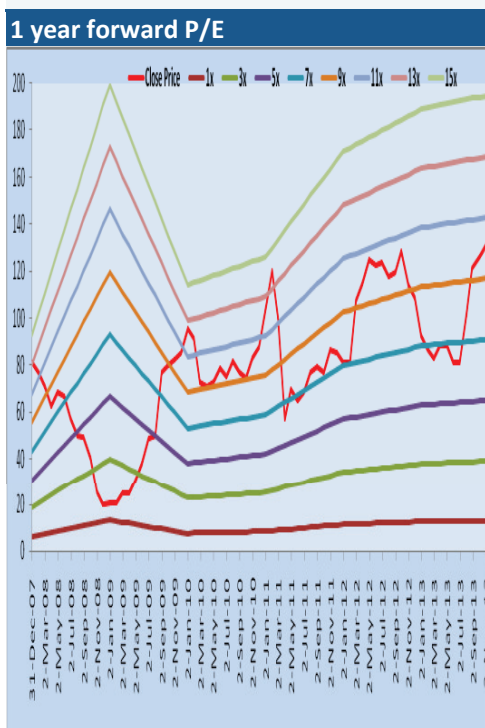


Results update	Neutral
CMP	124
Target Price	144
Previous Target Price	123
Upside	16%
Change from Previous	17%

Market Data	
BSE Code	53219
NSE Symbol	HEXAWARE
52wk Range H/L	142/72
Mkt Capital (Rs Crores)	3277
Average Daily Volume	20884
Nifty	6078

Stock Performance	1M	1yr	YTD
Absolute	-4.6	11.5	5.9
Rel. to Nifty	-3.9	4.6	4.8

Share Holding Pattern-%	Current	2QCY13	1QCY13
Promoters	43.47	27.83	27.92
FII	24.97	39.54	36.21
DII	5.22	6.61	10.38
Others	26.34	26.02	25.49



**Good set of numbers but cautious for next quarter's growth;**

Hexaware witnessed better than street expectation with 13.7% (QoQ) revenue growth in INR term and 4.2% in USD term led by healthy growth across all verticals and geographies. PAT up by 12.3% adversely impacted by forex loss during the quarter.

Post open offer, structural changes has taken place and company has changed its operational strategies. As per the new strategies, company would not reveal its earning and margin guidance. However, management stated to maintain same range of sales growth and stable margin picture in coming quarter.

The Company is chasing few large deals (US\$25mn+) from existing clients and expects to conclude at least two by end of CY13. Outlook from banking clients remains strong. On geography front, US is strong, and Europe outlook has improved, and we expect healthy growth going forward.

**Steady Margin:** During the quarter, EBITD margin flat at 23.8% impacted by higher Software and Development Expense (up by 240 bps QoQ) despite the fall in Staff cost (down by 250 bps QoQ) as percentage to Sales.

**Attractive clients addition:** It added 13 new clients and has 225 active clients. Of these, 3 clients were added in the BFS Domain and 6 clients were added in the Healthcare & Insurance space and 1 in the Travel and Transportation Vertical. The Company's management further hinted that there is possibility that 2 of this accounts may turn to multi-million dollar engagements.

**Healthy Pipeline:** The demand in North America seems to be healthy and overall pipeline looks strong. The increased onsite in the onsite-offshore mix and other investments expects to result the margins to remain in the narrow band going forward.

**Key facts from conference call:**

- Almost 3-4 account (Of the 13 account) will give over the USD 1 mn in the CY'14. The 2 of the projects may turn to the multi-million dollar engagements. The pipeline remains fairly stable.
- With the new change in the share holding pattern and the new board in place, it has not changed the organizational structure and the key leadership, and clarified that there is no compensation changes as of now.
- It expects to close on large deal in the Q4'CY13, but given the softness in Q4 due to furloughs it may push to the Q1'CY13.

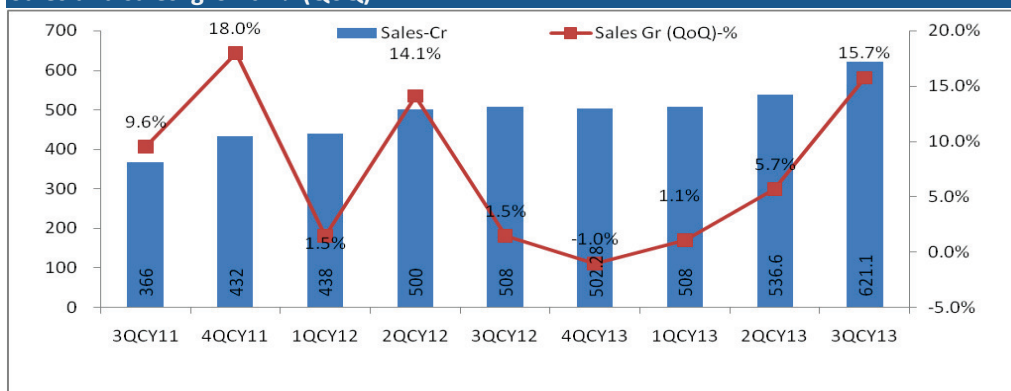
We expect Hexaware to post USD revenue at a CAGR of 9-10% over CY12-14E. While cash at Rs268cr, 50% pay out and 25%+ RoE imply financial state remains healthy.

**Considering the visibility of weak growth and narrow range of margin expansion in next quarter, we downgrade our view from "Buy" to "Neutral". At this point client can book their profit on the stock. At a CMP of Rs 124, stock trades at 9.5x CY14E EPS.**

Financials	Rs, Crore				
	3QCY13	2QCY13	(QoQ)-%	3QCY12	(YoY)-%
Revenue	621.1	536.6	15.7	507.52	22.4
EBITDA	147.74	127.24	16.1	109.02	35.5
PAT	98.73	97.9	0.8	83.81	17.8
EBITDA Margin	23.8%	23.7%	10bps	21.5%	230bps
PAT Margin	15.9%	18.2%	(270bps)	16.5%	(60bps)

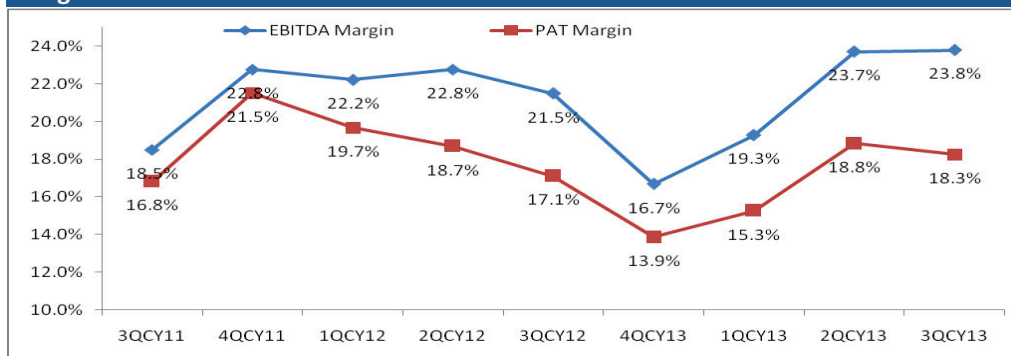
# Hexaware

## Sales and sales growth-%(QoQ)



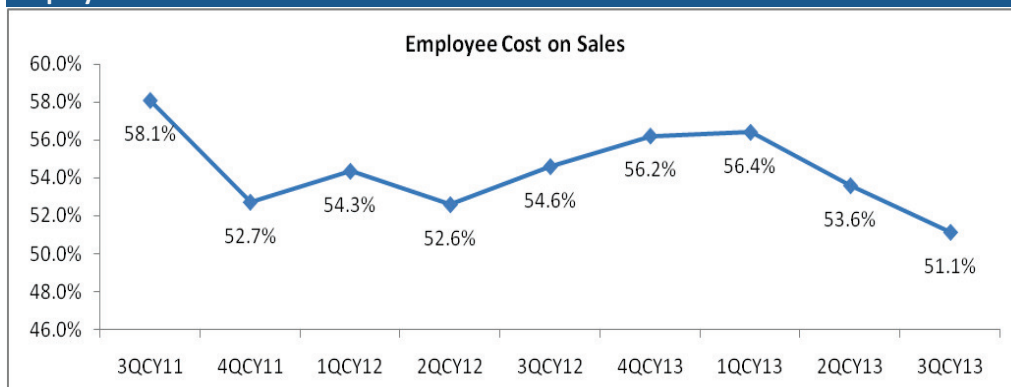
(Source: Company/Eastwind)

## Margin-%



(Source: Company/Eastwind)

## Employee Cost on Sales-%



(Source: Company/Eastwind)

## Recent developments:

**Hedging Policy:** The Company has hedges worth USD 205 million at an effective rate of Rs 57.96 and € 11 million at an effective exchange rate of Rs 76.39 maturing over the course of the next 8 quarters (from October 2013 to July 2015). The hedge policy not changed but reviewing the policy.

**Headcounts front:** The utilization (incl trainees) improved to 71.8% compared to 70.9% in the previous quarter, but the TTM attrition increased to 12.3% (11% in Q1) during the quarter. The onsite-offshore mix, onsite mix increased to 53.6% compared to 52.5% in the previous quarter.

# Hexaware

## Operating Metrics;

Client Metrics	1QCY12	2QCY12	3QCY12	4QCY12	1QCY13	2QCY13	3QCY13
Client Billed	201	210	217	218	216	219	225
Clients added	12	12	12	11	11	14	13
DSO(Billed)	52	45	56	66	53	47	54
DSO(Unbilled Accruals)	72	66	77	77	71	63	69
<b>Revenue Concentration</b>							
Top 1	14.8%	14.8%	14.8%	11.7%	13.0%	13.8%	15.6%
Top 5	38.9%	37.8%	36.3%	36.0%	36.8%	37.9%	40.0%
Top 10	52.7%	51.7%	50.9%	51.1%	51.2%	53.1%	54.3%
<b>Client Size</b>							
More than \$ 1 Mn +	55	57	57	55	55	53	53
Between \$ 1 to 5 Mn	42	44	43	40	40	37	37
Between \$ 5 to 10 Mn	7	7	7	7	7	8	8
Between \$ 10 to 20 Mn	3	3	4	5	5	5	5
Over \$ 20 Mn	3	3	3	3	3	3	3
<b>Utilization/Attrition</b>							
Utilization	68.6%	70.0%	67.6%	63.9%	70.6%	70.9%	71.8%
Attrition	11.0%	9.6%	8.4%	8.7%	9.9%	11.0%	12.3%

## Financials:

Rs, Cr	CY09	CY10	CY11	CY12	CY13	CY14
Net Sales-USD	214.68	231.16	308	364	377.31	441.11
Net Sales	1038.56	1054.56	1450.51	1948.18	2263.88	2624.62
Software and Development Expenses	119.74	153.06	209.82	300	339.58	406.82
Employee benefits expenses	571.07	675.49	821.03	1060.54	1222.50	1430.42
Operation and other expenses	150.15	135.47	158.32	183.58	203.75	249.34
Total Expenses	840.96	964.02	1189.17	1544.12	1765.83	2086.57
EBITDA	197.6	90.54	261.34	404.06	498.05	538.05
Depreciation	27.09	24.23	24.71	32.41	37.46	42.03
Other Income	37.48	55.46	48.21	43.83	45.28	65.62
Extra Ordinary Items	-61.71	-2.35	24.83	-11.33	-11.32	-13.12
EBIT	170.51	66.31	236.63	371.65	460.59	496.02
Interest Cost	1.75	2.6	2.15	0.16	0.00	0.00
PBT	144.53	116.82	307.52	403.99	494.55	548.51
Tax	10.36	9.23	40.5	76.31	108.80	126.16
PAT ((Reported PAT))	134.2	107.6	267.0	327.7	385.8	422.4
<b>Growth-%</b>						
Sales-USD		7.7%	33.3%	18.3%	3.5%	16.9%
Sales	-9.8%	1.5%	37.5%	34.3%	16.2%	15.9%
EBITDA	65.5%	-54.2%	188.6%	54.6%	23.3%	8.0%
PAT	227.5%	-19.8%	148.2%	22.7%	17.7%	9.5%
<b>Margin -%</b>						
EBITDA	19.0%	8.6%	18.0%	20.7%	22.0%	20.5%
EBIT	16.4%	6.3%	16.3%	19.1%	20.3%	18.9%
PAT	12.9%	10.2%	18.4%	16.8%	17.0%	16.1%
<b>Expenses on Sales-%</b>						
Software and Development Expenses	11.5%	14.5%	14.5%	15.4%	15.0%	15.5%
Employee benefits expenses	55.0%	64.1%	56.6%	54.4%	54.0%	54.5%
Operation and other expenses	14.5%	12.8%	10.9%	9.4%	9.0%	9.5%
Tax rate	7.2%	7.9%	13.2%	18.9%	22.0%	23.0%
<b>Valuation</b>						
CMP	94.25	116.30	74.85	95.70	124.00	124.00
No of Share	14.37	14.52	29.34	29.53	29.53	29.53
NW	849.69	965.47	1016.18	1203.86	1430.69	1656.12
EPS	9.34	7.41	9.10	11.10	13.06	14.30
BVPS	59.13	66.49	34.63	40.77	48.45	56.08
RoE-%	15.8%	11.1%	26.3%	27.2%	27.0%	25.5%
Dividen Payout ratio	9.5%	21.2%	51.3%	58.1%	41.2%	46.6%
P/BV	1.59	1.75	2.16	2.35	2.56	2.21
P/E	10.09	15.70	8.22	8.62	9.49	8.67