



## 3R MATRIX

	+	=	-
Right Sector (RS)	✓	✗	✗
Right Quality (RQ)	✓	✗	✗
Right Valuation (RV)	✓	✗	✗

+ Positive = Neutral - Negative

## What has changed in 3R MATRIX

	Old		New
RS	✗	↔	✓
RQ	✗	↔	✓
RV	✗	↔	✓

## Reco/View

Change

Reco: Buy	↔
CMP: Rs. 1,156	
Price Target: Rs. 1,300	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

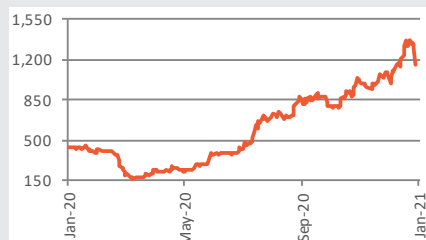
## Company details

Market cap:	Rs. 2,883 cr
52-week high/low:	Rs. 1,460 / 170
NSE volume: (No of shares)	2.7 lakh
BSE code:	523704
NSE code:	MASTEK
Free float: (No of shares)	1.3 cr

## Shareholding (%)

Promoters	44.6
FII	7.4
DII	16.3
Others	31.7

## Price chart



## Price performance

(%)	1m	3m	6m	12m
Absolute	16.7	43.6	173.0	161.9
Relative to Sensex	10.1	23.5	143.3	145.0

Sharekhan Research, Bloomberg

## Summary

- We maintain a Buy on Mastek with a revised PT of Rs. 1,300; recent drop of over 20% in stock provides long-term investors good entry point.
- Current Group CEO Mr. John Owen has relinquished role as on January 18, 2021; Mr. Ashank Desai will be interim CEO until a new CEO is appointed.
- Mastek has appointed one of the top US recruitment firm to search for a CEO, who would drive the company's growth in the US markets given rising spends on technologies and traction for its Cloud offerings.
- Management confident of sustainable growth momentum in UK business given its track record of executing large projects for the UK government, multi-layer relationships in accounts and a strong deal pipeline.

Mastek's management hosted a conference call to discuss the resignation of Group Chief Executive Officer (CEO), Mr. John Owen and the appointment of Mr. Ashank Desai as interim CEO. Mastek announced that Mr. John Owen has relinquished his role as Group CEO as on January 18, 2021. Mr. Ashank Desai, Vice Chairman & Managing Director, will take charge as Group CEO until a new candidate is appointed. The company has appointed one of the top US firms to search for a suitable Group CEO candidate who could drive the company's growth in the US market. During Mr. Owen's tenure, Mastek acquired TAISTech and Evolutionary Systems (Evosys) to reduce the risk of geographical concentration, enhance addressable markets and drive growth in the US market. Mastek grew significantly in terms of revenue and operating profitability during his tenure, though the TAISTech acquisition and expansion in US market did not perform as per the expectations. Management remains confident on sustainable growth momentum in UK business given its strong leadership team, successful track record of delivering large projects to UK public sector, multi-layer relationship in many accounts in UK, long-standing relationship with UK government and cross-sale opportunities in the UK private sector. Further, Abhishek Singh, President of Mastek, is also moving to new role where he will manage UK operations. The management stated that they have UK citizen employees at senior-level roles, who would continue to drive the company's local relationship with UK Government. A strong deal pipeline, robust deal wins and traction for Evosys business would support to its growth momentum in near-to-medium term.

## Our Call

**Valuation – Maintain Buy with a revised price target of Rs. 1,300:** Though the abrupt exit of Mr. John Owen might have some impact on UK business in the medium term because of his incomplete work, we believe the company would manage growth momentum given its multi-layer relationships with UK public accounts and deep relationship with the UK government. The company also has UK citizen employees at the top level and a recovery in the UK's private sector would also help. Further, Evosys is well-poised to deliver strong growth in next 2-3 years led by strong traction for Cloud-related technologies. Net cash remained at Rs. 450 crore as of September 30, 2020, which is 16% of its current market capitalisation. Stock price of Mastek has corrected more than 20% from the peak over last 15 days, which provides a good entry point for investors to invest on a long-term perspective. At CMP, the stock is trading at a reasonable valuation of 15x/13.6x its FY2022E/FY2023E EPS. Given strong growth potential and a healthy balance sheet, we maintain Buy rating on Mastek with a revised price target (PT) of Rs. 1,300.

## Key Risks

1) Integration issue from inorganic initiatives; 2) intense competition; and 3) currency risks.

## Valuation

Particulars	FY19	FY20	FY21E	FY22E	FY23E
Revenue	1,033.2	1,071.5	1,655.3	1,910.3	2,106.9
OPM (%)	12.7	14.5	19.6	19.7	19.8
Adjusted PAT	100.9	132.9	190.1	220.6	249.7
% y-o-y growth	44.3	31.7	43.0	16.0	13.2
Adjusted EPS (Rs.)	40.1	42.9	64.8	75.2	85.1
P/E (x)	21.5	20.1	13.3	11.5	10.1
P/B (x)	3.0	2.8	2.7	2.3	2.0
EV/EBITDA (x)	14.8	12.6	6.0	5.2	4.7
RoNW (%)	15.9	14.4	22.1	21.7	20.9
RoCE (%)	18.9	14.7	19.5	20.2	20.8

Source: Company; Sharekhan estimates

### **Event: Mr. John Owen, Group Chief Executive Officer (CEO), steps down**

Mastek announced the separation of its Group CEO, Mr. John Owen, from the Group on January 15, 2021. It also highlighted that Mr. John Owen will be relinquishing his role as Group CEO as on January 18, 2021 and will be pursuing opportunities outside the group. Mr. Ashank Desai, Vice Chairman & Managing Director, will assume the responsibilities of the Group CEO until a new candidate is appointed. Management cited that resigning from the Group CEO position of Mastek is John's personal decision.

### **Focused on diversification strategy though inorganic route**

Mr. John Owen was appointed as Group CEO of Mastek, effective November 1, 2016 in place of Mr. Sudhakar Ram. John was considered as an ideal candidate to lead Mastek to the next level of growth given his successful track record with the UK markets (especially the UK government market). During his tenure, Mastek acquired TAISTech and Evolutionary Systems (Evosys) to reduce geographical concentration risk, enhance addressable markets and drive growth in the US market. Mastek grew significantly in terms of revenue and operating profitability during this tenure, though the TAISTech acquisition did not perform as per the company's expectations. One must also note that the company delivered strong performance in its UK public sector business in his tenure.

### **Growth drivers remain intact in UK, strategizing to drive US business**

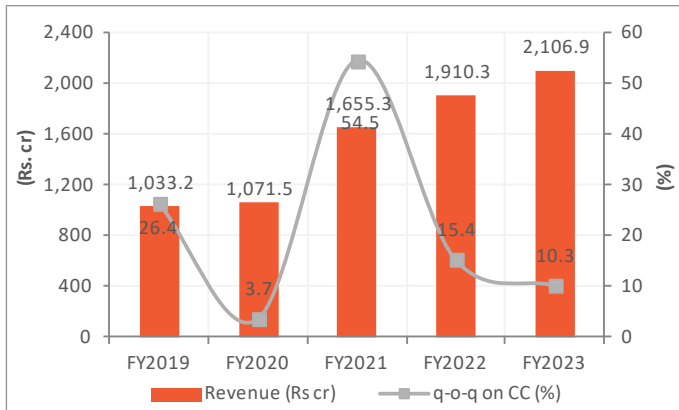
The management highlighted that John Owen's step down from the position of Group CEO of Mastek was personal decision. Further, management clarified that he has not asked to leave the organisation or did not have any conflict within the organization. The management remains confident on the growth momentum of UK business given its strong leadership team in UK, successful track record of delivering large projects to UK public sector, multi-layer relationship in many accounts and long-standing relationship with UK government. Further, Abhishek Singh, President of Mastek, is moving to a new role where he will manage UK operations. The management stated that they have hired an UK citizen for a senior level role is expected to drive the relationship with the UK government. A strong deal pipeline, robust deal wins and cross-sale opportunities in UK private sector would support growth momentum in near-to-medium term. Mastek has appointed one of the top US firms to search for a suitable candidate with experience of US markets to drive its growth in US market.

### **Evosys is well-poised to tap into large opportunities in Cloud**

As Evosys is an Oracle Platinum partner and there aren't any legacy offerings (on premise ERP offerings), we believe Evosys is well-poised to drive its growth in next 2-3 years. Further, growth would be driven by strong momentum of vertical SaaS (Software-as-a-Service), a healthy growth rate in Oracle Cloud ERP/HCM (named as magic quadrant leader by Gartner), new logo wins and ability to provide end-to-end services with the combined capability of Mastek and Evosys. Evosys is a leading Oracle Cloud implementation and consultancy company serving more than 1,000 Oracle Cloud customers across more than 30 countries.

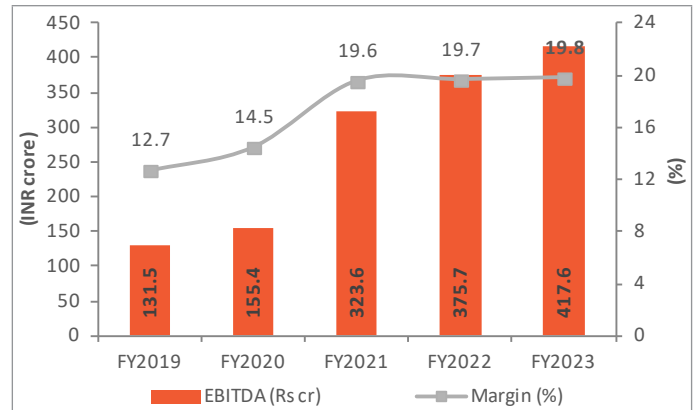
## Financials in charts

Revenue (Rs. crore) and growth (%)



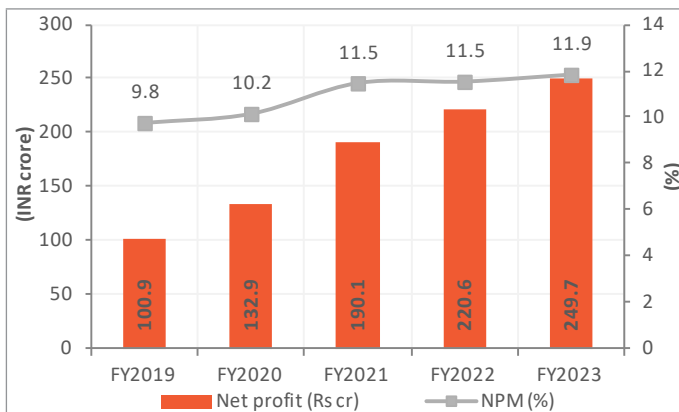
Source: Company, Sharekhan Research

EBITDA (Rs. cr) and EBITDA margin (%)



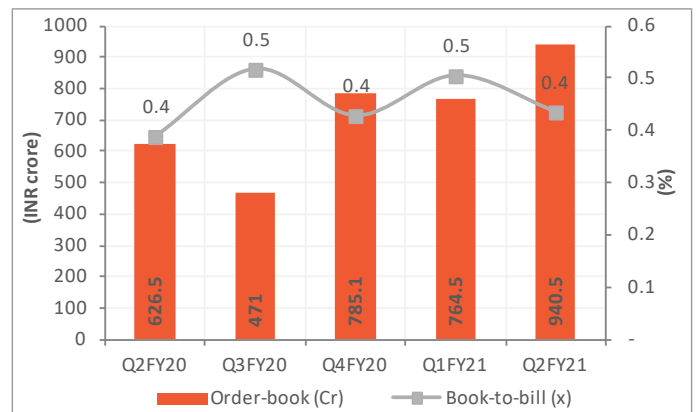
Source: Company, Sharekhan Research

Net profit (Rs. cr) and NPM (%)



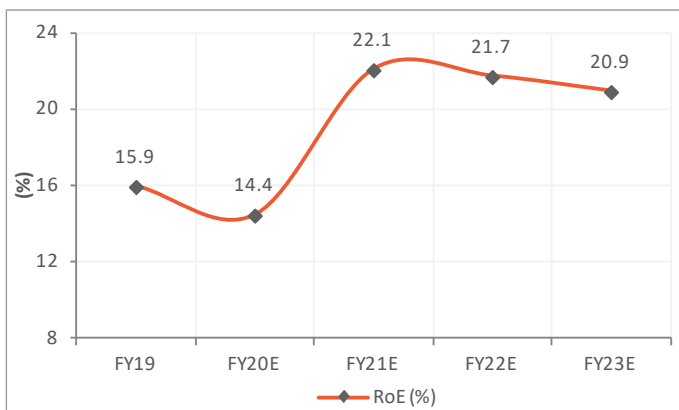
Source: Company, Sharekhan Research

Order-book (Rs. Cr) & Book-to-bill (x)



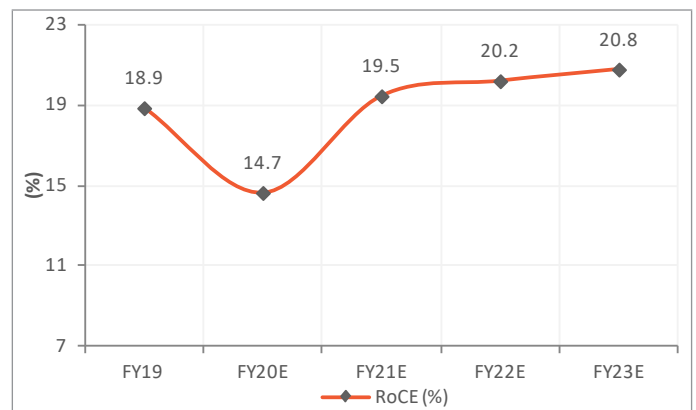
Source: Company, Sharekhan Research

RoE trend (%)



Source: Company, Sharekhan Research

RoCE trend (%)



Source: Company, Sharekhan Research

## Outlook and Valuation

### ■ Sector view – Expect acceleration in technology spends going forward

Industry analysts such as Gartner estimates IT services spending to grow by 5-8% over CY2021-CY2024E as compared to an average of 4.2% achieved in CY2010-CY2019. Forecasts indicate higher demand for cloud infrastructure services, a potential increase in specialised software, potential investments in transformation projects by clients, and increased online adoption across verticals. Gartner estimates that the size of the cloud consulting and integration (C&I) services will double from \$98 billion in 2018 to \$184 billion in 2022 (at a 17% CAGR) with migration at 70% of the market size. UK's software and IT Services (SITS) spend (Public + Private) is ~GBP 47 billion, of which UK public sector's spend is ~25% (~GBP 11.5 billion) and digital spend is ~23%. Hence, we believe there is huge headroom for Mastek to grow in the UK, as it currently gets less than 5% of total spends of Home Office and NHS Digital.

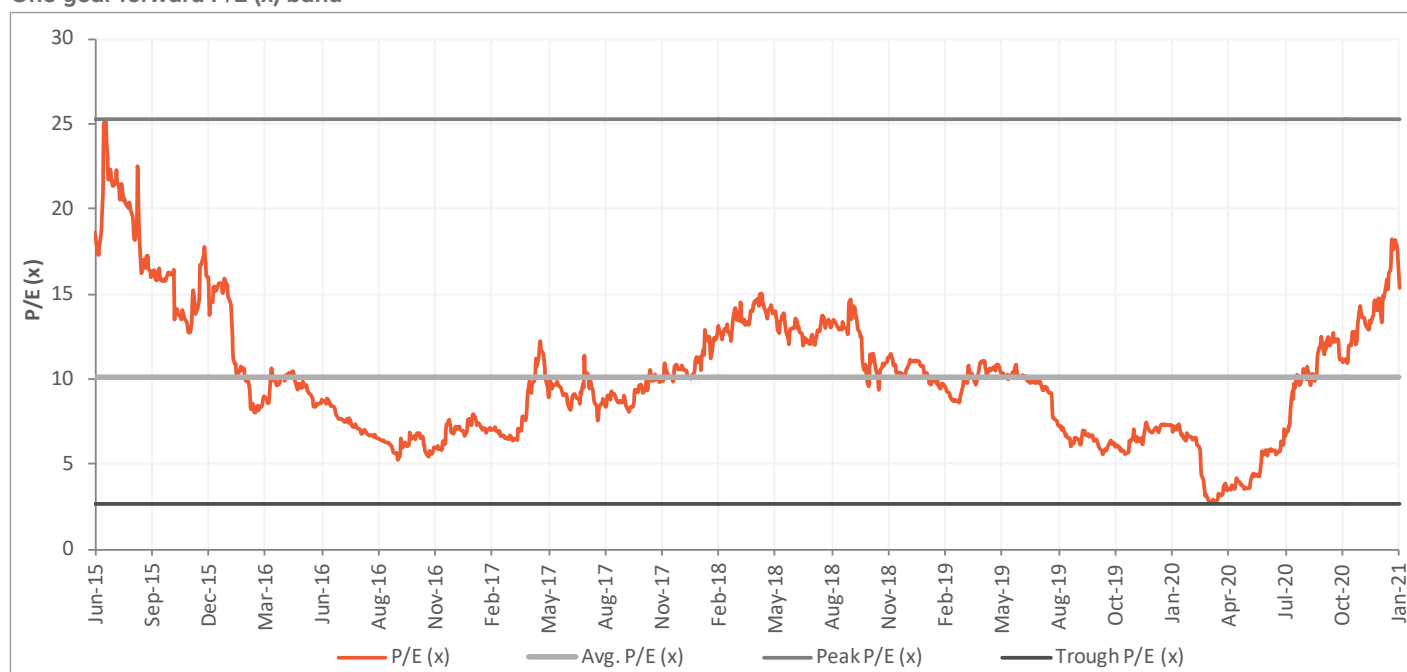
### ■ Company outlook – Focus on improving annuity type deals

Mastek has created a consistent and predictable revenue stream from the UK's public sector over the past few years, thanks to introduction of Digital Outcomes and Specialists (DOS) framework by the UK government (replacement of Digital Services-2 framework in 2016). Management indicated that revenue growth momentum in the UK public sector would continue in coming quarters on account of higher spends in UK governments and addition of new logos. Further, management indicated that Evosys revenue would maintain the growth momentum because of strong demand for cloud migration.

### ■ Valuation - Reasonable valuation

Though the abrupt exit of Mr. John Owen might have some impact on UK business in the medium term because of incomplete work, we believe the company would manage growth momentum given its multi-layer relationships with UK public accounts and deep relationship with the UK government. The company also has UK citizen employees at the top level and a recovery in the UK's private sector would also help. Further, Evosys is well-poised to deliver strong growth in next 2-3 years led by strong traction for Cloud-related technologies. Net cash remained at Rs. 450 crore as of September 30, 2020, which is 16% of its current market capitalisation. Stock price of Mastek has corrected more than 20% from the peak over last 15 days, which provides a good entry point for investors to invest on a long-term perspective. At CMP, the stock is trading at a reasonable valuation of 15x/13.6x its FY2022E/FY2023E EPS. Given strong growth potential and a healthy balance sheet, we maintain Buy rating on Mastek with a revised price target (PT) of Rs. 1,300.

### One-year forward P/E (x) band



Source: Sharekhan Research

### Peer valuation

Particulars	CMP (Rs / Share)	O/S Shares (Cr)	MCAP (Rs Cr)	P/E (x)		EV/EBIDTA (x)		P/BV (x)		RoE (%)	
				FY20E	FY21E	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Birlasoft	247	28	6,846	24.2	18.9	12.5	10.2	3.3	3.0	14.5	16.7
Persistent Systems	1,588	8	12,136	28.8	23.5	18.1	15.0	4.6	4.2	16.8	18.8
Mastek	1,156	2	2,883	17.8	15.4	8.2	7.1	3.6	3.1	22.1	21.7

Source: Company, Sharekhan estimates

## About company

Established in 1982, Mastek provides IT services to four verticals – government (mostly caters to the UK government), retail, financial, and information technology (IT) services. Mastek continues to be ranked among the top three vendors in delivering agile development services to the UK government on digital, G-Cloud, and GDS frameworks. The company primarily provides digital solutions to its retail (ex. Oracle Cloud Commerce platform) and financial clients (primarily wealth management and digital banking clients), while it helps the government to reduce cost and time in delivery in the UK. On the region front, the company is positioned largely in the UK, as 67% of its revenue comes from this region, followed by the US/ME/RoW with contribution to total revenue of 18%/11%/4%, respectively. In September 2014, demerger of insurance products and service business of Mastek formed a new company named Majesco Limited.

## Investment theme

Mastek has a long-standing relationship with the UK government as it was working as a subcontractor to large IT companies for execution of UK government's projects earlier. This long-term relationship and excellent execution capabilities make Mastek a prime beneficiary of UK government's digital spends. We expect strong order pipeline along with significant headroom for growth with the UK public sector (spend is ~GBP 11.5 billion), higher client mining of top accounts, and cross/up-sell opportunities to drive strong growth for Mastek going forward. Further, Mastek has been largely participating for digital contracts of UK public and private sector, where UK digital spending is growing at 30%. With the acquisition of TAIS Tech, which marks its entry in the US, Mastek focuses on accelerating its revenue momentum in the US.

## Key Risks

1) High dependence on the UK market; 2) headwinds in cross-currency (especially GBP/INR) fluctuations; and 3) intense competition may adversely impact our estimates.

## Additional Data

### Key management personnel

Ashank Desai	Group CEO
Abhishek Singh	Group CFO
Umang Nahata	CEO, Evosys
Narasimha Murthy	Group Chief Delivery Officer
Arun Agarwal	Vice President, Finance

Source: Company Website

### Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	IDFC Mutual Fund/India	3.86
2	ABAKKUS GROWTH FUND	3.29
3	KACHOLIA ASHISH	2.88
4	Reliance Capital Trustee Co Ltd	1.10
5	Nippon Life India Asset Management	0.81
6	ICICI Prudential Asset Management	0.73
7	Edelweiss Asset Management Ltd	0.72
8	BOI AXA investment Managers	0.50
9	Samsung Life Insurance Co Ltd	0.32
10	Quant Money managers	0.19

Source: Bloomberg

Sharekhan Limited, its analyst or dependant(s) of the analyst might be holding or having a position in the companies mentioned in the article.

## Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

# Sharekhan

by BNP PARIBAS

Know more about our products and services

For Private Circulation only

**Disclaimer:** This document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This Document is subject to changes without prior notice. This document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other reports that are inconsistent with and reach different conclusions from the information presented in this report.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

The analyst certifies that the analyst has not dealt or traded directly or indirectly in securities of the company and that all of the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. The analyst further certifies that neither he or its associates or his relatives has any direct or indirect financial interest nor have actual or beneficial ownership of 1% or more in the securities of the company at the end of the month immediately preceding the date of publication of the research report nor have any material conflict of interest nor has served as officer, director or employee or engaged in market making activity of the company. Further, the analyst has also not been a part of the team which has managed or co-managed the public offerings of the company and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document. Sharekhan Limited or its associates or analysts have not received any compensation for investment banking, merchant banking, brokerage services or any compensation or other benefits from the subject company or from third party in the past twelve months in connection with the research report.

Either SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Compliance Officer: Mr. Joby John Meledan; Tel: 022-61150000; email id: [compliance@sharekhan.com](mailto:compliance@sharekhan.com);

For any queries or grievances kindly email [igc@sharekhan.com](mailto:igc@sharekhan.com) or contact: [myaccount@sharekhan.com](mailto:myaccount@sharekhan.com)

**Registered Office:** Sharekhan Limited, 10th Floor, Beta Building, Lodha iThink Techno Campus, Off. JVLR, Opp. Kanjurmarg Railway Station, Kanjurmarg (East), Mumbai – 400042, Maharashtra. Tel: 022 - 61150000. Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669; Research Analyst: INH000006183;

Disclaimer: Client should read the Risk Disclosure Document issued by SEBI & relevant exchanges and the T&C on [www.sharekhan.com](http://www.sharekhan.com); Investment in securities market are subject to market risks, read all the related documents carefully before investing.