

## Computer Age Management Services Ltd.

SSIS IPO GRADE 4/5 (Fundamentally Sound)

19<sup>th</sup> September, 2020

### Rating Overview

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.

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.

Revenue has grown at a steady CAGR of 13% over FY15-20. Its leadership position has helped to report a healthy EBIDTA margin of 41% for FY20. Return on equity (ROE) for FY20 was 34% and the last 3 years average ROE was 31.3%. For FY20, CAMS has registered dividend payout of 41%. Considering the ability to generate strong cash flow from operations, we expect the company would continue to pay a generous dividend to shareholders.

At upper price band of Rs 1230, the issue has been offered at P/E of 35x to its FY20 EPS of Rs 36. With only 2 major players in the market in MF RTA industry, CAMS is dominating the market with ~70% market share. Company's business model is largely sticky in nature due to high entry barriers and lack of the ability of new entrants. Strong client base, growth in retail participation and higher equity portion of the AUM, provides good revenue visibility in line with industry AUM growth. Debt-free balance sheet of the company, sound financials and marquee investors are its key positives.

Our overall rating of Computer Age Management Services is fundamentally sound amid the fair valuation and high free cash flows, we recommend this IPO as a great long term opportunity in the sector.

Note: The analyst has no plans of subscribing to the offer and does not hold any shares in the company prior to, or at the time of writing this review.

## Business Overview

Computer Age Management Services Ltd. (CAMS) is a technology-driven financial infrastructure and services provider to mutual funds and other financial institutions with over two decades of experience. It is India's largest registrar and transfer agent of mutual funds with an aggregate market share of approximately 70% based on mutual fund AAUM managed by its clients and serviced by the company during July 2020 (according to the CRISIL Report). CAMS's mutual fund clients include four of the five largest mutual funds as well as nine of the 15 largest mutual funds based on AAUM during July 2020 (according to the CRISIL Report). The company has 16 mutual fund clients with an aggregate of over 71.8 million accounts held by such clients as of June 30, 2020. As of June 30, 2020, it had 4,243 permanent and 1920 contractual employees.

The five-year CAGR of QAAUM of mutual funds between March 2015 and March 2020 was 18% according to the CRISIL Report, while the five-year CAGR of the QAAUM of mutual funds serviced by CAMS over the same period was 21%. Further, its mutual fund clients had 19.77 million SIP accounts as of June 30, 2020.

CAMS's business verticals include Mutual Fund Service Business, Electronic Payment Collection Services Business, Insurance Services Business, Alternative Investment Fund Services Business, Banking and Non-Banking Services Business, KYC Registration Agency Business and Software Solution Business. Currently, the company is competing with number of entities that provide similar in each of the business lines in which it operates. However, over the period, currently, there are only two mega players in this field and CAMS enjoys lion share.

Further, the company offers many of its services online and through its several mobile device applications, to investors, clients, their distributors and their channel providers. The continued development of proprietary platforms and applications has furthered the company's competitive technology advantage.

## Fundamental Overview

On the financial performance front, on a consolidated basis, CAMS has posted revenue/net profits of Rs. 657.82 cr. / Rs. 146.31 cr. (FY18), Rs. 711.81 cr. / Rs. 130.90 cr. (FY19) and Rs. 721.34 cr. / Rs. 173.46 cr. (FY20). For the Q1 of FY21, it has earned a net profit of Rs. 40.83 cr. on revenue of Rs. 163.46 cr. For the last three fiscals, on a consolidated basis, CAMS has posted an EPS of Rs. 31.68 and RoNW of 31.40%.

The issue is priced at a P/BV of 11.36 based on its NAV of Rs. 108.27 as on June 30, 2020. (Based on upper price band)

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If we annualize latest earnings and attribute it on fully diluted equity post issue, then asking price is at a P/E of around 36.81. Based on FY20 earnings, asking price is at a P/E of 34.61. Since this company will be the first mover in the segment, there is no average industry P/E is available. Based on P/E and P/BV parameters, the

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issue appears fully priced. The company is operating on an asset-light business model.

CAMS is following dividend policy of distributing 65% of PAT (Profit after Tax) and going to maintain the same going forward, as disclosed by the management.

| Summary of financial Information |   |           |           |           |
|----------------------------------|---|-----------|-----------|-----------|
| Particulars                      | For the year/period ended (Rs in Million) |           |           |           |
|                                  | 30-June-20                                | 31-Mar-20 | 31-Mar-19 | 31-Mar-18 |
| <b>Total Assets</b>              | 8,354.53                                  | 8,025.34  | 7,363.24  | 6,978.48  |
| <b>Total Revenue</b>             | 1,634.61                                  | 7,213.43  | 7,118.08  | 6,578.20  |
| <b>Profit After Tax</b>          | 408.25                                    | 1,734.56  | 1,308.95  | 1,463.05  |

## Issue Details

To provide an exit to existing stakeholders and avail listing benefits, CAMS is coming out with a maiden IPO with a secondary offer (i.e. full IPO as an offer for sale) of 18246600 equity shares of Rs. 10 each. The price band has been fixed at Rs. 1229 - Rs. 1230 per share. The company aims to raise approx. Rs. 2242.51 to Rs. 2244.33 cr. (based on its lower and upper price bands). The issue opens for subscription on September 21, 2020, and will close on September 23, 2020. Minimum application is to be made for 12 shares and in multiples thereon, thereafter. Post allotment, shares will be listed on BSE only. The company has reserved 182500 shares for eligible employees and from the balance shares, it has kept 50% for QIBs, 15% for HNIs and 35% for retail categories. Employees are offered a discount of Rs. 122 (approx 10%) per share.

**Having issued/converted initial equity at par, the company also raised further equity in the price range of Rs. 20 to Rs. 984.66 between February 1999 and June 2020. The company has issued bonus shares in the ratio of 1 for 1 (August 1993), 9 for 1 (October 1994), 1 for 1 (January 1996), 1 for 1 (February 1999), 2 for 1 (August 2000), 1 for 1 (January 2004), 1 for 1 (January 2005), 3 for 1 (May 2010).**

The average cost of acquisition of shares by the promoter/selling stakeholders is Rs. 187.86 and Rs. 686.88 per share. Post issue, CAMS's current paid-up equity capital of Rs. 48.88 cr. will remain the same as the company is coming with a fully secondary offer. As of June 30, 2020, the company's paid-up equity capital of Rs. 48.88 is supported by free reserves of Rs. 479.41 cr. The company is looking for a market cap of Rs. 6000 cr.

**In compliance with the requirements of the SEBI Letter, NSE intends to divest its entire shareholding, held through NSE Investments, in the Company by way of sale and transfer of (i) 18,246,600 Equity Shares pursuant to the Offer; and (ii) the balance 38,400 Equity Shares at a price of Rs. 1,230 per Equity Share pursuant to the NSE Investments SPA. The Equity Shares to be transferred pursuant to the NSE Investments SPA shall be transferred as per the terms of the NSE Investments SPA and prior to the Bid/Offer Opening Date.**

The issue is jointly lead managed by Kotak Mahindra Capital Co. Ltd., HDFC Bank Ltd., ICICI Securities Ltd., and Nomura Financial Advisory and Securities (India) Pvt. Ltd., while Link Intime India Pvt. Ltd. is the registrar to the issue.

|                          |  |
|--------------------------|--|
| <b>Application Dates</b> | <b>Sep 21, 2020 – Sep 23, 2020</b>           |
| <b>Issue Type</b>        | Book Built Issue FPO                         |
| <b>Face Value</b>        | ₹10 per equity share                         |
| <b>IPO Price</b>         | ₹1229 to ₹1230 per equity share              |
| <b>Market Lot</b>        | 12 Shares                                    |
| <b>Listing At</b>        | BSE, NSE                                     |
| <b>Issue Size</b>        | [.] Eq Shares of ₹10<br>(Up to ₹2,244.33 Cr) |

### Issue Timeline

|  |              |
|--|--------------|
| <b>Basis of Allotment Date</b>           | Sep 28, 2020 |
| <b>Initiation of Refunds</b>             | Sep 29, 2020 |
| <b>Credit of Shares to Demat Account</b> | Sep 30, 2020 |
| <b>IPO Listing Date</b>                  | Oct 1, 2020  |

## Investment Strategy

The issue appears fully priced on the basis of its financial data and P/E, P/BV parameters. However, this being the first move in this segment will catch fancy post listing. The company enjoys a lion share in the field of its business segment. Since NSE group is exiting in full from its investment in this company and will pave the way for shares getting listed on NSE as well going forward. Considering this, investors may invest with a long term perspective.