

**Rating: Subscribe**
**Issue Offer**

**Fresh Issue of equity shares upto Rs 110 Cr and OFS of 35,663,585 shares by Promoter and shareholders CMDB taking the total issue size at Rs 702 cr**

**Issue Summary**

Price Band (Rs)	165-166
Face Value (Rs)	2
Implied Market Cap (Rs Cr)	2,438
Market Lot	90
Issue Opens on	Sept 7, 2020
Issue Close on	Sept 9, 2020
No. of share pre-issue	14,02,37,050
No. of share post issue	14,68,63,556
Listing	NSE / BSE

**Issue Break-up (%)**

QIB Portion	75%
NIB Portion	15%
Retail Portion	10%

**Book Running Lead Managers**

ICICI Securities Ltd  
 Nomura Financial

**Registrar**

KFin Technologies Private Limited

**Shareholding Pattern**

	Pre-Issue	Post-Issue
Promoters	61.77%	53.25%
Public & Others	38.23%	46.75%

**Objects of the issue**

- Rs 101 cr will be utilised for Working capital
- General corporate purpose

Happiest Minds Technologies (Happiest Minds) is a Bengaluru based technology service company established in April 2011 by its promoter Ashok Soota (one of the co-founder of Mindtree). Company has positioned itself as “Born Digital, Born Agile”. In FY20, 96.9% of revenue came from digital services. Company has three major business units – Digital business services, Product engineering services and Infrastructure Management & Security Services (IMSS). It also offers solutions across the spectrum of various digital technologies such as Robotic Process Automation (RPA), Software-Defined Networking (SDN), Big Data and advanced analytics, Internet of Things (IoT), Cloud, Business Process Management (BPM) and security. As of June 30, 2020, Company has 148 active customers.

**Key Highlights:**

**Strong brand in digital IT services :** According to the Frost & Sullivan Report, the global enterprise digital spend is expected to grow from approx \$691 bn in 2019 to \$2,083 bn by 2025 at a CAGR of 20.19%. With services like cloud, SaaS, security, analytics and IoT, 96.9% of the company’s revenue is classified as digital.

**Business Verticals:** Among key business verticals of the company include Edu-Tech (21.3% of revenue), Hi-Tech (21%), BFSI (17.5%), Travel, Media & Entertainment (17.1%), Retail (7.5%) and Industrial (7%) as on FY20. Manufacturing services is small vertical at 3.7% and others at 4.9%. In terms of Geography, USA, India and UK revenue share as on FY20 stood at 78%, 12% and 7% respectively.

**Scalable business model with multiple drivers of steady growth:** Company’s business model is scalable across industries, functions and geographies. In addition to its spread across customer industries and geographic markets they have also developed key operational drivers delivering steady growth. These drivers include its revenue mix, contract structure, utilization rates and bill rates. As on FY20, Onsite and Offshore revenue share stood at 22.5% and 77.5% respectively.

**Financial Performance:** In FY20, Company has reported revenue growth of 18% YoY to Rs 698 cr with sharp jump in EBITDA at 77% YoY to Rs 97 cr. Margin of the Company expanded sharply to 14% vs. 9% YoY. Profit during FY20 jumped to Rs 72 cr from Rs 14 cr in FY19. It has cash balance of Rs 43.5 cr. Borrowings stood at Rs 70 cr, largely for working capital purposes with negligible long term debt. In Q1FY21, Company has reported PAT of Rs 50 cr with sharp expansion in EBITDA margin at 21%. Management stated that EBITDA margin will improve to 20-22% in FY21. Attrition rate of the Company stood at 18.7% as on FY20.

**Valuation and View:**

**At upper price band of Rs 166, issue has been offered at P/E of 31x to its FY20 EPS of Rs 5.4, which is expensive as compared to Indian IT peers. However, if we annualize Q1FY21 EPS, then implied P/E multiple comes at 11.1x. Company has shown consistent growth in revenue and profitability with margin expansion from the last 2 years. Company has a scalable business model with strong brand in digital IT services with experienced leadership and high proportion of revenue from repeat customers (92.7%). Thus, We recommend investors to ‘Subscribe’ for this issue.**

## Business Units of the Company

Its business is divided into the 3 Business Units:

- A) Digital Business Services (DBS) (27% of the revenue):** DBS offerings are aimed at (i) driving digital modernisation and transformation for its customers through digital application development and application modernisation for an improved customer experience (ii) implementation of solutions, development, capabilities for improving data quality of the customer's platform, assistance in designing and testing of operations and management of platform of digital practices; and (iii) consulting and domain led offerings such as digital roadmap, mindful design thinking, and migration of on-premise applications to cloud.
- B) Product Engineering Services (PES) (51% of the revenue):** PES aims to help the customers capitalise on the transformative potential of 'digital' by building products and platforms that are smart, secure and connected. PES is the major source of revenue for the Company. Happiest Minds provides its customers a blend of hardware and embedded software knowledge which combines with its software platform engineering skills to help create high quality, scalable and secure solutions.
- C) Infrastructure Management & Security Services (IMSS) (22% of the revenue):** The IMSS offerings provide an end to end monitoring and management capability with secure ring fencing of its customers' applications and infrastructure. Happiest Minds provides continuous support and managed security services for mid-sized enterprises and technology companies.

### Revenue break-up from 3 major business units

in (%)	FY18	FY19	FY20	Q1FY21
Infrastructure Management & Security Services	21%	22%	22%	21%
Digital Business Solutions	33%	31%	27%	26%
Product Engineering Services	45%	47%	51%	53%

### Geography Wise Revenue Share

in cr.	FY18	FY19	FY20	Q1FY21
India	54	70	83	19
USA	340	446	541	137
UK	53	56	50	17
Others	16	19	24	4
Total Revenue	463	590	698	177

in (%)	FY18	FY19	FY20	Q1FY21
India	12%	12%	12%	11%
USA	73%	76%	78%	77%
UK	11%	9%	7%	10%
Others	3%	3%	3%	2%

### Peer Group Comparison

Company (in Cr.)	CMP	Revenue	EBITDA	EBITDAM (%)	PAT	EPS	RoE (%)	P/E
Happiest Minds^	166	698	97	13.9%	72	5.4	27.1%	31.0
Birlasoft	168	3,291	392	11.9%	224	8.1	11.9%	20.8
Coforge (NIIT Tech)	1,919	4,184	723	17.3%	468	71.0	19.5%	27.0
Mindtree	1,194	7,764	1,082	13.9%	631	38.3	20.0%	31.2
LTI	2,479	10,879	2,029	18.7%	1521	86.6	28.1%	28.6

Financials are as on FY20; ^ at upper price band

As stated by Management, there is no apple to apple comparison with any Indian IT companies. Globant, EPAM and Endava are some of its international peers.

## Management

Board of Directors	Description
<b>Ashok Soota</b>	Ashok Soota is the Executive Chairman and Director of the Company. He holds a bachelors' degree in electrical engineering from the University of Roorkee, and a masters' degree in business management from the Asian Institute of Management, Philippines. 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.
<b>Venkatraman Narayanan</b>	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.
<b>Avneet Singh Kochar</b>	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.

## Key Financials

Particulars (in Cr.)	FY18	FY19	FY20	Q1FY21
<b>Revenue</b>	<b>463</b>	<b>590</b>	<b>698</b>	<b>177</b>
<b>EBITDA</b>	<b>-19</b>	<b>55</b>	<b>97</b>	<b>38</b>
EBITDAM(%)	-4%	9%	14%	21%
EBIT	-39	30	77	33
EBITM(%)	-9%	5%	11%	18%
<b>PAT</b>	<b>-22</b>	<b>14</b>	<b>72</b>	<b>50</b>
PATM (%)	-5%	2%	10%	28%
Reported EPS	-3.1	1.2	5.4	3.7
Net Worth	-109	-66	265	319
Total Debt	83	69	70	91
- Long term	15	9	1	0
- Short term	69	60	69	91
Total Assets	387	414	508	573
ROE (%)	-20.6%	-21%	27%	16%
ROCE (%)	24.8%	51%	35%	35%

## Key Risk

1. Company's revenues from operations are highly dependent on customers located in the US. Any worsening economic conditions or factors that negatively affect the economic conditions of the US could materially adversely affect company's business.
2. Significant portion of revenue comes from a small number of customers, and any loss or reduction of business from these customers could reduce revenue and materially affect company's business.
3. Strong competition from onshore and offshore IT services companies.

## Anchor Investor List

S. No.	Name of Anchor Investor	No. of Equity Shares allocated	(%)*	Bid Price (INR)	Amount Allocated (INR CR)
1	GOVERNMENT OF SINGAPORE	10,84,320	5.70%	166	18.0
2	ADITYA BIRLA SUN LIFE MUTUAL FUND	9,63,810	5.06%	166	16.0
3	AXIS MUTUAL FUND	9,63,810	5.06%	166	16.0
4	FRANKLIN TEMPLETON MUTUAL FUND	9,63,810	5.06%	166	16.0
5	GOLDMAN SACHS INDIA FUND LTD	9,63,810	5.06%	166	16.0
6	HDFC LIFE INSURANCE COMPANY LTD	9,63,810	5.06%	166	16.0
7	ICICI PRUDENTIAL MUTUAL FUND	9,63,810	5.06%	166	16.0
8	JUPITER INDIA FUND	9,63,810	5.06%	166	16.0
9	KOTAK MUTUAL FUND	9,63,810	5.06%	166	16.0
10	KUWAIT INVESTMENT AUTH FUND 225	9,63,810	5.06%	166	16.0
11	NIPPON INDIA MUTUAL FUND	9,63,810	5.06%	166	16.0
12	NOMURA FUNDS IRELAND PUBLIC LTD	9,63,810	5.06%	166	16.0
13	PACIFIC HORIZON INVESTMENT TRUST PLC	9,63,810	5.06%	166	16.0
14	SBI MUTUAL FUND	9,63,810	5.06%	166	16.0
15	FIDELITY ASIAN VALUES PLC	8,38,350	4.41%	166	13.9
16	SUNDARAM MUTUAL FUND	4,57,835	2.41%	166	7.6
17	ADITYA BIRLA SUN LIFE INSURANCE COMPANY LTD	4,57,834	2.41%	166	7.6
18	AMUNDI FUNDS SBI FM INDIA EQUITY	4,57,834	2.41%	166	7.6
19	AVENDUS ABSOLUTE RETURN FUND	4,57,834	2.41%	166	7.6
20	IIFL SPECIAL OPPORTUNITIES FUND - SERIES 5	4,57,834	2.41%	166	7.6
21	INTEGRATED CORE STRATEGIES ASIA PTE LTD	4,57,834	2.41%	166	7.6
22	L&T MUTUAL FUND	4,57,834	2.41%	166	7.6
23	MALABAR INDIA FUND LIMITED	4,57,834	2.41%	166	7.6
24	MAX LIFE INSURANCE CO LTD	4,57,834	2.41%	166	7.6
25	SBI LIFE INSURANCE COMPANY LIMITED	4,57,834	2.41%	166	7.6
<b>Total</b>		<b>1,90,30,541</b>			<b>316</b>

\* No. of Equity Shares allocated as a percentage of Equity Shares allocated under the Anchor Investor Portion (%)

**Disclosure on Pledge Shares:** Pursuant to a facility agreement dated July 24, 2019 (“Facility Agreement”) Avendus Finance Pvt Ltd (“Avendus”) has lent Rs 40 cr to the Promoter. Pursuant to the Facility Agreement, Promoter has entered into a security trustee agreement dated July 24, 2019 with Avendus and Vistra ITCL (India) Ltd (“Security Trustee”). The Facility Agreement was amended on May 28, 2020, whereby Ashok Soota Medical Research LLP, a member of Promoter Group was made a party to the Facility Agreement. Promoter, ASMR LLP and the Security Trustee then entered into an amended and restated share pledge agreement on May 28, 2020 (which is an amendment to the share pledge agreement, dated July 24, 2019 entered into by our Promoter), as per which, Promoter and Ashok Soota Medical Research LLP have pledged 24,122,331 Equity Shares and 17,948,784 Equity Shares, respectively.

However, Management has stated that Pledge shares will be remove in concurrent IPO post listing.

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### Stock Rating Scale

### Absolute Return

BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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