

Upward revision in acquisition price...

Majesco US (the US listed company) has signed an amended agreement to sell its company to a private equity (Thoma Bravo, LP) at a revised price of US\$16/share (from earlier offer of US\$13.1/share), valuing the company at US\$729 million (~₹ 5,467 crore). The increased offer from Thoma Bravo and the amendment followed Majesco's receipt of an unsolicited acquisition proposal from an unaffiliated third party. The company is now valued at 5x FY20 EV/sales. Majesco India (the India listed company) holds 74.07% stake in the US entity (Majesco US). Hence, based on the stake, the company will now receive cash of US\$513.8 million (₹ 3853.3 crore). Assuming a capital gains tax, the company would receive cash of ~₹ 3121.2 crore. This, coupled with cash of ₹ 23.5 crore on the company's balance sheet, the total cash with the firm would be ₹ 3144.7 crore or ~₹ 1037/share. The company plans to distribute this cash via buyback and/or dividend. Considering the uncertainty on method of distribution, we conservatively revise our target price to ₹ 785/share, 22% upside from current levels.

Majesco US transaction details

Under the terms of the agreement, all Majesco US (US entity) shareholders of record will receive \$16 cash for each share of Majesco US common stock held by them upon closing of the transaction. Majesco US board of directors have unanimously approved the merger and recommended that shareholders approve the merger. Majesco India board also approved the revised transaction on August 8, 2020. In order to enhance successful completion of the proposed transaction, under the Revised Support Agreement, the specified promoters have agreed, in their individual capacity as the shareholders of the company, to exercise their respective votes in favour of the merger, and against any competing proposals. Completion of the merger is not subject to a financing condition but is subject to accuracy of representations and warranties, performance of covenants and other agreements included in merger agreement, approval of shareholders of US entity, Majesco Ltd in India and customary closing conditions for a transaction of this type including regulatory approvals in the US, India. The private equity post acquisition is planning to take the company private. The transaction is expected to be completed by end of 2020 and is subject to regulatory approval in India and the US.

Valuation of Majesco India (holding company)

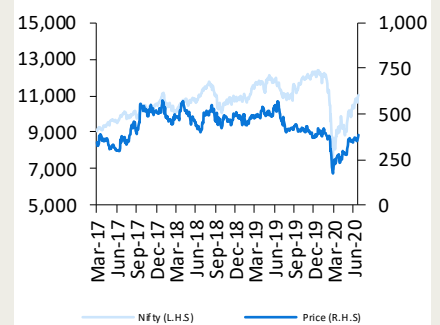
Majesco India that holds 74.07% stake in US entity, will receive revised cash of US\$513.8 million (₹ 3853.3 crore). Assuming a capital gains tax, the company would receive cash of ~₹ 3121.2 crore. This, coupled with cash of ₹ 23.5 crore on the company's balance sheet, would take total cash with the firm to ₹ 3144.7 crore or ₹ 1037/share (vs earlier ₹ 852/share). The company plans to distribute this cash via buyback and/or dividend. Considering the uncertainty on method of distribution, we conservatively revise our target price upwards to ₹ 785/share, maintain **BUY** with 22% upside from current level. The transaction is expected to be completed by the end of 2020 and is subject to regulatory approval in India and the US.



Particulars

Particular	Amount
Market Capi (₹crore)	1906.0
Debt (₹crore)	0.5
Cash & Equivalent (₹crore)	23.5
EV (₹crore)	1883.0
52 Week High / Low (₹)	677/ 171
Equity Capital	14.4
Face Value	5.0

Price Performance



Key Highlights

- Majesco India holding company of Majesco US will receive revised cash of US\$513.8 million (₹ 3853.3 crore) post the sale of US entity. The company will have a revised cash of ₹ 1037/share in the company and plans to distribute entire cash via buyback and/ or dividend
- Maintain BUY with revised target price of ₹ 785 per share

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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	1224.1	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	22.3	25.8	
P/E	261.4	35.3	28.3	29.0	24.4	
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

Exhibit 1: Majesco India value realisation per share

Particular	Unit	Value
Number of shares held in Majesco US	Nos crore	3.2
Price Offered per share	USD	16.0
Value of Majesco (pre tax)	USD crore	51.4
Value of Majesco (pre tax)	INR crore	3853.3
Value after Capital Gains Tax (assumed)	INR crore	3121.2
Cash balance (after transaction expenses)	INR crore	23.5
Total Cash value	INR crore	3144.7
Diluted Equity share	Nos crore	3.0
Cash value per share	INR	1037.2

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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