

Robust performance on revenue, margin front...

Mastek's revenues increased 5.3% QoQ (in CC terms) and by 8.5% QoQ (in reported terms) to US\$55.1 million. The increase in revenues was led by Evosys acquisition (up 8.8% QoQ) and 8.3% QoQ growth in organic revenues. EBIT margin expansion of 359 bps QoQ to 18.3% was mainly led by 140 bps expansion in gross margins and rationalisation of SG&A expenses. Mastek's 12-month order book improved 25.9% QoQ to US\$127.5 million. The company has also added 37 new clients taking total to 542 clients. Mastek has reduced debt by ~₹ 32 crore QoQ to ₹ 253 crore and declared a dividend of ₹ 5.5/share. The company sold its stake in Majesco (US) at US\$32.3 million (~₹ 235.8 crore) on October 19, 2020.

Large end-to-end transformation deals to drive growth

Revenue in the quarter was driven by UK government and US retail. While the UK private sector was flat in the current quarter, Mastek believes the UK private sector has bottomed out. Hence, with traction in UK government revenues, US retail and UK private sector, we expect the company to register improving revenues in coming quarters. In addition, Evosys expertise in Oracle cloud migration coupled with Mastek's capability to cross-sell data analytics, application support and digital commerce will help the company win integrated and larger deals. This will result in multi-million dollar deals and annuity type of deals in long run. This, coupled with a large deal from the UK government (above US\$25 mn annually via participation through consortium), large customer wins across geographies, inorganic growth (led by healthy cash balance), improving deal pipeline in cloud and market share gains are some of the long term drivers for Mastek revenues. Hence, we expect dollar revenues to grow at 19.4% CAGR in FY20-23E.

Margins to remain healthy, within range

Mastek reported robust margins in the quarter and has many levers to improve margins like higher offshoring, optimisation of employee cost and SG&A rationalisation. However, considering wage hike and the company's aim to invest in growth, we expect EBITDA margins to remain in the 18-19% band in coming years. Hence, we expect EBITDA margins of 18.9%, 18.8% & 18.8% for FY21E, FY22E & FY23E, respectively.

Valuation & Outlook

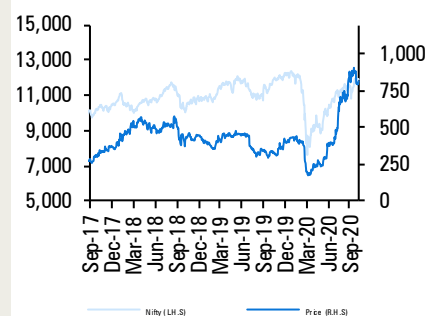
The company has a healthy order book and is witnessing an improving deal pipeline in the cloud. In addition, vendor consolidation in US retail, winning large multi-million annuity type of deals, access to larger market & deals via consortium, inorganic expansion and market share gains are expected to drive the company's long term growth. Further, stable margins and healthy balance sheet prompt us to remain positive on the stock. Hence, we maintain **BUY** with a revised target price of ₹ 1015/share (11x FY23E EPS).



Particulars

Particulars	Amount
Market Capitalisation	₹ 2156 Crore
Debt (March-20)	₹ 333 Crore
Cash (March-20)	₹ 375 Crore
EV	₹ 2115 Crore
52 week H/L (₹)	929 / 170
Equity capital	₹ 12 Crore
Face value	₹ 5

Price Performance



Key highlights

- Healthy order book, traction in cloud to drive growth
- Margins to remain range bound
- Maintain BUY with revised target price of ₹ 1015/share

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Key Financial Summary

₹ Crore	FY19	FY20	FY21E	FY22E	FY23E	CAGR FY20-23E
Net Sales	1,033	1,072	1,654	1,779	1,930	21.7%
EBITDA	132	155	313	334	363	32.7%
EBITDA Margins (%)	12.7	14.5	18.9	18.8	18.8	
Adjusted Net Profit	101	133	201	230	263	25.6%
Adjusted EPS (₹)*	40	52	68	78	89	
P/E	21.5	16.5	12.7	11.1	9.7	
RoNW (%)	14.1	16.8	15.4	15.7	15.9	
RoCE (%)	17.0	11.3	15.1	15.4	15.7	

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

Financial summary

Exhibit 1: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Net Sales	1,072	1,654	1,779	1,930
Growth (%)	4	54	8	9
COGS (employee expenses)	584	860	921	1,000
Other expenses	332	481	523	567
Total Operating Expenditure	916	1,342	1,444	1,567
EBITDA	155	313	334	363
Growth (%)	18	101	7	8
Depreciation	25	46	49	53
Net Other Income	38	45	69	90
PBT	168	312	354	400
Total Tax	30	84	96	108
Exceptional item	(24)	-	-	-
Adjusted PAT	133	201	230	263
Growth (%)	32	52	14	14
Adjusted EPS (₹)	52.4	68.1	77.9	89.1

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit before tax	187	286	326	371
Add: Depreciation	25	46	49	53
(Inc)/dec in Current Assets	11	(243)	(38)	(67)
Inc/(dec) in CL and Provisions	24	349	74	91
Taxes paid	(47)	(84)	(96)	(108)
CF from operating activities	184	319	261	265
(Inc)/dec in Inv. (+) Int inc (+)	157	(169)	76	97
(Inc)/dec in Fixed Assets	(425)	(41)	(27)	(29)
CF from investing activities	(269)	(210)	49	68
Issue/(Buy back) of Equity	2	376	-	-
Dividend paid & dividend tax	(31)	(60)	(69)	(79)
Others	235	(88)	7	7
CF from financing activities	206	223	(74)	(84)
Net Cash flow	127	332	236	249
Exchange difference	7	-	-	-
Opening Cash	93	221	553	788
Closing Cash	221	553	788	1,037

Source: Company, ICICI Direct Research

Exhibit 3: Balance sheet				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Liabilities				
Equity Capital	12	14	14	14
Reserve and Surplus	778	1,293	1,454	1,639
Total Shareholders funds	790	1,307	1,469	1,653
Minority interest	137	163	192	220
Total Debt	333	237	237	237
Other liabilities	266	410	441	478
Total Liabilities	1,526	2,118	2,338	2,588
Assets				
Total Fixed Assets	858	1,080	1,070	1,058
Investments	122	39	39	39
Other non current assets	58	67	70	72
Debtors	316	455	471	511
Loans and Advances	2	2	2	2
Cash & investments	375	789	1,025	1,274
Other current assets	172	265	285	310
Total Current Assets	865	1,512	1,784	2,097
Current liabilities	365	564	606	658
Provisions	11	17	18	20
Total Current Liabilities	376	581	624	677
Net Current Assets	488	931	1,160	1,419
Application of Funds	1,526	2,118	2,338	2,588

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Per share data (₹)				
EPS	52.4	68.1	77.9	89.1
Cash EPS	65.5	87.6	98.7	111.9
BV	311.7	442.3	496.8	559.1
DPS	8.0	20.4	23.4	26.7
Cash Per Share	91.8	195.4	278.8	366.7
Operating Ratios (%)				
EBITDA Margin	14.5	18.9	18.8	18.8
PBT Margin	15.7	18.8	19.9	20.7
PAT Margin	12.4	12.2	12.9	13.6
Inventory days	-	-	-	-
Debtor days	108	100	97	97
Creditor days	36	36	36	36
Return Ratios (%)				
RoE	16.8	15.4	15.7	15.9
RoCE	11.3	15.1	15.4	15.7
RoIC	11.3	20.1	21.7	23.6
Valuation Ratios (x)				
P/E	16.5	12.7	11.1	9.7
EV / EBITDA	13.6	5.1	4.1	3.1
EV / Net Sales	2.0	1.0	0.8	0.6
Market Cap / Sales	2.0	1.3	1.2	1.1
Price to Book Value	2.6	1.9	1.7	1.5
Solvency Ratios				
Debt/EBITDA	2.1	0.8	0.7	0.7
Debt / Equity	0.4	0.2	0.2	0.1
Current Ratio	1.3	1.2	1.2	1.2
Quick Ratio	1.3	1.2	1.2	1.2

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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