

# Hexaware Technologies

Relative to sector: **Underperformer**

Lead Analyst: **Priya Rohira**

Email: priya@enam.com

Tel: +9122 6754 7611

Associate: **Kashyap Desai**

Email: kashyap@enam.com

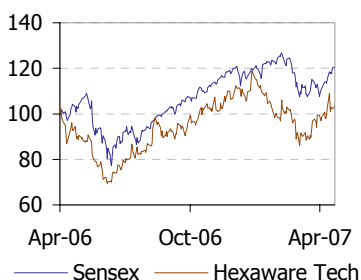
Tel: +9122 6754 7574

Associate: **Meeshal Mehta**

Email: meeshal.mehta@enam.com

Tel: +9122 6754 7781

## Relative Performance



Source: Bloomberg, ENAM Research

## Stock data

No. of shares	: 133mn
Market cap	: Rs 23.8bn
52 week high/low	: Rs 205/ Rs 110
Avg. daily vol. (6mth)	: 343,500 shares
Bloomberg code	: HEXW IN
Reuters code	: HEXT.BO

## Shareholding (%) Mar-07 QoQ chg

Promoters	: 25.5	(0.2)
FIIIs	: 52.2	(1.1)
MFs / UTI	: 2.4	0.1
Banks / FIs	: 4.9	0.1
Others	: 15.0	1.1

## Financial summary

Y/E Dec	Sales (Rs. mn)	PAT (Rs. mn)	Consensus EPS* (Rs.)	EPS (Rs.)	Change YoY (%)	P/E (x)	RoE (%)	RoCE (%)	EV/EBIDTA (x)
2005	6,787	921	-	7.5	56	17.5	30.0	33.4	12.5
2006	8,482	1,242	9.4	8.4	13	23.7	22.7	24.6	14.8
2007E	11,909	1,515	10.9	10.5	24	17.1	18.4	21.3	11.7
2008E	15,118	1,806	13.6	12.3	17	14.6	18.4	22.1	8.9

Source: Company, ENAM estimates; \*Consensus broker estimates

## AWAITING PROFITABLE GROWTH

Hexaware Technologies' Q1CY06 results were inline with our expectations. Topline and PAT were up 10.1% and 4.3% QoQ respectively, buoyed both by volumes and pricing. Topline guidance for Q2CY07 at USD 65mn with a 7.3% QoQ growth towards a healthy demand environment. However, a disturbing fact is the PAT guidance of ~USD 7.1mn that implies that margin improvement and achieving profitable growth (in line with topline growth) is becoming an arduous task. Management has indicated that salary hikes, visa costs and currency appreciation would have significant impact on PAT in Q2 and hence the muted guidance, which is a concern for the entire industry.

### Organizational focus helping visibility

The company has built a strong USD 260mn order book with 1.1x annualized run-rate for Q1CY07. New order wins at USD 61mn in Q1 include two USD 10mn+ orders. We believe a focused approach towards verticals and select client acquisition over the past few quarters has enabled Hexaware to position itself better than before. Testing, HR and BI continue to remain upbeat.

### Client mining remains the top agenda

Performance this quarter was mainly led by the top 5 accounts and the company has been focusing on better client mining. This strategy has been yielding positive results:

- Annualized run rates for an average client in the top 2-5 bucket has touched ~USD 16mn (↑ ~18.5% QoQ). Similarly in the top 6-10 bucket, the engagement size has increased to USD36.5mn (↑ ~11.4% QoQ)
- Q1CY07 saw an improvement in client quality – with an increase in USD 10mn (+1) and <USD 5mn accounts (+5).

**Valuations:** Our analysis indicates that the SG&A leverage could be insufficient to completely mitigate the negative impact of salary hikes and INR appreciation. The lower PAT CAGR at ~21% for CY06-CY08E v/s a 33.5% CAGR in topline for the same period with current valuations at 17xCY07E EPS warrants a review in our rating. Hence we are revising our rating to sector **Underperformer**.

**Results update**

(Rs. mn)	Quarter ended					12 months ended		
	Mar-07	Mar-06	% Chg	Dec-06	% Chg	Dec-07E	Dec-06	% Chg
<b>Net Sales</b>	<b>2,644</b>	<b>1,762</b>	<b>50.1</b>	<b>2,402</b>	<b>10.1</b>	<b>11,909</b>	<b>8,482</b>	<b>40.4</b>
<b>EBIDTA</b>	<b>395</b>	<b>294</b>	<b>34.6</b>	<b>357</b>	<b>10.7</b>	<b>1,743</b>	<b>1,322</b>	<b>31.8</b>
Other income	68	35	96.5	79	(14.2)	290	241	20.5
<b>PBIDT</b>	<b>463</b>	<b>328</b>	<b>41.1</b>	<b>437</b>	<b>6.1</b>	<b>2,033</b>	<b>1,563</b>	<b>30.1</b>
Depreciation	56	46	22.6	53	6.8	269	200	34.5
<b>PBT</b>	<b>407</b>	<b>282</b>	<b>44.1</b>	<b>384</b>	<b>6.1</b>	<b>1,764</b>	<b>1,363</b>	<b>29.5</b>
Tax	55	22	148.8	46	19.1	250	120	107.2
<b>Adjusted PAT</b>	<b>352</b>	<b>260</b>	<b>35.2</b>	<b>338</b>	<b>4.3</b>	<b>1,515</b>	<b>1,242</b>	<b>21.9</b>
No. of shares (mn)	145	136	-	147	-	145	147	-
EBIDTA margin (%)	15.0	16.7	-	14.9	-	14.6	15.6	-
PBIDT margin (%)	17.5	18.6	-	18.2	-	17.1	18.4	-
<b>EPS (Rs.)</b>	<b>9.7</b>	<b>7.7</b>	<b>26.8</b>	<b>9.2</b>	<b>6.2</b>	<b>10.5</b>	<b>8.4</b>	<b>24.2</b>

Source: Company, ENAM Research

**Q1CY07 Performance highlights**

	Q1CY07	QoQ Chg (%)	YoY Chg (%)
<b>Revenue Mix (Rs mn)</b>			
Onsite	1,642	10.9	51.3
Offshore	1,002	8.6	48.1
<b>Volume Growth (utilized hours)</b>			
Blended		8.7	50.6
<b>Clientele Performance (Rs mn)</b>			
Top Client	225	12.7	31.5
Top 2-5 Clients	664	13.2	69.7
Top 6-10 Clients	383	6.4	40.4
Remaining Clients	1,372	9.2	48.1

Source: Company, ENAM Research

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