

Happiest Mind Technologies Ltd

Subscribe

Price Band: INR 165-166

ISSUE SUMMARY

Issue Opens	7-Sep-20
Issue Closes	9-sep-20
Offer Price (INR per share)	165-166
Face Value (INR)	2.0
Pre Issue Shares o/s (mn)	140.2
^Offer for Sale (No of sh. mn)	35.7
^Fresh Issue (No of sh. mn)	6.6
^Post Issue shares o/s (mn)	146.9
^*Issue Size (INR bn)	7.0
QIB	=>75%
Non-institutional	<15%
Retail	<10%

^ Issue Size (@INR166)

POST ISSUE DETAILS

M.Cap @INR166/sh. (INR bn)	24.4
Shareholding pattern	
Promoters	53.3%
Non-Promoters	46.7%

Happiest Mind Technologies Ltd (HMTL) is one of the leading next generation digital transformation company, focusing on delivering a seamless digital experience to its customers.

Strong brand in Digital IT services: HMTL derives 97% of its revenues from Digital IT services by offering services like cloud, SaaS, security, analytics and IoT, compared to 30-50% for traditional Indian IT services peers. It caters to multiple business verticals of which major contribution comes from Edutech (21% in FY20), Hitech (21%), BFSI (18%) and TME (Travel, Media & Ent; 17%). High revenue generating customer accounts for HMTL has increased 1.6x to 25 (148 total clients) over FY18-20, with a high proportion of repeat revenues and revenues from mature markets.

Scalable business model with multiple drivers of steady growth: HMTL has scaled up its business model across business verticals, functions and geographies. This is well reflected in improving billing rates for both onshore/offshore clients by 1%/3% CAGR (FY18-20). Even average revenue/active customer has grown at 14% CAGR over FY18-20.

Improving Financials: Over FY18-20, HMTL's revenue grew at a CAGR of 23% to INR7bn, while it stood flat for Q1FY21. Its EBITDA margin improved from -4% in FY18 to 13.9% in FY20 and 21.4% in Q1FY21. Its Adj. PAT improved from loss of INR225mn in FY18 to INR830mn in FY20. For Q1FY21, it stood at INR502mn. FCF/PAT conversation stood high at 134% in FY20 while the RoE/RoCE were healthy at 31%/26%.

Issue Size: The INR7bn IPO consists of fresh issue of INR1.1bn and OFS (8.4mn shares by promoter and 27.2mn shares by investor –CMDB II) of INR5.9bn which would result in promoter's stake reducing from 61.8% pre-IPO to 53.3% post-IPO. The funds raised from fresh issue will be utilized to meet long term working capital requirements (INR1bn) and balance for general corporate purpose.

Valuation & View: At the higher end of the price band, the issue is valued at 29x FY20 P/E (fully diluted), which is comparable to larger mid-sized IT companies. We like the company given its (1) strong presence in digital services, (2) scalable business model with end-to-end capabilities and (3) fast improving financial performance. Hence, investors can Subscribe to the IPO. Further considering market conditions and bright prospects for IT companies post Covid-era, one may also get listing gains.

Exhibit 1: Financials & Valuations (INR mn)

Y/E March	FY18	FY19	FY20	Q1FY21
Revenue	4,629	5,904	6,982	1,770
Growth (%)	-	27.5	18.3	1.4
Adj PAT	-225	268	830	502
Growth (%)	-	-219.2	209.7	141.9
EPS (INR)	-1.5	1.8	5.6	13.7
RoE (%)	NA	NA	31.3	47.5
PE (x)	NA	91.0	29.4	12.1

Source: Company RHP, MOFSL

Ratios are calculated on annualized and post issue basis, at the upper price band of INR166

About the Company

Incorporated in March 2011, Happiest Minds Technologies Ltd (HMTL) focuses on delivering a seamless digital experience to its customers. Its offerings include (i) digital business services, (ii) product engineering services and (iii) infrastructure management and security services. HMTL provides end-to-end solution in the digital space with a customer-centric focus that aims to fulfil clients’ immediate business requirements and provide them strategically viable, futuristic and transformative digital solutions.

Exhibit 2: Revenue Model

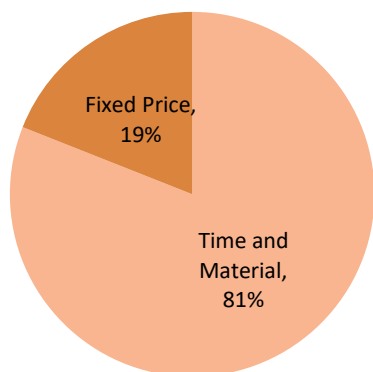
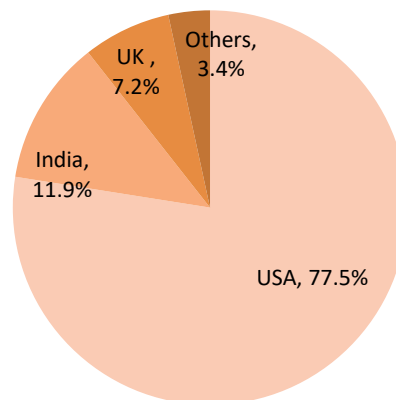


Exhibit 3: Geography wise revenue split



Source: RHP, MOFSL

HMTL helps its customers in finding new ways to interact with their users and clients enabling them to become more engaging, responsive and efficient. It offer solutions across various digital technologies such as Robotic Process Automation (RPA), Software-Defined Networking/Network Function Virtualization (SDN/NFV), Big Data and advanced analytics, Internet of Things (IoT), cloud, Business Process Management (BPM) and security. In FY20, 97% of HMTL’s revenues came from digital services, which is one of the highest among Indian IT companies (F&S Report).

Exhibit 4: Leading digital revenue contribution

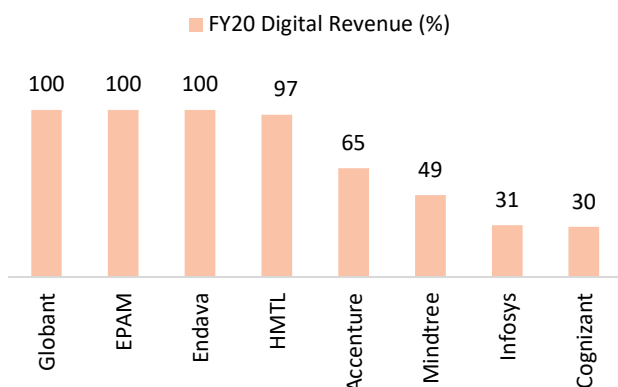
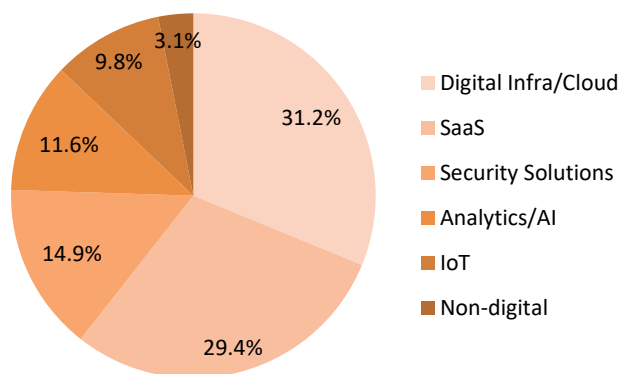


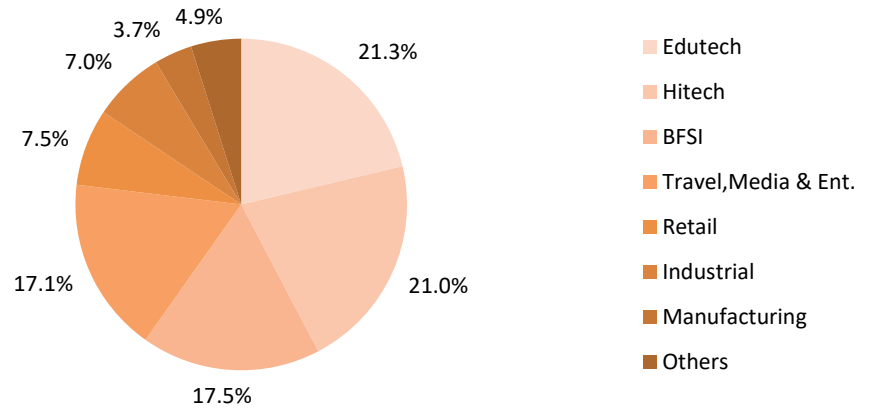
Exhibit 5: Digital Revenue Model



Source: RHP, MOFSL

According to the Frost & Sullivan Report, the global enterprise digital spend (estimated at ~USD 691bn in FY18), is expected to grow at a CAGR of 20% to USD 2,083bn by FY25. Further its share in the total technology spend is expected to rise from 14% in FY18 to 35% in FY25.

Exhibit 6: Diversified Revenue Verticals



Source: RHP, MOFSL

As of Q1FY20, HMTL has 148 active customers, with repeat business growing steadily and contributing a significant portion of its revenue over the years indicating a high degree of customer stickiness. Since inception, company has focused on software product development, which has refined through repeat, multi-year engagements with various global Independent Software Vendors (ISVs). The company is partners with global ISVs such as Microsoft, Amazon Web Services Intel, IBM, McAfee, Netsuite, Salesforce, Cloudlending, Pimcore, Mindsphere, ThingWorx and PTC, Mulesoft, Talend, Appian, UiPath, AutonomIQ, Magento, Checkpoint, Saviynt, ManageEngine, CloudFabrix, OKTA, BluSapphire, Onelogin etc.

Exhibit 7: Proven ability to scale accounts

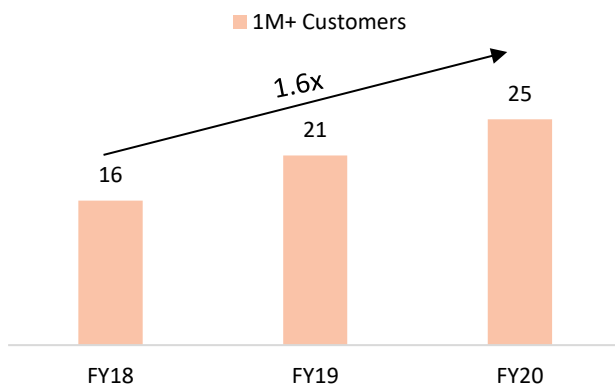
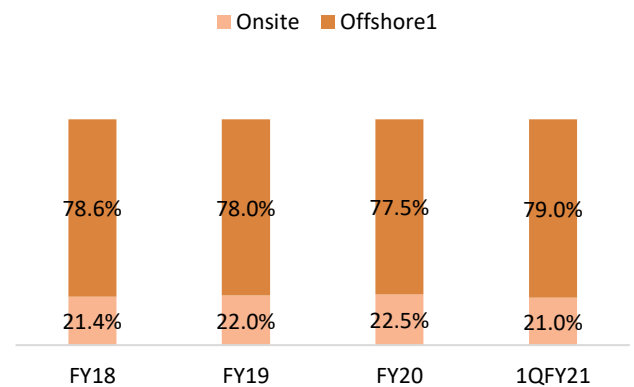


Exhibit 8: Well defined delivery model



Source: RHP, MOFSL

HMTL’s agility and resilience has stood out in recent years. In Q1FY20/FY20, it delivered 90.1%/87.9% respectively of its projects through agile delivery methodology. Over the years and currently during the Corona pandemic, HMTL has successfully implemented its business continuity plans including to achieve efficient work-from-home practices to ensure connectivity across the enterprise.

Exhibit 9: Onsite Billing rate

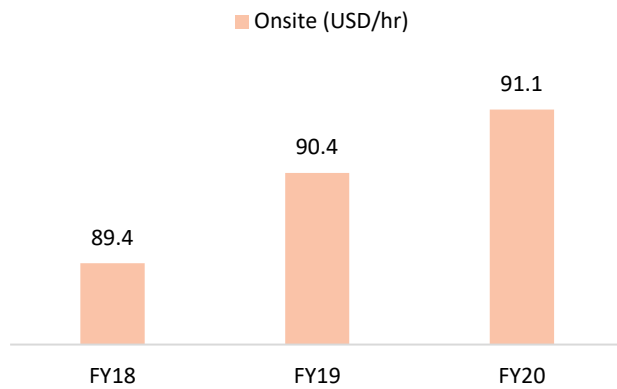
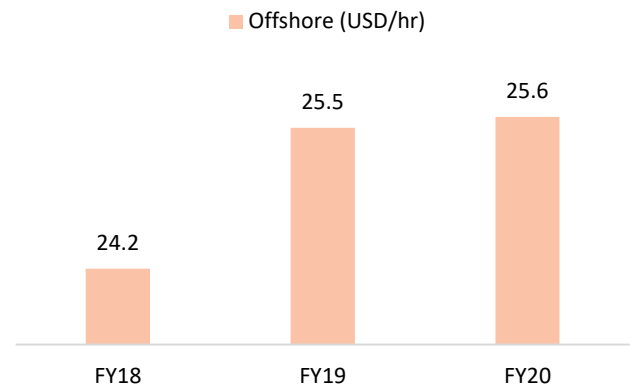


Exhibit 10: Offsite billing rate



Source: RHP, MOFSL

Business Units

Digital Business Services (DBS)

Under DBS, HMTL provides digital modernization and transformation for its customers through digital application development and application modernization for an improved customer experience, enhanced productivity and better business outcomes. It helps in the development and implementation of solutions, improvement of data quality of the customer’s platform, assistance in designing and testing of operations and management of platform and modernization of digital practices. It also provides consulting and domain led offerings such as digital roadmap, mindful design thinking, and migration of on-premise applications to cloud.

Product Engineering Services (PES)

Under PES, HMTL help its customers capitalize on the transformative potential of ‘digital’ by building products and platforms that are smart, secure and connected. It provides customers with a blend of hardware and embedded software knowledge which combines with software platform engineering skills to help create high quality, scalable and secure solutions. HMTL is present across the development lifecycle from strategy to final roll out, thus ensuring quality. It provide a cloud and a mobile friendly approach along with an agile model that is supported by test automation to help clients accelerate their time to market and build a competitive advantage.

Infrastructure Management & Security Services (IMSS)

Under IMSS, HMTL provides an end to end monitoring and management capability with secure ring fencing of the customers' applications and infrastructure. It provides continuous support and managed security services for mid-sized enterprises and technology companies. With specialization in automation of business and IT operations using DevSecOps model and NOC/SOC, the company ensures that the data center, cloud infrastructure and applications are safe, secure, efficient and productive. The security offerings include cyber and infrastructure security, governance, risk & compliance, data privacy and security, identity and access management and threat and vulnerability management. Infrastructure offerings include DC and hybrid cloud services, workspace services, service automation (RPA, ITSM & ITOM), database and middleware services and software defined infrastructure services.

Peer Comparison

Exhibit 8: Key Matrix for FY20

Company	M.Cap. (INR Bn)	EBITDA Margin	D/E (x)	RoE	P/E (x)	Revenue CAGR (FY18-20)
TCS	8,629	26.8	-0.4	36.4	26.6	12.9
Infosys	4,276	24.5	-0.6	25.2	23.6	13.5
L&T Infotech	428	18.7	-0.3	31.1	28.6	22.0
Mindtree	199	14.0	-0.2	20.0	31.1	19.2
HMTL[^]	24	13.9	-0.2	31.3	29.4	22.8

Source: Company RHP, Bloomberg, MOFSL

*Price Data as on 4th September, 2020

[^]Calculated on fully diluted basis at upper price band of INR166

Risk and concerns

- ~77% of revenue comes from US while single customer in US contributes 12% to overall revenue. Thus any adverse economic conditions of US could affect HMTL's financials.
- HMTL generates a significant portion of its revenues from a small number of customers. Thus any loss or reduction of business from these customers could impact business.
- Further HMTL does not have long-term commitments with its customers, and thus it could adversely affect its business.

Management Profile

Ashok Soota is the Promoter, Executive Chairman and Director of the company. He has been associated with the company since its incorporation. Prior to founding the company, he was the Founding Chairman and Managing Director of MindTree Ltd, a company that completed a successful IPO during his tenure. He was the vice chairman of Wipro Ltd and senior vice president of Shriram Refrigeration Industries Ltd. He has been conferred various awards including, the 'Golden Peacock' award for technology leadership, 'Electronics Man of the Year' award from Electronics Industries Association of India, 'Dataquest Lifetime Achievement' award for outstanding contribution in organizing and building the Indian software industry and lifetime achievement awards from Financial Express and Chiratae Ventures (formerly known as IDG Ventures). He has several decades of experience in the information technology industry.

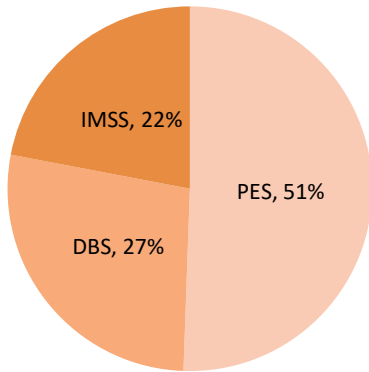
Venkatraman Narayanan is the Executive Director and Chief Financial Officer of the company. He has been associated with the company since April 23, 2015 and has over 25 years of experience in the area of finance and accounts. Prior to joining the Company, he was associated with Sonata Software Ltd, TeamLease Services Ltd, SAP India Pvt. Ltd., Oracle India Pvt. Ltd., Arthur Anderson and Associates, Petrot Systems TSI (India) Ltd, Transwork Information Services Ltd and MindTree Consulting Pvt Ltd.

Avneet Singh Kochar is the Non-Executive Director of the company. He has been associated with the company since April 23, 2015 and has 18 years of experience in investment management. Prior to joining the Company, he was associated with AT&T Corp. and AT&T Investment Management Corporation.

Anita Ramachandran, Rajendra Kumar Srivastava and Shubha Rao Mayya are the Independent Non – Executive Director.

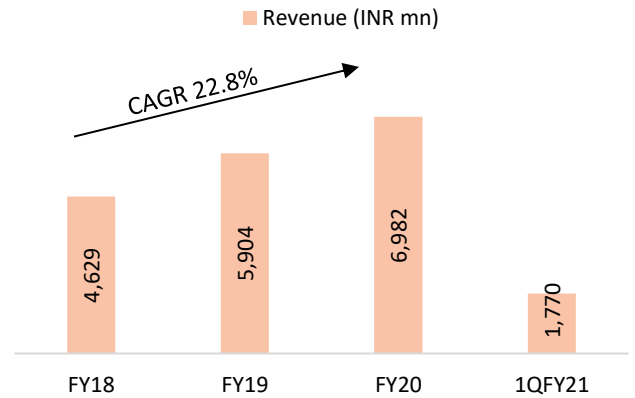
Story in Charts

Exhibit 9: FY20 Revenue mix



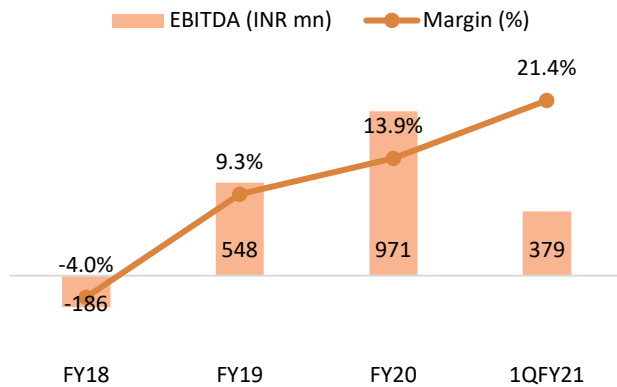
Source: RHP, MOFSL

Exhibit 10: Revenue grew at a CAGR of 23% (FY18-20)



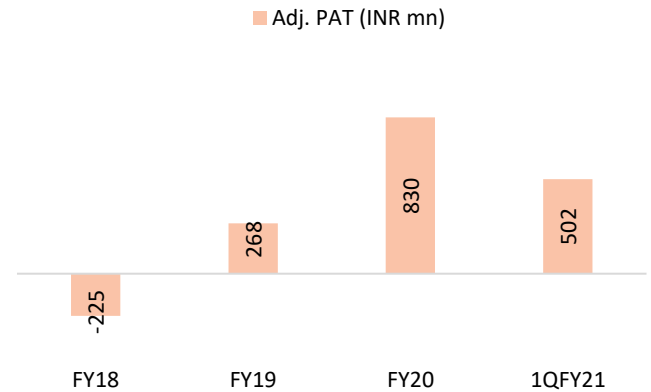
Source: RHP, MOFSL

Exhibit 11: EBITDA margin improving continuously



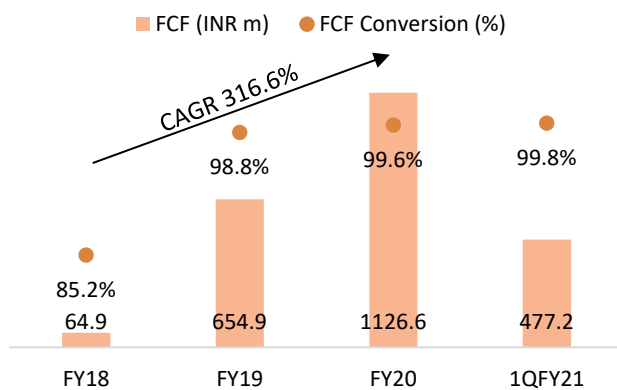
Source: RHP, MOFSL

Exhibit 12: Adj. PAT reflects sharp improvement



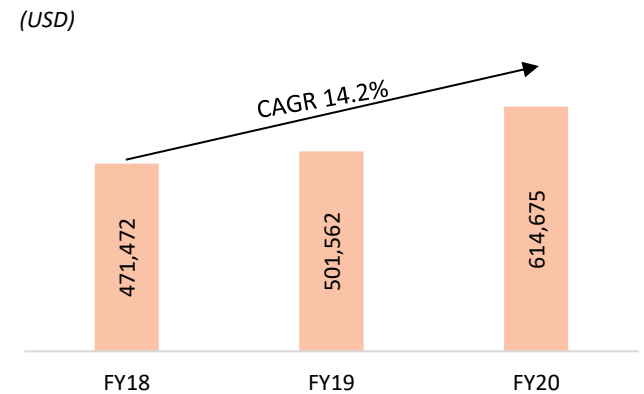
Source: RHP, MOFSL

Exhibit 13: High FCF Conversion



Source: RHP, MOFSL

Exhibit 14: Fast growing avg. revenue/active customer



Source: RHP, MOFSL

Financials

Income Statement

(INR mn)

Y/E March	FY18	FY19	FY20	1QFY21
Net Sales	4,629	5,904	6,982	1,770
Change (%)	-	27.5	18.3	1.4
Total Expenditure	4,815	5,355	6,011	1,392
% of Sales	104.0	90.7	86.1	78.6
EBITDA	-186	548	971	379
Margin (%)	-4.0	9.3	13.9	21.4
Depreciation	208	248	202	51
EBIT	-394	301	769	327
Int. and Finance Charges	100	159	80	19
Other Income	262	115	160	100
PBT	-231	130	736	408
Tax	-6	-12	19	-93
Tax Rate (%)	2.6	-9.5	2.6	-22.9
Min. Int. & Assoc. Share	0.0	0.0	0.0	0.0
Reported PAT	-225	142	717	502
Adjusted PAT	-224.7	267.9	829.7	501.8
Change (%)	-	-219.2	209.7	141.9
Margin (%)	-4.9	4.5	11.9	28.3

Source: Company RHP, MOFSL

Balance Sheet

(INR mn)

Y/E March	FY18	FY19	FY20	1QFY21
Share Capital	38	60	88	204
Instruments entirely in the nature of equity	223	223	363	130
Reserves	-1,349	-943	2,202	2,856
Net Worth	-1,089	-661	2,653	3,190
Minority Interest	0	0	0	0
Debt	902	759	784	982
Deferred Tax (Net)	12	0	0	-189
Total Capital Employed	-174	99	3,437	3,983
Net Fixed Assets	26	21	9	8
Goodwill on Consolidation	0	0	0	0
Capital WIP	1	0	0	0
Intangibles	924	591	371	375
Investments	1,386	982	834	1,062
Current Assets	1,532	2,541	3,868	4,097
Inventory	0	0	0	0
Debtors	944	1,293	1,149	985
Cash and Bank Balance	165	263	435	679
Loans and Advances & OCA	423	986	2,284	2,433
Curr. Liability & Provisions	4,044	4,037	1,644	1,559
Account Payables	250	288	344	360
Current Liabilities	3,200	3,259	877	734
Other Long Term Liab. & Provs.	595	490	423	465
Net Current Assets	-2,512	-1,496	2,224	2,539
Misc Expenditure	0	0	0	0
Appl. of Funds	-174	99	3,437	3,983

Source: Company RHP, MOFSL

Key Ratios

Y/E March	FY18	FY19	FY20	1QFY21
Basic (INR)				
EPS	-1.5	1.8	5.6	13.7
Cash EPS	-0.1	3.5	7.0	15.1
BV/Share	-7.4	-4.5	18.1	39.5
DPS	0.0	0.0	0.0	0.0
Valuation (x)				
P/E	NA	91.0	29.4	12.1
Cash P/E	NA	47.3	23.6	11.0
P/BV	NA	NA	9.2	4.2
EV/Sales	5.4	4.2	3.5	3.5
EV/EBITDA	NA	45.4	25.5	16.3
Dividend Yield (%)	0.0	0.0	0.0	0.0
Return Ratios (%)				
RoE	NA	NA	31.3	47.5
RoCE	NA	NA	26.3	45.6
Working Capital Ratios				
Asset Turnover (x)	NA	NA	2.0	1.8
Inventory (Days)	0	0	0	0
Debtor (Days)	74	80	60	51
Creditor (Days)	20	18	18	19
Leverage Ratio (x)				
Net Debt/Equity	0.6	0.7	-0.2	-0.3

Source: Company RHP, MOFSL

*All ratios calculated on fully diluted basis

#Calculated on the upper price band of INR166

Cash Flow Statement**(INR mn)**

Y/E March	FY18	FY19	FY20	1QFY21
OP/(Loss) before Tax	-231	130	736	408
Depreciation	208	248	202	51
Interest paid	100	159	80	19
Income Taxes paid	2	-34	-61	10
(Inc)/Dec in WC	98	-159	70	-132
CF from Operations	176	344	1,028	356
Others	-73	232	94	-23
CF from Operating (Net)	103	576	1,122	333
(Pur)/Sale of FA	-20	-10	-11	-1
(Pur)/Sale of Investmens	278	-11	-764	-234
Interest Received	7	18	38	15
Payment for acquisition of business	-533	-	-	-
CF from Investments	-269	-3	-737	-220
Proceeds from borrowings	446	-313	68	47
Interest Paid	-48	-57	-33	-9
Proceeds from Issue of conv. Pref. shares/share options	41	-16	44	-5
Payment of lease liabilities	-175	-204	-212	-56
CF from Fin. Activity	263	-588	-133	-22
Net Inc/Dec of Cash	98	-15	251	92

Source: Company RHP, MOFSL

Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	<- 10%
NEUTRAL	> -10% to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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