Computer Age Management Services

- Operating in a duopoly industry with asset light business model
- Largest registrar and transfer agent of mutual funds with an aggregate market share of 70%

IPO Advise: :Over Long Tong Investors Can Subscribe Minimum Qty

- **Risk Moderate**
- **Return: Expect 20 TO 30% Over Medium Term Likely**

Computer Age Management Services is a technology-driven financial infrastructure and services provider to mutual funds and other financial institutions with over two decades of experience. Promoted by Great Terrain Investment, the company was incorporated on 25 May 1988. The company is India's largest registrar and transfer agent of mutual funds with an aggregate market share of approximately 70% based on mutual fund average assets under management (AAUM) managed by its clients and serviced by the company during July 2020.

The company is operating in seven business verticals: Mutual Funds Services 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 Solutions Business.

The marquee shareholders of the company include Great Terrain (an affiliate of Warburg Pincus), HDFC, HDFC Bank and NSEIL, among others. The company continues to benefit from capital sponsorship and professional expertise of its marquee shareholders. These shareholders have assisted the company in implementing strong corporate governance standards, which the company believes have been critical to the growth of operations. Anuj Kumar, Whole-time Director and Chief Executive Officer of the company with over two decades of experience, has been with company since June 2016.

Over the last five years, the company has grown its market share from approximately 61% during March 2015 to approximately 69% during March 2020, based on AAUM serviced. The company serves four of the five largest mutual funds and nine of the 15 largest mutual funds based on AAUM during July 2020. The average term of relationship with ten largest mutual fund clients is 19 years end June 2020. The company lost one client in last five years as a result of the merger of such fund with another fund that was serviced by a competitor. The ten-year CAGR of QAAUM of mutual funds between March 2010 and March 2020 serviced by the company has been higher at 15.8% against overall mutual funds at 13.4%. The five-year CAGR of QAAUM of mutual funds is also higher at 21% against 18% for the mutual fund industry.

The company provides a range of technology-enabled infrastructure to mutual funds and is involved through the life cycle of an account - from the stage of account creation to processing transactions and redemption of the amount invested. With the initiative of creating an end-to-end value chain of services, the company has grown its service offerings and currently 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 pan-India network to mutual fund clients, distributors and investors. The company also provides certain services to alternative investment funds, insurance companies, banks and non-banking finance companies. As of July 2020, the company serviced Rs 19.2 trillion of AAUM of 16 mutual fund clients.

The mutual fund clients of the company had 19.77 million SIP accounts end June 2020. The growth of the AUM of mutual fund clients is important for the company, as a substantial portion of its mutual fund revenues are based on the mutual fund AAUM of clients. The company charge more fees from equity mutual funds as compared to other categories of mutual funds, so the nature of the funds and services provided is also important. The AUM of equity mutual funds serviced by the company grew from Rs 2.18 lakh crore end March 2015 to Rs 5.23 lakh crore end March 2020, at a CAGR of 19.1%, and further increased to end Rs 6.19 lakh crore end June 2020. The number of folios serviced has increased to 39.8 million end June 2020.

The key clients for mutual funds services business include HDFC Asset Management Company, ICICI Prudential Asset Management Company, Aditya Birla Capital, SBI Fund Management, DSP Investment Managers, Kotak Mahindra Asset Management Company and Franklin Templeton Asset Management.

As of July 2020, the 41 AMCs (excluding Infrastructure Debt Funds) are serviced by the four MF RTA - CAMS (market share 70%), Karvy (27%), Sundaram BNP Paribas Fund Services (2%) and Franklin Templeton Asset Management (3%). In October 2019, Sundaram BNP Paribas Fund Services had announced the sale of its RTA business to Karvy. Franklin Templeton Asset Management is an RTA services provider for only mutual funds sponsored by their own group company. Therefore, CAMS and Karvy forms a duopoly.

Over the years, the company has leveraged its domain expertise, processes and infrastructure to diversify offering of services to cater to a variety of other financial services sectors. In electronic payment collections services business, the company manages mandated transactions, including registering of mandates, initiation of collections, reconciliation and the related reporting services for mutual funds, non-banking finance companies and banks. In insurance services business, the company offers processing of new business applications, holding policies in dematerialized form, servicing policies and other support functions to insurance companies. For the FY2018, the company had a market share of 39% of the insurance repository business, based on e-insurance policies being managed.

In alternative investment funds services business, the company provides services to investors, manage records and perform fund accounting and reporting, among other services, for alternative investment and other types of funds. In banking and non-banking services business, the company offer digitization of account opening, facilitation of loan processing and back-office processing services to banking and non-banking financial institutions. In KYC registration agency business, the company verifies and maintain KYC records of investors for use by financial institutions. In software solutions business, technology team develops software for mutual funds services business and for mutual fund companies.

The technology driven infrastructure and services are integral to the operations of clients. The technology solutions provided by the company help reduce the need for clients to make significant investments in operational infrastructure, thereby allowing them to increase their focus on their core business activities.

The company offers an integrated and customized portfolio of services through pan-India physical network comprising 271 service centers spread over 25 states and five union territories end June 2020, and which are supported by call centers 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 services online and through several mobile device applications, to investors, clients, their distributors and their channel providers. The continued development of proprietary platforms and applications has furthered competitive technology advantage of the company. The company has developed in-house and own Investrak.NET, a mutual fund transfer agency platform, myCAMS, a mobile device investor interface application, GoCORP, a distributor focused application, and MFDEx a market intelligence product/information database, among many other services. The company has 4243 permanent employees end June 2020.

The company aims to maintain its leadership position by enhancing service offerings to mutual fund clients. The company believes that electronic transformation and advancement is integral to the mutual fund industry. Its spend on technology has continued to be significant and the company believe the advantages available by developing and investing in technology include client commitment and loyalty, economies of scale, effective risk management, scalability, expansion to the adjacent financial services sectors, among others. The company is currently engaged in several automation projects and targets to not only improve cost efficiencies but also enhance customer experience through automation.

The company is in the process of winding down its German operations and its banking and non-banking services business.

The Offer and the Objects

The offer comprises offer for sale of 1,82,46,600 equity shares, aggregating to Rs 2240.28 crore at the lower price of Rs 1229 and Rs 2242.11 crore at the upper price band of Rs 1230, by the selling shareholder - NSE Investments. Proceeds from the offer for sale will not be received by the company.

The issue, through the book-building process, will open on 21 September 2020 and will close on 23 September 2020.

SEBI by way of the SEBI Letter to the NSE has directed NSE to divest its entire stake in the company held through its subsidiary, NSE Investments, within a period of one year from the date of receipt of the SEBI Letter. In order to divest its entire shareholding in the company and comply with the terms of the SEBI Letter, NSE Investments intends to sell (i) 38,400 Equity Shares by way of the NSE Investments SPA; and (ii) 18,246,600 Equity Shares in the Offer. 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 company expects that listing of the Equity Shares will enhance visibility and brand image and provide liquidity to Shareholders and will also provide a public market for the Equity Shares in India.

Strengths

The company is the largest infrastructure and services provider in a large and growing mutual funds market. Growing investor base, higher disposable incomes, increasing financial savings, better awareness, ease of investing, digitalization, and perception of MFs as long-term wealth creators is likely to drive growth in MFs. The QAAUM of mutual funds has grown at 10-year CAGR of 13.4% to Rs 27.0 trillion, while the number of folios grew at 10-year CAGR of 17% to 89.7 million end March 2020. CAMS is well-positioned to capitalize on the MF industry growth backed by its domain expertise, established processes, technology-driven infrastructure and marquee clients.

Utilizing diverse portfolio of technology enabled services and leveraging pan-India physical network, the company has built an integrated business model and have longstanding client relationships in mutual funds services business that offers several key advantages to the company. It is challenging for clients to replicate physical network or technology platforms of the company and moving to a competitor is time consuming and disruptive.

The capability, functionality, integration and scalability of proprietary platforms deliver breadth and quality of service and cost efficiencies and competitive technology advantage to the company. The proprietary platforms are built to absorb growth in the number of investors, assets and trading volumes. IT team comprising of over 606 qualified professionals as of June 30 2020, manage a comprehensive proprietary IT infrastructure, develop innovative products and ensure systems and data security.

The clients are regulated financial institutions and the company provides them accurate, timely and continuous, secure and technologically advanced services.

Risks

- Sharp and sustained fall in stock markets.
- Significant disruptions in information technology systems or breaches of data security.

The company derives a significant portion of revenues from a few clients and the loss of one or more such clients could adversely affect business and prospects. Top five clients contributed 70.9% of revenue in Q1FY2021 and 67.4% in FY2020. The contracts with such mutual fund and AIF clients are typically perpetual in nature, unless terminated by either party. For other clients the validity for such contracts ranges between one to three years. The company negotiates pricing terms with these clients on a periodic basis and contracts permit them to terminate their arrangements by providing three to six months' written notice, after which they may engage the services of competitors.

Consolidation in the financial services industry could adversely affect revenues by eliminating some of existing and potential clients and making the company increasingly dependent on a limited number of clients. If clients merge with or are acquired by other firms that are not its clients, they may discontinue or reduce the use of services offered by the company.

Adverse changes in the way fees are charged to mutual funds or any adverse changes in regulatory caps on expenses of mutual funds can disrupt its growth prospects.

Certain contracts with clients include provisions pursuant to which the company is liable to such client for losses, including any indirect or consequential losses, arising in connection with error or omission, fraud, negligence or default caused by the company, any of employees or agent's actions. The aggregate cumulative financial liability under some of these contracts ranges between 25% and 100% of the fees received by the company from the client for a particular transaction or 12 to 15 months preceding the month in which such claim is made, as the case may be. However, in the event of certain breaches, there is no limit on the liability that it could incur under these contracts. Also, one of the contracts with a mutual fund client does not have a cap on liability. Further, validity of indemnities provided within a majority of the contracts with clients ranges between one year and five years from the expiry of such contracts.

Employee fraud or misconduct could harm by impairing ability of the company to attract and retain clients and subject it to significant legal liability and reputational harm.

Appointment of CERSAI as central KYC registration agency will have a significant impact on the business prospects Subsidiary, CAMS Investor Services (100% subsidiary) with revenue base of Rs 2.45 crore in Q1FY2021.

Valuation

The company has been generating strong return on networth at 30.9% in Q1FY2021, 32.1% in FY2020, 29.6% in FY2019 and 32.9% in FY2018. The share of revenue from mutual funds has been steady at 87% for FY2018 to FY2020 and others at around 13% for the same period.

EPS for FY2020 works out to Rs 35.5. The scrip is offered at P/E multiple of 34.6 times FY2020 EPS at the upper price band of Rs 1230.

There are no listed companies in India that engage in a business similar to that of the company. Nearest comparable player is CDSL, which is a financial infrastructure and services provider for stock market transactions, operating in similar duopoly environment. CDSL is currently trading at P/E of around 43 times FY20 consolidated EPS. In recent months mutual funds are facing redemption pressures due to various reasons. There is a tentative initial trend towards investing directly in stock market rather than through mutual funds. This trend, if sustained, is sentimentally negative for the valuation of CAMS and positive for valuation of CDSL.

Computer Age Management Services: Issue highlights	
For Offer for Sale Offer size (in Rs crore)	
- On lower price band	2240.28
- On upper price band	2242.11
Offer size (in no shares)	1.82 crore
Price band (Rs)	1229-1230
Minimum Bid Lot (in no. of shares)	12
Post issue capital (Rs crore)	
- On lower price band	48.79
- On upper price band	48.79
Post-issue promoter & Group shareholding (%)	43.5
Issue open date	21-09-2020
Issue closed date	23-09-2020
Listing	BSE
Rating	**47/100**

Computer Age Management Services : Consolidated Financials					
	1803 (12)	**1903 (12)**	**2003 (12)**	**1906 (3)**	**2006 (3)**
Sales	641.54	693.64	699.63	175.01	148.63
OPM %	40.3	35.1	41.1	38.9	34.6
OP	258.43	243.58	287.28	68.11	51.45
Other Income	16.28	18.16	21.71	5.47	14.84
PBIDT	274.71	261.74	308.99	73.59	66.28
Interest	7.89	10.47	9.70	2.05	2.34
PBDT	266.82	251.27	299.28	71.54	63.94
Depreciation	40.24	50.40	48.51	11.67	10.67
PBT	226.58	200.87	250.78	59.86	53.27
Tax	80.28	69.98	77.32	19.71	12.45
PAT	146.31	130.90	173.46	40.15	40.83
MI and share of associates	0.36	0.45	0.04	0.04	0.00
PAT	145.95	130.45	173.42	40.11	40.83
EPS (Rs)*	29.9	26.7	35.5	32.9	33.5
*EPS is on post issue equity capital of Rs 48.79 crore of face value of Rs 10 each Figures in Rs crore Source: Computer Age Management Services Issue Prospectus					

Data source: NSE India/Steelcitynettrade.com/CAPITAL Market