



Miss on Revenue Estimates; Strong Revenue Outlook

Est. Vs. Actual for Q4FY24: Revenue – **MISS**; EBITDA Margin – **INLINE PAT – BEAT**; Deal Wins – **BEAT**

Change in Estimates post Q4FY24

FY25E/FY26E: Revenue 4%/4%; EBITDA Margins 4%/4%; PAT 4%/4%

Recommendation Rationale

- **Long-term outlook positive:** The management is very optimistic about long-term and broad-based growth across verticals, backed by resilient client engagement.
- **FY25 likely to be better:** The management is confident of gaining medium to long-term demand momentum on the backdrop of the deals it has won in the previous quarters. Moreover, it expects strong revenue growth of **35%-40% in FY25**, indicating better recovery in the near term. Margin expansion will be in the range of **22%- 24% for FY25**.
- **The company has made two acquisitions during Q4FY24 – PureSoftware Technologies and MacMillanLearning India Pvt Ltd.**

Sector Outlook: Neutral

Company Outlook & Guidance: The management has estimated revenue growth of 35%-40% in FY25 and a margin in the range of 22%-24%.

Current Valuation: 35x FY26E P/E, **Earlier Valuation:** 38x FY26E P/E

Current TP: 1,100/share; **Earlier TP:** 1,100/share

Recommendation: Given the company's strong growth potential backed by robust deal wins and superior execution capabilities, we recommend a **BUY** rating on the stock.

Alternative Investment Ideas: Persistent Systems (TP: 4,350), KPIT Technologies (TP: 1,750)

Financial Performance

In Q4FY24, **Happiest Minds Technologies Ltd. (Happiest Minds)** reported revenue of Rs 410 Cr, up 1.8% QoQ and 10% YoY. This was below our expectations owing to the slower ramp-up of its spending. The company's operating profit stood at Rs 83 Cr, reporting a growth of 3% on a QoQ basis. This was largely on account of lower overall demand in the majority of its operating regions. Its net profit for Q4FY24 stood at Rs 72 Cr, registering a growth of 21% QoQ.

Outlook

From the long-term perspective, we believe Happiest Minds is well-placed to deliver encouraging growth, given its multiple long-term contracts with the world's leading brands. Richer revenue visibility gives us confidence in the business growth of the company moving forward.

Valuation & Recommendation

We recommend a **BUY** rating on the stock and assign a 35x P/E multiple to its FY26E earnings of Rs 31/share to arrive at a TP of Rs 1,100/share, implying an upside of 33% from the CMP.

Key Financials (Consolidated)

(Rs Cr)	Q4FY24	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Sales	417	2%	10%	424	-2%
EBIT	68	3%	-14%	75	-9%
EBIT Margin	16%	25	(53) bps	16%	2%
Net Profit	72	21%	25%	62	16%
EPS (Rs)	4.8	1%	17%	4.1	17%

Source: Company, Axis Securities

(CMP as of 07 May 2024)

CMP (Rs)	829
Upside /Downside (%)	33%
High/Low (Rs)	1,022/738
Market cap (Cr)	12,620
Avg. daily vol. (6m)Shrs.	39,43,740
No. of shares (Cr)	14.71

Shareholding (%)

	Sept-23	Dec-23	March-24
Promoter	51.4	50.2	50.2
FII's	5.1	5.1	5.1
MFs / UTI	1.3	1.2	1.2
Banks / FI's	0.0	0.0	0.0
Others	42.2	43.5	43.5

Financial & Valuations

Y/E Mar (Rs Cr)	FY24	FY25E	FY26E
Net Sales	1,625	1,962	2,377
EBITDA	336	530	642
Net Profit	248	334	443
EPS (Rs)	17	23	31
PER (x)	52.8	39.3	29.6
P/BV (x)	13.0	10.5	8.4
EV/EBITDA (x)	38.3	24.2	20.0
ROE (%)	26%	28%	30%

Change in Estimates (%)

Y/E Mar	FY25E	FY26E
Sales	4%	4%
EBITDA	4%	4%
PAT	4%	4%

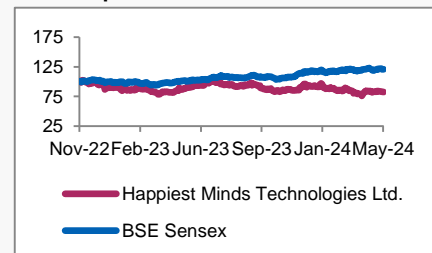
ESG disclosure Score**

Environmental Disclosure	37.6
Social Disclosure Score	53.2
Governance Disclosure	92.5
Total ESG Disclosure Score	61.1
Sector Average	42.5

Source: Bloomberg, Scale: 0.1-100

**Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2022 disclosures

Relative performance



Source: AceEquity, Axis Securities

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Recommendation Rationale & Key Highlights

- **Continuing strength in the demand environment in the long term:** Thank you for sharing the insights regarding the company's outlook in different markets. It's positive to note the potential for higher cost optimization deals in the US, despite challenges in the UK market. While there are expectations for a pick-up in decision-making as the macro environment stabilizes, it's understandable that deeper furloughs may impact revenue growth momentum in the near term. The management needs to remain vigilant and adaptable to navigate through these challenges effectively.
- **Broad-based vertical growth:** On the vertical front, Healthcare verticals delivered 9% QoQ growth. Retail CPG Travel and hospitality grew by 3% QoQ. While Hi-Tech Media & Entertainment grew by 3% QoQ, the Edutech de-grew by 7% QoQ. The majority of the verticals witnessed strong growth and are likely to report further growth backed by a strong deal pipeline over the mid to long-term.
- **Better geographical performance:** On the geographical front, North America (69% of revenue) declined by 1% QoQ, and Europe (18% of revenue) reported no growth QoQ. India business grew by 8% QoQ, while RoW (9% of revenue) business grew by 0% QoQ (in the CC terms). For Q4FY24, the company's free cash conversion stood at Rs 109 Cr.
- **Acquisitions of two companies:** Happiest Minds has signed a definitive agreement to acquire 100% equity interest in the Digital Engineering & Transformation company – '**PureSoftwareTechnologies Private Ltd**' for a total purchase consideration of Rs 779 Cr. The company has a strong presence in verticals such as BFSI, Healthcare & Life Sciences, Retail & Logistics and Gaming & Entertainment. Happiest Minds acquired '**Macmillan Learning India Private Ltd**' to strengthen its EduTech Vertical, for a purchase consideration of Rs 4.5 Cr. Happiest Minds looks ahead as a strategic partner for the Macmillan group a global leader in the business of learning, education, and publishing.

Key Risks to our Estimates and TP

- The demand environment is uncertain on account of the potential threat of recession in the world's largest economies.
- The rising subcontracting cost and cross-currency headwinds may impact the company's operating margins negatively.

Results Review
(Rs Cr)

In Cr	Q4FY24	Q3FY24	Q3FY23	% change (YoY)	% change (QoQ)
Total Revenue	417	410	378	10%	2%
Total Cost of Sales	256.07	252.13	223.42		
Gross Profit	161	158	155	4%	2%
Margin (%)	39%	38%	41%	-226	15
SG&A	78	77	62		
EBITDA	83	81	92	-10%	3%
EBITDA Margins (%)	20%	20%	24%	-449	16
Depreciation & Amortizations	14.69	14.81	12.94		
Operating Income	68	66	79	-14%	3%
Margin (%)	16.37%	16.12%	20.96%	-459	25
Total Other Income/(Expense)	25.21	24.29	8.45		
Income Before Income Taxes	83	80	79	5%	4%
Total Taxes	24.17	21.11	21.27		
ETR (%)	29%	27%	27%	210	312
Net Profit After Taxes	72	60	58	25%	
Non-Controlling Interest					
Net Income After Extraordinary Items	72	60	58	25%	21%
Margin (%)	13%	13%	12%	100	0
EPS	4.79	3.98	4.01	19%	20%

Source: Company, Axis Securities

Financials (consolidated)

Profit & Loss

(Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E
Net sales	1,429	1,625	1,962	2,377
Other Operating Income				
Total income	1,429	1,625	1,962	2,377
Total Expenditure	-	-	-	-
Employee Cost	807	1,015	1,138	1,379
Other Expenses	264	274	294	357
Total Cost	1,070	1,289	1,432	1,735
EBITDA	359	336	530	642
Other income	21	85	29	48
PBIDT	380	421	559	689
Depreciation	42	58	100	58
Interest & Fin Chg.	22	42	39	102
E/o income / (Expense)	(6)	14	-	-
Pre-tax profit	310	335	420	529
Tax provision	79	86	86	86
(-) Minority Interests	-	-	-	-
Associates	-	-	-	-
Profit after Tax	231	248	334	443
Other Comprehensive Income	-	-	-	-
PAT after Comprehensive Income	231	248	334	443

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E
Total assets	1,053	984	746	436
Net Block	432	158	432	0
CWIP	20	21	22	23
Investments	105	110	115	119
Wkg. cap. (excl cash)	-195	429	-144	-18
Cash / Bank balance	692	267	323	313
Misc. Assets	-1	-1	-1	-1
0	0	0	0	0
Capital employed	1,053	984	746	436
Equity capital	29	29	29	29
Reserves	808	984	1,220	1,533
Def Tax Liabilities	68	68	68	68

Source: Company, Axis Securities

Cash Flow

(Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E
Sources	866	236	338	373
Cash profit	295	349	473	603
(-) Dividends	68	73	98	130
Retained earnings	227	276	375	473
Issue of equity	0	0	0	0
Change in Oth. Reserves	4	0	0	0
Borrowings	17	2	2	2
Others	619	-42	-39	-102
	0	0	0	0
Applications	866	236	338	373
Capital expenditure	403	696	6,418	6,418
Investments	5	0	0	0
Net current assets	-66	-675	15	-34
Change in cash	524	215	107	202
Closing cash	692	267	323	313

Source: Company, Axis Securities

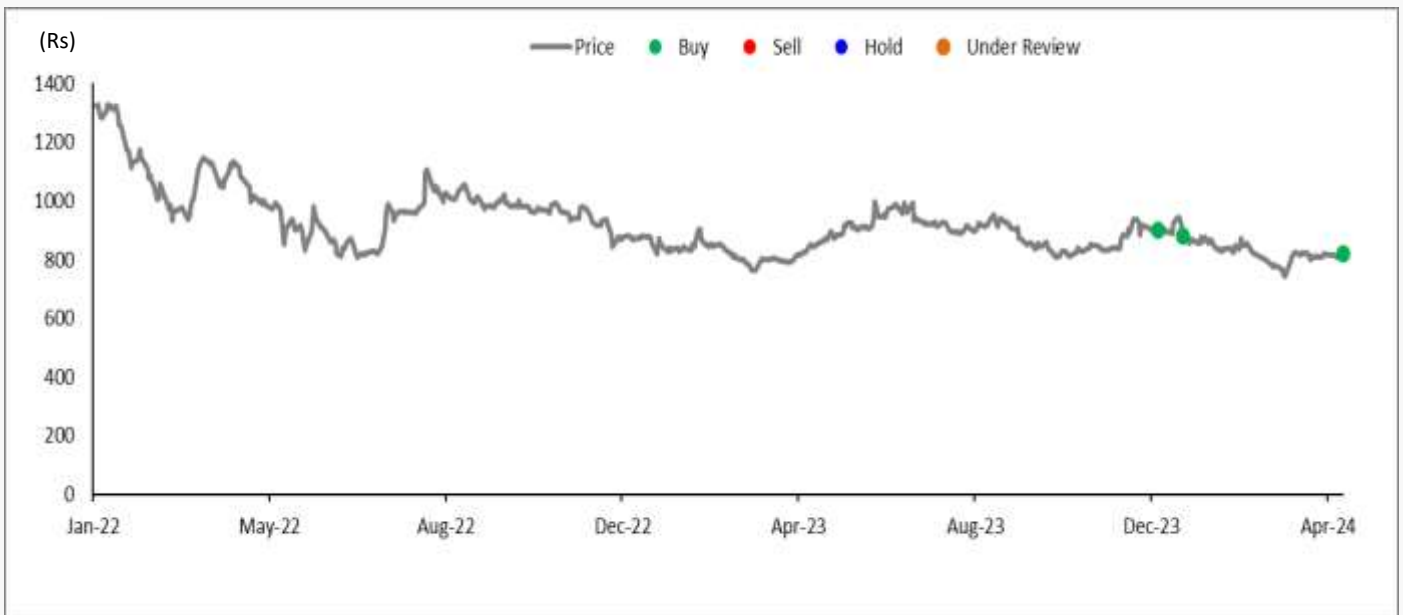
Ratio Analysis

(%)

Y/E March	FY23	FY24	FY25E	FY26E
Sales growth (In %)	31	14	21	21
OPM (In %)	25	21	27	27
Oper. profit growth (In %)	39	-6	58	21
COGS / Net sales	0	0	0	0
Depreciation / G. block	15	-21	36	-14
	0	0	0	0
Net wkg.cap / Net sales (In %)	0%	0%	0%	0%
Net sales / Gr block (x)	0.1	0.1	0.1	-0.0
RoCE (In %)	38%	32%	34%	39%
Debt / equity (x)	0.09	0.08	0.06	0.05
Effective tax rate (In %)	25	26	21	16
RoE (In %)	30%	26%	28%	30%
Payout ratio (Div/NP)	25	25	25	25
EPS (Rs.)	16	17	23	31
EPS Growth (In %)	26	8	34	33
CEPS (Rs.)	19	21	30	35
DPS (Rs.)	4	4	6	8

Source: Company, Axis Securities

Happiest Minds Technologies Price Chart and Recommendation History



Date	Reco	TP	Research
02-Jan-24	BUY	1,100	Initiating Coverage
19-Jan-24	BUY	1,100	Result Update
08-May-24	BUY	1,100	Result Update

Source: Axis Securities

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