

Initiating Coverage

Sector	Ratings
IT	BUY
Current Price	Target
Rs.2,664	Rs. 3,279
Potential upside	Holding
23%	12 months

Stock Information	
Sensex/Nifty	80,429/24,479
Bloomberg	MAST:IN
Equity shares (Cr)	3.08
52-wk High/Low (Rs)	3,145/1,964
Face value (Rs)	5
M-Cap (Rs Cr)	8,217
2-wk Avg Volume (Qty)	1,77,919

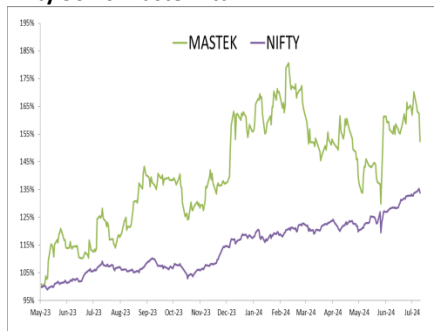
Shareholding pattern %

Particulars	Dec-23	Mar-24	Jun-24
Promoters	36.5	36.3	36.3
DII	6.4	7.1	7.1
FII	14.1	14.4	14.0
Public	43.0	42.3	42.6

Financial Summary (Rs. crs.)

Summary P&L	FY24	FY25E	FY26E
Revenue	3,055	3,549	4,300
EBITDA	509	602	777
EBITDA %	16.7	17.0	18.1
EBIT	419	500	661
EBIT %	13.7	14.1	15.4
PAT	300	340	440
PAT %	9.8	9.6	10.2
P/E	27	24	19
P/B	4	4	3
EV/EBITDA	16	14	11

Nifty 50 Vs Mastek Ltd



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Mastek Ltd

24th July 2024

Driving Digital Transformation Globally with Resilience and Growth

Mastek, a leader in digital engineering and cloud transformation, operates globally, with revenue from UK-&-Europe (56.90%), US (27.20%), and AMEA (15.90%). Despite sector challenges, Mastek maintains resilience, boasting a strong order backlog of Rs. 2,169 Crs and 13 deal wins. **Strategic partnerships and digital capabilities can propel revenue by 19% CAGR to Rs. 4,300 Crs by FY26E. Acquisitions of MST and BizAnalytics, and a favorable offshore-onshore ratio, can help EBITDA & PAT grow by 24%/21% CAGR respectively to Rs. 777 Cr / 440 Crs, by FY26E. EBITDA margin can increase from 17% in FY24 to 18% in FY26E. Given these growth prospects, we initiate coverage on Mastek with a "BUY" rating and a target price of Rs. 3,279, implying an upside of 23%.**

MST Solutions Acquisition Bolsters Mastek's Growth Across Key Sectors

MST Solutions, a Salesforce Summit Level Consulting Partner, enhances Mastek's presence across Healthcare, Manufacturing/Tech, and US State and Local Government sectors. Leveraging Salesforce's projected ecosystem growth, Mastek aims to capitalize on the expanding market potential, targeting significant revenue milestones. In FY24, MST exceeded the expected revenue, reaching USD 40 million instead of the projected USD 35 million. Coupled with a stable margin of 18% to 20%, this promises strengthened financials and market positioning for Mastek.

BizAnalytics Fuels Mastek's Account Mining Strategy

Mastek acquired Boston-based BizAnalytics in August 2023, boosting its Data Services & Generative AI capabilities. This acquisition enhances Mastek's presence in the US market and supports expansion in Healthcare, Retail, and Asset & Wealth Management. In FY24, BizAnalytics's revenue stood in line with projections, at approximately USD 15 to 16 million. This will also aid margin expansion which is expected to grow from single to double digits next year, positively impacting Mastek's margins by 30 to 40 bps.

Unlocking Digital Success: Mastek's Strategic Growth in UK Public Sector and Beyond

Mastek demonstrated prowess in spearheading digital transformation initiatives within the United Kingdom (UK) Public Sector, backed by a robust history and deep proficiency in Oracle Cloud Services. Securing significant victories in government and education domains worldwide, the company prioritizes the delivery of sustainable value through longstanding partnerships with Oracle. It's inclusion in pivotal frameworks like the UK Ministry of Defence's £1.2B digital and IT professional services highlights Mastek's strategic momentum and growth initiatives. From the current order book of Rs. 2,169 Crs as of 30th June 2024, approximately 40% is from the UK, and within that portion, nearly 70% originates from mission-critical UK's public-sector projects. With this strong foundation, Mastek is well poised for further penetration in UK's Public sector, with a keen focus on bolstering market share in Healthcare & Life Sciences.

Strategic Vision for AI-Driven Growth and Achieving USD 1 Billion Revenue

Embarking on the generative AI journey, the company views AI as a key efficiency driver rather than just an embedded technology. Mastek's vision is to consistently aim to rank among the top three in term of revenue growth among mid-cap IT services in India and achieve USD 1 billion by the second half of the decade, the company focuses on building a strong, profitable future. By connecting its portfolio, customers, and sustainability, it remains committed to enhancing service offerings with the latest technology expertise essential for customer success.

Diversified Revenue Streams: Mastek's Strategic Edge

Mastek's revenue stream diversification is a strategic advantage, with around 11-13% derived from financial services, lower than its peer IT companies. This mitigates the impact of any slowdown in any sector. A significant portion, 43%, comes from Government and Education, ensuring stable revenue visibility. Health and life sciences, with a 18% contribution, show promising growth, particularly driven by spending in the US and UK. Retail and consumer segments contribute 13%, while Manufacturing and technology contribute 14% to the overall revenue mix which is from Middle East.

Mastek's Resilience and Strategic Wins Drive Sustained Revenue Growth

Mastek's strong 12-month order backlog and recent 13 new deal wins highlight its resilience. The outstanding order book as of 30th June 2024 stood at Rs 2,169 Cr with growth of 23% on YoY basis. There has been a decline in the client base from 430 in Q4FY24 and 436 in Q1FY24 to 391 in Q1FY25 due to focus towards clients generating bill of more than USD 1, USD 3, and USD 5 million. With a robust pipeline across key regions and expanded service offerings from acquisitions, Mastek is poised for sustained revenue growth. Over the past 18 months, its refined client mining strategy targeting Fortune 500/1000 companies has increased wallet share, evident in the rise of clients with annual billings exceeding USD 1 million from 61 to 76 in Q1FY25.

Key Risks:

- 1) Delay in rate cuts which may impact the discretionary spending of clients.
- 2) Uncertainty in the UK and US government policy due to elections and regime changes.

Acquisition of MST - Expanding with MST Solutions

MST Solutions, a Salesforce Summit Level Consulting Partner, strengthens Mastek's presence in Healthcare, Manufacturing/Tech, and State and Local Government sectors across the USA. With 325 professionals in Arizona, US, and offshore centers in India, MST Solutions shares Mastek's vision, culture, and values. Their track record with Fortune 1000 clients and expertise in Healthcare and Public Sectors enhances Mastek's capabilities for rapid expansion.

MST Solutions embodies a strategic amalgamation of three key verticals: Healthcare, Manufacturing/Tech, and the Local Government sector of the US.

Salesforce Ecosystem Growth:

Salesforce is projected to create 9 million jobs by 2026, reflecting its significant impact and expansion in the tech industry. Aiming for substantial growth, Salesforce plans to increase the number of consultants from the current 200,000 to 500,000 by 2026, representing a 2.5x growth.

Market Potential:

The Total Addressable Market (TAM) for Salesforce stands at USD 248 billion. Salesforce targets to capture USD 50 billion of this market by 2026, showcasing its ambitious growth trajectory.

Strategic and Cultural Alignment with Mastek:

Partnership - Key to Mastek's Path to USD 1 Billion Revenue Goal: Aligning with Mastek's strategic vision of achieving USD 1 billion in revenue, Salesforce's expansion and ecosystem growth present a robust opportunity for collaboration.

Salesforce Partnership Boosts Mastek's US Sector Growth: The partnership with Salesforce will bolster Mastek's growth, particularly in the Healthcare and Public Sectors within the US. As the US is second prefer geography for the company after UK

Strengthening relationships with Fortune 1000 clients, leveraging Salesforce's extensive industry presence.

Mastek's acquisition of MST Solutions, valued at USD 80 million, strategically leverages USD 50 million from internal cash reserves and USD 30 million from a loan. Over the next 3 years, the loan, secured at a rate of 360 bps (3.60%), will be gradually discharged. MST Solutions was projected to yield USD 35 million in revenue in the coming years but in FY24 it achieved USD 40 million with maintaining a stable double margin of 18% to 20%. This acquisition is poised to fortify Mastek's financial standing and market presence, driving growth and profitability across key sectors.

BizAnalytica Rebranded as Mastek's Data Cloud and Modernization Business

BizAnalytica acquisition was done by the company in August 2023. A premier data cloud and modernization solutions provider headquartered in Boston, USA. The strategic acquisition will bolster Mastek's global Data Services & Generative AI capabilities and grant access to a talented pool of qualified data architects and scientists. BizAnalytica's strong presence in the US market positions company to unlock Mastek's potential in existing verticals such as Healthcare & Retail, as well as new industries like Asset & Wealth Management.

BizAnalytica drives Mastek's account mining strategy. In FY24, revenue recorded at USD 15 to 16 million, in line with expectations. The margin profile is expected to shift from single to double digits next year.

Leading Digital Transformation in the UK Public Sector

Mastek has been a key player in the UK Public Sector for over three decades, establishing a strong presence in critical areas such as borders, immigration, defense, customs, and security. As a trusted Digital Engineering and Cloud Transformation Partner for both public and private sectors, Mastek has shown significant resilience despite macro uncertainties, thanks to its strong positioning in digital transformation initiatives. The UK and Europe contribute 56.70% to the company's total revenue, with services offered to four of the five major IT spenders and robust SaaS offerings.

Mastek's UK public sector business, especially in digital services, has a substantial onshore component, with several engagements transitioning into long-term projects, enhancing revenue visibility and predictability. The DSP (Digital Specialists and Program) program, a multi-phase initiative in the UK government, includes Mastek among its 20 suppliers. Nearly 70% of Mastek's revenue comes from mission-critical public-sector projects, reflecting strong momentum and strategic downstream deals. The company focuses on deeper account mining and cross-selling through its service line strategy, aiming to increase its share in Healthcare & Life Sciences.

Mastek's expertise in digital transformation and Oracle Cloud Services has secured significant wins in government and education sectors globally. The company's involvement in crucial frameworks, such as the UK Ministry of Defence's £1.2B digital and IT professional services, underscores its strategic growth and momentum. With a strong emphasis on expanding in Healthcare & Life Sciences, Mastek stands poised for sustained growth and triumph.

Looking forward, Mastek holds an optimistic outlook for the UK public sector, particularly emphasizing substantial spending in defense and healthcare. Anticipating significant contributions from secure government entities, including the central government, Mastek foresees substantial growth in FY25. Moreover, new UK programs and developments in areas like food, environment, rural affairs, police protection, and digital services are expected to positively impact the company over the next 2 to 3 years.

Strategic Vision for AI-Driven Growth and Achieving USD 1 Billion

Mastek has embarked on a journey into Generative AI, recognizing its potential as a catalyst for efficiency rather than just an embedded technology. The company aims to consistently rank among the top three in growth among mid-cap IT services and achieve USD 1 billion in revenue by the second half of the decade. By prioritizing the integration of its portfolio, customers, and sustainability, Mastek endeavors to build a resilient and profitable future. The company remains committed to enhancing its service offerings with the latest technological expertise, crucial for ensuring customer success.

At Mastek, digital transformation is seen as a means to streamline business processes and simplify innovation. This involves integrating sustainable business solutions and leveraging advancements like AI, aligned with customer priorities. Recent investments in innovation and data have yielded positive outcomes, evidenced by successes in non-linear platform growth and AI pilots with strategic clients.

Generative AI represents a breakthrough in artificial intelligence, allowing machines to create original content across various mediums. This technology, driven by advanced ML algorithms, has witnessed significant adoption, revolutionizing business operations and unlocking new avenues for innovation. According to industry projections, the generative AI market is poised for substantial growth, expected to reach USD 109.37 billion by 2030. In line with this trajectory, Mastek continues to explore emerging technologies like Generative AI to enhance internal processes, delivery capabilities, and client outcomes.

Through strategic partnerships such as with Netail, combining expertise in e-commerce and data analytics with AI technology, Mastek empowers retail clients to optimize their value chains and capitalize on digital opportunities. This alliance enables retail clients to seamlessly integrate AI into transformation projects, enhance brand visibility, and drive ROI.

Diversified Revenue Streams: Mastek's Strategic Edge

Mastek strategically diversifies its revenue streams, with approximately 11-13% derived from financial services, a lower proportion compared to its IT peers. This diversification helps mitigate the impact of sectoral slowdowns. A significant portion, accounting for 44%, stems from Government and Education sectors, ensuring stable revenue visibility. Health and life sciences, contributing 18%, exhibit promising growth, notably propelled by investments in the US and UK. Retail and consumer segments contribute 13%, while Manufacturing and technology add 14% to the overall revenue mix.

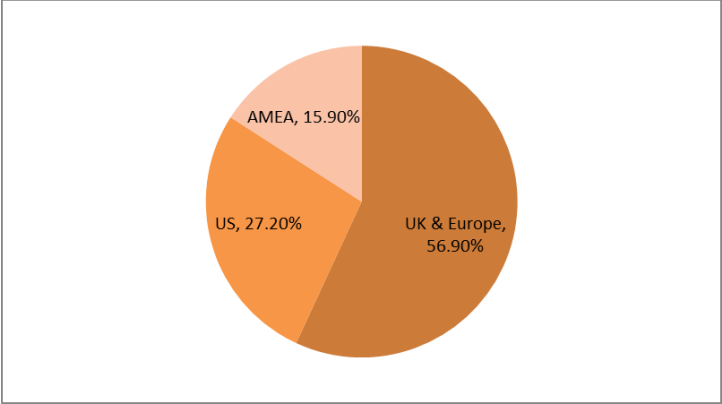
Mastek has historically relied heavily on revenue from the UK & Europe region, constituting around 70% of its total revenue in FY20. However, through deliberate efforts, this dependency has been significantly reduced to approximately 57% in FY24, with the US contributing around 26%.

The company's recent acquisitions align closely with its vision for 2025, aiming to balance revenue streams more evenly. By targeting a goal of generating one-third of its revenue from the US market, Mastek is strategically diversifying its geographic footprint, mitigating risks associated with over-reliance on any single region.

In FY25, the National Health Service (NHS) represents a significant spending area, and Mastek anticipates potential deals and orders from this sector. The UK presents a sizable opportunity of around USD 600 million for the company, with various deals expected to materialize over the next 8 years. Meanwhile, the Middle East exhibits strong performance and is anticipated to continue its positive trajectory in the forthcoming quarters.

In the US, Mastek foresees the healthcare sector reaching USD 100 million within the next 2 to 3 years, given the country's substantial healthcare expenditure, which currently accounts for approximately 18% of its GDP.

Exhibit 01: Region wise revenue split for FY24.



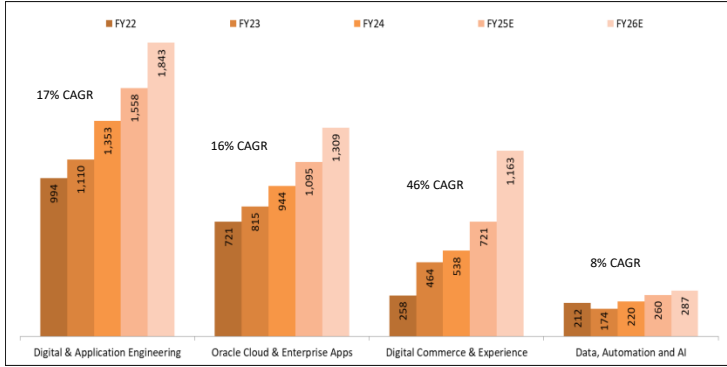
Source: Mastek, Systematix PCG Research

Mastek's Resilience and Strategic Wins Drive Sustained Revenue Growth

Despite challenges within the sector, Mastek's resilience is evident in its strong 12-month order backlog and recent success in securing significant deals. As of 30th June 2024, the outstanding order book stood at Rs 2,169 Crs, reflecting the company's robust performance. With a diversified pipeline spanning key regions and expanded service offerings resulting from strategic acquisitions, Mastek is well-positioned for sustained revenue growth. Over the past 18 months, the company's client mining strategy has been refined to target Fortune 500/1000 companies, leading to an increase in clients with annual billings exceeding USD 1 million from 61 to 76 in Q1FY25. This approach underscores Mastek's focus on enhancing wallet share among its clientele and capitalizing on opportunities for growth.

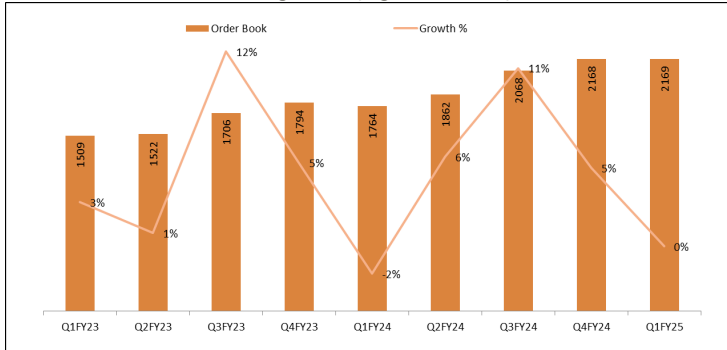
Story In Charts

Exhibit 02: Revenue Split by Service Lines (Figures Rs. Crs)



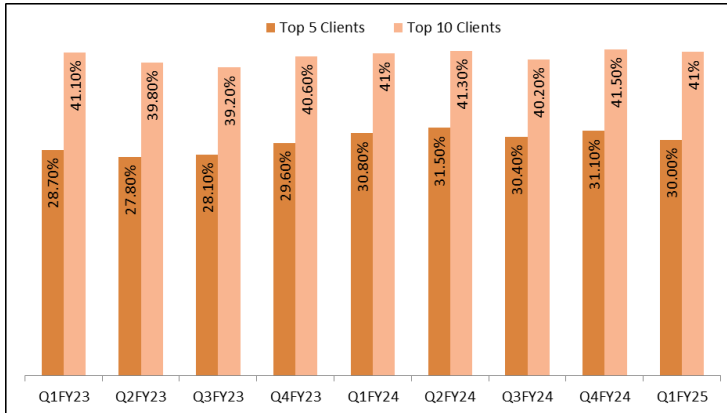
Source: Mastek, Systematix PCG Research

Exhibit 04: Order book and growth (Figures Rs. Crs)



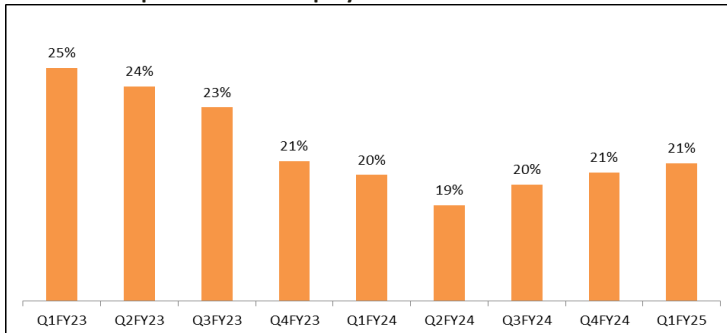
Source: Mastek, Systematix PCG Research

Exhibit 06: Client concentration



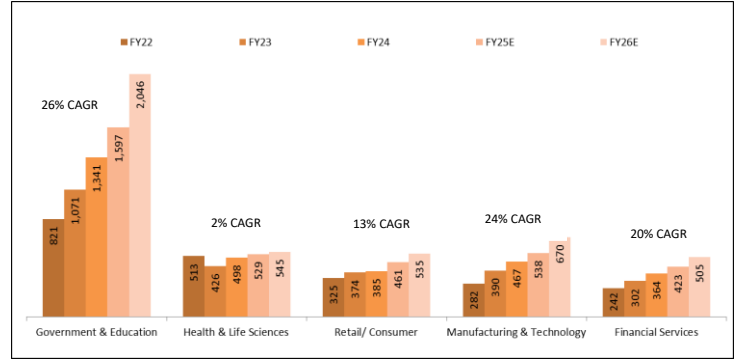
Source: Mastek, Systematix PCG Research

Exhibit 08: Improvement in employee attrition



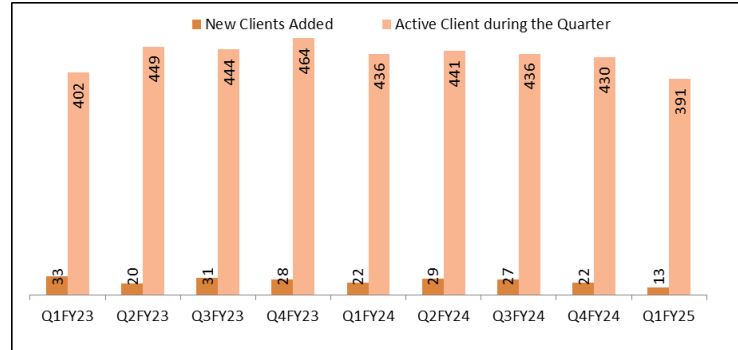
Source: Mastek, Systematix PCG Research

Exhibit 03: Revenue Split by Verticals (Figures Rs. Crs)



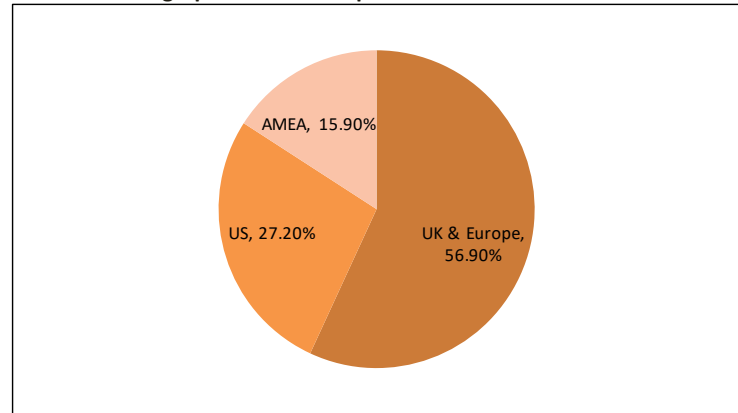
Source: Mastek, Systematix PCG Research

Exhibit 05: Client addition, Focus towards more > USD 1, 3, 5 Mn Client



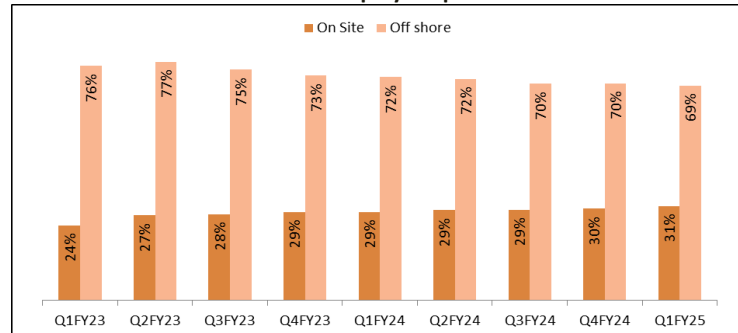
Source: Mastek, Systematix PCG Research

Exhibit 07: Geographical revenue split for FY24



Source: Mastek, Systematix PCG Research

Exhibit 09: On Site Vs Off Shore employee split



Source: Mastek, Systematix PCG Research

Service lines

1) Digital and Application Engineering:

Mastek specializes in designing, developing, and maintaining digital solutions tailored to diverse business needs, utilizing cloud computing and AI for innovation and efficiency. Services include platform development, cloud migration, microservices, iPaaS, DevOps, and API integration. Key alliances with Mulesoft, OutSystems, Microsoft Azure, AWS, Salesforce, and Google Cloud enhance their offerings. Digital and Application Engineering vertical grew at a 3 year CAGR of 17% to Rs 1,353 cr by FY24 which was 44.3% of the total revenue. Going ahead due to strong prospects from US and UK public sector we expect this segment to grow at a CAGR of 17% from FY24-FY26E to Rs 1,843 Crs.

2) Oracle Cloud and Enterprise Apps:

Oracle Cloud and Enterprise Apps division of the company focuses on implementing, customizing, and optimizing Oracle's cloud solutions and enterprise applications. With over 1,550 Oracle application customers and a team of 2,500 consultants, Mastek is one of the fastest-growing Oracle Cloud partners, achieving a 3 year CAGR of 17% to Rs. 944 Crs. Their offerings span ERP, CRM/CX, SCM, HCM, Industry Cloud solutions, and managed services for Oracle, Salesforce, digital, and commerce platforms. Key alliances with Salesforce and Oracle strengthen their commitment to delivering high-quality, future-proof solutions and services to clients.

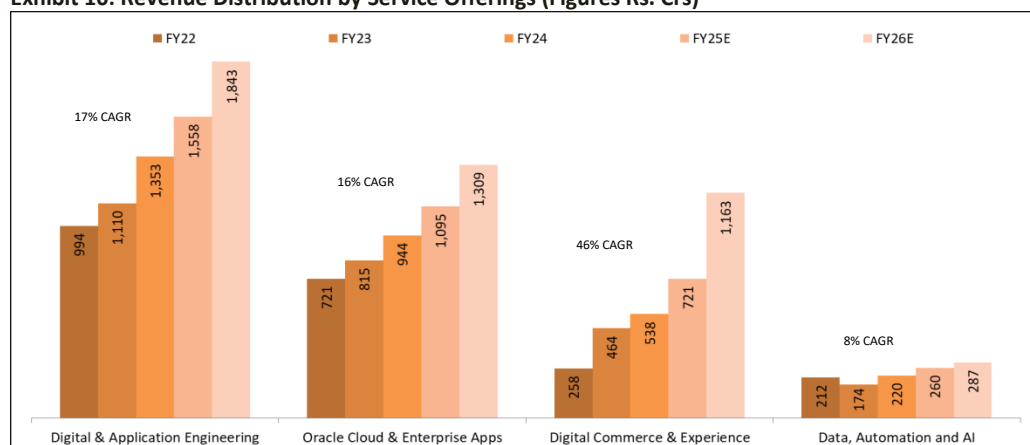
Due to increasing cloud penetration amongst clients this segment is expected to grow at a CAGR of 18% between FY24-FY26E to Rs 1,309 Crs.

3) Salesforce and Digital Commerce

Leveraging their expertise in retail (Consumer-Packaged Goods) CPG and digital strategy, Mastek excels in designing e-commerce solutions for clients. They utilize platforms like Oracle CX Commerce, Salesforce Commerce, Adobe Magento, and composable commerce technologies based on (Microservices, API-first, Cloud native SaaS and Headless) MACH principles. Oracle CX Commerce offers personalized experiences and advanced analytics, while Salesforce Commerce integrates seamlessly with CRM for omnichannel experiences. Adobe Magento is known for its flexibility, and composable commerce technologies focus on modularity and scalability. This service line has seen impressive growth, achieving a 38% CAGR to Rs. 538 Crs in the last three years. Mastek's offerings include commerce solutions, experience platforms, intelligent recommendation systems, and modern UI/UX design. Key alliances with Salesforce, Oracle, Adobe, and others strengthen their position in the market. Rapid increase in digital commerce businesses due to high consumer demand and need for integration for salesforce will aid the growth of this vertical to grow at a CAGR of 47% from FY24-FY26E to Rs 1,163 Crs.

4) Data, Automation and AI

Empowering businesses across industries with data-driven insights, automation, and AI solutions, Mastek offerings include data warehousing, ETL, reporting, data lakes, cloud data warehouse, data virtualization, analytics/ML, and hyperautomation. With a 30% CAGR growth to Rs. 220 Crs in the last three years, Mastek's expertise drives efficiency, innovation, and competitive advantage. Key alliances with AWS, Oracle, Informatica, Snowflake, and Denodo reinforce their commitment to delivering cutting-edge solutions.

Exhibit 10: Revenue Distribution by Service Offerings (Figures Rs. Crs)

Source: Mastek, Systematix PCG Research

Vertical Approach to Growth

1) Health and Life Sciences:

Over 20 years, Mastek has been actively engaged in the healthcare industry. This sector, valued at a staggering USD 10 trillion globally, remains consistently updated with the latest technology. Company's multifaceted capabilities, spanning patient experience, back office, and middle office functions, position them to assist companies in their digital transformation journey. With a track record of serving over 60 Oracle Life Sciences clients worldwide—ranging from service providers to hospitals to developers to manufacturers—company's current focus lies in expanding operations in North America.

As of 2021, the United States healthcare industry boasts a significant value of \$808 billion. Patient care accounts for 65% of its revenue. Notably, a recent survey revealed that 98% of pharmaceutical and life science executives anticipate a surge in digital investment for clinical trials in the near future.

In FY24, the company derived 16.3% of its revenue from the Health & Life Sciences sector, a decrease from approximately 22% in FY21. However, the company anticipates significant growth potential in the healthcare vertical within the US market, projecting it to reach USD 100 million within the next 2 to 3 years.

2) Government and Education:

Company has a long-standing relationship with the UK Public Sector, working on framework deals to drive digital transformation. There is great potential in many of the larger government entities, resulting in an estimated GBP 13 billion market.

Furthermore, digital expansion is outstripping growth in the overall market. They are an expert in Oracle Cloud Services and have extensive experience with proven Oracle Cloud Public Sector tool kit, developed in collaboration with public sector organisations and founded upon a unique level of Oracle Cloud implementation experience. During FY23, company has had several major wins in the government and education sectors globally.

3) Retail & Consumer

Mastek helps retailers transform their technology by giving them a 360-degree view of consumers and serving them across the entire purchase process, using retail supply management and retail consulting. Globally, Mastek is a 'Partner of Choice' for consumer-packaged goods (CPG) enterprises. Company implement the best cloud strategy to make retailers efficient, cost-effective, and agile, while providing them with analytic capabilities to benefit from in-depth insights once cloud migration is complete. During FY23, company major wins involved services such as global solutions for workforce efficiency, managed services for higher business value, cloud migration and data modelling, BI and reporting, among others.

4) Manufacturing and Technology

Company employs Oracle Cloud, Artificial Intelligence (AI), Internet of Things (IoT), and Data Analytics to empower global manufacturers to automate and scale their operations. Tailored solutions offered by the company assist in mitigating business risks, while data-driven analysis is applied at all organizational levels. Clients of the company experience enhanced customer satisfaction and the capability to adapt to fluctuating demands through lean manufacturing processes.

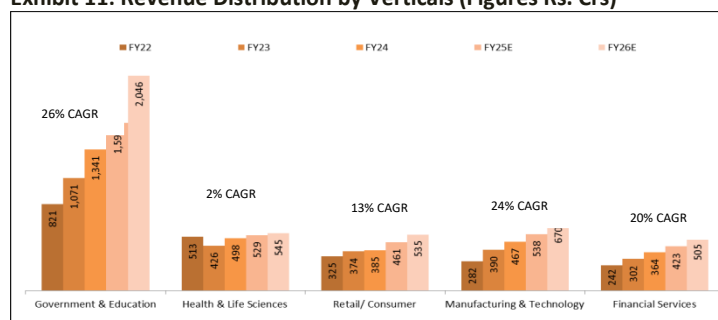
Oracle Manufacturing Cloud serves as a transformative tool, converting challenges into opportunities for success. Mastek complements this by delivering digital and cloud transformations, encompassing product ideation, execution, and maintenance services. Furthermore, the company provides ML & AI-driven product support to further enhance operational efficiency and customer satisfaction.

5) Financial Services

Mastek's finance software solutions furnish financial services firms with secure tools to innovate and implement robust digital strategies. With a rich history in vehicle leasing, particularly fueled by the rising demand for electric cars, the company has honed its expertise and forged collaborations with various platforms. Additionally, Mastek boasts a robust customer network within the mortgage industry.

Leveraging cross-vertical solutions, the company applies its expertise in fraud detection, acquired from collaborations with NHS UK, across the financial sector. Over the past year, Mastek has secured significant contracts for modernizing legacy systems and providing managed services, further solidifying its position in the industry.

Exhibit 11: Revenue Distribution by Verticals (Figures Rs. Crs)

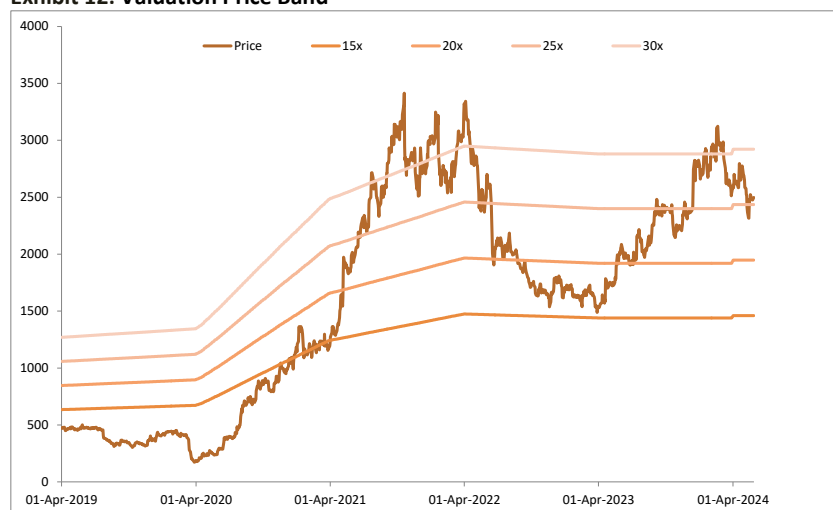


Source: Mastek, Systematix PCG Research

Valuation:

Mastek demonstrates resilience with a substantial 12-month order backlog of Rs. 2,169 as of June 30, 2024, alongside the introduction of 13 new logos in the UK, US, and Middle East markets. Mastek has evolved significantly over time, now securing a substantial portion of its UK government business directly. Mastek's 57% revenue originates from UK-&Europe government contracts, with 70% classified as mission-critical. The recent acquisition of Bizanalytica aims to bolster Mastek's presence in US market, reducing dependence on revenue from a single region. With this strategic footprint, we project 19% CAGR revenue growth from Rs. 3,055 Crs to Rs. 4,300 Crs by FY24-26E. Additionally, acquisitions of MST and Bizanalytica can contribute to double-digit margin growth. EBITDA growth of 12% CAGR in FY22-24 to Rs. 509 Crs is complemented by an anticipated 24% growth from FY24-FY26E to Rs. 777 Crs. EBITDA margin is projected to grow from 17% in FY24 to 18% in FY26E. PAT can rise at 24% CAGR to Rs. 440 Crs by FY26E, supported by recent acquisitions. Factoring in growth prospects, expected uptick in discretionary spending and company's focus on increasing utilization, we initiate coverage on Mastek with a "BUY" rating based on 23x FY26E EPS and a target price of Rs. 3,279, implying an upside of 23%.

Note: A 5% discount is applied to the average PE ratio of 24 since 2021, which excludes the volatility caused by the COVID-19 pandemic.

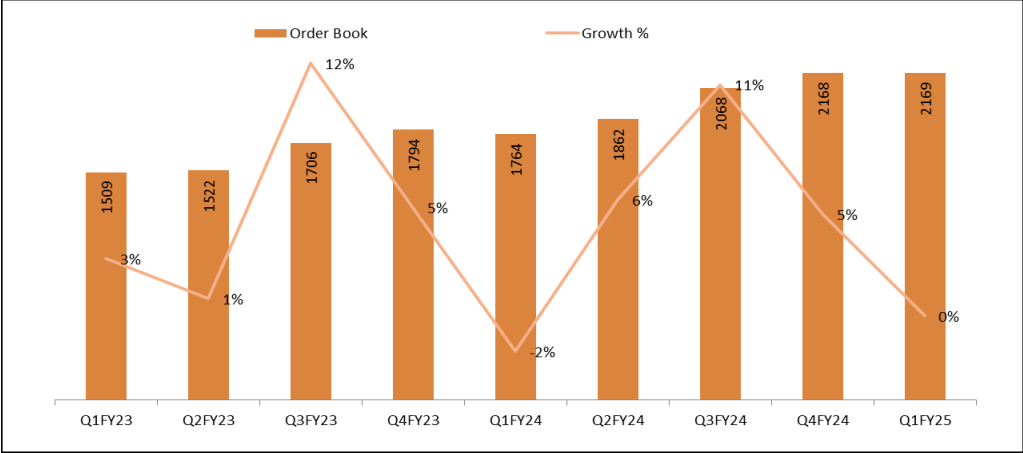
Exhibit 12: Valuation Price Band

Source: Systematix PCG Research

Key Operational Data

Mastek's Robust Order Book: Navigating Sector Challenges

Exhibit 13: Healthy Order book with growing backlog (Figures Rs. Crs)



Source: Mastek, Systematix PCG Research

Mastek has demonstrated resilience amidst sector challenges, evidenced by its strong 12-month order backlog and recent success in securing significant deals. As of Q1FY25, the outstanding order book totaled Rs 2,169 crore, showcasing the company's robust performance. With a diversified pipeline spanning key regions and expanded service offerings resulting from strategic acquisitions, Mastek is positioned for sustained revenue growth. Despite macroeconomic headwinds, Mastek's order backlog for the next 12 months remains resilient. Recent achievements include securing multiple large deals, with a robust pipeline across the UK, US, and Middle East regions. The acquisitions of MST Solutions and BizAnalytics have broadened Mastek's service offerings, enabling cross-selling and upselling opportunities and contributing to a healthy pipeline. With a strong order backlog and promising pipeline, Mastek is poised for sustained revenue growth in the medium term.

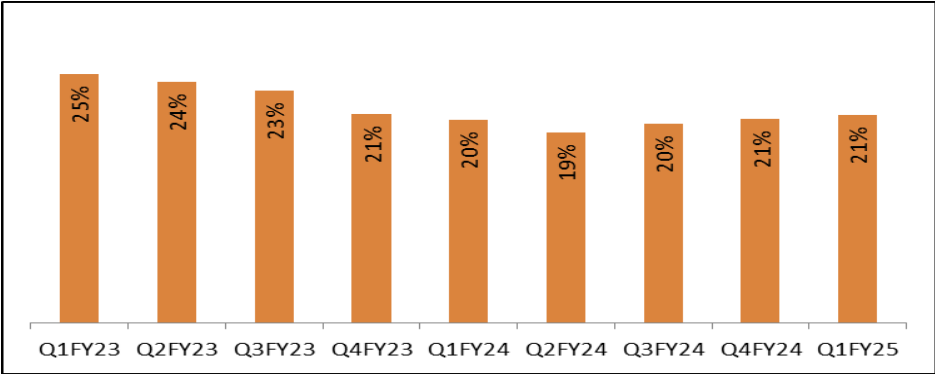
Mastek's Enhanced Client Mining Strategy Yields Growth in Fortune Clients and Billings

Over the past 18 months, Mastek has refined its client mining strategy, focusing on attracting Fortune 500/1000 companies and those with annual revenues exceeding USD 1 billion, known for their substantial tech investment capabilities. This approach aims to bolster wallet share upon client acquisition. Additionally, clients with annual billings exceeding USD 1 million increased from 61 in Q4FY23 to 76 in Q1FY25. These metrics underscore Mastek's successful efforts to enhance wallet share among its clientele.

Company Slashes Attrition, Boosts Revenue per Employee

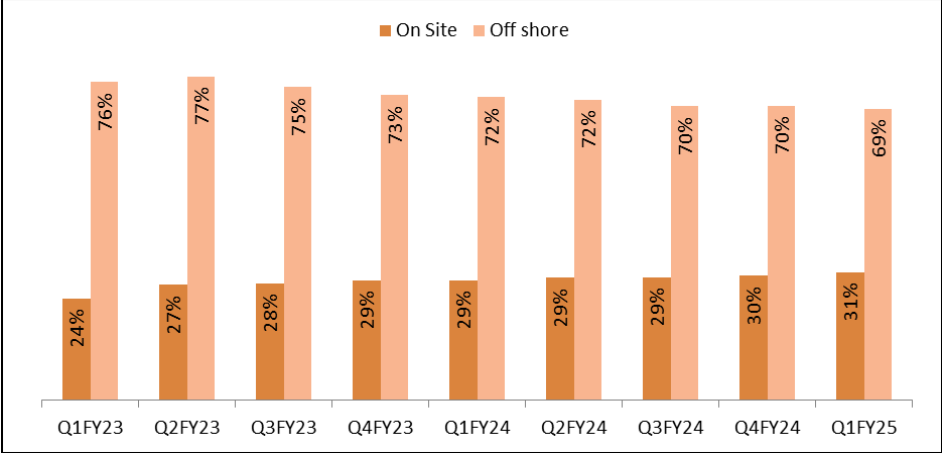
The company witnessed a reduction in its attrition rate, which improved to 21% in Q1FY25 from 28% in Q4FY22, surpassing the industry average. With a focus on retaining current employees, the company aims to enhance their utilization rate, thereby boosting the revenue per employee metric, while maintaining minimal new hiring levels. The company is also seeing traction where clients trust it for long term offshore development center which would help the company in stickiness of the customers.

Exhibit 14: Attrition trend



Source: Mastek, Systematix PCG Research

Exhibit 15: On Site Vs Off Shore employee split

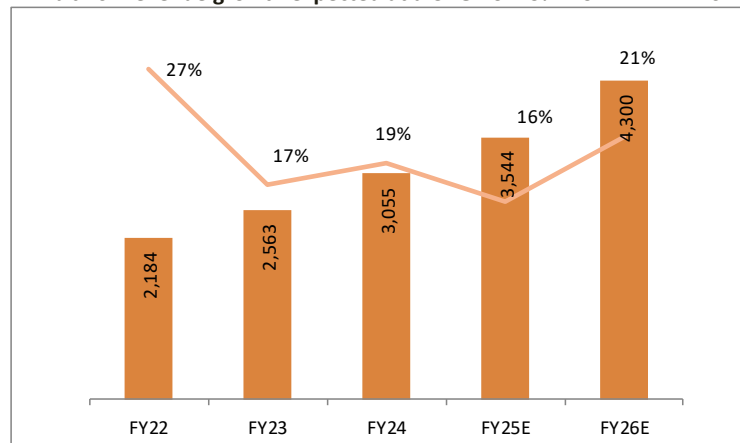


Source: Mastek, Systematix PCG Research

Financial Analysis

Mastek Secures Major Deals, Projects 19% CAGR Growth

Exhibit 16: Revenue growth expected at a CAGR of 19% from FY24-FY26E (Figures Rs. Crs)



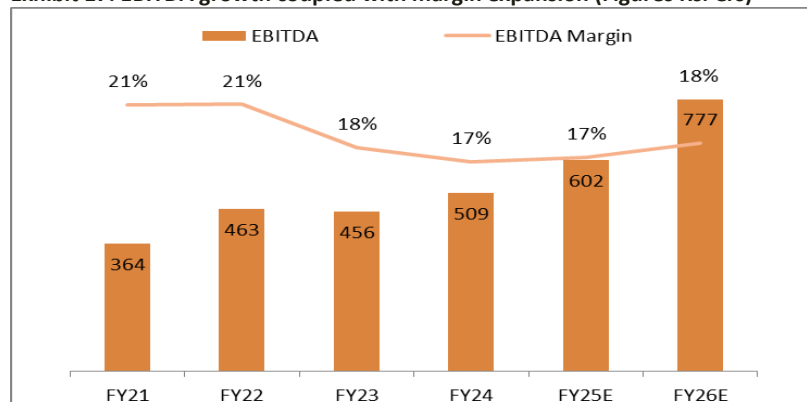
Source: Mastek, Systematix PCG Research

In the face of macroeconomic uncertainty in the sector, Mastek's order backlog for the next 12 months has shown strength. The company's recent successes include securing 22 deals, and its pipeline remains robust across the UK, US, and Middle East regions. Mastek has a strong footprint in the US and UK, particularly in the healthcare and defense sectors. The company expects a major influx of orders in the coming quarter as the business environment stabilizes in the UK and US. This provides higher revenue visibility, and we anticipate the company to grow at a CAGR of 19% from FY24 to FY26E, reaching Rs. 4,300 Crs.

In terms of segment-wise growth, the Digital and Application Engineering segment is forecasted to grow at a CAGR of 17% from FY24 to FY26E, reaching Rs 1,843 Crs. This growth trajectory is also seen in the Oracle Cloud and Enterprise Apps segment, expected to achieve a CAGR of 18% during the same period, reaching Rs 1,309 Crs. Additionally, the Salesforce and Digital Commerce vertical are anticipated to experience rapid expansion, with a projected CAGR of 47% from FY24 to FY26E, reaching Rs 1,163 Crs. These forecasts reflect Mastek's strategic positioning and its ability to capitalize on evolving market trends and client demands.

24% EBITDA CAGR Growth Following Strategic Acquisitions and Utilization Focus

Exhibit 17: EBITDA growth coupled with margin expansion (Figures Rs. Crs)

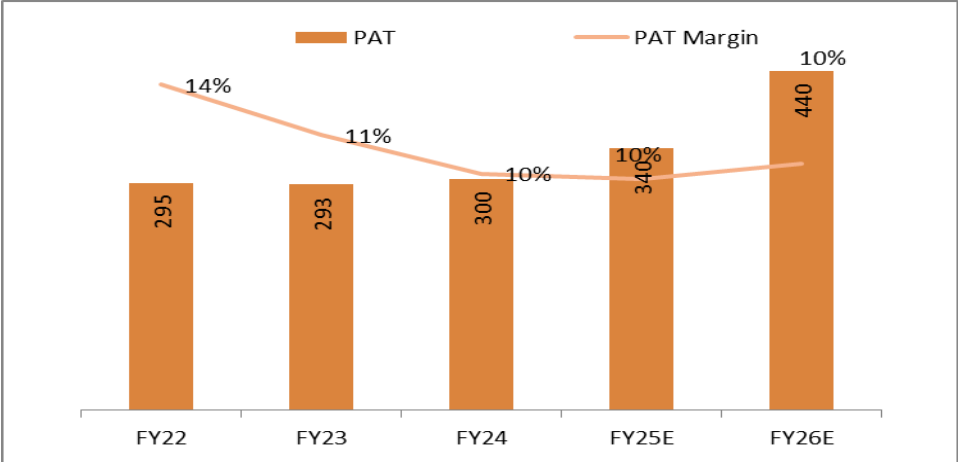


Source: Mastek, Systematix PCG Research

Company is quite confident in achieving higher margins. If the margin reaches around 17%, the company will opt for cost optimization. However, if the margin reaches approximately 19%, the company will undertake capital expenditure for growth. Company achieved stable EBITDA growth of 12% CAGR from FY21 to FY24, reaching Rs. 509 Crs. Company focuses on maximizing employee utilization and growth in US will be through the recent acquisitions of MST and BizAnalytica. We expect EBITDA to grow by 24% CAGR from FY24 to FY26E, with EBITDA margins increasing from 17% to 18%.

Steady Growth in PAT

Exhibit 18: PAT growth at a CAGR of 27% from FY24-FY26E along with stable margins (Figures Rs. Crs)



Source: Mastek, Systematix PCG Research

PAT grew steadily from FY21 to FY24 at a CAGR of 13%. Currently, the company has no plans for inorganic growth, resulting in lower debt requirements, which will help drive the bottom line. The recent acquisitions are expected to contribute to the top line starting FY25, with their positive impact reflected in the bottom line. Consequently, we expect PAT to grow at a CAGR of 21% from FY24 to FY26E, reaching Rs. 440 Crs, with stable PAT margins.

Industry Overview

Global IT Spending Thrives Amid Challenges, Driven by Software and Cloud Growth

In the world of macroeconomic uncertainty such as high inflation and interest rates, global IT spending is poised for growth. Businesses are anticipated to persist in their digital transformation endeavors to optimize costs, reimagine revenue streams, and enhance the value proposition of their products and services. However, growth is expected to vary across segments. The software segment is projected to grow by 12.3%, driven by businesses investing in improving their competitive edge through increased productivity and automation.

The IT services segment is expected to continue growing until 2024, primarily fueled by a 30% increase in the Infrastructure-as-a-Service market in 2023. Enterprises will maintain spending on maintaining existing on-premises data centers, but new investments will be directed towards cloud options. The cloud services market is witnessing a significant shift, with price influencing incremental spending rather than increased usage.

Moreover, emerging technologies like IoT, robotics, and mixed reality are contributing to additional spending, with IDC forecasting that these new technologies will reach USD 1.36 trillion in 2023, representing nearly a 30% increase compared to traditional spending.

Exhibit 19: Global IT Spending (Figures Rs. Crs)

Global IT Spending Forecast (USD million)	2022		2023		2024	
	Spending	Growth (%)	Spending	Growth (%)	Spending	Growth (%)
Data Centre Systems	2,16,095	13.7	2,24,123	3.7	2,37,790	6.1
Devices	7,17,048	-10.7	6,84,342	-4.6	7,59,331	11
Software	7,93,839	8.8	8,91,386	12.3	10,07,769	13.1
IT Services	12,50,224	3.5	13,64,106	9.1	15,02,759	10.2
Communications Services	14,24,603	-1.8	14,79,671	3.9	15,36,156	3.8
Overall IT	44,01,809	0.50	46,43,628	5.5	50,43,805	8.6

Source: Mastek, Systematix PCG Research

Indian IT industry

The Indian IT industry contributed approximately 7.4% to India's GDP in FY23, with expectations to reach 10% by 2025. Gartner projects a 0.7% growth in India's IT spending in 2023, totaling USD 108.5 billion. Indian enterprises are prioritizing cautious cost optimization and efficiency programs, resulting in reduced spending on data center systems and increased investment in IT modernization and growth initiatives. This shift includes heightened investments in applications and Software-as-a-Service (SaaS), ultimately driving growth in software spending.

Exhibit 20: Indian IT Spending (Figures Rs. Crs)

India IT Spending Forecast (USD million)	2022		2023	
	Spending	Growth (%)	Spending	Growth (%)
Data Centre Systems	3,682	15.3	3,549	-3.6
Devices	46,397	-3.9	44,139	-4.9
Software	12,804	14.1	14,483	13.1
IT Services	20,539	6.9	21,860	6.4
Communications Services	24,427	0.2	24,517	0.4
Overall IT	1,07,848	1.50	1,08,548	0.7

Source: Mastek, Systematix PCG Research

India's thriving technology ecosystem is poised to underpin its continued economic growth over the next decade. Supported by a skilled talent pool and a favorable business environment, characterized by cost competitiveness and a strong entrepreneurial culture, India is well-positioned for future expansion. Nasscom projects the Indian industry revenue to surge to USD 500 billion by 2030.

About the Company

"Mastek: Pioneering Digital Transformation Across Industries, Partnering with Tech Giants for Future Growth"

Mastek is a trusted digital engineering and cloud transformation partner, delivering innovative solutions for clients across Government/Public Sector, Healthcare, Retail, Manufacturing, and Financial Services. By unlocking data, modernizing applications to the cloud, and accelerating digital advantage, Mastek drives customer success and business transformation. Their strong engineering mindset and solutions-based approach enable rapid expansion and innovative capabilities. To enhance front-to-back office digital transformation, Mastek is focused on expanding partnerships with major technology companies like Oracle, Microsoft, and Salesforce. Their mission is to Decomplex Digital and makes businesses future-ready.

Mastek operates in the UK, Europe, US, Middle East, and India. Revenue distribution is 56.90% from the UK and Europe, 27.20% from the US, and 15.90% from AMEA as of FY24. As of FY23, nearly 70% of UK revenue comes from mission-critical public-sector businesses, demonstrating strong momentum with significant framework and strategic deals.

In FY24, Mastek's revenue grew to Rs. 3,055 crores, reflecting a 21% CAGR over three years. EBITDA increased by 23% to Rs. 509 crores, EBIT rose by 9% to Rs. 419 crores, and PAT grew by 13% to Rs. 300 crores.

As on 31 st March, 2024, the company had a total of 5,539 employees, of which 3,892 employees were based offshore in India while the rest were at various onsite locations.

Financial Summary

Income Statement (Rs crs)	FY22	FY23	FY24	FY25E	FY26E
Revenue from Operations	2,184	2,563	3,055	3,549	4,300
Expenses	1,721	2,108	2,546	2,947	3,523
EBITDA	463	456	509	602	777
Depreciation and Amortisation	43	67	90	103	116
EBIT	420	388	419	500	661
Net Interest Cost	8	25	44	54	73
Other income	36	38	16	16	15
Exceptional items- gain	0	25	-4	0	0
PBT	448	427	386	462	602
Tax expense	115	117	75	110	147
PAT including minority interest	333	310	311	352	455
Attributable to minority interest	38	17	11	12	16
Net Profit attributable to owners	295	293	300	340	440
Balance Sheet (Rs crs)					
Fixed Assets including investment property, Capital WIP	65	66	60	57	53
Intangible Assets incl right of Use of assets & goodwill	780	1,681	1,891	1,970	2,048
Investments & Other non current assets	12	14	19	23	29
Loans & other Financial Assets	42	31	36	34	35
Non current tax Assets including deferred tax assets	74	108	129	129	129
Total Non Current Assets	973	1,901	2,134	2,213	2,295
Cash & Cash equivalents including bank balances	767	208	383	406	433
Receivables	436	507	541	604	659
Investments	15	56	77	89	104
Other current assets incl financial assets	298	469	543	612	761
Total Current Assets	1,515	1,240	1,543	1,710	1,958
Total Assets	2,488	3,141	3,678	3,923	4,253
Share capital	15	15	15	15	15
Net worth including minority interest	1,222	1,775	2,100	2,270	2,490
Long Term Borrowings	121	269	313	343	388
Non current Lease liabilities and provisions	35	56	62	35	25
Non current deferred tax liabilities	21	30	34	34	34
Other financial liabilities	237	276	99	75	42
Total Non Current Liabilities	414	631	507	487	489
Trade Payables	187	183	220	240	259
Short Term borrowings	69	102	173	214	250
Current Lease liabilities and provisions	32	43	43	32	32
Other current liabilities incl financial liabilities	438	286	519	552	589
Contract liabilities incl Current tax liability, net	125	121	114	128	144
Total Current Liabilities	852	736	1,070	1,166	1,274
Total Equity and Liabilities	2,488	3,141	3,678	3,923	4,253

Basic Ratios (Rs.)	FY22	FY23	FY24	FY25E	FY26E
EPS	98	96	97	110	143
Growth (%)	19%	-2%	1%	13%	29%
Book Value	407	581	681	736	807
Growth (%)	-1%	43%	17%	8%	10%
Valuation Ratios					
P/E (x)	27.1	27.8	27.4	24.2	18.7
P/CEPS (x)	112.6	118.1	126.6	143.6	180.3
P/BV (x)	6.5	4.6	3.9	3.6	3.3
EV	7,537.9	8,375.4	8,366.9	8,393.9	8,429.7
EV/Sales (x)	3.5	3.3	2.7	2.4	2.0
EV/EBITDA (x)	16.3	18.4	16.4	13.9	10.8
Profitability Ratio (%)					
ROE	26%	20%	16%	16%	18%
ROA	12%	10%	9%	9%	11%
ROCE	21%	14%	12%	12%	14%
Margin (%)					
EBITDA	21%	18%	17%	17%	18%
EBIT	19%	15%	14%	14%	15%
PBT	21%	17%	13%	13%	14%
PAT	14%	11%	10%	10%	10%
Leverage Ratios					
Interest Coverage Ratio (x)	0.0	0.1	0.1	0.1	0.1
Net D/E (x)	-0.4	0.1	0.1	0.1	0.1
Net Debt/ EBITDA (x)	-1.0	0.5	0.3	0.3	0.3
Liquidity Ratios					
Current Ratio	1.8	1.7	1.4	1.5	1.5
Cash Ratio	0.9	0.3	0.4	0.3	0.3
Growth Ratio (%)					
Sales	27%	17%	19%	16%	21%
Expenses	27%	22%	21%	16%	20%
EBITDA	27%	-1%	12%	18%	29%
Interest Cost	-5%	222%	80%	21%	36%
PBT	32%	-5%	-10%	20%	30%
PAT	41%	-1%	3%	13%	29%
Cash EPS	12%	5%	7%	13%	26%

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