8 February 2023
3QFY23 Results Update | Sector: Financials

CAMS

Estimate change	↓
TP change	↓
Rating change	↔

Bloomberg	CAMS IN
Equity Shares (m)	49
M.Cap.(INRb)/(USDb)	110.7 / 1.3
52-Week Range (INR)	2833 / 2039
1, 6, 12 Rel. Per (%)	2/-5/-20
12M Avg Val (INR M)	455

Financials & Valuations (INR b)

Y/E March	2023E	2024E	2025E
AAUM (INR t)	27.6	31.7	36.3
Revenue	9.8	11.2	12.8
EBITDA	4.3	5.0	5.9
Margin (%)	43.7	44.9	46.2
PAT	2.9	3.5	4.2
PAT Margin (%)	29	31	32
EPS	58.8	70.6	84.9
EPS Grw. (%)	0.2	20.1	20.2
BVPS	153.0	177.7	207.5
RoE (%)	41.2	42.7	44.1
Div. Payout (%)	65.0	65.0	65.0
Valuations			
P/E (x)	38.3	31.9	26.6
P/BV (x)	14.7	12.7	10.9
Div. Yield (%)	1.7	2.0	2.4

Shareholding pattern (%)

As On	Dec-22	Sep-22	Dec-21
Promoter	19.9	19.9	23.8
DII	13.7	14.9	13.3
FII	32.7	33.2	30.4
Others	33.7	32.0	32.6

FII Includes depository receipts

CMP: INR2,260 TP: INR2,800 (+24%) Buy

Non-MF business to see traction from FY24

- CAMS reported a net profit of INR736m, a decline of 5% YoY and a 10% miss on our estimates. The miss is primarily on account of lower-than-estimated AUM for Dec'22. Share of Non-MF business remained steady, which is expected to increase from 1QFY24.
- Account Aggregator, AIF/PMS RTA and Insurance Repository are likely to be the drivers for growth in non-MF business share of revenues. With most of the contracts re-negotiated, the company does not expect any large hit in case of any further cuts in TER by the regulator for AMCs.
- Our estimates broadly remain unchanged, but we lower our target price to INR2,800 with a revised P/E multiple of 33x on FY25 earnings (36x Sep'24 earnings earlier). The cut in multiple is to reflect the risks on AMC business
- The board has declared an interim dividend of INR10.5.

Revenue growth tepid with AUM growing 2.6% QoQ

- QAAUM grew 2.6% QoQ to INR27.8t. Equity AUM increased 5.7% in Dec'22 from that in Sep'22. CAMS won two MF mandates in 3QFY23 – Helios Capital and Navi Mutual Fund.
- Operating revenue was flat QoQ and marginally up 2.5% YoY at INR2.43b, registering a 5% miss on our estimates.
- The share of the non-MF business in revenue declined to 9.4% in 3QFY23 from 9.8% in 2QFY23.
- The Alternative Services segment maintained its high growth trajectory, recording a ~20% YoY revenue growth in 3QFY23.
- Record e-insurance accounts were opened and record e-policies were on-boarded during the quarter. Also, the number of new EIA accounts has more than doubled over 2QFY23.
- Policy Genie Deep Contact Tracing Solution, uniquely offered by CAMS Insurance Repository, has assisted insurance companies in closing INR1,350m of unclaimed benefits till date.

Profitability improved in spite of increased investments in new business

- EBIDTA came in at INR1,082m. EBIDTA margin stood at 44.4% in 3QFY23 v/s 47.7% in 3QFY22 and 43.8% in 2QFY23. EBIDTA was 9% lower than our estimates.
- PAT was up 2% QoQ/down 5% YoY at INR736m.
- For 9MFY23, sales rose 8.4% to INR7,226m, whereas EBIDTA/PAT remained flat at INR3,122m/INR2,103m.

Key takeaways from the management commentary

- The company expects strong uptick in revenues from Non-MF businesses, such as Account Aggregator, Insurance repository and AIF/PMS RTA from 1QFY24.
- Investments in new businesses would continue especially towards technology, but profitability improvement should start from FY24.

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Valuation and View

- Empirically, CAMS has traded at a premium to listed AMCs in terms of one-year forward P/E. This premium is well deserved, given: 1) the duopoly nature of the industry and high-entry barriers, 2) relatively low risk of a market share loss, and 3) higher customer ownership as compared to AMCs.
- Based on one-year forward P/E multiple, the premium enjoyed by CAMS over HDFC AMC has narrowed substantially over the last one year. This has been on account of the weak environment for the AMC industry, given the pressure on yields, outflows from the Debt segment, and rising share of passives. We expect the first two factors to reverse in the coming months, as the intensity of the fall in yields abates and debt inflows increase with the topping of bond yields.
- **Our estimates broadly remain unchanged, but we lower our target price to INR2,800 with a revised P/E multiple of 33x on FY25 earnings (36x Sep'24 earnings earlier). The cut in the multiple is to reflect the risks on AMC businesses.**

Quarterly Performance (INR m)

Y/E March	FY22				FY23				FY22	FY23E	3QFY23E	Act v/s Est. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Revenue from Operations	2,012	2,276	2,377	2,432	2,366	2,424	2,436	2,537	9,097	9,763	2,560	-4.8
Change YoY (%)	35.4	33.0	27.8	21.7	17.6	6.5	2.5	4.3	28.9	7.3	7.7	
Employee expenses	724	809	832	853	933	901	871	899	3,218	3,604	891.6	-2.3
Operating expenses	192	221	228	274	267	274	282	290	905	1,113	279.2	1.1
Other Expenses	167	189	184	183	188	189	200	208	733	784	194.3	3.0
Total Operating Expenses	1,083	1,218	1,244	1,310	1,388	1,363	1,354	1,397	4,855	5,501	1,365	-0.8
Change YoY (%)	11.4	25.2	19.6	18.3	28.2	11.9	8.8	6.6	18.6	13.3	9.7	
EBITDA	**929**	**1,057**	**1,133**	**1,122**	**979**	**1,061**	**1,082**	**1,140**	4,241	4,262	1,195	-9.4
Other Income	45	44	41	43	44	74	71	73	173	262	70	1.1
Depreciation	106	119	134	157	136	147	155	154	516	592	150	3.4
Finance Cost	18	18	18	18	18	18	20	15	71	71	18	12.4
PBT	**850**	**965**	**1,023**	**989**	**869**	**970**	**978**	**1,044**	**3,827**	**3,861**	**1,097**	-10.8
Change YoY (%)	63.5	45.9	35.2	22.3	2.3	0.5	-4.4	5.5	39.4	0.9	7.3	
Tax Provisions	217	239	249	251	223	249	242	271	957	985	274	-11.7
Net Profit	**633**	**726**	**773**	**738**	**646**	**721**	**736**	**773**	**2,870**	**2,877**	**823**	-10.6
Change YoY (%)	58.6	48.2	37.0	22.7	2.2	-0.6	-4.9	4.7	39.8	0.2	6.4	
Key Operating Parameters (%)												
Revenue / AUM (bps)	3.5	3.6	3.6	3.6	3.6	3.6	3.5	3.6	3.6	3.5	3.6	-0.1
Opex / AUM (bps)	1.9	1.9	1.9	2.0	2.1	2.0	1.9	2.0	1.90	1.99	1.9	0.0
PBT / AUM (bps)	1.5	1.5	1.5	1.5	1.3	1.4	1.4	1.5	1.50	1.40	1.5	-0.1
PAT / AUM (bps)	1.1	1.1	1.2	1.1	1.0	1.1	1.1	1.1	1.13	1.04	1.1	-0.1
Cost to Operating Income Ratio	53.8	53.5	52.3	53.9	58.6	56.2	55.6	55.1	53.4	56.3	53.3	2.2
EBITDA Margin	46.2	46.5	47.7	46.1	41.4	43.8	44.4	44.9	46.6	43.7	46.7	-2.2
PBT Margin	42.3	42.4	43.0	40.7	36.7	40.0	40.1	41.2	42.1	39.5	42.9	-2.7
Tax Rate	25.6	24.8	24.4	25.4	25.6	25.6	24.8	26.0	25.0	25.5	25.0	-0.2
PAT Margin	31.4	31.9	32.5	30.4	27.3	29.8	30.2	30.5	31.6	29.5	32.1	-1.9
Opex Mix (%)												
Employee expenses	66.9	66.4	66.9	65.1	67.2	66.1	64.4	64.4	66.3	65.5	65.3	1.0
Operating expenses	17.7	18.1	18.3	20.9	19.3	20.1	20.9	20.7	18.6	20.2	20.5	-0.4
Other Expenses	15.4	15.5	14.8	14.0	13.5	13.8	14.8	14.9	15.1	14.3	14.2	-0.5
Key Parameters												
QAUM (INR b)	23,078	25,500	26,700	26,700	26,200	27,100	27,800	28,356	25,500	27,626	28,726	-3.2
Share of Equity AUM (%)	36.0	39.0	40.8	41.4	43.1	45.0	46.4		39.6	43.1		

Key takeaways from the management commentary

MF Business

- TER cut and subsuming of other expenses in the TER is being discussed in the industry as hinted by the media. In case the same is implemented, the current contracts of CAMS with AMCs do not have a re-negotiation clause. In FY19, when the last TER cut was implemented, AMCs passed on the impact mainly to distributors, while a small quantum was borne by CAMS.
- Price depleted over the past couple of years, but the higher share of equities have compensated for the same. Renewals of 11/12 customers have been at previous rates, while only 1/2 customers, wherein contract renewals were happening after five years experienced some price decline.

New businesses

Non-MF business (except Insurance repository)

- The company is aiming to double the share of non-MF revenues to 20% from 10% over the medium term, wherein AIF/PMS RTA, Insurance repository, and Account Aggregator will the key contributors. Inorganic activities will add to this growth.
- YoY growth in non-MF revenues growth was driven by CAMSPay and AIF RTA business. EKYC business has seen a decline.
- MF Central is designed like a consumer utility and the company will continue to scale it. It will take four to six quarters for this segment to breakeven.

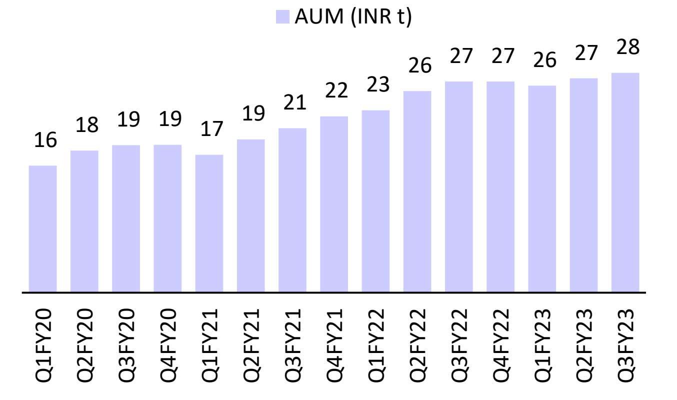
CAMS Repository (Insurance repository)

- EKYC for insurance has started progressing well. On the other hand, the company has been able to identify the beneficiaries of the unclaimed amounts for life insurance policies and has settled the same for insurance companies.
- Two sources of revenues exist in the model 1) Outsourcing business - policy servicing and calling and 2) Repository - paid for a policy conversion, AMC charge, and transaction revenue. The plan is to increase the servicing component substantially for which the platform is being strengthened.
- The potential of the insurance repository business is dematerialization of 450-500m policies. From Jan 1, 2023, KYC for insurance has become mandatory, which will aid in eIA adoption.
- Currently, 0.5-0.6m policies are getting converted per quarter, which will scale up to a large number, and hence, a large cut in pricing can be expected.
- CAMS has a 35% market share currently and it aims to increase the market share once the final regulation sets in.

Financials

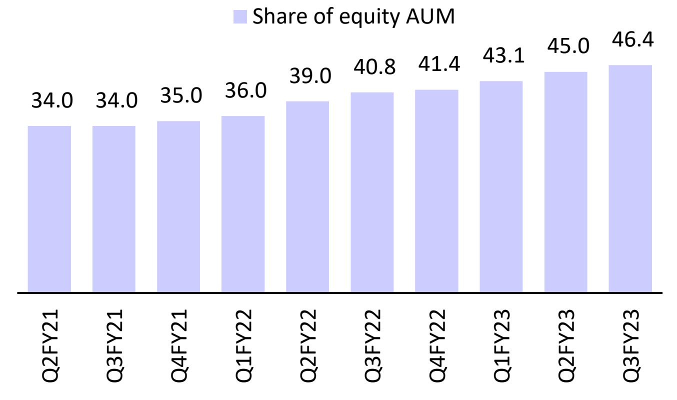
- Investments in new businesses have continued and the benefits of the same in terms of profitability will be reflected from 1QFY24. Gap between expenses and revenues will be the highest in 4Q and will taper down going ahead.
- While the investments will continue at the current run rate, scale up of revenues from Account Aggregator, Insurance repository, NPS CRA, and AIF/PMS RTA should start from 1QFY24.
- Current cash balance with the company stands at INR4.74b.

Exhibit 1: AUM sees a QoQ uptick of 3% (INR t)



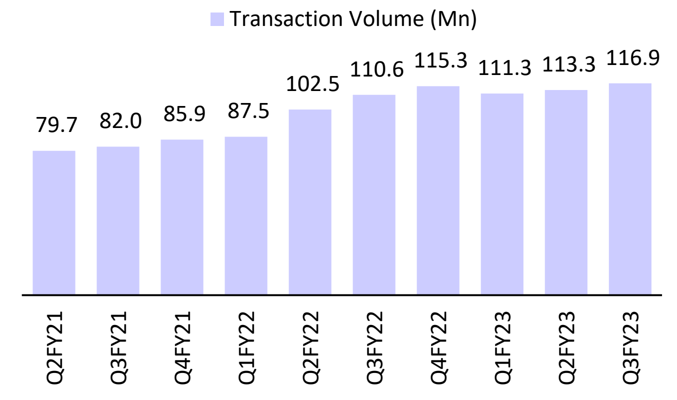
Source: Company, MOFSL

Exhibit 2: Share of equity AUM continues to improve (%)



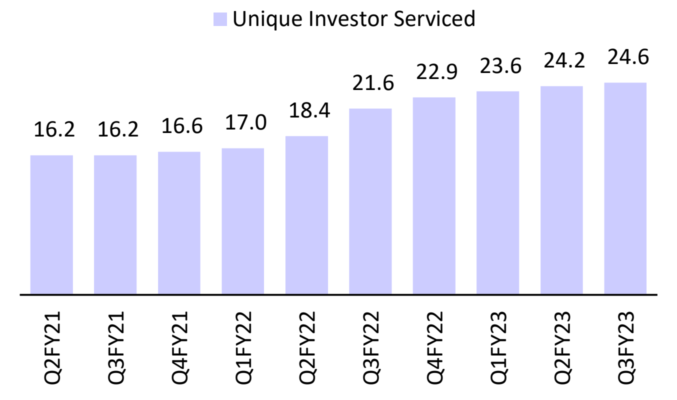
Source: Company, MOFSL

Exhibit 3: Strong traction in SIP transactions (m)



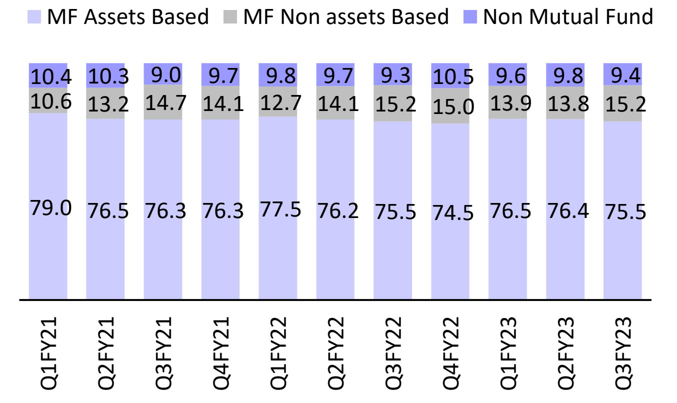
Source: Company, MOFSL

Exhibit 4: Trend in unique investor serviced (m)



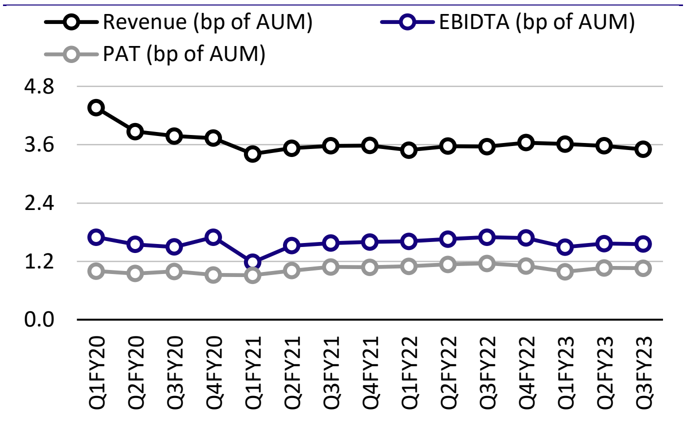
Source: Company, MOFSL

Exhibit 5: Share of MF non-asset businesses improves QoQ



Source: MOFSL, Company

Exhibit 6: Trend in key parameters



Source: MOFSL, Company

Tweak estimates to factor in the 2QFY23 miss

INR b	Old Est.			New Est.			Change (%)		
	FY23	FY24	FY25	FY23	FY24	FY25	FY23	FY24	FY25
Revenue from Operations	9,929	11,366	13,022	9,763	11,189	12,835	-1.7	-1.6	-1.4
Change YoY (%)	9	14	15	7	15	15	-1.8	0.1	0.1
Employee expenses	3,700	4,144	4,641	3,604	4,036	4,520	-2.6	-2.6	-2.6
Operating expenses	1,874	2,098	2,350	1,897	2,125	2,380	1.3	1.3	1.3
Total Operating Expenses	5,574	6,243	6,992	5,501	6,161	6,900	-1.3	-1.3	-1.3
EBITDA	**4,356**	**5,123**	**6,030**	**4,262**	**5,028**	**5,935**	**-2.1**	**-1.9**	**-1.6**
Other Income	262	279	339	262	279	339	0.0	0.0	0.0
Depreciation/Finance Cost	654	691	728	663	700	738	1.4	1.3	1.3
PBT	**3,964**	**4,711**	**5,640**	**3,861**	**4,606**	**5,536**	**-2.6**	**-2.2**	**-1.8**
Change YoY (%)	4	19	20	1	19	20	-2.7	0.5	0.4
Tax Provisions	1,031	1,178	1,410	985	1,152	1,384	**-4.5**	**-2.2**	**-1.8**
Net Profit	**2,933**	**3,533**	**4,230**	**2,877**	**3,455**	**4,152**	**-1.9**	**-2.2**	**-1.8**
AAUM (INR b)	**28,252**	**32,321**	**37,000**	**27,626**	**31,656**	**36,299**	**-2.2**	**-2.1**	**-1.9**
Yields on revenue (bps)	4	4	4	3.5	3.5	3.5	0.0	0.0	0.0
RoE	42.0	43.5	44.6	41.2	42.7	44.1	-0.8	-0.8	-0.5
Dividend payout ratio	65.0	65.0	65.0	65.0	65.0	65.0	0.0	0.0	0.0

Financials and valuations

Income Statement						INR m
Y/E March	**2020**	**2021**	**2022**	**2023E**	**2024E**	**2025E**
Revenue	6,996	7,055	9,097	9,763	11,189	12,835
Change (%)	1	1	29	7	15	15
Employee expense	2,580	2,624	3,218	3,604	4,036	4,520
Other expenses	1,544	1,471	1,638	1,897	2,125	2,380
Operating Expenses	4,124	4,094	4,855	5,501	6,161	6,900
EBITDA	**2,873**	**2,961**	**4,241**	**4,262**	**5,028**	**5,935**
Change (%)	18	3	43	0.5	18.0	18.0
Dep/Interest/Provisions	582	513	587	663	700	738
Other Income	217	298	173	262	279	339
PBT	**2,508**	**2,745**	**3,827**	**3,861**	**4,606**	**5,536**
Change (%)	25	9	39	0.9	19.3	20.2
Tax	773	692	957	985	1,152	1,384
Tax Rate (%)	31	25	25	25.5	25.0	25.0
PAT	**1,735**	**2,053**	**2,870**	**2,877**	**3,455**	**4,152**
Change (%)	33	18	40	0.2	20.1	20.2
Dividend	594	2,488	1,895	1,870	2,246	2,699

Balance Sheet						INR m
Y/E March	**2020**	**2021**	**2022**	**2023E**	**2024E**	**2025E**
Equity Share Capital	488	488	489	489	489	489
Reserves & Surplus	5,001	4,671	5,987	6,994	8,203	9,656
Net Worth	**5,489**	**5,159**	**6,476**	**7,483**	**8,692**	**10,146**
Borrowings	0	0	0	0	0	0
Other Liabilities	2,542	3,260	3,094	3,391	3,754	4,157
Total Liabilities	**8,030**	**8,419**	**9,571**	**10,874**	**12,446**	**14,303**
Cash and Bank balance	504	1,803	1,510	1,338	1,735	2,431
Investments	3,056	2,355	3,170	4,370	5,570	6,770
Net Fixed Assets	3,090	2,840	3,141	3,249	3,019	2,752
Current Assets	1,380	1,421	1,750	1,918	2,122	2,349
Total Assets	**8,030**	**8,419**	**9,571**	**10,874**	**12,446**	**14,303**

E: MOFSL Estimates

Financials and valuations

Cash flow						INR m
Y/E March	**2020**	**2021**	**2022**	**2023E**	**2024E**	**2025E**
Profit after Tax	1,734	2,053	2,870	2,877	3,455	4,152
Adjustments	-126	199	729	401	422	399
Change in Working Capital	(237)	697	(129)	265	309	342
Cashflow from Operating activities	**1,371**	**2,950**	**3,470**	**3,542**	**4,185**	**4,892**
Other Income	217	298	173	262	279	339
Change in Current Investments	-751	701	-815	-1,200	-1,200	-1,200
Change in Fixed Asset	174	-63	-791	-700	-400	-400
Others	-128	-20	-365	-137	-150	-165
Cashflow from Investing activities	**-489**	**915**	**-1,798**	**-1,774**	**-1,472**	**-1,427**
Interest Expense	-97	-79	-71	-71	-71	-71
Dividend Expense	-716	-2,488	-1,895	-1,870	-2,246	-2,699
Cashflow from Financing activities	**-813**	**-2,567**	**-1,966**	**-1,941**	**-2,316**	**-2,769**
Net Cashflow	69	1,298	(293)	(173)	397	696
Opening Cashflow	435	504	1,803	1,510	1,338	1,735
Closing Cashflow	**504**	**1,803**	**1,510**	**1,338**	**1,735**	**2,431**

Y/E March	2020	2021	2022	2023E	2024E	2025E
AAAUM (INR B)	**18,149**	**19,984**	**25,500**	**27,626**	**31,656**	**36,299**
Change (%)	14.6	10.1	27.6	8.3	14.6	14.7
Equity	6,706	6,806	10,100	11,918	14,063	16,595
Non-Equity	11,443	13,178	15,400	15,708	17,593	19,704

E: MOFSL Estimates

Y/E March	2020	2021	2022	2023E	2024E	2025E
Margins Analysis (%)						
Revenue Yield (bps)	3.85	3.53	3.57	3.53	3.53	3.54
Cost to Income Ratio	**58.9**	**58.0**	**53.4**	**56.3**	**55.1**	**53.8**
EBITDA Margins	41.1	42.0	46.6	43.7	44.9	46.2
PBT Margin	35.8	38.9	42.1	39.5	41.2	43.1
PAT Margin	24.8	29.1	31.6	29.5	30.9	32.3
Profitability Ratios (%)						
RoE	34.8	38.6	49.3	41.2	42.7	44.1
Dividend Payout Ratio	34.2	121.2	66.0	65.0	65.0	65.0

Dupont Analysis (Bps of AAAUM)						
Y/E March	**2020**	**2021**	**2022**	**2023E**	**2024E**	**2025E**
Operating Income	3.9	3.5	3.6	3.5	3.5	3.5
Operating Expenses	2.3	2.0	1.9	2.0	1.9	1.9
EBITDA	**1.6**	**1.5**	**1.7**	**1.5**	**1.6**	**1.6**
Depreciation and Others	0.3	0.3	0.2	0.2	0.2	0.2
Other Income	0.1	0.1	0.1	0.1	0.1	0.1
PBT	**1.4**	**1.4**	**1.5**	**1.4**	**1.5**	**1.5**
Tax	0.4	0.3	0.4	0.4	0.4	0.4
ROAAAUM	**1.0**	**1.0**	**1.1**	**1.0**	**1.1**	**1.1**

Valuations	2020	2021	2022	2023E	2024E	2025E
BVPS (INR)	112	105	132	153	178	207
Change (%)	22.1	-6.0	25.5	15.5	16.2	16.7
Price-BV (x)	**20.1**	**21.4**	**17.0**	**14.7**	**12.7**	**10.9**
EPS (INR)	35.5	42.0	58.7	58.8	70.6	84.9
Change (%)	32.5	18.4	39.8	0.2	20.1	20.2
Price-Earnings (x)	**63.6**	**53.7**	**38.4**	**38.3**	**31.9**	**26.6**
DPS (INR)	12.1	50.9	38.8	38.2	45.9	55.2
Dividend Yield (%)	**0.5**	**2.3**	**1.7**	**1.7**	**2.0**	**2.4**

E: MOFSL Estimates

NOTES

Explanation of Investment Rating	
Investment Rating	**Expected return (over 12-month)**
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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