

Happiest Minds Technologies Ltd

Q3FY25



Happiest Minds Technologies Ltd.

Earnings strained as margin pressures endure

CMP* INR 700	Target INR 765	Potential Upside 9.3%	Market Cap (INR Mn) INR 1,05,588	Recommendation ACCUMULATE	Sector Internet Software & Services
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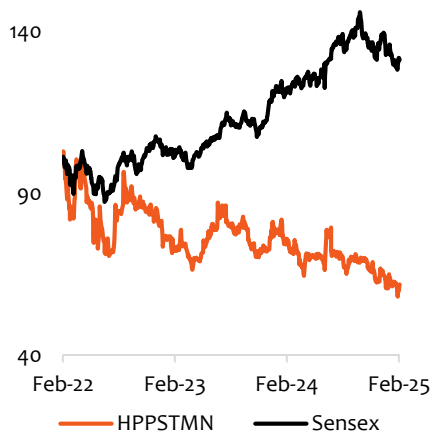
Result Highlights

- HAPPSTMN Q3FY25 earnings fell short of our estimates. In Q3FY25, HAPPSTMN reported a revenue of INR 5,308 Mn, up 29.5% YoY (+1.8% QoQ), missing our estimates. EBIT miss our projections and stood at INR 729 Mn, up 10.3% YoY (+6.2% QoQ). EBIT margin stood at 13.7% (-239bps YoY/+57bps QoQ).
- PAT declined by 16.0% YoY (+1.2% QoQ) to INR 501 Mn; PAT margin down 511bps YoY (-5bps QoQ) to 9.4%.
- We lower our FY26E/FY27E EPS by 14.8%/10.0% to INR 21.4/28.3, incorporating the impact of a weaker-than-expected Q3FY25 performance, primarily due to margin compression. The company remains committed to strategic investments in its Generative AI Business Unit, expansion of its sales force, and inorganic growth initiatives through acquisitions. While these efforts are expected to drive revenue expansion, we anticipate margin pressures to persist in the near term, with a more gradual trajectory toward improvement. Additionally, the company continues to face headwinds in its EduTech and TME verticals, where demand softness is expected to remain a near-term challenge. However, we believe in long run the company has ability to explore new markets and capitalize on opportunities through its recent acquisitions driving robust top-line growth. We roll over our valuation to FY27E and assign a P/E multiple of 27.0x, to arrive at a reduced target price of INR 765 per share (previously: INR 803). Consequently, we maintain ACCUMULATE” rating on the shares of HAPPSTMN.**

MARKET DATA

Shares outs (Mn)	152
Mkt Cap (INR Mn)	1,05,588
52 Wk H/L (INR)	956/665
Volume Avg (3m K)	557
Face Value (INR)	2
Bloomberg Code	HAPPSTMN IN

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	78,271
NIFTY	23,696

KEY FINANCIALS

INR Millions	FY23	FY24	FY25E	FY26E	FY27E
Revenue	14,293	16,247	20,636	26,350	33,321
EBIT	3,170	2,776	2,789	4,103	5,449
Adj. PAT	2,310	2,484	2,169	3,255	4,317
OPM (%)	22.2%	17.1%	13.5%	15.6%	16.4%
NPM (%)	16.2%	15.3%	10.5%	12.4%	13.0%

Source: Company, DevenChoksey Research

Revenue growth led by BFSI followed by Healthcare

- In USD terms, the company reported revenue of USD 62.72 Mn, up 27.0% YoY (+0.5% QoQ). On a constant currency basis, revenue growth was 28.2% YoY (+0.8% QoQ).
- In terms of regional mix, Americas (64.7% of revenue) grew to INR 3,434 Mn, up 19.2% YoY (+1.0% QoQ).
- India (15.5% of revenue) grew to INR 823 Mn, up 22.4% YoY (+4.5% QoQ). Europe (8.0% of revenue) grew by 15.1% YoY (-4.2% QoQ) to INR 425 Mn.
- APAC (5.9% of revenue) stood at INR 313 Mn, up 7.2% QoQ driven by opportunities created by PureSoftware while RoW (5.9% of revenue) came in at INR 313 Mn, up 77.7% YoY (+7.2% QoQ).
- In terms of vertical mix, the BFSI sector's contribution as a % of revenue increased from 10.9% in Q3FY24 to 23.6% in Q3FY25, largely driven by new opportunities generated through the company's recent acquisitions in the banking and reinsurance sectors and through its Arttha banking platform.
- BFSI revenue grew to INR 1,253 Mn, up 180.4% YoY (+6.7% QoQ).
- EduTech (17.4% of revenue) declined to INR 924 Mn, down 6.1% YoY (-8.3% QoQ), due to softness in the vertical, particularly in the higher education sub-segment, due to changing customer preferences and disruptions.
- Healthcare segment revenue came in at INR 871 Mn, up 43.5% YoY (+1.8% QoQ).
- HiTech/TME/Retail grew by 39.5%/-7.0%/43.1% YoY to 817 Mn / 446 Mn / 446 Mn, respectively. The retail segment is seeing a positive shift, with mid-sized companies in the US focusing on digital transformation, analytics, and AI. There is also growth in the CPG (Consumer Packaged Goods) space as companies complete strategic reviews and initiate new projects.

SHARE HOLDING PATTERN (%)

Particulars (%)	Dec-24	Sep-24	Jun-24
Promoters	44.2	44.2	44.2
FIIIs	5.3	5.3	5.3
DIIIs	6.1	4.2	2.9
Others	44.4	46.3	47.6
Total	100	100	100

*Based on the previous closing

Note: All the market data is as of previous closing

27.1%

Revenue CAGR between FY24 and FY27E

20.2%

Adj. PAT CAGR between FY24 and FY27E

Happiest Minds Technologies Ltd.

Key Concall Highlights:

Happiest Minds Expands Middle East Presence with Strategic GAVS Acquisition, Strengthening BFSI & Digital Services

- Happiest Minds Technologies recently acquired the Middle East business of GAVS Technologies Ltd, signing the agreement on February 1, 2025. This acquisition is a strategic move to strengthen its presence in the Middle East, particularly in the BFSI sector, where the company is already witnessing strong growth.
- By integrating GAVS Technologies' regional operations, Happiest Minds aims to consolidate existing customer relationships, enhance its local delivery capabilities, and expand its service offerings in application development, maintenance, and infrastructure services.
- This acquisition brings in a talented workforce of over 90 employees, along with 9-10 key BFSI customers, including large banks in the region. The move aligns with Happiest Minds' broader strategy of expanding into high-growth markets and leveraging deep client relationships to drive further business growth.
- Additionally, with BFSI being one of the company's fastest-growing verticals, this acquisition is expected to contribute significantly proof-of-concept the coming quarters, enabling the company to offer its Arttha banking platform and other digital transformation solutions to a wider audience.
- The integration of GAVS' Middle East business is set to provide new cross-selling opportunities and operational synergies, strengthening Happiest Minds' competitive position in the region.

Reaffirms Margin Guidance at 20.0 – 22.0%, Eyes Strong Q4FY25E

- Happiest Minds Technologies has reiterated its EBITDA margin guidance of 20.0% - 22.0% (including other income).
- Margin sustainability is underpinned by operational efficiencies, improved utilization (targeting 80.0%), and the high-margin contribution from the Arttha banking platform, which benefits from license-based revenue recognition.
- On the revenue front, the company had originally projected a 30.0%-35.0% YoY growth for FY25E, though initial delays in the integration of acquisitions, such as PureSoftware and Aureus, created a shortfall in Q1FY25. However, with 27.0% - 28.0% YoY growth recorded over the past two quarters, Happiest Minds expects Q4FY25E to deliver strong performance, supported by incremental revenues from acquisitions, deal conversions, and a favorable demand environment in BFSI, healthcare, and retail.
- Looking ahead to FY26E, the company anticipates a strong acceleration in organic growth, driven by expansion in key geographies, an increased focus on large enterprise deals, and the monetization of Generative AI solutions.

Improved average revenue per customer; employee count and attrition inched upwards

- As of Q3FY25, average revenue per customer stood at USD 898,000 from USD 842,000 in Q2FY25 (USD 808,000 Mn in Q3FY24).
- Employee count stood at 6,630, up 1,384 YoY (+50 QoQ) while the attrition rate inched up by 90bps sequentially to 15.3% (Q3FY24: 14.1%). The company anticipates an improvement in attrition rate from next quarter. Utilization rate improved to 78.0% (+130bps YoY/ +170bps QoQ).

AI Strategy

- The company has created a Gen AI Business Unit, which is in a startup stage and continues to be in an investment mode. The goal of the Gen AI Business Unit is to integrate Generative AI features into clients' products and services, providing them with a competitive advantage.
- The company has already delivered projects in Generative AI and has about 15 projects in the proof-of-concept stage, which will lead to significant orders and projects in the next fiscal.
- The company is leveraging a strong partnership with Microsoft Azure AI to implement conversational interfaces, such as the one for Coca Cola Beverages Vietnam, to improve efficiency.
- A global leader in parcel spend management and supply chain planning chose the company to develop a GenAI-powered chatbot that simplifies data querying, offering real time insights and dynamic visualizations.

Valuation and view:

Happiest Minds reported weaker-than-expected results for Q3FY25, with earnings falling short of estimates. The miss in earnings was mainly due to higher-than-anticipated operating expenses, which include ongoing investments in the Generative AI business and the establishment of a new sales team. This increased expenditure is expected to result in a more gradual improvement in margins, as the integration of recent acquisitions is likely to pressure both the margin profile and overall profitability.

Management is focused on improving utilization rates, targeting 80.0% from the current 78.0%, which is seen as a key driver for margin improvement. However, this alone may not be enough to deliver a meaningful boost to margins, given the continued investment and integration challenges. Additionally, the company is facing persistent weakness in its EduTech and TME verticals, which is expected to linger in the near term. However, we believe in long run the company has ability to explore new markets and capitalize on opportunities through its recent acquisitions driving robust top-line growth.

Factoring in these recent developments, we reduce our EPS estimates of FY26E/FY27E to INR 21.4/28.3 (previously: INR 25.1/31.5). We roll over our valuation to FY27E and assign a P/E multiple of 27.0x, to arrive at a reduced target price of INR 765 per share (previously: INR 803). Consequently, we maintain “ACCUMULATE” rating on the shares of Happiest Minds Technologies Ltd.

Happiest Minds Technologies Ltd.

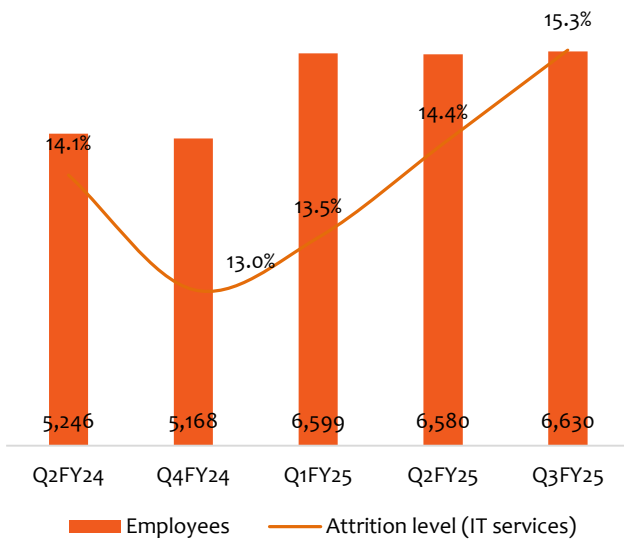
RESULT SNAPSHOT

Particulars (Mn)	Q3FY25	Q2FY25	Q3FY24	QoQ	YoY	9MFY25	9MFY24	Y-o-Y
Revenue from Operations	5,308	5,216	4,099	1.8%	29.5%	15,163	12,074	25.6%
Employee benefit costs	3,558	3,506	2,614	1.5%	36.1%	10,062	7,519	33.8%
Other expenses	811	793	676	2.3%	20.0%	2,395	2,026	18.2%
EBITDA	939	918	809	2.3%	16.1%	2,705	2,528	7.0%
EBITDA Margin	17.7%	17.6%	19.7%	9bps	-205bps	17.8%	20.9%	-310bps
Depreciation and amortisation expenses	210	231	148	(9.2%)	41.7%	662	436	51.7%
EBIT	729	687	661	6.2%	10.3%	2,044	2,092	(2.3%)
EBIT Margin	13.7%	13.2%	16.1%	57bps	-239bps	13.5%	17.3%	-385bps
Finance Costs	269	280	107	(3.8%)	151.2%	748	319	134.0%
Exceptional Items	0	0	-11	#DIV/0!	(100.0%)	0	-11	(100.0%)
Other Income	230	270	243	(15.1%)	(5.5%)	754	602	25.4%
PBT	689	677	807	1.8%	(14.6%)	2,051	2,385	(14.0%)
Tax Expense	188	182	211	3.5%	(10.8%)	544	621	(12.4%)
PAT	501	495	596	1.2%	(16.0%)	1,507	1,764	(14.6%)
PAT Margin (%)	9.4%	9.5%	14.5%	-5bps	-511bps	9.9%	14.6%	-468bps
Diluted EPS	3.3	3.3	4.0	1.2%	-15.9%	10.0	11.9	(15.8%)

Source: Company, DevenChoksey Research

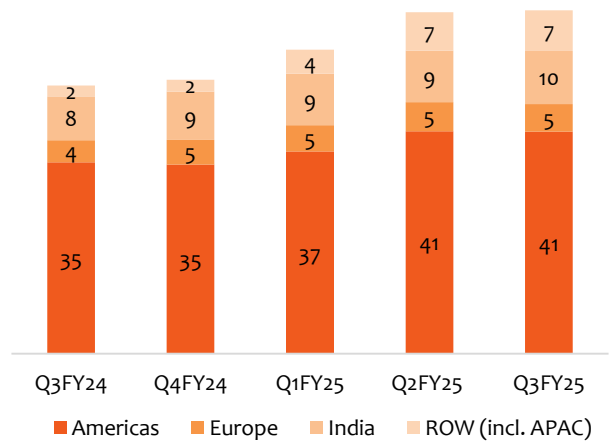
Quarterly Trends

Employee count and attrition climb upwards



Source: Company, DevenChoksey Research

India showed growth sequentially (USD Mn)



Happiest Minds Technologies Ltd.

KEY FINANCIALS

Exhibit 1: Profit & Loss Statement

INR Millions	FY23	FY24	FY25E	FY26E	FY27E
Revenue	14,293	16,247	20,636	26,350	33,321
Operating expenses	10,704	12,888	16,932	21,272	26,752
EBITDA	3,589	3,359	3,704	5,078	6,569
Depreciation	419	583	915	975	1,120
EBIT	3,170	2,776	2,789	4,103	5,449
Other income, net	211	854	1,030	1,200	1,320
Finance costs	-219	-423	-926	-964	-1,013
Exceptional Items	-63	-140	0	0	0
Pre-tax Income	3,099	3,347	2,892	4,340	5,756
Income tax expense	789	863	723	1,085	1,439
Net profit	2,310	2,484	2,169	3,255	4,317
Diluted EPS (INR)	16.1	16.7	14.2	21.4	28.3
Shares in mn	147	149	152	152	152

Exhibit 2: Balance Sheet

INR Millions	FY23	FY24	FY25E	FY26E	FY27E
Equity					
Equity Capital	287	299	287	299	287
Other Equity	8,102	14,504	16,022	18,138	20,512
Total Equity	8,388	14,802	16,309	18,436	20,798
Non-Current Liabilities					
Borrowings	1,128	1,045	1,868	1,808	1,748
Other Liability	1,128	961	1,108	1,349	1,630
Total Non-Current Liabilities	2,256	2,006	2,976	3,156	3,378
Current Liabilities					
Trade Payables	705	792	1,130	1,468	1,807
Short-Term Borrowings	3,548	3,379	2,708	2,968	3,228
Other current liabilities	1,511	1,499	2,254	2,892	3,606
Total Current Liabilities	5,764	5,670	6,091	7,327	8,641
Total Liabilities	16,408	22,478	25,376	28,920	32,818
Non-Current Assets					
Property Plants and Equipments	1,328	1,378	1,358	1,437	1,505
Right of Use-Assets	579	570	571	656	780
Intangible assets	2,409	2,182	1,877	1,577	1,280
Income Tax Assets (net)	131	153	153	153	153
Other non-current assets	1,232	418	799	1,104	1,334
Total Non-Current Assets	5,678	4,700	4,758	4,927	5,052
Current Assets					
Trade Receivables	2,132	1,280	1,632	2,166	2,578
Cash and Cash Equipments	700	1,147	3,000	4,717	6,564
Bank Balances	6,218	12,218	12,263	12,308	12,353
Other current assets	1,680	3,132	3,723	4,802	6,270
Total Current Assets	10,730	17,778	20,618	23,993	27,765
Total Assets	16,408	22,478	25,376	28,920	32,818

Exhibit 3: Cash Flow Statement

INR Millions	FY23	FY24	FY25E	FY26E	FY27E
CFFO	2,072	2,126	5,032	5,609	6,831
CFFI	-3,510	-4,664	-1,691	-2,099	-2,360
CFFF	721	3,635	-1,488	-1,793	-2,624
Net Inc/Dec	-718	1,096	1,853	1,717	1,847
Opening Balance	674	700	1,090	3,000	4,717
Exchange Difference	32	6	0	0	0
Adjustments	-6	384	1,911	1,717	1,847
Closing Balance	700	1,090	3,000	4,717	6,564

Exhibit 4: Key Ratios

Key Ratio	FY23	FY24	FY25E	FY26E	FY27E
EBIT Margin (%)	22.2%	17.1%	13.5%	15.6%	16.4%
Tax rate (%)	25.5%	25.8%	25.0%	25.0%	25.0%
Net Profit Margin (%)	16.2%	15.3%	10.5%	12.4%	13.0%
RoE (%)	27.5%	16.8%	13.3%	17.7%	20.8%
RoA (%)	16.7%	12.8%	9.1%	12.0%	14.0%
EPS (INR per share)	16.1	16.7	14.2	21.4	28.3
P/E (x)	43.4	41.8	49.1	32.8	24.7

Source: Company, DevChoksey Research

Happiest Minds Technologies Ltd.

Happiest Minds Technologies Ltd.			
Date	CMP (INR)	TP (INR)	Recommendation
06-Feb-25	700	765	ACCUMULATE
14-Nov-24	736	803	ACCUMULATE
16-Aug-24	751	834	ACCUMULATE
10-May-24	810	891	ACCUMULATE
18-Jan-24	891	1,040	BUY

Rating Legend (Expected over a 12-month period)	
Our Rating	Upside
Buy	More than 15%
Accumulate	5% – 15%
Hold	0 – 5%
Reduce	-5% – 0
Sell	Less than – 5%

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