

August 03, 2024

CS&G/STX/SQ2024/23

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 previous intimation bearing reference no. CS&G/STX/SQ2024/07 dated July 17, 2024, 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 July 29, 2024, in respect of the standalone and consolidated unaudited financial results of the Company for the quarter ended June 30, 2024.

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 Kundu

Company Secretary and Compliance Officer

ICSI Membership No.: F10191

Encl.: a/a

KFin Technologies Limited

(Formerly known as KFin Technologies Private Limited)

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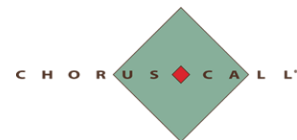
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“KFin Technologies Limited
Q1 FY '25 Earnings Conference Call”

July 29, 2024



MANAGEMENT: **MR. SREEKANTH NADELLA – MD AND CEO**
MR. VIVEK MATHUR – CFO
MR. AMIT MURARKA – HEAD IR

MODERATOR: **MR. DEVESH AGARWAL – IIFL SECURITIES**

Moderator: Ladies and gentlemen, good day and welcome to the KFin Technologies Limited Q1 FY25 Earnings Call hosted by IIFL 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 touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Devesh Agarwal from IIFL Securities. Thank you and over to you, sir.

Devesh Agarwal: Thank you, Siddhant. Good morning everyone and welcome to the Q1 FY25 Earnings Call of KFin Technologies Limited. From the company, we have Mr. Sreekanth Nadella, the MD and CEO, Mr. Vivek Mathur, the CFO, and Mr. Amit Murarka, Head of Investor Relations. I would now hand over the call to Sreekanth for his opening remarks, which will be followed by a Q&A session. Thank you and over to you, Sreekanth.

Sreekanth Nadella: Very good morning, Devesh, and thank you so much for all the participants. I'll kick start with very positive news in terms of the Q1 results of our organization. Many of you might have already seen the results that have been published, the highlights and the headlines largely reverberating our continued focus and commitment to all our stakeholders, our shareholders, our clients, our employees, our regulators to continue to deliver excellent value quarter after quarter.

The headlines, of course, are year-on-year growth across the important metrics of revenue growing at about 31%, EBITDA about 42%, and the PAT numbers growing at about 57%. These numbers also highlight a very important trend, which is typically the quarter 1 in our industry is usually marked with a certain amount of slowdown given the Q4, which is usually a very, very high-energy quarter, both in terms of the client wins, the revenue that's booked, and the market buoyancy usually tends to slow down a bit in Q1. But this quarter is a significant deviation from that standpoint.

Our revenues even sequentially have grown 4%. But of course, the margins are expected to take a dip given the wage inflation and a reset of certain contracts that typically happens on 1st of April. An organization with over 5,000 employees, one would expect there would be a certain amount of slight hit.

But of course, as we have always seen over the past decades, Q2, Q3, Q4 will continue to outperform significantly even at the margins level. If you see this quarter, we have delivered a 42% EBITDA margin. And this, if you were to compare with Q1 of previous year, it was 37%.

So that's a healthy, finer basis point expansion in the operating margin in this quarter as compared to the previous quarters. This quarter also, for us, marks a very important quarter from the standpoint of market share expansion across the business units. Mutual funds, for example, we have seen our overall AUM market share at roughly 42% as compared to 37%.

So that's a big expansion in terms of the overall AUM for the company in terms of the client's performance. This would augur significantly well in the context of a series of NFOs that have

been aligned up across our clientele in the upcoming quarters. Yield, too, had been maintained at a steady rate as compared to all the previous years, continuing with our commitment in terms of delivering high quality revenues in comparison to the assets that are under management for our clientele.

We have won near about 280 clients in corporate registry, our second largest business. Very, very proud of my team's execution capabilities in terms of having won what could be the largest IPO in India, that of Hyundai. The earlier largest IPO, LIC of India, was also delivered by KFinTech.

Also, a series of other wins across, including Pine Labs and others. But again, with 270 to 280 clients speaks volumes in terms of the growth fraction that we have, especially in the large IPO market. We have a series of IPOs that are going to go public.

Now, winning a mandate doesn't necessarily translate to an immediate revenue gain because the mandate needs to be translated into an actual launch of that IPO. We are expecting in the coming two quarters to three quarters a significant number of our mandates that we have already won to go public based on the DRHP filings that we have seen. Next, the alternatives, we continue to see a massive amount of traction having increased our revenue year on year by nearly 60%.

Our AUM has crossed a trillion and that offers really well in terms of our overall growth. And a series of the funds that we have already won, where the capital had been drawn down to a certain extent, there is a significant gap in terms of commitment versus drawn down capital. We talk as well in terms of the rest of the year's revenues to peak through, even as a series of wins that we've had this year, positions are exceedingly well into the coming year as well.

The business that most of us are also keen on has been the international. We have seen significant green shoots in the international market. The mark-to market gains the last few years, as we have all noted, have been bit to bit. While the Indian markets have significantly outperformed, many of the Asian markets haven't. But over the last two quarters, we have seen a turnaround in the markets with the major market positioning in Malaysia and Philippines, etc., where we are present. Mark-to-market gain coming through, many of the wins that we've had, the transitions completing and going live.

We had already gone live, the first contract that we had in Thailand in the month of April for the first phase, and the second phase will go live into the next quarter. Also, very happy to inform a large contract sign-up that had happened, in addition to probably what could be the largest contract which sign-up that we're expecting sometime today or tomorrow, based on the draft that had already been signed and sent to us. This had been largely the key businesses, the natural pension system, small yet what I think would be a very, very important business in times to come, especially in terms of margin profiling.

The industry grew at 12%. We continued to outperform the industry by a factor of two, a little over two. We grew at 27% in the case of pensions. And our commitment to deliver very high-quality tech solutions, which aren't able to be delivered by any of the other technology or other intermediary companies, is helping us to win a significant amount of traction in mandates

towards data lakes, the digital solutions for the asset management industry. This quarter was no exception. We had one, two such contracts, and we are hoping to expand that position significantly well.

Many of our acquisitions have posted stellar growth of the tech company. We bought Webile Technologies at double the year-on-year revenue, even as a significant number of gains are coming through our fund administration acquisition of Hexagram. Our remittance strategy continues to be a very, very critical one.

We are currently looking to add one of the acquisitions in the coming quarter, based on the current stage at which we are positioned in terms of the contract negotiations. We are obviously extremely bullish with the continued mutual fund expansion in the country. As we have all seen, in just a matter of seven to eight months, the mutual fund industry had grown from \$500 billion to about \$600 billion, and that just speaks volumes in terms of the resilience this particular market has.

The SIP inflows continues to be extremely strong. We are continuing to have equal or better market share in each and every one of these segments, whether it's the overall AUM, the SIPs, the NFOs, the folio creations, so on and so forth. Q1 of this year, especially, had been a far better quarter as compared to the previous five quarters, and this trend we expect to continue in the foreseeable future.

The DMAT account expansion, too, had been pretty solid at about 32%. All of these have resulted in our issuer solutions revenue to grow quite substantially in the previous year, as is the case with this current year as well. Typically, as I said, Q1 is a little tepidier, but I'm happy to note that we've brought 20% plus revenue growth even in issuer solutions, which points to a much better Q2, Q3, Q4, as many of the corporate actions on the corporate dividends, the buyback, the demergers, so on, on many of these transactions will come through starting this quarter onwards.

In terms of the expansion, just a little bit into the international, we today stand at roughly about 75 contracts in the Asian market. With the issuer solutions on the RTA, we're at about 45, and the accounting and administration solutions at about 30. We have added a sizable number of clients, 12 clients in the past 12 months, and we believe that, based on the current pipeline, a significant expansion would happen into the rest of the quarters, even as the two large wins that I spoke about pretty much have materialized in the last four weeks alone.

The overall AUM expansion and the transaction volume, while the transaction volume is low, we all know that the international markets offer pound-to-pound, a significantly higher AUM per transaction, which also augurs in terms of the operating margin leverage that would kick in, as the quantum of effort required to deliver to the same transactions is far lower as compared to what is here in India at the moment.

With that, I would hand it over quickly to cover the financial performance to our CFO, Vivek, and we will take questions post which.

Vivek Mathur:

Thank you, Sreekanth. So you've got a flavor of how the business performance has been in the last quarter, this is last year. I'll cover the financial performance. The revenue from operations went up year-on-year by 31%. Within that the domestic mutual fund growth was a little more than 34% year-on-year and 8% quarter-on-quarter sequentially. Even the VAERS revenue has seen a growth. It is now about 5.5% of the total revenue and there is a substantial jump in terms of the overall VAERS revenue by almost 50% year-on-year in this quarter versus last year's same period.

On the non-domestic mutual fund business the international and other investor solutions have seen a robust growth in terms of revenue by 56.8% year-on-year and about 11% sequentially quarter-on-quarter and it is both driven by the Southeast Asia business growth led by increase in AUM and new client materialization of revenue and AIF and PWM-PMS segment, which is growing at almost 65%, 66% year-on-year.

The Hexagram acquisition that we did has really contributed in terms of sale of platform and implementation of this platform along with the services that we offer, 80% growth year-on-year and almost 54% growth sequentially in terms of revenue. Issuer solutions has seen a growth of 21.7% year-on-year. For the reasons Sreekanth explained we have one number of IPOs and migration of clients from other RTAs to KFinTech.

And because of the seasonality impact of corporate actions and dividends and bonus, coming quarters we'll see growth quarter-on-quarter while this quarter sequentially on Q4 may not look good, but that is the seasonality in our business. That's why we look at year-on-year performance.

In terms of other businesses like global business, number of seats vary based on how the mortgage market behaves. So there may be slight up and down, but that's more a stable business than anything else. So overall robust growth in terms of overall revenue. If you look at our EBITDA margins we will see a growth of 41.5% year-on-year and that's again led by operational efficiency and increase in revenue.

While our expenses have also grown by about 21.7% year-on-year, but that's more because of the normal increment that you give in the beginning of the year and the increase in IT expenses because of movement towards cloud, that we see the overall expenses going up in the first quarter, the realization of that the corresponding revenue will happen in the subsequent quarters.

So overall PAT is a healthy growth of almost 57% year-on-year and if you look at EBITDA margins and PAT margins EBITDA margins has gone up by 315 bps year-on-year from 38.8% last year same quarter to 42% this year. And PAT margins which was 23.9% in Q1 FY24 has grown by 476 bps to 28.7% in Q1 FY25. We are now having strong cash and cash equivalent of almost INR452 crores which will be utilized towards the M&A that we are working on. You will get to hear more as we come near to conclusion in terms of zeroing down the targets to foray into international market beyond Southeast Asia.

And that is something which we are working on. The diluted EPS has grown by 57% year-on-year from INR2.51 to INR3.94 and that's a reflection of the overall increased margin and the

availability of the operational efficiency that we have been working on. That's high-level financial performance. We are happy to take questions now.

Moderator: Thank you very much. We will now begin the question-and-answer session. First question is from the line of Abhijeet S from Kotak Securities. Please go ahead.

Abhijeet S: Hi, good morning, everyone. My first question is on the M&A front. So I mean we will get more details as it kind of closes, but what sort of outcomes are you looking to achieve both from a capability point of view and then also from a financial impact of the acquisition let us say in the near term in the two to three-year time frame?

Sreekanth Nadella: Good morning. This is Sreekanth. Let me take that. If as we've impressed upon earlier on, we look at our M&A strategy from the lens of one of the three categories. One is a new geography expansion or opening. One is adding a brand-new business line which we haven't even thought to have been in. For example, Hexagram is one such acquisition. And the third one is consolidation in the industry, probably a good example could be acquisition of Sundaram BNP Paribas back in the day.

We are in terms of priority we are looking at international expansion followed by new capabilities, followed by consolidation as our priorities in terms of M&A. The current M&As that are currently under consideration and in focus and in discussion are largely on the international side. It is not a new capability addition as much as opening up a brand-new geography with a significant addressable market where the incumbent has a sizable presence.

Of course some of these acquisitions, as we all know, can tend to take time with the series of regulatory approvals that are required to come through. Given the current phase at which we are in the discussions we believe it's probably about a quarter to five months away, four to five months away. And this acquisition should it happen, we'll have - our acquisitions if you see have always been margin-accretive and always been an addressable market. This too falls under the same category. We do not throw top dollars on a company just for the sake of acquisition.

So, until and unless the target acquisition adds value to our shareholders, we do not go ahead. So to that extent from a financial standpoint we believe it would be accretive to all the shareholders and the value expansion from a topline stand could be a decent profile anywhere between 10% to 15% over our current numbers, in terms of the annual top-line numbers and the bottom-line.

Abhijeet S: That's helpful Sreekanth. And just one follow-up here given that you're looking for an international acquisition rather than a capability building one like Hexagram, the earnings accretion or value creation would it be fair to assume that would largely be driven by, let's say, cost takeout or sort of improving the operational efficiency of the business more than the revenue growth that you can add to the existing business?

Sreekanth Nadella: I would say it is going to be both. Let me tell you why it is both and of course whatever you explained is anyway going to happen given the consolidation of that nature. Even from a value standpoint there are very few administrators like us who tend to perform the end-to-end

operation solution for any fund manager that is largely there are transfer agent players, there are fund accounting, fund administration players and there are few pure tech and digital platform players.

We are one of the few who have managed to deliver outcomes on all of these three. So the target acquisitions we too are looking at are not necessarily ones who are currently like us. There aren't very many. So, for example, the target acquisition we are looking at is largely on the transfer agency.

From a value standpoint, the Hexagram acquisition and the pure fund accounting solutions and the services capability we have built over the last three to four years will be a significant opportunity for cross-sell and up-sell to the clientele. So the addition of revenue aside from all of that clientele will give us a significant opportunity for us to expand the business services including the value-added and the tech play for those clientele. I hope that answers.

Abhijeet S: Got it. Thanks a lot.

Moderator: Thank you. The next question is from the line of Supratim Datta from Ambit Capital. Please go ahead.

Supratim Datta: Thanks for the opportunity. So my first question is on the mutual fund business. Now on the Slide 11 you have mentioned that there is one data linked contract from a large AMC and there are two AMC clients that signed up for the digital assets contracts and both of them happened in July. So, I just wanted to understand when would these revenues hit the P&L and what kind of size contracts will be seen, if you could give us some color on that. That's the first point.

On the second one, again, on the international business, you talked about the M&A opportunity and the timelines. Just wanted to understand that when it comes to the size of this acquisition, what kind of size are you comfortable with when it comes to acquisition? And two is, would you look at only financing it through your own balance sheet or would you look at other forms of financing as well when it comes to this acquisition? Those are the two key questions and I have one more, but I'll follow up after that.

Sreekanth Nadella: Certainly. Thanks for the question. So, the tech contracts that we are speaking about, the revenue when it will kick in, for two of the three contracts, the milestones have already started to kick in. All of these contracts are milestone-based, some at the signing time, some at the development, some at the testing, so on and so forth. So, two of those contracts have already started and revenue will start to kick into this quarter.

The third contract too is going to start into the coming fortnight. So, net-net in the quarter two, all of these three contracts, certain amount of revenue would be clocked based on the asset number of milestones being reached. And all of these contracts carry annual maintenance and a change contract-driven revenue as well, which means that it is going to be recurring in nature literally every single month from here on.

In terms of the M&A, broadly to again explain the size of the contract. So, size of the contract is again a factor of, of course, the opportunity it presents to us. If you saw our profile, we haven't

been big, you know, contract, I mean, big M&A buyers in terms of significant amount of enterprise value being given on the largest contract, the largest M&A we've done was roughly about INR80 to INR90 crores broadly, right? I mean, but the international, as you look, you know, we need to have to expand our watchers a little bit more while there are opportunities and this space is consolidating globally, not just here in India as well.

And, you know, our sweet spot is anywhere around USD50 to USD75 million and of course, smaller the better. But at USD50 to USD75 million, as you could imagine, that easily could be financed with our own internal accruals. As Mr. Vivek had already explained, you know, today, we are probably looking around anywhere between INR450 to INR500 crores, which would take care of the size of the acquisition we're looking at.

By the time the acquisition would conclude, we would have generated, you know, that much more cash so that we do not need to leverage. But should we ever need to, we can. And obviously, we are a debt-free company at this point in time. If an opportunity presents itself, that we need to, you know, strike a little bit of balance on the leverage even to increase the shareholder returns, you know, we would be happy to do that.

And just in terms of the, as I said, the target acquisition that we're looking at in terms of addition to the revenue profile, it could be anywhere between 10% to 15% of our target revenue for the end of this year.

Supratim Dutta: Got it. Understood. That's very clear. Just, you know, one follow-up. If you could give us a breakdown of, you know, the international other business, what has been the growth in the international versus the EIF versus the NPS? If you could give us a breakdown of that, that would be very helpful?

Vivek Mathur: Yes, I'll take that, Sreekanth. So, on the GFS side, if you look at Q1 FY '25, you know, it's about, you know, as of now, it's about 3% of the overall revenue, 3.5% of the overall revenue. Pensions are about 1% of the revenue. EIF, PMS, PWM is about 4% of the revenue. Hexagram and Webile is around 3% of the revenue. So, that's the composition. You know, it has moved up overall in terms of international as an investor solutions from an overall 10.5% of the total revenue last year to about 11.5% this year. So, this is the high-level breakup.

Supratim Dutta: Got it. That's very helpful. Thank you.

Moderator: Thank you. The next question is from the line of Pranuj Shah from JP Morgan. Please go ahead.

Pranuj Shah: Hi. Thank you for the presentation. I had a question on your Issuer Solutions piece. Obviously, the revenue growth at 22% has been quite strong. So, what could be the sort of uplift that you would expect if suppose Hyundai and Bajaj Housing do complete their IPO this year? I think previously, you had guided for a mid-team growth in Issuer Solutions revenue on a steady state. So, would these IPO proceeds be additional and on top of that for the revenue growth profile for this year?

Sreekanth Nadella: Yes, the answer would be yes. I think, from a mid-team of the investor services, we are looking to mid-20s, only 20s to mid-20s growth profile this year. Not just the new IPOs, which of course

give us a little bit of kicker in that year's revenue, but as we all know, these are all annuity contracts. And obviously, the subsequent years in fact will give us even more revenue given it will be a full-year revenue as against a part-year revenue that we will get this year.

So, not just those two. There are at least about 30-plus IPOs that are about to go live into the coming quarters based on the RRSP filings that we have seen and the mandates that we've won, not just this year, but the previous year and one before as well. And the de-merger of ITC, etc., and all of them will provide immediate revenue source.

What's even more heartening for us is obviously the continued expansion of DMAT and the retail for use. As we all know, the revenue component of corporate registry is innately tied to the number of retail for use. And the IPOs will definitely be icing on the cake over the expansion of the DMAT itself.

Pranuj Shah: Sreekanth, just to confirm, you said mid-20s revenue growth excluding these IPO revenues, right?

Sreekanth Nadella: No, not excluding. All of them together.

Pranuj Shah: Okay, understood. So, 20% to 25% including the IPO revenues. And I think in that context, do you still maintain that up to 45% EBITDA margin? I know like in this quarter it has come off, but I think Vivek mentioned that was due to increments and some tech expenses being front-loaded. So, how do you see this trajectory for rest of the year and possibly also for FY '26?

Sreekanth Nadella: See, I think probably I need to demystify a bit about Q1. This quarter at near about 42% EBITDA margin is probably the highest Q1 that we've ever had, right? And if you saw last year, it was 37% the year before that. It's usually sub-40 the Q1 because what happens in Q1 is typically your businesses of largely, let's say if you take mutual funds for example, the AUM as of 31st March and 1st of April is going to be practically the same.

There will be a little bit of modest gains, but you'll see that certainly your entire wage and the other tech contracts which too are also tied to the fiscal year, they tend to go up, right? So, let's say and hence that is usually different also. Q4 also is a big quarter for Issuer Solutions in terms of the corporate actions. Some of the historical one-time revenues that tend to kick in for any big tech and delivery revenue that happens and many of those usually won't be there in Q1.

In that context, a 42% EBITDA margin in Q1 is basically, should give us a significant insight in terms of where the rest of the quarters could be. If you compare last year at 37% start in Q1, we ended the year with near about 44%. So, we expect it to be significantly better yet. But of course, as we've always been maintaining, we're not necessarily chasing 100, 150 basis points of margin as much as the growth and the continued to come in a differentiated manner as we continue to reinvest in technology transformation, new geography expansion, new asset class expansion, so on and so forth. So, but broadly, yes, we do expect the revenue profile to be far higher as compared to that was in the previous year.

Pranuj Shah: So, on the EBITDA margins, I think you would be higher, tend higher than what it was at FY '24?

Sreekanth Nadella: Yes.

Pranod Shah: Okay, got it. Understood. Thanks.

Vivek Mathur: This is Vivek. I just want to reiterate our guidance on EBITDA margins. It remains in the range of 40% to 45% as of now, because we have to see sustainability of enhanced margin. Market is doing well. We are expanding in global market. But as I had mentioned earlier and we have reiterated that moving out of the 45% to 50% range, from the current range of 40 to 45, well in terms of sustainability, we'll have to see a period of time of at least a couple of years before we start moving our guidance beyond 45%.

Pranuj Shah: Perfect. Got it. That's very clear. Thanks, Vivek.

Moderator: Thank you. The next question is from the line of Sai Adithya Menon from Aventus Spark. Please go ahead.

Sai Adithya Menon: Hi, good morning. Thank you for your time. A couple of questions. The first one would be that the yield is compressed from 3.72 bps to 3.66 bps over the last quarter. You had mentioned that there are some contracts that were manipulate does that one renegotiated at the beginning of the year. Any more color that you can provide on this? My second question is on the international business segment.

Any update on the overall 20 million guidance? And has Thailand specifically gone live? And has it started adding to the top line yet? Third question would be around ESOP cost. ESOP cost for the full year FY '24 was INR2.6 crores and in 1Q it was INR3.11 crores. So will this be the new normal? If I can squeeze another questions, I'll squeeze them later?

Sreekanth Nadella: Let me take that. I think the first question in terms of the yield compression, is marginal, especially in the context of the negotiation that had already been concluded. So clearly our top line growth is after making into account the contract that had been renegotiated. Almost all our large contracts have been renegotiated as of 1st of April this year. So we do not anticipate significant compression, except of course what may come through in the form of any big changes in the form of the telescopic pricing kicking in.

Right now, that obviously means that if the AUMs are growing substantively faster in a significantly bigger manner, there could be some yield compression. But that comes obviously as significantly better news in terms of much higher revenue profile as the AUMs go well beyond the thresholds we have at the moment.

In terms of the international, the USD20 million was the pipeline, and it continues to be steady and growing. I had called out about one large contract that had been signed up and another one we are anticipating to receive any time today or tomorrow, even though the draft letter of award had already been given to us by our client.

These two are decent-sized contracts and materially sized contracts in the context of the global fund services, roughly anywhere between USD1.7 to USD2 million of revenue in the near term,

followed by a little about three quarters of a USD1 million revenue to come through on an annual basis, excluding any change request-driven revenue that we will get over and above that.

Now these are the deals that have very much materialized, and we continue to chase down the rest of them as the market conditions have significantly improved in the Asian markets this year as compared to that of the previous year, including the appetite of many of these conglomerates willing and wanting to outsource to administrators such as us.

We had in the month of May conducted a conclave, including inviting the regulator in Malaysia that was received exceedingly well by the local industry. That has also opened a series of doors for us, apart from a combination of the contracts that I'm talking about. We intend to conduct similar such sessions in multiple other geographies later during the year, which we are confident will also deliver similar such results.

On the ESOP piece, I would let Vivek cover, but broadly, in line with our strategy to have top talent retention and a very committed workforce which continue to outperform in every aspect of it, wealth creation for our employees is as critical as it is for our shareholders. And we have given a number of stocks to critical performing employees. Of course, the year one hit would be higher, and it would taper down over the years, but the philosophy in terms of long-term wealth creation for our employees would continue to be there. Vivek, anything you'd like to add?

Vivek Mathur:

Yes, thanks Sreekanth. So just to add to what Sreekanth mentioned, the current ESOP pool is exhausted with this last grant. There is a new ESOP plan for which we will approach the shareholders for approval and then the exchanges before we create a new ESOP pool. And basis that, whatever you are seeing is obviously in the first year when you take the hit for the new ESOP grant, it is higher, but coupled with the new ESOP pool that is getting created, it may slightly go up in terms of about, for the current year, you can assume about INR15, INR16 crores of full year hit.

And next year onwards, it may be slightly higher because there will be new ESOP pool, there will be new ESOP grants to new talent that we are acquiring in the international territory as we do acquisition, and we employ more people to attract and retain talent. So it may be marginally more next year, but this year it will be around INR15, INR16 crores.

Sai Adithya Menon:

Thank you. If I can squeeze just one more question. On the Issuer Solutions part, folios per company was higher in this quarter, but we see the revenue per folio has come down. How do you see it for the entire year? Has something changed structurally or is it part of the functionality?

Sreekanth Nadella:

I'm sorry, I didn't get the specific point. What has reduced as per you, sorry?

Sai Adithya Menon:

Revenue per folio has slightly come down, but number of folios per company has increased, so just wanted to understand that bit.

Sreekanth Nadella:

Yes, so again, if you extrapolate the logic, it would be slightly akin to that of even asset management businesses. I mean, when you have certain clients and certain corporates in the case of issuer solutions, the retail folios expand dramatically for some of the clients where, let's say,

the unit pricing is slightly lower. There is a marked difference between asset management and corporate services, right?

In the case of the AMCs, the yield numbers are pretty tight bound range, very narrow range, right, depending upon which clients are -- and pretty much almost all the clients. Whereas in the case of issuer solutions, the unit price can be quite significantly varying. For some clients, it could be as little as INR6, INR7. It can go all the way up to INR30, INR40 rupees as well. So it is literally a factor of which of the corporate that -- of all the literally 6,000 clients we have, has had a significant retail expansion, and if some of them happen to be the ones where the unit pricing is slightly lower, it tends to obviously have an impact on the overall number.

So that is just an aberration which corrects itself rather quickly because there is no one company in India where it will continue to have a significant market value share retail participation as compared to somebody else. So it can be a sectoral movement, it can be thematic, it can be cyclical, it can be anything at all, companies' performance, so on and so forth. So I think what's important is definitely the folio count expansion.

The other advantage we have in the case of issuer solutions again is the prices tend to go up. So there is a repricing that we have. Every year we follow that, and a certain number of clientele actually move from 0.8 to maybe 1.08 or 1.10. That is basically 8% to 10% unit price expansion also happens in this particular line of business, which we expect to see happening into the coming quarter.

Vivek Mathur:

This is Vivek, Sai, just to add to what Sreekanth mentioned. If you look at our Q1 FY'24, average folio fee was 7.3. It has gone up to 7.5 now in Q1 FY'25. If you are comparing it with annual 9.4 average coming down to 7.5, that may not be the right comparison because at the end of the year it will hover between INR9 to INR10 only. So there are various components in the corporate issuer solutions besides the folio income.

There are corporate actions, value-added services which increase the average folio fee as you go along future quarters because most of the companies declare dividends or bonus or rights or AGM-related revenue in Q2, Q3. So you will see an uptake in the average fee quarter-after-quarter, but it won't go down from INR9 to INR10 on an average -- on an annualized basis.

Sai Adithya Menon:

Thank you. Understood. Just last one, any communication on further pairing of the stake by General Atlantic that has been communicated or any plans as such?

Sreekanth Nadella:

No, no such plans and no such communication has been received. This year there had been a small pairing and our shareholders' commitment and their interest in our business continues to be as good as it was in the past seven years.

Vivek Mathur:

Yes, so having said that, General Atlantic is actually a PE, and they have evergreen funds, does not mean that they will not give returns to their investors. So it's their choice. I don't think it impacts us in any way as a company. It's a company which is professionally run by professional board and professional management. So I don't think there should be a concern in terms of GA choosing to dilute further.

- Sai Adithya Menon:** Very helpful. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Uday Pai from Investec. Please go ahead.
- Uday Pai:** Thank you for giving me the opportunity. Two questions from my side. First is how is the EBITDA margin in the international segment for this quarter? And secondly, in your opening comments, you mentioned that Phase 2 of the Thailand contract is expected to go live in this quarter. So any color on the incremental revenue that could come from that contract? Those are the two questions.
- Sreekanth Nadella:** Sure. Vivek, you want to take that?
- Vivek Mathur:** Yes, I'll take that. So international business continues to be hovering around 30%-35% EBITDA margins. And as Sreekanth mentioned that as the new deals, which are large deals, get fortified, this will improve further. While our average bps on the AUM continues to be higher than what we get in India, we will continue to get EBITDA levels surpassing what we have in India as we become larger in terms of scale. So it's 5.2 bps versus what you see 3.6 bps in India.
- Uday Pai:** And secondly, on the incremental revenue from Phase 2 of the Thailand contract?
- Sreekanth Nadella:** Yes, I can take that. The Phase 2 is expected to go live in late September, subject to the UAT and the clearance from the fund management house. It was roughly INR12 crores contract and about a third of that had been booked into the Phase 1. And the rest of it would be booked in subsequent post go live. And there is a small component of that that is reserved into the subsequent year in terms of the Phase 2 part one...
- Uday Pai:** Okay. Thank you.
- Moderator:** Thank you. The next question is from the line of Dipanjan Ghosh from Citi. Please go ahead.
- Dipanjan Ghosh:** Good morning, sir. Just two questions from my side. First on your domestic alternate business. When I look at your revenue yields, whether I look at it on per fund basis or on an AUM linked basis, that has been increasing for the past few quarters. I just wanted to get some sense of the reasoning behind it and how should one think of it going ahead? Is it more of a new fund acquisition-led part of any upfronting or is it more structural in nature?
- Second, on your international business, you know, while you've done quite well in your Malaysian market, in some of the other south-asian markets, I mean the number of clients have broadly remained stable, at least on the RTA part of the business over the last almost 12-18 months now, batting one or two wins here and there.
- I just wanted to get some sense of your non-Malaysian geography targets or plans of you organizing some events in some of these markets. I just wanted to get an idea about the traction that you expect in some of these markets over the next year or so?
- Sreekanth Nadella:** Sure. I think on the domestic RTA, expansion is largely a structural growth that there isn't any, you know, one-time episodic item that is changing anything here for us. I think it is the quality

of the clientele we have and the single biggest advantage that we have in this space, of course, is a presence of several clients who are growing faster than the industry, right? It's not a concentrated growth of few asset management companies and this is what helps us to keep our yield higher.

This is what keeps us, you know, certain amount of downturns that may happen if one or two-odd fund houses tend to hit performance hurdles every once in a while, right? I mean, there is no one scheme or one AMC that can continue to deliver superior returns as compared to the industries over a long period of time.

So when that churn happens, more often than not, we tend to be the beneficiary of that and that's what's reflecting in our overall growth, and which is structural in nature. For example, if you see the Q1, the overall AUM market share of KFin Tech clients had been about roughly 41.5 as against 37 previous year and that's a big gap in terms of nearly 400 basis points over the market.

In terms of international, the two large clients that we have signed up this year, both are in Malaysia, as I just said, and both were pretty much in the last four to five weeks and Philippines offers a very interesting proposition for us. You're right in your observation that we have only added one large client that was Bank Islam last year in Philippines. But that said, the market in Philippines is relatively smaller as compared to Malaysia for that matter, right?

And hence, rightfully so, our efforts are concentrated in geographies where there is a higher opportunity. Thailand offers pretty good scope and that's where we could break into it and that too with one of the top three bank-driven asset management companies in Thailand and that positions are well for several of the others. As I mentioned earlier too, the international contracts, the cycle time in terms of signatures tend to be a little bit more protracted.

Given these are not necessarily driven through RFPs, so on and so forth, these are the wins that we are orchestrating by impressing upon the outcomes we could deliver. There is a latent inertia, and I would always equate this to pretty much where Indian IT outsourcing was maybe two decades back, where you have to convince the client the virtues of outsourcing and just as importantly how offshoring would help and either of these two are pretty easy conversations to be had. So, but once you gain the momentum as we have done in case of Malaysia and as you could see the sequential number of client wins that we've been having the same would be replicated across all geographies.

Now, I'll specifically cover Singapore and Hong Kong where we had clients but then again, your observation that we haven't had too many more. Yes, last year we had one mutual fund syndrome mutual, we have one in Singapore. We have also recently signed up with Manulife in Singapore in addition to the Hong Kong that we've already had but it needs to be understood that Singapore and Hong Kong are predominantly alternative markets.

They are mutual fund markets but predominantly alternatives and we had to have a solution which would be rivaling that of the current incumbents in the case of alternatives. Now, the acquisition of Hexagram and hence inheriting Empower combined with the Exalt platform we created and launched in the month of March, I'd called this out in our annual investor conference.

Basically, now has given us the ability to deliver alternatives which is far more bespoke in nature and non-linear as compared to mutual funds and hence the event that I'm talking about the one we've done in Malaysia in the month of May, we are replicating something similar in Singapore and Hong Kong in the coming quarters would be to attract a sizable number of fund managers especially the PEs and the hedge funds and the VCs. They are going to be my target clients little less of mutual funds if I may.

So, you would start seeing attraction there. If you saw Indian alternatives for us, we have moved from about 100 in about 4 years back to today managing near about 500 funds having a market share of 37% and that happened because we could create a platform and a service line integrated TAFAs. Now, similarly, it had to be done for Singapore and Hong Kong which is what was completed as of the month of February, March when we launched it. So, you would hear a lot more about these two geographies into the coming quarters.

Dipanjan Ghosh:

Sure. Just one small follow-up. I mean during an inorganic acquisition in Malaysia way back in time and then scaling up the business versus, let's say, organically building the platforms or kind of leveraging on the platform and some of the geographies and then kind of trying to target clients in a new geography like you said for Singapore and Hong Kong.

Do you think is there an inherent difference in the scale of strategy between the two strategies and on that point the acquisition that you're talking about on the international front, is it linked to this similar sort of a hypothesis?

Sreekanth Nadella:

See, yes, one could easily argue that what we've done in Malaysia is what we ought to be replicating elsewhere and believe me that's what we intend to do as well. But that said, we can't be all hoping and praying that an acquisition would happen in every target country. It is not every time it is possible not every place you have a like to like a target acquisition that we can look at and not everybody is looking to be acquired either.

So we are looking to buy versus build kind of a strategy as always. But in international, we have to continue to build our organic way to expand while continuing to look at an acquisition. So short answer to your question here, the acquisitions we are looking at are in the geographies where our present needs to be expanded, especially in the ones that I just spoke about.

While that happens, we are not going to stop or not basically not going to keep waiting for the acquisition to happen. We will build our capabilities simultaneously as well. What happens is that there would be a convergence even in the case of Malaysia.

If you would recollect, while we have done the acquisition, we have still taken our India's platform and repurposed it for that geography and scaled up our solution because that is the right way to expand into international markets rather than just stitching a collage of 10 different acquisitions over a period of time and that would significantly impact the operating leverage and the technological leverage that you would have. So short answer, we continue to look at acquisitions in those same geographies as much as we are continuing to build out a platform because we have to do it either before or after. That is not an option.

- Dipanjan Ghosh:** Got it, sir. Thank you and all the best.
- Moderator:** Thank you. Thank you. The next question is from the line of Sanil from ICICI Securities. Please go ahead.
- Sanil:** Hello. Good morning. Good afternoon, sir. Thank you for the opportunity. So my question is regarding the new asset class which SEBI has just said. I know it's very early days but do you see a significant opportunity from a RTA side or the back-end side of it and do you think that since you have such a tech capability on the AIF side, do you think this can grow into a very good opportunity as well as do you think that since it's a different product or asset class, do you think a new contract would be needed on this asset class?
- Sreekanth Nadella:** Great question and the short answer to all of those is yes. Of course, every new asset class provides itself with an opportunity for us to grow and expand. And obviously, it's still very early days in terms of the contours and specifics but we are very confident that it would emerge. Obviously, the regulatory is keeping in mind the gap that exists between the mutual funds, PMS and AIF in terms of the thresholds are quite large. Keeping in mind the income variation, at least the middle-class level isn't as significant. So from that standpoint, the new asset class we believe could provide a very interesting via media opportunity for several more people to invest and take a slightly higher risk profiling as compared to MF, but much lesser risk profiling compared to PMS and alternatives.
- Yes, of course, we will have to create the solutions that benefit such an asset class. As we know, all of these financial asset classes necessarily need to go through, will have been in the case of registrar and transfer agent and we are one of those. And given we are there both in the issue of services, that is securities and the bond markets as well as in the mutual funds alternatives PMS, one way or the other, we will have a role to play in that.
- And not to mention, there is a renewed focus and a significant focus in the form of both the government of India and the regulator to drive the REITs and the emit market as well. And we are currently working with the regulator to create a solution to the REIT market, which hopefully will go live in probably into the coming quarter.
- Sanil:** Thank you, sir. Thank you for the response.
- Moderator:** Thank you. The next question is from the line of Abhijit S. from Kotak Securities. Please go ahead.
- Abhijit S:** Thanks for the follow-up. See, on the domestic alternatives business, I think that's a very fast-growing business for the entire industry. But in terms of pricing, I think we are broadly at about three to four basis points. So my question really is, to part one is that do you think, that's where the market will settle in terms of pricing and the actual pricing levels?
- And second is that in terms of competition, like we recently saw, SS&C also setting up an India front office in GIFT City. Do you think over a period of time that can come under pressure because of the growth in AUMs itself? Thank you.

Sreekanth Nadella: Thanks, Abhijit. To the first question, three to four basis points is a pretty reasonable number, for the Indian alternatives in the context of the scale. I'd be very happy if it settles, anywhere near four at the higher end of the threshold. Internationally, of course, the numbers are much, much higher, they range anywhere between seven or eight all the way going up to 20 also in many cases, depending upon the size of the fund and the domiciliation you're talking about.

So that's that. And, given we are the only RTO who does both TA and FA at scale, our revenue is not just at a fund level, but also it is both separately for TA and separately for FA, right? Otherwise, broadly, for the other players, it would be lesser than the three to four basis points you're talking about. Second, many international fund administrators are setting up basis in India is natural. It's not just SS&C, you have IQ EQ, you have Apex partners and potentially a few others as well.

They have all been in India for the last bunch of years, largely to take care of the captives they have set up in India to support their international operations. Many, if not at least many, some of their current clients internationally are also obviously exploring GIFT City as a possible fund structure route. And as they set up, their clients obviously would nudge the current fund administrator, to be able to support them as they expand into the GIFT City operations.

That said, if you see the total contract wins in GIFT City, we have nearly 60% of all the GIFT City funds being managed by us. We recently also signed the first and the second insurance-based fund that is listed in the GIFT City. Now, when it comes to pure domestic alternatives to be supported by any of these fund administrators, we don't want to be arrogant and thinking that others will not join the party. I'm sure they will.

But our advantage lies in significant amount of localization of the platform and a cost to serve, which will be very, very hard for others to match and beat. So, to that extent, whilst we continue to obviously keep a watch on the overall expansion of the service provider ecosystem, we believe that we have significant number of modes and the modes that are continuing to get better by the day. And hence, we are more confident to grow faster in the coming years as against otherwise in the context of new foundation emerging.

Abhijit S: Thank you.

Moderator: Thank you. The next question is from the line of Amit Agicha from HG Hawa. Please go ahead.

Amit Agicha: Thank you for the opportunity and I congratulate the committee for commendable performance in the past like 1.5 years from the IPO date till now, the value has doubled almost. And I appreciate this. And my question was regarding the reduction in the promoter holdings? My question was regarding the reason for reduction in the promoter holdings?

Sreekanth Nadella: I think Mr. Vivek had already answered that and I can ask him to add a little bit more color. A promoter is a private equity. A private equity's fundamental job is to deliver returns to their shareholders and their investors. And in the context, anyone who has invested a substantial chunk is expected to downsize over a period of time.

But this company is a professionally led management to that extent. It's been nearly 7 years since General Atlantic had been there and they've been an exceedingly wonderful partners for us and they'll continue to be there for a foreseeable future even as one may expect some blocks to be sold over the next bunch of years.

Amit Agicha: Thank you.

Moderator: Thank you. Ladies and gentlemen, that was the last question for the day. I now hand the conference over to Mr. Devesh Agarwal for closing comments.

Devesh Agarwal: On behalf of IIFL Securities, I thank the KFin management for giving us an opportunity to host the call today. Before we conclude the call, would management like to add any closing remarks?

Sreekanth Nadella: Nothing at my end. We continue to focus on what we do best, which is to deliver value to everybody in the stakeholder ecosystem. So I think in the context of the new signups and the optimism that we are seeing across our current clients and the prospects, we hope to deliver higher value as compared to what we have over the past bunch of years. Thank you so much for joining.

Devesh Agarwal: Thanks, Sreekanth. Thank you everyone for joining the call today. Siddhanth, you may now conclude the call.

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