

KFin Technologies – BUY

29 July 2024

Result review



Strong performance; traction in new businesses

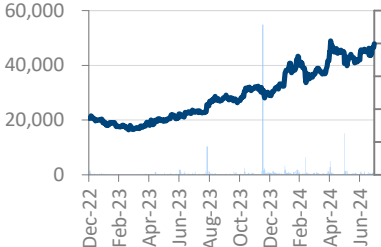
KFintech' reported strong PAT growth of 55% YoY driven by robust revenue growth (+31%) and margin expansion (+300bps). The underlying momentum in the domestic equity market would continue to aid the growth in core MF-RTA business (+25% YoY). The traction in new businesses (International + domestic AIF) remains strong driven by new client wins. We estimate KFin' EPS to grow 22% pa over FY24-27ii. We value the company at 40x 2YF EPS with an implied TP of Rs925 (16% upside). Maintain BUY.

Strong 1Q performance: KFin' 1QFY25 PAT grew 55% YoY to Rs681mn, in-line with estimates. Strong revenue growth (+31% YoY) and operating leverage benefits (+315bps margin expansion to 42%) drove profit growth. Within segment – core MF RTA revenues grew by 34% YoY on the back of 41% growth in serviced AUM to Rs19.1trn partly offset by 5% decline in blended yield to 3.6bps. Among other businesses AIF revenues grew by >60% YoY mirroring AUM growth (yield of 3.5bps) and Hexagram (FA platform) revenues grew by >80% driven by new client wins. SEA RTA business and Corporate Issuer business – each grew by 20% YoY.

International business gaining traction; acquisition on the cards: In the International RTA + FA business, KFin won 13 new clients in last 12 months and have gone live with 10 clients. Company maintain that given strong pipeline of new clients wins, growth visibility remain high. It shared assuming potential revenues from all clients is estimated by US\$20mn vs. 1Q annualised run-rate of US\$6mn. Company is close to going live with one big client in Thailand which would add to revenues from 2H. As such, KFin is also targeting acquisition in this space to expand its geographical reach (US/UK). Company is open to acquisition ranging from US\$50-75mn which could contribute 15-20% total revenues – implied valuations of 3x Price/Sales. Acquisition to be funded through internal accruals.

Maintain BUY: We estimate KFIN's earnings to compound at 22% Cagr over FY24-27ii driven by 18% revenue Cagr and 100bps margin expansion. We expect International (MF + AIF) and domestic AIF business to grow at 31% Cagr – nearly 2x of the domestic MF RTA business. The share of these new business is likely to increase from 11% in FY24 to 14% in FY27ii. The stock at CMP trades at 37x FY26ii EPS.

Result update

CMP	Rs798	Price performance (%)			
12-mth TP (Rs)	925 (16%)		1M	3M	1Y
Market cap (US\$m)	1,628	Absolute (Rs)	13.9	13.2	106.6
Enterprise value(US\$m)	1,571	Absolute (US\$)	13.4	12.9	103.0
Bloomberg	KFINTECH IN	Relative Perf.	8.1	(2.6)	30.0
Sector	Financial Services	Cagr (%)		3 yrs	5 yrs
		EPS (Rs)		24.5	
Shareholding pattern (%)					
Promoter	33.1	<div>Stock performance</div> 			
Pledged (as % of promoter share)	0.0				
FII	22.8				
DII	13.7				
52Wk High/Low (Rs)	816/377				
Shares o/s (m)	171				
Del Value 3mth avg (US\$ m)	3.6				
Dividend yield FY25ii (%)	0.8				
Free float (%)	45.1				

Financial summary (Rs m)

Y/e 31 Mar, Consolidated	FY23A	FY24A	FY25ii	FY26ii	FY27ii
Revenues (Rs m)	7,200	8,375	10,308	11,925	13,809
Ebitda margins (%)	41.4	43.8	44.0	44.3	44.7
Pre-exceptional PAT (Rs m)	1,957	2,485	3,140	3,744	4,483
Reported PAT (Rs m)	1,957	2,485	3,140	3,744	4,483
Pre-exceptional EPS (Rs)	11.6	14.6	18.5	22.0	26.4
Growth (%)	30.5	26.4	26.4	19.2	19.7
IIFL vs consensus (%)			3.1	4.0	5.2
PER (x)	69.0	54.5	43.2	36.2	30.2
ROE (%)	25.8	24.7	25.1	25.1	25.2
Net debt/equity (x)	0.0	(0.2)	(0.3)	(0.4)	(0.5)
EV/Ebitda (x)	44.7	35.9	28.6	24.0	20.0
Price/book (x)	15.5	11.9	10.0	8.4	7.0
OCF/Ebitda (x)	0.8	0.8	0.7	0.7	0.7

Source: Company, IIFL Research. Priced as on 29 July 2024

Figure 1: 1QFY25 PAT grew 57% YoY (-9% QoQ) to Rs681mn – inline IIFLe

Consol (Rs. m)	1QFY24	4QFY24	1QFY25	% YoY	% QoQ
Net Sales	1,815	2,283	2,376	30.9%	4.0%
Total Operating cost	1,111	1,237	1,379	24.1%	11.4%
Personnel Costs	756	850	958	26.8%	12.7%
Operating Exp	355	387	421	18.5%	8.7%
EBITDA	704	1,046	997	41.5%	-4.7%
EBITDA margin	38.8%	45.8%	42.0%	3.15%	-3.86%
Depreciation	124	146	148	18.9%	1.1%
Interest Cost	29	11	12	-60.5%	4.7%
Other income	53	66	81	52.1%	22.6%
PBT	604	955	918	52.1%	-3.8%
Tax	165	199	237	44.0%	19.2%
Adjusted PAT	439	756	681	55.1%	-9.9%
Adj. PAT Margin	24%	33%	29%		
Extra ordinary expense/(income)	5	11	-		
Minority Interest					
Reported PAT	434	745	681	56.9%	-8.6%
Rep. PAT Margin	24%	33%	29%		

Source: Company, IIFL Research

Figure 2: 1QFY25 revenues grew 31% YoY and 4% QoQ to Rs2.37bn

Revenue break-up (Rs mn)	1QFY24	4QFY24	1QFY25	YoY	QoQ
Domestic MF Investor Solutions	1,280	1,590	1,718	34.2%	8.0%
Issuer Solutions	200	287	243	21.7%	-15.2%
International & Other Investor Solutions	174	271	272	56.6%	0.2%
Global Business Services	97	82	92	-4.4%	13.0%
Others	65	53	50	-22.3%	-5.8%
Net Sales	1,815	2,283	2,376	30.9%	4.0%
VAS	87	126	131	50.0%	4.1%
Non-domestic MF RTA business	535	693	658	23.0%	-5.1%

Source: Company, IIFL Research

Figure 3: Key operational metrics across business

Operational data	1QFY24	4QFY24	1QFY25	YoY	QoQ
Domestic MF AUM					
No. of Clients	24	24	24		
QAAUM (Rs bn)	13,494	17,354	19,073	41.3%	9.9%
Market share	31.3%	32.1%	32.3%	1.0%	0.2%
Equity AUM mix	54.7%	57.8%	58.6%	3.9%	0.8%
Blended Yield (bps)	3.80	3.67	3.60	-5.1%	-1.7%
Transactions (mn)	74.5	100.6	109.4	46.8%	8.7%
Issuer business					
Nos of clients	5,521	6,071	6,319	14.5%	4.1%
Nos of folios (mn)	110	124	137	24.6%	9.8%
Nos of cumulative transactions (mn)	0.7	3.1	0.7	0.0%	-77.4%
Blended Yield (Rs/folio)	7.3	9.2	7.1	-2.4%	-22.8%
International MF business					
Nos of clients	48	57	60	25.0%	5.3%
- Fund Accounting	8	9	10	25.0%	11.1%
AAUM services (Rsbn)	560	609	647	15.4%	6.2%
Transactions (mn)	1.0	1.1	1.0	0.0%	-9.1%
AIF/PMS RTA business					
Nos of funds being handled (cumulative)	416	472	489	17.5%	3.6%
Market share - no of funds (EOP)	36.4%	36.3%	36.2%	-0.2%	-0.1%
AAUM (Rsbn) (EOP)	740	987	1,165	57.5%	18.0%
Pension CRA business					
No of subscribers	995,456	1,221,900	1,263,644	26.9%	3.4%
Market share - on subscriber's base (EOP)	7.4%	8.3%	8.4%	1.0%	0.1%
No of corporate clients (EOP)	2,109	2,327	2,481	17.6%	6.6%

Source: Company, IIFL Research

Key conference call takeaways

Domestic MF-RTA:

- Continue to gain market share on overall AUM basis; strong NFO line-up by its MF clients augurs well for above industry AUM growth.
- Most large AMC contract has been renegotiated as of Apr'24 and its impact has been priced in during 1Q.

Corporate MF-RTA:

- 1Q is seasonally tepid; however expect revenues to grow 20-25% YoY in FY25 aided by strong folio addition on strong IPO pipeline and client migration. Won large contract of Hyundai IPO.
- Expect yields at Rs9-10/folio; 1Q impacted because of lower corporate action and VAS revenues.

International Business:

- AUM growth led by MTM gains; have won 2 large deals in July'24.
- Yields: 5.2bps; margins at 30-35%. Improving scale to drive margins in line with domestic business.
- Expect to add acquisition to drive geographical expansion – deal size expected within US\$50-75mn; to be funded by internal accruals. Target revenue to be 10-15% of its current revenues and expected to be earnings accretive.

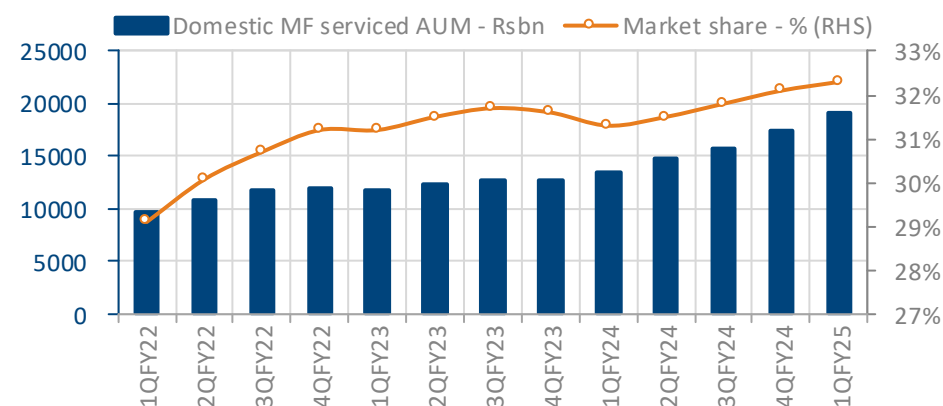
Alternatives:

- Revenues grew 65% YoY; expect huge differential between committed and drawdown capital to augment growth.
- Yields at 3-4bps; inclusive of MF-RTA and FA service; competitors will be lower. Int

Others:

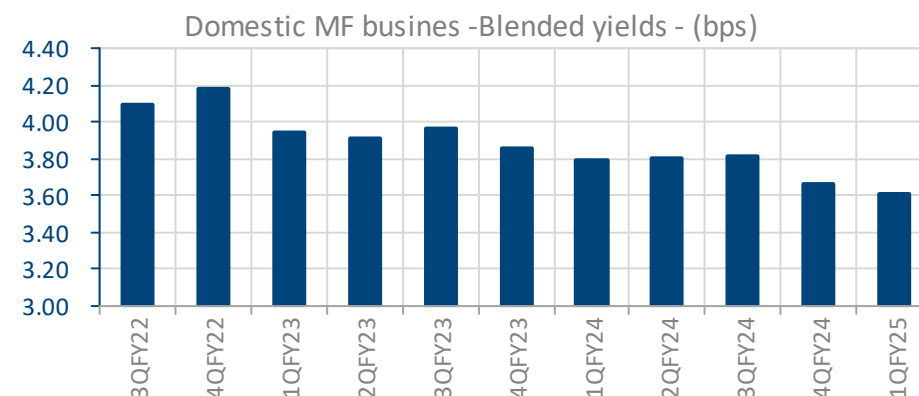
- Pension: KFIN has outperformed industry – growing at 25% YoY vs 12% growth for industry.
- Expect Ebitda margins to improve on YoY basis; guidance maintained at 40-45%

Figure 4: In Domestic MF business, its overall serviced AUM has increased by 41% YoY to Rs19.1trn in 1Q; better than industry



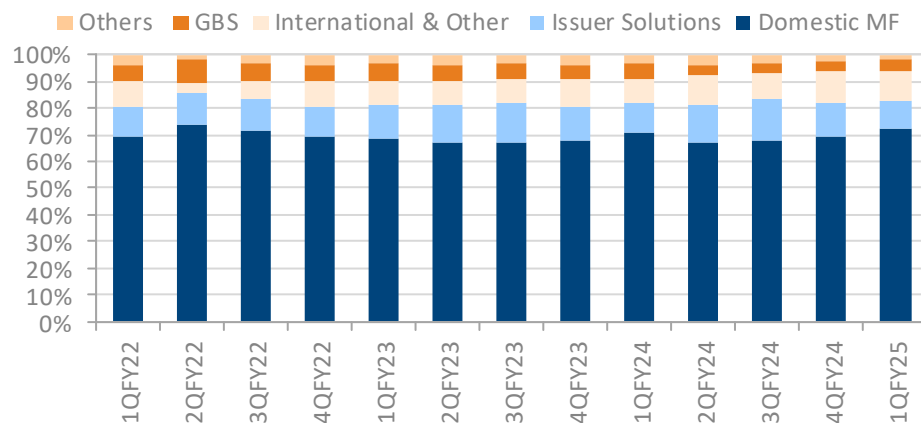
Source: Company, IIFL Research

Figure 5: Blended yields fell 5% YoY and 2% QoQ to 3.60bps



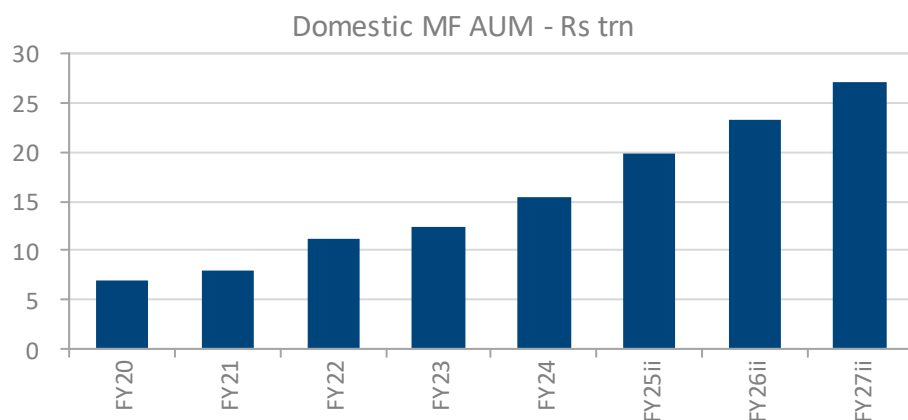
Source: Company, IIFL Research

Figure 6: 1QFY25 non-mf revenues stood at 28% of overall revenues; which Kfin expects to increase it to 40% in near term



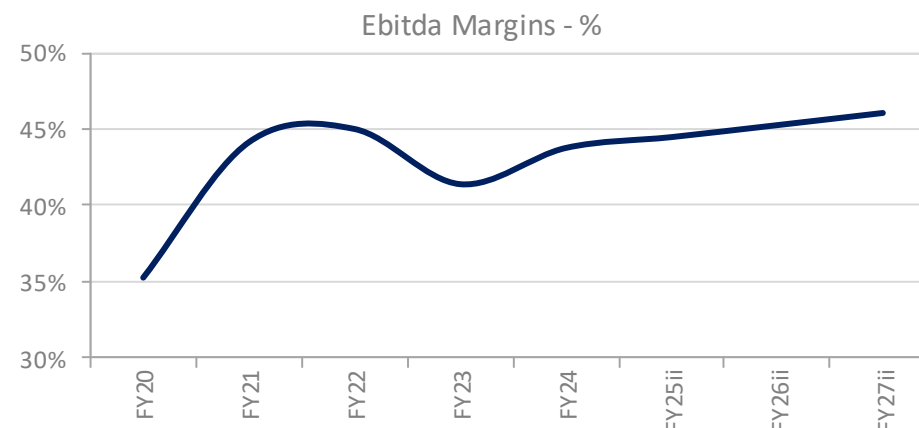
Source: Company, IIFL Research

Figure 7: We estimates KFIN' serviced AUM to grow at 22% cagr over FY24-27ii



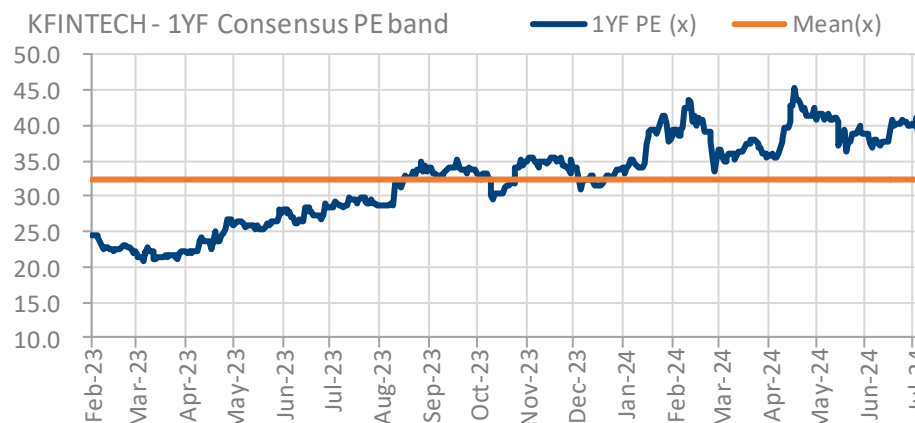
Source: Company, IIFL Research

Figure 8: We estimate margins to expand by 100bps over FY24-27ii to 44.7%



Source: Company, IIFL Research

Figure 9: Strong performance has led to consistent re-rating over the last one year

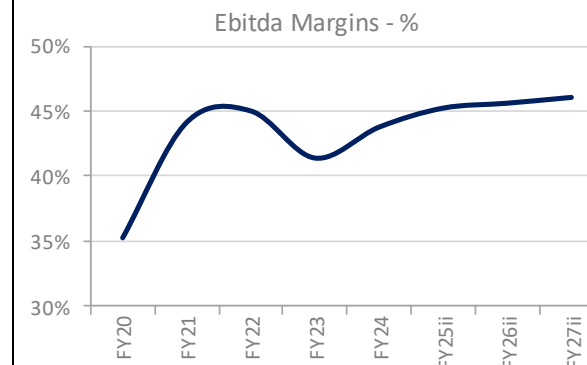
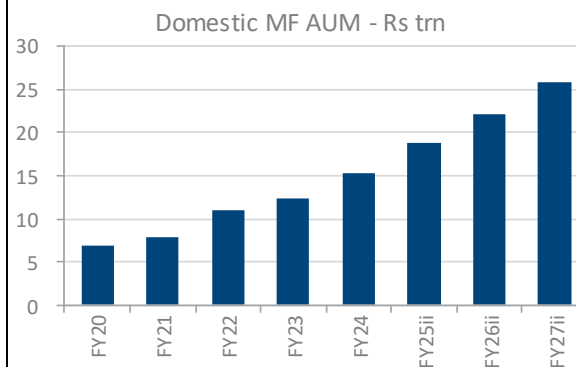


Source: Bloomberg, IIFL Research

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

Management

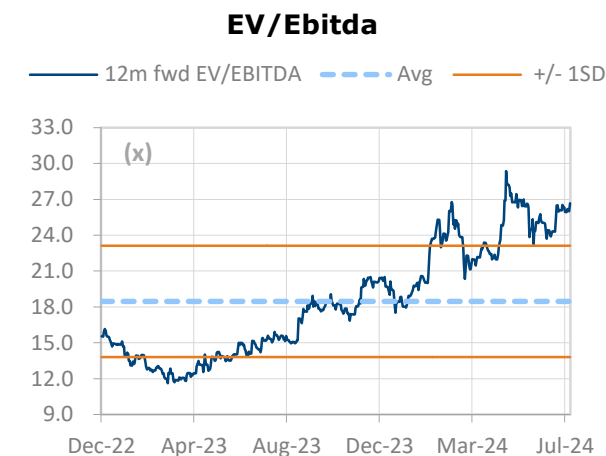
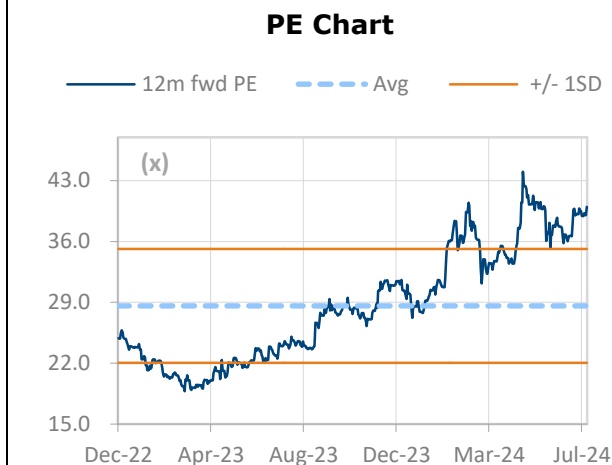
Name	Designation
Mr. Sreekanth Nadella	Managing Director and CEO
Mr. Vivek Mathur	Chief Financial Officer



Assumptions

Y/e 31 Mar, Consolidated	FY23A	FY24A	FY25ii	FY26ii	FY27ii
Domestic MF AUM growth (%)	12.1	23.6	32.5	17.0	17.0
AMC yield (bps)	3.9	3.8	3.5	3.4	3.3
International Serviced AUM growth (%)	(5.6)	(2.2)	30.0	30.0	30.0
Issuer business - Folio additions YoY growth (%)	6.8	12.8	25.0	20.0	20.0

Source: Company data, IIFL Research



Financial summary

Income statement summary (Rs m)

Y/e 31 Mar, Consolidated	FY23A	FY24A	FY25ii	FY26ii	FY27ii
Revenues	7,200	8,375	10,308	11,925	13,809
Ebitda	2,980	3,666	4,533	5,282	6,178
Depreciation and amortisation	(467)	(530)	(610)	(696)	(782)
Ebit	2,514	3,136	3,923	4,587	5,396
Non-operating income	175	247	344	498	688
Financial expense	(106)	(84)	(52)	(59)	(67)
PBT	2,582	3,298	4,215	5,026	6,017
Exceptionals	0	0	0	0	0
Reported PBT	2,582	3,298	4,215	5,026	6,017
Tax expense	(625)	(813)	(1,075)	(1,282)	(1,534)
PAT	1,957	2,485	3,140	3,744	4,483
Minorities, Associates etc.	0	0	0	0	0
Attributable PAT	1,957	2,485	3,140	3,744	4,483

Ratio analysis

Y/e 31 Mar, Consolidated	FY23A	FY24A	FY25ii	FY26ii	FY27ii
Per share data (Rs)					
Pre-exceptional EPS	11.6	14.6	18.5	22.0	26.4
DPS	0.0	5.8	6.4	7.7	9.2
BVPS	51.4	67.2	79.8	95.4	114.1
Growth ratios (%)					
Revenues	12.6	16.3	23.1	15.7	15.8
Ebitda	3.5	23.0	23.7	16.5	17.0
EPS	30.5	26.4	26.4	19.2	19.7
Profitability ratios (%)					
Ebitda margin	41.4	43.8	44.0	44.3	44.7
Ebit margin	34.9	37.4	38.1	38.5	39.1
Tax rate	24.2	24.7	25.5	25.5	25.5
Net profit margin	27.2	29.7	30.5	31.4	32.5
Return ratios (%)					
ROE	25.8	24.7	25.1	25.1	25.2
ROCE	26.7	28.3	31.1	31.5	32.0
Solvency ratios (x)					
Net debt-equity	0.0	(0.2)	(0.3)	(0.4)	(0.5)
Net debt to Ebitda	0.1	(0.7)	(1.0)	(1.3)	(1.6)
Interest coverage	23.6	37.2	NM	NM	NM

Source: Company data, IIFL Research

Balance sheet summary (Rs m)

Y/e 31 Mar, Consolidated	FY23A	FY24A	FY25ii	FY26ii	FY27ii
Cash & cash equivalents	870	2,517	4,541	7,061	10,176
Inventories	0	0	0	0	0
Receivables	1,265	1,519	1,870	2,163	2,504
Other current assets	2,993	2,099	2,247	2,371	2,516
Creditors	0	0	0	0	0
Other current liabilities	1,282	1,538	1,893	2,190	2,536
Net current assets	3,846	4,597	6,764	9,405	12,660
Fixed assets	6,913	7,642	7,632	7,636	7,554
Intangibles	0	0	0	0	0
Investments	65	41	41	41	41
Other long-term assets	398	369	369	369	369
Total net assets	11,222	12,649	14,806	17,451	20,623
Borrowings	1,301	0	0	0	0
Other long-term liabilities	1,219	1,239	1,239	1,239	1,239
Shareholders equity	8,702	11,410	13,567	16,212	19,384
Total liabilities	11,222	12,649	14,806	17,451	20,623

Cash flow summary (Rs m)

Y/e 31 Mar, Consolidated	FY23A	FY24A	FY25ii	FY26ii	FY27ii
Ebit	2,514	3,136	3,923	4,587	5,396
Tax paid	(562)	(657)	(1,075)	(1,282)	(1,534)
Depreciation and amortization	467	530	610	696	782
Net working capital change	(262)	132	(144)	(120)	(140)
Other operating items	184	(164)	0	0	0
Operating cash flow before interest	2,340	2,977	3,315	3,881	4,504
Financial expense	(106)	(84)	(52)	(59)	(67)
Non-operating income	0	0	0	0	0
Operating cash flow after interest	2,234	2,893	3,262	3,822	4,437
Capital expenditure	(694)	(851)	(600)	(700)	(700)
Long-term investments	(1,504)	(1,113)	0	0	0
Others	153	188	344	498	688
Free cash flow	190	1,117	3,007	3,619	4,425
Equity raising	212	221	0	0	0
Borrowings	16	(1,488)	0	0	0
Dividend	0	0	(983)	(1,099)	(1,310)
Net chg in cash and equivalents	418	(151)	2,023	2,520	3,115

Source: Company data, IIFL Research

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Key to our recommendation structure

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

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

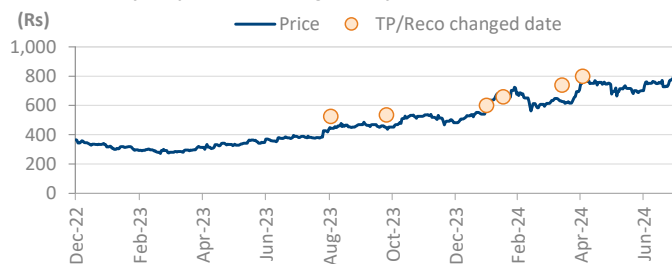
Add - Stock expected to give a return 0-10% over the average return on a debt instrument over a 1-year horizon.

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

Distribution of Ratings: Out of 279 stocks rated in the IIFL coverage universe, 124 have BUY ratings, 8 have SELL ratings, 94 have ADD ratings, 9 have NR ratings and 43 have REDUCE ratings

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

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- Mutual Funds Investments are subject to market risk. Please read the offer and scheme related documents carefully before investing.
- Registration granted by SEBI, membership of BASL (in case of IAs) and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors

Kfin Tech: 3 year price and rating history


Date	Close price (Rs)	Target price (Rs)	Rating
02 May 2024	750	800	BUY
12 Apr 2024	630	740	BUY
15 Feb 2024	627	660	BUY
30 Jan 2024	559	600	BUY
25 Oct 2023	453	535	BUY
01 Sep 2023	448	525	BUY