

## Quality franchise; proxy play on MF industry

**CAMS is the dominant player in a two-player MF RTA industry, with 70% market share. It services 4 of the top-5 MFs in the country. Its revenue growth is directly linked to the AUM growth of its partner MFs and it is, hence, a proxy play on the MF industry. The opportunity landscape for the MF business in India is huge, given low penetration and financialisation of household (HH) savings, thus providing long-term visibility. The IPO valuation is at discount to the nearest comparables (AMCs, Depositories and Exchanges) and has scope to re-rate.**

**Largest RTA, with 70% market share:** CAMS offers registrar & transfer agency (RTA) services to the mutual fund (MF) industry in India and dominates the two-player RTA market, with 70% share. It is an RTA for 16 of the 41 MFs, including 4 of the largest 5 MFs. Its market share has increased from 61% to 70%, as AUMs of the MFs serviced by CAMS have been growing faster than the industry's. There is low risk to CAMS' market share, as MF migration is rare, given its: i) vast physical network & proprietary technological infrastructure, 2) long-standing relationship with MFs, and 3) cost competitiveness, as costs are proportioned over large volumes.

**Proxy play on the MF industry:** CAMS earns a yield on AAUM of partner MFs. Thus, its revenues are directly linked to the growth of MF AUMs. However, given the tiered fee-structure, wherein yields fall with an increase in AUMs, CAMS' revenue growth lags AUM growth. We note that in FY17-20, CAMS' serviced-AUM grew 21% pa, but its revenue grew only 14% pa, as the yields fell by 6% pa. The decline in yields was accentuated in FY20, given the cut in MF TERs by SEBI. Profit growth was restricted to 12% pa over FY17-20, given its variable cost model.

**Long term growth potential:** At Rs1,230/share (IPO price), CAMS is priced at 35x FY20 EPS, at a 10-15% discount to listed AMCs, Exchanges and Depositories. We expect stock to trade in-line with other comparables and further re-rate. In our view, premium valuations are justified given dominant market share in a growing industry, low risk of competition, strong parentage, strong free cash flow generation, and robust RoEs. Subscribe.

Figure 1: CAMS' IPO details

Particulars	Details	Comments
IPO size (m shares)	18.2	37.4% of the CAMS' equity shares
- OFS (m shares)	18.2	Selling shareholder - NSE Investments
- Fresh issue (m shares)	NIL	Free cash flow generating business
Price band	Rs1,229-1,230 per share	Pre-IPO deal done at Rs1,230/share
IPO Size (Rs bn)	22.43-22.44	M-Cap of Rs60bn

Source: CAMS RHP

Figure 2: Key issue dates

Key dates	
Anchor issue on:	18-Sep-20
Issue Opens on:	21-Sep-20
Issue closes on:	23-Sep-20
Likely listing on:	1-Oct-20

Source: CAMS RHP

Figure 3: Financial Summary

Rs m	FY17	FY18	FY19	FY20	1QFY21	FY17-20 CAGR
AAUM serviced (Rs bn)	10,294	13,759	15,841	18,150	17,433	21%
YoY growth	NA	34%	15%	15%	NA	
Revenues	4,783	6,415	6,936	6,996	1,486	14%
YoY growth	NA	34%	8%	1%	-15%	
Ebitda	2,014	2,548	2,635	2,873	514	13%
Ebitda margin	42.1%	39.7%	38.0%	41.1%	34.6%	
Adj. PAT	1,235	1,459	1,433	1,734	408	12%
Reported PAT	1,235	1,459	1,304	1,734	408	12%
RoE	NA	34.1%	29.5%	35.4%	NA	

Source: CAMS RHP, IIFL Research

## Company Background and IPO details

**Computer Age Management Services (CAMS)** is a Mutual Fund Transfer Agency, with a market share of 70%. The company was incorporated in Chennai in the year 1988, founded by V Shankar, as a start-up in the area of Software Development and Computer Education. With little success in the software business, the Company forayed into the financial services sector and started offering secretarial services, such as documentation processes involving shares. The company also handled multiple public issues by Reliance Industries for Chennai, in the early-1990s. In the mid-1990s, with a slew of new IPOs, the company focussed on handling registrar and transfer agency (RTA) operations for these companies.

However, given the SEBI's continuous efforts to demutualise the equity market, the company was compelled to look at an alternate business. Resultantly, it forayed into the Mutual Fund (MF) industry, which was just opening up for the private sector in the mid-1990s, and its first client was Alliance Capital – an Indian JV of Alliance Capital Management of USA. Alliance Capital started its MF operations in India, with CAMS as its RTA. Since then, the company has focussed on the MF industry and expanded its operations manifold.

The first institutional investment in CAMS came in early-2000, from the HDFC Group. In 2007, the company accepted a PE investor, to further facilitate its operations. In early-2014, the NSE took a position in the Company, while 2018 saw investment by Warburg Pincus. Through the current IPO, the NSE is exiting the company, as mandated by the SEBI; also, Warburg Pincus is pruning its stake.

**Figure 4: Past deals in CAMS**

Transaction Date	Buyer	Holding	Price (Rs/share)	CAMS' valuations (Rs m)
Mar-18	Great Terrain	37.5%	682	33,250
Mar-19	Great Terrain	6.0%	718	35,000
Mar-19	Faering Capital India	3.2%	718	35,000
Sep-20	Pre-IPO deal*	12.6%	1230	59,975

Source: Company, IIFL Research; Note: \* SBI MF, ICICI Pru MF, HDFC MF, SBI Life, IIFL AIF, Acacia Partners, Ashoka Trust, Edelweiss AIF bought stake in a pre-IPO deal

**Figure 5: CAMS' shareholding pre IPO (as well as before the pre-IPO deal)**

Entity	Shares (m)	Holding
Great Terrain Investments (Warburg Pincus) - Promoters	21.2	43.5%
NSE Investments	18.3	37.4%
ACSYS Investments Pvt.	0.9	1.9%
HDFC	2.9	6.0%
HDB Employees Welfare Trust	1.6	3.2%
HDFC Bank	1.6	3.3%
Faering Capital India - CDC	2.0	4.0%
Others	0.3	0.6%
<b>Total</b>	<b>48.8</b>	<b>100.0%</b>

Source: Company, IIFL Research

**Figure 6: CAMS' shareholding – Post IPO and stake sale by Warburg Pincus**

Entity	Shares (m)	Holding
Great Terrain Investments (Warburg Pincus) - Promoters	15.1	31.0%
NSE Investments	-	0.0%
ACSYS Investments Pvt	0.9	1.9%
HDFC	2.9	6.0%
HDB Employees Welfare Trust	1.6	3.2%
HDFC Bank	1.6	3.3%
Faering Capital India - CDC	2.0	4.0%
SBI MF	1.4	2.8%
ICICI Pru MF	1.3	2.6%
HDFC MF	0.8	1.7%
SBI Life	0.7	1.5%
IIFL PE	0.7	1.5%
Acacia Banyan Partners	0.6	1.3%
Ashoka Investment Trust	0.3	0.6%
Edelweiss Opportunity fund	0.3	0.6%
Others	18.5	37.9%
<b>Total</b>	<b>48.8</b>	<b>100.0%</b>

Source: Company, IIFL Research

## CAMS: Largest RTA, with 70% market

CAMS is a key service provider for MFs and other financial institutions. MFs is the key segment for the company and accounts for 85-90% of its revenues. Within the MF industry, CAMS is the largest RTA, with 70% market share (based on the average Jul-2020 AUM of the MFs it services) in a duopoly market (third-party RTAs). Of the 41 MF houses in the country, CAMS handles RTA operations of 16 MFs (refer Figure 1 for the list of MFs serviced by CAMS). More importantly, it services 4 of the 5 largest MFs and 9 of the 15 largest MFs in the country.

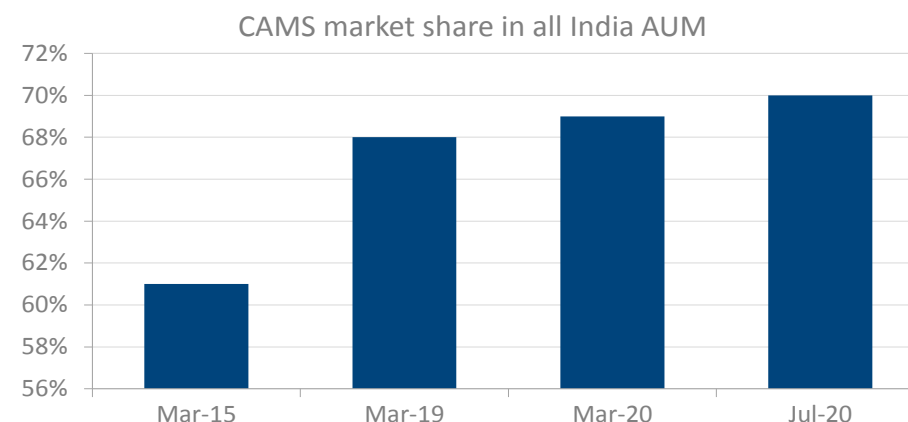
**Figure 7: CAMS handles RTA operations for 16 of the 41 MFs in India**

Sr No	CAMS serviced MFs	1QFY21 AAUM (Rs trn)	Share in CAMS serviced AUM	Share in all India AUM
1	SBI Mutual Fund	3.6	20.9%	14.7%
2	HDFC Mutual Fund	3.6	20.5%	14.4%
3	ICICI Prudential Mutual Fund	3.3	19.2%	13.5%
4	Aditya Birla Sun Life Mutual Fund	2.1	12.3%	8.7%
5	Kotak Mahindra Mutual Fund	1.7	9.6%	6.8%
6	IDFC Mutual Fund	1.0	5.8%	4.1%
7	DSP Mutual Fund	0.7	4.2%	3.0%
8	L&T Mutual Fund	0.6	3.3%	2.4%
9	Tata Mutual Fund	0.5	2.8%	1.9%
10	HSBC Mutual Fund	0.1	0.5%	0.4%
11	Mahindra Manulife Mutual Fund	0.0	0.3%	0.2%
12	Union Mutual Fund	0.0	0.2%	0.1%
13	PPFAS Mutual Fund	0.0	0.2%	0.1%
14	IIFL Mutual Fund	0.0	0.1%	0.1%
15	Shriram Mutual Fund	0.0	0.0%	0.0%
16	YES Mutual Fund	0.0	0.0%	0.0%
<b>Total</b>		<b>17.4</b>	<b>100%</b>	<b>70%</b>

Source: AMFI, IIFL Research

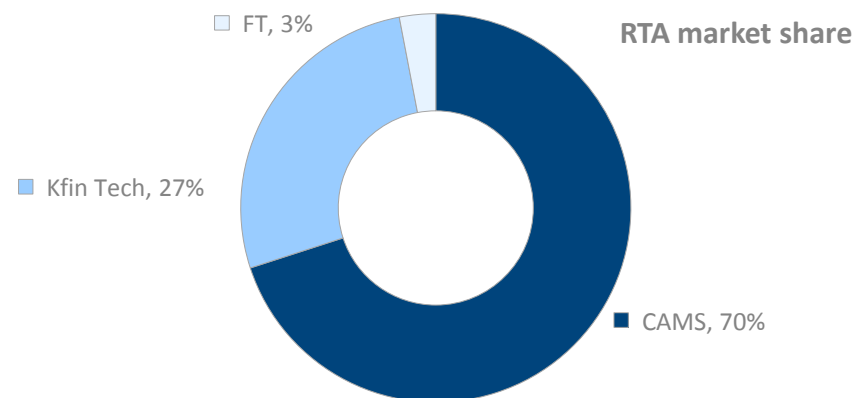
CAMS' market share has increased, from 61% in March 2015 to 70% in July 2020, as AUMs of the MFs serviced by CAMS grew by 21% pa vs. industry growth of 18% pa. In addition to CAMS, KFin Technologies (erstwhile Karvy Fintech) offers RTA services to 24 AMCs and has a market share of 27%, while the balance 3% is with the captive arm of Franklin Templeton MF.

**Figure 8: CAMS' market share has increased, from 61% to 70% in the last 5 years**



Source: CAMS RHP, IIFL Research

**Figure 9: CAMS' is a market leader in a two-player dominated industry**



Source: CAMS RHP, IIFL Research

CAMS has maintained its leadership position since 2005-06 and benefitted with above-industry AUM growth of the MFs it services, leading to increase in market share. We see low risk of MFs shifting to the other RTA, or starting their own captive arm, as the migration cost is prohibitive (risk of disruption to operations) and there is limited cost-saving potential. Resultantly, we see low competition risk to CAMS (market-share loss is likely, if MFs serviced by CAMS start underperforming).

Figure 10: Comparison between CAMS and Kfin

	CAMS	Kfin Tech
Revenues (Rs bn)	7.0	4.5
Revenue CAGR (FY15-20)	12.8%	9.1%
Ebitda Margin	42.8%	36.0%
PAT Margin	23.9%	1.0%
RoE	34.1%	3.0%
AAAUM (Rs trn, Mar-20)	18.7	7.2
QAAUM CAGR (FY15-20)	21.2%	12.3%
No. of Clients in Top-5	4	1
No. of Service Centres	271	203

Source: CAMS RHP, IIFL Research

### Key factors highlighting low risk of competition to CAMS

- **Pan-India network & technology infra:** Over the last 25 years, CAMS has developed an extensive network of 271 service centres, spread across 25 states and 5 Union Territories; additionally, it has four call centres and four back offices. Such a vast network allows MFs on the CAMS network to service widespread investors. Also, CAMS' proprietary technological infrastructure (developed an MF transfer agency platform – Investrak.NET) ensures quick and smooth operations. For a new RTA to develop such infrastructure and offer similar quality services, would take a considerable amount of time.
- **Strong client relationships:** CAMS has developed long-standing relationships with its clients. The average relationship

period with its top-10 clients is close to around 19 years. Such enduring partnerships tend to create inter-dependence, thereby increasing entry barriers for new players.

- **Integration of operations with RTA ecosystems:** MFs have entirely outsourced services, such as transaction and operations, to RTAs. To ensure seamless execution and operations, MFs have integrated their system with the RTAs' ecosystem. Thus, services of a particular RTA have become indispensable to an extent. Also, proven track record of operations and client trust earned over the years are key considerations for MFs to continue with a particular RTA's services.
- **Migration for cost savings is not viable:** Migration is a time consuming process and involves risk of business loss. This coupled with low yield of RTAs (3-4bps on blended AUM) offers limited scope for cost savings. Thus, an MF has little incentive to switch between RTAs (unless there are service-related issues with the existing RTA).
- **Captive arms are unlikely to be as cost competitive:** As the cost of third-party RTAs is spread over multiple MFs (larger volume/AUM base), third-party RTAs are likely to be more cost competitive than a captive arm of an MF. Also, with select activities completely outsourced to RTAs, MFs are better able to utilise their time on core activities (sales & marketing, product design, fund management, etc).

We note that although there is competition from Exchanges (BSE's Star MF platform) and depositories (demat holding and execution) for select services of an RTA, competition is low where comprehensive offerings of RTAs are concerned. Also, given RTAs' access to industry-wide data and vast experience, they act as a knowledge partner for an MF and offer insights on industry trends, customer preferences, best industry practices, etc, which helps MFs improve their product offerings and services. This further increases the significance of RTAs.

## CAMS offers a wide array of services to MFs

CAMS provides a range of services to MFs, through the life cycle of an account – from account creation to processing of transactions and redemption of amount invested. The services of an RTA are not restricted to only their clients (i.e. MFs), but extend to the stakeholders of its clients such as investors/unit-holders and distributors. CAMS’ services can broadly be divided into three segments: 1) Transfer Agency services, 2) Distributor services and 3) Customer Care services.

Figure 11: RTAs are key business partners for the MF industry



Source: Company, IIFL Research

- **Transfer Agency Services:** This is the key service of an RTA which handles part of the operations of the MF. The main services offered under this head are:
  - **Transaction Origination:** CAMS offers transaction origination services (both paper-based and electronic), including managing KYC requirements of investors.

- **Operations & Record Keeping:** CAMS is responsible for accepting and executing orders on behalf of its clients and provides transaction processing and payments services to them. It also maintains records of accounts and transactions. Further, it computes and process fees and commission payable by the MFs to its distributors and assists in disbursement of commission.
- **Investor Services:** CAMS offers services to investors, from accepting a transaction request, processing it and sending transaction confirmation. It also sends periodic statements and alerts to investors.
- **Risk Management:** CAMS offers facilities such as anti-money laundering services, reporting to Government agencies and authorities such as the SEBI, and suspicious transaction reporting.
- **Compliance:** CAMS assists MF clients in complying with the scheme document requirements, KYC regulations and SEBI regulations.
  - **Distributor Services:** CAMS offers distributors a service package, to help them provide efficient services to their customers. The scope of services to distributors includes recording & maintaining clients and sub-distributor information, providing MIS with details of transactions and holdings, computation and reporting of distributor commissions, etc.
  - **Customer Services:** CAMS offers customer-care services through its pan-India network. It accepts customer transactions for execution. Investors can submit documents, make requests for change of contact details, provide or update bank mandate, request for balance on account or an account statement, request the latest NAV and fund-related literature such as application forms and offer documents. It also provides SMS services on transaction details, such as purchase and redemption, as well as other information, such as NAV and portfolio holdings.



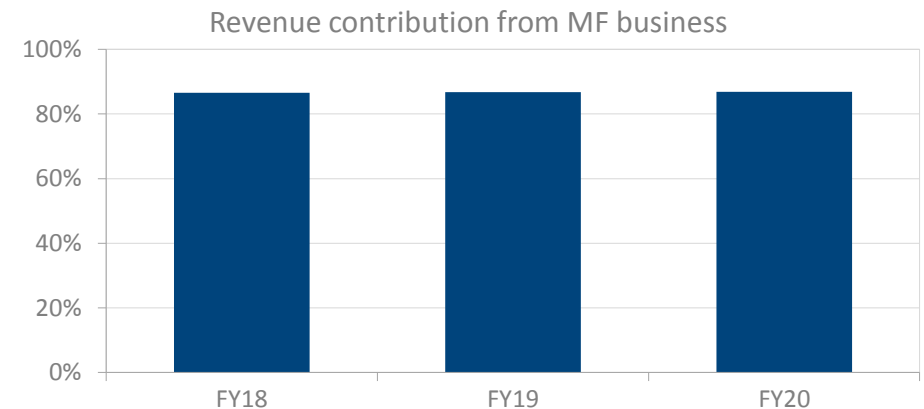
**CAMS has developed multiple technology platforms and mobile applications for its MF business such as:**

- **myCAMS:** A B2C mobile application, to facilitate retail mutual fund transactions.
- **CAMServ:** This application has a self-service chatbot, to help investors navigate through mutual fund services and investing options.
- **CAMSsmart:** Assists MFs with reporting, predictive and prescriptive analytics, data mining, measuring business performance and benchmarking.
- **digiSIP:** It helps investors and distributors in setting up multiple SIPs at one time.
- **GoCORP:** This application is a corporate investment portal designed for corporates.
- **mf360:** The application allows MFs to track transactions, investor enquiries and account statement requests.
- **mfCompass:** This application allows MFs to get a real time view of inflows and outflows.
- **mfCRM:** It allows MFs to have ready access to accurate data, such as investors’ portfolio and distributors sales performance.
- **MFDEX:** The application helps with the aggregation of mutual fund data with various parameters. It is a sales and business intelligence tool aggregating data of several mutual funds and allows a participating mutual fund to review.
- **edge360:** An application for MF distributors and advisors enabling them to 1) track brokerage, 2) view, track and manage portfolios of investors, and 3) source for MF data.
- **Recon Dynamix:** This platform helps drive operational efficiency by providing handling, payouts and reconciliation of general ledgers, payments and transactions.

## CAMS’ revenue model: Proxy play on the Indian MF industry

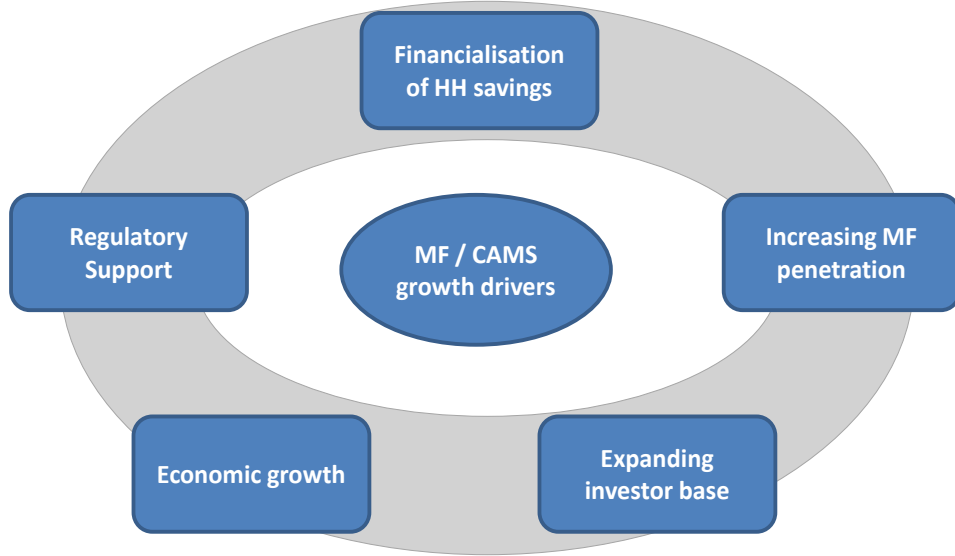
As 85-90% of CAMS’ revenues are contributed by the MF industry, it is a proxy play on the Indian MF industry. Its growth is directly linked to the AUM growth of the MFs it services. Thus, the revenue growth drivers for the company are similar to that of the MF industry, i.e. i) financialisation of household savings (gross financial saving rate of 58% in FY19 vs. 52% in FY14), ii) increasing MF penetration (AUM-to-GDP ratio of 12% for India vs. world average of 63%), and iii) overall economic growth, driving equity and debt valuations (and, resultantly, AUMs).

**Figure 12: The MF business accounts for the bulk of CAMS’ revenues**



Source: Company, IIFL Research

Figure 13: CAMS' growth drivers are similar to those of the MF industry



Source: IIFL Research

As discussed above, CAMS offers numerous services to MFs and to their unit-holders and distributors. These services are offered as a bundled package to MFs and thus, the company charges a monthly asset fee on the MF's AUM, instead of charging the MF on per-transaction basis. The yield largely mirrors the total expense ratio (TER) charged by MFs to their unit-holders and thus follows a tied structure and tends to decrease with the increase in AUM. Also, the yield in an equity AUM is higher than in a debt AUM or ETF AUM, in line with the MF industry's TERs. Thus, the yield ranges from 1bps to 7bps.

The fee charged to each MF is not standardised and is based on bilaterally negotiated contracts. However, there is unlikely to be any significant difference between the different contracts. In addition to the AUM-based fees, CAMS also charges MFs for handling paper-based transactions, call centre fees, etc.

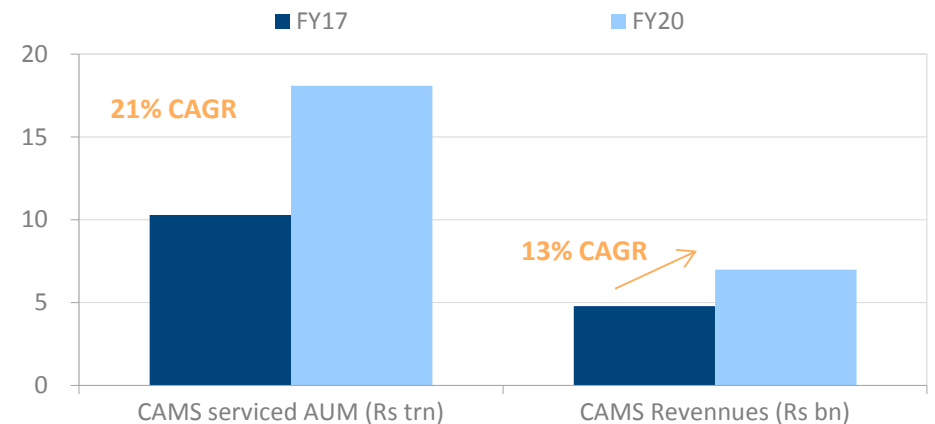
Figure 14: RTAs have a tiered-fee structure; the fee falls with an increase in serviced AUMs

RTA yield (bps)	Mar-15	Mar-17	Mar-19	Mar-20
Equity	7.5	6.7	6.2	5.9
Hybrid	7.8	6.1	6.0	6.0
Debt	2.4	2.2	2.2	2.2
Liquid	3.3	2.0	2.0	2.0
ETFs & others	4.3	2.4	1.6	1.5

Source: CAMS RHP, IIFL Research

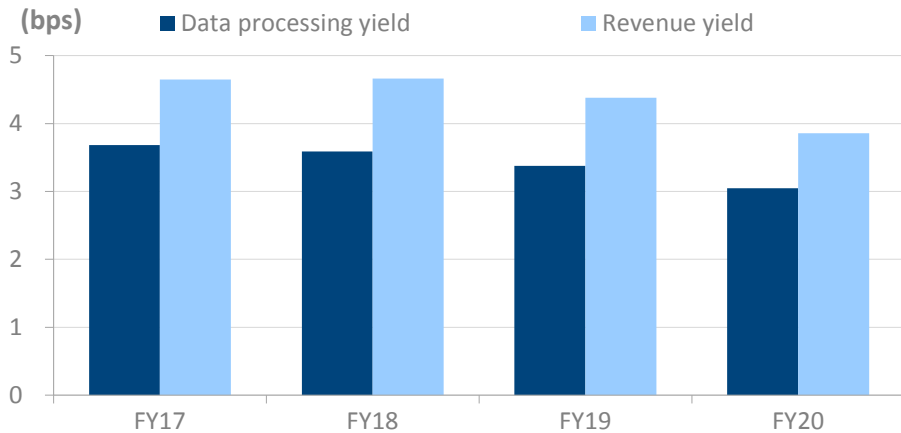
Given CAMS' tiered fee structure, where the fee falls with an increase in AUMs, revenue growth is likely to trail AUM growth. We note that over FY17-20, CAMS' serviced-AUM logged a 21% Cagr, to Rs18.1trn, while its revenue grew only 14% pa over the same period. This was on account of compression in blended yields, by 6% pa to 3.85bps. The yield compressed by 12% YoY in FY20, as MFs lowered the fees paid to RTAs, to partly pass-on the TER cut by SEBI (this was effective from 1-Apr-2019). We do not expect such sharp yield moderation going ahead, but a more modest 2-3% pa moderation, for 12-13% AUM growth.

Figure 15: CAMS' revenue lags AUM growth, given reduction in yield, with higher AUMS



Source: CAMS RHP, IIFL Research

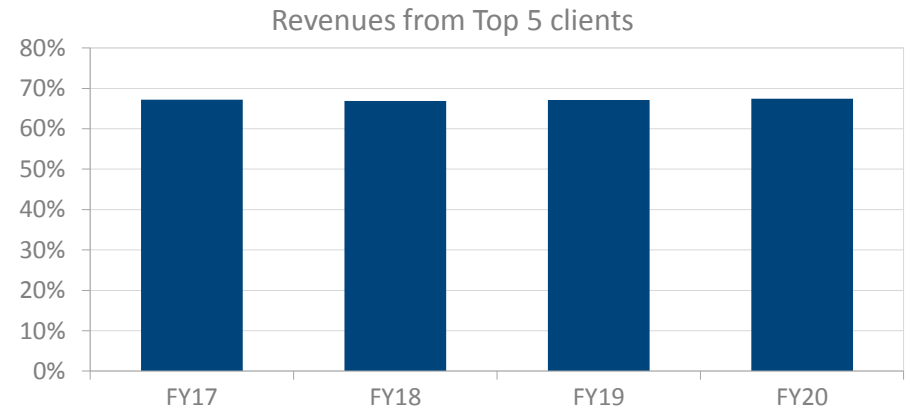
**Figure 16: Blended yields have declined by 6% pa over FY17-20**



Source: CAMS RHP, IIFL Research

Also, client concentration is high for CAMS, as the top-5 MFs contribute nearly 2/3rds of the total revenues. This largely reflects AUM concentration with large players within the MF industry. As highlighted earlier, we see low risk of any MF exiting the RTA network and, thus, risk to revenues is low (nevertheless, such large MFs enjoy pricing power over RTAs, given their size). The top revenue contributors of CAMS are HDFC Asset Management Company, SBI Fund Management Private, ICICI Prudential Asset Management Company, Aditya Birla Capital, DSP Investment Managers Private and Kotak Mahindra Asset Management Company.

**Figure 17: CAMS' top 5 clients contribute 65-70% of revenues**

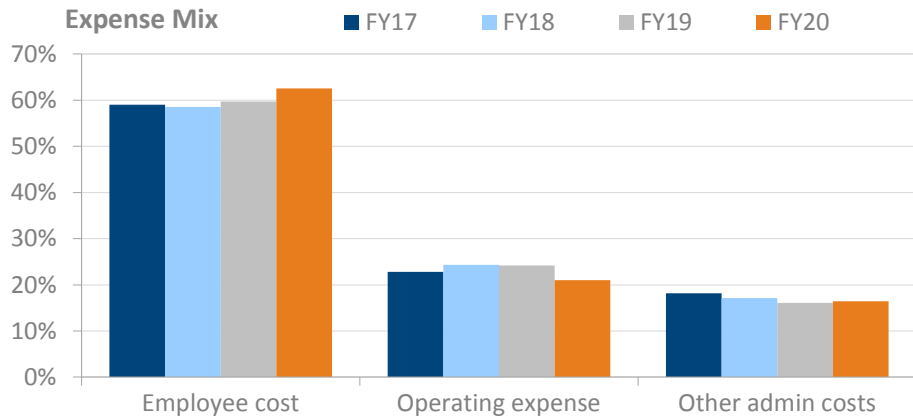


Source: Company, IIFL Research

CAMS does not have any significant benefit of operating leverage, as its expenses are largely variable in nature (opex saw a 14% Cagr over FY17-20, in line with revenue growth). Employee expense is a key cost, accounting for 60% of the total operating expenses. As 1/3rd of the employees are on contract basis, the company has the flexibility to lower costs if required, to provide cushion for Ebitda margins. We note that Ebitda margin has ranged over 38-41% during FY17-20, and expect it to continue at these levels.

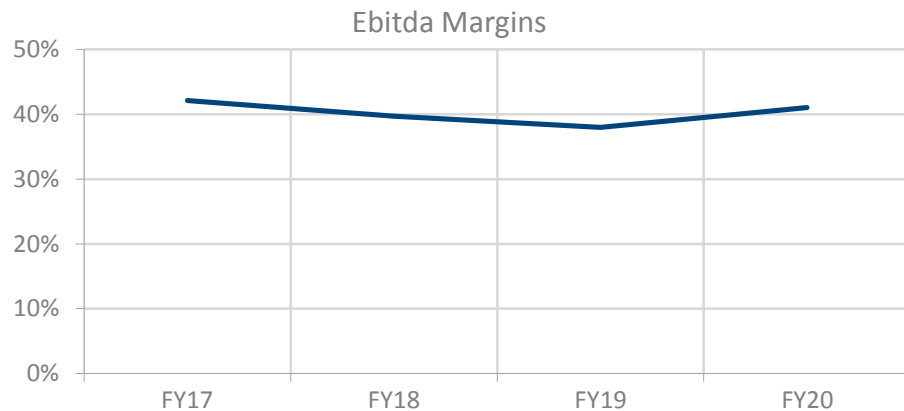


**Figure 18: Employee expense accounts for 60% of the total operating costs**



Source: Company, IIFL Research

**Figure 19: Ebitda margin hovers around 40%**



Source: Company, IIFL Research

## PAT saw 12% CAGR over FY17-20

CAMS' FY17-20 profit Cagr is 12%, driven by 14% revenue Cagr. The revenue growth was on the back of increase in AUMs serviced by CAMS, by 21% pa to Rs18.1trn; but this growth was partly offset by the 6% pa decline in blended yields, to 3.85bps. The fall in yield had accentuated in FY20, as MFs partially passed on the TER cuts to RTAs. Ebitda margin moderated by 100bps YoY to 41%, as employee expense grew 16% pa (faster than the revenue growth). The return ratios are healthy, with RoEs of 35%. Also, the PAT-to-FCF conversion is high, given low capex requirement, thus allowing the company to maintain higher payouts (dividend policy of 65%).

**Figure 20: CAMS' profits grew 12% pa over FY17-20**

Rs m	FY17	FY18	FY19	FY20	1QFY21	FY17-20 CAGR
AAUM serviced (Rs bn)	10,294	13,759	15,841	18,150	17,433	21%
YoY growth	NA	34%	15%	15%	NA	
Revenues	4,783	6,415	6,936	6,996	1,486	14%
YoY growth	NA	34%	8%	1%	-15%	
Ebitda	2,014	2,548	2,635	2,873	514	13%
Ebitda margin	42.1%	39.7%	38.0%	41.1%	34.6%	
Adj. PAT	1,235	1,459	1,433	1,734	408	12%
Reported PAT	1,235	1,459	1,304	1,734	408	12%
RoE	NA	34.1%	29.5%	35.4%	NA	

Source: Company, IIFL Research

**1QFY21 performance:** CAMS has also shared its 1QFY21 performance; its profits are flat YoY. The weak operating performance (revenues down 15% YoY; Ebitda margin down to 35%) was supported by: i) higher treasury income (up 170% YoY) due to MTM gains; ii) lower corporate tax rate (23% vs. 33% a year ago). The weak operating performance was owing to cyclical issues given a sharp fall in average equity AUM during the period (down 15% QoQ), resulting in 12% drop in blended yields (3.4bps) vs.

FY20. We believe profits may remain flat in FY21, but growth to recover from FY22 onwards.

**Figure 21: CAMS' PAT yield has dipped, from 2.8bps to 2.4bps, over FY17-20**

Year Ending March (bps)	FY17	FY18	FY19	FY20
Data processing yield	3.7	3.6	3.4	3.0
Others	1.0	1.1	1.0	0.8
<b>Total</b>	<b>4.6</b>	<b>4.7</b>	<b>4.4</b>	<b>3.9</b>
(-) Operating exp	1.1	1.2	1.1	0.9
<b>Ebitda</b>	<b>3.5</b>	<b>3.5</b>	<b>3.3</b>	<b>3.0</b>
(+) Other income	0.2	0.1	0.1	0.1
(-) Depreciation	0.3	0.3	0.3	0.3
(-) Interest costs	0.1	0.1	0.1	0.1
PBT	3.4	3.3	3.0	2.8
(-) Tax	0.6	0.6	0.4	0.4
<b>PAT</b>	<b>2.8</b>	<b>2.7</b>	<b>2.6</b>	<b>2.4</b>

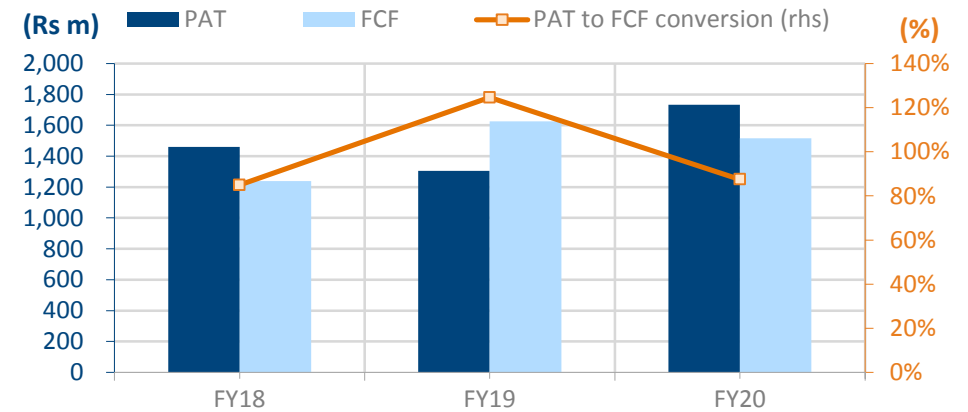
Source: Company, IIFL Research

**Figure 22: We estimate profits to remain flat over FY21**

Rs m	FY19	FY20	FY21ii	FY22ii
Revenues	6,936	6,996	6,743	7,349
YoY growth	34%	1%	-4%	9%
Ebitda	2,635	2,873	2,679	2,952
Ebitda margin	38.0%	41.1%	39.7%	40.2%
Adj. PAT	1,433	1,734	1,715	1,922
Reported PAT	1,304	1,734	1,715	1,922
RoE	29.5%	35.4%	32.0%	34.0%

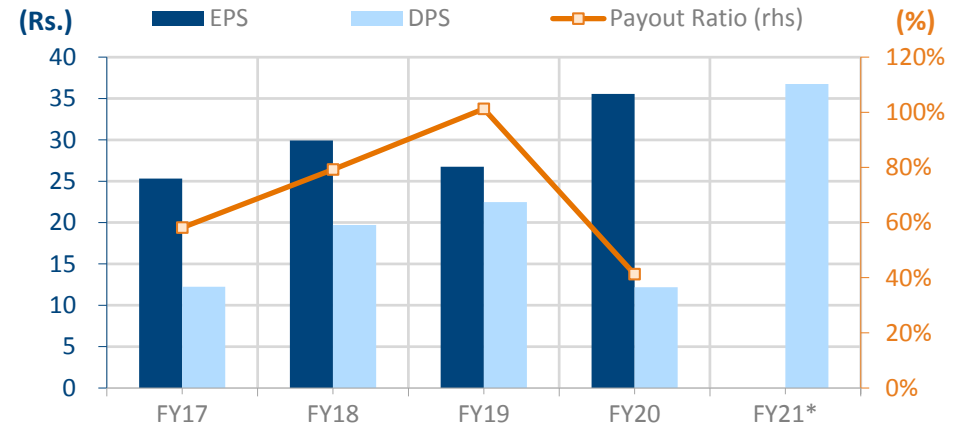
Source: IIFL Research

**Figure 23: Cash conversion is high, given low capex requirements...**



Source: Company, IIFL Research

**Figure 24:...resultantly, payout ratios are healthy**

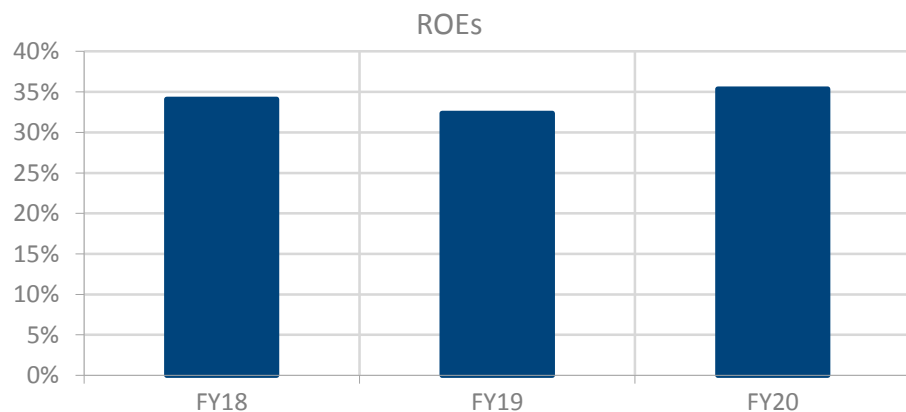


Source: Company, IIFL Research Note: Payout ratio includes DDT; \* In FY21 YTD, CAMS has already paid interim dividend of Rs36.75/share

## IPO valuation is at a discount to comparables

CAMS is the first RTA to be listed and, thus, there are no direct comparables. However, as its growth drivers are similar to those of the MF industry, we compare it with the two listed AMCs. We note that at the upper end of the price band (Rs1,230/share), the stock trades at 34.6x FY20 EPS – at 9% discount to HDFCAMC and 17% discount to Nippon Life Asset Mgmt. The other nearest comparables are Depositories and Exchanges. Barring BSE, all others trade at 35-40x FY20 EPS. We believe such premium valuations are sustainable on account of long term growth sustainability of the sector, market leadership position, strong free cash flow generation with zero debt balance sheet, and robust return ratios.

**Figure 25: The return ratios are healthy, at 35%**



Source: Company, IIFL Research

Further re-rating would be driven by improved visibility on the non-MF business (AIFs, electronic payments, insurance repository, etc) or a higher than expected growth in AUMs (base case is 12-13% pa), which can lead to earnings surprises.

**Figure 26: CAMS, at IPO valuation, fairly prices-in near-term earnings**

Company	M-Cap	EPS CAGR	EPS CAGR	P/E (x)	P/E (x)	RoE	RoE
	US\$ bn	FY17-20	FY21-23ii	FY20	FY22ii	FY20	FY22ii
CAMS*	0.8	12%	12%	34.6	31.2	35%	34%
HDFCAMC	6.6	31%	12%	38.2	35.8	36%	28%
Nippon Life AMC**	2.3	0%	14%	41.6	29.8	16%	21%
CDSL	0.7	11%	11%	42.7	35.2	15%	17%
BSE	0.4	-10%	7%	21.7	19.2	5%	6%
MCX	1.2	23%	12%	38.0	34.0	18%	19%
IEX	0.8	13%	16%	35.0	28.0	46%	38%

Source: Company, IIFL Research; Note: \* CAMS valuation is calculated at IPO prices of Rs1,230/share; \*\* Bloomberg estimates

The key risks to the business seem to be: any sharp decline in AUMs or reduction in yield by MFs. Also, as CAMS is directly involved in transaction origination & completion as well as maintaining records, any lapse on data security or money mismanagement would result in reputational risk and loss of business.

## Annexure 1: CAMS' BOD and Management

**Figure 27: CAMS' Board of Directors**

Directors	Designations
Dinesh Kumar Mehrotra	Non-Executive Chairman and Independent Director
Anuj Kumar	Whole time Director and CEO
Narendra Ostawal	Non-executive Director
Zubin Soli Dubash	Non-executive Director
Vedanthachari Srinivasa Rangan	Non-executive Director
Natarajan Srinivasan	Independent Director
Vijayalakshmi Rajaram Iyer	Independent Director

Source: Company, IIFL Research

**Figure 28: CAMS' Key Management Personnel**

KMP	Designation
Anuj Kumar	Whole time Director and CEO
Somasundaram M.	CFO
S.R. Ram Charan	CFO - Designate
Srikanth Tanikella	COO
Ravi Kethana	Chief Platform Officer
N. Ravi Kiran	Head – New Businesses
Vasanth Jeyapaul Emmanuel	Sr. VP
Abhishek Mishra	CEO - CIRSL
Manikandan Gopalakrishnan	Company Secretary and Compliance Officer

Source: Company, IIFL Research

## Annexure 2: CAMS' Subsidiaries

**Figure 29: CAMS' subsidiaries – Not a major contributor to profits, as of now**

Name of the Subsidiary	Country of Incorporation	Proportion of ownership Interest# (%)
CAMS Insurance Repository Services	India	100
CAMS Investor Services Pvt	India	100
CAMS Financial Information Services Pvt	India	100
Sterling Software Pvt	India	100
Sterling Software(Deutschland) GmbH	Germany	100

Source: Company, IIFL Research

- CAMS Insurance Repository Services:** The entity is one of the Insurance Repositories in India, licensed by the Insurance Regulatory and Development Authority of India (IRDAI). An Insurance Repository helps policy holders to keep insurance policies in electronic form. CAMS Rep is also the business solutions partner for insurers in India.
- CAMS Investor Services Pvt:** Promoted by CAMS, the entity uses technology in processing, storing and retrieving KYC documents, and to interface capabilities with intermediaries and other KRAs.
- CAMS Financial Information Services Pvt:** The company was incorporated with the objective of carrying out the business of Account Aggregator services. The Company has received in-principle approval and is in the process of taking a further step towards commencing the business.
- Sterling Software Pvt:** The entity is a software enterprise based in Chennai, India, offering products and services in a range of industries, with its specialty being mutual funds. Sterling Software is the company behind the platform/product innovations offered by CAMS in the mutual-fund space in India.
- Sterling Software (Deutschland) GmbH:** The entity is a wholly-owned subsidiary of Sterling Software Pvt, incorporated in Germany, and is engaged in the business of providing IT Software services and consultancy.

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