

# Happiest Minds Technologies Limited



## Happiest Minds Technologies Limited.

**Stellar performance continues**

CMP **INR 998** Target **INR 1,158** Potential Upside **~16%** Market Cap (INR Mn) **INR 146,864** Recommendation **BUY**

Sector **Internet Software & Services**

### Synopsis:

Happiest Minds Technologies Limited (HAPPSTMN) Q1FY23 performance beats our estimate. Dollar Revenue was up 5.5% QoQ to USD 42.2Mn (KRChoksey est. USD 41Mn). Rupee revenue grew by 9.4% QoQ to INR 3,289Mn (KRChoksey est. INR 3,189Mn). Reported operating margin stood at 22.7% QoQ due to lower utilization (down ~30bps QoQ). Reported Net profit grew by 8.1% QoQ to INR 563Mn (KRChoksey est. INR 558Mn) with margin of 17.1% due to lower other income. 97% of the total revenue comes from Digital business and Agile contributes +93% of the total revenue. We believe that recent intake of fresher (Aug intake), continuous investments in facility addition across India along with ongoing talent crunch, supply side challenges, wage hikes, increasing sub-contracting costs and higher intake of fresher will keep margins under check in the near term. Growth was broad based across the US (Contri.|66.6%, up by 7.3% CC QoQ) and Europe (Contri.|10.7%, up by 8.9% CC growth) and mainly driven by Edu-Tech (Contri.|23.7%, up 6.3% CC growth), BFSI (Contri.|13.7%, up 5.8% CC growth) and Industrial (Contri.|8.2%, up 31.5% CC growth). Our target price of INR 1,158 is based on ~63x Mar-24E EPS with EPS CAGR of 22% over FY22-24E.

### MARKET DATA

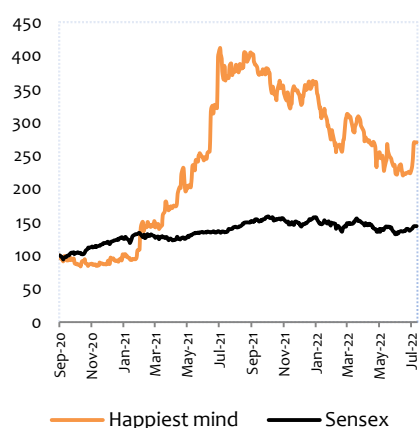
### KEY FINANCIALS

Shares outs (Mn)	142
Mkt Cap (INR Mn)	1,46,864
52 Wk H/L (INR)	1568/785.55
Volume Avg (3m K)	521.7
Face Value (INR)	2
Bloomberg Code	HAPPSTMN IN

(INR Mn)	Q1FY23A	Q4FY22A	Q1FY22A	QoQ	YoY	KRChoksey Est.	Variance (%)
USD Revenue	42.2	40.0	33.2	5.5%	27.1%	41.0	2.9%
Revenue	3,289	3,006	2,446	9.4%	34.5%	3,189	3.1%
EBIT	746	628	497	18.8%	50.1%	695	7.3%
PAT	563	521	422	8.1%	33.7%	558	1.0%
OPM (%)	22.7%	20.9%	20.3%	179 bps	236 bps	21.8%	88 bps
NPM(%)	17.1%	17.3%	17.2%	-20 bps	-10 bps	17.5%	-37 bps

Source: Company, KRChoksey Research

### SHARE PRICE PERFORMANCE



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

Happiest Minds Technologies Limited (HAPPSTMN) Q1FY23 performance beats our estimate. Dollar revenue was up 5.5% QoQ to USD 42.2Mn and rupee revenue grew by 9.4% QoQ to INR 3,289Mn. Growth was broad based across the US (Contri.|66.6%, up by 7.3% CC QoQ) and Europe (Contri.|10.7%, up by 8.9% CC growth) and services business was mainly driven by Edu-Tech (Contri.|23.7%, up 6.3% CC growth), BFSI (Contri.|13.7%, up 5.8% CC growth) and Industrial (Contri.|8.2%, up 31.5% CC growth). Digital infrastructure/Cloud (Contri.|45.7%), AI/Analytics (Contri.|11.6%, up 8.3% CC growth) and SaaS (Contri.|21.5%, up 4.9% CC growth) are showing positive tractions mainly as the company has set up various CoE with specialized employees to address the right customers. Offshore revenue stood at 85.7% (flattish QoQ), utilization stood at 79.1% (down 30bps QoQ), and attrition increased to 24.4% (up ~170bps QoQ) in Q1FY23. HAPPSTMN has added 7/13 employees (offshore/onshore) in Q1FY23 and average revenue/active customer in the quarter was USD 810k (up by USD 14K/active employee).

### 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 & USA businesses witnessed a positive growth on QoQ basis and has witnessed a multi-year dealwins/healthy pipelines especially in Edu-Tech, BFSI and Industrial. Focus on the smaller accounts are playing well for HAPPSTMN as the Non Top 10 clients are contributing ~57.1% of the total revenue. Company has added 5 new clients during the quarter and 211 active clients in total. HAPPSTMN has successfully managed to mine more from the existing clients as two USD3-5Mn client have moved up to USD5-10Mn & USD +10Mn in Q1FY23 respectively. Company has successfully added 2 customers to Fortune 2000/Forbes200 Billion \$ Corporation. 90% of the total revenue are the repeat businesses. 96% of the total business is coming from digital business and Agile contributes 93% of the total revenue.

### Higher attrition/new recruits to drag the EBIT margin in the near term

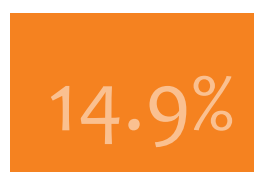
In Q1FY23, the company registered EBIT margin of 22.7%, due to lower utilization (down ~30bps QoQ). Margin guidance for FY23 was 22-24% and we believe that recent intake of fresher (Aug intake), continuous investments in facility addition across India along with ongoing talent crunch, supply side challenges, wage hikes, increasing sub-contracting costs and higher intake of fresher will keep margins under check in the near term.

### MARKET INFO

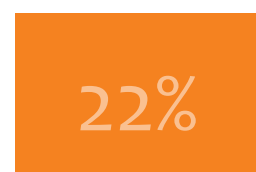
SENSEX	56,059.3
NIFTY	16,712.0

### SHARE HOLDING PATTERN (%)

Particulars	Jun-22	Mar-22	Dec-21
Promoters	53.3	53.3	53.3
FIIIs	5.4	7.8	8.7
DIIIs	7	6.3	5.4
Others	34.25	32.7	32.7
Total	100.0	100.0	100.0



Revenue CAGR between FY22 and FY24E



PAT CAGR between FY22 and FY24E

## Happiest Minds Technologies Limited.

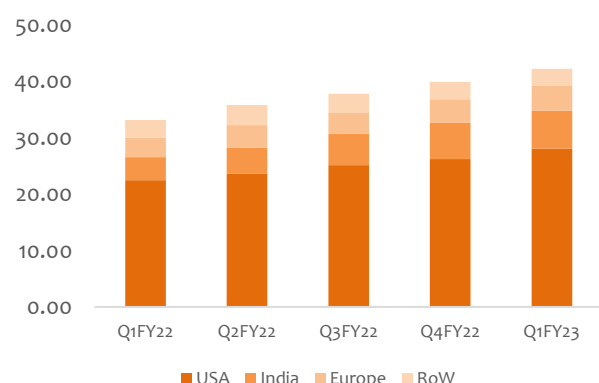
### Key Concall Highlights:

(i) ~15% of the total revenue is coming from new businesses and remaining are coming from existing businesses. Management is focusing on client mining/deal renewals (ii) Management has indicated that they are hiring +500 fresher and around +300 are expected to join in August'22 (iii) Company has invested INR +1000Mn for +240K square feet office facility in Bangalore & Bhubaneswar facility is expected to start in Oct'22 (iv) Management focuses on consulting through domain consulting & technology consulting (v) One of the large clients (late stage venture funded company) was cautious about the spending in the last quarter but has shown confidence spending more as they are likely to add more features in their product platform (vi) Company will continue to invest in the newer technology and will try to maintain the EBITDA at 22-24% level in near future (vii) Management believes that they will successfully manage a CAGR of 25% over the next five years (viii) Management sees multi year tailwind in digital technologies, Multi/Hybrid cloud (infrastructure) and automation (ix) Company is focusing on annuity business (security business) (x) company plans land and expand strategy through consulting/infrastructure.

### Valuation and view

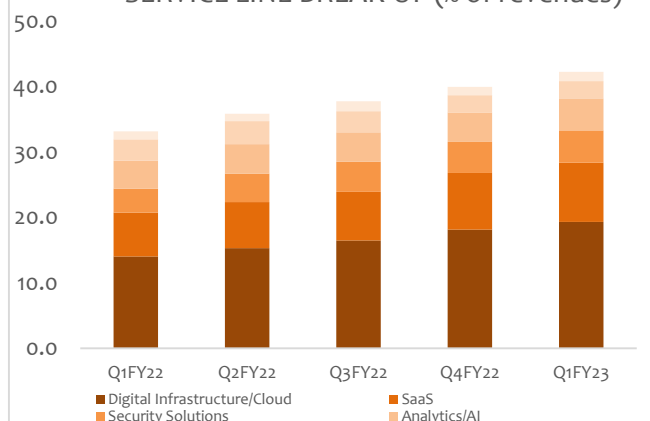
Happiest Minds is currently trading at a valuation with a P/E multiple of 60.8x/54.3x on FY23E/FY24E earnings. We expect strong deal momentum across verticals, full focus on digital business especially in analytics and cyber security segment along with clients centric approach will aid growth over the medium to long term in future. We reduce our target price to INR 1,158 (Previous Target price of INR 1,300) based on a P/E multiple of 63x to the FY24 estimated EPS of INR 18.4 and hence we maintain our target price with "BUY" rating.

GEOGRAPHIC BREAK-UP (USD Mn)



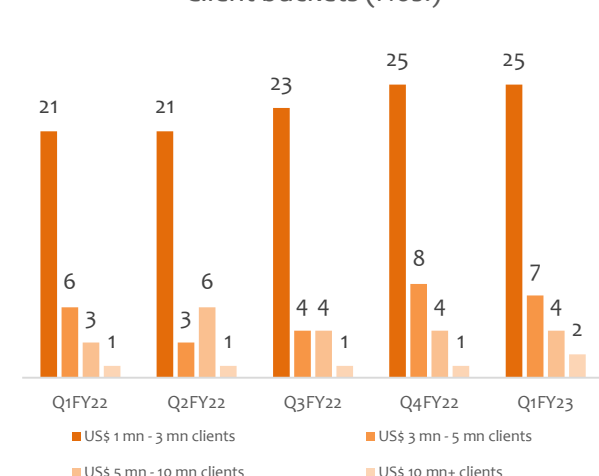
Source: Company, KRChoksey Research

SERVICE LINE BREAK-UP (% of revenues)



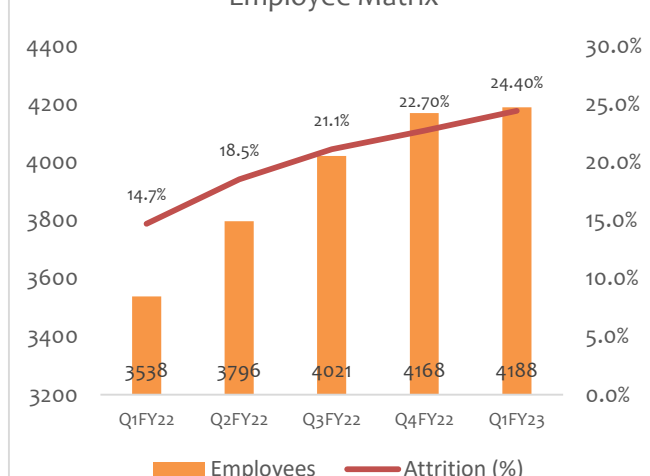
Source: Company, KRChoksey Research

Client buckets (Nos.)



Source: Company, KRChoksey Research

Employee Matrix



Source: Company, KRChoksey Research

## 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
<b>Total non current assets</b>	<b>1,091</b>	<b>795</b>	<b>630</b>	<b>1,774</b>	<b>1,699</b>	<b>1,694</b>	<b>1,696</b>
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
<b>Total current assets</b>	<b>2,779</b>	<b>3,340</b>	<b>4,451</b>	<b>7,445</b>	<b>8,367</b>	<b>9,762</b>	<b>11,231</b>
<b>Total Assets</b>	<b>3,870</b>	<b>4,135</b>	<b>5,082</b>	<b>9,220</b>	<b>10,066</b>	<b>11,456</b>	<b>12,927</b>
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
<b>Total Equity</b>	<b>-1,089</b>	<b>-661</b>	<b>2,653</b>	<b>5,460</b>	<b>6,638</b>	<b>8,008</b>	<b>9,461</b>
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
<b>Total non current liabilities</b>	<b>673</b>	<b>475</b>	<b>312</b>	<b>972</b>	<b>972</b>	<b>972</b>	<b>972</b>
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
<b>Total Current Liabilities</b>	<b>4,286</b>	<b>4,320</b>	<b>2,117</b>	<b>2,788</b>	<b>2,457</b>	<b>2,476</b>	<b>2,494</b>
<b>Total liabilities</b>	<b>3,870</b>	<b>4,135</b>	<b>5,082</b>	<b>9,220</b>	<b>10,066</b>	<b>11,456</b>	<b>12,927</b>

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%
22-Jul-22	998	1158	BUY	Accumulate	5% – 15%
06-Apr-22	1004	1300	BUY	Hold	0 – 5%
31-Jan-22	1150	1510	BUY	Reduce	-5% – 0
				Sell	Less than – 5%

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