



## IPO Note – Computer Age Management Services Ltd

17-September-2020

## Issue Snapshot:

Issue Open: Sept 21 – Sept 23, 2020

Price Band: Rs. 1229 – 1230 (Discount of Rs 122 for eligible Employees)

Issue Size: 18,246,600 eq shares  
(Entirely Offer for sale)

Issue Size: Rs. 2240.0 – 2242.0 cr

Reservation for:

QIB	Upto 9,032,050 eq sh
Non Institutional	atleast 2,709,615 eq sh
Retail	atleast 6,322,435 eq sh
Employee	Upto 182.500 eq sh

Face Value: Rs 10

Book value: Rs 108.27 (June 30, 2020)

Bid size: - 12 equity shares and in multiples thereof

100% Book built Issue

## Capital Structure:

Pre Issue Equity:	Rs. 48.79 cr
Post issue Equity:	Rs. 48.79 cr

Listing: BSE & NSE

Book Running Lead Manager: Kotak Mahindra Capital Company Ltd, HDFC Bank Ltd, ICICI Securities Ltd, Nomura Financial Advisory and Securities (India) Private Ltd

Registrar to issue: Link Intime India Private Limited

## Shareholding Pattern

Shareholding Pattern	Pre issue %	Post issue %
Promoter and Promoter Group	43.5	31.0
Public & Employee	56.5	69.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

Source for this Note: RHP

## Background & Operations:

Computer Age Management Services Ltd (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 of mutual funds with an aggregate market share of approximately 70% based on mutual fund average assets under management ("AAUM") managed by its clients and serviced by it during July 2020. Over the last five years, it has grown its market share from approximately 61% during March 2015 to approximately 69% during March 2020, based on AAUM serviced. Its mutual fund clients include four of the five largest mutual funds as well as nine of the 15 largest mutual funds based on AAUM during July 2020. With the initiative of creating an end-to-end value chain of services, it has grown its service offerings and currently provide a comprehensive portfolio of technology based services, such as transaction origination interface, transaction execution, payment, settlement and reconciliation, dividend processing, investor interface, record keeping, report generation, intermediary empanelment and brokerage computation and compliance related services, through pan-India network to its mutual fund clients, distributors and investors. It also provides certain services to alternative investment funds, insurance companies, banks and non-banking finance companies.

The nature of CAMS services to mutual funds spans multiple facets of their relationship with their investors, distributors and regulators. By providing a range of services, it plays an important role in developing and maintaining its clients market perception. As of July 2020, it serviced Rs19.2 trillion of AAUM of 16 mutual fund clients. Further, its mutual fund clients had 19.77 million SIP accounts as of June 30, 2020. The growth of the assets under management (AUM) of its mutual fund clients is important, as a substantial portion of its mutual fund revenues are based on the mutual fund AAUM of its clients. As a result of the nature of the funds and services provided, it charges more fees from equity mutual funds as compared to other categories of mutual funds.

The company has leveraged its domain expertise, processes and infrastructure to diversify its offering of services to cater to a variety of other financial services sectors.

- In electronic payment collections services business, CAMS manages mandated transactions, including registering of mandates, initiation of collections, reconciliation & the related reporting services for mutual funds, non-banking finance companies & banks.
- In insurance services business, it offers processing of new business applications, holding policies in dematerialized form, servicing policies and other support functions to insurance companies.
- In alternative investment funds services business, it provides services to investors, manage records and perform fund accounting and reporting, among other services, for alternative investment and other types of funds.
- In banking and non-banking services business, it offers digitization of account opening, facilitation of loan processing and back-office processing services to banking and non-banking financial institutions.
- In KYC registration agency business, it verifies and maintains KYC records of investors for use by financial institutions.
- In software solutions business, its technology team develops software for mutual funds services business and for mutual fund companies.

CAMS technology driven infrastructure and services are integral to the operations of its clients. It offers an integrated and customized portfolio of services through its pan-India physical network comprising 271 service centers spread over 25 states and five union territories as of June 30, 2020, and which are supported by call centers in four major cities, four back offices (including a disaster recovery site), all

having real time connectivity, continuous availability and data replication and redundancy. Further, it offers many of its services online and through its several mobile device applications, to investors, its clients, their distributors and their channel providers. The continued development of proprietary platforms and applications has furthered its competitive technology advantage.

## Objects of Issue:

The objects of the Offer are to (i) to carry out the Offer for Sale of up to 18,246,600 Equity Shares by the Selling Shareholder; and (ii) achieve the benefits of listing the Equity Shares on the BSE. CAMS will not receive any proceeds from the Offer and all such proceeds will go to the Selling Shareholder. Further, it expects that listing of the Equity Shares will enhance visibility and brand image and provide liquidity to its Shareholders and will also provide a public market for the Equity Shares in India.

## Competitive Strengths

**Largest Infrastructure and Services Provider in a Large and Growing Mutual Funds Market:** CAMS is India's largest registrar and transfer agent of mutual funds with an aggregate market share of approximately 70% based on mutual fund AAUM managed by its clients and serviced by it during July 2020, The nature of its services to mutual funds spans multiple facets of their relationship with their investors, distributors and regulators. By providing a range of services, it plays an important role in developing and maintaining its clients' market perception. The ten-year CAGR of QAAUM of mutual funds between March 2010 and March 2020 was 13.4%, while the ten-year CAGR of QAAUM of mutual funds serviced by CAMS over the same period was 15.8%. Further, the AUM of equity mutual funds serviced by it grew from Rs.2,180 billion as of March 31, 2015 to Rs.5,228 billion as of March 31, 2020, at a CAGR of 19.1%, and as of June 30, 2020 was Rs.6,190 billion. In addition, the number of folios serviced by it grew from 39.4 million as of March 31, 2020 to 39.8 million as of June 30, 2020. Its operating model has assisted in contributing to the growth of mutual fund clients by providing real time, uninterrupted, pan India services. Its mutual fund clients include four of the five largest mutual funds as well as nine of the 15 largest mutual funds based on AAUM during July 2020 The key growth drivers of the Indian mutual fund industry are expected to include anticipated economic growth, a growing investor base, higher disposable incomes and investable surplus, increasing aggregate household and financial savings, increase in geographical penetration as well as better awareness, ease of investing, digitalisation and perception of mutual funds as long term wealth creators. As a result of its domain expertise, established processes, technology driven infrastructure and marquee clients, it is well positioned to capitalize on such growth.

**Integrated Business Model and Longstanding Client Relationships in Mutual Funds Services Business:** Utilizing CAMS diverse portfolio of technology enabled services and leveraging its pan-India physical network, domain expertise of the Indian financial services ecosystem and a comprehensive risk management system, it has built an integrated business model and has longstanding client relationships in its mutual funds services business. CAMS business model and client relationships offers it several key advantages.

It offers an integrated business model wherein its portfolio of services offered and its pan-India physical network enable its clients to leverage its technology-driven financial infrastructure thereby reducing the need for them to make significant investments to develop and offer such services.

Its pan-India physical network comprising 271 service centers spread over 25 states and five union territories as of June 30, 2020, which are supported by call centers in four major cities – Mumbai, New Delhi, Chennai and Kolkata is time consuming, difficult and expensive to build and maintain.

It has developed a committed client base – its clients rely on infrastructure and expertise built over decades of experience for day-to-day aspects of their business building on client loyalty.

CAMS engagement with its clients, their distributors, their investors and regulators is frequent and is with intent to further enhance the quality and security of services provided.

**Scalable Technology Enabled Ecosystem:** CAMS competitive technology advantage stems from the capability, functionality, integration and scalability of its proprietary platforms, which deliver breadth and quality of service and cost efficiencies. Its proprietary platforms are built to absorb growth in the number of investors, assets and trading volumes. From handling over 98 million transactions in the financial year 2015, it handled over 328 million transactions in the financial year 2020. The continuing investment in its proprietary IT platforms continues to strengthen this competitive advantage by further increasing operating leverage, driving ongoing innovation, anticipating industry developments and delivering increased efficiencies while continuing to provide its clients and other stakeholders with its integrated services.

CAMS technology driven infrastructure is integral to the operations of its clients. Its solutions help reduce the need for its clients to make significant investments in infrastructure, thereby allowing them to increase their focus on their core business activities. Its IT team comprising of over 606 qualified professionals as of June 30 2020, manage a comprehensive proprietary IT infrastructure, develop innovative products and ensure systems and data security, in addition to offering 24x7 support to its clients. Further, it offers many of its services online and through its mobile device applications, for investors, its clients, their distributors and their channel providers. Its

infrastructure includes 271 service centers, four call centers, four back offices of which three are in Chennai (two of these offices also serve as its Registered Office and Corporate Office) and one in Coimbatore, having real time connectivity, continuous availability and data replication and redundancy. It also has an aggregate of over 275 TB data storage in its businesses as of June 30, 2020. Its business continuity planning is done at its disaster recovery site in Mumbai.

**Strong Focus on Processes and Risk Management:** CAMS clients are regulated financial institutions and the services it provides to them must be accurate, timely and continuous, secure and technologically advanced as they are considered to be necessary to the functioning of financial services industry. In its mutual funds services business, it assist its clients with their compliance requirements, including submission of reports to regulators. It continuously monitors its systems and processes and endeavor to not only benchmark them against Indian competitors but also incorporate industry best practices and technological advancements in its operations. CAMS relentless focus on systems and processes has contributed significantly to its growth and allowed to become a trusted provider of services to its clients and other stakeholders. It continues to automate processes and enhance its systems and risk management to try to ensure that all its obligations and regulatory requirements are fulfilled on a timely basis and without error. It has implemented a cyber security and cyber resilience policy and established a technology committee comprising of eminent specialists from IIT Bombay and IIT Madras, as well as the banking industry. The committee meets quarterly and reviews the robustness and resilience of its systems and processes.

**Experienced Management and Board and Marquee Shareholders:** CAMS management team has extensive experience in a variety of financial services sectors, with a demonstrated ability to grow and diversify its business and innovate its services. Its Key Management Personnel has average work experience of over 27 years and has been with the company for over five years. Its Board of Directors collectively possess an effective mix of skills and attributes with significant business, operational, technology, finance, insurance, legal and investment experience in a diverse range of industries. Its marquee shareholders include Great Terrain (an affiliate of Warburg Pincus), HDFC, HDFC Bank and NSEIL, among others. It has and expect to continue to benefit from capital sponsorship and professional expertise of its marquee shareholders. CAMS shareholders has assisted it in implementing strong corporate governance standards, which has been critical to the growth of its operations.

## **Business Strategy:**

**Maintain Leadership Position by enhancing Service Offerings to Mutual Fund Clients:** A key element of CAMS business strategy is to continuously enhance the scope of its service offerings in its core mutual fund registrar and transfer agency business and further deepen integration with its clients and improve value delivery. It has been focused on adding services for its existing mutual fund clients relating to servicing of investors, interface with investors, distributors and other stakeholders, risk management, process automation, data analytics and business intelligence in order to grow and maintain its share of business and revenues from mutual fund clients. Further, CAMS is focused on increasing its mutual fund client base by attracting new mutual funds being launched in India as its clients. Its market leading position and its strengths adequately position it to increase the number of its mutual fund clients.

**Continue the Technology-led Services Innovations:** Electronic transformation and advancement is integral to the mutual fund industry. CAMS market position has been a function of its in-house technology capabilities, which it plans to continue investing in. Its spend on technology has continued to be significant and the advantages available to it by developing and investing in technology include client commitment and loyalty, economies of scale, effective risk management, scalability, expansion to the adjacent financial services sectors, among others. It is engaged in several such initiatives in the areas of reconciliation, brokerage computation, digitization of paper transactions, quality control, among others. Further, it has developed myCAMS, an award winning B2C mobile application to provide individual investor interface and facilitate mutual fund transactions for them, as well as GoCORP, a technology platform for corporate investors. It processed 75.9 million and 328.4 million transactions for the three months ended June 30, 2020 and the financial year 2020, respectively, through its mobile application myCAMS. It also provides MFDEX, a sales and business intelligence tool to several mutual funds, including clients of its competitors.

**Achieve Leadership in Individual Businesses and then Target Scale:** CAMS mutual funds services business had an aggregate market share of approximately 70% based on mutual fund AAUM managed by its clients and serviced by it during July 2020, and its insurance services business had a market share of 39% during the financial year 2018, based on e-insurance policies being managed. CAMS invest in creating sustainable and scalable business platforms early on in the life cycle, and focus on delivering incremental value to its clients. Most of CAMS businesses and client relationships in such businesses, continue to grow over time and at scale the businesses contribute favourably to its profitability. Key new offerings continue to be imbued with a platform character and are technology-based.

**Improve Automation in Businesses:** Through automation, CAMS target to not only improve cost efficiencies but also enhance customer experience. It is currently engaged in several automation projects, including automation of subscription reconciliation, purchase and SIP processes, document receipts and storage. Its applications, such as myCAMS, GoCORP, digiSIP, CAMSserv, edge360 are aimed not only at enhancing the investor and distributor ease of operation but also to automate the flow of transactions, thereby reducing manual efforts and risks associated with manual efforts.

## Industry

### Key Structural Reforms: Long-Term Positives for Indian Economy

**Financial Inclusion:** The Government has two key schemes to increase financial inclusion – the Pradhan Mantri Jan Dhan Yojana (“PMJDY”) and Pradhan Mantri Jeevan Jyoti Bima Yojana (“PMJJBY”). The PMJDY’s mission is to ensure that every household in India has a bank account that they can be accessed from anywhere and have affordable access to all financial services such as savings and deposit accounts, remittance, credit and insurance. PMJJBY is a one-year life insurance scheme that offers a life cover of Rs0.2 million at a premium of Rs330 per annum per member, which can be renewed annually. The Government also has an accident insurance scheme, the Pradhan Mantri Suraksha Bima Yojana (“PMSBY”), which offers Rs0.2million cover for death and full disability at a premium of Rs12 annually.

**Reduction in Corporate Tax Rate to Boost Capital Base of financial institutions.** On September 20, 2019, the Finance Minister announced the Taxation Laws (Amendment) Ordinance, 2019 to amend the Income Tax Act, 1961 to allow any domestic company an option to pay income tax at the rate of 22% subject to the condition that they will not avail any exemption or incentive. The effective tax rate for these companies will be 25.17% inclusive of surcharge and cess. Also, such companies will not be required to pay minimum alternate tax. In addition, to stabilise the flow of funds into the capital market, the provision of not applying additional surcharge as per the Finance Act, 2019 on capital gains arising out of sale of equity shares in a company or unit of equity-oriented fund or business trust liable for securities transaction tax, in the hands of an individual, hindu undivided family, association of persons, body of individuals and artificial juridical person has been passed. The enhanced surcharge will also not apply to capital gains on sale of any security including derivatives, in the hands of foreign portfolio investors. Further, to provide relief to listed companies which have announced a share buy-back before July 5, 2019, pursuant to these amendments no tax on buy-back of shares shall be charged. The recent amendments could boost the capital base of financial institutions and help revive growth of the financial services sector, which has been battling high non-performing assets, rising defaults and liquidity concerns. This move could also revive the private capital expenditure cycle, leading to credit growth in the economy.

### Household Savings

**Gross domestic saving rate.** India has historically been, and is expected to continue to be, a high savings economy. High savings can be used to finance investments, which can further ease supply-side constraints in the economy and drive long-term economic growth. India also has a high savings rate compared with other large economies.

According to CRISIL, benign inflationary pressures would diminish the attractiveness of gold and real estate in the future, Indian households’ favourite physical savings avenues, as investment alternatives. Considering this, along with increase in financial literacy, the share of financial savings within household savings is likely to increase in the medium term. The Government’s measures to curb black money will also help increase the share of financial savings.

India’s gross domestic savings (“GDS”) rate has declined to 30.1% of GDP in financial year 2019 from 33.9% in financial year 2013. This was primarily on account of a sharp drop in public savings as the Government resorted to fiscal stimulus to address the effects from global financial crisis. Also, household savings as a percentage of GDP had declined to 18.2% in financial year 2019 from 22.5% in financial year 2013, largely on account of higher consumption, low job creation and increase in financial liabilities to meet short-term consumption needs. As of financial year 2019, the quantum of gross household financial savings was approximately Rs20 trillion. With the rising income and better control over inflation, the household savings rate (household savings as a percentage of GDP) is expected to have risen in financial year 2020.

### Share of Financial Savings to Increase

Between financial years 2014 and 2020, consumer price index (“CPI”) inflation has continued to drop, to reach 4.8% in financial year 2020 from 9.4% in financial year 2014. According to CRISIL, CPI inflation for financial year 2021 is expected to be 4.0%. The drop in demand owing to the lockdown imposed by the Government due to COVID-19 has put significant downward pressure on core inflation for financial year 2021. Fuel inflation too is expected to remain low because of subdued demand and a sharp fall in crude oil prices. Food inflation, however, is likely to put upside pressure on inflation, as the recent 83 retail food price trends suggest.

While gross households’ savings (which includes household liabilities which is a negative number) in physical assets has increased to 63% in financial year 2019 from 53% in financial year 2016, gross financial savings has reduced to 58% from 60% over the same period. This could be due to slowdown in the economy, as people are concentrating more on physical assets. However, according to CRISIL, as inflation continues to decline in the coming years, they expect the attractiveness of gold and real estate (Indian households’ favourite physical assets) as investment options to reduce. Along with increase in financial literacy, the relative outperformance of financial assets over recent years, and the Government’s efforts to curb the shadow economy, CRISIL expects the share of financial assets as a proportion of net household savings to increase over the next five years.

### Capital markets to remain an attractive element of financial saving

The share of mutual funds in overall household savings has continuously increased from 0.8% in financial year 2013 to 1.2% in financial year 2018. According to CRISIL, the financial market in India is expected to continue to grow at a steady pace owing to strong demand-

and supply-side drivers, such as expected growth of the Indian economy, increasing urbanisation, rising consumerism because of higher per capita incomes, and favourable changes, thereby indicating market growth potential for established financial service providers in India.

Further, as per RBI's quarterly forecast for gross financial assets, mutual funds in outstanding position of household financial assets consistently increased until Q3 of financial year 2020. However, it declined in Q4 of financial year 2020 as the capital markets became volatile in the month of March due to COVID-19.

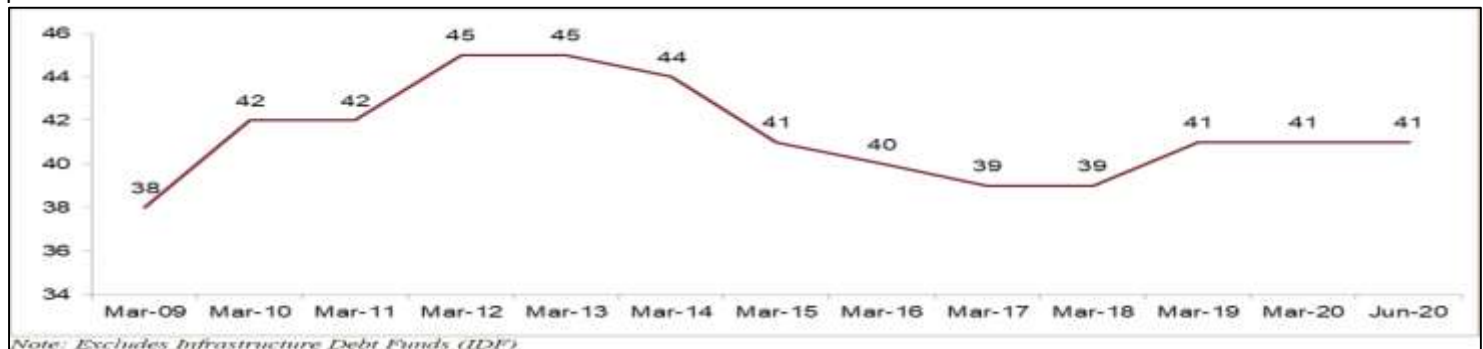
## AUM Performance and Trends

### Long-term AUM growth

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 Rs27.0 trillion in March 2020 from Rs7.6 trillion in March 2010 as illustrated below:



As of July 2020, there were 41 fund houses and the following graph sets out the increase in number of fund houses over the periods indicated:



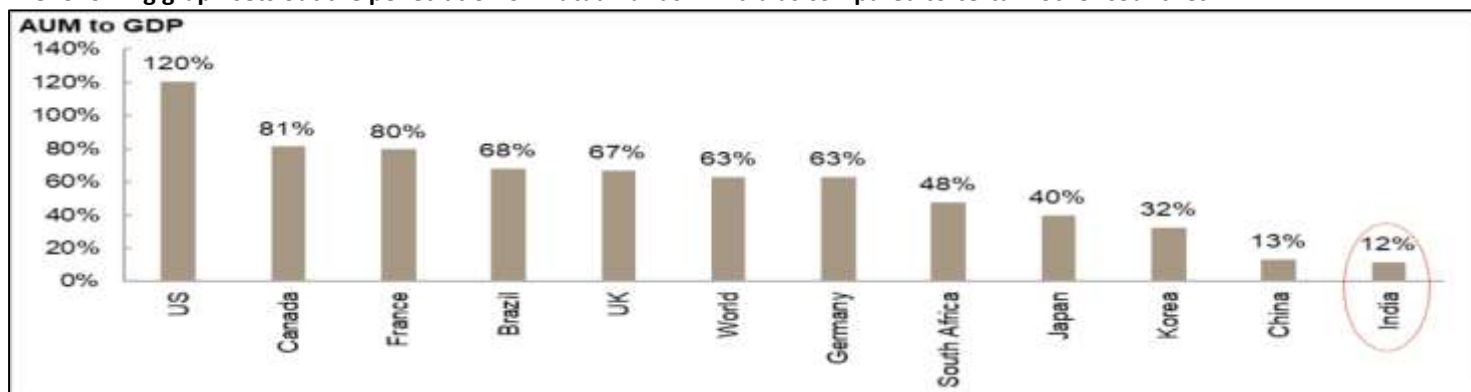
## Mutual Fund Penetration

Mutual fund assets in India have seen robust growth, especially in recent years, driven by a growing investor base due to increasing penetration across geographies, strong growth of the capital markets, technological progress and regulatory efforts aimed at making mutual fund products more transparent and investor friendly. 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. The following graph sets forth mutual fund AUM represented as a percentage of GDP (GDP in INR terms has been considered for the graph below):



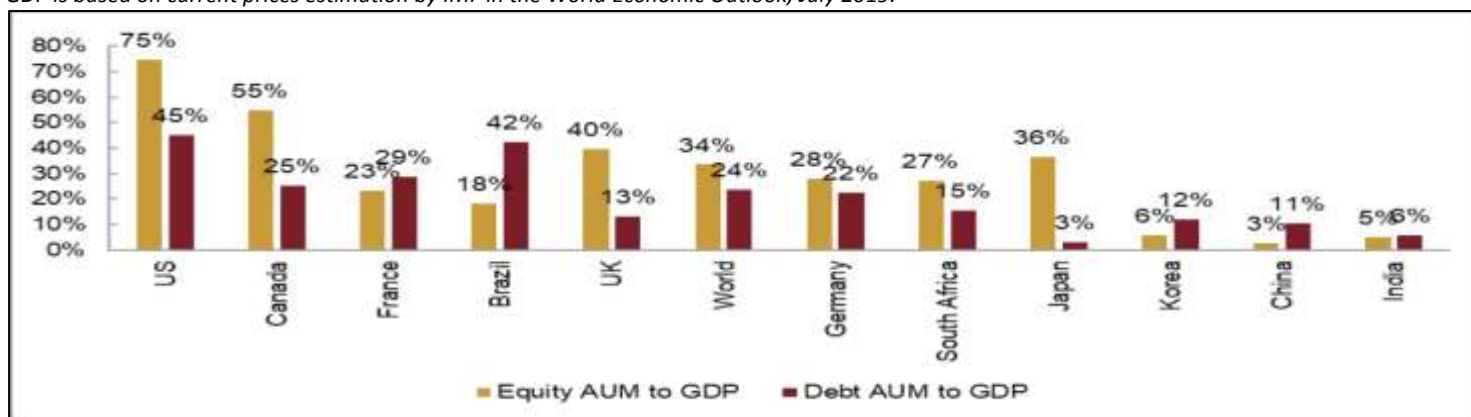
India's mutual fund penetration (AUM to GDP) is significantly lower than the world average of 63% and also lower than many developed economies such as U.S. (120%), Canada (81%), France (80%), and UK (67%), and even emerging economies such as Brazil (68%) and South Africa (48%). Low penetration of mutual 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.

The following graph sets out the penetration of mutual funds in India as compared to certain other countries:



Note: AUM data as of Q4 of calendar year 2019 for all countries. Only open-ended funds have been considered. Includes, equity, debt and others.

GDP is based on current prices estimation by IMF in the World Economic Outlook, July 2019.



Note: AUM data as of Q4 of calendar year 2019 for all countries. Only open-ended funds have been considered. Balanced/ mixed funds are assumed to be composed of 70% equity and 30% debt. Guaranteed/protected and real estate funds have not been considered. GDP is based on current prices

## Equity Markets and Retail Participation

The mutual fund industry's aggregate AUM grew at a CAGR of approximately 18% from Rs11.9 trillion as of March 2015 to Rs27.6 trillion as of March 2020. The strong growth of the mutual fund industry can largely be attributed to higher financial savings combined with growing investor awareness of such products. Between March 2015 and June 2020, the industry witnessed a net inflow of Rs10.7 trillion. The first quarter of financial year 2021 saw a drop in AUM on account of the nationwide lockdown and a corresponding fall in the capital market indices. However, fund flow post the March 2020 quarter has been inconsistent, which is on account of the money market/liquid fund and debt fund categories.

The AAUM of equity-oriented funds grew at a CAGR of 25.5%, from Rs3.7 trillion in March 2015 to Rs11.3 trillion in March 2020, whereas the debt segment grew at a CAGR of 7.1% during the same period, largely because of the IL&FS default and the ensuing NBFC crisis. This had a negative impact on investor confidence in debt markets and resulted in a considerable drop in demand for mutual fund debt products, a trend according to CRISL which they expect will continue in the wake of COVID- 19. However, as the effects of the pandemic subside, credit quality is expected to improve through the longer term. The AAUM of other category of funds (including ETFs, index funds and fund of funds ("FoF") investing overseas) saw robust growth of 62.5% over a lower base as institutional investors (such as the Employees' Provident Fund Organisation ("EPFO")) began investing a portion (currently 15%) of their corpus in equities via passively managed funds. The AAUM of liquid/ money market funds too, grew at a CAGR of 17.9% from March 2015 to March 2020, supported by corporate investments, stable returns and a high level of aggregate re-allocations from long-term debt instruments.

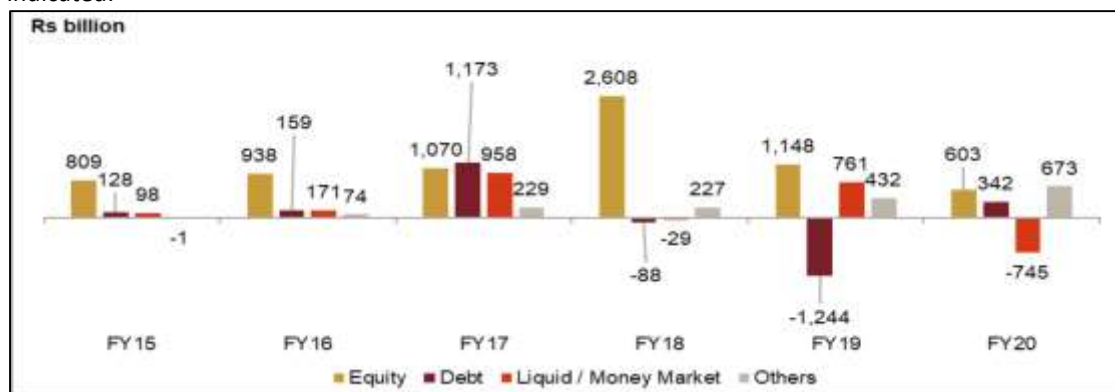
The share of debt funds declined from 45% in the March quarter of financial year 2015 to 28% in the June quarter of financial year 2021. Conversely, the share of equity funds rose from 31% in the March quarter of financial year 2015 to 40% in the June quarter of financial year 2021, mainly on account of steady inflows and strong growth of the equity markets in the previous years across the industry.

The following table sets out the trend in share of various mutual funds in QAAUM (in Rs billions) for the periods indicated:

Segment	Equity	Debt	Liquid / Money Market	Others	Total
March 2015	3,652	5,292	2,774	169	11,887
March 2016	4,183	5,871	3,269	212	13,534
March 2017	5,927	7,982	3,940	446	18,296
March 2018	9,582	8,134	4,562	773	23,052
March 2019	10,210	7,152	5,916	1,206	24,484
March 2020	11,348	7,449	6,327	1,913	27,628
June 2020	9,740	6,797	6,272	1,818	24,628
<b>March 2015 – 2020 (CAGR)</b>	<b>25.5%</b>	<b>7.1%</b>	<b>17.9%</b>	<b>62.5%</b>	<b>17.9%</b>

## Equity oriented funds led the charge in net inflows

The following graph sets out the net inflow of funds received by equity, debt, liquid/ money market funds and other funds for the periods indicated:



The following table sets out the share of AUM by investor classification (in Rs billion) for the periods indicated:

Category	March 2015	March 2016	March 2017	March 2018	March 2019	March 2020	July 2020	CAGR (March 2015 - July 2020)
Corporates	5,673	6,440	8,816	10,051	10,102	10,985	12,523	16%
Banks/FIs	663	843	1,104	866	826	767	917	6%
FIs	159	110	131	125	111	54	52	(19%)
High Networth Individuals	3,140	3,531	4,703	6,310	7,095	8,207	8,520	21%
Retail	2,442	2,627	3,824	5,355	6,446	4,696	5,270	15%
<b>Total</b>	<b>12,077</b>	<b>13,552</b>	<b>18,578</b>	<b>22,707</b>	<b>24,580</b>	<b>24,709</b>	<b>27,281</b>	<b>16%</b>

Note: Average monthly AUM for the period has been considered

Individual investors (retail and high networth individuals) prefer investing in equity-oriented funds and institutional investors prefer investing in fixed-income (debt and liquid/ money market).

## SIP contributions have seen strong growth

Between April 2016 and July 2020, the monthly amount invested through SIPs has risen from approximately Rs31 billion to approximately Rs78 billion. Such an increase is the result of low contribution minimums increasing accessibility to lower income households. This is reflected in an increase in the number of SIP accounts to 32.7 million in July 2020 from 21.1 million in March 2018. Further, the mutual fund industry added roughly 982,000 SIP accounts each month in financial year 2020. The mutual fund industry collected approximately Rs1 trillion in financial year 2020 through SIPs which was 8% higher than Rs927 billion collected in financial year 2019. In the first quarter of financial year 2021, SIP contributions to mutual funds reached approximately Rs244 billion. As of July 2020, the aggregate SIP AUM was approximately Rs3.2 trillion or 11.8% of the total industry AUMs. According to CRISIL, SIPs are expected to continue to grow due to the increasing popularity of equity funds and rising participation of investors, recent investor education initiatives and apparent benefits of SIPs to households that traditionally did not invest in mutual funds. While COVID-19 resulted in a decline in SIP contributions since the lockdowns imposed by the Government led to a standstill in economic activity, loss of jobs, lower discretionary spending and increased personal emergency funds, CRISIL expects that with the economy rebounding in financial year 2020, SIP contributions from both the retail and institutional investors are expected to increase.

## Mutual fund industry AUM growth

According to CRISIL, mutual fund QAAUM growth is expected to be near-flat for financial year 2021. Between March 2015 and March 2020, the QAAUM grew at a CAGR of approximately 18% and the expected QAAUM in March 2021 is Rs27 trillion (same as QAAUM for March 2020). However, post financial year 2021, the QAAUMs are expected to gradually bounce back and grow to approximately Rs52 trillion by March 2025, which represents a CAGR of approximately 18% between March 2021 and March 2025 on the back of an anticipated pick-up in economic growth, growing investor base, higher disposable income levels and investable household surplus, increase in aggregate



household and financial savings, increase in geographical penetration as well as better awareness, ease of investing, digitalisation and perception of mutual funds as long-term wealth creators, driven in part by initiatives like the 'Mutual Funds Sahi Hai' campaign.

## AMC Market Participants

As of the June quarter of 2020, SBI Mutual Fund is the largest AMC in terms of its AUMs. It is followed by HDFC Mutual Fund, ICICI Prudential Mutual Fund, Aditya Birla Sun Life Mutual Fund and Nippon India Mutual Fund which form the top five AMCs. The next five AMCs are Kotak Mahindra Mutual Fund, Axis Mutual Fund, UTI Mutual Fund, IDFC Mutual Fund and Franklin Templeton Mutual Fund which complete the top 10 AMCs. The mutual fund industry comprises of 41 AMCs (excluding Infrastructure Debt Funds) and a majority of the total mutual fund AUM is managed by the top five AMCs which have approximately 59% of the total market share as of June 2020. The market share of top five AMCs has risen in the last few years from approximately 54% in March 2015 to approximately 59% in June 2020. AUM of these top five AMCs has grown at a CAGR of 19.3% from financial year 2015 to financial year 2020 and has reached approximately Rs15.6 trillion. The mutual fund industry AAUMs in the last quarter of financial year 2020 have grown at a CAGR of 17.7% from the corresponding period of financial year 2015. Including the next five AMCs, i.e. the top 10 AMCs combined have close to 4/5th of the AUM market share and thus are the most important players as far as the industry performance is concerned.

## Mutual Fund Registrar and Transfer Agent

Computer Age Management Services Limited ("CAMS"), KFin Technologies Private Limited (erstwhile Karvy Fintech Private Limited) ("Karvy"), Sundaram BNP Paribas Fund Services (acquired by Karvy in October 2019) and Franklin Templeton Asset Management (India) Private Limited are the mutual fund registrar and transfer agents ("MF RTA") operating in India. Among the top five AMCs, SBI Mutual Fund, HDFC Mutual Fund, ICICI Prudential Mutual Fund and Aditya Birla Sun Life Mutual Fund are serviced by CAMS and Nippon India Mutual Fund is serviced by Karvy.

## High entry barriers

As of July 2020, the 41 AMCs (excluding Infrastructure Debt Funds) are serviced by the following MF RTA: CAMS, Karvy, Sundaram BNP Paribas Fund Services and Franklin Templeton Asset Management (India) Private Limited. In October 2019, Sundaram BNP Paribas Fund Services had announced the sale of its RTA business to Karvy. Franklin Templeton Asset Management (India) Private Limited as an RTA services only mutual funds sponsored by their own group company. Therefore, CAMS and Karvy hold a dominant market share. As of March 2020, CAMS was the market leader and serviced Rs17.1 trillion AAUM which constituted approximately 69% of total mutual fund industry AUM. CAMS also services four of the top-five as well as nine of the 15 largest mutual funds in India based on AAUM during July 2020. The reasons for the concentration in market share amongst CAMS and Karvy is attributed to the following reasons:

- (a) *High technology intensity, compliance requirements and need to keep investing in light of changing regulations:* The MF RTA business is technology intensive requiring continuous upgradation of systems and processes in line with the increase in business volume as well as changing regulations. In addition, the business entails significant focus on data security, quality management and compliance, given the sensitivity of managing mutual fund investor data. Innovative product offerings by MF RTAs directed at investors and distributors, leveraging the scale, ensures direct connect with end customers and strengthens their stickiness to their clients.
- (b) *Requirement of extensive branch network:* With mutual fund investors from across the country, MF RTAs have to keep expanding their branch network to properly service these investors. With investors in lower tier cities being less tech savvy and lacking financial expertise, the physical footprint of such MF RTAs becomes even more important, as the share of mutual investors from these cities have been increasing over the years. CAMS, the market leader, had 271 service offices and Karvy had 203 service offices as per disclosures on their respective websites as of July 2020.
- (c) *High operating leverage:* The MF RTA business is volume driven, and investments in expanding the service network as well as technology is justified only if business volume is adequate. While an individual AMC's initiatives like online products may meet a part of the investor needs, MF RTA's applications address most of the investor and distributor needs.
- (d) *Knowledge base acquired through years of experience:* Both CAMS and Karvy have accumulated significant domain knowledge on investors in mutual fund industry and the industry itself through years of experience in servicing such investors (32 years for CAMS and 37 years for Karvy). Accordingly, they have developed relationships with AMCs and offer them insights into investor behaviour on an ongoing basis.

## MF RTA business is expected to grow at approximately 15% CAGR over the next five years

The industry is estimated to have grown at a CAGR of 17% in the past five years. According to CRISIL, the size of the MF RTA business was approximately Rs9 billion in financial year 2020 and the year-on-year growth in financial year 2020 had been 4%. After the onset of COVID-19 in the first half of financial year 2021, there has been a decrease in transaction volumes and hence the growth in financial year 2021 is expected to be muted. The domain expertise and longevity advantage that existing MF RTAs possess will propel their industry ahead, along with the rise in demand for equity funds and their rising importance in the mutual fund industry. The mutual fund RTA industry overall is expected to grow at a CAGR of approximately 15% up to financial year 2025 and should reach a size of approximately Rs17.6 billion. This is

almost in line with the growth in the AUM industry. The fees, on the other hand, has lowered but according to CRISIL going forward, it is expected that the share of equity funds in schemes is likely to increase.

Further, with retail investor becoming more tech savvy, the role of MF RTAs is expected to become more dynamic and stronger in relation to the mutual fund industry. By adding incremental value to stakeholders, the MF RTA industry is expected to witness continuous evolution in service offerings.

According to CRISIL, investments through AIFs are projected to grow at a CAGR of 30% to 35% between financial years 2019 and 2024 and the growth will primarily be driven by:

- wealth managers increasingly selling AIF investments as an alternative to high networth individuals;
- insurance companies and banks being eligible to invest in these instruments;
- increase in allocation to private debt by pensions and insurance companies; and
- offshore funds investing in India to earn higher yields.

RTAs support AIFs in the entire gamut of their operations by providing numerous services that if performed independently by the AIF results in higher investment and lesser operational inconvenience. Partnering with the RTAs that are operationally more equipped and focussed on these aspects helps the AIFs eliminate these limitations. AIF present an opportunity to RTAs to increase their business for the following reasons:

**Serving AIFs in comparatively a low complexity offering for RTAs.** AIFs usually require a similar bouquet of services as that by MF AMCs to carry out their operations. MF RTAs can leverage their technological and infrastructural investment to better service this industry. Their economies of scale can help them better apply their accumulated knowledge for enhancing offerings to stake holders at minimal extra costs. Further, regulatory requirements for AIFs are lower in comparison with mutual funds. The AIFs cater only to high networth individuals and thus do not require extensive touch points or customer reach. This leads to lesser risk and controls with lower investment needs, making the cost of servicing these clients relatively low. *Switching RTAs is not preferred by AIFs.* The life cycle of an AIF is close to seven years and switching midway is not preferred. Also for different funds, having different set of RTAs is not preferred as the customer set is usually similar and, apart from the exceptional cases, they would prefer receiving similar services. Also, having the same RTA provides the AIFs with better bargaining power than having multiple RTAs for different funds from the same fund house.

**Setup cost and operational partnerships primarily influence RTA selection.** For AIFs that are relatively newer, setup cost is a large upfront expense to be paid. It is often the prime factor of consideration for selection of an RTA. Moreover, RTAs providing more customised options that better suit the needs of the fund at an affordable cost are preferred. RTAs based out of specific locations (owing to associated regulatory charges such as stamp duty) and having remote capabilities are also given preference. A long-term relationship is most desirable for the funds and thus the terms and specific conditions are settled upon at the initial agreement stages itself. Due to distributor costs being very high in this segment, RTAs having distribution capabilities are more sought after as the overall cost can be packaged and brought down.

**Increasing inflow of funds into AIFs to augur well for the RTA industry.** According to CRISIL, the AIF industry is expected to grow at a CAGR of 30% to 35% between financial years 2019 and 2024. It would thus help the allied RTA industry expand by serving the rising demand. The RTA industry currently serving the AIFs for various activities is estimated to be approximately Rs1 billion to 1.2 billion and it is expected that the RTAs will continue to effectively enhance their offerings to the AIFs.

However, with rising AUMs, the fees are expected to be tiered in nature and, as a result, will fall as a proportion of total AUMs. However, the market size of the RTA offerings is expected to increase with a rise in overall AUMs and incremental service offerings. This will include a minimum basic fee for standard fund sizes over which an additional fees will be charged for incremental AUMs in a tiered manner just as is the case with mutual fund AUMs.

## Key Concerns:

- As an RTA, CAMS is subject to periodic audit inspections by the SEBI. Non-compliance with observations made by the SEBI during these inspections could expose it to penalties and restrictions.
- The coronavirus disease (COVID-19) has had an adverse effect on the business and operations and the extent to which it may continue to do so in the future, is uncertain and cannot be predicted.
- Future revenue and profit are largely dependent on the growth, value and composition of AAUM of the mutual funds managed by the clients, which may decline.

- Significant disruptions in information technology systems or breaches of data security could adversely affect the business and reputation.
- CAMS' clients are subject to several laws and regulations, and new laws or regulations or changes to existing laws or regulations could affect the clients and, in turn, adversely affect the business and results of operations.
- CAMS derives a significant portion of its revenues from a few clients and the loss of one or more such clients could adversely affect the business and prospects.
- If CAMS is unable to establish and maintain an effective system of internal controls and compliances, its business and reputation may be adversely affected.
- Employee fraud or misconduct could harm CAMS by impairing its ability to attract and retain clients and subject it to significant legal liability and reputational harm.
- In the event of a disaster, CAMS disaster recovery and business continuity plans may fail, which could result in the loss of client data and adversely interrupt operations.
- Inability to effectively manage growth or to successfully implement business plan and growth strategy could have an adverse effect on its business, results of operations and financial condition.
- If CAMS is unable to respond to the demands of its existing and new clients, or adapt to technological changes or advances, its business and growth could be adversely affected.
- Competition could negatively affect the ability to maintain or increase market share and profitability.
- The inability to identify, obtain and retain intellectual property rights to technology could harm the business.
- CAMS is subject to extensive government regulation and if it fails to obtain, maintain or renew its statutory and regulatory licenses, permits and approvals required to operate its business, its business and results of operations may be adversely affected.
- The account aggregation business of one CAMS subsidiaries, CFISPL may not be viable as there is currently no certainty of revenue from account aggregation operations.
- Consolidation in the financial services industry could adversely affect the revenues by eliminating some of its existing and potential clients and could make CAMS increasingly dependent on a limited number of clients.
- Rely heavily on existing brands and, specifically, the 'CAMS' brand name, the dilution of which could adversely affect the business and prospects.
- Rely on third-party service providers in several areas of its operations and may not have full control over the services provided by them to CAMS or to its customers.
- Company is in the process of winding down its German operations and its banking and non-banking services business, which may adversely affect the business and results of operations.
- Ability to pay dividends in the future will depend on its profitability.
- Political, economic or other factors that are beyond CAMS control may have an adverse effect on its business and results of operations.
- Changing laws, rules and regulations and legal uncertainties, including adverse application of corporate and tax laws, may adversely affect the business, results of operations and prospects.
- Investors may not be able to enforce a judgment of a foreign court against CAMS outside India.
- CAMS may be affected by competition laws, the adverse application or interpretation of which could adversely affect the business.

# Computer Age Management Services Ltd

- Under Indian law, foreign investors are subject to investment restrictions that limit its ability to attract foreign investors, which may adversely affect the trading price of the Equity Shares.
- Significant differences exist between Ind AS and other accounting principles, such as US GAAP and IFRS, which may be material to investors' assessments of the financial condition.
- An investment in the Equity Shares is subject to general risk related to investments in Indian Companies.
- Fluctuation in the exchange rate between the Indian Rupee and foreign currencies may have an adverse effect on the value of Equity Shares, independent of CAMS results of operations

## Balance Sheet

Particulars (Rs in Million)	Q1FY21	FY20	FY19	FY18
<b>Non-current assets</b>				
Property, plant and equipment	632.7	652.5	710.3	700.4
Right To Use Asset	726.20	885.70	971.7	1069.3
Intangible assets	1424.9	1446.8	1518.3	1465.8
Financial Assets				
Investments	5.5	5.3	20.4	20.3
Loans	130.4	122.8	116.4	122.5
Others	-	-	-	12.2
Deferred tax assets (net)	97.3	83.3	202.3	137.8
Other non-current assets	2.8	2.9	18.4	59.3
<b>Total Non Current Assets</b>	<b>3019.8</b>	<b>3199.3</b>	<b>3557.7</b>	<b>3587.6</b>
<b>Current assets</b>				
Financial Asset				
Investments	3155.2	3056.1	2305.0	2161.3
Trade receivables	436.4	320.3	269.7	225.1
Cash and cash equivalents	29.2	232.2	48.6	74.0
Bank Balances other than Cash and Cash Equivalents	810.4	274.4	386.4	202.6
Loans	7.6	5.7	6.7	4.5
Other Financial assets	58.8	57.8	3.7	1.6
Current Tax Assets (Net)	120.0	150.4	0.0	0.0
Other current assets	717.1	729.1	785.4	721.8
<b>Total current Assets</b>	<b>5334.7</b>	<b>4826.0</b>	<b>3805.5</b>	<b>3390.9</b>
<b>Total Assets</b>	<b>8354.6</b>	<b>8025.3</b>	<b>7363.2</b>	<b>6978.5</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Equity</b>				
Share Capital	487.9	487.6	487.6	487.6
Other Equity	4794.1	4910.5	3925.3	3947.6
Non Controlling Interest	0.0	0.0	81.5	76.9
<b>Total Equity</b>	<b>5282.0</b>	<b>5398.1</b>	<b>4494.4</b>	<b>4512.1</b>
<b>Non-current liabilities</b>				
Other financial liabilities	645.6	772.1	839.6	865.5
Provisions	749.7	735.0	711.5	566.5
<b>Total Non current liabilities</b>	<b>1395.3</b>	<b>1507.1</b>	<b>1551.1</b>	<b>1432.0</b>
<b>Current liabilities</b>				
Financial liabilities				
Total outstanding dues to micro enterprises and small enterprises	2.8	6.9	3.5	1.8
dues to Others	433.0	352.9	346.6	334.1
Other financial liabilities	427.1	259.1	248.1	258.4
Provisions	142.6	104.4	170.9	79.9
Current Tax Liabilities (Net)	0.0	0.0	19.1	11.3
Other current liabilities	671.8	396.8	529.8	348.9
<b>Total Current Liabilities</b>	<b>1677.3</b>	<b>1120.1</b>	<b>1317.8</b>	<b>1034.4</b>
<b>Total Liabilities</b>	<b>3072.6</b>	<b>2627.2</b>	<b>2868.9</b>	<b>2466.4</b>
<b>Total Equity and Liabilities</b>	<b>8354.5</b>	<b>8025.4</b>	<b>7363.2</b>	<b>6978.5</b>

# Computer Age Management Services Ltd

## Profit & Loss

Particulars (Rs in Million)	Q1FY21	FY20	FY19	FY18
Revenue from Operations	1486.3	6996.3	6936.4	6415.4
Other Income	148.4	217.1	181.6	162.8
<b>Total Income</b>	<b>1634.6</b>	<b>7213.4</b>	<b>7118.1</b>	<b>6578.2</b>
Total Expenditure	971.8	4123.5	4500.7	3831.1
Employee benefits expense	645.5	2579.9	2746.2	2263.3
Operating expenses	168.0	866.1	1058.2	940.8
Other expenses	158.3	677.5	696.3	627.0
<b>PBIDT</b>	<b>662.8</b>	<b>3089.9</b>	<b>2617.4</b>	<b>2747.1</b>
Interest	23.4	97.0	104.7	78.9
PBDT	639.4	2992.9	2512.7	2668.2
Depreciation	106.7	485.1	504.0	402.4
<b>PBT</b>	<b>532.7</b>	<b>2507.8</b>	<b>2008.7</b>	<b>2265.8</b>
<b>Tax (incl. DT &amp; FBT)</b>	<b>124.5</b>	<b>773.2</b>	<b>699.8</b>	<b>802.8</b>
Tax	138.6	654.2	764.3	850.7
MAT Credit (Entitlement)	0.0	34.3	-9.5	-5.6
Deferred Tax	-14.1	84.7	-55.1	-42.3
<b>PAT</b>	<b>408.3</b>	<b>1734.6</b>	<b>1309.0</b>	<b>1463.1</b>
EPS (Rs.)	8.37	35.6	26.8	30.0
Equity	487.9	487.6	487.6	487.6
Face Value	10.0	10.0	10.0	10.0
OPM (%)	34.6	41.1	35.1	40.3
PATM (%)	27.5	24.8	18.9	22.8

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