

February 28, 2025

## Mastek Limited: Ratings reaffirmed

### Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Long-term – Fund-based Limits – Cash Credit	50.00	50.00	[ICRA]AA- (Stable); reaffirmed
Short-term – Non-fund Based Limits	50.00	50.00	[ICRA]A1+; reaffirmed
Long-term/ Short-term – Fund-based/ Non-fund Based	6.00	6.00	[ICRA]AA- (Stable)/[ICRA]A1+; reaffirmed
Long-term – Non-fund Based Facilities	85.90	85.90	[ICRA]AA- (Stable); reaffirmed
<b>Total</b>	<b>191.90</b>	<b>191.90</b>	

\*Instrument details are provided in Annexure I

### Rationale

The ratings reaffirmation for Mastek Limited (Mastek) factors in its established business position in the information technology (IT) and IT-enabled services (ITeS) industry, its presence across key global markets and business segments and long relationships with a reputed client base. In FY2024, Mastek witnessed a healthy YoY revenue growth of 13.0% in constant currency (CC) terms, relatively higher than its industry peers, primarily driven by consolidation of the recent acquisitions. However, Mastek's YoY revenue growth moderated to 10.6% (USD terms) to \$303.7 million in 9M FY2025. Nonetheless, the company is expected to report a steady growth over the near term, supported by its healthy order book position, acquisition synergies and increasing revenue contribution from the US market in its core verticals.

Notwithstanding some increase in debt level in H1 FY2025, the company's capital structure and coverage indicators remain comfortable. This coupled with steady accrual generation and adequate liquidity position continued to result in a healthy credit profile for the company.

The ratings, however, remain constrained by Mastek's high revenue dependence on the UK's public and healthcare sectors, exposing it to the risk of changes in the UK Government's policy on IT spending. However, the risk is mitigated to an extent as Mastek has an established track record of several decades in serving the UK public sector for critical IT projects. Also, the company faces stiff competition from other prominent players in the global IT services industry, leading to margin pressure. Additionally, industry participants, including Mastek, continue to face challenges in the form of wage inflation, foreign currency fluctuations, talent acquisition and retention. Also, any sizeable debt-funded acquisition can materially impact the company's financial risk profile and will be evaluated on a case to-case basis.

The Stable outlook on the long-term rating reflects ICRA's opinion that despite continued moderate revenue growth in the near term, Mastek's credit profile will continue to remain healthy, supported by its established position in the industry, steady accrual generation and adequate liquidity position.

### Credit strengths

**Established operational track record and presence in the industry** – Mastek has an established business profile, supported by its long track record in the digital transformation business and strong presence in Oracle cloud-based solutions implementation through Evosys. The company is also present in the Salesforce consulting business through its subsidiary, MST Solutions, and data, cloud space and modernisation businesses through another subsidiary, BizAnalytica. The company's key service consisting of digital and application engineering and Oracle cloud and enterprise apps generated ~75% of revenue in FY2024.

Mastek has a strong track record in the Government and education, retail, healthcare and financial services verticals, which generated 40-45%, 12-15%, 15-20% and 10-12%, respectively, of total revenues in FY2024 and 9M FY2025.

**Increased level of geographical diversification** – Historically, the company derived a significant portion of its revenues from Europe and the UK (72% in FY2020). However, revenue generation from other geographies has improved over the past few years, following acquisitions carried out by the company, which include Evosys (February 2020), MST Solutions (July 2022) and BizAnalytica (July 2023), and increased client mining in other key markets. This has led to a steady increase in revenue contribution from the US to 27.2% in FY2024 from 16.7% in FY2021 and a decline in revenues from Europe and the UK to ~56.9% over the same period.

**Healthy financial profile, supported by steady accruals, comfortable capital structure and adequate liquidity position** – The company's financial profile remains healthy, reflected by comfortable capital structure, steady accrual generation and adequate liquidity position. However, the company's margins moderated following completion of the large US-based projects and an increase in overhead costs during the period. Nonetheless, with the company's continued efforts to expand in key geographies, the margins are expected to remain stable at 16-17% over the near-to-medium term. Further, in H1 FY2025, Mastek's aggregate debt levels increased to ~Rs. 643 crore as on September 30, 2024 from ~Rs. 486 crore as on March 31, 2024 as the company availed additional debt of ~\$24 million to fund earning payouts towards MST's acquisition. However, the company's leverage and coverage indicators remained comfortable with Total Debt/OPBITDA of 1.3 times and interest coverage of 13.0 times in H1 FY2025. Going forward, Mastek's debt protection metrics are expected to remain comfortable, supported by steady cash flows and no significant increase in debt level.

### Credit challenges

**High concentration on the UK public and healthcare sectors; although mitigated to an extent by the track record of consistent performance** – Mastek derives 55-60% of its revenues from the UK and Europe, of which a sizeable portion is generated from the UK public and healthcare sectors, which exposes it to the risk of any change in the UK Government's policy on IT spending. However, Mastek's three decades of experience in delivering critical programmes for the UK Government mitigates the risk to an extent.

**Margins vulnerable to competition, wage inflation, forex fluctuations and pricing pressure** – Mastek's profit margins remain susceptible to the pricing pressure and wage inflation as it operates in the intensely competitive IT services industry. Moreover, its revenues and margins are exposed to forex risks as revenues are derived from the international market. Nonetheless, its hedging mechanisms mitigate this risk to some extent. Further, being in a highly labour-intensive business, the availability and retention of a skilled workforce continue to remain key challenges. Nonetheless, the company's attrition has moderated over the past year but remains higher than its industry peers with last twelve months (LTM) at 20.1% as on December 31, 2024.

### Environmental and social risks

**Environmental considerations:** Given its service oriented business, Mastek's direct exposure to environmental risks as well as those emanating from regulations or policy changes is not material.

**Social considerations:** Like other Indian IT services companies, Mastek faces the risk of data breaches and cyber-attack that could affect the large volumes of customer data that it manages. Any material lapse on this front could result in substantive liabilities, fines, or penalties and reputational impact. Also, Mastek remains exposed to the risk of changes in immigration laws in the key developed markets where it provides its services. While such changes would be influenced by the social and political considerations of those nations, the same could increase competition among IT players for skilled workforce, leading to higher attrition rates and may have an adverse impact on the profitability. Managing various facets of human capital, including skills, compensation, and training, are the key differentiating factors among IT companies.

## Liquidity position: Adequate

Mastek's liquidity position is adequate, supported by healthy internal accrual generation and cash, fixed deposit and investment balance of ~Rs. 389 crore, as well as unutilised working capital limits of Rs. 56 crore as on September 30, 2024. The company has repayment obligations of ₹2.5 million (~Rs. 27 crore) and \$5.84 million (~Rs. 50.2 crore) in H2 FY2025 and \$16.52 million (Rs. 142 crore) in FY2026. Further, an earnout payment of ~Rs. 100 crore has to be paid over the next two years. ICRA expects Mastek's internal accrual generation and cash balances to remain adequate to service these liabilities.

## Rating sensitivities

**Positive factors** – ICRA could upgrade Mastek's long-term rating, if the company exhibits a sustained improvement in its business profile, supported by an increase in the scale of operations, while generating adequate returns and maintaining strong credit metrics and liquidity.

**Negative factors** – Pressure on Mastek's ratings may arise, if any significant reduction in the company's revenues and profitability weakens the RoCE. The ratings may be downgraded if any increase in working capital intensity impacts the liquidity position, or any significant debt-funded acquisition(s) weakens the debt coverage indicators. Specific credit metrics that could lead to ratings downgrade include Total Debt/OPBDITA above 1.5 times on a sustained basis.

## Analytical approach

Analytical approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">IT - Software &amp; Services</a>
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Mastek. The consolidated entities are all enlisted in Annexure-II.

## About the company

Mastek (formerly known as Management and Software Technology Private Limited) was incorporated in 1982. It is an IT company providing enterprise digital and cloud transformation services to the Government/public sector, healthcare, life science, retail, and financial services sectors. The company's service offerings include application development, Oracle suite and cloud migration, digital commerce, application support & maintenance, BI & analytics, assurance & testing and agile consulting. Evosys, a Mastek company, is an Oracle platinum partner and a leading Oracle cloud implementation and consultancy company, serving more than 1,000 Oracle cloud customers across more than 30 countries. MST Solutions, a Mastek company, is an independent Salesforce consulting and system integration partner, focussed on the Southwest US region. BizAnalytica, a Mastek company based in the US, offers end-to-end data, cloud and modernisation solutions to clients.

## Key financial indicators (audited)

Mastek – Consolidated	FY2023	FY2024	H1 FY2025*
Operating income	2563.4	3054.8	1680.3
PAT	310.3	311.0	200.2
OPBDIT/OI	17.8%	16.7%	15.9%
PAT/OI	12.1%	10.2%	11.9%
Total outside liabilities/Tangible net worth (times)	0.7	0.7	0.5
Total debt/OPBDIT (times)	0.9	1.0	1.3
Interest coverage (times)	18.4	11.4	13.0

Source: Company, ICRA Research; \* Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

### Status of non-cooperation with previous CRA: Not applicable

Any other information: None

### Rating history for past three years

Instrument	Current rating (FY2025)			Chronology of rating history for the past 3 years					
	Type	Amount Rated (Rs. crore)	Feb 28, 2025	FY2024		FY2023		FY2022	
				Date	Rating	Date	Rating	Date	Rating
<b>Fund based limits - Cash Credit</b>	Long term	50.00	<b>[ICRA]AA-(Stable)</b>	Feb 05, 2024	<b>[ICRA]AA-(Stable)</b>	Mar, 02, 2023	<b>[ICRA]AA-(Stable)</b>	Jan 27, 2022	<b>[ICRA]AA-(Stable)</b>
<b>Non-Fund based Limits</b>	Short term	50.00	<b>[ICRA]A1+</b>	Feb 05, 2024	<b>[ICRA]A1+</b>	Mar, 02, 2023	<b>[ICRA]A1+</b>	Jan 27, 2022	<b>[ICRA]A1+</b>
<b>Fund based/non-fund based</b>	Long term and short term	6.00	<b>[ICRA]AA-(Stable)/[ICRA]A1+</b>	Feb 05, 2024	<b>[ICRA]AA-(Stable)/[ICRA]A1+</b>	Mar, 02, 2023	<b>[ICRA]AA-(Stable)/[ICRA]A1+</b>	Jan 27, 2022	<b>[ICRA]AA-(Stable)/[ICRA]A1+</b>
<b>Non-Fund based facilities</b>	Long term	85.90	<b>[ICRA]AA-(Stable)</b>	Feb 05, 2024	<b>[ICRA]AA-(Stable)</b>	Mar, 02, 2023	<b>[ICRA]AA-(Stable)</b>	-	-

### Complexity level of the rated instruments

Instrument	Complexity indicator
<b>Long Term - Fund Based Limits – Cash Credit</b>	Simple
<b>Short Term – Non-Fund based Limits</b>	Very Simple
<b>Long Term/Short Term – Fund based/non-fund based</b>	Simple
<b>Long Term -Non-Fund based facilities</b>	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click here](#)

**Annexure I: Instrument details**

ISIN	Instrument name	Date of issuance	Coupon rate	Maturity	Amount rated (Rs. crore)	Current rating and outlook
NA	Long Term - Fund Based Limits – Cash Credit	NA	NA	NA	50.00	[ICRA]AA- (Stable)
NA	Short Term – Non-Fund based Limits	NA	NA	NA	50.00	[ICRA]A1+
NA	Long Term/Short Term – Fund based/non-fund based	NA	NA	NA	6.00	[ICRA]AA- (Stable)/ [ICRA]A1+
NA	Long Term -Non-Fund based facilities	NA	NA	NA	85.90	[ICRA]AA- (Stable)

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

**Annexure II: List of entities considered for consolidated analysis**

Company Name	Mastek's Ownership	Consolidation Approach
Mastek Enterprise Solutions Private Limited	100%	Full Consolidation
Mastek (UK) Limited	100%	Full Consolidation
Mastek Inc.	100%	Full Consolidation
Trans American Information Systems Inc.	100%	Full Consolidation
Mastek Digital Inc.	100%	Full Consolidation
Mastek Arabia FZ – LLC	100%	Full Consolidation
Evolutionary Systems Consultancy LLC	49%	Full Consolidation
Mastek Systems Pty. Ltd.	100%	Full Consolidation
Mastek Systems Bahrain WLL (formerly known as Evolutionary Systems Bahrain WLL)	100%	Full Consolidation
Mastek Arabia Systems Egypt LLC (formerly known as Evolutionary Systems Egypt LLC)	100%	Full Consolidation
Evosys Kuwait WLL	49%	Full Consolidation
Mastek Systems Malaysia SDN. BHD (formerly known as Evosys Consultancy Services (Malaysia) SDN. BHD.)	100%	Full Consolidation
Newbury Taleo Group, Inc	100%	Full Consolidation
Mastek Systems BV (formerly known as Evolutionary Systems BV)	100%	Full Consolidation
Evolutionary Systems Qatar WLL	49%	Full Consolidation
Evolutionary Systems Saudi LLC	100%	Full Consolidation
Mastek Systems (Singapore) Pte. Ltd (formerly known as Evolutionary Systems (Singapore) Pte. Ltd.)	100%	Full Consolidation
Mastek Systems Company Limited (formerly known as Evolutionary Systems Company Limited)	100%	Full Consolidation
Evolutionary Systems Corp.	100%	Full Consolidation
Evolutionary Systems Canada Limited	100%	Full Consolidation
Metasoftech Solutions LLC	100%	Full Consolidation
BizAnalytica, LLC	100%	Full Consolidation

Source: Company Q3 FY2025 financial results

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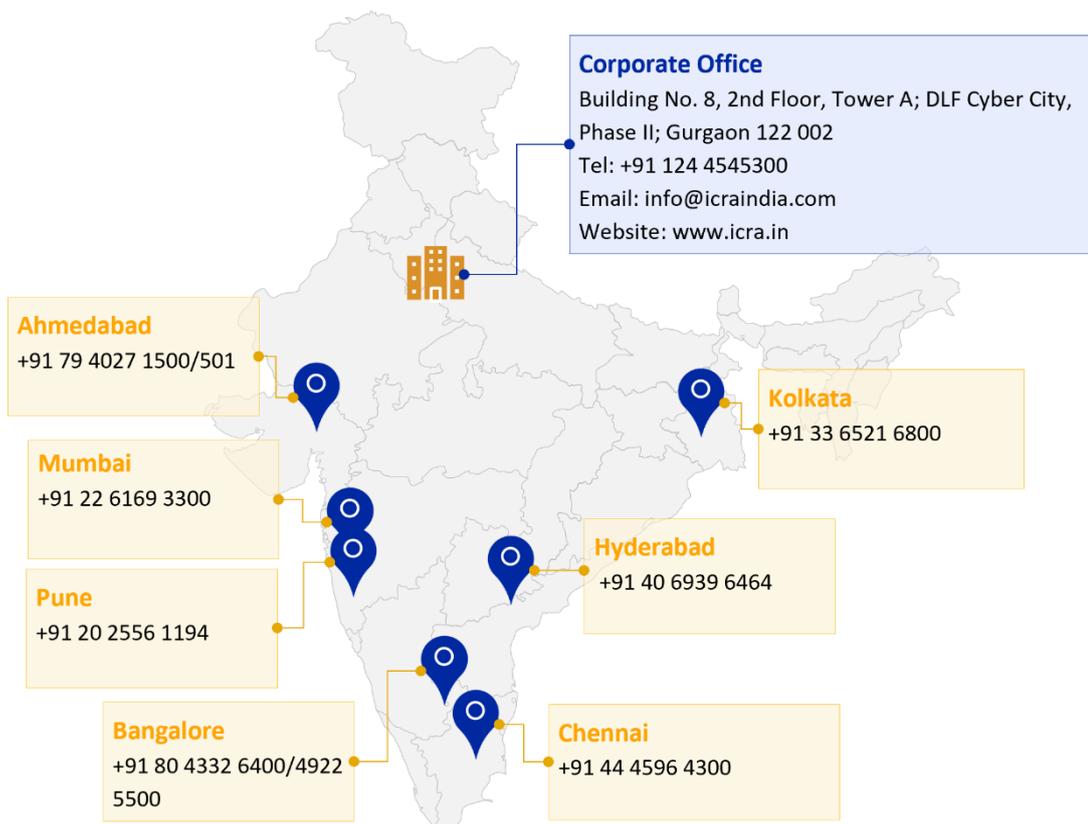
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