

Current	Previous
CMP : Rs.273	
Rating : BUY	Rating : BUY
Target : Rs.550	Target : Rs.550

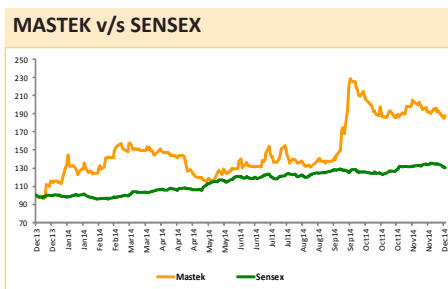
STOCK INFO	
BSE	MASTEK
NSE	MASTEK
Bloomberg	MAST IN
Reuters	MAST.BO
Sector	IT-Software
Face Value (Rs)	5
Equity Capital (Rs mn)	123
Mkt Cap (Rs mn)-Full	5,977
52w H/L (Rs)	337/133
Avg Daily Vol (BSE+NSE)	660,608

SHAREHOLDING PATTERN	%
(as on Sep. 2014)	
Institutions	21.3
Others, Incl Public	27.0
Promoters	51.7

Source: BSE

STOCK PERFORMANCE (%)	1m	3m	12m
MASTEK	-1.9	-17.9	88.2
SENSEX	-2.9	1.8	30.4

Source: Capitaline, IndiaNivesh Research



Source: Capitaline, IndiaNivesh Research

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Mastek Ltd...Acquired Agile Technologies Ltd.

Majesco, Inc. (Majesco) (100% subsidiary of Mastek Ltd) announced the acquisition of US based Agile Technologies (Agile), an insurance-industry-focused IT consulting firm with revenues of over \$9 mn. However, the company has not disclosed the details of the deal including acquisition amount. In discussion with the management, we are of the opinion that 60% of the total deal amount would be paid upfront and remaining 40% will be paid during the span of three years (performance based). The deal is likely to be closed by January 2015. Agile services has over 20 customers with a high quality talent pool of over 50 insurance technology professionals.

Our take

In our view, this acquisition strategy is a forward integration for Majesco Ltd, and following are the likely synergy accruals:

- The acquisition will enable Majesco to accelerate its global customer support and growth plans.
- The acquisition will also enable cross selling, as the client base of the companies are mutually exclusive. Consequently, we could see significant double-digit growth in the insurance consulting business of Agile going-ahead. Additionally, the acquisition will also open doors for the Majesco to sell their insurance platform.
- The acquisition will diversify Majesco's consulting practice, business process optimization capabilities and additional technology services including data architecture strategy & services.

Agile's current revenue in CY13 was \$9 mn, with EBITDA margin higher than the overall margin of Majesco Ltd. However, the company's PAT margin was very lumpy due to higher employee cost and project based revenue. Considering Majesco's client base and cross selling opportunity for Agile, we expect significant consistency on revenue and on PAT front going-ahead.

Highlights of Agile past projects

- Global Data Warehouse for a Global Insurance Provider
- Midwest-Based Excess and Surplus Lines Insurance Carrier
- Midwest Based Non-Standard Automobile Insurance Carrier
- Insurance Carrier of Excess and Surplus lines
- Midwest-Based Non-Standard Automobile Insurance Carrier
- Midwest Based Non-Standard Automobile Insurance Carrier
- Midwest-Based Multi-Peril Crop Insurance Company
- Operational Data Store for Fast-Growing Insurance Company
- Insightful Solution for a Specialty Insurance Carrier
- Global Insurance Provider specializing in Excess and Surplus coverage
- Midwest-Based Multi-Peril Crop Insurance Company
- Document Management System for Global Insurance Brokerage
- Midwest-Based Excess and Surplus Lines Insurance Carrier
- Eastern-Based Bio-medical Device Manufacturer
- Gwinnett County, GA

Valuations

At CMP of Rs.273, the stock is trading at P/E multiple of 14.3x FY15E and 11.9x FY16E earnings estimate. In our view, the 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.

We are not considering any upside in earnings from Agile Technologies acquisition. However, this strengthens our view, insurance business is in for re-rating.

Valuations (Software & Services + Insurance)

Insurance Vertical Valuations (Majesco Ltd.)

Standalone Sales (FY14)	Rs Mn	Rs. 5,070
Mcap/Sales (70% Discount to Guidewire Valuations)		1.8x
Mcap		Rs. 9,111
Per Share Price		Rs. 410

Software & Services (Mastek Ltd)

Standalone EPS (FY14)	Rs Mn	Rs. 16
P/E (In-line with mid-Cap IT Services)		8.5x
Per Share Price		Rs. 140

Target Price	Rs. 550
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Source: Company Filings; IndiaNivesh Research

Disclosure:

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2.	Details of Disciplinary History of INSPL	No disciplinary action is / was running / initiated against INSPL
3.	Details of Associates of INSPL	<ol style="list-style-type: none"> 1. IndiaNivesh Limited 2. Siddhi Multi-Trade Private Limited 3. IndiaNivesh Commodities Private Limited 4. IndiaNivesh Insurance Brokers Private Limited 5. IndiaNivesh Investment Advisors Private Limited 6. IndiaNivesh Fund Managers Private Limited 7. Sneh Shares & Securities Private Limited 8. IndiaNivesh Financial Advisors Private Limited 9. Balashri Commercial Limited 10. IndiaNivesh Capitals Limited
4.	Research analyst or INSPL or its relatives'/associates' shareholding in the company.	Yes
5.	Research analyst or INSPL or its relatives'/associates' actual/beneficial ownership of 1% or more in securities of the subject company, at the end of the month immediately preceding the date of publication of the document.	No
6.	Research analyst or INSPL or its relatives'/associates' any other material conflict of interest at the time of publication of the document	No
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8.	Has research analyst or INSPL or its associates managed or co-managed public offering of securities for the subject company in the past 12 months	No
9.	Has research analyst or INSPL or its associates received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past 12 months	No
10.	Has research analyst or INSPL or its associates received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months	No
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13.	Has research analyst or INSPL engaged in market making activity for the subject company	No
14.	Other disclosures	No

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Definitions of ratings

BUY. We expect this stock to deliver more than 15% returns over the next 12 months.

HOLD. We expect this stock to deliver -15% to +15% returns over the next 12 months.

SELL. We expect this stock to deliver <-15% returns over the next 12 months.

Our target prices are on a 12-month horizon basis.

Other definitions

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NA = Not Available or Not Applicable. The information is not available for display or is not applicable.

NM = Not Meaningful. The information is not meaningful and is therefore excluded.

Research Analyst has not served as an officer, director or employee of Subject Company

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