“Majesco Limited Earnings Q2 FY17 Conference Call”

November 1, 2016

MANAGEMENT: **MR. KETAN MEHTA -- NON-EXECUTIVE DIRECTOR, MAJESCO LTD. AND FOUNDER & CEO, MAJESCO U.S.**
MR. FARID KAZANI -- MANAGING DIRECTOR, MAJESCO LTD.

MODERATOR: **MR. DIWAKAR PINGLE – CHRISTENSEN IR**

Moderator: Ladies and gentlemen good day welcome to Majesco Limited Q2 FY17 earnings conference call. As a reminder, all participant 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 touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Diwakar Pingle. Thank you, and over to you sir.

Diwakar Pingle: Thanks Ali. Good evening and good morning to all those who have joined this call. We welcome you to the Q2 FY17 earnings call of Majesco Limited. Please note that the results are being mailed to you and you can also view it in our website www.majesco.com.

To take us to the results and answer your questions today, we have with us Mr. Ketan Mehta – Founder & CEO of Majesco US and Executive Director of Majesco Limited and Mr. Farid Kazani - Managing Director of Majesco Limited.

We will start the call with a brief over view of the quarter, given by Mr. Mehta and that will be followed by Farid who will go into the detailed financials.

I would like to remind you everything said on the call that reflects the outlook for the future, or which can be construed as a forward-looking statement, must be viewed in conjunction with risks and uncertainties that we face. These uncertainties and risks are included but not limited to what we have mentioned in our prospectus and which you can find on our website too. I now hand over the call to Mr. Mehta. Over to you sir.

Ketan Mehta: Thank you Diwakar and good evening to everyone and welcome to Majesco's Q2 FY17 conference call. I am pleased with the overall performance for this first half with a 27.7% growth in revenue and a significant improvement in our profitability on a year-on-year basis. While the revenue for this quarter dropped, compared to the first quarter based on slowdown of a client transformation program, I am pleased with the overall growth trajectory specifically in building our cloud business which is strategic priority for us. Since launching Majesco as a public entity in July 2015, we have increased total and organic revenue in every single quarter and our overall profitability is benefiting from this scale.

The fiscal 2017, second quarter experienced a strong growth in EBITDA margins at 5.9% as compared to 3.5% in the previous quarter. During the quarter, we continue to execute on our growth oriented initiatives which includes increase in sales to customers for Cloud, Digital & Data and Group market products.

Let me provide an update on the progress made in this area. During our previous calls, I mentioned that insurance technology landscape is shifting towards on-demand cloud driven model. We are taking number of steps to take a lead in this emerging market place. Recently IBM announced that they selected Majesco's P&C platform to offer a new cognitive, cloud based solution to help insurance carriers worldwide create new services under IBMs recently announced industry platform business. IBM will contribute Watson cognitive capabilities that will be integrated with Majesco core solution and will run on IBM cloud. We are extremely excited about this partnership which further strengthens our cloud leadership position.

Majesco has been an early innovator of cloud services as a ready to launch platform for insurance carriers and with 30 cloud customers, we have created a leadership position within this fast and rapidly evolving segment, both for the established and greenfield/start-up insurers and MGAs.

Earlier this year, we launched our Majesco CloudInsurer platform offering, which is positioned to help insurer transform their business. This is a result of Majesco CloudInsurer's scalable model, ready to use content, rapid launch and speed to value. A key part of our cloud offering is Majesco Partner Ecosystem with solutions, data and content that are pre-integrated and extend Majesco solutions. Since June 2016, we have added 3 partners to our eco systems. These partners provide leading edge, unique and innovative capabilities and we believe that size and capabilities of our ecosystem provides a key differentiator in the industry.

As a result of this initiatives, we are finding a noticeable shift in our business model. The proportion of cloud business accounts have increased from 18% of IP centric revenue sales for the same quarter last year to 26% of our IP centric revenue in the last quarter.

The success of Majesco CloudInsurer is also helping us innovate and expand into new regions. During the second quarter, we announced a new win with Glenham Underwriting to provide a Dynamic New Cloud based Bureau for UK General Insurance market which represents our first win for P&C in UK market. We also announced a partnership with Symcor to deliver a cloud based core system insurance solutions to Canadian P&C and Life and Annuity/Group insurers. The strategic relationship adds Majesco's core software to Symcor's cloud and outsourcing capabilities to provide an Insurance-as-a-Service solution to the Canadian market.

A related trend in the insurance industry is an approach towards greenfield and start-ups to transform carrier's business models. Majesco had the privilege to enable 5 insurance carriers launch new business models leveraging our cloud platform.

An example of our success and ability to grow with start-up carrier is our experience with Heritage Property and Casualty Company. In 2012 Heritage started underwriting its first policy in Florida using Majesco's cloud platform including policy, billings and claims management systems. Majesco's cloud platform provided Heritage with best-of-breed, end-to-end, cost effective and expandable solution that has helped company quickly grow its presence to additional states and markets and introduce new products while underwriting and servicing over 210,000 policies. Today, Heritage is one of the fastest growing insurers in U.S.

In addition to strong growth in our cloud offering, we are also experiencing increased demand for our digital and data product. Majesco's DigitalConnect is a single platform with ready-to - deploy portal and mobile solutions to customers, agents and group benefit/employees and integrates with alternative distribution channels and third party data sources. As an example, working with a large Tier-1 group insurer, we developed 39 portals for unique market segment groups integrated on Majesco DigitalConnect in 4 months. Since launching this offering in November 2015, we have increased the number of clients, implementing DigitalConnect to 9 at the end of this second quarter.

In prior calls and presentation, I have talked to you about growth opportunity in Life and Annuity and group market. We have invested in building a compelling platform to serve this market and believe we are very well positioned to grow this business. During the quarter, we signed a contract to modernize a billing system for an international region of a Tier-1 life insurance carrier. In addition to this deal, we closed 3 new customer wins in P&C sector, where the clients selected Majesco's platform for the modernization initiatives.

In addition, we expanded our relationship with number of existing client accounts, including Homesite, a Tier-1 insurer, to support their broadening product portfolio and geographical presence in the U.S. on Majesco's cloud platform and Colorado Farm Bureau Mutual Insurance Company, a mid-market insurer, who will upgrade to Majesco's policy for P&C, as a strategic enterprise platform. As a result of these bookings, the trailing twelve-month (TTM) order as on September 30th, 2016 has increased to $176 million as compared to $154 million at the end of June 30th, 2016 reflecting a growth of 12.6%.

While we are focused on growing on business, we remain committed to offering customers a high level of customer service. During the quarter, we had 3 successful implementations or go live for our products. This includes a Tier-1 group insurer in UK who went live with Majesco Policy for Life and Annuity and group and a mid-market insurer with Majesco Billing in the first phase of their greenfield start up initiative. In addition, we had an existing insurer using Majesco P&C suite in the cloud expand into additional states. With each successful implementation, we enhanced our brand and footprint in the industry.

During the last quarter, we hosted our annual convergence customer conference at Atlanta. We had participation from over 200 current and potential customer's partners and industry analysts. The conference further enforced our perspective on inevitable disruptions taking place in the industry and received valuable feedback from the clients which shapes our investments and initiatives.

To conclude, let me just highlight 4 key top points which I mentioned:

- Insurance industry technology space is vibrant and it is changing rapidly.
- Majesco has building blocks to lead this emerging and fast changing opportunities in the areas of cloud.
- During the quarter, we further expanded on our strategy to lead the cloud business including IBM partnerships, digital data and group markets with number of client wins.
- We are improving our profitability as we get scaled into our business.

As a result of this, I feel confident that we are well positioned to achieve our continued revenue growth and further improve our profitability moving forward.

With that let me now turn the call over to Farid to discuss the financial drivers for the quarter.

Farid Kazani: Thank you Ketan and good evening to all on the call. Let me begin with summarizing the revenue for the second quarter of fiscal 2017. We ended the quarter ended September 30th with the operating revenue of Rs 211 crores as compared to Rs 220 crores in the previous quarter, reflecting a drop of 4.1% in rupee terms and a de-growth of 3.6% in constant currency impacted largely by the pound depreciation during the quarter. Last year in the same quarter, we did Rs 187.4 crores which reflect an increase of 12.7% in rupee terms. The year-on-year growth was driven by ongoing revenue improvement in our P&C business and expanding relationship with our current customer base.

The revenue for the 6-month period ended 30th September 2016, increased 27.7% to Rs 431 crores as compared to Rs 337 crores for the corresponding 6-month period last year. In terms of total income, we ended up with Rs 213 crores as compared to Rs 222.3 crores in the previous quarter, down 4.2% on a quarter-on-quarter basis. While in the corresponding quarter of previous year, our total income was Rs 188.8 crores reflecting an increase of 12.8% in rupee terms.

The product R&D expense during the quarter stood at Rs 30.5 crores which is 14.3% of our total income as compared to Rs 30.7 crores which was 13.8% of the total income in the previous quarter and Rs 28.1 crores which is 14.9% of total income as compared to the same period of last year. During the quarter, the R&D program focused on executing a strong product roadmap in both our P&C and L&A business suite. For the 6-month period ended September 30th 2016, the products R&D expenses were higher by 26.4% as compared to the similar period last year.

Turning to profitability, our EBITDA stood at Rs 12.4 crores which is 5.9% of operating income in Q2 FY17 as compared to Rs 7.7 crores which is 3.5% of the operating income in Q1FY17. The 240-basis point improvement in margins were primarily due to successful integration and cost improvements in the Cover-All projects, the higher mix of license revenue and improvements in efficiency and productivity of our multiple projects. For the 6-month period ended 30th September 2016, the EBITDA margin stood at 4.7%, an increase of 290 basis points as compared to similar period of previous year.

In term of Net profit, we ended up in Rs 5.2 crores in Q2FY17 as against Rs 1.5 crores in Q1FY17 reflecting a growth of 257% on a Q-on-Q basis. The net profit for the 6 month also was higher at Rs 6.7 crores as compared to Rs 0.9 crores to the corresponding 6-month period last year.

From a geographic standpoint, the North America, the UK and the APAC region represented 87.5%, 7.3% and 5.2% respectively. For the 6-month period, the percentages stood at 88.1%, 7.3% and 4.7% respectively.

P&C represented 81% of our revenues, Life and Annuities represented 17.6% and Non-Insurance has now de-grown to 1.4% in the second quarter of this fiscal. For the 6 months' period ended 30th September 2016, the number stood at 80.3%, 17.9% and 1.7% respectively.

In terms of our offerings during the quarter, 4.6% was attributed to license revenue, 60.2% towards implementation and professional services including consulting, 20.2% for cloud ASP implementation and 15% for support and maintenance.

For the 6-month period ended 30th September 2016, 3.2% contributed from license revenue, 62% from implementation and professional services including consulting, 19.2% from cloud ASP and implementation and 15.6% for support and maintenance.

In terms of client concentration, the top 5 client constituted 28% and the top 10 constituted 40.9% in Q2FY17. As compared to 28.4% and 43.9% in the same period last year.

Our 12-month order back log stood at Rs 440.8 crores translating to $66.2 million as on 30th September 2016 and in constant currency it stood at Rs 448 crores as compared to Rs 434.5 crores equals $64.3 million at the end of previous quarter. The order book for trailing 12-month period was at $176.4 million as on 30th September 2016 as compared to $154.5 million as on 30th June 2016, reflecting a growth of 12.6%.

The employee headcount stood at 2,355 as of 30th September 2016 as compare to 2,487 as on 30th June 2016.

Quickly turning to the balance sheet:

The total cash and cash equivalent in the consolidated Majesco group now stands at Rs 179.8 crores as of 30th September 2016 as compared to Rs 205 crores at the end of 30th June 2016. The debt also stands reduced at the end of 30th September 2016, it stood at Rs 113.4 crores as compared to Rs 138.2 crores at the end of 30th June 2016. The total net cash stood at Rs 66 crores almost equivalent to Rs 67 crores in the previous quarter i.e. 30th June, 2016.

Before we opened the call for questions I'd like to just give an update on our previously announced qualified institutional placement (QIP) that Majesco Limited was pursuing. As you may have seen in our announcement made earlier, in October, Majesco Limited decided not to pursue its proposed capital raise and put on a hold because of market conditions. The company is currently comfortable with its current capital structure and does not need to raise funds to execute its near-term operation in business plan.

Acquisition remain an important part of our growth strategy and we have developed a strong track record of identifying structure and integrating acquisitions. Both Cover-All and Agile Technologies have integrated well and have benefitted from Majesco's largest scale driver product offering and enhanced capabilities. We are very diligent and analysis of potential acquisition and want to be absolutely sure any new potential acquisitions restricts within the Majesco strategy and corporate culture. While we are actively pursuing acquisition, we do not have any particular update on near term acquisition closure. However, it is important the Majesco will need to access capital markets in order to provide the company with financial flexibility to raise capital as needed to fund potential acquisition that we actively pursuing.

With that Ketan and I would like to open the call for questions. Over to the operator.

Moderator: Ladies and gentlemen we will now begin the question and answer session. We will take the first question from the line of Mohit Jain of Anand Rathi. Please go ahead.

Mohit Jain: First is on the headcount, we have seen some reduction in headcount this quarter, so was it driven more by escalation to deliver on the EBITDA target for next year or so on or what part of it was related to the business which was anticipated but did not come for this quarter?

Farid Kazani: I think there was a planned reduction, both in terms of how we are seeing business getting reflected and in terms of effort that we have taken to improve productivity, efficiency and a cost reduction exercise especially in outsourcing of the Cover-All projects. For example, the good part of the reduction has happened because we had the outsourced employee which we were paying to the Cover-All projects so that reduced to almost around 50 people. The rest of the reduction has happened across the board and projects, based on productivity enhancement that we have initiated, almost 3 – 4 months back.

Mohit Jain: So is this a new thing or you will expect some more benefits to come in the next few quarters?

Farid Kazani: I think we are trying to definitely work on improving profitability and that is obviously a clear focus area for us. We do believe that even as we see revenue improve, we will keep on working towards improvement in productivity within our operations. And there could be a possibility that we may be working with a lesser headcount although operating at a same revenue.

Mohit Jain: So is there a way for us to figure out track utilization, how do you figure out that there is some additional headcount which is deployed in the certain projects?

Farid Kazani: Utilization in our business which is large part of the fixed bid projects, is not relevant for tracking that parameter, but we do have our own internal methodology on tracking which are the projects that have possibilities to improve the overall cost structure. Therefore, over a period of time, we try and improve the grade mix in each of the project. Thereby releasing people for those can be deployed to newer projects that come in. In short, we could manage with less but as revenue starts flowing at a faster pace, there will be additional headcount that will be required. it's a process that we work with a team, we have a very tight bench, we have a tight recruitment policy and that is clearly with the focus on improving profitability.

Mohit Jain: Second one is for Ketan, just noticed there was a sharp drop in revenues and it was across the board looking at your top 10 clients and non-top 10 clients, so is there any change in our eventual target of $200 million or even 15% growth for this year on an organic basis?

Farid Kazani: Mohit let me qualify. We are not giving guidance for any year and if you remember the goal we had put for $200 million was predicated on certain acquisitions to happen. We definitely don't want to go on higher valuations for acquisitions just to get in those incremental top line. I think we have become very choosy about making those acquisitions. If the acquisitions have got delayed or if acquisitions come in with a much lesser revenue, there is going to be an impact to

$200 million number. As far as this year is concerned, you can make your assessment based from some leading indicator that we have given, based on backlog, based on the order book, you can make an assessment of how you will end up in terms of growth for this year. If you look at it, we are tracking pretty well in terms of growth on 6 monthly basis so you can do your own extrapolation.

Mohit Jain: So on these revenue decline that has happened in this particular quarter, like last call you mentioned it is related to one particular client, what looks like more wider compared to one client, was it only related to one particular client that you mentioned in the last quarter?

Farid Kazani: It is largely related to one client.

Mohit Jain: Is the client out of the system or will there be some impact in 3Q?

Ketan Mehta: I think it has resulted into a slow down at the client transformation program. We have taken some drop, it can further impact this quarter. But after that it will stabilize and we expect that when the program comes back and picks up the full speed, in the next couple of quarters, it can start ramping up as well.

Mohit Jain: So this is a delay not a loss of revenue?

Ketan Mehta: Absolutely.

Mohit Jain: And you do expect some revenue in 3Q as well because of this particular project?

Ketan Mehta: We may expect a decline in this particular client but not necessarily across the board and the impact will be much smaller compared to what we experience in this quarter.

Mohit Jain: In the company level it may not result into the decline?

Ketan Mehta: That's correct.

Moderator: Thank you. We have the next question from the line of Shraddha Agarwal from AMSEC. Please go ahead.

Shraddha Agarwal: I just wanted to get some color on the latest partnership with IBM, how is it different from our earlier relationship with IBM and what is the growth opportunity we could look at from this further strengthening of our relationship with IBM?

Ketan Mehta: Shraddha, this is a very significant relationship. Earlier we had a partnership with IBM which was more in the nature of the system integration partnership, while this is a really joint go-to-market relationship and IBM has announced a new industry product groups and what they do is for a different vertical industries, they create a solution primarily leveraging their Watson Cognitive capabilities and cloud. In insurance sector, they have selected Majesco platform to really offer their go-to offering at their insurance vertical. So we are integrating Majesco's core solution to the Watson Cognitive capabilities and we are offering to cloud which insurance can consume on demand as needed basis which is quite a unique capability in the industry and we feel that offers pretty unique capability to the insurer where core platform is integrated to Watson Analytics capabilities and available on clouds.

Shraddha Agarwal: And secondly Farid, you did mention that we have not zeroed down on any particular acquisition till now and whatever guidance we had on the overall revenue had some numbers from acquisitions built in. So, acquisition numbers are not flowing in, does that also change our guidance on margins? Whatever kind of indications you had given to the market on improving profitability, because if the topline is not coming through, so do you think improving profitability to that extent would be possible on an organic basis?

Farid Kazani: Shraddha I obviously did not say that acquisition will not happen. Acquisitions will happen whenever we find the right match and we are able to close it basis of our valuation thesis. As far as profitability is concerned, I think we are focused to improve our profitability on a quarter-on-quarter basis and to see that getting reflected as we keep on improving certain areas where there is potential for us to improve productivity and some efficiencies.

Shraddha Agarwal: Right, some sense on the overall demand environment, some peers have not been talking very positive about UK insurance market, though our exposure is too less there but overall in the US and UK geography, what do we feel about demand prospects compared to what it was last quarter?

Ketan Mehta: In terms of our demand trajectory what we find specifically in US, and North America is that the insurance market technology investment interest remains quite high, however, what we find is that the demand is shifting towards more on cloud and shifting towards what we call Greenfields/start-up model as opposed to a large big bang system organization. There is a shift towards nature of the way that deals are coming through but the overall interest in the technology remains continue to be very vibrant and we expect this trend to continue, and as I mentioned we are aligning our Majesco offering to take advantage of this shift in the market trend. In terms of UK market place following Brexit we did see a certain level of slow down but as you rightly mentioned our exposure to the UK market is relatively small. But we are tracking that carefully to see the impact on us.

Shraddha Agarwal: Just one thing, it's encouraging to know that cloud is doing very well for us but cloud in some sense is also cannibalizing, in the sense that initial revenue which would come through would be much slower compared to what it would have been, had it been on-premise implementation, so does that shift the time frame by which we could expect to be $200 – $225 million company. That does build in acquisition number but organically also our dynamics on growth rate would change because of higher contribution coming in from cloud?

Ketan Mehta: That is correct, our business model is shifting and what we are picking it up is a higher portion of cloud revenue which is sticky and recurring revenue and in long term, a much more profitable revenue as well. So while that happens, this may impact our revenue growth moving forward but we are trying to make that up through other solutions on digital data products where we also find an increase in our demand. So in our core platform I think, we are seeing the shift but on the other hand, we are also seeing some interesting opportunities on both digital and data solutions which partially may compensate this time.

Shraddha Agarwal: Lastly, if I can squeeze in one more question, the orders in hand to be executed over the next 12 months, that number seems to be broadly constant over the last 2 – 3 quarters, in fact it declined last quarter. From that level, it has been broadly in that same range of $64 – $65 million. So any thoughts out there?

Farid Kazani: One is the result of the cloud deals we have won, so if you look at the 4 deals that we have won in this quarter, 3 of them are on cloud. And your perception is absolutely right, that when you have the cloud deal, the revenue in the first year is not so high but if being a cloud deal gives us a much long sticky revenue with that client because we are going to be building out over a longer-term period. The reflection of where the 12-month order backlog stands is one because of that and there has been some right shifting of our order book. Hopefully we will see that improve in the second half.

Moderator: Thank you. We have our next question from Madhu Babu from Centrum Broking. Please go ahead.

Madhu Babu: Sir R&D capitalization, that would be Rs 30 crores run rate going forward, or it would decline?

Farid Kazani: R&D we don't capitalize, we expense out but this expense has been now steady in the last 2 quarters in absolute terms. And as revenue starts building up, you would see some improvement as a percentage to revenue. Our focus is to spend on newer areas on data digital and on cloud and on building a strong architecture both in our life and P&C segment. So it is not that it is going to reduce tremendously but there will be some leverage benefit that will come as revenue starts building up.

Madhu Babu: And last time you said that second half will be stronger. So that will continue sir?

Farid Kazani: See second half has traditionally been stronger both on order book and in terms of execution. So we are hoping the same trend continues.

Moderator: Thank you. The next question is from the line of Ashwin H, individual investor. Please go ahead.

Ashwin H: Very quickly from a margin expansion perspective, what has been the driver or what have been the 3 – 4 levers, is it revenue mix change, is it operational efficiencies, I think I heard you talking about operational efficiency, can you just broadly give a sense of what's driving and what's the proportion of split on margin expansion?

Farid Kazani: It's been largely on account of improvement in our overall cost structure. So as I mentioned that large part of savings came out of the movement that we had of bringing the outsourced resources in-house and we ticked off the exercise much before at the start of the year and while we started building people in-house, we were only able to release the outsource employees at the end of previous quarter. And what you see right now is a significant benefit. In short, in that area itself, we would have gained roughly close to more than $0.5 million. The other improvement that has happened as I mentioned with building productivity and efficiency which the team has been working on has helped us to kind of overall manage the headcount in a much better fashion, delivering that kind of revenue. Last quarter we also had some programs which were at a lower profitability and we focused to improve those projects and reduce the additional cost that was getting spent on these projects. So there was a good amount of efficiency that helped us to improve the cost structure there and yes, the percentage of license fees is a bit higher in this quarter. So to that extent, it helps improve the problem. I think these are the 3 – 4 drivers that helps us to improve profitability in this quarter. So most of these are sustainable levers and we are hoping that we will continue to be improving on these areas going forward. While there may not be a great amount of improvement on further reducing the outsource, we will have some little improvement in this quarter.

Ashwin H: One final question, I know there is less visibility, but any sense on how much you would have pushed out the QIP placement, I know you can't predict the market but how long for sure it will not happen?

Farid Kazani: I think it is linked to clearly both on 2 areas, one it was linked to what was happening to the market price, and as you saw the IT bearishness in Indian capital markets which also impacted stock price and it didn't make sense to dilute at a much lower price considering where we stand, and the second is, if the acquisition has got pushed out a little for we were not in tearing hurry to raise funds. Tomorrow if the acquisition is just around the corner, then we have to exercise the choice to raise debt for which we will have a necessary bank to support us and we could decide to use debt as a first line of attack and then reduce the debt by going back and looking at whether the QIP makes sense. But at this point of time, I don't think QIP at this particular price in this market helps anybody.

Moderator: Thank you. As there are no further questions from the participants, I now hand the conference over to Mr. Farid Kazani for closing comments.

Farid Kazani: Thank you for spending time on a holiday to come on to the call and show your interest in Majesco and while we will continue our efforts to improve the overall business with Majesco, we look forward to interacting with you in the next quarter. Thank you very much and have a great Diwali and Happy New Year to all.

Moderator: Thank you. Ladies and gentlemen, on behalf of Majesco Limited, that concludes this conference call for today. Thank you for joining us and you may now disconnect your lines.