

Price: 2,178

Recommendation: Buy

Industry: Computers - Software

Sector: Information Technology

Report Date: 03-Apr-2025

Mastek is advancing its market position through strategic initiatives, focusing on AI, Oracle, and Salesforce services. The company launched ADOPT.AI for Oracle Cloud and became a Salesforce Agentforce partner. Prioritizing healthcare and secured government services, Mastek is reducing client numbers to boost revenue per customer. With a \$250 million order backlog, Mastek anticipates growth in North America and the UK, supported by a 10.9% revenue increase to INR 870 crores.

Sales		Profit & Loss		Profitability Matrix	
Current Year	477 Cr	Operating Profit(Year)	83.4 Cr	Operating Profit Margin	17.5 %
Previous Year	313 Cr	Operating Profit(Quarter)	18.6 Cr	EBITDA Margin	26.83 %
Current Quarter	120 Cr	PAT (Year)	113 Cr	Net Profit Margin	30.2 %
Previous Quarter	127 Cr	PAT (Quarter)	19.4 Cr	EPS	37.6
Revenue (QYoY)	113 Cr				
Valuation Matrix		Growth(YoY)		Growth(QoQ)	
Trailing P/E	74.8	Sales Growth	17.4 %	Sales Growth	-5.51 %
PEG Ratio	2.13	PAT Growth	35.65 %	Sales Growth QYoY	6.19 %
EV/EBITDA	58.0	EPS Growth	2.73 %	PAT Growth	11.49 %
P/B	7.63	Dividend Yield	0.87	PAT Growth QYoY	45.86 %
Capital Allocation		Holdings		Leverage	
RoE	14.2 %	Promoter	36.2 %	Debt/Equity	0.06
RoA	12.3 %	FII	9.40 %	Debt	53.5 Cr
RoCE	14.3 %	DII	9.27 %	Market Cap	6739 Cr
RoIC	188 %	Public	45.1 %	Enterprise value	6743 Cr
		No of Shares	3.09 Cr	Cash Equivalents	49.6 Cr

source : Company filings

Company's Overview Based on Recent Concall and Performance:

In the recent meeting, Mastek outlined several new initiatives and business strategies aimed at enhancing its market position and driving growth. The company is taking a full steering control on its AI priorities, adopting a three-pillar approach to its AI strategy. This includes driving innovation and automation across all service lines, creating an AI engineering practice, and launching a small language development practice. These initiatives are expected to sharpen Mastek's edge across its practices, particularly in Oracle, digital Salesforce, and data services. The company also launched ADOPT.AI, an advanced Oracle Cloud implementation methodology, to expand its market within Oracle implementation services. Additionally, Mastek has become a qualified Agentforce partner with Salesforce, running use cases with existing customers to grow its Salesforce and Agentforce business.

Mastek's diversification schemes are evident in its focus on healthcare and secured government services (SGS) as priority verticals. The healthcare business in North America and the UK is performing well, with strong growth in new customer acquisitions and expansion in existing customer businesses. The company is also focusing on reducing its tail accounts to increase revenue per customer, having reduced its client count from 436 to 351 over the past year. This strategic focus on quality over quantity is expected to deliver sustainable growth. Mastek's private sector business in the UK and Europe is turning a corner, with significant deals won in Oracle and digital services, indicating a positive outlook for future growth.

Looking ahead, Mastek is optimistic about its growth and scaling perspectives. The company expects steady growth in North America as it consolidates its capabilities and builds synergies. The UK business is described as "firing on all cylinders," with a positive outlook for Q4 and the next year. Mastek's 12-month order backlog stands at \$250 million, with a recent \$40 million deal in UK SGS expected to expand the backlog by 8% to 9%. The company is also focusing on managed services and T&M; business in the US to drive steady, repeatable business and improve margins. Mastek's efforts to integrate capabilities across Oracle, Data, Digital, and Salesforce are expected to yield significant changes in its business profile.

From a financial perspective, Mastek reported a revenue of INR 870 crores for the quarter, up 10.9% year-on-year. The healthcare sector showed robust growth, with a 19% quarter-on-quarter and 30% year-on-year increase. The company's operating EBITDA was at 16.2%, reflecting a reduction due to salary hikes and currency headwinds. Despite these challenges, Mastek's US business delivered double-digit margins, and the company is confident in maintaining healthy margins in the UK. The reduction in headcount is part of a strategic move to increase productivity and focus on higher revenue per resource, with plans to grow headcount in selected areas to support anticipated growth.

MASTEK Daily Closing One Year Price Chart



Name	Mar Cap (Rs. Cr.)	P/E	ROE	Sales(G) QoQ	Sales(G) QYoY	PAT(G) QoQ	PAT(G) QYoY
PB Fintech.	71933.50	346.51	1.13%	10.66%	48.31%	41.19%	92.16%
Mastek	6739.46	74.76	14.23%	-5.38%	5.90%	11.27%	45.82%
Oracle Fin.Serv.	65880.43	28.76	28.98%	2.47%	-5.94%	-6.30%	-26.93%
Coforge	47866.88	62.55	24.09%	8.36%	42.82%	6.58%	-9.45%
Hexaware Tech.	41542.05	35.44	23.50%	0.60%	20.58%	6.41%	65.40%

Aspect	Commentary
Revenue	The company shows a strong revenue increase, with a 10.9% year-on-year growth, indicating robust market demand and effective sales strategies. The focus on strategic sectors like healthcare and secured government services has contributed significantly to this growth, reflecting a well-executed <u>diversification strategy</u> .
Profit & Loss	Operating profit and PAT figures indicate a healthy financial position, with PAT showing a significant year-on-year growth of 35.65%. This suggests effective cost management and revenue generation strategies, despite challenges such as salary hikes and currency headwinds impacting operating margins.
Profitability Matrix	The company maintains strong profitability metrics, with an operating profit margin of 17.5% and a net profit margin of 30.2%. These figures highlight efficient operations and cost control, supporting the company's ability to generate substantial profits relative to its revenue.
Valuation Matrix	Valuation metrics such as a trailing P/E of 74.8 and a PEG ratio of 2.13 suggest the company is valued at a premium, reflecting investor confidence in its growth prospects. The EV/EBITDA of 58.0 indicates high expectations for future earnings, aligning with strategic growth initiatives.
Growth (YoY)	Year-on-year growth metrics are positive, with sales growth at 17.4% and PAT growth at 35.65%. This reflects the company's successful expansion and market penetration strategies, particularly in high-growth sectors like healthcare, contributing to overall financial health.
Growth (QoQ)	Quarter-on-quarter growth shows mixed results, with a slight decline in sales growth at -5.51%, but a strong PAT growth of 11.49%. This indicates effective cost management and profitability improvements, even as sales face short-term fluctuations.
Capital Allocation	The company demonstrates efficient capital allocation with a RoE of 14.2% and RoCE of 14.3%. These metrics indicate effective use of equity and capital employed to generate returns, supporting sustainable growth and shareholder value creation.
Holdings	The shareholding pattern shows a balanced distribution, with promoters holding 36.2% and public holding 45.1%. This indicates a stable ownership structure, providing confidence in governance and strategic direction, while allowing for public investor participation.
Leverage	The company maintains a low leverage with a debt/equity ratio of 0.06, indicating prudent financial management and a strong balance sheet. This low level of debt provides financial flexibility and reduces risk, supporting long-term strategic initiatives.

Analyst viewpoint: Mastek shows robust growth potential from a short to mid-term perspective due to strategic initiatives aligned with AI, Oracle, and Salesforce services. The recent 10.9% YoY revenue increase to INR 870 crores and a considerable PAT growth underline strong market demand and effective sales strategies, particularly in the thriving healthcare and secured government sectors. Despite a slight QoQ sales decline, significant PAT growth reflects impressive cost management and profitability enhancement. Valuation metrics underscore investor confidence with a trailing P/E of 74.8 and a PEG ratio of 2.13, suggesting optimism for continued earnings growth. Furthermore, the company's focus on quality over quantity by reducing client numbers is expected to increase revenue per customer and drive sustainable growth, with a \$250 million backlog supporting future stability.

Mastek's competitive stance is bolstered by strong sector positioning and partnership advances, particularly in Oracle and Salesforce realms. The company's low leverage, with a debt/equity ratio of 0.06, provides financial agility for future strategic initiatives, enhancing its appeal within the IT sector. While the company's ongoing diversification and expansion into high-growth sectors signal promising outcomes, a mild challenge noted is the pressure on operating EBITDA from salary hikes and currency fluctuations. However, Mastek's strategic focus on margin stability and enhanced client engagements is poised to leverage its strengths for promising performance and shareholder value creation.

Please read detailed disclosure on next page.

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Investment Rating	Expected Return (over 12-month)
BUY	>=15%
SELL	<-10%
NEUTRAL	>-10% to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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