

14 August 2024

India | Equity Research | Q1FY25 results review

Happiest Minds Technologies

Technology

FY25 revenue guidance trimmed

Happiest Mind's (HAPPSTMN) operating performance undershot estimates with both margin and revenue missing their marks. In addition, M&A-led one-time charges and higher depreciation and amortisation charges led to a 30% miss on PAT vs. our estimates. Management trimmed FY25 revenue guidance to 30–35% vs. its earlier envisaged 35–40% YoY growth, citing delay in consolidation of acquired entities. Management expects continued business momentum. We cut our FY25/26 EPS estimates by 19%/15%, factoring in the Q1FY25 operational miss and higher depreciation charges going ahead. We forecast 31%/25% USD revenue growth for FY25/FY26 and introduce our FY27 forecast with INR 28.6 EPS. Retain **HOLD** with a revised TP of INR 750 (average of P/E INR 610 and DCF of INR 890).

One-time M&A charges drive profitability miss

HAPPSTMN missed our PAT estimate by 30% prompted by an operating margin miss, M&A-led one-time expenses and higher depreciation and amortisation charges. Adjusted for the M&A charges, EBITDA margins, at 19.7%, fell short of our 21% estimate. Revenue for the quarter was aided by a partial-quarter consolidation of Puresoft and Aureus acquisitions. Revenue, at USD 55.5mn, increased 10.8% QoQ, tad lower than our estimate of 12.1% QoQ growth. Management did not disclose inorganic revenues for the quarter. As per our estimates, inorganic revenues contributed 8.8% QoQ growth while organic revenue increased by 2% QoQ (lower than our estimate of 3.2%).

Strong impetus from inorganic growth

HAPPSTMN will likely see strong impetus from inorganic growth in FY25 through three acquisitions, namely – 1) PureSoft; 2) Aureus; and 3) Macmillan. These acquisitions enhance HAPPSTMN's position in the BFSI, healthcare and life sciences verticals. We estimate, inorganic revenues of ~USD 44mn in FY25, or ~22% inorganic-led growth and 8.8% organic revenue growth.

Revenue growth guidance trimmed

The company trimmed its FY25 revenue guidance to 30–35% YoY revenue growth vs. its earlier guidance of 35–40%, citing lower consolidation days of the recently acquired entities. EBITDA margin guidance is intact at 20–22%.

Key risks: Delay in incorporation of acquired entities into the main company.

Financial Summary

Y/E March (INR mn)	FY24A	FY25E	FY26E	FY27E
Net Revenue	16,247	21,517	26,993	31,952
EBITDA	3,359	4,486	6,330	7,668
EBITDA Margin (%)	20.7	20.8	23.5	24.0
Net Profit	2,484	2,780	3,469	4,291
EPS (INR)	15.7	18.5	23.1	28.6
EPS % Chg YoY	(3.9)	17.6	24.8	23.7
P/E (x)	48.0	40.8	32.7	26.4
EV/EBITDA (x)	34.5	25.8	18.1	14.7
RoCE (%)	12.6	13.5	18.8	20.7
RoE (%)	21.4	17.9	20.2	22.3

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Market Data

Market Cap (INR)	115bn
Market Cap (USD)	1,370mn
Bloomberg Code	HAPPSTMN IN
Reuters Code	HAPP BO
52-week Range (INR)	970 /738
Free Float (%)	47.0
ADTV-3M (mn) (USD)	13.3

Price Performance (%)	3m	6m	12m
Absolute	(8.3)	(9.7)	(16.5)
Relative to Sensex	(16.8)	(20.0)	(37.4)

Earnings Revisions (%)	FY25E	FY26E	FY27E
Revenue (USD)	(2.8)	(3.5)	(3.5)
EBIT	(14.9)	(9.4)	(9.3)
EPS	(21.3)	(17.3)	(15.8)

Previous Reports

08-05-2024: [Q4FY24 results review](#)

18-01-2024: [Q3FY24 results review](#)

Highlights from earnings call

- Yearly wage increases effective 1 July, will likely have an impact of about 250–280bps on margins.
- Key use cases for GenAI application include knowledge-based processes, customer success, intelligent conversations through content, making sense of document repositories, and software engineering.
- Rapid acceleration in adoption of GenAI across the customer base has resulted in the pipeline of opportunities doubling in just six months.
- The company has taken an in-principle board approval to raise INR 2,500mn through NCDs for general corporate purpose.
- Among service lines, product and digital engineering services led growth (up 9.9% QoQ in USD terms), followed by infrastructure management and security services (up 5.5% QoQ in USD terms).

Exhibit 1: Q1FY25 results review

INR mn	Q1FY25	Q4FY24	QoQ	Q1FY24	YoY	Q1FY25-I-Sec	vs. our estimates
Revenue QoQ CC	11.4%	1.4%		3.5%		12.1%	
Sales (USD mn)	56	50	10.8%	48	16.7%	56	-1.2%
Average (USD rate)	83.6	83.3	0.3%	82.2	1.7%	83.5	0.1%
INR mn							
Sales	4,638	4,173	11.2%	3,909	18.7%	4,689	-1.1%
EBIT	628	683	-8.1%	751	-16.4%	820	-23.4%
EBIT Margin	13.5%	16.4%	-283 bps	19.2%	-567 bps	17.5%	-394 bps
Reported PAT	510	720	-29.1%	583	-12.5%	736	-30.7%
EPS	3.4	4.8	-29.1%	4.0	-15.5%	4.9	-30.7%

Source: Company data, I-Sec research

Exhibit 2: HAPPSTMN – change in estimates

	Revised			Old			Change (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenues (USD mn)	257	321	380	265	333	394	-2.8%	-3.5%	-3.5%
Revenue YoY CC	32.2%	24.8%	18.4%	35.5%	25.5%	18.4%	-330bps	-70bps	0bps
Revenue growth (USD, %)	31.2%	24.8%	18.4%	35.5%	25.5%	18.4%	-430bps	-70bps	0bps
USD/INR	83.6	84.0	84.0	83.4	84.0	84.0	0.2%	0.0%	0.0%
INR mn									
Revenues	21,517	26,993	31,952	22,125	27,964	33,099	-2.7%	-3.5%	-3.5%
EBIT	3,463	5,048	6,150	4,070	5,573	6,779	-14.9%	-9.4%	-9.3%
EBIT margin	16.1%	18.7%	19.2%	18.4%	19.9%	20.5%	-230bps	-120bps	-130bps
EPS (INR/share)	18.5	23.1	28.6	23.5	27.9	33.9	-21.3%	-17.3%	-15.8%

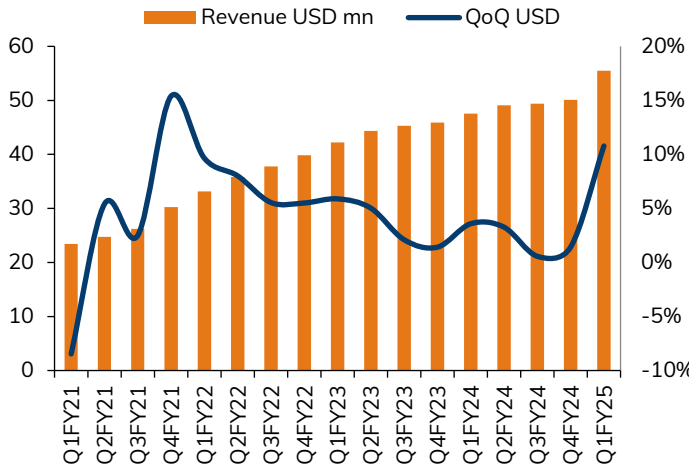
Source: Company data, I-Sec research

Exhibit 3: Valuation methodology

Valuation	Average of DCF, P/E
Weightage to DCF-based valuation	50%
P/E valuation-based Target Price arrived at by valuing at 25x on Q5-Q8 EPS of INR 25	INR 610
DCF valuation-based Target Price	INR 890
Target Price	INR 750

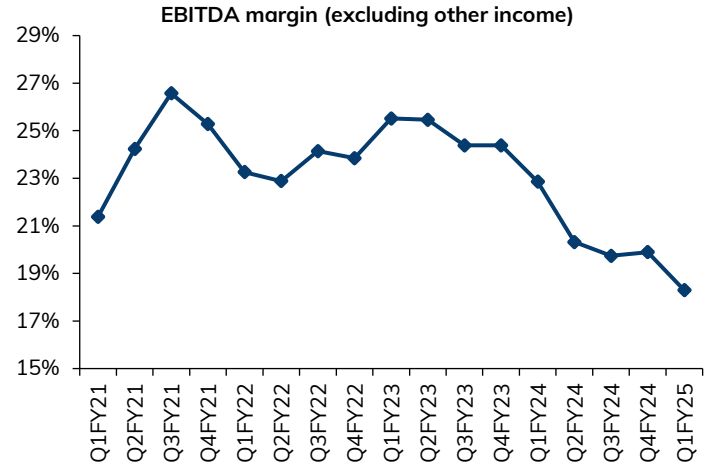
Source: I-Sec research, Company data

Exhibit 4: Q1FY25 revenue growth boosted by acquisitions



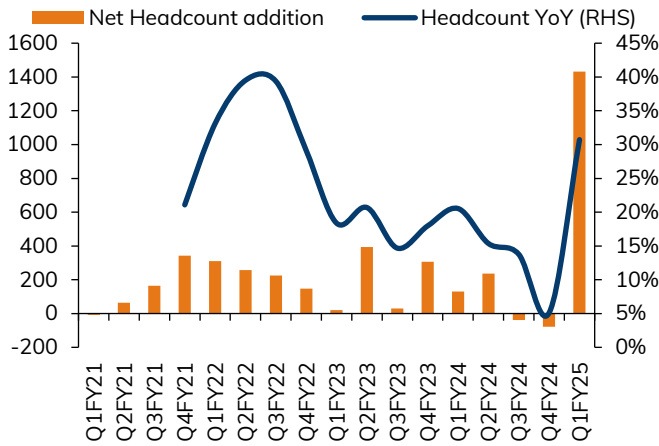
Source: I-Sec research, Company data

Exhibit 5: EBITDA margins impacted by one-time M&A charges; Q2FY25 to see headwind from wage hike



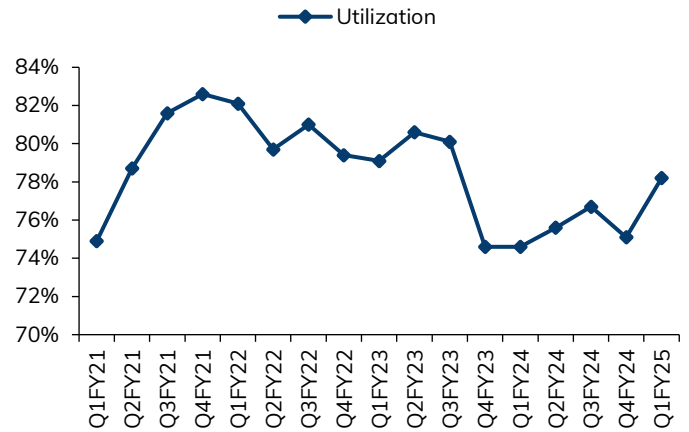
Source: I-Sec research, Company data

Exhibit 6: Net headcount up on back of acquisitions



Source: I-Sec research, Company data

Exhibit 7: Utilisation inched on sequential basis



Source: I-Sec research, Company data

Exhibit 8: Shareholding pattern

%	Dec'23	Mar'24	Jun'24
Promoters	50.2	50.2	44.2
Institutional investors	7.5	7.3	7.3
MFs and others	1.2	1.3	1.5
FIs/Banks	0.0	0.0	0.0
Insurance	1.2	1.3	1.3
FIIIs	5.1	4.7	5.4
Others	42.3	42.5	47.6

Source: Bloomberg

Exhibit 9: Price chart



Source: Bloomberg

Financial Summary

Exhibit 10: Profit & Loss

(InR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Net Sales (USD mn)	196	257	321	380
Net Sales (INR. mn)	16,247	21,517	26,993	31,952
Operating Expense	12,888	17,031	20,663	24,283
EBITDA	3,359	4,486	6,330	7,668
EBITDA Margin (%)	20.7	20.8	23.5	24.0
Depreciation & Amortization	583	1,022	1,283	1,518
EBIT	2,776	3,463	5,048	6,150
Interest expenditure	423	793	793	793
Other Non-operating Income	854	1,056	395	395
Recurring PBT	3,207	3,727	4,650	5,753
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	863	947	1,181	1,461
PAT	2,344	2,780	3,469	4,291
Less: Minority Interest	-	-	-	-
Net Income (Reported)	2,484	2,780	3,469	4,291
Extraordinaries (Net)	-	-	-	-
Recurring Net Income	2,484	2,780	3,469	4,291

Source Company data, I-Sec research

Exhibit 11: Balance sheet

(InR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Total Current Assets	17,778	10,266	12,373	14,921
of which cash & cash eqv.	1,147	557	1,694	3,541
Total Current Liabilities & Provisions	2,049	2,445	2,738	2,950
Net Current Assets	15,728	7,820	9,635	11,972
Investments	-	-	-	-
Net Fixed Assets	1,379	1,380	1,381	1,382
ROU Assets	570	570	570	570
Capital Work-in-Progress	-	-	-	-
Goodwill	1,403	9,238	9,238	9,238
Other assets	568	568	568	568
Deferred Tax Assets	-	-	-	-
Total Assets	20,429	20,356	22,172	24,510
Liabilities				
Borrowings	4,424	2,924	2,924	2,924
Deferred Tax Liability	-	-	-	-
provisions	334	334	334	334
other Liabilities	170	170	170	170
Minority Interest	-	-	-	-
Equity Share Capital	299	299	299	299
Reserves & Surplus*	14,504	15,931	17,747	20,085
Total Net Worth	14,802	16,230	18,046	20,384
Total Liabilities	20,429	20,356	22,172	24,510

Source Company data, I-Sec research

Exhibit 12: Quarterly trend

(InR mn, year ending March)

	Sep-23	Dec-23	Mar-24	Jun-24
Net Sales	4,066	4,099	4,173	4,638
% growth (YoY)	4.0	0.8	1.8	11.2
EBITDA	826	809	830	848
Margin %	20.3	19.7	19.9	18.3
Other Income	111	136	149	56
Adjusted Net Profit	585	596	720	510

Source Company data, I-Sec research

Exhibit 13: Cashflow statement

(InR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
CFO before WC changes	3,347	3,727	4,650	5,753
CFO after WC changes	3,150	3,176	4,860	6,386
Capital Commitments	(103)	(8,858)	(1,284)	(1,519)
Free Cashflow	2,229	11,088	4,962	6,444
Other investing cashflow	(4,561)	8,891	395	395
Cashflow from Investing Activities	(4,664)	33	(888)	(1,124)
Issue of Share Capital	-	-	0	-
Interest Cost	(331)	-	-	-
Inc (Dec) in Borrowings	118	(1,500)	-	-
Cash flow from Financing Activities	3,635	(2,852)	(1,653)	(1,954)
Dividend paid	(860)	(1,352)	(1,653)	(1,954)
Others	4,708	-	-	-
Chg. in Cash & Bank balance	1,096	(590)	1,137	1,847
Closing cash & balance	1,089	557	1,694	3,541

Source Company data, I-Sec research

Exhibit 14: Key ratios

(Year ending March)

	FY24A	FY25E	FY26E	FY27E
Per Share Data (INR)				
Reported EPS	15.7	18.5	23.1	28.6
Diluted EPS	15.7	18.5	23.1	28.6
Cash EPS	20.6	25.3	31.6	38.7
Dividend per share (DPS)	5.8	9.0	11.0	13.0
Book Value per share (BV)	99.3	108.0	120.1	135.6
Dividend Payout (%)	36.7	48.6	47.7	45.5
Growth (%)				
Net Sales	13.7	32.4	25.5	18.4
EBITDA	(5.7)	33.6	41.1	21.1
EPS	(3.9)	17.6	24.8	23.7
Valuation Ratios (x)				
P/E	48.0	40.8	32.7	26.4
P/CEPS	36.7	29.8	23.9	19.5
P/BV	7.6	7.0	6.3	5.6
EV / EBITDA	34.5	25.8	18.1	14.7
P/S	6.9	5.3	4.2	3.5
Dividend Yield (%)	0.8	1.2	1.5	1.7
Operating Ratios				
EBITDA Margins (%)	20.7	20.8	23.5	24.0
EBIT Margins (%)	17.1	16.1	18.7	19.2
Effective Tax Rate (%)	26.9	25.4	25.4	25.4
Net Profit Margins (%)	14.4	12.9	12.9	13.4
Inventory Turnover Days	-	-	-	-
Fixed Asset Turnover (x)	11.9	15.6	19.6	23.1
Receivables Days	53	49	50	50
Payables Days	17	17	18	18
Working Capital Days	254	185	103	94
Net Debt / EBITDA (x)	5.6	2.3	1.0	(0.4)
Profitability Ratios				
RoCE (%)	12.6	13.5	18.8	20.7
RoC (%)	11.4	13.8	19.5	23.1
RoNW (%)	21.4	17.9	20.2	22.3

Source Company data, I-Sec research

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