

## RESEARCH

### Hexaware Technologies | Target: Rs 320 | +8% | ADD

Cloudy near-term outlook; cut to ADD

## SUMMARY

### Hexaware Technologies

Challenged related to Covid-19 marred Hexaware's (HEXW) Q1CY20 operating performance (revenue down 1.1% QoQ CC) and are expected to worsen in Q2, making for a gloomy near-term outlook. Strong new deal wins and a rebound in BFSI revenue growth offered some respite. We cut CY21/CY22 EPS estimates by 20%/16%, lower our Mar'21 TP to Rs 320 (from Rs 440) based on a revised FY22E P/E of 14x (from 15.5x), and downgrade the stock from BUY to ADD on pandemic-led uncertainties.

[Click here for the full report.](#)

## TOP PICKS

### LARGE-CAP IDEAS

Company	Rating	Target
<a href="#">Bajaj Finance</a>	Buy	3,000
<a href="#">Cipla</a>	Buy	570
<a href="#">Eicher Motors</a>	Buy	18,100
<a href="#">Petronet LNG</a>	Buy	330
<a href="#">Reliance Industries</a>	Buy	1,550

### MID-CAP IDEAS

Company	Rating	Target
<a href="#">Alkem Labs</a>	Buy	2,870
<a href="#">Greenply Industries</a>	Buy	145
<a href="#">Laurus Labs</a>	Buy	510
<a href="#">Transport Corp</a>	Buy	255
<a href="#">Ashok Leyland</a>	Reduce	43

Source: BOBCAPS Research

## DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	0.61	(5bps)	(6bps)	(189bps)
India 10Y yield (%)	6.13	(2bps)	(1bps)	(128bps)
USD/INR	76.19	0.1	(1.7)	(9.5)
Brent Crude (US\$/bbl)	20.46	2.4	(17.9)	(71.9)
Dow	24,102	(0.1)	11.4	(9.4)
Shanghai	2,810	(0.2)	1.4	(8.7)
Sensex	32,115	1.2	7.7	(17.7)
<b>India FII (US\$ mn)</b>	<b>27 Apr</b>	<b>MTD</b>	<b>CYTD</b>	<b>FYTD</b>
FII-D	71.8	(665.4)	(10,424.9)	(665.4)
FII-E	(101.2)	(509.8)	(7,112.8)	(509.8)

Source: Bank of Baroda Economics Research

## BOBCAPS Research

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**ADD**  
TP: Rs 320 | ▲ 8%

**HEXWARE  
TECHNOLOGIES**

| IT Services

| 30 April 2020

## Cloudy near-term outlook; cut to ADD

**Challenged related to Covid-19 marred Hexaware's (HEXW) Q1CY20 operating performance (revenue down 1.1% QoQ CC) and are expected to worsen in Q2, making for a gloomy near-term outlook. Strong new deal wins and a rebound in BFSI revenue growth offered some respite. We cut CY21/CY22 EPS estimates by 20%/16%, lower our Mar'21 TP to Rs 320 (from Rs 440) based on a revised FY22E P/E of 14x (from 15.5x), and downgrade the stock from BUY to ADD on pandemic-led uncertainties.**

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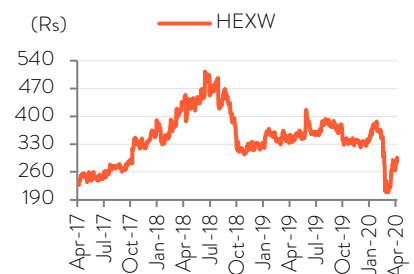
**Weak operating show:** HEXW's Q1CY20 performance was underwhelming. Revenues declined 1.1% QoQ CC owing to a 200-300bps adverse impact in the wake of Covid-19. EBITDA margin (post RSU) contracted 50bps QoQ (+20bps YoY) to 15.2% amid headwinds of ~120bps from the pandemic.

Ticker/Price	HEXW IN/Rs 296
Market cap	US\$ 1.2bn
Shares o/s	302mn
3M ADV	US\$ 1.8mn
52wk high/low	Rs 456/Rs 202
Promoter/FPI/DII	71%/15%/14%

Source: NSE

**Strong contract wins and resilient BFS performance:** The company won net new deal TCW worth US\$ 69mn, marking one of its best quarters for new signings. Despite a drag in one of its large BFS accounts, BFS revenue increased 2.1% QoQ (after a 6.4% QoQ decline in the Dec'19 quarter). Management indicated that challenges in the large BFS account have bottomed out and the client is expected to resume its growth trajectory in the Jun'20 quarter.

## STOCK PERFORMANCE



Source: NSE

**Near-term outlook gloomy:** Multiple Covid-19-related challenges such as demand contraction, pricing discounts, payment term concessions and supply/delivery constraints render the near-term growth outlook bleak and unpredictable. Consequently, management has suspended annual revenue and operating margin guidance, akin to several industry peers.

## KEY FINANCIALS

Y/E 31 Dec	CY18A	CY19P	CY20E	CY21E	CY22E
Total revenue (Rs mn)	46,477	55,825	60,990	66,028	73,946
EBITDA (Rs mn)	7,335	8,778	9,067	10,217	11,440
Adj. net profit (Rs mn)	5,833	6,748	5,927	6,603	7,392
Adj. EPS (Rs)	19.3	22.3	19.6	21.8	24.4
Adj. EPS growth (%)	16.6	15.4	(12.2)	11.4	11.9
Adj. ROAE (%)	26.5	26.2	19.9	19.4	18.9
Adj. P/E (x)	15.3	13.3	15.1	13.6	12.1
EV/EBITDA (x)	11.5	9.4	9.3	8.4	7.0

Source: Company, BOBCAPS Research



## Disclaimer

### Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

**ADD** – Expected return from >+5% to +15%

**REDUCE** – Expected return from -5% to +5%

**SELL** – Expected return <-5%

**Note:** Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

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