

Happiest Minds Technologies Ltd

Happiest mind is a small sized IT services company promoted by Mr. Ashok Soota who was one of the founding members of Mindtree Ltd. Happiest Mind is uniquely positioned as derived 96.6% of its revenues in FY2020 from digital services that are expected to be the fastest growing segment in the IT sector. The company has been positioned as “Born Digital. Born Agile” and focuses on delivering a seamless digital experience to its customers. The company’s offerings include digital business, product engineering, infrastructure management and security services among others. We believe that strong presence across digital technologies will help the company to grow at a faster rate as compared to the Industry.

Strong presence in digital technologies to drive growth for the company: In FY2020, 96.9% of company’s revenues came from digital services and is amongst the highest Indian IT companies. The company is divided into three business units’ viz. 1) Digital Business processing 2) Product Engineering Services and 3) Infrastructure management and security services. A Frost & Sullivan Report projects that digital spend is expected to grow at a CAGR of 20.2% from USD 69,100 crore in 2019 to 2,08,300 crore by 2025 and will account for 35% of total digital IT spend with legacy services making up for the balance 65%.

Strong promoter background and client relationship also provides comfort: Happiest Mind Ltd. is founded by Mr. Ashok Soota who is also the Executive Chairman and Director of the company. Before founding Happiest Mind in 2011, Mr Soota was one of the founding members of Mindtree Ltd prior to which he was also the vice chairman of Wipro Ltd. The company had 148 active customers as of Q1FY2021 with the share of repeat business growing consistently over the year to account for a significant portion of revenues indicating a high degree of customer stickiness.

Outlook & Valuation: At upper price band, it is offered at 23.6x FY2020 EPS, demanding market cap of ₹2,438cr, which is at a slight premium to few of the smaller sized IT companies. Considering the very high exposure to digital services and strong promoter background, we expect that the company will continue to grow at a faster pace as compared to similar sized companies and therefore should command a premium valuation to peer group. We would therefore recommend investors to SUBSCRIBE to the IPO.

Key Financials

Y/E March (₹ cr)	FY18	FY19	FY20
Net Sales	462.9	590.4	698.2
% chg	-	27.5	18.3
Net Profit	3.8	14.3	71.8
% chg	-	277.0	402.2
EBITDA (%)	1.7	11.2	16.2
EPS (as stated)	(3.1)	1.9	7.0
P/E (x)	N.A	87.8	23.6
P/BV (x)	(2.9)	(7.5)	2.7
RoE (%)	N.A	N.A	28.9
RoCE (%)	N.A	N.A	27.1
EV/EBITDA	N.A	6.6	4.5
EV/Sales	0.7	0.7	0.7
Net Worth (as stated)	(109.0)	(67.3)	264.2

Source: Company, Angel Research, valuation done at upper end

SUBSCRIBE

Issue Open: September 7, 2020
 Issue Close: September 9, 2020

Offer for sale: ₹592cr**

Issue size (amount): ₹702cr**

Price Band: ₹165-166

Lot Size: 90 shares and in multiple thereafter

Post-issue implied mkt. cap: ₹2,424cr*
 - ₹2438cr**

Promoters holding Pre-Issue: 61.7%

Promoters holding Post-Issue: 53.3%

*Calculated on lower price band

** Calculated on upper price band

Book Building

Institutional Investors	75%
Non-Institutional	15%
Retail	10%

Post Issue Shareholding Pattern

Promoters	53.3%
Others	46.7%

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Company Background

Happiest Minds Technologies Limited (“Happiest Minds”) incorporated on March 30, 2011, Promoted by Ashok Soota and Positioned as “Born Digital. Born Agile”. Ashok Soota is the Promoter, Executive Chairman and Director of the company. He was the Founding Chairman and Managing Director of Mindtree Ltd and the vice chairman of Wipro Ltd. He has several decades of experience in the information technology industry. Company offerings are digital business, product engineering, infrastructure management and security services focuses on delivering a seamless digital experience to its customers. Its capabilities provide end-to-end solution in the digital space.

Key Highlights of Happiest Minds Technologies Ltd

- Positioned as “Born Digital. Born Agile” Happiest Minds Technologies Limited (“Happiest Minds”) focuses on delivering a seamless digital experience to its customers.
- In financial year 2020, 96.9% of company’s revenues came from digital services. This is one of the highest among Indian IT companies.
- It also offer 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.
- The Frost & Sullivan Report estimates the global digital services market of USD 691 billion in 2019 to grow at a CAGR of 20.2% to USD 2,083 billion by 2025.
- The Frost & Sullivan Report notes that the legacy IT market as a percentage of total technology spend is estimated to decline from 85.7% share in 2019 to 65% share by 2025, with digital spend making up the remaining 35% share by then.
- Company had 148 active customers. Its repeat business (92 % of FY20 revenue from existing customers) has steadily grown and contributed a significant portion of its revenue from contracts with customers over the years indicating a high degree of customer stickiness.

Revenue Mix

The United States which has the majority market share of global technology spend (Source: Frost & Sullivan Report) historically has contributed a majority of our revenues. Revenue from USA has increased from 73.5% in FY18 to 77.5% FY20, in the following exhibit sets out the proportion of our revenue from contract with customers based on the location of the external customer.

Exhibit 1: Geography wise revenue mix

Location	FY 18	FY 19	FY 20
USA	73.50%	75.50%	77.50%
India	11.70%	11.90%	11.90%
UK	11.40%	9.50%	7.20%
Others	3.40%	3.10%	3.40%

Source: DRHP, Angel Research

End-to-End capabilities

End-to-End capabilities spanning the digital lifecycle from roadmap to deployment and maintenance. 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. Company multiple BUs also help us cross-sell our solutions and services to existing customers. We help our customers to prepare a digital roadmap for the transformation or upgrading their existing IT systems and implementing SaaS platforms. The company is divided into three business units viz. 1) Digital Business processing 2) Product Engineering Services and 3) Infrastructure management and security services.

Exhibit 2: Revenue from contracts & customers

Particular	FY 18	FY 19	FY 20
Infrastructure Management & Security Services	98.6	129.4	153.6
Digital Business Solutions	154.0	180.9	191.7
Product Engineering Services	210.2	280.0	352.9
Total revenue	462.8	590.4	698.2

Source: DRHP, Angel Research

Business Update: Covid-19

- The Indian IT sector was quick to respond to the COVID-19 crisis, ensuring a business continuity through establishing effective work-from-home policies during the national lockdown.
- Economic slowdown is inevitable given the outbreak of COVID-19. Many companies, globally, will be forced to cut costs and put non-essential spending on hold. IT projects and spending will be pushed to the next few quarters and many ongoing projects will be delayed until the economy recovers or at least, until the widespread lockdown is lifted
- Company is engaged in the business of providing IT services including digital solutions, around product engineering, cloud, analytics, automation, infrastructure management, security, automated testing, etc. to enterprises across the world.

Risk

- Promoter Pledge – Promoter having total pledge of 4.2 cr shares, which is 48.5% of pre IPO promoter holding.
- Fluctuations in in Net Profit of last 3 years, in FY2018 Company clock negative profit after tax of ₹22.44 cr. In Last couple of Years Company getting benefit of deferred tax assets, this will not be sustainable in future.
- Q1FY21 EBITDA margins not sustainable in nature, company clock 27.1% EBITDA margins in Q1FY21 due to decrease in employee cost and other expenses.

Issue Details

Happiest Minds is raising ₹110cr through fresh issue & Offer For Sale of ₹592cr (3,56,63,585 shares), price band of ₹165-166.

Exhibit 3: Pre & Post Shareholding

Particular	(Pre-issue)		(Post-issue)	
	No of shares	%	No of shares	%
Promoter	8,66,26,176	61.77%	7,82,26,380	53.3%
Public	4,79,09,567	34.16%	6,29,63,054	42.9%
Other	57,01,307	4.07%	55,82,352	3.8%
Total	14,02,37,050	100.00%	14,69,04,000	100.00%

Objects of the offer

- Fresh Issue of ₹110cr to meet long-term working capital requirement of the company and general corporate purpose.
- Offer for sale from promoter and CMBD II of ₹592cr.

Key Management Personnel

Ashok Soota is the Executive Chairman and Director of Happiest Minds. Prior to founding Happiest Minds, He was the Founding Chairman and Managing Director of Mindtree Limited, a company that completed a successful IPO during his tenure. He was the vice chairman of Wipro Limited and senior vice president of Shriram Refrigeration Industries Limited prior to co-founding MindTree Limited.

Venkatraman Narayanan is the Executive Director and Chief Financial Officer of our Company. He is a fellow of the Institute of Chartered Accountants of India, New Delhi. He has been associated with our Company since April 23, 2015 and has over 25 years of experience in the area of finance and accounts.

Avneet Singh Kochar is a Non-Executive Director of our Company. He holds a bachelors' degree in commerce from Shri Ram College of Commerce and a masters' degree in business administration from the College of William and Mary in Virginia. He is a chartered financial analyst with the CFA Institute.

Anita Ramachandran is an Additional Director (Independent) of our Company. She has been associated with our Company since June 4, 2020 and has over 35 years of experience as a management consultant.

Rajendra Kumar Srivastava is an Additional Director (Independent) of Company. He holds a bachelors degree in mechanical engineering from Indian Institute of Technology, Kanpur, a master's degree in industrial engineering from University of Rhode Island, a masters degree in business administration and a doctorate in philosophy from the University of Pittsburgh.

Shubha Rao Maya is an Additional Director (Independent) of our Company. She holds a bachelor's degree in commerce from University of Mumbai and is an associate of the Institute of Chartered Accountants of India, New Delhi.

Income Statement

Y/E March (₹cr)	FY18	FY19	FY20
Total operating income	462.9	590.4	698.2
% chg	-	27.5	18.3
Total Expenditure	481.5	535.5	601.0
Employee Benefit Expense	356.9	385.1	441.2
Other Expenses	124.6	150.4	159.8
EBITDA	-18.6	54.9	97.2
% chg	-	-	77.0
(% of Net Sales)	-4.0	9.3	13.9
Depreciation & Amortisation	20.8	24.8	20.2
EBIT	-39.3	30.1	76.9
% chg	-	-	155.4
(% of Net Sales)	-8.5	5.1	11.0
Interest & other Charges	10.0	15.9	8.0
Other Income	26.2	11.5	16.0
(% of Sales)	5.7	1.9	2.3
Exceptional Items - Impairment of goodwill	0	12.58	11.28
Recurring PBT	-23.1	13.1	73.7
% chg	-	-	464.0
(% of Net Sales)	-5.0	2.2	10.5
Tax	-0.6	-1.2	1.9
PAT (reported)	-22.4	14.3	71.8
% chg	-	-	402.2
(% of Net Sales)	-4.8	2.4	10.3
EPS (as stated)	-3.13	1.89	7.04
% chg	-	-	272.5

Source: Company, DRHP

Balance Sheet

Y/E March (₹cr)	FY18	FY19	FY20
SOURCES OF FUNDS			
Equity Share Capital	3.8	6.0	8.8
Other equity (Includes Preference shares)	-112.6	-72.0	256.5
Shareholders Funds	-108.9	-66.1	265.3
Total Loans	58.0	38.1	18.6
Other liabilities	8.1	9.4	12.6
Total Liabilities	-42.8	-18.5	296.5
APPLICATION OF FUNDS			
Net Block	95.0	61.1	37.8
Current Assets	277.9	334.0	445.1
Sundry Debtors	94.4	129.3	114.9
Cash & Bank Balance	27.9	97.2	235.3
Investments	138.6	98.2	83.4
Other Assets	17.0	9.4	11.6
Current liabilities	429.8	432.0	211.7
Net Current Assets	-151.9	-98.0	233.5
Other Non Current Asset	14.1	18.4	25.2
Total Assets	-42.8	-18.5	296.5

Source: Company, DRHP

Cash Flow Statement

Y/E March (₹cr)	FY18	FY19	FY20
Profit before tax	(23.1)	13.0	73.6
Depreciation	20.8	24.7	20.2
Change in Working Capital	(15.9)	(39.6)	18.3
Interest Expense	8.6	5.6	7.6
Direct Tax Paid	0.2	(3.4)	(6.1)
Others	5.0	42.1	11.0
Cash Flow from Operations	10.3	57.6	112.2
(Inc.)/ Dec. in Fixed Assets	(1.1)	(0.8)	(0.5)
Net sale of Investment	0.7	1.8	3.8
Others	(25.0)	(1.0)	(77.1)
Cash Flow from Investing	(26.9)	(0.3)	(73.7)
Interest paid	(5.2)	(5.5)	(4.1)
Borrowings	10.6	(38.6)	(2.8)
Dividend paid on equity shares	(4.8)	(5.7)	(3.3)
Others	4.1	(1.6)	4.4
Cash Flow from Financing	26.3	(58.8)	(13.3)
Inc./ (Dec.) in Cash	9.8	(1.5)	25.1
Opening Cash balances	7.0	16.5	16.3
Closing Cash balances	16.5	16.3	43.5

Source: Company, DRHP

Key Ratios

Y/E March	FY18	FY19	FY20
Valuation Ratio (x)			
P/E (on FDEPS)	-	87.8	23.6
P/CEPS	-	13.1	7.9
P/BV	-	-	2.7
EV/Sales	0.7	0.7	0.7
EV/EBITDA	44.6	6.6	4.5
Per Share Data (Rs)			
EPS (as stated)	(3.13)	1.89	7.04
EPS (fully diluted as stated)	(3.13)	1.16	5.36
Cash EPS	(1.2)	12.7	21.0
Book Value	(58.1)	(22.1)	60.4
DPS	-	-	-
Returns (%)			
ROE	-	-	28.9
ROCE	-	-	27.1
Turnover ratios (x)			
Asset Turnover (net)	11.5	27.5	90.1
Receivables (days)	74.4	79.9	60.1
Payables (days)	19.7	17.8	18.0
Working capital cycle (days)	54.7	62.1	42.1

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