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Issue Details

Issue Details	
Issue Size (Value in crore, Upper Band)	2,244.33
Fresh Issue (No. of Shares in Lakhs)	0.00
Offer for Sale (No. of Shares in Lakhs)	182.47
Employee Reservation (No. of Shares in Lakhs)	1.82
Bid/Issue opens on	21-Sep-20
Bid/Issue closes on	23-Sep-20
Face Value	Rs. 10
Price Band	1,229-1,230
Minimum Lot	12

Objects of the Issue

Offer for Sale: ₹2244.33 Cr

Complying with SEBI requirement, NSE intends to divest its entire shareholding, held through NSE Investments in CAMS through OFS and NSE Investments SPA.

CAMS will not receive any proceeds from the Offer for Sale and all such proceeds will go to the Selling Shareholder.

Book Running Lead Managers
Kotak Mahindra Capital Company Limited
HDFC Bank Limited
ICICI Securities Limited
Nomura Financial Advisory and Securities (India) Private Limited
Registrar to the Offer
Link Intime India Private Limited

Capital Structure (₹ Crore)	Aggregate Value
Authorized share Capital	50.25
Subscribed paid up Capital (Pre-Offer)	48.79
Paid up capital (Post - Offer)	48.79

Share Holding Pattern %	Pre Issue	Post Issue
Promoters & Promoter group	31%	31%
Public	69%	69%
Total	100%	100%

Financials

Particulars (₹ In Cr)	Q1FY21	FY20	FY19	FY18
Revenue from operations	148.6	699.6	693.6	641.5
Operating expenses	97.2	412.4	450.1	383.1
EBITDA	51.4	287.3	243.6	258.4
Other Income	14.8	21.7	18.2	16.3
EBIDT	66.3	309.0	261.7	274.7
Interest	2.3	9.7	10.5	7.9
Depreciation	10.7	48.5	50.4	40.2
PBT	53.3	250.8	200.9	226.6
Tax	12.4	77.3	70.0	80.3
PAT	40.8	173.5	130.9	146.3
Minority/other adj.	0.0	0.0	0.4	0.4
Consolidated PAT	40.8	173.4	130.4	145.9
EPS	8.4	35.5	26.7	29.9
EBITDA Margin	34.6%	41.1%	35.1%	40.3%
PAT Margin	27.5%	24.8%	18.8%	22.7%

Company Description

Incorporated in 1988, **Computer Age Management Services Limited (CAMS)** has come a long way to become the largest registrar and transfer agent (RTA) of mutual funds in India, with an aggregate market share of about 70% based on mutual fund average assets under management (AAUM). The company is technology-driven financial infrastructure and services provider to mutual funds and other financial institutions.

Through its pan-India network (comprising 271 service centers spread over 25 states and 5 union territories) to mutual fund clients, distributors and investors, CAMS offer an array of services including transaction origination interface, transaction execution, payment, settlement and reconciliation, dividend processing, investor interface, report generation and brokerage computation and compliance related services. Also, it provides certain services to alternative investment funds and insurance companies.

The company boasts of top clients from the mutual funds industry which include four of the 5 largest mutual funds as well as nine of the 15 largest mutual funds based on AAUM during July 2020. CAMS' key clients for its mutual funds services business include HDFC Asset Management Company Limited, ICICI Prudential Asset Management Company Limited, Aditya Birla Capital Limited, SBI Fund Management Private Limited, DSP Investment Managers Private Limited and Kotak Mahindra Asset Management Company Limited. As of July 2020, the company serviced ₹19.2 trillion of AAUM of 16 mutual fund clients. Further, reflecting long term commitment, the average term of relationship with its ten largest mutual fund clients is 19 years as of June 30, 2020.

The five-year CAGR of quarterly AAUM of mutual funds between March 2015 and March 2020 was 18% according to CRISIL Report, while the five year CAGR of the quarterly AAUM of mutual funds serviced by CAMS over same period was 21%. Generally, the growth of the AUM of the company's mutual fund clients is essential, as a significant portion of its mutual fund revenues are based on the mutual fund AAUM of its clients. While growth in quarterly AAUM is likely to be muted in FY21 due to the COVID-19 pandemic, however, growth is expected to gradually bounce back due to several factors including an expected pick-up in economic growth, increasing awareness, higher disposable income levels and growth in aggregate household and financial savings.

CAMS stands to benefit from the high entry barriers in the industry. The MF RTA business is technology intensive and requires extensive branch network and high operating leverage. Notably, it is challenging for the clients to replicate CAMS' physical network or technology platforms in-house. Also, moving to a competitor is time consuming as well as disruptive.

The company looks to drive growth and maintain market leadership on the back of its several strategic growth initiatives. These include enhancing service offerings to mutual fund clients as well as grow other business such as AIFs and Insurance business, continued investments in technology and increase automation in business.

Revenues have increased from ₹641.5 crores in FY18 to ₹699.6 crores in FY20 while consolidated PAT improved from ₹145.9 crores in FY18 to ₹173.4 crores in FY20. Also, the company has zero debt and exhibits healthy cash flows. Additionally, the company's dividend distribution policy calls for a payout of at least 65% of consolidated net profit.

Valuation

At upper price band of ₹1,230, the IPO is priced at 34.6 times FY20 EPS and 36.7 times FY21 EPS (annualized). While currently there is no listed player to compare, we believe the IPO is reasonably priced considering the latest numbers. We remain optimistic on growth prospects of CAMS, given its leadership position in the market, scalable technology with robust infrastructure, strategic growth initiatives, high entry barriers in the industry and gradual growth in AAUM in the coming periods. We recommend **Subscribe** to this IPO.

Business Overview:

Based in Chennai, India, CAMS operates through the following seven business verticals:

- a. **Mutual Funds Services Business:** The company provides a range of technology-enabled infrastructure to mutual funds, involving through the life cycle of an account i.e. right from the stage of account creation to processing transactions and redemption of the amount invested. Services include transaction origination services, operations services, investor services, risk management services and compliance services.

As of June 30, 2020, CAMS has 16 mutual fund clients with an aggregate of over 71.8 million accounts held by such clients. Notably, as a result of the nature of the funds and services provided, CAMS charge more fees from equity mutual funds as compared to other categories of mutual funds. The AUM of equity mutual funds serviced by CAMS grew from ₹2,180 billion as of March 31, 2015 to ₹5,228 billion as of March 31, 2020, at a CAGR of 19.1%, and as of June 30, 2020 was ₹6,190 billion.

Key Performance Indicators	Q1FY21	FY20	FY19	FY18	FY17	FY16	FY15
Total AAUM of the mutual funds serviced (₹ in billion)	17,433.31	18,149.68	15,841.20	13,758.52	10,293.63	7,931.47	6,572.50
Equity Oriented (excludes arbitrage schemes, ₹ in billion)	5,750.65	6,706.67	6,232.51	4,884.75	2,921.10	2,327.43	1,774.10
Number of transactions handled (in million)	75.88	328.44	312.85	249.98	151.77	115.17	97.54
Number of live folios (million)	39.79	39.35	37.12	31.81	23.01	19.32	17.04
Number of total investor folios (in million)	71.76	70.88	63.56	54.84	44.01	40.03	38.34
Number of PAN accounts	16	15.86	14.76	12.38	8.68	7.15	6.22
Number of SIP transactions processed (in million)	58.5	237.51	191.71	132.19	83.93	63.24	46.36

- b. **Electronic Payment Collection Services Business:** Manages end-to-end automated clearing house transaction and electronic clearance services and service mutual funds, non-banking financial companies and insurance companies.
- c. **Insurance Services Business:** Through its subsidiary, CAMS Insurance Repository Services Limited, the company offers processing of new business applications, holding policies in dematerialized form, servicing policies and other support functions to insurance companies. For the financial year 2018, CAMS had a market share of 39% of the insurance repository business, based on e-insurance policies being managed.
- d. **Alternative Investment Fund (AIF) Services Business:** Provides services to investors, manage records and perform fund accounting and reporting, among other services, for alternative investment and other types of funds.
- e. **KYC Registration Agency Business:** Engaged in verifying and maintaining KYC records of investors for use by financial institutions.
- f. **Software Solutions Business:** Through its subsidiary, Sterling Software Private Limited, CAMS develops software for its mutual funds services business and for mutual fund companies.
- g. **Banking and Non-Banking Services Business:** Offers customer interface services and back-office processing services. However, CAMS is currently in the process of closing this business and expects to fully exit by December 2020.

Revenue Distribution

By Segment (₹ in million)	Q1FY21	FY20	FY19	FY18
RTA Services/Other	1,474.38	6,909.57	6,839.31	6,365.10
Software	11.87	86.73	97.13	50.26
Total	1,486.25	6,996.30	6,936.44	6,415.36

By % of Total revenue	Q1FY21	FY20	FY19	FY18
Top 5 Clients	70.9%	67.4%	67.1%	66.9%

Source: RHP, Anand Rathi Research

Business Highlights

- **Built Market Leadership as the Largest Infrastructure and Services Provider in India:** According to CRISIL Report, over the last five years, CAMS have grown its market share from about 61% during March 2015 to around 69% during March 2020, based on AAUM serviced. Further, CAMS have now aggregate market share of about 70% based on mutual fund AAUM managed and clients serviced by the company during July 2020. The five-year CAGR of quarterly AAUM of mutual funds between March 2015 and March 2020 was 18% according to the CRISIL Report, while the five year CAGR of the quarterly AAUM of mutual funds serviced by CAMS over same period was 21%. Notably, the growth of the AUM of the company's mutual fund clients is essential, as a significant portion of its mutual fund revenues are based on the mutual fund AAUM of its clients. While the growth in the Indian mutual fund industry is expected to be near-flat during FY21 on account of the COVID-19 pandemic, quarterly AAUMs are expected to increase after FY21.
- **Solid Business Model with Long-term Client Relationships:** Leveraging on its diverse portfolio of technology enabled services and pan India network, CAMS helps clients in reducing significant investments in operational infrastructure, thereby allowing its clients to increase their focus on their core business activities. The company has developed a committed client base. The average term of relationship with its ten largest mutual fund clients is 19 years as of June 30, 2020.
- **High Entry Barriers:** 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. Further, it requires extensive branch network and high operating leverage. 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. Notably, it is challenging for the clients to replicate CAMS' physical network or technology platforms in-house. Also, moving to a competitor is time consuming as well as disruptive. CAMS' pan-India physical network comprises of 271 service centers spread over 25 states and 5 union territories as of June 30, 2020, which are supported by call centers in four major cities – Mumbai, New Delhi, Chennai and Kolkata.
- **Scalable Technology Enabled Ecosystem:** CAMS' proprietary platforms are built to absorb growth in the number of investors, assets and trading volumes with focus on quality and cost efficiencies. From handling over 98 million transactions in the FY15, the company handled over 328 million transactions in FY20. CAMS' continued investment in the proprietary IT platforms continues to strengthen its competitive technology advantage by further increasing operating leverage, driving innovation, anticipating industry developments and delivering increased efficiencies.
- **Diligent Focus on Processes and Risk Management:** Clients of CAMS are regulated financial institutions and hence it is essential to provide them accurate, timely, technologically advanced and secure services. The company continuously monitor 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 remains focused on automating processes and enhancing systems and risk management to ensure that all its obligations and regulatory requirements are duly met and without error.
- **Support from Experienced Management and Board and Marquee Shareholders:** The company's management team has extensive experience in a variety of financial services sectors. Mr. Anuj Kumar, Whole-time Director and Chief Executive Officer of CAMS, has more than two decades of experience and has been with the company since June, 2016. Also, the company's key management personnel have average work experience of over 27 years and have been with the company for over five years. Further, the 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, resulting in effective operational coordination and continuity of business strategies. Additionally, marquee shareholders include Great Terrain (an affiliate of Warburg Pincus), HDFC, HDFC Bank and NSEIL, among others. CAMS expects to continue to benefit from capital sponsorship and professional expertise of its marquee shareholders.

Key Strategies:

- **Enhancing Service Offerings to Mutual Fund Clients as well as Grow Other Existing Business Such as AIFs and Insurance Business:** CAMS remains focused on enhancing the scope of its service offerings in its core mutual fund registrar and transfer agency business and further deepen integration with clients and improve value delivery. For instance, the anti-money laundering service, which detects, investigates and reports suspicious transactions is separately provided and additionally chargeable, CAMS looks to increase its mutual fund client base by attracting new mutual funds being launched in India as its clients. Additionally, CAMS expects to grow revenues from its other existing businesses as well. Notably, during FY18, CAMS had a market share of 39% of the insurance repository business, based on e-insurance policies being managed.
- **Committed to Technology-led Services Innovations:** Electronic transformation and advancement is crucial to the mutual fund industry and CAMS believes its market position has been a function of its in-house technology capabilities. Hence the company continues to invest in technology looking to its several advantages including client commitment and loyalty, economies of scale, effective risk management, scalability and expansion to the adjacent financial services sectors.
- **Increase Automation in Businesses:** Through automation, CAMS aims to improve cost efficiencies as well enhance customer experience. Currently, the company is engaged in several automation projects, including automation of subscription reconciliation, purchase and SIP processes, document receipts and storage. Automation not only lowers manual efforts but reduces risks associated with manual efforts as well.

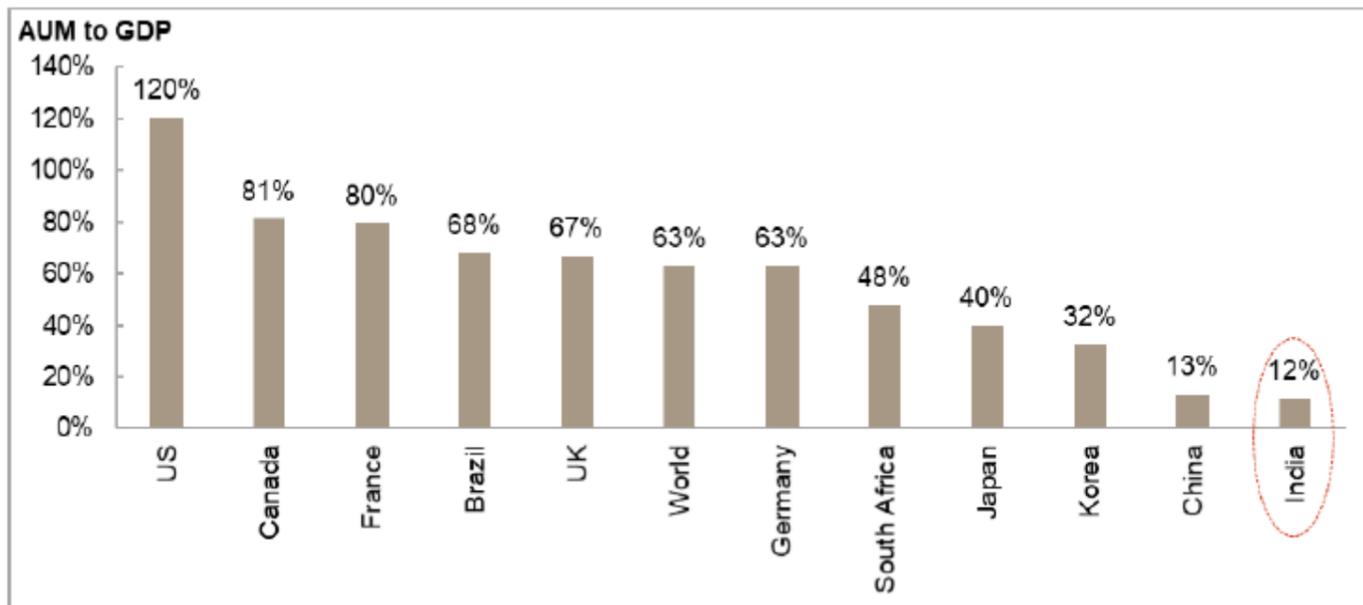
Key Risks:

- As a SEBI-registered RTA, CAMS operates under stringent regulatory landscape. The company is subject to periodic inspection audits by the SEBI to, among others, ascertain compliance with provisions and rules of the SEBI MF Regulations, SEBI RTA Regulations and SCRA. Further, the company's clients - mutual funds and other financial services institutions - are generally subject to extensive regulation in India. Hence, legal and regulatory risks are inherent in CAMS' business and services.
- The company's revenues are concentrated on a limited number of clients. Notably, revenues from top 5 clients accounted for 70.9% and 67.4% of total revenue from operations in Q1FY21 and FY20, respectively. Any loss of such clients seems detrimental to company's revenue growth.
- CAMS derive significant part of its revenues from its mutual funds services business (89.7% and 86.9% of revenues in Q1FY21 and FY20, respectively.) Profitability might get impacted owing to decline in AAUM stemming from events such as declines in the Indian equity markets, changes in interest rates and defaults, accelerated customer withdrawals or redemptions and declines in systematic investment plans.

Source: RHP, Anand Rathi Research

Industry Snapshot

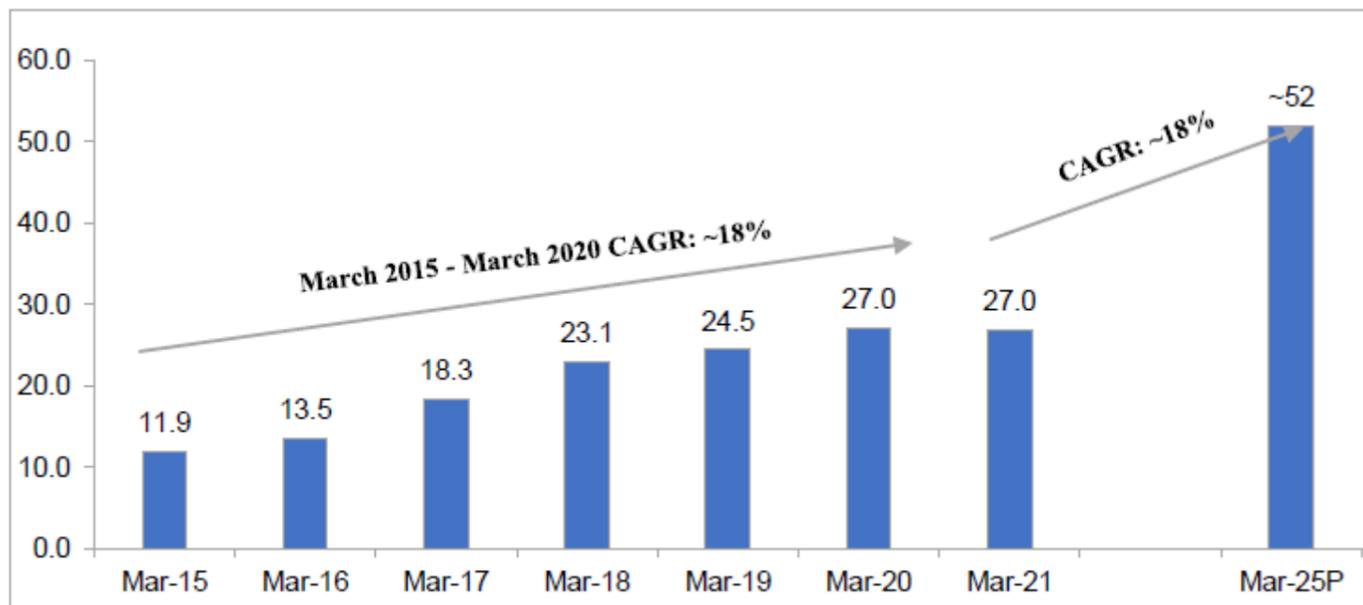
Mutual fund assets in India have seen robust growth, especially in recent years, driven by a growing investor base due to increasing penetration across geographies, strong growth of the capital markets, technological progress and regulatory efforts aimed at making mutual fund products more transparent 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 as illustrated below:



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.

The low penetration levels signals for significant room for growth in the domestic industry.

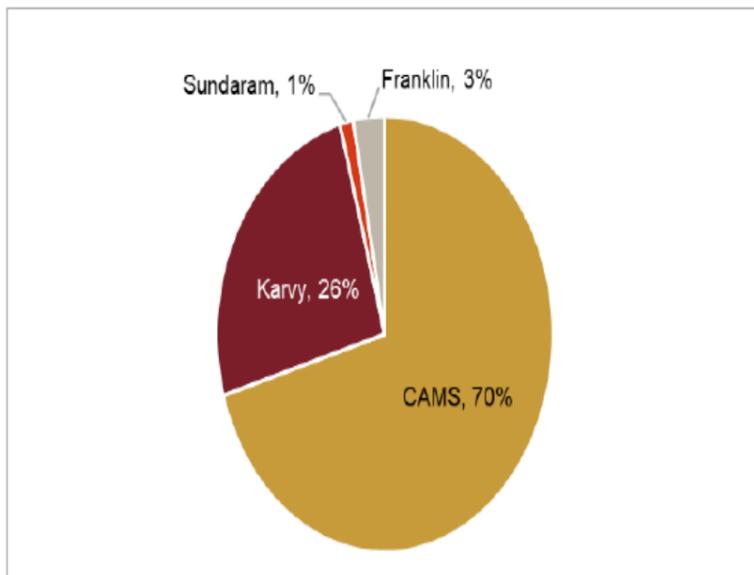
The mutual fund quarterly AAUM growth is expected to be near-flat for financial year 2021 amid the COVID-19 pandemic. Between March 2015 and March 2020, the quarterly AAUM grew at a CAGR of about 18% and the expected quarterly AAUM in March 2021 is ₹27 trillion (same as quarterly AAUM for March 2020). However, post FY21, the quarterly AAUMs are expected to gradually bounce back and grow to around ₹52 trillion by March 2025, which represents a CAGR of about 18% between March 2021 and March 2025 on the back of several factors including an expected pick-up in economic growth, increasing investor base, higher disposable income levels and investable household surplus, growth in aggregate household and financial savings, better awareness, ease of investing, digitalization and perception of mutual funds as long-term wealth creators.

Projected growth in overall AUM (in ₹ trillion) over the next five years:

Note: AUM as the average of last quarter for each financial year has been considered; P: Projected

MF RTA Business

According to CRISIL, the size of the MF RTA business was about ₹9 billion in FY20. After the onset of COVID-19 in the first half of FY21, there has been a decrease in transaction volumes and hence the growth in FY21 is expected to be muted. However, the business is expected to grow at about 15% CAGR over the next five years, up to financial year 2025 and should reach a size of approximately ₹17.6 billion. This is almost in line with the growth in the AUM industry. 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.

Competition:**MF RTA Business**

Note: Monthly AAUM of June 2020 has been considered; Sundaram BNP Paribas Fund Services Limited has been acquired by KFin Technologies post October 2019; however it has been shown here for peer representation.

Other Services

Other Business Lines	Competitors
Electronic Payment Collection Services Business	Indiaideas.com Limited (BillDesk), Ingenico ePayments India Private Limited (Tech Process) and Razorpay Software Private Limited
Insurance Services Business	NSDL Database Management Limited, Karvy Insurance Repository Services Limited and CDSL Insurance Repository Limited
Alternative Investment Fund Services Business	KFin Technologies Private Limited, Sundaram BNP Fund Services Limited (now acquired by KFin Technologies Private Limited) and IL&FS Securities Services Limited
KYC Registration Agency Business	CDSL Ventures Limited, Dotex International Limited and Karvy Data Management Services Limited

CAMS and KFin Technologies Private Limited (erstwhile Karvy Fintech Private Limited) together accounted for about 96% of the MF RTA industry for the FY20. Among MF RTAs, CAMS has the highest AUM serviced, which is approximately 70% of the market share as of July 2020, followed by Karvy (including Sundaram BNP Paribas Fund Services). Also, CAMS has been the fastest growing MF RTA for the last five years with a CAGR of 18.6% in AUM managed whereas, the CAGR growth for Karvy and Sundaram BNP Paribas Fund Services remained at 10.4% and 6.6%, respectively in the past five financial years. Notably, CAMS market share has increased from around 61% in financial year 2015 to about 69% in financial year 2020 based on AAUM serviced for the month of March for the respective financial years. Additionally, CAMS has the highest revenue in the industry and also witnessed the highest revenue growth in the past five years with a CAGR of 12.8% in between FY15 and FY20. For FY20, the EBITDA margins and RoE of CAMS are better than its competitors.

Source: RHP, Anand Rathi Research

Our Take:

At upper price band of ₹1,230, the IPO is priced at 34.6 times FY20 EPS and 36.7 times FY21 EPS (annualized). While currently there is no listed player to compare, we believe the IPO is reasonably priced considering the latest numbers. We remain optimistic on growth prospects of CAMS, given its leadership position in the market, scalable technology with robust infrastructure, several strategic growth initiatives and high entry barriers in the industry. Further, gradual growth in quarterly AAUM and MF RTA business in the coming periods should support revenue growth. We recommend **Subscribe** to this IPO.

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