

# KFin Technologies – BUY

25 October 2023

Result review



## New businesses drive earnings beat

**KFin Technologies (Kfintech) 2QFY24 PAT grew by 28% YoY to Rs614mn, 10% ahead of estimates. Steady yield in the domestic MF-RTA business and robust growth in new businesses, led to the revenue beat. Company remains confident of new faster growth in the alternatives and international business, driven by new client addition. We upgrade our FY24-26ii EPS by 4-6% to account for better 2Q and better-than-expected growth in new businesses. We value Kfintech at 32x FY26ii EPS with TP of Rs535. Maintain BUY.**

**Robust growth in non-MF business drives earnings beat:** Kfintech's 2QFY24 PAT grew 28% YoY and 42% QoQ to Rs614mn – 11% above estimates. Beat was driven by non-MF business (10% beat), aided by issuer solution business (+13% YoY, 6% YoY increase in folios + 7% YoY increase in blended folio charge to Rs10.2 aided by higher corporate actions) and international and other investor solution business (+48% YoY driven by new client addition in international RTA and FA; alternative revenues too, doubled YoY, owing to 36% YoY growth in AUM to Rs844bn). In the core domestic MF-RTA business, revenues grew by 17% YoY, driven by 21% AUM growth to Rs14.8trn. The moderation in yield was lower than expected – down 3% YoY to 3.8bps (3% beat). Aided by strong revenue growth, Kfintech saw operating leverage benefits driving Ebitda margins by 517bps YoY and 602bps QoQ to 44.8%.

**New client wins to drive growth in new businesses:** Management remains confident on the new business, particularly on the alternative space and international operations. With the addition of fund administration platform (mPower), Kfintech now offers a comprehensive solution (TA + FA) to AIFs/PMS. In the international business, company has started seeing traction in addition to Malaysia - during 2Q – it went live with a client in Singapore (2 more in transition) and also entered Thailand market with maiden contract for fund administration (FA). Domestically, the company won LIC pension fund worth Rs250mn to be executed over seven years. In Corporate issuer business, the company sees strong growth visibility with healthy pipeline of IPO mandate and new client addition, along with upward price revision for renewals.

**Upgrade estimates:** We upgrade FY24-26ii EPS by 4-6% to factor strong growth in new businesses. Increasing share of newer businesses, along with improving margin profile is likely to further aid profitability.

## Result update

CMP	Rs453
12-mth TP (Rs)	535 (18%)
Market cap (US\$m)	925
Enterprise value(US\$m)	900
Bloomberg	KFINTECH IN
Sector	Internet

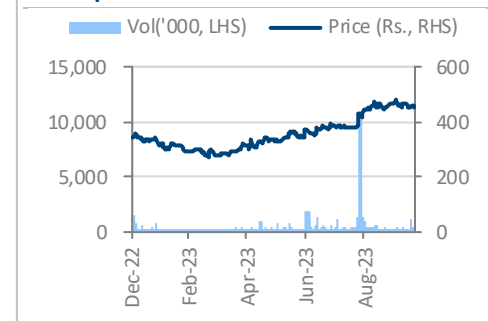
### Shareholding pattern (%)

Promoter	49.2
Pledged (as % of promoter share)	0.0
FII	8.1
DII	13.6
52Wk High/Low (Rs)	485/273
Shares o/s (m)	170
Daily volume (US\$ m)	2.5
Dividend yield FY25ii (%)	0.9
Free float (%)	28.9

### Price performance (%)

	1M	3M	1Y
Absolute (Rs)	0.4	19.3	0.0
Absolute (US\$)	0.1	17.6	0.0
Rel.to Smallcap	1.6	12.2	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	8,185	9,132	10,407
Ebitda margins (%)	45.0	41.4	43.5	43.6	44.1
Pre-exceptional PAT (Rs m)	1,485	1,957	2,294	2,618	3,066
Reported PAT (Rs m)	1,485	1,957	2,294	2,618	3,066
Pre-exceptional EPS (Rs)	8.9	11.6	13.5	15.4	18.0
Growth (%)	17	30.5	16.8	14.1	17.1
IIFL vs consensus (%)			6.2	5.5	5.7
PER (x)	51.1	39.2	33.6	29.4	25.1
ROE (%)	30.0	25.8	23.3	21.8	21.7
Net debt/equity (x)	0.1	0.0	(0.2)	(0.3)	(0.4)
EV/Ebitda (x)	26.3	25.1	20.5	17.9	15.0
Price/book (x)	11.8	8.8	7.0	5.9	5.0
OCF/Ebitda (x)	1.1	0.8	0.7	0.7	0.7

Source: Company, IIFL Research. Priced as on 23 October 2023

**Figure 1: 2QFY24 PAT grew 28% YoY and 42% QoQ to Rs614mn – above estimates**

Consol (Rsmn)	2QFY23	1QFY24	2QFY24	% YoY	% QoQ
<b>Net sales</b>	<b>1,792</b>	<b>1,815</b>	<b>2,090</b>	<b>16.6%</b>	<b>15.1%</b>
Total Operating cost	1,082	1,111	1,153	6.6%	3.8%
Personnel costs	760	756	760	0.0%	0.5%
Operating Exp.	322	355	393	22.1%	10.8%
Ebitda	711	704	937	31.8%	33.0%
Ebitda margin	39.7%	38.8%	44.8%	5.17%	6.02%
Depreciation	114	124	126	10.3%	1.1%
Interest cost	26	29	32	25.4%	8.6%
Other income	24	53	63	163.4%	18.5%
PBT	595	604	842	41.5%	39.5%
Tax	116	165	223	92.6%	35.5%
<b>Adjusted PAT</b>	<b>479</b>	<b>439</b>	<b>619</b>	<b>29.1%</b>	<b>41.0%</b>
<b>Adj. PAT margin</b>	<b>27%</b>	<b>24%</b>	<b>30%</b>		
EO items/ share of associates	-	5	5		
Minority interest					
<b>Reported PAT</b>	<b>479</b>	<b>434</b>	<b>614</b>	<b>28.1%</b>	<b>41.5%</b>
<b>Reported PAT margin</b>	<b>27%</b>	<b>24%</b>	<b>29%</b>		

Source: Company, IIFL Research

**Figure 2: 2QFY24 revenues grew 17% YoY, led by strong growth in non-MF businesses and steady yields QoQ driving higher domestic MF revenues**

Revenue breakup (Rs mn)	2QFY23	1QFY24	2QFY24	YoY	QoQ
Domestic MF Investor Solutions	1,201	1,280	1,409	17.2%	10.0%
Issuer Solutions	259	200	291	12.6%	45.7%
International & Other Investor Solutions	151	174	223	48.4%	28.6%
Global Business Services	115	97	89	-22.1%	-7.8%
Others	67	65	77	14.9%	19.6%
<b>Net sales</b>	<b>1,792</b>	<b>1,815</b>	<b>2,090</b>	<b>16.6%</b>	<b>15.1%</b>
VAS	113	87	151	34.0%	73.7%
Non-domestic MF RTA business	591	535	681	15.3%	27.4%

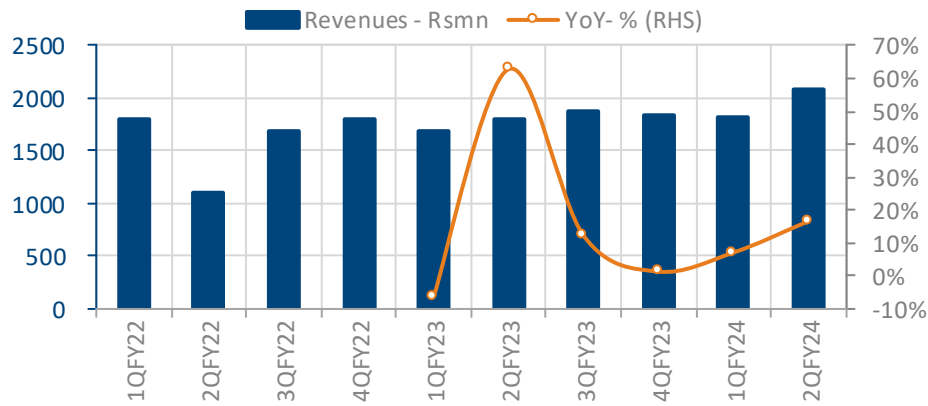
Source: Company, IIFL Research

**Figure 3: Key operational metrics across various businesses**

Operational data	2QFY23	1QFY24	2QFY24	YoY	QoQ
<b>Domestic MF AUM</b>					
QAAUM (Rs bn)	12,299	13,494	14,825	20.5%	9.9%
Market share	31.5%	31.3%	31.5%	0.0%	0.2%
Equity AUM mix	55.6%	54.7%	55.4%	-1.2%	-0.4%
Blended Yield (bps)	3.91	3.80	3.80	-2.7%	0.1%
<b>Issuer business</b>					
Nos of clients	5,051	5,521	5,693	12.7%	3.1%
Nos of folios (mn)	108	110	114	5.6%	3.9%
Nos of cumulative transactions (mn)	1.7	0.7	1.6	-5.9%	128.6%
Blended Yield (Rs/folio)	9.6	7.3	10.2	6.7%	40.2%
<b>International MF business</b>					
Nos of clients	31	48	50	61.3%	4.2%
- Fund Accounting	NA	8	9	NA	12.5%
AAUM services (Rsbm)	524	560	563	7.4%	0.4%
<b>AIF/PMS RTA business</b>					
Nos of funds being handled	301	416	434	44.2%	4.3%
Market share - no of funds (EOP)	29.6%	36.4%	37.2%	7.6%	0.8%
AAUM (Rsbm) (EOP)	620	740	844	36.1%	14.2%
<b>Pension CRA business</b>					
No of subscribers	841,938	995,456	1,043,874	24.0%	4.9%
Market share - on subscriber's base (EOP)	6.9%	7.4%	7.7%	0.8%	0.3%
No of corporate clients (EOP)	1,756	2,109	2,177	24.0%	3.2%

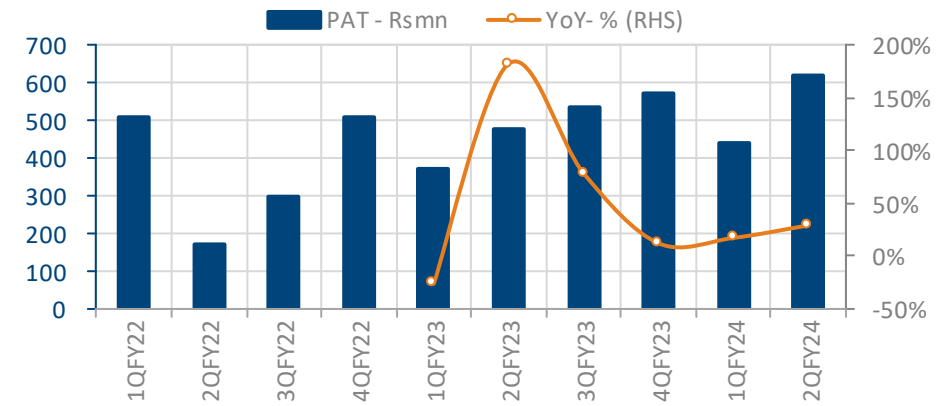
Source: Company, IIFL Research

**Figure 4: 2QFY24 revenues grew 17% YoY to Rs2.09bn – above estimate**



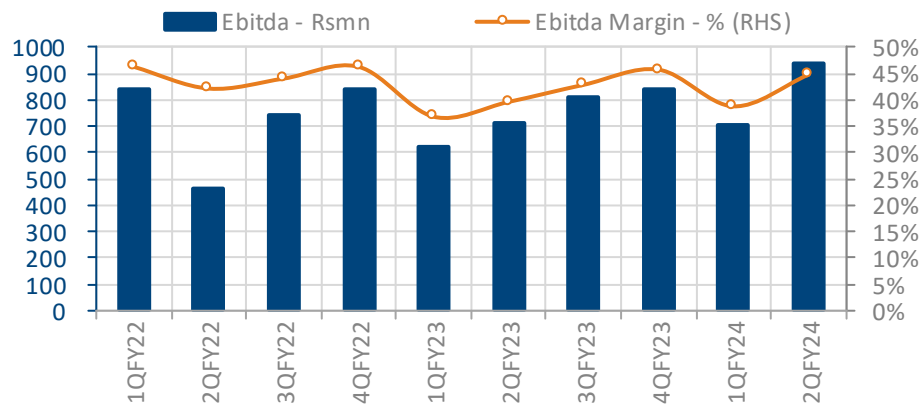
Source: Company, IIFL Research

**Figure 6: 2QFY24 reported PAT grew 28% YoY to Rs614mn – 10% above estimate**



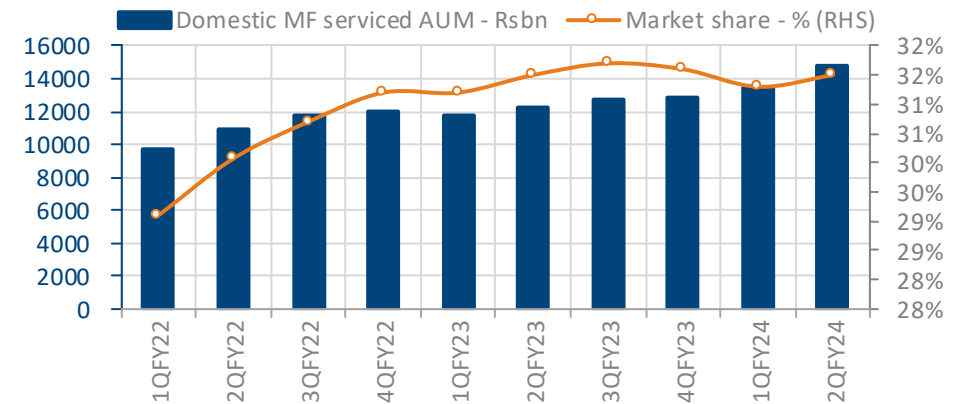
Source: Company, IIFL Research

**Figure 5: 2QFY24 Ebitda margins jumped 510bps YoY and 600bps QoQ to 44.8%**



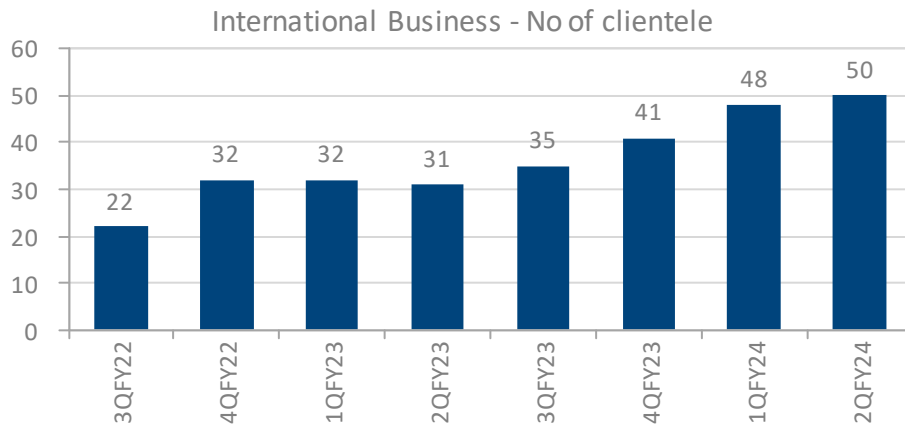
Source: Company, IIFL Research

**Figure 7: In Domestic MF business, its overall serviced AUM has increased by 21% YoY to Rs14.83trn in 2Q; slightly better than the industry**



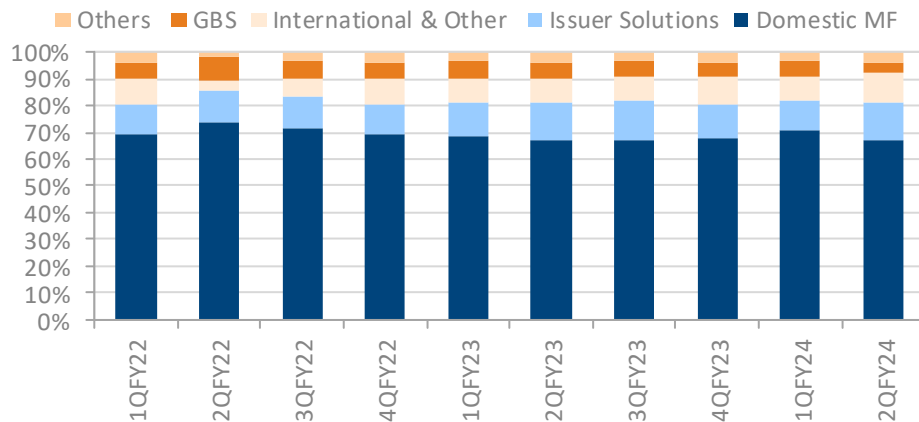
Source: Company, IIFL Research

**Figure 8: KFin continues to add clients in the International FA-TA business and has won its first contract in Thailand during the quarter**



Source: Company, IIFL Research

**Figure 9: 2QFY24 non-mf revenues stood at 33% of the overall revenues; which KFin expects to ramp up to 40% in near term**



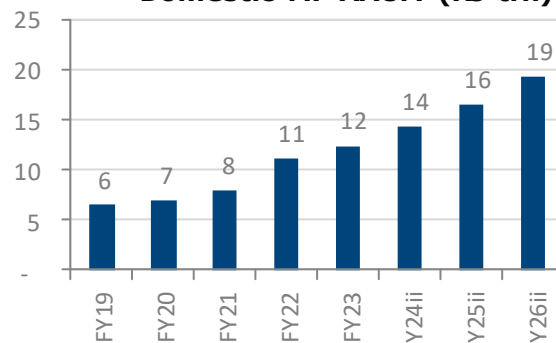
Source: Company, IIFL Research

**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. Moreover, 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.

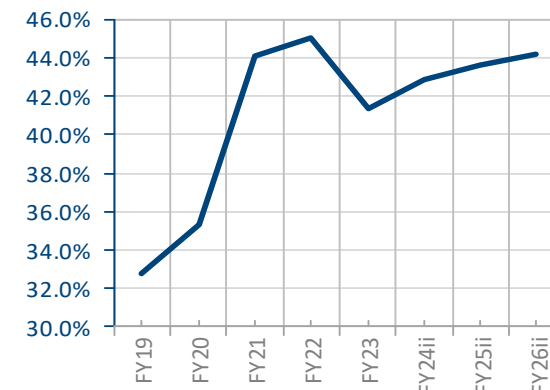
### Management

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

### Domestic MF AAUM (Rs trn)



### Ebitda margin trends



### Assumptions

Y/e 31 Mar, Consolidated	FY22A	FY23A	FY24ii	FY25ii	FY26ii
Domestic MF AUM growth (%)	40.2	12.1	19.0	15.0	17.0
AMC yield (bps)	4.1	3.9	3.8	3.6	3.5
International Serviced AUM growth (%)	16.5	(5.6)	12.0	25.0	25.0
Issuer business - Folio additions YoY growth (%)	14.9	41.4	8.0	10.0	10.0

Source: Company data, IIFL Research

### P/E



### EV/Ebitda



## Financial summary

### Income statement summary (Rs m)

Y/e 31 Mar, Consolidated	FY22A	FY23A	FY24ii	FY25ii	FY26ii
<b>Revenues</b>	<b>6,395</b>	<b>7,200</b>	<b>8,185</b>	<b>9,132</b>	<b>10,407</b>
Ebitda	2,879	2,980	3,557	3,981	4,584
Depreciation and amortisation	(370)	(467)	(526)	(628)	(728)
Ebit	2,508	2,514	3,031	3,352	3,856
Non-operating income	61	175	200	275	387
Financial expense	(529)	(106)	(130)	(113)	(128)
PBT	2,040	2,582	3,101	3,514	4,115
Exceptionals	0	0	0	0	0
Reported PBT	2,040	2,582	3,101	3,514	4,115
Tax expense	(555)	(625)	(806)	(896)	(1,049)
PAT	1,485	1,957	2,294	2,618	3,066
Minorities, Associates etc.	0	0	0	0	0
<b>Attributable PAT</b>	<b>1,485</b>	<b>1,957</b>	<b>2,294</b>	<b>2,618</b>	<b>3,066</b>

### Ratio analysis

Y/e 31 Mar, Consolidated	FY22A	FY23A	FY24ii	FY25ii	FY26ii
<b>Per share data (Rs)</b>					
Pre-exceptional EPS	8.9	11.6	13.5	15.4	18.0
DPS	0.0	0.0	0.0	3.9	4.5
BVPS	38.5	51.4	64.8	76.3	89.9
<b>Growth ratios (%)</b>					
Revenues	32.9	12.6	13.7	11.6	14.0
Ebitda	35.5	3.5	19.4	11.9	15.2
EPS	17.0	30.5	16.7	14.1	17.1
<b>Profitability ratios (%)</b>					
Ebitda margin	45.0	41.4	43.5	43.6	44.1
Ebit margin	39.2	34.9	37.0	36.7	37.1
Tax rate	27.2	24.2	26.0	25.5	25.5
Net profit margin	23.2	27.2	28.0	28.7	29.5
<b>Return ratios (%)</b>					
ROE	30.0	25.8	23.3	21.8	21.7
ROCE	30.1	26.7	27.6	27.5	27.7
<b>Solvency ratios (x)</b>					
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	23.2	29.7	30.0

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	1,694	3,587	5,781
Inventories	0	0	0	0	0
Receivables	1,126	1,265	1,439	1,605	1,829
Other current assets	1,655	2,993	3,098	3,200	3,336
Creditors	0	0	0	0	0
Other current liabilities	1,358	1,282	1,458	1,626	1,854
<b>Net current assets</b>	<b>1,875</b>	<b>3,846</b>	<b>4,773</b>	<b>6,765</b>	<b>9,093</b>
Fixed assets	6,685	6,913	6,987	6,958	6,930
Intangibles	0	0	0	0	0
Investments	0	65	65	65	65
Other long-term assets	346	398	398	398	398
<b>Total net assets</b>	<b>8,906</b>	<b>11,222</b>	<b>12,222</b>	<b>14,186</b>	<b>16,486</b>
Borrowings	1,225	1,301	0	0	0
Other long-term liabilities	1,238	1,219	1,219	1,219	1,219
<b>Shareholders equity</b>	<b>6,443</b>	<b>8,702</b>	<b>11,003</b>	<b>12,967</b>	<b>15,267</b>
<b>Total liabilities</b>	<b>8,906</b>	<b>11,222</b>	<b>12,222</b>	<b>14,186</b>	<b>16,486</b>

### Cash flow summary (Rs m)

Y/e 31 Mar, Consolidated	FY22A	FY23A	FY24ii	FY25ii	FY26ii
Ebit	2,508	2,514	3,031	3,352	3,856
Tax paid	(497)	(562)	(806)	(896)	(1,049)
Depreciation and amortization	370	467	526	628	728
Net working capital change	178	(262)	(103)	(99)	(134)
Other operating items	496	184	0	0	0
Operating cash flow before interest	3,055	2,340	2,648	2,986	3,401
Financial expense	(529)	(106)	(130)	(113)	(128)
Non-operating income	0	0	0	0	0
<b>Operating cash flow after interest</b>	<b>2,526</b>	<b>2,234</b>	<b>2,517</b>	<b>2,872</b>	<b>3,273</b>
<b>Capital expenditure</b>	<b>(681)</b>	<b>(694)</b>	<b>(600)</b>	<b>(600)</b>	<b>(700)</b>
Long-term investments	(278)	(1,504)	0	0	0
Others	(195)	153	200	275	387
<b>Free cash flow</b>	<b>1,373</b>	<b>190</b>	<b>2,118</b>	<b>2,548</b>	<b>2,960</b>
Equity raising	2,891	212	7	0	0
Borrowings	(4,046)	16	(1,301)	0	0
Dividend	0	0	0	(655)	(767)
Net chg in cash and equivalents	217	418	824	1,893	2,194

Source: Company data, IIFL Research

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A graph of daily closing prices of securities is available at <http://www.nseindia.com/ChartApp/install/charts/mainpage.jsp>, [www.bseindia.com](http://www.bseindia.com) and <http://economictimes.indiatimes.com/markets/stocks/stock-quotes>. (Choose a company from the list on the browser and select the "three years" period in the price chart).

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

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#### Key to our recommendation structure

**BUY** - Stock expected to give a return 10%+ more than average return on a debt instrument over a 1-year horizon.

**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.

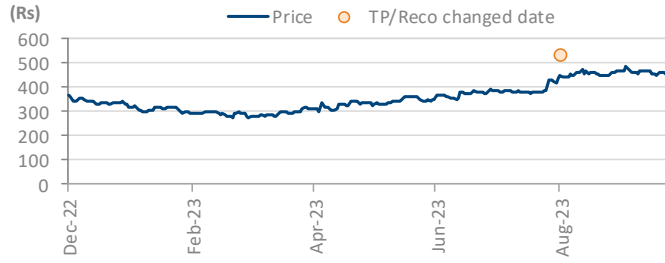
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**Distribution of Ratings:** Out of 268 stocks rated in the IIFL coverage universe, 126 have BUY ratings, 5 have SELL ratings, 89 have ADD ratings, 4 have NR ratings and 44 have REDUCE ratings

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**Price Target:** Unless otherwise stated in the text of this report, target prices in this report are based on either a discounted cash flow valuation or comparison of valuation ratios with companies seen by the analyst as comparable or a combination of the two methods. The result of this fundamental valuation is adjusted to reflect the analyst's views on the likely course of investor sentiment. Whichever valuation method is used there is a significant risk that the target price will not be achieved within the expected timeframe. Risk factors include unforeseen changes in competitive pressures or in the level of demand for the company's products. Such demand variations may result from changes in technology, in the overall level of economic activity or, in some cases, in fashion. Valuations may also be affected by changes in taxation, in exchange rates and, in certain industries, in regulations. Investment in overseas markets and instruments such as ADRs can result in increased risk from factors such as exchange rates, exchange controls, taxation, and political and social conditions. This discussion of valuation methods and risk factors is not comprehensive – further information is available upon request.



**Kfin Tech: 3 year price and rating history**


Date	Close price (Rs)	Target price (Rs)	Rating
01 Sep 2023	448	525	BUY