

Retail Research	IPO Note
Sector: IT Services	Price Band (Rs): 674 - 708
7 <sup>th</sup> February 2025	Subscribe for Long-Term Investment Horizon

## Hexaware Technologies Ltd.

### Company Overview:

Hexaware Technologies is a global digital and technology services company centered around Artificial Intelligence (AI). The company provides innovative solutions for customers' digital transformation journeys and ongoing operations, embedding AI into all aspects of its services. Hexaware operates in six industry segments: Financial Services, Healthcare & Insurance, Manufacturing & Consumer, Hi-Tech & Professional Services, Banking, and Travel & Transportation. Its offerings include Design & Build, Secure & Run, Data & AI, Optimize, and Cloud Services. The company leverages AI-enabled platforms such as RapidX™, Tensai®, and Amaze®. Hexaware serves clients across the Americas, Europe, and the Asia-Pacific region, including India and the Middle East.

### Key Highlights:

**1. Deep domain expertise delivered through comprehensive solutions across industries:** The company offers comprehensive services across six industries: Financial Services, Healthcare and Insurance, Manufacturing and Consumer, Hi-Tech and Professional Services, Banking, and Travel and Transportation. The company's deep expertise and in-depth domain knowledge enables it to help customers develop and implement their digital transformation strategies, addressing the unique needs of various sub-verticals within each segment.

**2. AI-Led digital capabilities & platforms built in house with innovation as a strategic pillar:** The company leveraged its domain expertise to develop three AI-enabled digital platforms that create value for the customers across the service offerings: (1) RapidX™, for digital transformation, (2) Tensai®, for AI-powered automation and (3) Amaze®, for cloud adoption.

**3. Long-term and embedded relationships with diversified blue-chip customer base:** The company serves a diverse range of customers, including 31 of the Fortune 500 organizations. In CY23, it derived ~62%/83% of its revenue from customers having revenue >\$5bn/>\$1bn respectively. The average tenure of its relationships with Top 5 and Top 10 clients is 15 years. The company has multi-year contracts with many of its top customers.

**4. Global, scalable, flexible delivery model with a certified and skilled talent pool:** The company has a global delivery presence across India, UAE, USA, Mexico, Europe and South East Asia that enables the company to offer innovative and cost-effective solutions to its customers. By leveraging talent pool and a mix of onshore and offshore services, the company can quickly respond to changing customer needs. The company is dedicated to delivery excellence and prioritize training the workforce in AI and Generative AI. In 2023, technical employees averaged 137 learning hours, earning 15,722 Gen AI Foundation Level certifications and 3,417 Gen AI Advanced certifications through HexaVarsity program.

**Valuation:** The company is valued at CY23/CY24E (annualized) P/E of 43.1x/37.6x based on the upper price band on the post-issue capital, which is relatively cheaper than its peers. It has a diversified revenue mix in terms of industries. The company leverages AI to build solutions for its clients driving improvement in productivity and gains in utilization. Hexaware's \$ revenue/rupee revenue/PAT have grown at a CAGR of 14%/20%/15% over CY21-23 with stable EBIT margin. It has a healthy cash balance of Rs 1,346 cr as of Sep'24. We recommend subscribing to the issue at the cut-off price with a long-term investment horizon.

Issue Details	
Date of Opening	12 <sup>th</sup> February 2025
Date of Closing	14 <sup>th</sup> February 2025
Price Band (Rs)	674 - 708
Offer for sale (Rs)	8,750
Fresh Issue (Rs cr)	-
Issue Size (Rs cr)	8,750
No. of shares	12,98,21,958 – 12,35,87,571
Face Value (Rs)	1
Post Issue Market Cap (Rs cr)	40,959 – 43,025
BRLMs	Kotak Mahindra Capital, Citigroup Global Markets India, JP Morgan India, HSBC Securities & Capital Market, IIFL Capital Services
Registrar	KFin Technologies Ltd.
Bid Lot	21 shares and in multiple thereof
QIB shares	50%
Retail shares	35%
NIB shares	15%
Employee Discount	Rs 67 per share

Objects of Issue	
	Estimated utilization from net proceeds (Rs cr)
<b>Total proceeds from fresh issue</b>	<b>NA</b>

Since, the IPO entirely consists of Offer for Sale (OFS) there are no objects of the issue.

Shareholding Pattern		
Pre-Issue	No. of Shares	%
Promoter & Promoter Group	57,76,04,202	95.0
Public & Others	3,00,90,466	5.0
<b>Total</b>	<b>60,76,94,668</b>	<b>100.0</b>

Post Issue @ Lower Price Band	No. of Shares	%
Promoter & Promoter Group	44,77,82,244	73.7
Public & Others	15,99,12,424	26.3
<b>Total</b>	<b>60,76,94,668</b>	<b>100.0</b>

Post Issue @ Upper Price Band	No. of Shares	%
Promoter & Promoter Group	45,40,16,631	74.7
Public & Others	15,36,78,037	25.3
<b>Total</b>	<b>60,76,94,668</b>	<b>100.0</b>

Source: RHP, SSL Research

## Key Financials

Particulars (Rs cr)	CY21	CY22	CY23	9MCY24
Revenue from operations	7,177.7	9,199.6	10,380.3	8,820.0
EBITDA	1,132.9	1,221.7	1,581.1	1,339.8
EBIT	908.8	977.3	1297.5	1137.3
PAT	748.8	884.2	997.6	857.5
EBITDA Margin (%)	15.8	13.3	15.2	15.2
EBIT Margin (%)	12.7	10.6	12.5	12.9
PAT Margin (%)	10.4	9.6	9.6	9.7
RoE (%)	19.8	22.4	22.8	-
RoCE (%)	25.8	28.9	29.6	-
P/E (x)*	57.4	48.6	43.1	-

Source: RHP, SSL Research

\*Pre-issue based on upper price band

## Risk Factors

- **Geographic revenue concentration risk:** The company derives 73.4%/71.5% of the revenue from operations from Americas and 20.5%/22.1% of the revenue from operations from Europe for the 9MCY24 and CY23, respectively.
- **Retention of skilled professionals:** The business depends on attracting and retaining skilled professionals.
- **Reduction in the outsourcing budget:** A reduction in the outsourcing budgets by the company's existing and prospective clients could affect the pricing and volume of work.
- **Resource utilization:** The results of operations may suffer if the company is not able to improve or maintain resource utilization or employee productivity levels.

## Growth Strategy

- Continuously improved offerings and platforms
- Deepen and expand relationships with existing customers
- Acquire new customers with focus on large customers to tap high value opportunities
- Strategically expand into untapped geographies and industries
- Create and develop advanced talent and optimize cost of delivery
- Strategic M&A aimed at new capabilities and expanded geographic footprint
- Focus on operational improvement

Particulars (Rs cr)	CY21	CY22	CY23	9MCY24
<b>Revenue from operations - Geography</b>				
Americas	5,033	6,719	7,419	6,471
Europe	1,474	1,867	2,290	1,806
Asia-Pacific	671	614	672	543
<b>Revenue from operations - Segment</b>				
IT Services	6,326	7,961	8,826	7,445
BPS	717	1,082	1,309	1,096
Others	135	157	245	279
<b>Revenue from operations – Operating Segment</b>				
Financial Services	2,120	2,662	2,826	2,495
Healthcare & Insurance	1,548	2,080	2,252	1,870
Manufacturing & Consumer	1,309	1,640	1,855	1,497
Hi-Tech & Professional Services	1,083	1,509	1,664	1,490
Banking	624	671	945	753
Travel & Transportation	493	639	839	716

Source: RHP, SSL Research

% Contribution	CY21	CY22	CY23	9MCY24
<b>% of Revenue from operations - Geography</b>				
Americas	70%	73%	71%	73%
Europe	21%	20%	22%	20%
Asia-Pacific	9%	7%	6%	6%
<b>% of Revenue from operations – Segment</b>				
IT Services	88%	87%	85%	84%
BPS	10%	12%	13%	12%
Others	2%	2%	2%	3%
<b>% of Revenue from operations – Operating Segment</b>				
Financial Services	30%	29%	27%	28%
Healthcare & Insurance	22%	23%	22%	21%
Manufacturing & Consumer	18%	18%	18%	17%
Hi-Tech & Professional Services	15%	16%	16%	17%
Banking	9%	7%	9%	9%
Travel & Transportation	7%	7%	8%	8%

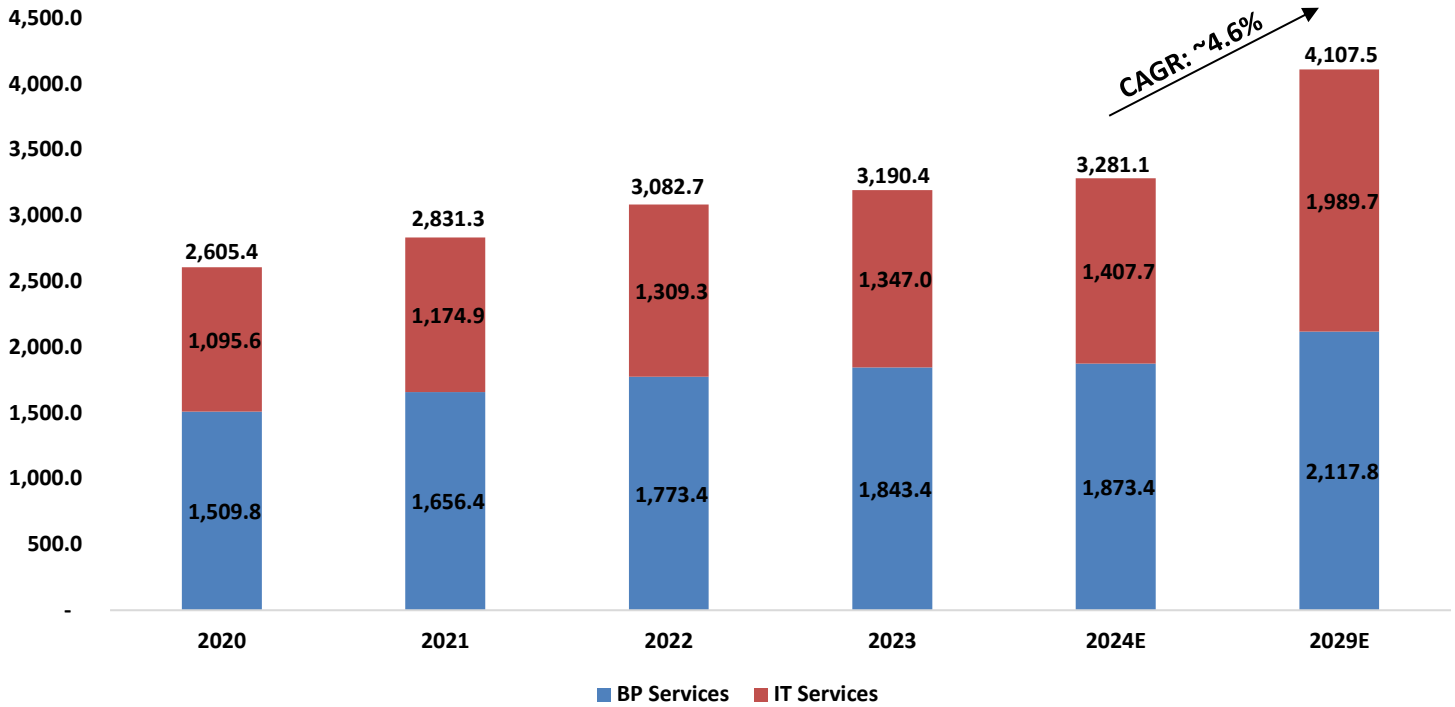
Source: RHP, SSL Research

	CY21	CY22	CY23	9MCY24
<b>Revenue by onshore, offshore services</b>				
Onshore IT Services	59%	58%	57%	56%
Offshore IT Services	41%	42%	43%	44%
<b>Revenue Concentration</b>				
Top 5 customers	30%	27%	25%	26%
Top 10 customers	38%	37%	36%	36%
Top 20 customers	51%	48%	49%	49%
<b>Client Pyramid (Number of active clients)</b>				
USD 75 mn +	1	2	2	3
USD 50 mn +	3	3	3	3
USD 20 mn +	6	9	11	15
USD 10 mn +	19	28	29	31
USD 5 mn +	43	51	54	59
USD 1 mn +	141	170	171	186
<b>KPIs</b>				
Total number of employees (Headcount)	24,166	28,608	28,292	32,536
Utilization rate of IT Business Professionals	81%	79%	80%	83%
Attrition rate for IT service line	22%	23%	15%	11%
Revenue (USD mn)	971	1,165	1,256	1,057
EBITDA (USD mn)	163	177	182	167

Source: RHP, SSL Research

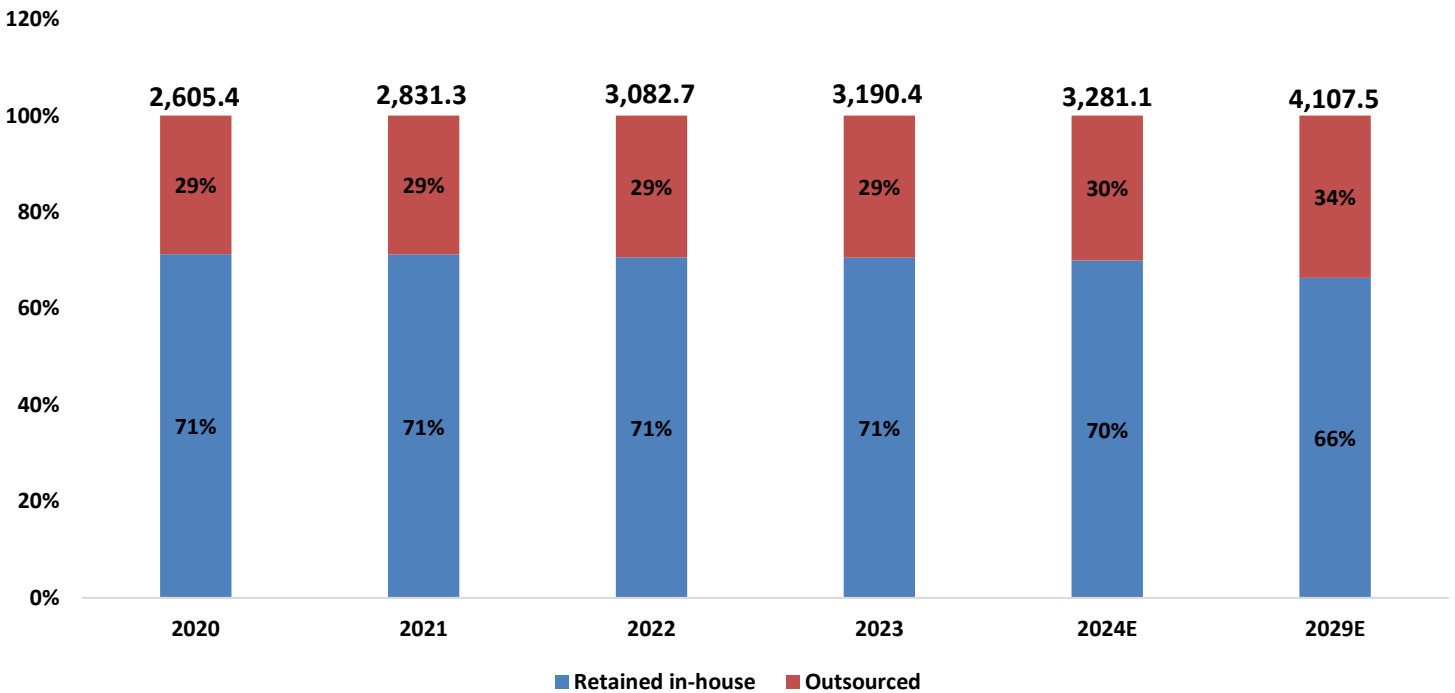
# Industry Overview

Overall Global Enterprise Technology Services Spend (USD bn)



Source: RHP, SSL Research

Overall Global Enterprise Technology Services Spend (USD bn) - In-house Vs Outsourced



Source: RHP, SSL Research

## Financial Snapshot

INCOME STATEMENT				
(Rs cr)	CY21	CY22	CY23	9MCY24
<b>Revenue from Operations</b>	<b>7,178</b>	<b>9,200</b>	<b>10,380</b>	<b>8,820</b>
<b>YoY growth (%)</b>	-	28.2%	12.8%	-
Employee Cost	4,277	5,558	6,128	5,145
Other Operating Expenses	1,768	2,420	2,671	2,335
<b>EBITDA</b>	<b>1,133</b>	<b>1,222</b>	<b>1,581</b>	<b>1,340</b>
<b>EBITDA margins (%)</b>	<b>15.8%</b>	<b>13.3%</b>	<b>15.2%</b>	<b>15.2%</b>
Depreciation	224	244	284	203
<b>EBIT</b>	<b>908.8</b>	<b>977.3</b>	<b>1,297.5</b>	<b>1,137.3</b>
<b>EBIT Margin</b>	<b>12.7%</b>	<b>10.6%</b>	<b>12.5%</b>	<b>12.9%</b>
Other Income	67	179	9	51
Interest Exp.	35	34	38	45
<b>PBT</b>	<b>941</b>	<b>1,123</b>	<b>1,269</b>	<b>1,143</b>
Exceptional item/Extraordinary item	-	-	-	-
Tax	192	239	271	290
<b>PAT</b>	<b>749</b>	<b>884</b>	<b>998</b>	<b>857</b>
<b>PAT margin (%)</b>	<b>10.4%</b>	<b>9.6%</b>	<b>9.6%</b>	<b>9.7%</b>
<b>EPS (Rs)</b>	<b>12.3</b>	<b>14.6</b>	<b>16.4</b>	<b>14.1</b>
<b>DPS (Rs)</b>	<b>4.0</b>	<b>11.0</b>	<b>8.8</b>	<b>4.3</b>

BALANCE SHEET				
(Rs cr)	CY21	CY22	CY23	9MCY24
<b>Assets</b>				
Net Block	599	599	526	486
Capital WIP	12	6	55	111
Right of use assets	397	388	376	504
Other Non current Assets	1,733	2,070	2,043	3,251
<b>Current Assets</b>				
Current Investment	122	-	251	161
Trade receivables	1,367	1,882	1,846	2,193
Cash and Bank Balances	1,201	1,303	1,784	1,346
Other Current Assets	242	267	322	543
<b>Total Current Assets</b>	<b>2,932</b>	<b>3,452</b>	<b>4,202</b>	<b>4,243</b>
<b>Current Liabilities &amp; Provisions</b>				
Trade payables	388	536	660	788
Other current liabilities	873	1,087	1,189	1,470
Short-term provisions	142	182	229	258
<b>Total Current Liabilities</b>	<b>1,403</b>	<b>1,805</b>	<b>2,077</b>	<b>2,515</b>
<b>Net Current Assets</b>	<b>1,529</b>	<b>1,647</b>	<b>2,124</b>	<b>1,728</b>
<b>Total Assets</b>	<b>4,271</b>	<b>4,709</b>	<b>5,125</b>	<b>6,079</b>
<b>Liabilities</b>				
Share Capital	60	60	61	61
Reserves and Surplus	3,728	4,063	4,575	5,221
<b>Total Shareholders Funds</b>	<b>3,788</b>	<b>4,123</b>	<b>4,635</b>	<b>5,281</b>
Minority Interest	-	-	-	-4
<b>Total Debt</b>	<b>-</b>	<b>83</b>	<b>-</b>	<b>-</b>
Long Term Provisions	104	66	79	74
Lease Liabilities	374	374	394	518
Other Long Term Liabilities	5	63	17	211
<b>Total Liabilities</b>	<b>4,271</b>	<b>4,709</b>	<b>5,125</b>	<b>6,079</b>

Cashflows (Rs cr)	CY21	CY22	CY23
Cash flow from Operating Activities	980	821	1,516
Cash flow from Investing Activities	(225)	(15)	(300)
Cash flow from Financing Activities	(602)	(721)	(750)
Free Cash Flow	871	679	1,451

RATIOS			
	CY21	CY22	CY23
<b>Profitability</b>			
Return on Capital Employed (%)	25.8%	28.9%	29.6%
Return on Equity (%)	19.8%	22.4%	22.8%
<b>Margin Analysis</b>			
EBITDA Margin (%)	15.8%	13.3%	15.2%
EBIT Margin (%)	12.7%	10.6%	12.5%
Net Profit Margin (%)	10.4%	9.6%	9.6%
<b>Short-Term Liquidity</b>			
Current Ratio (x)	2.0	1.8	1.9
Quick Ratio (x)	2.0	1.8	1.9
Avg. Days Sales Outstanding	70	64	66
Avg. Days Payables	20	18	21
Debt-service coverage (x)	28.3	10.0	34.6
<b>Long-Term Solvency</b>			
Total Debt / Equity (x)	-	-	-
Interest Coverage Ratio (x)	28.3	34.5	34.6
<b>Valuation Ratios</b>			
EV/EBITDA (x)	36.9	34.2	26.1
P/E (x)	57.4	48.6	43.1
P/B (x)	11.3	10.4	9.3
EV/Sales (x)	5.8	4.5	4.0
P/S (x)	6.0	4.7	4.1
Dividend Payout (%)	32.4%	75.5%	53.2%
Dividend Yield (%)	0.6%	1.6%	1.2%
FCF Yield (%)	2.0%	1.6%	3.4%

Source: RHP, SSL Research

## Peer Comparison-FY24

Particulars (Rs cr)	Hexaware Technologies Ltd.	Persistent Systems Ltd.	Coforge Ltd.	LTIMindtree Ltd.	Mphasis Ltd.
CMP	708.0	6,228.6	8,521.4	5,944.9	2,825.7
Sales	10,380.3	9,822.0	9,179.0	35,517.0	13,932.0
EBITDA	1,581.1	1,676.0	1,428.0	6,387.0	2,422.0
Net Profit	997.6	1,093.0	836.0	4,585.0	1,555.0
Mkt Cap.	43,024.8	96,543.3	57,007.8	1,75,967.6	53,687.4
Enterprise Value	42,520.9	95,727.3	57,109.8	1,73,192.6	54,417.4
EBITDA Margin (%)	15.2	17.1	15.6	18.0	17.4
Net Margin (%)	9.6	11.1	9.1	12.9	11.2
PE (x)	43.1	88.3	68.2	38.4	34.5
EV/EBITDA (x)	26.4	57.1	40.0	27.1	22.5
RoE (%)	22.8	24.0	24.1	25.0	18.4
RoCE (%)	29.6	29.2	28.6	31.2	24.0
EV/Sales (x)	4.0	9.7	6.2	4.9	3.9
P/S (x)	4.1	9.8	6.2	5.0	3.9

For Hexaware Technologies Limited the Market cap, P/E(x), EV/EBITDA (x), EV/Sales (x) and P/S (x) are calculated on post-issue equity share capital based on the upper price band.

CMP as on 6<sup>th</sup> February, 2025.

Source: RHP, SSL Research



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