

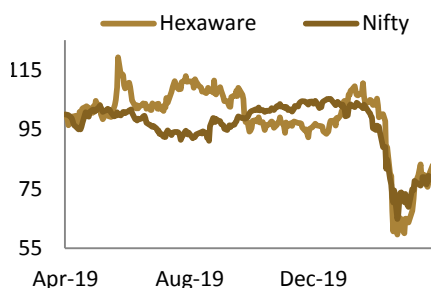
### Market statistics

Current stock price (₹)	296
Shares O/S (cr.)	29.8
Mcap (₹ cr)	8,831
52W H/L (₹)	439/202
Bloomberg	HEXW IN

### Shareholding pattern

Promoters	62.44
Domestic Institution	12.00
Foreign Institution	17.69
Non-institution	7.87
of which more than 1%	

### Hexaware vs Nifty



### Capital efficiency & valuations

Particulars	CY19	CY20E	CY21E
RoE (%)	25.6	21.0	21.3
EPS (₹)	21.5	19.9	22.8
CEPS (₹)	25.6	27.7	30.9
P/E (x)	17.5	14.9	13.0
P/BV (x)	4.0	2.8	2.5
EV/EBITDA (x)	12.3	9.5	6.6
Income growth (%)	20.1	5.3	9.7
EBITDA growth (%)	14.2	4.0	12.3
PAT growth (%)	6.4	(6.4)	13.5

Hexaware reported a weak quarter as impact of Covid-19 at 2-3% on revenues was higher than our estimate. On expected lines, the company has suspended guidance for CY20E. The company's Q1CY20 revenue at US\$210.6mn, down 1.1% in cc terms QoQ. Volume decline was 4.5% QoQ. Company won new business worth TCW of US\$69mn this quarter (US\$30mn in 4QCY19, US\$130m in CY19). 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.

**Weak Quarter.** Q1CY20 revenues decreased by 1.1% in cc terms and 1.7% QoQ in US\$ terms to US\$210.6mn. Volume decline was 4.5% QoQ and partially helped by bill rates, revenue mix change and impact of lower number of days. EBIT margin declined 160 bps to 11.8%. Covid-19 impacted margins to the tune of ~100bps due to lower utilization and increase in other costs including receivable write-off for a bankrupt client. **Services split:** In terms of service lines EAS/IMS was down 11.3%/16.7% QoQ, ADM was up 3.4%, while Business Intelligence and Testing/Digital Assurance was up, posting 5.7% and 0.2% QoQ, respectively.

**Operating metrics - details.** 1) Geographically, APAC declined 2.9% QoQ, Europe was flat and North America declined 2% QoQ. HEXW added 10 clients on a net basis to take the list to 273. The top 5/6-10 clients increased by 0.9%/6.1% QoQ, respectively. 2) Offshore: onsite mix of revenue share changed in favour of onsite by 120bps QoQ to 38.4:61.6. 3) Attrition (LTM) decreased 70 bps QoQ to 15.1% in Q1CY20. 4) HEXW employed 19,998 professionals (1 net left, after adding 4.9% in 4Q19), 5) Hexaware has forward contracts worth US\$212mn @ ₹75.77/US\$ and hedges worth €6.6mn @ ₹89/US\$, GBP13.5mn @ ₹100/US\$ maturing over next eight quarters. 6) DSO, billed and including unbilled accruals decreased QoQ by 2 days at 57 and increased 2 days to 82 respectively. 7) HEXW has signed US\$69mn worth of TCW (US\$30mn in 4QCY19, US\$130m in CY19). It won 6 deals this quarter. 8) **Vertical Lines Split:** In terms of verticals, Healthcare & Insurance declined 5.9% QoQ. Manufacturing & Consumer and Travel & Transportation reported a decrease of 1.7%/5.5% respectively. BFS was up 1.9% QoQ.

**Guidance - suspended:** The company has suspended the guidance that was provided earlier for FY20, as COVID-19 has led to significant uncertainty in the current environment. In the previous quarter, the company had forecast its revenue in FY20 to grow in the range of 15%-17% and had pegged EBITDA (post RSU cost) growth in the range of 15%-16%. Covid-19 has put the brakes on initiatives by the company aimed to drive growth such as (1) new account hunting in the US, (2) higher end consulting-led project work in IMS and (3) augmenting customer experience transformation theme through Mobiquity acquisition.

**Dividend suspended.** Hexaware has not announced the usual quarterly dividends but may review this through the course of the quarter. Acquisition of Mobiquity and high dividend payout in the past has reduced the net cash reserves of Hexaware to Rs386mn at end-Mar'20.

**Valuation:** Just when headwinds in the key account (Freddie Mac) were expected to be largely in the past, the COVID-19 crisis has derailed the company's growth momentum. The impact of the current situation on both revenue and margins during the quarter has been higher than expected. Stock valuations, at 14.9x/13.0x CY20/CY21E EPS, are rich leaving limited upside from the current level. Relatively weaker commentary (v/s that of peers) and the possibility of a further downside in certain key accounts may keep multiples under check.

ANALYST

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**Exhibit 1: Quarterly details**

₹ mn	1QCY19	4QCY19	1QCY20	QoQ (%)	YoY (%)	Comments
<b>Revenues (in US\$ mn)</b>	<b>180.0</b>	<b>214.3</b>	<b>210.6</b>	<b>(1.7)</b>	<b>17.0</b>	Cc decrease of 1.1%. The top 5/6-10 clients increased by 0.9%/6.1% QoQ.
<b>Revenues</b>	<b>12,640</b>	<b>15,288</b>	<b>15,418</b>	<b>0.8</b>	<b>22.0</b>	
- Operating costs	10,710	13,011	13,002	-0.1	21.4	
<b>EBITDA</b>	<b>1,930</b>	<b>2,278</b>	<b>2,416</b>	<b>6.1</b>	<b>25.2</b>	
<b>EBITDA margin (%)</b>	<b>15.3</b>	<b>14.9</b>	<b>15.7</b>	<b>77bps</b>	<b>40bps</b>	
- Interest expense	-	-	-	-	-	
- Depreciation	148	356	518	45.6	249.8	
+ Other income, net (incl forex)	(42)	(16)	328	NA	NA	OI breakup: Forex gain of ₹434mn in Q1 vs ₹4mn in the last quarter.
<b>PBT</b>	<b>1,740</b>	<b>1,906</b>	<b>2,226</b>	<b>16.8</b>	<b>27.9</b>	
- Taxes	312	351	397	13.1	27.2	
Effective tax rate (%)	17.9	18.4	17.8	(57)bps	(10)bps	Effective tax rate for CY20 to be ~18%
<b>PAT</b>	<b>1,428</b>	<b>1,555</b>	<b>1,829</b>	<b>17.6</b>	<b>28.1</b>	
Net margin (%)	11.3	10.2	11.9	169bps	57bps	
<b>Reported profits</b>	<b>1,386</b>	<b>1,678</b>	<b>1,750</b>	<b>4.3</b>	<b>26.3</b>	Hexaware took a provision of ₹80mn on account of a ESOP charge.

Source: Company

**Exhibit 2: Change in estimates**

₹ mn	CY20E			CY21E		
	Old	New	%Chg	Old	New	%Chg
Revenue (US\$ mn)	914	805	(11.9)	1,023	883	(13.7)
Revenue	63,997	58,780	(8.2)	71,625	64,475	(10.0)
EBITDA margin (%)	15.9	15.6	(30)bps	16.0	15.9	(5)bps
EPS (₹)	23.3	19.9	(14.6)	26.0	22.8	(12.3)

Source: Trust Research

**Exhibit 3: Geographical wise Performance**

Geographical mix	Q1CY18	Q2CY18	Q3CY18	Q4CY18	Q1CY19	Q2CY19	Q3CY19	Q4CY19	Q1CY20
US	75.3	77.0	77.4	76.9	76.1	76.8	75.4	74.4	74.2
Europe	12.5	12.7	13.3	13.0	12.6	14.0	16.6	17.5	17.8
RoW	12.2	10.3	9.3	10.1	11.3	9.2	8.0	8.1	8.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Company

**Services' wise Performance Services Lines Split:** In terms of service lines EAS/IMS was down 11.3%/16.7% QoQ, ADM was up 3.4%, while Business Intelligence and Testing/Digital Assurance was up, posting 5.7% and 0.2% QoQ, respectively.

**Exhibit 4: Service offering segmentation**

Details	Q1CY18	Q2CY18	Q3CY18	Q4CY18	Q1CY19	Q2CY19	Q3CY19	Q4CY19	Q1CY20
Application dev & maintenance	35.9	36.6	36.0	35.1	34.5	37.0	41.8	40.4	42.5
Enterprise application services	10.9	10.5	9.7	9.5	9.5	9.4	9.2	9.2	8.3
Digital Assurance	19.1	18.4	17.7	17.5	17.5	17.7	15.7	15.6	15.9
Business intelligence & Analytics	14.2	13.5	14.5	13.1	13.1	12.3	10.9	10.6	11.4
BPO	6.9	7.2	7.4	7.3	7.6	8.0	8.2	8.4	8.5
Others	13.0	13.8	14.7	17.5	17.8	15.6	14.2	15.8	13.4
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Company



**Human Resources:** HEXW employed 19,998 professionals (1 net left, after adding 4.9% in 4Q19).

**Exhibit 5: Employee strength at HEXW**

Details	Q2CY18	Q3CY18	Q4CY18	Q1CY19	Q2CY19	Q3CY19	Q4CY19	Q1CY20
Onsite (%)	18.8	18.4	19.0	19.1	19.2	18.3	18.0	18.0
Offshore (%)	73.7	74.2	73.6	73.5	73.2	74.2	74.5	73.8
<b>Total billable (%)</b>	<b>92.5</b>	<b>92.6</b>	<b>92.6</b>	<b>92.6</b>	<b>92.4</b>	<b>92.5</b>	<b>92.5</b>	<b>91.8</b>
Marketing (Incl. sales support, %)	3.0	3.0	3.0	2.9	3.0	2.9	2.9	3.1
Others (Incl. sales support, %)	4.5	4.4	4.4	4.5	4.6	4.6	4.6	5.1
<b>Total (%)</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Headcount (Nos.)</b>	<b>15,357</b>	<b>16,050</b>	<b>16,205</b>	<b>16,509</b>	<b>18,294</b>	<b>19,062</b>	<b>19,999</b>	<b>19,998</b>
Utilisation	78.2	79.0	78.7	79.0	80.7	79.0	78.5	76.5
Attrition	14.4	15.7	17.0	18.2	18.2	17.3	15.8	15.1

Source: Company, Trust Research

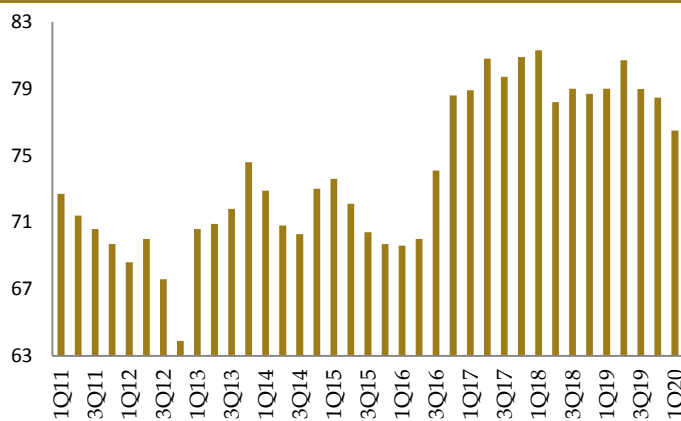
**Client Concentration:** HEXW added 10 clients on a net basis to take the list to 273. The top 5/6-10 clients increased by 0.9%/6.1% QoQ, respectively.

**Exhibit 6: Client details**

Details	Q1CY18	Q2CY18	Q3CY18	Q4CY18	Q1CY19	Q2CY19	Q3CY19	Q4CY19	Q1CY20
Top 5 clients (%)	42.1	42.4	42.1	42.0	41.7	37.3	35.2	33.4	34.3
Top 10 clients (%)	52.8	52.8	52.2	51.6	51.1	46.4	44.4	43.4	45.1
> US\$1m+	89	93	95	99	99	120	124	129	126
Between US\$1-5m	69	71	70	72	71	85	89	95	91
Between US\$5-10m	10	12	15	18	19	24	22	20	21
Between US\$10m-20m	6	6	6	4	4	6	7	8	8
Over US\$20m+	4	4	4	5	5	5	6	6	6
Clients added	5	7	9	5	7	15	11	7	14
Clients billed	224	226	223	224	223	255	261	263	273

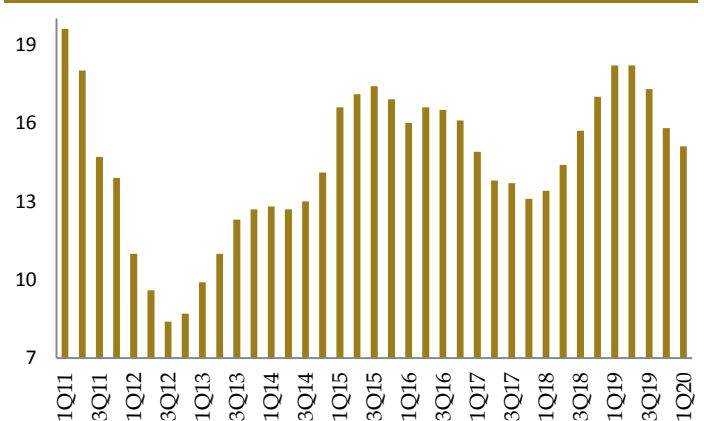
Source: Company

**Exhibit 7: Utilisation lower due to furloughs**



Source: Company, Trust

**Exhibit 8: Attrition going down - helping costs**



Source: Company, Trust



## Financials

### Income Statement (₹ mn)

Year End-Dec	CY17	CY18	CY19	CY20E	CY21E
<b>Revenues</b>	<b>39,420</b>	<b>46,477</b>	<b>55,825</b>	<b>58,780</b>	<b>64,475</b>
Op. Expenses	32,517	38,768	47,019	49,626	54,198
<b>EBITDA</b>	<b>6,903</b>	<b>7,709</b>	<b>8,806</b>	<b>9,154</b>	<b>10,277</b>
Other Income	484	580	212	478	603
Depreciation	633	650	1,033	2,098	2,221
<b>EBIT</b>	<b>6,754</b>	<b>7,639</b>	<b>7,984</b>	<b>7,534</b>	<b>8,659</b>
Interest	-	-	-	-	-
<b>PBT</b>	<b>6,754</b>	<b>7,639</b>	<b>7,984</b>	<b>7,534</b>	<b>8,659</b>
Tax	1,411	1,432	1,379	1,352	1,645
<b>PAT</b>	<b>5,343</b>	<b>6,207</b>	<b>6,606</b>	<b>6,181</b>	<b>7,014</b>
Extra-ordinary items	349	374	196	230	200
<b>Adj Pat</b>	<b>4,994</b>	<b>5,833</b>	<b>6,410</b>	<b>5,951</b>	<b>6,814</b>

### Valuations Summary

Year End-Dec	CY17	CY18	CY19E	CY20E	CY21E
<b>Per share (₹)</b>					
EPS (incl. ESOP charge)	16.8	19.6	21.5	19.9	22.8
CEPS	20.1	23.1	25.6	27.7	30.9
BVPS	67.5	80.4	92.7	104.2	116.5
DPS	4.0	8.5	8.5	6.0	9.0
Payout (%)	26.0	47.6	44.9	33.9	44.9
<b>Valuation (x)</b>					
P/E	20.3	17.6	17.5	14.9	13.0
P/BV	5.0	4.3	4.0	2.8	2.5
EV/EBITDA	13.6	12.0	12.3	9.5	6.6
Dividend Yield (%)	1.2	2.5	2.3	2.0	3.0
<b>Return ratio (%)</b>					
EBIDTA Margin	17.5	16.6	15.8	15.6	15.9
PAT Margin	13.6	13.4	11.8	10.5	10.9
ROAE	28.7	28.2	25.6	21.0	21.3
ROACE	36.3	34.7	30.1	23.4	23.4
<b>Leverage Ratios (x)</b>					
Net Debt/Equity	(0.3)	(0.3)	(0.4)	(0.4)	(0.3)
Current ratio	2.8	2.8	2.9	3.0	3.1
<b>Growth Ratios (%)</b>					
Income growth	11.5	17.9	20.1	5.3	9.7
EBITDA growth	15.2	11.7	14.2	4.0	12.3
PAT growth	21.0	16.2	6.4	(6.4)	13.5
<b>Turnover Ratios</b>					
F.A. Turnover	7	8	9	9	10
Debtors Days	49	68	69	92	84
Payable days	26	34	34	32	32

### Balance Sheet (₹ mn)

Year End-Dec	CY17	CY18	CY19E	CY20E	CY21E
<b>Liabilities</b>					
Equity Share Capital	594	595	597	597	597
Reserves & Surplus	19,479	23,324	27,058	30,571	34,235
<b>Total Shareholders Fund</b>	<b>20,073</b>	<b>23,919</b>	<b>27,655</b>	<b>31,168</b>	<b>34,832</b>
Non-current liabilities	(1,125)	(1,478)	33	2,644	2,681
Long term borrowings	-	-	1,431	4,020	4,020
Deferred tax liabilities	(1,336)	(1,784)	(1,784)	(1,784)	(1,784)
Other LT liabilities & prov	211	306	386	408	445
<b>Current Liabilities</b>	<b>5,170</b>	<b>7,110</b>	<b>8,502</b>	<b>8,973</b>	<b>9,800</b>
Trade payables	2,204	3,300	3,993	4,215	4,603
Other cur liabilities & Prov	2,966	3,810	4,509	4,759	5,197
<b>Total Liabilities</b>	<b>24,117</b>	<b>29,551</b>	<b>36,190</b>	<b>42,785</b>	<b>47,314</b>
<b>Assets</b>					
<b>Non-current Assets</b>	9,583	9,681	10,150	10,405	10,758
Fixed assets	6,143	6,072	6,222	6,372	6,522
Non-current investments	1,858	1,940	1,940	1,940	1,940
Other non-current assets	1,582	1,669	1,988	2,094	2,296
<b>Current assets</b>	<b>14,535</b>	<b>19,869</b>	<b>26,040</b>	<b>32,379</b>	<b>36,555</b>
Current investments	189	101	101	101	101
Trade receivables	5,360	8,031	9,635	14,494	14,132
Cash & bank balances	5,147	8,051	11,715	10,699	14,550
Short-term loans & adv	2,369	2,730	3,212	5,636	6,183
Other current assets	1,470	957	1,376	1,449	1,590
<b>Total Assets</b>	<b>24,117</b>	<b>29,551</b>	<b>36,190</b>	<b>42,785</b>	<b>47,314</b>

### Cash flow Statement

Year End-Dec	CY17	CY18	CY19E	CY20E	CY21E
<b>PBT</b>	<b>6,754</b>	<b>7,639</b>	<b>7,984</b>	<b>7,534</b>	<b>8,659</b>
Depreciation	550	201	1,033	2,098	2,221
Others	(349)	(374)	(196)	(230)	(200)
<b>CF before W.cap</b>	<b>6,955</b>	<b>7,466</b>	<b>8,821</b>	<b>9,402</b>	<b>10,680</b>
Inc/dec in W.cap	1,599	571	1,353	6,968	(337)
<b>Op CF after W.cap</b>	<b>5,356</b>	<b>6,895</b>	<b>7,468</b>	<b>2,434</b>	<b>11,017</b>
Less Taxes	1,411	1,432	1,379	1,352	1,645
<b>Net CF From Operations</b>	<b>3,945</b>	<b>5,463</b>	<b>6,090</b>	<b>1,082</b>	<b>9,372</b>
Inc/(dec) in F.A + CWIP	752	579	1,183	2,248	2,371
(Pur)/sale of Investments	(159)	(6)	-	-	-
CF from Invst Activities	(593)	(573)	(1,183)	(2,248)	(2,371)
Loan raised/(paid)	-	-	1,431	2,589	-
Equity Raised	(941)	967	290	(341)	-
Dividend	1,389	2,954	2,964	2,098	3,149
<b>CF from Fin Activities</b>	<b>(2,330)</b>	<b>(1,987)</b>	<b>(1,242)</b>	<b>150</b>	<b>(3,149)</b>
Net inc/(dec) in cash	1,021	2,903	3,665	(1,017)	3,852
<b>Op. bal of cash</b>	<b>4,126</b>	<b>5,147</b>	<b>8,051</b>	<b>11,715</b>	<b>10,699</b>
<b>Cl. balance of cash</b>	<b>5,147</b>	<b>8,051</b>	<b>11,715</b>	<b>10,699</b>	<b>14,550</b>

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