

Happiest Minds Technologies

Organisational rejig for better growth

Happiest Minds (HAPPSTMN) recently announced changes to its organisational structure to move into an industry/vertical-based organisational structure. From the earlier horizontal-based structure, the company announced its new vertical organisational structure comprising six industry groups (IGs) – (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. We spoke to the management of Happiest Minds (HAPPSTMN) and believe that the organisational structure change can accelerate its growth (by 2-3% over the medium term). Notwithstanding the recent deceleration in growth, the current scale of the business, the distinction in quality and the disproportionate impact from potential recovery in discretionary services in the sector can keep valuation higher than peers (*Happiest Minds – Higher for longer*). Maintain ADD on HAPPSTMN with a TP of INR 935, based on 38x FY26E. High exposure to T1 client and EdTech vertical exposure are risks and quality of inorganic pursuits could be catalysts ahead.

Client mining can improve: Verticalisation of the business will enable the company to better capture the 'EN' growth supporting client mining. HAPPSTMN has a large roster of marquee customers (59 enterprise clients with revenue of USD 1bn+) and verticalisation presents a large services cross-sell opportunity. The revenue per customer currently at USD 0.8mn can trend towards USD 1mn per customer. The new structure will also increase the company's addressable pipeline as it builds deeper capabilities in platform engineering. The importance of the new structure is also driven by a high proportion of deal origination in the form of sole sourcing/referrals and large areas of demand are in cloud migration, core modernisation, digital transformation, cybersecurity, analytics, and AI. For FY24E, the management expects to deliver 10-12% growth.

Vertical structure a natural progression; recovery expectation in line with peers: The company's transition to a vertical structure is a natural progression and the new structure will strengthen the Pre-sales/Sales function – for instance, more service lines can be sold to its customers such as Walt Disney or deeper domain expertise in Energy & Utilities can lead to expansion from vendor management platform to billing platform development. The company plans to hire a Global Head of Sales and will shortly announce the vertical/IG head of Hi-Tech. HAPPSTMN's growth trajectory has recently decelerated like peers such as Endava, Globant, and EPAM due to the compression in discretionary spending. The 1EdTech segment can be a growth headwind in the near term as well as over the medium term; we expect EdTech growth to decelerate in FY25E while all the other verticals are expected to accelerate.

Outlook: We expect HAPPSTMN to post 10/15/22% USD revenue growth over FY24/25/26E, which implies USD 100mn incremental revenue run-rate over FY23-26E as compared to USD 85mn incremental over FY20-23 (24% CAGR over FY20-23). Factored EBITM at 17.1/18.1/18.9% over the same period, translating to an EPS CAGR of 26% over FY24-26E. Faster recovery in discretionary spending in the sector and value accretive acquisition ahead can be positive triggers for the stock, which is currently trading at 43x and 34x FY25E and FY26E (vs. the historical average of 55x).

Financial Summary

YE March (INR bn)	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Revenue (USD mn)	93	104	147	178	196	227	279
Net Sales	6.98	7.73	10.94	14.29	16.24	19.08	23.74
EBIT	0.77	1.69	2.25	3.17	2.78	3.45	4.49
APAT	0.83	1.62	1.87	2.37	2.36	2.96	3.75
Diluted EPS (INR)	5.4	10.7	12.3	15.6	15.5	19.5	24.6
P/E (x)	152.6	77.9	67.6	53.3	53.6	42.7	33.8
EV / EBITDA (x)	129.8	64.1	47.4	34.7	35.2	28.5	22.0
RoE (%)	83.3	40.0	30.9	31.5	20.3	18.8	21.0

Source: Company, HSIE Research

ADD

CMP (as on 7 Mar 2024)	INR 831
Target Price	INR 935
NIFTY	22,494

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 935	INR 935
EPS %	FY25E -1.6	FY26E -0.2

KEY STOCK DATA

Bloomberg code	HAPPSTMN IN
No. of Shares (mn)	152
MCap (INR bn) / (\$ mn)	127/1,548
6m avg traded value (INR mn)	493
52 Week high / low	INR 1,023/763

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(4.1)	(9.6)	(3.2)
Relative (%)	(10.7)	(21.4)	(26.3)

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	51.35	50.24
FIs & Local MFs	2.43	2.41
FPIs	5.14	5.05
Public & Others	41.08	42.30
Pledged Shares	3.60	3.60

Source : BSE

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Exhibit 1: Recent organisational restructuring

Industrial Groups (IG)	IG Head	Remarks
Industrial, Manufacturing and Energy & Utilities	Poornima Bethmangalkar	>2 years at Happiest; former Wipro - Head Presales & Strategy - Automotive
Healthcare & Lifesciences	Srinivas Iyengar	>2 years at Happiest; former TietoEvry - VP Healthcare
Retail, CPG & Logistics	Priya Prasad	< 1 year at Happiest; former PwC Director - Data & Analytics Strategy & Transformation - CPG & Retail
BFSI	Subhasis Bandyopadhyay	> 1 year at Happiest; former Mindtree
EdTech	Viswanath Subramaniam	> 8 years at Happiest
Hi-Tech, Media & Entertainment	To be announced	

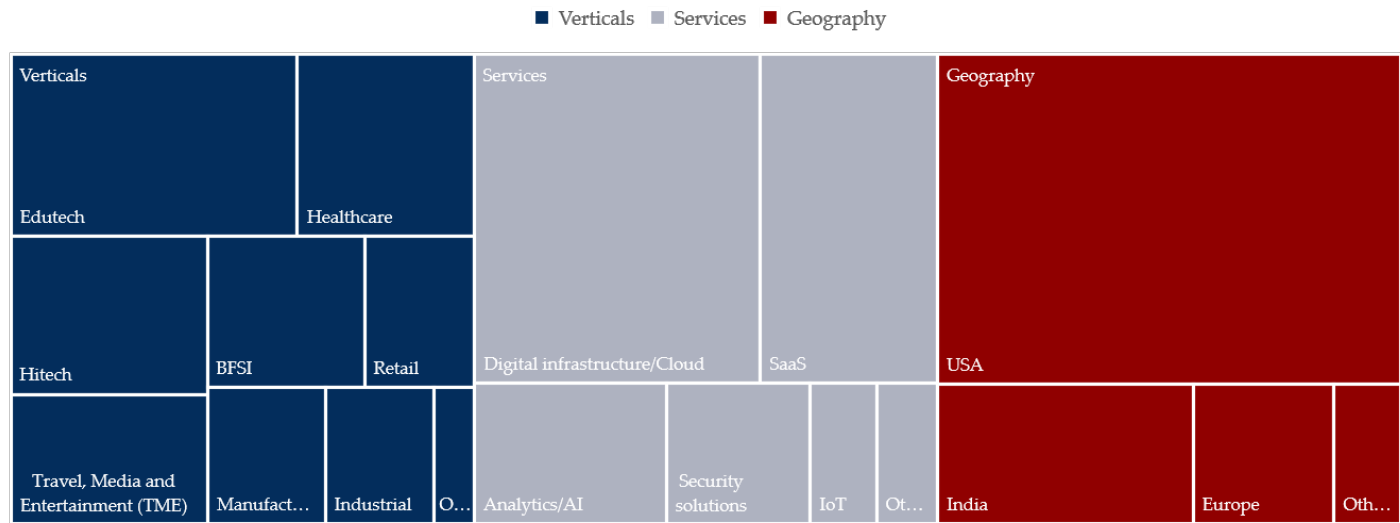
Source: Company, HSIE Research

Exhibit 2: Recent deal wins

Vertical	Deals
EdTech	build Gen AI-powered hyper-personalized tutor, study plan generator and assistant platform for global education and learning company
Manufacturing	strategic partnership on Microsoft Azure for automotive service company
Hi-Tech	build digital retail platform for Australian Hi-Tech company
Healthcare & Life-science	upgrade the proprietary surgery platform for better UX
Manufacturing	strategic partnership for dealer experience and omni-channel experience platform for largest automotive OEM
Others	upgrade of customer facing platform for leading property marketplace of South Asia
Industrial	Consulting for data platform for global material handling equipment manufacturer

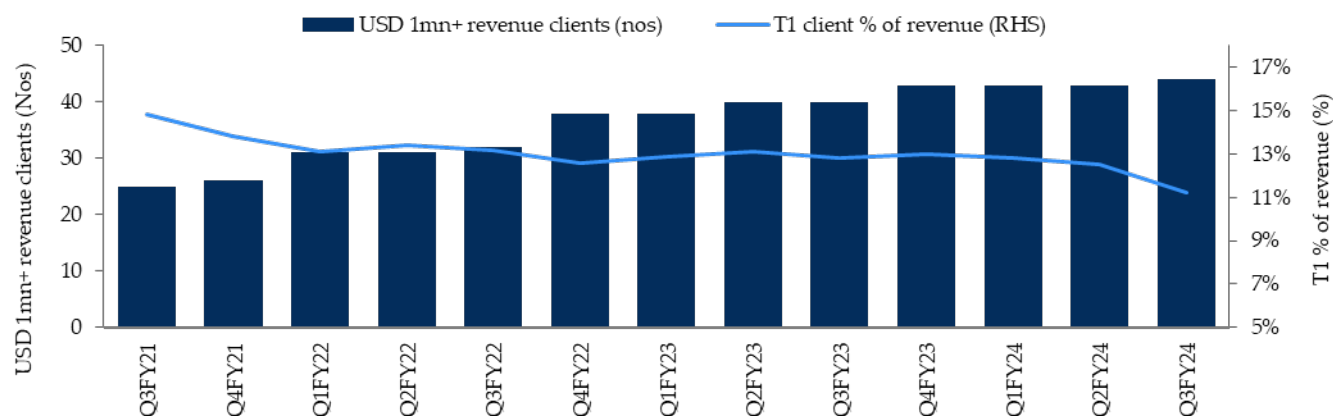
Source: Company, HSIE Research

Exhibit 3: HAPPSTMN’s revenue mix



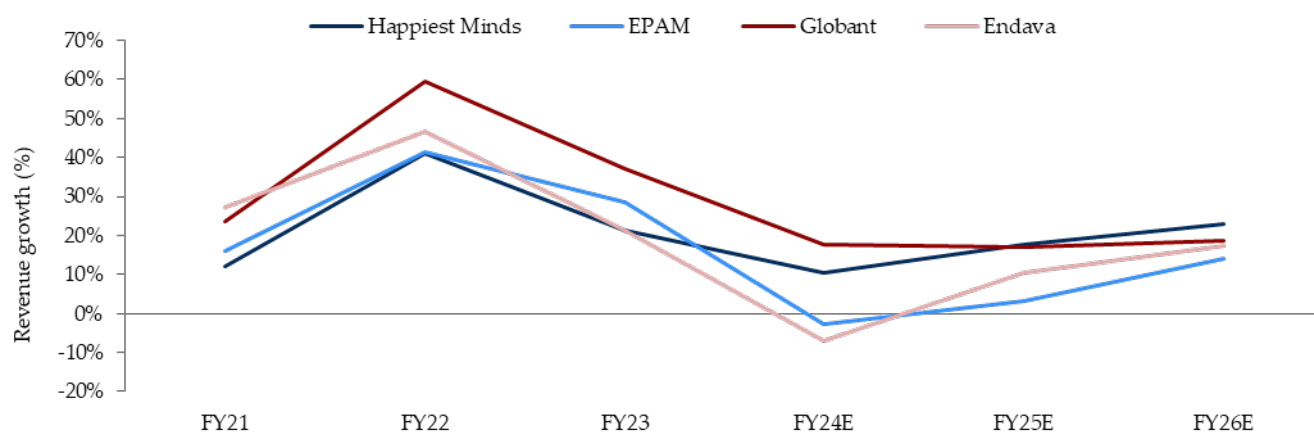
Source: Company, HSIE Research

Exhibit 4: Reduction in T1 client concentration and growing base of USD 1mn+ accounts



Source: Company, HSIE Research

Exhibit 5: Revenue deceleration/recovery trends similar to peers



Source: Company, Bloomberg, HSIE Research; Note: FY24E implies CY23 for EPAM, Globant; EPAM, Globant, Endava estimates as per Bloomberg

Quarterly Performance

	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Revenue (USD mn)	35.8	37.8	39.9	42.2	44.3	45.3	45.9	47.6	49.1	49.4
Revenue growth QoQ %	8.0%	5.5%	5.5%	5.9%	5.0%	2.1%	1.4%	3.6%	3.3%	0.5%
Revenue growth YoY %	45.4%	44.4%	33.7%	27.4%	23.8%	19.8%	15.2%	12.7%	10.8%	9.0%
EBITDAM (%)	22.9%	23.9%	23.8%	26.4%	25.5%	24.4%	24.4%	22.9%	20.3%	19.7%
EBITM (%)	19.7%	21.0%	20.9%	23.5%	22.7%	21.7%	21.0%	19.2%	16.7%	16.1%
APATM (%)	16.8%	17.2%	17.3%	17.1%	16.7%	17.4%	15.3%	14.9%	14.4%	14.3%

Revenue mix by verticals (%)

Edutech	23.2%	22.6%	23.6%	23.7%	23.8%	23.2%	22.2%	24.1%	25.0%	24.0%
Hitech	13.5%	18.3%	16.7%	15.6%	16.6%	15.7%	19.5%	14.8%	14.2%	14.3%
BFSI	13.3%	12.5%	13.7%	13.7%	14.2%	10.3%	10.8%	11.0%	10.3%	10.9%
Travel, M&E	13.0%	12.3%	13.7%	12.7%	12.5%	13.1%	13.2%	12.0%	11.6%	11.7%
Healthcare	NA	NA	NA	NA	NA	NA	NA	12.9%	13.8%	14.8%
Retail	10.6%	10.6%	10.1%	10.0%	8.9%	10.4%	7.7%	7.1%	7.2%	7.6%
Industrial	6.6%	7.3%	6.6%	8.2%	7.7%	9.2%	8.3%	8.2%	7.6%	6.8%
Manufacturing	8.3%	9.4%	10.1%	10.0%	10.4%	10.0%	10.7%	5.4%	6.3%	7.4%
Others	11.6%	7.0%	5.4%	6.1%	5.8%	8.2%	7.6%	4.4%	4.0%	2.5%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Revenue mix by services (%)

Digital infrastructure/Cloud	42.8%	43.6%	45.5%	45.7%	45.4%	45.4%	46.9%	44.2%	42.3%	43.3%
SaaS	19.6%	19.6%	21.7%	21.5%	21.3%	20.1%	20.7%	22.2%	27.1%	26.8%
Security solutions	12.2%	12.2%	11.8%	11.7%	12.3%	13.4%	12.3%	10.1%	9.3%	9.3%
Analytics/AI	12.5%	11.9%	11.3%	11.6%	12.8%	12.5%	12.2%	13.9%	12.9%	12.4%
IoT	9.8%	8.5%	6.6%	6.2%	5.1%	5.2%	5.4%	4.6%	3.7%	4.3%
Others	3.1%	4.2%	3.1%	3.3%	3.1%	3.4%	2.5%	5.0%	4.7%	3.9%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Revenue mix by business units (%)

Product Engineering Services (PES)	46.2%	46.4%	46.5%	47.0%	47.0%	46.7%	49.4%	50.4%	50.4%	49.5%
Digital Business Services (DBS)	29.4%	29.1%	28.2%	29.8%	29.7%	30.1%	28.9%	27.6%	27.2%	28.1%
Infra Management & Security Services (IMSS)	21.0%	21.6%	22.1%	22.1%	21.9%	21.1%	19.5%	18.6%	17.2%	16.8%
Others	3.4%	2.9%	3.2%	1.1%	1.4%	2.1%	2.2%	3.4%	5.2%	5.6%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Revenue mix by geography (%)

USA	65.9%	66.6%	65.7%	66.6%	67.9%	67.5%	70.5%	71.9%	71.5%	70.3%
India	13.0%	14.6%	16.2%	15.8%	16.1%	15.4%	15.0%	15.5%	15.7%	16.4%
Europe	11.1%	9.8%	10.4%	10.7%	9.3%	9.4%	9.4%	8.7%	9.0%	9.0%
Others	10.0%	9.0%	7.8%	6.9%	6.7%	7.7%	5.1%	3.9%	3.8%	4.3%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Company, HSIE Research

Quarterly performance

	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Client & Supply side metrics										
Top Clients % of revenue										
Top 1	13.4%	13.2%	12.6%	12.9%	13.1%	12.8%	13.0%	12.8%	12.5%	11.2%
Top 5	31.1%	30.6%	30.7%	30.4%	30.8%	29.9%	28.9%	28.0%	28.9%	28.9%
Top 10	46.3%	44.6%	44.1%	42.9%	43.3%	42.6%	41.9%	40.8%	42.6%	42.7%
Top 20	61.5%	59.8%	60.6%	58.2%	58.5%	57.9%	56.3%	55.0%	57.0%	56.4%
Customers across revenue bands										
USD 1mn+	31	32	38	38	40	40	43	43	43	44
USD 5mn+	7	5	5	6	6	6	7	7	8	8
USD 10mn+	1	1	1	2	2	2	1	1	1	1
< USD 1mn	155	163	168	173	186	190	194	200	201	201
Supply side metrics (Nos)										
Onsite headcount	182	183	172	185	210	228	227	244	231	224
Offshore headcount	3,614	3,838	3,996	4,003	4,371	4,383	4,690	4,804	5,054	5,022
Total headcount	3,796	4,021	4,168	4,188	4,581	4,611	4,917	5,048	5,285	5,246
Attrition (%) (voluntary TTM)	18.5%	21.1%	22.7%	24.4%	23.5%	20.9%	19.8%	16.6%	14.4%	14.1%
Utilisation (%)	79.7%	81.0%	79.4%	79.1%	80.6%	80.1%	74.6%	74.6%	75.6%	76.7%

Source: Company, HSIE Research

Exhibit 6: Change in estimates

YE Mar (INR bn)	FY24E Old	FY24E Revised	Change %	FY25E Old	FY25E Revised	Change %	FY26E Old	FY26E Revised	Change %
Revenue (USD mn)	196	196	(0.1)	231	227	(1.7)	284	279	(1.8)
Revenue	16.26	16.24	(0.1)	19.42	19.08	(1.7)	24.17	23.74	(1.8)
EBIT	2.79	2.78	(0.5)	3.52	3.45	(1.9)	4.50	4.49	(0.2)
EBIT margin (%)	17.2	17.1	-6bps	18.1	18.1	-3bps	18.6	18.9	30bps
APAT	2.37	2.36	(0.4)	3.01	2.96	(1.6)	3.75	3.75	(0.2)
EPS (INR)	15.6	15.5	(0.4)	19.8	19.5	(1.6)	24.7	24.6	(0.2)

Source: HSIE Research

Financials

Income Statement

Year ending March (INR bn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net Sales (USD mn)	104	147	178	196	227	279
<i>Growth (%)</i>	12.2	41.0	21.3	10.4	15.8	22.9
Net Sales	7.73	10.94	14.29	16.24	19.08	23.74
<i>Growth (%)</i>	10.8	41.4	30.7	13.6	17.5	24.4
Employee Expenses	4.52	6.20	8.07	10.14	11.79	14.50
SG&A and Other Operating Expenses	1.30	2.16	2.64	2.73	3.17	3.94
EBIDTA	1.91	2.58	3.59	3.36	4.12	5.30
Depreciation	0.23	0.33	0.42	0.59	0.67	0.81
EBIT	1.69	2.25	3.17	2.78	3.45	4.49
<i>EBIT (%)</i>	21.8	20.6	22.2	17.1	18.1	18.9
<i>EBIT Growth (%)</i>	119.5	33.2	41.0	(12.4)	24.2	30.2
Other Income	0.24	0.31	0.15	0.86	0.98	1.00
Interest	0.07	0.10	0.22	0.43	0.43	0.43
PBT	1.86	2.46	3.10	3.21	4.00	5.06
Tax (incl deferred)	0.24	0.65	0.79	0.83	1.04	1.32
RPAT	1.62	1.81	2.31	2.37	2.96	3.75
APAT	1.62	1.87	2.37	2.36	2.96	3.75
<i>APAT Growth (%)</i>	95.8	15.3	26.7	(0.5)	25.5	26.5
EPS (INR)	10.7	12.3	15.6	15.5	19.5	24.6
<i>EPS Growth (%)</i>	95.8	15.3	26.7	(0.5)	25.5	26.5

Source: Company, HSIE Research

Balance Sheet

Year ending March (INR bn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
SOURCES OF FUNDS						
Share Capital - Equity	0.28	0.29	0.29	0.30	0.30	0.30
Reserves	5.18	6.37	8.10	14.55	16.37	18.75
Total Shareholders' Funds	5.46	6.66	8.39	14.85	16.67	19.05
Total Debt	1.46	1.91	4.68	4.68	4.68	4.68
Net Deferred Taxes	(0.03)	(0.02)	0.08	0.08	0.08	0.08
Long Term Provisions & Others	0.53	0.70	0.92	0.92	0.92	0.92
TOTAL SOURCES OF FUNDS	7.43	9.24	14.07	20.53	22.35	24.73
APPLICATION OF FUNDS						
Net Block	0.52	0.79	2.93	3.14	3.65	4.25
CWIP	0.00	-	0.02	0.02	0.02	0.02
Goodwill	0.76	0.79	1.39	1.39	1.39	1.39
Other non-current assets	0.39	0.33	1.21	1.21	1.21	1.21
Total Non-Current Assets	1.67	1.91	5.55	5.76	6.27	6.87
Cash & Equivalents	5.37	6.32	6.92	12.92	13.79	14.84
Debtors	1.22	1.67	2.13	2.42	2.85	3.54
Other Current Assets	0.86	1.28	1.68	1.87	2.15	2.62
Total Current Assets	2.08	2.95	3.81	4.30	5.00	6.16
Creditors	0.41	0.61	0.71	0.80	0.94	1.17
Other Current Liabilities & Provns	1.28	1.33	1.51	1.64	1.77	1.97
Total Current Liabilities	1.69	1.94	2.22	2.44	2.71	3.14
Net Current Assets	0.39	1.02	1.60	1.85	2.30	3.02
TOTAL APPLICATION OF FUNDS	7.43	9.24	14.07	20.53	22.35	24.73

Source: Company, HSIE Research

Cash Flow

Year ending March (INR bn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Reported PBT	1.86	2.46	3.10	3.21	4.00	5.06
Non-operating & EO items	(0.07)	(0.12)	(0.15)	(0.62)	(0.73)	(0.74)
Interest expenses	0.07	0.10	0.22	0.43	0.43	0.43
Depreciation	0.23	0.33	0.42	0.59	0.67	0.81
Working Capital Change	(0.29)	(0.55)	(0.63)	(0.26)	(0.44)	(0.72)
Tax paid	(0.36)	(0.53)	(0.89)	(0.83)	(1.04)	(1.32)
OPERATING CASH FLOW (a)	1.44	1.68	2.07	2.50	2.89	3.52
Capex	(0.01)	(0.04)	(1.39)	(0.79)	(1.18)	(1.41)
Free cash flow (FCF)	1.43	1.64	0.68	1.71	1.71	2.11
Investments	(2.83)	(0.84)	(2.03)	-	-	-
Non-operating income	-	-	-	0.62	0.73	0.74
INVESTING CASH FLOW (b)	(2.84)	(0.88)	(3.43)	(0.17)	(0.45)	(0.67)
Debt Issuance	0.67	(0.21)	(0.26)	-	-	-
Interest expenses	(0.04)	(0.03)	(0.15)	(0.43)	(0.43)	(0.43)
FCFE	2.06	1.40	0.27	1.29	1.28	1.68
Share capital Issuance	1.06	0.02	0.01	5.01	-	-
Dividend/buyback	-	(0.68)	(0.57)	(0.91)	(1.14)	(1.37)
FINANCING CASH FLOW (c)	1.69	(0.91)	(0.97)	3.67	(1.57)	(1.80)
NET CASH FLOW (a+b+c)	0.29	(0.11)	(2.32)	6.00	0.87	1.05
Non-operating and EO items	3.80	1.06	2.92	-	-	-
Closing Cash & Equivalents	5.37	6.32	6.92	12.92	13.79	14.84

Source: Company, HSIE Research

Key Ratios

	FY21	FY22	FY23	FY24E	FY25E	FY26E
PROFITABILITY (%)						
GPM	41.5	43.3	43.6	37.6	38.2	38.9
EBITDA Margin	24.8	23.6	25.1	20.7	21.6	22.3
APAT Margin	21.0	17.1	16.6	14.5	15.5	15.8
RoE	40.0	30.9	31.5	20.3	18.8	21.0
RoIC (or Core RoCE)	66.3	66.5	46.9	27.8	31.6	36.0
RoCE	30.4	23.3	21.8	15.5	15.3	17.3
EFFICIENCY						
Tax Rate (%)	12.7	26.3	25.5	26.0	26.0	26.0
Fixed Asset Turnover (x)	NA	NA	7.4	7.2	7.1	7.4
Debtors (days)	58	56	54	54	54	54
Other Current Assets (days)	41	43	43	42	41	40
Payables (days)	19	20	18	18	18	18
Other Current Liab & Provns (days)	60	44	39	37	34	30
Cash Conversion Cycle (days)	18	34	41	42	44	46
Debt/EBITDA (x)	0.8	0.7	1.3	1.4	1.1	0.9
Net D/E (x)	(0.7)	(0.7)	(0.3)	(0.6)	(0.5)	(0.5)
Interest Coverage (x)	24	23	14	7	8	10
PER SHARE DATA (INR)						
EPS	10.7	12.3	15.6	15.5	19.5	24.6
CEPS	12.2	15.1	19.2	19.4	23.8	29.9
Dividend	3.0	3.8	5.4	6.0	7.5	9.0
Book Value	36	46	58	98	110	125
VALUATION						
P/E (x)	77.9	67.6	53.3	53.6	42.7	33.8
P/BV (x)	23.2	18.2	14.4	8.5	7.6	6.6
EV/EBITDA (x)	64.1	47.4	34.7	35.2	28.5	22.0
EV/Revenues (x)	15.9	11.2	8.7	7.3	6.2	4.9
OCF/EV (%)	1.2	1.4	1.7	2.1	2.5	3.0
FCF/EV (%)	1.2	1.3	0.5	1.4	1.5	1.8
FCFE/Mkt Cap (%)	1.6	1.2	0.2	1.0	1.0	1.3
Dividend Yield (%)	0.4	0.5	0.6	0.7	0.9	1.1

Source: Company, HSIE Research

1 Yr Price Movement



Rating Criteria
BUY: >+15% return potential
ADD: +5% to +15% return potential
REDUCE: -10% to +5% return potential
SELL: > 10% Downside return potential

Disclosure:

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