

# Happiest Minds Ltd

## Near term challenges impacted Q1 performance; Maintains 25% revenue growth guidance for FY24

### Result Synopsis

**Happiest Minds (HAPPSTMN) reported slight miss on financial performance for the quarter. Both, the sequential revenue growth and EBIT margin were below estimates. It reported constant currency growth of 3.5% QoQ (up 3.6% QoQ in USD terms, up 3.4% QoQ in INR terms), led by Edutech vertical (up 12.3% QoQ). There was sequential decline in EBIT margin (down 175 bps QoQ) led by higher cost of revenue. Employee attrition continues to decline as LTM attrition decreased by 320 bps QoQ to 16.6%. Digital accounts for 95.1% of revenue as of Q1FY24 vs 96.3% as of Q4FY23.**

**The long term demand environment remains robust led by rapid adoption of cloud and data analytics. However, the clients especially in select sectors remain cautious regarding the evolving macroeconomic situation and it has led to near term moderation in revenue growth. The deal pipeline remains strong and it supports revenue 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 23.2% over FY23-25E with average EBIT margin of 21.0%. We maintain our BUY rating on the stock with revised target price of Rs 1,125/share based on DCF methodology. The stock trades at PER of 48.7x/37.5x on FY24E/FY25E EPS.**

### Result Highlights

- Reported revenue of Rs 3,909mn (up 3.4% QoQ in INR terms, up 3.6% QoQ in USD terms). The cc growth was 3.5% QoQ. The growth was led by Edutech vertical (up 12.3% QoQ) and it launched new vertical; Healthcare vertical (~13% of revenue).
- Digital now accounts for 95.1% of revenue vs 96.3% as of Q4FY23.
- EBIT margin decreased by 175 bps QoQ to 19.2%, led by increase in Cost of Revenue (up 4.8% QoQ).
- Offshore revenue mix decreased by 90 bps QoQ to 83.9%. Total Active Customers increased by 6 QoQ to 243.
- Net employee addition stood at 131 employees during the quarter to close at 5,048 employees. LTM attrition declined by 320 bps QoQ to 16.6%. Employee utilization remained flat at 74.6% as of Q1FY24.
- DSO decreased by 4 Days to 58 Days.

### Exhibit 1: Actual vs estimates

Rs mn	Actual	Estimate		% Variation	
		YES Sec	Consensus	YES Sec	Consensus
Sales	3,909	4,007	4,050	-2.4%	-3.5%
EBITDA	893	990	990	-9.8%	-9.8%
EBITDA Margin (%)	22.84%	24.71%	24.44%	-186 bps	-160 bps
Adjusted PAT	583	641	660	-9.0%	-11.7%

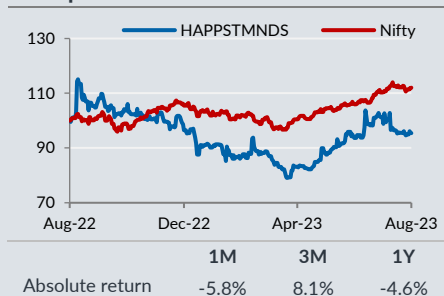
Source: Company, YES Sec

Reco	: <b>BUY</b>
CMP	: Rs 924
Target Price	: Rs 1,125
Potential Return	: + 22%

### Stock data (as on August 09, 2023)

Nifty	19,633
52 Week h/l (Rs)	1136 / 763
Market cap (Rs/USD mn)	137975 / 1666
Outstanding Shares (mn)	149
6m Avg t/o (Rs mn):	271
Div yield (%):	0.6
Bloomberg code:	HAPPSTMN IN
NSE code:	HAPPSTMNDS

### Stock performance



### Shareholding pattern (As of Jun'23 end)

Promoter	53.2%
FII+DII	5.8%
Others	38.7%

### Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	1,125	1,110

### Δ in earnings estimates

	FY24E	FY25E
EPS (New)	19.0	24.7
EPS (Old)	19.4	24.4
%Change	-2.1%	1.2%

### Financial Summary

(Rs mn)	FY23	FY24E	FY25E
Net Revenue	14,293	17,336	21,678
YoY Growth	30.7%	21.3%	25.0%
EBIDTA	3,589	4,107	5,289
YoY Growth	39.3%	14.5%	28.8%
PAT	2,373	2,789	3,628
YoY Growth	26.7%	17.5%	30.1%
ROE	31.5%	29.8%	31.3%
EPS	16.2	19.0	24.7
P/E	57.3	48.7	37.5
BV	57.1	70.4	87.2
P/BV	16.2	13.1	10.6

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## Exhibit 2: Quarterly snapshot Console: Sequential decline in operating margin

Particulars(Rs mn)	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	yoy%	qoq %
Sales	3,289	3,555	3,669	3,780	3,909	18.8	3.4
EBITDA	867	905	895	922	893	3.0	-3.1
EBITDA %	26.4	25.5	24.4	24.4	22.9	-351 bps	-153 bps
Depreciation	93	97	99	129	142	52.5	10.0
EBIT	774	808	795	792	751	-2.9	-5.2
EBIT Margin %	23.5	22.7	21.7	21.0	19.2	-431 bps	-175 bps
Other income	10	38	78	85	137	1213.5	61.7
PBT	756	801	752	789	787	4.1	-0.3
Tax	192	207	177	213	204	5.8	-4.3
PAT after MI	563	594	576	577	583	3.5	1.2
NPM (%)	17.1	16.7	15.7	15.3	14.9	-221 bps	-33 bps

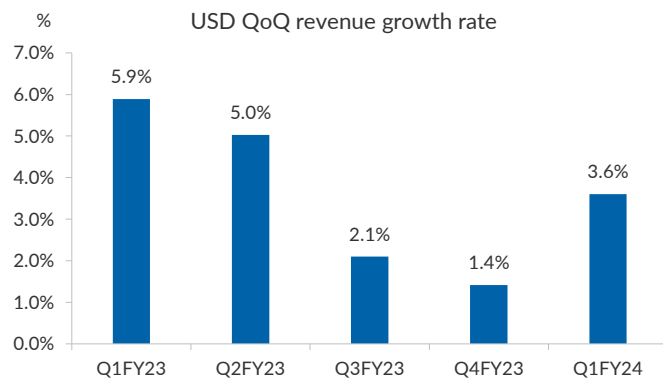
Source: Company, YES Sec

## KEY CON-CALL HIGHLIGHTS

- Guidance to reach \$ 1bn revenue run rate by FY31. Well on track to achieve the revenue growth guidance of 25% cc growth in FY24 (including inorganic component).
- Growth was broadbased across verticals and a dip in few verticals like Retail /CPG, Hitech and Manufacturing was due to introduction of new vertical line of Healthcare segment.
- Company may update the revenue growth guidance for FY24 after Q2 depending upon the M&A schemes. It is had good pipeline of such opportunities.
- Repeat business accounted for 86% as of 1FY24.
- Gross employee addition during the quarter stood at ~200 employees. 240+ freshers are expected to join in Q2FY24.
- A few of the sticky customers have been its customers for over 8-9 years
- Q2FY24 may witness wage hikes, and this may impact margins. Also, freshers onboard will have negative impact on margins.
- One of the largest client in TME vertical is undergoing recalibration and this led to softness in vertical. This softness will continue in Q2FY24.
- R&D projects have been undertaken for utilization of Gen AI. A team of 100+ employees are using Gen AI to help client with certain use cases.

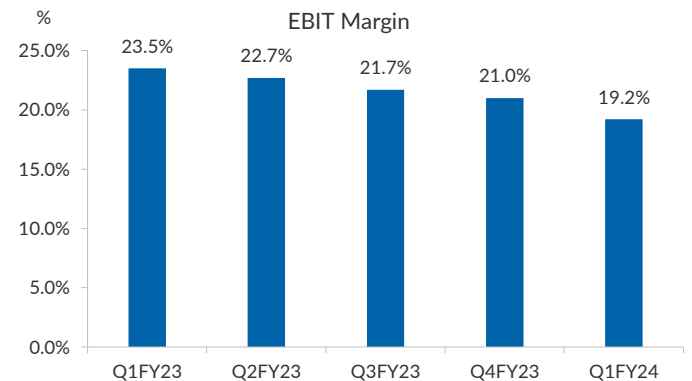
## STORY IN CHARTS

**Exhibit 3: Sequential revenue growth was below expectation for the quarter**



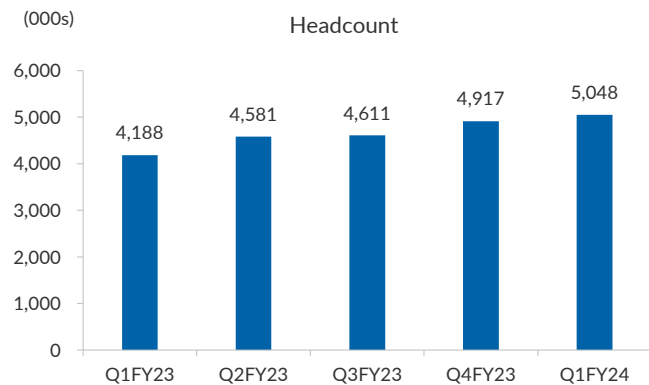
Source: Company, YES Sec

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



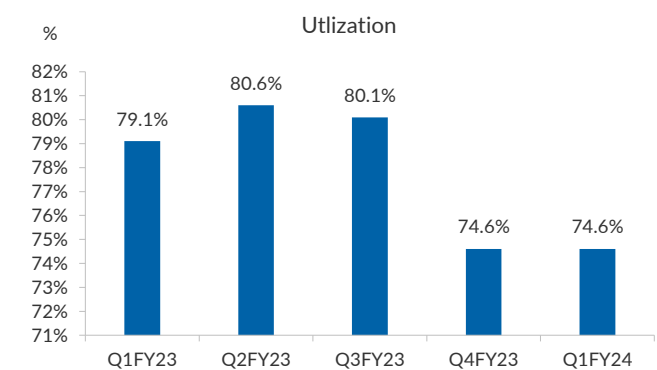
Source: Company, YES Sec

**Exhibit 5: Employee addition remains intact**



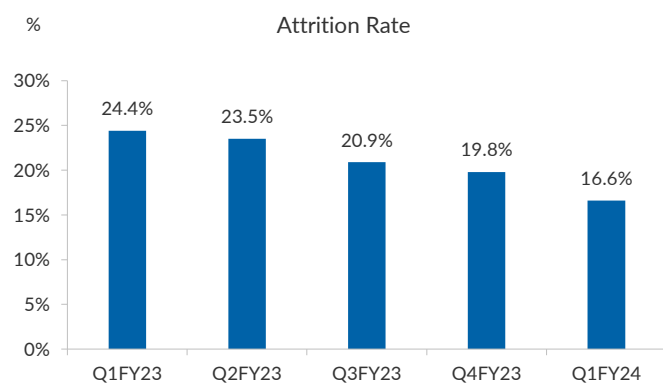
Source: Company, YES Sec

**Exhibit 6: Utilization rate flat for the quarter**



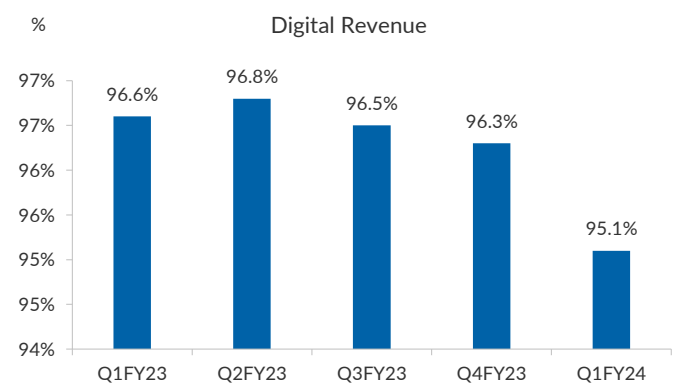
Source: Company, YES Sec

**Exhibit 7: Employee attrition continues to decline**



Source: Company, YES Sec

**Exhibit 8: Digital revenue mix remains strong**



Source: Company, YES Sec

## FINANCIALS

### Exhibit 9: Balance Sheet

Y/e March 31 (Rs mn)	FY20	FY21	FY22	FY23	FY24E	FY25E
Share capital	88	284	285	287	287	287
Reserves & surplus	2,565	5,176	6,373	8,102	10,054	12,521
Shareholders' funds	2,653	5,460	6,658	8,388	10,340	12,807
Minority Interests and others	0	0	0	0	0	0
Non-current liabilities	312	972	946	2,256	2,279	2,304
Long-term borrowings	13	366	172	1,128	1,105	1,083
Other non-current liabilities	299	606	774	1,128	1,173	1,221
ST borrowings, Curr maturity	692	1,297	1,734	3,548	3,477	3,407
Other current liabilities	1,425	1,491	1,912	2,216	2,265	2,314
Total (Equity and Liabilities)	5,082	9,220	11,250	16,408	18,360	20,833
Non-current assets	630	1,774	1,976	5,679	7,005	8,812
Fixed assets (Net block)	319	520	790	2,951	3,012	3,116
Other non-current assets	235	1,009	927	1,659	2,860	4,496
Current assets	4,451	7,445	9,274	10,730	11,356	12,020
Cash & current investment	2,730	5,367	6,320	6,918	7,285	7,672
Other current assets	1,722	2,079	2,954	3,812	4,071	4,348
Total (Assets)	5,082	9,220	11,250	16,408	18,360	20,833

Source: Company, YES Sec

### Exhibit 10: Income Statement

Y/e March 31 (Rs mn)	FY20	FY21	FY22	FY23	FY24E	FY25E
Net sales	6,982	7,734	10,937	14,293	17,336	21,678
Operating expenses	(6,011)	(5,842)	(8,360)	(10,704)	(13,229)	(16,389)
EBITDA	971	1,892	2,576	3,589	4,107	5,289
Depreciation	(202)	(227)	(329)	(419)	(545)	(650)
EBIT	769	1,665	2,248	3,170	3,562	4,639
Other income	160	265	371	211	563	609
Exceptional & extraordinary	(113)	0	(61)	(63)	0	0
Profit before tax	736	1,860	2,459	3,099	3,762	4,893
Tax (current + deferred)	(19)	(236)	(647)	(789)	(973)	(1,266)
Profit / (Loss) for the period	717	1,625	1,812	2,310	2,789	3,628
P/L of Associates, Min Int, Pref Div	0	0	0	0	0	0
Reported Profit / (Loss)	717	1,625	1,812	2,310	2,789	3,628
Adjusted net profit	830	1,625	1,873	2,373	2,789	3,628

Source: Company, YES Sec

## Exhibit 11: Cash Flow Statement

Y/e March 31 (Rs mn)	FY20	FY21	FY22	FY23	FY24E	FY25E
Profit before tax	736	1,860	2,459	3,099	3,762	4,893
Depreciation	202	227	329	419	545	650
Change in working capital	415	(251)	(434)	(493)	(208)	(225)
Total tax paid	(22)	(262)	(639)	(684)	(970)	(1,263)
Cash flow from operations (a)	1,412	1,644	1,814	2,559	3,492	4,411
Capital expenditure	(179)	(429)	(599)	(2,580)	(606)	(754)
Change in investments	(6)	(3,250)	(738)	3,830	(64)	(68)
Others	558	29	73	(75)	(1,228)	(1,662)
Cash flow from investing (b)	372	(3,650)	(1,264)	1,175	(1,898)	(2,484)
Free cash flow (a+b)	1,784	(2,006)	550	3,735	1,594	1,927
Equity raised/(repaid)	(399)	196	2	1	0	0
Debt raised/(repaid)	(12)	958	243	2,769	(94)	(92)
Dividend (incl. tax)	0	0	(683)	(572)	(837)	(1,161)
Others	266	408	116	(695)	(297)	(287)
Cash flow from financing (c)	(144)	1,562	(322)	1,504	(1,227)	(1,540)

Source: Company, YES Sec

## Exhibit 12: Ratio Analysis

Y/e March 31	FY20	FY21	FY22	FY23	FY24E	FY25E
Growth(%)						
Revenue Growth	18.3	10.8	41.4	30.7	21.3	25.0
EBITDA Growth	77.1	94.9	36.2	39.3	14.5	28.8
EBIT Growth	155.8	116.5	35.0	41.0	12.4	30.2
Net Profit Growth	404.6	126.5	11.5	27.5	20.7	30.1
Profitability Ratios(%)						
EBITDA Margin	13.9	24.5	23.6	25.1	23.7	24.4
EBIT margin	11.0	21.5	20.6	22.2	20.5	21.4
Net Profit margin	11.9	21.0	17.1	16.6	16.1	16.7
RoA	17.2	23.3	22.0	22.9	20.5	23.7
RoE	35.2	40.0	30.9	31.5	29.8	31.3
RoCE	23.4	29.2	26.3	26.9	23.5	26.8
Liquidity Ratios						
Net debt/Equity (x)	(0.8)	(0.7)	(0.7)	(0.3)	(0.3)	(0.2)
Current ratio (x)	2.1	2.7	2.5	1.9	2.0	2.1
Quick ratio (x)	2.1	2.7	2.5	1.9	2.0	2.1
Valuation Ratios						
PER(x)	NA	NA	NA	57.3	48.7	37.5
PCE(x)	NA	NA	NA	48.7	40.8	31.8
Price/Book(x)	NA	NA	NA	16.2	13.1	10.6
EV/EBITDA(x)	NA	NA	NA	37.2	32.4	25.1

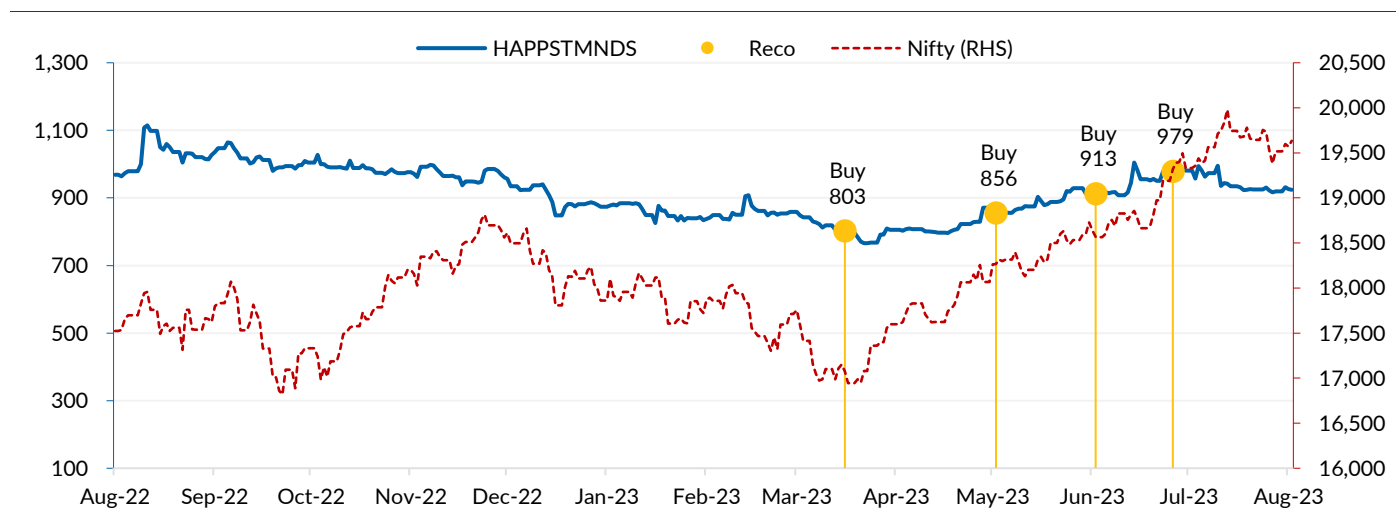
Source: Company, YES Sec

## Exhibit 13: Dupont Analysis

Dupont Analysis	FY20	FY21	FY22	FY23	FY24E	FY25E
Net margin(%)	11.9	21.0	17.1	16.6	16.1	16.7
Asset turnover (x)	1.6	1.1	1.1	1.0	1.0	1.1
Leverage factor (x)	1.9	1.8	1.7	1.8	1.9	1.7
Return on Equity(%)	35.2	40.0	30.9	31.5	29.8	31.3

Source: Company, YES Sec

## Recommendation Tracker



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