

October 20, 2011

<b>Reco</b>	<b>Previous Reco</b>
Accumulate	Accumulate
<b>CMP</b>	<b>Target Price</b>
Rs89	Rs100
EPS change FY12E/13E (%)	11/17
Target Price change (%)	25
Nifty	5,092
Sensex	16,936

### Price Performance

(%)	1M	3M	6M	12M
Absolute	24	19	28	112
Rel. to Nifty	22	30	46	149

Source: Bloomberg

### Relative Price Chart



Source: Bloomberg

### Stock Details

Sector	IT Services
Bloomberg	HEXW@IN
Equity Capital (Rs mn)	586
Face Value(Rs)	2
No of shares o/s (mn)	293
52 Week H/L	94/37
Market Cap (Rs bn/USD mn)	26/529
Daily Avg Volume (No of sh)	2209520
Daily Avg Turnover (US\$m)	3.6

### Shareholding Pattern (%)

	Jun-11	Mar-11	Dec-10
Promoters	28.2	28.2	28.4
FII/NRI	51.8	48.5	48.5
Institutions	7.4	7.4	7.2
Private Corp	1.5	3.8	4.3
Public	11.2	12.2	11.7

Source: Capitaline

### Manik Taneja

manik.taneja@emkayglobal.com  
+91 22 6612 1253

### Priya Gajwani

priya.gajwani@emkayglobal.com  
+91 22 6612 1385

- **Sep'11 results mark another quarter of strong performance. Profits at Rs 647 mn beat estimates despite in line revenues aided by ~340 bps QoQ improvement in op margins**
- **Top clients continue to drive growth with top 1/5/10 clients growing by ~15/5/7% sequentially. Net employee addition remains strong for the 2<sup>nd</sup> quarter in a row**
- **Dec'11 revenue guidance of US\$ 82-82.5 mn (+4-4.7% QoQ). Co remains optimistic about growth prospects in CY12 despite macro uncertainty.**
- **Raise CY11/12E EPS by ~11%/17% to Rs 8.3/8.7 driven by increase in US\$ rev estimates, higher margin assumptions aided by lower currency resets. ACCUMULATE, TP 100**

### In line revenues, margins continue the upward journey

While Hexaware's revenues at US\$ 78.8 mn(+5.3% QoQ,+29% YoY) were in line with estimates, margins improved impressively by ~340 bps QoQ to 18.7% driving the significant profit beat. *We note that margin improvement was aided by strong revenue growth (9.2% QoQ volume growth with offshore % of business improving by ~300 bps sequentially to 46.3%), weak currency (which helped improve margins by ~150 bps) and growth led SG&A leverage.* Growth continued to be led by top clients with top 1/5/10 clients growing by ~15%/5%/7% sequentially with no of US\$ 20 mn+ clients increasing to 3 (V/s 2 earlier).Headcount additions was strong for the 2<sup>nd</sup> quarter in a row with total HC increasing by ~10% sequentially.

### Decent Dec'11 revenue guidance, co remains optimistic about demand prospects

A pretty decent 4-4.7% sequential revenue growth guidance for Dec'11marks the continuation of a strong CY11 for Hexaware with co expected to record a 32%+ YoY revenue growth. *Despite the macro uncertainty, co remains optimistic about revenue growth in CY12 (aided by visibility on ramp ups on some of the large deals won by the company over the past few quarters) and a healthy deal pipeline( company has indicated that it is actively pursuing 4 large deals with TCV of US\$ 25 mn+ currently).* Strong employee additions in the past 2 quarters along with an indication to hire a larger number of freshers in CY12 lend confidence to deal pipeline/ramp ups.

### CY11/12E raised by ~11%/17%, upping TP to Rs 100

Hexaware's Sep'11 performance vindicates our positive thesis on the stock (note that we have continued to raise estimates through the past 3 quarters) of superlative operational performance aided by strong revenue growth and addressing of inherent operational inefficiencies. We raise our US\$ revenue estimates marginally as well as increase our CY11/12 margin assumptions to 16.9%/17.5% (V/s 14.9%/14.3% earlier, aided by a lower currency reset as well) driving a 11%/17% raise in our earnings estimates to Rs 8.3/8.7. Retain ACCUMULATE with a revised TP of Rs 100. (V/s Rs 80 earlier)

### Financials

Y/E Dec (in Rs mn)	Net Sales	EBITDA	EBITDA %	PAT	EPS (Rs)	ROE %	P/E (x)	EV/ EBITDA	P/B (x)
FY10	10,386	2,023	19.5	1,343	4.6	17.8	19.3	11.4	3.0
FY11	10,545	938	8.9	853	2.9	9.4	30.4	23.1	2.7
FY12E	14,148	2,389	16.9	2,411	8.3	23.9	10.7	8.5	2.5
FY13E	17,444	3,055	17.5	2,522	8.7	22.5	10.3	6.5	2.2

## Quarterly performance

Rs mn	Q2CY10	Q3CY10	Q4CY10	Q1CY11	Q2CY11	Q3CY11	YoY (%)	QoQ (%)	YTD'11	YTD'10	YoY (%)
Revenue (US \$ Mn)	54.9	61.1	66.6	70.4	74.8	78.8	29.0	5.3	224.0	164.6	36.1
Revenue Rs. Mn	2,512	2,817	2,996	3,185	3,341	3,660	29.9	9.5	10,186	7,549	34.9
Operating Expenditure	2,342	2,577	2,651	2,730	2,830	2,974	15.4	5.1	8,534	6,956	22.7
Cost of revenues	1,659	1,874	1,962	1,998	2,117	2,262	20.7	6.8	4,115	3,079	33.6
as % of sales	66.0	66.5	65.5	62.7	63.4	61.8			40.4	40.8	
SG&A expenses	683	703	689	732	713	712	1.3	-0.1	1,445	1,300	11.2
as % of sales	27.2	25.0	23.0	23.0	21.3	19.5			14.2	17.2	
<b>EBITDA</b>	<b>170</b>	<b>240</b>	<b>345</b>	<b>455</b>	<b>511</b>	<b>686</b>	<b>185.8</b>	<b>34.2</b>	<b>1,652</b>	<b>593</b>	<b>178.7</b>
Depreciation	59	58	66	62	59	64			120	118	2.0
<b>EBIT</b>	<b>111</b>	<b>182</b>	<b>279</b>	<b>394</b>	<b>452</b>	<b>622</b>	<b>242.3</b>	<b>37.5</b>	<b>1,468</b>	<b>417</b>	<b>252.3</b>
Other Income	52	248	172	188	267	160			455	54	
<b>PBT</b>	<b>163</b>	<b>429</b>	<b>451</b>	<b>582</b>	<b>719</b>	<b>782</b>	<b>82.1</b>	<b>8.7</b>	<b>2,083</b>	<b>718</b>	<b>189.9</b>
Total Tax	19	9	55	44	116	136	1,444.3	16.8	160	28	470.7
<b>Adjusted PAT</b>	<b>144</b>	<b>421</b>	<b>396</b>	<b>538</b>	<b>603</b>	<b>646</b>	<b>53.7</b>	<b>7.2</b>	<b>1,788</b>	<b>682</b>	<b>162.3</b>
(Profit)/loss from JV's/Ass/MI	-	-	-	-	-	-			0	0	
<b>APAT after MI</b>	<b>144</b>	<b>421</b>	<b>396</b>	<b>538</b>	<b>603</b>	<b>646</b>	<b>53.7</b>	<b>7.2</b>	<b>1,788</b>	<b>682</b>	<b>162.3</b>
Extra ordinary items	0	0	0	0	0	0			0	0	
<b>Reported PAT</b>	<b>144</b>	<b>421</b>	<b>396</b>	<b>538</b>	<b>603</b>	<b>646</b>	<b>53.7</b>	<b>7.2</b>	<b>1,788</b>	<b>682</b>	<b>162.3</b>
<b>Reported EPS</b>	<b>0.50</b>	<b>1.45</b>	<b>1.36</b>	<b>1.85</b>	<b>2.08</b>	<b>2.23</b>	<b>53.7</b>	<b>7.2</b>	<b>6.2</b>	<b>2.3</b>	<b>162.3</b>

Margins (%)							(bps)	(bps)			
EBIDTA	6.8	8.5	11.5	14.3	15.3	18.7	1,022	345	16.2	7.9	837
EBIT	4.4	6.5	9.3	12.4	13.5	17.0	1,054	346	14.4	5.5	889
EBT	6.5	15.2	15.1	18.3	21.5	21.4	612	(16)	20.4	9.5	1,093
PAT	5.7	14.9	13.2	16.9	18.1	17.7	273	(39)	17.5	9.0	852
Effective Tax rate	11.7	2.0	12.2	7.5	16.1	17.3	1,529	120	7.7	3.9	377

Source: Company, Emkay Research

All fig in Rs mn except (EPS and %)	CY11E			CY12 E		
	Old	New	% change	Old	New	% change
Revenues( US\$ mn)	306.7	306.5	-0.1%	353	363	3.0%
Revenues	13,793	14,148	2.6%	15,891	17,444	9.8%
EBITDA	2,053	2,390	16.4%	2,279	3,055	34.0%
EBITDA mgns, %	14.9	16.9	201	14.3	17.5	317
Net profits	2,165	2,412	11.4%	2,146	2,522	17.5%
EPS	7.5	8.3	11.2%	7.4	8.7	17.4%

Raise CY11/12 E earnings by ~11% /17% to Rs 8.3/8.7 aided by marginal increases in US\$ revenue estimates and higher margin assumptions (helped by lower currency resets to Rs 48/\$ V/s Rs 45/\$ earlier)

## Operating metrics at a glance

	Q3CY11	Growth %	
		% QoQ	% YoY
<b>Vertical wise split</b>			
BFSI	34.4%	10.2%	25.0%
TTHL	23.2%	-0.6%	21.1%
Emerging Segment	42.4%	5.1%	37.4%
<b>Service Line Split</b>			
ADM	40.5%	8.8%	17.9%
EAS	30.5%	2.7%	33.3%
Testing/BTO	9.2%	3.1%	62.5%
Business Intelligence & Analytics	9.6%	2.2%	47.4%
BPO	5.7%	5.3%	11.4%
Others	4.5%	5.3%	48.8%
<b>Geographical Split</b>			
US	64.7%	2.7%	24.5%
Europe	28.4%	10.0%	32.2%
ROW	6.9%	13.6%	67.9%
<b>Onsite Offshore Revenue Mix</b>			
Onsite	53.7%	-0.2%	16.0%
Offshore	46.3%	12.6%	51.9%
<b>Client Concentration</b>			
Top client	13.6%	14.6%	60.9%
Top 5 clients	38.3%	5.3%	33.1%
Top 10 clients	52.5%	6.8%	35.7%
Non Top 10 client revenues	49.5%	3.8%	22.3%
<b>Total Headcount</b>	8,164	10%	29%

*Growth continues to be led by mining of existing top clients, strong headcount addition for the second quarter in a row*

## Financials

## Income Statement

Y/E, Dec. (Rs. m)	FY10	FY11	FY12E	FY13E
<b>Net Sales</b>	<b>10,386</b>	<b>10,545</b>	<b>14,148</b>	<b>17,444</b>
Growth (%)		1.5	34.2	23.3
<b>Total Expenditure</b>	<b>(8,363)</b>	<b>(9,607)</b>	<b>(11,759)</b>	<b>(14,389)</b>
Growth (%)		14.9	22.4	22.4
<b>Cost Of Revenues</b>	<b>(5,643)</b>	<b>(6,915)</b>	<b>(8,841)</b>	<b>(11,078)</b>
Growth (%)		22.5	27.9	25.3
COR, as % of Revenues	54.3	65.6	62.5	63.5
<b>SG&amp;A expenses</b>	<b>(2,720)</b>	<b>(2,692)</b>	<b>(2,918)</b>	<b>(3,311)</b>
Growth (%)		(1.0)	8.4	13.5
SG&A exp as % of Revenues	26.2	25.5	20.6	19.0
<b>EBIDTA</b>	<b>2,023</b>	<b>938</b>	<b>2,389</b>	<b>3,055</b>
Growth (%)		(53.6)	154.7	27.9
<b>EBIDTA %</b>	19.5	8.9	16.9	17.5
Other Income	(307)	249	710	435
Depreciation	270	242	251	298
<b>EBIT</b>	<b>1,446</b>	<b>945</b>	<b>2,848</b>	<b>3,192</b>
Interest	-	-	-	-
<b>EBT</b>	<b>1,446</b>	<b>945</b>	<b>2,848</b>	<b>3,192</b>
Tax	103	92	437	670
<b>EAT</b>	<b>1,343</b>	<b>853</b>	<b>2,411</b>	<b>2,522</b>
Growth (%)		(36.5)	182.6	4.6
EAT (%)	12.9	8.1	17.0	14.5

## Cash Flow

Y/E, Dec. (Rs. m)	FY10	FY11P	FY12E	FY13E
Net Profit after Tax	1,343	853	2,411	2,522
Add : Depreciation	270	242	251	298
Add : Misc exp w/off	-	-	-	-
<b>Net changes in WC</b>	<b>(1,164)</b>	<b>(1,683)</b>	<b>630</b>	<b>(511)</b>
<b>Operational Cash Flows</b>	<b>1,478</b>	<b>201</b>	<b>1,667</b>	<b>2,318</b>
<b>Capital expenditure</b>	<b>(130)</b>	<b>37</b>	<b>249</b>	<b>(720)</b>
Investments	(122)	1,047	-	-
<b>Investing Cash Flows</b>	<b>(252)</b>	<b>1,084</b>	<b>249</b>	<b>(720)</b>
Borrowings	(32)	(51)	488	-
dividend paid	(476)	(510)	(1,189)	(1,180)
Issue of shares	-	342	-	-
Share Premium				
<b>Financing Cash Flows</b>	<b>(508)</b>	<b>(219)</b>	<b>(701)</b>	<b>(1,180)</b>
changes in cash	718	1,066	1,216	418
Opening balance	3,544	4,262	4,356	5,639
<b>Closing balance</b>	<b>4,262</b>	<b>4,356</b>	<b>5,639</b>	<b>6,054</b>

## Balance Sheet

Y/E, Dec. (Rs. m)	FY10	FY11P	FY12E	FY13E
Equity share capital	578	581	581	581
Reserves & surplus	7,919	9,074	9,966	11,305
Minority Interest	-	-	-	-
<b>Networth</b>	<b>8,497</b>	<b>9,655</b>	<b>10,547</b>	<b>11,886</b>
Secured Loans	163	112	600	600
Unsecured Loans	-	-	-	-
<b>Loan Funds</b>	<b>163</b>	<b>112</b>	<b>600</b>	<b>600</b>
Deferred Tax Liabilities	10	13	0	0
<b>Total Liabilities</b>	<b>8,670</b>	<b>9,780</b>	<b>11,147</b>	<b>12,486</b>
Goodwill	1,207	1,160	1,160	1,160
Gross Block	3,298	3,469	4,189	4,909
Less: Depreciation	(1,404)	(1,519)	(1,771)	(2,069)
<b>Net block</b>	<b>3,100</b>	<b>3,109</b>	<b>3,578</b>	<b>4,000</b>
<b>Capital WIP</b>	<b>1,258</b>	<b>969</b>	-	-
<b>Investment</b>	<b>1,269</b>	<b>397</b>	-	-
<b>Current Assets</b>	<b>5,632</b>	<b>7,907</b>	<b>10,290</b>	<b>11,789</b>
Inventories	-	-	-	-
Sundry debtors	1,526	1,919	2,520	3,106
Cash & bank balance	2,992	4,356	5,639	6,054
Loans & advances	931	976	2,132	2,629
Other current assets	182	657	-	-
<b>Current Liab &amp; Prov</b>	<b>2,709</b>	<b>2,785</b>	<b>2,907</b>	<b>3,489</b>
Current liabilities	1,998	1,475	2,907	3,489
Provisions	710	1,309	-	-
<b>Net current assets</b>	<b>2,923</b>	<b>5,122</b>	<b>7,383</b>	<b>8,300</b>
<b>Misc exps</b>	-	-	-	-
<b>Deferred Tax Assets</b>	<b>121</b>	<b>182</b>	<b>186</b>	<b>186</b>
<b>Total Assets</b>	<b>8,670</b>	<b>9,780</b>	<b>11,147</b>	<b>12,486</b>

## Key Ratios

Y/E, Dec.	FY10	FY11	FY12E	FY13E
EPS (Rs)	4.6	2.9	8.3	8.7
CEPS (Rs)	5.6	3.8	9.2	9.7
Book Value Per Share (Rs)	29.3	33.2	36.3	40.9
Dividend Per Share (Rs)	1.4	1.5	3.5	3.5
DSO	53.6	66.4	65.0	65.0
<b>Valuations Ratios (x)</b>				
PER	19.3	30.4	10.7	10.3
P/CEPS	16.1	23.6	9.7	9.2
P/BV	3.0	2.7	2.5	2.2
EV/EBIDTA	11.4	23.1	8.5	6.5
EV/Sales	2.2	2.1	1.4	1.1
M-Cap/sales	2.5	2.5	1.8	1.5
<b>Profitability Ratios (%)</b>				
RoCE	22.6	7.5	21.0	24.6
RoNW	17.8	9.4	23.9	22.5
EBITDA Margin	19.5	8.9	16.9	17.5
EBIT Margins	16.9	6.6	15.1	15.8
Net Profit Margin	12.9	8.1	17.0	14.5

**Recommendation History: Hexaware Technologies – HEXW IN**

Date	Reports	Reco	CMP	Target
27/07/2011	<a href="#">Hexaware Technologies Q2CY11 Result Update</a>	Accumulate	82	95
28/04/2011	<a href="#">Hexaware Q1CY11 Result Update</a>	Accumulate	70	80
11/03/2011	<a href="#">Hexaware Technologies Initiating Coverage</a>	Accumulate	55	66

**Recent Research Reports**

Date	Reports	Reco	CMP	Target
19/10/2011	<a href="#">eClerx Q2FY12 Result Update</a>	Accumulate	732	800
19/10/2011	<a href="#">Patni Computers Q3CY11 Result Update</a>	Not Rated	338	NA
18/10/2011	<a href="#">HCL Tech Q1FY12 Result Update</a>	Hold	401	415
18/10/2011	<a href="#">Persistent Q2FY12 Result Update</a>	Hold	323	330

**Emkay Global Financial Services Ltd.**

Corporate Add: B – Ruby Mills Tower, 7<sup>th</sup> Floor, South East Wing, Senapati Bapat Marg, Dadar (W), Mumbai - 400028 India.

Tel.: +912266121212 Web: [www.emkayglobal.com](http://www.emkayglobal.com)

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