

Mastek

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Impressive revenue growth and order pipeline

- Mastek's Q2FY07 result was inline with our expectations. Revenues grew by 5.3% qoq to Rs bn, which was inline with the guidance
- EBITDA margins (excluding other income) improved by 180bps mainly on the back of write back of provision on employee cost related to onsite employees at Carretek (Rs. 20mn) (Its BPO subsidiary, Mastek bought the rest of the stake in the company)
- Net profit grew by only 3% QoQ to Rs 218mn mainly due to a lower other income of Rs 30mn as compared with Rs 44mn in the previous quarter
- Its 12-month order book grew by 12% QoQ to Rs. 4050mn, which mainly includes contracts in the insurance vertical.
- Revenue from Europe grew by 8.2% , while that from US degrew by 5% QoQ.
- The management has guided Q2FY07 consolidated revenues of Rs 2.22-2.26bn (7.5-9.5% QoQ growth) and a net profit of Rs 235-245mn (8-12% QoQ growth)
- At a price of Rs 359, the stock is trading at PER of 10.5x FY07E earnings, which we believe is attractive. We maintain our BUY.

BUY / Rs 359

Sector (Relative to market)

OW	N	UW

Stock (Relative to market)

B	OP	N	UP	S
> 10%	5% to 10%	5% to -5%	-5% to -10%	< -10%

This note should be read for

- Analysis of quarterly performance
- Mastek's track record of meeting its guidance

Bloomberg code : MAST IN
 Reuters code : MAST.BO
 www.mastek.com

BSE Sensex : 14057
 NSE Nifty : 4052

Company data

O/S shares :	28mn
Market cap (Rs) :	10bn
Market cap (USD) :	228mn
52 - wk Hi/Lo (Rs) :	441 / 270
Avg. daily vol. (3mth) :	69,091
Face Value (Rs) :	5

Share holding pattern, %

Promoters :	40.9
FII / NRI :	29.9
FI / MF :	14.4
Non Promoter Corp. Holdings :	2.0
Public & Others :	12.8

Price performance, %

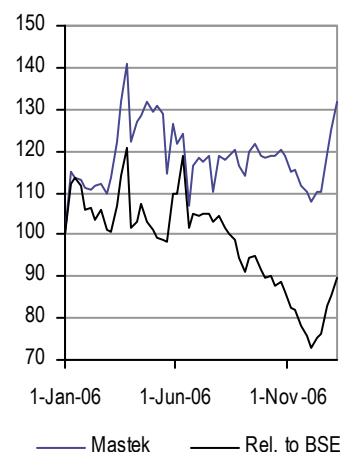
	1mth	3mth	1yr
Abs	15.9	-0.5	8.3
Rel to BSE	7.7	-12.6	-41.5

Valuation summary

June ending, Rs mn	FY05	FY06	FY07E
Income	5,670	6,884	8,635
y-o-y Growth (%)		21	25
OPBDIT	884	1,184	1,615
OBITDA Margin (%)	16	17.2	19
Profit before tax	674	977	1,324
Provision for Tax	82	169	238
Profit after Tax before Minority Interest	591	808	1,086
Minority Interest	57	117	126
Profit after Tax and minority interest	534	691	960
q-o-q Growth (%)		29	39
NPM	9	10.0	11
No. of equity shares (FV RS. 5)	28	28	28
EPS	19	25	34
P/E, (x)	17.2	13.2	10.5

Source: Company, Man Financial Research Estimates

Mastek vs. Sensex



Source: Bloomberg, Man Financial Research

Q2FY07: EBIDTA margin improve buy 180bps

(Rs mn)	Q2FY07	Q1FY07	chg qoq	Q2FY06	chg yoy	FY06	FY07E
Income	2,064	1,959	5.3%	1,714	20.4%	6,884	8,635
Expenses	1,693	1,641		1,429		5,699	7,020
OPBDIT	371	318	16.6%	284	30.4%	1,184	1,615
OBITDA Margin (%)	18.0	16.2		16.6		17.2	19
Depreciation	76	77		73		291	362
Interest & Financial Charges	4	2		3		9	9
PBT from operations	292	239	21.8%	208	40.2%	884	1,244
Other Income	34	30		38		128	103
Profit before exceptional items	325	269	20.8%	246	32.4%	1,012	1,347
Losses in equity affiliate	20	8		11		35	23
Profit before tax	306	262	16.8%	235	30.0%	977	1,324
Provision for Tax	76	43		33		169	238
Profit after Tax before Minority Interest	230	218	5.5%	202		808	1,086
Minority Interest	12	6		40		117	126
Profit after Tax and minority interest	218	212	3.1%	162	35.0%	691	960
q-o-q Growth (%)						29.0	3275.0
NPM, %	10.6	10.8		9.4		10.0	11
No. of equity shares (FV RS. 5)	28.1	28.1		28.1		28	28
EPS, Rs	7.8	7.5		5.8		24.6	34

Source: Company, Man Financial Research

Mastek has reported good growth in Q2FY07, too, after strong growth in Q1FY06. Its sequential revenue growth of 5.3% at Rs 2069mn was inline with the company's guidance.

Rs mn	Q1FY07	Q2FY07
North America	374.0	353.7
Europe	1,276.8	1,381.5
Asia Pacific	43.9	46.6
DC JV Revenue (net off Inter-segment)	228.4	254.3
India	21.0	13.5
BPO	15.2	14.3
Total Operating Revenue	1,959.3	2,063.9
North America	9.4%	-5.4%
Europe	6.7%	8.2%
Asia Pacific	-16.2%	6.2%
DC JV Revenue (net off Inter-segment)	-7.1%	11.3%
India	-42.3%	-35.7%
BPO	-9.0%	-5.9%

Source: Company, Man Financial Research

- Europe has grown by 8.2% on a high growth 6.7% in Q1FY07.
- US revenue has shown a degrowth of 5.4%, one client ramp up was delayed and is expected to happen in the Q3FY07. According to the management US revenues are expected to grow by 20% QoQ.
- DC JV revenues grew by 11.3 % QoQ, after showing degrowth in past 3 consecutive quarters. DCJV revenues are expected to remain flat going ahead.
- BPO revenues continue to degrow and the company has terminated the alliance with Carreker Corporation and 100% of Carreker's shareholding in Carretek LLC would be taken over by the Company's US subsidiary – Majesco Mastek with effect from January 1, 2007.

Business growth from exiting clients was at 99%. Top five clients contributed 74% of revenue from 73% in Q1FY07; 6.6% QoQ growth in absolute terms.

Mastek added one new client in the quarter against four in Q1FY07, however it bagged 4 contracts in the insurance segment in US. Client addition is expected to be strong in forthcoming quarters as Mastek's insurance business picks momentum in the US.

	Q2FY06	Q3FY06	Q4FY06	Q1FY07	Q2FY07
Active Clients	46	42	40	40	39
Additions	1	3	1	3	1
% of Revenue - Top 5 Clients	69	69	71	73	74
% of Revenue - Top 10 Clients	85	86	86	88	88

Source: Company, Man Financial Research

12-month order book grew by 12.8% over the previous quarter to Rs 4050mn

	Q2FY06	Q3FY06	Q4FY06	Q1FY07	Q2FY07
Order Book	313	381	382	359	405
QoQ growth	15.2%	21.7%	0.3%	-6.0%	12.8%

Source: Company, Man Financial Research

EBITDA margins improve by 180bps

EBITDA margins (excluding other income) increased by 180bps. The company had reversal of provision that was made for onsite employee compensation increase for the Carretek BPO to the extent of Rs. 20mn. Other expenses included a separation cost of Rs.8.2mn pertaining to the Carretek BPO.

Forward indicators continue to remain strong

The management has guided Q2FY07 consolidated revenues of Rs 2.22-2.26bn and net profit of Rs 235-245mn, translating into a sequential growth of 7.5-9.5% and 8-12%, respectively. EBITDA margins would be largely driven by increase in profitability of the US operations. Ramp up in the US operations would accelerate growth in revenues as well as profits. Also we would see the BPO losses reduced since next quarters.

Mastek has delivered on guidance most of the times, since past one year

Guidance	Q2FY06	Q3FY06	Q4FY06	Q1FY07	Q2FY07	Q3FY07
Revenues, Rs bn	1.59-1.64	1.77-1.82	1.81-1.86	1.95-2.0	2.04-2.09	2.22-2.26
Net profit, Rs mn	153-163	163-173	195-205	207-217	215-225	235-245

Actual

Revenues, Rs bn	1.71	1.77	1.89	1.96	2.06	
Net profit, Rs mn	162	173	207	212	218	

Source: Company, Man Financial Research

Valuation

Strong traction in the European and US geographies reflects in the order book at the end of the quarter. At the same time losses in the BPO business will be addressed in the forthcoming quarters improving consolidated net margins. At a CMP of Rs 359, the stock is trading at PER of 10.5x FY07E earnings, which we believe is attractive. **We maintain BUY.**

Key Operating matrix

	Q2FY06	Q3FY06	Q4FY06	Q1FY07	Q2FY07
Revenue mix, %					
Fixed Price	32.3	33.9	39.6	39.0	46.3
Time & Material	67.7	66.1	60.4	61.0	53.7
Employees Business Unit wise, nos					
US	478	480	522	527	614
Europe	1,326	1,403	1,463	1,582	1,677
Asia Pacific	124	123	156	150	125
Domestic	58	65	87	71	59
Corporate Services	349	332	364	461	458
Mastek - Deloitte JV - ODC	612	538	489	500	485
BPO	137	162	154	142	150
Onsite	892	972	978	975	1,027
Offshore	2,191	2,131	2,257	2,458	2,542
Total	3,083	3,103	3,235	3,433	3,569
Technical	2,570	2,587	2,707	2,856	2,959
Technical Support	212	217	233	269	295
Marketing	59	59	56	60	59
Support	242	240	239	248	256
Total	3,083	3,103	3,235	3,433	3,569
Utilisation % (excl JV and BPO)					
Onsite	91.1	91.1	90.8	91.9	92.1
Offshore	77.9	79.3	79.8	80.2	79.8
Total	82.7	83.6	84.0	84.6	84.3

Source: Company

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