

# Hexaware Technologies

## Protracted recovery path

We maintain REDUCE 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. Our target price of Rs 360, 14x Jun-22E EPS, follows ~3% EPS estimate increase for CY21E.

- **1QFY21 highlights:** (1) Revenue performance was better than expected at -0.9% QoQ CC 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.
- **Outlook:** We have factored in CY20E revenue growth at 6.7% (1.2% organic) and CY21E revenue growth at 8.9%; EBIT% factored at 12.6% each for CY20/21E translating into EPS CAGR of 11.7% over CY20-22E. At CMP, Hexaware trades at 17.0x and 15.6x CY20/21E (10-year average at 14x).

### Quarterly Financial summary

YE Dec (Rs Bn)	2Q CY20	2Q CY19	YoY (%)	1Q CY20	QoQ (%)	CY18	CY19	CY20E	CY21E	CY22E
Revenue (USD Mn)	208	189	10.4	211	-1.2	678	793	846	922	1,032
Net Sales	15.69	13.08	19.9	15.42	1.8	46.48	55.83	63.18	70.07	80.01
EBIT	2.08	1.74	19.1	1.82	14.2	6.69	7.58	7.94	8.83	10.02
APAT	1.52	1.51	0.8	1.75	-12.9	5.83	6.41	6.55	7.16	8.18
Diluted EPS (Rs)	5.1	5.1	0.7	5.9	-12.9	19.6	21.5	22.0	24.0	27.4
P/E (x)						19.1	17.4	17.0	15.6	13.6
EV / EBITDA (x)						14.1	12.8	11.0	9.8	8.6
RoE (%)						26.5	24.9	22.3	21.7	22.0

Source: Company, HSIE Research, Consolidated Financials

### Change in Estimates

Rs Bn	CY20E Old	CY20E Revised	Change %	CY21E Old	CY21E Revised	Change %
Revenue (USD mn)	818	846	3.4	891	922	3.4
Revenue	61.14	63.18	3.3	67.74	70.07	3.4
EBIT	6.95	7.94	14.3	8.59	8.83	2.8
EBIT margin (%)	11.4	12.6	121bps	12.7	12.6	-8bps
APAT	5.95	6.55	10.1	6.91	7.16	3.5
EPS (Rs)	20.0	22.0	10.1	23.2	24.0	3.5

Source: Company, HSIE Research

## REDUCE

CMP (as on 28 Jul 2020)	Rs 375
Target Price	Rs 360
NIFTY	11,301

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	Rs 325	Rs 360
EPS %	CY20E +10.1	CY21E +3.5

### KEY STOCK DATA

Bloomberg code	HEXW IN
No. of Shares (mn)	299
MCap (Rs bn) / (\$ mn)	112/1,498
6m avg traded value (Rs mn)	275
52 Week high / low	Rs 399/202

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	31.7	6.4	4.8
Relative (%)	11.8	12.5	3.2

### SHAREHOLDING PATTERN (%)

	Mar-20	Jun-20
Promoters	62.44	62.34
FIs & Local MFs	12.00	12.13
FPIs	16.82	14.03
Public & Others	8.74	11.50
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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