

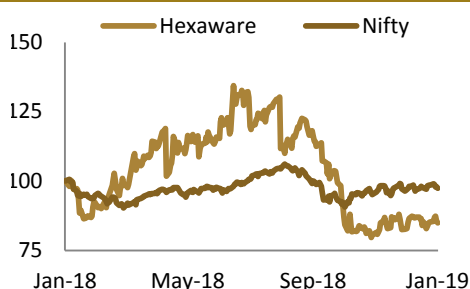
Market statistics

Current stock price (^)	322
Shares O/S (cr.)	29.7
Mcap (` cr)	9,589
52W H/L (^)	557/295
6m avg. volume	2,434,420
Bloomberg	HEXW IN

Shareholding pattern

Promoters	62.66
Domestic Institution	10.94
Foreign Institution	17.17
Non-institution	9.23
of which more than 1%	

Hexaware vs Nifty



Capital efficiency & valuations

Particulars	CY18E	CY19E	CY20E
RoE (%)	28.2	27.6	26.9
EPS (^)	19.6	22.6	25.5
CEPS (^)	23.1	26.0	29.0
P/E (x)	16.4	14.3	12.7
P/BV (x)	4.0	3.5	3.0
EV/EBITDA (x)	11.2	9.4	7.9
Income growth (%)	17.9	15.7	11.6
EBITDA growth (%)	11.7	15.6	13.2
PAT growth (%)	16.2	14.2	12.4

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Hexaware's quarterly result was higher-than-expectation on the revenue front, while EBITDA was lower-than-expected. The company's Q4CY18 revenue at US\$176.1mn, up 3.4% in cc terms QoQ. Volume growth was 6% QoQ. Company won new business worth TCV of US\$116mn this quarter (US\$25mn in 3QCY18, US\$72m in 4QCY17). HEXW has invested in sales and marketing engine in CY16 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.

Strong revenue growth, weak margins. Q4CY18 revenues increased by 3.4% in cc terms and 3% QoQ in US\$ terms to US\$176.1mn affected by seasonal furloughs, forex and mix. Volume growth was 6% QoQ was negated on account of forex impact (35bps), impact of furloughs (-158bps), and mix (134bps). EBITDA margins for the quarter decreased 150bps QoQ to 16% dented by higher SG&A expenses impacting margins by 26bps QoQ. Furloughs and salary increments impacted margins by 60bps each, while volume and other changes accounted hit margins by 30bps. Forex aided margins by 10bps while the mix aided margins by 20bps. **Vertical splits:** BPS was up 1.7% QoQ, ADM remained flat at 0.5%, while Enterprise Solutions and Testing/Digital Assurance rebounded, posting 1.3% and 2.0% QoQ, respectively.

Operating metrics – details. 1) Geographically, APAC rebounded and led growth (+11.0% QoQ), Europe was flat (+0.8%) after ~7% QoQ growth in Q3CY18, and North America sustained growth (+2.3% QoQ). HEXW added 1 client on a net basis to take the list to 224. The top 5/10/20 clients grew at 2.7%/1.8%/1.8% QoQ, respectively. Non-top 20 clients grew by 4.8% QoQ. 2) Offshore: onsite mix of revenue share changed in favour of offshore by 100bps QoQ to 36.1:63.9. 3) Attrition (LTM) increased 130 bps QoQ to 17% in Q4CY18. 4) HEXW employed 16,205 professionals (155 net added, up 1% QoQ, after adding 4.5% in the last quarter), 5) Hexaware has forward contracts worth US\$162.1mn @ `71.8/US\$ and hedges worth €5.8mn @ `88.2/US\$, GBP11.3mn @ `98.7/US\$ maturing over next eight quarters. 6) DSO, billed and including unbilled accruals increased QoQ by 2 days at 60 and decreased 2 days to 81 respectively. 7) HEXW has signed US\$116mn worth of TCV deals (US\$25mn in 3QCY18, US\$72m in 4QCY17). It signed one US\$100mn+ deal in the quarter. 8) **Services Lines Split:** In terms of service lines, IMS drove growth for the consecutive quarter and was up 21.4% QoQ. Business Intelligence & Analytics reported a decline of 6.8% after strong growth of 9.1% in Q3CY18.

Guidance – Revenue growth for CY19 guided at 12-14% in cc terms: HEXW has provided a CY19 organic revenue guidance of 12-14%, with majority of growth happening in the later part of the year. Q1 to be softer than Q1CY18. Q2 and Q3 to be stronger than regular Q2 and Q3. EBITDA is expected to grow in-line with revenue growth for CY19.

Strong balance sheet. Hexaware has US\$119m in net cash (`28/1/share). Hexaware declared a final dividend of `2.5/share (`5.5/share in CY16, `4/share in CY17, `8.5/share in CY18). It had declared dividends of `8.65 and `9.45 in CY15 and CY14. HEXW has committed to pay out Rs.8.5/share in dividends in CY19. 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\$116mn in 3QCY18, (deals win in CY18 stood at US\$210mn vs US\$180mn in CY17). Our revenue forecast for HEXW for CY18-20 is 12.4% CAGR. Stock valuations, at 14.3x/12.7x CY19/CY20E EPS, are rich leaving limited upside from the current level and no room for error.


Exhibit 1: Quarterly details

` mn	3QCY17	2QCY18	3QCY18	QoQ (%)	YoY (%)	Comments
Revenues (in US\$ mn)	156.1	171.1	176.1	3.0	12.8	Cc increase of 3.4%. The top 5/10/20 clients grew at 2.7%/1.8%/1.8% QoQ, respectively
Revenues	10,048	12,096	12,524	3.5	24.6	
- Operating costs	8,357	9,979	10,520	5.4	25.9	
EBITDA	1,691	2,117	2,004	(5.3)	18.5	
EBITDA margin (%)	16.8	17.5	16.0	(150)bps	(83)bps	
- Interest expense	-	-	-	NA	NA	
- Depreciation	159	159	158	-0.6	(0.6)	
+ Other income, net (incl forex)	132	264	(215)	NA	NA	OI breakup: Forex loss of `248mn in Q4 vs. gain of `235mn in the last quarter.
PBT	1,664	2,222	1,631	(26.6)	(2.0)	
- Taxes	361	406	306	(24.6)	(15.2)	
Effective tax rate (%)	21.7	18.3	18.8	49bps	(293)bps	Effective tax rate for CY19 to be between 20-20.5%
PAT	1,303	1,816	1,325	(27.0)	1.7	
Net margin (%)	13.0	15.0	10.6	(443)	(239)	
Reported profits	1,211	1,721	1,234	(28.3)	1.9	Hexaware took a hit of `91mn on account of a ESOP charge.

Source: Company

Exhibit 2: Change in estimates

` mn	CY19E			CY20E		
	Old	New	%Chg	Old	New	%Chg
Revenue (US\$ mn)	761	768	0.9	-	857	-
Revenue	53,278	53,775	0.9	-	59,991	-
EBITDA margin (%)	17.2	16.6	(55)bps	-	16.8	-
EPS (`)	23.3	22.6	(3.0)	-	25.5	-

Source: Trust Research

Geography wise Revenues: Geographically, APAC rebounded and led growth (+11.0% QoQ), Europe was flat (+0.8%) after ~7% QoQ growth in Q3CY18, and North America sustained growth (+2.3% QoQ).

Exhibit 3: Geographical wise Performance

Geographical mix	Q4CY16	Q1CY17	Q2CY17	Q3CY17	Q4CY17	Q1CY18	Q2CY18	Q3CY18	Q4CY18
US	82.5	81.6	80.8	79.1	77.7	75.3	77.0	77.4	76.9
Europe	11.1	11.0	11.2	11.3	12.1	12.5	12.7	13.3	13.0
RoW	6.4	7.4	8.0	9.6	10.2	12.2	10.3	9.3	10.1
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: In terms of service lines, IMS drove growth for the consecutive quarter and was up 21.4% QoQ. Business Intelligence & Analytics reported a decline of 6.8% after strong growth of 9.1% in Q3CY18.

**Exhibit 4: Service offering segmentation**

Details	Q4CY16	Q1CY17	Q2CY17	Q3CY17	Q4CY17	Q1CY18	Q2CY18	Q3CY18	Q4CY18
Application dev & maintenance (ADM)	36.4	36.1	36.5	36.3	37.2	35.9	36.6	36.0	35.1
Enterprise application services (EAS)	12.7	12.1	11.6	11.3	10.8	10.9	10.5	9.7	9.5
Testing / QATS	20.9	20.9	19.7	20.0	19.5	19.1	18.4	17.7	17.5
Business intelligence & Analytics	14.1	13.8	14.0	13.8	13.8	14.2	13.5	14.5	13.1
BPO	6.8	6.4	7.2	7.3	7.0	6.9	7.2	7.4	7.3
Others	9.1	10.7	11.0	11.3	11.7	13.0	13.8	14.7	17.5
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company

Human Resources: HEXW employed 16,205 professionals (155 net added, up 1% QoQ, after adding 4.5% in the last quarter). Attrition (LTM) increased 130 bps QoQ to 17% in Q4CY18.

Exhibit 5: Employee strength at HEXW

Details	Q1CY17	Q2CY17	Q3CY17	Q4CY17	Q1CY18	Q2CY18	Q3CY18	Q4CY18
Onsite (%)	20.9	20.9	19.9	19.7	19.0	18.8	18.4	19.0
Offshore (%)	71.0	71.2	72.1	72.5	73.3	73.7	74.2	73.6
Total billable (%)	91.9	92.1	92.0	92.2	92.3	92.5	92.6	92.6
Marketing (Incl. sales support, %)	3.2	3.3	3.3	3.3	3.2	3.0	3.0	3.0
Others (Incl. sales support, %)	4.9	4.6	4.7	4.5	4.5	4.5	4.4	4.4
Total (%)	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Headcount (Nos.)	12,734	13,098	13,488	13,705	14,619	15,357	16,050	16,205
Utilisation	78.9	80.8	79.7	80.9	81.3	78.2	79.0	78.7
Attrition	14.9	13.8	13.7	13.1	13.4	14.4	15.7	17.0

Source: Company, Trust Research

Client Concentration: HEXW added 1 client on a net basis to take the list to 224. The top 5/10/20 clients grew at 2.7%/1.8%/1.8% QoQ, respectively. Non-top 20 clients grew by 4.8% QoQ.

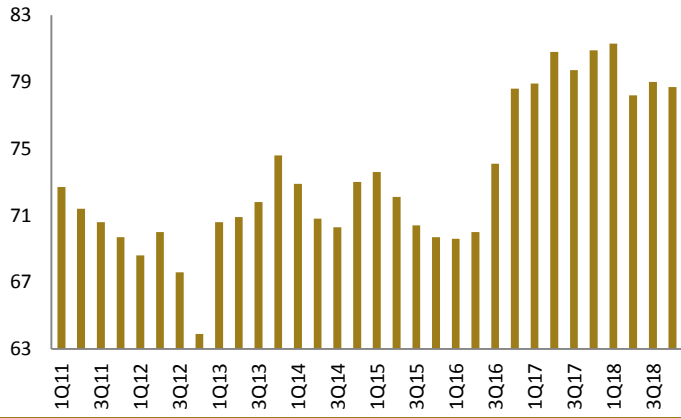
Exhibit 6: Client details

Details	Q4CY16	Q1CY17	Q2CY17	Q3CY17	Q4CY17	Q1CY18	Q2CY18	Q3CY18	Q4CY18
Top 5 clients (%)	46.3	45.6	46.1	43.5	42.8	42.1	42.4	42.1	42.0
Top 10 clients (%)	57.4	56.7	56.5	54.8	52.9	52.8	52.8	52.2	51.6
> US\$1m+	78	81	81	82	88	89	93	95	99
Between US\$1-5m	64	67	66	64	71	69	71	70	72
Between US\$5-10m	6	6	7	9	7	10	12	15	18
Between US\$10m-20m	3	3	3	4	6	6	6	6	4
Over US\$20m+	5	5	5	5	4	4	4	4	5
Clients added	7	6	9	8	8	5	7	9	5
Clients billed	220	222	220	218	221	224	226	223	224

Source: Company

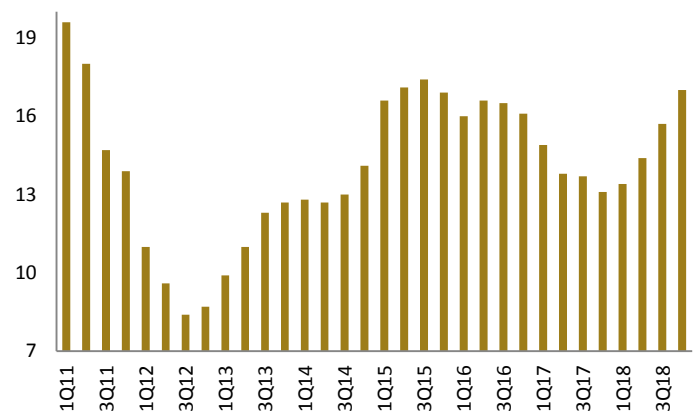


Exhibit 7: Utilisation lower due to furloughs



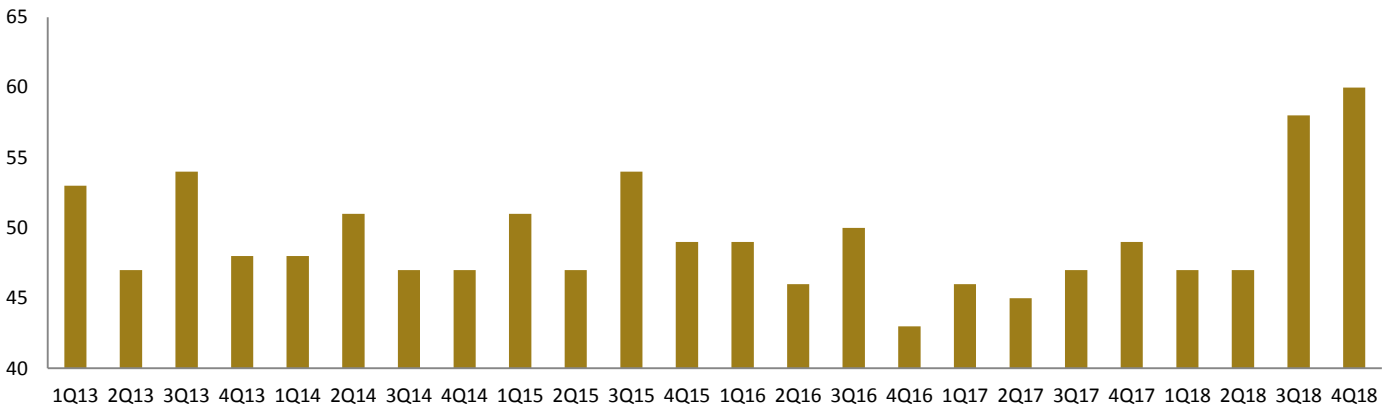
Source: Company, Trust

Exhibit 8: Attrition increasing – add costs



Source: Company, Trust

Exhibit 9: Billed and including unbilled accruals increased QoQ by 2 days to 60 and decreased 2 days to 81 respectively



Source: Company, Trust



Financials

Income Statement (` mn)

Year End-Dec	CY16	CY17	CY18	CY19E	CY20E
Revenues	35,349	39,420	46,477	53,775	59,991
Op. Expenses	29,356	32,517	38,768	44,862	49,901
EBITDA	5,993	6,903	7,709	8,913	10,090
Other Income	394	484	580	600	700
Depreciation	559	633	650	651	699
EBIT	5,828	6,754	7,639	8,863	10,091
Interest	-	-	-	-	-
PBT	5,828	6,754	7,639	8,863	10,091
Tax	1,411	1,411	1,432	1,773	2,119
PAT	4,417	5,343	6,207	7,090	7,972
Extra-ordinary items	246	349	374	364	364
Adj Pat	4,171	4,994	5,833	6,726	7,608

Valuations Summary

Year End-Dec	CY16	CY17	CY18E	CY19E	CY20E
Per share (`)					
EPS (incl. ESOP charge)	13.8	16.8	19.6	22.6	25.5
CEPS	16.4	20.1	23.1	26.0	29.0
BVPS	56.5	67.5	80.4	92.4	106.0
DPS	5.5	4.0	8.5	9.0	10.0
Payout (%)	44.1	26.0	47.6	44.2	43.9
Valuation (x)					
P/E	13.5	20.3	16.4	14.3	12.7
P/BV	3.5	5.0	4.0	3.5	3.0
EV/EBITDA	9.0	13.6	11.2	9.4	7.9
Dividend Yield (%)	2.8	1.2	2.6	2.8	3.1
Return ratio (%)					
EBITDA Margin	17.0	17.5	16.6	16.6	16.8
PAT Margin	12.5	13.6	13.4	13.2	13.3
ROAE	28.1	28.7	28.2	27.6	26.9
ROACE	37.1	36.3	34.7	34.4	34.1
Leverage Ratios (x)					
Net Debt/Equity	(0.3)	(0.3)	(0.3)	(0.4)	(0.4)
Current ratio	2.1	2.8	3.1	3.3	3.5
Growth Ratios (%)					
Income growth	13.2	11.5	17.9	15.7	11.6
EBITDA growth	7.9	15.2	11.7	15.6	13.2
PAT growth	6.9	21.0	16.2	14.2	12.4
Turnover Ratios					
F.A. Turnover	5.9	6.4	7.4	8.3	9.1
Debtors Days	48	49	54	54	53
Payable days	26	26	26	26	25

Balance Sheet (` mn)

Year End-Dec	CY16	CY17	CY18E	CY19E	CY20E
Liabilities					
Equity Share Capital	604	594	595	595	595
Reserves & Surplus	16,805	19,479	23,324	26,952	31,086
Total Shareholders Fund	17,409	20,073	23,919	27,547	31,681
Non-current liabilities	(953)	(1,125)	(1,017)	(967)	(925)
Deferred tax liabilities	(1,252)	(1,336)	(1,336)	(1,336)	(1,336)
Other LT liabilities & prove	299	211	318.64	369	410
Current Liabilities	5,401	5,170	6,054	7,006	7,793
Trade payables	1,959	2,204	2,549	2,950	3,281
Other cur liabilities & Prov	3,443	2,966	3,505	4,056	4,512
Total Liabilities	21,858	24,117	28,956	33,586	38,549
Assets					
Non-current Assets	9,525	9,583	10,188	10,658	11,081
Fixed assets	6,024	6,143	6,293	6,443	6,593
Non-current investments	2,017	1,858	1,858	1,858	1,858
Other non-current assets	1,483	1,582	2,037	2,357	2,630
Current assets	12,333	14,535	18,768	22,928	27,468
Current investments	189	189	189	189	189
Trade receivables	4,376	5,360	6,367	7,366	8,218
Cash & bank balances	4,126	5,147	7,883	10,363	13,473
Short-term loans & adv	2,639	2,369	2,547	2,947	3,287
Other current assets	1,004	1,470	1,783	2,063	2,301
Total Assets	21,858	24,117	28,956	33,586	38,549

Cash flow Statement

Year End-Dec	CY16	CY17	CY18E	CY19E	CY20E
PBT	5,828	6,754	7,639	8,863	10,091
Depreciation	(437)	550	650	651	699
Others	(246)	(349)	(374)	(364)	(364)
CF before W.cap	5,145	6,955	7,915	9,149	10,426
Inc/dec in W.cap	492	1,599	961	998	875
Op CF after W.cap	4,653	5,356	6,954	8,152	9,551
Less Taxes	1,411	1,411	1,432	1,773	2,119
Net CF From Operations	3,242	3,945	5,522	6,379	7,432
Inc/(dec) in F.A + CWIP	2,045	752	800	801	849
(Pur)/sale of Investments	(158)	(159)	-	-	-
CF from Invst Activities	(1,886)	(593)	(800)	(801)	(849)
Equity Raised	848	(941)	967	39	23
Dividend	1,942	1,389	2,954	3,137	3,497
CF from Fin Activities	(1,094)	(2,330)	(1,987)	(3,098)	(3,474)
Net inc/(dec) in cash	262	1,021	2,735	2,480	3,110
Op. bal of cash	3,864	4,126	5,147	7,883	10,363
Cl. balance of cash	4,126	5,147	7,883	10,363	13,473



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