"KFin Technologies Limited
Update Conference Call"
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Moderator: Ladies and gentlemen, good day, and welcome to the Update Conference Call of KFin Technologies Limited, 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 touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Amit Murarka. Thank you, and over to you, sir.

Amit Murarka: Thank you. Good day all. Thanks for joining this call at a very short notice. We have the management team of KFintech, Mr. Sreekanth Nadella, who is the MD and CEO; Mr. Vivek Mathur, who is the CFO; and me, Amit Murarka - Head IR. The purpose of this call is to give an update in terms of the transaction that KFin has just signed with Ascent Fund Services.

I'll hand over the mic to Mr. Sreekanth to take you through the transaction and the deal. Over to you, Sreekanth.

Sreekanth Nadella: Thank you, Amit. Very good evening, good morning, good afternoon, depending upon which part of the geography you are in. Once again, my sincere thanks for joining on a very short notice. My team would have circulated some content around it.

Today marks a very important day, very important moment and a milestone day, if I may, in the overall journey line of KFintech. As we have been articulating for a while now, our North Star, our vision had been and will continue to be the first large global fund administrator domiciled in India.

In that context, today, we have a very important announcement to make, an announcement that we firmly believe is fully aligned, complements and supplements our vision to be one of the world's leading fund administrator over a period of time, delivering significant value to the fund managers, to the entire intermediary ecosystem, delivering through frugal engineering and highly innovative solutions and a workforce whilst strategic.

Today, we have signed an agreement with Ascent Fund Services, which is based out of Singapore. And I will, over the next 20, 25 minutes, walk you through some of the deal dynamics and the rationale as to why we have chosen Ascent and why they too have chosen KFintech in this journey line, and we'll leave the floor open for questions subsequent to that.

Ascent Fund Services as an organization is 5 years in the making, but probably one of the fastest-growing fund administrators across the Asian region and probably even the world in terms of the impressive growth percentages they've clocked.

As an organization, it's currently present or rather the client are present across 18 different countries spreading across the continents of Asia, Europe, Americas and even part of Africa as well. The organization has its financial year starting in the month of July. So it's not necessarily aligned with that of India.

But if you were to take the 6 months ending '25, the total revenue that has been clocked is roughly about $13.5 million. And with a current run rate of roughly about $1.5 million, it is continuing to grow over 35% year-on- year. And a fund size, total funds that are being supported by the organization are a little over 576 funds.

As an organization, they are a full-stack provider. They render transfer agency services, fund accounting services, corporate services and solutions, which I will double down a little bit more or double-click a little bit more in a little while from now in terms of what does that entail.

It's also a fintech company providing fit-for-purpose services in the capital market infrastructure space, much like KFintech does today, providing value-added solutions services through its technology as a component, whether it is data lake solutions, mobility, analytics, cloud solutions, what have you.

The overall transaction allows KFintech an immediate control stake of about 51% and with a very definitive path to gain 100% ownership over the next 5 years. From our overall investment corpus spend standpoint, we are committed to infuse about close to $30 million as a secondary and $5 million as primary, making the organization valued at $63 million pre-money and about $68 million post money.

And as I said, this $34.7 million gives KFintech a 51% control as and when the infusion of cash happens. The transaction itself will take anywhere between 3 to 4 months in our opinion, given this is a highly regulated business. Both the entities, Ascent and KFintech has to take approvals from the relevant regulators.

So if it is KFintech, it is from SEBI, PFRDA, what have you. And if it is Ascent from the regulator's office from Singapore, from Hong Kong and other parts of the world where they are currently domiciled delivering the services at this point in time.

Post the investment, it will have the three founders of Ascent and KFintech to be the principal shareholders. I will explain to you in a little while from now in terms of the current -- the shareholding structure of this entity. The remaining 49%, KFintech is poised to acquire from the year FY '28, '29 and '30 in the tranches of 16.3% each, that gets us to 49%, and we would get 51% at the time of infusement of cash. And hence, we get to total 100% by end of fiscal year FY '30.

The valuation for the outer years is contingent and dependent on the performance by the organization, business performance in terms of margins, EBITDA to be more specific. And overall, we believe that the transaction is highly accretive for our organization and definitely to add significant value to the entire ecosystem.

We are looking at closing the transaction sometime between July and August 2025. As I said, post the signatures, which have happened today, we will immediately be proceeding with the downstream steps in terms of reaching out to the regulators on to the next steps.

I will, over the next few minutes, give a quick glance in terms of Ascent Fund Services as an organization. As I said, it's headquartered in Singapore, started in 2019 Fund Solutions and services, which is basically a fund administrator job, primarily that of what KFintech does today, houses really about 92% of the total revenue.

Corporate Solutions is largely solutions in terms of whether it is financial statements preparation, items around data, items around certain advisory services, which are at a corporate level, data stack, all of that basically adds about another 8.5% to the total revenue book, that's the corporate solutions. Fintech Solutions, pretty small at this point in time, probably about 0.5%, but holds a significant amount of promise into the coming years. I would explain to you in terms of what exactly falls within that.

Primarily, it could be a fit-for-purpose services, whether it is just rendering KYC solutions or anti-money laundering screening solutions to analytics, so on and so forth. These Fintech solutions unlike in India, are largely decoupled in the rest of the world from the RTA services and hence, offers us a great opportunity to look at various other fund houses who may not necessarily be our clients at this point in time, but are very happy to extend immediately Fintech type of activities from a scope of servicing standpoint.

As an organization, Ascent is globally spread out, 23 offices cutting across 13 different countries with a fair bit of delivery happening between India and Malaysia. And of course, you have sales and account management functions residing in the local offices in the various other 23 or other 13 countries that I'm talking about.

It is also very exciting to note that they have six licenses across Middle East, whether it is DIFC or with ADGM, definitely, of course, in Singapore and in Hong Kong and IFSC within the GIFT City and looking to expand into other geographies as we speak.

Totally, 576 funds live at this point in time, managing the total assets under administration to the tune of $24 billion. These numbers are all as of H1 of fiscal '25 for the client -- sorry, for the Ascent Fund Services. From a fund domiciliation also, it's a very nicely spread out in terms of our own corporate objectives in terms of how we intend to scale up our global fund administration business.

Singapore continues to be the single largest base as they are headquartered there. Cayman Islands has another 25% of the total number of funds domiciled in that part of region and serviced through a combination of onshore and offshore locations. Saudi Arabia, BVI structures occupy the remaining 20-odd percent of the geography spread out, if I may.

And just as well as the geographical spread out is also the spread out of asset mix. The private equity, the VC, the RE, high-frequency funds, they occupy roughly about 40% of the total asset mix and another a little over a third of that being occupied by the hedge funds and the rest of 25-odd percent through digital funds, which is a combination of whether it is tokenized solutions or whether it is unitized partial REITs, InvITs, what have you, including crypto. So that's a very, very interesting mix of asset classes.

And if you see, it spectacularly complements that KFin's solutions. As you all know, KFin is largely a mutual fund player, largely public market funds and largely an RTA player. And what Ascent offers is exact diagrammatically opposite, but a complementing mix of both the type of assets, the type of business services and the geographies where they are currently servicing, right?

As I said, from a revenue standpoint for the fiscal year FY '24, they ended with about $13-plus million in revenue. And the current run rate is roughly about $1.5 million, which means that we have a line of sight even based on just the current run rate to be over $18 million of revenue on an annualized basis.

The recurring nature of the revenue is a very, very important facet of our business. Again, much like KFintech, 92%, 93% of the total revenues are recurring in nature. And the gross margins, which are healthy in the context of how nascent this organization is just 5 years into it, already getting to about 52% plus. Gross margins is a very healthy indicator in terms of the scale and the productivity the organization is able to deliver. Purely on the margin standpoint, continue to clock losses, but at velocity, which is decreasing quite dramatically.

For the fiscal year FY '24, it ended with pretty much a marginal loss at an EBITDA level of 0.7 million, but has turned positive in the first half of FY '25. So that clearly is a path from 30-odd percent negative EBITDA already turning positive. And with a whole lot of synergies and the scale benefits that will start to accrue from here on, we expect a quicker turnaround in terms of the margins as well.

As an organization, it's largely in terms of the relationship, it's at a business class level, every type of asset, every business process, whether it is fund administration, transfer agency. In fact, Ascent offers some more additional solutions and services even when compared to KFintech, especially on the advisory services in the upstream activities, fund setup, right, which is a very, very important aspect of it, whereas KFin today, as you know, broadly starts once the fund setup happens largely from an operation standpoint.

So purely from a value chain as well, it is one step beyond what we currently add. And hence, it's a hugely complementary item, one that obviously we intend to leverage for our expansion from a KFintech standpoint as well. And a very, very good, strong broader market connectivity the organization has, which is important, obviously.

Like us, it's very, very important to be able to have a large-scale integrations with most number of custodians and being regulated by so many different entities of different countries, while it comes with its own cost, but definitely adds a whole lot of confidence to every single client as they understand and realize that as an organization, we have been delivering spectacular job in terms of being compliant with every single transaction, every single scheme, fund, house level and at every geography level broadly, right? So the 13 countries, we will publish probably a little bit more detailed note.

But broadly, as I said, much of that is today between Southeast Asia and Cayman Islands. Middle East is a very, very promising geography in terms of, obviously, the potential that it has and more importantly, being one of the early mover advantage that we have as an organization. It is a full-stack service and solutions. The overall leadership itself, while the organization is just about 5 years old, I think the leaders who have built this organization have nearly 2 decades-long expertise being in the same field.

Largely, the founders have come from backgrounds of being with Apex and Deutsche and Citco and so on and so forth. And the entire team is very fit-for-purpose team, which fully understands the structures across the globe and the leadership providing the right kind of direction as they are subject matter experts themselves having come from this very industry managing the funds.

What exactly is Ascent's role in terms of today, much like that of KFintech, it has been providing a very credible alternative to larger fund administrators as they have their own margin pressures as they have challenges in terms of go-to-market, how quickly can a tech solution be brought up, how quickly can a fund be set up and be serviced and the cost at which it is getting rendered.

I have in my past quarterly updates to this community have always explained in terms of the opportunity that lies ahead for us in the global markets. And this is exactly the proof of pudding that I'm talking about in terms of how quickly an organization could scale up from 0 to 575 funds across multiple countries and turn profitability, right?

And how exactly will it complement KFintech to now be a force multiplier. And as I guess, the cliché saying goes 1 plus 1, it's not 2. We intend to make it at least 10, if not 20. And that's exactly what we believe is going to happen into the coming years.

Handling the complexity at a regulatory level for the fund manager is also getting incrementally challenging as they have setups across multiple geographies. And at an investor level, they would always look to have a roll-up view. And to that extent, having a singular fund administrator is a very critical step in the direction. And that is a need in the market, which we will be able to bridge in times to come.

So the 3 solutions that I called out, I'll just do a little bit of a deep dive into each of those. The fund solutions is very similar to what we offer today, KFintech in India and other parts of the world, but in mutual funds is where we offer.

Here, these are definitely private markets and their scope also includes public markets, but it's largely the prelaunch support, the entire fund administration side moving from order management to middle office settlement processes into NAV computations into the RTA side, investor onboarding and the entire investor servicing that we do here, the tax reporting aspects as well, right? So as I said, this is the biggest section in terms of the revenue, contributing to over 92%.

The corporate solutions is an area, which something is refreshingly different, but something that is offered, if I may, by the global fund administrators. And hence, we believe this is a very important arrow that we would -- even as KFintech, we would kind of embrace these into the public market funds as we would expand organically as well.

So that includes whether it is corporate accounting, the statement preparations, much of the geographies need XBRL standard filings that need to happen from a data to data integration, secretarial functions, so on and so forth.

The tech and analytics solutions I've already spoken about purely on the onboarding side of it, eKYCs, anti-money laundering, screening activities, so on and so forth. And this is right now the smallest section, but again, a very, very exciting prospect. Just happy to inform that recently, they have signed a deal with a very large bank in Singapore to offer KYC screening as a solution, which itself is a multimillion dollar opportunity on an annualized basis and something that the organization intends to scale up as a separate vertical in a much larger manner into the coming years.

I'll just take a few seconds to explain in terms of the licenses they have, right, and for what topic, right? Singapore, of course, the governing body is ACRA and then Ascent started in 2019 in Singapore after securing its license from ACRA largely from a secretarial standpoint, moved into Hong Kong. GIFT City, of course, they are there. We were competitors, but obviously, we will have synergies from here on, and I'll talk about the kind of synergies we intend to get from here on.

ADGM for Abu Dhabi specifically for fund administration and ADGM is also the governing body when it comes to all of UAE from being a corporate service provider, corporate service provider, I already explained to you in terms of the scope of services that we have. Mauritius and Dubai, all these licenses already being there and Dubai being the latest in terms of the license that they have secured.

And of course, from a physical presence and/or client support, definitely much of Asia that includes Singapore, Hong Kong, Taiwan, Malaysia, so on and so forth, including Marshall Islands and Australia. And on the Western Hemisphere as you move towards, you will have U.S. some funds. Cayman Islands is large, further set up already nearly about 23% of the total funds being there. U.K. jersey, so on and so forth.

Some of the contents here in the slide where I wouldn't belabor much except to tell you that these dots on the map gave us a great confidence in terms of the leadership's ability to scale up an organization across jurisdictions, across the globe, across fund types and whilst being extremely prudent in terms of the commercials with a very firm focus on driving a profitable growth as against an irrational expansion across the globe.

The leaders themselves, Kaushal Mandalia is the Chairman, ex-apex, Credit Suisse and BNP; CEO, Jaideep Mukhariya and Samuel Chen, again, ex-Goldman Sachs and Citco. All of them are subject matter experts and entrepreneurs par excellence who have built this organization. And then they have a very long career ahead of them given their age profile at this point in time.

As an organization, given it is largely still our operations work, nearly about 2/3 of the organization is ops, of which more than half is domiciled in India and about 30% is domiciled in Malaysia. The rest of them are largely tech, data scientists, account management and sales organizations. But as you could see, overall, a near $18 million of revenue is being delivered by a total headcount of no more than 200 people.

So the revenue per employee, obviously, is significantly higher metric as compared to even an organization like us. But that's largely a factor of dealing with the public funds versus private funds in terms of the volumes that we have.

I will continue in terms of some broad KPIs in terms of the growth. If you see Ascent's growth in terms of the total number of funds, they had about 200 funds in 2022, obviously 0 in 2019. The 200 has now become 576 as of the first half of -- that ends on January 2025, which is 3 months back. And this number obviously is higher as we speak today. That marks near over 60% CAGR in terms of the number of funds and purely in terms of revenue, a 34% CAGR growth, which is pretty impressive.

Important call out here, of course, is something we're also impressed with is the minimum revenue model, right, which means that irrespective of the size of the fund, there's a definitive amount of revenue that the organization would accrue. And obviously, once it crosses the threshold, the basis points at that point in time would kick in. So our growth, obviously, is now going to be driven on both the aspects of it, funds where the AUM is below the threshold as they grow the threshold, obviously, the AUM-based fee will come.

And the new client acquisition, as you have seen, growing over 60% CAGR adds immediate revenue as and when the new funds get added into this equation. Totally, assets under administration also has moved dramatically from about $7-odd million in 2022, now as of January '25 to $24 billion under assets. And the EBITDA movement as well has been very heartwarming now already having turned the corner in January 2025.

I've called out some of the rationale as to why KFintech was intentful of it. I think our steer was from day 1 very clear to be a global fund administrator. The total book in terms of the fund administrators, what is available in the public domain itself is over $12 billion to $13 billion. But if you count captively held and large bank-based fund administration solutions that are being rendered, it is over a $30-plus billion revenue across the globe.

And clearly, KFin’s or any Indian fund administrators share of that pie is practically 0, right? And this gives us the first footprint into that. And it also helps us to diversify KFintech's risks as we've been pretty vocal, over dependency only on mutual funds and India, whilst we believe that both mutual funds and India will continue to grow.

But financial services is always a cyclical story. And diversification is extremely important, and it helps KFintech to be able to diversify its revenue pool. So today, the fund services, the global fund services for KFin is roughly about 5% of the total revenue pool. With this acquisition, we'll move close to 20% plus of the revenue coming only from the global fund services and reducing the dependency on India mutual funds to close to about 52%, 53% or thereabouts.

And obviously, a significant amount of understanding and insights into the ways of working of various other private market funds. And that's a knowledge that we will gain and there is a significant amount of technological support that we'll be able to extend in terms of the synergies. Licenses is always a tough job. It's a highly time-consuming activity.

Having starting with already 6-odd licenses is greatly beneficial. And with the combined might of KFin's balance sheet strength and its credibility and track record with that of Ascent, we'd like to believe that we can grow the rest of the geographies and the licensing part of it much faster and much stronger.

Always acquisitions are all about people. And as had been the case with every acquisition that KFintech had done, the leaders will continue to lead the organization. They are highly inspired individuals, and they're also highly incentivized from the standpoint of making this business growing multiple in years to come.

There is a meeting of minds, young organizations, both KFin and Ascent from a management standpoint and like to believe that in time to come, these 2 will become a force multiplier and not just a pure mathematics and the nonhuman element of it, if I may.

The transaction structure too helps KFintech in terms of the cash management effectively at 51% stake and about $34 million, INR300 crores of cash outflow, we will be funding it entirely from our internal accruals. So this is not a leveraged transaction. Our internal accruals will take care of. As of 31st December 2024, as you are aware, we have about INR570 crores of cash. And this transaction, as I said, is about INR300 crores, notwithstanding the accruals we would have made in the last 3 years -- 3 months, my apologies.

The remaining 16.33%, as I said, would be in the fiscal year '28, '29 and '30 at the end of those years. And even that too would be nearly entirely be through the internal accruals with no leverage being baked into it.

Quickly speaking about the synergies that we have. As I said, synergies in the form of KFin's presence and its capabilities on public market funds is very, very large, as is also evidenced by our own growth in Southeast Asia. And Ascent's presence in many countries beyond Asia helps us to have a foot in the door, including their own clientele and the public market funds. So that's a synergy that KFin would get by virtue of Ascent's presence across the globe and their, I would admit a superior sales network, if I may, as against what we have built thus far.

Likewise, Ascent also will significantly gain with the larger balance sheet strength of KFin, its technological prowess. KFintech today has over 1,500 consummate technology professionals creating some of the best and cutting-edge technologies in the world, and Ascent would stand to gain in a significant manner with that. We also believe a massive amount of synergies, hopefully, in the next 3 to 4 months, we should start unraveling those in the context of KFintech signing up with BlackRock as its preferred partner for Aladdin.

And the strengths of Ascent, combined with the platform capabilities and the global reach of BlackRock and KFin's own abilities, hopefully, will start seeing fruition in the coming months as well. As a business, today, Ascent largely leverages third-party platforms to be able to render services.

One of the big synergy items that we will be exploring in the coming weeks and months would be about leveraging KFintech's own platforms as against third-party platforms, which would further optimize at a cost level and also would make KFin's platform a globally relevant platform, right, in real quick time, even as we are still largely India and Asia-centric. Hopefully, this will become a platform to recon with into the rest of the world as we move.

I will take -- I think I pretty much concluded what I wanted to speak about this acquisition. I will take a pause here and hand it over to Amit and probably leave the floor open for questions.

Amit Murarka: Thanks, Sreekanth. Yes. So we'll open the floor for the Q&A.

Moderator: Thank you, gentlemen. We will now begin the question and answer session. The first question comes from the line of Supratim Datta from Ambit Capital.

Supratim Datta: Firstly, I wanted to understand that now that you have Ascent as a platform, you have Hexagram as a platform as well. So how could you manage the two different leadership teams? Or how would the responsibilities be divided so that you can retain both the leadership team? So if you could give us some color on that, what are the plans of retaining both the leadership teams?

So how do you integrate both these platforms that -- if you could give some color on that, that also will be very helpful. Because I wanted to understand that in Southeast Asia, which platform do you sell now? Is it Hexagram or is it Ascent Fund? -- for the deal part of the 49% that will happen over 28, 29 and 30, I wanted to understand what would be the deal metric for that? Is it EV by sales or EV by EBITDA? If you could give some color on that, that also will be very helpful.

Sreekanth Nadella: Thanks, Supratim. Great questions. So the first one, I want to clarify, Ascent Fund Services is not a platform company. Hexagram is a platform company. There is no competition. There is no competing platforms. Ascent today leverages, I've already called out, third- party platforms to render services. Think of a scenario where a company -- a mutual fund company today takes KFintech's platform and renders services by putting their own employees, right? So that's the model Ascent has. So there is absolutely no competition. This is complementing.

Ascent today uses third-party platform puts its own people render services. Hexagram has its own platform and does not render services today. So in fact, it is not competing. It is actually complementing because one of the synergies that we intend to drive into the coming quarters as we move ahead is to see the fitment of Hexagram's platform into the services that Ascent renders today and hence, over time, replace the third-party platform they use it with Hexagram. Right? So to that extent, it's not competing. It's highly supplementing and complementing.

Second, the metrics in terms of today, if you see the first math is very evident, right, at a $63 million valuation, it is basically under 4x the revenue, right, from a multiple standpoint on the investment. Into the years 3, 4 and 5, the metric that we have agreed would be on the business performance at EBITDA level. And the numbers obviously will be driven by the company. And the number can fluctuate depending upon their performance. Obviously, they are more incentivized for a much higher EBITDA level that they would be delivering to.

Moderator: We'll move on to the next question. That comes from the line of Abhijeet Sakhare from Kotak Securities. Please go ahead.

Abhijeet Sakhare: Sreekanth, just on the previous point that you made, Ascent then gives you like a geographical presence across all of these markets. And in that sense, just wanted to understand when you look at the realizations, right, about 7, 8 basis points, the headline simple math, I wanted to sort of get a breakdown of what would be, let's say, a simple cost of revenues or the underlying cost of the product itself, right? And then the rest of the cost overheads in terms of employees, offices and rest of it.

Sreekanth Nadella: Abhijeet, yes, so the gross margins called out is roughly about 52% at this point in time, right, cutting across all the three business lines. And that gross margin will expand, obviously, as the AUMs of the fund houses and the funds that Ascent is already servicing. So if it is a continual growth only based on new fund addition, obviously, there is going to be a commensurate nonlinear cost addition, if I may, right, for each of those funds. But the growth coming from any of the existing funds always give you much significantly higher operating leverage, if I may.

And so to that extent, I would see the gross margins moving from 52% to about 60% to 60% plus in the near to medium term, which gets it somewhere near to KFintech, though we are at a higher level. And in terms of the admin overheads, whatever you saw the total team size, it's extremely small, just about 200 people. So outside of the operations, it's -- and the technology, it's largely just the sales organization.

And again, for a growing company, it's always going to be continual investments in terms of opening new geographies or new business development expenditure, what have you. And you will not be able to see a firm margin contribution much like how KFintech is, now we are 35 years in the making and they are 5 years into it.

And if you were to relate this to our Global Fund Services, you would see the same situation there, which is effectively that as we win a fund for the first few quarters, there is only cost, but no commensurate revenue. But the advantage with Ascent model, unlike KFin's model is because these are all private funds.

The transition or the setup time is very, very limited. It can be anywhere between a few weeks to a month as against our transitions, which can range anywhere between 6 to 9 months. So I'd expect the cost of operation to keep coming down and hence contribute more into the gross margins in the coming quarters.

Abhijeet Sakhare: Got it. And secondly, when we look at Ascent's progress or journey, I mean, it's a phenomenon that in the last 5 years, they've been able to build a $24 billion AUM business. But in some ways, it also tells you that relationships probably matter more than the underlying platform because these guys have built it up using third-party platforms. So in that context, I wanted to get a sense of how easy would it be to replace existing platforms, how sensitive are underlying clients?

Do they get to pick those platforms? Or they're basically agnostic and the underlying product itself is not visible to the end clients, and that's how you can basically pull out the older ones and replace it with KFin. And subsequently, some time frames around this journey and what would it mean in terms of profit margins or profit growth?

Sreekanth Nadella: No, absolutely excellent question. So it is definitely a combination. It would be imprudent to single out only relationship as the basis or only the platform as the basis. I would put a combination of relationships platform and most important of all is the expertise that the teams bring into this, right? And I think ability to understand the client requirements and understand how it fits into the platform's capabilities.

And remember, you need to work with a third-party platform to make customizations because alternatives is a highly bespoke product unlike mutual funds. So our ability or anybody's ability to not just understand the platform, but look at the client requirements and also triage with the third- party platform, customize it, keep it ready and go live and take -- be very swift in terms of go-to-market.

And deliver all of this at a significantly lower cost as compared to the competition is something that is definitely the -- if I may, the secret sauce or the secret sauce behind this growth. Can the third-party platform be replaced? And will the client really care about it? I suppose it will be horses for courses.

There will be a few who may be fussed about it. It depends on, I guess, who the corresponding operations lead at the fund houses. If they are more familiar and more comfortable with the fund admin platform they are using, they may want us to stick to it. But as always, there are very many fund managers who are dispassionate about the platform because they only look at the service and the outcome end of the day.

So we believe that we will find as we do the gap assessment, a certain set of people for whom we will, over a period of time, replace probably the third party with our own custom-made platform.

For some, it might continue. And for larger funds, even the third party they use today or KFin's mPower, for example, may not meet the requirements. And for them, probably the platinum standard of only Aladdin might work, right? And that is where we are going to, to be a multi-tenant platform service provider. We will be agnostic of the platform. We will create our own platform nevertheless. We will build the solution and service, which best fits the requirements of the client.

Remember, it's always about the client and what is the best we can deliver to them, keeping their comfort close to mind and delivering a value proposition which is a significant cost reduction for them whilst continuing to deliver margins that we are more familiar and cognizant with KFin. How long will it take? As I said, the transaction itself is 3-odd months away, and we are not waiting for that to happen.

Our conversations internally in terms of doing fit gap assessment of what Hexagram's platform can provide versus what the current third-party providers are there in terms of the maturity scale and the subsequent changes that are required, so on and so forth is an activity we will start immediately. It's too little -- I guess it's a bit premature at this moment in time, Abhijeet, for me to comment about the time lines as to when we will start actually replacing our -- rather the platform with us at some point in time.

Abhijeet Sakhare: Got it. And then to just squeeze one more Sreekanth sir.

Moderator: Sorry to interrupt, Abhijeet, I would request you to rejoin the queue if you have any further questions. The next question comes from the line of Dipanjan Ghosh from Citi. Please go ahead.

Dipanjan Ghosh: Just a few questions from my side. One, if you can give some color on the revenue concentration, let's say, the top 10 or top 50 funds within Ascent's mix. Second, this was one of the questions asked by one of the previous participants in terms of the employee retention strategies. So as I understand that over a course of, let's say, let's say, the next 5 to 6 years, the founders would have broadly monetized their stake and maybe the ESOPs, if any, of the top management also would have kind of got utilized.

So what makes you believe that you can really retain them? Will there be any employee retention program, ESOP program or onetime payouts that comes along 3 years from now when you kind of go in for the remaining tranches? And last question is on the realizations. While it is currently at around 7.5 basis points, it seems around '23 or maybe a year prior, it was around double digits. So what is really driving this moderation? Is it acquisition of large clients or going into different sort of clients out there?

Sreekanth Nadella: All right, Dipanjan, Sure, thanks a lot for that. Three questions. The first one in terms of the revenue concentration, you've seen the total funds being serviced is 576 funds across $24 billion, giving roughly about $17 million to $18 million as revenue. This isn't like MF concentration where top 2, top 5 can have a very heavy weightage in terms of the total revenue.

This is a highly secular spread of revenue across almost all of these fund houses. So the biggest client would not be contributing more than 1.5% to 2% of the revenue, right? So we do not see -- we did not -- in fact, that was one of the important parameters for us in terms of our evaluation criteria as well. And we did not see any concentration risk in that angle.

In terms of the leadership retention, as you've seen over the last 5, 6 years since we started acquiring and in fact, even going back to 7 years when we first acquired Deutsche Bank's RTA in Malaysia, which is the foundation for us to do our global fund services today in Asia. The leadership of every organization we have acquired thus far, 100% of them have stayed back.

They have all thrived and prospered themselves both personally as well as contributed to the organizational growth. That comes from, one, the acquiring company's culture and its ability to integrate and assimilate various personalities into the organization, rightsize the incentivization structure.

As you have seen even in this case, year 3, year 4 and year 5, year 5 is when the last tranche of payouts would happen. So obviously, there is a minimum 5 years of an ongoing leadership presence. We obviously have already started conversations from our HR into understanding as a part of the cultural integration component.

Their compensation structures, their motivations, so on and so forth, as has been the case with all other founders whom KFintech has acquired, there would be ongoing incentivization in the form of ESOPs for the combined entity.

The quantum, etcetera, of course, is not something that we need to discuss at this point in time, but fair to say that, that would be there as an incentivization. But that said, take a look at the disposition of the founders themselves, right?

And I think with the combined intent of both of us together trying to create one-of-its-kind entity across the globe, that is more than just the monetary component that had always been driving KFintech and its subsidiaries, and I'm very confident that will be the same here as well. Quickly addressing your point on the basis points. So I think sometime around sometime around September, October, right? The organization has acquired a client in Saudi, Albilad. And that particular was the first client in terms of expanding its scope of operations.

It added a significant amount of AUA, nearly about $5 billion on a point-to-point basis. That's why you would see a jump from $19 billion to about $24 billion. But that happened nearly at the end of the year, which means that you do not have a full year's revenue baked in the revenue, but the point-to-point AUA has been baked in.

And hence, when you divide the revenue over the AUA, it appears as there has been a drop in basis points, but that's merely simply because of the timing gap. So basically, it is not 7. It is higher than 7, let me put it that way.

Moderator: The next question comes from the line of Aman Dugar from Nuvama Wealth. Aman, are you there? In case if you're on mute, I would request you to unmute yourself. Since there's no response from Aman, we'll move to the next participant. That would be Uday Pai from Investec. Please go ahead.

Uday Pai: Most of the questions have been asked. Just 1 question. The 52% kind of gross margin that you mentioned, -- is it largely the cost side of it? Is it largely the platform cost or any other costs are included in the gross margin calculations?

Sreekanth Nadella: It's platform and people, the operations people.

Uday Pai: Platform. Okay. Okay, that's it from my side.

Vivek Mathur: This is Vivek. I just want to add on to what Sreekanth mentioned. The platform cost is miniscule. It's just about 5% of the expenses. The bulk of the cost comes from employee cost and other expenses related to infrastructure.

Uday Pai: Okay. So the platform cost is just 5% of the 48% expenses, right?

Vivek Mathur: Yes.

Moderator: The next question comes from the line of Prayesh Jain from Motilal Oswal Finance Services. Please go ahead.

Prayesh Jain: Just a couple of questions. Firstly, sir, is it fair to assume that the realizations are about in the 12 to 14 bps kind of realization? That's question number one. Second is, does this acquisition impact your get added, it's kind of margin and earnings dilutive to you in the sense that from a percentage basis. Now obviously, as it turns profitable, will add to your overall profitability. But from a margin percentage perspective.

And third would be, given that these are primarily in the alternate business, are these -- the 500-plus scheme funds, are these funds or are these schemes and these schemes would have a limited life and you would have to kind of keep looking at the business again, acquiring schemes?

Or is it the fund house, which kind of manage multiple schemes and the fund house kind of takes up with just one partner. So I'm trying to understand that whether you're doing scheme-wise or these are funds and kind of sustainable like MF business where once you get into MF entity, you kind of continue to do the business forever? Those will be my 3 questions.

Sreekanth Nadella: Sure. Thank you. So the first answer, reasonably binary. It's not 12, 14, it's not 7. The number is closer to 10 basis points on the realized yield. In terms of margin dilution, clearly, as you've seen, it already has turned EBITDA positive. And into the coming months and quarters, hopefully, it will -- the margin expansion will happen. Clearly, it is not at the same margin level as KFintech. So to that extent, obviously, for a shorter period of time as the organization gets that far.

And then we start realizing our own synergies, so there will be a further cost takeout. As we start consolidating office space, technology, shared service functions and replacement of platforms, what have you. So we would expect a faster path to margin contribution at the similar levels as KFintech is.

So clearly, at that point in time, it would contribute to even higher, hopefully, the margins than even what KFintech does today. But obviously, until such point in time, it will be a number that will keep tracking to get to KFintech numbers and being slightly higher over the next bunch of quarters, probably a year at best.

In terms of the 576, those are schemes and are not funds. I want to clarify that. The total number of fund houses are close to about 263, 264 fund houses. These numbers are as of Jan. Obviously, these numbers have expanded. It is also possible, like you suggested, that the schemes can get closed. But even from a fund house standpoint, as you could see, the ratio is nearly 1:2.

For every fund house, we have just about 2-odd schemes. And it's not -- in some cases, it will be higher. In some cases, it could just be 1. And again, this is just very, very early days of an organization, which is of the 5 years, probably the first year had just gone in licensing and just setting it act together, and there is COVID in between as well. So a very short period of time, so the kind of traction they have gained.

And based on our own due diligence and assessment we've conducted, I think there is a plentitude of fund houses who are keen to join the organization as a client. And also, I just want to call this out.

There are many funds that they could not necessarily tap into in terms of pitching for RFPs, what have you. And vice versa, those fund houses and funds, which are larger in size, if I may, probably would not necessarily have considered Ascent as the go-to service provider, largely on the balance sheet strength itself, right?

I mean large fund houses issue -- when they issue RFP, they look at your net worth, they look at the size of the organization, so on and so forth. So by virtue of this acquisition, they will have access to a much, much larger and a sizably bigger fund houses and fund sizes as this transaction consummates.

Prayesh Jain: Sir, clarification on that. So when you say -- so a fund house can have multiple fund administrators and Ascent would be one of them. Is that the fair way to think?

Sreekanth Nadella: It's not necessarily, but it is possible. It is possible that -- take a look at even KFintech today, right? I mean there are fund houses for whom we are the fund administrator for a bunch of funds, right? In fact, Ascent, as a competitor was also rendering fund administration services to some of the schemes, it could be some other competition of KFin who could be also there rendering the services.

So it depends on the fund houses strategy. Some of it is purely because they want to diversify the risk. Some of it is because they probably feel more comfortable in terms of an entity handling, let's say, a CAT III fund, which is more public market oriented versus a CAT II, which is where private equity comes into picture.

There can be fund houses who are more intentful of segregating transfer agency and fund accounting. So it depends on the philosophy of the fund house. It is possible there is more than one fund administrator in the fund houses that Ascent is currently servicing to.

And that actually is a great opportunity for us, right? Because in almost all these cases, the Ascent as an organization had started the services 4 to 5 years back. And any client would look at a little bit of track record before they start moving away and consolidating.

Right? Because eventually, a fund house would always prefer to have a singular fund administrator to render all services because from their standpoint, their customer is important. If their customer A has invested in Fund A and Fund B and Fund C, they would not want to have different set of services, different set of statements, different experience, if I may, from the fund house to come through.

So from their vantage point, they would always prefer one fund administrator. And that for Ascent is a great opportunity to basically have a larger land-and-expand model.

Moderator: The next question comes from the line of Nidhesh from Investec. Please go ahead.

Nidhesh: The first question is that this money that is being used for acquisition is going through the promoters of the company or is it going into the target company?

Sreekanth Nadella: Nearly $30 million is secondary and $5 million is primary infusion.

Nidhesh: Okay. And after this $5 million, there is -- do you think there will be more requirement of funds for this company?

Sreekanth Nadella: Per our assessment, they will not be needing much. As I said, they've already turned EBITDA positive. They should soon start cash positive as well. And this $5 million primary infusion will clear out a small debt component they have it on that book. And once that goes away, I do not believe there will be any necessity for further cash infusion on an immediate basis.

Nidhesh: Sure. And is it right to assume that the clientele for this target company is mostly venture capital, private equity funds and hedge funds and HFTs and not large AMCs like, let's say, Capital, Aberdeen, etcetera. Those are not the clientele for this company. Is that the right way to understand?

Sreekanth Nadella: I wouldn't say so. I mean, okay, if the question is today a Capital is client or any large fund manager is client, the answer is no. But our intent is definitely to get there, right? And the whole point of our vision to become -- if I want to become a global fund administrator to reckon with, I will have to start delivering services to large fund houses. And KFintech does today, right? I mean we have large fund houses that are clients, Aberdeen, the name that you impact is my client in Malaysia, right?

And for Ascent to also have large fund houses to be their clients, the synergy between KFintech and them is a very important ingredient in that, just the balance sheet strength and our credibility, our track record being a public listed company, so on and so forth, will help that entity to start talking to larger fund houses, which so far, either they focus more on the lower hanging fruit in terms of smaller fund houses. But in time, definitely to look at large fund houses because that's how we're going to become a large global fund administrator, too.

Nidhesh: Sure. And you also incorporated a subsidiary in Singapore. So that subsidiary will be acquiring the stake of the entity or...

Moderator: I'm sorry to interrupt you, Nidhesh. I think you are done with your 2 questions. So I would request you to rejoin the queue if you have any more.

Nidhesh: Okay. Thank you.

Moderator: Thank you. The next question comes from the line of Aman Dugar from Nuvama Wealth. Please go ahead.

Madhukar Ladha: This is Madhukar Ladha from Nuvama. Thank you for the detailed presentation. Most of my questions have been answered. Just a couple left. First, on the growth trajectory. So the company has done really well in the last sort of 5 years that it's been into existence and you've got a pretty sizable AUM right now.

What sort of growth should we expect over the next 4 years, 5 years and on the margin side, right now we are breaking even. We already have a sizable India presence. So the whole offshoring and the India angle is already sort of playing out of here. So what should be the big margin driver for this company? And in terms of numbers 3 years, 4 years out, what sort of an EBITDA margin should we be looking at?

And one final question. See, the clientele and correct me if I'm wrong still seems to be more Asia oriented. And would this still mean that you will still be looking for making more acquisitions to grow more in sort of Europe and the U.S.? So those would be my three questions?

Sreekanth Nadella: Understood. Thank you. So the historic growth had been about 35%, 36% CAGR. Management's base case is in the similar trajectory into the coming years. And that does not take into account a synergistic model, which is effectively how KFin complementing the strength that Ascent brings and how Ascent taking advantage of the strength that KFin brings will grow together. We believe the number will be higher than that.

I do not want to conjecture, but we are confident to at least maintain the current growth trajectory and with a strong potential upside as the synergies fructify in time to come. In terms of the overall clients demographic dispersion, the entity is set up in Singapore. And obviously it is expected that Singapore would definitely be the largest geography and it continues to be one of the biggest financial hubs in the world, so -- and rightfully so.

But as I explained in the beginning, the -- if you see Cayman Islands has nearly a quarter of all funds being serviced. And in a short period of time between Cayman, U.K., Ireland, U.S., especially in Jersey and if you take parts of -- I would ignore Dubai and Abu Dhabi, at least, they're still part of Asia, but at least not Southeast Asia.

But even just purely into Europe and Cayman and a combination of U.S. is nearly 30% of the total funds are already based out of Europe. And the question about are we going to look at further acquisitions, it's too premature. I think we're still left to get this right. It is definitely one of the larger acquisitions that this organization has done. We will always keep our eyes and ears open.

But that said definitely not of immediate priority or concern. We looked at Ascent for its capabilities, skills and its ability to scale up. There is no reason why Ascent will not be able to scale up in similar fashion in Europe and in U.S. as they have already scaled up in Cayman, for example, on their own with the strength that KFin offers to the table. We will take a look at it into the coming years if it makes sense. If there are always assets which are more stronger in a particular geography.

And if that were to add complementary growth prospects, we will always consider it, but definitely not looking at -- so we do not want to just teach up a correlation of a whole bunch of assets and put together. That's not the way we operate in. Our investment philosophy, acquisition philosophy always surmises that we will take KFintech's platform to the world and not just buy out entities which have multiple tech platforms and eventually and over a period of time, drives down your margin because your cost kind of starts to balloon which is probably the truth of many acquisitions that happened elsewhere in the world in this particular industry.

Madhukar Ladha: Right. Just -- you've not answered the margin question that over the next 3 years, 4 years what sort of EBITDA margin should we be looking at and what would be the low-hanging fruit in terms of synergies that you can drive for the next maybe couple of years, at least, that can help enhance the margins more?

Sreekanth Nadella: Yes. No, fair point. Sorry, I missed out on that. On the synergy side -- sorry, on the margin side. I think you're right nearly about 80-odd people out of the 200 people already are in India and that still leaves about 120 beyond borders. And we will obviously have higher concentration of newer headcount addition to happen from India, for example. Obviously, in the initial stages, you will have an onshore/offshore model of 70-30.

Over a period of time, you gravitate towards where we are today, which is about say 40 onshore and 60 offshore. And if you see KFintech's Global Fund Services, we are nearly 10 is to 90. So 10% onshore and 90% offshore. So clearly, there is more scope. Just because we have 80 people in India doesn't mean that we do not have greater scope for further payroll optimization, which is what especially there is the next 50 funds that will be won, for example, the model may be near about 10 to 90 ratio. So that is one on the payroll side.

I've already called out synergies driving down the operating costs in the form of collapsing structures around office space, technology, data centers, shared service functions such as finance and HR and what have you, licensing and also at some point in time potentially replacing the third-party platforms they have with our Hexagram platform.

So there are plenty full of opportunities that we have already identified. And obviously, we have even some numbers put to that. We'll start working on that as quickly as possible once we're into it. Now from a pure margin play, as you rightly said, it's just about breakeven and the gross margins are at 52%.

Again, we do not necessarily give guidance, but I do believe that into the next -- by the time the transaction is fully done, that is over the next 3 to 5 years. I would expect the entity to deliver similar to higher margins than what KFintech does today. Largely, as always pure mathematically if you see, the basis points is much higher than the kind of basis points we enjoy here in India.

So that means your unit pricing is definitely in favor. And from an operational cost dynamic standpoint, as you already saw 576 funds are being supported by 200 people. So it's a very, very different model and one where your costs actually are going to be much lower as compared to that of a public market funds, which are very, very high volume driven.

Madhukar Ladha: Just a clarification. So we are saying that Ascent we can take the margins to like 43%, 44% EBITDA margin level. That's what like sort of KFin consolidated margins would be. While the current international business segment is probably operating at about 17%, 18% margin for -- sorry, about 5% margin for FY '24. Are we like a little bit more -- a little more bullish on this than on the margin side because our current international segment is still at a much lower margin?

Vivek Mathur: Madhukar, this is Vivek. I think we can't give you guidance on this immediately as we are working through the synergies. The objective is to take it to KFintech margin level over a period of time. As the synergies play out, we will engage with you and other analysts to give you guidance on this asset as well. But the objective is to leverage operating synergies and IT synergies from India from KFintech and it will play out over a period of time.

We can't tell you that 52% will move to 60% in 1 year's time, just like that. But the objective is to take the EBITDA margin to a level, which is meeting the KFintech EBITDA margin level over a period of time. So I think to start with, that is what we are giving you that we are working on synergies and 52% gross margins are healthy margins.

We want to take it forward in terms of achieving EBITDA margins by optimizing the corporate layer of infrastructure and operations and IT. And we will share more details with you as we go along in terms of synergies realization.

Madhukar Ladha: Understood. So this makes sense. Thanks a lot and all the best.

Moderator: Thank you. The next question comes from the line of Mohit Surana from HDFC AMC. Please go ahead.

Mohit Surana: Hi, good evening. My question is around if you can lay out here the deliberations that you would have had around the build versus buy arguments, especially in this case because this seems like an organization which is more sales heavy. And also there is a fair bit of complementarity in terms of the geographies that KFin operates as well as where Ascent operates. So it will be helpful if you can give those arguments?

Sreekanth Nadella: Sure. Thank you. So this is a long time in the making, isn't it? I mean, almost a little over a year. And we've always believed a very healthy debate and we have a very strong business development committee, board led. And at any point in time we always evaluate anywhere between three to five potential opportunities and we have dedicated capacity to do that.

And this particular asset, obviously, was into -- straight into one of the three angles we always looked at in every asset. One of that was either it adds a new business line or a new product. It opens a new geography and or in rare occasions like how when we acquired Sundaram and BNP Paribas Fund House Services, it is more to just drive market consolidation. And our focus and our preference was to less on consolidation and more on adding business lines and products and/or newer geographies.

And we have been, I think just before Ascent started its operations in 2019, 2018, 2017 is the time when we started our own journey in terms of international expansion. And we started that with, as I said, the RTA division of a large bank-based fund administrator in Malaysia. And we have seen over the past 5 years in terms of the expansion, we have moved from zero clients to 72 clients.

We have moved to add about 5% of total revenue coming from that part of the world. And I always try to emphasize that it sounds like a lap's duration is 5 to 6 years, but we really have to take away -- take out the 2 years of COVID when nothing happened at all in terms of global movement of contracting, what have you.

So it's really a 3-year story as against a 5-year story. And in our discussions, we always wanted, as I said, given the intent is not necessarily to drive market consolidation. You see there are assets even today, which are a little similar to KFin, more public market oriented, more RTA-oriented, so on and so forth and larger ones too. And, obviously, they also call for higher valuation, higher cash flows, what have you.

We were looking for an asset which is of a size, which is more palatable. This also for our organization, as I said, is one of the larger deals that we would have done. And so clearly, to build this kind of a setup today, if we were to not to have considered acquisition and we were to build it ourselves. It required us to be able to create a sales organization in various countries where we do not necessarily have current strengths and capabilities into.

And these are all private market funds and KFin's strength traditionally had been public market funds. So to that extent, especially the international private funds, which are very different. See in India today, we manage 545 alternate investment funds, which are also private. But if you see the scope of services and the complexity of the funds here are still reasonably benign as compared to the complex structures that you have beyond borders.

So building that skill scale and capability, securing the licenses in 6, 7 different countries is an extremely complicated job, especially to secure licenses or the clearances within India itself. So we looked at those angles, how quickly will we be able to get the licenses? How quickly will we be able to get the initial set of clientele, how quickly can we get the leadership and the domain expertise, which we so solely miss, right?

And more than anything else, it's always about the people, as I keep maintaining, to get that very high-caliber leadership, highly inspired people. They are all within 30 year to 40 year age group to be able to build something phenomenal is always a very important facet for us.

So it was a unanimous decision when we've found this asset. And though our formal conversation started a year back, our informal conversation started nearly 2 years back, and it evolved. And it also gave us a ringside view in terms of how the leaders have scaled up, how the organization has scaled up, the client feedback, so on and so forth.

So overall, as I said, if you see the complementarity, we are public markets, they're largely private markets. We are mostly RTA, they are full-scale fund administrator. We are more India and Malaysia, Philippines centric. They are more Singapore, Hong Kong and Asia, Dubai and Europe-centric. So there are a whole lot of complementary we saw in this model.

Mohit Surana: Got it. Thanks a lot and wish you all the best.

Moderator: Thank you. Ladies and gentlemen, due to time constraints, that was the last question for today. I would now like to hand the conference over to Mr. Vivek Mathur for the closing comments.

Vivek Mathur: Thank you. I think we are all very excited with this acquisition. And while it starts with 51% majority and Board control, it will be a 100% owned subsidiary in 5 years' time and everything based on our plan and expectation should be funded internally. It puts KFintech as the first Indian company to be a global fund administrator.

And we will see that the growth and trajectory and the updates about this asset, we continue to share with you as we do our quarterly calls and share more details as we get along in terms of the questions that you may have around some of the clients or margins or geographies, but 18 countries where the clients are present, plus Bahrain and Thailand, almost 20 countries, KFintech will be present in.

And with the growth in fund administration business, which is projected to grow at a pace of about 6%, 7% to more than 10% in some countries, we will be able to leverage with the 6 licenses that we already have and a team of business development heads in all the 8 major geographies that Ascent is operating in. We will be present right from this day 1.

Thank you so much for participating in this call at short notice and raising your questions. Whatever is left out as questions, we are happy to take that offline. You can write to Investor Relations and engage with Amit Murarka. Thank you so much for joining today.

Sreekanth Nadella: Thanks, everyone.

Moderator: Thank you, gentlemen. Ladies and gentlemen, on behalf of IIFL Securities Limited, that concludes this conference. You may now disconnect your lines.