

## Mixed Performance; Strong Revenue Outlook

**Est. Vs. Actual for Q1FY26:** Revenue – **INLINE**; EBIT margin – **MISS**; PAT – **MISS**

### Recommendation Rationale

- **Demand Outlook:** The global IT industry faces mixed macroeconomic and geopolitical uncertainty, but demand remains resilient in BFSI and healthcare, with early signs of growth in technology, media, entertainment, and manufacturing.
- **Order Book/Pipeline:** The order book pipeline remains strong across multiple geographies and verticals, driven by the "Net New" strategy and "land and expand" approach. H2FY26 is expected to be better than H1FY26.
- **GenAI and Net New Sales:** The company's investments in the GenAI business unit and the net new sales engine are driving current growth, building a strong foundation for future growth.

### Sector Outlook: Positive

**Company Outlook & Guidance:** Happiest Minds aims to deliver double-digit growth in constant currency for the year while maintaining EBITDA margins in the 20%-22% range. Amid global headwinds, Happiest Minds' focused strategy drives above-industry growth, with resilient demand in BFSI & Healthcare verticals and early recovery in Tech, Media & Manufacturing.

**Current Valuation:** 31x FY27E P/E

**Current TP:** Rs 690/share

**Recommendation:** Given the company's strong growth potential backed by robust deal wins and superior execution capabilities, the company is expected to report healthy growth. **Hence, we resume our coverage with a BUY rating on the stock.**

### Financial performance

In Q1FY26, the company's revenue was up 19% YoY but remained flat QoQ to Rs 550 Cr, led by strong demand in digital transformation and AI-led services. EBIT stood at Rs 72 Cr, up 14% YoY on account of lower other expenses. EBIT margins stood at 15.7%, up 241 bps QoQ but down 85 bps YoY. Thus, net income came at Rs 57 Cr, up 12% YoY due to topline growth and higher other income. However, in CC terms, overall revenue grew by 17.5% YoY and 2.3% QoQ. Attrition level is at 18.2% due to high market demand for digital and AI-led skills.

### Valuation & Recommendation

The management remains optimistic for a healthy growth in FY26, led by strong execution and transformation initiatives. We are constructive on the long-term outlook of the company. Hence, we resume over coverage with a **BUY rating on the stock** and assign a 31x P/E multiple to its FY27E earnings to arrive at a TP of Rs 690/share, implying an upside of 11% from the CMP.

### Key Financials (Consolidated)

(Rs Cr)	Q1FY26	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Sales	550	1.0	18.6	564	(2.4)
EBIT	72	16.8	14.1	87	(18.0)
EBIT Margin	13.0	241bps	-85bps	15.5	(15.9)
Net Profit	57	68.0	12.0	67	(14.9)
EPS (Rs)	3.8	70.4	13.5	4.4	(13.7)

Source: Company, Axis Research

(CMP as of 30<sup>th</sup> July, 2025)

CMP (Rs)	619
Upside /Downside (%)	11%
High/Low (Rs)	833/519
Market cap (Cr)	9,412
Avg. daily vol. (6m) Shrs.	7,93,030
No. of shares (Cr)	15

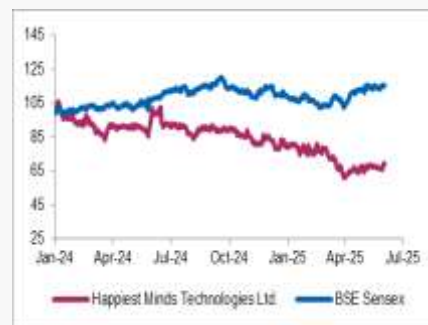
### Shareholding (%)

	Dec-24	Mar-25	Jun-25
Promoter	44.2	44.2	44.2
FII's	5.3	5.0	5.3
MFs/UTI	3.7	8.4	8.3
Banks/FIs	0	0	0
Others	46.8	42.4	42.2

### Financial & Valuations

Y/E Mar (Rs Cr)	FY25	FY26E	FY27E
Net Sales	2,061	2,335	2,729
EBIT	266	341	436
Net Profit	185	258	345
EPS (Rs)	12	17	23
PER (x)	51	37	27
P/BV (x)	6.0	5.4	4.7
EV/EBITDA (x)	24.6	19.8	15.4
ROE (%)	12	16	18

### Relative Performance



Source: AceEquity, Axis Securities

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## Outlook

From the long-term perspective, we believe Happiest Minds is well-placed to deliver encouraging growth, given its multiple long-term contracts with the world's leading brands. Over the last two years, the company has launched 10 transformational initiatives, which are now yielding tangible results. Therefore, richer revenue visibility gives us confidence in the business growth of the company moving forward.

## Key highlights

- During the quarter, DSO slightly increased to 91 days due to the integration of a Middle East entity, with efforts underway to bring it back to the 85-88 day average. The company's active customers grew from 281 to 285, and Mn \$ plus customers increased from 57 to 59. Repeat business remained strong at 94%.
- Overall utilisation for the quarter stood at 78.9%, the best in the last nine quarters. Happiest Minds ended the quarter with 6,523 employees, a reduction of one, with gross additions of nearly 150. The wage hikes are pending. The company sees headroom in utilisation, especially in GenAI services (currently 55%-56%).
- Currently, attrition is at 18.2% vs 16.6% in Q4FY25, which remains a concern due to high market demand for digital and AI skills. The company is implementing employee engagement and training programs to improve retention.
- The global IT industry faces mixed macroeconomic and geopolitical uncertainties, but demand remained strong in the verticals of BFSI and healthcare, with early signs of some demand in technology, media, entertainment, and manufacturing.
- In the healthcare vertical, the ARTA unified banking platform is showing expansion and the "insurance in a box" platform is streamlining insurance operations. A revolutionary healthcare product built on bioinformatics is on track for potential launch by Q1FY27.
- The GenAI business unit led growth this quarter with 12.7% QoQ and 82% YoY growth. It achieved break-even at an operating margin level this quarter, swinging from a loss of Rs 3 Cr in the previous quarter to a marginal profit of Rs 24 Lc. Utilisation in this segment improved from 34.3% to 40.8%.
- In terms of order book and pipeline, there is healthy growth across multiple geographies and verticals, driven by the "Net New" strategy and "land and expand" approach. Overall, H2FY26 is expected to be better than H1FY26, apart from typical Q3 seasonality.
- The company is targeting a double-digit constant currency growth target for FY26, backed by organic growth, with no significant M&A closure expected in the near term. The company aims to maintain an EBITDA margin of 20%-22% despite ongoing investments, with a focus on improving utilisation (currently at 78.9%), the GenAI business unit reaching profitability, and the new sales engine contributing revenue.

## Key Risks to our Estimates and TP

- The demand environment is uncertain because of the potential threat of recession from the world's largest economies.
- The rising subcontracting cost and cross-currency headwinds may impact operating margins negatively.

**Results Review**
**(Rs Cr)**

<b>Y/E March</b>	<b>Q1FY26</b>	<b>Q4FY25</b>	<b>QoQ (%)</b>	<b>Q1FY25</b>	<b>YoY (%)</b>
<b>Net sales</b>	<b>550</b>	<b>545</b>	<b>1.0</b>	<b>464</b>	<b>18.6</b>
Total Expenditure	456	461	(1.0)	379	20.3
<b>EBITDA</b>	<b>94</b>	<b>84</b>	<b>12.1</b>	<b>85</b>	<b>10.8</b>
<i>EBITDA margin (%)</i>	<b>17.1</b>	<b>15.4</b>	<b>169bps</b>	<b>18.3</b>	<b>-119bps</b>
Depreciation	22	23	(0.8)	22	1.5
<b>EBIT</b>	<b>72</b>	<b>61</b>	<b>16.8</b>	<b>63</b>	<b>14.1</b>
<i>EBIT margin (%)</i>	15.7	13.3	241bps	16.6	-85bps
Interest cost	25	25	0.3	20	25.2
Other income	30	26	15.7	25	18.0
Exceptional item	0	-12	NA	0	NA
<b>PBT</b>	<b>77</b>	<b>63</b>	<b>22.9</b>	<b>68</b>	<b>12.4</b>
Tax	20	16	20.5	17	13.6
<b>Profit after tax</b>	<b>57</b>	<b>34</b>	<b>68.0</b>	<b>51</b>	<b>12.0</b>
<b>Reported EPS</b>	<b>3.8</b>	<b>2.2</b>	<b>70.4</b>	<b>3</b>	<b>13.5</b>
<b>Adj. PAT</b>	<b>57</b>	<b>46</b>	<b>23.8</b>	<b>51</b>	<b>12.0</b>
<b>Adj. EPS</b>	<b>3.8</b>	<b>3.0</b>	<b>25.5</b>	<b>3.4</b>	<b>13.5</b>

Source: Company, Axis Securities

## Financials (Consolidated)

### Profit & Loss

(Rs Cr)

Y/E March	FY23	FY24	FY25	FY26E	FY27E
<b>Net sales</b>	<b>1,429</b>	<b>1,625</b>	<b>2,061</b>	<b>2,335</b>	<b>2,729</b>
Change (YoY, %)	31	14	27	13	17
Operating expenses	1,070	1,289	1,706	1,902	2,184
<b>EBITDA</b>	<b>359</b>	<b>336</b>	<b>355</b>	<b>433</b>	<b>546</b>
Change (YoY, %)	39	(6)	6	22	26
Margin (%)	25	21	17	19	20
Depreciation	42	58	89	92	110
<b>EBIT</b>	<b>317</b>	<b>278</b>	<b>266</b>	<b>341</b>	<b>436</b>
Interest paid	22	42	99	102	93
Other income	21	85	101	110	117
<b>Pre-tax profit</b>	<b>310</b>	<b>335</b>	<b>256</b>	<b>349</b>	<b>460</b>
Tax	79	86	71	92	116
Effective tax rate (%)	25	26	28	26	25
<b>Net profit</b>	<b>231</b>	<b>248</b>	<b>185</b>	<b>258</b>	<b>345</b>
Exceptional items	(6)	14	(12)	-	-
<b>Adjusted net profit</b>	<b>237</b>	<b>234</b>	<b>197</b>	<b>258</b>	<b>345</b>
Change (YoY, %)	27	(1)	(16)	31	34
<b>Adj. EPS</b>	<b>16</b>	<b>17</b>	<b>12</b>	<b>17</b>	<b>23</b>
Dividend per share	5	6	6	6	6
Dividend Payout (%)	34	35	49	49	49

Source: Company, Axis Securities

### Balance Sheet

(Rs Cr)

Y/E March	FY23	FY24	FY25	FY26E	FY27E
Share capital	29	30	30	30	30
Reserves & surplus	810	1,450	1,545	1,711	1,964
Shareholders funds	839	1,480	1,575	1,741	1,994
Total Debt	113	104	1,161	1,061	961
Other liabilities	100	96	241	241	241
<b>Current Liabilities &amp; Provisions</b>	<b>576</b>	<b>567</b>	<b>1,208</b>	<b>1,204</b>	<b>1,180</b>
Current liabilities	553	546	348	412	452
Provisions	23	21	35	39	45
Total liabilities	790	768	1,785	1,753	1,700
<b>Total Equity &amp; Liabilities</b>	<b>1,628</b>	<b>2,248</b>	<b>3,359</b>	<b>3,494</b>	<b>3,694</b>
Net fixed assets	432	138	141	139	119
Investments	13	0	0	0	0
Other non-current assets	110	332	1,217	1,217	1,217
<b>Current Assets</b>	<b>1,073</b>	<b>1,778</b>	<b>2,001</b>	<b>2,137</b>	<b>2,358</b>
Inventories	0	0	0	0	0
Sundry Debtors	213	254	358	357	417
Cash & Liquid	692	1,337	1,058	1,188	1,337
Other Current Assets	168	48	407	415	426
<b>Total Assets</b>	<b>1,628</b>	<b>2,248</b>	<b>3,359</b>	<b>3,493</b>	<b>3,694</b>

Source: Company, Axis Securities

**Cash Flow**
**(Rs Cr)**

Y/E March	FY23	FY24	FY25	FY26E	FY27E
<b>Pre tax</b>	<b>231</b>	<b>248</b>	<b>185</b>	<b>258</b>	<b>345</b>
Depreciation	42	58	89	92	110
Change in working capital	590	(70)	140	(11)	(95)
Other operating activities	7	(57)	10	(8)	(24)
<b>Cash flow from operations (a)</b>	<b>870</b>	<b>180</b>	<b>424</b>	<b>331</b>	<b>335</b>
Capital expenditure	(317)	(40)	183	(90)	(90)
Change in investments	(88)	64	(90)	-	-
Other investing activities	19	(188)	(969)	110	117
<b>Cash flow from investing (b)</b>	<b>(386)</b>	<b>(164)</b>	<b>(876)</b>	<b>20</b>	<b>27</b>
Equity raised/(repaid)	0	1	0	-	-
Debt raised/(repaid)	126	(13)	376	(28)	(29)
Dividend (incl. tax)	(79)	(88)	(91)	(90)	(90)
Change in minorities	-	-	-	-	-
Other financing activities	(6)	451	(111)	(103)	(94)
<b>Cash flow from financing (c)</b>	<b>40</b>	<b>352</b>	<b>174</b>	<b>(221)</b>	<b>(213)</b>
Net change in cash (a+b+c)	524	369	(278)	130	149
Opening cash balance	168	692	1,337	1,058	1,188
Closing cash balance	692	1,061	1,058	1,188	1,337

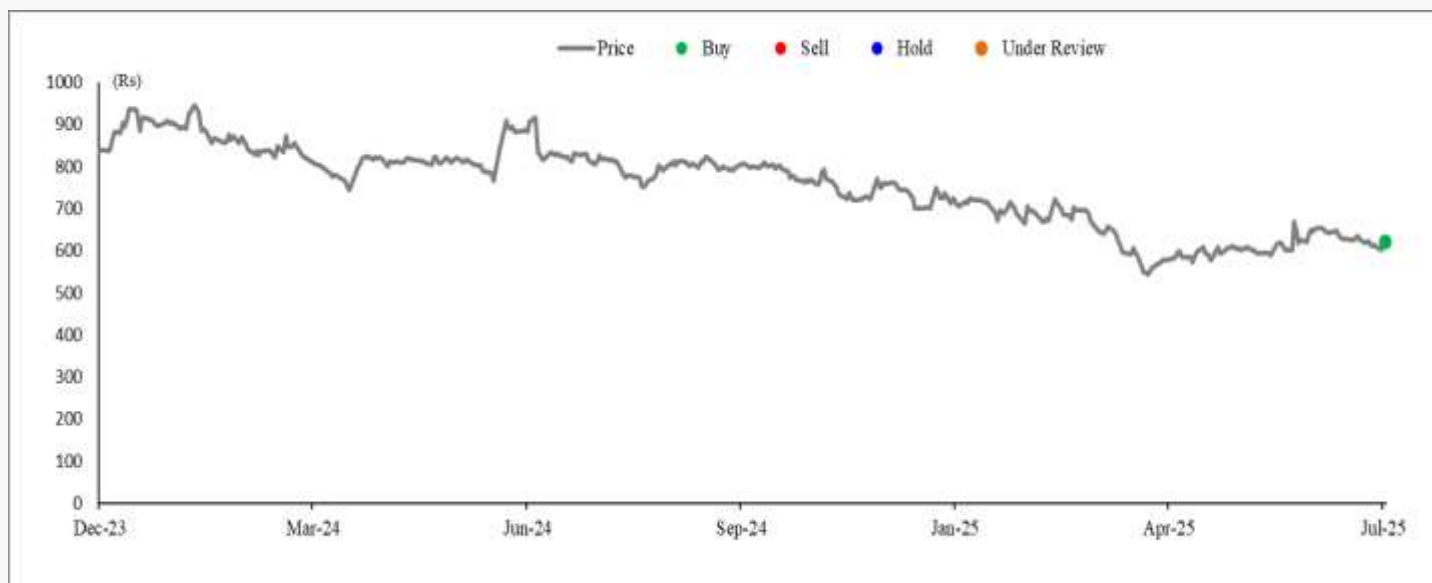
Source: Company, Axis Securities

**Ratio Analysis**
**(%)**

Y/E March	FY23	FY24	FY25	FY26E	FY27E
Book Value (Rs)	59	101	103	114	131
Adj EPS (Rs)	17	16	13	17	23
Adj EPS growth (%)	25	-4	-19	31	34
EBITDA margin (%)	25	21	17	19	20
Pre-tax margin (%)	22	21	12	15	17
Debt/Equity (x)	0	0	0	0	0
ROCE (%)	27	20	13	15	17
ROE (%)	31	21	12	16	18
<b>DuPont Analysis</b>					
Asset turnover (x)	1.0	0.8	0.7	0.7	0.8
Leverage factor (x)	1.1	1.1	1.2	1.3	1.3
Net margin (%)	16	15	9	11	13
<b>Working Capital &amp; Liquidity Ratio</b>					
Inventory days	0	0	0	0	0
Receivable days	54	56	63	55	55
Payable days	83	73	18	25	25
<b>Valuation ratio</b>					
PER (x)	38.5	36.7	51.1	36.7	27.4
Adjusted PER (x)	37.5	38.9	47.9	36.7	27.4
P/BV (x)	10.6	6.2	6.0	5.4	4.7
EV/EBITDA (x)	23.2	23.5	24.6	19.8	15.4
Market Cap. / Sales (x)	6.2	5.6	4.6	4.0	3.5

Source: Company, Axis Securities

## Happiest Minds Technologies Price Chart and Recommendation History



Date	Reco	TP	Research
31-Jul-25	BUY	690	Result Update

Source: Axis Securities Research

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