

Mastek (UK) Limited

Annual Report for the year ended 31 March 2019

Registered Number 02731277

Mastek (UK) Limited

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Mastek (UK) Limited

Strategic report for the year ended 31 March 2019

Business Review and future developments

The results for year ended 31 March 2019 and the financial position of the Company are shown in the financial statements.

The Company is a leading IT player providing enterprise solutions to government, retail and financial services organizations worldwide. It has been at the forefront of technology and has made significant investments in building capability, increasing IT value generation to its customers. We deliver these services using Agile and DevOps methodologies, and where applicable through a right-shore model. We assist our customers in solving their complex, mission critical business problems with innovative solutions that sustain and grow their business. The company is organised around 6 service lines to build a core capability in each of the significant transformational areas.

Through 2018-19, the company continued on the second year of its 3-year Vision 2020 transformational programme to accelerate its development into mid-cap business. The transformation continues apace and new structures and processes are well embedded. The management sees the transformation as a continuous process and we will continue to evolve every year improving our operations as well as customer propositions.

On a like for like basis, the financial results have been excellent with a revenue growth of 34% in comparison with the prior year including revenue from IBCL merger effective June 30, 2018. We have also been able to manage costs and therefore overall profitability has improved.

Our business continues to be focussed on government, retail and financial sectors. In particular the government and retail sectors demonstrated significant growth. Our government business runs mainly off the G-Cloud and DOS2 frameworks. To improve our coverage in the retail sector, we now offer services in Digital Commerce to assist organisation to establish a digital presence which is increasingly an imperative. To enable further growth, we will continue our investment in sales and marketing in all the three sectors to step up our growth activities.

Key Performance Indicators

KPI	2019	2018
Turnover increase/ (decrease)	34.37%	33.40%
Operating profit margin	14.51%	14.90%
Staff Turnover ratio	13.80%	11.10%
Client Satisfaction	92.21%	97.50%

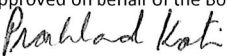
Principal Risks and Uncertainties

The principle risks are as follows:

- Cost pressures impacting our clients' ability to further invest in IT solutions. The Company has operational improvement and Cost Containment Initiatives to provide IT solutions in a cost efficient manner. It further has the benefit of being very well entrenched with many of its customers, involved in their critical and strategic initiatives. Therefore, client related risks are mitigated to an extent.
- Potential risk of delays and change in policy direction due to Brexit can impact the growth in the government sector. The company is strengthening its presence by pursuing a strategic account approach. Further the Company is extending its reach into wider vertical markets and is increasing its annuity business.

We have a capable team, solid leading indicators and we excel in our customer service. We are confident that the team will have another successful year of operations.

Approved on behalf of the Board

 01.07.2019

P Koti – Director

Mastek (UK) Limited

Directors' Report for the year ended 31 March 2019

The Directors present their report and the audited financial statements of the Company for the year ended 31 March 2019.

Company Registration Number

The company is registered in England and Wales under company number 02731277.

Business Review and Future Developments

A review of the business and future developments of the company is included in the strategic report.

Results and Dividends

The company's profit for the financial year was £7,295,257 (2018: £7,534,804).

The Directors recommended the payment of an interim dividend of £1,950,000 (2018: £500,000). The Directors recommended a final dividend of £Nil (2018: £700,000).

Financial Risk Management

The company's operations expose it to a variety of financial risks that include the effects of changes in credit risk, liquidity risk and interest rate risk. The company has in place a risk management programme that seeks to limit adverse effects on the financial performance of the company. The company does not use derivative financial instruments to manage interest rate costs and as such, no hedge accounting is applied.

Given the size of the company, the directors have not delegated responsibility of monitoring financial risk management to a sub-committee of the board. The policies set by the board of directors are implemented by the company's finance department.

Credit Risk

The company has implemented policies that require appropriate credit checks on potential customers before sales are made. The amount of exposure to any individual counterparty is subject to a limit, which is reassessed annually by the board.

Liquidity Risk

Given the size of the company, the directors have not delegated responsibility of monitoring financial risk management to a sub-committee of the board. The policies set by the board of directors are implemented by the company's finance department.

Interest Rate Cash Flow Risk

The company has interest bearing assets and liabilities. Interest bearing assets are only cash balances, all of which earn interest at variable rates and interest bearing liabilities are term loan from bank, with payment term of half yearly eight equal instalments with 1 year moratorium (first repayment at the end of 18 months due on 14th April, 2020) along with interest at 6 months GBP LIBOR + 150 basis point.

Directors

The Directors who held office during the year under review and to the date of this report were:

Directors

R Venkataraman(resigned 31 March 2019)

P Koti

K Bogg

J Owen

R Smith (resigned 18 Oct 2018)

S Agarwal – Company Secretary

Employees

Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the company continues and the appropriate training is arranged. It is the policy of the company that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who does not suffer from a disability.

Consultation with employees or their representatives has continued at all levels, with the aim of ensuring that views are taken into account when decisions are made that are likely to affect their interests and that all employees are aware of the financial and economic performance of their business units and of the company as a whole. Communication with all employees continues through the house newspaper and newsletters, satisfaction surveys, briefing groups and the distribution of the annual report.

Statement of Directors' Responsibilities

The directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Accounting Standards and applicable law (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards, including FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- notify the company's shareholders in writing about the use of disclosure exemptions, if any, of FRS 101 used in the preparation of financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Disclosure of information to auditors

In the case of each of the persons who are directors at the time when this report is approved, the directors confirm that:

- so far as each director is aware, there is no relevant audit information of which the Company's auditor is unaware, and
- the directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Appointment of auditors

The Auditors, Grant Thornton UK LLP will be proposed for reappointment at the forthcoming Annual General Meeting.

Approved on behalf of the Board

 Prahlad Koti 01-07-2019

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P Koti – Director

Independent auditor's report to the members of Mastek (UK) Limited

Opinion

We have audited the financial statements of Mastek (UK) Limited (the 'company') for the year ended 31 March 2019, which comprise the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Cash Flow Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 'Reduced Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matter on which we are required to report under the Companies Act 2006

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors for the financial statements

As explained more fully in the directors' responsibilities statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.



Timothy Lincoln BA ACA
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Bristol

3 July 2019

Mastek (UK) Limited

Statement of comprehensive income for the year ended 31 March 2019

	Notes	2019 £	2018 £
Turnover	1	83,433,868	62,093,520
Cost of Sales		<u>(60,160,062)</u>	<u>(44,997,674)</u>
Gross Profit		23,273,806	17,095,846
Administration Expense		<u>(11,166,589)</u>	<u>(7,839,823)</u>
Operating profit	3	12,107,217	9,256,023
Interest received and similar income	5	80,029	54,373
Impairment loss on goodwill	7b	<u>(2,665,486)</u>	-
Profit on ordinary activities before taxation		9,521,760	9,310,396
Tax on profit on ordinary activities	6	<u>(2,226,503)</u>	<u>(1,775,592)</u>
Profit for the financial year		7,295,257	7,534,804
Other Comprehensive income for the year			
Items that may be reclassified subsequently to the statement of comprehensive income			
Investment in equity instrument - Net change in fair value of financial instruments through OCI		9,140,706	(2,836,827)
Total other comprehensive income		<u>9,140,706</u>	<u>(2,836,827)</u>
Total comprehensive income for the year		<u>16,435,963</u>	<u>4,697,977</u>

Mastek (UK) Limited

Balance sheet as at 31 March 2019

	Notes	2019 £	2018 £
Fixed Assets			
Tangible assets	7 (a)	139,840	96,741
investments	8	43,603,332	27,455,096
		<u>43,743,172</u>	<u>27,551,837</u>
Current assets			
Debtors	9	21,569,467	15,368,516
Cash at bank and in hand	16	7,702,639	6,185,830
		<u>29,272,106</u>	<u>21,554,346</u>
Creditors-Amounts falling due within one year	10 (b)	(13,961,584)	(11,694,415)
Net current assets		<u>15,310,522</u>	<u>9,859,931</u>
Total assets less current liabilities		<u>59,053,694</u>	<u>37,411,768</u>
Borrowings	10 (a)	(7,500,000)	-
Net assets		<u>51,553,694</u>	<u>37,411,768</u>
Capital and Reserves			
Called up share capital	13	200,000	200,000
Capital contribution		695,959	695,959
Retained earning		27,176,609	21,788,864
Reserve on IBCL Merger		(269,685)	-
Other Comprehensive Income		23,473,627	14,332,921
Excess tax benefit on share based payments		277,184	394,024
Total Equity		<u>51,553,694</u>	<u>37,411,768</u>

The financial statements were approved by the Board of Directors on 01.07.19 and were signed on its behalf by:

Prahlad Koti

P Koti - Director

Registered number: 02731277

The notes on pages 10 to 22 form part of these financial statements.

Mastek (UK) Limited

Statement of changes in equity for the year ended 31 March 2019

	Called up Share capital	Capital contribution	Excess tax benefits on share based payments	OCI - Fair value of Investment in Majesco USA	Reserve on IBCL Merger	Retained Earning	Total
Balance as at March 31, 2017	200,000	695,959	46,972	17,169,748	-	15,454,060	33,566,739
Profit for the financial year	-	-	-	-	-	7,534,804	7,534,804
Net change in fair value of investments in Majesco USA	-	-	-	(2,836,827)	-	-	(2,836,827)
Total comprehensive income for the year	-	-	-	(2,836,827)	-	7,534,804	4,697,977
Excess tax benefits on share based options	-	-	347,052	-	-	-	347,052
	-	-	347,052	(2,836,827)	-	7,534,804	5,045,029
Transactions with owners, recognised directly in equity							
Dividends	-	-	-	-	-	(1,200,000)	(1,200,000)
Total transactions with owners, recognised directly in equity	-	-	-	-	-	(1,200,000)	(1,200,000)
Balance as at 31 March 2018	200,000	695,959	394,024	14,332,921	-	21,788,864	37,411,768
Profit for the financial year	-	-	-	-	-	7,295,257	7,295,257
Net change in fair value of available for sale assets	-	-	-	9,140,706	-	-	9,140,706
Reserve on IBCL Merger	-	-	-	-	(269,685)	-	(269,685)
ESOP Adjustment	-	-	-	-	-	42,488	42,488
Total comprehensive income for the year	-	-	-	9,140,706	(269,685)	7,337,745	16,208,766
Excess tax benefits on share based options	-	-	(116,840)	-	-	-	(116,840)
	-	-	(116,840)	9,140,706	(269,685)	7,337,745	16,091,926
Transactions with owners, recognised directly in equity							
Dividends	-	-	-	-	-	(1,950,000)	(1,950,000)
Total transactions with owners, recognised directly in equity	-	-	-	-	-	(1,950,000)	(1,950,000)
Balance as at 31 March 2019	200,000	695,959	277,184	23,473,627	(269,685)	27,176,609	51,553,694

Cash flow statement for the year ended 31 March 2019

	Notes	2019 £	2018 £
Net cash generated from operating activities	14	7,975,719	7,960,888
Taxation paid		(2,030,593)	(1,308,247)
Cash flow from financing activities	15	5,471,426	(1,145,627)
Cash flow from investing activities	15	(9,931,143)	(3,351,836)
Increase in cash in the year		1,485,410	2,155,178
Cash and cash equivalents at the beginning of the year		6,185,830	4,187,102
Exchange gain on cash and cash equivalent		31,400	(156,450)
Cash and cash equivalents at the end of the year		7,702,639	6,185,830

The notes on pages 10 to 22 form part of these financial statements.

Mastek (UK) Limited

Notes to the financial statements for the year ended 31 March 2019

1. Accounting Policies

Mastek (UK) Limited is a private limited company and is incorporated and domiciled in the UK. The address of its registered office is Pennant House, 2 Napier Court, Napier Road, Reading, RG1 8BW.

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101").

The Company's ultimate parent undertaking, Mastek Limited includes the Company in its consolidated financial statements. The consolidated financial statements of Mastek Limited are publicly available from its registered office, 804/805 President House, C.N. Vidyalaya, Near Ambawadi Circle, Ahmedabad – 380 006. Therefore the company is exempt by virtue of Section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- IFRS 7, 'Financial Instruments: Disclosures';
- Comparative information requirements in respect of tangible assets and investments;
- The effects of new but not yet effective IFRSs;
- Disclosures in respect of the compensation of Key Management Personnel;
- The requirements to disclose related party transactions entered into between two or more members of a Company, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.
- Capital management disclosure
- Certain share based payment disclosure
- Disclosures in relation to impairment of assets

Foreign currency transactions of the Company are accounted for at the exchange rates prevailing on the date of the transaction. Monetary assets and liabilities are translated at the rate prevailing on the Balance Sheet date whereas non-monetary assets and liabilities are translated at the rate prevailing on the date of the transaction. Gains and losses resulting from the settlement of foreign currency monetary items and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of comprehensive income.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Judgements made by the directors in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 21.

Accounting convention

These financial statements are prepared on the going concern basis, under the historical cost convention, in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom.

Going concern

The company meets its day-to-day working capital requirements through its cash reserves and borrowings. The current economic conditions continue to create uncertainty particularly over the level of demand for the company's products. The company's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the company should be able to operate within the level of its current cash reserves and borrowings. After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. The company therefore continues to adopt the going concern basis in preparing its financial statements.

Turnover

Effective 1 April 2018, Company adopted new accounting standard "IFRS 15" related to the recognition of revenues under the modified retrospective method, however, comparative period amounts are not adjusted and continued to be reported in accordance with previous year's accounting policies, except where indicated otherwise. This method was applied to contracts that were not completed as the date of initial application. Due to the nature of the contracts and identification of unit of accounting i.e. performance obligation being consistent with prior year's revenue recognition policy, the adoption impact related to the new standard was not material. The impact on adoption of new standard relates to (1) terminologies used in IFRS 15 in accounting policy to be aligned with new standard (2) the reclassification of balances representing receivables, as defined by the new standard, from "Unbilled revenue" to "Trade receivable, net" in statement of financial position, (3) the reclassification of balances representing contract assets, as defined by the new standard, from "Unbilled accounts receivable" to "Other current assets" in statement of financial position.

The Company derives revenue primarily from Information Technology services which includes IT Outsourcing services, support and maintenance services. The Company recognizes revenue on transfer of control of deliverables (solutions and services) to its customers in an amount reflecting the consideration to which the Company expects to be entitled. To recognize revenues, Company apply the following five step approach: (1) identify the contract with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenues when a performance obligation is satisfied.

Company accounts for a contract when it has approval and commitment from all parties, the rights of the parties are identified, payment terms are identified, the contract has commercial substance and collectability of consideration is probable.

Fixed Price contracts related to Application development, consulting and other services are single performance obligation or a stand-ready performance obligation, which in either case is comprised of a series of distinct services that are substantially the same and have the same pattern of transfer to the customer (i.e. distinct days or months of service). Revenue is recognized in accordance with the method prescribed for measuring progress i.e. percentage of completion method. Percentage of completion is determined based on project costs incurred to date as a percentage of total estimated project costs required to complete the project. The cost expended (or input) method has been used to measure progress towards completion as there is a direct relationship between input and productivity. Revenues relating to time and material contracts are recognized as the related services are rendered.

Multiple element arrangements-

In contracts with multiple performance obligations, Company accounts for individual performance obligations separately if they are distinct and allocate the transaction price to each performance obligation based on its relative standalone selling price out of total consideration of the contract. Standalone selling price is determined utilizing observable prices to the extent available. If the standalone selling price for a performance obligation is not directly observable, Company uses expected cost plus margin approach.

IT support and maintenance-

Contracts related to maintenance and support services are either fixed price or time and material. In these contracts, the performance obligations are satisfied, and revenues are recognized, over time as the services are provided. Revenue from maintenance contracts is recognized ratably over the period of the contract because the Company transfers the control evenly by providing stand-ready services.

The term of the maintenance contract is usually one year. Renewals of maintenance contracts create new performance obligations that are satisfied over the term with the revenues recognized ratably over the term.

Contracts may include incentives, service level penalties and rewards. The Company includes an estimate of the amount it expects to receive for the total transaction price if it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is resolved.

Any modification or change in existing performance obligations is assessed whether the services added to existing contracts are distinct or not. The distinct services are accounted for as a new contract and services which are not distinct are accounted for on a cumulative catch-up basis.

Trade Receivable, net is primarily comprised of billed and unbilled receivables (i.e. only the passage of time is required before payment is due) for which we have an unconditional right to consideration, net of an allowance for doubtful accounts. A contract asset is a right to consideration that is conditional upon factors other than the passage of time. Trade receivables include £ 3,699,550 as at 31 March 2018, regrouped from "prepayments & accrued income" on adoption of new revenue standard, for aiding comparison. Contract liabilities consist of advance payments and billings in excess of revenues recognized.

Mastek (UK) Limited

Notes to the financial statements for the year ended 31 March 2019

Disaggregated Revenue

The table below presents disaggregated revenues from contracts with customers by customer location and service line for each of our business segments. Company believe this disaggregation best depicts how the nature, amount, timing and uncertainty of our revenues and cash flows are affected by industry, market and other economic factors.

	2019	2018
	£	£
Agile Consulting	2,331,964	1,370,015
Application Development	50,129,580	41,761,090
Application Support & Maintenance	16,049,400	7,615,900
Assurance & Testing	4,445,760	2,684,070
BI & Analytics	9,220,492	7,420,000
Grand Total	82,177,196	60,851,075

Note: Total turnover includes other income of £ 1,256,672 for the year ended March 31, 2019 (March 31, 2018: £ 1,242,445)

Remaining performance obligation

As of March 31, 2019, the aggregate amount of transaction price allocated to remaining performance obligations, was £ 5,878,735, which is expected to be recognized as revenues within 3 years.

Tangible fixed assets

Tangible fixed assets are stated at historical purchase cost less accumulated depreciation. Depreciation is provided at the following annual rates in order to write off the cost of each asset less the estimated residual value, over its estimated useful life.

Fixtures and fittings	20% on straight-line basis
Computer equipment	50% - 100% on straight-line basis

Long term contracts

Debtors include amounts recoverable on contracts, which are stated at cost plus attributable profit to the extent that such profit is reasonably certain and after making provision for any foreseeable losses in completing contracts (as noted in the turnover accounting policy above), less payments received on account.

Cost comprises the direct costs of providing the goods and services, together with directly attributable overheads. Payments on account represent the excess of amounts billed over that recognised.

Deferred and Current Tax

Deferred taxation has been recognised as a liability or asset if transactions have occurred at the balance sheet date that give rise to a liability to pay more taxation in the future, or a right to pay less taxation in the future. An asset is not recognised to the extent that the transfer of economic benefits in future is uncertain. Deferred tax assets and liabilities recognised are not discounted.

Current tax is measured by the amount of tax expected to be paid to the taxation authorities on the taxable profits after considering tax allowances and exemptions and using applicable tax rates and laws.

Share Based Payment

The parent company (Mastek Limited) runs a stock option scheme under which it grants options to the employees of the subsidiary company (Mastek UK Limited). Stock options are vested over the period of time as stated in the terms of the option. Once vested, employees are entitled to receive shares of the parents at the time of exercise of options. The scheme is identified as Equity settled and the parent determines the compensation cost based on the fair value method which is cross charged to Mastek UK Limited. The company records the fair value as a cost to profit & loss with a corresponding adjustment to capital contribution. However, since the parent recharge the fair value to the company, the corresponding amount is reduced from the capital contribution resulting in a net nil impact to capital contribution.

Leasing commitments

Rental paid under operating leases are charged to the profit and loss account as incurred.

Provisions

Provisions are recognised when the company has a present obligation as a result of past events, for which it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are reviewed regularly and are adjusted where necessary to reflect the current best estimates of the obligation.

Mastek (UK) Limited

Notes to the financial statements for the year ended 31 March 2019

Holiday pay

The employees of the Company are also entitled to other long-term benefit in the form of compensated absences as per the policy of the Company. Employees are entitled to accumulate leave balance up to the upper limit as per the Company's policies which can be carried forward perpetually. Leave encashment for employees gets triggered on an annual basis, if the accumulated leave balance exceeds the upper limit of leave. Further, at the time of retirement, death while in employment or on termination of employment, leave encashment vests equivalent to the salary payable for number of days of accumulated leave balance. Liability for such benefits is provided on the basis of actuarial valuations, as at the Balance Sheet date, carried out by an independent actuary. The actuarial valuation method used by independent actuary for measuring the liability is the projected unit credit method.

Research & Development credit

Research and Development credit are recognised only to the extent there is reasonable assurance that the related conditions will be met and amounts will be received.

Pensions

The company operates a defined contribution pension scheme. Contributions payable for the year are charged to the profit and loss account.

Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other debtors, cash and cash equivalents, loans and borrowings, and trade and other creditors.

Trade and other debtors:

The Company makes use of a simplified approach in accounting for trade and other receivables as well as contract assets and records the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. In calculating, the Company uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses using a provision matrix. The Company assess impairment of trade receivables on a collective basis as they possess shared credit risk characteristics they have been grouped based on the days past due.

Trade and other creditors:

Trade and other creditors are measured at amortized cost using the effective interest method except for derivatives and financial liabilities designated at FVTPL, which are carried subsequently at fair value with gains or losses recognised in profit or loss.

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within finance costs or finance income.

Cash and cash equivalent:

Cash and cash equivalents include cash in hand, demand deposits with banks and other short term highly liquid investments with original maturities of three months or less.

Derivative financial instruments

The company does not use any derivative financial instruments and hence its financial assets and financial liabilities are accounted for at cost as described above.

Consolidated financial statements

The accounts contain information about the company as an individual company and do not contain consolidated financial information as parent of a Company. The company is exempt under section 401 of the Companies Act 2006 from the requirement to prepare consolidated accounts as it and its subsidiary undertakings are included by full consolidation in the consolidated accounts of Mastek Limited, a company registered in India. The accounts of Mastek Limited are publicly available.

Investments

The investments are recognized at fair value on initial recognition and subsequently they are measured at fair value through other comprehensive income if it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Further, in cases where the Company has made an irrevocable election based on its business model, for its investment, which are classified as equity instruments, the subsequent changes in fair value are recognised in OCI.

Mastek (UK) Limited

Notes to the financial statements for the year ended 31 March 2019

Impairment

Non Financial Instrument

Intangible assets and property, plant and equipment are evaluated for recoverability whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. For the purpose of impairment testing, the recoverable amount (i.e. the higher of the fair value less cost to sell and the value in-use) is determined on an individual asset basis unless the asset does not generate cash flows that are largely independent of those from other assets. In such cases, the recoverable amount is determined for the Cash Generating Unit to which the asset belongs.

If such assets are considered to be impaired, the impairment to be recognized in the Statement of Comprehensive Income measured by the amount by which the carrying value of the assets exceeds the estimated recoverable amount of the asset. An impairment loss is reversed in the statement of Comprehensive Income if there has been a change in the estimates used to determine the recoverable amount. The carrying amount of the asset is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of any accumulated amortization or depreciation) had no impairment loss been recognised for the asset in prior years.

Capital Management

The Company policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The company monitors the return on capital as well as the level of dividends on its equity shares. The company objective when managing capital is to maintain an optimal structure so as to maximize shareholder value.

Reserves

Share Premium: Amount received (on issue of shares) in excess of the par value has been classified as share premium.

Excess tax benefits from share-based options: Future tax benefits expected to arise from difference in tax base and accounting base as per tax laws of the respective countries where the company operates.

Excess tax benefits from share-based options: Future tax benefits expected to arise from difference in tax base and accounting base as per tax laws of the respective countries where the company operates.

Other Comprehensive Income: Net change in fair value of financial instruments through OCI

Mastek (UK) Limited**Notes to the financial statements for the year ended 31 March 2019****2. Staff costs**

	2019	2018
	£	£
Wages and salaries	25,417,127	19,022,479
Social security costs	2,471,705	1,945,383
Other pension costs	297,336	132,459
	<u>28,186,168</u>	<u>21,100,321</u>

The average monthly number of employees during the year was as follows:

	2019 Number	2018 Number
Administrative and consultants	468	371
Directors	4	3
	<u>472</u>	<u>374</u>

3. Operating Profit

	2019	2018
	£	£
The operating profit is stated after charging:		
Other operating leases	266,823	177,475
Depreciation - owned assets	125,461	74,890
Exchange Loss / (Gain)	(31,400)	156,451
Services provided by the Company's Auditor - fees payable for the audit	27,500	25,700

4. Director's emoluments

	2019	2018
	£	£
Aggregate emoluments	899,238	801,444
Pension contributions to money purchase scheme	58,272	47,159
	<u>957,510</u>	<u>848,603</u>

The number of Directors to whom retirement benefits were accruing was as follows:

	Number	Number
Money purchase schemes	4	3
Within the year, no director exercised share options (2018 - Nil).		
	£	£

Information regarding the highest paid Director is as follows:

Aggregate emoluments	445,753	318,784
Pension contributions to money purchase schemes	31,094	16,867
	<u>476,847</u>	<u>335,651</u>

During both current and prior years, the highest paid Director did not exercise share options.

5. Interest receivable and similar income

	2019	2018
	£	£
Bank interest	41,170	22,796
Interest on loan to subsidiary	7,459	31,577
Exchange gain	31,400	-
	<u>80,029</u>	<u>54,373</u>

Mastek (UK) Limited

Notes to the financial statements for the year ended 31 March 2019

6. Taxation

a) Analysis of tax charge in the year

	2019	2018
	£	£
Current tax:		
UK corporation tax on profit for the year	2,406,935	1,816,976
Adjustment in respect of prior year	-	-
	<u>2,406,935</u>	<u>1,816,976</u>
Deferred tax		
Origination and reversal of timing differences	1,119	2,249
Share based payments	(181,551)	(43,633)
Tax on profit on ordinary activities	<u>2,226,503</u>	<u>1,775,592</u>

b) Factors affecting the tax charge for the year

The tax assessed for the year is different to the standard rate of UK Corporation tax of 19% (2018: 19%) and the differences are explained below:

	2019	2018
	£	£
Profit on ordinary activities before tax	9,521,760	9,310,396
Profit on ordinary activities before tax at 19% (2018: 19%)	1,809,134	1,768,974
Effects of:		
Expenses not deductible for tax purposes	524,671	6,618
Capital allowances for period in excess of depreciation	(9,201)	(2,248)
Adjustments to tax charge in respect of share options outstanding	(99,220)	-
Deferred tax credit	1,119	2,248
Total current tax charge for the year	<u>2,226,503</u>	<u>1,775,592</u>

c) Factors that may affect future charges:

Changes to the UK corporation tax rates were substantively enacted as part of Finance Bill 2015 on 26 October 2015 and Finance Bill 2017 on 7 September 2017. These include reductions to the main rate to reduce the rate to 19% from 1 April 2018 and to 17% from 1 April 2020. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

7(a). Tangible fixed assets

	Fixtures and fitting	Computer equipment	Total
	£	£	£
2018-2019			
Cost			
At 1 April 2018	249,645	462,484	712,129
Additions/(Deletion)	21,055	135,320	156,375
Transfer from IBCL, net	2,558	9,994	12,552
Retirements	(27,320)	(105,871)	(133,191)
At 31 March 2019	<u>245,938</u>	<u>501,927</u>	<u>747,865</u>
Depreciation			
At 1 April 2018	214,751	400,637	615,388
Charge for the year	15,599	109,862	125,461
Deletion	(27,318)	(105,506)	(132,824)
At 31 March 2019	<u>203,032</u>	<u>404,993</u>	<u>608,025</u>
Net book value			
At 31 March 2019	<u>42,906</u>	<u>96,934</u>	<u>139,840</u>
At 31 March 2018	<u>34,894</u>	<u>61,847</u>	<u>96,741</u>

Mastek (UK) Limited
Notes to the financial statements for the year ended 31 March 2019

2017-2018	Fixtures and fitting £	Computer equipment £	Total £
Cost			
At 1 April 2017	230,310	397,298	627,608
Additions/(Deletion)	19,335	65,186	84,521
At 31 March 2018	249,645	462,484	712,129
Depreciation			
At 1 April 2017	202,964	337,534	540,498
Charge for the year	11,787	63,103	74,890
At 31 March 2018	214,751	400,637	615,388
Net book value			
At 31 March 2018	34,894	61,847	96,741
At 31 March 2017	27,346	59,764	87,110

7(b). Intangible assets - Goodwill

	2019 £	2018 £
Carrying value at the beginning	-	-
Add: IndigoBlue Merger - (Refer note 22)	2,665,486	-
Less: IndigoBlue Impairment - (Refer note below)	(2,665,486)	-
Carrying value at the end	-	-

Impairment loss on goodwill

The Company entered into an agreement with its wholly owned subsidiary IndigoBlue Consulting Limited U.K. ("IBCL") to merge (transfer of business, employees, assets and liabilities) IBCL into Mastek (UK) Limited with effect from June 30, 2018. Subsequent to merger, both the founders of IBCL left the company, which resulted in significant deterioration in IBCL business during the fourth quarter of financial year 2019. Considering the significant drop in order book and customers, management has recognised an impairment loss on IBCL goodwill to the extent of the entire carrying value i.e. £2,665,486. Also, on account of IBCL merger the Company has taken over net assets of £20,788 and recognised merger reserve £269,685.

8. Fixed assets investments

		At 31 March 2019		At 31 March 2018	
	Country of incorporation	Holding %	NBV £	Holding %	NBV £
Cost:					
At 1 April 2018					27,455,096
Additions					9,915,028
Transfer to goodwill on account of IBCL merger					(2,907,499)
Revaluation of Majesco Investment					9,140,706
At 31 March 2019					43,603,332
Directly held investments					
MajescoMastek	USA	13.8%	27,170,309	13.8%	18,029,602
Mastek Inc. (formally known as Digility Inc.)	USA	100%	16,412,235	100%	6,497,207
IndigoBlue Consulting Limited	UK	100%	20,788	100%	2,928,286
Indirectly held investments					
TaisTech LLC	USA	100%	\$ 12,232,866	100%	\$ 12,232,866
Trans American Information Systems Inc.	USA	100%	\$ 3,966,575	100%	\$ 3,966,575

Additions represent £9,915,028 in relation to share capital of Mastek Inc.

9. Debtors: amounts falling due within one year

	2019	2018
	£	£
Trade debtors	18,103,120	12,557,234
Amounts due from group undertakings	19,135	514,927
Prepayments	246,829	111,533
Deferred Taxation (Refer Note 11)	519,211	428,329
Contract Assets	2,681,172	1,756,493
	<u>21,569,467</u>	<u>15,368,516</u>

10(a). Borrowings

	2019	2018
	£	£
Term loan from Standard Chartered bank (Refer note below)	7,500,000	-
	<u>7,500,000</u>	<u>-</u>

Nature of security

- (i) Secured by floating charges on Receivables of Mastek UK and their proceeds.
- (ii) Secured by mortgage of Pune (India) property of Mastek Limited (Holding Company).
- (iii) Secured by corporate guarantee of GBP 17 million given by Mastek Limited (Holding Company).

Terms of repayment

Half yearly repayment of eight equal instalments with 1 year moratorium-first repayment at the end of 18 months due on 14th April, 2020 along with interest at 6 months GBP LIBOR + 150 basis point.

10(b). Creditors: amounts falling due within one year

	2019	2018
	£	£
Trade creditors	742,491	660,251
Amounts due to group undertakings	3,110,497	2,466,597
Social security and other taxes	3,163,929	2,595,578
Corporation taxation	1,386,443	1,010,100
Accruals and contract liabilities	5,558,224	4,961,889
	<u>13,961,584</u>	<u>11,694,415</u>

11. Deferred taxation

The full assets for deferred tax has been recognised in the accounts as follows:

	£
At 1 April 2018	428,329
Credited to the profit and loss account	180,432
Tax benefit from share based payments (including transfer from IBCL)	(89,550)
At 31 March 2019	<u>519,211</u>

	2019	2018
	£	£
The deferred taxation Assets comprises:		
Accelerated capital allowances	(10,446)	(9,327)
Tax benefit from share based payments	529,657	437,656
At 31 March 2019	<u>519,211</u>	<u>428,329</u>

12. Obligations under leasing agreements

At 31 March 2019, the company had commitments under non-cancellable operating leases expiring as follows

	Operating leases Land and buildings	
	2019	2018
	£	£
Within one year	228,011	148,181
Between one and five years	364,685	571,697
	<u>592,696</u>	<u>719,878</u>

13. Called up share capital

Authorized			2019	2018
Number	Class	Nominal value	£	£
1,000,000	Ordinary	£ 1	<u>1,000,000</u>	<u>1,000,000</u>
Allotted, issued and fully paid:			2019	2018
Number	Class		£	£
200,000	Ordinary	£ 1	<u>200,000</u>	<u>200,000</u>

14. Reconciliation of operating profit to operating cash flows:-

	2019	2018
	£	£
Operating profit	12,107,217	9,256,023
Depreciation and amortisation expense	125,461	74,890
Exchange loss/(gain)	(31,400)	156,451
Decrease/(increase) in debtors (including transfer from IBCL)	(5,190,875)	(4,692,861)
Add- Finance cost	212,106	-
Increase/(decrease) in creditors (including transfer from IBCL)	753,210	3,166,385
Net cash inflow from operating activities	<u>7,975,719</u>	<u>7,960,888</u>

15. Analysis of cash flows for headings netted in the cash flow statement

Cash flows from investing activities		
Purchase of tangible fixed assets	(156,375)	(84,521)
Investment in IndigoBlue Consulting Ltd net off cash on IBCL merger	140,260	(7,667)
Investment in Mastek Inc.	(9,915,028)	(3,259,648)
Net cash outflow from investing activities	<u>(9,931,143)</u>	<u>(3,351,836)</u>
Cash flows from financing activities		
Interest received	48,629	54,373
Issue of Share capital	-	-
Dividends paid to ordinary shareholders	(1,950,000)	(1,200,000)
Proceeds from borrowings	7,500,000	-
Finance cost	(127,203)	-
Net cash outflow from financing activities	<u>5,471,426</u>	<u>(1,145,627)</u>

16. Analysis of change in net funds

	2018	Cash flow	Exchange gain on cash and cash equivalent	2019
	£	£	£	£
Net cash:				
Cash at bank and in hand	6,185,830	1,485,409	31,400	7,702,639
Total	6,185,830	1,485,409	31,400	7,702,639
Analysed in Balance Sheet				
Cash at bank and in hand	6,185,830			7,702,639

17. Ultimate parent company

The holding company and ultimate parent of Mastek (UK) Limited is Mastek Limited, a company registered in India. The consolidated financial statements of Mastek Limited can be obtained from Mastek Limited, 804/805 President House, C.N. Vidyalaya, Near Ambawadi Circle, Ahmedabad - 380 006, India.

18. Pension commitment

During the year the Company paid contributions to a defined contribution pension scheme for its Directors and staff. The assets of the scheme are held separately from those of the Company in an independently administered fund. The pension cost charge represents contributions payable by the Company to the fund and amounted to £297,336 (2018: £132,459).

An amount of £55,077 (2018: £18,291) is included in accruals which represents the excess of the accumulated pension cost over the payment of contributions to the pension fund.

19. Control Relationship

Mastek (UK) Limited is controlled by Mastek Limited, a company incorporated in India, which owns 100% of the issued share capital. The consolidated financial statements of Mastek Limited are available from its registered office, 804/805 President House, C.N. Vidyalaya, Near Ambawadi Circle, Ahmedabad - 380 006. The ultimate controlling partners of Mastek Limited are A Desai, K Mehta, S Ram and R Sundar who together own 34.3% (2018: 35.9%) of the share capital of Mastek Limited.

20. Dividend

The Directors recommended the payment of an interim dividend of £ 1,950,000 (2018: £500,000), £9.75 per £1 share (2018: £2.50 per £1 share). The Directors recommended the payment of a final dividend of £ 0 (2018: £700,000).

21. Critical accounting estimates and judgements

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of the accounting policies and the reported amounts of assets and liabilities, revenue and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

Revenue recognition on long term contracts and related work in progress balances:

The Company applies the percentage of completion method in accounting for its fixed price contracts. Use of the percentage of completion method requires the Company to estimate the efforts or costs expended to date as a proportion of the total efforts or costs to be expended. Efforts or costs expended have been used to measure progress towards completion as there is a direct relationship between input and productivity. (Also refer Note 1).

Valuation of investments:

The Company tests annually whether its investments have suffered any impairment, in accordance with the accounting policy stated in note 1, based on their underlying assets or estimated future profits and cash flows. The forecast profits and cash flows are based on management's budgeting processes using their historic budgeting processes and experience.

Share Based Payment:

In determining the fair value of equity settled share-based payments and the related charge to the Income Statement, the Company makes assumptions about future events and market conditions; in particular, estimates must be made as to the likely number of shares that will vest, and the fair value of each award granted. The fair value is determined using a valuation model which is dependent on further estimates, including the Company's future dividend policy, the timing with which options will be exercised and the future volatility in the price of the Company's shares. These assumptions are disclosed in note 22.

Such assumptions are based on management's best estimate of the respective parameters. Different assumptions about these factors to those made by the Company could materially affect the reported value of share-based payments.

22. Merger of IndigoBlue Consulting Limited U.K. ("IBCL")

The Company entered into an agreement with its wholly owned subsidiary IndigoBlue Consulting Limited U.K. ("IBCL") to merge (transfer of business, employees, assets and liabilities) IBCL in to Mastek (UK) Limited with effect from June 30, 2018.

The difference between total consideration paid at the time of acquisition and the value of net assets taken over as of date of acquisition of £2,665,486 was accounted as Goodwill on merger .

Subsequent to merger, both the founders of IBCL left the company, which resulted in significant deterioration in IBCL business during the fourth quarter of financial year 2019. Considering the significant drop in order book and customers , management has recognised an impairment loss on IBCL goodwill to the extent of the entire carrying value i.e. £2,665,486.

Also, on account of IBCL merger the Company has taken over net assets of £20,788 and recognised merger reserve £269,685.

23. Share options

Share options are granted to directors and to selected employees. Options are conditional on the employee completing in range of 3-4 years' service (the vesting period). The options are exercisable within a period of seven years from the date of vesting. The group has no legal or constructive obligation to repurchase or settle the options in cash.

Movements in the number of share options outstanding, and their related weighted average exercise prices, are as follows:

	2019		2018	
	No. of options	Weighted Average exercise price	No. of options	Weighted Average exercise price
Outstanding at beginning of period	649,243	1.6	634,363	1.3
Granted during the period	228,900	0.1	120,750	1.9
Forfeited during the period	33,100	2.0	21,725	1.8
Exercised during the period	16,038	0.8	63,059	0.6
Expired during the period	4,170	0.6	21,086	0.6
Outstanding at the end of the period	824,835	1.1	649,243	1.6
Exercisable at the end of the period	383,809	1.2	262,373	1.1

The weighted average remaining contractual life in years is 7.0 years (2018: 6.8 years)

The weighted average fair value of options granted during the period, determined using the Black-Scholes valuation model, was £4.2.

The significant inputs into the model were weighted average share price of £4.8 (2018: £4.1) at the grant date, volatility of 51.8% (2018: 67.8%), dividend yield of 2.6% (2018: 1.7%), an expected option life of 3-7 years (2018: 3-7 years) and an annual risk-free interest rate of 7.4% (2018: 6.8%).

Volatility: Volatility is a measure of the amount by which a price hedge fluctuated or is expected to fluctuate during the period. The measure of volatility is used in Black Scholes option pricing model is the annualised standard deviation of the continuously compounded rates of return on the stock over a period of time. Company considered the daily historical volatility of the Company's stock price on NSE over the expected life of each vest.

Risk free rate: The risk-free rate being considered for the calculation is the interest rate applicable for a maturity equal to the expected life of the options based on zero coupon yield curve for government securities.

Expected life of the options: Expected life of the options is the period for which the Company expects the options to be live. The minimum life of stock options is the minimum period before which the options can't be exercised and the maximum life of the option is the maximum period after which the options can't be exercised. The Company have calculated expected life as the average of the minimum and the maximum life of the options.

Dividend yield: Expected dividend yield has been calculated as a total of interim and final dividend declared in last year preceding date of grant.