

Hexaware Technologies-Preparing for growth

CMP: Rs.70
Target Price: Not Rated
Recommendation: Not Rated

Management meet update:

We recently interacted with the management of Hexaware Technologies to know the company's current business scenario, its prospects and the IT business environment in general. The company has done well in the recent times in terms of revenue growth, new client addition as well as margin expansion.

- **Business environment stable:** Hexaware is seeing a stable business scenario wherein they see no problem in getting business from the clients that they are currently servicing. In some cases they have also seen a slight increase in their client's IT budgets benefitting Hexaware. They are also seeing number of new clients growing at a steady pace over the last few quarters. In Q1CY11, they added 10 clients as compared to 11 in Q4CY10.

The management believes that they will continue to see an uptick in new deals unless they experience any macro shocks on the international front especially in the US and the Europe. They see no client specific risks as such. With regards to vendor consolidation risk, the management insist that wherever it has happened they have only managed to increase their share of the client's IT budgets.

- **Large deals coming through:** Hexaware mainly services clients on the application maintenance side and has an average of 3-5 years contract with them—though in the recent times they have seen an increase in their contract tenure to 5+ years. The TCV is generally in the range of \$5-15mn. Recently, Hexaware managed to clinch their biggest deal of \$110mn spread over 5 years, and another \$60mn deal. We believe these large deals are an indication of the growing level of maturity and confidence that the company has started to attain. Also, since Hexaware services clients mainly on the maintenance side their revenue is 'sticky' in nature.

The company currently services several top airlines company in the world. We believe as the health of the world economy improves this segment may throw up more projects which may benefit Hexaware considering its expertise in it.

- **Margin expansion to continue:** Hexaware has been able to gradually improve its margins over the last one year. On a QoQ basis, its EBIDTA margin improved by 280bps—while on a YoY basis it improved by a whopping 610bps. The investment in sales has started to bring results in the form of more volumes. The company intends to keep their SG&A constant in absolute numbers over the near term as they believe that they have made the required investment in sales. Added to it, more offshoring, improved billing rates, increases in COLA (cost of living adjustment), and increased fresher intake gives the management confidence of further margin improvement.

- **Outlook:** The Company has guided for a 27.5%+ YoY increase in their top-line in US dollar terms for CY11E. Owing to the good business environment that the company is witnessing, the management indicated that there is a very healthy chance of them meeting their guidance.

Financials:

(Rs Cr)	CY08	CY09	CY10
Net Revenue	1151.9	1038.6	1054.6
<i>Growth %</i>	<i>10.8</i>	<i>(9.8)</i>	<i>1.5</i>
Net Profit	59.4	133.6	74.5
<i>Growth %</i>	<i>(747.2)</i>	<i>124.9</i>	<i>(44.2)</i>
EPS	1.9	4.6	3.5
P/E	36.8	15.2	20

Stock Info	
BSE Group	B
BSE Code	532129
NSE Symbol	HEXAWARE
Bloomberg	HEXT.IN
Reuters	HEXT.BO
BSE Sensex	17506
NSE Nifty	5257

Market Info	
Market Capital	Rs.2078.9cr
Equity Capital	Rs.58.5cr
Avg. Trading Vol.	1
52 Wk High/ Low	74/33
Face Value	Rs.2

Shareholding Pattern(%)	(31 st Mar,2011)
Promoters	28.4
Domestic Institutions	7.2
Foreign Institutions	48.5
Non Promoters Corp.	4.3
Public & Others	11.7
Govt. Holdings	-

June 21, 2011

Generating Wealth. Satisfying Investors.

Company background

Founded in 1990 by Mr. Atul Nishar who is the Chairman of the company, Hexaware over the years has grown into a multi million dollar company in a very short time. With an employee base of ~6700 people, it currently services 180 clients worldwide. It has delivery centres in Mumbai, Chennai, Nagpur, Pune, Mexico, Bangalore and New Jersey. Its expertise in PeopleSoft ERP makes it a preferred vendor for implementation and maintenance of the same.

In the recent times the company has diversified its offerings by building up capacity for the fast upcoming Infrastructure Management Service (IMS) vertical as well as Business intelligence & Analytics and the Healthcare segment. For delivery of IMS service, the company has already built up a Global NOC (Network Operating Centres) and SOC (Security Operating Centres) centres. The company currently has 300+ employees catering to IMS services. The management plans to build up more capacity for this vertical. A number of initiatives within IMS like Cloud computing and RIMS are also being taken.

We believe that with a comfortable net debt position of \$101.4mn (Rs.452.3 cr) (Rs.16 per share), there is a good likelihood that the company may also go for some acquisition in the near future in order to increase its reach.

Among the prominent foreign investors, General Atlantic (14.5% stake), Chrys Capital (9.8% stake) and Fidelity International (8.9% stake) figures in the list. The company has Deloitte Haskins and Sells as its statutory auditor and KPMG as its internal auditor.

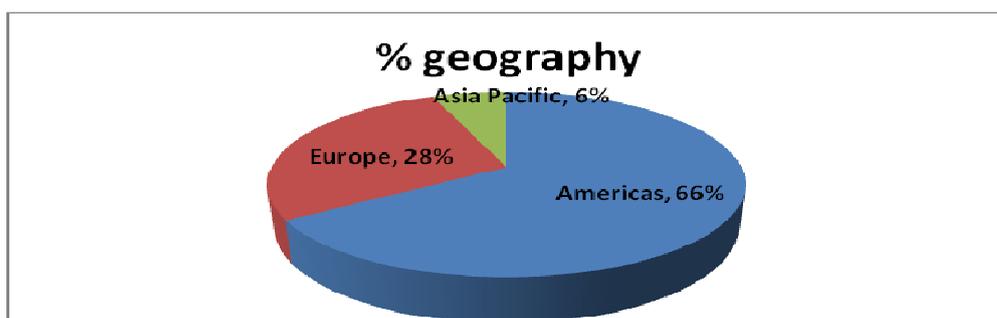
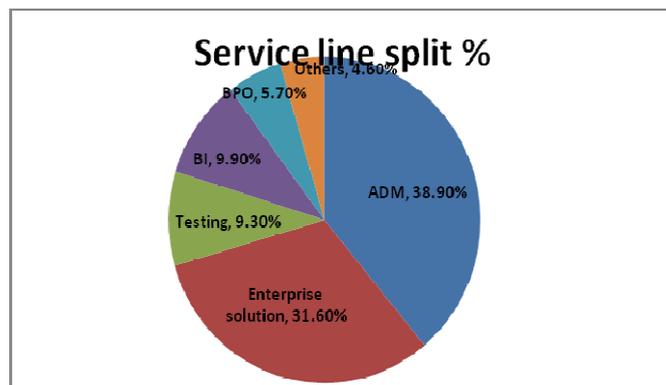
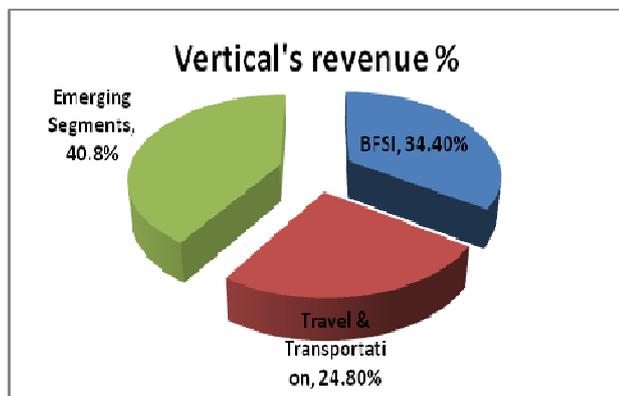
	KPIT	Polaris	Patni Computers	Hexaware
EBIDTA %	14.9	14.8	22.1	14.3
Net Profit %	11.7	12.5	14.9	13.7
P/E	13.9	9.6	8.3	11.1
P/BV	2.7	1.9	1.3	1.2
ROE	20.1	19.4	19.1	15.1
ROCE	26	22.8	25.4	17.6



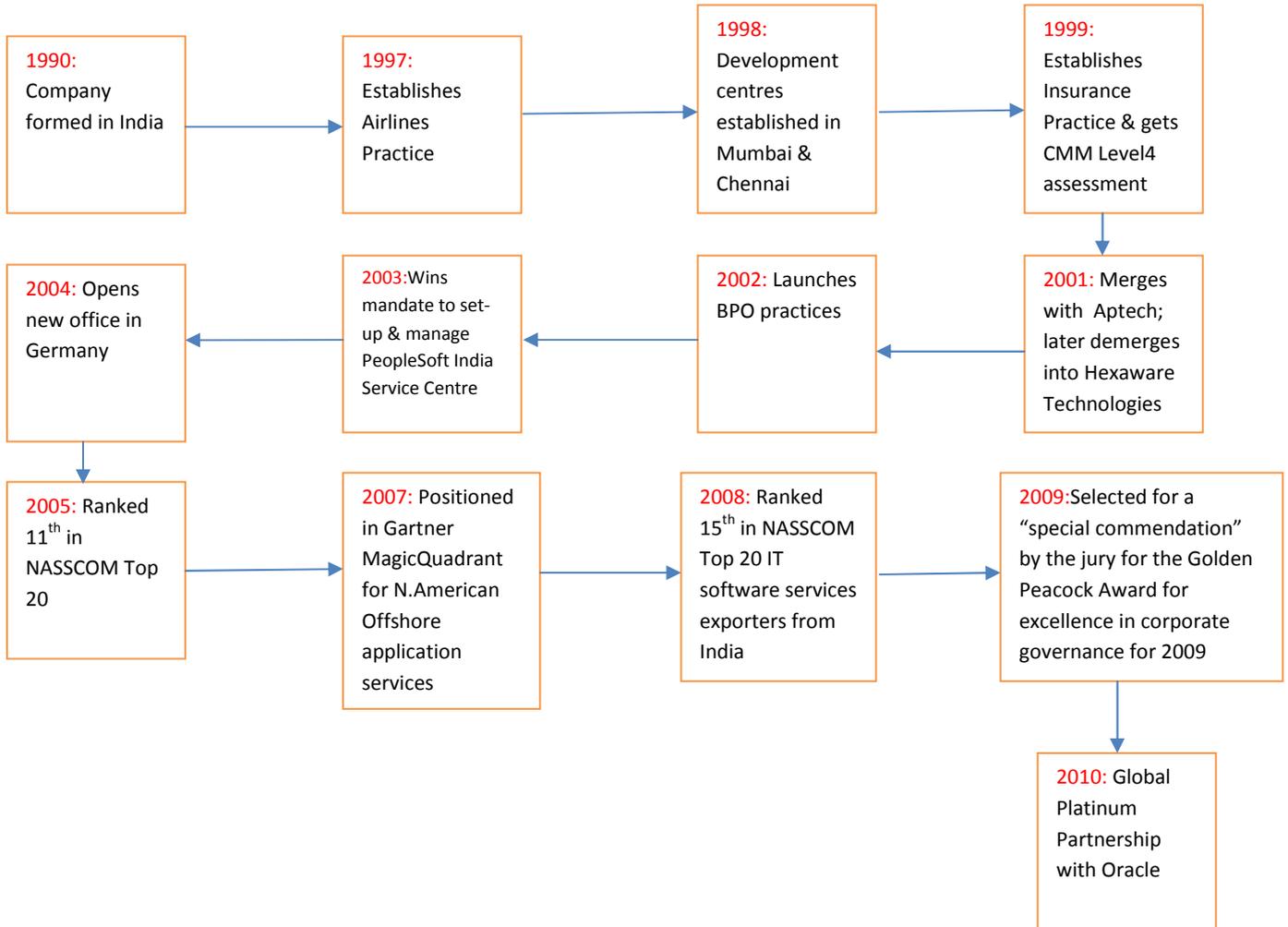
Q1 CY11 result

Rs. in cr (Y/E Dec)	Q1 11	Q4 10	QoQ% chng.	Q1 10	YoY% chng.
Gross revenue	318.5	299.6	6.3%	222	43.5%
Direct costs	199.8	196.2	1.8%	142	40.7%
Gross Profit	118.7	103.4	14.8%	80	48.4%
SGA	73.2	68.9	6.2%	61.8	18.4%
EBIDTA	45.5	34.5	31.9%	18.2	150.0%
Depreciation	6.2	6.6	-6.1%	5.9	5.1%
EBIT	39.3	27.9	40.9%	12.3	219.5%
Other income	8.8	7.7	14.3%	7.7	14.3%
Forex (gains)/loss	-10	-9.5	5.3%	7.5	-233.3%
Profit before tax	58.1	45.1	28.8%	12.5	364.8%
Provision for tax	4.4	5.5	-20.0%	0.9	388.9%
PAT	53.7	39.6	35.6%	11.6	362.9%
<i>effective tax rate%</i>	<i>7.6%</i>	<i>12.2%</i>		<i>7.2%</i>	
EPS	1.85	1.37	35.0%	0.4	362.5%

Service line and verticals' revenue split



Hexaware's time line





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Stock Rating Scale

	Absolute Return
BUY	: >20%
ACCUMULATE	: 12-20%
HOLD	: 5-12%
REDUCE	: <5%

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