

18September2020

CAMS–SUBSCRIBE

Investment Thesis

Computer Age Management Services Ltd. (CAMS) is coming out with an initial public offering (IPO) on September 21, 2020. The Issue comprises of offer for sale of up to 18,246,600 equity shares by the Selling Shareholders.

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, there are only two mega players in this field and CAMS enjoys ~70% of the market share. Over the last five years, Company has grown its market share from 60.5% during March 2015 to 69.4% by November 2019, based on average assets under management (AAUM) serviced. CAMS provide a comprehensive portfolio of technology-based services, such as transaction origination interface, transaction execution, payment, settlement and reconciliation, dividend processing, investor interface, record keeping, report generation, intermediary empanelment and brokerage computation and compliance related services, through their Pan-India network to their mutual fund clients, distributors and investors.

As per CRISIL Report, while the growth in the Indian mutual fund industry is expected to be near-flat during FY21E on account of the Covid-19 pandemic, QAAUMs are expected to increase after FY21E. The key growth drivers of the Indian mutual fund industry are expected to include anticipated economic growth, a growing investor base, higher disposable incomes and investable surplus, increasing aggregate household and financial savings, increase in geographical penetration as well as better awareness, ease of investing, digitalisation and perception of mutual funds as long-term wealth creators. With domain expertise, established processes, technology driven infrastructure and marquee clients, CAMS is well positioned to capitalize on such growth.

Financials

- During the past 5 years, revenue of CAMS grew at a CAGR of 12.8% while PAT grew at a CAGR of 16.8% in the same period.

Consol. (Rs.Mn.)	FY18	FY19	FY20	FY21E	FY22E
Revenue	6,415	6,936	6,996	8,046	9,253
EBITDA	2,327	2,179	2,873	3,304	3,799
% growth	25.0	-6.3	31.8	15.0	15.0
PAT	1,497	1,352	1,734	1,994	2,293
EPS (Rs.) #	30.7	27.7	35.6	40.9	47.0
P/E (x) *#	40.1	44.4	34.6	30.1	26.2
RoE (%) #	33.3%	29.9%	32.3%	34.1%	35.9%

* At highest price band# Post listing

IPO Details

Issue Open Date	21 September, 2020
Issue Close Date	23 September, 2020
Price Band (Rs.)	1,229.0 to 1,230.0
Issue Size (Rs. Mn)	~22443.30*
Issue Size (Shares)	18,246,600
Market Lot	12 Equity Share
Listing Exchanges	BSE
Face Value (Rs.)	10/-

* At highest price band

Key Details

Fresh Issue	N.A
Offer for Sales	18,246,600 Equity Shares
Issue Type	100% Book Built Issue
Book Running Lead Manager	Kotak Mahindra Capital HDFC Bank, ICICI Securities and Nomura Financial Advisory
Issue structure	QIB: 50% Retail: 35% Non – Institutional: 15%

Key Business Highlights

- 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.
- CAMS has an aggregate market share of 69.4% based on mutual fund average assets under management (AAUM) managed by our clients and serviced by us during November 2019. Its mutual fund clients include four of the five largest mutual funds as well as nine of the 15 largest mutual funds based on AAUM.
- CAMS offers an integrated and customized portfolio of services through our pan-India physical network comprising 278 service centers spread over 25 states and five union territories.

Valuation

- CAMS offers an integrated and customized portfolio of services through a pan-India physical network comprising 278 service centres spread over 25 states and five union territories as of November 30, 2020, which are supported by call centres in four major cities, four back offices (including a disaster recovery site), all having real-time connectivity, continuous availability and data replication and redundancy. Further, the company offers many of its services online and through its several mobile device applications, to investors, clients, their distributors and channel providers. The continued development of proprietary platforms and applications has furthered the company's competitive technology advantage.
- CAMS' competitive technology advantage stems from the capability, functionality, integration and scalability of its proprietary platforms, which deliver breadth and quality of service and cost efficiencies. Its proprietary platforms are built to absorb growth in the number of investors, assets and trading volumes. From handling over 98mn transactions in FY15 it has handled over 328mn transactions in FY20. Continuing investment in proprietary IT platforms continues to strengthen CAMS' competitive advantage by further increasing operating leverage, driving ongoing innovation, anticipating industry developments and delivering increased efficiencies while continuing to provide integrated services.
- In the insurance services business, CAMS offers processing of new business applications, holding policies in dematerialized form, servicing policies and other support functions to insurance companies. For FY18, CAMS had a market share of 39% of insurance repository business, based on e-insurance policies being managed, as per the CRISIL Report. While In the alternative investment funds services business, CAMS provides services to investors manage records and perform fund accounting and reporting, among other services, for alternative investment and other types of funds.
- With ~70% of the market share, expected growth of Mutual Fund in India, pan-India physical network, competitive technology advantage and growing other business, we are recommending **SUBSCRIBE** to the IPO of Computer Age Management Services Ltd.

Risk & Concern

- CAMS derives a significant portion of the revenues from a few clients and the loss of one or more such clients may adversely affect its business and prospects going ahead.
- Significant disruptions in CAMS' IT systems or breaches of data security could adversely affect their business and reputation.
- Covid-19 has had an adverse effect on CAMS' business and operations and the extent to which it may continue to do so in the future, is uncertain and cannot be predicted.

Graphs & Charts

Figure 1: Net Sales Trend

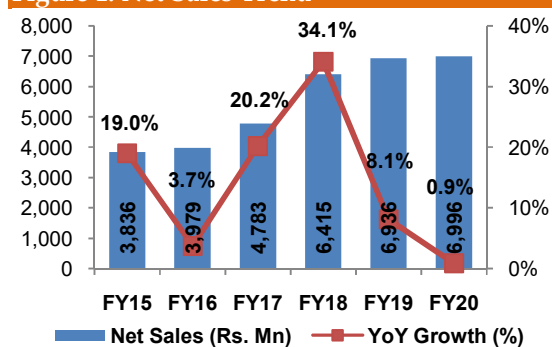


Figure 2: EBITDA & EBITDA Margin Trend

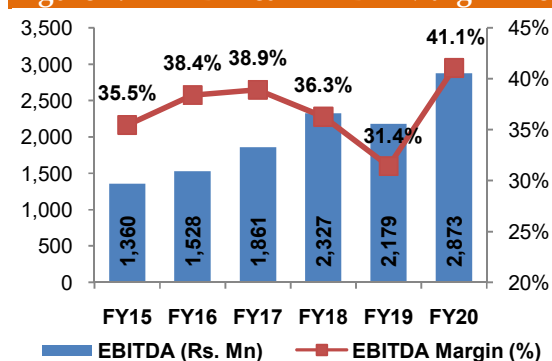


Figure 3: PAT Trend

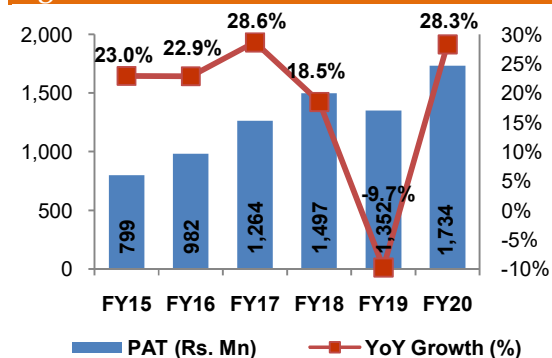
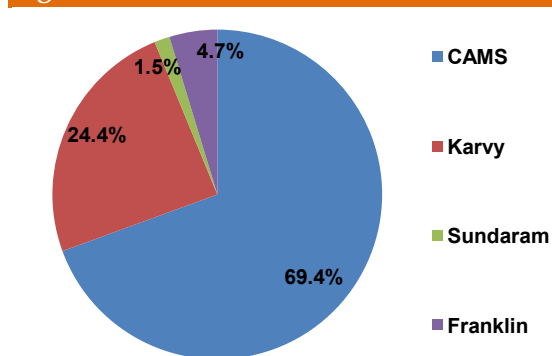


Figure 4: Market Share of CAMS (Nov-2019)



Name
Jitendra Upadhyay

Designation
Research Analyst

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Bonanza Portfolio Ltd. Bonanza House, Plot No. M-2, Cama Industrial Estate, Walbhat Road, Goregaon (E), Mumbai – 40006

Web site: <https://www.bonanzaonline.com>

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BSE CM: INB 011110237 | BSE F&O: INF 011110237 | MSEI: INE 260637836

| CDSL: a) 120 33500 | NSDL: a) IN 301477 | b) IN 301688 (Delhi) | PMS: INP 000000985 | AMFI: ARN -0186

