Happiest Minds Technologies Limited

March 09, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	125.00	CARE AA-; Stable	Assigned
Non-convertible debentures	125.00	CARE AA-; Stable	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The long-term rating assigned to the proposed debenture issue and bank facilities of Happiest Minds Technologies Limited (HMTL) takes into account the increasing scale of operations over the past three years with healthy profitability margins. Experience of the management in scaling up the business provides strong support to the rating, which is aided by consistent high-value customer addition, services offered in the futuristic domain like Internet of Things (IOT), Digital Services and Information Security along with strong liquidity position. Uncertain global environment in key markets like USA and Europe, rising human capital cost and higher attrition continues to strain the performance of Information Technology (IT) industry in India. The rating strengths are further constrained by the presence of being in a highly competitive industry and the impact of the forex movement on the revenues and profitability of the company, being majorly present into the exports markets.

HMTL's plans to raise funds for inorganic growth, and the ability to consolidate the same with its existing operations will be a key rating monitorable going forward.

Rating sensitivities: Factors likely to lead to rating actions.

Positive factors

- Increased scale of operations with consistent total operating income (TOI) of ₹2,000 crore or above, supported by stable PBILDT margins of more than 20%.
- Sustained improvement in the overall gearing below 0.15x.

Negative factors

- Deterioration in the capital structure of the company owing to acquisition leading to overall gearing above 0.50x.
- Uncertain macro-economic environment leading to declined operating income to less than ₹1,000 crore.
- Any large-sized acquisition (more than 30% of the net worth size), leading to depletion of cash and/or lesser than envisaged cash flow generation from the acquired assets.

Analytical approach: Consolidated

CARE Ratings Limited (CARE Ratings) has adopted the consolidated approach for analyzing HMTL.

List of subsidiaries consolidated.

S. No	Name of the entity	% Of shareholding
1	Happiest Minds Technologies LLC	100
2	Happiest Minds INC	100

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Outlook: Stable

A stable outlook reflects that the rated entity will continue to increase its offerings to its customers while maintaining strong profitability levels. With increased demand for digital-based services, the company is strongly placed to increase its share of penetration into the customer IT spending space.

Key strengths

Strong promoter supported by experienced leadership.

HMTL is promoted by Ashok Soota, the largest shareholder in the company, who has more than three decades of expertise in the IT industry. He was associated with Wipro and Mindtree Technologies Limited before starting HMTL. During his tenure with these companies, he was pivotal in successfully setting up cost centres, scaling up the business units and finally taking them public.

He is supported by a strong leadership team consisting of Venkatraman, who is the MD and CFO of the company, and the three business lines are headed by separate unit heads who are experts in their respective areas. In addition, the company has a succession plan with Joseph Anantharaju as the executive Vice Chairman, in case of any exigencies.

As on December 31, 2022, 5.50% of the shares of Ashok Soota are pledged.

Consistent improvement in the financial performance and stable profitability levels

During FY20-FY22, the TOI of the company improved with a compounded annual growth rate (CAGR) of 25.14% amid strong demand for digital offerings provided by the company and infrastructure management services with both the services recording a CAGR of more than 25%. Product engineering continues to be the highest revenue generating service which contributed around 47% of the TOI for FY22 (PY: 51%).

The growth in the top line is strongly supported by the consistent profitability levels with a strong PBILDT margin above 23% leading to strong cashflow generation.

With the change in human behaviour post pandemic, at both individual and enterprise levels, along with the increased demand for digital and infrastructure services, HMTL is perfectly placed, gaining advantage on the growth, and is expected to witness strong growth over the next 24-36 months. However, CARE Ratings will closely monitor the ability of the company to maintain its profitability levels while scaling up over the short to medium-term period.

Improving business profile

Over the year, HMTL has been successful in expanding its footprint across geographies and garnering high-value customers. The USA is the top export destination for HMTL services, contributing 66.4% of the revenue in FY22 (FY: 73.4%). The domestic sales for the company are stable at 14% for the past three years (marginal improvement in FY22). The company with its offering especially in the digital space (which contributed 44% sales in FY22) has been increasing its penetration within the existing customers and garnering new high mandate customer. As on September 30, 2022, the company has 40 customers who are more than US$ 1 million up from 25 as on March 31, 2020.

The company is also well diversified in terms of customer industries with the highest contribution of 23.2% (PY: 25.6%) from edtech. For edtech, the company will transform the content digitally and provide modules as per customer requirements. Hitech and BFSI are next in line, contributing 15.8% and 13.2% of the revenues for FY22 (PY: 18.2% and 16.4%, respectively).

With the uncertainty in the global economy and cost-cutting measures across organisations in USA and Europe, the ability of HMTL to further expand its share in the customer IT transition will be a key rating monitorable. However, with more businesses looking digital/infrastructure management as a key offering instead of discretionary spending will improve the capital outlay for the segment.

Healthy capital structure supported by strong coverage indicators.

As on March 31, 2022, the capital structure of the company marked by overall gearing remained stable at 0.39x (PY: 0.37x). During FY21, the company successfully completed its IPO with strong demand from all segments of investors improving the net worth for the period. HMTL has taken a loan for acquisition of its USA subsidiary and to purchase facility in Bengaluru. The repayment obligations are meagre compared to the cashflow generation, which provides comfort for acquisition or expansion into new locations.

Interest coverage was strong at 26.77x for FY22 (PY: 29.62), and total debt/PBILDT was below unity for the period ending March 31, 2022.

The company is continuously looking for opportunities for inorganic expansion. Although the company has QIP issue for the same, any large debt raised to fund these acquisitions will strain the capital structure of the company.

Key weaknesses

Regulatory challenges in various geographies, stiff competition from IT majors

The increasing protectionist measures imposed by few economies, and changes in the immigration laws or any local regulations, which further increase the H-1B visa denials, can impact the profitability and growth of the company. The presence in a highly competitive industry leads to factors, such as pricing pressure, deal re-negotiations, deferrals, retention of talent, etc, which are expected to have a direct bearing on the company’s revenue growth and profitability.

Risks related to employee attrition.

Indian IT industry is facing 25% attrition of its workface on account of high-pressure work environment, stagnant job growth, and other reason is one of the main problems faced by the IT industry. In addition, job cuts by major organisations on account of weaker growth horizon and cost cuts also impact the productivity and operational efficiency of the overall unit.

When compared to the industry, HMTL has an attrition rate of 22.7% for FY22, which increased from 12% in FY21 (the attrition rate during Q3FY23 is at 20.9%).

Liquidity: Strong

Strong liquidity position of the company with cash and bank balance of ₹181.66 crore as on September 30, 2022, as against ₹169.34 crore on March 31, 2022. With marginal repayment obligation for FY23 and average working capital utilisation of 67%, the company has sufficient headroom for capacity in addition to its office space.

On October 05, 2022, the board of HMTL approved to raise ₹1,400.00 crore by way of issuance of any instrument or securities to fund the inorganic growth, to maintain sufficient cash for any opportunity. In addition, the company usually will have liquidity of a minimum of six-month expenses to cover any unforeseen situation.

Assumptions/Covenants: Not Applicable

Environment, social, and governance (ESG) risks: The company has designed and established a sustainable framework that focuses on investments, drives operational performance while engaging with internal and external stakeholders. The company has set an objective to be carbon neutral by 2030.

Applicable criteria

Policy on default recognition
Consolidation
Financial Ratios – Nonfinancial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Service Sector Companies
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro-Economic Indicator	Sector	Industry	Basic Industry
Information Technology	Information Technology	IT - Software	Computers - Software & Consulting

Happiest Minds Technologies Limited (HMTL) is based out of Bengaluru and is incorporated on March 03, 2011. The company is involved in providing services across digital business, Infrastructure Management & Security and Product Engineering domains. In addition, the company is an authorised partner with global information technology players to deploy their services to the end customers and create custom solutions as per the business requirements. Founded by Ashok Soota, executive chairman for the company, who is also the majority shareholder (holds 42.36% on individual basis and 12.66% through Ashok Soota Medical Research LLP) is well-recognised personnel in the IT eco system.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	9MFY23 (UA)
Total operating income	774.20	1,101.51	1,056.89
PBILDT	192.21	266.41	279.09
PAT	162.46	181.20	173.30
Overall gearing (times)	0.37	0.39	-
Interest coverage (times)	29.62	26.77	21.28

A: Audited; UA: Unaudited; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Debentures-Non-Convertible Debentures		not yet placed	not yet placed	not yet placed	125.00	CARE AA-; Stable
Fund-based - LT-Term Loan		-	-	15/07/2032	125.00	CARE AA-; Stable

Annexure-2: Rating history of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Debentures-Non-Convertible Debentures	LT	125.00	CARE AA-; Stable				
2	Fund-based - LT-Term Loan	LT	125.00	CARE AA-; Stable				

*Long term / Short term

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: NA

Annexure-4: Complexity level of various instruments rated.

Sr. No.	Name of the Instrument	Complexity Level
1	Debentures-Non-Convertible Debentures	Simple
2	Fund-based - LT-Term Loan	Simple

Annexure-5: Lender details

Click here to view Bank Lender Details

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us.

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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