

## Majesco Software and Solutions India Private Limited

December 15, 2017

### Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Short-term, Fund-based Limits	30.0	13.0	[ICRA]A2+; reaffirmed
Long-term/Short-term, Fund-based Limits	-	20.0	[ICRA]A- / [ICRA]A2+ reaffirmed; Outlook revised to 'Negative' from 'Stable'
Long-term/Short-term, Unallocated Limits	21.5	18.5	[ICRA]A- / [ICRA]A2+ reaffirmed; Outlook revised to 'Negative' from 'Stable'
<b>Total</b>	<b>51.5</b>	<b>51.5</b>	

\*Instrument details are provided in Annexure-1

### Rating action

ICRA has re-affirmed the short-term rating of [ICRA]A2+ (pronounced ICRA A two plus)<sup>1</sup> assigned to the Rs. 13.0 crore<sup>2</sup> (revised from Rs. 30.0 crore) short-term fund-based limits of Majesco Software and Solutions India Private Limited (MSSIPL). ICRA has also reaffirmed the long-term/short-term rating of [ICRA]A- (pronounced ICRA A minus)/[ICRA]A2+ to the Rs. 20.0 crore fund based limits and the Rs. 18.5 crore (revised from Rs. 21.5 crore) unallocated limits of the company. The outlook on the long-term rating has been revised to Negative from Stable.

### Rationale

ICRA has taken a consolidated view of Majesco Limited ('Majesco') because of Majesco Software and Solutions India Private Limited ('MSSIPL') being a step-down subsidiary of Majesco and offshore delivery centre for the Majesco Group with Group companies being its key clients. There are, thus, strong financial and operational linkages between MSSIPL and its parent/Group companies.

The revision in the outlook on the long-term rating takes into account the pressure on business performance. The shift towards cloud-based solutions from on-premise solutions and some programs moving to support phase from implementation phase has resulted in moderation in operating profitability. Thus the adjusted operating margins (before employee stock ownership plan (ESOP) costs and exceptional items) of Majesco declined to 1.4% in H1 FY2018 from 4.3% in H1 FY2017. Though the company reported sequential improvement in the adjusted operating margins to 3.4% in Q2 FY2018 from -0.7% in Q1 FY2018, the sustainability of the same remains to be seen due to continuous investment in product research & development (R&D) and high selling, general and administrative (SG&A) expenses. Improvement in revenue trajectory through higher deal closures and ramp-up from existing clients will be crucial to alleviate pressure on profitability and improve its overall credit profile.

<sup>1</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications

<sup>2</sup> 100 lakh = 1 crore = 10 million

The ratings continue to factor in the position of Majesco as one of the leading vendors in the USA insurance market and proven track record of the management in the insurance domain with healthy client addition over the years. The ratings also take into account the successful integration of Cover-All Technologies, Inc., and Agile Technologies, Inc., into the business. Further, partnership with IBM to jointly offer a new cognitive, cloud-based platform to insurance carriers is expected to benefit Majesco and the revenue ramp-up from the same will be key to drive growth. The ratings also factor in the low gearing and comfortable liquidity of the company along with access to the capital markets in both India and USA, in case of exigencies.

The ratings continue to remain constrained by the dependence on a single vertical and high competitive intensity in the business from other players providing a complete suite of policy, billing and claims in insurance solutions. ICRA notes the uncertainties over a macro-economic environment in key markets of USA and UK, which could lead to lowering of information technology (IT) budget, resulting in demand compression and pricing pressure. The rating also factor in the exposure to currency fluctuation, however, Majesco's efficient hedging policy mitigates the same. Moreover, given the company's intent for acquisitions in future to acquire new customers and capabilities and expand its reach, the funding mix for such acquisitions, if any, will remain a key monitorable.

## Outlook: Negative

ICRA believes profitability margins of Majesco will continue to remain under pressure due to high competitive intensity in the North American market, although the company's strong track record in offering core software solutions to insurance players provides some comfort. The rating may be downgraded if profitability continues to decline in the light of pressure on business performance or higher-than-expected investments in product R&D and SG&A, or if any debt funded acquisition weakens liquidity. The outlook may be revised to Stable if substantial growth in revenue and profitability, driven by business shift towards cloud offering from on-premise solution, strengthens the financial risk profile.

## Key rating drivers

### Credit strengths

**One of the leading vendors in US insurance market with established track record** - Majesco enjoys a strong track record in offering core software solutions to Property & Casualty (P&C), Life & Annuity (L&A), as well as group and employee benefit insurance carriers in the North American market. Moreover, its partnership with IBM to jointly offer a new cognitive, cloud-based platform to insurance carriers further establishes Majesco as one of the leading vendors in the US insurance market, reflecting its cloud capabilities.

**Successful integration of Cover-All Technologies, Inc., and Agile Technologies, Inc., into the business** - In December 2014, Majesco acquired the NYSE-listed Cover-All Technologies, Inc., which is focused on providing solutions to the P&C insurance sector. The company also acquired Agile Technologies, Inc., in December 2014, which is a US-based consulting services company focused on the insurance vertical. Both companies have been successfully integrated into the business and have contributed positively through capabilities and client additions.

**Favourable financial profile, given the low gearing and comfortable liquidity profile** - As on September 30, 2017, Majesco had cash and cash equivalents of Rs. 181.9 crore compared to debt of Rs. 115.0 crore, reflecting adequate liquidity position. Overall, the capital structure remained comfortable at 0.3x.

**Access to both US and domestic capital markets in case of further fund requirements** – Majesco is listed on the Bombay Stock Exchange and National Stock Exchange of India; while its subsidiary, Majesco, USA, is listed on the New York Stock Exchange. Hence, the Majesco Group has access to both US and India markets in case of further funding requirements.

## Credit weaknesses

**Decline in operating margins in current fiscal year; high investment in R&D and high SG&A expenses leading to low operating margins** –The adjusted operating margins (before ESOP and exceptional items) of Majesco declined to 1.4% in H1 FY2018 from 4.3% in H1 FY2017. This was due to lower revenues (11% de-growth y-o-y in H1 FY2018) and ramp up of resources to support the revenue growth in the coming quarters. ICRA notes that continuous investment is required in product R&D, coupled with a gestation period, resulting in low profitability since product development is completely expensed out. In addition, SG&A expenses remain high due to spending towards creation of the Majesco brand and building sales strength. However, improvement in profitability in light of significant investment in product development and selling, and distribution would remain important from the credit perspective.

**Pressure on revenues due to shift in business offerings from on-premise solutions to cloud solutions** – Majesco reported q-o-q revenue de-growth from Q1 FY2017 to Q1 FY2018 due to subscription-based cloud programs with low implementation revenues replacing a large number of on-premise P&C programs moving from implementation to support mode. Though the company reported 8.6% q-o-q growth (in constant currency terms) in Q2 FY2018, sustainability of revenue growth would remain critical from the credit perspective. A number of insurance players in USA are still on legacy systems and their need to migrate to modern systems and cloud platforms is expected to drive growth for Majesco.

**Dependence on a single vertical, the insurance segment, ability to retain clients in a competitive environment important** - Software solutions for the insurance industry market remains highly fragmented and competitive. The market remains exposed to the vagaries of changing technology, shifting customer needs and introduction of new products and services. However, Majesco is one of the top leading vendors in the US insurance market, which provides comfort.

**Analytical approach:** ICRA has taken a consolidated view of Majesco Limited on account of MSS IPL being a step-down subsidiary of Majesco Limited and offshore delivery centre for the Majesco Group with Group companies being its key clients. There are, thus, strong financial and operational linkages between MSS IPL and its parent/Group companies. For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

### Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Rating Methodology for Entities in the Information Technology \(Services\) Industry](#)

## About the company:

The company was incorporated in October 2014 after the Board of Directors of Mastek Limited approved the demerger of the Insurance Products and Services business of Mastek Limited into a new company in September 2014. To be named as Majesco Limited, the move was followed by transfer of the offshore insurance operations business by Majesco to Majesco Software and Solutions India Private Limited (MSSIPL), a wholly owned subsidiary of Majesco Software and Solutions Inc. (MSS Inc). Thus, the vertical solutions business rests with Mastek Limited, while the insurance products and services business is housed with Majesco. Majesco offers core software solutions for P&C, L&A, group and employee benefits insurance carriers, to manage policy administration, claims management and billing functions. In addition, the company offers a variety of other technology-based solutions that enable organisations to automate business processes and comply with policies and regulations across their organisations.

For the six months ended September 30, 2017, Majesco reported a profit after tax of Rs. 5.7 crore on an operating income of Rs. 382.1 crore.

## Key Financial Indicators (Audited)

	Majesco (Consolidated)		MSSIPL	
	FY2016	FY2017	FY2016	FY2017
Operating Income (Rs. crore)	757.2	827.5	208.7	236.1
PAT (Rs. crore)	7.3	19.4	-0.8	4.0
OPBDIT/ OI (%)	1.3%	5.4%	1.8%	4.9%
RoCE (%)	-	5.7%	-	26.0%
Total Debt/ TNW (times)	0.3	0.2	7.2	1.7
Total Debt/ OPBDIT (times)	9.4	1.9	8.3	1.1
Interest coverage (times)	2.3	8.1	7.4	8.0
NWC/ OI (%)	2%	-2%	7%	0%

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth (TNW) + Deferred Tax Liability - Capital Work - in Progress); NWC: Net Working Capital

Note: FY2016 and FY2017 financials as per I-GAAP; H1 FY2018 financials as per Ind AS

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for last three years:

	Current Rating (FY2018)			Chronology of Rating History for the past 3 years				
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
1	Fund-based Limits	Short-term	13.0	NA	December 2017 [ICRA]A2+	December 2016 [ICRA]A2+	October 2015 [ICRA]A2+	-
2	Fund-based Limits	Long-Term/ Short-term	20.0	NA	[ICRA]A- (Negative)/ [ICRA]A2+	-	-	-
3	Unallocated Limits	Long-Term/ Short-term	18.5	NA	[ICRA]A- (Negative)/ [ICRA]A2+	[ICRA]A- (Stable)/ [ICRA]A2+	-	-
4	Non fund based Limits	Long-Term/ Short-term	-	-	-	-	[ICRA]A- (Stable)/ [ICRA]A2+	-

## Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

## Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	PCFC/PSCFC*	NA	NA	NA	13.0	[ICRA]A2+
NA	Export Invoice Financing Facility	NA	NA	NA	20.0	[ICRA]A-(Negative)/ [ICRA]A2+
NA	Unallocated Limits	NA	NA	NA	18.5	[ICRA]A-(Negative)/ [ICRA]A2+

\*PCFC: Pre-Shipment Credit in Foreign Currency, PSCFC: Post-Shipment Credit in Foreign Currency

Source: Majesco Software and Solutions India Private Limited

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### About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit [www.icra.in](http://www.icra.in)

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