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One-off led weak revenue performance ...

About the stock: Mastek Ltd (Mastek) offers data, apps, cloud services to public & private enterprise. It caters to Government & Education; Health and Lifesciences; Retail/Consumer; Manufacturing & Technology; and Financial Service sectors.

Q3FY26 Performance: Revenue stood at US\$102.1 mn, down 5.6% QoQ / 0.8% YoY (down 4.8% QoQ CC/ 2.8% YoY CC). Adj. EBITDA margins (ex-one-offs from labour code & reversal of leave provision) came at 16.3%, up 80 bps QoQ. Adj. PAT (ex-one-off from new labour code) stood at ₹108.4 crore, up 11% QoQ/14.4% YoY.

Investment Rationale

- **Order backlog growth signals imminent revenue recovery:** While Q3 revenues were impacted by higher-than-expected furloughs (in UK & some public sector customers globally) and project right-shifts, Mastek's 12-month order backlog expanded meaningfully both QoQ (+5.7%) & YoY (18.4%) to US\$ 295.8mn and it added 17 new customers, indicating strengthening demand visibility. **Management highlighted that a large part of the revenue miss was timing-related, with several programs scheduled to commence from Q4.** The growing backlog across the UK, US and Middle East, combined with new large deal wins in financial services and public sector, supports confidence in a gradual resumption of growth from Q4 and into FY27 as **management guides for improved top-line and bottom-line trajectory from Q4 and a stronger FY27. We expect USD revenue to grow at a CAGR of 9.1% over FY26–28E.**
- **Margin resilience and improving fundamentals support upside:** Despite revenue headwinds, Mastek delivered sequential margin expansion. Adjusted profitability too improved (80 bps QoQ to 16.3%) even after factoring in seasonal furloughs and labour code impacts, underscoring execution resilience driven by AI-led operational efficiencies, lower subcontracting and disciplined cost management (43 bps) and forex (17 bps). **The management has guided to maintain margins in the band of 16.5-17%. We model EBITDA margins at 15.7%/16.3%/16.5% for FY26E/FY27E/FY28E.**
- **AI-led engineering and domain focus strengthen competitive positioning:** Mastek's accelerated investments in AI-led digital engineering are translating into tangible productivity gains for clients, with management citing 15–80% efficiency improvements across engagements. The company's deepening domain expertise in healthcare & life sciences, public sector and financial services backed by marquee clients such as NHS and Bank of England positions it well for larger, more complex transformation deals. Recognition as a top Oracle AI partner further enhances Mastek's ability to participate in next-generation, AI-led enterprise modernization programs.

Rating and Target Price

- Given a weaker than expected revenue growth trajectory, **we turn cautious & expect a gradual topline growth recovery of 7%/11% YoY in FY27E/FY28E. Thus, we downgrade to HOLD valuing it at revised multiple of 15x P/E on FY28E EPS, with target price of ₹2,380 (vs ₹2,600 earlier). We shall wait for any meaningful growth in both revenue and margins to turn constructive.**

Key Financial Summary

₹ Crore	FY23	FY24	FY25E	5 Year CAGR (FY20-25)	FY26E	FY27E	FY28E	3 Year CAGR (FY25-28E)
Net Sales	2,563	3,055	3,455	26.4	3,694	4,033	4,529	9.4
EBITDA	456	509	546	2.3	579	657	747	11.0
EBITDA Margins (%)	17.8	16.7	15.8		15.7	16.3	16.5	
Net Profit	293	300	376	72.1	402	425	496	9.6
EPS (₹)	96	97	121		129	136	159	
P/E	22.0	21.6	17.2		16.1	15.2	13.1	
RoNW (%)	17.4	14.3	15.3		14.4	13.6	14.0	
RoCE (%)	17.0	15.6	15.9		16.0	15.9	16.5	

Source: Company, ICICI Direct Research



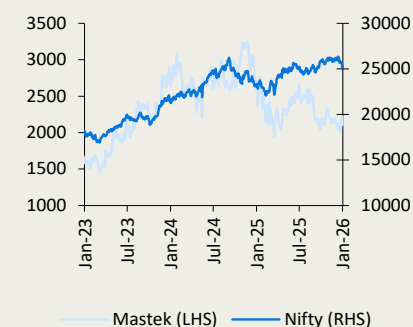
Particulars

Particulars	₹ crore
Market Capitalization	6,515
Total Debt	555
Cash and Investments	622
EV	6,448
52 week H/L	2818/ 1887
Equity capital	15.5
Face value	5.0

Shareholding pattern

	Mar-25	Jun-25	Sep-25	Dec-25
Promoters	36	36	36	36
FII	10	11	11	10
DII	10	11	12	13
Public	44	42	41	41

Price Chart



Key risks

- Higher than expected backlog to revenue conversion;
- Delay in ramp up of right-shifted deals

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Performance highlights and outlook

- **Revenue Performance:** Mastek in Q3FY26 reported revenue of US\$102.1 mn, down 5.6% QoQ / 0.8% YoY (down 4.8% QoQ CC/ 2.8% YoY CC). In rupee terms, revenue stood at ₹905.68 crore, (down 3.7% QoQ/ up 4.2% YoY).
- **Geography performance:** Geography wise, on a QoQ basis, all geos de-grew with Middle East (11.4% of the mix), US (22.5% of the mix) and UK (66.1% of the mix) reporting de-growth of 14.8%, 4.4% and 1.2%.
- **Segment performance:** On a QoQ basis, de-growth amongst verticals was led by Retail (11% of the mix), Health & Life Sciences (25% of the mix), Financial Services (13% of the mix), Manufacturing (12% of the mix) and Government (40% of the mix) which reported declines of 6.2%, 5.2%, 3.75, 3.7% and 2% respectively.
- **Margin performance:** Reported EBITDA stood at 16.1%, up ~60 bps QoQ aided by AI-led operational efficiency (+43 bps) and forex tailwinds(+17 bps). EBITDA margin include a ₹6.4 crores (-70 bps) impact on account of labour code changes and one-time benefit from a reversal of leave provision (+50 bps). This one-time benefit helped negate the labour code impact. Adj. EBITDA margins (ex-one-offs from labour code & reversal of leave provision) came at 16.3%, up 80 bps QoQ. The reported PAT stood at ₹88.3 crore, down 9% QoQ/ 7% YoY while adjusted PAT (ex-one off from new labour code) stood at ₹108.4 crore, up 11% QoQ/14.4% YoY.
- **12-month order back log and client addition:** The company's 12M order backlog grew to US\$ 295.8 mn, up 5.7% QoQ and 18.4% YoY. Moreover, it added 17 new clients in the quarter and 26+ new AI deals.
- **Employee addition and Attrition:** The total employees for the quarter stood at 4,676 employees, a net decline of 91 employees QoQ. Moreover, LTM attrition stood at 17.6%, down ~90 bps QoQ.
- **Leadership updates:** Deepak Kedia joined as the new CFO. Two important leadership hirings were done in data as well as in sales force capability. As per the management, this marks almost the completion of all the leadership changes.
- **Dividend:** It declared an interim dividend of ₹8 per share.

Exhibit 1: Quarter Performance

	Q3FY26	Q3FY25	YoY (%)	Q2FY26	QoQ (%)	Comments
Revenue in USD mn	102.1	102.9	-0.8	108.2	-5.6	Revenue was down 4.8% QoQ and 2.8% YoY in CC terms
Revenue in ₹ crore	905.7	869.5	4.2	940.4	-3.7	
Employee expense	491.6	461.4	6.5	494.5	-0.6	
Gross Margin	414.1	408.1	1.5	445.9	-7.1	Reported EBITDA stood at 16.1%, up ~60 bps QoQ aided by AI-led operational efficiency (+43 bps) and forex tailwinds(+17 bps). EBITDA margin include a ₹6.4 crores (-70 bps) impact on account of labour code changes and one-time benefit from a reversal of leave provision (+50 bps). This one-time benefit helped negate the labour code impact. Adj. EBITDA margins (ex-one-offs from labour code & reversal of leave provision) came at 16.3%, up 80 bps QoQ.
Gross margin (%)	45.7	46.9	-122 bps	47.4	-170 bps	
Other expense	268.5	267.5	0.4	300.4	-10.6	
EBITDA	145.6	140.7	3.5	145.5	0.1	Reported EBITDA stood at 16.1%, up ~60 bps QoQ aided by AI-led operational efficiency (+43 bps) and forex tailwinds(+17 bps). EBITDA margin include a ₹6.4 crores (-70 bps) impact on account of labour code changes and one-time benefit from a reversal of leave provision (+50 bps). This one-time benefit helped negate the labour code impact. Adj. EBITDA margins (ex-one-offs from labour code & reversal of leave provision) came at 16.3%, up 80 bps QoQ.
EBITDA Margin (%)	16.1	16.2	-10 bps	15.5	60 bps	
Depreciation & amortisation	17.9	16.6	7.9	17.9	-0.1	
EBIT	127.7	124.1	2.9	127.6	0.1	Adjusted PAT (ex-one off from new labour code) stood at ₹108.4 crore, up 11% QoQ/14.4% YoY.
EBIT Margin (%)	14.1	14.3	-17 bps	13.6	53 bps	
Other income (less interest)	13.5	-2.4	-662.8	6.5	108.2	
PBT	141.2	121.7	16.0	134.1	5.3	Adjusted PAT (ex-one off from new labour code) stood at ₹108.4 crore, up 11% QoQ/14.4% YoY.
Tax paid	32.8	31.0	NM	36.7	-10.4	
PAT	108.4	94.7	14.4	97.5	11.2	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY26E			FY27E			FY28E
(₹ Crore)	Old	New	% Change	Old	New	% Change	Introduced
Revenue (USD mn)	439	423	-3.6	480	453	-5.7	503
Revenue	3,795	3,694	-2.7	4,227	4,033	-4.6	4,529
EBITDA	593	579	-2.5	698	657	-5.7	747
EBITDA Margin (%)	15.6	15.7	3 bps	16.5	16.3	-20 bps	16.5
PAT	392	402	2.7	447	425	-4.8	496
Diluted EPS (₹)	125.5	128.8	2.6	143.2	136.3	-4.8	158.7

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 1: Profit and loss statement ₹ crore				
(Year-end March)	FY25	FY26E	FY27E	FY28E
Net Sales	3,455	3,694	4,033	4,529
Growth (%)	13	7	9	12
Employee Exp	1,859	1,980	2,178	2,445
Other expenses	1,050	1,135	1,198	1,336
Total Operating Exp	2,909	3,115	3,376	3,781
EBITDA	546	579	657	747
Growth (%)	7	6	14	14
Depreciation	75	75	91	100
Net Other Income	(20)	35	20	35
PBT	452	539	586	683
Total Tax	83	134	148	172
Exceptional item	8	-	-	-
PAT after Minority Interest	376	402	425	496
Growth (%)	25	7	6	16
Diluted EPS (₹)	120.5	128.8	136.3	158.7

Source: Company, ICICI Direct Research

Exhibit 3: Balance Sheet ₹ crore				
(Year-end March)	FY25	FY26E	FY27E	FY28E
Liabilities				
Equity Capital	15	15	15	15
Reserve and Surplus	2,447	2,772	3,118	3,536
Total Shareholders funds	2,462	2,787	3,133	3,551
Minority interest	-	3	16	32
Total Debt	555	555	555	555
Other liabilities	83	235	256	288
Total Liabilities	3,100	3,580	3,961	4,426
Assets				
Total Fixed Assets	1,820	1,850	1,872	1,897
Investments	38	38	38	38
Other non current assets	179	184	186	190
Debtors	770	654	714	802
Loans and Advances	-	-	-	-
Cash & Equivalents	461	1,122	1,457	1,862
Other current assets	595	817	877	966
Total Current Assets	1,826	2,593	3,049	3,630
Current liabilities	723	1,046	1,142	1,282
Provisions	40	39	42	48
Total Current Liabilities	763	1,085	1,184	1,330
Net Current Assets	1,063	1,509	1,865	2,301
Application of Funds	3,100	3,580	3,961	4,426

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement ₹ crore				
(Year-end March)	FY25	FY26E	FY27E	FY28E
Profit before tax	452	539	586	683
Add: Depreciation	75	75	91	100
(Inc)/dec in Current Assets	(72)	(112)	(123)	(180)
Inc/(dec) in CL and Provisions	8	474	121	177
Taxes paid	(122)	(134)	(148)	(172)
CF from operating activities	395	745	432	497
(Inc)/dec in Inv. (+) Int inc (+)	410	67	64	81
Goodwill	(686)	(92)	(101)	(113)
CF from investing activities	(275)	(25)	(37)	(32)
Issue/(Buy back) of Equity	0	-	-	-
Dividend paid & dividend tax	(59)	(80)	(93)	(93)
Others	18	32	44	46
CF from financing activities	(57)	(60)	(60)	(59)
Net Cash flow	80	661	335	405
Exchange difference	17	-	-	-
Opening Cash	381	461	1,122	1,457
Closing Cash	461	1,122	1,457	1,862

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios				
	FY25	FY26E	FY27E	FY28E
Per share data (₹)				
Diluted EPS	121.7	130.2	137.8	160.5
Cash EPS	146.2	154.5	167.3	193.0
BV	797.4	902.7	1,014.7	1,150.1
DPS	23.0	26.0	30.0	30.0
Cash Per Share	149.6	363.8	472.4	603.8
Operating Ratios (%)				
EBITDA Margin	15.8	15.7	16.3	16.5
PBT Margin	13.1	14.6	14.5	15.1
PAT Margin	10.9	10.9	10.5	10.9
Inventory days	-	-	-	-
Debtor days	81	65	65	65
Creditor days	27	26	26	26
Return Ratios (%)				
RoE	15.3	14.4	13.6	14.0
RoCE	15.9	16.0	15.9	16.5
RoIC	17.9	20.5	22.6	25.3
Valuation Ratios (x)				
P/E	17.2	16.1	15.2	13.1
EV / EBITDA	11.7	9.9	8.2	6.7
EV / Net Sales	1.9	1.6	1.3	1.1
Market Cap / Sales	1.9	1.8	1.6	1.4
Price to Book Value	2.6	2.3	2.1	1.8
Solvency Ratios				
Debt/EBITDA	1.0	1.0	0.8	0.7
Debt / Equity	0.2	0.2	0.2	0.2
Current Ratio	1.8	1.4	1.3	1.3
Quick Ratio	1.8	1.4	1.3	1.3

Source: Company, ICICI Direct Research

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Sell: <-15%



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