

Happiest Minds Technologies Limited



Happiest Minds Technologies Limited.

Stellar performance continues

CMP	Target	Potential Upside	Market Cap (INR Mn)	Recommendation
INR 1,297	INR 1,510	16.4%	INR 1,90,504	ACCUMULATE

Sector
Internet Software & Services

Synopsis:

Happiest Minds Technologies Limited (HAPPSTMN) Q2FY22 performance beats our estimate. Dollar Revenue was up 7.8% QoQ to USD 35.8Mn (KRChoksey est. USD 35Mn). Rupee revenue grew by 8.1% QoQ to INR 2,645Mn (KRChoksey est. INR 2,567Mn). Reported operating margin contracted by 59bps to 19.7% QoQ due to supply crunch and rising attrition as we see a sharp uptick in employee cost, up by ~10.1% QoQ. Reported Net profit grew by 6.2% QoQ to INR 444Mn (KRChoksey est. INR 584Mn) with margin of 16.8% due to lower net operating income. 97% of the total revenue comes from Digital business and Agile contributes 93% of the total revenue. The ongoing talent crunch will keep margins under check in the near term, offset by higher offshoring, utilization and operating leverage. Growth was broad based across the US (+5% QoQ and India (+13.2% QoQ) and mainly driven by BFSI (+7.2%QoQ), Retail (+19.2% QoQ) and Manufacturing (+42.3% QoQ). Our target price of INR 1,510 is based on 90.5x Mar-24E EPS with EPS CAGR of 15.6% over FY22-24E.

MARKET DATA

KEY FINANCIALS

Shares outs (Mn)	137
Mkt Cap (INR Mn)	1,90,504
52 Wk H/L (INR)	1580.8/285.55
Volume Avg (3m K)	862
Face Value (INR)	2
Bloomberg Code	HAPPSTMN:IN

(INR Mn)	Q2FY22A	Q1FY22A	Q2FY21A	QoQ	YoY	KRChoksey Est.	Variance (%)
USD Revenue	36	33	25	7.8%	44.9%	35	2.3%
Revenue	2,645	2,446	1,828	8.1%	44.7%	2,567	3.0%
EBIT	522	497	392	5.0%	33.1%	606	-13.9%
PAT	444	418	341	24.3%	30.2%	584	-24.0%
OPM (%)	19.7%	20.3%	21.4%	-59	-171	23.6%	-388
NPM(%)	16.8%	17.1%	18.7%	-30	-187	22.8%	-596

Source: Company, KRChoksey Research

SHARE PRICE PERFORMANCE

Robust growth across verticals led to the overall growth of the business

Happiest Minds Technologies Limited (HAPPSTMN) Q2FY22 performance beats our estimate. Dollar Revenue was up 7.8% QoQ to USD 35.8Mn and rupee revenue grew by 8.1% QoQ to INR 2,645Mn. Growth was broad based across the US (+5% QoQ and India (+13.2% QoQ) and mainly driven by BFSI (+7.2%QoQ), Retail (+19.2% QoQ) and Manufacturing (+42.3% QoQ). Digital infrastructure/Cloud (+9.3% QoQ) and Security Solutions (+19.8% QoQ) are showing positive tractions mainly because company has set up various CoE with specialized employees to address the right customers. Offshore revenue stood at 16.1% (+10bps QoQ), utilization stood at 79.7% (+240 bps QoQ), and attrition increased to 18.5% (+380bps QoQ) in Q2FY22. HAPPSTMN has added 258 employees in Q2FY22 and expects to add with a similar run rate in the near future.

Existing & new customers to drive the deal win momentum

HAPPSTMN has given a clear indication about robust dealwins and healthy pipelines backed by the digital services. In terms of geography, Americas & India businesses witnessed a positive growth on QoQ basis and has witnessed a skewed dealwins/healthy pipelines especially in BSFI, Retail and manufacturing. Focus on the smaller accounts are playing well for HAPPSTMN as the Non Top 10 clients are contributing ~53.7% of the total revenue. Company has added 8 new clients during the quarter and 186 in total. HAPPSTMN has successfully managed to mine more from the existing clients as three USD3-5Mn clients have moved up to USD5-10Mn in Q2FY22 and also expects another 50+ fortune 1000 clients to get upgraded to USD 1Mn bracket. Average revenue of Top Clients, Top 10 clients and Top 20 clients grew by 10.5%, 12.6% and 10.1% respectively.

MARKET INFO

SENSEX	59,984.7
NIFTY	17,857

Higher attrition to drag the EBIT margin

In Q2FY22, the company registered EBIT margin of 19.7%, down 59 bps QoQ which was dragged down due to elevated attrition and payments to the deal employees families (one off). The ongoing talent crunch to continue due to supply side challenges, wage hikes, increasing sub-contracting costs and higher intake of fresher will keep margins under check in the near term.

SHARE HOLDING PATTERN (%)

Particulars	Sep-21	Jun-21	Mar-21
Promoters	53.3	53.3	53.3
FIIIs	7.1	6.2	7.1
DIIIs	5.2	7.3	7.4
Others	34.5	33.2	32.3
Total	100.0	100.0	100.0

15.0%

Revenue CAGR between FY22 and FY24E

15.6%

PAT CAGR between FY22 and FY24E

Happiest Minds Technologies Limited.

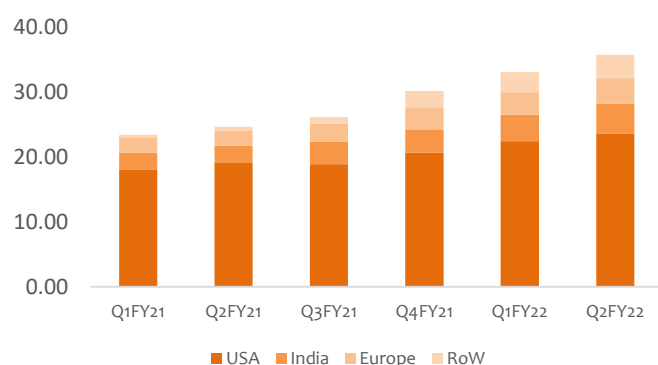
Key Concall Highlights:

(i) Company has paid a one-off payment of INR 140Mn to the families of dead employees due to Covid-19 (ii) A sizeable amount of deferred tax credit is coming back in Q3 (iii) Company has announced an interim dividend of INR 1.75 (iv) DSO during the quarter has gone up by 6 days mainly due to deferred payments from 2 European customers which is expected to receive in the coming quarter (v) +50 Fortune 1000 clients are coming with USD 1Mn deal size in the near term (vi) HAPSTMN has successfully mined three USD 3-5Mn clients to USD 5-10 Mn bracket (vii) Company will continue to invest in the newer technology and will try to maintain the EBITDA at 22-24% level in near future (viii) Management believes that they will successfully manage a CAGR of 20% over the next five years, organically (ix) Company has maintained Analytics division (200+ specialized employees) and Cyber security division (+300 specialized employees)

Valuation and view

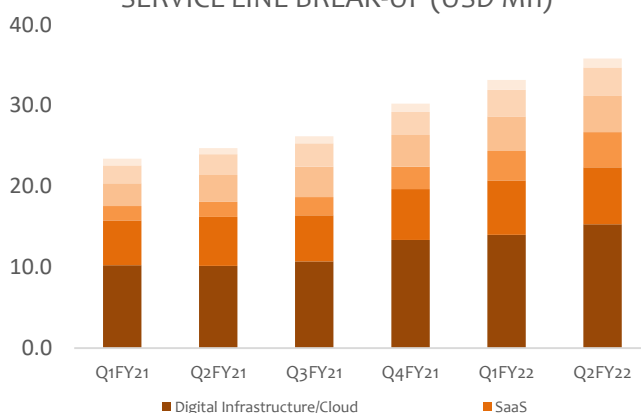
Happiest Minds is currently trading at a valuation with a P/E multiple of 85.5x/77.7x on FY23E/FY24E earnings. We expect strong deal momentum across verticals, full focus on digital business especially in analytics and cyber security segment along with clients centric approach will aid growth over the medium to long term in future and hence we are assigning a P/E multiple of 90.5x to the FY24 estimated EPS of INR 16.7 to arrive at a target price of INR 1,510 per share with an upside of 16.4% over the CMP. Accordingly, we maintain our view to an “ACCUMULATE” rating to the stock.

GEOGRAPHIC BREAK-UP (USD Mn)



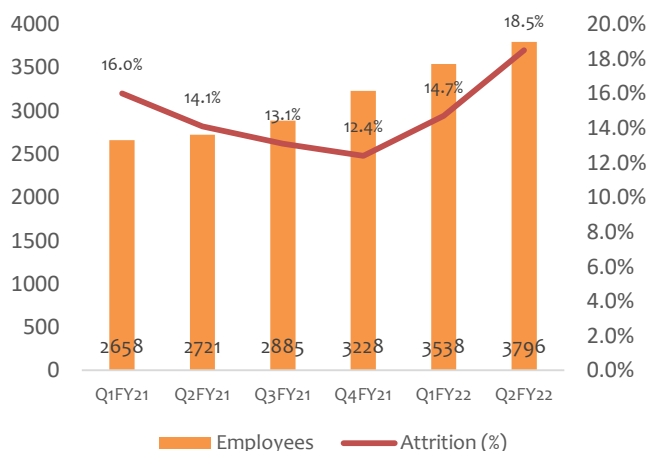
Source: Company, KRChoksey Research

SERVICE LINE BREAK-UP (USD Mn)



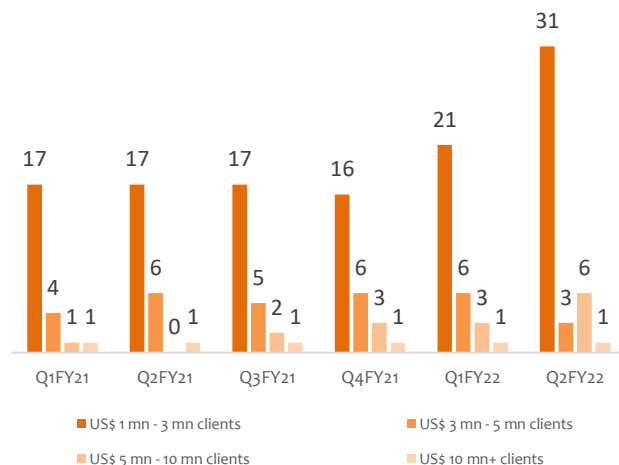
Source: Company, KRChoksey Research

Employee Matrix



Source: Company, KRChoksey Research

Client buckets (Nos.)



Source: Company, KRChoksey Research

Happiest Minds Technologies Limited.

KEY FINANCIALS

Exhibit 1: Balance Sheet

Particulars (INR Mn)	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Property, Plant and Equipment	26	21	9	7	34	29	31
Right-of-use Asset	548.4	396.5	300.6	215	215	215	215
CWIP	1	0	0	1	1	1	1
Intangible Assets	79	21	9	297	297	297	297
Goodwill	296	174	61	764	764	764	764
Other non-current Assests	139	183	250	490	387	387	387
Total non current assets	1,091	795	630	1,774	1,699	1,694	1,696
Current Investments	1386	982	834	3915	3915	3915	3915
Cash & equivalent	165	263	1,896	1,452	1,902	2,961	4,064
Trade Receivables	944	1,293	1,149	1,219	1,692	2,027	2,393
Loans & Advances	27	8	10	81	81	81	81
Other Financial Assets	114	709	457	645	645	645	645
Other Current Assets	142	86	106	133	133	133	133
Total current assets	2,779	3,340	4,451	7,445	8,367	9,762	11,231
Total Assets	3,870	4,135	5,082	9,220	10,066	11,456	12,927
Equity Share Capital	38	60	88	284	294	294	294
Other Equity	-1,126	-720	2,565	5,176	6,344	7,715	9,167
Total Equity	-1,089	-661	2,653	5,460	6,638	8,008	9,461
Deferred Tax Liability,(Net)	12	0	0	318	318	318	318
Provision for Leave Encashment/Compensated Absence	81	94	126	165	165	165	165
Lease Liabilities	431	296	173	122	122	122	122
Long Term Debt	148	85	13	366	366	366	366
Total non current liabilities	673	475	312	972	972	972	972
Trade Payables	250	288	344	410	583	648	711
Unearned Revenue	55	107	82	107	148	171	195
Other Current Liabilities	3,068	3,067	693	880	880	880	880
Lease Liabilities	146	158	182	142	142	142	142
Short term borrowings	686	601	692	1,097	553	484	415
Provision	82	100	125	151	151	151	151
Total Current Liabilities	4,286	4,320	2,117	2,788	2,457	2,476	2,494
Total liabilities	3,870	4,135	5,082	9,220	10,066	11,456	12,927

Source: Company, KRChoksey Research

Happiest Minds Technologies Limited.

KEY FINANCIALS

Exhibit 2: Profit & Loss Statement

Particulars (INR Mn)	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Revenue	4,629	5,904	6,982	7,734	10,645	12,328	14,087
Total Operating expenses	4,815	5,355	6,011	5,819	8,178	9,461	10,807
EBITDA	-186	548	971	1,915	2,467	2,868	3,280
Depreciation	208	248	202	227	292	412	533
EBIT	-394	301	769	1,688	2,175	2,456	2,746
Other income, net	262	115	160	242	351	352	368
Finance costs	100	159	80	70	73	57	54
Pre-tax Income	-231	256	849	1,860	2,453	2,750	3,060
Income tax expense	-6	-12	19	236	561	550	612
Net profit Before MI	-225	268	830	1,625	1,892	2,200	2,448
MI & EI	0	-126	-113	0	-61	0	0
Net profit Before MI & EI	-225	142	717	1,625	1,831	2,200	2,448
Diluted EPS (INR)	-1.83	1.16	5.36	11.45	12.48	14.99	16.68
Shares in Million	120	123	134	142	147	147	147

Source: Company, KRChoksey Research

Exhibit 3: Free Cash Flow Analysis

Particulars (INR Mn)	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Net Cash Generated From Operations	101	610	1,183	1,797	2,528	2,915	3,315
Net Cash Flow from/(used in) Investing Activities	-269	-3	-737	-2,836	-319	-407	-535
Net Cash Flow from Financing Activities	263	-588	-133	1,694	-534	-69	-69
Others	65	146	1,442	-378	1,225	1,380	1,608
Net Inc/Dec in cash equivalents	165	97	1,633	-444	450	1,059	1,103
Opening Balance	70	165	263	1,896	1,452	1,902	2,961
Closing Balance Cash and Cash Equivalents	165	263	1,896	1,452	1,902	2,961	4,064

Source: Company, KRChoksey Research

Exhibit 4: Ratio Analysis

Key Ratio	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
EBIT Margin (%)	-8.5%	5.1%	11.0%	21.8%	20.4%	19.9%	19.5%
Tax rate (%)	2.6%	-4.8%	2.2%	12.7%	22.9%	20.0%	20.0%
Net Profit Margin (%)	-4.9%	2.4%	10.3%	21.0%	17.2%	17.8%	17.4%
RoE (%)	20.6%	-16.2%	72.0%	40.0%	30.3%	30.0%	28.0%
RoIC (%)	-7.5%	10.8%	24.7%	29.4%	23.2%	27.0%	29.7%
RoA (%)	-5.8%	3.4%	14.1%	17.6%	18.2%	19.2%	18.9%
EPS (INR per share)	-1.8	1.2	5.4	11.5	12.5	15.0	16.7

Source: Company, KRChoksey Research

Happiest Minds Technologies Limited.

Happiest Minds technologies Limited				Rating Legend (Expected over a 12-month period)	
				Our Rating	Upside
Date	CMP (INR)	TP(INR)	Recommendation	Buy	More than 15%
28-Oct-21	1297	1510	ACCUMULATE	Accumulate	5% – 15%
25-Aug-21	1435	1510	HOLD	Hold	0 – 5%
				Reduce	-5% – 0
30-Jun-21	1009	1510	ACCUMULATE	Sell	Less than – 5%

ANALYST CERTIFICATION:

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