

INDUSTRY	IT PRODUCTS		
CMP (as on 07 Feb 2018)	Rs 503		
Target Price	Rs 645		
Nifty	10,477		
Sensex	34,083		
KEY STOCK DATA			
Bloomberg	MJCO IN		
No. of Shares (mn)	28		
MCap (Rs bn) / (\$ mn)	14/220		
6m avg traded value (Rs mn)	119		
STOCK PERFORMANCE (%)			
52 Week high / low	Rs 604/299		
	3M	6M	12M
Absolute (%)	(5.6)	39.0	38.4
Relative (%)	(7.7)	33.4	18.1
SHAREHOLDING PATTERN (%)			
Promoters	47.94		
FIs & Local MFs	9.62		
FPIs	0.76		
Public & Others	41.68		
<i>Source : BSE</i>			

On the right track

Majesco delivered growth in 3QFY18 for the second consecutive quarter. Revenue grew 4.7% QoQ to USD 31.8mn vs est. of USD 32.0mn led by traction in cloud revenue and robust deal wins. Ramp-up in implementation revenue from the Metlife deal win from the IBM partnership is driving growth, (cloud revenue was up 5.7% QoQ, 31% of rev), and ~37% of the incremental revenue was from cloud.

Positive takeaways are (1) 16.6% QoQ and 29.5% 9MFY18 growth in 12-month executable order book to USD 90.4mn, ~76% of TTM rev (2) Improving deal wins (won 10 deals in Q3), (3) ~80% of deal pipeline is cloud related, hence there is a clear transition from the on-premise model to cloud and (4) stable on-premise legacy business (~30% of rev). The IBM alliance is strategically very crucial for Majesco, and can drive significant growth ahead. The total opportunity size of the partnership is ~USD 300-400mn over a five-year period.

We maintain our positive stance on Majesco based on (1) Rising adoption of third-party software by US P&C insurance majors, (2) IBM partnership benefits, (3) Improving deal wins within Tier-1, and (4) ramp-

Financial Summary (Consolidated)

YE March (Rs mn)	3QFY18	3QFY17	YoY (%)	2QFY18	QoQ (%)	FY16	FY17	FY18E	FY19E	FY20E
Net Revenue	2,073	2,055	0.9	1,991	4.1	7,571	8,281	8,070	9,421	11,397
EBITDA	94	117	(19.5)	22	332.6	99	322	214	611	1,181
APAT	(129.8)	51	NM	0	NM	116	116	(95)	265	582
Diluted EPS (Rs)	(4.6)	1.8	NM	0.0	NM	4.1	4.1	(3.4)	9.5	20.8
P/E (x)						121.8	121.3	NM	53.1	24.2
EV / Sales (x)						1.8	1.6	1.4	1.2	0.9
RoE (%)						4.2%	4.1%	-2.4%	5.1%	10.4%

Source: Company, HDFC sec Inst Research

up in cloud subscription revenues (~10% of rev currently with higher margins). We maintain BUY with a TP of Rs 645 (upside of 28%) based on EV/rev multiple of 2.0x (~70% discount to Guidewire).

Highlights of the quarter

- INR revenue stood at Rs 2.07bn, up 4.1% QoQ. EBITDA% improved to 4.5% vs 1.1% in the last quarter, led by revenue growth and lower SG&A (-2.0% QoQ). R&D expenses were up 7.3% QoQ, owing to higher development cost for the IBM platform.
- Professional service (52% of rev) was up 4.0% QoQ led by stable on-premise revenue. P&C (76% of rev) was down 0.3% QoQ while L&A (23%) was up 33% QoQ led by cloud. Ten new clients were added (highest in the last eleven quarters) and Top-6-10 clients' revenue was up 8.7% QoQ.
- Near-term outlook:** Revenue growth will continue in 4Q and margin expansion will follow. New deal wins from the IBM channel will trigger re-rating. The company raised Rs 2.3bn via QIP at an price of Rs 520/share (will result in dilution of ~19%) and the money will be used to propel in-organic growth.

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USD revenue grew, led by growth in cloud and robust growth in licence revenue (+127.7% QoQ)

Legacy revenue (~30% of rev) was impacted by shift to cloud, but has now stabilised

EBITDA margin expanded owing to revenue growth offset by higher R&D cost

Tax was high in the quarter as the company made an adjustment to write down the deferred tax assets in the US subsidiary in the tune of USD 2.67mn (Rs 174mn).

Financials Snapshot (Consolidated)

Particulars (Rs mn)	3QFY18	3QFY17	YoY (%)	2QFY18	QoQ (%)
Net Revenues (USD mn)	31.8	30.0	5.9	30.3	4.7
Net Revenues	2,073	2,055	0.9	1,991	4.1
Employee Expenses	1,053	995	5.9	1,051	0.3
SG&A	642	686	(6.4)	655	(2.0)
R&D	283	257	10.3	264	7.3
EBITDA	94	117	(19.5)	22	NM
Depreciation	43	69	(37.8)	48	(11.0)
EBIT	51	48	NM	(26)	NM
Interest Cost	11	11	(2.7)	7	55.1
Other Income	17	29	(42.8)	26	(36.7)
PBT	57	66	NM	(7)	NM
Minority Interest	0	19	NM	0	NM
Tax	187	(3)	NM	(7)	NM
APAT	(130)	51	NM	0	NM
E/o (adj for tax)	0.4	0.0	NM	106.2	NM
RPAT	(129)	51	NM	107	NM

Source: Company, HDFC sec Inst Research

Margin Analysis

	3QFY18	3QFY17	YoY (%)	2QFY18	QoQ (%)
Employee Expenses % Net Sales	50.8	48.4	241	52.8	(194)
SG&A Expenses % Net Sales	31.0	33.4	(242)	32.9	(192)
R&D Expenses % Net Sales	13.7	12.5	116	13.3	40
Gross Margin %	49.2	51.6	(241)	47.2	194
EBITDA Margin (%)	4.5	5.7	(115)	1.1	345
EBIT Margin %	2.5	2.3	13	(1.3)	381
Tax Rate (%)	326.1	(4.7)	NM	107.2	NM
APAT Margin (%)	(6.3)	2.5	(873)	0.0	(629)

Source: Company, HDFC sec Inst Research

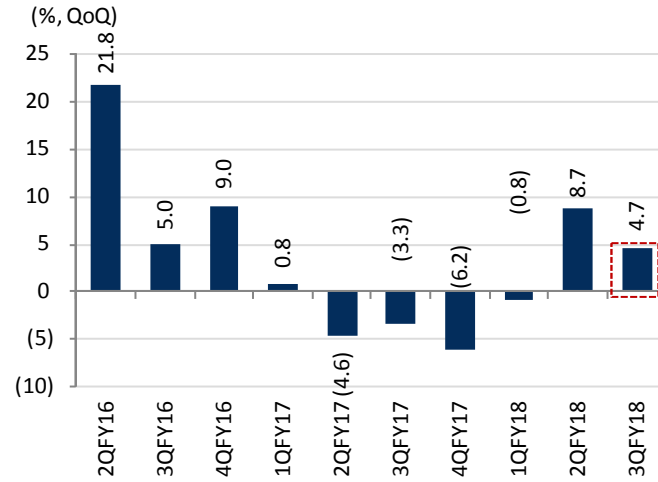
USD revenue grew strongly for the second consecutive quarter

Posted positive YoY growth for the first time in the last five quarters

Added ten new clients in the quarter; active client base increased to 174

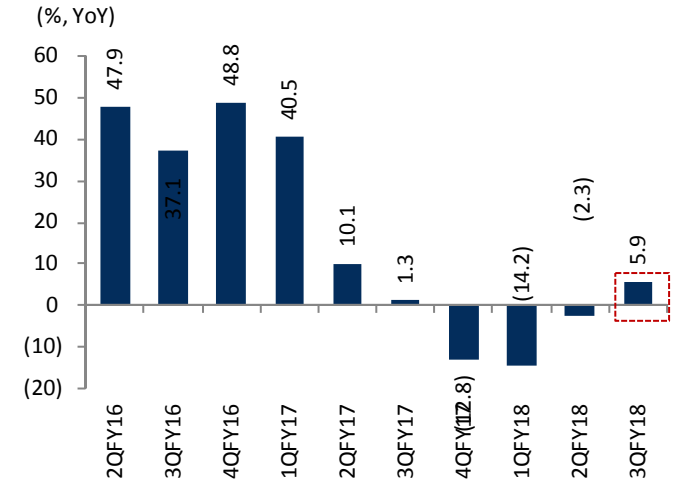
Significant improvement in the 12-month order book led by deal wins.

USD Revenue Growth QoQ (Majesco US)



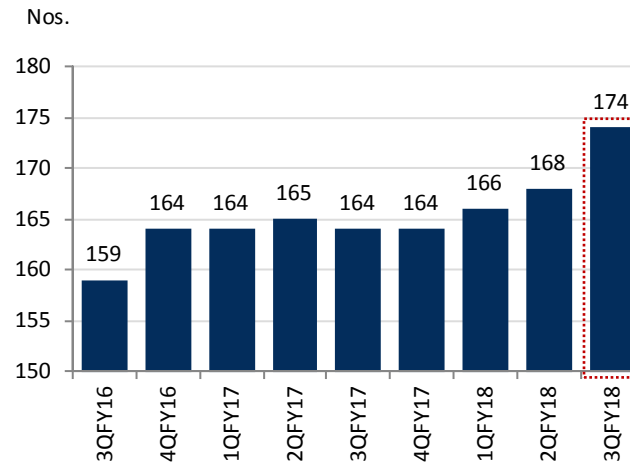
Source: Company, HDFC sec Inst Research

USD Revenue Growth YoY (Majesco US)



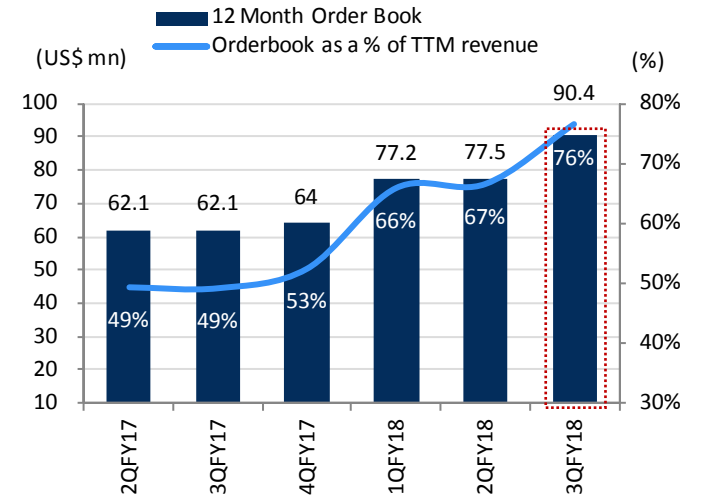
Source: Company, HDFC sec Inst Research

Active Client Base (Nos.)



Source: Company, HDFC sec Inst Research

12-Month Executable Order Book



Source: Company, HDFC sec Inst Research

Geographically, Majesco witnessed growth in all its major market

Revival in on-premise deal wins led to higher licence revenue

Huge cloud opportunity is present across mid-tier P&C insurers in the US and L&A in Europe

Cloud revenue has grown at a CQGR of 7.6% over the last eight quarters

Geographical Revenue Break-up

(% Contribution)	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18
North America	88.6	87.5	89.1	88.4	88.4	88.9	87.7
UK	7.3	7.3	6.3	6.0	5.3	4.7	4.7
Others	4.1	5.2	4.6	5.6	6.3	6.4	7.5
Total revenue	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company, HDFC Sec Inst Research

Geographical Revenue Growth

Growth (INR, QoQ %)	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18
North America	(0.7)	(5.3)	(0.9)	(7.9)	(4.1)	9.4	2.8
UK	(0.4)	(3.3)	(16.1)	(11.5)	(15.7)	(2.9)	4.4
Others	0.3	20.6	(13.7)	13.3	8.0	9.8	22.5
Total revenue	(0.7)	(4.1)	(2.7)	(7.1)	(4.1)	8.8	4.1

Source: Company, HDFC Sec Inst Research

Revenue Break-up By Segments

(% Contribution)	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18
License	1.9	4.6	3.2	1.4	1.3	1.3	2.8
Professional Services	63.6	60.2	62.3	64.7	57.4	52.0	52.0
Cloud	18.1	20.2	19.5	18.9	25.9	30.5	30.8
Support	16.4	15.0	15.0	15.0	15.4	16.2	14.5
Total revenue	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company, HDFC Sec Inst Research

Revenue Growth By Segments

Growth (INR, QoQ %)	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18
License	(81.3)	132.7	(32.7)	(58.9)	(13.8)	8.4	127.7
Professional Services	10.4	(9.4)	0.7	(3.5)	(15.0)	(1.3)	4.0
Cloud	(6.3)	6.6	(5.9)	(10.2)	31.5	28.1	5.1
Support	22.9	(12.7)	(2.6)	(6.9)	(1.2)	14.2	(6.9)
Total revenue	(0.4)	(4.3)	(2.7)	(7.1)	(4.1)	8.8	4.1

Source: Company, HDFC Sec Inst Research

P&C was muted after a strong quarter, will ramp-up with deal execution

P&C revenue momentum will pick up, and will be an important revenue driver

The IBM partnership will open new avenues and provide direct access to the IBM sales channel (80% of major Insurance companies are on IBM legacy); expect more Tier-1 deal wins

Revenue growth from Top-5 client was muted but growth in Top6-10 bracket was robust (+8.7% QoQ)

Revenue Break By Verticals

(% Contribution)	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18
Property & Casualty	79.5	81.0	82.4	83.1	80.0	79.0	75.7
Life & Annuities	18.2	17.6	16.3	15.1	19.0	18.2	23.2
Non-Insurance	2.1	1.4	1.3	1.8	1.1	2.8	1.0
Total revenue	99.7	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company, HDFC Sec Inst Research

Revenue Growth By Verticals

Growth (INR, QoQ %)	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18
Property & Casualty	2.8	(2.5)	(0.9)	(6.4)	(7.7)	7.6	(0.3)
Life & Annuities	(11.8)	(7.5)	(10.1)	(13.9)	20.7	4.1	33.3
Non-Insurance	(15.5)	(34.8)	(9.7)	31.0	(44.7)	188.2	(61.3)
Total revenue	(0.4)	(4.3)	(2.7)	(7.1)	(4.1)	8.8	4.1

Source: Company, HDFC Sec Inst Research

Client Data

Client data	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18
Active client base (Nos.)	164	165	164	164	166	168	174
New Client additions (Nos.)	0	4	0	1	2	2	10
Cloud Customers	29	NA	NA	30	31	32	35
Clients accounting for >5% of revenue (Nos.)	1	3	2	2	1	1	1

Source: Company, HDFC Sec Inst Research

Client Concentration

Client concentration (% of revenue)	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18
Top-5 clients	28.3	28.0	28.0	23.7	23.4	28.6	27.5
Top-10 clients	42.2	40.9	42.0	37.5	39.5	43.7	43.3

Source: Company, HDFC Sec Inst Research

Top Clients Growth

Growth (INR, QoQ %)	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18
Top-5 clients	(6.1)	(5.3)	(2.7)	(21.4)	(5.4)	33.0	0.1
Top-10 clients	(2.3)	(7.3)	(0.1)	(17.0)	1.0	20.4	3.1

Source: Company, HDFC Sec Inst Research

With increased revenue visibility, Majesco has increased its technical employee base by 240 people in 9MFY18

Headcount, Utilisation Data

Employee break-up (Nos.)	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18
Total Headcount	2,487	2,355	2,302	2,312	2,395	2,423	2,473
Technical	2,253	2,117	2,047	2,057	2,143	2,163	2,297
Technical Support	144	150	168	167	164	175	91
Marketing	90	88	87	88	88	85	85
Net Additions	22	-132	-53	10	83	28	50

Source: Company, HDFC Sec Inst Research

Majesco Valuation Scenarios

Majesco Ltd	Bear Case	Base Case	Bull Case
Revenue (FY19E) (Rs mn)	9,683	10,759	11,835
Guidewire (EV/Revenue) (x)	6.9	6.9	6.9
Discount to Guidewire %	74	71	68
Target (EV/Revenue) (x)	1.8	2.0	2.2
Majesco EV (Rs mn)	17,430	21,583	26,037
Holding Discount %	35%	30%	25%
EV (Rs mn)	11,329	15,108	19,528
Less: Debt (Rs mn)	1,022	1,022	1,022
Add: Cash (Rs mn)	1,640	1,640	1,640
Add: Net QIP proceeds (Rs mn)	2,311	2,311	2,311
Market Cap (Rs mn)	14,258	18,037	22,456
No of Shares after dilution (mn)	28.0	28.0	28.0
Target price per share (Rs)	510	645	803
Upside (%)	1.2%	28.1%	59.4%

Source: HDFC sec Inst Research

Change In Estimates

Particulars	Earlier estimates	Revised estimates	% change
FY18E			
Revenue (US\$m)	125	124	(1.4)
Revenue (Rsmn)	8,168	8,070	(1.2)
EBITDA (Rsmn)	216	214	(0.7)
EBITDA margin (%)	2.6	2.7	1 bps
EPS (Rs)	2.7	(3.4)	NM
FY19E			
Revenue (US\$m)	148	145	(2.1)
Revenue (Rsmn)	9,625	9,421	(2.1)
EBITDA (Rsmn)	452	611	35.3
EBITDA margin (%)	4.7	6.5	179 bps
EPS (Rs)	7.1	9.5	33.1

Source: HDFC sec Inst Research

Peer Valuations

Relative Valuation	Mcap (Rsbn)	CMP (Rs)	Rating	Target (Rs)	EV/Revenue (x)				EV/EBITDA (x)				EBITDA Margin (%)			
					FY17	FY18E	FY19E	FY20E	FY17	FY18E	FY19E	FY20E	FY17	FY18E	FY19E	FY20E
Intellect	23.3	185	BUY	230	2.6	2.2	1.9	1.6	(96.9)	29.3	16.3	11.5	(2.7)	7.4	11.5	14.1
Majesco	14.1	503	BUY	645	1.6	1.4	1.2	0.9	40.6	52.1	18.3	9.1	3.9	2.7	6.5	10.4

Source: HDFC sec Inst Research

Income Statement (Consolidated)

YE March (Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Net Revenues US\$	113	122	124	145	175
Growth (%)	42.9%	7.5%	1.4%	17.3%	21.0%
Net Revenues	7,571	8,281	8,070	9,421	11,397
Growth (%)	56.0%	9.4%	-2.5%	16.7%	21.0%
Employee Cost	4,003	4,141	4,174	4,769	5,639
Research and development expenses	1,036	1,124	1,095	1,244	1,334
Selling, general and administrative	2,433	2,694	2,587	2,797	3,243
EBIDTA	99	322	214	611	1,181
EBIDTA (%)	1.3%	3.9%	2.7%	6.5%	10.4%
EBIDTA Growth (%)	2.0%	225.3%	-33.5%	185.1%	93.3%
Depreciation	179	217	183	198	222
EBIT	-79	105	31	413	959
Other Income	91	95	82	94	114
Interest	43	67	41	33	33
PBT	-31	133	72	474	1,040
Tax (Incl deferred)	-150	-13	156	95	208
Minority Interest and associate profit	3	31	10	114	250
RPAT	70	90	12	265	582
EO items	46	27	-107	0	0
APAT	116	116	-95	265	582
APAT Growth (%)	316.4%	0.4%	NM	NM	119.5%
EPS	4.1	4.1	-3.4	9.5	20.8
EPS Growth (%)	316.4%	0.4%	NM	NM	119.5%

Source: Company, HDFC sec Inst Research

Balance Sheet (Consolidated)

YE March (Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
SOURCES OF FUNDS					
Share Capital - Equity	115	117	140	140	140
Reserves	2,644	2,734	5,002	5,208	5,731
Total Shareholders' Funds	2,759	2,850	5,142	5,348	5,872
Minority Interest	723	752	762	876	1,125
Total Debt	919	722	1,022	1,022	1,022
Net Deferred Taxes	-380	-405	-405	-405	-405
Long Term Provisions & Others	519	492	513	537	562
TOTAL SOURCES OF FUNDS	4,540	4,412	7,035	7,378	8,176
APPLICATION OF FUNDS					
Net Block	669	642	708	810	888
Goodwill	1,925	1,880	1,880	1,880	1,880
Investments	24	23	23	23	23
LT Loans & Advances	107	131	143	157	173
Total Non-current Assets	2,725	2,675	2,755	2,870	2,964
Inventories					
Debtors	1,520	830	1,216	1,420	1,717
Other Current Assets	840	788	768	896	1,084
Cash & Equivalents	1,272	1,723	3,950	3,930	4,384
Total Current Assets	3,632	3,341	5,934	6,246	7,186
Creditors	181	143	146	154	176
Other Current Liabilities & Provns	1,636	1,462	1,508	1,584	1,797
Total Current Liabilities	1,816	1,604	1,654	1,739	1,973
Net Current Assets	1,815	1,737	4,280	4,508	5,213
TOTAL APPLICATION OF FUNDS	4,540	4,412	7,035	7,378	8,176

Source: Company, HDFC sec Inst Research

Cash Flow Statement (Consolidated)

YE March (Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Reported PBT	(77)	107	178	474	1,040
Non-operating & EO items	(137)	(121)	25	(94)	(114)
Interest expenses	43	67	41	33	33
Depreciation	179	217	183	198	222
Working Capital Change	(480)	499	(295)	(224)	(226)
Tax Paid	150	13	(156)	(95)	(208)
OPERATING CASH FLOW (a)	(322)	782	(24)	292	747
Capex	(329)	(190)	(250)	(300)	(300)
Free cash flow (FCF)	(652)	592	(274)	(8)	447
Investments	0	1	0	0	0
Non Operating Income	39	117	69	80	99
INVESTING CASH FLOW (b)	(291)	(72)	(181)	(220)	(201)
Debt issuance/(repayment)	114	(197)	300	0	0
Interest expenses	(43)	(67)	(41)	(33)	(33)
FCFE	(808)	722	(615)	(41)	414
Share capital Issuance/QIP	1	2	2,312	0	0
Dividend	0	0	(33)	(59)	(59)
FINANCING CASH FLOW (c)	72	(263)	2,538	(92)	(92)
NET CASH FLOW (a+b+c)	(541)	447	2,334	(20)	454
Non-operating and EO items	275	4	-107	0	0
Closing Cash & Equivalents	1,272	1,723	3,950	3,930	4,384

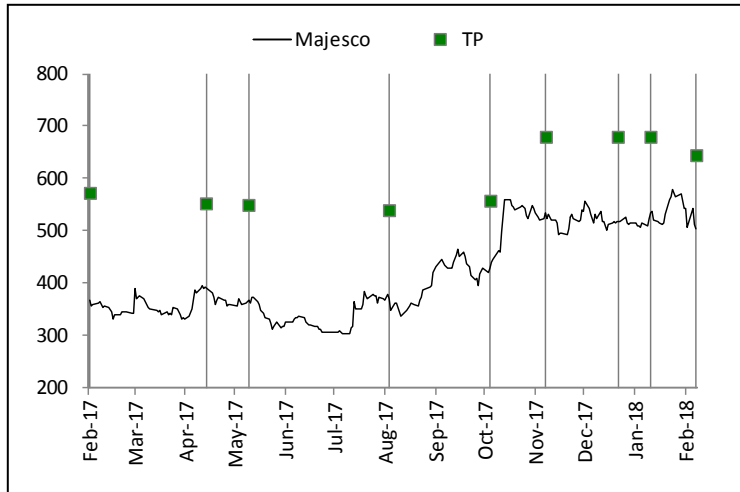
Source: Company, HDFC sec Inst Research

Key Ratios (Consolidated)

	FY16	FY17	FY18E	FY19E	FY20E
PROFITABILITY (%)					
GPM	47.1%	50.0%	48.3%	49.4%	50.5%
EBITDA Margin	1.3%	3.9%	2.7%	6.5%	10.4%
APAT Margin	1.5%	1.4%	-1.2%	2.8%	5.1%
RoE	4.2%	4.1%	-2.4%	5.1%	10.4%
RoIC or Core RoCE	2.6%	4.0%	0.1%	10.1%	21.2%
RoCE	-1.9%	1.7%	-0.2%	4.6%	9.9%
EFFICIENCY					
Tax Rate (%)	N.M.	-12.6%	87.5%	20.0%	20.0%
Fixed Asset Turnover (x)	7.6	7.0	5.6	5.4	5.6
Debtors (days)	73	37	55	55	55
Other Current Assets (days)	41	35	35	35	35
Payables (days)	9	6	7	6	6
Other Current Liab & Provns (days)	79	64	68	61	58
Cash Conversion Cycle (days)	26	1	15	22	27
Net Debt/EBITDA (x)	(3.6)	(3.1)	(13.7)	(4.8)	(2.8)
Net D/E	(0.1)	(0.4)	(0.6)	(0.5)	(0.6)
Interest Coverage	2.3	4.8	5.2	18.4	35.7
PER SHARE DATA					
EPS (Rs/sh)	4.1	4.1	(3.4)	9.5	20.8
CEPS (Rs/sh)	10.5	11.9	3.2	16.6	28.7
DPS (Rs/sh)	0.0	0.0	1.2	2.1	2.1
BV (Rs/sh)	98.6	101.9	183.8	191.2	209.9
VALUATION					
P/E	121.8	121.3	NM	53.1	24.2
P/BV	5.1	4.9	2.7	2.6	2.4
EV/Revenue	1.8	1.6	1.4	1.2	0.9
EV/EBITDA	138.7	40.6	52.1	18.3	9.1
OCF/EV (%)	N.A.	6.0%	-0.2%	2.6%	7.0%
FCF/EV (%)	N.A.	4.5%	-2.5%	-0.1%	4.2%
FCFE/mkt cap (%)	N.A.	5.1%	-4.4%	-0.3%	2.9%
Dividend Yield (%)	0.0%	0.0%	0.2%	0.4%	0.4%

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

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
2-Feb-17	370	BUY	573
17-Apr-17	394	BUY	553
10-May-17	368	BUY	550
4-Aug-17	372	BUY	540
4-Oct-17	421	BUY	558
8-Nov-17	533	BUY	680
21-Dec-17	516	BUY	680
10-Jan-18	522	BUY	680
7-Feb-18	503	BUY	645

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

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Majesco Ltd (MAJLIM)

₹ 520

Shift to cloud based model to reap benefits...

- Majesco reported its Q2FY18 numbers wherein \$ revenues grew strongly by 8.7% QoQ after four consecutive quarters of sequential revenue decline. Rupee revenues grew 8.8% QoQ to ₹ 199.1 crore
- EBITDA for the quarter came in at ₹ 2.2 crore compared to operating loss of ₹ 5.2 crore in Q1FY18. EBITDA margins expanded ~400 bps QoQ to 1.1% largely on account of revenue growth
- PAT was at ₹ 10.7 crore vs. net loss of ₹ 5 crore in the preceding quarter largely due to the overall operational performance and an exceptional item worth ₹ 10.6 crore

Strong quarter show, IBM partnership to benefit...

Revenues witnessed solid growth of 8.8% QoQ in rupee terms owing to strong growth in cloud revenues and IBM partnership. Cloud revenues, which now form a larger part of revenue mix (30.5% of revenues vs. 20.2% in Q2FY17) clocked healthy growth of 42.3% YoY and 28.1% QoQ to ₹ 60.7 crore on the back of deal wins. In partnership with IBM, Majesco has won a 10-year cloud subscription deal with potential of US\$35 million in Q1 with MetLife as the first joint customer on the IBM insurance industry platform. During Q2, the company begun implementation of this deal and expects it to be a significant growth driver, going ahead. The management expects H2FY18E to be better compared to H1 owing to up-tick in cloud based revenues and IBM partnership. Thus, we expect dollar revenue to grow at 8.5% CAGR to \$143.3 million in FY17-19E.

Strong deal pipeline with ~80% on cloud positions company well...

Orders to be executed over the next 12-month witnessed growth of 0.5% QoQ, 19.9% YoY to US\$79.4 million. Although the 12-month order book witnessed subdued growth QoQ, the management said the pipeline remains strong with ~80% of the deal pipeline on cloud. Transition towards cloud driven model would continue in FY18E. Thus, benefits from deal ramp ups in the cloud space would be visible in FY19E.

Transition towards cloud & IBM partnership bodes well; reiterate BUY...

Majesco reported a strong Q2FY18 after four consecutive quarters of revenue decline. Transition towards cloud driven model with ~80% deals on cloud in the potential deal pipeline positions the company strategically well. Moreover, the IBM partnership is promising to be a significant deal for Majesco in the cloud space and provides good revenue visibility for the coming years. Consequently, we expect Majesco's rupee revenue to grow at CAGR of 6.9% in FY17-19E. We value Majesco US (Majesco India holds 70% stake) at 4x EV/sales, which is at ~50% discount to global peers such as Guidewire to account for modest growth/margin profile. After considering a holding company discount of 30%, Majesco's 70% stake in Majesco works out to ₹ 725/share providing significant upside from current levels. Hence, we maintain our **BUY** rating.

Exhibit 1: Valuation of Majesco US

Majesco US	
FY19 Revenues (₹ crore)	945.8
EV/Sales (X)	4.0
Target EV/Sales (₹ crore)	3,783.4
Debt (₹ crore)	115.0
Target Mkt cap (₹ crore)	3,668.4

Exhibit 2: Valuation of Majesco India

Majesco India	
Stake in Majesco US (%)	70.0
Holding Company Discount (%)	30.0
Target Mkt cap (₹ crore)	1,797.5
No of shares outstanding	2.5
Value per share (₹)	725.9

Source: Company, ICICIdirect.com Research

Rating matrix	
Rating	: Buy
Target	: ₹ 725
Target Period	: 12-18 months
Potential Upside	: 39%

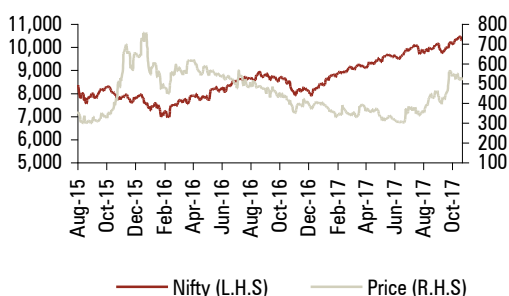
What's Changed?	
Target	Changed from ₹ 750 to ₹ 725
EPS FY18E	Introduced at ₹ 2.3
EPS FY19E	Introduced at ₹ 5.5
Rating	Unchanged

Key Financials				
₹ crore	FY16	FY17	FY18E	FY19E
Net Sales	757.2	827.5	818.6	945.8
EBITDA	9.9	44.9	7.9	47.3
EBITDA margin (%)	1.3	5.4	1.0	5.0
PAT	6.9	14.3	5.8	13.6
EPS	2.8	5.8	2.3	5.5

Valuation summary				
	FY16	FY17	FY18E	FY19E
P/E	172.5	90.0	223.4	94.8
Target P/E	240.5	125.4	311.5	132.2
EV / EBITDA	118.8	24.7	144.3	24.0
P/BV	4.3	4.2	4.2	4.0
RoNW	2.5	5.0	2.0	4.5
RoCE	0.2	5.7	-0.4	5.4

Stock data	
Particular	Amount
Market Capitalization (₹ crore)	1212.1
Debt (₹ crore)	72.2
Cash and Cash Equivalent (₹ crore)	158.1
EV (₹ crore)	1109.1
52 Week High / Low (₹)	591 / 300
Equity Capital	11.7
Face Value	5.0

Price Chart



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Conference Call highlights...

- **Revenue Snapshot-** Majesco reported a strong Q2FY18 after four consecutive quarters of revenue decline in dollar terms. Constant currency revenues grew 8.6% QoQ. Strong revenue growth was on account of growth escalation in cloud based revenues and implementation of the 10-year cloud subscription deal with IBM. The management expects H2FY18E to be better compared to H1 owing to up-tick in cloud based revenues and IBM partnership
- **Margin, PAT performance-** EBITDA for the quarter came in at ₹ 2.2 crore compared to operating loss of ₹ 5.2 crore in Q1FY18. EBITDA margins expanded ~400 bps QoQ to 1.1% in the quarter. An exceptional item worth ₹ 10.6 crore boosted PAT to ₹ 10.7 crore, increase of 312.5% QoQ
- **Twelve-month order backlog-** Orders to be executed over the next 12 months witnessed growth of 0.5% QoQ, 19.9% YoY to US\$79.4 million. Total order booking was at \$286.9 million (TTM) as at the end of September 2017. Although the 12-month order book witnessed subdued growth QoQ, the management said the pipeline remains strong with ~80% of the deal pipeline on cloud
- **Client update-** Majesco added two new clients in the quarter taking the total client base to 168. Of the total client count, 32 clients are on the cloud, pointing to significant scope for build-up. Top five clients (28.6% of revenues) and top 10 clients (43.7% of revenues) witnessed healthy sequential growth and grew 33% and 20.4%, respectively
- **Employee update -** Employee strength was at 2,423 (vs. 2,355 in Q2FY17). As indicated by the management, hiring has been done in the preceding quarter
- **Geography update -** UK (4.7% of revenues) declined for a seventh consecutive quarter and declined 2.9% QoQ. The management said the recent decline in the geography was due to a large program getting implemented. However, they expect to see growth from Q3FY18E onwards
- **Revenue offering update-** Besides cloud service offering, professional services (52% of revenue) declined 1.3% QoQ while maintenance (16.2% of revenue) and license (1.3% of revenue) grew 14.3% and 7.8%, respectively

Financial summary

Profit and loss statement		₹ Crore			
(₹ crores)	FY16	FY17	FY18E	FY19E	
Net Sales	757.2	827.5	818.6	945.8	
Growth (%)	50.8	9.3	(1.1)	15.5	
Total Operating Expenditure	747.2	782.6	810.7	898.6	
EBITDA	9.9	44.9	7.9	47.3	
Growth (%)	(5.3)	353.3	(82.3)	496.1	
Depreciation & Amortization	17.9	26.1	19.3	28.4	
Other Income incl interest income	4.8	3.4	6.2	4.5	
Interest costs	4.3	5.6	3.5	3.5	
PBT before Exceptional Items	(3.1)	22.3	(5.2)	23.4	
Growth (%)	(252.2)	(809.9)	(123.4)	(548.1)	
Tax	(15.0)	0.2	(5.5)	4.7	
PAT before Exceptional Items	(18.2)	22.1	(10.7)	18.7	
Exceptional items	(4.6)	(2.7)	10.6	-	
PAT before MI	7.3	19.4	10.9	18.7	
Minority Int & Pft. from associates	0.4	5.1	5.1	5.1	
PAT	6.9	14.3	5.8	13.6	
Growth (%)	(191.3)	107.7	(59.7)	135.6	
EPS	2.8	5.8	2.3	5.5	
EPS (Growth %)	(183.7)	106.4	(59.7)	135.6	

Source: Company, ICICIdirect.com Research

Cash flow statement		₹ Crore			
(₹ crores)	FY16	FY17	FY18E	FY19E	
Net profit before Tax	(3)	22	(5)	23	
Depreciation & Amortization	18	26	19	28	
WC changes	(25)	41	(24)	(3)	
Other non cash adju.	0	5	(6)	(4)	
Income taxes paid	(0)	(5)	5	(5)	
CF from operations	(10)	90	(10)	40	
Capital expenditure	0	1	1	1	
Δ in investments	(43)	(23)	(15)	(20)	
Other investing cash flow	(75)	(3)	-	-	
CF from investing Activities	(118)	(25)	(14)	(20)	
Issue & Proceeds of equity	3	4	-	-	
Δ in debt funds	-	-	-	-	
Dividends paid	-	-	(3)	-	
Other financing cash flow	58	(24)	(9)	(9)	
CF from Financial Activities	60	(20)	(11)	(9)	
Δ in cash and cash bank balance	(72)	42	(36)	12	
Effect of exchange rate changes	(75)	40	(36)	12	
Opening cash	93	115	158	122	
Other cash adjustments	-	-	-	-	
Closing cash	115	158	122	134	

Source: Company, ICICIdirect.com Research

Balance sheet		₹ Crore			
(₹ crores)	FY16	FY17	FY18E	FY19E	
Equity	12	12	12	12	
Reserves & Surplus	264	276	280	293	
Networth	276	288	291	305	
Minority Interest	72	75	70	65	
LT liabilities & provisions	144	121	121	124	
Source of funds	492	485	482	494	
Net fixed assets	33	37	42	40	
Intangible assets & Goodwill	226	216	216	216	
Deferred tax assets (net)	38	40	40	40	
Long term loans and advances	10	13	12	14	
Other non current assets	3	3	3	3	
Loans and advances	24	23	25	28	
Inventories	-	-	-	-	
Current Investments	12	17	17	17	
Debtors	152	83	90	104	
Cash & Cash equivalents	115	158	122	134	
Other current assets	60	56	56	65	
Current liabilities	173	152	137	158	
Provisions	9	8	8	10	
Net current assets	182	177	164	180	
Application of funds	492	485	482	494	

Source: Company, ICICIdirect.com Research

Key ratios		(Year-end March)			
	FY16	FY17	FY18E	FY19E	
Per share data (₹)					
EPS-diluted	3.0	5.8	2.3	5.5	
Cash per share	50.4	67.8	52.5	57.5	
BV	120.7	116.3	117.7	123.1	
DPS	-	-	1.0	-	
Operating Ratios (%)					
EBITDA Margin	1.3	5.4	1.0	5.0	
PBT Margin	(0.4)	2.7	(0.6)	2.5	
Adjusted PAT Margin	0.9	1.7	0.7	1.4	
Return Ratios (%)					
RoNW	2.5	5.0	2.0	4.5	
RoCE	0.2	5.7	(0.4)	5.4	
RoIC	(6.5)	28.5	(12.0)	19.2	
Valuation Ratios (x)					
P/E	172.5	90.0	223.4	94.8	
EV / EBITDA	118.8	24.7	144.3	24.0	
Price to Book Value	4.3	4.2	4.2	4.0	
EV/Total Revenues	1.6	1.3	1.4	1.2	
MCap/Total Revenues	1.6	1.5	1.5	1.3	
Turnover Ratios					
Debtor days	73	37	40	40	
Creditors days	9	6	6	6	
Solvency Ratios					
Total Debt / Equity	0.3	0.3	0.2	0.2	
Current Ratio	1.3	1.0	1.2	1.2	
Quick Ratio	1.3	1.0	1.2	1.2	
Debt / EBITDA	9.3	1.6	9.1	1.5	

Source: Company, ICICIdirect.com Research

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