

Happiest Minds Ltd

Guided for 12% organic revenue growth 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 3.6% QoQ (up 3.4% QoQ in USD terms, up 4.0% QoQ in INR terms), led by Edutech vertical (up 7.9% QoQ). There was sequential decline in EBIT margin (down 247 bps QoQ) led by impact of wage hike in the quarter. Employee attrition continues to decline as LTM attrition decreased by 220 bps QoQ to 14.4%. Digital accounts for 95.3% of revenue as of Q2FY24 vs 95.1% as of Q1FY24.

The near term demand environment remains challenging as 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 has guided for organic revenue growth of 12% in cc terms for FY24 with EBITDA margin band of 22-24%. Falling employee attrition is expected to support operating margin going ahead. We estimate revenue CAGR of 19.6% over FY23-25E with average EBIT margin of 20.5%. We maintain our BUY rating on the stock with revised target price of Rs 1,100/share based on DCF methodology. The stock trades at PER of 45.6x/33.9x on FY24E/FY25E EPS.

Result Highlights

- Reported revenue of Rs 4.066mn (up 4.0% QoQ in INR terms, up 3.4% QoQ in USD terms). The cc growth was 3.6% QoQ. The growth was led by Edutech vertical (up 7.9% QoQ)
- Digital now accounts for 95.3% of revenue vs 95.1% as of Q1FY24.
- EBIT margin decreased by 247 bps QoQ to 16.7%, led by increase in Cost of Revenue (up 6.7% QoQ), led by impact of wage hike in the quarter
- Offshore revenue mix increased by 120 bps QoQ to 85.1%. Total Active Customers increased by 1 QoQ to 244.
- Net employee addition stood at 237 employees during the quarter to close at 5,285 employees. LTM attrition declined by 220 bps QoQ to 14.4%. Employee utilization improved by 100 bps QoQ to 75.6%.
- DSO decreased by 5 Days to 53 Days.

Exhibit 1: Actual vs estimates

Rs mn	Actual	Estimate		% Variation	
		YES Sec	Consensus	YES Sec	Consensus
Sales	4,066	4,026	4,150	1.0%	-2.0%
EBITDA	826	934	940	-11.6%	-12.1%
EBITDA Margin (%)	20.31%	23.20%	22.65%	-288 bps	-234 bps
Adjusted PAT	585	645	660	-9.3%	-11.4%

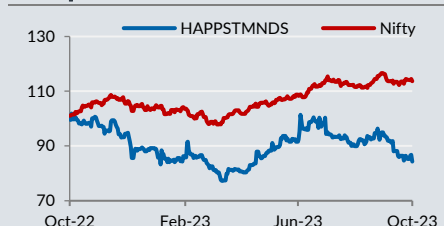
Source: Company, YES Sec

Reco	: BUY
CMP	: Rs 837
Target Price	: Rs 1,100
Potential Return	: + 31%

Stock data (as on October 18, 2023)

Nifty	19,671
52 Week h/l (Rs)	1029 / 763
Market cap (Rs/USD mn)	128251 / 1541
Outstanding Shares (mn)	149
6m Avg t/o (Rs mn):	344
Div yield (%):	0.6
Bloomberg code:	HAPPSTMN IN
NSE code:	HAPPSTMNDS

Stock performance



	1M	3M	1Y
Absolute return	-10.0%	-10.6%	-15.4%

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	1,100	1,125

Δ in earnings estimates

	FY24E	FY25E
EPS (New)	18.4	24.8
EPS (Old)	19.0	24.7
%Change	-3.1%	0.3%

Financial Summary

(Rs mn)	FY23	FY24E	FY25E
Net Revenue	14,293	16,677	20,432
YoY Growth	30.7%	16.7%	22.5%
EBIDTA	3,589	3,808	4,985
YoY Growth	39.3%	6.1%	30.9%
PAT	2,373	2,705	3,641
YoY Growth	26.7%	14.0%	34.6%
ROE	31.5%	29.0%	31.6%
EPS	16.2	18.4	24.8
P/E	52.0	45.6	33.9
BV	57.1	70.0	86.8
P/BV	14.7	12.0	9.7

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

Particulars(Rs mn)	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	yoy%	qoq %	H1FY24	H1FY23	yoy%
Sales	3,555	3,669	3,780	3,909	4,066	14.4	4.0	7,974.7	6,844.3	16.5
EBITDA	905	895	922	893	826	-8.7	-7.5	1,719.3	1,772.3	-3.0
EBITDA %	25.5	24.4	24.4	22.9	20.3	-515 bps	-254 bps	21.6	25.9	-434 bps
Depreciation	97	99	129	142	146	49.8	2.2	287.9	190.5	51.1
EBIT	808	795	792	751	681	-15.8	-9.4	1,431.4	1,581.8	-9.5
EBIT Margin %	22.7	21.7	21.0	19.2	16.7	-599 bps	-247 bps	17.9	23.1	-516 bps
Other income	38	78	85	137	222	481.4	62.6	358.7	48.6	638.1
PBT	801	752	789	787	791	-1.2	0.5	1,577.9	1,556.9	1.3
Tax	207	177	213	204	207	-0.2	1.5	410.1	399.4	2.7
PAT after MI	594	576	577	583	585	-1.6	0.2	1,167.8	1,157.5	0.9
NPM (%)	16.7	15.7	15.3	14.9	14.4	-234 bps	-55 bps	14.6	16.9	-227 bps

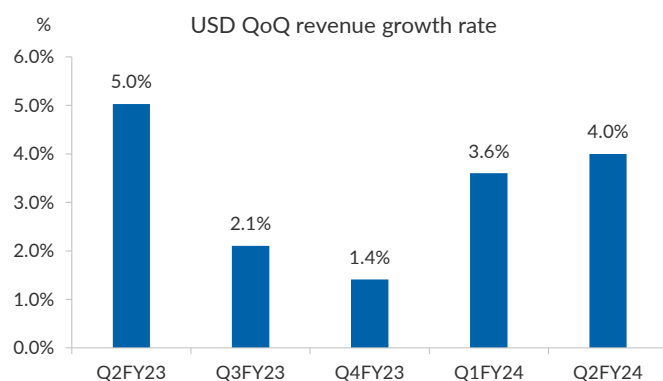
Source: Company, YES Sec

KEY CON-CALL HIGHLIGHTS

- Maintained guidance to reach \$ 1bn revenue run rate by FY31. Guided for 12% organic revenue growth for FY24.
- Raised Capital through QIP to enhance capital structure of the company. Happiest Minds is in final stage of large size acquisition.
- Promoter current holding is ~51% and he assured that his stake in the company won't go below 41%.
- A new business segment of GDS – Gen AI department has been launched to develop AI models and numerous use cases for clients. No meaningful revenue expected from this business till Q1FY25.
- Margins dipped due to 100 bps impact of wage hike which was rolled out to employees effective from 1st July 2023.
- RoCE and RoE ratios were adversely impacted due to increase in capital employed.
- PAT Margins were impacted by 1.2% due to amortization of intangible assets due to SMI acquisition.
- No cancellation of projects or pricing pressure witnessed by company. Only delay in revenue recognition due to slowdown.
- Declared Interim Dividend of Rs 2.5/- per share. Record Date 30th October 2023.

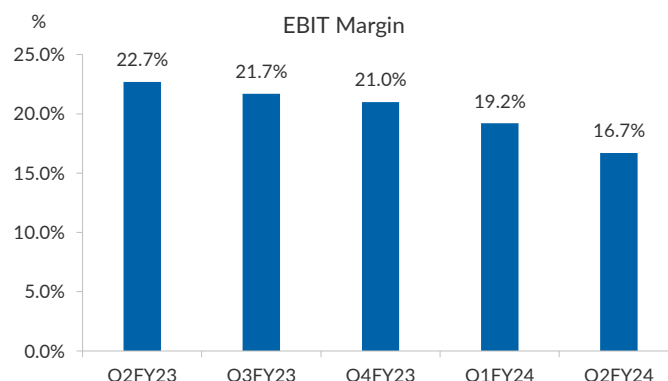
STORY IN CHARTS

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



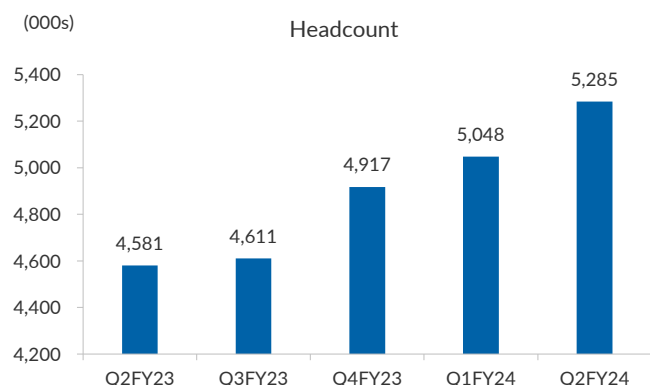
Source: Company, YES Sec

Exhibit 4: EBIT Margin dipped due to wage hike



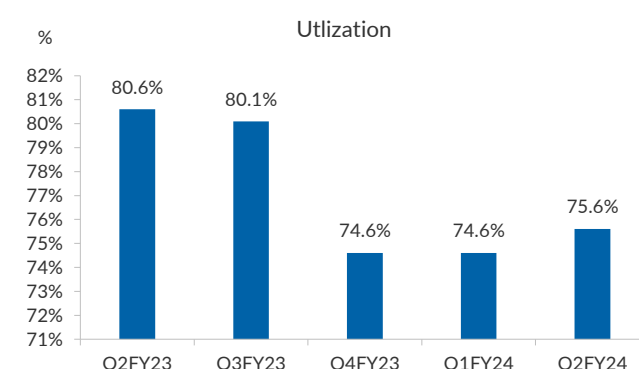
Source: Company, YES Sec

Exhibit 5: Employee addition remains intact



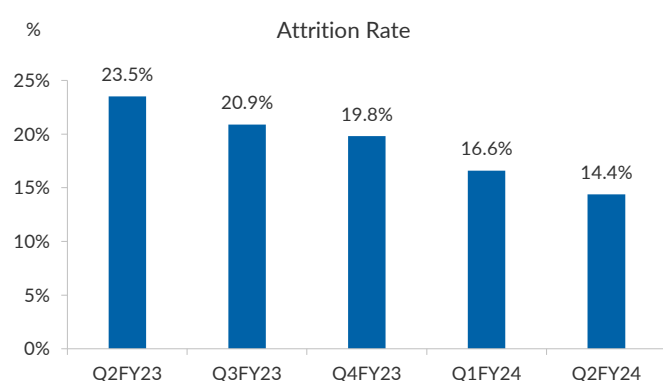
Source: Company, YES Sec

Exhibit 6: Utilization rate improved for the quarter



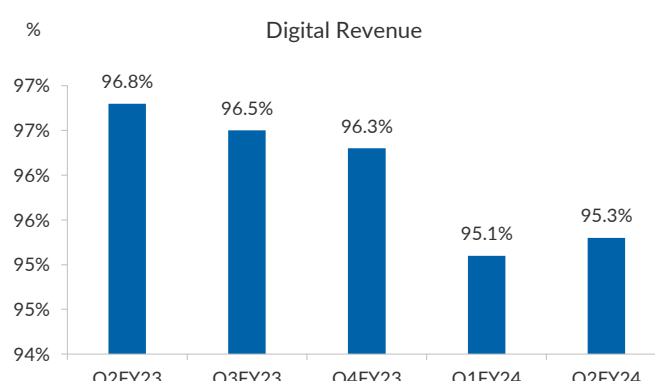
Source: Company, YES Sec

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	9,995	12,471
Shareholders' funds	2,653	5,460	6,658	8,388	10,282	12,758
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	18,302	20,783
Non-current assets	630	1,774	1,976	5,679	6,946	8,763
Fixed assets (Net block)	319	520	790	2,951	3,012	3,116
Other non-current assets	235	1,009	927	1,659	2,801	4,447
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	18,302	20,783

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	16,677	20,432
Operating expenses	(6,011)	(5,842)	(8,360)	(10,704)	(12,869)	(15,447)
EBITDA	971	1,892	2,576	3,589	3,808	4,985
Depreciation	(202)	(227)	(329)	(419)	(549)	(613)
EBIT	769	1,665	2,248	3,170	3,259	4,372
Other income	160	265	371	211	816	971
Exceptional & extraordinary	(113)	0	(61)	(63)	0	0
Profit before tax	736	1,860	2,459	3,099	3,659	4,928
Tax (current + deferred)	(19)	(236)	(647)	(789)	(954)	(1,287)
Profit / (Loss) for the period	717	1,625	1,812	2,310	2,705	3,641
P/L of Associates, Min Int, Pref Div	0	0	0	0	0	0
Reported Profit / (Loss)	717	1,625	1,812	2,310	2,705	3,641
Adjusted net profit	830	1,625	1,873	2,373	2,705	3,641

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	3,659	4,928
Depreciation	202	227	329	419	549	613
Change in working capital	415	(251)	(434)	(493)	(208)	(225)
Total tax paid	(22)	(262)	(639)	(684)	(951)	(1,284)
Cash flow from operations (a)	1,412	1,644	1,814	2,559	3,465	4,448
Capital expenditure	(179)	(429)	(599)	(2,580)	(610)	(716)
Change in investments	(6)	(3,250)	(738)	3,830	(64)	(68)
Others	558	29	73	(75)	(1,169)	(1,671)
Cash flow from investing (b)	372	(3,650)	(1,264)	1,175	(1,843)	(2,456)
Free cash flow (a+b)	1,784	(2,006)	550	3,735	1,622	1,992
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)	(812)	(1,165)
Others	266	408	116	(695)	(350)	(348)
Cash flow from financing (c)	(144)	1,562	(322)	1,504	(1,255)	(1,605)

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	16.7	22.5
EBITDA Growth	77.1	94.9	36.2	39.3	6.1	30.9
EBIT Growth	155.8	116.5	35.0	41.0	2.8	34.2
Net Profit Growth	404.6	126.5	11.5	27.5	17.1	34.6
Profitability Ratios(%)						
EBITDA Margin	13.9	24.5	23.6	25.1	22.8	24.4
EBIT margin	11.0	21.5	20.6	22.2	19.5	21.4
Net Profit margin	11.9	21.0	17.1	16.6	16.2	17.8
RoA	17.2	23.3	22.0	22.9	18.8	22.4
RoE	35.2	40.0	30.9	31.5	29.0	31.6
RoCE	23.4	29.2	26.3	26.9	21.6	25.3
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	52.0	45.6	33.9
PCE(x)	NA	NA	NA	44.2	37.9	29.0
Price/Book(x)	NA	NA	NA	14.7	12.0	9.7
EV/EBITDA(x)	NA	NA	NA	33.8	31.7	24.1

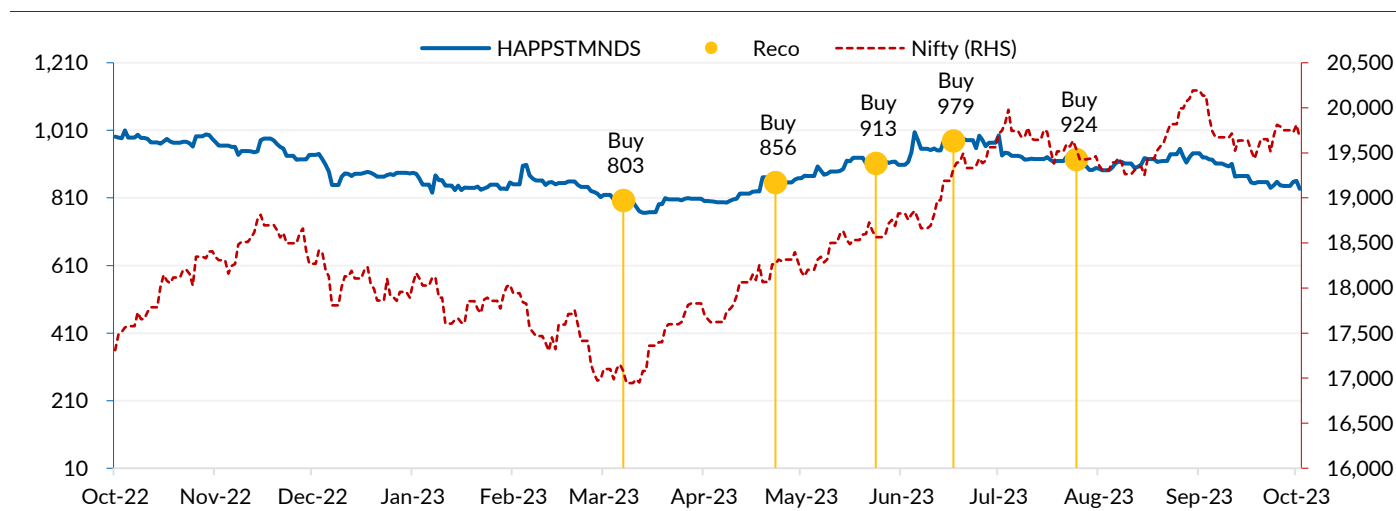
Source: Company, YES Sec

Exhibit 13: Dupont Analysis

Dupont Analysis	FY20	FY21	FY22	FY23	FY24E	FY25E
Net margin(%)	11.9	21.0	17.1	16.6	16.2	17.8
Asset turnover (x)	1.6	1.1	1.1	1.0	1.0	1.0
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	29.0	31.6

Source: Company, YES Sec

Recommendation Tracker



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