Happiest Minds Technologies Limited

December 29, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	125.00	CARE AA-; Stable	Reaffirmed
Long-term / Short-term bank facilities	315.00	CARE AA-; Stable / CARE A1+	Assigned
Non-convertible debentures	125.00	CARE AA-; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of the long-term rating and the assignment of short-term rating to the bank facilities and instruments of Happiest Minds Technologies Limited (HMTL) takes into consideration the steady improvement in the scale of operations and healthy profitability margins aided by experience of the management in scaling up the business. The ratings also factor consistent addition of high-value customers along with lower employee attrition rate. The ratings further derive comfort from the strong promoter group backed by Ashok Soota, who has been the veteran of the IT industry and has multi decade experience.

During the last three fiscals (FY20 to FY23; refers to the period from April 01 to March 31), the revenues of HMTL have increased at a compounded annual growth rate (CAGR) of around 26% having around 224 active clients of which, around 44 are more than a million-dollar customers, with significant repeat business percentage. Despite global headwinds, across key market areas, during H1FY24 (refers to the period from April 01 to September 30), the company has displayed stable operating performance, with revenues increasing by around 20%, when compared with the same period previous fiscal. The company has also come up with an additional business unit of Generative AI, which is expected to deliver additional growth to the company in next couple of financial years.

The ratings further take into consideration the strong financial risk profile of the company marked by comfortable debt protection metrics and superior liquidity position of the company. The overall gearing of the company remains comfortable below unity along with a healthy interest cover above 10x. CARE Ratings Limited (CARE Ratings) further draws comfort from the net debt negative position of the company with superior liquidity position with cash and cash equivalents and liquid investments in excess of around ₹1,135 crore as on September 30, 2023. Apart from free cash flow generation from operating activities, increase in cash and cash equivalent was also supported by the qualified institutional placement (QIP) issue of ₹500 crore by the company and another ₹135 crore raised through the non-convertible debenture (NCD) issue.

HMTL continues to face intense competition from other prominent IT players amid disruptive technology changes which requires the company to continue to make acquisitions to improve upon technological abilities and nurture new revenue streams. The company is exposed to the risks associated with forex movements, economic cyclicality, and regulatory challenges in various geographies of significant presence. Any large or sizeable debt-funded acquisitions remain key monitorable.

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 0.50x.

Negative factors

- Deterioration in the capital structure of the company owing to acquisition leading to overall gearing above 0.75x.
- Uncertain macro-economic environment leading to decline in 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.

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

Analytical approach: Consolidated
Considering the strong operational linkages with HTML and its subsidiaries, CARE Ratings has adopted a consolidated approach.

Outlook: Stable

The stable outlook reflects the growth in customer base and high value clients while maintaining a strong profitability margins and comfortable debt coverage metrics. The outlook is also supported by increased offerings via introduction of Generative AI business unit which is expected to lead to improved growth in future.

Detailed description of the key rating drivers:

Key strengths

Strong promoter supported by experienced leadership
Ashok Soota, the majority shareholder in the company, advocates for HMTL and has over 30 years of experience in the IT industry. Although he has divested and pledged his shares to some of his personal commitments, he publicly assures that his stake would not be diluted below 40% of the total shareholding. 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, Joseph Anantharaju, Executive Vice Chairman & CEO – Product and Digital Engineering Services – who is been trained under the guidance of Ashok Soota, and two other business lines headed separately by sperate unit heads who are the experts in their field.
As on December 31, 2022, 7.01% of the shares of Ashok Soota are pledged.

Improving operations with stable profit margins
The TOI of the company has grown at a CAGR of 34.8% over the past two years and about 4-6% on a quarterly basis. The earnings before interest, taxes, depreciation, and amortisation (EBITDA) margins were stable at 24-26%, well above the guidance range by the management of 22-24%, which also fits well with the industry standards.
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. Now, with the trending AI technology via AI automation, machine learning capability, and ITEs space is expected to perform well. However, a close monitoring is required in event of inflation-hit US and European markets and geo-political crisis across the globe.

Pre-eminent business profile

HMTL has been spreading its footprints in terms of clientele and geographies steadily with USA garnering to about 70% of their revenue. The company is also growing domestically with a revenue share of about 15% in FY23 which was about 11.8% in FY21. The company with its offering especially in the digital infrastructure (which contributed 45.8% sales in FY23) has been increasing its penetration within the existing customers and garnering new high mandate customer. As on September 30, 2023, the company has 44 customers who are more than US$ 1 million up. The company is also improving in terms of realisations as the average revenue per active customer has seen an incremental change of 26% from FY21 to USD 803,000 in FY23. The company has recently raised a QIP and NCD to add to additional liquidity for the company to book any near term acquisition that can blend in with the existing business profile (or offer a horizontal expansion) when so ever possible.

CARE Ratings notes that with the uncertainty in the global economy and inflation hit 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.
Also in FY24, the company introduced the Generative AI Business unit, which is expected to prosper in coming 2 to 3 years.

Healthy financial profile with strong coverage indicators

The company is in a comfortable position with respect to financials. The debt equity ratio stands at 0.30x which is further going to decline to 0.18x on account of QIP worth ₹486 crore. The total outside liabilities/net worth (TOL/NW) is also very low at just 0.93x as on March 31, 2023, and is expected to improve further. HMTL has taken a loan, the proceeds of which were utilised for the acquisition of land and building at SJR Equinox in Bengaluru for its US-based subsidiary. The company also stands comfortable in terms of its debt repayment obligations of ₹44.37 crore against the cash flow from operations of ₹207.17 crore. The company is prepared with liquidity (via NCD and QIP) in hand to book any possible expansion opportunity that might arise. Despite the fund raising, the company is net-debt negative.

Interest coverage is impacted a bit on account of Packing Credit Loan in Foreign Currency (PCFC) facilities to 15.78x for FY23 (PY: 26.77), and total debt/PBILDT at 1.55x for the period ending March 31, 2022, but still remains comfortable. CARE Ratings expects this to improvise going forward.

Key weaknesses

Regulatory challenges in various geographies, stiff competition from IT majors

The increasing geo-political crisis throughout the world, economies tend to impose changes in immigration laws, local regulations and H-1sB visa denials, which can ultimately affect the operations of the company. However, only 20% of the employees are into working on site locations, hence aiding a minor relief to the organisations as the magnitude of the same may be less. The presence in a highly competitive industry leads to factors, such as pricing pressure, deal renegotiations, deferrals, retention of talent, etc., which are expected to have a direct bearing on the company's revenue growth and profitability.

Exposure to workforce attrition

Indian IT industry is facing 20-22% 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.
HMTL has worked on various fronts to control the attrition rates. As a result, the attrition rate is at a time low of about 12% now. The company has worked on part of promotions, salary hikes and hiring of new talents from on campus recruitments. Also, the variable to fixed components of the salary has aided the company to hit their ever lowest attrition rate.

Currency risk exposure

The company generates about 80 to 85% of its revenue from offshore business, while about 15% is contribution by domestic clients. USA contributes the most being about 71.5% and employee being the major asset for any ITes of which for HMTL majority of them being from India itself, the company faces short-term currency risk fluctuations. However, the company hedges its position from these adverse currency movements.

Competitive pricing challenges stemming from intense rivalry with domestic and global IT giants

IT/ITes and BPO industry is highly competitive with competition arising from domestic as well as global IT companies having wide penetration in low-cost economies, highly cash rich, robust client relationships, etc. This stiff competition can lead to pricing pressure, price, and deal re-negotiations and sometimes deferrals and hence can impact on a company's growth and profitability.

Liquidity: Superior

Yearly cash flow from operating activities is expected to be in the range of ₹250-300 crore as against negligible yearly repayment obligations of around ₹45 crore in FY24 and ₹55 crore in FY25. HMTL exhibits a superior liquidity position, with cash and bank balance in excess of ₹1,135 crore as on September 30, 2023. Apart from the cash flow generated from operating activities, the existing liquidity position also comprises the cash flow from the recent QIP issue amounting to ₹500 crore and another ₹125 crore from the issue of NCD's. CARE Ratings believes the existing liquidity position is likely to be adequate for any reasonably sized prospective acquisition targets, if any.

Environment, social, and governance (ESG) risks

The company has designed and established a sustainable framework that focuses on investments and drives operational performance while engaging with internal and external stakeholders. IT sector demands significant manpower requirement and owing to this the sector has a higher social impact as compared to its impact on environment. HMTL has implemented Board approved ESG policy to enable low carbon and resource-wise economy. The company uses solar energy and has invested in energy-efficient systems to conserve energy. The company has set an objective to be carbon neutral by 2030.

Applicable criteria

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

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Information technology	Information technology	IT - Software	Computers - Software & consulting

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 and 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 39.45% on individual basis and 11.79% through Ashok Soota Medical Research LLP) is well-recognised personnel in the IT eco-system.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	H1 FY24 (UA)
Total operating income	1,041.42	1,318.32	833.36
PBILDT	254.29	307.15	207.81
PAT	186.48	216.38	116.79
Overall gearing (times)	0.37	0.66	-
Interest coverage (times)	30.64	14.29	9.79

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	INE419U08017	27/03/2023	3-month T-Bill +2.35% spread	27/03/2026	45.00	CARE AA-; Stable
Debentures-Non Convertible Debentures	INE419U08025	08/05/2023	3-month T-Bill +2.35% spread	08/05/2026	45.00	CARE AA-; Stable
Debentures-Non Convertible Debentures	INE419U08033	26/09/2023	3-month T-Bill +2.35% spread	26/09/2026	35.00	CARE AA-; Stable
Fund-based - LT-Term Loan		-	-	15-07-2032	125.00	CARE AA-; Stable
LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG		-	-	-	315.00	CARE AA-; Stable / CARE A1+

Annexure-2: Rating history for the 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 2023-2024	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
1	Debentures-Non-convertible debentures	LT	125.00	CARE AA-; Stable	-	1)CARE AA-; Stable (09-Mar-23) 2)CARE AA-; Stable (09-Mar-23)	-	-
2	Fund-based - LT-Term loan	LT	125.00	CARE AA-; Stable	-	1)CARE AA-; Stable (09-Mar-23)	-	-
3	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	LT/ST*	315.00	CARE AA-; Stable / CARE A1+				

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Debentures-Non-convertible debentures	Simple
2	Fund-based - LT-Term loan	Simple
3	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Annexure-6: List of subsidiaries which are consolidated:

Sr. No.	Name of the Company	% of shareholding
1	Happiest Minds Inc. (formerly known as PGS Inc.)	100%
2	Sri Mookambika Infosolutions Private Limited	100%

Note on the 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.

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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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