



SMC Ranking
 ★★☆☆☆ (3/5)

Issue Highlights

Industry	IT
Total Issue (Shares) - Offer for sale	35,663,585
Total Issue (Shares) - Fresh Issue	6,626,506
Net Offer to the Public	42290091.00
Issue Size (Rs. Cr.)	697-702
Price Band (Rs.)	165-166
Offer Date	7-Sep-20
Close Date	9-Sep-20
Face Value	2
Lot Size	90

Issue Composition In shares

Total Issue for Sale	42,290,091
QIB	31,717,568
NIB	6,343,514
Retail	4,229,009

Shareholding Pattern (%)

Particulars	Pre-issue	Post-issue
Promoters & promoters group	61.77%	53.25%
QIB	34.16%	35.66%
NIB	4.07%	8.20%
Retail	0.00%	2.88%
Total	100.00%	100.00%

*calculated on the upper price band

Objects of the Issue

The company proposes to utilise the Net Proceeds towards funding the following objects:

1. To meet long term working capital requirement
2. General corporate purposes

Book Running Lead Manager

- ICICI Securities Limited
- Nomura Financial Advisory And Securities (India) Pvt Ltd

Name of the registrar

- KFintech Private Limited

About the Company

Positioned as "Born Digital. Born Agile", Happiest Minds Ltd offerings include, among others, Digital Business Service (DBS), Product Engineering Service (PES) and Infrastructure and Management Security Service (IMSS). The company also offers solutions across the spectrum of 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. As of June 30, 2020, Happiest Minds has 148 active customers and has a global presence in countries like US, UK, Australia, Canada and Middle East. The business units of The company are assisted by the 3 Centres of Excellence which are Internet of Things, Analytics / Artificial Intelligence, and Digital Process Automation. Happiest Minds delivers services across industry sectors such as Retail, Edutech, Industrial, BFSI, Hi-Tech, Engineering R&D, Manufacturing, Travel, Media and Entertainment.

Strength

Strong brand in digital IT services: The company claims that its brand positioning "Born Digital. Born Agile", is a reflection of digitalization being built into the essence of its business. In Fiscals 2019 and 2020 and the three months ended June 30, 2020, 97.2%, 96.9% and 96.3% respectively of its revenue from operations was from providing digital IT services. The company has partnered with global ISVs to develop its offerings 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. Its experience with ISV and technology company customers enables The company to grow its business in multiple industries, including Edutech, HiTech, Industrial/Manufacturing, BFSI and Retail.

Scalable business model with multiple drivers of steady growth: The company believes that its business model is scalable across customer industries, functions and geographies. In addition to its spread across customer industries and geographic markets it has also developed key operational drivers delivering it steady growth. These drivers include its revenue mix, contract structure, utilization rates and bill rates.

End to end capabilities spanning the digital lifecycle from roadmap to deployment and maintenance: The company's core competency is full lifecycle software development services including design and prototyping, product development and testing, component design and integration, product deployment, performance tuning, porting, cross-platform migration and ongoing support. The company helps its customers to prepare a digital roadmap for the transformation or upgrading their existing IT systems and implementing SaaS platforms.

Strong R&D capability with depth in disruptive technologies creating value through newly engineered solutions: The company has garnered experience in next-generation technologies that drives its ability to provide solutions for digital evolution, agile transformation and automation. Its expertise includes technological capabilities developed to support mobile connectivity with other devices, social media, big data analytics and cloud delivery, among others. To help its customers to future proof their digital

transformation initiatives, The company has created offerings in emerging technologies.

Agile engineering and delivery: The company helps its customers deliver effective, quality software. As its customers digitally evolve and plan to adopt the Agile approach, it helps integrate new systems into their existing technology architecture and help their existing systems keep pace. The company reviews customers' current architectures and provide support in building architectural capability which it believes allows it to plan, adapt and deliver solutions that increase responsiveness, mitigate risks and achieve continuous improvement.

Strategies

Acquire new accounts and deepen key account relationships: Over the years the company has developed long standing relationships with its customers. Moreover, The company focuses on continuing to expand its relationships with existing customers by helping them solve new problems and become more engaging, responsive and efficient.

Further investments in its CoEs and digital processes: To deliver value to its customers efficiently, it is critical to create smart and agile solutions such as software and business architectures and process methodologies, which enable The company to implement market-ready solutions for its customers in a timely manner. To this end, it intends to continue investing in its employees and increase its R&D capabilities, particularly with a view to create solutions in emerging disruptive technologies that enhance its ability to develop tools for leading its entry into new areas such as payments and intelligent enterprises and developing products that address industry specific customer requirements. At this stage, it has identified AI, blockchain, RPA, robotics & drones as focus technology areas.

Strengthen existing partnerships and enter into new partnerships with Independent Software Vendors: The company has long standing relationship with global ISVs and technology companies to develop various key features of their product portfolios. The company believes that its work with companies involved in developing emerging technologies, such as cloud and mobile, keeps it on the forefront of IT, strengthens its relationships with its established ISVs and other customers and enables it to attract new customers.

Domain led approach towards customer acquisition and revenue generation in specific verticals: It has traditionally focused on enterprises that are technology- and information-centric, where it believes its software development expertise is valued. To further enhance and develop its solutions and offerings, it has focused on certain verticals including banking and financial services, Edutech, Retail, Manufacturing, Travel and Hospitality and Enterprise. The company believes that its experience working within its core customer base will also be of particular value in expanding its vertical reach.

Selectively Pursue Strategic Acquisitions: The company plans to selectively pursue acquisitions. Its focus is on augmenting its core capabilities to enhance its experience in new technologies and verticals and increase its geographic reach, while preserving its corporate culture and sustainably managing its growth. Consistent with these goals, in the past, it has completed two acquisitions, both of which have accelerated core strategic goals. In 2017, it has acquired OSSCube LLC and Cupola Technology Private Limited to expand its DBS and PES BUs, respectively.

Risk factor

Revenues from operations are highly dependent on US customers: The revenues of The company from operations are highly dependent on customers located in the United States. Worsening economic conditions or factors that negatively affect the economic conditions of the United States could materially adversely affect its business, financial condition and results of

operations

Have no long-term commitments with customers: The company do not have long-term commitments with its customers, and its customers may terminate contracts before completion, negotiate adverse terms of the contract or choose not to renew contracts, which could materially adversely affect its business, financial condition and results of operations.

Success depends largely on the contributions of IT professionals: The company's success depends largely on the contributions of its IT professionals and its ability to attract and retain qualified IT professionals.

Face strong competition from onshore and offshore IT services companies: The company faces strong competition from onshore and offshore IT services companies, and increased competition, its inability to compete successfully against competitors, pricing pressures or loss of market share could materially adversely affect its business, financial condition and results of operations.

Peer comparison

Company	Total Income	PAT	EPS	P/E	P/BV	BV	FV	Price	Mcap
Intellect Design	1349.99	55.21	4.17	45.91	2.43	78.87	5	191.45	2536.72
Majesco	1092.50	66.59	22.64	33.56	3.20	237.40	5	759.70	2234.80
Mastek	1210.00	141.98	58.02	12.52	2.25	323.06	5	726.45	1777.71
Newgen Software	661.91	78.77	11.26	18.66	2.67	78.61	10	210.10	1469.77
Nucleus Soft.	525.13	108.76	37.45	13.39	2.60	193.14	10	501.30	1455.81
Happiest Minds*	698.21	71.71	4.88	34.00	6.50	25.56	2	166.00	2437.94

* FY20 Annualised financials are taken for valuation

Valuation

Considering the P/E valuation on the upper end of the price band of Rs. 166, the stock is priced at pre issue P/E of 32.46x on its actual annualised FY20 EPS of Rs. 5.11. Post issue, the stock is priced at a P/E of 34.00 x on its EPS of Rs. 4.88. Looking at the P/B ratio at Rs. 166 the stock is priced at P/B ratio of 8.77x on the pre issue book value of Rs.18.92 and on the post issue book value of Rs. 25.56 the P/B comes out to 6.50x.

On the lower end of the price band of Rs.165 the stock is priced at pre issue P/E of 32.27x on its annualised FY21 EPS of Rs. 5.11. Post issue, the stock is priced at a P/E of 33.79x on its EPS of Rs. 4.88. Looking at the P/B ratio at Rs. 165, the stock is priced at P/B ratio of 8.72x on the pre issue book value of Rs. 18.92 and on the post issue book value of Rs. 25.56, the P/B comes out to 6.46x.

Industry overview

The global economy has been adversely affected by COVID-19, with many global businesses having to cease or slow down their operations. Following the outbreak of COVID-19, the global GDP projection is further expected to weaken to an estimated -3.0% in 2020. The global IT spend across key emerging technologies is expected to grow from USD 1,160 billion in 2019 to USD 3,558 billion in 2025 growing at a CAGR of 20.5%. The increasing utilisation of robotic process automation (RPA) in business process integration is expected to deliver a healthy growth of the segment that is projected to reach a market size of over USD 7 billion by 2025, growing at a CAGR of 25%. AI and machine learning are increasingly being adopted as a modern solution by organisations that are looking to leverage automation and intelligence from technological solutions to iron out their business inefficiencies. The combination of these two technologies is expected to grow at a rate of 55% from 2019 to 2025. Blockchain solutions have already gained significant traction within the IT landscape

and are expected to see a considerable momentum going forward owing to the success demonstrated in the finance and trading sectors. Being one of the fastest growing markets, it is expected to have a healthy growth rate of over 80% from 2019 to 2025. Cybersecurity has always been a core component within the IT sector and is increasingly gaining importance with the advancement of connected technologies. Organisations are looking for increased security solutions, which is expected to drive the market at a CAGR of 14% and is projected to reach a size of USD 266.7 billion by 2025. Immersive media has already gained considerable momentum and the growth within the segment is projected to catapult over USD 700 billion dollars by 2025 due to the number of immersive, innovative solutions created within the market space. Cloud computing and related services are expected to have a steady growth of 21.4% CAGR, owing to the ability to deliver cost-efficient and customised service. The increasing demand for connectivity is already creating acceleration within the IoT segment, which is expected to have a healthy CAGR of 14.2%.

Outlook

The company is a versatile digital business, product engineering and infra management solution provider company. Digital is growing much faster than traditional business of the company. As much as 97% of the company's revenue comes from digital, where as the average contribution from digital stands at 40-50%. The company has adopted a mindful IT strategy for its future growth. On the flip side, the company intends to raise Rs 702 crore from the issue, of which 592 crore is offer for sale.

An Indicative timetable in respect of the Issue is set out below:

EVENT	INDICATIVE DATE (On or about)
Bid/Offer Opens Date	September 07, 2020
Bid/Offer Closing Date	September 09, 2020
Finalisation of Basis of Allotment with the Designated Stock Exchange	September 14, 2020
Initiation of refunds (if any, for Anchor Investors)/unblocking of funds from ASBA Account	September 15, 2020
Credit of Equity Shares to depository accounts of Allottees	September 15, 2020
Commencement of trading of the Equity Shares on the Stock Exchanges	September 17, 2020

Annexure

Consolidated Financials

Profit & Loss

Rs. in Cr.

Particulars	Period ended 30-Jun-20 (6 Months)	Period ended 31-Mar-20 (12 Months)	Period ended 31-Mar-19 (12 Months)
Revenue from contracts with customers	177.02	698.21	590.36
Total expenditure	139.17	601.11	535.53
Operating Profit	37.85	97.10	54.83
OPM%	21.38	13.91	9.29
Other Income	9.97	16.02	11.45
PBDIT	47.82	113.12	66.28
Depreciation	5.12	20.23	24.78
PBIT	42.70	92.89	41.50
Interest	1.86	8.02	15.94
Restated profit/ (loss) before exceptional items and tax	40.84	84.87	25.56
Exceptional Items - Impairment of goodwill	0.00	11.26	12.58
Restated Profit before tax for the year	40.84	73.61	12.98
Tax	-9.34	1.90	-1.23
Profit After Tax	50.18	71.71	14.21

Balance sheet is on next page

Balance Sheet

Rs. in Cr.

Particulars	As on 30-Jun-20	As on 31-Mar-20	As on 31-Mar-19
Non-current assets			
Property, plant and equipment	0.77	0.93	2.14
Capital work in progress	0.00	0.00	0.00
Good Will	6.10	6.10	17.36
Other intangible assets	0.61	0.72	1.96
Right-of-use assets	30.63	30.06	39.65
Intangibles assets under development	0.17	0.17	0.17
Financial assets			
Loans	5.44	7.67	6.18
Other financial assets	2.78	3.68	2.39
Income tax assets (net)	3.82	13.35	9.20
Other assets	0.35	0.33	0.48
Deferred tax assets (net)	18.86	0.00	0.00
Total Non- Current Assets	69.53	63.01	79.53
Current assets			
Financial assets			
Investments	106.21	83.37	98.15
Trade Receivables	98.51	114.87	129.27
Cash and Bank balances	67.93	43.53	26.27
Loans	3.01	1.00	0.77
Other financial assets	214.81	191.77	70.91
Other assets	13.08	10.60	8.62
Total current assets	503.55	445.14	333.99
Total Assets	573.08	508.15	413.52
Liabilities			
Non-current liabilities			
Financial liabilities			
Borrowings	0.00	1.32	8.50
Lease liabilities	16.74	17.31	29.64
Provisions	15.08	12.55	9.40
Total non-current liabilities	31.82	31.18	47.54
Current liabilities			
Contract liability	5.78	8.18	10.67
Financial liabilities			
Borrowings	90.89	69.16	60.12
Lease Liabilities	19.19	18.16	15.82
Trade payables			
Total outstanding due to micro enterprises and small enterprises	0.18	0.12	0.40
Total outstanding due to creditors other than micro enterprises and small enterprises	35.82	34.30	28.38
Other financial liabilities	43.21	63.97	299.30
Provisions	14.66	12.46	9.98
Other current liabilities	12.52	5.31	7.36
Total current liabilities	222.25	211.66	432.03
Total liabilities	254.07	242.84	479.57
Asset-Liabilities	319.01	265.31	-66.05
Net worth represented by:			
Equity share capital	20.44	8.79	5.97
Instruments entirely in the nature of equity	12.95	36.34	22.3
Other equity	285.62	220.18	-94.32
Net Worth	319.01	265.31	-66.05

RANKING METHODOLOGY

WEAK	★
NEUTRAL	★★
FAIR	★★★
GOOD	★★★★
EXCELLENT	★★★★★

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