

Operating result ahead of estimate; Payout to have buyback first

- Revenue grew 8.8% QoQ CC terms to \$41.2mn (DART estm: 3% QoQ growth). INR Revenue grew by 12.4% to Rs. 3,110mn. The growth was led by strong traction in subscription revenues through INspro integration. Product Revenue up 34.6% YoY to Rs 1,491mn. EBIT Margin declined by 60bps to 9.6% well ahead of our estm at 9%.
- Majesco's total order backlog stood at \$254 million. Go-live during the quarter stood at 11. Total customers were 79 with 2 customer additions. The expenses related to the acquisition of InsProTechnologies, Rs. 137mn has been shown as exceptional item.
- Distribution of deal-payouts of approx. Rs30bn would be done first through Share buyback; It is restricted to 25% of Reserves, so potential size would be about Rs7.5bn (this should take away 27% of outstanding shares assuming buyback at Rs950) and rest through Dividend; a ballpark would be around Rs950 per share.
- Stock has doubled since the announcement of the deal (details Exhibit 1) but still offer some further room for upside given further payout potential from Cash holdings (Rs250mn) and monetisation of property (conservatively Rs750mn). We maintain our positive view on the stock with TP of Rs 875 per share.

Despite the revised seetner, deal to be consummated by Dec'20

Although the entire process is now reinitiated post the revised deal, it is still expected to be consummated by Dec'20. The company can technically eligible for further counter superior offer but promoters now have to compulsively devote half of their voting rights (19% of total company) against any counter-deal. The transaction tax is about 19%, as Majesco India Ltd will have to pay capital gain tax in India on the short term (towards rights issue, and recent purchase from Mastek) and long term investment that it holds in the Majesco US (tax in US is Exempted). Real Estate asset owned by Majesco includes 7 storey office building with 120,000 Sqft in Mahape, Navi Mumbai, wherein it collects rent from Majesco US. The company plans to sell this asset and also intent to payout the proceed to shareholders and delist the India subsidiary. The entire process is likely to take another 6 months post deal closure.

Q1FY21 Result (Rs Mn)

Particulars	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Revenue	3,110	2,590	20.1	2,767	12.4
Total Expense	2,704	2,320	16.5	2,400	12.6
EBITDA	406	270	50.5	366	11.0
Depreciation	109	85	28.7	86	26.3
EBIT	297	185	60.5	280	6.3
Other Income	23	43	(46.8)	64	(64.1)
Interest	6	5	30.6	6	10.3
EBT	177	224	(20.9)	392	(54.9)
Tax	62	103	(39.7)	79	(20.7)
RPAT	88	85	3.9	234	(62.5)
APAT	225	85	166.1	180	25.0
			(bps)		(bps)
Gross Margin (%)	34.0	34.7	(78)	34.8	(87)
EBITDA Margin (%)	13.1	10.4	264	13.2	(17)
NPM (%)	2.8	3.3	(44)	8.5	(564)
Tax Rate (%)	35.3	46.2	(1095)	20.1	1523
EBIT Margin (%)	9.6	7.2	241	10.1	(55)

CMP	Rs 775
Target / Upside	Rs 875 / 13%
BSE Sensex	37,898
NSE Nifty	11,178

Scrip Details

Equity / FV	Rs 144mn / Rs 5
Market Cap	Rs 22bn
	US\$ 297mn
52-week High/Low	Rs 802/Rs 168
Avg. Volume (no)	78,773
NSE Symbol	MAJESCO
Bloomberg Code	MJCO IN

Shareholding Pattern Jun'20(%)

Promoters	38.6
MF/Banks/FIs	11.8
FIIIs	10.0
Public / Others	39.6

Valuation (x)

	FY20A	FY21E	FY22E
P/E	41.1	26.3	21.2
EV/EBITDA	15.5	11.4	8.8
ROE (%)	10.1	10.0	12.6
RoACE (%)	10.1	13.2	14.7

Estimates (Rs mn)

	FY20A	FY21E	FY22E
Revenue	10,405	12,681	13,656
EBITDA	1,167	1,618	2,020
PAT	542	845	1,041
EPS (Rs.)	18.9	29.4	36.6

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Exhibit 1: Majesco - Cash distribution workings

Cash distribution workings	Value	Remarks
Cash proceed from sale of US subsidiary (post tax)	30000	Rs mn
Cash + potential proceed from asset sale in India	1000	Rs mn
Total proceeds eligible for distribution	31000	Rs mn
Potential Buyback size based on Networth criteria	7500	Rs mn
Expected Buyback Price per share	1000	Rs per share
Shares Outstanding Pre-buyback	28.7	mn
Share to be purchased in buyback	7.5	mn
No of shares post buyback	21.2	mn
Buyback tax to Majesco India	1793	Rs mn
Balance cash available for Dividend distribution	21708	Rs mn
Potential Dividend per share	1024	per share
Fair value (taking 20% tax impact to investor +, buyback gains)	875	Rs per share
CMP	775	Rs per share
Upside potential	13%	

Source: Company, DART

Exhibit 2: Quarterly performance versus estimates

(in Rs mn)	Estimates			% Variation		Comment
	Actual	Dolat	Consensus	Dolat	Consensus	
Revenues (in US\$ mn)	41.5	38.0	NA	9.2	NA	Rev beat was led by strong traction in the cloud biz
Sales	3,110	2,847	NA	9.2	NA	
EBITDA	406	350	NA	16.2	NA	
EBITDA Margin (%)	13.1	12.3	NA	80 bps	NA	Profitability beat was led by strong traction in annuities
PAT	114	240	NA	(52.3)	NA	

Source: Company, DART

Exhibit 3: Change in estimates

(Rs mn)	FY20	FY21E			FY22E		
	Actual	Old	New	% change	Old	New	% Change
Revenues (US\$ mn)	146.5	156.6	169.2	8.1	173.1	182.1	5.2
YoY growth (%)	3.7	6.9	15.5%		10.6%	7.6%	
Revenues	10,405	11,743	12,681	8.0	12,982	13,656	5.2
EBIT	827	1,110	1,233	11.1	1,514	1,605	6.0
EBIT Margin (%)	7.9	9.4	9.7		11.7	11.8	
Net profits	691	793	738	(6.9)	1,015	1,041	2.5
EPS (Rs)	23.4	26.9	25.0	(6.9)	34.4	35.3	2.5

Source: Company, DART

Exhibit 4: Key assumptions in our estimates

Metrics	FY20	FY21E	FY22E
Growth in Revenues (US\$ terms)	3.7	15.5	7.6
Cloud business (growth)	5.4	41.4	12.4
On-premise business (growth)	5.5	8.7	3.5
INR/US\$ (Realised rate)	71.0	74.9	75.0

Source: Company, DART

Exhibit 5: Quarterly and Full Year Performance Trends

Rs mn	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	YoY (%)	QoQ (%)	YTDFY20	YTDFY21	YoY (%)
Revenues (US\$ mn)	37.5	33.8	37.2	38.0	41.5	10.5	2.3	146.5	41.5	(71.7)
Revenue	2,590	2,398	2,651	2,767	3,110	20.1	4.4	10,405	3,110	(70.1)
Operating Expenditure	2,320	2,177	2,341	2,400	2,704	16.5	2.5	9,238	2,704	(70.7)
Cost of revenues	1,690	1,692	1,757	1,803	2,054	21.5	2.6	6,941	2,054	(70.4)
as % of sales	65.3	70.6	66.3	65.2	66.0			66.7	66.0	
SG&A expenses	630	485	584	598	650	3.2	2.3	2,297	650	(71.7)
as % of sales	24.3	20.2	22.0	21.6	20.9			22.1	21	
EBITDA	270	220	310	366	406	50.5	18.1	1,167	406	(65.2)
Depreciation	85	85	84	86	109			340	109	(68.0)
EBIT	185	136	226	280	297	60.5	24.0	827	297	(64.0)
Other Income	38	62	38	58	17			197	17	(91.6)
PBT	224	198	264	338	314	40.4	28.2	1,023	314	(69.3)
Extra ordinary items	0	0	96	54	(137)			150	(137)	(191.6)
Reported PAT	85	138	234	234	88	3.9	(0.1)	691	88	(87.3)
Reported EPS	3.0	4.9	8.2	8.2	3.1	2.7	(0.1)	24.3	3	(87.4)
Margins (%)						(bps)	(bps)			
EBIDTA	10.4	9.2	11.7	13.2	13.1	260	(10)	11.2	13.1	180
EBIT	7.2	5.7	8.5	10.1	9.6	240	(50)	7.9	9.6	160
EBT	8.6	8.2	10.0	12.2	10.1	140	(210)	9.8	10.1	20
PAT	3.3	5.8	5.2	6.5	7.2	390	70	5.2	7.2	200
Effective Tax rate	46.2	15.0	22.4	23.3	19.9	(2,630)	(330)	26.5	19.9	(650)

Source: Company, DART

Exhibit 6: Standalone key financial numbers in millions

Majesco software and solutions India Pvt Ltd (Rs mn)	FY20	FY19	FY18
Revenue from operations	102	97	91
Total Operating Expense	122	140	82
Profits	240	122	143
Cash & Cash Equivalents	5448	5353	5113
Rental Income (Rs mn)	NA	95	87

Source: DART; Not available, Past financials not comparable as cash now transferred to US entity

Profit and Loss Account

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Revenue	9,881	10,405	12,681	13,656
Total Expense	8,950	9,238	11,063	11,636
COGS	6,611	6,941	8,387	8,841
Employees Cost	0	0	0	0
Other expenses	2,340	2,297	2,677	2,795
EBIDTA	931	1,167	1,618	2,020
Depreciation	196	340	385	415
EBIT	735	826	1,233	1,605
Interest	36	20	26	20
Other Income	302	217	143	166
Exc. / E.O. items	27	150	(107)	0
EBT	1,028	1,173	1,243	1,751
Tax	310	271	286	385
RPAT	541	691	738	1,041
Minority Interest	177	211	219	325
Profit/Loss share of associates	0	0	0	0
APAT	513	542	845	1,041

Balance Sheet

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Sources of Funds				
Equity Capital	142	144	144	144
Minority Interest	1,282	1,467	1,686	2,011
Reserves & Surplus	6,628	6,836	7,574	8,615
Net Worth	6,770	6,980	7,718	8,759
Total Debt	36	5	4	2
Net Deferred Tax Liability	(595)	(652)	(652)	(652)
Total Capital Employed	7,493	7,800	8,756	10,120

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	8,483	9,558
Inventories	0	0	0	0
Receivables	1,196	1,981	2,502	2,694
Cash and Bank Balances	1,099	3,430	3,065	3,751
Loans and Advances	33	36	37	39
Other Current Assets	3,938	1,973	2,151	2,345
Less: Current Liabilities & Provisions	3,027	4,023	4,396	4,761
Payables	165	305	364	383
Other Current Liabilities	2,862	3,718	4,032	4,377
<i>sub total</i>				
Net Current Assets	4,105	4,124	4,086	4,797
Total Assets	7,493	7,800	8,756	10,120

E – Estimates

Important Ratios

Particulars	FY19A	FY20A	FY21E	FY22E
(A) Margins (%)				
Gross Profit Margin	33.1	33.3	33.9	35.3
EBIDTA Margin	9.4	11.2	12.8	14.8
EBIT Margin	7.4	7.9	9.7	11.8
Tax rate	30.2	23.1	23.0	22.0
Net Profit Margin	5.5	6.6	5.8	7.6
(B) As Percentage of Net Sales (%)				
COGS	66.9	66.7	66.1	64.7
Employee	0.0	0.0	0.0	0.0
Other	23.7	22.1	21.1	20.5
(C) Measure of Financial Status				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	20.4	40.7	48.2	80.3
Inventory days	0	0	0	0
Debtors days	44	69	72	72
Average Cost of Debt	10.0	98.1	557.7	653.6
Payable days	6	11	10	10
Working Capital days	152	145	118	128
FA T/O	2.9	2.9	2.8	2.6
(D) Measures of Investment				
AEPS (Rs)	18.2	18.9	29.4	36.6
CEPS (Rs)	25.1	30.7	42.9	51.2
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	268.9	308.2
RoANW (%)	8.9	10.1	10.0	12.6
RoACE (%)	10.5	10.1	13.2	14.7
RoAIC (%)	12.1	15.4	24.5	26.6
(E) Valuation Ratios				
CMP (Rs)	775	775	775	775
P/E	42.6	41.1	26.3	21.2
Mcap (Rs Mn)	22,254	22,254	22,254	22,254
MCap/ Sales	2.3	2.1	1.8	1.6
EV	20,325	18,102	18,465	17,777
EV/Sales	2.1	1.7	1.5	1.3
EV/EBITDA	21.8	15.5	11.4	8.8
P/BV	3.2	3.2	2.9	2.5
Dividend Yield (%)	0.2	0.0	0.0	0.0
(F) Growth Rate (%)				
Revenue	22.6	5.3	21.9	7.7
EBITDA	311.9	25.3	38.7	24.9
EBIT	1446.9	12.5	49.2	30.2
PBT	382.4	14.1	6.0	40.9
APAT	(1310.4)	5.6	56.0	23.2
EPS	(1302.9)	3.8	56.0	24.4

Cash Flow

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
CFO	477	1,096	972	1,774
CFI	(208)	1,014	(1,311)	(1,068)
CFF	173	(94)	(26)	(20)
FCFF	(401)	(227)	(406)	706
Opening Cash	598	1,077	3,310	2,945
Closing Cash	1,077	3,310	2,945	3,632

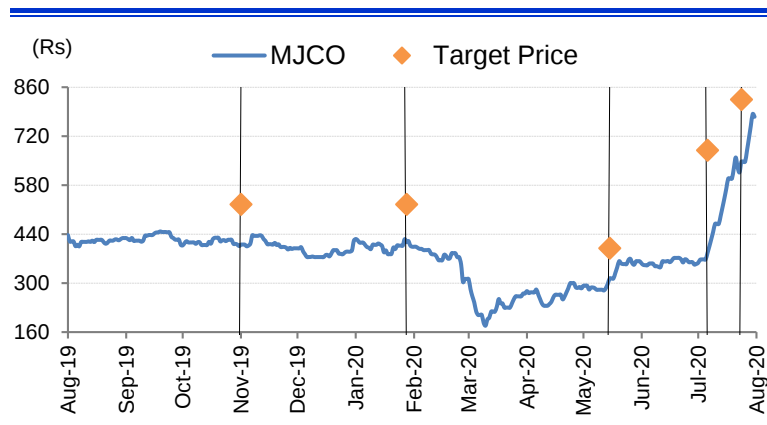
E – Estimates

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
Jul-20	Buy	680	386
Aug-20	Buy	825	647

*Price as on recommendation date

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