

KFIN TECHNOLOGIES LIMITED



KFIN TECHNOLOGIES LIMITED

Issue Opens On
December 19, 2022

Issue Closes On
December 21, 2022

Price Band (INR)
347-366

Issue Size (INR Mn)
15,000

Rating
NEUTRAL

KFin Technologies Limited (KFIN), established in 2017, is a premier technology-driven financial services platform. In India, the company offers services and solutions to asset managers and corporate issuers across asset classes, while in Malaysia, the Philippines, and Hong Kong, it provides investor solutions such as transaction origination and processing for mutual funds and private retirement plans. Based on the number of AMC clients served as of September 30, 2022, the company is the leading investor solutions provider to Indian mutual funds. KFIN is India's sole investor and issuer solutions provider, offering services to asset managers such as mutual funds, alternative investment funds (AIFs), wealth managers, pension funds, and corporate issuers. As of September 30, 2022, the company is one of three operational central record-keeping agencies (CRAs) for India's National Pension System (NPS). Its revenue for FY22 and H1FY23 stood at INR 6,395 mn and INR 3,488 mn, respectively.

OFFER STRUCTURE

Particulars	IPO Details
No. of shares under IPO (#)	4,09,83,607
Net offer (# shares)	4,09,83,607
Price band (INR)	347-366
Post issue MCAP (INR Mn.)	58,146-61,330

Source: IPO Prospectus

Indicative Timetable	
Offer Closing Date	December 21, 2022
Finalization of Basis of Allotment with Stock Exchange	On or about 26 th Dec' 2022
Initiation of Refunds	On or about 27 th Dec' 2022
Credit of Equity Shares to Demat accounts	On or about 28 th Dec' 2022
Commencement of Trading of Eq.shares on NSE	On or about 29 th Dec' 2022

Source: IPO Prospectus

Issue	# Shares	INR in Mn	%
QIB	3,07,37,705	11,250	75%
NIB	61,47,541	2,250	15%
Retail	40,98,361	1,500	10%
Net Offer	4,09,83,607	15,000	100%

Source: IPO Prospectus

Objects of the Offer: The net proceeds will be utilized for the following purpose
a) To carry out the Offer for Sale of Equity Shares aggregating to INR 15,000 mn by the Promoter Selling Shareholder;
b) To achieve the benefits of listing the Equity Shares on the Stock Exchanges.

Shareholding Pattern	Pre-Issue (%)	Post-Issue (%)
Promoters & Promoters Group	73.4%	49.9%
Others	26.6%	50.1%
Total	100.0%	100.0%

Source: IPO Prospectus

Particulars (In INR Mn)*	FY20	FY21	FY22	H1FY23
Revenue	4,499	4,811	6,395	3,488
EBITDA	1,586	2,124	2,879	1,335
EBITDA Margin	35.3%	44.1%	45.0%	38.3%
PAT	45	-645	1485	853
PAT Margin	1.0%	-13.4%	23.2%	24.5%
Net Worth	4,096	3,464	6,443	7,367
RONW	1.0%	-17.1%	30.0%	12.4%

Source: IPO Prospectus, * Restated Statement

KFIN TECHNOLOGIES LIMITED

Company Overview

KFIN is a leading technology driven financial services platform providing comprehensive services and solutions to the capital markets ecosystem including asset managers and corporate issuers across asset classes in India and provide several investor solutions including transaction origination and processing for mutual funds and private retirement schemes in Malaysia, Philippines and Hong Kong.

- As on September 30, 2022, the company is India's largest investor solutions provider to Indian mutual funds, based on number of AMC clients serviced. It is 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. In addition, it has signed on two new AMCs that are yet to launch operations as on September 30, 2022. Through its acquisition of Hexagram, KFIN serves six AMCs in India on fund accounting, of which, three are its existing AMC clients in India for investor solutions.
- As on September 30, 2022, KFIN 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, besides servicing overseas clients in Southeast Asia and Hong Kong.
- The company is servicing 301 funds of 192 asset managers in India as on September 30, 2022, representing 30% market share based on number of AIFs being serviced.
- The company is one of the three operating Central Record Keeping Agencies (CRAs) for the National Pension System (NPS) in India.
- As on June 30, 2022, out of the 60 AMCs in Malaysia across wholesale funds, unit trust funds and private retirement schemes KFIN is servicing 18 AMC clients in Malaysia in addition to three clients in Philippines and Hong Kong as on September 30, 2022. In addition, it has signed two new AMCs in Malaysia and one AMC in Singapore that are yet to launch operations as on September 30, 2022.
- It is the largest issuer solutions provider in India based on number of clients serviced, as on September 30, 2022. KFIN is one of only two players of scale in India's issuer solutions space where it holds a 46% market share based on the market capitalization of NSE 500 companies and a 37% market share based on number of clients serviced within NSE 500 companies, each as on September 30, 2022. The company also had a 40% and 29% market share based on number of mainboard initial public offerings handled in FY22 and H1FY23, respectively.

The company provides several critically important services to the Indian capital markets ecosystem. KFIN offers a wide array of investor and issuer solutions including omni-channel transaction origination and processing, channel management, which is mapping of mutual fund schemes of AMCs to distributors selected by the AMCs and related distributor management, including brokerage computation and channel servicing which includes brokerage pay-out, query solution and GST compliance assistance, customer onboarding with integrated KYC, unit allocation and redemption, reporting and compliance checks on a real time basis. It also offers asset servicing products including a distributor platform, an investor platform, and an online transaction platform together with data analytics.

It has adopted a platform driven product design and delivery approach to service the varied needs of its clients. The company has an end-to-end transaction management platform across multiple asset classes such as mutual fund, direct stock investments, alternate investment funds, wealth and pension across India, Malaysia, Philippines and Hong Kong. It provides its clients with data driven technology solutions that combine its in-house platform technologies and several of its in-house Value-Added Services (VAS) products across different asset classes, including white label technology to meet client requirements.

It constantly enhances its platform by adding new products and solutions such as digital customer acquisition tools as well as enhanced data analytics services. KFIN provides offerings such as Platform-As-A-Service (PAAS) and use technology to create products and platforms that eliminate manual intervention, improve the accuracy of transaction proceeding and reduce cost by eliminating the manpower needs in conducting day to day business.

The company has recently acquired 23 clients and added fund accounting and reconciliation products to its platform through its acquisition of Hexagram in FY22. These products are being used by 24 clients across different segments within financial services sector in India and Malaysia, including mutual funds, alternative investment funds and corporate treasuries as on September 30, 2022. KFIN has developed several of these products and services that it has in-house and hence, are proprietary to the company, or has acquired them through acquisitions. These products and services are applicable across asset classes, industries and geographies, and find applications across asset classes.

As an investor solutions provider, it serves asset managers across a broad spectrum of asset classes spanning mutual funds, alternative investment funds, pension funds, wealth management, portfolio management service providers and corporate treasuries. Within investor solutions for Indian mutual funds, it has grown its market share of overall AAUM managed by its clients and serviced by the company from 25% for FY20 to 32% for H1FY23. KFIN's market share of Equity AAUM managed by its clients and serviced by the company increased from 29% for FY20 to 35% for H1FY23. The company has been the 'partner of choice' for new AMCs in India for the last six Fiscals and H1FY23, as it on-boarded seven (including two AMCs that are yet to launch operations) of the last 11 new AMCs in India (including one AMC that has not yet appointed a registrar and transfer agent for their operations), each of which chose to be its client for domestic mutual funds solutions.

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Within investor solutions for non-mutual fund asset classes such as alternative investments funds, the company serves 301 funds for 192 asset managers as on September 30, 2022. KFIN provides a variety of services to these asset managers and advisors, including registry and transfer agency services, stamp duty services, fund accounting, customer communication management and compliance and regulatory reporting. Within investor solutions for international markets, it serves 18 clients in Malaysia as on September 30, 2022, in addition to three clients in Philippines and Hong Kong, as on September 30, 2022. It has also signed on two new AMCs in Malaysia and one AMC in Singapore that are yet to launch operations as on September 30, 2022.

Within its global business services business, the company manages a global ‘center of excellence’ for a large global mortgage and issuer services provider, wherein it provides global business services such as mortgage services, legal services, transfer agency services and finance and accounting services on a fully outsourced basis by leveraging its technology and execution skills as well as India’s low-cost advantage.

The company has transformed its business into a financial technology driven platform-as-a-service model. It has processed 1.60 mn average daily transactions, including 1.00 mn systematic transactions like Systematic Investment Plans (SIPs) per day and USD 3.20 bn (representing INR 239.03 bn) average daily settlement for domestic mutual funds in H1FY23. The company outsources its data center to third parties and accordingly, its platform is scalable as it can expand based on its need for additional capacity to handle transactions. KFIN’s technology driven solution development helps support growth in its clients’ businesses as well as ensures client entrenchment without significant investment in its operational team. It provides clients with an omni-channel experience by combining its platform with a physical pan India network of 182 service centers as on September 30, 2022, that aids in offline transaction origination and channel partner servicing.

Following is the product portfolio of the company:

	Investor Solutions				Issuer Solutions	Global business services
	Domestic Mutual Fund	International	Pension services	Alternatives and wealth management		
Front-End	Account Setup, Transaction Origination, Channel Management, Customer communication management	Account Setup, Transaction Origination	Account Setup Transaction Origination	Account Setup	Folio Creation and Maintenance	
Middle Office	Transaction Processing Unit, Allocation KYC, Redemption Brokerage, Calculations Payment Processing, Fund Accounting Reconciliation	Transaction Processing Unit, Allocation KYC Redemption Brokerage Calculations Payment Processing	Transaction Processing Unit, Allocation Redemption Reconciliation	Transaction Processing Fund Accounting 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	Online Tx Platforms Website and Apps Other Platfo		Wealth Management platform “IWaap” for wealth managers	Virtual Voting e-AGM, e-Vault, Fintrack, Other Platform Solutions	

Source: IPO Prospectus

KFIN TECHNOLOGIES LIMITED

INVESTMENT RATIONALE

Scalable platform with a proven track record of growth and market dominance:

KFIN is a leading technology-driven financial services platform providing comprehensive services and solutions to the capital markets ecosystem, including asset managers and corporate issuers across asset classes in India. In addition, it offers several investor solutions, including transaction origination and processing for mutual funds and private retirement schemes in Malaysia, the Philippines and Hong Kong. It enjoys market leadership positions across several different parameters in its business.

The company is one of India's two leading investor solutions providers as of September 30, 2022. It has on-boarded seven of the last 11 new AMCs in India for domestic mutual fund solutions. Within investor solutions for Indian mutual funds, it had a market share of 32% based on overall AAUM managed by its clients and serviced by the company during September 2022. Further, it has grown its market share of Equity AAUM managed by its clients and serviced by the company from 29% for FY20 to 35% for H1FY23. The SIP AUM increased from INR 1.49 tn in March 2017 to INR 6.35 tn in September 2022, and its monthly SIP inflows increased from INR 37.62 bn in March 2021 to INR 54.46 bn for September 2022.

Accordingly, its market share based on monthly SIP inflows has grown from 41% as of March 2021 to 42% as of September 2022. As on June 30, 2022, out of the 60 AMCs in Malaysia across wholesale funds, unit trust funds and private retirement schemes, it is servicing 18 AMC clients in Malaysia as on September 30, 2022, in addition to three clients in the Philippines and Hong Kong, as on September 30, 2022. In addition, the company has signed on two new AMC in Malaysia and one AMC in Singapore that is yet to launch operations as on September 30, 2022. Accordingly, KFIN is servicing AMC clients in these geographies with a total AUM of USD 6.14 bn (equivalent to INR 502.05 bn) as on September 30, 2022. Additionally, the company has one client each in Oman and Maldives as on September 30, 2022.

As of September 30, 2022, the company holds a 46% market share based on the market capitalization of NSE 500 companies in India's issuer solutions space. As of September 30, 2022, it serves more than 5,051 listed and unlisted corporates with 107.7 mn issuer solutions folio out of 172.9 mn folios. KFIN is servicing 301 funds of 192 asset managers in India as of September 30, 2022, representing 30% market share based on the number of AIFs serviced.

The company has achieved a market leadership position across its businesses by leveraging its platform comprising in-house technology and services developed by the company in-house, combined with deep domain expertise resulting from its experience of working with multiple regulators, its low-cost operations for international clients where KFIN leverages India's low-cost advantage, dedication to client success, and continued enhancement of its platform through in-house product development as well as synergistic acquisitions. The company has also benefited from the growth of the mutual fund industry's aggregate QAAUM, which grew at a CAGR of 17.2% between March 2015 and September 2022 to reach INR 39.05 tn.

The revenue from its investor solutions, issuer solutions and global business services grew at a CAGR of 26.60%, 20.58% and 8.08%, respectively, between FY20 and FY22. It was able to increase its revenue from operations by 32.91% between FY21 and FY22 and by 19.89% between H1FY22 and H1FY23.

KFIN has delivered higher growth of 11.03% (on a CAGR basis) between FY20-FY22 due to a) higher growth in AUM for its AMC clients resulting in higher AUM based revenue growth for the company, contributing an additional 4.26% growth; b) AUM based revenues from new client wins in domestic mutual fund business (including two AMCs acquired as clients through a business transfer agreement with Sundaram BNP Paribas Fund Services) contributing additional 2.63% growth; c) revenues generated from cross-selling and up-selling of VAS and technology products to its clients in domestic mutual fund solutions and issuer solutions, contributing an additional 1.88% growth; d) higher revenue growth in younger businesses (investor solutions for alternatives and wealth management, international investor solutions and pension services), contributing an additional 1.19% growth over the same time period; and e) growth in its issuer solutions business contributing 1.06% growth over the same period.

Within domestic mutual fund solutions, the total AUM of clients serviced by the company witnessed a CAGR of 19.7% between March 2019 and September 2022. This has increased its market share from 28% in March 2019 to 31% in September 2022. Its business model, which focuses on mid-size, equity-oriented mutual funds, provides the company with a significant sustainable advantage because, in terms of overall Equity AUM, AMCs other than the top five AMCs have grown at a CAGR of 28.6% between March 2016 and September 2022, as compared to top five AMCs (based on overall AUM), which witnessed a faster CAGR of 31.1% over the same period.

Revenue contribution from its newer businesses, such as alternatives and wealth management solutions, pension services, fund accounting and reconciliation services under its international and other investor solutions and international investor solutions increased from 6.98% in FY20 to 8.65% in H1FY23. It has a proven track record of undertaking strategic acquisitions and effectively integrating and growing acquired businesses. The company's approach to strategic opportunities is to evaluate acquisition targets with a highly value-accretive "platform" effect. This allows substantial up-sell opportunities from replicating and scaling newly acquired expertise across its platform and cross-sells opportunities to existing clients as well as offering its platform to newly acquired clients.

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INVESTMENT RATIONALE

KFIN's comprehensive multi-asset servicing platform is well positioned to benefit from significant expansion in India and Southeast Asia's large markets:

The net household financial savings in India have grown at a CAGR of 15.7% over FY14 to FY21, and during the same period, financial savings grew from 36% to 52%. The share of financial assets as a proportion of net household savings is expected to increase over the next five years due to an increase in financial literacy, the relative outperformance of financial assets over recent years, and the Indian government's efforts to fight the shadow economy. The rise in financial assets is expected to further boost the financial investments under mutual funds, equity, pension schemes, insurance and alternate assets.

The average AUM of the Indian mutual fund industry grew at a CAGR of 15% between March 2017 and September 2022. Between FY22 and FY27E, the Indian mutual fund industry's AUM is projected to sustain a high growth trajectory of approximately 14% CAGR. The AIF industry is expected to grow at a CAGR of 27-29% over FY22-FY27E, and such growth is expected to help expand the allied investor services industry by serving the rising demand. The wealth management market is projected to grow at a CAGR of 12-14% from March 2022 to March 2027 and cross INR 47 tn by FY27E. The AUM for NPS is expected to grow at a CAGR of 18-19% between FY22 and FY27E, owing to a rise in the subscriber base due to the tax benefits provided by NPS.

KFIN's multi-asset servicing platform allows the company to serve asset managers and issuers across each of these businesses. Accordingly, the company is positioned to benefit from macro tailwinds around growth in net household financial savings and subsequent growth across each of these asset classes.

The company operates in multiple large markets in India, Hong Kong, Malaysia and Philippines, along with presence in Oman and Maldives, across several of these asset classes. This has allowed KFIN to grow as a regional business and not just as an India focused business. The company's market leadership in India and its client relationships provide it with the platform to benefit from this anticipated growth in the Indian economy.

The combination of macro factors in the markets in which it operates such as relevant government push, increased investor pool and client engagement, broadening distribution channel, digital disruption, sustainable finance and shift in attitude of investors provides the company with a significant growth opportunity across these markets. In addition, growth in AUM and economic growth rates that influence its clients across various markets provide the company with additional opportunity to grow its business from existing and new clients.

At the end of CY21, total AIF assets under management in Singapore grew at 30% to reach USD 921 bn, up from USD 710 bn in CY20. AIF AUM in Singapore has witnessed growth at a CAGR of 20.8% over CY16-21. Given KFIN's alternatives and wealth management services business, the company expect to benefit from this trend towards alternatives.

Unique "platform-as-a-service" business model offer complete end-to-end solutions supported by in-house built technology solutions:

The company's 'platform-as-a-service' business model provides its clients with comprehensive end-to-end solutions. Its technology offering enables transaction lifecycle management combined with highly secure data collection, processing and storage. The company works with a data centre which houses over 350 servers and a data storage handling capacity of over 250 TB. The company has implemented a platform-based cross-sell approach on a deep product stack. Its core service offerings provide end-to-end support across the front office, middle office and back end combined with a suite of VAS. KFIN's approach to developing its platform, products and services is to address its clients' requirements, treating them as a partner, enabling the company to understand their requirements, develop suitable solutions, and cross-sell products and VAS to the client. The company has launched over 20 new products over the last three Fiscals and H1FY23, with two products in the pipeline. This client-centric approach and development of solutions that are easily extendable to other clients provide it with economies of scale without incurring incremental development costs.

KFIN has created a varied set of solutions for the wealth management business like a digital onboarding solution, wealth aggregation platforms that accommodates customer relationship management tools, financial planning, multiple asset class transactions, order management, and various client reporting activities along with this.

The revenues from VAS increased from INR 177.48 mn in FY20 to INR 386.15 mn in FY22, which represents a growth of 117.57% over the last three Fiscals. For FY22 and H1FY23, revenue from VAS contributed 6.04% and 5.32% of its revenue from operations, respectively.

The company's SaaS platform is focused on customer experience, cost reduction and operational efficiency. KFIN has the latest modern technology stack and cloud-ready products and platforms and has continuously adopted newer technologies to drive automation across its platform. This has resulted in operating costs reduced by 16.16% annually in the last three Fiscals. KFIN's in-house technology platforms have evolved from a services-led business model into a financial technology platform. The technology-related spend, which includes capital expenditure incurred towards computers and accessories, software and license fees, software expenses and employee costs, for FY22 and H1FY23 was INR 1,310.80 mn and INR 796.98 mn, respectively.

KFIN TECHNOLOGIES LIMITED

INVESTMENT RATIONALE

Deeply entrenched, long-standing client relationships with a diversified and expanding client base:

KFIN serves its clients to support their customers' needs across the lifecycle of a relationship in an increasingly complex compliance landscape. Due to the comprehensive nature of its platform and the reliance of its clients to source end-to-end services from the company, it is integral to its client's business and operations, resulting in long-term engagement with limited client churn. In India, the investor solutions business that the company operates in typically has two to three players. It requires high technology intensity and a track record of delivery at scale. It is subject to stringent compliance and regulations, resulting in high barriers to entry for any new entrant. As a result, the company has retained many of its clients across the businesses. KFIN has never lost an AMC or MF client over the last three Fiscals and H1FY23 to competition, except where its client had been acquired by another AMC that was not its client or where its client had ceased operations. Similarly, client loss is minimal for its issuer solutions business and is primarily restricted to mergers, acquisitions, and other corporate changes. The company typically enters into long-term arrangements with its clients. KFIN's market leadership position and long-term integrated client relationships across its platform puts the company in a favourable place to increase its share of business from these businesses' existing clients. KFIN intends to further deepen its client relationship by offering multiple platform solutions such as digital platforms for intermediaries, synchronized transfer agency and fund accounting platforms, scalable and secure technology and infrastructure with cyber-security-as-a-service, Data Analytics-As-a-Service ("DAAS") and a customer data platform.

The business model and underlying revenue model has a high proportion of recurring revenues from its clients. For FY20, FY21 and FY22 and H1FY22 and H1FY23, recurring revenue from its clients accounted for 95.78%, 99.01%, 97.64%, 99.31% and 99.17% of its total sale of services, respectively. As demand for its platform as a service model continues to increase globally, KFIN sees further potential for growth in its recurring revenues from clients.

The company has experienced significant growth due to an increase in business with existing clients. The increase in business with clients is due to growth in its clients' business as well as various cross-sell and up-sell activities undertaken by the company such as technology solutions towards website development, mobile application developments, infra and hosting facilities and platform solutions towards investor onboarding and e-voting platforms. As a result, its net revenue retention in FY22 and H1FY23 for (i) domestic mutual funds solutions is 141.50% and 112.62%, respectively, and (ii) issuer solutions business is 115.81% and 123.81%, respectively.

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

KFIN operates an attractive business model with a demonstrated track record of consistent profitability and returns while operating an asset-light model which has previously generated a robust free cash flow. Its business operations are highly resilient and predictable, largely due to deep client entrenchment and the largely recurring nature of revenues. KFIN operates an attractive asset-light model with strong free cash flow generation and internal accruals that enable the company to continue investing in various growth initiatives and undertake share buybacks to reward its shareholders. The company's asset turnover ratio was 3.20x and 2.57x in FY22 and H1FY23 (on an annualized basis), respectively. It has adopted a dividend policy. The company undertook a buyback of 14,987,846 Equity Shares in FY20. In addition, KFIN repaid its outstanding borrowings aggregating to INR 4,000 mn, along with interest payments by December 31, 2021. its Return on Capital Employed (ROCE) and Return on Equity (ROE) during H1FY23 is 20.71% and 24.72%, respectively (on an annualized basis).

Experienced management team, backed by a strong board and marquee shareholders, along with strong culture of compliance:

KFIN has a seasoned professional leadership team consisting of its Chief Executive Officer, Chief Finance Officer and Key Managerial Personnel. They are supported by experienced senior managers with extensive industry knowledge and have been associated with the company and leading multinational companies in India and outside India for an extended period of time. Key Managerial Personnel has significant experience spanning decades in the financial services and related industries. The management team has demonstrated its ability to develop and execute a focused strategy to grow its business and optimize costs through technology initiatives, enabling the company to strengthen its market position and deliver consistent financial performance. The industry knowledge and leadership of its executive leadership team, combined with their extensive experience, provide a competitive advantage and are instrumental in enabling KFIN to attract high-quality talent, drive the implementation of its strategy and achieve its long-term objective of delivering sustainable growth across the businesses.

KFIN TECHNOLOGIES LIMITED

Business Strategies

Maintain its current market leadership by strengthening its business model and deepening its relationships with existing clients:

KFIN's clients operate in a complex and fast-changing environment with evolving end-customer needs, regulatory updates, competition and technology innovation. This requires its clients to adapt to such a dynamic environment through continuous technology-driven innovation across their operations without neglecting their core businesses around investments and marketing. This need leads them to select service providers who can offer comprehensive solutions that cater to an exhaustive set of operational requirements and are enabled by advanced technologies that provide higher accuracy while ensuring a fully digital experience. The company has multi-year solid relationships with clients across its platform, primarily based on core services around registry and transfer agencies. The company clients utilize a range of services from its platform but not all of its services and VAS. The company has been increasing its efforts to up-sell and cross-sell other products and services, including value-added software-as-a-service and data analytics products, to its clients. KFIN intends to continue to grow the overall share of revenues from selling these services to existing and new clients.

As on September 30, 2022, KFIN had 24 operating clients in its domestic mutual fund solutions business. In addition, the company has signed on two new AMCs that are yet to launch operations as on September 30, 2022. While the company expects to increase its revenue from these clients in line with overall market growth and growth in the business of its clients, KFIN also seeks to increase revenue from these clients by increasing the share of its 'platform-as-a-service' offering from these clients.

As on September 30, 2022, the company had 5,051 clients in its issuer solutions business and it intends to increase revenues from these clients through an increase in folios managed for these issuers, increase revenues from mandatory compliance activities performed for a client and fee collection from other transaction-based services performed for clients. It also intends to increase the share of its 'platform-as-a-service' offering which includes 'Fintraks' that has 80 clients as on September 30, 2022, 'eVaults' that has 47 clients as on September 30, 2022, 'eVoting/Instapoll' that has 433 clients as on March 31, 2022, 'eAGM' that has 210 clients as on March 31, 2022. The company also plans to cross-sell 'iMatch', reconciliation product of Hexagram.

In investor solutions for other asset classes, the company has a strong pipeline of products under development such as 'AIF-in-a box', a comprehensive platform for AIFs, 'NPS Agent Platform', for assisted NPS sales and 'IWAPP NXT', an online web application-based solution for wealth customers. These will help the company further increase its wallet share through cross sell of these products to its existing customers.

Its primary client for global business services business is Computershare and its various business lines across multiple regions. KFIN operates an asset light model due to high utilization of technology, existing infrastructure and employee headcount and low client acquisition costs.

The company has also filed an application dated October 17, 2022, with the National Securities Depository Limited for a depository participant license. In addition, its Subsidiary, KFin Services Private Limited has filed an application dated September 13, 2022, with the RBI for an account aggregator license.

Further expand the company's client base and market share through enhanced sales and marketing :

In addition to the growth from existing clients, the company actively pursues new client acquisition across its service offerings and different businesses. The company undertakes marketing and sales initiatives across its platform to target new clients and expand its client base. KFIN has undertaken investments in its sales capabilities in the past including building separate sales capabilities within key businesses as well as internationally. It follows a client-centric approach by providing customized solutions to cater to specific customer requirements. As a result, the company has witnessed significant success in new client acquisition across its businesses.

The company plans to continue on-boarding new clients across its various businesses and investing in its sales efforts so as to enhance its market share across businesses. The company intends to deepen its presence in Southeast Asia and has expanded its international sales team by adding additional country sales heads in Southeast Asia.

The company intends to augment its sales efforts by high levels of cross referrals from within its existing customer base since several of the asset managers served by the company have global operations and often operate across countries in the geographies served by the company. Within domestic mutual fund solutions, KFIN expects to leverage its differentiated technology combined with a platform approach and depth of value-added products which are key elements of its new client acquisition strategy. Within issuer solutions, the company will continue focusing on its sales efforts on the back of track record of execution and delivery as well as various value-added products.

Among its solution offerings, alternative and wealth management investor solutions, pension services, international investor solutions and global business services are relatively new offerings added to its platform. These adjacent businesses to core offerings are high growth and young businesses in its portfolio. KFIN plans to increase the scale and operations of these businesses, by leveraging on relationships with existing clients in other businesses, through new client acquisitions, increased value-added offerings and increased digitization of its offerings.

KFIN TECHNOLOGIES LIMITED

Business Strategies

Investing in technology solutions and product innovation:

The company has developed a future ready scalable platform with tech-enabled infrastructure to meet the requirements of its clients. KFIN has comprehensive product platform solutions built on technology. It has a dedicated team of 520 employees focused on developing technology and innovative solutions as on September 30, 2022. Its team is constantly evaluating its technology solutions and client requirements to increase the levels of digitization, create new products, improve operational efficiency for its clients and the company and enhance the levels or automation of processes. The company intends to develop a co-innovation laboratory with key industry players in ETF and index funds to drive research and development in this area. It plans to continue to invest in technology innovations in line with the growth of its business and to meet client requirements. The increase of automation and digitization in its internal operations gives an advantage in terms of operating leverage, as technology improvement enables to control its operational costs including employee cost. The company's revenue per employee has increased from INR 0.83 mn in FY20 to INR 1.32 mn in H1FY23. KFIN's focus is to develop products and platforms with sector agnostic capability that will further allows to diversify its client base.

Focused and selective international expansion:

As on September 30, 2022, the company is servicing 21 AMC clients in Malaysia, Philippines and Hong Kong and has signed on three AMCs in Malaysia and Singapore that are yet to go live. Additionally, it has one client each in Oman and Maldives as on September 30, 2022. It plans to start rendering services in Singapore based on one AMC client that the company has won in the region. The company intends to target other clients in the geographies it operates in as well as expand into other countries within Southeast Asia such as Thailand and Indonesia to grow its market share in these geographies. KFIN aims to become a leader in the third-party investor solutions business in these markets.

The company also plans to expand internationally beyond the geographies the company is already present by further enhancing its global delivery model wherein it will look to become delivery partners to global investor and issuer services providers, so as to enter other markets. The company intends to do so with a focused product approach which will be led by alternative investment products as well as such other products that leverage the low-cost advantage in India.

The company serves some of the developed markets by operating a global 'center of excellence' for Computershare, wherein it serves various businesses within Computershare across Australia, U.K. and other countries. KFIN plans to expand its relationship with them in line with their business growth by leveraging its technology expertise and execution skills. It plans to utilize its access to talent in India and existing financial technology capabilities to deliver next-generation services in such markets in the future.

Pursue strategic acquisitions:

KFIN's market access, brand recognition, track record of business acquisition and integration along with management depth positions the company well to target inorganic growth opportunities. It aims to continue to execute acquisitions to expand its platform and service offerings and acquire new clients to drive accelerated growth by leveraging its market access. KFIN aims to focus its efforts on the following types of businesses:

- established businesses in its key markets and businesses so as to add more clients across its business;
- existing businesses in new geographies as a tool for market entry;
- broadening product portfolio to deepen its client relationships.

It intends to evaluate acquisition and investment opportunities and have an active pipeline of opportunities that it tracks on an ongoing basis.

Attract and retain talent especially in technology and business development functions:

KFIN is committed to its employees' professional development and has instituted a results-driven, rewarding and transparent compensation structure combined with training programs and opportunities to participate in diverse and international projects to incentivize, retain its employees and attract new talent. These measures drive its operational efficiency and productivity gains. It intends to grow its talent pool of engineers, developers and other IT specialists to drive its product innovation and technology strategies as well as meet the increasing demands from its clients.

KFIN TECHNOLOGIES LIMITED

Key Strengths

- The company has a calibrated platform with a demonstrated track record of growth and market dominance.
- KFIN's diverse multi-asset class platform is well-positioned to benefit from strong growth across large markets in India and Southeast Asia.
- The company has a diverse clientele across various segments. It offers services to mutual funds, alternative investment funds (AIFs), wealth managers, pension and corporate issuers.
- The company holds 32% market share based on the number of AIFs serviced as of September 30, 2022, which makes it one of the market leaders in this segment.
- Asset-light business model with recurring revenue model, high operating leverage, profitability and cash generation.
- It comprises an experienced management team which is supported by a prominent board of directors and marquee shareholders, as well as a robust compliance culture.

Key Risks

- The previous promoters are being investigated by enforcement agencies, notably the Enforcement Directorate, Ministry of Finance, Government of India (ED), and the outcome of such investigations may have a negative impact on its company and the market price of its Equity Shares. The company received a summons from the ED on September 23, 2021, directing the attendance of its Managing Director in connection with certain investigations being conducted by the ED under the terms of the Prevention of Money Laundering Act, 2002, against Karvy Stock Broking Limited and others. Mr. Sreekanth Nadella, its Managing Director and Chief Executive Officer, was summoned by the ED on September 23, 2021. Following that, on September 24, 2021, the company received a freezing order from the ED, under which the CP Group (i.e., ComPar Estates and Agencies Private Limited, Mr. C. Parthasarathy, C. Parthasarathy - HUF, and Rajat Parthasarathy) was instructed, among other things, not to alienate/ sell/ transfer/ create any lien/ liability.
- Significant disruptions in its information technology systems or breaches of data security could adversely affect its business and reputation. Many of its services are provided through the internet, which increases its exposure to potential cybersecurity attacks including viruses, ransomware and spam attacks. Any such security breaches or compromises of technology systems could result in institution of legal proceedings against the company and potential imposition of penalties, which may have an adverse effect on the business and reputation.
- A decline in the growth, value and composition of AAUM of the mutual funds managed by its clients may adversely impact the average revenue earned by the company from mutual funds and may have a significant adverse impact on future revenue and profit. The average revenue earned based on AAUM from its mutual fund clients as a percentage of its revenue from operations for FY20-22 was 60.79%.
- Certain legal proceedings involving the company, Subsidiaries, Group Companies and certain of its Directors are pending at different levels of adjudication before various courts, tribunals and authorities. Such litigation could divert management time and attention and consume financial resources in their defense or prosecution. Further, an adverse outcome in any of these proceedings may affect its reputation, standing and future business, and could have an adverse effect on its business, prospects, financial condition and results of operations.
- In FY20, FY21 & FY22 and H1FY22 and H1FY23, the company has derived 53.30%, 53.69%, 53.05%, 54.99% and 50.82%, respectively, of its revenue from operations from its top five customers and the loss of one or more such clients could adversely affect its business and prospects.
- KFIN is subject to periodic inspections by SEBI and PFRDA, pursuant to its registration as an RTA and CRA, respectively. Non-compliance with observations made by SEBI and PFRDA during these inspections could expose the company to penalties and restrictions.

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Outlook and Valuation:

KFIN Technologies Ltd is one of the leading technology-driven companies dealing in varied financial services. The company has reported healthy and consistent financial performance with a Net Profit of INR 1,485.5 Mn in FY22 and INR 853.5 Mn in H1FY23. The financial assets are expected to register strong growth in upcoming years, led by increased penetration, awareness and financial literacy. Thus, with its diverse service platform, the company is well positioned to benefit from the growing industry opportunity leading to a long-term growth story. In India, the only comparable player is CAMS. CAMS is better positioned compared to KFIN in terms of operating metrics. Thus, with improving prospects, KFIN will be at par with its peer. The company's objective of the offer is a) to carry out the Offer for the Sale of Equity Shares and b) to achieve the benefits of listing the Equity Shares on the Stock Exchanges.

KFIN's IPO size is ~INR 15,000 Mn. The price band of the issue is INR 347-366 per share. On the upper price band of INR 366 and EPS of INR 9.4 for FY22, the P/E ratio works out to be 38.8x. As per the financial comparison in RHP, the only peer comparable to KFIN is better in terms of overall performance. The current valuation of 38.8x is at par with its peer, which means its fully valued. The company has significant scope for growth, considering its diverse product profile and extensive client base. In addition, the company will maintain its operating margins at a sustainable level, resulting in healthy earnings and returns ratios. **As a result, we recommend that KFIN Technologies Ltd IPO be rated 'Neutral'.**

Peer Benchmarking:

In India, Computer Age Management Services Limited (CAMS) and Kfintech are the two qualified mutual fund RTAs Apart from three business verticals, i.e., Domestic MF, AIF and Wealth and NPS that are common between the company and CAMS. CAMS has other business verticals such as Insurance Repository, Payments, Account Aggregator where the company is not present. Kfintech is the only investor and issuer solutions provider to mutual funds, offering services beyond India.

As on September 30, 2022, Kfintech is the only investor and issuer solutions provider in India that offers services to both asset managers such as mutual funds, AIF, wealth managers, pension, and corporate issuers in India besides servicing overseas clients in Southeast Asia and Hong Kong. Kfintech services more than 172.9 mn folios as of September 30, 2022, as compared to 53.9 mn as of September 30, 2022, for CAMS.

Kfintech is highly diversified with respect to its offerings and revenue mix as compared to CAMS. As of September 30, 2022, mutual fund business account for 90.2% of overall CAMS revenue whereas it is 67.7% for Kfintech. Kfintech had the lowest PAT margin of 1% and -13.3% owing to goodwill amortization, finance costs and deferred tax expense on the same in FY20 and FY21. However, Kfintech's PAT margin, after adjusting for goodwill amortization, is 15.7% and 23.5% at end of FY20 and FY21, respectively. In FY22, Kfintech's PAT margin was highest in last four years at 23.0%. At end of September 2022, PAT margin for CAMS and Kfintech stood at 28.2% and 24.1% respectively. CAMS had a higher EBITDA margin (including other income) of 44.1% than Kfintech (which had an EBITDA margin of 39.1%) in H1FY23. In FY22, CAMS had an EBITDA margin of 47.6% followed by 45.5% for Kfintech.

Based on the peer group information (excluding the Company), there is no head-to-head comparable, considering the product portfolio within the industry in India. The only company that can be close is CAMS thus the company is trading at 39.4x P.E (as per the RHP), whereas KFIN trades at 38.8x P/E considering the upper band.

As per the company's prospectus, comparison of accounting ratios with listed industry peers:

Name of the company	Face Value (INR per share)	Market Cap (INR Mn)	Revenues for FY22 (INR in Mn)	EBITDA margin (%)	RONW (%)	Basic EPS for FY22 (INR)	NAV (INR per share)	P/E for FY22 (x)
KFin Technologies Limited	10	61,330	6,395	45.5%	30.0%	9.4	38.5	38.8
Peer Group								
Computer Age Management Services Limited	10	1,06,835	9,097	47.6%	49.3%	39.4	132.4	39.4

Source: IPO Prospectus

Note:*Considering the upper price band

KFIN TECHNOLOGIES LIMITED

Financials:

Income Statement (INR Mn)	FY20	FY21	FY22	H1FY22	H1FY23
Total Revenue from Operations	4,499	4,811	6,395	2,909	3,488
YoY Growth (%)		7.0%	32.9%		19.9%
EBITDA	1,586	2,124	2,879	1,302	1,335
EBITDA Margin (%)	35.3%	44.1%	45.0%	44.7%	38.3%
Other Income	54	51	61	25	50
Depreciation	922	980	370	175	226
EBIT	718	1195	2569	1152	1159
Interest expense	533	520	529	243	52
PBT	185	675	2040	909	1107
Tax	140	1320	555	231	253
PAT	45	-645	1485	678	853
EPS (INR)	0.28	-4.28	9.44	4.49	5.09

Source: IPO Prospectus, KRChoksey Research; EBITDA Margins excluding Other Income

Balance Sheet (INR Mn)	FY20	FY21	FY22	H1FY23
Equity Share Capital	1,508	1,508	1,676	1,676
Other Equity	2,587	1,956	4,768	5,691
Total Shareholders' Funds	4,096	3,464	6,443	7,367
Non-controlling interest	0	0	0	0
Total Equity	4,096	3,464	6,443	7,367
Borrowings	3,754	3,461	1,225	1,262
Lease Liabilities	378	364	372	347
Provisions	88	106	126	119
Trade Payables	204	253	255	238
Other Financial Liabilities	65	198	311	311
Other current Liabilities	89	1,368	1,408	1,367
Current Tax Liabilities	9	13	124	136
Total Equity & Liabilities	8,684	9,226	10,264	11,148
Assets				
Cash and Cash Equivalents	117	229	450	423
Bank Balance	62	5	2	2
Trade Receivables	883	1,106	1,126	1,420
Current Tax Assets	0	0	0	0
Other current assets	53	81	89	131
Other Financial Assets	218	1,070	1,123	1,605
Total Current Assets	1,332	2,492	2,790	3,580
Income Tax Assets (net)	331	340	369	375
Property, Plant and Equipment	345	285	338	376
Right of Use Assets	365	337	337	319
Capital work-in-progress	0	0	6	0
Deferred Tax Assets	48	0	0	0
Other Intangible Assets	289	428	576	757
Other Non-Financial Assets	5,973	5,345	5,847	5,740
Total Non-Financial Assets	7,352	6,734	7,474	7,568
Total Assets	8,684	9,226	10,264	11,148

Source: IPO Prospectus, KRChoksey Research

KFIN TECHNOLOGIES LIMITED

ANALYST CERTIFICATION:

- I, Avinash Nile, CMT, Research Analyst, author and the name subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect my views about the subject issuer(s) or securities. I also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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