



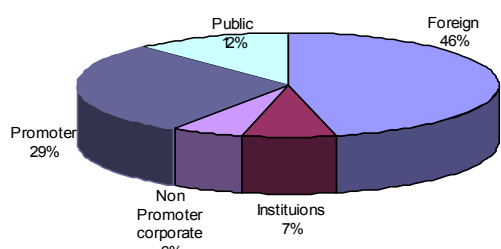
CMP Rs. 67

Target Rs. 98

Initiating Coverage- Buy

Key Share Data

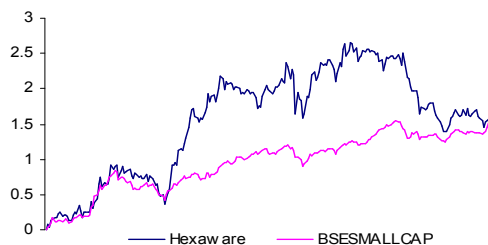
Face Value (Rs.)	2.00
Equity Capital (Rs. crs)	28.88
Market Capitalization (Rs. crs)	967.48
52-wk High / Low (Rs.)	103 / 26
Average Yearly Volume	465217
BSE code	532129
NSE code	HEXAWARE
Reuters code	HEXT.BO
Bloomberg code	HEXW IN

Shareholding Pattern – 31st December 2009**Financials (Consolidated) (Rs. Crore)**

	CY08	CY09	CY10E	CY11E
Net Sales	1151.9	1038.6	1057.7	1184.1
Sales Gr	10.8%	-9.8%	1.8%	11.9%
EBIDTA	119.4	201.4	143.2	170.4
PAT	59.0	134.4	104.2	157.1
PAT Gr	733.8%	127.8%	-22.4%	50.7%
EPS (Rs.)	4.1	9.4	7.2	10.9
CEPS (Rs)	6.1	11.2	9.2	13.0

Key Financial Ratios

	CY08	CY09E	CY10E	CY11E
Div. yield	1.5%	2.1%	2.1%	2.4%
P/E	16.3	7.2	9.3	6.1
P/BV	1.5	1.1	1.0	0.9
P/Cash EPS	11.0	6.0	7.3	5.2
MCap/Sales	0.8	0.9	0.9	0.8
EV/EBIDTA	5.8	2.7	3.5	2.2
ROCE	13.5%	20.4%	12.5%	13.1%
ROE	8.9%	15.8%	11.1%	14.5%
EBITDM(%)	10.4%	19.4%	13.5%	14.4%
NPM (%)	5.1%	12.9%	9.9%	13.3%
Debt-Equity	0.0	0.0	0.0	0.0

1 year Performance comparison Hexaware v/s BSE Smallcap**Analyst: Kamna Jain**

Tel No.: +91 22 2281 9012, Mobile - +91 9892526784
Email: kamna.jain@skpmoneywise.com

Company Profile

Hexaware is a leading global provider of IT and BPO services, focused on delivering real business results from technology solutions and specializing in Business Intelligence, Business Analytics, Enterprise Applications, HR-IT and Legacy Modernization. Founded in 1990, Hexaware today maintains seven state-of-the-art development centers - four in India and one each in Germany, USA and Mexico, and offices in North America, Europe and Asia Pacific, and employs around 5200 workers in 11 countries serving 159 clients globally.

Investment Rationale**Expertise in Enterprise solution**

- Hexaware offers the industry's most comprehensive Enterprise Application services portfolio, with strong capabilities in world-leading applications.
- Service range includes Package selection advisory, Global Roll outs, Implementation, Development and Testing, Upgrade, Integration, Support and Maintenance, Training and Technology support and BPO.
- Hexaware has extensive experience in modernizing large IT applications (Legacy, SOA, Open source, Internet technologies) and providing high value services around business applications such as Analytics, SAP, Oracle-PeopleSoft and Siebel.

Operational upgrading and Healthy balance sheet

- Hexaware Ltd has a healthy balance sheet with high cash balance of Rs. 426 crore and negligible debt as on Q4CY09. Cash per share stood at Rs. 29.7 in Q4CY09.
- Hexaware has adopted effective receivable management system; hence liquidity of company has improved every year. Days sales outstanding (DSO) has constantly improved and stood at 56 days in Q4CY09 as against 78 days in Q4CY07.

Niche service offerings

- Hexaware focuses on niche service offerings and emerging technologies and is a leading player in enterprise application services.
- Hexaware is among the leading IT solutions providers for the Airline industry. Company has added new service offerings, such as Enterprise risk management services and strengthened its domain intensive services in the BFSI space.

Valuation

Hexaware is a leading IT and BPO services provider and have extensive experience in managing large IT applications in real time as well as in providing high value services around packaged enterprise applications such as SAP and PeopleSoft.

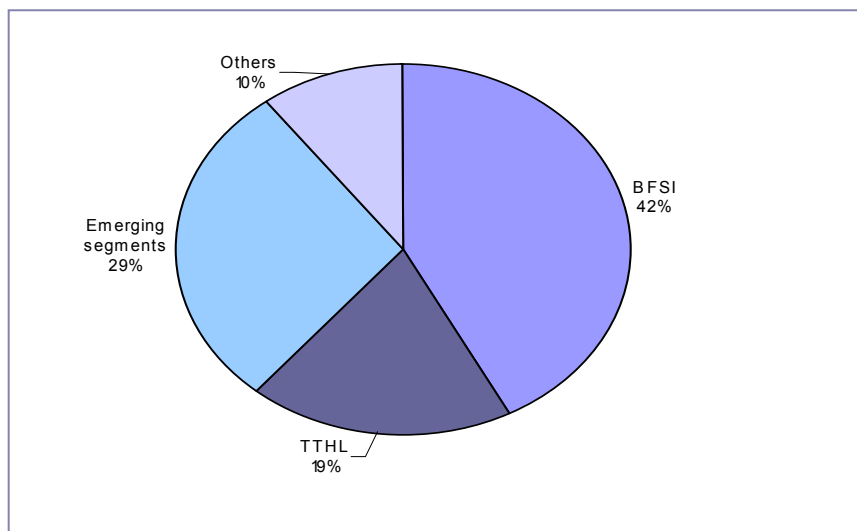
At current market price of Rs. 67/-, Hexaware is trading at P/E of 9.3x and 6.1x of CY10E and CY11E earnings of Rs. 7.2 and 10.9 respectively. We recommend BUY rating on the stock with a target price of Rs 98/- (46% upside) in 18 months at the P/E of 9x on CY11 earnings of Rs 10.9.

The Company: A snapshot

Hexaware Technologies Ltd. (Hexaware),

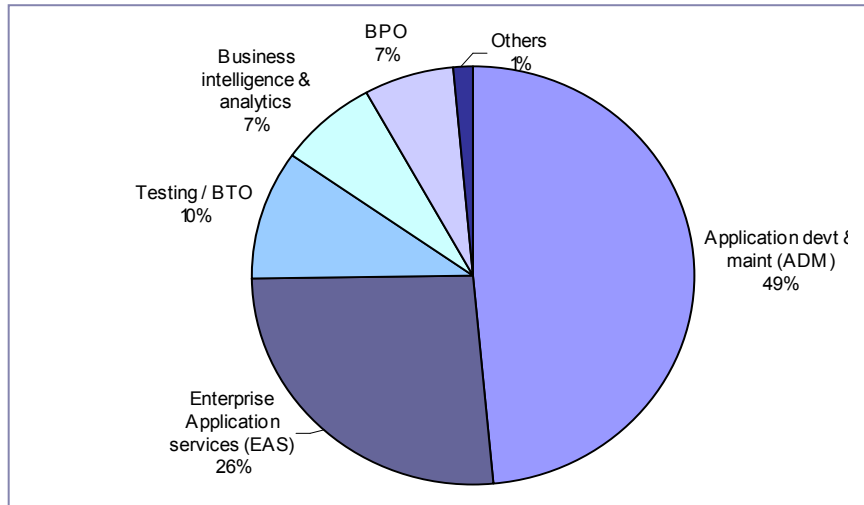
- Hexaware is a leading global provider of IT and BPO services, focused on delivering real business results from technology solutions and specializing in Business Intelligence, Business Analytics, Enterprise Applications, HR-IT and Legacy Modernization.
- Founded in 1990, Hexaware today maintains seven state-of-the-art development centers - four in India and one each in Germany, USA and Mexico, and offices in North America, Europe and Asia Pacific, and employs around 5200 workers in 11 countries serving 159 clients globally.
- In 2006, Hexaware acquired FocusFrame, a US based specialized testing consulting firm, for \$34.3 mn. FocusFrame is a leading provider of Business Technology Optimization consulting services. The firm's specialty is end-to-end enterprise systems validation and optimization for CRM, ERP, and Web based business technologies.
- Caliber Point Business Solutions offers comprehensive Business Processing Outsourcing (BPO) to global organizations. Specializing in IT led Transformational BPO services; Caliber Point covers Healthcare, Human Resources, Finance & Accounting and Knowledge Services Domains.
- Hexaware launched a joint venture Risk Technology International Limited in 2007. In the first quarter of 2009, Hexaware acquired the remaining stake from its JV partner Pemtrad International, to convert RiskTech into a wholly owned subsidiary. RiskTech is a majority-owned JV of Hexaware Technologies with access to over 300 resources with significant business analytics know-how and skills in asset management, derivatives and wealth management and a variety of risk and treasury management applications.

Revenue by verticals (Q4CY09)



Source: Company & SKP Research

Revenue by service offerings (Q4CY09)



Source: Company & SKP Research

Service includes:

Application development and maintenance (ADM)

Hexaware’s ADM services steer business processes and promote business growth by focusing on impacting operational efficiency. Company services blue chip companies with multiple-year contracts for multiple projects. ADM accounted for 48.5% of total revenue in Q4CY09 as compared to 40.4% in Q4CY08.

Enterprise solution

Hexaware offers the industry's most comprehensive Enterprise Application services portfolio, with strong capabilities in world-leading applications. Its competency includes PeopleSoft, SAP, Oracle Applications, Microsoft Axapta, JDE, Siebel. Company has profound knowledge of business processes HR, Payroll, Financials, Supply Chain, Operations, CRM (Customer relationship management), Sales and Distribution, Analytics etc.

Business Technology Optimization/ testing

Hexaware has dedicated testing centre of excellence with 1000+ test professionals, with core focus on domain and technology based testing. Hexaware focus on Quality Assurance & Testing Services (QATS) to provide exponential value addition to the customers. Company synergize with its division FocusFrame to provide a Unified Service Offering (USO) which effectively uses Approach, People and Technology (APT) for better performance and enhanced customer satisfaction.

An AMR Academic report says that 50% of the development cost lies in defect detection and defect fixing costs a whopping \$60 billion. Proper software testing in a dedicated environment can help brings costs down to \$20 billion.

Business Intelligence & Analytics

Hexaware service offerings fall under two broad categories – a) Business Intelligence Engineering Services and b) Analytical services. Hexaware’s BI&A practice has worked with customers across the globe in providing solutions straddling the entire spectrum from consulting to articulation to development, deployment and support.

BPO services

Hexaware offers comprehensive Business Processing Outsourcing (BPO) services to global organizations. Its wholly owned subsidiary Caliber Point specializes in providing IT led Transformational BPO services in Healthcare, Human Resources, and Finance & Accounting Domains.

Investment Arguments

Expertise in Enterprise solution

Hexaware offers the industry's most comprehensive Enterprise Application services portfolio, with strong capabilities in world-leading applications. Hexaware has enabled many companies to derive significant business impact and ROI from their ERP investments. Service range includes Package selection advisory, Global Roll outs, Implementation, Development and Testing, Upgrade, Integration, Support and Maintenance, Training and Technology support and BPO.

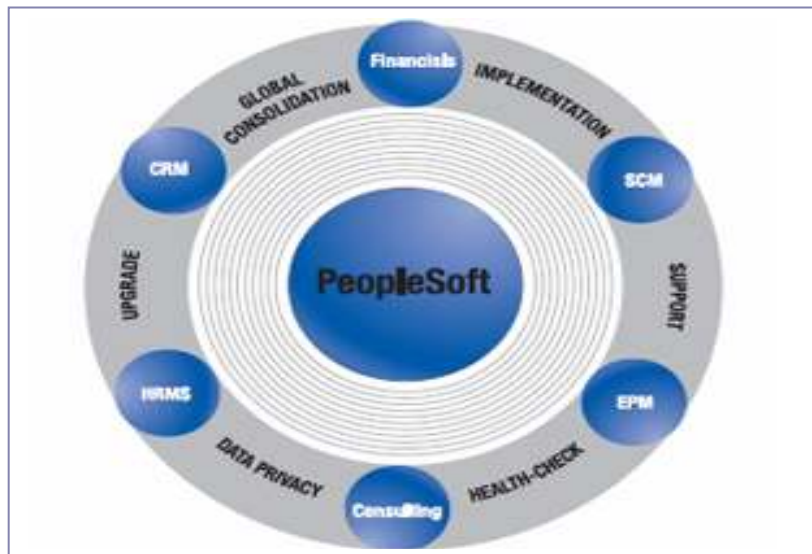
Hexaware has profound knowledge of business processes HR, Payroll, Financials, Supply Chain, Operations, CRM, Sales and Distribution, Analytics, BPO. Company offers a range of end-to-end Enterprise solution services, anchored around process driven solutions and in keeping with the changing market conditions, for major industry segments such as banking and Financial services, Manufacturing & Others.

Hexaware has extensive experience in modernizing large IT applications (Legacy, SOA, Open source, Internet technologies) and providing high value services around business applications such as Analytics, SAP, Oracle-PeopleSoft and Siebel

Global market leader in PeopleSoft services

Hexaware being a People soft alliance partner since 1997. Company helps clients to leverage Enterprise solutions to efficiently manage Enterprise Resource Planning (ERP), proactively handle Human Capital Management (HRM), Supply chain management (SCM) and build sales and marketing efficiency through Customer Relationship Management (CRM).

Hexaware PeopleSoft Competency



Source: Company & SKP Research

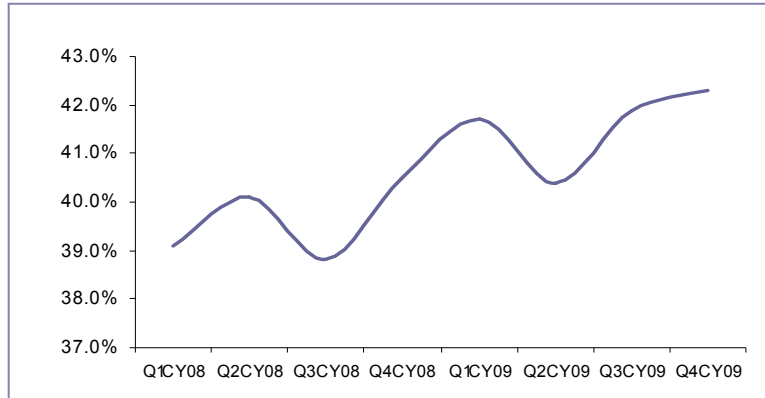
Mounting its presence with increase in client base

Hexaware is focusing on developing long term relationships with its clients by providing them improved quality of services and accelerated delivery schedules. Hexaware has 68 clients that belong to Fortune 500/ Global 500 roster and 56 clients bring in revenue of more than USD 1 million per annum. Its top ten clients contribute about 50% of the revenues. With launch of new services and solutions company is scaling up revenues from existing clients. Hexaware is also adding new clients every quarter.

Niche service offerings

Hexaware focuses on niche service offerings and emerging technologies and is a leading player in enterprise application services. Hexaware is among the leading IT solutions provider for the Airline industry. Company has added new service offerings, such as Enterprise risk management services and strengthened its domain intensive services in the BFSI space.

Revenue contribution through BFSI vertical



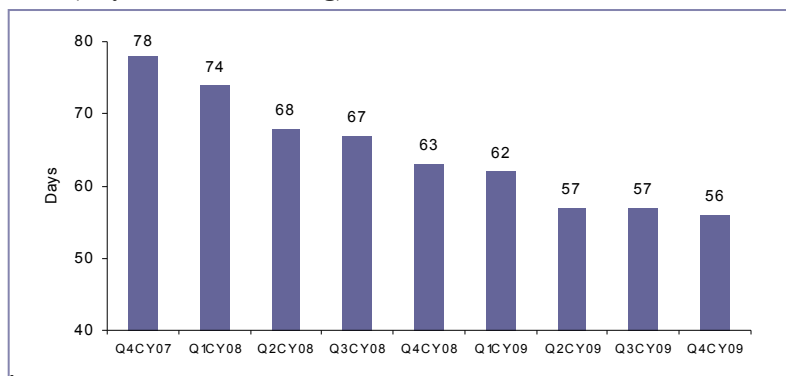
Source: Company & SKP Research

Operational upgrading and Healthy balance sheet

Hexaware Ltd has a healthy balance sheet with high cash balance of Rs. 426 crore and negligible debt as on Q4CY09. Cash per share stood at Rs. 29.7 in Q4CY09. Sensible cost-control measures despite of fall in revenue in last few quarters; helped in pick up the margins.

Hexaware has adopted effective receivable management system; hence liquidity of company has improved every year. Days sales outstanding (DSO) has constantly improved every quarter and stood at 56 days in Q4CY09 as against 78 days in Q4CY07.

DSO (Days sales outstanding)



Source: Company & SKP Research

Hedge losses to lessen going forward

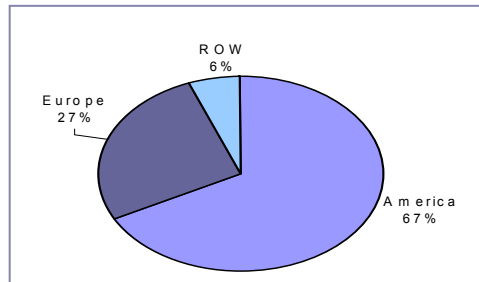
At the end of Q4CY09 company has forward contracts worth USD 70.5 mn at an average rate of Rs.40.58 spread over next three quarters. Company has policy to book MTM difference in the Income statement at every quarter end. We expect by Q4CY10, losses through this low strike hedges are likely to discontinue given its maturity by Q3CY10.

For the subsequent nine quarters, the company has favorable hedges worth USD 60 mn at an average rate of Rs.47.45 against the current spot rate of 44.54 and EUR 17 mn at an average rate of Rs.70.75 against the spot rate of 60.02.

Key Concerns

- **Forex position is likely to dampen the earnings:** Hexaware has an outstanding forex hedging contract of worth USD 70.5 mn at an average rate of Rs. 40.58 spread over the next three quarters. According to the current spot rate Hexaware will incur forex losses for subsequent three quarters.
- **Higher exposure to US:** Hexaware has major focus in North America that exposes company to a higher dependency in a particular country and creates potential downside risk.

Revenue by geography



Source: Company & SKP Research

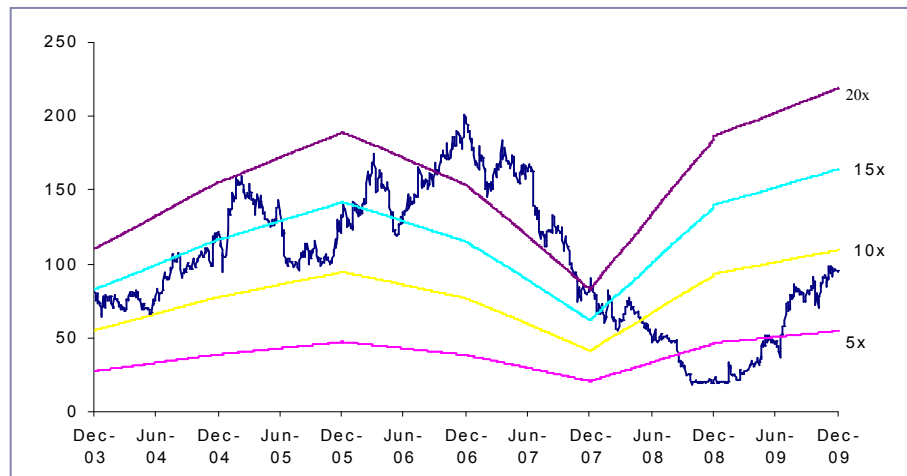
- **High client concentration:** Hexaware has high client concentration, with its top 10 clients contributing to 50% of revenues. Incase of any decline in revenue from these customers may affect the company’s top line adversely.

Valuations & Outlook

Hexaware is a leading IT and BPO services provider and have extensive experience in managing large IT applications in real time as well as in providing high value services around packaged enterprise applications such as SAP and PeopleSoft.

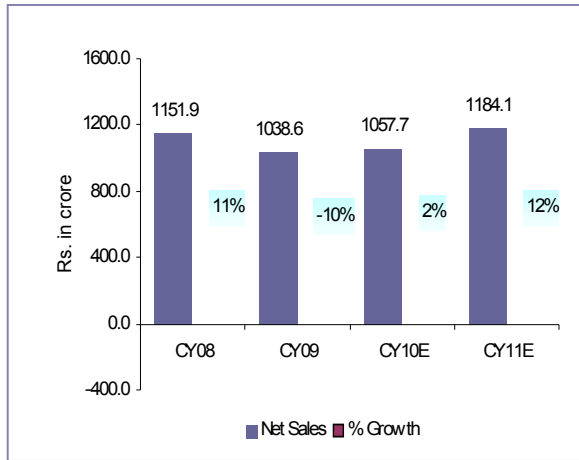
At current market price of Rs. 67/-, Hexaware is trading at PE of 9.3x and 6.1x of CY10E and CY11E earnings of Rs. 7.2 and 10.9 respectively. We recommend BUY rating on the stock with a target price of Rs 98/- (46% upside) in 18 months at the P/E of 9x (which is inline with its historical average and discount to its peer group) on CY11 earnings of Rs 10.9.

1 Year forward rolling P/E chart



Source: SKP Research

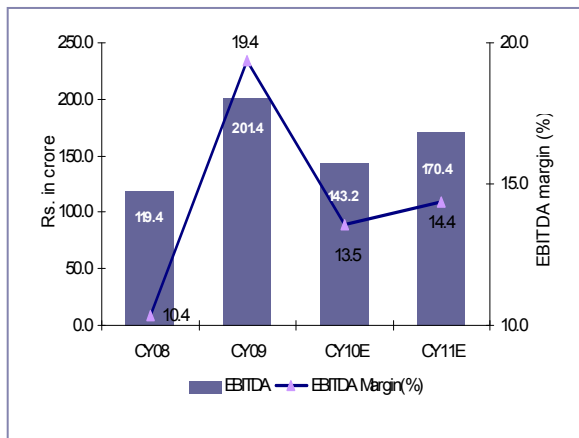
Financial Outlook



Growth to accelerate from CY11

For the CY09, Hexaware recorded a net sales of Rs 1038.6 crore, Y-o-Y decrease of 9.8% in INR terms and Y-o-Y decrease of 18.3% in \$ terms. During the year 2009, 35 new clients were added and number of active clients stood at 157.

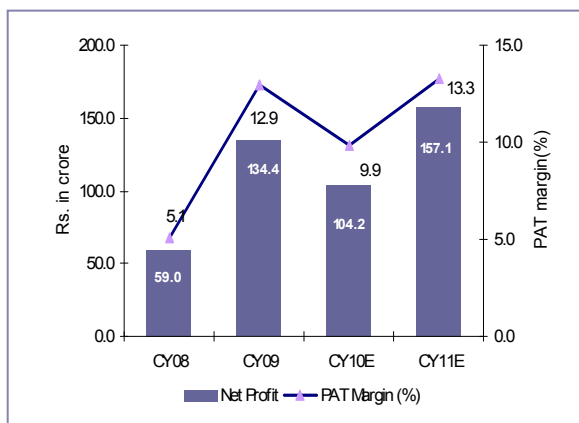
We expect US \$ revenue to grow at CAGR of 11.72% and rupee revenue to grow at CAGR of 6.78% over CY09-11E. We expect growth to pick up with strong client relationship, maintained billing rates, higher volume and cost effectiveness.



EBITDA margins are likely to be impacted from CY10E

Despite of fall in revenue for the year ended 2009, Hexaware Ltd has witnessed an EBITDA margin of 19.4% in CY09 as compared to 10.4% in CY08, mainly due to wage cut effective from Q2CY09 and increased utilization across projects.

We estimate EBITDA margin to fall in CY10E, due to reinstated of salary cuts of 2009 in January 2010 and salary hike to be expected in Q2CY10. We expect EBITDA margin to stand at 13.5% and 14.4% for CY10E and CY11E respectively.



Net Profit to grow at CAGR of 8.1% over CY09-11E

We expect Net profit margin to stand at 9.9% and 13.3% for CY10E and CY11E respectively. Continues diminution of forex losses will improve net profit margin in CY11E.

Source: SKP Research

Consolidated Financials for CY December (Rs. in Crore)
Income Statement

	CY08	CY09	CY10E	CY11E
Net Sales	1151.9	1038.6	1057.7	1184.1
Growth (%)	10.8%	-9.8%	1.8%	11.9%
EBIDTA	119.4	201.4	143.2	170.4
Growth (%)	32.6%	68.7%	-28.9%	19.0%
Depreciation	28.4	27.1	27.9	29.9
EBIT	90.9	174.3	115.3	140.5
Interest	2.1	0.0	0.0	0.0
Net other				
Income	-14.3	-29.5	3.1	49.9
PBT	74.5	144.7	118.5	190.3
Tax	15.5	10.4	14.2	33.3
PAT	59.0	134.4	104.2	157.1
Growth (%)	733.8%	127.8%	-22.4%	50.7%
Eq. Capital (Rs. Crores)	28.7	28.7	28.8	28.8
EPS (Rs.)	4.1	9.4	7.2	10.9
Cash EPS (Rs.)	6.1	11.2	9.2	13.0
DPS (Rs.)	1.00	1.40	1.40	1.60

Balance Sheet

	CY08	CY09E	CY10E	CY11E
Equity capital	28.8	28.8	28.8	28.8
Reserves & Surplus	633.8	820.9	908.4	1,056.8
Shareholder's Fund	662.5	849.7	937.3	1,085.6
Total Debt	19.5	16.3	-	-
Deferred tax liability	(8.4)	(11.0)	(11.0)	(11.0)
Sources of funds	673.6	855.0	926.3	1,074.6
Net Block	323.4	309.5	330.0	352.7
Goodwill	126.3	126.3	126.3	126.3
Investments	-	-	-	-
Total Current Assets	595.0	690.1	745.8	904.4
Debtors	206.5	152.6	166.3	186.2
Cash & Bank Balance	284.9	426.2	462.8	590.2
Loans & Advances	103.5	111.3	116.8	128.1
Current Liabilities & Provisions	371.1	270.9	275.9	308.9
Net Current Assets	223.9	419.2	469.9	595.6
Uses of funds	673.6	855.0	926.3	1,074.6

Ratios

	CY08	CY09E	CY10E	CY11E
Valuation Ratios				
P/E	16.3	7.2	9.3	6.1
Price / Book Value	1.5	1.1	1.0	0.9
Price / Cash				
EPS	11.0	6.0	7.3	5.2
EV / EBIDTA	5.8	2.7	3.5	2.2
Market Cap / Sales	0.8	0.9	0.9	0.8
Earning Ratios				
EBITDA (%)	10.4%	19.4%	13.5%	14.4%
NPM (%)	5.1%	12.9%	9.8%	13.3%
RoNW (%)	8.9%	15.8%	11.1%	14.5%
RoCE (%)	13.5%	20.4%	12.4%	13.1%
DPR	0.2	0.2	0.2	0.2
Balance Sheet Ratios				
Debt-Equity	0.0	0.0	0.0	0.0
Current Ratio	1.6	2.5	2.7	2.9
Debtors Days	66	62	54	54

Cash Flow statement

	CY08	CY09E	CY10E	CY11E
Profit before tax	74.5	144.7	118.5	190.3
Add: Depreciation, Int. & other expenses	-72.4	27.1	34.5	48.1
Net changes in working capital	90.1	16.3	-14.2	1.8
Direct taxes paid	-23.7	-10.4	-14.2	-33.3
Cash Flow from Operating activities	68.5	177.8	124.6	206.9
Capital expenditure	-114.9	-6.2	-48.4	-52.6
Change in Investments	229.2	0.0	0.0	0.0
Dividend, Interest received & other	1.3	0.0	0.0	0.0
Cash flow from investing activities	115.5	-6.2	-48.4	-52.6
Cash Flow from Financing activities	6.9	-26.7	-39.5	-27.0
Cash Flow during the year	191.0	144.8	36.6	127.4
Opening Cash	90.3	281.3	426.1	462.8
Cash & cash equivalent	281.3	426.1	462.8	590.2

The above analysis and data are based on last available prices and not official closing rates. SKP Research is also available on Bloomberg, Thomson First Call & Investext Myiris, Moneycontrol, Tickerplant and ISI Securities

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SKP Securities Ltd

Contacts	Research		Sales	
	Mumbai	Kolkata	Mumbai	Kolkata
Phone	022 2281 9012	033 4007 7000	022 2281 1015	033 4007 7400
Fax	022 2283 0932	033 4007 7007	022 2283 0932	033 4007 7007
E-mail	researchmum@skpmoneywise.com	research@skpmoneywise.com	Skp.sec@bloomberg.net	