

Current	Previous
CMP : Rs.272	Rating : BUY
Rating : BUY	Target : Rs.230
Target : Rs.550	Achieved

**STOCK INFO**

BSE	MASTEK
NSE	MASTEK
Bloomberg	MAST IN
Reuters	MAST.BO
Sector	IT-Software
Face Value (Rs)	5
Equity Capital (Rs mn)	123
Mkt Cap (Rs mn)-Full	4,387
52w H/L (Rs)	213/103
Avg Daily Vol (BSE+NSE)	71,117

**SHAREHOLDING PATTERN**

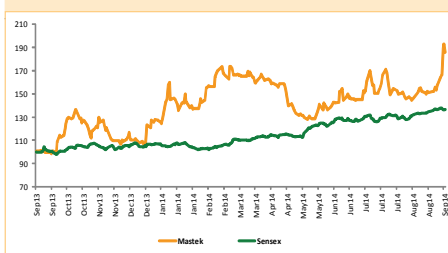
	%
<i>(as on 30th Jun. 2014)</i>	
Institutions	20.9
Others, Incl Public	27.4
Promoters	51.7

Source: BSE

STOCK PERFORMANCE (%)	1m	3m	12m
MASTEK	23.2	28.1	85.9
SENSEX	1.6	8.0	36.8

Source: Capitaline, IndiaNivesh Research

**MASTEK v/s SENSEX**



Source: Capitaline, IndiaNivesh Research

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The board of director of Mastek Ltd. in its meeting held today approved the demerger of the Insurance Products & Services business of Mastek Ltd. into a new company to be named as Majesco Ltd. The Scheme further proposes transfer of the offshore insurance operations from Majesco Ltd to its step down subsidiary (to be called Majesco Software and Solutions India Pvt. Ltd - "MSS India") (held through Majesco Mastek Insurance Software Solutions Inc).

**Our Take**

- Yet again our stand has been vindicated on value unlocking possibility in Mastek. In our initiation report dated Jan. 6th 2014, we mentioned various possible outcomes, which could enhance shareholder value in long run. One of the scenarios we envisaged was 'Divestment/Listing of U.S. Insurance Business separately'.
- Today (15<sup>th</sup> Sep 2014), in our morning note (NiveshDaily) we had retreated the fact that this is next Thinksoft Global Services Ltd and Accelya Kale Solutions Ltd in making.
- In line with our expectations, Mastek initiated the first step of listing its insurance vertical separately in India by approving demerger of its insurance business from Mastek Ltd to a newly formed company 'Majesco Ltd'.
- On completion of this corporate action there will be 2 separate companies listed on bourses (1) Mastek Ltd – (Inc. Solutions & Services Business), & (2) Majesco Ltd – (Inc. Insurance Platform & Insurance Software Solutions).
- As part of this de-merger, Mastek shareholder will get one equity share of Majesco for every one equity share held in mastek.

**Profit & Loss Account (Rs Mn):**

Mastek Limited (Software & Services)	FY14
Revenue	4160
EBITDA	599
EBITDA Margin %	14%
Dep *	118
Int *	3
PBT *	478
Tax *	115
PAT *	363
PAT Margin %	8.7%
EPS *	16.4

Majesco Limited	FY14
Revenue	5070
EBITDA	301
EBITDA Margin %	6%
Adj. EBITDA (Without Product Development Exp)	875
Adj. EBITDA Margin	17%
Dep *	211
PBT *	90
Tax *	22
PAT *	68
PAT Margin %	1.4%
EPS *	3.1

Sources: Company Filing; InidNivesh Research

Note: \*Best as per our estimate

**FY14: Balance Sheet (Rs Mn):**

Mastek Limited (Software & Services)		Assets		Amt (Rs Mn)	
Share Capital	111	Fixed Assets			558
Reserves	1953	Other Non-Current Assets			796
<b>Net Worth</b>	<b>2064</b>	<b>Non Current Assets</b>			<b>1354</b>
Long-term Liabilities	81	Cash & Cash Equivalents			418
Current Liabilities	877	Other Current Assets			1250
<b>Total Liabilities</b>	<b>958</b>	<b>Current Assets</b>			<b>1668</b>
<b>Total</b>	<b>3022</b>	<b>Total</b>			<b>3022</b>

Majesco Limited		Assets		Amt (Rs Mn)	
Share Capital	111	Fixed Assets			2054
Reserves	3428	Other Non-Current Assets			75
<b>Net Worth</b>	<b>3539</b>	<b>Non Current Assets</b>			<b>2129</b>
Long-term Liabilities	181	Cash & Cash Equivalents			1293
Current Liabilities	796	Other Current Assets			1093
<b>Total Liabilities</b>	<b>977</b>	<b>Current Assets</b>			<b>2387</b>
<b>Total</b>	<b>4516</b>	<b>Total</b>			<b>4516</b>

In our view, this development is positive for investors; however this entire process would consummate in at least 3-4 quarters. On a while this exercise would unlock the value of insurance vertical, as it demands higher valuation relative to other segments (Government, Financial Services, & other Services). The services business could also see P/E re-rating on account of higher net profit relative to the overall company level. Also this development could pave way for the individual entities to raise funds through various alternatives. In our view, de-merging the business and

valuing these two entities separately, we arrived at target price of Rs.550/share (Combined Entity).

<b>Valuations (Software &amp; Services + Insurance)</b>		
<b><i>Insurance Vertical Valuations (Majesco Ltd.)</i></b>		
Standalone Sales (FY14)	Rs Mn	Rs. 5,070
Mcap/Sales (70% Discount to Guidewire Valuations)		1.8x
Mcap		Rs. 9,126
Per Share Price		Rs. 411
<b><i>Software &amp; Services (Mastek Ltd)</i></b>		
Standalone EPS (FY14)	Rs Mn	Rs. 16
P/E (In-line with mid-Cap IT Services)		8.5x
Per Share Price		Rs. 139

Source: Company Filings; IndiaNivesh Research

## Valuations

At CMP of Rs.272, the stock is trading at P/E multiple of 7.7x FY15E and 4.8x FY16E earnings estimate. In our view, this corporate action is likely to enhance the overall valuation of the company. The Software and Solutions business net profit margin (8.7% standalone) was tempered due to lower net margin (1.4% standalone) in product business. However, excluding product development expenditure, the insurance vertical net margin stood at ~10.0% (standalone) in FY14. We value Software & Services business at P/E multiple of 8.5x (TP Rs.139) and Insurance vertical at M-cap/Sales multiple of 1.8x (TP Rs.411). On consolidated company basis we arrived at the target price of Rs.550/share with BUY rating.



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