Mastek (MASTEK)

ICICI Direct

CMP: ₹2,700 | Target: ₹ 3,110 (15%) | Target Period: 12 months | BUY

July 22, 2025

Steady quarter; Margins to recover in H2...

About the stock: Mastek Ltd (Mastek) offers data, apps, cloud services to public & private enterprise. It caters to Government & Education; Health and Lifesciences; Retail/Consumer; Manufacturing & Technology; and Financial Service sectors.

Q1FY26 Performance: Revenue stood at US$107.4 mn, up 2.6% QoQ/10.4% YoY (down 1.1% QoQ CC/ up 6.8% YoY CC). EBITDA margins came at 15%, down ~30 bps QoQ, due to ongoing investments in technical and domain capabilities. PAT stood at ₹92 crore, up 13.5% QoQ.

Investment Rationale

- **Steady growth momentum; Healthy order backlog supports visibility:** Mastek delivered steady revenue growth in Q1FY26, led by **strong traction in the UK & Europe (+7.8% QoQ),** particularly across healthcare & secured government services. The opening of a large US$15mn+ account in BFSI also contributed to momentum in the region. While US (-10.7% QoQ) faced headwinds due to muted spending from a major client, and Middle East (-7% QoQ) was impacted by project closures/deal right-shifting, management remains focused on driving profitable growth across these geographies. Encouragingly, the Oracle-led digital transformation business saw notable wins across UK and Europe, further reinforcing expectations of a back-ended recovery in H2. **A 5.3% YoY increase in the 12-month order backlog, led by strong demand for digital engineering & AI-led solutions, slightly improves visibility. We expect USD revenue to grow at a CAGR of 11.8% over FY25–27E.**
- **Margins stable despite headwinds, further recovery anticipated in H2:** EBITDA margin declined ~30 bps QoQ to 15% due to ongoing investments in technical & domain capabilities, some account specific headwinds in a major client in US, and a pricing discount offered for a 2-year extension/renewal with its largest UK client. Despite these pressures, margins remained largely stable on the back of strong cost discipline. **Management has guided for a stable-to-upward margin trajectory in FY26, with recovery expected in H2 as revenue improves in high fixed-cost geographies like US & efficiency levers begin to play out.** Thus, going ahead a gradual recovery is expected, however, due to the ongoing macro uncertainties, **we remain conservative and model EBITDA margins at 15.9%/17.0% for FY26E/FY27E with back ended recovery.**
- **AI-led strategic differentiation gaining traction:** The company's AI-first narrative is gaining strong market acceptance, with over **10 AI deal wins in Q1** across GenAI/Agentic AI. A **strategic partnership with Open Ana** further strengthens its AI capabilities, positioning it well to drive productivity-linked transformation for clients.

Rating and Target Price

- Given the improving demand visibility, AI-led positioning, and expectations of double-digit USD revenue CAGR over FY25–27E, we maintain a positive outlook on the company and **maintain BUY rating, valuing it at a revised multiple of 20x P/E on FY27E EPS, with target price of ₹3,110 (vs 2,750 earlier).**

Mastek

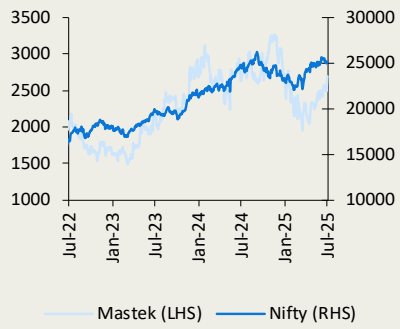
Particulars

Particulars	₹ crore
Market Capitalization	8,281.7
Total Debt	555.2
Cash and Investments	622.1
EV	8,214.7
52 week H/L	3375/ 1887
Equity capital	15.5
Face value	5.0

Shareholding pattern

	Sep-24	Dec-24	Mar-25	Jun-25
Promoters	36	36	36	36
FII	8	9	10	11
DII	10	9	10	11
Public	45	45	44	42

Price Chart



Key risks

- Lower than expected backlog to revenue conversion;
- Changes in UK government IT spending policy

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Result Update

ICICI Securities – Retail Equity Research

Key Financial Summary

₹ Crore	FY23	FY24	FY25E	5 Year CAGR (FY20-25)	FY26E	FY27E	2 Year CAGR (FY25-27E)
Net Sales	2,563	3,055	3,455	26.4	3,855	4,442	13.4
EBITDA	456	509	546	2.3	613	755	17.6
EBITDA Margins (%)	17.8	16.7	15.8		15.9	17.0	
Net Profit	293	300	376	72.1	408	486	13.7
EPS (₹)	96	97	121		131	156	
P/E	28.3	27.8	22.2		20.5	17.2	
RoNW (%)	17.4	14.3	15.3		14.6	15.1	
RoCE (%)	17.0	15.6	15.9		15.7	17.6	

Source: Company, ICICI Direct Research

Performance highlights and outlook

- **Revenue Performance:** Mastek in Q1FY26 reported revenue of US$107.4 mn, up 2.6% QoQ / 10.4% YoY (down 1.1% QoQ CC/ up 6.8% YoY CC). In rupee terms, revenue stood at ₹914.7 crore, (up 1% QoQ/ 12.5% YoY).
- **Geography performance**: Geography wise, on a QoQ basis, growth was led by UK (64% of the mix) which grew by 7.8%. Whereas, US (23% of the mix) and Middle East (13% of the mix) declined by 10.1% and 7% respectively.
  - **UK:** The management highlighted the government's continued commitment to increased spending in digital & tech space. Moreover, the government has committed to a £ 3.25 billion transformation fund which will be focused on public services digital transformation and AI-led initiatives. There is also a strong mandate of 15% reduction in admin cost through automation and technology over the next 5 years. Mastek remains well positioned to help the departments in achieving these goals. Additionally, the government has a strong commitment towards cloud and efficiency and has a mandate to deliver £14 billion in savings through digital and AI by FY28-29.
  - **US:** The geography saw muted spends from its major client, in healthcare (payer) space who ramped down significantly due to cost pressures. Moreover, retail continued to face tariff led headwinds.
- **Segment performance**: On a QoQ basis, growth amongst verticals was led by Health & Life Sciences (25% of the mix), Financial Services (12% of the mix) and Government (39% of the mix) which grew by 5.5%, 3.6% and 1.3% respectively. Whereas, Retail (11.7% of the mix) and Manufacturing (12% of the mix) declined by 5.4% and 3.5% respectively.
- **Margin performance**: EBITDA margin for the quarter stood at 15%, down ~30 bps QoQ, due to ongoing investments in technical and domain capabilities. The PAT for the quarter stood at ₹92 crore, up 13.5% QoQ.
- **12-month order back log and client addition:** 12-month order backlog stood at US$273.8 mn, up 3.5% QoQ/5.25 YoY. **Moreover, the company added 12 new clients in the quarter.**
- **GenAI/AI:** The company's focus on scaling its AI proposition—with over **10 generative and agentic AI deal wins** and a **strategic partnership with OpenAna**—underscores its positioning in next-gen digital transformation.
- **Employee addition and Attrition:** The total employees for the quarter stood at 4,824 employees, a net decline of 234 employees driven by offshore ramp downs. Moreover, LTM attrition stood at 19.5%, up ~20 bps QoQ. **The company is looking to hire two senior people - president for the US geography and CFO.**

Quarter Performance

	Q1FY26	Q1FY25	YoY (%)	Q4FY25	QoQ (%)	Comments
Revenue in USD mn	107.4	97.3	10.4	104.6	2.7	Revenue was down 1.1% QoQ and up 6.8% YoY in CC terms
Revenue in ₹ crore	914.7	812.9	12.5	905.4	1.0	
Employee expense	490.0	444.8	10.1	477.5	2.6	
Gross Margin	424.7	368.1	15.4	427.9	-0.7	
Gross margin (%)	46.4	45.3	116 bps	47.3	-82 bps	
Other expense	287.4	244.1	17.7	289.1	-0.6	
EBITDA	137.3	123.9	10.8	138.8	-1.0	
EBITDA Margin (%)	15.0	15.2	-23 bps	15.3	-40 bps	EBITDA margins came at 15%, down ~30 bps QoQ, due to ongoing investments in technical and domain capabilities.
Depreciation & amortisation	18.4	20.1	-8.2	18.7	-1.3	
EBIT	118.9	103.9	14.5	120.1	-1.0	
EBIT Margin (%)	13.0	12.8	22 bps	13.3	-26 bps	
Other income (less interest)	1.8	-5.3	-134.3	-6.0	-129.8	
PBT	120.7	98.6	22.4	114.1	5.8	
Tax paid	28.7	27.1	NM	24.9	15.3	
PAT	92.1	71.5	28.7	81.1	13.5	

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 1: Profit and loss statement ₹ crore

(Year-end March)	FY24	FY25	FY26E	FY27E
Net Sales	**3,055**	**3,455**	**3,855**	**4,442**
Growth (%)	19	13	12	15
Employee Exp	1,671	1,859	2,078	2,377
Other expenses	875	1,050	1,165	1,311
Total Operating Exp	2,546	2,909	3,242	3,687
EBITDA	509	546	613	755
Growth (%)	12	7	12	23
Depreciation	90	75	88	102
Net Other Income	(28)	(20)	7	17
PBT	390	452	533	670
Total Tax	75	83	115	169
Exceptional item	(4)	8	-	-
PAT after Minority Interest	300	376	408	486
Growth (%)	2	25	8	19
Diluted EPS (₹)	97.3	120.5	130.6	155.7

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement ₹ crore

(Year-end March)	FY24	FY25	FY26E	FY27E
Profit before tax	**390**	**452**	**533**	**670**
Add: Depreciation	90	75	88	102
(Inc)/dec in Current Assets	(53)	(72)	(170)	(213)
Inc/(dec) in CL and Provisions	29	8	531	210
Taxes paid	(107)	(122)	(115)	(169)
CF from operating activities	**420**	**395**	**799**	**508**
(Inc)/dec in Inv. (+) Int inc (+) Goodwill	324	410	42	62
(Inc)/dec in Fixed Assets	(580)	(686)	(96)	(111)
CF from investing activities	**(256)**	**(275)**	**(54)**	**(50)**
Issue/(Buy back) of Equity	0	0	-	-
Dividend paid & dividend tax	(58)	(59)	(80)	(93)
Others	72	18	35	45
CF from financing activities	2	(57)	(57)	(60)
Net Cash flow	171	80	687	399
Exchange difference	5	17	-	-
Opening Cash	208	381	461	1,149
Closing Cash	**381**	**461**	**1,149**	**1,548**

Source: Company, ICICI Direct Research

Exhibit 3: Balance Sheet ₹ crore

(Year-end March)	FY24	FY25	FY26E	FY27E
Liabilities				
Equity Capital	15	15	15	15
Reserve and Surplus	2,085	2,447	2,784	3,192
Total Shareholders funds	2,100	2,462	2,799	3,208
Minority interest	-	-	10	25
Total Debt	487	555	555	555
Other liabilities	194	83	245	282
Total Liabilities	**2,781**	**3,100**	**3,609**	**4,070**
Assets				
Total Fixed Assets	1,951	1,820	1,841	1,862
Investments	53	38	38	38
Other non current assets	131	179	185	190
Debtors	541	770	683	787
Loans and Advances	-	-	-	-
Cash & Equivalents	383	461	1,149	1,548
Other current assets	620	595	846	950
Total Current Assets	1,543	1,826	2,677	3,285
Current liabilities	865	723	1,091	1,258
Provisions	32	40	41	47
Total Current Liabilities	897	763	1,132	1,304
Net Current Assets	646	1,063	1,546	1,981
Application of Funds	**2,781**	**3,100**	**3,609**	**4,070**

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios

	FY24	FY25	FY26E	FY27E
Per share data (₹)				
Diluted EPS	97.3	121.7	132.0	157.3
Cash EPS	126.5	146.2	160.5	190.6
BV	680.2	797.4	906.6	1,038.8
DPS	19.0	23.0	26.0	30.0
Cash Per Share	124.0	149.6	372.4	501.8
Operating Ratios (%)				
EBITDA Margin	16.7	15.8	15.9	17.0
PBT Margin	12.8	13.1	13.8	15.1
PAT Margin	9.8	10.9	10.6	10.9
Inventory days	-	-	-	-
Debtor days	65	81	65	65
Creditor days	**26**	**27**	**26**	**26**
Return Ratios (%)				
RoE	14.3	15.3	14.6	15.1
RoCE	15.6	15.9	15.7	17.6
RoIC	17.5	17.9	21.4	25.9
Valuation Ratios (x)				
P/E	27.8	22.2	20.5	17.2
EV / EBITDA	16.3	15.0	12.3	9.4
EV / Net Sales	2.7	2.4	2.0	1.6
Market Cap / Sales	2.7	2.4	2.1	1.9
Price to Book Value	4.0	3.4	3.0	2.6
Solvency Ratios				
Debt/EBITDA	1.0	1.0	0.9	0.7
Debt / Equity	0.2	0.2	0.2	0.2
Current Ratio	1.3	1.8	1.4	1.3
Quick Ratio	1.3	1.8	1.4	1.3

Source: Company, ICICI Direct Research

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