

May 08, 2023

RESULT REPORT Q4 FY23 | Information Technology

Happiest Minds Ltd

**Inline financial performance for the quarter;
Guided for 25% cc revenue growth for FY24**

Result Synopsis

Happiest Minds (HAPPSTMN) reported broadly inline financial performance for the quarter. Both, the sequential revenue growth and EBIT margin were inline with expectation. It reported constant currency growth of 1.3% QoQ (up 1.4% QoQ in USD terms, up 3.0% QoQ in INR terms), led by Hitech vertical (up 28.0% QoQ) and Manufacturing (up 10.2% QoQ). There was sequential decline in EBIT margin (down 72 bps QoQ) led by higher cost of revenue. Employee attrition continues to decline as LTM attrition decreased by 110 bps QoQ to 19.8%. Digital accounts for 96.3% of revenue as of Q4FY23 vs 96.5% as of Q3FY23.

The long term demand environment remains robust led by strong deal wins and robust deal pipeline. However, the clients especially in select sectors have become cautious regarding the evolving macroeconomic situation. The deal pipeline remains strong and it supports near term growth visibility. Management guidance of revenue growth of 25% in cc terms for FY24 with EBITDA margin band of 22-24% remains strong. Falling employee attrition is expected to support operating margin going ahead. We estimate revenue CAGR of 24.1% over FY23-25E with average EBIT margin of 21.3%. We maintain our BUY rating on the stock with revised target price of Rs 1,030/share based on DCF methodology. The stock trades at PER of 44.7x/35.3x on FY24E/FY25E EPS.

Result Highlights

- Reported revenue of Rs 3,780mn (up 3.0% QoQ in INR terms, up 1.4% QoQ in USD terms). The cc growth was 1.3% QoQ. The growth was led by Hitech vertical (up 28.0% QoQ) and manufacturing vertical (up 10.2% QoQ)
- Digital now accounts for 96.3% of revenue vs 96.5% as of Q3FY23
- EBIT margin decreased by 72 bps QoQ to 21.0%, led by increase in Cost of Revenue (up 4.4% QoQ).
- Offshore revenue mix grew by 70 bps QoQ to 84.8%. 16 new clients added during the quarter. Total Active Customers increased by 7 QoQ to 237.
- Net employee addition stood at 306 employees during the quarter to close at 4,917 employees. LTM attrition declined by 110 bps QoQ to 19.8%. Employee utilization was 74.6% as of Q4FY23 vs 80.1% as of Q3FY23.
- DSO decreased by 6 Days to 54 Days.

Exhibit 1: Actual vs estimates

Rs mn	Actual	Estimate		% Variation	
		YES Sec	Consensus	YES Sec	Consensus
Sales	3,780	3,717	3,730	1.7%	1.3%
EBITDA	922	899	900	2.6%	2.4%
EBITDA Margin (%)	24.39%	24.19%	24.13%	21 bps	26 bps
Adjusted PAT	577	639	610	-9.7%	-5.4%

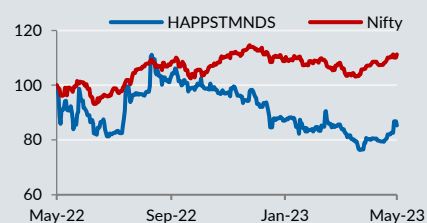
Source: Company, YES Sec

Reco	: BUY
CMP	: Rs 856
Target Price	: Rs 1,030
Potential Return	: + 20%

Stock data (as on May 08, 2023)

Nifty	18,264
52 Week h/l (Rs)	1136 / 763
Market cap (Rs/USD mn)	124782 / 1526
Outstanding Shares (mn)	143
6m Avg t/o (Rs mn):	290
Div yield (%):	0.4
Bloomberg code:	HAPPSTMN IN
NSE code:	HAPPSTMNDS

Stock performance



	1M	3M	1Y
Absolute return	6.2%	2.1%	-14.7%

Shareholding pattern (As of Mar'23 end)

Promoter	53.2%
FII+DII	5.4%
Others	38.9%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	1,030	1,018

Δ in earnings estimates

	FY23	FY24E	FY25E
EPS (New)	16.2	19.0	24.0
EPS (Old)	16.8	19.6	24.7
%Change	-3.8%	-3.3%	-2.6%

Financial Summary

(Rs mn)	FY23	FY24E	FY25E
Net Revenue	14,293	17,682	22,016
YoY Growth	30.7%	23.7%	24.5%
EBITDA	3,589	4,208	5,328
YoY Growth	39.3%	17.3%	26.6%
PAT	2,373	2,784	3,533
YoY Growth	26.7%	17.3%	26.9%
ROE	31.5%	30.1%	31.5%
EPS	16.2	19.0	24.0
P/E	52.5	44.7	35.3
BV	57.1	68.9	83.8
P/BV	14.9	12.3	10.1

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Exhibit 2: Quarterly snapshot Console: Operating performance remained strong for the quarter

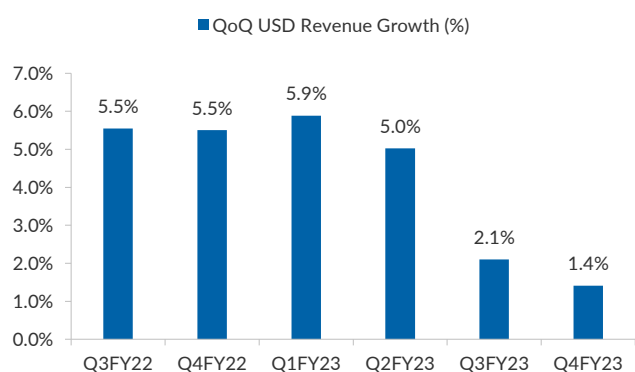
Particulars(Rs mn)	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	yoy%	qoq %	FY23	FY22	yoy%
Sales	3,006	3,289	3,555	3,669	3,780	25.8	3.0	14,293	10,937	30.7
EBITDA	717	867	905	895	922	28.6	3.0	3,589	2,576	39.3
EBITDA %	23.8	26.4	25.5	24.4	24.4	54 bps	0 bps	25.1	23.6	155 bps
Depreciation	88	93	97	99	129	46.4	30.4	419	329	27.5
EBIT	628	774	808	795	792	26.1	-0.4	3,170	2,248	41.0
EBIT Margin %	20.9	23.5	22.7	21.7	21.0	6 bps	-72 bps	22.2	20.6	162 bps
Other income	99	10	38	78	85	-14.7	8.3	211.1	371.0	-43.1
PBT	699	756	801	752	789	13.0	4.9	3,099	2,459	26.0
Tax	178	192	207	177	213	19.7	20.4	789	647	22.0
PAT after MI	521	563	594	576	577	10.7	0.1	2,310	1,812	27.5
NPM (%)	17.3	17.1	16.7	15.7	15.3	-208 bps	-44 bps	16.2	16.6	-41 bps

Source: Company, YES Sec

KEY CON-CALL HIGHLIGHTS

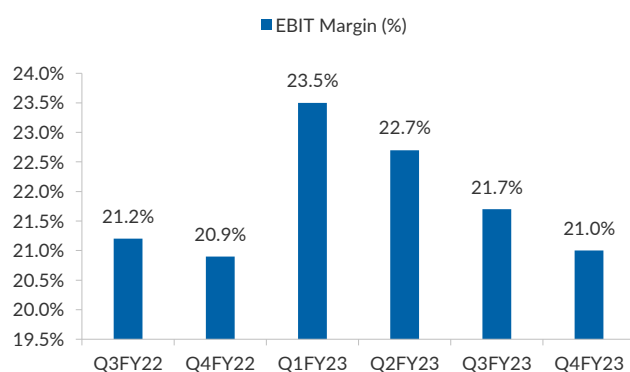
- FY23 growth guidance was 25% in cc terms, however company was able to achieve growth of 24% in cc terms. Missed 1.3% revenue target due to a few right shifting of deals in Q4FY23.
- Q1FY24 expected to be a strong quarter due to few large deals closure in the start of the quarter.
- FY24 Revenue growth guidance 25% in cc terms and EBITDA Margin guidance of 22% to 24%.
- Acquired 100% stake in SMI Ltd. thereby setting up strong foot in healthcare vertical.
- Added 2 new offices in US geography. One in New Jersey and one in Seattle.
- Dip in utilization rate was due to campus recruit and guided to stay in the range of 77% - 78%.
- Expects to add 450 freshers in FY24
- Declared final dividend of Rs 3.4/- per share taking the total dividend in FY23 to Rs 5.4/- per share.
- Spending in BFSI vertical getting reprioritized, healthy pipeline but with different nature of deals.
- 92% of the business comes from Repeat Customers and hence most of the growth is organic.

Exhibit 3: Sequential Revenue Growth was soft in the quarter



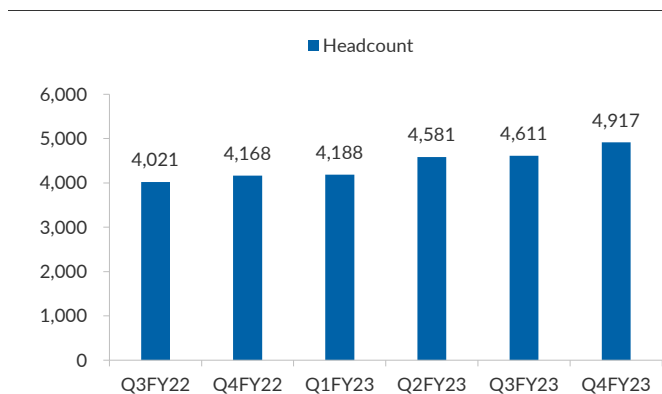
Source: Company, YES Sec

Exhibit 4: EBIT Margin dipped due to investment in technology and manpower



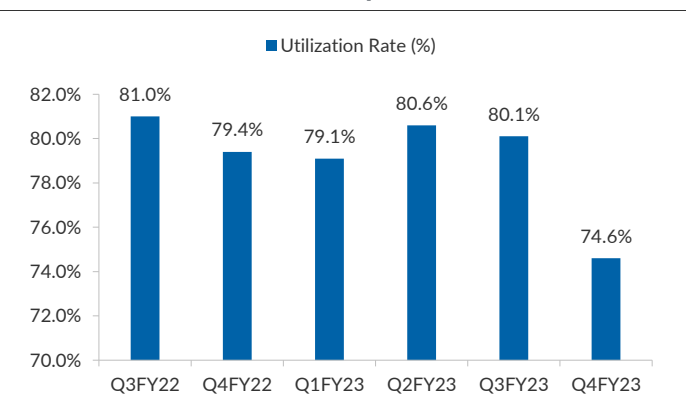
Source: Company, YES Sec

Exhibit 5: Employee Addition remains intact



Source: Company, YES Sec

Exhibit 6: Utilization Rate dipped due to higher number of freshers onboarded in the quarter



Source: Company, YES Sec

FINANCIALS

Exhibit 7: Balance Sheet

Y/e March 31 (Rs mn)	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Share capital	487	88	284	285	287	287	287
Reserves & surplus	1,581	2,565	5,176	6,373	8,102	9,828	12,018
Shareholders' funds	2,068	2,653	5,460	6,658	8,388	10,114	12,304
Minority Interests and others	-	-	-	-	-	-	-
Non-current liabilities	242	312	972	946	2,256	2,279	2,304
Long-term borrowings	116	13	366	172	1,128	1,105	1,083
Other non-current liabilities	127	299	606	774	1,128	1,173	1,221
ST borrowings, Curr maturity	601	692	1,297	1,734	3,548	3,477	3,407
Other current liabilities	952	1,425	1,491	1,912	2,216	2,265	2,314
Total (Equity and Liabilities)	3,863	5,082	9,220	11,250	16,408	18,134	20,330
Non-current assets	1,070	630	1,774	1,976	5,679	6,779	8,310
Fixed assets (Net block)	342	319	520	790	2,951	3,012	3,116
Other non-current assets	728	235	1,009	927	1,659	2,634	3,993
Current assets	2,793	4,451	7,445	9,274	10,730	11,356	12,020
Cash & current investment	1,160	2,730	5,367	6,320	6,918	7,285	7,672
Other current assets	1,633	1,722	2,079	2,954	3,812	4,071	4,348
Total (Assets)	3,863	5,082	9,220	11,250	16,408	18,134	20,330

Source: Company, YES Sec

Exhibit 8: Income Statement

Y/e March 31 (Rs mn)	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Net sales	5,904	6,982	7,734	10,937	14,293	17,682	22,016
Operating expenses	(5,355)	(6,011)	(5,842)	(8,360)	(10,704)	(13,474)	(16,688)
EBITDA	548	971	1,892	2,576	3,589	4,208	5,328
Depreciation	(248)	(202)	(227)	(329)	(419)	(477)	(594)
EBIT	301	769	1,665	2,248	3,170	3,731	4,733
Other income	115	160	265	371	211	355	385
Exceptional & extraordinary	(126)	(113)	-	(61)	(63)	-	-
Profit before tax	130	736	1,860	2,459	3,099	3,811	4,836
Tax (current + deferred)	12	(19)	(236)	(647)	(789)	(1,027)	(1,303)
Profit / (Loss) for the period	142	717	1,625	1,812	2,310	2,784	3,533
P/L of Associates, Min Int, Pref Div	-	-	-	-	-	-	-
Reported Profit / (Loss)	142	717	1,625	1,812	2,310	2,784	3,533
Adjusted net profit	268	830	1,625	1,873	2,373	2,784	3,533

Source: Company, YES Sec

Exhibit 9: Cash Flow Statement

Y/e March 31 (Rs mn)	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Profit before tax	130	736	1,860	2,459	3,099	3,811	4,836
Depreciation	248	202	227	329	419	477	594
Change in working capital	(83)	415	(251)	(434)	(493)	(208)	(225)
Total tax paid	12	(22)	(262)	(639)	(684)	(1,024)	(1,300)
Cash flow from operations (a)	466	1,412	1,644	1,814	2,559	3,331	4,187
Capital expenditure	(148)	(179)	(429)	(599)	(2,580)	(538)	(698)
Change in investments	469	(6)	(3,250)	(738)	3,830	(64)	(68)
Others	(529)	558	29	73	(75)	(1,001)	(1,386)
Cash flow from investing (b)	(208)	372	(3,650)	(1,264)	1,175	(1,604)	(2,152)
Free cash flow (a+b)	258	1,784	(2,006)	550	3,735	1,727	2,035
Equity raised/(repaid)	0	(399)	196	2	1	-	-
Debt raised/(repaid)	(150)	(12)	958	243	2,769	(94)	(92)
Dividend (incl. tax)	-	-	-	(683)	(878)	(1,058)	(1,342)
Others	(14)	266	408	116	(389)	(209)	(214)
Cash flow from financing (c)	(164)	(144)	1,562	(322)	1,504	(1,360)	(1,648)

Source: Company, YES Sec

Exhibit 10: Ratio Analysis

Y/e March 31	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Growth(%)							
Revenue Growth	27.5	18.3	10.8	41.4	30.7	23.7	24.5
EBITDA Growth	NA	77.1	94.9	36.2	39.3	17.3	26.6
EBIT Growth	NA	155.8	116.5	35.0	41.0	17.7	26.9
Net Profit Growth	NA	404.6	126.5	11.5	27.5	20.5	26.9
Profitability Ratios(%)							
EBITDA Margin	9.3	13.9	24.5	23.6	25.1	23.8	24.2
EBIT margin	5.1	11.0	21.5	20.6	22.2	21.1	21.5
Net Profit margin	4.5	11.9	21.0	17.1	16.6	15.7	16.0
RoA	8.1	17.2	23.3	22.0	22.9	21.6	24.6
RoE	13.7	35.2	40.0	30.9	31.5	30.1	31.5
RoCE	10.4	23.4	29.2	26.3	26.9	24.8	27.9
Liquidity Ratios							
Net debt/Equity (x)	(0.2)	(0.8)	(0.7)	(0.7)	(0.3)	(0.3)	(0.3)
Current ratio (x)	1.8	2.1	2.7	2.5	1.9	2.0	2.1
Quick ratio (x)	1.8	2.1	2.7	2.5	1.9	2.0	2.1
Valuation Ratios							
PER(x)	NA	NA	NA	NA	52.5	44.7	35.3
PCE(x)	NA	NA	NA	NA	44.6	38.2	30.2
Price/Book(x)	NA	NA	NA	NA	14.9	12.3	10.1
EV/EBITDA(x)	NA	NA	NA	NA	34.1	29.0	22.8

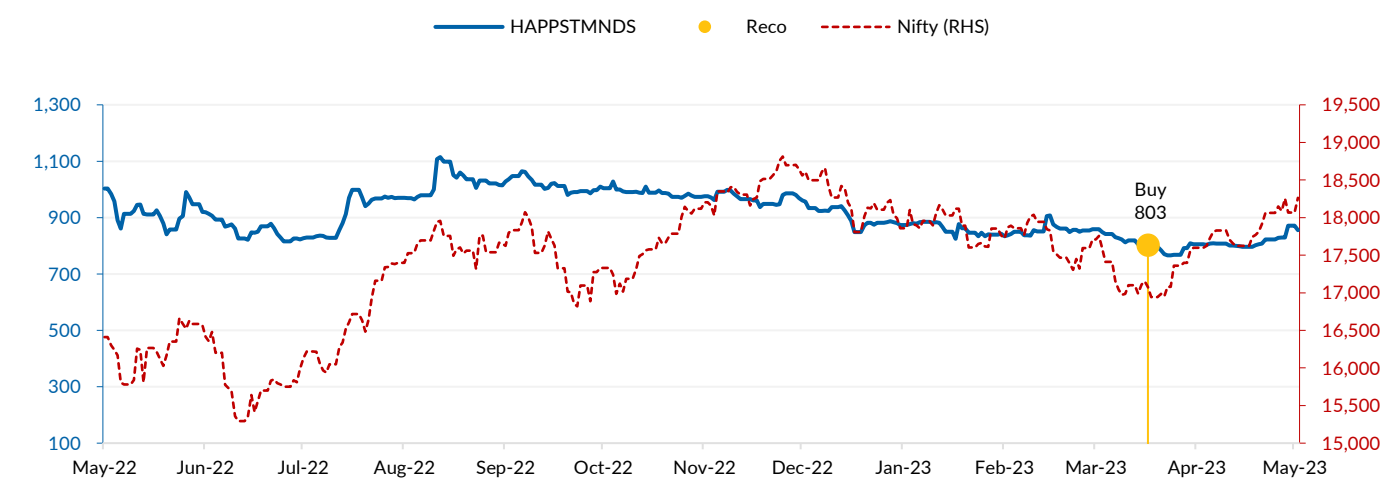
Source: Company, YES Sec

Exhibit 11: Dupont Analysis

Dupont Analysis	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Net margin(%)	4.5	11.9	21.0	17.1	16.6	15.7	16.0
Asset turnover (x)	1.6	1.6	1.1	1.1	1.0	1.0	1.1
Leverage factor (x)	1.9	1.9	1.8	1.7	1.8	1.9	1.7
Return on Equity(%)	13.7	35.2	40.0	30.9	31.5	30.1	31.5

Source: Company, YES Sec

Recommendation Tracker



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