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Recovery remains elusive!

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.

Q4FY26 & FY26 Performance: Revenue stood at US\$103.5 mn, up 1.4% QoQ / down 1.1% YoY (up 0.3% QoQ CC / down 5.8% YoY CC). EBITDA margin for the quarter stood at 16.1%, down ~71 bps QoQ, impacted by wage hikes and labour code true-ups. The PAT for the quarter stood at ₹106.2 crore, down 2% QoQ / up 30.9% YoY. For FY26 revenue stood at US\$421.2 mn, up 3.1% YoY (-0.2% YoY CC). EBITDA margin came at 15.8%, flat YoY. PAT stood at ₹404 crore, up 7.5% YoY.

Investment Rationale

- **Healthy order book though recovery remains gradual:** Mastek's 12-month order backlog grew 7.2% QoQ and 24.4% YoY to ₹2,849 crore, alongside addition of 12 new clients, indicating sustained deal momentum despite a soft revenue trajectory. Management highlighted continued wins in BFSI & public sector, including large deals in the UK & North America, with ramp-up already underway. Focus remains on verticalization & account mining which along with Improving order intake/ pipeline visibility and positive book-and-ship indicators, provide confidence in gradual revenue acceleration, particularly heading into FY27. **We expect USD revenue to grow at a CAGR of 5.7% over FY26–28E.**
- **Margin to remain range bound ahead:** Despite wage hikes and labour code-related true-ups impacting margins (~1.1% hit), EBITDA remained resilient at 16.1% supported by forex tailwinds (+0.8%) and cost optimization. **However, pricing pressure from AI-led efficiencies and competitive renewals (10–15% discounts) continue to weigh on growth and margins.** North America remains in recovery mode following organizational reset, while macro uncertainties persist across geographies. **The management has guided to maintain margins of 16–16.5% for FY27** with some impact (~50 bps) from ESOP (rolled out 600k options covering ~100 employees). **We model EBITDA margins at 16% for both FY27E and FY28E.**
- **AI-led strategy and vertical focus to enhance capabilities in medium term:** "Lead with AI" strategy is gaining traction, with 25+/85+ AI deals in Q4/ FY26. **Management emphasized verticalized AI execution with Oracle Health-led opportunities and NHS exposure strengthening positioning. Strategic focus on outcome-based contracts and selective AI partnerships/M&A further enhances capabilities.** This objective of the shift towards AI-led transformation & domain depth is to capture higher-value opportunities & improve competitive differentiation over the medium term.

Rating and Target Price

- Although lead indicators are improving, revenue recovery remains back-ended with limited scope for margin improvement, warranting a cautious stance until execution translates into sustained topline acceleration. Thus, **we downgrade to REDUCE (vs HOLD earlier) rating at revised multiple of 11x FY28E EPS, with TP of ₹1,600 (vs ₹2,380 earlier).**

Key Financial Summary

₹ Crore	FY24	FY25	FY26	5 Year CAGR (FY21-26)	FY27E	FY28E	2 Year CAGR (FY26-28E)
Net Sales	3,055	3,455	3,699	16.5	3,960	4,286	7.6
EBITDA	509	546	586	9.9	633	687	8.3
EBITDA Margins (%)	16.7	15.8	15.8		16.0	16.0	
Net Profit	300	376	404	14.1	419	463	7.0
EPS (₹)	97	121	129		134	148	
P/E	17.9	14.3	13.3		12.8	11.6	
RoNW (%)	14.3	15.3	13.5		12.6	12.5	
RoCE (%)	15.6	15.9	16.6		15.0	15.2	

Source: Company, ICICI Direct Research



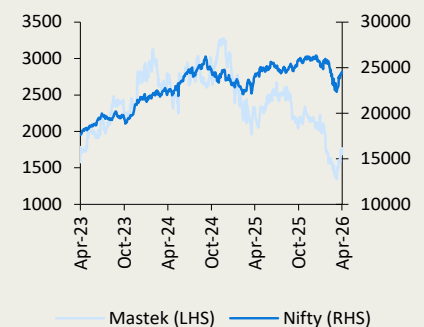
Particulars

Particulars	₹ crore
Market Capitalization	5,367
Total Debt	555
Cash and Investments	939
EV	5,300
52 week H/L	2818/ 1334
Equity capital	15.5
Face value	5.0

Shareholding pattern

	Jun-25	Sep-25	Dec-25	Mar-26
Promoters	36	36	36	36
FII	11	11	10	10
DII	11	12	13	13
Public	42	41	41	41

Price Chart



Key risks

- Higher than expected topline growth;
- Higher than expected margin expansion

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Performance highlights and outlook

- Revenue Performance:** Mastek in Q4FY26 reported revenue of US\$103.5 mn, up 1.4% QoQ / down 1.1% YoY (up 0.3% QoQ CC / down 5.8% YoY CC). In rupee terms, revenue stood at ₹938 crore, (up 3.6% QoQ/ 3.6% YoY). For FY26 revenue stood at US\$421.2 mn, up 3.1% YoY (-0.2% YoY CC).
- Geography performance:** Geography wise, on a QoQ basis, growth was led by Middle East (12% of the mix) and UK (66.4% of the mix) which grew by 10.1% and 4%. Whereas, US (22% of the mix) declined by 1.1%.
 - North America:** The region remains in transition and was impacted by right-shifting of deals and is expected to show positive growth in FY27 as a result of restructuring efforts made in FY26. This is supported by an improving order book and deal pipeline. A 5 yr US\$25 mn public sector deal is expected to start ramping up in Q2FY27.
 - APAC:** It was supported by realisation of pending war revenue (~US\$ 0.5 mn), though decision making remains paused due to the ongoing Middle East conflict. Focus is on margin improvement with exit/containment of loss-making accounts. Healthcare (Oracle Based) is a key growth driver as focus remains on the healthcare vertical in the geography.
- Segment performance:** On a QoQ basis, growth amongst segments was led by Financial Services (14% of the mix), Manufacturing (12% of the mix) and Government (40% of the mix) which grew by 15.9%, 8.8% and 4.9% respectively. Whereas, Health & Life Sciences (23% of the mix) and Retail (11% of the mix) declined by 5.6% and 0.2% respectively.
- Margin performance:** Reported EBITDA margin for the quarter stood at 16.1%, down ~71 bps QoQ, impacted by wage hikes (~1.1% impact in Q4) and labour code true-ups and supported by forex tailwinds (+0.8%) and cost optimization. The PAT(adjusted for new labour code) for the quarter stood at ₹106.2 crore, down 2% QoQ / up 30.9% YoY. For FY26, EBITDA margin came at 15.8%, flat YoY. PAT (adjusted for new labour code) for the year stood at ₹404 crore, up 7.5% YoY. Management guided margins to remain in the 16-16.5% range (vs. earlier guidance of 16.5 17%) with some impact (~50 bps) from ESOP (rolled out 600k options covering ~100 employees).
- 12-month order back log and client addition:** The company's 12M order backlog grew to US\$ 300.4 mn, up 1.6% QoQ and 13.6% YoY. Moreover, it added 12 new clients in the quarter and 25+/85+ new AI deals in Q4/ FY26. Moreover, the focus is to win more of AI-led larger sized fixed bid outcome-based deals with net new deals forming major chunk for FY27 going ahead vs renewals. **The Financial Conduct Authority (FCA) deal in UK has already started ramping up and has >60 onsite resources deployed and will be fully ramped up by end of Q1. For the other 2 deals won in Q4FY26, negotiations on SOWs are underway. The management expects the ramp-up to start between Q1 and Q2.**
- Client metrics:** While client metrics were mixed with addition of 12 new clients, total active clients declined to 326 from 333 in Q3.
- M&A:** M&A will be more domain and verticals focused, as Mastek is looking for assets that will give more domain expertise while expanding core capabilities.
- Employee addition and Attrition:** The total employees for the quarter stood at 4,730 employees, a net addition of 54 employees QoQ. Moreover, LTM attrition stood at 17.4%, down ~20 bps QoQ. **Revenue per employee improved ~12%+ in FY26. Moreover, headcount growth is expected to be slower than revenue growth, leading to further positive increase in revenue per resource.**
- Dividend:** It declared a final dividend of ₹16 per share.

Exhibit 1: Quarter Performance

	Q4FY26	Q4FY25	YoY (%)	Q3FY26	QoQ (%)	Comments	FY26	FY25	YoY (%)
Revenue in USD mn	103.5	104.6	-1.1	102.1	1.4	Revenue was up 0.3% QoQ CC / down 5.8% YoY CC. For FY26, it was down 0.2% YoY CC.	421	408	3.1
Revenue in ₹ crore	938.0	905.4	3.6	905.7	3.6		3699	3455	7.0
Employee expense	503.0	477.5	5.3	485.2	3.7		1973	1859	6.1
Gross Margin	435.0	427.9	1.7	420.5	3.5		1,726.2	1,596.2	8.1
Gross margin (%)	46.4	47.3	-88 bps	46.4	-5 bps		46.7	46.2	47 bps
Other expense	284.3	289.1	-1.7	268.5	5.9		1141	1050	8.7
EBITDA	150.8	138.8	8.6	152.0	-0.8	-Reported EBITDA margin for the quarter stood at 16.1%, down ~71 bps QoQ, impacted by wage hikes (~1.1% impact in Q4) and labour code true-ups and supported by forex tailwinds (+0.8%) and cost optimization. - Management guided margins to remain stable in the 16-16.5% range for FY27 with some impact from ESOP (rolled out 600k options covering ~100 employees)	585.6	546.5	7.2
EBITDA Margin (%)	16.1	15.3	75 bps	16.8	-71 bps		15.8	15.8	-7 bps
Depreciation & amortisation	18.5	18.7	-1.0	17.9	3.5		73	75	-3.3
EBIT	132.3	120.1	10.2	134.1	-1.4		513.0	471.3	8.8
EBIT Margin (%)	14.1	13.3	84 bps	14.8	-71 bps		13.9	13.6	23 bps
Other income (less interest)	16.7	-6.0	-376.2	13.5	24.0		70	22	216.0
PBT	149.0	114.1	30.6	147.6	0.9		583.4	493.6	18.2
Tax paid	19.1	24.9	NM	32.8	-41.9		117	83	40.8
PAT	106.2	81.1	30.9	108.4	-2.0		434	368	17.9

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY27E			FY28E		
	Old	New	% Change	Old	New	% Change
Revenue (USD mn)	453	435	-3.9	503	471	-6.4
Revenue	4,033	3,960	-1.8	4,529	4,286	-5.4
EBITDA	657	633	-3.7	747	687	-8.1
EBITDA Margin (%)	16.3	16.0	-31 bps	16.5	16.0	-47 bps
PAT	425	419	-1.5	496	463	-6.6
Diluted EPS (₹)	136.3	134.2	-1.5	158.7	148.2	-6.6

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 1: Profit and loss statement				₹ crore
(Year-end March)	FY26	FY27E	FY28E	
Net Sales	3,699	3,960	4,286	
Growth (%)	7	7	8	
Employee Exp	1,973	2,143	2,322	
Other expenses	1,141	1,184	1,277	
Total Operating Exp	3,113	3,327	3,599	
EBITDA	586	633	687	
Growth (%)	7	8	9	
Depreciation	73	87	94	
Net Other Income	38	26	39	
PBT	551	572	632	
Total Tax	117	149	164	
Exceptional item	(30)	-	-	
PAT after Minority Interest	404	419	463	
Growth (%)	7	4	10	
Diluted EPS (₹)	129.5	134.2	148.2	

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement				₹ crore
(Year-end March)	FY26	FY27E	FY28E	
Profit before tax	551	572	632	
Add: Depreciation	73	87	94	
(Inc)/dec in Current Assets	54	(243)	(118)	
Inc/(dec) in CL and Provisions	54	518	117	
Taxes paid	(167)	(149)	(164)	
CF from operating activities	542	703	451	
(Inc)/dec in Inv. (+) Int inc (+)	350	56	76	
Goodwill				
(Inc)/dec in Fixed Assets	(416)	(99)	(107)	
CF from investing activities	(66)	(43)	(31)	
Issue/(Buy back) of Equity	0	-	-	
Dividend paid & dividend tax	(74)	(93)	(93)	
Others	(210)	30	37	
CF from financing activities	(300)	(75)	(67)	
Net Cash flow	244	586	353	
Exchange difference	68	-	-	
Opening Cash	461	705	1,291	
Closing Cash	705	1,291	1,644	

Source: Company, ICICI Direct Research

Exhibit 3: Balance Sheet				₹ crore
(Year-end March)	FY26	FY27E	FY28E	
Liabilities				
Equity Capital	16	16	16	
Reserve and Surplus	2,976	3,307	3,682	
Total Shareholders funds	2,992	3,322	3,697	
Minority interest	-	4	9	
Total Debt	421	421	421	
Other liabilities	111	251	272	
Total Liabilities	3,524	3,999	4,399	
Assets				
Total Fixed Assets	1,940	1,964	1,989	
Investments	12	12	12	
Other non current assets	242	255	258	
Debtors	580	701	759	
Loans and Advances	-	-	-	
Cash & Equivalents	705	1,291	1,644	
Other current assets	829	938	996	
Total Current Assets	2,114	2,930	3,399	
Current liabilities	729	1,121	1,213	
Provisions	55	42	45	
Total Current Liabilities	784	1,163	1,258	
Net Current Assets	1,330	1,768	2,141	
Application of Funds	3,524	3,999	4,399	

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios			
	FY26	FY27E	FY28E
Per share data (₹)			
Diluted EPS	130.8	135.7	149.8
Cash EPS	154.5	164.1	180.6
BV	968.9	1,076.0	1,197.3
DPS	26.0	30.0	30.0
Cash Per Share	228.6	418.7	533.0
Operating Ratios (%)			
EBITDA Margin	15.8	16.0	16.0
PBT Margin	14.9	14.4	14.7
PAT Margin	10.9	10.6	10.8
Inventory days	-	-	-
Debtor days	57	65	65
Creditor days	20	26	26
Return Ratios (%)			
RoE	13.5	12.6	12.5
RoCE	16.6	15.0	15.2
RoIC	18.2	20.1	21.5
Valuation Ratios (x)			
P/E	13.5	13.0	11.8
EV / EBITDA	8.4	6.9	5.8
EV / Net Sales	1.3	1.1	0.9
Market Cap / Sales	1.5	1.4	1.3
Price to Book Value	1.8	1.6	1.5
Solvency Ratios			
Debt/EBITDA	0.7	0.7	0.6
Debt / Equity	0.1	0.1	0.1
Current Ratio	1.8	1.4	1.4
Quick Ratio	1.8	1.4	1.4

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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