

# Mastek Limited (MASTEK)

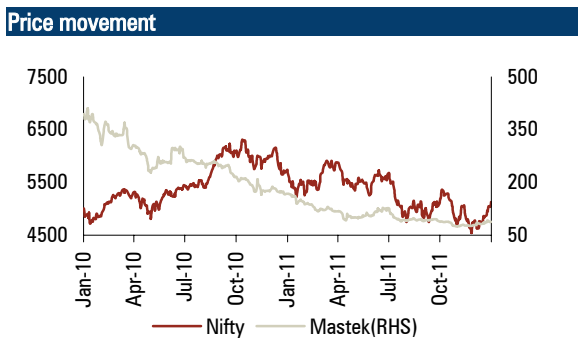
₹ 88

Rating matrix	
Rating	: <b>Hold</b>
Target	: ₹ 90
Target Period	: 12 months
Potential Upside	: 2%

Key Financials				
(₹ crore)	FY09	FY10	FY11	FY12E
Net Sales	713.8	713.8	593.3	648.8
EBITDA	87.2	87.2	(15.7)	(10.4)
EBITDA margin (%)	12.2	12.2	(2.6)	(1.6)
Net Profit	67.7	67.7	(35.3)	(16.6)
EPS (₹)	25.2	25.2	(13.1)	(6.2)

Valuation summary				
	FY09	FY10	FY11	FY12E
PE (x)	3.5	3.5	NM	NM
Target PE (x)	3.6	3.6	NM	NM
EV to EBITDA (x)	1.6	1.6	NM	NM
Price to book (x)	0.5	0.4	0.3	0.4
RoNW (%)	31.3	12.8	NM	NM
RoCE (%)	24.4	10.4	NM	NM

Stock data	
Market Capitalisation	₹ 238 Crore
Debt (Dec-11)	₹ 19 Crore
Cash (Dec-11)	₹ 114 Crore
EV	₹ 143 Crore
52 week H/L (₹)	172/73
Equity capital	₹ 13.5 crore
Face value	₹ 5
DII Holding (%)	12.2
FII Holding (%)	19.9



Analyst name	
Abhishek Shindadkar	abhishek.shindadkar@icicisecurities.com
Aishwariya KPL	Aishwariya.kpl@icicisecurities.com

## WHAT'S CHANGED...

PRICE TARGET	Unchanged
EPS (FY11)	₹ -13.1
EPS (FY12E)	Unchanged
RATING	Unchanged

## Encouraging quarter...

Mastek reported its Q2FY12 revenue and earnings, which were above our estimates. Constant currency revenues grew 2.6% while rupee rupees grew 11.3% to ₹ 172.9 crore vs. ₹ 155.3 crore in Q1. Staff costs as a percentage of revenues were 66.1% vs. 74.3% in Q1, an improvement of 8.2% percentage points (pps) sequentially led by continued costs rationalisation. A stable operational performance helped Mastek return to EBITDA positive, a first after five quarters. At ₹ 2.97 crore, EBITDA adjusted for forex gains of ₹ 0.45 crore was also higher relative to our ₹ 5 crore loss estimate. Reported quarterly loss of ₹ 1.5 crore was higher than our ₹ 6.1 crore loss estimate, however, adjusted PAT could have been ₹ 9.5 crore excluding the ₹ 11.5 crore product cost & forex gains.

### Q2FY12 earnings summary: revenue/EPS beat

Mastek reported Q2FY12 revenues of ₹ 172.9 crore ahead of our ₹ 167.3 crore estimate and net loss of ₹ 1.5 crore vs. our ₹ 6.1 crore loss estimate. Revenues grew 11.3% QoQ while EBITDA margins came in at 2% vs. our -3.0% estimate.

### Operating metric highlights

Mastek added four new clients in Q2FY12 taking the active client base to 93 vs. 91 in Q1FY12. Onsite utilisation was flat QoQ at 93.1% while offshore utilisation improved 5.9 pps to 89.3% vs. 83.4% in Q1FY12. Government and insurance vertical revenues grew 7.4% and 12.3% QoQ, respectively, whereas other financial services and IT & other services grew 13.4% and 14.9% QoQ, respectively. Development revenues grew 15.6% QoQ whereas maintenance grew by 3.9% QoQ in Q2FY12.

## Valuation

Mastek reported a good set of numbers this quarter. The operational performance improved this quarter with offshore utilisation increasing 590 bps to 89.3% from 83.4% in Q1. Excluding product costs, the company could have reported PAT of ₹ 9.5 crore. That said, we maintain our **HOLD** rating and ₹ 90 price target, as an upgrade necessitates sustainable revenue growth and operational performance.

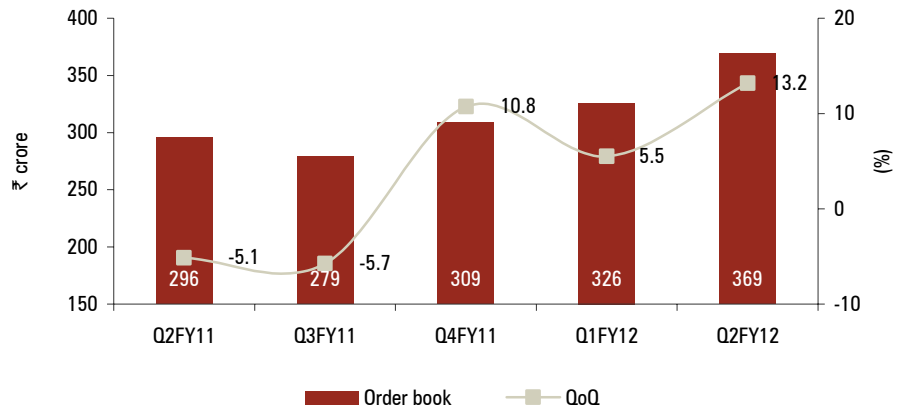
### Exhibit 1: Financial Performance

(₹ Crore)	Q2FY12	Q2FY12E	Q1FY12	Q2FY11	QoQ(Ch %)	YoY(Ch%)
Net Sales	172.9	167.3	155.3	149.8	11.3	15.5
EBITDA Margin (%)	2.0	(3.0)	(14.1)	(2.2)	NA	NA
Depreciation	7.1	5.6	7.0	8.1	1.9	(12.5)
Interest	0.3	0.1	0.3	0.3	7.4	3.6
Other Income	2.7	3.0	2.8	2.5	(6.0)	5.6
Reported PAT	(1.5)	(6.1)	(27.3)	(7.0)	(94.4)	(78.2)
EPS (₹)	(0.6)	(2.3)	(10.1)	(2.6)	(94.4)	(78.2)

Source: Company, ICICIdirect.com Research

The order book increased to ₹ 369 crore from ₹ 326 crore in Q1FY12, an increase of 13.2% QoQ

**Exhibit 2: Order book trends**



Source: Company Revenue Analysis Sheet, ICICIdirect.com Research

Active clients increased by two to 93 from 91 in Q1FY12. The company added four new clients this quarter

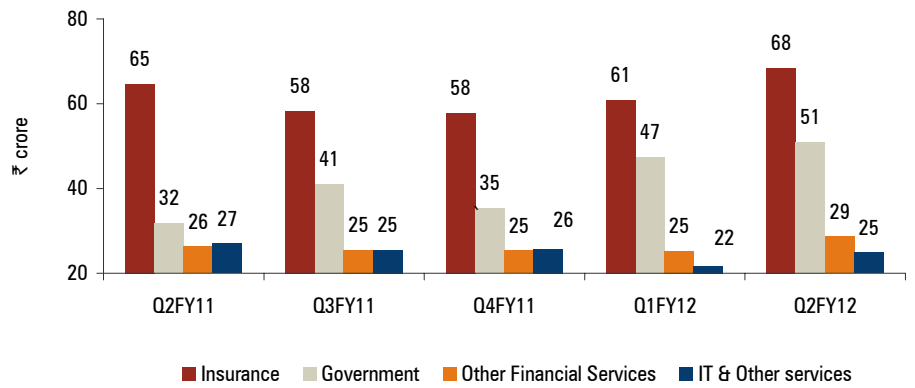
**Exhibit 3: Client metrics**

	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12
Active Clients	83	87	89	91	93
Additions	2	7	3	4	4
No. of Fortune 1000 Clients	19	19	19	18	19
No. of Clients with Annual Billing > USD 1 mn	28	29	29	27	27

Source: Company Revenue Analysis Sheet, ICICIdirect.com Research

Government and insurance vertical revenues grew 7.4% and 12.3% QoQ, respectively, whereas other financial services and IT & other services grew by 13.4% and 14.9% QoQ, respectively

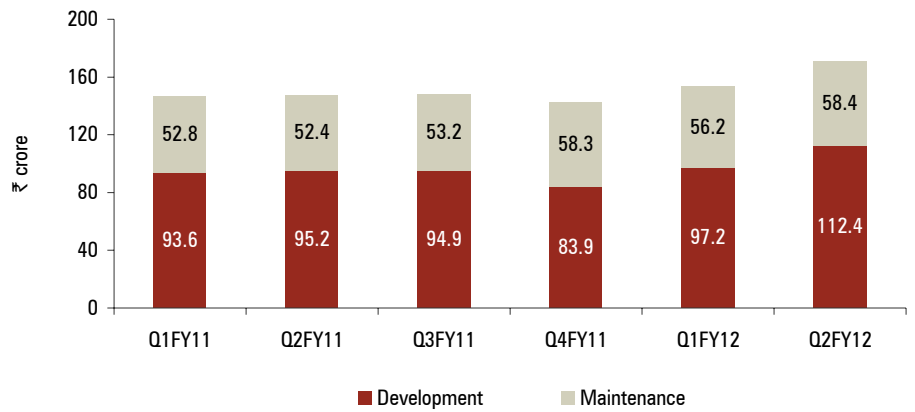
**Exhibit 4: Revenue by industry**



Source: Company Revenue Analysis Sheet, ICICIdirect.com Research

Development revenues grew by 15.6% QoQ whereas maintenance grew by 3.9% QoQ in Q2FY12

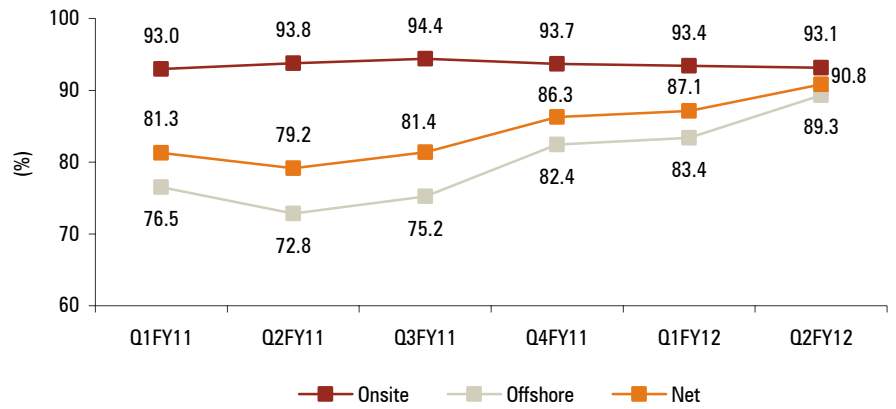
**Exhibit 5: Revenue by nature of work**



Source: Company Revenue Analysis Sheet,, ICICIdirect.com Research

Onsite utilisation was flat QoQ at 93.1% while offshore utilisation improved 5.9 pps to 89.3% vs. 83.4% in Q1FY12

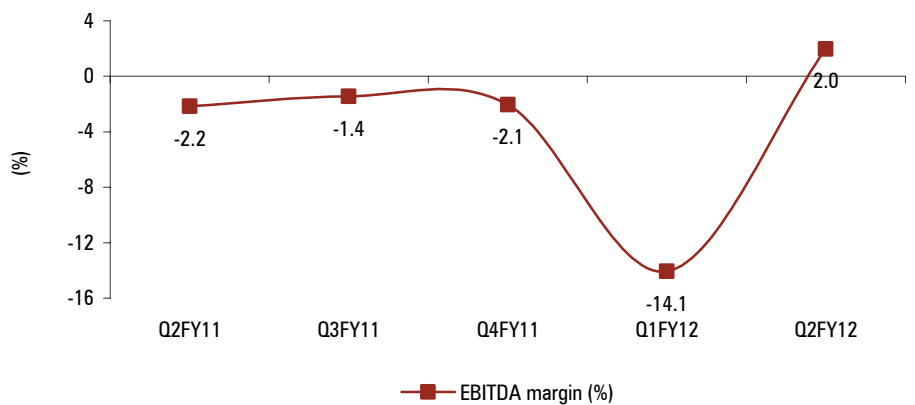
**Exhibit 6: Utilisation trend (including virtual bench)**



Source: Company Revenue Analysis Sheet,, ICICIdirect.com Research

The EBITDA margin improved significantly in Q2FY12 mainly due to cost rationalisation and revenue growth

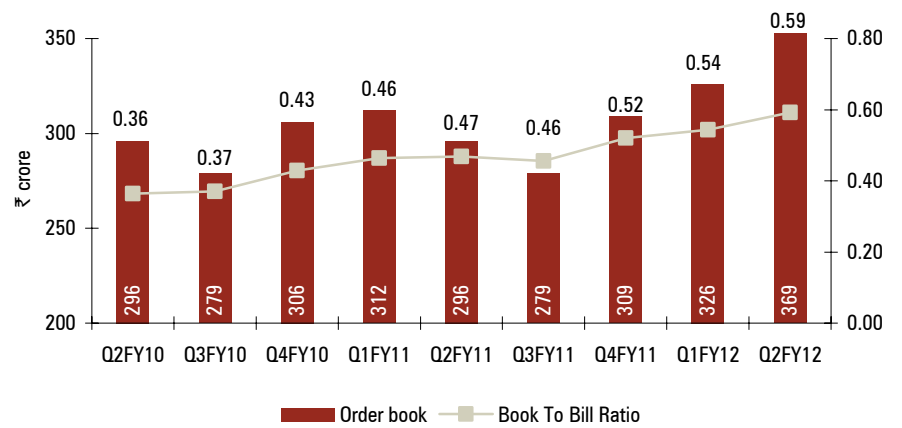
**Exhibit 7: Trend in EBITDA margin (including forex loss)**



Source: Company Revenue Analysis Sheet,, ICICIdirect.com Research

Q2FY12 represents the third consecutive quarter where the order book increased sequentially

**Exhibit 8: Trends in book to bill ratio**



Source: Company Revenue Analysis Sheet,, ICICIdirect.com Research

### Valuation

Mastek reported a good set of numbers this quarter. The operational performance improved this quarter with offshore utilisation increasing 590 bps to 89.3% from 83.4% in Q1. Excluding product costs, the company could have reported PAT of ₹ 9.5 crore. That said, we maintain our **HOLD** rating and ₹ 90 price target, as an upgrade necessitates sustainable revenue growth and operational performance.

## Financial summary

### Profit and loss statement

(Year-end March)	FY09	FY10	FY11	FY12E
Total operating Income	942.6	713.8	593.3	648.8
Growth (%)		-24	-17	9
COGS (employee expenses)	514	454	478	478
S,G&A expenses	258	203	157	162
Total Operating Expenditure	773	658	635	640
EBITDA	159	87	-16	-10
Growth (%)		-45	-118	-34
Depreciation	30	27	29	25
Other Income	22	8	13	23
PBT	147	67	-28	-12
Total Tax	6	0	0	4
PAT	141	68	-35	-17
Growth (%)		-52	-152	-53
EPS (₹)	52.5	25.2	-13.1	-6.2

Source: Company, ICICIdirect.com, Research

### Balance sheet

(Year-end March)	FY09	FY10	FY11	FY12E
<b>Liabilities</b>				
Equity Capital	13	13	13	13
Reserve and Surplus	495	534	477	456
Total Shareholders funds	508	548	491	469
Total Debt	70	42	18	18
Total Liabilities	579	590	509	488
<b>Assets</b>				
Total Fixed Assets	287	277	244	214
Investments	101	20	62	70
Deferred tax assets	23	23	22	22
Debtors	203	195	163	149
Loans and Advances	53	152	149	84
Cash	139	178	97	104
Total Current Assets	395	525	410	337
Current liabilities	137	90	91	91
Provisions	89	165	136	65
Total Current Liabilities	226	255	228	156
Net Current Assets	168	270	182	182
Application of Funds	579	590	509	488

Source: Company, ICICIdirect.com, Research

### Cash flow statement

(Year-end March)	FY09	FY10	FY11	FY12E
Profit after Tax	147	67	-56	-12
Add: Depreciation	30	27	29	25
(Inc)/dec in Current Assets	124	-4	32	79
Inc/(dec) in CL and Provisions	-39	-35	-3	-7
Taxes paid	-28	-20	-12	-4
CF from operating activities	214	31	9	-8
(Inc)/dec in Investments	-12	88	-36	23
(Inc)/dec in Fixed Assets	-44	-22	-28	-5
CF from investing activities	-55	65	-64	18
Issue/(Buy back) of Equity	-6	1	0	0
Inc/(dec) in loan funds	-25	-27	-23	0
Dividend paid & dividend tax	-28	-30	-4	-3
CF from financing activities	-64	-57	-28	-3
Net Cash flow	87	39	-81	7
Exchange difference	-84	-9	19	0
Opening Cash	52	139	178	97
Closing Cash	139	178	97	104

Source: Company, ICICIdirect.com, Research

### Key ratios

(Year-end March)	FY09	FY10	FY11	FY12E
<b>Per share data (₹)</b>				
EPS	52.5	25.2	-13.1	-6.2
Cash EPS	65.6	34.9	-9.9	4.6
BV	188.7	203.3	182.1	174.2
DPS	7.5	3.3	0.0	1.5
Cash Per Share	51.4	66.0	36.1	38.6
<b>Operating Ratios (%)</b>				
EBITDA Margin	16.9	12.2	-2.6	-1.6
PBT / Total Operating income	15.6	9.4	-4.8	-1.9
PAT Margin	15.0	9.5	-5.9	-2.6
Inventory days	0.0	0.0	0.0	0.0
Debtor days	-	101.7	110.2	87.8
Creditor days	-	58.2	56.0	51.3
<b>Return Ratios (%)</b>				
RoE	27.8	12.4	-7.2	NM
RoCE	24.4	11.5	-6.9	NM
RoIC	24.4	11.5	-6.9	NM
<b>Valuation Ratios (x)</b>				
P/E	1.7	3.5	-6.7	NM
EV / EBITDA	0.9	1.6	-9.1	NM
EV / Net Sales	0.2	0.2	0.2	0.2
Market Cap / Sales	0.3	0.3	0.4	0.4
Price to Book Value	0.5	0.4	0.5	0.5
<b>Solvency Ratios</b>				
Debt/EBITDA	0.4	0.5	-1.2	NM
Debt / Equity	0.1	0.1	0.0	0.0
Current Ratio	1.7	2.1	1.8	2.2
Quick Ratio	0.4	1.7	1.6	0.9

Source: Company, ICICIdirect.com, Research

## ICICIdirect.com Coverage Universe (IT)

Infosys			Sales (₹ Cr)	EPS (₹)	PE (x)	EV/EBITDA (x)	RoNW(%)	RoCE(%)		
Idirect Code	INFTEC	CMP(₹)	2620.0	FY10	22742	109.5	23.9	17.0	32.8	37.9
		Target(₹)	2950.0	FY11	27501	119.5	21.9	14.9	22.9	30.2
Mcap(₹. crore)	149864.0	Upside(%)	12.6	FY12E	34291	147.1	17.8	12.1	21.6	31.0
				FY13E	37763	156.0	16.8	11.5	23.0	33.7
TCS										
Idirect Code	TCS	CMP(₹)	1089.0	FY10	30028	35.1	31.0	24.3	37.4	42.2
		Target(₹)	1150.0	FY11	37321	44.4	24.5	18.9	35.7	41.6
Mcap(₹. crore)	213139.1	% Upside	5.6	FY12E	48187	52.5	20.7	15.0	32.7	41.0
				FY13E	53759	57.4	19.0	13.2	32.4	36.5
HCL Technologies										
Idirect Code	HCLTEC	CMP(₹)	427.0	FY10	12564	18.9	22.6	11.4	18.5	15.3
		Target(₹)	450.0	FY11	15855	24.2	17.6	10.8	20.7	14.8
Mcap(₹. crore)	29270.9	Upside(%)	5.4	FY12E	19943	32.0	13.3	8.3	22.7	17.6
				FY13E	22614	35.0	12.2	7.5	22.5	16.1
Tech Mahindra										
Idirect Code	TECHM	CMP(₹)	609.0	FY10	1113	53.6	11.4	7.7	25.3	27.3
		Target(₹)	591.0	FY11	1134	49.4	12.3	8.8	23.6	22.7
Mcap(₹. crore)	7656.3	Upside(%)	(3.0)	FY12E	1292	61.8	9.9	8.3	18.9	22.6
				FY13E	5927	65.9	9.2	7.5	18.7	25.1
Wipro										
Idirect Code	WIPRO	CMP(₹)	419.0	FY10	27124	18.9	22.2	15.9	26.5	22.4
		Target(₹)	380.0	FY11	31066	21.6	19.4	14.4	24.2	21.4
Mcap(₹. crore)	102148.0	Upside(%)	(9.3)	FY12E	37446	24.5	17.1	11.8	22.5	21.7
				FY13E	40859	25.7	16.3	11.0	22.0	21.0
Rolta										
Idirect Code	ROLIND	CMP(₹)	70.0	FY10	1533	18.2	3.8	4.3	17.0	12.9
		Target(₹)	81.0	FY11	1805	15.9	4.4	3.5	19.0	14.1
Mcap(₹. crore)	1128.4	Upside(%)	15.7	FY12E	2048	20.2	3.5	3.0	18.7	15.9
				FY13E	2048	23.0	3.0	3.0	18.7	15.9
NIIT										
Idirect Code	NIIT	CMP(₹)	43.5	FY10	1199	4.3	10.2	4.1	14.3	18.1
		Target(₹)	46.4	FY11	1273	5.2	8.3	4.2	16.7	16.7
Mcap(₹. crore)	717.4	Upside(%)	6.8	FY12E	1189	6.5	6.7	4.3	21.2	16.4
				FY13E	1334	7.8	5.6	3.4	17.0	16.5
NIIT Tech Ltd										
Idirect Code	NIITEC	CMP(₹)	208.0	FY10	914	21.5	9.7	5.8	21.8	29.7
		Target(₹)	180.0	FY11	1232	30.7	6.8	4.5	24.4	30.6
Mcap(crore)	1235.5	Upside(%)	(13.5)	FY12E	1611	34.7	6.0	3.9	22.7	28.3
				FY13E	1991	37.2	5.6	3.3	20.6	27.7
Sasken Comm Ltd										
Idirect Code	SASCOM	CMP(₹)	107.0	FY10	574	26.6	4.0	1.0	14.4	18.3
		Target(₹)	115.0	FY11	546	25.8	4.1	1.1	13.2	16.9
Mcap(crore)	272.4	Upside(%)	7.5	FY12E	525	16.9	6.3	1.2	9.6	14.7
				FY13E	557	20.5	5.2	1.1	9.8	16.2
Mahindra Satyam										
Idirect Code	SATCOM	CMP(₹)	72.6	FY10	5481	NM	NM	24.3	NM	5.5
		Target(₹)	75.0	FY11	5145	NM	NM	13.7	NM	9.8
Mcap(crore)	8542.8	Upside(%)	3.3	FY12E	6375	7.3	28.5	7.0	15.6	16.3
				FY13E	7182	7.8	26.5	5.7	14.4	17.0

Source: Company, Reuters,, ICICIdirect.com Research

**Exhibit 9: Recommendation History**



Source: Company, ICICIdirect.com Research

**Exhibit 10: Recent Releases**

Date	Event	CMP	Target Price	Rating
8-Apr-11	Q3FY11 Preview	128	130	HOLD
19-Apr-11	Q3FY11 Result Update	119	110	HOLD
5-Jul-11	Q4FY11 Preview	126	110	HOLD
5-Oct-11	Q1FY12 Preview	92	110	HOLD
20-Oct-11	Q1FY12 Result Update	92	90	HOLD
6-Jan-12	Q2FY12 Preview	82	90	HOLD
24-Jan-12	Q2FY12 Result Update	88	90	HOLD

Source: Company, ICICIdirect.com Research

## RATING RATIONALE

ICICIdirect.com endeavours to provide objective opinions and recommendations. ICICIdirect.com assigns ratings to its stocks according to their notional target price vs. current market price and then categorises them as Strong Buy, Buy, Hold and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock.

Strong Buy: > 15%/20% for large caps / midcaps, respectively, with high conviction;

Buy: > 10%/15% for large caps / midcaps, respectively;

Hold: Up to +/-10%;

Sell: -10% or more;

**Pankaj Pandey**

**Head – Research**

**pankaj.pandey@icicisecurities.com**

**ICICIdirect.com Research Desk,  
ICICI Securities Limited,  
1<sup>st</sup> Floor, Akruiti Trade Centre,  
Road No. 7, MIDC,  
Andheri (East)  
Mumbai – 400 093**

**research@icicidirect.com**

---

## ANALYST CERTIFICATION

We I/, *Abhishek Shindadkar MBA Aishwariya KPL MBA CM* research analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our personal views about any and all of the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. Analysts aren't registered as research analysts by FINRA and might not be an associated person of the ICICI Securities Inc.

## Disclosures:

ICICI Securities Limited (ICICI Securities) and its affiliates are a full-service, integrated investment banking, investment management and brokerage and financing group. We along with affiliates are leading underwriter of securities and participate in virtually all securities trading markets in India. We and our affiliates have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. Our research professionals provide important input into our investment banking and other business selection processes. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their dependent family members from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on reasonable basis, ICICI Securities, its subsidiaries and associated companies, their directors and employees ("ICICI Securities and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities is acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and may not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return of investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities and affiliates accept no liabilities for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities and its affiliates might have managed or co-managed a public offering for the subject company in the preceding twelve months. ICICI Securities and affiliates might have received compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of public offerings, corporate finance, investment banking or other advisory services in a merger or specific transaction. It is confirmed that *Abhishek Shindadkar MBA Aishwariya KPL MBA CM* research analysts and the authors of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months. Our research professionals are paid in part based on the profitability of ICICI Securities, which include earnings from Investment Banking and other business.

ICICI Securities or its subsidiaries collectively do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

It is confirmed that *Abhishek Shindadkar MBA Aishwariya KPL MBA CM* research analysts and the authors of this report or any of their family members does not serve as an officer, director or advisory board member of the companies mentioned in the report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. ICICI Securities and affiliates may act upon or make use of information contained in the report prior to the publication thereof.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.