YES SECURITIES
INSTITUTIONAL EQUITIES

January 18, 2024

RESULT REPORT Q3 FY24 | Information Technology

Happiest Minds Ltd

Guided for 12% organic revenue growth for FY24

Result Synopsis

Happiest Minds (HAPPSTMN) reported muted financial performance for the quarter. Both, the sequential revenue growth and EBIT margin were below estimates. It reported constant currency growth of 0.8% QoQ (up 9.4% QoQ in USD terms, up 0.8% QoQ in INR terms), led by Manufacturing vertical (up 18.4% QoQ). There was sequential decline in EBIT margin (down 61 bps QoQ) led by impact of wage hike in the quarter. Employee attrition continues to decline as LTM attrition decreased by 30 bps QoQ to 14.1%. Digital accounts for 96.2% of revenue as of Q3FY24 vs 95.3% as of Q2FY24.

The near term demand environment remains challenging as the clients especially in select sectors remain cautious regarding the evolving macroeconomic situation and it has led to near term moderation in revenue growth. The deal pipeline remains strong and it supports revenue growth visibility. Management has guided for organic revenue growth of 12% in cc terms for FY24 with EBITDA margin band of 22-24%. Falling employee attrition is expected to support operating margin going ahead. We estimate revenue CAGR of 22.0% over FY23-26E with average EBIT margin of 20.8%. We maintain our BUY rating on the stock with revised target price of Rs 1,080/share based on DCF methodology. The stock trades at PER of 36.4x/30.0x on FY25E/FY26E EPS.

Result Highlights

- Reported revenue of Rs 4.099mn (up 0.8% QoQ in INR terms, up 0.5% QoQ in USD terms). The cc growth was 0.8% QoQ. The growth was led by Manufacturing vertical (up 18.4% QoQ).
- Digital now accounts for 96.2% of revenue vs 95.3% as of Q2FY24.
- EBIT margin decreased by 61 bps QoQ to 16.1%, led by increase in Cost of Revenue (up 0.9% QoQ).
- Offshore revenue mix increased by 110 bps QoQ to 86.2%. Total Active Customers increased by 1 QoQ to 245.
- Net employee addition stood at (39) employees during the quarter to close at 5,246 employees. LTM attrition declined by 30 bps QoQ to 14.1%. Employee utilization improved by 110 bps QoQ to 76.7%.
- DSO increased by 4 Days to 57 Days.

Exhibit 1: Actual vs estimates

Rs mn	Actual	Estimate		% Variation	
		YES Sec	Consensus	YES Sec	Consensus
Sales	4,099	4,218	4,110	-2.8%	-0.3%
EBITDA	809	937	890	-13.7%	-9.1%
EBITDA Margin (%)	*19.74%*	*22.21%*	*21.65%*	*-248 bps*	*-192 bps*
Adjusted PAT	596	658	590	-9.4%	1.0%

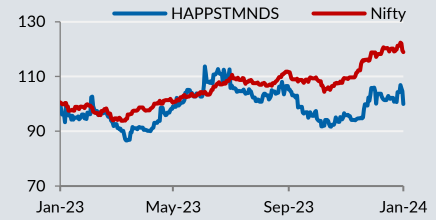
Source: Company, YES Sec

Reco	:	**BUY**
CMP	:	Rs 884
Target Price	:	Rs 1,080
Potential Return	:	+ 22.2%

Stock data (as on January 18, 2024)

Nifty	21,462
52 Week h/l (Rs)	1023 / 763
Market cap (Rs/USD mn)	137998 / 1660
Outstanding Shares (mn)	149
6m Avg t/o (Rs mn):	425
Div yield (%):	0.5
Bloomberg code:	HAPPSTMN IN
NSE code:	HAPPSTMNDS

Stock performance



	1M	3M	1Y
Absolute return	-5.6%	5.7%	0.3%

Shareholding pattern (As of Sep'23 end)

Promoter	51.4%
FII+DII	7.6%
Others	38.9%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	1,080	1,100

Δ in earnings estimates

	FY24E	FY25E	FY26E
EPS (New)	17.2	24.3	29.4
EPS (Old)	18.4	24.8	NA
%Change	-6.7%	-2.2%	NA

Financial Summary

(Rs mn)	FY24E	FY25E	FY26E
Net Revenue	16,360	19,692	24,106
YoY Growth	14.5%	20.4%	22.4%
EBIDTA	3,557	4,805	5,882
YoY Growth	-0.9%	35.1%	22.4%
PAT	2,522	3,563	4,325
YoY Growth	6.3%	41.3%	21.4%
ROE	27.2%	31.3%	30.8%
EPS	17.2	24.3	29.4
P/E	51.5	36.4	30.0
BV	69.2	85.7	105.7
P/BV	12.8	10.3	8.4

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Exhibit 2: Quarterly snapshot Console: Sequential decline in operating margin

Particulars(Rs mn)	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	yoy%	qoq %	9MFY24	9MFY23	yoy%
Sales	3,669	3,780	3,909	4,066	4,099	11.7	0.8	12,073.5	10,513.1	14.8
EBITDA	895	922	893	826	809	-9.6	-2.1	2,528.3	2,666.9	-5.2
EBITDA %	24.4	24.4	22.9	20.3	19.7	-465 bps	-58 bps	20.9	25.4	-443 bps
Depreciation	99	129	142	146	148	49.3	1.8	436.0	289.7	50.5
EBIT	795	792	751	681	661	-16.9	-2.9	2,092.3	2,377.2	-12.0
EBIT Margin %	21.7	21.0	19.2	16.7	16.1	-556 bps	-61 bps	17.3	22.6	-528 bps
Other income	78	85	137	222	243	211.4	9.4	601.6	126.6	375.2
PBT	752	789	787	791	807	7.3	2.0	2,385.2	2,309.3	3.3
Tax	177	213	204	207	211	19.5	2.2	621.2	576.0	7.8
PAT after MI	576	577	583	585	596	3.5	2.0	1,764.0	1,733.3	1.8
NPM (%)	15.7	15.3	14.9	14.4	14.5	-115 bps	17 bps	14.6	16.5	-188 bps

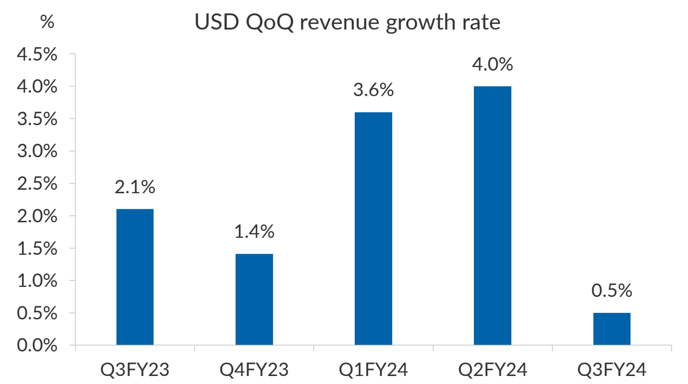
Source: Company, YES Sec

KEY CON-CALL HIGHLIGHTS

- Revenues were impacted due to seasonal furloughs and lower working days and elongated year end vacations.
- 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.
- Management is expecting to hire a sales head in North America geography.
- 73% of the revenue comes from Time & Material contracts and this was impacted due to less number of working days in Q3FY24.
- Margins were impacted on account of wage hikes and onboarding of campus freshers.
- Employees are being trained on Gen AI initiatives and use cases are being discovered for the benefits of clients.
- FCF conversion stood at 94.1% in Q3FY24 vs 98.2% in Q2FY24.
- M&A pipeline remains robust, and announcement of acquisition is expected in a couple of quarters.
- Maintained guidance to reach $ 1bn revenue run rate by FY31. Guided for 12% organic revenue growth for FY24.
- Guidance for Margin to remain in range of 22% to 24%.

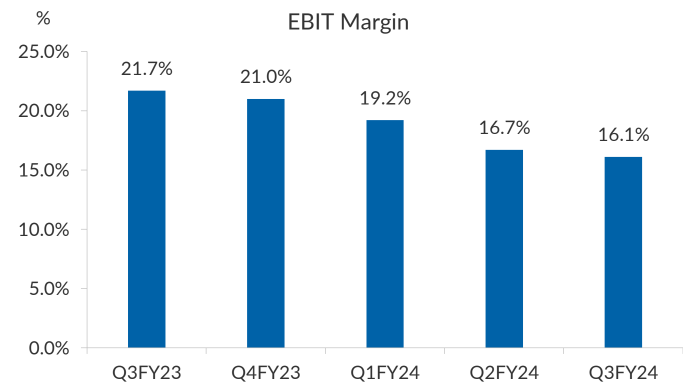
STORY IN CHARTS

Exhibit 3: Sequential revenue growth was below expectation for the quarter



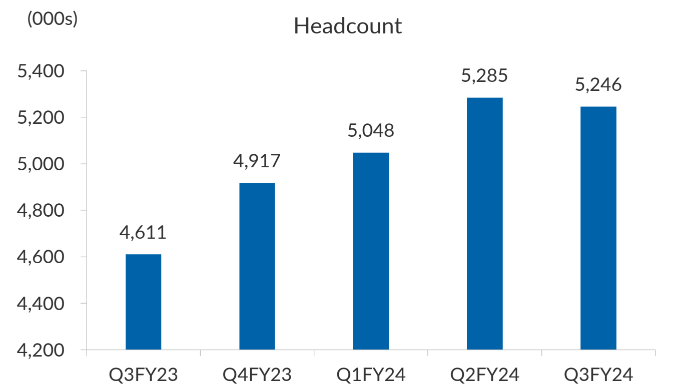
Source: Company, YES Sec

Exhibit 4: EBIT Margin dipped during the quarter



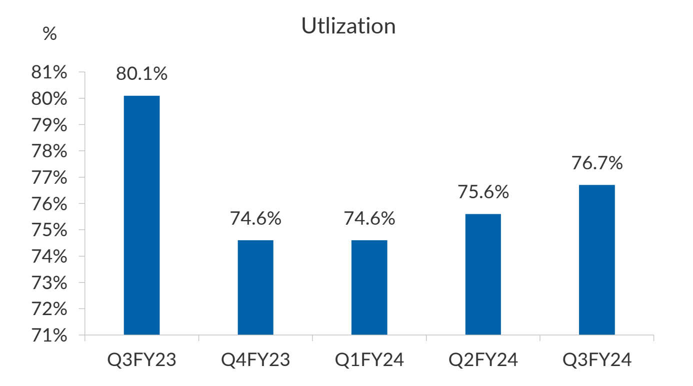
Source: Company, YES Sec

Exhibit 5: Employee addition remains muted



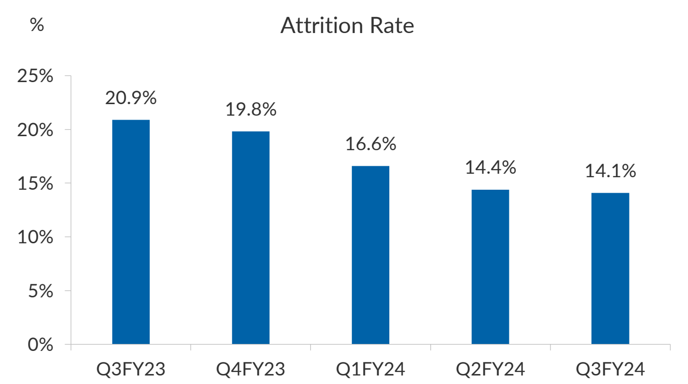
Source: Company, YES Sec

Exhibit 6: Utilization rate improved for the quarter



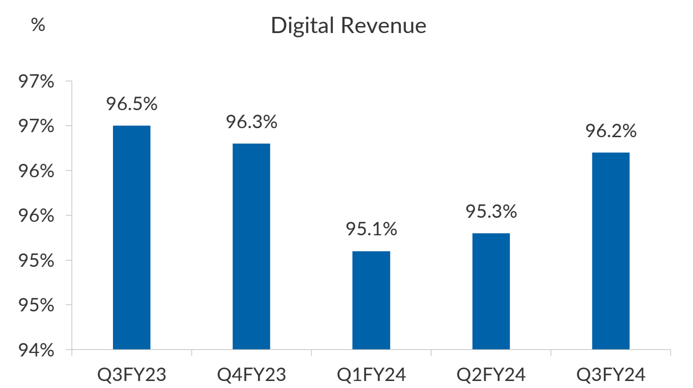
Source: Company, YES Sec

Exhibit 7: Employee attrition continues to decline



Source: Company, YES Sec

Exhibit 8: Digital revenue mix remains strong



Source: Company, YES Sec

FINANCIALS

Exhibit 9: Balance Sheet

Y/e March 31 (Rs mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Share capital	284	285	287	287	287	287
Reserves & surplus	5,176	6,373	8,102	9,875	12,298	15,239
Shareholders' funds	5,460	6,658	8,388	10,161	12,584	15,525
Minority Intersts and others	0	0	0	0	0	0
Non-current liablities	972	946	2,256	2,279	2,304	2,332
Long-term borrowings	366	172	1,128	1,105	1,083	1,061
Other non-current liabilities	606	774	1,128	1,173	1,221	1,271
ST borrowings, Curr maturity	1,297	1,734	3,548	3,477	3,407	3,339
Other current liabilities	1,491	1,912	2,216	2,265	2,314	2,365
Total (Equity and Liablities)	9,220	11,250	16,408	18,181	20,610	23,561
Non-current assets	1,774	1,976	5,679	6,826	8,590	10,836
Fixed assets (Net block)	520	790	2,951	3,012	3,116	3,236
Other non-current assets	1,009	927	1,659	2,681	4,273	6,327
Current assets	7,445	9,274	10,730	11,356	12,020	12,725
Cash & current investment	5,367	6,320	6,918	7,285	7,672	8,080
Other current assets	2,079	2,954	3,812	4,071	4,348	4,645
Total (Assets)	9,220	11,250	16,408	18,181	20,610	23,561

Source: Company, YES Sec

Exhibit 10: Income Statement

Y/e March 31 (Rs mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net sales	7,734	10,937	14,293	16,360	19,692	24,106
Operating expenses	(5,842)	(8,360)	(10,704)	(12,803)	(14,887)	(18,224)
EBITDA	1,892	2,576	3,589	3,557	4,805	5,882
Depreciation	(227)	(329)	(419)	(565)	(591)	(723)
EBIT	1,665	2,248	3,170	2,992	4,214	5,159
Other income	265	371	211	849	1,042	1,127
Exceptional & extradordinary	0	(61)	(63)	11	0	0
Profit before tax	1,860	2,459	3,099	3,427	4,825	5,856
Tax (current + deferred)	(236)	(647)	(789)	(894)	(1,262)	(1,531)
Profit / (Loss) for the period	1,625	1,812	2,310	2,533	3,563	4,325
P/L of Associates, Min Int, Pref Div	0	0	0	0	0	0
Reported Profit / (Loss)	1,625	1,812	2,310	2,533	3,563	4,325
Adjusted net profit	1,625	1,873	2,373	2,522	3,563	4,325

Source: Company, YES Sec

Exhibit 11: Cash Flow Statement

Y/e March 31 (Rs mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Profit before tax	1,860	2,459	3,099	3,427	4,825	5,856
Depreciation	227	329	419	565	591	723
Change in working capital	(251)	(434)	(493)	(208)	(225)	(244)
Total tax paid	(262)	(639)	(684)	(891)	(1,259)	(1,528)
Cash flow from operations (a)	1,644	1,814	2,559	3,318	4,362	5,237
Capital expenditure	(429)	(599)	(2,580)	(626)	(694)	(844)
Change in investments	(3,250)	(738)	3,830	(64)	(68)	(72)
Others	29	73	(75)	(1,049)	(1,619)	(2,079)
Cash flow from investing (b)	(3,650)	(1,264)	1,175	(1,738)	(2,381)	(2,995)
Free cash flow (a+b)	(2,006)	550	3,735	1,580	1,982	2,242
Equity raised/(repaid)	196	2	1	0	0	0
Debt raised/(repaid)	958	243	2,769	(94)	(92)	(90)
Dividend (incl. tax)	0	(683)	(572)	(760)	(1,140)	(1,384)
Others	408	116	(695)	(359)	(363)	(360)
Cash flow from financing (c)	1,562	(322)	1,504	(1,213)	(1,595)	(1,834)

Source: Company, YES Sec

Exhibit 12: Ratio Analysis

Y/e March 31	FY21	FY22	FY23	FY24E	FY25E	FY26E
Growth(%)						
Revenue Growth	10.8	41.4	30.7	14.5	20.4	22.4
EBITDA Growth	94.9	36.2	39.3	(0.9)	35.1	22.4
EBIT Growth	116.5	35.0	41.0	(5.6)	40.8	22.4
Net Profit Growth	126.5	11.5	27.5	9.7	40.7	21.4
Profitability Ratios(%)						
EBITDA Margin	24.5	23.6	25.1	21.7	24.4	24.4
EBIT margin	21.5	20.6	22.2	18.3	21.4	21.4
Net Profit margin	21.0	17.1	16.6	15.4	18.1	17.9
RoA	23.3	22.0	22.9	17.3	21.7	23.4
RoE	40.0	30.9	31.5	27.2	31.3	30.8
RoCE	29.2	26.3	26.9	19.9	24.6	26.1
Liquidity Ratios						
Net debt/Equity (x)	(0.7)	(0.7)	(0.3)	(0.3)	(0.3)	(0.2)
Current ratio (x)	2.7	2.5	1.9	2.0	2.1	2.2
Quick ratio (x)	2.7	2.5	1.9	2.0	2.1	2.2
Valuation Ratios						
PER(x)	NA	NA	54.7	51.5	36.4	30.0
PCE(x)	NA	NA	46.5	42.1	31.3	25.7
Price/Book(x)	NA	NA	15.5	12.8	10.3	8.4
EV/EBITDA(x)	NA	NA	35.6	35.7	26.4	21.5

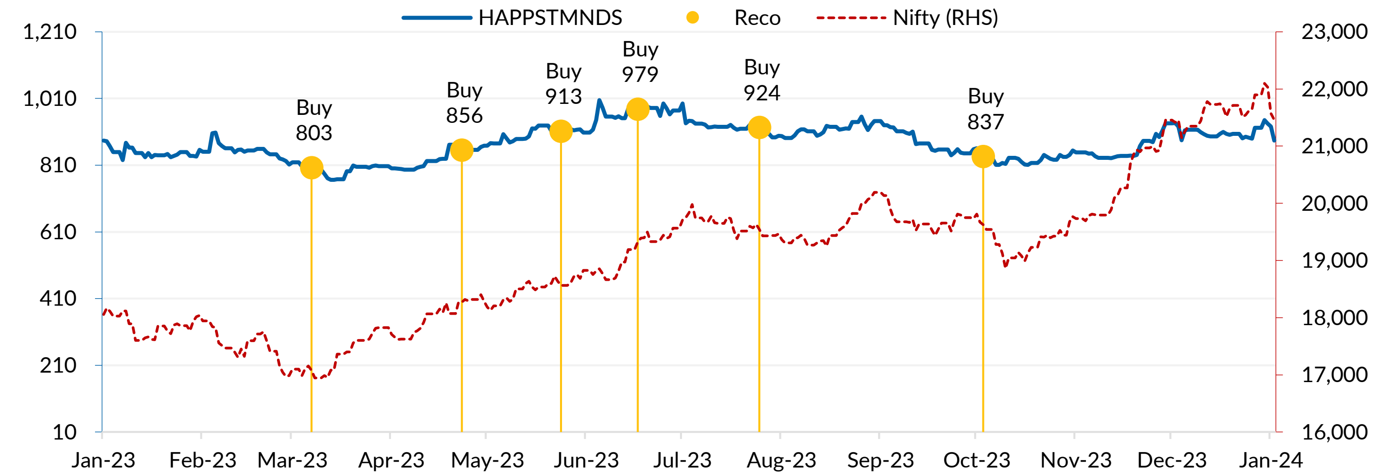
Source: Company, YES Sec

Exhibit 13: Dupont Analysis

Dupont Analysis	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net margin(%)	21.0	17.1	16.6	15.4	18.1	17.9
Asset turnover (x)	1.1	1.1	1.0	0.9	1.0	1.1
Leverage factor (x)	1.8	1.7	1.8	1.9	1.7	1.6
Return on Equity(%)	40.0	30.9	31.5	27.2	31.3	30.8

Source: Company, YES Sec

Recommendation Tracker



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Happiest Minds Ltd

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Name of the Research Analyst : Parth Ghiya

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