

Computer Age Management Services

Play on India's growing asset management industry

With an AUM market share of 72.9% in a two-player RTA market, CAMS is a play on India's growing asset management industry. The company is well integrated with its customers, managing growing transactions and more than 275TB of client data. The entry barriers to this business are high, and replacing the company is not easy, putting it in a uniquely advantageous position. We expect FY21-23E revenue/operating profit (OP) CAGR of 12.3/21.8%. Margins will be driven by a resurgence in flows and better cost control. Insurance, AIF, and NBFC businesses are future growth drivers. We initiate coverage on the stock with a BUY rating and a DCF-based target price of Rs 1,480.

- **Large market share in a growing industry.** With 72.9% total AUM market share (Sep-20E, +1,022bps vs. FY15) in a two-player market, CAMS is India's largest registrar and transfer agent (RTA) of mutual funds (MFs). In the high-yielding equities segment, its market share is 68.7% (Sep-20E, +1,104bps vs. FY15). Its clients include four of the top 5 MFs in the country. MF penetration in India is just 10.9% (Mar-20) and is set to rise. Further, we believe that the Indian MF industry is set to grow at a CAGR of 14.0% over FY20-25E. CAMS is well integrated with its customers—it manages all investor transactions, maintaining more than 275TB of client data. Replacing CAMS is not easy, putting it in a unique position.
- **Active Equity AUM growth to drive earnings.** CAMS charges fees to its clients on a percentage of AAUM. Yields differ with different asset classes, and are the highest for equity (estimated at 5.9bps by CRISIL). We believe that over FY20-25E, equity AUM is set to grow at 17.2% CAGR to Rs 25trn, and equity will constitute ~47.0% (+500bps vs. FY20) of total AUMs.
- **Margins set to expand.** CAMS' operating margins (PBT-OI) reduced in FY19 to 29.0% (-326bps YoY) as transaction volumes and inflows were hit. Despite equity MF TER cuts, margins recovered in FY20 to 32.7% (+378bps) due to cost rationalisations. We expect FY21E to be a year of consolidation and margins to come at 31.2% (-150bps), as the year has been impacted by a steep decline in Equity AAUMs. We expect a resurgence in flows and digitisation to drive margins in FY22/23E by 335/218bps to 34.6/36.8%.
- **Insurance/AIF/NBFC businesses are future growth drivers.** CAMS is also present in relatively nascent businesses such as insurance registry, RTA for AIFs, and account management for NBFCs. These businesses hold significant potential and will be future value drivers.
- **Valuation and key risks.** We value the company on a DCF basis at Rs 1,480 (implying an FY22/23E EV/NOPLAT of 34.4/28.4) and initiate coverage on the stock with a BUY rating. Key risks include outflows, equity market declines impacting AAUMs, high client concentration impacting pricing power, any major IT system disruptions, or any liability arising from frauds.

Financial summary

(Rs mn.)	FY19	FY20	FY21E	FY22E	FY23E
Revenues	6,936	6,996	6,649	7,516	8,388
Operating profits	2,009	2,291	2,077	2,599	3,083
OP margin (%)	29.0	32.7	31.2	34.6	36.8
NOPLAT	1,312	1,616	1,537	1,950	2,313
APAT	1,424	1,769	1,763	2,128	2,526
EV/NOPLAT (x)	45.8	36.6	38.1	29.5	24.3
P/E (x)	44.1	35.5	35.6	29.5	24.9
RoIC (%)	71.2	92.1	79.1	95.3	113.2

Source: Company, HSIE Research

BUY

CMP (as on 11 Nov 2020)	Rs 1,285
Target Price	Rs 1,480
NIFTY	12,749

KEY CHANGES	OLD	NEW
Rating	-	BUY
Price Target	-	Rs 1,480
EPS %	FY21E	FY22E
	NIL	NIL

KEY STOCK DATA

Bloomberg code	CAMS IN
No. of Shares (mn)	49
MCap (Rs bn) / (\$ mn)	63/843
6m avg traded value (Rs mn)	-
52 Week high / low	Rs 1,550/1,260

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	-	-	-
Relative (%)	-	-	-

SHAREHOLDING PATTERN (%)

	Jun-20	Sep-20
Promoters	43.5	31.0
FIs & Local MFs	55.9	34.1
FPIs	0.0	8.7
Public & Others	0.6	26.2
Pledged Shares	0.00	0.00

Source : BSE

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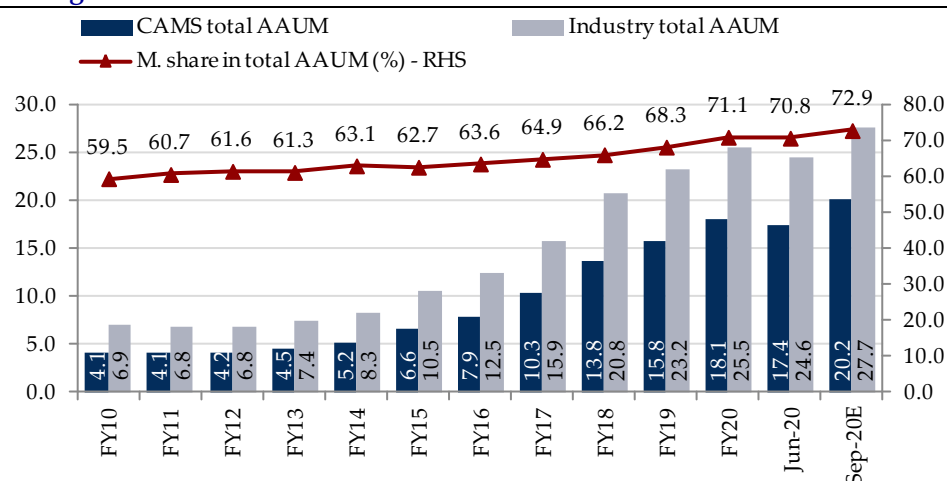
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Key Investment Thesis

Large market share in a growing oligopolistic market:

- CAMS is India's largest registrar and transfer agent of mutual funds with an aggregate **market share of ~72.9% (+1,342bps over FY15)** as of Sep-20E, based on mutual fund AAUM managed by its client.
- **Its clients include 4 of the top 5 mutual funds in the country and 10 of the top 15 mutual funds.**
- Amongst the top 5 AMCs, ICICI Pru MF, HDFC MF, SBI Mutual Fund, and Aditya Birla Sun Life MF are serviced by CAMS while Nippon India Mutual Fund is serviced by Karvy.
- CAMS is well entrenched with its customers and has created strong entry barriers.
- Karvy Fintech and CAMS are the only two third party RT&As in the domestic asset management space.

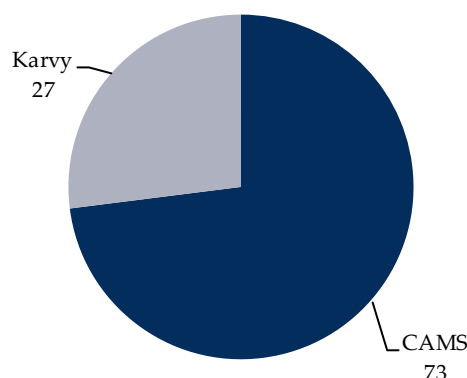
Growing market share in total AAUM



Note: Sep-20 market share is based on MAAUM.

Source: Company, CAMS DRHP, AMFI, NAV India

Market Share (%)



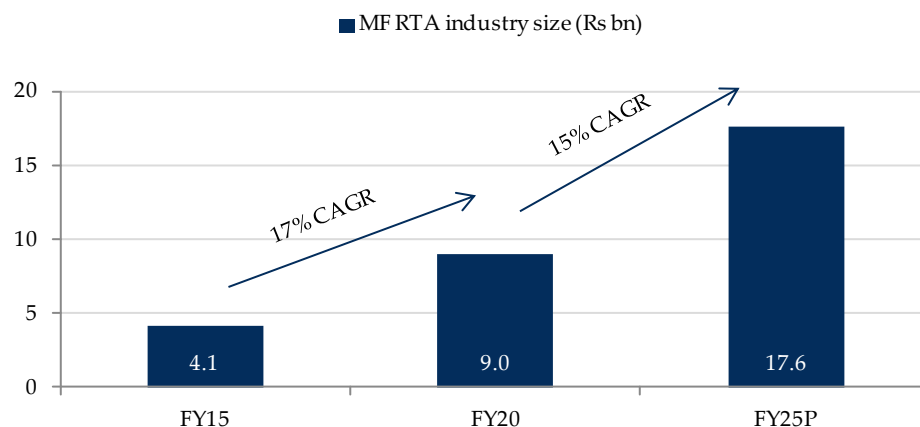
Source: CRISIL Research

Note: Based on MAAUM of Sep-20. CAMS has been appointed as RTA of Franklin Templeton (India) in FY21.

- CRISIL Research estimates the size of the MF RTA business at around Rs 9bn in FY20. It is expected to log a 15% CAGR over FY20-25E and ~Rs 17.6bn.

- The industry is estimated to have grown at FY15-20 CAGR of 17%. During the period, the MF industry AUM grew from Rs 10.8trn as of FY15 to Rs 23.8trn as of FY19, at ~22% CAGR.

MF RTA industry size to grow at 15% CAGR

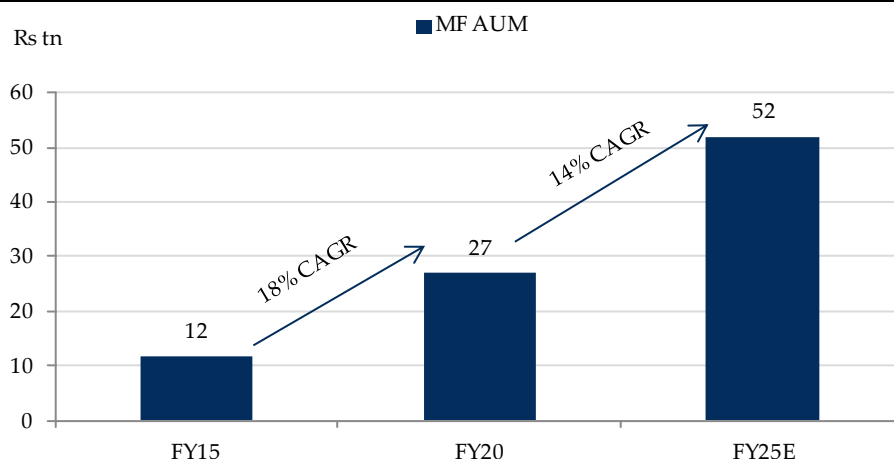


Source: RHP, CRISIL Research

Note: P: Projected

- According to CRISIL, mutual fund industry AUM is projected to grow at 14% p.a. and touch ~Rs 52trn by FY25E.

MF industry AUM

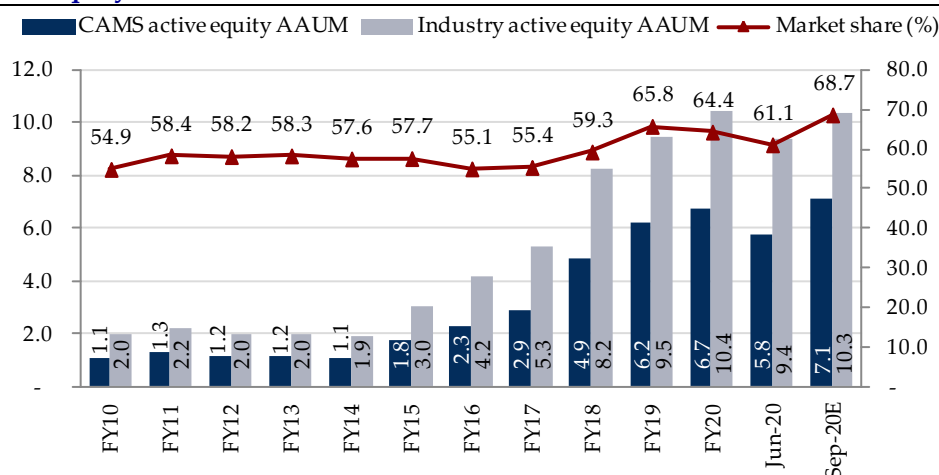


Source: RHP, CRISIL Research

Active Equity AUM to drive earnings growth:

- Yields are highest (at ~5.9bps) for active Equity AUMs (estimated by CRISIL); hence, their increase is the key driver to profitability.
- The company has gained sizeable market share in active equity over the past 7-8 years. Market share in MF active equity and hybrid AUM has increased 1,377bps over FY10 and Sep-20E to 68.7%.
- We believe the business would do well even if non-active equity AUMs rise as we believe that the company provides immensely valuable services and will have pricing power even for non-active equity assets such as debt, liquid, and ETFs.

Active equity market share



Note: Sep-20 market share on MAAUM basis.

Source: Company, CAMS DRHP, AMFI, NAV India

- **MF RTAs earn the highest fee from equity funds** (5.9bps of AUM for equity funds in FY20) (refer to the table below).
- **With the increase in AUM managed, the fees charged as a proportion of AUM has been trending lower.** Pricing for equity has declined from 7.5bps in FY15 to 5.9bps in FY20. The decline in pricing is ~4.3%pa over FY15-20 vs. AAUM growth of 22.5% CAGR.
- However, in FY20, MF RTAs did witness some pricing pressure, as SEBI reduced the total expense ratios that MFs are allowed to charge. AMCs passed on the part of the TER reduction to RT&As, and this resulted in additional pricing pressure for RT&As.
- We expect a moderate reduction in fees charged by RTAs as industry AUMs increase. However, we believe RTAs will benefit from the increasing share of equity and hybrid funds in industry AUM.

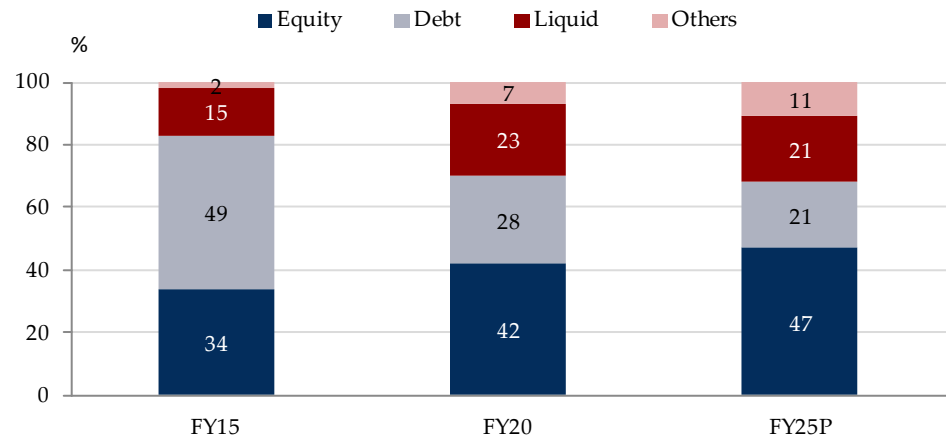
Fees charged by RTAs

As % of AUM (bps)	FY15	FY17	FY19	FY20
Equity funds	7.5	6.7	6.2	5.9
Hybrid	7.8	6.1	6.0	6.0
Debt	2.4	2.2	2.2	2.2
Liquid	3.3	2.0	2.0	2.0
Others	4.3	2.4	1.6	1.5

Source: Industry interactions, company filings, CRISIL Research

- The share of equity funds in total MF AUM is expected to increase by ~500ps to 47% by FY25E.

The trend in the share of various MF segments till FY25



Note: Equity funds include ELSS and balanced ETFs, debt funds include gilt funds, others include gold ETFs and fund of fund investing overseas Source: AMFI, CRISIL Research

Entry barriers:

- The business has significant entry barriers as it is very cumbersome for asset management companies to move to another RT&A or to do this part of the business in-house. **Below are the key reasons:**
- **Business enabler and customer care functions being offered by MF RTAs**
 - CAMS is a key business enabler. CAMS process all the different types of transactions – new purchase, SIP, switch, redemption etc. for the AMCs. All these activities are conducted and recorded through its own proprietary platform.
 - A third party carrying on these activities provides independent comfort for investors and also allows AMCs to focus on core business functions of fundraising and investing.
- **The close relationship between MF AMCs and RTAs makes it challenging to switch RTAs**
 - It has become exceedingly difficult for AMCs to switch RTAs due to the technological back-end intensity and the large amount of data and information that the RTA maintains. CAMS currently is maintaining over 275 TB of client data. Any switch to another service provider will be too cumbersome.
- **Extensive Branch network**
 - RTAs also have offices across the nation. CAMS itself has 271 service centres across India. Investors, distributors, asset management sales employees use these branches to process transactions. A service centre network reduces the need for AMCs to add branches, thereby reducing costs.
- **Being a knowledge partner for the entire fraternity of AMCs**
 - Over an extended period, RTA's have collected extensive data on investor behaviour, requirements, preferences, and other nuances that fund houses face during launches and scheme composition changes etc.
 - MF RTAs apply predictive analytics to accumulated data and help AMCs in the development of innovative products, which makes them a valuable partner to AMCs.
 - Additionally, RTAs help AMCs comply with any data request which any industry regulator, SEBI may have.

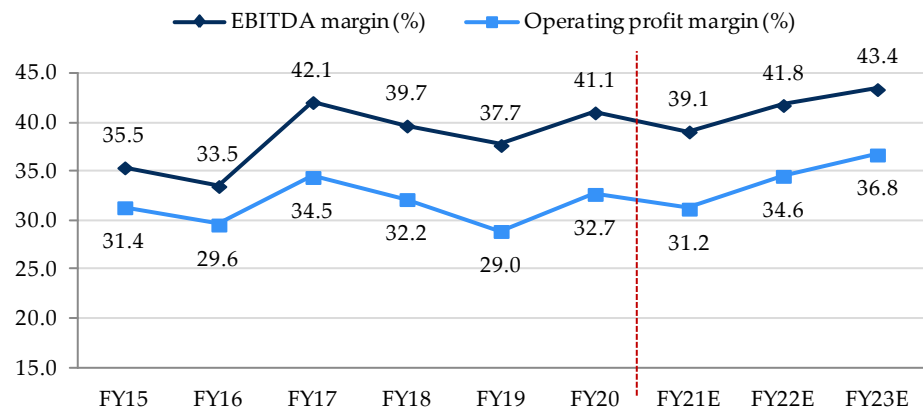
■ **Value-added service offerings for AMCs**

The company has developed and implemented various technology platforms, and its technology-driven infrastructure and services are integral to the operations of its clients. **CAMS' key platforms include:**

- **myCAMS:** This is an industry leading B2C mobile application to facilitate retail mutual fund transactions. The numbers of myCAMS registered users have grown from 0.2mn as of Mar-15 to 3.3mn as of Jun-20.
- **CAMServ:** The application has a self-service chatbot to help investors navigate through mutual fund services and investing options.
- **CAMSsmart:** This application services mutual funds and is a business intelligence service. It assists with reporting, predictive and prescriptive analytics, data mining, measuring business performance and benchmarking.
- **digiSIP:** The application helps investors and distributors in setting up multiple SIPs at one time.
- **GoCORP:** The application is a corporate investment portal providing corporates with a single gateway to transact across multiple participating mutual funds and does away with the need to complete multiple forms and transaction slips.
- **mf360:** The application allows mutual funds to track transactions, investor enquiries and account statement requests.
- **mfCompass:** Providing the link between the transfer agent's back offices with the mutual funds' front offices in real-time, while offering a holistic and real-time view of inflows and outflows to the fund managers.
- **mfCRM:** This is a mobility solution for mutual fund relationship and sales managers to manage investor relationships and distributor performance better.
- Additionally CAMS also provides MFDEX, edge360 and ReconDynamix apps.

Sustainable margins

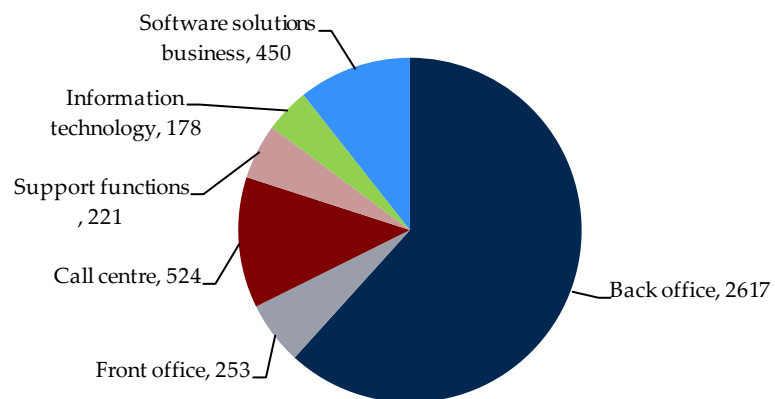
- We believe CAMS' EBITDA margin is sustainable as **business growth will allow for operating leverage**. Margins have also improved over time.
- As AUM grows, we expect CAMS to retain part of the operating leverage.
- CAMS' operating margins (PBT-OI) reduced in FY19 to 29.0% (-326bps YoY) as transaction volumes and inflows were hit.
- **Despite equity MF TER cuts, margins recovered in FY20 to 32.7% (+378bps) due to cost rationalisation.**
- **We expect FY21E to be a year of consolidation and margins to come at 31.2% (-150bps) as the year has been impacted by a steep decline in equity AAUMs.**
- We, however, expect **margins to improve significantly over FY22/23E by 335/218bps to 34.6/36.8%**, driven by a resurgence in flows and digitisation.

Margin trajectory

Source: Company, CAMS DRHP, HSIE Research

Business is manpower and tech-heavy:

- The business has a massive workforce and tech requirement. Employee expense is one of the largest expense line items.
- As of Jun-20, CAMS had 4,243 permanent employees, which were distributed to the below-mentioned activities.
- Additionally, the company also had an additional ~1,920 contract employees.

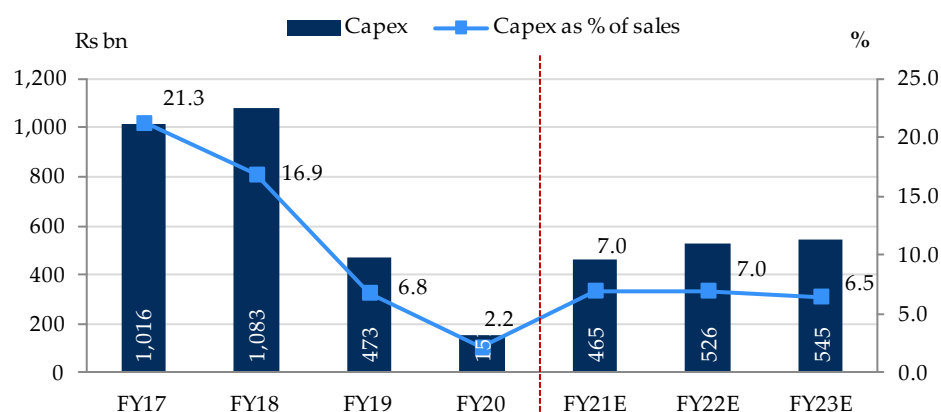
Employee strength in Jun-20

Source: Company, CAMS RHP

Capex requirement is limited in the business.

- We expect non-lease capitalisation Capex to be limited at ~6-7% of revenues over the next few years.
- **Capex might be higher if the company decided to move to a cloud system.** Currently, we are not building the same in our numbers.

Low Capex requirement



Source: Company, CAMS DRHP, HSIE Research

Insurance/AIF/NBFC businesses to be future growth drivers

Apart from serving the MF industry, CAMS also provides services (processing applications, servicing policies, etc.) to insurance companies.

- According to CRISIL, the company had a market share of 38% (FY18) in the insurance repository business, based on e-insurance policies being managed.
- **CAMS has a strong position in the insurance repository and eKYC businesses.** These businesses can provide significant growth upside as and when business picks up.

CAMS' is well placed in the insurance repository business:

Repository name	Total E-Insurance Policies	Share (%)	Total E-Insurance accounts	Share (%)	No. of participating insurers
NSDL insurance repository	558,514	44.8	555,701	34.7	32
CAMS insurance repository	487,777	39.1	515,681	32.2	26
KARVY insurance repository	132,049	10.6	174,553	10.9	18
Central insurance repository	69,135	5.5	354,388	22.1	20
Total	1,247,475		1,600,323		NA
Total policies issued (mn)	514				
E insurance policies (%)	0.24				

Note: Total number of policies in force in FY18 is considered.

Source: Company, CAMS DRHP, HSIE Research

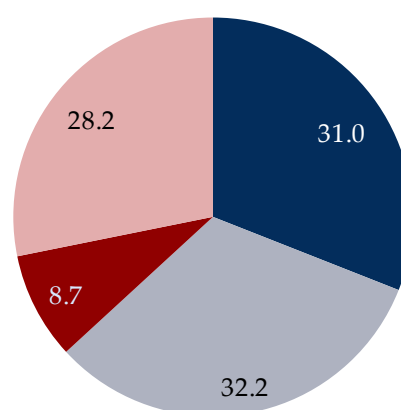
- In the AIF services segment, the company helps funds in servicing investors, managing records among other services. **The company has 77 AIF clients, having an aggregate of 160.27bn in average AUM as of Jun-20 and is the largest service provider in this category.** In banking and NBFC services segment, the company offers digitisation of account opening, facilitation of loan processing and back-office processing services to banking and NBFCs.

Shareholding pattern

- Pre-IPO, Great Terrain (promoter, a Warburg Pincus subsidiary) and NSE Investments held 43.5% and 37.5% respectively of the shareholding of the company.
- Great Terrain via Great Terrain's SPA sold 6.1mn shares before the IPO. Great Terrain's shareholding post-sale stands at 31.0%.
- NSE Investments divested its entire holding.

Shareholding pattern (%)

■ Promoters ■ FIs & Local MFs ■ FPIs ■ Public & Others



Note: As on Sep-20

Source: Company filings, RHP, HSIE Research

Top non-promoter shareholding

Shareholders	(%)
HDFC (pre-IPO investor)	6.0
Faering Capital India (pre-IPO investor)	4.0
SBI Small Cap Fund	3.5
HDFC Bank (pre-IPO investor)	3.3
ICICI Prudential Value Fund	3.2
HDB Trust (pre-IPO investor)	3.2
HDFC Growth Opportunities Fund	2.2
Acsys (pre-IPO investor)	1.9
SBI Life Insurance	1.7
IIFL India PE Fund	1.5
Acacia Banyan Partners	1.3
Smallcap World Fund	1.0

Source: CAMS RHP, HSIE Research

Evolution of CAMS

Major events and milestones

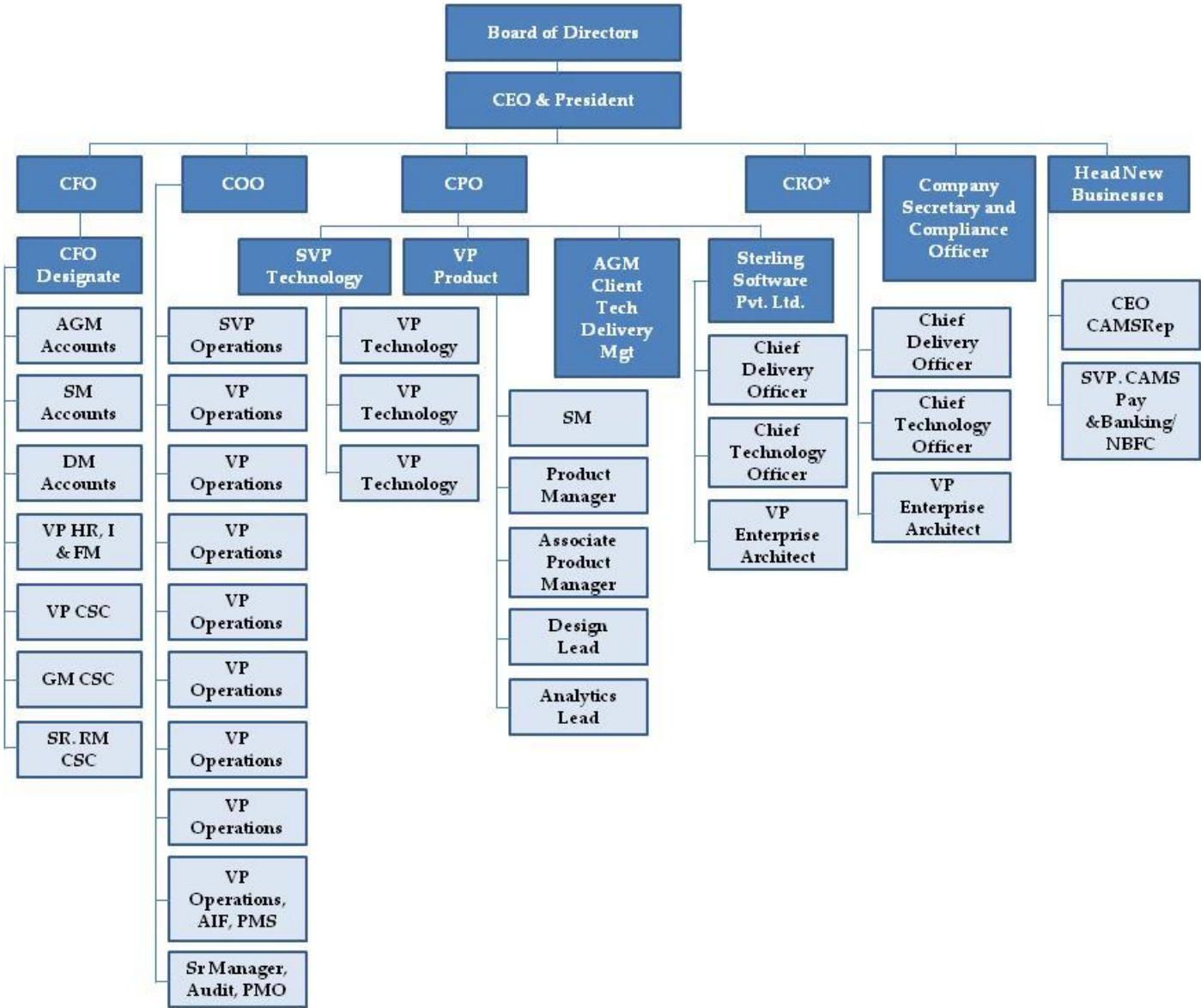
CY	Events
1988	Incorporation as Computer Age Management Services Private Limited and received a certificate of incorporation from the RoC on May 25, 1988
1993	CAMS was issued a certificate of registration as a registrar to an Issue under category II, dated December 24, 1993, by SEBI.
1995	The certificate of registration issued to the company was upgraded and a fresh certificate of registration as registrar to an issue and share transfer agent under category I, dated July 22, 1995, was issued by SEBI.
2006	Issued a certificate of registration dated June 1, 2006, by SEBI to act as a depository participant for NSDL.
2007	Issued a certificate of registration dated January 31, 2007, by SEBI to act as a depository participant for CDSL
2011	CIRSL was incorporated on May 12, 2011; and CIRSL received in-principle approval of IRDAI to carry on business as an insurance repository
2012	CISPL was incorporated on February 13, 2012; and CISPL was issued a certificate of registration dated June 29, 2012, to carry on the business as a KRA.
2013	CIRSL was issued a certificate of registration dated July 31, 2013, by IRDAI to carry on the business as an insurance repository; and CAMS acquired 100% stake in SSPL, which provides technology support to CAMS.
2016	CFISPL incorporated on September 26, 2016
2018	Great Terrain acquired 37.50% stake in CAMS.
2019	CAMS was converted into a public limited Company and received a fresh certificate of incorporation from the RoC on September 27, 2019; and Great Terrain acquired 6.03% additional stake in the company
2020	Launch of Recon Dynamix platform; Receipt of account aggregator license by CFISPL; and Appointed as registrar to issue and transfer agent by Franklin Templeton Asset Management (India) Private Limited.

Source: Company filings, RHP, HSIE Research

Key Management Personnel and Organisational Structure

- **Anuj Kumar** is the whole time director (WTD) and the CEO of the company. He holds a bachelors degree in engineering from BITS, a PGDM from IIM Calcutta. He was previously associated with Godrej & Boyce Mfg. Co. Ltd., Blow Plast Limited, Escorts Finance Limited, etc.
- **Somasundaram M.** is the CFO of the company. He holds a bachelors degree in commerce from the University of Madras. He is a member of the ICWAI and the ICSI. He has previously been associated with SRF Limited, Henkel SPIC India Ltd, Pond's India Limited, HUL and TVS Electronics Limited.
- **S.R. Ram Charan** is the CFO-Designate of the company. He holds a bachelors degree in commerce from the University of Madras, Faculty of Commerce. He is a member of the ICAI. He has been previously associated with Photon Interactive Private Limited and Reliance Jio Infocomm Ltd.
- **Srikanth Tanikella** is the COO of the company. He holds a bachelor's degree in technology from the IIT Delhi and a post-graduate diploma in management from the IIM Calcutta. He has previously been associated with Accenture India Private Limited, Infosys BPO Limited, Infosys Technologies Limited, etc.
- **Ravi Kethana** is the Chief Platform Officer of the company. He holds a bachelor's degree in technology from the JNU and a master's degree in technology from Banaras Hindu University. He has previously been associated with TCS Limited and Wipro Limited.
- **N. Ravi Kiran** is the Head – New Businesses of the company. He holds a bachelor's degree in science from Bangalore University, a post-graduate diploma in business administration from St. Joseph's College of Business Administration Bangalore. He has previously been associated with Bangalore Business to Business, Dharma Software Solutions Pvt. Ltd, tec. He is also a director on the board of directors of CFISPL and CIRSL.
- **Vasanth Jeyapaul Emmanuel** is a senior VP of the company. He holds a bachelor's degree in science and a master's degree in BA from Madurai Kamaraj University. He has previously been associated with Bennett, Coleman & Co. Ltd.
- **Abhishek Mishra** is the CEO – insurance of CIRSL. He holds a post-graduate diploma in management from IIM Society, Lucknow. He is an associate of the Institution of Engineers (India). He has previously been associated with the Indian Railway Service of Mechanical Engineers, A.F. Ferguson & Co., HCL Perot Systems, etc.

Management organisation structure



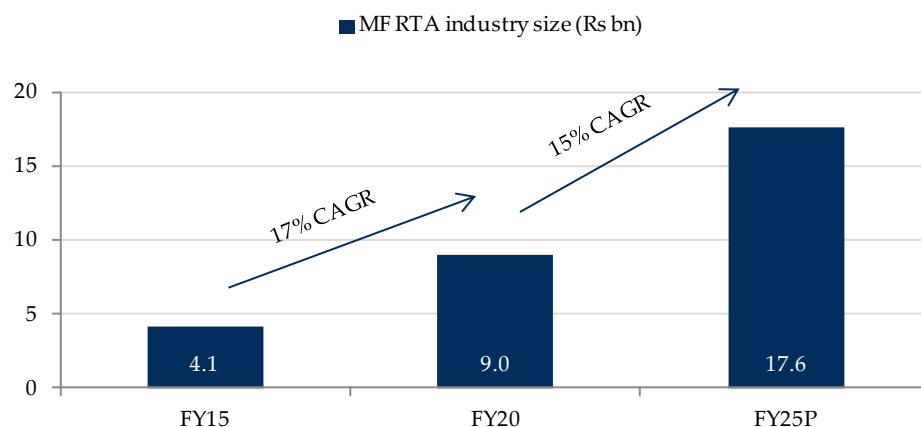
Source: CAMS RHP, HSIE Research

Decrypting CAMS' revenue model

- The revenue model of MF RTAs typically revolves around the AUMs handled, a mix of AUM handled across schemes (equity, debt, liquid, hybrid, and others), the volume of paper-based transactions handled and fees on value-added services offered.
- AMCs with low AUM, a minimum threshold fee is charged by RTAs.
- A significant part of the revenue earned by MF RTAs (estimated to be over 80%) is through fees charged on the AUMs managed by the AMCs. These are AUM linked. These fees are generally tiered in nature and tend to decrease as a proportion of total AUMs of the fund house once the AUMs surpass the tiers for which the fees are agreed on.
- The other major portion of revenues is the charge for the handling of paper-based transactions of AMCs, for which considerable effort is needed. This requires data entry, signature verification, transportation and storage of documents etc. Although the proportion of these transactions may be going down, they still form a reasonable portion of CAMS'.
- The fee charged by RTAs is the highest for equity AUMs, which augurs well for RTAs with rising investments in equity funds. A detailed explanation is covered in the section – Investment thesis – pg. 5.

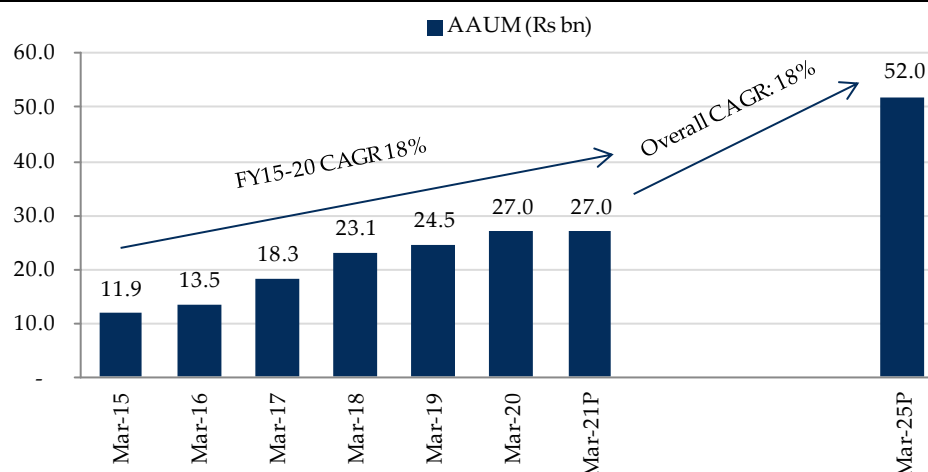
Industry in Charts

RTA industry size



Source: CAMS RHP, CRISIL Research

Strong growth expected in MF assets

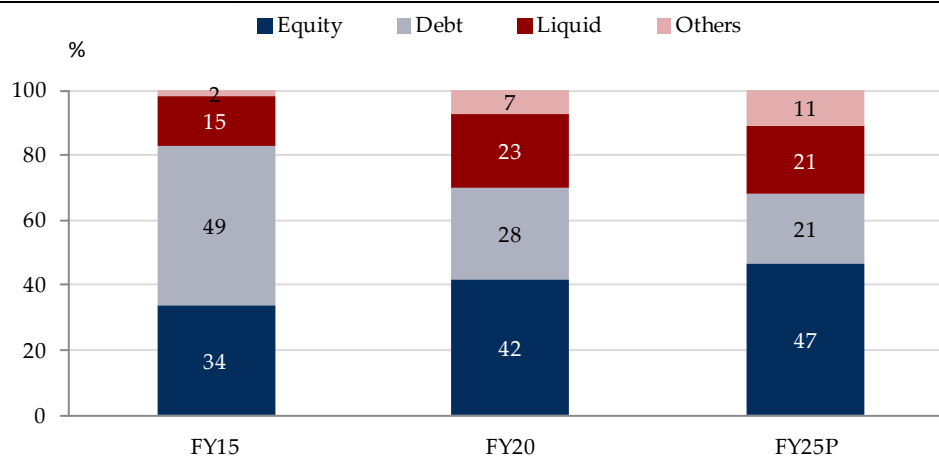


Note: AUM is the avg. of the last quarter of every FY.

P: Projected

Source: CAMS RHP, CRISIL Research

The trend in industry MF assets

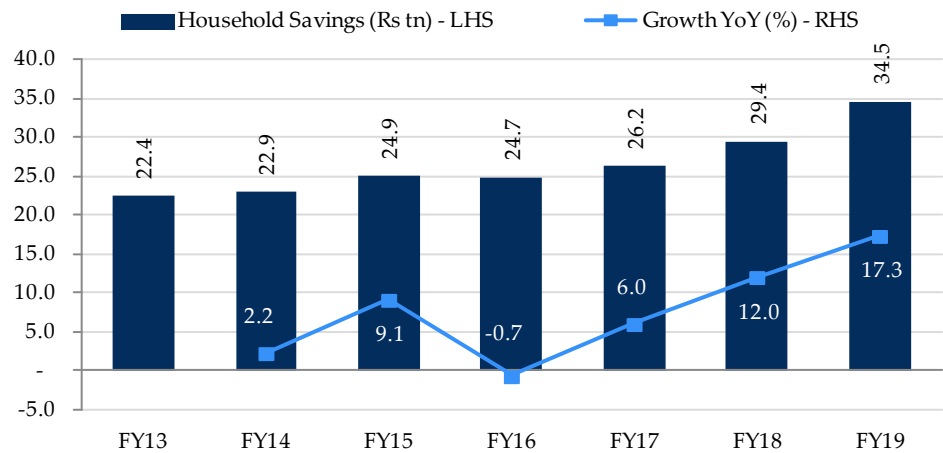


Note: P: Projected

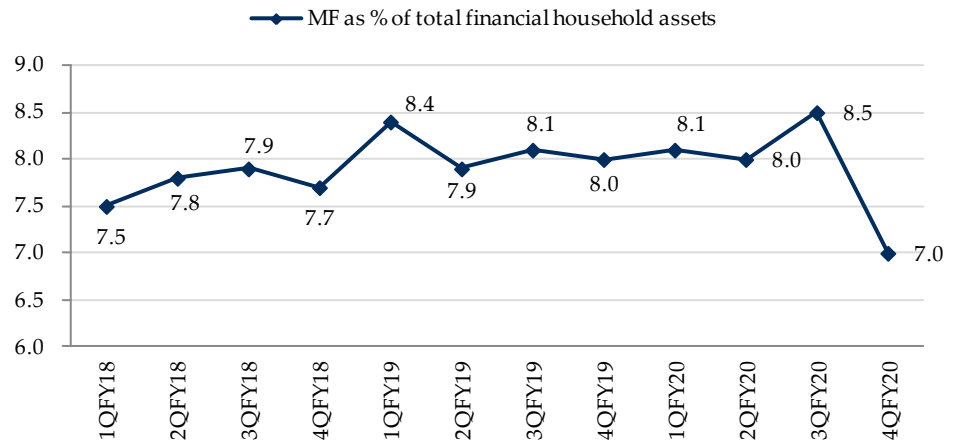
Source: CAMS RHP, CRISIL Research

Healthy growth in MF AUM will result in healthy growth for RTA industry.

Increasing weight towards equity segment to support yields.

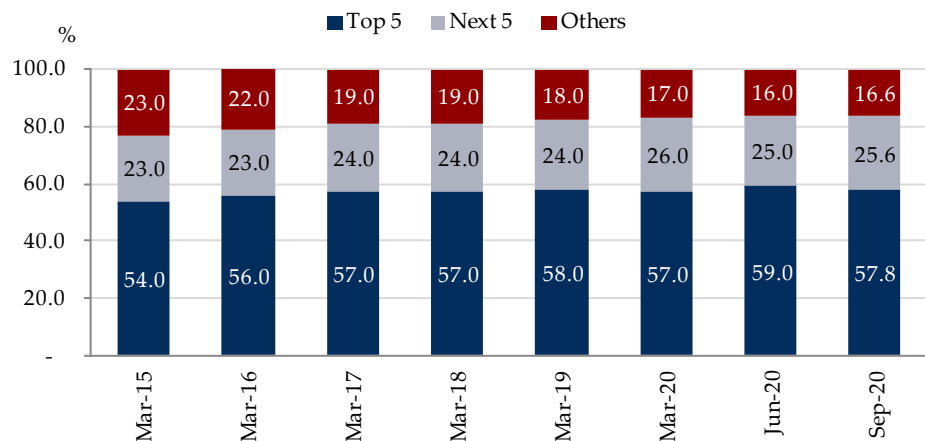
Strong growth in household savings

Source: CAMS RHP, CRISIL Research

The steady improvement in MF share in household investments

Note: MF includes only retail MFs.

Source: CAMS RHP, CRISIL Research

The growing share of top 5/10 AMC's in AUM

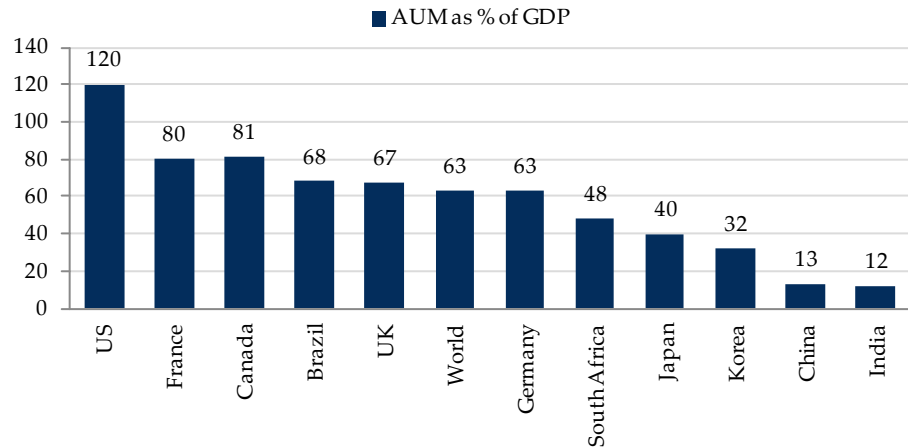
Note: Based on the AAUM of last quarter of FY. Sep-20 market share on MAAUM basis.

Source: CAMS RHP, NAV India, HISE Research

Drop in equity values resulted in sharp dip in 4QFY20.

CAMS remains in a sweet spot as clients include four out of top 5 AMCs.

Huge potential for India's MF industry



Note: AUM as of 4QFY19. Only open-ended funds considered

Source: RHP, HSIE Research

Key Risks

- **Client AUM dependent.** CAMS' future revenue and profit are primarily dependent on the growth, value and composition of AUM of the schemes managed by its clients. AUMs may decline in turbulent market conditions or performance of asset managers serviced by the company.
- **IT system disruption.** Any disruption in IT systems may harm business and reputation.
- **Liability issue.** CAMS may be required to compensate its customer for any fraud or any other systems driven loss which the client may suffer.
- **Revenue concentration.** A significant portion of CAMS' revenues are from a few clients, and the loss of one or more such clients could adversely affect its business.
 - For the FY17/18/19/1HFY20, its top five clients contributed approximately Rs 3.2bn/4.3bn/4.7bn/2.3bn, or 67.2/66.9/67.1/65.8%, to its revenue from operations, respectively.
 - The loss of one or more of any significant customer or a reduction in the amount of business it obtains from them could hurt CAMS' business and earnings.
 - The company's reliance on a select group of clients may also constrain its ability to negotiate its arrangements with them.
- **Pricing:** CAMS negotiates pricing terms periodically. Larger clients may be more aggressive in reducing pricing as AUMs increase. Contracts can be renegotiated as clients are allowed to revisit pricing, and duration of contracts is 2-3 years on average. Clients are also allowed to terminate the contract by giving 3-6 months written notice.

Valuation and Financial Summary

- We expect total AAUM to grow 13.0% CAGR over FY21-23E with the **share of active equity to improve from 33.6% in FY21E to 35.7% in FY23E (+209bps)**.
- We have built in an equity pricing decline at CAGR of 2.0% over FY21-23E and a flattish pricing on a blended basis.
- This is expected to result in revenue CAGR of 12.3% over FY21-23E.
- As AUM grows and business further scales up, **operating leverage is expected to result in improvement in operating margins by 552bps over FY21-23E to 36.8%** and operating profit/NOPLAT/APAT FY21-23E CAGR of 21.8/22.7/19.7%.
- We value the company on a DCF basis. Key assumptions are :
 - **Long term AAUM growth of 14% over FY24-31E.**
 - **Long term NOPLAT (as bps of AAUM): 0.91bps.**
 - **Risk-free rate: 6.5%.**
 - **Beta: 0.8.**
 - **Equity risk premium: 5.0%.**
 - **Terminal growth rate: 5.0%.**
- The business delivered an RoE/RoIC of 36.1/92.1% in FY20. **We expect the business to deliver an RoE of 30.2-31.6% over FY21-23E and ROIC of 79.1-113.2% over FY21-23E.**
- **Our DCF derived target price is Rs 1,480. Based on DCF valuation, our EV/NOPLAT FY21/22/23E works out to 44.3/34.4/28.4x.**

Income Statement

(Rs mn)	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Net Revenues	4,783	6,415	6,936	6,996	6,649	7,516	8,388
<i>Growth (%)</i>	<i>5.3</i>	<i>34.1</i>	<i>8.1</i>	<i>0.9</i>	<i>-5.0</i>	<i>13.0</i>	<i>11.6</i>
Employee benefits expenses	1,634	2,263	2,568	2,580	2,619	2,907	3,218
Operating expenses	1,134	1,604	1,751	1,544	1,430	1,466	1,526
EBITDA	2,014	2,548	2,617	2,873	2,601	3,143	3,644
<i>EBITDA Margin (%)</i>	<i>42.1</i>	<i>39.7</i>	<i>37.7</i>	<i>41.1</i>	<i>39.1</i>	<i>41.8</i>	<i>43.4</i>
<i>EBITDA Growth (%)</i>	<i>32.2</i>	<i>26.5</i>	<i>2.7</i>	<i>9.8</i>	<i>-9.5</i>	<i>20.8</i>	<i>15.9</i>
Depreciation	306	402	504	485	443	464	477
EBIT	1,709	2,146	2,113	2,388	2,157	2,679	3,167
Other Income (includes treasury)	243	199	179	217	306	238	284
Interest & Financial Charges	60	79	105	97	80	80	83
PBT	1,892	2,266	2,187	2,508	2,383	2,837	3,367
Tax	650	803	759	739	620	709	842
APAT (pre minority interest)	1,242	1,463	1,428	1,769	1,763	2,128	2,526
APAT (post minority interest)	1,235	1,459	1,424	1,769	1,763	2,128	2,526
<i>APAT Growth (%)</i>	<i>34.5</i>	<i>18.2</i>	<i>-2.4</i>	<i>24.2</i>	<i>-0.3</i>	<i>20.7</i>	<i>18.7</i>
RPAT	1,235	1,459	1,304	1,735	1,763	2,128	2,526
<i>RPAT Growth (%)</i>	<i>36.3</i>	<i>18.2</i>	<i>-10.6</i>	<i>33.0</i>	<i>1.7</i>	<i>20.7</i>	<i>18.7</i>
AEPS (diluted)	25.3	29.9	29.1	36.2	36.1	43.6	51.7
<i>AEPS Growth (%)</i>	<i>34.5</i>	<i>18.2</i>	<i>-2.6</i>	<i>24.2</i>	<i>-0.3</i>	<i>20.7</i>	<i>18.7</i>

Source: Company, HSIE Research

Balance Sheet

(Rs mn)	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
SOURCES OF FUNDS							
Share Capital	488	488	488	488	488	488	488
Reserves	3,639	3,948	3,925	4,911	5,794	6,860	8,126
Minority Interest	81	77	82	-	-	-	-
Total Shareholders' Funds	4,208	4,512	4,494	5,398	6,282	7,348	8,613
Total Debt	-	-	-	-	-	-	-
Other Financial Liabilities & Provisions	442	567	711	735	656	741	827
Other Non Current Liabilities	680	1,124	1,088	772	818	859	902
Net Deferred Tax Liability	(90)	(138)	(202)	(83)	(87)	(92)	(96)
TOTAL SOURCES OF FUNDS	5,240	6,065	6,091	6,822	7,668	8,857	10,246
APPLICATION OF FUNDS							
Net Block	2,626	3,235	3,200	2,985	3,140	3,221	3,331
Non Current Investments	21	20	20	5	6	6	7
Loans & Deposits	60	97	116	123	113	124	133
Other Non Current Assets	48	102	55	3	3	3	4
Total Non-current Assets	2,755	3,455	3,392	3,116	3,262	3,354	3,475
Current Investments	2,202	2,161	2,305	3,056	3,351	3,569	3,819
Debtors	119	225	270	320	273	309	345
Cash & Equivalents	153	277	435	507	877	1,742	2,745
Loans & Advances	3	5	7	6	5	6	6
Other Current Assets	529	719	752	787	827	931	1,036
Total Current Assets	3,005	3,386	3,769	4,676	5,334	6,556	7,950
Creditors	-	-	-	-	-	-	-
Other Current Liabilities	520	776	1,070	970	928	1,053	1,179
Total Current Liabilities	520	776	1,070	970	928	1,053	1,179
Net Current Assets	2,485	2,610	2,699	3,706	4,406	5,502	6,771
TOTAL APPLICATION OF FUNDS	5,240	6,065	6,091	6,822	7,668	8,857	10,246

Source: Company, estimates

Cash Flow

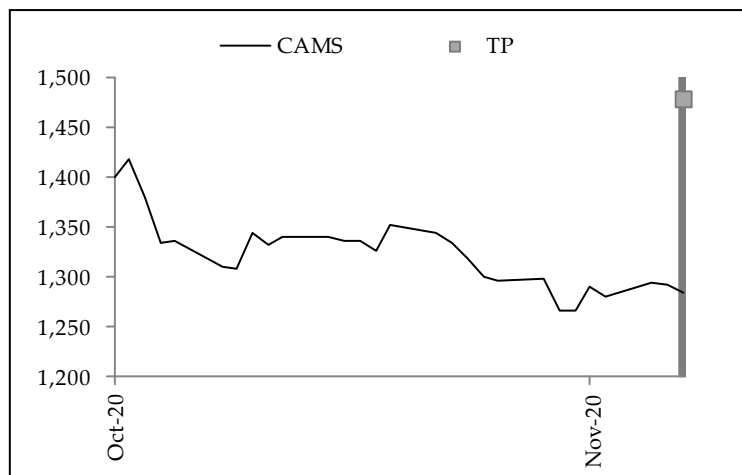
(Rs mn)	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Reported PBT	1,892	2,266	2,009	2,508	2,383	2,837	3,367
Non-operating & EO Items	(268)	(171)	(175)	(181)	-	-	-
Interest Expenses	(17)	(15)	(6)	79	(226)	(158)	(200)
Depreciation	306	402	504	485	443	464	477
Working Capital Change	649	395	161	(101)	(58)	101	103
Tax Paid	(621)	(890)	(757)	(831)	(620)	(709)	(842)
OPERATING CASH FLOW (a)	1,941	1,988	1,736	1,959	1,923	2,535	2,905
Net Capex	(1,014)	(976)	(471)	(150)	(598)	(545)	(587)
(Purchase)/sale of net operating financial assets	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Free Cash Flow (FCF)	927	1,011	1,265	1,810	1,325	1,990	2,318
Investments	(225)	184	24	(566)	(296)	(218)	(250)
Non-operating Income	17	15	9	17	302	234	279
INVESTING CASH FLOW (b)	(1,222)	(777)	(437)	(698)	(592)	(530)	(558)
Debt Issuance/(Repaid)	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Interest Expenses	-	-	(3)	(95)	(80)	(80)	(83)
FCFE	927	1,011	1,262	1,715	1,244	1,911	2,234
(Buyback)/Proceeds From Issue of Share Capital	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Dividend	(718)	(1,164)	(1,321)	(716)	(880)	(1,062)	(1,260)
FINANCING CASH FLOW (c)	(718)	(1,164)	(1,324)	(811)	(960)	(1,141)	(1,344)
NET CASH FLOW (a+b+c)	0	46	(25)	450	371	864	1,003
Opening Cash & Equivalents	152	153	277	435	507	877	1,742
Closing Cash & Equivalents	153	277	435	507	877	1,742	2,745

Key ratios

	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
PROFITABILITY (%)							
EBITDA Margin	42.1	39.7	37.7	41.1	39.1	41.8	43.4
EBIT Margin	35.7	33.4	30.5	34.1	32.4	35.6	37.8
OP Margin	34.5	32.2	29.0	32.7	31.2	34.6	36.8
APAT Margin	25.8	22.7	18.8	24.8	26.5	28.3	30.1
RoE	33.6	34.1	32.2	36.1	30.2	31.2	31.6
Core RoCE	65.1	70.6	71.2	92.1	79.1	95.3	113.2
RoCE	33.6	34.1	32.2	36.1	30.2	31.2	31.6
EFFICIENCY							
Tax Rate (%)	34.3	35.4	34.7	29.5	26.0	25.0	25.0
Asset Turnover (x)	2.1	2.2	2.2	2.3	2.2	2.4	2.6
Inventory (days)	-	-	-	-	-	-	-
Debtors (days)	9	13	14	17	15	15	15
Other Current Assets (days)	40	40	40	41	45	45	45
Payables (days)	-	-	-	-	-	-	-
Other Current Liab & Prov (days)	36	44	55	58	60	60	60
Working Capital (days)	13	9	-2	-1	0	0	0
Debt/EBITDA (x)	-	-	-	-	-	-	-
Net D/E	(0.0)	(0.1)	(0.1)	(0.1)	(0.1)	(0.2)	(0.3)
Interest Coverage	-	-	-	-	-	-	-
PER SHARE DATA							
AEPS (Rs/sh)	25.3	29.9	29.1	36.2	36.1	43.6	51.7
CEPS (Rs/sh)	31.6	38.2	39.5	46.1	45.2	53.0	61.4
DPS (Rs/sh)	13.2	15.0	22.5	12.2	18.0	21.8	25.8
BV (Rs/sh)	84.6	91.0	90.3	110.5	128.6	150.4	176.3
VALUATION							
P/E	50.8	43.0	44.1	35.5	35.6	29.5	24.9
P/BV	15.2	14.2	14.2	11.6	10.0	8.5	7.3
EV/NOPLAT	55.8	45.2	45.8	36.6	38.1	29.5	24.3
OCF/EV (%)	3.2	3.3	2.9	3.4	3.3	4.4	5.2
FCF/EV (%)	1.5	1.7	2.1	3.1	2.3	3.5	4.1
FCFE/MCAP (%)	1.5	1.6	2.0	3.0	2.1	3.2	3.7
Dividend Yield (%)	1.0	1.2	1.7	0.9	1.4	1.7	2.0

Source: Company, HSIE Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
12-Nov-20	1,285	BUY	1,480

Rating Criteria

BUY: >+15% return potential
 ADD: +5% to +15% return potential
 REDUCE: -10% to +5% return potential
 SELL: >10% Downside return potential

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