

HEXAWARE

SMC Ranking

★ ★ ☆ ☆ ☆ (2/5)

Issue Highlights

Industry	Information Technologies
Offer for sale (Shares)	12,35,87,570
Net Offer to the Public	12,35,87,570
Issue Size (Rs. Cr.)	8329.80-8750.00
Price Band (Rs.)	674-708
Employee Discount	67
Offer Date	12-Feb-25
Close Date	14-Feb-25
Face Value	₹1 per share
Lot Size	21 shares

Issue Composition

	In shares
Total Issue for Sale	12,35,87,570
QIB	6,17,93,785
NIB	1,85,38,136
Retail	4,32,55,650

Shareholding Pattern (%)

Particulars	Pre-issue	Post-issue
Promoters & promoters group	95.05%	74.71%
QIB	0.00%	10.17%
NIB	4.95%	8.00%
Retail	0.00%	7.12%
Total	100.00%	100.00%

*calculated on the upper price band

Objects of the Issue

Company expects that listing of the Equity Shares will enhance its visibility and brand and provide liquidity to its existing Shareholders. Listing will also provide a public market for the Equity Shares in India.

Book Running Lead Manager

- Kotak Mahindra Capital Company Limited
- Citigroup Global Markets India Private Limited
- J.P. Morgan India Private Limited
- SBC Securities and Capital Markets (India) Private Limited
- IIFL Capital Services Limited

Name of the registrar

- KFin Technologies Limited

About the company

Incorporated in 1992, Hexaware Technologies Limited is engaged in the business of global digital and technology services with artificial intelligence. The company uses technology to offer innovative solutions, integrating AI to help customers adapt, innovate, and improve in the AI-driven world. The company has major offshore delivery centers in India (Chennai, Pune, Bengaluru, Noida, etc.) and Sri Lanka. It plans expansion into Tier 2 cities and aims to open new centers in Ahmedabad. As of September 30, 2024, the company has a global delivery presence with 39 centers and 16 offices across the Americas, Europe, and APAC. The company provides services in its operating segments across six industries Financial Services, Healthcare & Insurance, Manufacturing & Consumer, Hi-Tech & Professional Services, Banking, and Travel & Transportation. The company offers services through AI-powered platforms like RapidX™ for digital transformation, Tensai® for automation, and Amaze® for cloud adoption, serving customers globally across multiple regions.

Strength:

Deep domain expertise delivered through comprehensive solutions across industries: The company has deep expertise across multiple sub-verticals within six operating segments: Financial Services, Healthcare and Insurance, Manufacturing and Consumer, Banking, Travel and Transportation, and Hi-Tech and Professional Services. Each segment has unique customer needs, and the company has developed capabilities to address these nuances. Revenue from operations has consistently increased across segments from FY2021 to FY2023 and the nine months ended September 30, 2024. Strategic partnerships with industry leaders like ServiceNow and Backbase complement the company's expertise, enabling it to refine its value proposition across industries and geographies.

AI-led digital capabilities and platforms built in-house with innovation as a strategic pillar: The company has developed three AI-enabled digital platforms: RapidX, Tensai, and Amaze. These platforms leverage the company's domain expertise to create value for customers across its service offerings. RapidX is a Gen AI-based platform for modern software engineering, focusing on the entire software development lifecycle. Tensai is an automation platform that transforms enterprise IT processes, enabling secure and rapid code release, efficient operations, and enhanced customer experience. Amaze is a cloud migration and transformation platform that enables portfolio transformation to business-aligned IT, automating cloud-readiness assessments, migration journeys, and data and application modernization.

Long-term and embedded relationships with diversified blue-chip customer base: The company serves 31 Fortune 500 organizations, with 62% and 83% of its revenue coming from customers with over \$5 billion and \$1 billion revenues, respectively. It has a diversified presence across geographies and industries, with no single customer accounting for over 10% of its revenue. The company has long-standing relationships with its top customers, with average tenures of 12-15 years, and benefits from multiyear contracts and a high Net Promoter Score (NPS) of 72.

Go-to-market strategy focused on customer acquisition and expansion: The company focuses on developing relationships with new customers across the Americas, Europe, and APAC through collaborative engagement. Its go-to-market strategy combines the efforts of New Customer Acquisition, Account Management, Hybrid Sales, and Overlay Sales teams to acquire and grow customer relationships. The company prioritizes large enterprises with substantial IT budgets and long-term growth potential, with 62% and 83% of its revenue coming from customers with over \$5 billion and \$1 billion revenues, respectively.

Global, scalable, flexible delivery model with a certified and skilled talent pool: The company has a global delivery presence, enabling flexible and cost-effective solutions for customers through its talent pool and efficient onshore-offshore mix. Proximity to customers allows for timely responses to changing needs. The company prioritizes delivery excellence, focusing on workforce expertise and training in AI and Gen AI skills, with notable achievements in employee certifications and learning programs. As of September 30, 2024, its global delivery model comprised 32,536 employees across 39 delivery centers and 16 offices in 28 countries.

Track record of growth and cash generation: The company achieved a 13.7% CAGR in USD terms from FY2021 to FY2023, outpacing the global outsourced IT-BP services industry's 7.3% growth. Its diversified revenue base and improved customer mix have driven growth. Adjusted EBITDA margins increased to 17.4% for the nine months ended September 30, 2024, demonstrating operational efficiency and cost management. Strong cash generation capabilities and efficient working capital management are evident in its 89.9% adjusted cash conversion percentage for FY2023.

Strategy

Rewrite the paragraphs below

Continuously improve its offerings and platforms: The company plans to continuously enhance its existing offerings and platforms to expand its capabilities and addressable market. Leveraging its three AI-enabled digital platforms - RapidX, Tensai, and Amaze - the company offers AI-led solutions tailored to specific industry needs. Examples include background research services for insurance, Agenda Builder for travel, and a legal private large language model for the legal industry. The company also offers Gen AI embedded solutions for retailers, wholesalers, investment advisors, and life sciences companies, and plans to continue investing in differentiated platforms and add-on service capabilities.

Deepen and expand relationships with existing customers: The company sees significant opportunity to deepen relationships with existing customers and increase revenue. Its customer partners and account managers focus on understanding customer needs and preferences, helping solve new problems, and becoming more engaged and efficient. In FY2023, 62% and 83% of revenue came from customers with over \$5 billion and \$1 billion revenues, respectively. The company aims to improve wallet share by identifying adjacent needs and cross-selling, leveraging its expertise in advanced technologies like cloud, AI, and IoT. Its "Land, Ramp and Expand" model has driven long-term customer relationships, with 29 customers contributing over \$10 million in revenue in FY2023, up from 19 in FY2021.

Acquire new customers with focus on large customers to tap high value opportunities: The company sees opportunity to add new customers across its segments, focusing on large customers with annual revenues over ₹15,000 crores. It serves 31 Fortune 500 organizations and has a track record of deepening customer relationships through its "Land, Ramp and Expand" strategy. The company uses various channels to generate demand, including Analyst and Advisory Relations, Strategic Partnerships, and client alumni. In FY2023, it received over 50 endorsements from ISG and has strengthened its Strategic Partnerships team. Client alumni also act as sponsors, helping the company acquire new customers.

Strategically expand into untapped geographies and industries: The company plans to expand into new geographies and industries. It currently operates in North America, Europe, and APAC, with core markets in the US and UK. The company aims to enter Canada, continental Europe, the Middle East, and Australia, and has already grown its business in Germany and Belgium. It has also formed joint ventures in Qatar and the UAE to tap into the Middle East market. The company seeks to expand its industry footprint by leveraging its global delivery centers and domain expertise, and has already made inroads into industries like hi-tech, hospitality, and telecom.

Create and develop advanced talent and optimize cost of delivery: The company plans to expand into new markets, building on its presence in North America, Europe, and APAC. It aims to enter Canada, continental Europe, the Middle East, and Australia, having already established a foothold in Germany, Belgium, Qatar, and the UAE. The company will leverage its global delivery

centers and domain expertise to expand into new industries, including hi-tech, hospitality, and telecom.

Focus on operational improvement: Its operations strategy is fully aligned to its sales and delivery strategies, ensuring a cohesive approach to achieving its business objectives. The company follows a cross-functional operations playbook with goals, targets and macro and micro initiatives to ultimately improve its margins. The company follows data-driven operations policies and decision-making processes that are enabled by its central Operations Command Centre. Its Operations Command Centre leverages technology to democratize operations data as well as track critical performance metrics and trends in all mission-critical processes, such as demand-supply management, hiring, utilization, bench and headcount movement. The company use a Gen AI enabled alerting and querying agent to manage operational policies and thresholds.

Margin expansion is a continual focus for it and is centered around the following levers:

- **Onshore/offshore mix:** Its offshore IT services accounted for 43.6% of its revenue from IT services for the nine months ended September 30, 2024. The company aim to increase its offshore delivery services, as increasing the share of revenue from operations contributed by its offshore delivery may help increase its margins.
- **Utilization:** The Company has implemented a matrix to calculate bench strength, balancing fulfillment velocity with costs. Its multiskilling and reskilling initiatives ensure that a majority of its bench strength is deployable. The utilization rate of its IT business professionals for the Financial Year 2023 and the nine months ended September 30, 2024 was 79.7% and 82.6%, respectively, and the company aim to achieve further operational efficiency.
- **Attrition:** The Company aims to lower attrition by focusing on employee engagement and retention initiatives.
- **Employee-contractor mix:** The Company continually assess the optimal balance of employees and contractors to maintain cost efficiency while meeting project demands. The company has launched initiatives for onsite contractor replacement with consultants as well as delayering of agencies to increase contractor margins.
- **Employee pyramid:** The company aims to maintain an optimal employee pyramid by focusing on training campus graduates through its campus talent development programs. It has established partnerships with notable institutions through the Segue Program and offers the Mavericks Learning Program, which provides a digital foundation and role-based specialization, enabling quick deployment in customer engagements.
- **Tier 2 city expansion:** The company aims to expand its presence in non-metro cities to access lower-cost talent with lower attrition rates. Since 2023, it has opened delivery centers in Dehradun, Coimbatore, Mangalore, and Colombo, focusing on various service lines. The company plans to open a new center in Ahmedabad (GIFT City), targeting its Banking and Financial Services segments, to tap into new talent pools, reduce costs, and benefit from government incentives.

Strategic M&A aimed at new capabilities and expanded geographic footprint: The company plans to pursue strategic acquisitions that enhance its services, technologies, and geographic reach while preserving its entrepreneurial culture. Its M&A focus is on augmenting core capabilities in data analytics, cybersecurity, product engineering, cloud, and ServiceNow, with a geographic focus on Latin America and Eastern Europe. Past acquisitions, such as Mobiquity and Softcrylic, have bolstered its capabilities in customer experience, data analytics, and marketing, and expanded its global delivery footprint.

Risk factor

- The company's success relies on attracting and retaining highly skilled professionals.
- Reduced outsourcing budgets among customers could impact pricing and workload.
- Failure to maintain or improve resource utilization and employee productivity may hurt operations.
- Evolving laws on privacy, data protection, and related matters pose a risk to the business.

Peer comparison

Co_Name	Total Income	PAT	EPS	P/E	P/BV	BV	FV	Price	Mcap
Persistent Systems Limited	11287.13	1319.73	84.68	73.87	17.52	357.03	5	6255	97484.18
Coforge Limited	11139.8	774.6	114.48	74.47	9.54	894.03	10	8525.3	57011.32
LTI Mindtree Limited	37129.3	4570.1	154.25	38.59	8.37	711.3	1	5953.25	176386.19
Hexaware Technologies Limited	11436.00	1046.10	17.21	41.13	8.15	86.84	10.00	708.00	43024.78

*Peer companies financials are TTM based

*** Hexaware Technologies Limited is based on TTM

Valuation

Considering the P/E valuation on the upper price band of Rs.708, TTM EPS and P/E are Rs. 17.21 and 41.13 multiple respectively and at a lower price band of Rs. 674, P/E multiple is 39.15. Looking at the P/B ratio on the upper price band of Rs. 708, book value and P/B are Rs. 86.84 and 8.15 multiple respectively and at a lower price band of Rs. 674, P/B multiple is 7.76. No change in pre and post issue EPS and Book Value as the company is not making fresh issue of capital

Industry overview

The IT services and Business Process Services (“BPS”) market is projected to reach approximately Rs. 343.0 trillion (Rs. 343,000,000 million) in CY2029, with IT services growing at a CAGR of approximately 7.2% and BPS growing at a CAGR of approximately 2.5% for the period CY2024-29E. Factors driving such growth include increased adoption of cloud, data and AI solutions, heightened cybersecurity needs and cost optimization. Digital is an overarching theme across all major technology segments in today’s market, with overall digital services spend set to reach approximately Rs. 152.7 trillion (Rs. 152,700,000 million) by CY2029.

Outlook

Hexaware Technologies is a well-established IT services company with a strong track record, providing advanced automation and cloud solutions through its platforms. It has a global presence with 39 delivery centers and 16 offices. Expansion plans into Tier 2 Indian cities and new delivery centers could drive growth. Its AI-driven solutions give it a competitive edge. However, the IPO is fully priced, and as an OFS, the company won't receive growth funds. It is suitable for long-term investors.

An Indicative timetable in respect of the Issue is set out below:

EVENT	INDICATIVE DATE (On or about)
IPO Open Date	Wednesday, February 12, 2025
IPO Close Date	Friday, February 14, 2025
Basis of Allotment	Monday, February 17, 2025
Initiation of Refunds	Tuesday, February 18, 2025
Credit of Shares to Demat	Tuesday, February 18, 2025
Listing Date	Wednesday, February 19, 2025

Annexure

Consolidated Financials

Profit & Loss

Rs. in Cr.

Particulars	Period ended 30-Sep-24 (9 Months)	Period ended 31-Dec-23 (12 Months)	Period ended 31-Dec-22 (12 Months)
Revenue from operations	8820.00	10380.30	9199.60
Total expenditure	7480.20	8799.20	7977.90
Operating Profit	1339.80	1581.10	1221.70
OPM%	1.52	1.52	1.33
Other Income	51.30	8.80	179.20
Total Net Income	1391.10	1589.90	1400.90
Interest	45.30	37.80	33.50
PBDT	1345.80	1552.10	1367.40
Depreciation	202.50	283.60	244.40
Loss before tax	1143.30	1268.50	1123.00
Tax	290.00	270.90	238.80
Profit & Loss	853.30	997.60	884.20

Balance sheet is on next page

Balance Sheet

Rs. in Cr.

Particulars	As on 30-Sep-24	As on 31-Mar-24	As on 31-Mar-23
Non-current assets			
Property, plant and equipment	485.50	525.70	598.50
Capital work-in-progress	110.60	55.20	6.30
Right-of-use assets	503.80	376.10	387.80
Goodwill	2336.60	1429.00	1420.50
Other intangible assets	351.50	122.70	180.70
Financial Assets			
Investments	0.40	0.40	0.30
Other financial assets	75.60	66.00	57.00
Deferred tax assets (net)	303.20	272.70	260.30
Income tax assets (net)	39.00	43.90	34.40
Other non-current assets	144.90	108.70	116.30
Total non-current assets	4351.10	3000.40	3062.10
Current asset			
Financial Assets			
Investments	161.00	250.60	0.00
Trade Receivables			
Billed	1352.60	1386.30	1384.60
Unbilled	840.80	459.50	497.20
Cash and Cash Equivalents	1335.70	1773.40	1291.60
Bank Balances other than Cash & Cash Equivalents	10.40	10.30	11.20
Other Financial Assets	55.70	11.50	17.90
Income tax assets (net)	20.40	30.60	7.70
Other current assets	466.50	279.50	241.70
Total current assets	4243.10	4201.70	3451.90
Total Assets	8594.20	7202.10	6514.00
Non-current liabilities			
Financial liabilities			
Lease liabilities	414.30	315.10	306.80
Other financial liabilities	210.60	16.60	63.20
Provisions	73.80	79.40	66.30
Total Non- Financial liabilities	698.70	411.10	436.30
Current liabilities			
Financial Liabilities			
Borrowings	0.00	0.00	82.70
Lease Liability	103.20	78.50	67.00
Trade payables	787.60	659.50	535.70
Other financial liabilities	932.90	678.90	631.70
Other current liabilities	293.30	332.70	323.90
Provisions	257.80	228.70	182.10
Income tax liabilities (net)	243.70	177.50	131.60
Total Financial liabilities	2618.50	2155.80	1954.70
Total	3317.20	2566.90	2391.00
Net worth represented by:			
Equity share capital	60.70	60.70	60.40
Other equity	5220.50	4574.50	4062.60
Non-controlling interests	-4.20	0.00	0.00
Net Worth	5277.00	4635.20	4123.00

RANKING METHODOLOGY

WEAK	★
NEUTRAL	★★
FAIR	★★★
GOOD	★★★★
EXCELLENT	★★★★★

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