

Happiest Minds Technologies Limited



Happiest Minds Technologies Limited.
Stellar performance continues

CMP	Target	Potential Upside	Market Cap (INR Mn)	Recommendation	Sector
INR 1,004	INR 1,300	~29.5%	INR 147,429	BUY	Internet Software & Services

Synopsis:

Happiest Minds Technologies Limited (HAPPSTMN) Q4FY22 performance beats our estimate. Dollar Revenue was up 5.5% QoQ to USD 39.9Mn (KRChoksey est. USD 39.1Mn). Rupee revenue grew by 5.9% QoQ to INR 3,006Mn (KRChoksey est. INR 2,895Mn). Reported operating margin remained flattish at 20.9% QoQ due to higher SG&A expenses to 18.6%, up ~120bps which was partially offset by lower employee expenses. Reported Net profit grew by 6.6% QoQ to INR 521Mn (KRChoksey est. INR 562Mn) with margin of 17.3% due to lower other income. 96.8% 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 (Contri.165.7%) and India (Contri.116.2%) and mainly driven by Edu-Tech (Contri.123.6%), Travel, Media & Entertainment (Contri.113.7%) and Manufacturing (Contri.110.1%). Our target price of INR 1,300 is based on ~70.7x Mar-24E EPS with EPS CAGR of 22% over FY22-24E.

MARKET DATA

Shares outs (Mn)	142
Mkt Cap (INR Mn)	147,429
52 Wk H/L (INR)	1580.8/720.15
Volume Avg (3m K)	383.1
Face Value (INR)	2
Bloomberg Code	HAPPSTMN IN

KEY FINANCIALS

(INR Mn)	Q4FY22A	Q3FY22A	Q4FY21A	QoQ	YoY	KRChoksey Est.	Variance (%)
USD Revenue	39.9	37.8	30.0	5.5%	32.9%	39.1	2.0%
Revenue	3,006	2,839	2,207	5.9%	36.2%	2,895	3.8%
EBIT	628	595	485	5.6%	29.5%	631	-0.4%
PAT	521	489	361	6.6%	44.3%	562	-7.3%
OPM (%)	20.9%	21.0%	22.0%	-5	-107	21.8%	-89
NPM(%)	17.3%	17.2%	16.4%	11	98	19.4%	-208

Source: Company, KRChoksey Research

SHARE PRICE PERFORMANCE

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

Happiest Minds Technologies Limited (HAPPSTMN) Q3FY22 performance beats our estimate. Dollar Revenue was up 5.5% QoQ to USD 39.9Mn and rupee revenue grew by 5.9% QoQ to INR 3,006Mn. Growth was broad based across the US (Contri.165.7%) and India (Contri.116.2%) and mainly driven by Edu-Tech (Contri.123.6%), Travel, Media & Entertainment (Contri.113.7%) and Manufacturing (Contri.110.1%). Digital infrastructure/Cloud (Contri.145.5%) and SaaS (Contri.121.7%) are showing positive tractions mainly because company has set up various CoE with specialized employees to address the right customers. Offshore revenue stood at 95.9% (up 50bps QoQ), utilization stood at 79.4% (down 160bps QoQ), and attrition increased to 22.7% (up 160bps QoQ) in Q4FY22. HAPPSTMN has added 147 employees in Q4FY22 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, Europe & India businesses witnessed a positive growth on QoQ basis and has witnessed a skewed dealwins/healthy pipelines especially in Edu-Tech, TM&E and manufacturing. Focus on the smaller accounts are playing well for HAPPSTMN as the Non Top 10 clients are contributing ~55.9% of the total revenue. Company has added 6 new clients during the quarter and 206 in total. HAPPSTMN has successfully managed to mine more from the existing clients as three USD1-3Mn clients have moved up to USD3-5Mn in Q4FY22 and also expects another 50+ fortune 1000 clients to get upgraded to USD 1Mn bracket. 15% of the total revenue is coming from new businesses and remaining are coming from existing businesses. Management is focusing on rate negotiation for new contracts as well as existing contracts.

Higher attrition to drag the EBIT margin

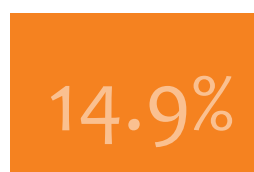
In Q4FY22, the company registered EBIT margin of 20.9%, due to higher SG&A expenses to 18.6%, up ~120bps which was partially offset by lower employee expenses. The ongoing talent crunch to continue due to supply side challenges, wage hikes, increasing sub-contracting costs and higher intake of fresher will keep margins under check in the near term.

MARKET INFO

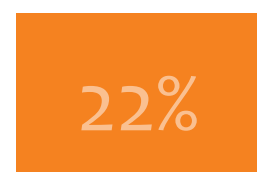
SENSEX	54,835
NIFTY	16,411

SHARE HOLDING PATTERN (%)

Particulars	Mar-22	Dec-21	Sep-21
Promoters	53.3	53.3	53.3
FIIIs	7.8	8.7	7.1
DIIIs	6.3	5.4	5.2
Others	32.7	32.7	34.5
Total	100.0	100.0	100.0



Revenue CAGR between FY22 and FY24E



PAT CAGR between FY22 and FY24E

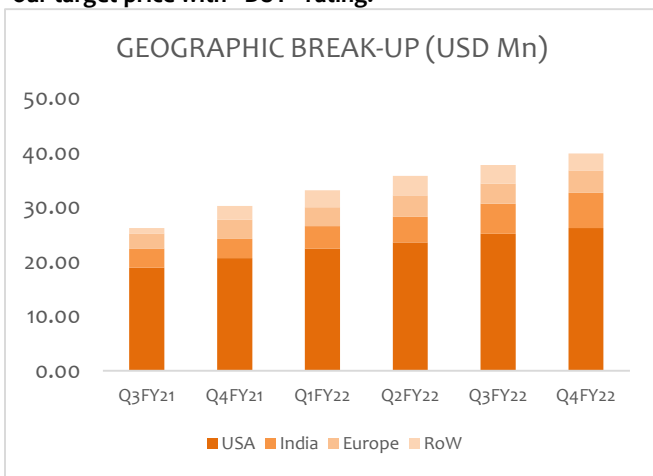
Happiest Minds Technologies Limited.

Key Concall Highlights:

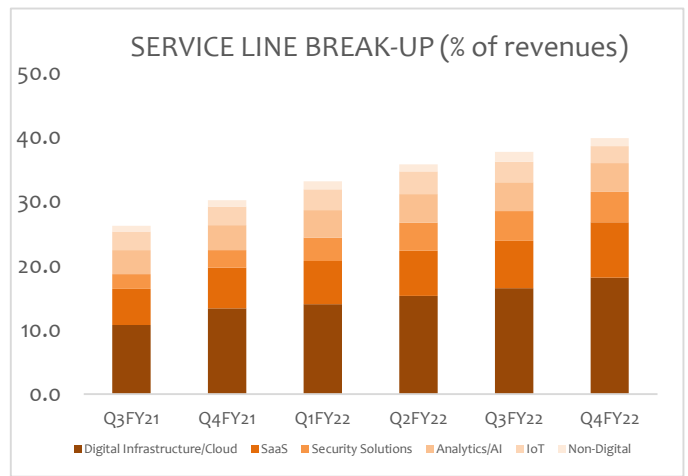
(i) Sub-contracting during the quarter was 12.2% in Q4FY22 vs 12.0% in Q3FY22 (ii) 15% of the total revenue is coming from new businesses and remaining are coming from existing businesses. Management is focusing on rate negotiation for new contracts as well as existing contracts (iii) Management has indicated that FY22 is fully taxpaying year. As a result, FY22 would be the fair base for FY23 unless there are some acquisitions are taking place in FY23 (iv) Management believes that business hit for EPAM will be beneficial for Happiest Minds (v) Management focuses on consulting through domain consulting & technology consulting (vi) Major focus remains on lateral hiring (Off-campus mode) and has recently started recruiting through on-campus drive (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) Management sees pent up demand in digital technologies (especially in ecommerce segment), Multi/Hybrid cloud (infrastructure) and automation.

Valuation and view

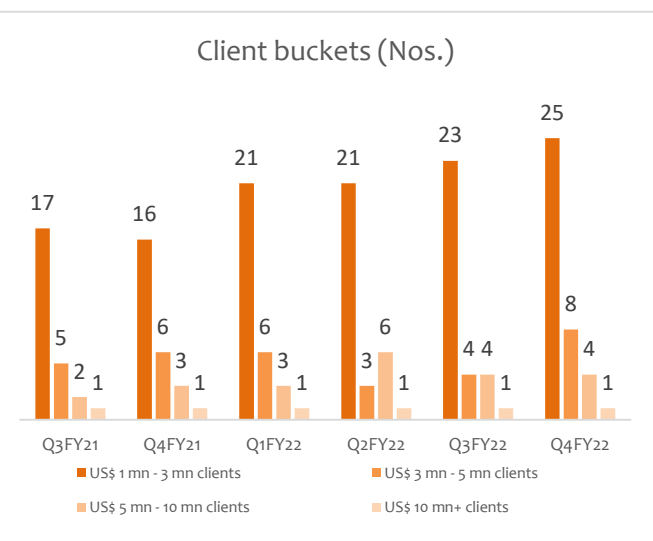
Happiest Minds is currently trading at a valuation with a P/E multiple of 61.2x/54.6x on FY23E/FY24E earnings. We expect strong deal momentum across verticals, full focus on digital business especially in analytics and cyber security segment along with clients centric approach will aid growth over the medium to long term in future. We reduce our target price to INR 1,300 (Previous Target price of INR 1,510) based on a P/E multiple of 70.7x to the FY24 estimated EPS of INR 18.4 and hence we maintain our target price with “BUY” rating.



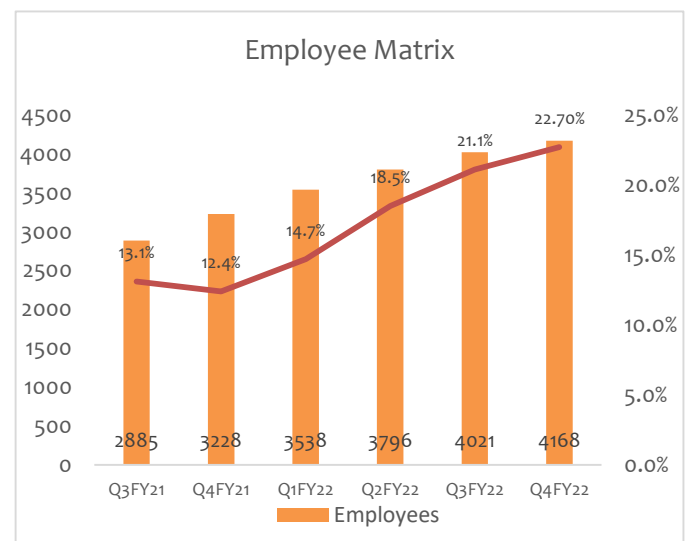
Source: Company, KRChoksey Research



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Happiest Minds Technologies Limited.

KEY FINANCIALS

Exhibit 1: Balance Sheet

Particulars (INR Mn)	FY18	FY19	FY20	FY21	FY22	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	FY22	FY23E	FY24E
Revenue	4,629	5,904	6,982	7,734	10,937	12,635	14,437
Total Operating expenses	4,815	5,355	6,011	5,819	8,360	9,505	10,836
EBITDA	-186	548	971	1,915	2,577	3,130	3,601
Depreciation	208	248	202	227	329	415	540
EBIT	-394	301	769	1,688	2,248	2,715	3,061
Other income, net	262	115	160	242	371	352	368
Finance costs	100	159	80	70	100	57	54
Pre-tax Income	-231	256	849	1,860	2,519	3,010	3,375
Income tax expense	-6	-12	19	236	647	602	675
Net profit Before MI	-225	268	830	1,625	1,873	2,408	2,700
MI & EI	0	-126	-113	0	-61	0	0
Net profit After MI & EI	-225	142	717	1,625	1,812	2,408	2,700
Diluted EPS (INR)	-1.83	1.16	5.36	11.45	12.34	16.40	18.39
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	FY22	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	FY22	FY23E	FY24E
EBIT Margin (%)	-8.5%	5.1%	11.0%	21.8%	21.0%	21.5%	21.2%
Tax rate (%)	2.6%	-4.8%	2.2%	12.7%	24.1%	20.0%	20.0%
Net Profit Margin (%)	-4.9%	2.4%	10.3%	21.0%	17.3%	19.1%	18.7%
RoE (%)	20.6%	-16.2%	72.0%	40.0%	30.9%	32.2%	29.6%
RoIC (%)	-7.5%	10.8%	24.7%	29.4%	23.7%	29.3%	32.4%
RoA (%)	-5.8%	3.4%	14.1%	17.6%	18.5%	20.6%	20.1%
EPS (INR per share)	-1.8	1.2	5.4	11.5	12.3	16.4	18.4

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%
06-May-22	1004	1510	BUY	Accumulate	5% – 15%
31-Jan-22	1150	1510	BUY	Hold	0 – 5%
28-Oct-21	1297	1510	ACCUMULATE	Reduce	-5% – 0
				Sell	Less than – 5%

ANALYST CERTIFICATION:

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