

Near term deal wins key monitorable...

About the stock: Mastek Ltd (Mastek) offers data, apps, cloud services to public & private enterprise in the UK, US, Middle East, Asia Pacific and India

- The company's recent acquisition of Evosys has enabled Mastek to provide end-to-end solutions and improves margins from ~14% to 21%
- Net debt free and healthy double digit return ratio (with RoCE of 20%)

Q2FY22 Results: Mastek reported muted Q2FY22 results.

- Dollar revenues increased 2.6% QoQ to US\$72.0 million
- UK business declined 1.2% QoQ while US grew 22.3% QoQ
- Deal wins declined 1.8% QoQ to US\$155.5 million

What should investors do? Mastek's share price has grown by ~23x over the past five years (from ~₹ 129 in October 2016 to ~₹ 2,956 levels in October 2021).

- We now assign HOLD rating to the stock (from BUY earlier)

Target Price and Valuation: We value Mastek at ₹ 3,065 i.e. 26x P/E on FY23E EPS

Key triggers for future price performance:

- Growth in new logo acquisition, increasing deal size, expansion of sales & marketing and market share gains to drive revenues
- Evosys' aspiration to double its revenues (from current ~20-25%) in the US, healthy order book, inorganic growth (led by healthy cash balance) and hiring of US based CEO to drive US growth are other long term drivers for revenues
- Expect dollar revenues to grow at 20.9% CAGR in FY21-23E

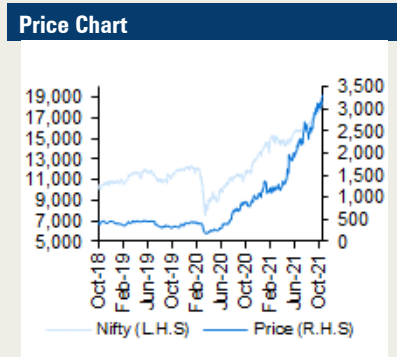
Alternate Stock Idea: Apart from Mastek, in our IT coverage we also like LTI.

- Industry leading growth and healthy margins prompt us to be positive on the stock
- BUY with a target price of ₹ 7650



Particulars	Amount
Market Capitalisation	₹ 7240 Crore
Debt	₹ 241 Crore
Cash	₹ 806 Crore
EV	₹ 6675 Crore
52 week H/L (₹)	3666 / 770.65
Equity capital	₹ 13 Crore
Face value	₹ 5

Shareholding pattern	Dec-20 Mar-21 Jun-21 Sep-21			
	Promoters	44	44	44
FII	5	7	6	4
DII	14	12	11	8
Public	36	37	39	51



Recent Event & Key risks

- Deal wins remain robust
- Key Risk:** (i) Better than expected deal momentum (ii) Slowdown in UK revenues

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Key Financial Summary

₹ Crore	FY19	FY20	FY21	5 Year CAGR (FY16-21)	FY22E	FY23E	2 Year CAGR (FY21-23E)
Net Sales	1,033	1,072	1,722	26.7%	2,173	2,542	21.5%
EBITDA	132	155	364	82.1%	452	524	19.9%
EBITDA Margins (%)	12.7	14.5	21.2		20.8	20.6	
Adjusted Net Profit	101	133	209	72.4%	282	345	28.5%
Adjusted EPS (₹)*	40	52	82		95	117	
P/E	72.3	55.2	35.4		30.4	24.9	
RoNW (%)	14.1	16.8	24.4		19.7	20.6	
RoCE (%)	17.0	11.3	21.5		20.1	21.0	

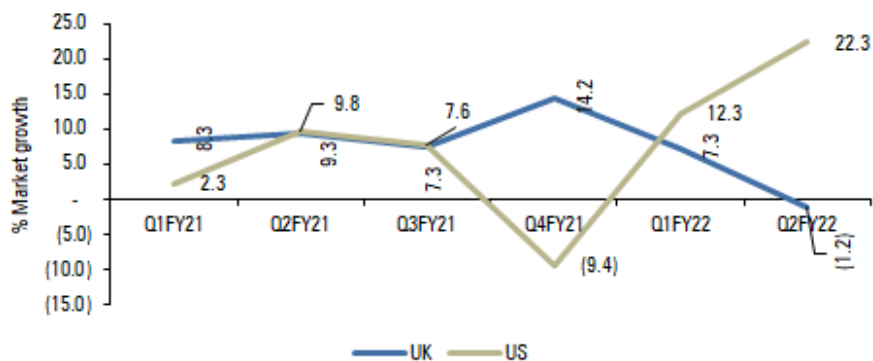
Source: Company, ICICI Direct Research, * Forward EPS is assumed with dilution

Key takeaways of conference call highlights

Q1FY22 Earnings Conference Call highlights

- Mastek indicated that softness in UK revenue for the quarter was due to project completion in the NHS segment (UK government business) and delay in decision making on their side, resulted in spillover of some orders to Q3
- The company indicated that it already won a large deal (US\$40-50 mn). Deal closure of the same is expected to happen in Q3. As per the company, order will be executed over next two years and revenue will start flowing in from Q4FY22 onwards
- Mastek also indicated that deal pipeline is healthy as 25 deals are already in the pipeline (five to six in the NHS), ranging from US\$5 mn to US\$25 mn
- The company indicated that EBIT margins for the quarter were impacted by 200 bps due to wage hike while there was a positive 70 bps impact on margins due to operational efficiency. The company indicated that their short-term EBITDA margins are expected to be ~21% while the company will be looking to invest 100 bps into manpower, technology, etc. Hence, long term margins are expected to be around 20%
- Mastek is aggressively looking at acquisitions into the areas of i) data automation, AI, ii) cloud platform and iii) customer experience enhancement. It is already in advanced discussions with a couple of them. The company indicated it may be able to close the deal in the next six months
- The company indicated that the DXC strategy is playing out well for it in the US market. According to Mastek, it has been aggressively investing in the US market and won three deals on the non-retail side for the quarter. The company also said it is trying to leverage its success with the UK government in the US, where it is looking to tie up with local and state authorities

Exhibit 1: Key markets growth trend



Source: ICICI Direct Research

Financial summary

Exhibit 2: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Net Sales	1,072	1,722	2,173	2,542
Growth (%)	4	61	26	17
COGS (employee expenses)	584	883	1,115	1,314
Other expenses	332	475	606	704
Total Operating Expenditure	916	1,357	1,721	2,019
EBITDA	155	364	452	524
Growth (%)	18	135	24	16
Depreciation	25	45	60	70
Net Other Income	38	20	67	106
PBT	168	339	459	560
Total Tax	30	88	124	151
Exceptional item	(24)	-	-	-
Adjusted PAT	133	209	282	345
Growth (%)	32	57	35	22
Adjusted EPS (₹)	52.4	81.9	95.1	116.5

Source: Company, ICICI Direct Research

Exhibit 3: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Profit before tax	187	252	406	497
Add: Depreciation	25	45	60	70
(Inc)/dec in Current Assets	11	(60)	(153)	(126)
Inc/(dec) in CL and Provisions	24	8	266	218
Taxes paid	(47)	(48)	(124)	(151)
CF from operating activities	184	287	424	448
(Inc)/dec in Inv. (+) Int inc (+) Goodwill	157	439	(147)	114
(Inc)/dec in Fixed Assets	(425)	(258)	(33)	(38)
CF from investing activities	(269)	181	(180)	76
Issue/(Buy back) of Equity	2	8	376	-
Dividend paid & dividend tax	(31)	(15)	(85)	(104)
Others	235	(100)	8	8
CF from financing activities	206	(118)	288	(108)
Net Cash flow	127	371	532	417
Exchange difference	7	20	-	-
Opening Cash	93	221	591	1,123
Closing Cash	221	591	1,123	1,541

Source: Company, ICICI Direct Research

Exhibit 4: Balance sheet				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Liabilities				
Equity Capital	12	13	15	15
Reserve and Surplus	778	846	1,417	1,659
Total Shareholders funds	790	859	1,432	1,674
Minority interest	137	182	235	299
Total Debt	333	241	241	241
Other liabilities	266	333	420	492
Total Liabilities	1,526	1,614	2,328	2,705
Assets				
Total Fixed Assets	858	804	1,011	991
Investments	122	41	41	41
Other non current assets	58	80	87	92
Debtors	316	375	473	554
Loans and Advances	2	3	3	3
Cash & investments	375	806	1,338	1,755
Other current assets	172	186	235	275
Total Current Assets	865	1,370	2,049	2,587
Current liabilities	365	658	831	972
Provisions	11	23	29	34
Total Current Liabilities	376	681	860	1,006
Net Current Assets	488	689	1,189	1,581
Application of Funds	1,526	1,614	2,328	2,705

Source: Company, ICICI Direct Research

Exhibit 5: Key ratios				
	₹ crore			
	FY20	FY21	FY22E	FY23E
Per share data (₹)				
EPS	52.4	81.9	95.1	116.5
Cash EPS	65.5	103.2	117.8	143.2
BV	311.7	335.8	483.0	564.6
DPS	8.0	14.5	28.5	35.0
Cash Per Share	91.8	239.9	387.4	531.3
Operating Ratios (%)				
EBITDA Margin	14.5	21.2	20.8	20.6
PBT Margin	15.7	19.7	21.1	22.0
PAT Margin	12.4	12.2	13.0	13.6
Inventory days	-	-	-	-
Debtor days	108	79	79	79
Creditor days	36	35	35	35
Return Ratios (%)				
RoE	16.8	24.4	19.7	20.6
RoCE	11.3	21.5	20.1	21.0
RoC	11.3	39.5	39.6	47.8
Valuation Ratios (x)				
P/E	55.2	35.4	30.4	24.9
EV / EBITDA	46.3	18.3	13.6	10.9
EV / Net Sales	6.7	3.9	2.8	2.3
Market Cap / Sales	6.8	4.2	3.3	2.8
Price to Book Value	8.8	8.3	5.9	5.0
Solvency Ratios				
Debt/EBITDA	2.1	0.7	0.5	0.5
Debt / Equity	0.4	0.3	0.2	0.1
Current Ratio	1.3	0.8	0.8	0.8
Quick Ratio	1.3	0.8	0.8	0.8

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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