



## KEY HIGHLIGHTS

### 1. RESULTS OVERVIEW:

- Happiest Minds Q3FY24 consolidated revenues came in at ₹409.88 Cr, up 11.72% YoY and up +0.80% QoQ.
- Op Profit for Q3FY24 stood at ₹80.9 Cr, down -9.57% YoY and down -2.07% QoQ.
- Op margins for Q3FY24 came at 19.74%, -464 bps YoY and -58 bps QoQ.
- PAT for Q3FY24 stood at ₹59.62 Cr, up 3.54% YoY and up 1.98% QoQ.

### 2. MANAGEMENT COMMENTARY:

- Management maintained its guidance to reach \$1Bn Revenue Runrate by FY31. Guided for 12% organic revenue growth for FY24

### 3. SEGMENTAL ANALYSIS:

- Q3FY24 Revenue Breakup: PES (49.5%), DBS (28.1%), IMSS (16.8%), Others (5.6%).
- Q3FY24 Geographical Revenue Breakup: Americas (70.3%), Europe (9.0%), India (16.4%), ROW (4.4%).

### 4. CONCALL SUMMARY

- For Q3FY24, the Co registered a revenue growth of 0.8% QoQ/ 11.7% YoY
- For Q3FY24, the Company registered a revenue growth of 0.8% QoQ/ 11.7% YoY
- The company's TCV across verticals and geographies stood strong in Q3FY24 at \$1.5 Bn.
- 10 new logos were signed, 5 in India, 3 in America and 2 in Australia geography.
- 4 new logos were signed in Manufacturing vertical, 2 in Healthcare vertical and 1 in Edutech vertical.
- The Company ended the quarter with 5,246 employees including the addition of 110 campus hires.
- LTM attrition declined by 30 bps QoQ to 14.1%.
- The Company expects Gen AI to revolutionize the business and has hence started a dedicated Gen AI unit.
- Co expects strong revenue growth in Q4FY24. Guidance for Margin to remain in range of 22% to 24%.

### 5. OTHER DEVELOPMENTS:

- Co recently announced changes to its organisational structure to move into a vertical-based organisational structure comprising six industry groups – (1) Industrial, Manufacturing and E&U, (2) Healthcare & Life-sciences, (3) Retail, CPG & Logistics, (4) BFSI, (5) Hi-Tech and Media & Entertainment, and (6) EdTech.

### 6. VALUATION AND OUTLOOK:

TCV deal wins are healthy and management is confident of improving medium to long term demand momentum and expects better revenue momentum in Q4FY24.

Management is confident of long term and broad based growth across verticals.

We reiterate a "BUY" rating on the stock and value the stock at 48x FY25E earnings to arrive at the target of ₹899.

## RECOMMENDATION - BUY

**CMP – 780**

**TARGET – 899 (15%)**

Industry	IT - Software
NSE CODE	HAPPSTMNDS
BSE CODE	543227
Market Cap (₹ Cr)	11811.20
Shares Outstanding (in Cr)	15.23
52 wk High/Low (₹)	1023 / 763.25
P/E	50.46
P/BV	8.12
Face Value (₹)	2.00
Book Value (₹)	95.51
EPS (FY23) (₹)	16.13
Dividend Yield (%)	0.70
Debt / Equity	0.56
Interest Coverage	15.17

## SHAREHOLDING PATTERN

	Dec 23	Sep 23	Jun 23
Promoters	50.24	51.35	53.24
MF/ DII	1.18	1.33	0.78
FII/FPI	5.05	5.14	4.52
Retail & Others	42.30	41.09	40.98
Promoter Pledging	7.17	7.01	7.01

## FINANCIAL SNAPSHOT (₹ Cr)

Y/E March	2023A	2024E	2025E
<b>Crore</b>			
Sales	1429.29	1628.00	1872.20
Sales Gr. (%)	30.69	13.90	15.00
EBITDA	344.53	337.00	411.88
EBITDA %	26.58	20.70	22.00
PAT	230.99	237.42	284.81
EPS (₹)	15.73	15.77	18.74
EPS Gr. (%)	26.94	0.26	18.81
<b>Ratios</b>			
RoE (%)	30.84	27.5	28.5
RoCE (%)	30.67	26.5	30.5
<b>Valuation</b>			
P/E (x)	47.60	49.46	41.62

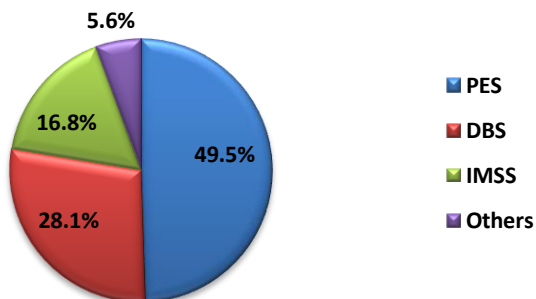
## Historical & Industrial Val Ratios

Historical P/E	59.27
Industry P/E	34.27
Historical P/B	16.67
Industry P/B	10.10

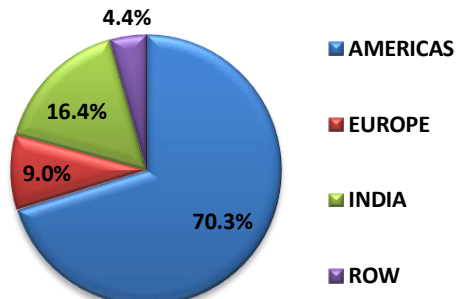


## REVENUE SPLIT (Q3 FY24)

**Business Mix (Q3 FY24)**



**Geography Mix (Q3 FY24)**



## QUARTERLY PERFORMANCE (CONSOLIDATED)

(₹ Cr)

Y/E March	FY23				FY24				FY23	FY24E*
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4E*		
<b>Net sales</b>	<b>329</b>	<b>356</b>	<b>367</b>	<b>378</b>	<b>391</b>	<b>407</b>	<b>410</b>	<b>420</b>	<b>1429</b>	<b>1628</b>
YoY change (%)	34.47%	34.39%	29.21%	25.75%	18.83%	14.38%	11.72%	11.11%	30.69%	13.90
<b>Total Expenditures</b>	<b>242</b>	<b>265</b>	<b>277</b>	<b>286</b>	<b>302</b>	<b>324</b>	<b>329</b>	<b>336</b>	<b>1070</b>	<b>1291</b>
<b>EBITDA</b>	<b>87</b>	<b>91</b>	<b>89</b>	<b>92</b>	<b>89</b>	<b>83</b>	<b>81</b>	<b>84</b>	<b>359</b>	<b>337</b>
Margins (%)	<b>26%</b>	<b>25%</b>	<b>24%</b>	<b>24%</b>	<b>23%</b>	<b>20%</b>	<b>20%</b>	<b>20%</b>	25%	20.7%
Other income	1	4	1	8	14	22	25	25	15	86
Interest	3	5	6	9	10	11	11	11	22	43
Depreciation	9	10	10	13	14	15	15	15	42	59
<b>PBT</b>	<b>76</b>	<b>80</b>	<b>75</b>	<b>79</b>	<b>79</b>	<b>79</b>	<b>81</b>	<b>83</b>	<b>310</b>	<b>321</b>
Rate (%)	25%	26%	23%	27%	26%	26%	26%	26%	25%	26%
<b>Adjusted PAT</b>	<b>56</b>	<b>59</b>	<b>58</b>	<b>58</b>	<b>58</b>	<b>58</b>	<b>60</b>	<b>61</b>	<b>231</b>	<b>237</b>
<b>EPS in Rs</b>	<b>3.84</b>	<b>4.05</b>	<b>3.92</b>	<b>3.93</b>	<b>3.97</b>	<b>3.84</b>	<b>3.92</b>	<b>4.04</b>	<b>15.73</b>	<b>15.77</b>

### Key Performance Indicators

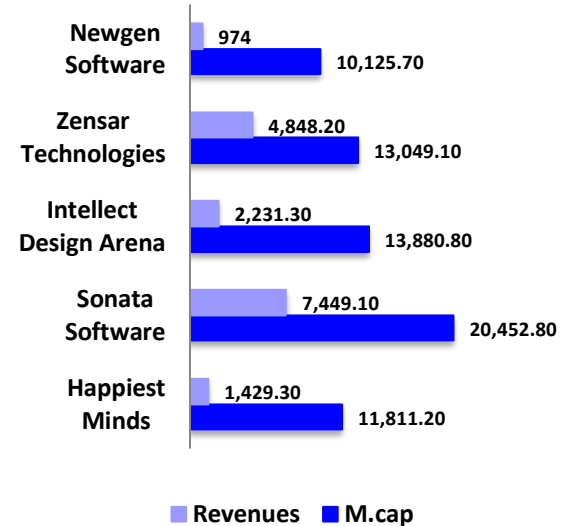
<b>Active Customers</b>	211	226	230	237	243	244	245		
<b>Headcount</b>	4188	4581	4611	4917	5048	5285	5246		
<b>Onsite/Offshore Rev Mix %</b>	15/85	15/85	15/85	16/84	16/84	15/85	14/86		
<b>Utilization %</b>	79.1	80.6	80.1	74.6	74.6	75.6	76.7		
<b>\$5M-\$10M Customers</b>	4	4	4	6	6	7	7		
<b>\$3M-\$5M Customers</b>	7	7	7	6	5	4	4		
<b>\$1M-\$3M Customers</b>	25	27	27	30	31	31	32		

Source: Company, Hem Securities Research.

## INDUSTRY OVERVIEW

- India is the world's largest sourcing destination with largest qualified talent pool of technical graduates in the world.
- The IT sector is the largest employer within the private sector.
- Global Enterprise software and IT services breached the \$2 Tn mark, grew at 4.5% y-o-y in CY2022
- In FY2023, India's technology industry revenue including hardware is estimated to cross \$245 Bn (8.4% y-o-y growth), an addition of \$19 Bn over last year
- The share of Digital revenue in India IT revenue is at 32-34% and this pie is growing at 16% p.a. The Top digital areas for India include Cloud Computing, Customer Experience, AI, Cybersecurity, RPA and automation and analytics
- Domestic technology sector is expected to reach \$51 Bn, growing at 4.9% y-o-y
- The industry continues to be a net hirer, adding 290K employees, taking the total employee base to ~5.4 Mn (5.7% y-o-y growth), strengthening its position as the 'Digital Talent Nation' for the world.
- Leading players in Indian IT Industry (Small Cap Space) includes Happiest Minds, Sonata Software, Intellect Design Arena, Newgen Software, Zensar Technologies.

## KEY PLAYERS in Small Cap IT Space



## PEER PERFORMANCE

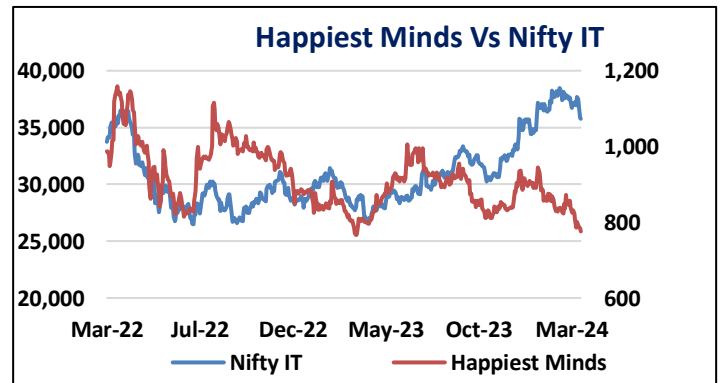
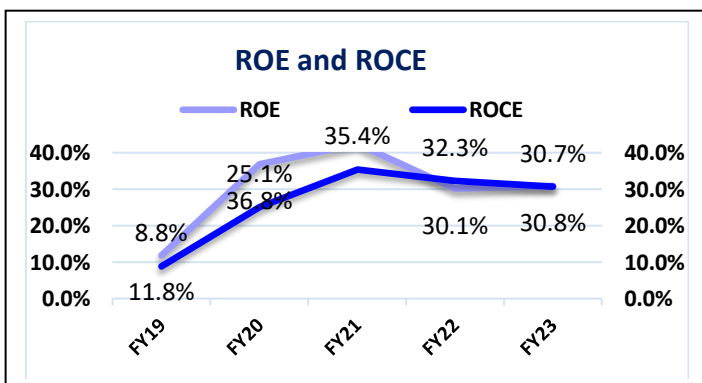
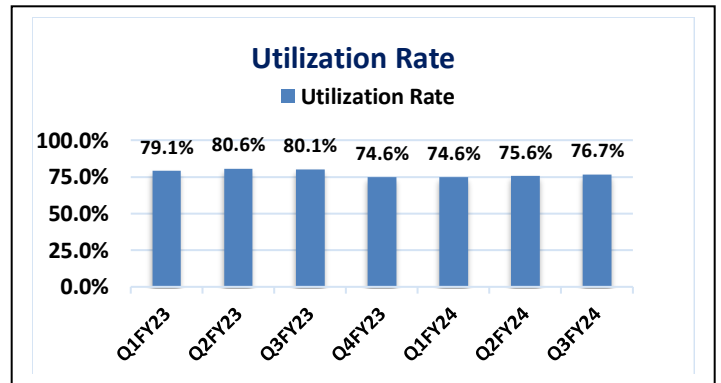
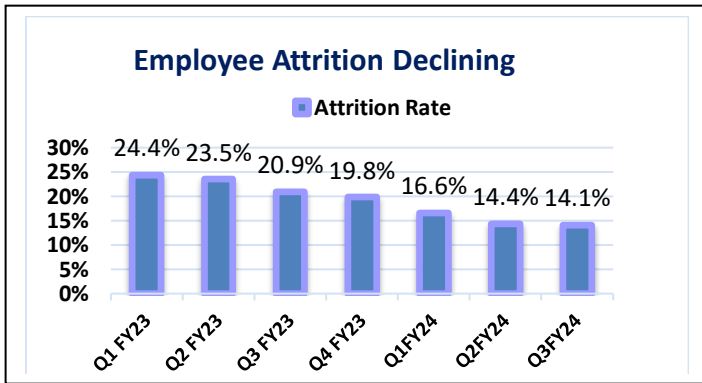
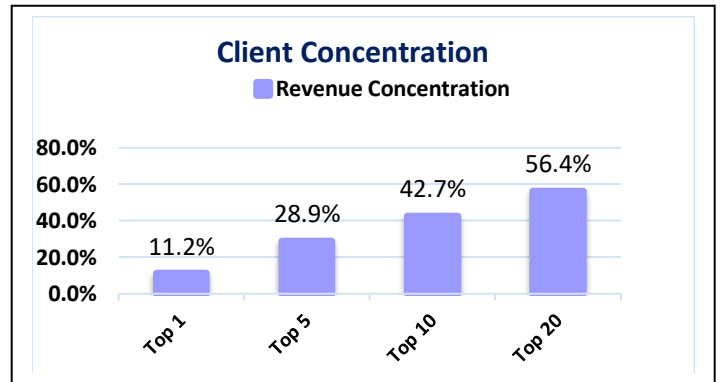
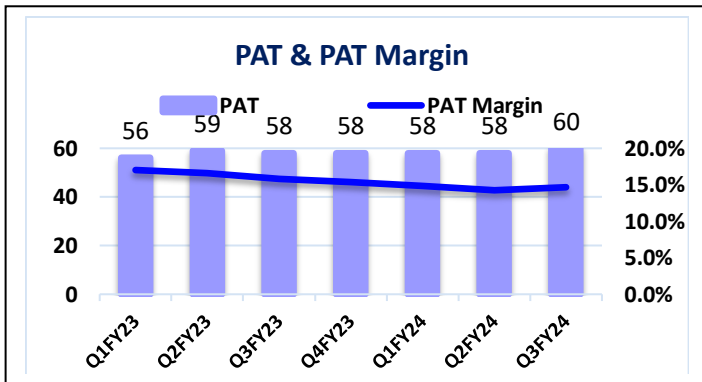
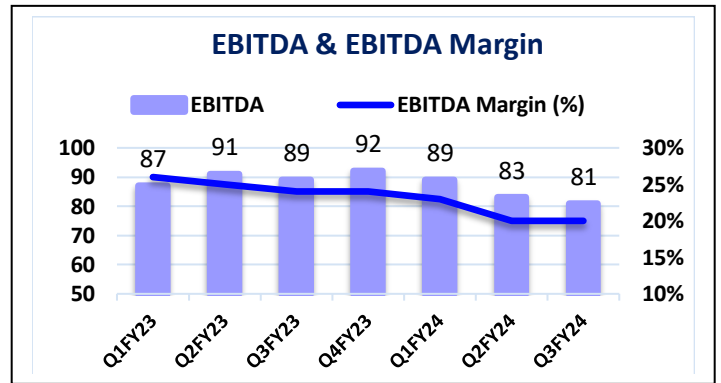
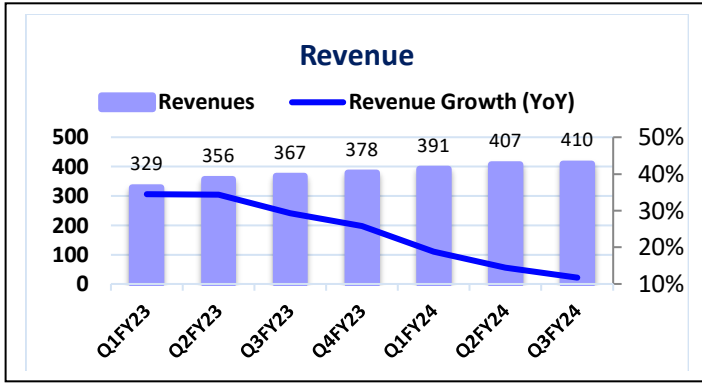
(₹ Cr)

Particulars	Happiest Minds Technologies Ltd.	Sonata Software Ltd.	Intellect Design Arena Ltd.	Zensar Technologies Ltd.	Newgen Software Technologies Ltd.
Market Cap	11,811.2	20,452.8	13,880.8	13,049.1	10,125.7
Net Sales	1,429.3	7,449.1	2,231.3	4,848.2	974.0
EBITDA	344.5	604.1	438.5	536.8	212.2
PAT	231.0	451.9	267.2	327.6	176.3
EPS(₹)	16.1	16.3	19.7	14.5	12.7
EBITDA MARGIN %	26.6	9.1	22.0	13.5	25.3
PAT MARGIN %	16.2	6.1	12.0	6.8	18.1
ROCE %	30.7	42.0	19.1	16.7	24.6
ROE %	30.8	37.9	14.7	11.7	20.0
P/E TTM	50.5	65.6	41.0	21.4	45.0
P/B TTM	8.1	14.5	6.0	3.8	8.6
EV/EBITDA	28.8	25.0	24.0	13.1	36.3
Dividend Yield %	0.7	2.2	0.2	0.9	0.7
MCap/ Sales TTM	7.5	2.5	5.5	2.7	8.6

Source: Company, Hem Securities Research.



**STORY IN CHARTS**





## INVESTMENT RATIONALE:

- Co has shown a very strong deal wins in 9MFY24. Highest deal bookings of USD 962 Mn in H1FY24.
- Q4FY24 topline growth is expected to be stronger.
- Happiest Minds' management has guided for organic revenue growth of 12% in constant currency terms for FY24 with Ebitda margin band of 22-24%.
- Management also reiterated that their primary aim is to invest in growth.
- Management reiterated 15.25-16.25% Operating margin guidance for FY24.
- Company will be looking into inorganic growth opportunities in coming quarters.
- Happiest Minds reported consistent and strong revenue growth in the past and is likely to continue this momentum with a superior margin profile.
- The Company expects Gen AI to revolutionize the business and has hence started a dedicated Gen AI unit.
- Margin tailwinds driven by cost efficiencies, lower input costs, rupee depreciation, and lower travel cost
- Focus on client retention for long-term sustainable growth.

## RISK / NEGATIVE FACTORS:

- Geographical Concentration Risk: Around 80% of revenues comes from America. So any political risk related to America or slowdown in their economic growth is a key concern.
- INR appreciating against USD, pricing pressure and retention of the skilled employees are other concerns. So any loss of clients can negatively impact their business.
- Client Concentration risk: Around 60% revenue comes from Top 10 clients while 11% revenue comes from Top Client.
- The Indian IT service industry is facing high attrition rates at this point of time, if attrition continues to increase for next few more quarters it may negatively impact company's business.

## COMPANY RECAP

- Happiest Minds Technologies Ltd. (Happiest Minds) is a leading IT services-providing company founded in 2011 in Bengaluru (India).
- It enables digital transformation for enterprises and technology providers by delivering seamless customer experiences, business efficiency and actionable insights.
- Positioned as 'Born Digital Born Agile', its capabilities span Product & Digital Engineering Services (PDES), Generative AI Business Services (GBS) and Infrastructure Management & Security Services (IMSS)
- Positioned as 'Born Digital Born Agile', its capabilities span Product & Digital Engineering Services (PDES), Generative AI Business Services (GBS) and Infrastructure Management & Security Services (IMSS)
- Co is focusing on product engineering services with diversified industry verticals spanning across Hi-Tech, EduTech, Healthcare, Media & Entertainment, Retail & CPG, BFSI.



## ANNUAL PERFORMANCE

### Financials & Valuations

Income Statement							(₹ Cr)	
Y/E March	2019	2020	2021	2022	2023	2024E	2025E	
<b>Revenue from operations</b>	<b>595.58</b>	<b>698.21</b>	<b>773.41</b>	<b>1,093.65</b>	<b>1,429.29</b>	<b>1628.00</b>	<b>1872.20</b>	
Growth YoY (%)	27.37	17.23	10.77	41.41	30.69	13.90%	15%	
<b>Total Expenditure</b>	<b>551.34</b>	<b>601.11</b>	<b>582.40</b>	<b>835.98</b>	<b>1,084.76</b>	<b>1291.00</b>	<b>1460.32</b>	
(%) of sales	92.57	86.09	75.30	76.44	75.90	79.30%	78.0%	
<b>EBITDA</b>	<b>44.24</b>	<b>97.10</b>	<b>191.01</b>	<b>257.67</b>	<b>344.53</b>	<b>337.00</b>	<b>411.88</b>	
EBITDA Growth (%)	809.52	133.43	90.28	36.94	28.90	-2.19%	22.22%	
EBITDA Margin (%)	8.14	16.20	27.83	26.95	26.58	20.7%	22%	
Depreciation	5.82	20.23	22.74	32.88	41.91	59.00	70.00	
<b>EBIT</b>	<b>25.17</b>	<b>81.63</b>	<b>192.51</b>	<b>255.80</b>	<b>331.72</b>	<b>278.00</b>	<b>341.88</b>	
EBIT Growth (%)	283.72	224.31	135.83	32.88	29.68	-16.2%	23.0%	
Net Interest Expenses	6.90	8.02	6.49	9.95	21.86	43.00	43.00	
Other Income	4.22	16.02	24.24	37.10	35.44	86.00	86.00	
<b>Earnings before Taxes</b>	<b>18.27</b>	<b>73.61</b>	<b>186.02</b>	<b>245.85</b>	<b>309.86</b>	<b>321.00</b>	<b>384.88</b>	
EBT Margin (%)	3.07	10.54	24.05	22.48	21.68	19.72%	20.56%	
Tax-Total	0.00	1.90	23.56	64.65	78.87	83.58	100.07	
Rate of tax (%)	0.00	2.58	12.67	26.30	25.45	26.04%	26%	
<b>Net Profit</b>	<b>18.27</b>	<b>71.71</b>	<b>162.46</b>	<b>181.20</b>	<b>230.99</b>	<b>237.42</b>	<b>284.81</b>	
PAT Growth (%)	192.46	292.50	126.55	11.54	27.48	2.78%	19.96%	
PAT Margin (%)	3.07	10.27	21.01	16.57	16.16	14.58%	15.21%	
Minority Interest	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
<b>Adjusted PAT</b>	<b>18.27</b>	<b>71.71</b>	<b>162.46</b>	<b>181.20</b>	<b>230.99</b>	<b>237.42</b>	<b>284.81</b>	
<b>EPS</b>	<b>4.92</b>	<b>16.32</b>	<b>11.45</b>	<b>12.71</b>	<b>16.13</b>	<b>15.77</b>	<b>18.74</b>	
EPS Growth (%)	192.49	231.82	-29.81	10.95	26.94	0.26%	18.81%	

### Balance Sheet

Y/E March	2019	2020	2021	2022	2023
Equity Capital	6	9	28	29	29
Reserves	-94	220	518	637	810
Preference Capital	22	36	0	0	0
Borrowings	121	114	193	250	534
Other Liabilities	380	165	176	205	256
<b>Total Liabilities &amp; Equity</b>	<b>414</b>	<b>508</b>	<b>915</b>	<b>1,120</b>	<b>1,628</b>
Fixed Assets	61	38	128	158	432
CWIP	0	0	0	0	3
Investments	98	83	391	472	13
Other Assets	254	387	395	491	1,181
<b>Total Assets</b>	<b>414</b>	<b>508</b>	<b>915</b>	<b>1,120</b>	<b>1,628</b>

Source: Company, Hem Securities Research.



<b>Ratios</b>					
<b>Y/E March</b> (Basic (INR))	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>
<b>Profitability and return ratios</b>					
Net profit margin (%)	3.07	10.27	21.01	16.57	16.16
EBITDA margin (%)	8.14	16.20	27.83	26.95	26.58
EBIT margin (%)	4.23	11.69	24.89	23.39	23.21
ROE (%)	11.82	36.81	42.37	30.09	30.84
ROCE (%)	8.82	25.11	35.37	32.32	30.67
<b>Working Capital &amp; liquidity ratios</b>					
Payables (Days)	0.00	0.00	0.00	0.00	0.00
Inventory (Days)	0.00	0.00	0.00	0.00	0.00
Receivables (Days)	72.00	64.91	55.87	48.28	48.59
Current Ratio (x)	1.80	2.10	2.67	2.54	1.86
<b>Valuations Ratios</b>					
EV/sales (x)	0.18	-0.07	9.95	13.78	7.54
EV/EBITDA (x)	2.16	-0.42	35.76	51.12	28.35
P/E (x)	0.00	0.00	47.16	83.04	47.60
P/BV (x)	0.00	0.00	14.13	22.73	13.15
Dividend Yield (%)	0.00	0.00	0.56	0.36	0.70
Return on Assets (%)	4.93	16.03	22.88	17.85	16.82
<b>Leverage Ratio</b>					
Debt/Equity (x)	0.39	0.37	0.33	0.29	0.56

<b>Cash Flow Statement</b>					
<b>Y/E March</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>
<b>CF from Operating activities (A)</b>	<b>58</b>	<b>112</b>	<b>143</b>	<b>168</b>	<b>207</b>
<b>CF from Investing Activities (B)</b>	<b>1</b>	<b>-72</b>	<b>-271</b>	<b>-96</b>	<b>-348</b>
<b>CF from Financing Activities (C)</b>	<b>-59</b>	<b>-13</b>	<b>170</b>	<b>-91</b>	<b>72</b>
Net Cash Flow	<b>0</b>	<b>27</b>	<b>42</b>	<b>-19</b>	<b>-68</b>
Add: Opening Bal.	16	16	44	86	67
<b>Closing Balance</b>	<b>26</b>	<b>44</b>	<b>86</b>	<b>67</b>	<b>-1</b>

Source: Company, Hem Securities Research.



## RATING CRITERIA

INVESTMENT RATING	EXPECTED RETURN
BUY	>=15%
ACCUMULATE	5% to 15%
HOLD	0 to 5%
REDUCE	-5% to 0
SELL	<-5%

## RECOMMENDATION SUMMARY

DATE	RATING	TARGET
21 March 2024	Buy	899

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