

CAMS LTD

LKP

Company Overview

Computer Age Management Services Limited (CAMS) is India's largest registrar and transfer agent (RTA) of mutual funds with an aggregate market share of ~70% based on mutual fund AAUM managed. The mutual fund clients include four of the five largest mutual funds as well as nine of the 15 largest mutual funds based on AAUM. The size of the mutual fund RTA business was approximately ₹8.6bn in financial year 2019. The industry has grown at a CAGR of 20% in the last four years. As of June – 20, the company has 16 mutual fund clients with an aggregate of over 71.8mn accounts. CAMS currently provides technology-based services including dividend processing, transaction origination interface, payment, transaction execution, intermediary empanelment, report generation, investor interface, settlement & reconciliation, compliance-related services, and brokerage computation. The company provides services in the area of electronic payment collections services business, insurance services business, alternative investment funds services business, banking, and non-banking services business, KYC registration agency business, and software solutions business. The company has a wide network comprising 25 states, five UTs and 278 service centers. CAMS also offers services online through a mobile application.

Mutual Fund Industry Outlook

The aggregate AUM of the Indian mutual fund industry has grown consistently over the past 10 years, against the backdrop of an expanding domestic economy, robust inflows, and rising investor participation, particularly from individual investors. Quarterly AAUM (QAAUM) grew at CAGR of 13.4% to ₹27tn in March 2020 from ₹7.6tn in March 2010. As of July 2020, there were 42 fund houses. Although mutual fund AUM as a percentage of GDP rose from 4.3% in financial year 2002 to approximately 11% in financial year 2020, penetration levels remain well below those in other developed and fast-growing peers. India's mutual fund penetration (AUM to GDP) is significantly lower than the world average of 63% and also lower than many developed economies such as U.S. (120%), Canada (81%), France (80%), and UK (67%), and even emerging economies such as Brazil (68%) and South Africa (48%). Low penetration of mutual funds in India is also evident from the equity mutual fund AUM to GDP ratio of 5% compared with 75% in U.S., 55% in Canada, 40% in UK, and 18% in Brazil. We expect the mutual fund industry to grow at a CAGR of ~16% in next decade.

Offer Summary

One of the major shareholders, NSE Investment (37.5% holding pre issue) is executing OFS of ~18mn shares with an offer size of ₹22.4bn. The issue price band stands at ₹1229 – ₹1230. However the promoter (Great Terrain) shareholding will be 43.5%. The issue opens at 21st Sep-2020 and closes on 23rd Sep-2020. The implied post issue market cap will be ~₹60bn.

Strong Financials

During FY17-20, CAMS's overall revenue grew at a CAGR of 14% driven by strong growth in AAUM (~15% CAGR). Over the same period, the EBITDA and net profit grew at a CAGR of 13% and 12% respectively. The company carries no debt obligation, thus translating in healthy return ratios with ROCE/ROE of 37%/35%. Furthermore, it is consistently paying dividend with FY20 payout at 40%.

Outlook and Valuation:

At higher price band (₹1,230), CAMS valued at 35(x) FY20 P/E has leadership position, zero debt, healthy cash position and high return ratios. We recommend to SUBSCRIBE.

Issue Details

Offer for Sale of up to 18,246,600 Equity Shares by NSE Investments Ltd ("NSEIL")
(The offer shall constitute at least 37.40% of post-offer paid-up equity share capital)

Issue highlights

Issue size:	₹ 2,240 Cr – 2,242 Cr
No. of shares:	18,246,600 Equity Shares
Face value:	₹ 10
Reservation for Employee:	182,500 Shares
Discount for Employee:	₹ 122/- per share

Issue summary

Price band :	₹ 1,229 – 1,230
Bid Lot:	12 Shares and in multiple thereof.

Post Issue Implied Market Cap

₹ 5,993 Cr – 5,997 Cr

Issue summary

Issue opens on:	Monday, 21st Sep'2020
Issue closes on:	Wednesday, 23rd Sep'2020

BRLMs:

Kotak Mahindra Capital, HDFC Bank, ICICI Securities, Nomura Financial

Registrar:

Link Intime India Pvt. Ltd.

Indicative Timetable

Activity	On or about
Finalisation of Basis of Allotment	28-09-2020
Refunds/Unblocking ASBA Fund	29-09-2020
Credit of equity shares to DP A/c	30-09-2020
Trading commences	01-10-2020

Issue Break-up

Reservation for	No of Shares	Amount ₹ Cr		% of Issue
		Upper	Lower	
QIB	9,032,050	1,110	1,111	50%
QIB - Anchor	5,419,230	666	667	-
QIB - Other	3,612,820	444	444	-
NIB	2,709,615	333	333	15%
Retail	6,322,435	777	778	35%
CAMS Emp	182,500	20	20	-
Total	18,246,600	2,240	2,242	100%

Listing : BSE

Shareholding

Pre-Offer and Post-Offer Equity Shares

No. of shares	48,760,000
---------------	------------

Pre-Issue and Post Issue Shareholding(%)

Promoters & Pro. Group	43.50%
Public	56.50%
Total	100.00%

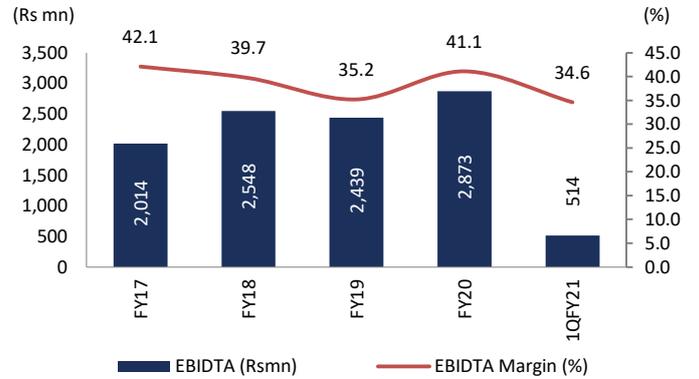
Story in Charts

Revenue Growth at 14% CAGR in FY17-20



Source: Company RHP and LKP Research

Healthy EBITDA Margin

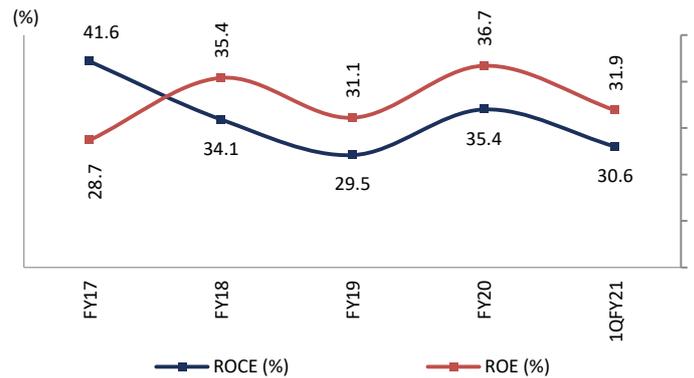


PAT grew at a CAGR of 14% in FY17-20

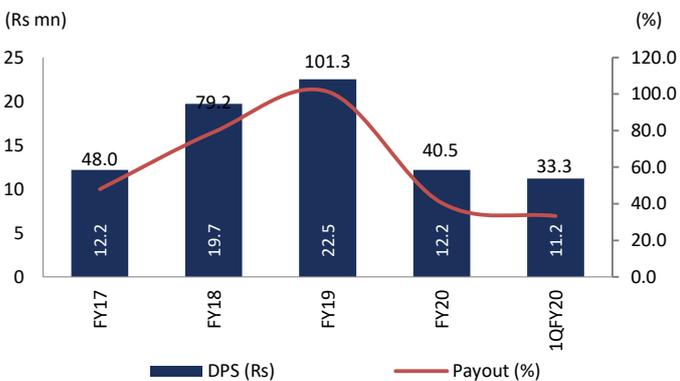


Source: Company RHP and LKP Research

Healthy Return Ratios

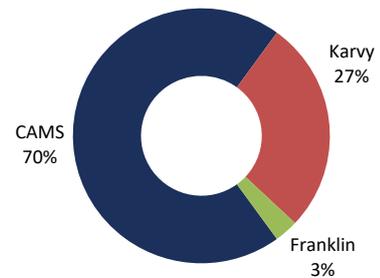


Consistent Dividend Payout



Source: Company RHP and LKP Research

CAMS having market share of 70% as on Mar-20



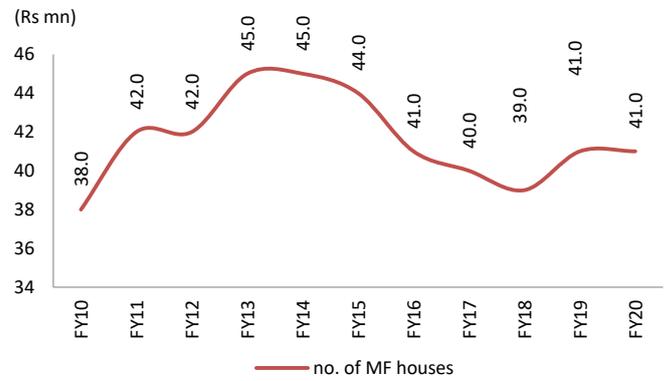
Mutual Fund Industry in Charts

Mutual AUM grew at a CAGR of 13.4% over last decade and expected to be ~₹52tn by FY25

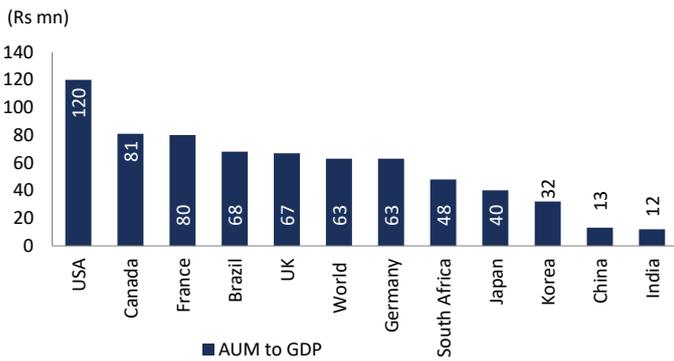


Source: Company RHP and LKP Research

There are 42 Mutual Fund houses in India

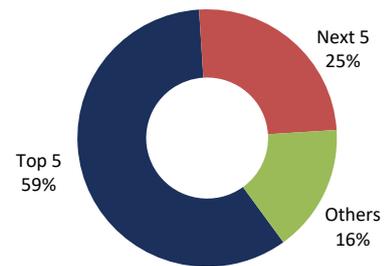


India's Mutual Fund to GDP is far below the world's average



Source: Company RHP and LKP Research

AUM contribution among MF houses

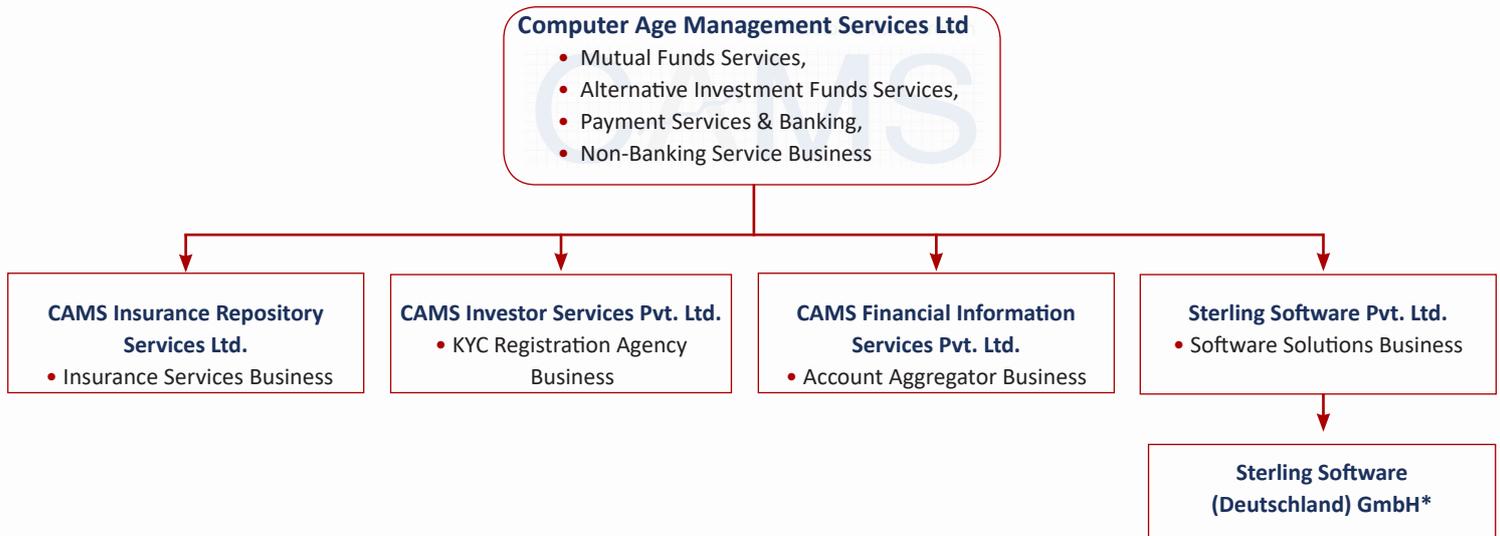


Major Shareholders

	No of Shares (mn)	in %
Promoter - Great Terrian (Affiliate of Warburg Pincus)	21.2	43.5
NSE Investment	18.3	37.5
HDFC	2.9	6.0
HDFC Bank	1.6	3.3
HDB Trust	1.6	3.2
Fearing Capital Fund II	1.2	2.5
Acsys	0.9	1.9
Fearing Capital Fund III	0.7	1.5
Others	0.3	0.6
Total Shares	48.8	100.0

Source: Company RHP and LKP Research

Corporate Structure (Subsidiaries)



Key Management

Key Person	Designation	Descriptions
Mr. Anuj Kumar	CEO	He joined CAMS as a Chief Operating Officer – Asset Management Services on March, 2016 and was appointed as our whole time Director and CEO with effect from November 6, 2018. He joined CAMS after 25 years of professional experience with Godrej & Boyce Mfg. Co Ltd, Blow Plast Limited, Escorts Finance Ltd, BillJunction Payments Ltd, IBM India Private Ltd and Concentrix Daksh Services India Private Ltd. He holds a Bachelor degree in Mechanical Engineering from Birla Institute of Technology, Ranchi and a PGDM from IIM, Kolkata.
Mr. M Somasundaram	CFO	He joined CAMS as a General Manager on July 6, 2009 and was promoted to Chief Financial Officer with effect from April 1, 2018. In addition to heading the Finance function, Somasundaram also oversees the Front office operations and Human Resources function. He joined CAMS after 25 years of experience with SRF Ltd, Henkel SPIC India Ltd, Pond's India Ltd, Hindustan Lever Ltd and TVS Electronics Ltd. Somasundaram is a qualified Cost Accountant and Company Secretary.
Mr. Srikanth Taneikella	COO	He joined CAMS as a Senior Vice President on December 18, 2014 and was promoted to Chief Operations Officer with effect from April 6, 2018. He joined CAMS after 15 years of professional experience with Accenture India Private Ltd, Infosys BPO Ltd, Infosys Technologies Ltd, Global e-Business Operations Private Ltd and Williams Lea India Pvt. Ltd. He had been the COO of Williams Lea India. He holds a Bachelor degree in Chemical Engineering from IIT, Delhi and a PGDM from IIM, Kolkata.
Mr. Ravi Kethana	CPO	He joined CAMS on December 10, 2019. Ravi provides strategic direction and leadership to the Technology Infrastructure team & Product Management Group in CAMS and to Sterling Software. He joined CAMS after 29 years of professional experience in the IT sector with TCS & Wipro. He holds a Bachelor degree in Technology (Electronics & Communication Engineering) from Jawaharlal Nehru Technological University and a Master degree in Technology (Electronics) from IT-BHU

Balance Sheet Summary

(₹ mn)	FY18	FY19	FY20	1QFY21
Non Current Assets				
Property, Plant & Equipment	700	710	653	633
Right to use assets	1,069	972	886	726
Intangible assets	1,466	1,518	1,447	1,425
Other non current assets	352	357	214	236
Current Assets	3,391	3,806	4,826	5,335
Total Assets	6,978	7,363	8,025	8,355
Equity				
Share capital	488	488	488	488
Other Equity	3,948	3,925	4,911	4,794
Minority Interest	77	82	-	-
Total Equity	4,512	4,494	5,398	5,282
Non current Liabilities	1,432	1,551	1,507	1,395
Current Liabilities	1,034	1,318	1,120	1,677
Total Liabilities	6,978	7,363	8,025	8,355

Source: Company RHP and LKP Research

Income Statement Summary

(₹ mn)	FY18	FY19	FY20	1QFY21
Revenue from operations	6,415	6,936	6,996	1,486
Other Income	163	182	217	148
Total Income	6,578	7,118	7,213	1,635
Employee Expenses	2,263	2,746	2,580	645
Finance cost	79	105	97	23
Depreciation	402	504	485	107
Opex	941	1,058	866	168
Other expenses	627	696	678	159
Total Expenses	4,312	5,109	4,706	1,103
PBT	2,266	2,009	2,508	532
Tax	803	699	773	124
PAT	1,463	1,310	1,735	407
EPS (Basic)	29.9	26.8	35.6	8.4
EPS (Diluted)	29.9	26.8	35.5	8.4

Source: Company RHP and LKP Research

Cash flow Statement Summary

(₹ mn)	FY18	FY19	FY20	1QFY21
Cash flow from operations	1,619	1,868	2,012	390
Cash flow from investment	(189)	(312)	(839)	11
Cash flow from financing	(1,384)	(1,581)	(989)	(604)
Cash at beginning of the period	28	74	49	232
Cash at end of the period	74	49	232	29

Source: Company RHP and LKP Research

DISCLAIMERS AND DISCLOSURES

LKP Sec. Ltd. (CIN-L67120MH1994PLC080039, www.lkpsec.com) and its affiliates are a full-fledged, brokerage and financing group. LKP was established in 1992 and is one of India's leading brokerage and distribution house. LKP is a corporate trading member of Bombay Stock Exchange Limited (BSE), National Stock Exchange of India Limited (NSE), MCX Stock Exchange Limited (MCX-SX). LKP along with its subsidiaries offers the most comprehensive avenues for investments and is engaged in the businesses including stock broking (Institutional and retail), merchant banking, commodity broking, depository participant, insurance broking and services rendered in connection with distribution of primary market issues and financial products like mutual funds etc.

LKP hereby declares that it has not defaulted with any stock exchange nor its activities were suspended by any stock exchange with whom it is registered in last five years. However, SEBI and Stock Exchanges have conducted the routine inspection and based on their observations have issued advice letters or levied minor penalty on LKP for certain operational deviations in ordinary/routine course of business. LKP has not been debarred from doing business by any Stock Exchange / SEBI or any other authorities; nor has its certificate of registration been cancelled by SEBI at any point of time.

LKP offers research services to clients. The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

Other disclosures by LKP and its Research Analyst under SEBI (Research Analyst) Regulations, 2014 with reference to the subject company(s) covered in this report:-

Research Analyst or his/her relative's financial interest in the subject company. (NO)

LKP or its associates may have financial interest in the subject company.

LKP or its associates and Research Analyst or his/her relative's does not have any material conflict of interest in the subject company. The research Analyst or research entity (LKP) has not been engaged in market making activity for the subject company.

LKP or its associates may have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report.

Research Analyst or his/her relatives have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report: (NO)

LKP or its associates may have received any compensation including for investment banking or merchant banking or brokerage services from the subject company in the past 12 months.

LKP or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.

LKP or its associates may have received any compensation or other benefits from the Subject Company or third party in connection with the research report.

Subject Company may have been client of LKP or its associates during twelve months preceding the date of distribution of the research report and LKP may have co-managed public offering of securities for the subject company in the past twelve months.

Research Analyst has served as officer, director or employee of the subject company: (NO)

LKP and/or its affiliates may seek investment banking or other business from the company or companies that are the subject of this material. Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that may be inconsistent with the recommendations expressed herein.

In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest including but not limited to those stated herein. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein. This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject LKP or its group companies to any registration or licensing requirement within such jurisdiction. Specifically, this document does not constitute an offer to or solicitation to any U.S. person for the purchase or sale of any financial instrument or as an official confirmation of any transaction to any U.S. person.

Unless otherwise stated, this message should not be construed as official confirmation of any transaction. No part of this document may be distributed in Canada or used by private customers in United Kingdom.

All trademarks, service marks and logos used in this report are trademarks or registered trademarks of LKP or its Group Companies. The information contained herein is not intended for publication or distribution or circulation in any manner whatsoever and any unauthorized reading, dissemination, distribution or copying of this communication is prohibited unless otherwise expressly authorized. Please ensure that you have read "Risk Disclosure Document for Capital Market and Derivatives Segments" as prescribed by Securities and Exchange Board of India before investing in Indian Securities Market. In so far as this report includes current or historic information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

All material presented in this report, unless specifically indicated otherwise, is under copyright to LKP. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of LKP.