

KFIN Technologies Ltd

- Incorporated in 2017, **KFin Technologies Limited is a leading technology-driven financial services platform.** The company provides services and solutions to asset managers and corporate issuers across asset classes in India and provides several investor solutions including transaction origination and processing for mutual funds and private retirement schemes in Malaysia, the Philippines and Hong Kong.
- As on September 30, 2022, the company is **India's largest investor solutions provider to Indian mutual funds, based on several AMC clients serviced.** The company is also servicing 301 funds of 192 asset managers in India as on September 30, 2022.
- As on September 30, 2022, KFin Technologies Limited is the only investor and issuer solutions provider in India that offers services to asset managers such as mutual funds, alternative investment funds ("AIFs"), wealth managers and pension as well as corporate issuers in India.
- KFin Technologies Limited is one of the two operating central record-keeping agencies ("CRAs") for the National Pension System ("NPS") in India as on September 30, 2022.
- **KFin Technologies Limited is India's largest issuer solutions provider based on several clients serviced, as of September 30, 2022.**
- The company has classified its products and services in the following manner:
 - 1. **Investor solutions** -(Account Setup, Transaction Origination, Redemption, Brokerage Calculations, Compliance / Regulatory Reporting Recordkeeping). Domestic mutual funds, International, Pension services, Alternatives and wealth management.
 - 2. **Issuer solutions** (Folio Creation and Maintenance, Transaction Processing for IPO, FPO, etc. Corporate Action Processing, Compliance / Regulatory Reporting Recordkeeping MIS, Virtual Voting e-AGM, e-Vault).
 - 3. **Global business Domestic mutual services** (Mortgage Services Legal Services Transfer Agency Finance and Accounting).

Objects of the Issue

- Carry out the Offer for Sale of Equity Shares by the Promoter Selling Shareholder
- General Corporate Purposes.

Competitive Strengths:

- **Scaled platform with strong track record of growth and market leadership**
 - KTL is one of the two leading investor solutions providers in India as on September 30, 2022. They are providing services to 24 out of 41 AMCs in India, as on September 30, 2022, representing 59% of market share based on the number of AMC clients.
 - KTL holds a 46% market share based on the market capitalization of NSE 500 companies in India's issuer solutions space.
 - They also had a 40% and 29% market share based on number of mainboard initial public offerings handled in Fiscal 2022 and six months ended September 30, 2022, respectively.
- **Diversified multi-asset servicing platform is well-positioned to benefit from strong growth across large markets in India and South East Asia**
- **Unique "platform-as-a-service" business model providing comprehensive end-to-end solutions enabled by technology solutions developed in-house.**
 - KTL have latest modern technology stack and cloud ready products and platforms and have continuously adopted newer technologies to drive automation across the platform. This has resulted in a reduction of their operating costs by 16.16% on annual basis in the last three Fiscals.
 - The in-house technology platforms resulted in the evolution from a service led business model in to a financial technology platform. KTL's technology led services are a key differentiator from their competitors.
- **Deeply entrenched, long-standing client relationships with a diversified and expanding client base**
 - KTL's average client relationship within domestic mutual fund solutions and issuer solutions is for a period of more than 10 years. They typically enter into long term arrangements with clients. Their market leadership position and long-term integrated client relationships across the platform puts KTL in a favorable position to increase business share from these verticals from existing clients.
 - The increase in business with clients is due to growth in the client's business as well as various cross-sell and up-sell activities undertaken by KTL such as technology solutions towards website development, mobile application developments, infra and hosting facilities and platform solutions towards investor onboarding and e-voting platforms.

SUBSCRIBE

| | |
|--|---------------------|
| Issue Size | Rs. 15000 Mn |
| Fresh Issue | - |
| Offer for Sale | Rs. 15000 Mn |
| Issue Open Date | 19th December, 2022 |
| Issue Closing Date | 21th December, 2022 |
| Price Band | Rs. 347 - Rs. 366 |
| Lot Size | 40 shares per lot |
| Face Value | Rs. 10 per share |
| Post Issue Market Cap at Lower Price Band | Rs. 5800 cr |
| Post Issue Market Cap at higher price band | Rs. 6130 cr |

Source: Company's RHP

Indicative IPO Process Timeline

| PARTICULARS | DATE |
|------------------------------------|---------------------------------|
| Finalisation of basis of allotment | 26 th December, 2022 |
| Unblocking of ASBA Accounts | 27 th December, 2022 |
| Credit to demat accounts | 28 th December, 2022 |
| Commencement of trading | 29 th December, 2022 |

Source: Company's RHP

Financial Highlight

| PARTICULARS | FY22 (in Mn) | FY21 (in Mn) | FY20 (in Mn) |
|-------------------------|--------------|--------------|--------------|
| Revenue from Operations | 6395 | 4811 | 4498 |
| EBITDA Margin | 42.74% | 41.09% | 32.82% |
| PAT Margin | 23.23% | (13.41%) | 1.01% |
| Adjusted EPS | 9.44 | (4.28) | 0.28 |
| Return on Net worth | 29.99% | (17.07)% | 0.97% |
| Total Borrowings | 1225.1 | 3461.3 | 3754.3 |

Source: Company's RHP

Shareholding Pattern

| PARTICULARS | PRE-ISSUE | POST-ISSUE |
|--------------|-------------|-------------|
| Promoters | 74.37% | 49.91% |
| Public | 25.63% | 50.09% |
| TOTAL | 100% | 100% |

Source: Company's RHP

● **Asset-light business model with recurring revenue model, high operating leverage, profitability and cash generation**

- KTL has demonstrated a track record of consistent revenue growth, while operating an asset light model which has previously generated a strong free cash flow.
- Revenue from KTL's investor solutions, issuer solutions and global business services grew at a CAGR of 26.60%, 20.58% and 8.08%, respectively, between Fiscals 2020 and 2022

KFin Technologies Limited IPO: Growth Prospects

- **Deepen the relationship with existing clients:** They have strong multi-year relationships with clients across the platform, primarily based on core services around registry and transfer agencies. KTL plans to continue to grow the overall share of revenues from the sale of different services to existing and new clients.
- **Expand customer bases through enhanced sales and marketing:** In addition to the growth of existing clients, KTL actively pursues new client acquisition across its service offerings and different businesses. They undertake marketing and sales initiatives across their platform to target new clients and expand their client base.
- **Investing in technology solutions:** They plan to develop a co-innovation laboratory with key industry players in ETF and index funds to drive research and development in this area. Also, they intend to continue to invest in technology innovations in line with the growth of their business and to meet client requirements.
- **Focused and selective international expansion:** They plan to expand internationally beyond the geographies they are already present by further enhancing their global delivery model, wherein they will look to become delivery partners to global investors and issuer services providers to enter other markets.

Industry Highlights:

- The aggregate assets under management of the Indian mutual fund industry has grown at a healthy pace over the past 10 years, against the backdrop of an expanding domestic economy, robust inflows, and rising investor participation, particularly from individual investors.
- The mutual fund industry in Southeast Asian countries has been on the rise owing to its large and growing population and uptick in affluence across all income groups. According to Preqin, the global alternative asset under management is expected to nearly double over the next five fiscals, swelling to USD 23.2 trillion by fiscal 2026 from an estimated USD 13.3 trillion at end of fiscal 2021.
- The wealth management industry has seen robust growth over a low base, because of fresh investments from household savings going into organized financial assets, and increasing need for customization, with clients typically asking advice for asset management, financial planning, tax planning, estate planning, and succession planning.
- Over the last six years, the equity portfolio management services industry has seen significant growth, with the market becoming more mature, increasing number of High Networth Individuals, greater need for customized asset allocation based on risk-return profiling, and growing awareness of equity portfolio management services as a product.
- CRISIL MI&A estimates the investor solutions market in India to be approximately ₹14-15 billion in Fiscal 2022.

Key Concerns:

- **Significant disruptions in the information technology systems or breaches of data security could adversely affect the business and reputation.**
- **It derives a significant portion of our revenues from a few customers and the loss of one or more such clients could adversely affect the business and prospects**
- **There are outstanding legal proceedings involving the firm**
- **The issuer solutions business is affected by seasonality, which could result in fluctuations in our operating results**
- **Failure to obtain, maintain or renew our statutory and regulatory licenses, permits and approvals required to operate our business**

Competitive Landscape:

| Particulars (In Million) | KFin Technologies Limited | Computer Age Management Services Limited |
|--------------------------|---------------------------|--|
| Revenue | 6395 | 9096 |
| NAV Per Share | 38.45 | 132.43 |
| Adjusted EPS | 9.44 | 58.73 |
| RONW | 29.99% | 49.32% |
| P/E | 38.77 (approx) | 39.37 |

Source: Company's RHP

Recommendation:

- Kfin's financial track record is strong in revenue as well as margin terms.
- The company's asset-light service-based model is attractive from a profit generation point of view.
- KFin is proxy play to Mutual fund industry growth in India. It is priced in lines with Leader in the Industry CAMS which is 39-times price to earnings. **We thus advise investors with a longterm investment horizon to SUBSCRIBE to the issue.**

Balance Sheet

| Particulars | FY22 (in Mn) | FY21 (in Mn) | FY20 (in Mn) |
|-------------------------------------|-----------------|-----------------|-----------------|
| Equity share capital | 1675.7 | 1508.4 | 1508.4 |
| Other equity | 4767.7 | 1955.6 | 2587.3 |
| Loans and borrowings | 1225.1 | 2938.9 | 3422.1 |
| Lease Liabilities | 250.5 | 262.6 | 281.6 |
| Provisions | 91 | 74.9 | 51.7 |
| Deferred Tax Liabilities (Net) | 1237.7 | 1249.5 | 0 |
| Current Borrowings | 0 | 522.4 | 321.2 |
| Lease liabilities | 120.9 | 101.2 | 96.4 |
| Trade payables | 255.3 | 252.6 | 204 |
| Other Financial Liabilities | 310.6 | 197.6 | 65.3 |
| Other current liabilities | 170.2 | 118.6 | 89.2 |
| Provisions (current) | 35 | 30.6 | 36 |
| Current tax liabilities | 124 | 13 | 9.3 |
| Total Equity and liabilities | 10264 | 9226.1 | 8683.8 |
| Property, plant and equipment | 337.6 | 285.2 | 344.7 |
| Right of use Assets | 337.3 | 336.9 | 365.3 |
| Goodwill | 5434.3 | 5245.5 | 5914.7 |
| Other Intangible Assets | 576.1 | 428 | 289.3 |
| Intangible Assets under development | 339.4 | 25.1 | 0.8 |
| Non-current financial assets | 61.5 | 52 | 53.9 |
| Non-current tax assets | 369.5 | 339.6 | 330.9 |
| Other non-current assets | 12 | 21.9 | 3.6 |
| Current Investments | 930.8 | 949.1 | 135.4 |
| Trade receivables | 1126 | 1106 | 883.2 |
| Cash | 450.3 | 229.2 | 116.6 |
| Other Bank Balance | 1.5 | 5.4 | 61.6 |
| Other current financial assets | 190.4 | 118.1 | 79 |
| Other Current Assets | 89.5 | 81.3 | 53 |
| Investments | 2.3 | 16.3 | 90.6 |
| Short term Loans and advances | 5322 | 5050.8 | 5162.8 |
| Other Current Assets | 68.2 | 35.2 | 60.2 |
| Total assets | 10264 | 9226.1 | 8683.8 |

Source: Company's RHP

Cholamandalam Securities Limited

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