

Robust revenue growth...

Mastek's dollar revenues increased 7.5% QoQ (in CC terms) and by 9.7% QoQ (in reported terms) to US\$65.9 million. The increase in revenues was led by Evosys acquisition and strong growth in UK government business. EBIT margin declined 100 bps QoQ to 19.8% mainly due to wage hike and investment in leadership & sales. Mastek's 12-month order book rose 19.3% QoQ to US\$154.6 million. Mastek has declared a dividend of ₹ 9/share.

Healthy order book, integrated deals to drive growth

During the quarter, the company won one of the largest deals with US\$25 million in the UK government segment spread over three years and extendable by another two years. In addition, the company is also witnessing healthy growth in new logo acquisition (which has long term growth potential) and increasing deal sizes (in the range of £35-100 million dollars by partnering with tier-1 and by participating in larger deals on standalone basis). Mastek is also building its sales & marketing to drive growth. Further, the company's focus on client mining, providing integrated deal with Evosys and cross sell & up sell will further drive growth in revenues. Apart from healthy growth in UK government, revival in UK private sector, bottoming of US and Evosys aspiration to double its revenues (from current ~20-25%) in US prompt us to be positive on Mastek's long term revenue trajectory. This, coupled with healthy order book, inorganic growth (led by healthy cash balance), market share gains and hiring of US based CEO to drive US growth are other long term drivers for revenues. Hence, expect dollar revenues to grow at 14.7% CAGR in FY21-23E.

Despite headwinds margins to remain healthy

Mastek has many levers to improve margins like higher offshoring and cost rationalisation. However, considering the company's aim to invest in leadership, sales, talent, shift in onsite offshore mix and resurgence of travel & facility cost the company expects EBITDA margins in the range of 20-21% as sustainable. Hence, we expect EBITDA margins of 21.2% in FY21 to taper to 20.9% & 20.5% for FY22E & FY23E, respectively.

Valuation & Outlook

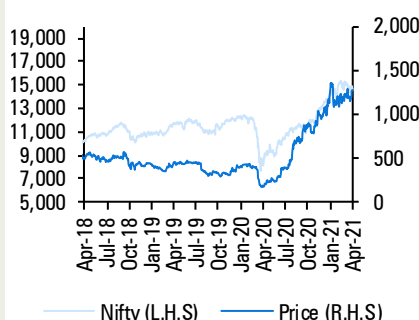
The company is seeing healthy improvement in order book, increase in deal size and traction in multi-year deals. In addition, healthy growth in UK government, focus on improving US geography, client mining, traction in digital technologies, inorganic expansion and market share gains are expected to drive the company's long term growth. Hence, we upgrade the stock from HOLD to **BUY** with a revised target price of ₹ 1900 (18x FY23E EPS) (earlier TP ₹ 1310).



Particulars

Particulars	Amount
Market Capitalisation	₹ 4063 Crore
Debt (March-20)	₹ 241 Crore
Cash (March-20)	₹ 806 Crore
EV	₹ 3497 Crore
52 week H/L (₹)	1678 / 229
Equity capital	₹ 13 Crore
Face value	₹ 5

Price Performance



Key Risk

- Higher than expected shift in onsite offshore mix due to opening of economy could impact margins adversely
- Inability of the company to ramp up US and UK public sector could impact revenues adversely

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Key Financial Summary

₹ Crore	FY19	FY20	FY21	FY22E	FY23E	CAGR FY21-23E
Net Sales	1,033	1,072	1,722	2,035	2,320	16.1%
EBITDA	132	155	364	425	476	14.2%
EBITDA Margins (%)	12.7	14.5	21.2	20.9	20.5	
Adjusted Net Profit	101	133	209	265	307	21.0%
Adjusted EPS (₹)*	40	52	82	90	104	
P/E	40.5	31.0	19.8	18.1	15.7	
RoNW (%)	14.1	16.8	24.4	18.7	18.8	
RoCE (%)	17.0	11.3	21.5	19.3	19.6	

Source: Company, ICICI Direct Research, * Forward EPS is assumed with dilution

Financial summary

Exhibit 1: Profit and loss statement					₹ crore				
(Year-end March)	FY20	FY21	FY22E	FY23E					
Net Sales	1,072	1,722	2,035	2,320					
Growth (%)	4	61	18	14					
COGS (employee expenses)	584	883	1,044	1,195					
Other expenses	332	475	566	650					
Total Operating Expenditure	916	1,357	1,610	1,844					
EBITDA	155	364	425	476					
Growth (%)	18	135	17	12					
Depreciation	25	45	56	64					
Net Other Income	38	20	66	95					
PBT	168	339	436	507					
Total Tax	30	88	118	137					
Exceptional item	(24)	-	-	-					
Adjusted PAT	133	209	265	307					
Growth (%)	32	57	27	16					
Adjusted EPS (₹)	52.4	81.9	89.6	103.7					

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement					₹ crore				
(Year-end March)	FY20	FY21	FY22E	FY23E					
Profit before tax	187	252	383	443					
Add: Depreciation	25	45	56	64					
(Inc)/dec in Current Assets	11	(60)	(107)	(97)					
Inc/(dec) in CL and Provisions	24	8	185	168					
Taxes paid	(47)	(48)	(118)	(137)					
CF from operating activities	184	287	372	396					
(Inc)/dec in Inv. (+) Int inc (+) Goodw	157	439	(149)	102					
(Inc)/dec in Fixed Assets	(425)	(258)	(31)	(35)					
CF from investing activities	(269)	181	(179)	67					
Issue/(Buy back) of Equity	2	8	376	-					
Dividend paid & dividend tax	(31)	(15)	(79)	(92)					
Others	235	(100)	7	7					
CF from financing activities	206	(118)	292	(97)					
Net Cash flow	127	371	484	366					
Exchange difference	7	20	-	-					
Opening Cash	93	221	591	1,075					
Closing Cash	221	591	1,075	1,442					

Source: Company, ICICI Direct Research

Exhibit 3: Balance sheet				₹ crore
(Year-end March)	FY20	FY21	FY22E	FY23E
Liabilities				
Equity Capital	12	13	15	15
Reserve and Surplus	778	846	1,405	1,620
Total Shareholders funds	790	859	1,420	1,635
Minority interest	137	182	235	299
Total Debt	333	241	241	241
Other liabilities	266	333	394	449
Total Liabilities	1,526	1,614	2,289	2,623
Assets				
Total Fixed Assets	858	804	1,012	995
Investments	122	41	41	41
Other non current assets	58	80	85	89
Debtors	316	375	443	505
Loans and Advances	2	3	3	3
Cash & investments	375	806	1,290	1,656
Other current assets	172	186	220	251
Total Current Assets	865	1,370	1,956	2,415
Current liabilities	365	658	778	887
Provisions	11	23	27	31
Total Current Liabilities	376	681	805	918
Net Current Assets	488	689	1,151	1,497
Application of Funds	1,526	1,614	2,289	2,623

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios				₹ crore
	FY20	FY21	FY22E	FY23E
Per share data (₹)				
EPS	52.4	81.9	89.6	103.7
Cash EPS	65.5	103.2	110.7	127.7
BV	311.7	335.8	480.4	552.9
DPS	8.0	14.5	26.9	31.1
Cash Per Share	91.8	239.9	370.8	497.1
Operating Ratios (%)				
EBITDA Margin	14.5	21.2	20.9	20.5
PBT Margin	15.7	19.7	21.4	21.9
PAT Margin	12.4	12.2	13.0	13.2
Inventory days	-	-	-	-
Debtor days	108	79	79	79
Creditor days	36	35	35	35
Return Ratios (%)				
RoE	16.8	24.4	18.7	18.8
RoCE	11.3	21.5	19.3	19.6
RoIC	11.3	39.5	37.0	42.6
Valuation Ratios (x)				
P/E	31.0	19.8	18.1	15.7
EV / EBITDA	25.9	9.6	7.1	5.6
EV / Net Sales	3.8	2.0	1.5	1.1
Market Cap / Sales	3.8	2.4	2.0	1.8
Price to Book Value	5.0	4.7	3.3	2.9
Solvency Ratios				
Debt/EBITDA	2.1	0.7	0.6	0.5
Debt / Equity	0.4	0.3	0.2	0.1
Current Ratio	1.3	0.8	0.8	0.8
Quick Ratio	1.3	0.8	0.8	0.8

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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