



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	✓	↔	✓

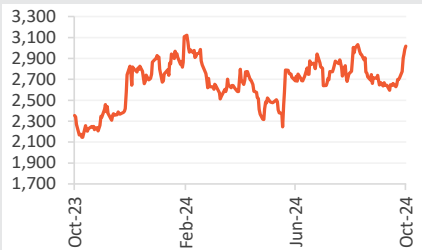
Company details

Market cap:	Rs. 9,317 cr
52-week high/low:	Rs. 3,147/2,106
NSE volume: (No of shares)	1.39 lakh
BSE code:	523704
NSE code:	MASTEK
Free float: (No of shares)	2.0 cr

Shareholding (%)

Promoters	36.3
FII	8.1
DII	10.4
Others	45.2

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	12.5	7.6	7.9	28.2
Relative to Sensex	14.6	7.7	-4.1	4.9

Sharekhan Research, Bloomberg

Mastek Ltd

Solid Q2; Maintain Buy

IT & ITES

Sharekhan code: MASTEK

Reco/View: Buy



Upgrade



CMP: Rs. 3018

Price Target: Rs. 3610



Downgrade

Summary

- Reported revenues stood at \$103.6 million, up 4.7% q-o-q/10.2% y-o-y in constant currency (CC) terms, beating our estimates of \$101.5 million.
- EBITDA margin rose by ~125 bps q-o-q to 16.5%, beating our estimates of 16%. The company aims to operate EBITDA margins in the range of 17% to 17% plus.
- Company is confident of absorbing full impact of wage hike in Q3 through multiple margin levers and report good margin performance in Q3 and Q4.
- We maintain a Buy with revised price target (PT) of Rs. 3,610 (valued at 25xSep26E EPS). At CMP, the stock trades at 25.9/22.2/18.8x its FY25/26/27E EPS.

Mastek reported revenues of \$103.6 million, up 4.7% q-o-q/10.2% y-o-y in constant currency, beating our estimates of \$101.5 million. Revenue in \$ terms was up 6.5% q-o-q/11.9% y-o-y while revenue in rupee terms stood at Rs 867.4 crore, up 6.7% q-o-q/13.3% y-o-y. Growth was largely broad based across verticals. EBITDA margin rose ~125 bps q-o-q to 16.5% largely aided by operating leverage. Adjusted Net Profit stood at Rs 116.9 crore, up 66.9% q-o-q/ 63.5% y-o-y, while reported profit stood at Rs 128.7 crore aided by an exceptional item of Rs 11.7 crore. 12 months order backlog was Rs 2,194.7 crore (\$261.9 million), up 17.9% in rupee terms and 10.9% in constant currency terms. The company is confident of absorbing the full impact of wage hike in Q3 through multiple margin levers and report good margin performance in Q3 and Q4. We believe that Mastek is on track to achieve industry-leading growth, given the strong start to FY25 and supported by the growth in North America and continued expansion in the UK, as well as strong momentum in healthcare and other global verticals. We have introduced FY27 estimates and roll forward to Sep26E EPS. We maintain Buy with revised price target (PT) of Rs. 3,610 (valued at 25x Sep26E EPS). At CMP, the stock trades at 25.9/22.2/18.8x its FY25/26/27E EPS.

Key positives

- Health & lifesciences, retail, manufacturing and financial services grew 7.1%/11.1%/10.4% and 18.4% q-o-q respectively.
- EBITDA margin improved 125 bps q-o-q to 16.5%
- LTM Attrition dipped 80 bps q-o-q to 20.1%

Key negatives

- Total headcount declined by 41 to 5,505
- Utilisation (excluding trainees) fell 190 bps q-o-q to 80.4%
- DSO days stood at 95 compared to 92 in Q1FY25

Management Commentary

- The UK remains resilient and is experiencing growth as the new labor government begins to establish itself and provide clearer direction and execution strategies.
- Healthcare investment of the UK government, which is currently much stronger and more directional, is positively impacting its business.
- Management is seeing good traction in healthcare in North America and has added important logos in the quarter.
- Australia remains a key focus for the Company and is showing strong traction with significant new client acquisitions, particularly in local government, healthcare, and ports.
- The company implemented a partial wage hike this quarter and expects the full impact of 120 to 130 basis points to be realised in the next quarter.
- The company aims to achieve EBITDA margins in the range of 17% to 17% plus.

Revision in estimates – We have revised our estimates to factor in Q2FY25 performance and introduced FY27E.

Our Call

Valuation – Maintain Buy with revised PT of Rs. 3,610: Mastek reported strong performance in Q2 with beat on revenue and margins. The company is confident of absorbing the full impact of wage hike in Q3 through multiple margin levers and report good margin performance in Q3 and Q4. The 12 month order backlog remains strong and stable providing strong revenue visibility. We expect sales/PAT CAGR of ~15%/18% over FY24-27E. We believe the company is on track to achieve industry-leading growth, given the strong start to FY25 and supported by the growth in North America and continued expansion in the UK, as well as strong momentum in healthcare and other global verticals. We have introduced FY27 estimates and roll forward to Sep26E EPS. We maintain Buy with revised price target (PT) of Rs. 3,610 (valued at 25xSep26E EPS). At CMP, the stock trades at 25.9/22.2/18.8x its FY25/26/27E EPS.

Key Risks

Rupee appreciation and/or adverse cross-currency movements, contagion effect of the banking crisis, and macro headwinds and recession in the US can moderate the pace of technology spending.

Valuation (Consolidated)

Particulars	FY24	FY25E	FY26E	FY27E
Revenue	3,054.8	3,502.3	4,054.5	4,636.8
OPM (%)	16.7	16.0	16.7	17.0
Adjusted PAT	304.4	364.2	423.5	501.6
YoY growth (%)	13.7	19.7	16.3	18.4
Adjusted EPS (Rs.)	98.2	116.7	135.7	160.7
P/E (x)	30.7	25.9	22.2	18.8
P/B (x)	4.5	4.0	3.5	3.1
EV/EBITDA	18.6	16.7	13.8	11.9
ROE (%)	15.9	16.3	16.7	17.4
ROCE (%)	16.4	17.2	19.3	20.4

Source: Company; Sharekhan estimates

Key results highlights

Revenue growth: The company reported revenue at \$103.6 million, up 4.7% q-o-q/10.2% y-o-y in constant currency beating our estimates of \$101.5 million. Revenue in USD terms was 6.5%q-o-q/11.9% y-o-y while revenue in rupee terms stood at Rs 867.4 crore, up 6.7% q-o-q/13.3% y-o-y. Growth was largely broad based across verticals.

EBITDA margins: EBITDA margin improved ~125 bps q-o-q to 16.5% largely aided by operating leverage and supported by currency movement. The company aims to operate EBITDA margins in the range of 17% to 17% plus. The company is confident of absorbing the full impact of wage hike in Q3 through multiple margin levers and report good margins in Q3 and Q4.

Order backlog: The 12-month order backlog was Rs 2,194.7 crore (\$261.9 million), up 17.9% in rupee terms and 10.9% in constant currency

Geography-wise performance: North America, Europe grew 17.7% and 5% q-o-q respectively while APMEA declined 4.9% q-o-q.

Vertical-wise performance: Health & Lifesciences, Manufacturing and Financial services grew 11.3%/10.1% and 6.4% q-o-q respectively, while the retail vertical declined 1.5% q-o-q. Government and Education was flat sequentially.

Client metrics: The company added 14 new clients in Q2FY25 compared to 13 in Q1FY25. Total active clients during Q2FY25 were 380 as compared to 391 in Q1FY25. Revenue Top-10 clients grew 3.1% q-o-q, while revenue from Top-5 grew 1.2% q-o-q

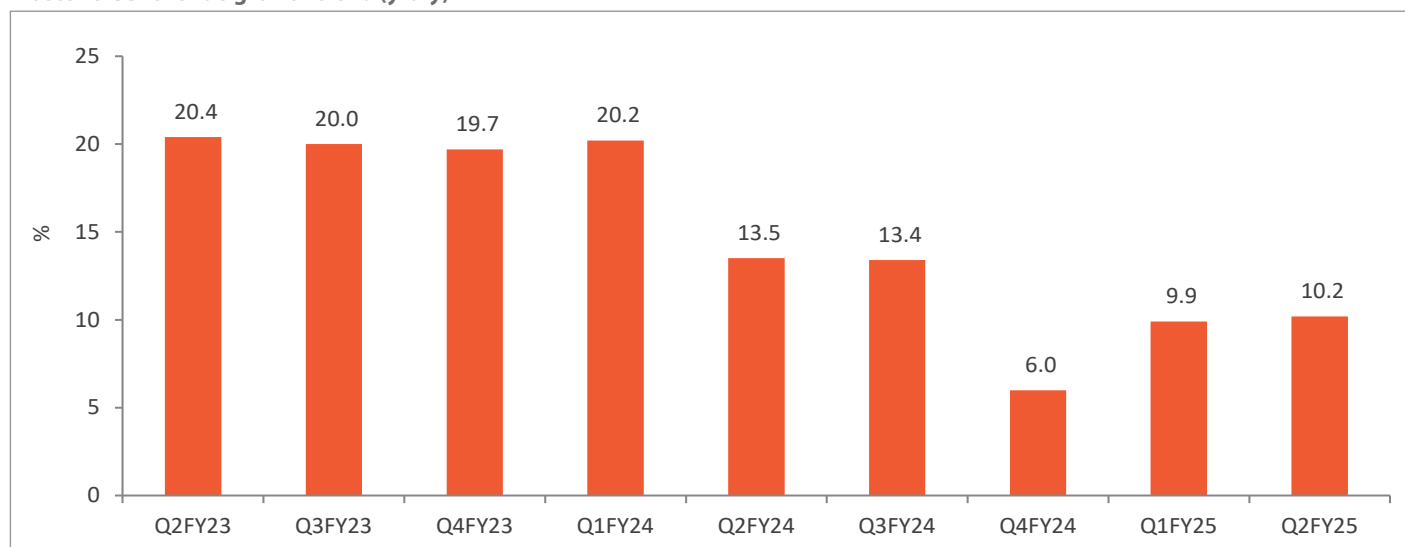
Attrition and utilisation: LTM attrition fell 80 bps to 20.1% from 20.9% in Q1FY25. Net headcount additions declined by 41 during the quarter taking total headcount to 5505. Utilisation (excluding trainees) fell 190 bps q-o-q to 80.4%

Cash balance: Total cash, cash equivalents, and fair value of mutual funds stood at Rs. 390.5 crore at the end of Q2FY25, 2024, versus Rs. 383.5 crore at the end of Q1FY25. DSO stood at 95 compared to 92 in Q1FY25.

Results (Consolidated)					Rs cr
Particulars	Q2FY25	Q2FY24	Q1FY25	YoY (%)	QoQ (%)
Revenues In USD (mn)	103.6	92.6	97.3	11.9	6.5
Revenues In INR	867.4	765.5	812.9	13.3	6.7
Employee benefits expense	475.3	429.1	444.8	10.8	6.8
Other expenses	249.0	213.4	244.1	16.7	2.0
EBITDA	143.1	123.0	123.9	16.3	15.5
Depreciation & amortization	19.9	20.9	20.1	-5.0	-1.0
EBIT	123.3	102.1	103.9	20.7	18.7
Other Income	5.0	4.8	4.2	4.3	20.3
Finance costs	11.1	12.6	9.4	-11.6	18.0
PBT	117.2	94.4	98.6	24.1	18.8
Tax Provision	0.3	25.0	27.1	-98.9	-99.0
PAT	116.9	69.4	71.5	68.4	63.5
Minority interest	0.0	-2.5	0.0		
EO	11.8	-4.1	0.0		
Net profit	128.7	66.9	71.5	92.2	79.9
Adjusted net profit	116.9	66.9	71.5	74.6	63.5
EPS (Rs)	41.2	20.3	22.9	103.3	79.8
Margin (%)					
EBITDA	16.5	16.1	15.2	43	125
EBIT	14.2	13.3	12.8	87	143
NPM	13.5	8.7	8.8	473	468

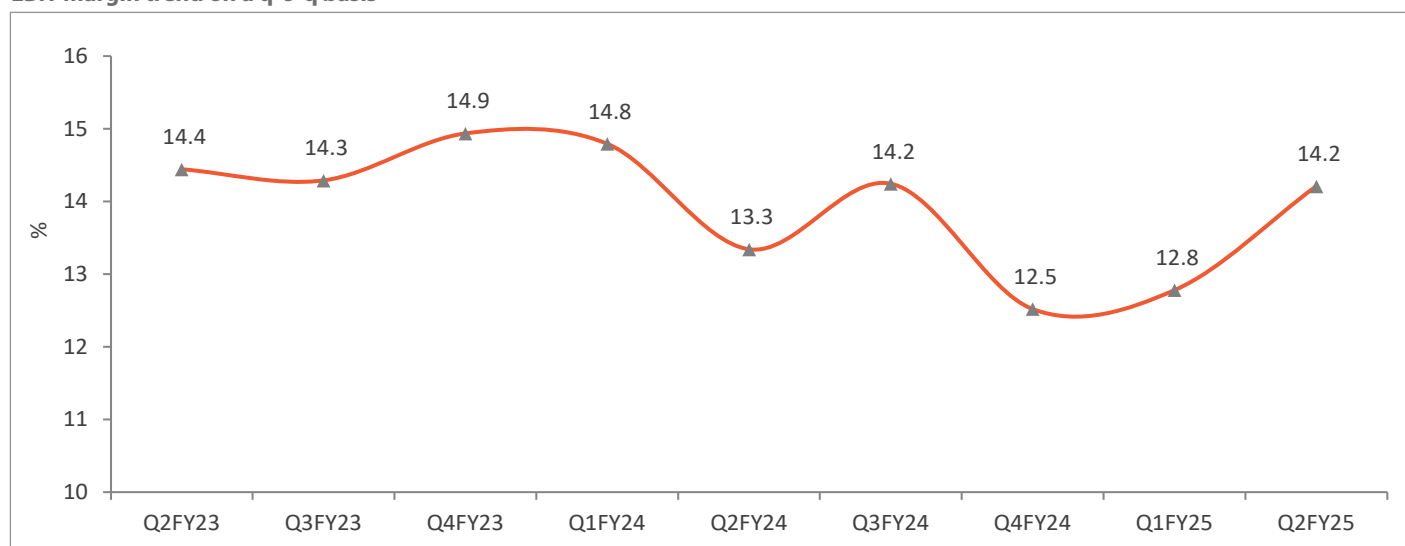
Source: Company, Sharekhan Research

Mastek's CC revenue growth trend (y-o-y)



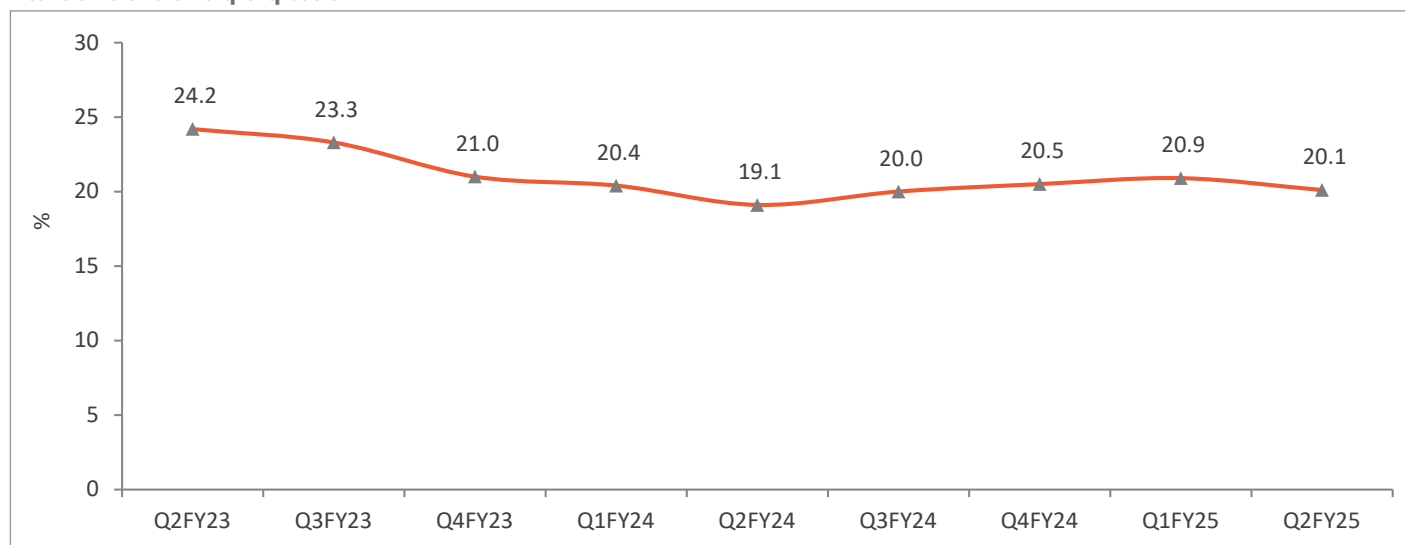
Source: Company, Sharekhan Research

EBIT margin trend on a q-o-q basis



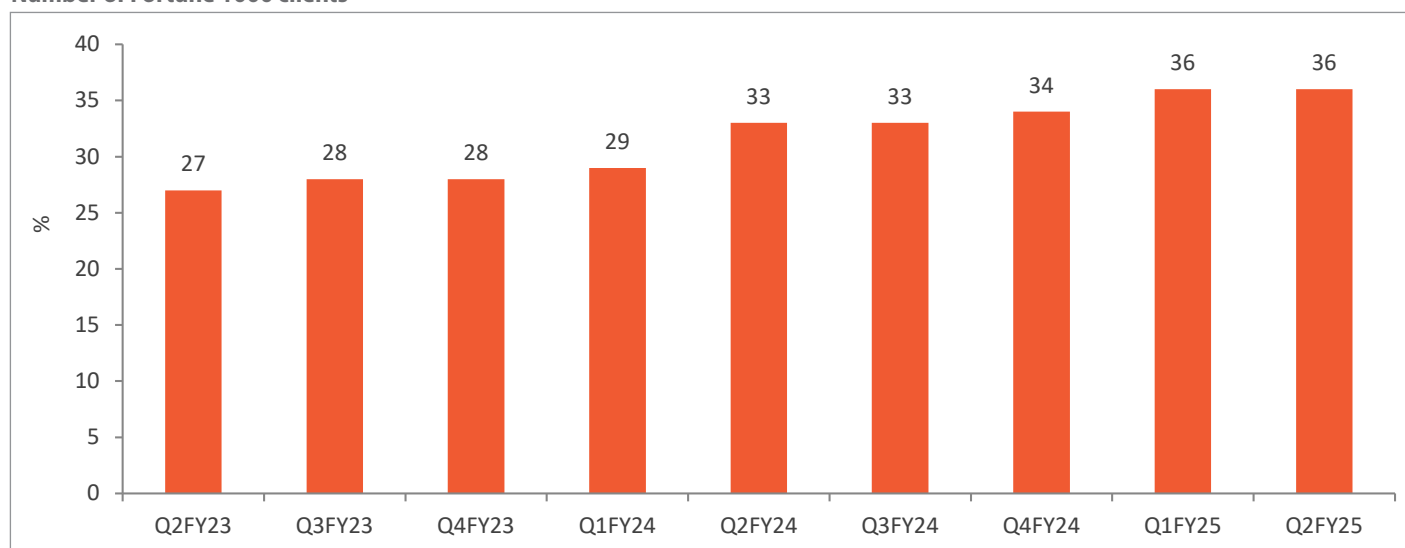
Source: Company, Sharekhan Research

Attrition trend on a q-o-q basis



Source: Company, Sharekhan Research

Number of Fortune 1000 clients



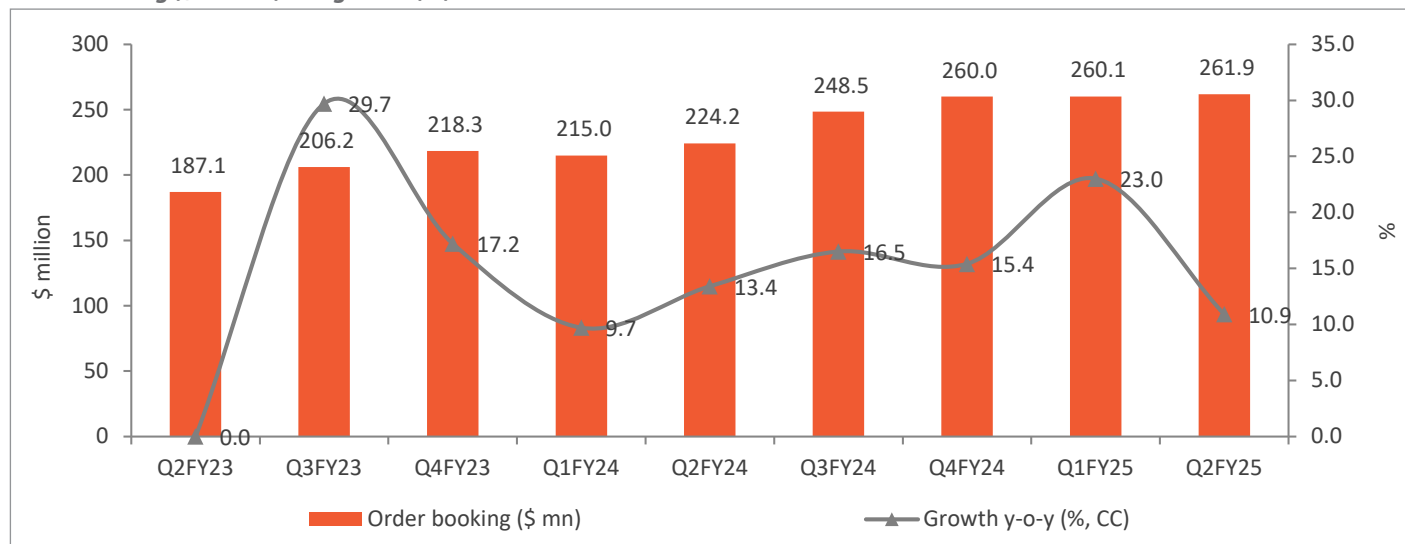
Source: Company, Sharekhan Research

Number of new client addition



Source: Company, Sharekhan Research

Order booking (\$ million) and growth (%)



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Macro headwinds bottoming out coupled with better earnings visibility

We anticipate growth momentum to return in FY2025, aided by a lower base coupled with easing sector headwinds. Although the IT sector has already outperformed Nifty last year, we expect overall outperformance in CY24 as well, driven by receding headwinds and better earnings visibility.

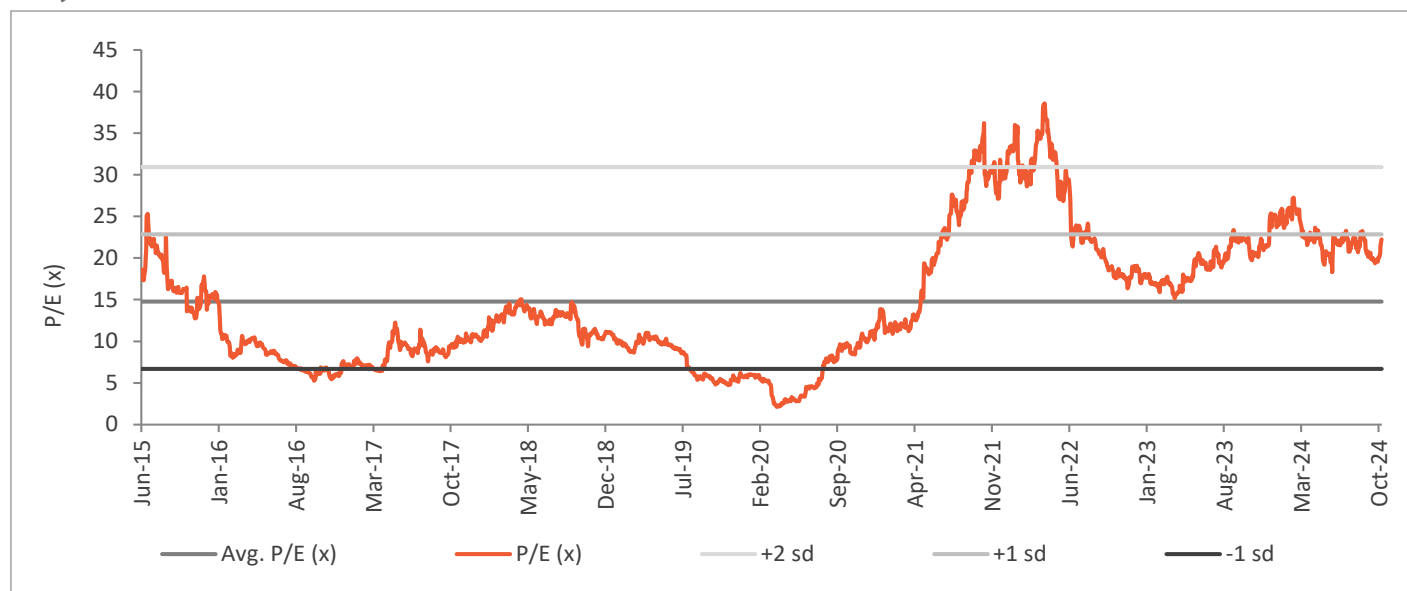
■ Company outlook - Long-term outlook intact

Mastek has created a consistent and predictable revenue stream from the UK's public sector over the past few years, thanks to the introduction of Digital Outcomes and Specialists (DoS) framework by the UK government (replacement of Digital Services-2 framework in 2016). Management The management indicated revenue growth momentum in the UK public sector would continue in the coming quarters on account of higher spends on digital-transformation initiatives by the UK government sector and the addition of logos. Further, growth momentum in the US business is expected to accelerate because of strong demand for its integrated digital commerce solutions, increasing deal size, and new client additions. .

■ Valuation - Maintain Buy with revised PT of Rs 3,610

Mastek reported strong performance in Q2 with beat on revenue and margins. The company is confident of absorbing the full impact of wage hike in Q3 through multiple margin levers and report good margin performance in Q3 and Q4. The 12 month order backlog remains strong and stable providing strong revenue visibility. We expect sales/PAT CAGR of ~15%/18% over FY24-27E. We believe the company is on track to achieve industry-leading growth, given the strong start to FY25 and supported by the growth in North America and continued expansion in the UK, as well as strong momentum in healthcare and other global verticals. We have introduced FY27 estimates and roll forward to Sep26E EPS. We maintain Buy with revised price target (PT) of Rs. 3,610 (valued at 25xSep26E EPS). At CMP, the stock trades at 25.9/22.2/18.8x its FY25/26/27E EPS.

One-year forward P/E (x) band



Source: Sharekhan Research

About company

Established in 1982, Mastek provides IT services to five verticals – government (mostly caters to the U.K. government), retail, health, financial, and others. Mastek continues to be ranked among the top three vendors in delivering agile development services to the U.K. government on digital, G-Cloud, and GDS frameworks. The company primarily provides digital solutions to its retail and financial clients, while it helps the government to reduce cost and time in delivery in the U.K. On the region front, the company is positioned largely in the U.K. and Europe, as 67.1% of its revenue comes from this region, followed by the U.S./ME/RoW with contribution to total revenue of 18.8%/9.2%/4.9%, respectively. During February 2020, the company acquired Evolutionary Systems (Evosys) through its subsidiaries, which provided access to new geographies as well as fast-growing segments.

Investment theme

Mastek has a long-standing relationship with the U.K. government as it was working as a subcontractor to large IT companies for the execution of U.K. government's projects earlier. This long-term relationship and excellent execution capabilities make Mastek a prime beneficiary of the U.K. government's digital spends. We expect a strong order pipeline along with significant headroom for growth with the U.K. public sector (spend is ~GBP 12 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 in digital contracts of the U.K. public and private sector, where U.K. digital spending is growing at 30%. Mastek focuses on accelerating its revenue momentum in the U.S.

Key Risks

1) Rupee appreciation and/or adverse cross-currency movements, 2) Contagion effect of the banking crisis, Macro headwinds and recession in the U.S. can moderate the pace of technology spending.

Additional Data

Key management personnel

Umang Nahata	Global CEO
Abhishek Singh	President U.K. and Europe
Vijay Iyer	President Americas
Prameela Kalive	Chief Operating Officer
Arun Agarwal	Group CFO

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Capital Group Cos Inc/The	7.9
2	ICICI Prudential Asset Management	2.8
3	Vanguard Group Inc/The	2.2
4	Tata Asset Management Pvt Ltd	2.0
5	ABAKKUS GROWTH FUND 1	1.6
6	Abakkus Emerging Opportunities Fun	1.5
7	Blackrock Inc	1.0
8	Dimensional Fund Advisors LP	0.8
9	Norges Bank	0.5
10	State Street Corp	0.1

Source: Bloomberg

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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

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