

## Mastek Limited

August 03, 2018

### Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term fund-based	4.0	4.0	[ICRA]A+; reaffirmed, outlook revised to Positive from Stable
Short term non-fund based	9.0	9.0	[ICRA]A1+, reaffirmed
Long term/short term fund-based/non-fund based	6.0	6.0	[ICRA]A+/[ICRA]A1+; reaffirmed, outlook revised to Positive from Stable
<b>Total</b>	<b>19.0</b>	<b>19.0</b>	

\*Instrument details are provided in Annexure-1

### Rating action

ICRA has reaffirmed the long-term rating of [ICRA]A+ (pronounced ICRA A plus) and the short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) for the Rs. 4-crore long-term fund-based limits, Rs. 9-crore short-term non-fund based limits and the Rs. 6-crore long-term/short-term fund-based/non-fund based limits of Mastek Limited (Mastek). The outlook on the long-term rating has been revised to Positive from Stable<sup>1</sup>.

### Rationale

The ratings reaffirmation and the revision in outlook to Positive takes into consideration the improvement in the company's business performance over the past nine quarters as reflected in high sequential organic revenue growth and QoQ improvement in its 12-month order backlog resulting in revenue visibility. The upward trajectory in organic revenue growth and better absorption of overhead costs has resulted in gradual albeit consistent improvement in the company's EBITDA margins. The ratings continue to factor in its strong financial flexibility, given the moderate debt on its books and robust liquidity position reflected in the cash and cash equivalents of ~Rs. 205 crore as on March 31, 2018 and the market value of its investments in Majesco USA of ~Rs. 213 crore as on June 30, 2018. Mastek's entry into the US market through the inorganic route (acquisition of TAISTech Group<sup>2</sup> in December 2016), has helped to diversify its revenue mix, apart from improving its scale and providing opportunities in the largest market in global IT services. The ratings also favourably factor in its strong presence in Government and retail verticals and client acquisition in the financial services vertical, which has aided its organic revenue growth.

The ratings remain constrained by the high client and geographical concentration. The company generated approximately 56% of its revenues in FY2018 from the top-ten clients. Thus, any client exit may have an adverse impact on its revenues and profitability. The United Kingdom (UK) market contributed ~70% of its revenues in Q1 FY2019 with the balance contributed by the US. Mastek remains exposed to any adverse changes in the macro-economic and regulatory environment in its key markets of the US and the UK. The ratings are further constrained by margin pressures caused by forex fluctuation, especially the pound vs rupee fluctuation, post Brexit. However, the company's policy of

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

<sup>1</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.

<sup>2</sup>Three companies belonging to the same Group—TaisTech LLC, USA, Trans American Information Systems Inc. USA, and Trans American Information Systems Private Limited

hedging a large portion of its receivables provides comfort. The ratings also factor in the challenges from intense competition with the larger Indian IT services companies and other small and mid-sized companies in the respective markets. Mastek's ability to sustain organic revenue growth and consequently profitability improvement will 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.

## Outlook: Positive

ICRA's outlook revision factors in the upward trend in the company's business performance as reflected in QoQ improvement in 12-month order backlog and strong organic growth aiding profitability improvement. The outlook may be revised to Stable if there is deterioration in operating performance adversely impacting its revenue and profitability levels. Further, any sharp pressure on cash flow indicators and debt protection metrics due to occurrence of major capital expenditure in the form of acquisitions could also lead to revision in outlook to Stable.

## Key rating drivers

### Credit strengths

**Vertical-focus company, targeting Government and retail space** - The company has a strong track record in Government and retail verticals with each contributing 32% and 37% of the total sales, respectively, in Q1 FY2019. Certain critical departments such as the Home Office and Health (where Mastek already has successful relationships) are expected to have a bigger share of IT spends to support changes in existing systems and create new systems post Brexit, which will provide significant growth opportunities for the company. In addition, the continued unbundling of large projects into smaller ones, which are awarded to SMEs is a positive for the company. Further, opportunities in digital commerce in the retail space in the US and in the UK, augurs well for its growth prospects.

**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 26% in Q1 FY2019. Mastek, after the acquisition of TAISTech has presence in digital commerce enabling implementations and support for the Oracle ATG and Oracle Commerce Cloud applications.

**Sequential improvement in profitability leading to strengthening of liquidity position** - The operating margins of the company have been improving QoQ owing to an increase in revenues leading to better absorption of fixed overheads and various operational efficiency measures undertaken.

**Favourable financial profile given the low debt on the books, and healthy cash and cash equivalents** - Apart from improvement in cash generation from operations, the company as on March 31, 2018, had cash and cash equivalents of ~Rs. 205 crore compared to a debt of ~Rs. 70 crore. In addition, it has a ~13% stake in a listed Group company, Majesco USA, valued at ~Rs. 213 crore as on June 30, 2018.

### Credit challenges

**High client and geographical concentration** - The company generated approximately 56% percentage of its revenues in FY2018 from the top-ten clients, thus any client exit may have an adverse impact on its revenues and profitability. Post TAISTech acquisition, the percentage contribution of revenues from the UK declined to 70% in Q1 FY2019 from 89% in Q3 FY2017; however, it still remains high.

**Uncertainties in the macro environment** - Mastek remains exposed to any adverse changes in the macro-economic and regulatory environment in its key markets of the US and the UK, which could put pricing pressure and impact its margins.

**Exposure to foreign currency fluctuations, though the policy of hedging a large portion of its receivables provides comfort** - Most of the revenues of the company is in foreign currency (GBP and US dollar), exposing it to foreign currency fluctuations. However, as per the company ~70% of their revenues is from onshore operations which provides a natural hedge to the company and the company's margins are protected to that extent. Also, the company hedges a significant portion of its net receivables through forward contracts as part of its hedging policy.

**Acquisition plans in future** - 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 applied its rating methodologies as indicated below.

**Links to applicable criteria:**

[Corporate Credit Rating Methodology](#)

[Rating methodology for 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 involved in providing enterprise solutions, focusing on vertical including Government / public sector, retail sector and financial services. Mastek's portfolio 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 the USA. The company is headed by Mr. John Owen, who is the Group CEO, and the total employee strength as on June 30, 2018 stood at 2,097.

### Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	560.2	817.2
PAT (Rs. crore)	32.4	70.0
OPBDIT/OI (%)	9.3%	12.3%
RoCE (%)	9.9%	17.5%
Total Debt/TNW (times)	0.1	0.1
Total Debt/OPBDIT (times)	1.3	0.7
Interest Coverage (times)	13.7	17.2

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

**Any other information: None**

### Rating history for last three years:

Instrument	Current Rating (FY2019)				Chronology of Rating History for the Past 3 Years					
	Type	Amount Rated	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2017	Date & Rating in FY2017	Date & Rating in FY2016	
		(Rs. crore)		Aug-18	Aug-17	Feb-17	Dec-16	Oct-16	Jan-16	
1	Long term fund-based	Long term	4.0	-	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A+; removed from Rating Watch with developing implications, 'Stable' Outlook assigned	[ICRA]A+; placed on rating watch with developing implications	[ICRA]A+ (Stable)	[ICRA]A+ (stable) reaffirmed; rating watch with developing implication removed
2	Short term non-fund based	Short term	9.0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+; removed from Rating Watch with developing implications	[ICRA]A1+; placed on rating watch with developing implications	[ICRA]A1+	[ICRA]A1+ reaffirmed; rating watch with developing implication removed
3	Long term/short term fund-based/non-fund based	Long term /Short term	6.0	-	[ICRA]A+(Positive)/[ICRA]A1+	[ICRA]A+(Stable)/[ICRA]A1+	[ICRA]A+/[ICRA]A1+; removed from Rating Watch with developing implications, 'Stable' Outlook assigned to the long-term rating	[ICRA]A+/[ICRA]A1+; placed on rating watch with developing implications	[ICRA]A+ (Stable)/[ICRA]A1+	[ICRA]A+(stable)/[ICRA]A1+ reaffirmed; rating watch with developing implication removed

### 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: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Long term fund-based	-	NA	-	4.0	[ICRA]A+(Positive)
-	Short term non-fund based	-	NA	-	9.0	[ICRA]A1+
-	Long term/short term fund-based/non-fund based	-	NA	-	6.0	[ICRA]A+(Positive)/ [ICRA]A1+

Source: Company

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## 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.

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For more information, visit [www.icra.in](http://www.icra.in)

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