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IPO note: Happiest Minds Technologies Limited - "SUBSCRIBE for listing gains" **September 07, 2020**

Issue date	**Sep. 07 – Sep. 09, 2020**
Finalisation of basis of allotment	Sep. 14, 2020
Refunds/ASBA unblocking	Sep. 15, 2020
Credit of equity shares to DP account	Sep. 15, 2020
Listing date	Sep. 17, 2020
Issue type & size	Fresh Issue: Rs. 110 crores Offer for sale: Up to 35,663,585 Equity Shares - Rs. 592 crores Ashok Soota – The Promoter Selling Shareholder (upto 8,414,223 equity shares) CMDB II (JP Morgan Asset Management – Investor Selling Shareholder (upto 27,249,362 equity shares)
Issue size	Rs. 702 crores
Issue structure	QIB – 75 %, NIB – 15%, Retail – 10%
Price Band	Rs. 165 – Rs. 166 (Face value: Rs. 2)
Bid lot	90 equity shares and in multiples thereof
BRLM	ICICI Securities, Nomura
Registrar to the issue	KFin Technologies Private Limited

Positioned as "Born Digital. Born Agile", the Company focuses on delivering a seamless digital experience to its customers. The Company's is promoted by very experienced professional Mr. Ashok Soota. Prior to founding Happiest Minds, Mr. Ashok Soota was the founding Chairman and Managing Director of MindTree which was acquired by L&T Group. He was also the vice chairman of Wipro and senior vice president of Shriram Refrigeration Industries prior to co-founding MindTree.

The company offers three services: Digital Business Services (DBS) - (27 percent of topline); Product Engineering Services (PES)- (51 percent of topline) and Infrastructure Management & Security Services (IMSS) - (22 percent of topline). The company's DBS segment, offers digital app design, development, package implementation and testing services. PES segment assists software product companies in building products, platforms and services. The IMSS segment delivers infra and security solutions with specialization in cloud. The Frost & Sullivan Report estimates the global digital services market of USD 691 billion in 2019 to grow at a CAGR of 20.2% to USD 2,083 billion by 2025. In Fiscal 2020, 96.9% of its revenues came from digital services. This is one of the highest among Indian IT companies (Source: Frost & Sullivan Report). The Frost & Sullivan Report notes that the legacy IT market as a percentage of total technology spend is estimated to decline from 85.7% share in 2019 to 65% share by 2025, with digital spend making up the remaining 35% share by then.

As of June 30, 2020, we had 148 active customers. The Company's repeat business (revenue from existing customers) has steadily grown and contributed a significant portion of its revenue from contracts with customers over the years indicating a high degree of customer stickiness. In the three months ended June 30, 2020 and in FY 2020, the Company delivered 90.1% and 87.9% respectively of its projects through agile delivery methodology. The Company has one client with more than $10 million revenue and 24 clients with $1-5 million revenue range. US business accounted for 77.3 percent of its topline, India accounted for 10.9 percent topline and 9.8 percent business was from UK in FY20. Over the years and currently during the ongoing outbreak of Novel Coronavirus, the Company has successfully implemented its business continuity plans including to achieve efficient work-from-home practices to ensure connectivity across the enterprise. For FY20, the Company's utilisation rate stood at 77 percent while attrition stood at 19 percent which is high.

Particulars (Rs. crores)	Q1FY21	FY20	FY19	FY18
Revenue from operations	177	698	590	463
EBITDA	37.9	97	55	(18.6)
EBITDA (%)	21.4	13.8	9.3	-
Profit after tax	50	72	14	(22.5)
PAT margin (%)	28	10.3	2.37	-
Equity share cap.	20.44	8.79	5.97	3.75
Networth	319	265	(66)	(109)
Diluted EPS (Rs.)	3.7	5.4	1.2	(3.1)
P/E (x)	-	31	138	-
RoE (%)	15.7	27.1	-	-

Source: RHP

Investment recommendation and rationale

We like the Company due to the following factors: a) strong brand in Digital IT services with 97 percent revenues coming from high margin digital space as compared to peers deriving 35-50 percent, b) the global digital services market of US$ 691 billion in 2019 is expected to grow at a CAGR of 20.2 percent to US$ 2 trillion, c) growing high revenue generating customer accounts with a high proportion of repeat revenues and revenues from mature markets, d) scalable business model with multiple drivers of steady growth, e) end to end capabilities spanning the digital lifecycle from roadmap to deployment and maintenance; f) strong R&D capability with depth in disruptive technologies creating value through newly engineered solutions; g) agile engineering and delivery, h) strong promoter - Mr. Ashok Soota (erstwhile co founder of Mindtree), i)improved financial performance in last few years with rapid growth, j) COVID - 19 impact to be minimal (76 percent of the Company's business was not impacted by COVID - 19. The Company has already raised Rs. 316 crores from 25 anchor investors, including the Government of Singapore, Goldman Sachs, Kuwait Investment Authority, Nomura Funds Ireland, Jupiter India etc. At the upper end of the price band of Rs. 166, the issue is valued at a P/E of 27x at FY20 EPS at Pre IPO and at a P/E of 34x on post IPO EPS of Rs. 4.88. We believe the issue is priced at a premium owing to its robust business model and major presence in Digital IT space. The recent fancy for Companies with differentiated business model instills confidence on this issue. The international peers which have a similar businesses model are trading at a P/E valuation of around 65x. With due consideration to above factors we recommend "Subscribe the issue for listing gains".

Research report written by - Akash Jain, MBA (Financial Markets), Vice – President Research

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For research related queries contact:

Mr. Akash Jain – Vice President (Research) at research@ajcon.net, 022-67160431 (D)

CIN: L74140MH1986PLC041941

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Website: www.ajcononline.com

Registered and Corporate office

408 - (4th Floor), Express Zone, “A” Wing, Cello – Sonal Realty, Near Oberoi Mall and Patel’s, Western Express Highway, Goregaon (East), Mumbai – 400063. Tel: 91-22-67160400, Fax: 022-28722062