Operator: Ladies and gentlemen, good day and welcome to KFin Technologies Ltd. Q2 and FY27 earnings conference call, hosted by IIFL Capital Services Limited. As a reminder, all participant lines will be in listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the operator by pressing star and then zero on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Devesh Agarwal from IIFL Capital Services Limited. Thank you, and over to you, sir.

Devesh Agarwal – IIFL Capital Services Limited: Thank you, Shaurya. Good morning, everyone, and welcome to the Q2 FY27 earnings call of KFin Technologies Ltd. Today, from the company, we have with us Mr. Sreekanth Nadella, MD and CEO; Mr. Vivek Mathur, CFO; and Mr. Ram Gatani, Head of Investor Relations. I would now hand over the call to Sreekanth for his opening remarks and thereafter open the floor for the Q&A session. Thank you, and over to you, Sreekanth.

Sreekanth Nadella – MD & CEO: Thank you, Devesh. A very good morning, and good evening if you are dialing in from outside India, and a very warm welcome.

I bring to you yet another quarter of a {? fit and ?} sense of consistency. As the saying goes, patience, consistency, and hard work—I think that is pretty much the need of the hour. That is pretty much what enables organizations that have a long-term vision to stay dogged and ensure that we deliver on the promises we make.

As the organization continues to make significant strides in the forward direction, our market share expansion, our growth in terms of client wins, and our steadfast focus on innovation-driven productivity—not arbitrary, not based on the vagaries of the market, but in a scientific and clinical fashion of driving technology-driven productivity—is pretty much the sum and substance of what we achieved in the previous quarter. We will continue to stay on course to ensure that we deliver quantitative and qualitative results over a period of time.

From an overall perspective, if you see where KFintech stands today, by and large, many of the metrics that we typically discuss with you are in a similar range. We continue to be the largest registrar and transfer agent in India and among the largest in the world in terms of the number of human beings we service, whether in India or abroad, across the capital markets, the securities market, and mutual funds. That number has now crossed 12.5 crores in India and is roughly 75 lakhs outside India. That makes us probably one of the largest, perhaps excluding China.

In terms of the growth of the individual business lines, it is very heartening to see, hear, and tell you that we have grown in nearly every business line, albeit in an extremely challenging environment in the form of macroeconomic conditions. Our win rates in the form of new client mandates, whether in mutual funds, issuer solutions, alternatives, international, and so on, have been one of the most striking features of this quarter.

AUM growth and revenue growth in an environment where the markets have been significantly down obviously mean the execution of net new wins. Hopefully, when the markets recover in time to come, we should have a compounding effect of significantly higher clientele and volumes, with some additional help from mark-to-market gains.

Report is AI-generated and may contain inaccuracies.

In terms of our market share, issuer solutions has been one of the major turnarounds over the last 18 months, even excluding {? Hyundai's ?} IPO, which is taking place in real time as we speak. We completed the entire activity 12 hours ahead of schedule. Considering that it is the world's largest IPO, we are extremely honored and privileged to have been chosen as the RTA and to have delivered significantly beyond expectations in terms of timelines, including the allotment status, open messaging, and checking, where the latency time has been less than 14 milliseconds.

That will obviously contribute to the upcoming quarter, but by and large, we are very happy with the progress we have made in terms of wins in issuer solutions. The same is the case with our international business. We have added 18 new clients that are in transition, and they are expected to go live in the coming quarters, depending on the transition timelines. This will hopefully add additional AUM and consequent revenue soon after that.

Our acquisition of Ascent and its integration is one of the most strategically important initiatives that we have undertaken. I am happy to inform you that we continue to grow the business despite extremely challenging macroeconomic conditions, especially given that roughly 25% of Ascent's revenues come from the Middle East. Given the situation there, one might have imagined that the book could have been shrinking. However, thanks to some really strong work by the business development teams in each of the operating geographies, we continue to grow by more than 30% at Ascent. With a continuous focus on cost optimization, the margin profile continues to expand. We hope to achieve double-digit EBITDA numbers in the next couple of quarters.

In pensions, at the end of last year, we grew at 3 times the growth of the industry. The industry grew at about 12%, while we grew at 36%. This year, we have grown faster than that, at approximately 42%, against similar industry growth of 12% to 13%. It is a long-term opportunity when it comes to pensions, and it tends to compound. We not only broke even about 3 quarters ago, but our growth also continues to be significantly ahead of that of the industry.

All of this gives us fairly well-rounded growth across business lines. Product transformation-driven productivity gains and new feature rollouts have been among our most important focus areas. The overall AUM for KFintech clients grew by 15% this quarter, whereas the industry grew by 13%. That is very heartening. However, it is also true that the share of passive products for our clients seems to be on the higher side compared with the industry. If any form of this transition were to change and come back toward a more actively focused mix, that would add an additional revenue bump-up in the coming quarters and years.

Overall market share has grown for KFintech in the last 2 quarters, moving beyond 33% overall and reaching close to 33% in equity as well. Our market share in SIPs, which I continue to believe is a bellwether for where long-term averages could be, remains close to 37%. This means that there is a 400-basis-point gap that I expect to close, or build over, the next 3-5 years, as SIPs are a strictly retail book and will always tend to gravitate and converge toward our overall market share in SIPs.

We have launched a couple of very important platforms in the mutual fund space. {? Vaara.ai ?} is India's and probably the world's first generative AI intelligent platform, not just for purchases, redemptions, and commercial transactions, but also for all non-commercial transactions. This means that you can literally speak to your phone and ask your agent to change your bank account, add a number of nominees, or buy and sell a number of products, all through natural language

Report is AI-generated and may contain inaccuracies.

processing and simply by speaking to the application. The beta stage has gone live, and we are conducting the public launch in the latter part of this month.

That marks the first consumer-facing AI technology rollout by KFintech. We have also implemented several inward-looking AI transformation solutions, which were one of the principal reasons for the margin expansion. Overall, the EBITDA margin moved from about 34% to approximately 40%. Part of that is due to the scale benefits from our international business, and part of it is due to productivity gains driven through large-scale RPA and AI-native solutions. These are at an early stage of implementation. As I have mentioned in previous quarters, there are several more to come. Nearly every business line and the underlying platform in our organization is undergoing a massive rework and rebuild, given that many of these platforms are a couple of decades old.

We will go live with issuer solutions, pensions, and wealth in the next 3 months. By January, we should have gone live with many of these next-generation, AI-native, cloud-native platforms, which should help us achieve significantly faster go-to-market and productivity. For mutual funds, it is somewhat more challenging and much more complex, given the size and scale of the business. However, we have already deployed approximately 30% to 35% of the total use cases and have seen some associated benefits. By the end of Q4 of this fiscal year, we will have rolled out nearly all of the transformation platforms on which we have been working.

Regarding our growth in issuer solutions, I have already mentioned that we continue to see significant market share expansion in IPOs, especially in the larger ones. Nearly all of the largest IPOs have been orchestrated by KFintech in terms of both volumes and value. There are several more in the pipeline, which, if prevailing market conditions improve, should make tangible progress from here.

We have been at the forefront of expanding in GIFT City because it fits directly within our international business. I am happy to inform you that we are currently the single largest provider of transfer solutions for GIFT City funds, in addition to several digital solutions that we have been working on.

I will add a little color regarding our international pipeline. The pipeline currently stands at roughly $47 million, specifically US dollars. That used to be approximately $20 million about 12 months ago. This reflects an increase in the pipeline of several new deals where the deal size is substantially larger than a typical BFS deal that we have seen so far. There are at least 6 deals with total contract values of more than $4 million to $5 million. Some are at advanced stages, and some are progressing in that direction. We have had several successful RFPs and client presentations in our operating geographies over the last 3-4 weeks. We have been down-selected to the final 2 in many of those cases, and hopefully, some of them will close in time.

Regarding one of the earlier PPP-based pension projects that I mentioned, there have been many questions about it. That deal is still under discussion. It has neither been awarded nor canceled. We are discussing the next steps with the local authorities, and I remain very confident that we should be able to turn that around in the coming few weeks.

Overall, in terms of productivity gains, our total headcount has come down to a certain extent. However, we have used that opportunity to scale up our faster-growing businesses, given that the

Report is AI-generated and may contain inaccuracies.

number of net new client additions has been substantial, whether in wealth, alternatives, pensions, and so on. These businesses are still sub-scale from the standpoint of driving significant operating leverage.

With our transformation and AI-led platform rollout in the coming weeks and months, we should see the immediate rollout of {? Vaara.ai ?} 2.0. As I said, that is one of the most important initiatives, followed by the rollout of {? FinX ?}, our mutual fund platform, and {? GSS ?}, the technology platform for the international business. These platforms will also help us in winning new deals elsewhere in the world.

The international business now accounts for 20% of our total business. As a result, the mutual fund share of revenue purely from AUM-driven revenue is just under 52%. I expect this number to reach 50% over the next 2-3 quarters. In some sense, that had been our internal target to reach over a 5-year period, but I am happy to inform you that we are getting there in under 3 years.

We will also work on expanding the total pie so that the concentration risk of any single client does not exceed 2.5% to 3%. That is something I believe could be accomplished in the next approximately 6 quarters, if not earlier.

Sreekanth Nadella – MD & CEO: That is probably the update from my end for the coming quarter. We foresee some headwinds, obviously, given where the markets have been over the past 10-odd days. However, as I said, our growth is not necessarily dependent on hoping and praying for the markets to turn around. We will do everything we can to close the contractual conversions quickly and focus on productivity so that our margin commitments remain sacrosanct.

So far, this quarter gives us a lot of confidence that our strategy has been on the right path. Even as I look at our upcoming forecast for this quarter and the subsequent quarter, despite the headwinds, I am still confident that we do not have to change any of our estimates at this point in time, unless there is a continual, protracted downturn from here.

We have enough buffers to cushion any kind of blow such as this tactical market correction over the last few days. Of course, anything that persists significantly longer will have an impact, given our capital markets exposure. However, at this point in time, we continue to adhere to our estimates.

I will now request Vivek to cover the financials, and then we will leave the floor open for questions.

Vivek Mathur – CFO: Thank you, Sreekanth.

On the financial performance, revenue from operations has increased sequentially, including Ascent, by 30%, and excluding Ascent, it has increased by 10%. Expenses were largely controlled through the cost optimization initiatives. Sequentially, expenses increased by only 3% quarter-on-quarter, while revenue increased quarter-on-quarter by approximately 13%. We believe that this trend will continue to play out in Q3 and Q4 as well.

As a result, EBITDA improved by approximately 18.7% sequentially, against 32% growth in the same quarter last year. For the half-year ended FY27, there was 13.4% year-on-year growth for the half-year. EBITDA margins for Q2, excluding Ascent, were 45.8%, and including Ascent, were 40%. That is the target we are pursuing: to end the year with a consolidated EBITDA margin of 40%

Report is AI-generated and may contain inaccuracies.

including Ascent. That is what has been demonstrated from Q2 onwards.

There was integration of Ascent in Q2, but the margins have also been maintained at guidance levels.

PAT touched 100 crores for the quarter and increased by 7.5% year-on-year, or 33% compared with the same quarter last year. For the half-year, it was a 2. about 3% year-on-year growth. PAT margins improved in Q2 to 25% including Ascent and slightly more than 30% excluding Ascent. For H1 FY27, consolidated PAT margins were 23% including Ascent.

We maintain a healthy cash and cash equivalent position of approximately 550 crores after the dividend was paid out. Diluted EPS at the end of H1 stands at 10 rupees and 12 paise.

We are happy to take questions now.

Operator: Thank you very much. We will now begin the question-and-answer session. Anyone who wishes to ask a question may press star and one on their touchtone telephone. If you wish to remove yourself from the question queue, you may press star and two. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles.

The first question is from the line of Karthik Chellappa from Indus Capital Advisors Limited. Please go ahead.

Karthik Chellappa – Indus Capital Advisors: Thank you for the opportunity. Good morning, team. Am I audible?

Operator: Yes, you are audible. Please go ahead.

Karthik Chellappa – Indus Capital Advisors: Excellent. I have 3 quick questions. The first question is that we have seen domestic mutual fund yields in this business stabilize and probably even grow slightly sequentially. How much of this is coming from the mix, and how much is due to any other factor? Can we reasonably conclude that from here on, yields will more or less stabilize sequentially? That is the first question.

The second question is on issuer solutions. We have seen a very good quarter this quarter, both in terms of margins and growth. Given the visibility you have on the pipeline, can we extrapolate this resilience to the rest of the year as well?

My third question is that at the beginning of the year, our aspiration was to grow earnings in the low double digits, and it is heartening to see that, Sreekanth, you reiterated that this is pretty much on track. You also mentioned that you have some buffers in case the capital markets were to deteriorate. What would some of those buffers be, if you could give us some additional color? Thank you very much.

Sreekanth Nadella – MD & CEO: Thank you, Karthik. It is always good to hear from you.

I will take the first question regarding the yield and its marginal extension, which was approximately 2% sequentially. As I have always said, there are 3 important factors. If I were to assign weights, the

Report is AI-generated and may contain inaccuracies.

weights may change depending on the quarter and the time of year, but roughly half of the reason for yield stability or otherwise is pricing discipline.

Approximately 30% or slightly more relates to which particular asset manager is growing. The third factor, of course, is the asset mix itself. Depending on which of these 3 levers works in our favor, against us, or neutralizes the others, the yield generally moves.

The quarter that has gone by had positive effects from all 3 factors. Pricing discipline was maintained, as we had confirmed in previous years. Those contracts are being closed and negotiated, and hence there is consistency in pricing. We also had positive tailwinds from both the asset mix and the growth of the AMCs, depending on which AMCs grew. As we know, there are differentiated rates across the {? tiers ?}.

Will it remain similar in the coming quarters? On the pricing front, yes. However, regarding the asset-class mix and the AMC mix, as we all know, it depends on how the manufacturers grow, as opposed to how we grow. Given that there is no substantive reason for anything to change at this point, we have seen an improvement from metal ETFs making way for active products. The second factor was the asset-class mix and the continued faster growth of younger, faster-growing AMCs.

Six of the 10 fastest-growing AMCs are currently with KFin. That has obviously provided some positive support. It could get even better in the coming quarter, depending on which AMCs grow. However, given that we are already near the end of October and have some visibility into the last 20 days of the month that has gone by, I believe that yields will remain largely consistent.

On issuer solutions, we are looking at approximately 20% total year-on-year growth. With a little help from the market and depending on how some of the other larger IPOs that are around the corner perform, including the Jio one, I believe that we should achieve 20%+ top-line growth. This means that, by and large, we can assume that our current numbers can be achieved in the coming quarters as well.

That leaves us with the third question regarding the buffers. The buffers consist of a couple of items. One is discretionary versus non-discretionary spending. As I have always maintained, there is a certain element of our expenditure that we will incur if and only if our financials permit it.

These expenditures are for future benefits, such as transformational items, discretionary IT projects, discretionary automation, discretionary expansion into a particular geography for which we have plans, or the launch of certain products that require a certain amount of business development spending.

If we see an ongoing market downturn, those are the levers we will pull. This will release some of the additional expenditure that we may have budgeted for the next 5 months but will not incur. That is what I was referring to, Karthik.

As we reach that point, we will prioritize the most important initiatives and scale through them, while probably deferring some of the others to the coming quarters. If market conditions permit at that point, we will then spend that money.

Report is AI-generated and may contain inaccuracies.

Karthik Chellappa – Indus Capital Advisors: Excellent. Thank you for the detailed responses. I wish the team all the very best for the rest of the year. I will come back into the queue for more questions. Thank you.

Sreekanth Nadella – MD & CEO: Thank you, Karthik.

Operator: Thank you. The next question is from the line of Sunil from DAM Capital Advisors Limited. Please go ahead.

Sunil – DAM Capital Advisors: Good morning and good afternoon, sir. Thanks for the opportunity, and congratulations on a good set of numbers. I have 2 questions.

First, if I look at your presentation for this quarter, we are seeing a good increase in value-added services revenue. As a percentage, it has also increased. How should we look at this? Is it seasonal, or what has driven this growth?

Second, is value-added services revenue mainly related to the mutual fund business, or where does it sit in the revenue breakup? Can you give me some clarity regarding this revenue?

Sreekanth Nadella – MD & CEO: Sure. I will answer the second question first so that the first one is clearer. VAS is not related only to mutual funds. It relates to both issuer solutions and mutual funds.

In Q2, you will typically see a relatively large spike in value-added solutions because issuer solutions VAS includes our entire platform-based revenue solution around e-AGMs, e-voting, and large corporate activities. It does not include regular corporate actions such as dividend declarations and buybacks, but it includes other activities where our platform-based solutions are used, including insider-trading platforms and so on.

Q2 is typically also a good quarter for VAS. That is what you have seen, given that many issuer-solution-related annual general meetings and similar activities take place in the second quarter.

Despite that, it is also a good performance in terms of the overall revenue pool itself. It now represents 7.5% of the organization's total revenue. I remember discussing, probably 3 or 4 quarters ago, one of our internal goals, which was to take value-added solutions to a double-digit figure in the next few quarters. We are working in that direction.

It is very important for us to focus on these revenue avenues because they do not depend on the vagaries of the market. They add a certain amount of predictability, consistency, and quality to our revenue.

Sunil – DAM Capital Advisors: Thank you. That was helpful. Just to circle back, the increase we are seeing on a quarter-on-quarter basis would be driven mainly by issuer solutions at the quarter-on-quarter level. Is that the correct understanding?

Sreekanth Nadella – MD & CEO: That is correct.

Sunil – DAM Capital Advisors: That is helpful. Secondly, if I look at the Ascent business, in your opening remarks you said that there are a lot of headwinds in the Middle East, where 25% of the

Report is AI-generated and may contain inaccuracies.

revenue is coming from. If I look at the PPT disclosure, this quarter is {? 15 crore and 19 client additions ?}. Is this mainly because of the Middle East issue? How are you tackling it? If this war continues for the next 6 months or a year, how are we looking at Ascent as a business? What strategies do you have for this macro event?

Sreekanth Nadella – MD & CEO: We model worst-case scenarios and have calibrated and purposeful responses for each of them. One response was to focus on geographies that are relatively unperturbed by such events and drive growth in those areas.

This is not to say that we should put some of the stressed geographies on the sidelines. In that scenario, all we can do is keep client conversations live and warm, continue to provide solutions, continue to engage, and, as and when conditions turn around, ensure that we are positioned correctly. If that happens, the headwind could turn into a tailwind.

What have we done to address this? Given our large presence in more than 18 geographies, it is quite possible that local events will always occur, whether they involve market movements, local politics, or anything else. That provides risk diversification.

During the last quarter, especially in the US, we won a fairly large number of deals. We won approximately 5 deals, and 2 of them are really [cut off]

Management: Very large, if not the largest, or close to 500,000+, and as the deal sizes for some of these funds increase, the intent of several medium-sized and large fund managers will also increase. What you have seen is that, despite the challenging times, we have seen growth even in the Middle East. However, we could have grown more if not for the situation. This was largely overcompensated by much faster growth in the Americas as well as in Singapore.

Sunil – DAM Capital Advisors: That was helpful. Lastly, why were client additions very flat this quarter? Was there a specific reason for that? Are they in the pipeline, or how do you look at that?

Management: That metric is not the number of deals we have already won that are yet to launch. What is happening is that Ascent's core business is largely in alternative investment funds, and in many geographies, including Ireland and several others, a lot of fund managers have held back from launching their funds.

Even today, we have approximately 80-plus funds, or 80 to 90 funds, that have already been contracted, but the fund manager is yet to launch them or is expected to launch them in the coming weeks or months. That is essentially the situation.

There is nothing untoward. If anything, repeat business from the same clients launching new funds, as well as referrals to their networks of new fund managers, has been steadily increasing. Our net retention rate has been higher than ever before.

By and large, we are very satisfied with the growth. Typically, Q3 and Q4, or H2, tend to be a better season for Ascent, as you may have seen over the last couple of years. We are therefore waiting for a better set of numbers in the coming 2 quarters.

Sunil – DAM Capital Advisors: Thank you, sir. It was very helpful, and all the best for the [inaudible].

Report is AI-generated and may contain inaccuracies.

Management: Thank you.

Operator: Thank you. Participants, in order to ensure that management is able to address questions during the conference, please limit your questions to 2 per participant. The next question is from the line of Swarnabh Mukherjee from 360 ONE Capital Market Private Limited. Please go ahead.

Swarnabh Mukherjee – 360 ONE Capital Market Private Limited: Thank you for the opportunity, and congratulations on a great set of numbers.

I have a question on the Ascent business in terms of costs. When I look at our consolidated cost structure, I think the increase at the employee-expense level is coming from Ascent. Given that the expectation was that Ascent should now regularly start to see a ramp-up in margins, I wanted to understand why employee costs continue to increase. Also, based on the data we have, margins appear to have been reasonably flat quarter-on-quarter. How should we think about the trajectory of margins for Ascent over the next 2-3 years?

Secondly, you mentioned that you expect to maintain a similar run rate in the issuer solutions business in subsequent quarters. Could you give us some color on the share of folio-based revenue this quarter and corporate-action-driven revenue this quarter? If I understand correctly, there is seasonality in corporate-action revenue, while folio-based revenue depends on the IPO pipeline and when the IPOs close. How should we expect this to develop? There may be some visibility for the third quarter, but how should we expect it to develop in subsequent quarters? Those are my 2 questions.

Management: Thank you. There are 2 ways to look at Ascent.

First, it is a 5-year-old organization founded by young entrepreneurs who had a vision similar to KFintech's: to create a large global fund administrator and operate in the $40 billion addressable market, or TAM, space. Very few, if any, have done this from this part of the world. Therefore, KFin and Ascent can join hands to grow this business over a period of time to that stage.

They specialize in one specific asset class, which is largely private mandates. This includes AIFs, PMSs, private equity, hedge funds, venture capital, digital currency funds, and so on. These are largely non-public investments, unlike mutual funds, pensions, and insurance.

The nature of that business, by and large, is based on small mandates and a large number of them. I may have 30 mutual fund clients and achieve revenues of up to $100 million. In alternative investment funds, there may be several hundred clients, yet the revenues may still be very small.

That nature of work requires a certain amount of scale, which is greater than what we currently have. It may appear that having 1,000-odd clients or another 200 or 2,000-odd clients overall, including Ascent, is a very large number. However, there is a surprising amount of customization in alternative investments in general.

To draw synergies and drive operating leverage, we need to horizontalize the business processes. Otherwise, it tends to become a one-to-one relationship between the client and the service provider. That does not itself result in significant operating leverage at a certain pace. As scale increases, operating leverage tends to become much larger.

Report is AI-generated and may contain inaccuracies.

Given that much of what we also deal with consists of public-market funds, and given that there have been no mark-to-market gains in most of the operating geographies, overall AUM has remained somewhat subdued. In that context, the combination of operating leverage needing to reach a much larger scale and the absence of AUM growth because of mark-to-market conditions is one of the reasons.

However, if you look specifically at Ascent's cost optimization and productivity, the overall EBITDA margin has been similar to that of last quarter. It was approximately 7.5% last quarter and approximately 8% this quarter. At the same time, it was negative 12% at this time last year.

We have to pursue such optimization in a purposeful manner and drive it methodically, rather than take arbitrary decisions that would be counterproductive for a fast-growing company. A fast-growing company needs capital, flexibility, and SG&A spending so that it can capitalize on all the markets it has entered.

We have spent money, and there is a certain amount of intangible asset sitting in capital expenditure at this point. There is no point in building geographies and tying down local CEOs without the necessary support, which is largely SG&A, to grow.

Despite that, we have moved from approximately negative 10% to negative 12% to positive 8% in about 4 quarters. As I have already said, we expect to reach double digits sooner than expected.

This acquisition will by no means reach KFin's margin levels in the next 3 or 4 quarters. It is a very different business, but it is a business with significant long-term compounding potential. In our base case, we will reach double digits, and we are looking at more than 20% further into the next fiscal year. Over the following 2 years, we will work toward taking it closer to KFin's overall margins.

By that time, both factors should hopefully have fallen into place: the scale and the transformation we are undertaking. The transformation involves re-platforming the current solution with KFin's proprietary platform and horizontalizing many of the business processes.

That is broadly the Ascent story. When you add Ascent's overall costs, this is a {? full capacity ?} situation. Therefore, in the first 2 quarters, when the business was loss-making to that extent, the cost addition was probably appearing higher than the revenue addition.

However, even if you look at standalone Ascent numbers, overall EBITDA has turned positive. The remaining gap to becoming cash-positive is approximately 3.5 to 4 crore rupees, which is not substantial. We should be able to become EPS-positive in the coming quarters as well.

On issuer solutions, what I said was that we should look at overall year-on-year numbers close to 20%. This quarter, the percentage was higher. However, on a year-on-year basis, I believe that we should continue to grow.

Corporate actions are predominantly a Q2 phenomenon and spill over into Q3. They will not be as large, but there will still be some. Given that we have just completed the largest IPO in the world and have more IPOs to come, and given that folio expansion was also largely due to the net new IPOs we completed over the last 12 months or so, there will be year-on-year revenue growth from both folio-based revenue and corporate actions.

Report is AI-generated and may contain inaccuracies.

The corporate-action revenue will include actions relating to the net new IPO clients we have added, not just the older clients. It is with that confidence that I am saying that we should still be able to achieve 20% year-on-year revenue growth.

This is in a year in which there has been a significant exodus of retail investors from existing companies. Our total folios grew because we won many more clients, not because the shareholder count of existing clients grew. In fact, the shareholder count of existing clients declined.

Swarnabh Mukherjee – 360 ONE Capital Market Private Limited: Understood. This is very clear. I wanted to ask one additional question about our legacy international business. If I look at the revenue numbers for the last 3 quarters, there appears to be some volatility. Revenue declined last quarter and then bounced back this quarter. Was there some one-off in last quarter's number, and can you tell us whether this trend represents linear growth?

Management: Swarnabh, was the first part of your question about alternatives?

Swarnabh Mukherjee – 360 ONE Capital Market Private Limited: No, our legacy international business, excluding Ascent—the international business.

Management: Southeast Asia, that is—

Swarnabh Mukherjee – 360 ONE Capital Market Private Limited: Yes, Southeast Asia.

Management: There are 2 important factors. One was the go-live of some of the deals that were under transition. Second, fortunately, the Malaysian markets performed well in the last quarter compared with India, at least.

Both factors—successful transitions and the resulting go-live and revenue commencement, together with the mark-to-market gains that occurred in Malaysia—were the reasons why the number increased. As I pointed out, there are still 18 more transitions underway, and as they go live, there will be significant revenue from them. In addition, there should be organic AUM growth from existing clients.

Swarnabh Mukherjee – 360 ONE Capital Market Private Limited: That is very clear. Thank you very much, and all the best for the rest of the year.

Management: Thank you.

Operator: Thank you. The next question is from the line of Supratim Datta from Jefferies Group. Please go ahead.

Supratim Datta – Jefferies Group: Thanks a lot for the opportunity. My first question is again regarding the Ascent business. You indicated that Ascent has started winning large contracts. I wanted to understand what has changed, or what is changing, at Ascent that is now allowing it to win these large contracts. How do the economics of these contracts differ from smaller contracts in terms of yield or profitability? Some color would be helpful.

Secondly, regarding the tax rate, the tax rate seems to have increased over the last 2 quarters. Is there anything specific that we should consider, and how would the full-year tax rate look? Those

Report is AI-generated and may contain inaccuracies.

are my 2 questions. Thank you.

Management: Thank you, Supratim.

Regarding Ascent, when I say large contracts, everything is relative. I mean large relative to the size of the deals that the entity had traditionally been winning.

In the last 12 months, there were 2 deals worth slightly more than $1 million each. In the US market, a single alternative investment deal generating anywhere from half a million to $1 million is reasonably sizeable. Typically, as you know, the funds are reasonably small. Even in India, a 2,000-crore or 3,000-crore fund is generally considered reasonably large in the alternatives segment.

In that context, anything around $1 million for a single deal is reasonably lucrative, and those are the types of deals we have been winning.

The economics are better for the simple reason that the fund size does not necessarily dictate the underlying effort. There will be some variable costs, obviously, in the form of additional volumes and therefore some additional effort, given that much of it is based on the technology solution we provide.

A large fund size also comes with large risks. Therefore, there is a certain risk premium that we have to build in, which translates into additional quality-control costs and so on. However, taken together, these factors still do not mean that costs increase in proportion to the size of the deal.

Large deals, with anything around $1 million, typically provide nearly twice the margin profile of 5 different deals together with a similar revenue profile. What I mean is, Supratim [trails off]

Management: One deal of $10 million versus 5 deals of $200,000 each. Both will translate to exactly the same AUM and probably the same revenue, but the effort would be nearly, or probably just about, half of what it would be for 5 different deals. That is the focus area in terms of winning large deals. That is how it affects operating leverage.

On the tax-rate aspect, I would request Vivek to cover that, in addition to one or two other matters regarding our plan to move into GIFT City and the entire international business, which has certain associated tax benefits. Vivek, would you cover the tax-rate aspect?

Vivek Mathur – CFO: In India, there are some new businesses, such as KFin Services, the GIFT City entity, and some others such as {? KFin DB ?}. These entities are still not profitable, and therefore we are not recognizing deferred tax on them. This is resulting in a slightly higher tax rate than the 25.64% tax rate for KFin India.

Ascent itself is currently loss-making in Singapore. Therefore, whatever tax it pays in India cannot be taken as a foreign tax credit. As a result of the combined impact, the tax rate will be slightly higher than normal.

We are considering moving to GIFT City, which should provide the advantage of a 20-year tax holiday. The process has been initiated, but it will take some time. Therefore, we cannot provide guidance on when we will optimize the tax rates, but that is the strategy in the pipeline.

Report is AI-generated and may contain inaccuracies.

For now, the higher tax rate is largely due to deferred tax not being accounted for in loss-making entities.

Supratim Datta – Jefferies Group: Understood. I have one follow-up on the Ascent business. When you were acquiring this asset, you indicated that certain roles from Singapore would be transitioned to India. Where are we in that process? Has it been completed?

Management: That is a rationalization topic that I discussed on 2 important counts. One was payroll-level rationalization, which essentially means mapping departments between the 2 independent entities and identifying departments that can be handled by a single unit.

For example, there were 2 separate finance functions, 2 separate HR functions, and 2 separate technology functions, among others. As you can imagine, when you consolidate them, there is a certain amount of redundancy. That exercise has already been completed.

For example, much of the finance function is managed by Amit Murarka, who is based in India. The same applies to aspects relating to technology, HR, and certain aspects of operations.

Ascent also has operations in India, including in Hyderabad and Mumbai, as well as in several locations where we are already organically present. Therefore, both the movement into the same physical location and the roles that could easily be handled by a single person instead of 2 different people have already been factored into the rationalization.

Supratim Datta – Jefferies Group: Understood. Thank you.

Operator: Thank you. The next question is from the line of Lalit Mohan Deo from Equirus Securities Private Limited. Please go ahead, sir.

Lalit Mohan Deo – Equirus Securities: Hello. Congratulations on the good set of numbers.

Operator: Mr. Deo, we are not able to hear you clearly.

Lalit Mohan Deo – Equirus Securities: Hello?

Operator: Yes, please proceed, sir.

Lalit Mohan Deo – Equirus Securities: Congratulations on a good set of numbers. I have 2 questions. First, as a clarification, earlier you mentioned that overall margins would be approximately 40% by FY27. Does that mean only the exit quarter, or should we assume 40% for the full year?

My second question is about the issuer solutions business. Could you explain the unit economics of IPOs, such as the revenue we generate over the entire duration or in terms of the applications involved?

Management: On IPOs, let me cover that first. The IPO itself, as an event or episode, does not necessarily generate significant revenue. Much of it is driven by competitive dynamics. Many of these are priced at just a few lakhs of rupees. The larger ones may generate somewhat more, but by and large, it is the annuity that we focus on.

Report is AI-generated and may contain inaccuracies.

For example, if you consider retail-focused stocks, some of them can have as many as 30, 40, or 50 lakh individual shareholders. That is the broader revenue model. It is not primarily about the individual IPO itself.

The IPO would not account for more than, say, 2% of total issuer solutions revenue in a year. The rest consists of maintenance, corporate actions, and value-added solutions revenue that we track.

I am sorry, I think I missed your first question. What was it about?

Lalit Mohan Deo – Equirus Securities: It was a clarification regarding the EBITDA margin, specifically whether the 40% is for the full year or whether it is [trails off].

Management: I can cover that. No, it is an average. It is not the Q4 run rate. As you have seen, this quarter itself is already at 40.6%.

What we have to do is expand these numbers in the coming quarters to compensate for Q1, when the margin was only 34%. We are working toward a full-year average of 40%, not just 40% for the 90-day quarter.

Lalit Mohan Deo – Equirus Securities: Understood, sir. Thank you.

Operator: Thank you. The next question is from the line of Dipanjan Ghosh from Goldman Sachs. Please go ahead.

Dipanjan Ghosh – Goldman Sachs: Hello. Am I audible?

Operator: Yes, sir, you are audible.

Dipanjan Ghosh – Goldman Sachs: I have 3 questions. First, regarding your core international business excluding Ascent, or the legacy international business, I am trying to understand client concentration in terms of revenue—top 5 and top 10 clients—and how that may have changed over the past few years.

Second, regarding your EBITDA margins excluding Ascent, would it be possible to break them down between the mutual fund business, the issuer solutions business, and the remaining businesses, such as pensions, which would probably be relatively small?

Third, regarding the mutual fund margin business, how much more scope do you see for efficiency realization or cost rationalization in that part of the business?

Management: [pause] The exact numbers would probably be better provided separately by Ram or Vivek on a one-on-one basis, but by and large, the numbers are published for each of the businesses.

Regarding the overall margin profile, if you look at the revenue mix, 52% comes from mutual funds, 13% from issuer solutions, 20% from international, including Ascent, and 7% from other businesses such as alternatives, pensions, and so on.

Report is AI-generated and may contain inaccuracies.

That has been the revenue mix. As I said, it will become more weighted toward the remaining non-mutual-fund businesses, which will continue to grow faster than the mutual fund business. Therefore, there will continue to be a change in the overall revenue and margin profile.

However, our intent and commitment toward 18% to 20% top-line growth and an EBITDA range of approximately 40% to 42% continue to hold, despite a change in the mix and differences in the operating leverage provided by each business.

The reason the operating leverage or margins for the other businesses are transient is that it is important to understand the nature of those revenues and margins. At the individual contract level, including GACS, they are far more profitable than most of the Indian contracts we have.

However, you will see a lower consolidated margin percentage because transitions are constantly taking place. Therefore, a certain amount of cost is currently being incurred, while the associated revenue will come in the coming quarters.

If, for example, we did not win anything in a particular quarter or 2, you would actually see the margins of the other businesses at par with, or even higher than, our traditional core businesses. You will see this anomaly of reported profits being lower than the core business's profits as long as we continue to grow.

As the scale increases, however, the margin impact of transition-related costs will decline because those costs will fall as a percentage of revenue while the overall pie expands.

Regarding the GACS businesses, concentration risk is substantially lower than in domestic mutual funds. Our top 5 clients contribute approximately 23% to 24% in total, with the largest client contributing approximately 5% or thereabouts.

Even in domestic business, there has been a substantial reduction in overall concentration risk, with the top client contributing approximately 5.5% to 6% and the second client probably contributing approximately 3.5% to 4%. I would expect these numbers to come down to approximately 2% to 2.5% over the next 18-24 months.

Dipanjan Ghosh - Goldman Sachs: Understood. I have one question on the last point regarding possible efficiencies in the core mutual fund business. How much do you think margins can improve?

Management: Margin, as you know, is a function of both price and cost. I will discuss productivity and price. The unit tariff itself, as I told you, is a function of changes in the asset-class mix and pricing.

Given that there are certain non-controllable factors, we focus on the controllable factors, which effectively means productivity and the associated cost takeout.

I spoke about the planned rollout of PhinX, which involves rebuilding the entire mutual fund platform from the ground up using the latest and most advanced technologies available at this point. Approximately one-third of that work has been completed and deployed. Some of the associated productivity gains can be seen as contributing to the expansion in basis points.

Report is AI-generated and may contain inaccuracies.

We have the rest of the program to be completed over the next 6-7 months. At that point, I would expect additional productivity gains.

There have also been compensating offsets due to cloud costs and infrastructure costs. As we all know, memory, compute, energy, and all these costs have doubled or tripled. Therefore, a significant part of what we are doing is being offset by market forces.

If those costs become benign—for example, if the AI trade slows down somewhat and memory and compute costs decline—we will see a benefit at that point. Otherwise, a large part of what we are trying to accomplish is being offset by absolute uncontrollable items beyond our control.

However, I believe that, pound for pound, the human element in our services is declining and the share of non-people costs is increasing. What I am trying to say is that we will see headcount optimization due to the straight-through processing we are implementing. However, part of that benefit is being offset by large-scale cost increases in cloud and non-cloud computing costs.

Dipanjan Ghosh - Goldman Sachs: Understood. Thank you, and all the best.

Management: Thank you.

Operator: Thank you. The next question is from the line of Mohit Mangal from Centrum. Please go ahead.

Mohit Mangal - Centrum: Good afternoon, and thanks for the opportunity. I have 2 questions.

The first is on the AIF and wealth management business. We have seen the number of funds consistently increase, even though revenue growth was good and yields expanded. However, if I look at AUM growth, it was flat to marginally negative on a sequential basis. I wanted to understand your views on the growth and yields of this business going forward.

My second question is about our new offices, which we have discussed in the past couple of calls. When will the depreciation expense come into the picture, and what will be its quantum? Thank you.

Management: I will take the AIF question and request Vivek to cover the second question regarding depreciation.

Slightly more than 80% of all the funds we manage are Category II funds. By definition, they are all exposed to public markets. Last quarter, mark-to-market gains were obviously subdued.

The same was true in mutual funds, but in that case it was offset by net flows being slightly higher. In alternatives, based on the commitments and the schedule, net flows did not compensate for the loss of mark-to-market gains. Therefore, it was a very [cut off]

Shripal: Tactical blip on the radar, something that I would not read too much into. The fact that the number of clients and the revenue grew despite a dip in AUM is actually encouraging.

As you said, when the market turns around, there will be a compounding effect from new-client vintages and their revenue, as well as the organic growth of each individual client and family. Vivek,

Report is AI-generated and may contain inaccuracies.

could you add a few points on this?

Vivek Mathur – CFO: On the new office, the new Hyderabad office is expected to become operational effective December 1. We expect 2 types of increases.

One is an increase in rent, which will be approximately 80 lakhs per month. The operating lease for the asset build-out will also start from December 1.

This year, FY27, there will be an impact of approximately 7 crores. In the next full year, it will be approximately 18 crores. Thereafter, you can say that it will reduce by 7% every year because of discounting. Starting this year, the impact will be 7 crores; next year, which is FY28, it will be 18 crores, and then it can be reduced by 7%. The total lease period is 9 years.

Mohit Mangal – Centrum: There is just one follow-up on this. Regarding the 80 lakh rent you mentioned, should we expect the rent to be approximately 10 crores for the entire year for at least the next 2-3 years?

Vivek Mathur – CFO: This is 80 lakhs per month for the next 15 years. It is the additional rent over and above what we are already paying for Selenium, because of the larger space we have taken.

That is the impact on the P&L from the rental lease, which you will see in depreciation, amortization, and the lease component. The capex build-out, which is through an operating lease, is the other component I mentioned.

Mohit Mangal – Centrum: Understood. That is very clear. Thank you, and I wish you all the best.

Operator: Thank you. As there are no further questions from participants, I now hand the conference over to Mr. Vivek Mathur for closing comments.

Vivek Mathur – CFO: Thank you. As you have seen, the results have consistently improved, with Q2 improving over Q1. We have regained an EBITDA margin of 40%, and we have been guiding that we want to end the full year with a 40% EBITDA margin.

Revenue growth will continue to be in the range of 18% to 20%, with EBITDA margins in the range of 40% to 45% and PAT margins in the range of 25% to 30%.

We remain optimistic about the Indian market. As the market develops in terms of mark-to-market movements and net inflows, with the fundamentals remaining intact, corporate actions are back on track. That is why you see the issuer solutions business performing well.

Q2 is typically a strong quarter. Corporate actions decline somewhat in Q3 and Q4, but our overall guidance remains unchanged. Thank you very much for attending the call today.

Operator: Thank you. On behalf of IIFL Capital Services Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.

Report is AI-generated and may contain inaccuracies.

KFin Technologies

Note: {? ... ?} indicates a figure or name where audio clarity was insufficient for confident transcription. Verify against the source audio or the company's published filings.

Report is AI-generated and may contain inaccuracies.