

Q4FY24



Happiest Minds Technologies Ltd

Results continue to be weaker than expected

CMP INR 808*	Target INR 891	Potential Upside 10.3%	Market Cap (INR Mn) INR 1,23,038	Recommendation ACCUMULATE	Sector Internet Software & Services
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Result Highlights

- In Q4FY24, HAPSTMNDS reported a revenue of INR 4,173 Mn (+1.8% QoQ). The revenue missed our estimates due to lower revenue growth in EduTech and manufacturing verticals.
- EBIT missed our estimates despite the Company posting an EBIT of INR 683 Mn (+3.4% QoQ). The miss in estimates can be attributed to higher associated costs and higher employee expenses.
- The Company reported an adj. profit of INR 590 Mn (-0.8% QoQ) missing our estimates due to higher-than-expected taxes amid gains on exceptional items. Adj. PAT Margin declined to 14.1%, down -14bps QoQ and down 111 bps YoY.
- We lower our FY26E EPS as we believe that the synergies from the recent acquisitions would take time to fructify. The lowered valuation multiple and target price reflect the results of disappointment over the past few quarters. We downgrade our rating to “ACCUMULATE” from “BUY”.**

MARKET DATA

Shares outs (Mn)	152
Mkt Cap (INR Mn)	1,23,038
52 Wk H/L (INR)	1,023/741
Volume Avg (3m K)	550
Face Value (INR)	2
Bloomberg Code	HAPSTMN IN

KEY FINANCIALS

INR Millions	Q4FY24	Q3FY24	Q4FY23	QoQ	YoY
USD Revenue	50	49	46	+1.8%	+10.4%
Revenue	4,173	4,099	3,780	+1.8%	+10.4%
EBIT	683	661	792	+3.4%	-13.8%
Adj. PAT	590	586	577	+0.8%	+2.4%
OPM (%)	16.4%	16.1%	21.0%	25 bps	-459 bps
NPM (%)	14.1%	14.3%	15.3%	-14 bps	-111 bps

Source: Company, KRChoksey Research

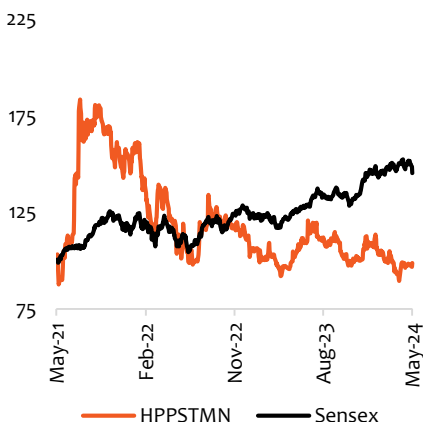
Margins remain steady with slight growth in profit

- In Q4FY24, revenue inched upward with growth in the healthcare, BFSI, and TME segments partially offsetting the decline in manufacturing and EduTech. Geographically, revenue from India saw gaining traction whereas other segments remain neutral due to which revenue contribution from India has inched up to 17.7%
- The Company has added new clients to its portfolio taking its total tally to 48 in Q4FY24 (+3 QoQ)
- The utilization rate declined to 75.1% due to hiring and investments in GBS.
- The management has guided a revenue growth of 35% - 40% growth in FY25E with a margin guidance of 22%-24%.
- The attrition continues declining for the third year straight, at 13.0%.

New acquisitions, new offerings, and new initiatives to drive growth

- The Company is highly committed to achieving its goal of \$1B in revenue by 2031E for which the Company has recently set up a new business unit on full-scale GenAI across industries.
- The Company has announced several acquisitions of entities like Aureus Tech, PureSoftware, and Macmillan Learning.
- These acquisitions will help the Company strengthen and develop its roots in BFSI, Healthcare, Life Science, and Edutech verticals and will allow it to venture into new business opportunities along with serving existing clients.
- Along with this, the Company has built a unique capability in bioinformatics, the first of its kind in the industry in bioinformatics.
- Introduction of new growth drivers, new offerings, expansion in healthcare, investments in automation, and cross-selling likely to boost growth going forward.

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	72,664
NIFTY	22,056

SHARE HOLDING PATTERN (%)

Particulars (%)	Mar-24	Dec-23	Sep-23
Promoters	50.2	50.2	51.4
FIIIs	4.7	5.1	5.1
DIIIs	2.6	2.4	2.4
Others	42.5	42.3	41.1
Total	100	100	100

*Based on today's closing

24.0%

Revenue CAGR between FY24 and FY26E

23.1%

Adj. PAT CAGR between FY24 and FY26E

Happiest Minds Technologies Ltd

Key Concall Highlights:

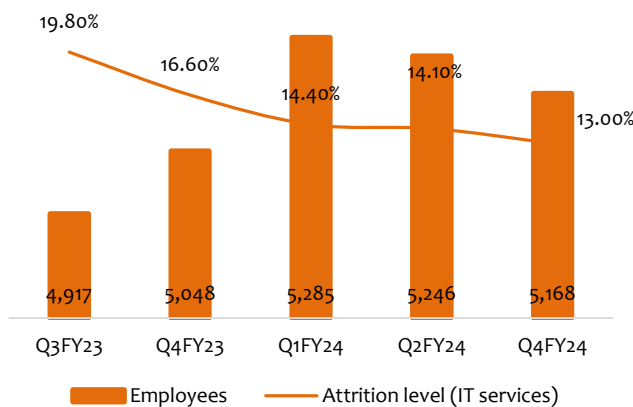
- The Company is confident in terms of its financial performance for FY25E and believes that they are back on track to achieve **USD 1Bn in revenue by 2031**.
- Happiest Minds has established a **business unit focused on Generative AI called GBS**, generating new business opportunities.
- Currently, 70 people are employed under the GBS business unit, with the count expected to increase to a total of 250 by the end of FY25E.
- PES and DBS, which were earlier operated as two distinct business units, are now being integrated into one single business unit, i.e., Product and Digital Engineering Services.
- The Company has announced signing an agreement to **acquire 100% interest in two major entities, PureSoftware and Macmillan Learning**.
- The management believes that acquiring PureSoftware will strengthen the organization's capabilities in BFSI, healthcare, and life sciences allowing them to venture into new verticals along and expand their horizons with current customers.
- The Company will also get an offshore development center in Mexico with offices in Singapore, Malaysia, and Africa.
- The acquisition of Macmillan Learning will deepen companies' presence in the EduTech vertical.
- The cash conversion remains strong, with a free cash flow of around INR 4,110 Mn, which is close to 97.5% of EBITDA.
- The Company has a strong liquidity profile with a cash balance of around INR 13,640 Mn, including the fund it raised (INR 5,000 Mn via QIP and INR 1,250 Mn via NCDs)
- Happiest Minds posted a robust ROCE of 22.3% and an ROE of 17.0%. The slight decline in ROE can be attributed to the funds raised, which might improve going forward once the acquired entities are merged.
- The Company has added 13 new customers to its portfolio, with a total count of 250 by year-end.
- The utilization rate dropped to 75.1% in Q4FY24 from 76.7% in Q3FY24. This drop can be attributed to new investments made in GBS business units and recent campus hirings.
- Attrition rate dropped to 13.0% (vs. 19.8% YoY) and expect this to be trending at the same levels going forward.
- Happiest Minds has declared a dividend of INR 3.25/share.
- The IT firm is expecting a **growth of 35%-40% growth in revenue in FY25E**, with **margins in the range of 22%-24%** attributed to investment in acquisitions and GBS business unit, realizing synergy benefits, drop in cash reserve, and other income.
- There are now two USD 10 Mn clients, up from one; five new clients were added to the USD 1-USD 3 Mn, taking the tally to 37.
- Nine new clients were added to the USD 1Bn customer base during the year.

Valuation and view:

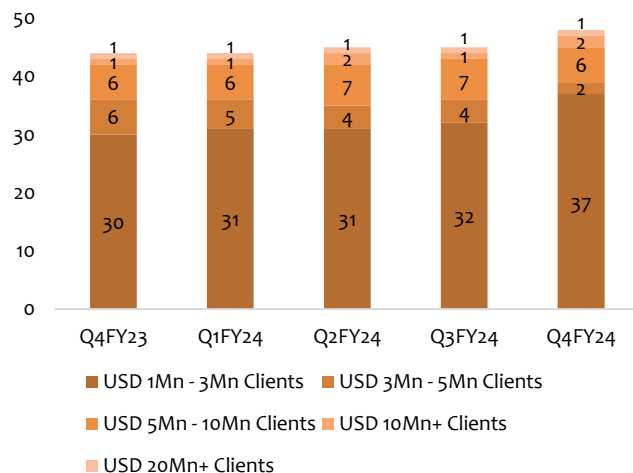
Happiest Minds posted Q4FY24 results which missed our estimates. The Company is confident of achieving revenue growth of 35%-40% in FY25E and is looking at driving some of this growth through the inorganic route. However, we believe that integrating the businesses and realizing synergies would take time, coupled with the higher employee cost. We also believe that although the organizational restructuring announced in February 2024 is positive, its outcome remains uncertain. **We revise our FY26E EPS to INR 24.7 (previously: INR 25.4) as we expect the sluggish growth rate to continue. We believe that the less-than-impressive growth over the past few quarters calls for a downward revision in the valuation multiple. Accordingly, we apply a P/E multiple of 36x (previously: 40x) on FY26E EPS and arrive at a reduced target price of INR 891 per share (previously: INR 1,040). We also downgrade our rating on the stock to "ACCUMULATE" from "BUY".**

Happiest Minds Technologies Ltd

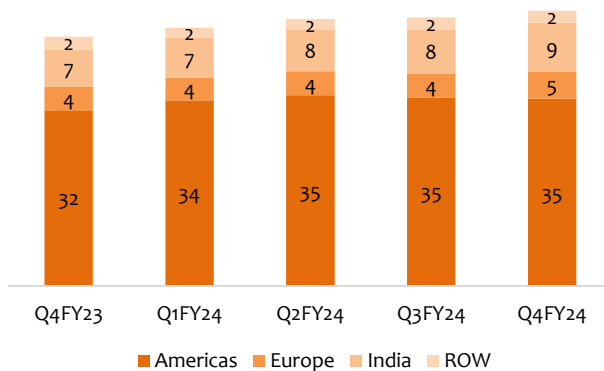
Attrition rate continues to decline



New clients added in \$10Mn+ and in \$1Mn-\$3Mn bracket



Revenue from Europe and India increased while revenue from America remained the same



Source: Company, KRChoksey Research

Happiest Minds Technologies Ltd

KEY FINANCIALS

Exhibit 1: Profit & Loss Statement

INR Millions	FY22	FY23	FY24	FY25E	FY26E
Revenue	10,937	14,293	16,247	20,414	24,977
Total Operating expenses	8,360	10,704	12,888	16,094	19,489
EBITDA	2,577	3,589	3,359	4,320	5,489
Depreciation	329	419	583	513	480
EBIT	2,248	3,170	2,776	3,806	5,009
Other income, net	371	211	854	692	519
Finance costs	-100	-219	-423	-565	-636
Exceptional Items	-61	-63	-140	0	0
Pre-tax Income	2,459	3,099	3,347	3,933	4,892
Income tax expense	647	789	863	865	1,125
Net profit	1,812	2,310	2,484	3,068	3,767
Diluted EPS (INR)	12.3	16.1	16.7	20.1	24.7
Shares in mn	147	147	149	152	152

Source: Company, KRChoksey Research

Exhibit 2: Cash Flow Statement

INR Millions	FY22	FY23	FY24	FY25E	FY26E
Net Cash Generated From Operations	1,681	2,072	2,126	4,770	4,744
Net Cash Flow from/(used in) Investing Activities	-961	-3,510	-4,664	-1,149	-1,087
Net Cash Flow from Financing Activities	-908	721	3,635	-1,144	-1,169
Net Inc/Dec in cash equivalents	-187	-718	1,096	2,477	2,488
Opening Balance	859	674	700	1,090	3,624
Exchange Difference	2	32	6	0	0
Adjustments	-187	-6	384	2,534	2,488
Closing Balance Cash and Cash Equivalents	674	700	1,090	3,624	6,112

Source: Company, KRChoksey Research

Exhibit 3: Key Ratio

Key Ratio	FY22	FY23	FY24	FY25E	FY26E
EBIT Margin (%)	20.6%	22.2%	17.1%	18.6%	20.1%
Tax rate (%)	26.3%	25.5%	25.8%	22.0%	23.0%
Net Profit Margin (%)	16.6%	16.2%	15.3%	15.0%	15.1%
RoE (%)	27.2%	27.5%	16.8%	17.9%	18.9%
RoA (%)	17.7%	16.7%	12.8%	12.6%	13.4%
EPS (INR per share)	12.3	16.1	16.7	20.1	24.7

Source: Company, KRChoksey Research

Happiest Minds Technologies Ltd

Exhibit 4: Balance Sheet

INR Millions	FY22	FY23	FY24	FY25E	FY26E
Property, Plant and Equipment	8	1,328	1,378	1,249	1,122
Right of Use Assets	539	579	570	650	814
Capital Work-in-Progress	0	19	1	1	2
Other Intangible Assets (including Goodwill)	1,029	2,409	2,182	2,119	2,122
Intangible Assets under Development	4	8	2	12	15
(i) Non-Current Investments	76	130	0	0	0
(ii) Other Non-Current Financial Assets	183	939	248	589	838
Income Tax Assets (net)	68	131	153	153	153
Other Non-Current Assets	0	12	3	13	13
Deferred Tax Assets (net)	70	125	164	164	164
Total Non-Current Assets	1,976	5,678	4,700	4,950	5,243
Current Investments	4,640	0	0	0	0
Trade Receivables	1,674	2,132	2,544	3,098	3,781
Cash and Cash Equipments	673	700	1,147	3,624	6,112
Bank Balances	1,007	6,218	12,218	12,263	12,308
Loans	0	6	4	4	4
Others	941	1,224	1,385	1,689	2,153
Other Current Assets	339	450	479	506	668
Total Current Assets	9,274	10,730	17,778	21,185	25,025
Total Assets	11,250	16,408	22,478	26,134	30,267
Equity Share Capital	285	287	299	287	299
Other Equity	6,373	8,102	14,504	16,813	19,648
Total Equity	6,658	8,388	14,802	17,099	19,946
(i) Long Term Borrowings	172	1,128	1,045	1,868	1,808
(ii) Other Financial Liabilities	129	200	40	241	295
(iii) Lease Liabilities	412	476	457	520	651
Long Term Provisions	162	247	334	384	467
Deferred Tax Liabilities (net)	47	206	130	0	0
Total Non-Current Liabilities	922	2,256	2,006	3,013	3,221
Contract Liabilities	135	116	183	215	257
(i) Short Term Borrowings	1,734	3,548	3,379	2,708	2,968
(ii) Lease Liabilities	179	186	241	218	273
(iii) Trade Payables	607	705	792	1,074	1,345
(v) Other Current Financial Liabilities	579	743	581	1,095	1,345
Short Term Provisions	170	178	214	352	421
Income Tax Liabilities (net)	24	52	1	1	1
Other Current Liabilities	243	238	280	360	490
Total Current Liabilities	3,670	5,764	5,670	6,022	7,101
Total Equity and Liabilities	11,250	16,408	22,478	26,134	30,267

Source: Company, KRChoksey Research

Happiest Minds Technologies Ltd

Happiest Minds Technologies Ltd.				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
10-May-24	808	891	ACCUMULATE	Buy	More than 15%
18-Jan-24	891	1,040	BUY	Accumulate	5% – 15%
20-Oct-23	829	1,062	BUY	Hold	0 – 5%
09-Aug-23	923	1,172	BUY	Reduce	-5% – 0
23-Jan-23	828	1,158	BUY	Sell	Less than – 5%

ANALYST CERTIFICATION:

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