

## Improving performance on revenue, margin front...

Majesco's revenues increased 4.4% QoQ to ₹ 276 crore in Q4FY20. A key highlight in the quarter was that the company's IBM MetLife has gone live. We believe this has resulted in a sharp increase in cloud subscription revenues, up 7.2% QoQ, 47.3% YoY. This, coupled with a sharp rise in product revenues (up 7.8% QoQ, 28.7% YoY) led to a 160 bps QoQ increase in EBIT margins to 10.1% in Q4FY20.

## Product revenues, acquisition to drive FY21E revenues

Key highlight of the quarter was go live of IBM MetLife deal. The IBM MetLife deal is currently live for smaller markets. However, eventual progression will be to go live at national and then global level. We believe this will drive its cloud subscription revenues. Also, we believe this will lead to higher larger deals with other Tier-I insurers. Further, Majesco has also entered into a partnership with Capgemini, PwC, Deloitte, Microsoft Azure, which is expected to drive cloud deals. In addition, the company has seen healthy growth in order book that is up 24% YoY in rupee terms (of which 55% is recurring revenues). Based on order book, coupled with expected higher cloud deals & cloud subscription revenues, we expect recurring revenues to rise 25% (accounts for ~42% of revenues) in FY21E. However, remaining 58% business is expected to fall ~13% (due to exposure to legacy business, deal ramp downs, lower budgets) leading to overall organic growth of ~3.3% YoY in FY21E. Also, Majesco has acquired Inspro Technologies that will contribute 10% to its overall revenues in FY21E leading to overall revenue growth (organic + inorganic) to ~13% YoY in FY21E. Considering FY21E revenue growth and improvement in FY22E revenue trajectory, we expect rupee revenues to increase at 11.1% CAGR in FY20-22E.

## Expect margins to gradually improve

Increase in recurring revenues like cloud subscription, maintenance and license revenues has led to healthy growth in margins in Q4FY20. We believe higher recurring revenues, cost rationalisation will drive the company's long-term margins to an upward trajectory. However, in the near term, considering pressure on legacy business, acquisition led cost pressure, we expect the company to report flat EBIT margins to 7.9% in FY21E with a gradual recovery of 70 bps to 8.6% in FY22E.

## Valuation & Outlook

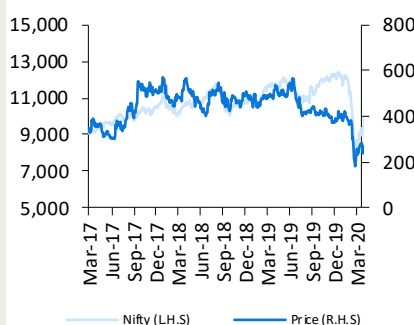
We believe in a post Covid world there will be higher focus on cloud that is Majesco's forte and will be a key long-term driver. Also, go live of IBM MetLife deal will lead to higher subscription revenues and may attract larger deals from other Tier-1 insurers. In addition, Majesco's strategy to drive revenues through partnership bodes well for long term growth. Hence, we stay positive on the stock and maintain **BUY** with a revised TP of ₹ 380.



### Particulars

Particular	Amount
Market Capi (₹ crore)	926.8
Debt (₹ crore)	0.5
Cash & Equivalent (₹ crore)	417.5
EV (₹ crore)	509.8
52 Week High / Low (₹)	588/ 170
Equity Capital	14.4
Face Value	5.0

### Price Performance



### Key Highlights

- Go live of IBM MetLife deal a key positive. Winning higher cloud deals in post Covid world, increase recurring revenues and acquisition to drive FY21E revenues
- Expect EBIT margins to gradually improve taking into consideration near term pressure in legacy business, project ramp down and acquisition led cost pressure

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### Key Financial Summary

Key Financials	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY20-22E)
Net Sales	806.0	988.1	1040.5	1224.0	1284.8	11.1%
EBITDA	22.6	95.2	116.6	137.1	152.9	14.5%
EBITDA margin (%)	2.8	9.6	11.2	11.2	11.9	
PAT	6.3	54.1	69.1	67.5	78.2	6.4%
EPS	2.5	18.3	23.5	22.9	26.5	
P/E	133.2	18.0	14.0	14.4	12.4	
RoNW (%)	1.2	8.0	9.9	8.9	9.4	
RoCE (%)	2.1	11.8	11.6	12.0	10.3	

Source: Company, ICICI Direct Research, \* PAT CAGR is lower as FY20 PAT has exceptional items of ₹15 crore gain

## Higher recurring revenues a key driver

The company has witnessed healthy growth in product revenues (42% of revenues) up 33.7% YoY in FY20 mainly led by higher growth in cloud subscription revenues and maintenance revenues. We expect product revenues to gain significant traction led by higher cloud subscription revenues in coming years. Further, in a post Covid world, we expect cloud to be a key focus for companies. In addition, Majesco's strategy to drive growth through partnership is expected to further boost cloud deals. This coupled with go live of IBM met life deal makes us positive on the stock from long term perspective. Further, the company has healthy cash of ₹ 417 crore (44% of market cap). Hence, we maintain our **BUY** rating on the stock. We value Majesco US (Majesco India holds 75% stake) at 2x market cap/sales, which is at a significant discount to global peers like Guidewire to account for modest growth/margin profile. After considering a holding company discount of 35%, Majesco India's 75% stake in Majesco US works out to ₹ 380/share.

### Exhibit 1: Valuation

Majesco US		Majesco India	
FY22 Revenues (₹ crore)	1,285	Stake in Majesco US (%)	75
Market Cap/Sales (X)	2	Holding Company Discount (%)	35
Target Market Cap/Sales (₹ crore)	2,313	Target Mkt cap (₹ crore)	1,121
		No of shares outstanding	3
		Value per share (₹)	380

Source: Company, ICICI Direct Research

## Financial summary

Exhibit 2: Profit and loss statement ₹ crore				
(Year-end March)	FY19	FY20	FY21E	FY22E
Net Sales	988.1	1,040.5	1,224.0	1,284.8
Growth (%)	22.6	5.3	17.6	5.0
Total Operating Expenditure	892.9	923.8	1,086.9	1,131.9
EBITDA	95.2	116.6	137.1	152.9
Growth (%)	321.2	22.5	17.5	11.5
Depreciation & Amortization	19.6	34.0	40.0	42.4
Net Other Income	24.5	19.7	19.3	21.3
Interest costs	3.6	2.0	2.0	2.0
PBT before Expl Items	100.1	102.3	116.4	131.8
Growth (%)	828.3	2.3	13.8	13.2
Tax	31.0	27.1	26.8	30.3
PAT before ExcpI Items	69.0	75.3	89.6	101.4
Exceptional items	2.7	15.0	-	-
PAT before MI	71.8	90.2	89.6	101.4
Minority Int	17.7	21.1	22.1	23.2
PAT	54.1	69.1	67.5	78.2
Growth (%)	759.5	27.9	(2.4)	15.9
EPS	18.3	23.5	22.9	26.5
EPS (Growth %)	641.4	28.1	(2.4)	15.9

Source: Company, ICICI Direct Research

Exhibit 3: Cash flow statement ₹ crore				
(Year-end March)	FY19	FY20	FY21E	FY22E
Net profit before Tax	100	102	116	132
Depreciation & Amortization	20	34	40	42
WC changes	(44)	10	(3)	(1)
Other non cash adju.	5	12	(41)	(45)
Income taxes paid	(31)	(39)	(27)	(30)
CF from operations	50	119	85	98
Capital expenditure	158	265	(135)	(48)
Δ in investments	3	(369)	21	23
Other investing cash flow	(182)	205	-	-
CF investing Activities	(21)	101	(113)	(24)
Issue& Proceeds of equity	85	16	-	-
Δ in debt funds	-	-	-	-
Dividends paid	-	(12)	(6)	(7)
Other financing cash flow	(68)	(5)	20	21
CF Financial Activities	17	(9)	14	14
Δ in cash & cash bank balance	44	211	(14)	88
Effect of exchange rate change	48	233	(14)	88
Opening cash	62	110	345	331
Other cash adjustments	-	-	-	-
Closing cash	317	345	331	419

Source: Company, ICICI Direct Research

Exhibit 4: Balance sheet ₹ crore				
(Year-end March)	FY19	FY20	FY21E	FY22E
Equity	14	14	14	14
Reserves & Surplus	663	684	745	817
Networth	677	698	760	831
Minority Interest	128	147	169	192
LT liabilities & provisions	75	57	62	64
Source of funds	880	901	991	1,087
Net fixed assets	31	55	149	154
Intangible assets & Goodwill	308	313	313	313
Deferred tax assets (net)	52	65	65	65
Long term loans and advances	3	4	4	4
Other non current assets	16	28	33	35
Loans and advances	-	-	-	-
Inventories	-	-	-	-
Current Investments	87	73	73	73
Debtors	120	198	233	245
Cash & Cash equivalents	317	345	331	419
Other current assets	179	168	197	207
Current liabilities	220	340	400	419
Provisions	12	7	8	8
Net current assets	471	437	426	516
Application of funds	880	901	991	1,087

Source: Company, ICICI Direct Research

Exhibit 5: Key ratios ₹ crore				
(Year-end March)	FY19	FY20	FY21E	FY22E
Per share data (₹)				
EPS-diluted	18.3	23.5	22.9	26.4
Cash per share	112.4	121.0	116.2	147.1
BV	229.3	236.7	257.7	280.9
DPS	1.5	2.0	2.0	2.5
Operating Ratios (%)				
EBITDA Margin	9.6	11.2	11.2	11.9
PBT Margin	10.1	9.8	9.5	10.3
Adjusted PAT Margin	5.5	6.6	5.5	6.1
Return Ratios (%)				
RoNW	8.0	9.9	8.9	9.4
RoCE	11.8	11.6	12.0	10.3
RoIC	15.9	17.4	16.8	18.9
Valuation Ratios (x)				
P/E	18.0	14.0	14.4	12.4
EV / EBITDA	5.5	4.4	3.8	2.8
Price to Book Value	1.4	1.3	1.2	1.1
EV/Total Revenues	0.5	0.5	0.4	0.3
MCap/Total Revenues	0.9	0.9	0.8	0.7
Turnover Ratios				
Debtor days	44	69	69	69
Creditors days	6	11	11	11
Solvency Ratios				
Total Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	1.5	1.3	1.2	1.2
Quick Ratio	1.5	1.3	1.2	1.2
Debt / EBITDA	0.0	0.0	0.0	0.0

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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