

Mastek

Taking the right leap

Mastek delivered strong revenue and margin performance led by the integration of Evosys. Mastek organic growth (+1.1% QoQ) was inline led by traction in UK Govt. (+6.9% QoQ CC) offset by weakness in UK private (Covid+Brexit) and US (-18.5% QoQ CC). Weakness in US (Retail) and UK Private (Retail+BFS) will impact Mastek organic growth in FY21E. Margin expansion (+349bps QoQ) in the quarter was led by the integration of high margin Evosys business. We assume Evosys revenue of USD 63mn and ~19% EBITDA margin for FY21E. We cut our USD revenue estimate by 4.1/3.6% for FY21/22E due to high exposure to Retail (~22% of rev) and Covid-19 uncertainty. We increase our EPS estimate by 13.1/19.4% for FY21/22E to factor in higher-margin Evosys integration and currency tailwind. Our TP of Rs 400 is based on 7x FY22E EPS plus Rs 36/sh for ~5% stake in Majesco US. Maintain BUY.

- Revenue stood at USD 46.6mn (vs. est. USD 43mn) led by a higher contribution from Evosys (USD 12mn vs. exp of USD 8.2mn). In CC terms revenue was up 36.1/23.4% QoQ/YoY led by inorganic push. The demerged part of Evosys was integrated for two months, while ME business contributed only for one month. Mastek organic growth will be supported by higher spending by UK Govt. (post-Brexit) and the new deal wins.
- The total order backlog increased by 57% QoQ to USD 104mn due to Evosys integration (USD 47mn). The organic order book declined 14% QoQ to USD 57mn due to deal deferrals and cut in discretionary spend (Retail).
- EBITDA margin stood at 17.3% +104bps QoQ (vs. est. of 15.0%). Evosys is an Oracle cloud migration partner and commands a better margin due to higher fixed-price contracts and offshoring.
- Mastek paid USD 65mn in cash for Evosys and share issuance will happen post the NCLT approval. Net cash post the transaction stands at Rs 0.81bn and OCF/EBITDA improved to 117% in FY20 vs. 56% in FY19.
- Valuation and view.** Mastek organic revenue was down 5.1% in FY20 due to Brexit uncertainties and US restructuring. The UK Govt. spending has revived but the UK private sector is still facing the dual impact of Brexit and Covid-19. US revenue is impacted by Retail slowdown and recovery is difficult in the near term. Offshoring remains an opportunity with the UK public sector given Mastek's long relationship with UK Govt. and limited competition from Indian IT vendors. Evosys growth will be muted in FY21E due to ME exposure (Crude crash + COVID) and margin will come down due to higher investments. We expect USD rev/EBIT/PAT CAGR of +18/25/17% for FY20-22E. The stock trades at a reasonable valuation of 7.7/6.7x FY21/22E and has witnessed a strong run-up of +43/71% in the last 1M/3M.

Financial Summary

YE Mar (Rs bn)	4Q FY20	4Q FY19	YoY (%)	3Q FY20	QoQ (%)	FY18	FY19	FY20	FY21E	FY22E
Net Sales	3.37	2.67	26.0	2.44	38.2	8.17	10.33	10.71	14.39	15.77
EBIT	0.51	0.31	63.1	0.28	81.6	0.82	1.16	1.32	1.84	2.06
APAT	0.52	0.27	92.0	0.31	68.8	0.70	1.01	1.31	1.28	1.47
Diluted EPS (Rs)	20.2	10.6	90.4	12.0	68.8	27.7	39.9	51.5	44.8	51.6
P/E (x)						12.5	8.7	6.7	7.7	6.7
EV / EBITDA (x)						7.4	5.5	5.4	3.9	3.1
RoE (%)						13.7	15.9	17.4	15.2	15.6

Source: Company, HSIE Research

BUY

CMP (as on 15 Jun 2020)	Rs 346
Target Price	Rs 400
NIFTY	9,814

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 333	Rs 400
EPS %	FY21E	FY22E
	+13.1%	+19.4%

KEY STOCK DATA

Bloomberg code	MAST IN
No. of Shares (mn)	24
MCap (Rs bn) / (\$ mn)	8/110
6m avg traded value (Rs mn)	28
52 Week high / low	Rs 484/166

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	23.8	(8.6)	(26.8)
Relative (%)	26.3	10.4	(11.1)

SHAREHOLDING PATTERN (%)

	Dec-19	Mar-20
Promoters	45.43	45.10
FIs & Local MFs	7.35	7.33
FPIs	6.52	6.20
Public & Others	40.70	41.37
Pledged Shares	25.89	25.70

Source : BSE

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Revenue reported robust growth of 36.1/23.4% QoQ/YoY in CC terms helped by Evosys acquisition (Rs 870mn)

Mastek organic revenue grew 1.2% QoQ but declined 8.7% YoY

EBIT margin came at 15% +359bps QoQ vs. our expectation of 12.8%. Expansion was led by strong revenue growth and cost management

APAT stood at Rs 515mn +68.8% QoQ led by strong margin performance

There was an exceptional loss of Rs 175.5mn in Q4 vs Rs 45.3 in Q3

Exceptional item constitute of Rs 123mn provision for doubtful debts, Earn-out reversal of Rs 19.4mn and acquisition expenses of Rs 71.9mn

Quarterly consolidated Financial Snapshot

Particulars (Rs bn)	4QFY20	4QFY19	YoY (%)	3QFY20	QoQ (%)
Net Revenues (USD mn)	46.6	37.9	23.1	34.2	36.2
Net Revenues	3.37	2.67	26.0	2.44	38.2
Employee Expenses	1.78	1.49	19.5	1.37	30.0
Other Operating Expenses	1.01	0.83	21.2	0.73	37.4
EBITDA	0.58	0.35	65.0	0.34	73.1
Depreciation	0.08	0.04	78.5	0.06	32.4
EBIT	0.51	0.31	63.1	0.28	81.6
Other Income (Including EO Items)	0.00	0.07	-100.7	0.05	-101.0
Interest Cost	0.01	0.01	3.6	0.01	42.3
PBT	0.49	0.37	32.1	0.32	54.0
Tax	0.10	0.10	4.2	0.06	72.3
Minority Interest	0.05	-	NM	-	NM
RPAT	0.34	0.27	24.1	0.26	30.7
EO (Loss) / Profit (Net Of Tax)	-0.18	0.01	0.0	-0.05	0.0
APAT	0.52	0.27	92.0	0.31	68.8

Source: Company, HSIE Research

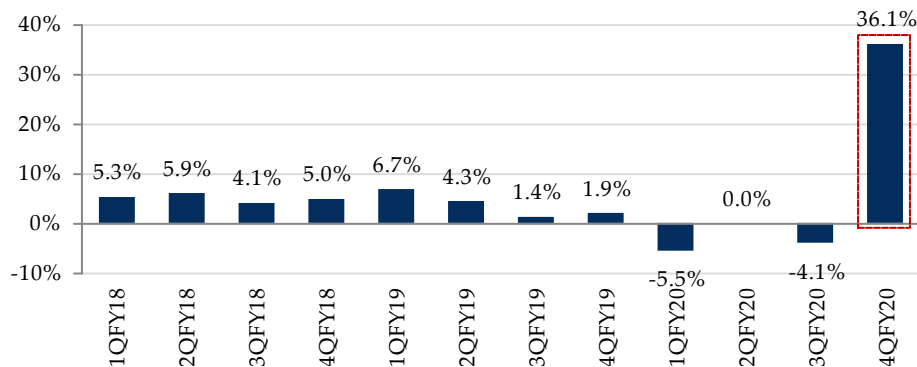
Margin Analysis

Particulars (% of Revenue)	4QFY20	4QFY19	YoY (bps)	3QFY20	QoQ (bps)
Employee Expenses %	52.7	55.6	-287	56.0	-332
Other Operating Expenses %	30.0	31.2	-121	30.2	-17
EBITDA Margin (%)	17.3	13.2	408	13.8	349
EBIT Margin (%)	15.0	11.6	341	11.4	359
Tax Rate (%)	21.0	26.6	-562	18.8	223
APAT Margin (%)	15.3	10.0	526	12.5	278

Source: Company, HSIE Research

Mastek organic growth of 1.2% QoQ was supported by healthy growth in UK Govt.

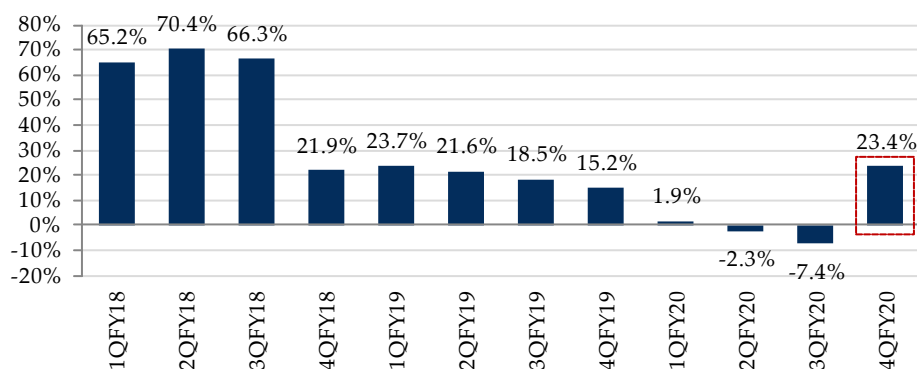
QoQ CC Revenue Growth Trajectory (%)



Source: Company, HSIE Research

YoY growth supported by Evosys while organic growth impacted by slowdown in US geography

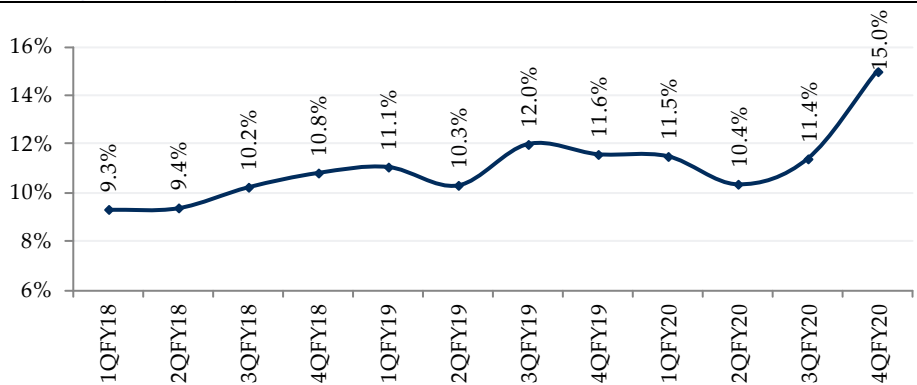
YoY CC Revenue Growth Trajectory (%)



Source: Company, HSIE Research

EBIT margin witnessed sharp improvement aided by healthy revenue and cost control

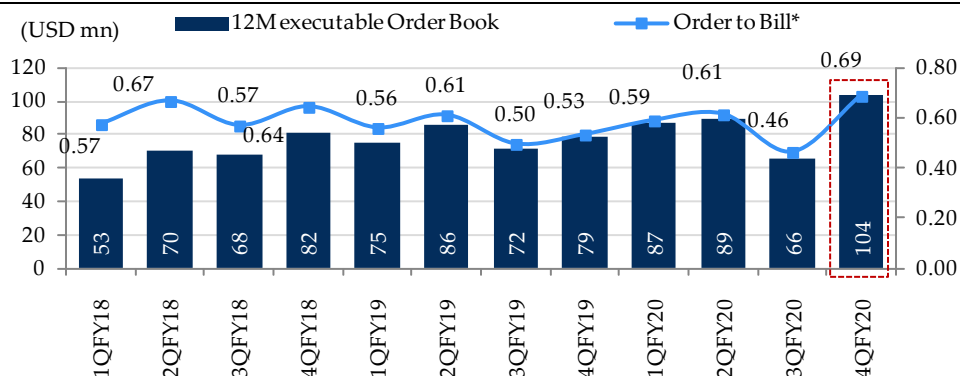
EBIT Margin Trajectory (%)



Source: Company, HSIE Research

12M executable order book was at all time high helped by Evosys

12M Executable Order Book



Source: Company, HSIE Research

Order book to bill has improved to 0.69x of TTM revenues, at multi quarter high

Geography Wise Revenues

UK recovered on YoY basis supported by UK public sector

USD mn	1QFY19	2QFY19	3QFY19	4QFY19	FY19	1QFY20	2QFY20	3QFY20	4QFY20	FY20
UK	26.0	26.6	27.6	29.0	109.2	25.9	24.7	26.0	32.2	108.8
QoQ %	3.6%	2.4%	3.7%	5.0%		-10.5%	-4.8%	5.1%	24.0%	
YoY %	30.1%	25.3%	25.2%	15.6%	23.6%	-0.1%	-7.1%	-5.9%	11.2%	-0.3%
% of rev	71.0%	72.0%	75.0%	77.0%	74.0%	73.0%	72.0%	76.0%	69.0%	72.0%
US	9.7	9.5	8.6	8.3	36.2	9.1	9.2	7.9	9.0	35.1
QoQ %	4.0%	-1.9%	-9.1%	-3.6%		8.7%	1.4%	-14.0%	13.2%	
YoY %	24.0%	5.0%	-10.2%	-10.6%	1.0%	-6.6%	-3.4%	-8.6%	7.4%	-3.0%
% of rev	27.0%	26.0%	24.0%	22.0%	24.0%	25.0%	27.0%	23.0%	19.0%	23.0%
ME									3.3	3.3
QoQ %										
YoY %										
% of rev									7.0%	2.0%
Others	0.7	0.6	0.5	0.6	2.4	0.6	0.7	0.3	2.2	3.8
QoQ %	93.5%	-19.6%	-15.0%	12.3%		-0.6%	16.2%	-47.9%	540.4%	
YoY %	-24.6%	0.8%	-25.8%	48.5%	-9.1%	-23.7%	10.2%	-32.4%	285.6%	56.7%
% of rev	2.0%	2.0%	1.0%	2.0%	2.0%	2.0%	2.0%	1.0%	5.0%	2.0%
Total	36.4	36.7	36.8	37.9	147.8	35.6	34.6	34.2	46.6	151.0
QoQ %	4.7%	0.8%	0.1%	3.1%		-6.1%	-2.9%	-1.0%	36.2%	
YoY %	26.5%	18.9%	13.6%	8.9%	16.5%	-2.3%	-5.9%	-6.9%	23.1%	2.2%

Source: Company, HSIE Research

Mastek expect healthy growth in UK public sector as the govt is spending on digital transformation

Evosys growth will be led by increased cloud migration post Covid

Industry Wise Revenues

BFSI declined 3.1% YoY as there were project delays and ramp down

USD mn	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	
Government	11.5	14.2	14.0	12.5	14.3	13.7	11.1	15.0	
QoQ %		3.4%	23.5%	-1.4%	-10.5%	14.0%	-4.0%	-19.0%	35.2%
YoY %		15.1%	33.2%	29.4%	12.7%	24.2%	-3.5%	-20.6%	19.9%
% of rev		32.0%	39.0%	38.0%	33.0%	40.0%	40.0%	32.0%	32.0%
Financial Services	8.0	7.0	6.9	6.8	5.9	6.1	5.9	6.6	
QoQ %		0.3%	-12.7%	-1.3%	-1.5%	-13.7%	3.9%	-2.6%	11.0%
YoY %		44.1%	30.7%	-1.1%	-14.9%	-26.8%	-12.8%	-14.0%	-3.1%
% of rev		22.0%	19.0%	19.0%	18.0%	16.0%	18.0%	17.0%	14.0%
Retail Services	13.4	13.3	12.8	12.8	13.4	13.0	11.5	10.4	
QoQ %		8.5%	-0.8%	-4.1%	0.5%	4.5%	-3.5%	-11.5%	-9.5%
YoY %		24.2%	10.9%	6.7%	3.7%	-0.1%	-2.8%	-10.3%	-19.2%
% of rev		37.0%	36.0%	35.0%	34.0%	38.0%	38.0%	34.0%	22.0%
Health	NA	NA	NA	3.7	NA	NA	3.9	7.9	
QoQ %								103.2%	
YoY %								113.5%	
% of rev		0.0%	0.0%	0.0%	10.0%	0.0%	0.0%	11.0%	17.0%
Others	3.5	2.2	3.1	2.0	2.0	1.8	1.8	6.8	
QoQ %		4.7%	-36.0%	38.8%	-34.2%	-0.4%	-10.1%	0.9%	265.8%
YoY %		43.3%	-22.1%	19.1%	-38.7%	-41.8%	-18.2%	-40.6%	230.5%
% of rev		10.0%	6.0%	8.0%	5.0%	6.0%	5.0%	5.0%	15.0%
Total	36.4	36.7	36.8	37.9	35.6	34.6	34.2	46.6	
QoQ %		4.6%	0.9%	0.1%	3.1%	-6.1%	-2.9%	-1.0%	36.2%
YoY %		26.5%	18.9%	13.6%	8.9%	-2.3%	-5.9%	-6.9%	23.1%

Source: Company, HSIE Research

Govt recovered with healthy growth of 19.9% YoY led by Mastek organic and Evosys integration

COVID pandemic impacted retail vertical the most

Service-line Wise Revenues

USD mn	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20
ADM	17.4	17.8	18.7	16.1	14.3	15.2	15.9	18.7
QoQ %	5.3%	2.0%	5.2%	-14.1%	-10.8%	6.1%	4.7%	17.2%
YoY %	41.5%	18.9%	12.1%	-3.0%	-17.8%	-14.5%	-14.9%	16.1%
% of rev	48.0%	48.0%	51.0%	42.0%	40.0%	44.0%	47.0%	40.0%
Oracle Cloud Migration								12.0
QoQ %								
YoY %								
% of rev								26.0%
Digital Commerce	9.0	8.9	8.1	8.2	9.0	9.0	7.6	6.2
QoQ %	8.7%	-0.7%	-9.3%	1.0%	9.4%	0.7%	-15.4%	-19.4%
YoY %	15.1%	18.9%	-1.7%	-1.1%	-0.6%	0.9%	-5.8%	-24.8%
% of rev	25.0%	24.0%	22.0%	22.0%	25.0%	26.0%	22.0%	13.0%
Application Support	4.0	4.5	4.3	7.7	6.4	5.7	6.6	6.0
QoQ %	9.8%	12.2%	-4.6%	80.2%	-16.7%	-12.0%	16.0%	-8.5%
YoY %	33.3%	18.9%	51.7%	111.6%	60.6%	26.0%	53.2%	-22.2%
% of rev	11.0%	12.0%	12.0%	20.0%	18.0%	16.0%	19.0%	13.0%
BI & Analytics	3.2	2.8	3.1	3.6	3.9	3.0	2.5	2.1
QoQ %	-13.3%	-10.9%	8.4%	15.4%	10.2%	-22.5%	-16.7%	-15.3%
YoY %	24.3%	18.9%	41.7%	-3.4%	22.8%	6.8%	-18.0%	-39.8%
% of rev	9.0%	8.0%	8.0%	9.0%	11.0%	9.0%	7.0%	5.0%
Agile Consulting	1.5	1.1	1.0	0.9	0.6	0.3	0.3	0.4
QoQ %	-2.9%	-24.9%	-3.8%	-17.0%	-30.6%	-42.9%	-1.0%	9.0%
YoY %	-39.9%	18.9%	-28.2%	-41.7%	-58.4%	-68.3%	-67.4%	-57.2%
% of rev	4.0%	3.0%	3.0%	2.0%	2.0%	1.0%	1.0%	1.0%
Assurance & Testing	1.3	1.6	1.5	1.5	1.3	1.3	1.2	1.3
QoQ %	17.5%	19.7%	-3.3%	-2.4%	-10.7%	-3.1%	-3.6%	2.2%
YoY %	104.5%	18.9%	57.4%	32.7%	0.8%	-18.3%	-18.6%	-14.8%
% of rev	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	3.0%
Total	36.4	36.7	36.8	37.9	35.6	34.6	34.2	46.6
QoQ %	4.6%	0.9%	0.1%	3.1%	-6.1%	-2.9%	-1.0%	36.2%
YoY %	26.5%	18.9%	13.6%	8.9%	-2.3%	-5.9%	-6.9%	23.1%

Source: Company, HSIE Research

Project Type Wise Revenues

USD mn	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20
Fixed Price	7.7	8.1	10.1	10.3	9.1	6.5	6.4	19.0
QoQ %	-9.6%	5.7%	23.7%	2.0%	-11.8%	-27.9%	-1.5%	195.0%
YoY %	38.9%	42.5%	36.7%	20.5%	17.6%	-19.7%	-36.1%	84.8%
% of rev	21.0%	22.0%	27.0%	27.0%	25.0%	19.0%	19.0%	41.0%
Time & Material	28.7	28.6	26.7	27.6	26.5	28.0	27.8	27.7
QoQ %	9.3%	-0.4%	-6.6%	3.5%	-4.0%	5.7%	-0.8%	-0.5%
YoY %	23.5%	13.6%	6.8%	5.2%	-7.6%	-2.0%	4.1%	0.1%
% of rev	79.0%	78.0%	73.0%	73.0%	75.0%	81.0%	81.0%	59.0%
Total	36.4	36.7	36.8	37.9	35.6	34.6	34.2	46.6
QoQ %	4.6%	0.9%	0.1%	3.1%	-6.1%	-2.9%	-1.0%	36.2%
YoY %	26.5%	18.9%	13.6%	8.9%	-2.3%	-5.9%	-6.9%	23.1%

Source: Company, HSIE Research

ADM recovered with 16.1% YoY growth after three consecutive quarters of YoY decline

Oracle cloud migration is Evosys revenue

Digital commerce was impacted by slowdown in Retail

Fixed price has improved significantly due to Evosys and is margin accretive

Client Metrics

Nos	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20
Active Clients (TTM)	166	162	165	157	154	144	143	436
Active Clients (during the qtr)	117	116	114	110	109	110	110	407
Clients > USD 1mn	28	32	32	29	26	25	25	387

Source: Company, HSIE Research

Client Contribution Metrics

USD mn	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20
Top 5 Clients	14.5	15.2	15.6	15.8	14.4	13.8	14.8	16.7
QoQ %	3.3%	5.2%	2.6%	1.1%	-9.2%	-3.7%	7.2%	12.6%
YoY %	21.9%	23.1%	27.7%	12.8%	-0.9%	-9.3%	-5.2%	5.6%
% of rev	40.0%	42.0%	43.0%	42.0%	40.0%	40.0%	43.0%	36.0%
Top 6-10 Clients	5.7	5.5	5.4	6.5	6.2	5.9	6.9	7.0
QoQ %	-2.6%	-3.6%	-3.0%	20.7%	-4.3%	-5.1%	17.1%	2.4%
YoY %	59.2%	18.8%	-13.9%	10.0%	8.1%	6.4%	28.4%	8.9%
% of rev	16.0%	15.0%	15.0%	17.0%	17.0%	17.0%	20.0%	15.0%
Top 10 Clients	20.2	20.8	21.0	22.3	20.5	19.7	21.7	23.7
QoQ %	1.6%	2.7%	1.1%	6.1%	-7.8%	-4.1%	10.2%	9.4%
YoY %	30.6%	21.9%	13.7%	11.9%	1.6%	-5.1%	3.3%	6.6%
% of rev	56.0%	57.0%	57.0%	59.0%	58.0%	57.0%	63.0%	51.0%
Non Top 10 Clients	16.2	16.0	15.8	15.6	15.0	14.9	12.5	22.9
QoQ %	8.7%	-1.4%	-1.2%	-0.9%	-3.7%	-1.2%	-15.7%	82.8%
YoY %	21.8%	15.2%	13.4%	4.9%	-7.1%	-6.9%	-20.5%	46.6%
% of rev	44.0%	43.0%	43.0%	41.0%	42.0%	43.0%	37.0%	49.0%

Source: Company, HSIE Research

Evosys has 495 active customers in FY20

Growth was registered across all client buckets led by Evosys

Revenue Trend & Assumptions

USD Mn	FY17	FY18	FY19	FY20	FY21E	FY22E
Total Revenue	83.5	126.8	147.8	151.0	194.4	210.2
<i>Growth YoY%</i>	3.7%	51.8%	16.5%	2.2%	28.8%	8.1%
Mastek Organic	83.5	126.8	147.8	138.9	131.9	142.1
<i>Growth YoY%</i>	3.7%	51.8%	16.5%	-6.0%	-5.1%	7.8%
Evosys	0.0	0.0	0.0	12.0	62.5	68.1
<i>Growth YoY%</i>					419.8%	9.0%
Geography Mix						
UK	68.9	88.3	109.2	108.8	135.8	148.1
<i>Growth YoY%</i>	-10.6%	28.2%	23.6%	-0.3%	24.8%	9.0%
<i>% of Rev</i>	82.5%	69.7%	73.9%	72.1%	69.9%	70.4%
US	10.2	35.8	36.2	35.1	35.8	37.2
<i>Growth YoY%</i>	NA	251.6%	1.0%	-3.0%	2.1%	3.7%
<i>% of Rev</i>	12.2%	28.3%	24.5%	23.3%	18.4%	17.7%
ME				3.3	11.9	12.7
<i>Growth YoY%</i>					265.8%	6.3%
<i>% of Rev</i>				2.2%	6.1%	6.0%
Others	4.4	2.6	2.4	3.8	10.8	12.3
<i>Growth YoY%</i>	25.5%	-40.4%	-9.1%	56.7%	188.1%	13.7%
<i>% of Rev</i>	5.3%	2.1%	1.6%	2.5%	5.6%	5.8%
Vertical Mix						
Government	35.8	42.5	52.1	54.0	62.7	70.9
<i>Growth YoY%</i>	-20.1%	18.8%	22.6%	3.6%	16.1%	13.2%
<i>% of Rev</i>	42.8%	33.5%	35.3%	35.8%	32.3%	33.7%
Financial Services	19.9	25.8	28.6	24.4	29.0	32.3
<i>Growth YoY%</i>	30.6%	29.4%	10.9%	-14.7%	18.9%	11.4%
<i>% of Rev</i>	23.9%	20.4%	19.4%	16.2%	14.9%	15.4%
Retail Services	16.6	47.2	52.4	48.2	44.5	47.5
<i>Growth YoY%</i>	52.2%	184.2%	11.0%	-8.0%	-7.8%	6.8%
<i>% of Rev</i>	19.9%	37.2%	35.5%	31.9%	22.9%	22.6%
Health				11.8	32.1	32.3
<i>Growth YoY%</i>					171.7%	0.6%
<i>% of Rev</i>				7.8%	16.5%	15.4%
Others	11.2	11.3	10.9	12.5	26.0	27.1
<i>Growth YoY%</i>	16.6%	0.4%	-3.3%	14.5%	108.7%	4.0%
<i>% of Rev</i>	13.4%	8.9%	7.4%	8.3%	13.4%	12.9%

Source: Company, HSIE Research

Currency Assumptions

	FY17	FY18	FY19	FY20	FY21E	FY22E
GBP-USD Rate	1.30	1.33	1.31	1.27	1.23	1.23
USD-INR Rate	67.0	64.4	69.9	71.0	74.0	75.0

Source: HSIE Research

Change in Estimates

(Rs bn)	FY21E			FY22E		
	Earlier	New	% Change	Earlier	New	% Change
Revenue (USD Mn)	202.8	194.4	-4.1	218.0	210.2	-3.6
Revenue	14.8	14.4	-2.8	16.1	15.8	-2.3
EBIT	1.5	1.8	20.2	1.6	2.1	27.3
EBIT Margin (%)	10.3	12.8	245	10.0	13.1	304
EPS (Rs)	39.6	44.8	13.1	43.2	51.6	19.4

Source: HSIE Research

Valuation

Particulars	Per Share (Rs)
EPS FY22	52
Target P/E (x)	7
Value of Core Business (Rs)	363
Stake in Majesco US (Rs)	40
Discount (10%)	4
Value of Stake in Majesco US (Rs)	36
Target Price (Rs)	400
Upside (%)	16%

Source: Company, HSIE Research

Peer Set Comparison

Company	MCap (Rs bn)	CMP (Rs)	TP (Rs)	RECO	EPS (Rs)				P/E (x)				RoE (%)			
					FY19	FY20	FY21E	FY22E	FY19	FY20	FY21E	FY22E	FY19	FY20	FY21E	FY22E
TCS	7,641	2,036	1,680	REDUCE	83.9	86.2	78.9	88.3	24.3	23.6	25.8	23.1	36.1	37.3	35.1	38.9
Infosys	2,922	688	680	BUY	37.1	38.6	36.7	42.4	18.5	17.8	18.8	16.2	24.3	25.2	23.2	25.3
HCL Tech	1,571	579	565	BUY	37.3	40.8	38.8	46.9	15.5	14.2	14.9	12.4	26.0	23.8	19.0	19.9
Wipro	1,217	213	185	REDUCE	15.8	17.0	15.6	17.0	13.5	12.5	13.6	12.6	17.3	17.3	14.9	14.2
TechM	528	547	625	BUY	48.9	48.3	42.4	48.0	11.2	11.3	12.9	11.4	22.0	20.2	16.5	17.4
Tier-1 IT Median									15.5	14.2	14.9	12.6	24.3	23.8	19.0	19.9
LTI	325	1,869	1,800	ADD	87.0	87.3	86.2	112.6	21.5	21.4	21.7	16.6	34.6	29.5	25.7	28.4
Mphasis	160	859	825	ADD	57.6	61.3	57.5	68.7	14.9	14.0	14.9	12.5	20.0	20.6	17.9	20.1
L&T Tech	137	1,311	1,125	ADD	65.8	71.9	66.1	80.3	19.9	18.2	19.8	16.3	31.1	28.6	23.2	24.2
Mindtree	152	921	830	ADD	44.1	40.5	43.7	55.1	20.9	22.8	21.1	16.7	24.9	19.5	21.6	24.0
Hexaware*	95	318	300	ADD	19.6	21.5	19.8	22.9	16.2	14.8	16.1	13.8	26.5	24.9	20.2	20.9
Persistent	46	598	525	REDUCE	47.8	47.0	37.1	43.9	12.5	12.7	16.1	13.6	15.7	14.4	11.5	12.6
Cyient	23	211	240	REDUCE	44.4	33.9	23.2	26.8	4.7	6.2	9.1	7.9	20.0	14.5	9.8	10.8
Zensar	26	114	98	ADD	14.2	11.7	9.4	12.3	8.0	9.7	12.1	9.2	17.7	12.9	9.7	12.0
Sonata	23	218	240	BUY	23.7	28.9	21.4	26.4	9.2	7.5	10.2	8.3	34.7	41.7	31.3	34.4
Majesco	10	356	375	BUY	18.3	19.4	20.1	25.4	19.4	18.4	17.7	14.0	8.4	7.9	7.8	9.1
Mastek	8	346	400	BUY	39.9	51.5	44.8	51.6	8.7	6.7	7.7	6.7	15.9	17.4	15.2	15.6
Tier-2 IT AVG									14.2	13.9	15.1	12.3	22.7	21.1	17.6	19.3
Tier-2 IT Median									14.9	14.0	16.1	13.6	20.0	19.5	17.9	20.1

Source: HSIE Research

Financials

Consolidated Income Statement

YE March (Rs bn)	FY17	FY18	FY19	FY20	FY21E	FY22E
Net Revenues (USD mn)	83.5	126.8	147.8	151.0	194.4	210.2
<i>Growth (%)</i>	3.7%	51.8%	16.5%	2.2%	28.8%	8.1%
Net Revenues	5.6	8.17	10.33	10.71	14.39	15.77
<i>Growth (%)</i>	6.3%	45.9%	26.4%	3.7%	34.3%	9.6%
Employee Expenses	3.23	4.81	5.87	5.84	7.85	8.47
Other Operating Expenses	1.86	2.36	3.12	3.30	4.39	4.89
EBITDA	0.51	1.00	1.34	1.57	2.15	2.41
Depreciation	0.15	0.19	0.17	0.25	0.31	0.35
EBIT	0.36	0.82	1.16	1.32	1.84	2.06
<i>EBIT Margin (%)</i>	6.4%	10.0%	11.3%	12.3%	12.8%	13.1%
<i>EBIT Growth (%)</i>	1214.2%	126.7%	42.5%	13.5%	39.0%	12.2%
Other Income (Including EO Items)	0.07	0.20	0.23	0.16	0.17	0.22
Interest	0.04	0.06	0.06	0.05	0.13	0.14
PBT	0.39	0.96	1.33	1.43	1.87	2.15
Tax (Incl Deferred)	0.07	0.26	0.32	0.30	0.43	0.49
Minority Interest	-	-	-	0.05	0.17	0.18
RPAT	0.32	0.70	1.01	1.07	1.28	1.47
EO (Loss) / Profit (Net Of Tax)	-0.03	-	0.01	-0.24	-	-
APAT	0.36	0.70	1.01	1.31	1.28	1.47
<i>APAT Growth (%)</i>	0.0%	95.5%	44.3%	30.2%	-2.9%	15.3%
Adjusted EPS (Rs)	14.2	27.7	39.9	51.5	44.8	51.6
<i>EPS Growth (%)</i>	119.8%	95.5%	44.3%	29.1%	-13.1%	15.3%

Source: Company, HSIE Research

Consolidated Balance Sheet

YE March (Rs bn)	FY17	FY18	FY19	FY20	FY21E	FY22E
SOURCES OF FUNDS						
Share Capital - Equity	0.12	0.12	0.12	0.12	0.14	0.14
Reserves	4.57	5.37	7.04	7.78	8.74	9.84
Total Shareholders Funds	4.69	5.49	7.16	7.90	8.88	9.99
Non Controlling Interest		-	-	1.37	1.54	1.72
Long Term Debt	0.65	0.50	0.69	2.41	2.41	2.41
Short Term Debt	0.00	0.20	0.01	0.93	0.93	0.93
Total Debt	0.66	0.70	0.70	3.34	3.35	3.35
Net Deferred Taxes	-0.10	-0.34	-0.16	-0.23	-0.23	-0.23
Other Non-current Liabilities & Provns	0.48	0.33	0.12	2.51	2.51	2.51
TOTAL SOURCES OF FUNDS	5.73	6.18	7.83	14.90	16.04	17.33
APPLICATION OF FUNDS						
Net Block	0.74	0.71	0.70	1.80	1.92	2.04
CWIP	0.00	0.02	0.01	0.02	0.02	0.02
Goodwill	1.05	1.08	0.98	6.77	6.77	6.77
Investments	1.69	1.66	2.82	1.22	1.22	1.22
Other Non-current Assets	0.26	0.11	0.15	0.20	0.20	0.20
Total Non-current Assets	3.75	3.59	4.66	10.00	10.12	10.24
Cash & Equivalents	1.53	2.06	2.07	3.75	4.73	5.81
Debtors	0.85	1.74	2.08	3.16	3.27	3.46
Other Current Assets	0.82	0.49	0.69	1.74	1.99	2.20
Total Current Assets	1.67	2.23	2.77	4.90	5.26	5.66
Creditors	0.20	0.19	0.09	1.05	1.10	1.21
Other Current Liabilities & Provns	1.02	1.50	1.58	2.70	2.97	3.17
Total Current Liabilities	1.22	1.69	1.68	3.75	4.07	4.38
Net Current Assets	0.45	0.54	1.09	1.15	1.19	1.28
TOTAL APPLICATION OF FUNDS	5.73	6.18	7.83	14.90	16.04	17.33

Source: Company, HSIE Research

Consolidated Cash Flow

YE March (Rs bn)	FY17	FY18	FY19	FY20	FY21E	FY22E
Reported PBT	0.39	0.96	1.33	1.44	1.87	2.15
Non-operating & EO Items	-0.04	-0.03	-0.01	0.24	-0.17	-0.22
Interest Expenses	0.04	0.06	0.06	0.02	0.13	0.14
Depreciation	0.15	0.19	0.17	0.25	0.31	0.35
Working Capital Change	-0.07	-0.45	-0.51	0.35	-0.04	-0.09
Tax Paid	-0.04	-0.09	-0.31	-0.47	-0.43	-0.49
OPERATING CASH FLOW (a)	0.43	0.64	0.75	1.84	1.67	1.82
Capex	-0.79	-0.21	-0.32	-4.41	-0.43	-0.47
Free Cash Flow (FCF)	-0.36	0.43	0.43	-2.58	1.24	1.35
Non-operating Income	0.06	0.04	0.02	1.70	0.17	0.22
INVESTING CASH FLOW (b)	-0.73	-0.17	-0.30	-2.72	-0.26	-0.25
Debt Issuance/(Repaid)	0.67	0.04	0.01	2.37	0.00	0.00
Interest Expenses	-0.03	-0.03	-0.02	-0.02	-0.13	-0.14
FCFE	0.29	0.45	0.42	-0.22	1.11	1.22
Share Capital Issuance	0.02	0.02	0.03	0.02	0.02	-
Dividend	-0.02	-0.11	-0.18	-0.31	-0.32	-0.37
FINANCING CASH FLOW (c)	0.65	-0.07	-0.16	2.06	-0.43	-0.50
NET CASH FLOW (a+b+c)	0.35	0.40	0.29	1.18	0.99	1.07
EO Items, Others	0.02	-0.13	0.28	-0.49	-	-
Closing Cash & Equivalents	1.53	2.06	2.07	3.75	4.73	5.81

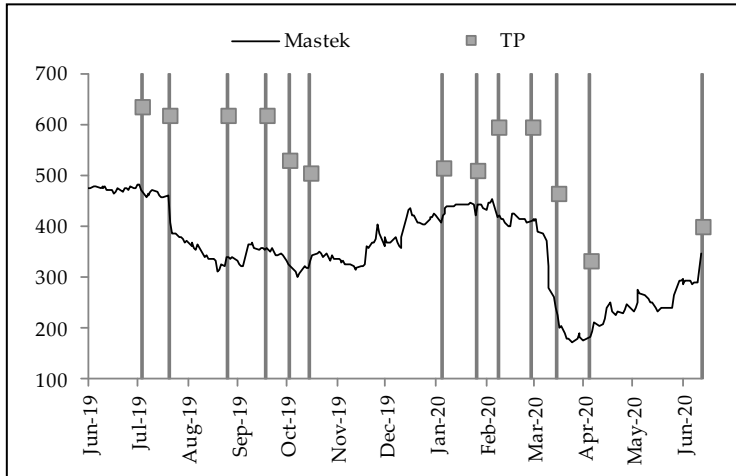
Source: Company, HSIE Research

Key Ratios

	FY17	FY18	FY19	FY20	FY21E	FY22E
PROFITABILITY (%)						
EBITDA Margin	9.1	12.3	12.9	14.6	14.9	15.3
APAT Margin	6.4	8.6	9.8	12.3	8.9	9.3
RoE	7.6	13.7	15.9	17.4	15.2	15.6
RoIC (or Core RoCE)	15.1	23.9	32.8	16.2	14.1	15.6
RoCE	7.5	12.5	15.1	11.9	8.9	9.4
EFFICIENCY						
Tax Rate (%)	17.1	27.1	23.9	21.2	23.0	23.0
Fixed Asset Turnover (x)	7.5	11.5	14.8	6.0	7.5	7.7
Debtors (days)	55	78	74	108	83	80
Other Current Assets (days)	53	22	24	59	51	51
Payables (days)	13	8	3	36	28	28
Other Current Liab & Provs (days)	67	67	56	92	75	73
Cash Conversion Cycle (days)	29	24	39	39	30	30
Debt/EBITDA (x)	1.3	0.7	0.5	2.1	1.6	1.4
Net D/E (x)	-0.2	-0.2	-0.2	-0.1	-0.2	-0.2
Interest Coverage (x)	9.6	13.9	19.0	25.5	13.7	15.0
PER SHARE DATA (Rs)						
EPS	14.2	27.7	39.9	51.5	44.8	51.6
CEPS	20.1	35.1	46.8	61.3	55.8	63.8
Dividend	3.5	6.0	8.5	11.3	10.9	12.6
Book Value	186	217	283	310	312	351
VALUATION						
P/E (x)	24.4	12.5	8.7	6.7	7.7	6.7
P/BV (x)	1.9	1.6	1.2	1.1	1.1	1.0
EV/EBITDA (x)	15.4	7.4	5.5	5.4	3.9	3.1
EV/Revenues (x)	1.4	0.9	0.7	0.8	0.6	0.5
OCF/EV (%)	5.4	8.7	10.2	21.8	19.8	24.7
FCF/EV (%)	-4.6	5.9	5.9	-30.6	14.7	18.3
FCFE/Mkt Cap (%)	3.3	5.1	4.8	-2.5	11.3	12.4
Dividend Yield (%)	1.0	1.7	2.5	3.3	3.2	3.6

Source: Company, HSIE Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
5-Jul-19	472	BUY	635
23-Jul-19	460	BUY	618
27-Aug-19	322	BUY	618
22-Sep-19	357	BUY	618
4-Oct-19	334	BUY	530
18-Oct-19	332	BUY	505
7-Jan-20	409	BUY	515
29-Jan-20	420	BUY	510
10-Feb-20	453	BUY	595
2-Mar-20	406	BUY	595
18-Mar-20	241	BUY	465
6-Apr-20	175	BUY	333
16-Jun-20	346	BUY	400

From 2nd March 2020, we have moved to new rating system

Rating Criteria

- BUY: >+15% return potential
- ADD: +5% to +15% return potential
- REDUCE: -10% to +5% return potential
- SELL: > 10% Downside return potential

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