KFin Technologies – BUY

1 September 2023

Initiating coverage

IIFL SECURITIES

Powering long term growth

We initiate coverage on KFin Technologies Ltd. (Kfintech) with a BUY; and value the company at 30x FY26ii EPS with target price of Rs525. We like company's diversified revenue model which lowers earnings concentration risk and offers higher growth optionality. It would benefit from the financialisation of savings trend in India given its leading position in multiple financial asset servicing; as well as is likely to deliver a stronger growth in the international business given potential for market share gains.

Market infrastructure play with diversified revenue model: Kfintech provides comprehensive solutions to capital markets ecosystem including asset managers and corporate issuers across asset classes in India and abroad. It has created a well-diversified business model with market leading position in MF RTA (30% market-share on AUM serviced and 60% market share on AMCs serviced) & Corporate RTA (47% market-share) segments. Leveraging on its domain expertise and cost effective technology led solutions, Kfintech is now targeting the alternatives space, pensions, fund administration and is also rapidly expanding its RTA operations in South East Asia (SEA). Given Kfintech presence across financial assets i.e. MF, direct equity, alternatives, pensions, etc. – we see it as a key beneficiary of the financialisation of household (HH) savings trend in India.

New businesses to grow at ~2x the overall growth: The MF RTA and Corporate RTA segments, which contributes 85% of revenues, are already scaled-up businesses and would grow at 12-13% pa - in-line with industry growth. However nascent businesses such as alternatives, fund administration and international investor solutions have high growth potential given the possibility of market share gains (company is seeing traction in new clients wins in each of these businesses). In last 3 years these businesses grew by 28% Cagr and their revenue share increased from 7% to 9%; going ahead we estimate a similar growth (30% pa vs. 13% for firm), thus the share of new businesses would increase to 14% by FY26ii.

Initiate with a BUY: We value Kfintech at 30x FY26ii EPS with target price of Rs525. We estimate its earnings to grow at 15% pa over FY23-26ii, however given high PAT-to-FCF conversion (~100%), robust core ROEs (35-40%) and strong growth optionality in newer businesses the stock warrants premium valuations. Our target multiple for Kfintech is at a 15% discount to CAMS (similar earnings growth with dominant position), however valuation discount can narrow if Kfintech surprises on growth.

Company update

CMP	Rs448
12-mth TP (Rs)	525 (17%)
Market cap (US$m)	920
Enterprise value(US$m)	894
Bloomberg	KFINTECH IN
Sector	Internet

Shareholding pattern (%)

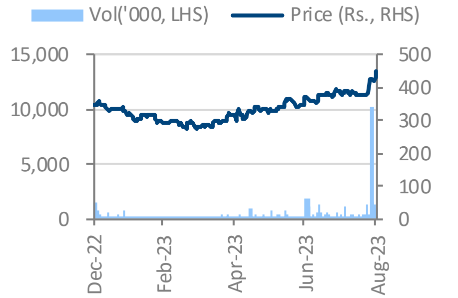
Promoter	49.2
Pledged (as % of promoter share)	0.0
FII	8.1
DII	13.6

52Wk High/Low (Rs)	448/273
Shares o/s (m)	170
Daily volume (US$ m)	2.7
Dividend yield FY24ii (%)	0.0
Free float (%)	28.9

Price performance (%)

	1M	3M	1Y
Absolute (Rs)	16.2	33.4	0.0
Absolute (US$)	15.4	33.3	0.0
Rel.to Smallcap	10.0	11.7	0.0
Cagr (%)		**3 yrs**	**5 yrs**
EPS (Rs)		34.5	

Stock performance



Financial summary (Rs m)

Y/e 31 Mar, Consolidated	FY22A	FY23A	FY24ii	FY25ii	FY26ii
Revenues (Rs m)	6,395	7,200	8,044	9,015	10,271
Ebitda margins (%)	*45.0*	*41.4*	*42.4*	*42.8*	*43.2*
Pre-exceptional PAT (Rs m)	1,485	1,957	2,220	2,570	3,003
Reported PAT (Rs m)	1,485	1,957	2,220	2,570	3,003
Pre-exceptional EPS (Rs)	8.9	11.6	13.1	15.1	17.7
Growth (%)	*17*	*30.5*	*13*	*15.7*	*16.8*
IIFL vs consensus (%)			*11.2*	*9.3*	*10.5*
PER (x)	**50.6**	**38.7**	**34.3**	**29.6**	**25.4**
ROE (%)	*30.0*	*25.8*	*22.6*	*21.6*	*21.5*
Net debt/equity (x)	0.1	0.0	(0.2)	(0.3)	(0.4)
EV/Ebitda (x)	26.0	24.8	21.2	18.3	15.4
Price/book (x)	11.7	8.7	7.0	5.9	5.0
OCF/Ebitda (x)	1.1	0.8	0.8	0.8	0.7

Source: Company, IIFL Research. Priced as on 31 August 2023

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Play on capital markets– servicing multiple asset-classes; diversifying geographically

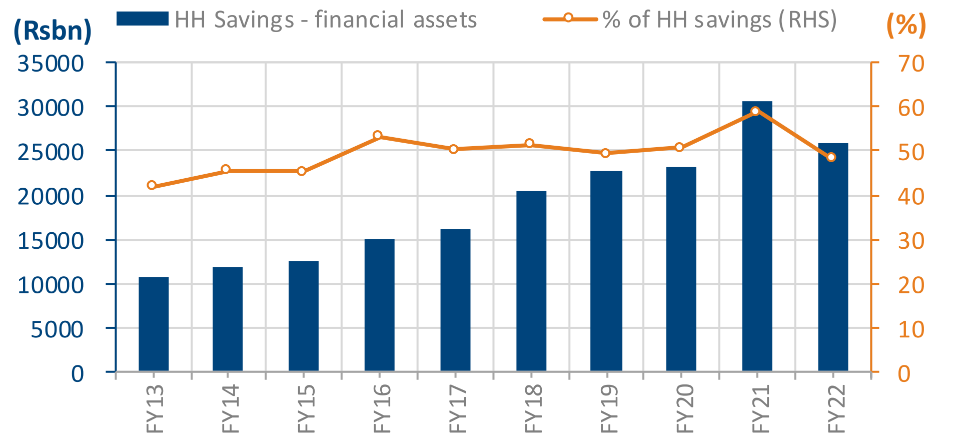
Kfintech is a leading investor solution provider to the domestic MF industry (second largest MF RTA in a duopoly market) and issuer solution provider to the Indian Corporates (largest corporate RTA). Company has a long proven track record spanning over 3 decades (although the company in its current avatar has been operational since 2018, as General Atlantic took over operations from Karvy and amalgamated two companies) thereby creating deep relationship with clients. Also, over the years, Kfintech has invested in an indigenous technology to create a platform that meets customer requirements.

In addition to the traditional MF RTA and Corporate RTA businesses, Kfintech now services other financial assets such as alternatives, wealth management, insurance, pension, etc. Today, Kfintech is a leading RTA service provider to the AIF industry (37% market share based on funds serviced). It also offers fund administration services to AIFs/MFs. In 2017, company became a central recordkeeping agency (CRA) under National Pension Scheme (Kfintech is the second largest player in a 3-player industry).

Thus in India, Kfintech has established a multi-asset operations servicing Mutual funds, equities (issuer solutions), alternatives, PMS, wealth management, insurance (fund accounting) and NPS. In this regards the financialisation of HH savings trend in India augurs well for the growth of Kfintech domestic businesses.

Further, company has forayed in the international MF RTA business in 2016 (acquiring a leading German bank's captive MF RTA unit in Malaysia), to capitalise on its domestic experience and leverage cost competitive offering (30-35% savings for clients). The South East Asia (SEA) MF industry is similar to India, wherein MF RTA plays an important role – thus it was a natural extension for the company. Over the last 7 years, company has worked on securing regulatory approvals, building trust among UT/PRS to outsource RTA operations and develop local infrastructure (sales office, etc.). With more SEA countries now approving third-party RTA operations (Thailand is the latest), and larger local players evaluating Kfintech offerings (based on the experience of smaller players), this segment is likely to see faster growth. Furthermore, as the combined SEA market has bigger AUM than the Indian MF market and the pricing is more lucrative (higher yields + escalation clause) – this would drive a more profitable growth over long period.

Figure 1: Increasing financialisation trend of domestic HH savings in India augurs well for Kfintech as it services multiple financial assets

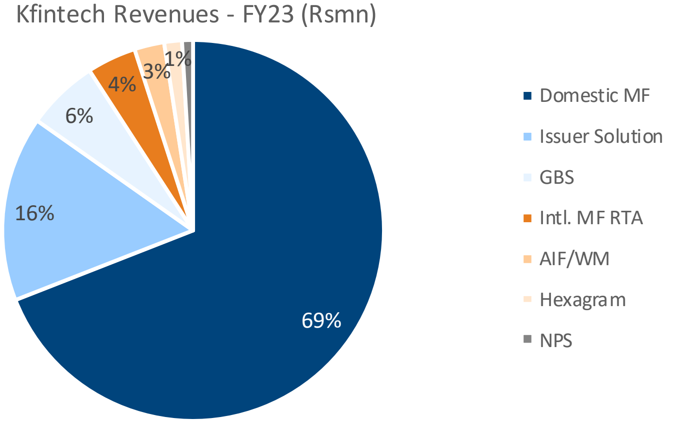


Source: Company, IIFL Research

As compared to international RTA, the fund administration (FA) offering (Hexagram offers multi-asset, multi-currency, multi-geography platform) is a bigger opportunity internationally (including America and Europe). Kfintech has already won a FA client in Canada and is in discussion with other MF and AIF players. Internationally, the FA yields are equivalent or better than RTA– thus this can be a high margin segment for Kfintech. Company's international operations (RTA + FA) now span across Hong Kong, Malaysia, Philippines, Indonesia and Canada with Thailand and Singapore likely to commence operations soon.

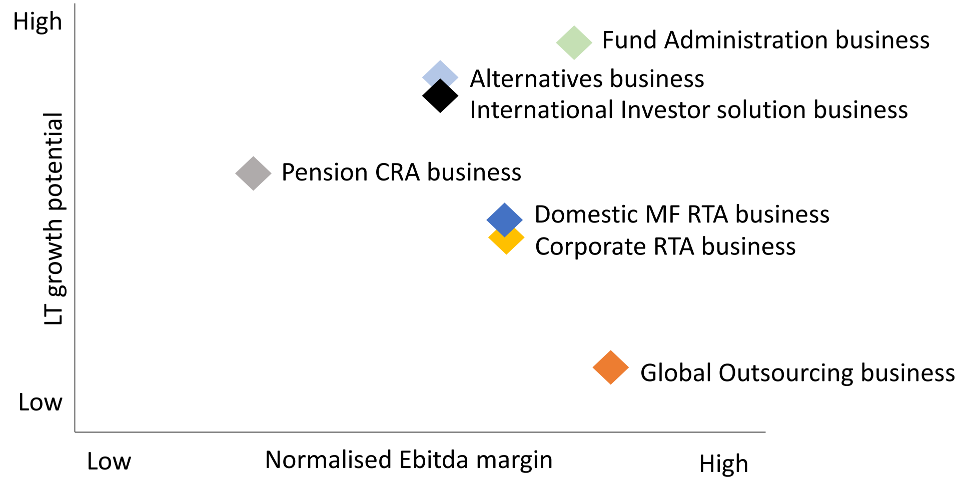
These newer businesses are growing faster (on back of client additions), thereby reducing dependency on the larger traditional businesses. This not only enhances the growth profile of the company but also lowers the volatility in the overall earnings. The core MF RTA business, which contributes ~69% of revenues, is influenced by equity market movements and faces pricing power risk given high client concentration. We note, over FY20-23 as against overall revenue growth of 17% pa, these new businesses grew at 28% pa – resultantly their share in total revenue has increased from 7% to 9%. Currently Kfintech is seeding these businesses, given the subscale operations these are margin dilutive but margins would improve to 40-45% with higher scale.

Figure 2: Domestic MF- RTA services remain key revenue segment – contributing >2/3rd of Kfintech's revenues in FY23.



Source: Company, IIFL Research

Figure 3: Segment wise margin and growth profile



Source: IIFL Research

Figure 4: Kfintech's various business segments summary – growth, margin, revenue model, growth drivers and key risks

Business	Revenue & Share				Rev Cagr	Expected LT growth	Current margins	Revenue Model	Growth driver	Key Risks
	FY23	Share	FY26ii	Share	FY23-26ii					
Domestic MF RTA business	4,972	69.0%	6,831	66.5%	11.2%	12-13%	Inline	% of AUM serviced	AUM growth; MF penetration	Market movement, pricing
Issuer Solution	1,133	15.7%	1,624	15.8%	12.8%	12-13%	Inline	Rs. per folio / Corporate action	Increasing retail participation in direct equity	Client concentration
International MF RTA	301	4.2%	556	5.4%	22.8%	30-35%	Lower	% of AUM serviced	Growth opportunity in SEA	Slow migration
AIF/Wealth services	182	2.5%	468	4.6%	37.0%	30-35%	Lower	% of AUM serviced / fee per service	More funds looking for TA and FA services	High competition, pricing
Fund Accounting (Hexagram)	108	1.5%	282	2.7%	37.6%	30-35%	Breakeven	Annual subscription	Comprehensive offering meeting requirement of Global asset managers	Slow client wins
Pension services	67	0.9%	106	1.0%	16.7%	20-25%	Loss	Rs. per subscriber / account / transaction	Potential for market share gains	Competition from market leader
Global business services	438	6.1%	402	3.9%	-2.8%	0-5%	Higher	Rs. per FTE	Low growth visibility	Single client dependence
Total	**7,201**	**100.0%**	**10,271**	**100.0%**	**12.6%**	**15-20%**	**High**			
--- New businesses	658	9.1%	1,413	13.8%	29.0%	25-30%	Lower			

Source: Company, IIFL Research

Leadership position in existing businesses; developing new growth engines

Kfintech's traditional business includes investor solution services (registrar and transfer agency services) to domestic MFs and issuer solution services to corporates in India. It has a dominant position in both the businesses– 30% market-share in MF-RTA and 47% market-share in Corporate RTAs. The two business contribute bulk of the Kfintech's revenues: MF-RTA accounted for 69% and Corporate RTA 16% (including recoverable) in FY23. As these businesses operate in duopoly/oligopoly markets (although corporate RTA has 5-6 players but top-2 players accounts for ~90% market-share), the growth potential in these segments is limited to industry growth; furthermore given high client concentration (Top-5 clients account for 65-70% revenues in MF RTA business and Top-300 clients account for 70-80% of revenues in Corporate RTA business) the potential for price increase and margin expansion is limited. Thus the growth in the core business is expected to be around 12-15% pa.

But the core businesses generates strong cash flows given lower capex requirements and annuity type income; Kfintech has utilised this cash to seed new business to diversify its revenue streams and target higher growth. Among its new businesses it remains confident of fund administration, RTA offering to alternatives and international investor solution businesses. These business currently contribute 9% to the top-line but are likely account for 14-15% of topline by FY26ii. We estimate a 30% revenue Cagr in these businesses as there is potential for market share gains.

Domestic MF RTA business: Duopoly market with LT growth potential; but limited pricing power

Kfintech offers registrar and transfer agency services (RTA) to Mutual Fund industry in India. Under the model, the Kfintech offers liability side management to MF players and on behalf of its client (MF) offers services to unit-holders, distributors, and meet regulatory compliances. As the RTAs are involved through the life-cycle of the unit-holder i.e. client origination, KYC compliance, payment processing, units issuance, record keeping and redemption; they are seen as an important partner for AMCs.

For all the services that an RTA provides to an AMC and its clients, it charges a percentage fee of AUM to the AMC. Their business model is very much aligned to that of an AMC i.e. it follows a telescopic pricing (charges decline with increase in AUM) and a higher fee is charged on equity assets compared to debt/liquid AUM. The RTA signs bilateral agreement with AMC; resultantly pricing can vary between clients.

Kfintech is the second largest player by AUM but services more AMCs, has higher yield compared to CAMS

The MF-RTA industry is 100% outsourced industry in India dividend between CAMS and Kfintech. Although CAMS is a larger player with 69% market share (1QFY24) based on serviced AUM; Kfintech services more number of AMCs - 24 of the 41 operational AMCs (IDFs not included) in India. In terms of new client wins, Kfintech has won mandate for 8 of the 15 new AMCs; while another 5-6 AMCs are yet to finalise their RTAs.

As the market is divided between the two RTAs, the market share movement is a result of the performance of the underlying AMCs. We note that Kfintech has gained nearly 500bps market share (130bps through acquisition of Sundaram and BNP Paribas RTA operations in 3QFY21) over FY20-23 from 26.7% to 31.6% (market share based on 4Q average AUM). Kfintech services 4 out of top 10 AMCs in India with Nippon AMC being the largest client (4th largest in the country) with and AUM of Rs3.1trn and market share of 7.3%.

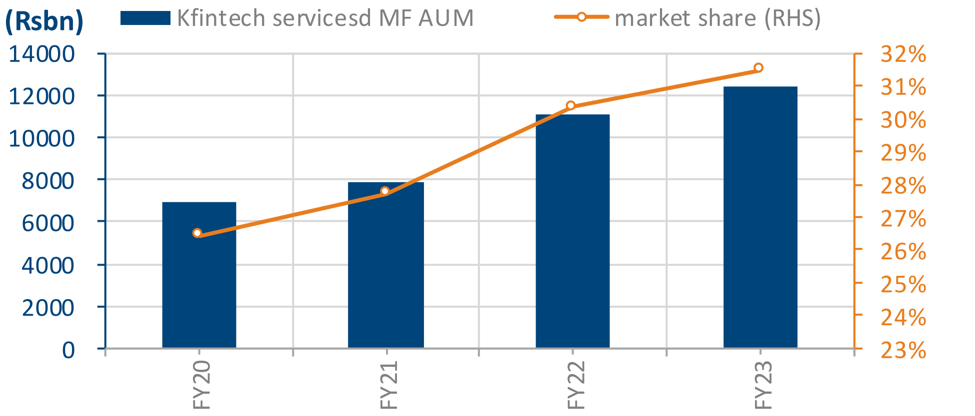
Figure 5: Kfintech Revenue break-up and growth

Rs m	FY20	FY21	FY22	FY23	FY24ii	FY25ii	FY26ii
Revenue break-up							
Investor Solutions							
- Domestic MF RTA	2,804	3,174	4,514	4,862	5,340	5,910	6,680
- Intl MF-RTA and other services	314	384	484	657	865	1,106	1,413
Issuer Solutions	510	622	745	983	1,142	1,268	1,409
Global business services	362	420	422	438	402	402	402
Net sale of services	**3,990**	**4,601**	**6,165**	**6,940**	**7,749**	**8,688**	**9,904**
Other operating revenues (recoverable)	509	211	231	260	295	328	366
- Domestic MF	NA	NA	86	110	121	134	151
- Issuer Solutions	NA	NA	139	150	174	194	215
- Others	NA	NA	5	(0)	-	-	-
Revenue from operations	**4,499**	**4,811**	**6,396**	**7,200**	**8,044**	**9,015**	**10,271**
Revenue YoY growth							
Investor Solutions							
- Domestic MF RTA	5%	13%	42%	8%	10%	11%	13%
- Intl MF-RTA and other services	13%	22%	26%	36%	32%	28%	28%
Issuer Solutions	1%	22%	20%	32%	16%	11%	11%
Global business services	23%	16%	0%	4%	-8%	0%	0%
Net sale of services	6%	15%	34%	13%	12%	12%	14%
Other operating revenues	-23%	-59%	10%	13%	14%	11%	12%
Revenue from operations	2%	7%	33%	13%	12%	12%	14%
Revenue share							
Investor Solutions							
- Domestic MF RTA	62%	66%	71%	68%	66%	66%	65%
- Intl MF-RTA and other services	7%	8%	8%	9%	11%	12%	14%
Issuer Solutions	11%	13%	12%	14%	14%	14%	14%
Global business services	8%	9%	7%	6%	5%	4%	4%
Net sale of services	89%	96%	96%	96%	96%	96%	96%
Other operating revenues	11%	4%	4%	4%	4%	4%	4%
Revenue from operations	100%	100%	100%	100%	100%	100%	100%

Source: Company, IIFL Research

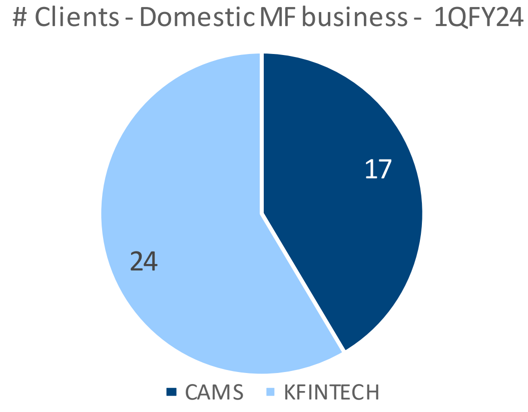
Although Kfintech and CAMS have similar pricing, the blended yield of Kfintech at 3.92bps (4.01bps including recoverable) in FY23 is higher than CAMS' (3.21bps). The higher yield is owing to 1) Kfintech servicing more of smaller AMCs and given the telescopic pricing this leads to higher yields, and 2) Kfintech has higher market share in active-equity AUM segment (35% share vs. 32% on overall basis), as this RTA earns more on equity assets this results in higher yield. As such, the top-5 accounts for both Kfintech and CAMS contribute 65-70% of their MF revenues; however it is more evenly spread in case of Kfintech.

Figure 6: Kfintech's market share has gradually increased to ~31% in FY23



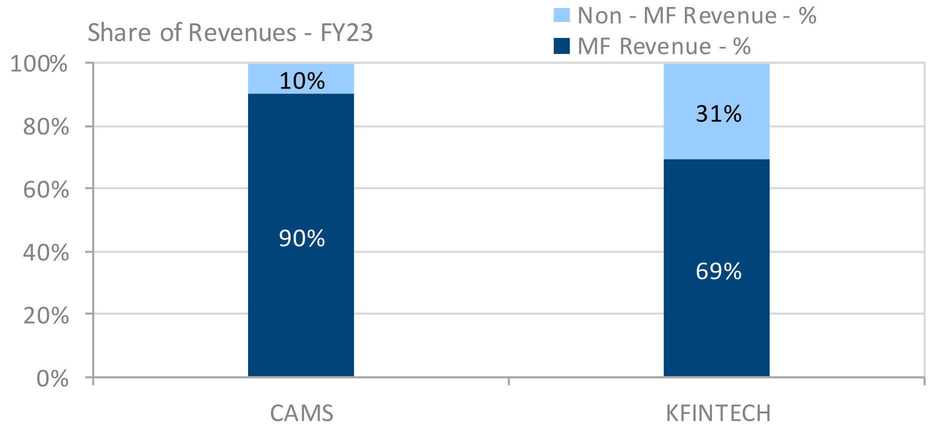
Source: Company, IIFL Research

Figure 7: In # of clients, Kfintech's has higher market share



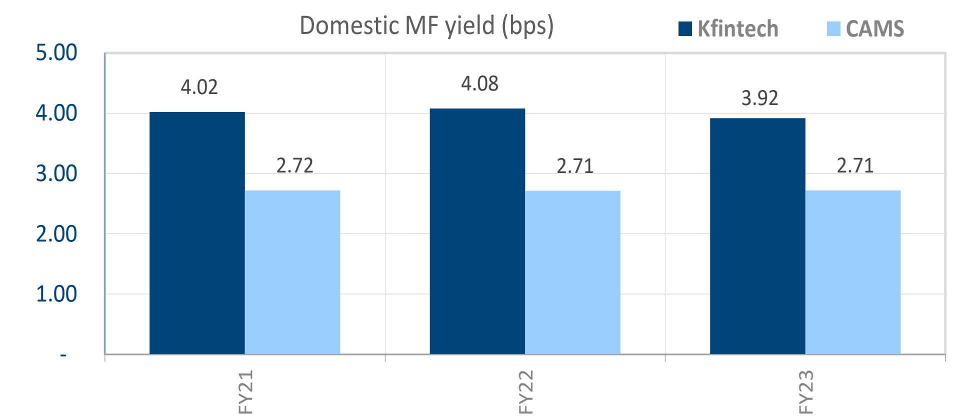
Source: Company, IIFL Research

Figure 8: Contribution from domestic MF-RTA segment is lower for Kfintech



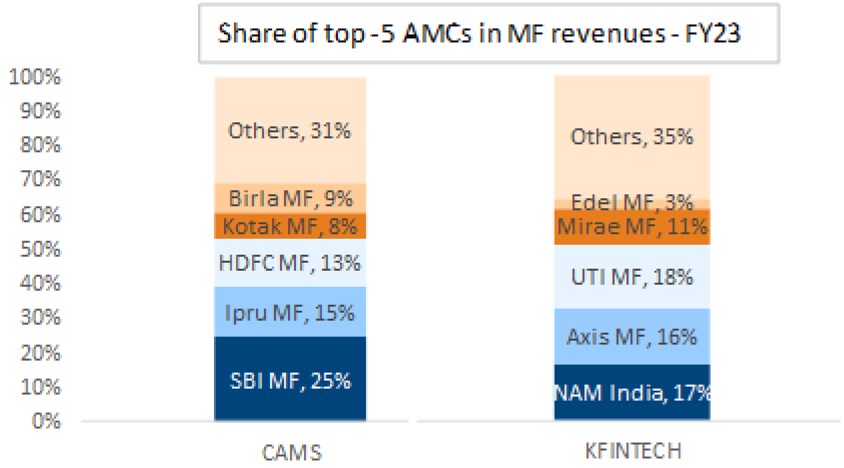
Source: Company, IIFL Research

Figure 9: Kfintech enjoys better yield compared to CAMS



Source: Company, IIFL Research

Figure 10: Kfintech has more even contribution from top-5 AMCs



Source: Company, IIFL Research

Figure 11: List of domestic MFs serviced by Kfintech

AMC	1QFU24 AUM (Rsbn)	Market share AAUM	% of KFINTECH AUM
Nippon India MF	3,136	7.3%	23.2%
Axis MF	2,482	5.8%	18.4%
UTI MF	2,481	5.8%	18.4%
Mirae Asset MF	1,228	2.9%	9.1%
Edelweiss MF	1,056	2.5%	7.8%
Canara Robeco MF	675	1.6%	5.0%
Invesco MF	501	1.2%	3.7%
Sundaram MF	456	1.1%	3.4%
Motilal Oswal MF	316	0.7%	2.3%
Baroda BNP Paribas MF	277	0.6%	2.1%
quant MF	234	0.5%	1.7%
PGIM India MF	225	0.5%	1.7%
LIC MF	186	0.4%	1.4%
NJ MF	44	0.1%	0.3%
Bank of India MF	41	0.1%	0.3%
ITI MF	40	0.1%	0.3%
IDBI MF	37	0.1%	0.3%
JM Financial MF	32	0.1%	0.2%
Quantum MF	19	0.0%	0.1%
Trust MF	12	0.0%	0.1%
Samco MF	8	0.0%	0.1%
Taurus MF	5	0.0%	0.0%
Groww MF	4	0.0%	0.0%
Total - KFINTECH AUM	**13,494**	**31%**	
Total - Industry AUM	**43,082**		

Source: Company, IIFL Research

Figure 12: Kfintech won 8 of the 15 new mandates

AMC	RTA
Recently received license	
Bajaj Finserv	KFINTECH
Samco	KFINTECH
NJ	KFINTECH
Frontline	KFINTECH
Old Bridge	KFINTECH
ITI	KFINTECH
Quant MF	KFINTECH
Trust	KFINTECH
Whiteoak	CAMS
Mahindra MF	CAMS
Zerodha	CAMS
Helios	CAMS
Navi	CAMS
License under process	
Angel One	CAMS
Toros Oro	CAMS
Unifi Capital	Yet to appoint RTA
Alpha Alternatives	Yet to appoint RTA
Wizemarkets Analytic	Yet to appoint RTA
Alchemy Capital	Yet to appoint RTA
Phonepe	Yet to appoint RTA

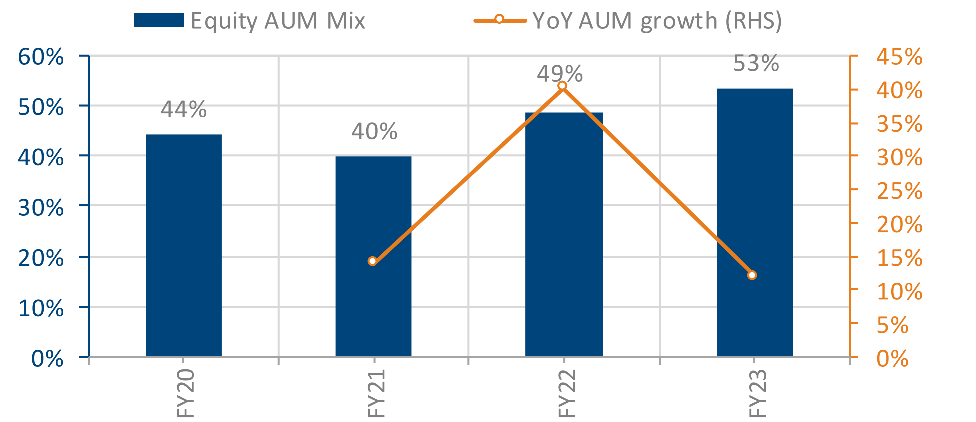
Source: Company, IIFL Research

Revenue growth mirrors AUM growth over FY20-23; but high client concentration could weigh on pricing

Given the telescopic nature of pricing, usually the revenue growth is likely to lag AUM growth. However over FY20-23 – Kfintech's MF-RTA revenues grew by 20% pa compared to 21% AUM growth. This is owing to better AUM mix which negated the impact of telescopic pricing. We note, over FY20-23, share of high margin equity segment increased from 44% to 53% (30% Cagr in Equity AUM) which supported blended yield. When we analyse the asset-wise yield of top-6 AMCs of Kfintech (accounts for 85% of AUM and 72% of revenues) – we note that the average yield for the equity segment stood at 4.74bps followed by debt at 3.07bps, liquid at 1.99bps and ETFs at 0.96bps. The blended yield for these top-6 AMCs was 3.32bps (ex GST) in FY23. Also, Equity assets contribute 75% of Kfintech's MF-RTA revenues.

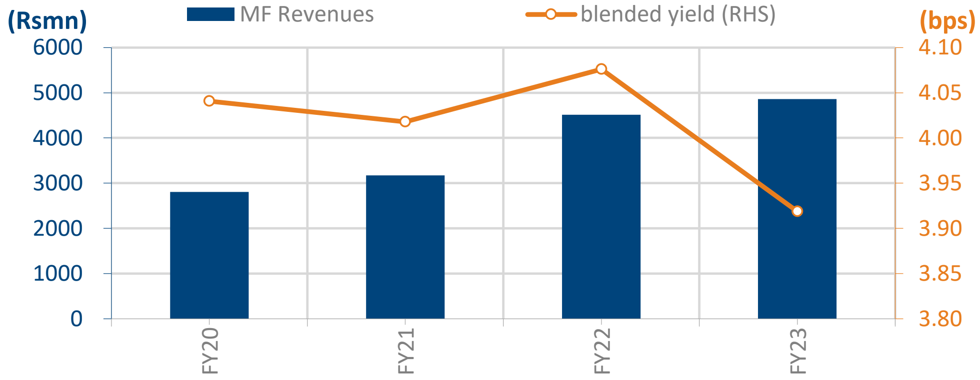
Although the yield moderation had been negligible over FY20-23; incrementally we build yield decline as we don't expect share of equity AUM to increase materially hereon. The decline in yield could also accelerate if there is any regulatory changes which impacts MF TERs (draft regulations are expected shorty). Given high client contraction, AMCs are likely to pass-on the impact of this onto the entire value-chain including distributors, RTAs, and brokers. However given that RTA cost is just 2-3% of MF TER, there is little scope to pass-on any significant cuts to RTAs. Another risk to RTA yield is the increasing penetration of passive funds, especially the ETF funds in total AUM mix. Again although we expect ETF segment to grow fastest for the MF industry, but active-funds would continue to grow and co-exists as MF is still a push product in India.

Figure 13: Share of equity AUM has steadily increased to 53% in FY23



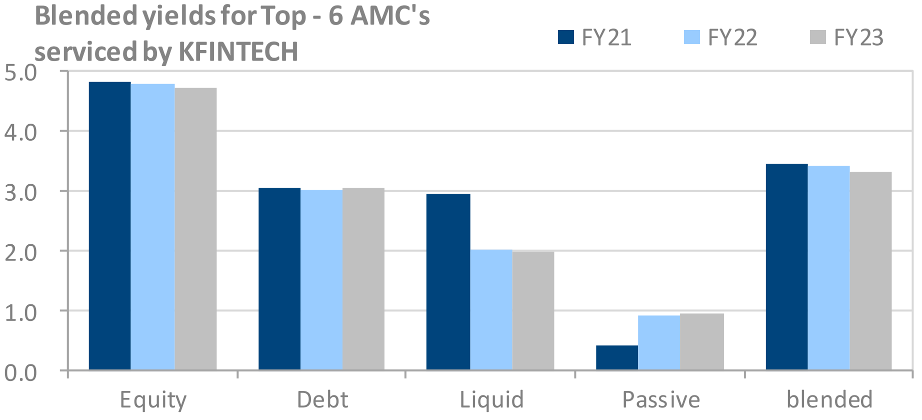
Source: Company, IIFL Research

Figure 14: Increasing equity share in total AUM has restricted yield decline for Kfintech over FY20-23



Source: Company, IIFL Research

Figure 15: The FY23 blended yields of Top-6 AMC's of Kfintech is 3.32 bps



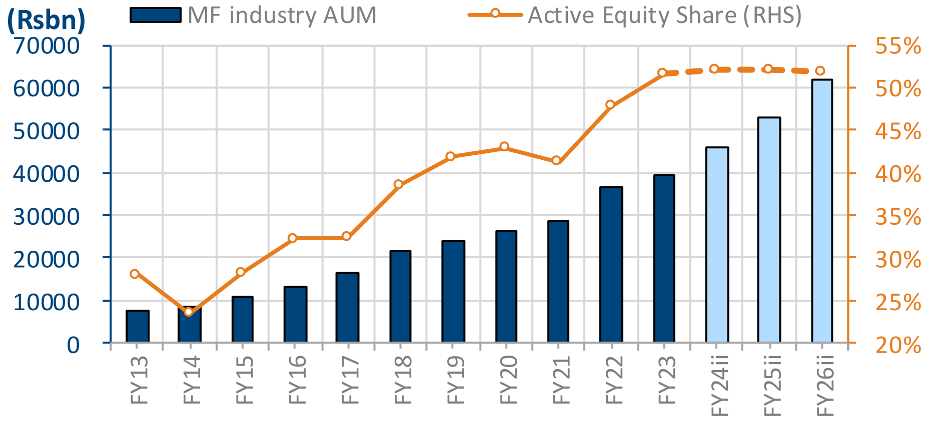
Source: Company, IIFL Research

We estimate MF industry AUM to grow at 15-16% pa; Kfintech revenues to grow at 11-12% pa

The AUM of the domestic MF industry grew by 18% pa over the last 10 years (FY13-23) driven by 25% pa growth in active equity AUM and 80% pa growth in passives; partially offset by lower growth in debt and liquid segment. Going ahead we expect, the domestic MF AUM to grow by 15-16% pa over FY23-26ii driven by similar growth in active-equity AUM and 30% pa growth in passives. Financialisation of HH savings, and emergence of equity as a preferred asset class would drive AUM growth in India.

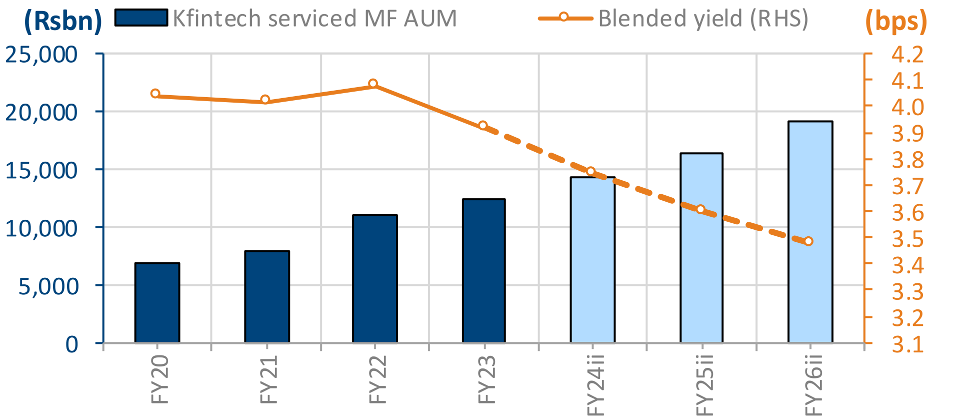
Assuming similar market share between CAMS and Kfintech, we expect a similar AUM growth for Kfintech. However as we expect a more steady share of active equity segment in the total AUM through FY26ii, we build-in 4% pa moderation in blended MF yield taking in consideration the telescopic pricing resulting in revenue growth of 11-12% pa.

Figure 16: We estimate domestic MF industry to grow by 16% cagr over FY23-26ii



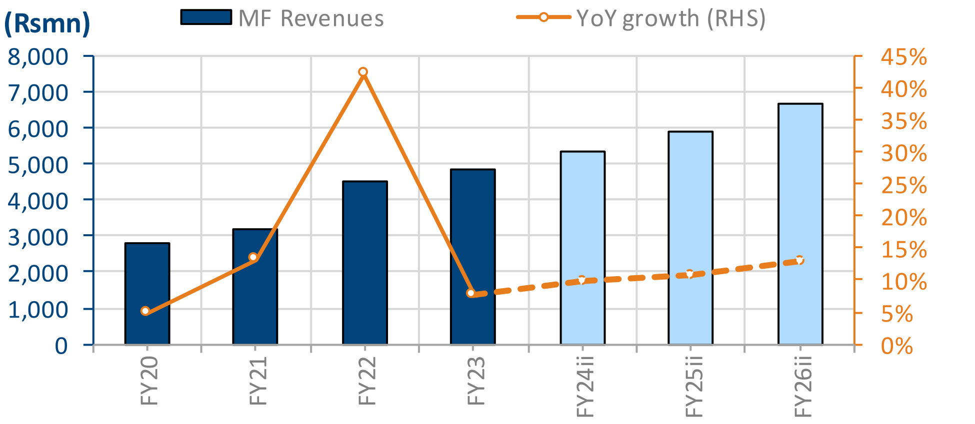
Source: Company, IIFL Research

Figure 17: We estimate Kfintech's AUM to grow in line with industry; but yields to moderate due to telescopic pricing…



Source: Company, IIFL Research

Figure 18: …resultantly Kfintech's MF-RTA revenues would grow slower at 11-12% pa



Source: Company, IIFL Research

Corporate issuer services – Benefits from increasing retail participation in direct equity

Kfintech has been providing Corporate Issuer services since 1985 (the company taken over by GA) and today is the largest player in India based on number of clients serviced. As of 31 March 2023, Kfintech has 47.31% market-share based on the market capitalization of NSE 500 companies and 38% market-share based on the number of clients serviced within NSE 500 companies. Although there are 5-6 players that offers corporate RTA services, market is largely divided between Kfintech and Link Intime.

Company offers a comprehensive set of corporate registry services such as folio management, transaction processing for corporate actions (like IPO, FPO, dividends, buybacks, rights issue, etc.) and various compliance-related reporting requirements. The revenue model is similar to a depository where company earns on per folio basis. The tariff ranges from Rs5-20 per folio depending upon the size. In addition, company charges separately for corporate action such as dividend processing, rights issues, etc. But bulk of revenues are from folio income which is an annuity-type income. Kfintech has a client base of 5,363 corporates (listed + unlisted) and services 110 million investor folios, as of March 31, 2023.

Folio additions has driven the segment growth; strong demat account additions is a good lead indicator

The issuer solution segment has seen robust growth in last 4 years driven by strong retail participation and folios growth. Over FY19-23, the folios serviced by Kfintech has increased from 52m to 110m– registering a growth of 20% pa. On back of this, the segment revenues grew by 18% pa to Rs983mn (ex of recoverable), implying a marginal moderation in the yield (-2% pa) to Rs9/folio.

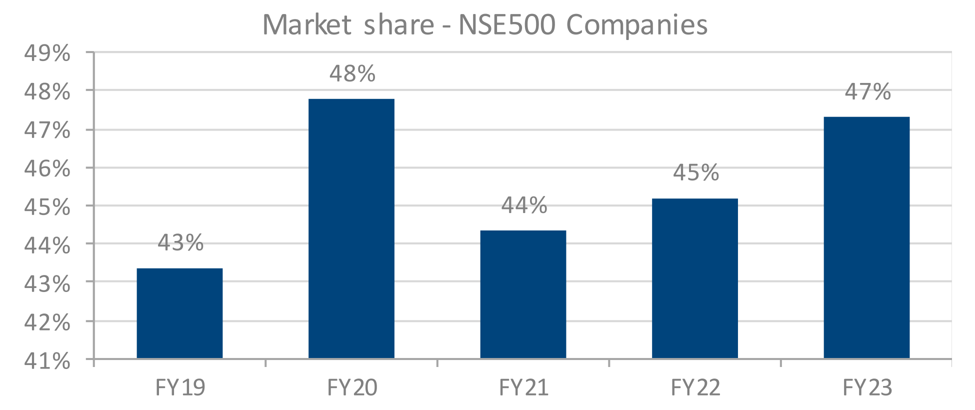
The client additions have also been very strong given Kfintech's strong offering and value added services- thus new (LIC and JIO Financials chose Kfintech as their RTA) as well as companies with other RTAs are migrating on the Kfintech platform. Over FY19-23, Kfintech added

2,178 clients to 5,363 companies – an increase of 68%. In FY23, Kfintech held 57% market share based on the size of mainboard IPOs and 26% market share based on number of mainboard IPOs.

We estimate 12-13% growth in the corporate issuer business driven by new folio additions

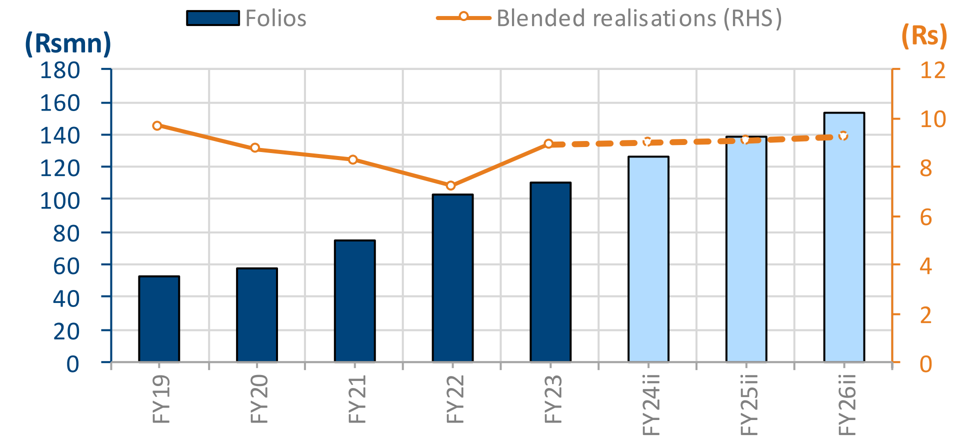
The demat accounts have tripled to 120m in last 3 years – the strong performance of equity markets, competitive offerings from discount brokers and increasing digital penetration drove retail participation. Despite the significant growth in demat accounts, we believe there is further scope for penetration given India's large population, increasing income levels, financialisation of HH savings, increasing financial literacy and attractive of equity investments. Kfintech will be a direct beneficiary of this trend as it would drive new folio additions. We conservatively build-in 12% pa growth in new folios over FY23-26ii and a similar growth in revenues assuming yields to be flattish.

Figure 19: Kfintech's share in NSE500 companies increased to 47% in FY23



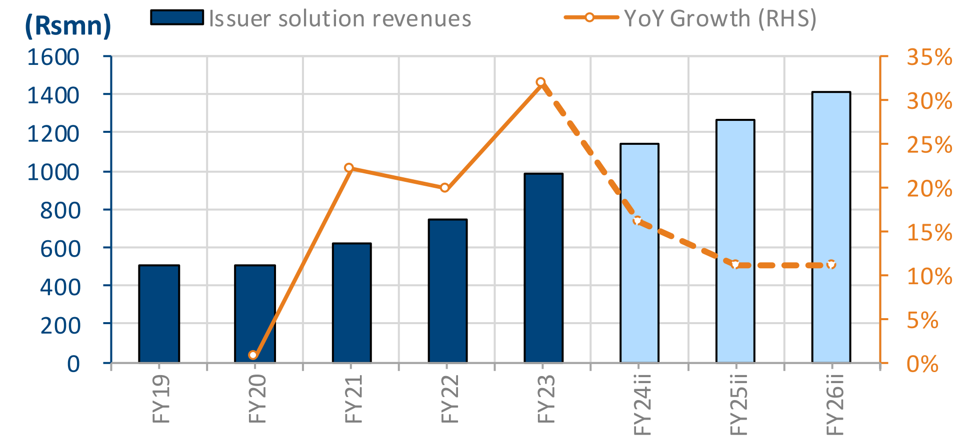
Source: Company, IIFL Research

Figure 20: We estimate revenues from Issuer solutions business to be driven majorly by folio growth – 12% cagr over FY23-26ii, while realisations to remain flat



Source: Company, IIFL Research

Figure 21: Growth in issuer solution business would be driven by folio additions



Source: Company, IIFL Research

Seeding new businesses; AIF, fund accounting and international RTA business looks promising

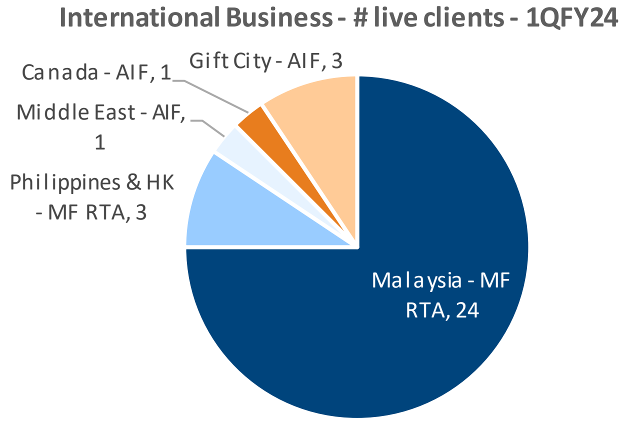
Leveraging on its domain expertise and cost effective operations, company has forayed into businesses with high growth potential. This includes expanding internationally to offer RTA services to MF/AIFs and diversifying into newer asset classes such as alternatives, pensions, etc. Company is also pursuing newer services such as fund administration, account aggregator, etc. to further strengthen is offerings. Among the new businesses, company is most optimistic about its international investor solution services such as RTA operations in South East Asia and fund administrator services globally; and domestically about the alternatives space. Management expects these businesses to grow by 30-35% pa over medium term.

A. International investor solutions: At an inflection point, strong revenue growth likely

Company forayed in the international investor solution business in 2016 when it acquired the captive arm of German Bank and started offering RTA services to asset managers in Malaysia. Today, company provides fund administration and transfer agency services in Southeast Asia and beyond. It caters to global alternative funds, mutual funds, private retirement schemes (PRS) and unit trusts (UTs) across Malaysia, Philippines, Hong Kong, Singapore, Canada, including GIFT City (India). The client base has increased from 8 to 32 now (another 16 clients are likely to go live in coming months) and revenues have increased from Rs40mn in 2016 to Rs300mn in FY23.

The South Asian market (Singapore, Malaysia, Thailand, Philippines and Indonesia) is twice the size of the Indian MF industry and follows the same market construct as in India (AMC owned customer base requiring RTA services). Also the RTA services in these market is either done internally or by a large banks/custodians for whom this is not a core service offering. Thus Kfintech with its RTA focussed offering and other value added services (for the RTA segment), at a cost effective pricing (company indicates a likely saving of 30-35% for local players) makes a strong case for local AMCs to outsource.

Figure 22: Geographical categorization of clients in International business.



Source: Company, IIFL Research

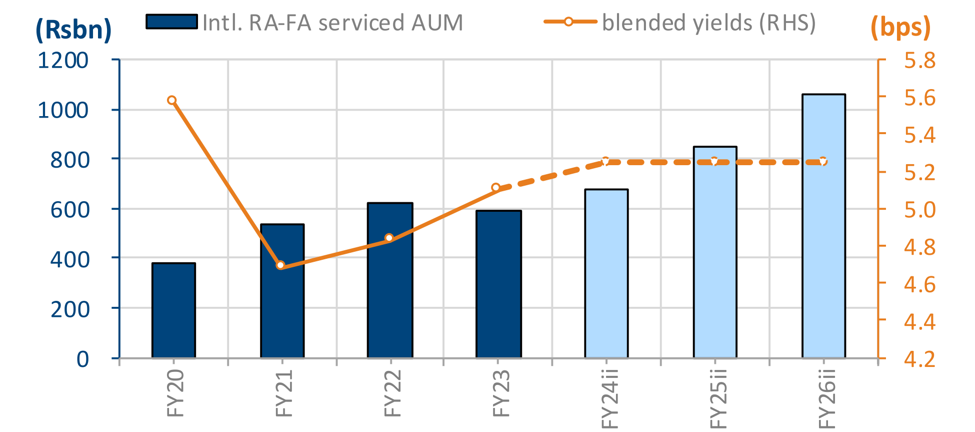
Figure 23:Asset under management across South East Asian countries

AUM (USD bn)	2016	2021	2022	CAGR (16-22)
Singapore (Domestic)	374	691	NA	13.1%*
Hongkong (Domestic)	122	192	165	5.20%
Malaysia	167	228	218	4.50%
Thailand	139	195	172	3.60%
Indonesia	24	41	32	5.20%
Philippines	5	9	5	0.30%

Source: Company, IIFL Research. *Note: For Singapore, CAGR is taken from 2016-21.

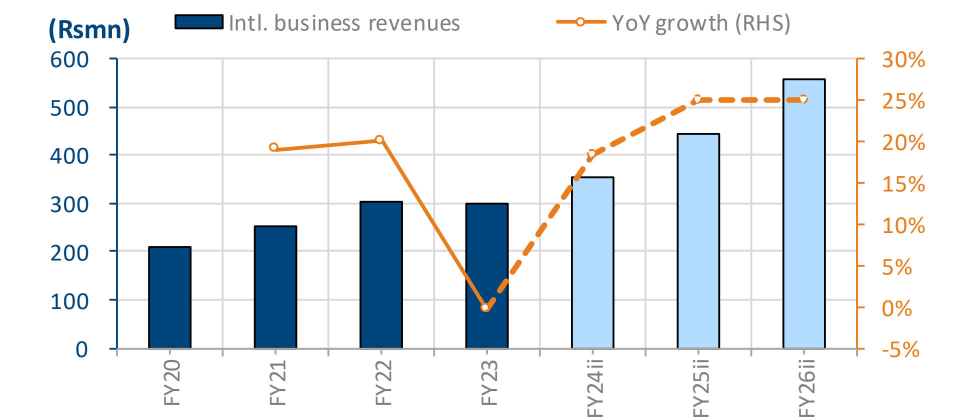
We believe the business is at an inflection point and is likely to see strong growth in terms of new client wins. In last 7 years, Kfintech has worked on securing regulatory approvals across countries, has proven the efficacy of an outsourcing model and invested in local infrastructure (local sales team). This coupled with, overlap of clients in these geographies could lead to faster ramp-up in new clients in coming years. In Malaysia, Kfintech has ~30% market share in terms of number of AMCs it services (PRS/UT), but only 3% market share based on AUM. However based on the experience of these small AMCs, Kfintech shared that now larger client are also evaluating outsourcing model. It is in discussion with 3 new clients in Malaysia. Company also offers RTA services in Philippines (2 clients) & HK (1 client) and would soon start operations in Thailand (have received regulatory approvals).

Figure 24: We expect Intl. MF RTA AUM to grow at 20-25% YoY based on pipeline



Source: Company, IIFL Research

Figure 25: … resulting in similar revenues growth



Source: Company, IIFL Research

The recent acquisition of Hexagram, has strengthened the fund administration offering of the company and is driving business beyond SEA. Company has won a mandate from an AIF for fund accounting in Canada. It has also won 3 mandates in Gift City, while is in discussion with 10 more clients. In Singapore too, 3 AIFs are likely to go live with fund administration services.

The revenue model is similar to that of domestic MF-RTA industry i.e. company earns a fee on the AUM it services; however internationally the blended yields are 25-30% higher compared to the domestic market (5-5.5bps vs. 4bps in India). Also, unlike India there is no telescopic pricing, on the contrary – there are escalation clauses to cover cost inflation, also contracts include minimum price which lower than impact on revenues in case of AUM decline. The fund administration services are equally and more remunerative with a much bigger opportunity size (services would be offered in West and other developed markets). Despite the superior pricing, the margin in the international business is currently lower than domestic MF business given sub-scale operations. We expect with the increase in AUM, margins should converge to domestic RTA business (40-45%).

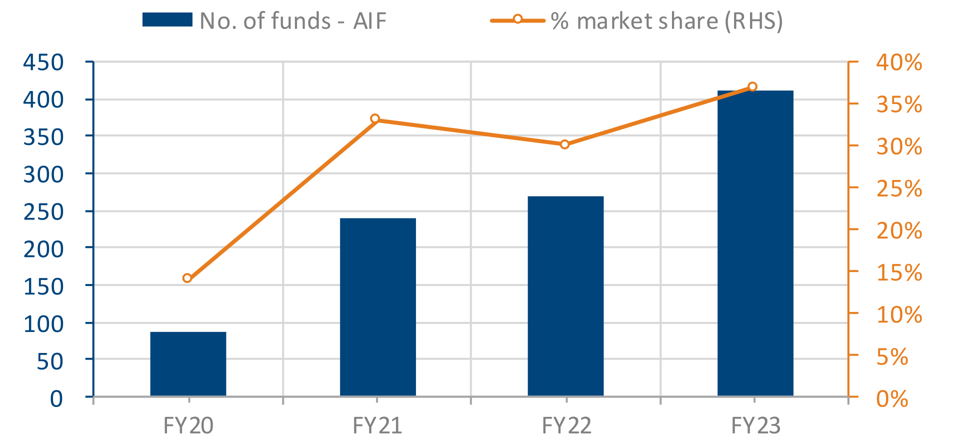
B. AIF & Wealth Mgmt. investor services: Comprehensive offering leading to market share gains

Kfintech provides end-to-end services to alternative investment managers (private equity, venture capital and other investors), wealth and portfolio managers. These include digital onboarding, fund administration, fund accounting, registry and transfer agency, stamp duty, technology solutions, customer communication management, analytics and compliances.

In the Alternative Funds, Wealth Management and Portfolio Management Solutions segment (AIF, PWM, PMS), Kfintech is the largest investor solutions provider in India in terms of the number of alternative funds serviced and offer investor solutions to 411 funds across 245 alternative asset managers, commanding over 37% market share based on the number of alternative funds registered with SEBI as of 31 March 2023.

Given Kfintech's comprehensive offerings and digital solutions, it has been winning new mandates driving its market-share. Based on number of funds, Kfintech's market share has increased from 14% in FY20 to 37% in FY23. Consequently it's AIF serviced AUM has grown at 25% Cagr to Rs615bn (EOP) as on 31st March 2023. Acquisition of Hexagram in FY22 end led to sharp increase in AUM in FY22. Revenues over FY20-23 (3-yr Cagr) grew by 25% to Rs182mn.

Figure 26: Kfintech has reported ~35% market share in AIF industry in FY23

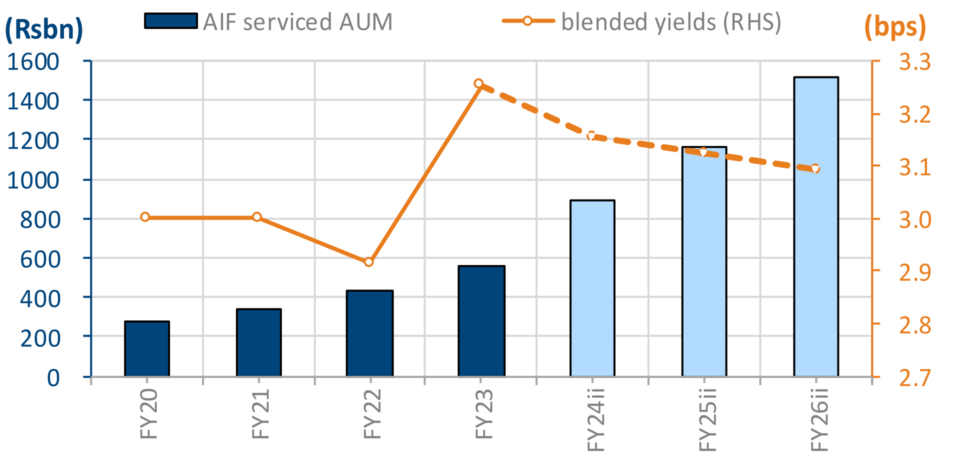


Source: Company, IIFL Research

The AIF business does not have any single revenue model as based on client requirement different fee models are charged (% of serviced-AUM, fixed fee, cost per service, etc.), however on blended basis, the yield averages around 3bps.

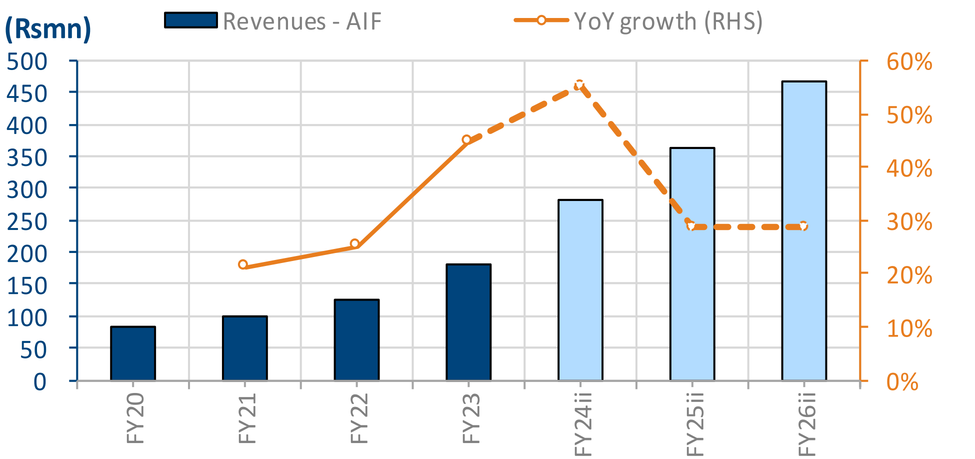
With the AIF industry growing rapidly, SEBI has been tightening the regulations to ensure higher compliance, transparent reporting and standardised valuation methodology. Such regulatory changes, along with increasing fund sizes, is incentivising AIFs/PMSs to outsource their RTA and FA operations. Thus we expect growth momentum in this segment to remain high and expect AUM's and revenues to grow by 35-40% pa through FY26ii.

Figure 27: AUM growth would be driven by new client additions



Source: Company, IIFL Research

Figure 28: We estimate AIF revenues to grow strongly driven by new client additions



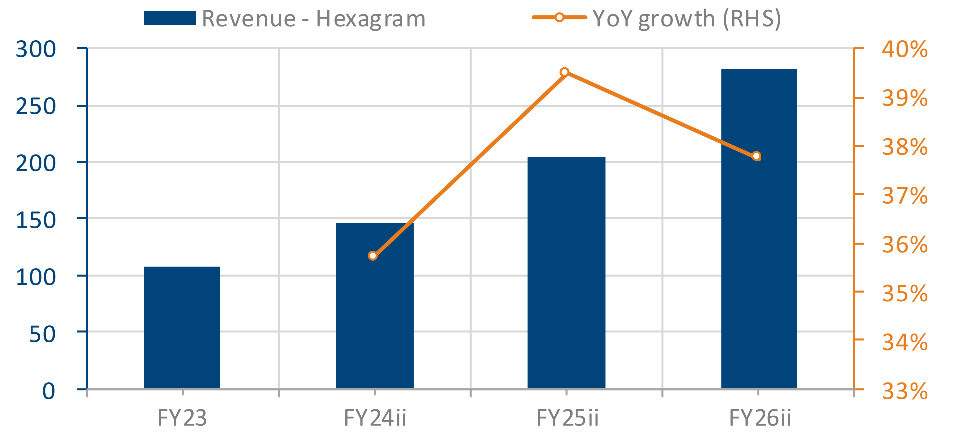
Source: Company, IIFL Research

C. Hexagram– an FA platform: Superior offering drives client additions including in the international market

With the acquisition of Hexagram in Feb-2022, Kfintech became a full-suite fund administrator, capable of offering innovative technology-backed solutions to global asset managers. Hexagram's fund accounting platform 'mPower' has capabilities for servicing multi-asset, multi-geography and multi-currency global fund managers. Hexagram's product platform and solutions expertise, combined with KFintech technology prowess and managed services domain expertise, enabled it to secure several new wins in India and internationally during the year.

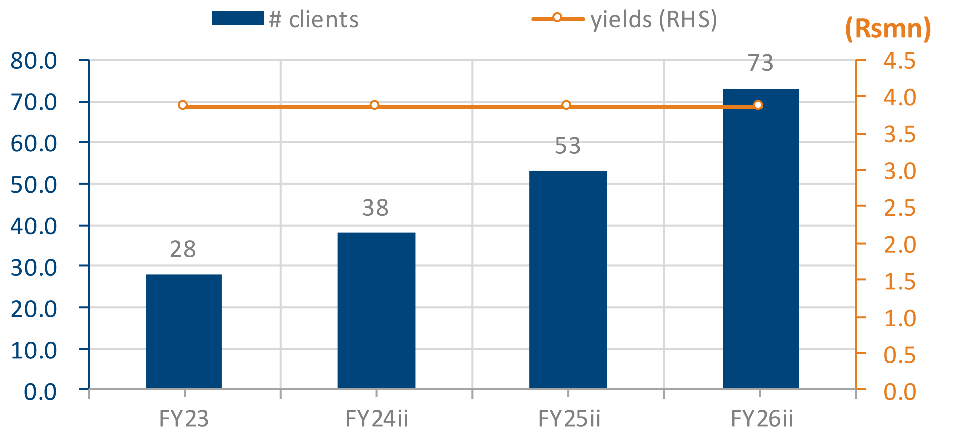
As of FY23 end, Hexagram offered its fund accounting platform 'mPower' to 28 clients including insurance companies, pensions, trusts and others in India (20 clients) and outside India (8 clients). The total revenues for the segment was Rs108mn – implying a yield of Rs3.9mn per client. Given the strong offering and appeal to global asset managers, we expect strong client additions to drive growth in this segment. In base case we assume 10-20 client addition per year and similar yields driving revenues by 38% pa over FY23-26ii.

Figure 29: We estimate Hexagram revenues to grow by 38% over FY23-26ii



Source: Company, IIFL Research

Figure 30:We estimate revenue growth to be driven through client additions



Source: Company, IIFL Research

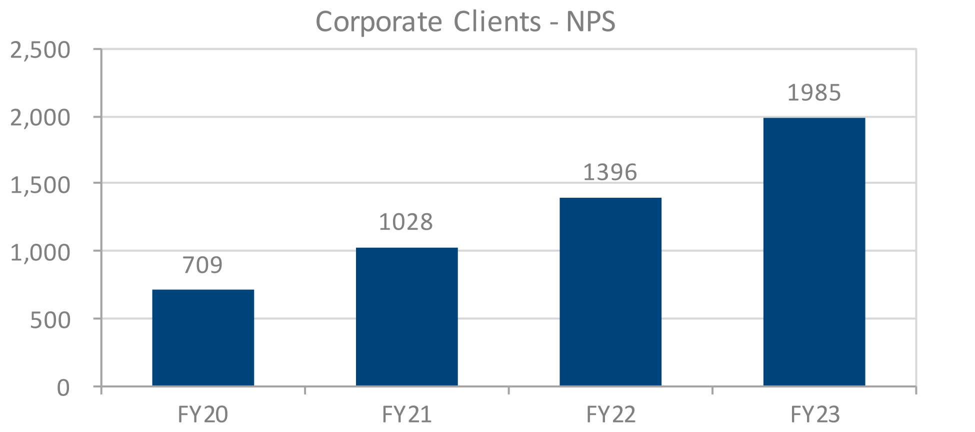
Pension CRA: Market leader enjoys dominant position; Kfintech gradually gaining market share

Kfintech is one of the three operating central record keeping agencies (CRAs) for the National Pension System (NPS) in India. However Protean eGovernance is the market leader with 92% share (ex APY/NPS-Lite accounts); while CAMS (~1% share) recently got the license to operate as a CRA. Given the Protean's first mover advantage (monopoly for 8 years), it has ~98% market share in Central and State government accounts (65% of the NPS accounts ex of NPS Lite/APY), while new CRAs like Kfintech are gaining market share in the Corporate and Retails accounts given their superior offering. As of 31st March 2023, Kfintech services 0.96mn pension subscribers and over 1,900 corporate clients.

As a NPS CRA, Kfintech provides end-to-end services for permanent retirement account number issuance, record keeping, administration, and investor support. The business has 3 revenue stream – account opening charges (Rs39.36/account), annual maintenance charges (Rs57.63/account) and transaction charges (Rs3.36/transaction). The charges are governed by pension regulator – PFRDA, however CRAs are free to charge a lower fee. Kfintech pricing is more competitive than the market leader. The total revenues in the segment has grown by 70% pa over FY20-23 driven new client additions (subscriber base grew by 66% pa to 0.96mn over same period).

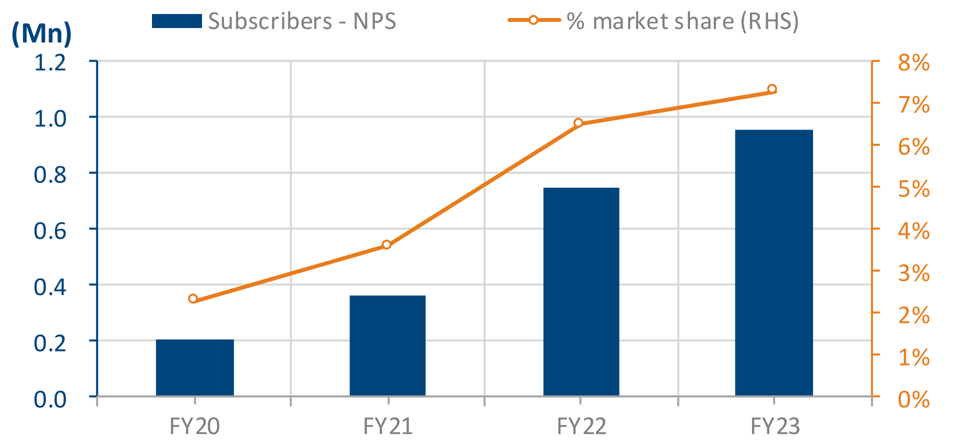
With just 13mn PRAN accounts (65-70mn including APY and NPS-Lite), the NPS penetration is limited in the country and has potential to grow with the formalization of the economy. Over the next 5 years, the PRAN accounts can double – implying a potential growth of 15-16% pa. The growth for new players like Kfintech is likely to be higher given a better technology integrated offering and value added services. We note as against 7% market share in total accounts, Kfintech had 15% market share in new account additions. We are building in 17-18% revenue Cagr over FY23-26ii in this business driven by new account additions.

Figure 31: Corporate clients have almost reached 3x over FY20-23



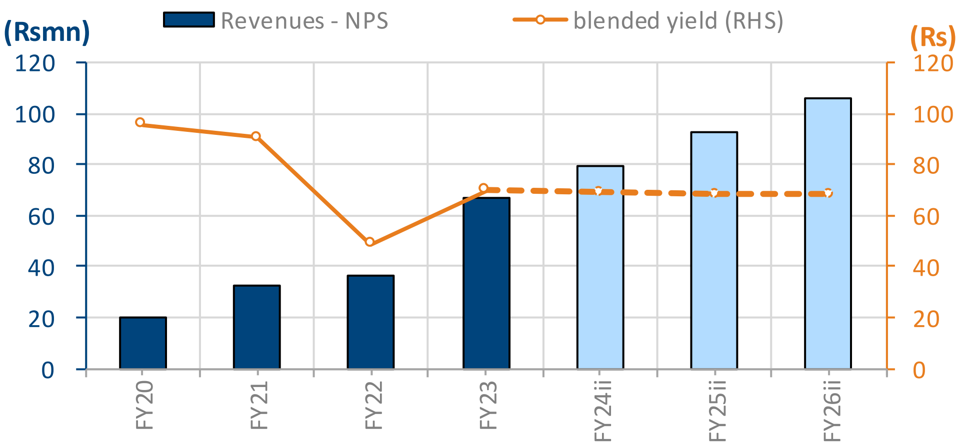
Source: Company, IIFL Research

Figure 32: Kfintech is the 2nd largest Pension CRA with ~7% market share in FY23



Source: Company, IIFL Research. Note: Market share is calculated excl. NPS-Lite & APY subscribers

Figure 33: We estimate NPS revenues to grow by 18% Cagr over FY23-26ii driven by subscriber additions



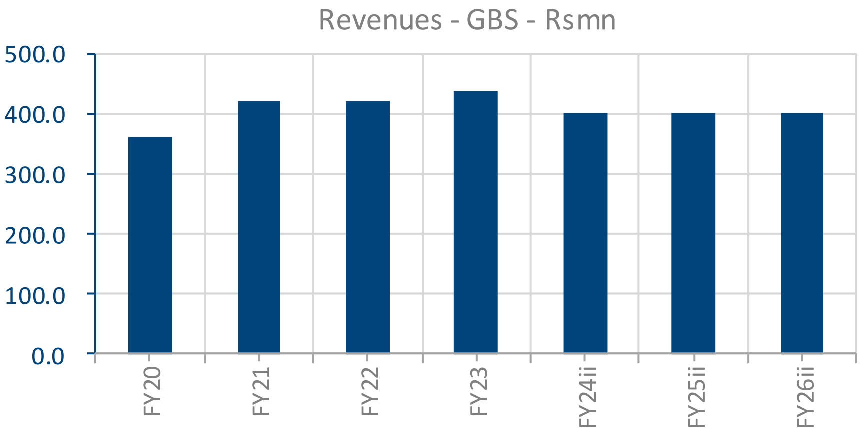
Source: Company, IIFL Research

Global Business Services: Single client dependent; low growth visibility

Kfintech runs a 'Center of Excellence' in India for one of the world's largest registrars – Computershare (erstwhile promoter in one the acquired company) and provide a range of outsourcing services including mortgages, transfer agency, legal services, finance and accounting, wealth management service solutions, etc. Company services to Computershare's various business lines across multiple regions (largely US markets).

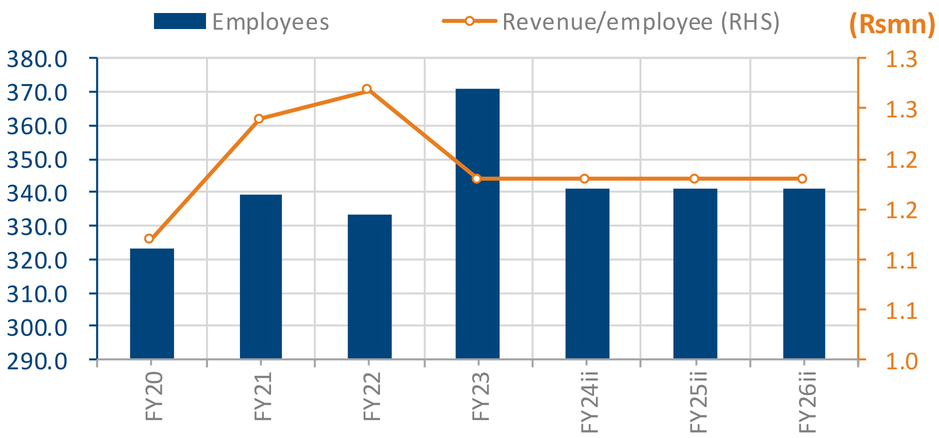
The revenue model is cost per full-time employee (FTE) deployed for the client – in FY23 blended yield was Rs1.2mn per FTE with 371 employees. The rates are mutually decided based on scope of work, man-hour efforts required, etc. Although growth potential in this business is limited as there is no visibility on new client additions, the margins are high (best across businesses in Kfintech) given India's low cost structure. We estimate a revenue decline in FY24 based on 1QFY24 run-rate and expect flattish revenues thereafter.

Figure 34: We expect revenues in GBS segment to remain flat in the near term due to limited visibility on new client wins



Source: Company, IIFL Research

Figure 35: GBS business to remain status quo in near-term



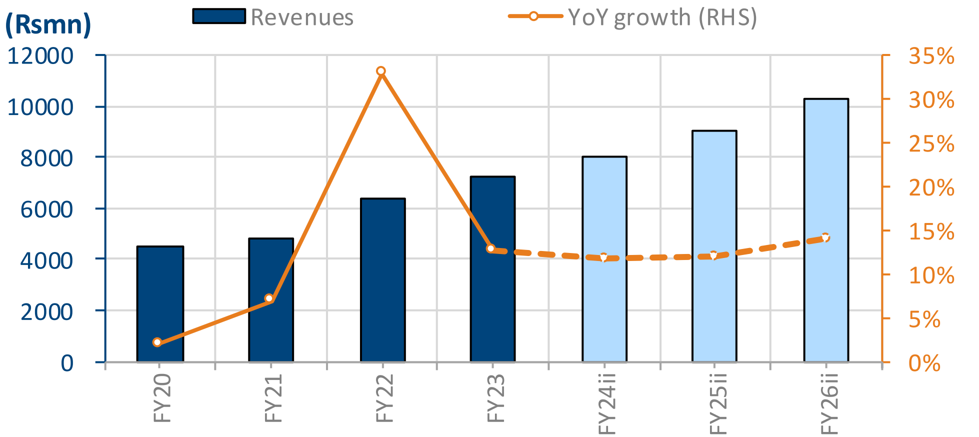
Source: Company, IIFL Research

Estimate mid-teens growth; strong cash flows & core ROEs to support valuations

Kfintech's earnings to grow at 15% pa over FY23-26ii driven by 13% revenue CAGR and 180bps Ebitda margin expansion. The new businesses are likely to drive growth as well as improve Ebitda margins, but given their miniscule contribution (less than 10%), the impact on overall earnings is limited. Going ahead, as the international and alternatives business gain size - these would become key earning drivers for the company.

- **Revenue CAGR of 13% pa; new businesses to grow at 2x** Kfintech being a dominant player in the investor solutions and issuer solution services is a play on the Capital market ecosystem in India and South East Asia (SEA). As we see limited scope for market share gains in the traditional businesses, we expect an in-line industry growth for these segments (12-15% pa). However the newer segments such as RTA services in SEA, investor solution services to fast growing alternatives asset-class, and fund administration services in India and internationally has the potential to grow faster (25-30% pa) given likely market share gains. However contribution of these new businesses is still sub 10% in total revenues and thus has little impact on overall revenue growth. We estimate Kfintech FY23-26ii revenues to grow by 13% pa.

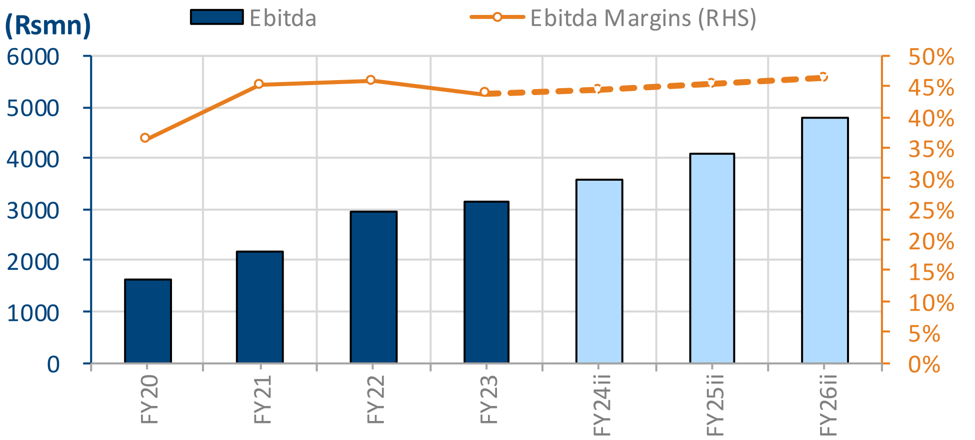
Figure 36: We estimate Kfintech's revenue to grow by 13% cagr over FY23-26ii



Source: Company, IIFL Research

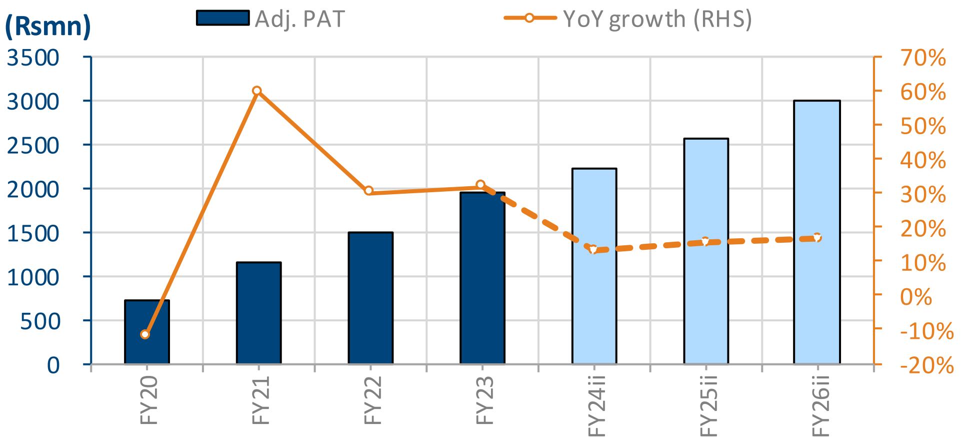
- **Ebitda margins are likely to hover between 40-45%**
  Kfintech margins in the scaled up businesses is around 40-45%; however margins are lower in the new businesses given sub-scale operations. In FY23, company reported losses in pension business and managed to just achieve breakeven in Hexagram division. However as these businesses gain scale, the margin profile is likely to be similar to that of other established businesses. We estimate an 180bps margin expansion over FY23-26ii driven by 1) no ESOP expenses beyond FY24 (115bps impact in FY23), and 2) margin improvement in new businesses. Resultantly we estimate operating profits to grow by 14% pa over FY23-26ii.

Figure 37:We estimate Kfintech's Ebitda margin to remain steady at ~45% in near term



Source: Company, IIFL Research

Figure 38: We estimate PAT to grow by 15% cagr over FY23-26ii

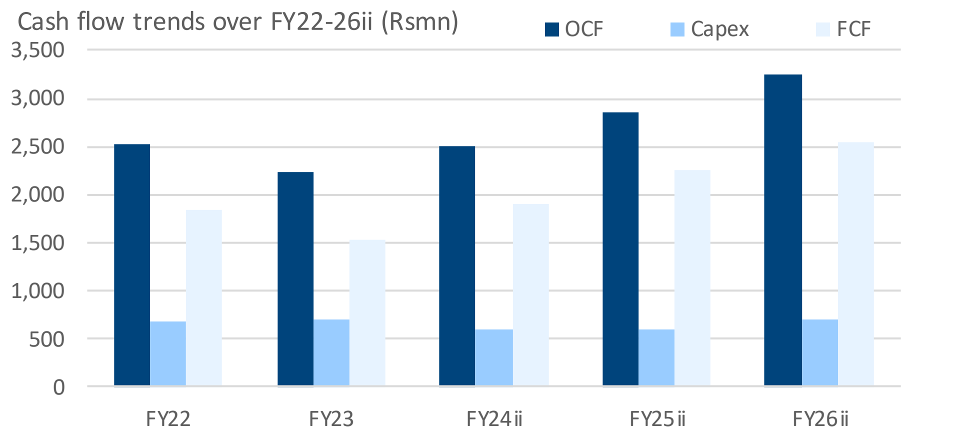


Source: Company, IIFL Research

Strong PAT-to-FCF conversion; core ROE ranges between 35-40%:
Kfintech generates strong operating cash flows given scalable technology platform and annuity type revenue streams from the MF RTA and Corporate RTA businesses. Also working capital requirements are limited and predictable (30 day billing cycle) not blocking much capital. With limited capex requirement for upgradation of technology platform and development of new modules, the free cash flow (FCF) generation is high. Resultantly PAT-to-FCF conversion is high at 100% over FY24-26ii.

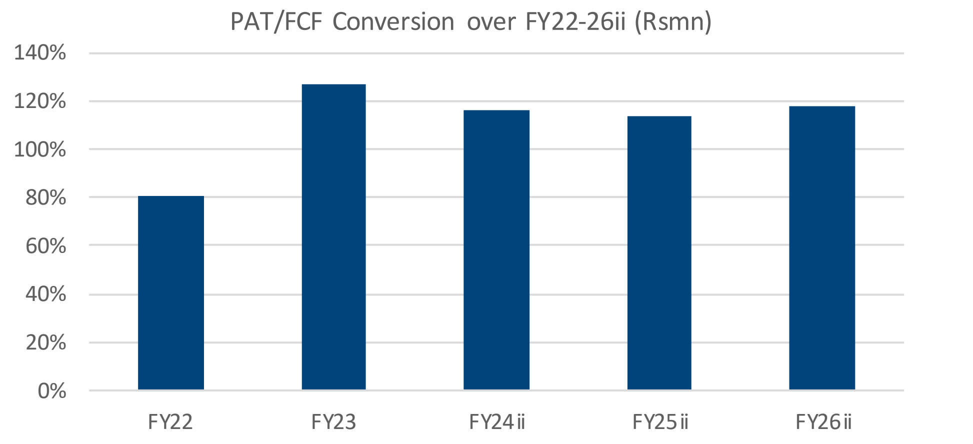
Despite generating strong FCFs, company is not paying any dividend as it is conserving cash 1) to redeem preference shares issued to erstwhile promoters amounting to Rs1.3bn (due in Oct-2023) and 2) for any strategic acquisitions. As such, Kfintech has completed 3 acquisition till date, and awaiting approval for the 4th one – the total consideration for these acquisitions is Rs900mn spread over 3 years. We assume company to start paying dividend from FY25 once it has meet its RPS redemption.

Figure 39: We estimate FCF growth at 18% cagr over FY23-26ii; higher than PAT growth, given lower capex requirements resulting in…



Source: Company, IIFL Research

Figure 40: …PAT/OCF ratio remaining above 100% in near term



Source: Company, IIFL Research

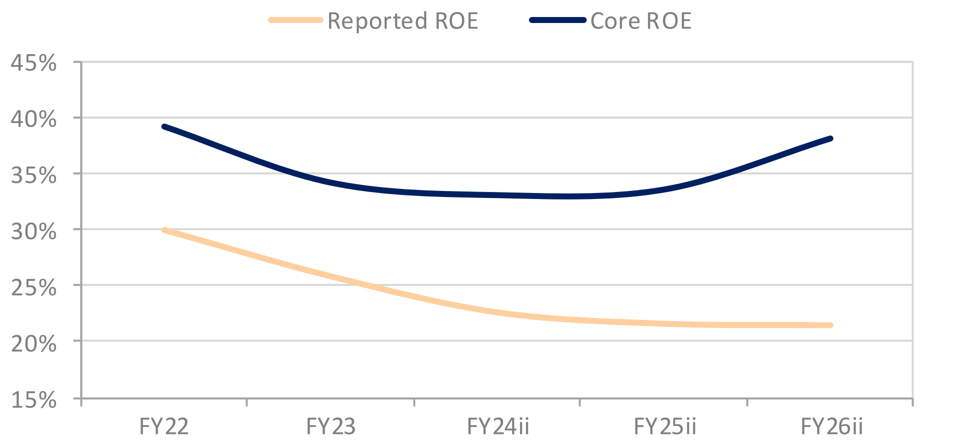
Figure 41: Details of Acquisition by Kfintech

Acquisition	Cost (Rsmn)	Year
Sundaram BNP Paribas (RTA business)	265	FY20
Hexagram (Fund Accounting software)	252	FY22
One Money (AA-TSP) - 25.63% equity	65	FY23
Webile Apps (UI/UX developer)	110	FY24

Source: Company, IIFL Research

Kfintech's reported ROEs saw sharp jump in FY21 as changes in accounting policies disallowed amortisation of goodwill leading to sharp increase in profits. Over FY21-23, Kfintech reported ROEs have been in the region of 25-30%; however going ahead we expect reported ROEs to moderate as cash on the books accumulate – we estimate cash as % of networth to increase from 35% in FY23 to 52% in FY26ii. Note that this is despite our assumption of company to pay dividends from FY25 onwards (25% payout). Core ROEs, adjusting for cash on books (no adjustment for Goodwill as it was on account of acquisition of Karvy group companies), the core ROEs would improve from 34% to 38% over FY23 to FY26.

Figure 42: While reported ROE are expected to decline on increasing cash balances, core ROEs are estimated to improve from 34% to 38% over FY23-26ii



Source: Company, IIFL Research

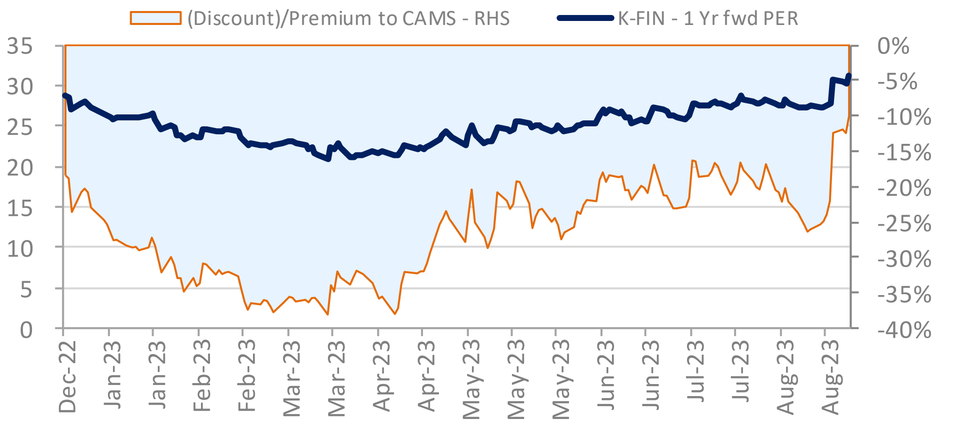
Initiate with a BUY; TP of Rs525

We value Kfintech at 30x FY26ii EPS implying a fair value of Rs525 and initiate with BUY. Our target multiple is at 15% discount to CAMS' target multiple, although both companies offer similar earnings growth but we ascribe premium valuations to CAMS given its market leadership position in the core MF RTA segment. We expect Kfintech's discount to narrow, if the company is able to deliver a higher growth aided by its new business segments. As such, sharp market movement and/or tightening of TERs due to changes in MF regulations are key risks to Kfintech's earnings.

Figure 43: On 1YF PE basis, Kfintech trades at ~32x, discount to its peer CAMS

Source: Company, IIFL Research

Figure 44: Recent sharp upmove in Kfintech has narrowed valuation discount to CAMS



Source: Company, IIFL Research

Figure 45:Valuation Matrix – AMCs and Exchanges

Companies	CMP	MCap	Reco	TP	PE(x)		EPS Cagr	MCap/AUM
	Rs	US$ Mn		Rs	FY24ii	FY25ii	FY23-26ii	FY23
Exchanges								
BSE	1,062	1,755	ADD	825	44.0	41.1	21%	NA
MCX	1,683	1,047	BUY	1,850	28.5	28.8	8%	NA
IEX	126	1,371	ADD	120	33.1	29.2	15%	NA
CDSL	1,140	1,454	NR	-	38.9	33.9	14%	NA
AMC								
HDFC AMC	2,524	6,574	BUY	2,350	33.7	30.5	12.3%	12.4%
Birla AMC	390	1,371	ADD	410	17.5	15.8	9.4%	4.0%
Nippon AMC	315	1,934	NR	NA	23.8	21.6	-100%	5.5%
UTI AMC	760	1,175	NR	NA	17.5	16.1	-100%	4.1%
CAMS	2,375	1,420	BUY	2,600	37.9	32.2	14%	NA
Kfin Technologies	**448**	**925**	**BUY**	**525**	**34.3**	**29.6**	**15%**	**NA**

Source: Company, IIFL Research

Annexure: Company snapshot

KFin Technologies Limited (KFintech) is a diversified digital platform excelling in providing technology driven comprehensive financial services and solutions for capital market ecosystem across asset classes in India and globally.

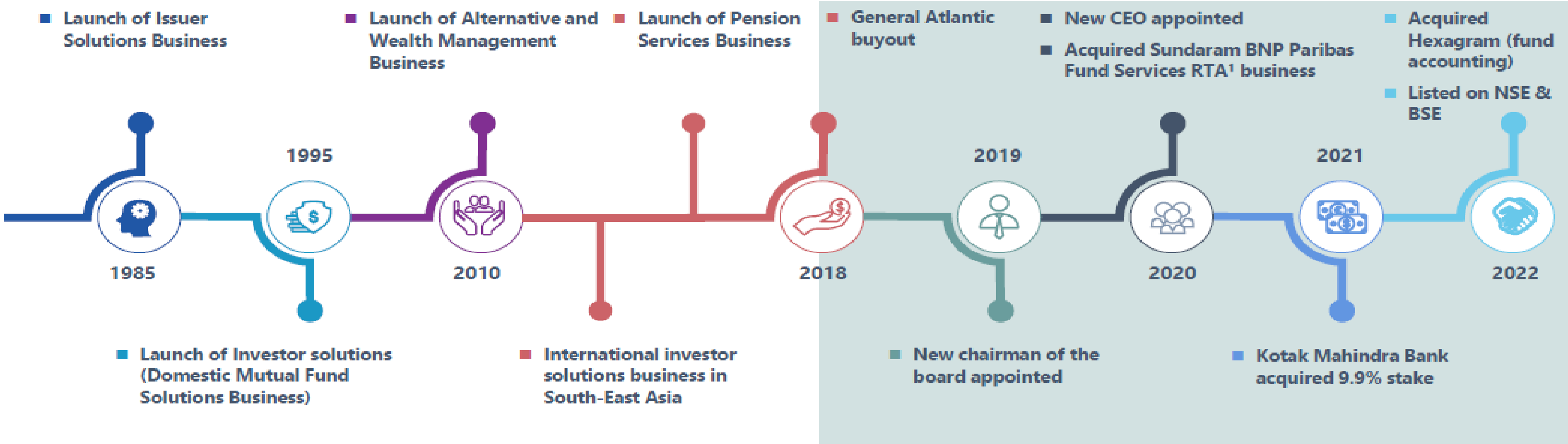
Kfintech has become de-facto partner to AMC's for providing RTA (Registrar and Transfer Agent) services, catering to ~60% market (no. of clients) and ~32% market share by AUM. KFin Technologies was originally incorporated in 2017 as KCPL Advisory Services Private Limited. Post incorporation, RTA business of Karvy group was demerged into 'KCPL' and consequently acquired by General Atlantic (GA), PE fund, in Nov – 2018, holding 83.25% while balance held by CP Group. Further Kotak Bank made significant investments in the company, acquiring ~10% stake in 2021.

Post GA's acquisition, company was rechristened as Kfin Technologies to disassociate business from its erstwhile promoters – Karvy group.

KFintech went public through IPO route in Dec 2022, launching OFS for 24.46% equity stake worth Rs15bn (~41mn shares offered at Rs366/share) by existing promoters – General Atlantic – liquidating its holding from 74.37% to 49.91% post-listing.

KFintech primarily serves as Registrar and Transfer Agent (RTA) for asset management companies and corporate issuer services for listed companies in India. Domestic MF investor solution business and issuer solutions business has traditionally been key growth driver for the company and now constitutes ~85% of revenues. Besides traditional revenue segments, company is also targeting growth - either through increasing the wallet share from existing customers by introducing innovative and customised product suite tapping on the increased scope of financial services or through geographical expansion by entering new markets globally. Kfintech's vast range of services across financial and capital markets ecosystem can be broadly categorised into following categories (see figure 46):

Kfintech – historical timeline



Source: Company, IIFL Research

Figure 46:Kfin detailed product and services across all segments

	Investor Solutions				Issuer Solutions	Global business
	Domestic mutual fund	International asset managers	Pension services	Alternatives/ WM and PMS		
Front-End	Account Setup, Transaction Origination, Channel Management, Customer Communication Management	Account Setup, Transaction Origination Digital Onboarding	Account Setup Transaction Origination	Account Setup Digital Onboarding	Folio Creation and Maintenance	-
Middle Officer	Fund Administration Fund Accounting Transaction Processing Unit, Allocation KYC, Redemption Brokerage, Calculations Payment Processing, Fund Accounting Reconciliation	Fund Administration Fund Accounting Transaction Processing Unit, Allocation KYC Redemption Brokerage Calculations Payment Processing	Transaction Processing Unit, Allocation Redemption Reconciliation	Fund Administration Fund Accounting Transaction Processing Unit Allocation Redemption Brokerage Calculations Reconciliation	Transaction Processing for IPO, FPO, etc. Corporate Action Processing Folio updates Dividend / Interest Processing	-
Back End	Compliance / Regulatory Reporting Recordkeeping MIS / Decision Support	Compliance / Regulatory Reporting Recordkeeping MIS / Decision Support	Compliance / Regulatory Reporting Recordkeeping	Compliance / Regulatory Reporting Recordkeeping	Compliance / Regulatory Reporting Recordkeeping MIS / Decision Support	Mortgage Services Legal Services Transfer Agency Finance and Accounting
VAS	Distributor Platform Investor Platform IT Infra and Web Hosting Data Analytics Datalake AML / PML Check	Online Tx Platforms Website and Apps Other Platform Solutions Data Analytics Datalake AML / PML Check	-	Revenue Assurance Data Analytics Datalake AML / PML Check	e-Voting, e-AGM, e-Vault Fintrack Insider Trading Platform AML / PML check Other Platform Solutions	-

Source: Company, IIFL Research

Kfintech's revenues segments:

- **Domestic MF- RTA Business:** Provides wide range of investor solutions to domestic AMC's and is currently leader in terms of #clients (24 out of 41 operational AMCs), covering ~30% of AUM market share in duopoly market.

- **Issuer Solutions business:** offers multiple services to various listed and unlisted corporate entities catering to various asset classes and corporate activity, with market share of 46.5% in NSE500 companies.

- **Alternatives – AIF/WM/PMS:** Given increasing preference and better accessibility for alternative products, Kfintech provides end-to-end investor solutions and reconciliations services to AIF, PMS/WM. At end of FY23, it services ~ Rs615bn of alternatives AUM and holds ~37% markets share AIF segment.

- **International business - RTA and FA business – Hexagram acquisition :** Post solidifying its position in India, it has ventured overseas and has made significant progress in ASEAN markets as preferred partner for RTA solutions and fund administration solutions – especially in Malaysia, Hong Kong, Philippines markets and is targeting better foothold in Singapore and Thailand markets. It is likely to start operations in Singapore in the near term, while it has received in-principle regulatory approval in Thailand. Furthermore, it has also acquired 100% stake Hexagram – developer of fund accounting platform and reconciliation products – in FY22, to better leverage its product offerings to global clients, especially penetrating western markets. It aspires to be first Indian entity to become global fund administrator.

- **NPS:** Kfintech has also been appointed as operating central record keeping agency (CRA) to manage NPS scheme by pension regulator – PFRDA. Currently, it is second largest CRA with 7% market share, having surpassed more than 1 million subscribers recently.

- **Others:** Kfintech has also acquired 26% stake in OneMoney, account aggregator platform, in Feb-23 and 100% stake in Webile Apps (mobile app development platform, chatbots, UI/UX) in Apr-23.

Figure 47:Kfintech revenue's model across segments

Business	Revenue Model
Mutual Fund Solutions (Domestic Mutual Fund Solutions and International Investor Solutions)	• % of AUM • Transaction-Based • Fixed fee for number of AMC branches serviced • Fee for information technology products and services such as Digix, datalake, Kbolt-Go, website, mobility solutions, CRM tools, Insta Brokerage and other value-added products and services
Issuer Solutions	• No. of Folios • Number of corporate actions • Hybrid model for value-added products and services
Alternatives and wealth management	• % of AUM for TA and FA • Platform fee • Fee for digital solutions such as digital onboarding, Digix, datalake, and other such value-added products and services
Pension Services	• Fixed account opening charges • Annual maintenance fees • Fee per transaction
Global business services	• Per full-time employee (FTE)

Source: Company, IIFL Research

Figure 48:Kfintech's Management

Name	Designation	Description
Mr. Sreekanth Nadella	Managing Director & Chief Executive Officer	Associated with Kfintech as its MD & CEO from 2018, with two decades of prior experiences including IT majors like Accenture, IBM,etc. He is Chartered Accountant by profession.
Mr. Vivek Mathur	Chief Financial Officer	Seasoned finance professional with 30 years of experience across various companies ranging from insurance, banking, hospitality, mobile telephony and internet broadband services.
Mr. Vonkayala Venkata Giri	Chief Technology Officer	Associated with Kfintech from 2018, and has rich experience of more than two decades in IT sector - especially in data science and analytics domain
Ms Kiran Aidhi	Chief People's Officer	More than 2 decades of experiences in core HR domain across various industries like IT, telecom, outsourcing and hospitality sectors.
Mr. Quah Meng Kee	Country Head, Malaysia & Philippines	Serving for more than 2 decades of experience in capital markets in Malaysia, and has been involved in various strategic position at its previous stints.
Ms. Hanisha Vadlamani	Chief Brand Officer	More than decade experience in communication domain and has been associated with Facebook and Reliance communication in its previous roles

Source: Company, IIFL Research

Figure 49:Kfintech's Board of Directors

Name	Designation	Description
Mr. M. V. Nair	Director and Chairman	Nearly 5 decades of experience in financial industry and has previously served as non-executive Chairman of TransUnion CIBIL Limited and SWIFT India.
Mr. Sreekanth Nadella	Managing Director & Chief Executive Officer	Associated with Kfintech as its MD & CEO from 2018, with two decades of prior experiences including IT majors like Accenture, IBM,etc.
Mr. Shantanu Rastogi	Non-Executive Nominee Director	Currently serving as MD of General Atlantic PL and has two decades of experiences in financial services, technology, healthcare and consumer sectors in India and APAC region.
Mr. Srinivas Peddada	Non-Executive Nominee Director	Nearly 15 years of working in IT industry and is is a certified IBM IT architect professional and a certified project management professional.
Mr. Alok Chandra Misra	Non-Executive Nominee Director	Currently Chief Operating Officer of General Atlantic's India office. He served as CFO for large IT services companies like WNS Group and MphasisBFL group.
Mr. Prashant Saran	Independent Director	More than 3 decades of experience in regulatory domain. His earlier stints include serving as WTD of SEBI and Chief General Manager at RBI.
Ms. Sonu Bhasin	Independent Director	Overall 2 decades of experiences, majorly serving at various leadership roles within Tata Group.
Mr. Kaushik Mazumdar	Independent Director	Currently founder at Svakarma Finance Pvt. Ltd and holds more than 3 decades of experience in banking, finance, operations, M&A, investment advisory.
Mr. Jaideep Hansraj	Non-Executive Nominee Director	Currently serving as MD & CEO of Kotak Securities and having nearly three decades of experience in retail operating in banking and capital markets.

Source: Company, IIFL Research

Figure 50:Post listing shareholding data

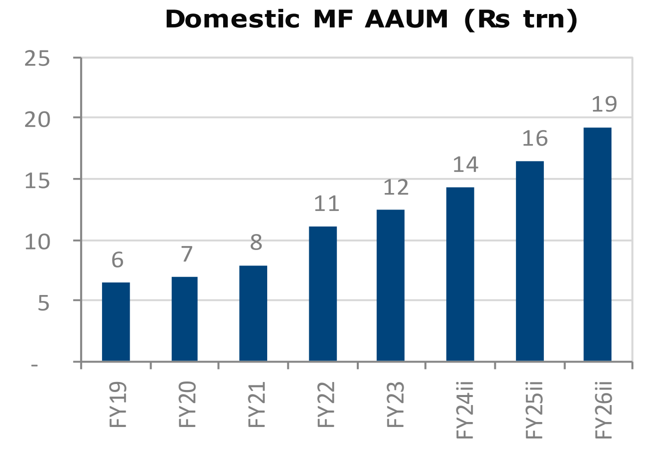
Shareholding data - 31st Dec'2022	Holding - %
Promoter	**49.22**
- General Atlantic (PE fund)	49.22
(51% of its holding to remain in lock-in till Jun-24)	
DII	**23.42**
- Kotak Bank	9.84
- Axis MF	1.05
- 360 ONE India PE Fund	1.4
- Icici Prudential Life Insurance	1.3
- Pari Washington Investment Fund	1.02
- Others	8.81
FII	**8.07**
- Pari Washington India Master Fund	1.13
- Goldman Sachs	1.07
- Others	5.87
CP Group (erstwhile promoter group - Karvy)	**12.01**
Retail	**7.28**

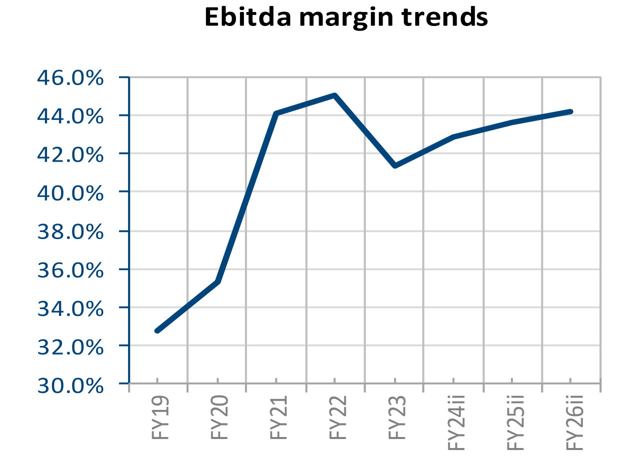
Source: Company, IIFL Research

Background: Kfin Technologies Limited is primarily involved in Mutual Fund Registrar and Transfer Agency (MF-RTA) business, having 1/3rd market share in duopoly market. Currently, it services 24 out of 41 AMCs with combined serviced AAUM of Rs12.4trn and also offers services to listed and unlisted corporate entities catering to various asset classes.. In addition,the company also offers RTA services to AIF and PMS. Morever, it has increased its presence in the international markets; especially ASEAN countries to provide RTA and fund administration services to AMCs. It also provides NPS services and surpassed 1mn folios recently.

Management

Name	Designation
Mr. Sreekanth Nadella	Managing Director and CEO
Mr. Vivek Mathur	Chief Financial Officer

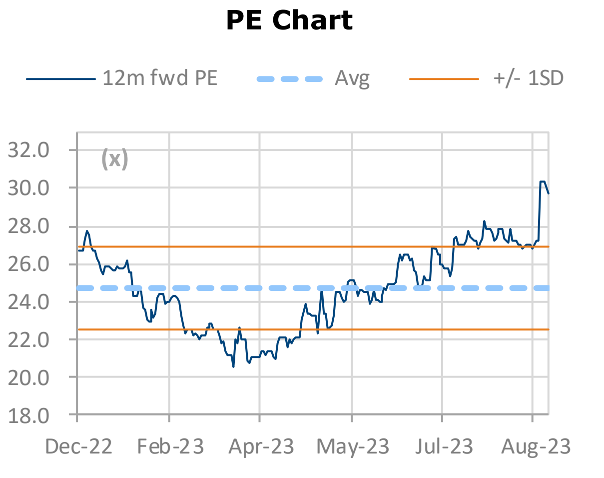


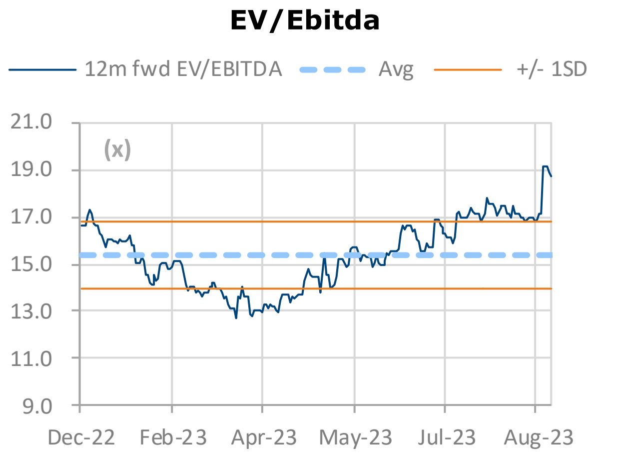


Assumptions

Y/e 31 Mar, Consolidated	FY22A	FY23A	FY24ii	FY25ii	FY26ii
Domestic MF AUM growth (%)	40.2	12.1	15.0	15.0	17.0
AMC yield (bps)	4.08	3.92	3.74	3.6	3.48
International Serviced AUM growth (%)	16.5	(5.6)	15.0	25.0	25.0
Issuer business - Folio additions YoY growth (%)	14.9	41.4	15.0	10.0	10.0

Source: Company data, IIFL Research





Financial summary

Income statement summary (Rs m)

Y/e 31 Mar, Consolidated	FY22A	FY23A	FY24ii	FY25ii	FY26ii
Revenues	**6,395**	**7,200**	**8,044**	**9,015**	**10,271**
Ebitda	2,879	2,980	3,415	3,855	4,438
Depreciation and amortisation	(370)	(467)	(542)	(628)	(728)
Ebit	2,508	2,514	2,873	3,227	3,710
Non-operating income	61	175	164	248	348
Financial expense	(529)	(106)	(77)	(48)	(55)
PBT	2,040	2,582	2,960	3,426	4,004
Exceptionals	0	0	0	0	0
Reported PBT	2,040	2,582	2,960	3,426	4,004
Tax expense	(555)	(625)	(740)	(857)	(1,001)
PAT	1,485	1,957	2,220	2,570	3,003
Minorities, Associates etc.	0	0	0	0	0
Attributable PAT	**1,485**	**1,957**	**2,220**	**2,570**	**3,003**

Ratio analysis

Y/e 31 Mar, Consolidated	FY22A	FY23A	FY24ii	FY25ii	FY26ii
Per share data (Rs)					
Pre-exceptional EPS	8.9	11.6	13.1	15.1	17.7
DPS	0.0	0.0	0.0	3.8	4.4
BVPS	38.5	51.4	64.3	75.7	88.9
Growth ratios (%)					
Revenues	32.9	12.6	11.7	12.1	13.9
Ebitda	35.5	3.5	14.6	12.9	15.1
EPS	17.0	30.5	13.0	15.7	16.8
Profitability ratios (%)					
Ebitda margin	45.0	41.4	42.4	42.8	43.2
Ebit margin	39.2	34.9	35.7	35.8	36.1
Tax rate	27.2	24.2	25.0	25.0	25.0
Net profit margin	23.2	27.2	27.6	28.5	29.2
Return ratios (%)					
ROE	30.0	25.8	22.6	21.6	21.5
ROCE	30.1	26.7	26.0	26.5	26.7
Solvency ratios (x)					
Net debt-equity	0.1	0.0	(0.2)	(0.3)	(0.4)
Net debt to Ebitda	0.3	0.1	(0.5)	(0.9)	(1.3)
Interest coverage	4.7	23.6	37.4	NM	NM

Source: Company data, IIFL Research

Balance sheet summary (Rs m)

Y/e 31 Mar, Consolidated	FY22A	FY23A	FY24ii	FY25ii	FY26ii
Cash & cash equivalents	452	870	1,650	3,504	5,652
Inventories	0	0	0	0	0
Receivables	1,126	1,265	1,414	1,584	1,805
Other current assets	1,655	2,993	3,083	3,187	3,322
Creditors	0	0	0	0	0
Other current liabilities	1,358	1,282	1,433	1,606	1,829
Net current assets	**1,875**	**3,846**	**4,714**	**6,670**	**8,950**
Fixed assets	6,685	6,913	6,971	6,943	6,915
Intangibles	0	0	0	0	0
Investments	0	65	65	65	65
Other long-term assets	346	398	398	398	398
Total net assets	**8,906**	**11,222**	**12,148**	**14,075**	**16,327**
Borrowings	1,225	1,301	0	0	0
Other long-term liabilities	1,238	1,219	1,219	1,219	1,219
Shareholders equity	**6,443**	**8,702**	**10,929**	**12,857**	**15,109**
Total liabilities	**8,906**	**11,222**	**12,148**	**14,075**	**16,327**

Cash flow summary (Rs m)

Y/e 31 Mar, Consolidated	FY22A	FY23A	FY24ii	FY25ii	FY26ii
Ebit	2,508	2,514	2,873	3,227	3,710
Tax paid	(497)	(562)	(740)	(857)	(1,001)
Depreciation and amortization	370	467	542	628	728
Net working capital change	178	(262)	(88)	(102)	(132)
Other operating items	496	184	0	0	0
Operating cash flow before interest	3,055	2,340	2,586	2,897	3,306
Financial expense	(529)	(106)	(77)	(48)	(55)
Non-operating income	0	0	0	0	0
Operating cash flow after interest	**2,526**	**2,234**	**2,509**	**2,849**	**3,251**
Capital expenditure	**(681)**	**(694)**	**(600)**	**(600)**	**(700)**
Long-term investments	(278)	(1,504)	0	0	0
Others	(195)	153	164	248	348
Free cash flow	**1,373**	**190**	**2,074**	**2,496**	**2,899**
Equity raising	2,891	212	7	0	0
Borrowings	(4,046)	16	(1,301)	0	0
Dividend	0	0	0	(642)	(751)
Net chg in cash and equivalents	217	418	780	1,854	2,148

Source: Company data, IIFL Research

Disclosure : Published in 2023, © IIFL Securities Limited (Formerly 'India Infoline Limited') 2023

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Name, Qualification and Certification of Research Analyst: Devesh Agarwal(PGDBM), Dhaval Parekh(Chartered Accountant)

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SELL - Stock expected to give a return 10%+ below the average return on a debt instrument over a 1-year horizon.

Add - Stock expected to give a return 0-10% over the average return on a debt instrument over a 1-year horizon.

Reduce - Stock expected to give a return 0-10% below the average return on a debt instrument over a 1-year horizon.

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