

August 21, 2017

Mastek Limited

Summary of rated instruments

Instrument*	Rated amount (in Rs. crore)	Rating action
Fund-based limits	4.00	[ICRA]A+ (Stable) reaffirmed
Non-fund based limits	9.00	[ICRA]A1+ reaffirmed
Fund-based / non-fund based limits	6.00	[ICRA]A+(Stable)/ [ICRA]A1+ reaffirmed

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]A+ (pronounced ICRA A plus) assigned to the Rs. 4.00 crore¹ fund-based limits of Mastek Limited ('Mastek' or 'the company')². ICRA has also reaffirmed the short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) assigned to the Rs. 9.00 crore non-fund based limits of Mastek. ICRA has further reaffirmed the ratings of [ICRA]A+ and [ICRA]A1+ assigned to the Rs. 6.00 crore long-term / short-term, fund-based / non-fund based limits of the company. The outlook on the long-term rating is 'Stable'.

Rationale

The ratings reaffirmation takes into consideration the company's strong financial flexibility, given the moderate debt on its books and robust liquidity position reflected in the cash and cash equivalents of Rs 150.42 crore as on June 30, 2017 and the market value of its investments in Majesco USA of ~Rs. 160 crore. The liquidity position has been supported by sequential improvement in profitability in the last five quarters on account of various operational efficiency measures taken. ICRA also notes the improving profitability trend in the past five quarters driven by the conclusion of a challenging account in UK and improvement in operational efficiency supported by cost containment initiatives. ICRA also notes the company's entry into the US market recently through the inorganic route (acquisition of TaisTech Group³ in December 2016), which has diversified its revenue mix apart from improving scale. The rating also favourably factors in its strong presence in government and retail verticals, its demonstrated ability to co-work with established international players in large complex projects and proven track record of acquiring strategic assets..

The ratings remain constrained by the high geographic concentration – the United Kingdom (UK) market contributed 69% of revenues in Q1 FY2018, which has limited organic revenue growth in the past. Mastek continues to remain exposed to adverse changes in the macroeconomic environment post Brexit, change in visa regulations in the UK and USA and increase in minimum wages in UK, which could put pricing pressure and impact margins of the company. The ratings are further constrained by margin pressures caused by forex fluctuation, given the sharp appreciation in the Rupee against the Pound, post Brexit. However, the company's policy of hedging a large portion of its receivables provides comfort. The company's ability to further strengthen its profitability across markets despite the regulatory challenges and the currency volatility shall be a key rating sensitivity. Additionally, in case of future acquisitions given its intent, ICRA will have to analyse the same for any bearing on its credit risk profile.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications.

³ Three companies belonging to the same Group—TaisTech LLC, USA, Trans American Information Systems Inc. USA, and Trans American Information Systems Private Limited.

Key rating drivers

Credit strengths

- **Vertical-focus company, targeting government and retail space** – The company has strong track record in these verticals with each contributing 35% and 38% of the total sales, respectively, in Q1 FY2018.
- **Experience in forging ties with large international players and co-working on large complex projects** - In the past, the company has worked on large complex projects in collaboration with other international players for the UK government.
- **Increased presence in North America post acquisition of TaisTech Group in December 2016** – The contribution of revenues from North America increased from 3% in Q3 FY2017 to 27% in Q1 FY2018.
- **Sequential improvement in profitability leading to strengthening of liquidity position** - The operating margins of the company have been improving q-o-q since Q1 FY2017.
- **Favourable financial profile given the low debt on the books, and healthy cash and cash equivalents** - As on June 30, 2017, the company had cash and cash equivalents of Rs. 150.42 crore compared to debt of Rs. 69.51 crore; in addition, the company has a 13.8% stake in a listed group company, Majesco USA, currently valued at ~Rs. 160 crore.

Credit weaknesses

- **Geographic concentration risk; dependence on UK still remain high** - Post TaisTech acquisition, the percentage contribution of revenues from UK declined from 91% in Q3 FY2017 to 69% in Q1 FY2018; however, it still remains high.
- **Uncertainties in the macro environment in key UK markets post Brexit, change in visa regulations in UK and the US and increase in minimum wage in UK could put pricing pressure and impact margins of the company**
- **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** – More than 95% of the revenues of the company is in foreign currency (GBP and US dollar), exposing it to foreign currency fluctuations. However, the company hedges a large portion of receivables through forward contracts, thereby mitigating risk to an extent.
- **Any acquisition, given its intent, 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. The rating methodologies applied are indicated below.

Links to applicable criteria

[Corporate Credit Rating Methodology](#)

[Rating Methodology for Entities in the Information Technology \(Services\) Industry](#)

About the company

Mastek Limited (formerly known as Management and Software Technology Private Limited) was incorporated in 1982. It is an IT company engaged in providing enterprise solutions, focusing on vertical including government / public sector, retail sector and financial services sectors. 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. Mastek's offering portfolio also includes business and technology services comprising 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. In December 2016, Mastek acquired the TAISTech Group, a digital commerce services player who provides strategic consulting, commerce implementations and support for the Oracle Commerce and Oracle Commerce Cloud applications to retail players in USA. The company is headed by Mr. John Owen, who is the Group CEO, and the total employee strength as on June 30, 2017 stood at 1,684.

During Q1 FY2018, the company reported an operating income (OI) of Rs. 185.55 crore and profit after tax (PAT) of Rs. 14.66 crore.

Key financial indicators (Audited)

Consolidated	FY2016	FY2017
Operating income (Rs. crore)	526.93	562.46
PAT (Rs. crore)	13.74	36.91
OPBDIT/ OI (%)	3.45%	9.40%
RoCE (%)	3.61%	12.65%
Total Debt/ TNW (times)	0.00	0.19
Total Debt/ OPBDIT (times)	0.03	1.24
Interest coverage (times)	36.17	20.50
NWC/ OI (%)	19%	18%

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress); NWC: Net Working Capital

Note: FY2016 and FY2017 financials as per I-GAAP; Q1 FY2018 financials as per Ind AS

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

Other information: Not applicable.

Rating history for last three years:
Table 1

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 FY2018	Month - year & Rating in FY2017		Month - year & Rating in FY2016	Month - year & Rating in FY2015		
				August 2017	August 2017	February 2017	December 2016	October 2016	January 2016	September 2014	July 2014
1	Fund-based Limits	Long term	4.0	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[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)
2	Non-fund Based Limits	Short term	9.0	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+; rating watch with developing implications	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+; rating watch with developing implications	[ICRA]A1+
3	Fund-based/ Non-fund based limits	Long term/ Short term	6.0	[ICRA]A+ (Stable)/ [ICRA]A1+	[ICRA]A+ (Stable)/ [ICRA]A1+	[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

Annexure-1
Details of Instruments

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Amount Rated (Rs. crore)	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+

Contact Details

Analyst Contacts

Subrata Ray
+91 22 6114 3408
subrata@icraindia.com

Jay Sheth
+91 22 6114 3419
jay.sheth@icraindia.com

Rachit Mehta
+91 22 6114 3423
rachit.mehta@icraindia.com

Relationship Contact

Jayanta Chatterjee
+91 80 4332 6401
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

© 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 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

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

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

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

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

'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

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

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

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