

Rating: Subscribe

Issue Offer

**OFS of 1,82,46,600 shares by NSE
Investments taking the total issue size at
Rs 2244 cr**

Issue Summary

Price Band (Rs)	1229-1230
Face Value (Rs)	10
Implied Market Cap (Rs Cr)	6,001
Market Lot	12
Issue Opens on	Sept 21, 2020
Issue Close on	Sept 23, 2020
No. of share pre-issue	4,87,86,800
No. of share post issue	4,87,86,800
Listing	BSE

Issue Break-up (%)

QIB Portion	50
NIB Portion	15
Retail Portion	35

Book Running Lead Managers

Kotak Mahindra Capital
HDFC Bank Ltd
ICICI Securities Ltd
Nomura Financial Advisory

Registrar

Link Intime India Private Limited

Shareholding Pattern

	Pre-Issue	Post-Issue
Promoters	43.5%	43.5%
Public & Others	56.5%	56.5%

Objects of the offer

Achieve the benefits of listing the Equity Shares

Computer Age Management Services (CAMS) is a technology-driven financial infrastructure and services provider to mutual funds and other financial institutions with over two decades of experience. It is India's largest registrar and transfer agent (RTA) with an aggregate market share of ~70% based on Mutual Fund average assets under management (AAUM) managed by its clients. Company has grown its market share from 61% in FY15 to 69% in FY20. Its mutual fund clients include 4 of the 5 largest mutual funds as well as 9 of the 15 largest mutual funds based on AAUM during July 2020.

Market leader in large and growing mutual funds market: Indian Mutual Fund Industry recorded AAUM CAGR of 17.9% from Rs 11.9 tn to Rs 27 tn during FY15-20. This growth was led by higher financial savings along with investor awareness of financial products. The industry witnessed a slowdown in Q1FY21 with 9% QoQ decline in AAUM due to nationwide lockdown and corresponding correction in the capital market. However, pick-up in economic growth and a rising share of financial savings are suggestive of growth coming back. As per CRISIL, Indian Mutual Fund Industry is expected to reach around Rs 52 tn by FY25. So, being the largest MF RTA, CAMS has a strong hold on the MF servicing business and is well positioned to benefit significantly.

Integrated business model and strong client relationships in MF services business: CAMS offers an integrated and customized portfolio of services through its pan-India physical network comprising 271 service centers spread across 25 states and 5 union territories as of June 30, 2020, and it is supported by call centers. It has longstanding relationship with its clients. Further, it is challenging for its clients to replicate the ecosystem (physical network or technology platforms) in-house and moving to a competitor is time consuming and disruptive. HDFC AMC, SBI MF, ICICI Pru MF and Kotak AMC are some of its clients.

Scalable Technology Enabled Ecosystem: CAMS competitive technology advantage stems from the capability, integration and scalability of its proprietary platforms, which deliver quality of service and cost efficiencies. Its IT team comprising of over 606 qualified professionals as of June 30, 2020. Company has developed in-house and own Investrak.NET- a mutual fund transfer platform, myCAMS - a mobile device, GoCORP- a distributor focused application, and MFDEX a market intelligence product database, among many other services.

Financial Performance: During the period of FY18-20, CAMS has reported revenue CAGR of 4% and PAT CAGR of 9% with Rs 700 cr revenue and Rs 173 cr profit in FY20.

Valuation and View:

At upper price band of Rs 1230, the issue has been offered at P/E of 35x to its FY20 EPS of Rs 36. With only 2 major players in the market in MF RTA industry, CAMS is dominating the market with ~70% market share. Company's business model is largely sticky in nature due to high entry barriers and lack of the ability of new entrants to scale given the high degree of compliance required in operations. Strong client base, growth in retail participation and higher equity portion of the AUM, provides good revenue visibility in line with industry AUM growth. Debt-free balance sheet of the company, sound financials and marquee investors are its key positives. Hence, we recommend investor to 'subscribe' for this issue.

Revenue Model of the Company

Company's revenue is derived from fees charged for servicing the AAUM of the funds. A major part of the revenue (87%) earned by MF RTA comes from fees charged on the AUMs managed by the AMCs for which the MF RTAs provide services. These fees are generally tiered in nature and tend to decrease as a proportion of total AUMs of the fund house once the AUMs surpass the tiers for which the fees are agreed on.

The other major portion of revenue is the charge for the handling of paper-based transactions of AMCs, for which considerable effort is needed to enter the details into the system for effective record keeping and reporting. MF RTAs charge the highest fee for equity AUMs.

The overall fee percentage for the RTAs are approximately 0.035% to 0.04% of the total AUMs as on March 31, 2020.

Fees Charged by RTAs to Mutual fund houses

Particulars	Mar-15	Mar-17	Mar-19	Mar-20
Equity Funds	0.075%	0.067%	0.062%	0.059%
Hybrid	0.078%	0.061%	0.060%	0.060%
Debt	0.024%	0.022%	0.022%	0.022%
Liquid	0.033%	0.020%	0.020%	0.020%
Others	0.043%	0.024%	0.016%	0.015%

Revenue Break-up

Particulars (in Cr.)	FY18	FY19	FY20	Q1FY21
Data processing	494	535	553	126
Customer Care services	71	66	63	8
Recoverable	41	48	36	5
Miscellaneous services	31	35	39	9
Software license fee, development	5	10	9	1
Total Revenue from Operations	642	694	700	149

Other business Verticals of the Company (Apart from MF service business):

- A) **Electronic Payment Collection Services Business:** In this business, CAMS manages mandated transactions, including registering of mandates, initiation of collections, reconciliation and the related reporting services for mutual funds, non-banking finance companies and banks.
- B) **Insurance Services Business:** CAMS conduct its insurance services business through its Subsidiary, CAMS Insurance Repository Services Limited. In this business, CAMS offers processing of new business applications, holding policies in dematerialized form, servicing policies and other support functions to insurance companies. For the financial year 2018, CAMS had a market share of 39% of the insurance repository business, based on e-insurance policies being managed, as per CRISIL Report.
- C) **Alternative Investment Funds services:** In this business, CAMS provides services to investors manage records and perform fund accounting and reporting, among other services, for alternative investment and other types of funds. It has 77 alternative investment fund (AIF) clients, having an aggregate of Rs 16,027 cr in AAUM as of June 2020.
- D) **Banking and non-banking services business:** CAMS offers digitization of account opening, facilitation of loan processing and back-office processing services to banking and non-banking financial institutions. However, Company is in the process of closing this vertical and expect to complete this process by December 2020.
- E) **KYC registration agency business:** CAMS operates its KYC Registration Agency Business through its Subsidiary, CAMS Investor Services Pvt. Ltd., which is one of 5 entities granted a KRA license by SEBI. In this, CAMS verifies and maintain KYC records of investors for use by financial institutions.
- F) **Software solutions business:** CAMS conduct its software solutions business through its subsidiary, Sterling Software Private Limited (SSPL). CAMS technology team develops software for its mutual funds services business and for mutual fund companies.

Duopolistic MF RTA Market – CAMS vs KFin Technologies (erstwhile Karvy) – Peer Comparison

The below table shows the operational performance and key financial indicators of two leading MF RTA players CAMS and Karvy (which together account for approximately 96% of the MF RTA industry) for the financial year 2020:

Particulars (in Cr.)	CAMS	Kfin Technologies
Revenue from operations	700	450
Revenue CAGR (FY15-20)	12.8%	9.1%
PAT margin	23.9%	1.0%
EBITDA margin	42.8%	36.0%
ROE (%)	34.1%	3.0%
Monthly AAUM managed by fund houses serviced	17,14,278	6,57,045
Monthly AUM CAGR % (FY15-20)	18.6%	11.6%
Quarterly AAUM managed by fund houses serviced	18,74,013	7,24,621
Quarterly AUM CAGR % (FY15-20)	21.2%	12.3%
No of clients (Top 10)	6	3
No of clients (Top 5)	4	1
No of branches/ locations	271	203
Monthly AUM/branch	6,326	3,237

Note: All financials are as on FY20. There is no Listed peers in the Industry.

As being the market leader, CAMS has the highest revenue in the industry with revenue CAGR of 12.8%. For FY20, the EBITDA margins and RoE of CAMS are better than its competitor. CAMS is the most productive MF RTA with its monthly AUM per branch being the highest in industry.

Key Risks

- Company's business is entirely dependent on market. Any significant fall in the market means a fall in company's business too.
- Significant disruptions in information technology systems or breaches of data security could adversely affect company's business and reputation.
- As a SEBI-registered RTA, company is subject to periodic inspection audits by the SEBI to, among others, ascertain compliance with provisions and rules of the SEBI MF Regulations, SEBI RTA Regulations and SCRA; ensure that the records are being maintained by Company in the manner specified in the SEBI RTA Regulations.
- Company derives a significant portion of revenues from a few clients and the loss of one or more such clients could adversely affect its business and prospects.
- Contracts with mutual funds and AIF clients are typically perpetual in nature unless terminated by either party. For other clients, the validity of such contracts ranges between one to three years. They negotiate pricing terms with these clients on a periodic basis and their contracts permit them to terminate their arrangements with them by providing three to six months' written notice, after which they may engage the services of its competitors.

Major Competitors

Business Vertical	Competitors
Mutual Funds Services Business	<ul style="list-style-type: none"> • KFin Technologies Pvt. Ltd. (erstwhile Karvy Fintech Pvt. Ltd.)
Electronic Payment Collection Services Business	<ul style="list-style-type: none"> • Indiaideas.com Limited (BillDesk) • Ingenico ePayments India Pvt Ltd (Tech Process) • Razorpay Software Private Limited
Insurance Services Business	<ul style="list-style-type: none"> • NSDL Database Management Ltd • Karvy Insurance Repository Services Ltd • CDSL Insurance Repository Ltd
Alternative Investment Fund Services Business	<ul style="list-style-type: none"> • KFin Technologies Private Ltd • IL&FS Securities Services Limited
Banking and Non-Banking Services Business	<ul style="list-style-type: none"> • Karvy Data Management Services Ltd • PAMAC Finserve Pvt. Ltd • Suma Soft Pvt. Ltd
KYC Registration Agency Business	<ul style="list-style-type: none"> • CDSL Ventures Ltd • Dotex International Ltd • Karvy Data Management Services Ltd
Software Solutions Business	<ul style="list-style-type: none"> • KFin Technologies Pvt. Ltd.

Story in charts

Exhibit 1: Market size of Indian Mutual Fund Industry

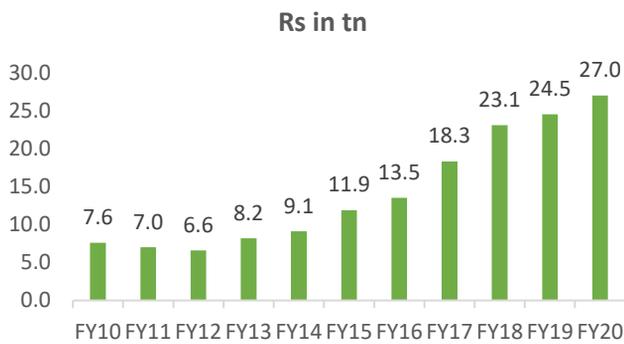


Exhibit 2: AUM to GDP ratio across the country

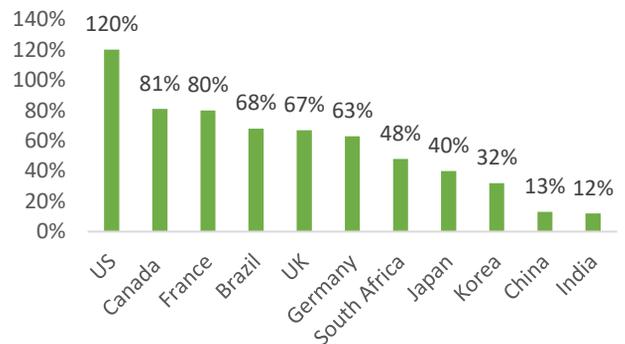


Exhibit 3: Trend in share of various Mutual Fund segment

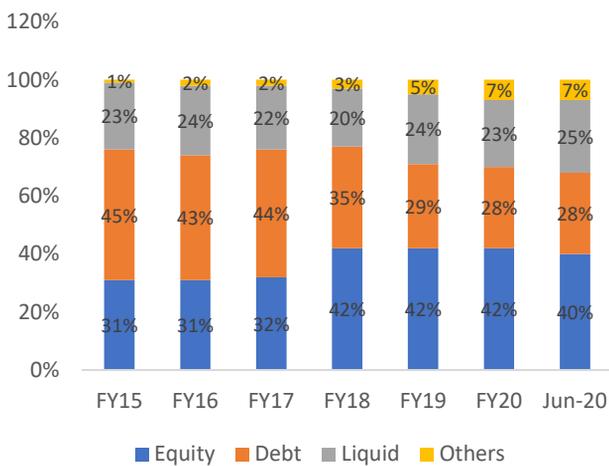


Exhibit 4: Mutual Fund RTA market share

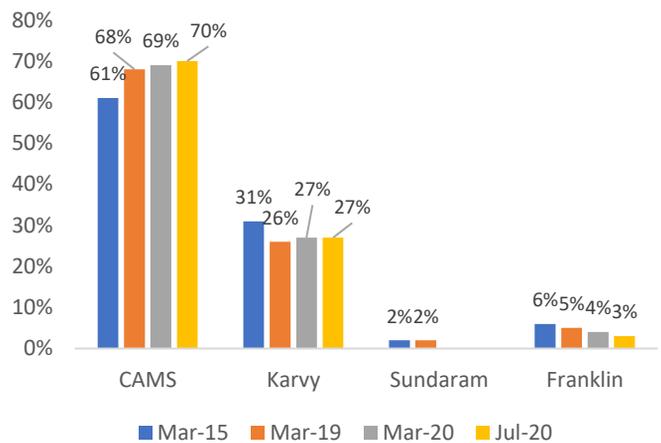


Exhibit 5: Share of the top 10 AMCs in the total Mutual Fund Industry

Fund houses	Total AAUM (FY15) (in bn)	Total AAUM market share	Total AAUM (Jun -20) (in bn)	Total AAUM market share
SBI MF	755	6.30%	3,649	14.70%
HDFC MF	1,620	13.60%	3,567	14.40%
ICICI Pru MF	1,486	12.40%	3,337	13.50%
Aditya Birla MF	1,200	10.00%	2,149	8.70%
Nippon India MF	1,382	11.60%	1,810	7.30%
Kotak Mahindra MF	417	3.50%	1,678	6.80%
Axis MF	267	2.20%	1,345	5.40%
UTI MF	928	7.80%	1,336	5.40%
IDFC MF	519	4.30%	1,019	4.10%
Franklin Templeton MF	715	6.00%	806	3.30%
Total (Top 10)	9,289	77.70%	20,696	83.60%
Total Industry	11,948	100.00%	24,767	100.00%

Source: RHP for all data. For AUM to GDP ratio chart AUM data as of Q4 of calendar year 2019 for all countries.

Income Statement

Particulars (in Cr.)	FY18	FY19	FY20	Q1FY21
AUM Serviced by CAMS	13,75,852	15,84,120	18,14,968	17,43,331
- Equity Fund AUM	4,88,475	6,23,251	6,70,667	5,75,065
- Non-Equity Fund AUM	8,87,377	9,60,869	11,44,301	11,68,266
Revenue from MF services	565	601	616	134
- Data Processing Revenue	494	535	553	126
- Customer Service Revenue	71	66	63	8
Revenue from Non MF services	77	93	84	15
Total Revenue from Operations	642	694	700	149
Other Income	16	18	22	15
Total Revenue	658	712	721	163
Employee benefit expense	226	275	258	65
Finance cost	8	10	10	2
Depreciation and Amortization	40	50	49	11
Operating Expenses	94	106	87	17
Other expenses	63	70	68	16
Total Expenses	431	511	471	110
EBITDA	258	244	287	51
EBITDA Margin (%)	40.3	35.1	41.1	34.6
PBT	227	201	251	53
Tax	80	70	77	12
PAT	146	131	173	41
PAT Margin (%)	22.8	18.9	24.8	27.5

Key Ratios

Particulars	FY18	FY19	FY20	Q1FY21*
EPS (Rs)	29.9	26.8	35.5	33.5
P/E	41.1	46.0	34.6	36.7
RoE (%)	32.4	29.1	32.1	-
RoCE (%)	37	32	34	-
EBITDA Margin	40.3	35.1	41.1	34.6
PAT Margin	22.8	18.9	24.8	27.5

Note: We have annualized Q1FY21 EPS/PE.

Cash Flow Statement

Particulars (in cr.)	FY18	FY19	FY20	Q1FY21
Cash from Operating activities	161.9	186.8	201.2	39.0
Cash from Investing activities	-18.9	-31.2	-83.9	1.1
Cash from Financing activities	-138.4	-158.1	-98.9	-60.4
Cash and cash equivalents at the end of the period	7.4	4.9	23.2	2.9

Balance Sheet

Particulars (in Cr.)	FY18	FY19	FY20	Q1FY21
ASSETS				
Non-current assets				
PPE	70	71	65	63
Right of use assets	107	97	89	73
Intangible assets	147	152	145	142
Financial assets				
- Investments	2	2	1	1
- Loans	12	12	12	13
- Others	1	0	0	0
Deferred Tax Assets	14	20	8	10
Other non-current assets	6	2	0	0
Total non-current assets	359	356	320	302
Current assets				
- Investments	216	230	306	316
- Trade receivables	23	27	32	44
- Cash and cash equivalents	7	5	23	3
- Other balances with bank	20	39	27	81
- Loans	0	1	1	1
- Other financial assets	0	0	6	6
Current tax assets (Net)	0	0	15	12
Other current assets	72	79	73	72
Total current assets	339	381	483	533
Total assets	698	736	803	835
EQUITY & LIABILITIES				
EQUITY				
Share Capital	49	49	49	49
Reserves and Surplus	395	393	491	479
Non-controlling interest	8	8	0	0
Total Equity	451	449	540	528
Non-current Liabilities				
Other financial liabilities	87	84	77	65
Provisions	57	71	74	75
Total non- current liabilities	143	155	151	140
Current Liabilities				
Trade Payables	34	35	36	44
Other financial liabilities	26	25	26	43
Provisions	8	17	10	14
Current tax liabilities	1	2	0	0
Other current Liabilities	35	53	40	67
Total current liabilities	103	130	110	158
Total liabilities	698	736	803	835

Management & KMP

Board of Directors	Description
Dinesh Kumar Mehrotra	He is the Non-Executive Chairman and Independent Director of the Company. He has previously served as the chairman and the managing director of Life Insurance Corporation of India, where he also served as the executive director of international operations.
Anuj Kumar	He is the whole time Director and CEO of the Company. He was previously associated with Godrej & Boyce Mfg. Co. Ltd., Blow Plast Ltd, Escorts Finance Ltd, BillJunction Payments Ltd, IBM India Private Ltd and Concentrix Daksh Services India Private Ltd. He joined the Company as chief operating officer – asset management Services in March, 2016 and was appointed as whole time Director and CEO with effect from November 6, 2018.
Narendra Ostawal	He is a non-executive Director of the Company. He is associated with Warburg Pincus India Private Ltd since 2007 where he currently holds the position of Managing Director. He has previously been associated with 3i India Private Ltd and McKinsey & Company, Inc.
Somasundaram M	Somasundaram M. is the Chief Financial Officer of the Company. He has previously been associated with SRF Ltd, Henkel SPIC India Ltd., Pond's India Ltd, Hindustan Lever Ltd and TVS Electronics Ltd. He joined the Company on July 6, 2009 as a general manager and was promoted to Chief Financial Officer with effect from April 1, 2018
S.R. Ram Charan	S.R. Ram Charan is the Chief Financial Officer-Designate of the Company. He holds a bachelors degree in commerce from the University of Madras, Faculty of Commerce. He has been previously associated with Photon Interactive Private Ltd and Reliance Jio Infocomm Ltd. He joined the Company on March 2, 2020.
Srikanth Tanikella	Srikanth Tanikella is the Chief Operations Officer of the Company. He has previously been associated with Accenture India Private Ltd, Infosys BPO Ltd, Infosys Technologies Ltd, Global e: Business Operations Pvt. Ltd. and Williams Lea India Pvt Ltd. He joined the Company on December 18, 2014 as a senior vice president and was promoted to Chief Operations Officer on April 6, 2018.
Manikandan Gopalakrishnan	Manikandan Gopalakrishnan is the Company Secretary and Compliance Officer of the Company. He has previously been associated with BPL Ltd, Precot Meridian Ltd, SJK Steel Plant Ltd and SBQ Steels Ltd. He joined our Company as the Company Secretary on June 8, 2011 and was designated as the Compliance Officer on December 17, 2019.

Pre-issue shareholding pattern

Sr No.	Name of the Shareholder	Number of Shares on diluted basis	Percentage of the pre- Offer Equity Share capital (%) on a diluted basis
1	Great Terrain (an affiliate of Warburg Pincus)	2,12,24,000	43.50
2	NSE Investments	1,82,85,000	37.48
3	HDFC	29,20,724	5.99
4	HDFC Bank	16,23,708	3.33
5	HDB Trust	15,55,444	3.19
6	Faering Capital India Evolving Fund II	12,41,430	2.55
7	Acsys	9,44,724	1.94
8	Faering Capital India Evolving Fund III	7,08,970	1.45
	Total	4,85,04,000	99.47

Arihant Research DeskEmail: instresearch@arihantcapital.com

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park Building No. 10, 1 st Floor Andheri Ghatkopar Link Road Chakala, Andheri (E) Mumbai – 400093 Tel: (91-22) 42254800 Fax: (91-22) 42254880	Arihant House E-5 Ratlam Kothi Indore - 452003, (M.P.) Tel: (91-731) 3016100 Fax: (91-731) 3016199

Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	SMS: 'Arihant' to 56677	www.arihantcapital.com	instresearch@arihantcapital.com

Disclaimer: This document has been prepared by Arihant Capital Markets Ltd. This document does not constitute an offer or solicitation for the purchase and sale of any financial instrument by Arihant. This document has been prepared and issued on the basis of publicly available information, internally developed data and other sources believed to be reliable. Whilst meticulous care has been taken to ensure that the facts stated are accurate and opinions given are fair and reasonable, neither the analyst nor any employee of our company is in any way is responsible for its contents and nor is its accuracy or completeness guaranteed. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Arihant may trade in investments, which are the subject of this document or in related investments and may have acted upon or used the information contained in this document or the research or the analysis on which it is based, before its publication. This is just a suggestion and Arihant will not be responsible for any profit or loss arising out of the decision taken by the reader of this document. Affiliates of Arihant may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. No matter contained in this document may be reproduced or copied without the consent of the firm.

Arihant Capital Markets Ltd.
1011, Solitaire Corporate park, Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road, Chakala, Andheri (E)
Tel. 022-42254800 Fax. 022-42254880