

# HEXAWARE TECHNOLOGIES LIMITED

Research Report 2021



## COMPANY PROFILE

Hexaware Technologies Limited (Hexaware) is a next-generation, Cloud, IT, Consulting and BPS services provider.

They serve their clients through tailor-made technology solutions in Digital Product Engineering, Cloud Transformation, Digital Core Transformation, Digital IT Operation & Others, Business Process Services and Enterprise & Next Generation Services

Hexaware specialises in digital transformation and operations, business intelligence, enterprise applications, legacy modernisation, cloud services, business analytics and HR-IT.

Featured amongst the top 10 IT sector companies in India

They serve in diverse sectors such as: Hi-Tech and professional services, Healthcare and Insurance, Financial service, travel and transportation, Manufacturing and consumption, and Banking.

Their 3 strategic brands are: Tensai, Amaze and Mobiquity

It is certified as a 'Great Place to Work' by Great Place to Work Institute, India

Awarded with the "Most Inclusive Employer" award at the Sydney Hills Local Business Awards 2021, Brandon Hall Group Silver Award in "Best Program for Upskilling Employees 2021" category and the Golden Peacock National Training Award, 2021 in the IT sector

Hexaware Technologies was recognised as a leader in Learning and Development at the World HRD Congress 2021

Got the AA brand strength rating in 2021

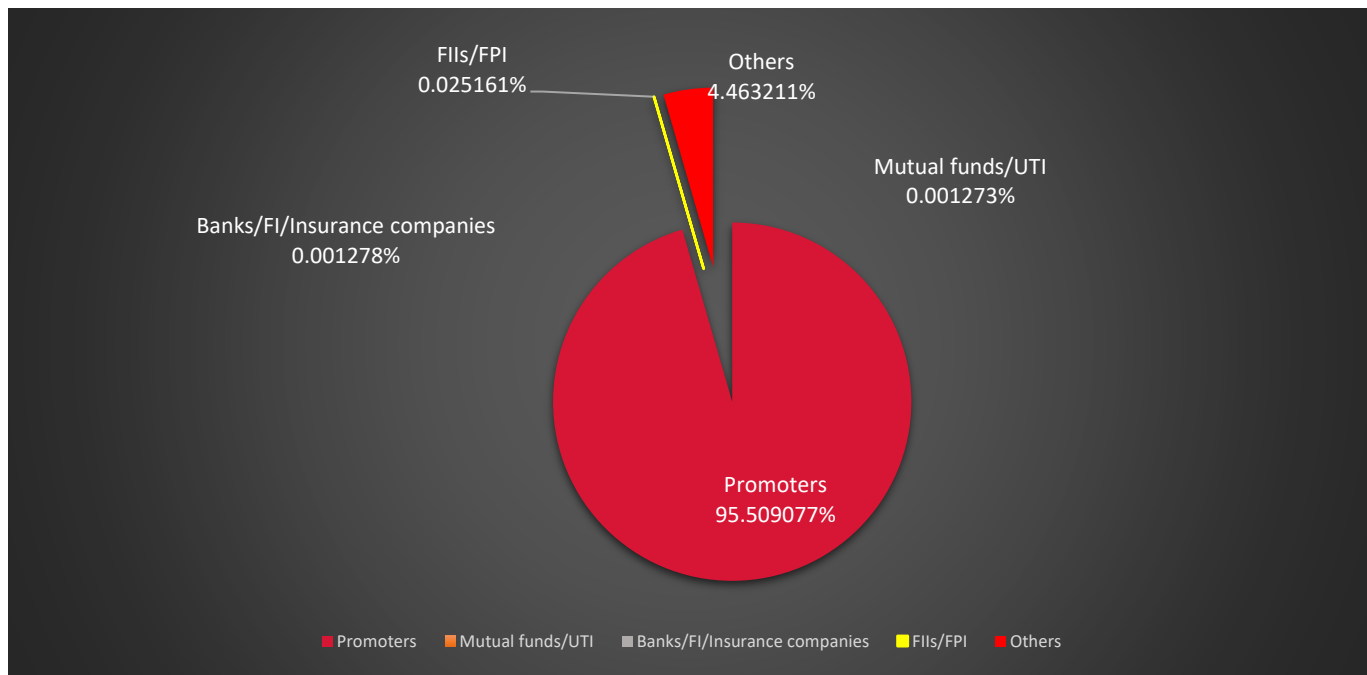
Received various other rewards and ranked no. 1 in the year 2021, for customer satisfactions, creativity and branding, and excellence in IT services industry

### RISKS THAT MAY IMPEDE THE ACHIEVEMENT OF THE TARGET

Key risks include the severe talent crunch that the whole industry is facing. Increased attrition rate, elevated cost of hiring, and insufficient quantity post-covid remain the challenges that could affect the company's growth, business, and operational efficiency. Other major key risks include the following: with the shift to newer technologies has increased the risk of information and cyber security and the leakage and misuse of data, increased cost of service, global and local regulations, competition, and the emergence of newer technologies, which could render their current technology ineffective or obsolete.

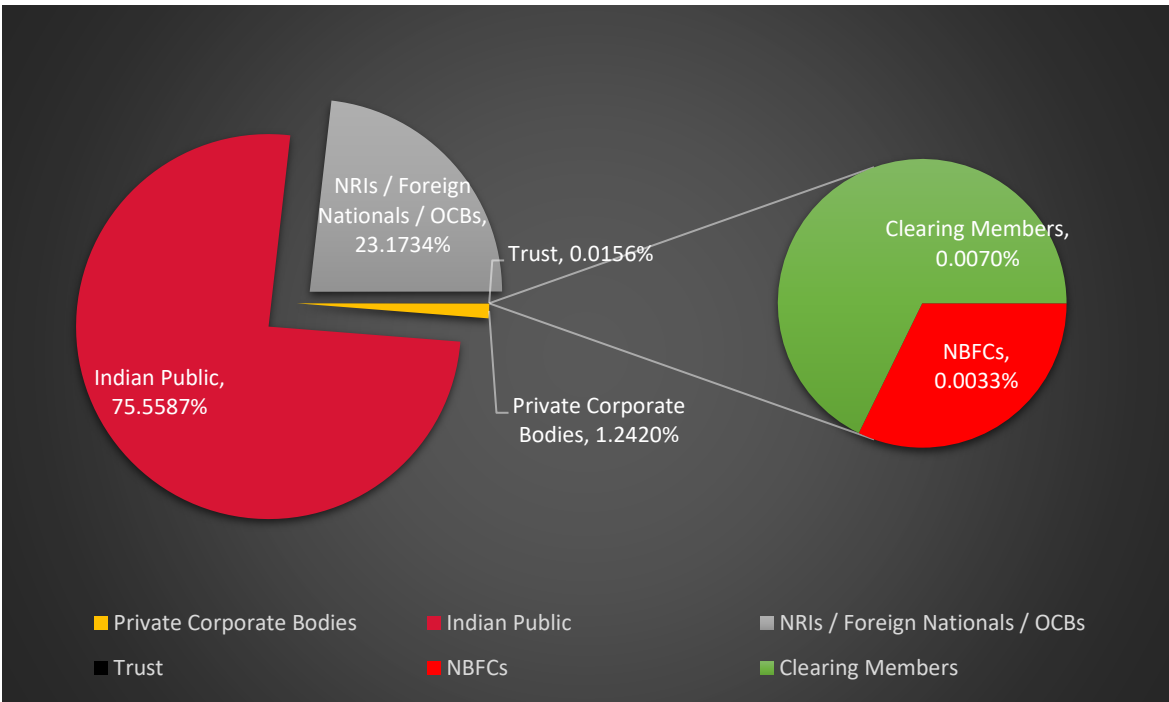
# Shareholding Pattern

Fig.: Shareholding Pattern



The Promoter holding 95.51 percent shares of the company is CA Magnum Holdings, the parent company of Hexaware Technologies

Fig.: Distribution of “Others” shareholding pattern



## Key data on Hexaware Technologies Limited

Income statement					(INR Cr.)
Year end 31-March	FY17	FY18	FY19	FY20	FY21
Revenue	39905.58	47054.55	56107.27	62966.89	72445.05
Expenses	32868.50	39139.43	47042.91	52152.36	60447.48
EBITDA	7037.08	7915.12	9064.36	10814.53	11997.57
Depreciation and amortization	632.77	650.55	1033.53	2323.89	2241.75
EBIT	6404.31	7264.57	8030.83	8490.64	9755.82
Interest expenses	1.19	0.42	74.02	492.35	343.60
Profit before tax	6403.12	7264.15	7956.81	7998.29	9412.22
Provision for tax	1410.56	1431.18	1379.24	1789.99	1923.93
Extraordinary items	-2.70	-1.66	164.14	-6.70	0.00
Profit after tax	4995.26	5834.63	6413.43	6215.00	7488.29

Growth metrics (%)	
Year to March	FY21
Revenue growth (%)	15.05%
EBITDA	10.94%
EBIT	14.90%
PBT	17.68%
Net profit	20.49%
EPS	19.69%

LIQUIDITY		FY21
Current ratio		2.03
Quick ratio		1.97

LEVERAGE RATIOS	
Total Debt/Equity ratio	0.33
Total Debt to Total assets ratio	0.49
Interest Coverage	28.39

ACTIVITY DAYS	
Days Receivable	46.18
Days Payable	91.22
Net Debt	-428.89
Net Debt/Equity	-0.01
Net Debt/EBITDA	-0.04

Price per share	600.00
Shares Outstanding	300971857.00
P/E	24.14
Book value per share	125.86
P/B	4.77
Dividend Yield ratio	0.00
Market Cap	180583114200.00
ROE (%)	21.32%
ROA (%)	13.85%
ROCE (%)	23.12%
Asset turnover Ratio	1.34
Working capital	14938.08
Working capital/ average total assets	0.28

Common size metrics- as % of revenues	
Year to March	FY21
Gross margin (%)	75.47%
Depreciation	3.09%
Interest expenditure	0.47%
EBITDA margins (%)	16.56%
Operating margin (%)	13.47%
Net profit margins (%)	10.34%

## **Robust outlook in IT industry due to ongoing revolution towards digital enterprise**

The IT industry was one of the few that saw global traction amidst the prevailing pandemic, due to the sharp shift in demand of remote working which led companies to adopt collaborative solutions for successful and continued operations. The ongoing revolution towards digital enterprise has made companies see technology as a competitive advantage. According to Gartner Inc, the worldwide IT spending is projected to reach US\$4.5 trillion in 2022 from US\$4.2 trillion in 2021, showing an increase of 5.1% from 2021. The IT services segment – which includes consulting and managed services – is expected to see the second highest spending growth in 2022, reaching US\$1.3 trillion, up 7.9% from 2021. Business and technology consulting spending is expected to grow 10% in 2022.

According to the Gartner survey of 2021, the end-user spending on public cloud services is expected to surge significantly in 2022. US\$482 billion Projected end-user spending on public cloud services in 2022, up by 21.7% from 2021 and the worldwide AI-spending will strengthen sizably, especially in the domains of knowledge management, virtual assisting, autonomous vehicles, digital workplaces, and crowdsourced data. US\$62.5 billion Projected AI-based revenue in 2022, up by 21.3% from 2021.

According to the MarketsandMarkets survey of 2021, the Internet of Things market is expected to grow rapidly in the next five years on the back of rising cloud usage, access to low cost, low-power sensor technologies, and the availability of high-speed connectivity. US\$650 billion Expected market size by 2026, growing at a CAGR of 16.7% from US\$300 billion in 2021

According to the recent Precedence Research report, the RPA market is expected to grow at a CAGR of 27.7% between 2021 to 2030. The growth will be driven by higher penetration of RPA to manage complicated, unstructured data and automate any business operations. This will further encourage adoption of AI and cloud-based solutions, in addition to increasing demand for RPA-services from the BFSI sector as well as focusing on reducing the burden of medical professionals. US\$23.9 billion Projected market size by 2030

The Indian IT services market is expected to grow at a CAGR of 10-12% between 2020 and 2025 (SOURCE: NASSCOM)

## Robust outlook for revenues; we expect strong growth in the coming years and improved profitability

Even though the year 2021 witnessed a severe impact of the Delta variant, the company's revenues grew for all the segments. The company's Amaze® platform continued to see significant traction transforming enterprises to cloud. The revenues witnessed a YoY growth OF 15.05 percent. During the pandemic and in the post-covid world, technology became a strategic differentiator to business, resulting in increased spends on IT services. The technology environments are continuously being reshaped. These increased demands will create partnerships that will create revenues for Hexaware.

Various initiatives undertaken by government such as the creation of digital infrastructure, digital empowerment through digital inclusion, encouragement to digital entrepreneurship and industry, innovation and start-ups, and emphasis on cybersecurity, and R&D will ramp-up the revenues for Hexaware.

Fig.: Revenue by Area

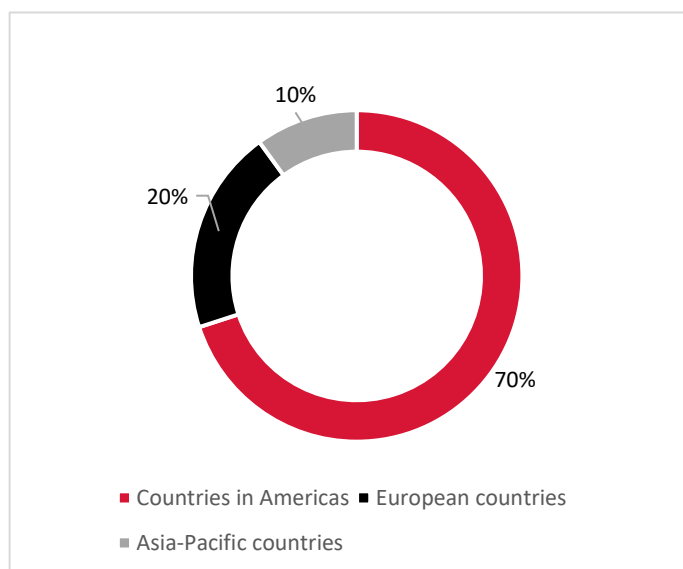


Fig.: Distribution revenue growth profile

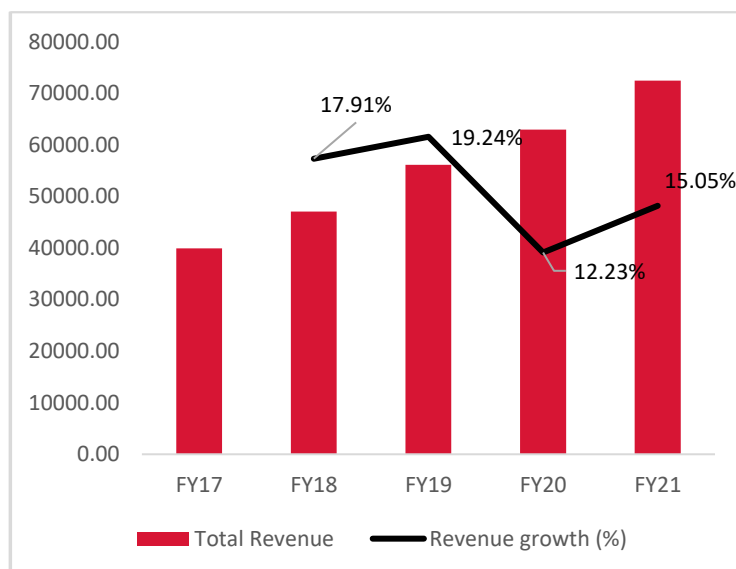
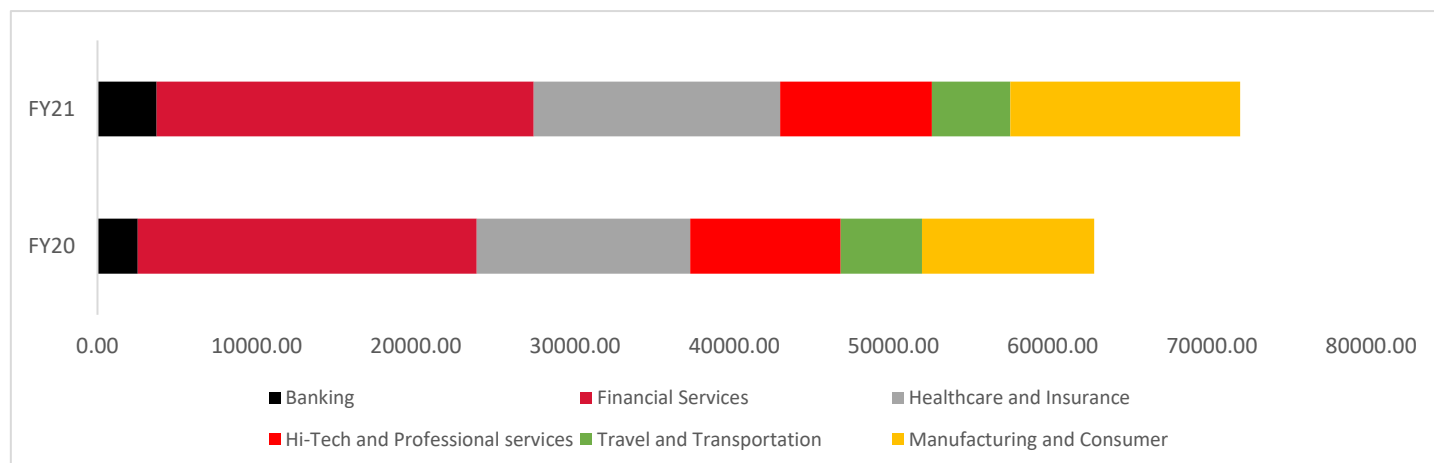


Fig.: Volume based revenue by subsegment



## EBITDA and Profit margins

The revenues are rising, and the EBITDA margins are fluctuating a lot, but they have stayed above the typical 10 percent, thus indicating they are good. The profit margins have started rising and are almost nearing the pre-pandemic levels. We expect that with the recent developments in IT sector such as continuing growth in AI and big data analytics, the next big technology platform i.e., metaverse, expansion of blockchain and the move towards green and sustainable energy will result in higher profits for the next-generation IT company Hexaware Technologies.

Fig.: Revenue and EBITDA

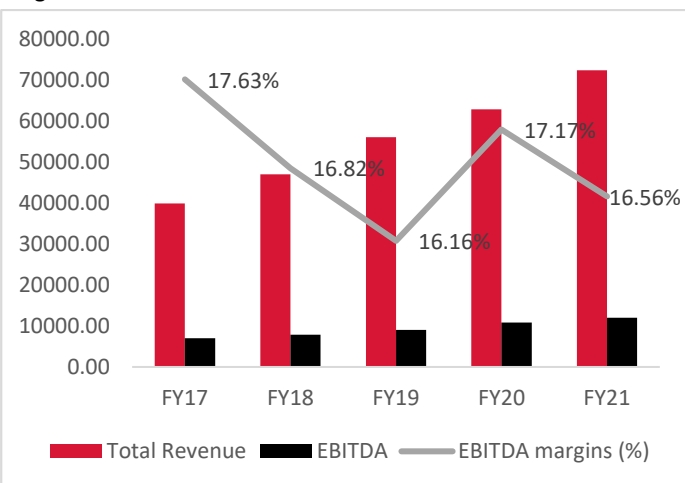
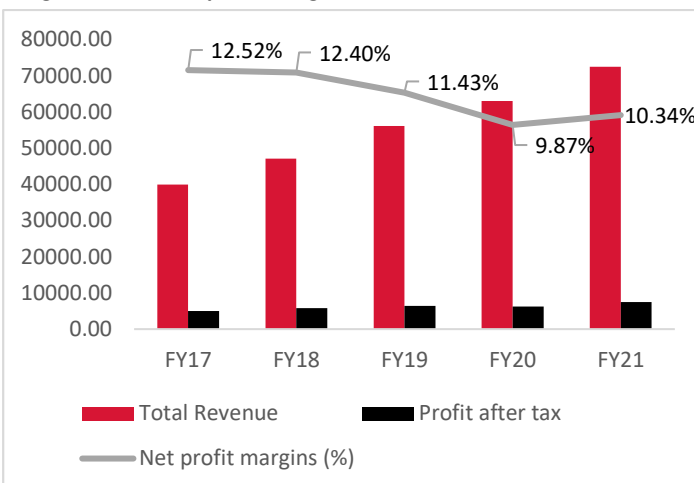
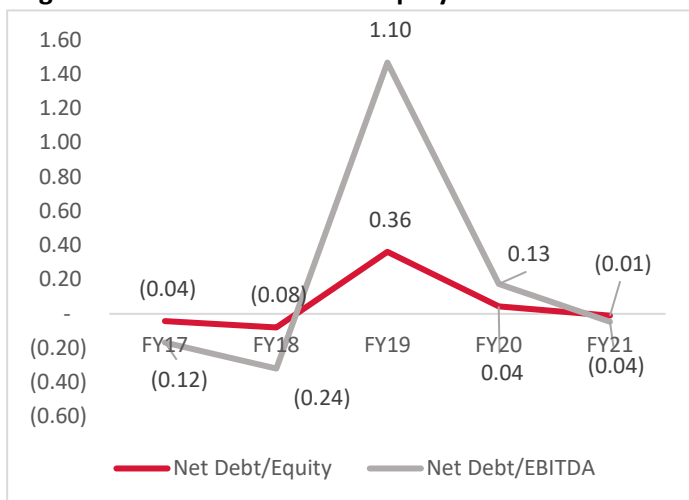


Fig.: Revenue and profit margins

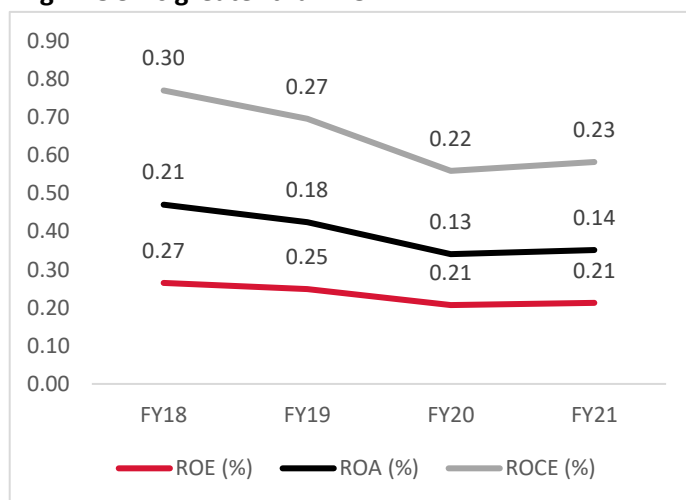


Key positive developments have been the emphasis on the role of technology sector in the Union budget 2022-23, the Reserve Bank of India issuing blockchain enabled digital currency starting FY23, the vision of digital India, and the promotion of digital economy, digital health eco-system, e-documents, and others.

**Fig.: Net Debt to EBITDA and equity are low**

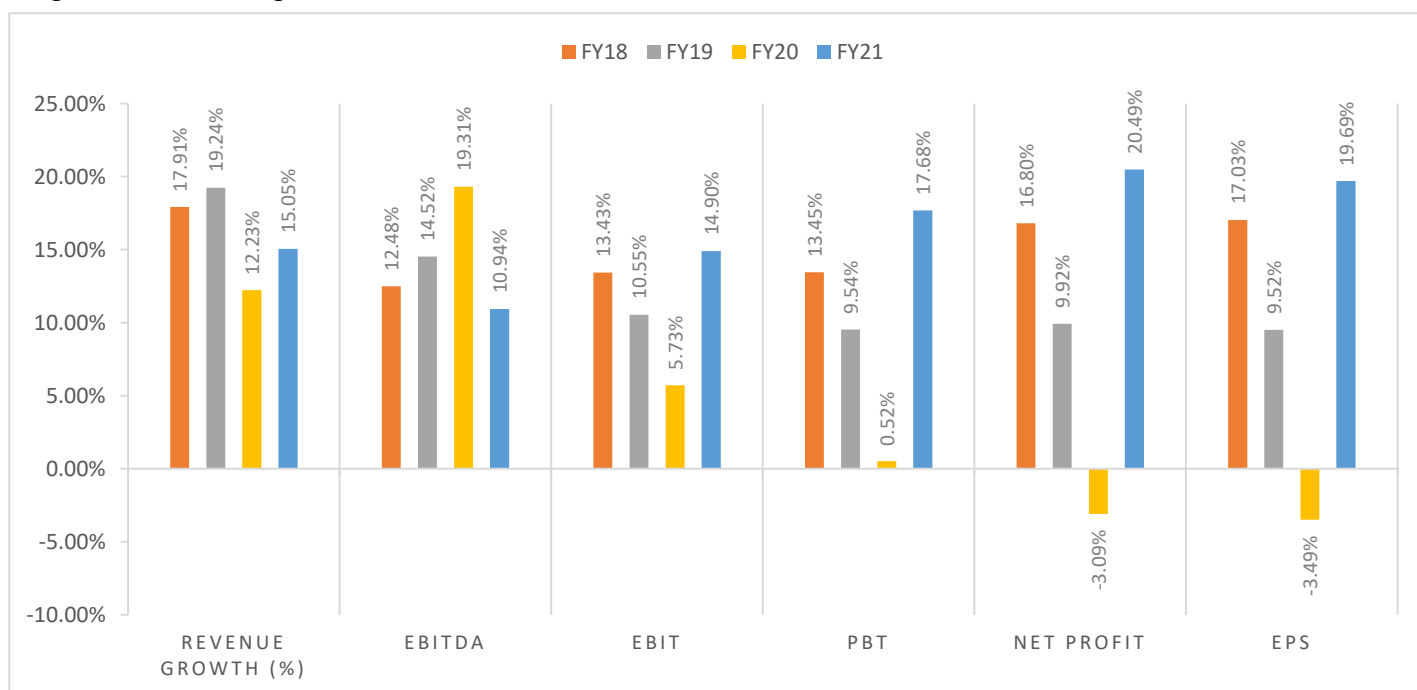


**Fig.: ROCE is greater than ROE**



The Mergers and Acquisitions of the company moving forward will be focused on acquiring cutting-edge capabilities that will help accelerate growth. The company has made 1092 million capex investment in total until now for smooth functioning and for delivering quality service to clients.

**Fig.: Growth Percentages**



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