

Happiest Minds Technologies Limited



Happiest Minds Technologies Limited.
Stellar performance continues

 CMP Target Potential Upside Market Cap (INR Mn) Recommendation
INR 1,009 INR 1,158 ~14.7% INR 148,112 BUY

 Sector
Internet Software & Services
Synopsis:

Happiest Minds Technologies Limited (HAPPSTMN) Q2FY23 performance is marginally lower than our estimate. Dollar revenue was up 5.0% QoQ to USD 44.3Mn and rupee revenue grew by 8.1% QoQ to INR 3,555Mn (up 5.7%/26.5% QoQ/YoY in constant currency, 9 straight consecutive quarters delivering +5% QoQ growth in topline). Reported operating margin during the quarter was 22.7%, flattish QoQ. Reported net profit grew by 5.5% QoQ to INR 594Mn (KRChoksey est. INR 614Mn) with margin of 16.7%. 97% of the total revenue comes from Digital business and Agile contributes +93% of the total revenue. We believe that recent intake of fresher (September intake), continuous investments in facility addition across India especially in Bangalore, Noida & Bhuvneshwar along with marginal improvement in supply side, lower sub-contracting costs which will be partially offset by wage hike & higher intake of fresher (drag the utilization rate down) will keep margins under check in the near term. Growth was broad based across the US (Contri.167.9%, up by 7.0% CC QoQ) and Europe (Contri.116.1%, up by 58% CC growth). Digital infrastructure/Cloud (Contri.145.4%, up 4% CC QoQ growth), AI/Analytics (Contri.12.8%, up 15.7% CC QoQ growth) and SaaS (Contri.121.3%, up 3.7% CC QoQ 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)	143
Mkt Cap (INR Mn)	1,48,112
52 Wk H/L (INR)	1400.9/785.55
Volume Avg (3m K)	565.7
Face Value (INR)	2
Bloomberg Code	HAPPSTMN IN

(INR Mn)	Q2FY23A	Q1FY23A	Q2FY22A	QoQ	YoY	KRChoksey Est.	Variance (%)
USD Revenue	44.3	42	36	5.0%	23.1%	44.6	-0.7%
Revenue	3,555	3,289	2,645	8.1%	34.4%	3,560	-0.1%
EBIT	808	746	522	8.3%	54.8%	813	-0.6%
PAT	594	563	444	5.5%	33.8%	614	-3.2%
OPM (%)	22.7%	22.7%	19.7%	5 bps	299 bps	22.8%	-11 bps
NPM(%)	16.7%	17.1%	16.8%	-41 bps	-8 bps	17.2%	-54 bps

Source: Company, KRChoksey Research

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

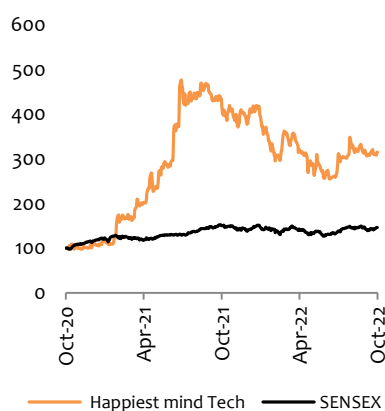
Happiest Minds Technologies Limited (HAPPSTMN) Q2FY23 performance is marginally lower than our estimate. Dollar revenue was up 5.0% QoQ to USD 44.3Mn and rupee revenue grew by 8.1% QoQ to INR 3,555Mn (up 5.7%/26.5% QoQ/YoY in constant currency, 9 straight consecutive quarters delivering +5% QoQ growth in topline). Growth was broad based across the US (Contri.167.9%, up by 7.0% CC QoQ) and Europe (Contri.116.1%, up by 58% CC growth). Digital infrastructure/Cloud (Contri.145.4%, up 4% CC QoQ growth), AI/Analytics (Contri.12.8%, up 15.7% CC QoQ growth) and SaaS (Contri.121.3%, up 3.7% CC QoQ 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 84.7% (down 100bps QoQ), utilization stood at 80.6% (up 150bps QoQ), and attrition down to 23.5% (-90bps QoQ) in Q2FY23.

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 (slight delay in large clients). In terms of geography, USA & RoW businesses witnessed a positive growth on QoQ basis. Apart from that we see material growth in Digital Infrastructure/cloud, SaaS, Security Solution & Analytics/AI, along with multi-year dealwins/healthy pipelines especially in Edu-Tech, BFSI and Industrial as clients are focusing on cost optimization strategies. Focus on the smaller accounts are playing well for HAPPSTMN as the Non Top 10 clients are contributing ~56.7% of the total revenue. Company has added 2 new clients during the quarter and 226 active clients in total (vs 211 in Q1FY23). Company has shown strength in adding Fortune 2000/Forbes200 Billion \$ Corporation and is successfully managing 54 Billion \$ clients in Q2. 91% 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

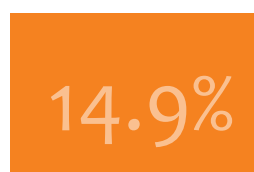
In Q2FY23, the company registered EBIT margin of 22.7%, up ~5bps QoQ. Margin guidance for FY23 was 22-24% and we believe that recent intake of fresher (September intake), continuous investments in facility addition across India especially in Bangalore, Noida & Bhuvneshwar along with marginal improvement in supply side, lower sub-contracting costs which will be partially offset by wage hike & higher intake of fresher (drag the utilization rate down) will keep margins under check in the near term.

SHARE PRICE PERFORMANCE

MARKET INFO

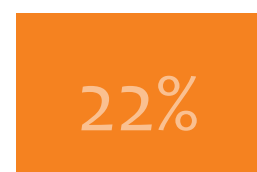
SENSEX	59,202.9
NIFTY	17,564.0

SHARE HOLDING PATTERN (%)

Particulars	Sep-22	Jun-22	Mar-22
Promoters	53.3	53.3	53.3
FIIIs	3.9	4.0	6.9
DIIIs	1.5	1.4	1.5
Others	41.2	41.3	38.9
Total	100.0	100.0	100.0



Revenue CAGR between FY22 and FY24E



PAT CAGR between FY22 and FY24E

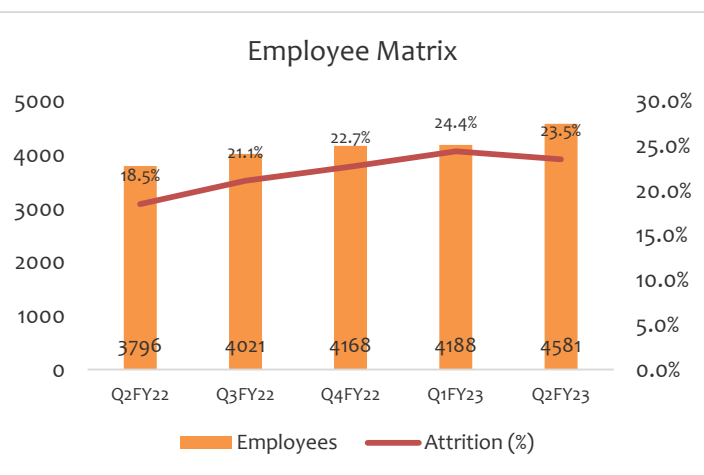
Happiest Minds Technologies Limited.

Key Concall Highlights:

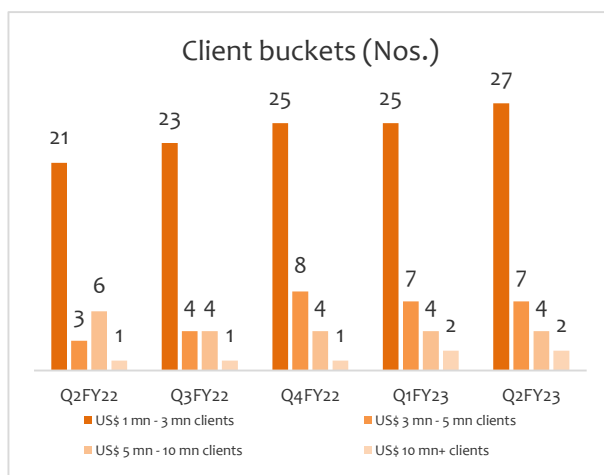
(i) ~10% of the total revenue is coming from new businesses and remaining are coming from existing businesses. Management is focusing on client mining/deal renewals (ii) Management has indicated that digital capabilities/Agile help increase offshore delivery model (iii) Company has invested INR +1000Mn for +240K square feet office facility in Bangalore, Noida & Bhubaneswar facility is expected to start soon (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 (Acquisition target USD 10-50Mn) 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 plays land and expand strategy through consulting/infrastructure.

Valuation and view

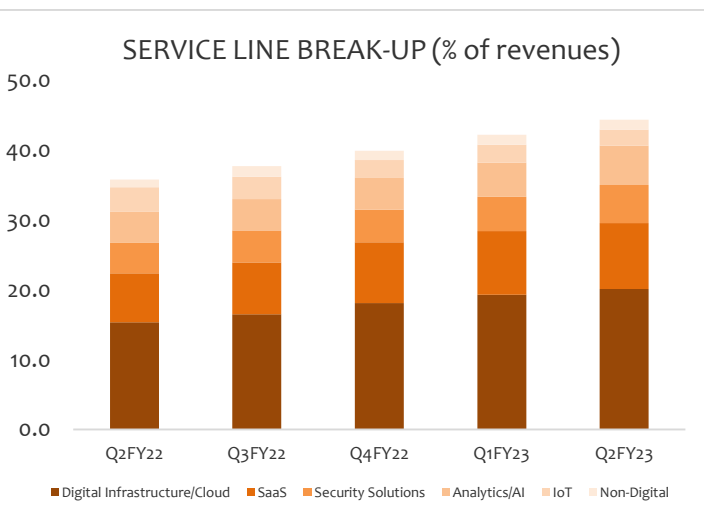
Happiest Minds is currently trading at a valuation with a P/E multiple of 61.5x/54.8x on FY23E/FY24E earnings. We expect strong deal momentum across verticals, full focus on digital business especially in analytics and cyber security segment along with clients centric approach will aid growth over the medium to long term in future. We maintain our target price to INR 1,158 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.



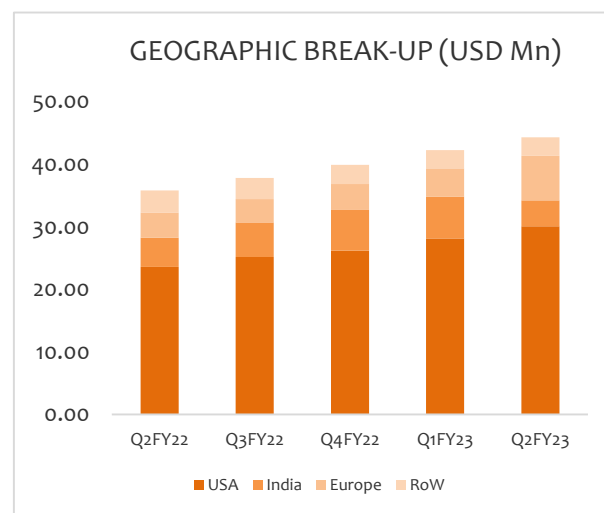
Source: Company, KRChoksey Research



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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

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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

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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%
21-Oct -22	1009	1158	BUY	Accumulate	5% – 15%
22-Jul-22	998	1158	BUY	Hold	0 – 5%
06-Apr-22	1004	1300	BUY	Reduce	-5% – 0
				Sell	Less than – 5%

ANALYST CERTIFICATION:

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