

INDUSTRY IT PRODUCTS

CMP (as on 19 May 16) Rs 567

Target Price Rs 915

Nifty 7,783

Sensex 25,400

KEY STOCK DATA

Bloomberg MJCO IN

No. of Shares (mn) 23

MCap (Rs bn) / (\$ mn) 13/194

6m avg traded value (Rs mn) 207

STOCK PERFORMANCE (%)
52 Week high / low Rs 789/287

3M 6M 12M

Absolute (%) 18.7 9.8 -

Relative (%) 11.6 11.6 -

SHAREHOLDING PATTERN (%)

Promoters 49.92

FIs & Local MFs 12.65

FIIs 3.47

Public & Others 33.96

Source : BSE

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Powered up

Majesco reported an excellent 4QFY16, with revenue up 9.0% QoQ in USD terms (US\$ 32.3mn vs. our estimate of US\$ 31mn) owing to new client wins and sales traction in the Majesco P&C and L&A suites. The company registered excellent growth in 12-month order backlog, up 14.1% QoQ to US\$ 71.9mn, led by five new client wins and two cross-sells. **The total order book for FY16 stands at US\$ 158.1mn.**

Our positive stance on Majesco is backed by strong revenue growth (30/28% for FY17E/18E) and cheap valuation vs. Guidewire (1-year forward EV/revenue ~1.3x vs 7x for Guidewire, >80% discount). Revenue growth will be led by a strong order book, deal wins and rising adoption of third-party software by US P&C insurance majors.

Maintain BUY with a TP of Rs 915 based on 2.3x EV/revenue multiple, implying 62% upside and 65% discount to Guidewire's EV/revenue (we build in 30% holdco discount for the Majesco US stake). Majesco is one of our top picks in the mid-cap IT space.

Financial Summary

Year Ending March (Rs mn)	4QFY16	3QFY16	QoQ (%)	FY15*	FY16	FY17E	FY18E
Net Sales	2,216	1,980	11.9	4,852	7,571	10,088	12,869
EBITDA	27	(27)	NM	97	99	520	1,355
APAT	(19)	86	(122.7)	28	116	169	579
Diluted EPS (Rs)	(0.9)	3.8	(122.7)	1.2	5.1	7.4	25.4
P/E (x)				481.0	115.5	79.1	23.1
EV / Sales (x)				2.0	1.7	1.3	1.0
RoE (%)				2.0%	4.2%	5.9%	18.0%

Source: Company, HDFC sec Inst Research, N.M - Not Meaningful * FY15 numbers taken from Majesco US 10K filing and converted to INR

Highlights of the quarter

- INR revenue exceeded our estimate at Rs 2.2bn, up 11.9% QoQ. Nonlinearity led to 75bps QoQ gross margin expansion, which, in turn, resulted in 1.2% rise in EBITDA (up 259bps QoQ) and lower SG&A costs (down 221bps QoQ).
- Licence (+43.7% QoQ) and cloud segments (+17.1%) were the key growth drivers. From lines of business, P&C grew a modest 6.6% QoQ. There was 37.5% QoQ rise in L&A revenue owing to a deal win (Unum L&A) ramping up in the US.
- The contribution of top-5 (+25.8% QoQ) and top-10 (18.3% QoQ) clients registered robust growth following ramp-up of large deal wins.
- Near-term outlook:** With robust order book growth, we believe Majesco will continue to clock healthy revenue in 1QFY17E. While QoQ margins may remain volatile, they will move up with operating leverage. Given its reasonable valuation vs. global peers, the stock will remain buoyant.

Healthy order wins, along with increasing acceptance of its P&C product suite in the US, enabled Majesco to post a healthy 9.0% QoQ rise in revenue

The company reported positive EBITDA of 1.2% led by gross margin expansion and lower SG&A expenses

SG&A investments will continue to be high as the company will have to spend on hiring senior sales people in the US to win more deals

Financials Snapshot (Consolidated)

YE March (Rs mn)	4QFY16	3QFY16	QoQ (%)
Net Revenues (US \$mn)	32.3	29.6	9.0
Net Revenues	2,216.0	1,979.7	11.9
Employee Expenses	1,184.7	1,073.2	10.4
SG&A	697.1	666.6	4.6
R&D	307.0	266.8	15.1
EBITDA	27.2	(26.9)	NM
Depreciation	37.6	41.8	(10.0)
EBIT	(10.4)	(68.7)	NM
Interest Cost	18.3	10.3	77.7
Other Income	22.1	11.8	87.1
PBT	(6.6)	(67.2)	NM
Minority Interest	(17.3)	22.1	NM
Tax	30.1	(174.8)	NM
APAT	(19.4)	85.5	(122.7)
E/o (Adj For Tax)	(0.3)	(6.3)	NM
RPAT	(19.7)	79.2	NM

Source: Company, HDFC sec Inst Research

Margin Analysis

	4QFY16	3QFY16	QoQ (%)
Employee Expenses % Net Revenues	53.5	54.2	(75)
SG&A Expenses % Net Revenues	31.5	33.7	(221)
R&D Expenses % Net Revenues	13.9	13.5	38
Gross Margin %	46.5	45.8	75
EBITDA Margin (%)	1.2	(1.4)	259
EBIT Margin %	(0.5)	(3.5)	300
Tax Rate (%)	(453)	260	NM
APAT Margin (%)	(0.9)	4.3	(520)

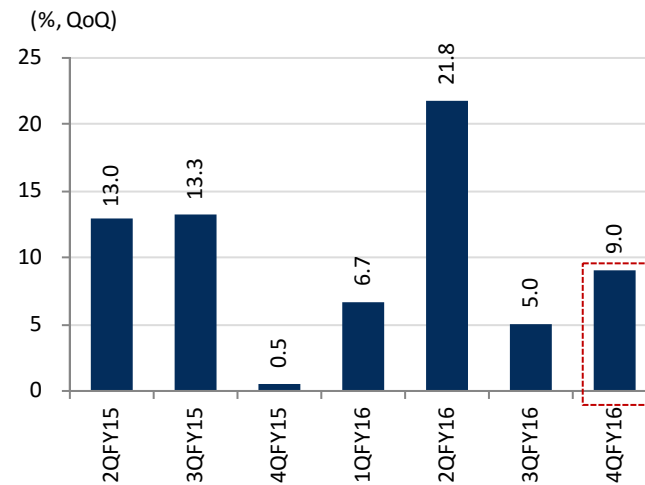
Source: Company, HDFC sec Inst Research

We expect healthy order wins by insurance clients across tiers to drive revenue growth in FY17E and FY18E (our estimate 30% and 28%)

This quarter, Majesco's trajectory was in line with our expectations. An impressive order book growth of over 14% QoQ reaffirmed our confidence on the company

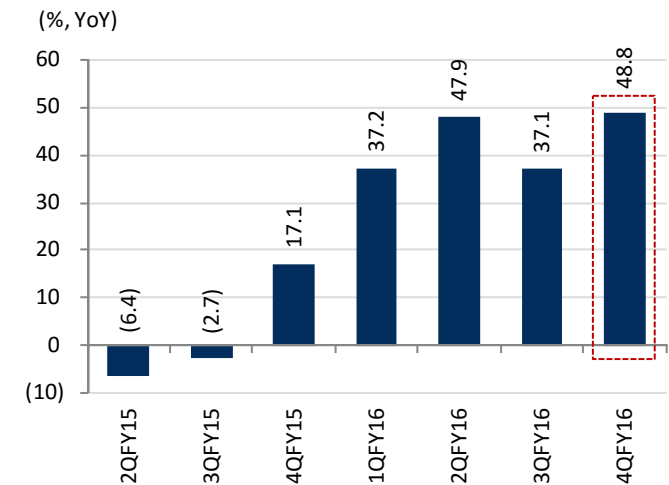
Geographically, Majesco saw excellent growth in its major market. The US clocked 14% QoQ growth owing to the Unum US deal.

US\$ Revenue Growth QoQ (Majesco US)



Source: Company, HDFC sec Inst Research

US\$ Revenue Growth YoY (Majesco US)



Source: Company, HDFC sec Inst Research

Geographical Revenue Break-up

(% Contribution)	1QFY16	2QFY16	3QFY16	4QFY16
North America	85.0	88.0	87.1	88.7
UK	9.0	8.0	8.4	7.2
Others	6.0	4.0	4.5	4.1
Total Revenue	100.0	100.0	100.0	100.0

Source: Company, HDFC Sec Inst Research

Geographical Revenue Growth

Growth (% QoQ)	1QFY16	2QFY16	3QFY16	4QFY16
North America	N.A.	29.2	4.5	14.0
UK	N.A.	10.9	11.2	(3.7)
Others	N.A.	(16.8)	19.6	1.3
Total Revenue	N.A.	24.8	5.6	11.9

Source: Company, HDFC Sec Inst Research

This quarter, licence fees and cloud revenue rose at 43.7% and 17.1% QoQ, aided by new deal wins

Won five new logos across tiers in 4QFY16, including a key Tier-1 client. QBE, a top-20 insurer, selected Majesco Billing, Policy Admin and Business Analytics in cloud services

We expect such order wins to act as strong reference points for selling cloud services to Tier-1 insurers

This quarter, the L&A business had solid growth, aided by execution of the Unum US deal

The P&C business momentum remained strong, and will continue to be the main revenue driver

Revenue Break-up By Segments

(% Contribution)	1QFY16	2QFY16	3QFY16	4QFY16
License	8.7	5.2	7.9	10.1
Professional Services	62.6	64.3	58.4	57.3
Cloud	17.7	14.4	18.4	19.3
Support	11.0	16.1	15.3	13.3
Total Revenue	100.0	100.0	100.0	100.0

Source: Company, HDFC Sec Inst Research

Revenue Growth By Segments

Growth (% QoQ)	1QFY16	2QFY16	3QFY16	4QFY16
License	N.A.	(24.9)	58.6	43.7
Professional Services	N.A.	28.0	(4.0)	9.9
Cloud	N.A.	1.9	35.0	17.1
Support	N.A.	82.4	0.8	(2.9)
Total Revenue	N.A.	24.8	5.6	11.9

Source: Company, HDFC Sec Inst Research

Revenue Break By Verticals

(% Contribution)	1QFY16	2QFY16	3QFY16	4QFY16
Property & Casualty	76.3	77.1	80.9	77.0
Life & Annuities	19.9	19.7	16.7	20.6
Non-insurance	3.8	3.1	2.4	2.4
Total Revenue	100.0	100.0	100.0	100.0

Source: Company, HDFC Sec Inst Research

Revenue Growth By Verticals

Growth (% QoQ)	1QFY16	2QFY16	3QFY16	4QFY16
Property & Casualty	N.A.	26.2	10.8	6.6
Life & Annuities	N.A.	23.5	(10.3)	37.5
Non-insurance	N.A.	2.5	(20.3)	14.5
Total Revenue	N.A.	24.8	5.6	11.9

Source: Company, HDFC Sec Inst Research

A positive takeaway for clients was the cross-selling efforts to two existing clients, which will further boost revenue growth over the next few quarters and improve rev/client

With robust tier-1 deal wins, Majesco's top-5 and top-10 clients' revenue grew at a health rate

In line with its growth strategy and outlook, Majesco continued to steadily add to its employee base, especially on the technical side

Client Data

(Nos.)	1QFY16	2QFY16	3QFY16	4QFY16
Active Client Base (Nos.)	152	155	159	164
Client Additions (Nos.)	7	3	4	5
New Cross-Sell/Up-Sell To Existing Clients (Nos.)		3	2	1
Clients Accounting For >5% Of Revenue (Nos.)	5	2	2	1

Source: Company, HDFC Sec Inst Research

Client Concentration

(% of revenue)	1QFY16	2QFY16	3QFY16	4QFY16
Top-5 Clients	29.7	28.4	26.7	30.0
Top-10 Clients	46.5	43.9	40.7	43.0

Source: Company, HDFC Sec Inst Research

Growth In Top Clients

Growth (% , QoQ)	1QFY16	2QFY16	3QFY16	4QFY16
Top-5 Clients	N.A.	19.3	(0.7)	25.8
Top-10 Clients	N.A.	17.8	(2.1)	18.3

Source: Company, HDFC Sec Inst Research

Headcount, Utilisation Data

(Nos.)	1QFY16	2QFY16	3QFY16	4QFY16
Total Headcount	2,095	2,164	2,242	2,465
Technical	1,903	1,967	2,031	2,251
Technical Support	77	75	80	89
Marketing	46	55	91	83
Support	69	67	40	42
Net Additions		69	78	223
Billable Utilisation (%)	82.9%	84.5%	84.0%	85.9%

Source: Company, HDFC Sec Inst Research

Majesco Valuation Scenarios

Particulars	Bear Case	Base Case	Bull Case
Revenue (FY18E) (Rs mn)	11,582	12,869	14,156
Guidewire (EV/Revenue) (x)	6.5	6.5	6.5
Discount to Guidewire Valuations %	70%	65%	60%
Target (EV/Revenue) (x)	2.0	2.3	2.6
Majesco EV (Rs mn)	22,585	29,307	36,806
Holding Discount %	35%	30%	25%
EV (Rs mn)	14,681	20,515	27,604
Less: Debt (Rs mn)	919	919	919
Add: Cash (Rs mn)	1272	1272	1272
Market Cap (Rs mn)	15,033	20,868	27,957
No of Shares (Rs mn)	22.8	22.8	22.8
Price per share (Rs)	659	915	1,226
Upside Potential %	16.4%	61.5%	116.4%

Source: HDFC sec Inst Research

Change in Estimates

Particulars	Earlier estimates	Revised estimates	% change
FY17E			
Revenue (US\$ mn)	146	148	1.2
Revenue (Rs mn)	9,624	10,088	4.8
EBITDA (Rs mn)	548	520	(5.1)
EBITDA margin (%)	5.7	5.2	(54) bps
EPS (Rs)	7.2	7.4	2.9
FY18E			
Revenue (US\$ mn)	185	189	2.6
Revenue (Rs mn)	12,178	12,869	5.7
EBITDA (Rs mn)	1,303	1,355	4.0
EBITDA margin (%)	10.7	10.5	(17) bps
EPS (Rs)	23.2	25.4	9.5

Source: HDFC sec Inst Research

Peer Valuations

Relative Valuation	Mcap (Rs bn)	CMP (Rs)	Rating	Target (Rs)	EV/Revenue (x)			EV/EBITDA (x)			EBITDA Margin (%)		
					FY16	FY17E	FY18E	FY16	FY17E	FY18E	FY16	FY17E	FY18E
Guidewire	US \$4 bn	US \$56	NA	NA	8.3	7.4	6.5	42.5	34.0	24.6	19.5	21.8	26.3
Intellect	21	213	NR	NA	2.6	2.1	1.8	(77.1)	32.3	16.9	(3.4)	6.6	10.5
Majesco	13	567	BUY	915	1.7	1.3	1.0	126.9	25.0	9.6	1.3	5.2	10.5

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

Income Statement (Consolidated)

Year ending March (Rs mn)	FY15	FY16	FY17E	FY18E
Net Revenues US\$	79.3	113.3	147.5	189.3
Growth (%)	N.A.	42.9%	30.2%	28.4%
Net Revenues	4,852	7,571	10,088	12,869
Growth (%)	N.A.	N.A.	33.2%	27.6%
Employee Cost	2,895	4,003	5,318	6,615
Research and development expenses	614	1,036	1,340	1,563
Selling, general and administrative expenses	1,246	2,433	2,910	3,335
EBIDTA	97	99	520	1,355
EBIDTA (%)	2.0%	1.3%	5.2%	10.5%
EBIDTA Growth (%)	N.A.	N.A.	425.1%	160.6%
Depreciation	148	179	220	234
EBIT	(51)	(79)	300	1,122
Other Income	84	91	96	106
Interest	12	43	51	46
PBT	20	(31)	345	1,182
Tax (Incl deferred)	(9)	(150)	103	355
Minority Interest and associate profit	1	3	72	248
EO items	69	46	0	0
RPAT	(41)	70	169	579
APAT	28	116	169	579
APAT Growth (%)	N.A.	316.4%	46.0%	243.0%
EPS	1.2	5.1	7.4	25.4
EPS Growth (%)	N.A.	316.4%	46.0%	243.0%

Source: Company, HDFC sec Inst Research

Balance Sheet (Consolidated)

Year ending March (Rs mn)	FY15	FY16	FY17E	FY18E
SOURCES OF FUNDS				
Share Capital - Equity	114	115	115	115
Reserves	2,662	2,644	2,813	3,392
Total Shareholders' Funds	2,776	2,759	2,928	3,507
Minority Interest	740	723	795	1,043
Total Debt	805	919	873	832
Net Deferred Taxes	(392)	(380)	(380)	(380)
Long-term Provisions & Others	193	519	447	199
TOTAL SOURCES OF FUNDS	4,123	4,540	4,663	5,201
APPLICATION OF FUNDS				
Net Block	518	669	698	715
Goodwill	1,922	1,925	2,045	2,164
Investments	24	24	24	24
LT Loans & Advances	59	107	107	107
Total Non-current Assets	2,522	2,725	2,874	3,011
Inventories				
Debtors	961	1,520	1,935	2,468
Other Current Assets	604	840	1,119	1,428
Cash & Equivalents	1,538	1,272	779	802
Total Current Assets	3,102	3,632	3,833	4,698
Creditors	127	181	252	311
Other Current Liabilities & Provns	1,374	1,636	1,792	2,197
Total Current Liabilities	1,501	1,816	2,044	2,508
Net Current Assets	1,601	1,815	1,789	2,191
TOTAL APPLICATION OF FUNDS	4,123	4,540	4,663	5,201

Source: Company, HDFC sec Inst Research

Cash Flow Statement (Consolidated)

Year ending March (Rs mn)	FY16	FY17E	FY18E
Reported PBT	(77)	345	1,182
Non-operating & EO items	(137)	(78)	(86)
Interest expenses	43	51	46
Depreciation	179	220	234
Working Capital Change	(480)	(539)	(626)
Tax Paid	150	(103)	(355)
OPERATING CASH FLOW (a)	(322)	(105)	395
Capex	(329)	(250)	(250)
Free cash flow (FCF)	(652)	(355)	145
Investments	0	0	0
Non Operating Income	39	(41)	(34)
INVESTING CASH FLOW (b)	(291)	(291)	(284)
Debt repayment	114	(46)	(41)
Interest expenses	(43)	(51)	(46)
FCFE	(808)	(360)	140
Share capital Issuance	1	0	0
Dividend	0	0	0
FINANCING CASH FLOW (c)	72	(97)	(87)
NET CASH FLOW (a+b+c)	(541)	(493)	23
Non-operating and EO items	275	0	0
Closing Cash & Equivalents	1,272	779	802

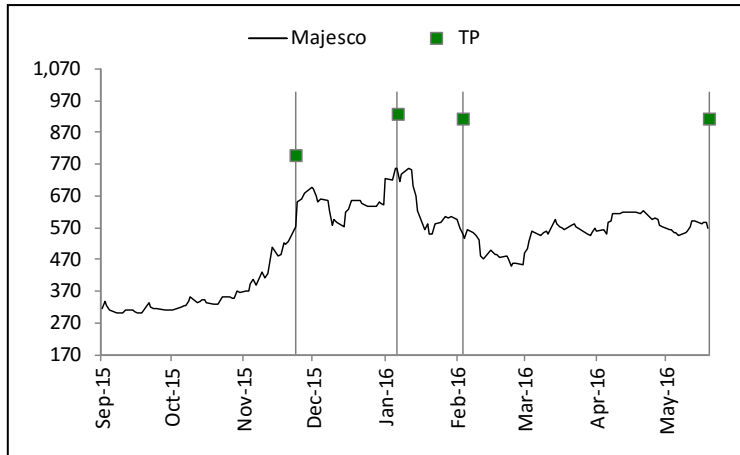
Source: Company, HDFC sec Inst Research

Key Ratios (Consolidated)

	FY15	FY16	FY17E	FY18E
PROFITABILITY (%)				
GPM	40.3%	47.1%	47.3%	48.6%
EBITDA Margin	2.0%	1.3%	5.2%	10.5%
APAT Margin	0.6%	1.5%	1.7%	4.5%
RoE	2.0%	4.2%	5.9%	18.0%
RoIC or Core RoCE	-2.1%	1.6%	3.8%	12.2%
RoCE	-1.5%	-1.4%	3.2%	10.9%
EFFICIENCY				
Tax Rate (%)	17.8%	N.M.	30.0%	30.0%
Fixed Asset Turnover (x)	7.3	7.6	8.1	8.6
Debtors (days)	72	73	70	70
Payables (days)	10	9	9	9
Cash Conversion Cycle (days)	63	65	61	61
Net Debt/EBITDA (x)	(7.5)	(3.6)	0.2	0.0
Net D/E	(0.3)	(0.1)	0.0	0.0
Interest Coverage	7.9	2.3	10.3	29.7
PER SHARE DATA				
EPS (Rs/sh)	1.2	5.1	7.4	25.4
CEPS (Rs/sh)	7.7	12.9	17.1	35.6
DPS (Rs/sh)	-	-	-	-
BV (Rs/sh)	121.8	121.0	128.4	153.8
VALUATION				
P/E	464.9	111.7	76.5	22.3
P/BV	4.7	4.7	4.4	3.7
EV/Revenue	1.9	1.7	1.3	1.0
EV/EBITDA	125.5	126.9	25.0	9.6
OCF/EV (%)	N.A.	N.A.	-0.8%	3.0%
FCF/EV (%)	N.A.	N.A.	-2.7%	1.1%
FCFE/mkt cap (%)	N.A.	N.A.	-2.8%	1.1%
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%

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

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
24-Nov-15	575	BUY	800
6-Jan-16	676	BUY	930
3-Feb-16	569	BUY	915
19-May-16	567	BUY	915

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:
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