

Mastek

Changing orbit

Mastek delivered strong revenue and margin performance led by full quarter integration of Evosys. Mastek organic business was down 4.4% QoQ due to weakness in UK private (-6.5% QoQ, Retail+BFS) and US Retail portfolio offset by strong UK Govt. (+13.9% QoQ). The UK Govt. will continue to perform well given Mastek's strong relationship, integration of Evosys capabilities, and revival of UK Govt spending. The UK private sector is facing the dual impact of Brexit and Covid-19 and will remain under stress. US revenue is impacted by Retail slowdown and recovery will be protracted. EBIT Margin expanded 321bps YoY to 14.7% led by the integration of high margin Evosys business. Evosys has performed well (+10% QoQ), driven by higher cloud adoption (~72% of revenue from Cloud). Mastek and Evosys go-to-market strategy will open access to new clients and geographies. The company is changing orbit and successful execution/cross-sell can lead to re-rating. We have assumed Evosys revenue of USD 71/78mn for FY21/22E and ~18% EBIT margin. We increase our USD revenue estimate by 4.6/2.4% for FY21/22E due to better performance of Evosys and UK Govt. EPS gets elevated by 13/9% for FY21/22E. Our TP of Rs 630 is based on 9x June-22E EPS plus Rs 70/share for ~5% stake in Majesco US. The stock has rallied 123% in the last 3M and trades at a P/E of 9.4/8.6x FY21/22E, which is still at ~20% discount to 5Y average multiple. Maintain BUY.

- **1QFY21 highlights:** Revenue stood at USD 50.9mn (vs. est. USD 48.5mn) led by higher Evosys revenue (USD 17.6mn vs. exp of USD 16.2mn). In CC terms revenue was up 12.1/46.1% QoQ/YoY. The order book stood at USD 101mn and the company has signed an additional deal of USD 5.5mn in the healthcare vertical. EBIT margin was down 28bps QoQ but was higher than estimate. Net cash stands at Rs 1.73bna and Mastek will receive USD 26.4mn, which will be used to retire debt.
- Evosys has ~1500 employees with a rev/Emp of USD ~47K. Evosys main markets are Middle East and UK/EU, which contributes 45/30% to its revenue.

Quarterly Financial summary

YE March	1Q FY21	1Q FY20	YoY (%)	1Q FY21	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
Revenue (USD Mn)	50.9	35.6	43.2	46.6	9.2	148	151	204	217	236
Net Sales	3.86	2.48	56.0	3.37	14.7	10.33	10.71	15.33	16.49	17.97
EBIT	0.57	0.28	99.4	0.51	12.5	1.16	1.32	2.15	2.36	2.61
APAT	0.40	0.24	66.9	0.52	-21.6	1.01	1.31	1.59	1.73	1.91
Diluted EPS (Rs)	16.00	9.6	67.0	20.2	-20.8	39.9	51.5	55.9	60.8	66.9
P/E (x)						13.1	10.1	9.4	8.6	7.8
EV / EBITDA (x)						8.9	8.2	5.4	4.4	3.6
RoE (%)						15.9	17.4	18.7	17.7	17.1

Source: Company, HSIE Research, Consolidated Financials

Change in Estimates

Rs Bn	FY21E Old	FY21E Revised	Change %	FY22E Old	FY22E Revised	Change %
Revenue (USD mn)	195	204	4.6	212	217	2.4
Revenue	14.65	15.33	4.6	16.11	16.49	2.4
EBIT	2.02	2.15	6.7	2.26	2.36	4.3
EBIT margin (%)	13.8	14.0	28bps	14.0	14.3	26bps
APAT	1.41	1.59	13.0	1.59	1.73	9.0
EPS (Rs)	49.4	55.9	13.0	55.7	60.8	9.0

Source: Company, HSIE Research

BUY

CMP (as on 30 Jul 2020)	Rs 523
Target Price	Rs 630
NIFTY	11,102

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 535	Rs 630
EPS %	FY21E	FY22E
	+13.0	+9.0

KEY STOCK DATA

Bloomberg code	MAST IN
No. of Shares (mn)	24
MCap (Rs bn) / (\$ mn)	13/171
6m avg traded value (Rs mn)	48
52 Week high / low	Rs 560/166

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	112.4	18.6	37.6
Relative (%)	100.5	26.3	36.7

SHAREHOLDING PATTERN (%)

	Mar-20	Jun-20
Promoters	45.10	44.82
FIs & Local MFs	14.88	15.30
FPIs	6.20	5.57
Public & Others	33.82	34.31
Pledged Shares	25.70	25.55

Source : BSE

Pledged shares as % of total shares

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