

February 07, 2017

## Mastek Limited

Instruments*	Amount Rated (Rs. crore)	Rating Action
Fund-based Limits	4.0	[ICRA]A+; removed from Rating Watch with developing implications, 'Stable' Outlook assigned
Non-fund Based Limits	9.0	[ICRA]A1+; removed from Rating Watch with developing implications
Fund-based/ Non-fund based limits	6.0	[ICRA]A+ / [ICRA]A1+; removed from Rating Watch with developing implications, 'Stable' Outlook assigned to the long-term rating

\*Instrument details are provided in Annexure-1

### Rating Action

ICRA has removed the long-term rating of [ICRA]A+ (pronounced ICRA A plus) and short term rating of [ICRA]A1+ (pronounced ICRA A one plus) for the Rs.19.00 crore<sup>1</sup> bank facilities of Mastek Limited (Mastek)<sup>2</sup> from 'rating watch with developing implications'. The long-term rating has been assigned a 'Stable' outlook.

### Rationale

ICRA had placed the ratings of Mastek on "Rating Watch with Developing Implications"; following the announcement by the company for acquisition of TaisTech LLC, USA, Trans American Information Systems Inc. USA and Trans American Information Systems Private Limited (belonging to same group - 'TaisTech'). The announced acquisition has been completed in December 2016.

Digility Inc., a step down subsidiary of Mastek Limited, acquired 100% stake in Trans American Information Systems Inc., USA and Taistech LLC, USA companies for a fixed consideration of US\$12.25 million (Rs 83.21 crore) plus a contingent consideration (US \$11.5 million) based on achievement of revenue and EBITDA (Earnings before interest, tax, depreciation and amortization) targets over a period of three years, from the date of acquisition. Further, Mastek Limited acquired 100% stake in Trans American Information Systems Private Limited (belonging to the same TaisTech group) for a fixed consideration of Rs 11.87 crore. The acquisition has been funded through term loan of US \$10.00 million (taken by Digility Inc., a step down subsidiary of Mastek Limited; for which Mastek Limited has provided corporate guarantee) and remaining through internal accruals.

Incorporated in 2000, TAISTech group (acquired company) is a digital commerce services player that provides strategic consulting, commerce implementations and support for the Oracle Commerce and Oracle Commerce Cloud applications. Its customer base primarily consists of retail players in USA. This acquisition will support Mastek in penetration into the USA market and expand its digital commerce capabilities.

ICRA has evaluated the impact of the acquisition on the credit profile of Mastek and has removed the rating watch. Further, the long-term rating has been assigned a 'Stable' outlook. The rating action takes into account ICRA's belief that the company has adequate organic balance sheet strength to absorb the partly debt funded acquisition given its improving liquidity position. The better liquidity position follows sequential improvement in profitability in the last three quarters on account of various operational efficiency measures taken. Further the liquidity position remains supported by significant market value of its investment in listed group entity, Majesco USA. Nevertheless, ICRA shall continue to monitor the performance of the acquisition, its funding needs and impact on Mastek, if any.

<sup>1</sup> 100 lakh = 1 crore = 10 million

<sup>2</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications.

## Key Rating Drivers

### Credit Strengths

- Vertical-focus company, targeting government, financial services and retail space
- Experience in forging ties with large international players and co-working on large complex projects
- Recent entry into the USA market is expected to augur well and reduce the geographic concentration risk; though the success of the same remains to be seen
- Sequential improvement in profitability leading to strengthening of liquidity position
- Favourable financial profile given the low debt on the books and access to liquidity to the tune of Rs. 146.51 crore as on December 31, 2016; in addition, the company has a 13.8% stake in a listed group company, Majesco USA, currently valued at ~Rs. 174 crore

### Credit Weakness

- Heavy client and geographic concentration
- Uncertainties in the macro environment in key UK markets post Brexit could lead to cuts in IT budgets and result in demand compression, pricing pressure and increased credit risk from vulnerable clients
- Margin pressures arising from wage inflation and competition from companies in India and other low-cost countries
- Exposure to foreign currency fluctuations, though the company's policy of hedging a large portion of its receivables provides comfort

### Description of Key Rating Drivers:

The ratings takes into consideration the company's strong financial flexibility given the low debt on its books and robust liquidity position reflected in the cash and bank balances of Rs 146.51 crore as on December 31, 2016 and the market value of its investments in Majesco USA of ~Rs. 174 crore. The liquidity position has been supported by sequential improvement in profitability in the last three quarters on account of various operational efficiency measures taken. The rating also favourably factors in its strong presence in government verticals, its demonstrated ability to co-work with established international players in large complex projects and proven track record of acquiring strategic assets. ICRA also takes note of the company's diversification in the USA market recently through organic and inorganic route (acquisition of TaisTech Group), though success of the same remains to be seen.

The ratings are constrained by the high client concentration which has impacted organic revenue growth and consequently profitability in the past. Mastek continues to remain exposed to adverse changes in the macroeconomic environment in its key market, the UK, post Brexit, potentially impacting the deal inflow and delay execution. The ratings are further constrained by margin pressures caused by forex fluctuation, wage inflation and increased competition. Given the recent sharp appreciation in rupee against the pound, post announcement of the Brexit, topline growth is expected to remain subdued. However, the company's policy of hedging a large portion of its receivables provides comfort.

In case of future acquisitions, ICRA shall have to analyse the same for any bearing on its credit risk profile.

### Analytical Approach:

For arriving at the ratings, ICRA has considered the consolidated financials of Mastek Limited.

### Links to applicable Criteria

**Corporate Credit Ratings: A Note on Methodology**  
**Rating Methodology for IT Services Industry (Non Hardware)**

### About the Company:

Mastek Limited (formerly known as Management and Software Technology Private Limited), was incorporated in 1982, and is an IT company engaged in providing enterprise solutions, focusing on vertical including government / public sector, retail sector and financial Services sectors. Mastek's offering portfolio also includes business and technology services comprising of IT consulting, application development, systems integration, application management outsourcing, testing, data warehousing and business intelligence, application security, customer relationship management (CRM) services and legacy modernisation. The board of directors of Mastek Limited in September 2014, approved the demerger of the insurance products and services business of Mastek Limited into a new company Majesco Limited. Thus, the vertical solutions business rests with Mastek



while the insurance products and services business is housed in Majesco Limited. The company is headed by Mr. John Owen, who is the Group CEO and the total employee strength as on December 31, 2016 stands at 1300 (without TaisTech group employees). In 9M FY2017, Mastek Limited (as per consolidated financials) reported an operating income of Rs. 382.06 crore and profit after tax of Rs. 22.46 crore.

**Status of Non-cooperation with Previous CRA:** Not Applicable.

**Other information:** Not Applicable.

**Rating History for Last Three Years:  
Table: Rating History**

S. No.	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years					
		Type	Rated amount (Rs. Crore)	Month - year & rating	Month - year & Rating in FY2017		Month - year & Rating in FY2016	Month - year & Rating in FY2015		Month - year & Rating in FY2014
				February 2017	December 2016	October 2016	January 2016	September 2014	July 2014	June 2013
1	Fund-based Limits	Long term	4.0	[ICRA]A+ (Stable)	[ICRA]A+; rating watch with developing implications	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+; rating watch with developing implications	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
2	Non-fund Based Limits	Short term	9.0	[ICRA]A1+	[ICRA]A1+; rating watch with developing implications	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+; rating watch with developing implications	[ICRA]A1+	[ICRA]A1+
3	Fund-based/ Non-fund based limits	Long term/ Short term	6.0	[ICRA]A+ (Stable)/ [ICRA]A1+	[ICRA]A+/ [ICRA]A1+; rating watch with developing implications	[ICRA]A+ (Stable)/ [ICRA]A1+	[ICRA]A+ (Stable)/ [ICRA]A1+	-	-	-

**Complexity level of the rated instrument:**

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

**Annexure-1  
Details of Instruments**

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Cash Credit	-	-	-	4.00	[ICRA]A+(Stable)
Letter of Credit/Bank Guarantee	-	-	-	9.00	[ICRA]A1+
Cash Credit/Letter of Credit/Bank Guarantee	-	-	-	6.00	[ICRA]A+(Stable)/ [ICRA]A1+

Source: Mastek Limited

**Name and Contact Details of the Rating Analyst(s):  
Analyst Contacts**

**Mr. Subrata Ray**  
+91 22 6114 3408  
[subrata@icraindia.com](mailto:subrata@icraindia.com)

**Jay Sheth**  
+91 22 6114 3419  
[jay.sheth@icraindia.com](mailto:jay.sheth@icraindia.com)

**Rachit Mehta**  
+91 22 6114 3423  
[rachit.mehta@icraindia.com](mailto:rachit.mehta@icraindia.com)

**Name and Contact Details of Relationship Contacts:**

**Mr. Jayanta Chatterjee**  
+91 80 4332 6401  
[jayantac@icraindia.com](mailto:jayantac@icraindia.com)

About ICRA Limited:

**ICRA Limited** was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency. Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder. For more information, visit [www.icra.in](http://www.icra.in)

© Copyright, 2017, ICRA Limited. All Rights Reserved  
Contents may be used freely with due acknowledgement to ICRA

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website [www.icra.in](http://www.icra.in) or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.

**Registered Office****ICRA Limited**

1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001  
Tel: +91-11-23357940-50, Fax: +91-11-23357014

**Corporate Office****Mr. Vivek Mathur**

Mobile: +91 9871221122

Email: [vivek@icraindia.com](mailto:vivek@icraindia.com)

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002  
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

**Mumbai****Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: [shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

3rd Floor, Electric Mansion  
Appasaheb Marathe Marg, Prabhadevi  
Mumbai—400025,  
Board : +91-22-61796300; Fax: +91-22-24331390

**Kolkata****Mr. Jayanta Roy**

Mobile: +91 9903394664

Email: [jayanta@icraindia.com](mailto:jayanta@icraindia.com)

A-10 & 11, 3rd Floor, FMC Fortuna  
234/3A, A.J.C. Bose Road  
Kolkata—700020  
Tel +91-33-22876617/8839 22800008/22831411,  
Fax +91-33-22870728

**Chennai****Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: [jayantac@icraindia.com](mailto:jayantac@icraindia.com)

5th Floor, Karumuttu Centre  
634 Anna Salai, Nandanam  
Chennai—600035  
Tel: +91-44-45964300; Fax: +91-44 24343663

**Bangalore****Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: [jayantac@icraindia.com](mailto:jayantac@icraindia.com)

'The Millenia'  
Tower B, Unit No. 1004, 10th Floor, Level 2 12-14, 1 & 2,  
Murphy Road, Bangalore 560 008  
Tel: +91-80-43326400; Fax: +91-80-43326409

**Ahmedabad****Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: [shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

907 & 908 Sakar -II, Ellisbridge,  
Ahmedabad- 380006  
Tel: +91-79-26585049, 26585494, 26584924; Fax:  
+91-79-25569231

**Pune****Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: [shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range  
Hills Road, Shivajinagar, Pune-411 020  
Tel: + 91-20-25561194-25560196; Fax: +91-20-  
25561231

**Hyderabad****Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: [jayantac@icraindia.com](mailto:jayantac@icraindia.com)

4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj  
Bhavan Road, Hyderabad—500083  
Tel:- +91-40-40676500