

Management Discussion and Analysis

OVERALL SCENARIO

Year 2020-21 started with a gloomy outlook on account of Covid-19 driven lockdowns and consequent halt to economic activities across the globe. What started off as a health crisis soon morphed into economic crisis. Quick response by Governments and Central Bankers enabled a near V shaped recovery especially in the financial markets. Year ended on a high note, except for few countries, with multiple vaccines coming to market and strong pick-up in economic activity. Stock markets across the globe returned robust returns aided by liquidity. The year established new normal for working, shopping and social interactions.

For India, year 2020-21 has been an eventful year with unprecedented macroeconomic, regulatory and customer delivery challenges. In March, country declared COVID-19 as a “notified disaster” for the purposes of the Disaster Management Act, 2005 and imposed a nationwide lockdown beginning on March 25, 2020. The lockdown lasted until May 31, 2020 and has been extended periodically by varying degrees by state governments and local administrations. The lifting of the lockdowns across various regions has been regulated with progressive relaxations being granted for movement of goods and people. Economic activity picked up sharply and equity markets did a smart rally. Year saw a flood of successful IPOs. Just when everyone thought worst is behind them, wave two struck India viciously. Financial year ended on almost similar mood as the beginning of the year.

BUSINESS ENVIRONMENT

Indian equities faced massive sell-offs in late March 2020 largely by FPIs mirroring the global scenario leading to the sharp depression in the Indian MF Assets. However, there was quick recovery in the equities market in April 2020 which put the AuM back on its recovery track and record new historic highs crossing the Rs. 30 trillion milestone and Equity assets reaching its all-time high at Rs.12.93 lakh crore in March 2021. However, Equity Mutual Funds net inflows remained negative through most months of the year due to lumpsum redemptions and SIP cancellations outpacing new registrations. Debt Fund net inflows was buoyant and helped off-set the negative equity net flows. The growth in AuM of retail and HNI customers has outpaced that of corporates and other institutional investors with Individual investors now accounting for ~54% of the total AuM of the Rs.32 trillion overall AuM.

CAMS retained its market share of the over-all AuM at 69% and now serves all Top 5 Asset Managers with Kotak Mutual Fund securing the 5th spot. Our asset mix remains higher in

Debt with 74% of the Industry's assets and 63% in equity assets. Despite the volatility and the uncertainty, the unique live investor base grew by 8 lakhs to serve a total of 1.6 crore investors. SIP new registrations were subdued for the first nine months and saw a surge in the last quarter to help add about 14 lakh net new SIPs into CAMS live SIP book during the year. Among the distribution segments, Fintechs were driving new folios and SIP accretion and CAMS serviced Funds recorded 90 lakh new folios, a 14% growth over previous year.

Despite the COVID pandemic related challenges, the year was an eventful year with the, mutual fund industry crossing Rs. 30 trillion milestone and filled with multiple and significant regulatory changes. Our business continuity was executed to ensure meeting of SLAs, despite a large work force operating from home. Government and Regulator brought in many changes throughout the year such as TDS on dividend, Stamp duty, multiple changes to cut-off timings which required a quantum change in investor and distributor communication. With its strong focus on customer and operational excellence and financial prudence, the company could navigate the tough business environment to ensure that investors are not impacted.

THE YEAR IN FOCUS

The financial year began in the middle of an intense nationwide lockdown mandated due to the unprecedented crisis arising from the spread of Coronavirus. For the first time in the history of the organization, the company started work-from-home operations in March, 2020 after working through numerous design-aspects of the new paradigm such as information security, availability of desktops and last mile connectivity in the houses of employees. The Company could provide uninterrupted and extensive core services from the first day of lockdown for the AMCs. Expansion of risk and lowering of controls arising from the work-from-home environment were extensively anticipated, documented, managed and shared with clients.

CAMS continued to focus on its digital strategies with a slew of digital properties made available to the market to manage the lockdown situation. These digital properties continued to do well, set new milestones and we are now successfully engaging AMCs with white-labelled formats of these utilities so that the AMCs digital teams engage with us more deeply. myCAMS, the company's mobile app for the Mutual fund investors crossed the 4 million user mark and continues to contribute a significant % of digital transactions. CAMServ, our chatbot, is now functional across some AMC

websites in a white-labelled format. edge360, our new digital distributor platform, continues to gain usage and acceptance with more than 13000 distributors while GoCORP is now at 14.8% share of Gross sales of the Liquid transaction market (previous year @ 11%).

The Mutual Fund Regulatory environment continues to be intensive with a spate of fresh changes including substantial ones such as Stamp duty on MF transactions and imposition of withholding tax on dividend income emanating from the Union budget. The second half the financial year saw a slew of impactful regulatory changes which demand several systemic changes to be implemented in a short time. This year has also seen intense engagement of CAMS with SEBI on various issues of importance to the Mutual Fund industry.

MF OPERATIONS

Given the uncertainty posed by COVID19, markets fell to multi-year lows before recovering to the highest ever AUM with volumes also restored. Despite the intensity of pandemic-driven disruptive forces, constant changes in Regulation and experiencing the highest volumes from NFOs and redemption/switch transactions in the last quarter (including doubling of transmission cases across units), the company delivered a high degree of operational robustness & client satisfaction. Post the lifting of lock down and despite opening of all our front offices, only part of pre-COVID physical volumes came back. Transactions through digital and electronic modes continue to be at about 85% of the total inflows.

OTHER INITIATIVES

Automation & Risk - Automation was the big focus area in 2020-21 and several high impact projects were implemented during the year. The automation roadmap involved challenging and reimagining all current processes by cross-functional stakeholders from Product Management, Process management, Technology and end-users in-order to bring about transformational changes. During the year, the Company focused with a lot of success on reducing the overall risk in operating environment by addressing risks on key functions with Automation initiatives.

OTHER BUSINESSES

CAMS Payment business - ('CAMSPay') - Onset of COVID early in FY21, CAMSPay ACH business impacted significantly in its new business accruals. With moderate drop in existing recurring transaction collections, the business could not grow its volume as expected. MF segment's slight drop and NBFC significant drop due to the Pandemic effect, got offset in part by the growth in Insurance segment. The Business, to align with market, had to moderate its fee structures.

On the CAMSPay digital B2B services, the business could not add any significant client wins during the first half of the year, again due to the Pandemic impact, however, there has been positive traction in sign-ups and adoption to digital payment offering from tech lead financial entities. CAMSPay signed up with 3 leading AMCs to integrate new payment offerings and received approval from a private life insurance company to integrate with their website and digital properties, this positive movement is expected to continue in FY22.

A wholly owned subsidiary- CAMS Payment Services Private Limited has been formed and it has applied to RBI to be a Payments Aggregator. While CAMSPay is already a compliant payments platform, efforts are being taken to enhance our security standards to match the best of the breed industry standards- execution of current security strategy is largely as per target. Our process maturity continues to improve, and it exceeds peer benchmarks and approaching goals.

CAMS Insurance Business – Insurance penetration in India is poised to increase substantially in the current decade as is evident from 2019 Insurance Penetration (Premium / GDP ratio) being 3.76% as compared to world avg. of 7.23%. The India Insurance Density (premium / population) 2019 is low at \$ 78 and shows high growth potential when benchmarked against world average of \$ 818. Also, the share of non-life to total insurance is far higher for the world at approx. 50% as compared to 25% in India – nonlife sector in India is likely to grow faster. Covid had dented the insurance industry in H1 FY21 but it bounced back in the latter half of FY21.

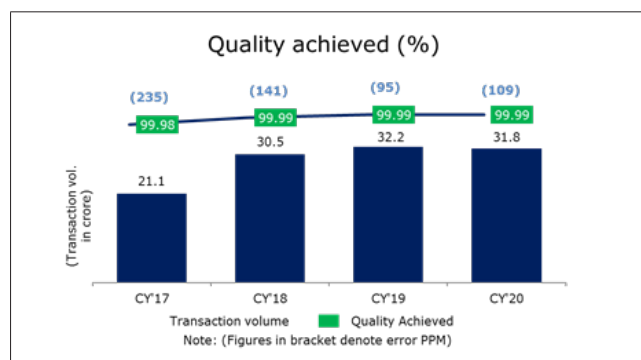
CAMS Insurance Repository Business opens e-Insurance Accounts for the insured, primarily in life insurance segment and is expanding its reach to the non-life & General Insurance segment as well. In the technology enabled processing service, it expanded service scope in the persistency business while the Insurance Repository maintained its growth trajectory and has more than 3.3 million digital policies, aided by our social media presence and new digital communication strategy. Although, we went through a major disruption due to Covid, the company took care of its clients and this was reflected in Client Experience Index moving to an unprecedented high of 85 (from 77 of the prior year). This is translating into more business for CAMSRep, especially in persistency and digital B2C services.

CAMS Account Aggregator business - CAMS Financial Information Services Private Limited ('CAMS FIS'), a wholly owned subsidiary of the company was awarded the account aggregator license by the Reserve Bank of India. The Company has put in place the required infrastructure and is in discussion with financial institutions and clients for commencing the commercial activities.

CAMS KRA business - CAMS Investor Services Private Limited ('CAMS KRA'), a wholly owned subsidiary of the company which is registered with Securities and Exchange Board of India as a KYC Registration Agency and is licensed for implementation of SEBI's vision of a harmonized KYC process.

OPERATIONAL EXCELLENCE

During the year despite the Covid Pandemic, all day-to-day activities relating to processing of financial transactions were performed from day one of the pandemic. During the initial weeks, CAMS delivered all the critical deliverables. Electronic & digital modes of transaction continued to function with support from CAMS. Subsequently, expansion in coverage of scope to cover all aspects of operations was carried out in the successive weeks. The Company gradually expanded the basket of services and delivered almost all services including critical regulatory and year-end reconciliation. Our branches across the country are open daily except on days when local authorities announced lockdowns.



As part of continuous improvement, CAMS has made substantial efforts in enhancing overall quality performance. Accuracy levels of 99.99% in financial transaction processing was delivered in 2020, achieved with residual error PPM at 109. The low error PPM is consistently achieved despite increasing complexities in the processes led by various regulatory & product related changes, fluctuating transaction volumes, stringent timelines for deliverables and heightened investor demands.

INTERNAL CONTROL SYSTEMS AND ADEQUACY

The Company has an adequate internal controls system, commensurate with the size and nature of its business. The system is supported by documented policies, guidelines and procedures to monitor business and operational performance which are aimed at ensuring business integrity and promoting operational efficiency. All the records are adequately maintained for preparation of financial statements and other financial information. Apart from internal controls,

the Company also audits the efficiency and security of its operations, its information technologies and data, in accordance with the global standards.

The Company conducts periodic internal audits in line with an audit plan that is drawn at the beginning of the year, which is approved by the Audit Committee. The scope of the exercise includes ensuring adequacy of internal control systems, adherence to management policies and compliance with the laws and Regulations of the country. The Company's ERP system has appropriate controls embedded in its processes and systems which has been strengthened from time to time.

Internal audit reports are placed before the Audit Committee of the Board of Directors, which reviews the adequacy and effectiveness of the internal control systems and suggests improvements for strengthening them.

DISCUSSION OF FINANCIAL ANALYSIS

This discussion on Financial Analysis is for consolidated financials of the Company during 2020-21. The Company is a technology-driven financial infrastructure and service provider to mutual funds and other financial institutions. The FY20-21 numbers are shown on comparable basis for all statement of Profit and Loss and Balance Sheet items discussed below.

Highlights of the financial year:

- The Company continues to be debt free.
- FY 20-21 revenue was at Rs. 7,055 million
- FY 20-21 Operating EBITDA was at Rs. 2,727 million
- FY 19-20 revenue was at Rs. 6,996 million
- FY 19-20 Operating EBITDA was at Rs. 2,615 million

KEY HIGHLIGHTS FOR FY 20-21

- ~70% market share with AuM Rs. 22301 Billion*
 - Record keeping of ~72.4 million folio accounts **
 - ~ 323 million financial transactions
 - ~ Rs.128 trillion processed as Pay-in/Pay-out
 - ~ 6 million investor service requests
 - ~ 122 million investor and distributor triggered reports
- * For March, 2021
** As at March 31, 2021

Product Development

The Company is providing services and is not engaged in any product development. However, as part of its value offerings the company is developing various digital products/

applications which enable the investors (who are the ultimate customers) to experience efficient and effective methods for investments. Mature, market leading platforms developed by the Company namely **myCAMS** and **GoCORP** continues to scale new heights and the newest platform for distributors, **edge360**, is seeing rapid adoption and growing loyalty. The unique **digiInvest** platform saw expanded usage by AMC's and distributors alongside the white-labelled chatbot implemented across several AMC websites. **digiLoan against MF units** is a product developed for Banks and NBFCs for digital loan against mutual funds facility. This facility enables the Bank/NBFC's customers to get a loan up to Rs.1 crore by pledging their debt and/or equity mutual funds in a completely paper-less, digital process.

RISKS AND CONCERNS

The Company recognizes that risk is inherent to any business activity and that managing risk effectively is critical to the immediate and future success of the Company. The Company has a Risk Management Committee which monitors the risk related matters of the company. The Company has a Board Approved Risk Management Policy which defines the Risk Management framework to identify, assess and manage potential risks and opportunities. The Risk Management Policy provides every level risk guideline encompassing key risk areas across the group such as Business Risk, Operational Risk, Technology risk, Strategic Risk and Reputation risk. The identified risks of the company are as below:

Operational Risk

The Company faces risks in its operations for any error or omission that could lead to significant monetary and reputational losses. The Company has identified the key areas where such risks could exist and taken proactive steps for carrying out Process automation and tighter adherence to the established processes.

Risks relating to Business Continuity Plan("BCP")

Considering the nature of operations, it is essential that the company is ensuring a Business Continuity Plan which will enable it to provide services on a continued basis. The risks of failure to ensure BCP is one of the identified risk. To mitigate the same the company has an elaborate plan of action and presently an elaborate, full-scope half yearly BCP drill is being conducted using the infrastructure of the BCP location and the primary location infrastructure is not used for delivering critical processes.

Regulatory Risk

The Company is a Qualified Registrar and Transfer Agent("QRTA") and is subjected to audits from the

Regulator. Non-compliance of any Regulations could result in observations in the SEBI Audits and can expose CAMS to warnings and penalties. This can also result in customer dissatisfaction and possible fines. A process has been set in place towards moving for real time audit observation for remediation through workflow model.

Compliance Risk

The Company is required to comply with a host of Regulations as part of its compliance activities. Any default could result in fine and penalties. For addressing the same, the company has an extensive system for monitoring compliances with individual functional heads tasked with specific areas. Extensive external experts' support has been taken for all areas and these experts have been retained on a regular basis. Multiple audits are carried out for ensuring these compliances and are reported to the Audit Committee/ Board at its Meetings.

Technology Risk

Inability to meet the demands of the Clients or adapt to latest technological changes might affect the company's business, as our success depends upon the development of technology platforms and applications to conduct our business. In this regard, steps are being initiated for ensuring adaptation of the latest technology and for meeting the requirements of the clients.

Information Security Risk

As the company deals with large amount of data, the Information Security risks is one of the identified risk. The Company has an extensive Information Security Management System("ISMS") which is headed by a Chief Information Security Officer and has a well-established ISMS policy. The Company's systems are being periodically audited by external agencies. Bitsight an agency which monitors level of the information security has rated the company very high at a score of 800. This is a market-leading score and vindicates the robust security posture.

People Risk

Dependency on Key Managerial Personnel and Senior Management is considered as a risk and the loss of any key person and the or inability to attract new talents, reliance on third party service providers in several areas of operations and our inability to have full control over their services would affect the company's business. Towards mitigating these risks all the managerial positions have been filled with very few open positions, retention of KMP through ESOPs and Incentive Programs has been initiated and Efforts are on to create future Leaders through training, skill certification and workshops.

Revenue Concentration

Significant part of the revenue is concentrated from MF Business. Within MF the revenue is concentrated within the top five clients. Towards this risk, the company is focussing on enhancing the Non-MF revenue. Apart from management focus on, what Company perceives as high growth opportunities like, Insurance Repository, CAMSPay (payment aggregator business) and services to AIF clients Company has entered into Central Recordkeeping Agency services for Pension Funds and Account Aggregator business. Leveraging competencies acquired through Mutual Fund services business, Company has launched products like Recon Dynamix, LAMF etc. Having said the above, Mutual Fund services business is likely to remain the dominant business in the near to medium period.

Contractual Risk

The Company has entered contractual agreements with various clients which may contain liability clauses which might adversely affect our business, on the occurrence of certain events like employee fraud or misconduct or errors and omissions in the operations. The Company has extensive insurance coverage for addressing such liabilities. However, the insurance cover may not be adequate to fully compensate the loss.

INSURANCE

The Company has taken appropriate insurance policies which cover our operations and protect the company from unexpected exigencies. The policy coverage extends to losses arising out of matters including errors and omissions, Cyber-attacks, third party crime. The Company also has appropriate policies for covering the Directors and employees of the company.

HUMAN RESOURCES

The well trained and knowledgeable employees are the major pillars of the company. The Company has a detailed recruitment process which focusses on recruiting talented resources and provides continuous on the job training to them. Our employee strength as at March 31, 2021 was 5,850 people which includes 1,278 permanent women employees.

The deep domain knowledge of the employees has helped us establish our business leadership and market share. Our employees collaborate with precision and synchronization to enable far reaching changes for competitive advantage and to keep in tune with the demands of the market. CAMS invests in building a diverse and inclusive environment for our employees. These employees enable the company to reach out to investors of the Mutual Funds across the country. The Company's career development initiatives range from up-skilling using structured in-house programs, specialist certifications to sponsorship of courses at premium management institutions. We assist our employees in creating their individual development plans and facilitate growth through job rotations, internal hiring and promotions.

Even during the current environment, our employees have showcased their dedication and team work to ensure that the clients' requirements are fully met. The business operations remains intact and functioning despite the severe dislocation during the year arising from the nationwide lock down and travel restrictions.

The Company adopt fair HR practices to empower our people creating a supportive environment. We continue to uphold high standards of governance with respect to all statutory compliance and regulatory requirements. We have several avenues for our employees to voice their opinion in a safe and conducive environment. Managers engage in meaningful dialogues and coach employees to enhance their performance.

SAFE AND HEALTHY ENVIRONMENT

The operations of the company do not involve any manufacturing and the employees of the company work from office premises only. We strive to maintain the highest safety standards and periodic fire drills are carried out at various premises. First aid training is given to group of employees to handle any eventuality. Feedback form employees is regularly obtained on various health and safety considerations. The offices with significant number of employees have either an in-house medical centre or tie up with leading hospitals for providing treatment in case of medical exigencies.