

## Result Snapshot

Amt. in Rs. Crs.	Q1CY20	Q4CY19	Q-o-Q(%)	Q1CY19	Y-o-Y(%)
Revenue	1541.755	1528.817	0.8%	1264.019	22.0%
Exchange Rate Difference	43.417	0.382		-8.254	
Other Income	0.546	0.784		4.074	
<b>Total Income</b>	<b>1585.718</b>	<b>1529.983</b>	<b>3.6%</b>	<b>1259.839</b>	<b>25.9%</b>
EBITDA	233.598	239.95	-2.6%	188.664	23.8%
EBIDTA (%)	15.2%	15.7%		14.9%	
EBIT	181.827	204.399	-11.0%	173.837	4.6%
Profit/Loss in JV		-0.131			
Exceptional Item	0.058	0.198		0.061	
PBT	214.658	202.876	5.8%	169.711	26.5%
<b>PAT</b>	<b>174.963</b>	<b>167.797</b>	<b>4.3%</b>	<b>138.477</b>	<b>26.3%</b>
PAT%	11.0%	11.0%		11.0%	

Amounts in US\$ M	Q1 2020	Q4 2019	GROWTH QoQ	Q1 2019	GROWTH YoY
Revenue	210.6	214.3	-1.7%	180.0	17.0%
EBITDA	32.4	31.9	1.7%	27.6	17.7%
<b>EBITDA %</b>	<b>15.4%</b>	<b>14.9%</b>	<b>0.5%</b>	<b>15.3%</b>	<b>0.1%</b>
EBITDA (post RSU)	31.3	33.6	-6.6%	27.0	16.3%
<b>EBITDA % (post RSU)</b>	<b>14.9%</b>	<b>15.7%</b>	<b>-0.8%</b>	<b>15.0%</b>	<b>-0.1%</b>
EBIT (post RSU)	24.3	28.6	-14.9%	24.8	-2.1%
<b>EBIT %</b>	<b>11.6%</b>	<b>13.3%</b>	<b>-1.8%</b>	<b>13.8%</b>	<b>-2.3%</b>
PAT	23.4	23.5	-0.5%	19.8	18.3%
<b>PAT %</b>	<b>11.1%</b>	<b>11.0%</b>	<b>0.1%</b>	<b>11.0%</b>	<b>0.1%</b>
EPS Basic (INR)	5.86	5.62	4.4%	4.65	26.1%

## Result / Con-call Highlights:

### 1) Result Update:

Hexaware reported a revenue of \$210.6 mn a drop of 1.1% in constant currency terms compared to Q4 CY19 revenue of \$214.3 mn. In Q1 CY20 EBITDA came in at \$31.3 mn whereas EBITDA margin came in at 14.9% declining by 80 bps Q-o-Q. Covid-19 impact in Q1 CY20 EBITDA margin is around 100-120 bps. Hexaware's utilization dropped from 78.5% in Q4 CY2019 to 76.5% in Q1 CY20 mainly on account of Covid-19; ex-Covid-19 impact on company's utilization should have significantly improved Q-o-Q. The company won \$69 mn worth new deals in Q1 CY20.

## Result / Con-call Highlights: (Continued)

### 2) Segmental Update:

Geography	% of Revenue	Vertical	% of Revenue	Horizontal	% of Revenue
North America	74.2%	Banking And Financial Services	36.80%	Application Transformation and Management	42.50%
Europe	17.8%	Travel and Transportation	9.90%	Enterprise Solution	8.30%
APAC	8.0%	Healthcare and Insurance	20.10%	Digital Assurance	15.90%
		Manufacture and Consumer	17.50%	Business Intelligence and Business Analytics	11.40%
		Professional Services	15.70%	Business Process Services	8.50%
				Infrastructure Management Service	13.40%

GEOGRAPHY	GROWTH QoQ	GROWTH YoY	VERTICAL	GROWTH QoQ	GROWTH YoY	HORIZONTAL	GROWTH QoQ	GROWTH YoY
North America	-2.1%	14.1%	BFS	1.9%	5.6%	ATM	3.1%	44.1%
Europe	0.4%	65.4%	GTT	-5.1%	21.9%	ES	-10.8%	2.4%
APAC	-2.4%	-16.9%	H&I	-5.7%	28.6%	DA	-0.1%	6.1%
TOTAL	-1.7%	17.0%	M&C	-6.0%	18.8%	BIBA	6.2%	2.3%
			HTPS	2.8%	29.8%	BPS	-0.5%	29.7%
			TOTAL	-1.7%	17.0%	IMS	-16.5%	-11.6%
						TOTAL	-1.7%	17.0%

Top 5 clients who used to contribute around 41.7% of Q1 CY19 have come down to 34.3% in Q1 CY20.

In the Horizontal segment, IMS (Infrastructure Management Service) was the worst impacted showing de-growth of 16.5% Q-o-Q, a large part of that is on account of one large client. IMS is also the worst affected by Covid-19 as the work cannot be implemented at the places that are shutdown. Going forward, the management wants to concentrate the IMS business to high end project and consulting work thereby giving them higher margin.

### 3) Covid-19 Impact:

The company transitioned to work from home a week before the lockdown was implemented by the central government. As of today, 99% of IT work and 80% of BPS in terms of revenue is work from home. In terms of Covid-19 impact on revenue, APAC region showed the first impact lasting throughout the quarter; whereas Europe showed some impact but also had significant business. North America was the last region to have an impact on the revenue but in had the sharpest impact on the revenue. The management expects North America's impact to be carry forwarded in Q2 as well.

Once the lockdown is lifted, the company will be resuming services in their offices in a staggered and segmented approach. The management foresees until a vaccine is developed only half of the employees might be working from office.

4) Europe has been significantly improving time to time showing a Y-o-Y growth of ~65% and Q-o-Q growth of 0.4% inspite witnessing a full month impact of Covid-19.

the company has been redoing its US client hunting strategy,

5) Utilization went down in Q1CY20 and the company expects the utilization levels to go down further in Q2 CY20 while the normalcy will only return Q3 onwards.

## Result / Con-call Highlights: (Continued)

6) Management has guided that credit periods shall be extended in the near term, but the impact on the DSO days shall be in single digit days.

7) Hexaware's clients have been negotiating for better prices & discounts, however to handle this well Hexaware's management has adopted pro-active stance to help clients by advising on means to cut project costs thereby ensuring the continuity of business volumes.

8) Q1CY20 registered a forex gain of \$ 5.79 mn. Forex Gain/Loss expected in next two quarters basis Q1 closing exchange rate of Rs 75.67 per USD are: Q2 CY20 ~ \$ -1.0 mn and Q3 CY20 ~ \$ 0.7 mn.

### 9) Outlook:

The impact of Covid-19 on hexaware has been relatively higher than its Indian peers. We expect both volume and price cuts for fresh contracts and renegotiation of existing contracts to keep the EBITDA margins under pressure for a few quarters coupled with that management's commentary also directed towards weaker guidance for a few quarters ahead.

Hexaware Technologies trades at a trailing valuation of PE 12.07x which is significantly lower than 5 Year average value of ~17x fetched by the stock. We believe that the subdued valuation may balance out the covid impact on the performance of the near term future. We do not foresee an upside in the near term but that doesn't change the business structurally. At the current valuation we assign a HOLD rating to the stock.

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