



## Tepid results; Management Maintains Guidance

**Est. Vs. Actual for Q3FY24:** Revenue – **MISS**; EBITDA Margin – **INLINE** PAT – **MISS**; Deal Wins – **BEAT**

### Change in Estimates post Q3FY24

**FY24E/FY25E:** Revenue 1%/1%; EBITDA Margins 1%/1%; PAT 1%/1%

### Recommendation Rationale

- **Long-term outlook positive:** The management is very optimistic about long-term and broad-based growth across verticals, backed by resilient client engagement. However, longer holidays and ramping down in the large client account impacted the company's revenue growth in Q3FY24.
- **Strong TCV in Q3FY24:** The company's TCV across verticals and geographies stood strong in Q3FY24 at \$1.5 Bn.
- **Q4FY24 likely to be better:** The management is confident of gaining medium to long-term demand momentum on the backdrop of the deals it has won in the previous quarters. Moreover, it expects strong revenue growth in Q4FY24, indicating better recovery in the near term. Margin expansion will be in the range of 22%- 24% for FY24.

**Sector Outlook:** Neutral

**Company Outlook & Guidance:** The management has retained its guidance of 12% growth in CC terms in FY24 along with margin expansion.

**Current Valuation:** 38x FY26E P/E, **Earlier Valuation:** 38x FY26E P/E

**Current TP:** 1,100/share; **Earlier TP:** 1,100/share

**Recommendation:** Given the company's strong growth potential backed by robust deal wins and superior execution capabilities, we recommend a **BUY** rating on the stock.

**Alternative Investment Ideas:** Persistent Systems, KPIT Technologies

## Financial Performance

In Q3FY24, **Happiest Minds Technologies Ltd. (Happiest Minds)** reported revenue of Rs 410 Cr, up 0.8% QoQ and 11.7% YoY. This was below our expectations owing to ramp down of large client account. The company's operating profit stood at Rs 1,05 Cr, reporting a flattish growth of 0.4% on a QoQ basis. This was largely on account of lower overall demand in the majority of its operating regions. Its net profit for Q3FY24 stood at Rs 60 Cr, registering a growth of 2% QoQ.

## Outlook

From the long-term perspective, we believe Happiest Minds is well-placed to deliver encouraging growth, given its multiple long-term contracts with the world's leading brands. Richer revenue visibility gives us confidence in its business growth moving forward.

## Valuation & Recommendation

We recommend a **BUY** rating on the stock and assign a 38x P/E multiple to its FY26E earnings of Rs 30/share to arrive at a TP of Rs 1,100/share, implying an upside of 25% from the CMP.

## Key Financials (Consolidated)

(Rs Cr)	Q3FY24	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Sales	410	1%	12%	423	-3%
EBIT	66	-3%	16%	75	-12%
EBIT Margin	16%	-61	(53) bps	16%	0
Net Profit	60	1%	17%	69	-14%
EPS (Rs)	3.98	1%	17%	4.3	-7%

Source: Company, Axis Research

(CMP as of 18 January 2024)

CMP (Rs)	883
Upside /Downside (%)	25%
High/Low (Rs)	1,022/764
Market cap (Cr)	13,450
Avg. daily vol. (6m)Shrs.	39,43,740
No. of shares (Cr)	14.71

## Shareholding (%)

	Jun-23	Sept-23	Dec-23
Promoter	53.2	51.4	50.2
FIIs	4.5	5.1	5.1
MFs / UTI	0.8	1.3	1.2
Banks / FIs	0.0	0.0	0.0
Others	41.5	42.2	43.5

## Financial & Valuations

Y/E Mar (Rs Cr)	FY24E	FY25E	FY26E
Net Sales	1,660	1,975	2,338
EBITDA	385	533	631
Net Profit	261	337	426
EPS (Rs)	18	24	30
PER (x)	50.3	38.9	30.8
P/BV (x)	12.8	10.4	8.4
EV/EBITDA (x)	33.4	24.0	20.3
ROE (%)	27%	28%	29%

## Change in Estimates (%)

Y/E Mar	FY24E	FY25E
Sales	1%	1%
EBITDA	1%	1%
PAT	1%	1%

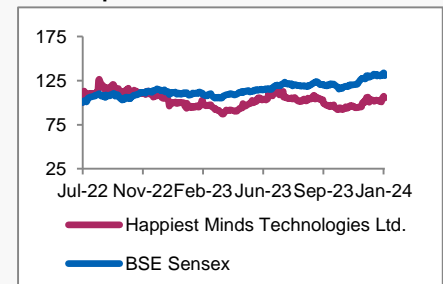
## ESG disclosure Score\*\*

Environmental Disclosure	37.6
Social Disclosure Score	53.2
Governance Disclosure Score	92.5
Total ESG Disclosure Score	61.1
<b>Sector Average</b>	<b>42.5</b>

Source: Bloomberg, Scale: 0.1-100

\*\*Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2020 disclosures

## Relative performance



Source: AceEquity, Axis Securities

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## Recommendation Rationale & Key Highlights

- **Continuing strength in demand environment in the long term:** The US is relatively better placed and is seeing higher cost optimization deals (with faster decision-making). On the other hand, the UK market is expected to remain impacted (at least in the short term). As the macro environment stabilizes, the company expects a pick-up in its decision-making by its clients. However, deeper furloughs drag the revenue growth momentum in the near term and management sees challenges in the near term.
- **Broad-based vertical growth:** On the vertical front, Healthcare verticals delivered 7% QoQ growth. Retail CPG Travel and hospitality grew by 6% QoQ. While Hi-Tech Media & Entertainment grew by 0.3% QoQ, the Edutech de-grew by 1.6% QoQ. The majority of the verticals witnessed strong growth and are likely to report further growth backed by a strong deal pipeline over the mid to long term.
- **Better geographical performance:** On the geographical front, North America (73% of revenue) declined by 2% QoQ, and Europe (15% of revenue) grew by 0% QoQ. India business grew by 4% QoQ, while RoW (12% of revenue) business grew by 3.4% QoQ (in the CC terms). For Q3FY24, the company's free cash conversion stood at Rs 1,680 Cr.

## Key Risks to our Estimates and TP

- The demand environment is uncertain on account of the potential threat of recession in the world's largest economies.
- The rising subcontracting cost and cross-currency headwinds may impact the company's operating margins negatively.

**Results Review**
**(Rs Cr)**

In Cr	Q3FY24	Q2FY24	Q3FY23	% change (YoY)	% change (QoQ)
<b>Total Revenue</b>	<b>410</b>	<b>407</b>	<b>367</b>	12%	1%
Total Cost of Sales	252.13	249.8	213.94		
<b>Gross Profit</b>	<b>158</b>	<b>157</b>	<b>153</b>	9%	-4%
Margin (%)	38%	39%	42%	129	-156
SG&A	77	74	63		
<b>EBITDA</b>	<b>81</b>	<b>83</b>	<b>89</b>	13%	-5%
EBITDA Margins (%)	20%	20%	24%		
Depreciation & Amortizations	14.81	14.55	9.91		
<b>Operating Income</b>	<b>66</b>	<b>68</b>	<b>80</b>	16%	-3%
Margin (%)	16.12%	16.74%	21.68%	149	-61
Total Other Income/(Expense)	24.29	22.21	7.8		
<b>Income Before Income Taxes</b>	<b>80</b>	<b>79</b>	<b>82</b>	11%	-5%
Total Taxes	21.11	20.66	23.35		
ETR (%)	31%	28%	28%	272	312
<b>Net Profit After Taxes</b>	<b>60</b>	<b>58</b>	<b>58</b>	17%	1%
Non-Controlling Interest					
<b>Net Income After Extraordinary Items</b>	<b>60</b>	<b>58</b>	<b>58</b>	17%	1%
Margin (%)	13%	13%	12%	135	-8
<b>EPS</b>	<b>3.98</b>	<b>3.92</b>	<b>4.02</b>	17%	1%

Source: Company, Axis Securities

**Financials (consolidated)**
**Profit & Loss**

(Rs Cr)

Y/E March	FY23A	FY24E	FY25E	FY26E
Net sales	1,429	1,660	1,975	2,338
Other Operating Income				
<b>Total income</b>	<b>1,429</b>	<b>1,660</b>	<b>1,975</b>	<b>2,338</b>
<b>Total Expenditure</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Employee Cost	807	1,007	1,146	1,356
Other Expenses	264	269	296	351
<b>Total Cost</b>	<b>1,070</b>	<b>1,276</b>	<b>1,442</b>	<b>1,707</b>
<b>EBITDA</b>	<b>359</b>	<b>385</b>	<b>533</b>	<b>631</b>
Other income	21	67	30	47
PBIDT	380	451	563	678
<b>Depreciation</b>	<b>42</b>	<b>64</b>	<b>100</b>	<b>64</b>
Interest & Fin Chg.	22	41	40	102
E/o income / (Expense)	(6)	-	-	-
<b>Pre-tax profit</b>	<b>310</b>	<b>347</b>	<b>423</b>	<b>513</b>
Tax provision	79	86	86	86
(-) Minority Interests	-	-	-	-
Associates	-	-	-	-
<b>Profit after Tax</b>	<b>231</b>	<b>261</b>	<b>337</b>	<b>426</b>
Other Comprehensive Income	-	-	-	-
<b>PAT after Comprehensive Income</b>	<b>231</b>	<b>261</b>	<b>337</b>	<b>426</b>

Source: Company, Axis Securities

**Balance Sheet**

(Rs Cr)

Y/E March	FY23A	FY24E	FY25E	FY26E
<b>Total assets</b>	<b>1,053</b>	<b>998</b>	<b>754</b>	<b>433</b>
Net Block	432	158	432	0
CWIP	20	21	22	23
Investments	105	110	115	119
Wkg. cap. (excl cash)	-195	438	-138	-16
<b>Cash / Bank balance</b>	<b>692</b>	<b>273</b>	<b>325</b>	<b>308</b>
Misc. Assets	-1	-1	-1	-1
0	0	0	0	0
<b>Capital employed</b>	<b>1,053</b>	<b>998</b>	<b>754</b>	<b>433</b>
Equity capital	29	29	29	29
Reserves	808	992	1,231	1,533
Def Tax Liabilities	68	68	68	68

Source: Company, Axis Securities

**Cash Flow**

(Rs Cr)

Y/E March	FY23A	FY24E	FY25E	FY26E
Sources	866	250	340	367
Cash profit	295	365	477	592
(-) Dividends	68	76	99	125
Retained earnings	227	289	378	467
Issue of equity	0	0	0	0
Change in Oth. Reserves	4	0	0	0
Borrowings	17	2	2	2
Others	619	-41	-40	-102
	0	0	0	0
Applications	866	250	340	367
Capital expenditure	403	696	6,418	6,418
Investments	5	0	0	0
Net current assets	-66	-675	17	-38
Change in cash	524	230	108	199
Closing cash	145	275	325	308

**Ratio Analysis**

(%)

Y/E March	FY23A	FY24E	FY25E	FY26E
Sales growth (In %)	31	16	19	18
OPM (In %)	25	23	27	27
Oper. profit growth (In %)	39	7	39	18
COGS / Net sales	0	0	0	0
Depreciation / G. block	15	-23	36	-15
	0	0	0	0
Net wkg.cap / Net sales (In %)	0%	0%	0%	0%
Net sales / Gr block (x)	0.1	0.1	0.1	-0.0
RoCE (In %)	38%	34%	34%	37%
Debt / equity (x)	0.09	0.07	0.06	0.05
Effective tax rate (In %)	25	25	20	17
RoE (In %)	30%	27%	28%	29%
Payout ratio (Div/NP)	25	25	25	25
EPS (Rs.)	16	18	24	30
EPS Growth (In %)	26	13	29	26
CEPS (Rs.)	19	23	31	34
DPS (Rs.)	4	5	6	7

Source: Company, Axis Securities

## Happiest Minds Technologies Price Chart and Recommendation History



Date	Reco	TP	Research
02-Jan-24	BUY	1,100	Initiating Coverage
19-Jan-24	BUY	1,100	Result Update

Source: Axis Securities



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