“KFin Technologies Limited Q2 FY '27 Earnings Conference Call”

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MODERATOR: **MR. DEVESH AGARWAL – IIFL CAPITAL SERVICES LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to KFin Technologies Limited Q2 and FY '27 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 an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded.

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

Devesh Agarwal: Thank you, Shaurya. Good morning, everyone, and welcome to the Q2 FY '27 Earnings Call of KFin Technologies Limited.

Today from the company, we have with us Mr. Sreekanth Nadella – MD and CEO, Mr. Vivek Mathur – CFO, and Mr. Ram Gattani – Head of Investor Relations.

I will now hand over the call to Sreekanth for his opening remarks and thereafter open the floor for Q&A session. Thank you, and over to you, Sreekanth.

Sreekanth Nadella: Thank you, Devesh. Very good morning and good evening if you are dialing in from outside of India and a very warm welcome.

Well, I will bring to you yet another quarter of a certain sense of consistency. As the saying goes, patience, consistency, and hard work. I think that's pretty much the need of the hour. That's pretty much what sets organizations that have a long-term vision to stay dogged at it and to ensure that we deliver to the promises we make.

As your organization continues to make strident steps in the forward direction, our market share expansion, our growth in terms of our client wins, and steadfast focus on innovation-driven productivity, not arbitrarily, not based on the vagaries of the market, but in a scientific and a clinical fashion of driving technology-driven productivity is pretty much the sum and substance of what we could do in the previous quarter. And we will continue to stay on course in terms of making sure that it is, we deliver quantitative and qualitative results over a period of time.

From a glance, overall, if you see where KFin Tech stands today, by and large, many of the metrics that we typically speak to you are in the similar range in terms of we continue to be the largest registrar and transfer agent in India and among the largest in the world in terms of the number of human beings we service, whether it is in India or abroad. Between the capital markets, the securities market and the mutual funds, it has now crossed over 12.5 crores in India and roughly about 75 lakhs outside of India. So, that makes us probably one of the largest, maybe ex-China.

In terms of our growth on the individual business lines, very heartening to see and hear and tell you that nearly every business line we have grown, albeit in an extremely challenging environment in the form of macros, whether it is our win rates in the form of new client mandates, whether it is mutual funds, whether it is issuer solutions, alternatives, international so on and so forth, had been one of the most striking features of this quarter. AUM growth and revenue growth in an environment where the markets have been significantly down, but obviously hints at the direction of net new wins. And hopefully, in time to come, when the markets do recover, we should have a compounding effect of significantly additional clientele and volumes than with some help of market-to-market again that we may get.

In terms of our market share in issuer solutions had been one of the big turnaround over the last 18 months, even excluding Jio Platforms IPO, which is happening real time as we speak. And we have completed the entire activity 12 hours ahead, considering it is the world's largest IPO. One, we are extremely honored and privileged to have been chosen as the RTA. Two, to have delivered significantly beyond much of the expectations in terms of the timelines and including the allotment statuses that the investors are checking where the latency time has been less than 40 milliseconds.

Now, that obviously is going to be for the upcoming quarter, but by and large, I am very happy with the progress we've made in terms of the wins in the case of issuer solutions. Same is the case with our international. We have added 18 new clients, which are in the transition and they are expected to go live into the coming quarter to two, depending upon the transition timelines, which will then go on to add, hopefully, additional AUM and consequent revenue soon after that.

Our acquisition of Ascent and its integration is one of the most strategically important initiatives that we have embarked on. Happy to inform you that we continue to grow the business again, against an extremely challenging macro, especially given that 25% of our revenues come from the Middle East for Ascent and given the situation that one would have imagined, maybe the growth could have been tepid.

But again, thanks to some really wonderful work by the business development teams. In each of the operating geographies, we continue to grow 30% plus on Ascent. And again, with a committed focus on cost optimization, the margin profile continues to expand. We hope to hit double-digit EBITDA numbers in the next couple of quarters or so.

Pensions too, entire of last year, we grew 3x of the pace of the industry. Industry grew at about 12. KFin grew at 36. This year, we have grown faster than that, I think 42% as against similar 12% to 13% growth of the industry. So, again, it is a long haul when it comes to pensions, it tends to compound. But not only have we broken even about three quarters back, growth continues to be significantly higher than that of the industry.

Now, all of this gives us a fairly well-rounded growth across business lines. And again, product transformation driven productivity gains and new feature rollout has been one of the most important focus areas that we have had. The overall AUM for KFin Tech clients this quarter had grown at 15%, whereas industry grew at 13%. So, that is very heartening.

Now, it is also, however, true that the share of the passives for our clients seem to be on the higher side as compared to that of industry. And so again, some of these dispositions tend to change. And if it were to come back towards more actively focused, again, that would be something that will add additional revenue bump up into the coming quarters and years.

Overall market share has grown in the last two quarters for KFin Tech in the form of overall moving beyond 33% and the equity inching close to 33% as well. Our market share on the SIPs, which I continue to believe is the bellwether in terms of where long-term averages could be at, continues to be close to about 37%, which means that there is a 100 basis points of bridge that I expect to happen in order to build over the next three to five years, as the SIP is a sticky retail book, and the overall AUM tend to gravitate and precipitate towards the overall market share on the SIPs.

We have launched a couple of very important platforms in the mutual fund space. Aria.AI is India's and probably world's first generative AI intelligence platform, not just for purchase and redemption and commercial transactions, but also for all non-commercial transactions, which means that you can literally speak to your phone and then ask your agent to change your bank account, add a bunch of nominees, buy and sell a bunch of things, all of this through natural language processing and just talking to the application. And the beta stage has gone live and we are doing a public launch into the later part of this month.

Now, that marks the first of the consumer facing AI tech rollout by KFin Tech even as there are several inward-looking AI transformational solutions we have implemented, which were principally one of the important reasons for the margin expansion. If you saw the overall margin moving from about 34% to 40% thereabout on EBITDA profile, part of that is the scale benefits in the form of our international business and part of it is productivity again driven through large scale RPA and AI native solutions.

These are in early stage in terms of implementation. There are several more, as I have called out in the previous quarters too. Nearly every business line and the underlying platform in our organization is under massive rework and rebuild given many of these are a couple of decades old.

So, we will be live with the issuer solutions, pensions, and wealth in the next three months. So, by January we should have gone live with many of these next generation AI native, cloud native platforms, which should help us with significant faster go-to-market and productivity as well.

For mutual funds, it is a little bit more challenging and much more complex given the size and scale of it, but we have already deployed about 30% to 35% of the total use case and have seen some benefits associated with that. Again, by end of Q4 this fiscal year, we would have rolled out nearly all of the transformational platforms that we have been working on.

Our growth on issuer solutions I have already called out. We continue to have a significant market share expansion on the IPOs and especially the large ones. Nearly all the largest IPOs have been orchestrated by KFin Tech in terms of both volumes and value. And there are several more in the pipeline, which I guess should the prevailing market conditions improve, should see a tangible progress from there.

We have been at the forefront in terms of expansion in the GIFT City because it falls right in the alley of our international business. And again, happy to inform you that our market share, there have been, you know, we are currently the single largest provider for solutions for GIFT City funds, in addition to several digital solutions that we have been working on.

I will just add a little bit of color in terms of our international pipeline. The pipeline itself currently stands at roughly US$47 million dollars. Now, that used to be roughly around 20 million about 12 months back. Now it speaks about increasing a pipeline of several new deals where the deal size is substantially larger than a typical GFS deal that we have seen thus far.

There are at least six deals which are over four to five million dollars in the total contract value. Some of them are in advanced stages. Some of them are progressing in that direction. We have had several successful RFP and client presentations in our operating geographies in the last three to four weeks. Again, we have been downselected to the final two in many of those. And in time to come, hopefully, there will be closure on some of those.

One of the earlier projects on the Philippines-based pension that I have kind of called out, there may be questions around that. So, that deal is still under works. It neither has been awarded nor has been cancelled. It is something that we are discussing with the local authorities in terms of the next steps. And I am still very confident that we should be able to turn it around in the coming few weeks or so.

Overall, in terms of the productivity gains, our total count in terms of the headcount has come down to a certain extent, but we have used that opportunity to scale up our faster growing businesses, given the number of net new clients addition had been substantial, whether it is wealth or whether it is alternatives, whether it is pension, so on and so forth, which are still subscale in order to from the standpoint of driving significant operating leverage.

We have from a pure transformation and AI-led platform rollout into the coming weeks and months, we should be seeing an immediate rollout of the Aria.AI 2.0. As I said, that is one of the most important ones, followed by our platform rollout of FinEx, which is for mutual funds. And the GFS, that is the International Business Replatforming is something that is on the way

as well, something that we believe will add substantial might in terms of our progress towards winning new deals elsewhere in the world.

Our total share of the international business now is 20%. And I think I called out mutual funds share of revenue purely from the standpoint of AUM driven revenue is just under 52%. I expect this number to get to 50% into the next two to three quarters, which in some sense had been an internal target to get that far over a five-year period. But I have to inform you that we are getting there in under three years.

We would also be working on obviously expanding the total pie so that the concentration risk of any one single client does not go beyond 2.5% to 3%. And that is also something that I believe could be accomplished in the next probably about six quarters, if not earlier. So, that is probably the update at my end into the coming quarter.

We foresee some headwinds, obviously, given the way the markets have been the past 10-odd days. But as I said, our growth, we are not necessarily hoping and praying for the markets to turn around, but do everything that we can do to close the contraction conversions real quick, focus on productivity so that our margin commitments remain sacrosanct.

And so far, this quarter gives us a lot of heart that strategy had been on the right path. And even as I look at our upcoming forecast for this quarter and the subsequent quarter, despite the headwinds, I am still confident that we do not have to change any of the estimates at this point in time, unless there is a continual protracted downturn from here on as well.

So, we have enough buffers to cushion any kind of a blow like this tactical market correction over the last 10 days. But of course, anything that persists significantly longer, given our capital markets will impact. But at this point in time, we continue to stick with our estimates.

I will now request Vivek to cover the financials, and then we will leave the floor open for questions.

Vivek Mathur: Thank you, Sreekanth. On the financial performance, the revenue from operations has gone up sequentially, including Ascent by 30%. And excluding Ascent, it has gone up by 10%. Expenses were pretty much controlled in terms of the cost optimization initiative. Sequentially, expenses have gone up only by 3% quarter-on-quarter, while the revenue quarter-on-quarter went up by about 13%. And we believe that this will continue to play out in Q3 and Q4 as well.

As a result of that, the EBITDA improved by about sequential basis about 18.7% against last year, same quarter 32% growth. Half year ended FY '27, there is a 13.4% growth year-on-year for the half year. EBITDA margins for Q2, excluding Ascent were 45.8%, and including Ascent were 40%. That is the aim that we are targeting that we will end the year including Ascent with a consolidated EBITDA margin of 40%. And that is where it gets demonstrated from Q2 onwards. So, there is integration of Ascent in Q2, but also the margins are maintained at the guidance level.

PAT has touched Rs. 100 crores for the quarter and has gone up by 7.5% year-on-year, 33% as compared to the same quarter last year. For the half year, it is about 3% growth year-on-year. PAT margins have improved in Q2, including Ascent at 25% and excluding Ascent at little more than 30%.

For H1 FY '27, consolidated margins are at 23%, including Ascent. We maintain healthy cash and equivalent situation of about Rs. 550 crores after the dividend was paid out. And the diluted EPS at the end of H1 stands at Rs. 10.12. Happy to take questions now.

Moderator: Thank you very much. We will now begin with the question-and-answer session. The first question is from the line of Karthik Chellappa from Indus Capital Advisors Limited. Please go ahead.

Karthik Chellappa: Just three quick questions from my side. The first question is, we have seen the domestic MF yields, this business stabilizes and probably even grow a bit sequentially. How much of this is coming from mix and how much of this is basically any other factor? And can we reasonably conclude that from here on, the yields will more or less stabilize sequentially? That is my first question.

The second one is on the issuer solutions, we have seen a very good quarter this quarter, both on margins as well as growth. Given the visibility you have on pipeline, can we extrapolate this resilience to the rest of the year as well?

And my third question is, in the beginning of the year, our aspiration was to grow our earnings in low double digit. And it's heartening to see that Sreekanth, you actually reiterated that that is pretty much on track. You also mentioned you have some buffers in case if capital markets were to turn for the worst. What would some of those buffers be, if you could give us some additional color?

Sreekanth Nadella: Thanks, Karthik. Always great to hear from you. So, I will take the first one in terms of the yield and it is in a marginal expansion, roughly about 2% sequentially. As I always say, there are three important factors. If I were to put a weightage, the weightage may change depending upon quarters and times of the year. But roughly about half of the reason in terms of the instability or otherwise is owing to the pricing discipline, and about 30-odd percent more than maybe even a little more than that towards which particular asset manager is growing. And the third one, of course, is the asset mix itself.

Depending upon which of these three levers work in favor, against, or neutralize each other is usually how the yield moves. The quarter that had gone by in some sense has had all of the three positive effects in the sense that obviously the pricing discipline was maintained. As we have confirmed in the previous year, those contracts have been closed and negotiated, and hence, there is a consistency on the pricing.

But definitely, we had positive tailwinds in the form of both asset mix as well as in the form of the AMC's growth as to which AMC has grown depending upon the size and scale. As we all know, there are differentiated rates. So, will it remain similar into the coming quarters? On the pricing front, yes.

But of course, on the asset class mix and the AMC mix, as we all know, it is how the manufacturers grow as against what we grow. So, given there is no substantive reason for anything to change at this point in time, in the sense that we had a improvement in the form of metal ETFs may be getting way too active and that was the reason why the asset class mix and younger, faster growing AMCs growing, continuing to grow faster.

Six out of the 10 fastest growing AMCs are currently with KFin. And that obviously has been having a little bit of positive help. Now, it can even get better into the coming quarter if depending upon which AMCs grow. But I do believe that given we are already in near end of October and we have some visibility into the last 20 days of October that has gone by, I believe that yields will remain largely consistent.

On the issuer solutions, I think, we are looking at a 20% total year-on-year growth. And again, with a little bit of luck from the market and depending upon how some of the other larger IPOs are also around the corner, including the Jio one, of course, I believe that we should get to a 20% plus top-end growth, which means that, by and large, we can assume that our current numbers can be accomplished in the coming quarters as well.

And that then leaves us with the third question, which is in the form of the buffers. The buffers are, these are basically a couple of items. One, in terms of the discretionary versus the non-discretionary spend, as I have always maintained, there is a certain element of our expenditure, which is something that we will incur if and only if our financials permit.

Now, these are obviously for the future benefit. So, transformational items, discretionary IT projects, discretionary automation, discretionary expansion of probably a particular geography, which we have planned for so on and so forth, or even launch of certain products, which cost certain amount of business development dollars.

So, if we see an ongoing market downturn, those are the things that, from a leverage standpoint, we will pull so that it will release some amount of additional expenditure that we may have budgeted into the next five months, which we will not incur. And that is what I am referring to, Karthik. And should we get that far, then definitely we will probably withhold or at least prioritize the most important ones and still do it and probably defer some of those into the coming quarters, at which point in time, should the markets permit, we will then spend that money.

Karthik Chellappa: Excellent. Thank you for the detailed responses. Wish the team all the very best for the rest of the year. I will come back in the queue for more questions, if any.

Moderator: The next question is from the line of Sanil from Dymon Asia Capital Limited. Please go ahead.

Sanil: I have two questions. So, firstly, sir, if I look at your presentation, this quarter, we are seeing a good increase in your value-added services revenue. So, as a percentage also, it has increased. Now, how do we look at this? Is it seasonal or what has driven this growth?

And secondly, this value-added services is majorly related to the mutual fund business or where does this lie in the revenue breakup, if you can give me some clarity about this revenue?

Sreekanth Nadella: I think I should answer the second question first, so that it is easier for the first one. So, the VAS is not just mutual fund alone. It is both issuer solutions and mutual funds. And Q2, typically, you will see a rather large spike in the value-added solutions because included in the VAS for the issuer solutions is our entire platform-based revenue solutioning around EAGMs, e-votings, and any large corporate, not the regular corporate actions like dividend declarations and buybacks, but there are other items where our platforms and solutions are used, including insider trading platforms on and so forth.

So, Q2 typically is also a good quarter in terms of VAS. So, that is what you have seen given the issuer solutions related many of these annual general meetings etc., happening to the second quarter. That said, in spite and in spite of it, it is also a good show in terms of the overall revenue pool itself. It is now 7.5% of the total revenue of the organization.

Again, I remember probably three or four quarters back talking about one of the other internal goals, sub-goals we have is to get the value-added solutions to double-digit figure in the next three to four quarters. We are working in that direction. Again, it is very important for us to look at such avenues of revenue because they do not depend on the vagaries of the market, but adds a certain amount of predictability and consistency in our revenue earnings and the quality as well.

Sanil: That was helpful. So, just circling back, the increase which we see on a quarter-on-quarter basis, the major increase would be driven by the issuer solution at a quarter-on-quarter level.

Sreekanth Nadella: That's correct.

Sanil: Is that the correct understanding? Okay. Yes, that is helpful. That is helpful. And secondly, if I look at your Ascent business, so, as you know, in your opening remark also you said there are a lot of headwinds in the Middle East where 25% of the revenue is coming.

So, if I look at the PPT disclosure this quarter, if you see, there are no new client additions. So, is it mainly because of the Middle East issue? And how are you tackling it? Because if this war continues for, let's say, next six months or a year, how are we looking at Ascent as a business? What are the strategies we have for this macro event?

Sreekanth Nadella: Yes, so we model in worst-case scenarios and obviously have calibrated and purposeful responses for each one of them. And one of that was obviously to look at geographies which are

rather unperturbed by such events and drive growth in those areas. Not to say that we should be pushing, we should be putting some of the stress geographies on the sidelines.

But obviously, all we can do in that scenario is just keep the client conversations live and warm and continue to solution, continue to engage. And as and when things turn around, it will and had traditionally been positioning us in the right way then to go on to win deals.

Now, what have we done to combat given large presence in over 18 geographies? It is quite possible there are always some local events that happen, whether it is the market movements or local politics or anything at all. And that offers the risk diversification. So, if you saw the last quarter, especially in the U.S., we have one pretty large number of deals. We went about five deals and two of them are reasonably larger up north of or rather close to half a million plus. And as the numbers, as the deal sizes of some of these funds increase, so will the intent of several medium and large fund managers as well.

So, what you have seen is, in spite and despite of the challenging times, even in Middle East also, we have seen growth, but we could have grown more, if not for the situation, but it got largely overcompensated by much faster growth in the Americas, as well as in Singapore.

Sanil: That was it. But just lastly, why was the client addition in a way flat this quarter? Was it any reason for that? Are they in pipeline or how do we look at that?

Sreekanth Nadella: So, that metric is not the number of deals we have already won which are yet to launch. What's happening is that given a sense core business is largely on the alternate investment funds and in many of the geographies, again, whether it is AI trade or a whole bunch of things, a lot of fund managers have held back in terms of launching their funds. But we have, even today, a little around 80 plus funds, 80 or 90 funds, which have been already contracted, but the fund manager is yet to launch and or is expected to launch in the coming weeks or a month or so. So, that is pretty much it.

There is nothing untoward in, if anything, the repeat business from the same clients who are launching new funds or their referrals to many of their network in terms of the new fund managers who are coming, that had been on the steady rise. Our net retention rate had been higher than ever before.

So, by and large, we are very satisfied with the growth. And typically, Q3, Q4 tends to be or the H2 tends to be a better season for Ascent, as you might have seen into the last couple of years as well. So, we are waiting for probably a better set of results in the coming few quarters.

Sanil: It was very helpful.

Moderator: The next question is from the line of Swarnabh Mukherjee from 360 One Capital Market Private Limited. Please go ahead.

Swarnabh Mukherjee: Sir, I have questions on Ascent business in terms of the cost. So, when I look at our consolidated cost structure, I think even at an employee expense level, the delta is coming from Ascent.

Given that, I think the expectation was that Ascent should now gradually start to see ramp up in margin, just wanted to understand why at the employee cost level, this cost is continuing to increase. And given that margin, at least from the data that we have in hand, it appears that margins have been reasonably flattish quarter-on-quarter. So, how should we think about the trajectory of margin for Ascent over the next two, three years, if you could give some color on it? That is the first question.

And secondly, I also wanted to understand, as you mentioned that you are expecting to maintain a similar run rate in the issuer solutions business in the subsequent quarters. So, if you could give some color on what would be the share of folio-based revenue this particular quarter and corporate action driven revenue this quarter?

Because if I understand correctly, I think there is a seasonality in corporate action revenue and the folio-based revenue is dependent on the IPO pipeline and at what time it flows through. So, just wanted to understand that how should we expect that, there could be some visibility for third quarters, but then in the subsequent quarter, how should we expect this to happen? These will be my two points.

Sreekanth Nadella: So, there are two ways to look at Ascent, right? One, it is a five-year-old organization, okay, founded by young entrepreneurs, who also had a similar vision as KFin Tech does, which is to create a large global fund administrator and be in that $40 billion addressable market time space. And there are very few or no one who have done from this part of the world and hope and hence, together we can join our hands to grow this business over a period of time into that space.

Now, they specialize on one specific asset class, which is largely private mandates, okay? That includes AIFs, PMSs, private equity, hedge funds, venture capital, digital currency funds, so on and so forth, which are largely non-public like mutual funds and pensions and insurance, so on and so forth.

Now, the disposition of that business, by and large, as you have seen, even with KFin Tech's own AIF business, it is small mandates and several of them. I have 30 mutual fund clients and you could see the revenues are closer to $100 million, and we have 758 alternate investment funds and yet the revenues are very small.

So, that kind of a nature of work requires a certain amount of scale, which is more than what we have, by the way. It may look like having 1,000-odd clients for us and having another 2,000 odd-clients.

Overall, including Ascent is a very large number, but you would be surprised with the amount of bespokeness that exists in alternate investments in general. And for us to be able to draw

synergies and drive operating leverage, we need to horizontalize the business processes. Otherwise, it tends to be one-to-one relationship, that is client-server kind of a relationship.

Now, that does not render itself to significant operating leverage at a certain base. But as the scale increases, the operating leverage tends to be much, much larger. And given much of what we also deal with are public market funds, and given there had been no mark-to-market gains at all in most of the operating geographies, the overall AUM continued to be a little tepid.

And in that context, so combination of both operating leverage to be at a much larger scale to kick in and the fact that there have been absolutely no AUM growth because of the mark-to-market is one of the reasons why and what it is.

But if you see the overall Ascent specific cost optimization, and hence where the productivity stands, yes, the overall EBITDA margin had been similar to that of last quarter. And last quarter, it was around 7%-7.5%. This quarter, it is around 8%. But last year, this time, it was minus 12%, right. And for us, we have to look at such optimizations in a purposeful manner, where we have to drive in a methodical manner, rather than just taking arbitrary decisions around it, which will be counterproductive for a fast-growing company.

For a fast-growing company, what it needs is capital, what it needs is flexibility, what it needs is SG&A spend so that we capitalize on all the markets we have started, having spent money and this is a certain amount of intangible assets sitting on the CAPEX at this point in time. No point in building geographies and tying the local CEOs down without the necessary support, which is largely a SG&A site to grow.

So, in spite and despite of that, for us, this is nearly minus 10%, minus 12% to plus 8% in about four quarters. And as I have already given in my commentary, we are looking at getting into double digits as well sooner than expected. So, this acquisition, again, by no means is going to get to KFin margin levels in the next three or four quarters. It is a very different business, but a business that has significantly long-term compounding gains.

As per our base case, we will touch double digits, and we are looking at about 20% plus thereabouts into the next fiscal year. And the next two years after that, we will work towards getting it somewhere closer to KFin's overall margins, by which time both the things would have fallen in place, hopefully, that is the scale and the transformation we are doing, which is largely around the re-platforming of the current solution they have with KFin's proprietary platform, in addition to having horizontalized many of the business processes.

So, that is broadly the Ascent story. So, the overall, when you add the overall cost of Ascent, obviously, this is a full YTD, and hence the first two quarters where they were loss-making to that extent, obviously, the cost addition was probably looking to be higher than the revenue addition.

But even if you look at standalone Ascent numbers, the overall EBITDA has run positive. The overall gap from turning cash positive is roughly about Rs. 3.5 crores to Rs. 4 crore, which isn't substantial and something that we should be able to turn EPS positive as well to the coming quarters.

On the issuer solutions, what I had called out was that we should look at our overall Y2 year-on-year numbers to about 20% and so on. This quarter, of course, the percentage was higher. But if you take a look at it again on an year-on-year basis, I would like to believe that we should continue to grow. Corporate actions are predominantly a Q2 phenomenon with some spillover into Q3. It won't be as large, but there will still be some.

But given we have just done the largest IPO in the world and some more to come, and the folio expansion, most largely also because of the net new IPOs that we have done in the last 12 months or so, will mean that there would be a year-on-year revenue growth, both on the account of folio-based revenue and some more on the form of corporate actions. Corporate actions of the net new IPO clients we have added, not just the old ones we have had.

It is with that confidence that I am saying that we should be able to still look at 20% year-on-year revenue growth. Again, in a year where there has been a reasonable exodus of retail investors from the existing companies. So, our total folios grew, but that is because we won a lot more clients, not because the shareholders of the existing clients actually grew. They actually have de-grown.

Swarnabh Mukherjee: This is very clear. Just one thing I additionally wanted to ask was, on our legacy international business, I think if I look at the revenue numbers for last three quarters, there seems to be some volatility that last quarter it went down and then this quarter it has bounced back.

So, just wanted to check if there was some kind of a one-off in last quarter's number and adjusting for that, and then actually a linear growth.

Sreekanth Nadella: I am sorry, I missed the first part. Was that for alternatives, your question or mutual funds?

Swarnabh Mukherjee: No. So, our legacy international business, so ex of Ascent, the international partn.

Sreekanth Nadella: So, that is again two important factors. One was the go-live of some of the deals which were under transition. And second, fortunately Malaysian markets actually looked good in the last quarter, compared to India at least.

So, those both the factors basically, successful transitioning and hence going live, and hence the revenue kicking in, in conjunction with the mark-to-market gains that we have gotten in Malaysia. Those were the two reasons why the numbers have gone up. And as I have called out, there are still 18 more transitions underway. And as they go live, there will be incremental revenue coming from that, in addition to the organic AUM growth for the existing clients.

Swarnabh Mukherjee: Yes, that is very clear.

Moderator: The next question is from the line of Supratim Datta from Jefferies Group. Please go ahead.

Supratim Datta: My first question is, again, with respect to the Ascent business. You indicated that Ascent has started winning large contracts. Wanted to understand that what has changed or what is changing at Ascent that is allowing them now to win these large contracts? And how does the economics of these contracts differ with the smaller contracts in terms of yield or profitability? If you could give us some color there, that would be helpful.

Secondly, on the tax rate, the tax rate seems to be increasing over the last two quarters. Wanted to understand that is there anything that is there and how would the full year tax rate look like? And is there something that we need to take into consideration here? So, those are my two questions.

Sreekanth Nadella: Thank you, Supratim. On the Ascent, when I say large contracts, again, everything is relative to the size of the deals that that entity had been traditionally winning. Basically, in the last 12 months, there were two deals which are worth a little over $1 million each.

And U.S. market, a single alternate investment deal giving you anywhere around half a million to million means reasonably sizable. Otherwise, typically, the funds, as you know, are reasonably small. Even if you look at India, a Rs. 2,000 crore, Rs. 3,000 crore fund itself is considered reasonably large in the alternative side of it. So, in that context, anything around $1 million for a single deal is reasonably lucrative. And those are the deals we are winning.

The economics, they work better for the very simple reason that the fund size does not necessarily dictate the underlying effort. There will be some variabilization, obviously, in the form of probably additional, volumes and hence, there is a little bit more effort, given much of it is tech-based solutions that we have. And obviously, large fund size comes with large risks. So, there is a certain amount of risk premium that we have to bake in, which translates in the form of additional quality control costs, so on and so forth.

But all of them put together still does not necessarily mean the cost will go commensurate with the size of the deal. The large deals, anything around $1 million typically tends to give you nearly 2x the margin profile of that of five different deals together, basically having a similar revenue profile.

I guess what I am saying, Supratim, is, one deal a million dollars versus five deals with $200,000 each, both of them will translate to the exact same AUM, probably the same revenue, but the efforts would be nearly probably just about half of what it would be for five different deals otherwise. So, that is the focus area in terms of winning large deals as to how it impacts operating leverage.

On the tax rate part, I would request Vivek to cover that in addition to one of the other things about our plan to move into GIFT City, the entire international business, which has certain tax benefits associated. But Vivek, would you want to cover the tax rate part?

Vivek Mathur: Basically, there are some new businesses like KFin services, the GIFT City entity, and some of the, like, KFin Thailand. So, these entities are basically still not profitable. And therefore, we are not recognizing the deferred tax on these entities, which is resulting in a slightly higher tax rate than 25.64 for KFin India.

Ascent itself is currently loss making in Singapore. And therefore, whatever they pay as tax in India, we can't take foreign tax credit. So, as a result of that combined impact, you will look at tax rate being slightly higher than normal.

We are looking at moving over a period of time to the GIFT City, which should give us the advantage of 20 year tax holiday. So, it is a process that has been initiated, but it will take some time. So, we can't give you guidance on when we will optimize in terms of the tax rates. But that is a strategy which is in the pipeline. But as of now, it is largely to do with the loss making entities deferred tax not being accounted for.

Supratim Datta: That is very clear. And just one follow up on the Ascent business. So, when you were acquiring this asset, you had indicated that certain roles from Singapore would be transitioned to India. Where are we in that process? Has that been completed?

Sreekanth Nadella: Yes, Supratim. So, that is the rationalization topic that I spoke on two important counts. One was the payroll level rationalization, which means basically do department-to-department mapping between both the independent entities and look for those departments which can be done by a singular unit.

For example, two separate finance functions, two separate HR functions, two separate tech functions, so on and so forth. As you could imagine, as you consolidate, you would have certain amount of redundancy. And that job has already been completed.

For example, much of the finance function is managed by Amit Murarka, who sits in India. And likewise, aspects around tech and HR, and even certain aspects on operations also given Ascent has its operations in India, in Hyderabad, in Mumbai, so on and so forth, many of the locations that we are ever since organically be part of. So, both in terms of movement into the same physical location, and wherever there are roles that could easily be handled by a single person instead of two different people, that amount of rationalization has already been secured.

Moderator: The next question is from the line of Lalit Mohan Deo from Equirus Securities Private Limited. Please go ahead, sir.

Lalit Mohan Deo: Sir, just two questions. One, on a clarification, sir, like when we have mentioned that the overall margins will be around 40% by FY '27, does it mean the exit quarter or should we assume 40% for the full year?

And the second question is more on the issuer solution business. So, now, could you just explain the unit economics over in terms of during the IPOs, what kind of revenue which we make in terms of new value creation or in terms of applications over there?

Sreekanth Nadella: So, on the IPO, let me just cover that first. The IPO itself as an event or an episode does not necessarily generate any significant revenue. Much of, again, it is largely the competitive dynamics. Many of these get tagged at just a few lakhs of rupees. But of course, the larger ones, we probably would earn a little bit more.

But by and large, it is the annuity that we focus on, right.

So, for example, if you would have, you know, any of the more retail focused stocks, some of them can go, have as large as 30, 40, 50 lakh individual holders. And that is the broad revenue model. It isn't as much about the individual IPO itself. So, I wouldn't factor more than, say, 2% of the total issuer solutions revenue in a year because of the IPOs. Rest of it is all the portfolio maintenance, the corporate actions, and the value-added solutions revenue that we drive.

I am sorry, I think I missed your first question. What was that about?

Lalit Mohan Deo: Yes, so that was on the clarification part on the EBITDA margins. So, whether that 40% is for the full year or is it like…

Sreekanth Nadella: Yes, I will cover that. So, no, it is average. It is not the run rate on Q4. As you have seen, this quarter itself, it is already at 40.6, right. So, what we have to do is expand these numbers into the coming quarters to basically compensate for the Q1 EBITDA, which was only 34%. So, we are working towards basically having a full year average of 40% and not just the running quarter.

Moderator: The next question is from the line of Dipanjan Ghosh from Goldman Sachs. Please go ahead.

Dipanjan Ghosh: A few questions from my side. First, in terms of your core ex-Ascent international business or the legacy international business, just wanted to get some sense of the client concentration in terms of revenues, top 5, top 10, if you can give some color on that, and how that would have changed, let's say, over the past few years.

The second question is on your ex-Ascent EBITDA margins. Would it be possible to break it up between the mutual fund business and the issuer solutions business and maybe the rest, which would probably be a little bit subpar, for example, the pension business?

And the third question is in terms of the mutual fund margin business. I mean, how much more scope do you see in terms of efficiency realization or cost rationalization in that portion of the business?

Sreekanth Nadella: The exact numbers, I think it is probably better for Ram or Vivek to get back to you separately one-on-one. But by and large, the numbers are there, published for each of the businesses.

And in terms of the overall margin profile, if you take a look at the mix of the revenues, 52% for mutual funds, 13% for issuer solutions, 20% international, including Ascent, 7% other businesses like alternatives, pensions and so on and so forth. So, that's been the revenue mix. And it will, as I said, will be more skewed towards the remaining non-mutual funds business, which will continue to grow faster than a mutual fund business. And hence, the overall revenue and the margin profile, shakeup will still be there.

Our intent and commitment towards 18% to 20% top line growth and about 40% to 45% broad range of EBITDA numbers continue to hold good despite a change in the mix in terms of which one gives you more operating leverage versus the other. The reason why the operating leverage or the margins for other businesses is just transient simply because it is very important to understand the nature of those revenues and margins.

At the individual contract level, including the GFS, they are far more profitable than most of the Indian contracts we have. However, you will see a consolidated margin percentage lower however. It is for the very simple reason that there are constantly transitions that are happening and hence there is always certain element of cost that is currently being incurred, the revenue for which will be coming into the coming quarters.

So, my position that should we not win anything, for example, in a quarter or two, you will actually see the margins of the other businesses to be at par or even higher than our traditional core businesses, so to speak. So, you will see this anomaly of reported profits lower than that of the core businesses profit till such time we continue to grow. But obviously, as the scale increases, the margin will reduce because the transition driven cost as a percentage of the revenue will continue to drop as the overall pie itself expands, right? So, that is the point.

And in terms of the core the GFS businesses, largely, the concentration risk is substantively lower as compared to that of the domestic mutual funds. Our top five clients contribute around 23% to 24% in total with the largest client, probably around 5% thereabouts.

Even in India, if you see, there has been a substantive reduction in the overall concentration risk with the top client contributing to around 5.5% to 6% and the second one probably around 3.5% to 4%. I would expect these numbers to come down close to 2% to 2.5% in the next 18 to 24 months latest.

Dipanjan Ghosh: And just one last question on the possible efficiencies in the core mutual fund business. How much do you think the margins can improve?

Sreekanth Nadella: So, margin, as you know, is a factor of both the price and the cost. I will talk about the productivity and you know price. I mean, the unit price as I told you itself is a factor of asset class which AMC is growing and the pricing.

So, given there is a certain amount of non-controllable item in it, we focus on the controllables, which is effectively the productivity and hence the cost takeout associated with that. I have called out the planned rollout of FinEx, which is basically rebuilding the entire mutual funds platform bottom up based on the latest and greatest technologies that we have available at this point in time. And that is about roughly a third done and deployed.

A certain bit of the gains associated with that productivity you could see is part contributing to the basis point expansion. We have the rest of the program to be concluded into the next six to seven months, at which point in time, I would like to see there is going to be a little bit more productivity gains that we will get. Of course, there had been compensatory offsetting because of cloud costs, infra costs, as we all know, the memory and the compute space, and energy and all of these costs have doubled and tripled.

So, a good part of what we are doing, however, is also getting negated because of the market forces. Should they get benign, which means that with the AI trade etc., if it slows down a bit and the memory compute costs come down a bit, we will see benefit at that point in time. Otherwise, a large part of what we are trying to accomplish is also getting offset because of the absolute uncontrollable items beyond our hand.

But I believe that pound to pound, the human element into our services is coming down, and it is getting more and more on the non-payable cost. So, I guess, what I am trying to say is that you will see headcount optimization because of the straight through that we are doing. However, a part of that is getting compensated by large-scale cost increases in the case of cloud and non-cloud computing costs.

Moderator: The next question is from the line of Mohit Mangal from Centrum. Please go ahead.

Mohit Mangal: I have got two questions. First is on the AIF and the wealth management business. So, we have seen the number of funds, they have kind of consistently increasing even though the revenue growth was good and the yields expanded. But if I look at the AUM growth, it was kind of flattish to marginally negative on a sequential basis. So, just wanted to know what are your views on this business growth and yields going forward.

My second question is basically we have spoken about our new offices in the past couple of calls. So, just wanted to know when the depreciation expense will come into the picture and what would be the quantum of it.

Sreekanth Nadella: I will take the question and I will request Vivek to cover that second question in terms of the depreciation effect. See, nearly about 80% plus of all the funds that we manage are category 3 funds. Okay? And of course, by definition, they are all exposed to public markets.

Now last quarter mark-to-market gains obviously had been tepid. In the case of mutual funds too, it had been tepid, but it got offset by the net flows being slightly higher. Whereas in the case of alternatives based on the commitments and that schedule, the net flows did not compensate for the loss of mark-to-market gain. So, it was a very tactical blip on the radar, something that I won't read too much into it.

The fact that the number of clients, the yield and the revenue has grown, despite a dip in AUM, I think actually augurs well, as I said, because as the markets turn around, you will have a compounding effect of net new clients being there, their revenue coming as well as the organic growth of the individual client themselves.

Vivek, if you could address the point on the depreciation effect.

Vivek Mathur: Sure, Sreekanth. Yes, on the new office, new Hyderabad office, that is likely to become operational effective 1st of December, and we expect two kind of increases. One is in the increase in the rent, which will be about 80 lakhs per month, and on the operating lease for the asset build out, this will also start from 1st of December.

This year for FY '27, there will be an impact of about Rs. 7 crores. Next full year it will be about Rs. 18 crores, and then you can say every year it will keep coming down by 7% because of the discounting. So, starting this year Rs. 7 crores, next year, which is FY '28, Rs. 18 crores, and then you can reduce it by 7%. The total lease period is 9 years.

Mohit Mangal: Just one follow up on this. Basically, the Rs. 80 lakhs rent you said, so basically for the next two to three years, at least we should expect the rent to be of Rs. 10-odd crores for the entire year, right?

Vivek Mathur: This is Rs. 80 lakhs per month for the next 15 years. That is the additional rent over and above what we are already paying for Selenium because of the larger space that we have taken. So, that is the hit to the P&L for the rental lease impact, which you will see in the depreciation amortization, lease, the part of it, and the CAPEX build out, which is through operating lease, is the other piece which I talked about.

Mohit Mangal: That is very clear.

Moderator: Thank you. As there are no further questions from the participants, I now hand the conference over to Mr. Vivek Mathur for closing comments.

Vivek Mathur: Thank you. As you would have seen, the results have consistently been improving in Q2 over Q1 where we have regained the EBITDA margin of 40%, and we have been giving the guidance that we want to end the full year with 40% EBITDA margin. The growth in revenue will continue to be in the range of 18% to 20% with EBITDA margins in the range of 40% to 45%, and PAT margins in the range of 25% to 30%.

We remain buoyant about the Indian market, and as the market plays out in terms of mark-to-market and net inflows with the fundamentals being intact, corporate actions are back on track, and that is why you see issuer solutions business doing well. Q2 is typically a great quarter. Q3, Q4 comes down a little bit on corporate action, but our overall guidance remains where we stand.

Thank you very much for attending the call today.

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