KARVY STOCK BROKING LIMITED

14 January 2003
Result Analysis/Analyst
Meet Update

Mastek

Not Rated

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Rs571 P/E (FY02) - 20x

Revenues grow 5% sequentially; N America records growth while Europe declines marginally

- In Q2FY03 (June ending) the company witnessed a 5% QoQ growth in terms of revenues.
- Revenues from North America and Deloitte JV grew while Europe – Mastek's biggest single revenue contributor – revenues declined 2% sequentially.
- Business from the Financial services and IT services verticals grew handsomely this quarter; the government and other vertical's business suffered.
- In terms of effort mix, the company seems to have moved some portion of the work offshore.

Profits grow 6.6%; Other Income up significantly; Taxes continue to remain low

- Although, Mastek's Operating Profit Margins were down by around 100 basis points, the company's net profits show an increase of 6.6% due to a surge in other income and continuing low tax outgo.
- Other income increased due to a jump in 'Misc. Income' from Rs1mn to Rs9.9mn.

Year Ended June 30,	Q1 2003	Q2 2003	Change over Q1 2003
Other Income			
Interest on deposits/loans (Gross)	5.0	1.0	(3.0)
Profit on sale of Fixed asset	1.0	1.0	(1.0)
Profit on sale of investment	1.9	1.7	(2.0)
Exchange Gain	2.0	4.6	2.6
Miscellaneous Income	1.0	9.9	8.9
Total	5.5	16.4	10.9

- Mastek's effective tax rates for Q1 and Q2 2003 at around 9.2% to 9.4% respectively are significantly below 2002 levels of over 20%. According to the company this is because of the commissioning of its new facility at Mahape, which comes under 10A (90% of Income from the unit is exempt for 10 years). The company's other existing facilities come under 80 HHE (50% of export income is exempt).

Deloitte Consulting* and Mastek JV

- Mastek owns 50.1% stake in the JV
- During H1 nearly 12% of the Mastek revenues came trough the JV
- The company mentioned that even though the JV was getting parts of much bigger Deloitte Consulting assignments, some challenges remain in integration and workflow between the Deloitte Consulting team and the JV team. We feel this may be one of the reasons for a slower than expected ramp-up of its JV business.
- As of 31 December 2002, the JV employed 138 people and used the services of another 40 employees working for some sub-contractors.
    - *(Recently, Deloitte Consulting has announced that it will change its name to Braxton after its separation from parent company Deloitte Touche Tohmatsu.)*

Capita Group related business

The UK-based, Captia Group Plc., (an IT services company with over $1bn in revenues) is one of Mastek's largest clients. Captia outsources part of its work to Mastek.

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About Capita

- Captia's customers are the UK Local and Central Governments, educational institutions and some private companies.
- Capita provides Consultancy, IT services, IT outsourcing and Business Process Outsourcing services to its clients
- Mastek has recently been talking about its upcoming BPO initiative, however, has not mentioned any numbers or strategy. We feel that initial BPO contracts may be coming from Capita as it off-loads some of its BPO assignments to Mastek.

View and Valuation

The company has revised its Profit Guidance for FY03 upwards from Rs590 - 640mn to Rs640 – 680mn following better-than-expected H1 FY03 performance. The company attributes this performance to the up-turn in the US economy, and its existing strategic relationships with the likes of Deloitte Consulting and the Capita group. Mastek can achieve the guidance even if its next two quarter's profits stay at Q2 2003 levels. The main concerns are its dependence on Deloitte and Capita. The market remains apprehensive about Mastek's guidance numbers because of past incidences of missed targets.

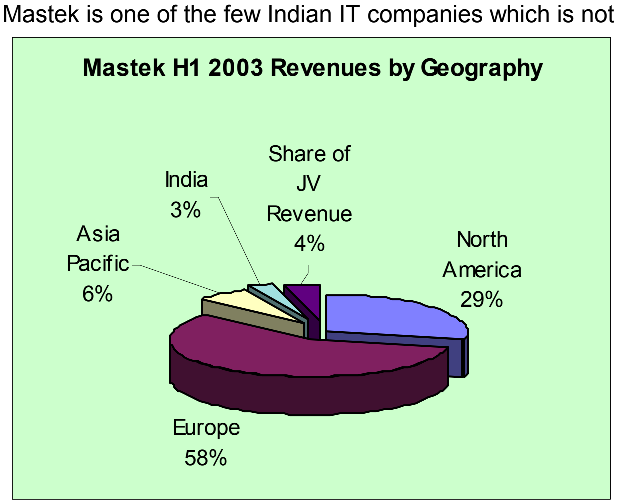
The company is currently trading at a P/E of 13x its FY03 guidance. We have not rated the stock.

Company Guidance **Rs Million**

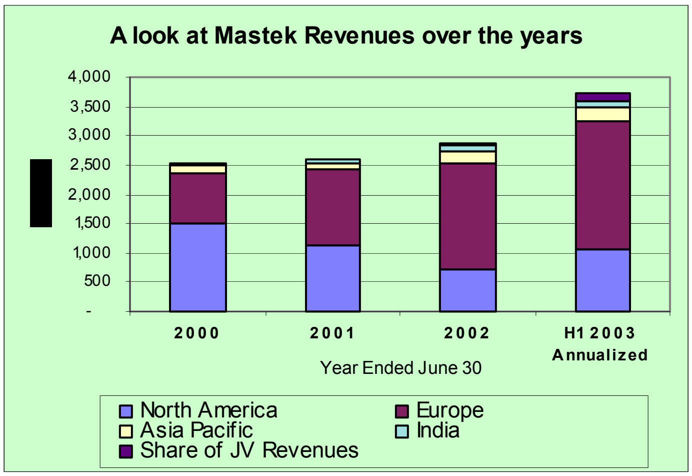
Year Ended June 30	H1 2003 Actual	H2 2003 *Company Guidance*	Change over H1 (%)	FY 2003 *Company Guidance*	Change over FY2002 (%)
Revenues	1,869	2,291 - 2,435	23% - 30%	4,160 - 4,303	45% - 50%
Net Profits	315	325 - 365	3% - 16%	640 - 680	53% - 63%
EPS Diluted	21.97	22.66 - 25.45	3% - 16%	44.63 - 47.42	53% - 63%
Net Margins	17.0%	14.2% - 15.0%		15.4% - 15.8%	

A brief look at Mastek's revenue profile and trends over the last three years …

Mastek is one of the few Indian IT companies which is not overly dependent on US for revenues



- The company saw a lot of pain in North America as it faced management and organisational structure related issues in the US. From 2000 onwards, the company's revenues from North America have been declining. However, as the H1 numbers indicate, in 2003 we may see a reversal in the trend.
- On the other hand, Revenue from Europe grew by 40%+ p.a. in 2001 and 2002. This year H1 numbers indicate that the Europe segment will grow by another 20% from its expanded base.



- The client profile of the company has become top heavy in the last few quarters. The Top 5 to 10 clients contribution to revenues has increased to 52 and 68% respectively, in Q2 2003 as compared to 30 and 46% in Q4 2001. In the same period, the number of active clients has reduced from 95 to 68. On the other hand, the company has increased its proportion of *Fortune 1000* clients from 16 to 28.
- The company's Debtors collection period remains at around 80 days.
- As on 31 Dec 2002, the company has around Rs740mn in cash (Rs51.60 per share).

Consolidated Results

US GAAP Consolidated Results

Rs Million

Year Ended June 30	Q2 2003	Q1 2003	QoQ %Chg	Q2 2002	YoY %Chg
Revenues					
International	942	879	7.1%	641	47%
Domestic	16	32	-49.6%	10	59%
Total Revenues	**958**	**911**	**5.2%**	**651**	**47%**
Staff Costs	489	478	2.4%	414	18%
Traveling & Conveyance	57	61	-7.0%	62	-9%
Provision for doubtful debts	2	3	-30.3%	3	-34%
Others	214	185	15.7%	84	155%
Depreciation	32	20	62.3%	15	114%
Total Expenditure	794	746	6.4%	578	37%
Operating Profits	**164**	**165**	**-0.4%**	**73**	**123%**
Other Income	16	5	200.4%	9	79%
Interest	1	2	-15.7%	5	-73%
Profit before tax	179	168	6.3%	78	131%
Taxation	16	16	3.0%	16	1%
Net Profit	**163**	**152**	**6.6%**	**61**	**165%**
No of Shares	14.3	14.3	0.0%	14.2	1%
EPS Diluted (Rs)	**11.34**	**10.63**	**6.6%**	**4.32**	**162%**
OPM	**17.1%**	**18.1%**		**11.3%**	
PBT Margins	18.7%	18.5%		11.9%	
Net Margins	17.0%	16.7%		9.4%	
Tax/PBT	9.2%	9.4%		20.9%	
Other Income/PBT	9.2%	3.3%		11.8%	

Stock Ratings   Absolute Returns

Buy	:	> 25%
Out Performer	:	16 - 25%
Market Performer	:	0 - 15%
Under Performer	:	< 0%

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