

Near term expected to remain volatile...

Hexaware Technologies' (Hexaware) revenues declined 1.7% QoQ in dollar terms mainly led by Covid-19 (that impacted revenues by 2-3%). Revenue decline was mainly led by lower utilisation. EBIT margins declined ~160 bps mainly led by higher depreciation (Ind-AS impact) and 100-120 bps of Covid-19 impact. PAT margin in the quarter was higher due to forex gains. The company had robust net new deal wins in the quarter of US\$69 million.

Travel, manufacturing & retail to remain draggers

Hexaware reported poor Q1CY20 results due to 5.1%, 6.0% QoQ decline in travel & transportation and manufacturing & consumer business, respectively. The company expects Q2CY20E to be the worst quarter. Hexaware expects pricing pressure, utilisation pressure and higher DSOs in the near term. We believe higher exposure (~27%) to troubled vertical, delay in deal ramp ups, delay in deal signing will keep revenues under pressure in CY20E. The company has indicated the trouble at top clients have bottomed out. However, we expect some pressure to continue in top clients. We expect Hexaware to witness healthy growth in CY21E led by a revival in BFS, insurance, healthcare and continued growth in Hi Tech.

Margins to improve in CY21E

The company is aiming to curb near term margin pressure by reducing travel & subcontracting cost. This, coupled with rupee depreciation, lower attrition and utility cost could act as near-term tailwind. However, a dip in utilisation, pricing and higher depreciation (due to Ind-AS) is expected to impact EBIT margins (down 250 bps to 11.4%) in CY20E. We expect margins to recover in CY21E mainly led by improved revenues and cost rationalisation. We expect margins to improve 110 bps to 12.5% in CY21E.

Valuation & Outlook

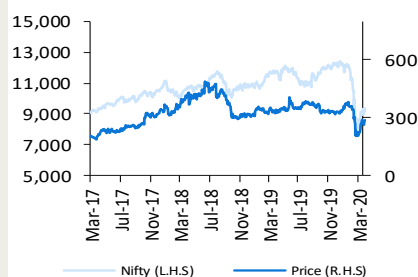
The company has seen robust net new deal wins in the quarter. However, we expect a delay in deal ramp ups due to Covid-19 related impact. In addition, the company's exposure to travel and manufacturing vertical could see pricing led pressure impacting revenues and margins. Further, a delay in deal ramp ups, delay in deal signing is expected to keep revenues under pressure in 21E. In addition, the company could also see higher DSOs, which could impact its working capital. We expect the company to witness an improved performance in CY21E. We maintain our **HOLD** rating on the stock with a revised target price of ₹ 315/share (14x CY21E EPS).



Particulars

Particular	Amount
Market Capitalisation	₹8611 crore
Total Debt	₹143 crore
Cash and Investments	₹247 crore
EV	₹8508 crore
52 week H/L	439 / 201
Equity Capital	₹59 crore
Face Value	₹2

Price Performance



Key Highlights

- Pressure in travel & manufacturing vertical, delay in deal ramp ups and deal signing to keep revenue under pressure
- Margins to improve in CY21E led by cost rationalisation
- Maintain our HOLD recommendation with revised target price of ₹ 315

Research Analyst

Devang Bhatt
devang.bhatt@icicisecurities.com

Key Financial Summary

(₹Crore)	CY17	CY18	CY19	CY20E	CY21E	CAGR (CY19-21E)
Net Sales	3,942.0	4,647.8	5,582.5	5,877.1	6,464.8	7.6%
EBITDA	655.2	733.8	878.2	875.6	1,016.5	7.6%
EBITDA Margins (%)	16.6	15.8	15.7	14.9	15.7	
Net Profit	499.5	583.5	641.3	559.9	686.5	3.5%
EPS (₹)	16.6	19.3	21.2	18.5	22.7	
P/E (x)	17.0	14.5	13.2	15.2	12.4	
RoE (%)	24.9	24.4	23.2	16.8	18.4	
RoCE (%)	31.6	30.0	26.6	19.6	21.8	

Source: Company, ICICI Direct Research

Financial summary

Exhibit 1: Profit and loss statement				
	₹ crore			
(Year-end March)	CY18	CY19	CY20E	CY21E
Total operating Income	4,648	5,583	5,877	6,465
Growth (%)	17.9	20.1	5.3	10.0
COGS (employee expenses)	2,480	3,028	3,709	3,955
S,G&A expenses	1,434	1,680	1,293	1,493
Total Operating Expenditure	3,914	4,708	5,001	5,448
EBITDA	734	874	876	1,017
Growth (%)	12.0	19.1	0.2	16.1
Depreciation	65	103	207	207
Other Income less interest	58	4	19	33
PBT	727	775	687	842
Total Tax	143	138	127	156
Minority Interest	0	0	0	0
Exceptional Item	0	0	0	0
PAT before exceptional item	583	637	560	687
Growth (%)	16.8	9.2	-12.1	22.6
Reported EPS (₹)	19.7	21.5	18.8	23.0
PAT after exceptional item	583	637	560	687
Adjusted EPS (₹)	19.3	21.2	18.5	22.7

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement				
	₹ crore			
(Year-end March)	CY18	CY19	CY20E	CY21E
Profit before Tax	727	779	687	842
Add: Depreciation	65	103	207	207
(Inc)/dec in Current Assets	-305	-294	-220	-174
Inc/(dec) in CL and Provision	204	134	111	61
Taxes paid	-143	-138	-127	-156
CF from operations	605	596	689	821
(Inc)/dec in Investments	-49	10	-30	-40
(Inc)/dec in Fixed Assets	-66	-1,044	-688	-259
Others				
CF from investing	-115	-1,034	-718	-299
Inc/(dec) in loan funds	0	143	56	-87
Dividend paid & dividend tax	-251	-305	0	-271
Others	52	26	0	0
CF from financing	-199	-136	56	-358
Net Cash flow	291	-574	27	164
Exchange difference	-0	1	0	0
Opening Cash	515	805	232	259
Closing Cash	805	232	259	423

Source: Company, ICICI Direct Research

Exhibit 3: Balance sheet				
	₹ crore			
(Year-end March)	CY18	CY19	CY20E	CY21E
Liabilities				
Equity Capital	59	60	60	60
Reserve and Surplus	2,332	2,706	3,266	3,681
Share Premium				
Total Shareholders funds	2,392	2,765	3,325	3,741
Total debt	0	143	200	112
Other liabilities & Provisions	31	47	41	45
Total Liabilities	2,422	2,956	3,566	3,898
Assets				
Net assets & CWIP	618	948	1,428	1,480
Goodwill	181	1,176	1,176	1,176
Other non current assets	348	320	450	494
Debtors	1,076	1,333	1,467	1,578
Other financial assets	20	47	26	36
Other Current Assets	60	98	76	83
Current Investments	10	0	0	0
Cash	805	232	259	423
Bank Balance	15	15	15	15
Trade Payable	330	395	416	457
OCL & Provisions	381	818	915	930
Application of Funds	2,422	2,956	3,566	3,898

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios				
	₹ crore			
(Year-end March)	CY18	CY19	CY20E	CY21E
Per share data (₹)				
Adjusted EPS (Diluted)	19.3	21.2	18.5	22.7
BV per share	80.6	92.8	111.6	125.5
DPS	8.4	10.2	0.0	9.1
Cash Per Share	27.6	8.3	9.2	14.7
Operating Ratios (%)				
EBIT margins	14.4	13.9	11.4	12.5
PBT Margins	15.6	13.9	11.7	13.0
PAT Margin	12.6	11.5	9.5	10.6
Debtor days	63	64	68	66
Creditor days	26	26	26	26
Return Ratios (%)				
RoE	24.4	23.2	16.8	18.4
RoCE	30.0	26.6	19.6	21.8
RoIC	48.9	29.5	20.3	23.4
Valuation Ratios (x)				
P/E	14.5	13.2	15.2	12.4
EV / Net Sales	1.7	1.5	1.5	1.3
Market Cap / Sales	1.9	1.5	1.5	1.3
Solvency Ratios				
Debt / EBITDA	0.0	0.2	0.2	0.1
Debt / Equity	0.0	0.1	0.1	0.0
Current Ratio	1.6	1.2	1.2	1.2
Quick Ratio	1.2	0.9	0.9	0.9

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavors to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

ANALYST CERTIFICATION

I/We, Devang Bhatt, PGDBM, Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products. ICICI Securities Limited is a Sebi registered Research Analyst with SEBI Registration Number – INH000000990. ICICI Securities Limited Sebi Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.