

1 June 2020

## Majesco

*Good performance in a tough quarter; maintaining a Buy*

Majesco's Q4 revenue beat our estimate: up 2% q/q, 2.8% y/y, to \$37.9m, aided by Services (up 6% q/q) and cloud subscription (up 5% q/q, Metlife implementation went live, expect full roll out in 2020) offset by a drop in cloud implementation (down 9% q/q from lack of new deals). The 8.4% EBIT margin was flat q/q, up 196 y/y, lower than expected on higher SG&A. The sturdy \$109.8m order book was up 8% q/q, 13% y/y. Inspiro will be integrated from Q1; with this acquisition, revenues are unlikely to dip in FY21. With no major changes to FY21e/22e, we retain a Buy with an unchanged target of ₹420 (13x FY22e PE, a 20% holdco discount).

**Growth driven by better execution.** With five customers going live in the quarter and new deals on the P&C side, Cloud subscription revenue (\$6.5m) grew 5% q/q, 43% y/y. Two new cloud customers were added, taking the cloud-customer count to 65. The order book was robust; however, Q1 still sees delays in deal closures by three months, but revenue would not drop in Q1 and FY21 as Inspiro will be integrated. Organically, we expect revenues to be maintained in FY21 as H2 would gain from the cloud product strategy.

**EBIT margin expansion in FY21.** Revenue growth was offset by 6% q/q growth in SG&A expenses (in US entity), which led to a flat, 8.4%, EBIT margin. Majesco being a product company, we don't anticipate the EBIT margin falling in FY21 (FY21ARe 9.1% vs. 7.9% in FY20, consolidated) as SG&A should provide operating leverage ahead. Net profit was \$3.6m was lower qoq on higher ETR of 22%(17% in Q3). The company generated strong cash flows and ended FY20 with a net cash balance of \$51.4m (\$39.4m at end-FY19), of which \$12m payout for Inspiro will be made.

**Maintaining estimates, Buy recommendation.** Receivable days (Majesco consolidated) shot up to 114 (91 in FY19) and are partially IBM-related, expected to normalise in H1 FY21. We retain our target of ₹420 (13x FY22e PE, India consolidated EPS, a 20% holdco discount). **Risk:** Loss of market share and aggressive M&A driven strategy.

Key financials (YE Mar)	FY18	FY19	FY20	FY21e	FY22e
Sales (₹m)	8,060	9,881	10,405	11,866	12,984
Net profit (₹m)	63	541	691	676	940
EPS (₹)	2.5	19.2	23.4	22.8	31.7
PE (x)	148.7	17.2	13.4	13.7	9.9
EV / EBITDA (x)	35.1	8.5	6.8	5.5	4.0
PBV (x)	1.7	1.4	1.3	1.2	1.1
RoE (%)	1.5	8.9	10.1	9.2	11.6
RoCE (%)	0.1	6.3	7.1	8.5	10.9
Dividend yield (%)	0.3	0.5	0.6	-	-
Net debt / equity (x)	-0.5	-0.5	-0.5	-0.3	-0.3

Source: Company, Anand Rath Research

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Rating: **Buy**

Target Price: ₹420

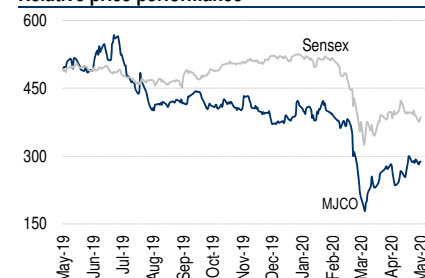
Share Price: ₹314

Key data	MJCO IN / MAJC.BO
52-week high / low	₹588 / 168
Sensex / Nifty	32424 / 9580
3-m average volume	\$0.1m
Market cap	₹9bn / \$119m
Shares outstanding	29m

Shareholding pattern (%)	Mar'20	Dec'19	Sep'19
Promoters	38.3	38.5	38.6
- of which, Pledged	4.1	4.1	4.1
Free float	61.8	61.5	61.4
- Foreign institutions	10.1	10.3	10.0
- Domestic institutions	13.4	13.1	12.5
- Public	38.3	38.1	38.9

Estimates revision (%)	FY21e	FY22e
Sales(\$)	-2.2	-3.3
EBIT	0.1	0.3
PAT	-0.5	-0.9

## Relative price performance



Source: Bloomberg

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## Quick Glance – Financials and Valuations

**Fig 1 – Income statement (₹ m)**

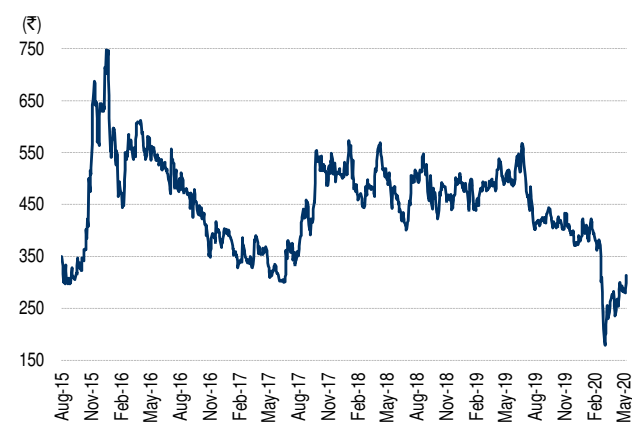
Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
<b>Revenues (\$ m)</b>	<b>125</b>	<b>142</b>	<b>146</b>	<b>162</b>	<b>177</b>
<b>Growth (%)</b>	<b>1</b>	<b>13</b>	<b>3</b>	<b>1</b>	<b>9</b>
Net revenues (₹ m)	8,060	9,881	10,405	11,866	12,984
Employee & direct costs	5,728	6,611	6,941	7,886	8,415
Gross profit	2,332	3,270	3,464	3,979	4,570
Gross margins %	0.3	0.3	0.3	0.3	0.4
SG&A	2,106	2,340	2,297	2,526	2,584
<b>EBITDA</b>	<b>226</b>	<b>931</b>	<b>1,167</b>	<b>1,453</b>	<b>1,985</b>
<b>EBITDA margins (%)</b>	<b>2.8</b>	<b>9.4</b>	<b>11.2</b>	<b>12.2</b>	<b>15.3</b>
- Depreciation	179	196	340	371	405
Other income	214	329	367	170	174
Interest expenses	49	36	20	27	27
PBT	213	1,028	1,173	1,225	1,726
Effective tax rate (%)	87	30	23	26	27
+ Associates / (Minorities)	35	-177	-211	-231	-320
<b>Net income</b>	<b>63</b>	<b>541</b>	<b>691</b>	<b>676</b>	<b>940</b>
WANS	25	28	30	30	30
<b>FDEPS (₹ / sh)</b>	<b>2.5</b>	<b>19.2</b>	<b>23.4</b>	<b>22.8</b>	<b>31.7</b>

**Fig 3 – Cash-flow statement (₹ m)**

Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
PBT	213	1,028	1,173	1,225	1,726
+ Non-cash items	227	220	315	201	232
Oper. prof. before WC	439	1,248	1,488	1,426	1,958
- Incr./ (decr.) in WC	419	442	-88	1,652	170
Others incl. taxes	-248	-308	-381	-350	-501
<b>Operating cash-flow</b>	<b>-228</b>	<b>498</b>	<b>1,195</b>	<b>-576</b>	<b>1,287</b>
- Capex (tang. +intang.)	136	343	140	237	195
<b>Free cash-flow</b>	<b>-364</b>	<b>155</b>	<b>1,055</b>	<b>-814</b>	<b>1,092</b>
Acquisitions	-	-537	-55	-998	-117
- Div. (incl. buyback & taxes)	29	49	120	-	-
+ Equity raised	2,253	854	161	-	-
+ Debt raised	70	-648	-31	-5	-
- Fin investments	2,200	-637	-1,112	36	38
- Misc. (CFI + CFF)	413	-40	-89	-170	-174
Net cash-flow	-684	452	2,211	-1,684	1,110

Source: Company, AnandRathi Research

**Fig 5 – Price movement**



Source: Bloomberg

**Fig 2 – Balance sheet (₹ m)**

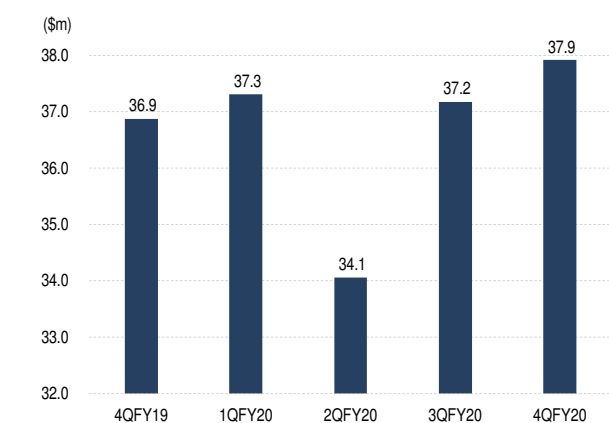
Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
Share capital	141	142	144	144	144
Net worth	5,433	6,770	6,980	7,656	8,595
Debt	684	36	5	-	-
Minority interest	787	1,282	1,467	1,698	2,018
DTL/(Assets)	-462	-518	-652	-652	-652
<b>Capital employed</b>	<b>6,441</b>	<b>7,570</b>	<b>7,800</b>	<b>8,701</b>	<b>9,962</b>
Net tangible assets	295	305	450	576	649
Net intangible assets	49	865	918	1,656	1,490
Goodwill	2,212	2,212	2,212	2,212	2,212
CWIP (tang. &intang.)	2	1	96	96	96
Investments (strategic)	-	-	-	-	-
Investments (financial)	3,088	871	728	764	803
Current assets (ex cash)	2,347	3,178	3,972	4,301	4,602
Cash	898	3,165	3,447	1,763	2,874
Current liabilities	2,451	3,027	4,023	2,668	2,764
Working capital	-103	151	-51	1,632	1,837
<b>Capital deployed</b>	<b>6,441</b>	<b>7,570</b>	<b>7,800</b>	<b>8,701</b>	<b>9,962</b>
Contingent liabilities	-	-	-	-	-

**Fig 4 – Ratio analysis**

Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
<b>P/E (x)</b>	<b>149</b>	<b>17</b>	<b>13</b>	<b>14</b>	<b>10</b>
<b>EV / EBITDA (x)</b>	<b>35</b>	<b>9</b>	<b>7</b>	<b>5</b>	<b>4</b>
EV / Sales (x)	1.0	0.8	0.8	0.7	0.6
P/B (x)	1.7	1.4	1.3	1.2	1.1
<b>RoE (%)</b>	<b>1.5</b>	<b>8.9</b>	<b>10.1</b>	<b>9.2</b>	<b>11.6</b>
RoCE (%) - after tax	0.1	6.3	7.1	8.5	10.9
RoIC (%) - after tax	0.2	12.5	13.2	13.1	15.5
DPS (₹ / sh)	1.0	1.5	2.0	-	-
Dividend yield (%)	0.3	0.5	0.6	-	-
Dividend payout (%) - incl. DDT	47.2	9.1	10.0	-	-
Net debt / equity (x)	-0.5	-0.5	-0.5	-0.3	-0.3
<b>Receivables (days)</b>	<b>87</b>	<b>91</b>	<b>114</b>	<b>111</b>	<b>108</b>
Inventory (days)	-	-	-	-	-
Payables (days)	7	7	7	7	7
CFO:PAT%	NA	69.4	132.4	-63.6	102.1

Source: Company, AnandRathi Research

**Fig 6 – Majesco's US revenue performance**



Source: Company

# Majesco US: Q4FY20 Result Highlights

## Q4FY20 Results at a Glance

Fig 7 – Majesco US, segment-wise results

(₹m)	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	% Q/Q	% Y/Y
Revenues (\$m)	36.9	37.3	34.1	37.2	37.9	2.0	2.8
Revenues	2,588	2,596	2,397	2,652	2,783	4.9	7.5
Effective exchange rate	70.2	69.6	70.4	71.3	73.4	2.9	4.6
Order backlog	96.9	98.7	100.4	101.7	109.8	8.0	13.3
Q/Q growth %	13	2	2	1	8		
Cost of revenues (excl. D&A)	(23.0)	(21.9)	(21.9)	(23.1)	(23.1)	0.3	0.7
As % of revenue	-62	-59	-64	-62	-61	103 bps	126 bps
Employee cost	(19)	(17)	(18)	(19)	(20)	1.8	3.6
Gross margins %	48.52	53.27	46.05	48.02	48.10	8 bps	-41 bps
-R&D costs	(5.0)	(5.5)	(4.5)	(4.7)	(4.4)	-6.0	-11.1
As % of revenue	-14	-15	-13	-13	-12	99 bps	183 bps
SG&A(excl. D&A)	(10)	(12)	(10)	(10)	(10)	6.0	1.0
As % of revenue	-28	-31	-28	-26	-27	-103 bps	49 bps
EBITDA	3.6	3.8	2.6	4.3	4.4	2.0	21.0
EBITDA margins %	9.9	10.2	7.5	11.6	11.6	0 bps	174 bps
D&A	(1.2)	(1.2)	(1.2)	(1.2)	(1.2)	0.3	-3.6
EBIT	2.39	2.57	1.35	3.11	3.20	2.7	33.9
EBIT margins %	6.5	6.9	4.0	8.4	8.4	6 bps	196 bps
Other income	(0.04)	0.18	0.61	1.64	1.52	-7.2	-3900.0
PBT	2.24	2.66	1.86	4.67	4.64	-0.8	107.1
PBT margins %	6.1	7.1	5.5	12.6	12.2	-34 bps	616 bps
Taxes	(1.0)	(1.4)	(1.0)	(0.8)	(1.0)	28.1	1.3
ETR %	-45	-52	-51	-17	-22	-496 bps	2300 bps
Net profit (\$ m)	1.2	1.3	0.9	3.9	3.6	-6.7	193.7
Net profit (₹m)	86	89	64	276	265	-4.0	207.1

Source: Company, Anand Rath Research

Fig 8 – Quarterly results (Majesco, US)

Year-end: Mar (₹m)	Q4FY20	% Q/Q	% Y/Y	FY20	FY21	% Y/Y
Sales (\$ m)	38	2.0	2.8	146	162	10.6
Sales	2,783	4.9	7.5	10,427	11,885	14.0
EBITDA	323	5.0	26.5	1,076	1,302	21.0
EBITDA margins (%)	11.6	0 bps	174 bps	10.3	11.0	64 bps
EBIT	235	5.7	40.0	731	921	26.0
EBIT margins (%)	8.4	6 bps	196 bps	7.0	7.7	74 bps
PBT	340	2.1	116.5	990	1,037	4.8
Tax	(75)	31.8	5.9	(295)	(290)	(1.5)
Tax rate (%)	(22.0)	-496 bps	2300 bps	(29.8)	(28.0)	179 bps
Net income	265	(4.0)	207.1	695	747	7.5

Source: Company, Anand Rath Research

## Conference call takeaways

- Majesco's first phase of the IBM/MetLife deal went live this quarter.
- The company has signed partnerships with Capgemini, PwC, Deloitte, EY, KPMG and Microsoft for implementation of its cloud product in various cloud-hosting environments.
- Five customers went live during the quarter.
- The company expects some deal closures to be delayed by three months due to Covid. However, overall, it maintained a positive outlook on the insurance industry on expectations of a faster shift to cloud.
- Decline in services revenue was observed during FY20 as the company exited some past unprofitable on-premise businesses.
- The SG&A expenses increase stemmed from expenses related to customer conference, investment in new IT systems, appointment of new auditors and tax consultants as well as year-to-date impact of the new management roles.
- Inspro margins are lower than those of Majesco, but management sees many synergies on the cost side.
- The company has not announced any pay cuts and has paid a bonus.
- The CFO stood at \$17.7m for Majesco US in FY20. The company is looking to retain cash for future inorganic opportunities and may therefore not go in for buybacks.
- No delays seen in collections.

### Outlook

- The FY21 outlook is cautiously optimistic. Product revenues (41.4% of rev) to have strong growth in FY21. Cloud subscription revenue growth to be sustainable and maintenance revenue to grow. Inspro to contribute 10% to revenues. But professional services revenue may continue volatile in FY21.

### Notes from the last quarters' conference calls

#### Q3 FY20

- The decrease in the life and annuity business was due to a reduction in implementation revenue as a major customer prepared to go live in this fiscal.
- Overall, the recurring product business now accounts for more than 40% of revenue and the product business growth has more than offset the continuing decrease in on-premise services.
- Nine customers went live during the quarter.
- Majesco on-boarded its first digital customer, Burns & Wilcox, in Q3.
- It acquired Inspro during the quarter. No figures were included in Q3 as the transaction is likely to close in Q4 and consolidation would begin from Q1FY21. The reason for the acquisition: tier-1 customers and deeper partnership with Capgemini. Inspro's revenues run at ~\$15m (last 12 months, Bloomberg) with margins likely to turn positive by the year-end. Majesco will pay \$12m for this asset.

- Exceptional gain of \$1.4m in Q3 FY20 is on account of earn-out write-backs for the missing pre-agreed performance targets at Exaxe. Total balance earn-outs payable are now \$1.4m p.a. for the next two years.

#### **Q2FY20**

- The general slowdown in the industry has led to the company facing challenges from UK customers following economic uncertainty due to Brexit. Many organisations are holding back business decisions until the issue is resolved one way or another.
- Exaxe contributed \$0.9m to revenue.
- Cloud revenues brought 38.5% to total revenue, with 61cloud customers now. Of the cloud revenue, 61% is implementation; the rest, subscription.
- The top customer brought 4.9% to revenue; the top-5 clients brought 20.5% and the top-10, 35.6%.
- The company won three cloud-based deals in Q2 and nine customers went live.
- It has secured many wins this quarter, including names such as Secura, Stillwater and Burns & Wilcox, Cannon Cochran Management Services and Arch Insurance.
- On the optimisation of company-wide resources, the company has incurred some one-time costs, which will be covered in the rest of the year.
- DSO was 102 days due to large go-live milestone billing.

#### **Q1FY20**

- All the new deals in Q1 were cloud-based. Thirteen customers went live.
- The top customer brought 7.3% to revenue; the top-5 clients brought 25.8% and the top-10, 39.6%.
- The increase in SG&A of \$2.5m arises on the inclusion of the Exaxe business, the convergence conference expenses, investor-day-at-Nasdaq expenses, rebranding and other non-recurring professional fees.
- The company is working on the next phases of going live with the IBM and MetLife projects, which it will soon announce.
- Cloud revenue declined chiefly due to the ramp-down of the implementation in the top client.
- The drop in recurring revenue in the quarter was due to accounting rules 605 and 606. Under these, the company booked licence revenue as non-recurring; in Q4 FY19 this was booked as recurring.

#### **Q4 FY19**

- 100% of new deals in Q4 were cloud-based.
- Six customers went live, incl. two who became customers in Q3, suggesting shorter implementation times.
- New corporate entity/branding unveiled in Q4.
- New corporate headquarters in the US.
- The top-5 clients brought 28.6% to revenue; the top-10, 42.2%.

- The Cap Gemini partnership was to sell Majesco's products with its services. No upfront cash investment from Majesco in this partnership. The cloud business brought ~41% to yearly revenues, up 53% from FY18. Cloud-subscription revenues were 12%, against 9% in FY18.
- Higher cloud and recurring revenues, along with operating efficiencies, resulted in expanded margins.
- The IBM MetLife project and the Exaxe acquisition have raised the L&A revenue share from 23% the year prior, to 29%.
- The cloud customer base has ballooned, from 37 clients in FY18 to 54 at the year end. Also, the company added 19 clients organically in the year.
- Majesco became debt-free (on 31<sup>st</sup>Dec'18 it had \$13.7m debt). Cash and equivalents were \$40m on 31<sup>st</sup>Mar'19, after the rights issue, debt repayment and the Exaxe acquisition.

### Q3 FY19

- Cloud-based sales, addition of logos and further revenue from Exaxe Holdings drove Majesco's Q3 revenue growth.
- Cloud-subscription revenues were 12.4% of revenue in the quarter, compared to 8.9% in Q3FY18.
- The company finalised the acquisition of Exaxe Holdings in the quarter, with \$7.2m upfront payment, adding 36 employees from the Exaxe team.
- It added seven customers and expanded relations with three. It is also seeing a higher rate of renewals, reflecting a better sales team.
- The project with MetLife in partnership with IBM will be going live in FY20, and would power growth in coming months.
- 80% of the pipeline arises from cloud-based deals. The increase in the order backlog was largely driven by bookings made in the quarter.
- EBITDA margins are likely to be sturdy, driven by greater profitability in cloud sales and by SG&A leverage that the company is likely to command in FY20.

## Factsheet (Majesco, US)

**Fig 9 – Revenue-split, by LOB**

(%)	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20
P&C	68	77	79	77	81
L&A	31	22	21	23	18
Non-insurance	0	1	1	0	0
Total	100	100	100	100	100

Source: Company, Anand Rath Research

**Fig 10 – Revenue growth, by LOB(Q/Q)**

(%)	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20
P&C	4	15	-7	7	8
L&A	6	-29	-14	19	-18
Non-insurance	-27	45	-24	-13	2
Total	4	1	-9	9	2

Source: Company, Anand Rath Research

**Fig 11 – Revenue-split, by region**

(%)	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20
North America	87	88	90	89	90
UK	9	6	5	6	6
APAC	5	5	6	5	4
Total	100.0	100.0	100.0	100.0	100.0

Source: Company, Anand Rath Research

**Fig 12 – Region-wise growth(Q/Q)**

(%)	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20
North America	7	3	-7	9	3
UK (incl. Exaxe in Q3 FY19)	-11	-25	-32	32	11
APAC	-13	14	-4	-4	-18
Total	4	1	-9	9	2

Source: Company, Anand Rath Research

**Fig 13 – Client contribution(%)**

	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20
Top 1	10.1	7.3	4.9	6	6
Top 5	22.9	25.8	20.5	21.7	22.2
Top 10	35.3	39.6	35.6	36.1	35.7

Source: Company, Anand Rath Research

**Fig 14 – Client contribution(\$ m)**

	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20
Top 1	3.7	2.7	1.7	2.2	2.3
Next 2-5	4.7	6.9	5.3	5.8	6.1
Next 6-10	4.6	5.1	5.1	5.4	5.1
Revenues from Top-10	13.0	14.8	12.1	13.4	13.5

Source: Company, Anand Rath Research

## Valuations

The stock trades at 10x FY22e EPS. We believe it can quote at 13x FY22e P/E, given the better Q4 performance and expectation of a 10% sales CAGR over FY20-22 including Inspro. Our target multiple of 13x is equivalent to 18x (of the US entity), were one to adjust for the 20% holding-company discount, taking into account GAAP changes and India operations. The stock is now trading at a 40% discount to the US entity.

Majesco ended FY20 with 3% revenue growth and better margins (~7.9%, vs. 0.6% in FY18). As of Q4 FY20, it has 65 cloud customers. Overall, H1FY20 execution had been weak in cloud metrics and customer acquisitions. On the strong H2 revenues, margins and order-backlog, though, we expect a 10% CAGR over FY20-22, including the InsPro acquisition.

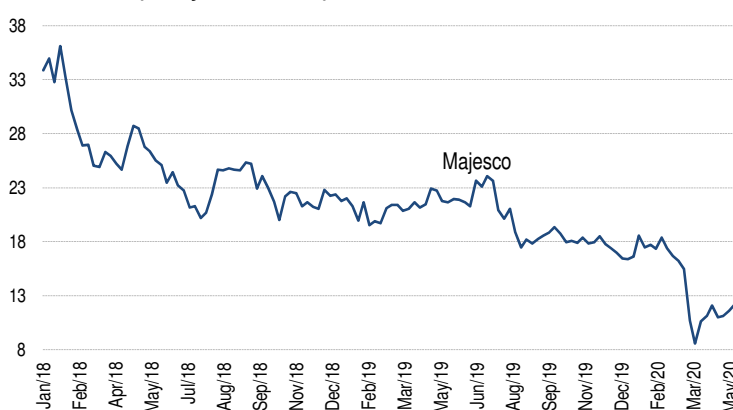
With the Metlife project phase-1 going live, we expect the next phase to start in FY21. Growth is likely to resume, as suggested by the higher order backlog and expectations of faster cloud adoption. We largely retain our FY21e/22e on the better-than-anticipated sales and cash generation. We keep our target unchanged at ₹420 (13x FY22e PE).

**Fig 15 – Change in estimates**

	FY21e			FY22e		
	New	Old	% Change	New	Old	% Change
Revenue (\$m)	162	165	-2.2	177	183	-3.3
Revenue (₹m)	11,866	11,946	-0.7	12,984	13,220	-1.8
EBITDA	1,453	1,450	0.2	1,985	1,977	0.4
EBITDA margins (%)	12.2	12.1	11 bps	15.3	15.0	33 bps
EBIT	1,083	1,081	0.1	1,580	1,575	0.3
EBIT margins (%)	9.1	9.0	7 bps	12.2	11.9	25 bps
PBT	1,225	1,231	-0.5	1,726	1,742	-0.9
Net profit	676	679	-0.5	940	948	-0.9

Source: Anand Rath Research

**Fig 16 – PE band (one-year-forward)**



Source: Bloomberg, Anand Rath Research

## Risk

- Loss of market share and aggressive M & A driven strategy.



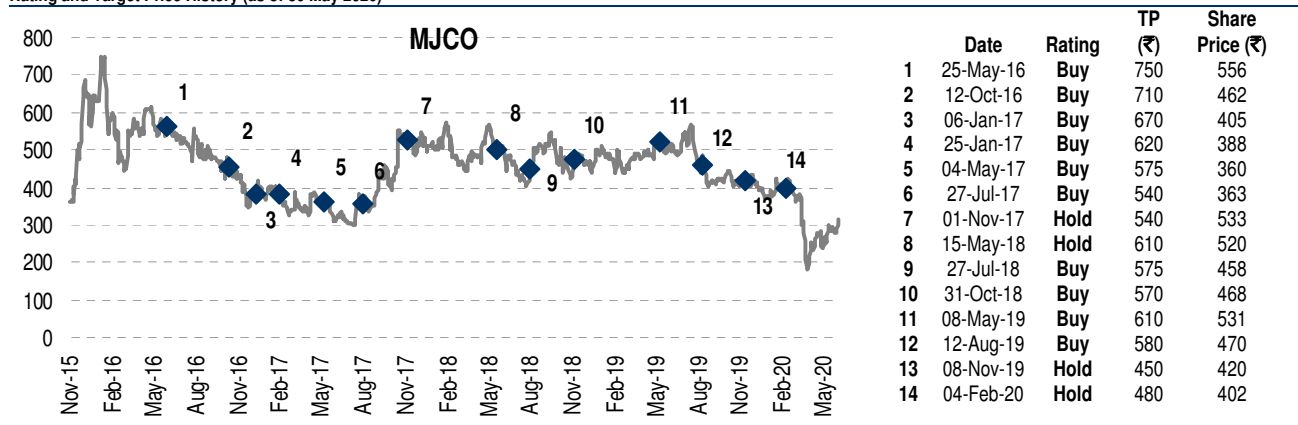
## Appendix

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