

Current	Previous
CMP : Rs.406	
Rating : BUY	Rating : BUY
Target : Rs.549	Target : Rs.549

Q2FY16 Result Highlights

Revenue Highlights

- Q2FY16 revenue increased 24.8% Q/Q to Rs.1.9 bn (v/s Rs.1.5 bn in Q1FY16). We estimated Rs.1.6 bn of revenue in Q2FY16. This quarter includes revenue from the Agile Technologies business and Cover-All Technologies amounting to Rs.545 mn. The growth was primarily due to full quarter impact of revenues from Cover-All Technologies. The company's organic revenue increased 13.0% Y/Y to Rs 3.4 bn in 1HFY16.
- During the quarter, MJCO's key geography delivered growth – US and UK grew by 28.7% Q/Q, and 11.0% Q/Q, respectively; partially offset by 8.7% Q/Q decline in others.
- Maintenance revenue increased 82.5% Q/Q (16.1% of Rev) followed by Professional Services (+28.0% Q/Q | 64.3% of Rev), and Cloud (+1.8% Q/Q | 14.4% of Rev). During the quarter, License revenue de-grew by 24.9% Q/Q to Rs.98 mn due to completion of one key client contract.
- P&C business now accounts for 77% of total revenue and delivered 26.2% Q/Q growth followed by L&A, which accounts for 20% of revenue and grew by 23.5% Q/Q. The Non-Insurance segment delivered +2.6% Q/Q and contributed 3% to the overall Revenue.

Profitability Highlights

- MJCO reported operating loss of Rs.27 mn (v/s Profit of Rs.27 mn in Q1FY16). Following reason led to operating level loss: (1) Increase in product R&D expenses to Rs.279 mn (15.0% of revenue) as compared to Rs.179 mn (representing 14.2% of revenue) in Q1FY16, (2) increase in SG&A expenses, which amounted to Rs.631 mn (33.7% of revenue) as compared to Rs.298 mn (23.6% of revenue) in Q1FY16 and (3) Salary hike of 10% to offshore and 4% to onsite employees.
- As a result, EBITDA stood at Rs 5.8 mn (0.7% of revenue) as compared to Rs 85 mn (5.7% of revenue) in Q1FY16.
- As expected MJCO reported Net loss of Rs 6 mn as compared to a net profit of 15.2 mn in Q1FY16.

Operating Highlights

- The total number of new client wins during the quarter was two with an additional three upsell/cross sell wins to existing clients.
- 12-month backlog at September 30, 2015 was \$54.1 million as compared to \$63.3 million at June 30, 2015.
- New implementations during the quarter included Society Insurance, which successfully completed its business transformation with Majesco Policy, and RVOS Insurance, which successfully completed its business transformation initiative using MJCO P&C Suite.
- MJCO extended its partnership with Deloitte Consulting LLP.

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Outlook

- In our view the company's performance was largely in line with our estimate. As expected the company started attracting business through cross selling. Further, MJCO'S marketing initiatives started paying results, getting good rating and recognition from top independent agencies.
- The disappointment on EBITDA and PAT front was expected on account of integration of AGILE and COVERALL.
- The overall story remains intact post consolidation MJCO has emerged as one of the leading third party insurance vendors.

Valuations

- At CMP of Rs.406, the stock is trading at EV/Sales of 1.3x/1.0x FY16E/FY17E estimates (P/E 36.8x FY17E). We value MJCO at EV/Sales multiple of 1.7x FY17E and arrived at TP of Rs.549. Given the 35% upside from the target price we continue to maintain BUY on MJCO.

Valuations (Insurance)

Insurance Vertical (Majesco Ltd.)		Secenario I	Secenario II
Sales (FY17E)	Rs Mn	Rs. 9,976	Rs. 9,976
EV/Sales (70% Discount to Guidewire Valuations)		1.7x	2.2x
EV	Rs Mn	Rs. 16,959	Rs. 21,946
Less: 30% Holding Discount	Rs Mn	Rs. 5,088	Rs. 6,584
Less: Debt	Rs Mn	Rs. 288	Rs. 288
Add: Cash	Rs Mn	Rs. 793	Rs. 793
Majesco Mcap		Rs. 12,376	Rs. 15,868
Target Price		Rs. 549	Rs. 704

Particulars (Rs mn)	Q2FY16	Q1FY16	Q/Q%
Income from operations			
(a) Income from operations	1,842	1,478	24.6%
(b) Other operating income	32	24	35.2%
Total Sales	1,874	1,502	24.8%
Expenses			
(a) Employee benefits expense	1,284	982	30.7%
(c) Travelling and conveyance expenses	125	115	8.3%
(d) Depreciation and amortisation expenses	41	58	-30.6%
(e) Other expenses	451	319	41.7%
Total expenses	1,901	1,475	28.9%
Operating Profit	(27)	27	NM
Other income	14	43	-66.4%
Finance costs	9	5	63.9%
Exceptional items - (loss) / gain, net	(20)	(19)	NM
PBT	(42)	45	NM
Tax expense			
- Income tax - current	21	28	-22.1%
- Deferred tax charge / (credit)	(55)	1	NM
- Total	(34)	28	NM
Net Profit	(8)	17	NM
Minority interest	(2)	1	NM
Net Profit	(6)	15	NM
EBITDA	13	85	-84.5%
Margin %	0.7%	5.7%	
PAT	-5.8	15.2	NM
Margin %	-0.3%	1.0%	

Source: Company Filing; IndiaNivesh Research

Segment Revenue (Rs mn)	Q2FY16	Q1FY16	Q/Q%
North America	1,644	1,277	28.7%
UK	139	125	11.0%
Others	91	100	-8.7%
Total	1,874	1,502	24.8%
Segment Results PBTI			
North America	(70)	3	NM
UK	25	17	49.3%
Others	(9)	(3)	NM
Total	(54)	18	NM
Capital employed			
North America	1,634	1,870	-12.6%
UK	47	50	-5.2%
Others	328	245	34.2%
Unallocable / corporate	567	214	165.6%
Total	2,577	2,378	8.4%
Clients Detail (No's)	Q2FY16	Q1FY16	Q/Q%
Active Clients during the Quarter	155	152	2.0%
New Client Additions	3	7	-57.1%
New Cross-Sell / Upsell to existing clients	3	0	NM
Clients accounting for >5% of Revenue	2	5	-60.0%
% of Revenue - Top 5 Clients	28.4%	29.7%	NM
% of Revenue - Top 10 Clients	43.9%	46.5%	NM
Order Book (Rs Mn)	3988	3596	10.9%
Particulars (\$ mn)	Q2FY16	Q1FY16	Q/Q%
License	98	131	-24.9%
Professional Services	1,205	941	28.0%
Cloud	270	265	1.8%
Support (Maintenance)	301	165	82.5%
Total	1,874	1,502	24.8%
Particulars (\$ mn)	Q2FY16	Q1FY16	Q/Q%
Property & Casualty	1,445	1,145	26.2%
Life & Annuities	370	299	23.5%
Non-Insurance	58.8	57.3	2.6%
Total	1,874	1,502	24.8%
Manpower (No's)	Q2FY16	Q1FY16	Q/Q%
North America	1,671	1,611	3.7%
UK	209	199	5.0%
Asia Pacific	127	133	-4.5%
Domestic	91	85	7.1%
Corporate Services(Including trainees)	66	67	-1.5%
Total	2,164	2,095	3.3%
ONSITE	541	533	1.5%
OFFSHORE	1,623	1,562	3.9%
Total	2,164	2,095	3.3%
TECHNICAL	1,967	1,903	3.4%
TECHNICAL SUPPORT	75	77	-2.6%
MARKETING	55	46	19.6%
SUPPORT	67	69	-2.9%
Total	2,164	2,095	3.3%
Billable Utilisation	84.50%	82.90%	NM

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