5	62.3	70.5
DPS	9.5	8.7	5.5	7.0	7.5
Payout (%)	101.8	73.9	44.1	48.3	47.1
Valuation (x)					
P/E	22.3	17.9	13.5	16.9	15.4
P/BV	5.6	5.2	3.5	4.2	3.7
EV/EBITDA	13.9	12.2	9.0	10.5	9.1
Dividend Yield (%)	3.9	3.5	2.8	2.7	2.9
Return ratio (%)					
EBIDTA Margin	18.5	17.8	17.0	17.3	17.5
PAT Margin	12.7	13.2	12.5	12.7	12.7
ROAE	26.2	30.3	28.1	28.3	28.1
ROACE	34.8	38.5	37.1	36.7	37.0
Leverage Ratios (x)					
Net Debt/Equity	(0.4)	(0.4)	(0.3)	(0.3)	(0.4)
Current ratio	2.4	2.2	2.1	2.1	2.2
Growth Ratios (%)					
Income growth	13.0	21.0	13.2	12.3	10.9
EBITDA growth	(6.8)	16.3	7.9	14.6	12.3
PAT growth	(13.9)	26.5	6.9	14.0	10.6
Turnover Ratios					
F.A. Turnover	6.9	6.9	5.9	6.4	7.0
Debtors Days	55	56	48	48	47
Payable days	11	12	12	12	12

Balance Sheet (` mn)

Year End-Dec	CY14	CY15	CY16E	CY17E	CY18E
Liabilities					
Equity Share Capital	602	603	604	593	593
Reserves & Surplus	12,304	13,729	16,507	17,949	20,492
Total Shareholders Fund	12,906	14,332	17,111	18,542	21,085
Non-current liabilities	144	82	182	74	121
Deferred tax liabilities	(175)	(270)	(376)	(376)	(376)
Other LT liabilities & prov	319	352	558	450	497
Current Liabilities	4,311	5,347	6,319	6,833	7,555
Trade payables	680	774	885	989	1,093
Other cur liabilities & Prov	3,631	4,573	5,434	5,844	6,461
Total Liabilities	17,361	19,761	23,612	25,448	28,760
Assets					
Non-current Assets	7,220	7,740	10,573	11,393	11,832
Fixed assets	3,730	3,880	6,030	6,180	6,330
Non-current investments	1,763	1,763	2,549	2,549	2,549
Long-term loans & adv	1,399	1,712	1,752	2,174	2,411
Other non-current assets	328	385	242	489	542
Current assets	10,140	12,021	13,039	14,055	16,928
Current investments	1,851	1,851	909	909	909
Trade receivables	3,656	4,279	4,376	4,892	5,424
Cash & bank balances	2,865	3,709	4,482	5,481	7,521
Short-term loans & adv	538	642	858	815	904
Other current assets	1,230	1,540	2,413	1,957	2,170
Total Assets	17,361	19,761	23,612	25,448	28,760

Cash flow Statement

Year End-Dec	CY14	CY15	CY16E	CY17E	CY18E
PBT	4,246	5,246	5,828	6,544	7,329
Depreciation	217	387	439	632	671
Others	(66)	(200)	(246)	(417)	(484)
CF before W.cap	4,397	5,433	6,021	6,759	7,516
Inc/dec in W.cap	2,245	337	(545)	282	354
Op CF after W.cap	2,152	5,096	6,566	6,478	7,162
Less Taxes	980	1,114	1,411	1,507	1,759
Net CF From Operations	1,172	3,982	5,155	4,970	5,403
Inc/(dec) in F.A + CWIP	493	632	2,050	782	821
(Pur)/sale of Investments	(1,462)	-	1,095	-	-
CF from Invst Activities	969	(632)	(3,145)	(782)	(821)
Equity Raised	1,037	547	558	(756)	78
Dividend	3,323	3,053	1,950	2,433	2,621
CF from Fin Activities	(2,286)	(2,506)	(1,392)	(3,190)	(2,543)
Net inc/(dec) in cash	(146)	999	618	999	2,040
Op. bal of cash	3,011	2,865	3,864	4,482	5,481
Cl. balance of cash	2,865	3,864	4,482	5,481	7,521



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