

August 04, 2023 CS&G/STX/SQ2023/15

2) BSE Limited

Dalal Street,

Mumbai - 400 001

Scrip Code: 543720

Phiroze Jeejeebhoy Towers,

1) National Stock Exchange of India Limited

Exchange Plaza, C-1, Block G, Bandra Kurla Complex, Bandra (E), Mumbai - 400 051

Scrip Symbol: KFINTECH

Transcript of Earnings Conference Call Sub. :

Ref. **Regulation 30 of the LODR Regulations**

Dear Sir / Madam.

Further to our letter reference no. CS&G/STX/SQ2023/05 dated July 21, 2023, pursuant to Regulation 30 and other applicable provisions of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("LODR Regulations"), please find enclosed herewith the transcript of the Earnings Conference Call held July 31, 2023, in respect of the standalone and consolidated unaudited financial results of the Company for the quarter ended June 30, 2023.

The transcript can also be accessed on the Company's website at the following link:

https://investor.kfintech.com/financials/

This is for your information and records.

Thanking you,

Yours faithfully,

For KFin Technologies Limited

Alpana Kundu

Company Secretary and Compliance Officer

ICSI Membership No.: F10191

Encl.: a/a

KFin Technologies Limited

(Formerly known as KFin Technologies Private Limited)





"KFin Technologies Limited Q1 FY24 Earnings Conference Call"

July 31, 2023







MANAGEMENT: MR. SREEKANTH NADELLA – MD & CEO

MR. VIVEK MATHUR - CFO

MR. AMIT MURARKA – HEAD - INVESTOR RELATIONS

MODERATOR: MR. ABHIJEET SAKHARE – KOTAK SECURITIES LIMITED





Moderator:

Ladies and gentlemen, good day and welcome to Q1-FY24 Earnings Conference Call of KFin Technologies Limited, hosted by Kotak Securities Limited.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Abhijeet Sakhare from Kotak Securities. Thank you and over to you.

Abhijeet Sakhare:

Hey, thanks a lot. Good morning, everyone. Welcome to the Earnings Conference Call of KFin Technologies Limited to discuss the 1Q FY24 Performance of the Company and Share Industry and Business Updates.

We have the Senior Management with us today, represented by Mr. Sreekanth Nadella -- M.D. and CEO; Mr. Vivek Mathur -- CFO and Mr. Amit Murarka – Head - Investor Relations.

I would now like to hand over the call to Sreekanth for his opening comments, after which we will take the Q&A. Sreekanth, over to you.

Sreekanth Nadella:

Thank you so much, Abhijeet. A very good morning to one and all.

As always, I will start the presentation with a quick overview in terms of the organization, KFintech, as several new shareholders have participated in our organization in terms of wealth creation. So, welcome onboard to one and all.

We continue to be the single largest investor solution provider to the vast majority of the asset classes within this country. In mutual funds space, in the form of the maximum number of asset management companies, which stacks at 26 out of 45 asset management companies in the country today.

In terms of alternate investment funds, about 36% of all the funds are being serviced by us, issuer solutions where we manage close to 5,500 plus clientele with the market share of 47% cutting across market cap of NSE500, together managing a folio count of close to 230 million plus, that puts us among the largest not just in India but among within the world as well.

Quickly deep diving in terms of the mutual funds, our win record is something that we have set certain benchmarks back in the day, having 15 out of 22 asset management companies that have launched in the country. In this quarter, the country's largest financial services company, Bajaj Finserv which has also launched its asset management company, we won this mandate in the previous year, has gone operational with the launch of four funds this quarter.

Our market share in terms of the equity AUM is close to 35%. Our company in terms of the monthly and closing SIP continues to be running at about 40% of the total inflows into the KFin



service funds, even as newer AMCs have launched and we expect the market share to continue to expand from here on.

In terms of issuer solutions, very interesting space as we've been the first registrar in the country, having handled more than 60% of the IPOs within this country, will continue to handle a majority of them on the main board even today.

Several corporate actions have been conducted. We have been chosen to be the partner for Jio Financials and several others, which I will do a deep dive on.

Our international and other investor solutions is the fastest growing sector for us over the past three years, as we have since become the only market license intermediary, especially registrar and transfer agent who has presence beyond India, we are currently present in Malaysia, Philippines, Hong Kong and Singapore, in addition to being India apart from servicing clients in Canada and a few other parts of the world.

We have become the second central record keeping agent for the administration of National Pension System. We have crossed the million-subscriber mark into the previous month, making us the fastest growing CRA nearly twice the speed of the industry.

In terms of the alternate investment funds, we had a market share of no more than 7% in 2020. Today, it is about 27% of brands as among the fastest growing fund administrator in the country.

Our innovation and the tech labs are at the forefront and we believe are the reasons for the differentiated growth vis-à-vis the industry.

We've launched several new products, in addition to the 20 that have been launched in the previous year, at least half a dozen new products are in the pipeline to launch into the next four to six weeks.

In terms of the hyperscale transaction volume, we process a little lower one and a half million transactions every single day, little over a trillion plus rupees transit through our system, inbound and outbound, making us a critically important institution as has been accorded by the countries regulator in the previous year.

We have since then been ESG rated at Level-A, putting us the highest rating for any registrar, not just in India, but within the world, and we track to our security given the quantum and the gravity of the volume of the transactions that we process and the significance to the capital market structure. In terms of security, we track to the platinum standard of Big Five Security Score where we effected 790, which we have just reached 800, putting us amongst the best in the country as well. That's a quick snapshot about our organization.

As I quickly deep dive into the highlights of the previous quarter, we had purposefully orchestrated to be a diversified business model over the past five to six years. Diversification in what sense, in terms of the asset classes, not just the dependent on mutual funds, but expand into



security markets of equity and bond markets, alternate investment funds, pensions, private retirement schemes. While seated not just be a single geography focus in terms of the cyclicalities will hit us, ergo expand geographically, and that's exactly the path that we have orchestrated for ourselves over the past five years even as our younger businesses have already taken near about 30% plus of the total share of revenue as against nearly 4% again five to six years back, that provides a very good headroom for as we are concerned.

In the quarter that had gone by, our revenue has grown approximately 8% year-on-year, EBITDA growth had been about 13% and the PAT had grown at 16% year-on-year, with the PAT margin at 24%. Both PAT and EBITDA margins have seen near 200 basis points expansion year-on-year.

Q1 traditionally being a lighter quarter for the Financial services, especially in the business that we are in, we are extremely happy to inform the investors that we have clocked revenue profile pretty much same as what we have for Q4 of the previous year, which effectively means that as we move into Q2 through Q4, the growth would accelerate and so will the revenue and the margin profile.

We have since then also carefully orchestrated certain value-added solutions, which is something that is completely devoid of any market reverence which is largely on the technological solutions that we are working on, including their own big data platforms such as Digix and Quest. The value-added solution revenue has grown 16% year-on-year and we are confident that it will cross 20% as we move into the coming quarters.

In terms of the mutual fund business itself, our average AUM has grown 14.5% year-on-year vis-à-vis 14.2% growth for the industry, which means that we continue to have accelerated growth vis-à-vis the broader industry in itself, and we believe that into the coming quarters hopefully we should see a greater traction given the quantum of NFO several of our clients have launched and are set to launch, in addition to the fact that the country's largest financial services company, Bajaj Finserv, which is our client has gone live in just the previous month. And as that happens, the market share in AUM hopefully will continue to expand as well.

Our second larger line of business in terms of the issuer solutions, we have added about 160 clients into the previous quarter. We continue to add near about 10 to 15 clients every single day either in the space of unlisted or listed clients, and the base obviously in terms of the expansion of the retail investor adds us to our revenue profile as our folio-based revenue expands even as we look forward into the coming three quarters for a significant corporate action-driven revenue as well. Folio count has been stable. It hasn't seen a sharp rise, that is largely in the context of the Q4 of the previous year, had seen a decent exodus of retail investors, but again into the later part of the previous quarter, we have seen the numbers expand, which is again going to augur well for us into the coming quarters. We have in the previous quarter managed about four out of the total seven main board IPOs, including that of Mankind Pharma, Cyient DLM, IKIO Lighting and the Nexus Select Trust REIT, reaps several large IPOs are due to be launched into the coming quarter in addition to corporate actions and the value-added solutions.



Our international investor solutions, we have expanded our clients count to about 48. We have won one new client in Malaysia and Singapore each in the previous quarter, and one of our existing clients in Philippines has added a substantive number of new funds into our overall service domain, which is something that would add I'd like to believe a sizable revenue and a material impact on the investor solutions revenue as we move into the quarters and the transition begins.

We have also since then won our maiden contract for fund administration in Thailand, which is of that of one of the largest bank-based asset management company in Thailand. In due course subject to the approvals from the regulators, we will be setting up our office in Thailand. That notwithstanding, the current contract could be delivered in its current form without necessarily having an office in Thailand as well.

So, very, very excited to start a brand new geography, which is probably the largest in Asia after India and China and there are several asset management companies and a very large scope for alternate investment funds including for that of fund administration.

In GIFT City, our market share is at 60%, more often than not, every second and every three out of five funds are being serviced by KFin Tech which we have clearly emerged as a differentiating service partner who has full comprehension of the GIFT City rules and regulations, and to have the ability to handle both the transfer agency and the fund administration solutions by virtue of our acquisition of Hexagram into the previous year, making us the only RTA who has the ability to have scaled solutions for all types of fund administration.

We have a total number of funds are at about 416 AIF, domestic at about 37%, close to market share, We have won several new funds and we're very excited to onboard several private equity funds, which has a much larger corpus than a typical AIF and that is a new competency vertical that we are growing. As we move further deeper into the East and hopefully our journey into the western part of the world this year Europe and America would augur very well as we develop competencies to manage hedge and the alternate hedge and the private equity funds where our AUM year-on-year has grown by 42% in the alternate investment funds.

In terms of the new contracts for Hexagram, we have won 21 taking the tally to 21 clients in India at this point in time and making us probably the only entity who can have handle TA&FA at scale for mutual funds, for alternatives for insurance companies and banks as well.

I quickly summarize the National Pension System. We have crossed a million-subscriber base into the month of July. So, as of the quarter ending June, we were just a tad bit shy of a million-subscriber base. We have grown nearly two times, that is 24.1% we have grown year-on-year vis-à-vis 12.9% the growth of the industry in the pension, this is largely on the back of several technological innovations and solutions that we have orchestrated to drive growth in the intermediary-driven pensions as well as in the governmental sector. We are very hopeful to have some strong government sign-ups since the coming quarter given the stage we are in at this point in time.



Quickly move on in terms of broad brush of the mutual fund performance within India, the previous year had seen good growth, just a shy of about 7-odd percent. But the last quarter had seen sizable growth moving the AUM from about 40.5 trillion to 43.1 trillion for the quarter ending June 2023. We all know and what is available in the public domain is that the mutual fund sector in India is expected to touch nearly about 100 trillion, that is 100 lakh crores into the next six to seven years, which means it is more than 2.5 times expansion that is possible, and given we are one of the two service providers in this industry, we expect to go along with the industry wise, providing several cutting-edge solutions for our clients to grow faster as compared to the industry.

In terms of the SIP flow, which has been at the forefront of the growth of the industry, it has been consistently clocking 14,000 crore plus per month kind of a number for the past four to five months. The SIP aum is expanding based on the number of NFOs that have been launched and we have in the horizon in the next quarter, we believe the number will continue to expand at a much, much faster rate. This is a very important metric to track given it is a retail SIP flow which is the bedrock for growth. It is sticky. It is something that provides resilience for the industry, especially when there are any macro headwinds that may come where the institutional money could be expanded rather quickly. The overall folio count has moved from about 90 million to about 150 million in just a matter of three years.

This is all the good performance metrics in terms of the mutual funds, and as I said, several new asset management companies including that of Bajaj Finserv and Old Bridge which is here to launch, I'd like to believe will help us to have an expanded market share even as we grow along with the industry.

On the other asset classes such as alternative investment funds, the number of AIFs that are registered, licensed and have started their operations has been growing quite substantially. We have grown 23% year-on-year from the number of AIFs and 4% quarter-on-quarter, which obviously has contributed to the revenue. Even as I believe that several of these funds which have launched in the very recent quarter would add a faster growth of revenue rate, commence rate to that of the growth of the number of funds that we added.

The number of demat accounts, as I said, have grown in the previous quarter by 25% year-on-year as last year saw on the amount of its orders of the retail participants into the broader markets. This augurs well in terms of the folio-based revenue that we hope to see into these in the next three quarters, even as the corporate actions we believe will be strong when the corporate profitability of India is pretty high at this point in time.

Moving on, in terms of the market share, the overall AUM, as I said, we continue to expand year-on-year. We are at 31.3% on the overall equity AUM, a marginal tip of 0.1%. This is in the context of some of the NFOs which haven't fructified into the Q4 of the last year, which have since then have, and even we have a higher proportion of equity, which is about 56% of the total asset classes and the subdued market performance of Q4 meant there has been a very, very



marginal erosion in terms of the market share even as the overall numbers as I said AUM has grown 14-1/2% compared to 14.2% of the industry itself.

Moving on, in terms of the corporate client list, as I said, we are growing 12.2% year-on-year and about 3% quarter-on-quarter. We have also orchestrated several transitions from other registrars into the previous year, notably including that of Union Bank of India, Castrol, so on and so forth, and we have several in the pipeline even as we have IPOs that are yet to be launched into the coming months.

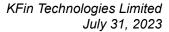
We have been appointed and as a matter of pride, we've been the service partner for Reliance Group for the past 30 plus years. And as Reliance has orchestrated Jio Financial Services, we have been identified as we are here from a corporate registry standpoint, and we have also heard recently publication of news in terms of the joint venture with BlackRock to drive the asset management industry.

Managed four out of the seven main board IPOs as I've already called that out and 82% market share as per the issue size in the main board IPO for the quarter that had just gone by. So, it's not just the number of IPOs, but also the size of IPOs, which matters a lot, especially in the context of the folio count and that is where we have had 82% market share in the previous quarter.

Our investor solutions for international from Q1 of FY23 to Q1 of this year, year-on-year, we have moved the numbers from 32 to 48 clients. Part of that also in the context of having Hexagram winning several clients in terms of fund administration in the Asian markets. So, total RTA work which has been traditionally had been doing 36 in count and fund administration which is the forte of Hexagram which now also of course services like is about 19. The overall AUM itself has seen a little bit of dip again largely in the context of under performance of the Asian markets into the previous year, even as we have seen a steady rise into the past two to three months. And as I've already called out, the expansion of 28 new funds of the largest AMC that we have in Philippines augurs well for us in the coming quarters. As we have seen, the volume has started to steadily rise and we have two AMCs who were under transition in the previous year have just gone live in the month of July, which means the revenue pertaining to those as many, many companies will start to kick in from Q2 onwards.

The AUM for alternatives itself has expanded 41.4% even as the number of funds has expanded close to 50% year-on-year Q1. And in the context of several new funds which have been licensed and are ready to launch would only add for the revenue profile. We continue to believe that alternative investment funds will have a very, very strong and outperforming growth compared to any other asset classes, including that of the mutual funds into the coming years. And in addition to that of the passes that is the ETF growth which also had seen a stellar growth over the past few years had stellar growth over the past years if I may.

Fund administration where we have acquired in the form of mPower coming from Hexagram and several other platforms, etc., is a very critical cog in the journey line that KFintech has for itself, which is truly especially to be the first entity from India to be a global fund administrator.





And we cannot be one unless we have a very strong fund administration platform and capabilities in addition to that of a transfer agency services and platforms. In the last four years, we believe we have gone strength-to-strength both in terms of acquisitions as well as the client addition and the asset classes that we serve within this from mutual funds to insurance companies to banks to private equity and hedge funds and across the geographies including Canada, Hong Kong, Singapore, Philippines and Malaysia and Asia to India, within India also GIFT City.

I've called out pensions already. We continue to expand our profile without much noise, very steady growth 25%-odd and as the base value increases, it steadily pushes us from a negative EBITDA business line where we have negative EBITDA, and that is largely a factor of the scale itself. And as we are moving the scale we believe that into this year national pension system will turn profitable and as we move away into the further quarters, we would start seeing the contribution to our broader book coming from the pensions as well.

I've worked at this point in time and hand over the program to Vivek to quickly cover the Financial performance.

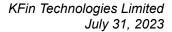
Vivek Mathur:

Thank you. Sreekanth. On the Financial performance, our revenue from operations went up by almost 8% year-on-year, largely due to almost 11% growth in the domestic mutual fund revenue and about 15% growth in the international and other investor solutions. The issuer solutions revenue year-on-year came down by about 4%, largely because there were lesser corporate actions in the first quarter of this financial year as compared to last year's same period.

On the global business services, there was a marginal dip of about 70 seats which resulted on the RTA side whereas the mortgage business continues to grow in terms of servicing. But overall about 8% growth on the revenue. EBITDA continues to grow at about 13% year-on-year and the EBITDA margin has been growing as compared to last year same quarter which was 37%, this year first quarter was 38.8%. While our guidance on full year basis of 40% to 45% EBITDA margin remains intact, we catch up during the rest of the quarters as we see the growing revenue and the growing AUM and the increased market share across businesses.

On the profit after tax, there is a growth of 16% year-on-year, and that is again a reflection of both the increase in revenue as well as cost management. Our expenses went up only by about 4.6% year-on-year as compared to the same period last year. Overall, the PAT margin is healthy, has grown to 23.9%, almost 24% against 22% last year same period. As Sreekanth mentioned, there is healthy increase both in revenue as well as PAT margins, and as a result of that, the diluted EPS has gone up from 2.2 to 2.51 year-on-year.

We remain cash surplus company with almost 320 crores of cash and cash equivalents, and that money will be used in terms of the aspiration to go towards acquisition on setting up businesses across Europe and US besides the growth in Thailand that Sreekanth talked about. That's mainly on the financials.





Moderator: We will now begin the question-and-answer session. We have our first question from the line of

Faisal Zubair Hawa from HG Hawa & Co. Please go ahead.

Faisal Z. Hawa: Is there any way that this can be disrupted by a blockchain-based system also which could cost

much lesser and are we also looking at some alternatives?

Sreekanth Nadella: See, I would answer in this way. Newer technologies are always important to bring the cost to

shove down as in India processing millions of transactions a day and trillions of rupees worth of transactions each and every day. We have been steadily reducing the cost to serve within the industry over the past decade plus to-date, We believe that this industry is already served at possibly the lowest anywhere in the world. I think a typical cost per folio for an entire year is just about Rs.30. You compare and contrast that to any other industry, including demat accounts or bank accounts, accounts where you will run into hundreds of rupees. The technologies that we have already embraced and adopted are cloud and native mobility solutions. Blockchain itself is a very complex solution and it is not a software, I just want to clarify that it is not something that KFintech alone or any other entity alone can embrace and say that look, now, I have a better solution to do it. Blockchain works on trust, blockchain works on an integrated solution which requires not just the registrars but also the stock exchanges, the depositories, the distribution network, the asset management companies, the clearing corporations, everybody to be on the same platform for a blockchain to run for the very simple reason that any transaction that we process today necessarily goes through all of these hoops. Right? So, for example today you were to buy us in, one unit of a mutual fund of any fund manager, you will need the bank, you will need the clearing corporations, you will need payment aggregators, KRAs, registrars, depository so on and support. So, unless there is a solution which is top-down which requires the entire industry to be elevated to a blockchain we believe that it is not a software that can just be implemented to gain efficiencies. There is a working committee currently constituted by the

required in capital markets.

Moderator: We have our next question from the line of Aejas Lakhani from Unifi Capital. Please go ahead.

Aejas Lakhani: First question is that in the issuer solutions business, if you were to look at it from a revenue per

folio, we used to earn about Rs.8 to Rs.9 which has tapered lower. So, could you comment is

country's regulator, where we are part of it. There are discussions ongoing. In time to come we will see in terms of how the blockchain could be broadly adopted by the entire infrastructure

there anything there, because the revenue per folio is much lower?

Sreekanth Nadella: Yes, most certainly. See, the revenue per folio is the currently there are 5,000 clients, as I said

roughly and the unit pricing that is a folio pricing for each of the entity is a negotiated rate, this is not a regulated rate so to speak. And hence the total cumulative folio rate that you see in any quarter on any given day is a factor of where there has been more retail expansion in terms of the client base. For example, if I were to have 10 clients where the unit price is Rs.15 and another 10 clients where the unit price is say averaging around Rs.8, now the retail expansion can happen in any way, which I cannot redetermine, in the example that I just took, if there has been a much

broader retail expansion amongst the clientele who have had a smaller unit for you as compared





to that of the entities where I have a better pricing mechanism, it is possible that the overall average tends to come down for that specific period. Now, as we move into the next month or the next week or the next quarter based on the results, if the other entities at that point in time have a broader retail expansion, the unit price will again go up. So, all I would say is that this is a point in time and this is a market-driven number, this is not a negotiated number, this is not discounts if I were to clarify that if that's what you have in your mind, this is a play in terms of the market dynamics, which would move up and down into various months and the quarters.

Vivek Mathur:

I would just add to Sreekanth, the issuer solutions revenue comprises of three components. One is folio-based revenue, second is corporate actions and third is the various value-added services that we offer like e-voting, e-AGMs and all. So, in fact our folio revenue based on the new clients has actually gone up. There is reduction in the overall average revenue per folio because of lesser number of corporate actions in the first quarter as compared to the previous year same quarter, and that's the impact that you would have seen about 4.4% reduction on year-on-year quarterly reduction.

Amit Murarka:

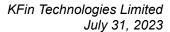
Just adding more to this, while Vivek was alluding that while my specific folio revenues has gone up by 6%, almost year-on-year basis in the first quarter and as we move into the subsequent quarters and all, these corporate actions which typically happens in the Q2 to Q3, which last year was a little different year, I mean wherein we have preponed of several corporate actions in the first quarter of FY23 which we are not seeing and this is more a normalized year compared to the last year. As we move along into the subsequent quarters and all, I mean this thing would get normalized and you would see the average numbers would pan out similar to what we had last year numbers.

Aejas Lakhani:

On the international piece, could you speak a little bit about, you've had a few wins, when does the revenue traction start to build from that, I heard you mentioning it earlier that 2Q onwards. So, could you just give some sense of the existing wins, how revenue scale ups will take place there and other businesses that you're chasing in the region?

Sreekanth Nadella:

Look, we should look at the international business or most of, I guess, the kind of work that we do into two components. There is an existing client base which has already been transitioned and has been in steady state delivery, so that is the base revenue, the recurring annual revenue annuity, however you would like to call it. The second component is the wins that we have typically take anywhere between three to six to maybe sometimes some complex transitions can go up to even eight to nine months of transition. Now, I had called out that two such deals, which we have won in the past, the transitions have been completed in the month of July earlier this month, and hence that line of revenue will kick in immediately from this month onwards... when I say this month, I'm talking about August onwards, right. Then we have deals which we have signed in the recent past into the last two to three months which need to be transitioned into KFin for the revenue to kick in. That is the recurring revenue, even as there will be a certain one-time revenue for the transition itself, which effectively means there is a revenue stream that we will get even for closed deals. Let me call out the sizable ones, the deal that we have won in Thailand is that of our fund administration work for the third or fourth largest bank-based asset





management company in that part of the world. This is our first client. And we have had conversations including that of demos, we had to re-platform our entire solution to meet the requirements of the Thai regulator and the Thai business equilibrium. And for that we took the past X number of months and have proven to the satisfaction of the client that our solution works just as well in Thailand. Now, the transition for that would start pretty much immediately, and we believe that it is a four to five months transition as I said for which there is a one-time episodical revenue we will get, post which there is a recurring annual revenue. As far as the additional funds that we won from the largest client that we have in Philippines is concerned, the transition has already begun for those funds. The additional revenue that we will get will be on top of the new flows that will happen into those funds from here on, which means that is again pretty much immediate, whereas there is a significant near about \$15 billion worth of assets lying with the same schemes in the current context which are yet to be transitioned. Now, the moment that happens, that would also kick in as additional revenue. So, long and short of it is, there is not a significant lag or lead time for all of these, some of these revenue would be recurring revenue for the contracts that have been transitioned or some of the other deals, it will be the transition revenue because we just won and we are in the process of transition even as all the old and existing deals will continue to provide the recurring annuity revenue if I may.

Aejas Lakhani:

So, if I were to reiterate what you're saying is, you're saying old wins where the months of transition are over will start now, the new wins which you have won, the transitioning income will be there for the next few quarters before they move to recurring. Is that understanding correct?

Sreekanth Nadella:

Absolutely correct.

Aejas Lakhani:

Couple of other things, on the employee cost side, so I just want to understand that has there been increments in this quarter and is this the new normalized employee cost base?

Vivek Mathur:

So, this is a nominal increase that we have given to retain certain talent and give for market corrections, and the actual increments will take place from July and that impact you will see in the next quarter which will not be abnormally high, but there will be some impact.

Aejas Lakhani:

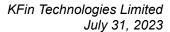
Vivek, a follow up on that is I remember there were these episodic increases to retain talent that took place in the previous year because KFintech was going through its own employee upgrades from a pay perspective. So, is that behind us or is some part of it still continuing.

Vivek Mathur:

That's already behind us. That was an abnormal increase as you know, for IT and engineers to retain them that was in the range of almost 50% to 60% and that had a one-time impact on the cost. Now, it is running. So, that's behind us. This is a nominal increase that you give in the range of 7% to 8% per annum to maintain the task force that we have. So, that impact will come in the next quarter, but nothing abnormal is going to happen like it happened last year.

Sreekanth Nadella:

I'll just add some more color to that if I may. On the IT front for example, even as there were average comp increases that were accorded because of the overall wage inflation that happened





not just for us but across the sectors in India and abroad. We have since then rationalized the total headcount itself down by nearly 120 people, which is roughly a 14% rationalization of IT manpower headcount. So, what you're really seeing is an increase in average comp largely offset by productivity gains through either better automation or if it comes to technology through better bottom of the pyramid management as we move into tier 2 cities, for example, we have since we last spoke, expanded our operations in Bhubaneswar quite sizably, and provides us a very strong resilient player of committed workforce at a lower price point and therefore overall impact on the payroll would be marginal to that extent. So, it's not just the increase of comp that should be looked at in terms of the overall cost expansion that would be forecasted, but also what are we doing to drive the productivity and take the headcount out, which to a large extent negates any impact on the payroll cost.

Aejas Lakhani:

What I understand is the annual increments will take place from Q2. This was more to retain a certain part of the tech team and incrementally you are setting up centers in tier 2 locations like Bhubaneswar where the cost structure is lower. Is that understanding correct on the employee side?

Sreekanth Nadella:

Absolutely. And it is not a future activity. We have already completed that activity. So, we have today about near 100 people, which we are doubling up and hopefully we will soon start moving the operations, not just IT into other locations as well. The answer is yes, and it's already done, I mean, we are continuing to progress in that.

Vivek Mathur:

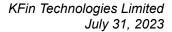
One more addition to that is integration of WebileApps that we acquired; their employee cost is also included in this quarter.

Aejas Lakhani:

Just on the other expenses, you've been investing ahead of the curve in technology. How are we thinking about that line item for '24?

Sreekanth Nadella:

For '24 our journey line for innovation is very, very interesting and substantive actually. While the overall quantum of the cost could be similar, we are doing it materially differently from the past, largely driving through partnerships with the industry. For example, since we last spoke, we have created a strong partnership with AWS and with several other industry participants, whether it is on the data center side, whether it is on the application layer, whether it is on the data layer, and basically taking the burden of the cost and the innovation together, but at the same time taking to the market together so that the power of compounding comes together, right. We have a series of assets as early as I think 15th August for the Independence Day we have launches lined up, which are several very cutting edge, first in the industry, not just in India but across the world if I may. Very excited to make our own little mark in terms of the financialization of the country. So, we have created a hot site for our DR capabilities significantly enhancing and creating a benchmark of standards if I may within the country, as has been duly recognized by the regulation as well. And in addition to just the hardware expansion, the technology is associated with that. It is truly the products, platforms and the data monetization that would I believe drive the revenue pools into the coming years even as the quantum of investor base expands. So, we have about five new products or platforms into the alternative





investment space. Couple of them in the corporate registry space especially with the regulation on PIT with the regulation on insider trading, so on and so forth, solutions that needed to be created in the country are created at this point in time. Likewise, in the case of the mutual funds too, where we believe the market share expansion is important, our clients growth, in addition to processing we need to help them grow and that's where I guess a decent amount of our tech solution spend also is going. Not to forget the important aspect of geographical expansion, as I said, as we move into Thailand and we need a platform that's ready. So, the last few quarters, for example, some amount of effort and burn has already been baked into creating the platform for a country. At any given point in time, these solutions will have a long-lasting economic impact for the company as we have the ability to then expand the client base on the same platform.

Aejas Lakhani:

Could you just speak about the Rs.130 crores payout that is due, is it in October?

Vivek Mathur:

Yes, that's right. And that is something which is subject to the board approval, which will come up in the next board meeting. Subject to the board deciding to approve that, we will repay Rs.134 crores in October.

Moderator:

We have a next question from the line of Devansh Nigotia from SIMPL. Please go ahead.

Devansh Nigotia:

Just wanted to understand in case of number of folio, let's say if Reliance demerges the separate company, then how does that changes our revenues and number of folios count?

Sreekanth Nadella:

It changes, it adds to a completely new revenue pool for us. So, for example for the question that you asked, there is a one-time fee that we have agreed with the client for the demerger activities which is quite complex and needs to be done in a time-bound fashion. Beyond the demerger activity fee itself, the folios that get created within the new entity, that is the Jio financial services will yield the revenue for the agreed unit price that we have with the client.

Devansh Nigotia:

So, does that mean that the folio income actually doubles in that case, except the corporate action income?

Sreekanth Nadella:

It will go to commensurate to the number of new retail holders into the new entity, yes.

Devansh Nigotia:

And in terms of international, it's still not clear that the number of clients have increased significantly, but how will it translate in terms of the revenue flowing in? And also if you can share your outlook for the next two years in terms of revenue growth, what are our aspiration in international business?

Sreekanth Nadella:

See, the international today is largely limited to Asia, right, and we are calling it international, it is largely Malaysia, which is the largest geography for us followed by Philippines, we have one client each in Hong Kong and Singapore and we just won one in Thailand at this point in time, right? It is a fair question in terms of the quantum or the number of clients may seem not commensurate to the revenue pool, especially when you extrapolate that in the Indian context, right? I mean, 25 asset management companies in India are giving about Rs.600-odd crores of



revenue, whereas that's not the same case in the case of the countries that we are working there. So, this goes back to the growth path itself if I may, right. See, as we start a new country, right, and especially when we started our journey just about 4.5 years back or 5-years back to go beyond India, we needed to create one platform which never existed, so that took us a couple of years to do so. And starting pretty much bottom up in countries where outsourcing was never done before. In all these parts of the world that I spoke about, the entire delivery continues to be done in-house. We have in fact orchestrated this model of how we do it in India in those parts of the world. Now, as one would expect, typical to such complex models and generational shift of doing probably the one of the most mission critical work for any asset manager, the larger asset management companies did not initially participate. Ergo, though the number of client base is very large, many of them are the smaller and medium tiered funds. If you were to compare in India, for example, comparing with the top three, top four AMCs probably in the bottom leg of the AMCs, you would understand how different is it the AUM profile, revenue profile is associated. Now, that's one of the reasons why the revenue does not look commensurately as high as the quantum of the clients. Second is the fact that as we win, there is a transition revenue, but the run revenue will always be higher as you would expect. So, we are constantly seeing transitioning multiple clients at a given point in time, which means that we truly never had a full year revenue of all the clients put together. What has started to change in the last one-half to two years especially after COVID is the participation of the large AMCs in discussions with us in negotiations and one of that in fact, as I said has just fructified in Thailand, which is one of the largest asset management companies there where we have just signed the contract or the letter of award just about last week, speaks about the transcendental shifts in terms of the larger AMCs now part taking the journey of the RTA model which we have orchestrated. So, very simply put, the past four years the growth from nil to where we are today marks obviously exponential growth, albeit on a zero basis. From here on, the growth would largely come in the form of larger asset management companies, who are now signing up, many of whom can easily give a revenue profile which can be not a percentage but multiples of the current revenue itself. As I said, you compare the country's largest AMC with that of probably the 30th or the 35th and you see that one such contract you win is going to multiply your revenues two or three, four and not 20% or 30%. So, that's the way the international would expand. Now, while that is on the Asia side, as I clearly mentioned, our intent into this year is to move to west. We have made sizable progress both in terms of our understanding of the market, customization of the products and platforms, so on and so forth, and probably into the coming quarters we'll have something more clear to explain, but broadly speaking, as I said earlier, our intent is to be probably global fund administrator of repute from India, and to be the first one from it.

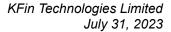
Moderator: We have a next question from the line of Pranui Shah from JP Morgan. Please go ahead.

Pranuj Shah: First question was what is the attrition rate for your business in the second half of FY23 and in

the first quarter of FY24?

Sreekanth Nadella: Sure. I think the H2 of FY23, the attrition had tapered down to close to 14%, leaving overall yearly average of 22% for the year that had gone by. Q1 of this year, it was marginal at 4.6%

was the attrition that we have seen.





Moderator:

We have a next question from the line of Abhijeet Sakhare from Kotak Securities. Please go ahead.

Abhijeet Sakhare:

First question is on the MF RTA business. So, we see like 1% or 2% decline QoQ in terms of the realizations. So, firstly, if this decline sort of indicative of what is built into the slab-based pricing or there has been some form of renegotiations that have happened during the quarter?

Sreekanth Nadella:

It is a combination of all. One is if you see the growth profile of my clients for the Q1, there was a good quantum of growth that was generated by the larger asset management companies vis-àvis the medium-tiered AMCs. Now, as we know the yield that we get from the larger AMC by virtue of telescopic pricing kicking in will always be lower than that of when compared to smaller and medium tiered AMC. So, where the growth comes, it's not just the overall growth, but which AMC/AMCs are giving growth is very important as well. And as I said in Q1, the growth we have seen were largely coming from the larger AMCs and our growth yield that was associated was slightly lesser.

Abhijeet Sakhare:

Should we expect like a step change or a more drastic impact sometime during the year from any of the contract renewals or nothing this year?

Sreekanth Nadella:

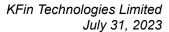
No. So, there is no question of any step change and as you are aware and we have already articulated earlier, every year even that slab change or any renegotiated contract level impact on the revenue is largely under 1% or rather the revenue that you see every year for example probably shows under 1% of revenue that had been forgone because of those discounting if I may. There is no step change. There will be an impact as AMCs move from slab-to-slab and as they grow faster, but all of that impact would be very, very marginal in the context of the growth that we have seen.

Abhijeet Sakhare:

So, second one, just coming back to the international business, while I'm sure pricing is not the only driving factor, but it would help if you can give us a sense of where does your pricing come to versus the current incumbents if at all, or if you have any understanding of what's the overall cost of an in-source model and where does our value proposition come in, in terms of the cost reductions?

Sreekanth Nadella:

Our yield from our international business at this point in time is slightly above five basis points, right, which marks near 25% higher yield as compared to that of Indian AMC scenario at this moment in time, point number one. Our growth, as you rightly said, is not just based on the pricing, also the style of commercials, for example, we have minimum fee that we derive irrespective of the growth of an AMC within that part of the world. Now, these are some of the things that we obviously have learned in terms of the mistakes that we've done here in terms of the contracting over the last 35-years, which helps us in terms of whether there is a market downturn or etc., given our costs not go away, there is a minimum certain amount of fee that we charge. Point #3, the yield coming from the international market we believe will expand over time. As our services have now started expanding in two different angles, one, for the same client for whom we were only delivering transfer agency work, we are now also delivering fund





Sreekanth Nadella:

Pranuj Shah:

accounting and fund administration work, which typically could be anywhere between 3 to 4 basis points when it comes to mutual funds. So, that means that if today if I'm drawing five basis points from a client X delivering only tier services, should I go on to also render FA services that I may become anywhere between 7 to 8 or 9 basis points. So, the yield per client can grow as my overall service portfolio has increased for the same set of clients. Point #4, in terms of the asset classes itself, while the mutual funds give you a more rationalized structure simply because of the volume, the alternative slab clearly gives you a higher number. And globally, if you see the fund administration business, it is anywhere between 7 to 15 basis points, I mean that is, of course, for the larger entities such as JP Morgan and BNY Mellon, State Street, etc., what they charge to the asset managers, and whilst we aren't there, we believe that our journey is firmly to that direction actually.

Moderator: We have our next question from the line of Pranuj Shah from JP Morgan. Please go ahead.

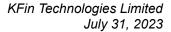
Pranuj Shah: Sir, did you already addressed the question?

Sreekanth Nadella: I think the question was what was the attrition in H2? We were at about roughly 14%, Q1 of this year it was much more rationalized, I think we are at 4.6% is attrition that we have seen in Q1.

Pranuj Shah: So, like if you were to look at your employee cost, obviously you had explained in detail earlier why it is risen. So, this should be the base we should take from here on, right, going ahead?

Yes, so subject only to business development that we would do. So, there are areas that we want to grow. See, it's not a mature business, in the sense that we're not just running the same thing over and over again. We are intentful of growing much faster, we are intending of expanding geographically in asset classes. An entity like that will continue to invest on two critical components -- product innovation and platforms -- to basically address the new markets, asset classes, etc., And second in order to make sure that those reach the end market, certain amount of money will be on the business developmental activities. So, if we were to run our core business without any adventure or intent to expand our profile, then yes, our cost in fact won't even be the same where they are, they will even come down, but we've been incurring sizable expenses for driving growth into the future. So, broadly like-to-like cost for the same set of operation, I would expect to see a 10% dip as we have seen year-after-year largely on account of the productivity that we drive, even accounting further payroll increases because of wage inflation. However, our overall cost has seen slight increase as you would see, but that's largely on account of the business development, innovation, etc., expenditure for the new lines of businesses products and, platforms that we are acquiring.

And the last one was on the international and the other AUM piece. I think you already talking about the yields earlier that your international is north of five basis points. But if I see on the total overall piece, I'm getting it around 4.5 for your international plus other AUM. So, fair to say that the AIF fees, and pension fees command a much lower yield as compared to the rest of the business.





Sreekanth Nadella: Very true. See pensions, commercial model itself is very different, right, Pensions, we are not an

RTA, we are a central record keeping agency, CRA, under again licensed by the Pension Fund Regulatory Development Authority of India. The CRA has contracted rates with the regulated which are pretty much sacrosanct. It is not negotiated by the client in the form of POP or the PFM, right, or at an investor level so to speak. It is a flat fee; it roughly averages to about Rs.90-100 if I may, right, for every subscriber for every year. So, the growth out there is only and only in the form of adding the number of subscribers. There is no discretion in terms of charging higher or lower fee. There is no discretion in the form of value-added solution what have you. When you calculate the yield if it is divided by the AUM that we are managing for the pension funds then, it is not even a direct correlation because we are not charging on the AUM, but it is charged per consumer.

Pranuj Shah: So, the decline in this quarter would be entirely on the basis of the pension, not on the

international, and the AIFs. Is that the correct understanding?

Sreekanth Nadella: That is correct, yes.

Moderator: Ladies and gentlemen, that was the last question for today. I now hand the call to Mr. Abhijeet

Sakhare for closing comments. Over to you.

Abhijeet Sakhare: Thank you all for joining the call today. Have a good day.

Moderator: On behalf of Kotak Securities, that concludes this conference. Thank you for joining us and you

may now disconnect your lines.