



Majesco Limited
Q1 FY21 Earnings Conference Call
August 14, 2020



MANAGEMENT: **MR. ADAM ELSTER – CHIEF EXECUTIVE OFFICER,
MAJESCO (U.S)
MR. FARID KAZANI – MANAGING DIRECTOR & GROUP
CFO, MAJESCO LIMITED**

MODERATOR: **MS. ASHA GUPTA, CHRISTENSEN IR**

Moderator: Ladies and gentlemen, good day and welcome to the Majesco Limited Q1 FY21 earnings conference call. As a reminder, all the participants' lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touch-tone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Ms. Asha Gupta from Christensen IR. Thank you and over to you, ma'am.

Asha Gupta: Thank you. Good evening everyone and welcome to Majesco earnings call to discuss Q1 FY21 results ended on June 30, 2020. Please note that we have mailed out the results and you can also view the same on the website www.majesco.com.

To take us through the results and to answer your questions today, we have with us Mr. Adam Elster – CEO of Majesco US and Mr. Farid Kazani – MD & Group CFO of Majesco Limited.

We will start the call with a brief overview of the quarter gone by, which will be given by Mr. Adam and then this will be followed by Mr. Farid who will be going into detailed financials. We will then throw the floor open for a Q&A session.

I would like to remind you that everything that is said in this call that reflects any outlook for the future or which can be construed as a forward-looking statement must be viewed in conjunction with the risks and uncertainties that we face. These risks and uncertainties are included but not limited to what we have mentioned in the prospectus filed with SEBI and the subsequent annual reports that you can find on the website.

With that said, I would now like to hand over the call to Mr. Adam. Over to you, sir.

Adam Elster: Good evening to everyone. Q1 FY21 was a record quarter for Majesco across all our key performance metrics of total revenue, product revenue, new sales, and margin. Total revenue was up 20% year-over-year. Product revenue was up 34.6% year-over-year. New sales order backlog is now at USD 254 million and margin was up 39% year-over-year. We remain confident in our strategy, committed to its execution, and believe we have the right platform in place to handle the near-term challenges associated with COVID-19 while continuing to pursue long-term growth opportunities.

And with that, thank you for your participation and let me hand it over to Farid.

Farid Kazani: Good evening to everyone. I am pleased with the robust all-round performance during the quarter and despite the macroeconomic challenges for the companies posed by COVID-19 pandemic, we have successfully completed the acquisition of InsPro which has also helped us to access this growth further. We are extremely excited to partner with Thoma Bravo, a firm with an established track record working with companies transitioning to the cloud, and we look forward to a bright future.

Let me enumerate the key highlights on the performance of Q1 FY21.

The operating revenue for the first quarter was Rs. 311 crores, reflecting a growth of 12.4% on Q-on-Q basis and 20% on a year-on-year basis. In constant currency terms, the revenue grew by 8.8% sequentially. The growth was primarily due to the inclusion of the InsPro business and the increase in the product business. The adjusted EBITDA for Q1 FY21 was Rs 46.7 crores or 15% of the operating revenue as compared to Rs 42.5 crores or 15.4% of the operating revenue in Q4 FY20 and Rs 33.6 crores or 13% of the operating revenue in the previous year Q1 FY20.

The product revenue was Rs 149.1 crores for Q1 FY21, which increased 26.1% sequentially and 34.6% on a year-on-year basis, representing 47.8% of the Q1 FY21 operating revenue. The cloud subscription revenue was Rs 72 crores for Q1 FY21, which increased 54% sequentially and 137.2% year-on-year, representing 23.2% of the Q1 FY21 operating revenue.

Net profit for Q1 FY21 was Rs 11.4 crores as compared to Rs 31.4 crores in Q4 FY20. The net profit for Q1 was impacted by one-time M&A expenses of Rs 13.7 crores for InsPro acquisition, while the net profit of Q4 FY20 was aided by an extraordinary gain on account of the reversal of contingent consideration for the Exaxe acquisition by Rs 10.6 crores.

The product R&D expenditure was Rs 28.8 crores which was 9.3% of the operating revenue as compared to Rs 32.9 crores which was 11.9% of the operating revenue in Q4 FY20 and Rs 38 crores which was 14.7% of the operating revenue in Q1 FY20. The company has rationalized its R&D investments in the international business through transition from a geographical investment approach to a more global product management and development structure and repurposed some of its teams to deliver new business.

The total backlog as on June 30th, 2020 stood at Rs 1,918 crores which is US\$254 million. Previously, we used to report a 12-month executable order backlog only. The total cash, cash equivalent, and short-term investment was Rs 263 crores as on 30th June as compared to Rs 415 crores as of March 31st, 2020. The drop was primarily on account of funding of the InsPro transaction and payout of incentives for the fiscal year 2020. The debt at the end of June 2020 stood at Rs 8.4 crores primarily related to the InsPro equipment and software lease. The cloud customer base stood at 79 at the end of Q1FY21 and it included InsPro cloud clients. We had 11 successful go-lives during the quarter, and we added 2 new customers and 1 customer signed up to migrate from the on-prem to cloud. 100% of the employees continue to work remotely and deliver the services to our customers across all locations.

As Adam mentioned, we are confident of our strategy, committed to execution, and believe that we have the right platform in place to handle short-term challenges created by the COVID-19 crisis while continuing to pursue long-term growth opportunities.

With this, I will now pass it on back to the operator to open the call for questions. Thank you very much and we appreciate your continued interest in Majesco.

- Moderator:** Ladies and gentlemen, we will now begin the question & answer session. We will take the first question from the line of Ankit Pande from Quant Mutual Fund. Please go ahead.
- Ankit Pande:** A very good quarter, excellent performance; so, many congratulations to the management. Farid, if I could, could you just give a few points on how operating leverage is picking on for you? We have seen now that some benefits of scale coming through and also on the very strong performance sequentially in such a quarter, is there something to read into more that this is cloud revenues and product revenues or is this truly some operating leverage kicking in?
- Farid Kazani:** Definitely, there has been an improvement in the overall business with the delivery happening in a much consistent manner. There has been a marginal improvement in the margins on the organic business that we do at Majesco, plus we added InsPro. Now, InsPro comes in at a lower gross margin to us. And I know that it's because of higher subcontract related costs, and we hope to improve and synergize that further. But yes, the overall margin improvement has come with the improvement in the operating leverage which is a lower R&D cost on the base of revenue, which ended up at \$41 million. And as mentioned earlier, we already had invested in the SG&A, and to that extent, there has been some improvement over there, and going forward, we don't expect too much increase in the SG&A.
- Ankit Pande:** And on the transaction with Thoma Bravo, could you just clarify in the interim from the time of announcement of the deal to the actual consummation of the deal, the value that is generated by Majesco, would it accrue to Thoma Bravo or would it accrue to the Majesco US entity?
- Farid Kazani:** We have signed the definitive agreement, and there is a closure condition which requires shareholder approval and other regulatory and statutory approvals to come in. Whenever the closure happens, that is the cutoff or when the company moves in the hands of Thoma Bravo. Till the time the company operates as existing Majesco and whatever business, profitability, or cash that we accrue till date will be to the account of the existing shareholders.
- Ankit Pande:** So, the valuation of the deal is still not certain. Is that correct?
- Farid Kazani:** No, the valuation of deal from a Thoma Bravo deal perspective got fixed at \$729 million. That was based on ultimately the negotiated deal with them, and obviously, it takes into consideration the closure period and the closure timelines. There is a further value that Majesco shareholders would get based on performance between now till the closure period.
- Moderator:** The next question is from the line of Chirag Patel, an individual investor. Please go ahead.
- Chirag Patel:** Congratulations for these wonderful set of numbers and wonderful deal which we did. I have multiple questions. I am putting together all the questions. The first question is, what will be the optimum mix of dividend or a buyback form to distribute the value which we will be going to receive at holding level post the selling to Thoma Bravo?

- Farid Kazani:** I think I had reiterated that in the presentation to the investors and which has already been put up on the stock exchanges/website. We mentioned very clearly that we will look at the most optimal method to distribute the money in the most expeditious manner. Wherever we think that it makes sense to improve the overall return to shareholders from a cash in hand, we will work towards that strategy. This is something that we are still engaging with bankers and our legal & tax consultants to be able to come to conclusion. When we do that, we will obviously intimate it to you. At this point of time, there seem to be 2 clear modes to distribute the money, which is a share buyback which is restricted to 25% of the reserves that we will accumulate and a dividend option. But at this moment, I cannot give you a percentage or a breakup or an allocation of that, as things are still fluid. Once we get to a closure, we get to the board which decides based on advice that we get. It will come back and then intimate to you the exact breakup that we would like to distribute to the shareholders.
- Chirag Patel:** Post completion of the deal, as you mentioned that Thoma Bravo is only interested in the US subsidiary, I mean 'Majesco US'. So, post that, our 10% or 12% revenue coming from Europe continent and others, what will we be going to do with those operations? Will the Indian arm remain listed or will we take to private?
- Farid Kazani:** No, the India does not own any operations. The entire operation globally is all owned by the US and the transaction is for the entire global operations, which is under the US entity.
- Chirag Patel:** So, Europe is also routed through US subsidiary only, right?
- Farid Kazani:** That is right.
- Chirag Patel:** So, the holding company, which is listed on Indian bourses, will it remain listed or get delisted?
- Farid Kazani:** Once the cash is distributed - whatever is lying with the company - then the ultimate process will be in terms of doing the compulsory delisting and dissolution. That's the next step whenever it happens.
- Chirag Patel:** For all these exercises, the given timeline is December 2020. So, everything including the deal and distribution and even these compliance processes you are expecting to be over by December 2020, right?
- Farid Kazani:** No, you please read the presentation. We have said that transaction closure will happen by the end of December 2020. Whenever the money is coming to India, thereafter the distribution will take place and whatever time and process, those timelines for buyback, dividend, and for dissolution, whatever timelines, those are after the closure period.
- Moderator:** The next question is from the line of Rohith Kutti from Marshmallow Capital. Please go ahead.

- Rohith Kutti:** Sir, my first question is, if you could please repeat what you mentioned to one of the previous participants on what will happen to the profits and cash that is accruing to the US entity till the deal is finalized? I believe it is December 2020.
- Farid Kazani:** The deal has been signed in terms of definitive agreements. There is a closure period, and between now till the closure period, nothing changes for Majesco shareholders. The closure happens when the transfer of shares takes place, which means the buyer will make payment to the US shareholders, and that is when they will have the control over the company. That date is all dependent upon all these regulatory and shareholder approvals. Till that time, everything continues as if it is being owned by Majesco US and our share as Majesco Limited share in Majesco US being 74%, nothing changes.
- Rohith Kutti:** So, broadly, what this means is that, let's say, the transaction is finalized by the year-end, i.e., December, it would still mean that the cash accrual to Majesco US will go to Thoma Bravo and it is not going to be repatriated to India, the cash that is there in Majesco US in anyways, right?
- Farid Kazani:** Yes, that is exactly right, because it assumes that the cash which is there will be used for the business and used for the growth of the business or for the CAPEX requirement. So, there is both inflow and outflow of cash that is going to be required at the Majesco US. That cash which is generated at Majesco US will remain there. What cash Majesco Limited gets is the rental income from the Majesco US because it has rented out the property to them.
- Rohith Kutti:** Sir, it was a very nice presentation that you shared, and I appreciate that. Just wanted to know if in addition to cash at the Majesco India entity, do we have any real estate asset that we are potentially looking to liquidate and distribute the proceeds of those as well?
- Farid Kazani:** Yes, that would be the objective, but it's a very tough answer right now to say when and what amount we would get in terms of when we liquidate the real estate because today's market is completely different. But that's the only asset besides the 74% investment that the Majesco Limited owns. So, whenever we come to a stage that we have to close shop, in the sense, complete all the distribution of money, then the idea would be is to monetize the real estate and also distribute that to the shareholders, and that will be at the time probably when we complete the delisting and dissolution.
- Rohith Kutti:** Just a follow-up on that. Could you give us a sense on what the real estate asset we have, in what locations, and what is the area that we hold?
- Farid Kazani:** The real estate is in a location called Mahape in Navi Mumbai and it is a building which is a 7-story building with 120,000 square feet.
- Rohith Kutti:** Wonderful, that was useful. And broadly, coming back to the deal itself, my question is more around the timing of the deal. I was curious to understand the rationale behind the deal being finalized in the midst of a pandemic, and would we have gotten a better offer if you had waited for a year because we are seeing fundamental momentum also coming into the business?

- Adam Elster:** No, we feel comfortable in the timing of the deal. We think the deal was very good relative to our transition from being a services company to a product company, relative to our transition to becoming a cloud company. So, we feel very good about the transaction. The timing in the midst of COVID obviously unique, but I would tell you, just like our operations have been running smoothly since we have gone 100% remote, I will tell you the process was very rigorous and we were able to operate remotely throughout the process. So, we feel the timing was good, the price was very good, and the process was very thorough.
- Moderator:** The next question is from the line of Rahul Jain from Dolat Capital. Please go ahead.
- Rahul Jain:** Congratulations on a good quarter as well as a good deal, especially like icing on the cake and then the cherry on the cake as well. Just sounding a bit greedy out here, but is this the final offer by the agreement or still there is technically a possibility of another big possibility?
- Farid Kazani:** Rahul, technically, it is all possible, but keep in mind that in terms of the process, when we got in, a third-party giving us another competing bid at \$14.5, the company was able to negotiate a significantly higher price at \$16 with Thoma Bravo, but it was on a condition that the promoters will not vote on another superior offer to the extent of 50% of their shareholding where they own 38% in Majesco Limited. So, roughly 19% of that shareholding, they would not be able to vote in favor. For that matter, they will have to vote against that superior offer. And therefore, if any other new buyer has to give an alternate offer, which is higher than \$16 to the shareholders, effectively, they will have to keep in mind these conditions that the promoters have agreed, and the promoters agreed basically because we could negotiate that higher price at \$16. And this condition is going to prevail for the next 7 months.
- Rahul Jain:** This was more like technical. I just wanted to understand for my learning. I think you guys have done a great job. And to get a counter and re-counter offer really proves the kind of a strong business that you have created, and I think all the management team and the promoters should be congratulated for creating such a business and eventually getting a respectable price for the same. And congratulations on that.
- Just last one bit from my side. You said about this land or any other asset point of view also. Technically, these things will be much longer, and as you guys have committed that you would like to compensate entirely on whatever proceeds the company receives, but is there a timeline from a post received basis that you have identified because especially from a buyback perspective, sometimes the timelines are not very smaller. Is the idea to give as quickly as possible or we have not gone on to that kind of a thing at all?
- Farid Kazani:** Rahul, obviously, we have not gone into that detail as such because I did mention earlier that the final decision in terms of distribution is not yet done. When we do that, we should be able to get a better grip on the timelines too. My guess is that if we are able to close all these approvals and get the money by the end of December 2020, you should keep in mind at least a 6 months' time frame by the time you get the money in your hands.

- Rahul Jain:** Okay. I think this is quite fair.
- Farid Kazani:** Again, this is a very preliminary judgment. It is not something that anybody can hold me up to, but it's a preliminary judgment right now.
- Rahul Jain:** The sole purpose of asking this is because when we talk tax efficient, probably sometimes doing buyback and all could be more fruitful based upon how you see taxation at different kind of the receiver. That way, the timeline can become very long also. But I think your answer is a bit fair. The intention is clearly to distribute as early as possible. And I think you guys have been very transparent in mentioning about the entire distribution thought process right at the transaction presentation, I think which is very comforting. Thanks for that kind of transparency.
- Moderator:** The next question is from the line of V P Rajesh from Banyan Capital. Please go ahead.
- V P Rajesh:** Farid, two quick clarifications. If I heard you correctly, you were saying that once you get the money in Majesco India in December, it will take at least 6 months for the money to be transferred to the shareholders. Obviously, that's an approximation from your end. Is that correct?
- Farid Kazani:** Yeah. Again, don't hold me at words. It's just an estimation based on initial judgment. As I said, it is still to be decided by the board, and it will be routed through shareholder approval if we are going through a buyback.
- V P Rajesh:** Secondly, are we very clear that there will be a dissolution of the company once everything is sold? Is that sort of in principle agreed by the board or that's also potentially subject to a change?
- Farid Kazani:** No, that also is open, Rajesh, very clearly, because there are other ways to structure it so that it effectively puts more money in the hands of the shareholders. Again, I am not going to be stating any options right now. As I said that we will always endeavor to see that we improve the overall return to shareholders, and we will find ways and means to make that happen.
- Moderator:** The next question is from the line of Rajeev Agrawal from DoorDarshi Advisors. Please go ahead.
- Rajeev Agrawal:** I joined the call a little late, so pardon me if this question has been asked before. When I look at your presentation, you are assuming that around 19% will be the tax leakage there. Can you just talk through what is the reason for that? Like how have you come up with that number?
- Farid Kazani:** Majesco Limited holds shares in Majesco US. Effectively, Majesco Limited will have to pay capital gains tax in India on the short-term and long-term investments that it holds in Majesco US. The good part is, there is no taxation in the US because of the exemption and because of the qualification that we have. The tax is only payable in India, which is capital gains tax. The 19% is an estimation based on the holding cost and that's the number that we have right now taken into consideration.

- Rajeev Agrawal:** If it is capital gains and because this will be long-term capital gains, should I assume that it should be closer to 10%, if there is nothing else that is being paid in the US?
- Farid Kazani:** No, it is long term and short term because we have had investments over a period and there were some recent investments.
- Rajeev Agrawal:** Okay, to that extent, they are short term. And then, because I joined the call late, I heard the question around the liquidation. You mentioned that the real estate property is around 120,000 square feet. What is your approximate value for that? Just an approximation for me to understand because I'm not very familiar with that portion of Mumbai.
- Farid Kazani:** I tried my best to ask the best consultants in the industry, and no one is giving me an answer at this point of time. You very well know that the conditions in the marketplace are very fluid. And there must be a real great investor to come and put money on the table to buy a real estate right now, knowing that there is real estate being released by various organizations. So, at this point of time, I don't have a clue, neither is any consultant giving me a definitive answer.
- Rajeev Agrawal:** Apart from this money from Majesco US and the real estate, there is nothing of significant value in the company. Is that fair?
- Farid Kazani:** Absolutely, sir.
- Moderator:** The next question is from the line of Arpit Agrawal from Electrum Investment. Please go ahead.
- Arpit Agrawal:** First, congratulations for the deal. I have 2 questions. One is on the real estate bid. As I understand, the whole business is being housed there. So, I am assuming that the staff sits in the same building. So, why do we even need to find a buyer outside? I am sure Thoma Bravo, as the business continues, would be the first port of call.
- Adam Elster:** It's unlikely that they would want to buy real estate. They would be interested in leasing space, not owning real estate.
- Arpit Agrawal:** So, that's why you'll have to sell. So, it's a leased asset in a way, right, because they will continue the business in the same asset.
- Adam Elster:** Yeah, this is going to continue the business in the market. We would have a lease agreement. Given COVID and everything else, we are assessing lease options. We will figure out that as well. We would not be able to shift to our own real estate.
- Arpit Agrawal:** Farid, over to you. I just want to understand before as on date, what is the cash on books in the Indian company?
- Farid Kazani:** Arpit, I have given that information in the presentation, if you can just refer to that. I have put down that the cash after some expenses that we pay is close to around, I think, 23 crores. And the cash position will keep changing till the closure date because as you would know that there

are various employees who are buying their options, and they must pay cash to exercise those options. So, there will be some incremental cash coming in, but there are transaction fees and other expenses that we get incurred. So, my estimation is that between these two, it should get set off and we should end up with close to 23-24 crores of cash to be distributed.

Arpit Agrawal:

In this transaction, one thing which we notice is that, obviously, first thing is, as Indian entity, we must pay capital gains tax and then you'll have to pay at the shareholders end. Was there not any way where the buyer was willing to buy the Indian company because that would have been more tax efficient?

Farid Kazani:

Arpit, good question. That would have been a fantastic option for us as shareholders. But you would know that any business buyer is not interested in buying a holdco investment company which is listed in India. They would directly want to buy a company within the operating entity and an entity which is readily and easily available to kind of take private. And therefore, the imminent choice for any investor would be to buy the US entity. If at all, there would have been a choice for them to consider the India option, then they would keep into consideration the tax leakage and therefore the pricing to the Indian shareholders would have been significantly lower.

Moderator:

The next question is from the line of Kashish Gandotra, an individual investor. Please go ahead.

Kashish Gandotra:

Congratulations on a good set of numbers. Regarding this deal, whether the deal has been paid the price at \$16 per share which has been fixed, whether that is fixed, or it is just we have forwarded once and for all for revising this transaction again?

Farid Kazani:

We did answer that question already that this is the current price which Thoma Bravo has revised upwards after we went back to them with a third-party offer that came in before this, and they revised the offer significantly to \$16 on some conditions which we accepted in the interest of shareholders, and that's the price that stands today with Thoma Bravo. Technically, there can always be another bid, but there will be obviously a rider and a hinderance to that another superior offer. I did explain that to an earlier gentleman who asked the same question.

Moderator:

The next question is from the line of Chirag Patel, an individual investor. Please go ahead.

Chirag Patel:

I need some idea regarding the industry in which we operate. It is not related to our current quarter and the deal we have done. I just want to understand the solution and the software on cloud base that we provide. Are we able to cater to asset management industry as well apart from insurance?

Adam Elster:

No, this is insurance-specific technology. So, only it is applicable to the insurance industry, not every other industry.

Moderator:

The next question is from the line of Jaineel Jhaveri from JNJ Holdings. Please go ahead.

- Jaineel Jhaveri:** Congratulations to the whole team for having such a fruitful outcome. I just had one question regarding the buyback. You said it can be a maximum of 25% of the reserves of the company, correct?
- Farid Kazani:** That is right.
- Jaineel Jhaveri:** And this is post the transaction, the reserves, right?
- Farid Kazani:** That is right.
- Jaineel Jhaveri:** Approximately how much would it be? Given this is the final offer, what would be the amount? Because you would know what the reserves would be.
- Farid Kazani:** Yeah, we have that calculation. It will be roughly around close to Rs 750-800 crores. We'll have to consider that amount.
- Jenil Zaveri:** First, you would do the buyback and then would be the dividend, right?
- Farid Kazani:** If you do the dividend, then your reserves goes down, right? Then there is no meaning doing the buyback. It's logical.
- Moderator:** The next question is from the line of Jagdish Kumar, an individual investor. Please go ahead.
- Jagdish Kumar:** Thanks for a good set of numbers and thanks for building a good products company from India and selling in the US. Just one query regarding still getting a better offer. Again, this shareholder approval and does that delay this process in anyway?
- Farid Kazani:** No. Technically, it's now a new postal ballot that has been given to shareholders, which has been sent on 12th August where the voting will end on September 11th. And because there was a change in the terms of the offer, which required us to redo the postal ballot, but from a timeline perspective, if you see my presentation which I updated, I did say that there is no change in the timeline and we should be able to meet the same timelines that we had mentioned in the earlier presentation to complete by the end of December 2020.
- Moderator:** The next question is from the line of Atreya Rajkumar, an individual investor. Please go ahead.
- Atreya Rajkumar:** Congrats on a great quarter. Just wanted to understand something about the deal valuation. A competitor, which is Duck Creek, going public this week, and they have been able to get a valuation closer to \$3 billion. If you see their top line revenue and the EBITDA margins and the net profit, it seems like Majesco is kind of comparable? I understand that Duck Creek has significantly higher subscription revenue. I just wanted to understand why there is a huge difference between the two and wasn't there a possibility of getting a better offer?
- Adam Elster:** I appreciate the question. Certainly, the Duck Creek IPO is a very emotional situation. And certainly, we are in a certain stage of our transition from being a services company to be a

product company and from moving to being a cloud company. We feel good about our transition. We feel good about the stage we are in and the valuation. Duck Creek is in an emotional situation and we had expected them to do an IPO in the fall, and it looks like it's going a little early.

Atreya Rajkumar: But don't you think we can get a better offer now considering what the market is valuing these companies at?

Adam Elster: I do not.

Moderator: Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to the management for their closing comments.

Adam Elster: We thank everyone for your interest in Majesco. I know a lot of questions are related to the payout and taxes. And what I would ask you all to do is refer to the presentation on the deal. It has a lot of detail that will help you. I really appreciate your interest and thank you for your time.

Farid Kazani: Thank you.

Moderator: On behalf of Majesco Limited, we conclude today's conference. Thank you all for joining. You may now disconnect your lines.