May 12, 2023 CS&G/STX/JQ2023/20

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 LODR Regulations

Dear Sir / Madam,

Further to our letter reference no. CS&G/STX/JQ2023/09 dated April 28, 2023, pursuant to Regulation 30 and other applicable provisions of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("**LODR Regulations**"), please find enclosed herewith the transcript of the Earnings Conference Call held on May 08, 2023, in respect of the audited financial results of the Company for the quarter and financial year ended March 31, 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: 2023.05.12 12:27:39 +05'30'

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

Encl.: a/a

“KFin Technologies Limited
Q4 FY ‘23 Earnings Conference Call”
May 08, 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 morning and welcome to the KFin Technologies Q4FY23 Earnings Conference Call 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 is being recorded. I now hand the conference over to Mr. Abhijeet Sakhare from Kotak Securities Limited. Thank you and over to you.

Abhijeet Sakhare: Hi, good morning everyone. Welcome to Earnings Conference Call of KFin Technologies Limited to discuss the 4Q FY23 performance of the company and share industry and business updates. We have the senior management with us today, 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 to one and all. Good Monday. We will start with a quick overview about KFintech. My sincere thanks for talking to this organization. This is our second analyst call. I would still want to reiterate, take this opportunity and explain a little bit about our organization before I dive into the overall business performance. We continue to be the largest investor solution provider, registrar and transfer agent in India and one of the largest in the world, especially in terms of the number of folios we manage. Between mutual funds and equity, we manage close to 23 crores folios, which is amongst the largest in the world. More specifically on the mutual funds, we manage about 26 out of the 45 fund houses, equating to 12.8 trillion rupees of AUM, translating to a little about 32% of the overall AUM, a number that has, over the past three years, have been continually increasing.

We have also had the privilege and honour of being chosen by most of the marquee fund houses who have launched their operations over the past decade. We won 15 out of the last 20- 21odd asset management companies that have launched their operations in the country. The equity mutual fund AUM market share, too, has been continually on the rise. In fact, it has increased with over 600 basis points from FY20 from 28.8% to close to 35% now. Being in the industry of mutual funds and asset management, retail SIP book is one of the most important parameters everyone tracks to. Again, another metric our clients have been at the forefront of growth, we have added market share moving from 39% to close to 41% in the past two years.

Issuer Solutions is the place where KFintech had originally started its business long back, 35 years back, to be precise, and we continue to be the market leader with about 47.3% market share in terms of, when measured in terms of the companies that are listed on the NSE500. And our total client, close to over 5,300 clients, including several unlisted and listed companies, becomes the backbone of this company's growth in terms of having it spread out in terms of every single corporate, every line of business that we deal with. While these two have been traditionally the growth engines of this organization, over the past three to four years, we have carefully and purposefully orchestrated several new growth engines, given financial services is likely to be the next step. We have also since then found opportunities of higher growth in various areas, that includes international expansion as well as asset class expansion into alternatives, pensions, private retirement schemes and on the bond market as well.

We have been at the forefront of the technological innovation, launched over 20 new products which are very relevant to the industry. We have also since then been extremely intentful in terms of having our organization run in a manner which is fully compliant with ESG standards. In fact, as per the previous assessment we have got conducted, we were rated A, and amongst the second-best company in the space that we operate in the capital market.

I will quickly gravitate into the highlights of the business performance for the quarter and also will take this opportunity to quickly sum up the yearly performance as well. For FY2023, KFintech had registered a revenue growth at about 13% year-on-year. EBITDA margins were at 41.4%, PAT margin at 27.2%. Q4, specifically the revenue growth year-on-year had been about 1.3%. EBITDA margins were at 45.8% and PAT margins at 31.1%.

We have seen opportunities of productivity driven through large-scale technological transformation initiatives that have concluded in H1, which have resulted in terms of EBITDA expansion and PAT expansion into the second half of the year, which have since then, compared to H1, have improved the overall year's numbers both for EBITDA as well as the PAT numbers. We have seen a growth across, it is a secular growth across all lines of businesses.

Domestic Mutual Funds, which continues to be the largest line of business, the AUM has grown 7% year-on-year, whereas the industry's growth was at 5.5%. This helped us increase our market share from 31.2% to 31.6% in terms of the AUM itself. We have implemented the first-of-its-kind big data platform called Digix across several large asset management companies. And we have also been lucky to have several premier marquee asset management companies. In fact, we now have a fourth client from KFintech who have entered the category of the top 10 asset management companies by size. If you recollect, we had two AMCs in the previous year and it has now swollen to four. While Domestic Mutual Funds and issuer solutions, as I said, are the bellwethers for this business, we are also very happy to inform you that our faster growth in the younger businesses has reduced the dependency on the larger business, which effectively translated into the revenue coming from non-mutual fund businesses to have increased from 26% to 29% in the fiscal year 2023. One of the primary contributors being the issuer solutions, which has crossed this major milestone of a INR100 crores turnover in the previous year, which marked close to 30% plus growth on the revenue, including the OPATs over 32%. We have added 180-odd corporate clientele during the Q4 itself, taking the total client base to 5,363.

We have also been successful in effectuating transitions and transfers from other RTAs in this space, including that of Varun Beverages, Devyani International, Castrol India, Union Bank of India, and several others. In total, we have added about 1.4 million investor folios during the Q4 FY2023, which brings the total folio count to about 110 million. All of this will augur well into this year as there is a compounding effect in terms of revenues because of folio expansion. International investor solutions is one of the areas that we've been very, very intentful in terms of growing. We have in FY2023 a total client base of about 41 clients, which used to be 32 in the previous year.

This has resulted in the overall revenue growth, which basically has a number of close to 35% increase in the previous year, a 65crore number compared to that of the 48crore in previous year, which also includes the international business and the alternatives and pensions within this. We have seen growth up north of 35% both in the case of pensions and in the alternatives, 46% in fact in alternatives and 80% plus in the national pension system.

The Southeast Asian business, on the other hand, given the markets have been reasonably tepid, we lost some amount of AUM. But despite that, we have managed to maintain the revenue in fact for the previous year as we expect to have a much better year going into FY2024. We have added around 63 funds, fund managers to be precise, in FY2023, taking the total number of funds to 411, the market share of 57% for AIF.

As we all know, KFin renders both transfer agency and fund administration services for all alternatives and today has the largest market share in all the GIFT city funds, in fact is one of the few players in the country who has funds in Canada, Singapore and other parts of the world as well and a business that we are very interested in growing into the coming months and years. We have, in the case of national pension system, have outgrown the industry substantially. We have grown our subscriber base by 28% year on year compared to 15.6% of the industry. We effectively translated it into the overall subscriber base well into close to a million, 9,50,000 plus number, which was the 7,00,000 number in the previous year.

So that marks a substantial growth and a continued expansion of subscriber addition both through the intermediary channels as well as through the direct channels. This growth, as we have already informed back in the day, KFintech looks at its growth strategy both organically and inorganically. We continue to demonstrate our intent to add significant value to our clients and to our investors through identifying opportunities of buy versus build where it makes more sense for us to buy. So one such thing was when we have invested minority stake in the country's first and the largest account aggregator called OneMoney.

We are very bullish in terms of the overall prospects in the medium to long-term prospects of the account aggregation, what it could do even as there is a significant intent from the government of India in order to expand a data-driven economy, which today not just includes financial services data but also GST data and possibly medical records data, so on and so forth. We believe the opportunities will be enormous.

At this point in time, we have definitive use cases to add value to our current client both in asset management and in the wealth management space. And OneMoney, of course, is a premier account aggregator when it comes to the lending space, which also helps us to add a substantial business case and a client case, which hitherto was not a traditional client base to KFintech, which is on the lending side, if I may. We have since then also acquired through a 100% buyout of Webile company, Webile Apps company. It is a tech company based in Hyderabad, which specializes in UI, UX, AI, ML-driven platform creation.

The particular company in question was also instrumental in creating MF Central, as we know today, in terms of its entire journey and the workflows associated with that. It is a very important acquisition for KFintech in the context of adding a substantial tech base with the relevant domain knowledge to enhance KFintech's own overall tech and transformation capabilities to render unequivocal services to the entire asset management industry, including that of the new acquisition, such as OneMoney, so to speak. Both the entities are based in Hyderabad and have seen sharp growth in the recent years. Broadly, in terms of the industry performance itself, Mutual Funds itself had a performance in terms of the year, I would probably call it, in the context of a highly volatile market and a market which ended flat from 31st March previous year to now at an overall growth of 5.5% year-on-year, and as I said, Kfintech in this context had grown over 7%.

Equity AUM had grown over 10.5% during this particular period of time. There had been a continued inflows into equity through the SIP retail channel. This augurs well for the industry. This also reinforces the trust in terms of India's equity and capital markets by the investors who continue to invest through this route, which is both sticky as well as a very efficient investment structure for all the investors.

The monthly SIP inflows have continued to grow from March 2020 to March 2023. In a matter of three years, the numbers have moved from roughly INR8,300 crores to INR14,000 plus crores as a run rate ending March. This provides the necessary stability that is required both for the MF industry as well as for the capital markets. The folios, the total SIP count across AUM have been steadily on the rise, and as I said, through this steady rise at the industry level, we have been fortunate enough to have clients who have been outgrowing the industry, quite substantially helping overall market share to increase.

On the other asset classes, there has been a marked increase in the number of alternate investment funds. Over 25% plus new funds have been added in the fiscal year 2023, and the total number of demat accounts, too, have expanded substantially by over 27% compared to FY22-FY23. The pension subscriber base itself, as I had already called out, has increased by 13.6%.

Given KFintech operates across the asset classes, equity, bond, alternatives, mutual funds, India and abroad, a continued expansion and financialization of the capital markets, I'd like to believe, will also very well for the organization and its clientele along the way. Our opportunity size for international business continues to excite us. As we all know, KFintech has an office in Kuala Lumpur with clientele based in Malaysia, Philippines, Hong Kong, and now soon to start in Singapore.

We have also received in-principle regulatory approval from Thailand, and as we go through the next steps in terms of the regulatory approvals within India, we are intentful of starting Thailand operations in time to come subject to the regulatory approvals. The overall market size is nearly two times that of India, and with a strong affinity to have both transparency and fund administration to be provided together. The complex business environment out there, one that we have been there for the last five to six years and we believe we have created successful modes for us to be able to now expand far faster than how we could for the past four years of our inception, which started from zero today to have over 41 clientele.

And as a summary for the year-end, I have also mentioned in the previous quarter that we have signed up with Canadian Fund Administrator. We have gone live since then, and we have also added some alternative funds from Singapore and soon to start hopefully other geographies as well. In terms of the KFintech's performance in the domestic mutual funds, our growth of 7% over 5.5% of the industry at the overall AUM level. Equity AUM has been about 8.7 percent year-on-year compared to our higher industry growth during this period. We have had fewer NFOs compared to the overall industry, which I hope will change into this quarter and the subsequent, which will augur well for us into this fiscal year, even as the previous year has concluded. The overall market share continues to expand both on the AUM or equity AUM SIP life count as well as the values, so to speak.

In terms of, if you see a comparison, the highest growth in the AUM, four out of the top seven AMCs in the country had been from KFintech in the previous year. In percentage terms, six out of the top seven asset management companies who have registered the fastest growth in AUM had been with KFintech. We are also very, very excited in terms of the launch of our premier financial services company in the country, Bajaj FinServ's launch to happen this year. And to the roster of KFintechs, we very, very warmly welcome Al-Bajaj's launch of initial funds into this year, hopefully in the next quarter or so. Issuer solutions, we continue to expand the corporate clientele by a good margin. The IPO market had been a little tepid in the previous quarter, but we have seen that pick up now.

And we all know that the registry revenue is not just from IPO, but largely from the folio maintenance and the corporate actions, which are largely dividend declarations, buyback of shares, rights issue, and so on and so forth, all of which have seen a steady growth in the previous year. And I'd expect similar trend to continue into this year.

And with any luck with more IPOs happening, we would love to believe that we can continue to expand far faster into this line of business as with the others. We have also been privileged to be awarded as the Asia-Pacific Stevie award in the gold category for innovation and digital transformation for financial services, digitally transforming the IPO subscription model. This is in the context of KFintech managing the country's largest IPO ever, LIC of India, and successfully creating several platinum standards in terms of technological solutions that were meted out during that process.

We have won this award in Vietnam across Asia-Pac level, competing with some of the largest technology companies based in the world, including from that of India. So we take this opportunity to thank you all for supporting your faith in us to continue transformation. Quickly moving on to the international solutions, I briefly called out that today we have about 41 clients. In the previous meeting, you would have heard a number of 32. The Expansion is largely on the back of winning several large funds in GIFT City, the newer alternative funds in Singapore, and the Canadian funds that I had already spoken about. Our pipeline for the East Asia and in general beyond the India borders continues to be pretty large, and one I'm hopeful will see a faster traction in terms of conversion. Some of these geographies have longer and protracted procurement cycles, if I may.

That's not withstanding, several deals are planned for hopefully in the months to come. Overall, we have seen a continued expansion in transaction volume and the clientele, though the AUM itself has slipped compared to that of FY2022, given that mark-to-market erosion in the stock market in most parts of the Southeast Asian economies in the previous year, and hopefully that trend will change in this year. In the case of alternatives, we have added close to 144 AIF schemes in the previous year, marking this as the single largest expansion of a business in a single year for us, close to a 46% increase in revenue and a higher than that increase in terms of alternatives. Several of the funds are yet to launch, and as that launches, it helps us to further improve our revenue base in this case, as well as drives an amount of optimization driven through scale that we will accomplish with more funds getting planted.

Fund administration is a very, very important area of business for us. We have acquired Hexagram 1.5 years back, successfully integrated. We have seen growth and expansion in revenues up north of 30% in the previous year for this entity's clients, and even our client-based addition moving from 23 to 28, so five new clients we have added successfully in the previous 12 years.

With that, I would hand over to Vivek to cover the financial performance of the company, and then we'll leave the floor open for questions. Thank you.

Vivek Mathur: Thanks, Sreekanth. On the financial performance of the company, as you would see that overall revenue for the year has gone up by 12.6%. It was backed by moderate growth of about 7.7% in domestic mutual fund revenue. Issuer solutions grew at 28%. International and other investor solutions growth was about 35%. However, quarter-on-quarter, you would see a downfall of 2.7% that's largely driven by a movement in equity AUM, and the overall domestic mutual fund clients did not have much of NFOs during the quarter, as well as for the year, as compared to the industry. But we see that this is momentary as NFOs will continue to come out in the market from our clients in the current year.

Issuer solutions had good corporate actions in Q3 as compared to Q4, so there is a marginal dip because of that as well. However, on the expense side, we witnessed growth of about 20% year-on-year because of higher salaries for our IT folks, IT team in the first two quarters. And we quickly acted in terms of optimizing our expenses in the balanced two quarters. And if you see, quarter-on-quarter expenses for Q4 over Q3 has come down by about 6.8%, and other expenses have come down by 9.2%. So, overall EBITDA went up by 3.9% quarter-on-quarter. We ended the EBITDA margin at 41.4% for the year, and for the quarter it was 45.8%. So, we believe that the trajectory in terms of our ability to optimize expenses if there are headwinds on revenue is demonstrated what we have done in the last two quarters, and we will continue to do that in the coming year as well.

So, EBITDA margins are well within the range of 40% to 45% that we believe is sustainable. 41.4% is within that range. Last year was 45%. And PAT margin and overall profit after tax has gone up. There is a healthy growth of 31.8% year-on-year, while on quarter-on-quarter it is 6.8%. So, overall return on equity is at 25.8%, and we are sitting on cash and cash equivalents of about INR310 crores, which we believe is sufficient as we look for organic and inorganic growth. And diluted EPS has gone up by 23% year-on-year.

Happy to take questions now.

Moderator: Thank you. Our first question comes from the line of Pranuj Shah from JPMorgan. Please go ahead.

Pranuj Shah: Hello. Yes, thank you for the opportunity and congrats on the quarter. So, three questions from my side. First is, on the international AUM, I understand you mentioned that year-over-year the impact was largely due to MTM, but even quarter-on-quarter there has been some pressure. So, is there anything that you're seeing from a flow perspective that is impacting this, both on the AIFs Management and the international solutions?

And second, related to that is your take rate essentially for the international business has increased. So, can we expect further such increases going ahead and what would be the trajectory here? I have another question. I will just come back on after these two.

Sreekanth Nadella: Thank you. So, on the international AUM, I had commented about an overall year-on-year dip in the mark-to-market of the AUM. So, KFintech, the overall AUM that we were managing, let me just give you the specifics. We were managing an overall AUM of INR64,000 crores in the previous year, which had dipped to INR55,000 crores to INR56,000 crores in the current year. That dip was largely on account of mark-to-market is what I had called out.

However, that had not resulted in any revenue dip. So, we continue to have flat revenue for the previous year. This is in the context of the way our commercials are structured for international are different from that of India. So, while the mark-to-market was the primary reason, we have started seeing green shoots in April already. So, the overall AUM has a potential to grow, not just because of the current markets to move up, but also some of the transitions which have concluded in the previous year will start adding the AUM into this year.

The second question in terms of the take rate for the international and the alternatives, so we have added clientele across the stack, whether it is the international business in Southeast Asia, even into the West in the form of Canada, etcetera, and into alternatives. We believe the market in both these particular geographies, as well as the investment class, is quite substantially large and this potentially is the tip of the iceberg. So, I find it currently gives us the confidence to believe that we would be able to repeat the performance, probably even better it as the time goes.

Pranuj Shah: Okay, so you do think that this yields currently at a cap rate at 5 basis points, but this can move up going ahead also?

Sreekanth Nadella: It is possible, yes.

Pranuj Shah: Got it. Thanks a lot. My second question is on SEBI regulations, which as per news reports, they might charge AMCs to pay brokerages out of that Tier. So, do you see this as a headwind to your potential margins or the revenue that you charge to AMCs?

Sreekanth Nadella: The commissions that are paid to the brokers, as is the fee that is paid to the registrar, such as ourselves, all goes out of the total expense ratio. So, to that extent, what gets paid to the brokers has no correlation to what gets paid to a registrar or to a fund accountant or to any other entity that an asset management company contracts with in order to get a certain set of services delivered to. It is early days in terms of the quantum and the nature of expense ratio cuts, if any at all. I'd like to believe that the conversation has nothing to do with the registrar's fees at large.

Pranuj Shah: Brokerage, I'm talking about brokers as in during transactions. So, that you don't see as a headwind currently? If it impacts the margins of AMCs, that could have a knock-on impact on to KFin's numbers potentially?

Vivek Mathur: Yes. So, every time there is a market event, clearly there can be some stress at an overall asset management level. But we need to understand the nature of our engagement is very different. Today, we operate at a highly productive cost base, providing some of the top-class services at probably the lowest price point. Today, cost per folio, in the case of mutual fund industry, is roughly INR27 per year per folio. You compare that to any other industry, which runs into hundreds of rupees, whether it is just opening a Demat account or bank account or any of those things at all. The cost itself has already been optimized to a point where further optimization in terms of the pricing is going to be great.

Sreekanth Nadella: Yes. It's been in the situation way back in 2018, for example, when there was an expense ratio cut. And you would notice that there was no direct correlation in terms of our revenues or our basis points incurred by that particular event. Likewise, there are certain events that also work in the favor of asset management companies, which may not necessarily pass down to the registrars too. It's broadly an independent conversation, which is entirely based on the value we add and the work we render for the client to have their single largest piece of work, which is the operations for this particular industry to be managed by us.

Pranuj Shah: Got it. Thanks a lot, Sreekanth. That's extremely helpful. I have another question, but I will come back in the queue. Thank you.

Moderator: Thank you. Our next question comes from the line of Prayesh Jain from Motilal Oswal. Please go ahead.

Prayesh Jain: Yes. Hi. Good morning, everyone. Firstly, just on the domestic mutual fund business, could you throw some insights after, how do you say, for example, if you get a INR1,000 crores AUM in existing scheme versus the NFO, how does your realization change between the two?

Sreekanth Nadella: Yes. So, I think it's probably more an academic question, and there is no difference in the revenue that KFintech generates, if a INR1,000 crores were to come from NFO versus through business as usual operations. Okay. It is our contract and commercials are largely based on the asset class, which is equity, debt, and liquid, and ETFs. And for each of these, there is telescopic pricing, which means that up to a certain threshold of an AUM, there is a certain rate. And as the AUM breaches that, there are certain volume discounts that are automatically baked into the contract.

So, in the example that you have cited, whether the INR1,000 crores come from NFO or through any other form of channels, say one-time investment or through SIP, it makes no difference in terms of the revenue that we generate. However, the revenue itself will be different between client-to-client and between threshold of AUM to another threshold of AUM.

Prayesh Jain: Got that. And while you've spoken about the revenues of each of these segments, could you also talk about the profitability of each of these segments in the sense that, what would be the EBITDA margins in each of these businesses, domestic financial solutions, international, and global business solutions?

Sreekanth Nadella: Yes. So, we don't necessarily provide the business-level margins. But it's largely also because significant amount of our costs across the industry, especially on the technology and infrastructure side, with a significant increase in both the regulatory requirements, as well as in general, the requirements that are pertaining to cybersecurity, data privacy, resilience, so on and so forth. But broadly, most of our businesses, at the entity level, before allocating any overheads tend to be around, 60%-odd.

Prayesh Jain: Okay. So, in a way, is it fair to assume that while the revenue contribution of domestic mutual funds is at the highest levels, and the profitability will also be at the highest level? And what is the order of profitability share of EBITDA for each of these businesses? Could you share that in, if not in direct terms, but at least some indication as to which ranks where?

Sreekanth Nadella: So, I've already called that out in terms of broadly, most of the businesses tend to gravitate between, 50% to 60%, and all of them are in a cluster. The international business gives us the highest yield, as was answered in the previous question, right? I mean, in India, it's roughly about 3.8 or so. For international operations, it's over 5. Businesses of, corporate registry and mutual funds are of, similar character. It provides us hedge in terms of having businesses, not all of which are directly related to the market, right?

In the case of corporate registry, it's more driven by the number of folios, corporate actions, so on and so forth. In the case of our national pension system, it is subscriber driven. Our value-added solutions and services of technology are purely tech solutions, so to speak. So, there are various different parameters, each of the businesses thrive, and obviously, the margins associated with each of these would fluctuate based on which year that you're talking about, but broadly, the cluster would be between 50% to 60%, and the international business having the highest yield, if I may, compared to the other businesses.

Prayesh Jain: Okay, got that. Yes, that would be all for now. Thanks.

Moderator: Thank you. Our next question comes from the line of Abhijeet Sakhare from Kotak Securities Limited. Please go ahead.

Abhijeet Sakhare: Hi. So, the first question is, again, on the mutual fund RTA business. Are there any major contract renewals in the offing for this year that can pressure the realizations, or if you could just directionally guide us on the yields on the MF RTA business?

Sreekanth Nadella: Sure, Abhijeet. Our overall yield, we continue to be around, between 3.8 and 3.9 for the previous year, ending 31, March, and as we all know, the overall yield of the company is, in some sense, a weighted average computation at an AMC level, so to speak, right? Each asset management company has a different rate, different structure, based on their focus on a specific asset class versus others, as well as the quantum and size of the fund itself, given the large funds tend to enjoy a telescopic pricing driven lower yield, in some form or shape.

We believe that over the last five years, if you see our trend, it had been the variance of the basis points had vastly been around the same number between, 3.8 to 4. We believe we'll be able to maintain around the same yield curve this year as well. We have one contract that's up for renewal in this year.

Abhijeet Sakhare: Got it. And just from an understanding point of view, are you seeing any discussions around, let's say, differentiated pricing, whether, be it a customer who's coming through a direct channel versus an intermediated channel, or maybe, let's say, a unique first-time investor versus a repeat investor, any of those discussions starting to come into the discussions with your clients?

Sreekanth Nadella: No, Abhijeet, not yet. I think it's very early days, and there's just a lot of speculation. I think we should wait for some clarity. Expense ratios capped at the size of the fund house to GST to new investors being treated as a new, irrespective of whether you are from P30 or B30. There are a lot of discussions that are, all of this will manifest itself in the form of consultation paper at some point in time, which will further be debated, and some changes may happen sometime during the year. But it's very, very early days. With our clients, the conversation is largely business as usual, how to drive the growth, how to expand the overall AUM and the market share by providing value-added solutions. Our conversations have been largely focused on business and not overtly be worried about items that are beyond our control and of which timelines are not definitive at this point.

Abhijeet Sakhare: Got it. Second one, on your presentation, you make a couple of references around data lake projects. So just broadly, could you talk about revenue model here, one-time versus recurring, what's the demand versus what's being currently serviced, any sort of broad numbers here?

Sreekanth Nadella: So Digix is a big data platform we've created, first of its kind, as well as architecture with frugal engineering and something that is fit for purpose for this industry and something that is definitely scalable into the product, BFSI circle itself beyond the asset management space. The platform created in collaboration with AWS, who is also our strategic partner for all things Big Data. We have since then implemented for one of our largest clients. And we have recently, in the month of March, signed up with one of the largest wealth managers in the country, who also happens to have an asset management company.

The revenue model is twofold, a one-time implementation cost, which is largely dependent on the lineage and the legacy of the data in terms of architecture that the asset manager or the wealth manager has, which is basically the continuum or the number of years. And the quantum of data itself, as well as the use case that they would look at us for us to be developing it. So that is effectively a one-time fee. And there is a recurring annual maintenance, which is largely rendered in a SaaS model to the clientele, which is to provide end-of-the-day cutting-edge analytics, both on the side of sales, marketing, and distribution, on the compliance, as well as the delivery and operation side, so to speak.

We have since then also embedded the layer of account aggregation into this for the data and the information to be far more useful than it ever was before. So it has already seen a lot of that. We have implemented within KFintech first within ourselves in the previous year. And after its proven success cutting across petaflops of data that we put on ourselves, we have found a sweet spot for all asset managers and wealth managers in the country and beyond.

Abhijeet Sakhare: Got it. I have a couple of more. I'll come back to the operator.

Moderator: Thank you. Our next question comes from the line of Prithvish Uppal from Asian Market Securities. Please go ahead.

Prithvish Uppal: Yes, thank you for taking my question. Firstly, just wanted to understand what has been the contribution from value-added services, and especially you touched upon the Digix platform as well. So just how the trend is shaping up over there and overall revenue, how much would that contribute?

Vivek Mathur: Yes, VAS revenue contributes to 5% over total revenue, and currently it ranges between 5% to 6%. But we expect that with the demand, as Sreekanth mentioned about value-added services like Digix and Data Lake ramping up, and there are more value-added services products that we are planning in the issuer solution space as well, we expect this percentage to go up. Sreekanth, do you want to add on?

Sreekanth Nadella: No, that's about it. Thank you. I think the quantum was asked and you have answered that. So as the overall revenue base expands, the percentage on that, of course, the value-added solutions increases. VAS, to be clear, cuts across every line of business. It is not specific to mutual fund alone. On the corporate registry side, we provide cutting-edge platforms of insider trading, electronic AGM, electronic voting, so on and so forth.

In the case of mutual funds, it could be platforms such as Digix and extended CRM, ORM solutions for our clientele, apart from taking care of the entire mobility stack for them, that is building their mobile apps and websites, so on and so forth. It also cuts across alternate investment funds and into our global solutions as well. So it is broad-based and secure across every single line of business, and we constantly find opportunities to create solutions which have an impact across the industry and across the geographies.

So, this is a new line of business in some form and shape for us recently, right, and we have articulated 4-5% of our total revenue pool to come from this business. And a good part of this business also compounds into annual revenue, especially on the AMC side, which provides an amount of stability to the company.

Prithvish Uppal: Okay, so understood. My second question is with respect to your global fund business, the international MF business. So, I'm thinking, despite mark-to-market connection in the AUM, you mentioned that revenue was more or less, as it has actually increased. So that would mean, from a yield perspective, the yield at the charging that would have gone up, and if you could just somewhat elaborate on in terms of how, the pricing is maybe different from how we charge to domestic MF. Is it on a similar sort of pricing model, or is it different across different geographies?

Sreekanth Nadella: Sure. So we have created, in some sense, we have taken this model to these countries in some form and shape, which is that it did not, exist. And of course, some of the lessons that have been learnt from the markets over here, compared to other cities, we didn't want to replicate the same challenges. So, we have a few things.

One is, yes, we have provisions in our contract to increase the price and not necessarily discount the basis points as the AUM increases. So that is one definitive difference between the market here in India, as well as coming compared to the other markets. So that is a goal and an explanation that is possible, which we have been trying successfully to effectuate year after year.

Second, there is also a minimum price at a fund, at a scheme level, given we have set an amount of efforts and, a scheme's non-performance does not take away KFintech's efforts in order to make it, in order for us to render our services. So even though the AUM had come down in the previous year, revenues remain flat for these two count, for these two reasons. One, primarily a basis point expansion, and two, and more importantly, a minimum fee per scheme that we charge, irrespective of the quantum of the AUM scheme that we have.

Prithvish Uppal: Okay. So, on the pension side, so, previously it was disclosure, the segmental result, especially on the pension side, we were, it was on the negative side. But now, with the changes in terms of the segmental disclosure, we have reported a positive number for, the entire international and other, the international other investor solutions. So, just wanted to understand, has the pension business turned profitable from this quarter or when do we expect that to happen?

Vivek Mathur: Yes, the pension business continues to grow in terms of market share, number of subscribers, revenue has been, has grown year-on-year by about 83%. But it is still not turned profitable. So, at an EBITDA level, so we have yet to reach scale to become profitable. But we do expect that with the kind of growth that we are experiencing, in terms of number of subscribers, we will be, able to achieve that kind of breakeven in the current financial year.

Amit Murarka: So, just to add, as we're saying, I mean, as we reach the, we take upon the scale in this business and all, we will see the operating leverage kicking in. I mean, on a year-on-year basis, while my revenue growth has been 83%, my losses have already reduced by half, almost 50% this year. So, as we go along and we see more scale coming into the business and all, we will see this business to start contributing profits as well.

Prithvish Uppal: Okay. So, this is just one last question on the data keeping side. If you could split the international and other investor solutions revenue into the pension, AIF, and the global fund of business, that could be very useful?

Vivek Mathur: So, largely, the revenue comes largely from Southeast Asia business in the international side. And that is about 80% of the total business revenue comes from that. Then we have, other businesses which are related to pension and AIF, which is the balanced fund. As you know, pension is a very small business. So, large part of the growth is coming from the AIF and PWM.

Moderator: Thank you. Our next question comes from the line of Anand from White Oak Capital. Please go ahead.

Anand: Thank you for the opportunity. A couple of questions. First is, from investment perspective, do you see any significant need which can impact, our operating expense for over the next couple of years? And second, from international business perspective, over, let's say, next two, three years, where do we see this mix to be given our current standing? And from profitability perspective, what would be the next expectation or, let's say, next two, three years?

Sreekanth Nadella: Thank you, Anand. Anand, I think the first question was any sizable capital investments planned. Is that the first question?

Anand: Yes. So, we have cash. We might have some inorganic growth plan. So, that is one part. And from investment perspective, like low cost of business, is there any major investment in any particular segment which might need to hire as well? So, you can comment on both of those things.

Sreekanth Nadella: Yes. So, the years that have gone by, in fact, we have had, substantial, capital expenses that we have incurred, in the context of, creating the data structures that are required for our products and platforms, as well as the entire infrastructure that was required for the field that we are in deciding into the coming three to four years. So, a good chunk of investments in the case of IT infrastructure has already taken place.

And we have, some more to happen this year as we also modernize the end user computing for us to be able to successfully gravitate towards a hybrid work environment, which effectively translates in the form of, mobility platforms, collaboration platforms, and laptops, so to speak. So, there is some expense, capital expenses planned for that. Not beyond that, we do not have any large, capex planned.

M&A continues to be a very, very important focus area for us. And, as I called out in the previous year that, we were looking to have a couple of acquisitions this year that we have concluded already. We are looking at, through this year as well, and probably, sizable, bigger than the current acquisitions we've had in the previous year. So, to that extent, yes, I think expect some money on the M&A, hopefully, to be expanded this year.

Other than that, in terms of pure opex, I believe, we do not have any sizable or material deviationaries we required. In the last two years, we have expanded our sales and marketing teams beyond India, which had been one of the contributing reasons for our fast expansion into our international overall clientele as well as revenue. That has now become a business as usual expenditure that is the sales teams that we have created within Thailand market, Philippines market, Malaysia, and now in Singapore. So, to that extent, this will not be differentiating or a variable cost that we will be building for this year. And you had another question. My apologies.

Anand: Yes, it was on the international business. Where do you see this mix of domestic versus international evolving, given our current standpoint and with the current visibility? And from profitability perspective, also, what will be the mix of revenue versus profitability two to three years out for international business?

Sreekanth Nadella: In terms of revenue mix, three broad components in that, right, international and other asset management solutions. The international itself, truly. Then the alternate investment funds and the wealth management, and then the national pension system. Of these three, we believe the first two have the highest revenue potential, both in terms of the addressable market, as well as the potential to have, margin structures, which are more commensurate to our line of business. Pensions, any which way there are some, I think we'll have to wait and watch this space given how the government is looking at national pension system versus old pension system.

But given our growth had largely been on the all-citizen sector, we continue to be optimistic about it. In terms of the proportion of the revenue to come from each of these segments, I believe that there would be a similar growth trajectory, especially into this year. Alternate into the next year, it may change more in favor of international business as the full year's revenue for the deals that we are winning and the transitions, those will conclude, will kick in.

But for now, the number of alternate investment funds we have won are signed up and yet to launch into this year. And the new ones we are signing up is quite substantial. So, I'd like to believe that, we will continue to maintain similar mix of revenue among these three categories into this year. Even as into the medium and long-term perspective, I would expect the international business to be significantly higher than that of alternative national pension system combined.

Anand: Okay. And last question, if I may squeeze in, from international business perspective, fair to say that the runway of opportunity here might be much more beyond the next couple of years. And if you can give us a more structural sense of the business, given that at this point, then you're kind of unique in that geography as an India origin player. So, what is the structural scope of opportunity here?

Sreekanth Nadella: Yes. So, we're nearing the top of the hour, so I'd be brief and probably we can pick this up offline at length. But very succinctly put, it's a, it's a $6 billion industry, right, beyond India. So, business that we are in, and that is a totally addressable market. Splitted between East and West, East is largely a transfer agency opportunity, which is where, KFintech have been for the longest time.

West is largely a fund administration opportunity, which is where we have started making big moves after acquisition of Hexagram and having started delivering fund administration solutions for several alternative funds in India, in Singapore, in Canada, and other parts of the world. So, together, that's the business opportunity we look at. And we, our aspiration, our intent is to be the first Indian company to be globally relevant in this space.

Moderator: Thank you. Our next question comes from the line of Devansh Nigotia from SIMPL. Please go ahead.

Devansh Nigotia: Thanks for the opportunity. So, in case of employee cost, if you can help us understand in terms of count, how the count has shaped, and were there any one-off costs in the last quarter? Because the 10% Q-o-Q de-growth seems quite significant. And what is the median increase of remuneration we are expecting for next year, FY '24?

Sreekanth Nadella: Our employee payroll costs for the previous year, have seen an overall 20% plus growth compared to the year before that. I think there are two broad reasons. One, of course, is, I called out about our expansion of sales and marketing development teams, product and platform development teams. So, we have been adding, certain functions, which were much smaller, back in the day, given, KFintech, that largely was in the domestic space, largely looking into the domestic mutual funds and into the issuer solutions.

Now, as we expand other asset classes and other geographies, it is quite obvious that we need to have the, feet on the street, on the ground in each of these parts of the world. So, the head count of a different, skill set of employees was one of the contributing factors in terms of the payroll cost.

The second one, of course, is the inflation itself. Now, the previous year, India, across the globe, has seen inflation in the form of, salaries, expanding quite substantially. We were not immune to that either. But as we moved into the H2, we have seen two opportunities. One was, of course, a normalization of the wages, which I'd like to believe has happened and continues to happen eventually.

And second, we have driven a very different software services companies operating model in our IT, which effectively means it operates in a pyramid model as against a pod structure and, product or a platform layer. So, basically, we brought the best practices of our IT services work to deliver IT to its clients the similar way our IT in KFintech renders its services to its internal customers, which is the domestic mutual funds registry, so on and so forth. So, we have transformed our business model into a pyramid-driven structure, which has helped us reduce the overall cost, at an hour level in conjunction with the normalization of, wages.

So, those two together have helped us optimize our wages. Into the coming years, we are still deliberating. You know, we have not yet closed out the numbers, but I'd like to believe, as always, we will continue to be an employer, who will be, market-relevant and be in the top region of it. It is very important for us to have the domain knowledge as we expand fast and do with it as classes create top leadership and expand beyond countries to have best-in-class talent.

Devansh Nigotia: And there has been a significant jump in the international customer count, Q-o-Q. So, if you can just elaborate a bit more on that, with geographies that it is related to. And also, we've made inroads in Singapore recently. So, what do you think, how much that business can scale up?

Amit Murarka: Devesh, I mean, if you see on the sequential basis, the number has gone up because we have just repurposed the classifications and trying to consolidate our international operations. So, between the previous quarter and the current quarter numbers, if you see the gap is majorly because, I mean, we have included the gift-city client also in terms as part of, the Q4 numbers. But on a yearly basis, if you see March versus March '22 versus March '23, the number has gone up from 32 to 41, purely because, I mean, those many number of clients have added into the international business because the Gift City was, we just started in Feb, the Gift City operations and Hexagram also we have consolidated only in the last year. So, hence, the more comparable number is March versus March rather than looking at the numbers from December versus March. But as Sreekanth mentioned, we have been adding, the clients both, in gift city as well as in the overseas market as well. So, yes. So, that is how the numbers are.

Devansh Nigotia: Okay. And any recent acquisition in Singapore? I mean, we were not present…

Sreekanth Nadella: Yes, this is not an acquisition. So, we have added clients in Singapore, two funds to be specific. And so, Hexagram acquisition, as we all know, is something that adds color and character of clientele in India and beyond. So, the clients that we have added in international, partly are KFintech direct clients in the form of transfer agency work, both for mutual funds and alternatives. That's where Singapore comes into picture. It also includes clientele that Hexagram from a fund administration standpoint has won, which is, again, Asia and beyond. And also, of course, the Canadian funds that we spoke about in conjunction with Gift City funds. So, it is a combination of, Gift City plus the international funds and also a combination of transfer agency and fund administration contract that we have won during this time.

Moderator: Ladies and gentlemen, we have reached to the end of the question-and-answer session. And I now hand the conference over to Mr. Vivek Mathur for closing remarks.

Vivek Mathur: Thank you very much, everyone, for joining this call. And we look forward to remain engaged quarter-on-quarter. Thank you very much.

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