

# Computer Age Management Services (COMAGE)

CMP: ₹ 2277

Target: ₹ 2500 (10%)

Target Period: 12 months

February 10, 2023

**HOLD**

## Play on MF industry; non-MF revenue to shore up

**About the stock:** CAMS is a mutual fund transfer agency. It provides technology-driven financial infrastructure & services to MFs and other financial institutions.

- Largest registrar and transfer agent (RTA) of MFs with ~68% market share
- It has consistently operated with high (~30%) margins and return ratios

**Q3FY23 Results:** CAMS reported a steady performance; net flows remain positive.

- Revenue from operations was up 2.5% YoY to ₹ 243 crore. Sequential growth remained subdued at 0.5%
- EBITDA was largely flattish on a sequential basis (down 1.8 YoY) at ₹ 115 crore; margins declined 256 bps YoY at 46%
- PAT was at ₹ 73.6 crore, down 4.8% YoY, as margins declined

**What should investors do?** CAMS' share price has grown by ~1.2x over the past two years. Market leadership in mutual fund business and diversification in non-MF segments (AIF, insurance repository, payment aggregator) remains positive. However, anticipated reduction in TER remains a near term concern while we expect a gradual increase in proportion of non-MF segment in topline.

- Thus, we downgrade our rating from BUY to **HOLD** on the stock

**Target Price and Valuation:** Rolling to FY25E, we value CAMS at ~31x FY25E EPS and revise our target price from ₹ 2760 to ₹ 2500 per share.

**Key triggers for future price performance:**

- Market leadership in duopoly market with structural growth opportunity to aid growth in revenue as well as earnings
- Increase in contribution from AIF & non-MF business (including CRA, account aggregator, etc) to provide diversification in revenue mix
- Awaiting clarity of reduction in TER and its impact on yields. Gradual increase in contribution of non-MF business to keep valuation steady

**Alternate Stock Idea:** Apart from CAMS, in our coverage we also like HDFC AMC.

- HDFC AMC is among the largest and profitable mutual funds with a QAAUM of ~₹ 4.4 lakh crore as on December 2022
- BUY with a target price of ₹ 2250



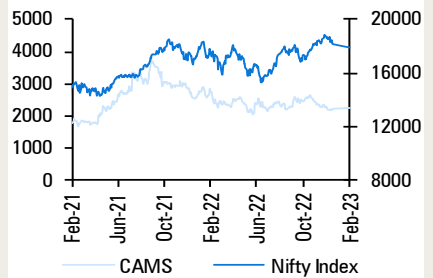
### Particulars

Particulars	Amount
Market Capitalisation	₹ 11036 crore
Equity Capital	₹ 49 crore
Face value	₹ 10
52 week H/L	2759 /2039

### Shareholding pattern

(in%)	Dec-21	Mar-22	Jun-22	Sept-22	Dec-22
Promoter	23.8	23.8	23.7	19.9	19.9
FII	30.4	29.0	29.3	33.2	32.7
DII	13.3	14.7	14.7	14.9	13.7
Others	32.6	32.6	32.3	32.0	33.7

### Price Chart



### Recent Event & Key risks

- EBITDA margin down 257 bps YoY to ~46% (up 56 bps QoQ). Maintains dominant leadership position with ~68% market share
- **Key Risk:** (i) Slower pick-up in volumes (ii) Pick-up in non-MF segment

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### Key Financial Summary

(₹ crore)	FY20	FY21	FY22	3 year CAGR (FY19-FY22)	FY23E	FY24E	FY24E	3 year CAGR (FY22-25E)
Revenue	721.3	735.3	926.9	9.2%	989.8	1093.1	1205.8	9.2%
EBITDA	286.6	296.0	424.1	24.9%	422.4	490.9	565.8	10.1%
PAT	172.4	205.3	286.9		283.7	336.7	392.7	
EPS (₹)	35.3	42.1	58.7		58.0	68.8	80.3	
Managed AUM (₹ lakh crore)	18.2	20.0	26.7		29.2	33.5	38.3	
RoCE (%)	46.0%	72.2%	57.5%		50.3%	52.2%	53.4%	
P/E (x)	64.4	54.1	38.8		39.2	33.1	28.4	

## Key takeaways of recent quarter & conference call highlights

### Q3FY23 Results: Overall subdued quarter; fall in market share

- Net flows during the quarter remain positive. Overall AUM was at ₹ 27.8 lakh crore, up 4.3% YoY, 2.9% QoQ (vs. industry growth at 5.7% YoY, 3.2% QoQ)
- Growth in total AAUM was mainly driven by equity. Equity component was at 46.4% of the asset mix (40.7% in Q3FY22 and 45% in Q2FY23)
- Asset based revenue was up 4.5% YoY, 1.4% QoQ. Non-asset based revenue de grew 8.8% YoY, 1.2% QoQ. Non-MF revenue was up 4.2% YoY but declined 3.9% QoQ
- Transactions volume increased 3% QoQ and steady YoY at ₹ 11.7 crore. SIP book was at ₹ 3.39 crore, with overall increase of 21% YoY, 4% QoQ
- Live investor folios were at 5.57 crore, up 13% YoY, 3% QoQ. Unique investor serviced was at 2.46 crore, with overall rise of 14% YoY, 2% QoQ

### Q3FY23 Earnings Conference Call highlights

- Guidance on margin at 43-44% ahead
- Continue to focus on increasing revenue proportion of non-mutual fund business. Most of the new business will start generating substantial revenue from Q1FY24 onwards
- Discussion on reduction in TER under way; awaiting clarity on the same. Impact of reduction in TER, if implemented, needs to be watched
- Insurance business has repository segment wherein revenue is generated on policy dematerialisation, annual maintenance and transaction charges. Regulations for conversion of existing policy to create substantial potential followed by increase in transactions and, thus, transactional revenue
- In insurance segment ~6 lakh policies generating ₹ 4-4.5 crore revenue every quarter. Of this, repository generates ₹ 1 crore of revenue every quarter
- Opex to remain largely steady, going ahead, led by higher revenue proportion

## Peer comparison

Exhibit 1: Peer Comparison

Sector / Company	CMP		M Cap		EPS (₹)				P/E (x)				P/ABV (x)				RoE (%)			
	₹	TP(₹)	Rating	₹ bn	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E
HDFC AMC (HDFAMC)	1,925	2,250	Buy	410	63.2	66.4	68.1	74.8	30.5	29.0	28.3	25.7	8.4	7.3	6.7	6.1	28.1	25.2	23.6	23.6
Nippon AMC (RELNIP)	224	300	Hold	139	11.0	12.0	11.7	13.0	20.3	18.7	19.1	17.3	4.5	4.0	3.8	3.6	18.7	17.0	14.3	15.8
Computer Age Management Services (CAMS)	2,277	2,500	Hold	110	42.1	58.7	58.0	68.8	5.3	3.8	3.9	3.3	2.1	1.7	1.5	1.3	39.8	44.3	38.7	40.4

Source: Company, ICICI Direct Research

**Exhibit 2: Variance Analysis**

	Q3FY23	Q3FY22	YoY	Q2FY23	QoQ	Comments
Revenue	243.6	237.7	2.5	242.4	0.5	Flattish sequential growth led by subdued volumes
<i>Yield (bps)</i>	<i>3.5</i>	<i>3.6</i>	<i>-6 bps</i>	<i>3.6</i>	<i>-7 bps</i>	
Other income	7.1	4.1	72.1	7.4	-4.5	
Total income	250.6	241.8	3.6	249.8	0.3	
Operating expenses	135.4	124.4	8.8	136.3	-0.7	
EBIDTA (incl other income)	115.3	117.4	-1.8	113.5	1.6	Subdued revenue kept EBITDA steady
<i>EBITDA margin (%)</i>	<i>46.0</i>	<i>48.6</i>	<i>-257 bps</i>	<i>45.4</i>	<i>56 bps</i>	
Depreciation	15.5	13.4	15.6	14.7	5.3	
Interest	2.0	1.8	12.3	1.8	9.9	
PBT	97.8	102.2	-4.4	96.9	0.9	
Tax	24.2	24.9	-2.9	24.9	-2.5	
PAT	73.6	77.3	-4.8	72.1	2.0	Subdued topline impacted earnings
Total AUM served	2780000	2670000	4.1	2710000	2.6	Market share declined marginally to ~68%
Equity	1290000	1090000	18.3	1220000	5.7	
Debt	1490000	1580000	-5.7	1490000	0.0	
Total transaction volume (Nos. Cr)	11.7	11.1	5.7	11.3	3.2	Subdued traction in transaction volumes

Source: Company, ICICI Direct Research

**Exhibit 3: Change in estimates**

	FY23E			FY24E			FY25E
	Old	New	Change %	Old	New	Change %	Introduced
Total revenue	934.3	968.0	3.6	1006.1	1069.3	6.3	1179.8
EBIDTA	436.9	422.4	-3.3	477.0	490.9	2.9	565.8
PAT	302.3	283.7	-6.1	328.0	336.7	2.6	392.7
AAUM served (Lakh cr)	31.4	29.2	-7.0	36.6	33.5	-8.6	38.3

Source: Company, ICICI Direct Research

## Financial summary

Exhibit 4: Profit and loss statement					₹ crore
Particulars (in ₹ crore)	FY21	FY22	FY23E	FY24E	FY25E
Revenue From Operations	705	910	968	1,069	1,180
Other Income	30	17	22	24	26
<b>Total Income</b>	<b>735</b>	<b>927</b>	<b>990</b>	<b>1,093</b>	<b>1,206</b>
Employee benefits expense	262	322	364	392	422
Finance costs	7.9	7.1	7.1	7.1	7.1
Depreciation expense	43	52	54	56	58
Other operating expenses	147	164	182	186	192
<b>Total Expenses</b>	<b>461</b>	<b>544</b>	<b>606</b>	<b>641</b>	<b>679</b>
PBT	274	383	383	452	527
Tax	69	96	100	115	134
<b>PAT</b>	<b>205</b>	<b>287</b>	<b>284</b>	<b>337</b>	<b>393</b>

Source: Company, ICICI Direct Research

Exhibit 5: Key Ratios					
(Year-end March)	FY21	FY22	FY23E	FY24E	FY25E
No. of shares (crore)	4.9	4.9	4.9	4.9	4.9
BV (₹)	105.7	132.4	149.8	170.5	194.6
EPS (₹)	42.1	58.7	58.0	68.8	80.3
P/E (x)	54.1	38.8	39.2	33.1	28.4
P/BV	21.5	17.2	15.2	13.4	11.7
P/AUM (%)	0.4%	0.4%	0.4%	0.3%	0.3%
RoCE (%)	72.2%	57.5%	50.3%	52.2%	53.4%
RoE (%)	39.8%	44.3%	38.7%	40.4%	41.3%
EBITDA Margin (%)	46.6%	46.6%	43.6%	45.9%	48.0%
Dividend yield (%)	2.8	1.5	1.5	1.8	2.1

Source: Company, ICICI Direct Research

Exhibit 6: Balance sheet					₹ crore
	FY21	FY22	FY23E	FY24E	FY25E
<b>Assets</b>					
Property, plant and equipment	139	154	161	169	178
Intangible assets	145	160	157	154	151
Investments	1	-	1	1	1
Other non-current assets	24	25	26	28	30
<b>Total Non Current Assets</b>	<b>309</b>	<b>339</b>	<b>346</b>	<b>353</b>	<b>360</b>
Investments	236	317	342	370	399
Cash and cash equivalents	180	151	136	122	110
Other current assets	117	151	239	341	457
<b>Total current assets</b>	<b>533</b>	<b>618</b>	<b>717</b>	<b>833</b>	<b>966</b>
<b>Total Assets</b>	<b>842</b>	<b>957</b>	<b>1,063</b>	<b>1,185</b>	<b>1,326</b>

<b>Equity &amp; Liabilities</b>					
Share Capital	49	49	49	49	49
Reserves & Surplus	467	599	684	785	903
<b>Total Equity</b>	<b>516</b>	<b>648</b>	<b>733</b>	<b>834</b>	<b>952</b>
Non Controlling Interest	-	-	-	-	-
Other financial liabilities	65	63	67	72	77
Provisions & other	75	73	78	83	89
<b>Total Non current liabilities</b>	<b>139</b>	<b>136</b>	<b>145</b>	<b>155</b>	<b>166</b>
Trade payables	53	49	52	56	60
Other current Liabilities	134	125	132	140	149
<b>Total Current Liabilities</b>	<b>187</b>	<b>174</b>	<b>185</b>	<b>196</b>	<b>209</b>
<b>Total Equity and Liabilities</b>	<b>842</b>	<b>957</b>	<b>1,063</b>	<b>1,185</b>	<b>1,326</b>

Source: Company, ICICI Direct Research

Exhibit 7: Growth					(%)
(Year-end March)	FY21	FY22	FY23E	FY24E	FY25E
AUM	33.6	9.4	14.5	14.5	14.6
Operating income	28.9	6.4	10.5	10.5	10.3
EBITDA	43.3	-0.4	16.2	16.2	15.3
Net profit	39.8	-1.1	18.7	18.7	16.6
Net worth	-6.0	25.5	13.1	13.8	14.1
EPS	39.5	-1.1	18.7	18.7	16.6

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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