

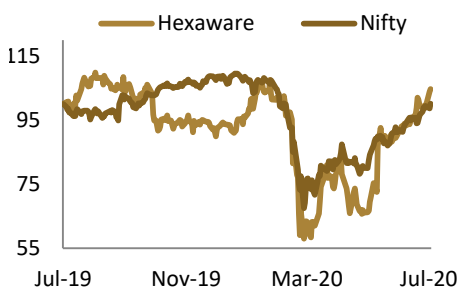
Market statistics

Current stock price (₹)	375
Shares O/S (cr.)	29.8
Mcap (₹ cr)	11,199
52W H/L (₹)	398/202
Bloomberg	HEXW IN

Shareholding pattern

Promoters	62.34
Domestic Institution	12.13
Foreign Institution	15.02
Non-institution	10.51
of which more than 1%	

Hexaware vs Nifty



Capital efficiency & valuations

Particulars	CY19	CY20E	CY21E
RoE (%)	25.6	23.7	23.4
EPS (₹)	21.5	22.6	25.7
CEPS (₹)	25.6	31.7	35.0
P/E (x)	17.5	16.6	14.6
P/BV (x)	4.0	3.5	3.1
EV/EBITDA (x)	12.3	9.7	7.6
Income growth (%)	20.1	12.9	9.2
EBITDA growth (%)	14.2	22.7	10.8
PAT growth (%)	6.4	6.6	12.0

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We maintain Hold on Hexaware, following a better-than-expected 2Q, offset by a relatively slower recovery path. Key positives include the following: (1) BFS vertical strength supported by a recovery in large BFS account (mortgage); (2) continued strength in the Professional Services vertical, and market-share led gains in cloud transformation (launch of 'Amaze' solution). Key risks/negatives include the following: (1) weakness in Travel & Transportation and Manufacturing & Consumer verticals (~24% of rev) expected to continue, (2) lower discretionary spend and supply-side factors can continue to impact Application Transformation Management service-line and BPS service-line respectively. While business dynamics exhibit protracted recovery, stock price performance will trail developments around the delisting proposal. The shareholder approval for delisting (10- Aug) and the subsequent developments on offer price are likely to drive the near-term stock performance.

Decent Quarter. Revenue performance was better than expected at (-)0.9% QoQ in cc terms with supply-side impact at (-)0.6% QoQ. (2) Travel & Transportation vertical posted a steep decline of 27% QoQ and the BPM service-line declined 10.5% QoQ. (3) Margin outperformed with EBIT margin at 13.2%, +144bps QoQ, supported by higher utilisation and INR depreciation, offset by lower bill-rate. (4) Revenue outlook of flat to small volume growth in 3Q/4Q and 2H margin outlook at 1H margin actuals +/- 30bps. **Services split:** In terms of service lines EAS/IMS was up 3.4%/2.9% QoQ, ADM was down 5.5%, while Business Intelligence and Testing/Digital Assurance was up, posting 9.1% and 1.9% QoQ, respectively.

Deal wins, Pipeline: Deal wins: at US\$115mn, this is the best ever H1 deals for HEXW; "V" shaped improvement in activity levels with customers from late May. Lot of wins in the latter half of quarter. Deals focused on Customer Experience, Cloud migrations and Automation. Every deal won is market share shift in Q2 from peers. Cloud adoption of Core enterprise will be accelerated. Amaze product will target this spend. Pipeline is healthy. Continued good performance in Q3 as well. HEXW will end up the year higher than CY19 in terms of NN deals.

Revenue Outlook: Expect Q2 to be bottom. Expect some volume growth in Q3 & Q4. Furloughs will be there in Q4. Management mentioned that there remains fair bit of uncertainty in clients. HEXW hasn't accounted for second wave. Customer's budgets are not increasing at the moment. One of the Top 3 struggling account in BFS vertical grew in Q2; Expect growth to continue in near future. EBITDA Outlook-near term sustainable margins in the range of H1 actuals (16.2%) +/- 30 bps. Costs savings in facilities, utilities, transport and travel are not sustainable.

Vertical, services and geography comments: BFSI: Mortgage volume rates are up due to refinancing and new home buying due to low interest rates which is management believes is sustainable. Top client in BFSI has bottomed out and management expects to sustained growth. Within asset managers - asset prices have done well, but interest rates are down which is negative. So, outlook on spending by asset managers is neutral to cautious. Travel & Transportation: Management believes travel vertical is not going to get any worse from here. However, any recovery is not expected through CY21. Manufacturing & Consumers: It will be bumpy but it is recovering. Services: BPS - revenue decline driven by supply side issues. Apps dev - revenue decline due to lower discretionary spends

Valuation: In the current environment, we see the IT Services as an attractive investment destination, because of (1) WFH and INR limiting the Covid impact in FY21, and (2) strong recovery in FY22 on pent-up demand. Stock price performance will trail developments around the delisting proposal and hence, maintain Hold.



Exhibit 1: Quarterly details

₹ mn	2QCY19	1QCY20	2QCY20	QoQ (%)	YoY (%)	Comments
Revenues (in US\$ mn)	188.5	210.6	208.1	(1.2)	10.4	Cc decrease of 0.9%. The top 5/6-10 clients increased/declined by 7.7%/7.6% QoQ.
Revenues	13,083	15,418	15,691	1.8	19.9	
- Operating costs	10,925	13,002	12,891	-0.8	18.0	
EBITDA	2,158	2,416	2,800	15.9	29.7	
EBITDA margin (%)	16.5	15.7	17.8	217bps	135bps	
- Interest expense	-	-	-	-	-	
- Depreciation	205	518	637	23.0	210.6	
+ Other income, net (incl forex)	99	328	(193)	NA	NA	OI breakup: Forex loss of ₹71mn in Q2 vs ₹434mn gain in the last quarter.
PBT	2,052	2,226	1,970	(11.5)	(4.0)	
- Taxes	329	396.9	360.6	(9.1)	9.6	
Effective tax rate (%)	16.0	17.8	18.3	48bps	227bps	Effective tax rate for CY20 to be ~18-19%
PAT	1,723	1,829	1,609	(12.0)	(6.6)	
Net margin (%)	13.2	11.9	10.3	(161)bps	(291)bps	
Reported profits	1,513	1,750	1,525	(12.9)	0.8	Hexaware took a provision of ₹87mn 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)	805	844	4.8	883	917	3.9
Revenue	58,780	63,012	7.2	64,475	68,779	6.7
EBITDA margin (%)	15.6	17.1	145bps	15.9	17.4	150bps
EPS (₹)	19.9	22.6	13.6	22.8	25.7	12.7

Source: Trust Research

Exhibit 3: Geographical wise Performance

Geographical mix	Q2CY18	Q3CY18	Q4CY18	Q1CY19	Q2CY19	Q3CY19	Q4CY19	Q1CY20	Q2CY20
US	77.0	77.4	76.9	76.1	76.8	75.4	74.4	74.2	75.3
Europe	12.7	13.3	13.0	12.6	14.0	16.6	17.5	17.8	17.4
RoW	10.3	9.3	10.1	11.3	9.2	8.0	8.1	8.0	7.3
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 EAS/IMS was up 3.4%/2.9% QoQ, ADM was down 5.5%, while Business Intelligence and Testing/Digital Assurance was up, posting 9.1% and 1.9% QoQ, respectively.

Exhibit 4: Service offering segmentation

Details	Q2CY18	Q3CY18	Q4CY18	Q1CY19	Q2CY19	Q3CY19	Q4CY19	Q1CY20	Q2CY20
Application dev & maintenance	36.6	36.0	35.1	34.5	37.0	41.8	40.4	42.5	40.6
Enterprise application services	10.5	9.7	9.5	9.5	9.4	9.2	9.2	8.3	8.7
Digital Assurance	18.4	17.7	17.5	17.5	17.7	15.7	15.6	15.9	16.4
Business intelligence & Analytics	13.5	14.5	13.1	13.1	12.3	10.9	10.6	11.4	12.6
BPO	7.2	7.4	7.3	7.6	8.0	8.2	8.4	8.5	7.7
Others	13.8	14.7	17.5	17.8	15.6	14.2	15.8	13.4	14.0
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 18,825 professionals (1,173 net left, after adding 4.9% in 4Q19).

Exhibit 5: Employee strength at HEXW

Details	Q3CY18	Q4CY18	Q1CY19	Q2CY19	Q3CY19	Q4CY19	Q1CY20	Q2CY20
Onsite (%)	18.4	19.0	19.1	19.2	18.3	18.0	18.0	18.6
Offshore (%)	74.2	73.6	73.5	73.2	74.2	74.5	73.8	72.8
Total billable (%)	92.6	92.6	92.6	92.4	92.5	92.5	91.8	91.4
Marketing (Incl. sales support, %)	3.0	3.0	2.9	3.0	2.9	2.9	3.1	3.2
Others (Incl. sales support, %)	4.4	4.4	4.5	4.6	4.6	4.6	5.1	5.4
Total (%)	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Headcount (Nos.)	16,050	16,205	16,509	18,294	19,062	19,999	19,998	18,825
Utilisation	79.0	78.7	79.0	80.7	79.0	78.5	76.5	79.8
Attrition	15.7	17.0	18.2	18.2	17.3	15.8	15.1	14.0

Source: Company, Trust Research

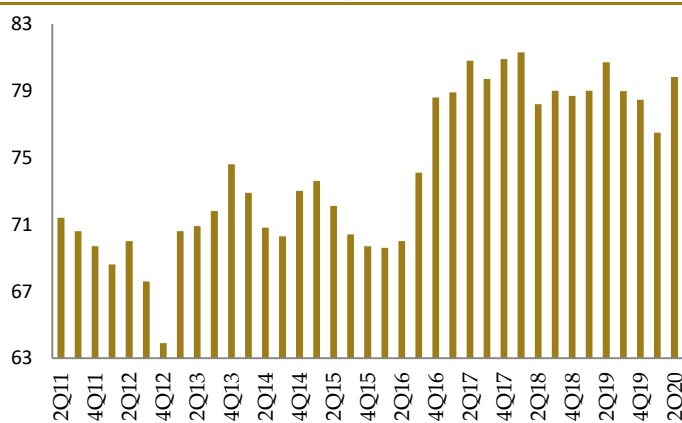
Client Concentration: HEXW did not lose clients on a net basis. The top 5/6-10 clients increased/declined by 7.7%/7.6% QoQ..

Exhibit 6: Client details

Details	Q2CY18	Q3CY18	Q4CY18	Q1CY19	Q2CY19	Q3CY19	Q4CY19	Q1CY20	Q2CY20
Top 5 clients (%)	42.4	42.1	42.0	41.7	37.3	35.2	33.4	34.3	37.4
Top 10 clients (%)	52.8	52.2	51.6	51.1	46.4	44.4	43.4	45.1	47.5
> US\$1m+	93	95	99	99	120	124	129	126	119
Between US\$1-5m	71	70	72	71	85	89	95	91	88
Between US\$5-10m	12	15	18	19	24	22	20	21	18
Between US\$10m-20m	6	6	4	4	6	7	8	8	7
Over US\$20m+	4	4	5	5	5	6	6	6	6
Clients added	7	9	5	7	15	11	7	14	11
Clients billed	226	223	224	223	255	261	263	273	273

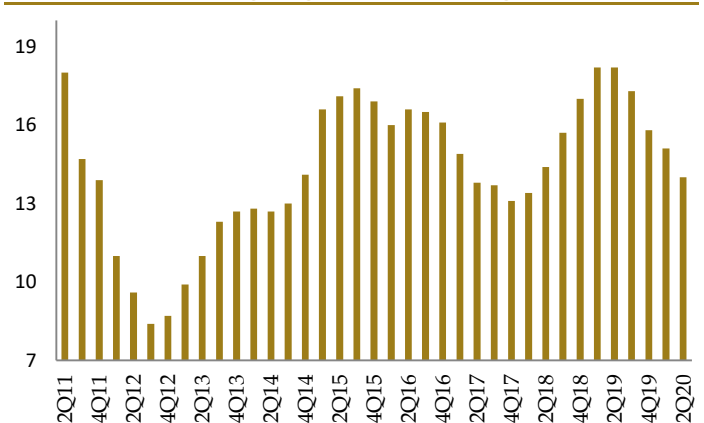
Source: Company

Exhibit 7: Utilisation was higher QoQ



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
Revenues	39,420	46,477	55,825	63,012	68,779
Op. Expenses	32,517	38,768	47,019	52,206	56,810
EBITDA	6,903	7,709	8,806	10,806	11,969
Other Income	484	580	212	235	360
Depreciation	633	650	1,033	2,452	2,592
EBIT	6,754	7,639	7,984	8,588	9,736
Interest	-	-	-	-	-
PBT	6,754	7,639	7,984	8,588	9,736
Tax	1,411	1,432	1,379	1,548	1,850
PAT	5,343	6,207	6,606	7,040	7,886
Extra-ordinary items	349	374	196	267	200
Adj Pat	4,994	5,833	6,410	6,773	7,686

Valuations Summary

Year End-Dec	CY17	CY18	CY19	CY20E	CY21E
Per share (₹)					
EPS (incl. ESOP charge)	16.8	19.6	21.5	22.6	25.7
CEPS	20.1	23.1	25.6	31.7	35.0
BVPS	67.5	80.4	92.7	105.8	119.5
DPS	4.0	8.5	8.5	10.5	12.0
Payout (%)	26.0	47.6	44.9	44.6	45.5
Valuation (x)					
P/E	20.3	17.6	17.5	16.6	14.6
P/BV	5.0	4.3	4.0	3.5	3.1
EV/EBITDA	13.6	12.0	12.3	9.7	7.6
Dividend Yield (%)	1.2	2.5	2.3	2.8	3.2
Return ratio (%)					
EBIDTA Margin	17.5	16.6	15.8	17.1	17.4
PAT Margin	13.6	13.4	11.8	11.2	11.5
ROAE	28.7	28.2	25.6	23.7	23.4
ROACE	36.3	34.7	30.1	26.5	25.8
Leverage Ratios (x)					
Net Debt/Equity	(0.3)	(0.3)	(0.0)	(0.1)	(0.2)
Current ratio	2.8	2.8	1.4	1.8	2.0
Growth Ratios (%)					
Income growth	11.5	17.9	20.1	12.9	9.2
EBITDA growth	15.2	11.7	14.2	22.7	10.8
PAT growth	21.0	16.2	6.4	6.6	12.0
Turnover Ratios					
F.A. Turnover	7	8	8	9	9
Debtors Days	49	68	70	69	68
Payable days	26	34	34	33	32

Balance Sheet (₹ mn)

Year End-Dec	CY17	CY18	CY19	CY20E	CY21E
Liabilities					
Equity Share Capital	594	595	597	598	598
Reserves & Surplus	19,479	23,324	27,058	31,046	35,143
Total Shareholders Fund	20,073	23,919	27,655	31,644	35,741
Non-current liabilities					
Long term borrowings	-	-	1,429	4,002	4,002
Deferred tax liabilities	(1,336)	(1,784)	(1,246)	(1,246)	(1,246)
Other LT liabilities & prov	211	306	473	429	467
Current Liabilities	5,170	7,110	11,939	13,302	14,475
Trade payables	2,204	3,300	3,949	4,434	4,825
Other cur liabilities & Prov	2,966	3,810	7,989	8,868	9,650
Total Liabilities	24,117	29,551	40,250	48,130	53,439
Assets					
Non-current Assets					
Fixed assets	6,143	6,072	6,932	7,332	7,782
Non-current investments	1,858	1,940	14,337	14,337	14,337
Other non-current assets	1,582	1,669	1,729	1,899	2,073
Current assets	14,535	19,869	17,252	24,563	29,247
Current investments	189	101	-	-	-
Trade receivables	5,360	8,031	9,796	11,221	12,248
Cash & bank balances	5,147	8,051	2,316	7,299	10,404
Short-term loans & adv	2,369	2,730	3,535	3,971	4,334
Other current assets	1,470	957	1,605	2,072	2,261
Total Assets	24,117	29,551	40,250	48,130	53,439

Cash flow Statement

Year End-Dec	CY17	CY18	CY19	CY20E	CY21E
PBT	6,754	7,639	7,984	8,588	9,736
Depreciation	550	201	1,571	2,452	2,592
Others	(349)	(374)	(196)	(267)	(200)
CF before W.cap	6,955	7,466	9,359	10,774	12,129
Inc/dec in W.cap	1,599	571	(1,717)	1,177	543
Op CF after W.cap	5,356	6,895	11,076	9,596	11,586
Less Taxes	1,411	1,432	1,379	1,548	1,850
Net CF From Operations	3,945	5,463	9,697	8,048	9,736
Inc/(dec) in F.A + CWIP	752	579	1,893	2,852	3,042
(Pur)/sale of Investments	(159)	(6)	12,296	-	-
CF from Invst Activities	(593)	(573)	(14,188)	(2,852)	(3,042)
Loan raised/(paid)	-	-	1,431	2,571	-
Equity Raised	(941)	967	290	353	-
Dividend	1,389	2,954	2,964	3,138	3,589
CF from Fin Activities	(2,330)	(1,987)	(1,243)	(213)	(3,589)
Net inc/(dec) in cash	1,021	2,903	(5,734)	4,983	3,105
Op. bal of cash	4,126	5,147	8,051	2,317	7,299
Cl. balance of cash	5,147	8,051	2,317	7,299	10,404

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