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Initiating Coverage

HAPPIEST MINDS

INSTITUTIONAL RESEARCH

Happiest Minds Technologies

Higher for longer

ADD

Happiest Minds (HAPPSTMN) is a high-growth, high-quality, high-valuation IT services company. It has a high potential to scale and its growth aspirations are within historical precedents; recent reorganisation can accelerate its growth ahead. HAPPSTMN's high quality is reflected in its service portfolio, strong approval ratings, superior execution metrics, and stable senior leadership. The current scale of the business, the distinction in quality and the disproportionate impact for potential recovery in discretionary services in the sector will lead to 'higher for longer' growth and can keep valuation higher than peers. We initiate coverage on the company with an ADD recommendation and TP of INR 935, based on 38x FY26E.

- **High potential for scalability:** HAPPSTMN has progressed well in both mining its customers as well as adding large logos. The ask rate of market share gains for HAPPSTMN is plausible and well within the historical market share displacement for companies that have scaled 5x. The new organisational structure can leverage the multi-disciplinary strengths of the company and support its growth and transition to a vertical structure. The timeline of growth aspirations is at a historical average for IT companies that scaled a similar magnitude in the last 25 years.

- **'High quality' features:** HAPPSTMN is a capability-focused organisation with strong practices, which is reflected in its superior approval ratings as well as a stable and tenured leadership team. It has augmented its capabilities with acquisitions to build a healthcare vertical and will continue to tap the inorganic route. In our mid-tier IT assessment framework, the company scores high on growth and execution. HAPPSTMN has strong partnerships with hyperscalers and high-growth platforms and is catching up with larger peers. It has the lowest cost of delivery as well as low dependence on sub-contractors, which largely supports its superior margin profile. The company has a diversified vertical base, reduced client concentration risk, and lower exposure to BFSI volatility.

- **High valuations can persist:** We estimate HAPPSTMN will grow its revenue and EPS at 21% CAGR and 24% CAGR respectively over FY24-26E, which is in line with the mid-tier average. However, HAPPSTMN's valuation is higher than peers average with PEG at 1.8x as compared to peers at 1.5x which is factoring in 'higher for longer' revenue growth (16% CAGR implied growth over FY23-38E). Faster recovery in discretionary spending in the sector and value accretive acquisition ahead can be positive triggers for the stock which currently trades at 42x and 34x FY25E and FY26E (valuation multiples are down >15% from 48x at the beginning of the year).

CMP *(as on 4 Dec 2023)*	INR 839
Target Price	INR 935
NIFTY	20,687

KEY STOCK DATA

Bloomberg code	HAPPSTMN IN
No. of Shares (mn)	152
MCap (INR bn) / ($ mn)	128/1,562
6m avg traded value (INR mn)	433
52 Week high / low	INR 1,023/763

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(8.5)	(9.7)	(14.9)
Relative (%)	(13.4)	(19.8)	(24.4)

SHAREHOLDING PATTERN (%)

	Jun-23	Sep-23
Promoters	53.24	51.35
FIs & Local MFs	1.26	2.43
FPIs	4.52	5.14
Public & Others	40.98	41.08
Pledged Shares	3.73	3.60

Source : BSE

Pledged shares as % of total shares

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Financial summary

YE March (INR bn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Revenue (USD mn)	104	147	178	200	240	291
Net Revenue	7.73	10.94	14.29	16.59	20.19	24.75
EBIT	1.69	2.25	3.17	2.94	3.67	4.59
APAT	1.62	1.87	2.37	2.45	3.05	3.74
Diluted EPS (INR)	10.7	12.3	15.6	16.1	20.0	24.6
P/E (x)	78.6	68.2	53.8	52.2	41.9	34.1
EV / EBITDA (x)	64.7	47.9	35.0	33.8	27.1	21.7
RoE (%)	40.0	30.9	31.5	21.0	19.2	20.8

Source: Company, HSIE Research

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Focus Charts

Exhibit 1: The ask rate of market share gains to achieve USD 1bn aspiration is plausible
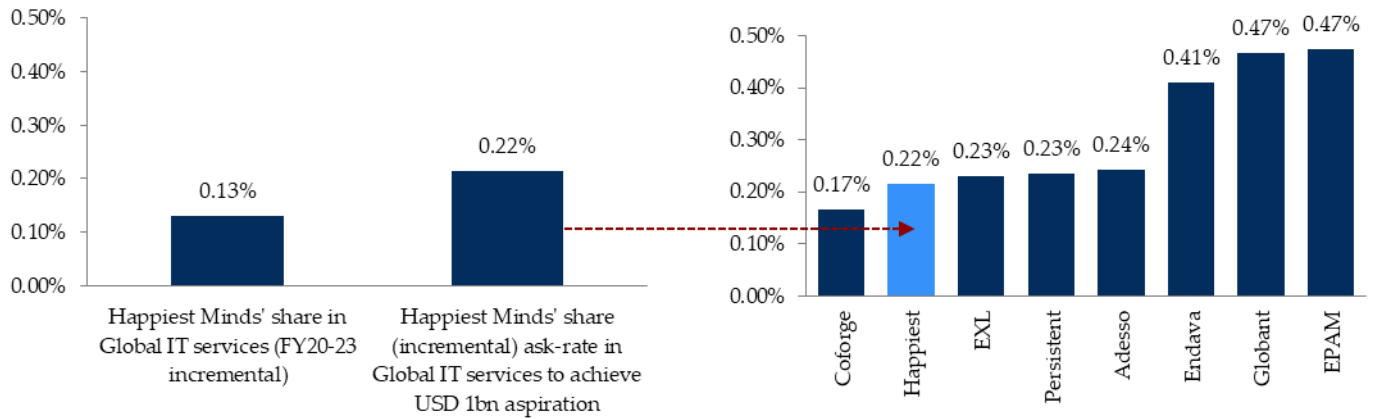
Source: Company, Bloomberg, HSIE Research

Exhibit 2: Mid-tier IT assessment framework

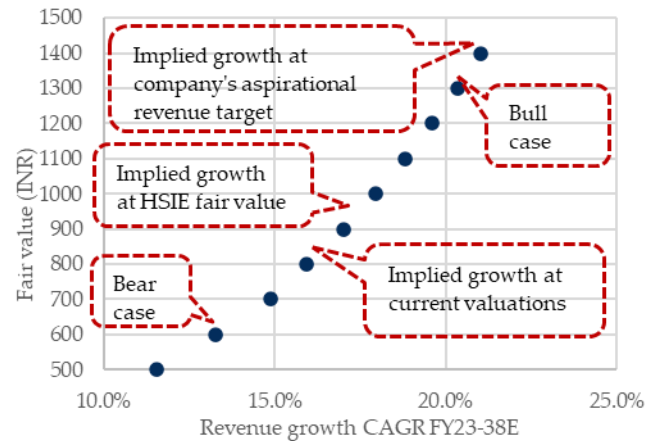|	BSOFT	MPHL	ZENT	COFORGE	SSOF	MAST	PSYS	HAPPSTMN
Growth Grid	◑	◔	◔	●	●	◑	●	◑
Services Portfolio Grid	◑	●	●	●	◔	◑	●	◑
Execution Grid	●	◔	●	●	●	◔	●	●
Financial & Valuation Metrics	●	●	●	◑	◑	●	◑	◔
Average	◑	◑	●	●	◑	◑	●	◑

Source: Company, HSIE Research, Note: COFORGE estimates are based on Bloomberg consensus

Exhibit 3: Valuation premium to IT index at the lowest level
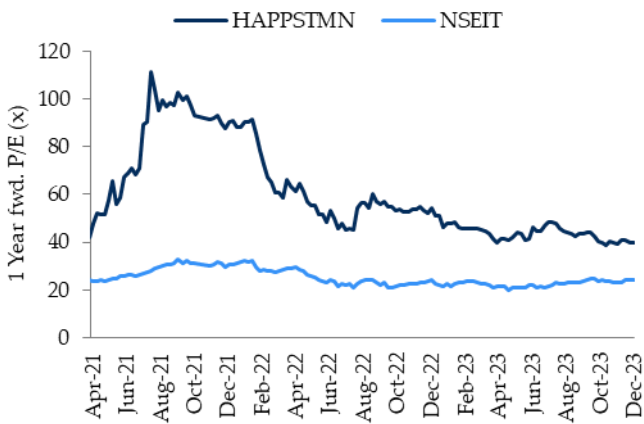
Source: Bloomberg, HSIE Research

Exhibit 4: Sensitivity of fair value and implied revenue growth (FY23-38E CAGR)

Source: HSIE Research

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Company at a Glance

YE March (INR bn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net Revenues (USD mn)	**104**	**147**	**178**	**200**	**240**	**291**
Growth (%)	*12.2*	*41.0*	*21.3*	*12.8*	*19.9*	*21.2*
Net Revenues	7.73	10.94	14.29	16.59	20.19	24.75
EBITDA	1.91	2.58	3.59	3.53	4.37	5.43
EBIT	1.69	2.25	3.17	2.94	3.67	4.59
EBIT (%)	*21.8*	*20.6*	*22.2*	*17.7*	*18.2*	*18.5*
PBT	1.86	2.46	3.10	3.31	4.12	5.06
APAT	1.62	1.87	2.37	2.45	3.05	3.74
EPS (INR)	**10.7**	**12.3**	**15.6**	**16.1**	**20.0**	**24.6**

Balance Sheet (Consolidated)						
Cash & Equivalents	5.37	6.32	6.92	12.94	13.77	14.83
Debtors	1.22	1.67	2.13	2.47	3.01	3.69
Other Current Assets	0.86	1.28	1.68	1.91	2.26	2.72
Total Current Assets	**7.45**	**9.27**	**10.73**	**17.32**	**19.05**	**21.24**
Net Block	0.52	0.79	2.95	3.15	3.67	4.27
Goodwill & Other Intangible Assets	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**
Creditors	0.41	0.61	0.71	0.82	0.99	1.22
Other Current Liabilities & Provns	1.28	1.33	1.51	1.65	1.81	2.01
Total Current Liabilities	**1.69**	**1.94**	**2.22**	**2.47**	**2.80**	**3.22**
TOTAL APPLICATION OF FUNDS	**7.43**	**9.24**	**14.07**	**20.61**	**22.51**	**24.89**
Total Shareholders' Funds	5.46	6.66	8.39	14.93	16.84	19.21
Total Debt	1.46	1.91	4.68	4.68	4.68	4.68
Other Liabilities + Minority	0.50	0.68	1.00	1.00	1.00	1.00
TOTAL SOURCES OF FUNDS	**7.43**	**9.24**	**14.07**	**20.61**	**22.51**	**24.89**

Cash Flow (Consolidated)						
Operating Cash Flow (OCF)	**1.44**	**1.68**	**2.07**	**2.56**	**2.97**	**3.64**
Capex + Acq	-0.01	-0.04	-1.39	-0.80	-1.22	-1.45
Free Cash Flow (FCF)	**1.43**	**1.64**	**0.68**	**1.77**	**1.76**	**2.19**
Investing Cash Flow	-2.84	-0.88	-3.43	-4.85	-0.55	-0.77
Financing Cash Flow	1.69	-0.91	-0.97	3.66	-1.59	-1.82
Closing Cash & Equivalents	**5.37**	**6.32**	**6.92**	**12.94**	**13.77**	**14.83**

Key Ratios						
RoE (%)	**40.0**	**30.9**	**31.5**	**21.0**	**19.2**	**20.8**
RoIC (%)	66.3	66.5	46.9	29.4	33.0	36.1
Tax Rate (%)	12.7	26.3	25.5	26.0	26.0	26.0
Debtors – billed (days)	58	56	54	54	54	54
DPS (INR/sh)	3.0	3.8	5.4	6.0	7.5	9.0
P/E (x)	**78.6**	**68.2**	**53.8**	**52.2**	**41.9**	**34.1**
EV/EBITDA (x)	64.7	47.9	35.0	33.8	27.1	21.7
Payout Yield (%)	0.0	0.5	0.4	0.7	0.9	1.1

Source: Company, HSIE Research

Happiest Minds is a niche IT services company with 5k employees and ~USD 200mn revenue + 20%+ EBITDA margin, focusing on product engineering services with diversified industry verticals spanning across Hi-Tech, EduTech, Healthcare, Media & Entertainment, Retail & CPG, BFSI.

Revenue mix by verticals, services & geographies

Revenue mix by verticals: Others 4%, Edutech 25%, Hitech 14%, BFSI 10%, Travel M&E 12%, Healthcare 14%, Retail 7%, Industrial 8%, Manufacturing 6%

Revenue mix by services: Others 5%, Digital infrastructure/Cloud 42%, SaaS 27%, Security solutions 9%, Analytics/AI 13%, IoT 4%

Revenue mix by geographies: USA 72%, India 16%, Europe 9%, Others 4%

Revenue trend
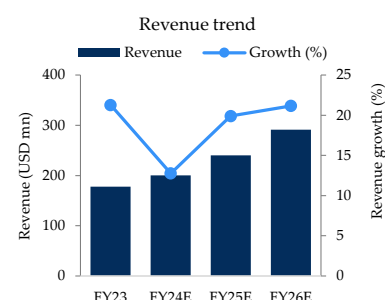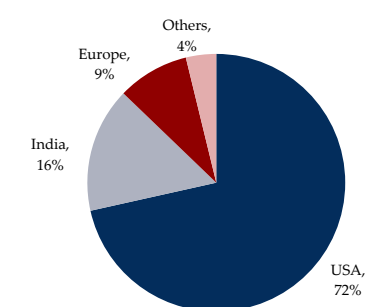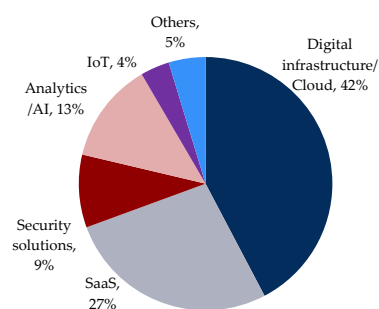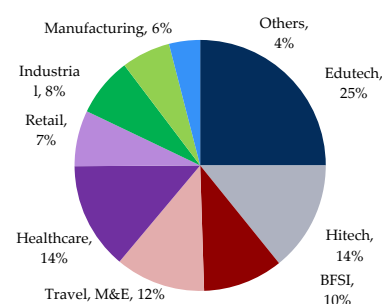
High potential for scalability

### Empirical evidence — the case of high growth for long periods

In this section, we evaluate HAPPSTMN's scalability prospects and look at the empirical evidence of IT companies globally that have scaled 5x from USD 200mn to USD 1bn revenue rate. We have looked at an exhaustive set for IT companies that hit a billion-dollar revenue mark in the last 25 years and their growth drivers in scaling 5x from a USD 200mn revenue rate.

Key inferences include: (1) IT companies in the last 25 years have taken on an average of ~8.5 years to scale 5x from USD 200mn revenue rate; (2) efficiency and margins of companies have been unchanged on an average in the 5x scaling; (3) P/E multiples have been rerated higher by 50% en route; (4) ask-rate of market share in the sector for HAPPSTMN is well within the average to scale to its billion-dollar ambition.

### Valuations rerate when businesses scaled 5x

The average timeline for IT sector companies to scale 5x from USD 200mn revenue rate has been 8.5 years (ranging from 4 years to as high as 16 years). Some of the highest compounding at that scale happened in Cognizant, EPAM, Endava, Mphasis and Atos across periods of the 1990s, 2000s, 2010s and 2020s. Most companies' efficiency improved as they scaled from 200mn to a billion, but the median RoE was similar. The operating margin profile was also similar on average. However, valuations rerated by ~50% when the companies scaled 5x. In the case of HAPPSTMN, the start point for valuations is high which is building in a fair deal of certainty of high growth for long. However, the valuations could go even higher if the company achieves its aspirational targets.

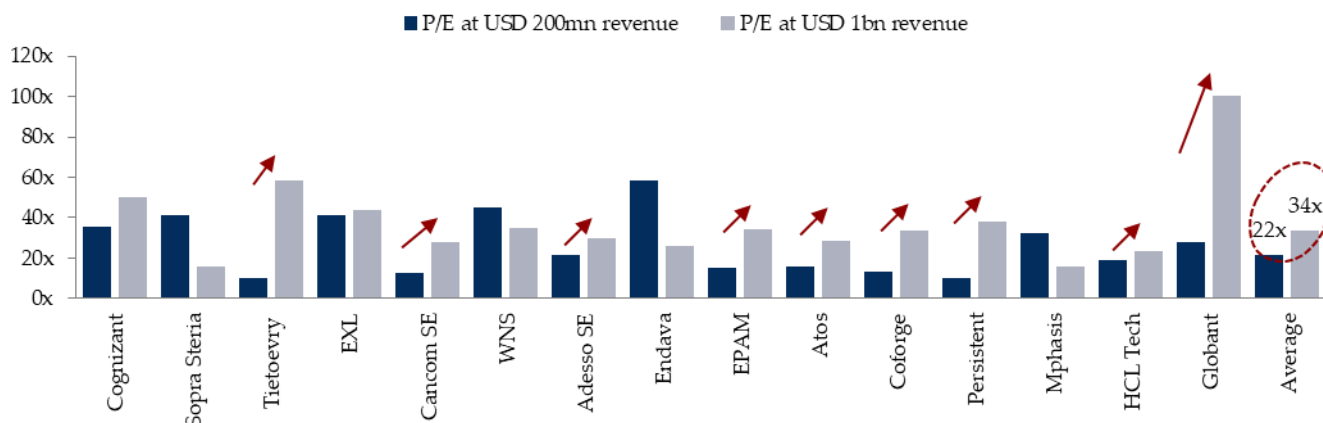**Exhibit 5: Revenue CAGR averaged 27% with scale-up from USD 200mn to USD 1bn revenue**
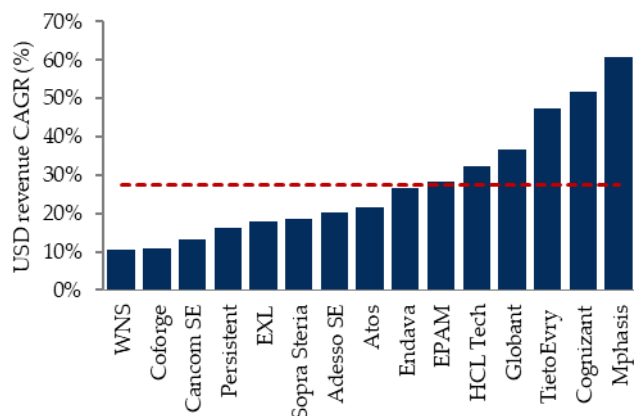
Source: Company, Bloomberg, HSIE Research

Exhibit 6: Unchanged operating margin and efficiency from USD 200mn to USD 1bn
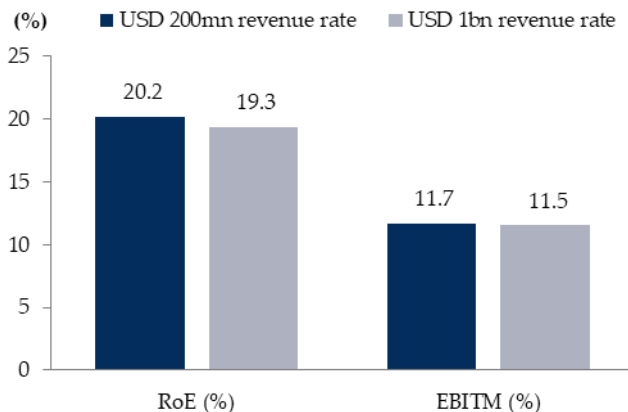
Source: Company, Bloomberg, HSIE Research

Exhibit 7: P/E multiples expanded from 22x to 34x when business scaled from USD 200mn to USD 1bn

Source: Company, Bloomberg, HSIE Research

Market share displacement ask rate within reach

The ask rate of market share gains for HAPPSTMN is well within the historical market-share displacement for companies that scaled 5x. HAPPSTMN has taken a 0.13% incremental market share within global IT services over the past three years from FY20 to FY23. To achieve its aspiration of USD 1bn revenue by FY31, HAPPSTMN needs to take a 0.22% incremental market share within global IT services over the same period (we're building a 0.13% incremental market share). This ask rate on market-share gains relative to the industry is well within the historical average of companies that scaled up. In the past, IT companies took 0.2% to 0.5% incremental market share of the industry when they climbed from 200 million to a billion dollars, which provides some sense of competitive advantage and industry tailwinds/headwinds across cycles.

Coforge and Persistent scaled this over 16 years and 12 years respectively to get to a billion-dollar mark from 200 million; both companies took 0.2% incremental market share to get to the mark. On the fast lane were companies such as EPAM, Endava and Globant, which scaled to a billion in 5-7 years from under 200 million; each company took >0.4% incremental market share in global IT services over their respective period.

Exhibit 8: 5x history—list of IT companies that scaled from 200mn to 1bn

| Company	No. of years to scale from USD 200mn to USD 1bn revenue (years)	Year when reached USD 1bn revenue	Growth CAGR (%)	RoE (%)		P/E (x)	
				At USD 200mn revenue	At USD 1bn revenue	At USD 200mn revenue	At USD 1bn revenue
Cognizant	4	FY07	52%	27	26	36x	50x
Atos	7	FY98	21%	76	NA	15x	29x
Sopra Steria	10	FY07	19%	8	22	41x	16x
TietoEvry	5	FY00	47%	16	20	10x	58x
EXL	10	FY20	18%	8	11	41x	44x
Cancom	13	FY15	13%	0	7	13x	28x
Adesso	9	FY23	20%	8	14	22x	30x
WNS	16	FY22	11%	30	18	45x	35x
EPAM	6	FY17	28%	15	14	15x	34x
Globant	6	FY22	37%	27	9	28x	101x
Endava	5	FY23	27%	32	19	58x	26x
HCL Tech	5	FY06	32%	12	21	19x	23x
Coforge	16	FY23	11%	40	24	13x	34x
Persistent	12	FY23	16%	20	25	10x	38x
Mphasis	3	FY10	61%	22	52	32x	16x
Average/Median	**~8.5**		**27%**	**20**	**19**	**22x**	**34x**

Source: Company, Bloomberg, HSIE Research

Scalability of business—concentrated route vs diversification route

Happiest Minds is a 95% digital company with 55 clients from Fortune 2000 companies. Over the past three years, Happiest Minds' F2000 client count has been higher by 50%, with the company adding 18 new F2000 logos.

We reckon that verticals such as hi-tech, BFSI, retail & CPG, and healthcare are expected to drive growth ahead for the company, based on larger tech budgets residing in these segments and the verticalization focus of the company to tap the opportunity. To transition to a vertical structure, HAPPSTMN has formed a new business unit called product & digital engineering services (PDES), which combines the earlier business units of product engineering services (PES) and digital business services (DBS).

Exhibit 9: The ask rate of market share gains to achieve USD 1bn aspiration is plausible
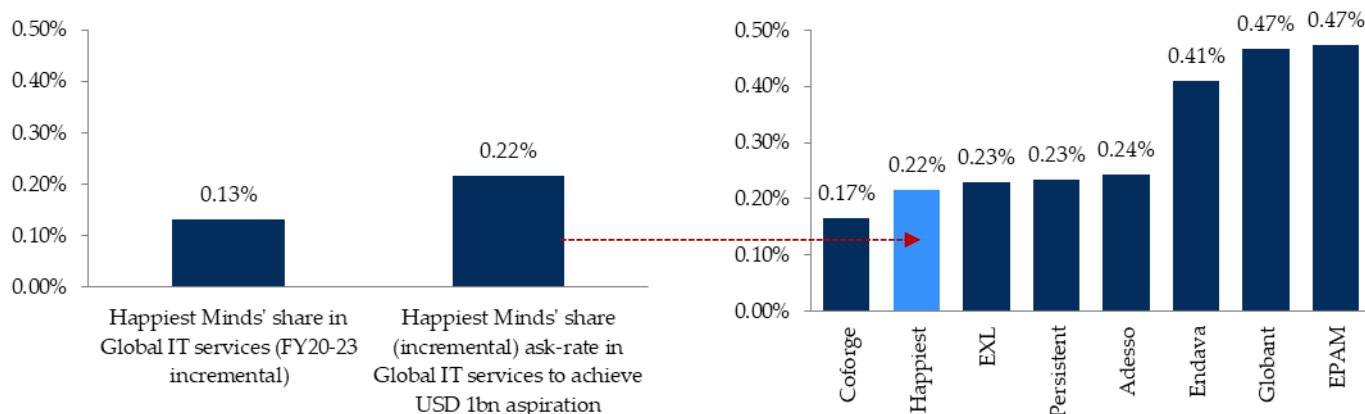
Source: Company, Bloomberg, HSIE Research

Concentrated growth route

The business scale-up for most of the larger peers has been driven by concentration—either client-specific or within verticals. For instance, Endava's growth has been centric around the payments and financial services vertical, which has been over 50% of its revenue over the past five years (2018 to 2023) when it scaled from 200 million to a billion.

Another classic instance of concentration-led growth is Mindtree, which was driven by its T1 account (Microsoft). ~30% of the company's incremental growth was driven by its largest account, which grew from 7% of revenue to >20% of revenue when it reached the billion-dollar threshold, as the Microsoft account of the company scaled from USD 30mn in FY12 (Mindtree company revenue at USD 400mn) to USD 200mn in FY19 (Mindtree company revenue at USD 1bn). Over this period, Microsoft's spending with Mindtree increased from 0.04% of its revenue to 0.16%.

Recent instances of growth in ER&D services peers also reflect a similar trend (although not scaled to billion dollars), with companies such as Tata Elxsi and KPIT, whose growth has been disproportionately driven by their large accounts.

This could potentially play out in HAPPSTMN as the company has 57 accounts that are enterprises with revenue rates USD 1bn+ or in F2000, which have a larger tech spend pool; HAPPSTMN has already made inroads into many of its large logos as it contributes >40% to its revenue, despite a premium bill rate. Importantly, HAPPSTMN has progressed well in both mining its customers as well as adding large logos.

Diversification route

EPAM had its vertical mix unchanged within its large financial services (including its T1 client UBS), travel & consumer, and media & entertainment verticals. On the other extreme end, Globant's vertical mix became more diversified as it scaled from 200 million to a billion. As compared to a higher skew in verticals such as media & entertainment (including T1 customer Disney), tech & communications and travel & hospitality, the mix became more broad-based as verticals such as BFSI, retail & CPG and healthcare scaled. In the case of Globant, geo diversification also played out as it scaled in the local market (Latin America) as well as in Europe relative to North America geography (Globant's geo mix changed from 84/5/10 to 64/10/23 between North America, Europe and Latin America). Over half of the HAPPSTMN's customers are over five years tenure and the company is well-positioned as client concentration risk is currently not higher than larger peers and it can also support disproportionate scale-up within some of the large logos.

Exhibit 10: Client concentration reduced and USD 1mn+ surged as businesses scaled 5x
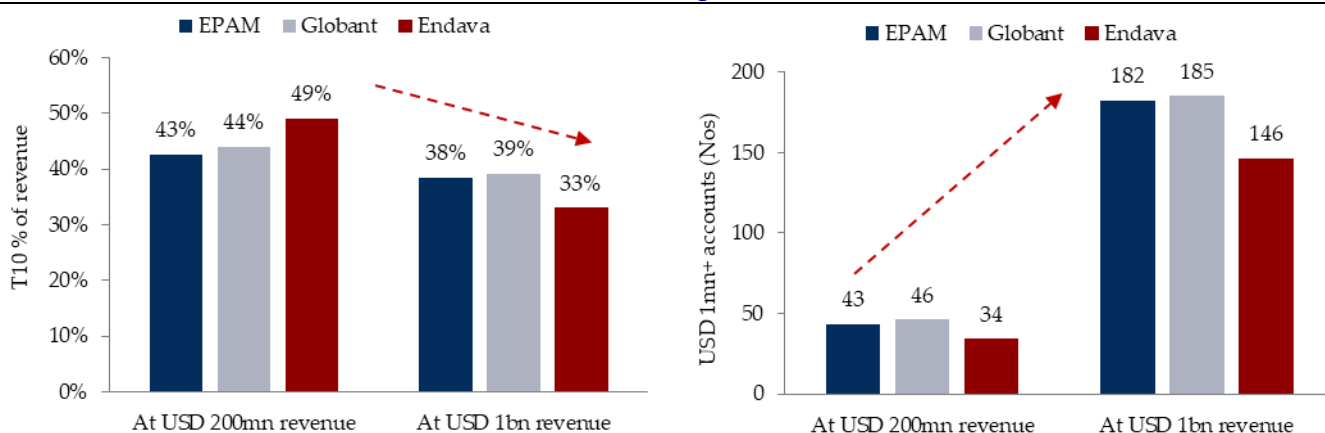
Source: Company, Bloomberg, HSIE Research

**Exhibit 11: HAPPSTMN progressing on both client mining and adding large accounts**
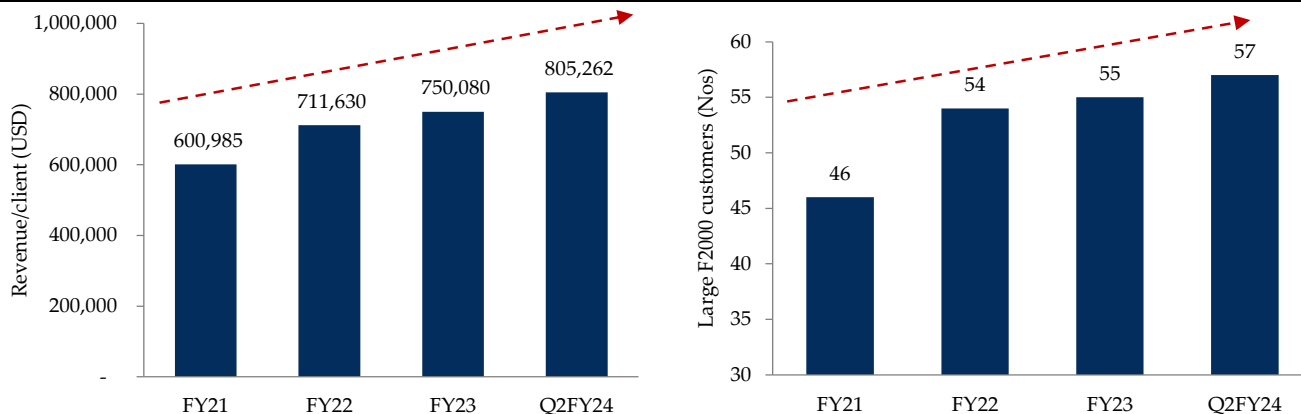
Source: Company, HSIE Research

Multi-disciplinary strengths

Over the past three years, the client concentration risk of Happiest Minds has come down; T10 % of revenue has reduced from 49% of revenue to 43% of revenue currently and T20 % of revenue has reduced from 67% of revenue to 57% of revenue.

Exhibit 12: Client concentration de-risked and high growth in USD 1mn+ vs peers
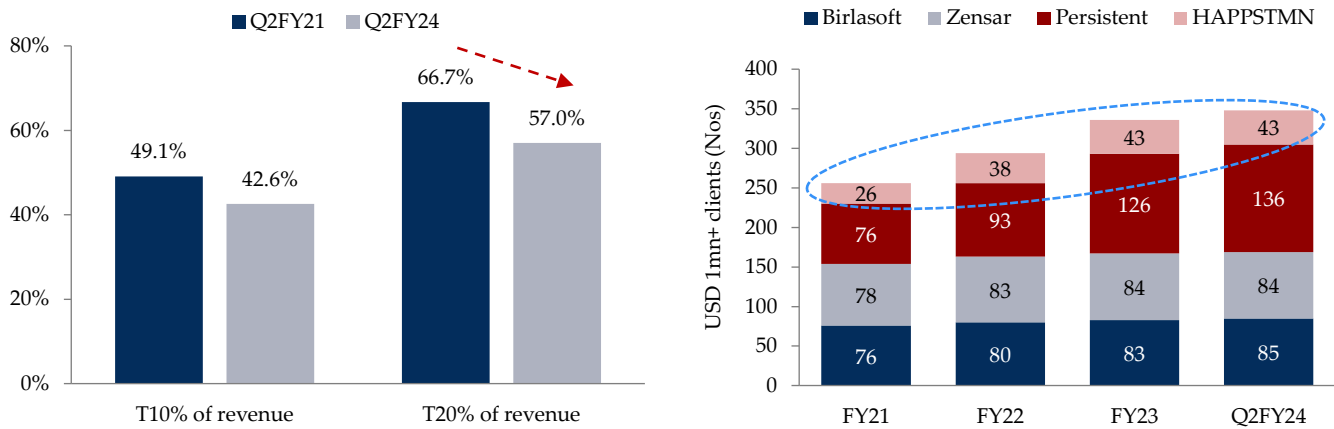
Source: Company, HSIE Research

<u>The new organisational structure can leverage the multi-disciplinary strengths of the company</u>. HAPPSTMN has recently established a new business unit focused on Generative AI (GenAI) as Generative AI Business Services (GBS). The company's GenAI use cases focus includes generating text and numeric data for AI training and developing downstream applications. It is planning for the new unit to offer full-scale GenAI offerings across multiple domains. Some of the applications include the detection of fake reviews on e-commerce websites and conversion of 2D images to 3D that find applications in retail, marketing, industrial, automotive, and healthcare sectors.

Exhibit 13: HAPPSTMN's key services and verticals

Verticals	Segments/ Offerings & Services	
EduTech	Digital Learning & learning platform	design and development of learning widgets, visual tools and adaptive navigation solutions; integrate immersive learning enabled through AR-VR and game-based learning
Client: Ascend Learning, Savvas Learning	Big data for education	learner user behaviour tracking; predictive analytics for learner performance, retention, and engagement
	AI-enabled learning & Digital campus	Institution wide integration and workflow automation; Existing systems application enhancement, modernization and productization
Hi-Tech	Software Product & Platform	platform & product engineering
	AdTech	AI driven programmatic advertisement platforms
Client: DoubleVerify, VeridifySecurity, Gogo	Consumer electronics	use IoT data from the field to inform software updates and future product iterations
	Network & Telecom	Network and service orchestration
Healthcare & Lifescience	Life-sciences & MedTech	connected manufacturing & supply chain, medical device design & development, verification & validation
	Payers & Providers	medical data security & privacy, cybersecurity services
Travel Media & Entertainment	Digital media solutions	digital experience
	Sports entertainment	in-app analytics, fan engagement
Client: Disney	Data analytics and augmented intelligence	viewership analytics, customer and marketing analytics
Banking & Financial services	Capital market & GRC	Regulatory reporting, data governance
	Smart operations and digital banking	API integration, automation testing, data migration and consolidation, social gamification, automated document generation, live dashboards for insights

Source: Company, HSIE Research

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GenAI Use cases

EdTech

    (1) AI tutor as a cost-efficient and effective way to mentor students
    (2) Instructor Assistant for better pedagogy to provide real-world conversation experience
    (3) Flash card creation and personalised student summaries for better learning outcomes
    (4) Creating personalized easy-to-consume educational content (audio/video/content)

Health Tech

    (1) Research and analysis of medical data including specific medical conditions, treatments, drugs, or clinical trials
    (2) Extracting structured patient data from various (unstructured) documents

BFSI

    (1) Investment advice to asset managers by analysing the current financial situation and investment objective
    (2) Compliances and regulatory mandates

Others

    (1) Video generation using textual content, summarising an article, virtual assistant and language translation
    (2) Create additional information automatically by giving core information
    (3) Information extraction (unstructured to structured data) from free-flow documents like resumes and medical reports

HAPPST's IPs and platforms

- Ellipse—ITSM/ITOM-enabled platform with analytics and machine learning capabilities ensuring infrastructure operations and IT-as-a-service.

- Digital Content Monetisation (DCM) SaaS—content and digital assets monetisation.

- UniVu—big data-based university analytics solution for course delivery, administrative insights and student success analytics.

- Pro-RiTE—test automation tool using system engineering for UI, API and performance security testing.

- ThingCenter—consumer IoT platform for device connectivity and management to aggregate data from various devices.

- CourseMap—course choice and scheduling tool for students mentoring.

- Nethra—parking space monitoring and management including license plate recognition, payment kiosk and boom barrier tracking.

Competitive advantage vs larger peers

High scores in growth and execution

We have assessed HAPPSTMN across ~35 parameters of growth, services portfolio, execution capabilities, and financial & valuation metrics. Growth parameters include growth trends in revenue, profit, headcount, and large accounts. Services portfolio parameters include hyperscaler and digital portfolio, IT portfolio, advisor ratings, account concentration, size and potential. Execution parameters include cost of delivery, onsite cost metrics, sub-contracting dependence, productivity and employer ratings. Financial parameters include valuations and financial metrics. Based on the mid-tier IT assessment framework, HAPPSTMN scores above Mphasis and Mastek and scores closer to Birlasoft and Sonata. HAPPSTMN scores higher than average in the growth grid and the execution grid, but below the average in services portfolio grid and financial and valuation metrics.

Key inferences from the mid-tier IT assessment framework include the following: (1) HAPPSTMN scores at the top-end in the growth grid and execution grid; (2) there is higher growth in revenue/EBITDA/headcount which is driving the growth grid; (3) the execution grid leadership is driven by lower cost of delivery—both offshore and onshore, lower dependence on sub-contractors and high employer ratings; (4) the service portfolio grid, lower than average, is impacted by lower scale (relative to peers) in Salesforce, AWS arising out of the scale differential largely even as the company has strength in multi-disciplinary software product engineering services as a pureplay provider with negligible legacy services; (4) the low score in financial and valuation metrics is arising out of higher valuations and relatively weaker cash generation/payout.

HAPPSTMN scores low in the portfolio grid as the breadth of services is less than some of the larger peers. The ratings also factor scale in the high-growth technology segments where HAPPSTMN has a disproportionately higher presence (digital is >95% of revenue).

Exhibit 14: Mid-tier IT assessment framework

	BSOFT	MPHL	ZENT	COFORGE	SSOF	MAST	PSYS	HAPPSTMN
Growth Grid	◑	◔	◔	●	●	◑	●	●
Services Portfolio Grid	◑	●	●	●	◔	◑	●	◑
Execution Grid	●	◔	●	●	●	◔	●	●
Financial & Valuation Metrics	●	●	●	◑	◑	◑	◑	◔
Average	◑	◑	●	●	◑	◑	●	◑

Source: Source: Company, HSIE Research, Note: COFORGE estimates are based on Bloomberg consensus

Exhibit 15: HAPPSTMN higher on growth & execution grid

Source: Company, HSIE Research, Note: COFORGE estimates are based on Bloomberg consensus

Strength in cloud services reflected in partnerships

HAPPSTMN is expanding its partnerships with large hyperscalers (also clients) to strengthen its presence in product engineering services. Its key partnerships are with (1) Outsystems—a strategic partner; (2) Pimcore—a strategic partner; (3) AWS—an advanced consulting services partner (higher certifications than Mastek); (4) Microsoft —a cloud partner; (5) ServiceNow—a premier managed services partner (similar tiering as Zensar, EPAM, Globant, Endava). Some of the growth drivers for HAPPSTMN are expected to be led by Microsoft services, Outsystems and ServiceNow. Platforms such as Outsystems and Appian are important in building enterprise applications and demand for low-code application is increasing (for instance low code tools is expected to be responsible for 65% of application development by 2024). HAPPSTMN's partner ecosystem is catching up with larger peers and is already ahead of peers in segments such as Outsystems. HAPPSTMN has leveraged its analytics and platform engineering capabilities for a large customer in the media segment. Another key client engagement includes DoubleVerify (a software platform for digital media measurement and analytics) which would help the company expand its offerings into connected TV and OTT platforms.

HAPPSTMN is a Microsoft Solution Partner with over 1,500 certified professionals and >20 co-sell-ready solutions across Web & Application Innovation, Data & AI, Azure Infrastructure, and Modern Workplace. It works on Azure IoT and Power Platform across the verticals. A marquee win for HAPPSTMN in this was a deal from Coca-Cola, which was a Microsoft Azure-led win for the company. As part of the engagement, HAPPSTMN executed a digital transformation project for Coca-Cola bottling to streamline its order management with Microsoft Power Automate. It used Microsoft Automate (UI flow) for the robotics process automation and AI features to extract invoice information from PDF files and built an auto email reader on the order confirmation, shipment & invoicing, and an admin dashboard to manage exceptions for its clients.

Some of the other partnerships that the company has is with Snowflake for its data cloud, with Talend for data integration services, with Automation Anywhere for BOT development and deployment & intelligent document processing. HAPPSTMN is enhancing its capabilities and delivery presence in AI-ML, cloud engineering, Agile and DevSecOps in areas such as Identity & Access Management services. Some of the growth opportunities for the company are in the BFSI vertical, supported by a large spending pool and in areas of Risk & Compliance in BFS (HAPPSTMN leveraging partnerships such as CredQUant) and in Cloud services in the insurance segment.

Exhibit 16: HAPPSTMN's key partnerships

Technology Partners	Partnership tiering	Details
Pimcore	Global Partner	delivered 300+ projects >7 years
Microsoft	Microsoft Cloud partner	Power automate RPA, one of the leading deployments of power automate, 1,500+ Microsoft certified professionals
Outsystems	Strategic partnership	Low code application development
AWS	Advanced consulting services partner	Technology expertise in AWS migration; 20+ customer launches
ServiceNow	Premier Partner	

Source: Company, HSIE Research

Happiest Minds: Initiating Coverage

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Exhibit 17: Partner ecosystem catching up with larger peers
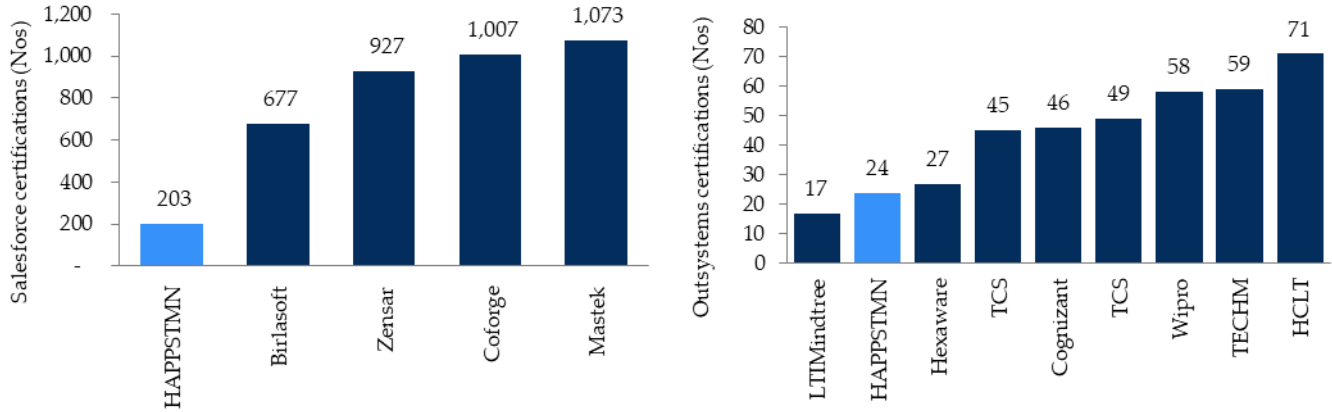
Source: Company, HSIE Research

Exhibit 18: HAPPSTMN featured for low-code application development services
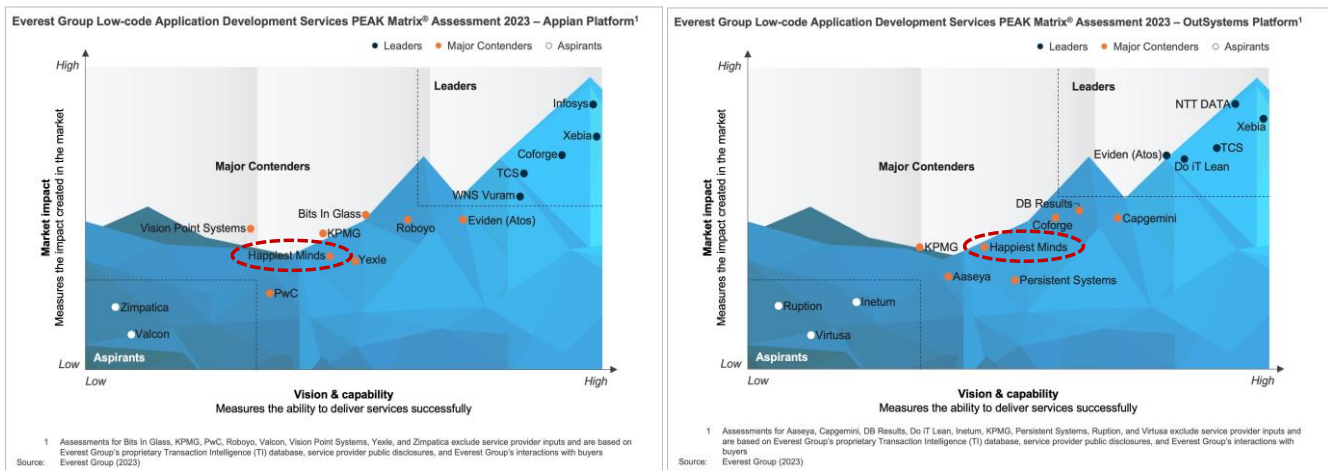
Source: Everest

Exhibit 19: Challenger position in engineering services

Top-15 Engineering Services		Top-5 Engineering Services Challengers	
1	HCL Tech & TCS	1	Mphasis
2	Accenture	2	Infogain
3	Cognizant	3	**Happiest Minds**
4	Capgemini & Wipro	4	Softserve
5	Infosys	5	Cyient
6	Mindtree		
7	GlobalLogic		
8	Tech Mahindra		
9	HARMAN		
10	EPAM		
11	L&T Technology		
12	Globant		
13	Persistent Systems		

Source: Everest, HSIE Research

Vertical alignment to increase ahead

Vertical focus is relatively new at HAPPSTMN and the company has a diverse vertical base relative to the size of the company. Verticals include edutech (25% of revenue), healthcare and hi-tech verticals (14% of revenue each), travel, media & entertainment (12% of revenue), BFSI (10% of revenue), industrial & manufacturing (14% of revenue), and retail & CPG (7% of revenue). Edutech, hi-tech, manufacturing and healthcare verticals are largely product engineering services. Travel, M&E, retail & CPG, and BFSI verticals are largely digital business services. We reckon that some of these verticals may get merged and prioritized to drive greater domain and delivery focus. Hi-tech, BFSI, retail & CPG and healthcare verticals have larger industry budgets and HAPPSTMN is likely to tap into that tech pool.

To transition towards a vertical structure and support the scalability of business, HAPPSTMN has formed a new business unit called Product & Digital Engineering Services (PDES) which combines the earlier business units of Product Engineering Services (PES) and Digital Business Services (DBS). It has also formed a new business unit—Generative AI Business Services (GBS)—to support full-scale offerings across domains. IMSS business unit will also continue as a separate business unit.

Exhibit 20: Recent deal wins

Verticals	Deals
Retail	Setup automation CoE using Microsoft Power platform for Southeast Asian bottling company
Retail	Deliver performance testing & vulnerability assessment for a large ANZ based retail property group
Manufacturing	Provide business intelligence and data visualisation services for a large Australian consumer durables retailer
Others	Provide security assessment services which includes threat modelling and application security for a leading warehouse club operator in US
Hi-Tech	Transform the service delivery platform to drive user experience and end user outcomes for US-based network servicing company
Hi-Tech	Build data platform for industrial internet platform provider of AI and IoT technologies
Industrial	Transform document management systems for automated retention, intelligent search and faster retrieval next generation digital platforms for multi-billion enterprise in energy distribution
Industrial	Provide data engineering and governance services for a large utilities company
Hi-Tech	ASIC Design & Verification services for a global fabless semiconductor company
Retail	Design interactive user interfaces and to provide automation services for the IoT division for large global retailer and hyperscaler
BFSI	Strategic partner to enhance the security posture by leveraging Microsoft Sentinel and CloudSecOps for Australia-based health insurance and service provider
Manufacturing	Consulting-led Operational Technology (OT) solutions for Middle-east based petrochemical company
Others	Streamlined multiple workflows leveraging Microsoft's Power Platform for improved employee experience for a talent fulfilment company in Europe
Hi-Tech	Design and implement the modern data platform on Microsoft Azure for Europe based Hi-Tech
Hi-Tech	Managed database services and ITSM services for global software company
Hi-Tech	Infrastructure and security services
Healthcare	Consulting-led quality assurance and automation services for Digital Surgery Enablement Platform for leading pharma company
Healthcare	Implement cloud-based product life cycle management (PLM) solutions for large bioscience company
Manufacturing	Draft the digital roadmap covering commercial, operations and IT functional areas for specialty chemicals
EduTech	Consolidation of product engineering services, quality engineering and automation services across the teacher and student engagement platform for learning platform existing customer

Source: Company, HSIE Research

Exhibit 21: Revenue mix by verticals and services
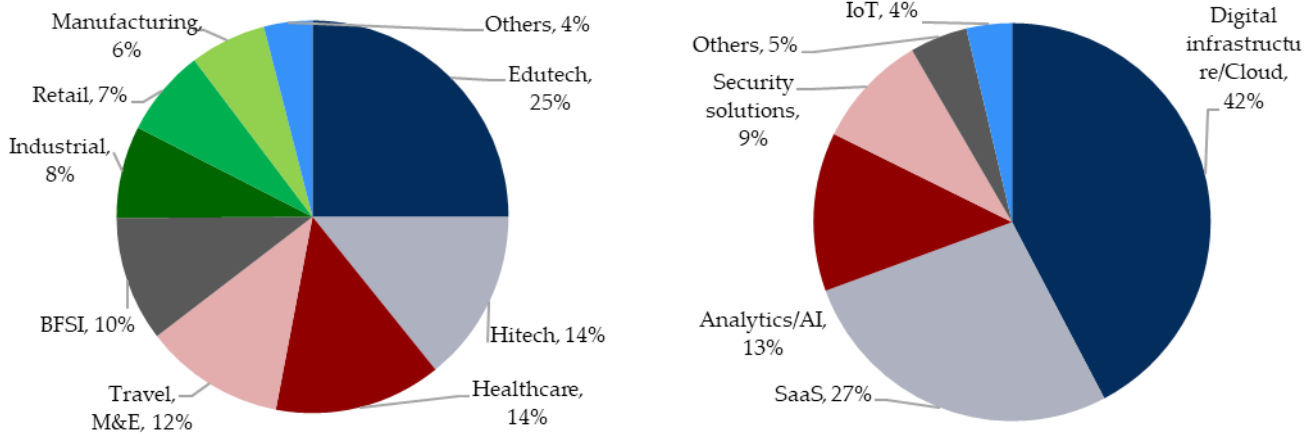
Source: Company, HSIE Research

High profitability and return metrics supported by lower cost of delivery

HAPPSTMN's profitability is superior to peers and is largely attributable to a significantly higher offshore mix of delivery. The company's India headcount (% of total) is higher than peers; 95% of the total as compared to larger peers that range from 77-88% of the total headcount. The lower sub-con expense is tied to the lower onshore mix of the company as compared to peers that are higher onshore.

The average employee expenses for peers range from INR 2mn to 2.9mn (higher by 30-70%), as compared to HAPPSTMN at INR 1.6mn. Employee expense as % of revenue for HAPPSTMN is 56.4% as compared to peers that range in 54% and 64% of revenue. The sub-contractor expense is also lower for HAPPSTMN at 10.4% of revenue (8.3% of revenue in Q2FY24) as compared to peers that average ~15% of revenue.

Exhibit 22: Lower cost of delivery compared to peers
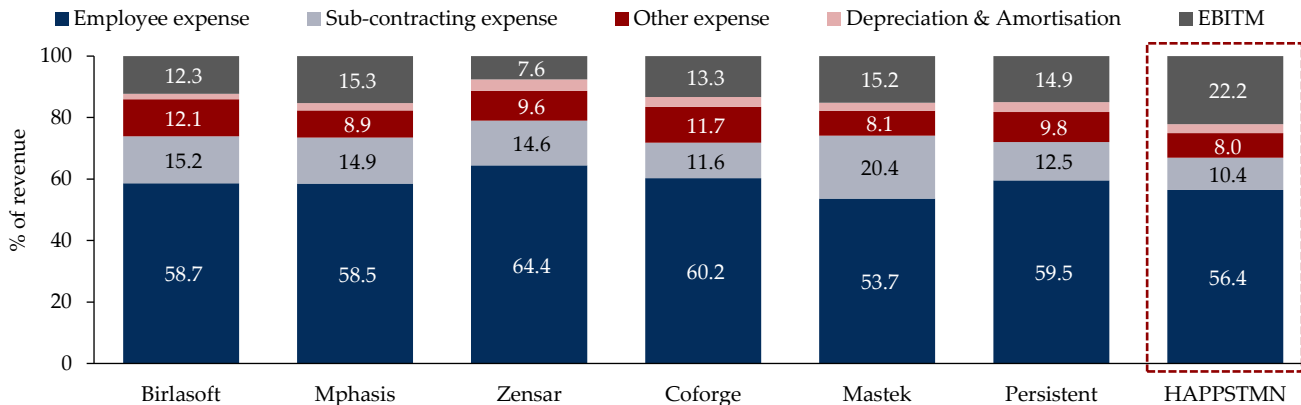
Source: Company, HSIE Research, Note: FY23 numbers

Exhibit 23: Higher India headcount, lower employee cost supporting better margin
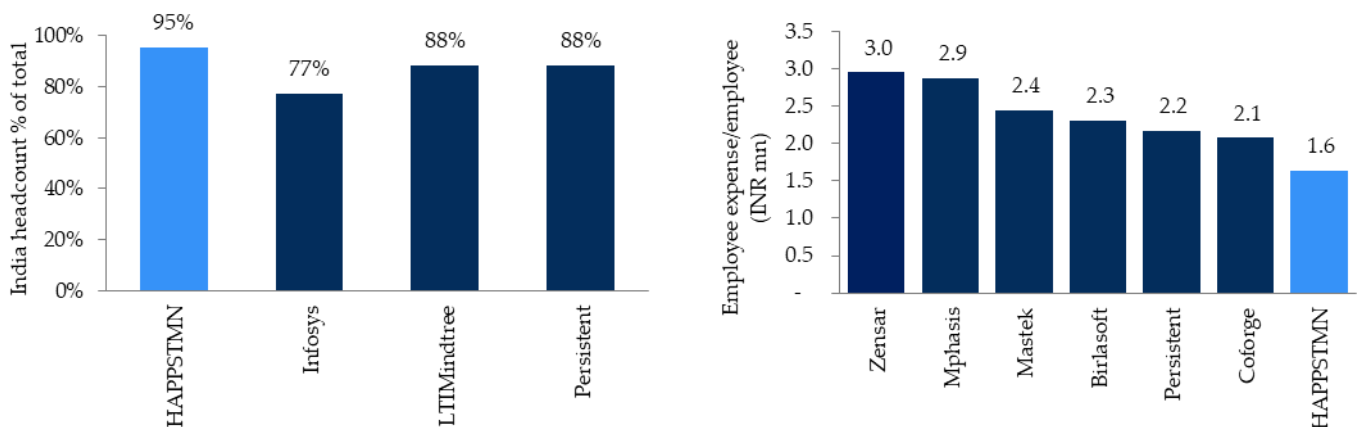
Source: Company, HSIE Research

Exhibit 24: HAPPSTMN at sectoral average in efficiency and cash generation
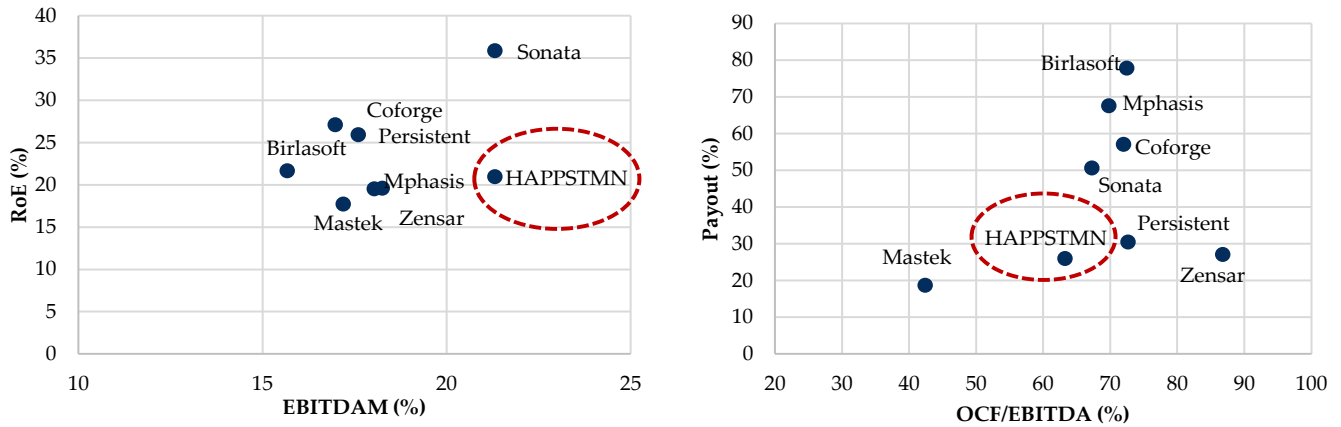
Source: Company, HSIE Research

High offshore delivery

HAPPSTMN's workforce mix has one of the highest offshore mixes at 95%, which includes 4,700 employees in India (includes Bangalore >2k, Noida & Pune >1k), 170 employees in the US, 30 employees in Europe, 20 employees in the UAE and seven employees in Australia. The recent capacity expansion for HAPPSTMN includes office expansion in Bengaluru and Noida and a new 150-seater in Bhubaneshwar.

The company is targeting 25% of revenue from Europe geography and plans to build its Middle East business from acquisitions. The ANZ geography, which is currently 2% of revenue, can go up to 5% of revenue ahead.

Exhibit 25: Delivery presence of Happiest Minds
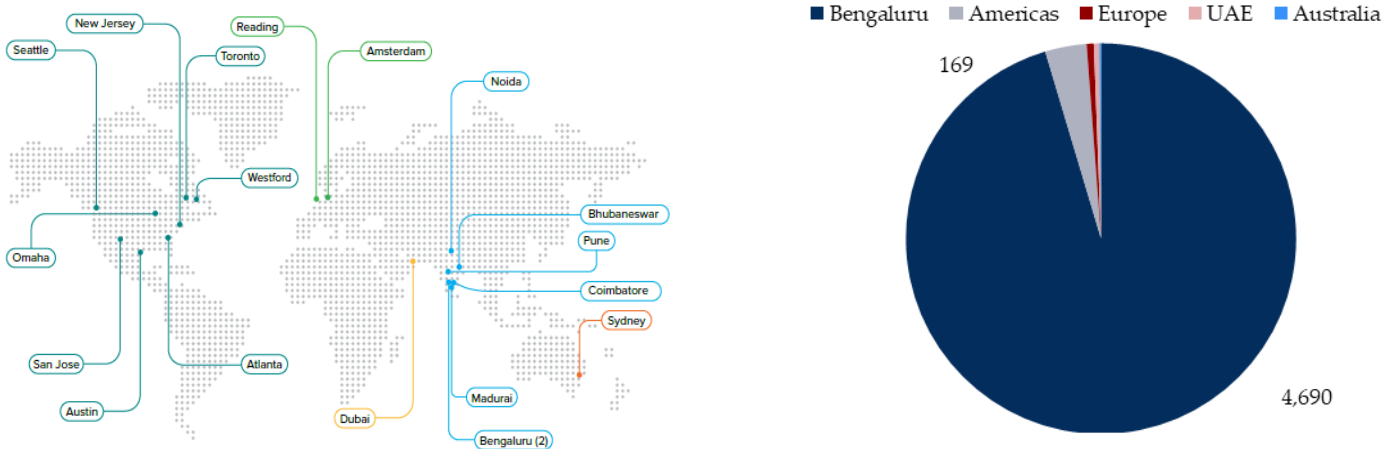
Source: Company, HSIE Research

'High quality' supply side features

Strong approval ratings

HAPPSTMN's 'mindful practices' and positioning create some distinction from other companies. Some of the features that enable the culture of the organization include (1) hiring laterals via referrals and reducing the vendor dependence on hiring which leads to better retention and cultural alignment; (2) co-creation of policies and solicitation of feedback; (3) wage hikes given ahead of industry and check on involuntary attrition (including the lean period of 2016-17); (4) strong impetus to training leading to superior capabilities reflected in higher offshore delivery and lower dependence on sub-contractors.

The learning hours for employees in FY23 were 105K or 25 hours per employee; including the compliance program and orientation program, the total learning hours were 124k or 29.9 hours per employee. Nearly one-third of the training hours were assigned to instructor-led training (both virtual and in-person) and the remaining was carried out via Udemy. These factors are reflected in high ratings in surveys such as Glassdoor or AmbitionBox.

Exhibit 26: High scores in employee approval
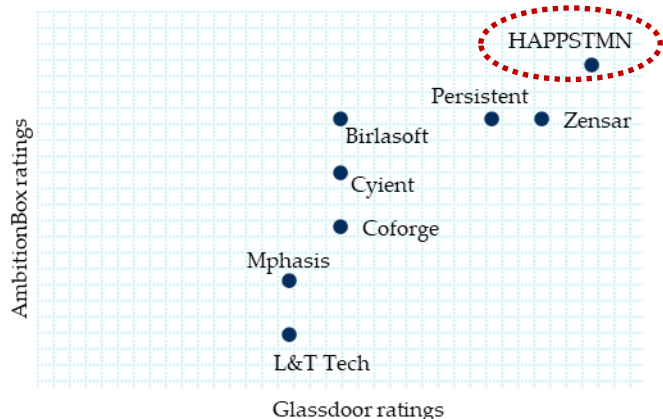
Source: Glassdoor, AmbitionBox, HSIE Research

Company	T100 in GPTW 2023	Company	T100 in GPTW 2023
TCS		Cyient	
Infosys		Tata Elxsi	
Wipro		KPIT Tech	
HCL Tech		Persistent	
TechM		Zensar	
LTIMindtree		Sonata	
Mphasis		Birlasoft	
Coforge		Mastek	
L&T Tech		**HAPPSTMN**	

Source: Great Places to Work, HSIE Research

Exhibit 27: Glassdoor Ratings

	Mphasis	Persistent	Coforge	Birlasoft	L&T Tech	Cyient	Zensar	HAPPSTMN
Overall Review (out of 5)	**3.5**	**3.9**	**3.6**	**3.6**	**3.5**	**3.6**	**4.0**	**4.1**
Culture & Values	3.4	4.0	3.6	3.5	3.5	3.6	4.0	4.1
Diversity & Inclusion	3.5	3.9	3.6	3.5	3.5	3.5	4.0	4.1
Work/Life balance	3.5	3.8	3.6	3.6	3.4	3.6	4.1	4.1
Senior management	3.2	3.6	3.2	3.3	3.2	3.3	3.8	3.9
Compensation & benefits	2.9	3.5	3.3	3.2	2.8	3.0	3.7	3.8
Career opportunities	3.4	3.8	3.5	3.5	3.5	3.5	3.9	4.0
CEO approval (%)	81%	91%	84%	83%	81%	89%	88%	93%

Source: Glassdoor

Exhibit 28: AmbitionBox Ratings

	Mphasis	Persistent	Coforge	Birlasoft	L&T Tech	Cyient	Zensar	HAPPSTMN
Overall Review (out of 5)	**3.5**	**3.8**	**3.6**	**3.8**	**3.4**	**3.7**	**3.8**	**3.9**
Job Security	3.6	3.7	3.4	3.7	3.5	3.9	3.6	3.9
Company Culture	3.4	3.8	3.4	3.6	3.3	3.6	3.7	3.9
Work-Life Balance	3.6	3.8	3.5	3.7	3.4	3.7	3.9	3.9
Skill Development	3.4	3.8	3.3	3.6	3.2	3.5	3.6	3.8
Work Satisfaction	3.3	3.5	3.3	3.5	3.1	3.5	3.5	3.6
Career Growth	2.7	3.3	2.9	3.0	2.6	3.0	3.2	3.5
Salary & Benefits	2.9	3.5	3.3	3.3	2.8	3.1	3.4	3.7

Source: AmbitionBox

Exhibit 29: Recent job openings at HAPPSTMN

Role	Experience	Location	Openings (Nos)
PHP Symfony Developer	6-11 years	Bhubaneshwar	2
C++ Embedded Developer	3-8 years	Bangalore	1
Front End Developer - React developer & Lead	4-9 years	Bangalore	5
Android Developer	4-8 years	Bhubaneshwar	1
Outsystems Lead & Architect	8-13 years	Bangalore	4
Data Governance Consultant	4-6 years	Bangalore	2
Fullstack Developer	5-8 years	Pune/Bangalore/Bhubaneshwar	5
C# with Azure IoT	4-7 years	Bhubaneshwar	1
Java Architect	10-20 years	Bhubaneshwar	1
IOS Developer	4-9 years	Bhubaneshwar	1
.Net Core-Angular JS/React JS Developer	4-7 years	Bangalore	1

Source: Company, AmbitionBox, HSIE Research

Within the sector, most of the tier-1 IT have deferred the wage increase while most of the mid-tier IT companies have gone ahead with the wage increase even as attrition has moderated (lower than pre-pandemic levels) across the sector. The wage increase/deferral timeline reflects the business momentum (or lack of) across the sector. HAPPSTMN rolled out its wage hike effective July for most of its workforce. Utilisation levels and the hiring addition across the sector also reflect the demand environment; utilisation is currently at 75%, well below the peak levels of 82% and average of 78%.

Exhibit 30: Recent comments by larger peers on wage increases and deferrals

Infosys	"We will calibrate the hiring for FY24 based on the available pool of employees, growth expectations and attrition trends. Wage hike rolled out effective from 1st November."
Wipro	"We did our last salary increase in September of last year and we plan to do that for this year sometime in Q3 - wage hike effective December."
HCL Tech	"The company made a decision to skip the compensation review, starting with the management layer, which is E4+, and also defer for junior to mid-level people by a quarter, which is E3 and below levels. Wage hike effective from October."

Source: Company, HSIE Research

Recent capability upgrades in verticals; acquisition history

HAPPSTMN has made four acquisitions to scale its capabilities in the healthcare (SMI), digital business services (OSSCube and Pimcore Global Services), and IoT solutions (Cupola) verticals. It has acquired several large clients due to these acquisitions, which are expected to be a huge driving force ahead.

- Sri Mookambika Infosolutions (SMI) was acquired for INR 1.11bn (USD 10mn revenue rate), which adds to capabilities in the PES business unit in the healthcare vertical. The acquisition has increased headcount by 400 and enabled delivery capabilities in locations such as Madurai and Coimbatore.

- Pimcore Global Services (PGS) was acquired for USD 8.25mn in Jan 2021; it was a strategic partner to Pimcore and has supported Happiest Minds in becoming Pimcore's largest offshore implementation partner by adding consulting-led sales capabilities. The revenue of PGS at the time of acquisition was USD 10mn in CY20, which included USD 2mn+ revenue for HAPPSTMN.

- OSSCube was acquired in 2017 for a purchase consideration of INR 213mn; it is a consulting-led digital transformation and modernization service provider with competencies in cloud, big data, e-commerce, enterprise mobility and open source.

- Cupola is an IoT solution and service provider for industrial, telecom, smart home, wearable, logistics and smart cities; the company paid INR 69mn towards the acquisition.

Exhibit 31: Strong pedigree and tenured senior leadership

Management	Designation	Tenure at HAPPSTMN	Prior organization
Venkatraman Narayanan	MD & CFO	> 8 year	Sonata Software
Joseph Anantharaju	Vice Chairman & CEO - Product Engineering Services (PES)	> 12 year	Mindtree
Rajiv Shah	President & CEO - Digital Business Services (DBS)	> 4 year	MU Sigma
Ram Mohan	President & CEO - Infra Management & Security Services (IMSS)	> 6 year	Mindtree
Aurobinda Nanda	President Operations & Deputy CEO – PES	> 12 year	Mindtree
Ganapathi T.B	EVP & COO – IMSS	> 12 year	Wipro
Praveen Kumar Darshankar	VP & Head of Legal, Company Secretary & Compliance Officer	> 8 year	Sonata Software
Preeti Menon	SVP & Global Delivery Head - PES business	> 12 year	AOL India
Priya Kanduri	SVP & CTO - IMSS business	> 12 year	Wipro
Raja Sekher	EVP & Head – Engineering & Business Excellence	> 12 year	Infosys
Ramu MR	VP & Head of CoE - Digital Process Automation	> 11 year	Mindtree
Sajith S Kumar	SVP & Chief Information Officer	> 12 year	Mindtree
Sridhar Mantha	President & CEO - Generative AI Business Services	> 12 year	Mindtree
Sundar Ramaswamy	SVP & Head of CoE - AI/Analytics	> 3 year	Antuit India
Vijay Bharti	SVP CISO Head-Cyber Security Practice	> 11 year	Wipro
Sachin Khurana	SVP & Chief People Officer	> 6 year	OSSCube (Acquired by Happiest)
Subhasis Bandyopadhyay	VP - Global BFSI Domain Head	> 1 year	Mindtree
Viswanath Subramaniam	Senior Director and Head of EdTech	> 8 year	Ellucian
Abhijit Roy	Director of the M2M/IoT Practice	> 8 year	Tata Teleservices
Srinivas Iyengar	VP - Healthcare & life sciences	> 2 year	TietoEVRY
Srikant Sowmyanarayanan	Head - HiTech Vertical for PES business	> 11 year	Accenture
Rajesh Mani	Head of Media and Entertainment	> 2 year	Mindtree
Poornima Bethmangalkar	Domain Head - Industrial, Manufacturing & Automotive	> 2 year	Wipro
Priya Prasad	Head CPG & Retail domain	< 1year	PWC

Source: Company, LinkedIn, HSIE Research

SWOT Analysis

Strengths

- Presence in high growth technology segments – Cloud & analytics, LCNC with strong partnerships in Outsystems, Pimcore, Microsoft
- 95%+ digital services portfolio with negligible legacy services
- Diversified vertical base with lower exposure to BFSI vertical
- Superior operating profile supported by high offshore delivery
- Tenured and stable leadership and strong approval ratings

Weakness

- Breadth of services smaller than mid-tier IT peers
- Limited onshore presence to tap opportunities
- High exposure in EduTech vertical/client concentration

Opportunities

- Large room to grow in F2000 client base (57 accounts currently)
- Scope to expand in Europe geography
- Disproportionate impact from pick up in discretionary services in the sector

Threats

- Value destructive acquisition and inefficient capital allocation
- Operating profile impact from onshore investments
- Propensity for attrition to increase based on strong capability

Quarterly Performance

	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY24	Q4FY23	Q1FY24	Q2FY24
Revenue (USD mn)	**33.2**	**35.8**	**37.8**	**39.9**	**42.2**	**44.3**	**45.3**	**45.9**	**47.6**	**49.1**
Revenue growth QoQ %	11.2%	8.0%	5.5%	5.5%	5.9%	5.0%	2.1%	1.4%	3.6%	3.3%
Revenue growth YoY %	42.0%	45.4%	44.4%	33.7%	27.4%	23.8%	19.8%	15.2%	12.7%	10.8%
EBITDAM (%)	23.3%	22.9%	23.9%	23.8%	26.4%	25.5%	24.4%	24.4%	22.9%	20.3%
EBITM (%)	20.3%	19.7%	21.0%	20.9%	23.5%	22.7%	21.7%	21.0%	19.2%	16.7%
APATM (%)	17.1%	16.8%	17.2%	17.3%	17.1%	16.7%	17.4%	15.3%	14.9%	14.4%
Revenue mix by verticals (%)										
Edutech	23.4%	23.2%	22.6%	23.6%	23.7%	23.8%	23.2%	22.2%	24.1%	25.0%
Hitech	14.2%	13.5%	18.3%	16.7%	15.6%	16.6%	15.7%	19.5%	14.8%	14.2%
BFSI	13.4%	13.3%	12.5%	13.7%	13.7%	14.2%	10.3%	10.8%	11.0%	10.3%
Travel, M&E	13.9%	13.0%	12.3%	13.7%	12.7%	12.5%	13.1%	13.2%	12.0%	11.6%
Healthcare	*NA*	*NA*	*NA*	*NA*	*NA*	*NA*	*NA*	*NA*	12.9%	13.8%
Retail	9.6%	10.6%	10.6%	10.1%	10.0%	8.9%	10.4%	7.7%	7.1%	7.2%
Industrial	7.1%	6.6%	7.3%	6.6%	8.2%	7.7%	9.2%	8.3%	8.2%	7.6%
Manufacturing	6.3%	8.3%	9.4%	10.1%	10.0%	10.4%	10.0%	10.7%	5.4%	6.3%
Others	12.0%	11.6%	7.0%	5.4%	6.1%	5.8%	8.2%	7.6%	4.4%	4.0%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Revenue mix by services (%)										
Digital infrastructure/Cloud	42.3%	42.8%	43.6%	45.5%	45.7%	45.4%	45.4%	46.9%	44.2%	42.3%
SaaS	20.2%	19.6%	19.6%	21.7%	21.5%	21.3%	20.1%	20.7%	22.2%	27.1%
Security solutions	11.0%	12.2%	12.2%	11.8%	11.7%	12.3%	13.4%	12.3%	10.1%	9.3%
Analytics/AI	12.9%	12.5%	11.9%	11.3%	11.6%	12.8%	12.5%	12.2%	13.9%	12.9%
IoT	9.9%	9.8%	8.5%	6.6%	6.2%	5.1%	5.2%	5.4%	4.6%	3.7%
Others	3.7%	3.1%	4.2%	3.1%	3.3%	3.1%	3.4%	2.5%	5.0%	4.7%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Revenue mix by business units (%)										
Product Engineering Services (PES)	45.8%	46.2%	46.4%	46.5%	47.0%	47.0%	46.7%	49.4%	50.4%	50.4%
Digital Business Services (DBS)	29.8%	29.4%	29.1%	28.2%	29.8%	29.7%	30.1%	28.9%	27.6%	27.2%
Infra Management & Security Services (IMSS)	20.7%	21.0%	21.6%	22.1%	22.1%	21.9%	21.1%	19.5%	18.6%	17.2%
Others	3.7%	3.4%	2.9%	3.2%	1.1%	1.4%	2.1%	2.2%	3.4%	5.2%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Revenue mix by geography (%)										
USA	67.8%	65.9%	66.6%	65.7%	66.6%	67.9%	67.5%	70.5%	71.9%	71.5%
India	12.4%	13.0%	14.6%	16.2%	15.8%	16.1%	15.4%	15.0%	15.5%	15.7%
Europe	10.4%	11.1%	9.8%	10.4%	10.7%	9.3%	9.4%	9.4%	8.7%	9.0%
Others	9.4%	10.0%	9.0%	7.8%	6.9%	6.7%	7.7%	5.1%	3.9%	3.8%
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

	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY24	Q4FY23	Q1FY24	Q2FY24
Client & Supply side metrics										
Top Clients % of revenue										
Top 1	13.1%	13.4%	13.2%	12.6%	12.9%	13.1%	12.8%	13.0%	12.8%	12.5%
Top 5	30.2%	31.1%	30.6%	30.7%	30.4%	30.8%	29.9%	28.9%	28.0%	28.9%
Top 10	44.4%	46.3%	44.6%	44.1%	42.9%	43.3%	42.6%	41.9%	40.8%	42.6%
Top 20	60.3%	61.5%	59.8%	60.6%	58.2%	58.5%	57.9%	56.3%	55.0%	57.0%
Customers across revenue bands										
USD 1mn+	31	31	32	38	38	40	40	43	43	43
USD 5mn+	4	7	5	5	6	6	6	7	7	8
USD 10mn+	1	1	1	1	2	2	2	1	1	1
< USD 1mn	149	155	163	168	173	186	190	194	200	201
Supply side metrics (Nos)										
Onsite headcount	180	182	183	172	185	210	228	227	244	231
Offshore headcount	3,358	3,614	3,838	3,996	4,003	4,371	4,383	4,690	4,804	5,054
Total headcount	3,538	3,796	4,021	4,168	4,188	4,581	4,611	4,917	5,048	5,285
Attrition (%) (voluntary TTM)	14.7%	18.5%	21.1%	22.7%	24.4%	23.5%	20.9%	19.8%	16.6%	14.4%
Utilisation (%)	82.1%	79.7%	81.0%	79.4%	79.1%	80.6%	80.1%	74.6%	74.6%	75.6%

Source: Company, HSIE Research

Company Profile

Happiest Minds is a niche IT services company with 5k employees and ~USD 200mn revenue + 20%+ operating margin, focusing on product engineering services with diversified industry verticals spanning across hi-tech, edutech, healthcare, media & entertainment, retail & CPG, BFSI. The company was founded in 2011 by Ashok Soota (promoter) who was earlier co-founder of Mindtree and President at Wipro Infotech. The company has strength in cloud and analytics and has forged key partnerships with Outsystems, Pimcore, Microsoft, AWS, and ServiceNow. The company achieved a USD 50mn revenue rate in 2015 and a USD 100mn revenue rate in 2020 and is nearly at a USD 200mn revenue rate. It aspires to reach USD 1bn in revenue (including inorganic) by FY31.

Exhibit 32: Company timeline

2011	Company founded, secured USD 63mn Series A funding from Canaan Partners, Intel Capital and Ashok Soota
2013	Annualised revenue run-rate of USD 20mn
2015	Achieves annualised USD 50mn revenue run-rate and 100+ customers
2016	Revenue run-rate of USD 62mn and turned profitable
2017	Acquisition of OSSCube and Cupola
2020	IPO of INR 7bn—fresh issue of INR 1.1bn and OFS of INR 4.8bn at INR 166/ share
2020	Joseph Anantharaju appointed as Executive Vice Chairman & Venkatraman Narayanan appointed as MD & CFO
2021	Acquisition of PGS to expand Pimcore services
2023	Acquisition of SMI to augment PES healthcare business
2023	QIP of INR 5bn at INR 924/ share ~3.7% dilution

Source: Company, HSIE Research

Exhibit 33: Board Composition

Directors	Designation	Executive	Non-Executive	Independent	Tenure since	Credentials
Ashok Soota	Chairman	Y			2011	Executive Chairman & Founder of Happiest Minds; Chairman & Trustee of SKAN Medical Research Trust and promoter Happiest Health; earlier Cofounder Mindtree and President at Wipro Infotech
Anita Ramachandran	Director		Y	Y	2020	HR expert with 40+ years experience in management consulting, Independent Director of Godrej, Grasim, Metropolis Healthcare, Rane Madras & Kotak Life
Joseph Anantharaju	Director	Y			2011	Cofounder of Happiest Minds, currently Executive Vice Chairman & CEO Product & Digital engineering services with 25+ years of experience, earlier P&L head of Microsoft account at Mindtree
Rajendra Srivastava	Director		Y	Y	2020	Advisory Boards of Istakapaza, the State Bank of India Institute Consumer Banking & Punjab University
Shuba Rao Mayya	Director		Y	Y	2020	30+ years of experience in BFSI industry, Boards of Ace Designers, Ace Manufacturing System, Stovekraft, Le Travenues Technology and Confirm Ticket Online Solutions
Venkatraman Narayanan	MD & CFO	Y			2018	25+ years of experience and CFO at Happiest Minds since 2015; earlier CFO at Sonata Software, Teamlease, Perot Systems, Mindtree

Source: Company, HSIE Research

Exhibit 34: Shareholding Trend (%) & Key Shareholders

(%)	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23
Promoter	53.24	53.24	53.24	53.24	51.35
DIIs	1.48	1.32	1.26	1.26	2.43
FPIs	3.94	4.07	4.15	4.52	5.14
Public/Others	41.34	41.37	41.35	40.98	41.08
Pledged Shares	0.00	2.93	3.73	3.73	3.60

Source: BSE

SR.NO.	Key Shareholders	No. of Shares (mn)	% of Total
1	Ashok Soota (Promoter)	60.1	39.5
2	Ashok Soota Medical Research LLP (Promoter)	17.9	11.8
3	Plutus Wealth Management LLP	5.0	3.3
4	Sriranganarayanan Nuggehalli Krishnamacharya	3.3	2.2
5	Vanguard Group Inc	2.5	1.6
6	PGIM India Asset Management	1.5	1.0
7	BlackRock Inc	1.5	1.0
8	Nanda Aurobinda (Cofounder, currently President Operations & Dep. CEO PES business)	0.9	0.6
9	Dimensional Fund Advisors LP	0.4	0.2
10	Norges Bank	0.3	0.2

Source: Bloomberg

Exhibit 35: Key assumptions (base case)

	FY23	FY24E	FY25E	FY26E
Revenue growth in USD terms (%)	**21.3**	**12.8**	**19.9**	**21.2**
USD-INR	80.4	82.7	84.0	85.0
Headcount (Nos)	4,917	5,533	6,403	7,509
Revenue/employee (USD '000s)	36.2	36.2	37.5	38.8
EBITDAM (%)	**25.1**	**21.3**	**21.7**	**21.9**
EPS (INR)	15.6	16.1	20.0	24.6

Source: Company, HSIE Research

Valuation and recommendation

We estimate HAPPSTMN will grow its revenue and EPS at 21% CAGR and 24% CAGR respectively over FY24-26E, which is in line with the mid-tier average (ranging from 9% to 27% EPS CAGR) over the same period. HAPPSTMN's valuation is higher than peers average with PEG at 1.8x as compared to peers at 1.5x which is factoring in 'higher for longer' revenue growth. Based on reverse-DCF at CMP, the implied USD revenue growth for the company over FY23-38E is 16.5%. HAPPSTMN's valuation premium to the NIFTY IT index is at the lowest level and its valuation premium to larger high-growth peers (Persistent, Globant, and Endava) has also converged. We initiate coverage on Happiest Minds with an ADD recommendation for TP of INR 935, based on 38x FY26E EPS. Our DCF assumptions factor USD revenue growth at 16.6% CAGR over FY23-38E, WACC at 12%, terminal WACC at 11%, and terminal growth at 5.5%. Faster recovery in discretionary spending in the sector and value accretive acquisition ahead can be positive triggers for the stock which currently trades at 42x and 34x FY25E and FY26E (valuation multiples are down >15% from 48x at the beginning of the year).

Exhibit 36: Mid-tier IT EPS/ROE grid
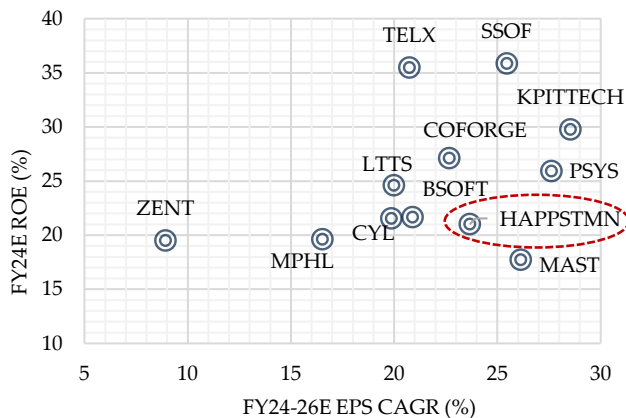
Source: Bloomberg, HSIE Research, Note: KPITTECH & COFORGE is Bloomberg consensus

Exhibit 37: Trading at premium valuations
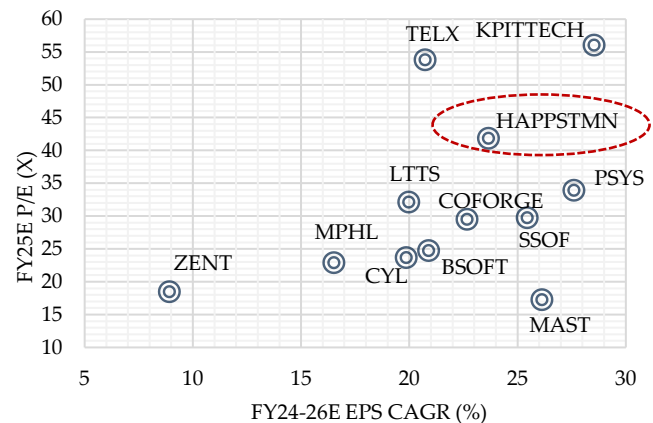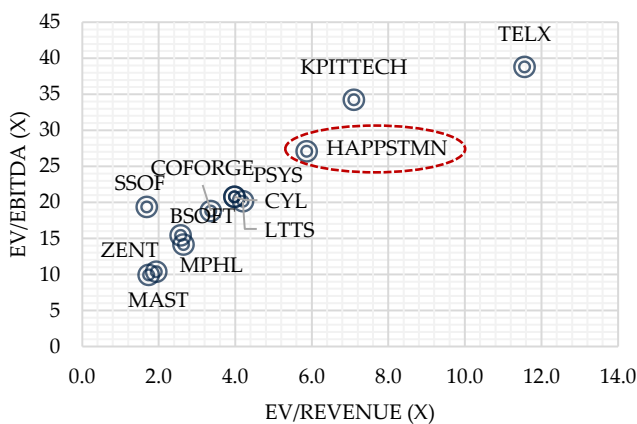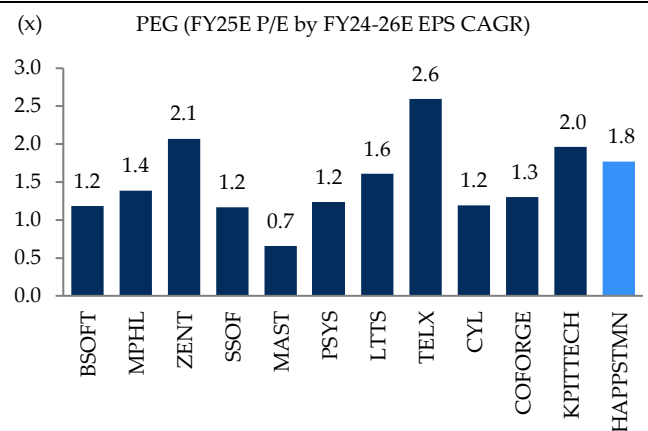

Source: Bloomberg, HSIE Research, Note: KPITTECH & COFORGE is Bloomberg consensus

Exhibit 38: Valuations at the higher end

Source: Bloomberg, HSIE Research, Note: KPITTECH & COFORGE is Bloomberg consensus; FY25E numbers
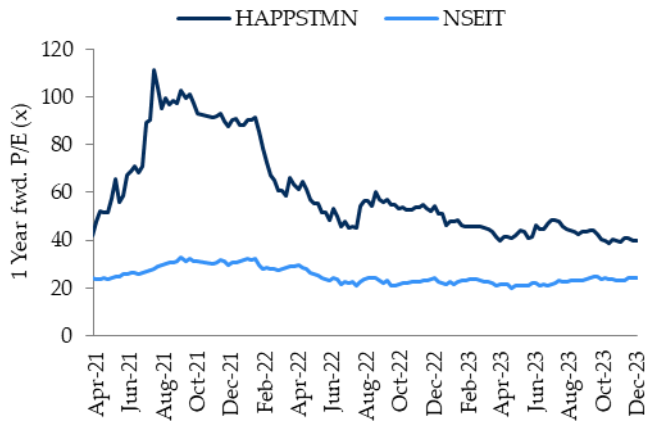
Exhibit 39: Trading higher (PEG basis) vs avg mid-tier IT

Source: Bloomberg, HSIE Research. Note: KPITTECH & COFORGE is Bloomberg consensus

Exhibit 40: Valuation premium to IT index at the lowest level

Source: Bloomberg, HSIE Research

Exhibit 41: Premium to NSE IT narrowed down
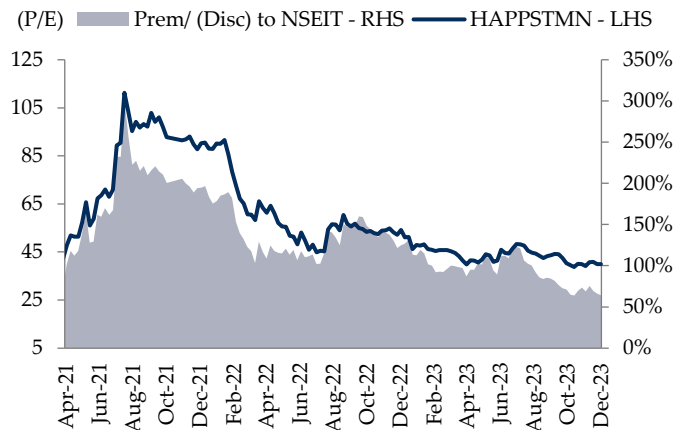
Source: Bloomberg, HSIE Research

Exhibit 42: Valuation premium vs peers at historical low
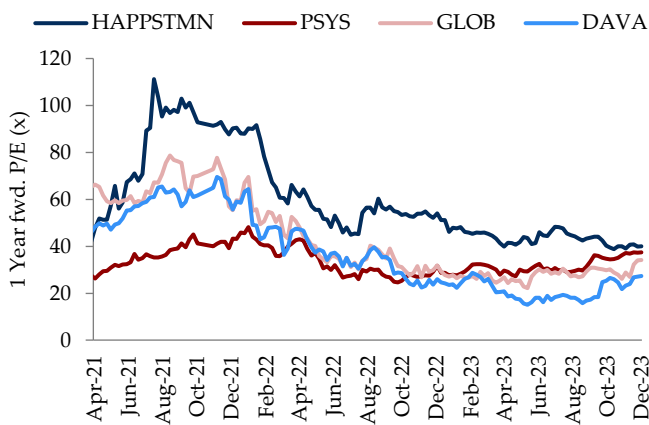
Source: Bloomberg, HSIE Research

Exhibit 43: Sensitivity of fair value and implied revenue growth (FY23-38E CAGR)
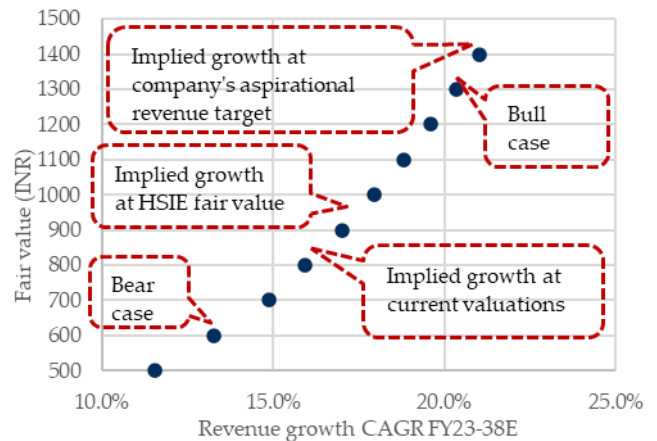
Source: HSIE Research

Exhibit 44: Favourable risk-reward scenario

BASE CASE		BULL CASE		BEAR CASE	
Revenue CAGR FY24-26E	21%	Revenue CAGR FY24-26E	23%	Revenue CAGR FY24-26E	14%
APAT CAGR FY24-26E	24%	APAT CAGR FY24-26E	27%	APAT CAGR FY24-26E	24%
FY26E EPS (INR)	24.6	FY26E EPS (INR)	26.1	FY26E EPS (INR)	20.6
Fair value (INR)	**935**	**Fair value (INR)**	**1,305**	**Fair value (INR)**	**620**
Upside/(Downside) (%)	**11%**	**Upside/(Downside) (%)**	**56%**	**Upside/(Downside) (%)**	**-26%**

Source: HSIE Research

Happiest Minds: Initiating Coverage

HDFC securities
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Financials

Income Statement

Year ending March (INR bn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net Sales (USD mn)	**104**	**147**	**178**	**200**	**240**	**291**
Growth (%)	*12.2*	*41.0*	*21.3*	*12.8*	*19.9*	*21.2*
Net Sales	**7.73**	**10.94**	**14.29**	**16.59**	**20.19**	**24.75**
Growth (%)	*10.8*	*41.4*	*30.7*	*16.1*	*21.7*	*22.6*
Employee Expenses	4.52	6.20	8.07	10.19	12.23	14.87
SG&A and Other Operating Expenses	1.30	2.16	2.64	2.86	3.58	4.46
EBIDTA	**1.91**	**2.58**	**3.59**	**3.53**	**4.37**	**5.43**
Depreciation	0.23	0.33	0.42	0.60	0.71	0.84
EBIT	**1.69**	**2.25**	**3.17**	**2.94**	**3.67**	**4.59**
EBIT (%)	*21.8*	*20.6*	*22.2*	*17.7*	*18.2*	*18.5*
EBIT Growth (%)	*119.5*	*33.2*	*41.0*	*(7.3)*	*24.7*	*25.1*
Other Income	0.24	0.31	0.15	0.80	0.90	0.92
Interest	0.07	0.10	0.22	0.44	0.45	0.45
PBT	**1.86**	**2.46**	**3.10**	**3.31**	**4.12**	**5.06**
Tax (incl deferred)	1.62	1.81	2.31	2.45	3.05	3.74
RPAT	**1.62**	**1.81**	**2.31**	**2.45**	**3.05**	**3.74**
APAT	**1.62**	**1.87**	**2.37**	**2.45**	**3.05**	**3.74**
APAT Growth (%)	*95.8*	*15.3*	*26.7*	*3.1*	*24.6*	*22.8*
EPS (INR)	**10.7**	**12.3**	**15.6**	**16.1**	**20.0**	**24.6**
EPS Growth (%)	*95.8*	*15.3*	*26.7*	*3.1*	*24.6*	*22.8*

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	14.62	16.53	18.90
Total Shareholders' Funds	**5.46**	**6.66**	**8.39**	**14.93**	**16.84**	**19.21**
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**	**20.61**	**22.51**	**24.89**
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	12.94	13.77	14.83
Debtors	1.22	1.67	2.13	2.47	3.01	3.69
Other Current Assets	0.86	1.28	1.68	1.91	2.26	2.72
Total Current Assets	**2.08**	**2.95**	**3.81**	**4.38**	**5.28**	**6.41**
Creditors	0.41	0.61	0.71	0.82	0.99	1.22
Other Current Liabilities & Provns	1.28	1.33	1.51	1.65	1.81	2.01
Total Current Liabilities	**1.69**	**1.94**	**2.22**	**2.47**	**2.80**	**3.22**
Net Current Assets	**0.39**	**1.02**	**1.60**	**1.91**	**2.48**	**3.19**
TOTAL APPLICATION OF FUNDS	**7.43**	**9.24**	**14.07**	**20.61**	**22.51**	**24.89**

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	3.31	4.12	5.06
Non-operating & EO items	(0.07)	(0.12)	(0.15)	(0.59)	(0.67)	(0.68)
Interest expenses	0.07	0.10	0.22	0.44	0.45	0.45
Depreciation	0.23	0.33	0.42	0.60	0.71	0.84
Working Capital Change	(0.29)	(0.55)	(0.63)	(0.32)	(0.56)	(0.71)
Tax paid	(0.36)	(0.53)	(0.89)	(0.86)	(1.07)	(1.32)
OPERATING CASH FLOW (a)	**1.44**	**1.68**	**2.07**	**2.56**	**2.97**	**3.64**
Capex	(0.01)	(0.04)	(1.39)	(0.80)	(1.22)	(1.45)
Free cash flow (FCF)	*1.43*	*1.64*	*0.68*	*1.77*	*1.76*	*2.19*
Investments	(2.83)	(0.84)	(2.03)	-	-	-
Non-operating income	-	-	-	0.59	0.67	0.68
INVESTING CASH FLOW (b)	**(2.84)**	**(0.88)**	**(3.43)**	**(0.21)**	**(0.55)**	**(0.77)**
Debt Issuance	0.67	(0.21)	(0.26)	-	-	-
Interest expenses	(0.04)	(0.03)	(0.15)	(0.44)	(0.45)	(0.45)
FCFE	*2.06*	*1.40*	*0.27*	*1.33*	*1.31*	*1.75*
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)**	**3.66**	**(1.59)**	**(1.82)**
NET CASH FLOW (a+b+c)	**0.29**	**(0.11)**	**(2.32)**	**6.02**	**0.83**	**1.06**
Non-operating and EO items	3.80	1.06	2.92	-	-	-
Closing Cash & Equivalents	**5.37**	**6.32**	**6.92**	**12.94**	**13.77**	**14.83**

Source: Company, HSIE Research

Key Ratios

	FY21	FY22	FY23	FY24E	FY25E	FY26E
PROFITABILITY (%)						
GPM	41.5	43.3	43.6	38.5	39.4	39.9
EBITDA Margin	24.8	23.6	25.1	21.3	21.7	21.9
APAT Margin	21.0	17.1	16.6	14.8	15.1	15.1
RoE	40.0	30.9	31.5	21.0	19.2	20.8
RoIC (or Core RoCE)	66.3	66.5	46.9	29.4	33.0	36.1
RoCE	30.4	23.3	21.8	16.0	15.7	17.2
EFFICIENCY						
Tax Rate (%)	12.7	26.3	25.5	26.0	26.0	26.0
Fixed Asset Turnover (x)	*NA*	*NA*	*7.4*	*7.4*	*7.5*	*7.7*
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	36	33	30
Cash Conversion Cycle (days)	18	34	41	42	45	47
Debt/EBITDA (x)	0.8	0.7	1.3	1.3	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	16.1	20.0	24.6
CEPS	12.2	15.1	19.2	20.0	24.7	30.1
Dividend	3.0	3.8	5.4	6.0	7.5	9.0
Book Value	36	46	58	98	111	126
VALUATION						
P/E (x)	78.6	68.2	53.8	52.2	41.9	34.1
P/BV (x)	23.4	18.3	14.6	8.6	7.6	6.7
EV/EBITDA (x)	64.7	47.9	35.0	33.8	27.1	21.7
EV/Revenues (x)	16.0	11.3	8.8	7.2	5.9	4.8
OCF/EV (%)	1.2	1.4	1.7	2.1	2.5	3.1
FCF/EV (%)	1.2	1.3	0.5	1.5	1.5	1.9
FCFE/Mkt Cap (%)	1.6	1.1	0.2	1.0	1.0	1.4
Dividend Yield (%)	0.4	0.4	0.6	0.7	0.9	1.1

Source: Company, HSIE Research

1 Yr Price history

Happiest Minds

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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