

Computer Age Management Services

Price Band ₹ 1229-1230

NOT RATED

September 18, 2020

CAMS (formerly known as Computer Age Management Services) is India's largest registrar and transfer agent (RTA) of mutual funds with a market share of ~70% based on average assets under management (AAUM) managed by their clients as on July 2020. CAMS provides a comprehensive portfolio of technology-based services such as transaction origination interface, transaction execution, payment, settlement, record keeping, brokerage computation and compliance related services.

Apart from this, CAMS also provides services to alternative investment funds (AIFs), insurance companies, banks and NBFCs. Great Terrain is the promoter of CAMS with its pre-issue shareholding at 43.53%. Great Terrain is the wholly owned subsidiary of Harmony River Investment Ltd, which is directly owned by Warburg Pincus LLC (New York, US).

Largest services provider in growing mutual funds market

The Indian mutual fund industry comprises 41 AMCs with major market share contributed by top 10 AMCs. As on June 2020, ~59% of total MF AUM is managed by top five AMCs. As on June 2020, CAMS services four out of five largest AMCs - HDFC MF, ICICI Prudential MF, SBI MF and Aditya Birla Sun Life MF. In terms of top 15 AMCs, CAMS services nine out of top 15 AMCs, translating to ~70% market share in MF RTA business. As per Crisil Research, MF RTA business is expected to grow from ~₹ 900 crore in FY20 to ₹ 1760 crore by FY25E; a CAGR of 15%. In terms of MF business, CAMS had a market share of ~70% as on June 2020, while in insurance services business its market share was at ~39%.

Strong RoE, consistent EBITDA margin

CAMS has delivered a robust financial performance with revenue growth from ₹ 478 crore in FY17 to ₹ 699 crore in FY20, registering 14% CAGR. Focus on opex has led to earnings growth at 12% CAGR from ₹ 124 crore in FY17 to ₹ 173 crore in FY20. Accordingly, CAMS has delivered consistent EBITDA margin in the range of 35-40% in FY17-20 while RoE has remained strong at or above 30% in FY17-20.

Key risk and concerns

- Growth dependent on AUM size and mix
- Information technology disruption to impact operations
- Concentration risks to persist

Priced at P/E of ~34.5x FY20 on upper end of band

At the higher end of the price band of ₹ 1230, the stock is available at a P/E of ~34.5x on FY20 EPS.



Particulars

Issue Details

Issue Opens	September 21, 2020
Issue Closes	September 23, 2020
Issue Size	₹ 2240-2242 crore
Fresh Issue	0
Price Band (₹)	₹ 1229-1230
No. of shares on offer (crore)	1.8
QIB (%)	50
Retail (%)	35
Minimum lot size (no of shares)	12

Shareholding Pattern (%)

	Pre-Issue	Post-Issue
Promoter Group	43.5	43.5
Public/Others	56.5	56.5

Objects of issue

Objects of the Issue

Listing of equity shares to enhance visibility and brand image and would provide liquidity to shareholders	₹2240-2242 crore
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Key Financial Summary

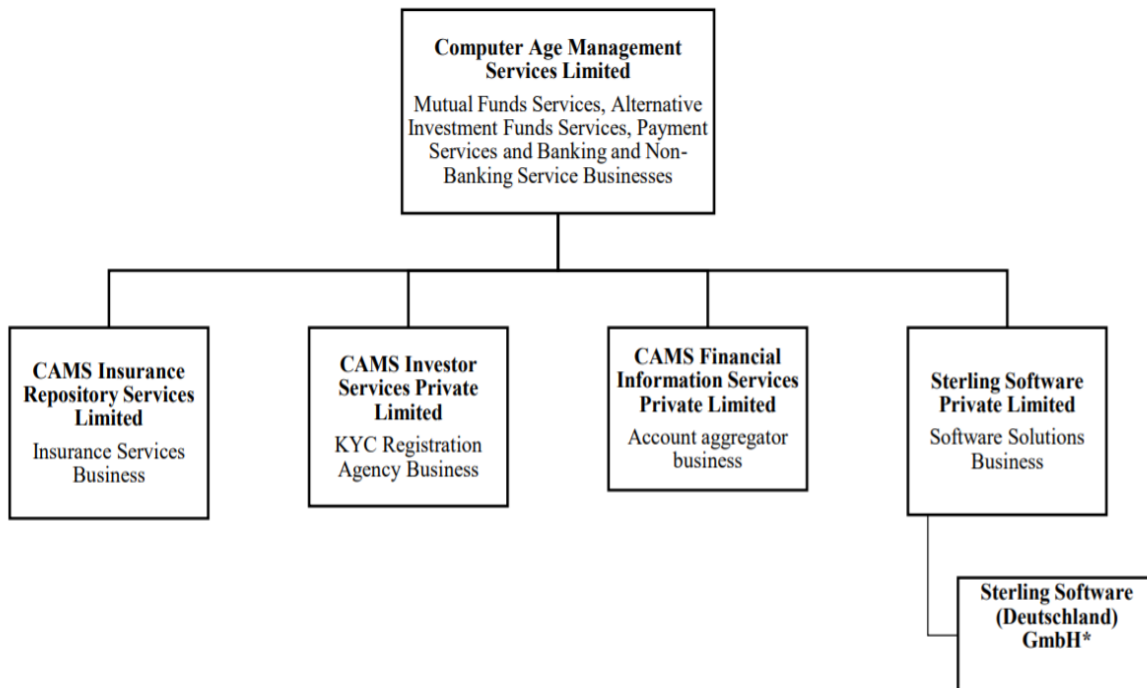
(₹ crore)	FY17	FY18	FY19	FY20	Q1FY21	CAGR (FY17-20)
Revenue	478.3	641.5	693.6	699.6	148.6	14%
Total Income	502.6	661.5	711.5	721.3	163.5	13%
PAT	124.2	146.3	130.9	173.5	40.8	12%
EPS (₹)	25.47	30.01	26.84	35.57	33.49	
BV (₹)	84.6	91.0	90.5	110.7	108.3	
EBITDA Margin (%)	42.1	39.7	35.2	41.1	34.6	
RoE (%)	30.1	33.0	29.7	32.1	30.9	
P/E (x)	48.3	41.0	45.8	34.6	36.7	
P/BV (x)	14.5	13.5	13.6	11.1	11.4	

Source: ICICI Direct Research, RHP

Company background

CAMS (formerly known as Computer Age Management Services) is India’s largest registrar and transfer agent (RTA) of mutual funds with a market share of ~70% based on average assets under management (AAUM) managed by their clients as on July 2020. CAMS provides a comprehensive portfolio of technology-based services such as transaction origination interface, transaction execution, payment, settlement and reconciliation, investor interface, dividend processing, report generation, record keeping, intermediary empanelment, brokerage computation and compliance related services. Apart from this, the company also provides services to alternative investment funds (AIFs), insurance companies, banks and NBFCs. Great Terrain, a private limited company based in Mauritius, is the promoter of CAMS with its pre-issue shareholding at 43.53% (~2.1 crore shares). Great Terrain is the wholly owned subsidiary of Harmony River Investment Ltd, which is directly owned by Warburg Pincus LLC (New York, US).

Exhibit 1: CAMS business verticals break-up



Source: RHP, ICICI Direct Research

Business Snapshot

Mutual fund RTA business

CAMS has improved its market share in the mutual fund RTA business expanding from 60.5% in FY15 to 69% in FY20. As per Crisil, CAMS mutual fund clients include four of the five largest AMCs as well as nine of the 15 largest AMCs based on AAUM as on July 2020. As on July 2020, CAMS serviced ₹ 19.2 lakh crore of AAUM of 16 mutual fund clients while equity AAUM serviced in the same period was at ₹ 6.2 lakh crore. On the back of a pan-India network comprising 271 service centres spread over 25 states, five union territories, CAMS catered to ~9.1 crore folios as on June 2020. MF RTA business forms the core business function for the company as ~89.7% of revenue from operations (as on June 2020) is contributed by MF business.

Exhibit 2: CAMS key performance indicators

	FY15	FY16	FY17	FY18	FY19	FY20
Total AAUM serviced (₹ in billion)	6,573	7,931	10,294	13,759	15,841	18,150
Equity Oriented (in ₹ billion)	1,774	2,327	2,921	4,885	6,233	6,707
Number of transactions handled (in crore)	9.8	11.5	15.2	25.0	31.3	32.8
Number of live folios (in crore)	1.7	1.9	2.3	3.2	3.7	3.9
Number of total investor folios (in crore)	3.8	4.0	4.4	5.5	6.4	7.1
Number of PAN accounts handled (in crore)	0.6	0.7	0.9	1.2	1.5	1.6
Number of SIP transactions processed (in crore)	4.6	6.3	8.4	13.2	19.2	23.8

Source: RHP, ICICI Direct Research

Insurance repository business

In the insurance repository business, CAMS offers a range of services including processing of new business applications, servicing policies, holding policies in demat form and other support functions to insurance companies. The company conducts its insurance business through its subsidiary - CAMS Insurance Repository Services Ltd. In the insurance repository business, CAMS held ~4.9 lakh e-insurance policies and managed ~5.15 lakh e-insurance accounts with a market share of ~39%.

Exhibit 3: Insurance repository peer comparison

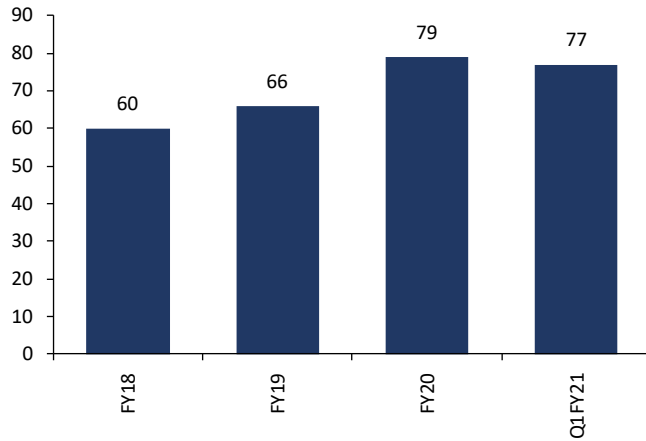
Repository Name	E-insurance policies	E-insurance accounts	No. of participating insurers
NSDL Database Management Ltd	558,514 (45%)	555,701 (35%)	32
CAMS Insurance Repository Services Ltd	487,777 (39%)	515,681 (32%)	26
KARVY Insurance Repository Ltd	132,049 (11%)	174,553 (11%)	18
Central Insurance Repository Ltd	69,135 (6%)	354,388 (22%)	20
Total	1,247,475 (100%)	1,600,323 (100%)	NA
Total policies issued	51.4 crore (approx.)		
E-insurance policies as a % of total	0.24% (approx.)		

Source: RHP, ICICI Direct Research

AIF and other business functions

In the AIF services business, CAMS provides functions like managing records and performing fund accounting and reporting, for alternative investment and other types of funds. Apart from this, CAMS also offers KYC registration functions and software solutions to mutual fund companies. As on June 2020, CAMS serviced 77 AIF clients with an AAUM of ₹ 16027 crore.

Exhibit 4: AIF clients trend



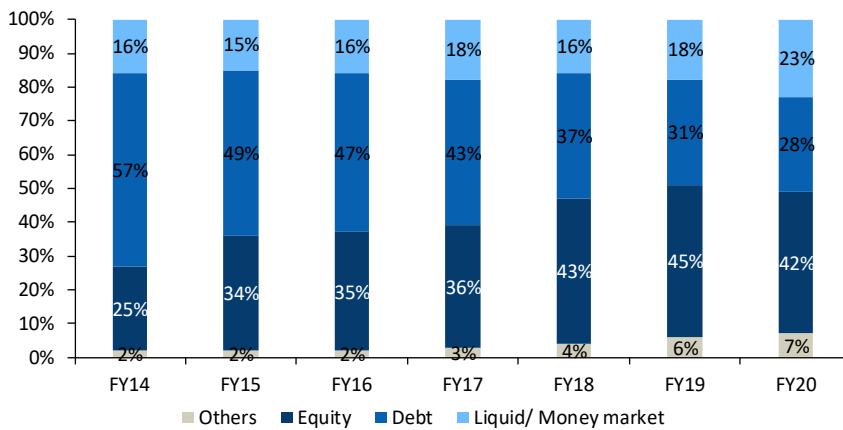
Source: RHP, ICICI Direct Research

Industry Overview

Strong growth in mutual fund industry

The mutual fund industry’s AUM has grown from ₹ 8.2 lakh crore as on FY13 to ₹ 27 lakh crore as on FY20, translating to a CAGR of 18.5%. During FY15-June 2020, the mutual fund industry witnessed a net inflow of ₹ 10.7 lakh crore with majority of the inflows attributable to equity-oriented funds. AUM of equity-oriented funds has grown from ₹ 3.7 lakh crore in FY15 to ₹ 11.3 lakh crore in FY20, leading to a CAGR of 25%. During the same period, the debt segment has grown at a CAGR of 7.1%.

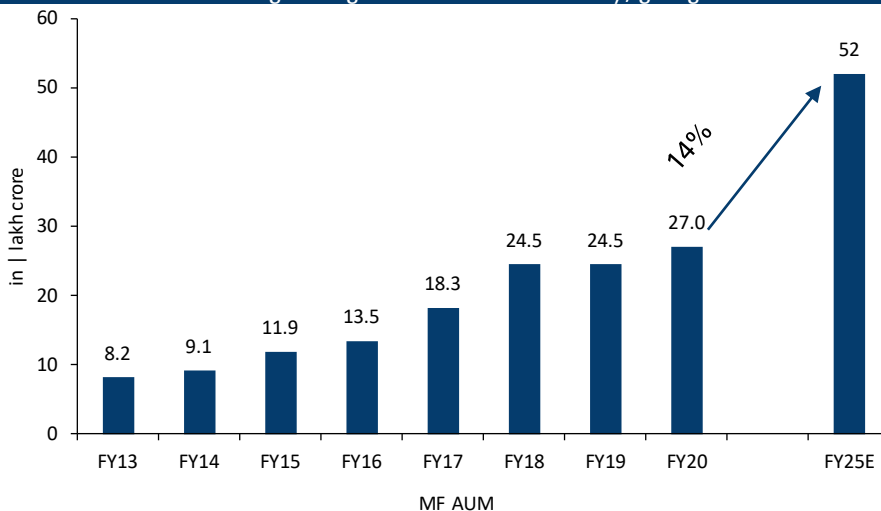
Exhibit 5: Mutual fund segment trend



Source: RHP, ICICI Direct Research

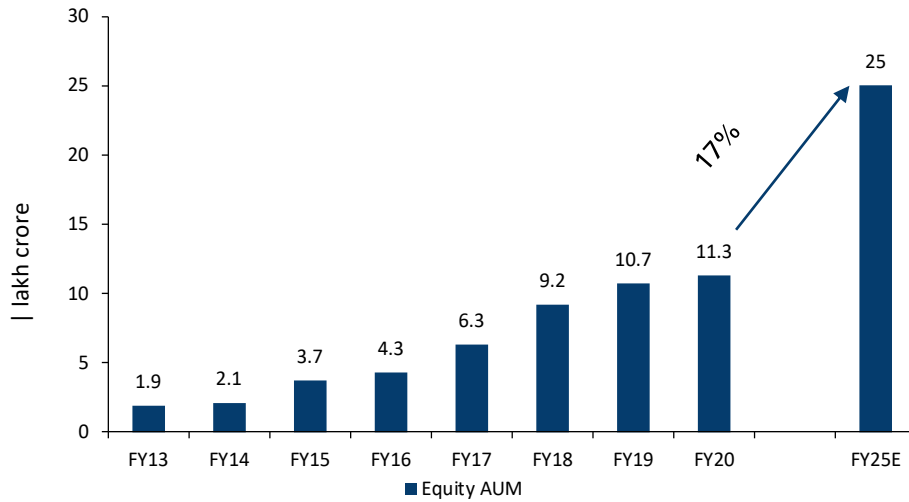
According to Crisil Research, robust mutual fund inflows, continued growth in household savings, increase in financial assets as a percentage of household savings and improved mutual fund penetration in smaller cities are expected to lead the mutual fund industry’s AUM to grow from ₹ 27 lakh crore in FY20 to ₹ 52 lakh crore by FY25E, at a CAGR of 14%. During the same period, equity AUM is estimated to grow at 17.2% CAGR from ₹ 11.3 lakh crore in FY20 to ₹ 25 lakh crore in FY25E.

Exhibit 6: Mutual fund segment growth to remain healthy, going forward



Source: RHP, ICICI Direct Research

Exhibit 7: Strong growth in equity AUM

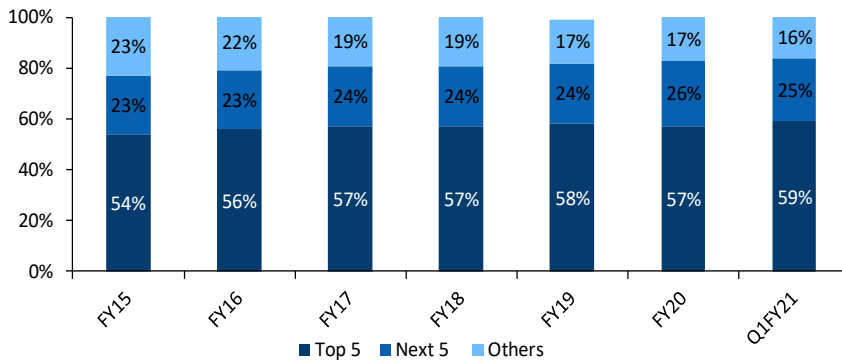


Source: RHP, ICICI Direct Research

Dominant market share contributed by top 10 AMCs

The Indian mutual fund industry comprises 41 AMCs (excluding infrastructure debt funds) with major market share contributed by top 10 AMCs. As on June 2020, ~59% of total MF AUM is managed by top five AMCs. Including next five AMCs, i.e. top 10 AMCs combined accounted for 83.6% of total AUM. AUMs of top five AMCs has grown at a CAGR of ~16% in FY15-June 2020 to reach ₹ 24.8 lakh crore.

Exhibit 8: Strong AUM dominance by top five AMCs



Source: RHP, ICICI Direct Research

Exhibit 9: Individual market share for top five AMCs

₹lak crore	AAUM (Mar 2015)	Market share for March 2015 (%)	AAUM (June 2020)	Market share for June 2020 (%)
HDFC Mutual Fund	1.6	13.6%	3.6	14.4%
ICICI Prudential Mutual Fund	1.5	12.4%	3.3	13.5%
SBI Mutual Fund	0.8	6.3%	3.6	14.7%
Aditya Birla Sun Life Mutual Fund	1.2	10.0%	2.1	8.7%
Nippon India Mutual Fund	1.4	11.6%	1.8	7.3%
Total (Top 5)	6.4	53.9%	14.5	58.6%
UTI Mutual Fund	0.9	7.8%	1.3	5.4%
Kotak Mahindra Mutual Fund	0.4	3.5%	1.7	6.8%
Franklin Templeton Mutual Fund	0.7	6.0%	0.8	3.3%
Axis Mutual Fund	0.3	2.2%	1.3	5.4%
IDFC Mutual Fund	0.4	3.3%	1.0	4.1%
Total (Top 10)	9.3	76.7%	6.2	25%
Total	11.9	100.0%	24.8	100.0%

Source: RHP, ICICI Direct Research

As on June 2020, CAMS services four out of the five largest AMCs - HDFC Mutual Fund, ICICI Prudential Mutual Fund, SBI Mutual Fund and Aditya Birla Sun Life Mutual Fund. On other hand, Nippon India Mutual Fund is serviced by Karvy. In terms of top 15 AMCs, CAMS services nine out of top 15 AMCs.

Exhibit 10: CAMS continues to have monopoly market share in MF RTA business

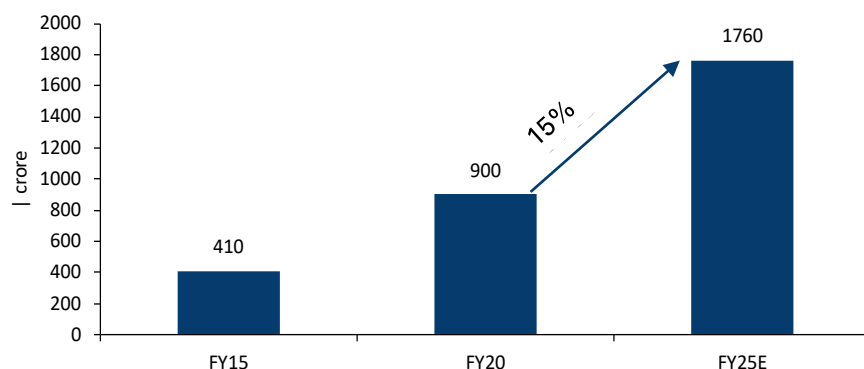
	Mar-15	Mar-19	Mar-20	Jul-20
CAMS	61%	68%	69%	70%
Karvy	31%	26%	27%	27%
Sundaram	2%	2%	0%	0%
Franklin	6%	5%	5%	3%

Source: RHP, ICICI Direct Research

Healthy growth of RTA industry

According to Crisil Research, mutual fund RTA business has grown from ₹ 410 crore in FY15 to ₹ 900 crore in FY19, leading to CAGR of 17%. On the back of domain expertise and longevity advantage coupled with a surge in demand for equity funds and increased participation by retail investors would lead to healthy growth of the RTA industry. As per Crisil, the RTA industry is expected to grow at ~15% CAGR to reach ₹ 1760 crore by FY25E. Apart from this, the RTA industry is not impacted by rising MF preference via direct channels.

Exhibit 11: RTA industry growth rate to remain healthy



Source: RHP, ICICI Direct Research

Exhibit 12: TER break-up for RTA Industry

AUM (in ₹ billion)	TER for equity oriented schemes (%)	TER for other schemes (excluding index funds, ETFs and fund of funds)
0-5	2.25	2.00
5-7.5	2.00	1.75
7.5-20	1.75	1.50
20-50	1.60	1.35
50-100	1.50	1.25
100-500	TER reduction of 0.05% for every increase of ₹50 billion in AUM or part thereof	TER reduction of 0.05% for every increase of ₹50 billion in AUM or part thereof
>500	1.05	0.80

Source: RHP, ICICI Direct Research

Strong bargaining power rests with RTA industry

The revenue model of MF RTAs is dependent upon the AUMs' size, AUM mix, volume of paper-based transactions and fees on value-added services offered. MF RTAs earn the highest fee from equity funds (0.062%) while fee from passively managed ETFs and index funds (0.016%) is lower. With an increase in size of AUM managed, fee charged as proportion of AUM has been falling. However, the extent of fee decline is lower compared to strong AUM growth. As on March 2020, overall fee as percentage for RTAs was at ~0.035-0.04% of total AUM vs. ~0.045-0.05% as on March 2015. As per Crisil research, RTA industry is expected to see a decline in fees to the tune of ~4-5%, due to rising AUM and change in regulation around TER (total expense ratio).

Exhibit 13: Overall RTA fee charged trend

	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%

Source: RBI, ICICI Direct Research

Exhibit 14: RTA peer comparison based on broad parameters

Particulars	CAMS	Karvy
Revenue from operations (in ₹ crore)	699.6	449.9
CAGR revenue growth (FY15-20)	12.80%	9.10%
PAT margin	23.90%	1.00%
EBITDA margin	42.80%	36.00%
RoE	34.10%	3.00%
Monthly AAUM (in ₹ crore)	17,14,278	657045
AUM CAGR (FY15-20)	18.60%	11.60%
Quarterly AAUM	18,74,013	7,24,621
Quarterly AAUM CAGR	21.2%	12.30%
No of clients (Top 10)	6	3
No of clients (Top 5)	4	1
No. of branches	271	203
AUM/Branch	6326	3237

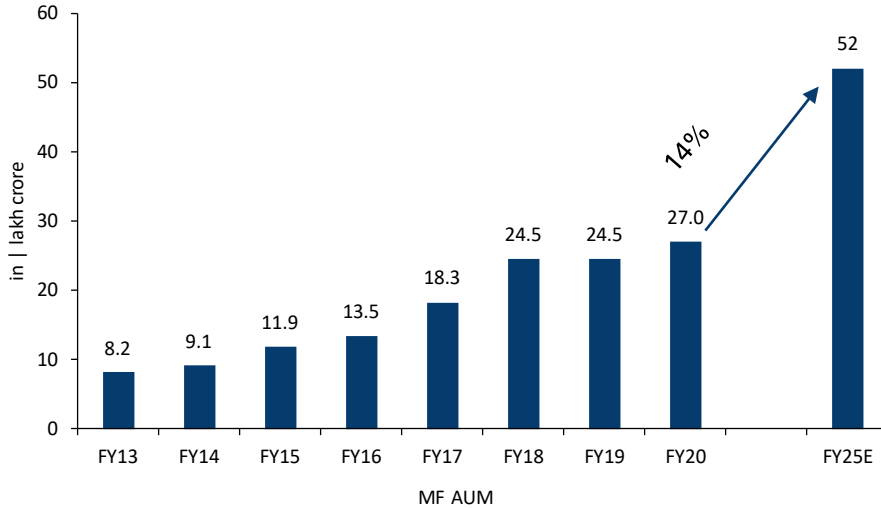
Source: RBI, ICICI Direct Research

Investment Rationale

CAMS has substantial market share in MF RTA AUM

On the back of robust inflows, the mutual fund industry is expected to grow from ₹ 27 lakh crore in FY20 to ₹ 52 lakh crore by FY25E. CAMS has a substantial market share in the MF RTA business, which has increased from 61% in FY15 to 69% in FY20.

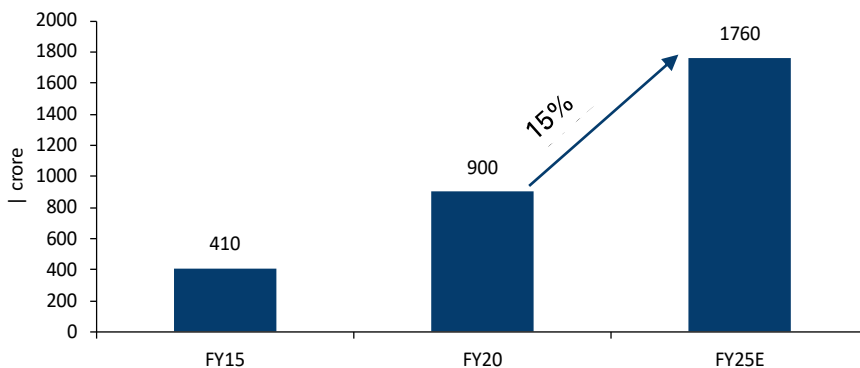
Exhibit 15: Mutual fund segment growth to remain healthy, going forward



Source: RHP, ICICI Direct Research

As per Crisil Research, a surge in MF AUM would lead to expansion of the MF RTA business. Consequently, the MF RTA business is expected to grow from ~₹ 860 crore in FY19 to ₹ 1760 crore by FY25E; a CAGR of 14%. This is post taking into account the decline in yield expected due to revised Sebi regulations on TERs and growing quantum of AUMs with AMC, which will have an impact on revenues of MF RTAs.

Exhibit 16: RTA industry growth rate to remain healthy



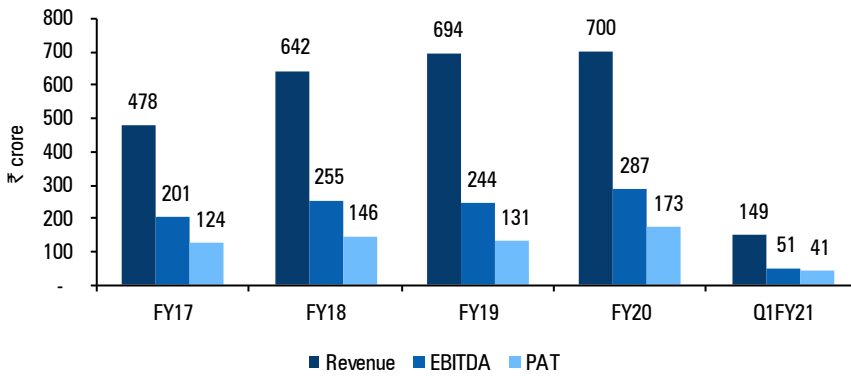
Source: RHP, ICICI Direct Research

Apart from this, CAMS has been offering aggregated services and applications, which help investor better access their holdings across mutual fund houses. With the use of these applications, investors can access all their investments on-the-go from only one application. Thus, enhanced digitisation remains a positive factor for industry players.

Strong RoE, sustainable EBITDA margin

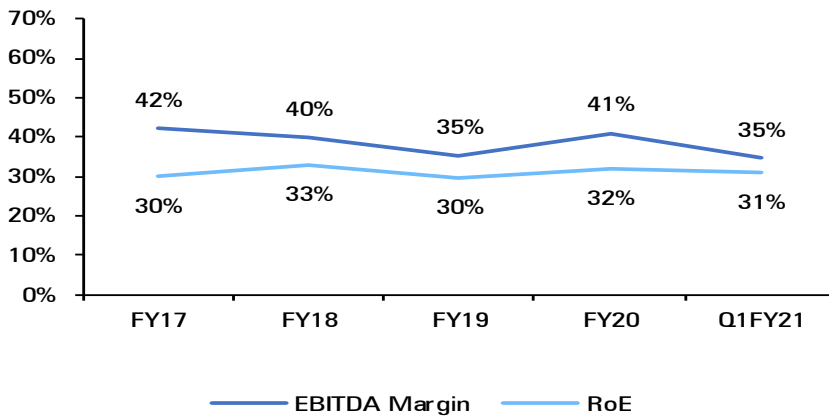
As of July 2020, CAMS has serviced ₹ 19.2 lakh crore of AAUM of 16 mutual fund clients (according to a Crisil Report). Further, mutual fund clients had ~1.97 crore SIP accounts as of June 30, 2020. CAMS has delivered a robust financial performance with revenue growth from ₹ 478 crore in FY17 to ₹ 699 crore in FY20, registering 14% CAGR. Focus on opex has led to earnings growth at 12% CAGR from ₹ 124 crore in FY17 to ₹ 173 crore in FY20. Accordingly, CAMS has delivered consistent EBITDA margin in the range of 35-40% in FY17-20 with RoE staying strong at or above 30% in FY17-20.

Exhibit 17: Revenue growth at 14% CAGR in FY17-20



Source: RHP, ICICI Direct Research

Exhibit 18: RoE consistent at ~30%

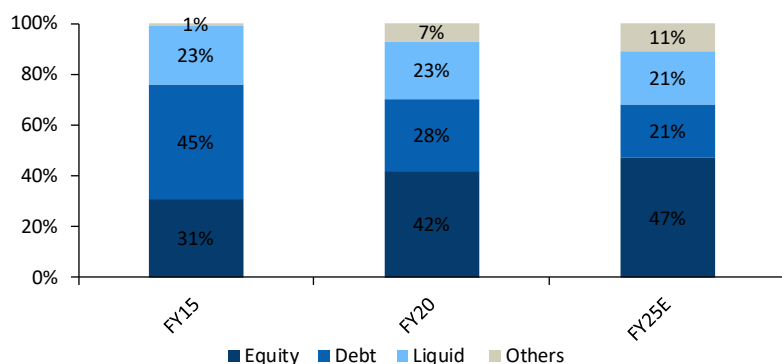


Source: RHP, ICICI Direct Research

Surge in demand for equity funds to offset RTA fee decline

The revenue model of MF RTAs is dependent upon the AUM’s size, AUM mix, volume of paper-based transactions and fees on value-added services offered. Rising inflow of AUM has led market share of debt funds to decline from 45% in FY15 to 28% in FY20. On the other hand, the market share of equity funds rose, mainly on account of steady inflows and strong growth in the equity markets. During the same period, inflows into liquid/ money market funds also rose from 23% to 25%.

Exhibit 19: Strong equity component growth as percentage of total AUM to continue



Source: RHP, ICICI Direct Research

According to Crisil research, proportion of equity funds is expected to grow from 31% in FY15 to 47% in FY25E, while that of debt funds is likely to decline to 21% by FY25E. For MF RTAs, equity earns higher fee (0.062%), while debt/liquid, passively managed ETFs and index funds (0.016%) earn lower fee as percentage of AUM. As on FY20, overall fee as percentage of AUM for RTAs was at ~0.035-0.04% vs. ~0.045-0.05% as on March 2015. As per Crisil research, RTA industry would witness a decline of ~4-5% in fee income due to AUM growth and change in regulation around total expense ratio (TER). However, decline in yield would be offset by a surge in equity AUM.

Integrated business model & longstanding client relationship

Led by a diverse portfolio of technology enabled services, a pan-India physical network, domain expertise of Indian financial services ecosystem and a comprehensive risk management system, CAMS has built an integrated business model entailing longstanding relationships with its clients. According to Crisil, the amount of time invested in migration, high risk of business disruption, data loss, coupled with customer and regulatory issues make it a tougher task to switch to a competitor.

Achieve leadership in individual businesses, scale

In terms of mutual fund business, CAMS had an aggregate market share of ~70% based on mutual fund AAUM as on July 2020. In the insurance services business, the company had a market share of ~39%, based on e-insurance policies being managed. The company has maintained its focus in creating sustainable and scalable business platforms to deliver incremental value to its clients. Thus, most of the client relationships in such businesses, continue to grow over time. This has a favourable impact on profitability. Revenues from the mutual funds business would continue to increase with growth expected in revenues from other existing businesses.

Key risks and concerns

Growth dependent on AUM size & mix

The RTA business derives a substantial portion of revenue from mutual funds services business. As on June 30, 2020, the mutual fund business accounted for ~89.7% of total revenue from operations. Subsequently, any reduction in AUM due to a slump in equity markets, change in interest rates, higher MF redemptions, decline in SIP book and underperformance of investment products would adversely affect the company's revenue and profits. On the costs front, fee charged to mutual fund is not linked to the expenses incurred by the RTA. Hence, higher expenses cannot be passed on to the MF, which remains another risk.

Information technology disruption to impact operations

CAMS is a technology-driven financial infrastructure and services provider to mutual funds, AIFs, bank, insurance companies and other types of funds. Further, business is dependent upon increasingly complex and interdependent information technology systems. The size and complexity of computer systems may make them potentially vulnerable to breakdowns. As a substantial part of services are provided via internet, it increases exposure to potential cybersecurity attacks including viruses, ransomware and spam attacks. Although the company had taken actions subsequent to attacks, future threats could impact the business and reputation of the company. Furthermore, the company's insurance may not be adequate to cover all costs relating to cyber security attacks or disruptions resulting from such events.

Concentration risks to persist

CAMS derives a significant part of its revenue from top five MF clients. As on June 2020, top five MF clients contributed to ~70.9% of total revenue from operations. Thus, any loss of one or more clients or a reduction in the amount of business or fees obtained could impact financial performance. CAMS' reliance on select group of clients also constrains its ability to negotiate agreements, which could further impact business performance. Dependence on few clients also makes the company vulnerable to other risks associated with internal management, financial condition & creditworthiness, change of management, mergers & acquisitions, bankruptcy, reduction in growth that could adversely affect business.

Appointment of CERSAI may have substantial impact on business

CAMS's subsidiary company - CISPL is registered as a KYC registration agency (KRA) under Sebi norms and performs functions such as receiving, storing, safeguarding and retrieving the KYC records in digital form. For June 2020, revenue from operations of CISPL was ₹ 2.4 crore. The government has authorised Central Registry of Securitisation Asset Reconstruction and Security Interest of India (CERSAI) to act and perform the functions of a KRA. With KRA systems in place, a KYC compliant client is not required to undertake the KYC process again when he approaches any other intermediary in the securities market. Thus, CISPL may lose a substantial portion of its business.

Financial Summary

Exhibit 20: Profit & Loss Statement (₹ crore)

Particulars (in ₹ crore)	FY17	FY18	FY19	FY20	Q1FY21
Income					
Revenue From Operations	478	642	694	700	149
Other Income	24	200	18	22	15
Total Income	503	661	711	721	163
Expenses					
Employee benefits expense	163	226	275	258	65
Finance costs	6	8	10	10	2
Depreciation and amortization expense	31	40	50	49	11
Operating expenses	63	94	106	87	17
Other expenses	50	66	69	68	16
Total Expenses	313	435	511	471	110
PBT	189	227	201	251	53
Tax	65	80	70	77	12
PAT	124	146	131	173	41

Source: Company, ICICI Direct Research

Exhibit 21: Balance Sheet (₹ crore)

	FY17	FY18	FY19	FY20	Q1FY21
Assets					
Property, plant and equipment	124	177	168	65	63
Intangible assets	138	147	152	14	73
Other non-current assets	2	6	6	0	0
Investments	220	216	230	307	316
Cash and cash equivalents	15	28	44	23	84
Other current assets	53	72	75	393	300
Total Assets	585	698	736	803	835
Equity & Liabilities					
Share Capital	49	49	49	49	49
Reserves & Surplus	364	395	393	491	479
Total Equity	413	444	441	540	528
Other financial liabilities	68	112	109	77	65
Provisions	44	57	71	74	75
Current Tax Liabilities(Net)	5	1	2	10	-
Other current Liabilities	14	35	54	102	168
Total Equity and Liabilities	585	698	736	803	835

Source: Company, ICICI Direct Research

Exhibit 22: Key Ratios

	FY17	FY18	FY19	FY20	Q1FY21
No. of shares (crore)	4.88	4.88	4.88	4.88	4.88
BV (₹)	84.6	91.0	90.5	110.7	108.3
EPS (₹)	25.5	30.0	26.8	35.6	33.5
P/E (x)*	48.3	41.0	45.8	34.6	36.7
P/BV*	14.5	13.5	13.6	11.1	11.4
P/AUM	0.005	0.004	0.004	0.003	0.003
RoA (%)	21.2	21.0	17.8	21.6	19.5
RoE (%)	30.1	33.0	29.7	32.1	30.9
EBITDA Margin (%)	42.1	39.7	35.2	41.1	34.6

Source: Company, ICICI Direct Research (EPS is annualised)

RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to companies that are coming out with their initial public offerings and then categorises them as Subscribe, Subscribe for the long term and Avoid.

Subscribe: Apply for the IPO

Avoid: Do not apply for the IPO

Subscribe only for long term: Apply for the IPO only from a long term investment perspective



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