

Well positioned in asset servicing platform business...

About the Company: KFin Technologies (KFIN) is a leading technology driven financial services platform providing comprehensive services and solutions to the capital markets ecosystem.

- KFIN is India's largest investor solutions provider to Indian mutual funds, providing services to 24 out of 41 AMCs in India as of September 2022
- As of September 2022, KFIN has 59% share in terms of clients

Key triggers/Highlights:

- As on September 30, 2022, KFIN is India's largest investor solutions provider (based on number of AMC clients serviced) servicing 24 out of 41 AMCs in India, representing 59% of market share based on number of AMC clients
- KFIN is servicing 301 funds of 192 asset managers in India as on September 2022, representing 30% market share based on number of AIFs serviced
- As on September 30, 2022, KFIN is the only investor & issuer solution provider in India that offers services to domestic asset managers, corporate issuers in India and services overseas clients in South East Asia & Hong Kong
- KFIN is one of the three operating central record keeping agencies (CRAs) for the National Pension System (NPS) in India
- As per a Crisil Report, the Indian MF industry's AUM is projected to grow at ~14% CAGR and AIF industry to grow at 27-29% CAGR in FY22-27. KFIN is aiming for acquisitions to expand its platform, services and acquire new clients to drive accelerated growth by leveraging its market access
- KFIN's value added services (VAS) have helped to increase wallet share with existing clients. Thus, the company intends to further deepen client relationship by offering multiple platform solutions

What should investors do? KFIN is a well-positioned player in the asset servicing platform business industry with high entry barriers. Long term client relationship, steady market share and healthy profitability provide a good investment opportunity. At the upper end of price band, the company is valued at ~38.9x FY22 P/E.

- We assign **UNRATED** rating to the IPO

Key risk & concerns

- Decline in growth and value of AAUM managed by clients
- Substantial revenue from top client remains a concentration risk
- Ongoing investigations against erstwhile promoter by enforcement agencies
- Significant disruptions in IT system and breach of data security

Key Financial Summary

₹ crore	FY20	FY21	FY22	CAGR FY20-22
Revenue from operations	449.9	481.1	639.5	19.2%
PAT	4.5	-64.5	148.5	-
EPS	0.3	-4.3	9.4	-
BVPS	27.2	23.0	38.5	19.0%
ROA %	0.5	-7.0	14.5	
ROE %	1.0	-17.1	30.0	
P/E	1307.1	-85.5	38.8	
P/BV	13.5	15.9	9.5	

Source: RHP, ICICI Direct Research



Particulars

Issue details

Issue opens	19th December 2022
Issue Closes	21st December 2022
Issue Size	₹1500 crore
OFS	₹1500 crore
Price Band	₹347 - 366
No. of Shares on offer (in cr)	4.3 - 4.1
QIB (%)	75
NIB (%)	15
Retail (%)	10
Min Lot Size	40

Shareholding Pattern (%)

Shareholding pattern	Pre-issue	Post issue
Promoter group	74.37	49.91
Public	25.63	50.09

Objects of issue

Object of the issue

To carry out offer for sale and achieve the benefits of listing the equity shares on the stock exchanges.

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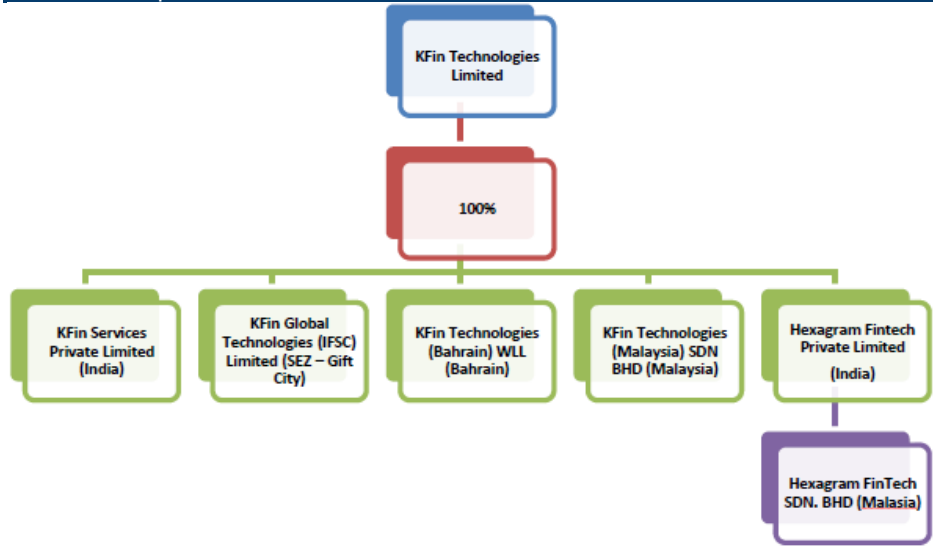
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Company Background

KFin Technologies (KFIN) was incorporated on June 8, 2017 as 'KCPL Advisory Services Pvt Ltd'. General Atlantic Singapore Fund Pte. Ltd. (GASF) is the promoter of the company and currently holds ~72.51% stake. General Atlantic is a leading global growth equity firm with more than four decades of experience providing capital and strategic support for over 479 growth companies throughout its history.

Exhibit 1: Corporate structure



Source: RHP, ICICI Direct Research

KFin Technologies (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, KFIN is India's largest investor solutions provider to Indian mutual funds, based on number of AMC clients serviced. The company 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.

As on September 30, 2022, KFIN is the only investor and issuer solution 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 South East Asia and Hong Kong. KFIN 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. KFIN is one of the three operating central record keeping agencies (CRAs) for the National Pension System (NPS) in India. KFIN provides clients with a data driven technology solutions that combine in-house platform technologies and several of in-house value added services (VAS) products across different asset classes, including white label technology to meet client requirements.

During FY22 and H1FY23, KFIN maintained an accuracy rate of above 99.5% while ensuring above 99.5% of all transactions are processed while adhering to the timelines as stipulated in agreements with clients. KFIN has reduced cost of processing a mutual fund transaction from ₹ 9.14 per transaction in FY20 to ₹ 7.03 in H1FY23. The average number of transactions processed per average headcount per month increased from 3,524 in FY20 to 6,302 in H1FY23 for domestic mutual fund solutions. KFIN also provides client with an omni-channel experience by combining their platform with a physical pan India network of 182 service centres as on September 30, 2022, that aids in offline transaction origination and channel partner servicing.

Revenue from operations for FY22 and H1FY23 was ₹ 639.5 crore and ₹ 348.7 crore, respectively. During the same period, PAT was at ₹ 148.5 crore and ₹ 85.3 crore, respectively.

Mr Venkata Satya Naga Sreekanth Nadella is MD and CEO of the company. He has been associated since June 28, 2018. He holds a bachelor's degree in commerce from Osmania University and is an associate member of the Institute of Chartered Accountants of India and has over 20 years of experience.

Exhibit 2: Revenue profile

Revenue Profile	FY20	% of revenue	FY21	% of revenue	FY22	% of revenue	H1FY22	% of revenue	H1FY23	% of revenue
Investor solutions										
Domestic mutual fund	280	62.3	317	66.0	451	70.6	206	70.9	236	67.7
International and other investor solutions	31	7.0	38	8.0	48	7.6	21	7.1	30	8.7
Issuer solutions	51	11.3	62	12.9	74	11.6	34	11.6	47	13.4
Global business services	36	8.0	42	8.7	42	6.6	21	7.1	23	6.5
Other operating revenue	51	11.3	21	4.4	23	3.6	10	3.4	13	3.7
Revenue from operations	450	100	481	100	640	100	291	100	349	100

Source: RHP, ICICI Direct Research

Exhibit 3: Market share across business verticals

Business Vertical	Parameters	KFIN market share (%)
Domestic mutual funds solutions	Overall AUM	32
	Equity AUM	35
	Clients	59
Alternatives and wealth management solutions	Registered funds	30
	Subscriber base	5
Pension services	Incremental client addition	29
	Customers serviced in terms of market capitalisation	46
Issuer solutions	Customers serviced in terms of market capitalisation	46
	In terms of Companies	37

Source: RHP, ICICI Direct Research

Exhibit 4: New client addition

New client addition	FY20	FY21	FY22	H1FY22	H1FY23
Investor solutions					
Domestic mutual fund	4	2	2	-	-
International and other investor solutions	3	1	6	1	1
Pension services	1,51,825	1,51,089	3,86,424	62,134	94,362
Alternative and wealth management solutions	40	152	28	-	33
Issuer solutions	863	365	357	326	281
Global business services	-	-	-	-	-

Source: RHP, ICICI Direct Research

Peer Comparison

Exhibit 5: Competitive scenario of key players

As of Sept'22 (₹ crore)	KFIN Technologies Ltd	CAMS
Revenue	640	910
PAT	85	137
AAUM	12,29,470	26,76,430
Operating Clients (in crore)	24	17
Live folios (in crore)	7	5
Investor folios (in crore)	11	-
EPS (₹)	9.4	58.7
RoE (%)	30.0	49.3
NAV (₹)	38.5	132.4
Share in total MF AUM	31.0	69.0
Share in Equity AUM	35.0	65.0
Share in clients	59.0	41.0

Source: RHP, ICICI Direct Research

Investment Rationale

Strong track record of growth, market leadership

KFIN is a leading technology driven financial services platform providing comprehensive services and solutions to capital markets ecosystem including asset managers and corporate issuers across asset classes in India. KFIN enjoys market leadership positions across a number of different parameters across businesses.

KFIN is one of the two leading investor solutions providers in India as on September 30, 2022. The company provides services to 24 out of 41 AMC's in India, as on September 30, 2022, representing 59% of market share based on the number of AMC clients. In addition, KFIN has signed on two new AMC's that are yet to launch operations as on September 30, 2022. The company has on-boarded seven of the last 11 new AMC's in India for domestic mutual fund solutions. It has grown its market share of equity AAUM managed by clients and serviced from 29% for FY20 to 35% for September 2022. The SIP AUM increased from ₹ 1.49 lakh crore in FY17 to ₹ 6.35 lakh crore in September 2022 and monthly SIP inflows increased from ₹ 3762 crore in March 2021 to ₹ 5446 crore in September 2022. Accordingly, market share based in monthly SIP inflows has grown from 41% as on March 2021 to 42% as on September 2022. As on September 30, 2022, KFIN holds 46% market share based on the market capitalisation of NSE 500 companies in India's issuer solutions space. As on September 30, 2022, the company serve more than 5,051 listed and unlisted corporates with 10.77 crore issuer solutions folio out of a total of 17.29 crore folios. They also had 40% and 29% market share based on number of mainboard initial public offerings handled in FY22 and H1FY23, respectively.

Multi-asset platform to benefit from growth across markets

KFIN operates in multiple large markets in India, Hong Kong, Malaysia and Philippines, along with a presence in Oman and Maldives, across several of asset classes. This has allowed the company to grow as a regional business and not just as an India focused business. India's GDP is forecast to grow at a faster pace than other economies, with real GDP expected to grow at 6.5-7% per annum between FY23 and FY25. It is poised to benefit from focus on investments, product linked incentive scheme, which aims to improve formalisation of the Indian economy and accelerate per capita income growth. KFIN's market leadership in India and client relationships enable the platform to benefit from this anticipated growth in the Indian economy.

The combination of macro factors in international markets in which the company 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 with a significant growth opportunity across these markets. In addition, growth in AUM and economic growth rates that influence clients across various markets provide additional opportunity to grow business from existing and new clients.

Exhibit 6: GDP and MF AUM of South East Asian countries and Hong Kong

Country	GDP (2021) (in USD billion)	Mutual Fund AUM (CY 2021) (in USD billion)
Singapore	373	612*
Hong Kong	368	192
Malaysia	346	228
Thailand	312	195
Indonesia	778	41
Philippines	370	9
Total	2547	1277

Note: *FY20

Source: RHP, ICICI Direct Research

Unique platform-as-a-service business model providing comprehensive end-to-end solutions

KFINs platform-as-a-service business model provides clients with comprehensive end-to-end solutions. Such technology offering enables transaction lifecycle management combined with highly secure data collection, processing and storage. KFIN works with a data centre, which houses over 350 servers and data storage handling capacity of over 250 TB. The company provides flexibility in addressing all major asset classes for asset managers and corporate clients through the platform. The core service offerings provide end-to-end support across front office, middle office and back end combined with a suite of VAS. Its approach to developing platform, products and services is to address client’s requirement, treating them as a partner, thereby enabling them to understand their requirements, develop suitable solutions, and cross sell products and VAS to the client. Their VAS such as ‘white labelled’ digital platforms such as AMC’s websites, mobile apps, distributor platforms, platforms for AMC employees for assisted sales, platforms for institutional investments, business insights reports to CXO’s of AMC’s, electronic AGM, electronic voting and compliance platform, have helped to increase wallet share with existing clients.

KFIN has launched over 20 new products in FY20-H1FY23 with two products in the pipeline. Such a client centric approach and development of solutions that is easily extendable to other clients provide the company with economies of scale without incurring incremental development costs. The platform is, therefore., modular and adaptable for clients across geographies. Revenues from such VAS increased from ₹ 17.7 crore in FY20 to ₹ 38.6 crore in FY22, which represents growth of 117.57% over the last three fiscals. For FY22 and H1FY23, revenue from VAS contributed 6.04% and 5.32% of total revenue from operations, respectively.

They intend to further deepen client relationships by offering multiple platform solutions like digital platforms for intermediaries, synchronised transfer agency and fund accounting platform, scalable and secure technology and infrastructure with cyber-security-as-a-service, data analytics-as-a-service (DAAS) and a customer data platform.

Exhibit 7: Revenue break-up between core products and VAS

Industry	FY20	% of revenue	FY21	% of revenue	FY22	% of revenue	H1FY23	% of revenue
Core Services/Fees and other operating revenue	432.1	96.1	453.6	94.3	600.9	94.0	330.2	94.7
VAS	17.7	3.9	27.6	5.7	38.6	6.0	18.6	5.3
Total	449.9	100.0	481.1	100.0	639.5	100.0	348.8	100.0

Source: RHP, ICICI Direct Research

Strong client relationship in market with high entry barrier

KFIN serves clients to support their customers’ needs across the lifecycle of a relationship in an increasingly complex compliance landscape. Due to the comprehensive nature of platform and the reliance of clients to source end-to-end services from them, they are integral to the business and operations of clients, which results in long-term engagement with limited client churn. The company provides complex solutions and services with significant expertise that has been honed over years of presence in the industry and experience of working with clients, several of whom are some of the largest companies operating in their respective segments.

In India, the investor solutions business that it operates in typically has two to three players as it requires high technology intensity and a track record of delivery at scale and are subject to stringent compliance and regulations, resulting in high barriers to entry for any new entrant. As a result, KFIN has been able to retain a large proportion of all clients across businesses including the business acquired pursuant to the scheme of amalgamation. It has never lost an AMC or MF client over the last three fiscals except where the client had been acquired by another AMC that was not its client or where its client had ceased operations. Similarly, for the issuer solutions business, client loss is minimal and primarily restricted to mergers & acquisitions and other corporate changes. KFIN has 95.31% and 98.62% logo retention in issuer solutions business over FY22 and H1FY23, respectively, while 100% logo retention in domestic mutual funds solutions business over FY22 and H1FY23, respectively. Including the business

acquired pursuant to the scheme of amalgamation, KFIN’s average client relationship within domestic mutual fund solutions and issuer solutions is for a period of more than 10 years. Thus, market leadership position and long-term integrated client relationships across platform puts it in a favourable position to increase share of business from these businesses and existing clients.

Exhibit 8: Top clients across various businesses

Business	Top 5 clients	Revenue contributed by top five clients as a % of revenue from operations as of September 30, 2022	Duration of relationship / association (in years)
Investor solutions	Nippon Life AMC		24
	UTI AMC		13
Domestic MF solutions	Axis AMC	49.3	12
	Mirae Asset Mutual Fund		14
	Customer A		11
International investor solutions	BPI Investment Management		6
	Customer A		6
	Customer B	2.5	3
	Customer C		2
	Customer D		12
Issuer solutions	RIL		17
	Infosys		13
	Hindustan Unilever Limited	2.4	17
	Customer E		12
	Customer F		11
Global business services	Computershare	6.4	8

Source: RHP, ICICI Direct Research

Asset-light business with recurring revenue model, profitability

KFIN operates an attractive business model with a demonstrated track record of consistent profitability and returns while operating an asset light model that has previously generated a strong free cash flow. Its business operations are highly resilient and predictable, to a large extent, due to deep client entrenchment and largely recurring nature of revenues. Its asset turnover ratio was 3.20x and 2.57x in FY22 and H1FY23, respectively.

Exhibit 9: Revenue model for each businesses

Business	Revenue model
Mutual fund solutions (domestic mutual fund solutions and international investor solutions)	1) % of AUM 2) Transaction based 3) Fixed fee for number of AMC branches serviced 4) Fee for information technology products and services such as website, CRM tools 5) Fee for white-labelled customer communication
Pension services	1) Fixed account opening charges 2) Annual maintenance fees 3) Fee per transaction
Alternatives and wealth management	1) % of AUM 2) Fixed fee
Issuer solutions	1) Number of folios 2) Number of corporate actions 3) Hybrid model for value-add products and services
Global business services	1) Per full-time employee

Source: RHP, ICICI Direct Research

Experienced management backed by strong shareholders

KFIN has a seasoned professional leadership team supported by experienced senior managers who have extensive industry knowledge and have been associated with leading multinational companies in India and outside for a long period of time. The management team has demonstrated its ability to develop and execute a focused strategy to grow business and optimise costs through technology initiatives, enabling to strengthen market position and deliver consistent financial performance. The industry knowledge and leadership of executive leadership team, combined with its extensive experience, provide it with a competitive advantage and is instrumental to attract high-quality talent, drive implementation of strategy and achieve long-term objective of delivering sustainable growth across businesses.

KFIN's CEO took over as the position in June 2020 and has been instrumental in driving business growth through new client wins, specifically in alternatives and wealth management and new clients in Malaysia, Philippines and Hong Kong, attracting talent at senior management positions and driving technology transformation for a product platform-based go-to-market strategy. The CEO was named as one of the top 25 CEOs of Asia in Financial Technology Report, 2020.

KFIN's promoter is ultimately owned by funds advised by General Atlantic. General Atlantic is a leading global growth equity firm with more than four decades of experience providing capital and strategic support for over 479 growth companies throughout its history. Established in 1980 to partner with visionary entrepreneurs and deliver lasting impact, the firm combines a collaborative global approach, sector specific expertise, a long-term investment horizon and a deep understanding of growth drivers to partner with great entrepreneurs and management teams to scale up innovative businesses around the world.

Key risks and concerns

Concentration risk in terms of revenue

KFIN is dependent on a limited number of customers for a significant portion of revenue. Top five customers contributed 53.3%, 53.6%, 53%, 54.9% and 50.8% of revenue from operations in FY20, FY21, FY22, H1FY22 and H1FY23, respectively. The loss of one or more significant clients or a reduction in the amount of business or fees obtained from clients or an adverse change in determination of fees received from clients could have an adverse effect on business and results of operations. The reliance on a select group of customers may also constrain the ability to negotiate arrangements, which may have an impact on profit margins and financial performance. In addition, dependence on these customers also exposes it to risks associated with their internal management, financial condition and creditworthiness and major events affecting these clients could adversely affect business.

Erstwhile promoters subject to ongoing investigations by enforcement agencies

The company has received a summons, dated September 22, 2021, from ED directing the presence of Sreekanth Nadella, MD & CEO in connection with certain investigations being conducted by the ED under the provisions of the Prevention of Money Laundering Act, 2002 (PMLA), against Karvy Stock Broking Ltd (KSBL) and others. The outcome of investigation involving its erstwhile promoters, including C Parthasarathy may adversely impact the company and the market price. Additionally, the KFIN subject shares, aggregating to 14.12% of the company's equity share capital, are subjected to encumbrances in the nature of non-disposal undertakings and blocked positions. KFIN's inability to comply with directions and orders from ED, for any reason, may adversely affect the company's reputation and financial condition.

Significant disruptions in IT system or breach of data security

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. It also provides investor solutions including transaction origination and processing for mutual funds and private retirement schemes in Malaysia, Philippines and Hong Kong. Thus, KFIN's technology products, solutions and platforms help clients to focus on their core business functions such as investment management and sales & marketing functions while entrusting bulk of operational front office, middle office and back office activities to platform. Many of its services are provided through the internet, which also increases exposure to potential cybersecurity attacks including viruses, ransomware and spam attacks. Although it has not experienced cybersecurity threats to IT infrastructure in the past, any future threats could cause harm to business and reputation and challenge ability to provide reliable services to clients. Further, the size and complexity of IT systems may make the company potentially vulnerable to breakdowns. KFIN's insurance coverage may not be adequate to cover all the costs related to any future cybersecurity attacks or disruptions resulting from such events.

Decline in growth, value of AAUM managed by clients

KFINs' mutual fund clients contribute towards a significant portion of revenue from operations. A substantial portion of the fees that is charged to clients is calculated and charged on the basis of the AAUM of the funds serviced by them. Thus, the fees charged to clients differ between asset classes of mutual funds. For instance, the company charges higher fees for equity funds compared to debt funds. Consequently, any reduction or change in composition of AAUM of the funds managed by clients, including on account of the Covid-19 pandemic, may adversely affect revenue and profit.

Financial Summary

Exhibit 10: Profit & Loss Statement				
	(₹ crore)			
₹ crore	FY20	FY21	FY22	H1FY23
Revenue From Operations	449.9	481.1	639.5	348.8
Other Income	5.4	5.1	6.1	5.0
Total Income	455.3	486.2	645.6	353.8
Employee benefits expenses	194.0	188.6	232.5	149.2
Finance costs	53.3	52.0	52.9	5.2
Depreciation expense	92.2	98.0	37.0	22.6
Other operating expenses	97.3	80.1	119.2	66.0
Total Expenses	436.8	418.7	441.6	243.1
PBT	18.5	67.5	204.0	110.7
Tax	14.0	132.0	55.5	25.3
PAT	4.52	-64.51	148.55	85.35

Source: RHP, ICICI Direct Research

Exhibit 11: Balance Sheet				
	(₹ crore)			
₹ crore	FY20	FY21	FY22	H1FY23
Assets				
Property, plant and equipment	34.5	28.5	33.8	37.6
Intangible assets	591.5	524.6	543.4	543.4
Investments	13.5	94.9	93.1	129.7
Other non-current assets	95.7	25.4	77.1	46.0
Total Non Current Assets	735.2	673.4	747.4	756.8
Investments	13.5	94.9	93.1	129.7
Cash and cash equivalents	17.8	23.5	45.2	42.4
Other current assets	101.9	130.8	140.7	185.8
Total current assets	133.2	249.2	279.0	358.0
Total Assets	868.4	922.6	1026.4	1114.8
Equity & Liabilities				
Share Capital	150.8	150.8	167.6	167.6
Reserves & Surplus	258.7	195.6	476.8	569.1
Total Equity	409.6	346.4	644.3	736.7
Other financial liabilities	371.5	320.2	147.6	152.0
Provisions	5.2	7.5	9.1	5.6
Total Non current liabilities	376.6	452.6	280.4	278.1
Trade payables	20.4	25.3	25.5	23.8
Other current Liabilities	8.9	11.9	17.0	16.3
Total Current Liabilities	52.8	86.5	59.1	60.0
Total Equity and Liabilities	868.4	922.6	1026.4	1114.8

Source: RHP, ICICI Direct Research

Exhibit 12: Key ratios			
	(₹ crore)		
	FY20	FY21	FY22
No. of shares (crore)	15.1	15.1	16.8
BV (₹)	27.2	23.0	38.5
EPS (₹)	0.3	-4.3	9.4
P/E (x)	1307.1	-85.5	38.8
P/BV	13.5	15.9	9.5
RoA (%) (calc)	0.5	-7.0	14.5
RoE (%)	1.0	-17.1	30.0

Source: RHP, ICICI Direct Research

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Avoid: Do not apply for the IPO

Subscribe only for long term: Apply for the IPO only from a long term investment perspective (>two years)



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ANALYST CERTIFICATION

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