



**“KFin Technologies Limited
Q1 FY‘26 Earnings Conference Call”
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**MODERATOR: MR. DEVESH AGARWAL – IIFL CAPITAL SERVICES
LIMITED**

Moderator: Ladies and gentlemen, good morning, and welcome to the KFin Technologies Limited Q1 FY '26 Earnings Conference Call hosted by IIFL Capital Services 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 the operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I will now hand the conference over to Mr. Devesh Agarwal from IIFL Capital Services Limited for opening remarks. Thank you, and over to you.

Devesh Agarwal: Thank you, Ryan. Good morning, everyone and welcome to the Q1 FY '26 Earnings Call of KFin Technologies Limited. Today from the company, we have with us Mr. Sreekanth Nadella, the MD and CEO; Mr. Vivek Mathur, CFO; and Mr. Amit Murarka, Head of Global Business Finance, M&A and Investor Relations.

I would now hand over the call to Sreekanth for his opening remarks, which will be followed up by a Q&A session. Thank you, and over to you, Sreekanth.

Sreekanth Nadella: Thank you so very much, Devesh, very good morning and a warm welcome to one and all. It gives me great pleasure for me to come back to you again with yet another stellar quarter for us. I will start with the qualitative commentary and I will discuss the financials at the very end.

We continue to be the country's largest registrar by a mile. We are the only qualified RTA who straddles across both sides of the registry business. One of it is the investor solutions and services, which is mutual funds, alternatives, pensions, private retirement schemes, what have you. And on the issuer side, where we are the share transfer agent for a vast majority of the corporates. It gives me great pleasure to call out some few important standout milestones we have accomplished this quarter.

I'll start with mutual fund business. To start with, we continue to outgrow and outperform the industry in terms of AUM growth, albeit by a small margin this quarter. We grew marginally ahead of the overall industry on the AUM and by the number of asset management company wins that we have secured this quarter. We have won 3 new mutual fund mandates out of 4 that have gone for a discussion and negotiation this quarter. So that's a 75% win rate, and it gives us a great deal of pride in terms of several marquee professionally run asset management companies continue to use KFin to be their preferred partner.

Our SIP inflows by market share continues to be ahead of our total market share. As I always maintained, I believe that in the medium to long term, it is the market share of the SIP, which is the surest indicator of the overall AUM. Given our overall AUM is roughly about 32.5% and SIP market share is about 39%, I do hope should this trend continue, we should continue to see upward trajectory in terms of the overall market share gain that KFin Tech would see.

We have had one of the new AMC Capital Mind that has just gone live with their first point. In fact, it is happening as we speak. And it is a matter of honor for us that marquee PMS, who has just ventured into mutual funds and have adopted our latest template, which is XAAS, which is to stand for everything as a service, which means that we not only just manage the core RTA operations, but we also take care of everything else. We provide service and solutions around marketing, content, full stack digital including infrastructure and also everything to do with the Partner Solutions as well. So that's on the mutual funds.

I'll give a little bit of deep dive along the way on the second large business and one of the other core business we have, Issuer solutions. Again, we've had a spectacular quarter. And indeed, riding the wave of the overall expansion of the primary market in terms of IPOs and the number of entities that have gone public over the past 12 months.

But we've been outperforming the industry by distance there. We've improved our market share from about 48% about 18 months back now to close to 51% in terms of the NIFTY listed companies by market cap. The total roster of the corporate clients has swelled up now closer to 9,000 clients.

We are hopeful by end of the year, we will cross 10,000 mark and be the largest registrar by a mile. There are several IPO mandates that we have won, which are expected to hit the street into the coming quarter to 2, which would obviously help us in terms of the run revenue as well as the historical IPO revenue that we will get for the Issuer solutions into the Q2, Q3, Q4.

As we all know, it is the Q2, 3 and 4, which are more impactful quarter for Issuer Solutions given several corporate actions continue to trigger. This being the Q1 for most of the financial services, I'd like to believe that the number financial growth of around 15-odd percent is normal and the trend tends to pick up into the subsequent quarters.

What's even more heartening is our continual focus on market share expansion, new client wins. In the international space, we have won several new clients in the new -- in this particular quarter. This gives us nearly 13 additional new clients, which are yet to go live and some of them are large. One of them is Maybank, and we have won several trustee to win contracts, which gives us access to not a singular client, but to several of them who that particular trustee has under their clientship. We have about 5 in Malaysia, 2 in Singapore, 1 in Philippines and several in GIFT City, which are under transition and yet to go live.

Yet another business, which we are extremely optimistic into the coming years as I believe that this is a pure-play tech play and one that probably will have a higher margin, albeit business, which was loss-making, which has just turned the corner now and has broken even, which is a national pension system.

We've been outgrowing the industry by a factor of 2. And happy to inform you that in a very, very short period of time, we crossed the double-digit market share of 10% in the overall trends in the country despite the fact that we do not operate in the government sector, which means that government plus nongovernment together on the total share of the plans that exist in the country, we just alone on the private mandates have crossed 10% plus as compared to the overall market.

AIF has been growing at a sharing pace. We continue to expand our market share from 34% to 37% at this point in time.

We are now the most preferred alternatives player in the country, given the only one with the proprietary platforms, integrated both transfer agency, fund admin, full stack digital play and full stack analytics platform as well. We continue to expand our solutions in this space, not just in India, in GIFT City as well as on to the rest of the world.

Given we are a large public infrastructure utility player, security is always on the paramount interest and in the signature in terms of both the board and the management in terms of making sure that we are on top of it. We continue to expand our investments and both effort-wise as well as dollars to continue to drive our BitSight score, security score to now crossing 810 amongst the best in the industry. And we'll continue to get that probably to be the best in times to come.

The volume transactions has been certainly on the rise. Now we process a little over 2.5 million on an average. On peak days, it touches 10 million transactions, and we expect these numbers to compound at about 20% to 25% into the coming few years. This quarter also saw an important milestone in terms of several new products and platforms that we have delivered to.

I will also call out outside of the core businesses, happy to inform to you that we have launched our KRA business. And within a matter of few weeks, we signed up with 5 marquee clients, and it's a very auspicious start for us and which I'd like to believe will augur well in terms of the growth of this industry.

I would like to also call out that our KRA solution is the only one, which is on to the tokenization world, which is probably the first to introduce and the very many applications that we expect to see in time to come with will be seen by the world and will definitely further the onboarding journey to be far more frictionless and far more cost effective, if I may.

I would also like to call out the -- and will give you a little bit of update on the acquisition of Ascent Fund Services, which I have called out in the previous quarter. Very, very pleased with the overall progress we could have made in just a matter of 2 months. We have secured all the necessary regulatory approvals in India and even as Ascent Fund Services is securing its approval from some of the jurisdictions. As one would recollect, they are present in 18 different countries. And hence, there are a few more jurisdictions and regulatory approvals that are ought to be sought and is in the works, and I'm quite hopeful that in the coming weeks or so or months, we will get through that and then we will get on with the integration.

It also gives me great pleasure to continue to the point in terms of the growth prospects of global fund admin solutions. The organization that we have acquired has shown tremendous growth even in this quarter and the previous one. They grew at about 35%. And we believe that we have visibility into our faster growth in that number as KFin combined with Ascent will have greater potential to grow into the coming quarters once we get through the regulatory approvals.

We have also completed -- whilst we have launched the wealth platform about 2 quarters back, which I've called out, and we won about 5 mandates, again, it gives me great pleasure to let you

all know that we have now formally gone live on 2 large contracts on wealth, which gives us an inlet not only into the Indian wealth industry, but also into the global fund industry -- wealth industry, sorry. And that, again, has a great potential given the platform with developed as multicurrency, multi-asset, multilingual impact. And given it is not as a regulatory driven business as pure-play asset management. We expect a far fungible and a path which we can easily traverse into many different countries in a rather quick time. With Ascent, we have already started taking these solutions to many of the geographies that they are part of without necessarily having to wait for any of the integration, which has no bearing on this particular activity that we are trying to do.

I'll quickly come back to the mutual funds. The 3 mandates that we have won, I'll call out, one is Abakkus Asset Manager, one is Marcellus, both marquee professionally run entities and very happy to also inform about the win of Pantomath.

Our continued intent to grow the digital development for a clientele across whether it is KFin Service AMCs or otherwise continues to gain traction. That is a testimonial of not just our domain skills, but also our technological superiority in terms of creating big data solutions that are being leveraged across the industry, including by the regulator and the industry body, if I may.

We are also obviously blessed to have several of the fastest-growing AMCs to be with us, 6 out of the top 10 AMCs that are growing in our country, our fastest-growing are with KFin Tech. Clearly, this is an incredible performance of our clients, of which we are only passive recipient, but our solutions and services, I'd like to believe, contribute in a significant manner for them to grow as well.

In terms of the 880 corporates that we have added during Q1, that is absolutely spectacular, we have never added that large client in a single quarter. Of course, this consists of both unlisted and the listed. And that obviously has contributed to our overall market share to go up to 51. We are hopeful in terms of several large IPOs, including IPru asset manager, Meesho and so on and so forth, several others to hit the street into the coming months and quarters, which obviously will augur well for the overall Issuer solutions revenue, so to speak.

We have covered the international. In terms of the wealth, I also want to call out that we have clocked our first international wealth win in Philippines. If you would recollect, we have announced a win of Sun Life Asset Management client, both the AMC and the trustee in Philippines about 2 quarters back on the back of a solid delivery execution and purely based on the experience that the clients have seen and based on the credentials that they can -- that they saw in terms of our mPower Wealth platform. We have won our maiden international wealth deal in Philippines as we look to expand this into family office and the wealth outfits into many parts of the world, starting with Philippines, Malaysia, Singapore and so on and so forth.

In the case of GIFT City, we have a pretty large market share of nearly about 60%. And you add the Ascent market share of roughly about 12% to 15%, we get to nearly about 3/4 of all the GIFT City funds that are operational. And we believe that we'll continue to grow at a similar clip given the differentiated solutions that we're able to offer on top of our platform.

The AUM for international alternatives and pensions, all of them, AUM and revenue has been growing north of 30%. It is no different this quarter as well. We've grown nearly about 30% plus in this particular segment. We also have called out our intent to step away from a noncore business called Global Business Solutions, which was mortgage management. As we all know, this all stood out as a line of business, which was not core to KFin. As we concentrate on driving our agenda and vision to be a global fund administrator, we did not want any distraction. So we have initiated moving out of our mortgage management solutions nearly about 3 quarters back. And we have another probably 1 or 2 quarters left in terms of the revenue that was clocked in the previous year, no longer will be available now, and by which time, we will have completely exited, keeping our focus entirely on the asset and the wealth management solutions, not to divest to other businesses. So if not for that particular purpose, we orchestrated degrowth in the global business solutions, we have crossed 30% plus growth in our younger, faster-growing businesses.

The overall industry performance is something that everyone is fully aware. I think India's mutual fund industry is on the verge of crossing \$1 trillion. I expect that to happen most likely in the next 12 to 14 months. and that growth still pales in shadow in terms of the overall potential that we have with a series of initiatives that are being taken by the regulator, by the industry body and several asset management companies, including the RTAs in terms of providing the necessary solutions, products and platforms to drive financialization to every nook and corner, provide solutions for quick onboarding, quick transacting, quick weighted resolution, so on and so forth.

I believe that this is driven out in terms of growth of 20% plus of the AUM can continue to happen for the foreseeable future, even as nearly 10 million-odd fresh investors come to the industry every single year, and that number could easily be disassembled from the fact that is a similar number that gets added into the provident fund wage growth year after year and the number of individuals coming into the formal employment sector, most of whom are extremely intentful of investing into the mutual fund as a preferred asset class.

And our mark-to-market gain is anyone's call, but baking into moderate gains this year, given we've had a spectacular rise, I'd like to believe that we continue to see potential to grow up north of 15% in terms of the revenues in these businesses into this year as well.

I will also spend a few minutes in terms of some of the other initiatives that are incidental ancillary into the mutual funds. One of that is the MFCentral. MFCentral continues to expand its growth. More than the growth, I want to call out the impact that this platform has for many ecosystem partners. Investors, of course, are probably the most benefited to be able to secure such a solution where the entire industry comes together under a singular platform, provide the ease of doing business is absolutely unparalleled anywhere in the world.

With that as a solution, many fintech companies in India have based their business on the back of the APIs that we're able to extend. Many of those have been helping the mutual fund investors to stay put in the industry, for example, taking a loan against mutual funds out as against simply redemption, so on and so forth. It helps the entire industry and the fintech ecosystem. And very

happy to inform you that we have onboarded nearly 230 clients as of June, and that number continues to expand nearly 10% every single quarter.

So on the mutual fund side, innovation continues to be absolutely bulwarked. We have also launched IRIS as a platform, which is KFin Tech's gift, if I may, to the financial intermediation as a service class, which is the first of its kind, a multi-asset, a multi-tenant, fully integrated CRM solution for the entire financial intermediary class. So it is not just for the mutual fund distributors, it is for the loan syndication, it is for insurance. It is for selling pensions. It is for selling CASA bank accounts, credit cards, what have you, with a singular focus and view to enable and help individuals who choose to be financial intermediary professionals make their livelihood in a far more effective manner. A single asset class or a single financial instrument sale does not render itself to a very large, meaningful career for many of the financial intermediaries. So this platform basically solves for that in terms of any financial intermediary can come on to this platform and for the same investor can upsell, cross-sell several different assets, which itself is one thing for the citizen if you keep your hat as of a citizen where a single person can take care of many of your financial services needs and not just having to look at multiple of them. The release of that particular platform is lined up for later this evening. I'm extremely hopeful and glad that it would be warmly embraced by the entire financial intermediary community.

So products and platforms and innovation will be a large focus for KFin Tech. It is irrespective of its revenue potential, we believe that there are things that we have to do to give back to the entire partner class, which is helping the industry to grow quite substantively.

In terms of the RTA wins that we've had, I've already called out the names, we are extremely excited in terms of the growth potential. These are marquee AIF, PMS player in the country, all of them. And given their trajectory, we expect rapid growth of their AUM in times to come as well.

Just quickly call out a few things on the international side. As we all know, it is a composite solution of both RTA and fund administration. Overall client contracts this quarter, happy to announce that we have crossed the count of 100. Today, we roughly stand about 111. And the overall clients quarter-on-quarter, year-on-year, even as they've been growing, very pleased to see the AUM growth, which was not the case in the past few years. Even the number of clients have increased, there were no mark-to-market gains unlike in the case of India. We have seen that happening. And that is obviously one of the most important reasons why there has been a 30% plus growth in revenue in this, notwithstanding the fact that close to about 11 contracts are yet to generate revenue in the context that they are under transition, and hence, in times to come, the revenue for those in addition to the AUM growth of the existing clients will contribute to a faster clip of growth in the overall international business.

Now we started winning more clients in Singapore. As I said, we already had 2 and then now we have 2 more clients in Singapore that we'll be going live with. The traction in that geography, which is arguably one of the largest in Asia will further be propelled as our integration with Ascent hopefully will conclude into the coming weeks and months.

Outside of that, I think some of the LOIs that we have won, especially for a full service fund admin mandate for the Treasury desk of Malaysia is a very important milestone for us as we continue to expand our footprint in Malaysia. I think today, we manage nearly 55% plus market of the market by the number of clients. In a matter of 5 years, I think that's a pretty good accomplishment.

Of course, I continue to believe that it is the top 3 to top 5 AMCs, which will make a material shift. And we are right now talking to the larger AMCs. And hopefully, we'll have some good news to share in the coming months.

Lastly, I would like to just spend a minute on the national pension system, which I've already called out in terms of our growth. We have grown about 32% plus year-on-year on the subscriber base. We're the largest service provider in this being nearly at 90% and obviously, a virtual monopoly till about a few years back, we take a good heart. And having broken even, every planned addition from here on will directly add to the margin. And I'd like to believe that in the next 3 to 4 quarters, we should start seeing decent EBITDA contribution, even though if the scale is small, but we are expecting faster growth in the pensions. There's been a change of guard in the overall PFRDA as an organization. And we are seeing a very, very strong and a great intent to drive India to be a far greater pensionable society. A lot of interest and a lot of intent was asked of us as well in terms of what is that we can do to contribute in that regard. So we are in active discussions with several regulators in order to drive the overall market itself in that context.

The order management system of mPower is a revelation in terms of the number of clients we have been able to win. And it augurs well in the context that so far, there haven't been too many Indian alternatives to large platforms like Bloomberg, for example. We have started to see green shoots in terms of our ability to displace large global order management systems. And as we scale it up and as we take it to global clients, we'd like to believe that this is a medium- to long-term play, but I'd like to believe that there will come a time when we will be reasonably well positioned to take several of the global large platforms head on even as we consolidate our position here in India.

So with that, I will hand over the financial highlights to be provided by Mr. Mathur, and we'll take the questions after that.

Vivek Mathur:

Thanks, Sreekanth. On the financials, the revenue has gone up year-on-year by 15.4%. Within that, the domestic mutual fund grew by 17.2%. Within this 17.2%, the fee-based revenue has gone up by 15.7% and the VAS revenue has gone up by 51% year-on-year. The yield has come to 3.43 bps as compared to 3.6 bps last year same quarter. And that's a combination of the telescopic pricing impact and some volume-based discounts to some fast-growing AMCs that we have given. So we have been giving a guidance that yield will come down year-on-year by 3.5% to 4% with a combination of telescopic pricing and some selective discounts that we will give, but there is no yield shocks that we expect from KFin Tech. So we maintain that.

In terms of Issuer Solutions, the growth has been 25.5% year-on-year. And as Sreekanth mentioned, we have been adding IPO mandates and unlisted clients. Almost 800 clients have

been added in the last quarter itself. If you look at international and other investor solutions, the growth other than GBS, which Sreekanth clarified that that's a noncore business that we don't want to continue to grow, the growth is 29% year-on-year.

And within that, international has gone up by about 36% year-on-year. AIF has gone up by 31%, NPS has gone up by about 33%. And overall, we continue to remain buoyant about this segment in terms of growth trajectory.

And in terms of overall expenses, the growth has been about 16.9% -- 16.6%, and that is mainly because of payroll costs going up. And this is something where to support new clients, we have added some headcount. And as you know, in the Q1, the increment hits, while the impact of growth in business revenue will come in subsequent quarters. And we have been investing in technology and cloud charges have marginally gone up.

Other than that, if you look at the EBITDA margins, there is a healthy growth of 14.2%. We maintain an EBITDA margin of 41.5% which is in the range of guidance that we gave of 40% to 45%. Typically, the first quarter is tepid because the increase in payroll cost and in the Issuer Solutions business, the corporate actions take place in Q2, Q3 rather than in Q1. And therefore, usually the Q1 is tepid, but it picks up from Q2 onwards.

If you look at PAT, PAT has gone up by 13.5% year-on-year and maintains a healthy margin of 28.2%. We have good amount of cash and cash equivalents, which is INR750 crores at the end of June, one to pay out dividend and another is to make the acquisition of Ascent.

We are well equipped to continue to have surplus cash beyond the working capital after paying out the dividend and the acquisition. The diluted EPS has gone up by 13% year-on-year. And we believe that we'll continue to grow confidently, as Sreekanth mentioned, both on the top line and bottom line, and we maintain our guidance.

Thank you. We are happy to take questions now.

Moderator:

The first question comes from the line of Swarnabha Mukherjee from B&K Securities.

Swarnabha Mukherjee:

First question on the mutual fund business. So as you highlighted on the yields, just wanted to understand how much -- so broadly from the end of last quarter, the yields are down around 5-odd percent, which is more or less -- I mean, I think you normally guide around 3% to 4% for a year. And in a quarter, we are seeing that.

So just wanted to understand that how much of this is because of telescopic pricing, how much is it because of the volume discounts that you gave to fast-growing clients and this volume discounts that you have given, say, assuming that the mutual fund industry continues to see steady flows and growth remains, then would this likely be recurring at periodic intervals and would imply that we should expect maybe slightly more than 4% kind of a drop in yields compared to what you have guided earlier. So that would be my first question.

Also, if I look at sequentially, the value-added services revenue growth also looks weaker quarter-on-quarter. I wanted to understand that because I thought that, that would be relatively more stickier kind of a business. So while on year-on-year, I think it looks fairly strong, but quarter-on-quarter, it is a bit weak. So wanted to know your thought -- I wanted to know your thoughts on that.

Thirdly, on the other, if you could throw some light on there, there has been good control this time. So is this because we have cut down on discretionary expenses and where should we see the numbers going forward? That will be my questions.

Sreekanth Nadella:

Thanks for the questions. So on the first question, I'll take it in terms of the basis points and the yield compression. We were at about 3.6, now down to about 3.43. You're right. I think it marks about close to 5% as against a typical year of 3% to 4%. I just want to call out that number is more an average. The contract renewal is entirely and solely dependent on the time of the signing of the contract itself.

It is a coincidence that this year, we've had more number of clients whose contracts came up for renewal. For example, if you look into the next year and the year after, we just have 1 each, right? And if you were to normalize it over a 3-year period, I'd like to believe that it will still come back to the 3% to 4% kind of a number. You may have a particular year where number may look a little longer and bigger.

And that particular, whatever the discounts, et cetera, whether it is because of the overall AUM growth or otherwise, they have all been baked into the Q1. We have no further renewals for the rest of the year, so to speak. In terms of the share of what was because of the expansion, so when we say volume, what we're really talking about is the AUM growth, not the volume of transactions.

For example, in the previous year, many of us know that the mutual fund industry has grown up north of 30% and our revenue also has grown up north of 30%. So it is a reasonable expectation and ask of our clients to partake in some of the gains that we have in terms of the growth that they are seeing. And that's what happens when you see 30%, 35%, 40% plus kind of a growth, and there would be a slight moderation of the basis points. And that gets, I guess, more than adequately compensated by the continual AUM growth into the subsequent quarters.

So that's as far as the basis points is concerned. In terms of the value-added solutions, see, this is a pure tech revenue and the tech revenue across business lines, not just mutual funds, but into the issuer solutions, into the alternatives, into the wealth, so on and so forth.

Typically, a large number of tech contracts get delivered in the last quarter, one also because many clients have their budgets locked down to the end of 31st March, and they expect the contracts to be delivered as well. And that's a very typical phenomenon in the industry. And typically -- and hence, we end up seeing a largish growth on the value-added solutions in the Q4, Q3 and Q4 and probably a flattish or a slight dip into the Q1 of this year.

But as you rightly point out, if you see the year-on-year growth, the value-added solutions stacks up at an impressive 50% plus. And I've called out back in the day, just around the time we went public that in addition to be dependent on the vagaries of the market and in our clients' growth, we want to orchestrate several lines of business, which is controllable at our end. And value-added solutions is one such thing.

So for me, a 50% growth year-on-year is a very good indication in terms of where we head into the coming year. In conjunction with the fact that we have several new products and solutions that are going live and have gone live in the recent past, I'd expect many of them to convert into a hard pipeline and then into deals and delivering into the coming quarters, so to speak.

On the cost, yes, we continue to have a very close grip on to the cost expansion. The revenue expansion in the core businesses, to an extent, come with a higher cost expansion unless there is a continual transformation that is happening. To give you an example, a simple INR100 SIP probably will earn us 3 paise, but we would have spent easily more than the 3 paise in just creating the data record for the SIP for the next 70 years, which is the norm in the industry.

So until and unless we continue to invest significant sums and efforts in terms of ingeniously reducing the tech cost, which is largely the big tech players into AWS and Microsoft and so on and so forth, the scale business will have an issue. And hence, we have a very large scale of data scientists who continue to look at it, and hence, the nondiscretionary spend has come down.

But the nondiscretionary spend vis-a-vis new products, new platforms, new solutions continue to expand. We believe that the future lies in innovation. Whoever could innovate faster, take go-to-market solutions for our clients and for our partners and for investors and the regulators will have a far superior edge in terms of new client wins and the growth that we would need.

Swarnabha Mukherjee: Right, sir. Helpful. Just one follow-up on the yield part. So we are right now in this quarter at 3.43. Assuming that there is no other renewals and normal telescopic pricing will continue to play out. Should we expect maybe another, say, 2% to 3% drop through the rest of the year? So if I were to think about 4Q, where should we end up with is what I wanted to understand.

Sreekanth Nadella: I don't expect any further drop on the basis points into the rest of the year. I think on the telescopic pricing, we all know how it works, right? So this -- once the AUM crosses a particular threshold, let's say, we have an agreement that says that INR50,000 crores to INR75,000 crores, right?

Only the incremental AUM that comes after the INR75,000 crores may come with a smaller basis points. And much of that, as I said, has already been baked into Q1. So I do not anticipate any further yield compression.

I also want to call out another thing that has contributed to a dip, probably about 20% of the dip was because of a larger expansion of passives. If you saw, our overall AUM has grown, but the equity AUM in terms of market share was slightly below that of the market. That's largely because of a slower performance of the top 3 mutual fund houses in our country.

And however, for us, there has been a substantive expansion of non-equity asset classes, whether it is debt, whether it is passives. And this particular trend is more the strategy of the fund house in terms of what they see as trying to stay invested in the market versus not to stay invested in the market.

If you saw the math, I guess it clearly points to the fact that our clients have chosen to be more cautious and stick to passives. But that can easily change, right, and depending upon the market sentiment and their own fund strategy, investment strategy. And as that happens, that will positively contribute to the yield. And so I guess what I'm saying is I do not anticipate a reduction. But if there is a reversal in the investment strategy of our clients, there can actually be a slight positive surprise.

Moderator: The next question comes from the line of Karthik Chellappa from Indus Capital Advisors Limited.

Karthik Chellappa: So my first question is, assuming the normal yield declines at about 3% to 4%, and we are assuming an overall AUM growth in the region of, let's say, 12% to 15%, would it be fair to assume that we should be able to hold our domestic mutual fund margins at these levels? Or what else do we need to happen for margins to kind of sustain in this current range?

Sreekanth Nadella: Thank you, Karthik. Great question. One that I can assure you is always on the top of our minds. I think the good and bad part of, I guess, the way the industry is structured is a basis point or a mark-to-market gains, it cuts both ways. You will have months, quarters, years when mark-to-market gains will add to both to your top line and to the bottom line, right? And likewise, it cuts both ways. When there is a mark-to-market dip and/or if there is a basis point reduction, it goes both from the top line and the bottom line.

So that obviously is not the same if you were to extrapolate that into any other industry. For example, if you were to win a contract in manufacturing or if you lose, there is a corresponding increase or decrease in the cost. And hence, it does not -- the 100% loss of revenue does not permeate into 100% loss of margin. But in our industry, it does.

So the control in our hands are 2. One, obviously, is to have a much more meaningful discussions and deliberations with our clients. And that is something that always happens when you're able to add significant value and not just do basic work. And that is something that I'm proud that as an organization, we have been doing it. And that is clearly visible in terms of, I guess, where our basis -- where our yield lies vis-a-vis others.

The second is in terms of the cost. We continue to, as I said, work on the -- basically have a target of near 0 on nondiscretionary spend. We'll never get that far, I fully recognize it. But we have to look at mutual funds given it is the largest book of business, probably the most complex and also the most voluminous and most tech-intensive of all the other businesses.

We continue to work with our partners to continue to normalize and optimize the cost. And that, I like to believe is probably the surest way to hang on to the margins even if there were to be a marginal erosion of yield. And if you're seeing from an organization standpoint, I think every

single quarter, we have been able to maintain that margin in this particular line of business. And I will also call out our transformative initiative of FinEx which is a complete replatforming of our core solution, which was in existence for the last 35 to 40 years.

Whilst we have made incremental standout changes into the overall platform to support the needs of the industry, the platform for the future is getting built. And I'm hopeful that into the next 3 to 4 quarters, on an incremental basis, it's not a zero-sum game that everything will happen on one day. We have already deployed several in a modular fashion. We'll continue to deploy several more into the coming quarters. As that happens, we should see a faster clip of cost optimization to happen, which will help us to hold on to the margin and probably even drive margin expansion at that point in time.

Karthik Chellappa:

Got it. Okay. My second and last question is on the Issuer Solutions. So we are seeing very strong momentum on the corporate clients, which is welcoming. If I were to look at our investor portfolios, that growth has moderated this quarter, whereas in the last few quarters, we have been seeing that investor folios and corporate clients were growing more or less at the same rate. So anything to be read into this moderating growth rate? And what needs to happen for the folios to start accelerating?

Sreekanth Nadella:

Thank you, Karthik. See, I think, yes, there is a sequential marginal decline. I think KFin Tech today manages near about 15 crores to 16 crore plus folios on the Issuer Solutions. What you saw is roughly about 12 lakh to 13 lakh odd degrowth in the full year count into the Q1 of this year sequentially compared to Q4.

This, again, is a natural phenomenon, nearly every year, it repeats itself. What truly happens in the markets is in Q3 and Q4, especially, there is a far more influx of retail investors. Part of it is corporate action driven in terms of securing the dividends and bonuses and what have you.

And part of it is to capitalize on the very large number of IPOs that have happened. People have made quick money and have also exited the market in real quick time. We have also seen, if you recollect, the month of April wasn't particularly a good month in terms of the capital markets.

I think the sentiment started to turn mid-May onwards. And at this point in time, it looks reasonable, though the mark-to-market gain, I mean, in terms of Y-o-Y on the index level is pretty much flat. And so that's what truly happens. There's basically a marginal flight of investors who have capitalized on the IPO and the dividends, and that's something that happens every single year into the Q1.

As we move into Q2, Q3, Q4, I would call out to take a look at the trend of Issuer Solutions revenue in terms of how it expands into 2, 3 and 4 as compared to 1. This is normal. I wouldn't read too much into that. And the dip on a base of 16 crores, about 12 lakhs to 13 lakh folios, I'm sure, is a very small marginal number, which basically has not impacted much on the revenue. As you see, the revenue on Issuer Solutions has grown nearly about INR24 laks year-on-year.

Moderator:

We take the next question from the line of Supratim from AMBIT Capital.

Supratim: My first question is on the Issuer Solutions business. So if I look at the market share in MainBoard IPOs, that was around 18% versus it being around 50%, 70% in the previous years. So just wanted to understand, has the competitive dynamics in this segment changed? Or what are you seeing different, which has resulted in KFin not being able to win the larger bank deals? That was my first question. I have 2 more.

Sreekanth Nadella: Yes, please.

Supratim: Second question. Do you want me to go through all the 3 questions or...

Sreekanth Nadella: No, let me answer that. Let me answer that and we can go to the second question then, Supratim. So here's the deal. So I think by count of IPOs, we've done over 40% in the industry, yes. And by value, it was 18%. It is a simple math in terms of, I guess, HDB Financial having gone public, which was the largest IPO in the previous quarter, which was listed by our competitor. And that skewed the overall share by value.

And this is not a reflection of the win, but this is a reflection of when the particular company has gone public, right? I mean we have, for example, close to 175-odd IPO mandates, which are won over the last bunch of years, and that's yet to go live. So it is possible that in the next quarter, more mandates that KFin has won have gone public rather than our competitors at which time you may see a market share jumping up to 60%, 70%, 80% also.

If I were to call out your attention in the previous year when we've done Bajaj Housing Finance or the year before, LIC, our share of IPO by value actually stood at almost 85% in that particular quarter. So this is a timing discussion as against the wins of that particular quarter. For example, if you have signed up a new IPO mandate in the previous quarter, it is easily 3 to 4 quarters away for that company to go public, right?

So what you're now seeing in the previous quarter is actually the wins that either of us have had over a long period of time, but which company decided to go public. So again, I wouldn't read too much into the value. Now dynamic has changed. As you could see, our market share has swelled by market cap from 47% or 48% to close to 51%.

We have now made up significant dent into even the SME IPOs, we have, I think in the previous quarter, been the largest in the SME IPOs, a business sector that we have largely not been into. Now we have moved into the social stock exchange as well. So into the coming quarters, for example, many of our new clients such as IPru AMC and Meesho and Pine Labs. And should any of them go public, you would see that 18% easily move up north of 50%, 60%.

Supratim: Got it. That's very helpful, Sreekanth. Now on the KRA business, you outlined that you have won 5 key clients. Could you highlight which are these clients? And how are you looking at embedding your KRA services with your MFRTA service.

Could it be -- are you making it available to all your MFRTA clients and slowly this benched 5 can become familiar to the number of MFRTA clients? So I wanted to understand what is the

development pipeline here? And currently, is the KRA revenue being built into the MFRTA revenue itself? Or is it being shown separately in international and others?

Sreekanth Nadella:

Great question. No, there is no revenue at this point in time. So none of it's being clogged into any business, right? We just went public. We just signed a contract. This is a separate entity altogether. It's KFin services and the revenue will be clogged into that different entity because the KRA business is not expected to remain in the same mutual fund business. In fact, KFin as an RTA is one of the 5 clients of KFin KRA, right? The other 4 are our clients as AMCs.

And the short answer to your question in terms of our go-to-market strategy is obviously to have every one of KFin clients to be the KRA clients, which I'm confident will happen into the coming few months. Second, of course, is to -- for everyone because this is -- this can easily be a multi-tenant model. This is not a zero-sum game unlike in the case of mutual fund RTA. AMCs can have multiple KRAs onboarded. And in fact, that is at least a highly recommended strategy, at least from my standpoint because it is always a business risk to have a single point failure, right?

I mean if you were -- if you recollect about 2 years back, one of the KRA had a problem which basically had impacted the mutual fund industry. So it's always a good solution to have multiple service providers, whether it is KRAs, whether it is payment gateways, payment aggregators, any of these entities at all so that if there is a failure, it's just like, I guess, a part generator has a fallback mechanism that you have.

So we expect to have nearly every mutual fund client to be our client in the KRA in time to come, even as within literally 15 days of launching, we managed to secure 5 mandates. And it is not just the mutual funds. We have to aggressively work with the brokers and the RIAs. Much of the new investor onboarding actually happens from the broker platforms, right, the distributor platforms, such as the Grofers and Paytm Money and many of the large entities.

So working with them is going to be very, very important, one, because technologically, I'd like to believe our solution is far ahead and something that I'm confident will find favor with many of the large tech players who bring in far more -- far greater number of new investors into the industry as against traditional RTA and AMC, I guess, equation, so to speak.

So it is a solution that is not just for AMCs, but also for the entire partner ecosystem who bring in the investors. And the revenue will be clocked in a separate entity. And as of now, there is no revenue, which you will start seeing into the next quarter onwards.

Supratim:

Got it. That's helpful. Now moving to Ascent, thanks for the update that has been provided on the quarterly performance there. It seems like the revenue has grown by around 36%. But when I look at the EBITDA in January versus the April quarter, there hasn't been any movement. Is it a rounding error because against the 36% revenue growth, I don't see any movement in the EBITDA. So just wanted to understand what has happened there?

Sreekanth Nadella:

Amit, Vivek, would you want to take that?

Vivek Mathur:

Yes, sure. See, they have still been investing. So while revenue will grow, they have been investing in terms of hiring senior people in the markets in which they are expanding like recent hire was in U.S. And therefore, you won't see the immediate impact of increase in revenue and EBITDA margins. And as they start winning large contracts across these markets, you will see the EBITDA improvement over a period of time.

And the good thing for you to know is that the future payouts to the founders is linked to the achievement of EBITDA. And there are both positives and negatives. So if they don't achieve the target EBITDA, they won't get the multiples. So rest assured, the focus is in terms of growing EBITDA and growing a profitable business with Ascent.

Sreekanth Nadella:

I will also just add one thing. So this is the testimonial of any fast-growing entity. I think as the entity is present in 18 countries, new geographies getting opened, I think a lot of the revenue expansion is getting funneled back for faster growth.

We have a path to profitability in terms of the overall numbers as we move into the year 3, year 4, year 5 as the deal is structured, which is basically more on a run-out model, you would see the EBITDA expansion happening. At this moment in time, it is to drive growth technologically, new country expansion, creation of the new sales channels, pipelines and the technology. So to that extent, this is by design and as per plan.

Supratim:

Got it. And Sreekanth, then what kind of EBITDA -- exit EBITDA margin can this business achieve? Because some of the listed peers do have EBITDA margins closer to 40%, whereas your MFRTA business and the issuer RTA businesses, they operate at more than 40%, 55% margins. So where can this business sit once it achieves that scale?

Sreekanth Nadella:

So this business is -- what does Ascent do, right? I mean, you see, the large -- the global peers that you're referring to, if you kind of split between bank-based, fund admin and the non-bank-based fund admin, we will fall into the category of the nonbank-based fund admin, which has several large global fund admins like Citicos and SS&Cs and Apex Group and IQ-EQ, several others.

Now they are into both public mandates and into private mandates. And I'm differentiating public mandates more as mutual funds and pensions and what have you. Private mandates more as alternate investment funds, hedge funds, digital funds, digital currency funds, so on and so forth.

The private side of it is a far more profitable book of business for many of these fund administrators beyond India, first and foremost. Because the public mandate funds work in a very different model, they do not have the RTO construct there. They work in the case of an omnibus model, which is very, very different.

Second, the reason why we have partnered with Ascent and they have also partnered with us is that we are highly differentiated in our cost structures. We do not have the legacy challenges, which many of these entities possibly have, which is basically a technological proliferation that happens through large-scale acquisitions into multiple geographies and legacy systems, whereas

we work on the cutting edge on the technological innovation and through engineering. Our cost base is substantively low. Those organizations are now trying to set up captives in India to optimize their cost.

We, on the other hand, are India domiciled right from day 1 broadly. So we believe that our margin profile for the entity in conversation will be similar to that of KFin and maybe even higher as we partner with them to take, for example, mPower to the rest of the world as against using third-party software.

We drive far more productivity through many of our home-grown solutions. We are able to take, for example, the LP portals, the GB portals, drive data and analytics solutions to the rest of the world, which are far more margin accretive, right?

So simply put, I wouldn't compare Ascent with the global fund admins because those are -- a lot more go into those particular entities. And not just the RTA, in fact, those entities also have custody as a business within that, possibly even basic depository solutions within that. So we didn't have a like-to-like comparison of a pure-play fund admin only solutions for private mandates, which I'd like to believe will be far more accretive than many of the global fund admins as of today.

Moderator: We take the next question from the line of Vaibhav Sharma from Nuvama Wealth Management Limited.

Vaibhav Sharma: So I just wanted to know, on the international business side, so there is a Q-o-Q drop of 11%. So is there some like one-off or something? And like ex global business, what is the growth that looks like? Also on the asset side, have we added any new clients? And when are we expecting the consolidation to take place? And if there are any developments happening in the BlackRock Aladdin space?

Sreekanth Nadella: I'll take the last 2 questions, and I'll request Vivek to answer the first one. In terms of Ascent's new client acquisition, there have been plentiful of new client acquisitions. They have started Saudi Arabia with one of the largest clients, and they raised an expansion of nearly 60-plus funds in the previous quarter across multiple geographies.

They have also signed a marquee contract with one of the largest banks in Singapore to be able to provide onboarding solutions, which is a large contract in the context of the overall revenue profile of the organization.

The current run rate of revenue tracks to a INR20 million plus revenue on an annualized basis. And should the current growth rate persist, we should expect the number to be much higher than that. So yes, so it is a combination of new client wins and certain AUM expansion of Ascent that has helped us.

In terms of the integration, as I said, it is hard to give out a data at a time. Given this is an acquisition which involves multiple jurisdictions. So KFin ought to have gotten its approvals

from our regulators, which is SEBI, PFRDA and RBI. And I'm very glad to inform you that we have secured all those approvals.

Ascent has more than 3 approvals to secure given they are present in multiple jurisdictions, which they have also really secured for nearly 3/4 of those. So we have another 3 countries, I think, that are yet to acquire the approval. They're in the process of diligencing it and certain questions being asked. And I'd like to believe it's just a matter of time that approvals will come through and integration will happen.

That said, that has not impeded our intent to work together. We've been working on a series of initiatives together on go-to-market, on technological integrations, so on and so forth so that the receipt of the approval marks more a milestone as against a critical success factor to start that particular activity, if I may.

In terms of the BlackRock Aladdin, as I said, in the previous quarter as well, it is a 2 to 3 quarters engagement in terms of integration of the solutions. We've had several promising meetings. We're working at tech-to-tech layer. We are in the process of integrating Aladdin with our back-end system, which is mPower.

Again, I will call out that Aladdin is a front office order management system and a risk management system at its heart. It needs to be integrated with our core middle office and back office, middle office being a settlement solutions and the P&L, and then to the back office we'll get into the stage of NAV computation, what have you. The integration of these 2 platforms is the basic first step for us to take it to the market as a viable alternative to many of the global fund administrators.

So I would expect only into mid part of Q3 that we would have reached out to the clients and the traction, we would have completed our go-to-market sales strategy, the commercials, the contracting structures and possibly even having identified certain sales personnel in various important geographies.

And it is strongly the potential that as Ascent's integration gets completed, the 18, 19 countries that they are part of where Aladdin has a significant market share, we would have already been blessed with the fact that several sales personnel already exist in the form of Ascent having their personnel there on the ground.

So in that context, I think whilst we complete our technology, we have been also working in the form of the commercials, the contracting, go-to-market and the sales and the feet on the street, which may come from Ascent and from executives.

Vivek Mathur:

I'll pick up the question on sequential decline of 11% quarter-on-quarter on the international. Can you hear me?

Vaibhav Sharma:

Yes.

Vivek Mathur:

On the 11% decline on international Issuer Solutions, the reduction is mainly because of GBS and some part of it is because of NPS. NPS, as you know, is seasonal. And typically, Q4 is a tax season and people contribute because of the tax season in the last quarter.

So about INR50 lakhs is because of that, but a little more than INR3 crores impact is because of GBS, where we are consciously declining the number of FTEs and the whole focus is to move away from BPO kind of a business and start focusing on international global fund administration. So that's the reason that you see a decline. But if you consider last year versus this year, except for GBS, all businesses have grown by more than 30%.

Moderator:

We take the next question from the line of Dipanjan Ghosh from Citi.

Dipanjan Ghosh:

Just 2 questions from my side. First, from the previous participant's question, if I look at the international and domestic wealth or AIF businesses, excluding GBS and excluding pension, growth rates which was tracking -- so if I just take cues from the previous participant's question.

In terms of the international and other investor solutions, excluding GBS and pension also, the growth rates which are tracking like say, 45%, 50% in the first, second, third quarter of last year on a Y-o-Y basis now has come down to like 25%, 30% in the last 2 quarters.

So in terms of incremental client onboarding or in terms of the pipeline, given the fact that mark-to-market is also probably a little better than historical averages, how should one think of this business incrementally?

And second, on Ascent's part, if I just look at third quarter metrics compared to the first half or the last 2, 3 quarters of the previous year also, it seems that the incremental number of clients added, incremental AUM growth quarter-on-quarter, all these metrics have kind of tapered down quite a lot.

So if I just look at the number of schemes, that's up like 5%, AUM is up 5% compared to, let's say, historical average, which is far, far higher. So just wanted to get some sense of this new salespeople that they've onboarded, should that kind of drive some amount of revival in the business momentum?

Vivek Mathur:

Yes. So I'll pick up the question. On your question on -- other than GBS, the businesses are growing, used to grow at 40%, 50%. That was more in AIF. But if you look at core international business, that has grown year-on-year at 36%. AIF, PWM, PMS has grown at 31%. NPS has grown at almost 33% year-on-year. So it's mainly the GBS impact.

So overall, we still believe 30%, 35% growth in international and other businesses, except GBS will continue to behave like that. And with Ascent coming in, you will see the growth rate going up because their win rate and the growth in the funds under administration and the revenues for them is upwards of 35% to 40%.

So you may see that the trajectory will continue to improve beyond 30% in future quarters.

Amit Murarka: I'll just add to this, Dipanjan. I mean, historically, if you see the business, I mean, Q1, as we have always been saying that it's a quarter which is the leanest among all the 4 quarters and all. So across all the line of business, the activities start picking up as we move into the subsequent quarters and all.

So I mean, given where we are in the market conditions and all, I mean, we believe that we are in a -- we have a very strong footing across all the 3 lines of the younger businesses which we are talking about from the deal perspective. And I think, I mean, whatever the guidance that we have given in terms of the 30%, 35%, that is something that we are fairly confident that we kind of be ahead of that guidance.

Moderator: We take the next question from the line of Lalit Deo from Equirus Securities.

Lalit Deo: Sir, just one question. So when we have highlighted that the yields in the domestic business is likely to remain stable for the remaining part of the year. So just wanted to understand the EBIT -- margins also in this business. So in this particular quarter, it has dropped to around 55% unlike the previous quarters of around 59% to 60%. So would we be back to that similar levels of around 59%, 60% in the coming quarters? Or is this the new normal of around 55%.

Sreekanth Nadella: I think it's a reasonably linear math, given that the pricing has been closed for the rest of the year. So the AUM expansion that will happen into the next 3 quarters, resulting in the revenue expansion month-on-month, quarter-over-quarter, obviously will expand the margin profile. So I do not anticipate that trajectory to differ.

Again, I'll just call out, it is the exact same phenomenon we see every single year. Q1, we see 2 specific items, hit of inflation on April 1 because AUM remains largely similar. 31st March to 1st of April, there is a cost inflation that goes up. And the AUM, any discounts that are given in the beginning of the year, the AUM continues to grow at a clip faster than that of the discounts that have been accorded, thereby the margin expansion into that business will expand as well in the subsequent quarters.

Moderator: We take the next question from the line of Pranuj from JPMorgan.

Pranuj: I think Sreekanth, in the opening comments, you were mentioning about top 5 AMCs being onboarded on the fund administration platform. So I just want to get a sense of what could be the ticket sizes of these contracts?

Sreekanth Nadella: See, on the fund admin, basically, we have multiple clients getting onboarded. So given this is an international platform, it is -- we won contracts in Malaysia, in Thailand and Singapore and several, of course, in India. And within India, again, not just mutual funds, but also in insurance, right? For example, in insurance, we have been onboarded for Aviva Insurance. In the case of mutual funds, it is JM and Cosmia. Internationally, several large trustees, including Amanahraya trustee managers, so on and so forth have been onboarded on that.

The revenue would be in 2 factors. I think some of these are platform solutions and some of these are ongoing services. So ergo, the revenue will be split. Some will be more for a particular

year followed by a certain amount of AMC. And some of these are pure-play services just like the RTA contract, which means that month-on-month for the service layer that we generate, we get a certain basis point.

So the exact number, I would request Amit to discuss with you offline in terms of having computed what is onetime episodic versus what is the run rate on that.

Moderator:

Ladies and gentlemen, we take that as the last question and conclude the question-and-answer session. On behalf of IIFL Capital Services Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.