

July 27, 2011

Reco	Previous Reco
Accumulate	Accumulate
CMP	Target Price
Rs82	Rs95
EPS change FY12E/13E (%)	14/10
Target Price change (%)	19
Nifty	5,575
Sensex	18,518

### Price Performance

(%)	1M	3M	6M	12M
Absolute	17	15	35	100
Rel. to Nifty	15	21	37	94

Source: Bloomberg

### Relative Price Chart



Source: Bloomberg

### Stock Details

Sector	IT Services
Bloomberg	HEXW@IN
Equity Capital (Rs mn)	585
Face Value(Rs)	2
No of shares o/s (mn)	293
52 Week H/L	82/33
Market Cap (Rs bn/USD mn)	23/520
Daily Avg Volume (No of sh)	428414
Daily Avg Turnover (US\$m)	0.7

### Shareholding Pattern (%)

	Jun-11	Mar-11	Dec-10
Promoters	28.4	28.4	28.4
FII/NRI	45.9	48.5	45.9
Institutions	8.9	7.2	8.9
Private Corp	5.7	4.3	5.7
Public	11.2	11.7	11.2

Source: Capitaline

### Manik Taneja

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

### Priya Gajwani

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

- June'11 results vindicate our positive thesis with revenues at US\$ 75 mn(+6.2% QoQ) and op mgns improving by ~100 bps QoQ to 15.3% despite wage increments and strong net hiring
- Profits at Rs 603 mn (+12% QoQ) beat estimates driven by better margins aided further by higher than expected hedging gains and lower taxes
- CY11 revenue outlook raised to 30% YoY growth to US\$ 302 mn (V/s US\$ 295 mn earlier). Sep'11 quarter revenue guidance is strong at 4.3-5.6% QoQ increase
- Raise CY11/12E earnings by ~14%/11% to Rs 7.5/8.2 driven by higher margin assumptions (refer section below). Retain ACCUMULATE with a revised TP of Rs 95 (V/s Rs 80 earlier)

### In line revenues, margin show vindicate positive thesis

Hexaware reported June'11 revenues in line with expectations at US\$ 74.8 mn (+6.2% QoQ, +36% YoY), however are positively surprised by the operating margin performance. EBITDA margins improved by ~100 bps sequentially to 15.3% ( V/s expectations of flat margins) despite negative impacts from (1) implementation of offshore wage hikes and (2) solid hiring ( co hired ~750+ people on a net basis to take the total HC to ~7,400) as SG&A expenses declined by ~170 bps QoQ to 213% . Profits at Rs 603 mn beat expectations (Emkay est of Rs 475 mn) driven by higher operating performance aided further by higher hedging gains and lower taxes. Growth was strong across top clients with top 5/10 client revenues increasing by 8%/11% sequentially.

### Strong Sep'11 revenue guidance, annual guidance raised further

Hexaware has guided for a strong 4.3-5.6% QoQ growth in revenues for Sep'11 at US\$ 78-79 mn. As highlighted in our earlier notes on co's annual revenue guidance at US\$ 295 mn being conservative , co has now raised full year revenue outlook to US\$ 302 mn (+30% YoY) which still builds in QoQ flat revenues in Dec'11 qtr. **We find further confidence in co's outlook on sustaining /improving margins from current levels through H2CY11 as company gains from (1) strong revenue growth and, (2) further SG&A leverage**

### Raise CY11/12E earnings by ~14%/10%, ACCUMULATE, TP Rs 95

We raise our CY11/CY12 earnings estimates by ~14%/10% after a big upgrade in April'11 driven by (1) marginal increase in US\$ revenue estimates (we bake in 33%/21% YoY US\$ revenue growth V/s 32%/19% earlier), (2) increase in margin assumptions (now build in EBITDA margins at 15%/15.3% V/s 13.9%/14.4% earlier) and (3) higher hedging gains in H1CY11. We continue to retain ACCUMULATE with a revised TP of Rs 95 (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	17.4	10.2	2.8
FY11	10,545	938	8.9	853	2.9	9.4	27.4	20.4	2.4
FY12E	13,871	2,084	15.0	2,190	7.5	21.6	10.7	8.7	2.2
FY13E	16,776	2,562	15.3	2,370	8.2	21.0	9.9	6.9	2.0

## Quarterly performance

Rs mn	Q2CY10	Q3CY10	Q4CY10	Q1CY11	Q2CY11	YoY (%)	QoQ (%)	YTD'11	YTD'10	YoY (%)
<b>Revenue (US \$ Mn)</b>	<b>54.9</b>	<b>61.1</b>	<b>66.6</b>	<b>70.4</b>	<b>74.8</b>	<b>36.2</b>	<b>6.2</b>	<b>145.2</b>	<b>103.5</b>	<b>40.3</b>
<b>Revenue Rs. Mn</b>	<b>2,512</b>	<b>2,817</b>	<b>2,996</b>	<b>3,185</b>	<b>3,341</b>	<b>33.0</b>	<b>4.9</b>	<b>6,526</b>	<b>4,732</b>	<b>37.9</b>
<b>Operating Expenditure</b>	<b>2,342</b>	<b>2,577</b>	<b>2,651</b>	<b>2,730</b>	<b>2,830</b>	<b>20.8</b>	<b>3.7</b>	<b>5,560</b>	<b>4,379</b>	<b>27.0</b>
Cost of revenues	1,659	1,874	1,962	1,998	2,117	27.6	6.0	4,115	3,079	33.6
as % of sales	66.0	66.5	65.5	62.7	63.4			63.1	65.1	
SG&A expenses	683	703	689	732	713	4.4	-2.6	1,445	1,300	11.2
as % of sales	27.2	25.0	23.0	23.0	21.3			22.1	27.5	
<b>EBITDA</b>	<b>170</b>	<b>240</b>	<b>345</b>	<b>455</b>	<b>511</b>	<b>200.6</b>	<b>12.2</b>	<b>966</b>	<b>353</b>	<b>173.8</b>
Depreciation	59	58	66	62	59	-0.3	-4.5	120	118	2.0
<b>EBIT</b>	<b>111</b>	<b>182</b>	<b>279</b>	<b>394</b>	<b>452</b>	<b>307.4</b>	<b>14.8</b>	<b>846</b>	<b>235</b>	<b>260.0</b>
Other Income	52	248	172	188	267		41.9	455	54	
<b>PBT</b>	<b>163</b>	<b>429</b>	<b>451</b>	<b>582</b>	<b>719</b>	<b>341.2</b>	<b>23.6</b>	<b>1,301</b>	<b>289</b>	<b>350.2</b>
Total Tax	19	9	55	44	116	510.5	164.8	160	28	470.7
<b>Adjusted PAT</b>	<b>144</b>	<b>421</b>	<b>396</b>	<b>538</b>	<b>603</b>	<b>318.9</b>	<b>12.1</b>	<b>1,141</b>	<b>261</b>	<b>337.3</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>318.9</b>	<b>12.1</b>	<b>1,141</b>	<b>261</b>	<b>337.3</b>
Extra ordinary items	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>318.9</b>	<b>12.1</b>	<b>1,141</b>	<b>261</b>	<b>337.3</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>318.9</b>	<b>12.1</b>	<b>3.93</b>	<b>0.90</b>	<b>337.3</b>

Margins (%)						(bps)	(bps)				(bps)
EBIDTA	6.8	8.5	11.5	14.3	15.3	853	100	14.8	7.5	735	
EBIT	4.4	6.5	9.3	12.4	13.5	912	117	13.0	5.0	800	
EBT	6.5	15.2	15.1	18.3	21.5	1,504	326	19.9	6.1	1,383	
PAT	5.7	14.9	13.2	16.9	18.1	1,232	116	17.5	5.5	1,197	
Effective Tax rate	11.7	2.0	12.2	7.5	16.1	447.3	860.2	12.3	9.7	259	

Source: Company, Emkay Research

Raise CY11/12 E earnings by ~14% /10% to Rs 7.5/8.2 aided largely by higher margin expectations as we also tweak up our US\$ revenue estimates as well

All fig in Rs mn except (EPS and %)	CY11E			CY12 E		
	Old	New	% change	Old	New	% change
Revenues( US\$ mn)	306	308	0.8%	365	373	2.1%
Revenues	13,771	13,871	0.7%	16,404	16,776	2.3%
EBITDA	1,912	2,084	9.0%	2,363	2,562	8.4%
EBITDA mgns, %	13.9	15.0	113	14.4	15.3	87
Net profits	1,880	2,190	16.5%	2,135	2,370	11.0%
EPS	6.6	7.5	14.3%	7.4	8.2	10.3%

## Operating metrics at a glance

	Q2CY11	Growth %	
		% QoQ	% YoY
<b>Vertical wise split</b>			
BFSI	32.9%	1.6%	22.8%
TTHL	24.6%	5.4%	54.5%
Emerging Segment	42.5%	10.7%	38.5%
<b>Service Line Split</b>			
ADM	39.2%	7.1%	11.3%
EAS	31.3%	5.2%	53.4%
Testing/BTO	9.4%	7.4%	58.1%
Business Intelligence & Analytics	9.9%	6.2%	98.4%
BPO	5.7%	6.3%	10.9%
Others	4.5%	3.9%	166.6%
<b>Geographical Split</b>			
US	66.4%	6.9%	37.7%
Europe	27.2%	3.6%	28.2%
ROW	6.4%	11.5%	61.5%
<b>Onsite Offshore Revenue Mix</b>			
Onsite	56.7%	1.8%	29.9%
Offshore	43.3%	12.8%	50.7%
<b>Client Concentration</b>			
Top client	12.5%	14.5%	98.0%
Top 5 clients	38.3%	7.9%	53.0%
Top 10 clients	51.8%	11.2%	45.5%
Non Top 10 client revenues	49.5%	1.4%	27.5%
<b>Total Headcount</b>	7,419	11%	23%

## 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>13,871</b>	<b>16,776</b>
Growth (%)		1.5	31.5	20.9
<b>Total Expenditure</b>	<b>(8,363)</b>	<b>(9,607)</b>	<b>(11,787)</b>	<b>(14,213)</b>
Growth (%)		14.9	22.7	20.6
<b>Cost Of Revenues</b>	<b>(5,643)</b>	<b>(6,915)</b>	<b>(8,758)</b>	<b>(10,816)</b>
Growth (%)		22.5	26.7	23.5
COR, as % of Revenues	54.3	65.6	63.1	64.5
<b>SG&amp;A expenses</b>	<b>(2,720)</b>	<b>(2,692)</b>	<b>(3,030)</b>	<b>(3,397)</b>
Growth (%)		(1.0)	12.5	12.1
SG&A exp as % of Revenues	26.2	25.5	21.8	20.3
<b>EBIDTA</b>	<b>2,023</b>	<b>938</b>	<b>2,084</b>	<b>2,562</b>
Growth (%)		(53.6)	122.2	23.0
<b>EBIDTA %</b>	19.5	8.9	15.0	15.3
Other Income	(307)	249	752	713
Depreciation	270	242	248	276
<b>EBIT</b>	<b>1,446</b>	<b>945</b>	<b>2,588</b>	<b>3,000</b>
Interest	-	-	-	-
<b>EBT</b>	<b>1,446</b>	<b>945</b>	<b>2,588</b>	<b>3,000</b>
Tax	103	92	398	630
<b>EAT</b>	<b>1,343</b>	<b>853</b>	<b>2,190</b>	<b>2,370</b>
Growth (%)		(36.5)	156.7	8.2
EAT (%)	12.9	8.1	15.8	14.1

## Cash Flow

Y/E, Dec. (Rs. m)	FY10	FY11P	FY12E	FY13E
Net Profit after Tax	1,343	853	2,190	2,370
Add : Depreciation	270	242	248	276
Add : Misc exp w/off	-	-	-	-
<b>Net changes in WC</b>	<b>(1,164)</b>	<b>(1,683)</b>	<b>1,172</b>	<b>(140)</b>
<b>Operational Cash Flows</b>	<b>1,478</b>	<b>201</b>	<b>1,913</b>	<b>2,224</b>
<b>Capital expenditure</b>	<b>(130)</b>	<b>37</b>	<b>294</b>	<b>(675)</b>
Investments	(122)	1,047	-	-
<b>Investing Cash Flows</b>	<b>(252)</b>	<b>1,084</b>	<b>294</b>	<b>(675)</b>
Borrowings	(32)	(51)	-	-
dividend paid	(476)	(510)	(1,189)	(1,109)
Issue of shares	-	342	-	-
Share Premium				
<b>Financing Cash Flows</b>	<b>(508)</b>	<b>(219)</b>	<b>(1,189)</b>	<b>(1,109)</b>
changes in cash	718	1,066	1,018	440
Opening balance	3,544	4,262	4,356	5,390
<b>Closing balance</b>	<b>4,262</b>	<b>4,356</b>	<b>5,390</b>	<b>5,827</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	10,064	11,322
Minority Interest	-	-	-	-
<b>Networth</b>	<b>8,497</b>	<b>9,655</b>	<b>10,645</b>	<b>11,903</b>
Secured Loans	163	112	112	112
Unsecured Loans	-	-	-	-
<b>Loan Funds</b>	<b>163</b>	<b>112</b>	<b>112</b>	<b>112</b>
Deferred Tax Lia	10	13	13	0
<b>Total Liabilities</b>	<b>8,670</b>	<b>9,780</b>	<b>10,770</b>	<b>12,015</b>
Goodwill	1,207	1,160	1,160	1,160
Gross Block	3,298	3,469	4,144	4,819
Less: Depreciation	(1,404)	(1,519)	(1,767)	(2,043)
<b>Net block</b>	<b>3,100</b>	<b>3,109</b>	<b>3,537</b>	<b>3,936</b>
<b>Capital WIP</b>	<b>1,258</b>	<b>969</b>	-	-
<b>Investment</b>	<b>1,269</b>	<b>397</b>	<b>397</b>	<b>397</b>
<b>Current Assets</b>	<b>5,632</b>	<b>7,907</b>	<b>9,874</b>	<b>11,250</b>
Inventories	-	-	-	-
Sundry debtors	1,526	1,919	2,394	2,896
Cash & bank balance	2,992	4,356	5,390	5,827
Loans & advances	931	976	2,090	2,528
Other current assets	182	657	-	-
<b>Current Liab &amp; Prov</b>	<b>2,709</b>	<b>2,785</b>	<b>3,192</b>	<b>3,723</b>
Current liabilities	1,998	1,475	3,192	3,723
Provisions	710	1,309	-	-
<b>Net current assets</b>	<b>2,923</b>	<b>5,122</b>	<b>6,682</b>	<b>7,528</b>
<b>Misc exps</b>	-	-	-	-
<b>Deferred Tax Assets</b>	<b>121</b>	<b>182</b>	<b>182</b>	<b>182</b>
<b>Total Assets</b>	<b>8,670</b>	<b>9,780</b>	<b>10,797</b>	<b>12,042</b>

## Key ratios

Y/E, Dec.	FY10	FY11	FY12E	FY13E
EPS (Rs)	4.6	2.9	7.5	8.2
CEPS (Rs)	5.6	3.8	8.4	9.1
Book Value /Share (Rs)	29.3	33.2	36.7	41.0
Dividend /Share (Rs)	1.4	1.5	3.5	3.3
DSO	53.6	66.4	63.0	63.0
<b>Valuations Ratios (x)</b>				
PER	17.4	27.4	10.7	9.9
P/CEPS	14.5	21.4	9.6	8.9
P/BV	2.8	2.4	2.2	2.0
EV/EBIDTA	10.2	20.4	8.7	6.9
EV/Sales	2.0	1.8	1.3	1.0
M-Cap/sales	2.3	2.2	1.7	1.4
<b>Profitability Ratios (%)</b>				
RoCE	22.6	7.5	18.0	20.3
RoNW	17.8	9.4	21.6	21.0
EBITDA Margin	19.5	8.9	15.0	15.3
EBIT Margins	16.9	6.6	13.2	13.6
Net Profit Margin	12.9	8.1	15.8	14.1

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

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

**Recent Research Reports**

Date	Reports	Reco	CMP	Target
26/07/2011	<a href="#">Patni Computer Q2CY11 Result Update</a>	Not Rated	322	NA
20/07/2011	<a href="#">Wipro Q1FY12 Result Update</a>	Reduce	399	420
20/07/2011	<a href="#">NIIT Tech Q1FY12 Result Update</a>	Accumulate	203	250
19/07/2011	<a href="#">Persistent Q1FY12 Result Update</a>	Accumulate	373	430

**Emkay Global Financial Services Ltd.**

Paragon Center, H -13 -16, 1st Floor, Pandurang Budhkar Marg, Worli, Mumbai – 400 013. Tel No. 6612 1212. Fax: 6624 2410

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