

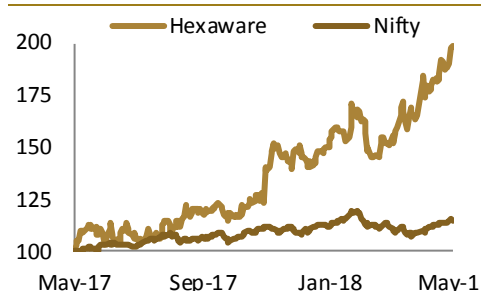
Market statistics

Current stock price (^)	451
Shares O/S (cr.)	29.7
Mcap (` cr)	13,395
52W H/L (^)	457/227
6m avg. volume	1,596,678
Bloomberg	HEXW IN

Shareholding pattern

Promoters	71.22
Domestic Institution	6.37
Foreign Institution	14.39
Non-institution	7.81
of which more than 1%	

Hexaware vs Nifty



Capital efficiency & valuations

Particulars	CY17	CY18E	CY19E
RoE (%)	28.7	27.5	27.1
EPS (^)	16.8	18.5	21.0
CEPS (^)	20.1	21.8	24.4
P/E (x)	20.3	24.3	21.5
P/BV (x)	5.0	5.9	5.2
EV/EBITDA (x)	13.6	16.9	14.6
Income growth (%)	11.5	12.5	11.5
EBITDA growth (%)	15.2	6.8	12.6
PAT growth (%)	21.0	10.8	12.6

Hexaware's quarterly result was higher-than-expectation on the revenue front. The company's Q1CY18 revenue at US\$162.2mn, up 3.3% in cc terms QoQ. Volume growth was ~3.3% QoQ. Company won new business worth TCV of US\$28mn this quarter (US\$25mn in 1QCY17). HEXW has invested in sales and marketing engine in CY15-16 to build base for future growth. Investments into S&M this quarter impacted the margin by 116bps. 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.

Decent quarter with robust revenue growth. Q1CY18 revenues increased by 3.3% in cc terms and 3.9% QoQ in US\$ terms to US\$162.2mn. EBITDA margins for the quarter decreased 44bps QoQ to 16.4% dented by investments into S&M this quarter impacted the margin by 116bps for future growth. HEXW topped up its strategic outlook of shrink IT, grow Digital with three objectives, (i) automate everything, (ii) cloudify everything and (iii) customer digital transformation. It expects these to define the journey for the next several years. **Vertical splits:** Banking and Financial Services was up 2.3% QoQ, while Travel & Transportation was up 13.4%, Healthcare & Insurance was down 0.4% and Manufacturing & Consumer was up 5.1% respectively.

Operating metrics – details. 1) Europe was up 7.3% QoQ. America was up 0.7%, while RoW increased 24.3% QoQ. HEXW added 3 clients on a net basis to take the list to 224. Top 5 clients were up 2.2% QoQ, while #6-10 were up 10.1%. 2) Offshore: onsite mix of revenue share changed in favour of onsite by 30bps QoQ to 34.6:65.4. 3) Attrition (LTM) increased 30 bps QoQ to 13.4% in Q1CY18. 4) HEXW employed 14,619 professionals (914 net added, up 6.7% QoQ, highest in a quarter), 5) Hexaware has forward contracts worth US\$177.8mn @ `70/US\$ and hedges worth €6.6mn @ `84.5/US\$, GBP11.6mn @ `94.2/US\$ maturing over next eight quarters. 6) DSO, billed and including unbilled accruals decreased 2 days QoQ to 47 and increased 3 days to 74 respectively. 7) HEXW has signed US\$28mn worth of TCV deals (US\$25mn in 1QCY17) 8) **Services Lines Split:** ADM was up 0.3%, Testing +1.8%, IMS +15.5% while Business Intelligence was up 6.9%. Enterprise Solutions was up 4.9%.

Guidance maintained - conservative: Despite having a robust 1QCY18, HEXW maintained its guidance for 10-12% revenue growth for CY18 – compared to 15.7% delivered in CY17. We believe the guidance is conservative and HEXW will deliver numbers exceeding its guidance. The guidance implies a CQGR of 2-3.1% in CY18, the same that was delivered in the previous year. HEXW has already indicated that 2Q-3Q would be stronger than 1Q, hence we believe HEXW will raise the guidance going ahead.

Strong balance sheet. Hexaware has US\$94m in net cash (`20.6/share). Hexaware declared an interim dividend of `1/share (`5.5/share in CY16, `4/share in CY17). It had declared dividends of `8.65 and `9.45 in CY15 and CY14. HEXW has committed to pay out Rs.8/share in dividends in CY18. We believe a dividend payout of ~50%+ over CY19/20E is sustainable. (HEXW wants to maintain a quarterly dividend yield).

Valuation: The company inked new customer deals of US\$28mn in 1QCY18, which instills confidence in revenue growth going ahead. Our revenue forecast for HEXW for CY17-19 is 11.9% CAGR. Stock valuations, at 24.3x/21.5x CY18/CY19E EPS, are rich leaving limited upside from the current level and no room for error.

ANALYST

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**Exhibit 1: Quarterly details**

` mn	1QCY17	4QCY17	1QCY18	QoQ (%)	YoY (%)	Comments
Revenues (in US\$ mn)	144.7	156.1	162.2	3.9	12.1	Cc increase of 3.3%. Top 5 clients were up 2.2% QoQ, while #6-10 were up 10.1%
Revenues	9,605	10,048	10,490	4.4	9.2	
- Operating costs	7,928	8,357	8,771	5.0	10.6	
EBITDA	1,677	1,691	1,719	1.7	2.5	
EBITDA margin (%)	17.5	16.8	16.4	(44)bps	(107)bps	
- Interest expense	-	-	-	-	-	
- Depreciation	157	159	151	-5.0	(3.8)	
+ Other income, net (incl forex)	28	132	204	54.5	628.6	OI breakup: Forex gain of `195mn in Q1 vs. `128mn in the last quarter.
PBT	1,548	1,664	1,772	6.5	14.5	
- Taxes	355	361	336	(6.9)	(5.4)	
Effective tax rate (%)	22.9	21.7	19.0	(273)bps	(397)bps	Effective tax rate for CY18 to be between 20-20.5%
PAT	1,193	1,303	1,436	10.2	20.4	
Net margin (%)	12.4	13.0	13.7	72bps	127bps	
Reported profits	1,139	1,211	1,344	11.0	18.0	Hexaware took a hit of `93mn on account of a ESOP charge.

Source: Company

Exhibit 2: Change in estimates

` mn	CY18E			CY19E		
	Old	New	%Chg	Old	New	%Chg
Revenue (US\$ mn)	670.0	683.0	1.9	751	761	1.3
Revenue	43,542	44,338	1.8	48,815	49,435	1.3
EBITDA margin (%)	17.4	16.6	(75)bps	17.2	16.8	(35)bps
EPS (`)	17.5	18.5	5.7	20.5	21.0	2.4

Source: Trust Research

Geography wise Revenues: Europe was up 7.3% QoQ. America was up 0.7%, while RoW increased 24.3% QoQ..**Exhibit 3: Geographical wise Performance**

Geographical mix	Q1CY16	Q2CY16	Q3CY16	Q4CY16	Q1CY17	Q2CY17	Q3CY17	Q4CY17	Q1CY18
US	81.4	80.9	82.0	82.5	81.6	80.8	79.1	77.7	75.3
Europe	12.0	12.5	11.6	11.1	11.0	11.2	11.3	12.1	12.5
RoW	6.6	6.6	6.4	6.4	7.4	8.0	9.6	10.2	12.2
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company

Services' wise Performance: ADM was up 0.3%, Testing +1.8%, IMS +15.5% while Business Intelligence was up 6.9%. Enterprise Solutions was up 4.9%.

**Exhibit 4: Service offering segmentation**

Details	Q1CY16	Q2CY16	Q3CY16	Q4CY16	Q1CY17	Q2CY17	Q3CY17	Q4CY17	Q1CY18
Application dev & maintenance (ADM)	37.7	36.5	36.0	36.4	36.1	36.5	36.3	37.2	35.9
Enterprise application services (EAS)	13.7	13.3	13.0	12.7	12.1	11.6	11.3	10.8	10.9
Testing / QATS	20.3	20.1	20.3	20.9	20.9	19.7	20.0	19.5	19.1
Business intelligence & Analytics	15.2	15.6	15.2	14.1	13.8	14.0	13.8	13.8	14.2
BPO	5.8	6.5	6.8	6.8	6.4	7.2	7.3	7.0	6.9
Others	7.3	8.0	8.7	9.1	10.7	11.0	11.3	11.7	13.0
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) increased 30 bps QoQ to 13.4% in Q1CY18. HEXW employed 14,619 professionals (914 net added, up 6.7% QoQ, highest in a quarter).

Exhibit 5: Employee strength at HEXW

Details	Q3CY16	Q4CY16	Q1CY17	Q2CY17	Q3CY17	Q4CY17	Q1CY18
Onsite (%)	20.9	21.0	20.9	20.9	19.9	19.7	19.0
Offshore (%)	70.6	70.7	71.0	71.2	72.1	72.5	73.3
Total billable (%)	91.5	91.7	91.9	92.1	92.0	92.2	92.3
Marketing (Incl. sales support, %)	3.5	3.3	3.2	3.3	3.3	3.3	3.2
Others (Incl. sales support, %)	5.0	5.0	4.9	4.6	4.7	4.5	4.5
Total (%)	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Headcount (Nos.)	11,859	12,115	12,734	13,098	13,488	13,705	14,619
Utilisation	74.1	78.6	78.9	80.8	79.7	80.9	81.3
Attrition	16.5	16.1	14.9	13.8	13.7	13.1	13.4

Source: Company, Trust Research

Client Concentration HEXW added 3 clients on a net basis to take the list to 224. Top 5 clients were up 2.2% QoQ, while #6-10 were up 10.1%.

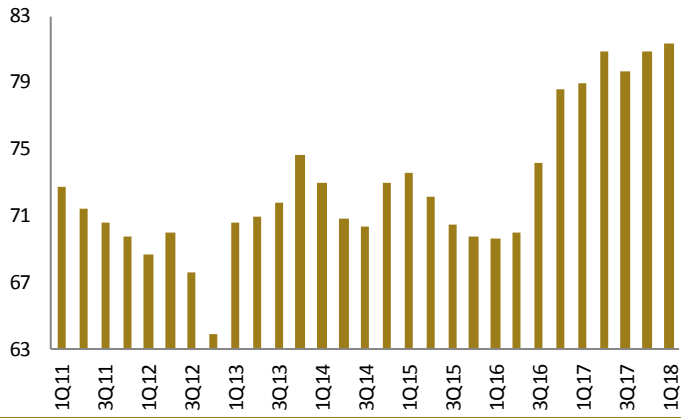
Exhibit 6: Client details

Details	Q1CY16	Q2CY16	Q3CY16	Q4CY16	Q1CY17	Q2CY17	Q3CY17	Q4CY17	Q1CY18
Top 5 clients (%)	42.9	43.1	47.0	46.3	45.6	46.1	43.5	42.8	42.1
Top 10 clients (%)	55.3	55.2	58.3	57.4	56.7	56.5	54.8	52.9	52.8
> US\$1m+	73	76	77	78	81	81	82	88	89
Between US\$1-5m	58	62	63	64	67	66	64	71	69
Between US\$5-10m	6	6	6	6	6	7	9	7	10
Between US\$10m-20m	5	3	3	3	3	3	4	6	6
Over US\$20m+	4	5	5	5	5	5	5	4	4
Clients added	10	6	7	7	6	9	8	8	5
Clients billed	229	226	222	220	222	220	218	221	224

Source: Company

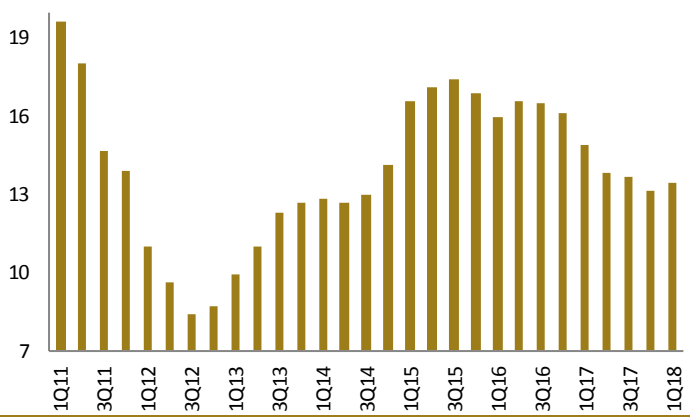


Exhibit 7: Utilisation being used as margin lever



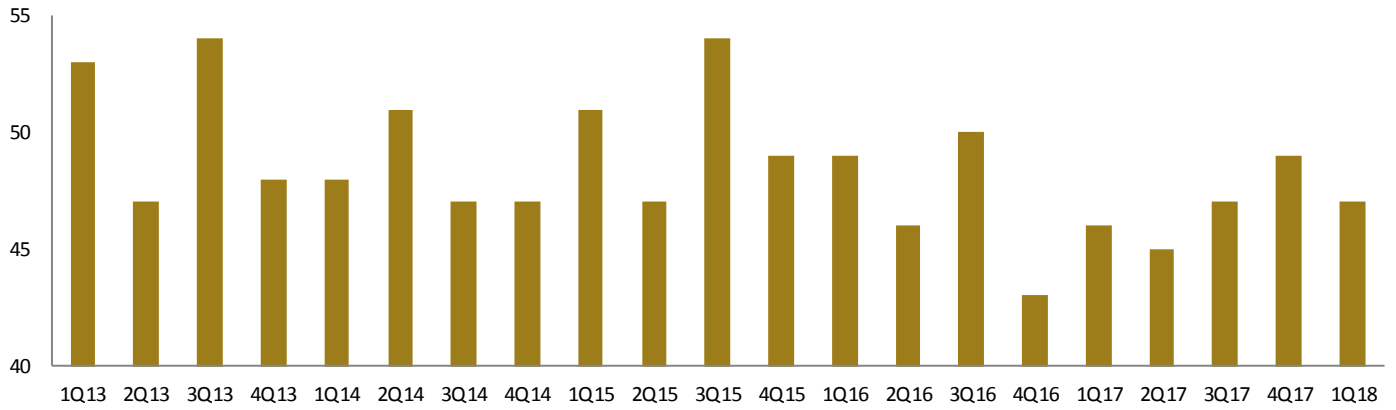
Source: Company, Trust

Exhibit 8: Attrition slowly going down



Source: Company, Trust

Exhibit 9: Billed and including unbilled accruals decreased 2 days QoQ to 47 and increased 3 days to 74 respectively



Source: Company, Trust



Financials

Income Statement (` mn)

Year End-Dec	CY15	CY16	CY17	CY18E	CY19E
Revenues	31,235	35,349	39,420	44,338	49,435
Op. Expenses	25,680	29,356	32,517	36,967	41,135
EBITDA	5,555	5,993	6,903	7,371	8,300
Other Income	173	394	484	654	850
Depreciation	482	559	633	616	664
EBIT	5,246	5,828	6,754	7,409	8,486
Interest	-	-	-	-	-
PBT	5,246	5,828	6,754	7,409	8,486
Tax	1,114	1,411	1,411	1,492	1,825
PAT	4,132	4,417	5,343	5,918	6,662
Extra-ordinary items	200	246	349	372	372
Adj Pat	3,932	4,171	4,994	5,546	6,290

Valuations Summary

Year End-Dec	CY15	CY16	CY17	CY18E	CY19E
Per share (`)					
EPS (incl. ESOP charge)	13.0	13.8	16.8	18.5	21.0
CEPS	15.3	16.4	20.1	21.8	24.4
BVPS	47.5	56.5	67.5	76.9	87.2
DPS	8.7	5.5	4.0	8.0	9.0
Payout (%)	73.9	44.1	26.0	47.2	47.4
Valuation (x)					
P/E	17.9	13.5	20.3	24.3	21.5
P/BV	5.2	3.5	5.0	5.9	5.2
EV/EBITDA	12.2	9.0	13.6	16.9	14.6
Dividend Yield (%)	3.5	2.8	1.2	1.8	2.0
Return ratio (%)					
EBITDA Margin	17.8	17.0	17.5	16.6	16.8
PAT Margin	13.2	12.5	13.6	13.3	13.5
ROAE	30.3	28.1	28.7	27.5	27.1
ROACE	38.5	37.1	36.3	34.4	34.5
Leverage Ratios (x)					
Net Debt/Equity	(0.4)	(0.3)	(0.3)	(0.3)	(0.4)
Current ratio	2.2	2.1	2.8	3.1	3.3
Growth Ratios (%)					
Income growth	21.0	13.2	11.5	12.5	11.5
EBITDA growth	16.3	7.9	15.2	6.8	12.6
PAT growth	26.5	6.9	21.0	10.8	12.6
Turnover Ratios					
F.A. Turnover	6.9	5.9	6.4	7.0	7.7
Debtors Days	56	48	49	50	51
Payable days	12	12	13	14	15

Balance Sheet (` mn)

Year End-Dec	CY15	CY16	CY17	CY18E	CY19E
Liabilities					
Equity Share Capital	603	604	594	594	594
Reserves & Surplus	13,729	16,805	19,479	22,403	25,563
Total Shareholders Fund	14,332	17,409	20,073	22,997	26,157
Non-current liabilities	97	(953)	(1,125)	(1,032)	(997)
Deferred tax liabilities	(256)	(1,252)	(1,336)	(1,336)	(1,336)
Other LT liabilities & prov	353	299	211	303.84	338
Current Liabilities	5,520	5,401	5,170	5,773	6,424
Trade payables	982	1,959	2,204	2,430.70	2,705
Other cur liabilities & Prov	4,539	3,443	2,966	3,342	3,719
Total Liabilities	19,950	21,858	24,117	27,738	31,583
Assets					
Non-current Assets	8,502	9,525	9,583	10,095	10,468
Fixed assets	4,539	6,024	6,143	6,293	6,443
Non-current investments	1,954	2,017	1,858	1,858	1,858
Other non-current assets	2,009	1,483	1,582	1,944	2,167
Current assets	11,447	12,333	14,535	17,643	21,116
Current investments	409	189	189	189	189
Trade receivables	4,406	4,376	5,360	6,074	6,772
Cash & bank balances	3,864	4,126	5,147	7,250	9,550
Short-term loans & adv	769	2,639	2,369	2,429	2,709
Other current assets	1,999	1,004	1,470	1,701	1,896
Total Assets	19,950	21,858	24,117	27,738	31,583

Cash flow Statement

Year End-Dec	CY15	CY16	CY17	CY18E	CY19E
PBT	5,246	5,828	6,754	7,409	8,486
Depreciation	401	(437)	550	616	664
Others	(200)	(246)	(349)	(372)	(372)
CF before W.cap	5,447	5,145	6,955	7,653	8,778
Inc/dec in W.cap	788	492	1,599	671	711
Op CF after W.cap	4,659	4,653	5,356	6,982	8,067
Less Taxes	1,114	1,411	1,411	1,492	1,825
Net CF From Operations	3,545	3,242	3,945	5,490	6,242
Inc/(dec) in F.A + CWIP	1,290	2,045	752	766	814
(Pur)/sale of Investments	(1,250)	(158)	(159)	-	-
CF from Invst Activities	(40)	(1,886)	(593)	(766)	(814)
Equity Raised	544	848	(941)	173	30
Dividend	3,050	1,942	1,389	2,795	3,159
CF from Fin Activities	(2,506)	(1,094)	(2,330)	(2,622)	(3,129)
Net inc/(dec) in cash	999	262	1,021	2,103	2,299
Op. bal of cash	2,865	3,864	4,126	5,147	7,250
Cl. balance of cash	3,864	4,126	5,147	7,250	9,550

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