

Retail Equity Research

Hexaware Technologies Ltd

IT Services

BSE CODE: 532129

NSE CODE: HEXAWARE

Bloomberg CODE: HEXW: IN

SENSEX: 37,069

HOLD

12M Investment period

Rating as per Mid Cap

CMP Rs.388

TARGET Rs.410

RETURN 6% 

(Closing: 29-08-19)

KEY CHANGES:

TARGET 

RATING 

EARNINGS 

Topline growth above expectations

Hexaware Technologies Ltd. is an information technology and business process outsourcing service provider. It caters to software services in banking & financial, healthcare & insurance, travel & transportation and manufacturing domains. It has 33 global offices with an employee base of around 18,300.

- Topline expanded 15.1% YoY to Rs. 1,308cr in Q2CY19, beating street estimates by 2.2%.
- Operating margin grew 62bps YoY to 14.6%, aided by better pricing and operational efficiencies.
- Adj. PAT increased by 9.6% YoY to Rs. 168cr, which beat street estimates by 9.0%.
- We upgrade our rating to HOLD on the stock with a revised target price of Rs. 410 based on 16x CY20E adj. EPS.

Solid revenue growth in Q2

Revenue grew significantly by 15.1% YoY to Rs. 1,308cr, marginally above street expectations. By domain, Healthcare and insurance grew 29.2% YoY, followed by manufacturing & consumer (14.2%) and banking & financial services (6.9%). The company has consolidated revenue from Mobiquity business for only half a month this quarter. The company's revenues would have been boosted by USD 17.6m if Mobiquity revenues for the entire quarter had been included.

Better operating margin

Operating profit increased to Rs. 191cr in Q2CY19 (vs. Rs.159cr in Q2CY18) as the operating margin improved by 62bps YoY to 14.6%, as higher visa costs and other operating expenses were offset by better pricing and operational efficiencies. The company has also managed to keep its attrition rate flat through its active efforts to manage attrition. We expect the company to maintain its good operating performance and estimate the operating margin to be flat YoY at 14.4% in CY19E.

Key concall highlights

- The company has reported new deal wins worth USD 36m.
- The company incurred capital expenditure worth USD 4.6m in this quarter, in addition to USD 3.7m in Q1CY19.
- Utilisation increased to 80.7% in the current quarter.
- Hexaware now has 120 clients in USD 1mn-plus band.
- Effective tax rate for CY19E guided at 18.5% from 20% in prior years

Closure of Mobiquity deal

The company has closed its deal with Mobiquity which it acquired for about USD 130m. However, it has consolidated Mobiquity's financials for only half a month in the current quarter. Consolidated profit including Mobiquity would have been higher by USD 1.7m if included for the entire quarter. The company said that it has several joint pipelines with Mobiquity, with most being in early stages as of now.

Valuation

Hexaware is currently trading at a P/E of 17.2x CY19E. We roll forward to CY20E and value the stock at 16x CY20E adj. EPS, as we expect the company to continue its strong operating performance. Additionally, the consolidation of Mobiquity's financials will boost its top line growth. Hence, we upgrade our rating to HOLD with a revised target price of Rs. 410.

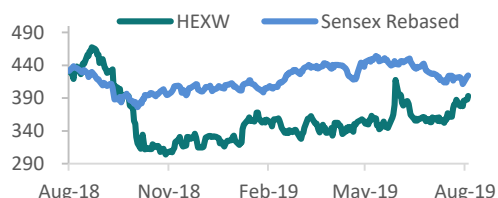
Company Data

Market Cap (cr)	Rs. 11,539
Enterprise Value (cr)	Rs. 10,548
Outstanding Shares (cr)	30.2
Free Float	29.0%
Dividend Yield	1.8%
52 week high	Rs 475
52 week low	Rs 295
6m average volume	0.1
Beta	0.5
Face value	Rs 2

Shareholding %	Q4CY18	Q1CY19	Q2CY19
Promoters	62.7	62.6	62.5
FII's	17.1	16.1	16.8
MFs/Insti	11.0	12.3	11.9
Public	9.2	6.3	6.1
Others	0.0	2.8	2.7
Total	100.0	100.0	100.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	9.1%	10.1%	-8.2%
Absolute Sensex	-6.2%	3.3%	-4.3%
Relative Return*	15.3%	6.8%	-3.9%

*over or under performance to benchmark index



Consolidated (cr)	CY18A	CY19E	CY20E
Sales	4,648	5,538	6,579
Growth (%)	17.9	19.2	18.8
EBITDA	734	873	1,055
EBITDA Margin (%)	15.8	15.8	16.0
Adj. PAT	583	680	774
Growth (%)	16.8	16.6	13.8
Adj. EPS	19.3	22.5	25.6
Growth (%)	16.6	16.6	13.8
P/E	17.1	17.2	15.1
P/B	4.2	4.1	3.4
EV/EBITDA	12.5	11.9	9.3
ROE (%)	24.4	23.3	22.7
D/E	0.0	0.0	0.0

Quarterly Financials (Consolidated)

Profit & Loss Account

	Q2CY19	Q2CY18	YoY Growth %	Q1CY19	QoQ Growth %	H1CY19	H1CY18	YoY Growth %
Revenue	1,308	1,137	15.1	1,264	3.5	2,572	2,186	17.7
EBITDA	212	177	19.5	189	12.3	400	340	17.8
EBITDA margins	16.2	15.6	60bps	14.9	130bps	15.6	15.5	10bps
Depreciation	21	18	13.0	15	38.6	35	33	6.2
EBIT	191	159	20.2	174	10.0	365	307	19.1
Interest	1	0	n.m.	0	n.m.	1	0	n.m.
Other Income	11	33	(66.8)	(4)	n.m.	7	53	(87.2)
Exceptional Items	(17)	-	n.m.	-	n.m.	(17)	-	n.m.
PBT	184	192	(4.0)	170	8.6	354	360	(1.6)
Tax	33	38	(14.3)	31	5.4	64	72	(10.8)
Share of profit from Associate	0	0	-	0	-	0	0	-
Minority Interest	-	-	n.m.	-	n.m.	-	-	n.m.
Reported PAT	151	154	(1.4)	138	9.3	290	288	0.7
Adjustments	17	-	n.m.	-	n.m.	17	-	n.m.
Adjusted PAT	168	154	9.6	138	21.5	307	288	6.6
No. of shares	30.2	30.2	-	30.2	-	30.2	30.2	-
EPS (Rs)	5.6	5.1	9.4	4.6	21.5	10.2	9.5	6.4

Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	CY19E	CY20E	CY19E	CY20E	CY19E	CY20E
Revenue	5,400	-	5,538	6,579	2.6	-
EBITDA	891	-	873	1,055	(2.0)	-
Margins (%)	16.5	-	15.8	16.0	(74bps)	-
Adj. PAT	689	-	680	774	(1.2)	-
EPS	23.2	-	22.5	25.6	(2.9)	-

PROFIT & LOSS

Y.E December (Rs cr)	CY16A	CY17A	CY18A	CY19E	CY20E
Revenue	3,535	3,942	4,648	5,538	6,579
% change	13.2	11.5	17.9	19.2	18.8
EBITDA	575	655	734	873	1,055
% change	7.3	14.0	12.0	19.0	20.9
Depreciation	56	63	65	74	111
EBIT	519	592	669	799	945
Interest	0	0	0	0	0
Other Income	39	49	58	15	5
PBT	558	641	727	814	950
% change	10.6	14.8	13.4	12.0	16.7
Tax	141	141	143	151	176
Tax Rate (%)	25.3	22.0	19.7	18.5	18.5
Reported PAT	417	500	583	663	774
Adj*	-	-	-	17	-
Adj PAT	417	500	583	680	774
% change	6.1	19.8	16.8	16.6	13.8
No. of shares (cr)	30.4	30.2	30.2	30.2	30.2
Adj EPS (Rs)	13.7	16.6	19.3	22.5	25.6
% change	5.8	20.8	16.6	16.6	13.8
DPS (Rs)	5.5	4.0	7.0	7.0	7.0
CEPS (Rs)	15.5	18.7	21.5	25.0	29.3

BALANCE SHEET

Y.E December (Rs cr)	CY16A	CY17A	CY18A	CY19E	CY20E
Cash	413	530	820	1,330	1,882
Accounts Receivable	438	536	803	791	874
Inventories	-	-	-	-	-
Other Cur. Assets	388	388	363	367	370
Investments	2	2	3	3	3
Gross Fixed Assets	637	699	770	843	929
Net Fixed Assets	333	358	383	381	356
CWIP	323	256	224	224	224
Intangible Assets	200	183	191	191	191
Def. Tax (Net)	40	134	178	188	219
Other Assets	205	158	167	189	189
Total Assets	2,341	2,545	3,133	3,663	4,308
Current Liabilities	580	517	711	785	865
Provisions	-	-	-	-	-
Debt Funds	-	3	8	8	8
Other Liabilities	50	18	23	23	23
Equity Capital	60	59	59	59	59
Reserves & Surplus	1,651	1,948	2,332	2,788	3,353
Shareholder's Fund	1,711	2,007	2,392	2,847	3,413
Minority Interest	-	-	-	-	-
Total Liabilities	2,341	2,545	3,133	3,663	4,308

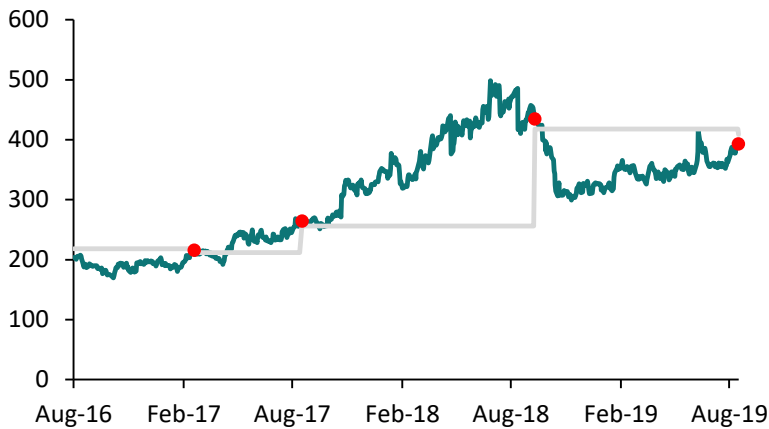
CASH FLOW

Y.E December (Rs cr)	CY16A	CY17A	CY18A	CY19E	CY20E
Net inc. + Depn.	473	563	649	738	885
Non-cash adj.	(67)	(123)	(221)	(13)	(87)
Changes in W.C	75	37	122	74	80
C.F. Operation	480	476	549	799	878
Capital exp.	(222)	(95)	(61)	(73)	(86)
Change in inv.	20	(0)	9	-	-
Other invest.CF	2	2	6	-	-
C.F - Investment	(200)	(94)	(45)	(73)	(86)
Issue of equity	1	(137)	0	-	-
Issue/repay debt	-	-	-	-	-
Dividends paid	(251)	(143)	(251)	(208)	(208)
Other finance.CF	(0)	(0)	(0)	(9)	(31)
C.F - Finance	(249)	(280)	(250)	(217)	(239)
Chg. in cash	31	103	253	509	553
Closing cash	413	530	820	1,330	1,882

RATIOS

Y.E December	CY16A	CY17A	CY18A	CY19E	CY20E
Profitab. & Return					
EBITDA margin (%)	16.3	16.6	15.8	15.8	16.0
EBIT margin (%)	14.7	15.0	14.4	14.4	14.4
Net profit mgn.(%)	11.8	12.7	12.6	12.0	11.8
ROE (%)	24.4	24.9	24.4	23.3	22.7
ROCE (%)	30.3	29.4	27.9	28.0	27.6
W.C & Liquidity					
Receivables (days)	45.2	49.6	63.1	52.1	48.5
Inventory (days)	-	-	-	-	-
Payables (days)	74.8	108.8	117.5	110.2	106.6
Current ratio (x)	2.1	2.8	2.8	3.2	3.6
Quick ratio (x)	1.5	2.1	2.3	2.7	3.2
Turnover & Leverage					
Gross asset T.O (x)	5.7	5.9	6.3	6.9	7.4
Total asset T.O (x)	1.6	1.6	1.6	1.6	1.7
Adj. debt/equity (x)	0.0	0.0	0.0	0.0	0.0
Valuation					
EV/Sales (x)	1.6	2.5	2.0	1.9	1.5
EV/EBITDA (x)	10.1	14.9	12.5	11.9	9.3
P/E (x)	14.9	20.6	17.1	17.2	15.1
P/BV (x)	3.6	5.1	4.2	4.1	3.4

Recommendation Summary



Dates	Rating	Target
2-Aug-16	HOLD	218
1-Mar-17	SELL	212
28-Aug-17	SELL	256
21-Sep-18	SELL	418
30-Aug-19	HOLD	410

Source: Bloomberg, Geojit research

Investment Rating Criteria

Large Cap Stocks;			Mid Cap and Small Cap;		
Buy	-	Upside is above 10%.	Buy	-	Upside is above 15%.
Hold	-	Upside is between 0% - 10%.	Accumulate	-	Upside is between 10% - 15%.
Reduce	-	Downside is more than 0%.	Hold	-	Upside is between 0% - 10%.
Neutral	-	Not Applicable	Reduce/Sell	-	Downside is more than 0%.
			Neutral	-	Not Applicable

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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Neutral- The analyst has no investment opinion on the stock under review

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