



Securities

August 25, 2016

Institutional Equity Research
IT | India

Initiating Coverage

BUY



Target Price Rs678

CMP* (Rs)	506
Upside/ (Downside) (%)	34
Bloomberg Ticker	MJCO IN
Market Cap. (Rs bn)	11.8
Free Float (%)	50
Shares O/S (mn)	23

Majesco Limited

Well-placed to Leverage Conducive Industry Tailwinds

Majesco Limited – the hived-off insurance product unit of Mastek, listed on stock exchanges on August 19, 2015 – offers core insurance technology software and services to insurers, mainly in the US. It has developed highly-rated insurance products for US P&C insurance market. We believe Majesco will be a key beneficiary of untapped US P&C core software market (10-15% 3rd party penetration), led by highly-rated product portfolio, focus on Cloud, expanding strategic tie-ups and cross-selling opportunities with extant clients. We initiate coverage on Majesco with a BUY recommendation and Target Price of Rs678, which implies a substantial 34% upside from the CMP.

Stock Correction Offers an Opportunity; Fund-raising could be a Catalyst

Following a steep stock price decline of ~33% in last 7.5 months, Majesco trades at an EV/revenue multiple of just 1.0x FY18E revenue, at a sizable 86% discount to listed peer Guidewire. We believe this decline is an opportunity for long-term investors considering the low revenue multiple, lowered street expectations, downside protection and huge untapped opportunity. Its Board of Directors has approved a proposal to raise up to Rs2.5bn through QIP, the proceeds of which, in our view, will be used to acquire US P&C firms to boost capabilities and scale, which could be a key trigger for stock price.

Under-penetrated & Huge Business Opportunity with Highly-rated Products

Majesco's total addressable market stands at ~US\$25bn out of which the addressable market size for US P&C market stands at US\$9.25bn. With just 10-15% serviced by third-party vendors, the market remains highly under-penetrated. Celent & Gartner have rated Majesco's suite of products for US P&C insurance market amongst the Top-3, which we believe will drive greater client acceptance in the key US market.

Cloud Offering – A Potential Trump Card; Major Cross-selling Opportunity

As per SMA Research, 48% of insurers are increasing investments in Cloud. Majesco's Cloud offering has Big Data, Analytics & BI capabilities, which we believe will be a key differentiator which will stand it in good stead to win deals and more business from Tier-I insurers. Currently, on its Cloud product, Majesco counts only 30 of 164 clients and gets ~18% of revenue, which offers a huge cross-selling opportunity for the company.

Valuation

On the valuation front, major peer Guidewire Software (Guidewire) trades at an EV/revenue multiple of 7.3x FY18E revenue. We value Majesco taking a 72% discount to Guidewire valuations and 30% holding company discount. We assign an EV/revenue multiple of 2x to Majesco's FY18E revenue of Rs11.6bn; thus calculated EV works out to Rs23.2bn. Adjusting holding company discount, EV comes to Rs16.3bn. Accounting for net cash, we arrive at Rs18.9bn equity value for Majesco (including QIP proceeds, assumed dilution at Rs500), which works out to a Target Price of Rs678/share (including diluted shares from the QIP), implying a substantial 34% upside from the CMP.

Key Financials (Rs mn)	FY15	FY16	FY17E	FY18E
Net Sales (US\$ mn)	79.3	113.3	137.7	170.7
Net Sales	4,852	7,571	9,371	11,620
EBITDA	97	99	466	1,143
PAT	(41)	70	101	414
Diluted EPS (Rs)	(1.8)	3.1	4.4	18.2
P/E (x)	N.A.	165.1	114.7	27.9
EV/Revenue (x)	1.7	1.5	1.2	1.0
RoE (%)	2.0	4.2	3.6	13.5

Source: Company, RSec Research

Share price (%)	1 mth	3 mth	12 mth
Absolute performance	(10.5)	(11.2)	44.6
Relative to Nifty	(10.0)	(19.5)	41.0

Shareholding Pattern (%)	Mar'16	Jun'16
Promoter	49.9	49.6
Public	50.1	50.4

1 Year Stock Price Performance



Note: * CMP as on August 25, 2016

Research Analyst: Harit Shah

Contact: 022 33201276

Email: harit.shah@relianceada.com



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Investment Arguments

Correction Offers an Opportunity; Fund-raising could be a Catalyst

- ▶ Majesco's stock has declined by a steep 33% over past 7.5 months on the back of factors including a market correction in early 2016, concerns regarding equity dilution, flattish stock performance of the US-listed entity Majesco US and a disappointing revenue performance in 1QFY17. Its 1-year forward EV/revenue multiple has declined from a high of nearly 2x at the beginning of the year to 1.1x currently.
- ▶ Majesco was hived off from Mastek with a view to unlocking value in the insurance product business. The stock was listed on August 19, 2015 at Rs306, rising by ~150% till the beginning of 2016, before the steep fall from those levels. Following a significant decline, Majesco currently trades at an EV/revenue multiple of just 1.0x FY18E revenue, which is a substantial 86% discount to listed peer Guidewire Software.
- ▶ We believe this steep decline provides an opportunity for long-term investors considering the low revenue multiple, lowered street expectations, downside protection and substantial untapped business opportunity.
- ▶ In May 2016, its Board of Directors approved a proposal to raise a sum up to Rs2.5bn through QIP route. We believe that Majesco will use the proceeds to acquire companies in the US P&C market to enhance capabilities and scale, which we believe could be a key trigger for the stock price. The proceeds could be given as a loan to the US arm to drive inorganic growth, which we expect will be a positive trigger for Majesco US, the US-listed entity, which in turn will drive stock price of Majesco.
- ▶ Given the need for consistent capability addition, upgrading extant products and launching new products and modules to tap opportunities in the P&C market, it is essential for Majesco to have a well-funded balance sheet. The QIP will ensure enough cash on Majesco's books to drive expansion.
- ▶ In our Target Price of Rs678, we have factored in raising the entire Rs2.5bn at Rs500/share, which will lead to ~22% equity dilution, with the attendant rise in Cash & Bank balance (CBB). Net impact of equity dilution and rise in CBB on our Target Price (based on EV/revenue multiple) is a negative Rs39. Without factoring equity dilution and rise in CBB, our Target Price works out ~6% higher (Rs717) vis-à-vis Target Price including dilution (Rs678).
- ▶ We believe our revenue and EBITDA margin forecasts for FY18E are conservative and well below that of the management. Though 1QFY17 was a disappointment on revenue, we believe implementation of Cloud deals will boost Majesco's revenue in the next few quarters, which should drive performance, enabling it to meet our forecasts quite comfortably.

Exhibit 1: Majesco's Stock Price, EV/Revenue Multiple – Substantial Fall





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Under-penetrated, Huge Addressable Opportunity Worth US\$25bn

- ▶ As per Novarica, there are over 11,000 insurers globally, who earn ~US\$4,778bn in premium income, out of which the Life Insurance & Annuity (L&A) market accounts for 56%, with the rest 44% being made up by the P&C market.
- ▶ Of total premium income, about 2.5% is spent on IT (~US\$120bn) out of which 40-42% is invested in external services, support and software (~US\$50bn). Total addressable market for Majesco stands at 50% of this figure (~US\$25bn). Within this, the addressable market size for US P&C market – Majesco's largest vertical accounting for ~78% of revenue in FY16 – stands at US\$9.25bn.
- ▶ The market is highly under-penetrated, with just 10-15% serviced by third-party vendors like Majesco. Notably, a substantial majority of market is accounted for by in-house software developed by client organizations. Primary segments include Billing, Policy Administration & Claims, with Cloud and data emerging as key growth drivers.
- ▶ Top research and advisory firms such as Celent Research & Gartner have rated Majesco's suite of products for the US P&C insurance market amongst the Top-3, which strongly validates Majesco's product suite, which we believe will drive greater client acceptance in the key US market.
- ▶ A key Majesco differentiator is end-to-end implementation and support work for clients, compared to its peer Guidewire – the largest player in this space – which works together with systems integrators like EY for implementation. We believe this gives Majesco an edge vis-à-vis Guidewire to acquire new clients with clear accountability of implementation, in case clients face any issues post implementation.

Exhibit 2: Global Addressable Market for P&C and L&A

Global P&C, L&A Market	Market Size (US\$ bn)
Global Premium Income	4,778
IT Spend (% of premium income)	2.5
Annual Global IT Spend	119.45
External Services & Staffing (15%)	17.92
Maintenance / Support Fees (15%)	17.92
New Hardware / Software (12%)	14.33
Total Market Opportunity	50.17
Addressable Market Opportunity (50%)	25.08

Source: Company, RSec Research

Exhibit 3: US P&C Addressable Market

US P&C Market	Market Size (US\$ bn)
US P&C Insurance Market Premium Income	1,259
IT Spend (% of premium income)	3.5
US P&C Insurance IT Spend	44.07
External Services & Staffing (15%)	6.61
Maintenance / Support Fees (15%)	6.61
New Hardware / Software (12%)	5.29
Total Market Opportunity	18.51
Addressable Market Opportunity (50%)	9.25

Source: Company, RSec Research

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Conducive Industry Tailwinds to Drive Third Party Product Acceptance

- ▶ Most US P&C insurance firms are running on archaic IT systems, and in several cases, the systems are over 25-30 years old characterised by inflexibility, ageing infrastructure and lack of scalability in tune with business growth of clients, and are in urgent need of overhaul.
- ▶ As per industry sources, **75% of US P&C insurance firms have not updated core software systems over past 5-6 years**. Given increasing regulatory and competitive pressures, it is critical for these firms to overhaul existing IT systems and adopt new technologies to drive cost efficiencies.
- ▶ As per Novarica, market dynamics clearly reflect an increasing preference by clients to 'BUY' vs. 'BUILD, which indicates likely major replacement of in-house legacy IT systems. This reflects a potentially substantial opportunity for third party IT firms like Majesco with improved functionality, domain expertise and faster turnaround time at lower cost. Notably, the IT budgets of about 58% insurers are increasing, a major portion of which is incurred towards investing in new software, data and digital initiatives.
- ▶ We believe the US P&C insurance industry is certainly at an inflexion point and expect increased adoption of third-party software over the next several years, providing a substantial revenue growth opportunity for Majesco.

Highly-rated Products to Win New Clients; Order Wins & Backlog Validate

- ▶ Majesco's core insurance software product suite – ranked highly by reputed and independent research and advisory firms i.e. Celent Research, Novarica and Gartner – serves three key areas, i.e. (1) Billing, (2) Policy Administration, and (3) Claims.
- ▶ Gartner has ranked Majesco amongst the Top-3 core software vendors in the US L&A core market, while Celent has rated Majesco as a leader in P&C insurance Billing Solutions. Gartner has positioned Majesco's Policy Administration offering in the leader quadrant in Magic Quadrant for P&C Policy Management Modules, while ranking Majesco's Policy Administration Solution at third place, where Guidewire is the leader. Majesco's Claims offering is also gaining traction as Gartner, in its Jul'15 report, placed it in the Visionary Quadrant.
- ▶ We believe a high rating by independent industry analyst firms is a key driver for improving client acceptance and is getting reflected in the significant number of deal wins seen by Majesco over the past few months.
- ▶ Majesco's 12-month executable order backlog rose by a healthy 46% yoy in FY16, and it served 17 clients with Direct Written Premium (DWP) of >US\$5bn in FY16 vs. just 9 such clients in FY14, while customers with US\$1-5bn DWP rose to 27 in FY16 vs. 21 in FY14. As per our calculations, Majesco's clients represent 35% of North American P&C industry DWP.

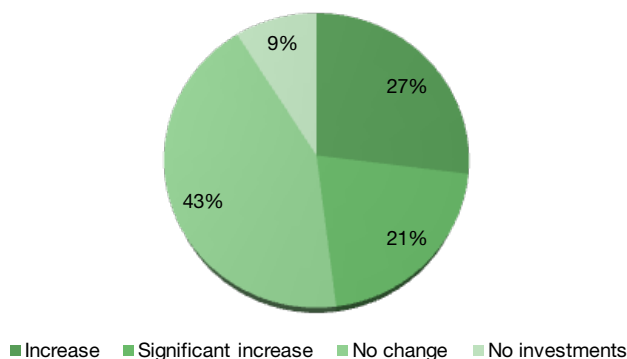


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Cloud Offering – A Potential Trump Card; Major Cross-selling Opportunity

- ▶ With proliferation of digital technologies across the globe, a strong trend is also seen in the insurance software market. As per SMA Research, 48% insurers are increasing their investments in Cloud services, with 21% insurers likely to ‘significantly increase’ their Cloud-related IT investments.
- ▶ Majesco launched its Cloud offering i.e. CloudInsurer – a key differentiator vis-à-vis competitors – in Jun’16 with big data, analytics and BI capabilities, which we believe would stand Majesco in good stead to win new deals and more business from Tier-I insurers.
- ▶ In mid and small-sized insurers, Majesco’s win rate in the Cloud space is 50%. Lower pricing and implementation cost due to offshore delivery also creates low cost of ownership for mid-sized players, which has aided Majesco in rapidly capturing market share in this segment.
- ▶ Cloud contributes ~18% of Majesco’s revenues. Currently, it has only 30 clients on Cloud out of 164 indicating a potentially substantial cross-selling opportunity for Majesco, which we believe will be one of the pillars of revenue growth, going forward.
- ▶ Notably, 40-50% of Majesco’s client wins and 60-70% of deal pipeline in past few months are for Cloud-based services, clearly reflecting clients’ preference for Cloud-based hosted platforms at lower cost. We expect this trend to grow further, going ahead.
- ▶ The size of a Cloud contract – including implementation and maintenance fees – is ~US\$15-20mn spread over 4-5 years. As Cloud does not have initial licence fees and offers faster time-to-market, it makes for an attractive proposition for clients.
- ▶ Notably, Majesco manages DWP of just US\$1.2bn on Cloud, implying huge growth potential.
- ▶ Majesco has won Cloud deals from marquee clients like QBE North America and Homesite Insurance – a subsidiary of American Family Mutual Insurance Company – which we believe could act as referrals for facilitating future deal wins.

Exhibit 4: Cloud Investments – Substantial Growth Likely



Source: SMA Research, RSec Research



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Multiple Strategic Tie-ups to Drive Client Penetration, Product Enrichment

- ▶ Majesco has a strong differentiating factor vs competition in the form of its end-to-end product lifecycle support, ranging from consulting, planning, design, testing, making the product live and maintenance/support. In contrast, key competitor Guidewire specialises in selling only licences, with installation contracts given to systems integrators (EY being the largest). It makes Majesco accountable for issues relating to the product, making it a preferred choice for mid-sized insurers. Implementation through SI partners can create confusion and disputes in some cases.
- ▶ With a view to tapping a larger pie of the P&C market, **Majesco entered into a strategic partnership with Blueprint – a global leader in accelerating and de-risking large, complex IT projects – in 2015** through which Majesco will use Blueprint’s solutions to deliver its own products.
- ▶ **Majesco has also extended its 3-year-long relationship with Deloitte** to increase market penetration, which will help P&C, L&A and group insurers in implementing Majesco core solutions, while Deloitte’s clients will have access to Majesco’s core insurance solutions covering P&C & L&A markets.
- ▶ **Majesco also entered into numerous strategic partnerships over past few months to widen its addressable client base, adopt a joint go-to-market approach and strengthen digital and Cloud offerings.** It has tied up with Appulate – a provider of forms parsing and data bridging technology – to offer **Appulate Uplink™** as an integrated component of Majesco Policy for P&C & Majesco Distribution solutions, which will help Majesco to provide turnkey solutions for agent connectivity and strengthening agent channel for clients.
- ▶ In Mar’16, Majesco added Business Agility – a specialist insurance systems integrator in the UK – as an implementation partner, which will offer **Majesco’s Policy, Billing, Claims & Digital Solutions** along with its Agile Bridge platform integration product.
- ▶ At the end of FY16, Majesco US entered into a partnership with SPLICE Software – a provider of data solutions – as per which, **SPLICE’s solution will be integrated with Majesco DigitalConnect.**
- ▶ In Jun’16, Majesco entered into a partnership with eGain – a provider of Cloud customer engagement solutions – as per which **eGain’s digital abilities will be embedded into Majesco’s DigitalConnect solution** and both will work jointly on business opportunities and client acquisition.
- ▶ Towards the end of Jun’16, Majesco added iSign Solutions – a supplier of electronic signature and other digital transaction management software – to its partner ecosystem. **Majesco’s DigitalConnect Portal & Mobility Solutions have been pre-integrated with iSign capabilities to provide seamless digital experience.**
- ▶ In Aug’16, Majesco tied up with Elafris, a supplier of an artificial intelligence powered chatbot messaging platform, to enhance insurers’ customer communication and payment experience. The two companies will work together to pre-integrate Majesco CloudInsurer via Majesco DigitalConnect with Elafris.

Exhibit 5: Strategic Partnerships – Enabler of Greater Customer Reach

Strategic Partner	Area of Expertise
Blueprint	Management Solutions
Deloitte Consulting LLP	Implementation Partnership
Appulate	Forms Parsing & Data Bridging
Business Agility	Implementation Partnership
SPLICE Software	Data Solutions
eGain	Cloud customer engagement solutions
iSign Solutions	E-signature and other digital transaction management software
Elafris	Customer communication and payments

Source: Company, RSec Research



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L&A Market – a Potentially Bigger Market than P&C

- ▶ Apart from its focus on the US P&C insurance software market, Majesco has also developed products for the L&A market; Its Majesco's Elixir suite for L&A insurers contributes over 19% to revenue.
- ▶ In terms of premium income, the L&A market is bigger than the P&C market accounting for 56% of the total market size, while the P&C market accounts for 44%. Thus, out of the total estimated addressable market of US\$25bn for Majesco, an opportunity worth ~US\$15-16bn is related to the L&A market, which in our view, makes Majesco a potential dark horse in context of substantial market size and award winning version of the extant Elixir product.
- ▶ Elixir – launched in 2002 – was co-developed with Capita, Mastek's the then key client in the UK. Mastek started co-developing it especially for Capita's clients in 2005. Though Capita's investments declined subsequently following opposition to move to the new platform, Mastek continued to invest in it.
- ▶ Focus on the platform revived with the acquisition of Glastonbury, Connecticut-based SEG Software – a leading provider of policy administration systems covering individual and group life, health & annuity insurance products – in Dec'10. This acquisition marked Majesco's entry into North American L&A market with end-to-end solutions and a strong offshore presence.
- ▶ Forester, a Canada-based life insurer has deployed Elixir North America Policy Administration System (PAS) & New Business & Underwriting (NB&U) solutions. Elixir aided Forester to drive cost savings to the tune of 30% by reducing decision making time for claims from three days to one day, with 50% of claims processed automatically.
- ▶ Majesco won another key order in Feb'16, with Unum – a UK-based top-tier financial protection insurer providing critical illness cover and life insurance – selecting Majesco Policy for L&A & Majesco Billing solutions. Unum – a Fortune 500 company – serves over 178,000 businesses in the US & UK, and provides employee benefits for 33% of Fortune 500 companies.
- ▶ We believe the afore-mentioned key deals will act as strong referrals for facilitating future deal wins in L&A space, where Majesco has low penetration.

Key Risks

- ▶ Increase in competitive intensity, with Guidewire launching its Cloud solutions along with a strong partner ecosystem including EY, PwC, FDC and Capgemini,
- ▶ Any slowdown in order inflows owing to higher competition could lead to lower-than-expected revenue and profitability and consequent miss of FY18E revenue/margin targets,
- ▶ Further equity dilution in the event of inability to sustain business through internal accruals,
- ▶ Industry-wide risks such as BREXIT, which could cause uncertainty in the UK as well as other European markets, leading to lower growth in a key focus area, and
- ▶ Currency risks



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Comparative Analysis

Guidewire – the largest core software provider for the US P&C insurance market – earned a TTM top-line of US\$409mn with high gross margin of 63.7% and invests ~26% of sales in R&D.

While Guidewire & Majesco are in the same line of business and are comparable, there are a few fundamental differences in their business models.

- ▶ **Size:** Guidewire's revenue excludes implementation revenues from partners like EY, Cognizant, PwC, & Capgemini, including which its 'effective top-line' is ~US\$1.3bn, which is over 10x of Majesco US revenue. Thus, in terms of size Guidewire is clearly in a quite different league.
- ▶ **Revenue & Margin:** On a TTM basis, Guidewire's licence revenue component was over 50% compared to just 5.4% for Majesco US, which is aptly reflected in substantially higher gross margin for Guidewire (63.7%) vis-à-vis Majesco US (44.1%). However, including implementation revenues, Guidewire's licence revenue proportion stands at ~16%.
- ▶ **Delivery Model:** Conversely, Majesco derives a much higher proportion of revenue from services (~78%), as it sells Software-as-a-Service (SaaS) with end-to-end implementation instead of only license revenue. Majesco carries out implementation of its products at the client end hence has higher portion of services revenues and lower margins.
- ▶ **Cloud:** Majesco derives ~18% of its revenues from Cloud, a segment that Guidewire is not hitherto focusing on in a significant manner.

Exhibit 6: Guidewire vs. Majesco US – Goliath vs. David

Particulars (TTM)	Guidewire	Majesco US
Revenue (US\$ mn)	409.2	122.7
Gross Profit Margin (%)	63.7	44.1
SG&A Cost (% of Revenue)	33.6	33.6
R&D Cost (% of Revenue)	26.1	14.4
EBITDA Margin (%)	4.0	(3.9)
Cash & Cash Equivalents (US\$ mn)	204.6	14.9
EV/Revenue (x)	7.3	1.0
EV/EBITDA (x)	29.5	10.0
EV/EBIT (x)	34.0	14.1

Source: Respective companies, RSec Research



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Financials

Revenue Forecasts

- ▶ We forecast a healthy 23% USD revenue CAGR for Majesco US over FY16-FY18E, which we expect will be led by continuing traction in the key P&C insurance product business on the back of conducive industry tailwinds, increasing trend of adopting third-party vendor technology by P&C insurers, highly-rated product suite, cross-selling initiatives, Cloud adoption and increasing initiatives on partner ecosystem, enabling joint go-to-market and wider client outreach.
- ▶ In our view, the increasing number of Tier-I clients – with DWP of >US\$5bn – in Majesco's client base could be a key revenue growth driver in the medium-term.
- ▶ We envisage USD revenue of Majesco US to touch US\$170.7mn in FY18E from US\$113.3mn in FY16.
- ▶ At consolidated level, we envisage ~24% INR revenue CAGR over FY16-FY18E for Majesco.
- ▶ We expect Majesco's Cloud segment to be the major growth driver, which is duly corroborated by most new deals won in this space. We see 29% USD revenue CAGR over FY16E-FY18E for the Cloud segment and expect it to account for 19.4% of its revenue from 17.5% in FY16.
- ▶ Our USD revenue forecast for FY18E is substantially lower (15-24%) than that of the management. As we are fairly conservative in our estimates, we believe that Majesco would be able to achieve the same comfortably.

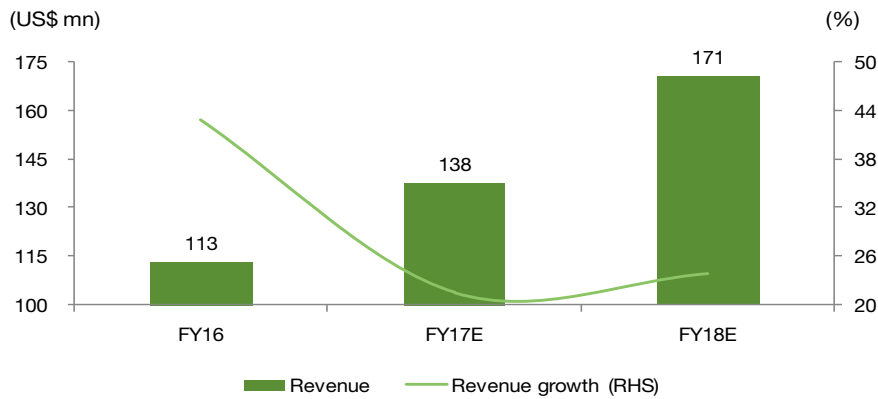
Profitability Forecast

- ▶ We expect gross margin of Majesco US to touch 48.5% in FY18E from 45.3% in FY16, marginally lower than the management's outlook of 49-50%. In our view, operating leverage would drive margins higher by ~200bps annually over FY16-FY18E.
- ▶ We forecast healthy expansion in EBITDA margin over FY16-FY18E, aided by operating leverage and declining R&D and SG&A cost. We expect EBITDA margin to touch 10% in FY18E (-0.6% in FY16), while forecasting 4.7% EBITDA margin for FY17E.
- ▶ In our view, operating leverage and pay-off from investments will lessen R&D cost – as a percentage of revenue – to 12.4% in FY18E from 14.4% in FY16.
- ▶ Similarly, SG&A cost – as a percentage of revenue – is expected at 29.1% in FY18E compared to 33.7% in FY16. Thus, a major chunk of the expected margin expansion will be driven by 465bps decline in SG&A cost.
- ▶ Our estimate of both R&D and SG&A cost for FY18E – as a percentage of revenue – are a tad higher than that of the management. The management targets R&D cost at ~12% of revenue (vs. our estimate of 12.4%), while pegging SG&A cost at 27-29% of revenue (vs. our estimate of 29.1%).
- ▶ However, in absolute INR terms, both R&D and SG&A cost will increase at a fair clip. While we forecast the former at Rs1.39bn in FY18E (from Rs 1.04bn in FY16), the latter is likely at Rs3.28bn in FY18E (from Rs2.4bn in FY16).
- ▶ We believe that our FY18 EBITDA margin forecast of 10% for Majesco US is conservative and considerably lower than management aspiration of 12-14%. In absolute terms, our FY18 EBITDA estimate for Majesco US is substantially lower (29-45%) than that of the management.



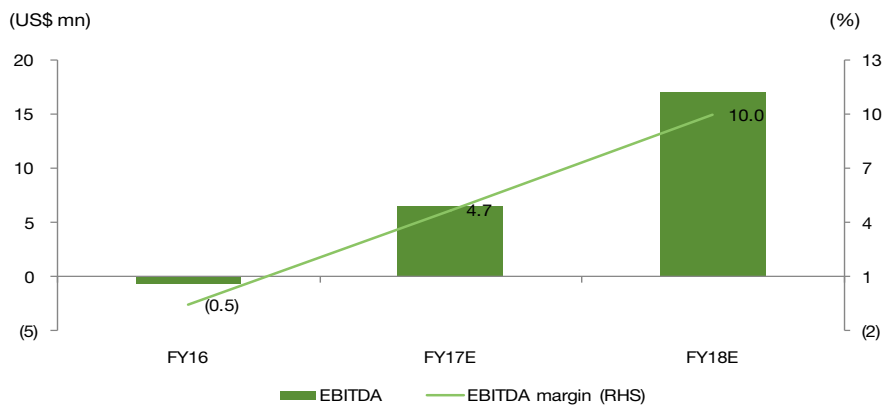
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Exhibit 7: Revenue & Revenue Growth Forecast



Source: Company, RSec Research

Exhibit 8: EBITDA & EBITDA Margin Forecast



Source: Company, RSec Research

Exhibit 9: RSec FY18 Estimates – Well below Management Targets

Particulars	Management FY18E Target	RSec FY18 Estimates	Variance from management target (%)
USD revenue (US\$ million)	200-225	171	(14.7-24.1%)
Gross margin (% of revenue)	49-50	48.5	(46-146bps)
SG&A costs (% of revenue)	27-29	29.1	207-7bps
R&D costs (% of revenue)	12	12.4	36bps
EBIT margin (% of revenue)	8-11	7.1	(89-389bps)
EBITDA margin (% of revenue)	12-14	10.0	(201-401bps)

Source: Company, RSec Research



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Outlook & Valuation

- ▶ Considering its strong rating among the Top-3 insurance platform vendors in North America, leadership in P&C billing solutions, first-mover advantage on Cloud, continuous expansion of client reach through strategic partnerships and cross-selling opportunities, we believe Majesco is well-placed to achieve healthy revenue growth along with operating leverage through to FY18E.
- ▶ Apart from organic revenue growth prospects, Majesco could also boost revenue growth through inorganic means to add capabilities and expand in newer geographies especially in UK L&A. It is pertinent to monitor progress on fund raising initiatives, given that the Board of Directors has approved raising fund up to Rs2.5bn for the purpose.
- ▶ On the valuation front, major peer Guidewire trades at an EV/Revenue multiple of ~7.3x FY18E revenue. We value Majesco taking a steep 72% discount to Guidewire's valuations and take a holding company discount of 30%. We assign an EV/Revenue multiple of 2x to Majesco's estimated FY18E revenue of Rs11.6bn, with which the calculated EV works out at Rs23.2bn. Adjusting for the 30% holding company discount, the EV works out at Rs16.3bn. After accounting for net cash, we arrive at an equity value of Rs18.9bn for Majesco (including QIP proceeds, assumed dilution at Rs500), implying a value of Rs678/share (including diluted shares from the QIP), which implies a substantial 34% 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 major EV/revenue multiple discount. Intellect trades an FY18 EV/revenue multiple of 1.6x, whereas Majesco trades at just 1.0x FY18E EV/revenue, nearly 36% discount despite being comparable in size.
- ▶ We have taken three scenarios, assuming top line growth of 12%/24%/36% for our bear/base/bull cases, respectively for FY18E. The bear case price target comes in at Rs 533/share, while the bull case comes in at Rs 852/share. Thus, even in a bear case scenario, there is still some stock upside present.
- ▶ Currently, the stock trades at an EV/rev multiple of 1.2x/1.0x FY17E/FY18E revenue estimates, respectively. **We initiate coverage on Majesco with a BUY recommendation and Target Price of Rs678 per share.**

Exhibit 10: Majesco Valuation Scenarios

Majesco	Bear Case	Base Case	Bull Case
Revenue (FY18E, Rs mn)	10,458	11,620	12,782
Guidewire (EV/Revenue, x)	7.3	7.3	7.3
Discount to Guidewire Valuation (%)	75	72	70
Target EV/Revenue Multiple (x)	1.8	2.0	2.2
EV (Rs mn)	18,825	23,241	28,121
Holding Discount (%)	35	30	25
EV post-Holding Company Discount (Rs mn)	12,236	16,269	21,091
Less: Debt (Rs mn)	1,266	1,266	1,266
Add: Cash (Rs mn)	1,348	1,348	1,348
Add: QIP proceeds (Rs mn)	2,500	2,500	2,500
Market Capitalisation (Rs mn)	14,819	18,851	23,674
No of Shares (mn)*	27.8	27.8	27.8
Price per share (Rs)	533	678	852
Upside from CMP (%)	5.3	34.0	68.3

Source: RSec Research; Including dilution from the QIP, assuming the full Rs2.5bn raised at Rs500/share.



August 25, 2016

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BUY



Target Price Rs678

CMP* (Rs)	506
Upside/ (Downside) (%)	34
Bloomberg Ticker	MJCO IN

Company Background

Majesco Limited (Majesco) – a spun-off insurance business unit of Mastek, which got listed on the NSE & BSE in Aug'15 – delivers software and related services in core insurance areas including Policy Administration, Product Modelling, New Business Processing, Billing, Claims, Producer Lifecycle Management and Distribution. Majesco enjoys long-term client relationships with close to 90% of its business coming from existing customers. The company has a presence across North America, Europe, the Middle East and Asia Pacific. It has over two decades of experience in providing technology solutions, products and services for the insurance industry across lines of business. Majesco US – a 70% subsidiary of Majesco, listed on the NYSE through a reverse merger with Cover-All Technologies – provides core software solutions to US Property & Casualty (P&C) and Life & Annuities (L&A) insurance companies, with a focus on Policy Administration, Claims and Billing. Majesco derives ~96% revenue from Majesco US. Majesco recorded revenue of US\$115.4mn (Rs7.6bn) in FY16 and currently counts 164 customers and 2,487 employees with a global footprints in the US, Canada, UK, Malaysia, Thailand & India. It revenue has clocked a healthy 23% CAGR from FY14-FY16. Majesco derives ~89% revenues from the US market while 7% revenues come from the UK.



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BUY



Target Price Rs678

CMP* (Rs) 506

Upside/ (Downside) (%) 34

Bloomberg Ticker MJCO IN

Profit and Loss Statement

Y/E March (Rs mn)	FY15	FY16	FY17E	FY18E
Net Revenues (US\$ mn)	79.3	113.3	137.7	170.7
Growth (%)	N.A.	42.9	21.5	23.9
Net Revenues	4,852	7,571	9,371	11,620
Growth (%)	N.A.	56.0	23.8	24.0
Cost of Revenue	2,895	4,003	4,823	5,805
Gross Profit	1,957	3,568	4,547	5,816
Gross Profit Margin (%)	40.3	47.1	48.5	50.0
Gross Profit Growth (%)	N.A.	82.3	27.4	27.9
R&D Expenses	614	1,036	1,210	1,394
SG&A Expenses	1,246	2,433	2,871	3,279
EBITDA	97	99	466	1,143
EBITDA (%)	2.0	1.3	5.0	9.8
EBITDA Growth (%)	N.A.	2.0	370.8	145.1
Depreciation	148	179	288	329
EBIT	(51)	(79)	178	813
EBIT (%)	(1.1)	(1.0)	1.9	7.0
EBIT Growth (%)	N.A.	55.0	(323.9)	357.0
Other Income	84	91	74	78
Interest	12	43	62	46
PBT	20	(31)	190	845
Tax (incl deferred)	(9)	(150)	51	254
Minority Interest	(1)	(3)	(39)	(177)
Extraordinary Items	(69)	(46)	0	0
PAT	(41)	70	101	414
PAT Growth (%)	N.A.	(271.4)	43.9	311.7
EPS	(1.8)	3.1	4.4	18.2
EPS Growth (%)	N.A.	(271.4)	43.9	311.7



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Balance Sheet

Y/E March (Rs mn)	FY15	FY16	FY17E	FY18E
SOURCES OF FUNDS				
Share Capital - Equity	114	115	115	115
Reserves	2,662	2,644	2,745	3,159
Total Shareholders' Funds	2,776	2,759	2,860	3,274
Total Debt	805	919	1,215	1,266
Minority Interest	740	723	762	940
Long Term Provisions & Others	193	519	682	805
Creditors	127	181	242	286
Other Current Liabilities & Provns	1,374	1,636	1,726	2,027
Total Current Liabilities	1,501	1,816	1,968	2,313
TOTAL SOURCES OF FUNDS	6,016	6,737	7,487	8,598
APPLICATION OF FUNDS				
Goodwill	1,922	1,925	2,045	2,166
Net Block	518	669	630	551
Investments	24	24	24	24
Deferred Tax Assets	392	380	380	380
LT Loans & Advances, Others	59	107	107	107
Total Non Current Assets	2,914	3,105	3,187	3,228
Debtors	961	1,520	1,797	2,229
Cash & Bank	1,097	1,152	1,343	1,731
Liquid Investments	440	120	120	120
Other Current Assets	604	840	1,040	1,290
Total Current Assets	3,102	3,632	4,300	5,369
Total Application Of Funds	6,016	6,737	7,487	8,598

Cash Flow Statement

Y/E March (Rs mn)		FY16	FY17E	FY18E
PAT		70	101	414
Non-operating & EO items		(45)	0	0
Depreciation		179	288	329
Working Capital Change		(480)	(683)	(627)
Cash Flow from Operations	(a)	(277)	(294)	116
Capex		(381)	(370)	(371)
Investments		0	0	0
Cash Flow from Investing	(b)	(381)	(370)	(371)
Debt Issuance/(Repaid)		320	0	0
Share capital Issuance		1	0	0
Dividend		0	0	0
Cash Flow from Financing	(c)	321	0	0
NET CASH FLOW (a+b+c)		(337)	(664)	(255)
EO items, others		71	653	342
Closing Cash Balance		1,272	1,261	1,348
Free Cash Flow		(658)	(664)	(255)



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BUY



Target Price Rs678

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Key Ratios

Y/E March	FY15	FY16	FY17E	FY18E
Profitability (%)				
EBITDA Margin	2.0	1.3	5.0	9.8
APAT Margin	(0.8)	0.9	1.1	3.6
RoE	2.0	4.2	3.6	13.5
RoIC or Core RoCE	(2.1)	1.6	2.4	9.5
RoCE	(1.5)	(1.4)	1.7	7.8
Efficiency				
Tax Rate (%)	17.8	N.M.	26.5	30.0
Fixed Asset Turnover (x)	7.3	7.6	7.5	7.8
Debtors (days)	72	73	70	70
Payables (days)	10	9	10	10
Cash Conversion Cycle (days)	63	65	60	60
Net Debt/EBITDA (x)	(7.5)	(3.6)	(0.1)	(0.1)
Net Debt/Equity (x)	(0.3)	(0.1)	(0.0)	(0.0)
Interest Coverage (x)	7.9	2.3	7.5	24.8
Per Share Data (Rs)				
EPS	(1.8)	3.1	4.4	18.2
CEPS	7.7	12.9	17.1	32.6
DPS	0.0	0.0	0.0	0.0
BV	121.8	121.0	125.4	143.6
Valuation				
P/E (x)	N.A.	165.1	114.7	27.9
P/BV (x)	4.2	4.2	4.0	3.5
EV/Revenue (x)	1.7	1.5	1.2	1.0
EV/EBITDA (x)	111.2	112.9	24.6	10.0
OCF/EV (%)	N.A.	N.A.	N.A.	1.0
FCF/EV (%)	N.A.	N.A.	N.A.	N.A.
FCFE/mkt cap (%)	N.A.	N.A.	N.A.	N.A.



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Rating Guides

Rating	Expected absolute returns (%) over 12 months
BUY	>10%
HOLD	-5% to 10%
REDUCE	>-5%

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