



Majesco Ltd. Q4 FY17 Quarterly Update

MARKET DATA

Networth (₹Cr)	288
P/BV Ratio (FY16) (x)	3.0x
EPS (FY17) (₹)	5.8
Market Price (₹)	364
P/E Ratio (FY16) (x)	63x
52 Week High (12/05/2016)	590
52 Week Low (15/02/2017)	331
Market Capitalisation (₹Cr)	850

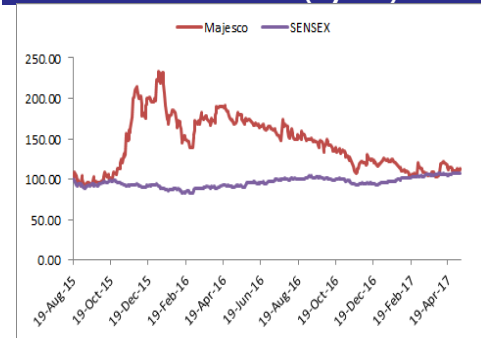
AVERAGE MONTHLY VOLUME ('000)

BSE	23
NSE	169

SHAREHOLDING PATTERN (Mar-17)

Promoters	Institutions	Others
48.3%	13%	38.7%

SHARE HOLDING PATTERN (3 years)



RETURN	3M	6M	12M
Stock	-2	-13	-35
Sensex	7	8.5	19

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Strong cloud revenue growth camouflaged by muted enterprise revenues

The operating revenue was ₹190.9 crore during the quarter under review as compared to ₹205.5 crore during the previous quarter reflecting a decrease of 7.1% in rupee terms. The operating revenue was ₹827.5 crore for FY17 as compared to ₹757.2 crore in FY16 reflecting a growth of 9.3% in rupee terms. However the cloud business grew at a robust 19.7% during the year in line with a fundamental shift in the industry.

EBITDA margin trajectory sustained due to cost efficiencies

The Company reported an EBITDA of ₹44.9 crore (5.4% of operating revenue) for FY17 as compared to an EBITDA of ₹9.9 crore (1.3% of operating revenue) in FY16. For the quarter ended 31st march the Company reported an EBITDA of ₹13.1 Crore as compared to ₹11.7 Crore in the quarter ended 31st December 2016. EBITDA margins were also buoyed by the increasing share of revenues from cloud platform which tends to have a higher EBITDA contribution.

Key Quarterly Updates & Conference Call Highlights

- Update on IBM Partnership:- The quarter saw the inception work with a Tier 1 Insurer as a service insurance initiative announced by IBM IN October 2016
 - Although no exact size has been mentioned by the management, contracts within the IBM partnership would tend to be large in size and should be a big development over FY18
- Client Update:- Majesco closed the year with 164 clients as compared to 165 in Q3 indicating the loss of 1 client
 - Top 5 clients constituted 23.7% of revenue while the top 10 clients constituted 37.5% of revenues, as compared to 28% of revenues and 42% of revenues in Q3 as a couple of large client contracts exited the implementation phase and entered the maintenance phase
- Order Pipeline:- 12 month order backlog stood at ₹440 Crore as compared to ₹426 Crore in Q3 reflecting an increase of 3.3% in Q-o-Q terms
 - The cloud commentary on the order pipeline was encouraging as 4 of the last six platform deals signed were on the cloud
- R&D:- R&D expenses grew to ₹116 Crore in FY17 as compared to ₹108 Crore in FY16 and were maintained at ~13.9% of total revenue
- Updates on the cloud business
 - Typical cloud deal takes 6 - 9 months for implementation, Charges go up as more and more business gets added, scale up takes ~ 2 years
 - For e.g. A cloud client scaled from \$550k to \$2Mn over the past 2 years
- Management Outlook: While the management did not mention a particular guidance they seemed confident of ramping up the growth rate for the cloud vertical, while the overall and enterprise revenue growth could remain muted.

Outlook and Valuation

We value the recurring cloud revenues at ~4.5x EV/FY17 Sales, the contractual enterprise business at ~1x EV/FY17 Sales with a 20% holding company discount. Thereby arrive at our valuation of ₹450/- per share implying a 21% upside from CMP and continue with our Buy rating on the stock.

Quarterly Performance:

Particulars ₹Cr	Q4 FY17	Q4 FY16	% YoY	Q3 FY17	%QoQ	FY17	FY16	% YoY
Net Sales	190.9	221.6	-13.9%	205.4	-7.1%	827.5	757.2	9.3%
Employee Costs	112.5	140.2	-19.8%	139.8	-19.5%	545.2	505.6	7.8%
R&D Expenditure	28.3	31.5	-10.2%	27	4.8%	116.6	108.5	7.5%
EBITDA	13.1	16.7	-21.6%	11.7	12.0%	44.9	9.9	353.5%
EBITDA Margin	6.9%	7.5%	(60bps)	5.7%	120bps	5.4%	1.3%	410bps
PBT	4.4	-0.7	NA	6.6	-33.3%	19.6	-7.7	NA
PAT	3.6	-3.7	NA	6.9	-47.8%	19.4	7.3	165.8%
EPS	1.02	-0.86	NA	2.04	-50.0%	5.8	2.8	107.1%



Key Financials

Profit & Loss

(₹Cr.)	FY16	FY17
Net sales	757.2	827.5
Total expenses		
Traveling and conveyance	57.0	48.9
Employee costs	505.6	545.2
Other Expenses	184.7	188.6
EBITDA	9.9	44.9
EBIDTA (%)	1.3%	5.4%
Depreciation	17.9	26.1
EBIT	-7.9	18.8
Interest	4.3	5.5
Other income	9.1	9
Exceptional Items	-4.6	-2.7
PBT	-7.7	19.6
Less: Taxation	-15.0	0.2
Effective tax rate (%)	194.6%	1%
PAT	7.3	19.4
PAT (%)	1.0%	2.3%
PAT after Minority	6.9	14.3

Key Ratios

Particulars	FY16	FY17
Reported EPS (₹)	3.0	5.8
Book value (₹)	119.1	123
Debt Equity Ratio	0.3	0.2
Payable Days	5	6
Debtor Days	73	36
Inventory Days	0	0
ROCE (%)	(1.9)	9.3
Recurring ROE (%)	5.3	6.7
ROA (%)	2.3	6.9
Valuation Ratios		
Market cap/sales (x)	1.7	1.0
EV/sales (x)	1.7	1.0

Balance Sheet

(₹Cr.)	FY16	FY17
Equity capital	11.5	11.7
Reserves	264	276
Net worth	276	288
Total borrowings	46	56
Minority Interest	72	75
Non-Current Liabilities	52	49
Current Liabilities	228	177
Total liabilities	674	645
Net block	67	64
Goodwill	192	188
Others	13	56
Current assets		
Debtors	152	83
Cash	115	155
Other Current assets	134	99
Total assets	674	645

Cash Flow

(₹Cr.)	FY16
Net profit	(3)
Depreciation	18
Others	(4)
Change in working cap	(25)
Op. Cash flow	(14)
Capex (Net)	(41)
Investments	(76)
Inv. Cash flow	(118)
Dividend	0
Fresh Equity	3
Debt	62
Others	(7)
Fin. Cash flow	58
Net change in cash	(74.9)
Opening cash	0.0
Closing cash	37.8



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