

Hexaware Technologies

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Market Performer

Rs94 P/E (2003E) - 8x

Result on track

Hexaware has announced its Q3 2002 results as per expectations. The company is headed for break-even this calendar year (2002). Topline has witnessed a 3% growth sequentially. Bottom line growth was much better at Rs33mn as compared to Rs8mn in Q2 2002.

Software development expenses increase

Software development expenses increased as a percentage of revenues from 64% in Q2 2002 to 66% in Q3 2002, mainly due to expenses incurred in migrating Onsite work to India. This involves traveling and cost of living expenses for the Onsite workers. We expect the software development expenses to remain at around 65% for the next quarter (Q4 2002).

General and admin expenses reduce

Salary of the general and administrative staff was cut in May 2002. Thus, expenditure reduced from Rs135mn in Q2 2002 to Rs104mn this quarter. The salary cuts were around 50% for the top management and for rest of the general and administrative staff it ranged from 5% to 15%.

Rise in interest expense, a concern

Interest expense has increased this quarter to Rs13mn from around Rs6mn in Q2 2002. The company is aiming at reducing borrowings levels from Dec 2002 – Jan 2003, which should have a positive impact on the bottom line.

Focusing on BFSI and airline verticals and Peoplesoft practice

The company has continued its focus on banking, financial services, insurance and airline verticals, and Peoplesoft project implementation work. Hexaware has also been able to get some more customers in other verticals and for some other projects.

Year Ended Dec 31	Q1 2002	Q2 2002	Q3 2002
Revenue by Verticals %			
Banking and Fin Services	28%	32%	32%
Insurance	12%	14%	11%
Airlines	13%	13%	11%
Others	47%	41%	46%
Total	100%	100%	100%

Year Ended Dec 31	Q1 2002	Q2 2002	Q3 2002
Revenue by Project Type%			
Application Management	63%	53%	48%
Peoplesoft	11%	21%	21%
R&D	22%	19%	19%
Others	2%	3%	7%
E-Commerce	2%	4%	5%
Total	100%	100%	100%

Increasing Focus on Europe

As is evident from the large order from Deutsche Leasing AG, Hexaware is increasing its thrust on Europe. Revenues from Europe have increased by around 50% from Q2 2002 levels.

Year Ended Dec 31	Q1 2002	Q2 2002	Q3 2002
Revenue by Geography %			
North America	75%	80%	76%
Europe	12%	15%	22%
Rest of World	13%	5%	2%
Total	100%	100%	100%
Revenue by Geography (RsMn)			
North America	388	522	508
Europe	62	98	147
Rest of World	67	33	13
Total	517	652	669

View and valuation

We expect the company to meet its 2002 and 2003 topline guidance of around Rs2548mn and Rs3250mn. According to our initial estimates, the stock is quoting at 8x P/E on 2003 earnings estimates. The company has performed as per market expectations and we rate it a **Market Performer**.

Projections

Quarterly Projections

Rs Mn

Year Ended Dec 31	Q1 2002 <i>Actuals</i>	Q2 2002 <i>Actuals</i>	Q3 2002 <i>Actuals</i>	Q4 2002
Revenues	517	652	669	702
% Growth QoQ		26%	3%	5%
Net Profits	(94)	8	34	51
% Growth QoQ		-109%	321%	50%
EPS (Rs)	(4.3)	0.4	1.6	2.3
% Growth QoQ		-109%	321%	50%

Note: Consolidated results; Karvy Estimates

Yearly Projections

Rs Mn

Year Ended Dec 31	2002E <i>Karvy Est.</i>	2003E	Change %	2002 Company Guidance	2003 Company Guidance
Revenues	2,540	3,337	31.4%	2,548	3,250
Net Profits	0	251			
EPS (Rs)	0.01	11.41			
P/E x	--	8			

Note: Consolidated results; Karvy Estimates

Consolidated Results

Year ended Dec 31	Rs Mn		
	Q3 2002	Q2 2002	QoQ %Chg
Revenues	669	652	3%
Software Development	439	414	6%
Gross Profits	230	238	-3%
Expenditures			
Sales and Marketing	53	60	-11%
General and Admin	104	135	-23%
Depreciation	36	35	3%
Operating Profits	36	8	357%
Other income	11	6	82%
Interest	13	6	120%
Profit before Taxation	34	8	321%
Provision for taxation	-	-	
Net Profit	34	8	321%
No. of Shares (mn)	22	22	0%
EPS Basic - (Rs)	1.56	0.37	321%
Gross Margins	34.3%	36.4%	
OPM	5.4%	1.2%	
PBT Margins	5.1%	1.3%	
NPM	5.1%	1.3%	
Tax/PBT	0.0%	0.0%	
Other Income/PBT	31.7%	73.4%	

Note: Hexaware Ltd.'s last year Q3 numbers are not directly comparable with Q3 of 2002 as the company (erstwhile Aptech Ltd.) demerged its IT training business and merged with Hexaware Ltd. in 2002.

Stock Ratings Absolute Returns

Buy	:	> 25%
Out Performer	:	16 - 25%
Market Performer	:	0 - 15%
Under Performer	:	< 0%

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