October 29, 2023 CS&G/STX/DQ2023/22

1) **National Stock Exchange of India Limited**
Exchange Plaza, C-1, Block G,
Bandra Kurla Complex, Bandra (E),
Mumbai – 400 051

Scrip Symbol: KFINTECH

2) **BSE Limited**
Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai – 400 001

Scrip Code: 543720

Sub. : Transcript of Earnings Conference Call

Ref. : Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("LODR Regulations")

Dear Sir / Madam,

Further to our letter reference no. CS&G/STX/DQ2023/02 dated October 10, 2023, pursuant to Regulation 30 and other applicable provisions of the LODR Regulations, please find enclosed herewith the transcript of the Earnings Conference Call held on October 23, 2023, in respect of the standalone and consolidated unaudited financial results of the Company for the quarter and half-year ended September 30, 2023.

The transcript can also be accessed on the Company's website at the following link:

https://investor.kfintech.com/financials/

This is for your information and records.

Thanking you,

Yours faithfully,

For KFin Technologies Limited

ALPANA UTTAM KUNDU
Digitally signed by ALPANA UTTAM KUNDU
Date: 2023.10.29 12:22:11 +05'30'

Alpana Kundu
Company Secretary and Compliance Officer
ICSI Membership No.: F10191

Encl.: a/a

"KFin Technologies Limited

Q2 FY '24 Earnings Conference Call"

October 23, 2023

MANAGEMENT:	**MR. SREEKANTH NADELLA – MD & CEO** **MR. VIVEK MATHUR – CFO** **MR. AMIT MURARKA – HEAD INVESTOR RELATIONS**
MODERATOR:	**MR. ABHIJEET SAKHARE – KOTAK SECURITIES LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to Q2 FY24 Earnings Conference Call of KFin Technologies Limited, hosted by Kotak Securities Limited. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star, then zero on your touchtone phone. Please note that this conference call is being recorded.

I now hand the conference over to Mr. Abhijeet Sakhare from Kotak Securities. Thank you, and over to you.

Abhijeet Sakhare: Hi, thanks a lot. Good morning, everyone. Welcome to Earnings Conference Call of KFin Technologies Limited. To discuss the 2Q FY24 performance of the company and share industry and business updates, we have the senior management with us, represented by Mr. Sreekanth Nadella, MD and CEO, Mr. Vivek Mathur, CFO, and Mr. Amit Murarka, Head Investor Relations.

I would now like to hand over the call to Sreekanth for his opening comments, after which we will take the Q&A. Sreekanth, over to you.

Sreekanth Nadella: Thank you so much Abhijeet. Very good morning and a warm welcome to everyone who joined this conference. I start the conference with a fair amount of optimism and a lot of confidence as we move into the second half of the year. Clearly the results of the quarter that had just gone by hopefully has instilled some amount of confidence in you as well. As always, I will spend about 20 odd minutes explaining a little bit about our results and just as importantly how we look at the rest of the year and then going forward I would hand over to Mr. Vivek Mathur who will cover the financials.

Specifically talking about the organization and its strength and its current scale of its operations, we continue to be the largest investor solution provider to the Indian Mutual Funds from the standpoint of the number of asset management companies we manage. We continue to manage about 60% of all the operating AMCs, 25 out of 46 to be specific. We're managing now close to INR15 trillion of assets under management spreading across these asset managers.

For the quarter that had just gone by, we again had our overall AUM growing ahead of that of the overall market. Our win rate in the mutual funds business continued to be impressive, even as the overall assets under management coming from the equity component is about 55% of our total AUM, occupying a market share of about 34%. SIP monthly inflows about 40% plus. As always, the SIP monthly flow is a very, very solid and scientific indicator in terms of where we expect to see the overall equity AUM over a period of time, even as the secure retail book continue to progress.

From a folios standpoint, KFintech today manages near about 23 crores of folios in the country, across mutual funds and corporate registry, making us not just the largest in India, but one of the largest in the world. When you de-duplicate the number of folios, the number of unique investors that we manage would be little around 90% of every investor who invests in this country.

The other large business we have in the form of issuer solutions, we have improved our market share substantively to now about 47.5% in the form of the market cap of the companies that we render our RTA services to in India. We have continued to add more and more listed and unlisted companies. So today we manage about 5,693 corporates. We have added significant IPO both this year and then we are well positioned in terms of the pipeline of the mandate that we have won, but the companies who are yet to go public, which means that into the coming few quarters, there is more traction to gain.

While mutual funds and issuer solutions continue to be our larger businesses, as we've been maintaining, it is the other younger businesses, which is largely our international business, fund accounting administration for alternatives, for mutual funds, for pension funds, for insurance clients, so on and so forth. And our pensions, you know, truly have been the ones who have been growing much, much faster. We have grown a little over 48% year on year in terms of revenue for this younger business, as against 16 odd percent for the mutual fund business.

So it clearly speaks about a factor of, you know, two to three times the growth of the larger businesses. Given the sizable addressable market that exists out there, we hope to maintain this track record, which over a period of time would continue to reduce the dependency on one large business, providing the resilience that is required in terms of having too much exposure to a single asset class, to a single country, so to speak. Not just the country, but even from a business line standpoint it's not just the transfer agency.

We are uniquely positioned to be the only large entity who can manage both the transfer agency and the fund accounting administration side, which is the only asset side of a fund manager. We have assessed ourselves on the ESG to be rated A the previous year. The rating for this year, the assessment for this year is underway and then we hope to get the result into early part of November. We hope to maintain and improve our ESG rating which we are very, very passionate about in terms of driving a business in a very sustainable manner.

Also glad to inform you in terms of expansion of our product and portfolios over the past quarter. We have added several cutting-edge products and platforms for the betterment of our end clients, for the investors, for the distributors, India and abroad. One of such platform is called The Guardian, which is the country's first and the only platform which fully integrates AI with that of account aggregator constructs into insider trading platform to be able to provide a very, very compelling solution.

One, for every asset manager to be able to report their trades and manage the internal compliance and two, for the regulator to be able to monitor should they so wish to. Quickly going into the quarterly performance, financially we have grown our revenue from operations at a consolidated level at around 16% year on year. That's translated into two times that of the EBITDA multiple at 32%, with the overall EBITDA margin standing at close to 45%.

The PAT grew at 28% year on year, and the overall PAT margin stood at 29.3%. This marks an impressive growth both in terms of top line as well as cost optimization. Whilst much of the margin expansion had also happened in terms of the younger and the faster businesses contributing, it is also the more mature businesses' contribution, especially in the form of the technological transformation that we've been able to render also helped us to improve our margin profile.

Talking about the domestic mutual fund business, overall AUM at 20.5% year-on-year, we have grown as against the industry average, which was closer to it. So we've grown alongside the AUM. On the equity side, there has been a slight dovetailing that of the industry and not necessarily equating the industry growth. And that is a factor which we hope would change rather soon even as several of KFin's clients have large new fund offerings scheduled to happen to the upcoming quarters.

For monthly SIP inflow stands at 40%, which is a very important factor. SIP itself has grown leaps and bounds to now touch close to INR17,000 crores per month, not just providing the resilience to the AMCs, but also to the overall capital markets of India at this point in time. We also have six of the top 10 asset managers with the fastest percentage of growth in AUM with KFintech. Some of the growth of our younger and the medium tiered AMCs has been truly the hallmark for the growth of KFintech over a period of time.

And of course, we will see the cyclicalities, the fund performance, what have you. And it is very heartening to note that despite slightly behind growth on the equity side, our overall revenue has grown near about 16% and the income has grown about 18%, so to speak. On the issue of solutions, 172 corporates have been added in the Q2, taking a total count close to 5,693.

Every single day we are near about three to four clients and we believe and firmly believe that as the years grow all of this would add a significant amount of resilience to the earnings of this company. We've been appointed as the RTA for the State Bank of India, which is a matter of pride for us. And we have also managed the top three IPOs in terms of the funds raised this year, and four out of, and six out of the top 10. Our market share has expanded by 1.4%, 140 basis points from 46% to 47.4% in this particular quarter as compared to that of the previous quarter.

This is for the companies that we manage the registered work in the corporate registry side. We have, as I said, a pipeline of several more IPO mandates that have been won and into the coming quarters as the companies find a suitable time to launch their IPOs, we firmly believe would help us to continue to maintain not just impressive win rate and ratio solutions, but also the corresponding and the coming to return venue associated with that. On the international investor solutions, we continue to add more clients.

Our total clients base at this point in time stands at 50. Very happy to inform you that our first client in Singapore, we have gone live in the preceding quarter, and we have two more clients, one of whom is under the final leg of the contracting and under the process of the transitioning. We have also won our maiden contract in Thailand in the form of Bank of Ayodhya Public Company Limited, which happens to the fourth largest Asset Management Company.

KFintech would be providing the fund administration services for this particular client. And the pipeline in Thailand has opened up quite dramatically in just a matter of a few months, even as we have been chosen to be the first such third-party player to be running the solutions in Thailand. We have also won another contract with one of our existing client to manage the distributor platforming and two more LOIs, a Letter of Intent received in Malaysia for FA and RTA solutions.

We believe that into the coming quarter we would close the contract and initiate the transition soon after that. On the alternatives front, we have continued to extend our market leadership. Today we manage 37.2% of the total number of funds launched in India, totalling to about 434 that we manage. The overall AUM for the alternatives has been steadily on the rise and it has grown 36% year on year. And in terms of beyond the alternatives itself, we also do a significant amount of wealth management platforming and solutions.

And on the fund administration side, we've won the first general insurance client in India. And also are extremely proud to be chosen by the LIC Pension Fund Manager for us to be transforming their fund administration as a solution, even as they continue to be one of the top performing PFMs for national pension system. Outside of this purely from a technology solution standpoint we continue to maintain our position of being a market leader in terms of providing digital solutions at scale, big data and cloud are two very, very important topics for us.

For a company that sits on near about six petabytes of data, it is that obvious that we need to get our strategy correct. Very happy to inform you that much of our data is already cloud provisioned. We are rewriting our application layer into the cloud as well. Into later half of November, we would have launched the country's first cloud enabled and a fully satisfied alternate investment platform, not just for India, but for the world.

On the national pension system, our subscriber base grew 24%, even as the overall subscriber base at a country level has grown 11.5%, which means that we've been growing two times that of the industry natural pension system, which helped us to improve our market share from 6.9% to 7.7%. That is 80 basis point increase within the year. And we continue to drive our growth through significant value that we add to the corporate clientele, to the points of presences and into the eNPS as a platform.

So we continue to be very committed to the cause of driving pensions as a theme, even as the financialization goes into the country, so that individuals are protected from their retirement standpoint by a very concerted and a cohesive financial planning which covers primary and secondary markets, mutual funds, alternatives and pensions.

The overall industry performance itself had been nothing short of spectacular. As many of us know, there has been a near 20% rise in the AUM, in the mutual fund industry over the past six to seven months. It is extremely welcoming and heartwarming. And of course, I firmly believe, as also is the expectation of the industry in terms of reaching 100 trillion AUM over the next four to five years.

This growth not just signifies but also gives confidence in terms of the potential more than doubling of this particular asset class and hence the growth of the asset management companies and also their agents such as KFintech to partake in the growth along the way.

Same is the case with the alternatives. Substantial growth near about, I think the last quarter itself the overall capital that had been committed and drawn down had been a little low. I think that's largely in the context of the rising US yields as well as inflationary pressures. That's not withstanding the overall alternatives industry has grown very, very rapidly, nearly six times over the last three years alone, from near about INR800 crores to now close to about INR3 trillion. I think this has been a phenomenal run and I think it's still the beginning of the growth that we are about to see.

What is also important for us, given we are the only intermediate in the country who cuts across every asset class, the growth of DEMAT accounts and the IPO is something that we also track very, very closely. There has been a significant rise in the preceding six months and the DEMAT accounts have increased near about 25%-26.4% year-on-year and that obviously the expansion of retail investor base offers well for a business model like that of ours.

And the continued expansion of the individual investors always helps more money to move away from savings into investments, more money away from real estate and bullion such illiquid investments into what is more liquid and long-term wealth generating assets such as financial services.

Overall, mutual fund investor, or AUM, I've already called out in terms of our growth, we have grown 20.5% year on year in terms of AUM, even as in this we have grown at 20.3, slightly lesser in the case of equity, which effectively means the amount more money has gone into the debt money market and the passive, so to speak.

SIP market share, we have grown 18.5% year-on-year, and that is a very, very important metric we track to. Not just do we track, but we also do everything we can to improve the inflows into the SIP markets through technological innovation.

So with that, I would quickly hand it over to Vivek to cover the financial highlights of the company and then we will leave the floor.

Vivek Mathur: Thank you, Sreekanth. On the overall financial performance, the revenue from operations on a year-on-year basis for the half year has gone up by 12%, but same period, you know, same quarter last year versus this year, it has gone up by 16%. Sequentially quarter-on-quarter, the revenue from operations has gone up by 15.1%. You know, overall we are now at, we did about INR390 crores of revenue in the first half of the current year, backed by the stellar performance across various business lines that Sreekanth explained.

Now, the overall EBITDA margins, if you see, EBITDA itself has gone up about 23% year-on-year. And if you look at same period last year versus this year, same quarter, it has gone up by about 31.8%. Sequentially, it has, EBITDA has grown by 33%. And now, in this quarter, we have got an EBITDA margin of 44.8%. And for the half year, current financial year, it is 42%. So there is a jump across revenue and EBITDA margin.

Both as a result, not only of the increased revenue, but also in terms of containing cost. So both in terms of employee costs and other expenses, we have been able to maintain trajectory with investment in IT and automation. It has not gone through the roof and we have been able to maintain it to increase the EBITDA margin.

Therefore, overall PAT, if you see, has gone up about 22.7% year-on-year. Same quarter last year to this year it has gone up by 28% and quarter-on-quarter it has gone up at 41.5%. PAT margin has also improved in this quarter to 29.4%. For the half year it is 26.8% and you know sequentially also it has gone up.

Overall the performance I would say is you know good for the half year ended FY '24 for the quarter and sequentially quarter-on-quarter we are now having a cash-in-cash equivalent balance of INR374 crores as we speak and the diluted EPS has also gone up to 6.11 versus 5.05 same period last year. And that is all something where we continue to remain invested in building future in going to new geographies and launching new products.

As far as the segmentation is concerned, domestic mutual fund continues to remain at around 70%, 71% of total revenue. Issuer solutions, the revenue is about 13% of the total revenue from fee services. International as well solutions are 10.5% of the overall revenue and GBS has come down to about 5% of the revenue.

So this growth, coupled as I was explaining, the employee benefit expenses, if you see, are just about 1.6% increase year-on-year, resulting in a better EBITDA margin and PAT margin. So that covers the financials. We are happy to take questions now.

Moderator: Thank you very much. We will now begin the question-and-answer session. We have a first question from the line of Pawan, an Investor. Please go ahead.

Pawan: Sir, may I know what is your dividend policy, sir?

Vivek Mathur: So the dividend policy is stated that you know it comprises of decision of the board considering various factors such as investment for future in IT, geographical expansion, investing in developing new markets and new businesses and in the process, whatever surplus funds are there, the Board will take a call in terms of when to declare dividend.

You know, declaring dividend is easy in terms of paying back but creating future moats in a growing company is equally important. So Board will take a call in times to come in terms of when to declare dividend. There is a dividend shaded policy in the same lines as I mentioned to you, which is approved by the Board.

Moderator: We have a question from the line of Aejas Lakhani from Unifi Capital. Please go ahead.

Aejas Lakhani: Yes, hi. Congratulations on a good set of numbers. Sreekanth, could you just spell out that, you know, some of the wins that you have had in the international geographies. You mentioned that, you know, Singapore client will also go on-stream. Malaysia is also in the process. So I just want to get the sense that, are these all under that one-time charge before they move to the recurring basket?

Sreekanth Nadella: Hi, Aejas. Yes, short answer is, yes. These are a combination of transfer agency and fund accounting clients. The Singapore client that had gone live is for transfer agency work for mutual funds, it's a master-feud mechanism that happens in Singapore. The clients in Malaysia that we are the one we signed and two more LOIs that we have received for large fund -- large asset managers in Malaysia are effectively on the RTA work again, right?

And the one in Thailand, as I've already mentioned, the Bank of Ayudhya is for fund accounting administration. All of these clients, there will be an initial transition phase followed by a go-live. From a pure revenue standpoint, the transition itself will be charged as a one-time and the run component will be on certain basis point, charge basis, right?

The fund that has gone live in Singapore already as I said the transition is complete and we've completed a record time in about seven weeks and we are live as of October 2nd.

Aejas Lakhani: That's wonderful to hear. The next one is, if you could just quantify that you've been making significant tech investments ahead of the curve, like you've spoken about even in your initial remarks. So what is the quantum of investments we have made for the year? How should we look at it for the rest of the year? And how should we think about this number in the year ahead?

Sreekanth Nadella: So I would classify the investments into two buckets. I mean, probably just to make it easier and palatable. So one is the, pure infrastructure and hardware component of it all, as a company that's growing and the data that doubles near about every 14 to 15 months off late, it is a significant amount of hardware consumption that is required for us to do it.

So, corresponding to that and commensurate to that, it was our movement of datacentre away from an in-house managed into a Tier 4, platinum standard datacentre that we moved about two years back. We continue to expand infra cost in the form of servers and routers and the end user computing at a decent scale.

And as we move a lot of our data and application layer into the cloud, we intend to bring down the capex requirements over a period of time, as much of it will be cloud provision. That of course will have a countervailing effect in terms of opex going up, even as we pay more to the cloud service provisioning.

So to that extent, we've got a budget the previous year to the tune of about INR80 crores and this year we have slightly expanded that and that covers component of hardware as well as a significant amount of products and platforms that we develop. Only if there is a substantive product development which has a significant economic value over a long period of time, do we capitalize some component of it? So all of it put together roughly, I think INR60 crores was for the previous year and we'd like to believe that we'll spend similar amount this year as well.

And the share, and probably if I may suggest I had one important factor from that in terms of what is the outcome, of course in addition to rendering better solutions and services to the existing and the new clientele, but the pure revenue that we could generate on the value-added solutions and services, backing on the top of these products and platforms has risen from 5% to 7% over the last 24 months of the total company value.

Aejas Lakhani: Got it, that's clear. And these elevated costs or these higher costs will remain for FY'25 or will they start to moderate out in '25 given that you've been spending a lot and bulk of it would be over?

Sreekanth Nadella: Yes, short answer is yes. We expect moderation of infra spend in '25. We are hoping to close out much of the application rewrite to be on cloud by end of fiscal 2024 into early 2025 and by which time much of the work would have moved away from on-prem to the cloud, at which point in time we would not be needing too much more infrastructure in the form of servers, if I may, but the end user computing, some requirements will be there, as for example, the laptops, etcetera, will tend to get aged every three years or so, but that would definitely come down, I'd like to believe, by a factor of anywhere between 25% to 33% of the total spend.

Aejas Lakhani: Got it. And just two more questions. One is, you spoke about the issuer solution business as well, just wanted to understand the elasticity of pricing here. We do earn between INR8 to INR9 or INR10 per folio, just as a theoretical number of broadly what we do. So is there a scope that we can increase the pricing element there, or is it a function of several things which still ensures that we are in that band only?

Sreekanth Nadella: So price increase in corporate registry clients happens, unlike in the case of mutual funds, if I may and that's something that we orchestrate every year right in the sense that it is not easy to take all 5,500 clients and then do a price increase. So per year of course and this is all based on when the contract comes up for renewal as and when the contracts are coming up for renewal we are pushing for a price increase.

In some cases, it is genuinely warranted. For example, if there is a folio increase for a particular client and a loss increase over a period of time, there is a genuine necessity for us to increase the price and then we orchestrate the same. So, what you might not have seen is a singular increase and that's what you would see if you were to trigger a price increase across all the clients at one go. But given it doesn't work like that, typically about 7% to 8% of our clients we look to have a price increase after negotiation about 5% to 6% eventually turn out to be a price increase scenario. At the overall level you may not see a tangible increase, but every year there is a price increase because of the IPOs that happens.

Aejas Lakhani: Got it, that's clear. And you know, could you speak a little bit about your acquisitions, they've been doing quite well in terms of your cross-sells, even a little bit about account aggregators. So currently, as you have acquired these smaller entities, you have retained those teams and are letting them do their job. So could you just speak about, now that they are fully integrated, what is the elements that you all talk about? Is it very strategic? How does the cross-sell between clients happen? A little more on that.

Sreekanth Nadella: Sure thing, thank you. That's a great question. And our M&A strategy is conceptualized with a view to drive one of three factors. The first one is to drive demographic reach and geographical expansion. One of the other parameters is to drive and add new product and portfolio solutioning into our arsenal of things that we do. Three, to drive depth into an existing business.

If I may, the third one is I wouldn't say less important but then is of less focus. If I may, in the sense that when you talk about depth, what you're talking about is consolidation. Buying few other companies who are in the same space that will add up to your revenue. So as a philosophy, we are not very interested in just increasing our book by buying revenue. We are looking to increase our business and grow and add a lot of value to our clients by the first and the second parameter, that is the product and the platform expansion and the geographical spread.

This anchors back to our overarching goal of being a global fund administrator of scale. In order to do so, we need to have geographical presence. In order to do so, I need to have enough number of product and platforms in our arsenal, which are relevant, not just in India, but globally in whichever geographies that we belong to and then want to expand into. So in that context, expansion such as an acquisition, such as Hexagram, for example, which we have acquired 100% two years back, was done only with the singular focus of achieving those two objectives. Wasn't because the company was large or it was profitable, so on and so forth, right?

But we have bought that because we believe that it will add the right kind of talent that is required and the platforming that is required to be able to provide holistic services and chase a much larger addressable market, right? And then, we also have been reasonably successful in converting many of these organizations we have acquired, from slow to moderate growing companies to fast growing companies and negative EBITDA companies into a positive EBITDA companies in just a matter of 12 to 15 months. So that had been our strategy, and then it's been working well.

We also firmly believe in a technological cohesive. So when we acquire a company, very, very dispassionately we evaluate and understand, should we have a complementary platform, do we shut ours down or do we keep the one that we have acquired? And that kind of a focus is very important tactically because that helps us in optimizing our tech, platforming and the vision in terms of the architecture that you would want to keep for a long period of time.

We continue to look for more opportunities as we speak. And of course, we have some amount of cash on the books. And there are, at any point in time, we continue to monitor and basically evaluate three to four target acquisitions. Hopefully in time to come we have something substantive and meaningful to announce.

Aejas Lakhani: That's very helpful, thank you for that elaborate answer. And just one follow up, you mentioned the move to tie-up tier2 cities from tech infrastructure, so that is the Bhubaneshwar setup that you were referring to, right?

Sreekanth Nadella: That's correct. So Bhubaneshwar, of course, we started about a year and a half back largely to have a tech campus, which we have now expanded into the operation campus as well. We are in the process of setting up a pretty decent-sized captive unit in gift city. Because we manage international operations, gift city enables us or allows us to have a captive centre in gift city.

So today, for example, my international business has near about 800 to 900 people's worth of work that gets delivered. So we'd like to believe that Gujarat would be the next tech centre. We have also identified a campus in Vijayawada where we will be expanding our tech headcount there as well. So as a strategy, we believe that tier 2 offers not just a compelling entry price point, but more importantly, the retention that is required, the stickiness and the commitment, and in general, the value that we're able to get from some of these cities, honestly, had been far superior to that of tier one cities. So we continue to expand our footprint and we have put ourselves certain goals.

We believe over the next three years, we would love to move at least 25% of our total count into Tier 2 facilities.

Aejas Lakhani: Okay, that's very helpful. Thank you so much. All the best.

Sreekanth Nadella: Thank you.

Moderator: Thank you. We'll take a next question from the line of Dipanjan Ghosh from Citi. Please go ahead.

Dipanjan Ghosh: Hi, good morning. So, just a few questions. First, if you can, split your revenue on the international and investor solutions between international and maybe the domestic wealth and AIF business. While you give the split, it seems that there has been a sharp offtake in revenues from the domestic and non-mf investor solution business. And since the funds have broadly moved, or incremental fund additions have broadly moved in line with previous historical trends. I just wanted to get some sense of how asset in any upward revision on the realization in that part of the business.

Second, on your yields in the domestic mf business, it was stable quarter-on-quarter. But could you give some color on what could have been the movement assuming the overall equity mix, let's say, would have remained flattish, quarter-on-quarter? And last, your other expense, when you give some guidelines on the tech cost. If you can give some color or guidance on your FY'25 or 26 trajectory on the other expense side?

Vivek Mathur: Thank you. On the international and other investor solutions, if you see the large part of the business in international is global fund solutions and that is something which comprises of the Southeast Asia business and what we are doing in terms of Singapore and now getting into Thailand. And that part of the business is large enough. Other pieces, the alternate investor, the AIF and PWM and PMS services that we do.

In terms of the numbers, that business itself, both these businesses comprising, it's almost 90% of the entire investor -- international investor solutions business. Among themselves, it's about half-half in terms of the share of revenue. The alternate business revenue has actually doubled as compared to almost double, 93% growth over same period last year versus this year. So it has grown from INR7 crores to about INR14 crores. So that's the big piece which is growing and catching up on the Southeast Asia revenue.

And as the Southeast Asia revenue itself grows, the other buckets which are pension business and the hexagram and webile piece integrated into it, are still, the other businesses are still smaller. These are the two businesses which are growing. Does it help answer your question?

Dipanjan Ghosh: Sure, well, it is a number of 93% and I appreciate that. Just quarter-on-quarter, my understanding is there has been a significant jump in this alternate revenue. Just really get some sense, I mean, is it like new funds got on boarded at higher realizations or some old funds that have been, changing slabs or the fixed-rate slabs or something. I mean, just wanted to get some color on that.

Sreekanth Nadella: So it's a combination of all of them as you rightly said that is no one thing I think it's so we have won a substantive number of alternatives mandates over the past 12 months and as you are aware the process of the launch of a fund itself takes time just because we want a mandate doesn't necessarily translate to revenue because the fund then has to get operational, they have to have capital commitments and the drawdowns need to happen, all commercial models are tagged to obviously get a drawdown level, right?

So to that extent, I think the means that we've had in the previous year, various points in time, different people have gone live, different funds have gone live and that has been contributing to our growth in the past two, three quarters. And we continue to have at least another 70 more funds who are yet to, go live and drawdown. So which effectively means as they start to do going live into the next quarter or so, we hope to see the revenue to continue to increase at a similar pace, even as the AUM of the existing funds also will grow.

So it's effectively a combination of funds and the mandates that we won in the previous year having gone live. Now, the funds that we already had and who had gone live earlier, so they're AUM going up. That is the second contributing factor. And three, we have been adding a significant number of value-added solutions to the funds. So it's not just the AUM-based basis points, but also the digital onboarding platform, which is, which was the first time in the country that was introduced by us in terms of at a scale which has the ability to onboard, residents, non-residents, individuals, non-individuals, who have you. And that's been contributing to the revenue.

Last but not the least, earlier on our contracts used to be, some of the contracts used to be a fixed fee per scheme per month kind of a model, which we have successfully managed to convert all of them into a basis point model. So, I would put a combination of reasons for the, I think striking growth that would happen with this for the past two quarters.

Dipanjan Ghosh: Got it, Sreekanth. Sreekanth, would you kind of highlight on what proportion of your incremental business is basis point linked since you mentioned that you have been able to transition a lot of them? Or let's say going…

Sreekanth Nadella: Everything, there is no fixed free contracting we are doing so we completely junked that process of fixed free contracting so it is only basis point accepting. If it is on the fringe, a close-ended fund with just a handful of investors, at which point in time, it doesn't justify for us to have a basis point. Probably accepting those few schemes which fall into that contour, everything else is basis points.

Dipanjan Ghosh: Got it, thanks. On my next two questions, if you can.

Vivek Mathur: Yes, Dipanjan on your IT expense, see we spend around 20% to 22% of our revenue on IT spends. And as we continue to innovate new products, while the chassis is ready, you still need to invest to grow new and configure for new geographies and new businesses. I don't expect that this overall spend will grow beyond 20% of revenue. Within that, there is a small part which goes to capex about 30% of it goes to capex, the rest of it is usually charged out to the P&L. And we see that as we grow, this percentage will keep coming down as the revenue grows. Does that answer your question?

Dipanjan Ghosh: Yes, that's fine. And lastly on the yield from the domestic MF business, there was a flat quarter-on-quarter. But actually, there was a mixed change towards in Favor of equities. So let's say hypothetically there was no mixed change in favor of equities. What would have been the yield trajectory broadly? I mean, I doesn't think it would have gone down, but if you can just quantify or give some color on that.

Sreekanth Nadella: Yes, so on the contrary, I think the mix, as I've stated earlier, overall AUM grew 20.5% ahead of the industry, right? But our equity grew behind the industry curve overall a little bit. I think it was largely because of certain amount of active growth that we had seen and a fewer NFOs of KFintech serviced clients. So to that extent, our yield actually would have gone up, if the mix was more in favorable as against what it is today. Right, and I think the mix of course, the overall blended yield at an RTA level itself is a combination of where the growth comes from, that is which asset management company, where it is coming from, as well as which asset class.

So it's a combination of both, as well as of course, the pricing conversations. So I think, it's fair to say that, as much as we've been partaking in the journey of our client growth, providing the necessary support that is required where in terms of certain prices discounting, we kept the yield pretty flat and something that we hope to keep for a foreseeable future.

Dipanjan Ghosh: Sorry, if I can just squeezing one more question, when there's a new NFO launched by let's say, one of your fund houses, do you get any one-time revenue out of that or is there a particular cost that you incur? Can you give some color on the unit economics of an NFO for you guys?

Sreekanth Nadella: Sure. I mean there is a certain amount of NFO pricing, but it is not very material in the context of the overall business, if I may. I would -- the unit economics of that, obviously there is a significant amount of costs that we incur because what happens is, in a very short period of time of the NFO, let's say, five days to seven days or eight days, there we expect a significant volume of both physical as well as the virtual.

So we have to obviously tap up to meet that spike for that interim period. And the time we have available these days, especially with the regulatory changes is precious little in terms of getting all the activities done, which means that the -- there is a certain amount of cost that goes up. Compensating, a portion of that cost will be a certain amount of pricing we charge at an application level, largely that is the modus operandi in terms of commissions.

And as I said, while there is a certain amount of revenue, I wouldn't put a top dollar on it. It's not very much either in the context of the overall fee-based revenue that we own.

Dipanjan Ghosh: Thank you, Sreekanth and Vivek and all the best.

Sreekanth Nadella: Thank you.

Moderator: Thank you. We have a next question from the line of Devesh Agarwal from IIFL Securities. Please go ahead.

Devesh Agarwal: Hi everyone. Thank you for the opportunity and congratulations on a good set of numbers. First question is again on the international and other investor solution. Although, you did mention that there was a good jump in the alternatives, what I want to understand better that we are seeing an increase in the revenues after six quarters of revenues being between the INR15 crores to INR18 crores bracket. So is there any one-off component, one-off in terms of whether the platform fees are kind of pushing up these revenues and what could be the sustainability of these revenues?

Sreekanth Nadella: I'm sorry, let me rephrase the question and see if I got it right. So, you're asking if the revenue for non-domestic mutual fund business, is it sustainable, is that the question?

Devesh Agarwal: No. So I'm asking in international and other investor solutions, the INR22 crores revenue that we have for the quarter, I'm assuming that they include some platform fee, which is more like a one-time fee. So what I wanted to understand, would we see this revenue line item will have volatility going ahead? And there would be a quarter where we see a spike, because of you selling more of platform-based, what do you say, offerings to the clients. Or rather, I would say, I want to understand what is the component of annuity and one time-fee within this INR22 crores?

Sreekanth Nadella: I understand. Great question. So actually the component of episodical one-time fee is marginal. In the overall investor solutions, the other international investor solutions book. As Vivek had explained, it comprises of three smaller yet faster growing businesses of Alternatives International and the pensions.

Pensions, there is no lumpy historical revenue, same is the case with Alternative Investment Funds. Even in the international funds too, there is a transition revenue we get, which is a one-time bill, but there is a recurring run revenue as well. In fact, the recurring run revenue component is much higher than that of one-time transitionary revenue we get.

Outside of this, there is a very small component of fund administration platform, which we license it out. That component is, again, very, very small in the overall scheme of things. And even if there were to be a certain amount of lumpiness that may come, if it is a very large order we've been, there is a maintenance, there is an AMC that persists. It is not a one-time sale. So there is a recurring revenue that we get and it's between 20% to 30% of the contract value for every year that the client continues to use the product from there on.

Vivek Mathur: Just to add to what Sreekanth mentioned, Devesh, out of this INR22 crores, less than INR2 crores is one-time revenue, but that's the nature of business. Unless you get one-time revenue, you won't get recurring AMCs. And that is something which we aspire to get every quarter. You know, next quarter we may get another win, which may be another INR2 crores to INR5 crores. But we want to grow this business, not just by one-time, but that forms the basis for recurring revenue.

Amit Murarka: So just, Devesh, one more point here. I mean, what Vivek was alluding, as we keep adding these new contracts, right, so part of the revenue comes as part of the implementation cost and all, that's the one-time revenue, but that's, it's beyond, the nature of the business and the way these contracts are structured.

So, for instance, I mean, the LIC contract that we won, that is something that not been reflected in the first half numbers and all. So as we move along and we start implementing the project for LIC, those revenues would start kicking in towards the second half. And as we go live, the recurring revenue would start accruing from the next year onwards and all. So likewise, the case with the other contracts that would come as we go along into the other quarters.

Devesh Agarwal: Understood. Secondly, on your international RTA business, now for some quarters we've seen that the AUMs have been around that flatline of INR55,000 crores. So, we just wanted to know where we are in terms of recognition of the new clients and from when can we see an increase in this market?

Sreekanth Nadella: Yes, sure. So that's the combination of factors unlike in the case of Indian markets, which continue to stay above the water amongst global turmoil. That unfortunately wasn't the case with many of the Asian markets. But again, that is a cyclical and I'd like to believe that into the coming months, quarters it will start to see a significant turnaround because no market in the world would continue to stay down for too long. These are fast growing emerging economies with more rapid financialization that's happening.

So of the AUM itself, obviously will grow on a factor of three different counts, right. The existing clients getting more inflows which is something that we have seen happening in the past few months.

Two, the markets going up and hence the mark-to-market that is still to be received and seen and we believe that in a situation evolves for better hopefully if we see the sunny side of the ongoing wars we should see a dramatic pullback which will help us.

Three of course, wins and transitions of new clients. As I said we have already gone live with our client in Singapore and we have added 22 funds of a very large asset manager, who's my current client in Philippines. And that AUM would start moving into it as we started the transition into the previous month. So, you will very soon start to see the AUM going up in the international space.

Devesh Agarwal: I understood, Sreekanth. And on the third bit, in addition to Philippines, are there more clients that we can highlight wherein we are in the transition phase? And probably over a year period, we are expecting them to go live?

Sreekanth Nadella: Yes, absolutely. Not one, in fact. There are four-odd clients who will go live into the next quarter to two, depending on their varying points in time. We received two LOIs, which I've already called out, and the result of which we're hoping to receive into the next few weeks, the transition of which also will start.

We have also improved the turnaround times of the transitions, right? Unlike in the past, where it used to take about six months to eight months, these days the transitions were able to wrap-up within three months to four months. And that's largely a factor of our own growing maturity into these markets and the fact that the platforms subsume a wide variety of existing business rules and logic in a particular geography, which means that adding an incremental client and transitioning will take progressively lesser time.

And just another important factor to note, I think the AUM that's being reported is for RTA alone, from our fund accounting. So we do not want to end up double counting, right? So let me put it this way. If I am rendering transfer agency work for a particular client, and let's say, the AUM is INR20,000 crores, and if I'm also rendering fund accounting for the same client, we are not adding another INR20,000 crores, so I will get basis point yield for TA and FA separately. So that's one small thing that you would want note, that the AUM itself does not necessarily be the only decision factor because the yield that is coming out because of enhanced services is higher in some sense.

Devesh Agarwal: Understood. And lastly, sir, on account aggregator, there were some issues in terms of RBI not giving approval to acquisitions. Any update on that? And what is our thought process in entering into this space of account aggregator? That will be the last question from me.

Vivek Mathur: So Devesh, we are still pursuing that with RBI in terms of following it up to increase the majority stake. It is still a work in progress.

Devesh Agarwal: Any likes in terms of what has been the issue?

Vivek Mathur: There is no issue which has been reported to us and it's simply, whatever has been stated in terms of our stock exchange filing is the only communication we got from RBI. We are trying to seek in-person meeting with them and which is likely to happen later this month. We will update you once we have next update about it.

Sreekanth Nadella: So, Devesh, just add some color to that. The account aggregation, we, as I have already explained back in the day when we were doing the investment too, was of our interest in driving TSP solutions, not so much of just pure account aggregation data movement itself. So from that standpoint, our current investment pattern renders itself phenomenally well for us to build technology solutions, leveraging the account aggregator data for our clients.

And those clients could be asset managers, wealth managers, end investors, and in some cases, even regulators as we build. For example, a Guardian has been built on top of account aggregation using AI technologies to be able to provide even the regulators an opportunity to drive certain compliance aspects such as insider trading, for example, right.

So we believe that our objective has been very well met through this. And of course, we continue to pursue the RBI in terms of understanding as to what next steps we could do to continue to go ahead and do the majority acquisition from now.

Devesh Agarwal: Understood, sir. Thank you so much, that's all, and all the best.

Moderator: Thank you. We have our next question from the line of Lalit Deo from Equirus Securities. Please go ahead.

Lalit Deo: Good afternoon, sir. Congratulations on a good set of numbers. Sir, I have just two questions. So, firstly, on the issuer solution business, we have seen a material increase in our revenues in this quarter. So, could you give us more light in terms of the unit economics in the IPO business? Like how does it help in increasing the revenues over there?

And also on the newer contract in the LIC pension fund business, what is the quantum of revenues which we can expect in that contract over the coming years? That will be the two question.

Sreekanth Nadella: Sure. So the unit economics of corporate registry from an IPO standpoint, so there are three components of revenue for a corporate registry, right? There is a folio maintenance fee, which obviously is a factor of number of folios multiplied by a certain unit price. You have then the corporate events and corporate actions, which is effectively different declarations, buybacks, rights issues, rights bonds, so on and so forth. And then there is a component of an episodic and revenue of IPO itself.

Our revenue pool, substantial amount of revenue comes from the combination of the first two factors, which is the portfolio maintenance and the corporate actions and the corporate events, which includes also managing events, such as ATMs, so on and-one support for any issue at all. The IPO revenue itself, again, going back to the NFO kind of analogy, if I may, in the case of mutual funds, it's not very substantial, okay?

But what an IPO does for us, of course, is the recurring revenue, because once a client, once we onboard a client from an IPO standpoint, the entire full year maintenance of that, which is a recurring annuity revenue, is what is more critical.

You may see a very small, maybe up to, depending upon the number of IPOs you do, and also the quantum and the size of participation of such issues anywhere between 1.5% to 2% of our revenue of corporate registry could be impacted because of that one-time particular thing. From an economic standpoint, obviously it will add much of that particular revenue down into the bottom line as well. Okay, that's on the issuance services. And my apologies, the second question, I think, can you repeat that?

Lalit Deo: Yes, the second question was on the LIC pension fund contract.

Sreekanth Nadella: Yes, so that's a landmark, win for us. You know, we won against, contesting with several other competitors. It's a contract which allows us to deploy the full process of the Mpower platform, which as you would know, was a platform we acquired when we have invested in Hexagram, right?

And it takes care of your front, middle, and back office pension fund activities, starting from trade management all the way back to computing NAV. And to that extent, full glory of all of this will be implemented for our client. We just signed it the previous week, and joint announcement has been made. It is a seven-year contract.

And for the basic services, we would render, from a quantum standpoint, it would be about INR25 crores plus contract. And we -- it will give us opportunity to add several value-added items on top of the committed contract that value over the period of time. And with that, of course, there are several other large PFMs that we are working, looking to implement this long-term.

Lalit Deo: Sure, sir. So this 25 crores plus contract, that is on an annual basis, right? Or is it like over the period of seven years?

Sreekanth Nadella: No, it's an over the period.

Lalit Deo: Okay. And sir, this last follow-up question on the issuer solution business, this is where you mentioned that this quarter, they were like, the revenue built up was also based on some of the corporate actions like the AGMs and all. So does that mean that, going ahead in the quarter three and quarter four, the revenues, we could see some seasonality also factoring in this segment, like it could remain flat, or do you believe that the growth will remain, continue to remain in this issuer solution business?

Sreekanth Nadella: No, so we do -- we are expecting a growth in Q3, Q4 as well. There is no seasonality within that. There is a still a robust pipeline of IPOs that are to go live. There are several large corporates who are our clients, where de-merger conversations are going on, that also helps. We are also in the process of transitioning some clients in the case of corporate registry, either from a captive registry business or from our competitors.

So all of this and with obviously continued participation by the retail investors will help us. Corporate actions, given the stellar performance of corporate India into this quarter, we hope to see more corporate actions and dividend declarations and buybacks being issued by many of the corporates, that we continue to add more revenue to that. So, short answer, I don't expect a flat quarters up ahead from a registry standpoint.

Lalit Deo: Sure, sir. Thank you, sir.

Moderator: Thank you. We have our next question from the line of Abhijeet Sakhare from Kotak Securities. Please go ahead.

Abhijeet Sakhare: yes. Hi. Just one number question is, if you could just share the headcount number for this quarter and last quarter. And the other one is that, when we look at the international business, the revenue run rate has almost doubled from about a couple of years back. But when do we start seeing margin numbers also kind of, inch closer to let's say, double digit levels as well?

Sreekanth Nadella: Thanks, Abhijeet. The margins have already improved for the international business, but probably it won't be as visible because unlike the mature businesses, there is a continuous process of business development and innovation, much of which we expense it out. When I'm talking about innovation, I'm talking about the addition of new features to an existing platform or on-boarding new clients, adds a certain amount of one-time cost, which obviously is not recurring in nature.

So when you have a business where we are adding 100 odd funds, in alternate days or, two to three clients, every half year, so on and so forth, there is always that one-time cost that you will pay, and which obviously tapers down. But next year, again, if you win more clients, you will see that one time. So, ergo, it looks as if the margin improvement hasn't been there.

What really is important to note is the unit economics at a contract level, where we have started to see a sizable improvement in terms of a margin. But, at an overall account level, you would, at an overall business level, you're not able to see.

As I said, because there are historical one-time expense that are required to onboard a new client and then the features that we have paid. We believe that, as I mentioned back in the day as well, the international business renders itself to a greater margin capacity as against much of the domestic work. And the unit economics prove of the direction.

Abhijeet Sakhare: Got it, Sreekanth. Just one small follow up. Is it still fair to assume that these contracts on the international side, some of the larger global players are still sort of keeping out? Because either they lack the local presence or the contract value itself is not very attractive for their size and scale?

Sreekanth Nadella: Sorry, your question is about international fund administrators not playing a role in India. Is that is your that question, Abhijeet?

Abhijeet Sakhare: No. On the your international presence, right, like the TAFA contract that you're winning, the competition from some of the larger global players still seems it's not as active as one would have expected or if you could maybe correct that opinion, if that's not correct. But if that's the case, is it because the contract values are quite smaller for their size and scale? And if they also lack some of the local presence that you have in these countries as well?

Sreekanth Nadella: Again, I'd like to think it's a bit of both. Of course, I won't be able to conjecture in terms of why they haven't been able to, but the point is each of those geographies by themselves are not very, very large. For someone to go through the pain of customizing your entire platform to subsume the rules and regulations of the local regulator and the local business requirements have and to generate enough amount of written right.

And that is where the large administrative, the international administrators, this is just my outside in view, honestly, probably will have a significantly higher cost structures and probably may not find the ROI attractive enough. But for us, our engineering practices are frugal and our go-to-markets speeds are much, much faster.

And given that, we're able to find an ROI. And more importantly, our aim and goal is different, which is, as I said time and again, to be a global fund administrator. And to be so, we can't be picking and choosing only few geographies because there is enough to learn from every single country, both in terms of the features and solutions set, which we successfully use for helping the growth of clients in some other geography. I'd like to believe that's one of the differentiator that we've been able to add over a period of time, which is to bring the best of what every country has to offer for some other country as well.

So the global fund administrators still do not find the transfer agency work probably very attractive for the amount of time and effort they will have to expend and the investments they'll have to make for each of those countries. But they are reasonably content with the fund accounting side of it, from what I could sense of it.

Abhijeet Sakhare: That's very clear, thank you.

Vivek Mathur: Abhijeet, you had another question about employees. So average headcount in the first half was 5,271 versus 5,306 in the first half of last financial year. So we have actually come down by 35 employees in terms of average headcount for the current financial year.

Abhijeet Sakhare: Thanks, Vivek.

Moderator: Thank you. We have a next question from the line of Megh Shah from Prospero Tree Financial Services. Please go ahead.

Megh Shah: Yes. So you mentioned that the margins from international business is higher than that of domestic business. So what is the margin range from international business?

Sreekanth Nadella: Sorry, let me clarify that point. I mentioned that the margin expectation from international is higher and it will be at a unit economics level. The reasons largely being the yield that we derive is higher in international compared to that of domestic. Second, we do not have any volume-based discounting or telescopic pricing as we call in the domestic mutual funds. That's the second item.

The third item is the ticket sizes are at least 7x to 8x larger than that of India, which effectively means fewer amount of transactions to process for a like-to-like area, which requires reduced effort if I may, and hence reduced cost. So those three factors typically contribute to higher unit economics, unit here being at a contract level.

But the overall EBITDA at this point in time is slightly lower than that of the domestic mutual funds, and that's largely as I said, because we are constantly winning clients and that requires a one-time historical cost every single year and the business development expenses and the setup expenses for the new country as we expand from country to country. So broadly, we expect to drive at least 4% to 5% more BU EBITDA margin as compared to domestic funds in time to come.

Megh Shah: Okay, I got it. And my next question is, from what I understand, the mutual fund business has limited growth, limited to the industry growth and the other segments have more growth potential than the mutual fund business. So does the company target any specific revenue share among the mutual fund and non-mutual fund business like 50%- 50% or so? The revenue share among mutual fund and non-mutual fund businesses?

Sreekanth Nadella: I am afraid, I am not sure, I understood the question. When you say revenue, are you talking about the revenue mix to change for Kfintech? Is that the question?

Megh Shah: Yes, the revenue mix?

Sreekanth Nadella: Yes, it is going to change, and it has been changing. If you look at Kfin Tech, four years prior to this, this entire 50% of new revenue pool that you see today, which is the international, the alternatives, it was zero, right? So from a base of zero, we managed to orchestrate a 30% plus. Now, that also includes certain tech solutions as well, itself, it's a change in the mix, and we believe that over a period of time, this will expand.

The growth of the 30% pool had been faster than that of the other pool, which also is growing quite well, of course, right? A 15%, 17% growth is not small. But relatively, these businesses have been growing in a factor of 2x or 3x. So mathematically, obviously, over a period of time, it will gravitate towards near 50%, 50%.

And if our plans to go international hit a huge milestone with few large wins, it's a matter of time, I'd like to believe that the component of revenue from India would even be lesser than that of the international. And of course, that is subject to, as I said, a few change in budget timing.

Megh Shah: Yes, got it. That's pretty clear. My last question is the issuer solution business. What is the number of listed companies out of the total number, which is roughly around 5,700? What is the number of listed companies?

Sreekanth Nadella: So about, we manage a little around 550 plus listed companies.

Megh Shah: Okay, yes, got it. Thank you.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I now hand over the call to management for closing comments. Over to you, sir.

Vivek Mathur: Thank you very much for attending the call and asking us the questions. If there are any further clarifications, we are happy to take your questions either on email or on call at the email address given on our investor website. Thank you so much for joining today.

Moderator: Thank you. On behalf of Kotak Securities, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.