

Healthy operating performance continues...

Mastek's revenues increased 7.3% QoQ (in CC terms) and by 9.1% QoQ (in reported terms) to US\$60.1 million. The increase in revenues was led by Evosys acquisition (up 10.5% QoQ) and 8.3% QoQ growth in organic revenues. EBIT margin expansion of 253 bps QoQ to 20.8% was mainly led by 40 bps expansion in gross margins and rationalisation of SG&A expenses. Mastek's 12-month order book was flat QoQ to US\$129.6 million. Mastek has reduced debt by US\$1.2 million (~₹ 9 crore).

Large deals, cloud migration to drive growth

During the quarter, the company won many multi-million dollar deals across geographies mainly led by integration of Evosys and the company's capability to offer end to end solution. Mastek is also building its sales & marketing to drive growth. It has added 248 employees in the quarter and plans to add similar number of employees in the next quarter indicating improving growth in coming quarters. Mastek has added 12 customers with US\$1 billion in revenues indicating robust potential for client mining via cross selling of Evosys and Mastek capabilities. The company is also seeing healthy growth in US non retail clients (added five new logos) and plans to hire a US based CEO to further drive growth. This, coupled with improving opportunity in UK government segment, Evosys focus on healthcare & manufacturing, improving deal pipeline in cloud, inorganic growth (led by healthy cash balance) and market share gains are some long term drivers for Mastek's revenues. Hence, we expect dollar revenues to grow at 20.5% CAGR in FY20-23E.

To register healthy margins

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 the company's aim to invest in growth and resurgence of travel & facility cost, we expect EBITDA margins to taper in coming years (in line with company's expectation of high teen margins). Hence, we expect EBITDA margins of 21.2% in FY21E to taper to 19.0% & 18.8% for FY22E & FY23E, respectively.

Valuation & Outlook

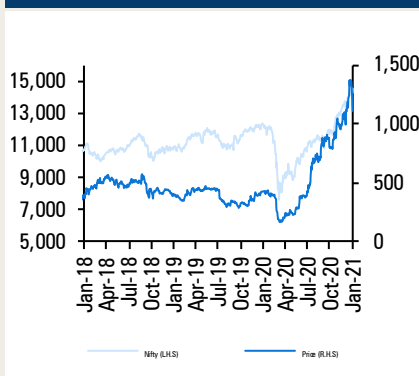
The company is seeing improved opportunity in multi-year deals led by integration of Evosys and Mastek's capability to offer end to end solution. This coupled with improving revenue trajectory in US private sector, UK public sector, inorganic expansion and market share gains are expected to drive the company's long term growth. However, recent run up in stock price and near term concern due to UK lockdown prompt us to be cautious on the stock. Hence, we downgrade the stock from BUY to **HOLD** with a revised target price of ₹ 1,310/share (15x PE on FY23E EPS) (earlier TP of ₹ 1350).



Particulars

Particulars	Amount
Market Capitalisation	₹ 2985 Crore
Debt (March-20)	₹ 333 Crore
Cash (March-20)	₹ 375 Crore
EV	₹ 2943 Crore
52 week H/L (₹)	1460 / 170
Equity capital	₹ 12 Crore
Face value	₹ 5

Price Performance



Key Risk

- Rise in order book and cloud could impact revenues positively
- Inability of the company to ramp up US and UK public sector could impact revenues adversely

Research Analyst

Devang Bhatt
devang.bhatt@icicisecurities.com

Key Financial Summary

₹ Crore	FY19	FY20	FY21E	FY22E	FY23E	CAGR FY20-23E
Net Sales	1,033	1,072	1,696	1,823	1,978	22.7%
EBITDA	132	155	360	346	372	33.8%
EBITDA Margins (%)	12.7	14.5	21.2	19.0	18.8	
Adjusted Net Profit	101	133	207	229	258	24.7%
Adjusted EPS (₹)*	40	52	70	78	87	
P/E	29.8	22.8	17.1	15.4	13.7	
RoNW (%)	14.1	16.8	15.8	15.6	15.6	
RoCE (%)	17.0	11.3	15.9	15.3	15.3	

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	1,696	1,823	1,978
Growth (%)	4	58	8	9
COGS (employee expenses)	584	878	944	1,025
Other expenses	332	458	532	582
Total Operating Expenditure	916	1,336	1,477	1,606
EBITDA	155	360	346	372
Growth (%)	18	131	(4)	7
Depreciation	25	47	50	54
Net Other Income	38	21	57	75
PBT	168	333	353	392
Total Tax	30	90	95	106
Exceptional item	(24)	-	-	-
Adjusted PAT	133	207	229	258
Growth (%)	32	56	11	12
Adjusted EPS (₹)	52.4	70.0	77.6	87.2

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit before tax	187	297	325	364
Add: Depreciation	25	47	50	54
(Inc)/dec in Current Assets	11	(261)	(39)	(69)
Inc/(dec) in CL and Provisions	24	374	76	93
Taxes paid	(47)	(90)	(95)	(106)
CF from operating activities	184	366	272	274
(Inc)/dec in Inv. (+) Int inc (+) Goodw	157	(193)	65	83
(Inc)/dec in Fixed Assets	(425)	(42)	(27)	(30)
CF from investing activities	(269)	(235)	38	53
Issue/(Buy back) of Equity	2	376	-	-
Dividend paid & dividend tax	(31)	(62)	(69)	(77)
Others	235	(88)	8	8
CF from financing activities	206	221	(73)	(81)
Net Cash flow	127	352	237	246
Exchange difference	7	-	-	-
Opening Cash	93	221	573	809
Closing Cash	221	573	809	1,055

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	1,297	1,458	1,638
Total Shareholders funds	790	1,311	1,472	1,652
Minority interest	137	173	202	230
Total Debt	333	237	237	237
Other liabilities	266	420	452	490
Total Liabilities	1,526	2,142	2,362	2,610
Assets				
Total Fixed Assets	858	1,080	1,069	1,057
Investments	122	39	39	39
Other non current assets	58	68	70	73
Debtors	316	466	483	524
Loans and Advances	2	2	2	2
Cash & investments	375	809	1,046	1,292
Other current assets	172	272	292	317
Total Current Assets	865	1,550	1,824	2,136
Current liabilities	365	578	622	674
Provisions	11	17	18	20
Total Current Liabilities	376	595	640	694
Net Current Assets	488	955	1,184	1,441
Application of Funds	1,526	2,142	2,362	2,610

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios				
	₹ crore			
	FY20	FY21E	FY22E	FY23E
Per share data (₹)				
EPS	52.4	70.0	77.6	87.2
Cash EPS	65.5	90.0	98.8	110.4
BV	311.7	443.6	497.9	558.9
DPS	8.0	21.0	23.3	26.2
Cash Per Share	91.8	202.5	286.2	373.1
Operating Ratios (%)				
EBITDA Margin	14.5	21.2	19.0	18.8
PBT Margin	15.7	19.6	19.4	19.8
PAT Margin	12.4	12.2	12.6	13.0
Inventory days	-	-	-	-
Debtor days	108	100	97	97
Creditor days	36	36	36	36
Return Ratios (%)				
RoE	16.8	15.8	15.6	15.6
RoCE	11.3	15.9	15.3	15.3
RoIC	11.3	23.4	22.5	24.1
Valuation Ratios (x)				
P/E	22.8	17.1	15.4	13.7
EV / EBITDA	18.9	6.7	6.3	5.2
EV / Net Sales	2.7	1.4	1.2	1.0
Market Cap / Sales	2.8	1.8	1.6	1.5
Price to Book Value	3.6	2.6	2.3	2.0
Solvency Ratios				
Debt/EBITDA	2.1	0.7	0.7	0.6
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%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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