



KEY HIGHLIGHTS

1. RESULTS OVERVIEW:

- Q4 FY23 consolidated revenues came in at ₹377.98 Cr, up 25.75% YoY and up 3.03% QoQ.
- Op Profit for Q4FY23 stood at ₹92.17 Cr, up 28.60% YoY and up 3.03% QoQ.
- Op margins for Q4FY23 came at 24.38%, +54 bps YoY and 0 bps QoQ.
- PAT for Q4FY23 stood at ₹57.66 Cr, up 10.65% YoY and up 0.14% QoQ.

2. MANAGEMENT COMMENTARY:

- Management maintained its revenue guidance of 25% for FY24 and expect EBITDA to remain in range of 22-24%.
- Management expects to add 1300 employees for FY24 including ~450 freshers.

3. SEGMENTAL ANALYSIS:

- Q4FY23 Service Mix: Digital infrastructure/Cloud (46.9%), SaaS (20.1%), Security Solutions (12.0%), Analytics/AI (11.9%), IoT (5.4%).
- Q4FY23 Geographical Mix: USA (70.5%), Europe (9.4%), India (15.0%), ROW (5.1%).
- Q4FY23 Onsite/Offshore Revenue Mix: Onsite (15.9%), Offshore (84.1%).

4. CONCALL SUMMARY

- Company's growth guidance was 25% for FY23, missed by ~1.3% majorly due to some right shifting of deals in Q4FY23.
- Co's 92% of revenues are from Repeat customers.
- 98% growth is organic.
- Co's average revenue per customer is consistently increasing.
- Management believe that Q1FY24 may be stronger as some large deals closed in April.
- Management also expects improvement in margins with decline in attrition rate and improvement in utilization rate.

5. OTHER DEVELOPMENTS:

- Company acquired 100% stake in SMI Ltd which will strengthen their presence in healthcare vertical.

6. VALUATION AND OUTLOOK:

Overall Happiest Minds is well positioned to grow led by strong revenue growth guidance, healthy deal pipeline, increasing client base, expanding margins through operational efficiency and acquisition of new businesses.

Management is quite positive on the business and clearly stated that their business has negligible impact due to banking crisis in US and other macro factors.

We initiate a "BUY" rating on the stock and value the stock at 47.5x FY25E earnings to arrive at the target of ₹1050.

RECOMMENDATION - BUY

CMP – 913

TARGET – 1050(15%)

Industry	IT - Software
NSE CODE	HAPPSTMNDS
BSE CODE	543227
Market Cap (₹ Cr)	13652.44
Shares Outstanding (in Cr)	14.69
52 wk High/Low (₹)	1136 / 763.25
P/E	63.2
P/BV	16.4
Face Value (₹)	2.00
Book Value (₹)	56.2
EPS (FY23) (₹)	15.73
Dividend Yield (%)	0.36
Debt / Equity	0.66
Interest Coverage	14.6

SHAREHOLDING PATTERN

	Mar 23	Dec 22	Sep 22
Promoters	53.24	53.25	53.25
MF/ DII	0.78	0.91	1.07
FII/FPI	4.15	4.07	3.94
Retail & Others	41.35	41.36	41.33
Promoter Pledging	7.01	5.50	0.00

FINANCIAL SNAPSHOT (₹ Cr)

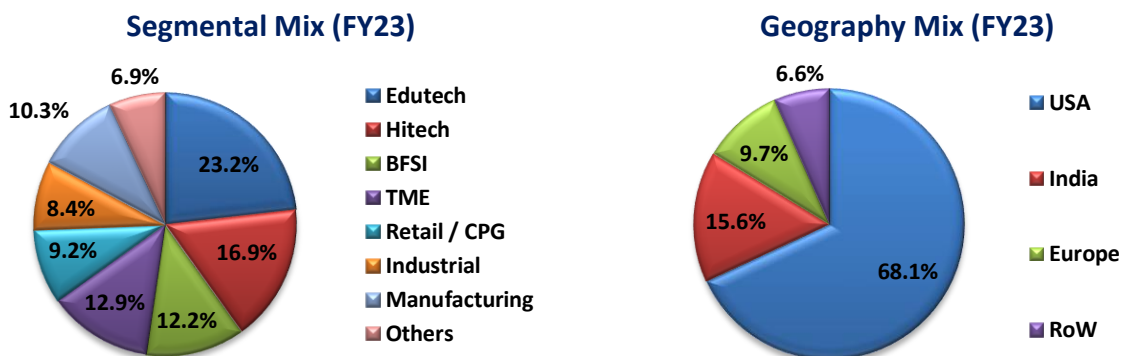
Y/E March	2023A	2024E	2025E
Crore			
Sales	1429	1715	2058
Sales Gr. (%)	31	20	20
EBITDA	359	412	494
EBITDA %	25	24	24
PAT	231	268	325
EPS (₹)	15.73	18.3	22.1
EPS Gr. (%)	23.8	16.0	21.3
Ratios			
RoE (%)	28.9	24.2	22.6
RoCE (%)	27.4	32.9	30.8
Valuation			
P/E (x)	63.2	50.95	42.00

Historical & Industrial Val Ratios

Historical P/E	68.3
Industry P/E	33.5
Historical P/B	4.62
Industry P/B	2.29



REVENUE SPLIT (FY23)



QUARTERLY PERFORMANCE (CONSOLIDATED)

(₹ Cr)

Y/E March	FY22			FY23				FY24	FY23	FY24E*
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1E*		
Net sales	265	284	301	329	356	367	378	400	1429	1715
YoY change (%)	44.68%	47.24%	36.18%	34.47%	34.39%	29.21%	25.75%	22%	30.69%	20%
Total Expenditures	204	216	229	242	265	277	286	302	1070	1303
EBITDA	61	68	72	87	91	89	92	98	359	412
Margins (%)	23%	24%	24%	26%	25%	24%	24%	25%	25%	24%
Other income	10	8	10	1	4	1	8	4	15	20
Interest	2	2	3	3	5	6	9	9	22	22
Depriciation	8	8	9	9	10	10	13	14	42	47
PBT	59	65	70	76	80	75	79	79	310	363
Rate (%)	25%	25%	25%	25%	26%	23%	27%	26%	25%	26%
Adjusted PAT	44	49	52	56	59	58	58	58.46	231	268
EPS in Rs	3.03	3.33	3.55	3.84	4.05	3.92	3.93	3.98	15.73	18.3

Key Performance Indicators

	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
\$ Growth QoQ %	8.0	5.5	5.5	5.9	5.0	2.1	1.4			
Headcount	3791	4021	4168	4188	4581	4611	4917			
Million \$ Customers	31	32	38	38	40	40	43			
Utilization %	79.7	81.0	79.4	79.1	80.6	80.1	74.6			
Attrition Rate%	18.5	21.1	22.7	24.4	23.5	20.9	19.8			

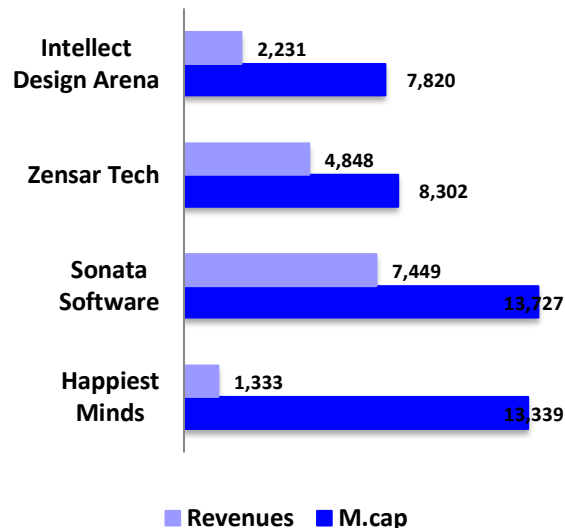
Source: Company, Hem Securities Research.



INDUSTRY OVERVIEW

- India is the world's largest sourcing destination with largest qualified talent pool of technical graduates in the world.
- According to NASSCOM, In FY2023, India's technology industry revenue is estimated to reach \$245 Bn, representing a YoY growth of 8.4%
- The growth areas of technology segments are expected to focus on digital CX, digitization, cloudification, building SaaS-enabled products, cybersecurity, and phantomization.
- The demand for digital technologies is anticipated to continue growing in 2023, and the industry is expected to focus on cloud-based initiatives for cost rationalization and business agility.
- The push towards cloud services has boosted hyper-scale data centre investments, with global investments estimated to exceed ~US\$ 200 billion annually by 2025.
- The digital transformation deals have seen a 30% jump since the pandemic.
- In Budget 2022-23, the government has allocated Rs. 88,568 crore (US\$ 11.58 billion) to the IT and telecom sector.
- Leading players in Indian IT Industry (Small Cap Space) includes Happiest Minds, Sonata Software, Cigniti Technologies, Birlasoft, Mastek, Zensar Technologies etc.

KEY PLAYERS in Mid IT Space



PEER PERFORMANCE

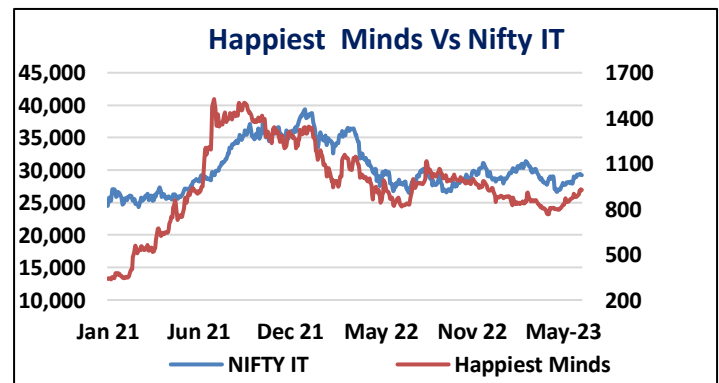
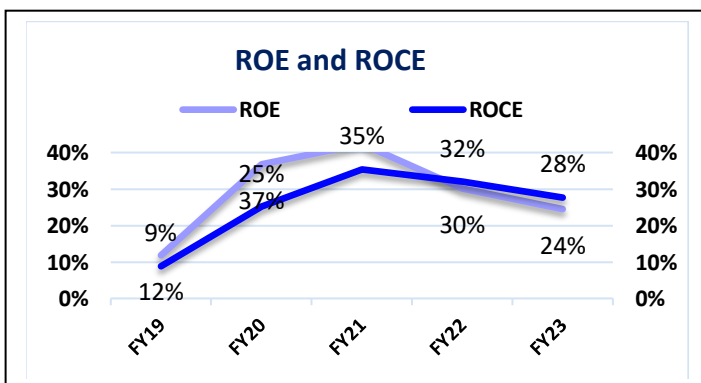
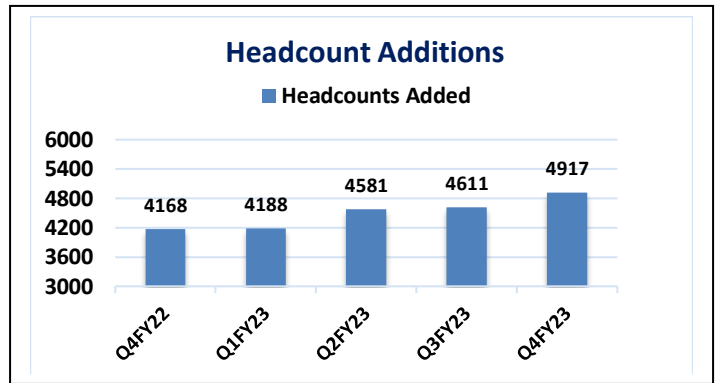
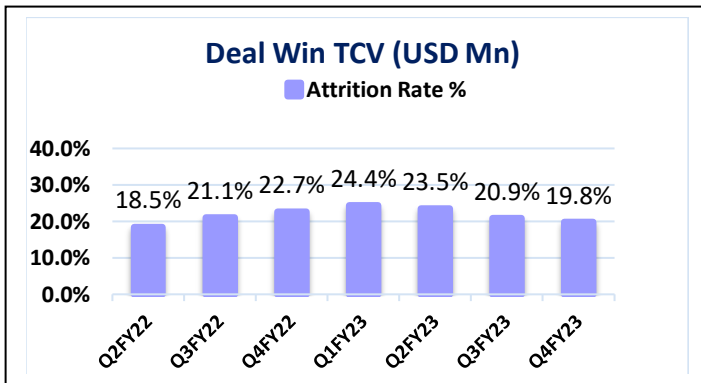
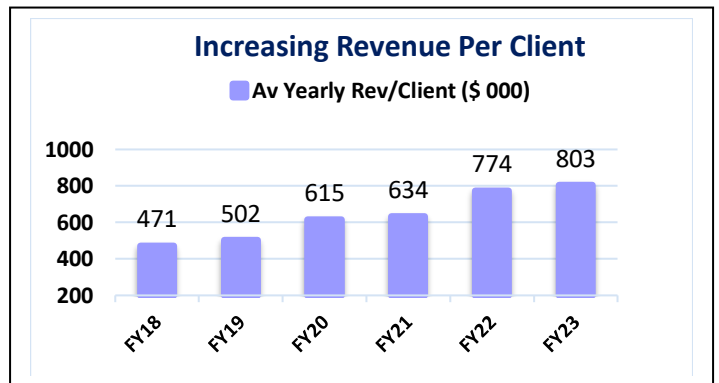
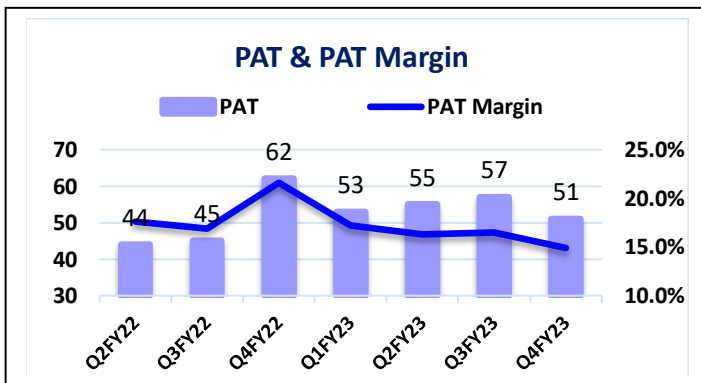
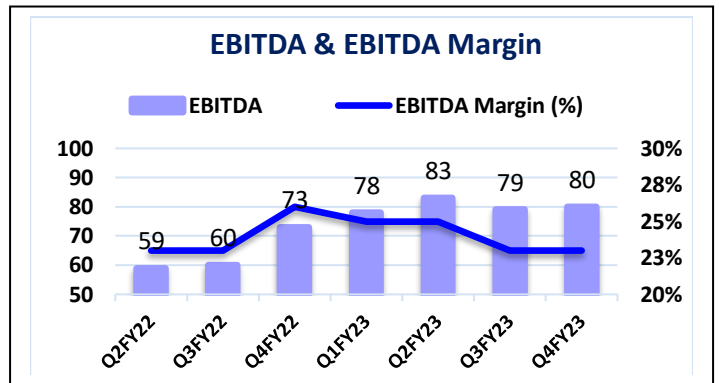
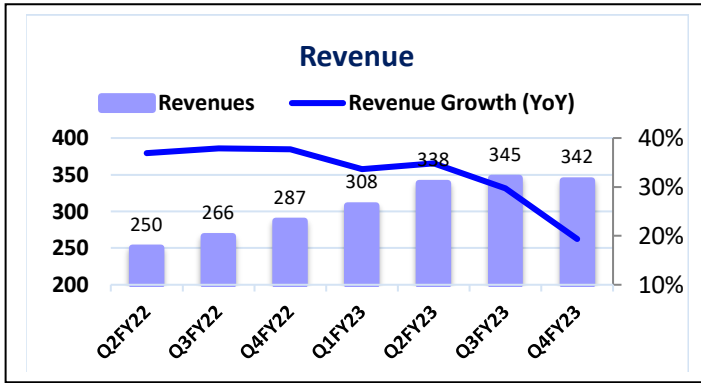
(₹ Cr)

Particulars	Happiest Minds Tech	Sonata Software	Zensar Tech	Intellect Design Arena
Market Cap	13339	13727	8302	7820
Net Sales	1333	7449	4848	2231
EBITDA	321	604	552	435
PAT	216	452	328	269
EPS(₹)	14.73	32.23	14.47	19.69
EBITDA MARGIN %	24	8	11	20
PAT MARGIN %	16	6	6.7	12
ROCE %	27.4	39.1	15	18.7
ROE %	28.9	37.7	11.6	13.8
P/E TTM	62.9	30.3	25.5	29.7
P/B TTM	16.4	10.6	2.8	3.83
EV/EBITDA	39.3	20.0	12.1	16.1
Dividend Yield %	0.61	1.65	1.36	0.44

Source: Company, Hem Securities Research.



STORY IN CHARTS





INVESTMENT RATIONALE:

- Co generates ~96-97% of its revenue from digital solutions/ technologies.
- Robust growth across all verticals leading to overall growth of the business.
- Co has given a guidance of 25% growth in FY24 and 22-24% EBITDA Margin targets. Aims to reach \$1B by FY31.
- Aggressive Headcount addition target of ~1300 over base of ~5000 employees.
- Diversified revenue segments as well as geographic segments.
- Annual Average revenue per client is continuously increasing from \$471K in FY18 to \$803K in FY23.
- Top client concentration is continuously decreasing.
- Strong and Experienced Management which has served leadership roles at larger peers and potential to scale up the business.

RISK / NEGATIVE FACTORS:

- Adverse Macro Environment and budget spending cuts across different verticals.
- USD depreciation against INR.
- Top management changes.
- Higher Attrition Rates.
- Higher valuation multiples compared to peers.

COMPANY RECAP

- Happiest Minds Technologies Limited, a Mindful IT Company, enables digital transformation for enterprises and technology providers by delivering seamless customer experiences, business efficiency and actionable insights.
- Company 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', Co's capabilities span digital solutions, infrastructure, product engineering and security.
- Co deliver these services across industry sectors such as automotive, BFSI, consumer packaged goods, e-commerce, EduTech, engineering R&D, healthcare, hi-tech, manufacturing, retail and travel / transportation / hospitality.
- Happiest Minds is headquartered in Bangalore, India with operations in the U.S., UK, Canada, Australia and Middle East.



ANNUAL PERFORMANCE

Financials & Valuations

Income Statement							(₹ Cr)	
Y/E March	2019	2020	2021	2022	2023	2024E	2025E	
Revenue from operations	595.58	698.21	773.41	1,093.65	1429	1714.8	2057.76	
Growth YoY (%)	27.37	17.23	10.77	41.41	30.69	20	20	
Total Expenditure	551.34	601.11	582.40	835.98	1070	1303	1564	
(%) of sales	92.57	86.09	75.30	76.44	74.88	76	76	
EBITDA	44.24	97.10	191.01	257.67	359	412	494	
EBITDA Growth (%)	809.52	133.43	90.28	36.94	39.33	15	20	
EBITDA Margin (%)	8.14	16.20	27.83	26.95	25.12	24	24	
Depreciation	5.82	20.23	22.74	32.88	42	47	52	
EBIT	25.17	81.63	192.51	255.80	317	365	442	
EBIT Growth (%)	283.72	224.31	135.83	32.88	23.92	15.00	21.21	
Net Interest Expenses	6.90	8.02	6.49	9.95	22	22	22	
Other Income	4.22	16.02	24.24	37.10	15	20	20	
Earnings before Taxes	18.27	73.61	186.02	245.85	310	363	440	
EBT Margin (%)	3.07	10.54	24.05	22.48	21.69	21.14	21.38	
Tax-Total	0.00	1.90	23.56	64.65	79	94	114	
Rate of tax (%)	0.00	2.58	12.67	26.30	25.5	26	26	
Net Profit	18.27	71.71	162.46	181.20	231	268	325	
PAT Growth (%)	192.46	292.50	126.55	11.54	27	16	21	
PAT Margin (%)	3.07	10.27	21.01	16.57	16.17	15.65	15.82	
Minority Interest	0.00	0.00	0.00	0.00	0	0	0	
Adjusted PAT	18.27	71.71	162.46	181.20	231	268	325	
EPS	4.92	16.32	11.45	12.70	15.73	18.3	22.1	
EPS Growth (%)	192.49	231.82	-29.81	10.87	23.86	16.03	21.32	

Balance Sheet

Y/E March	2019	2020	2021	2022	2023
Share Capital	28	45	28	29	29
Reserves	-94	220	518	637	810
Net Worth	-66	265	546	666	839
Borrowings	121	114	193	250	534
Other Liabilities	380	165	176	205	268
Total Liabilities & Equity	414	508	915	1,120	1,641
Fixed Assets	61	38	128	158	432
CWIP	0	0	0	0	2
Investments	98	83	391	472	13
Other Assets	254	387	395	491	1,194
Total Assets	414	508	915	1,120	1,641

Source: Company, Hem Securities Research.



Ratios

Y/E March (Basic (INR))	2019	2020	2021	2022	2023
Profitability and return ratios					
Net profit margin (%)	3.07	10.27	21.01	16.57	16.17
EBITDA margin (%)	8.14	16.20	27.83	26.95	25.12
EBIT margin (%)	4.23	11.69	24.89	23.39	22.18
ROE (%)	11.82	36.81	42.37	30.09	31.3
ROCE (%)	8.82	25.11	35.37	31.96	29.6
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)	72.00	64.91	55.87	48.28	53.7
Current Ratio (x)	1.80	2.10	2.67	2.53	1.9
Valuations Ratios					
EV/sales (x)	0.18	-0.07	9.95	13.81	7.6
EV/EBITDA (x)	2.16	-0.42	35.76	51.22	34.1
P/E (x)	0.00	0.00	47.16	83.10	52.5
P/BV (x)	0.00	0.00	14.13	22.75	14.9
Dividend Yield (%)	0.00	0.00	0.56	0.36	0.58
Leverage Ratio					
Debt/Equity (x)	0.39	0.37	0.33	0.32	0.3

Cash Flow Statement

Y/E March	2020	2021	2022	2023
CF from Operating activities (A)	58	112	143	168
CF from Investing Activities (B)	1	-72	-271	-96
CF from Financing Activities (C)	-59	-13	170	-91
Net Cash Flow	0	27	42	-19
Add: Opening Bal.	26	44	86	67
Closing Balance	44	86	67	-1.2

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
8 JUNE 2023	Buy	1050

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