

### 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	✗	↔	✓

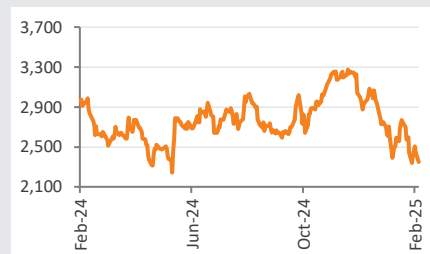
### Company details

Market cap:	Rs. 7,321 cr
52-week high/low:	Rs. 3,375 / 2,137
NSE volume: (No of shares)	1.62 lakh
BSE code:	523704
NSE code:	MASTEK
Free float: (No of shares)	2.00 cr

### Shareholding (%)

Promoters	36.2
FII	9.4
DII	9.3
Others	45.1

### Price chart



Source: NSE India, Mirae Asset Sharekhan Research

### Price performance

(%)	1m	3m	6m	12m
Absolute	-1.8	-27.9	-21.7	-21.1
Relative to Sensex	-0.8	-20.9	-13.0	-23.1

Source: Mirae Asset Sharekhan Research, Bloomberg

## Mastek Ltd

### UK business on strong footing

IT & ITES	Sharekhan code: MASTEK
Reco/View: Buy	CMP: Rs. 2,374 Price Target: Rs. 3,030
↑ Upgrade	↔ Maintain ↓ Downgrade

#### Summary

- We reiterate Buy with revised PT of Rs 3,030. At CMP, the stock trades at 20.4/18.3/15.7x its FY25/26/27E EPS.
- Stock has fallen significantly following a muted Q3 and uncertainties on US Fed rate cuts and possible escalation of tariff wars, offering decent entry point from medium to long-term perspective.
- Mastek has secured ~\$85 million in multiple contracts from a UK public service department to boost Digital, Data and Technology services over two years continuing to leverage its expertise in GovTech services.
- Company is seeing increased traction in UK driven by government services, healthcare, and private sector.

Mastek has secured ~\$85 million in multiple contracts from a UK public service department to boost Digital, Data and Technology services spread over two years. The company had earlier won a \$40 million government services deal during the quarter. These wins highlight its growing role in UK digital transformation. The company has witnessed strong revenue contribution from UK & Europe geography growing to 56.8% from 54.9%, up 13.1% year-on-year. UK business is seeing increased traction driven by government services, healthcare, and private sector. UK Healthcare is seen rebounding, while the private sector secured its biggest deal last quarter, with management expecting strong growth in Q4 and FY26. The company had delivered robust 19.2% revenue growth in rupee terms in FY24. With Sales/PAT growth of 12%/20% y-o-y during 9MFY25 and strong 12-month order book, the company is poised for a resilient and healthy performance for FY25/26. Stock has witnessed ~43% fall from its 52-week highs impacted by muted Q3 weighed by furloughs, currency headwinds from depreciation in the British Pound vs the US Dollar followed by uncertainties surrounding Fed rate cuts and possible escalation of tariff wars which may impede growth. We roll forward our estimates to FY27E and have lowered the target multiple to factor the ongoing uncertainties and market weakness. We maintain a Buy rating with a revised PT of Rs 3,030 (valued at 20x FY27E EPS). As valuations turn reasonable with the stock trading at 20.4/18.3/15.7x its FY25/26/27E EPS, we believe the correction provides a decent entry point from medium to long-term perspective.

- Leveraging GovTech expertise:** Mastek has secured multiple contracts worth ~\$85 million from the UK public service department, spanning two years, to enhance the department's Digital, Data, and Technology services as part of an ongoing collaboration. These contracts reinforce the company's role in advancing critical digital transformations and delivering impactful citizen services in the UK. During the current quarter the company had also secured a \$40 million deal (80% renewal, 20% net new) in secured government services. The company is successfully leveraging its deep expertise in GovTech expanding into new departments along with expansion of its footprint in secured government services. Although the company has been winning large contract in the UK, they are putting pressure on margins, especially in renewals of larger government contracts. The company is actively working to maintain healthy margin through strategies like offshoring, optimizing its resource structure, and shifting from subcontractors to employees.
- Increased traction in UK:** Q3 revenue growth was steady driven by secured government services, healthcare and private sector enterprises. Contribution from UK & Europe has grown from 54.9% in Q3FY24 to 56.8% in Q3FY25, growing 13.1% y-o-y. The company is seeing strong revival in the UK healthcare business as strong tailwinds continue. The private sector business in UK and Europe has also started to turn to corner with the company winning its largest deal in the sector in the last quarter. The management outlook on UK business remains positive and expects strong business momentum in Q4 and FY26.
- Correction offers decent entry point:** The company has seen healthy sales/PAT growth of 12%/20% y-o-y during 9MFY25. We believe the company is poised for healthy growth in FY26, particularly in UK (driven by SGS, healthcare, private sector) and US (post-consolidation, managed services focus) supported by margin recovery in AMEA and with AI playing a pivotal role in driving efficiency and growth across all regions and verticals. The stock has seen significant correction falling ~43% from its 52-week high owing to muted Q3 weighed by furloughs, currency headwinds from a weak Pound versus the US Dollar followed by uncertainties surrounding Fed rate cuts and possible escalation of tariff wars which may impede growth. As valuations turn reasonable with the stock trading at 20.4/18.3/15.7x its FY25/26/27E Eps we believe the correction provides a decent entry point from medium to long term perspective.

#### Our Call

**Valuation – Maintain Buy with revised PT of Rs. 3030:** Mastek continues to leverage its expertise in GovTech and is winning large deals across this space. With increased traction in UK, from government services, healthcare and private sector enterprises the company is well positioned to deliver healthy growth in Q4 and FY26. We expect Sales/PAT of 14%/16% over FY24-27E. With Sales/PAT growth of 12%/20% y-o-y during 9MFY25 and strong 12-month order book, the company is poised for a resilient and healthy performance for FY25/26. Rising concerns from currency headwinds from GBP depreciation vs the dollar along with uncertainties surrounding US Fed rate cuts and possible escalation of tariff wars continue to weigh on the stock/sector. We roll forward to FY27E and have lowered the target multiple to factor the ongoing uncertainties and market weakness. We maintain a Buy rating with a revised PT of Rs 3,030 (valued at 20x FY27E EPS). As valuations turn reasonable with the stock trading at 20.4/18.3/15.7x its FY25/26/27E EPS, we believe the correction provides a decent entry point from medium to long-term perspective.

#### Key Risks

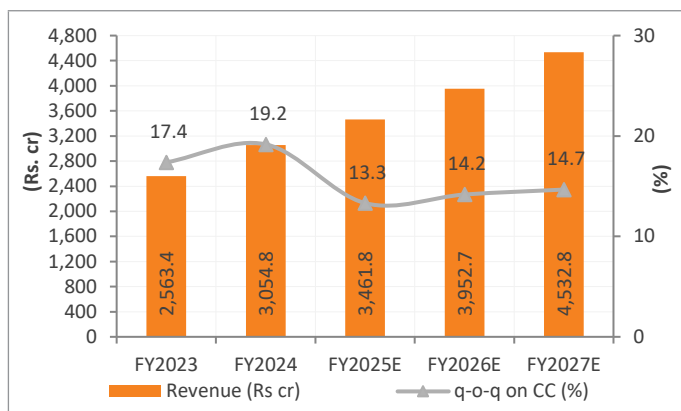
Rupee appreciation and/or adverse cross-currency movements, contagion effect of the banking crisis, and macro headwinds and recession in the US can moderate the pace of technology spending.

#### Valuation (Consolidated)

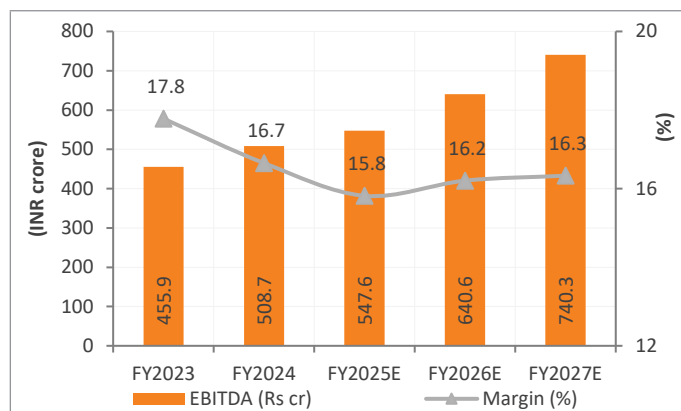
	Rs cr			
Particulars	FY24	FY25E	FY26E	FY27E
Revenue	3,054.8	3,461.8	3,952.7	4,532.8
OPM (%)	16.7	15.8	16.2	16.3
Adjusted PAT	304.4	363.7	403.8	472.9
YoY growth (%)	13.7	19.5	11.0	17.1
Adjusted EPS (Rs.)	98.2	116.6	129.4	151.5
P/E (x)	24.2	20.4	18.3	15.7
P/B (x)	3.5	3.1	2.8	2.4
EV/EBITDA	14.6	13.4	11.5	10.0
ROE (%)	15.9	16.3	16.0	16.6
ROCE (%)	16.4	17.1	18.5	19.4

Source: Company; Mirae Asset Sharekhan estimates

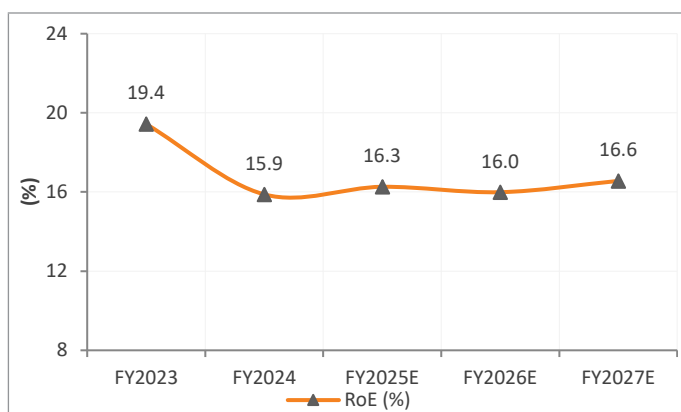
## Financials in charts

**Revenue (Rs. crore) and growth (%)**


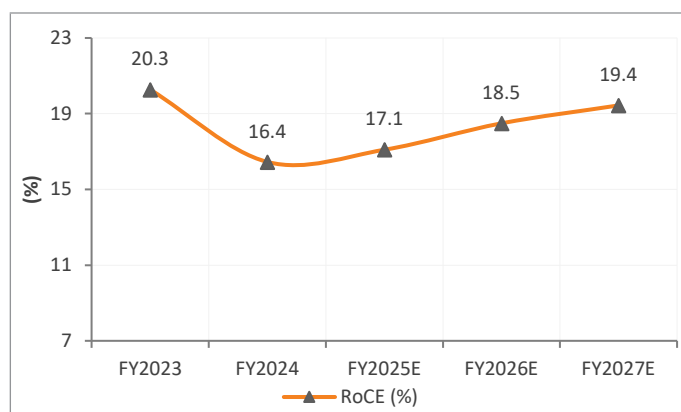
Source: Company; Mirae Asset Sharekhan Research

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


Source: Company; Mirae Asset Sharekhan Research

**RoE trend (%)**


Source: Company; Mirae Asset Sharekhan Research

**RoCE trend (%)**


Source: Company; Mirae Asset Sharekhan Research

## Outlook and Valuation

### ■ Sector View – Macro headwinds bottoming out; out coupled with better earnings visibility.

We anticipate growth momentum to return in FY2026, aided by a lower base coupled with easing sector headwinds. Although the IT sector has already outperformed the Nifty last year, we expect overall outperformance in CY25 as well, driven by receding headwinds and better earnings visibility.

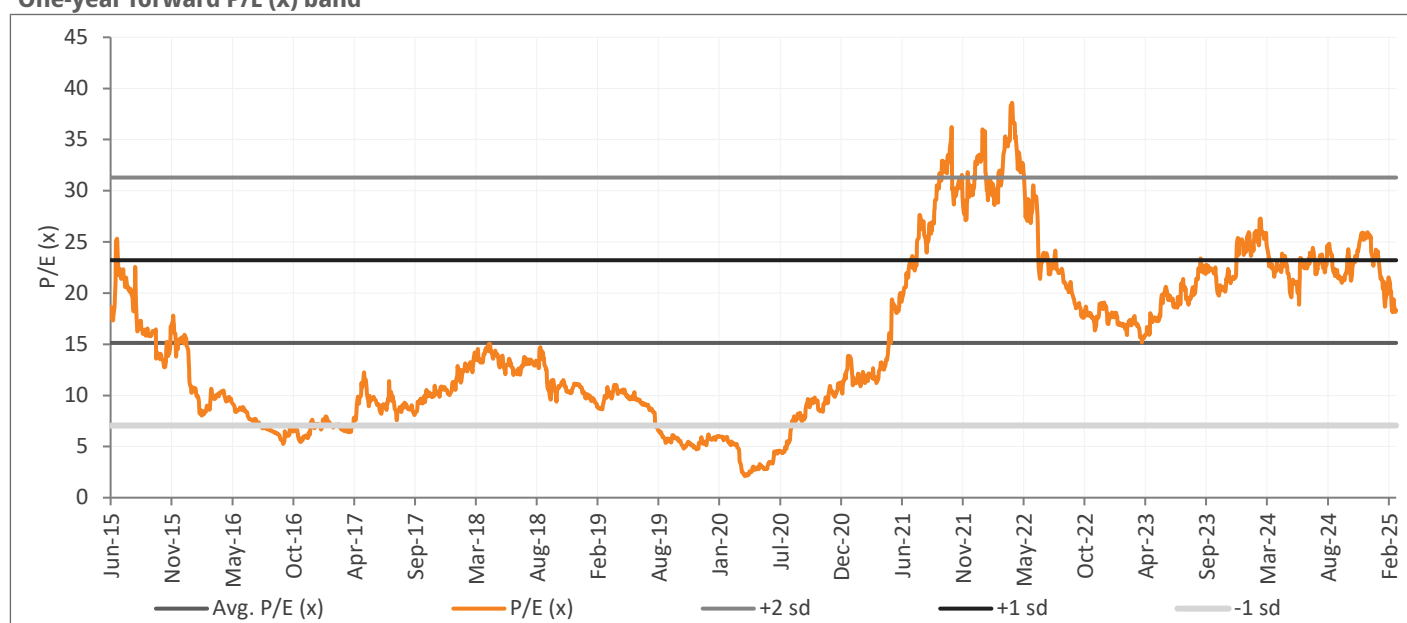
### ■ Company Outlook – Long-term outlook intact

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. 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 client additions.

### ■ Valuation – Maintain Buy with revised PT of Rs 3,030

Mastek continues to leverage its expertise in GovTech and is winning large deals across this space. With increased traction in UK, from government services, healthcare and private sector enterprises the company is well positioned to deliver healthy growth in Q4 and FY26. We expect Sales/PAT of 14%/16% over FY24-27E. With Sales/PAT growth of 12%/20% y-o-y during 9MFY25 and strong 12-month order book, the company is poised for a resilient and healthy performance for FY25/26. Rising concerns from currency headwinds from GBP depreciation vs the dollar along with uncertainties surrounding US Fed rate cuts and possible escalation of tariff wars continue to weigh on the stock/sector. We roll forward to FY27E and have lowered the target multiple to factor the ongoing uncertainties and market weakness. We maintain a Buy rating with a revised PT of Rs 3,030 (valued at 20x FY27E EPS). As valuations turn reasonable with the stock trading at 20.4/18.3/15.7x its FY25/26/27E EPS, we believe the correction provides a decent entry point from medium to long-term perspective.

One-year forward P/E (x) band



Source: Company; Mirae Asset 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

Name	Designation
Umang Nahata	CEO
Abhishek Singh	President U.K. and Europe
Vijay Iyer	President Americas
Prameela Kalive	Chief Operating Officer

Source: Company Website

### Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Vanguard Group Inc	2.14
2	Tata Asset Management Pvt Ltd	2.10
3	ICICI Prudential Asset Management	1.52
4	ABAKKUS GROWTH FUND 1	1.45
5	Abakkus Emerging Opportunities Fund	1.43
6	Blackrock Inc	0.99
7	Dimensional Fund Advisors LP	0.87
8	Norges Bank	0.52
9	Baroda BNP Paribas Asset Management	0.26
10	Baroda Mutual Fund Ltd	0.24

Source: Bloomberg

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## Understanding the Mirae Asset 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: Mirae Asset Sharekhan Research

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