

Happiest Minds Ltd.

SSIS IPO GRADE 4.5/5 (Sound Fundamentals)
6th September, 2020

Rating Overview

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'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.

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. Among key business verticals of the company include EduTech (21.3% of revenue), Hi-Tech (21%), BFSI (17.5%), Travel, Media & Entertainment (17.1%), Retail (7.5%) and Industrial (7%) as on FY20.

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.

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.

Our overall rating of Happiest Minds is fundamentally strong and it holds a fair valuation post issue. Investors pay a fair price and they can purchase it for medium to long term share appreciation. Others may subscribe for listing gains.

Note: The analyst has no plans of subscribing to the offer and does not hold any shares in the company prior to, or at the time of writing this review.



Business Overview

Happiest Minds Technologies Ltd. (HMTL) is claiming to have been positioned as 'Born Digital. Born Agile'. It focuses on delivering a seamless digital experience to its customers. HMTL's offerings include, among others, digital business, product engineering, infrastructure management and security services. Its capabilities provide an end-to-end solution in the digital space. The company believes that it has developed a customer-centric focus that aims to fulfil their immediate business requirements and to provide them strategically viable, futuristic and transformative digital solutions.

HMTL helps 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.

As of June 30, 2020, HMTL had 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 indicating a high degree of customer stickiness. The company believes its agility and resilience has stood out in recent years. In the three months ended June 30, 2020, and in Fiscal 2020, it delivered 90.1% and 87.9% respectively of projects through the agile delivery methodology. Over the years and currently, during the ongoing outbreak of Novel Coronavirus, it has successfully implemented business continuity plans including to achieve efficient work-from-home practices to ensure connectivity across the enterprise.

Fundamental Overview

On the financial performance front, on a consolidated basis, HMTL has posted revenue/net profits (Loss) of Rs. 489.12 cr. / Rs. - (22.47) cr. (FY18), Rs. 601.81 cr. / Rs. 14.21 cr. (FY19), Rs. 714.23 cr. / Rs. 71.71 cr. (FY20). For Q1 of FY21, it has earned a net profit of Rs. 50.18 cr. on revenue of Rs. 186.99 cr. Thus after FY19, it has posted growth in revenue as well as net profits.

On a consolidated basis, for the last three fiscals, HMTL has posted an average EPS of Rs. 2.55 and an average RoNW of 3.1%. Based on HMTL's NAV of Rs. 23.7 as on June 30, 2020, issue is priced at a P/BV of 7 (on the basis of upper cap).

If we annualize the latest FY21-Q1 results (with super-profits) and attribute it on fully diluted equity post IPO, then asking price is at a P/E of around 12 against the industry average of 27. On the basis of its trailing earnings and paid-up equity as on March 31, 2020, the issue is priced at a P/E of around 31. Management attributed the rise in net profit for Q1-FY21 for their ongoing cost-cutting as well as rent reduction for its staffing parks following work from home strategy.

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As per offer documents, HMTL has shown TCS, Infosys, LTI and MindTree as its listed peers. They are currently quoting at a P/Es of around 27.5, 24.37, 27.52 and 25.04 (as on September 02, 2020). However, they are not strictly comparable on an apple to apple basis.

Summary of financial Information				
Particulars	For the year/period ended (Rs in Million)			
	30-Jun-20	31-Mar-20	31-Mar-19	31-Mar-18
Total Assets	5,730.8	5,081.5	4,135.2	3,869.9
Total Revenue	1,869.9	7,142.3	6,018.1	4,891.2
Profit After Tax	501.8	717.1	142.1	(224.7)

Issue Details

To part finance its long term capital requirements (Rs. 101 cr.) and general corpus funds, HMTL is coming out with a maiden IPO with a combo offer of fresh equity issue (Rs. 110 cr.) and offer for sale. It consists fresh equity issue of approx 6626505 shares of Rs. 2 each and offer for sale of 35663585 shares. The issue opens for subscription on September 07, 2020 and will close on September 09, 2020. The company has fixed the price band of Rs. 165 - Rs. 166 per share. Minimum application is to be made for 90 shares and in multiples thereon, thereafter. Post allotment, shares will be listed on BSE and NSE. HMTL mulls mobilizing around Rs. 697.79 - Rs. 702.02 cr. (based on lower and upper price bands) through this IPO. Issue constitutes 28.80% of the post issue paid-up capital of the company. The average cost of acquisition of shares by the promoters/ selling stakeholders is Rs. 24.91 and Rs. 34.68 per share. Post issue HMTL's current paid-up equity capital of Rs. 28.05 cr. will stand enhanced to Rs. 29.37 cr. With this IPO, HMTL is looking for a market cap of Rs. 2437.94 cr. approx. The issue is jointly lead managed by ICICI Securities Ltd. and Nomura Financial Advisory and Securities (India) Pvt. Ltd. while KFin Technologies Pvt. Ltd. is the registrar to the issue.

Application Dates	Sep 7, 2020 – Sep 9, 2020
Issue Type	Book Built Issue FPO
Face Value	₹2 per equity share
IPO Price	₹165 to ₹166 per equity share
Market Lot	90 Shares
Listing At	BSE, NSE
Issue Size	[.] Eq Shares of ₹2 (Up to ₹702.02 Cr)

Issue Timeline	
Basis of Allotment Date	Sep 14, 2020
Initiation of Refunds	Sep 15, 2020
Credit of Shares to Demat Account	Sep 15, 2020
IPO Listing Date	Sep 17, 2020

Investment Strategy

Based on financial parameters, issue appears fairly priced with something on the table. The company has adopted a mindful IT strategy for its future growth. Investors may consider subscribing this IPO for medium to long term rewards.