MIRAE ASSET Sharekhan

Mastek Ltd

Growth momentum to continue amid merger challenges

IT & ITES	Sharekhan code: MASTEK
Reco/View: Buy ⇔	CMP: Rs. 2,324 / Price Target: Rs. 3,030 ⇔

↑ Upgrade ⇔ Maintain ↓ Downgrade

Summary

- We reiterate Buy with unchanged PT of Rs 3,030. At CMP, the stock trades at 19.9/18/15.3x its FY25/26/27E EPS.
- Mastek expects a 40-50% growth in UK healthcare revenue next year, driven by the new government's modernisation plan and increased AI and data investments, despite short-term decision-making delays stemming from the NHS England merger with the DHSC.
- Company is streamlining its North American operations, increasing Data & AI investments, and targeting both tier-2 ($1-10 billion revenue) and Fortune 500 customers along with focus on Healthcare and Manufacturing verticals.
- Margins are expected to face short-term pressure from new UK healthcare contracts and North America reorganization costs, but AI efficiencies and refined go-to-market strategy aims to restore profitability in 12-36 months.

We participated in a conference call organised by Mastek's management to address the concerns stemming from the abolishment of NHS England on account of its merger with the Department of Health and Social Care (DHSC). NHS England, a key customer for Mastek, has driven double y-o-y growth for its UK healthcare business in FY25. Despite concerns regarding NHS England merger with the Department of Health and Social Care, Mastek's management is confident of continued growth due to the new government's modernisation commitment, including increased funding and a 10-year health plan. While the merger may cause short-term delays due to staff cuts, technology investments in AI and data are expected to rise, with Mastek projecting a 40-50% revenue growth in the UK healthcare next year. The two-year merger timeline provides Mastek sufficient time to align with the new government's policy goals. Mastek is strategically resetting its North American operations by integrating fragmented units, boosting investments in Data & AI, and targeting tier-2 customers ($1-10 billion revenue) alongside Fortune 500 firms, with a focus on verticals like healthcare and manufacturing moving away from an earlier public sector-heavy approach. Mastek's margins are under short-term pressure from lower-margin new contracts and North American reorganization costs, but AI-driven efficiencies, and a refined go-to-market strategy are expected to restore profitability within 12-36 months. The company is making short-term adjustments seen as costs to growth and aims to leverage technology for long-term competitiveness and margin recovery. The management's clear roadmap to address impending merger and ensure margin recovery through AI efficiencies and supply chain adjustments along with strong order book, positions Mastek for sustained growth and profitability across key markets. We reiterate Buy with unchanged PT of Rs 3,030. At CMP, the stock trades at 19.9/18/15.3x its FY25/26/27E EPS.

UK Healthcare: NHS England is an important customer for Mastek and has aided in doubling UK healthcare business revenue y-o-y in FY25. Management highlighted two critical areas for NHS one being the "Preventions" program, aimed at reducing hospital admissions through early intervention, and the other the "Collections" program, focused on data aggregation to support data-driven decision-making. Management allayed concerns about NHS England's potential merger with the Department of Health and Social Care (DHSC), asserting that the new government's commitment to NHS's modernisation evident by increased funding and a 10-year health plan ensures continuity. The plan emphasizes prevention, digital transformation, and community care, aligning with Mastek's offerings. Despite operational staff cuts owing to the merger which may may cause short-term decision-making delays, technology investments, particularly in AI and data, are projected to grow significantly over the next three years, with Mastek expecting a 40-50% revenue increase in the UK healthcare next year. Further the government has given two years for the merger to take place giving enough runway for Mastek to deliver policy agendas of the new government.

North America reset: In North America, Mastek is undergoing a strategic reset to integrate its fragmented operations. Management is resetting the North America structure and business involving investment in Data &AI and slight uptick in incremental S&M investments. Management has outlined a shift in go-to-market strategy, targeting tier-2 customers ($1-10 billion in revenues) alongside Fortune 500 firms, aiming to establish Mastek as a primary IT partner for them. The focus is pivoting toward high-demand areas like data and AI, and strengthening ties with partners like Snowflake and Databricks. The company also aims to focus on Healthcare, manufacturing vertical moving away from an earlier public sector-heavy approach. The company is looking at AI-first strategy and anticipate 30%+ delivery efficiencies. While this reset incurs one-time costs and a stabilization period, management remains bullish, targeting $200-300 million in revenue in 2-3 years, viewing macro uncertainties as manageable given Mastek's scale.

Margins: Mastek's margins may face short-term pressure but are positioned for recovery given the good runways and visibility of their business. In the UK, new healthcare contracts which are in newer areas to Mastek and the UI/UX work come at lower margins, but will provide a two-year revenue runway, enabling them to relook at their pyramids, fix supply chain and to restore historically strong profitability within 12-36 months. In North America, reorganization costs will dent near-term margins, but operational efficiencies, use of AI and a refined go-to-market approach are the levers that are expected to drive a rebound within 12 months. The company is making short-term adjustments seen as costs to growth and aims to leverage technology for long-term competitiveness and margin recovery.

Our Call

Valuation – Maintain Buy with unchanged PT of Rs. 3030: Mastek has witnessed strong revenue contribution from UK & Europe geography growing to 56.8% in Q3FY25 from 54.9% in Q3FY24 and with UK healthcare business doubling y-o-y in FY25. The management is confident in continued growth due to the new government's modernization commitment, including increased funding and a 10-year plan despite concerns of merger of NHS England with Department of Health and Social Care. We believe North America's reset is a proactive step to unlock long-term potential while near term margin pressures are a transient cost of growth. The management's clear roadmap to address impending merger and ensure margin recovery through AI efficiencies and supply chain adjustments, along with strong order book positions Mastek for sustained growth and profitability across key markets. We expect Sales/PAT of 14%/16% over FY24-27E. We reiterate Buy with unchanged PT of Rs 3,030. At CMP, the stock trades at 19.9/18/15.3x its FY25/26/27E EPS.

Key Risks

Rupee appreciation and/or adverse cross-currency movements, contagion effect of the banking crisis, and macro headwinds and recession in the US can moderate the pace of technology spending.

3R MATRIX

	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

\+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		⇔	
RQ		⇔	
RV		⇔	

Company details

Market cap:	Rs. 7,175 cr
52-week high/low:	Rs. 3,375/2,066
NSE volume: (No of shares)	2.0 lakh
BSE code:	523704
NSE code:	MASTEK
Free float: (No of shares)	2.0 cr

Shareholding (%)

Promoters	36.2
FII	9.4
DII	9.3
Others	45.1

Price chart

Source: NSE India, Mirae Asset Sharekhan Research

Price performance

(%)	1m	3m	6m	12m
Absolute	-4.9	-23.6	-13.0	-11.9
Relative to Sensex	-7.0	-22.2	-3.9	-17.5

Source: Mirae Asset Sharekhan Research, Bloomberg

Valuation (Consolidated) Rs cr

Particulars	FY24	FY25E	FY26E	FY27E
Revenue	3,054.8	3,461.8	3,952.7	4,532.8
OPM (%)	16.7	15.8	16.2	16.3
Adjusted PAT	304.4	363.7	403.8	472.9
YoY growth (%)	13.7	19.5	11.0	17.1
Adjusted EPS (Rs.)	98.2	116.6	129.4	151.5
P/E (x)	23.7	19.9	18.0	15.3
P/B (x)	3.4	3.1	2.7	2.4
EV/EBITDA	14.3	13.1	11.2	9.8
ROE (%)	15.9	16.3	16.0	16.6
ROCE (%)	16.4	17.1	18.5	19.4

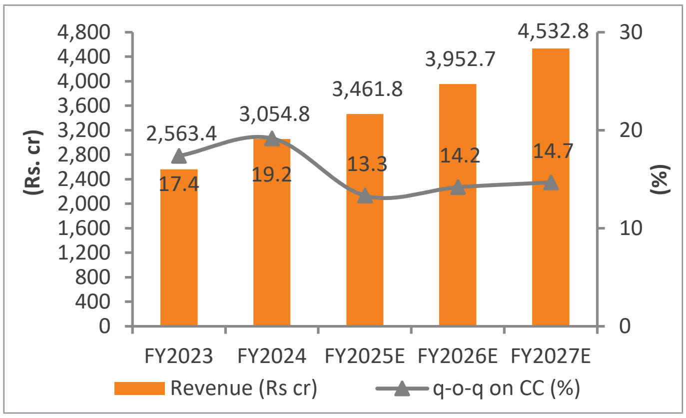
Source: Company; Mirae Asset Sharekhan estimates

Key Takeaways

- Mastek's UK healthcare business has doubled in revenue y-o-y in FY25, driven by the Preventions program aimed at reducing hospital visits and Collections program involving data-driven decision-making.
- NHS remains a cornerstone of the Labour government's agenda, with increased funding and a 10-year health plan emphasizing prevention, digital modernisation, and community care. Technology investments, especially in AI and data, are expected to grow significantly over the next three years.
- Although operational staff cuts on account of merging NHS England with the DHSC, which may cause short-term decision-making delays, management anticipates 40-50% growth in the UK Healthcare next year with no immediate revenue impact.
- The company is resetting its North America operations to integrate fragmented acquisitions and shift focus from public sector to healthcare, manufacturing, and tier-2 clients ($1-10 billion revenue range) and intends to become a prime IT partner for them.
- Investments are being redirected toward data and AI, and the management is expected to announce AI-first strategy before Q4/Q1 results which is expected to drive up to 30% delivery efficiency gains. Company is looking to achieve the same kind of preferential partnership with Snowflake and Databricks as achieved with Oracle.
- North America reset involves one-time costs and a stabilization phase, but management targets $200-300 million in revenue in 2-3 years, from $100 million currently.
- Margins face short-term pressure in the UK due to lower-margin new contracts and in North America from reorganisation costs. However, management sees this as a strategic trade-off for long-term visibility and growth.

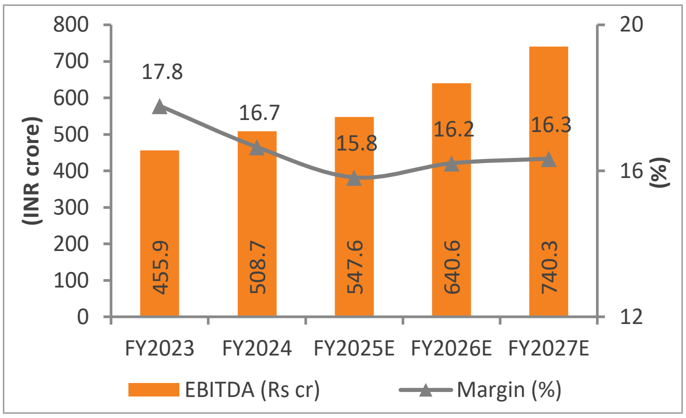
Financials in charts

Revenue (Rs. crore) and growth (%)



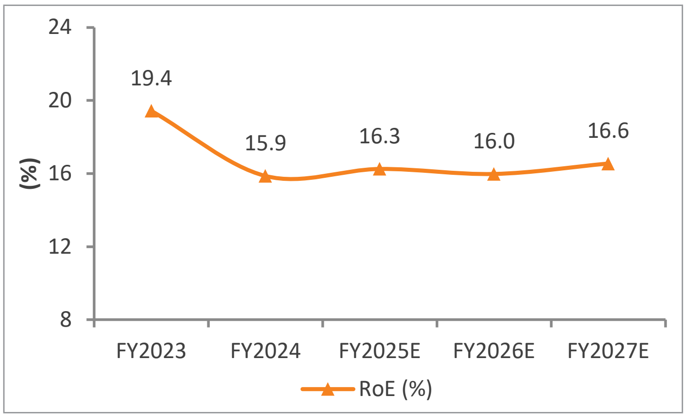
Source: Company; Mirae Asset Sharekhan Research

EBITDA (Rs. cr) and EBITDA margin (%)



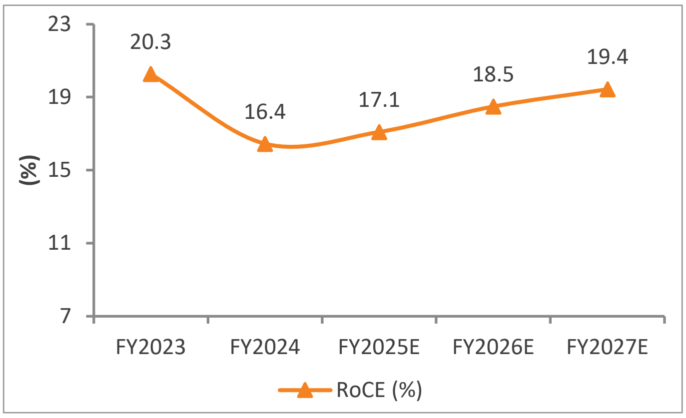
Source: Company; Mirae Asset Sharekhan Research

RoE trend (%)



Source: Company; Mirae Asset Sharekhan Research

RoCE trend (%)



Source: Company; Mirae Asset Sharekhan Research

Outlook and Valuation

■ Sector Outlook – Macro headwinds bottoming out; coupled with better earnings visibility

We anticipate growth momentum to return in FY26, aided by a lower base coupled with easing sector headwinds. Although the IT sector has already outperformed the Nifty last year, we expect overall outperformance in CY25 as well, driven by receding headwinds and better earnings visibility.

■ Company Outlook – Long-term outlook intact

Mastek has created a consistent and predictable revenue stream from the UK's public sector over the past few years, thanks to the introduction of Digital Outcomes and Specialists (DoS) framework by the UK government. Despite concerns regarding NHS England merger with the Department of Health and Social Care, Mastek's management is confident in continued growth due to the new government's modernization commitment, including increased funding and a 10-year health plan. The company is resetting its North America operations to integrate fragmented acquisitions and shift focus from public sector to healthcare, manufacturing, and tier-2 clients ($1-10 billion revenue range) and intends to become a prime IT partner for them.

■ Valuation – Maintain Buy with unchanged PT of Rs 3,030

Mastek has witnessed strong revenue contribution from UK & Europe geography growing to 56.8% in Q3FY25 from 54.9% in Q3FY24 and with UK healthcare business doubling y-o-y in FY25. The management is confident in continued growth due to the new government's modernization commitment, including increased funding and a 10-year plan despite concerns of merger of NHS England with Department of Health and Social Care. We believe North America's reset is a proactive step to unlock long-term potential while near term margin pressures are a transient cost of growth. The management's clear roadmap to address impending merger and ensure margin recovery through AI efficiencies and supply chain adjustments, along with strong order book positions Mastek for sustained growth and profitability across key markets. We expect Sales/PAT of 14%/16% over FY24-27E. We reiterate Buy with unchanged PT of Rs 3,030. At CMP, the stock trades at 19.9/18/15.3x its FY25/26/27E EPS.

One-year forward P/E (x) band

Source: Company; Mirae Asset Sharekhan Research

About company

Established in 1982, Mastek provides IT services to five verticals – government (mostly caters to the U.K. government), retail, health, financial, and others. Mastek continues to be ranked among the top three vendors in delivering agile development services to the U.K. government on digital, G-Cloud, and GDS frameworks. The company primarily provides digital solutions to its retail and financial clients, while it helps the government to reduce cost and time in delivery in the U.K. On the region front, the company is positioned largely in the U.K. and Europe, as 57% of its revenue comes from this region, followed by the U.S./ME with contribution to total revenue of 28%/15%respectively.

Investment theme

Mastek has a long-standing relationship with the U.K. government as it was working as a subcontractor to large IT companies for the execution of U.K. government's projects earlier. This long-term relationship and excellent execution capabilities make Mastek a prime beneficiary of the U.K. government's digital spends. We expect a strong order pipeline along with significant headroom for growth with the U.K. public sector, higher client mining of top accounts, and cross/up-sell opportunities to drive strong growth for Mastek going forward. Mastek focuses on accelerating its revenue momentum in the U.S.

Key Risks

1) Rupee appreciation and/or adverse cross-currency movements, 2) Contagion effect of the banking crisis, Macro headwinds and recession in the U.S. can moderate the pace of technology spending.

Additional Data

Key management personnel

Management	Designation
Umang Nahata	CEO
Abhishek Singh	President U.K. and Europe
Vijay Iyer	President Americas
Prameela Kalive	Chief Operating Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Vanguard Group Inc/The	2.14
2	Tata Asset Management Pvt Ltd	2.09
3	ICICI Prudential Asset Management	1.55
4	ABAKKUS GROWTH FUND 1	1.45
5	Abakkus Emerging Opportunities Fun	1.42
6	Blackrock Inc	1.01
7	Dimensional Fund Advisors LP	0.85
8	Norges Bank	0.51
9	Baroda Mutual Fund Ltd	0.49
10	Samsung Life Insurance Co Ltd	0.21

Source: Bloomberg

Understanding the Mirae Asset Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/ weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Mirae Asset Sharekhan Research

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Registration and Contact Details: Name of Research Analyst - Sharekhan Limited, Research Analyst Regn No.: INH000006183. CIN: - U99999MH1995PLC087498.

Registered Office: The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai – 400 028, Maharashtra, INDIA. Tel: 022-6115000.

Correspondence/Administrative Office Address - Gigaplex IT Park, Unit No 1001, 10th Floor, Building No.9, TTC Industrial Area, Digha, Airoli-West, Navi Mumbai – 400708. Tel: 022 61169000 / 61150000, Fax No. 61169699.

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Compliance Officer: Mr. Joby John Meledan; Email ID: complianceofficer@sharekhan.com; Tel: 022-62263303.

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