Management Discussion and Analysis

Company Overview

Being a Mindful IT Company, we enable digital transformation for enterprises and technology providers by delivering seamless customer experiences, business efficiency and actionable insights. We do this by leveraging a spectrum of disruptive technologies such as: artificial intelligence, blockchain, cloud, digital process automation, internet of things, robotics/drones, security, virtual/augmented reality, etc. Positioned as 'Born Digital . Born Agile', our capabilities span across Product & Digital Engineering Services (PDES), Generative AI Business Services (GBS) and Infrastructure Management & Security Services (IMSS). We deliver these services across industry groups: Banking, Financial Services & Insurance (BFSI), EdTech, Healthcare & Life Sciences, Hi-Tech and Media & Entertainment, Industrial, Manufacturing, Energy & Utilities, and Retail, CPG & Logistics. The Company has been recognized for its excellence in Corporate Governance practices by Golden Peacock and ICSI. A Great Place to Work-Certified™ company, Happiest Minds is headquartered in Bengaluru, India with operations in the U.S., UK, Canada, Australia and the Middle East.

Industry overview

In 2023, Generative AI (GenAI) and ChatGPT sparked a global revolution, with the AI Software & Services market now valued at approximately $100 billion. Indian tech giants and mid-scale players are investing in GenAI solutions, positioning India as a top-5 nation in AI talent. The IT services sector is expected to grow by 2% in FY-2025, as per NASSCOM estimates. This growth is driven by increased demand for infrastructure management, networking services, cloud-based software testing, and consulting services. The Engineering Research & Development (ER&D) segment is projected to expand at 7.4%, emphasizing digital engineering.

Business overview

Our business is divided into 3 Business units.

- **Infrastructure Management & Security Services (IMSS):** Happiest Minds' comprehensive suite of IT Infrastructure and Security Services is empowering businesses to leverage technology effectively, drive innovation, and protect their digital assets against evolving threats. With a customer-centric approach and a focus on innovation, we continue to be a trusted partner for organizations seeking to embark on their digital transformation journey while ensuring the highest levels of security and reliability. Our deep expertise and large pool of experienced professionals and frameworks based on best industrial practices, which help us in addressing the next gen needs of our customers with agility, flexibility, and cost-effectiveness. Happiest Minds IT Infrastructure Management and Security Services offer life-cycle services right from advisory, transformation, operations to management phases spanning across various domains, business size and regions.

- **Digital Business Services (DBS):** DBS offerings are aimed at (i) driving digital modernization and transformation for our customers through digital application development and application modernization for an improved customer experience, enhanced productivity and better business outcomes; (ii) Implementation of solutions and development, capabilities for improving data quality of the customer's platform, assistance in designing and testing of operations and management of platform and modernization of digital practices; and (iii) consulting and domain led offerings such as digital roadmap, mindful design thinking and migration of on-premise applications to cloud.

- **Product Engineering Services (PES):** PES aims to help our customers capitalize on the transformative potential of 'digital' by building products and platforms that are smart, secure and connected. We provide our customers with a blend of hardware and embedded software knowledge which combines with our software platform engineering skills to help create high quality, scalable and secure solutions. Our offerings extend across the development lifecycle from strategy to final roll out while ensuring quality. We get our clients started on this journey with our digital foundry that allows us to build rapid prototypes for our customers and provide a scalable Minimum Viable Product (MVP). We embrace a cloud and a mobile friendly approach along with an agile model that is supported by test automation to help our clients accelerate their time to market and build a competitive advantage.

  The Company re-structured its Business Units by establishing new business unit Generative AI Business Services (GBS) and merging DBS, PES into new Business Unit called Product and Digital Engineering Services (PDES). The other Business Unit IMSS continues to operate. For more information refer page 40-53.

Our business units are supported by the following Centers of Excellence (CoEs):

- **Internet of Things (IoT):** Our IoT offering includes consulting led digital strategy creation, device/edge/platform engineering, end-to-end system integration on industry standard IoT platforms, IoT security, and IoT enabled managed services, implementing IoT roadmap, deriving insights from connecting assets, connecting manufacturing, supply chain, products and services to deliver IoT led business transformation and new business models aimed at enhancing our customers' operations and customer experience.

- **Analytics / Artificial Intelligence (AI):** Our analytics/AI offering includes implementation of advanced analytics using artificial intelligence, machine learning and statistical models, engineering big data platforms to deal with large volume of data, creating actionable insights with data warehousing, modernization of data infrastructure and process automation through AI.

- **Digital Process Automation (DPA):** Our DPA offering includes consulting led digital transformation through process automation of core business applications, products and infrastructure landscape of our customers, leveraging various intelligent process automation tools and technologies including Robotic Process Automation (RPA), Intelligent Business Process Management (iBPMS) and cognitive automation using AI & machine learning based models.

Significant matters affecting our operations

Customer relationships

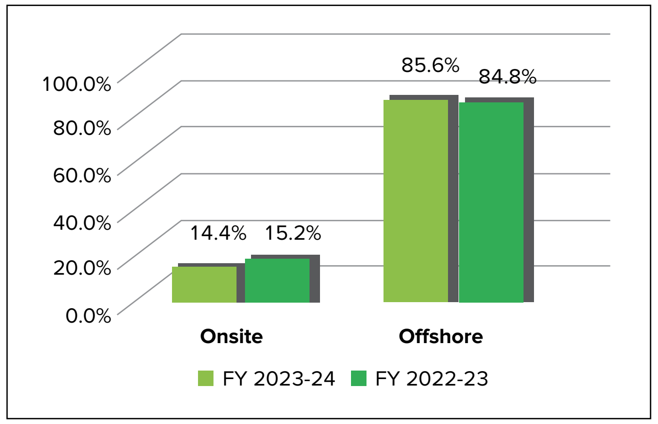
Customer relationships are the core of our business. During FY 2024, we increased average count of our active customers to 250 from 237 in FY 2023. Our ability to grow our customer base and drive market adoption of our software is affected by the pace at which organizations digitally transform. We expect that our revenue growth will be primarily driven by the pace of adoption of our offerings. We believe the degree to which prospective customers recognize the need for our offerings to maximize their business process would lead to a higher budget allocation by such prospective customers for engaging our services. This will drive our ability to acquire new customers and increase sales to existing customers, which in turn, will affect our future financial performance.

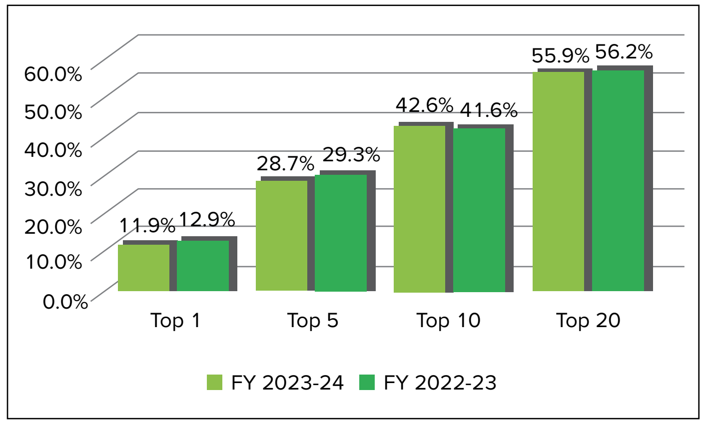
We believe that we have benefited from growth in the global software development services industry. Growth in the industry is driven by major corporations' need, to maintain and upgrade the technology and services required to operate cost-efficiently. Software companies are also increasingly outsourcing work to IT service providers to streamline and reduce the cost of the software development process. The Indian software development services market is growing rapidly due to its large pool of skilled IT professionals, robust infrastructure and strong government support and incentives.

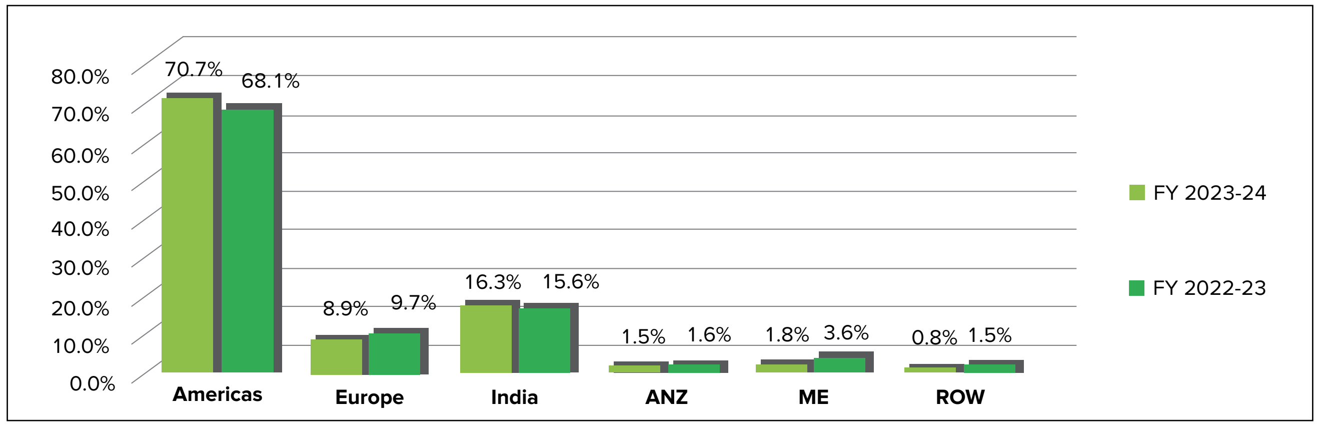
We believe we have a substantial opportunity to grow our customer base. We have invested, and intend to continue to invest, to drive sales to new customers. We have made, and plan to continue to make, investments to enhance the expertise of our sales and marketing organization within our business verticals of focus namely Edutech, HiTech, BFSI, Industrial/Manufacturing, and Retail.

We go deeper into our customers through our cross-selling and upselling of services. Our wide spectrum of service offerings and philosophy of account growth through a 'land and expand strategy' makes this possible. Our ability to increase sales to existing customers depends on several factors, including the size of our sales force, professional services teams, customers' satisfaction with our services, economic conditions and our customers' spending budget. We believe that our ability to establish and strengthen customer relationships and expand the scope of our services remain an important factor in growth and ability to generate profits.

Revenue composition







Management of Employees and Employee Costs

Our ability to recruit, train, retain and deploy our workforce of IT professionals Influence our profit margins and the results of our operations. We ended March 31, 2024, with a headcount of 4,726 IT professionals. This number was 4,498 as of March 31, 2023. Attrition of IT professionals showed a decreasing trend during the year.

Business growth requires us to ramp up our head count at the same time. Balancing these factors of recruitment and attrition requires quite a bit of fine balancing and planning. If we recruit too many, utilization will drop leading to margin erosion and if we recruit too less, we lose revenues. Attrition and its costs to business are very clear. Thus, our success largely depends on our ability to attract, train and retain our Happiest Minds, particularly our highly skilled engineering and IT professionals.

Our employee costs consist of salaries, wages and bonus, contribution to provident fund and other funds, employee stock compensation expense, compensated absences, gratuity and staff welfare. Salaries and wages in India, especially in the services industry, have historically been lower than those in the United States, Europe and other developed economies. However, if these costs in India continue to increase at a rate faster than rate in the United States, Europe and other developed economies due to competitive pressures, we may experience a greater increase in our employee costs, thereby eroding one of our principal cost advantages over competitors in the United States, Europe and other developed economies.

In addition, our ability to manage our employee costs will also be heavily impacted by our international and domestic resource mix. For example, any increases in visa fees or healthcare insurance costs for employees located in developed countries such as USA and Canada, would increase our employee costs. Training is an imperative and a key cost element. The ability to train our people on the right technology, invest in them ahead of time is a very important element to manage their deployment into projects and also motivating them to stay engaged. All the above aspects of people and its correct management is critical to the continuous success of the Company.

Foreign currency fluctuations

Since most of our revenue is in foreign currency, we carry foreign exchange risks on transactions and translations. Although our foreign currency expenses partly provide a natural hedge, we are exposed to foreign exchange rate risk in respect of revenue, or expenses entered into a currency where corresponding expenses or revenue are denominated in different currencies. Major currencies in which we have exposures are US Dollars, Euro, British Pound Sterling, Emirati Dirham, Australian Dollars, Canadian Dollars and Swedish Krone. We have put in place an active foreign exchange hedging policy to mitigate the risks arising out of foreign exchange fluctuations. In addition, the overall competitiveness of the Indian IT industry in the global market is also significantly dependent on favorable exchange rates.

Financial conditions

Assets

1. **Tangible and intangible assets**

₹ Lakhs

	FY 2023-24	FY 2022-23
Property, plant, and equipment	13,778	13,278
Right-of-use assets	5,698	5,786
Capital work-in-progress	9	185
Other intangible assets	7,786	10,182
Intangible assets under development	22	81
Goodwill	14,032	13,913
Total	**41,325**	**43,425**

Property, plant, and equipment:

Property, plant, and equipment has increased to ₹ 13,778 Lakhs as of March 31, 2024, from ₹ 13,278 Lakhs as of March 31, 2023. The increase is mainly due to, as a go green initiative, installation of solar panels to generate electricity at our facilities in Bengaluru and re-structuring of own building at Electronic city to increase the seating capacity.

Right-of-use assets:

Right of use assets have been recognized at ₹ 2,571 Lakhs in FY 24. These assets are primarily related to office premises occupied by the Group across locations in India, laptops purchased on lease and motor vehicles bought on lease. The increase in Right of Use assets is due to leasing of new premises in Pune and expansion of facility center in Noida. Also, new laptops were purchased to cater to increase in head count. These expansions and additions are in line with overall growth.

Other intangible assets:

Other intangible assets as on March 31, 2024 is ₹ 7,786 Lakhs. These other intangible assets include i) intangible assets such as trademark, non-compete, Customer relationships, non-compete, exclusive license which are acquired in a business combination. These are initially recorded at fair value on the date of acquisition and are amortised over estimated useful life (refer table below for use life of other intangible assets) and ii) software licenses which are bought for perpetual use. Decrease in other intangible assets during FY 24 is on account of amortization of intangible assets which are acquired in business combination of SMI.

Below is the useful life of other intangible assets:

Assets	Useful life
Computer software	2.5-3 years
Non-compete fees	3 years
Customer relations	3-7 years
Trademark	2-3 years
Exclusive license	2 years

Goodwill:

The carrying value of goodwill as on March 31, 2024 is ₹ 14,032 Lakhs. This includes ₹ 611 Lakhs relating to the business acquisition of Cupola Technology Private Limited, ₹ 8,017 Lakhs relating to the business acquisition of Happiest Minds Inc. (formerly known as PGS Inc.) and ₹ 5,404 Lakhs relating to business acquisition of Sri Mookambika Infosolutions Private Limited (SMI).

This goodwill is tested for impairment annually by the Company.

2. **Trade receivables**

Trade receivables amounted to ₹ 25,444 Lakhs (net of provision for doubtful debt of ₹ 1,157 Lakhs) as on March 31, 2024 in comparison to ₹ 21,319 Lakhs (net of provision for doubtful debt of ₹ 781 Lakhs) as on March 31, 2023.

Days Sales Outstanding has continued to remain at 87 days as on March 31, 2024.

3. **Other current and non-current assets**

₹ Lakhs

	FY 2023-24			FY 2022-23		
	Current	Non-Current	Total	Current	Non-Current	Total
Other Financial assets	**13,850**	**2,480**	**16,330**	**12,237**	**9,389**	**21,626**
Other assets:						
Income tax assets (net)	-	1,529	1,529	-	1,310	1,310
Deferred tax assets (net)	-	1,636	1,636	-	1,246	1,246
Loans	37	-	37	64	-	64
Other assets	4,793	32	4,825	4,495	119	4,614
Total other assets	**4,830**	**3,197**	**8,027**	**4,559**	**2,675**	**7,234**
Total	**18,680**	**5,677**	**24,357**	**16,796**	**12,064**	**28,860**

Other financial assets majorly include unbilled revenue (unbilled revenue for fixed price contract included in other assets), fixed deposit with maturity period more than 12 months (this is classified as non-current other financial assets), interest accrued on fixed deposits and cash flow hedges on foreign currency forward contract & cross currency interest rate swap.

Total Other financial assets decreased to ₹ 16,330 Lakhs as on March 31, 2024, from ₹ 21,626 Lakhs as on March 31, 2023, mainly on account of fixed deposits with maturity over 12 months, in FY 2023, was classified under other financial assets (non-current). In FY 2024, these deposits are classified under Bank and bank balance other than cash and cash equivalents as maturity period is less than 12 months. Days of sales outstanding of unbilled revenue (including that classified as non-financial asset) is 29 days as on March 31, 2024, compared to 31 days as on March 31, 2023.

Other assets majorly include unbilled revenue for fixed price contract and prepaid expenses. As required under Ind AS 115 'revenue from contracts with customers', unbilled revenue for fixed-price contracts, where the contractual right to consideration is dependent on completion of contractual milestones and not upon passage of time, is classified as non-financial asset.

Other assets increased to ₹ 8,027 Lakhs as on March 31, 2024 from ₹ 7,234 Lakhs as on March 31, 2023 mainly on account of prepaid expenses.

4. Investments, cash and cash equivalents

₹ Lakhs

	FY 2023-24	FY 2022-23
Other financial assets - non-current	1,699	8,851
Bank balances other than cash and cash equivalent	1,22,183	62,184
Cash and cash equivalent	11,470	6,999
Total	**1,35,352**	**78,034**

The Company has classified fixed deposits and margin money deposits: i) with maturity date more than 12 months under 'Other financial assets – non current' and ii) with maturity date less than 3 months under 'Bank balances other than cash and cash equivalent'

The Company has invested in fixed deposits ₹ 1,23,882 Lakhs as on March 31, 2024 as against ₹ 71,035 Lakhs as on March 31, 2023. The weighted average rate of interest for FY 24 is 7.28 %.

Cash and cash equivalents include both rupee accounts and foreign currency accounts with banks. The bank balances in overseas accounts are maintained to meet the expenditure of the overseas operations.

Bank balances other than cash and cash equivalent are term deposits, in rupee having maturity of more than 3 months.

Liabilities

1. Share capital

₹ Lakhs

	FY 2023-24	FY 2022-23
Authorised:		
22,93,00,000 equity shares of ₹2/- each	4,586	4,586
(Previous year: 22,93,00,000 equity shares)		
Issued, subscribed and fully paid up:		
14,93,54,426 equity shares of ₹2/- each	2,987	2,866
(Previous year: 14,31,88,555 equity shares of ₹2/- each)		
Total	**2,987**	**2,866**

During the year, The Group raised capital of ₹50,000 Lakhs through Qualified Institutions Placement ("QIP") of equity shares. The Fund-Raising Committee of the Board of Directors of the Company, at its meeting held on July 14, 2023, approved the allotment of 54,11,255 equity shares of face value ₹2 each to eligible investors at a price ₹924 per equity share (including a premium of ₹922 per equity share)

2. Other equity

Other equity at the end of March 31, 2024 stood at ₹ 1,45,037 Lakhs as against ₹ 81,016 Lakhs as at March 31, 2023. The increase primarily attributes to increase in security premium on account of capital raised through Qualified Institutions Placement ("QIP") of equity shares (refer note under "Share capital" above). The increase in retained earnings from ₹ 39,064 Lakhs as at March 31, 2023 to ₹ 55,042 Lakhs as at March 31, 2024 on account of net profit for the year, reduced by dividend paid.

₹ Lakhs

	FY 2023-24	FY 2022-23
Securities premium	90,318	41,556
Retained earnings	55,042	39,064
Other reserves	(323)	396
Total	**1,45,037**	**81,016**

3. Financial liabilities

₹ Lakhs

	FY 2023-24			FY 2022-23		
	Current	Non-Current	Total	Current	Non-Current	Total
Borrowings	33,792	10,445	44,237	35,477	11,278	46,755
Lease liabilities	2,412	4,570	6,982	1,859	4,761	6,620
Other financial liabilities	5,810	401	6,211	7,428	1,996	9,424
Trade payables	7,915	-	7,915	7,052	-	7,052
Total	**49,929**	**15,416**	**65,345**	**51,816**	**18,035**	**69,851**

Total borrowings as of March 31, 2024, is ₹ 44,237 Lakhs as against ₹ 46,755 Lakhs as of March 31, 2023. The decrease in borrowings is on account of repayment of Foreign currency loan (PCFC) and foreign currency term loan.

Total lease liabilities as of March 31, 2024, is ₹ 6,982 Lakhs as against ₹ 6,620 Lakhs as of March 31, 2023. The increase in lease liabilities is majorly on account of expansion of facility center in Pune and Noida.

Other financial liabilities include contingent consideration measured at fair value, hedge reserve and employee related liabilities such as provision for variable pay.

4. Other liabilities

₹ Lakhs

	FY 2023-24			FY 2022-23		
	Current	Non-Current	Total	Current	Non-Current	Total
Provisions	2,136	3,338	5,474	1,775	2,466	4,241
Deferred tax liabilities (net)	-	1,303	1,303	-	2,060	2,060
Income tax liabilities (net)	12	-	12	517	-	517
Contract liabilities	1,825	-	1,825	1,157	-	1,157
Other current liabilities	2,796	-	2,796	2,375	-	2,375
Total	**6,769**	**4,641**	**11,410**	**5,824**	**4,526**	**10,350**

Provisions comprise of employee benefits on account of compensated absences and post-retirement benefits such as gratuity. Total provision as of March 31, 2024, stood at ₹ 5,474 Lakhs as against ₹ 4,241 Lakhs as on March 31, 2023. The main reason for increase being head count additions made during the year.

Contract liabilities include unearned revenue and other current liabilities include statutory dues payable to government authorities like TDS, PF, professional tax etc.

Results of our consolidated operations

₹ Lakhs

	FY 2023-24		FY 2022-23	
	₹ Lakhs	% of total income	₹ Lakhs	% of total income
Income				
Revenue from contracts with customers	1,62,466	95.0%	1,42,929	98.5%
Other income	8,537	5.0%	2,111	1.5%
Total income	**1,71,003**	**100.0%**	**1,45,040**	**100.0%**
Expenses				
Employee benefits expense	1,01,469	59.3%	80,681	55.6%
Depreciation and amortisation	5,829	3.4%	4,191	2.9%
Finance costs	4,227	2.5%	2,186	1.5%
Other expenses	27,412	16.0%	26,362	18.2%
Total expenses	**1,38,937**	**81.2%**	**1,13,420**	**78.2%**
Profit before exceptional items and tax	**32,066**	**18.8%**	**31,620**	**21.8%**
Exceptional items	1,402	0.8%	(634)	(0.4)%
Profit before tax	**33,468**	**19.6%**	**30,986**	**21.4%**
Tax expense	8,629	5.0%	7,887	5.4%
Profit for the year	**24,839**	**14.5%**	**23,099**	**15.9%**
Other comprehensive income for the year, net of tax	**(875)**	**(0.5)%**	**(349)**	**(0.2)%**
Total comprehensive income for the year	**23,964**	**14.0%**	**22,750**	**15.7%**
Profit for the year	**24,839**		**23,099**	
Attributable to:				
Equity holders of the parent	24,839		23,099	
Non-controlling interests				
Total comprehensive income for the year	23,964		22,750	
Attributable to:				
Equity holders of the parent	23,964		22,750	
Non-controlling interests				
Earnings per equity share				
Equity shares of par value ₹ 2/- each				
Basic	₹ 16.73		₹ 16.13	
Diluted	₹ 16.73		₹ 16.01	

Comparison between FY 2024 and FY 2023

1. Income

a. Revenue from contracts with customers

₹ Lakhs

	FY 2023-24	FY 2022-23
Sale of service	1,62,179	1,42,605
Sale of licenses (net)	287	324
	1,62,466	**1,42,929**

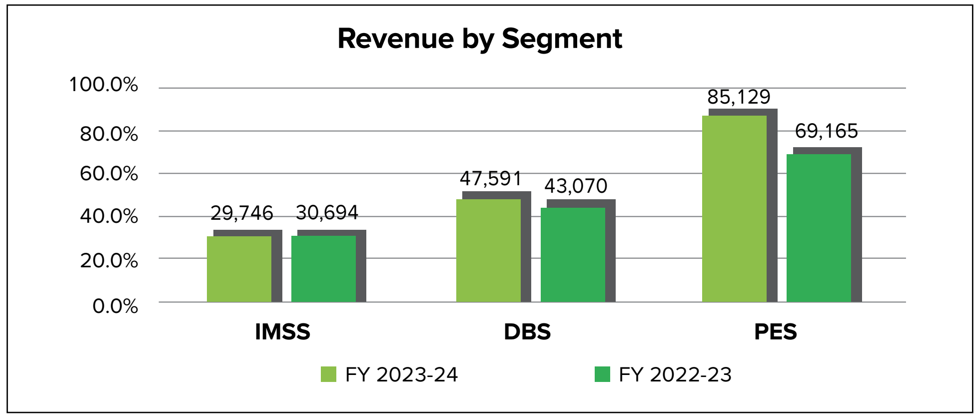
During the year revenue from contracts with customers grew by 13.7 % from ₹ 142,929 Lakhs in FY 2022-23 to ₹ 1,62,466 Lakhs in FY 2023-24. Main factors that led to the increase in revenue are i) Favorable exchange rate: In FY 24 USD to ₹ rate depreciated by, on an average, by 3% during the year. This contributed to the portion of increase in revenue ii) Improved billing rates: During the year we could bill our customers at a better rate than FY 23. iii) Increase in volume: Due to the increase in head count, we had additional volume to generate additional revenue.

Our revenue from contract with customers are generated from three business units, namely:

1. **Infrastructure Management & Security Services (IMSS):**
   IMSS delivers integrated end-to-end infrastructure and security solutions with specialization in cloud, virtualization and mobility across many industry verticals and geographies. This group provides advisory, transformation, managed and hosted services, and secure intelligence solutions to our customers. This group has unique productized solution platforms for smart infrastructure and security solutions provides quick to deploy, mature service delivery over Global SOC/NOC. This improves efficiency and serviceability, reduces cost and drives innovation.

2. **Digital Business Services (DBS):**
   DBS delivers high value, cost-effective enterprise applications and customized solutions that enable organizations to be smarter and accelerate business transformations. This group provides advisory, design and architecture, custom-app development, package implementation, testing and on-going support services to IT initiatives. The business drivers for these applications are increasing market share, enhancing customer engagement, improving agility and efficiency of internal operations, reducing cost, driving differentiation and standardizing business processes.

3. **Product Engineering Services (PES):**
   PES business unit assists software product companies in building robust products and services that integrate mobile, cloud and social technologies. This group helps our customers understand the impact of new technologies and incorporate these technologies into their product roadmap. This group focuses on technology depth, innovation and solution accelerators which allow us to deliver time-to-market, growth and cost benefits to our customers



Our revenue from Infrastructure Management & Security Services decreased by 3.1% from ₹ 30,694 Lakhs in FY 2022-23 to ₹ 29,746 Lakhs in FY 2023-24. Revenue from Digital Business Services increased by 10.5% from ₹ 43,070 Lakhs in FY 2022-23 to ₹ 47,591 Lakhs in FY 2023-24. Revenue from Product Engineering Services increased by 23.1% from ₹ 69,165 Lakhs in FY 2022-23 to ₹ 85,129 Lakhs in FY 2023-24.

b. Other income

₹ Lakhs

	FY 2023-24	FY 2022-23
Interest income	7,958	2,610
Gain on sale of investments measured at FVTPL	18	803
Exchange gain / (loss)	459	(1,433)
Rent concession	-	71
Miscellaneous income	102	60
Total other income	**8,537**	**2,111**

Other income consists of income from investment, foreign exchange gain / (loss) and miscellaneous income. During the FY 2023-24, other income increased to ₹ 8,537 Lakhs from ₹ 2,111 Lakhs in FY 2022-23.

Income from investment:

Income from investment primarily includes interest on fixed deposits in various banks. Interest from fixed deposits is higher in FY 2023-24 compared to interest in FY 2022-23 mainly on account of increased investments in fixed deposits. As rate of return is higher from fixed deposits than from mutual funds, all the amounts from mutual funds were invested in fixed deposits from beginning of FY 2023-24.

Foreign exchange gain / (loss):

To mitigate our foreign exchange risk, we have a long-term hedging policy. We hedge exposures in major currencies such as the US dollar and the GBP. Our hedging policy runs on a net exposure basis, typically on rolling 12 months basis. These hedges provide for payments by banks to us in the situations where the spot exchange rate on maturity is lower than the rate at which hedges were entered and payment by us to the banks in situations where the spot exchange rate on maturity is higher than the rate at which the hedges were entered. Our foreign exchange gain has increased to ₹ 459 Lakhs for FY 2023-24 as against loss of ₹ 1,433 Lakhs in FY 2022-23. This is mainly due to INR depreciation during the year resulting in increased realized and un-realized gains. The Company further availed benefit of better average hedge rates during the year as compared to the previous year.

2. Expenses:

a. Employee benefits expense

₹ Lakhs

	FY 2023-24	FY 2022-23
Salaries, wages and bonus	94,291	74,999
Contribution to provident fund	4,675	3,768
Employee stock compensation expense	47	120
Gratuity expense	876	559
Compensated absences	1,025	831
Staff welfare expenses	555	404
Total employee benefits expense	**1,01,469**	**80,681**

Employee benefit expenses includes salaries (including overseas); staff welfare; contributions to provident and other funds, and gratuity funds. Our employee benefit expenses increased by 25.8% to ₹ 1,01,469 Lakhs for the FY 2023-24 from ₹ 80,681 Lakhs for the FY 2022-23. The increase is on account of the increase in employee count in line with business growth, changes to employee mix and increments. This has also resulted in higher contributions to the provident and other funds, social security and payroll taxes.

b. Depreciation and amortization

₹ Lakhs

	FY 2023-24	FY 2022-23
Depreciation of property, plant and equipment	495	248
Amortisation of intangible assets	2,675	1,417
Depreciation of right-of-use assets	2,659	2,526
Total depreciation and amortisation expense	**5,829**	**4,191**

Tangible and intangible assets including Right of Use assets are amortized over periods corresponding to their estimated useful lives. Our depreciation and amortization expense increased by 39.1% to ₹ 5,829 Lakhs for the FY 2023-24 from ₹ 4,191 Lakhs for the FY 2022-23. The increase is primarily due to amortization of intangible assets which were recognized on consolidation of subsidiary, Sri Mookambika Infosolution Private Limited ("SMI"). In FY 23, SMI was consolidated from January 01, 2023. So only 3 months amortization cost was there. However, in FY 24 it includes full 12 months amortization cost. Also, during the year, new facility centers were opened at Pune and Noida, because of which there is an increase in depreciation of right-of-use assets.

c. Finance costs

₹ Lakhs

	FY 2023-24	FY 2022-23
Interest on borrowings	2,460	1,548
Interest on non-convertible debenture	948	10
Interest on lease liabilities	614	544
Unwinding of interest in contingent consideration	205	84
Total finance costs	**4,227**	**2,186**

Finance cost consists of interest on borrowing (both long term and short term), interest on non-convertible debentures, interest on lease liabilities and unwinding interest in contingent consideration. During the FY 2023-24 finance cost increased to ₹ 4,227 Lakhs from ₹ 2,186 Lakhs in FY 2022-23. The increase is primarily because of the issue of additional non-convertible debentures during the year and increased interest cost on PCFC.

d. Other expenses

₹ Lakhs

	FY 2023-24	FY 2022-23
Power and fuel	567	441
Subcontractor charges	12,851	14,916
Repairs and maintenance	886	595
Rent expenses	549	349
Advertising and business promotion expenses	873	655
Commission	45	46
Communication costs	266	234
Insurance	138	118
Legal and professional fees	1,040	550
Audit fees	104	88
Loss on property, plant and equipment sold / scrapped, net	1	1
Software license cost	4,775	3,946
Rates and taxes	91	55
Recruitment charges	787	982
Impairment loss allowance on trade receivables	536	(59)
Impairment loss allowance on unbilled revenue	(6)	59
Commission& Sitting fees to non-executive directors	95	80
CSR expenditure	470	336
Travelling and conveyance	2,753	2,366
Postage and courier	40	86
Training expense	413	379
Miscellaneous expenses	138	139
Total finance costs	**27,412**	**26,362**

Other expenses primarily comprise of (i) subcontractor charges, (ii) software license cost, (iii) travelling and conveyance, (iv) Recruitment charges and (v) Advertisement and business promotion expenses. During the year other expenses increased by 4.0% from ₹ 26,362 Lakhs in FY 2022-23 to ₹ 27,412 Lakhs in FY 2023-24. The increase was due to higher travel costs, recruitment charges and increase in CSR spend.

3. Profit before exceptional items and tax:

Our profit before exceptional items and tax increased by 1.4% to ₹ 32,066 Lakhs for the FY 2023-24 from ₹ 31,620 Lakhs for the FY 2022-23.

4. **Exceptional items:**

FY 2023-24:

(I) On January 1, 2023, the Group obtained operational and management control of Sri Mookambika Infosolutions Private Limited ('SMI'), a Madurai based Company which provides IT services, through a Control Agreement. The Group acquired 100% equity in SMI for total consideration of ₹ 13,694 Lakhs, comprising cash consideration of ₹ 11,132 Lakhs and fair-value of contingent consideration of ₹ 2,562 Lakhs payable over the next 2 years subject to achievement of set targets. The Company paid the cash consideration of ₹ 11,132 Lakhs on February 6 2023 and the shares were transferred on the same day. As a result of this acquisition the Group recorded goodwill of ₹ 5,404 Lakhs and other intangible assets of ₹ 8,259 Lakhs. The Group has consolidated SMI w.e.f January 1, 2023.

The contingent consideration was classified as a financial liability as per Ind AS 109 'Financial Instruments' and was measured at fair value. The Accounting Standard mandates that any subsequent changes in such fair value will have to be recognized in the statement of profit and loss. The total consideration for acquisition of SMI includes a contingent consideration payable over a period of 2 years ending December 31, 2024. The Group has re-measured the fair value of the liability and the change in fair value of INR 143 Lakhs (March 31, 2023: Nil) is recognized as gain on derecognition of contingent consideration in the statement of profit and loss and disclosed as an 'Exceptional Item' for the year ended March 31, 2024.

(II) The Group had acquired 100% Equity interest in Happiest Minds Inc. (erstwhile PGS Inc.) vide definitive agreements signed on January 27, 2021, for a total recorded consideration of US $ 13.31 million (₹ 9,720 Lakhs), comprising cash consideration of US $ 8.25 million (₹ 6,025 Lakhs) and fair-valued contingent consideration in the form of warrants of US $ 5.06 million (₹ 3,696 Lakhs) payable over the next 3 years.

The contingent consideration was classified as a financial liability as per Ind AS 109 'Financial Instruments' and was measured at fair value. The Accounting Standard mandates that any subsequent changes in such fair value will have to be recognized in the statement of profit and loss. The Group has re-measured the fair value of the liability and the change in fair value has been recognised in the statement of profit and loss and disclosed as an 'Exceptional Item' for the quarter and year ended March 31, 2024. The Group has re-measured the fair value of the liability and the change in fair value of INR 1,259 Lakhs (March 31, 2023: INR -634 Lakhs) is recognized as gain on derecognition of contingent consideration in the statement of profit and loss and disclosed as an 'Exceptional Item' for the year ended March 31, 2024.

FY 2022-23:

The Group had acquired 100% voting interest in Happiest Minds Inc. (erstwhile PGS Inc.) vide definitive agreements signed on January 27, 2021, for a total recorded consideration of US $ 13.31 million (₹ 9,720 Lakhs), comprising cash consideration of US $ 8.25 million (₹ 6,025 Lakhs) and fair-valued contingent consideration in the form of warrants of US $ 5.06 million (₹ 3,696 Lakhs) payable over the next 3 years. The contingent consideration was classified as a financial liability within the scope of Ind AS 109 'Financial Instruments' and was measured at fair value. Ind AS 109 mandates that any subsequent changes in such fair value will have to be recognized in the statement of profit and loss. The Group carried out a fair valuation during the year and there was increase in the liability basis increasing expectation of payout. The said increase amounting to ₹ 634 Lakhs has been recognized in the statement of profit and loss and disclosed as 'Exceptional Item'.

5. **Profit before tax:**

Our profit before tax increased by 8.0% to ₹ 33,468 Lakhs for the FY 2023-24 from ₹ 30,986 Lakhs for the FY 2022-23.

6. **Tax expense:**

Income tax expense comprises current tax and deferred tax. Current tax is the amount expected to be paid to the tax authorities in accordance with the applicable tax laws in relevant jurisdictions. Deferred tax assets and liabilities reflect the impact of temporary differences arising between the tax base of assets and liabilities and their carrying amounts in the financial statements as well as other deferred tax assets recognised and carried forward to the extent that there is a reasonable certainty that sufficient future taxable income will be available. During the year current tax expense increased to ₹ 9,518 for the FY 2023-24 from ₹ 8,508 Lakhs for the FY 2022-23 mainly on account of increase in profit.

7. **Profit for the year:**

As a result of the foregoing factors, our net profit increased by 7.5% to ₹ 24,839 Lakhs for the FY 2023-24 from ₹ 23,099 Lakhs for the FY 2022-23.

Liquidity

The Company continues to maintain a healthy liquidity position for the year, meeting the cash requirements through its internal accruals, funds received through QIP and from the issue of non-convertible debentures. Apart from cash and cash equivalents, the Company's overall investment position in mutual funds and bank deposits has increased to ₹ 1,23,882 Lakhs as on March 31, 2024 from ₹ 71,035 Lakhs as on March 31, 2023.

The table below 0summarizes our consolidated cash flows.

₹ Lakhs

	FY 2023-24	FY 2022-23
Net cash flows from operating activities	21,256	20,717
Net cash flows used in investing activities	(46,641)	(35,102)
Net cash flows from/(used) in financing activities	36,347	7,207
Net increase / (decrease) in cash and cash equivalents	**10,962**	**(7,178)**
Cash and cash equivalents at the beginning of the period	6,999	6,735
Effect of exchange differences on translation of foreign currency cash and cash equivalents	55	323
Less : Bank overdraft at the beginning of the year	(7,119)	-
Cash and cash equivalents at the end of the period	**10,897**	**(120)**

1. **Operating activities**

Our net cash flows from operating activities was ₹ 21,256 Lakhs in FY 2024. Our operating cash flow before working capital changes was ₹ 34,561 Lakhs in FY 2024, which was primarily adjusted by depreciation/ amortisation of property, plant and equipment, intangibles and right-of-use assets of ₹ 5,829 Lakhs, Gain on derecognition of contingent consideration of ₹ 1,402 Lakhs and finance cost of ₹ 4,227 Lakhs, partially offset by interest income of ₹ 7,958 Lakhs. Our movements in working capital primarily consisted of increase in trade receivables of ₹ 4,533 Lakhs, increase in trade payables of ₹ 823 Lakhs, increase in financial assets of ₹ 1,240 Lakhs and an increase in non-financial liabilities of ₹ 411 Lakhs.

2. **Investing activities**

Net cash flows used in investing activities was ₹ 46,641 Lakhs. This was primarily due to investment in fixed deposit for ₹ 52,847 Lakhs, purchase of property, plant and equipment ₹ 823 Lakhs which is partially offset by interest income of ₹ 7,214 Lakhs.

3. **Financing activities**

Net cash from financing activities was ₹ 36,347 Lakhs. This was primarily due to proceeds from issue of shares through QIP of ₹ 48,556 Lakhs, proceeds from Non-convertible debenture of ₹ 8,000 Lakhs which was partially offset by payment of dividend of ₹ 8,604 Lakhs, payment of lease liability amounting to ₹ 2,161 Lakhs, payment of contingent consideration of ₹ 1,659 Lakhs.

Internal Control

Happiest Minds has established a framework for internal controls, commensurate with the size and nature of its operations. Process has been set up for periodically appraising the senior management and the Audit Committee of the Board about internal audit observations of the Company with respect to internal controls and status of statutory compliances. Business heads and support function heads are responsible for establishing effective internal controls within their respective functions. Standard operating procedures and internal control manuals are defined and continuously updated. The Company has laid down internal financial controls as detailed in the Companies Act, 2013. These have been established across the levels and are designed to ensure compliance to internal control requirements, regulatory compliance, and appropriate recording of financial and operational information. The internal audit team periodically conducts audits across the Company, which include review of operating effectiveness of internal controls. The Audit Committee oversees internal audit function.

Risk and mitigation approaches

Organization level risks and mitigation approaches are covered under section "Ensuring effective risk management" Risks and Opportunities.