



Company Overview

Happiest Minds Technologies is a digital transformation, infrastructure, security, and product engineering services company. Its offerings include, among others, digital business, product engineering, infrastructure management and security services. Its capabilities provide end-to-end solution in the digital space. It helps the customers in finding new ways to interact with their users and clients enabling them to become more engaging, responsive and efficient. It 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. Company is headquartered in Bangalore, India and has its operations in the United States, United Kingdom, Canada, Singapore, and Australia.

Objects of the issue

The objects of the Offer are to achieve the benefits of listing the Equity Shares on the Stock Exchanges. Further, HMT proposes to utilize the net proceeds from fresh issue for:

- A) To meet long term working capital requirement (1 bn)
- B) General corporate purposes

Investment Rationale

Strengthen existing partnerships and entered into new partnerships with Independent Software Vendors

Company's focus on software product development for such ISVs has shaped key aspects of its service offerings as well as its culture of software engineering excellence, enabling them to expand its services into other key industry verticals. To streamline and accelerate the software development process, Happiest Minds has created proprietary software development lifecycle processes, applications and tools. Company's objective is to be a leader in providing high-quality software engineering services for global ISVs and emerging technology companies. They will continue to develop new solutions jointly with its partner ISVs, which will help them in accessing a greenfield customer base of its partner ISVs. This will further help them up-sell and crosssell to these new customers. They have created multiple solution accelerators on the Azure platform like Connected Field Service Accelerator (IoT devices are connected with cloud technologies), external facing chatbots available on websites for customer interaction, data lake and streaming analytics platform & prediction models.

Acquired new accounts and deepen key account relationships

Happiest Minds devotes significant attention to being able to understand the behaviour, preferences and trends of its customers through research and a consultation process. This gives them a distinct perspective that they bring to its engagements. They are focused on continuing to expand its relationships with existing customers by helping them solve new problems and become more engaging, responsive and efficient. Its number of customer accounts that have a minimum annual spend of USD1 million, USD 5 million and USD 10 million has grown in the last 3 Fiscals and they aim to continue to grow the number of its key account relationships. Expansion of its relationships with existing active customers will remain a key strategy going forward as they continue to leverage its domain expertise and knowledge of emerging technology trends in order to drive incremental growth for its business.

Valuation and Outlook

Happiest Minds Technologies has 148 active customers. Its repeat business (revenue from existing customers) has steadily grown and contributed a significant portion of its revenue from contracts with customers over the years indicates a high degree of customer stickiness. Over the years and currently during the ongoing outbreak of Novel Corona virus, they have successfully implemented its business continuity plans including to achieve efficient work-from-home practices to ensure connectivity across the enterprise. At upper end of this price band, company is valued at P/E of 34.5x ratio based on diluted EPS for FY 2020 for the Issuer at the upper end of the Price Band is as high as 34.5x (based on FY20 earnings) as compared to industry average of 26.9x. However, based on the positive sentiments around the IT space we believe listing gains can be possible. Therefore, We give ***SUBSCRIBE*** rating to this IPO issue only for listing gains.

Issue Details

Offer Period	Sept 7th - 9th Sept 2020
Price Band	INR.165 to INR.166
Bid Lot	90
Listing	BSE&NSE
Issue Size (no. of shares in mn)	42.2
Issue Size (Rs. in bn)	7
Face Value	2

Issue Structure

QIB	75%
Retail	15%
HNI	10%
BRLM	ICICI Securities, Nomura Financial
Registrar	KFin Technologies Pvt. Ltd

Particulars Pre Issue % Post Issue %

Promoter	61.7	53.2
Public	34.1	42.8
Others	4.0	3.8
Total	100%	100%

(Assuming issue subscribed at higher band)

Research Team - 022-61596407



Income Statement (In mn)

Particulars	FY18	FY19	FY20	3MFY21
Revenue				
Revenue from operations	4,629	5,904	6,982	1,770
Total revenue	4,629	5,904	6,982	1,770
Expenses				
Employee benefit expenses	3,569	3,851	4,412	1,083
Other expenses	1,246	1,505	1,599	309
Total Operating expenses	4,815	5,355	6,011	1,392
EBITDA	(186)	548	971	379
Depreciation and amortisation expense	208	248	202	51
Other income	262	115	160	100
EBIT	(131)	415	929	427
Finance costs	100	159	80	19
Exceptional Item	-	126	113	-
PBT	(231)	130	736	408
Current tax	-	-	19	85
Deferred Tax charge	(6)	(12)	-	(179)
Total tax	(6)	(12)	19	(93)
PAT	(225)	142	717	502
Diluted EPS	(1.5)	1.0	4.9	3.4

Source: Company, BP Equities Research

Cash Flow Statement (In mn)

Particulars	FY18	FY19	FY20	3MFY21
Cash Flow from operating activities	103	576	1,122	333
Cash flow from investing activities	(269)	(3)	(737)	(220)
Cash flow from financing activities	263	(588)	(133)	(22)
Net increase/(decrease) in cash and cash equivalents	98	(15)	251	92
Cash and cash equivalents at the beginning of the period	70	165	163	435
Net foreign exchange difference	(3)	13	21	2
Cash and cash equivalents at the end of the period	165	163	435	529

Source: Company, BP Equities Research

Balance Sheet (In mn)

Particulars	FY18	FY19	FY20	3MFY21
Liabilities				
Share Capital	38	60	88	204
Instruments entirely in the nature of equity	223	223	363	130
Reserve & Surplus	(1,349)	(943)	2,202	2,856
Net worth	(1,089)	(661)	2,653	3,190
Long-Term Borrowings	580	381	186	167
Long-Term Provisions	81	94	126	151
Deferred tax liability	12			
Total Non Current Liabilities	673	475	312	318
Trade payables	250	288	344	360
contract liability	55	107	82	58
Short term Borrowings	686	601	692	909
Other current liabilities	3,213	3,225	874	749
Short Term Provisions	82	100	125	147
Total Current Liabilities	4,285	4,320	2,117	2,223
Total liabilities	3,870	4,135	5,082	5,731
Assets				
Tangible Assets	26	21	9	8
Right of Use Assets	548	397	301	306
Goodwill	296	174	61	61
Capital work in Progress	1			
Intangible Assets	79	21	9	8
Long term Investment	77	86	114	82
Deferred tax Assets (Net)	-	-	-	189
Income tax assets (net)	58	92	134	38
Other non-current assets	4	5	3	4
Total Non current assets	1,091	795	630	695
Trade Receivables	944	1,293	1,149	985
Cash and Bank Balances	165	263	435	679
Other financial assets	114	709	1,918	2,148
Investment	1,414	989	844	1,092
Other current assets	142	86	106	131
Total Current Asset	2,779	3,340	4,451	5,036
Net Current Assets	(1,506)	(980)	2,335	2,813
Total Assets	3,870	4,135	5,082	5,731

Source: Company, BP Equities Research

Key Risks

- ⇒ Undetected software design defects, errors or failures may result in loss of or delay in market acceptance of their services or in liabilities that could materially adversely affect our business, financial condition and results of operations.
- ⇒ Revenues 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 the business, financial condition and results of operations.
- ⇒ Incorporated with third-party open source software into their customer deliverables and the failure to comply with the terms of the underlying open source software licenses could adversely impact the customers and create potential liability on them.

**Disclaimer Appendix****Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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