HDFC securities

INSTITUTIONAL RESEARCH

INITIATING COVERAGE | 24 NOV 2015

Majesco Ltd.

BUY

INDUSTRY	IT
CMP *(as on 23 Nov 2015)*	Rs 575
Target Price	Rs 800
Nifty	7,849
Sensex	25,819
KEY STOCK DATA	
Bloomberg	MJCO IN
No. of Shares (mn)	23
MCap (Rs bn) / ($ mn)	13/197
6m avg traded value (Rs mn)	-

STOCK PERFORMANCE (%)			
52 Week high / low	Rs 608/287		
	3M	6M	12M
Absolute (%)	70.7	-	-
Relative (%)	70.4	-	-

SHAREHOLDING PATTERN (%)	
Promoters	50.44
FIs & Local MFs	11.31
FIIs	4.92
Public & Others	33.33

Source : BSE

Amit Chandra
amit.chandra@hdfcsec.com
+91-22-6171-7345

Harit Shah
haritj.shah@hdfcsec.com
+91-22-6171-7325

A Majestic opportunity!

In Jun-15, Indian software services firm Mastek spun off its US insurance product arm (Majesco Mastek) as a separate listed entity (Majesco Ltd). Further, a subsidiary of this newly listed entity reverse merged into the US-listed Cover-All Inc, rebranding itself as Majesco US Inc (now a 70% subsidiary of Majesco Ltd). Additionally, Majesco US acquired Agile, a consulting outfit for US$ 9mn.

These corporate actions were part of a conscious strategy to create a software product business in a niche vertical (P&C insurance). This vertical is on the cusp of a transformational shift in its usage of IT systems. Addressable market is US$ 9.25bn, with only 10-15% penetration by third-party vendors.

We believe Majesco is in the early stages of a multi-year flowering. <u>Initiate coverage with a BUY. Our TP of Rs 800 is based on a 2x EV/sales multiple</u>, implying 39% upside and is at 70% discount to rival Guidewire's EV/sales multiple. We have built in a 30% holdco discount for the Majesco US stake.

Key Investment Arguments

- Significant US$ 9.25bn opportunity in the under-penetrated US P&C insurance space
- P&C core software industry at an inflexion point
- Key growth drivers: top ranking of products by industry analysts, US listing to improve product acceptance, cross-selling opportunities
- Cloud opportunity significant (long-term contracts, better long-term revenue visibility)
- L&A a dark horse, similar size as P&C market

Why EV/sales?

- Majesco will require sales and R&D investments for rev growth, leading to low initial profitability. Thus, EV/rev is the appropriate metric to value the company. We are cognisant of the valuation gap between Majesco and listed global peers, such as Guidewire (1-yr fwd EV/sales ~8x, while Majesco trades at ~1.3x, >80% discount). We believe Majesco's strong growth over the next 2-3 years will lead to a re-rating of this multiple.

Financial Summary (Rs mn)	1HFY16	FY16E	FY17E	FY18E
Net Sales	3,376	7,461	9,763	12,378
EBITDA	99	169	629	1,432
APAT	50	48	230	619
Diluted EPS (Rs)	2.2	2.1	10.1	27.1
P/E (x)	N.M.	271.1	57.0	21.2
EV / Sales (x)	1.9	1.7	1.3	1.0
RoE (%)	N.M.	1.9%	8.5%	19.9%

Source: Company, HDFC sec Inst Research;*N.M - Not Meaningful

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Addressable opportunity in the US P&C market for Majesco is ~US$ 9.25bn, as per Novarica

Just 10-15% is serviced by third-party vendors, providing a highly under-penetrated market

Majesco's product suite is ranked in the top 3, which we believe can drive client acceptance

Substantial market opportunity

Under served market, strong product validation

- As per industry analyst Novarica data, the US insurance market size is ~US$ 1.26tn in premium, with IT spend at ~3.5% (US $44bn), of which ~40-42% is invested in external services, maintenance, support and software (US $18.5bn). **Of this, 50% is the addressable market opportunity for Majesco, at ~US $9.25bn.**
- **The market is under-penetrated, with just 10-15% serviced by third-party vendors like Majesco.**
- The primary segments catered to include billing, policy administration and claims.
- **Analysts like Celent and Gartner have rated Majesco's suite of products for the US P&C insurance market among the top 3** (billing ranked one, policy administration ranked third).
- We believe this is a strong validation of the strength of Majesco's product suite.
- **We believe such independent third-party validation of its product suite will encourage client acceptance in the US market.**
- A differentiating factor about Majesco vis-à-vis competition is that it provides end-to-end implementation and support work for clients, as opposed to competitors like Guidewire — the largest player —which contracts with systems integrators like EY for implementation.
- Majesco's strong implementation capabilities can be gauged from the fact that its earlier avatar, Mastek was a systems integrator and, thus has several years of experience in the domain.
- **This is a positive factor for acquiring new clients as it eliminates confusion on accountability when implementation hurdles are encountered.**

Addressable opportunity for Majesco includes 50% of external staffing, maintenance and new hardware/software

Majesco's Addressable Opportunity – Substantial Growth Potential

US Market	Size US$ BN
US Insurance Market Premium	$1,259.0
IT Expense (% of Premium)	3.5%
US Annual IT Expense	$44.1
Staff (40%)	$17.6
External Services & Staffing (15%)	**$6.6**
Maintenance / Support Fees (15%)	**$6.6**
New Hardware / Software (12%)	**$5.3**
Others (Desktops, Networks etc.) (18%)	$7.9
Market Opportunity	**$18.5**
Addressable US Market Opportunity (50%)	**$9.3**

Source: Company, HDFC sec Inst Research

Time to reboot – P&C software at inflexion point

As many as 75% of US P&C insurance firms have not updated core software over the last 5 years

We believe third party vendors like Majesco will provide value through deep domain knowledge

We expect increased adoption of third-party software, providing opportunity for Majesco

Favourable industry tailwinds to drive growth

- Most US P&C insurance firms are running on outdated legacy IT systems – in some cases over 30 years old – that are in dire need of an overhaul.
- As per industry sources, **as many as 75% of the 2,000 US P&C insurance firms have not updated core software systems over the past five years**.
- Key issues with legacy systems include (1) Inflexibility, (2) Ageing IT infra, (3) Outdated technology, and (4) increased importance of new payment methods and channels.
- Given the increasing regulatory and competitive pressures, it is critical for these firms to overhaul existing IT systems to adopt new technologies and improve cost efficiencies.
- In this context, **we believe third-party vendors like Majesco can provide increased functionality, faster turnaround and lower cost through their domain knowledge of the P&C insurance industry and their IT products/skills**.
- The US P&C insurance industry is at a key inflexion point and **we expect increased adoption of third-party software over the next several years, providing a substantial revenue growth opportunity for Majesco**.

US listing, board appointments to drive product acceptance

The Majesco US listing is a strategic move that provides Majesco with greater visibility among 2 sets of stakeholders – employees and clients

A substantial majority of Majesco's revenue (95%) is derived from the US; thus, driving visibility in this market is critical

Mr Restrepo, Jr's strong connect with the CXO suite of US insurance majors will help Majesco to drive long-term strategic engagements

Strategic moves to drive visibility

- Majesco has a 70% subsidiary (Majesco US) that was listed on the NYSE in Jul-15.
- The US listing was achieved through reverse merger with the listed Cover-All Technologies in an all-stock deal for an effective value of US $28mn for US $20mn revenue (1.4x revenue, a reasonable price for a product company). The acquisition gave Majesco a full suite of insurance products —from policy administration and billing to claims.
- **In our view, the listing was a strategic move that provides Majesco with greater credibility with two key stakeholder groups – employees and clients.**

  The US listing provides greater incentive to potential recruits to work with the company, and it also gives greater confidence to potential clients to implement its products for their technology transformation initiatives.
- It should be noted that a substantial majority of Majesco's revenue (95%) is derived from the US market and thus, driving improved visibility among employees and customers in this market is critical.
- Majesco has also appointed key personnel to its board, such as Mr Robert Restrepo, Jr. An insurance industry veteran, he has years of experience in corporations like State Auto Financial Corporation, State Auto Property & Casualty Insurance Company and Milbank Insurance Company.
- **In our view, Mr Restrepo, Jr's strong connect with the CXO suite of US insurance majors will help Majesco drive long-term strategic engagements with such potential clients.**

Agile and Cover-All complete the product suite

Majesco acquired 2 companies - Agile and NYSE Cover-All Technologies. Agile provides insurance consulting services, while Cover-All gave it a policy admin solution for the P&C industry

These acquisitions enhanced Majesco's solutions for the US P&C insurance industry, giving it a complete product suite to go to market with

Both Agile and Cover-All provide Majesco with significant cross-selling opportunities within its client base

We believe Majesco can earn US$ 15-20mn annually from cross selling opportunities

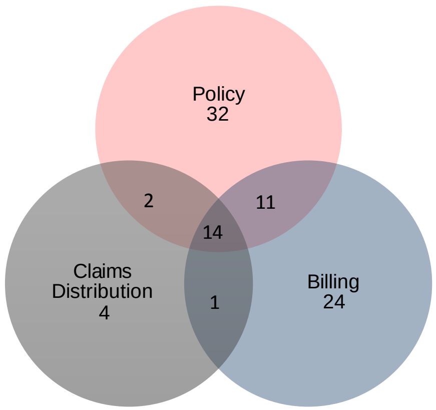
Wider product and services portfolio

- Majesco acquired Agile in Dec-14 for US$ 9mn, including earn outs (upfront US$ 3mn in cash). Agile has a revenue run rate of US$ 9mn with 20 clients and 50 employees (all based out of the US), catering to the P&C Insurance market.
- **Agile is engaged in insurance systems consulting in the US.** It enhances Majesco's offerings across business transformation, data strategy and business process optimisation.
- Agile is now fully integrated into Majesco US and is a part of Majesco Insurance Consulting Group. This adds envisioning capability and credibility, apart from incremental billing potential, to Majesco's sales efforts.
- Majesco's reverse merger with Cover-All Technologies (revenues of US$ 20mn, 30 clients, 150 employees) brought it capabilities in **policy admin solutions**.
- The new scale, US listing and rebranding as a pure play product company (in contrast with the earlier perception of being a services company), will enable Majesco US to successfully bid for larger deals, cross-sell its existing product portfolio to Agile and Cover-All customers, attract the best talent from the US market (a critical factor for a product company) and to be benchmarked with the best in the US insurance industry.

Huge cross-selling opportunity

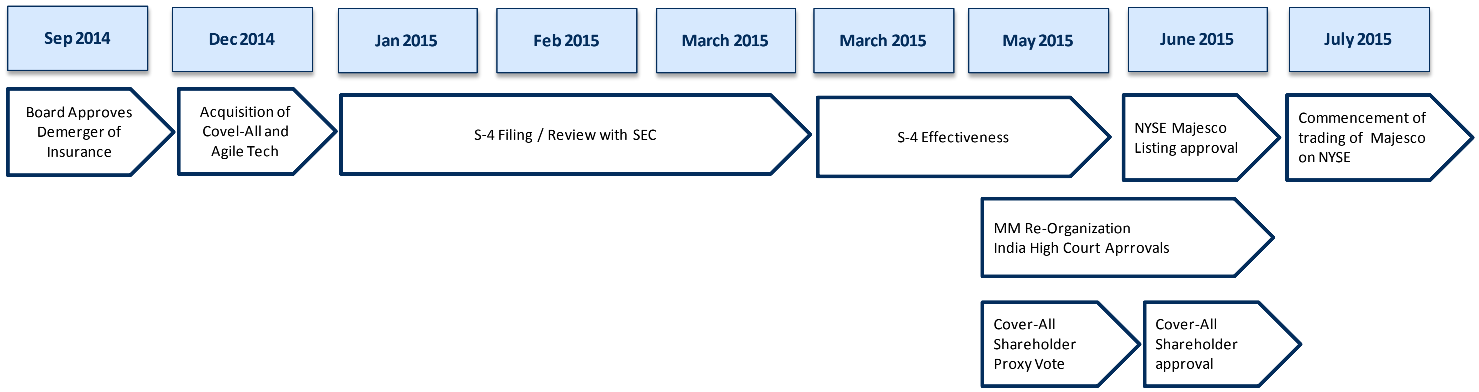
- We believe the most important part of the Cover-All acquisition was its BI platform, which can be cross-sold to existing Majesco US clients. We expect Majesco US to exploit these opportunities over the next 12-18 months. **We believe Majesco could earn US$ 15-20mn incremental revenue annually from such opportunities.**
- The Agile acquisition also provides cross- selling opportunities in strategic consulting, as the client overlap is minimal.
- Strategic consulting generates high margins, and consulting services demand is high in an environment of high regulatory changes and shift in technology systems from legacy platforms to third party vendor software.

Majesco's North America Service Map



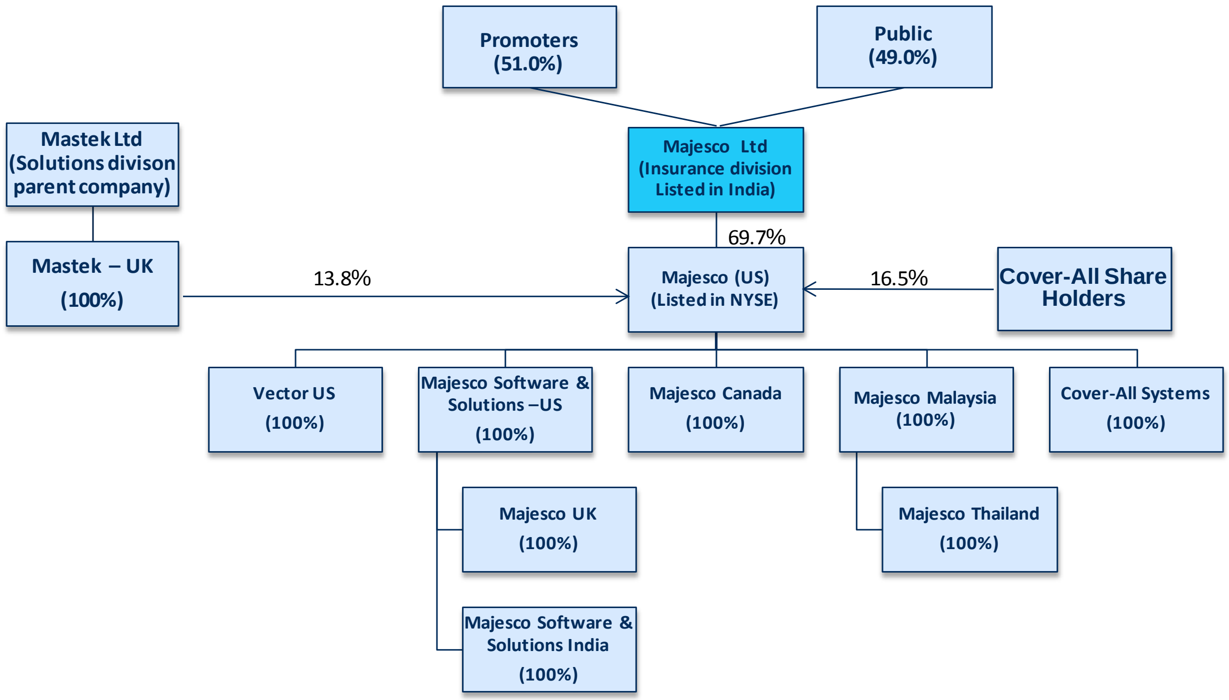
Source: Company, HDFC sec Inst Research

Majesco's US Listing Timeline



Source: Company, HDFC sec Inst Research

Majesco's Corporate Structure



Source: Company, HDFC sec Inst research

Gartner has positioned Majesco policy offering in the leader quadrant in Gartner's Magic Quadrant for P&C Policy Management Modules

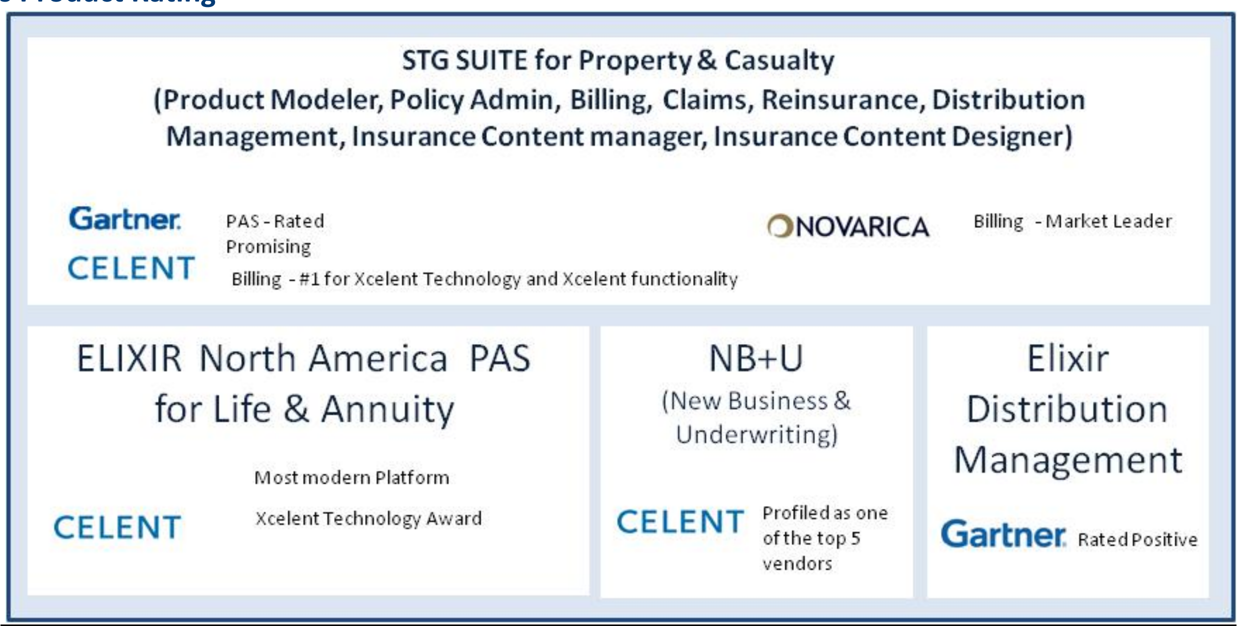
Industry analyst firm, Celent rated Majesco's billing solution as a leader in the P&C insurance space

Majesco claims offering is also gaining traction and Gartner, in its Jul-15 report, placed Majesco claims in the visionary quadrant

Highly rated insurance product

- Majesco has invested nearly US$ 150mn in R&D and acquisitions in the last nine years to build a core insurance product platform for the P&C and the L&A insurance market in the US.
- Majesco's core insurance suite provides software platform for three important areas of insurance (1) Billing (2) Policy admin and (3) Claims. The insurance product has been highly rated by independent industry analysts like Gartner, Celent and Novarica.
- **Majesco's billing solution is the most admired and market researcher Celent rated it as a leader in billing solutions in P&C insurance.**
- **Gartner has positioned Majesco's policy admin offering in the leader quadrant in Gartner's Magic Quadrant for P&C Policy Management Modules.**
- **Majesco's policy admin solution is ranked third by Gartner, where Guidewire (Majesco's chief competitor) is the leader.**
- **Majesco's Claims offering is also gaining traction as Gartner, in its Jul-15 report, placed Majesco claims in the visionary quadrant.**
- According to Gartner, Majesco is also among the top 3 core software vendors in the US L&A core market. Majesco is one of the few Indian product companies to be highly rated by reputed industry analysts in the US.

Majesco's Product Rating



Source: Company, HDFC sec Inst research

Majesco has built cloud, big data, analytics and business intelligence capabilities, which we expect will be key revenue growth drivers over the next several years

Cloud is a key differentiator for Majesco compared with its major competitor Guidewire, which does not have a comprehensive cloud offering

Majesco has only 27 of its 155 clients on the cloud, and earns 18% of its revenue from this segment

We believe there is a tremendous cross selling opportunity as ~100 midsized existing customers are still not on the cloud

We believe the QBE deal win will be a strong reference point for further tier-1 client wins

Cloud offering a key differentiator

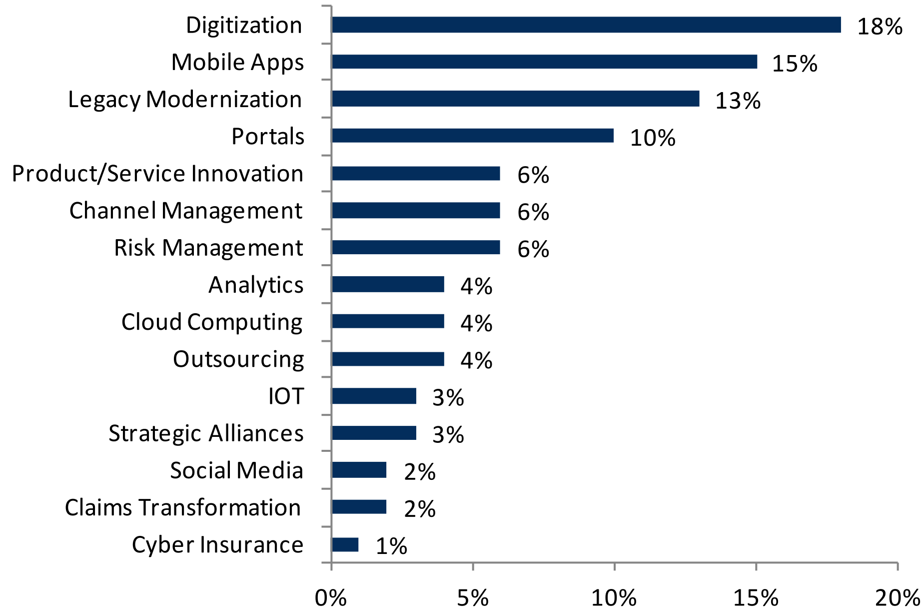
Mid-sized insurer acceptance sees traction

- Digital/SMAC technologies are seeing strong growth. We believe this is another opportunity for Majesco to drive revenue.
- Majesco has built cloud, big data, analytics and business intelligence capabilities and its cloud offering has become a key differentiator, with competitor Guidewire lacking in this aspect.
- Cloud solutions have been rapidly adopted by mid-sized insurance firms. Majesco has higher penetration in mid-sized companies, thus giving it a first mover advantage vis-à-vis competition.
- Majesco’s win rate in the cloud space among mid- and small-sized carriers is 50%. Lower pricing and implementation cost due to offshore delivery creates low cost of ownership for mid-sized players, which we believe has been helping Majesco rapidly capture market share in this fast growing segment.
- Majesco currently has only 27 of its 155 clients on cloud and gets ~18% of revenues from cloud. We believe there is tremendous cross-selling opportunity present as still ~100 mid-sized existing customers are still not on cloud.
- 40-50% of Majesco’s client wins in the past six months have been for the cloud-based services. This suggests that client organisations have started adopting cloud and have become more comfortable with the lower cost, hosted platforms.
- The size of a typical a cloud contract is around US$ 15-20mn spread over a period of 5 years. Cloud, typically, does not have initial licence fees and has a faster go to market, which makes it attractive for clients. The contact includes the implementation and maintenance fees.

QBE North America deal win a milestone

- QBE North America is among the world's top 20 insurance companies. It has selected Majesco's Policy for P&C, Majesco Bureau and Content Services, Majesco Billing, Majesco Business Analytics solutions and Majesco Cloud Service as their strategic platform. Mr. Jeff Grange, President of Specialty Lines at QBE North America said “*We found Majesco products ready to be deployed with minimal implementation efforts. **Their enterprise cloud capabilities bring scale, security with a variable pricing model** that aligns with our strategic goals and plan*”.
- **We believe this deal win can act a good reference point for more clients wins among the Tier-1 US P&C insurance space.**

Spending Preferences Across IT Initiatives



Digital, Analytics and Cloud are key CIO priorities

Legacy replacement and modernisation also among top 3

Source: Gartner, HDFC sec Inst Research

Key clients – Mid-tier strength, but gaining traction all round

Top-tier segment	**Mid-tier segment**	**Start ups**
Erie Insurance	Oregon Mutual Insurance	AssureStart
Unum UK	MAIF	Heritage Insurance
CNA	Nodak Mutual Insurance Company	Newco
	Fairfax Financial Holdings Limited	
	Secura Insurance Companies	
	GMAC Insurance	
	OneBeacon Insurance Group	
	Society Insurance	
	Tokio Marine Nichido	

Source: Company, HDFC sec Inst Research

Implementation tie ups to drive penetration

Majesco has entered into a strategic partnership with Blueprint, a leader in accelerating and de-risking large IT projects. Through this partnership, Majesco will use Blueprint's management solutions to deliver Majesco products to its customers

Majesco has also extended its 3-year-long relationship with Deloitte Consulting LLP to increase market penetration. This combination will help P&C, life and annuity (L&A) and group insurers implement Majesco solutions

End-to-end support a differentiator

- Majesco has differentiated itself through providing end-to-end support for the entire life cycle of product implementation, including consulting, planning and design, testing, taking the product live, and maintenance and support.
- The nearest competitor Guidewire specialises in selling only the licence, whereas installation contracts are given to systems integrators (EY being the largest SI).
- In the Majesco implementation model it is responsible for end-to-end services and is accountable for any problems involved, making it a preferred choice for mid-sized insurance vendors. Implementation through SI partners can create confusion and disputes in some cases.
- However, to tap a larger pie of the P&C market, **Majesco has entered into a strategic partnership with Blueprint, a global leader in accelerating and de-risking large, complex IT projects**. Through this partnership, Majesco will use Blueprint's management solutions to deliver Majesco products to its customers.
- **Majesco has also extended its 3-year-long relationship with Deloitte Consulting LLP** to increase market penetration. This combination will help property and casualty (P&C), life and annuity (L&A) and group insurers implement Majesco modern core solutions.
- Deloitte clients will have access to Majesco core insurance solutions covering the P&C and the L&A markets.

Majesco has grown its customers from 35 in 2008 to ~155 currently through acquisitions, market penetration and highly rated products

We believe the US listing has changed the perception of Majesco from a services company to a pure play product one, which we expect will help it win more clients in the US insurance market

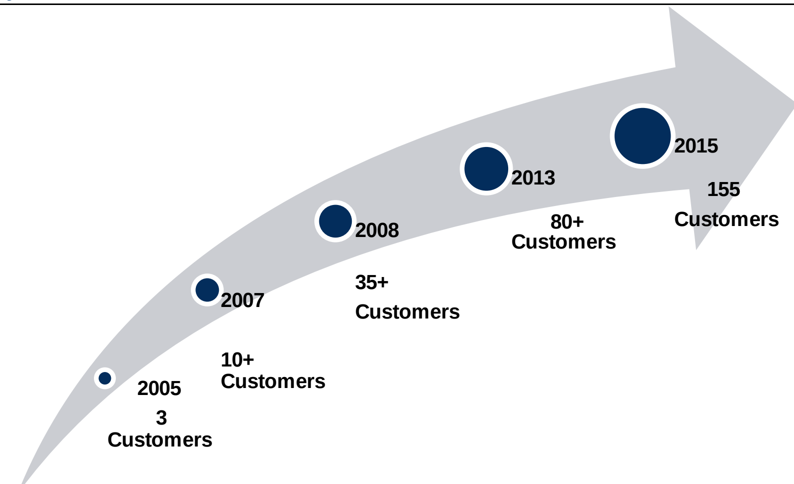
Majesco's revenue visibility is strong (75% revenue visibility on day one of the fiscal). We believe Majesco's proven platform, solid and predictable business model provides this visibility, providing a solid annuity revenue stream

Rated platforms drive robust client addition

Highly rated platform, acquisitions and cloud offering boost growth

- Majesco has been able to grow its customers in the US P&C and L&A insurance vertical from 35 in 2008 to ~155 currently through acquisitions and market penetration. Its highly rated product platform, end-to-end implementation capability, lower pricing and strategic acquisitions are the main triggers. We believe the US listing has changed its perception from a service company to a pure play product one, and this will help it win more clients in the US insurance market.

Client Additions for Majesco Ltd



Source: Company presentations, HDFC sec Inst Research

Sticky revenue model, good visibility

- Insurance is a business that values long-term partner relationships based on software quality, performance and delivery success.
- Once a customer moves to the Majesco platform, there is a high probability that he will stay on the platform for the next 10-15 years, owing to the fact that the system becomes core to the client.
- Data migration and workflow changes make it impossible for the client to change its systems often.
- Thus, Majesco's revenue visibility is strong (75% revenue visibility on day one of the fiscal). We believe Majesco's robust and proven platform, solid and predictable business model provides this revenue visibility, providing a solid annuity revenue stream.

We believe the L&A segment could turn out to be a dark horse for Majesco considering the market size and a better award winning version of its existing Elixir product

Forester, a Canada-based life insurer deployed Elixir North America Policy Administration System (PAS) and New Business & Underwriting (NB&U) solution. The solution resulted in cost saving to the tune of 30%

We believe the Forester's transformation project success can act as a strong reference point in getting future deals through L&A insurers

Another recent key order win - Unum UK - can also be a reference point for further order wins in the UK L&A space

Life and Annuity (L&A) – A dark horse

US L&A market has huge potential

- Majesco's Elixir suite for L&A insurers contributes 13.2% to Majesco US rev. The L&A market has similar potential as P&C.
- We think this could turn out to be a dark horse considering the market size and award winning version of the existing Elixir product.
- Elixir was launched in 2002 and was co-developed with Capita (Mastek's key client in the UK). Mastek started co-development in 2005 primarily for Capita's clients, but there was resistance to move to the new platform. As a result, Capita investment into the platform declined started to decline. However, Mastek continued investing into the platform believing that the product would find demand as the economic environment improved.
- Focus revived with acquisition of Glastonbury, CT based SEG Software in Dec-10. SEG was a life, health and annuity insurance product player and this acquisition marked Majesco's entry into the North American L&A insurance market.

Forester implementation - A major milestone

- Forester, a Canada-based life insurer deployed Elixir North America Policy Administration System (PAS) and New Business & Underwriting (NB&U) solution. Elixir helped in optimising Forester's rules engines and accelerate underwriting decisions and business processes. **It helped to reduce the average decision time for cases from three days to one day with 50% of cases now processed automatically. It resulted in cost saving in tune of 30%.**
- **We believe the Forester's project success can act as a strong reference point in getting future deal wins through L&A insurers.**

Unum deal win – Another strong reference point

- In another key development in the L&A space, Majesco recently won an order from Unum, a major top-tier financial protection insurer in the UK, which provides critical illness cover and life insurance.
- **This deal win can be another strong reference point for further order wins in the UK L&A space, both of which are high-growth potential markets where Majesco has low penetration.**
- We are enthused by recent order wins in the top-tier L&A space, and better-than-expected traction in this area can pose an upside risk to our revenue growth estimates.

Majesco vs. Guidewire Financials

Key differences between Guidewire and Majesco are:

(a) Guidewire rev does not include implementation

(b) Guidewire has a high licence revenue component of 47% vs. 9% for Majesco US

(c) Majesco derives higher revenue from services including maintenance and cloud (~70%)

(d) Majesco derives 18% rev from its cloud segment and this is a key revenue driver; on the other hand, Guidewire is not focusing on this segment

- Guidewire is the largest core software provider for the US P&C insurance market and commands over 10% market share (including implementation). Guidewire has a top line of US $381mn (FY12-15 CAGR of 18%), earns high gross margin of 61.3% and invests around 25% of sales in R&D.
- In general Guidewire and Majesco are in the same line of business and are comparable. However, there are some basic differences:

1. Guidewire rev of US$ 381mn does not include implementation rev from third-party implementation partners like E&Y, Cognizant, PWC and Capgemini. Including this, top line is around US$ 1.2bn, which is over 10x revenues of Majesco US. Thus, size is not comparable.
2. Guidewire has a very high licence revenue component of around 47% compared to just around 9% for Majesco US. This is reflected in the high gross margin of 61.3% for Guidewire, as compared to 38.5% for Majesco US. However, if we include the implementation rev for Guidewire, licence rev stands at just around 15%.
3. Majesco, on the other hand, derives significantly higher revenue from services (~70%), reflecting that it sells software as a service with end-to-end implementation rather than just licensing out. Majesco carries out implementation of its products at the client end hence has higher portion of services revenues and lower margins. Majesco derives 18% rev from cloud and is a key revenue driver whereas Guidewire is not focusing on this segment.

Guidewire (USD mn) YE July	FY11	FY12	FY13	FY14	FY15
Revenue	172.5	232.1	300.7	350.3	380.5
Growth %		*34.6%*	*29.6%*	*16.5%*	*8.6%*
Gross Profit	104.1	142.1	175.0	201.3	233.4
Gross Margin %	*60.4%*	*61.2%*	*58.2%*	*57.5%*	*61.3%*
Sales & Marketing	52.5	64.1	82.3	106.7	123.4
Sales & Marketing % of Sales	*30.4%*	*27.6%*	*27.4%*	*30.5%*	*32.4%*
EBIT before R&D	51.7	78.0	92.7	94.6	109.9
EBIT Margin before R&D %	*29.9%*	*33.6%*	*30.8%*	*27.0%*	*28.9%*
Research & Development	34.8	49.1	63.0	76.2	93.4
Research & Development % of Sales	*20.2%*	*21.1%*	*21.0%*	*21.8%*	*24.6%*
EBIT after R&D	6.9	28.9	29.7	18.4	16.5
EBIT Margin after R&D %	*4.0%*	*12.5%*	*9.9%*	*5.3%*	*4.3%*
Cash and Cash Equivalents	59.6	205.7	156.7	444.3	844.4
Debt	0.0	0.0	0.0	0.0	0.0
Working Capital	12.5	169.3	135.3	421.0	557.2

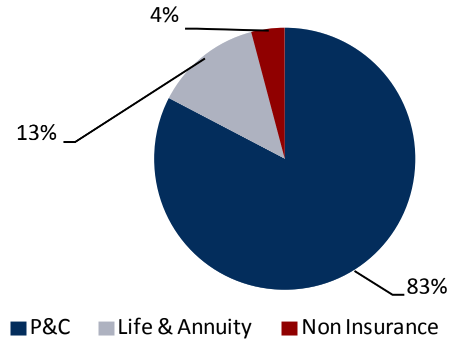
Majesco US (USD mn) YE March	FY14	FY15	FY16E	FY17E	FY18E
Revenue	82.8	79.3	113.3	147.9	187.6
Growth %		*-4.3%*	*42.9%*	*30.6%*	*26.8%*
Gross Profit	37.1	30.5	51.4	67.2	84.8
Gross Margin %	*44.8%*	*38.5%*	*45.4%*	*45.4%*	*45.2%*
Sales & Marketing	22.7	21.0	36.8	41.7	44.8
Sales& Marketing % of Sales	*27.5%*	*26.5%*	*32.5%*	*28.2%*	*23.9%*
EBIT before R&D	14.3	9.5	14.6	25.5	40.0
EBIT Margin before R&D %	*17.3%*	*12.0%*	*12.9%*	*17.2%*	*21.3%*
Research & Development	10.1	10.3	16.1	19.6	22.6
Research & Development % of Sales	*12.2%*	*13.0%*	*14.2%*	*13.2%*	*12.0%*
EBIT after R&D	4.2	-0.8	-1.5	5.9	17.5
EBIT Margin after R&D %	*5.1%*	*-1.1%*	*-1.3%*	*4.0%*	*9.3%*
Cash and Cash Equivalents	10.3	6.8	11.7	15.9	24.8
Debt	0.0	3.0	9.8	9.1	7.2
Working Capital	4.9	6.3	8.5	10.7	18.1

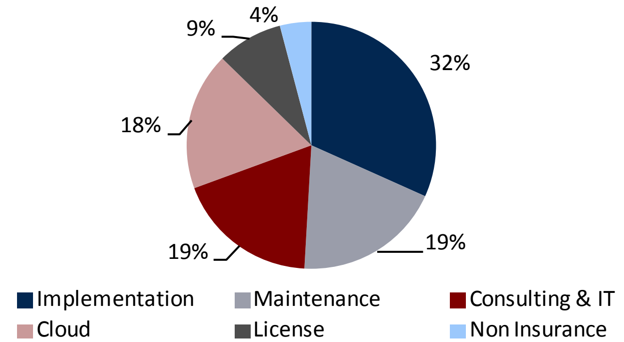
Source: Majesco US 10-K fillings, HDFC sec Inst Research

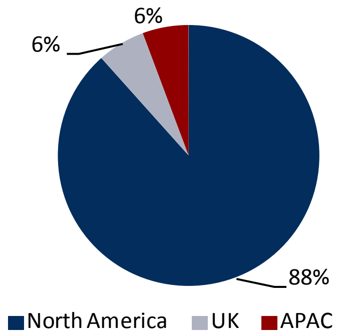
Company Background

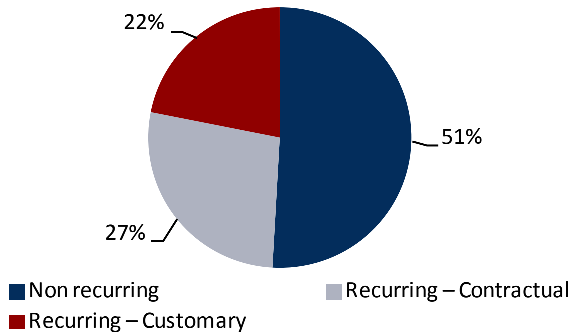
- Majesco Ltd is a spin-off of the insurance business unit of Mastek and got listed in NSE & BSE on 19-Aug 2015. Majesco US, a 70% subsidiary of Majesco Ltd, provides core software solutions to the US P&C), and L&A insurance companies. Majesco US provides policy administration, claims management and billing and has a highly rated platform from leading US industry analysts like Gartner and Celent. Majesco derives around 95% revenue from Majesco US.
- Majesco US also got listed in NYSE through a reverse merger with Cover-All Technologies and also acquired Agile in the US. Majesco Ltd has rev of US$ 106 mn in FY15, around 155 customers and 2,164 employees with a global foot print in the US, Canada, the UK, Malaysia, Thailand and India. The company's insurance business has grown strongly in the past three years at a CAGR of ~22% and P&C clocked a CAGR of 36% over FY12-FY15. The company derives ~88% revenues from US market and 6% from UK. The insurance business contributes 96% of total business.

Majesco Operational Metrics









Source: Company, HDFC sec Inst Research

Management Profile

Name	Designation	Educational background	Professional details
Ketan Mehta	Executive Director, Majesco Ltd & CEO Majesco (US)	Masters degree in Business Management from Indian Institute of Management (IIM), Ahmedabad.	He was instrumental in building a successful joint venture between Mastek and Deloitte Consulting in 2000. He also led acquisitions of STG and Vector (insurance software companies) and played a key role in integration of these companies with Mastek operations.
Robert P. Restrepo, Jr,	Director, Majesco (US)	Bachelor of Arts in English from Yale University	Mr. Restrepo served as the Chairman of the Board of State Auto Financial Corporation, State Auto Property & Casualty Insurance Company and Milbank Insurance Company from 2006 to 2015. Mr. Restrepo has also held executive roles at Aetna Life & Casualty Company, Travelers Property and Casualty, The Hanover Insurance Group Inc. and Main Street America Group.
Edward Ossie	Chief Operating Officer, Majesco (US)	Bachelor of Science degree from Missouri State University and Executive Programs at Stanford Graduate School of Business	Ed has over 25 years of international experience serving high-growth technology companies. He served as Vice President and Director at Corum Group, a Global M&A Advisory firm. Ed also worked at Innovation Group PLC as Group President, Chief Operating Officer Technology.
Dr. Arun K. Maheshwari	Chairman, Majesco (US)	B.S. from Rajasthan University (Jaipur, India), PGDM from IIM Calcutta, M.S. in Computer Science from Stanford University, M.B.A. from Columbia University and Ph.D. from the Wharton School of Business	Dr. Maheshawari has a rich experience of three decades in the IT industry. He served as founder and President of Fiserv Global Services Group ("FGS"), a subsidiary of Fiserv, Inc. Prior to FGS, Dr. Maheshwari founded and led CSC India, a subsidiary of Computer Sciences Corporation, as Founder President and Managing Director from 1996 to 2005. He served as a director of Duck Creek Technologies (now Accenture), an insurance software firm, and has served as a director of Eagle Eye Analytics, a provider of predictive analytics software for the insurance industry.
Farid Kazani	Managing director, Majesco Ltd & CFO Majesco (US)	C.A, ICWA	Farid has been the architect of carrying out the process of demerger of the Insurance Business into Majesco. He was responsible for all the legal formalities, acquisition of two companies in US and listing of Majesco US in NYSE. Farid has worked with Firstsource Solutions Ltd as CFO – India and Global Financial Controller for over four years. His also worked with RPG Enterprises, BPL Mobile, Marico Industries Ltd and NOCIL.

Source: Company, HDFC sec Inst Research

We forecast 33% USD revenue CAGR for Majesco US over the period FY15-FY18E

We believe the QBE deal could be a path in terms of increasing traction with tier-1 P&C insurance carriers

On an organic basis, we believe Majesco can achieve 20% revenue growth over the next 2-3 years

We expect the cloud segment to be the major growth driver and forecast 48% USD rev CAGR over FY16E-FY18E

We forecasts healthy EBITDA margin expansion, aided by operating leverage. We expect EBITDA margin to hit 11.6% in FY18 vs just 2.9% in 1HFY16

We believe our margin forecasts are conservative, given that the management's margin aspiration is 12-14% by FY18E

Financials

Revenue forecasts

- We forecast a healthy 33% USD revenue CAGR for Majesco US over the period FY15-FY18E. This, we expect will be led by strong traction in its P&C insurance product suite, aided by favourable industry tailwinds, third-party vendor technology adoption initiatives by P&C insurers, strongly rated product suite by industry analysts, cross-selling initiatives and cloud adoption.
- We believe the recent QBE deal could be a path breaker for Majesco in terms of increasing traction with Tier-1 P&C insurance carriers, where currently Guidewire is the top-ranked player. **Further traction on this front could pose an upside risk to our estimates.**
- Majesco is bidding for several large deals; stronger-than-expected wins could be another factor for out-performance against our forecasted revenue numbers.
- We expect USD revenue to touch US$ 187.6mn in FY18E vs. US$ 79.3mn in FY15. It should be noted that FY16 revenue includes the acquisitive impact of Cover-All and Agile, with Cover-All getting consolidated for 9 months, while Agile will be consolidated for the full year.
- Over the period FY16-FY18E, we forecast around 29% USD revenue CAGR.
- **On an organic basis, we believe Majesco can comfortably achieve 20% revenue growth over the next 2-3 years. We expect the cloud segment to be the major growth driver and forecast 48% USD rev CAGR over FY16E-FY18E.**
- Our FY18 USD revenue forecast is at a 6-17% discount to the management's own internal revenue targets for the fiscal year.

Profitability forecasts

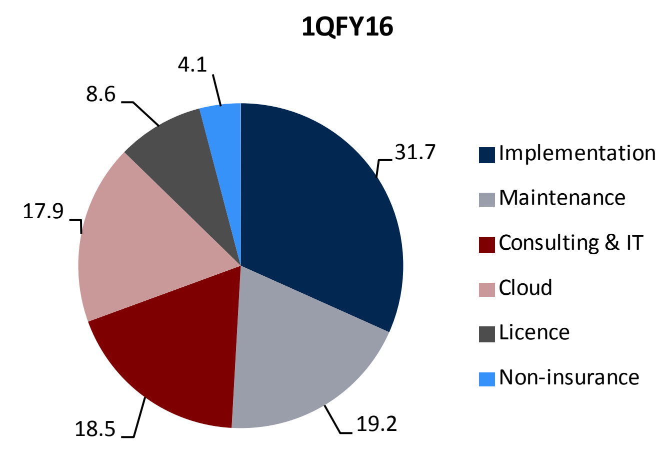
- In USD terms, we expect gross margin to range between 45-45.5% over FY16E-FY18E, which is in line with the management target of 44-46%.
- We forecasts healthy EBITDA margin expansion over FY15-FY18E, aided by operating leverage.
- We expect EBITDA margin to hit double digits in FY18E (11.6% vs just 2.9% in 1HFY16). We expect steady improvement to 2.3% in FY16E, 6.4% in FY17E and 11.6% in FY18E.
- We expect operating leverage to drive R&D costs as a % of revenue lower (13.7% in FY16E to 11.7% in FY18E), while we expect SG&A cost to also reduce (31.3% of rev in FY16E to 23.3% in FY18E).
- **Thus, a major portion of margin expansion is driven by an 800bps decline in SG&A costs.**
- This is the case, even as in absolute terms, we expect an increase in both R&D and SG&A costs (R&D costs at Rs 1.5bn in FY18E vs Rs 1.0bn in FY16E, SG&A costs at Rs 2.9bn in FY18E vs Rs 2.3bn in FY16E).
- **Our EBITDA margin forecasts are on the conservative side, given that the management's margin aspiration is 12-14% by FY18E.**

FY15 Actuals vs. Management Target, HDFC sec estimates

Particulars	FY15A	Management FY18 target	HDFC sec FY18 est.	*Variance from management est.*
USD revenue (million)	**79.3**	**200-225**	**187.6**	***(6.2-16.6%)***
Gross margin (% of rev)	**38.5**	**44-46**	**45.2**	***1.2% - (0.8%)***
SG&A cost (% of rev)	26.5	22-26	23.9	*1.9% - (2.1%)*
R&D cost (% of rev)	13.0	10-12	12.0	*2% - 0%*
EBIT margin (% of rev)	**(2.5)**	**9-10**	**9.3**	***0.3% - (0.7%)***
Depreciation (% of rev)	3.1	3-4	2.2	*(0.8-1.8%)*
EBITDA margin (% of rev)	**0.6**	**12-14**	**11.6**	***(0.4-2.4%)***

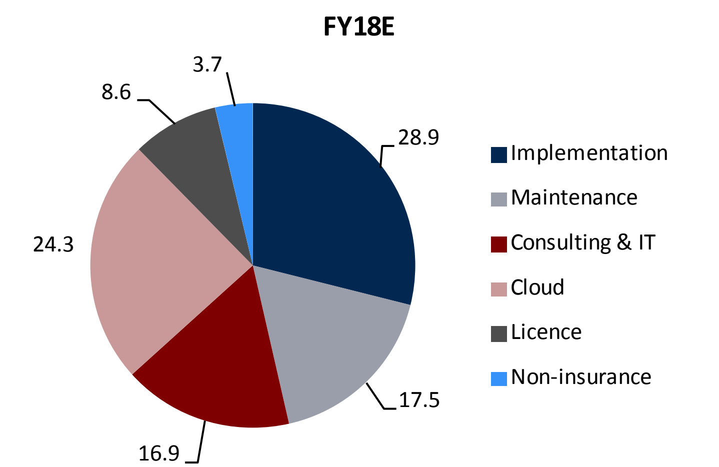
Source: Company, HDFC sec Inst Research; Note: FY15 numbers pertain to Majesco (US) as per 10-K filings; margin data excludes restructuring cost.

1QFY16 Revenue Break-Up



Source: Company, HDFC sec Inst Research

FY18E revenue break-up: Cloud To Drive Growth



Source: Company, HDFC sec Inst Research

We value Majesco taking a 70% discount to Guidewire, and also take a holding co discount of 30%.

We assign an EV/rev multiple of 2x to Majesco's FY18E revenue. Adjusted for net cash, our valuation for Majesco comes to Rs 18.3bn, implying a target price of Rs 800/share.

Valuation & Outlook

- Majesco is rated among the top-3 insurance platform vendors in North America and has 9 of the top-25 insurance players as its clients. It is a leader in P&C billing solutions and is comparable to Guidewire, the largest US P&C insurance player. Majesco has 155 active clients as compared with 207 for Guidewire.
- Regards valuation, Guidewire trades at an EV/rev multiple of ~6.8 FY18E revenue. **We value Majesco taking a 70% discount to Guidewire valuations and have taken a holding company discount of 30%. We have assigned an EV/rev multiple of 2x to Majesco's FY18E revenue of Rs 12.4bn to arrive at an EV of Rs 25.3bn. Factoring in the 30% holding company discount, the EV comes to Rs 17.7bn. Adjusted for net cash, our valuation for Majesco comes to Rs 18.3bn, implying a value of Rs 800/share. This implies a substantial 39% upside from the CMP.**
- It should be noted that even in comparison to Intellect Design Arena, an Indian software product company focused on digital banking, Majesco trades at a substantial EV/revenue multiple discount. Intellect trades an FY18 EV/revenue multiple of 2.4x, whereas Majesco trades at just 1.0x FY18E EV/revenue, nearly 60% discount despite being comparable in size.
- We have taken three scenarios, assuming top line growth of 14%/27%/39% for our bear/base/bull cases, respectively for FY18E. The bear case price target comes in at Rs 565/share, while the bull case comes in at Rs 1,091/share.
- **We initiate coverage on Majesco Limited with a BUY rating and target price of Rs 800.** The stock currently trades at an EV/rev multiple of 1.3x/1.0x FY17E/FY18E revenue estimates, respectively.

Majesco Valuation Scenarios

Particulars	Bear Case	Base Case	Bull Case
Sales (FY18E, Rs mn)	**11,141**	**12,378**	**13,616**
Guidewire (EV/revenue, x, FY18E)	6.8	6.8	6.8
Discount to Guidewire valuations	75%	70%	65%
Target EV/revenue multiple (x)	1.7	2.0	2.4
Majesco EV (Rs mn)	**18,939**	**25,252**	**32,407**
Holding company discount	35%	30%	25%
EV (Rs mn)	12,310	17,676	24,305
Less: Debt (Rs mn)	641	641	641
Add: Cash (Rs mn)	1,224	1,224	1,224
Implied market capitalisation (Rs mn)	**12,893**	**18,259**	**24,888**
No of shares (mn)	22.8	22.8	22.8
Target price (Rs)	**565**	**800**	**1,091**
Upside potential	**(1.6%)**	**39.4%**	**90.0%**

Source: HDFC sec Inst Research

Peer Valuations

Relative Valuation	EV/Sales (x)			EV/EBITDA (x)			EBITDA Margin (%)		
	FY16E	FY17E	FY18E	FY16E	FY17E	FY18E	FY16E	FY17E	FY18E
Intellect Design Arena	3.3	2.8	2.4	N.A.	65.1	22.7	(3.2)	4.3	10.7
Guidewire	8.9	8.0	6.8	50.6	39.7	29.0	17.6	20.1	23.5
Majesco	**1.7**	**1.3**	**1.0**	**74.8**	**19.9**	**8.3**	**2.3**	**6.4**	**11.6**

Source: Bloomberg, HDFC sec Inst Research, Guidewire (listed on the NYSE) has a July ending FY.

Income Statement (Consolidated)

Year ending March (Rs mn)	1HFY16	FY16E	FY17E	FY18E
Net Sales	**3,376**	**7,461**	**9,763**	**12,378**
Growth (%)	***N.A.***	***N.A.***	***30.9%***	***26.8%***
Employee Cost	1,745	3,934	5,194	6,611
R&D	463	1,020	1,259	1,452
SG&A	1,069	2,337	2,681	2,884
EBIDTA	**99**	**169**	**629**	**1,432**
EBIDTA (%)	***2.9%***	***2.3%***	***6.4%***	***11.6%***
EBIDTA Growth (%)	***N.A.***	***N.A.***	***271.9%***	***127.5%***
Other Income	57	96	95	119
Depreciation	99	202	239	278
EBIT	57	63	486	1,273
Interest	14	50	69	62
PBT	42	14	417	1,211
Tax	(6)	(14)	125	363
Minority Interest	(2)	(8)	88	254
EO items	39	39	0	0
Reported PAT	10	(4)	204	593
APAT	**50**	**36**	**204**	**593**
APAT Growth (%)	***N.A.***	***N.A.***	***474.4%***	***190.4%***
EPS	**2.2**	**1.6**	**9.0**	**26.0**
EPS Growth (%)	***N.A.***	***N.A.***	***474.4%***	***190.4%***

Source: Company, HDFC sec Inst Research

Balance Sheet (Consolidated)

Year ending March (Rs mn)	1HFY16	FY16E	FY17E	FY18E
SOURCES OF FUNDS				
Share Capital - Equity	114	114	114	114
Share Capital - Preference	-	-	-	-
Reserves	2,463	2,449	2,653	3,246
Total Shareholders' Funds	**2,577**	**2,563**	**2,767**	**3,360**
Minority Interest	657	651	738	992
Long Term Debt	198	198	198	198
Short Term Debt	443	354	283	227
Total Debt	**641**	**552**	**482**	**425**
Long Term Provisions & Others	254	297	372	445
TOTAL SOURCES OF FUNDS	**4,129**	**4,063**	**4,359**	**5,223**
APPLICATION OF FUNDS				
Net Block	460	556	618	640
Goodwill	1,901	2,019	2,137	2,256
Investments, LT Loans & Advances	252	252	252	252
Inventories	-	-	-	-
Debtors	896	990	1,204	1,526
Cash & Equivalents	1,224	971	994	1,482
ST Loans & Advances, Others	627	692	906	1,149
Total Current Assets	2,746	2,653	3,103	4,157
Creditors	142	158	198	237
Other Current Liabilities & Prov	1,088	1,259	1,554	1,844
Total Current Liabilities	1,230	1,417	1,752	2,081
Net Current Assets	**1,516**	**1,236**	**1,352**	**2,076**
Misc Expenses & Others	-	-	-	-
TOTAL APPLICATION OF FUNDS	**4,129**	**4,063**	**4,359**	**5,223**

Source: Company, HDFC sec Inst Research

Cash Flow Statement (Consolidated)

Year ending March (Rs mn)	FY17E	FY18E
Reported PAT	204	593
Non-operating & EO items	(78)	(99)
PAT from Operations	126	494
Interest expenses	69	62
Depreciation	239	278
Working Capital Change	(93)	(236)
OPERATING CASH FLOW (a)	**341**	**599**
Capex	(300)	(300)
Free cash flow (FCF)	41	299
Investments	-	-
INVESTING CASH FLOW (b)	**(300)**	**(300)**
Debt repayment	92	271
Interest expenses	(69)	(62)
FCFE	(120)	(35)
Share capital Issuance	-	-
Dividend	-	-
FINANCING CASH FLOW (c)	**23**	**209**
NET CASH FLOW (a+b+c)	**63**	**508**
Non-operating and EO items	(41)	(20)
Closing Cash & Equivalents	994	1,482

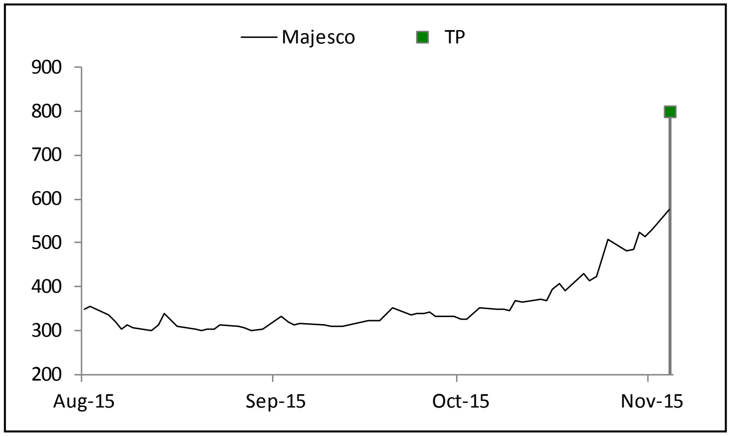
Source: Company, HDFC sec Inst Research

Key Ratios (Consolidated)

Year ending March	1HFY16	FY16E	FY17E	FY18E
PROFITABILITY (%)				
GPM	48.3%	47.3%	46.8%	46.6%
EBITDA Margin	2.9%	2.3%	6.4%	11.6%
APAT Margin	1.5%	0.5%	2.1%	4.8%
RoE	N.M.	1.4%	7.7%	19.4%
RoIC or Core RoCE	N.M.	N.M.	5.7%	14.8%
RoCE	N.M.	N.M.	4.7%	12.0%
EFFICIENCY				
Tax Rate (%)	N.M.	N.M.	30.0%	30.0%
Asset Turnover (x)	0.8	1.8	2.2	2.4
Debtors (days)	48	48	45	45
Payables (days)	8	8	7	7
Cash Conversion Cycle (days)	41	41	38	38
Net Debt/EBITDA (x)	(3.0)	(2.5)	(0.8)	(0.7)
Net D/E	(0.2)	(0.2)	(0.2)	(0.3)
Interest Coverage	7.0	3.4	9.1	23.0
PER SHARE DATA				
EPS (Rs/sh)	2.2	1.6	9.0	26.0
CEPS (Rs/sh)	6.5	10.4	19.4	38.2
DPS (Rs/sh)	-	-	-	-
BV (Rs/sh)	113.0	112.4	121.4	147.4
VALUATION				
P/E	N.M.	368.4	64.1	22.1
P/BV	5.1	5.1	4.7	3.9
EV/Sales	1.9	1.7	1.3	1.0
EV/EBITDA	N.A.	74.9	20.0	8.4
OCF/EV (%)	N.A.	N.A.	2.7%	5.0%
FCF/EV (%)	N.A.	N.A.	0.3%	2.5%
FCFE/mkt cap (%)	N.A.	N.A.	-0.9%	-0.3%

Source: Company, HDFC sec Inst Research; N.A – Not Applicable

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
24-Nov-15	575	BUY	800

Rating Definitions

BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period

NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period

SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

Disclosure:

We, Amit Chandra, MBA & Harit Shah, PGDBA authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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HDFC securities
Institutional Equities
Unit No. 1602, 16th Floor, Tower A, Peninsula Business Park,
Senapati Bapat Marg, Lower Parel,Mumbai - 400 013
Board : +91-22-6171 7330 www.hdfcsec.com