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INDIA

Technology

Jewels to rely on amid volatile macro; re-initiate BUY on PSYS and HM

Amid adverse macro environment for IT Services spending with right shifting of demand, as clients want to focus on critical areas of tech spending, we highlight two stocks in Indian IT Services space - Persistent Systems (PSYS) and Happiest Minds (HM) - that are well positioned to deliver industry-leading growth in FY24E and beyond with expectations of mid-high teens organic revenue growth. Secular shift to smaller-sized deals to enable digital transformation of enterprises has created a level-playing field for both large and mid-tier IT vendors. Despite broader macro concern that discretionary digital spend is getting postponed, we would like to highlight that both PSYS and HM are involved in building digital solutions for clients around SaaS, cloud, AI, IoT and cyber security which are mission critical to either generate revenues for clients or conduct their daily operations. Hence, a significant portion of their revenues is being generated outside annual technology budgets, which is seeing certain pressure. We re-initiate coverage on both a) PSYS with a 12-month target price of Rs5,960, implying 26% potential upside and BUY rating, and b) HM with a 12-month target price of Rs1,038, implying 20% potential upside and BUY rating.

PSYS: Size is in sweet spot with strong digital capabilities and execution, re-initiate coverage with BUY.

Investment thesis

- Persistent has crossed US$1bn-revenue threshold in FY23. We believe US$1bn revenue size is a sweet spot for IT vendors to target both small and large sized deals. This, along with strong management execution, is leading Persistent to participate in both digital transformation and cost optimisation agenda of its clients. Persistent has built strong digital capabilities with unique strength around hyperscalers (AWS, Azure, Google Cloud, IBM and Salesforce) as well as multiple SaaS companies either through tuck-in acquisitions or organically. This is providing a fillip to Persistent's digital revenue to grow strongly, in line with growth at these hyperscalers or SaaS companies. **We are forecasting 18% US$ revenue CAGR for Persistent over FY23-26E** against the company's guidance to grow 3-5% QoQ in the near term and 4-6% in medium to long term.

- We are expecting EBIT margins for Persistent to expand by 290 bps over FY23-26E from ~15% in FY23 on the back of multiple levers like increased client mining, operating leverage with higher revenue scale, higher utilisation with absorption of freshers and more annuity deals with focus on larger and longer-term deals. This is compared to the management's guidance of 200-300bps margin expansion over the next 2-3 years. As a result of strong revenue growth with EBIT margin expansion, we are forecasting strong 29% EPS CAGR for Persistent over FY23-26E.

Catalysts: Strong quarterly deal win announcements both in terms of TCV (on the back of large deals) and ACV (participating in digital transformation agenda of its clients), announcement of digital capability enhancing acquisitions, consistent expansion in EBIT margins on the back of increasing scale. **We believe that the street is underestimating the growth prospects and we are 23% ahead on FY26EPS.**

Valuation: We value Persistent at 25x FY26E EPS of Rs267 (discounted back 1-yr with WACC of 12%) to arrive at our 12-month target price of Rs5,960, implying 26% potential upside. 25x is mid-way between last 3-yr average of 28x and last 5-yr average of 22x and seems fair given the strong FY23-26E EPS CAGR of 29%, that we are expecting.

Please refer to important disclosures at the end of this report

HM: Poised for industry-leading growth over the next decade, re-initiate BUY

Investment thesis

Our positive view on Happiest Minds is predicated on the following three factors:

- HM is having ~100% of its revenue derived from digital solutions/ technologies which are core and critical to either generate revenue or drive operations for its clients. This work which HM does is largely non-discretionary in nature and positions HM in a sweet spot compared to its competitors like EPAM, Endava, Globant etc. in current weak macro environment where discretionary tech budgets are under pressure. HM's unchanged guidance of 25% revenue growth for FY24E and strong headcount addition target of 1,300 (on a base of 5K employees), further bolsters our view HM's core offerings like digital infrastructure/cloud, SaaS, security solutions, analytics/ AI and IoT are mission critical for its client base.

- Based on our benchmarking analysis vs HM's closest global peers (deriving majority of its revenue from digital technologies), we find HM to have the most diversified industry vertical exposure (with lowest exposure to currently in trouble BFSI vertical) and some industry leading operating metrics like EBITDA margin, RoE and DSOs implying strong pricing power against its customers on the back of delivery of high-end digital solutions. This, along with successful 'Land and Expand' strategy, reflected in consistent client wins and increase in revenue per client, enables us to forecast 24% US$ revenue CAGR over FY23-26E and US$1bn revenue by FY33E (two years behind the management's stated target to achieve it by FY31E) as we do not factor any inorganic contribution in our forecasts.

- Strong management execution with succession planning in place along with high corporate governance, provide visibility on successful long-term planning of revenue and EBITDA margin (22-24%) targets. Despite strong revenue growth ahead, we are not assuming any margin expansion for HM as we believe it will have to continuously invest in SG&A and build digital capabilities as it gains further scale.

Catalysts: Key catalyst for stock performance would be large deal win announcement, strong net-headcount addition (providing visibility into future growth), consistent revenue growth outperformance over its Indian and global peers, successful M&A helping HM achieve its US$1bn revenue target by FY31E along with diversification into new geographies, industry verticals and service lines.

Valuations: We value HM on a weighted average of FY26E P/E multiple of 38x (discounted back 1-year by WACC of 12% and weight of 50%) and DCF (WACC of 11.9% and terminal growth rate of 5% with weight of 50%). We have adopted this valuation technique to capture both near and long term growth potential for HM. Our target price of Rs1,038 implies 41x FY25E P/E multiple on an EPS of Rs24.9. This compares to current one–year forward multiple of 42x and last two-year average of 64x for HM. 41x implied P/E multiple on FY23-26E EPS CAGR of 25% implies PEG multiple of 1.4x which is comparable to where our broader Indian IT coverage is currently trading. So, our entire potential upside in the stock is currently driven by earnings growth rather than any multiple re-rating.

Key downside risks: Slower adoption of digital technologies due to adverse macro environment or tight technology budgets, large M&A announcement to gain scale leading to integration challenges, top management changes and high attrition, INR appreciation over US$, high client concentration, vendor consolidation among its top customers leading to wallet share loss, inability to scale-up beyond a point due to lack of broader service offerings and presence across geographies/ industry verticals, stiff competition in new geographies and industry verticals.

Table 1: Key metrics

Companies	Rating	CMP (Rs)	Market Cap (US$ bn)	Target Price	Potential Upside	USD Revenue CAGR FY23-FY26E	EPS CAGR FY23-FY26E	P/E FY25E	P/E FY26E	PEG FY25E	EV/EBITDA FY25E	EV/EBITDA FY26E	EV/Sales FY25E	EV/Sales FY26E	ROE (%) FY25E	ROE (%) FY26E
LTIMindtree	BUY	4,724	17	5,637	19%	14.4%	19.3%	20.4	17.1	1.1	15.2	12.7	3.1	2.6	35.5	36.2
Infosys	BUY	1,264	66	1,641	30%	10.7%	11.5%	19.4	17.4	1.7	12.1	10.9	2.8	2.5	34.8	36.2
TCS	BUY	3,257	149	3,786	16%	10.0%	13.8%	21.8	19.1	1.6	15.3	13.4	4.2	3.8	50.9	52.2
Mphasis	HOLD	1,879	4	1,812	-4%	11.2%	10.3%	16.3	14.3	1.6	10.7	9.5	2.0	1.7	23.7	24.5
HCL Tech	HOLD	1,089	37	1,065	-2%	11.1%	10.8%	14.7	13.9	1.4	8.9	8.3	2.1	1.8	24.7	27.6
Wipro	REDUCE	387	27	350	-9%	7.0%	10.6%	15.2	13.7	1.4	9.5	8.6	1.8	1.7	16.0	16.6
Tech M	REDUCE	1,054	13	927	-12%	8.3%	8.8%	15.3	13.8	1.7	8.4	7.6	1.3	1.2	19.7	21.5
Persistent	BUY	4,715	5	5,960	26%	18.0%	29.2%	22.6	17.7	0.8	15.4	12.4	3.1	2.5	29.7	30.6
Happiestminds	BUY	868	2	1,038	20%	24.2%	24.4%	34.9	28.3	1.4	22.4	18.1	5.5	4.5	31.6	31.8
Sector Average					9%	13%	15%	20.1	17.3	1.4	13.1	11.3	2.9	2.5	29.6	30.8

Companies	Rating	CMP (US $)	Market Cap (US$ bn)	Target Price	Potential Upside	USD Revenue CAGR FY23-FY26E	EPS CAGR FY23-FY25E	P/E FY25E	P/E FY25E	PEG FY25E	EV/EBITDA FY25E	EV/EBITDA FY26E	EV/Sales FY25E	EV/Sales FY26E	ROE FY25E	ROE FY26E
Accenture	Unrated	278	184	Not Rated	Not Rated	8.1%	9.4%	20.1	18.4	2.1	13.3	13.7	2.5	2.2	27.5	27.1
Cognizant	Unrated	63	32	Not Rated	Not Rated	3.9%	5.6%	13.4	12.1	2.4	8.5	7.8	1.5	1.4	17.1	17.1
Capgemini	Unrated	162	28	Not Rated	Not Rated	7.2%	10.1%	11.6	10.4	1.1	7.6	6.8	1.2	1.1	18.4	18.4
Microsoft	Unrated	309	2,301	Not Rated	Not Rated	12.6%	15.6%	24.6	20.9	1.6	17.2	14.3	8.6	7.5	33.7	32.5
Salesforce	Unrated	203	203	Not Rated	Not Rated	11.8%	28.4%	23.3	19.5	0.8	14.3	12.5	5.3	4.8	10.1	10.1
ServiceNow	Unrated	463	94	Not Rated	Not Rated	21.8%	107.5%	40.1	32.4	0.4	26.1	20.5	8.5	7.0	23.4	21.3
Workday	Unrated	185	48	Not Rated	Not Rated	17.1%	28.7%	29.9	24.6	1.0	18.4	14.6	5.4	4.5	18.4	19.3
SAP	Unrated	121	148	Not Rated	Not Rated	6.1%	16.7%	18.4	15.7	1.1	13.1	11.8	4.2	3.8	14.7	15.8
Oracle	Unrated	97	263	Not Rated	Not Rated	8.2%	13.1%	15.5	13.3	1.2	11.4	10.2	6.0	5.5	42.4	113.1

Companies	Rating	CMP (US $)	Market Cap (US$ bn)	Target Price	Target Multiple	USD Revenue CAGR FY23-FY26E	EPS CAGR FY23-FY25E	P/E FY25E	P/E FY26E	PEG FY25E	EV/EBITDA FY25E	EV/EBITDA FY26E	EV/Sales FY25E	EV/Sales FY26E	ROE FY25E	ROE FY26E
EPAM	Unrated	270	16	Not Rated	Not Rated	14.2%	14.4%	20.7	16.6	1.4	13.3	10.7	2.4	2.0	20.2	20.6
Globant	Unrated	151	6	Not Rated	Not Rated	20.6%	18.6%	21.5	17.8	1.2	12.3	9.7	2.5	2.0	16.6	17.3
Endava	Unrated	56	3	Not Rated	Not Rated	20.6%	19.0%	16.4	14.0	0.9	10.4	8.5	2.5	2.0	21.8	22.1
Thoughtworks	Unrated	8	2	Not Rated	Not Rated	11.8%	16.1%	15.6	11.5	1.0	10.0	7.7	1.8	1.5	18.2	19.1
Perficient	Unrated	75	3	Not Rated	Not Rated	7.7%	7.9%	14.7	13.9	1.9	12.1	10.9	2.9	2.6	27.9	23.7
Grid Dynamics	Unrated	11	1	Not Rated	Not Rated	16.9%	9.1%	21.3	17.0	2.3	NA	NA	NA	NA	11.2	12.3

Note: Cognizant, Capgemini, ServiceNow, SAP financial year ending is in Dec and Accenture's financial year ending is in Aug, Microsoft is June year end, Salesforce and Workday is Jan year end, Oracle is May year end
**Source:** I-sec estimates for covered and BBG estimates for uncovered companies. CMP is as on 16th May 2023 closing price.

Table 2: ISEC vs consensus estimates

Company	INR Revenue (mn)								
	FY24E			FY25E			FY26E		
	I-Sec	Cons	Difference	I-Sec	Cons	Difference	I-Sec	Cons	Difference
TCS	24,67,027	24,67,035	0.0%	27,41,670	27,13,994	1.0%	30,70,131	29,77,351	3.1%
Infosys	16,37,284	15,82,504	3.5%	18,44,579	17,42,264	5.9%	20,99,163	19,19,776	9.3%
Wipro	9,67,905	9,57,912	1.0%	10,53,927	10,38,703	1.5%	11,45,054	11,26,935	1.6%
HCLT	11,09,852	11,14,183	-0.4%	12,44,735	12,17,607	2.2%	14,01,892	13,41,773	4.5%
TechM	5,70,553	5,70,447	0.0%	6,34,547	6,23,843	1.7%	6,98,282	6,84,273	2.0%
LTIMindtree	3,75,829	3,73,106	0.7%	4,37,156	4,25,023	2.9%	5,07,979	4,58,240	10.9%
Mphasis	1,51,372	1,43,769	5.3%	1,74,657	1,61,888	7.9%	1,97,238	1,79,530	9.9%
Persistent	99,267	98,307	1.0%	1,16,795	1,14,522	2.0%	1,40,879	1,30,453	8.0%
Happiestminds	17,974	17,675	1.7%	22,708	21,800	4.2%	28,178	NA	NA

Company	EBIT (INR mn)								
	FY24E			FY25E			FY26E		
	I-Sec	Cons	Difference	I-Sec	Cons	Difference	I-Sec	Cons	Difference
TCS	6,05,437	6,12,228	-1.1%	7,04,097	6,80,360	3.5%	7,95,418	7,46,607	6.5%
Infosys	3,48,403	3,42,562	1.7%	3,94,561	3,84,865	2.5%	4,61,114	4,26,160	8.2%
Wipro	1,48,027	1,52,951	-3.2%	1,65,511	1,69,589	-2.4%	1,86,110	1,82,595	1.9%
HCLT	2,03,194	2,07,089	-1.9%	2,45,140	2,31,441	5.9%	2,60,756	2,56,156	1.8%
TechM	69,300	70,852	-2.2%	78,914	82,098	-3.9%	87,418	91,456	-4.4%
LTIMindtree	63,525	62,802	1.2%	78,960	74,263	6.3%	94,292	85,301	10.5%
Mphasis	24,406	22,853	6.8%	28,176	26,102	7.9%	31,813	28,602	11.2%
Persistent	15,994	15,312	4.5%	19,843	18,344	8.2%	25,054	21,001	19.3%
Happiestminds	3,813	3,744	1.8%	4,844	4,743	2.1%	6,012	5,800	3.6%

Company	EPS								
	FY24E			FY25E			FY26E		
	I-Sec	Cons	Difference	I-Sec	Cons	Difference	I-Sec	Cons	Difference
TCS	131	130	0.8%	151	145	4.7%	171	160	6.5%
Infosys	64	64	-0.8%	72	72	0.5%	86	80	7.7%
Wipro	23	23	-2.3%	25	26	-2.2%	28	29	-1.2%
HCLT	62	60	3.3%	74	67	10.9%	79	74	6.8%
TechM	59	63	-5.4%	68	73	-7.5%	75	83	-9.7%
LTIMindtree	170	172	-1.3%	211	204	3.4%	252	246	2.4%
Mphasis	97	93	4.1%	113	107	5.6%	128	119	8.2%
Persistent	166	155	6.9%	209	186	12.1%	267	218	22.6%
Happiestminds	20	20	0.9%	25	25	0.0%	31	NA	NA

Source: Company data, I-Sec research

Chart 1: Based on P/BV vs RoE correlation, Persistent and Happiest Minds have above industry average RoE
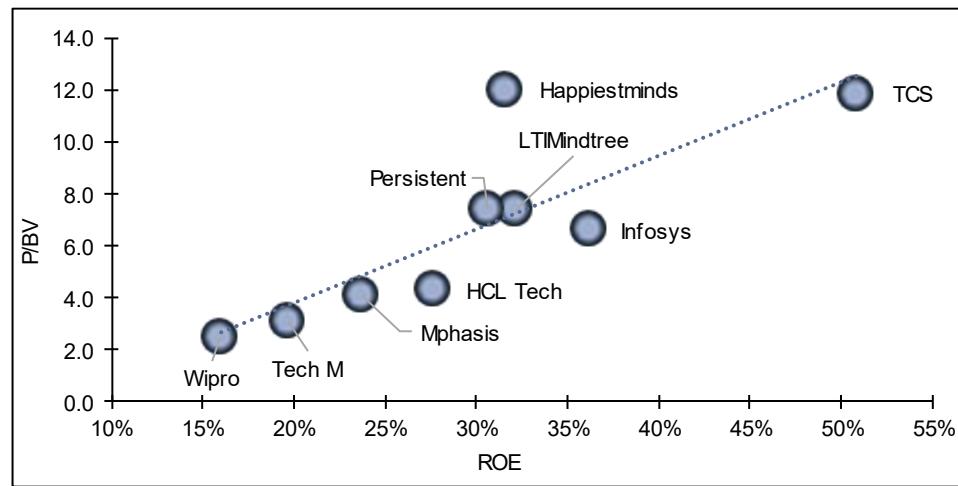
Source: Company data, I-Sec research

Table 3: We expect revenue growth to pick-up in FY25

	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Revenue YoY CC							
TCS	7.1%	-0.8%	15.4%	13.7%	6.6%	11.1%	12.0%
Infosys	9.8%	5.0%	19.7%	15.4%	6.4%	13.0%	12.4%
Wipro	3.9%	-2.3%	16.7%	10.1%	2.9%	9.4%	8.6%
HCLT	16.7%	1.1%	12.7%	13.7%	7.9%	12.5%	12.6%
TechM	5.6%	-2.2%	16.7%	14.5%	4.0%	11.2%	10.0%
LTIMindtree	11.2%	5.1%	27.5%	17.2%	10.7%	16.3%	16.2%
Mphasis	11.7%	4.9%	21.2%	9.7%	3.5%	17.2%	13.0%
Persistent	4.3%	12.8%	35.2%	35.3%	15.8%	17.7%	20.6%
Happiestminds			40.9%	23.7%	22.8%	26.3%	24.1%
EBIT margin							
TCS	24.6%	25.9%	25.3%	24.1%	24.4%	25.3%	25.8%
Infosys	21.3%	24.5%	23.0%	21.1%	21.1%	20.5%	20.2%
Wipro	16.6%	19.4%	17.2%	14.9%	15.5%	15.5%	15.8%
HCLT	19.6%	21.4%	18.9%	18.2%	18.5%	19.1%	18.0%
TechM	11.6%	14.2%	14.6%	11.4%	12.2%	12.3%	12.3%
LTIMindtree	13.6%	18.6%	17.8%	16.2%	16.9%	18.0%	18.5%
Mphasis	15.9%	15.8%	14.6%	15.6%	16.1%	16.1%	16.1%
Persistent	9.2%	12.1%	13.9%	14.9%	16.1%	17.0%	17.8%
Happiestminds			20.6%	22.0%	21.2%	21.3%	21.3%

Note: Wipro growth in FY22 and FY23 is excluding Capco and Rizing acquisitions respectively; LTIMindtree growth is YoY$ growth. Persistent's organic growth in FY22 was 32.8% YoY

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Persistent Systems

(BUY; CMP: Rs4,715; TP: Rs5,960)

Price chart

Size at sweet spot with strong digital capabilities and execution; BUY

Investment thesis

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- Persistent has built strong digital capabilities with unique strength around hyperscalers (AWS, Azure, Google Cloud, IBM and Salesforce) as well as multiple SaaS companies either through tuck-in acquisitions or organically. This is providing a fillip to Persistent's digital revenue to grow strongly, in line with growth at these hyperscalers or SaaS companies. We are forecasting 18% US$ revenue CAGR for Persistent over FY23-26E.

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Market Cap	Rs363bn/US$4.4bn
Reuters/Bloomberg	PERS.BO/PSYS IN
Shares Outstanding (mn)	76.9
52-week Range (Rs)	5062/3142
Free Float (%)	68.7
FII (%)	21.3
Daily Volume (US$'000)	20,748
Absolute Return 3m (%)	(4.5)
Absolute Return 12m (%)	32.2
Sensex Return 3m (%)	1.3
Sensex Return 12m (%)	18.5

Year to March	FY23	FY24E	FY25E	FY26E
Revenue (Rs mn)	83,506	99,267	1,16,795	1,40,879
Net Income (Rs mn)	9,508	12,662	15,971	20,403
EPS (Rs)	123.7	165.7	209.0	267.0
% Chg YoY	37.0	33.9	26.1	27.8
P/E (x)	37.8	28.2	22.4	17.5
CEPS (Rs)	160.3	205.9	252.9	315.8
EV/E (x)	22.6	18.1	14.6	11.3
Dividend Yield	1.1	1.0	1.2	1.3
RoCE (%)	21.4	23.4	24.4	25.3
RoE (%)	25.1	28.8	29.7	30.6

Risks: Longer than expected current global macro down-cycle extending beyond CY23E, lower discretionary spend by clients due to weak macros, further hike in interest rates globally leading to lower valuation multiples, INR appreciation against US$, further spend cut at top client leading to lower revenue growth potential, unsuccessful M&A with inability to retain top management at acquired entities, limited margin expansion with consistent need to invest in building capabilities and scale to drive revenue growth.

Equity story

Chart 2: Stock re-rated massively post appointment of Sandeep Kalra as CEO in Oct 2020 due to turnaround in performance brought by Sandeep Kalra and also due to covid led digital tailwinds
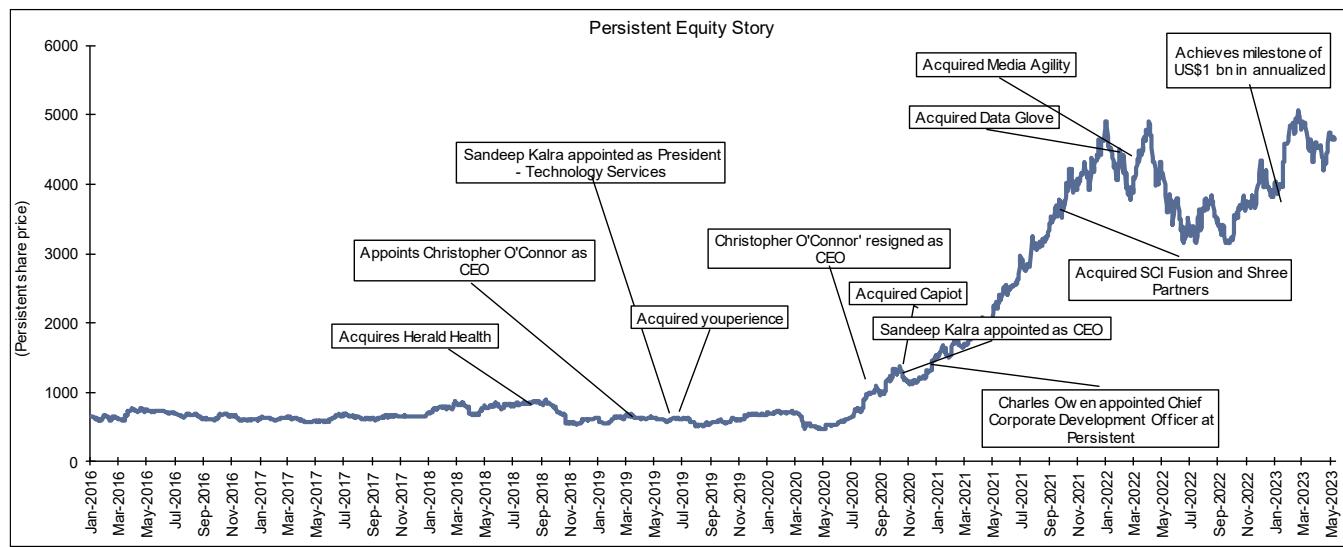
Source: Company, I-Sec Research

Persistent has built strong digital capabilities with unique strength around multiple hyperscalers and SaaS companies

Persistent has invested in building digital capabilities across multiple hyperscalers (AWS, Azure, Google Cloud, IBM) and SaaS platforms (Salesforce, Snowflake, Software AG, RedHat, Appian, Mambu, UiPath etc.) either organically or through acquisitions. **It has a significant workforce trained in Salesforce, AWS, Azure and GCP. For example, ~13% of its workforce is certified in Microsoft Azure. It has the highest number of certifications as %age of total employees in AWS (2.2%) and Salesforce (9.1%) (Table 7 and Table 12) among IT peers.** Persistent has 360-degree partnership with Microsoft. It is tier 1 cloud service provider and gold competency partner for Microsoft. Post Data Glove acquisition (Feb 2022), Persistent launched new Microsoft Business unit with focus on Azure cloud. Similarly, Persistent acquired MediaAgility (March 2022) to strengthen its Google cloud capabilities.

Hyperscalers and SaaS players have been growing in strong double digit, which has provided a fillip to digital revenue growth of Persistent. Its revenue from sell to and sell with partnerships – 1) IBM crossed ~US$100mn annualised run-rate and 2) with Salesforce it is ~US$130mn (~13% of revenue) annual run-rate in 2022. Management also aims to grow its Azure, AWS and GCP business units to similar levels.

Table 4: Considerable number of employees certified across hyperscalar and SaaS capabilities

	AWS	Azure	GCP	Salesforce	IBM	Appian	RedHat	Software AG
No. of employees certified	500	3000	592	2092	2000	500	2000	2000
% of total employees	2.2%	13%	2.6%	9.1%	8.7%	2.2%	8.7%	8.7%

Table 5: Microsoft and Salesforce revenue growth to pick up in CY24E/25E

Revenue growth YoY $	Year end	CY21/FY22	CY22E/FY23E	CY23E/FY24E	CY24E/FY25E	CY25E/FY26E
Microsoft	June	18.0%	6.4%	11.6%	12.1%	14.3%
Microsoft Azure and other services	June	45.0%	29.5%			
AWS	Dec	37.1%	28.8%			
GCP	Dec	47.1%	36.8%			
Salesforce	Jan	24.7%	17.0%	11.7%	11.2%	12.7%

Source: Company, Bloomberg, I-Sec Research
Note: Salesforce Jan 23 = CY22/FY23, Microsoft June 23 = CY22/FY23, Microsoft Azure FY23 revenue growth is estimated by ISEC

Table 6: AWS partnership credentials

AWS Partnership Credentials	
AWS Advanced Consulting Partner	10 years
Competencies and Service Delivery Designations	7
AWS Cloud client engagements	100+
AWS Practitioners and Delivery Professionals	2500+
Certifications - AWS Professional, Specialty, Associate and cloud Practitioner	750+

Source: Company, I-Sec Research

Table 7: Persistent has the highest number of AWS certifications as %age of total employees

AWS Validated Qualifications	TCS	Infosys	HCLT	Wipro	TechM	LTIMindtree	Mphasis	Coforge	Persistent	Accenture	Cognizant	Capgemini
AWS Competencies	11	13	6	10	5	9	6	3	5	25	10	10
AWS Partner Programs	7	6	6	6	4	6	2	3	4	9	7	8
AWS Service Validations	12	11	8	3	10	16	8		2	7	5	4
AWS Certifications (greater than)	2000	2000	2000	2000	2000	1000	400	100	500	2000	2000	2000
As % of employees	0.3%	0.6%	0.9%	0.8%	1.3%	1.2%	1.1%	0.5%	2.2%	0.3%	0.6%	0.6%
AWS Customer launches (greater than)	500	300	100	200	200	100	50	20	50	2000	500	500

Source: Company, I-Sec Research

Table 8: Microsoft partnership

Microsoft partnership credentials	
No. of competencies	8 Gold Level and 3 Silver Level Competencies
Azure and Microsoft Certifications	3000
IP and Assets	50
Workloads Migrated	1,00,000
OCP & CSP Partner Programs	6
Microsoft Competencies	
Application Development	Gold
App Integration	Gold
Data Analytics	Gold
DevOps	Gold
Cloud Platform	Gold
Data Platform	Gold
Messaging	Gold
Cloud Productivity	Gold
Collaboration and Content	Silver
Security	Silver
Project and Portfolio Management	Silver

Source: Company, I-Sec Research

Table 9: Google Cloud partnership credentials

Google Cloud Partnership Credentials	
No. of years of partnership with Google	10 years
Google Cloud Practitioners & Delivery Professionals	592
Certifications – Professional, Specialty, Associate, and Fundamental	985
Google Cloud Partner Expertise Designations	36
MediaAgility (Recent Acquisition)	Niche Player in the 2022 Gartner Magic Quadrant for Public Cloud IT Transformation Services

Source: Company, I-Sec Research

Table 10: Salesforce partnership credentials

Salesforce partnership credentials	
Certifications	5000+
Joint Projects	1400+
CSAT Score	5/5
Trailhead badges	1,50,000
No. of years of partnership	18 years

Source: Company, I-Sec Research

Table 11: Persistent's Salesforce competencies are comparable to that of large-cap peers

Salesforce expertise	TCS	Infosys	HCLT	Wipro	TechM	LTIMindtree	Mphasis	Coforge	Persistent	Accenture	Cognizant	Capgemini
B2C Commerce	Level 1		Level 2			Level 1						Level 1
Commerce	Level 1		Level 1	Expert		Level 1			Level 1	Level 2	Level 1	Level 1
Customer 360 platform	Level 2	Expert	Expert	Expert	Expert	Level 2			Level 2	Expert	Expert	Level 2
Education cloud		Level 1		Level 1								
Einstein	Level 1	Level 2	Level 1	Level 1		Level 1			Level 1	Level 2	Level 2	Expert
Experience Cloud	Level 2	Expert	Level 2	Expert	Level 2	Level 2		Level 1	Level 1	Expert	Expert	Expert
Industry Products	Level 1	Level 1	Level 1	Level 1		Level 1				Level 2	Level 2	Level 2
Integration	Expert	Level 1	Expert	Expert	Level 1	Expert		Expert	Level 1	Expert	Expert	Expert
Managed Services	Level 2	Level 1		Expert								
Marketing Cloud	Level 2	Level 2	Level 2	Expert	Level 1	Level 2			Level 2	Expert	Expert	Level 2
Multi-cloud Integration		Level 1	Level 1			Level 1			Level 1			
Non profit Cloud		Level 1		Level 1					Level 1			
Revenue Cloud	Level 2	Level 2	Level 1	Level 2					Level 1	Level 2	Level 2	Level 2
Sales Cloud	Level 2	Level 2	Level 2	Level 2	Level 2	Level 2	Level 1	Level 1	Level 2	Level 2	Level 2	Expert
Service Cloud	Level 2	Level 2	Level 2	Level 2	Level 2	Level 2		Level 1	Level 2	Expert	Level 2	Expert
PDO/AppExchange			Level 1			Level 1						
Total Expertise	**21**	**22**	**22**	**28**	**11**	**19**	**1**	**6**	**15**	**25**	**23**	**25**

Source: Company, I-Sec Research

Table 12: Persistent has the highest number of Salesforce certified experts as %age of total employees

Salesforce Certified Experts	TCS	Infosys	HCLT	Wipro	TechM	LTIMindtree	Mphasis	Coforge	Persistent	Accenture	Cognizant	Capgemini
Certified Experts	5,524	4,985	1,492	3,852	1,553	1,416	170	168	2,092	19,965	9,188	5,915
Total Employees	6,14,795	3,43,234	2,25,944	2,58,744	84,874	86,462	35,450	21,153	22,889	7,37,719	3,49,400	3,59,600
As % of total employees	0.9%	1.5%	0.7%	1.5%	1.8%	1.6%	0.5%	0.8%	9.1%	2.7%	2.6%	1.6%
Projects completed	289	2325	251	**877**	**328**	659	**32**	**81**	480	1539	783	**770**

Source: Company, I-Sec Research

Table 13: Red Hat partnership credentials

Red Hat partnership credentials	
Containerization and Kubernetes trained employees	2000+
Red Hat Ansible and OpenShift accreditations with objective to reach 100+ by 2021	80+
Containerized open source packages	700+
Certified operators that Persistent has developed	25+
Projects containerizing workloads on AWS, Azure, GCP, & IBM Cloud	20+

Source: Company, I-Sec Research

Table 14: IBM partnership credentials

IBM partnership credentials	
Partnership Tier	Platinum
No. of years of partnership	20 years
Engineers dedicated to IBM Work	2000
Shared customers	400
Active engagements annually	115

Source: Company, I-Sec Research

We believe Persistent has superior pricing vs peers due to its expertise in digital capabilities. This can be inferred from higher revenue per employee and gross margin vs mid-cap peers (LTIMindtree, Mphasis, Coforge). (Table 15 and 16)

Table 15: Gross margin higher than Coforge, Mphasis, LTIMindtree

Gross margin	FY18	FY19	FY20	FY21	FY22	FY23
LTIMindtree	34.1%	35.7%	33.4%	34.4%	31.7%	30.1%
Mphasis	24.9%	27.9%	26.2%	28.2%	26.8%	27.4%
Coforge	35.9%	35.0%	34.6%	32.0%	32.0%	32.5%
Persistent	35.1%	36.5%	34.1%	34.0%	33.6%	33.8%

Source: Company, I-Sec Research

Table 16: Revenue per employee higher than Coforge and Mphasis

Revenue per employee	FY18	FY19	FY20	FY21	FY22	FY23
LTIMindtree	47.3	52.1	51.3	48.5	50.2	50.0
Mphasis	44.5	47.9	48.7	46.9	48.3	48.7
Coforge	48.5	53.9	55.4	53.4	49.7	43.8
Persistent	52.4	50.8	48.7	46.6	47.4	49.9

Source: Company, I-Sec Research

Bolt-on acquisitions to strengthen digital capabilities

Persistent has done seven tuck-in acquisitions in the last 4 years either to strengthen its digital capabilities or industry verticals. Some of the recent key acquisitions include – 1) Data Glove to strengthen Microsoft and Azure cloud business, 2) MediaAgility to solidify Google cloud business and 3) SCI Fusion to enhance capabilities in payments solutions.

Persistent is seeing early success in winning synergy deals with these acquired companies. In Q3FY23, Persistent won a US$70mn deal from a leading online retailer in the US to setup a dedicated Global Technology Centre including multiple technologies. Cross-functional collaboration between various teams including acquired business MediaAgility was a key to winning this deal since this online retailer has chosen Google Cloud as its predominant cloud platform. Another example of the synergy playing out with Persistent's payment business unit formed through SCI acquisition is the deal win with one of the largest US banks to transform the legacy check platform and enable cloud readiness to future proof the business.

Forward looking acquisition strategy to expand in high growth areas. Persistent may do tuck-in acquisitions (revenue size of ~US$ 20-25m) in new growth areas – 1) cybersecurity, 2) healthcare and data, 3) industry-specific clouds and 4) to expand presence in Europe. Persistent has low exposure to Europe; currently, has ~9-10% of revenue and plans to increase this to 12-15% over long term.

Table 17: Bolt-on acquisitions have strengthened Persistent's digital capabilities

Sr. No.	Date of announcement	Date of completion/ consolidation of acquisition	Target Company	Consideration (US$ mn)	Revenue (US$ mn)	Margin profile of target companies	Target revenue as % of Persistent revenue as on date of acquisition	2 Yr Revenue CAGR	Valuation (EV/Sales)	Stake	Rationale for acquisition	Target company details
1	14-03-2022	04-05-2022	MediaAgility	71.71	LTM (Dec'21): US$ 25.5 mn FY21 (YE Mar'21): US$ 19.7 mn FY20 (YE Mar'20): US$ 14.2 mn FY19 (YE Mar'19): US$ 9.6 mn	Gross margin and EBITDA margin are accretive	4%	43%	2.8	100%	The acquisition has enhanced Persistent's partnership with Google and is the foundation for a dedicated Google business unit.	MediaAgility is a global cloud transformation services provider with deep expertise in building scalable, cloud-based solutions as a Google Cloud Premier Partner. It has 500+ employees spread across India, US, Mexico, and UK.
2	10-02-2022	01-03-2022	Data Glove	90.5	CY21: US$48.96 mn CY20: US$38.51 mn CY19: US$37.30 mn	EBITDA margin similar to Persistent	6%	15%	1.8	100%	Persistent did this acquisition to enhance its partnership with Microsoft, strengthen expertise in Azure-based digital transformation and other offerings in the Microsoft stack, as well as expand its geographic footprint and talent pool (700 employees)	Incorporated in 2010, Data Glove Group specialises in providing services across the entire Microsoft Product Suite; 33% of its workforce is in Americas (including 75 employees in Costa Rica) and off-shore centres in Bengaluru, Hyderabad and Noida. Global clients across: Americas, Europe, India and Australia
3	29-09-2021	15-11-2021	Shree Partners	6.9	FY 2020-21: $7.6 M FY 2019-20: $8.7 M FY 2018-19: $6.0 M	Gross margin is attractive, minimal margin impact at EBIT level	1.3%	13%	0.9	100%	The acquisition was an outcome of a vendor consolidation exercise done by Persistent's strategic client in BFSI and enhances its partnership with this strategic client which is a leader in the global claims management industry. It adds a new delivery location for Persistent in (NCR), India.	Incorporated in 2005, Shree Partners LLC along with Shree Infosoft Pvt. provides data management and analytics, IT infrastructure management and support services to companies based predominantly out of the US.
4	29-09-2021	01-10-2021	Software Corporation International	53	CY2020: US$17.08 mn CY2019: US$15.18 mn CY2018: US$13.32 mn	SCI Fusion EBIT margin slightly less (~50-75bps impact) than Persistent's margins	3.2%	13%	3.1	100%	SCI brings domain consulting capabilities and specialises in payments solutions, integration, and support services for leading US banks.	Software Corporation and Fusion360 have integrated business operations with deep domain expertise in payments solutions, integration, and support services for an impressive portfolio of leading North American banks.
5	20-05-2021	20-05-2021	Sureline Systems	2.5	CY2020: US$2.69 mn		0.5%	NA	0.9	Acquisition of critical assets of Sureline	The acquisition bolsters capabilities - Cloud Advisory Services, Cloud Migration and Modernization Offerings, Multi-Cloud Managed Services	Incorporated in 2010, Sureline Systems provides cloud migration and disaster recovery (DR) solutions
6	15-10-2020	29-10-2020	Capiot Software	8.34	FY 2019-20: US$ 1.13 M FY 2018-19: US$ 1.28 M FY 2017-18: US$ 0.85 M		0.2%	15%	7.4	100%	The acquisition will strengthen Persistent's enterprise integration capability with Capiot's strong track record of offerings using TIBCO, MuleSoft and Red Hat platforms	Incorporated in 2014 by TIBCO veterans, Capiot is a middleware-led data consultancy and integration specialist. The company provides enterprise integration services by leveraging various integration platforms including TIBCO, Mule Soft, Red Hat and other open source platforms. It derives more than 50% of its revenues from BFSI customers.
7	25-06-2019	02-07-2019	Youperience Euro and UK entity	4.8 Euro mn + GBP 1.1 mn	FY19: Euro 3.5 mn + CY18 GBP 586K		0.9%	NA	1.5	100%	Acquisition strengthens Persistent's Salesforce practice in Europe and in Salesforce Marketing Cloud domain	Youperience GmbH (Youperience) is a Salesforce gold partner

Source: Company, I-Sec Research

Strong revenue growth across client categories despite reduction in client concentration risk

Persistent's strong growth across top 2-10 accounts (Table 18) indicates its ability to mine and grow wallet share within its top strategic clients. It has become a major vendor for its clients Thermo Fisher Scientific and Agilent Technologies. In the last seven quarters, Persistent has added 3 clients in US$30mn+ bucket, 4 clients in US$10-20 mn bucket and 6 clients in US$5-10mn bucket. Despite strong growth in top 10 accounts, its revenue concentration has come down from 42% in Q4FY22 to 37% in Q4FY23 for top 10 clients.

Chart 3: Top 5/top 10 client concentration reduced significantly to 25%/37% in last 4 years

Source: Company, I-Sec research

Table 18: Strong revenue growth across all client categories since last 8 quarters

Client categories	US$ revenue growth CQGR over Q4FY21-Q4FY23
Top 2-4	6.6%
Top 6-10	8.9%
Non-top 10	9.7%
Overall revenue	7.6%
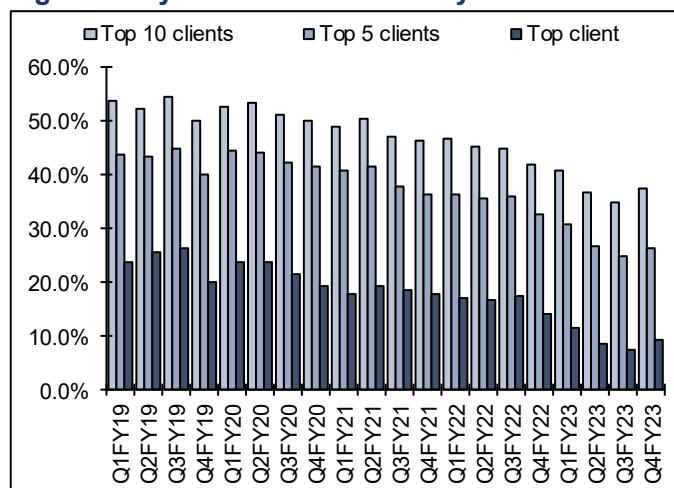
Source: Company, I-Sec research

Chart 4: Healthy addition across client buckets

Source: Company, I-Sec research

Table 19: Persistent's key clients

Vertical	Key clients
Technology	IBM, Agilent Technologies, Software AG, Cisco, Microsoft
BFSI	Wells Fargo, Intuit, ANZ Bank, Ellie Mae Indian NBFCs - IDFC First Bank, Eidelweiss,
Healthcare	Thermo Fisher Scienctific, Johnshopkins

Source: Company, I-Sec research

Decline in top client is behind

Persistent restructured one of its loss-making deals with a top client (IBM). The CE-CLM deal with IBM was initiated in 2016 and was part of Persistent's IP business wherein it had product engineering responsibilities and IBM was responsible for sales and marketing of these products. The deal involved revenue sharing agreement between Persistent and IBM, linked to sale of these products. It was a five-year

contract and Persistent restructured the contract to time and material based pricing post completion of five years. Scope of the contract reduced to US$8-10mn (30-35% gross margin) from US$30mn. The impact due to ramp down of revenue in this contract is now behind and growth has returned in top account from Q4FY23 (30.5% QoQ USD).

Building blocks in place to reach US$2bn revenue by FY27

Persistent has built strong digital capabilities with unique strength around hyperscalers (AWS, Azure, Google Cloud, IBM and Salesforce) as well as multiple SaaS companies either through tuck-in acquisitions or organically. This is providing a fillip to Persistent's digital revenues to grow strongly, in line with growth at these hyperscalers or SaaS companies. Its increasing TCV/ACV ratio (Chart 9) implies it is winning larger sized cost optimisation deals and increasing its share of annuity revenue. We believe US$1bn revenue size is a sweet spot for IT vendors to target both small and large sized deals. We are forecasting 18% US$ revenue CAGR for Persistent over FY23-26E.

Chart 5: Revenue to grow at 18% CAGR over FY23-26E
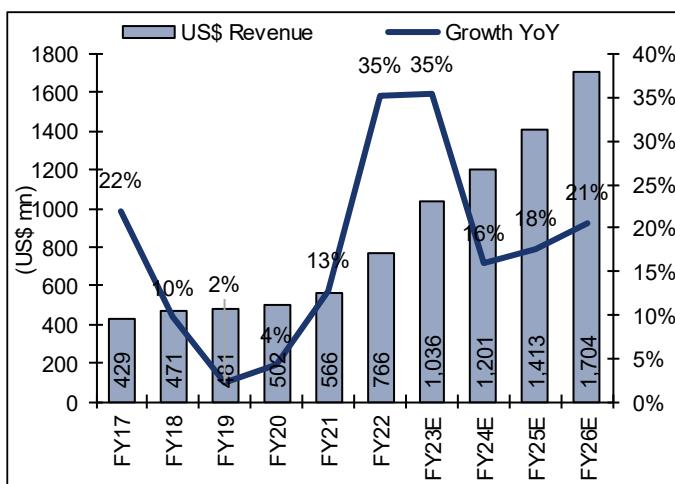
Source: Company, I-Sec research

Chart 6: Book-to-bill ratio maintained above 1.5x
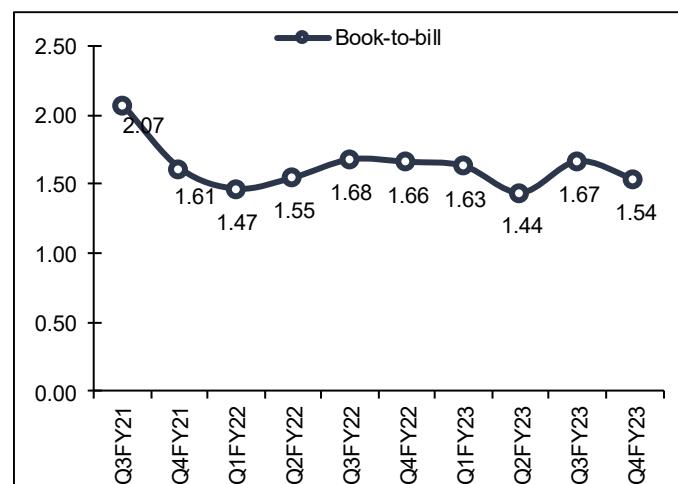
Source: Company, I-Sec research

Chart 7: Strong growth in TTM deal TCV
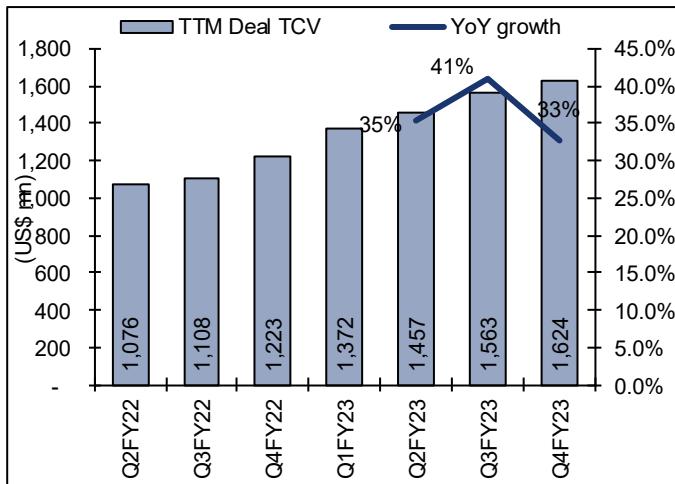
Source: Company, I-Sec research

Chart 8: Healthy growth in TTM deal ACV
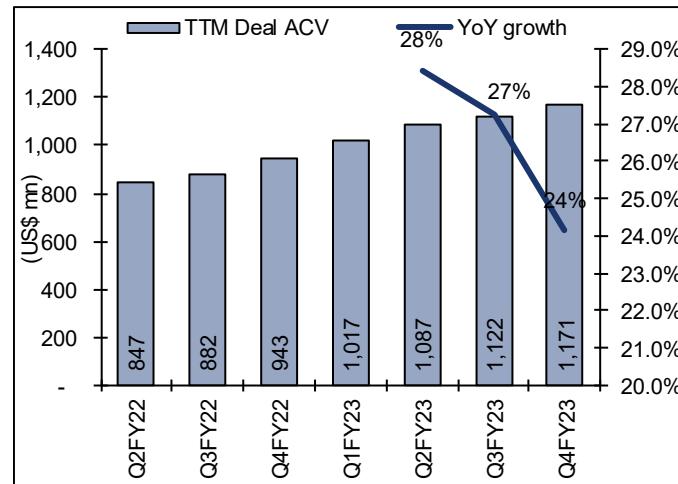
Source: Company, I-Sec research

Chart 9: TCV/ACV ratio increasing is implying Persistent is winning larger sized cost optimisation deals and increasing its share of annuity revenue
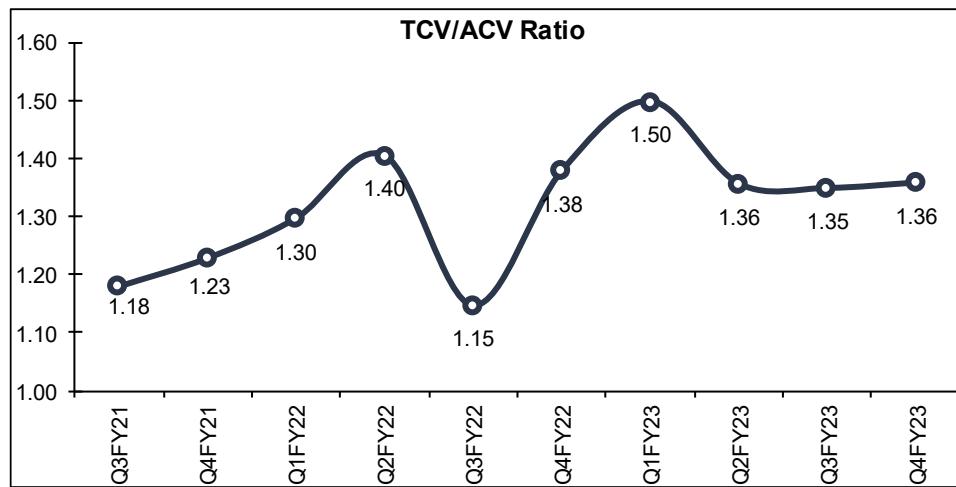
Source: Company, I-Sec research

Table 20: Deal ACV to revenue conversion proceeding at a strong pace

	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24E	2Q24E	3Q24E
Deal ramp up	20%	30%	30%	20%									
Deal ACV (US$ mn)	256	200.7	188.8	201.1	291.3	261.9	263	271.2	326.3	310.4	300	320	340
Quarterly ACV of 3Q21		51	77	77	51								
Quarterly ACV of 4Q21			40	60	60	40							
Quarterly ACV of 1Q22				38	57	57	38						
Quarterly ACV of 2Q22					40	60	60	40					
Quarterly ACV of 3Q22						58	87	87	58				
Quarterly ACV of 4Q22							52	79	79	52			
Quarterly ACV of 1Q23								53	79	79	53		
Quarterly ACV of 2Q23									54	81	81	54	
Quarterly ACV of 3Q23										65	98	98	65
Quarterly ACV of 4Q23											62	93	93
Quarterly ACV of 1Q24												60	90
Quarterly ACV of 2Q24													64
Quarterly ACV of 3Q24													
Calculated revenue					208	215	238	259	270	278	294	305	312
Leakage					4%	-1%	-2%	1%	2%	1%	3%	3%	2%
Actual revenue					199	217	242	256	264	275	285	297	306

Source: Company, I-Sec Research

Growing at a strong pace in BFSI with diversified expertise within the vertical

Persistent has diversified its revenue exposure from technology vertical (from 59% revenue share in Q1FY19 to 32% in Q4FY23 to BFSI and healthcare verticals. Within BFSI, Persistent's exposure is diversified across large global banks (retail and corporate banking), payments, fintech and financial ISVs, insurance, wealth & investments and large NBFCs in India. Its growth has been broad-based led by BFSI vertical which has grown at 9% CQGR in the last 8 quarters. This growth is powered by Persistent's deep domain expertise in high growth segments of payments, Fintech, NBFCs etc.

Chart 10: Revenue share of BFSI has increased to 33% from 26% in last four years
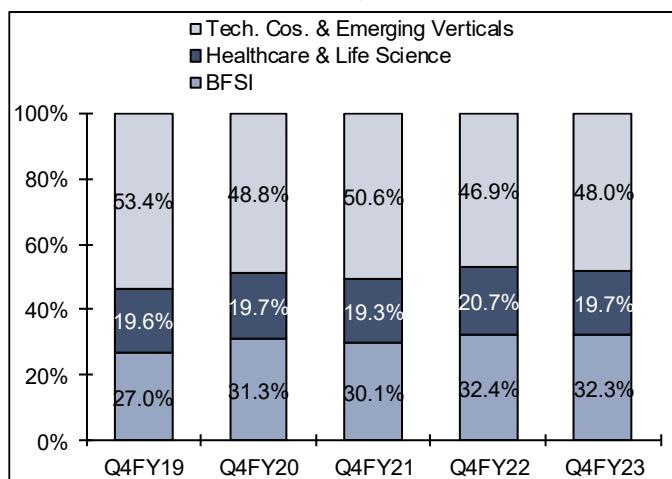
Source: Company, I-Sec research

Chart 11: BFSI vertical has grown ~2.8x in last four years
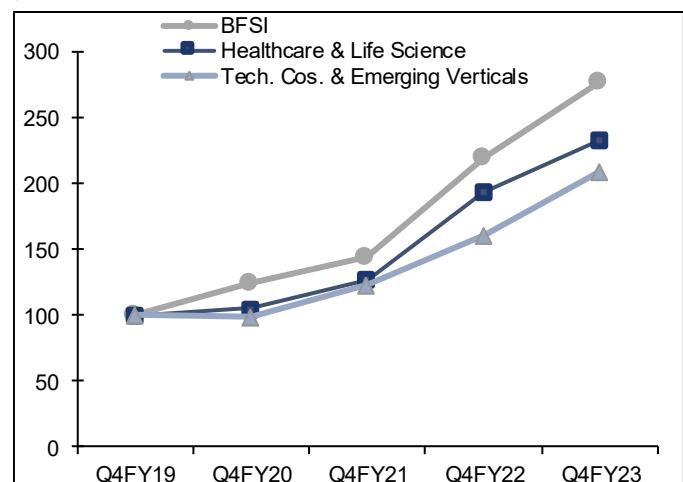
Source: Company, I-Sec research, Note: Each vertical wise revenue is indexed to 100 at Q4FY19

IP business is expected to grow at a stable rate now; impact due to restructuring of IP contract is behind

Persistent's exposure to IP business has declined to ~7-8% of revenue and is expected to stay in this range going forward now that the impact to restructuring of contract with IBM is behind. Persistent's IP business consists of below three components:

- CE-CLM agreement with top customer IBM – Persistent is responsible for product engineering, while IBM is responsible for sales and marketing. Earlier, CE-CLM contract was on revenue-sharing basis based on the subscription of products, but now it is restructured to T&M (time and material)

- Accelerite – this includes products and platforms that have been bought from ISV customers (Intel, Cisco, Citirx, IBM) and enhanced further by Persistent. Products are owned and marketed by Persistent.

- Reseller business includes reselling software products of IBM, Salesforce, AWS, Appian etc.

Solid track record of steady margin expansion is expected to continue

Solid track record of margin improvement over the last 3 years lends confidence that the company can achieve 200-300bps margin expansion over the next 2-3 years, in-line with the management's guidance. We are expecting EBIT margins for Persistent to expand by ~290 bps over FY23-26E from ~15% in FY23 on the back of multiple levers like increased client mining, operating leverage with higher revenue scale, higher utilisation with absorption of freshers and more annuity deals with focus on larger and longer-term deals.

Chart 12: EBIT margin to improve by ~290bps over FY23-26E, in our view

Source: Company, I-Sec research

Chart 13: Offshore utilisation has scope to improve by ~300bps
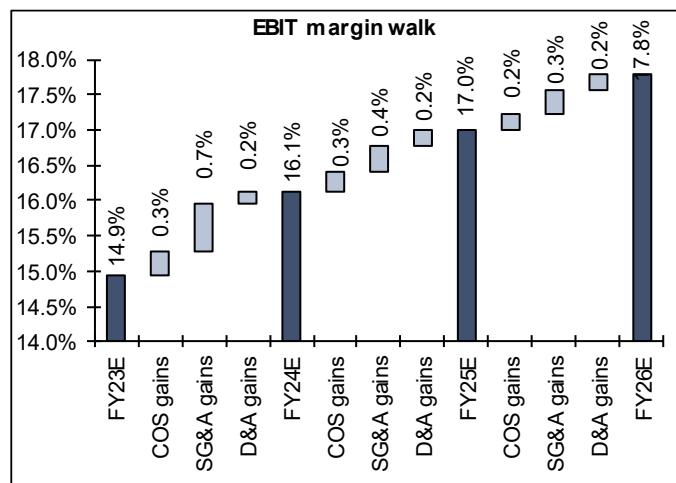
Source: Company, I-Sec research

Chart 14: Offshore effort mix also has scope to improve
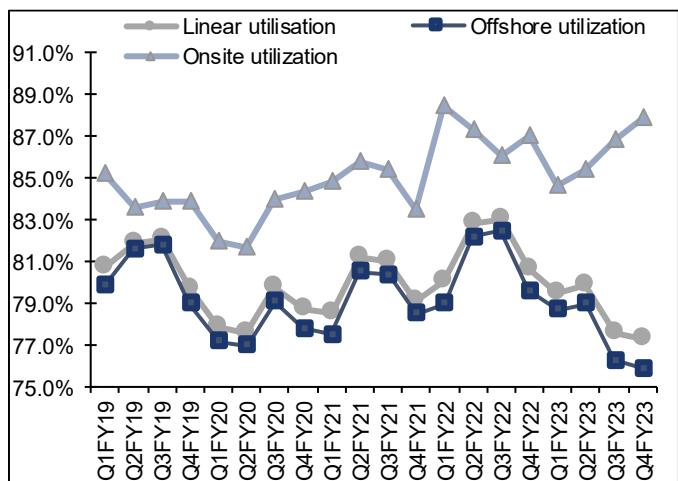
Source: Company, I-Sec research

Chart 15: LTM attrition is cooling down

Source: Company, I-Sec research

Table 21: Gross margin is higher compared to mid-cap peers

Gross margin	FY18	FY19	FY20	FY21	FY22	FY23
TCS	42.1%	41.9%	41.2%	40.8%	40.2%	39.6%
Infosys	36.0%	34.8%	33.1%	34.9%	32.6%	30.3%
HCLT	34.3%	36.6%	37.7%	41.7%	38.4%	36.4%
Wipro	29.2%	29.5%	28.5%	31.7%	29.7%	28.7%
TechM	30.0%	32.8%	29.5%	31.7%	30.6%	28.5%
LTIMindtree	34.1%	35.7%	33.4%	34.4%	31.7%	30.1%
Mphasis	24.9%	27.9%	26.2%	28.2%	26.8%	27.4%
Coforge	35.9%	35.0%	34.6%	32.0%	32.0%	32.5%
Persistent	35.1%	36.5%	34.1%	34.0%	33.6%	33.8%

Source: Company, I-Sec research

Table 22: SG&A as %age of revenue is higher compared to mid-cap peers

(%)	FY18	FY19	FY20	FY21	FY22	FY23
TCS	17.3%	16.3%	16.6%	15.0%	15.0%	15.5%
Infosys	11.7%	12.0%	11.8%	10.4%	9.6%	9.2%
HCLT	11.7%	13.4%	14.1%	14.1%	14.4%	14.1%
Wipro	14.0%	13.7%	11.9%	12.3%	12.5%	13.7%
TechM	14.7%	14.5%	14.0%	13.6%	12.7%	13.4%
LTIMindtree	18.5%	17.8%	16.8%	13.0%	11.6%	11.7%
Mphasis	12.0%	10.7%	10.4%	12.4%	12.2%	11.9%
Coforge	19.1%	17.4%	16.9%	14.0%	13.3%	14.3%
Persistent	19.6%	19.2%	20.3%	17.7%	16.9%	15.6%

Source: Company, I-Sec research

Table 23: Management background

Name	Designation	Data of joining Persistent	No. of years of Experience in Persistent	Based out of	Previous Organisation
Sandeep Kalra	CEO and Executive Director	May-19	4	New Jersey, US	Harman international (5 years), HCLT (15 years), Samsung (2 years)
Sunil Sapre	CFO and Executive Director	Jul-15	8	Pune, India	LTI (14 years), L&T (11 years)
Sales, Vertical, Geography leadership					
Anand Krishnan	Global Head – Presales and Digital Engineering Solutions	Oct-19	3.5	Bangalore, India	Harman International (18 years), Atos (3 years)
Ganesh Nathella	Senior Vice President & General Manager – Global Lead, HLS Business	Oct-22	0.5	Greater Chicago, US	Mindtree (2 years), UST Global (2 years), Wipro (5 years), Cognizant (3 years), PwC (1 years), TCS(4 years)
Jaideep Vijay Dhok	Senior Vice President & General Manager – Banking, Financial Services & Insurance	Oct-10	2	Pune, India	Persistent (12 years), Infosys (8 years)
Rahul Shrivastava	Senior Vice President – Hi-Tech and ISV	Dec-20	2	Bangalore, India	Harman connected Services (7 years), HCLT (12 years), TCS (2 years)
Kuljesh Puri	SVP & GM – IBM Alliance, Communications, Media & Product Business	Sep-21	1.5	Delhi, India	TechM (9 months), Harman International (8.5 years), Aricent (9 years), Hughes Software Systems (5.5 years)
Larry Modder	Vice President of sales, Sourcing Advisory	Feb-22	1	Massachusetts, US	Cognizant (18 years), NTT (2 years), Atos (3 years), Breakaway Solutions (2 years)
Rajasekar Sukumar	Senior Vice President – Europe	Aug-19	4	London, UK	Harman International (8 years), Cognizant (5.5 years)
Service Leadership					
Nitha Puthran	SVP, Cloud, Infrastructure & Security	Nov-19	3.5	New Jersey, US	Harman Connected Services (3 years), Avanade (1 year), Microland (1.5 years), Wipro EcoEnergy (2 years), Wipro (8.5 years), Exodus Communications (5 years)
Nitish Srivastava	Head – Products Business	Jan-21	2	California, US	Harman International (8 years), Matrix 42 (1.5 years), BMC software (6 years), C-DAC (4 years)
Rajesh Abhyankar	Senior Vice President – Google Business Unit	May-22	1	New York City, US	MediaAgility (10 years), Ebusinessware (10 years), TechM (2.5 years)
Rajiv Korpal	Head Microsoft Business unit	May-22	1	New Jersey, US	Data Glove (13.5 years), Microsoft (3.5 years), New York Life Insurance (6.5 years)
Vikas Gupta	Senior Vice President – CX, Data and Intelligent Automation	Dec-20	2.5	New Jersey, US	Musigma (4 years), Infosys (14 years), HCL (6 years)
Steven Laino	SVP, Cloud & Data	Mar-22	1	New Jersey, US	Data glove (18 years), CSFB (2 years), New York Life Insurance (2 years)
Jaspreet Mehta	VP, India & JAPAC (Sales & Delivery)	Mar-22	1	Delhi, India	Data glove (12 years), Wipro (2 years)
George Symons	VP, Strategy for Cloud, Infrastructure & Security	May-21	2	San Francisco, US	Twist Capital (2 years), Strategic Advisory Services International (7 years), Solix Technologies (11.5 years), Sureline Systems (5 years)
Rajat Sharma	AVP Cloud and Infrastructure	Aug-20	2.5	New York, US	MuSigma (2 years), Wipro (2.5 years), TCS (15 years),
Sameer Dixit	SVP, Engineering Data / Analytics, AIML and Integration	May-06	16	Pune, India	Microstrategy (6 years), Tata Technologies (3.5 years)
Functional Leadership (HR, Operations, Delivery, Marketing)					
Keith Landis	Chief Marketing Officer	Sep-19	3.5	New Jersey, US	IBM (16 years), PwC (2.5 years)
Debashis Singh	Chief Information Officer	Oct-22	0.5	Bangalore, India	Mphasis (12 years), Satyam BPO (7 years), SlashSupport India (3.5 years)
Pandurang Kamat	Chief Technology Officer	Aug-14	10.5	India	Ask.com (5 years), WINLAB Rutgers University (4.5 years), Lucent Technologies (2 years),
Praveen Bhadada	Chief of Staff	Oct-22	0.5	NCR, India	Zinnov (14.5 years), Microsoft (1 year), Grail Research (1 year)
Yogesh Patgaonkar	Chief People Officer	Apr-22	1	Pune, India	Global HR lead partners (6 years), LTTS (1 year), Zensar (11 years)
Merlyn Mathew	Head Delivery Excellence and Talent management	Jan-22	1	Pune, India	UBS (2.5 years), HSBC (7 years), Accenture (4.5 years), Cognizant (4.5 years), TCS (8 years)
Rajesh Gharpure	Chief Delivery Officer - Service Lines	Jan-23	3 months	Pune, India	LTI (23 years), L&T (5 years)
Sameer Bendre	Chief of Operations	Dec-04	18	Nagpur, India	Wipro (1 year)
Mukesh Agarwal	Chief Planning Officer	Jul-95	28	Pune, India	NA

Source: Company, I-Sec research

Chart 16: 1-yr forward P/E multiple has moved in tandem with revenue growth
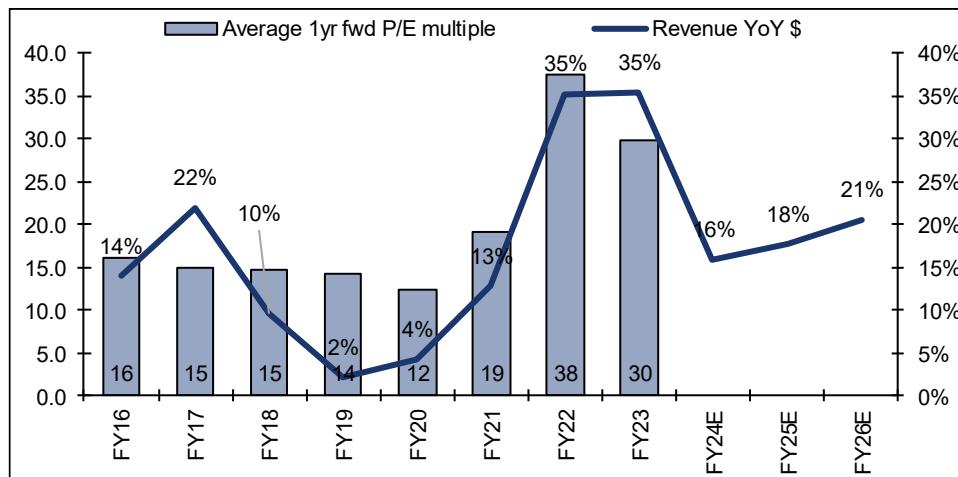
Source: Company, I-Sec research

Chart 17: Persistent is trading at 29x (1-yr fwd P/E), higher than its long-term average PE of 17x
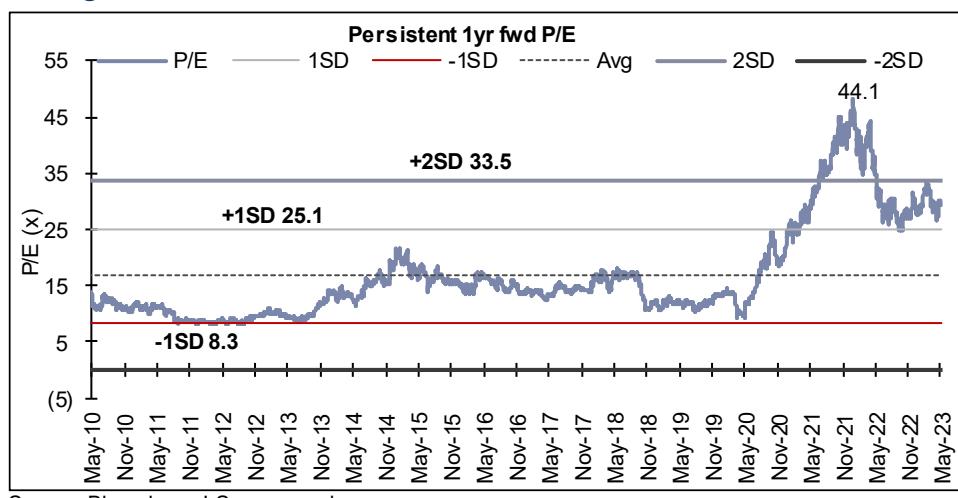
Source: Bloomberg, I-Sec research

Chart 18: Persistent is trading at 41% premium to NIFTY IT vs its historical long-term average discount of 13%
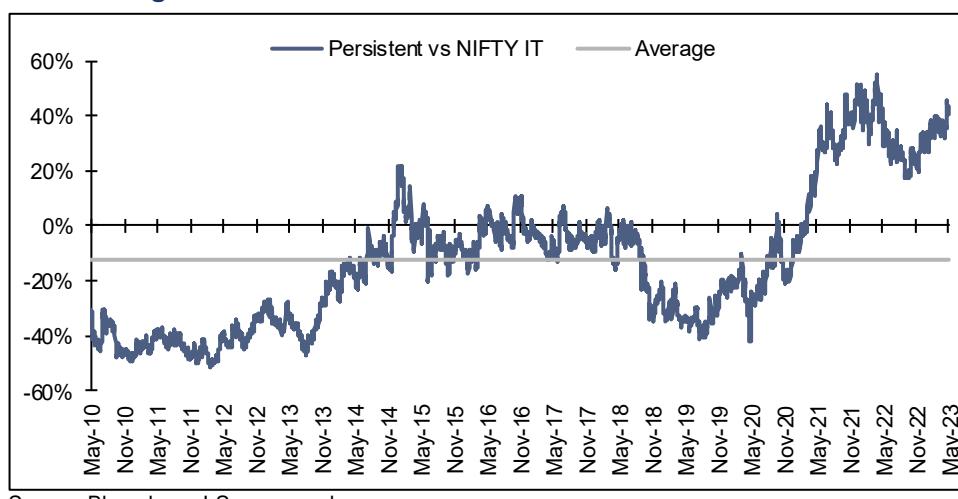
Source: Bloomberg, I-Sec research

Chart 19: Persistent has highest exposure to North America at ~78%
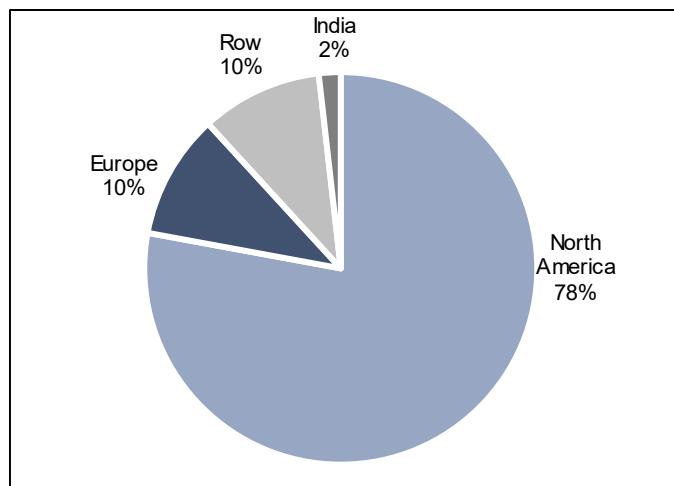
Source: Company data, I-Sec research.

Chart 20: Shareholding pattern
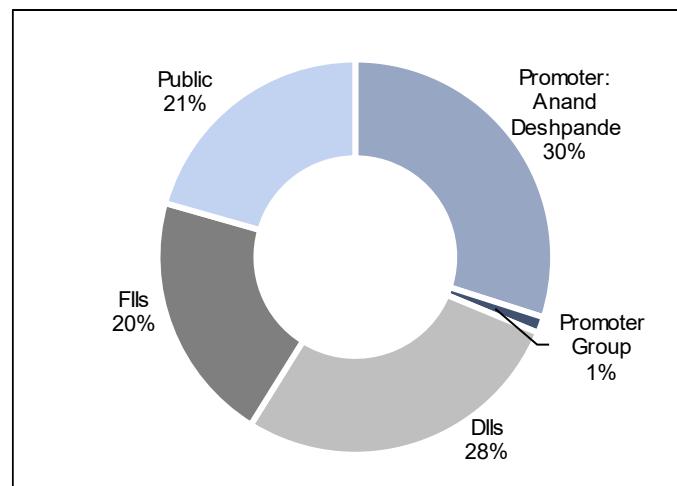
Source: BSE, I-Sec research, As on March 2023

Financial summary – Persistent Systems

Table 24: Profit and loss statement

(Rs mn, year ending March 31)

	FY23	FY24E	FY25E	FY26E
Revenues (US$m)	1,036	1,201	1,413	1,704
Operating Revenues (Sales)	83,506	99,267	1,16,795	1,40,879
Operating Expenses	68,315	80,199	93,598	1,12,095
EBITDA	15,191	19,068	23,197	28,784
% margins	*18.2*	*19.2*	*19.9*	*20.4*
Depreciation & Amortisation	2,719	3,074	3,353	3,730
EBIT	12,472	15,994	19,843	25,054
% margins	*14.9*	*16.1*	*17.0*	*17.8*
Other Income	233	1,002	1,594	2,333
Recurring PBT	12,705	16,996	21,437	27,386
Add: Extraordinaries exps / (Inc)	0	0	0	0
Less: Taxes	3,198	4,334	5,466	6,984
Net Income (Reported)	9,508	12,662	15,971	20,403
Recurring Net Income	9,508	12,662	15,971	20,403

Source: Company data, I-Sec research

Table 25: Balance sheet

(Rs mn, year ending March 31)

	FY23	FY24E	FY25E	FY26E
Assets				
Total Current Assets	35,179	45,257	57,719	74,179
Total Current Liabilities & Provisions	19,581	21,323	22,858	24,677
Net Current Assets	15,598	23,934	34,861	49,503
Non-current Investments	4,516	4,516	4,516	4,516
Net Fixed Assets	23,413	23,613	23,813	24,013
Capital Work-in-Progress	161	161	161	161
Other Non-Current Assets	2,922	2,922	2,922	2,922
Total Assets	46,610	55,147	66,274	81,115
Liabilities				
Borrowings	2,058	2,058	2,058	2,058
Other long term liabilities	4,902	4,902	4,902	4,902
Equity Share Capital	764	764	764	764
Reserves & Surplus	38,887	47,423	58,550	73,391
Net Worth	39,651	48,187	59,314	74,156
Total Liabilities	46,610	55,147	66,274	81,115

Source: Company data, I-Sec research

Table 26: Cashflow statement

(Rs mn, year ending March 31)

	FY23	FY24E	FY25E	FY26E
Operating Cash flow before W Cap changes	11,357	14,734	17,730	21,800
Working Capital Inflow / (Outflow)	(1,799)	(1,073)	(2,964)	(3,510)
Capex	(8,644)	(3,274)	(3,553)	(3,930)
Free Cash flow	914	10,387	11,212	14,361
Cash Flow from other Invst Act (Ex Capex)	4,430	1,002	1,594	2,333
Change in equity	-	-	-	-
Change in debt	(585)	-	-	-
Dividends paid	(2,981)	(4,126)	(4,844)	(5,561)
Others	(473)	-	-	-
Increase/(Decrease) in Cash	1,305	7,263	7,962	11,132

Source: Company data, I-Sec research

Table 27: Key ratios

(Year ending March 31)

	FY23	FY24E	FY25E	FY26E
Per Share Data (Rs)				
Diluted EPS	123.7	165.7	209.0	267.0
Cash EPS	160.3	205.9	252.9	315.8
Dividend per share (DPS)	50.0	46.0	54.0	62.0
Book Value per share (BV)	532.6	630.6	776.2	970.4
Growth Ratios (%)				
Operating Income (Sales) - US$	35.3	15.9	17.7	20.6
Operating Income (Sales)	46.2	18.9	17.7	20.6
EBITDA	58.5	25.5	21.7	24.1
Recurring Net Income	37.7	33.2	26.1	27.8
Reported EPS	37.0	33.9	26.1	27.8
Cash EPS	43.1	28.5	22.8	24.9
Valuation Ratios (x)				
P/E	37.8	28.2	22.4	17.5
P/CEPS	29.2	22.7	18.5	14.8
P/BV	8.8	7.4	6.0	4.8
EV / EBITDA	22.6	18.1	14.6	11.3
EV / Sales	4.1	3.5	2.9	2.3
Operating Ratio				
Other Income / PBT (%)	1.9	5.9	7.4	8.5
Effective Tax Rate (%)	25.8	25.5	25.5	25.5
Receivables (days) on average	65	67	67	68
Return/Profitability Ratio (%)				
Net Income Margins	11.0	12.8	13.7	14.5
RoCE (Based on Avg)	21.4	23.4	24.4	25.3
RoNW (Based on Avg)	25.1	28.8	29.7	30.6
Dividend Payout Ratio	40.4	27.8	25.8	23.2
Dividend Yield	1.1	1.0	1.2	1.3
EBITDA Margins	18.2	19.2	19.9	20.4

Source: Company data, I-Sec research

Happiest Minds Technologies

(BUY; CMP: Rs868; TP: Rs1,038)

Shareholding pattern

	Sep '22	Dec '22	Mar '23
Promoters	53.3	53.3	53..2
Institutional investors	5.4	5.4	5.4
MFs and others	1.1	0.9	0.8
FIs/Bank	0.0	0.0	0.0
Insurance Cos.	0.4	0.4	0.5
FIIs	3.9	4.1	4.1
Others	41.2	41.3	41.4

ESG disclosure score

Year	2021	2022	Chg
ESG score	34.5	44.3	9.8
Environment	15.9	33.9	18.0
Social	24.6	35.3	10.8
Governance	63.0	63.6	0.6

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.
Source: Bloomberg, I-Sec research

Price chart
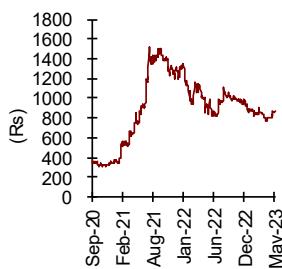
Poised for industry-leading growth over the next decade, re-initiate coverage with BUY

Investment thesis

We re-initiate coverage on Happiest Minds (HM) with BUY rating and 12-month target price of Rs1,038, implying 20% potential upside. Our positive view on Happiest Minds is predicated on the following three factors:

- HM is having ~100% of its revenue derived from digital solutions/ technologies that are core and critical to either generate revenue or drive operations for its clients. Since the clients are largely non-discretionary in nature, HM is in a sweet spot compared to its competitors like EPAM, Endava, Globant etc. in current weak macro environment where discretionary tech budgets are under pressure. HM's unchanged guidance of 25% revenue growth in FY24E and strong headcount addition target of 1,300 (on a base of 5K employees), further bolsters our view that HM's core offerings like digital infrastructure/ cloud, SaaS, security solutions, analytics/ AI and IoT are mission critical for its client base.

- Based on our benchmarking analysis vs HM's closest global peers (deriving majority of its revenue from digital technologies), HM has the most diversified industry vertical exposure (with lowest exposure to currently in trouble BFSI vertical) with some industry leading operating metrics like EBITDA margins, RoE and DSOs, implying strong pricing power against its customers on the back of delivery of high-end digital solutions. This, along with successful 'Land and Expand' strategy, reflected in consistent client wins and increase in revenue per client, enabling us to forecast 24% US$ revenue CAGR over FY23-26E and US$1bn revenue by FY33E (two years behind the management's stated target to achieve it by FY31E) as we do not factor any inorganic contribution in our forecasts.

- Strong management execution with succession planning in place along with high corporate governance, provide visibility into successful long-term planning of revenue and EBITDA margin (22-24%) targets. Despite strong revenue growth ahead, we aren't assuming any margin expansion for HM as we believe it will have to continuously invest in SG&A and build digital capabilities as it gains further scale.

Market Cap	Rs127bn/US$1.5bn
Reuters/Bloomberg	HAPPSTMN IN
Shares Outstanding (mn)	146.9
52-week Range (Rs)	1115/766
Free Float (%)	46.8
FII (%)	4.1
Daily Volume (US$'000)	2,777
Absolute Return 3m (%)	1.5
Absolute Return 12m (%)	(5.6)
Sensex Return 3m (%)	1.3
Sensex Return 12m (%)	18.5

Year to March	FY23	FY24E	FY25E	FY26E
Revenue (Rs mn)	14,293	17,974	22,708	28,178
Net Income (Rs mn)	2,310	2,853	3,603	4,444
EPS (Rs)	15.9	19.7	24.9	30.7
% Chg YoY	27.7	23.6	26.3	23.3
P/E (x)	54.6	44.2	35.0	28.4
CEPS (Rs)	18.8	23.9	30.2	37.3
EV/E (x)	36.5	29.0	22.6	17.9
Dividend Yield	0.6	0.8	1.0	1.3
RoCE (%)	25.7	24.1	25.9	27.1
RoE (%)	30.7	30.6	31.6	31.8

Catalysts: Key catalyst for stock performance would be large deal win announcements, strong net-headcount addition (providing visibility into future growth), consistent revenue growth outperformance over its Indian and global peers, successful M&A helping HM achieve its US$1bn revenue target by FY31E along with diversification into new geographies, industry verticals and service lines.

Valuations: We value HM on a weighted average of FY26E P/E multiple of 38X (discounted back 1-year by WACC of 12% and weight of 50%) and DCF (WACC of 11.9% and terminal growth rate of 5% with weight of 50%). We have adopted this valuation technique to capture both near and long term growth potential for HM. Our target price of Rs1,038 implies 41x FY25E P/E multiple on an EPS of Rs24.9. This compares to current one–year forward multiple of 42x and last two-year average of 64x for HM. 41x implied P/E multiple on FY23-26E EPS CAGR of 25% implies PEG multiple of 1.4x which is comparable to where our broader Indian IT coverage is currently trading. So, our entire potential upside in the stock is currently driven by earnings growth rather than any multiple re-rating.

Key downside risks: Slower adoption of digital technologies due to adverse macro environment or tight technology budgets, large M&A announcement to gain scale leading to integration challenges, top management changes and high attrition, INR appreciation over US$, high client concentration (where HM derives 13% of revenue from top client and 58% from top 20 clients), vendor consolidation among its top customers leading to wallet share loss for HM, inability to scale-up beyond a point due to lack of broader service offerings and presence across geographies/ industry verticals, stiff competition in new geographies and industry verticals where HM is yet to make its entry.

Company profile: Happiest Minds, a ~100% digital company

HM is a 'born digital' company with capabilities across the digital landscape including: 1) Digital infrastructure/cloud (~47% of revenues), 2) SaaS (~20%), 3) security solutions (~12%), and 4) analytics, AI and IoT (~18%). Its revenue exposure is well diversified across industries with largest exposure in edutech (~22% of revenue) followed by hitech (~20% of revenue).

The company's primary offerings include: 1) Product engineering services, 2) digital business services, and 2) infrastructure management and security services. These business units are supported by four 'centres of excellence' (CoEs), viz. internet of things (IoT), analytics / artificial intelligence (AI), and digital process automation (DPA) and security.

Chart 21: Derives ~40% of revenue from high margin product engineering services

Service line revenue mix

- Product Engineering Services 38.9%
- Infrastructure Management & Security Services 28.2%
- Digital Business Solutions 32.9%
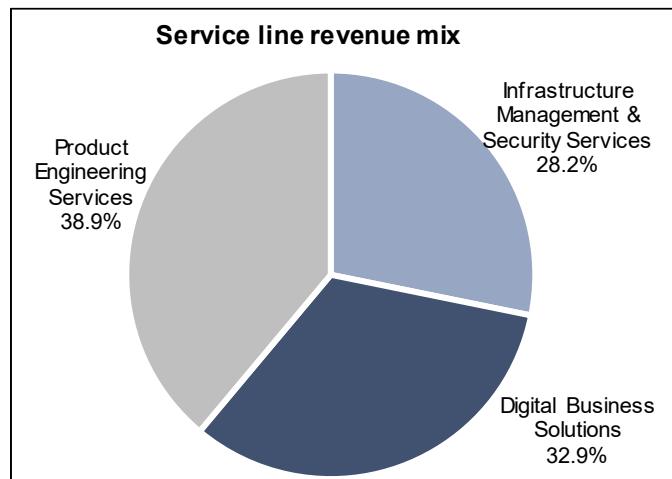
Source: Company data, I-Sec research.

Chart 22: Capabilities across a broad spectrum of digital and new-age services

Digital service offerings

- IoT 5.6%
- Analytics/AI 12.4%
- Security solutions 12.5%
- Digital infrastructure/Cloud 48.7%
- SaaS 20.9%
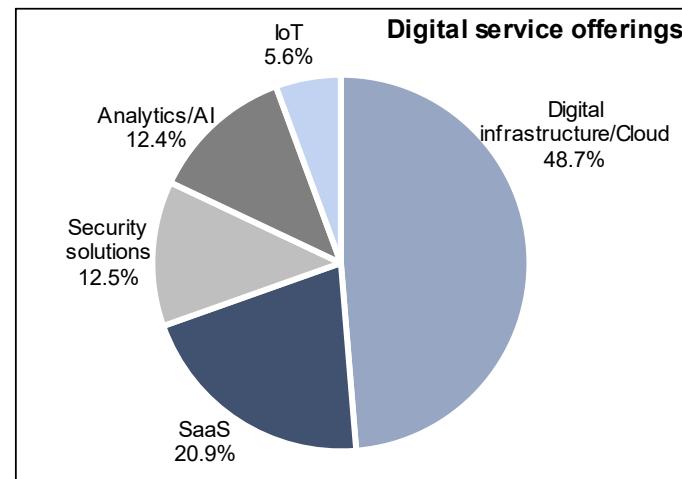
Source: Company data, I-Sec research.

Chart 23: Well-diversified industry exposure

Vertical revenue mix

- Others 7.5%
- Manufacturing 10.7%
- Industrial 8.3%
- Retail 7.7%
- Travel, Media & Entertainment 13.2%
- BFSI 10.8%
- Hitech 19.5%
- Edutech 22.2%
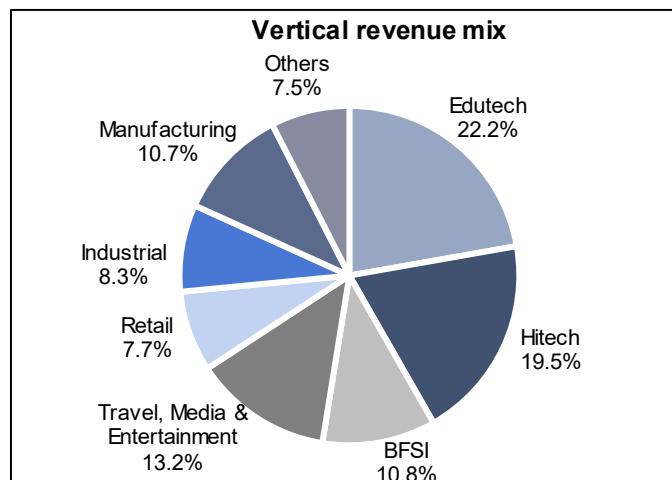
Source: Company data, I-Sec research.

Chart 24: Nearly 70% exposure to US

Geo revenue mix

- Others 5.1%
- UK 9.4%
- India 15.0%
- USA 70.5%
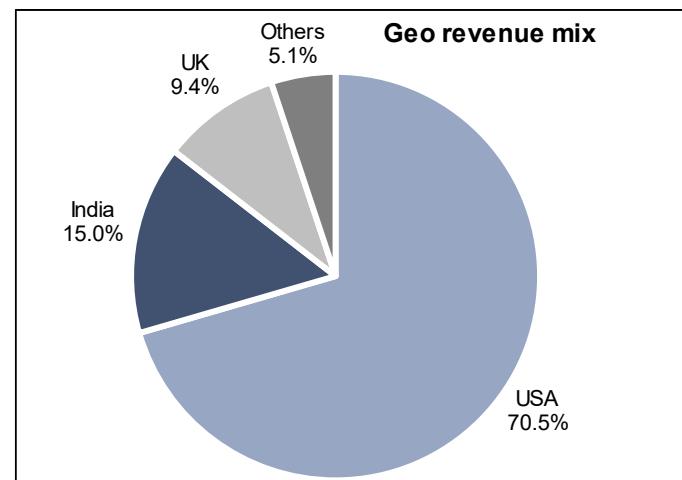
Source: Company data, I-Sec research.

Equity story

Chart 25: Strong organic and inorganic growth to drive stock price returns

Happiestminds Equity story

Text annotations on chart:
- Strong sequential revenue grow th of 9.6% QoQ US$ in Q1FY22
- Strong organic grow th of 8.9% QoQ US$ and overall grow th of 15.4% QoQ US$ including acquisition in Q4FY21
- Pimcore Global Services Acquisition
- Announced vision statement for next 10 years upto 2031 including succession plans and goal to reach US$1bn in revenue by 2031
- Reiterated their guidance to reach US$ 1bn revenue by 2031
- Raises revenue guidance for FY23 to 25% and to target compounded annual grow th of 25% over the next 5 years
- Sri Mookambika Infosolutions (SMI) Acquisition
- Soft sequential revenue grow th in Q3FY23
- Revenue grow th in FY23 at 23.7% YoY CC below guidance of 25% YoY CC. Maintained revenue guidance of 25% YoY CC grow th for FY24

Source: Company data, I-Sec research.

Key service offerings of HM

Product engineering services

HM builds digital products and platforms that are smart, secure and connected through a blend of hardware and embedded software knowledge for its clients. Its offerings extend across the development lifecycle from strategy to final roll-out and has expertise in core technologies (cloud, mobile UI/UX, hardware & embedded, DevOps) and emerging technologies (blockchain, AI, edge computing, drones and computer vision) across edutech, hi-tech, media and entertainment, healthcare & life sciences, industry, and manufacturing sectors.

HM's top client Ascend Learning, a US based leading online educational provider, belongs to this unit accounting for 13% of HM's total revenue. Microsoft is one of HM's partners spanning across all PES sub-BUs and multiple Microsoft platforms including Azure IoT, Azure AI and analytics, Azure Cloud and Dev services, Azure BoT services and Azure Blockchain Workbench.

Chart 26: Service offerings in PES business unit

EduTech	HiTech	Media & Entertainment	Healthcare & Life Sciences	Industrial	Manufacturing
•Digital Learning and Digital Campus •Big Data for Education •AI-enabled Learning •Learning Credentials & Integrity	•Software Products & Platforms •AdTech •Consumer Electronics •Networking & Telecom	•Digital Video Solutions •Quality of Experience •Media Services & Solutions	•Digital Health •Device Engineering •Health Analytics •Digital Enterprise	•Digital Strategy Assessment •Embedded Product Engineering •Edge & Communication Engineering •Customer Experience Engineering	•Digital Strategy Assessment •Product Design Optimizations •Connected Manufacturing Operations •Supply Chain Optimizations •IoT enablement of Products

Source: Company data, I-Sec research.

Chart 27: PES is a high margin business unit due to higher rates commanded by HM
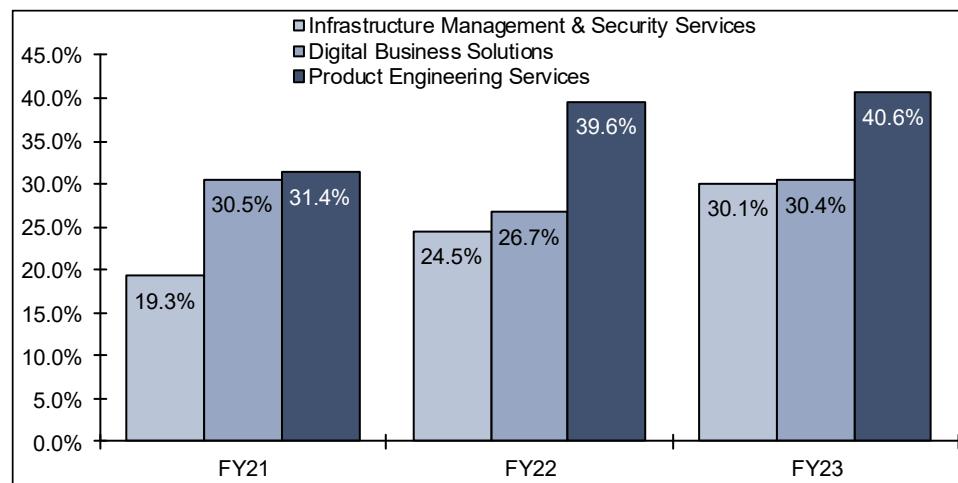
Source: Company data, I-Sec research.

Case study

Delivered smart building solutions for Fortune 100 company

Problem Statement: A Fortune 100 company that invents and manufactures technologies around global macro trends of safety, security, and energy, looked to create next-generation building solutions to provide enhanced experiences to occupants and facility managers.

Solution: Starting off with a proof of concept within a controlled environment, HM captured feedback from over 100 relevant stakeholders and end consumers. Accordingly, a smart buildings platform was developed. Its R&D-driven integrated ecosystem ensured all the varied technology components worked seamlessly across several building areas. It had indoor positioning to capture location-specific data and facilitate real-time actions such as booking conference rooms, adjusting temperature, etc. It used data generated by the building and its occupants intelligently to facilitate predictive maintenance.

Business value delivered: 1) Direct revenue impact of US$15mn and pull-through of over US$100mn in 3 years, 2) improved safety, security and compliance, and increased visibility on building usage, and energy consumption to improve space utilisation and facility planning, 3) data analytics-enabled decision-making that is faster and results in reduced maintenance costs.

Digital business services (DBS)

HM helps companies enable and catalyse their innovation and digital transformation journey to drive growth, performance, and revenue. Its DBS offerings are aimed at i) providing improved customer experience, enhancing productivity, and improving business outcomes through digital application development and modernisation; (ii) improving data quality of the customers' platform; iii) assisting in designing, testing and management of platform and modernisation of digital practices. HM leverages its partnerships with platforms – Azure, AMZN AWS, Salesforce, etc. – to provide consulting, digital and domain-led offerings. A global professional services is the top client in this unit.

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Case study

Automation of order management system for Coca Cola Bottling Company United by HM

Problem statement: The order processing system starting from order placement to order delivery and tracking/updating invoice/s in the account payable system were manual and prone to errors. Hence, it was not scalable to fulfil more orders being a legacy application and with no APIs available for integration.

Solution: HM automated the entire order management system including: 1) automatic generation of PO (purchase order) in SAP system once the order is registered in CRM system; 2) submission of PO in supplier's system; 3) monitoring the email system for invoice and delivery emails, matching them to the correct order and storing the attachments for future reference; and 4) submission of account payable details in SAP system to close the process. HM leveraged Microsoft Power's automated BOT, Azure and AI builder to automate the mentioned steps.

Impact: Automation speeded up the process of on-demand shipment requests (or 'forced shipments') from customers. Avoided the cost of up to 10 FTEs/bottles as Coca Cola scaled up its 'Freestyle' campaign to North America across 100+ global locations.

</div>

Table 28: Key strategic alliances and partnerships

Alliances / Partnerships	Areas of competencies	Partnership level
Microsoft	Achieved **Gold** competencies within Application Development, Azure Cloud, Collaboration, Data Analytics, and DevOps areas	Gold Partner
Amazon Web Services	Cloud transformation and hybrid cloud management services, Data Platform Modernization, Cloud Security Services, AI Inner Circle Partner, AWS IoT	Alliance Partner and APN Advanced Tier Consulting Partner
Pimcore	Strategic partner to Pimcore, company has delivered ~300 projects over 7 years through 150+ consultants	Strategic Global Partner
Salesforce	CRM, sales cloud, service cloud, commerce cloud, marketing cloud, consulting	Silver Consulting Partner
SAP	SAP Customer Experience (formerly SAP Hybris) e-commerce solution	Silver Partner
Servicenow	Implementations, Integrations and Managed Services using shared or dedicated services model covering IT, customer, employee and platform workflows	Premier Partner
Snowflake	Happiest Minds can accelerate the digital transformation of customers who can fully leverage the performance, flexibility, and near-infinite scalability of the Snowflake Data Cloud.	Select Tier Partner
IBM	Computer Hardware & Software, Infrastructure Hosting Services, IT Consulting Services	Advanced Level
NetIQ	Identity and access management, security and data centre management	Platinum Solution Provider, Platinum System Integrator
Oracle	Oracle Netsuite competencies	
Vmware	Data Centre Virtualisation and Cloud Infrastructure, Desktop and Application Virtualisation, Enterprise Mobility Management	Reseller Premier Partner
Siemens Mindsphere	Industry 4.0 IoT	Gold Partner
CyberARK	Privileged Access Management (PAM), Critical Credential Management, DevOps Cycle, Bots, Embedded Credentials, etc.	
Mulesoft	HM and MuleSoft collaborate to make it easier for clients to connect any application, data source, or API – be it in the cloud, on-premises, or hybrid – to resolve their business and integration issues and increase productivity.	
CLOUDFABRIX	Asset Intelligence Analytics (AIA), Ops Intelligence Analytics (OIA)	Global Partner
APPIAN	Intelligent Business Process Management (iBPM), Robotic Process Automation (RPA), Cognitive Automation	

Source: Company data, I-Sec research.

Infrastructure management and security services

HM offers end-to-end, 24x7 monitoring & management and secure ring-fencing of customers' (enterprises and technology companies) infrastructure and applications. It has expertise in automating business and IT operations with DevSecOps model and providing world-class NOC/ SOC (network and security operating centre) services.

Chart 28: Service offerings in IMSS business units

Infrastructure Lifecycle services	Security Services	Robotic process automation as-a-service
• Infrastructure Consulting • Hybrid/Multi-cloud design, build and migration • Digital workplace • Network design, planning deployment, migration, validation	• Governance, Risk & Compliance • Advanced Threat Management • Digital Risk & Data Security • Identity & Access Management • SOC/MDR (Managed Detection and response • Infra & Cloud Security	• Solution design and implementation roadmap • Build and Manage BOT factory set-up

Source: Company data, I-Sec research.

Case study

Problem statement: Migrating VMware to AWS cloud for CAN Capital

Solution: CAN Capital is a financial services firm that provides access to working capital to small and medium-sized businesses in the United States. Happiest Minds helped it migrate from the existing complex data centre to AWS with zero disruption, incorporate Redshift Cluster for data sampling, and update the existing relay servers with SES deployment for SMTP communications.

Benchmarking vs global peers

HM can be compared to global peers – EPAM, Globant, Endava, Thoughtworks, Perficient and Grid Dynamics – who derive majority of their revenues (~80-90%) from digital services and solutions. HM' revenue CAGR over FY20-23 at 22% was lower compared to peers such as EPAM, Globant and Endava, but next year and long term revenue guidance of HM is superior to all global peers despite macro weakness. HM has guided for 25% YoY CC growth for FY24 vs 2.6-3.6% growth guided by EPAM for CY23. It also has superior margins and return ratios vs global peers who are ~10x its size.

Table 29: Comparison of financial performance vs global peers

	Happiest Minds	EPAM	Globant	Endava	Thoughtworks	Perficient	Grid dynamics
Past financial performance							
CY22/FY23 Revenue (US$ mn)	178	4,825	1,780	1,028	1,296	905	311
CY22/FY23 EBITDA margin	25%	19%	18%	23%	20%	23%	19%
CY22/FY23 PAT margin	16%	13%	12%	16%	11%	16%	12%
FY20-FY23 Revenue CAGR	22%	28%	39%	32%	19%	17%	67%
FY20-FY23 EBITDA CAGR	54%	30%	38%	67%	37%	35%	NA
FY20-FY23 PAT CAGR	48%	35%	59%	77%	70%	58%	NA
CY23/FY24 ROE	31%	20%	15%	22%	16%	32%	8%
Expected future performance							
Revenue growth guidance for CY23/FY24	25% YoY CC in FY24	2.6%-3.6% YoY US$ in CY23	16% YoY CC in CY23	19-20% YoY CC in CY23	(-3%) to (-1%) YoY in CY23	4.4%-8.8% YoY US$ in CY23	(-5.1%) to (-2.6%) QoQ in Q2CY23
Date when guidance was issued	8th May 2023	5th May 2023	16th Feb 2023	14th Feb 2023	9th May 2023	2nd May 2023	4th May 2023
FY23-FY26 Revenue CAGR	24%	14%	21%	21%	12%	8%	17%
FY23-FY26 EBITDA CAGR	25%	13%	27%	23%	11%	10%	14%
FY23-FY26 PAT CAGR	24%	15%	22%	21%	19%	10%	14%

Source: Bloomberg,Company, ISEC Research, Note: Guidance for Globant and Endava is as per Feb-2023 earnings call

Table 30: HM has diversified industry exposure with lowest contribution from troubled BFSI vertical (~10% of revenue) vs global peers having more than 20% exposure to BFSI

Vertical Exposure	HappiestMinds	EPAM	Globant	Endava	Thoughtworks	Perficient	Grid dynamics
Edu Tech	23%						
HiTech	16%	16%	14%	22%	28%	7%	34%
BFSI	10%	21%	20%	53%	17%	21%	8%
Travel	13%	23%	8%		12%	8%	
Media and Entertainment		17%	21%			9%	
Retail/CPG	10%		14%		18%	7%	32%
Industrial	9%				24%		
Manufacturing	10%					10%	18%
Life Sciences & Healthcare		11%	7%			21%	
Others	8%	12%	15%	25%		17%	9%
Geography exposure							
Americas	68%	60%	85%	39%	25%		
Europe	9%	36%	11%	56%	14%		
RoW	23%	4.1%	2.8%	5%	61%		

Source: Company data, I-Sec research

Table 31: HM has higher client concentration vs global peers, but client concentration has been reducing since past three years

Client concentration	HappiestMinds	EPAM	Globant	Endava	Thoughtworks	Perficient	Grid dynamics
Top client	13%			11%			
Top 5 clients	30%	17%		25%		15%	43%
Top 10 clients	43%	24%		34%	31%	25%	60%
Top 20 clients	58%	36%			64%		

Source: Company data, I-Sec research

Chart 29: Reducing client concentration for HM
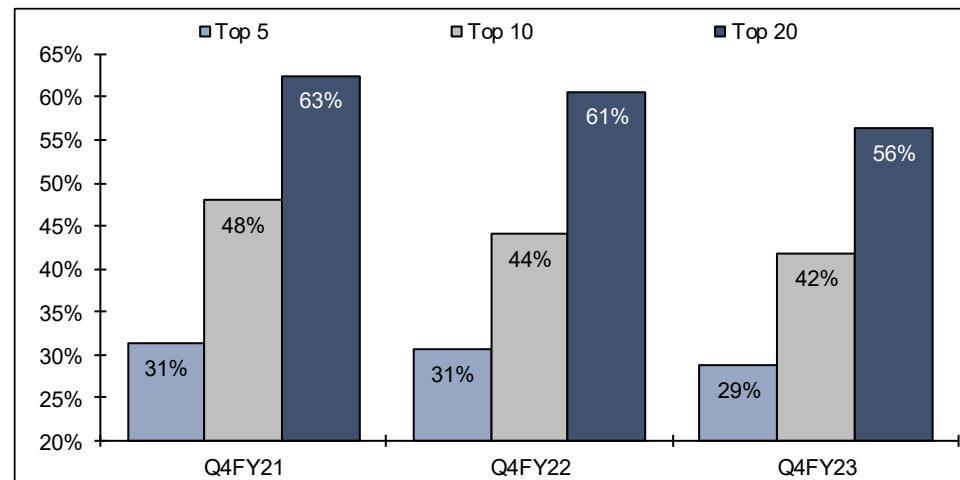
Source: Company data, I-Sec research.

HM has lowest DSOs (billed) among global peers as well as IT services companies implying it is able to command favourable pricing terms from its clients owing to high-end digital solutions it provides. It has a very high offshore effort mix of ~95% which likely explains superior margins vs global peers as well as Indian IT mid-tier peers. It also has higher share of fixed price contracts at 26.5% of revenue vs 12%/19% for EPAM/Globant which also provides scope for improving margins.

Table 32: Operating metrics

Operating metrics	HappiestMinds	EPAM	Globant	Endava	Thoughtworks	Perficient	Grid dynamics
Client metrics							
Active clients with greater than $1mn+ revenue	40	488	259	156			48
Revenue per client (US$ K)	803		1,425	883			
Employee metrics and other operating metrics							
Employees	4,611	59,300	27,122	12,183	12,500	7,288	3,798
Employee mix							
Onsite	5%	20%	11%	8%	24%	44%	
Offshore / near shore	95%	80%	89%	92%	76%	56%	
Onsite locations	USA and Europe	US and Western Europe	US and Europe	US and Western Europe	US and Europe		
Offshore / near shore locations	India	Eastern Europe including Ukraine, Belarus, Poland, India, RoW	LATAM and India	Central Europe, APAC and LATAM	LATAM and APAC		
Revenue per employee (US$ K)	39	81	66	84	104	124	82
Utilisation	80.1%	73.6%					
Attrition	20.9%	13.8%	16.7%		12.0%		
Days sales outstanding (billed)	54	69	73		57	72	67
Type of contracts							
Time & Material	73.6%	87.1%	80.9%				
Fixed Pricing	26.4%	12.1%	19.1%				
Licensing and Other		0.8%					

Source: Company data, I-Sec research.

'Land and Expand' strategy

HM has successfully grown its wallet share within its clients through 'Land and Expand' strategy. Its average annual revenue per client has grown from US$615k in FY20 to US$803k in FY23. Its clients have increased across client buckets - with 5 clients added in US$1-3mn and 5 in US$5-10mn revenue categories in FY23. HM has classified clients with revenue size of more than US$1bn as strategic and each account has 1) a dedicated account manager, typically led by the management team comprising heads (CEO/COOs) of business units or senior-level resources, who focus on connecting with the decision-makers in the enterprise; and 2) an account development team, which researches the client to identify challenges and designs solutions for the same.

We believe there is further potential to scale up these accounts from current levels as the company's average annual revenue per client from clients providing annual revenue run-rate of US$1mn+ stands at US$4.4mn vs US$6-9mn for EPAM, Globant and Endava. HM currently derives 91% of its revenue from repeat business, again, indicating strong client-mining ability.

Chart 30: Revenue per client has increased by 1.3x in last three years

■ Average annual revenue per active client (US$ 000')

FY	Value
FY18	471
FY19	502
FY20	615
FY21	634
FY22	774
FY23	803

Source: Company data, I-Sec research.

Chart 31: Revenue per client is less than global peers and has scope to improve

■ Revenue per client (above US$1mn+ clients) (US$ 000')

Company	Value
EPAM	9,887
Globant	6,873
Endava	6,588
Grid Dynamics	6,469
Happiestminds	4,444
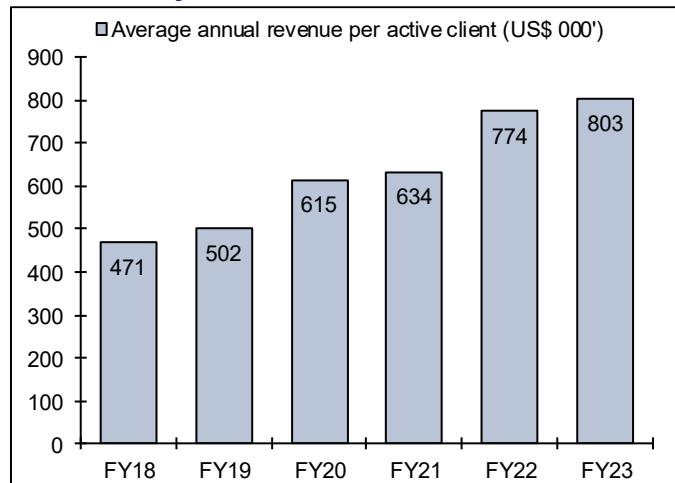
Source: Company data, I-Sec research.

Chart 32: Top client is growing strongly; at the same time top client concentration is reducing

■ Top client concentration (LHS)
— Top client revenue growth YoY US$ (RHS)

Quarter	Top client concentration	Revenue growth YoY
Q2FY21	14.8%	
Q3FY21	14.8%	
Q4FY21	13.8%	
Q1FY22	13.1%	31.2%
Q2FY22	13.4%	28.7%
Q3FY22	13.2%	20.4%
Q4FY22	12.6%	25.4%
Q1FY23	12.9%	21.1%
Q2FY23	13.1%	
Q3FY23	12.8%	18.8%
Q4FY23	13.0%	

Source: Company data, I-Sec research.

Chart 33: Revenue per top 20 clients has grown 1.4x in last couple of years

■ Revenue per top 20 clients (US$ 000')

Quarter	Value
Q2FY21	824
Q3FY21	874
Q4FY21	945
Q1FY22	1,000
Q2FY22	1,101
Q3FY22	1,130
Q4FY22	1,208
Q1FY23	1,229
Q2FY23	1,297
Q3FY23	1,311
Q4FY23	1,293

Source: Company data, I-Sec research.

Chart 34: Added 31 clients in FY23

■ Active clients

Quarter	Value
Q1FY21	148
Q2FY21	152
Q3FY21	155
Q4FY21	173
Q1FY22	180
Q2FY22	186
Q3FY22	195
Q4FY22	206
Q1FY23	211
Q2FY23	226
Q3FY23	230
Q4FY23	237

Source: Company data, I-Sec research.

Chart 35: Added 5 clients each in US$1-3mn and US$5-10mn client buckets

■ More than US$ 10 mn ■ US$ 5-10 mn ■ US$ 3-5 mn ■ US$ 1-3 mn

Quarter	More than US$ 10 mn	US$ 5-10 mn	US$ 3-5 mn	US$ 1-3 mn
Q1FY21	1	1	4	11
Q2FY21	1	1	6	10
Q3FY21	1	2	5	12
Q4FY21	1	3	6	16
Q1FY22	1	3	6	21
Q2FY22	1	3	6	21
Q3FY22	1	4	4	23
Q4FY22	1	8	4	25
Q1FY23	2	4	7	25
Q2FY23	2	4	7	27
Q3FY23	2	4	7	27
Q4FY23	1	6	6	30
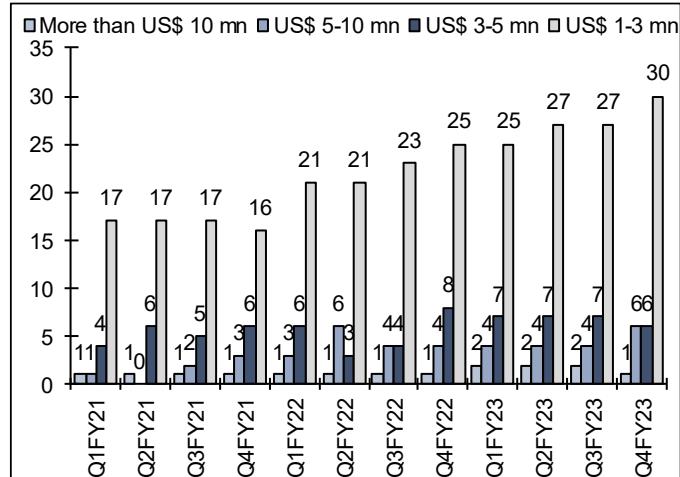
Source: Company data, I-Sec research.

Table 33: Key clients of Happiest Minds

Vertical	Clients
Edutech	Ascend Learning, Pearson, John Wiley
BFSI	CAN Capital
Retail & CPG	Coca Cola Bottling Company, NeilsenIQ, Watchbox
HiTech	DYWIDAG, Cutover
Life Sciences & Healthcare	Royal National Hospital For Rheumatic Diseases, Healthgrades
Others	TMF Group, Grant Thornton International, ESPN, Ryder

Source: Company data, I-Sec research.

Acquisition strategy

We expect M&A to be a key part of HM's strategy to achieve its goal of reaching US$1bn in revenues by 2031. The company has cash and short-term investments of Rs6.9bn on its balance sheet as of FY23-end that may be utilised for M&A.

HM has done four acquisitions till now. Of these, OSSCube, Cupola Technologies (done in 2017) were relatively small in size and were done for strengthening specific capabilities, while PGS acquisition (strengthened Pimcore capabilities), done in 2021, was of ~10% revenue size of HM. HM has been Gold Partner of Pimcore for several years, and through this acquisition, HM now becomes the largest offshore implementation partner for Pimcore. HM has delivered ~300 projects over 7 years through 150+ consultants in Pimcore. It recently acquired Sri Mookambika Infosolutions (SMI) in Jan 2023; SMI's revenue is ~5% of HM revenue, for strengthening offshore talent capabilities in new age digital solutions.

For future, HM's acquisition targets include: 1) Companies with pure-play digital capabilities and ~US$30mn-50mn in revenue size, 2) expansion in markets like USA, Europe, Middle East and ANZ, 3) filling gaps in new-age technologies – cloud operations, low code / no code, IoT, cyber security, robotics, AR/VR, drone, etc, 4) deepening vertical capabilities.

Table 34: Acquisitions by HM

Date	Target	Price paid (Rs mn)	Revenue size	Capabilities
2017	OSS Cube	194	NA	OSS Cube provides consulting-led digital transformation and modernisation services in areas of cloud, big data, e-commerce, enterprise mobility and open source. It is an exclusive partner for the open-source platform Pimcore in North America and has operations in US, Europe and Asia. This acquisition helped expand HM's capabilities in DBS unit around Pimcore alliance.
2017	Cupola	70	NA	Cupola provides IoT solutions and services for industrial, telecom, smart homes, wearables, logistics and smart cities. This acquisition strengthened HM's capabilities in IoT CoE led by Cupola's partnerships with ISVs and enabled large-scale IoT deployments for Fortune-500 customers.
2021	PGS	600 (US$8.25mn US)	US$10.6mn as on CY20 (10% of HM's FY21 revenues) with 25+% EBITDA margin as of CY20	PGS (Pimcore Global Services) is a strategic partner for Pimcore Austria. In the past, HM was rendering offshore services to PGS, and **HM counted PGS amongst its list of US$2mn+ customers**. HM has been Gold Partner of Pimcore for several years, and through this acquisition, HM now becomes the largest offshore implementation partner for Pimcore Austria and is rebadging employees (~90) from PGS and another implementation partner for PGS. PGS is expected to deliver 5-6% incremental revenue as it was already a client of HM in US$2mn+ account category.
Jan-23	Sri Mookambika Infosolutions (SMI)	Rs. 1110 mn (~13.45 US$ mn)	US$9 mn (5.1% of HAPPSTMNTDS's FY23 revenue)	SMI is a Madurai headquartered, profitable, IT services company with 400+ offshore-based employees. SMI provides product engineering services to its US customers around enterprise applications & integrations, digital data platform services (analytics, data strategy, AI / ML, user experience), mobility services and DevSecOps. The company has over the years built deep domain expertise around healthcare vertical.

Source: Company data, I-Sec research.

Key management profile

Happiest Minds has a unique Executive Board structure consisting of: 1) Mr. Venkatraman, managing director and CFO; and 2) CEOs of three business units including Mr. Joseph Anantharaju (executive vice-chairman and CEO of PES), Mr. Rajiv Shah (CEO of DBS) and Mr. Ram Mohan C (CEO of IMSS). Each of the three CEOs run the P&L of their BU independently and each of them takes turns to be the Chairman of the Executive Board. Executive Board is renewed every 5-7 years with one new addition.

Mr. Joseph Anantharaju, executive vice-chairman and CEO of PES (holds ~0.8% stake in the company), will steer the company in case of an exigency, according to the company. CFO and CEOs of three business units will continue to handle their existing responsibilities and functionalities.

Current management has the potential to scale-up business, given that each of the three service line CEOs have 1) spent ~1-2 decades in IT services industry; and 2) held leadership roles at larger peers. HM has appointed several industry heads in the past couple of years and is building in-depth expertise in focus industry verticals such as hitech, BFSI, retail and manufacturing.

Table 35: Executive Board

Name	Designation	No. of years of experience in Happiestminds	Description
Mr. Ashok Soota	Executive Chairman and Director	Founded Happiest Minds in March 2011	Prior to starting HM, he was the founding chairman and managing director of Mindtree. He was the vice chairman of Wipro and vice president of Shriram Refrigeration Industries prior to co-founding Mindtree.
Mr. Venkatraman Narayanan	Managing Director and Chief Financial Officer	8.5 years (Joined in April 2015)	Prior to joining HM, he was associated with Sonata Software, TeamLease Services, SAP India, Oracle India, Arthur Anderson and Associates, Perot Systems TSI (India), Transwork Information Services and Mindtree Consulting.
Mr. Rajiv Shah	President and CEO – Digital Business Services	4 years (Joined in June 2019)	Prior to joining HM, he was associated with Mu Sigma as the executive vice president, and IBS Software Services as whole-time director and chief executive officer. He is a member of R. Shah Advisory LLC.
Mr. Joseph Anantharaju	Executive Director and CEO – Product Engineering Services	Co-founder (since inception)	Prior to joining HM, he was associated with Mindtree in its Microsoft strategic business unit. He has spent the early part of his career in banking and manufacturing, which has allowed him to develop a broader perspective.
Mr. Chaluvaiya Ram Mohan	President and CEO – IMSS	5.5 years (Joined in Dec 2017)	Prior to HM, he was EVP and global head of IMS, enterprise integration, mainframe services business at Mindtree, and before that he was EVP (operations) of e4e.

Source: Company data, I-Sec research.

Table 36: Key senior management personnel of HM

Name	Designation	Experience	Experience
Vertical Heads			
Viswanath Subramaniam	Senior Director & Head of Education Vertical	>8 years in HM and >24 years of total work experience	Product professional with experience in a variety of roles across product engineering, product management, services, and sales
Srikant Sowmyanarayana	Head - HiTech Vertical for Product Engineering Solutions	>11 years in HM and >23 years of total work experience	Lead the hi-tech vertical under product engineering services group spanning software and embedded product engineering services
Sundar Ramaswamy	Head – Retail/CPG Vertical and Digital Process Automation Center of Excellence	3 years in HM and >22 years of total industry experience	He has a vast experience across consulting and leading analytics delivery. In his last role, he was the India lead at Antuit, a CPG & Retail Analytics company, and built a 150 member analytics delivery team in the areas of supply chain analytics and marketing analytics
Poornima Bethmangalkar	Head – Industrial, Manufacturing & Automotive	9 months in HM and >22 years of total industry experience	Prior to joining HM, Ms. Poornima headed the pre-sales and strategy functions of automotive vertical in Wipro
Key people in Service lines and COEs			
Mr. Aurobinda Nanda	President – Operations & Deputy Chief Executive Officer, PES	Co-founder(Since Inception)	Prior to joining HM, he was associated with Mindtree as vice president in product engineering practice. He was also associated with Aztecsoft as AVP
Mr. Ganapathi T.B.	Executive Vice President & Chief Operating Officer, IMSS	11 years (Joined in September 2011)	Prior to joining HM, he was with Wipro for around 10 years in various roles with Solutions Delivery and Operations Head being his last role
Mrs. Preeti Menon	Senior Vice President & Global Delivery Head for the Product Engineering Services (PES)	11 years (Joined in September 2011)	Prior to joining HM, she was the technical director at AOL India wherein she handled its rich media products. She was a part of Symphony Services prior to AOL
Mrs. Priya Kanduri	Senior Vice President & CTO, IMSS	11 years (Joined in November 2011)	Prior to joining HM, she worked with the enterprise security services division of Wipro technologies for over 12 years
Mr. Raja Sekher	Executive Vice President & Head – Engineering & Business Excellence		Prior to joining HM, he was a core member of the quality team at Infosys. He has over 18 years of experience in Quality Management, Project Management, Software Engineering processes, Change Management, Metrics and Analytics and Value Engineering
Mr. Ramu M.R	Vice President & Head of Digital Process Automation CoE	11 years (Joined in February 2012)	Prior to joining HM, he led the onshore and offshore delivery management of significant programs for Fortune 500 companies in North America and Europe at Mindtree
Mr. Sundar Ramaswamy	Executive Vice President & Head of CoE - AI/Analytics	2 years (Joined in August 2020)	Prior to joining HM, he was the EVP at Antuit India. He has also worked at Absolutdata Analytics, McKinsey & Company, Accenture and TCS
Mr. Vijay Bharti	Senior Vice President, CISO, Head-Cyber Security Practice	11 years (Joined in March 2012)	Prior to joining HM, he held various positions at Wipro for its Cyber Risk Services Practice
Functional Heads			
Mr. Sachin khurana	Vice President & Chief People Officer	6 years (Joined in June 2017)	Prior to joining HM, he was heading the people function at OSSCube. He has also served in various HR leadership and managerial positions at Lodha Group and Citigroup Global Services
Mr. Sajith S Kumar	Senior Vice President & Chief Information Officer	11 years (Joined in September 2011)	Prior to joining HM, he was associated with Mindtree on multiple roles. He was previously associated with Microsoft Technologies and Wipro
Mr. Sridhar Mantha	Executive Vice President & Chief Technology Officer	11 years (Joined in November 2011)	Prior to joining HM, he was the CTO at Mindtree. He has also held various senior roles at Aztecsoft, Tektronix & Tata Elxsi

Source: Company data, I-Sec research

Chart 36: Shareholding pattern
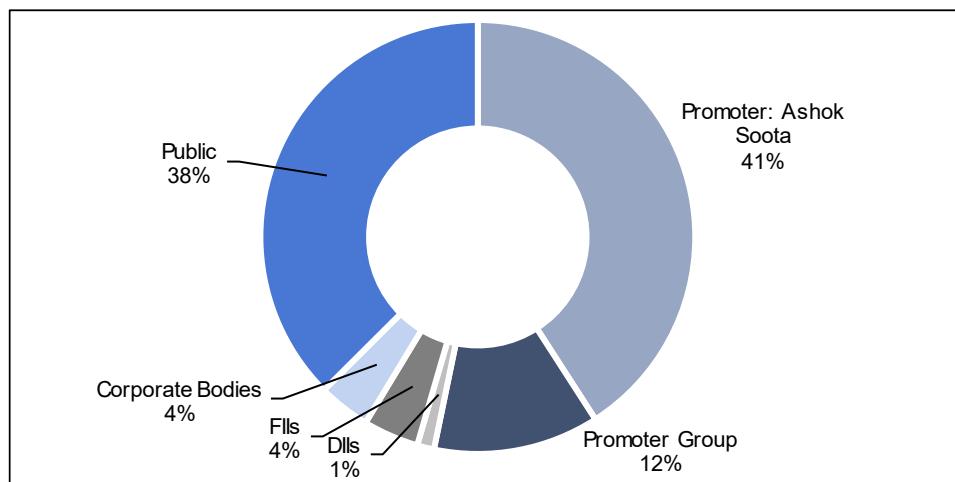
Source: BSE, I-Sec research, As on March 2023

Valuations

We value HM on a weighted average of FY26E P/E multiple of 38X (discounted back 1-year by WACC of 12% and weight of 50%) and DCF (WACC of 11.9% and terminal growth rate of 5% with weight of 50%). We have adopted this valuation technique to capture both near and long term growth potential for HM. Our target price of Rs1,038 implies 41x FY25E P/E multiple on an EPS of Rs24.9. This compares to current one–year forward multiple of 42x and last two-year average of 64x for HM. 41x implied P/E multiple on FY23-26E EPS CAGR of 25% implies PEG multiple of 1.4x which is comparable to where our broader Indian IT coverage is currently trading. So, our entire potential upside in the stock is currently driven by earnings growth rather than any multiple re-rating.

ICICI Securities

Table 37: DCF Assumptions

	FY21	FY22	FY23	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E	FY31E	FY32E	FY33E	FY34E	FY35E	FY36E	FY37E	FY38E	FY39E	FY40E	Terminal Value
Revenue (in USD mn)	105	147	178	217	275	341	409	491	589	707	841	984	1,132	1,302	1,497	1,676	1,878	2,103	2,313	2,544	
YoY (%)		40%	21%	22%	26%	24%	20%	20%	20%	20%	19%	17%	15%	15%	15%	12%	12%	12%	10%	10%	
USD/INR	74	75	80	83	83	83	83	83	83	83	83	83	83	83	83	83	83	83	83	83	
Revenue (in Rs. Mn)	7,734	10,937	14,293	17,974	22,708	28,178	33,814	40,577	48,692	58,431	69,532	81,353	93,556	1,07,589	1,23,728	1,38,575	1,55,204	1,73,829	1,91,211	2,10,332	
YoY (%)		41%	31%	26%	26%	24%	20%	20%	20%	20%	19%	17%	15%	15%	15%	12%	12%	12%	10%	10%	
EBIT (in Rs. Mn)	1,665	2,248	3,142	3,813	4,844	6,012	7,101	8,115	9,738	11,686	13,906	16,271	18,711	21,518	24,746	27,715	31,041	34,766	38,242	42,066	
EBIT margin	22%	21%	22%	21.2%	21.3%	21.3%	21.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	
Tax rate	13%	26%	25%	26.9%	26.9%	26.9%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	
Less: Taxes	236	647	789	1,052	1,329	1,639	1,775	2,029	2,435	2,922	3,477	4,068	4,678	5,379	6,186	6,929	7,760	8,691	9,561	10,517	
EBIT*(1-Tax)	1,429	1,601	2,353	2,761	3,515	4,372	5,326	6,087	7,304	8,765	10,430	12,203	14,033	16,138	18,559	20,786	23,281	26,074	28,682	31,550	
Add: Depreciation & Amortization	227	329	419	615	777	965	1,014	1,217	1,461	1,753	2,086	2,441	2,807	3,228	3,712	4,157	4,656	5,215	5,736	6,310	
as % of revenue	2.9%	3.0%	2.9%	3.4%	3.4%	3.4%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	
Less: Capex	7.8	6.7	1,476.8	616.3	778.4	965.7	845.4	1,014.4	1,217.3	1,168.6	1,390.6	1,627.1	1,590.5	1,829.0	2,103.4	2,078.6	2,328.1	1,738.3	1,912.1	2,103.3	
as % of revenue	0.1%	0.1%	10.3%	3.4%	3.4%	3.4%	2.5%	2.5%	2.5%	2.0%	2.0%	2.0%	1.7%	1.7%	1.7%	1.5%	1.5%	1.0%	1.0%	1.0%	
Less: Changes in working capital	296	550	319	440	556	693	845	1,014	1,217	1,461	1,738	2,034	2,339	2,690	3,093	3,464	3,880	4,346	4,780	5,258	
as % of revenue	4%	5%	2%	2.4%	2.4%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	
FCFF	1,352	1,373	976	2,320	2,958	3,678	4,649	5,275	6,330	7,888	9,387	10,983	12,911	14,847	17,074	19,401	21,729	25,205	27,726	30,498	4,67,003
PV of FCFF					2,645	2,941	3,323	3,370	3,615	4,027	4,284	4,480	4,708	4,840	4,976	5,053	5,060	5,247	5,160	5,073	77,678

Source: Company, I-Sec Research

Table 38: DCF valuation

DCF Valuation Value of firm	1,46,481
Total Debt	1,676
Cash & Cash Eq & Investments	7,075
Value of Equity	1,51,881
Shares outstanding (mn)	145
Target Price (1 year forward)	**1,048**
Implied multiple on FY25 EPS	42
Market return	13%
Estimated Equity Risk Premium	6%
Risk Free Rate	7%
3 year adjusted beta	0.931
Cost of Equity	12.6%
Cost of Debt	**9%**
Total Debt	1,676
Total Equity	12,543
Nominal Tax Rate	25%
Debt Cost of Capital (Tax-Adjusted)	6.4%
Weight of debt	12%
Weight of equity	88%
WACC	**11.9%**
Terminal growth rate	5.0%
Weightage to P/E valuation	50%
Weightage to DCF valuation	50%
P/E multiple based TP	1,027
DCF based TP	1,048
TP	1,038
CMP	868
Potential Upside	20%

Source: Company data, I-Sec research.

Chart 37: HM is currently trading at ~42x (1-year forward P/E), near its historical average-1SD multiple of 44x
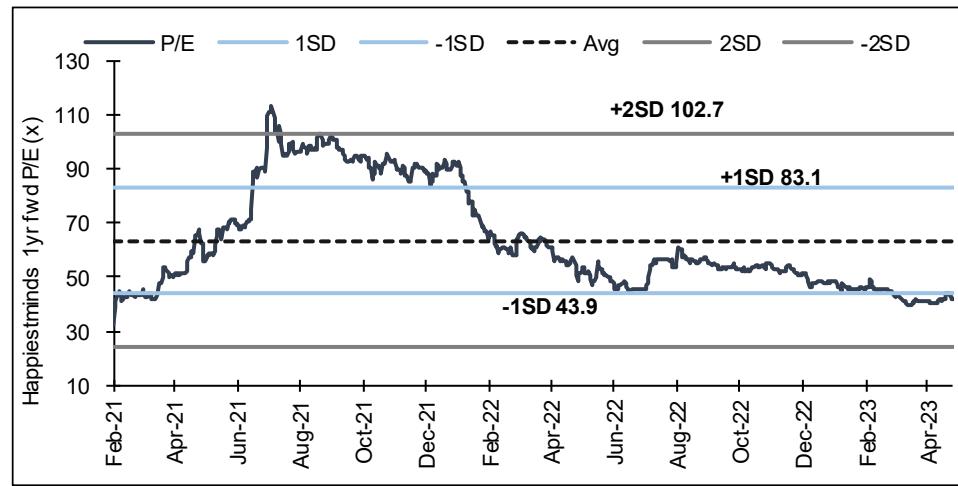
Source: Bloomberg, I-Sec research

Chart 38: HM is currently trading at 101% premium to NIFTY IT, lower than its long term historical average premium of 149%
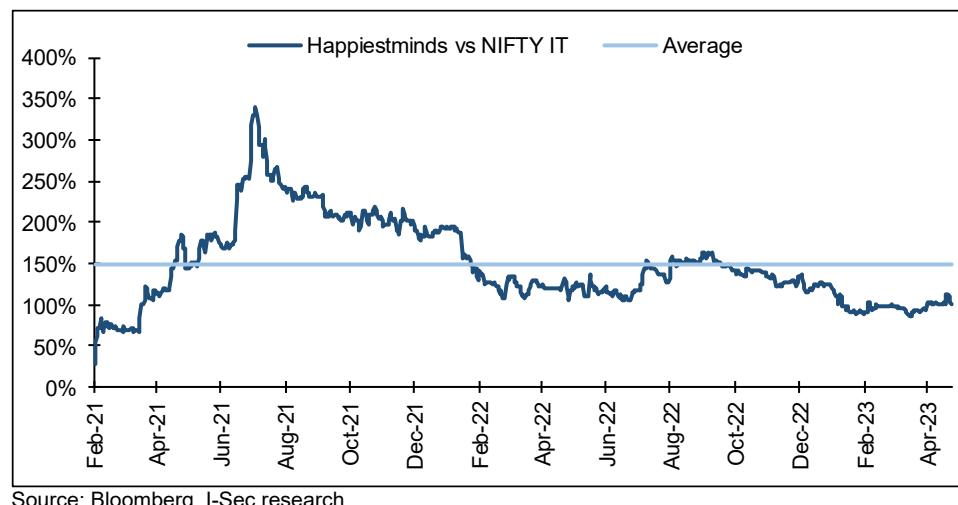
Source: Bloomberg, I-Sec research

Chart 39: P/E multiple to hold up at ~41x if the company delivers 25% revenue CAGR; stock price to be driven by earnings growth, in our view
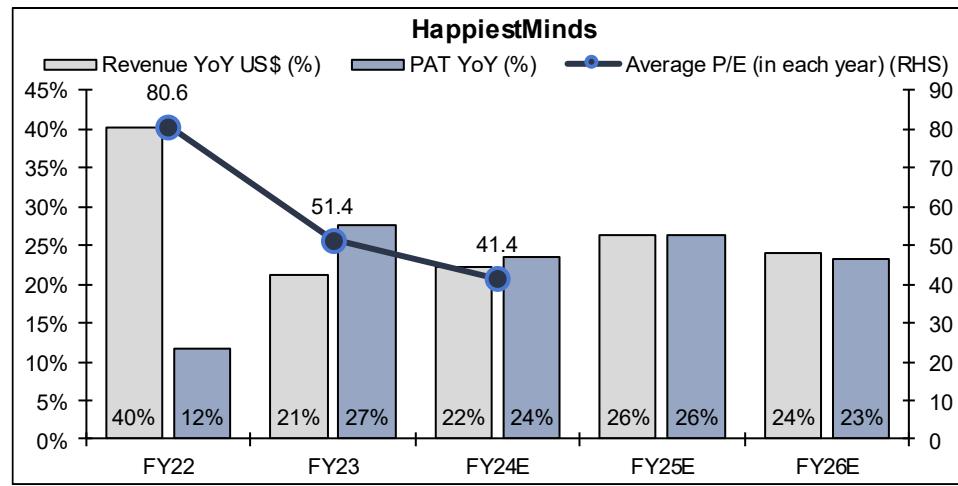
Source: Bloomberg, I-Sec research

Chart 40: EPAM is currently trading at ~20x (1-yr forward P/E), below its historical average multiple of 27x

Source: Company data, I-Sec research.

Chart 41: EPAM's 1-year forward P/E has moved in line with revenue and PAT growth

Source: Company data, I-Sec research.

Chart 42: Globant is currently trading at ~22x (1-yr forward P/E), near its historical avg-1SD of 21.5x

Source: Company data, I-Sec research.
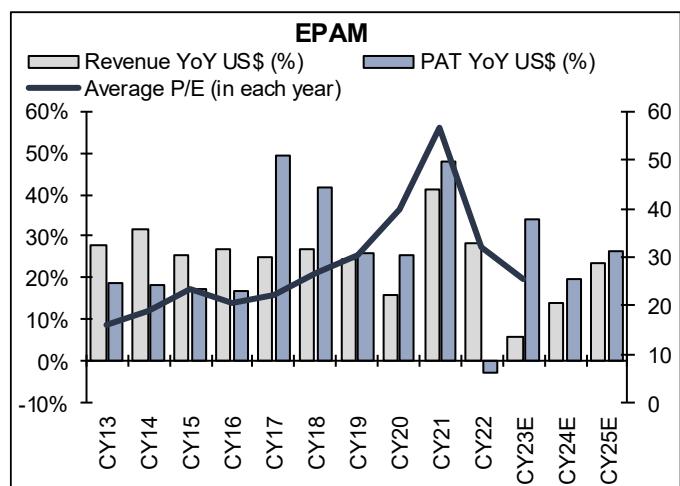
Chart 43: Globant's 1-year forward P/E has moved in line with revenue and PAT growth

Source: Company data, I-Sec research.

Chart 44: Endava is currently trading at ~19x (1-yr forward P/E), near its historical avg-2SD of 16x

Source: Company data, I-Sec research.
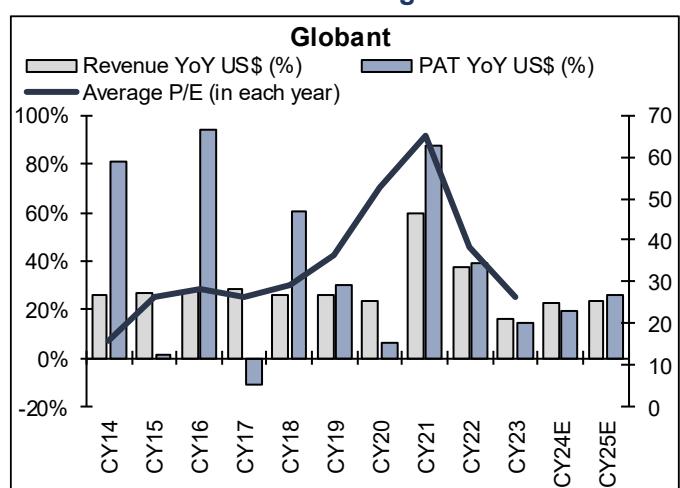
Chart 45: Endava's 1-year forward P/E has moved in line with revenue and PAT growth

Source: Company data, I-Sec research.
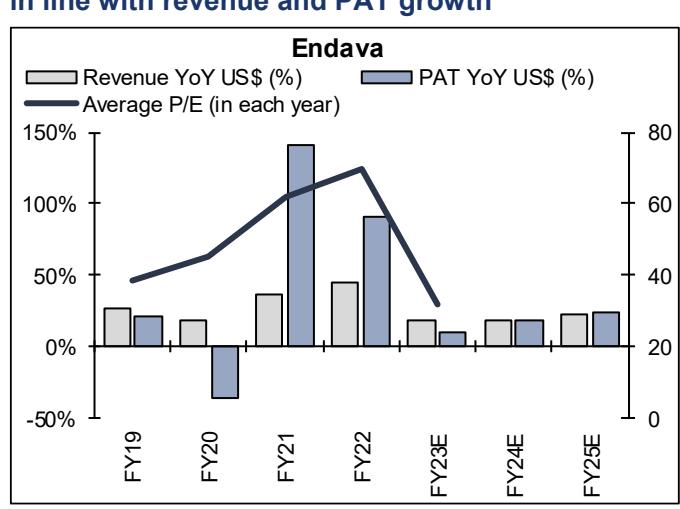
Chart 46: Thoughtworks is currently trading at ~20x (1-yr forward P/E), near its historical average-1SD of 15.6x

Source: Company data, I-Sec research.

Chart 47: Thoughtworks' 1-year forward P/E has moved in line with revenue growth
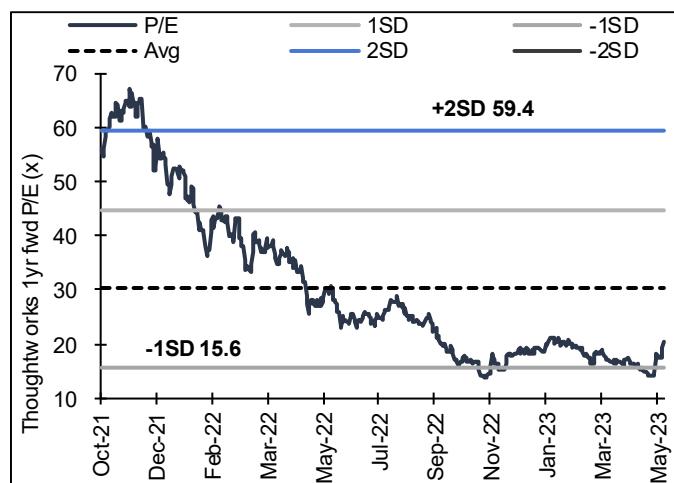
Source: Company data, I-Sec research.

Chart 48: Perficient is currently trading at ~15x (1-year forward P/E), near its historical avg of 17.5x

Source: Company data, I-Sec research.

Chart 49: Perficient's 1-year forward P/E has moved in line with revenue growth
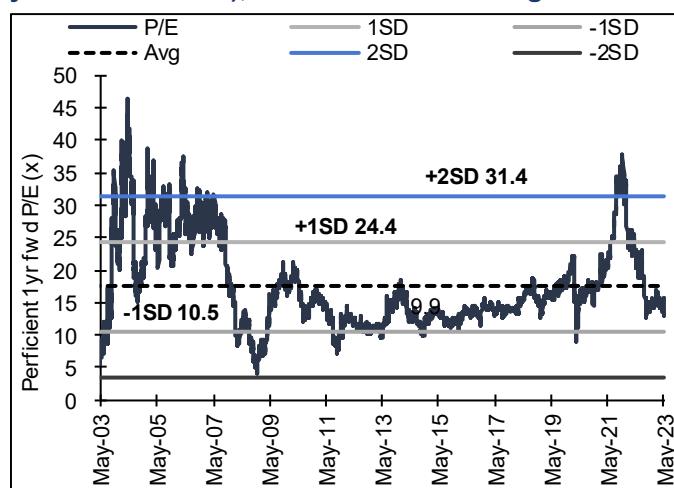
Source: Company data, I-Sec research.

Chart 50: Grid Dynamics is currently trading at ~20x (1-yr forward P/E), below its historical average-1SD of ~30x
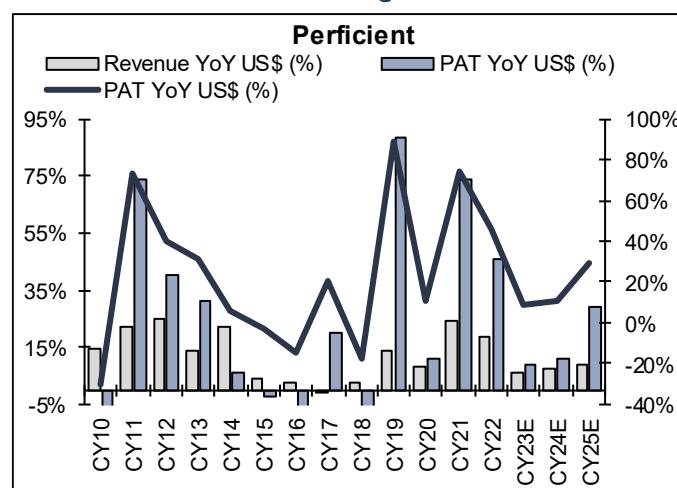
Source: Company data, I-Sec research.

Chart 51: Grid Dynamics' 1-year forward P/E has moved in line with revenue growth
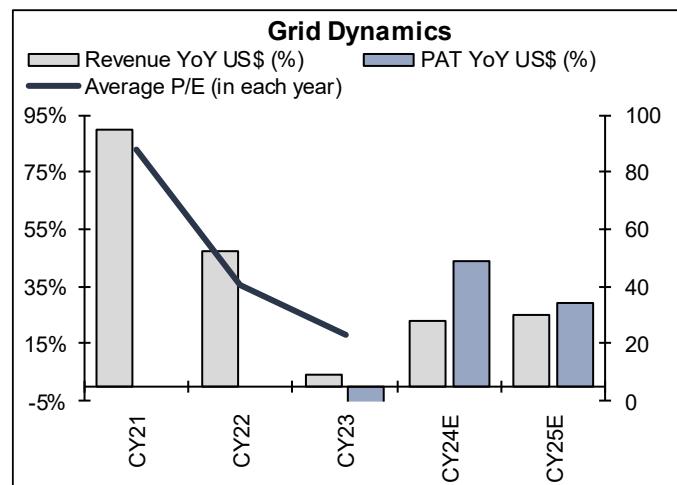
Source: Company data, I-Sec research.

Financial summary – Happiest Minds

Table 39: Profit and loss statement

(Rs mn, year ending March 31)

	FY23	FY24E	FY25E	FY26E
Revenue (US$mn)	**178**	**217**	**275**	**341**
Total Income (Sales)	**14,293**	**17,974**	**22,708**	**28,178**
Operating Expenses	**10,732**	**13,546**	**17,086**	**21,202**
EBITDA	**3,561**	**4,428**	**5,622**	**6,976**
% margin	*24.9*	*24.6*	*24.8*	*24.8*
Depreciation & Amortisation	419	615	777	965
EBIT	**3,142**	**3,813**	**4,844**	**6,012**
% margin	*22.0*	*21.2*	*21.3*	*21.3*
Other Income	239	332	328	311
Interest expense	219	240	240	240
Recurring PBT	**3,162**	**3,905**	**4,932**	**6,083**
Tax expense	789	1,052	1,329	1,639
Recurr. profit before minority	**2,373**	**2,853**	**3,603**	**4,444**
Minority interest	-	-	-	-
Extraordinary items	63	-	-	-
Net Profit as restated	**2,310**	**2,853**	**3,603**	**4,444**

Source: Company data, I-Sec research

Table 40: Balance sheet

(Rs mn, year ending March 31)

	FY23	FY24E	FY25E	FY26E
Liabilities				
Share capital	287	287	287	287
Reserves and Surpluses	8,102	9,948	12,257	15,119
Net Worth	**8,388**	**10,234**	**12,543**	**15,405**
Minority Interest	-	-	-	-
Non-current Liabilities	2,256	2,256	2,256	2,256
Current Laibilities	5,764	4,559	3,299	3,599
Total Liabilities	**16,408**	**17,050**	**18,099**	**21,260**
Borrowings	*4,676*	*3,176*	*1,676*	*1,676*
Assets				
Fixed Assets	4,343	4,344	4,345	4,346
Other Non-current assets	1,336	1,336	1,336	1,336
Current assets	10,730	11,370	12,418	15,579
Total Assets	**16,408**	**17,050**	**18,099**	**21,260**

Source: Company data, I-Sec research

Table 41: Cashflow statement

(Rs mn, year ending March 31)

	FY23	FY24E	FY25E	FY26E
Op. CF before W Cap changes	**3,279**	**4,188**	**5,382**	**6,736**
Working Capital Inflow / (Outflow)	(319)	(440)	(556)	(693)
Taxes	(888)	(1,052)	(1,329)	(1,639)
Capex	(1,477)	(616)	(778)	(966)
Free Cash flow	**595**	**2,080**	**2,718**	**3,438**
CF from other Invst Act (Ex Capex)	(2,033)	332	328	311
Change in share capital	-	-	-	0
Inc/(Dec) in Borrowings	1,634	(1,500)	(1,500)	-
Dividend paid	(572)	(1,007)	(1,294)	(1,582)
Others	84	-	-	-
Increase/(Decrease) in Cash	**(291)**	**(95)**	**252**	**2,168**

Source: Company data, I-Sec research

Table 42: Key ratios

(Year ending March 31)

	FY23	FY24E	FY25E	FY26E
Per Share Data (Rs)				
Reported EPS	15.9	19.7	24.9	30.7
Recurring Cash EPS	18.8	23.9	30.2	37.3
Book Value per share (BV)	57.8	70.6	86.6	106.3
Dividend per share	5.4	7.0	9.0	11.0
Growth Ratios (%)				
Total Income (Sales) - US$	21.2	22.3	26.3	24.1
Total Income (Sales)	30.7	25.8	26.3	24.1
EBITDA	38.2	24.4	27.0	24.1
Net Income	27.5	23.5	26.3	23.3
Reported EPS	27.7	23.6	26.3	23.3
Recurring Cash EPS	27.7	27.2	26.3	23.5
Valuation Ratios (x)				
P/E	54.6	44.2	35.0	28.4
P/CEPS	46.2	36.3	28.8	23.3
P/BV	15.0	12.3	10.0	8.2
EV / EBITDA	36.5	29.0	22.6	17.9
EV / Sales	9.1	7.2	5.6	4.4
EV / FCF	218.7	61.8	46.7	36.3
Operating Ratio				
Other Income / PBT (%)	0.7	2.4	1.8	1.2
Effective Tax Rate (%)	25.5	26.9	26.9	26.9
NWC / Total Assets (%)	47.6	48.4	48.7	44.7
Receivables (days)	54	56	55	55
Payables (days)	18	20	20	20
D/E Ratio (x)	0.6	0.3	0.1	0.1
Return/Profitability Ratio (%)				
Net Income Margins	16.2	15.9	15.9	15.8
EBITDA Margins	24.9	24.6	24.8	24.8
RoNW (based on average)	30.7	30.6	31.6	31.8
Dividend Yield	0.6	0.8	1.0	1.3

Source: Company data, I-Sec research

Index of tables and charts

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Price charts

LTIMindtree

Infosys

TCS

Mphasis

HCL Tech

Wipro

Tech M

Source: Bloomberg