

Aspiring to reach US\$1 bn revenue in second half of decade

About the company:

- Mastek Ltd (Mastek) offers data, apps, cloud services to public & private enterprises 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 improve margins from ~14% to 21%
- Net debt free and healthy double digit return ratio (with RoCE of 20%)

Event: We attended the Analyst Day of Mastek with key takeaway being:

- Mastek aspires to reach US\$1 bn revenue in five to six years from now. The revenue number includes five to six acquisitions in that period
- The company is looking to aggressively expand in US market (17.6% revenue mix in FY22). As a result, it expects this pie to reach 33.8% by FY25
- Mastek aligned leadership for US market growth wherein it has appointed Umang Nahata, CEO of Evosys, as president, North America business
- The company has 10-15% wallet share in the UK public market and has significant growth headroom

What should investors do? Mastek's share price has grown by ~12x over the past five years (from ~₹ 238 in April 2017 to ~₹ 2,830 levels in April 2022).

- We change our rating from BUY to **HOLD**

Target Price and Valuation: We value the stock at 22x FY24EPS with a target price of ₹ 3100

Key triggers for future price performance:

- Growth in new logo acquisition, increasing deal size, expansion of sales & marketing and market share gains in the UK market to drive revenues
- Management change in the US market may help it to grow stronger and achieve the desired revenue mix

Alternate Stock Idea: Apart from Mastek, in our coverage we like Infosys

- Key beneficiary of improved digital demand, industry leading revenue growth and healthy capital allocation prompt us to be positive. HOLD with a target price of ₹ 1,775



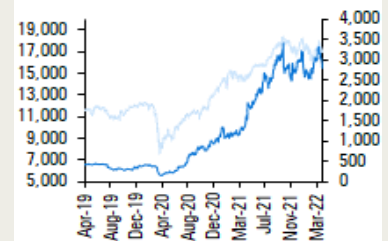
Particulars

Particulars	Amount
Market Capitalisation	₹ 8046 Crore
Debt	₹ 190 Crore
Cash	₹ 782 Crore
EV	₹ 7454 Crore
52 week H/L (₹)	3666 / 1363
Equity capital	₹ 15 Crore
Face value	₹ 5

Shareholding pattern

	Jun-21	Sep-21	Dec-21	Mar-22
Promoters	44	37	38	37
FII	6	4	5	7
DII	11	8	7	7
Public	39	51	50	49

Price Chart



Key risks

Key Risk: (i) Better than expected revenue (ii) lower than expected margins

Research Analyst

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Key Financial Summary

₹ Crore	FY19	FY20	FY21	FY22	5 Year CAGR (FY17-22)	FY23E	FY24E	2 Year CAGR (FY22-24E)
Net Sales	1,033	1,072	1,722	2,184	31	2,575	3,026	17.7
EBITDA	132	155	364	463	57	523	614	15.2
EBITDA Margins (%)	12.7	14.5	21.2	21.2		20.3	20.3	
Net Profit	101	133	209	295	56	333	402	16.7
EPS (₹)	40	52	82	104		117	141	
P/E	70.6	54.0	34.6	27.3		24.2	20.0	
RoNW (%)	14.1	16.8	24.4	27.5		24.8	24.0	
RoCE (%)	17.0	11.3	21.5	26.7		25.4	25.1	

Source: Company, ICICI Direct Research;

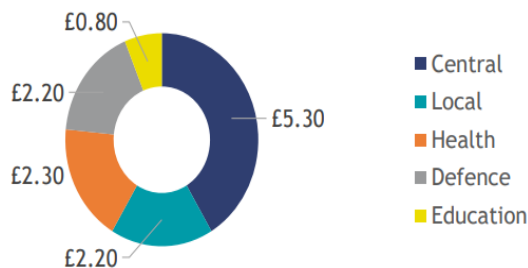
Key Highlights and meet takeaways

UK & Europe Business

- As per the company, the UK public sector software & IT services market is pegged at £13.6 billion (bn). The market is growing at 2% per annum
- Digital demand in the market is growing at 13% YoY. Mastek is servicing four of the five major spenders in the market. Mastek is strongest in terms of SAAS offering
- The market presents an annuity business (run & maintain) opportunity for Mastek, which is evidenced from large deal (>£10 mn) acceleration. The company has won seven large deals in FY22 vs. three in FY21
- Mastek has a wallet share of 10-15% and has significant growth room. As per the company, 50% of Oracle business in the UK is in public sector
- The company is also looking to scale up UK private business as well as they are looking to expand into Nordic countries, Netherlands, France, etc
- Private sector opportunity includes fraud analytics in BFSI (£218 mn fraud happens every year in UK, identity management (3,000 defence persons in UK uses Mastek's identity management system, vehicle leasing platform (especially on the EV side), managed services (annuity revenues)

Exhibit 1: UK market by sectors

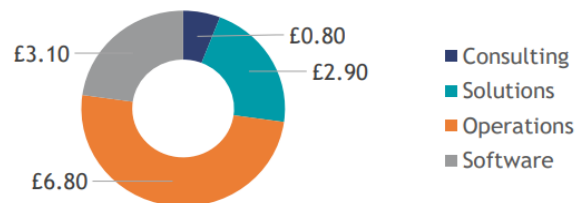
Market by Sectors (Overall Mkt Size £13.6Bn)



Source: Company, ICICI Direct Research

Exhibit 2: UK market by activity

Market by Activity



Source: Company, ICICI Direct Research

Exhibit 3: Scaling growth in UK private sector as well as in European geographies



Source: Company, ICICI Direct Research

North America business

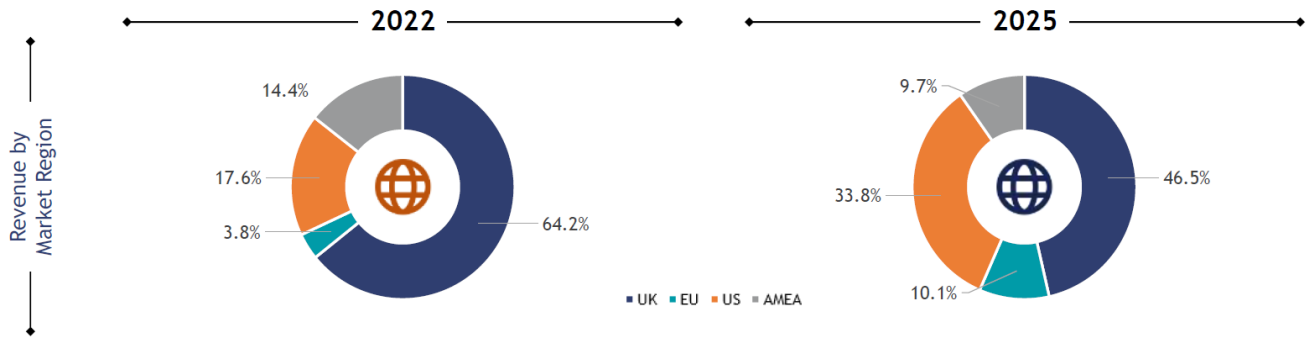
- The company has re-aligned leadership in the America region. Umang Nahata, who is CEO of Evosys, has been given charge of Americas business and he has been appointed as President, Americas for Mastek. Raman Sapra, who was earlier President, Americas has been given responsibility of Global service line and M &A
- After this leadership change, Mastek will operate as one entity in the region
- Earlier they had three capabilities in the region viz. Oracle cloud applications, digital commerce and Oracle SAAS enhancement services
- Now they will be operating under five capabilities viz. A) Glid 4.0. They are focusing on cloud transformation and legacy modernisation. Deal sizes are also increasing from US\$0.5 mn earlier to US\$1 mn now. Peers include Oracle focused players and Global system integrators (GSI) B) Full stack CX- they are focusing on digital commerce and customer analytics/experience (in CX, they do not have sizable presence and they are looking to scale up the business). As per the company, 25% of the Oracle business comes from customer experience (CX). C) cloud enhancement (CES): Focus is on managed services since the products as well as platforms needs constant upgrading D) Vertical cloud capabilities: the focus is on offering more capabilities E) Data & automation: The focus area is to acquire data assets, which are into the domain of digital commerce, CX, ERP & data analytics
- The company is looking for strategic account mining of top 30 accounts where there is a potential opportunity of US\$1.5 bn. Verticals where they are focusing are healthcare & lifesciences, manufacturing & industrial, retail & consumer, etc
- They will also look at new alliances here with Microsoft, Salesforce, Ulpath, Pega & other for cloud & allied services

Other Key highlights

- It is also looking to diversify its geographical concentration. Mastek is looking to scale up the US business under new leadership so that US region would contribute 33.8% of the revenue mix in FY25 vs. 17.6% in FY22. As a result, contribution from the UK business (which currently forms 64.2% of the revenue mix) would come down to 46.5% in FY22 and that of AMEA would come down from 14.4% to 9.7%
- The company is looking to reach US\$1 bn revenue in the second half of the decade. The aspiration revenue numbers include acquisitions (they are looking at five to six acquisitions in the next five to six years i.e. one acquisition every year. The company is looking to acquire companies having annual sales in the range of US\$20-40 mn. Mastek is looking to fund these acquisitions through a combination of internal accruals, fund raising as well borrowings
- The 12 month's order back-log (new deals) grew 15.5% QoQ and is at US\$193.8 mn
- The company has ₹ 794 crore cash on books
- Client portfolio is quite diverse now as top five, top 10 client's revenue mix is now at 30%, 43% vs. 40%, 58%, respectively, in FY20. Utilisation has improved 340 bps in the last two years to 80% now

Exhibit 4: Scaling up US business

Revenue Mix - Well Diversified Portfolio



Source: Company, ICICI Direct Research

Exhibit 5: Strategic bets for FY23



1 GROWTH MARKETS & VERTICALS

Hyper Growth in Americas
Double Down on Health & Life Sciences in NA

Scale Top 5 Accounts in UK Public Sector
(Home Office, HMRC, NHS, MOD & DWP)



2 DIGITAL & CLOUD SERVICES + PARTNERSHIPS

Dominate in Oracle Cloud
Fastest Cloud Growth Partner Globally

Cloud Enhancement Services (CES)
Managed Services & Multi-tower Large Deals



3 TALENT & DELIVERY M&A

Differentiated Talent powered by Mastek 4.0
Value Based Delivery Business Outcomes

M&A Focus
Automation/CX
Data Cloud
Azure/AWS

Source: Company, ICICI Direct Research

Exhibit 6: Key technology platforms & partnership

	Digital & Application Engineering	Oracle Cloud & Enterprise Apps	Data Automation and AI	Digital Commerce & Experience	Cloud & SaaS Managed Services
Strategic		 Trusted Oracle partner across the globe for ERP, SCM, HCM, EPM, CX, Technology and Cloud Applications.			
Growth					
Horizontal Providers*					

*Infrastructure, Cybersecurity, Consulting & Industry Solutions Providers

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 7: Profit and loss statement ₹ crore

(Year-end March)	FY21	FY22	FY23E	FY24E
Net Sales	1,722	2,184	2,575	3,026
Growth (%)	61	27	18	18
COGS (employee expenses)	883	1,095	1,339	1,573
Other expenses	475	626	713	838
Total Operating Expenditure	1,357	1,721	2,052	2,412
EBITDA	364	463	523	614
Growth (%)	135	27	13	18
Depreciation	45	43	71	83
Net Other Income	20	28	67	95
PBT	339	448	519	626
Total Tax	88	115	140	169
Exceptional item	-	-	-	-
Adjusted PAT	209	295	333	402
Growth (%)	57	41	13	21
Adjusted EPS (₹)	81.9	103.8	117.1	141.4

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement ₹ crore

(Year-end March)	FY21	FY22	FY23E	FY24E
Profit before tax	252	333	473	571
Add: Depreciation	45	43	71	83
(Inc)/dec in Current Assets	(60)	(175)	(133)	(153)
Inc/(dec) in CL and Provisions	8	66	193	222
Taxes paid	(48)	(109)	(140)	(169)
CF from operating activities	287	273	427	499
(Inc)/dec in Inv. (+) Int inc (+) Goodwill	439	464	75	103
(Inc)/dec in Fixed Assets	(258)	(484)	(39)	(45)
CF from investing activities	181	(20)	36	58
Issue/(Buy back) of Equity	8	2	-	-
Dividend paid & dividend tax	(15)	(48)	(60)	(72)
Others	(100)	(75)	8	8
CF from financing activities	(118)	(128)	(64)	(77)
Net Cash flow	371	119	399	480
Exchange difference	20	(6)	-	-
Opening Cash	221	608	727	1,126
Closing Cash	591	727	1,126	1,605

Source: Company, ICICI Direct Research

Exhibit 9: Balance Sheet ₹ crore

(Year-end March)	FY21	FY22	FY23E	FY24E
Liabilities				
Equity Capital	13	15	15	15
Reserve and Surplus	846	1,056	1,329	1,659
Total Shareholders funds	859	1,071	1,344	1,674
Minority interest	182	150	196	251
Total Debt	241	190	190	190
Other liabilities	333	294	346	407
Total Liabilities	1,614	1,706	2,077	2,522
Assets				
Total Fixed Assets	804	841	821	795
Investments	41	52	52	52
Other non current assets	80	79	81	83
Debtors	375	436	514	604
Loans and Advances	3	-	-	-
Cash & investments	806	782	1,180	1,660
Other current assets	186	298	351	413
Total Current Assets	1,370	1,515	2,045	2,676
Current liabilities	658	755	890	1,046
Provisions	23	28	33	39
Total Current Liabilities	681	783	923	1,084
Net Current Assets	689	733	1,122	1,592
Application of Funds	1,614	1,706	2,077	2,522

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios

	FY21	FY22	FY23E	FY24E
Per share data (₹)				
EPS	81.9	103.8	117.1	141.4
Cash EPS	103.2	122.0	145.7	175.1
BV	335.8	376.8	472.9	588.8
DPS	14.5	19.0	21.1	25.5
Cash Per Share	239.9	262.4	406.2	579.3
Operating Ratios (%)				
EBITDA Margin	21.2	21.2	20.3	20.3
PBT Margin	19.7	20.5	20.2	20.7
PAT Margin	12.2	13.5	12.9	13.3
Inventory days	-	-	-	-
Debtor days	79	73	73	73
Creditor days	35	28	28	28
Return Ratios (%)				
RoE	24.4	27.5	24.8	24.0
RoCE	21.5	26.7	25.4	25.1
RoC	39.5	45.4	50.4	61.6
Valuation Ratios (x)				
P/E	34.6	27.3	24.2	20.0
EV / EBITDA	20.5	16.1	13.5	10.7
EV / Net Sales	4.3	3.4	2.7	2.2
Market Cap / Sales	4.7	3.7	3.1	2.7
Price to Book Value	8.1	7.3	5.8	4.7
Solvency Ratios				
Debt/EBITDA	0.7	0.4	0.4	0.3
Debt / Equity	0.3	0.2	0.1	0.1
Current Ratio	0.8	0.9	0.9	0.9
Quick Ratio	0.8	0.9	0.9	0.9

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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