



KEY HIGHLIGHTS

1. RESULTS OVERVIEW:

- Happiest Minds Q1FY25 consolidated revenues came in at ₹463.82 Cr, up 18.66% YoY and up +11.15% QoQ.
- Op Profit for Q1FY25 stood at ₹84.84 Cr, down -5.03% YoY and up +2.20% QoQ.
- Op margins for Q1FY25 came at 18.29%, -456 bps YoY and -160 bps QoQ.
- PAT for Q1FY25 stood at ₹51.03 Cr, down -12.52% YoY and down -29.11% QoQ.

2. MANAGEMENT COMMENTARY:

- Management is quite optimistic for long term and broad based growth across its verticals.
- Management gave revenue guidance of 30-35% growth. EBITDA margins to be maintained between 20% to 22%.

3. SEGMENTAL ANALYSIS:

- Q1FY25 Revenue Breakup: PES (49.5%), DBS (28.1%), IMSS (16.8%), Others (5.6%).
- Q1FY25 Geographical Revenue Breakup: Americas (66.5%), Europe (8.7%), India (16.9%), ROW (7.9%).

4. CONCALL SUMMARY

- For Q1FY25, the Co registered a revenue growth of 11.1% QoQ/ 18.6% YoY
- Client Concentration: Top 1 (10.2%), Top 5 (27.3%), Top 10 (41.1%), Top 20 (53.5%),
- Offshore/Onsite Revenue Mix: 88.6%/11.4%
- The Company ended the quarter with 6,599 employees (+1431 QoQ)
- LTM attrition declined at 13.5% (+50 bps QoQ)
- Acquisitions expected to drive growth and expand market presence into APAC and Africa.
- Co expects strong revenue growth in FY25 (30-35% growth). Guidance for Margin to remain in range of 22% to 24%.

5. OTHER DEVELOPMENTS:

- Co completed acquisitions of PureSoftware and Aureus, enhancing capabilities in BFSI and Healthcare sectors.
- PureSoftware consolidated for 40 days and Aureus for 38 days in the reported quarter.

6. VALUATION AND OUTLOOK:

Deal wins are healthy and management is confident of improving medium to long term demand momentum and expects better revenue momentum in FY25.

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 38x FY26E earnings to arrive at the target of ₹926.

RECOMMENDATION - BUY

CMP – 806

TARGET – 926 (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

	Jun 24	Mar 24	Dec 23
Promoters	44.22	50.24	50.24
MF/ DII	1.46	1.32	1.18
FII/FPI	5.31	4.69	5.05
Retail & Others	47.62	42.50	42.30
Promoter Pledging	8.14	7.17	7.17

FINANCIAL SNAPSHOT (₹ Cr)

Y/E March	2024A	2025E	2026E
Crоре			
Sales	1624.66	2112.06	2640.07
Sales Gr. (%)	13.67	30.00	25.00
EBITDA	335.85	443.53	580.82
EBITDA %	20.7	21.0	22.0
PAT	248.39	276.41	370.60
EPS (₹)	16.63	18.19	24.38
EPS Gr. (%)	26.94	0.26	18.81
Ratios			
RoE (%)	20.6	21.6	23.2
RoCE (%)	21.6	22.5	23.8
Valuation			
P/E (x)	53.2	44.37	33.09

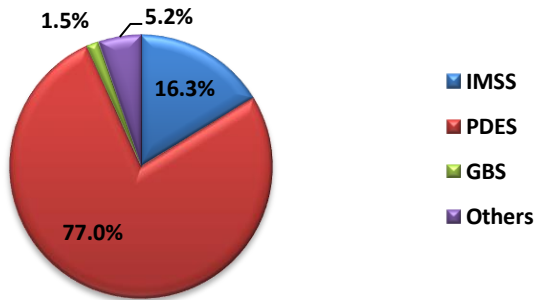
Historical & Industrial Val Ratios

Historical P/E	55.63
Industry P/E	37.52
Historical P/B	14.38
Industry P/B	10.91

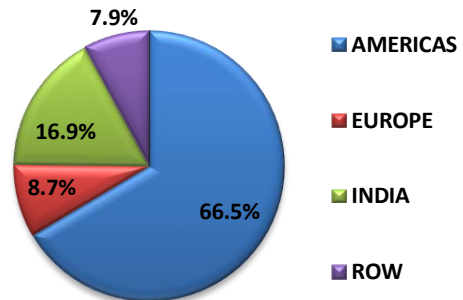


REVENUE SPLIT (Q1 FY25)

Business Mix (Q1 FY25)



Geography Mix (Q1 FY25)



QUARTERLY PERFORMANCE (CONSOLIDATED)

(₹ Cr)

Y/E March	FY23		FY24				FY25		FY24	FY25E*
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2E*		
Net sales	367	378	391	407	410	417	464	510	1625	2112
YoY change (%)	29.21%	25.75%	18.83%	14.38%	11.72%	10.40%	18.66%	25%	13.67%	30.00%
Total Expenditures	277	286	302	324	329	334	379	413	1289	1668
EBITDA	89	92	89	83	81	83	85	97	336	444
Margins (%)	24%	24%	23%	20%	20%	20%	18%	19%	21%	21%
Other income	1	8	14	22	25	38	25	25	99	100
Interest	6	9	10	11	11	10	20	20	42	80
Depreciation	10	13	14	15	15	15	22	22	58	90
PBT	75	79	79	79	81	96	68	80	335	374
Rate (%)	23%	27%	26%	26%	26%	25%	25%	26%	26%	26%
Adjusted PAT	58	58	58	58	60	72	51	59	248	276
EPS in Rs	3.92	3.93	3.97	3.84	3.92	4.73	3.35	3.89	16.31	18.19

Key Performance Indicators

Active Customers	230	237	243	244	245	250	279		
Headcount	4611	4917	5048	5285	5246	5168	6599		
Onsite/Offshore Rev Mix %	15/85	16/84	16/84	15/85	14/86	13/87	11/89		
Utilization %	80.1	74.6	74.6	75.6	76.7	75.1	78.2		
\$5M-\$10M Customers	4	6	6	7	7	6	9		
\$3M-\$5M Customers	7	6	5	4	4	2	2		
\$1M-\$3M Customers	27	30	31	31	32	37	44		

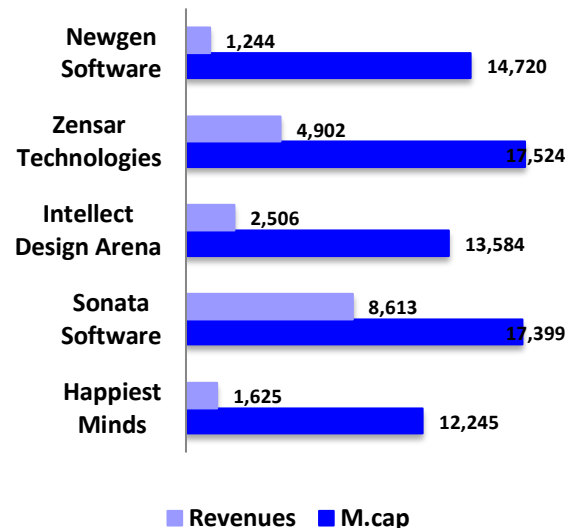
Source: Company, Hem Securities Research.



INDUSTRY OVERVIEW

- India is the world's largest sourcing destination with largest qualified talent pool of technical graduates in the world.
- In 2023, Generative AI (GenAI) and ChatGPT sparked a global revolution, with the AI Software & Services market now valued at approximately \$100 billion
- Indian tech giants and mid-scale players are investing in GenAI solutions, positioning India as a top-5 nation in AI talent
- The IT services sector is expected to grow by 2% in FY-2025, as per NASSCOM estimates
- This growth is driven by increased demand for infrastructure management, networking services, cloud-based software testing, and consulting services.
- The Engineering Research & Development (ER&D) segment is projected to expand at 7.4%, emphasizing digital engineering.
- Despite the challenging market conditions, the Indian IT industry continues to be a net hirer, adding around 60,000 employees, taking the total employee base to 5.43 Mn in last FY (1.1% y-o-y growth)
- 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

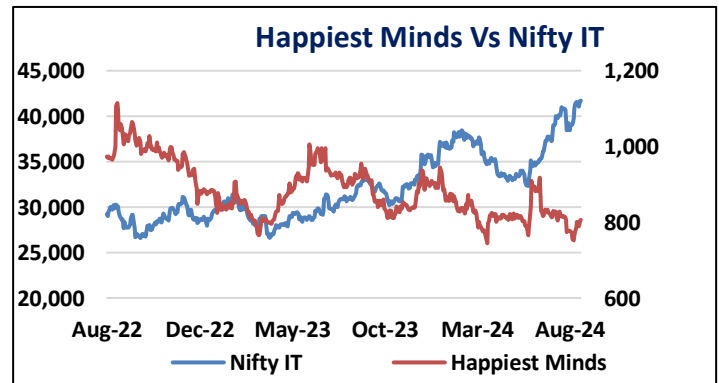
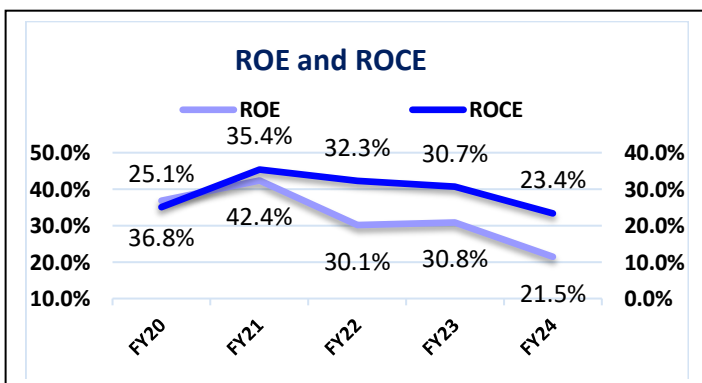
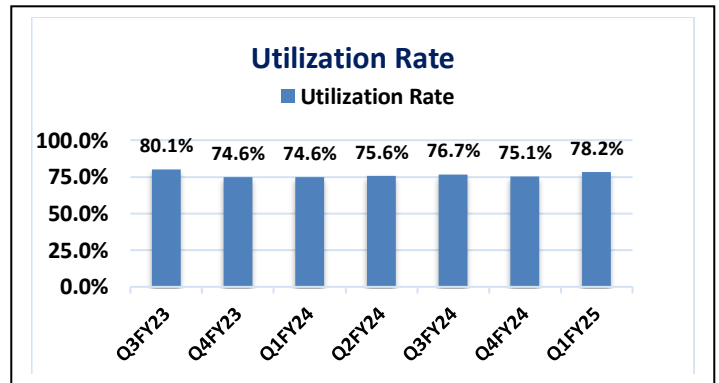
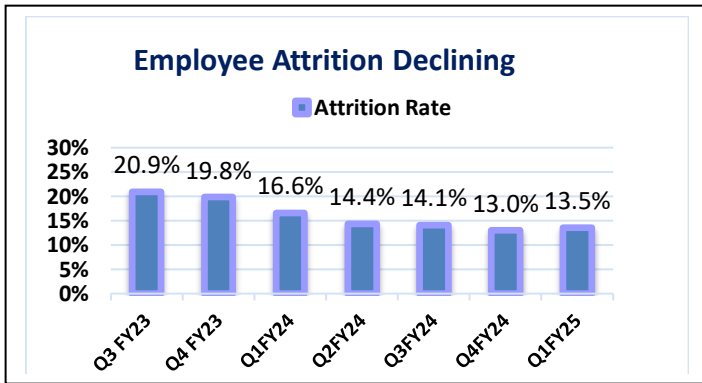
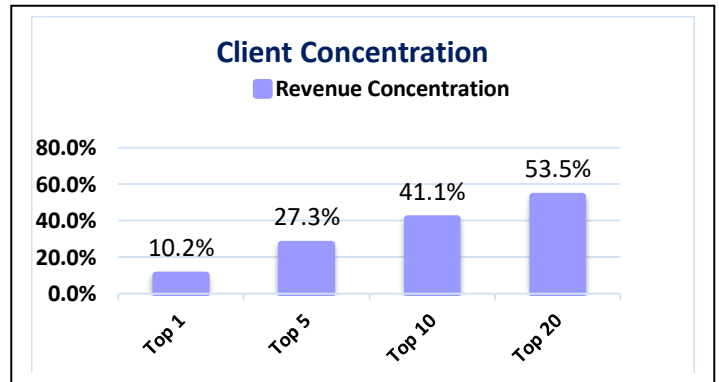
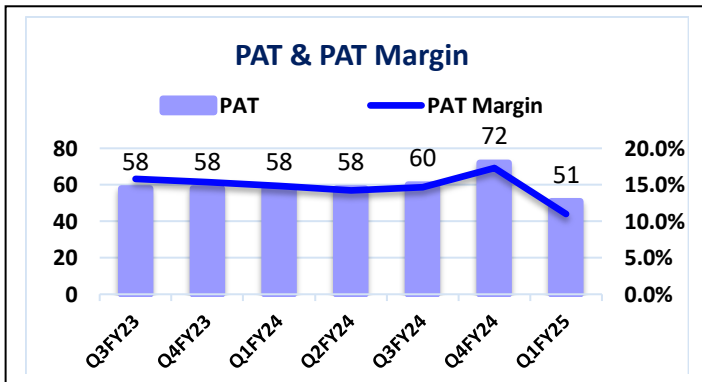
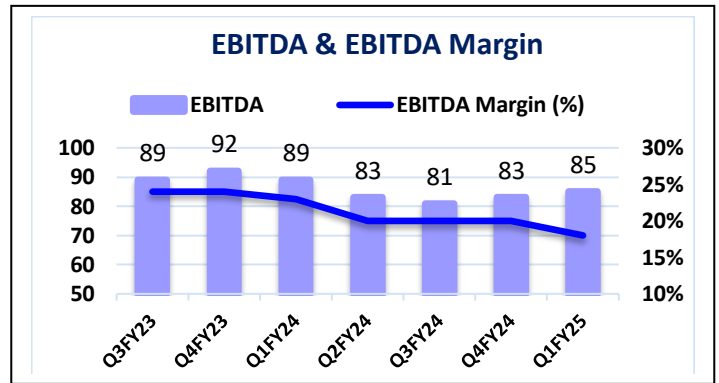
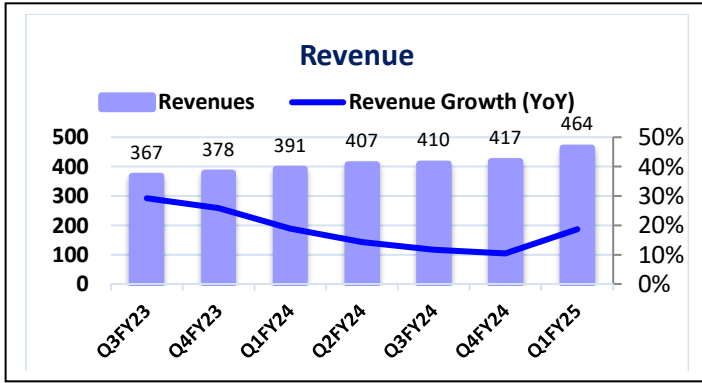
(₹ Cr)

Particulars	Happiest Minds Technologies Ltd.	Sonata Software Ltd.	Intellect Design Arena Ltd.	Zensar Technologies Ltd.	Newgen Software Technologies Ltd.
Market Cap	12,245.2	17,399.0	13,584.0	17,524.2	14,720.1
Net Sales	1,624.7	8,613.1	2,506.4	4,901.9	1,243.8
EBITDA	335.9	727.4	542.2	852.1	288.3
PAT	248.4	308.5	321.2	665.0	251.6
EPS(₹)	16.6	11.1	23.5	29.4	18.0
EBITDA MARGIN %	25.9	9.9	24.0	21.0	27.0
PAT MARGIN %	15.3	3.6	12.9	13.6	20.2
ROCE %	23.3	28.2	20.8	27.4	27.9
ROE %	21.5	23.0	15.2	20.5	23.5
P/E TTM	50.8	59.2	45.0	26.3	54.7
P/B TTM	8.0	11.6	5.7	4.8	12.0
EV/EBITDA	29.4	20.7	23.8	16.9	42.1
Dividend Yield %	0.7	1.3	0.4	1.2	0.4
MCap/ Sales TTM	7.2	1.9	5.5	3.5	11.3

Source: Company, Hem Securities Research.



STORY IN CHARTS





INVESTMENT RATIONALE:

- Co has strong fundamentals with 97% revenue digital.
- Established a dedicated business unit focused on Generative AI – Generative AI Business Services (GBS)
- Acquired three strategic assets – PureSoftware, Aureus Tech Systems, and Macmillan Learning India. Co will likely see strong boost from inorganic growth in FY25 through three acquisitions.
- Co expects operational synergies from acquisitions leading to improve margins moving forward.
- Currently engaging in 50+ conversations with potential clients and completed 15 proof of concepts (PoC).
- Attrition rate reduced to 13.5% from 16.6% in the previous year.
- Happiest Minds' management has guided 30-35% revenue growth in FY25. EBITDA margin guidance at 20-22%.
- Management also reiterated that their primary aim is to invest in growth.
- Ashok Soota addressed shareholder concerns regarding his share sales. He assured that his shareholding will not go below 40%, currently at ~45%.
-

RISK / NEGATIVE FACTORS:

- Regulatory challenges in various geographies, stiff competition from IT majors
- Currency Risk Exposure: The company generates about 80 to 85% of its revenue from offshore business, while about 15% is contribution by domestic clients.
- Competitive pricing challenges stemming from intense rivalry with domestic and global IT giants
- Client Concentration risk: Around 40% revenue comes from Top 10 clients while 10% revenue comes from Top Client.

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.
- Co do this by leveraging a spectrum of disruptive technologies such as: artificial intelligence, blockchain, cloud, digital process automation, internet of things, robotics/drones, security, virtual/ augmented reality, etc.
- 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 deliver these services across industry groups: Banking, Financial Services & Insurance (BFSI), EdTech, Healthcare & Life Sciences, Hi-Tech and Media & Entertainment, Industrial, Manufacturing, Energy & Utilities, and Retail, CPG & Logistics.
- Happiest Minds is headquartered in Bengaluru, India with operations in the U.S., UK, Canada, Australia, and the Middle East.



ANNUAL PERFORMANCE

Financials & Valuations

Income Statement							(₹ Cr)	
Y/E March	2020	2021	2022	2023	2024	2025E	2026E	
Revenue from operations	698.21	773.41	1,093.65	1,429.29	1,624.66	2112.06	2640.07	
Growth YoY (%)	17.23	10.77	41.41	30.69	13.67	30.00%	25.00%	
Total Expenditure	601.11	582.4	835.98	1,084.76	1,288.81	1668.53	2059.26	
(%) of sales	86.09	75.3	76.44	75.9	79.33	79.00%	78.00%	
EBITDA	97.1	191.01	257.67	344.53	335.85	443.53	580.82	
EBITDA Growth (%)	133.43	90.28	36.94	28.9	10.86	32.06%	30.95%	
EBITDA Margin (%)	13.9%	24.7%	23.6%	24.1%	20.7%	21.00%	22.00%	
Depreciation	20.23	22.74	32.88	41.91	58.29	90.00	100.00	
EBIT	76.87	168.27	224.79	302.62	277.56	353.53	480.82	
EBIT Growth (%)	224.31	135.83	32.88	29.68	13.63	27.4%	36.0%	
Net Interest Expenses	8.02	6.49	9.95	21.86	42.27	80.00	80.00	
Other Income	16.02	24.24	37.1	35.44	85.37	100.00	100.00	
Earnings before Taxes	73.61	186.02	245.85	309.86	334.68	373.53	500.82	
EBT Margin (%)	10.54	24.05	22.48	21.68	20.6	17.69%	18.97%	
Tax-Total	1.9	23.56	64.65	78.87	86.29	97.12	130.21	
Rate of tax (%)	2.58	12.67	26.3	25.45	25.78	26%	26%	
Net Profit	71.71	162.46	181.2	230.99	248.39	276.41	370.60	
PAT Growth (%)	292.5	126.55	11.54	27.48	7.53	11.28%	34.08%	
PAT Margin (%)	10.27	21.01	16.57	16.16	15.29	13.09%	14.04%	
Minority Interest	0	0	0	0	0	0	0	
Adjusted PAT	71.71	162.46	181.2	230.99	248.39	276.41	370.60	
EPS	16.32	11.45	12.71	16.13	16.63	18.19	24.38	
EPS Growth (%)	231.82	-29.81	10.95	26.94	3.1	9.35%	34.08%	

Balance Sheet

Y/E March	2020	2021	2022	2023	2024
Equity Capital	9	28	29	29	30
Reserves	220	518	637	810	1,450
Borrowings	114	193	250	534	512
Other Liabilities	165	176	205	256	242
Total Liabilities & Equity	508	915	1,120	1,628	2,235
Fixed Assets	38	128	158	432	413
CWIP	0	0	0	3	0
Investments	83	391	472	13	0
Other Assets	387	395	491	1,181	1,822
Total Assets	508	915	1,120	1,628	2,235

Source: Company, Hem Securities Research.



Ratios

Y/E March (Basic (INR))	2020	2021	2022	2023	2024
Profitability and return ratios					
Net profit margin (%)	10.27	21.01	16.57	16.16	15.29
EBITDA margin (%)	16.20	27.83	26.95	26.58	25.93
EBIT margin (%)	11.69	24.89	23.39	23.21	23.20
ROE (%)	36.81	42.37	30.09	30.84	21.46
ROCE (%)	25.11	35.37	32.32	30.67	23.35
Working Capital & liquidity ratios					
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)	64.91	55.87	48.28	48.59	52.53
Current Ratio (x)	2.10	2.67	2.54	1.86	3.14
Valuations Ratios					
EV/sales (x)	-0.07	9.95	13.78	7.54	6.95
EV/EBITDA (x)	-0.42	35.76	51.12	28.35	24.26
P/E (x)	0.00	47.16	83.04	47.60	44.74
P/BV (x)	0.00	14.13	22.73	13.15	7.52
Dividend Yield (%)	0.00	0.56	0.36	0.70	0.77
Return on Assets (%)	16.03	22.88	17.85	16.82	12.87
Leverage Ratio					
Debt/Equity (x)	0.37	0.33	0.29	0.56	0.30

Cash Flow Statement

Y/E March	2020	2021	2022	2023	2024
CF from Operating activities (A)	112	143	168	207	213
CF from Investing Activities (B)	-72	-271	-96	-348	-537
CF from Financing Activities (C)	-13	170	-91	72	363
Net Cash Flow	27	42	-19	-68	39
Add: Opening Bal.	16	44	86	67	-1
Closing Balance	44	86	67	-1	109

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
27 Aug 2024	Buy	926

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Name of the Research Analyst: ABHISHEK SHARDA

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3.	Research Analyst or his/her relative or HSL has any other material conflict of interest at the time of publication of the Research Report	No
4.	Research Analyst has served as an officer, director or employee of the subject company(ies)	No
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6.	HSL has received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
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9.	HSL has managed or co-managed public offering of securities for the subject company in the past twelve months	No
10.	Research Analyst or HSL has been engaged in market making activity for the subject company(ies)	No

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