

BLAZING PICKS

FREQUENCY	ALLOCATION	DURATION	APPROX RETURNS	RISK	MAX OPEN CALLS
Every Monday	20% of capital on every call	3 months	15-20%	<10%	5

SALIENT FEATURES:

- 👍 Allocation based product – 20% of capital on every call
- 👍 For Short to Medium term clients
- 👍 Mid Cap & Large Cap quality stocks
- 👍 Company with growth prospects and compliance free
- 👍 Moderate risk product

Key Data

NSE / BSE Code	HEXAWARE/532129
Sector	IT
Industry	IT - Software
Face value / Book Value (₹ per share)	2 / 61.5
Dividend yield	2.5
52 H/L (₹)	439 / 295
Market Cap. (₹ mn)	109,788
Shares Outstanding (mn)	298.0
6M Avg Traded Volume	38,454

Key Ratios

	Dec15	Dec16	Dec17	Dec18
P/E (x)	27.9	26.2	22.0	18.8
P/B (x)	9.9	6.3	5.5	4.6
EV/Sales	3.4	3.0	2.7	2.3
EV/EBITDA	19.8	18.5	16.2	14.4
ROCE	38.0%	34.1%	32.5%	39.9%
ROE	31.4%	22.2%	21.2%	25.9%

Earnings Summary

(In ₹ mn)	Dec15	Dec16	Dec17	Dec18
Net Sales	31,235	35,349	39,420	46,478
Sales Growth	21.0%	13.2%	11.5%	17.9%
EBITDA	5,368	5,746	6,565	7,361
EBITDA Margin	17.2%	16.3%	16.7%	15.8%
PAT	3,932	4,192	4,993	5,833
PAT Margin	12.6%	11.9%	12.7%	12.6%
EPS (₹)	13.0	13.9	16.8	19.6

Hexaware Technologies Ltd.

CMP: 368.7

► Hexaware Technologies Limited is an information technology and business process outsourcing service provider company based in Navi Mumbai, India. Founded in 1990. The company provides software services in Banking, Financial Services, Capital Markets, Healthcare, Insurance, Manufacturing, Retail, Education, Telecom, Professional services (Tax, Audit, Accounting and Legal), Travel, Transportation and Logistics. The company specializes in an array of areas encompassing Application Transformation Management, Enterprise Solutions, Business Intelligence & Analytics, Digital Assurance, Infrastructure Management Services, Digital and Business Process Services.

► **Offshoring, currency & operational efficiency to drive margins:** Attrition remains a key concern for the company, which will have a bearing on its utilisation and margins. However, the company is trying to maintain its utilisation at optimum levels and curb attrition to keep revenue, margin momentum intact. In addition, higher offshoring (due to drawdown in its top client), lower subcontracting cost, higher organic growth and currency tailwind would boost margins.

► **Cost efficiency to drive margins :** The company has been witnessing higher attrition over the past few quarters due to a tightening of the labour market in the US, which has impacted its revenues and margins. Attrition remains a key concern for the company, which will have a bearing on its utilisation and margins. However, the company is trying to maintain its utilisation at optimum level and curb attrition to keep revenue and margin momentum intact. In addition, higher offshoring (due to drawdown in its top client), lower subcontracting cost, higher organic growth and currency tailwind would boost margins.

► **Gross margin to improve going forward:** The company expects overall margins to expand in the remaining quarters and full-year EBITDA margin to be flat, driven by gross margin for the remainder of the year. Levers driving this are stabilizing large deals and uptick in utilization. The company is seeing good traction in Professional Services (30%/27% CC/USD revenue growth in 1HCY19, service expansion, digital focus, expansion beyond top client, key partnerships) and HC & Insurance (26%/29% CC/USD revenue growth in 1HCY19).

► **Valuation:** Currently, the company is trading the PE multiple of 22.93x FY19. We recommend a buy on Hexaware Technologies with the price **target of Rs. 418**.

Source: Company, ACE Equity, Dealmoney Research

Dealmoney Research

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