Majesco

Buy

Company Update

'Deal-well-done'; shareholders to get rich dividends; maintain Buy

View: Majesco India sold its US listed operating entity (owns 74% economic interest) to a PE entity valuing the company at US$594mn. The transaction would mean the company would exit its entire operating unit and thus would use the entire proceeds of about Rs850 per share its shareholders. The sell-out was on expected line as company did all the necessary actions (Rights issue in US to transfer cash from India to operating entity, additional stake purchase from Mastek, selling Asia-region business to its US-subsidiary) that were ideal for the transaction to get consummated over last few quarters.

We believe the significant-premium on the deal valuation is a classic example of what opportunity any cloud based IP-business can achieve given the potential acceleration theme and further reinforce our positive view in the space. We expect the stock to trade about 20% discount (towards tax & time value) to cash-per-share at about Rs680 and would inch higher as more clarity emerges on distribution route and time-lines and maintain our **Buy** rating on the stock with a similar TP (Target price implies 19x on FY22 earnings).

The transaction: Majesco's 100% operating unit and its US listed subsidiary got merged (acquired) with Magic Intermediate LLC (affiliate of Thoma Bravo LP a US based PE firm with US$45bn in capital commitments) for US$13.1 per share a 71% premium to its previous closing price of $7.6. Post this transaction the US business will turn into Private Corporation.

Deal Contours: Majesco Ltd owns 74.07% stake (32mn shares) of the US subsidiary that valued the stake at closing price at US$245mn which was already at 74% premium to its market capitalisation in India. However, it would now receive about US$420.6mn (pre-tax) from the transaction, implying 198% premium.

Plans for proceeds: Majesco Ltd. Intends to distribute entire proceeds from the stake-sale net of taxes and transaction cost through Dividend/buyback route. The total cash per share that would be eligible for distribution would be about Rs850 per share (assuming 23% towards taxation – calculated after deducting investment value in books at US$68.6mn). The company also have some real estate in the holding company. For Indian shareholders they may now receive about per share value of over Rs850 as against CMP of Rs386.

Roadmap: The company would need to get multiple approvals both in US (SEC clearance, HSR/Anti-Trust, Shareholder Approval) and India (Shareholder Approval, RBI, Income tax NOC- 281) and thus expect the transaction to get close by Q3FY21. Promoter Group collectively owns 38.2% of India Listed Entity) have supported the move and the agreement on the same has also been approved.

Valuation

The deal valued the company at US$594mn – over 4x on EV/revenues, ~55x on EV/EBIT basis. The valuations are in sync with other cloud businesses in the US market, implying about 10x on its cloud revenues that has been growing 35% CAGR since listing). Indian shareholders are expected to receive potential dividend per share of about Rs850 or may get lower value in cash as company may resort to buyback route.

CMP	Rs 386
Target / Upside	Rs 680 / 76%
BSE Sensex	37,441
NSE Nifty	11,022
Scrip Details	
Equity / FV	Rs 144mn / Rs 5
Market Cap	Rs 11bn
	US$ 148mn
52-week High/Low	Rs 513/Rs 168
Avg. Volume (no)	32,510
NSE Symbol	MAJESCO
Bloomberg Code	MJCO IN
Shareholding Pattern Mar'20(%)	
Promoters	38.6
MF/Banks/FIs	11.8
FIIs	10.0
Public / Others	39.6

Majesco Relative to Sensex

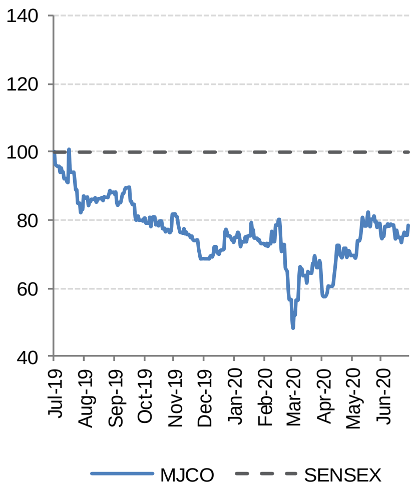

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Exhibit 1: Deal contours and valuation

Majesco	Particulars	Value	Remarks
A	Market Cap (Rs mn)	11088	Holding Company
B	Holding in MJCO US entity	74%	Stake in subsidiary
C	MJCO US CMP	$7.6	Per Share
D	Got acquired for	$13.1	Per Share
E	Premium received	71%	for US listed shares
F	Valuation US entity (mn$)	$594	Merged with PE
G	Value of stake for Majesco India (B*F)	440	$mn
H	Value of stake post tax (23%) @ 75Rs/$	25555	Rs mn
I	Cash value from proceed (net of tax)	850	Per Share
J	CMP of Majesco India (Rs)	386	Per Share
K	Effective upside assuming 100% payout (I/J)	220%	through dividends
L	Discount on cash per share	20%	Towards tax/time value
M	Fair value per share (I * L)	680	Per Share
N	Upside (M/J)	176%	

Source: Company, DART

Profit and Loss Account

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Revenue	**9,881**	**10,405**	**11,743**	**12,982**
Total Expense	**8,950**	**9,238**	**10,248**	**11,053**
COGS	6,611	6,941	7,778	8,343
Employees Cost	0	0	0	0
Other expenses	2,340	2,297	2,470	2,710
EBIDTA	**931**	**1,167**	**1,495**	**1,929**
Depreciation	196	340	385	415
EBIT	**735**	**826**	**1,110**	**1,514**
Interest	36	20	16	20
Other Income	302	217	170	185
Exc. / E.O. items	27	150	30	0
EBT	**1,028**	**1,173**	**1,294**	**1,679**
Tax	310	271	272	353
RPAT	541	691	793	1,015
Minority Interest	177	211	229	311
Profit/Loss share of associates	**0**	**0**	**0**	**0**
APAT	**513**	**542**	**763**	**1,015**

Balance Sheet

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Sources of Funds				
Equity Capital	142	144	144	144
Minority Interest	1,282	1,467	1,697	2,008
Reserves & Surplus	6,628	6,836	7,629	8,644
Net Worth	**6,770**	**6,980**	**7,772**	**8,788**
Total Debt	36	5	4	2
Net Deferred Tax Liability	(595)	(652)	(652)	(652)
Total Capital Employed	**7,493**	**7,800**	**8,821**	**10,146**
Applications of Funds				
Net Block	**3,383**	**3,580**	**4,573**	**5,226**
CWIP	1	96	96	96
Investments	5	0	0	0
Current Assets, Loans & Advances	**7,132**	**8,147**	**8,522**	**9,565**
Inventories	0	0	0	0
Receivables	1,196	1,981	2,316	2,561
Cash and Bank Balances	1,099	3,430	3,289	3,892
Loans and Advances	33	36	37	39
Other Current Assets	3,938	1,973	2,150	2,345
Less: Current Liabilities & Provisions	**3,027**	**4,023**	**4,370**	**4,742**
Payables	165	305	338	365
Other Current Liabilities	2,862	3,718	4,032	4,377
sub total				
Net Current Assets	4,105	4,124	4,151	4,823
Total Assets	**7,493**	**7,800**	**8,821**	**10,146**

E – Estimates

Important Ratios

Particulars	FY19A	FY20A	FY21E	FY22E
(A) Margins (%)				
Gross Profit Margin	33.1	33.3	33.8	35.7
EBIDTA Margin	9.4	11.2	12.7	14.9
EBIT Margin	7.4	7.9	9.4	11.7
Tax rate	30.2	23.1	21.0	21.0
Net Profit Margin	5.5	6.6	6.7	7.8
(B) As Percentage of Net Sales (%)				
COGS	66.9	66.7	66.2	64.3
Employee	0.0	0.0	0.0	0.0
Other	23.7	22.1	21.0	20.9
(C) Measure of Financial Status				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	20.4	40.7	69.4	75.7
Inventory days	0	0	0	0
Debtors days	44	69	72	72
Average Cost of Debt	10.0	98.1	348.6	653.6
Payable days	6	11	11	10
Working Capital days	152	145	129	136
FA T/O	2.9	2.9	2.6	2.5
(D) Measures of Investment				
AEPS (Rs)	18.2	18.9	26.6	35.7
CEPS (Rs)	25.1	30.7	40.0	50.3
DPS (Rs)	1.5	0.0	0.0	0.0
Dividend Payout (%)	8.2	0.0	0.0	0.0
BVPS (Rs)	239.9	243.2	270.8	309.2
RoANW (%)	8.9	10.1	10.7	12.3
RoACE (%)	10.5	10.1	12.1	14.2
RoAIC (%)	12.1	15.4	22.4	25.7
(E) Valuation Ratios				
CMP (Rs)	386	386	386	386
P/E	21.2	20.5	14.5	10.8
Mcap (Rs Mn)	11,085	11,085	11,085	11,085
MCap/ Sales	1.1	1.1	0.9	0.9
EV	9,157	6,933	7,072	6,467
EV/Sales	0.9	0.7	0.6	0.5
EV/EBITDA	9.8	5.9	4.7	3.4
P/BV	1.6	1.6	1.4	1.2
Dividend Yield (%)	0.4	0.0	0.0	0.0
(F) Growth Rate (%)				
Revenue	22.6	5.3	12.9	10.6
EBITDA	311.9	25.3	28.1	29.1
EBIT	1446.9	12.5	34.3	36.5
PBT	382.4	14.1	10.3	29.8
APAT	(1310.4)	5.6	40.8	33.2
EPS	(1302.9)	3.8	40.8	34.5

Cash Flow

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
CFO	477	1,096	1,187	1,690
CFI	(208)	1,014	(1,311)	(1,068)
CFF	173	(94)	(16)	(20)
FCFF	(401)	(227)	(191)	623
Opening Cash	598	1,077	3,310	3,170
Closing Cash	1,077	3,310	3,170	3,772

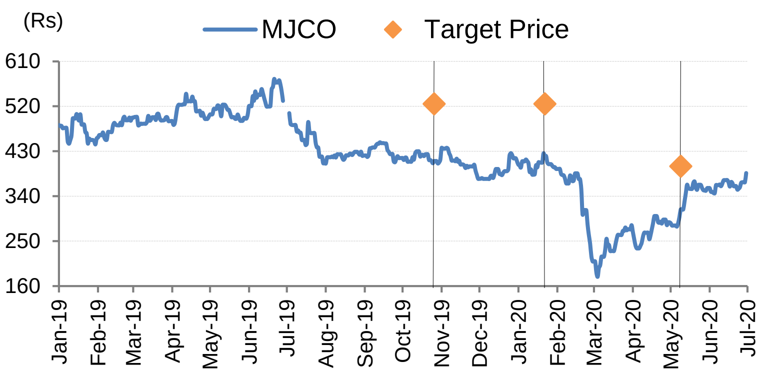
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	**> 20%**
Accumulate	**10 to 20%**
Reduce	**0 to 10%**
Sell	**< 0%**

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Nov-19	Buy	525	410
Feb-20	Buy	525	417
May-20	Buy	400	313

*Price as on recommendation date

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