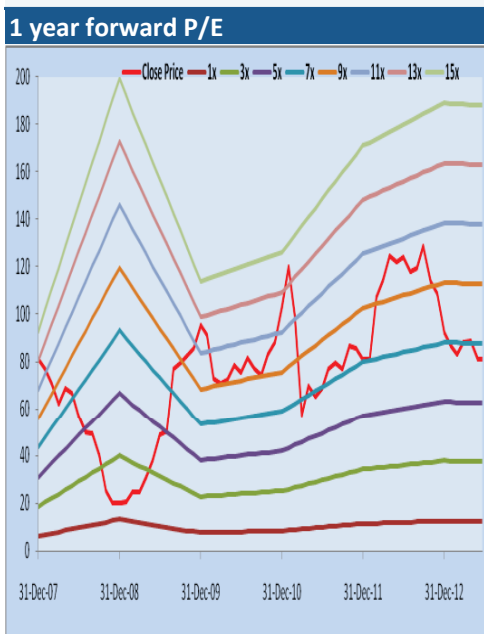


Results update	Buy
CMP	110
Target Price	123
Previous Target Price	-
Upside	12%
Change from Previous	-

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	2.1	-35.9	-36.3
Rel. to Nifty	-6	-25.4	-28.6

Share Holding Pattern-%	Current	4QCY12	3QCY12
Promoters	27.95	28.12	28.14
FII	39.01	39.6	42.6
DII	7.93	6.51	9.2
Others	25.11	25.77	20.06



**Witnessed better numbers than street expectations with healthy growth;**

Hexaware has guided for 3.5%-5.5% QoQ revenue growth during 3QCY13 in \$ term (likely to be in the range of \$ 98.1 mn - \$ 100 mn, \$1= Rs 59.68). Wage hikes (offshore) will be effective from 3QCY13; and expects to offset the margin impact by benefits from currency depreciation and operational efficiencies.

The Company is chasing 4 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.

Company reported sales growth by 5.7% (QoQ) because of better project execution across the verticals. Banking & capital market (contributes 36% of sales) grew by 9%, Travel & Transportation (contributes 20% of sales) and Healthcare & Insurance (contributes 16% of sales) both grew by 5%, and Emerging segment, which contributes 30% of sales up by 2.5% on (QoQ) basis.

**Margin ramp up:** During the quarter, EBITD margin improved by 440bps (QoQ) and 90bps (YoY) to 23.7% driven by currency benefits(130bps), reversal of provision related to employees (150bps, onetime benefit) and optimum control on cost. Even, without the onetime benefit, EBITDA margin was up by 190-200 bps, better efforts than other mid cap players in margin performance.

**Attractive clients addition:** It added 14 new clients and has 219 active clients. Of these, 4 clients were added in the BFS Domain and 1 client was added each in the Healthcare & Insurance space and in the Travel and Transportation Vertical.

#### Concall Highlights:

- Company has guided for 3.5%-5.5% QoQ revenue growth during 3QCY13 in \$ term (likely to be in the range of \$ 98.1 mn - \$ 100 mn, 1 \$ = Rs 59.68).
- Wage hikes (offshore) will be effective from 3QCY13; company expects to offset the margin impact by benefits from currency depreciation and operational efficiencies.

- The company indicated that it was seeing a much stronger pipeline for itself in Europe, both within existing clients as well as new prospects after it shifted a seasoned sales personnel from US to UK.

- The company indicated that it expects growth traction within the top client to continue in Sep'13 qtr

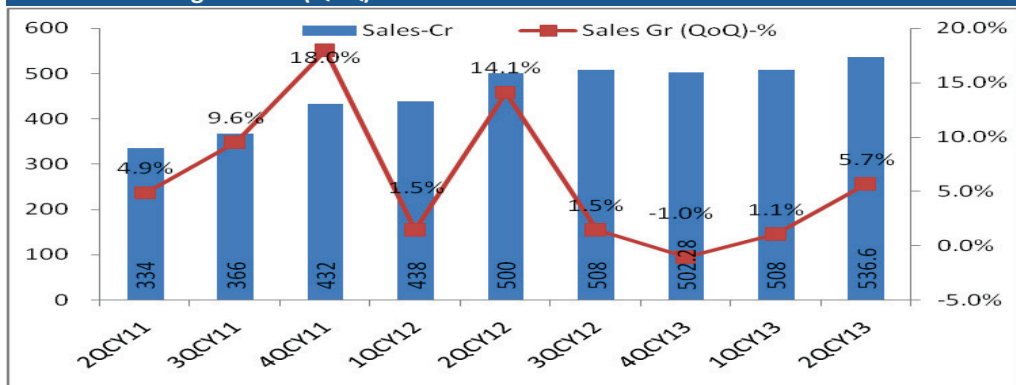
We expect Hexaware to post USD revenue at a CAGR of 9-10% over CY12-14E. While cash at Rs200cr, 50% pay out and 25%+ RoE imply financial state remains healthy. Considering the strong growth visibility at top client compare to its peers, we raised earnings and upgraded from "Neutral" to "Buy" on the stock at a target price of Rs123. At a CMP of Rs 110, stock trades at 7.7x CY14E EPS.

Financials	2QCY13	1QCY13	(QoQ)-%	2QCY12	(YoY)-%
Revenue	536.6	507.68	5.7	500.1	7.3
EBITDA	127.24	97.87	30.0	113.9	11.7
PAT	97.9	79.27	23.5	89	10.0
EBITDA Margin	23.7%	19.3%	440bps	22.8%	90bps
PAT Margin	18.2%	15.6%	260bps	17.8%	40bps

(Source: Company/Eastwind)

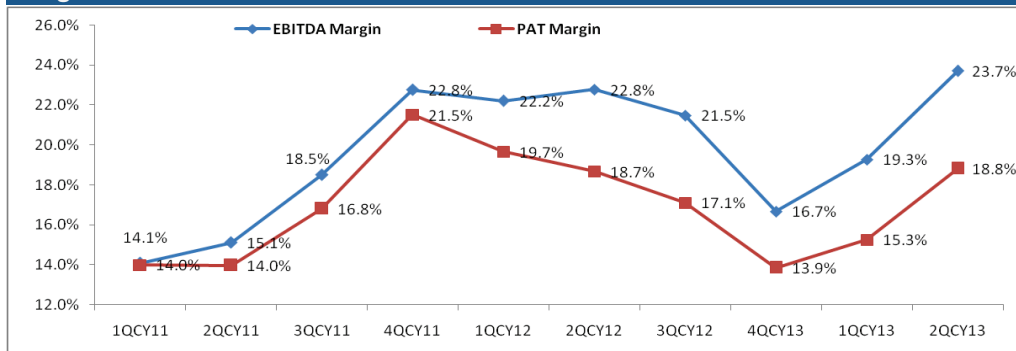
# Hexaware

## Sales and sales growth-%(QoQ)



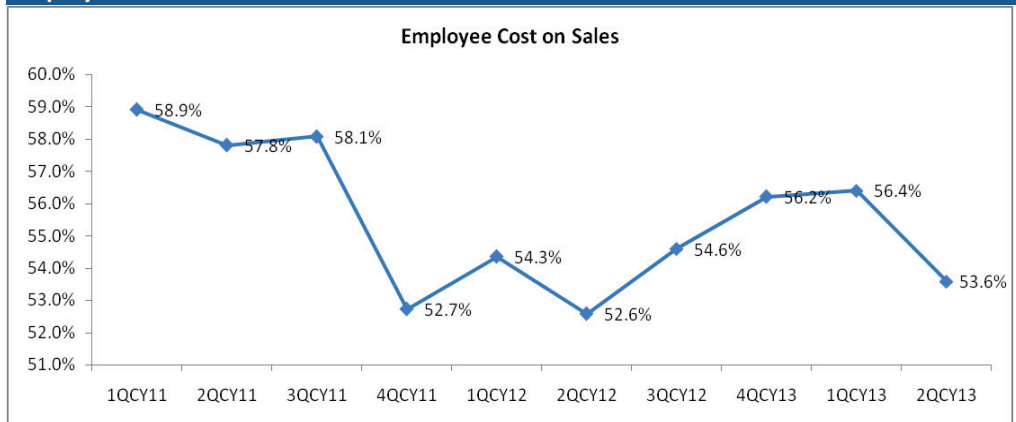
(Source: Company/Eastwind)

## Margin-%



(Source: Company/Eastwind)

## Employee Cost on Sales-%



(Source: Company/Eastwind)

## Recent developments:

- During the previous quarter, the Company added 14 new clients across all its key focus areas.
- The global headcount stood at 8700 in Q2'13 up 30 from Q1 2013. During the previous quarter, it added 100 fresh graduate engineers. The attrition for Q2 2013 was at 11%.

# Hexaware

## Operating Metrics;

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

## Financials;

Rs, Cr	CY09	CY10	CY11	CY12	CY13E	CY14E
Net Sales-USD	214.68	231.16	308	364	390.32	448.65
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%	7.1%	14.9%
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	116.3	74.85	95.7	110.00	110.00
No of Share	14.4	14.5	29.3	29.5	29.5	29.5
NW	849.69	965.47	1016.18	1203.86	1430.69	1656.12
EPS	9.3	7.4	9.1	11.1	13.1	14.3
BVPS	59.1	66.5	34.6	40.8	48.4	56.1
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	1.6	1.7	2.2	2.3	2.3	2.0
P/E	10.1	15.7	8.2	8.6	8.4	7.7