

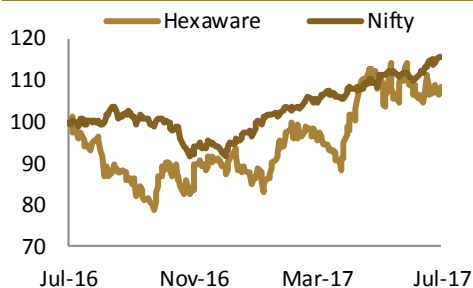
### Market statistics

Current stock price (₹)	247
Shares O/S (cr.)	29.7
Mcap (₹ cr)	7,328
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	15.9	14.5
P/BV (x)	3.5	4.0	3.5
EV/EBITDA (x)	9.0	9.9	8.6
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 Technologies at its analyst meet outlined the progress on the "Shrink IT Grow Digital" strategy and showcased capabilities in digital and automation led offerings. Benefits of this strategy are translated into industry leading revenue growth CAGR of 12.9% over CY14-17E. HEXW will continue to execute its strategy and the contribution of traditional services reduces further, it will reap benefits in the form of higher profitable growth. We like its long term story given it has the required ingredients in the form of right path, senior leadership team and sustained investments in newer technologies. However, near term weakness could arise owing to large client issues. Hence we retain Hold recommendation.

**On the right strategy, grows verticals where industry saw a slowdown:** Hexaware strategy of "Shrink IT Grow Digital" resulted in the IMS and BPO portfolio becoming ~6.8% (TTM) and ~9.9% of revenues currently from ~4.1% and ~6.5% in CY14. This is remarkable given the back-drop for the industry, which has these areas slow down, while Hexaware has been able to increase growth. With only small portion of its testing revenues and application support prone to cannibalization, Hexaware can benefit further as it increases its penetration among existing clients. As a strategy, it will focus on acquiring few strategic clients. Client acquisition has come down from 45-50 in CY13-15 annually to 25-30.

**Infrastructure Management Systems, being played the right way -** IMS was not a strong practice for Hexaware, prior to Mr. R. Srikrishna's tenure. He headed IMS practice at HCL Technologies (HCLT saw its IMS become US\$1.3bn vertical in 16 years while he was at its helm). IMS for HEXW has reported a very strong CAGR of 25% over CY13-CY16. H1CY17 has seen a strong 68% YoY growth. Growth rate for this segment has outpaced its larger peers. With very little proportion of revenues in this segment which could be cannibalized, Hexaware has higher proportion coming from new cloud based or FPP based offering versus T&M based offerings by peers. Company has focused on three pronged go-to-market strategy which has reaped handsome rewards.

**Business Process Services -** BPS is another fast growing service for the company with a CAGR of 29% over CY13-16. H1CY17 too has seen a strong 31% YoY growth. This too is result of its platform/product based offerings. The traction is expected to continue in the space in the near term riding the increase in deal sizes and deal pipeline.

**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 15.9x/14.5x CY17/CY18E EPS, are rich leaving limited upside from the current level. Hence, we maintain our Hold recommendation.

ANALYST

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## Financials

### Income Statement (` mn)

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

### Valuations Summary

Year End-Dec	CY14	CY15	CY16E	CY17E	CY18E
<b>Per share (`)</b>					
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
<b>Valuation (x)</b>					
P/E	22.3	17.9	13.5	15.9	14.5
P/BV	5.6	5.2	3.5	4.0	3.5
EV/EBITDA	13.9	12.2	9.0	9.9	8.6
Dividend Yield (%)	3.9	3.5	2.8	2.8	3.0
<b>Return ratio (%)</b>					
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
<b>Leverage Ratios (x)</b>					
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
<b>Growth Ratios (%)</b>					
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
<b>Turnover Ratios</b>					
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
<b>Liabilities</b>					
Equity Share Capital	602	603	604	593	593
Reserves & Surplus	12,304	13,729	16,507	17,949	20,492
<b>Total Shareholders Fund</b>	<b>12,906</b>	<b>14,332</b>	<b>17,111</b>	<b>18,542</b>	<b>21,085</b>
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
<b>Current Liabilities</b>	<b>4,311</b>	<b>5,347</b>	<b>6,319</b>	<b>6,833</b>	<b>7,555</b>
Trade payables	680	774	885	989	1,093
Other cur liabilities & Prov	3,631	4,573	5,434	5,844	6,461
<b>Total Liabilities</b>	<b>17,361</b>	<b>19,761</b>	<b>23,612</b>	<b>25,448</b>	<b>28,760</b>
<b>Assets</b>					
<b>Non-current Assets</b>	<b>7,220</b>	<b>7,740</b>	<b>10,573</b>	<b>11,393</b>	<b>11,832</b>
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
<b>Current assets</b>	<b>10,140</b>	<b>12,021</b>	<b>13,039</b>	<b>14,055</b>	<b>16,928</b>
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
<b>Total Assets</b>	<b>17,361</b>	<b>19,761</b>	<b>23,612</b>	<b>25,448</b>	<b>28,760</b>

### Cash flow Statement

Year End-Dec	CY14	CY15	CY16E	CY17E	CY18E
<b>PBT</b>	<b>4,246</b>	<b>5,246</b>	<b>5,828</b>	<b>6,544</b>	<b>7,329</b>
Depreciation	217	387	439	632	671
Others	(66)	(200)	(246)	(417)	(484)
<b>CF before W.cap</b>	<b>4,397</b>	<b>5,433</b>	<b>6,021</b>	<b>6,759</b>	<b>7,516</b>
Inc/dec in W.cap	2,245	337	(545)	282	354
<b>Op CF after W.cap</b>	<b>2,152</b>	<b>5,096</b>	<b>6,566</b>	<b>6,478</b>	<b>7,162</b>
Less Taxes	980	1,114	1,411	1,507	1,759
<b>Net CF From Operations</b>	<b>1,172</b>	<b>3,982</b>	<b>5,155</b>	<b>4,970</b>	<b>5,403</b>
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
<b>CF from Fin Activities</b>	<b>(2,286)</b>	<b>(2,506)</b>	<b>(1,392)</b>	<b>(3,190)</b>	<b>(2,543)</b>
Net inc/(dec) in cash	(146)	999	618	999	2,040
<b>Op. bal of cash</b>	<b>3,011</b>	<b>2,865</b>	<b>3,864</b>	<b>4,482</b>	<b>5,481</b>
<b>Cl. balance of cash</b>	<b>2,865</b>	<b>3,864</b>	<b>4,482</b>	<b>5,481</b>	<b>7,521</b>



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