

January 31, 2019

Q4CY18 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	CY19E	CY20E	CY19E	CY20E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	384		430	
Sales (Rs. m)	54,815	63,209	54,850	60,854
% Chng.	(0.1)	3.9		
EBITDA (Rs. m)	9,042	10,751	9,476	10,809
% Chng.	(4.6)	(0.5)		
EPS (Rs.)	22.2	26.4	23.3	26.8
% Chng.	(4.7)	(1.5)		

Key Financials

	CY17	CY18	CY19E	CY20E
Sales (Rs. m)	39,420	46,477	54,815	63,209
EBITDA (Rs. m)	6,903	7,709	9,042	10,751
Margin (%)	17.5	16.6	16.5	17.0
PAT (Rs. m)	4,994	5,833	6,579	7,844
EPS (Rs.)	16.8	19.7	22.2	26.4
Gr. (%)	21.8	16.8	12.8	19.2
DPS (Rs.)	4.0	6.9	7.8	9.2
Yield (%)	1.2	2.1	2.4	2.9
RoE (%)	26.6	26.8	26.0	26.6
RoCE (%)	26.6	26.8	26.0	26.6
EV/Sales (x)	2.3	1.9	1.6	1.3
EV/EBITDA (x)	13.1	11.5	9.6	7.8
PE (x)	19.2	16.4	14.6	12.2
P/BV (x)	4.8	4.1	3.5	3.0

Key Data

HEXT.BO | HEXW IN

52-W High / Low	Rs.558 / Rs.294
Sensex / Nifty	35,591 / 10,652
Market Cap	Rs.96bn / \$ 1,349m
Shares Outstanding	298m
3M Avg. Daily Value	Rs.915.58m

Shareholding Pattern (%)

Promoter's	62.79
Foreign	19.39
Domestic Institution	8.43
Public & Others	9.39
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(2.2)	(29.6)	(15.7)
Relative	(0.9)	(25.9)	(14.7)

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Weak performance; Margin Outlook a concern

Hexaware delivered weak performance during Q4CY18 with miss on margins and PAT. Revenues came inline with our estimates. Management has given revenue (organic) growth guidance of 12-14% YoY for CY2019 which is inline with our estimates. However, guidance on margins is muted as it expects its CC EBITDA growth to be in-line with CY19 CC revenue growth. We note that this will led to flat margins YoY for CY2019. We now model USD revenue growth assumptions to 13.1/13.8% for CY2019/CY2020E (vs 13.1%/13.4% modelled earlier). We note that select Midcap peers are likely to outpace Hexaware revenue momentum in FY19. Peers like Mindtree /LT Infotech/ NIIT Tech are poised to deliver 15/16/15% USD revenue growth in FY20E respectively in our view. Our USD/INR assumptions are at Rs72/72.5 for CY2019/CY2020E. Led by tepid performance on margins in Q4CY2018 and softer guidance we now model EBITDA Margins at 16.5%/17.0% for CY2019/CY2020E (vs 17.3/17.8% modelled earlier). We downgraded our EPS estimates by 4.8%/1.5% to Rs22/26 per share for CY2019/CY2020E. Hexaware is currently trading at 14x CY19E EPS and 13x June 20E EPS. We maintain our rating Accumulate. We trim our TP by 10.7% to Rs384 (16x June20E EPS).

Inline Revenue growth: Revenues came at \$176.1mn up 2.9% QoQ/12.8% YoY and inline with our estimates. Constant currency growth for the quarter stood at 3.4% QoQ and 14.2% YoY (Ple: 3.3% CC growth). Management cited that revenue growth is mainly driven by increase in volumes. Management cited supply side issues in North America. Among verticals, Transportation remain tepid (down 3.5% QoQ). Professional services (up 7.1% QoQ) and Healthcare and Insurance (up 4.7% QoQ) remain strong. Among geographies, Americas (up 2.3) and Asia Pacific (up 11%) remain strong while Europe remains tepid (up 0.8%). Among service offerings, IMS business (17.5% of total revenues) remain strong grew by 21.4% QoQ and 67.4% YoY.

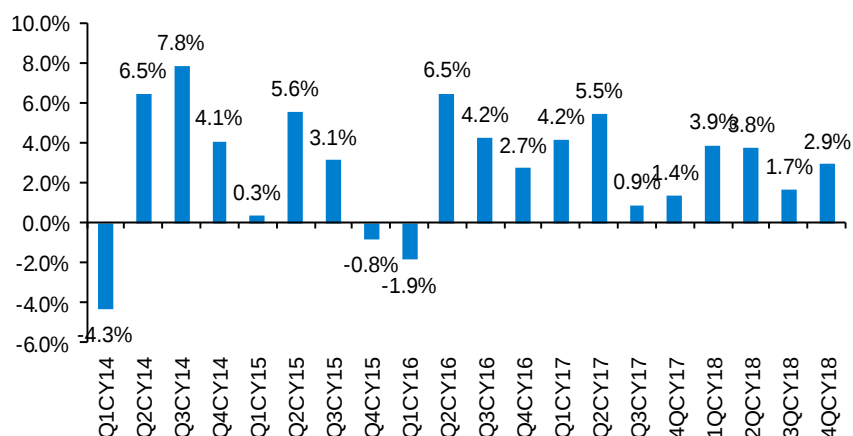
Tepid Margins; Miss on PAT: EBITDA margin (ex-ESOP costs) for the quarter came at 16% down150bps QoQ and below our estimates (Ple: 17%). Headwind from Wage hikes (-60bps), Furloughs (-60bps), increase in SG&A expenses (-26bps). PAT for the quarter came at Rs1234mn down 28% QoQ and 18.7% below our estimates (Ple: Rs1517mn) led by forex losses and miss on margins. Management guided that margin remain under pressure in Q1CY19 due to headwinds from supply constraints and higher onsite cost. Management also cited margin pressure in CY2019 led by increasing supply-side constraints, transition cost related to large deals win and higher attrition rates.

Strong TCV pipeline: TCV deal win for the quarter stood at USD116mn and is at all-time high. Strong TCV pipeline is mainly driven by one large deal win (+USD100mn) in Business process services. Management also cited that this will be long cycle execution and revenue will start to reflect in Q4CY19 only.

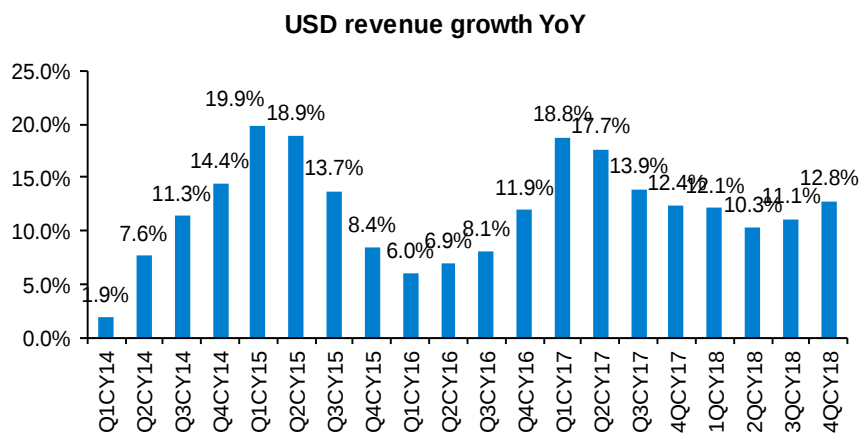
Exhibit 1: Q3CY18: Consolidated P&L

Rs mn	Q4CY18	Q3CY18	QoQ	Q4CY17	YoY	PL Estimates	Variance (Actual vs Pl)
Revenues (USD mn)	176.1	171	2.9%	156	12.8%	176.2	-0.1%
Revenues (INR mn)	12,524	12,096	3.5%	10,048	24.6%	12,548	-0.2%
EBITDA	2,004	2,117	-5.3%	1,691	18.5%	2,133	-6.0%
EBITDA Margins	16.0%	17.5%	(150.1)	16.8%	-82.7	17.0%	-99.7
PAT	1,234	1,722	-28.3%	1,211	1.9%	1,517	-18.6%
EPS	4.1	5.7		4.0	1.3%	5.0	

Source: Company, PL

Exhibit 2: Hexaware's USD Revenue growth QoQ(%)


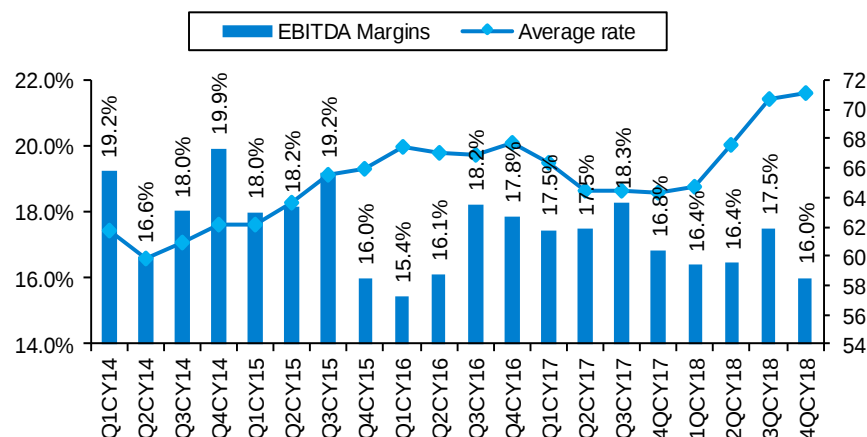
Source: Company, PL

Exhibit 3: Hexaware's USD Revenue Growth YoY (%)


Source: Company, PL

Margins below estimates: EBITDA margin came in at 16.0% down ~150bps QoQ and below our estimates (PLe: 17%). Headcount at the end of quarter stood at 16205 which implies net addition of 155 employees during the quarter.

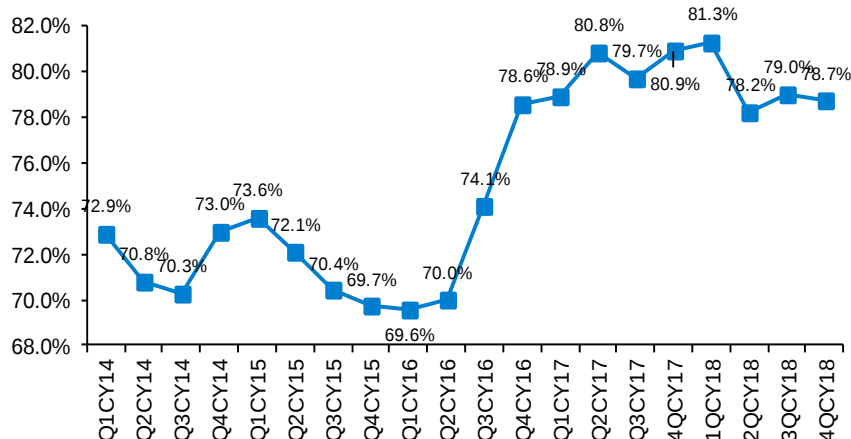
Exhibit 4: EBITDA Margin (excl. ESOP Charge) Vs Average Exchange Rate



Source: Company, PL

Headcount at the end the quarter stood at 16,205 employees (up 18.2% YoY) which represents a net addition of 155 employees QoQ. During CY2018 Hexaware had strong 2500 net employee additions. Utilisation rate for the quarter stood at 78.7% down 30bps. Attrition rate at 17% up 130bps QoQ.

Exhibit 5: Utilisation rates remain elevated

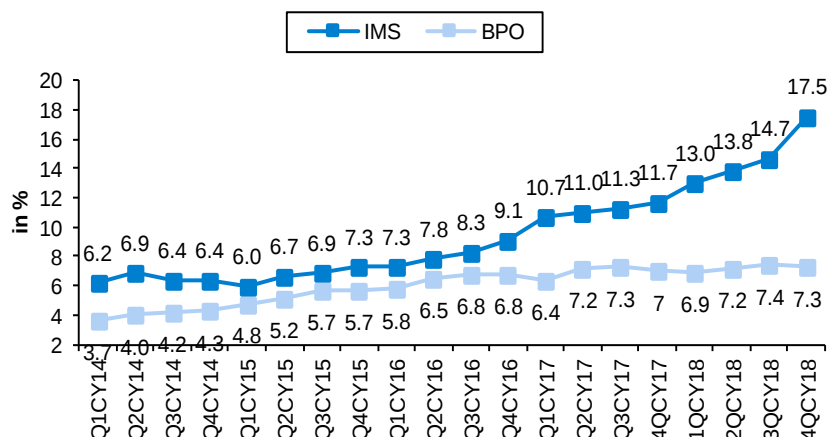


Source: Company, PL

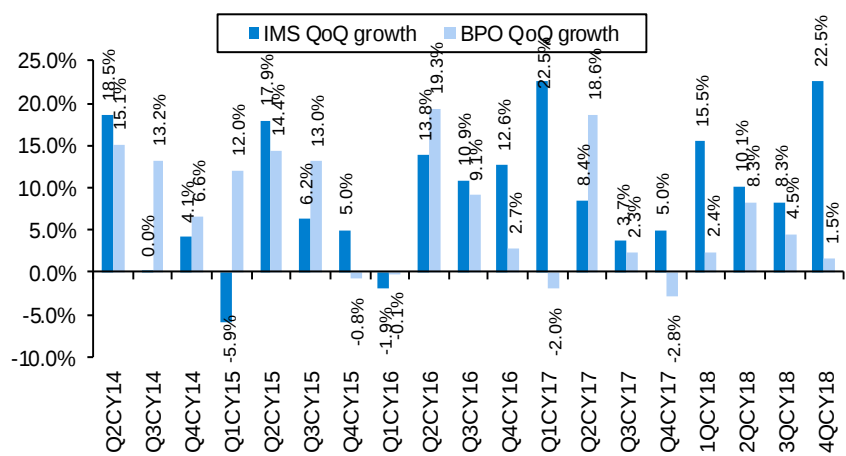
Exhibit 6: TCV Signing

	1QCY16	2QCY16	3QCY16	4QCY16	Q1CY17	Q2CY17	Q3CY17	Q4CY17	Q1CY18	Q2CY18	Q3CY18	Q4CY18
TCV(USD MN)	36	20	42	55	25	40	43	72	28	41	25	116

Source: Company, PL

Exhibit 7: Revenues from IMS and BPO as a % of Hexaware overall revenue


Source: Company, PL

Exhibit 8: Exhibit 9: Growth in revenues (USD mn) from IMS and BPO QoQ


Source: Company, PL

Exhibit 9: Dividend paid by the Hexaware in the last few Quarters

In Rs	1QCY16	2QCY16	3QCY16	4QCY16	1QCY17	2QCY17	3QCY17	4QCY17	1QCY18	2QCY18	3QCY18	4QCY18
Dividend	2.5	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	2.5	2.5	2.5

Source: Company, PL

Key Metrics:

Exhibit 10: Revenue by Geography (%)

Geography Mix (%)	Q2'15	Q3'15	Q4'15	Q1'16	Q2'16	Q3'16	Q4'16	Q1'17	Q2'17	Q3'17	Q4'17	Q1'18	Q2'18	Q3'18	Q4'18
Americas	81.0	80.8	81.3	81.4	80.9	82	82.5	81.6	80.8	79.1	77.7	75.3	77.0	77.4	76.9
Europe	13.4	13.8	13.1	12.0	12.5	11.6	11.1	11.0	11.2	11.3	12.1	12.5	12.7	13.3	13.0
Asia Pacific	5.6	5.4	5.6	6.6	6.6	6.4	6.4	7.4	8.0	9.6	10.2	12.2	10.3	9.3	10.1

Source: Company, PL

Exhibit 11: Revenue by Vertical (%)

Vertical Mix (%)	Q1CY17	Q2CY17	Q3CY17	Q4CY17	Q1CY18	Q2CY18	Q3CY18	Q4CY18
BFSI	42.7	43.3	43.4	44.4	43.7	42.8	42.5	42.1
Travel & Transportation	13.6	13.4	13.2	12.0	13.1	11.1	10.5	9.9
Healthcare & Insurance	15.7	15.6	16.6	16.7	16.0	17.1	18.8	19.1
Manufacturing, Consumer & Others	13.6	13.4	13.4	13.9	15.1	16.1	14.9	15.2
Professional services	14.4	14.3	13.4	13.0	12.1	12.9	13.3	13.8

Source: Company, PL

Exhibit 12: Revenue by Services (%)

Service mix (%)	Q1CY16	Q2CY16	Q3CY16	Q4CY16	Q1CY17	Q2CY17	Q3CY17	Q4CY17	Q1CY18	Q2CY18	Q3CY18	Q4CY18
ADM	37.8	36.9	37.3	36.4	36.1	36.5	36.3	37.2	35.9	36.6	36.0	35.1
Enterprise Solutions	13.7	13.2	12.2	12.7	12.1	11.6	11.3	10.8	10.9	10.5	9.7	9.5
Testing / QATS (Quality)	20.2	20.1	20.2	20.9	20.9	19.7	20	19.5	19.1	18.4	17.7	17.5
BI and Analytics	15.2	15.5	15.2	14.1	13.8	14	13.8	13.8	14.2	13.5	14.5	13.1
Business Process Services	5.8	6.5	6.8	6.8	6.4	7.2	7.3	7	6.9	7.2	7.4	7.3
IMS	7.3	7.8	8.3	9.1	10.7	11	11.3	11.7	13	13.8	14.7	17.5

Source: Company, PL

Exhibit 13: Headcount Details

	Q1CY16	Q2CY16	Q3CY16	Q4CY16	Q1CY17	Q2CY17	Q3CY17	Q4CY17	Q1CY18	Q2CY18	Q3CY18	Q4CY18
Headcount	11,599	11,875	11,859	12,115	12,734	13,098	13,488	13,705	14,619	15,357	16,050	16,205
Net additions	224	276	-16	256	619	364	390	217	914	738	693	155
Utilization (Incl-trainees)	69.6	70	74.1	78.6	78.6	80.8	79.7	80.9	81.3	78.2	79	78.7
Attrition rates	16	16.6	16.5	16.1	16.1	13.8	13.7	13.1	13.4	14.4	15.7	17

Source: Company, PL

Exhibit 14: Client metrics

	1QCY16	2QCY16	3QCY16	4QCY16	Q1CY17	Q2CY17	Q3CY17	Q4CY17	Q1CY18	Q2CY18	Q3CY18	Q4CY18
1 mn	73	76	77	78	81	81	82	88	89	93	95	99
1 mn - 5 mn	58	62	63	64	67	66	64	71	69	71	70	72
5 mn - 10 mn	6	6	6	6	6	7	9	7	10	12	15	18
10mn -20mn	5	3	3	3	3	3	4	6	6	6	6	4
> USD 20 mn	4	5	5	5	5	5	5	4	4	4	4	5

Source: Company, PL

**Exhibit 15: Consolidated Model Sheet**

	CY14	CY15	CY16	CY17	CY18E	CY19E	CY20E
Consolidated Revenues(USD mn)	422	485	526	607	678	766	872
Growth (%)	8.9%	14.9%	8.3%	15.6%	11.6%	13.1%	13.8%
Average exchange rate (USD vs INR)	61.1	64.3	67.3	64.9	68.6	71.5	72.5
Consolidated revenues (Rs mn)	25,815	31,235	35,349	39,420	46,477	54,815	63,209
Growth (%)	13.0%	21.0%	13.2%	11.5%	17.9%	17.9%	15.3%
EBIDTA	4,774	5,567	5,993	6,903	7,709	9,042	10,751
EBIT	4,335	5,085	5,434	6,270	7,059	8,358	9,929
PAT	3,201	3,932	4,171	4,994	5,833	6,579	7,844
Margins (%)							
EBITDA	18.5%	17.8%	17.0%	17.5%	16.6%	16.5%	17.0%
EBITDA	16.8%	16.3%	15.4%	15.9%	15.2%	15.2%	15.7%
PAT	12.4%	12.6%	11.8%	12.7%	12.6%	12.0%	12.4%
Diluted EPS	10.6	12.9	13.8	16.6	19.3	21.8	26.0
Growth	-15.8%	22.1%	6.4%	20.3%	16.6%	12.8%	19.4%
P/E	33.5	27.4	25.8	21.4	18.4	16.3	13.7
EV/EBIDTA	21.4	18.5	17.2	14.5	12.7	10.6	8.7
ROE(%)	23.0%	28.9%	25.6%	26.6%	26.8%	26.0%	26.6%
Consolidated Balance sheet (Rs mn)	4,685	4,244	4,274	5,456	7,203	9,318	12,294
Net Cash on Balance sheet (Rs mn)	15.6	14.1	14.2	18.4	24.3	31.4	41.4
Net cash per share (Rs)	4.4%	4.0%	4.0%	5.2%	6.8%	8.8%	11.7%
Net cash per share as a % of Mcap	4,128	3,931	4,803	4,762	5,505	6,187	7,582
Consolidated Cash flow (Rs mn)	(604)	(1,366)	(2,223)	(957)	(1,200)	(1,200)	(1,200)
Cash flow from Operations	3,524	2,565	2,580	3,806	4,305	4,987	6,382
Capex	73.8%	46.1%	43.1%	55.1%	55.8%	55.2%	59.4%
FCF	422	485	526	607	678	766	872
FCF/EBIDTA	8.9%	14.9%	8.3%	15.6%	11.6%	13.1%	13.8%

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Dec	CY17	CY18	CY19E	CY20E
Net Revenues	39,420	46,477	54,815	63,209
YoY gr. (%)	11.5	17.9	17.9	15.3
Employee Cost	25,700	31,122	37,000	42,345
Gross Profit	13,720	15,355	17,815	20,864
Margin (%)	34.8	33.0	32.5	33.0
SG&A Expenses	6,817	7,646	8,773	10,113
Other Expenses	-	-	-	-
EBITDA	6,903	7,709	9,042	10,751
YoY gr. (%)	15.2	11.7	17.3	18.9
Margin (%)	17.5	16.6	16.5	17.0
Depreciation and Amortization	633	650	684	822
EBIT	6,270	7,059	8,358	9,929
Margin (%)	15.9	15.2	15.2	15.7
Net Interest	-	-	-	-
Other Income	135	206	(30)	-
Profit Before Tax	6,405	7,265	8,328	9,929
Margin (%)	16.2	15.6	15.2	15.7
Total Tax	1,411	1,432	1,749	2,085
Effective tax rate (%)	22.0	19.7	21.0	21.0
Profit after tax	4,994	5,833	6,579	7,844
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	4,994	5,833	6,579	7,844
YoY gr. (%)	19.7	16.8	12.8	19.2
Margin (%)	12.7	12.6	12.0	12.4
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	4,994	5,833	6,579	7,844
YoY gr. (%)	19.7	16.8	12.8	19.2
Margin (%)	12.7	12.6	12.0	12.4
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	4,994	5,833	6,579	7,844
Equity Shares O/s (m)	297	297	297	297
EPS (Rs)	16.8	19.7	22.2	26.4

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Dec	CY17	CY18	CY19E	CY20E
Non-Current Assets				
Gross Block	7,731	8,931	10,131	11,331
Tangibles	6,994	7,954	8,914	9,874
Intangibles	737	977	1,217	1,457
Acc: Dep / Amortization	3,974	4,624	5,308	6,129
Tangibles	3,414	3,934	4,481	5,139
Intangibles	560	690	826	991
Net fixed assets	3,757	4,307	4,823	5,202
Tangibles	3,580	4,020	4,433	4,736
Intangibles	177	287	390	466
Capital Work In Progress	2,563	2,563	2,563	2,563
Goodwill	1,656	1,656	1,656	1,656
Non-Current Investments	424	424	424	424
Net Deferred tax assets	1,336	1,336	1,336	1,336
Other Non-Current Assets	1,182	1,282	1,382	1,482
Current Assets				
Investments	189	189	189	189
Inventories	-	-	-	-
Trade receivables	5,360	6,367	7,509	8,659
Cash & Bank Balance	5,298	7,045	9,160	12,136
Other Current Assets	678	778	878	978
Total Assets	25,453	29,381	33,855	39,063
Equity				
Equity Share Capital	594	594	594	594
Other Equity	19,479	22,854	26,661	31,200
Total Network	20,073	23,448	27,255	31,793
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	179	189	199	209
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	2,204	2,547	3,004	3,464
Other current liabilities	2,966	3,166	3,366	3,566
Total Equity & Liabilities	25,453	29,381	33,855	39,063

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Dec	CY17	CY18	CY19E	CY20E
PBT	6,406	7,265	8,328	9,929
Add. Depreciation	633	650	684	822
Add. Interest	1	-	-	-
Less Financial Other Income	135	206	(30)	-
Add. Other	371	-	-	-
Op. profit before WC changes	7,411	7,915	9,012	10,751
Net Changes-WC	(901)	(978)	(1,076)	(1,084)
Direct tax	(1,748)	(1,432)	(1,749)	(2,085)
Net cash from Op. activities	4,762	5,505	6,187	7,582
Capital expenditures	(954)	(1,200)	(1,200)	(1,200)
Interest / Dividend Income	17	-	-	-
Others	(1)	(100)	(100)	(100)
Net Cash from Invst. activities	(938)	(1,300)	(1,300)	(1,300)
Issue of share cap. / premium	(1,367)	-	-	-
Debt changes	-	-	-	-
Dividend paid	(1,428)	(2,458)	(2,773)	(3,305)
Interest paid	(1)	-	-	-
Others	-	-	-	-
Net cash from Fin. activities	(2,796)	(2,458)	(2,773)	(3,305)
Net change in cash	1,029	1,747	2,115	2,976
Free Cash Flow	3,806	4,305	4,987	6,382

Source: Company Data, PL Research

Key Financial Metrics

Y/e Dec	CY17	CY18	CY19E	CY20E
Per Share(Rs)				
EPS	16.8	19.7	22.2	26.4
CEPS	19.0	21.8	24.5	29.2
BVPS	67.6	79.0	91.8	107.1
FCF	12.8	14.5	16.8	21.5
DPS	4.0	6.9	7.8	9.2
Return Ratio(%)				
RoCE	26.6	26.8	26.0	26.6
ROIC	33.5	35.0	36.9	40.3
RoE	26.6	26.8	26.0	26.6
Balance Sheet				
Net Debt : Equity (x)	(0.3)	(0.3)	(0.3)	(0.4)
Debtor (Days)	50	50	50	50
Valuation(x)				
PER	19.2	16.4	14.6	12.2
P/B	4.8	4.1	3.5	3.0
P/CEPS	17.0	14.8	13.2	11.0
EV/EBITDA	13.1	11.5	9.6	7.8
EV/Sales	2.3	1.9	1.6	1.3
Dividend Yield (%)	1.2	2.1	2.4	2.9

Source: Company Data, PL Research

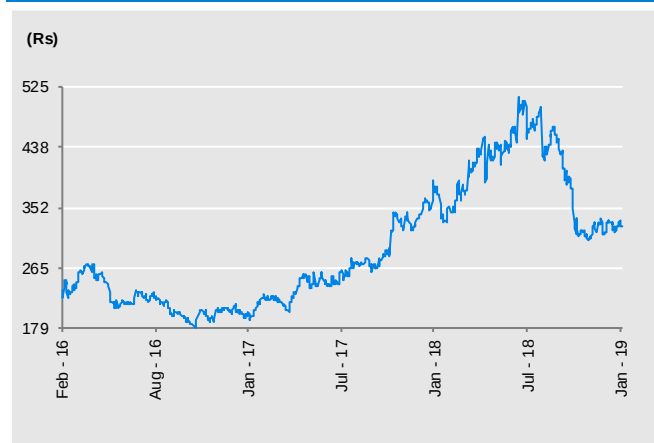
Quarterly Financials (Rs m)

Y/e Dec	Q1CY18	Q2CY18	Q3CY18	Q4CY18
Net Revenue	10,490	11,367	12,096	12,524
YoY gr. (%)	9.2	15.6	21.8	24.6
Raw Material Expenses	6,949	7,659	8,038	8,476
Gross Profit	3,541	3,708	4,058	4,048
Margin (%)	33.8	32.6	33.5	32.3
EBITDA	1,626	1,773	2,023	1,913
YoY gr. (%)	1.7	9.0	14.1	(5.4)
Margin (%)	15.5	15.6	16.7	15.3
Depreciation / Depletion	151	182	159	158
EBIT	1,475	1,591	1,864	1,755
Margin (%)	14.1	14.0	15.4	14.0
Net Interest	-	-	-	-
Other Income	204	327	264	(215)
Profit before Tax	1,679	1,918	2,128	1,540
Margin (%)	16.0	16.9	17.6	12.3
Total Tax	336	384	406	306
Effective tax rate (%)	20.0	20.0	19.1	19.9
Profit after Tax	1,343	1,534	1,722	1,234
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	1,343	1,534	1,722	1,234
YoY gr. (%)	17.9	25.3	21.3	1.9
Margin (%)	12.8	13.5	14.2	9.9
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,343	1,534	1,722	1,234
YoY gr. (%)	17.9	25.3	21.3	1.9
Margin (%)	12.8	13.5	14.2	9.9
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,343	1,534	1,722	1,234
Avg. Shares O/s (m)	300	300	302	302
EPS (Rs)	4.5	5.1	5.7	4.1

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Feb-18	Accumulate	385	355
2	13-Apr-18	Accumulate	385	411
3	03-May-18	Reduce	425	451
4	10-Jul-18	Reduce	425	468
5	24-Jul-18	BUY	460	496
6	05-Oct-18	Hold	475	409
7	25-Oct-18	Accumulate	430	351
8	07-Jan-19	Accumulate	430	332

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Cyient	BUY	810	609
2	HCL Technologies	Accumulate	1,170	988
3	Hexaware Technologies	Accumulate	430	332
4	Infosys	BUY	810	684
5	L&T Technology Services	Accumulate	1,780	1,693
6	Mindtree	BUY	1,140	841
7	Mphasis	Accumulate	1,260	921
8	NIIT Technologies	BUY	1,460	1,141
9	Persistent Systems	Accumulate	725	565
10	Redington (India)	BUY	140	86
11	Sonata Software	BUY	410	296
12	Tata Consultancy Services	Accumulate	2,275	1,889
13	TeamLease Services	Hold	2,740	2,884
14	Tech Mahindra	BUY	885	688
15	Wipro	Accumulate	375	346
16	Zensar Technologies	BUY	278	222

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly



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