

Happiest Minds Technologies Ltd.

BUY

Choice

New strategic and structural changes to look forward to

Happiest Minds reported consolidated Q1FY25 revenues at \$55.5mn, having industrial leading growth of 11.4% QoQ and 17.8% YoY in cc terms. In USD terms, reported revenue was up 10.9% QoQ and 16.8% YoY. INR revenue stood at INR4,638mn, up 11.2% QoQ and 18.7% YoY. During the quarter, company added 41 customers taking the total to 279 active clients. Reported PAT for the quarter came in at INR510mn, down 12.5% YoY, whereas reported basic EPS stood at INR3.4. The cash conversion remains strong with a free cash flow of INR1,157mn translating into almost 100.0% of EBITDA.

- Current year has been pivotal for Happiest Minds, marked by three significant milestones. Firstly, the generative AI business unit has seen an excellent start and garnered universal recognition for the critical importance of generative AI technology. Secondly, it has restructured the company into industry-specific groups, each operating as a profit center. This reorganization has not only streamlined the operations but also positioned them as thought leaders in delivering domain-specific solutions and services, which will drive sustained growth for the company. Thirdly, it successfully completed two major acquisitions: Pure Software, a significant addition to portfolio, and Aureus, a company with deep expertise in the reinsurance sector. These strategic acquisitions are set to accelerate growth and contribute to what it anticipates to be the strongest fiscal performance since IPO. Company remains committed to its long-term growth aspiration of achieving \$1bn revenue by FY31E for which it has to grow at a CAGR of 22% post FY25E performance.
- Company continues to make investments in new technology areas and the new BU of GBS. With the two key acquisitions, it has expanded its presence in the BFSI and healthcare sectors, while also opening new markets. An integration team is working to achieve operational synergies, and it is confident of yielding positive results. The growth this quarter has accelerated significantly from the previous year, and the momentum is expected to continue, driving strong growth for the remainder of the fiscal year. Pure Software has opened new markets APAC and Africa, while Aureus has established its presence in Hyderabad, significantly enhancing the capabilities in the reinsurance sector.
- Company delivered a healthy EBITDA margin of 23.9% on total income, exceeding its margin guidance of 20-22%. Going forward in Q2, margins shall be impacted to the extent of 250-280bps due to wage hikes and less billable days. Management expects EBITDA margins on total income to be rangebound between 20-22% for FY25E.

Outlook and Valuation: Happiest Minds shall fuel its long term growth aspirations through continued investments to enhance its technical capabilities and venture into new markets through acquisitions. It is estimating a growth of 30-45% in FY25E after considering delay in synergies from acquisitions. We maintain our **BUY** rating and arrive at a revised target price of INR848 implying a PE of 42x on FY26E EPS of INR20.2.

Financial Snapshot

Year end: March	FY22	FY23	FY24	FY25E	FY26E
Revenue (INR Mn.)	10,937	14,293	16,247	20,592	26,133
Gross Profit (INR Mn.)	4,737	6,225	6,100	7,493	9,822
Gross Profit Margin (%)	43.3	43.6	37.5	36.4	37.6
EBIT (INR Mn.)	2,242	3,170	2,776	3,131	4,524
EBIT Margin (%)	20.5	22.2	17.1	15.2	17.3
EPS (INR)	12.8	16.1	16.7	17.8	20.2

Source: Company, CEBPL

Aug 13, 2024	
CMP (Rs.)	773
Target Price (Rs.)	848
Potential Upside (%)	9.7

CMP as on 12th Aug 2024

Company Info

BB Code	HAPPSTMN IN Equity
ISIN	INE419U01012
Face Value (Rs.)	2.0
52 Week High (Rs.)	1,022.3
52 Week Low (Rs.)	738.1
Mkt Cap (Rs. bn.)	114.9
Mkt Cap (\$ bn.)	1.36
Shares o/s (Mn.)/Float	152.3/47.0
FY24 EPS (Rs.)	16.7
FY26E EPS (Rs.)	20.2

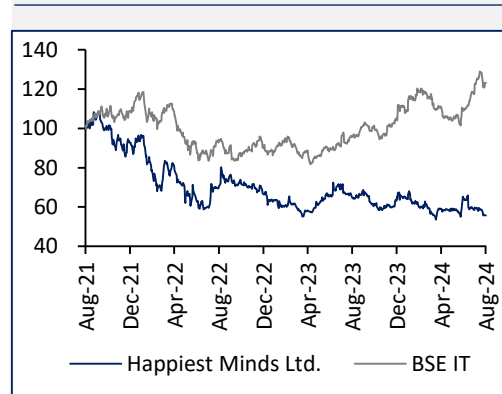
Shareholding Pattern (%)

	Jun-24	Mar-24	Dec-23
Promoters	44.23	50.24	50.24
FII's	5.31	4.69	5.05
DII's	2.85	2.57	2.41
Public	47.61	42.50	42.30

Relative Performance (%)

YTD	1Y	2Y	3Y
BSE IT	28.9	31.8	23.2
Happiest Minds	(14.5)	(21.1)	(44.4)

Rebased Price Performance



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Sequential Operating Performance

	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25
Income Statement						
Revenues (INR Mn.)	3,780	3,909	4,066	4,099	4,173	4,638
Gross Profit (INR mn.)	1,569	1,554	1,515	1,485	1,545	1,640
Gross Margin (%)	41.5	39.8	37.3	36.2	37.0	35.3
EBIT (INR mn.)	792	751	681	661	683	628
EBIT Margin (%)	21.0	19.2	16.7	16.1	16.4	13.5
PAT (INR mn.)	577	583	585	596	720	510
Basic EPS (INR)	4.0	4.0	3.9	4.0	4.8	3.4
Operating Metrics						
Revenue - Geography (%)						
North America	70.5	71.9	71.5	70.3	69.0	66.5
Europe	15.0	15.5	15.7	16.4	17.7	16.9
India	9.4	8.7	9.0	9.0	9.0	8.7
Rest of the world	5.1	3.9	3.8	4.3	4.3	7.9
Total	100.0	100.0	100.0	100.0	100.0	100.0
Revenue - Industry (%)						
Edutech	22.2	24.1	25.0	24.0	22.3	21.5
Hitech	19.5	14.8	14.2	14.3	14.7	14.8
BFSI	10.8	11.0	10.3	10.9	11.4	16.8
Travel, media & entertainment	13.2	12.0	11.6	11.7	12.2	10.7
Healthcare	-	12.9	13.8	14.8	16.1	16.4
Retail / CPG	7.7	7.1	7.2	7.6	7.8	7.8
Industrial	8.3	8.2	7.6	6.8	7.4	7.3
Manufacturing	10.7	5.4	6.3	7.4	6.3	4.0
Others	7.6	4.5	4.0	2.5	1.8	0.7
Total	100.0	100.0	100.0	100.0	100.0	100.0
Revenue – Business Unit (%)						
Product Engineering Services	49.4	50.4	50.4	49.5	48.8	-
Digital Business Services	28.9	27.6	27.2	28.1	28.4	-
Services	19.5	18.6	17.2	16.8	17.1	16.3
Generative AI business unit (GBS)	-	-	-	-	-	1.5
Product and Digital Engineering Services (PDES)	-	-	-	-	-	77.0
Other Income	2.2	3.4	5.2	5.6	5.7	5.2
Total	100.0	100.0	100.0	100.0	100.0	100.0
Onsite	15.9	16.1	14.9	13.8	12.8	11.4
Offshore	84.1	83.9	85.1	86.2	87.2	88.6
Total	100.0	100.0	100.0	100.0	100.0	100.0
Digital Services Offering (%)						
Digital Infrastructure / Cloud	46.9	44.2	42.3	43.3	41.8	47.5
SaaS	20.1	22.2	27.1	26.8	26.5	25.1
Security Solutions	12.0	10.1	9.3	9.3	9.6	8.5
Analytics / AI	11.9	13.9	12.9	12.4	13.8	12.1
IoT	5.4	4.6	3.7	4.3	5.0	4.2
Total	96.3	95.0	95.3	96.1	96.7	97.4
Automation	27.3	28.3	29.6	29.1	26.9	23.9
Employee Metrics						
Onsite	227	244	231	224	211	412
Offshore	4,690	4,804	5,054	5,022	4,957	6,187
Total Headcount	4,917	5,048	5,285	5,246	5,168	6,599
Utilization (%)	74.6	74.6	75.6	76.7	75.1	78.2
Attrition Rate LTM (%)	19.8	16.6	14.4	14.1	13.0	13.5

Source: Company, CEBPL

CEBPL Estimates vs Actual for Q1FY25

Happiest Minds (INR Mn.)	Q1FY25	Q1FY24	YoY(%)	Q4FY24	QoQ (%)	CEBPL Est.	Dev. (%)
Revenues (INR mn.)	4,638	3,909	18.7	4,173	11.2	4,449	4.2
Employee Cost	2,999	2,354	27.4	2,628	14.1		
Gross Profit (INR mn.)	1,640	1,554	5.5	1,545	6.1	1,646	(0.4)
Gross Margin (%)	35.3%	39.8%	(442) bps	37.0%	(168) bps	37.0%	(165) bps
Other costs	791	661	19.7	715	10.6		
Depreciation	220	142	54.8	147	50.0		
EBIT (INR mn.)	628	751	(16.4)	683	(8.1)	743	(15.5)
EBIT Margin (%)	13.5%	19.2%	(567) bps	16.4%	(283) bps	16.7%	(316) bps
Other Income	254	137	86.2	252	0.9		
Interest	198	101	96.9	103	92.0		
PBT (INR mn.)	684	787	(13.1)	832	(17.8)		
Tax	174	204	(14.6)	242	(28.1)		
PAT (INR mn.)	510	583	(12.5)	720	(29.1)	638	(20.0)
Basic EPS (INR)	3.39	4.0	(16.1)	4.8	(29.2)	4.24	(20.1)

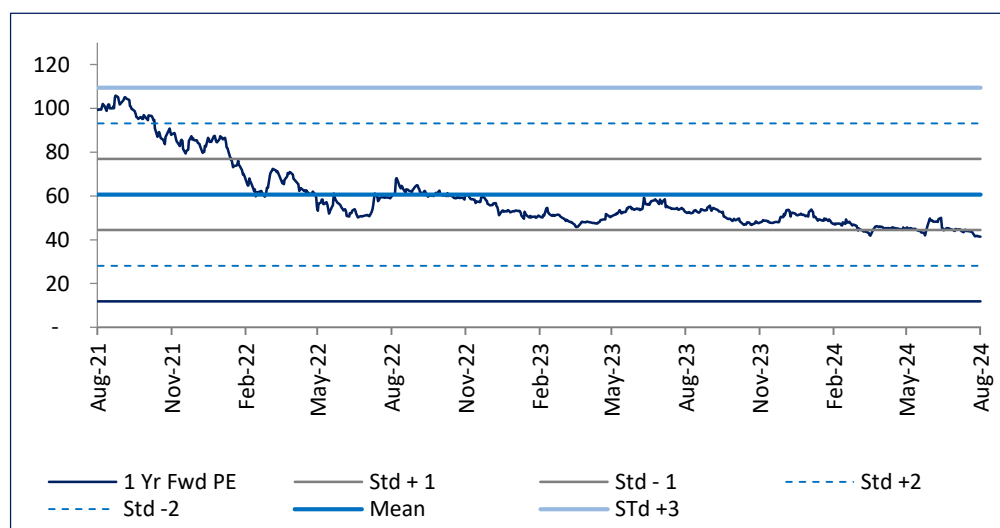
Source: Company, CEBPL

Change in estimates

Income Statement (INR Mn.)	FY25E			FY26E		
	Old	New	Dev. (%)	Old	New	Dev. (%)
Revenues	20,186	20,592	2.0	25,052	26,133	4.3
Gross Profit Margin (%)	37.0	36.4	(61.2)	38.3	37.6	(67.3)
EBIT	3,360	3,131	(6.8)	4,544	4,524	(0.4)
EBIT Margin (%)	16.6	15.2	(144.0)	18.1	17.3	(82.7)
EPS	19.2	17.8	(7.3)	21.1	20.2	(4.1)

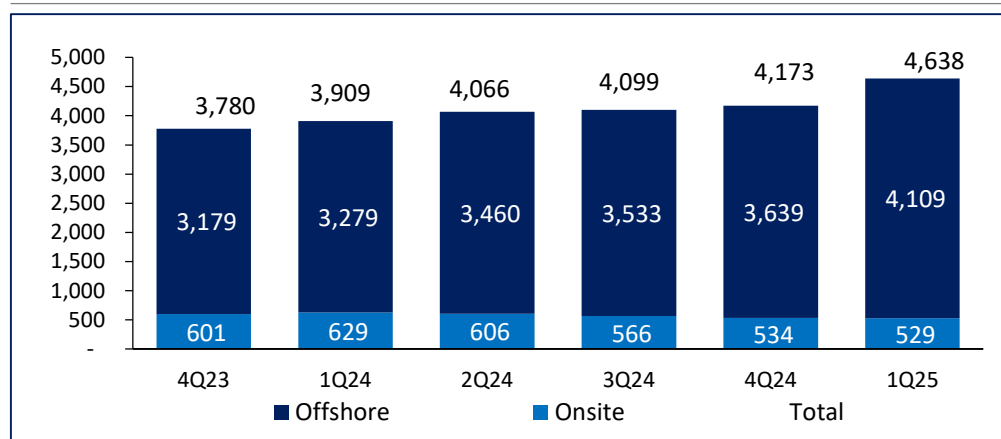
Source: Company, CEBPL

Historical 1 Yr Fwd PE Band



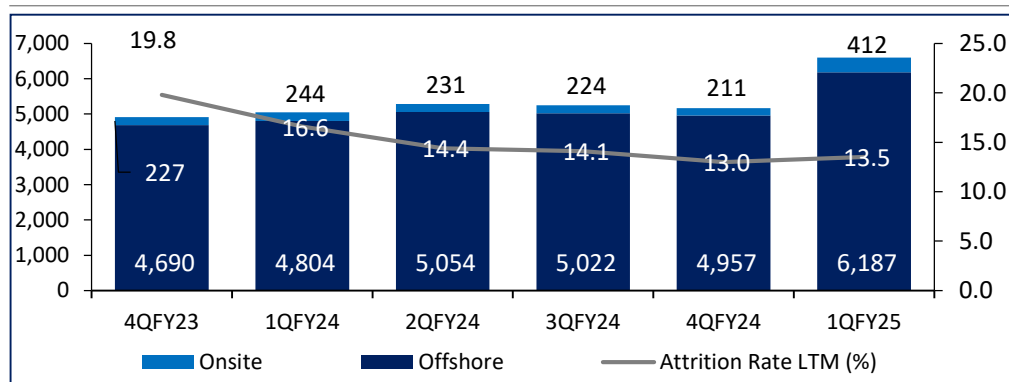
Source: Company, CEBPL

Company is consistently increasing the revenue of offshore



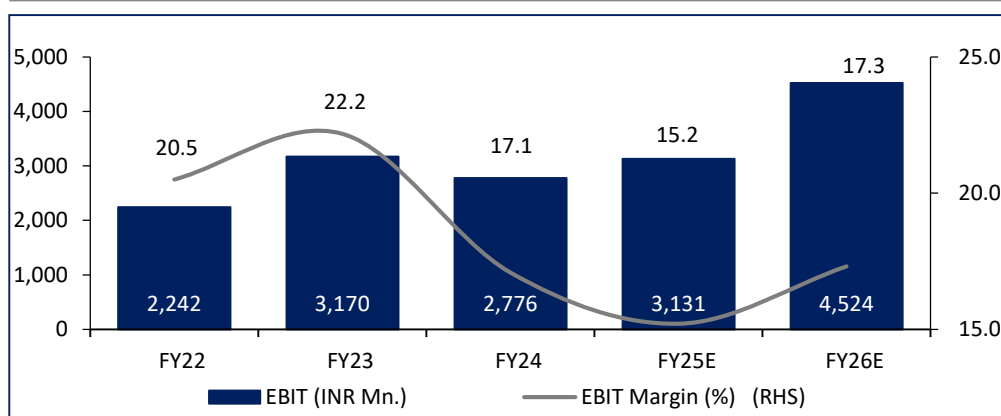
Source: Company, CEBPL

Hiring includes 112 freshers



Source: Company, CEBPL

Margins to remain rangebound



Source: Company, CEBPL

Management Call - Highlights

- During Q1FY25, Happiest Minds was recognized as one of the top 30 future-ready workplaces in India by Fortune India.
- The GBS BU revenues include AI services, which are integrated into its analytics centers of excellence. A new BU, focused on product and digital engineering services, has been created by merging the former product engineering services and digital business services divisions.
- During the quarter, following two acquisitions, the company recorded significant increases from an accounting perspective, including two non-cash charges and one cash charge. The non-cash charges include the amortization of intangibles and the unwinding of interest costs on deferred payments. The one-time cash charge relates to acquisition-related expenses.
- The non-cash charges for amortization and intangibles show an increase of INR68mn and INR15mn, respectively.
- DSO for the quarter stood at 84 days, an improvement from the previous 87 days.
- Attrition on a trailing 12-month basis has decreased to 13.5%, down from 16.6% in the previous year. Management expects these figures to remain around this level.
- Utilization for the quarter increased to 78.2%, compared to 75.1% in Q1.

Financial Summary (Consolidated in INR Mn.)

Income Statement (INR Mn.)	FY22	FY23	FY24	FY25E	FY26E
Revenue	10,937	14,293	16,247	20,592	26,133
Gross profit	4,737	6,225	6,100	7,493	9,822
EBITDA	2,571	3,589	3,359	3,990	5,451
Depreciation	329	419	583	859	927
EBIT	2,242	3,170	2,776	3,131	4,524
Other income	371	211	854	1,100	1,516
Interest expense	93	219	423	597	653
PAT	1,873	2,310	2,484	2,678	3,959
EPS	12.8	16.1	16.7	17.8	20.2

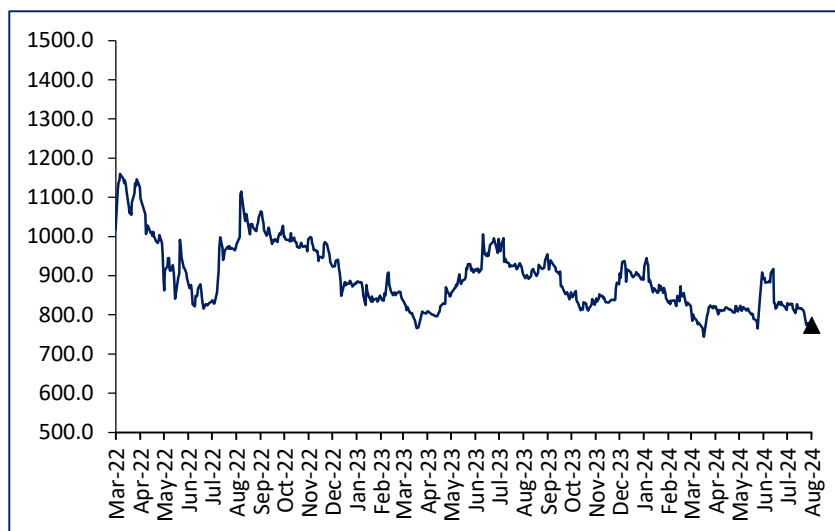
Balance Sheet (INR Mn.)	FY22	FY23	FY24	FY25E	FY26E
Tangible fixed assets	8	1,346	1,379	1,517	1,691
Goodwill & intangible assets	1,572	2,996	2,754	3,027	3,376
Investments	4,640	0	0	0	0
Cash & Cash equivalents	673	700	1,147	603	975
Other non-current assets	397	1,336	568	624	687
Other current assets	3,961	10,030	16,631	19,448	22,710
Total assets	11,250	16,408	22,478	25,220	29,439
Shareholder's funds	6,658	8,388	14,802	17,481	21,440
Minority interest	-	-	-	-	-
Borrowings	1,906	4,676	4,424	4,215	4,173
Lease liabilities	591	662	698	726	755
Other non-current liabilities	338	652	504	504	504
Other current liabilities	1,757	2,030	2,049	2,294	2,567
Total equity & liabilities	11,250	16,408	22,478	25,220	29,439

Cash Flows (INR Mn.)	FY22	FY23	FY24	FY25E	FY26E
Cash flows from Operations	1,681	2,072	2,126	2,505	3,386
Cash flows from Investing	(961)	(3,510)	(4,664)	(170)	66
Cash flows from financing	(908)	721	3,635	(597)	(653)

Ratio Analysis	FY22	FY23	FY24	FY25E	FY26E
Growth Ratios (%)					
Revenues	41.4	30.7	13.7	26.7	26.9
Gross Profit	47.5	31.4	(2.0)	22.8	31.1
EBITDA	34.2	39.6	(6.4)	18.8	36.6
EBIT	32.8	41.4	(12.4)	12.8	44.5
Margin Ratios (%)					
Gross Profit Margin	43.3	43.6	37.5	36.4	37.6
EBITDA Margin	23.5	25.1	20.7	19.4	20.9
EBIT Margin	20.5	22.2	17.1	15.2	17.3
Profitability (%)					
Return on equity	28.1	27.5	16.8	15.3	18.5
Return on invested capital	23.2	25.6	12.5	12.4	14.7
Return on capital employed	19.5	18.2	10.6	10.6	13.0
Valuation					
OCF / Net profit (%)	89.8	89.7	85.6	93.5	85.5
EV / EBITDA (x)	55.3	40.0	42.5	35.9	26.2
Book Value per share (x)	46.8	58.6	98.5	116.1	142.4
Free Cash flow Yield	1.8	(1.4)	0.7	0.9	2.5

Source: Company, CEBPL

Historical recommendations and target price: Happiest Minds Technologies Ltd.



1.	10-03-2022	Add,	Target Price 1,103
2.	06-05-2022	Neutral,	Target Price 1,025
3.	25-07-2022	Add,	Target Price 1,085
4.	28-10-2022	Outperform,	Target Price 1,164
5.	19-01-2023	Outperform,	Target Price 1,104
6.	09-05-2023	Outperform,	Target Price 1,096
7.	10-08-2023	Add,	Target Price 1,050
8.	25-09-2023	Add,	Target Price 1,020
9.	19-10-2023	Add,	Target Price 920
10.	19-01-2024	Add,	Target Price 945
11.	18-03-2024	Buy,	Target Price 945
12.	08-05-2024	Buy,	Target Price 905
13.	13-08-2024	Buy,	Target Price 848

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SELL	The security expected to show Below 0% next 12 months

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