Happiest Minds Technologies Ltd

10th June 2024

Leading the Charge in AI-Driven Transformation and Strategic Growth

Initiating Coverage

Sector	Ratings
IT	BUY
Current Price	**Target**
Rs. 908	Rs. 1,124
Potential upside	**Holding**
24%	12 months

Stock Information	
Sensex/Nifty	76,490/23,259
Bloomberg	HAPPSTMN:IN
Equity shares (Cr)	15.23
52-wk High/Low (Rs)	1,023/741
Face value (Rs)	2
M-Cap (Rs Cr)	13,833
2-wk Avg Volume (Qty)	54,19,559

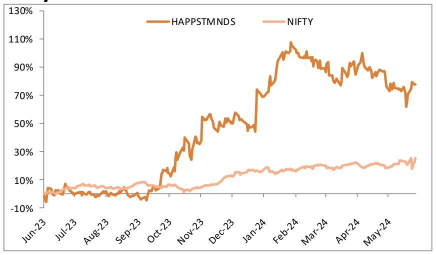
Shareholding pattern %

Particulars	Sep-23	Dec-23	Mar-24
Promoters	51.4	50.2	50.2
DII	2.4	2.4	2.6
FII	5.1	5.1	4.7
Public	41.1	42.3	42.5

Financial Summary (Rs. crs.)

Summary P&L	FY24	FY25E	FY26E
Revenue	1,625	2,095	2,587
EBITDA	336	462	583
EBITDA %	20.7	22.0	22.5
EBIT	278	400	521
EBIT %	17.1	19.1	20.1
PAT	248	321	428
PAT %	15.3	15.3	16.5
P/E	50	40	30
P/B	8	8	6
EV/EBITDA	35	25	20

Nifty 50 Vs HAPPSTMNDS



Hitendra Gupta – Head of Research
hitendragupta@systematixgroup.in
+91 22 6704 8170
Chetan Sharma – Senior Analyst
chetansharma@systematixgroup.in
+91 22 6704 8174
Yash Dalvi – Research Analyst
yashdalvi@systematixgroup.in
+91 22 6704 8176

Happiest Minds Technologies Limited provides next-gen IT solutions, leveraging cloud computing, social media, mobility, analytics, unified communications, and IoT. The company specializes in Digital Transformation, Product Engineering, Infrastructure Management, Security, Testing, and Consulting, serving industries like Retail/CPG, BFSI, Travel, Manufacturing, and Media.

Our positive outlook on the company is supported by the following rationale: a) Focus on next-generation technologies like Generative AI, b) Integration of business units to enhance synergies and growth, c) Ambition to become a USD 1 billion company by 2031, d) Strong execution capabilities and a robust customer base, e) Robust inorganic growth driven by acquisitions and a healthy cash balance.

Based on the above factors we estimate the company's revenues to grow at a CAGR of 26% from FY24-FY26E, to Rs 2,587 cr, with a healthy EBITDA margin of 23% and we expect EBITDA to grow at a CAGR of 32% from FY24-FY26E to Rs 583 cr, and PAT to grow at a CAGR of 31% from FY24-FY26E, reaching Rs 428 cr with a stable PAT margin of 17%. **We initiate coverage on Happiest Minds Technologies with a "BUY" rating based on 40x FY26E EPS and a target price of Rs 1,124, implying an upside of 24%.**

Generative AI Business Services: Pioneering AI-Driven Business Transformation Across Industries

Happiest Minds is probably the only company which has established Generative AI Business Services (GBS) as a dedicated unit, to harness the transformative potential of Generative AI and positioning itself as a leading technology partner. With 14 active customers across 20 projects, GBS addresses diverse opportunities such as contextual chatbots, learning simulators, contract management, sentiment analysis, and content generation. To support these innovations, GBS is training all engineers in Generative AI and plans to expand its team from 70 to 250 by FY25, ensuring the company remains at the forefront of AI-driven business transformation.

Strategic Transformation: Integrating Business Units and Establishing Industry Groups for Enhanced Innovation and Growth

In FY24, Happiest Minds undertook a significant organizational overhaul, merging its Product Engineering Services (PES) and Digital Business Services (DBS) into the unified Product and Digital Engineering Services (PDES), while simultaneously establishing six new Industry Groups (IGs). These IGs, operating as independent profit centers, with an aim to provide tailored solutions and rapid responses to industry-specific challenges, driving innovation and customer satisfaction. This transformation places the company at the forefront of digital innovation, with key projects across various industries showcasing its capabilities, including transforming a cloud-lending platform, developing data modeling solutions for EdTech, creating modern data platforms for healthcare, implementing fraud prevention in digital ad measurement, leading digital transformations in industrial sectors, and developing blockchain-enabled platforms for retail.

Navigating Towards USD 1 Billion: Happiest Minds' Strategic Vision

Happiest Minds is optimistic about its future, due to transformations done in FY24 and FY25 acquisitions. With a vision to reach USD 1 billion in revenue by 2031, the company plans to fuel organic growth, invest in Centers of Excellence (COEs), and expand alliances with global tech leaders. Leveraging a cash balance of approximately Rs 1,364 cr, Happiest Minds aims to pursue strategic M&A to deepen industry expertise and enhance technology offerings. With a focus on quality execution and "land and expand" strategies of cross selling and upselling, the company is well-positioned for growth. Looking ahead, Happiest Minds aims to strengthen its consulting-led approach and target specialty companies for continued success.

Strategic Acquisitions and Transformational Growth: Happiest Minds' Path Forward

Happiest Minds is optimistic about the future as acquisitions in early FY25, which includes PureSoftware, Aureus Tech Systems, and Macmillan Learning will help in enhancing BFSI, Healthcare, Digital Transformation and EdTech sectors. With a cash balance of Rs 1,364 cr, the company focuses on inorganic opportunities and integrating synergies with recent acquisitions. PureSoftware boosts BFSI, healthcare, and life sciences capabilities, offering a Banking-as-a-Service platform and expanding presence to Mexico, Singapore, Malaysia, and Africa. Macmillan Learning strengthens ties with The Macmillan Group, enhancing virtual capabilities. Aureus Tech Systems drives digital transformation and global client acquisition. The strategic M&A program aims to expand geographically, deepen industry expertise, and enhance technology offerings.

Client-Centric Approach and Robust Customer Base

At the heart of Happiest Minds' strategy is a strong focus on customer relationships. With a 96% digital presence and 95% agility, they swiftly adapt to market changes and offer tailored solutions across various sectors. The added 13 new clients during the year and will focus on new logo additions. They serve 61 Fortune 2000/Forbes 200 Billion $ corporations and have 90% repeat business. Their commitment to consistently deliver value has solidified client trust, with average revenue per active customer of USD 794,000, growing at a 3 year CAGR of 8%. Leveraging India's IT infrastructure and skilled workforce, Happiest Minds anticipates further growth, aiming to nurture existing client relationships while expanding its clientele.

Generative AI Business Services: Pioneering AI-Driven Business Transformation Across Industries

The integration of Generative AI business vertical within the Happiest Minds ecosystem has synergized with various business verticals and will help in enhancing overall performance. By positioning Generative AI as a standalone business unit, Generative AI Business Services (GBS), the company bolsters its value proposition and elevates its status as a preferred technology partner for clients. Embracing this digital renaissance, Happiest Minds explores the transformative potential of Generative AI, which embodies its aspirations and core principles, leading the company into a disruptive technological landscape.

Happiest Minds is the only company with a dedicated business unit focused on Generative AI where its GBS division is led by Sridhar Mantha who is the CTO of the company. Happiest minds is recognizing Gen AI as the most transformational change in the IT industry in the last 40 years. GBS vertical currently serves 14 active customers across 20 projects, including contextual chatbots, learning simulators, contract management, sentiment analysis, and content generation. Generative AI transcends its conventional role by seamlessly integrating nature and technology, revolutionizing industries, and inspiring imaginative exploration. The company emphasizes that there is limitless potential of Generative AI to enhance human capabilities and sustain a connection with nature.

Under Sridhar Mantha's leadership, GBS is generating numerous new business opportunities. Leveraging insights from current engagements, Happiest Minds develops replicable solutions across various industries and technology streams. The company's growth plans includes training all engineers in Generative AI and expand the GBS team from 70 members currently to 250 by the end of FY25. GBS vertical empowers client organizations to harness Generative AI's potential to unlock creative capabilities, drive autonomous decision-making, and develop new frontiers in personalized experiences. Enterprises increasingly deploy AI to solve business problems, automate processes, and improve productivity while launching new products and solutions. Happiest Minds invests heavily in training its engineers on OpenAIs ChatGPT, Google's Bard, and other Gen AI open-source large language models (LLMs) for customer engagements and internal initiatives.

Generative AI has broader applicability across all industry segments compared to earlier technologies. Happiest Minds creates various use cases across domains so that clients can visualize and understand the business problems the technology can solve today and its future roadmap. The company is at the forefront of the transformative wave propelled by Generative AI, reshaping contemporary business dynamics and fostering advancements in information access, innovation, and operational efficiency. Leveraging its expertise in consulting, R&D, and testing, Happiest Minds develops customized roadmaps for seamless technology integration, serving as an innovation catalyst to achieve tangible business objectives.

Key projects in Generative AI include a healthcare chatbot for a global knowledge enterprise in India, which diverted 60% of searches and reduced information retrieval time by 50%. For a travel company, Happiest Minds enhanced their knowledge base system and implemented a predictive algorithm to expedite ticket resolution processes and improve customer satisfaction. An energy major benefited from digitized maintenance documents, reducing planning time by 30%. A metal company saw an 18% reduction in hiring time and a 400% reduction in JD creation time through an automated JD creation tool. An insurance firm experienced an 80% reduction in handling customer Level 1 requests via a customer query bot. GBS's comprehensive approach ensures that Happiest Minds stands at the forefront of Generative AI's transformative wave, driving innovation and operational efficiency across industries.

Strategic Transformation: Integrating Business Units and Establishing Industry Groups for Enhanced Innovation and Growth

In FY24, Happiest Minds implemented a significant organizational transformation to enhance synergies and deliver greater customer value. The two largest business units, Product Engineering Services (PES) and Digital Business Services (DBS), were integrated into a single entity named Product and Digital Engineering Services (PDES), aimed at driving product innovation and large-scale digital transformation programs. Concurrently, six new Industry Groups (IGs) were established to bring about greater vertical focus and expertise. These IGs, which include Industrial, Manufacturing, and Energy & Utilities; Healthcare and Life Sciences; Retail, CPG, and Logistics; BFSI; Hi-Tech and Media & Entertainment; and EdTech, will operate as independent profit centers. Each industry group operates as an independent profit center, led by experienced industry managers and supported by dedicated teams with deep domain expertise. This structure ensures that each group can offer tailored solutions and respond rapidly to industry-specific challenges, fostering innovation and increasing customer satisfaction.

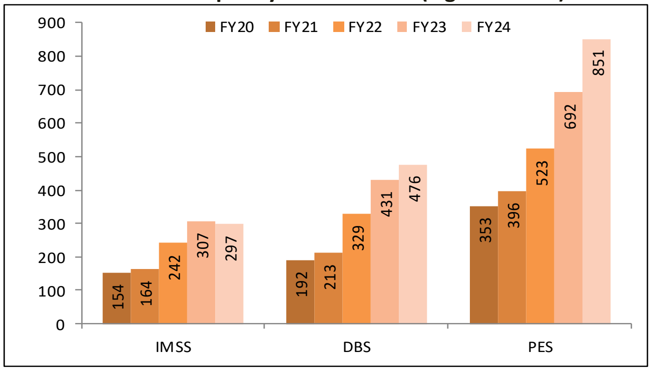
Happiest Minds has streamlined its business development through newly formed industry groups, bolstering sales effectiveness and driving accelerated growth. This verticalization strategy, combined with the company's digital DNA, domain expertise, and disruptive approach, aims to deliver enhanced value to clients. Positioned as a leader in digital innovation, Happiest Minds leverages deep domain knowledge and advanced technologies to address diverse industry challenges, fostering sustainable growth and delivering exceptional value. This holistic approach ensures the company's agility, innovation, and customer-centricity, driving success in today's digital landscape.

Key projects across these industry groups are:

- BFSI: Transforming a cloud-lending platform for a U.S.-based lending firm, resulting in increased application conversion rates and scaling payment processing volume by 50x.
- EdTech: Developing a data modeling solution for predicting student's performance and dropout rates, thereby reducing dropout rates by 15-20%.
- Healthcare: Creating a modern data platform for a healthcare service provider, doubling the speed of insights into user behavior and achieving significant cost savings.
- Hi-Tech and Media & Entertainment: Implementing fraud prevention in digital ad measurement and delivery, reducing accreditation time by 50% and increasing measured transactions by 40%.
- Industrial, Manufacturing, Energy & Utilities: Leading a digital transformation for a North American chemical major, resulting in improved inventory management and operational excellence.

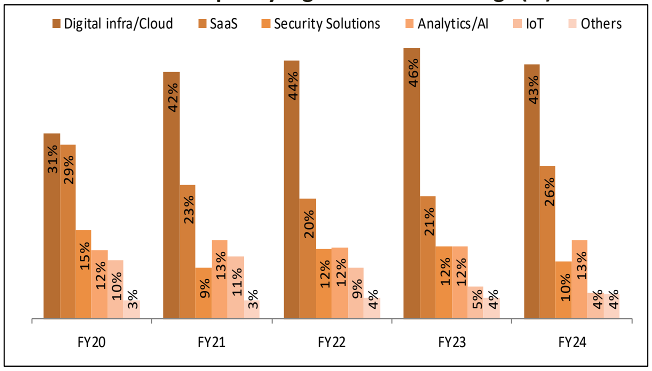
- Retail, CPG & Logistics: Developing a blockchain-enabled platform for trading pre-owned luxury watches, enhancing customer engagement and reducing reconciliation process lead time.

Exhibit 01: Revenue split by business unit (Figures Rs. cr)



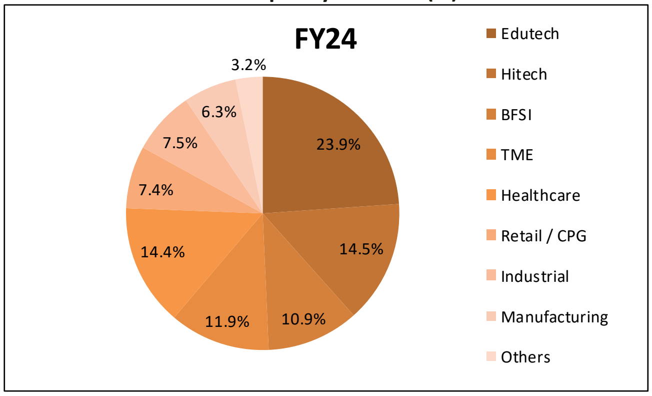
Source: Company, Systematix PCG Research

Exhibit 02: Revenue split by digital service offerings (%)



Source: Company, Systematix PCG Research

Exhibit 03: FY24 Revenue split by verticals (%)



Source: Company, Systematix PCG Research

Strategic Acquisitions and Transformational Growth: Happiest Minds' Path Forward

Happiest Minds is excited about the future due to the acquisitions closed in the early days of FY25. The company has acquired two strategic assets, PureSoftware and Macmillan Learning, which have collectively added 1,250 professionals to the team and strengthened key industry groups in BFSI, Healthcare, and EdTech.

At the end of the fiscal year, Happiest Minds held cash balances of approximately Rs 1,364 cr, including Rs 500 cr raised through a QIP and Rs 125 cr from an issue of non-convertible debentures. These reserves are being deployed into acquisitions, with two announced in recent weeks. The acquisition of Macmillan Learning has been closed, and the company aims to close PureSoftware within few months. Integration plans are already in motion to harness the synergies of these acquisitions.

The acquisition of PureSoftware enhances Happiest Minds' capabilities in BFSI, healthcare, and life sciences, allowing the company to target new clients in these verticals while expanding services to existing customers. PureSoftware brings in an award-winning Banking-as-a-Service platform. This acquisition also provides Happiest Minds with an offshore development center in Mexico and offices in Singapore, Malaysia, and Africa. Additionally, it opens opportunities to cross-sell analytics, GenAI, automation, infrastructure management, and cybersecurity services to PureSoftware's customers, driving accelerated growth for Happiest Minds.

Macmillan Learning India Private Limited, a wholly owned subsidiary of The Macmillan Group, operates as an offshore development center providing software services to the Macmillan Group. This acquisition strengthens Happiest Minds' virtual capabilities and deepens its relationship with the Macmillan Group, a global leader in learning, education, and publishing. Despite macroeconomic and geopolitical challenges, the company's pipeline remains strong, particularly in growth markets like India.

The company's strategic M&A program, managed by an investment committee of two executive members, aims to acquire companies of strategic interest and meaningful size. Current M&A priorities include strengthening geographical presence in the USA, Europe, the Middle East, and Australia/New Zealand regions, delving deeper into industry groups like Insurance, Banking, Life Sciences, Manufacturing, and Retail CPG, and enhancing technology offerings in Cyber Security, ServiceNow, and Salesforce. Partnerships with Microsoft®, ServiceNow®, SailPoint®, and CyberArk® are also a focus.

Past acquisitions have created long-term value for the company through growth and profitability. Notably, these acquisitions include Cupola, enhancing the IoT Center of Excellence; Pimcore Global Services (PGS), expanding delivery competencies; and Sri Mookambika Infosolutions, strengthening the healthcare vertical.

In early FY25, strategic acquisitions included PureSoftware Technologies Private Limited and Aureus Tech Systems LLC. Aureus, a niche Azure-native digital product engineering company, focuses on digital transformation using Data, AI, and Application Modernization, adding 150 specialists and enhancing capabilities in Insurance & Reinsurance, Healthcare, and Life Sciences sectors.

Expanding presence in key markets like the UK, the US, Canada, Australia, New Zealand, the Netherlands, and the Middle East has facilitated attracting new clients, exploring untapped revenue streams, maintaining competitive advantage, and seizing market opportunities.

Navigating Towards USD 1 Billion: Happiest Minds' Strategic Vision

Happiest Minds is enthusiastic about the future, driven by the transformational changes implemented in FY24 and recent acquisitions in early FY25. These strategic moves position the company confidently to pursue its vision of reaching USD 1 billion in revenue by 2031.

Looking ahead, Happiest Minds plans to fuel organic growth through investments in people, capabilities, and the generative AI business service. The company's COEs in automation, analytics, and security will continue to receive investments, reinforcing their significant size and capabilities. Growth through inorganic means remains an integral part of the company's vision to become a USD 1 billion enterprise by 2031.

The company has cultivated alliances that drive business relevance, growth, and sustainability, teamed up with global technology leaders to deliver industry-leading solutions. The company's commitment to generative AI underscores its dedication to innovation and enhancing client engagement in their digital journeys.

Key areas of expertise include mobile connectivity, social media integration, big data analytics, cloud delivery, enterprise digital transformation, next-generation product and platform engineering, and secure infrastructure delivery. The company excels in IoT, DevOps, Digital Process Automation, Big Data and Advanced Analytics, Blockchain/Web3.0, Cloud Computing, Security, Drones and Robotics, Generative AI, and Quantum Computing.

The company's cash balance of approximately Rs 1,364 cr, including funds raised through a QIP and non-convertible debentures, will support further acquisitions and integration efforts to leverage synergies.

The strategic M&A program aims to expand geographically, deepen industry expertise, and enhance technology offerings. The company's focus on "land and expand" strategies of cross selling and upselling and quality execution has led to deep penetration into customer strategic spending, which has reflected in the increase in customer cohorts.

The newly formed industry groups are working closely with the GBS BU and COEs to incubate targeted solutions. The integration of Product Engineering Services and Digital Business Services into a single unit, Product and Digital Engineering Services (PDES), is expected to drive cross-selling opportunities and growth in the healthcare vertical practice.

Happiest Minds' strong R&D capabilities in disruptive technologies enable it to offer solutions across the digital lifecycle. The company continues to invest in R&D, emerging technologies, and strategic alliances to design innovative solutions aligned with new technological breakthroughs, thus future-proofing customers' digital transformation.

The vision for FY 2030-31 and beyond includes selectively pursuing inorganic opportunities to strengthen technology capabilities, market position, and new growth possibilities. The company aims to explore resource rationalization, gain economies of scale, augment delivery channels, strengthen its consulting-led approach, and target companies with specialty and complementary skills.

Client-Centric Approach and Robust Customer Base

Customer relationships lie at the heart of Happiest Minds' business strategy. In FY24, they increased their average active customer count by taking the total to 250 from 237 in the preceding fiscal year. The growth of their customer base and the market adoption of their software offerings are influenced by the pace of organizational digital transformation.

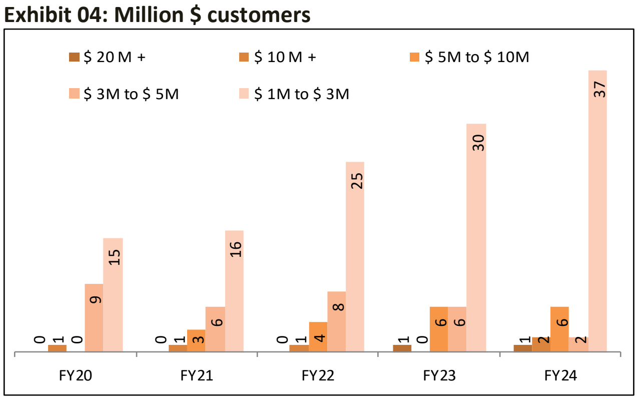
Operating with a 96% digital presence and embracing agility at 95%, Happiest Minds excels in swiftly adapting to market changes. They offer tailored solutions that precisely match evolving customer needs, whether it's developing custom software, implementing cloud solutions, enhancing cybersecurity, automating processes, or optimizing infrastructure management. From initial consultation to ongoing support, Happiest Minds is dedicated to delivering exceptional service, consistently surpassing customer expectations throughout the journey.

Happiest Minds maintains a robust client base, serving 250 clients with an impressive 90% rate of repeat business. Notably, they provide services to 61 Fortune2000/Forbes200 Billion $ corporations. The average revenue per active customer is USD 794,000 which has increased at a 3 year CAGR of 8%. A significant portion, around 48%, of their revenue comes from clients who have been with them for over 5 years. Moreover, they count 48 customers from whom revenues exceed USD 1 million, based on quarterly revenues annualized.

Happiest Minds anticipates that revenue growth will primarily depend on the adoption rate of their offerings. They recognize that the degree to which prospective customers acknowledge the need for their services to optimize business processes will drive budget allocations towards engaging their services and consequently impacting future financial performance. Benefiting from the growth in the global software development services industry, Happiest Minds capitalizes on major corporations' imperative to maintain and upgrade technology for cost-efficient operations. The company sees substantial growth opportunities in the Indian software development services market, leveraging a large pool of skilled IT professionals, robust infrastructure, and strong government support.

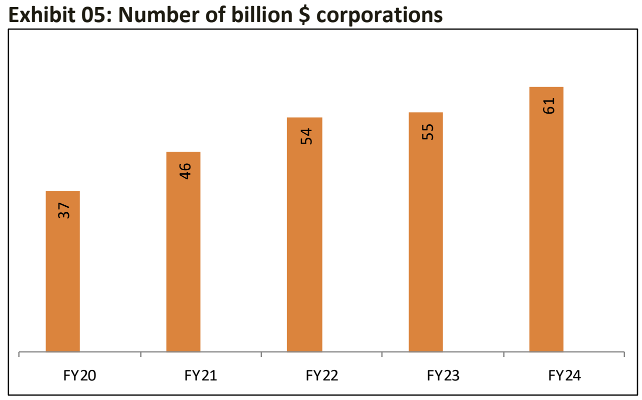
With a focus on business verticals including Edtech, HiTech, BFSI, Industrial/Manufacturing, and Retail, Happiest Minds invests in enhancing sales and marketing expertise to drive customer acquisition and retention. Their strategy involves cross-selling and upselling services, deepening customer relationships, and expanding service offerings to meet evolving demands. The company's commitment to delivering consistent value has fostered a solid client base, positioning them as trusted partners in client growth. Leveraging domain expertise, Happiest Minds continues to expand its clientele while maintaining strong relationships with established clients.

Exhibit 04: Million $ customers



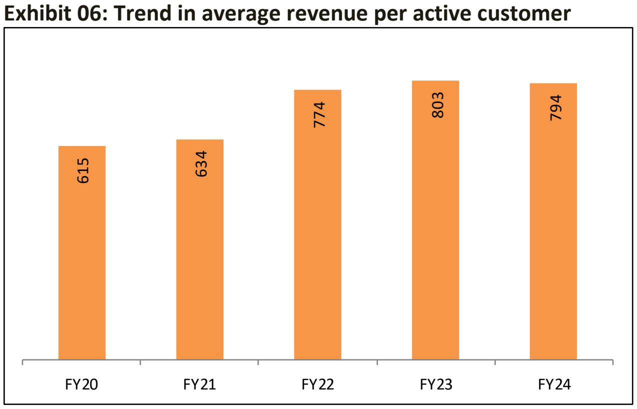
Source: Company, Systematix PCG Research

Exhibit 05: Number of billion $ corporations



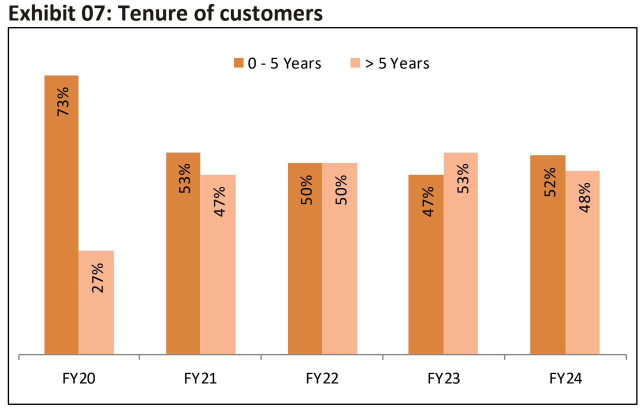
Source: Company, Systematix PCG Research

Exhibit 06: Trend in average revenue per active customer



Source: Company, Systematix PCG Research

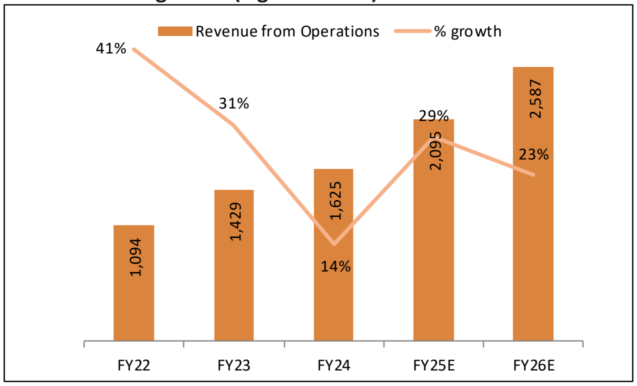
Exhibit 07: Tenure of customers



Source: Company, Systematix PCG Research

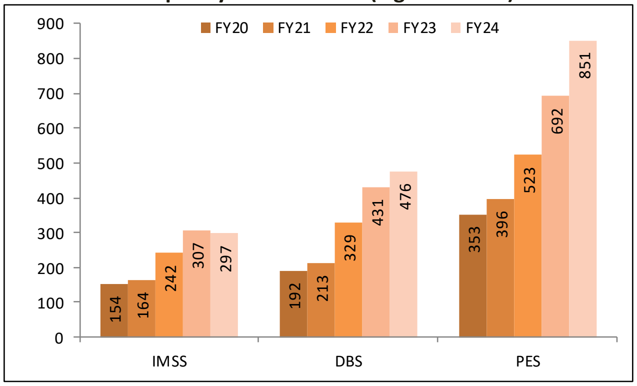
Story In Charts

Exhibit 08: Revenue growth (Figures Rs. cr)



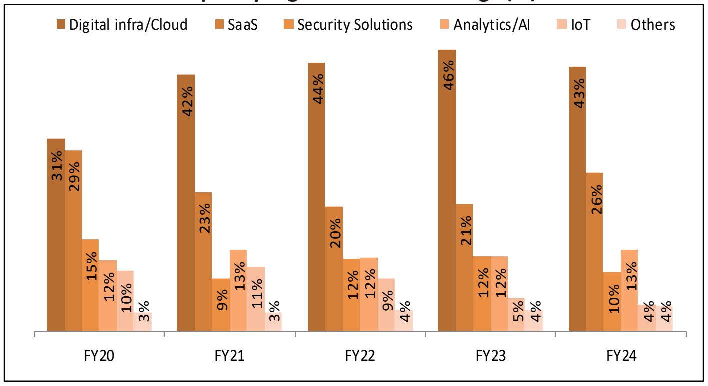
Source: Company, Systematix PCG Research

Exhibit 09: Revenue split by business unit (Figures Rs. cr)



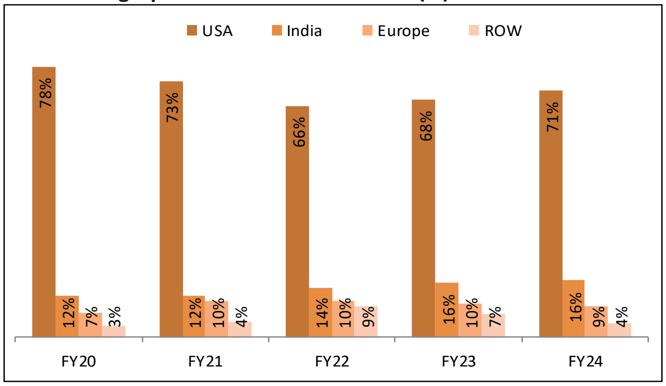
Source: Company, Systematix PCG Research

Exhibit 10: Revenue split by digital service offerings (%)



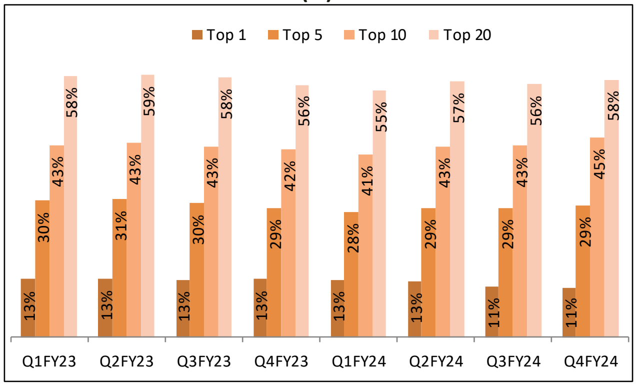
Source: Company, Systematix PCG Research

Exhibit 11: Geographical revenue bifurcation (%)



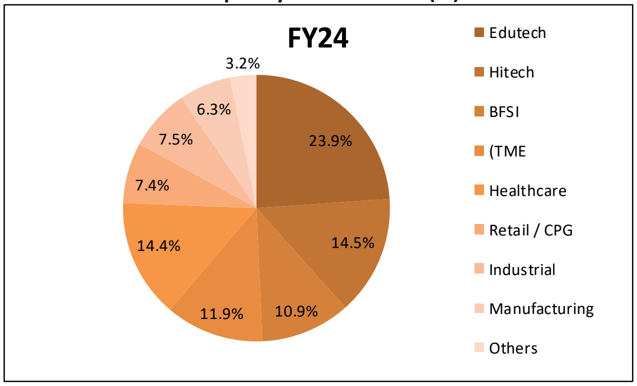
Source: Company, Systematix PCG Research

Exhibit 12: Revenue concentration (%)



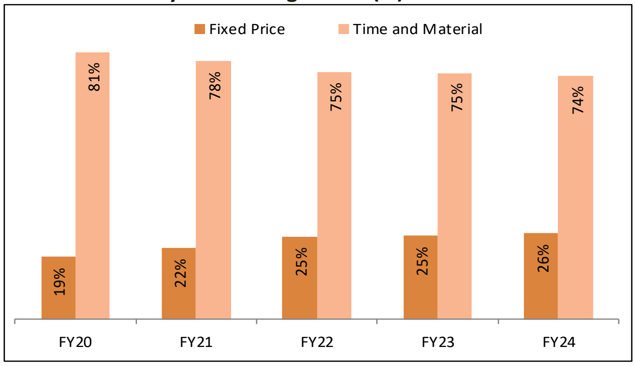
Source: Company, Systematix PCG Research

Exhibit 13: FY24 Revenue split by business unit (%)



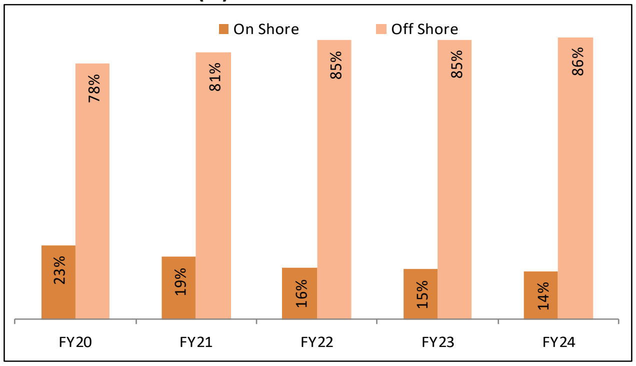
Source: Company, Systematix PCG Research

Exhibit 14: Revenue by contracting model (%)



Source: Company, Systematix PCG Research

Exhibit 15: Revenue mix (%)

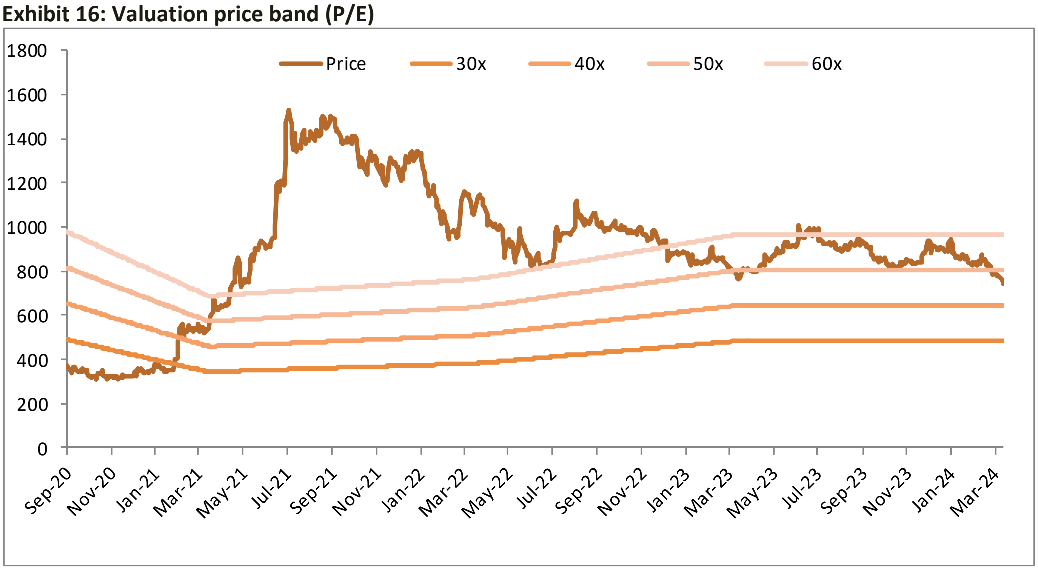


Source: Company, Systematix PCG Research

Valuation

Happiest Minds Technologies has demonstrated robust historical performance, growing its revenues at a CAGR of 28% from FY21-FY24. Going forward, the company is leveraging its first-mover advantage by setting up a new business vertical focused on generative AI and merging its Product Engineering Services and Digital Business Services into a new vertical called Product and Digital Engineering Services (PDES) to increase synergies. Additionally, it has created a new organizational structure comprising six Industry Groups, enabling customized solutions and rapid response times. The company's focus on inorganic acquisitions will also strengthen its operations across different verticals and geographies. Coupled with a healthy customer base, strong execution abilities and expected increase in discretionary spending by clients, we are confident about the company’s growth prospects. We estimate the company's revenues to grow at a CAGR of 26% from FY24-FY26E, to Rs 2,587 cr, with a healthy EBITDA margin of 23% and we expect EBITDA to grow at a CAGR of 32% from FY24-FY26E to Rs 583 cr, and PAT to grow at a CAGR of 31% from FY24-FY26E, reaching Rs 428 cr with a stable PAT margin of 17%. Factoring in these growth prospects, **We initiate coverage on Happiest Minds Technologies with a “BUY” rating based on 40x FY26E EPS and a target price of Rs 1,124, implying an upside of 24%.**

Exhibit 16: Valuation price band (P/E)

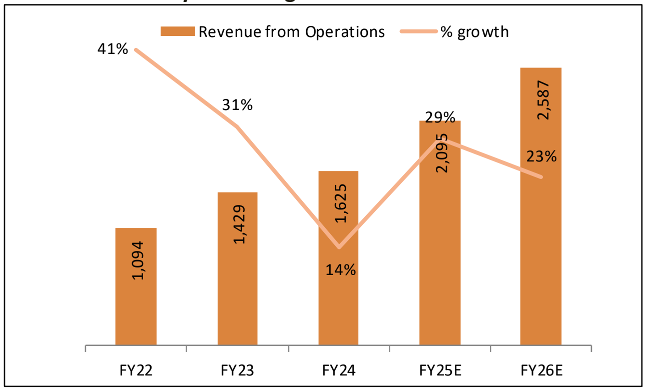


Financial and Operational Analysis

Revenue CAGR of 26% from FY24-FY26E led transformations and acquisitions

Happiest Minds has grown its revenue at a healthy pace from FY21-FY24 at a CAGR of 28%. Going ahead due to the company's focus on inorganic growth and the transformations done regarding merging of Digital Business Services and Product Engineering Services and creation new vertical organization structure can help the company achieve its aim of being USD 1 billion company by FY31. The company expects FY25 to be its best year since IPO. We expect the company to grow its revenues at a CAGR of 26% from FY24-FY26E to Rs 2,587 cr led by the above initiatives taken by the company.

Exhibit 17: Healthy revenue growth at a CAGR of 26% from FY24-FY26E

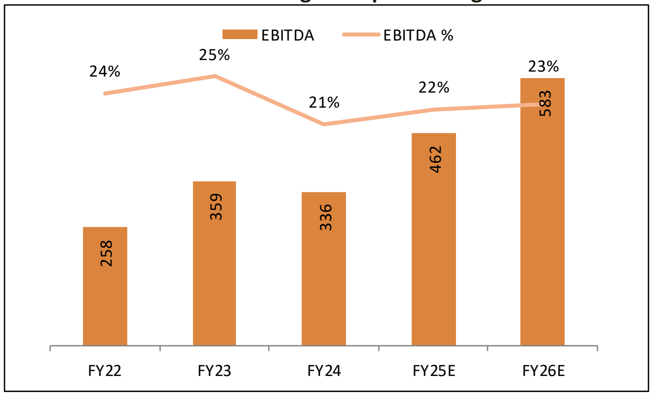


Source: Company, Systematix PCG Research

EBITDA margin maintained coupled with 32% CAGR growth in EBITDA from FY24-FY26E

Company has consistently outperformed its EBITDA guidance for 16 quarters in a row and grown its EBITDA at a CAGR of 32% from FY21-FY24 and has been able to sustain its margin despite slowdown in the sector led by decrease in discretionary spending by companies. Due to strong consistency in maintaining its margin, cost optimization and synergies from acquisition we expect the company to maintain its EBITDA margins ~22-23% and grow its EBITDA at a CAGR of 32% from FY24-FY26E to Rs 583 cr.

Exhibit 18: Stable EBITDA margin coupled with growth in EBITDA

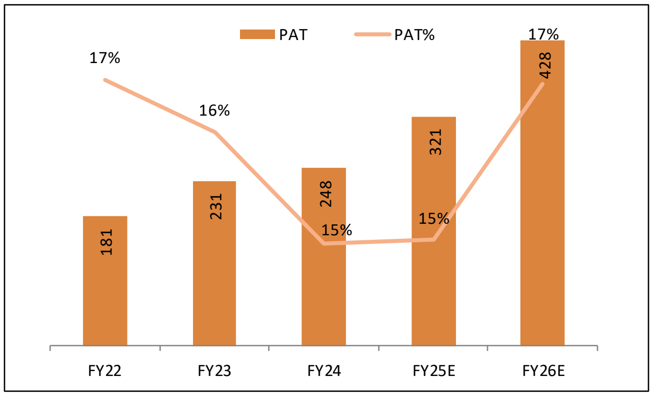


Source: Company, Systematix PCG Research

PAT CAGR of 31% from FY24-FY26E coupled with stable margins of 17%

Company has grown its PAT at a CAGR of 31% from FY21-FY24. Due to reorganization of new vertical organization structure where each vertical will operate as independent profit centres and huge cash balance for acquisition we do not expect the company to be significantly leveraged and expect it to have a PAT margin of 17% by FY26E. We expect PAT to grow a CAGR of 31% from FY24-FY26E to Rs 428 cr.

Exhibit 19: PAT CAGR of 31% from FY24-FY26E

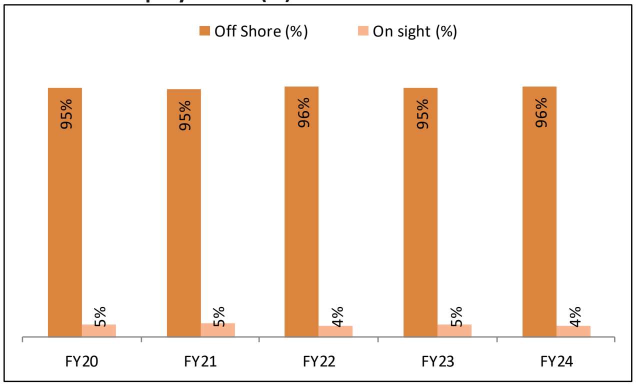


Source: Company, Systematix PCG Research

Nurturing Talent and Retaining Expertise: Happiest Minds Approach to Employee Growth

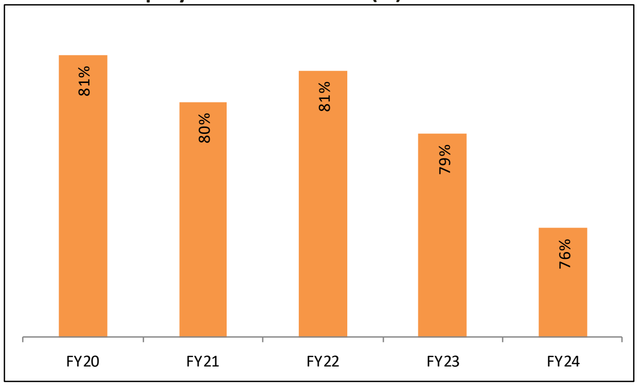
In FY24, Happiest Minds maintained a low attrition rate of 13%, notably below its targeted rate of 18%. Throughout the year, the company onboarded 2,514 new members, with 249 recruited from various campuses. The learning platforms provided over 144,124 hours of training, averaging 33 hours per employee. Happiest Minds prioritizes structured career acceleration and upskilling programs, resulting in the training of over 4,917 employees by the year's end, with 27.7% being women. Employee utilization for FY24 stood at 76%, with the decrease primarily attributed to investments in hiring for the GBS business unit and ongoing training programs at recent campus sites. Moreover, the company benefits from a higher percentage of offshore employees, contributing to cost efficiency.

Exhibit 20: Employee mix (%)



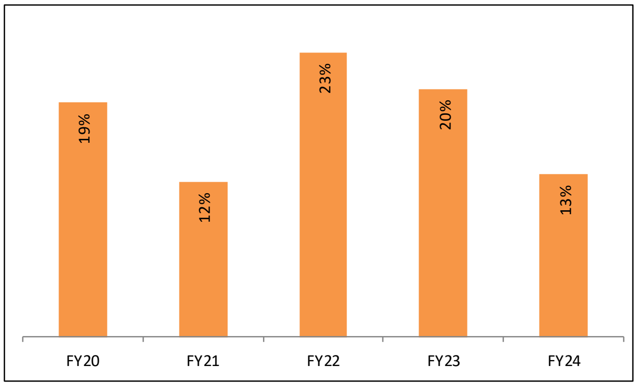
Source: Company, Systematix PCG Research

Exhibit 21: Employee utilization rate (%)



Source: Company, Systematix PCG Research

Exhibit 22: Attrition rate (%)



Source: Company, Systematix PCG Research

About the company

As a mindful IT company, Happiest Minds facilitates digital transformation for enterprises and technology providers by delivering seamless customer experiences, business efficiency, and actionable insights. Leveraging a spectrum of disruptive technologies such as artificial intelligence, blockchain, cloud, digital process automation, internet of things, robotics/drones, security, virtual/augmented reality, etc., the company is positioned as 'Born Digital. Born Agile'. Its capabilities span across three business units: Product & Digital Engineering Services (PDES), Generative AI Business Services (GBS), and Infrastructure Management & Security Services (IMSS), serving industry groups like Banking, Financial Services & Insurance (BFSI), EdTech, Healthcare & Life Sciences, Hi-Tech and Media & Entertainment, Industrial, Manufacturing, Energy & Utilities, and Retail, CPG & Logistics.

IMSS empowers businesses to leverage technology effectively, drive innovation, and protect digital assets against evolving threats. With a customer-centric approach, the company offers life-cycle services from advisory to management phases, addressing various domains, business sizes, and regions.

Digital Business Services (DBS) drives digital modernization and transformation through application development, application modernization, and solutions implementation to improve customer experiences, productivity, and business outcomes. Its offerings include consulting and domain-led solutions such as digital roadmap planning and migration of on-premise applications to the cloud.

Product Engineering Services (PES) helps customers capitalize on the transformative potential of digital by building smart, secure, and connected products and platforms. The company's offerings cover the development lifecycle, from strategy to final rollout, with a focus on quality and rapid prototyping to accelerate time to market.

Happiest Minds recently restructured its business units, establishing the Generative AI Business Services (GBS) and merging DBS and PES into a new unit called Product and Digital Engineering Services (PDES), while IMSS continues its operations. These units offer comprehensive solutions across the digital lifecycle, empowering enterprises and digital native companies to build future-ready products and platforms, harness the potential of Generative AI, and manage, transform, and secure distributed hybrid IT environments.

Supported by Centers of Excellence (CoEs) in areas such as Internet of Things (IoT), Analytics/Artificial Intelligence (AI), and Digital Process Automation (DPA), Happiest Minds drives transformative change and innovation in the digital landscape. These CoEs offer consulting-led digital strategy creation, implementation of advanced analytics using AI and machine learning, and consulting-led digital transformation through process automation.

In DPA Consulting, Happiest Minds offers services aimed at streamlining automation output, providing structure, and scaling automation across enterprises. This encompasses people, processes, and technology to maximize benefits. End-to-End Process Automation focuses on automating business processes to optimize operations, enhance customer experiences, and foster innovation through automated process orchestration, with human involvement when necessary. Cognitive

Automation integrates Artificial Intelligence, Generative AI, and Machine Learning into cognitive architectures and intuitive technologies, driving innovation and value creation.

The company's Digital Automation Solutions revolutionize businesses with advanced digital automation solutions. These leverage Low-Code Application Platform (LCAP) development tools to craft custom applications meeting unique client needs. Solutions include modernizing legacy applications, extending ERP/mission-critical systems, scaling customer touch points, and digitizing processes for enhanced efficiency and productivity.

Happiest Minds provides several proprietary platforms to support its business units, including Ellipse, a modular platform integrating ITSM/ITOM capabilities, analytics, and machine learning for AI-enabled IT operations. CRPP leverages MITRE ATT&CK® best practices to offer deep analytics and insights, addressing holistic cybersecurity risks. DCM SaaS is an AI-powered engine for efficient enterprise content monetization. UniVu offers a big data-driven university analytics solution, while Pro-RiTE provides a model-based test automation framework. ThingCenter is a unified IoT platform, CourseMap is an AI-powered degree planning tool, and Nethra is a computer vision framework. Additionally, the Patient Engagement Platform facilitates remote care access, emergency connections, continuous home monitoring, and smart interventions for healthcare providers and patients.

Industry Overview

In 2023, Generative AI (GenAI) and ChatGPT ignited a global revolution, elevating the AI Software & Services market to an approximate value of $100 billion. Indian tech giants and mid-scale companies are heavily investing in GenAI solutions, positioning India among the top five nations in AI talent. The IT services sector is projected to grow by 2% in FY25, driven by increased demand for infrastructure management, networking services, cloud-based software testing, and consulting services, according to NASSCOM estimates. Additionally, the Engineering Research & Development (ER&D) segment is expected to expand by 7.4%, with a focus on digital engineering.

The Information Technology and Business Process Management (IT-BPM) industry has seen significant investment and growth in recent years. The global IT-BPM market is anticipated to reach $3.3 trillion by 2025, growing at a CAGR of 8.4%. This growth will be fueled by the rising adoption of automation, digital technologies, and the trend of outsourcing and offshoring. India, a leading player in the IT-BPM sector, holds a market share of over 55%. The country attracts substantial investments from global corporations due to its skilled workforce, low labor costs, and supportive government policies. NASSCOM reports that IT-BPM exports from India are expected to reach $194 billion by 2025.

Amidst global challenges, companies are striving to become more agile and resilient. This urgency drives selective digital transformation and the adoption of automation and digital technologies to optimize processes, improve efficiency, and achieve cost savings. Technologies with significant business implications include artificial intelligence (AI), augmented reality (AR), block chain, drones, the Internet of Things (IoT), robotics, 3D printing, and virtual reality (VR).

The IT industry is increasingly adopting emerging technologies such as AI, robotic process automation (RPA), big data, and generative AI, block chain, and cloud services. Cloud micro services platforms are projected to generate $4.2 billion in revenue by 2028, up from $952 million in 2020. Additional technology investments in areas like sensor tech, smart robots, autonomous driving, computer vision, deep learning, autonomous analytics, AR/VR, sustainability tech, edge computing, distributed ledger, space tech, and 5G/6G are expected to grow at twice the average enterprise spend rate. In India, investments in these sectors are expanding at a 31% CAGR, driving a surge in innovative start-ups and positioning the country to capitalize on these opportunities.

Outsourcing and offshoring remain key growth drivers in the IT-BPM industry. Companies increasingly outsource business processes to third-party service providers to reduce costs and enhance efficiency. Countries like India, the Philippines, and China, with their cost-effective and skilled talent pools, have become popular offshoring destinations, attracting significant global investments.

Financial Summary

Income Statement (Rs Crs)	FY22	FY23	FY24	FY25E	FY26E
Revenue from Operations	1,094	1,429	1,625	2,095	2,587
Expenses	836	1,070	1,289	1,633	2,004
EBITDA	**258**	**359**	**336**	**462**	**583**
Depreciation and Amortisation	33	42	58	62	63
EBIT	**225**	**317**	**278**	**400**	**521**
Other income	37	21	85	65	83
Interest Cost	10	22	42	36	32
PBT before exceptional items	**252**	**316**	**321**	**429**	**572**
Excep. Items	-6	-6	14	0	0
Share of Profit/ (Loss) from JV's	0	0	0	0	0
Tax expense	65	79	86	108	144
PAT including minority interest	**181**	**231**	**248**	**321**	**428**
Attriutable to minority interest	0	0	0	0	0
Net Profit attributable to owners	**181**	**231**	**248**	**321**	**428**

Balance Sheet (Rs crs)	FY22	FY23	FY24	FY25E	FY26E
PP&E, Intangibles incl Right of use Assets	79	295	273	253	243
Goodwill	79	139	140	140	140
Investments, Loans & other Financial Assets	26	107	25	25	25
Other non current Assets incldefered tax assets	14	27	32	32	32
Total Non Current Assets	**198**	**568**	**470**	**451**	**440**
Cash & Cash equivalents incl bank balances	168	692	1,337	1,448	1,633
Receivables	167	213	254	295	364
Loans and Investments	464	1	0	0	0
Other current assets incl financial assets	128	167	186	186	186
Total Current Assets	**927**	**1,073**	**1,778**	**1,929**	**2,183**
Total Assets	**1,125**	**1,641**	**2,248**	**2,380**	**2,623**
Share capital	29	29	30	30	30
Net worth	**666**	**839**	**1,480**	**1,697**	**1,987**
Long Term Borrowings	17	113	104	93	81
Other Financial Liablities incl lease liablities	54	68	50	45	39
Other non-current liablities incl Provisions & others	23	45	46	46	46
Total Non Current Liablities	**95**	**226**	**201**	**184**	**167**
Trade Payables	61	71	79	52	63
Short Term borrowings	173	355	338	300	262
Contract liabilities	13	12	18	18	18
Other Financial Liablities incl lease liablities	76	93	82	80	77
Other current liablities incl Provisions & others	41	47	49	49	49
Total Current Liablities	**365**	**576**	**567**	**499**	**469**
Total Equity and Liablities	**1,125**	**1,641**	**2,248**	**2,380**	**2,623**

Cash Flow Statement (Rs crs)	FY22	FY23	FY24	FY25E	FY26E
CF before working capital changes	277	359	346	527	666
Changes in working capital	-55	-63	-31	-68	-58
Cash from operations	222	296	315	459	608
Direct taxes paid	-53	-89	-102	-108	-144
Net cash from operations	**168**	**207**	**213**	**351**	**465**
Net cash from investing activities	**-96**	**-351**	**-466**	**-42**	**-52**
Net cash from financing activities	**-91**	**72**	**363**	**-198**	**-228**
Net change	-19	-72	110	111	185
Adjustments	0	74	-65	0	0
Opening cash	86	67	70	115	226
Closing Cash	**67**	**70**	**115**	**226**	**411**

Basic Ratios (Rs.)	FY22	FY23	FY24	FY25E	FY26E
EPS	12.5	16.0	16.7	21.1	28.1
Growth (%)		28%	4%	26%	33%
Book Value Per Share	46	58	100	111	130
Growth (%)		26%	71%	12%	17%
Valuation Ratios					
P/E (x)	72.4	56.7	54.3	43.1	32.3
P/CEPS (x)	61.3	48.0	44.0	36.1	28.2
P/BV (x)	19.7	15.6	9.1	8.1	7.0
EV/Sales (x)	12.0	9.0	7.8	6.1	4.8
EV/EBITDA (x)	51.0	35.9	37.5	27.7	21.5
Profitablity Ratio (%)					
ROE (%)	29.9%	30.7%	21.4%	20.2%	23.2%
ROA (%)	17.7%	16.7%	12.8%	13.9%	17.1%
ROCE (%)	26.2%	24.3%	14.4%	19.1%	22.4%
Margin (%)					
EBITDA	23.6%	25.1%	20.7%	22.0%	22.5%
PBT	23.0%	22.1%	19.7%	20.5%	22.1%
PAT	16.6%	16.2%	15.3%	15.3%	16.5%
Leverage Ratios					
Interest Coverage Ratio (x)	22.6	14.5	6.6	11.0	16.4
Net D/E (x)	0.0	-0.3	-0.6	-0.6	-0.6
Net Debt/ EBITDA (x)	-1.2	0.1	0.1	-0.6	-2.7
Financial Leverage (x)	1.7	1.8	1.7	1.5	1.4
Liquidity Ratios					
Current Ratio	2.5	1.9	3.1	3.9	4.7
Quick Ratio	0.9	1.6	2.8	3.5	4.3
Cash Ratio	0.5	1.2	2.4	2.9	3.5
Working Capital					
Trade Receivable Days	48	49	53	51	51
Trade Payable Days	16	15	13	15	15
Working Capital Cycle	**33**	**34**	**39**	**36**	**36**
Growth Ratio (%)					
Sales		30.7%	13.7%	29.0%	23.5%
Expenses		28.0%	20.4%	26.7%	22.7%
EBITDA		39.3%	-6.4%	37.5%	26.3%
Interest Cost		119.7%	93.4%	-14.0%	-12.7%
PBT		25.5%	1.4%	33.8%	33.3%
PAT		27.5%	7.5%	29.2%	33.3%
Cash EPS		27.6%	9.2%	21.7%	28.2%

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