

Happiest Minds Technologies Limited



Happiest Minds Technologies Limited.

CMP Target Potential Upside Market Cap (INR Mn)
INR 854 INR 1,190 ~ 39.3% INR 1,25,502

Strong order pipeline; expect industry leading growth

Recommendation Sector
BUY Internet Software & Services

SYNOPSIS:

Happiest Minds Technologies Limited (HMTL)' revenue for Q4FY23 is USD 45.9 mn, a growth of 1.3% on a QoQ basis and 15.02% on a YoY basis. The revenue in constant currency grew by 1.3% on a QoQ basis and 17.6% on a YoY basis. The EBIT stood at INR 792.3 mn, -0.39% on QoQ basis and 26.1% on a YoY basis. The PAT remains flattish on QoQ basis due to lower utilization rate and increased by 10.65% on YoY basis. The diluted EPS for the Q4FY23 is INR 3.98 as against INR 3.58 in Q4FY22. As of Q4FY23, there are 237 active clients and there has been addition of 7 clients in this quarter. As of Q4FY23, the count of total employees has reached to 4917 an increase of 306 employee on QoQ basis with the attrition rate declining to 19.8% in Q4FY23. The company declared a final dividend of 3.4 INR for this quarter, Free cash flow stood at INR 99.5 mn.

MARKET DATA

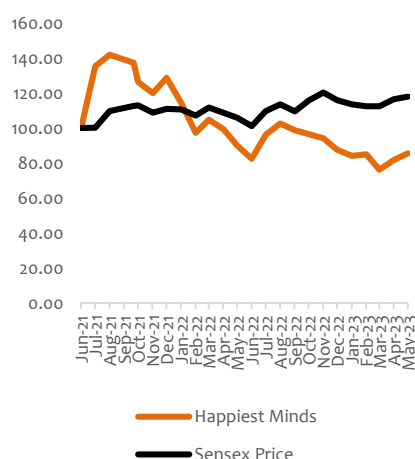
Shares outs (Mn)	143
Mkt Cap (INR Mn)	1,25,502
52 Wk H/L (INR)	1136/763
Volume Avg (3m K)	565.7
Face Value (INR)	2
Bloomberg Code	HAPPSTMN IN

KEY FINANCIALS

(INR Mn)	Q4FY23A	Q3FY23A	Q4FY22A	QoQ	YoY
USD Revenue	45.9	45.3	39.9	1.30%	15.02%
Revenue	3779.8	3668.8	3005.7	3.02%	25.75%
EBIT	792.3	795.4	628.3	-0.39%	26.10%
PAT	576.6	575.8	521.1	0.14%	10.65%
OPM (%)	20.96%	21.7%	20.9%	-74 bps	6 bps
NPM(%)	15.3%	15.7%	17.3%	-45 bps	-205 bps

Source: Company, KRChoksey Research

SHARE PRICE PERFORMANCE



Strong visibility to drive revenue growth ahead:

HMTL had generated a revenue of INR 3779.8 mn, registering a healthy growth of 25.75% on a YoY basis and 3.02% on a QoQ basis. Out of this total revenue, 49.4% comes from Product Engineering Services(PES), 28.9% from Digital Business Solutions (DBS), 19.5% from Infrastructure Management and Security Services(IMSS) and 2.2% from other sources. 96% of the total business is coming from digital business and agile contributes 94% of the total revenue. 91% of the total revenue comes from repeat business, demonstrating the company's strong relationship with its clients. The company is leveraging its capabilities in Digital engineering, Cloud migration and Test automation to drive revenue growth. The management guided revenue growth of 25% for FY24 based on a healthy order pipeline.

Robust deal wins momentum to continue:

Owing to robust deal wins and healthy pipelines across the verticals, the management expects strong performance in Q1FY24. The acquisition of Sri Mookambika Infosolutions (SMI) is playing out well for SMI has domain expertise in the healthcare vertical, which is providing synergy to the company. The company has sound revenue visibility for the upcoming quarter on the back of a robust order pipeline and does not see any reduction in the discretionary spending in the future.

Margins continue to remain subdued:

In Q4FY23,EBIT came at INR 792.3 mn as against INR 628.3 mn in Q4FY22, registering a growth of 26.10% on a YoY basis. The OPM came in at 20.96% in Q4FY23, declined by 74 bps on a QoQ basis and increased marginally by 6 bps on a YoY basis. The NPM margins for Q4FY23 stand at 15.3% against 17.3% in Q4FY22 registering a decline by 205 bps. The management has guided the EBITDA margin for FY24 to be in the range of 22-24%. We expect an improvement in supply which will lead to reduction in the attrition rate. Considering this, we anticipate a sequential improvement in margins. Management expects improvement in margins as the attrition rate will decline further from the current level, alongwith an improvement in utilisation rate from the current level of 74.6%.

MARKET INFO

SENSEX	61,980
NIFTY	18,330

SHAREHOLDING PATTERN (%)

Particulars	March-23	Dec-22	Sep-22
Promoters	53.3	53.3	53.3
FIIIs	4.15	4.1	3.9
DIIIs	1.25	1.3	1.5
Others	41.3	41.4	41.2
Total	100.0	100.0	100.0

22.6%

Revenue CAGR between FY23 and FY25E

21.4%

PAT CAGR between FY23 and FY25E

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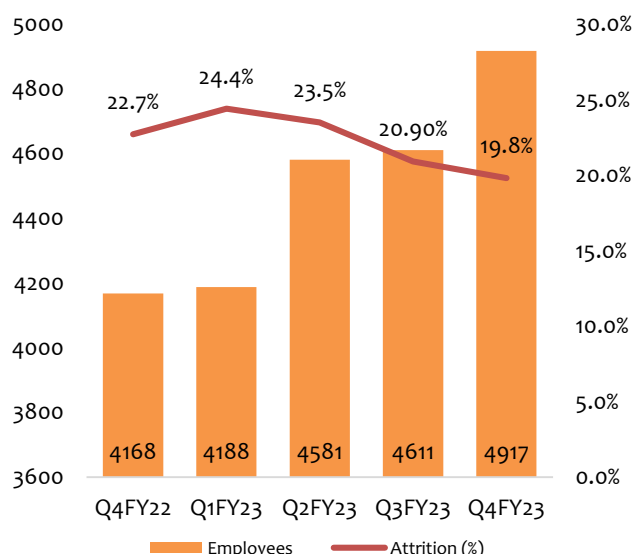
Key Concall Highlights:

(i) the company missed revenue target by 1.3% as some of the Q4FY23's revenues billed in Q1FY24, (ii) management expects record addition of 1300 employees for FY24; (iii) the company has maintained its revenue guidance of 25% and EBITDA in the range of 22-24% for FY24; (iv) recognized as the best govern company in listed segment in medium category by ICSI; (v) SMI acquisition strengthen its presence into Tier II location of Madurai and Coimbatore; (vi) the company has increased its capacity across its offshore delivery centers in Bangalore, Noida, Bhubaneshwar and Madurai; (vii) Average revenue for per customer is consistently moving up. (viii) the company will be adding 450 campus graduates in FY24. (ix) HMTL had first 20 mn customer created in this quarter (ix) management believes that Chat GPT, Quantum Computing, AI generative will be transformative which will offer huge potential and opportunity; (x) 98% of revenue growth is attributable to organic route (xi) management indicated a healthy growth in Q1FY24 based on large deal closed in April, leading to good start to the fiscal year.

Valuation and view

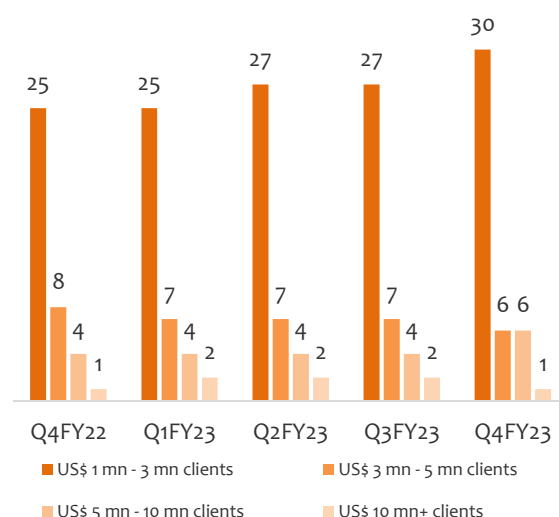
Happiest Minds is currently trading at a valuation with a P/E multiple of 45.0x / 35.9x on FY24E/FY25E earnings. We expect strong deal momentum across verticals, focus on growing digital business, especially in the analytics and cyber security segment along with clients centric approach, will aid to the growth over the near term in future. We revised our target price to INR 1,190 based on a P/E multiple of 50x to the FY25 estimated EPS of INR 23.8 with an upside of 39.3% and hence we maintain our recommendation with a “BUY” rating.

Employee Matrix



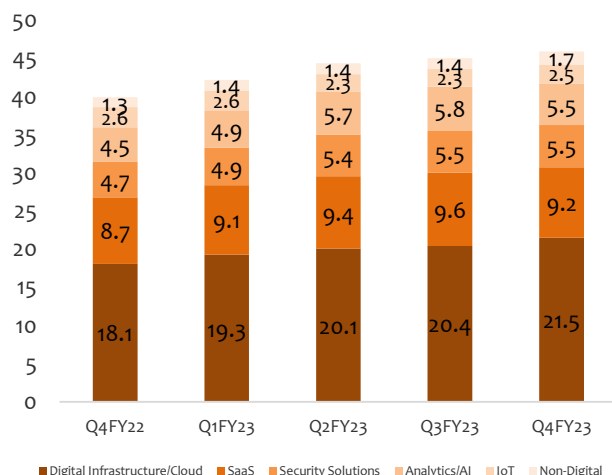
Source: Company, KRChoksey Research

Client buckets (Nos.)



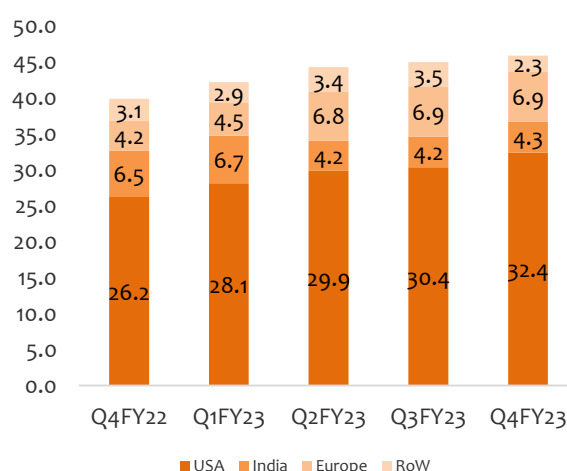
Source: Company, KRChoksey Research

Service Line Break-Up (% of revenues)



Source: Company, KRChoksey Research

Geographic Break-Up (USD Mn)



Source: Company, KRChoksey Research

Happiest Minds Technologies Limited.

KEY FINANCIALS

Exhibit 1: Balance Sheet

Particulars (INR Mn)	FY21	FY22	FY23	FY24E	FY25E
Property, Plant and Equipment	7	8	1328	1717	2379
Right-of-use Asset	215	539	579	638	698
CWIP	1	0	19	19	19
Intangible Assets	1061	1029	2409	3119	3997
Other non-current Assets	490	400	1344	847	1027
Total non current assets	1774	1976	5678	6339	8118
Current Investments	3915	4640	0	0	0
Cash & equivalent	858	673	700	1265	1304
Trade Receivables	1219	1674	2132	2767	3265
Loans & Advances	1	0	6	6	6
Other Financial Assets	678	941	1224	1607	1780
Other Current Assets	180	339	450	417	534
Total current assets	7445	9274	10730	12282	13108
Total Assets	9220	11250	16408	18621	21227
Equity Share Capital	284	285	287	287	287
Other Equity	5176	6373	8102	10148	12713
Total Equity	5460	6658	8388	10435	13000
Deferred Tax Liability,(Net)	73	47	206	206	206
Provision for Leave Encashment/Compensated Absence	165	162	247	309	379
Lease Liabilities	122	412	476	510	558
Long Term Debt	366	172	1128	1928	1868
Total non current liabilities	972	922	2256	3166	3265
Trade Payables	450	607	705	881	1082
Unearned Revenue	67	135	116	213	226
Other Current Liabilities	193	243	238	303	379
Lease Liabilities	142	179	186	224	234
Short term borrowings	1297	1734	3548	2048	1488
Provision	151	170	178	289	347
Total Current Liabilities	2788	3670	5764	5020	4962
Total liabilities	9220	11250	16408	18621	21227

Source: Company, KRChoksey Research

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KEY FINANCIALS

Exhibit 2: Profit & Loss Statement

Particulars (INR Mn)	FY21	FY22	FY23	FY24E	FY25E
Revenue	7,734	10,937	14,293	18,064	21,514
Total Operating expenses	5,819	8,360	10,704	13,730	16,215
EBITDA	1,915	2,577	3,589	4,334	5,299
Depreciation	227.40	328.80	419.10	812.62	1003.07
EBIT	1,688	2,248	3,170	3,521	4,296
Other income, net	242.40	371.00	211.10	337.76	405.31
Finance costs	69.70	99.50	218.60	210.69	188.15
Pre-tax Income	1,860	2,459	3,099	3,648	4,513
Income tax expense	235.60	646.50	788.70	929.24	1104.38
Net profit Before MI	236	647	789	929	1,104
MI & EI	0	0	0	0	0
Net profit After MI & EI	1,625	1,812	2,310	2,719	3,409
Diluted EPS (INR)	11.40	12.84	16.13	18.97	23.79
Shares in mn	142.7	142.7	143.3	143.3	143.3

Source: Company, KRChoksey Research

Exhibit 3: Free Cash Flow Analysis

Particulars (INR Mn)	FY21	FY22	FY23	FY24E	FY25E
Net Cash Generated From Operations	1,432	1,681	2,072	4,384	4,641
Net Cash Flow from/(used in) Investing Activities	-2,836	-961	-2,798	-2,308	-3,008
Net Cash Flow from Financing Activities	1,698	-908	721	-1,511	-1,594
Others	-378	-377	-376	-375	-374
Net Inc/Dec in cash equivalents	293.80	-187.40	-5.90	565.21	38.98
Opening Balance	435	858	673	700	1,265
Closing Balance Cash and Cash Equivalents	858	673	700	1,265	1,304

Source: Company, KRChoksey Research

Exhibit 4: Ratio Analysis

Key Ratio	FY21	FY22	FY23	FY24E	FY25E
EBIT Margin (%)	21.82%	20.55%	22.18%	19.49%	19.97%
Tax rate (%)	12.67%	26.30%	24.50%	25.47%	24.47%
Net Profit Margin (%)	21.01%	16.57%	16.16%	15.05%	15.84%
RoE (%)	30%	27%	28%	26%	26%
RoA (%)	18%	16%	14%	15%	16%
EPS (INR per share)	11.4	12.84	16.13	18.97	23.79

Source: Company, KRChoksey Research

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Happiest Minds Technologies Limited				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP(INR)	Recommendation	Our Rating	Upside
10-May-23	854	1190	BUY	Buy	More than 15%
23-Jan-23	828	1158	BUY	Accumulate	5% – 15%
21-Oct -22	1009	1158	BUY	Hold	0 – 5%
22-Jul-22	998	1158	BUY	Reduce	-5% – 0
				Sell	Less than – 5%

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KR Choksey Shares and Securities Pvt. Ltd

Registered Office:

1102, Stock Exchange Tower, Dalal Street, Fort, Mumbai – 400 001.

Phone: +91-22-6633 5000; Fax: +91-22-6633 8060.

Corporate Office:

ABHISHEK, 5th Floor, Link Road, Andheri (W), Mumbai – 400 053.

Phone: +91-22-6696 5555; Fax: +91-22-6691 9576.

ANALYST

Abhishek Agarwal, research5@krchoksey.com, +91-22-6696 5540

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Phone: +91-22-6696 5555, Fax: +91-22-6691 9576

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