

Majesco India sells US entity to private equity...

Majesco US (the US listed company) has decided to sell its company to a private equity (Thoma Bravo, LP) at US\$13.1/share, valuing the company at US\$594 million (₹ 4455 crore). This offer price is at a 77% premium to the last closing price of Majesco US. The company is valued at 4x 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 receive cash of US\$420 million (₹ 3154 crore). Assuming a capital gains tax, the company would receive cash of ~₹ 2555 crore. This, coupled with cash of ₹ 26 crore on the company's balance sheet, the total cash with the firm would be ₹ 2581 crore or ~₹ 852/share. The company plans to distribute this cash via dividend or buyback. Assuming a 10% holding discount to cash and uncertainty on method of distribution we conservatively arrive at a target price of ₹ 705/share, 76% upside from current levels.

Majesco US transaction details

Under the terms of the agreement, all Majesco US (US entity) shareholders of record will receive \$13.10 cash for each share of Majesco US common stock held by them upon closing of the transaction. This offer price is at a 77% premium to Majesco US's last close price. Majesco US board of directors have unanimously approved the merger and recommended that shareholders approve the merger. Majesco India board also approved the transaction on July 20, 2020. Completion of the merger is not subject to a financing condition but is subject to accuracy of the representations and warranties, performance of covenants and other agreements included in the merger agreement, approval of the shareholders of the US entity and Majesco Ltd in India and customary closing conditions for a transaction of this type including regulatory approvals in the US and 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)

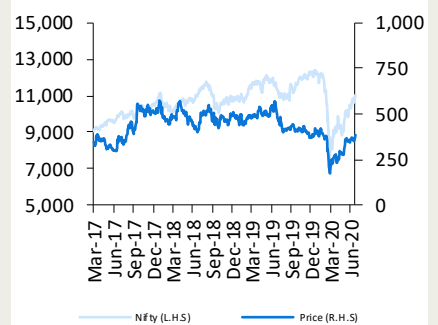
Majesco India, which holds 74.07% stake in the US entity, will receive cash of US\$ 420 million (₹ 3154 crore). Assuming a capital gains tax, the company would receive cash of ~₹ 2555 crore. This, coupled with cash of ₹ 26 crore on the company's balance sheet, would take total cash with the firm to ₹ 2581 crore or ₹ 852/share. The company plans to distribute this cash via dividend or buyback. Assuming a 10% holding discount to cash and uncertainty on method of distribution, we conservatively arrive at a target price of ₹ 705/share, 76% upside from current levels. 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)	1130.1
Debt (₹crore)	0.5
Cash & Equivalent (₹crore)	26.2
EV (₹crore)	1104.4
52 Week High / Low (₹)	528/ 171
Equity Capital	14.2
Face Value	5.0

Price Performance



Key Highlights

- Majesco India holding company of Majesco US will receive a cash of US\$420 million (₹ 3154 crore) post the sale of US entity. The company will have a cash of ₹ 852/share in the company and plans to distribute entire cash via dividends or buyback.
- Maintain BUY with revised target price of ₹ 705/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	162.4	21.9	17.6	18.0	15.2	
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	13.1
Value of Majesco (pre tax)	USD crore	42.1
Value of Majesco (pre tax)	INR crore	3154.9
Value after Capital Gains Tax (assumed)	INR crore	2555.5
Cash balance	INR crore	26.2
Total Cash value	INR crore	2581.7
Diluted Equity share	Nos crore	3.0
Cash value per share	INR	851.5

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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