

# Hexaware Technologies

Sector: IT/Mid-Cap | Earnings Update – 1QCY19

**OUTPERFORMER**

26 April 2019

**Background:** Hexaware is a mid-cap IT company & a leading global provider of IT solutions. In 1QCY19: Revenue share from Application Development & Maintenance is (34.5%), Enterprise Services (9.5%), Testing (17.5%), Business Intelligence & Analytics (13.1%), BPS (7.6%) and Remote Infrastructure Management services (17.8%). The total headcount stands at 16,205 and number of active clients stood at 224. The company's geographical revenue break-up is as follows; America (76.1%), Europe (12.6%) and ROW (11.3%). Company's revenue share amongst industry segment: Banking and Capital markets (40.8%), Travel & Transportation (9.5%), Healthcare & Insurance (18.3%), Manufacturing (17.2%), and Professional Services (14.3%). Revenue concentration from major clients: Top 5 clients: (41.7%), Top 10 clients (51.1%).

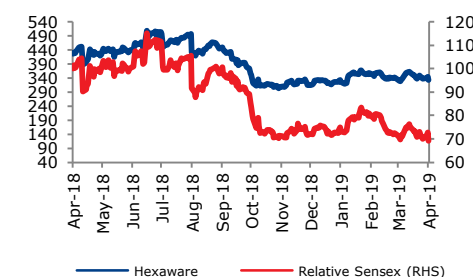
Sensex	38,869
Nifty	11,690
Price	INR 349
Target Price(12m)	INR 390
Recommendation	OUTPERFORMER
52 Week High/Low	INR 557/295
Bloomberg / Reuters	HEXW IN /HEXT.BO
Equity (shares in mn)	297.7
Mkt. Cap in bn	INR 101.96/\$ 1.44
Avg. Daily Vol. ('000)	1477
Avg. Daily Vol. (mn)	INR 505.73/\$ 7.20

Shareholding	Mar 18	Dec 18	Mar 19
Promoters (%)	71.2	62.7	62.6
FII (%)	14.4	17.1	16.1
DII (%)	6.6	3.4	12.4
Others (%)	7.8	16.8	9.0
Pledge (% of promoter holding)	0.0	0.0	0.0

## Valuation Summary (INR bn)

Y/E Dec	2018	2019E	2020E
Revenue	46.5	53.8	59.8
EBIDTA	7.3	8.0	9.6
Adj PAT	5.8	6.2	7.2
Adj EPS	19.7	20.8	24.4
% growth	16.8	5.6	17.5
PE	17.8	16.8	14.3
P/ BV	4.4	3.8	3.4
EV/EBIDTA	13.4	12.3	10.3
EV/Sales	2.1	1.8	1.6
Div Yield (%)	2.3	2.4	2.8
ROE (%)	24.5	23	24

Performance %	1M	3M	12M
Hexaware	3.9	5.7	-20.4
Sensex	2.4	7.5	12.3



## Revenues in-line with estimates, BFSI softness a key concern

- In 1QCY19, Hexaware reported a revenue growth of 2.2% QoQ (+2% QoQ in CC terms) to USD 180mn owing to the positive impact of a 1.2% sequential increase in volumes, higher billing days (+0.7% QoQ) and favorable cross currency movements. In INR terms, revenue grew by 0.9% QoQ to INR 12,640mn in-line with our estimates.
- EBITDA came in at INR 1,887mn, in-line with our expectation. Margins contracted by ~34bps QoQ to 14.9% on account of higher visa costs and increased subcontracting costs. PAT grew by 12.3% QoQ on account of a low base (high forex losses in 4QCY18).
- Amongst geographies, revenue growth was led by APAC (+15.2% QoQ) followed by Americas (+1.1% QoQ). Revenues from Europe declined by 1.2% QoQ. However, the management stated that the softness in Europe is a temporary blip and is expected to be the best performing region this year. Amongst service lines, growth was led by business process services (+7.0% QoQ).
- Amongst verticals, growth was led by manufacturing & consumer (+15.6% QoQ), professional services (+5.5% QoQ); while travel & transportation/BFS/H&I declined by 1.6%/0.9%/2.1% QoQ. Management expects the softness in BFS vertical to continue going forward. The robust growth seen in manufacturing & consumer vertical was on account of a big project which is expected to taper. However, the segment will continue to grow above the company average growth rate.
- Revenue from Top 5/10 clients grew by 1.5%/1.2% QoQ, respectively. Hexaware has won new deals worth USD 36mn (116mn in 4QCY18).
- Utilization including trainees stood at 79%. The company added 304 new employees, taking the total headcount to 16,509. The attrition levels inched up to 18.2% in 1QCY19 (17% IN 4QCY18).
- The company has committed to spend US\$250-300mn on acquisitions. The management has stated that they are looking to acquire companies with a minimum revenue size of USD 25mn operating in customer experience transformation space and cloud services space or any company which operates in the intersection of the two.

**Valuation:** The management has maintained the revenue guidance of 12%-14% (in USD terms) for CY19 and is confident of maintaining the margins despite INR appreciation and the softness in BFS. Gross margins are also expected to improve as a result of the efforts to increase the share of off-shore business. At CMP, the stock is trading at P/E of 16.8X/14.3x on CY19E/CY20E EPS, respectively. We give an **OUTPERFORMER** rating on the stock and arrive at a revised target price of INR 390 based on P/E of 16x CY20EPS. **Risks:** Adverse cross-currency movements, continued softness in BFS and spottiness in travel and transportation verticals.

## Results Summary 1QCY19

Y/E Dec ( INR mn)	1QCY19	1QCY18	YoY Growth	4QCY18	QoQ Growth
<b>Revenue</b>	12,640	10,490	20.5%	12,524	0.9%
<b>EBIDTA</b>	1,887	1,626	16.1%	1,913	-1.3%
<b>Depreciation</b>	148	151	-2.2%	158	-6.3%
<b>Other Income</b>	-42	203	-120.7%	-215	-80.5%
<b>PBT</b>	1,697	1,678	1.2%	1,540	10.2%
<b>Tax</b>	312	336	-7.0%	306	2.0%
<b>PAT</b>	1,385	1,342	3.2%	1,234	12.3%
<b>Adj. Profit</b>	1,385	1,342	3.2%	1,234	12.3%
<b>EBIDTA Margin (%)</b>	14.9	15.5		15.3	
<b>Tax Incidence (%)</b>	18.4	20.0		19.9	
<b>Adj. PAT Margin (%)</b>	11.0	12.8		9.9	

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