

HSIE Results Daily

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Results Reviews

- ICICI Securities:** ISEC printed degrowth (5% QoQ) in pure broking revenue, as cash volumes plunged 10% sequentially (illustrating dependence on cash volumes). While the customer addition run-rate has been impressive, we continue to be wary of the quality of ARPUs from digitally-sourced customers. We draw comfort from ISEC's renewed focus on building digital capabilities, but given the high dependence on cash delivery volumes and tech-based handicap, we believe that its topline will remain cyclical and face headwinds from the new-age fintech brokers. We cut our FY22/23E APAT estimates by 3/6% to build in the impact on ESOP book, pressure on broking yields, and increased tech spends in the medium term. Given the macro lead indicators (rising retail participation and a healthy pipeline of primary issuances) and attractive valuation, we maintain our positive stance on ISEC; however, we trim our target multiple to 20x (from 23x) to build in the tech handicap and competitive intensity and maintain ADD with a revised target price of INR740.
- Mastek:** Mastek reported a strong quarter with revenue and margin both coming in line. The order book improved 25.4% YoY, boosted by a USD 65mn+ win from the UK government (Home Office), following a USD 60mn NHS deal in Q3FY22. The management is aiming to reach USD 1bn revenue in the next five years, implying an organic revenue CAGR of >20%. Mastek expects to achieve this growth, based on (1) continued traction in the UK government business (~10% wallet share); (2) cloud migration/transformation agenda, which will drive Evosys growth; (3) recovery in UK private; and (4) turnaround in the US geography with focus on healthcare and life sciences vertical. The US geography will be a key focus area and investments will be made to strengthen the partner ecosystem. M&A will be a key pillar in US revival, with companies in the range of USD 30-40mn as targets. The target EBITDA margin range is 19-20%; there could be near-term headwinds related to ongoing supply side concerns. We have cut our EPS estimate by 2-3% and our TP of INR 3,530 is based on 25x Mar-24E EPS. The stock is trading at a P/E 25/19.8x FY23/24E, which is a discount of ~34% to the mid-tier IT average. Maintain BUY.

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ICICI Securities

Weak quarter; challenging times ahead

ISEC printed degrowth (5% QoQ) in pure broking revenue, as cash volumes plunged 10% sequentially (illustrating dependence on cash volumes). While the customer addition run-rate has been impressive, we continue to be wary of the quality of ARPUs from digitally-sourced customers. We draw comfort from ISEC's renewed focus on building digital capabilities, but given the high dependence on cash delivery volumes and tech-based handicap, we believe that its topline will remain cyclical and face headwinds from the new-age fintech brokers. We cut our FY22/23E APAT estimates by 3/6% to build in the impact on ESOP book, pressure on broking yields, and increased tech spends in the medium term. Given the macro lead indicators (rising retail participation and a healthy pipeline of primary issuances) and attractive valuation, we maintain our positive stance on ISEC; however, we trim our target multiple to 20x (from 23x) to build in the tech handicap and competitive intensity and maintain ADD with a revised target price of INR740.

- Broking segment drives disappointment:** Total broking revenue, at INR5.6bn (-3% QoQ), was 6% ahead of our estimates, mainly on account of a significant beat on MTF book. After four quarters of flattish trend, pure broking revenue de-grew 5% sequentially, as cash volume declined 10% QoQ, reflecting in blended yields at 0.44bps (-9bps YoY; a nine-quarter low!). Growth in the average MTF + ESOP book was impressive (+9% QoQ) and much ahead of pure broking revenue, suggesting that clients with prime and NEO plans are leveraging heavily, albeit not translating into broking revenue on account of lower rack rates. Retail market share in cash segment improved 30bps to 10%; however, loss in the derivative segment continues unabated as traders continue to prefer FinTech discount brokers. While the client acquisition run-rate fared well at 618k (Q3: 676k), customer quality and monetisation remain a major concern. Despite a slowdown in primary issuances, advisory service revenue was healthy at INR0.65bn (-41% QoQ).
- Margins under pressure:** Operating expenses improved by 7% sequentially; however, management has stated that tech spends (3% of net revenues in FY22) will remain a major focus area and increase ~2.5x in FY23E. This will keep EBITDA margins troubled in the near to medium term. Adjusted PAT came in at INR3.4bn (-11% QoQ) due to degrowth in broking and advisory business, partially offset by better-than-expected traction in the MTF portfolio. RBI's new circular capping ESOP funding limits at INR2mn/customer may impact ESOP book by ~INR7bn by FY23E.

Quarterly financial summary

(INR mn)	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	FY21	FY22E	FY23E	FY24E
Adj. revenues	8,917	7,393	25.8	9,416	14.9	24,304	30,932	27,603	31,128
EBITDA	5,632	4,858	31.3	6,082	15.5	14,365	18,437	14,740	17,812
EBITDA Margin (%)	63.2	65.7	-255bps	64.6	-144bps	59.1	59.6	53.4	57.2
APAT	3,403	3,295	26.3	3,804	13.0	10,678	13,826	10,445	13,432
AEPS	10.6	10.2	26.3	11.8	13.0	33.1	42.9	32.4	41.7
P/E (x)						19.0	14.7	19.4	15.1
ROE (%)						70.4	64.6	42.4	48.9

Source: Company, HSIE Research

Change in estimates

(INR mn)	FY23E			FY24E		
	Revised	Old	Change % / bps	Revised	Old	Change % / bps
Revenues	30,932	31,628	-2.2	27,603	27,348	0.9
EBITDA	18,437	19,009	-3.0	14,740	15,449	-4.6
EBITDA margin (%)	59.6	60.1	-50bps	53.4	56.5	-310bps
APAT	13,826	14,260	-3.0	10,445	11,139	-6.2

Source: Company, HSIE Research

ADD

CMP (as on 20 Apr 2022)	INR 629
Target Price	INR 740
NIFTY	17,137

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 920	INR 740
EPS %	FY22E	FY23E
	+3.0%	+6.2%

KEY STOCK DATA

Bloomberg code	ISEC IN
No. of Shares (mn)	323
MCap (INR bn) / (\$ mn)	203/2,725
6m avg traded value (INR mn)	319
52 Week high / low	INR 896/414

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(21.9)	(21.2)	48.0
Relative (%)	(17.8)	(14.3)	28.5

SHAREHOLDING PATTERN (%)

	Dec-21	Mar-22
Promoters	74.9	74.9
FIs & Local MFs	7.8	7.1
FPIs	6.6	7.3
Public & Others	10.7	10.7
Pledged Shares	Nil	Nil

Source : BSE

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Mastek

Deal wins boost confidence

Mastek reported a strong quarter with revenue and margin both coming in line. The order book improved 25.4% YoY, boosted by a USD 65mn+ win from the UK government (Home Office), following a USD 60mn NHS deal in Q3FY22. The management is aiming to reach USD 1bn revenue in the next five years, implying an organic revenue CAGR of >20%. Mastek expects to achieve this growth, based on (1) continued traction in the UK government business (~10% wallet share); (2) cloud migration/transformation agenda, which will drive Evosys growth; (3) recovery in UK private; and (4) turnaround in the US geography with focus on healthcare and life sciences vertical. The US geography will be a key focus area and investments will be made to strengthen the partner ecosystem. M&A will be a key pillar in US revival, with companies in the range of USD 30-40mn as targets. The target EBITDA margin range is 19-20%; there could be near-term headwinds related to ongoing supply side concerns. We have cut our EPS estimate by 2-3% and our TP of INR 3,530 is based on 25x Mar-24E EPS. The stock is trading at a P/E 25/19.8x FY23/24E, which is a discount of ~34% to the mid-tier IT average. **Maintain BUY.**

- Q4FY22 highlights:** (1) Revenue at USD 77.2mn (+5.3/+18.3% QoQ/YoY CC) vs. estimate of USD 77mn. UK geography growth was strong (+8.4% QoQ), supported by the UK government (+5.4%) and UK private (+12.4%); (2) growth was broad-based, led by financial services (+12.8% QoQ), followed by manufacturing & technology (+7% QoQ), retail (+5.7% QoQ); however, healthcare remained flat sequentially; (3) EBIT margin declined 49bps QoQ at 18.7% (in line with our estimate of 18.9%), impacted by higher employee cost; (4) Evosys growth remained strong at +8.4% QoQ and +19.4% YoY for FY22; (5) Mastek hired 1,185 employees on a net basis in FY22 (vs. 388 in FY21), with attrition remaining flat QoQ at 28%; (6) the 12-month order backlog improved +13.3% QoQ to USD 194mn, which provides revenue visibility.
- Outlook:** We expect USD revenue growth of +19.9/16.5% in FY23/24E, which implies a CQGR of 5.2/3.1% for FY23/24E. We estimate EBIT margin would come in at 18.0/18.6% in FY23/24E, resulting in an FY22-24E EPS CAGR of 21%.

Quarterly Financial summary

YE Mar (INR bn)	Q4 FY22	Q4 FY21	YoY (%)	Q3 FY22	QoQ (%)	FY20	FY21	FY22	FY23E	FY24E
Revenue (USD mn)	77	66	17.1	74	5.0	151	232	293	351	409
Net Sales	5.82	4.83	20.3	5.52	5.4	10.71	17.22	21.84	26.69	31.51
EBIT	1.09	0.96	13.4	1.06	2.7	1.32	3.20	4.20	4.80	5.87
APAT	0.80	0.61	31.9	0.74	8.5	1.33	2.09	2.95	3.42	4.32
Diluted EPS (INR)	26.15	21.25	23.0	24.17	8.2	46.7	73.5	96.6	111.9	141.3
P/E (x)						59.9	38.0	28.9	25.0	19.8
EV / EBITDA (x)						50.5	20.1	17.2	14.8	11.7
RoE (%)						17.6	25.4	30.6	28.3	28.7

Source: Company, HSIE Research, Consolidated Financials

Change in Estimates

YE Mar (INR Bn)	FY23E Old	FY23E Revised	Change %	FY24E Old	FY24E Revised	Change %
Revenue (USD Mn)	352	351	(0.3)	410	409	(0.2)
Revenue	26.78	26.69	(0.3)	31.58	31.51	(0.2)
EBIT	4.85	4.80	(1.2)	6.08	5.87	(3.5)
EBIT margin (%)	18.1	18.0	-15bps	19.2	18.6	-63bps
APAT	3.49	3.42	(2.0)	4.45	4.32	(3.1)
EPS (INR)	114.3	111.9	(2.0)	145.8	141.3	(3.1)

Source: Company, HSIE Research

BUY

CMP (as on 20 Apr 2022) INR 2,794

Target Price INR 3,530

NIFTY 17,137

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 3,750	INR 3,530
EPS %	FY23E	FY23E
	-2.0	-3.1

KEY STOCK DATA

Bloomberg code	MAST IN
No. of Shares (mn)	30
MCap (INR bn) / (\$ mn)	84/1,127
6m avg traded value (INR mn)	347
52 Week high / low	INR 3,669/1,319

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(2.1)	(5.5)	102.4
Relative (%)	2.0	1.4	82.8

SHAREHOLDING PATTERN (%)

	Dec-21	Mar-22
Promoters	37.59	37.30
FIs & Local MFs	7.22	6.65
FPIs	4.84	6.62
Public & Others	50.35	49.43
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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Rating Criteria

BUY: >+15% return potential

ADD: +5% to +15% return potential

REDUCE: -10% to +5% return potential

SELL: > 10% Downside return potential

Disclosure:

Analyst	Company Covered	Qualification	Any holding in the stock
Sahej Mittal	ICICI Securities	ACA	NO
Krishnan ASV	ICICI Securities	PGDM	NO
Amit Chandra	Mastek	MBA	NO
Apurva Prasad	Mastek	MBA	NO
Vinesh Vala	Mastek	MBA	NO

Disclosure:

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