

February 05, 2024

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	31.00	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	129.00	85.90	[ICRA]AA- (Stable); reaffirmed
Total	216.00	191.90	

*Instrument details are provided in Annexure-I

Rationale

The reaffirmation of ratings of Mastek Limited (Mastek) factors in its established position in the information technology (IT) and IT-enabled services (ITeS) industry, its strong execution track record and presence across diverse business segments. Further, its established relationships with a strong customer base and the steady addition in the same underpin the ratings. In 9M FY2024, Mastek recorded revenues of \$274.7 million (Rs. 2,275.1 crore), translating into 18.5% YoY growth in USD terms and 22.7% in INR terms. The growth was supported by factors including healthy momentum in its UK public sector business as well as the healthcare segment in the US region. Its order book remained strong with 12-month order backlog of Rs. 2,067.6 crore (\$248.5 million) as on December 31, 2023, which provides revenue visibility over the medium term. Moreover, Mastek acquired BizAnalytica in July 2023, which also contributed to its revenue growth. The company is expected to report steady growth over the near term, supported by healthy order book position, acquisition synergies and increasing revenue contribution from the US market in its core verticals. Further the ratings are also supported by the company's healthy financial profile supported by steady internal accrual generation, comfortable capital structure and strong debt protection metrics.

Mastek acquired BizAnalytica, a US-based entity offering end-to-end data, cloud and modernisation solutions to help clients make data-driven decisions, in July 2023. Additionally, BizAnalytica enjoys a good client base with some enterprise clients in asset and wealth management, retail, healthcare and technology verticals in the US market. This acquisition is expected to enhance Mastek's data cloud and modernisation capabilities, further supported by increased adoption of generative AI. Mastek paid an upfront purchase consideration of \$18.0¹ million for this acquisition which was largely funded by debt of ~\$16.72 million. This led to some increase in the company's debt levels and moderation in debt protection metrics in the interim; though they continue to be healthy. However, the integration and synergy benefits from this acquisition will remain a key sensitivity.

The ratings, however, remain constrained by Mastek's high revenue dependence on the UK's public and healthcare sectors, exposing it to risk of any 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. ICRA also notes the company's plans to grow inorganically through acquisitions

¹ \$ 16.72 million is towards the acquisition of BizAnalytica LLC, while \$1.28 is towards acquisition of BizAnalytica Solutions LLP (India affiliate)

in the short to medium term, funded by its sizeable cash and liquid investments. 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 rating reflects ICRA's opinions that Mastek will continue to maintain a strong credit profile supported by healthy internal accruals generation and a comfortable capital structure and coverage metrics.

Key rating drivers and their description

Credit strengths

Established operational track record and presence in the industry – Mastek has an established business profile supported by its strong track record in the digital transformation business and healthy presence in Oracle cloud-based solutions implementation through Evosys. The company is also present in the Salesforce consulting business with the acquisition of MST Solutions; and now with the acquisition of BizAnalytica, its data, cloud space and modernisation businesses are expected to strengthen. The company's key service lines include digital application engineering, such as implementation of Oracle cloud and enterprise applications. Mastek has a strong track record in the Government, education, healthcare and retail verticals with each generating ~41-44%, 15-17% and 12-15%, respectively, of total revenues for FY2023 and 9M FY2024.

Increased level of geographical diversification – Historically, the company derived a significant portion of its revenues from Europe and the UK (72.1% in FY2020). Over the years, the revenue generation from other geographies have improved. The concentration reduced further with the acquisition of MST Solutions in July 2022, after which the revenue contribution from the US increased to 27.8% in 9M FY2024 from 17.7% in FY2022, thus resulting in decline in revenue concentration in the UK and Europe to 56.9% in 9M FY2024 from 68.0% in FY2022. Also, acquisition of BizAnalytica in July 2023 is expected to increase its contribution from the US market, which is expected to further enhance its geographic diversification in the medium term.

Healthy financial profile supported by steady accruals, comfortable capital structure and adequate liquidity position – In 9M FY2024, Mastek recorded revenues of \$274.7 million (Rs. 2,275.1 crore), translating into 18.5% YoY growth in USD terms and 22.7% in INR terms. Growth was supported by healthy momentum in its UK public sector business as well as the healthcare segment in the US market. Moreover, Mastek acquired BizAnalytica in August 2023, which also contributed to revenue growth. The growth momentum is expected to largely sustain, going forward, supported by healthy order book position and synergy benefits from recent acquisitions. Its 12-month order backlog stood at Rs. 2,067.6 crore (\$248.5 million) as on December 31, 2023, over Rs. 1,705.8 crore (\$206.2 million) as on December 31, 2022, reflecting growth of 21.2% in INR terms and 16.5% in constant currency terms on YoY basis. Despite some increase in debt levels over the past year to fund recent acquisitions, Mastek's financial profile remains healthy, aided by steady internal accruals, sizeable net worth, strong debt protection metrics and adequate liquidity position.

Credit challenges

High concentration on the UK public and healthcare sectors; although mitigated to an extent by track record of consistent performance – Mastek derives a significant portion of revenues from Europe and the UK market. For FY2023 and 9M FY2024, ~56-62% of the revenues came from this market followed by the US (24-28% of total revenues). Further, the company continues to generate most of its revenues from the UK's public and healthcare sectors, which exposes it to risk of any changes 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 competitive pressures, wage inflation, forex fluctuations and pricing pressure – Mastek's profit margins remain susceptible to the pricing pressures and wage inflation as it operates in the intensely competitive IT services industry. Moreover, its revenues and margins are also 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 continues to remain a key challenge. Nonetheless, in line with its peers, the company's attrition has lowered over FY2022 levels. LTM stood at 20.0% as on December 31, 2023, versus 23.3% on December 31, 2022, and is expected to taper further over the near to medium term.

Liquidity position: Adequate

Mastek’s liquidity position is **adequate**, supported by healthy internal accrual generation, cash and investment balance of ~Rs. 403.7 crore as on December 31, 2023, as well as unutilised working capital limits of Rs. 56 crore as on December 30, 2023. The company has repayment obligations of ₹3.4 million (~Rs. 34.9 crore) and \$4.7 million (~Rs. 39.5 crore) in H2 FY2024 and ₹5.0 million (Rs. 50.8 crore) and \$9.6 million (Rs. 79.8 crore) in FY2025. Further, there is also an earnout payment of ~Rs. 393 crore to be paid over a period of three years. ICRA expects Mastek’s internal accrual generation and cash balances to be adequate to service these payments.

ESG related comments

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 service companies, Mastek faces the risk of data breaches and cyberattacks that could affect the large volumes of customer data that it manages. Any material lapses 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 motivated by those economies' own social and political considerations, they could have the effect of heightening the competition among IT players for skilled workforce leading to higher attrition rates and may have an adverse impact on profitability. Managing various facets of human capital, including skills, compensation, and training, is in any case a key differentiating factor among IT companies.

Rating sensitivities

Positive factors – ICRA could upgrade Mastek’s ratings, if the company exhibits a sustained improvement in its business profile, supported by increase in 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) weaken(s) the debt coverage indicators.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology - IT - Software & Services Corporate Credit Rating Methodology
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 service 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. Further, in August 2023, Mastek acquired BizAnalytica, a US entity offering end-to-end data, cloud and modernisation solutions to clients.

Key financial indicators (audited)

Mastek – Consolidated	FY2022	FY2023	H1 FY2024*
Operating income	2,183.8	2,563.4	1,490.8
PAT	333.4	310.3	138.8
OPBDIT/OI	21.2%	17.8%	16.8%
PAT/OI	15.3%	12.1%	9.3%
Total outside liabilities/Tangible net worth (times)	1.0	0.7	0.8
Total debt/OPBDIT (times)	0.4	0.9	1.0
Interest coverage (times)	60.2	18.4	11.4

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	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years				
		Amount rated (Rs. crore)	Amount outstanding as of Dec 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	
				Feb 05, 2024	Mar 02, 2023	Jan 27, 2022	Dec 01, 2020	Apr 21, 2020
1	Cash Credit	50.00	--	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]A+(Stable)
2	Non-Fund based Limits	50.00	--	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
3	Fund based/non-fund based	6.00	--	[ICRA]AA-(Stable)/[ICRA]A1+	[ICRA]AA-(Stable)/[ICRA]A1+	[ICRA]AA-(Stable)/[ICRA]A1+	[ICRA]AA-(Stable)/[ICRA]A1+	[ICRA]A+(Stable)/[ICRA]A1+
4	Non-Fund based facilities	85.90	--	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term - Fund Based Limits – Cash Credit	Simple
Short Term – Non-Fund based Limits	Very Simple
Long Term/Short Term – Fund based/non-fund based	Simple
Long Term -Non-Fund based facilities	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 Ownership	Consolidation Approach
Mastek Enterprise Solutions Private Limited	90%	Full Consolidation
Mastek (UK) Limited	100%	Full Consolidation
IndigoBlue Consulting 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
Evolutionary Systems Bahrain WLL	100%	Full Consolidation
Evolutionary Systems Egypt LLC	100%	Full Consolidation
Evosys Kuwait Company for designing and equipping Computer Centres LLC	49%	Full Consolidation
Evosys Consultancy Services (Malaysia) SDN. BHD.	100%	Full Consolidation
Newbury Taleo Group, Inc	100%	Full Consolidation
Evolutionary Systems BV	100%	Full Consolidation
Evolutionary Systems Qatar WLL	49%	Full Consolidation
Evolutionary Systems Saudi LLC	100%	Full Consolidation
Evolutionary Systems (Singapore) Pte. Ltd.	100%	Full Consolidation
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
Meta Soft Tech Systems Private Limited	100%	Full Consolidation

Source: Company Annual Report of FY2023; Note: ICRA has taken a consolidated view of the parent (Mastek), its subsidiaries and associates while assigning the ratings.

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