

Kfin Technologies (KFINTECH)

Diversified Financials

REDUCE

CMP(₹): 799

Fair Value(₹): 770

Sector View: **Attractive**

NIFTY-50: 24,836

July 29, 2024

Solid start to the year

Kfin delivered strong results with ~50% core earnings growth. Kfin is in the midst of domestic growth tailwinds across the core MF RTA and issuer solutions business as well as overseas opportunities, which are part of the strategy to build a diversified and global capital markets solutions provider over the mid to long term. We like the steady progress reported by the company since listing, but find valuations discounting a lot of positives. Await better entry points; retain REDUCE with FV of Rs770 (Rs750 earlier).

Core earnings growth of ~50% yoy

Kfin reported strong core PBT growth of ~50% yoy and overall PAT growth of ~55% yoy. Revenue growth of ~30% yoy was marginally ahead of estimates, which along with in-line expense growth (24% yoy) drove ~45% yoy EBIT growth. As a result, EBIT margin expanded ~300 bps qoq to 42%. Seasonally, 1Q tends to have the lowest EBIT margins, implying a good start to the year both on growth and margin front.

MF RTAs: ~35% yoy revenue growth; revenue yields decline 2% qoq

MF RTA revenues grew ~35% yoy and 8% qoq. Overall AUM grew ~40% yoy and ~10% qoq, with marginally higher market share (~32%). Equity AUM growth was higher at ~50% yoy and 11% qoq with stable market share (~33%). SIP market share declined marginally qoq to ~39%. MF RTA yield declined 2% qoq to 3.6 bps (-5% yoy). Yields have held up better than expected, likely indicative of rising equity mix as well as client mix (smaller clients growing faster). Yields will remain less predictable on a quarter-to-quarter basis and will continue to shrink over the medium to long term due to fee pressure faced by AMCs along with high client concentration, which limits pricing power. We assume ~4% annual yield compression while building ~20% AUM CAGR over FY2025-27E.

Non-MF businesses: Remains on the growth path

Non-MF revenue growth was 23% yoy, supported by issuer solutions (~22%) and international/alternatives (57%) but offset by global business services (-4%; linked to US mortgages). Steady client wins across issuer, international and domestic alternatives business is a likely result of Kfin's product/proposition along with increased efforts on the sales/business development to drive stronger growth. Some of the key wins in 1Q include fund administration contract in Malaysia, a few AIF clients, a bunch of issuer wins including upcoming IPOs and data lake solutions for a large wealth manager. Compared to MF RTA, non-MF businesses are likely to be lumpier but steady wins are a key monitorable. We build ~15% revenue CAGR over FY2025-27E. The company is evaluating M&A opportunities in western markets in the transfer agency/fund administration space.

Executing well but valuations full; retain REDUCE

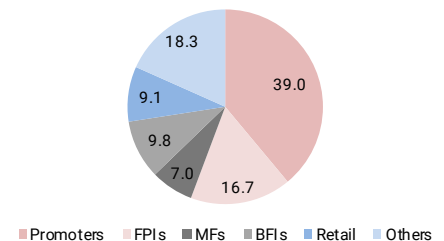
We upgrade earnings marginally and increase FV to Rs770 (from Rs750) with ~20% earnings CAGR over FY2025-27E. We like how the business is evolving and making very early inroads into a large global opportunity but find the current entry valuations less attractive. Uninterrupted growth in AUMs along with smooth execution in strategic areas are key upside risks to our earnings forecasts and as a result, the current cautious stance on valuations.

Company data and valuation summary

Stock data

CMP(Rs)/FV(Rs)/Rating	799/770/REDUCE
52-week range (Rs) (high-low)	833-368
Mcap (bn) (Rs/US\$)	137/1.6
ADTV-3M (mn) (Rs/US\$)	602/7.2

Shareholding pattern (%)



Price performance (%)	1M	3M	12M
Absolute	14	13	105
Rel. to Nifty	11	3	79
Rel. to MSCI India	11	2	69

Forecasts/Valuations	2024	2025E	2026E
EPS (Rs)	14.4	19.0	22.0
EPS growth (%)	24.4	32.0	15.8
P/E (X)	55.5	42.1	36.3
P/B (X)	12.0	10.6	9.2
BVPS (Rs)	66.7	75.4	86.8
RoE (%)	18.6	21.1	21.0
Div. yield (%)	0.7	0.9	1.1
NII (Rs bn)	0	0	0
PPOP (Rs bn)	0	0	0
Net profits (Rs bn)	2	3	4

Source: Bloomberg, Company data, Kotak Institutional Equities estimates

Prices in this report are based on the market close of July 29, 2024

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Kfin Technologies—financial highlights for the quarter

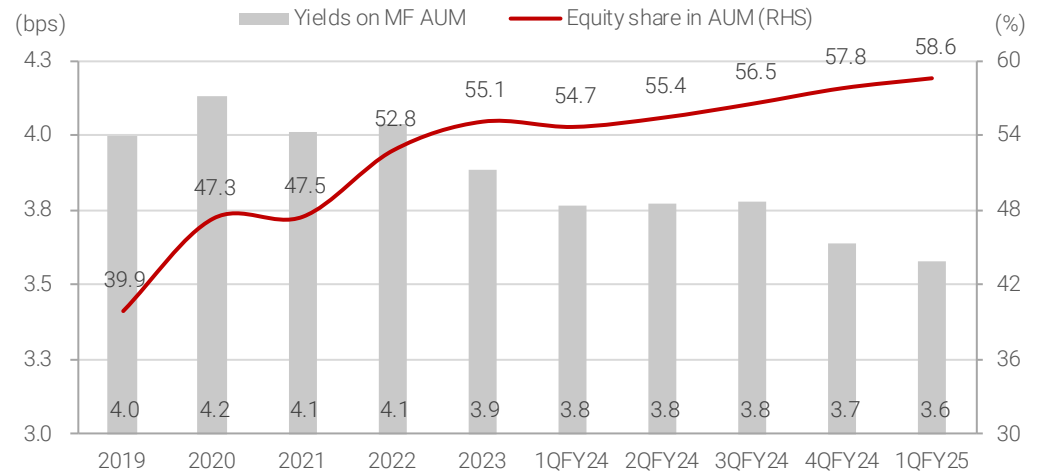
Exhibit 1: March fiscal year-end, 1QFY25 (Rs mn)

	1QFY25	1QFY25E	1QFY24	4QFY24	Change (%)			2025E	2024	YoY (%)	2026E	2025E	YoY (%)	2027E
					1QFY25E	1QFY24	4QFY24							
Income statement (Rs mn)														
Revenue from operations	2,376	2,341	1,815	2,283	1.5	31	4.0	10,277	8,375	23	11,525	10,277	12	12,955
Domestic MF RTA	1,718	1,664	1,280	1,590	3.2	34	8.0	7,211	5,770	25	8,024	7,211	11	8,930
Issuer solutions	243	250	200	287	(2.8)	22	(15.2)	1,244	1,105	13	1,389	1,244	12	1,528
International & other investor solutions	272	260	174	271	4.6	57	0.2	1,191	884	35	1,435	1,191	21	1,772
Global business services	92	85	97	82	8.7	(4.4)	13.0	336	348	(4)	351	336	5	367
Other income	81	60	53	66	35	52	23	339	247	37	479	339	41	639
Total income	2,456	2,401	1,868	2,349	2.3	31	4.6	10,616	8,622	23	12,004	10,616	13	13,594
Operating expenses	1,379	1,380	1,111	1,237	(0.1)	24	11.4	5,646	4,709	20	6,314	5,646	12	6,995
Employee expenses	958	950	756	850	0.9	27	12.7	3,796	3,197	19	4,239	3,796	12	4,663
Other expenses	421	430	355	387	(2.2)	18	8.7	1,850	1,513	22	2,075	1,850	12	2,332
EBITDA	997	961	704	1,046	3.7	42	(4.7)	4,631	3,666	26	5,212	4,631	13	5,960
Depreciation expense	148	135	124	146	9.5	19	1.1	599	530	13	632	599	6	669
EBIT	849	826	580	900	2.8	46	(5.7)	4,032	3,136	29	4,579	4,032	14	5,291
Finance cost	12	30	29	11	(61)	(60)	4.7	40	84	(52)	44	40	10	49
PBT	918	856	599	944	7.3	53	(2.7)	4,331	3,298	31	5,014	4,331	16	5,881
Tax	237	214	165	199	10.9	44	19	1,083	813	33	1,253	1,083	16	1,470
PAT	681	642	434	745	6.0	57	(8.6)	3,248	2,485	31	3,760	3,248	16	4,411
Core PBT (PBT-other income)	837	796	545	878	5.2	54	(4.6)	3,992	3,051	31	4,535	3,992	14	5,242
Tax rate (%)	26	25	27	21				25	25		25	25		25
Key ratios (%)														
EBITDA margin	42.0	41.0	38.8	45.8				45.1	43.8		45.2	45.1		46.0
EBIT margin	35.7	35.3	32.0	39.4				39.2	37.4		39.7	39.2		40.8
Core PBT margin	35.2	—	30.3	38.9				38.8	36.4		39.3	38.8		40.5
Core cost-income ratio	64.8	—	69.7	61.1				61.2	63.6		60.7	61.2		59.5
Domestic MF business KPIs														
Overall MF AUM (Rs bn)	19,073	18,916	13,494	17,354	1	41	10	20,388	15,330		23,447	20,388		26,964
Market share (%)	32.3		31.3	32.1				33.2	31.7		33.2	33.2		33.2
Equity MF AUM (Rs bn)	11,175	11,033	7,379	10,030	1	51	11	11,979	8,618		13,775	11,979		15,842
Market share (%)	33.4		34.4	33.4				34.8	33.8		34.8	34.8		34.8
Equity mix (%)	58.6	58.3	54.7	57.8				58.8	56.2		58.8	58.8		58.8
SIP AUM (Rs bn)	3,733		2,380	3,306		57	13							
Market share (%)	31.8		31.5	31.5										
Quarterly SIP flow (Rs bn)	245		174	226		40	8							
Market share (%)	39.1		40.3	39.4										
MF revenue / AAUM (bps)	3.60	3.52	3.80	3.67				3.76	3.92		3.54	3.76		3.42
Issuer solutions														
Clients (#)	6,319		5,521	6,071		14	4							
Folios (# mn)	137		110	124		25	10							
Revenue / folio (Rs)	7.1		7.3	9.2		(2)	(23)							
International investor solutions														
Clients (#)	60		48	57		25	5							
AUM (Rs bn)	647		560	609		15	6							
Transctions (# mn)	1.0		1.0	1.1		—	(9)							
Alternatives & wealth														
Funds handled (#)	489		416	472		18	4							
AUM (Rs bn)	1,165		740	987		57	18							
Market share - # of funds (%)	36.2		36.4	36.3										

Source: Company, Kotak Institutional Equities estimates

Yield decline over the years in the MF RTA segment

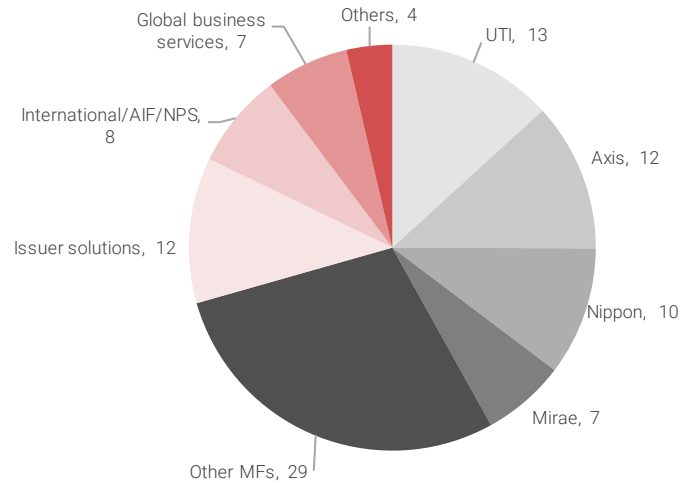
Exhibit 2: Yields on MF AUM and share of equity AUM, March fiscal year-ends, 2019-25



Source: Company, Kotak Institutional Equities

KFIN's top 4 MF clients contribute ~35% of revenues as of FY2022

Exhibit 3: Revenue split across large clients (approximate), March fiscal year-end, 2022 (%)



Source: Company, Kotak Institutional Equities

High variability in RTA cost for equity funds across players

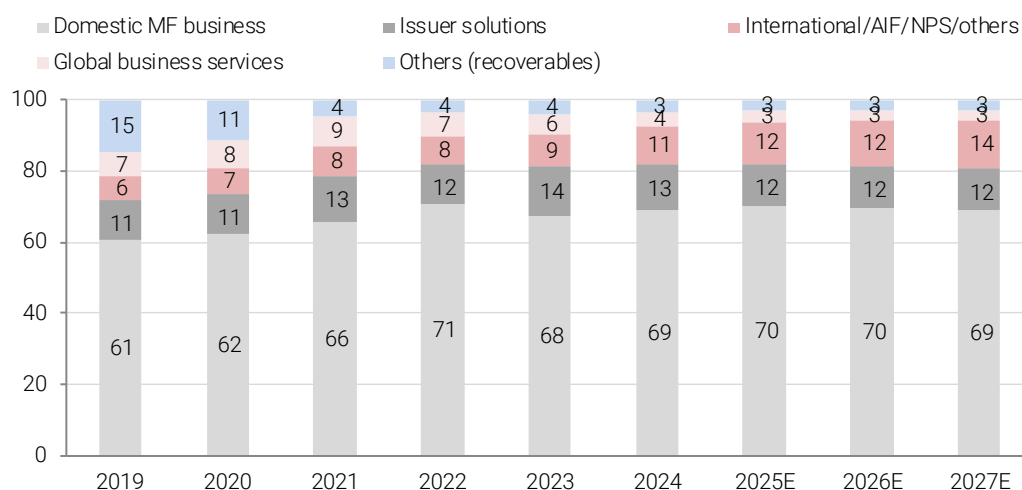
Exhibit 4: RTA cost and average AUM for a sample of equity funds, March fiscal year-ends, 2018-22

	RTA cost (Rs mn)					AUM of a sample equity funds (Rs bn)					RTA cost (bps of AUM)				
	2018	2019	2020	2021	2022	2018	2019	2020	2021	2022	2018	2019	2020	2021	2022
CAMS															
ABSL	445	223	423	415	501	578	697	731	728	977	7.7	3.2	5.7	5.7	5.1
HDFC	525	869	875	750	903	670	1,263	1,442	1,320	1,709	7.5	6.7	5.8	5.4	5.0
SBI	187	608	1,084	1,232	1,711	609	829	971	1,119	1,822	2.9	7.1	10.9	10.7	9.1
IPRU	575	773	797	707	913	1,144	1,351	1,422	1,404	2,053	5.0	5.7	5.6	5.0	4.4
DSP	269	244	254	265	329	372	402	407	456	680	7.2	6.1	6.2	5.8	4.8
FT	574	541	535	466	311	507	517	505	430	509	11.3	10.5	10.6	10.8	6.1
IDFC		85	185	165	205		182	177	168	236		4.7	10.4	9.8	8.7
Kfin															
UTI	376	454	468	399	602	403	483	489	523	793	9.3	9.4	9.6	7.6	7.6
Nippon			269	278	430			853	778	1,093			3.2	3.6	3.9
Axis	81	119	227	342	558	105	209	349	589	1,048	7.5	5.5	6.3	5.6	5.2
Mirae	89	136	218	303	488	114	186	324	492	837	7.8	7.3	6.7	6.2	5.8
Canara Robeco	56	75	94	135	279	60	80	110	160	349	9.4	9.3	8.5	8.4	8.0
Invesco	25	51	73	104	160	31	68	109	145	235	7.9	7.5	6.7	7.2	6.8
Motilal Oswal	124	157	159	151	162	136	185	187	180	203	9.1	8.5	8.5	8.4	8.0
Edelweiss	6	12	36	55	107	16	31	80	54	121	4.0	3.9	4.5	7.8	7.0

Source: Company, Kotak Institutional Equities

Share of revenues from domestic MF business likely to remain at 65%

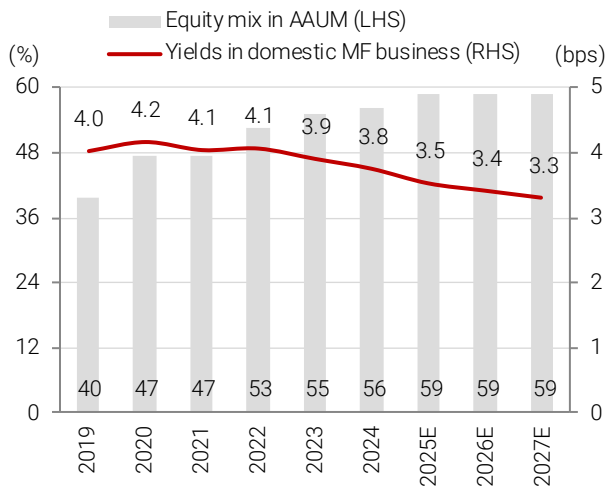
Exhibit 5: Fee-based revenue mix across segments for KFin Technologies, March fiscal year-ends, 2019-27E (%)



Source: Company, Kotak Institutional Equities estimates

We expect yields to shrink 4-5% every year, partly mix-led

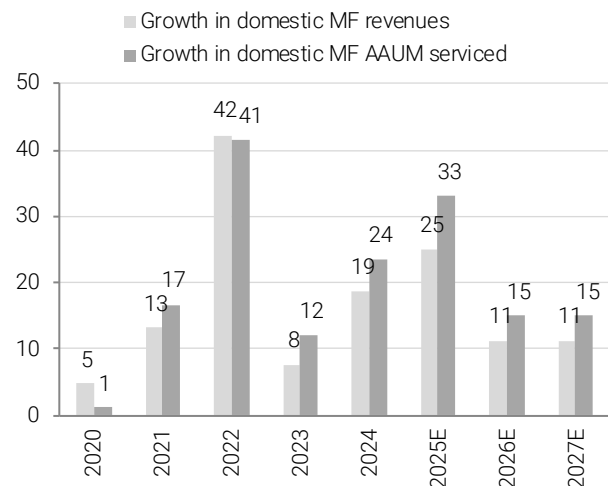
Exhibit 6: Share of equity in MF AAUM and MF RTA yields (bps of AUM), March fiscal year-ends, 2019-27E



Source: Company, Kotak Institutional Equities estimates

MF RTA revenues to clearly lag AUM growth

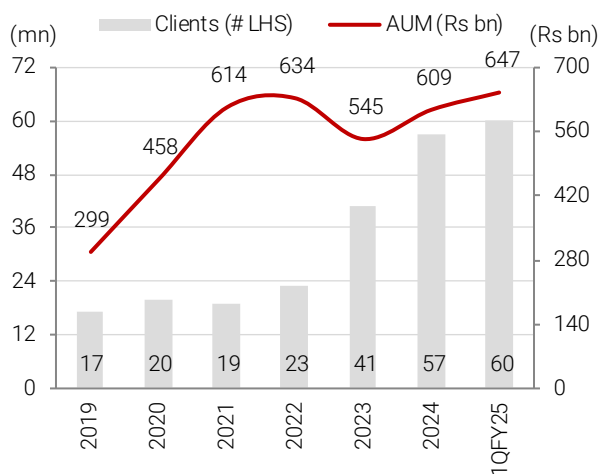
Exhibit 7: Growth in MF RTA AAUM and revenues yoy, March fiscal year-ends, 2020-27E (%)



Source: Company, Kotak Institutional Equities estimates

International segment has seen client growth; AUM growth to follow

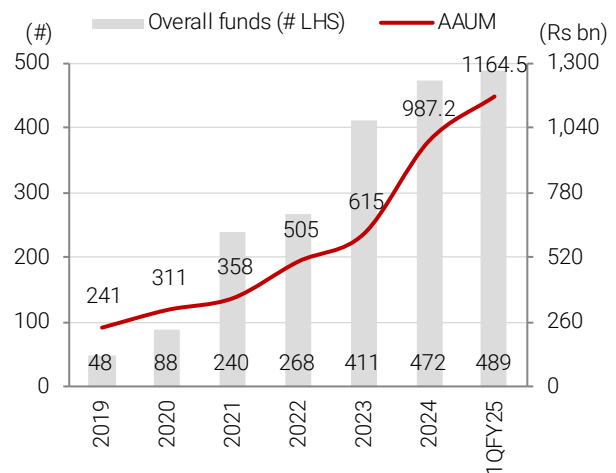
Exhibit 8: AUM and clients in international investor solutions, March fiscal year-ends, 2019-1QFY25



Source: Company, Kotak Institutional Equities

AIF segment has seen solid client and AUM growth

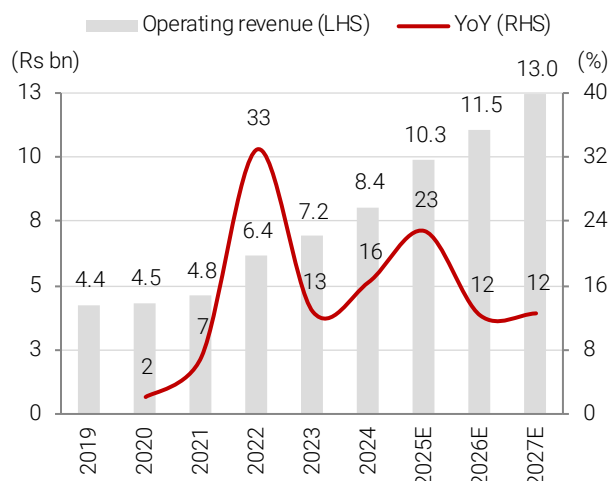
Exhibit 9: AUM and clients in AIF/wealth segment, March fiscal year-ends, 2019-1QFY25



Source: Company, Kotak Institutional Equities

We expect steady 12-13% revenue growth

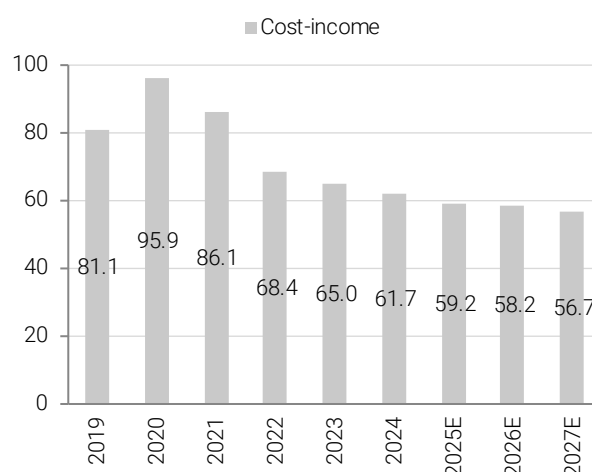
Exhibit 10: Operational revenue, March fiscal year-ends, 2019-27E



Source: Company, Kotak Institutional Equities estimates

Cost-income to decline gradually

Exhibit 11: Cost-income ratio, March fiscal year-ends, 2019-27E (%)



Source: Company, Kotak Institutional Equities estimates

KFIN—change in estimates

Exhibit 12: March fiscal year-ends, 2025-27E

	New estimates (Rs mn)			Old estimates (Rs mn)			Change (%)		
	2025E	2026E	2027E	2025E	2026E	2027E	2025E	2026E	2027E
Key P&L items									
Revenue from operations	10,277	11,525	12,955	9,950	11,196	12,602	3	3	3
MF revenues	7,211	8,024	8,930	6,941	7,724	8,596	4	4	4
Non-MF revenues	3,066	3,501	4,025	3,009	3,473	4,006	2	1	0
Other income	339	479	639	338	473	628	0	1	2
Total income	10,616	12,004	13,594	10,288	11,669	13,230	3	3	3
Expenses	5,646	6,314	6,995	5,442	6,063	6,779	4	4	3
Employee expenses	3,796	4,239	4,663	3,651	4,048	4,511	4	5	3
Other expenses	1,850	2,075	2,332	1,791	2,015	2,268	3	3	3
EBITDA	4,631	5,212	5,960	4,508	5,134	5,823	3	2	2
Depreciation expenses	599	632	669	599	632	669	—	—	—
EBIT	4,032	4,579	5,291	3,909	4,501	5,153	3	2	3
Finance cost	40	44	49	40	44	49	—	—	—
PBT	4,331	5,014	5,881	4,207	4,930	5,733	3	2	3
Tax	1,083	1,253	1,470	1,052	1,232	1,433	3	2	3
PAT post minority interest	3,248	3,760	4,411	3,131	3,673	4,276	4	2	3
Other items									
AAUM serviced by Kfin (Rs bn)	20,388	23,447	26,964	19,162	22,036	25,342	6	6	6
Equity MF AAUM (Rs bn)	11,979	13,775	15,842	11,634	13,379	15,386	3	3	3
Share of equity MF AAUM (%)	59	59	59	61	61	61	—	—	—
Key ratios (%)									
Data processing to MF AAUM (bps)	3.54	3.42	3.31	3.62	3.51	3.39	—	—	—
Cost-to-income (%)	59.2	58.2	56.7	59.1	57.8	56.7	—	—	—
EBITDA margin (% of overall revenues)	45.1	45.2	46.0	45.3	45.8	46.2	—	—	—
ROA	21.1	21.0	21.3	20.4	20.7	20.8	—	—	—
ROE	26.7	27.1	27.6	25.8	26.6	26.9	—	—	—
Key valuation ratios									
EPS (Rs)	19.0	22.0	25.8	18.3	21.5	25.0	4	2	3
BVPS (Rs)	75.4	86.8	100.0	75.4	86.4	99.3	—	0	1

Source: Company, Kotak Institutional Equities estimates

KFin Technologies—key growth rates and ratios
Exhibit 13: March fiscal year-ends, 2019-27E

	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E
Key income statement growth rates (%)									
Operational revenue	NA	2	7	33	13	16	23	12	12
Domestic mutual funds	NA	5	13	42	8	19	25	11	11
International/AIF/others	NA	13	22	26	35	35	35	21	23
Issuer solution	NA	1	22	19	32	12	13	12	10
Global business service	NA	23	16	1	4	(20)	(4)	5	5
Non-fee based revenue	NA	(23)	(59)	10	14	1	10	10	10
Other income	NA	(43)	(6)	20	189	41	37	41	33
Total income	NA	1	7	33	14	17	23	13	13
Operating expenses	NA	(2)	(8)	31	20	12	20	12	11
Employee expenses	NA	3	(3)	23	24	10	19	12	10
Others	NA	(10)	(18)	49	11	14	22	12	12
EBITDA	NA	10	34	36	4	23	26	13	14
PAT	NA	(92)	NM	NM	32	26	32	16	17
Core PBT (PBT-other income+goodwill amortization)	NA	(20)	61	53	22	27	31	14	16
Key balance sheet growth rates (%)									
Cash and bank balances	NA	(67)	32	93	93	189	56	53	37
Investment	NA	(88)	601	(2)	146	(34)	27	8	9
Fixed assets	NA	(10)	(17)	21	17	21	10	10	10
Intangibles	NA	239	56	102	32	29	10	10	10
Net assets	NA	(15)	6	11	22	13	17	16	16
Total liabilities	NA	(9)	26	(34)	(0)	(27)	5	5	5
Shareholders' funds	NA	(21)	(15)	86	35	31	13	15	15
Key cash flow statement growth rates (%)									
Reported free cash flow	NA	59	85	6	(12)	35	36	27	10
Growth in other key items (%)									
Domestic MF AAUM serviced	NA	1	17	41	12	24	33	15	15
AAUM serviced in international investor solutions business	NA	53	34	3	(14)	12	25	25	25
AAUM serviced in AIF and wealth management	NA	29	15	41	22	61	36	26	23
AAUM serviced in pension solutions business	NA	165	271	592	40	39	20	20	20
Folios serviced in issuer solutions business	NA	11	29	36	7	13	15	10	10
Transactions handled in global business service	NA	122	80	20	37	(12)	2	10	10
Key ratios									
Share of equity AAUM in domestic MF business (%)	40	47	47	53	55	56	59	59	59
Operational revenue mix from domestic MF (%)	61	62	66	71	68	69	70	70	69
Yields in domestic MF business (bps of AAUM)	4.0	4.2	4.1	4.1	3.9	3.8	3.5	3.4	3.3
Employee expenses/operating revenue (%)	52	44	45	53	60	60	60	61	60
Cost-to-income (%)	81	96	86	68	65	62	59	58	57
EBITDA margin (%)	33	35	44	45	41	44	45	45	46
EBIT margin (%)	24	16	25	39	36	40	41	42	45
ROE (%)	-	1	(17)	30	26	24	27	27	28

Source: Company, Kotak Institutional Equities estimates

KFin Technologies—financial summary
Exhibit 14: March fiscal year-ends, 2019-27E

	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E
Income statement (Rs mn)									
Operational revenue	4,413	4,499	4,811	6,395	7,200	8,375	10,277	11,525	12,955
Domestic mutual funds	2,677	2,804	3,174	4,514	4,862	5,770	7,211	8,024	8,930
International/AIF/others	277	314	384	484	653	884	1,191	1,435	1,772
Issuer solution	507	510	622	742	983	1,105	1,244	1,389	1,528
Global business service	295	362	420	422	438	348	336	351	367
Non-fee based revenue	657	509	211	233	266	269	296	326	358
Other income	95	54	51	61	175	247	339	479	639
Total income	4,508	4,553	4,862	6,456	7,375	8,622	10,616	12,004	13,594
Operating expenses	2,964	2,912	2,687	3,517	4,220	4,709	5,646	6,314	6,995
Employee expenses	1,888	1,940	1,886	2,325	2,894	3,197	3,796	4,239	4,663
Other expenses	1,077	973	801	1,192	1,326	1,513	1,850	2,075	2,332
EBITDA	1,448	1,586	2,124	2,879	2,980	3,666	4,631	5,212	5,960
Depreciation and amortization expense	475	922	980	370	467	530	599	632	669
Finance cost	219	533	520	529	106	84	40	44	49
Profit before tax	850	185	675	2,040	2,582	3,298	4,331	5,014	5,881
Tax	284	140	1,320	555	625	813	1,083	1,253	1,470
Profit after tax	566	45	(645)	1,485	1,957	2,461	3,248	3,760	4,411
EPS	1.5	0.3	(4.3)	8.9	11.6	14.4	19.0	22.0	25.8
Core PBT (PBT-other income+goodwill amort.)	1,002	802	1,294	1,979	2,407	3,051	3,992	4,535	5,242
Tax rate (%)	33	76	196	27	24	25	25	25	25
Balance sheet (Rs mn)									
Cash and bank balances	536	178	235	452	870	2,517	3,932	6,030	8,252
Investment	1,115	135	949	931	2,286	1,498	1,903	2,064	2,240
Trade receivables	880	883	1,106	1,126	1,265	1,519	1,785	1,794	2,087
Fixed assets	381	345	285	344	403	489	537	591	650
Intangibles	85	290	453	916	1,205	1,549	1,704	1,874	2,061
Goodwill	6,572	5,915	5,246	5,434	5,434	5,526	5,526	5,526	5,526
Other assets	647	937	952	1,062	1,049	1,089	1,197	1,316	1,448
Net assets	10,218	8,684	9,226	10,264	12,513	14,187	16,584	19,195	22,264
Borrowings	4,060	3,754	3,461	1,225	1,301	-	-	-	-
Trade payables	223	204	253	255	261	355	372	391	410
Other liabilities	742	630	2,048	2,340	2,249	2,422	2,541	2,671	2,814
Total liabilities	5,025	4,588	5,762	3,821	3,811	2,777	2,913	3,062	3,225
Share capital	1,658	1,508	1,508	1,676	1,692	1,710	1,710	1,710	1,710
Reserves and surplus	3,534	2,587	1,956	4,768	7,010	9,700	11,177	13,127	15,384
Shareholders' funds	5,193	4,096	3,464	6,443	8,702	11,410	12,887	14,837	17,093
Net liabilities and shareholders' funds	10,218	8,684	9,226	10,264	12,513	14,187	15,800	17,899	20,318
Cash flow statement (Rs mn)									
Cash flow from operating activities	632	1,014	2,046	2,526	2,234	2,893	3,303	3,974	4,223
Cash flow from investing activities	(8,644)	930	(1,037)	(1,154)	(2,044)	(1,776)	(865)	(534)	(449)
Cash flow from financing activities	7,754	(2,060)	(894)	(1,154)	73	(1,267)	(1,024)	(1,342)	(1,553)
Net increase/decrease in cash	(258)	(116)	115	219	263	(151)	1,415	2,098	2,222
Free cash flow	561	892	1,653	1,759	1,554	2,093	2,843	3,601	3,951

Source: Company, Kotak Institutional Equities estimates

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ADD. We expect this stock to deliver 5-15% returns over the next 12 months.

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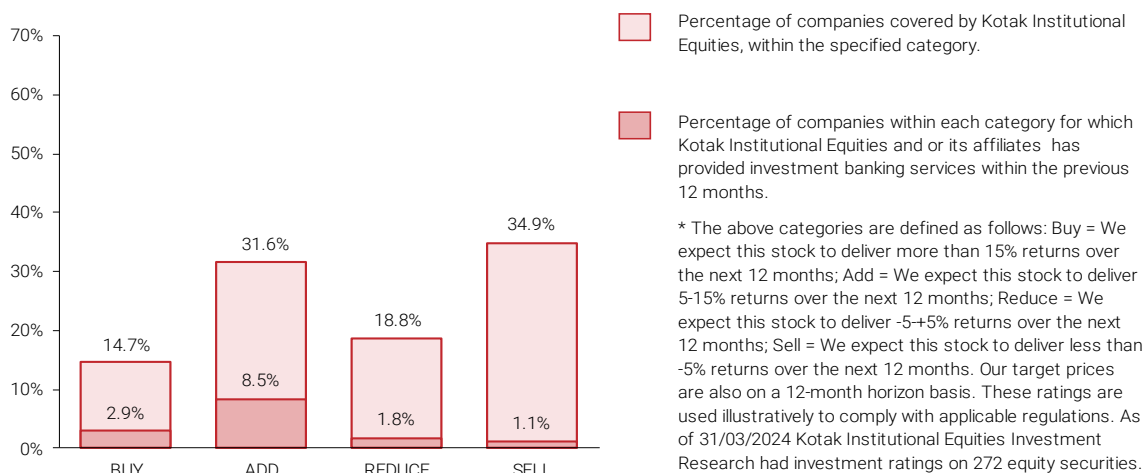
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Source: Kotak Institutional Equities

As of June 30, 2024

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