Happiest Minds Technologies Limited

December 27, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	437.00 (Enhanced from 125.00)	CARE AA-; Stable	Reaffirmed
Long-term / short-term bank facilities	315.00	CARE AA-; Stable / CARE A1+	Reaffirmed
Non-convertible debentures	125.00	CARE AA-; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of ratings assigned 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, services offered in the futuristic domains such as Internet of Things (IOT), Digital Services and Information Security. The ratings further derive comfort from the strong promoter group backed by Ashok Soota, who has been a veteran of the IT industry and has multi-decade experience.

Between FY22 to H1FY25, 21 million dollar or above customers have been added while in H1FY25, 11 million dollar or above customers have been added to the existing clientele. There are 59-million-dollar customers as on September 30, 2024, with 95% repeat business.

During the last three fiscals (FY21 to FY24; 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 28% having around 250 active clients of which, around 48 are more than a million-dollar customers, with significant repeat business percentage. Despite global headwinds, across key market areas, during FY24, the company has displayed stable operating performance, with revenues to ₹1,629 crore in FY24 compared to ₹1,415 crore in FY23. CARE Ratings Limited (CARE Ratings) notes the setting up of Net New Sales team, creating six industry group each head by an industry manager and the creation of Gen AI business unit is expected to deliver additional growth to the company in next couple of financial years.

The company in May and June 2024 has acquired three companies, PureSoftware Technologies Private Limited, Macmillan Learning India Private Limited, and Aureus Tech Systems LLC. These acquisitions can enhance HMTL position in the BFSI, healthcare and life sciences verticals. The main focus of the company is on expanding these companies banking-as-a-service platform, in key markets such as India, Southeast Asia and Africa. The total cost of acquisition includes upfront payment of ~₹712 crore and deferred payment of ₹144 crore (payable by end of FY25).

The ratings further take into consideration the strong financial risk profile of the company marked by comfortable debt protection metrics and superior liquidity position. The overall gearing though has moderated to 0.82x as on September 30, 2024 due to debt funded acquisition, remains comfortable below unity along with a healthy interest cover above 3x. CARE Ratings further draws comfort from the net debt negative position of the company with superior liquidity position with cash and cash equivalents of ₹1,475 crore as on September 30, 2024. 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 done by the company in July 2023.

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

- Sustained increased in the scale of operations, supported by stable profit before interest, lease rentals, depreciation, and taxation (PBILDT) margins of more than 20%.
- Maintaining sizeable liquidity with cash and cash equivalents of more than ₹500 crore even after dividend payout and organic/inorganic business expansion.

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

Negative factors

- Deterioration in Net debt/PBILDT beyond 1.00x
- Slow-down in key verticals leading to significant pressure on the income and declining PBILDT margin of less than 10% on a sustained basis.

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Analytical approach: Consolidated.

Considering the strong operational linkages with HTML and its subsidiaries, CARE Ratings Limited has adopted a consolidated approach, listed under Annexure-6.

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 company's majority shareholder, advocates for HMTL and brings over thirty years of experience in the IT industry to the table. 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 business units and finally taking them public. He is supported by a strong leadership team of Venkatraman, who is the MD and CFO, Joseph Anantharaju, who is the 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 different unit heads who are experts in their field. As on September 30, 2024, 1.76% of the shares of Ashok Soota are pledged (44.13% held by Ashok Soota as on September 30, 2024).

Improving operations with stable profit margins

The TOI of the company grew at a compound annual growth rate (CAGR) of 28.15% in the last three years and 12.47% on quarterly basis. The company's PBILDT margins moderated from the highs of 24.83% in FY21 to 20.90% in FY24 and further moderated to 17.92% in H1FY25 due to wage hikes, investment in sales team and acquisition expenses, which the company incurred in the period.

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. With trending AI technology via AI automation, machine learning capability, ITEs space is expected to perform well.

Pre-eminent business profile

HMTL has been spreading its footprints in terms of clientele and geographies steadily with the USA garnering about 70% of their revenue. The company is also growing domestically with a revenue share of about 16% in FY24 which was about 11.8% in FY21. With its offering, especially in the Product and Digital Engineering Services (which contributed 78% sales in FY24), the company has been increasing its penetration within existing customers and garnering new high-mandate customer. As on September 30, 2024, the company has 59 customers who are more than US$1 million up. The company is also improving in terms of realisations as average revenue per active customer has increased from US$774,000 in FY22 to US$842,000 in H1FY25.

With uncertainty in the global economy and inflation-hit USA and Europe, HMTL's ability 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. In FY24, the company introduced the Generative AI Business unit, which is expected to prosper in the next 2-3 years.

Healthy financial profile with strong coverage indicators

The company's capital structure is comfortable with debt equity ratio of 0.21x with its total outside liabilities to net worth (TOL/NW) is also very low at just 0.51x as on March 31, 2024. HMTL has taken a loan, proceeds of which were utilised for acquisition of land and building at SJR Equinox in Bengaluru. In May 2024, the company has acquired three companies at an upfront payment of ₹712 crore and deferred payment of ₹144 crore. Overall gearing though deteriorated to 0.82x as on September 30, 2024, continues to remain below unity. The company maintained a strong liquidity position throughout the year, meeting its cash requirements through internal accruals and funds raised via a QIP.

Acquisitions done by HMTL in April and May 2024

HMTL has acquired three companies, PureSoftware Technologies Private Limited, Macmillan Learning India Private Limited and Aureus Tech Systems LLC. These acquisitions can enhance HMTL position in BFSI, healthcare and life sciences verticals. The main focus of the company is on expanding these companies banking-as-a-service platform, in key markets such as India, Southeast Asia and Africa. The total cost of acquisition includes upfront payment was ~₹712 crore and deferred payment of ₹144 crore (payable by FY25)

Key weaknesses

Regulatory challenges across geographies, stiff competition from IT majors

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 company's operations. However, only 20% employees are into working on site locations, hence aiding a minor relief to the organisation as its magnitude may be less. The presence in a highly competitive industry leads to factors, such as pricing pressure, deal renegotiations, deferrals, and retention of talent, among others, which are expected to have a direct bearing on the company's revenue growth and profitability.

Exposure to workforce attrition

Employee is the significant cost component for ITES companies, as it is employee skills and attrition rate that plays a pivotal role in the company's growth domineering in such an industry space. However, easing attrition has been observed for HMTL going forward with attrition rate low at 13% for FY24 (against 19.80% for FY23), which may help in partly offsetting impact on margins from recessionary pressures. However, the number has increased to 14.40% for H1FY25.

Currency risk exposure

The company generates about 80-85% of its revenue from offshore business, while about 15% is contribution from domestic clients. The USA contributes the most being about 70% 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 industries are highly competitive with competition arising from domestic and global IT companies, having wide penetration in low-cost economies, highly cash rich, and robust client relationships among others. 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

The company has maintained strong liquidity position throughout the year, meeting its cash requirements through internal accruals, funds raised via a QIP, and issuance of non-convertible debentures. The company has cash and cash equivalents of ₹1,353 crore as on March 31, 2024, and ₹1,475 crore as on September 30, 2024. The company's average operating cycle has been around 30 days for the last few years. For H1FY25, the company has been able to generate net cash flow from operations of ₹136.74 crore on the back of profits earned during in the year. The company incurred an acquisition cost of ₹712 crore for acquisition of three entities– PureSoftware Technologies Private Limited, Macmillan Learning India Private Limited and Aureus Tech Systems LLC.

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 have invested in energy-efficient systems to conserve energy. The company has set an objective to be carbon neutral by 2030.

Applicable criteria

Consolidation
Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Financial Ratios – Non financial Sector
Service Sector Companies
Short Term Instruments

About the company and industry

Industry classification

Macroeconomic 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 30, 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 end-customers and create custom solutions as per the business requirements. Founded by Ashok Soota, the company's executive chairman, who is also the majority shareholder (holds 32.34% on individual basis and 11.79% through Ashok Soota Medical Research LLP) is well-recognised personnel in the IT eco-system.

Brief Financials (₹ crore)	FY23 (A)	FY24 (A)	H1FY25 (UA)
Total operating income	1,414.96	1,629.25	985.46
PBILDT	345.13	340.45	176.64
PAT	230.99	248.39	100.55
Overall gearing (times)	0.64	0.35	-
Interest coverage (times)	15.79	8.05	3.69

A: Audited UA: Unaudited; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable
Rating history for last three years: Annexure-2
Detailed explanation of covenants of rated instrument / facility: Annexure-3
Complexity level of 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 and Rating Outlook
Debentures-Non Convertible Debentures	INE419U08017	27-Mar-2023	3 Month T-Bill + 2.35	27-Mar-2026	45.00	CARE AA-; Stable
Debentures-Non Convertible Debentures	INE419U08025	08-May-2023	3 Month T-Bill + 2.35	08-May-2026	45.00	CARE AA-; Stable
Debentures-Non Convertible Debentures	INE419U08033	29-Sep-2023	3 Month T-Bill + 2.35	26-Sep-2026	35.00	CARE AA-; Stable
Fund-based - LT-Term Loan		-	-	15-07-2032	125.00	CARE AA-; Stable
Fund-based - LT-Term Loan		-	-	30-09-2029	250.00	CARE AA-; Stable
Fund-based - LT-Term Loan		-	-	Monthly installments	62.00	CARE AA-; Stable

				for 5 year from the date of drawdown of loan*		
LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG		-	-	-	315.00	CARE AA-; Stable / CARE A1+

*The company has not availed the loan yet.

Annexure-2: Rating history for 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 2024-2025	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
1	Debentures-Non Convertible Debentures	LT	125.00	CARE AA-; Stable	-	1)CARE AA-; Stable (29-Dec-23)	1)CARE AA-; Stable (09-Mar-23) 2)CARE AA-; Stable (09-Mar-23)	-
2	Fund-based - LT-Term Loan	LT	437.00	CARE AA-; Stable	-	1)CARE AA-; Stable (29-Dec-23)	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+	-	1)CARE AA-; Stable / CARE A1+ (29-Dec-23)	-	-

LT: Long term; ST: Short term; LT/ST: Long term/Short term

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

Annexure-4: Complexity level of 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 lender-wise details of bank facilities please click here

Annexure-6: List of entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Happiest Minds Inc., USA	Full	100% Subsidiary
2	Sri Mookambika Infosolutions Private Limited., Madurai, India		
3	Macmillan Learning India Private Limited		
4	PureSoftware Technologies Private Limited		
5	Aureus Tech Systems LLC		

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