

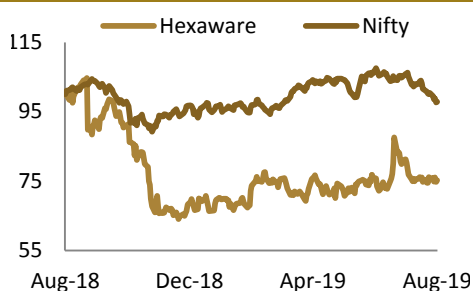
Market statistics

Current stock price (₹)	374
Shares O/S (cr.)	29.8
Mcap (₹ cr)	11,153
52W H/L (₹)	460/295
6m avg. volume	1,260,223
Bloomberg	HEXW IN

Shareholding pattern

Promoters	62.52
Domestic Institution	11.88
Foreign Institution	16.76
Non-institution	8.84
of which more than 1%	

Hexaware vs Nifty



Capital efficiency & valuations

Particulars	CY18	CY19E	CY20E
RoE (%)	28.2	26.2	27.3
EPS (₹)	19.6	21.1	25.4
CEPS (₹)	23.1	25.3	29.8
P/E (x)	17.6	17.7	14.7
P/BV (x)	4.3	4.1	3.5
EV/EBITDA (x)	12.0	12.0	8.9
Income growth (%)	17.9	17.0	15.3
EBITDA growth (%)	11.7	15.5	17.8
PAT growth (%)	16.2	8.1	19.7

Hexaware is confident of strong revenue growth over the next 5 years with ~2-2.5% contribution from acquisitions. BFS is showing muted growth but growth is expected in CY20. Hexaware has a sharp focus on verticals like BFS, IMS and BPO. High client concentration and continued weakness in BFS are risks to high growth expectations. 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.

HEXW is confident of strong growth over coming 5 years. Hexaware is confident of high revenue growth in the medium term. The company delivered strong organic revenue CAGR of ~12.5%+ in CY14-18 and wants to achieve a similar organic growth over the next five years. Inorganic contribution can add another ~2-2.5% to revenue. The belief on long term growth is on account of – (1) an experienced management team with a strong track record, (2) a workforce aligned closely with the company's growth expectations and (3) focused investments in strategic bets.

Weak spending in BFS will continue for CY19; growth to be back in CY20: Hexaware has presence in buy-side, sell-side, retail and corp banking markets. Hexaware's capabilities in buy-side offerings have shown good results. Banking has been a core growth driver. However, CY19 has been a muted year. Weakness in capital markets and softness in spending in a large US client will lead to weak revenue growth in revenues in the 2-3 quarters. Low interest rates, slower decision making among clients, insourcing and leadership changes in key accounts create an unfavorable environment. Hexaware is confident of growth in the BFS vertical from CY20 on the back of a strong pipeline, new opportunities in contract re-negotiation, implementation of Backbase for retail banking clients and providing digital services for corporate banks.

Professional Services has grown well: Professional Services vertical went through muted growth in CY17 and H1CY18 due to loss of revenues in largest client. Hexaware has since then, added new clients and expanded into adjacent services. The vertical recovered in 2HCY18 and was the fastest growing vertical in 1HCY19. Hexaware now has 18 clients in the vertical.

Health and Insurance vertical will continue to grow: Healthcare and Insurance vertical has grown at a CAGR of 15% over CY14-18. Hexaware has consistently augmented leadership team with new hires and has invested in capabilities to generate new avenues of growth. Increased partnership depth, expansion into commercial & specialty insurance, provision of domain-centric cloud services and automation are key drivers of growth in the medium term.

Merger with NIIT Technologies is highly unlikely, Barings stake not to reduce below 51%: Management is not interested in a merger with NIIT Technologies as the merger does not provide any synergies. The term period of Barings' fund invested in Hexaware is set to expire in a couple of years. Management is in the process of finding new investors for the company. The company is confident that Barings will maintain a minimum stake of 51% in Hexaware.

Valuation: The company inked new customer deals of US\$36mn in 2QCY19, (deals in CY18 stood at US\$210mn vs US\$180mn in CY17). Our revenue forecast for HEXW for CY18-20 is 15.3% CAGR. Stock valuations, at 17.7x/14.7x CY19/CY20E EPS, are rich leaving limited upside from the current level and no room for error.

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Financials

Income Statement (₹ mn)

Year End-Dec	CY16	CY17	CY18	CY19E	CY20E
Revenues	35,349	39,420	46,477	54,357	62,695
Op. Expenses	29,356	32,517	38,768	45,451	52,204
EBITDA	5,993	6,903	7,709	8,906	10,491
Other Income	394	484	580	157	550
Depreciation	559	633	650	820	868
EBIT	5,828	6,754	7,639	8,243	10,173
Interest	-	-	-	-	-
PBT	5,828	6,754	7,639	8,243	10,173
Tax	1,411	1,411	1,432	1,531	2,136
PAT	4,417	5,343	6,207	6,712	8,037
Extra-ordinary items	246	349	374	404	444
Adj Pat	4,171	4,994	5,833	6,308	7,592

Valuations Summary

Year End-Dec	CY16	CY17	CY18	CY19E	CY20E
Per share (₹)					
EPS (incl. ESOP charge)	13.8	16.8	19.6	21.1	25.4
CEPS	16.4	20.1	23.1	25.3	29.8
BVPS	56.5	67.5	80.4	91.4	105.5
DPS	5.5	4.0	8.5	8.5	9.5
Payout (%)	44.1	26.0	47.6	44.2	41.4
Valuation (x)					
P/E	13.5	20.3	17.6	17.7	14.7
P/BV	3.5	5.0	4.3	4.1	3.5
EV/EBITDA	9.0	13.6	12.0	12.0	8.9
Dividend Yield (%)	2.8	1.2	2.5	2.3	2.5
Return ratio (%)					
EBITDA Margin	17.0	17.5	16.6	16.4	16.7
PAT Margin	12.5	13.6	13.4	12.3	12.8
ROAE	28.1	28.7	28.2	26.2	27.3
ROACE	37.1	36.3	34.7	32.2	34.6
Leverage Ratios (x)					
Net Debt/Equity	(0.3)	(0.3)	(0.3)	(0.4)	(0.4)
Current ratio	2.1	2.8	2.8	2.9	3.1
Growth Ratios (%)					
Income growth	13.2	11.5	17.9	17.0	15.3
EBITDA growth	7.9	15.2	11.7	15.5	17.8
PAT growth	6.9	21.0	16.2	8.1	19.7
Turnover Ratios					
F.A. Turnover	5.9	6.4	7.7	8.7	9.8
Debtors Days	48	49	68	68	67
Payable days	26	26	34	33	33

Balance Sheet (₹ mn)

Year End-Dec	CY16	CY17	CY18	CY19E	CY20E
Liabilities					
Equity Share Capital	604	594	595	596	596
Reserves & Surplus	16,805	19,479	23,324	26,662	30,954
Total Shareholders Fund	17,409	20,073	23,919	27,258	31,550
Non-current liabilities	(953)	(1,125)	(1,478)	(1,411)	(1,355)
Deferred tax liabilities	(1,252)	(1,336)	(1,784)	(1,784)	(1,784)
Other LT liabilities & prov	299	211	306	374	429
Current Liabilities	5,401	5,170	7,110	8,219	9,440
Trade payables	1,959	2,204	3,300	3,860	4,434
Other cur liabilities & Prov	3,443	2,966	3,810	4,358	5,006
Total Liabilities	21,858	24,117	29,551	34,066	39,635
Assets					
Non-current Assets					
Fixed assets	6,024	6,143	6,072	6,222	6,372
Non-current investments	2,017	1,858	1,940	1,940	1,940
Other non-current assets	1,483	1,582	1,669	1,936	2,233
Current assets	12,333	14,535	19,869	23,968	29,090
Current investments	189	189	101	101	101
Trade receivables	4,376	5,360	8,031	9,382	10,821
Cash & bank balances	4,126	5,147	8,051	10,017	13,014
Short-term loans & adv	2,639	2,369	2,730	3,127	3,607
Other current assets	1,004	1,470	957	1,340	1,546
Total Assets	21,858	24,117	29,551	34,066	39,635

Cash flow Statement

Year End-Dec	CY16	CY17	CY18	CY19E	CY20E
PBT	5,828	6,754	7,639	8,243	10,173
Depreciation	(437)	550	201	820	868
Others	(246)	(349)	(374)	(404)	(444)
CF before W.cap	5,145	6,955	7,466	8,659	10,597
Inc/dec in W.cap	492	1,599	571	1,223	1,145
Op CF after W.cap	4,653	5,356	6,895	7,436	9,452
Less Taxes	1,411	1,411	1,432	1,531	2,136
Net CF From Operations	3,242	3,945	5,463	5,905	7,316
Inc/(dec) in F.A + CWIP	2,045	752	579	970	1,018
(Pur)/sale of Investments	(158)	(159)	(6)	-	-
CF from Invst Activities	(1,886)	(593)	(573)	(970)	(1,018)
Equity Raised	848	(941)	967	(5)	23
Dividend	1,942	1,389	2,954	2,964	3,324
CF from Fin Activities	(1,094)	(2,330)	(1,987)	(2,968)	(3,301)
Net inc/(dec) in cash	262	1,021	2,903	1,967	2,997
Op. bal of cash	3,864	4,126	5,147	8,051	10,017
Cl. balance of cash	4,126	5,147	8,051	10,017	13,014



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