

SEPTEMBER 4, 2020

IPO Note

HAPPIEST MINDS TECHNOLOGIES LTD**NOT RATED**

(Note: All the information in this note is taken from RHP)

Offer Details

The price band is in the range of Rs.165-166/share. The total issue size is of Rs.702 cr (at Rs.166/share). It includes fresh issue of 0.66 cr shares (4.7%) aggregating up to Rs110 cr and an OFS of up to 3.56 cr (25.5%) shares by the promoter, Ashok Soota and a selling shareholder CMDDB II, a private equity fund managed by JP Morgan Investment Management Inc.

Offer details

Offer Size	Rs.698 cr - Rs 702 cr (42,290,091 Equity Shares of Rs.2)
Fresh Issue	Rs 110 cr (6,626,506 Equity Shares of Rs. 2)
Offer for Sale	Rs 592.02 cr (35,663,585 Equity shares of Rs.2) includes i). Up to 8,414,223 Equity Shares by the Promoter Selling ii). Up to 27,249,362 Equity Shares by the Investor Selling
Market Lot	90 shares
Bid/Offer Opening Date	Monday, September 7th 2020
Bid/Offer Closing Date	Wednesday, September 9th 2020
Price Band	Rs.165/- to Rs.166/- per share
Manager	ICICI Securities and Nomura Financial Advisory and Securities (India)
Listing	BSE and NSE

Source: Happiest Minds Technologies Ltd offer document. Note: Kotak Securities Limited is one of the Sub Syndicate Member to the issue.

Background

Incorporated on March 30, 2011, Happiest Minds Technologies (HMTL) provides digital business, product engineering, infrastructure management & security services. Bangalore headquartered technology Services Company, HMTL has been promoted by Mr. Ashok Soota to provide end-to-end solution in the digital space. The company helps its 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, cloud, Business Process Management and security. Notably, 96.9% of HMTL revenues came from digital services in FY20. This is one of the highest among Indian IT companies.

It has developed a customer-centric focus to fulfil their immediate business requirements and to provide them strategically viable, futuristic and transformative digital solutions.

The Company has divided its entire business into three business units – 1). Digital Business Services (DBS), 2). Product Engineering Services (PES) and 3). Infrastructure Management & Security Services (IMSS).

Interestingly, all its business units are supported by three centres of excellence – A). Internet of Things (IoT), B). Analytics/Artificial Intelligence (AI) and C). Digital Process Automation (DPA).

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HMTL's key business verticals are Edu-Tech (21.3% of revenue), Hi-Tech (21%), BFSI (17.5%), Travel, Media & Entertainment (17.1%), Retail (7.5%), Industrial (7%), etc.

According to the Frost & Sullivan report estimates, the global digital services market of ~US\$ 69,100 cr in 2019 to grow at a CAGR of 20.2% to ~US\$ 2,08,300 cr by 2025.

HMTL has a diversified global customer base. It had 157 active customers by FY20 end. It has helped customers operating in diverse industries including Edutech, HiTech, retail, BFSI, and manufacturing/ industrials. 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.

In FY20, the company had delivered 87.9% of its projects through agile delivery methodology. Over the years and currently during the ongoing outbreak of Novel Coronavirus, it has successfully implemented its business continuity plans including to achieve efficient work-from-home practices to ensure connectivity across the enterprise.

In FY20, HMTL reported a revenue of Rs.698 cr (grew 18% yoy) and a PAT of Rs.72 cr.

Competitive strengths

Strong brand in Digital IT services:

Broadly, HMTL's target market includes business services, IT services, infrastructure-as-a-service, applications, application development and deployment. According to the Frost & Sullivan report, the global enterprise digital spend is expected to grow at a CAGR of 20.19% by 2025.

Growing high revenue 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.

Number of customers based on quarter revenues on an annualized basis

Particulars	FY18	FY19	FY20
US\$ 0.1-0.5 cr	14	18	24
US\$ 0.5-1 cr	2	2	0
More than US\$ 1 cr	0	1	1
Total	16	21	25

Source: Company

Steady generation of revenues from our existing customer accounts

Location of external customer	FY18	FY19	FY20
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%

Source: Company

Scalable business model with multiple drivers of steady growth

The company believes its business model is scalable across customer industries, functions and geographies. In addition to its spread across customer industries and geographic markets it has also developed key operational drivers delivering steady growth. These drivers includes revenue mix, contract structure, utilization rates and bill rates.

End to End capabilities spanning the digital lifecycle from roadmap to deployment and maintenance

Its core competency is full lifecycle software development services including design and prototyping, product development and testing, component design and integration, product deployment, performance tuning, porting, cross-platform migration and ongoing support. It has developed experience in each of these areas by working collaboratively with its partner ISVs and technology companies, creating a foundation for the evolution of its other offerings, which include custom application development, application testing, enterprise application platforms, application maintenance and support, and infrastructure management.

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

The company 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.

Use of proceeds

The company proposes to utilize the Net Proceeds from the fresh issue towards funding the following objects:

- To meet long term working capital requirement; and
- General corporate purposes

Source: Happiest Minds Technologies Ltd offer document

Details

With fresh issue aggregating up to Rs110 cr resulting in 4.7% dilution.

Pre-Offer shareholding of Promoter, Promoter Group and Selling Shareholders as a percentage of the paid-up Equity Share capital

Name of shareholder	Pre-Offer	
	Number of Equity Shares	Percentage of paid-up equity share capital (%)
A). Promoter		
Ashok Soota	6.8	48.83%
B). Promoter Group		
Deepak Soota	0.00	0.03%
Kunku Soota	0.00	0.03%
Suresh Soota	0.00	0.02%
Usha Samuel	0.01	0.06%
Ashok Soota Medical Research LLP	1.79	12.80%
B). Promoter group	1.8	12.94%
Promoter and Promoter Group	8.7	61.77%
C). Investor Selling Shareholder		
CMDB II	2.7	19.43%
Total C	2.7	19.43%

Source: Happiest Minds Technologies Ltd offer document

Key management personnel:

- **Mr. Ashok Soota**, Promoter, Executive Chairman and Director has several years of experience in the IT industry. Prior to founding HMTL, he was associated with Wipro Ltd as its Vice Chairman and Mindtree Limited as its Chairman and CEO.
- **Venkatraman Narayanan** is the Executive Director and Chief Financial Officer.
- **Chaluvaiya Ramamohan** is the president of the Infrastructure Management and Security Services business.
- **Rajiv Shah** is the president and chief executive officer of the Digital Business Services.
- **Joseph Anantharaju** is the vice chairman designate, president and CEO, Product Engineering Services.

Condensed Combined Financial Statements

Summary Information - Condensed Combined Statement of Profit and Loss (Rs cr)

	FY18	FY19	FY20
Revenue from operations	463	590	698
Other income	26	11	16
Total Income	489	602	714
Employee benefits expense	357	385	441
Other expenses	125	150	160
Total Expenses	482	536	601
Earnings before finance costs, depreciation and amortisation, regulatory income / expense and tax	8	66	113
Finance costs	10	16	8
Depreciation and amortisation expense	21	25	20
Restated profit/ (loss) before exceptional items and tax	-23	26	85
Exceptional Items - Impairment of goodwill	-	13	11
Profit before tax	-23	13	74
Tax expense	-1	-1	2
Restated profit/ (loss) for the year	-22	14	72
Restated EPS	-3	2	7

Source: Happiest Minds Technologies Ltd offer document

Summary Information - Condensed Combined Balance Sheet (Rs cr)

	FY18	FY19	FY20
ASSETS			
Non-current assets			
Property, plant and equipment	3	2	1
Capital work-in-progress	0.1	-	-
Goodwill	30	17	6
Intangibles assets under development	0.0	0.2	0.2
Other Intangible assets	8	2	1
Right-of-use assets	55	40	30
Financial assets			
- Loans	6	6	8
- Other financial assets	2	2	4
Income tax assets (net)	6	9	13
Other assets	0.4	0.5	0.3
Total non-current assets	109	80	63
Current assets			
Financial assets			
Investments	139	98	83
Trade receivables	94	129	115
Loans	3	1	1
Cash and cash equivalents	17	26	44
Other financial assets	11	71	192
Other assets	14	9	11
Total current assets	278	334	445
Total assets	387	414	508
EQUITY			
Equity share capital	4	6	9
Instruments entirely equity in nature	22	22	36
Other equity	-135	-94	220
Equity attributable to equity holders of the parent	-109	-66	265
Non-controlling interest	-	-	-
Total equity	-109	-66	265
LIABILITIES			
Non-current liabilities			
Financial liabilities			
-Borrowings	15	9	1
-Lease liabilities	43	30	17
Provisions	8	9	13
Deferred tax liabilities (net)	1	-	-
Total non-current liabilities	67	48	31
Current liabilities			
Contract liability	5	11	8
Financial liabilities			
-Borrowings	69	60	69
-Trade payables	-	-	-
-Lease liabilities	15	16	18
(A) Total outstanding due to micro enterprises and small enterprises	0.4	0.4	0.1
(B) Total outstanding due to creditors other than micro enterprises and small enterprises.	25	28	34
Other financial liabilities	300	299	64
Provisions	8	10	12
Other current liabilities	7	7	5
Total current liabilities	429	432	212
Total liabilities	496	480	243
Total equity and liabilities	387	414	508

Source: Happiest Minds Technologies Ltd offer document

Summary Information - Condensed Combined Statement of Cash Flow (Rs cr)

	FY18	FY19	FY20
Net cash generated from operating activities	10	58	112
Net cash (used in) investing activities	-27	-0	-74
Net cash generated from / (used in) financing activities	26	-59	-13
Net increase/(decrease) in cash and cash equivalents	10	-1	25
Net foreign exchange difference	0	1	2
Cash and cash equivalents at the beginning of the year	7	17	16
Cash and cash equivalents at the end of the year	17	16	44

Source: Happiest Minds Technologies Ltd offer document.

RATING SCALE (PRIVATE CLIENT GROUP)

Definitions of ratings

BUY	– We expect the stock to deliver more than 15% returns over the next 12 months
ADD	– We expect the stock to deliver 5% - 15% returns over the next 12 months
REDUCE	– We expect the stock to deliver -5% - +5% returns over the next 12 months
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NA	– Not Available or Not Applicable. The information is not available for display or is not applicable
NM	– Not Meaningful. The information is not meaningful and is therefore excluded.
NOTE	– Our target prices are with a 12-month perspective. Returns stated in the rating scale are our internal benchmark.

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