



**“Computer Age Management Services Limited
Q2 Earnings Conference Call”**

Thursday, November 12, 2020

Moderator/ Nischint Chawathe: Hello everybody. Welcome to 2Q FY '21 Earnings Conference Call of Computer Age Management Services Limited, to discuss the financial performance and operating trends of CAMS, we have with us today, Mr. Anuj Kumar, Whole-Time Director and CEO, Mr. Somasundaram, Chief Financial Officer.

I would now like to hand over the call to Anuj for his opening comments, after which we will begin the Q&A session. Over to you, Anuj.

Anuj Kumar: Thank you very much. Good morning, everyone, and welcome to this First Earnings Call of CAMS after we got listed. Some of you have engaged with us during the pre-IPO phase which was followed by a successful listing on 1st of October.

I will give you a bit of a context on what happened in the second quarter and in the First Half before I launch on to the charts. The charts will probably take the initial 15-20 minutes, and then we should have enough time for Q&A.

Essentially in the First Half as you saw in the markets, there was an element of volatility. Across the country, and across the world, there was an overhang of the COVID pandemic situation. And when I say an overhang of the pandemic situation, it is not just the fact that it affected mutual funds. The selling process slowed down. And, you know, our offices and AMC offices were not open. Distributors were not able to access fully their customers and investors to give them advice and propel them into investing. That was one aspect.

The other, of course, was that some of the businesses were shut and business incomes contracted. And in a lot of places, especially in the private sector, there was an element of compensation contraction for the employees. And therefore, their will and their ability to create surpluses every month and participate in the markets was lower. Some of that is now winding down. And therefore, we believe that, as the overhang goes away, we should be on to more positive times. But that was the reality in the First Half. And the other thing was that there was an element of fear in people's mind, which is also now gradually going away.

With all of this in the backdrop, I think the one good thing, which has happened to the industry, is that mutual fund assets are back to pre-COVID levels. I think that is a good headline for us to share with you. Most of you are aware of that. This is with the exception of equity where equity assets, despite the state of the markets, have trailed the peak levels. But overall, the assets are back at the same level.

The mutual fund industry has also continued to attract new investors. And through these trying times, especially in the last six months, we believe that is a heartening feature that that new investors have continued to join and are making investments despite what happened in the backdrop.

CAMS serviced assets are now at ~ 70% of industry assets, and which is therefore reflective of our being able to hold the position in terms of overall market share and expanded slightly. Our digital properties, especially in this period, in the last six months, have continued to advance.

You know, our key properties are myCAMS, GoCorp, edge360. And each one of those has gained significant traction and is aligning very well with the digital drive that the industry has been undertaking in the last four or five years. So that is heartening.

Our UPI Autopay mechanism offered by CAMSPay has now been enabled for SIP investors through CAMSPay, which is a kind of a new offering within the suite of offerings of CAMSPay. So, that is another expansion.

What I will do is, I will get onto the charts and begin the presentation. And then I will hand over to my colleague, Somu, to take you through the specific financials. And then we will have time for Q&A. So, Anish, if you can get to the beginning of the presentation, please?

I am going to share some numbers with you, several ones of them. Most of you track the industry. So, I have no doubts that you will be able to absorb this. If there are any questions, obviously, in terms of specifics, we are happy to share those things as we move along.

In this period, and I am talking of 2Q right now, if you look at industry, you have industry AAUM at 27.6 trillion. We said it has come back to the peak levels. When you see how this provisioned itself compared to the last year same quarter, it was 7% plus up and over the first quarter of this year, obviously, the expansion was more significant, so that was 12% up. Within that equity assets were more muted.

Industry equity assets were only 2% up over the previous year while the expansion looks significant over the first quarter. It is easily partitioned into two parts. One part is what new monies the industry is bringing in through selling, and the second part is what expansion happens because the indices expand, and therefore there is a mark-to-market gain. The second part was much bigger. The impact of selling was much smaller. So, the overall 14.4% expansion over the first quarter looks impressive, but the selling part is still not 100% in place as it should have been. So that is the situation overall for industry assets.

If you look at CAMS serviced funds and CAMS's assets, they showed up at 19.4 trillion or 19.4 lakh crore. Again, over the previous year, just given the backdrop of time, satisfactory growth at 8.6% over the first quarter 11% plus. All of this led to a share getting to about 70%, which is give or take one of the highest numbers that we have ever experienced.

There has been outflow in equity assets, largely of the lump category, and that is the investors timing the markets and taking money out. And therefore, that net accretion phase has yet to kind of kick off completely. This has been offset by valuation gains, which have happened because the indices have gone up.

Most of the growth on the non-equity side, most significantly, has come from the debt side, which has expanded handsomely. Liquid has been more muted compared to that. And therefore, the overall asset mix has been impacted by a flattish equity AAUM. And when you compare it for last year, the overall contribution of equity has contracted.

Now when you look at some of the other operational metrics of the second quarter, overall transaction volumes -- overall transaction volumes are at about 8 crores, about 79 million plus. This 5% improvement over the first quarter is muted and slightly contracted year-on-year, but again, for obvious reasons.

The SIP Book, this is the live book. This is all those investors who had registered with us through any format and then continue to stay with us. That expanded 5% year on year. Again, given the times, not a bad number, and 1% quarter-on-quarter.

However, amongst these investors, there may have been cases of some element of either pay contraction, etc. And therefore, the net SIP transactions process, which is people who actually gave money, so the SIP you registered, but sometimes you don't get money for a specific trigger, that was 3% lower year on year, almost flat quarter-on-quarter about 0.1% up. And again, our belief is that over a period, as the stress kind of loosens out, this number should improve.

Live Investor Folios grew 4% year-on-year, again, about half a percent up quarter-on-quarter to be about overall 40 million in numbers.

Unique Investors Serviced has expanded to about 162 lakh or 16.2 million. This is a 6% year-on-year growth. And again, the industry has kind of done well in terms of, especially, the digital formats, the traditional formats for individual distributors, advisors, being meeting people in sit down meetings. And we will talk about Aadhaar-based eKYC and other formats of eKYC, which will get enabled shortly. We believe that collectively for the future this coming together can give an impetus to more unique investors coming into the market.

When you look at 1H, industry AAUM more muted at 26.1 trillion at about 2% growth over previous year same period. Industry Equity down 5.2%, again, for obvious reasons, because the impact of the first quarter, which was really the COVID impacted quarter, is being right here.

CAMS Serviced Fund's AAUM up 4.5% for the first half at 18.4 trillion. Equity AAUM down 7.7%, and a net 1% market share gain over same period last year

And then in terms of the other operational metrics, transaction volume first half compared to last year first half down about 4.2%. As you saw it is beginning to pick up. SIP Book up 5% at 202 million. SIP Transactions exactly for the same reasons that we may have a live SIP, but the person may not choose to give us his historical payment in the month of May or June just because economically it wasn't the right environment for him. So, therefore, 1.8% down.

And then overall, both in terms of live investors at 40 million, 4.4% up, and unique investors 16.2 million, 6% up. Those are despite the very trying times good numbers across the industry. What are the other business highlights? We had spoken during the road shows of Franklin Templeton. Now having been signed as a mutual fund client, they are migrating their RTA work to CAMS. This migration is likely to happen by March / April, which means we should be forming up a go live date with them, and all the work migrates, including their workforce.

The migration, as you know, is a very complex process including the entire platform getting migrated, digital properties, APIs, workforce, all the physical work. So complex set of multiple concurrent moves happening there, but happy to share that. All of that is in track. We signed the contract in July, had an LOI from them in March, and should go live by March, April next year.

I spoke about Aadhaar-based eKYC. You know that this has been enabled for the capital markets through a dispensation from UIDAI and SEBI. The mechanics are in motion. We have the permission and the license, and we are almost in the final leg of going live. So, expecting for this to kind of kick off within November, which will again be accretive. It is a

foundational move, but just enables just easier on boarding of customers into the mutual fund industry, so will be accretive for the industry and for us.

Our digital applications, and you know that the industry has been digitizing furiously, making it easy and more enabled for the customer to transact from anywhere at any time. So, the statistics are very strong. myCAMS transaction volumes grew 34% quarter-on-quarter. Edge360, which was launched in August/September of last year, which is essentially a distributor portal and offers services to intermediaries to come and transact, grew 38% quarter-on-quarter.

GoCorp, which is the industry leading platform for liquid and overnight funds largely used by corporate, trusts, institutions, those kinds of entities, grew its share from 19% to 23% in transaction value. So almost we are in the vicinity of one-fourth of the liquid and overnight moneys are coming in and going out through this platform and that is a compelling statistic.

A UPI Autopay feature was enabled through CAMSPay for SIP customers. This was a first in the industry. And then you are aware, and you've been reading articles on how it's now becoming easier for investors, including retail investors, small investors, people with 1 lakh, 2 lakh kind of holding for them to come and take an instant credit line and an instant borrowing against their mutual fund assets.

Loan against Mutual Fund service, which was live with the HDFC Bank and ICICI Bank, but happy to report that a number of NBFCs, top tier NBFCs and top tier banks are now kind of expanding and wanting to join in. So, you see key names there: JM, Bajaj, Tata Capital, and Yes Bank. And as we move on, we will have more names to share with you in the ensuring quarters. But this is one service, which is finding traction and of course, all credit to the NBFCs and to the AMCs who have chosen to partner with them to bring this very effective innovation.

So, that is all that I had from a business highlight perspective. What I will do is, I will hand over to Somasundaram, our CFO to take you through the financials. And then, of course, we will have enough time for Q&A. So, Somu, over to you.

Somasundaram: Thank you, Anuj. And good morning to everyone.

Revenue for the quarter was 171 crores. There was a very strong recovery over the previous quarter. And the revenue today is almost at the previous year level, close to that.

And Q2, the asset-based fee growth over the previous quarter was in line with the AAUM growth at 11.5%. As you are all aware, the asset-based revenue constitutes very significant part of the mutual fund revenue. And mutual fund revenue is almost 89% of the overall revenue basket of the company.

So that is very well for the company. And that is partly reflected in the profits as well. Compared to previous year, we are at 7.5% at over the previous year as far as the asset-based revenue is concerned.

Like Anuj mentioned overall assets have come back to their previous levels, the pre-COVID levels. However, the equity remains somewhat depressed. Equity asset growth is less than the overall industry growth.

As far as the non-asset-based revenue is concerned, both in mutual fund and on the non-mutual fund compared to the previous year, we are significantly low, despite the fact that all the front offices got opened. The paper transaction volumes are even today, as we speak, it is more, more like, around 50 to 60% of the pre-COVID levels. So, even though all the facilities are today open, the transaction-based revenue has suffered, as you can see. However, quarter-on-quarter, there has been an improvement, obviously, because of the very low base.

I spoke about the asset mix. Equity is something which is yet to come back to earlier levels despite the Index growing well. Hopefully, with the economy and the salary levels coming back to the earlier levels, we should see a reversal in this trend.

As far as profits are concerned, we have posted a healthy growth over the previous year as well as the previous quarter. As you can see the PBT has grown by 12%, and the PAT has grown by 15% over the same period last year.

The operating EBITDA is now hovering around 40%. Partly, I would say that the expansion in margin contributed by some of the, what I would call a non-profit bearing revenue and low margin business component coming down in the overall revenue basket. That is part of the reason. And return on net-worth has shown a significant improvement partly aided by growth in the profits and also by the fact that we have declared hefty dividends and reducing what I would say low profit yielding assets in the form of cash and the equivalents deployed in the mutual funds.

As far as the first half is concerned, as you are all aware, the first quarter growth was in the negative terrain. And therefore, you could see that the revenue growth for the first 6 months is negative. The asset-based fee had a very marginal growth, mainly because of the asset mix.

As far as the transaction-based revenue, both in the mutual fund, and in the non-mutual fund side, they all declined. And some of the non-mutual fund businesses have taken a much larger knock, especially the insurance, and the banking businesses. Because of that, share of mutual fund business in the overall revenue, which used to be around 87% is today at 89%. But with the economy reviving back to the earlier levels, we do hope that rest of the businesses would also start doing as well as the mutual fund businesses.

So, this is on the first half financials. The PBT is almost flat compared to the previous year. However, the PAT has grown, essentially, because of the tax rate reduction. And in the previous year, when the tax rates came down, we did take some hit in the form of MAT credit write off, and DTA unwinding, which is why the PAT growth is larger than the PBT growth.

And the return on net-worth for the first half was 38.3%. As you have seen in the second quarter, it has shown an improvement with the growth in profits and reduction in the assets, the net-worth arising out of declaration of dividends.

The operating EBITDA for the first half was 35%, essentially because of the hit that we took in the first quarter.

And for the quarter, we have declared a dividend of 6.75 rupees - this we are proposing now.

With this, I will take a pause. And we will take the questions.

Q&A Session

Nischint Chawathe: Hi. Just please raise your hand up and wait for your turn to be announced for your questions. And I would also request the participants to identify your organization as we unmute you. The first question comes in from the line of Nilesh Parekh. Nilesh, your line has been unmuted. You can ask your question.

Nilesh Parekh: Hi, sir. So, if you can just kind of give, you know, you've talked about the -- the percentage growth and, you know, decline non-MF-based revenues. If you can kind of for the color, you know, given that, it's the first quarter first time that we are reporting post the listing, probably in terms of, you know, the absolute numbers if you can just split that revenue of about 171 odd crores into the different line items, sir? That will be helpful, and a comparable number. I know these are data keeping questions, but, you know, just it is the first quarter. So, I just thought, probably, if you can just help us out with that.

Somasundaram: Nilesh, I will put it this way. It might be difficult to give individual component level revenue. The mutual fund business accounts for today 89% of our revenue and upwards of 80% of the mutual fund revenue comes from the asset-based fee. So that constitutes the bulk of the revenue of the company. On the revenue of individual business lines, we would not be able to give the information at this point in time.

Nilesh Parekh: Okay.

Nischint Chawathe: So, the next question comes in from the line of Kunal Tanvi. Kunal, your line has been unmuted. You can ask your question.

Kunal Tanvi: Hi. Thanks, and good morning to everyone, and thanks for the opportunity. My name is Kunal, and I am from Banyan Tree Advisors Pvt. Ltd. And my question relates more to, you know, understanding business and a bit more. The way we understand it is, CAMS would, you know, have an agreement with the AMCs would be that it would be a tiered based structure wherein with increasing AuM, our realizations would drop. So, how does it impact our overall, you know, operating leverage?

Somasundaram: On the question of tiered pricing and what it would have been on the profitability, yes, you are right. Our pricing is a tiered structure. And therefore, when the AAuM grows, our asset-based fee, which constitutes almost the bulk of the revenue would grow with a lag to the asset growth.

Regarding the profitability of the business, so if you must look at the operating EBITDA percentage as a metric, we have been at 37, 38% kind of a level for a longer period of time. In bad years it has come down, and in very good period, especially in the periods during which the assets growth takes off, the margins tend to expand. But by and large, we have been around 37, 38%. That is what our historical data shows.

Kunal Tanvi: Sure, sure. That is helpful. So that's -- that is where my question comes in that, you know, I understand that there would be, the industry itself is like, you know, largely underpenetrated. And there would be, you know, lot of growth that would come in. And we with, being with top 10, you know, mutual funds, who are, you know, poised to grow faster

than the industry, does it mean that there would be a cap on our profitability as you mentioned, like, 37, 38%, like, you know, with this scale, is it possible for us to grow our profitability faster than ourselves? Or, or, or our ability gets, you know, handicapped, because of the tier-based structure that we have?

Anuj Kumar: Okay. I will put it this way. It is -- is it possible to grow margins faster than revenue? Yes, it is possible. But we are cognizant of a few facts. One is, this is an industry, which is in early stage. And therefore, being a very significant stakeholder in the industry, we have to continuously keep investing in the growth of the industry, which would reflect in the form of the various digital initiatives that we undertake, the way we improve our processes, the way we ensure that our organizational capabilities have lot of resilience in the form of investments in hardware, software, etc.

And similarly, it is a very, very knowledge-based industry, which we would continue to invest behind people who form the bulk of the knowledge base of the company. So, all this factor is essentially making us believe that we should continue to invest in growing revenue and profits than on profitability metric.

Kunal Tanvi: Sure, sure. I will get back in the queue. Thank you so much for your answer.

Nischint Chawathe: Yeah. Thanks, Kunal. The next question comes from the line of Dushyant Mishra from SageOne.

Dushyant Mishra: Hi. Just wanted to ask you about your revenue stream, sir. I mean, I've only recently started looking at the company and based on your DRHP, I wasn't able to decipher how much of your revenues come from non-asset-based services that you offer. I mean, I see that are non-asset-based fee and non-mutual fund related industries. Those two splits a bigger drag, which cause our overall revenue to decline by 1.5%. So, do they make up a larger chunk? I mean, how much of your revenue comes from offering ancillary services in the mutual fund industry?

Somasundaram: Dushyant Mishra, thank you. Now talking about historical data say last 3 years kind of this one, typically, the mutual fund industry, mutual fund business accounts for 87% of the overall revenue. And within that the asset-based fee accounts for upwards of 80% of the mutual fund revenue. So, as you can see, A, mutual fund accounts for bulk of the company's revenue. In fact, this quarter it is more like 89% of this one. And within that, the asset-based fee constitutes a lion share of the fee. So, from the top line and the bottom-line perspective, it is the asset-based fee, which is the most critical one for the company.

Dushyant Mishra: Got it. So, with the eKYC becoming the norm, or if we move towards a more digital kind of a process, how does this impact your physical footprint, your 270 stores or 4300 employees? How does this impact that? Do you plan to scale that back if you start to get into a more digital platform where you are encouraging clients to get on boarded through those processes?

Anuj Kumar: So, Dushyant, essentially, the digital drive in the industry has been visible for the last almost 5 years. And we have a key constituent and a prime mover in converting as many processes as possible, including onboarding, servicing. Just very complex processes now do happen digitally. So that is one part. We will continue enabling them both of our

properties and of all partner and AMC properties, and that is a stated objective and a mission.

However, the other part to this is that there is a segment of the population, especially in tier two cities, and also in tier one who still prefer physical access and in-person servicing. And this constitutes both investors and intermediaries. Over a period, and especially in COVID, we have seen, there has been some contraction of that kind of activity.

Like, Somu said, our paper volumes and foot falls are about 60% of Pre-COVID levels. Now we have got to watch it for the next maybe 5 or 6 months to see how much of that gets restored, how much of the balance gets restored. But there is always a demand for in-person handholding, some of those engaging kind of conversations, which investors prefer.

And therefore, right now we are not scaling back any of the front offices or any of the access points. Over a period of time, if this trend persists, and if we see a faster sizzle into digital, then we may scale back some of the headcount, which means say we have a large office with 40 people. And we may have only 25 or 30 people there, but that is not a decision we have taken yet. We're watching the situation carefully, and we've invested on both sides, which is to drive the digital paradigm as much as we can, but also to make sure that all the newly on boarded investors and their needs and their trust building cycle is fully enabled through point of access, presence of our employees in our offices so that we don't impair that process.

Dushyant Mishra: That's extremely helpful. And one more question, if I could. This is a high cash generating business. What is your plan with the cash that you generate? I mean, I am assuming Capex requirements for year-on-year are pretty limited and very predictable. So, what would you do with extra generated cash?

Anuj Kumar: So, when you look at the financials here, right, it is an effective, sustainable cash generation machinery. We are a physical infrastructure company right now. We are not too much cloud based, etc. Our requirements of physical infrastructure capacity, etc., are now predicated at 2x of the peak load, which means I need to have just significant redundancy in the system of storage, compute and all those kinds of things.

And then secondly, from a security perspective, especially cyber and data security, we continue to embellish and fortify the entire infrastructure. So, those are the 2 large components that require Capex. And there is some element of physical refurbishing our offices, etc., which happens.

Of the surplus that we declare, stated policy has been that the board will endeavor, and the company will endeavor to pay out as much as 65% of the PAT. And that may not happen in - in every single instance, like you would have seen for this quarter. But what we tried to do is that for the full year, every time we declare a dividend, we like to get as close to 65% or to 65% So, that has been the distribution, not just the policy, but also the practice and indicated by the last many years of dividend distribution.. If we find opportunity which fit into the kind of strategic line of thought, we're very open, but technology Capex, physical Capex, dividend distribution I think is where the cash goes.

Dushyant Mishra: And if I may just squeeze in one last question? Could you talk a little bit about the basic requirements and licenses you need to become an RTA and just kind of go

over how you think competition may scale in the future? Because despite a higher fee that we charge from our clients, and we still gain market share over our closest competitor, and we are over two-and-a-half times their size. So, I just kind of want to understand what is it that sets us apart.

Anuj Kumar: Sure. Good question. And, you know, as you gain intimacy with the business, Dushyant, over a period, you will kind of realize this better. But if I were to sum it up, it is not the license, which serves as the differentiator. There are two, three parts to this entire construct. One is like, it is a very nuanced, multilayered, detailed, complex understanding of process and regulation both. Now, that sounds like a line of English. But when you start practicing it, it is what it is. And I come from a background of outsourcing and multiple industries. And I have seen including England, India, and overseas, including healthcare, airlines, telecom, all of that. And this is extremely nuanced and multilayered. And therefore, the base of knowledge and the base of processing that we built over the last many years, and this entire workforce is a large asset, and our ability to kind of understand regulation and then build a process and execution around that.

And the second, the biggest part of this is the platform, because the platform is what the business gets done on. And like you know, all the components of the platform, whether it is for processing or data keeping, long-term record keeping, brokerage computation, all of those things are being done on our central platform. That is the IP -- it has taken us about two-and-a-half decades to bring that entire platform to the current level. There are no commercial sellers in India of that kind of platform. There are commercial sellers overseas but porting that platform to the needs of the Indian market is extremely tough, cumbersome, and cruddy. And some people have tried that, and it has not been successful. So, the successful RTAs that you see today have both ridden on bespoke own platforms over the last the last two, three decades.

And then the third, of course, is that we have created this vast financial infrastructure, both physical and electronic. The physical infrastructure is the network of 270, branches, the 1500 people who work there, service, investors, and distributors, and the electronic infrastructure is all the linkages that we've created with all the other constituents, like the AMCs, the 100,000 registered distributors, payment aggregators, stock exchanges, all of those.

So, if you put these three components, that is really what I would classify as the, the build, the IP part of the business, which is tough to replicate. I would not think of the license as the key component of the secret sauce.

Nischint Chawathe: Thank you, Dushyant. We need to move on the next question comes in from the line of Mr. Deepak Gupta.

Deepak Gupta: Hi, good morning. This is Deepak from Reliance Nippon Life Insurance. Thank you for taking my question. I just wanted to understand how an RTA goes about winning Franklin Templeton contract like you mentioned in your presentation that Franklin Templeton is the new fund, which has been added to your clients list. What is the process for getting a client? And is there some kind of a fixed term contract that mutual funds enter with their respective RTA? Thank you.

Anuj Kumar: Yeah. So, think of the marketplace as any other large B2B outsourcing marketplace, just in terms of the process. So, the way the process would work is FT is an example, but there are multiple mutual funds that typically wanted to get, which get licensed every year. They have to appoint some of these outsource partners because the industry has successfully kind of chosen that path. So, amongst the custodians, fund accountants and RTAs, bankers, the mutual fund will typically do a discovery process through an RFI or an RFP. They will invite competitive bids. They will do the site inspections etc., do client references, and at the end it is the capability and price kind of a win strategy.

So that is how the entire process takes place. The contract is a perpetual contract. Just because it is almost a tied relationship, it does not mean that the client can't move away from the RTA. But those moments are less than what you will see in other industries. So, these are long term, almost perpetual contracts with the ability to add scope as you need. So, whenever there is a regulatory change, or you want to do a service innovation, you can add scope to it. And the other thing is that there is a mechanism to kind of discuss price, which comes up every three, every four, every five years. So that is typically the mechanism, which is available, not very different to any other B2B contracting that you would see in the outsourcing space.

Deepak Gupta: I understand that, but just to take this, take this point of, take this point a bit further ahead, what made Franklin Templeton move out from the existing RTA to CAMS? And do you have any other contracts which are up for renewal in the coming quarter? Thanks.

Anuj Kumar: So, Franklin was doing this work in house. They have done this work in house globally as a philosophy. That is what they believed in many years. They have been a make company themselves, not a buy company. And if you saw the 40 mutual funds in India, we would have described it as 100% outsourced but for Franklin. Now it has become a 100% outsourced market. So, they are not stepping out of a commercial relationship they had with a third party. They are stepping out of a philosophical position of doing themselves. When they decide to do it themselves, they had to do a discovery in India. And that is how they chanced upon us. So, the migration is happening from Franklin's own RTA operations. Does that answer your question?

Deepak Gupta: Yes, sure. I understand that. So basically, currently you have 70% market share in total mutual fund AAUM. With Franklin Templeton, what would be the size now for you and the percentage of AAUM? And how much it can contribute to your revenue growth in the coming years? Thank you. That is my last question.

Anuj Kumar: So, let me answer this way that the assets figures are known. And therefore, as an approximation, the same asset ratio expansion will happen. So, my guess is, depending upon what comes in, in the month of March, April, when the migration is complete, it could expand AuM by about 2 or 3%. Those numbers are out there, and you can do the computation yourself. Revenue, we do not want to make a call right now on what exactly rupee revenue will come.

Nischint Chawathe: Sure, thank you. The next question comes from the line of Madhukar Ladha.

Madhukar Ladha: Hi. Good morning everyone. Thank you for taking my questions and congratulations for a good set of numbers. My first question is, can you give us split of the average AAUM between 2Q FY '21 and the previous year?

Somasundaram: Madhukar, as you know, we disclosed the equity AAUM and the total AAUM. So, as far as the current quarter Q2 is concerned, our equity AAUM was 6.6 lakh crores, and the previous quarter it was around the 6.5 lakh crores.

Madhukar Ladha: Then second question is, you mentioned that about 89.3% of the revenues are MF revenues. And of that, about 80% odd is asset based.

Somasundaram: I said upwards of 80%.

Madhukar Ladha: Okay. So, even for the previous year, it would be that way.

Somasundaram: Yes. But this quarter, obviously, the component would have gone up, because that is growing while the rest of the basket is declining.

Madhukar Ladha: Right I have a couple of more questions. First, so, you know, you mentioned about the SIP transactions and SIP got triggered but were not funded. Can you give us some color of how that has been over a period?

And my second question is, you know, this new product of loan against mutual fund. I wanted to understand that how is it value accretive for CAMS. So, these are my two questions.

Somasundaram: Regarding the first question on the SIPs, , historically, the transaction volume growth and the SIP Book used to move together in the same direction, whereas in the last 5, 6 months, we have seen that divergence between the growth in the SIP Book as compared to the transactions. The divergence that you see as compared to the SIP Book growth versus the SIP transactions give approximate idea of the divergence that is happening.

Anuj Kumar: So, I'll just add one statistic, not a specific, but a directional number, that for SIPs registered with CAMS, the success rate used to be in the high nineties, which means that it's a, it's a very well-functioning process. This impairment, small impairment that so more effort to our belief is specifically due to COVID. And again, while we have to wait and see whether customer behavior changes or not, but we believe that it should come back to those high nineties' kind of numbers over a period.

Madhukar Ladha: Okay. That is helpful. I wanted to understand what the revenue model for CAMS on the loan against mutual fund product is.

Anuj Kumar: On the loan against mutual fund products, I mean, just so that you understand how this works, loan against mutual funds has been available traditionally for a long period of time, except that it was processed physically. And therefore, there was a cycle time from the time you applied with a bunch of papers, and then you got the limit or the money through the bank, and it could easily take seven, eight days. Now, it's a completely digital process, and that digital process enables you to come to the website of a bank, inquire about the product, seamlessly transition to CAMS, select your mutual funds, mark out, where you would like a lien to be created, go back to the bank site on the same session, and for you to

conclude the process, and for you to be granted a limit in the same session. So, it has become very easy. And if you see, banks do claim, you know, a 4-minute, 5-minute kind of cycle conclusion.

Now, because this expands the amount of activity that we do digitally and also, there are embellishments that we supply to the banks in terms of various reports and intelligence on their overall portfolio, there is a small rupee fee that we charge on every registration, which means, not the registration of a customer, but on the actual lien marking process, and then we charge a rupee fee when the on marking happens, which means when the person is paid off and then the lien marketing goes away. So, these are small rupee fee numbers that play out, and this market is just kind of beginning to happen. It is a few thousand cases a month kind of a marketplace right now.

Nischint Chawathe: Thank you, Madhukar. The next question comes in from Abhishek Saraf.

Abhishek Saraf: Thanks, Nischint, for the opportunity. So, my question is not per se directly on our business, but more on the mutual fund side on which we are the first derivative and keenly dependent on that. But the flows environment has been weak. So, how you as a, if I can say, outsider insider looking at this trend, because at the end of the day, it's - it is about AAUM and performance, but also how flows span out. And if the negative flows continue, then obviously, at some point of time, it will hurt us as well. So just wanted to know your view on how you are looking at this development because the earlier instance of outflows lasted for a long time. So, how are we viewing that? So just your thoughts on that will be very helpful.

Anuj Kumar: Sure. Absolutely. So, one characteristic of the mutual fund market, and I'm sure you've seen that is that the market grows in steps, which means there will be a two- or three-year period of very frenzied investor activity and growth. And then there is a settling down period. So, you can almost draw it like a step chart. And you only have to go back the last 15 years to kind of see that data in terms of accretions, both of investors and assets. That is point number one.

Within that, when you see 5 and 10-year CAGRs of AAUM, and that is the only metric you should look at. That looks like teens to high teens. And I understand where you are coming from. You are saying that look, that is not playing out, especially on the equity fund side. So, it is a subset. It is not playing out on the equity fund side for maybe, you know, in this calendar year.

But if you looked at debt, for example, which has scaled historic highs over the same period, you will see that that accretions have been pretty handsome. And therefore, we believe the right metric to look at, one, of course, are foundational metrics, like the savings rate in the economy, and the sizzle from physical to financial savings, which is the most interesting operating foundational level metric. And the second is medium-to-long-term asset CAGRs of the past. And the third is that the industry has always kind of built itself in stepped fashion. It is not frenzied or steady growth every year or every quarter. It is almost like a step function.

If you put these three things together, my estimate is that the fundamental attractiveness of households and investors to get into a tax efficient, transparent fund management route

continues to remain as attractive as that was a year back. And therefore, this is more a function of time, we believe, than a long term-trend.

Somasundaram: I will just add to it. But if you even within the equity, the inflows, which is what are concerning you, we see two trends. So one is, unlike in the past, the SIP continues to be strong. There are no knee jerk reactions from the investors. Earlier it used to be like a huge amount of cancellation. The SIP Book used to decline. We do not see such kind of reactions, even in a very, very high volatile period. And the SIP inflows continue to be fairly steady, which is very encouraging since I've seen the previous cycle where the SIP Book used to go to a negative terrain. That is not happening, which means long-term investors are sticking to the industry.

As far as the lump sum investments are concerned, there are people who do time the market. And they also do asset balancing. Right now, what we are seeing is that there is a huge inflow coming into debt with some amount of negative inflow in the equity. But longer term we do feel that it would be more a secular kind of a growth.

Abhishek Saraf: Sure, thanks for your response.

Nischint Chawathe: The next question comes from the line of Mayank from Franklin.

Mayank: Thanks for taking my question. I just had one single question on the transaction growth numbers that you had given. Can you also give a sense on what was the growth on digital transaction separately and paper transactions separately?

Somasundaram: So, as far as the paper transactions are concerned, we have seen a significant drop, almost of the level of around 35% to 40% kind of a level. However, the rest as you can see in the operational metrics that we had put on, while overall transactions have grown by 5%, the paper transactions have declined by close to around 30% plus kind of a level, which means the rest of the transactions, which are electronic or digital, they sort of held growth. And within that, our digital properties have shown a significant increase as you would have seen from the charts where myCAMS has grown by 34%, Edge360 has grown by 38%. So, the paper transactions have declined very sharply of the range of 35 to 40% kind of a level, whereas the electronic transactions have grown. And within that, the CAMS digital property transactions have shown a healthy trend.

Mayank: All right. So, this 35 to 40% number is for the last quarter, or is it for H1?

Somasundaram: Actually, in H1, it was sharper. It is more like for last quarter.

Mayank: It is more for the last quarter. Got it. And so could you, I mean, I can work this out based on the numbers you've given, but could you just tell what is the share of paper transactions now in total transactions for the last quarter?

Somasundaram: Last year, it was hovering under 30%. This year, it is likely to be much lower.

Mayank: Got that. And this, this decline in paper transactions that we have seen, and we have seen an increase in digital transaction. How much of this is going to be sticky? How much of this change is sort of permanent in your view?

Anuj Kumar: So, let me try to take that. A part of -- so think of the first quarter in April, May, June, all the front offices were shut. And if you wanted to do a transaction, the only way for you to do it was do it digitally or electronically. In the second quarter, that opening has started, although you can still argue that everybody is not mobile, and everybody is not comfortable doing that transaction in a physical environment. So, maybe they are not transacting at all or they are trying to do it digitally while preferring paper. The volumes, paper volumes are back to 60% of what they were pre-COVID.

So, therefore, the way I would think about it is that maybe another 10% retracement could happen of the paper, 10 to 15% from here, which means that we could get back to, let's say, 70, 75% of paper volume coming back in the next two, three months. And the balance could stay, could come back as paper of which 60% has already come back. That is kind of a broad view. It will depend upon how things pan out in the next three, four months.

Mayank: Got it. So, you are essentially saying it is structural, accelerated shift 30% of paper into digital. My follow up question is how does that affect our bottom line in the medium term?

Anuj Kumar: So, what happens is that these paper transactions are revenue yielding for us. So, it does create a revenue contraction for that component, which is what you have seen in the charts, the fact that non-AAuM revenue has contracted. And this was a large driver of that. However, these paper transactions are not a large source of profit. They're mostly price that are cost recovery plus a small margin basis.

Mayank: Okay, That's, that is very useful. Thank you so much.

Nischint Chawathe: The next question comes from the line of Manjeet from Solidarity.

Manjeet: Thank you for taking my question. I had one, the first question is when negotiate fees with the clients, do the tiered structure change?

Anuj Kumar: So, the way it works is that the tiered structure is largely a static structure, which is agreed to at the time when we are signing up for the customer. However, there is a possibility that if the customer grows very large, then it is possible that we may do a structural conversation on any further tiering that may happen.

Manjeet: My other question was, you know, in one-off instances like when SEBI cut the TER, you know, still compared to revises in some words, do they come back to CAMS for the revision downwards or CAMS, you know, being just one of the two RTAs and the pricing power to saying no to them when they come back?

Anuj Kumar: Largely since our approach to the market has been a more collaborative partnering inside the arena approach, we have never let the market share manifest. Some of the scale of the growth continues to go to the mutual funds, which is why revenue growth is at a lag to the asset growth and not exactly equal to it.

In a year when TER went down, and the entire industry was impacted, although I must start by telling you that most of that impact was either absorbed by the mutual funds or passed on to other components of the industry, some of the mutual funds did come back to us and had conversations on price. Those are, again, one-on-one conversations on what we can do in a

tough year when they are facing headwinds. And then those conversations get concluded through some, some arrangement that we would enter. All of that is in the past because that happened last year. And we are about six quarters out of the time when the TER change happened in April of 2019. But yes, occasionally, in an exception earlier, that may happen.

Manjeet: Sure. And my final question was, you know, I just wanted to clarify what I heard to some previous questions' response, was typically we've grown at point .75x of the industry AAUM growth when it comes to our asset based revenues. And the second piece of that answer was, you know, given our investments that we do in digital and human resources, it's fair to assume the margins at EBITDA levels stayed around that long term 37, 38%, instead of looking to expand those margins as long as the industry is growing. So, clarification on that. Thank you.

Anuj Kumar: Yeah. You have got both parts right.

Manjeet: Okay. Thanks.

Nischint Chawathe: The next question comes from Harish of IIFL. Harish, you can ask a question.

Harish: Thanks. So, just want to get a sense on this Franklin Templeton operations is going to start from April as you are saying. So, right now they are around 4.5% of MF AAUM, but going ahead, how does it operationalize? Do you get the revenue from the entire assets on day one from April 1, or is going to be in, you know, phases where you start off with, you know, the incremental account, which come to you? And then after that, you will get some of the old assets. How does that start?

And second, if you can comment in terms of the pricing there. Was the win based on pricing?

Anuj Kumar: Okay. Good, good question. So, let me start by telling you that a mutual fund in RTA operation is, is just a very deep kind of a relationship encompassing, literally, if you were to account hundreds of activities that get done across the sphere of liability side operations. And therefore, it is a cumbersome model for anyone to deal with two RTA operations. So, the migration is a one-shot wholesale lock stock and barrel migration, which means everything moves on the same day, so it is not incremental. And therefore, all the assets and all the accounts, all the folios come to us. And therefore, the entire AAUM accountability and the attendant revenue and responsibility is all ours. That happens from day one. It is not incrementally that they will do something, and we will do something else. It almost -- that is one.

The second thing is, and I do not think I can give you specifics. But let me tell you this, that we have built over the last many decades painstakingly very compliant quality, delivery, high investor set, low complaints, high, ironclad kind of operations, that kind of image. And therefore, we are seen as the premium provider, which is how the market share is justified, not through pricing. I would say there is just one word for it, which is performance. Sustained performance has led to the market share

Harish: Sure. And last thing, sir, you are probably around 70% of the market. This kind of gets in 6%. So, this should add 6, 6.5% of revenue going there. Is that understanding right?

Somasundaram: Oh, we will not be able to comment on individual client's revenue. But the percentage of assets that you are mentioning, I do not think it is correct. It is more around 3% kind of a level of the industry AAUM.

Harish: Will this be profitable from year one?

Somasundaram: We are bound by client confidentiality agreements. We would not be able to answer any client specific questions.

Harish: No, not -- so, I am asking about your profitability. So, when taking a new account of this scale, will you be profitable from year one? Or will it take a couple of years before you can make money

Somasundaram: No, it won't be a couple of years but more like couple of quarters

Harish: Okay. Sure. Thank you.

Nischint Chawathe: Yeah. Thank you. Due to time constraints, that was the last question. Thank you everybody for joining us today. Wish you all a very happy Diwali. And thank you to the management for providing us an opportunity to host the call. Thank you very much.

Anuj Kumar: Thanks. Thanks for the team and thanks for the participants.

Somasundaram: Thank you very much.
