

## Subscribe for Long Term

Issue Details	
Price Band (Rs)	Rs. 165 - 166
Face Value (Rs)	2
Issue Size (Rs)	702Cr
Issue Type	Book Building
Minimum lot	90
Issue Opens	September 7, 2020
Issue Closes	September 9, 2020
Listing on	BSE, NSE

Indicative Timeline	On or before
Finalization of Basis of Allotment	September 14, 2020
Unblocking of Funds	September 15, 2020
Credit of shares to Demat Account	September 15, 2020
Listing on exchange	September 17, 2020

Other Detail	
Book Running Lead Managers	ICICI Securities Limited, Nomura Financial Advisory and Securities (India) Private Limited.
Registrar	KFin Technologies Private Limited

## Happiest Minds Technologies Ltd

### Company Background

Happiest Minds was established in April 2011 by its promoter Ashok Soota, one of the co-founders of Mindtree. It is a Bangalore headquartered technology services company which positions itself as "Born Digital, Born Agile". The business of the company is divided into three categories; Digital Business Service, Product Engineering Service and Infrastructure and Management Security Service. Happiest Minds delivers services across industry sectors such as Retail, Edutech, Industrial, BFSI, Hi-Tech, Engineering R&D, Manufacturing, Travel, Media and Entertainment.

### Issue Details

The offer comprises fresh issue Fresh Issue of Equity shares aggregating upto Rs.110Cr and Offer for sale of up to 35,663,585 Equity Shares.

### OFS Details:

Promoter	Shares offered for sale
Ashok Soota	Up to 8,414,223 Equity Shares
CMBD II	Up to 27,249,362 Equity Shares
* CMBD II is a private equity fund. J.P. MORGAN INVESTMENT MANAGEMENT INC. is an adviser to the fund.	

### Issue Objectives :

- To meet long term working capital requirement :101Cr
- General corporate purposes

### IPO share allotment pattern

Category	Allocation	Number of Shares at Rs.165	Number of Shares at Rs.166	Issue Size (Rs.Cr)
QIB	75%	31,747,689	31,717,568	526.51
Non-Institutional	15%	63,49,538	6,343,514	105.30
Retail	10%	42,33,025	4,229,009	70.20
<b>Total</b>		<b>42,330,252</b>	<b>42,290,091</b>	<b>702.02</b>

\*Issue Size at Upper price band  
Source: Company RHP, ACMIL Research

### Outlook and Valuations

Happiest Minds is a versatile digital business, product engineering and infra management solution provider company. According to the Frost & Sullivan report the global enterprise digital spend is expected to be approximately USD 691 billion in 2019 and is expected to grow to USD 2,083 billion by 2025 at a CAGR of 20.19%. In FY20, 96.9% of the company's revenues came from digital services which is one of the highest among Indian IT companies. We believe the company's niche presence in value-added segments and its focus on emerging areas such as big data analytics, social media, and cloud delivery makes them better placed to capitalize on Digital opportunities. At the upper price band of Rs.166/-, stock is valued at 12x of FY21E Earnings (based annualize latest earnings and on diluted basis). **We recommend to subscribe the issue from a long-term prospective.**

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## Business Overview

Happiest Mind focuses on delivering a seamless digital experience to its customers. Its capabilities provide an end-to-end solution in the digital space. The business of the company is divided into three categories; Digital Business Service, Product Engineering Service and Infrastructure and Management Security Service.

### 1) Digital Business Services (DBS):

The 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, enhanced productivity and better business outcomes; (ii) implementation of solutions, development and implementation of solution, capabilities for improving data quality of the customer's platform, assistance in designing and testing of operations and management of platform and modernisation 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.

### 2) Product Engineering Services (PES):

The PES aims to help the customers capitalise on the transformative potential of 'digital' by building products and platforms that are smart, secure and connected. 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. Its offerings extend across the development lifecycle from strategy to final roll out while ensuring quality.

### 3) Infrastructure Management & Security Services (IMSS):

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. Its security offerings include cyber and infrastructure security, governance, risk & compliance, data privacy and security, identity and access management and threat and vulnerability management.

As of June 30, 2020, Happiest Minds had 148 active customers and has a global presence in countries like US, UK, Australia, Canada and the Middle East. The business units of the company is assisted by the 3 Centres of Excellence which are Internet of Things, Analytics / Artificial Intelligence, and Digital Process Automation. In Fiscal 2020, 96.9% of the company's revenues came from digital services which is one of the highest among Indian IT companies. Happiest Minds delivers services across industry sectors such as Retail, Edutech, Industrial, BFSI, Hi-Tech, Engineering R&D, Manufacturing, Travel, Media and Entertainment.

## Investment Rationale

### Strong brand in Digital IT services

Company's target market includes business services, IT services, infrastructure-as-a-service, applications, application development and deployment. Its brand positioning "Born Digital. Born Agile" is a reflection of digitalization being built into the essence of its business.

The revenues from providing digital IT services:

Customer Industry group	FY19	FY20	As on June 30, 2020
Digital infrastructure/Cloud	40.9%	31.2%	43.7%
SaaS	28.6%	29.4%	23.6%
Security solutions	10.2%	14.9%	7.6%
Analytics/AI	9.1%	11.6%	12.1%
IoT	8.4%	9.8%	9.3%
Total	97.2%	96.9%	96.3%

Since its inception, Happiest Minds has focused on software product development, which they have refined through repeat, multi-year engagements with various global Independent Software Vendors (ISVs). Company's focus on software product development services for ISVs and technology companies requires quality software engineering talent, advanced knowledge of up-to-date methodologies and productivity tools, and strong project management practices.

Happiest Minds has developed a culture focused on innovation, technology leadership and process excellence, which helps them in maintaining a strong reputation with its customers. Their experience with ISV and technology company customers enables them to grow their business in multiple industries.

The contribution to the total revenue by the customer industry groups:

Customer Industry group	FY18	FY19	FY20	As on June 30, 2020
Edutech	18%	21.3%	21.3%	27%
Hitech	24.6%	21%	21%	20.5%
BFSI	17.9%	18.2%	17.5%	17.4%
Travel, Media and Entertainment (TME)	11%	13.8%	17.1%	12.9%
Retail	7%	6.9%	7.5%	5.6%
Industrial	6.2%	8.1%	7%	6.4%
Manufacturing	3.2%	3.8%	3.7%	5.5%
Others	12.3%	6.9%	4.9%	4.5%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

### Growing high revenue generating customer accounts with a high proportion of repeat revenues and revenues from mature markets

The company has generally witnessed an increase in the number of its top accounts by revenue contribution.

The number of customers which contributed more than USD 1 million, USD 5 million and USD 10 million annually for the last 3 Fiscals:

Number of customers	FY18	FY19	FY20
USD 1 - 5 million	14	18	24
USD 5 - 10 million	2	2	-
More than USD 10 million	-	1	1
<b>Total</b>	<b>16</b>	<b>21</b>	<b>25</b>

Broad range of offerings helps them to up-sell and its multiple Business Units help them to cross-sell to its existing customers as well as to acquire new customers. Its average revenue per customer has increased from USD 471,472 in Fiscal 2018, to USD 501,562 in Fiscal 2019 to USD 614,675 in Fiscal 2020. Its revenue per sales employee has increased from USD 2.1 million in Fiscal 2018 to USD 2.6 million in Fiscal 2019 and further to USD 3.1 million in Fiscal 2020.

The United States which has the majority market share of global technology spend historically has contributed a majority of its revenues.

The proportion of its revenue from contract with customers on the basis of the location of the external customer for the period indicated:

Location	FY 18	FY 19	FY 20
USA	73.5%	75.5%	77.5%
India	11.7%	11.9%	11.9%
UK	11.4%	9.5%	7.2%
Others	3.4%	3.1%	3.4%

### Strong R&D capability with depth in disruptive technologies creating value through newly engineered solutions.

Happiest Minds 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. However, technologies that power digital evolution are rapidly evolving with new technological breakthroughs constantly happening and the company evolve its offerings to include them, such as augmented/virtual reality, chatbots etc.

### Scalable business model with multiple drivers of steady growth

Company's business model is scalable across customer industries, functions and geographies. In addition to its spread across customer industries and geographic markets they have also developed key operational drivers delivering them steady growth. These drivers include its revenue mix, contract structure, utilization rates and bill rates.

## Revenue mix

Offshore business for Indian IT services industry is generally at a higher margin than onshore business primarily because personnel costs have been lower in India than in many other countries. Offshore business also supports scalability as India has a large pool of trained engineers who speak English and are experienced in delivering IT services.

The revenue mix as a percentage of revenues

	FY18	FY19	FY20	June 30 , 2020
Onsite	21.4%	22%	22.5%	21%
Offshore*	78.6%	78%	77.5%	79%

\* Offshore includes revenues from offshore clients served from India and from Indian clients

## Contract structure

Fixed price contracts require them to take on more financial risk compared to time and material contracts. For digital projects, the share of time and material contracts tends to be greater as these projects are iterative in nature.

	FY18	FY19	FY20	June 30 , 2020
Fixed Price	18.4%	16.8%	19%	18.8%
Time and Material	81.6%	83.2%	81%	81.2%

## Utilization

Utilization is a key lever in maintaining growth. Company's loss in Fiscal 2018 was in part driven by lower utilization rates in that year. The delivery workforce utilization rates:

Delivery workforce utilization rates	FY18	FY19	FY20	June 30 , 2020
	68.4%	77.3%	76.9%	74.9%

The foregoing operational drivers have helped deliver them steady growth in recent years. Key financial ratios in this regard are as follows:

Key Financial Ratios	FY18	FY19	FY20	June 30 , 2020
EBITDA / Total Income	1.6%	11%	15.8%	25.6%
ROCE			28.9%	12.7%
ROE			27.1%	15.7%

## Agile Engineering and Delivery

With broad software engineering capabilities, Happiest Minds has the ability to choose the methods, technologies and tools which are best suited to customers' business needs. Its engineers use a broad range of technologies including web technologies, cloud, data, mobile, testing, hardware & embedded, integration and APIs, IoT, AI, analytics and DevOps. Its tools provide them with a flexible approach for running large software projects and they constantly experiment with the latest tools and techniques. Its agile frameworks enable them to scale across the spectrum from ideation to production.

## Risk and Concern

1. 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 business, financial condition and results of operations.
2. Company success depends substantially on the continuing services of their Promoter, senior executives and other key personnel. If the Company is unable to attract and retain senior executives, They may not be able to maintain client relationships and grow effectively, which may adversely affect business, results of operations and financial condition.

## Peer Comparison\* (Financial as on March 31, 2020)

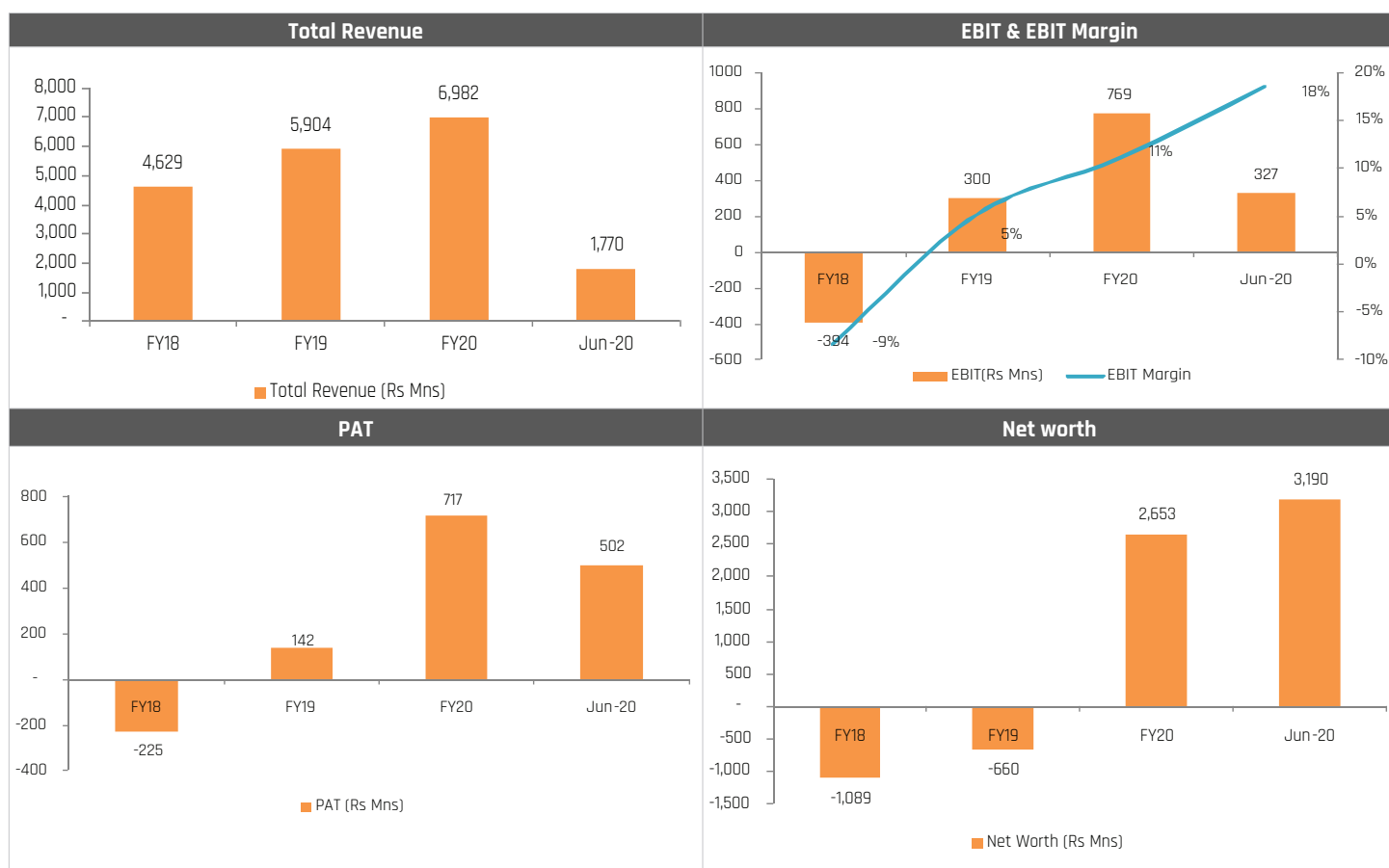
Name of the Company	P/E	EPS	"Return on Net Worth (%)"	"NAV per share (₹)"
Happiest Minds Technologies	12x*	7.04	27.1	26
TCS	26.1x	86.19	37.2	226
Infosys	24.3x	38.97	25.4	155
LTI	27.1x	87.45	29.5	310
Mindtree	30.3x	38.35	19.5	192

Source: Company RHP, ACMIIL Research

\*based annualize latest earnings as on 30th June 2020

Financials for listed peers are for the year ending March 31, 2020 and sourced from BSE

P/E Ratio has been computed as the closing market prices of the companies on the BSE Limited sourced from the BSE website as of 21 August 2020.



Source: Company RHP, ACMIIL Research

## Financials

### Income statement

Particulars ( Rs Mns)	FY18	FY19	FY20	Jun-20
Revenue from Operations	4629	5904	6982	1770
<b>Less: Operating exp</b>				
Employee Benefit Expense	3569	3851	4412	1083
Other exp	1246	1505	1599	309
<b>Total Expenses</b>	<b>4815</b>	<b>5356</b>	<b>6011</b>	<b>1392</b>
<b>EBITDA</b>	<b>-186</b>	<b>548</b>	<b>971</b>	<b>378</b>
Less : Dep & Amortization	208	248	202	51
<b>EBIT</b>	<b>-394</b>	<b>300</b>	<b>769</b>	<b>327</b>
<b>EBIT Margin</b>	<b>-9%</b>	<b>5%</b>	<b>11%</b>	<b>18%</b>
Add: other income	262	115	160	100
Less : Finance cost	99	159	80	19
<b>PBT before exceptional item and tax</b>	<b>-231</b>	<b>256</b>	<b>849</b>	<b>408</b>
Less: Exceptional Items - Impairment of goodwill	0	126	113	0
PBT	-231	130	736	408
Less : Tax	-6	-12.3	19	-94
<b>Net Profit</b>	<b>-225</b>	<b>142.3</b>	<b>717</b>	<b>502</b>
<b>PAT %</b>	<b>-5%</b>	<b>2%</b>	<b>10%</b>	<b>28%</b>
<b>Diluted EPS (Rs)</b>	<b>-3.13</b>	<b>1.16</b>	<b>5.36</b>	<b>3.72</b>

Source: Company RHP, ACMIL Research

## Balance sheet

Particulars (Rs Mns)	FY18	FY19	FY20	Jun-20
Share Capital	38	60	88	204
Other Equity	-1,126	-720	2,565	2,986
<b>Total Shareholders Fund</b>	<b>-1,089</b>	<b>-660</b>	<b>2,653</b>	<b>3,190</b>
<b>Non Current Liabilities:</b>				
Borrowing	148	85	13	-
Lease liabilities	432	296	173	167
Provisions	81	94	126	151
Deffered tax Liabilities	12	-	-	-
<b>Total Non Current Liabilities</b>	<b>673</b>	<b>475</b>	<b>312</b>	<b>318</b>
<b>Current Liabilities:</b>				
Contract liability	55	107	82	58
Short Term borrowings	686	601	692	909
Lease liabilities	146	158	182	192
Trade Payables	250	288	344	360
Provisions	82	100	125	147
Other Current Liabilities	3,066	3,066	693	557
<b>Total Current Liabilities</b>	<b>4,285</b>	<b>4,320</b>	<b>2,117</b>	<b>2,222</b>
<b>Total Liabilities</b>	<b>3,870</b>	<b>4,135</b>	<b>5,081</b>	<b>5,731</b>
<b>Assets</b>				
<b>Non Current Assets</b>				
Property, plant & Equipment	28	21	10	8
Goodwill	296	174	61	61
Other intangible assets	79	21	7	6
Right-of-use assets	548	397	301	306
Financial Assets:				
(i) Loans	59	62	77	54
(ii) Others Financial Assets	19	24	37	28
Income Tax Assets (Net)	58	92	134	38
Other non-current assets	4	5	4	5
Deferred tax assets (net)				189
<b>Total Non Current Assets</b>	<b>1,091</b>	<b>795</b>	<b>630</b>	<b>695</b>
<b>Current Asset</b>				
Financial Assets :				
(i) Investments	1,386	982	834	1,062
(ii) Trade Receivables	944	1,293	1,149	985
(iii) Cash and cash equivalents	165	263	435	679
(iv) Loans	27	8	10	30
(v) Other financial assets	114	709	1,918	2,148
Other current assets	142	86	106	131
<b>Total Current Asset</b>	<b>2,779</b>	<b>3,340</b>	<b>4,451</b>	<b>5,036</b>
<b>Total Asset</b>	<b>3,870</b>	<b>4,135</b>	<b>5,081</b>	<b>5,731</b>

Source: Company RHP, ACMIIL Research

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