February 17, 2023 CS&G/STX/MQ2023/14

1) **National Stock Exchange of India Limited**
Exchange Plaza, C-1, Block G,
Bandra Kurla Complex, Bandra (E),
Mumbai – 400 051

Scrip Symbol: KFINTECH

2) **BSE Limited**
Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai – 400 001

Scrip Code: 543720

**Sub. : Transcript of Earnings Conference Call**

**Ref. : Regulation 30 of the LODR Regulations**

Dear Sir / Madam,

Further to our letter reference no. CS&G/STX/MQ2023/03 dated January 27, 2023, pursuant to Regulation 30 and other applicable provisions of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("**LODR Regulations**"), please find enclosed herewith the transcript of the Earnings Conference Call held on February 13, 2023, in respect of the unaudited financial results of the Company for the quarter and nine months ended December 31, 2022.

The transcript can also be accessed on the Company's website at the following link:

https://investor.kfintech.com/financials/

This is for your information and records.

Thanking you,

Yours faithfully,

**For KFin Technologies Limited**

ALPANA UTTAM KUNDU

Digitally signed by ALPANA UTTAM KUNDU
Date: 2023.02.17 17:55:11 +05'30'

**Alpana Kundu**
**Company Secretary and Compliance Officer**
ICSI Membership No.: F10191

*Encl.: a/a*

# "KFin Technologies Limited Q3 FY23 Earnings Conference Call"

**February 13, 2023**

**MANAGEMENT:** **MR. SREEKANTH NADELLA – MD & CEO**
**MR. VIVEK MATHUR – CFO**
**MR. AMIT MURARKA – HEAD INVESTOR RELATIONS**

**MODERATOR:** **MR. ABHIJEET SAKHARE – KOTAK SECURITIES LIMITED**

**Moderator:** Ladies and gentlemen, good day and welcome to the Q3 FY 23 Earnings Conference Call of KFin Technologies hosted by Kotak Securities Limited.

As a reminder, all participant lines will be in the 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 an operator by pressing "*" then "0" on your touch tone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Abhijeet Sakhare from Kotak Securities Limited. Thank you and over to you Mr. Sakhare.

**Abhijeet Sakhare:** Thank you Michelle. Good evening everyone. Welcome to the Earnings Conference Call of KFin Technologies Limited to discuss the 3Q FY23 performance of the company and share industry and business updates. We have senior management with us, represented by Mr. Sreekanth Nadella – MD and CEO, Mr. Vivek Mathur – CFO and Mr. Amit Murarka – Head (Investor Relations).

I would now like to hand over the call to Sreekanth for his opening comments, after which we will take your questions. Over to you Sreekanth.

**Sreekanth Nadella:** Thank you Abhijeet, very good afternoon to one and all. This is Sreekanth. I lead up the organization as the Chief Executive and thank you so much for giving your precious time this evening.

Over the next half an hour, we would walk you through in terms of our performance for the quarter as well as for the nine months ending 31st December and would leave the floor open for questions for the latter half of the call.

Given this is our very first Earnings Call, I would like to take this opportunity to walk you all through a little bit about our journey so far. Some of you might have heard about it, but we believe it's important to set some context. As an organization, KFin Tech has been in existence since 1985, long years in making. Started our business with rendering issuer solutions, which is effectively what you call a share transfer registry in today's world. Slightly latish entrance into the mutual fund started in 1995, and ever since managed to claw back some amount of lost time by winning quite a significant number of mandates.

Sometime around 2010, as the asset classes started expanding beyond the traditional asset classes of equity, debt, and into mutual funds, the alternatives have started to expand and KFin Tech as an organization which is largely a technology and a platform driven solutions provider, has expanded its solutions into all other asset classes as well starting 2010.

We also took extreme pride in starting probably the first international foray for an organization of this style, based in India by starting our business in Southeast Asia, domiciled in Kuala Lumpur, in Malaysia, and thus started our international expansion especially from Southeast Asia standpoint.

Around 2017, we have secured the license to become the second central record keeping agent for National Pension System. Over a period of time, we have expanded our footprint to a respectable 7% of the total market share over the last 4 years and I will explain more in terms of what has been the specific and the growth associated with that in time to come.

2018 marked a very important year for us in terms of General Atlantic controlling stake buyout which spawned 3 definitive transformational items:

- One of that was a technology transformation.
- Second was the creation of an independent board and a fit for purpose management.
- The third being largely acquisitive by nature by outlook, which has resulted in KFin Tech buying out the Sundaram BNP Paribas RTA business back in 2020. Last year we have acquired Hexagram, which is a Fund Accounting Administration platform which gives us the very unique ability to be one of the only RTAs in the country who can handle both the asset side as well as the liability side of the book of a fund manager.

2021 also was an important year for us with Kotak Mahindra Bank acquiring sub-10% stake in us and of course the December of 29 of the previous year, momentous day for KFin Tech when the Company got successfully listed on the National Stock Exchange and the BSE. That's largely our journey so far.

To sum it all up, Investor Solutions broad business which covers the domestic mutual funds, international solutions in Southeast Asia and beyond, alternatives and the wealth management associated platforms and the National Pension System. Issuer Solutions to the share transfer registry piece of work and the Global Business Services which is more an outsourcing sort of work that we do for specific clients in the mortgage space and some amount of F&A outsourcing as well as the general ledger accounting outsourcing for the Middle Eastern banks.

Quickly moving on just in terms of what is this organization at a very high-level glance, we are the largest investor solution provider to the Indian mutual funds in the form of the number of asset management companies we serve. 26 out of 46 asset management companies are KFin Tech's clients, of these 41 are operational at this point in time. Of the 41, 24 are KFin Tech's clients. We manage a total AAUM of Rs. 12.7 trillion and one that is expanding fast year after year.

Our win rate had been 15 out of 22 in the past x number of years exemplifying the growth that is contributed not just by the client's growth, but as well as new clients getting added and **ergo** driving the expansion of our overall AUM as well as equity AUM.

Our overall market share for equity is 35%. In terms of SIP monthly inflow, which is the bellwether and the sticky retail book, which tends to compound over a period of time, stands at 41.6% for the period ending December 2022. Overall number of folios if you add up between Investor Solutions and Issuer Solutions, KFin Tech has close to 225 million folios which makes KFin Tech amongst the largest registrars in this world.

Issuer Solutions we have a 49% market share when you count the market cap of the Nifty 500 companies that KFin Tech services. Even by count, KFin Tech has a little around 43% market share of the total number of corporates listed on the Nifty 500, overall base is about 5100 clients, and we add little around 150 odd corporates every single quarter, be it listed or unlisted together. Whilst investor solutions on domestic funds and issuer solutions have been our traditional businesses, KFin Tech has had expansions into international and other investor solutions which have been the fastest growing businesses.

Today we manage 33 international clientele between Southeast Asia and beyond. In the case of Central Record Keeping Agencies, we have one of the three CRAs and we manage close to 0.9 million subscribers, which accounts for 7% of the total market share.

On the alternate investment funds, we have about 348 AIFs secured marks about a third of the total AIFs which has a composition of full-scale model of TA plus FA plus value-added solutions. Some of these are purely for regulatory and compliance requirements on stamp duty.

Overall, beyond the statistics, we have been an extremely innovative company at the core. Launched over 20 products, many of these are monetized directly or indirectly contributing to the growth of our clients. In terms of volumes of transaction, KFin Tech manages as many transactions as the industry does at this point in time. In terms of ESG rating, we are rated as the second best corporate in the country, rated A and we pride in tracking our internal security scores of our infrastructure, which stands at a very impressive 770 + as of December.

Our growth largely has been on the back of very simple keep it simple, but then executed well effectively by maintaining our market leadership through excellent delivery, through relationship with our clients and that we believe we can do only and only through very effective technology investments and process innovation. We continue to expand internationally, organically as well as inorganically in the form of acquisitions and none of this is truly possible without retaining strong talent. As you would see that, KFin Tech continues to invest in talent both in terms of additional new account as well as in terms of retention of key personnel. We have also significantly enhanced our sales capability, our products and transformation innovation capability over the past 12 months.

Broadly, in terms of our highlights for Q3 and the 9 months ending December, we continue to maintain our growth trajectory with a combination of growth on the traditional businesses as well as faster expansion of the younger businesses. Overall, Q3 revenues grew by 12% year-on-year, EBITDA grew by 9%, margins for the Q3 stands at 42.9%, our PAT has grown 79% year-on-year and margin stand at 28.4%, the PAT margin at 28.4% for the Q3. For the period ending 9 months, our revenue grew 17%. EBITDA growth was at 5% year-on-year and margin stands at 29.9% for the cumulative period of 9 months, even as the PAT has grown by 42% and margin stands at 25.8%. As I said, our business is broadly composed of domestic mutual funds, which has a total share of close to about 68% and the rest of the business on the issuer, international, alternatives, et cetera constitute the remaining 30% +. Our mutual funds business overall AUM continues to expand faster than the industry. For example, our AAUM has expanded by 8.5%

year-on-year as against an industry growth of 5.4%. Our AUM market share on the other hand has expanded by a full 100 basis points from the previous year, which now stands at 31.7 percentage, that's a substantial market share gain in twelve-month period, even as the market has expanded our equity AAUM market share is at 35%.

Through this period, we have also won a new mandate of Old Bridge Capital even as one of our erstwhile client Navi has chosen to partner with CAMS in terms of the new management intending to align on broader corporate relationships. Issuer Solutions, which is one of our faster growing businesses, has grown over 40% year-on-year as last quarter-on-quarter broadly. We have added 128 clients, making our total client base to 5000 plus. Close to 0.8 million investor folios have been added, making it one of, the largest registrar in the country, even as a market share in terms of NSE 500 Company stands at 49% for Q3 versus what was 43% for Q3 FY 22.

International Investor Solutions we have added 33 clients. We have a total of 33 clients at this point in time, which stood at 22 for the previous 9 months ending December 2022. We have won our first client outside of India and Asia into Canada for providing full scale fund administration services for two funds of this client. We believe this would be a good segway for us to expand into the western part of the world where Fund Accounting Administration is a fairly large addressable market with a \$6 billion + ticket size. We started our operations in Gift City in February and we have already boarded 6 funds in there, 4 being Gift City Domiciled and 2 international funds.

On the alternatives one of the asset classes, we are very, very excited about in terms of the growth prospects as well as the value that we can offer to the asset managers and to the distribution network and to the investors. 47 funds have been added in Q3 alone, taking the total number of funds to 348 for the period ending December 2022. Our market share stands at 33% versus what was 30% in the previous year, and our AAUM correspondingly has grown 28% year-on-year and 3% quarter-on-quarter. Our spectrum of services for alternatives also has grown beyond the traditional transfer agency work with the acquisition of Hexagram where now we render end-to-end solutions of transfer agency, fund accounting administration, entire stack of digital onboarding and all the other value-added solutions.

National Pension System, we continue to add sizable numbers with each passing day, our market share stands, 7% as already called out. We look at expanding not just the market share, but also creating the market itself quite substantially. We have launched a corporate specific product called “Futur”. We have been adding a little around 100 odd corporates every single quarter even as we intend to transition from e-NPS model into the corporate model through very specific and targeted solutions we believe will help the corporate employees to subscribe to National Pension System through that platform.

Overall mutual funds itself, from an India performance standpoint, as one can easily read from the public domain has been seeing sizable growth this year for the period ending 2023, 5% year-on-year 3% quarter-on-quarter, little subdued compared to the past three years broadly. As I've already explained, in comparison to 5.4% of industry growth KFin Tech had grown over 8.4% which effectively marks much higher net flows into KFin Tech service funds.

Equity AAUM stands at 35% for Kin Tech even as the overall growth had been 12% year-on-year, KFin Tech's growth also had been similar, slightly higher than 12.4% standing at 12.8%. SIP inflows I have already called that out, Kin Tech's number overall share of the wallet is about 42% even though overall equity AAUM stands at 35% and the overall AAUM stands at 31%. The retail book which is usually sticky and compounding is something that we believe will overtime help KFin Tech's overall AUM share to increase beyond where it currently stands today. In terms of the number of folios and number of transactions however, we have near parity in the industry in terms of the total number of transactions we process as well as the total number of folios we manage, both in terms of overall AUM as well as on the equity side of things, which effectively speaks about, again a lot of retail book. And in terms of the other asset classes, even as the overall AIFs register continue to expand, our win rate doesn't necessarily justify the revenue. It should be higher, as we believe many of the AIFs will go on to launch their funds into the coming months and quarter, which effectively should drive the revenue higher up from where we are today.

Now, given we operated every asset class in a decentralized manner, number of demat account expansion is very important for us, as that impacts our revenue for issuer solutions which has grown over 40% as I have already called out. Increase in the number of clients as well as the much broader retail participation helps issuer solutions grow, even as technology enabled products and platforms we created for the corporates at large has been helping us to drive our value-added solutions as well.

International Mutual Funds, specifically on the Southeast Asian side, we see the opportunity size if you add up the geographies of Singapore, Hong Kong, Malaysia, Philippines, Indonesia, and Thailand to be around $1.3 trillion, which has reached over two times the size of India and KFin Tech renders both Transfer Agency and Fund Accounting Administration services in this part of the world. A very young nascent business, one that has been growing quite rapidly, notwithstanding the fact that last year the Southeast Asian markets mark-to-market has come down by over 5%. Our win rates and a pretty significant pipeline will hopefully auger well in terms of the growth that is potentially possible into the coming quarters in this line of the business.

Our own business highlights: overall AAUM, as I said has increased by full 100 basis points compared to 9 months of the previous year from 30.7% to 31.7%. Overall equity AAUM market share on the other hand, is stable at 35%, for the quarter ending December, we stand at 31.7%, 35% on equity and overall mix of equity to our AUM stands at 56%, which has seen expansion by a little around 240 basis points for the previous year. In terms of the SIP, overall inflows both in terms of the folios and in terms of the value, we stand close to 42%. Folios itself has been growing much faster than the value, which I'd like to believe over a period of time will catch up with the total value itself. In terms of our transaction volume, we have seen a significant rise in the overall volumes by a little over 15% in mutual funds and if I aggregate all the businesses together, it is at 28% increase in volumes across our lines of businesses. This if you read in the context of our overall operations and the productivity we drove, with a net headcount reduction during this period, it's largely on account of the technological transformation we were able to bring to clients. Partnering with CAMS on the MFCentral, we have launched the CAS API together as partners in this journey and in times to come, all commercial and non-commercial transaction APIs will also be expanded and extended to all the digital and the fin tech ecosystem in the country, which we believe will add a certain amount of revenue base for both the organizations.

Issuer solutions has moved as I said, we've added about 12% year-on-year and about 2.5% quarter-on-quarter. Full year expansion has been over 13%, in terms of the number of clients itself on Nifty 500 from December 2021, wherein the market share was 35%, today it stands close to 40%. In terms of number of folios too has expanded from 37% to 43%. The market cap of the Nifty 500 has moved from 42.9% to 49%, speaking volumes about the quality of the clientele and the wins we've had through this period, even as the revenues have seen close to 40% growth during this period.

We have seen an expansion of our international clientele from 22 to 33. This is largely on the back of our acquisition of Hexagram, which has added international clients as well as organic growth of KFin Tech's own all clients. Overall, AUM itself has seen a slight dip, that's largely in the context of the mark-to-market reduction in most of the operating geographies in that part of the world. But we believe that is sporadic and probably a one-time dip in the radar that should correct itself in time to come. Even as the transaction volumes during this period has increased 4-fold from 0.9 million to 4 million between FY 20 and December FY 2023.

In terms of other solutions, broadly alternatives, our revenues have grown AIF little around 42% and our AUM also has expanded, in terms of the operating AUM has expanded little around 28% year-on-year, fund administration has moved from 23 to 32 during this period, from March to December 22 that is, which also has 8 international clients between Southeast Asia and Canada, so to speak.

In terms of pensions, we have gone live with the state of Madhya Pradesh the previous year, we have nearly doubled our subscriber count from 0.45 to 0.9 million nearly doubled both the subscriber count as well as our revenues during this period on the National Pension System, even as we have added a sizable number of corporates and POPs during this period of time.

That's broadly the business highlights. I would request Mr. Vivek Mathur to walk you through on the financials.

**Vivek Mathur:** Thanks Sreekanth.

On the financials, if you look at quarter ended FY 23 and 9 months ended December 31, 2022, the revenue has gone up by 17.1% year-on-year and quarter-on-quarter it has gone up by 12.1% in terms of last 9 months versus this period 9 months. If you look at Q2 to Q3 within the same financial year it has gone up by 5%. It's largely backed by the increase in domestic mutual fund business by about 5% quarter-on-quarter.

Issuer solutions has gone up by 6% quarter-on-quarter. International and other Investor solutions has gone up by about 11.5%. If you look at year-on-year, the domestic Mutual Fund has gone up by 11%, Issuer solutions about 39%, International and other Investor solutions by about 46%. This includes the integration with Hexagram and besides other businesses of AIF and pension and Southeast Asia business so overall growth is 46% year-on-year.

On the global business services there is a growth of 7.7% for the year, while there is slight dip in the quarter-on-quarter of about 5%. That's more because of the FX gain that we have that we see the year-on-year increase, while the number of seats that we have been operating with for the mortgage servicing business still remain the same. If you look at the EBITDA, the EBITDA has gone up by about 5%. But if you see quarter-on-quarter it has gone up by 13.6%. On a year-on-year basis if you see the same period of 9 months in same period of 9 months last year, that growth of 5% is there. But if you see year-on-year it is 9% same quarter last year versus same quarter this year. However, our EBITDA margin continue to be in the range of 40% to 45% as we maintain, it's 39.9% for 9 months ended December ‘22 and for the quarter it is 42.9%. Typically, Q1 and Q2 see the stress of increments and expenses coming in.

As the business grows and revenue grows in Q2 and Q3 it catches up and that's how Q3 FY 23 sees an EBITDA margin of 42.9%. PAT has touched 42% growth year-on-year. In terms of quarter-on-quarter it is 11.4%. But as compared to last year, same period, same quarter it's 78.6%. PAT margins have touched 25.8%, while for the quarter it is 28.4%. We maintain healthy cash flows of about Rs. 229 crores. Therefore, the EPS on a diluted basis has gone up by 29% from 3.15 for this quarter and 9 months is 8.20.

That sets very high-level summary of the financials and we are happy to take questions now, Abhijeet over to you.

**Moderator:** Thank you very much, sir. We will now begin the question-and-answer session. We have the first question from the line of Aejas Lakhani from Unifi Capital. Please go ahead.

**Aejas Lakhani:** Congratulations on the numbers and thanks for the meeting call summary that you gave regarding the business. Sreekanth couple of questions; first is if you could talk about Navi. I thought that was a recent mandate. What made them go to the competition, that's one? On telescopic pricing, what we understand is that prices because of the telescoping nature are already there's no scope for further reduction. But the regulator comes out and has made some statements, your thoughts on pricing. Is there any scope for pricing to still come down? Vivek, one question to you is on Hexagram, what was the revenue number this quarter? Because it was not there last year this time, could you call the Hexagram number separately? Thanks.

**Sreekanth Nadella:** No, Navi is not a new client. Navi took over Essel. Essel was KFin's client back in the day and with the change in the management of the organization, KFin Tech manages the Fund

Accounting Administration side of the business for Navi. It is possibly due to segregation duty typically, if you've seen Indian mutual fund industry, we don't do TA and FA together. It could be possibly for that reason. So, it's not a new client. Second, in terms of the yield compression, see, telescopic pricing is what it is. To that extent, as the value overall corpus increases, clearly there is an expected certain amount of compression that is to be seen. In terms of the regulators commentary if you see, I think the request or the counsel sought on the consultation paper, it was largely with a view to stop or at least to manage miss selling, if I may, in terms of investors' money being moved from one fund to the another with a view to secure higher TER. The very specific purpose, as stated was that although it has no bearing on the registrar's operations, our operations and the cost and et cetera continue to be disengaged with on the selling side of the fund, so to speak. We believe that beyond the telescopic pricing, we may not see any additional yield compression.

**Vivek Mathur:** Yes, on the question related to Hexagram revenue, it was 8.8 crores for the 9 months ended December '22.

**Aejas Lakhani:** Got it, thanks. Sreekanth, just follow up on that, in renegotiations that you would have had with recent clients, has there been any pressure on yields when you've been having these conversations? Just on the international piece you had mentioned earlier that you won some geographies, sorry some new clients in different geographies so when do those go live? I mean, should we expect something in the next quarter or will it be in the year '24? Thanks.

**Sreekanth Nadella:** I'll answer the second question first. We have already gone live with our client in Canada. In the last meeting we've had earlier in the previous year, it was still under negotiation and early parts of transition. We have successfully gone live as of January for two funds, for the client based in Canada. In addition to that, I think in the Southeast Asian side, of course, we continue to look to expand our operations into Thailand subject to necessary regulatory approval. So, that is yet to happen. In terms of the contract renegotiations here, our contracts are largely now this question is very specific to domestic mutual funds. It doesn't happen with any other business. In fact, most of the businesses, the price actually goes up. The contract negotiation itself is a factor of the contracting terms, which is anywhere between 3 to 5 years, depending upon which client you speak with, depending upon any amount of significantly higher growth or maybe even lower growth for that matter, we take certain steps to partner with our client so as to enable their growth faster. So, short answer, can yield compression be possible at the time of contract renegotiation, the answer is yes, but by and large it would be minimal in comparison to the telescopic pricing and related impact.

**Moderator:** Thank you. We have the next question from the line of Devansh N from SIMPL. Please go ahead.

**Devansh N:** In case of employee cost, can you share the headcount as on March '22 and March '21 and December '22?

**Sreekanth Nadella:** Yes, just give us a moment, please. The dates you're looking for March 2022 last year beginning we were at 5,440 and December, for the period ending the previous month, we were at 5,300. Sorry, what was the other period that you asked for?

**Devansh N:** March '21?

**Sreekanth Nadella:** March '21 was 4,900.

**Devansh N:** Okay, so over here, what is the annual appraisal cycle for us?

**Sreekanth Nadella:** Typically, it is April, like any other Indian corporate. Yes.

**Devansh N:** Okay because if I exclude the employee cost, if I look at ex-ESOP cost, there has been a significant increase. Can you help us understand where it's coming from?

**Vivek Mathur:** Yes, in terms of employee cost the increase is largely related to a reset for the IT employees that we have. There is integration of Hexagram that has an additional cost of all the employees cost coming in and the regular increments that we give. We have also seen increase in replacement cost during the year based on the demand supply situation that we experienced. We have seen an average cost going upwards of 20% in terms of replacement cost. This is all besides the ESOP cost, which is exceptionally different for this year being the IPO year and the vesting happening this year. These are the main reasons for increase in employee cost.

**Devansh N:** Okay, but let's say if I look at standalone and if I exclude the ESOP cost, it was 52 crores in December '22, and December '21 was 36. No change in employee cost. The cost increase at ESOP is actually 50%, 44%. Sorry.

**Vivek Mathur:** Yes out of 44%, you can take about 9% to 10% increase in the average increment that was there for that was given in April. You look at the reset of employee costs for IT folks was across the industry, almost doubled in some cases. In cases where you really need skilled employee, and as a Company which is heavily into technology, we need to retain talent, and therefore we had to increase the salaries for those employees. Although we have taken some corrective actions in terms of resetting the engagement with external resources, the consultants that we used to hire, so we have cut down cost on that front while retaining the talented employees and therefore the increase in cost. We believe this is not recurring in nature. This was one time reset that was necessary given the market demand and supply situation in this area. This is something which we will see is already easing out. Now we see in the last quarter, the cost is actually stabilized. It is not going any further and we do expect that in the coming financial year we will not see something like this happening.

**Devansh N:** But even if I look at QoQ, what we hear is that now there has been lot of firing that has been happening globally but if I look at our QoQ employee cost ex-ESOP even that has increased 20% QoQ. So, I'm just confused.

**Vivek Mathur:** QoQ the employee cost has come down.

**Devansh N:** Ex-ESOP, excluding ESOP cost? ESOP cost is 16 crores for this quarter than 30 crores last…

**Vivek Mathur:** That's the impact of the increase that we have done visibly last year if you see. Last year there was no reset of IT cost, this year there is a reset of IT cost so it will have that impact until the financial year ends. You will continue to see this impact on quarter-on-quarter because of the one-time reset that was done. It is not that it will have only one quarter impact, it is a reset of the entire cost. Amit you want to add anything.

**Amit Murarka:** Yes so I think you are referring not really sure in terms of the numbers, on the employee cost for the quarter we had 72.5 crores versus 76 crores in the last quarter. That's a 5% decline and if I reset the number, based on basically excluding the ESOP cost then basically still my cost is down by 3% because my ESOP cost was 1.6 crores for the quarter and last quarter it was 3.1 crores. Excluding the ESOP cost also the overall employee cost has been down on a quarter- on-quarter basis as well. Like what Sreekanth and Vivek was mentioning, that there are a couple of reasons why on a YoY basis for the full 9 months, why the cost has gone up for a couple of reasons in terms of the reset in the IT salary, the addition of the Hexagram team as part of the core team, and then the investment that the Company did in terms of setting up the whole sales organizations in terms of basically beefing up my AIF and the Fund administration team in India and then also adding up people in terms of for the Southeast Asian business as well. Some of these elements have added up to the cost on a YoY basis against which the matching revenue we are yet to see. I mean, we are already seeing a lot of traction in terms of building up the pipeline for the international market as well as the number of mandates that we have been able to add in the AIF business. That is all because the last one, one and a half years, the way the team has been built and the organization that we have set up in these some of the new and the younger businesses, that is something that is adding up to the cost. We'll see the corresponding revenue in the subsequent period as we go along.

**Moderator:** The next question is from the line of Ajox Frederick from Sundaram Mutual Fund. Please go ahead.

**Ajox Frederick:** Sir, my question is on the international solutions. I noticed that the AUM has come down but still we were able to do very well on the year-on-year numbers. So, what is the revenue model here? How are we pricing the client? It is on AUM or transactions or how do we do it?

**Sreekanth Nadella:** Yes, please read that as international and other investor solutions that also includes revenue pool coming from AIF business as well and National Pension System.

**Ajox Frederick:** Okay.

**Sreekanth Nadella:** The international business itself, yes the AUM has come down because of mark-to-market reduction in most of the operating geographies there. Yet there has been an overall revenue increase close to 45% in the overall international piece. Alternate investment funds have contributed to 42% + growth. Wealth management pensions have grown nearly about twice as past in the previous quarter. The International Mutual Fund solutions itself has had 5% growth, despite a mark-to-market reduction in the AUM.

**Ajox Frederick:** Which means that the yields have gone up for that international invest based solution?

**Sreekanth Nadella:** That's correct. Broadly, our asset mix and the yield, our yield is roughly about 5 basis points in international operations and overall asset quality has improved more towards equity and also some of the clients who have been transitioned into later part of the year. Now we have full year's revenue coming in.

**Ajox Frederick:** Got it. That's very helpful. Just one question on the ESOP, what's the pending ESOP outlay we have probably for the next quarter or for the next year?

**Vivek Mathur:** The ESOP pool is almost 85% utilized. So, the balance pool is about 15%. As and when the board decides to do anything new, it will come up. As of now, it's 85% utilized.

**Moderator:** Thank you. The next question is from the line of Sonal Minhas from Prescient Investment Management. Please go ahead.

**Sonal Minhas:** I had a question to understand your debtor cycle when compared to your leading competitor, which is CAMS. I just wanted to understand the business practice at the nuts-and-bolts level to understand why there are such high debtors in this business compared to the only competitor we have. We need to compare to them and what are we doing to actually bring this down or is this like a business kind of a call that we've taken this is what we basically would go ahead with. The second part I think there is that there are also some write-offs we do take on a quarterly or yearly basis on these debtors. I wanted to understand since we are dealing with high quality mutual funds, asset managers, EMCs and wealth managers, what is the need to actually write down those receivables at the end of the year?

**Vivek Mathur:** So, thanks for your question. As you would know, about 68% of our business revenue comes from mutual fund. There is still 32% of the business, which is non domestic mutual fund, and about 14% of the business comes from issuer solutions, which is the listed and unlisted clients that we service for folio management and corporate actions. That is where the DSO cycle collection period is much higher. It's upwards of 90 days on average. That is what puts stress on the overall DSO while there are 5100 corporates that we service everybody has got a different cycle in terms of so we do unbilled revenue accounting, besides the billed revenue accounting to accrue for revenue, while the actual bill may get raised on a quarterly basis or half yearly basis or yearly basis. That's how the impact of actual collections versus outstanding is reflected there. As far as mutual funds are concerned, they are regular players. There may be some delay. We actually have a 40 days normal period, credit cycle period with the mutual funds. Usually, they pay on time and in some cases where there are some negotiations going on, not just on mutual fund, but on large VAS product, that comes into play in terms of trying to put pressure to hold back some payment, which results in some delay. But that's exceptional in nature. That's not a regular feature.

**Sonal Minhas:** Even if you just assume 40 days for mutual funds, isn't that on the higher side? Because if we talk about financial intermediaries and you are being one of them, when I compared to, let's say, other companies, typically financial intermediaries on the nuts-and-bolts businesses in the entire chain, they don't have such high working capital days when you're dealing with high velocity kind of transactions or kind of financials with companies. So, please help me understand why even 40 days?

**Vivek Mathur:** Why I'm saying 40 days is, let's say 1st of December to the day the bill is raised it takes about 35 days from day one to the actual billing days. Once the bill is raised, then the credit period is not more than ten days. I am taking 30 days of the period of the month itself to say you are processing, you're working, you are processing the transactions, but the actual bill is raised after 30 days, then ten days of credit period. Five days you take to raise the bill and another five days you give credit. That's why I'm looking at credit period. It's not from the day the bill is raised, we give 40 days.

**Sonal Minhas:** The second part was just to understand, is there a way in which the cycle should be reduced or is there an intention to reduce the cycle over time, just to understand.

**Vivek Mathur:** Yes. We are working with our team and the corporates to reduce the payout period from 90 days to 60 days and eventually coming down to 30 days. But it is a journey where clients who are specifically unbilled clients, where they pay based on their convenience, or unless there is a corporate action, they don't bother to pay. We are now sending reminders and formal reminder notices. There are regular follow-ups, engagement in terms of selling them value added services, at the same time we request for payment. So, there is enhanced focus. This period used to be much higher in the past. We have now brought it down considerably and we expect that between now to next year when we meet, there will be substantial improvement in the DSO.

**Moderator:** Thank you. The next question is from the line of Abhijeet Sakhare from Kotak Securities Limited. Please go ahead.

**Abhijeet Sakhare:** Just a question on OPEX, we are coming out of a fairly, strong growth as far as OPEX is concerned, not just for you, but more generally at an industry level as well. Now that the revenue outlook is probably a little more muted or a lot more volatile, given the AUM linkage, what is your visibility? Or let's say flexibility, to put it that way, to kind of manage OPEX more in a much more better way, so that the operating leverage or the margin trajectory remains within a fairly guided range?

**Vivek Mathur:** Abhijeet for your question, we are constantly working on cost optimization initiatives. We have given up two floors in Selenium head office. We are now at the end of December, almost flat in terms of headcount as we were last year, December. Whatever increase that we have seen during the year has been normalized by taking action in the last quarter of the calendar year. This will flow into Q4 as well. There are constant initiatives being explored to cut down on cost. Having said that, we stick to our overall guidance on 40% to 45% EBITDA margin, so whatever stress we have seen because of the AUM movement or because of any pressure coming because of reduced VAS revenue as compared to what we're expecting and augmentation in terms of investment in technology that we have done, we constantly look at all the parameters to ensure that we maintain that range of 40% to 45% EBITDA margin having said that, Amit Murarka himself is leading many of these cost initiatives that I talked about. I have talked about two or three. We are constantly looking at enhancing VAS revenue. There is a strong pipeline of VAS revenue that will emerge in terms of culmination of contracts and revenue in quarters to come. Therefore, we are not depending purely on AUM based fee. There is a strong pipeline even in Southeast Asia as we know, it takes time. We are working both and what I want to say is we are working on both revenue as well as cost side how we can add more value to our client by giving value added services. How we can win back clients in the issuer solutions both from new IPOs as well as from existing clients of other RTAs. Through our value proposition we are constantly looking at, how do we optimize cost both in terms of headcount and operating expenses. Like what I mentioned to you that although the cost reset was done for IT employees where the cost went up but we have taken a parallel action in terms of reducing dependency on outsourced IT manpower. That's how these initiatives being taken, results in maintaining the EBITDA margin that we really want to grow over a period of time. I hope I am able to answer your question.

**Abhijeet Sakhare:** The second one is on capital allocation. I think there was a comment earlier in the day from Sreekanth around potential M&A opportunities. Some more color around, some more details around which are the potential areas you're looking at. I think account aggregator was one space that you had previously mentioned as well, but that space anyways, I don't know in terms of pricing rationality, if you have any strong views there and in terms of generally how it adds to your overall revenue diversification efforts as against, let's say, paying out higher dividends.

**Sreekanth Nadella:** Sure. First of all, as an organization, we want to be focused largely on asset management space first and foremost, and hence dabbling into other businesses which may seem incidental and ancillary to this business, but we believe that we would want to play to our strengths, which is to kind of drive more and more depth as well as breadth into the asset management space. Within this space already every asset class is important for us and expanding geographically for the same asset classes is the second most important thing. The third thing is expanding the scope of services across the same asset classes, across multiple geographies is the most important thing for us. Basically, if you were to put an X,Y axis those are broadly right, every asset class as many countries as possible, every scope of service that is possible to be rendered for X and Y axis is truly what we are very keen to do. In terms of capital allocation our M&A strategy had been and will continue to be. For example, when we acquired Hexagram, that was to add a layer of a service which we hitherto never used to do, which is the fund accounting administration side of things. We're looking at scope of services on the issuer solutions, for example, where there are more domains and tricks of business for example, are there things that we can do to provide credible, to give solutions like ESOP Administration for example, or investor relations side of things. Or if you look at ordinary investment funds, both the TA and FA aside, the entire administration layer, especially if you were to move to Gift City and so on and so forth. I do not believe that we are intentful at the moment to look at insurance and others not our forte. We want to be a more focused asset management space. Account aggregation, yes, where we continue to be interested that's more from the standpoint of value addition we can render to the entire wealth management and asset management space and not just by virtue of an AA itself. We believe it will be a reasonably commoditized business over a period of time, accepting of course, the value-added component as a TSP that you can render to the asset management space.

**Vivek Mathur:** So, Abhijeet, just to add to what Sreekanth mentioned on your question on capital allocation to dividend policy, we believe that if we can create future modes through acquisition rather than paying out is always a preferred mode. However, the board reserves the right along with the shareholders to decide what is the balancing act the board wants to play on the dividend payout. But it's always our preference to create value for shareholders through constant evaluation of available M&A opportunities in the market. That's what Sreekanth alluded to that we continue to evaluate, but in those areas where we feel that we need to get into.

**Moderator:** Thank you. We have the next question from the line of Sarang Sanil from RW Investment Advisors. Please go ahead.

**Sarang Sanil:** Could you please provide the absolute number for legal professional expenses? The reason I'm asking is that over a period of time, this is one of the component that dragged our margin. Will it be possible for 9 months or Q3 of FY 23.

**Amit Murarka:** Legal and professional fees. For the quarter, I mean, for specific number we will come back to you.

**Sarang Sanil:** Sure. Also would it be reducing as a percentage of revenue going forward?

**Vivek Mathur:** So, there is an increase of about 11.4 crores in the legal and professional expenses year-on-year for the 9 months period ended. It's obvious, as I mentioned that we have taken certain actions where we are reducing our dependency on external help and therefore this number is likely to come down quarter-on-quarter.

**Sarang Sanil:** Sure. Also, regarding the three litigations against the Company that mentioned the DRHP any recent update on that. Also, what is the material amount related to this litigation that could impact our business?

**Vivek Mathur:** I don't know which litigation? Specifically, if you can mention which litigation.

**Sarang Sanil:** There are three against the Company. Those are related to IPO issue Yes Bank, IDFC.

**Vivek Mathur:** Okay. There is nothing. We have filed discharge application in all the cases. We don't expect any liability on the Company or its existing directors. It is something which is related to past where the corporate veil is lifted and the people who are in charge at that point of time are held liable. Whatever may happen in terms of the court taking its own decision, there is nothing we expect as a result of that happening on the Company. As far as the status is concerned, there is no change in status. There is a new date which we get, so far I have seen it in the last three years. There is no decision or hearing which has happened, except that we filed discharge application that is yet to be argued and decided upon.

**Sarang Sanil:** Sure. So, my final question, any reason as to why the margin of data processing business segments have been volatile over the period?

**Amit Murarka:** I think that is something that we reported as part of the financials and all, the data processing it includes all the different the line of businesses which gets clubbed into the data processing. If you look at the mutual fund, issuer solutions across all these businesses, we are kind of similar. gross margins is something that we run within the range of around 40% to 45%.

**Moderator:** Thank you, ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to Mr. Abhijeet Sakhare for closing comments, over to you, sir.

**Abhijeet Sakhare:** Thank you all for joining the call today. Goodbye.

**Sreekanth Nadella:** Thank you.

**Moderator:** Thank you. On behalf of Kotak Securities Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.