

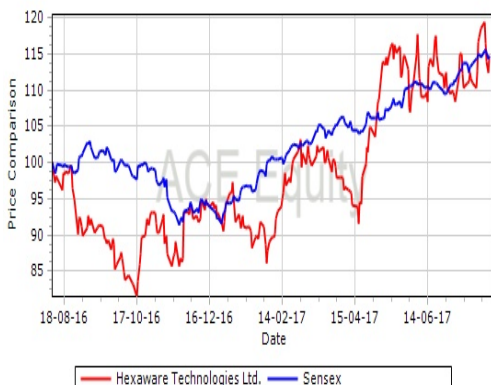
CMP: Rs 252

Recommendation: Not Rated

| Stock Info | |
|------------|----------|
| BSE Group | A |
| BSE Code | 532129 |
| NSE Symbol | HEXAWARE |
| Bloomberg | HEXW.IN |
| Reuters | HEXT.BO |
| BSE Sensex | 32,325 |
| NSE Nifty | 10,066 |

| Market Info | |
|-----------------------|-------------|
| Market Capital | Rs 7,473 cr |
| Equity Capital | 59.34 Rs cr |
| 6M Avg Trading Volume | 1,267,143 |
| 52 Wk High / low | Rs 267 /178 |
| Face Value | Rs 2 |

| Shareholding Pattern (June 17) | |
|---------------------------------|------|
| Promoters | 71.4 |
| FII's | 11.0 |
| DII's | 8.6 |
| Other's | 9.0 |



Summary

Hexaware Technologies' (Hexaware) reiterated its target to achieve sustainable and industry leading growth by leveraging its focus on - Shrink IT and Grow Digital. It believes that it has all the three ingredients - 1) Right strategy & execution plan, 2) Right people and 3) Culture - to achieve its target.

Hexaware was one of the first IT companies to accept the reality of traditional services being under pressure of cannibalization and incremental spend to be driven by newer digital technologies. Given this context, the company embarked upon the "Shrink IT Grow Digital" strategy. Benefits of this strategy are manifested in industry leading revenue growth CAGR of 12.5% over CY14-17e. As the company continues to execute on this strategy and the contribution of traditional services reduces further, it will reap benefits in the form of higher profitable growth.

Hexaware is targeting to add steam to its growth engine by establishing two services lines every year which can grow at 40%+YoY. It is confident that IMS and BPS will continue to be high growth services for FY18/19E.

Key Highlights and Investment Rationale.

Hexaware has set this internal target to enable it to outperform the sector growth on a consistent and sustainable basis. IMS and BPS which have been key focus areas in the last 3 years have both grown at a CQGR of ~7.5%. Hexaware has been able to leverage its automation capabilities to drive growth. It is confident of sustaining this growth as there remains enough scope for growth in existing and new geographies.

Hexaware is building solutions for Professional Services Clients in the area of Taxation, Advisory, Transaction Advisory, Compliance & Risk and Back office & Infrastructure. It has been able to provide these solutions to an existing large client and is confident to securing new clients.

M&A also remains a focus area for establishing new services. Hexaware's focus remains US\$10-25mn companies with capabilities for NextGen technologies and platforms such as Cloud, Banking ops digitisation and Salesforce.

CX transformation in BPS – addressing the US\$90bn outsourcing market

Through its omni channel CX platform, Hexaware targets to provide seamless integration across E-mail/Text, IVR, Voice, chat, etc. It targets to drive CX transformation through solutions including 1) ChatBOTS /conversational user interface, 2) AI assisted apps/smart devices, 3) digital monetization of legacy contact center and 4) CX analytics.

Hexaware is targeting top 50-100 clients of the larger peers, which are less significant for them, and is winning more wallet share given the persistent delivery on outcome-based models. Although this model will lead to value deflation on new deals but would ensure high growth for the company in next couple of years, as it has still large growth opportunities in the form of untapped client base, verticals and geographies.

We remain constructive on the long term story given it has required ingredients in the form of right strategy, strong senior leadership team, sustained investments in newer technologies, incremental revenues in new age technologies. However, near term weakness could arise owing to couple of client specific issues.



| Hexaware Technologies Ltd. Quarterly-Y-O-Y(%)-Consolidated- [INR-Crore] | | | |
|---|--------|--------|----------|
| DESCRIPTION | Jun-17 | Jun-16 | % Change |
| Net Sales | 983.58 | 869.67 | 13% |
| Net Sales & Other Operating Income | 983.58 | 869.67 | 13% |
| Total Expenditure | 823.78 | 736.98 | 12% |
| PBIDT (Excl OI) | 159.80 | 132.68 | 20% |
| Other Income | 14.68 | 13.20 | 11% |
| Operating Profit | 174.48 | 145.88 | 20% |
| Interest | 0.05 | 0.01 | 400% |
| PBDT | 174.43 | 145.87 | 20% |
| Depreciation | 15.66 | 13.71 | 14% |
| PBT | 158.77 | 132.16 | 20% |
| Tax | 36.32 | 34.17 | 6% |
| Profit After Tax | 122.45 | 97.99 | 25% |
| Basic EPS after Extraordinary Items | 4.13 | 3.25 | 27% |



| Hexaware Technologies Ltd. Profit And Loss - Consolidated - Actual - [INR-Crore] | | | |
|--|---------|---------|----------|
| DESCRIPTION | Dec-16 | Dec-15 | % Change |
| Net Sales | 3534.90 | 3123.52 | 13% |
| EXPENDITURE : | | | |
| Power & Fuel Cost | 21.37 | 19.52 | 9% |
| Employee Cost | 1995.19 | 1773.22 | 13% |
| Cost of Software developments | 630.08 | 532.60 | 18% |
| Operating Expenses | 56.78 | 47.97 | 18% |
| General and Administration Expenses | 208.25 | 176.75 | 18% |
| Selling and Marketing Expenses | 28.76 | 15.06 | 91% |
| Miscellaneous Expenses | 21.50 | 21.59 | 0% |
| Total Expenditure | 2961.93 | 2586.71 | 15% |
| Operating Profit (Excl OI) | 572.97 | 536.82 | 7% |
| Other Income | 42.19 | 17.16 | 146% |
| Operating Profit | 615.16 | 553.97 | 11% |
| Interest | 1.14 | 1.11 | 2% |
| PBDT | 614.02 | 552.86 | 11% |
| Depreciation | 55.84 | 48.25 | 16% |
| Profit Before Taxation & Exceptional Items | 558.18 | 504.61 | 11% |
| Exceptional Income / Expenses | | | |
| Profit Before Tax | 558.18 | 504.61 | 11% |
| Provision for Tax | 141.07 | 111.40 | 27% |
| Profit After Tax | 417.11 | 393.21 | 6% |
| Other Consolidated Items | | | |
| Consolidated Net Profit | 417.11 | 393.21 | 6% |
| Equity Dividend % | 275.00 | 432.50 | -36% |
| Earnings Per Share | 13.81 | 13.04 | 6% |

* Company Follows Calendar Year



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Stock Rating

| | Absolute Return |
|------------|-----------------|
| Buy | > 20% |
| Accumulate | 12% to 20% |
| Hold | 5% to 12% |
| Neutral | -5% to 5% |
| Reduce | < -5% |

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