# The journey from manual to digital

**The ₹14bn MF RTA market has come a long way from manually processing to developing tech platforms, which support MF front/middle/back offices. This has resulted in high switching costs for MFs and a highly sticky customer base. We expect the mature MF RTA market to grow at 12% CAGR over the next decade. However, revenue growth for RTAs in the medium term will be driven by expansion of platforms to other BFSI products and geographies, noting the common need for KYC, data analytics and channel management. These would drive non-MF revenue CAGR of 16-21% for CAMS and KFIN till FY28E. On valuations, we think RTAs are more comparable with Indian SAAS stocks against which they are trading at a 40% discount despite higher client retention and better ROE. Within RTAs, we prefer KFIN over CAMS as the former will gain RTA revenue share and allows investors to benefit from both growth in mutual funds and direct equities.**

### A duopoly market, which will grow 2.5x over the next decade

MF RTA was a ₹14bn industry in FY23 with CAMS and KFIN being the only players. We estimate the market to grow at 12% revenue CAGR over the next 10 years driven by MF AUM growth of 17%. Our study of global MF markets suggest India is at a similar place China was in 2010. Over 2010-18, China's GDP per capita doubled but its AUM per capita grew by more than 5x. Key risks: TER cuts and higher share of low fee index funds.

### Who will win the RTA duel?

The RTA market has consolidated in favour of CAMS (68% share of AUM) and KFIN (32%) over the last decade with others exiting the business. Over the medium-term, we see KFIN's revenue share growing faster (up 600bps) than AUM share (200bps) driven by higher share of smaller MFs, and distributor led MFs, who focus more on equities. However, CAMS will maintain its edge over KFIN in terms of: i) a larger RTA database, which allows CAMS to provide data analytics solutions and ii) relationship with larger MFs.

### Expanding the tech platform beyond MFs

RTAs have evolved from being a support provider to MFs to developing a platform of services well integrated with MF front/middle/back offices. The technological tools required by MFs also find application in other BFSI products, which has resulted in RTAs expanding into new segments like AIF, insurance repository, account aggregators, payment aggregator, CRA and KRA. Hence, we see RTAs as a better way to play the increasing adoption of fintech. We estimate CAMS non-MF businesses to grow at a 21% CAGR over the next 5 years, compared to KFIN's 16%. However, KFIN's non-domestic MF businesses are closer to scaling up and have near-term catalysts.

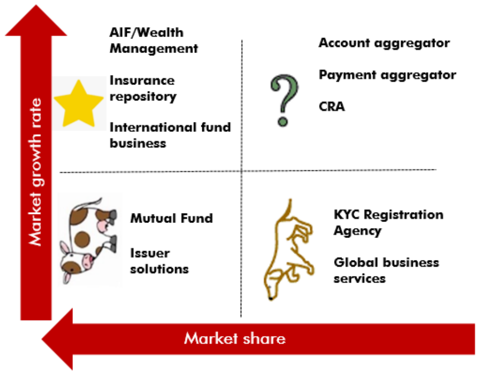
### Are RTAs a better way of playing the financialization of savings?

CAMS and KFIN trade at 34-37x FY25 EPS, a ~30% premium to Indian AMCs. However, this premium reduces to just 6% w.r.t. leading AMCs such as HDFC AMC and Nippon AMC. We see the premium as justified given: i) lower competitive intensity, ii) a platform which can be scaled to other BFSI products reducing regulatory risks, and iii) better positioned to benefit from new AMCs entering the market. Compared with other capital market plays like CDSL we expect the discount (40% currently) to narrow as RTAs have greater growth potential in non-core businesses.

### Key Recommendations

| | |
|---|---|
| **CAMS** | |
| Target Price: ₹3,210 | Upside: 19% |
| **KFIN Tech** | |
| Target Price: ₹665 | Upside: 29% |

**Exhibit A: Comparing RTA businesses based on BCG Growth-Share matrix**




*Source: BCG, Ambit Capital research*

**Exhibit B: CAMS vs KFIN**

| | CAMS | KFIN |
|---|---|---|
| **MF Partnerships** | ◑ | ◑ |
| **AUM market share** | ● | ◔ |
| **AUM mix** | ◔ | ● |
| **New businesses** | ◑ | ● |
| **Technology** | ◔ | ● |
| **Service centres** | ● | ◔ |
| **Margins** | ◑ | ◑ |
| **Balance sheet** | ◑ | ◑ |
| **Cash conversion** | ◑ | ◑ |
| **ROEs** | ● | ◔ |

*Source: Company, Ambit Capital research*

*Note: ● - Strong; ◕- Relatively Strong; ◑- Average; ◔- Relatively weak*

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# Who are RTAs and how do they make money?

**There are three types of RTAs in India based on the client serviced - RTAs to MFs, Issuers and AIFs. RTAs to MFs account for 80% of the industry revenues. It is a duopoly market comprising CAMS and KFIN. MF RTAs evolved from providing back-end data processing and record-keeping services to supporting MFs with data analytics, distribution management and providing technological tools. The fees charged depends on the AUM serviced, with highest charge being for equity AUM. Employee costs account for 60-70% of overall costs. Balance sheets typically have little leverage, with capex being funded by cash flows.**

## Who are RTAs?

Registrar and transfer agents (RTAs) are agencies that record and maintain a complete record of transaction of investors for the benefit of mutual fund houses or listed companies. RTAs can be divided into three groups based on the customer the company is providing the service to - i) RTAs to issuing companies, ii) RTAs for mutual funds (MFs) and iii) RTAs for Alternative Investment Funds (AIFs).

**Exhibit 1: Different types of RTAs**

| Types | Services | Companies operating in the segment |
|---|---|---|
| Registrar to an issue | ▪ Collection of applications from investors<br>▪ Assisting the corporate body in terms of determining the basis of allotment of securities.<br>▪ Finalizing the list of persons entitled to allotment of securities.<br>▪ Processing and dispatching allotment letters. | ▪ KFIN<br>▪ Link Intime<br>▪ Bigshare Services |
| Registrar for MFs | ▪ KYC verification of investors.<br>▪ Collection of applications from investors.<br>▪ Processing and record-keeping of transactions.<br>▪ Generating/sending account statements.<br>▪ Customer query resolution. | ▪ KFIN<br>▪ CAMS |
| Registrar for AIFs | ▪ KYC verification of investors.<br>▪ Fund accounting<br>▪ Investor services | ▪ KFIN<br>▪ CAMS<br>▪ Apex<br>▪ One Silver Bullet |

*Source: Company, Ambit Capital research*

For CAMS and KFIN, MF RTA business contributes 70-90% of revenues and an even higher share of earnings.

### What is the business model for RTAs servicing MFs?

Indian RTAs have evolved from providing back-end data processing and record-keeping services to supporting MFs with data analytics, distribution management and providing technological tools. A major part of RTA revenues (75-80%) is the fees charged on MFs' assets under management (AUM) for handling transactions. RTAs have also added value added services including analytics, branch support, technological support and tools for distributors.

**Exhibit 2: Types of services provided by RTAs to MFs**

| Type of service | Basis of fees | Breakdown | Service |
|---|---|---|---|
| Transfer agency services | Asset based | 80% | Setting up accounts, KYC checks, transaction processing, record keeping, compliance with AML, SEBI regulations |
| Distributor services | Asset based | | Support distributors with transactions, compute and pay brokerage fees |
| Customer care services | Asset based | 10% | Provide customers with account information, transaction status, resolve customer querie |
| Analytics | Value add | 10% | Data intelligence tools to help MFs aggregate customer data, review performance, tracl brokerage |
| Technology support | Value add | | Provide white-labelled digital platforms like websites, mobile apps, distributor applications to MFs. |

*Source: Ambit Capital research*

MFs typically outsource back-end activities and client management activities to RTAs so that they can focus on investment management. The MF RTA business accounts for 70-90% of revenues for CAMS and KFIN. Outsourcing to RTAs by MFs is not peculiar to India, similar practices exist in the US as well. US MFs tie up with "transfer agents", who provide services like recordkeeping and transfer of units between MFs. However, scale of services provided in the US is different to India given a large number of transfer agents are banks, which are primarily interested in recordkeeping and transfer services. In India as well banks did try to enter the RTA industry, particularly foreign banks which provided similar services in other markets. However, banks could not compete on pricing and service with larger RTAs and exited the market.

### How does the fee structure for MFs work?

RTAs typically charge asset based and non-asset based fees from MFs. As shown in Exhibit 2, RTAs charge the highest asset based fee for Equity AUM and lowest for index funds/ETFs. This is consistent with the TER structure mandated for Indian MFs by SEBI (discussed later in the report). Further, within each asset class the fee reduces with increase in AUM accounting for the operating leverage. This is known as "telescopic pricing". Non-asset based fees are charged for paper transactions, call centre support etc.

**Exhibit 3: Average fees charged by RTAs: The decline in fees as a proportion of AUM has been due to the telescopic fee structure**

| As a proportion of AUM (bps) | FY17 | FY18 | FY19 | FY20 | FY21 |
|---|---|---|---|---|---|
| Equity funds | 6.5 - 7.0 | 6.3 - 6.7 | 6.0 - 6.5 | 5.7 - 6.1 | 5.3 - 5.7 |
| Hybrid | 5.9 - 6.3 | 5.9 - 6.3 | 5.8 - 6.1 | 5.5 - 5.9 | 5.0 - 5.5 |
| Debt | 2.3 - 2.7 | 2.3 - 2.7 | 2.2 - 2.6 | 2.2 - 2.6 | 2.2 - 2.5 |
| Liquid | 1.8 - 2.2 | 1.8 - 2.2 | 1.8 - 2.2 | 1.7 - 2.2 | 1.6 - 2.0 |
| Others | 2.2 - 2.6 | 1.8 - 2.2 | 1.4 - 1.9 | 1.2 - 1.7 | 1.0 - 1.5 |

*Source: KFIN DRHP, Ambit Capital research*

### Revenues: What are the key drivers?

Below are the key drivers of RTA revenues:

- **AUM growth:** Given asset based RTA fees are indexed to MF AUM, growth in the latter results in higher RTA revenues.
- **AUM size:** SEBI's TER structure (see Exhibit 3) allows MFs with lower AUMs to charge higher expenses. But as the AUM size increases the expense ratio reduces. Similarly, RTA fees as a percentage of AUM falls with rise in the latter. Hence, AUM growth does not get fully reflected in RTA fees. Typically, 10% AUM growth results in 6-7% RTA fees growth.
- **Value-added services:** This is not related to asset size, but the complexity and scale of service provided.

### Costs: Investments required as volumes/services increase

Employee and software/technology costs are two of the key costs for RTAs. Employee costs typically increase with: i) rise in processing volumes and ii) new service addition. RTAs typically invest in software/technology to: i) drive cost efficiency through automation of transaction processing, ii) reduce errors and iii) enable handling of higher amount of data.

**Exhibit 4: Employee expense accounts for 60-70% of RTAs' overall operating expenses**

| Costs | Breakdown | Description |
|---|---|---|
| Employee costs | 60-70% | This is mostly fixed as manpower is required for processing transactions, maintenance of technology infrastructure, regulatory compliance and expansion of new services. |
| Software/technology costs | 10-15% | Investment in technology to reduce manual processing, errors and time. This includes maintenance and upkeep of technology infrastructure. |
| Others | 15-30% | This comprises of consulting, legal and service centre charges. |

*Source: Ambit Capital research*

**Exhibit 5: Sample P&L of an RTA**

| **Figures in ₹** | |
|---|---|
| AUM (a) | 100,000 |
| RTA fees as a % of AUM (b) | 0.04% |
| Asset based fees (c=a*b) | 40.0 |
| Non-asset based fees (d) | 10.0 |
| **Total revenue (e=c+d)** | **50.0** |
| Opex (f) | 28.8 |
| D&A (g) | 3.0 |
| EBIT (h= e-f-g) | 18.3 |
| EBIT margin | 36.5% |
| Other income (i) | 1.0 |
| Finance costs (j) | 0.5 |
| PBT (k=h+i-j) | 18.8 |
| Tax (l) | 24% |
| **PAT (m=k-l)** | **14.3** |

*Source: Ambit Capital research*

## Balance sheets: Typically low on leverage

Below is a sample balance sheet of a RTA. Assets comprise of a mix of financial investments, cash, computers, software and goodwill. Financial liabilities typically comprise of trade payables, and lease liabilities. Debt is typically low as the business generates strong FCF. Spend on capex (both PP&E and software) varies from 5-10%.

**Exhibit 6: Sample balance sheet of an RTA**

| **Figures in ₹** | |
|---|---|
| PP&E (incl. RoUA) | 15 |
| Intangibles (incl. Goodwill) | 15 |
| Financial assets | 30 |
| Cash | 20 |
| Others | 20 |
| **Total assets** | **100** |
| Equity | 70 |
| Lease liabilities | 10 |
| Debt | 10 |
| Other financial liabilities | 10 |
| **Total Liabilities + Equity** | **100** |

*Source: Ambit Capital research*

**Exhibit 7: RTA to MFs: Competitive intensity is low and entry barriers are high. However, customer concentration results in lower pricing power**

**Bargaining power of suppliers**

**Moderate**

Suppliers are typically limited to companies supporting RTAs with technology. These technology can be critical for RTAs giving suppliers moderate negotiating power.

**Bargaining power of buyers**

**High**

Top 5 MF partners contribute 80% of the AUM serviced by RTAs. This gives them high negotiating power with RTAs.

**Competitive intensity**

**Low**

This is a duopoly market with high switching costs. Hence, competitive intensity is limited. The sector has consolidated in favour of large RTAs over time.

**Barriers to entry**

**High**

High scale of large RTAs allows them to price their services at a lower rate as compared to sub-scale operators. Further, transition of database from one RTA to another without halting operations is a challenging task. An unlikely risk which a AMC will look to take, making acquiring customers a challenge for new RTAs.

**Threat of substitution**

**Low**

RTAs are well-integrated with the front/middle/back offices of AMCs. This makes RTA services difficult to substitute.

A potential substitute for RTAs is buying/selling MFs through exchanges. However, this has not been very popular.

Improving | Unchanged | Deteriorating

*Source: Company, Ambit Capital research*

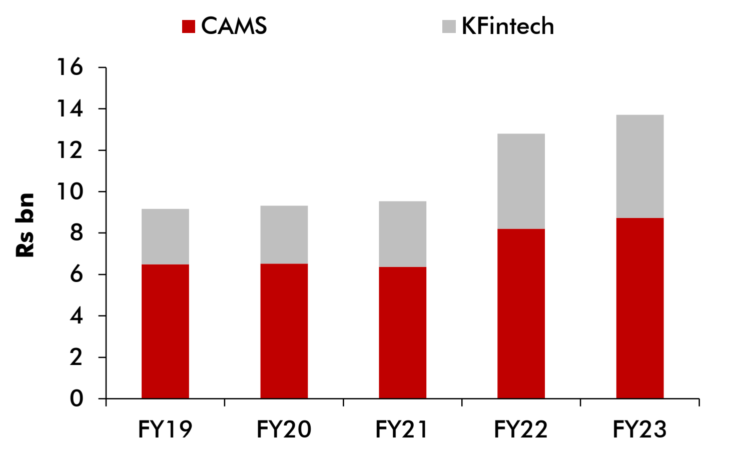
# How big can the MF RTA market become?

**MF RTA was a ₹14bn industry in FY23. We estimate the MF RTA revenue pool to grow at 12% CAGR over FY23-33E with the key assumption being 17% CAGR in AUM of MFs. The reason behind lower growth in revenue MF RTA revenue pool vs MF AUM growth is: i) higher share of index funds resulting in transmission of MF AUM growth to RTA revenues being slower and iii) fall in RTA charges as a percentage of AUM due to telescopic pricing. We expect that growth in retail investors should also result in higher share of equity and index funds within the MF AUM. Hence, we estimate equity and index/ETF funds to account for ~70% of MF AUM by FY33E compared to 54% in FY23, a function of retail investors' preference for equity funds.**

## MF RTA is an ₹14bn industry in India

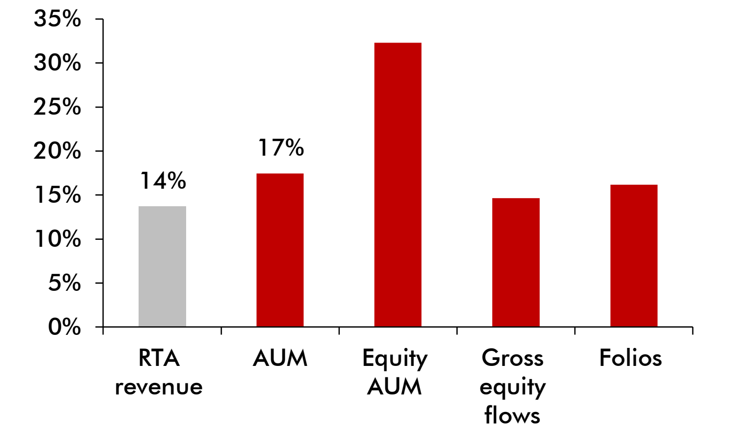
There is no official data on industry size but combined revenues of CAMS and KFintech increased to ₹14bn in FY23, growing at 14% CAGR over the last 3 years. The sector over the last 20 years has consolidated in favour of the two large players CAMS and KFIN. While banks did try to enter the RTA industry, particularly foreign banks which provided similar services in other markets, they could not compete on pricing and service with larger RTAs and exited the market over time.

**Exhibit 8: CAMS and KFIN generated ₹14bn in revenue from MF related business**




*Source: Company, Ambit Capital research*

**Exhibit 9: MF AUM growth has been a key driver of RTA revenues (3-year CAGR)**




*Source: AMFI, Ambit Capital research*

The growth in revenue pool of the industry has been driven by AUM growth of 17%, with Equity AUM growing faster (32%). During the same period, gross equity flows grew at 15% CAGR and MF folios grew at 16% CAGR.

## MF RTA revenues to grow 3x over the next decade

We estimate MF RTA revenues will grow 3x over the next decade, implying a 12% revenue CAGR between FY23-33E. This factors in: i) MF AUM growth of 17%, ii) higher share of index funds resulting in transmission of MF AUM growth to RTA revenues being slower and iii) fall in RTA charges as a percentage of AUM due to telescopic pricing.

**Exhibit 10: RTA revenues will be driven by higher participation of retail investors, increase in equity AUM and higher flows**

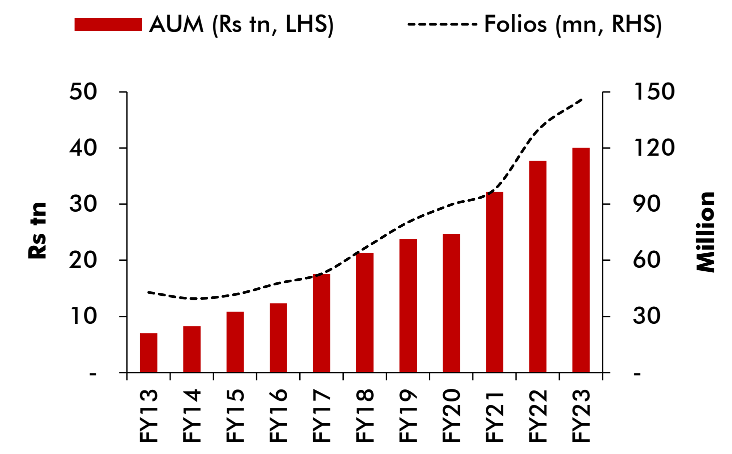
| ₹ bn | FY22 | FY23 | FY24E | FY25E | FY26E | FY27E | FY33E | Comments |
|---|---|---|---|---|---|---|---|---|
| Number of folios (mn) | 129.5 | 145.7 | 179.5 | 194.2 | 210.0 | 227.1 | 353.1 | |
| *growth* | *32%* | *12%* | 23.2% | 8.2% | 8.2% | 8.2% | 7.1% | |
| **Folios breakdown** | | | | | | | | |
| Retail | | 132.6 | 165.8 | 179.7 | 194.8 | 211.2 | 332.0 | Expect folio growth to be driven by retail investors. This will be a function of greater penetration of MFs as an investment instrument, younger population being less risk averse and financialization of savings. |
| *growth* | | | 25.0% | 8.4% | 8.4% | 8.4% | 7.3% | |
| HNI | | 12.2 | 12.8 | 13.4 | 14.1 | 14.8 | 19.8 | |
| *growth* | | | 5% | 5% | 5% | 5% | 5% | We have assumed low single digit growth in HNI and institutional accounts as these customer cohorts are fairly mature. |
| Institutional investor | | 1.0 | 1.0 | 1.1 | 1.1 | 1.1 | 1.3 | |
| *growth* | | | 3% | 3% | 3% | 3% | 3% | |
| **Ticket size (₹ '000)** | | | | | | | | |
| Retail | | 76 | 91 | 99 | 113 | 128 | 267 | AUM/folio is a function of new flows and MTM gains. We expect retail folios to see higher AUM growth due to individual investors investing primarily in equity and hybrid funds. |
| *growth* | | 22% | 19% | 9% | 15% | 13% | 13% | |
| HNI | | 933 | 1,045 | 1,150 | 1,288 | 1,442 | 2,847 | |
| growth | | | 12% | 10% | 12% | 12% | 12% | |
| Institutional investors | | 18,722 | 20,033 | 21,435 | 22,936 | 24,541 | 36,829 | Institutional investors primarily invest in liquid/debt funds, hence AUM growth is expected to be lower. |
| growth | | | 7% | 7% | 7% | 7% | 7% | |
| **AUM (₹ bn)** | | | | | | | | |
| Debt | 13,783 | 12,655 | 14,709 | 15,947 | 17,657 | 19,422 | 31,079 | |
| Equity | 13,157 | 15,063 | 18,868 | 22,086 | 26,460 | 31,568 | 92,474 | |
| Hybrid | 4,900 | 5,010 | 6,211 | 7,198 | 8,542 | 10,097 | 28,182 | |
| Index/ETFs | 4,963 | 6,676 | 8,390 | 9,852 | 11,838 | 14,163 | 42,087 | |
| Others | 900 | 643 | 686 | 672 | 654 | 610 | 397 | |
| **Total** | **37,703** | **40,046** | **48,863** | **55,755** | **65,152** | **75,860** | **194,220** | |
| growth | 17% | 6% | 22% | 14% | 17% | 16% | 17% | |
| **AUM mix** | | | | | | | | |
| *Debt* | *37%* | *32%* | 30% | 29% | 27% | 26% | 16% | |
| *Equity* | *35%* | *38%* | 39% | 40% | 41% | 42% | 48% | |
| *Hybrid* | *13%* | *13%* | 13% | 13% | 13% | 13% | 15% | We forecast a higher share of equity and index/ETF funds within the AUM over the next decade. This is a function of higher retail participation and growing popularity of index funds as seen globally. |
| *Index/ETFs* | *13%* | *17%* | 17% | 18% | 18% | 19% | 22% | |
| *Others* | *2%* | *2%* | 1% | 1% | 1% | 1% | 0% | |
| ***Total*** | ***100%*** | ***100%*** | ***100%*** | ***100%*** | ***100%*** | ***100%*** | ***100%*** | |
| **RTA fees as a % of AUM** | | | | | | | | |
| *Debt* | *0.021%* | *0.020%* | *0.019%* | *0.018%* | *0.017%* | *0.016%* | *0.015%* | |
| *Equity* | *0.050%* | *0.048%* | *0.046%* | *0.044%* | *0.042%* | *0.040%* | *0.028%* | |
| *Hybrid* | *0.047%* | *0.045%* | *0.043%* | *0.041%* | *0.039%* | *0.037%* | *0.025%* | We have assumed RTA fees as a percentage of AUM to fall with growth in AUM due to telescopic pricing. |
| *Index/ETFs* | *0.010%* | *0.010%* | *0.009%* | *0.008%* | *0.007%* | *0.007%* | *0.007%* | |
| *Others* | *0.010%* | *0.010%* | *0.009%* | *0.008%* | *0.007%* | *0.007%* | *0.007%* | |
| **RTA revenues** | **12.4** | **12.7** | **15.0** | **16.4** | **18.3** | **20.5** | **40.6** | |

*Source: AMFI, Ambit Capital research*

## What will drive MF AUM growth?

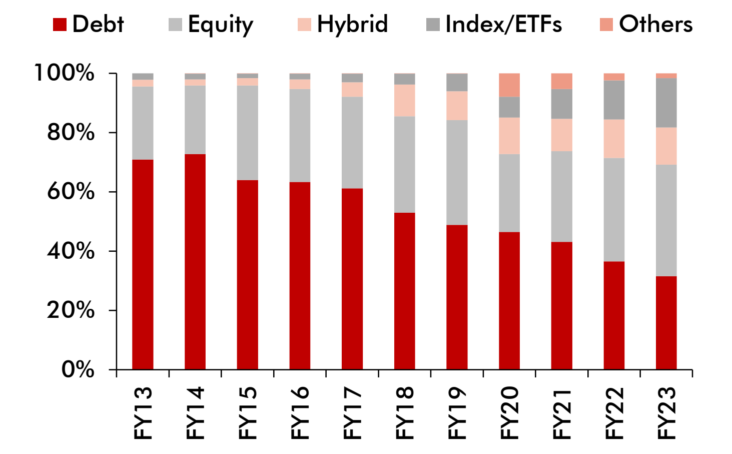
MF AUM has grown at 19% CAGR in the last 10 years driven by greater participation of retail investors in the market, and higher demand for equity/index MF products. The share of equity and index/ETF funds within MF AUM mix increased to 38% (vs 25% in FY13) and 17% (vs 2% in FY13) respectively.

**Exhibit 11: MF AUM has grown at 19% CAGR between FY13-23**




*Source: AMFI, Ambit Capital research*

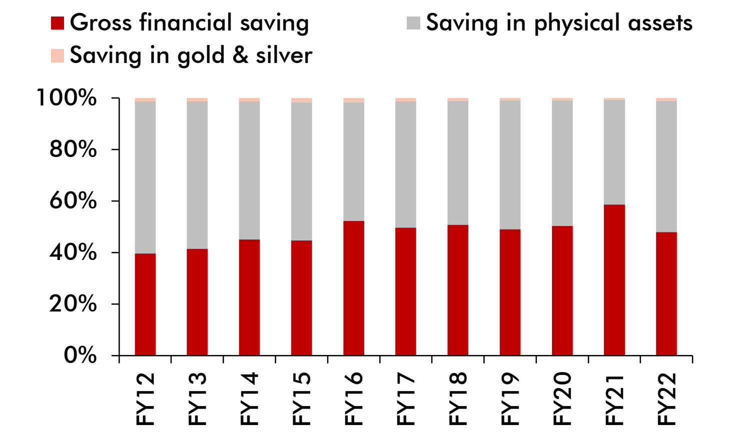
**Exhibit 12: Share of Equity/Hybrid/Index/ETF MFs has increased within AUM mix, while debt MFs' share has fallen**




*Source: AMFI, Ambit Capital research*

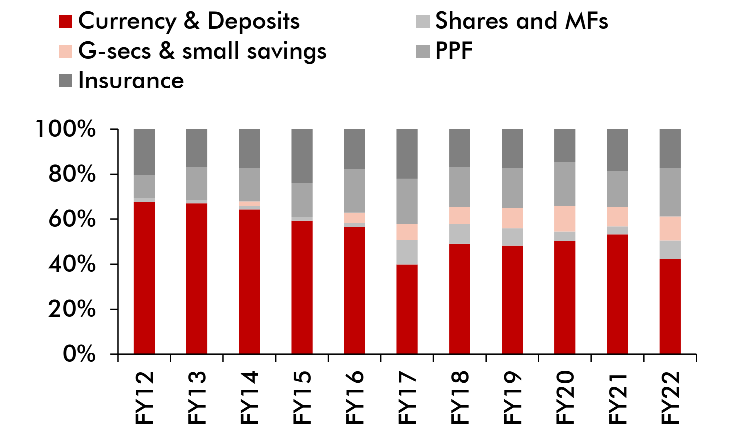
We forecast MF AUM to grow at 17% CAGR over the next decade driven by higher participation of retail investors driven by: i) financialization of savings, ii) penetration in lower tier cities and iii) increasing risk appetite with investors entering capital markets at a younger age.

**Exhibit 13: The share of financial assets was on average 51% in the last 5 years vs 47% between FY13-17**



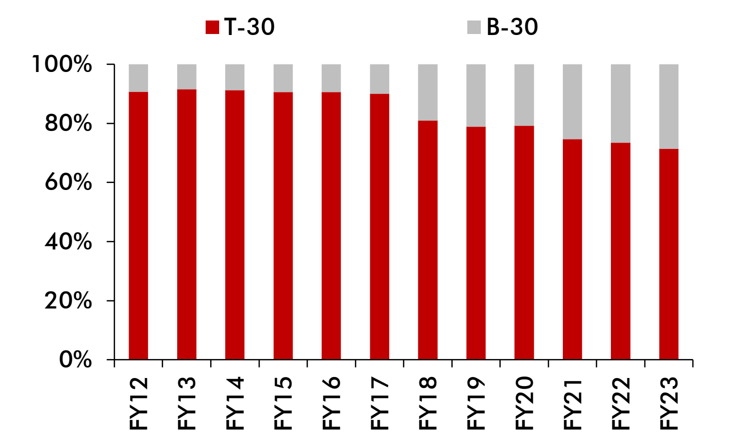

*Source: MOSPI, Ambit Capital research*

**Exhibit 14: Within financial savings, the share of deposits and currency reduced in favour of MFs/Stocks/PPF**



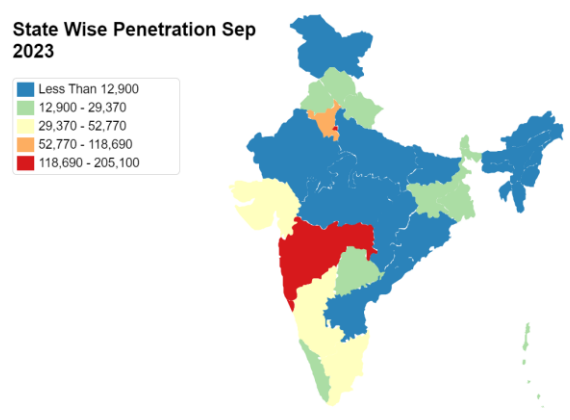

*Source: MOSPI, Ambit Capital research*

**Exhibit 15: Cities beyond the top 30 contributed 29% of MF AUM compared to 8% about 10 years back**



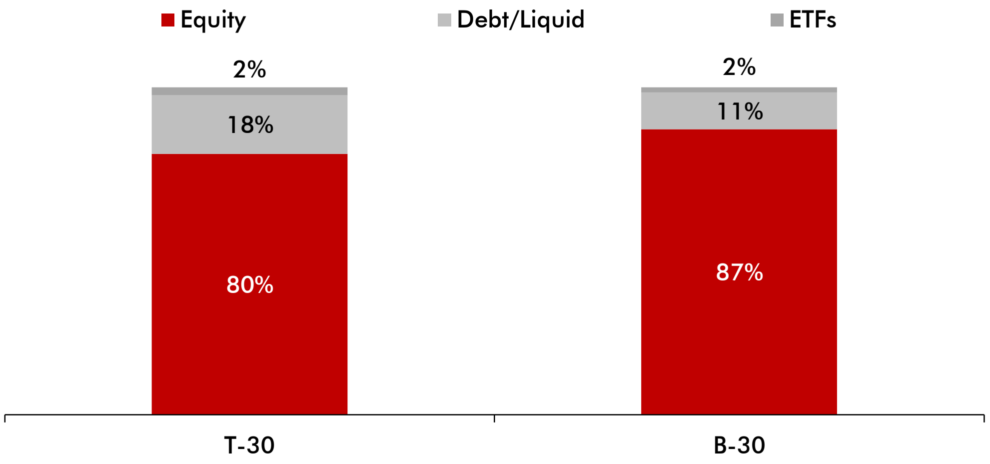

*Source: AMFI, Ambit Capital research*

**Exhibit 16: AUM per capita (₹) - Penetration of MFs in southern states appear low**




*Source: AMFI, Ambit Capital research*

**Exhibit 17: Investors in cities beyond the top 30 have a higher proportion of investments in equities compared to higher tier cities**

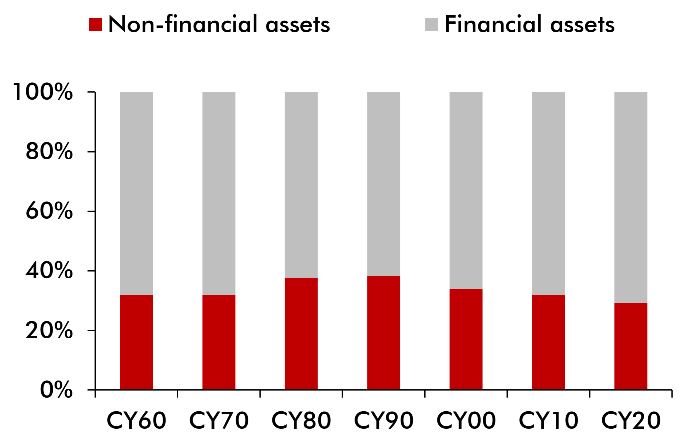



*Source: AMFI, Ambit Capital research*

## How has MF market in other countries evolved?

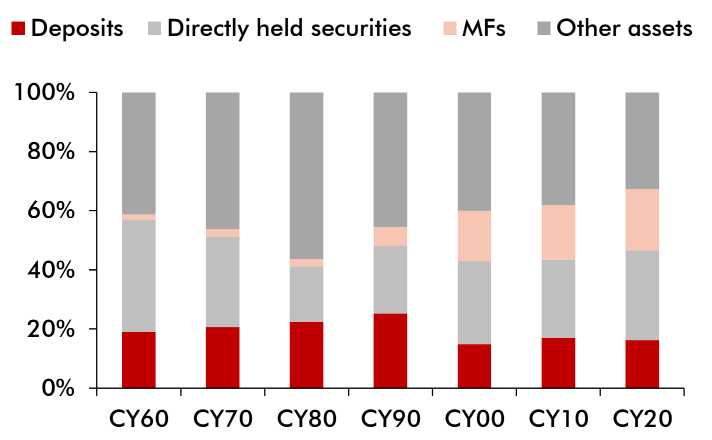
- **US:** MF AUM clocked 20% CAGR over subsequent decades between 1980 and 2000. The expansion of retirement savings plans, both the employer-sponsored 401(k) plans and individual retirement accounts (IRAs), was a key stimulus. Assets of retirement savings plans invested in mutual funds rose from one-fifth of all fund assets in the early 1990s to more than one-third by the end of the decade. The response of the industry, both by expanding the number and variety of mutual funds and by lowering the cost of acquiring and holding mutual funds, was another factor.
- **China**: Has witnessed 7x growth in AUM per capita over the last decade supported by doubling of GDP/capita, financialization of assets and favourable government policies.
- **Japan:** AUM per capita is 1/4th of the US despite GDP per capita being half of the latter. This has been a function of the risk averse nature of the population who have preferred savings deposits. However, an aging population combined with majority of investments in low yielding assets raised government concerns. Since, the government is working to increase presence of foreign asset managers and reducing distribution costs. This has resulted in AUM per capita picking up since 2018.

**Exhibit 18: The distribution of financial & non-financial assets has remained broadly consistent in the US over decades**



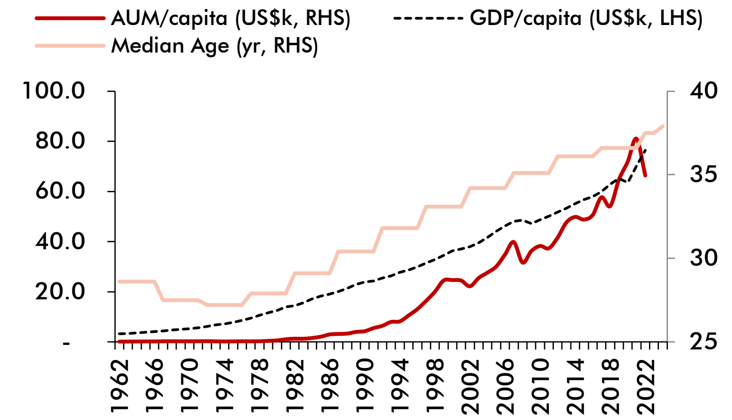

*Source: Board of Governors Federal Reserve System, Ambit Capital research*

**Exhibit 19: The share of MF assets within household financial assets increased from 3% in CY80 to 17% by CY2000**



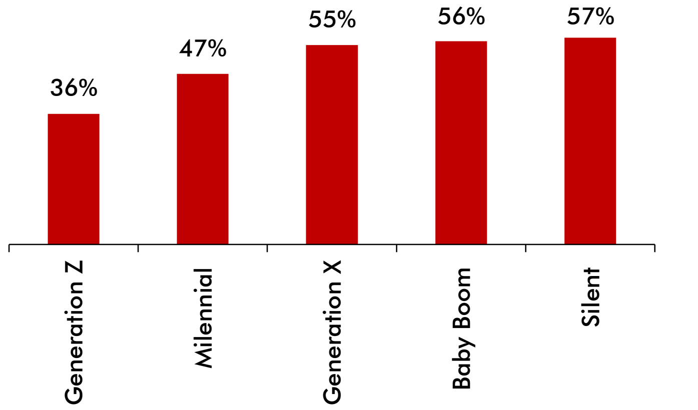

*Source: Board of Governors Federal Reserve System, Ambit Capital research*

**Exhibit 20: US - AUM per capita in the US has risen with GDP per capita and the aging population**



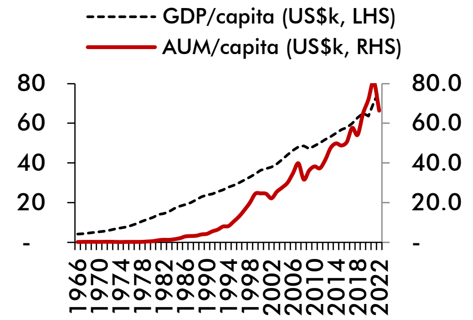

*Source: ICI, World Bank, Ambit Capital research*

**Exhibit 21: Older generations typically invest more in MFs as compared to younger population**



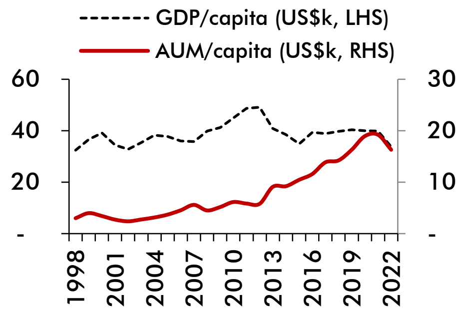

*Source: ICI, Ambit Capital research*

**Exhibit 22: US: GDP/capita grew 2x in the last 2 decades; AUM/capita up 3x**



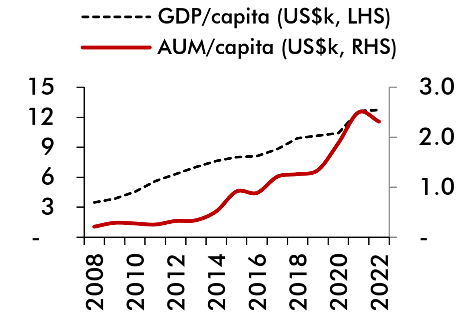

*Source: ICI, World Bank, Ambit Capital research*

**Exhibit 23: Japan: AUM/capita increased despite stable GDP/capita**




*Source: ICI, World Bank, Ambit Capital research*

**Exhibit 24: China: 2x GDP/capita has resulted in 7x AUM/capita in 10 years**

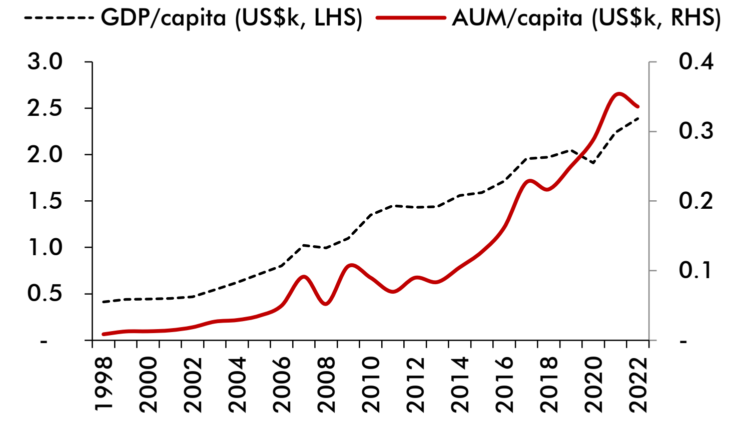



*Source: ICI, World Bank, Ambit Capital research*

**Will India's savings basket change?**

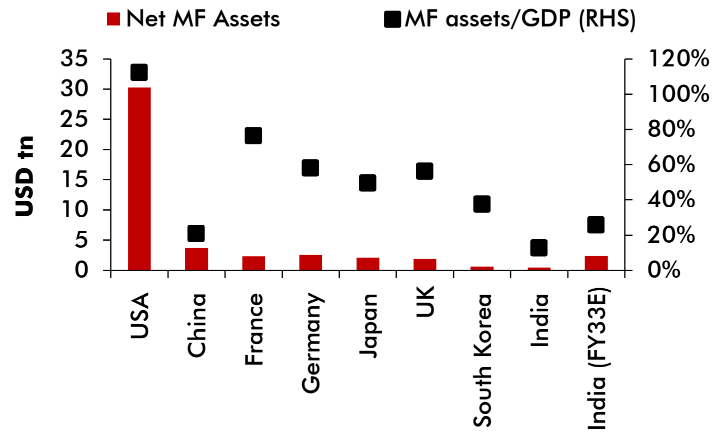
Indians, similar to Japanese investors, have been risk averse, allocating their financial assets entirely to low yielding bank deposits, small savings and life insurance products. However, this predisposition to risk free assets is undergoing a change similar to the ones seen in China and the US, with investors increasing investments in MFs and direct equities. MFs now account for 6-7% of household savings compared to 1% about 10 years back. India's GDP per capita was US$2.4k in 2022. However, should we keep aside the 60% of the population which requires government food subsidy, the remaining 40% of the population has a per capita income of $5k similar to China in 2010. **Between 2010 and 2018, China's GDP per capita doubled but AUM per capita grew >5x driven by growth of equity markets and increased flows from retail investors.**

**Exhibit 25: India's AUM per capita is similar to China in 2010 and US in late 1970s**




*Source: ICI, World Bank, Ambit Capital research*

**Exhibit 26: In India, MF AUM/GDP ratio is 13%. We expect this to be 25% by FY33 similar to current AUM/GDP ratio in China.**

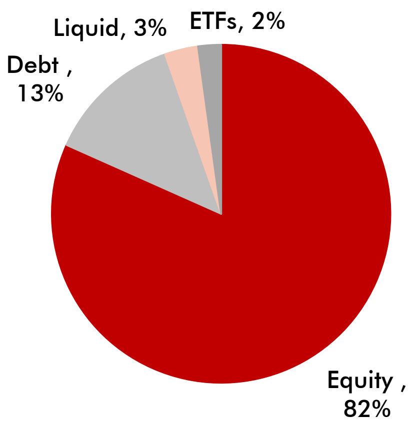



*Source: iifa, imf, Ambit Capital research*

## Higher share of retail investors = Higher mix of equity and index funds

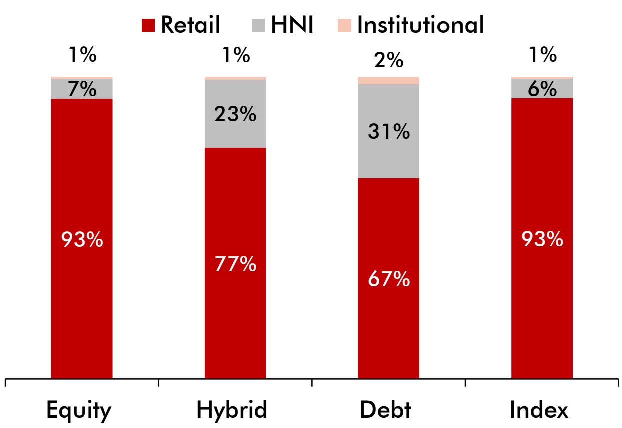
The growth in retail investors will also result in higher share of equity and index funds within the MF AUM. We estimate equity and index/ETF funds to account for 70% of MF AUM by FY33E compared to 54% in FY23. This will be a function of retail investors' preference for equity funds as indicated by the 80% share these funds have within retail investors' MF assets. While index/ETFs funds currently make up only 2% of retail investor assets, we expect the share of these assets to increase driven by growing awareness regarding these funds, NFOs and declining return in actively managed funds as seen globally. As shown in Exhibit 21 and Exhibit 22, Index funds/ETFs accounted for 45% of net AUM globally (India: 17%), up from 20% in CY12.

**Exhibit 27: Equity accounted for 80% of retail investor assets**




*Source: AMFI, Ambit Capital research*

**Exhibit 28: Retail investors dominate in equity & index funds**

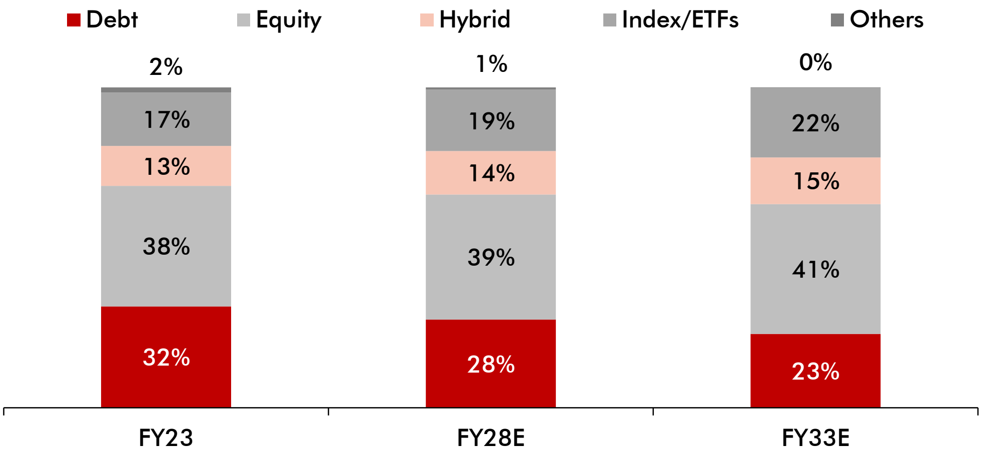



*Source: AMFI, Ambit Capital research*

## MF AUM growth transmission to RTA revenues will be slower

While we expect MF AUM to grow at 17% CAGR between FY23-33E, we forecast RTA revenues to only increase by 12% CAGR over the same period. Typically, 10% AUM growth translates into 7% RTA revenue growth. However, we have assumed lower transmission of MF AUM growth to RTA revenue over the next decade due to rise in share of index funds offsetting gains from higher share of equity AUM.

**Exhibit 29: We expect the share of index funds to rise faster than equity funds**



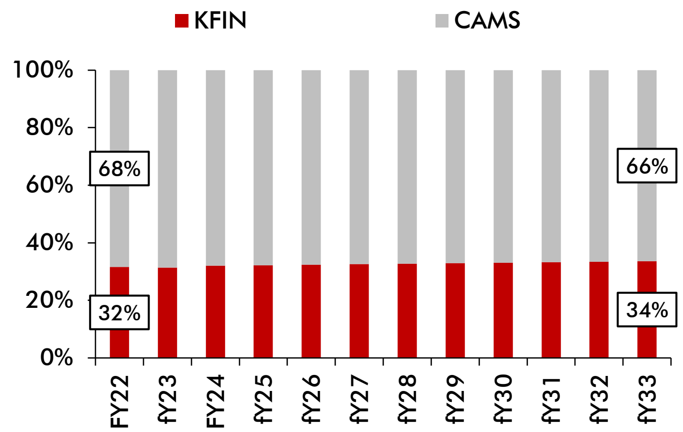

*Source: AMFI, Ambit Capital research*

## KFIN's revenue market share will expand faster than AUM market share

CAMS has 68% AUM market share and 64% revenue share in the MF RTA business, with the remaining being with KFIN. While KFIN's AUM share is expected to increase by 200bps over the next decade, its revenue share is expected to grow faster (600bps) due to:

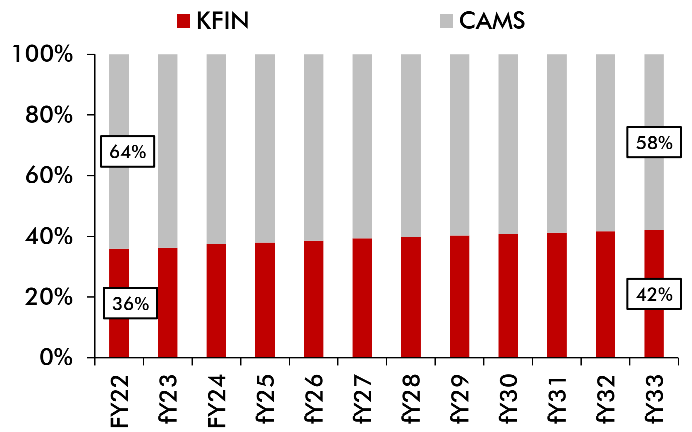
- Higher share of smaller MFs noting MFs with ₹1bn+ AUM account for 75% of KFIN's serviced AUM compared to 90% for CAMS.
- KFIN has stronger relationship with distributor led MFs. This results in the company having a higher mix of equity within its AUM (55%) compared to CAMS (45%).
- CAMS' new MF relationship, Zerodha Fund House, is focusing only on passive investments which have lower fees.
- Larger MFs have a greater focus on index funds/ETFs.

**Exhibit 30: KFIN's AUM market share would increase by 200bps over the next decade...**




*Source: Company, Ambit Capital research*

**Exhibit 31: ...while KFIN's would rise by 600bps due to higher share of smaller MFs and greater share of equity AUM**




*Source: Company, Ambit Capital research*

# Expanding the tech platform beyond MFs

**RTA business has evolved from being a support provider to MFs to developing a platform of services well integrated with the front/middle/back offices of MFs. MF customers of RTAs are very sticky, with only Navi switching RTAs in the last decade. KFIN indicated its revenue retention in the domestic mutual fund business has been between 100-140% in the last 3 years. By comparison, SAAS companies like MapmyIndia and Rategain have a retention ratio of ~90%. Tech tools required by MFs also find application in other BFSI products, resulting in RTAs expanding into new segments like AIF, insurance repository, account aggregators, payment aggregator, CRA and KRA. KFIN has also expanded to international markets. We estimate CAMS non-domestic MF businesses to grow at a 21% CAGR over the next 5 years, compared to KFIN's 16%.**

## The journey from manual to PAAS

The MF RTA business started off to support AMCs manage investor applications, NFOs, customer handling and record-keeping. Most of these tasks involved manual processes of collecting forms physically, depositing cheques, dispatching unit certificates and account statements to unitholders. Not only was the process tedious but highly time consuming and cost intensive. Hence, RTAs have increasingly depended on technology to drive efficiency, reduce costs and improve turnaround times. Both CAMS and KFIN moved from providing back-end support to AMCs to a Platform-As-A-Service model enabling MFs to choose the different technology and physical services they require.

**Exhibit 32: CAMS technology platform provides MFs with several services**


*Source: Company*

The current product suite of MF RTAs goes beyond regular transaction processing and record keeping which RTAs typically do, to channel management, data analytics using the investor data hosted by the RTAs, white label web apps and websites and chat-bots.

**Exhibit 33: CAMS and KFIN have different applications to service distributors, investors and AMCs**

| | CAMS | KFIN |
|---|---|---|
| Distributor App | edge360 | INSTABrokerage |
| Investor App | myCAMS, MFCentral, mf360 | Kfinkart, MFCentral |
| Corporate investors | GoCORP | Korp Connect |
| AMC specific | CAMSsmart, mfCompass, mfCRM | DIT, K-Bolt Go |
| Chat-bots | CAMServ | |
| Business intelligence tool | MFDEx | Digix |

*Source: Company, Ambit Capital research*

## Stickier customers compared to other tech players

MF customers of RTAs are very sticky, with only Navi switching RTAs in the last decade. KFIN indicated its revenue retention in the domestic mutual fund business was between 100-140% in the last 3 years. While CAMS does not provide this information, unlikely it will be very different from KFIN given no customer attrition. By comparison, SAAS companies like MapmyIndia and Rategain have a retention ratio of ~90%. Most RTA revenues are recurring in nature unlike IT firms who depend on project wins.

## Cloud computing: KFIN has fully moved to the cloud

KFIN has moved all its businesses to the cloud, whereas CAMS is yet to move its MF RTA business to cloud. Cloud computing increases efficiency, reduces the need for physical infrastructure for on premise storage. Hence, CAMS could look at increasing transitioning to cloud over the medium-term. This would be a multi-year transition noting the size of the database, and would require significant investment.

## Datacentres: In-house vs outsourcing

CAMS has 3 data centres (2 in-house and 1 outsourced) for storage, which can together hold 5,800TB of data. CAMS RTA database holds 700+TB of data benefitting from servicing 2x the number of folios serviced by its competitor. Access of higher amount of data allows CAMS to provide analytical solutions to MFs. We understand CAMS business intelligence tools like MFDEx is subscribed to by non-partner MFs as well. On the other hand, KFIN has outsourced its data centre operations to a third-party, with 250TB of storage capability.

**Exhibit 34: Technology - CAMs owns its data centres, while KFIN has outsourced its operations**

| | CAMS | KFIN |
|---|---|---|
| No. of transactions (mn) | 466 | 303 |
| No. of live folios (FY23) | 57 | 28 |
| Data centres | 3 | Outsourced to a third party |
| Storage capability (TB) | 5,800<br>RTA Database: 700+ TB | 250 |
| Business recovery site | Mumbai | Bengaluru |
| Energy intensity (GJ/₹ mn turnover) | 2.5 | 1.8 |
| IT Team Size (FY23) | 800 | 757 |

*Source: Company, Ambit Capital research*

An in-house data centre provides CAMS greater control over the infrastructure and security. However, an in-house data centre also results in higher costs/investment.

**Exhibit 35: Pros and Cons: In-house vs Outsourced Data Centre**

| | In-house Data Centre | Outsourced Data Centre |
|---|---|---|
| **Pros** | ▪ Greater control over the infrastructure and security.<br>▪ Customisation opportunity | ▪ Lower capital expenditure.<br>▪ Scale up can be faster in case of adc capacity being required. |
| **Cons** | ▪ Significant capital expenditure.<br>▪ Rigidity in infrastructure reducing ability to scale up fast | ▪ Lower control over the assets and security.<br>▪ Limited ability to customise. |

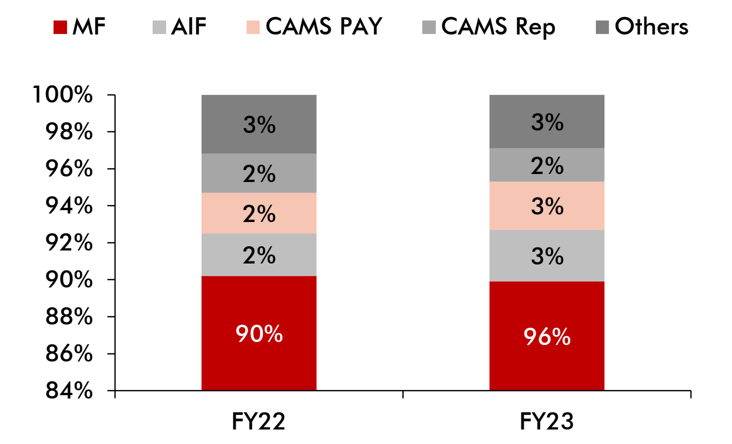
*Source: Swiss Colocation, Ambit Capital research*

# Expanding the platform to other BFSI businesses

The technological tools required by MFs also find application in other BFSI products. For example: e-KYC, fund management, channel management, data analytics, payment facilities are some services which insurers, wealth managers and NBFCs also require. This has increased the scope for tools developed by MF RTAs to be deployed in other BFSI businesses. KFIN has also expanded its RTA and fund management offering to markets outside India.

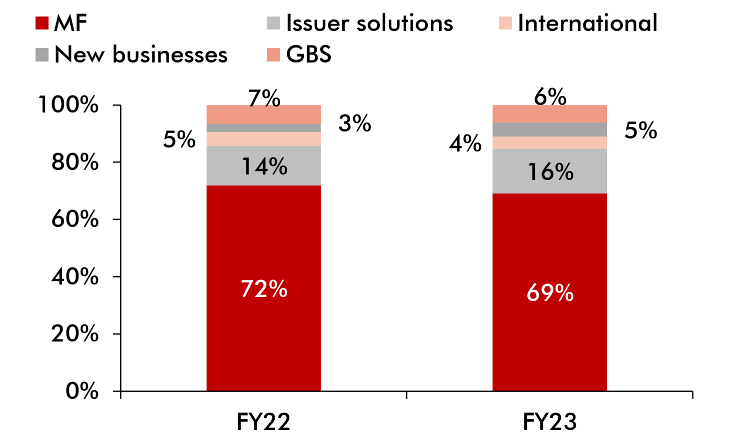
- **CAMS:** Currently, non-MF businesses contribute ~10% of revenue. We estimate non-MF revenues to account for 15% of CAMS' revenues by FY28E growing at 21% CAGR, higher than the MF business (12%) as: i) businesses like account aggregator/Payment aggregator are in the early stages of growth, ii) AIF/wealth management has significant scope to increase penetration and iii) new product launch and potential regulatory support could result in insurance repository expanding.
- **KFIN:** We expect non-domestic MF revenue to grow at 16% CAGR over the next 5 years. This will be driven by: i) expanding partnerships in international business, ii) increase penetration in AIF/wealth management, iii) market consolidating in favour of large RTAs in the Issuer RTA market and iv) expansion of fund accounting services.

**Exhibit 36: CAMS' focus with its new business has been expanding with domestic MFs and adjacent BFSI products**




*Source: Company, Ambit Capital research*

**Exhibit 37: KFIN generates 30% of its revenues from non-domestic MF businesses**

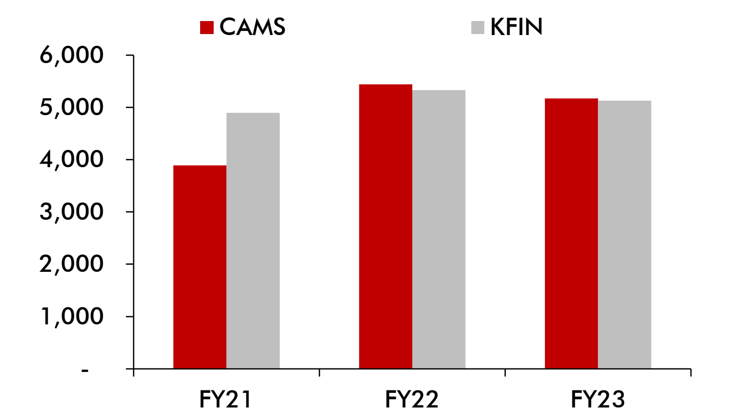



*Source: Company, Ambit Capital research*

**Both capex and opex has expanded in recent years to support new businesses**

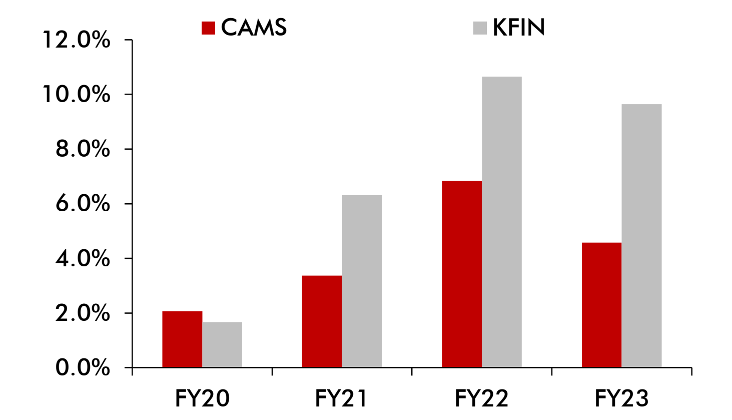
Both CAMS and KFIN has witnessed increase in employee costs and capex over FY22/23 driven by investment in new businesses, expansion of existing businesses (KFIN entering new geographies) and acquisitions. KFIN appears to be spending more on infrastructure and software compared to CAMS in recent years.

**Exhibit 38: Employee additions have also picked up**




*Source: Company, Ambit Capital research*

**Exhibit 39: Capex spend has increased for both RTAs**



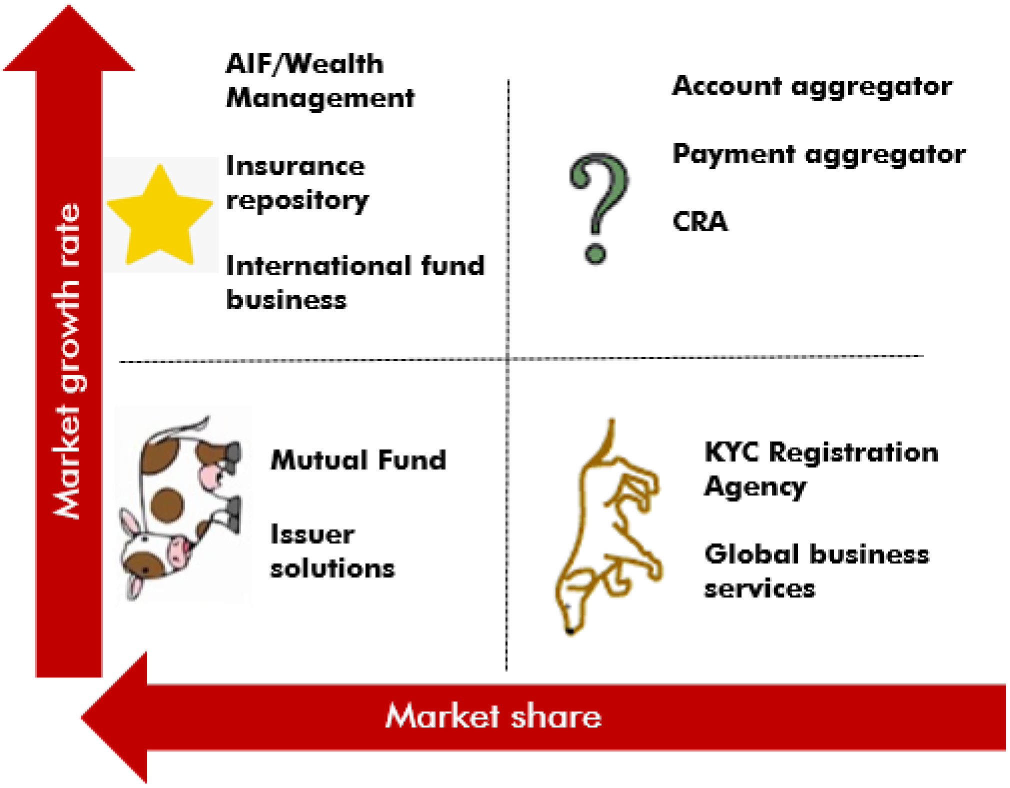

*Source: Company, Ambit Capital research*

**Exhibit 40: A snapshot of non-domestic MF businesses of CAMS and KFIN**

| Non-domestic MF Businesses | Businesses common to CAMS and KFIN | | | CAMS | | | KFIN | | |
|---|---|---|---|---|---|---|---|---|---|
| | **AIF** | **CRA** | **Account Aggregator** | **Insurance Repository** | **KRA** | **Payments aggregator** | **Issuer solutions** | **Global fund solutions** | **Global business services** |
| **Market size (FY28)** | ₹2.5bn | ₹723mn | ₹4.2bn | ₹1.5bn | ₹1.3bn | ₹200bn | ₹4.0bn | AUM:US$15tn | NA |
| **Industry stage** | Growth | Early | Early | Early | Mature | Growth | Mature | Mature and growth markets | Mature |
| **Competitors** | KFIN: 36%; CAMS: 25% Apex, One Silver Bullet | Protean: 87%; Kfintech; 17%, CAMS: 1% | Fragmented market with 14 players. Onemoney is the oldest AA. | NDML: 51%; CAMS: 43%, CIRL: 6% | CVL and NDML. CAMS has a 9-10% market share. | 36 Payment Aggregators currently operating. RBI has given in-principle approval to 59 entities. | KFIN: 42% market share in NSE 500 companies. Other RTAs are Link Intime and Bigshare. | Captive RTAs MNC Banks | Limited competitors |
| **Revenue (FY23)** | KFIN: ₹182mn CAMS: ₹272mn | KFIN: ₹67mn CAMS: n.a. | CAMS: n.a. | ₹175mn | ₹179mn | ₹253mn | ₹1.1bn | ₹300mn | ₹440mn |
| **Revenue opportunity in FY28** | KFIN: ₹610mn CAMS: ₹690mn | KFIN: ₹160mn CAMS: ₹30mn | CAMS: ₹280mn | ₹430mn | ₹190mn | ₹690mn | ₹2.2bn | ₹580mn | ₹140mn |
| **Margin** | Slightly lower margins than the MF RTA business | Loss making due to lack of scale | Loss making due to lack of scale | 20-25%. Will increase as scale grows as seen in the MF business. | CAMS has a PBT margin of 50%+ | Margins (<40%) lower than company average | ~40% margin business. | 30-35% margin currently, but with scale can be above 45%. | ~60% EBIT margin |

*Source: Ambit Capital research*

**Exhibit 41: How do CAMS' and KFIN's different businesses compare on BCG's Growth-Share matrix?**




*Source: BCG, Ambit Capital research*

# Head to Head: CAMS vs KFIN

**The RTA market has consolidated in favour of CAMS and KFIN over the last decade with Sundaram and Franklin Templeton exiting the business. This has resulted in the RTA market becoming a duopoly. Our head-to-head analysis of CAMS and KFIN takes into consideration 10 parameters. The key implications are: i) KFIN (32% market share) has taken market share from CAMS (68%) in overall AUM driven by its partnership with smaller MFs which have grown faster; ii) within higher fee equity AUM, CAMS market share w.r.t. KFIN has remained stable; iii) CAMS' in-house data centre unlike KFIN, which has outsourced its data centre, can become a differentiator with clients, iv) both RTAs have a strong balance and cash generation, and v) CAMS has higher ROE.**

**Exhibit 42: CAMS is better placed than KFIN in terms of AUM market share, new business growth, RTA data and ROE. However, KFIN has a higher share of faster growing MFs, which will help reduce its revenue gap with CAMS**

| | CAMS | KFIN |
|---|---|---|
| **MF Partnerships** | 21 partners, but higher share in large MFs | 25 partners, with greater share in smaller MFs |
| | ● | ◔ |
| **AUM Market Share** | | |
| | 68% market share | 32% market share |
| | ◔ | ● |
| **AUM Mix** | | |
| | 45% equity AUM | 55% equity AUM |
| | ◑ | ● |
| **New businesses** | Will drive 21% growth supported by upcoming segments like Account Aggregators, Payment aggregators and Insurance repository. A key risk here is scalability of these new businesses. | Will drive 16% growth supported by RTA for AIF/PMS, issuer RTA, international RTA business. However, Global business service business will see pressure. |
| | ◔ | ● |
| **Technology** | In-house data centre, RTA database ~3x KFin's | Completely cloud based technology architecture. Outsourced data centre. |
| | ● | ◔ |
| **Service centres** | 280 service centres | 182 service centres |
| | ◑ | ◑ |
| **Margins** | 3 year average EBITDA margin:44% | 3 year average EBITDA margin:44% |
| | ◑ | ◑ |
| **Balance sheet** | Net cash balance sheet. ₹5bn in MF investment and cash. | Low borrowings. ₹3bn in MF assets and cash. |
| | ◑ | ◑ |
| **Cash conversion** | 30% of revenue typically gets converted into FCF | 30% of revenue typically gets converted into FCF |
| | ● | ◔ |
| **ROEs** | 40% ROE | 25-30% ROE |

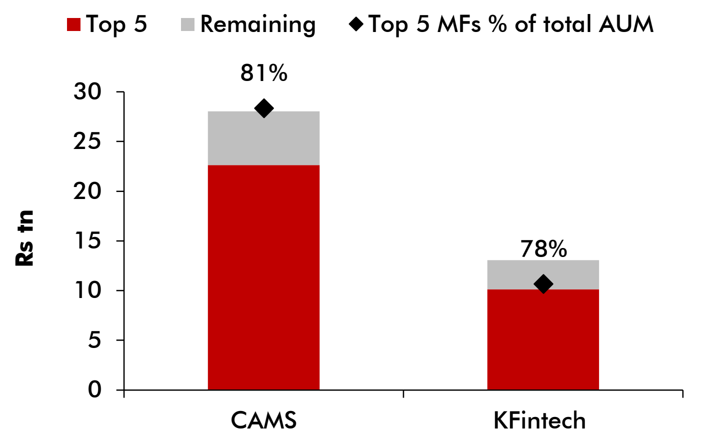
*Source: Company, Ambit Capital research*

*Note: ● - Strong; ◕- Relatively Strong; ◑- Average; ◔- Relatively weak*

### MF partnerships: Can "Small" become "Big"?

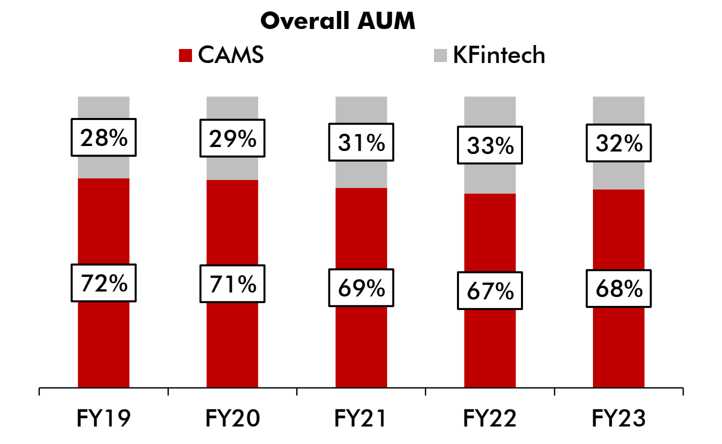
CAMS has partnered with 21 MFs, while KFIN has partnered with 25 MFs. However, CAMS has 68% share within MF AUM serviced by RTAs due to its partnership with 4 out of the 5 largest Indian MFs. CAMS market share reduced by 400bps in the last 5 years. This is a function of KFIN's MF partners growing at 22% CAGR over the last 3 years, compared to 15% growth of CAMS MF partners. We note KFIN's MF partners are smaller in size given 75% of its partner MFs have AUM below ₹1bn. For CAMS, the proportion of MF partners with AUM below ₹1bn is 47%.

**Exhibit 43: MF Partnerships: CAMS has tied up with MFs with larger AUMs compared to KFIN**




*Source: AMFI, Ambit Capital research*

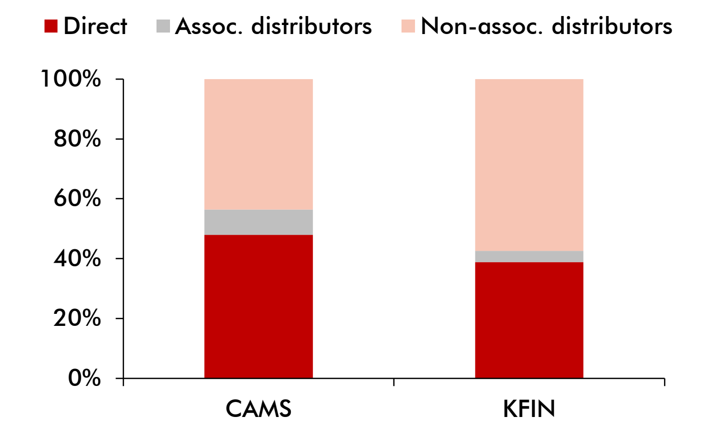
**Exhibit 44: CAMS market share reduced in recent years as MFs with KFIN grew faster**




*Source: AMFI, Ambit Capital research*

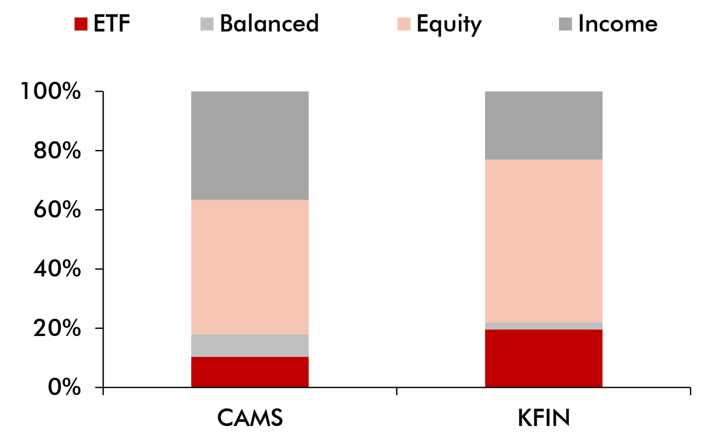
KFIN's MF partners sourced 57% of AUM through non-associate distributors (distributors excluding promoter banks) compared to 44% for CAMS. This resulted in KFIN having a higher share of equity within its overall AUM given equity funds have higher commissions.

**Exhibit 45: KFIN's MF partners have a higher share of non-associate distributors as compared to CAMS**




*Source: AMFI, Ambit Capital research*

**Exhibit 46: KFIN has a higher share of equity AUM as compared to CAMS**




*Source: AMFI, Ambit Capital research*

Scheme performance plays a key role in future AUM growth as it is used by distributors to pitch the scheme to customers. Within equity and hybrid funds CAMS and KFIN have an equal share of outperforming funds.

**Exhibit 47: MFs have been ranked based on 3-year performance in different categories; split of top performing funds between CAMS and KFIN is fairly even**

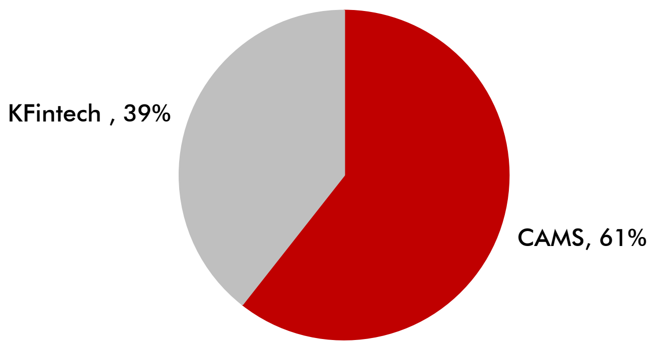
| Large Cap | AMCs | Mid Cap | AMCs | Small Cap | AMCs | Aggressive Hybrid | AMCs | Conservative Hybrid | AMCs |
|---|---|---|---|---|---|---|---|---|---|
| **CAMS** | 6 | **CAMS** | 5 | **CAMS** | 4 | **CAMS** | 4 | **CAMS** | 6 |
| **KFIN** | 4 | **KFIN** | 5 | **KFIN** | 6 | **KFIN** | 6 | **KFIN** | 4 |

*Source: Moneycontrol, Ambit Capital research*

## Service centres: Technology is supported by physical network

CAMS and KFIN together have 462 offices across India to support MF operations, collect physical forms, and handle customer queries and service requests. CAMS has a larger network comprising of 280 offices, with the remaining being with KFIN.

**Exhibit 48: Service centre split: CAMS has a higher share a function of its vintage**

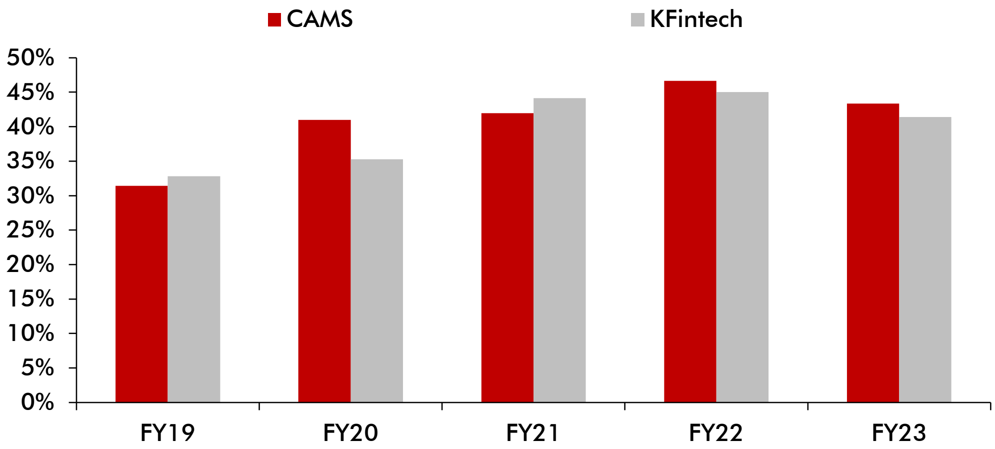



*Source: Company, Ambit Capital research*

### Cost structure: Employee expenses make up the most

Consolidated EBITDA margin for CAMS is higher than KFIN. EBITDA margin has expanded for both CAMS and KFIN over the last 5 years driven by cost rationalization and operating leverage. However, costs have increased over FY23 as the companies invested in new businesses.

**Exhibit 49: EBITDA Margin: CAMS has a higher margin compared to KFIN**



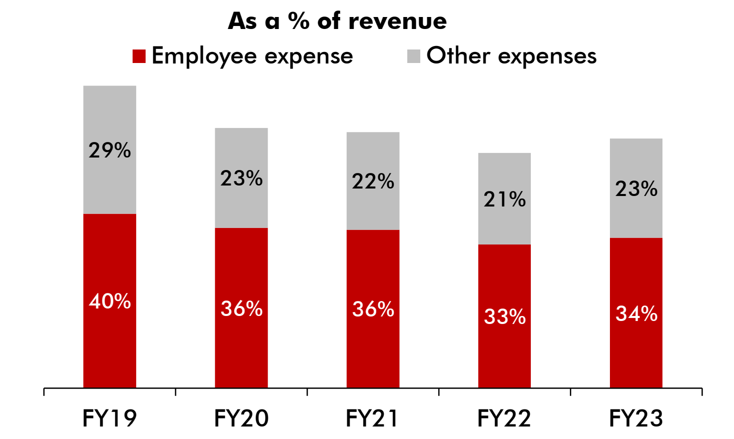

*Source: Company, Ambit Capital research*

Employee costs account for 60-70% of operating costs for RTAs. This has grown faster than revenue growth in FY23 for both CAMS and KFIN due to:

- KFIN expanding its sales and marketing, product and platform development teams, and deploying more people to support non-MF businesses.
- CAMS deployed ₹120mn (3% of FY23 employee cost) into supporting new businesses (AIF, CRA) with manpower.
- Salary increases adversely impacted both CAMS and KFIN. We note employee churn for KFIN and CAMS increased to 30-40% over FY22/23 compared to ~20% in FY21.

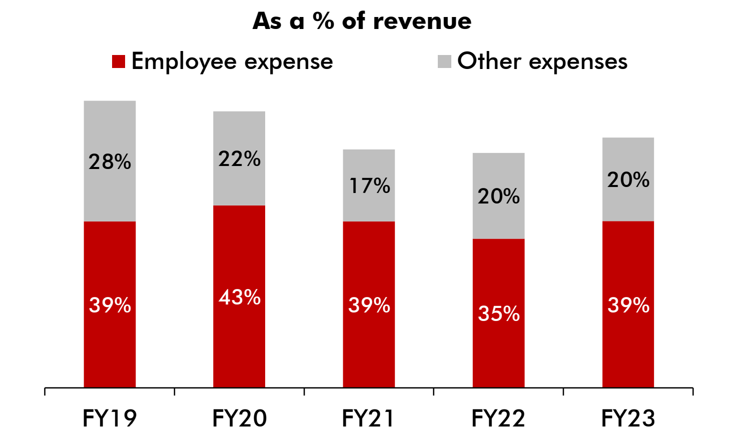
For CAMS, besides employee expense, software and service expenses are two other major costs (15% of total costs). Interestingly, KFIN appears to spending 16-18% of its overall costs on legal and consultancy expenses. By comparison CAMS spends <5% on these costs. This is a function of KFIN's focus on growing non-MF businesses and expanding into new geographies.

**Exhibit 50: CAMS: Besides employee costs, software and service expenses are two other key costs**




*Source: Company, Ambit Capital research*

**Exhibit 51: KFIN: Legal & professional, printing and stationery and consulting costs account for 25% of expenses**



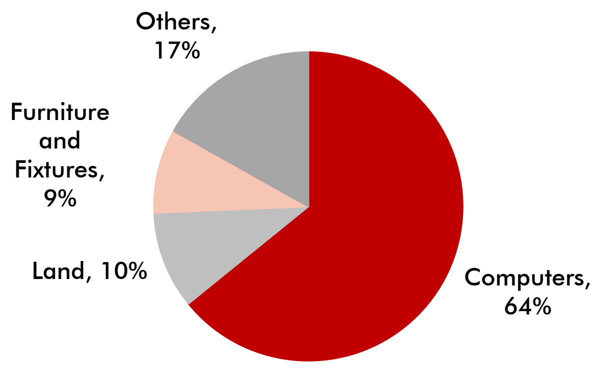

*Source: Company, Ambit Capital research*

## Balance Sheet: Little to no leverage

We have compared CAMS' and KFIN's balance sheets which indicates:

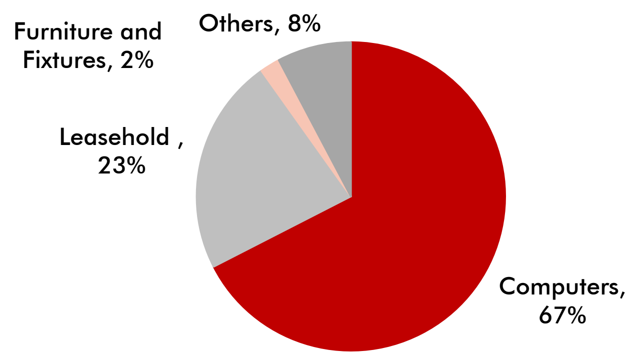
- **Debt and investments:** CAMS has no debt and carries ₹3.3bn in MF investments and ₹1.5bn in cash. This positions the company well to pursue inorganic opportunities. KFIN has no debt but ₹1.3bn in non-convertible redeemable preference shares, which the company plans to redeem. This will reduce KFIN's ₹3bn in MF investments and cash.
- **Goodwill.** Accounts for 43% of KFIN's assets. By comparison, goodwill is only 13% of CAMS' assets.
- **Gross block:** Computers account for 64-67% of gross block for both RTAs. However, PPE has a higher share of assets for CAMS (8%) compared to KFIN (3%) given CAMS operates its own data centres.

**Exhibit 52: CAMS: Gross block is made of computers and land**




*Source: Company, Ambit Capital research*

**Exhibit 53: KFin: Gross block comprises computer and leases**

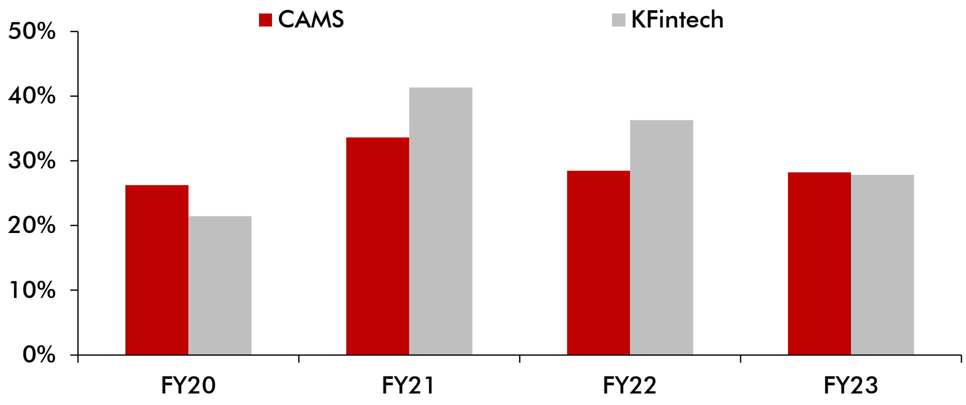



*Source: Company, Ambit Capital research*

## Cash flows: RTAs generate strong free cash flow

RTAs generate strong free cash flows, converting 30% of revenues into FCF. KFIN has generated more FCF compared to CAMS, however the gap appears to have closed. The capex requirement for RTAs is fairly limited with companies spending less than 5% of operating revenue on capex. CAMS has a higher capital expenditure compared to KFIN due to its in-house data centres.

**Exhibit 54: FCF to operating revenue: Typically RTAs convert 30% of their revenues to FCF**




*Source: Company, Ambit Capital research*

## ROE: Higher asset turnover is resulting in better returns for CAMS

CAMS has higher ROE compared to KFIN due to the former's better asset turnover. This is a function of KFIN's higher share of goodwill in its asset mix relative to CAMS. Goodwill generated from acquisitions (as is the case with KFIN) cannot be sweated to drive revenues, resulting in lower asset turnover.

**Exhibit 55: CAMS' better ROE is a function of its higher asset turns**

| AMS | FY22 | FY23 | KFIN | FY22 | FY23 |
|---|---|---|---|---|---|
| PAT | 2,871 | 2,847 | PAT | 1,486 | 1,958 |
| Revenue | 9,097 | 9,718 | Revenue | 6,395 | 7,200 |
| **Margin** | **32%** | **29%** | **Margin** | **23%** | **27%** |
| Revenue | 9,097 | 9,718 | Revenue | 6,395 | 7,200 |
| Assets | 8,995 | 10,273 | Assets | 9,710 | 11,316 |
| **Turnover** | **1.01** | **0.95** | **Turnover** | **0.66** | **0.64** |
| Assets | 8,995 | 10,273 | Assets | 9,710 | 11,316 |
| Equity | 5,818 | 7,151 | Equity | 4,961 | 7,587 |
| **Leverage** | **1.55** | **1.44** | **Leverage** | **1.96** | **1.49** |
| **ROE** | **49.3%** | **39.8%** | **ROE** | **29.9%** | **25.8%** |

*Source: Company, Ambit Capital research*

# What are the key risks for MF RTAs?

**Like any business model RTAs are also exposed to risks. This gets further compounded noting RTAs like CAMS and KFIN, which handle more than 20 million folios, are subjected to higher scrutiny as SEBI designates these companies as Qualified RTAs. This has increased compliance cost. However, the bigger risk in our view, from regulatory changes, is to the top-line. We see four key risks: i) reducing allowable TE₹ for MFs, ii) increase in orders through exchanges, iii) moving RTA services in-house and iv) growing preference of index funds. Out of these TER cuts and higher share of index funds can have the highest impact of MF revenue growth of RTAs.**

## Operating in a regulated industry has its own challenges

The mutual fund sector in India is regulated by SEBI. In Aug'18, SEBI enhanced monitoring of QRTAs, requiring the companies to implement policies for risk management, business continuity, data access and protection. We see four key risks: i) reducing allowable TE₹ for MFs, ii) increase in orders through exchanges, iii) moving RTA services in-house, and iv) growing preference of index funds.

SEBI defines QRTAs as RTAs servicing more than 20 million folios. CAMS, KFIN and Link Intime are classified as QTRAs.

**Exhibit 56: Different types of risks which RTAs face**

| Risk | Likelihood | Impact | Who is better off? |
|---|---|---|---|
| TER Cuts | Low | The impact on AUM growth will be higher than any pricing impact. As RTA fees is only 2-3bps of AUM. | A similar impact on both CAMS and KFIN. |
| Exchange traded MFs | Low | The use of exchanges to buy and sell MFs bypasses the distributors and reduces the requirement of RTAs. | A similar impact on both CAMS and KFIN. |
| In-sourcing RTA services | Low | Top 5 MFs contribute 80% of the AUM serviced by RTAs. Hence, a loss of client can have significant impact on revenues. | A similar impact on both CAMS and KFIN. |
| Increasing demand for index funds | Moderate | This would result in lower yields for RTAs. | The impact will be higher on CAMS as compared to KFIN as the latter has a higher share of distributor led MFs. |
| Slowdown in MF demand | Low | This will adversely impact our expectation of 12-14% RTA revenue growth over the next decade. | A similar impact on both CAMS and KFIN. |

*Source: Ambit Capital research*

## How have RTAs navigated fee structure changes?

As seen earlier, RTA fees are closely tied to mutual fund AUM, and ability of mutual funds to pay for the services rendered. The latter is a function of the total expense ratio (TER) which MFs can charge, and regulated by SEBI.

The regulator has subjected mutual funds to two major changes in fee structure:

- **2008/09**: The GFC crisis also coincided with an intense scrutiny of MF expenses by SEBI. This culminated in entry loads being banned by the regulator from Aug'09. Earlier, 2-2.5% load was levied if the investor used the services of an advisor/distributor. This resulted in distributors/advisors churning customers across funds adversely impacting returns.
- **2018**: In Sep'18 the regulatory overhauled the expense architecture of MFs. This included: i) removal of upfront commissions and moving to a full trail based commission model and ii) reduction in allowable TE₹ taking into account the growth in AUM.

**Exhibit 57: Change in TER pre and post 2018: SEBI overhauled the expense architecture of MFs to reduce the cost of investment for investors**

| **Pre-2018 circular** | | | |
|---|---|---|---|
| **AUM Slabs** | **Equity schemes** | **Debt schemes** | **ETFs/Index funds** |
| Up to ₹1bn | 2.50% | 2.25% | 1.50% |
| Next ₹3bn | 2.25% | 2.00% | |
| Next ₹3bn | 2.00% | 1.75% | |
| On balance | 1.75% | 1.50% | |
| **Post-2018 circular** | | | |
| **AUM Slabs** | **Equity schemes** | **Debt schemes** | **ETFs/Index funds** |
| Less than ₹5bn | 2.25% | 2.00% | 1.00% |
| ₹5bn-7.5bn | 2.00% | 1.75% | |
| ₹7.5bn-20bn | 1.75% | 1.50% | |
| ₹20-50bn | 1.60% | 1.35% | |
| ₹50-100bn | 1.50% | 1.25% | |
| ₹100-500bn | TER reduction of 5bps for every increase of ₹50bn in AUM | TER reduction of 5bps for every increase of ₹50bn in AUM | |
| >₹500bn | 1.05% | 0.80% | |

*Source: SEBI, Ambit Capital research*

As shown in the table below, the change in MF TE₹ in 2018 did not have had a significant impact on RTA charges given the fees is only a marginal portion of the overall expense ratio. The fall in RTA fees as a proportion of AUM has been driven by the telescopic pricing.

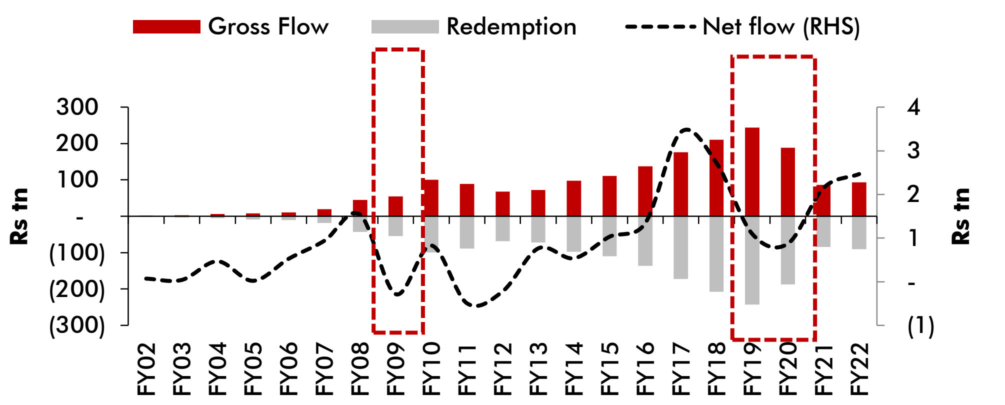
**Exhibit 58: Average fees charged by RTAs: The decline in fees as a proportion of AUM was due to the telescopic fee structure**

| **As a proportion of AUM (bps)** | **FY17** | **FY18** | **FY19** | **FY20** | **FY21** |
|---|---|---|---|---|---|
| Equity funds | 6.5 - 7.0 | 6.3 - 6.7 | 6.0 - 6.5 | 5.7 - 6.1 | 5.3 - 5.7 |
| Hybrid | 5.9 - 6.3 | 5.9 - 6.3 | 5.8 - 6.1 | 5.5 - 5.9 | 5.0 - 5.5 |
| Debt | 2.3 - 2.7 | 2.3 - 2.7 | 2.2 - 2.6 | 2.2 - 2.6 | 2.2 - 2.5 |
| Liquid | 1.8 - 2.2 | 1.8 - 2.2 | 1.8 - 2.2 | 1.7 - 2.2 | 1.6 - 2.0 |
| Others | 2.2 - 2.6 | 1.8 - 2.2 | 1.4 - 1.9 | 1.2 - 1.7 | 1.0 - 1.5 |

*Source: KFIN DRHP, Ambit Capital research*

While fees may not have been impacted, TER cuts does have a second order adverse impact on RTAs. This is a function of TER cuts adversely impacting MFs' ability to compensate distributors, which in turn results in either advisors moving out of the industry or advisors pushing other investment products with better commissions (life insurance).

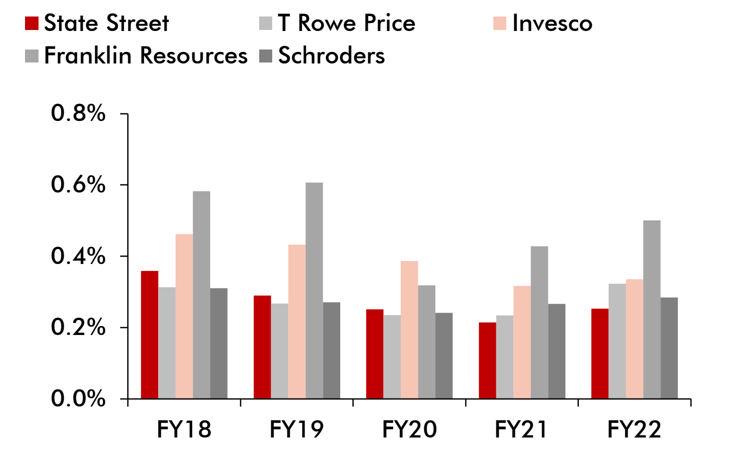
**Exhibit 59: Net MF flows were hit, both in FY09 and FY19, due to the adverse impact of regulatory changes on distributor commissions**




*Source: SEBI, Ambit Capital research*

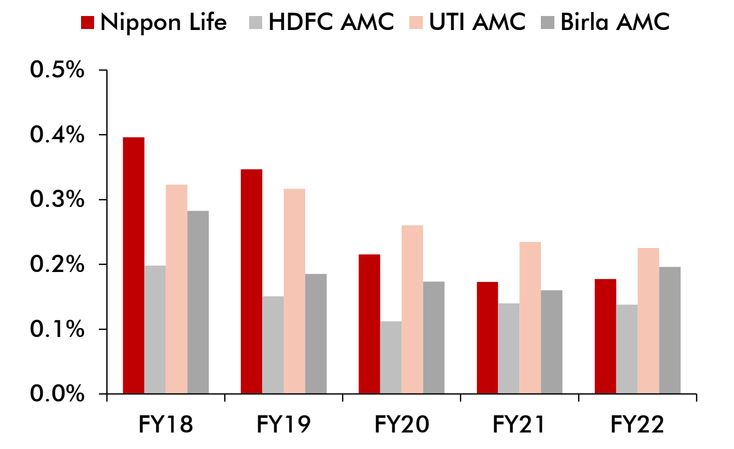
SEBI's focus will remain on protecting investor interests and increasing penetration of individual investors in MFs. This will result in the regulator revisiting MF expenses regularly. However, we note Indian MFs operate at a lower operating expense (as a % of AUM) compared to their US peers.

**Exhibit 60: Operating expense as a % of AUM: US MFs spend ~30bps of AUM on operating expense**




*Source: Company, Ambit Capital research*

**Exhibit 61: Operating expense as % of AUM: Indian MFs spend 18bps of AUM on operating expense**

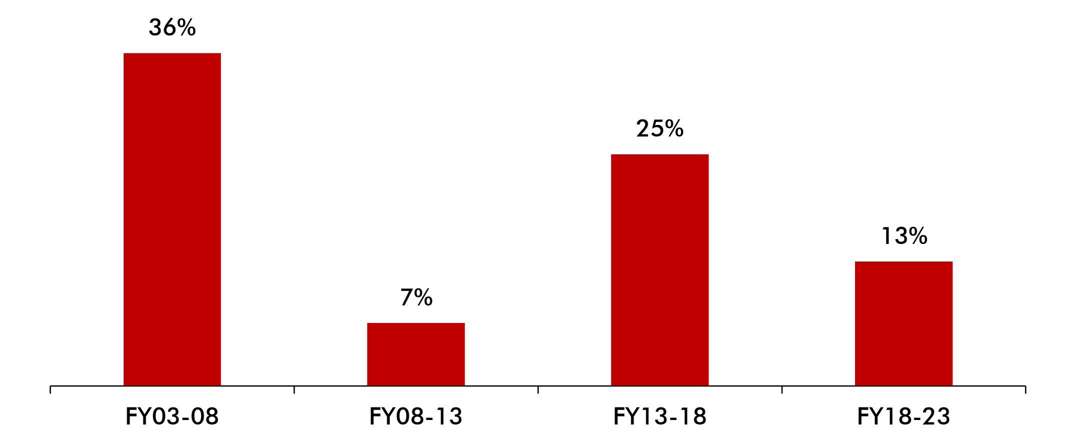



*Source: Company, Ambit Capital research*

## Slowdown in MF AUM will adversely impact RTA growth

We expect MF AUM to grow at 17% CAGR over the next decade. While this is slower than the 19% CAGR witnessed in the last 10 years, MF AUM has not grown in a straight line. The industry grew only by 7% during FY08-13 due to changes in commissions and macroeconomic pressures. There is limited data on the impact of RTA revenues due to the slowdown in MF AUM. Our analysis of the scheme wise RTA fees paid by Aditya Birla Sunlife AMC during FY08-13 suggests it grew by only 4%. RTAs have been focusing on diversifying their exposure to AUM linked revenues by expanding into adjacent markets.

**Exhibit 62: MF AUM CAGR: Growth in MF AUM has gone through cycles with FY08-13 being the bottom**

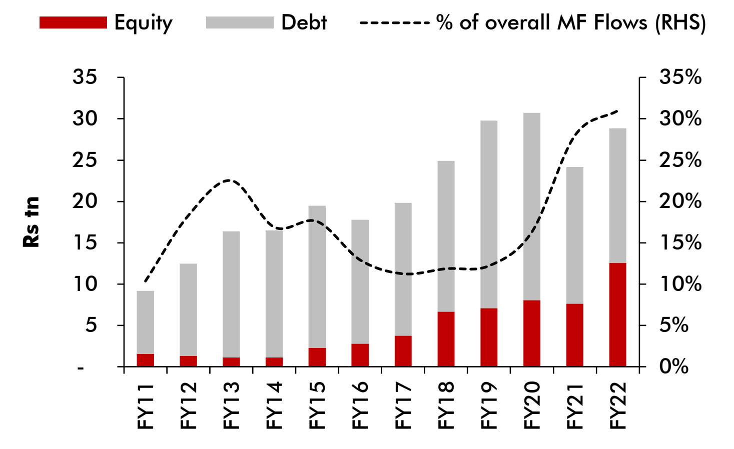



*Source: Company, Ambit Capital research*

## Threat from exchange-based MF transactions unlikely to play out

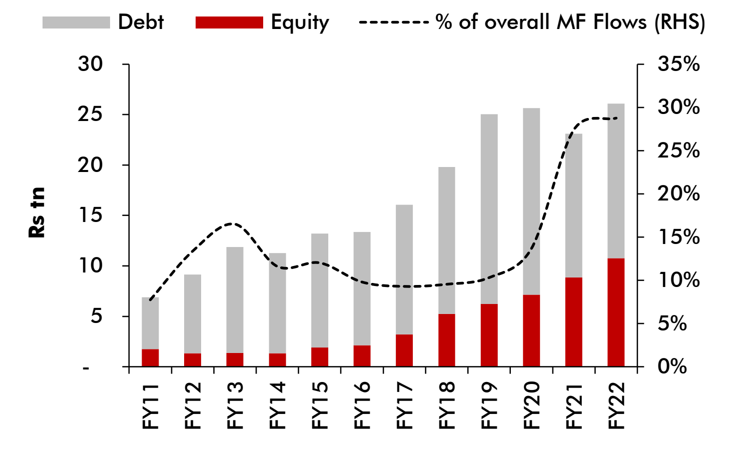
SEBI allowed MF transactions through stock exchanges in Nov'09 to increase penetration in lower tier cities. This could have a similar impact as the dematerialization of shares had on RTAs, making them less relevant. However, this was met with a lukewarm response from both investors and MFs. As shown in Exhibit 1 exchange-based MF transactions account for 30% of overall MF transactions despite being in place for more than 13 years. The share of exchange based transactions picked up in FY21 after SEBI allowed investors to directly access stock exchanges to purchase and redeem mutual fund units. This facility was available to distributors and registered investment advisors (RIAs) earlier. Debt has a higher share within exchange based MF transactions as compared to equity.

**Exhibit 63: Gross flows: MF flows through exchanges accounts for ~30% of overall flows**




*Source: SEBI, Ambit Capital research*

**Exhibit 64: Redemptions: MF redemption through exchanges has been ~30% of overall redemptions**




*Source: SEBI, Ambit Capital research*

SEBI did consider making MF transactions through exchanges compulsory in 2009. However, it did not go through with the proposal after a SEBI appointed committee investigated RTA services and found merit in services provided by RTAs.

**Why have exchanges not been able to disrupt RTAs?**

Exchanges through electronic transactions reduced costs for investors and improved ease of doing business. However, similar facilities already exist in MFs given:

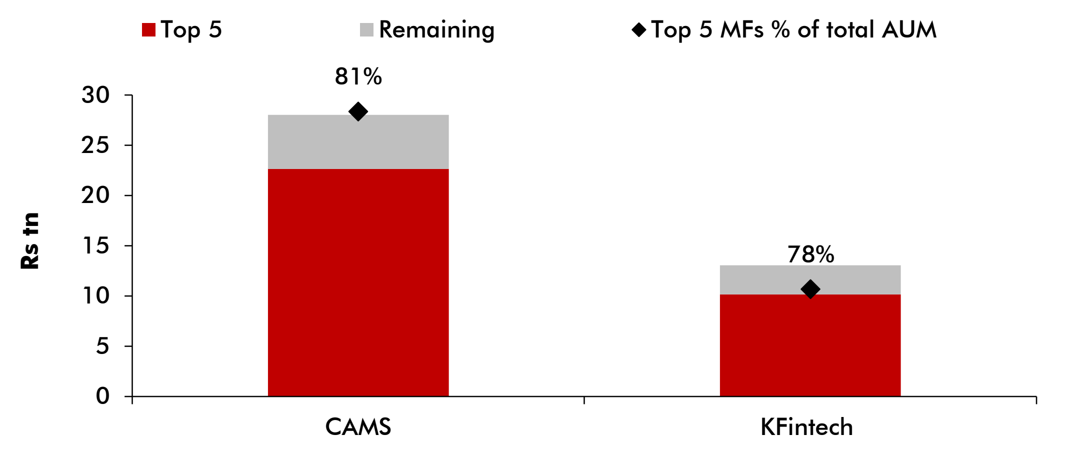
- RTAs through tools like MF Central (jointly run by CAMS and KFIN) provide investors the opportunity to view all their MF investments in one place and transact.
- The scale of transactions processed and duopolistic nature of the industry allows RTAs to operate at a low cost (3-4bps of AUM).

Further, distributors have been closely linked to RTAs through online platforms like FinNet, which allow them to submit applications online, get consolidated statements and provided commission details. Hence, distributors/RIAs preferred to continue with the RTA based system despite SEBI allowing transactions through exchanges.

## Moving RTA services in-house could be costly and risky

Top 10 MFs in India (25% of MFs operating) accounted for 80% of assets under management. This also results in overreliance of RTAs on top five MF clients, who typically contribute ~80% of the AUM these companies manage.

**Exhibit 65: AUM split by clients: Concentration within top 5 clients is high for both CAMS and KFIN**




*Source: Company, AMFI, Ambit Capital research Month: Mar'23*

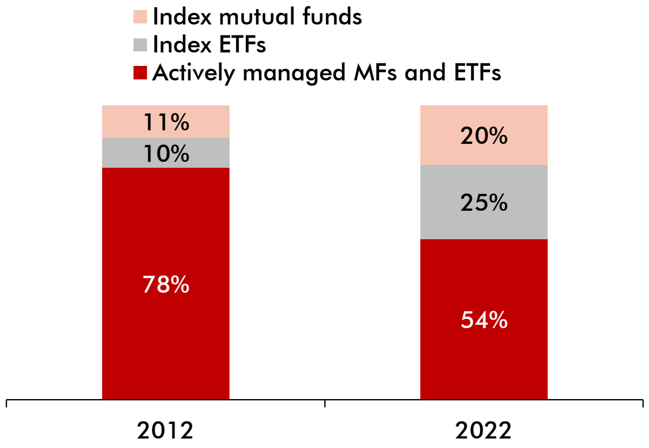
Hence, clients moving RTA services in-house could significantly impact MF revenues for CAMS and KFIN. However, we see the risk of this occurring as limited given:

- QRTAs are able to offer competitive pricing due to high operating leverage. Franklin Templeton and Sundaram MF went from captive to outsourced RTA.
- Deep integration with MFs results in high switching costs for the latter, and runs the risk of disruption to ongoing operations. Hence, till date only Navi Mutual Fund has switched RTAs.
- RTAs provide technology support to MFs, which results in MF's reducing IT and software spend.
- RTAs also provide value added services like data analytics, technology to support distributors and common interface to connect with customers.

## Index funds could put pressure on yields

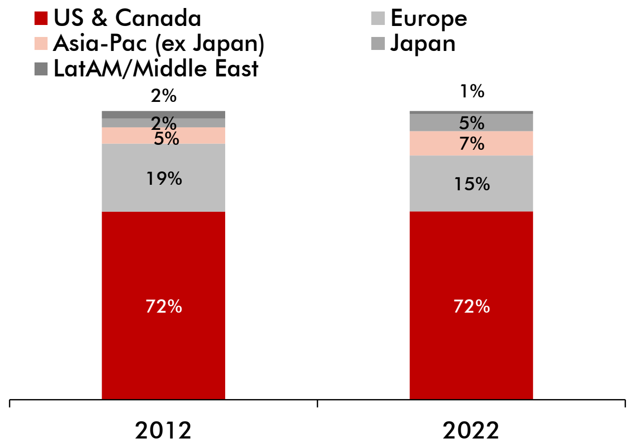
Index mutual funds were first offered in the 1970s, followed by index ETFs in the 1990s. In recent years, popularity of index funds/passive investing has increased globally. By the end of CY22, Index funds/ETFs AUM had grown to $11tn globally, accounting for 45% of net AUM, up from 20% in CY12. Passive investing has gained popularity in India as well, with index funds/ETFs accounting for 17% of AUM in FY23 vs 2% in FY13.

**Exhibit 66: Share of index funds has increased from 20% a decade back to 45% in CY22**



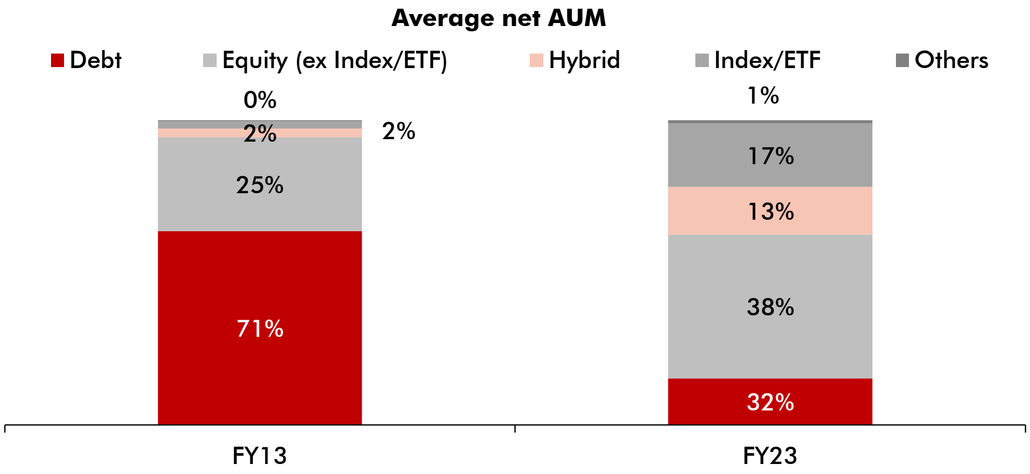

*Source: ICI, Ambit Capital research*

**Exhibit 67: Passively managed assets have grown significantly faster in Asia-Pac as compared to other regions**




*Source: ETFGI, Ambit Capital research*

**Exhibit 68: In India, index funds/ETFs account for 17% of MF AUM compared to global average of 45%. However, share of index/ETF funds within the mix is increasing**




*Source: AMFI, Ambit Capital research*

This is a risk for RTAs given fees charged to index funds are lower as compared to actively managed funds. This is a greater risk for CAMS as compared to KFIN, given the latter has higher share of distributor led MFs.

# Should we compare CAMS and KFIN to SAAS companies?

**CAMS and KFIN trade at 34-37x FY25 EPS – this brings to mind the question, are these stocks expensive compared to Banks and NBFCs (10-20x)? We think the correct peer group for CAMS and KFIN is Indian SAAS stocks given RTAs have transitioned from back-end service providers to technology partners of MFs. RTAs are trading at a 40% discount to Indian SAAS players despite having sticker customers (retention more than 100%); expansion into higher growth segments like insurance repository, account aggregator and payment aggregator; and higher ROEs (25-40% vs 13-17%). Further, we prefer playing the MF penetration story in India through RTAs compared to AMCs as the former has lower competitive intensity, higher diversification and better ROE.**

## Valuations reflect strong competitive advantages, low leverage and high cash generation

CAMS and KFIN are trading at 37x and 34x FY25E EPS. While this appears expensive compared to banks' and NBFCs '10-20x P/E, we think this is a reflection of:

- MF RTA has transitioned into a duopoly market following the exit of Sundaram and Franklin Templeton. CAMS has 68% market share based on total AUM, while KFIN has 32% market share.
- MF RTAs are well integrated with front office, middle office and back office operations of AMCs. This makes switching between RTAs highly challenging and customers highly sticky.
- A scalable technology platform which can be extended to other BFSI products. Both CAMS and KFIN have expanded into new businesses like AIF, fund management and international geographies leveraging existing technology tools.
- A strong balance sheet. CAMS has a net cash position, while KFIN has low leverage.
- 30% of revenues is converted into free cash flow.
- Strong ROEs between 25-40%.

### Can CAMS trade at a premium to KFIN?

KFIN has traded at a discount to CAMS since listing. However, the discount has reduced over the last 6 months, with KFIN currently trading at 10% discount to CAMS. We see scope for KFIN to trade at a premium to CAMS given:

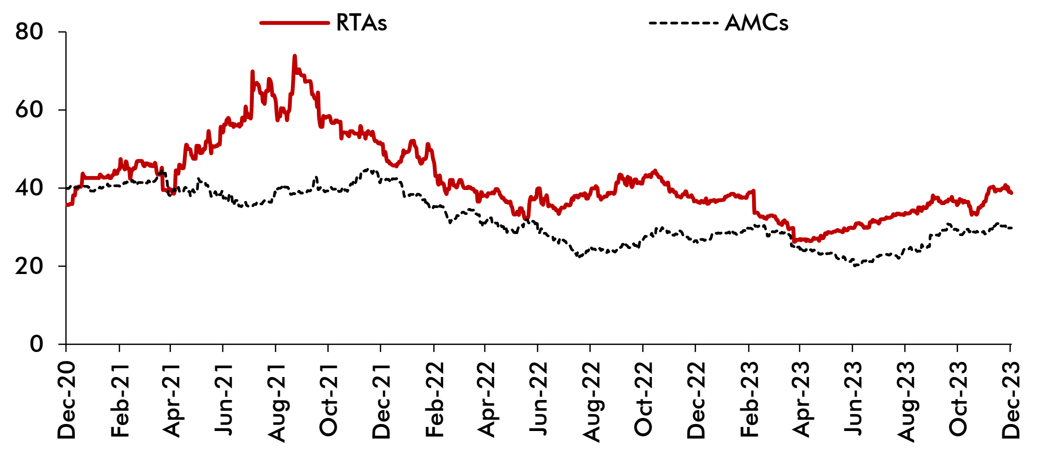
- MF business for KFIN will grow faster (15% CAGR between FY23-27E) than CAMS (13%) resulting in its share in MF RTA revenues rising by 600bps over the next decade.
- KFIN has higher share of equity AUM resulting in better yields.
- KFIN has migrated all its businesses to cloud, while CAMS is yet to transition its MF business to cloud.
- KFIN has a more diversified revenue pool compared to CAMS, with 30% of its revenues coming from non-domestic MF businesses.
- The company has a 40% market share in the Issuer RTA market as well. This market has multiple tailwinds including equitisation and increased retail participation.
- Hexagram gives KFIN an advantage within AIF/PMS and International markets, as it expands the company's capabilities in fund accounting. CAMS depends on a third party licensed software for fund accounting.
- CAMS non-MF businesses are in relatively new industries like insurance repository, payment aggregator and account aggregator. Whereas KFIN's non-MF businesses are in more established sectors like Issuer RTA and International Fund Management businesses. This, in our view, results in greater certainty around the scalability of KFIN's businesses.

### Why RTAs are a better way to play the MF story?

The MF penetration or financialisation of savings story can be played through AMCs as well as RTAs. RTAs trade at a 30-40% premium to AMCs. However, this premium reduces significantly w.r.t. HDFC AMC and Nippon AMC (6%). We prefer RTAs given:

- **Lower competitive intensity:** The competitive intensity in MF industry has increased over the last 3 years with 8 MFs having started or in the process of starting. By comparison, RTA is a duopoly market.
- **Diversifies regulatory risks:** As indicated in the earlier section, the MF industry along with QRTAs are subject to regulatory risks. A key regulatory risk in the MF industry is TER cuts. However, we think MFs and distributors are at a bigger risk from TER cuts as compared to RTAs as the RTA charge as a proportion of AUM is only 3-4bps. Further, RTAs have diversified into segments with lower regulatory scrutiny including AIF.
- **Less geared to fund underperformance:** Underperformance of funds results in outflows and lower AUM. However, RTAs have relationship with multiple MFs diversifying the risk from fund underperformance. But RTAs are still exposed to market cycles.
- **Higher ROEs:** MF ROEs range between 20-30%. While this is similar to KFIN, but lower than that of CAMS.

**Exhibit 69: AMCs vs RTAs: The latter trades a 30% premium, but we still prefer it over AMCs**




*Source: Bloomberg, Ambit Capital research*

### How do RTAs compare with other capital market plays?

**RTAs trade at a 34-39% discount to CDSL.** This is likely a function of: i) the latter's leading market share in retail demat accounts (~74%), which has resulted in CDSL benefiting from increased participation of individuals in equity markets and IPOs, and ii) Depositories being well-placed to benefit from the recent MCA notification which has made de-materialization of shares for private companies compulsory after Sep'24. However, the discount has expanded in recent months from 20% following the MCA notification. We think the valuation gap between RTAs and depositories will narrow from here noting the former has higher growth opportunities from non-core businesses, customer switching risks are lower in case of RTAs as compared to depositories and pricing is regulated in case of depositories.

**RTAs trade at a significant premium to brokers and wealth managers.** This, in our view, appears justified given: i) the lower competitive intensity in the MF RTA market, ii) sticky customers with high switching costs, iii) increasing share of SIPs reducing the sensitivity of RTAs to market movements and iv) non-MF businesses allowing RTAs to expand capabilities into adjacent markets.

**Exhibit 70: Comparing RTAs with AMCs, depositories, brokers and wealth managers**

| | Mkt Cap | Revenue growth | | | EBIT Margin | | | EPS growth | | ROE | | | P/E | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | USD mn | FY24E | FY25E | FY26E | FY24E | FY25E | FY26E | FY25E | FY26E | FY24E | FY25E | FY26E | FY24E | FY25E | FY26E |
| Nippon AMC | 3,340 | (8.6) | 11.8 | 12.1 | 55.0 | 50.0 | 54.8 | 21.3 | 11.4 | 21.1 | 25.8 | 27.7 | 36.4 | 30.0 | 26.9 |
| HDFC AMC | 7,755 | (19.3) | 13.5 | 13.0 | 70.7 | 73.0 | 72.0 | 20.5 | 12.5 | 24.6 | 27.1 | 28.1 | 44.9 | 37.3 | 33.1 |
| UTI AMC | 1,285 | (3.8) | 8.2 | 4.8 | 39.8 | 43.9 | 44.7 | 28.9 | -2.4 | 13.3 | 16.3 | 14.6 | 21.6 | 16.7 | 17.1 |
| ABSL AMC | 1,633 | (13.9) | 5.2 | 8.0 | 56.2 | 55.9 | 55.6 | 13.1 | 5.4 | 25.9 | 25.9 | 24.4 | 21.6 | 19.1 | 18.1 |
| CDSL | 2,409 | (15.2) | 24.0 | 17.5 | 57.8 | 54.4 | 55.0 | 21.3 | 17.5 | 24.0 | 26.7 | 27.9 | 67.7 | 55.8 | 47.5 |
| Angel One | 3,054 | 10.5 | 15.7 | 22.5 | 42.9 | 43.0 | 39.2 | 17.5 | 12.8 | 42.4 | 38.0 | 33.9 | 22.5 | 19.2 | 17.0 |
| 360 One | 2,807 | (14.4) | 17.3 | 16.5 | 49.9 | 35.7 | 47.8 | 18.6 | 13.0 | 22.7 | 25.2 | 26.6 | 31.6 | 26.7 | 23.6 |
| **Average** | | **(9.3)** | **13.7** | **13.5** | **53.2** | **50.8** | **52.7** | **20.2** | **10.0** | **24.9** | **26.4** | **26.2** | **35.2** | **29.2** | **26.2** |
| CAMS | 1,618 | 13.6 | 9.1 | 14.1 | 37.4 | 38.6 | 40.8 | 11.7 | 21.4 | 38.5 | 37.7 | 39.9 | 41.4 | 37.0 | 30.5 |
| KFIN | 1,074 | 14.5 | 8.1 | 15.3 | 36.7 | 36.9 | 37.9 | 12.2 | 18.4 | 23.2 | 20.8 | 21.4 | 38.5 | 34.3 | 29.0 |

*Source: Bloomberg, Ambit Capital research*

## Should we compare RTAs with global and Indian SAAS players?

RTAs provide the technology required by MFs to undertake front office, middle office and back office functions. This plug and play platform which comprises of multiple software has been scaled and expanded to other segments of the financial domain. Hence, we think it is fit to compare RTAs with Indian and Global SAAS players.

RTAs trade at a 40% discount to Indian SAAS players and in line with Global SAAS players despite:

- **Having a highly sticky customer base.** KFIN indicated its revenue retention in the domestic mutual fund business has been between 100-140% in the last 3 years. While CAMS does not provide this information, unlikely it will be very different from KFIN given there has been no customer attrition. By comparison, SAAS companies like MapmyIndia and Rategain have a retention ratio of ~90%.

- **Expanding into new segments:** While SAAS platforms have their own niches, RTAs have shown the ability to expand beyond their core MF category into new markets like insurance, NPS, account aggregators, and payments. Both CAMS and KFIN are well-placed to benefit from increased focus on using data through the account aggregator model to better target and underwrite customers. This will find application in NBFCs, wealth management and insurance.

- **Higher ROEs:** CAMS and KFIN have ROE of 25-40% compared to 13-17% for Indian technology players and 24% for Global SAAS players.

- **Dividend yield:** CAMS has a dividend yield of 1.3% compared to most Indian technology companies and global SAAS players preferring not to give dividends.

**Exhibit 71: Comparing RTAs with global SAAS and Indian tech players**

| | Mkt Cap | Mkt Cap | PE | | Revenue growth | | EBIT margin | | EPS growth | | ROE | | Dividend yield | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | USD | Local currency | FY25E | FY26E | FY25E | FY26E | FY25E | FY26E | FY25E | FY26E | FY25E | FY26E | FY25E | FY26E |
| **Global SAAS players** | | | | | | | | | | | | | | |
| Salesforce Inc | 243 | 243 | 24.0 | 20.3 | 11% | 12% | 30% | 33% | 18.4% | 18.3% | 11% | 12% | n.a. | n.a. |
| Servicenow Inc | 143 | 143 | 52.6 | 43.3 | 21% | 22% | 28% | 29% | 21.5% | 21.8% | 25% | 23% | n.a. | n.a. |
| Adobe | 278 | 278 | 29.9 | 26.7 | 12% | 13% | 45% | 47% | 14.6% | 15.5% | 38% | 39% | n.a. | n.a. |
| Workday Inc | 72 | 72 | 36.1 | 30.9 | 17% | 17% | 28% | 29% | 17.1% | 17.1% | 22% | 21% | n.a. | n.a. |
| Atlassian | 50 | 50 | 62.0 | 46.2 | 20% | 25% | 21% | 23% | 23.7% | 34.2% | 45% | 37% | n.a. | n.a. |
| **Average** | | | **35.7** | **30.3** | **15.2%** | **16.0%** | **32.9%** | **34.5%** | **17.9%** | **18.2%** | **24.1%** | **24.0%** | **n.a.** | **n.a.** |
| **Indian tech players** | | | | | | | | | | | | | | |
| One 97 Communications Ltd. | 7 | 572 | n.a. | 40.2 | 30% | 22% | n.a. | 6% | n.a. | 270% | 3% | 9% | n.a. | n.a. |
| Freshworks Inc | 6 | 490 | 62.4 | 43.0 | 18% | 20% | 9% | 14% | 28% | 45% | 8% | 11% | n.a. | n.a. |
| Rategain Travel Technologies | 1 | 78 | 46.3 | 33.4 | 20% | 21% | 16% | 18% | 37% | 38% | 18% | 21% | n.a. | n.a. |
| CE Info Systems | 1 | 108 | 63.6 | 47.1 | 38% | 32% | 41% | 38% | 35% | 35% | 24% | 26% | 0.13% | 0.13% |
| **Average** | | | **57.4** | **40.9** | **26.4%** | **23.9%** | **21.9%** | **18.9%** | **33.3%** | **97.0%** | **13.3%** | **16.7%** | **n.a.** | **n.a.** |

*Source: Bloomberg, Visible Alpha, Ambit Capital research*

# Combination of stability and growth

**CAMS is the leader of the ₹14bn RTA market, accounting for 4 of the 5 large MFs as partner. This is a function of focus on process efficiency, long-term customer relationships and compliance. But we expect the next leg of growth to be driven by non-MF businesses given growth opportunities in insurance repository/account aggregator/AIF/payment aggregator businesses, which will result in 3x increase in non-MF revenues in the next 5 years. Scale-up of these new businesses will also drive margins as the investment cycle is complete. The street appears to build in little to no value for the non-MF business, unfair given some of these generate ₹200-250mn revenues already, are highly profitable and have cross-sell opportunities. DCF valuation implies TP of ₹3,210, implying 43x FY25 P/E. Key risks: TER cuts, cyber-attacks and failure of new businesses.**

Competitive position: STRONG        Changes to this position: STABLE

### A market leader in duopoly market

CAMS' 68% AUM and 64% revenue share are function of the legacy its founders developed, focusing on: i) building customer trust as seen during the SBI MF or Birla MF transitions during 2000s, ii) using technology to improve processes, including development of the "handshake" system for SIPs and iii) compliance due to its first MF partner being a foreign AMC.

### Scaling the tech platform to new sectors

The MF RTA business has matured, and is estimated to grow at 12% revenue CAGR over the next decade. However, CAMS has scaled the technology platform/tools it developed for MFs to other BFSI segments. We estimate these businesses will contribute 15% of CAMS' revenue by FY27E up from 10% in FY23 driven by market penetration opportunities in AIF/PMS, scale-up of account and payment aggregator platforms, and market share gains in CRA.

### Well-positioned to add new capabilities

CAMS recently acquired Fintuple and Think Analytics to grow capabilities within AIF and account aggregators. CAMS has ₹5bn in cash and investments assets. This combined with its nil borrowing positions the company well to pursue inorganic acquisition to further scale its new businesses.

### Minimal value being built in for non-MF businesses

We assume the mature MF business is trading in line with other capital peers. This implies the non-MF business is being valued at 3x FY25 EV/EBITDA, which appears low given: i) several businesses already generating ₹200-250mn in revenues, ii) high profitability in AIF RTA/KRA and iii) cross-sell opportunities.

**Key financials – Consolidated**

| Year to March | FY22 | FY23 | FY24E | FY25E | FY26E |
|---|---|---|---|---|---|
| Operating Rev (₹ bn) | 9,097 | 9,718 | 11,039 | 12,046 | 13,745 |
| EBITDA (₹ bn) | 4,242 | 4,213 | 4,853 | 5,448 | 6,387 |
| EBITDA Margin (%) | 46.6% | 43.3% | 44.0% | 45.2% | 46.5% |
| EPS (₹) | 58.4 | 58.4 | 66.2 | 74.0 | 89.8 |
| RoE (%) | 49% | 40% | 39% | 38% | 40% |
| P/E (x) | 47.8 | 47.8 | 40.9 | 36.6 | 30.1 |

*Source: Company, Ambit Capital research*

### Non-lending Financials

### Recommendation

| | |
|---|---|
| Mcap (bn): | ₹135/US$1.6 |
| 6M ADV (mn): | ₹745/US$9.0 |
| CMP: | ₹2,706 |
| TP (12 Months): | ₹3,210 |
| Upside (%): | 19% |

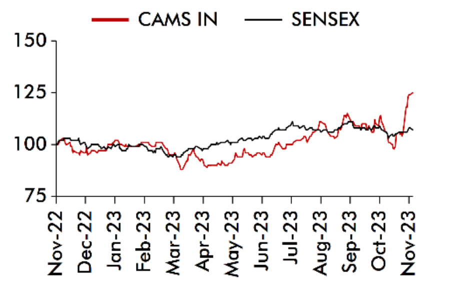
### Flags

| | |
|---|---|
| Accounting: | GREEN |
| Predictability: | AMBER |
| Earnings Momentum: | RED |

### Catalysts

- Margins to ramp up by 200bps by FY25E.
- Demat holding of insurance policies is made compulsory in the next 12 months.

### Performance




*Source: ICE, Ambit Capital Research*

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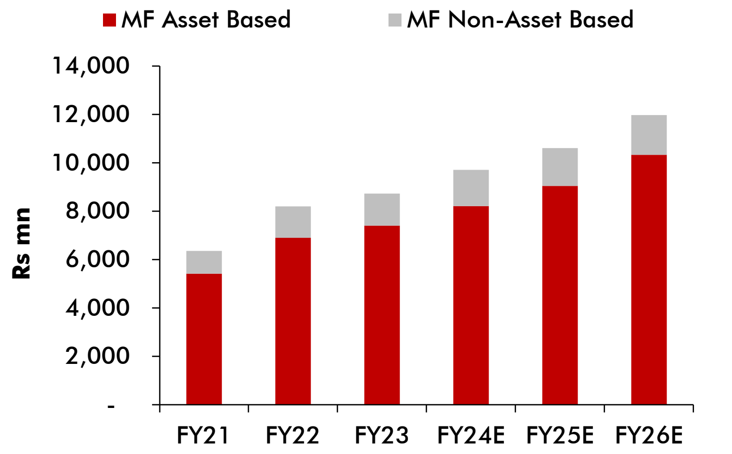
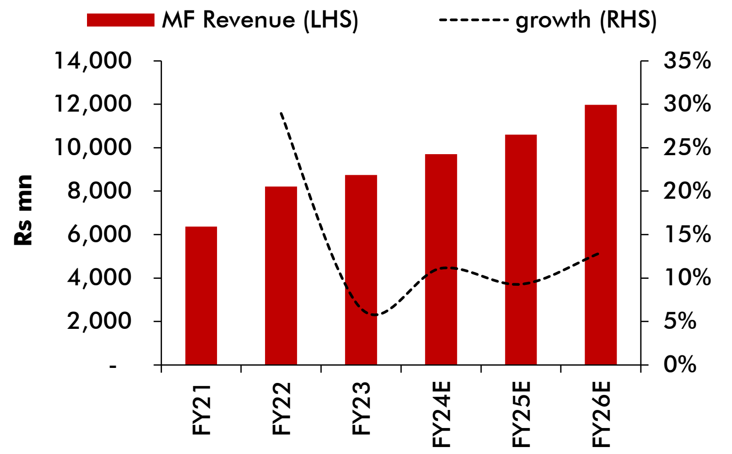
# The Narrative in Charts

**Exhibit 72: CAMS' MF revenues are primarily made up of asset-based revenues**



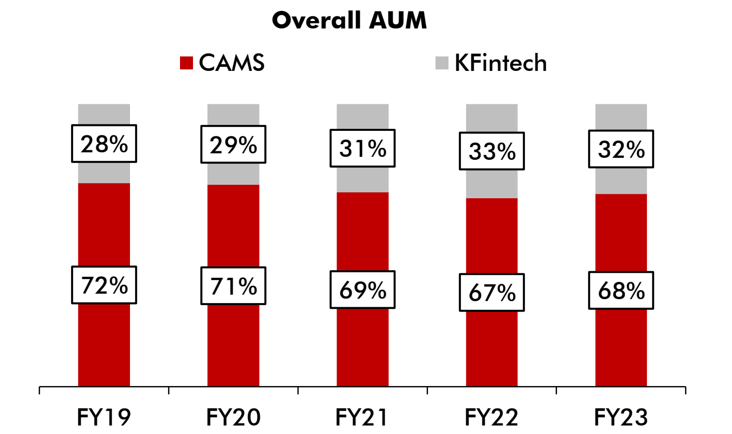

Source: Company, Ambit Capital research

**Exhibit 73: We expect MF revenues to grow at 12% CAGR between FY23-26E**



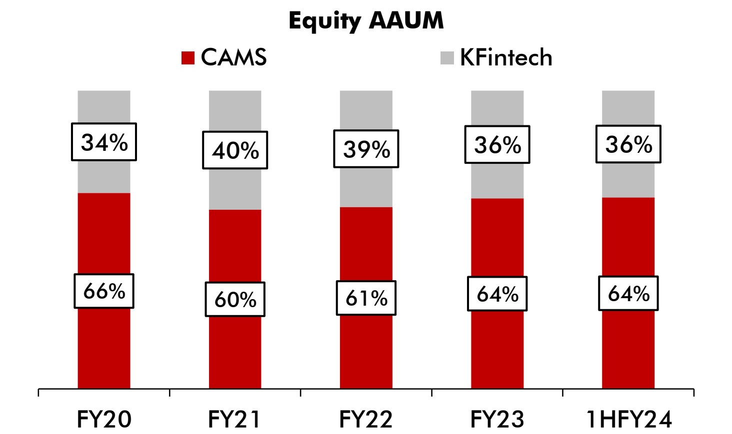

Source: Company, Ambit Capital research

**Exhibit 74: CAMS market share has reduced in recent years as MFs with KFIN have grown faster**



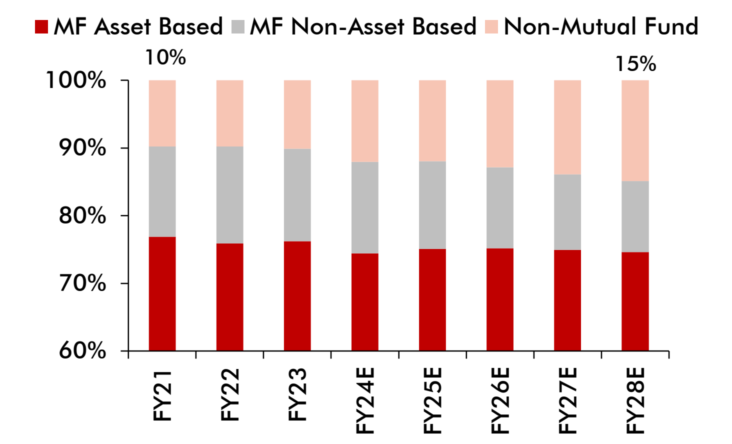

Source: AMFI, Ambit Capital research

**Exhibit 75: Market share of CAMS within equity AAUM has remained fairly stable**



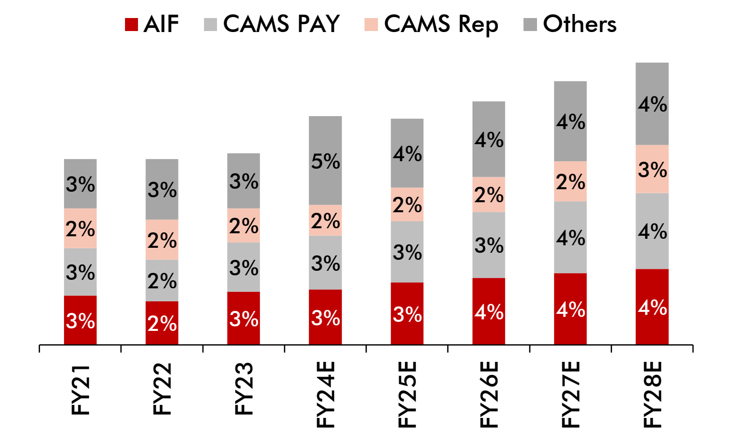

Source: AMFI, Ambit Capital research

**Exhibit 76: We expect the share of non-MF revenue to grow to 15% by FY27E from 10% in FY23**




Source: Company, Ambit Capital research

**Exhibit 77: The non-MF growth will be driven by opportunities in AIF/Account Aggregator/Repository businesses**



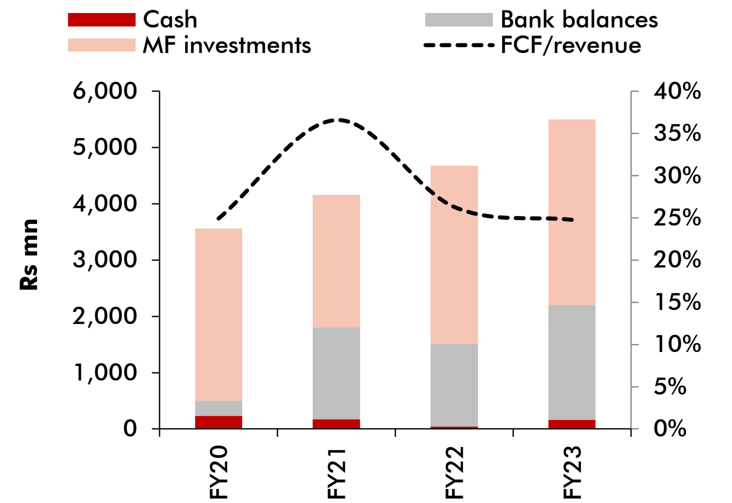

Source: Company, Ambit Capital research

**Exhibit 78: Comparing CAMS different non-mutual fund businesses - We think AIF, aggregator businesses and insurance repository will be key drivers of non-MF growth**

| Non-MF Businesses | AIF | CRA | Account Aggregator | Insurance Repository | KRA | Payments aggregator |
|---|---|---|---|---|---|---|
| Parent/Subsidiary | Parent | Parent | CAMS Financial Information Services Pvt Ltd | CAMS Insurance Repository Services Ltd | CAMS Investor Services Pvt Ltd | CAMS Payment Services |
| Industry stage | Growth | Early | Early | Early | Mature | Growth |
| Market structure | Multi-player market with top 2 players having 60% market share | ▪ Concentrated market with 83% market share in corporate and All Citizen NPS with Protean.<br>▪ KFintech has 17% market share in these categories.<br>▪ In Government employees and APY accounts, Protean is the only CRA.<br>▪ CAMS started operations in Mar'22. | Highly competitive market with 14 players. Further, 3 have received in-principle approval. | A four player market. However, the top 2 players have ~80% market share. NDML, CAMS and CIRL are the key players. | This market has 5 players –<br>▪ NDML<br>▪ CAMS<br>▪ NSE Data & Analytics<br>▪ Karvy Data Management Services Ltd<br>▪ CVL<br>▪ BSE Technologies. | A fragmented market with multiple players. Differentiation based on scale, technology and pricing. There is potential for the market to consolidate over the medium-term. |
| **Revenue** | | | | | | |
| FY23 (₹ mn) | 272 | n.a. | n.a. | 175 | 179 | 253 |
| FY28E (₹ mn) | 690 | 32 | 479 | 438 | 189 | 690 |
| *Revenue contribution* | *4%* | *0.2%* | *3%* | *3%* | *1%* | *4%* |
| Margin | Equally profitable as the MF business | | Loss making due to lack of scale | ~20-25%. Will increase as scale grows as seen in the MF business. | PBT margin of 50%+ | Margins (<40%) lower than company average However, this will improve with scale. |

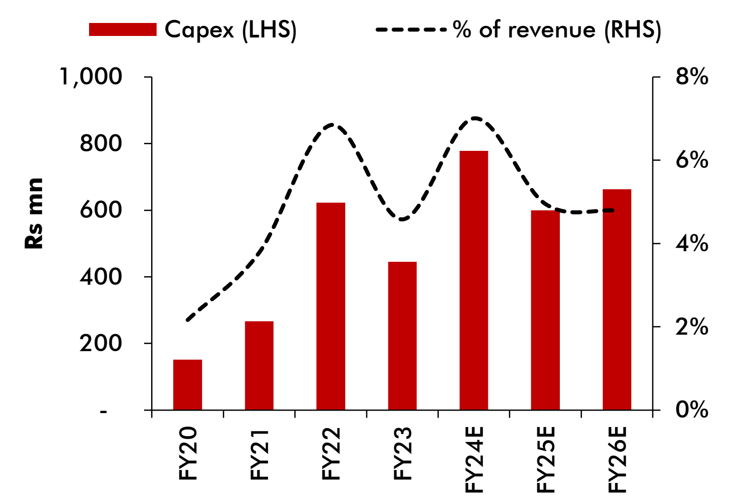
*Source: Ambit Capital research*

**Exhibit 79: MF investments/cash growing at 16% CAGR over the last 3 years driven by FCF generation**




*Source: Company, Ambit Capital research*

**Exhibit 80: Capex requirement is low at 4% of revenue. It has increased in recent years to support new businesses**




*Source: Company, Ambit Capital research*

**Exhibit 81: Summary of our assumptions across 3 stages of DCF; we considered CoE of 13% and 7% terminal growth rate**

| | CAGR | | | Median | | Comments |
|---|---|---|---|---|---|---|
| | Revenue | EBITDA | FCF | EBITDA Margin | ROE | |
| **Stage 1 (FY23-27E)** | 12% | 15% | 20% | 45% | 40% | ▪ Expect revenue CAGR over FY23-FY27E to be driven by:<br>• New businesses growing at 23% CAGR due to opportunities within AIF, account aggregator, payment aggregator and insurance repository businesses.<br>• MF asset based revenues will growth at 11% driven by AUM growth of 16%.<br>▪ Gradual improvement in EBITDA margin driven by leverage from new businesses. |
| **Stage 2 (FY28-44E)** | 12% | 13% | 13% | 51% | 40% | Long-term we expect marginal slowdown in revenue growth due to growth opportunity in new businesses and potential to scale the platform to other businesses. While MF AUM growth will slow, AIFs and wealth management has a longer growth runway. |
| **Stage 3 (FY44 onwards)** | 7% | | | | | This is consistent with India's nominal GDP growth since 2000. |

*Source: Ambit Capital research*

**Exhibit 82: Estimating the implied value of the MF business**

| **₹ bn** | **FY25E Revenue** | **EBITDA Margin** | **FY25E EBITDA** | **EV/EBITDA (x)** | **Value** |
|---|---|---|---|---|---|
| MF business | 10.6 | 47% | 5.0 | 26 | 130 |
| Non-MF business | 1.5 | 30% | 0.5 | 3 | 2 |
| Net debt | | | | | (8) |
| Market cap | | | | | 140 |

*Source: Ambit Capital research*

**Exhibit 83: Sensitivity of valuations to long-term growth and margin expectations**

| **FY23-33E** | **Bear case** | **Base case** | **Bull case** | **Comments** |
|---|---|---|---|---|
| MF revenue growth | 9% | 12% | 13% | **Base case:** AUM CAGR of 16% translating to 12% RTA revenue growth. Non-MF business grows faster at 18% driving higher margins.<br><br>**Bull case:** Both MF and non-MF businesses grow faster. In this scenario, we assume AUM CAGR of 18%. Higher margin expansion driven by operating leverage.<br><br>**Bear case:** Assume a prolonged period of low AUM growth (7% similar to FY08-13). This translates to 5% MF revenue growth. Expect non-MF businesses also struggling to gain scale. |
| Non-MF revenue growth | 14% | 18% | 20% | |
| Median EBITDA margin | 45% | 46% | 47% | |
| **Target Price** | **2,215** | **3,210** | **3,907** | |
| **Implied P/E** | **31** | **43** | **49** | |

*Source: Company, Ambit Capital research*

# A market leader in a duopoly market

**CAMS' RTA journey started with Reliance in 1993. Today the company is the largest MF RTA with a market share of 64% in RTA revenues and 68% in serviced AUM. However, CAMS dominance of the RTA market today is a function of the legacy its founders developed, which focused on: i) building the customers trust as seen during the SBI MF or Birla MF transitions during 2000s, ii) using technology to improve processes which include development of the "handshake" system for SIPs and iii) compliance due to its first MF partner being a foreign AMC. While the company has 4 out of the 5 largest MFs in India, it has been focusing on adding new partners well (4 new partners add between FY21-24.**

## The journey which started with Reliance

CAMS' RTA journey started with Reliance in 1993. While CAMS' handled Chennai and Bangalore operations for Reliance, it had to expand its network of offices to support the IPO boom over 1993-95. The experience of handling IPOs played a key role in CAMS landing its first MF customer in 1995, Alliance Capital, and thus starting CAMS MF RTA journey!

**Exhibit 84: A brief history of CAMS**

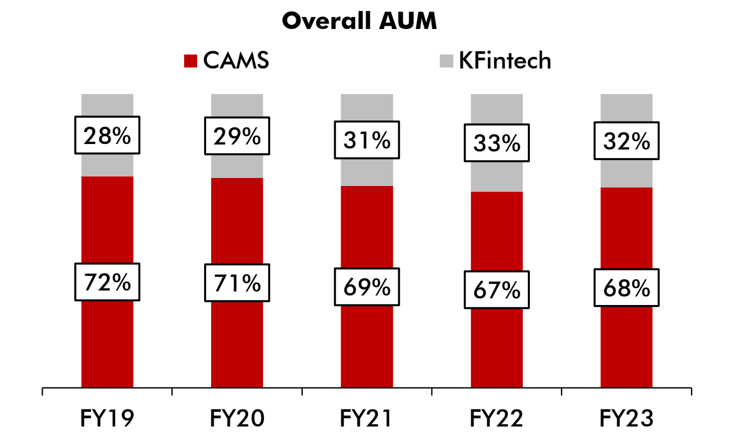
| Date | Event |
|---|---|
| 1988 | CAMS was incorporated |
| 1993-95 | CAMS was registrar of IPOs/capital raise for Reliance, Wockhardt, NEPC Agro, IPCA Laboratories |
| 1995 | CAMS entered into its first MF partnership with MF Capital. |
| 2000 | HDFC Group invested in CAMS |
| Late 2000s | MF industry starting to consolidate which benefitted CAMS |
| 2012 | Launched KRA business |
| 2013 | Launched repository business |
| 2020 | Company gets listed |
| Apr-21 | CAMS WealthServ for AIF/PMS launched |
| Jul-21 | Acquired FT's RTA business |
| Sep-21 | Launched account aggregator activities |
| Mar-22 | Acquired Fintuple |
| Apr-23 | Acquired Think Analytics |

*Source: Company, Ambit Capital research*

### A market leader with partnership across major MFs

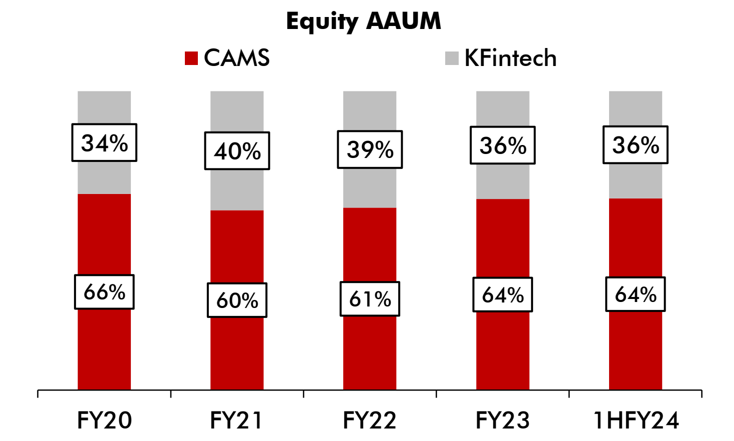
A journey which started with Alliance Capital culminated in CAMS being a market leader in the MF RTA sector. CAMS had a 64% market share within the ₹14bn MF RTA sector (by revenue). This is a function of CAMS' has 68% share within MF AUM serviced due to its partnership with 4 out of the 5 largest Indian MFs. However, CAMS' AUM market share has reduced by 400bps in the last 5 years as CAMS' MF partners have posted 15% CAGR vs 22% CAGR for KFIN over the last 3years. This is because smaller MFs (<₹1trn AUM) grew at a faster pace where CAM's market share is lower vs KFIN. However, within equity AUM, which has higher RTA fees, CAMS' market share was broadly stable.

**Exhibit 85: CAMS market share has reduced in recent years as MFs with KFintech have grown faster**




*Source: AMFI, Ambit Capital research*

**Exhibit 86: Market share of CAMS within equity AAUM has remained fairly stable**




*Source: AMFI, Ambit Capital research*

## What helped CAMS differentiate?

The RTA market today is a duopoly, but when it started in 1990s it was a multi-player market with Indian RTAs competing with MNC banks, which were offering similar services in other geographies. Indian RTAs also partnered with global peers such Kary and Computershare. Despite the competition, CAMS was able to differentiate and win MF customers due to:

**#1: Focus on putting the customer first and building trust**

- CAMS launched **Consolidated Active Statement (CAS)** of all mutual fund investments of an investor that were serviced by the company in 2008. This was an industry first and allowed investors to check the health of their investments without having to visit individual MF websites. This was latter noticed by SEBI and introduced by other RTAs as well.
- **Seamless transition of industry leader SBI MF** from three RTAs to CAMS. In Aug-04, SBI MF transitioned all its data from its three RTAs to CAMS without disruption with CAMS also helping SBI MF transition settlement processes to electronic mode.

**Exhibit 87: Ashok Suvarna's (ex-Senior Vice President & Head-Operations) comment in the book "An Eye for Detail"**

"The initial reaction was turbulent. RTA relationship is like a marriage – lots of expectations on both sides and a breakup can be messy. The team was young and I was leading it. The initial challenge was CAMS trying to keep pace with the changes that were frequent. We were one of the earliest users. We opted not to avail of the services of CAMS offices but made our branches extensions of CAMS. They responded positively and provided the technology to our offices. This was very tough in the implementation stages. It was also a learning experience for CAMS. A level of adaptability had to be there and we as customers kept asking for more. I would have expected a service provider to be more flexible but they would not change and later I found that they brooked no short cuts. But the team was very committed and they were fairly process oriented. They were ahead of their times in terms of influencing the service standards that the industry could offer, in terms of service features – at a time when a request would be honoured ten days later and that was the norm, here was CAMS facilitating a process where a Prudential cheque could be collected within four days across the counter. The customer

*Source: An Eye for Detail*

#2: Technology was not an afterthought for CAMS

Technology has always played a key role in CAMS journey. The company transitioned from a service provider to an IT services company:

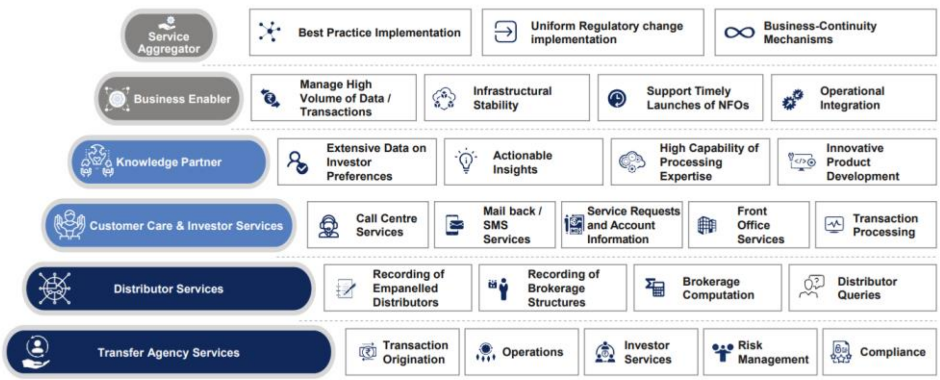
- Transitioned the cheque-based payment system to a scalable electronic system integrated with banking system.
- CAMS partnered with Alliance Capital to create a software platform for MFs in developed markets. While CAMS did not find a taker for its platform, feedback from these customers helped CAMS update the software further.
- Early adoption of technology like DOS to Windows in early 1990s and laser printers for documents helped it win its first mutual fund customer, Alliance Capital.

#3: Created a system compliant with global standards and compliance

CAMS' partnership with Alliance Capital resulted in the RTA developing technology and systems compliant with global standards. This resulted in:

- CAMS sharing information on customers with its AMCs even before SEBI mandated Know Your Customer (KYC) norms in 2008.
- CAMS offered AMCs the capability to mark suspicious transactions. CAMS built a comprehensive STR reporting tool for AMCs.

**Exhibit 88: Services provided by CAMS covers all aspects of MF business**

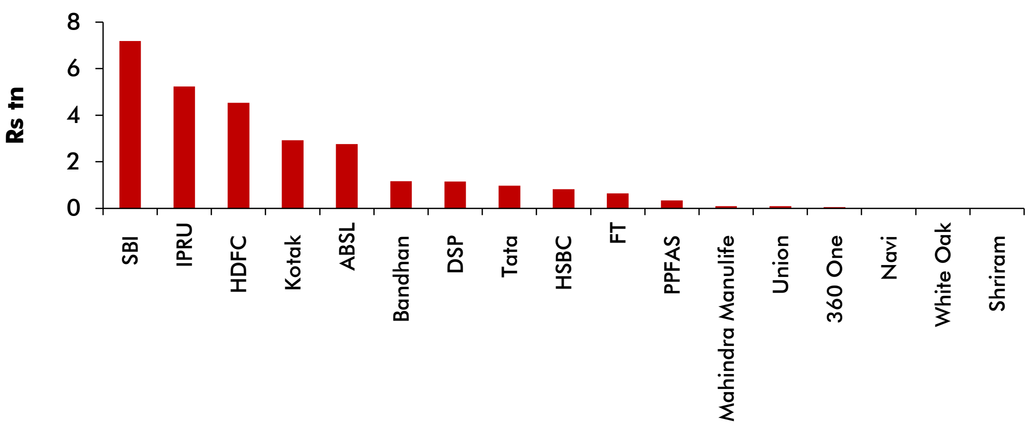



*Source: Company*

## Despite competition CAMS was able to win new MFs

Five MFs contribute 80% of AUM serviced by CAMS. While this is a function of the reliance of major MFs on CAMS, it increased its client concentration risk.

**Exhibit 89: MF AUM serviced by CAMS split by fund; top 5 MFs account for 80% of AUM**




*Source: AMFI, Ambit Capital research*

The company added 4 new MF partners between FY21-24 with the likes of Helios and Zerodha already starting operations. The number of MF partnerships won by CAMS and KFintech has been similar despite increased competition.

**Exhibit 90: New MF partnerships**

| | FY17-20 | FY21-24* |
|---|---|---|
| CAMS | Mahindra Manulife, White Oak | Helios, Zerodha, Angel One, Torus Oro |
| KFintech | ITI, Quant, Frontline Capital | Samco, NJ, Bajaj Finserv |

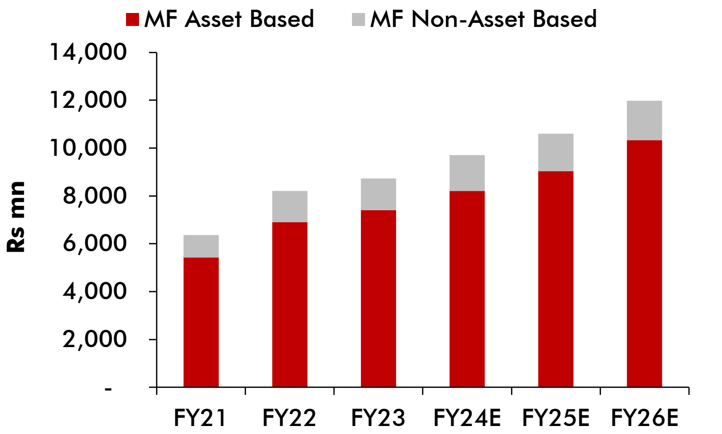
*Source: Company, Ambit Capital research*

## A steady compounder

We expect CAMS to deliver revenue CAGR of 12% over FY23-FY26E driven by:

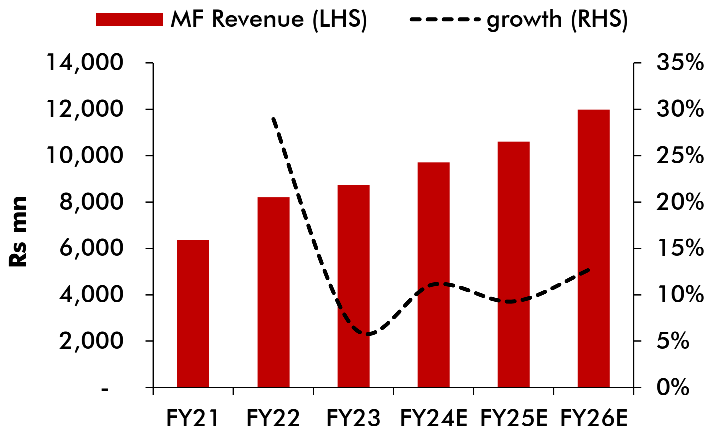
- **MF AUM serviced growing of 17%:** This will be a function of smaller MFs (<₹1bn AUM) growing at 25%, while larger MFs growth at a moderate CAGR of 15%.
- **Increasing share of equities:** The share of equity AUM within the overall AUM to increase to 49% by FY26E driven by higher share of SIPs and retail participation.
- **Telescopic pricing:** MF asset based revenue growth will be slower due to telescopic pricing and increase in index funds offsetting benefits from higher equity AUM.

**Exhibit 91: CAMS' MF revenues are linked to AUM growth**




*Source: Company, Ambit Capital research*

**Exhibit 92: MF revenues to grow at 12% CAGR in FY23-26E**




*Source: Company, Ambit Capital research*

**Exhibit 93: SWOT analysis**

| Strengths | Weaknesses |
|---|---|
| ▪ **Strong partnership with large MFs:** Has partnered with 4 out of the largest MFs in India. This has resulted in the company having a 68% market share in MF AUM.<br>▪ **A large database:** CAMS has an in-house datacentre unlike KFintech which has outsourced this function to third-party. Further, CAMS has 700+TB of RTA data which allows the company to provide data analytic solutions to MFs.<br>▪ **A scalable platform:** The technology tools CAMS has developed for MFs can be scaled to other BFSI products as well, providing the company new growth opportunities. | ▪ **Lower share in faster growing MFs:** Only 4 out of the 10 fastest growing MFs are with CAMS. This has been a function of smaller MFs being with KFIN. This adversely impacts AUM growth and results in lower yields. CAMS has recently won three new MF clients.<br>▪ **High AUM concentration:** Top 5 MFs contribute 80% of the AUM serviced by CAMS. This makes CAMS over reliant on large clients. The company has been building new businesses to diversify its revenue. |
| **Opportunities** | **Threats** |
| ▪ **Non-MF businesses:** These businesses currently contribute only 13% of revenues. We see significant scope for these businesses to sale up over the medium-term and contribute 18-20% of revenues.<br>▪ **New MF relationships:** New MFs have been entering the market driven by increased retail participation and folios. CAMS' ability to win these new clients will drive AUM growth. CAMS has won Zerodha Fund House, Angel One and Toro Oro Mutual Fund recently. | ▪ **TER cuts:** SEBI has been focused on reducing costs for investors to deepen the penetration of MFs in India. A TER cut will adversely impact distributor commissions, which in turn will result in slower AUM growth.<br>▪ **Cyber-attacks:** This can reduce RTAs reliability and compromise sensitive customer resulting in loss in key MF partnerships.<br>▪ **Increased regulation resulting in higher costs.** CAMS is a QRTA and hence subjected to higher compliance. Increase in compliance and regulatory requirements could result in higher costs.<br>▪ **Higher share of exchange traded MFs.** This bypasses RTAs and distributors and hence reduces revenue opportunity for RTAs. |

*Source: Company, Ambit Capital research*

# Expanding into new sectors

**CAMS has developed a technology platform for MFs which includes tools for e-KYC, distribution and salesforce management tools and data analytic solutions. These tools find application in other BFSI products too such as AIF/PMS, lending, insurance. Hence, the company has diversified into multiple adjacent sectors to reduce its reliance on mutual funds. We expect the share of non-MF businesses to increase to 15% by FY27E from 10% in FY23 driven by: i) growing penetration in AIF/PMS, ii) market share gains in CRA, iii) scaling up of the account and payment aggregator platforms and iv) launch of the new insurance repository platform.**

## Expanding the technology platform

Interestingly, the first company founded by V Shankar and Vijayasudha, Swathi Enterprises in late 1980s was not an RTA, but a software firm providing process automation and data processing services. Hence, for CAMS technology was never an afterthought but a part of improving processes and making them more efficient. Over the last 30 years, the company's technology platform has expanded to include tools such as digital on-boarding, e-KYC, distribution and salesforce management tools and data analytic solutions. These tools find application in other BFSI products as well such as AIF, lending, insurance. Resulting in CAMS expanding into adjacent sectors to reduce its reliance on mutual funds. CAMS has also developed Recon Dynamix an industry agnostic platform for transaction and pay-out process reconciliation.

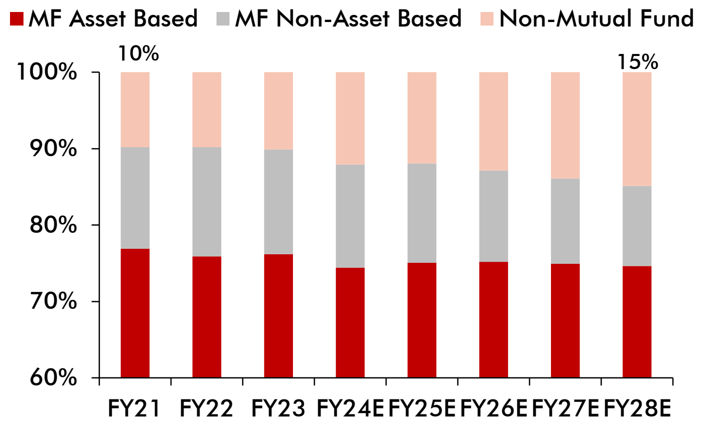
**Exhibit 94: Applications such as digital on-boarding, e-KYC, distributor management tools, data analytics can find use in other BFSI products too**


*Source: Company, Ambit Capital research*

### Reducing reliance on Mutual Funds

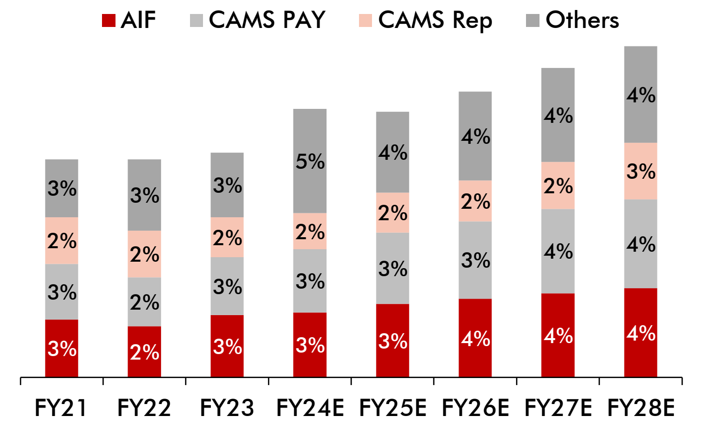
An indirect impact of expanding CAMS' technology platform to other BFSI segments is the increase in non-MF revenues. The share of non-MF business for CAMS is 10% with RTA to AIFs and Payment Aggregator businesses being the key contributors.

**Exhibit 95: We expect the share of non-MF revenue to grow to 15% by FY27E from 10% in FY23**




*Source: Company, Ambit Capital research*

**Exhibit 96: The non-MF growth will be driven by opportunities in AIF/Account Aggregator/Repository businesses**

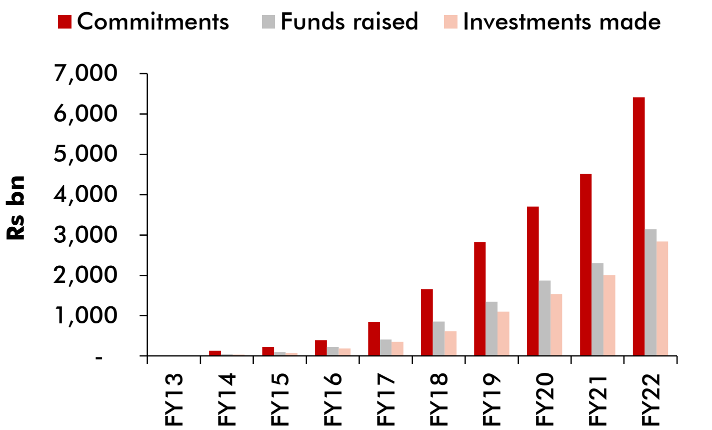



*Source: Company, Ambit Capital research*

We expect non-MF revenues to contribute at least 15% of CAMS revenue by FY27E. This will be driven by:

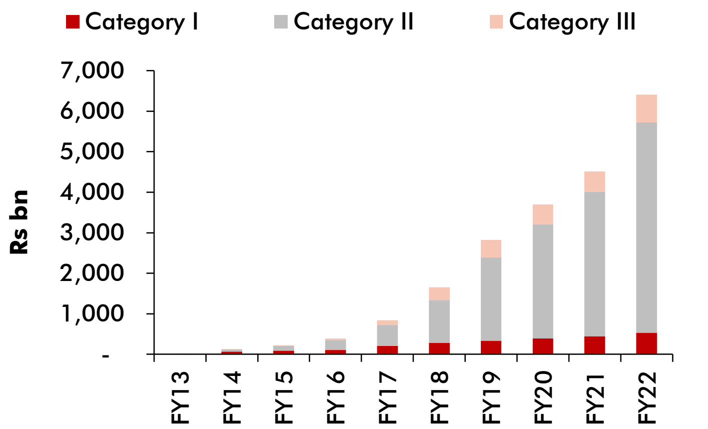
- **Growth in AIF AUM:** The total commitments raised by AIFs in India stood at ₹6tn at the end of FY22. This is 16% of MF AUM outstanding. Investments made by AIF funds is even lower at ₹3tn. Should the entire committed funds be deployed by AIFs over the next 3 years, it would result in doubling of AIF AUM. However, AIF AUM has been growing significantly faster at 47%. The company has launched WealthServ 2.0 for AIF and PMS clients.

**Exhibit 97: Total AIF commitments stood at ₹6tn, 16% of MF AUM**




*Source: SEBI, Ambit Capital research*

**Exhibit 98: Category II AIF accounts for 80% of the total commitments; this includes real estate and PE funds**




*Source: SEBI, Ambit Capital research*

- **Launch of new insurance repository platform:** Currently, majority of the business comes from persistency improvement services. CAMS has launched a new platform for its insurance repository business "Bima Central". A key catalyst for this business will be introduction of compulsory demat for insurance policies. However, we see the business scaling up even without the regulatory intervention given the new platform allows customers access all their policies at one place, check maturity and surrender values without external support and raise service queries.
- **Scaling up of new businesses such as Account Aggregator:** Currently, 100 banks/NBFCs registered with account aggregators and 4 million account holders have registered. A small fraction compared to the 94mn personal loan accounts, 75mn credit cards or 80% of the adult population with bank account. We see penetration of account aggregator services increase over the next decade driven by use cases in loan underwriting, insurance and wealth management. CAMS' recently acquired subsidiary, Think Analytics, could provide value-added services to lenders and NBFCs. However, unlike RTAs this is a multi-player market with significant competition.

## Lower margins but scale up of businesses will help

The non-MF business has a lower EBITDA margin (~30%) compared to the overall company (44%) as businesses such as account aggregator, insurance repository and CRA are sub-scale. However, more mature businesses such as AIF and KRA (50%+ PBT margin) and Payment Aggregator have EBITDA margin similar to the overall business. Therefore, as businesses in early stages of the life cycle grow, it will result in improvement in margins.

**Exhibit 99: Comparing CAMS different non-mutual fund businesses; we think AIF, aggregator businesses and insurance repository will be key drivers of non-MF growth**

| Non-MF Businesses | AIF | CRA | Account Aggregator | Insurance Repository | KRA | Payments aggregator |
|---|---|---|---|---|---|---|
| Parent/Subsidiary | Parent | Parent | CAMS Financial Information Services Pvt Ltd | CAMS Insurance Repository Services Ltd | CAMS Investor Services Pvt Ltd | CAMS Payment Services |
| Industry stage | Growth | Early | Early | Early | Mature | Growth |
| Market structure | Multi-player market with top 2 players having 60% market share | ▪ Concentrated market with 83% market share in corporate and All Citizen NPS with Protean.<br>▪ KFintech has 17% market share in these categories.<br>▪ In Government employees and APY accounts, Protean is the only CRA.<br>▪ CAMS started operations in Mar'22. | Highly competitive market with 14 players. Further, 3 have received in-principle approval. | A four player market. However, the top 2 players have ~80% market share. NDML, CAMS and CIRL are the key players. | This market has 5 players –<br>▪ NDML<br>▪ CAMS<br>▪ NSE Data & Analytics<br>▪ Karvy Data Management Services Ltd<br>▪ CVL<br>▪ BSE Technologies. | A fragmented market with multiple players. Differentiation based on scale, technology and pricing. There is potential for the market to consolidate over the medium-term. |
| **Revenue** | | | | | | |
| FY23 (₹ mn) | 272 | n.a. | n.a. | 175 | 179 | 253 |
| FY28E (₹ mn) | 690 | 30 | 280 | 440 | 190 | 690 |
| *Revenue contribution* | *4%* | *0.2%* | *3%* | *3%* | *1%* | *4%* |
| Margin | Equal/slightly lower margins than the MF RTA business | Loss making due to lack of scale | Loss making due to lack of scale | ~20-25%. Will increase as scale grows as seen in the MF business. | PBT margin of 50%+ | Margins (<40%) lower than company average However, this will improve with scale. |

*Source: Ambit Capital research*

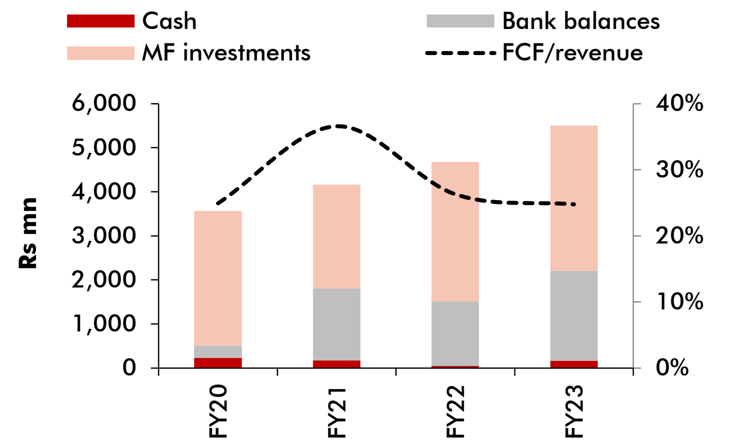
# Balance sheet can support inorganic opportunities in new businesses

**CAMS has been accruing cash and investments at 16% CAGR over the last 3 years, resulting in ₹5bn in cash and investment assets. This combined with nil borrowing positions the company well to pursue inorganic acquisition to further expand its new businesses. CAMS has acquired two businesses in the last 3 years – Fintuple and Think Analytics. These businesses allowed the company to add digital on-boarding features for AIF/PMS customers and add analytical solution for its account aggregator platform. Further, the strong balance sheet and low capex requirements (4% of revenue) allow the company to have a target payout ratio of 65%.**

## A strong balance sheet

CAMS balance sheet comprises of ₹5bn of cash, bank balances and mutual fund investments (ex ₹674mn in escrow account). CAMS cash and investments have been growing at 16% CAGR over the last 3 years. The company has no debt; its major financial liability include lease payments. This allowed CAMS to pursue strategic acquisitions such as Fintuple and Think Analytics over the last two years to strengthen its product offering in AIF/PMS and account aggregators.

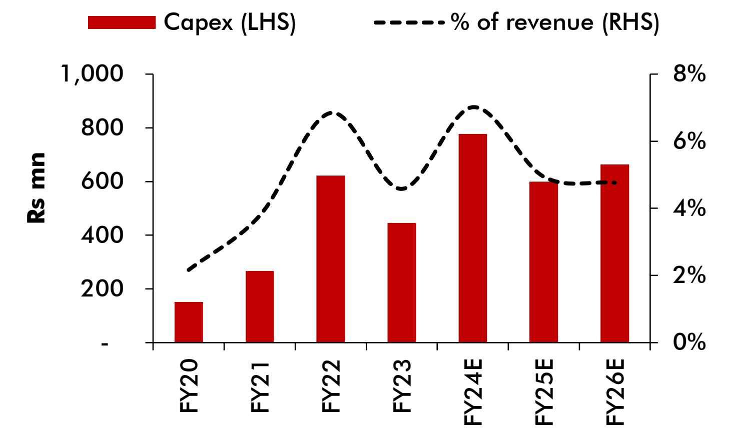
**Exhibit 100: MF investments/cash growing at 16% CAGR over the last 3 years driven by FCF generation**




*Source: Company, Ambit Capital research.*

*Note: Includes ₹674mn in escrow related to unclaimed dividend payable.*

**Exhibit 101: Capex requirement is low at 4% of revenue. It has increased in recent years to support new businesses**




*Source: Company, Ambit Capital research*

**Exhibit 102: CAMS has made two strategic acquisition in recent years**

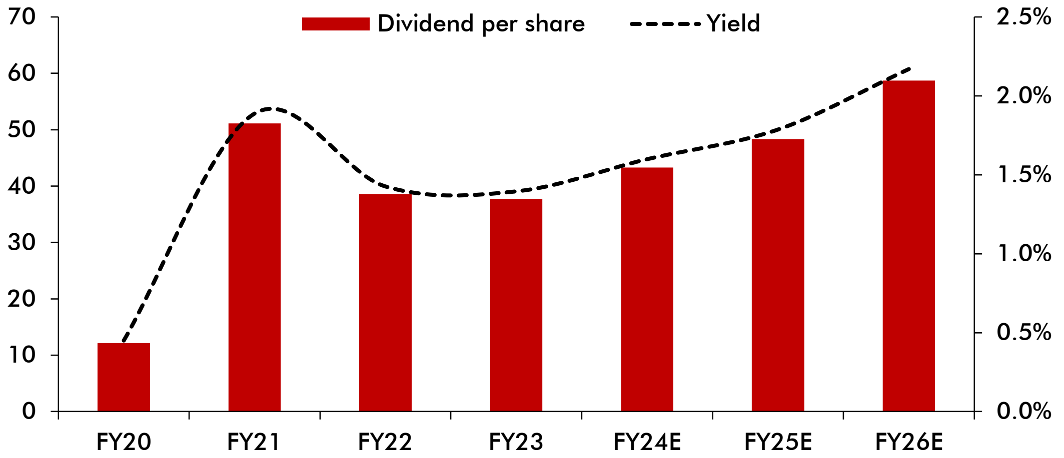
| Acquisition | Date | Stake | Consideration | Expertise |
|---|---|---|---|---|
| Think Analytics | Apr-23 | 55.4% acquired in First Tranche. Expected to acquire enter 100%. | First tranche: ₹456mn | ▪ Provides SaaS based products<br>• Kwik.ID provides a digital on boarding and KYC platform for banks.<br>• Algo 360 is an AI powered credit scoring solution with 80mn customer profiles.<br>• Amaze provides analytic solutions to FIUs. |
| Fintuple | Apr-22 | 54% stake | ₹112mn | Fintuple is a provider of digital on boarding services for AIF and PMS investors. |

*Source: Company, Ambit Capital research*

## Strong balance sheet + low capex = high dividend payout

CAMS' capital requirements have been low (~4% of revenues) and typically includes spend on computer technology and software. The company increased spend on PP&E and software over FY22/FY23 to support growth in non-MF businesses. However, with CRA services (Mar'22) and CAMS Insurance Repository product ("Bima Central") also launched, we think the need for spend on technology and software will reduce in the short term. High FCF conversion, nil borrowings and low capital requirements has allowed CAMS to distribute 65% of its profits as dividend. This results in the company offering a dividend yield of 1.7-2%.

**Exhibit 103: CAMS has paid out 65% of its profits as dividend**




*Source: Company, Ambit Capital research*

# Advantages are not being appreciated by the market

**CAMS is a combination of a mature business, in the mutual fund RTA business, and a number of upcoming new businesses including AIF/PMS RTA, insurance repository, account and payment aggregators, KRA and CRA, which will drive revenue CAGR of 12% over FY23-27E. Should we assume the mature MF business is trading in line with other capital peers, the implied EV/EBITDA multiple for non-MF business is 3x. This seems low given: i) several businesses already generate ₹200-250mn revenues, ii) high profitability in AIF RTA/KRA and iii) cross-sell opportunities.**

**Ramp-up of non-MF businesses to drive revenue growth and operating leverage**

We expect CAMS to deliver revenue CAGR of 12% over FY23-FY27E driven by:

- **MF AUM serviced growing of 17%.** This will be a function of smaller MFs (<₹1bn AUM) growing at 20-25%, while larger MFs growth at a moderate CAGR of 14-15%. However, MF asset-based revenue growth will be slower at 12% due to telescopic pricing and increase in share of index funds offsetting benefits from higher equity AUM.
- **Non-MF businesses scaling up:** We expect non-MF businesses to grow at 21% over FY23-27E. This will be a function of: i) new product launch in insurance repository business, ii) increase in penetration and higher allocation towards AIFs, iii) increased adoption of account aggregator and payment aggregator platforms, and iv) market share gains in CRA.

CAMS' operating costs have grown at 16% CAGR over FY21-23 due to investments in non-MF businesses and higher salary cost pressure. We expect investment in non-MF businesses is largely over with most businesses evolving from product development to growth phase. Hence, going forward as these businesses gain scale it would result in margin improvement. We forecast EBITDA margin of 46.5% in FY26E.

**Exhibit 104: Summary of our assumptions across 3 stages of DCF; we consider CoE of 13% and 7% terminal growth rate**

| | CAGR | | | Median | | Comments |
|---|---|---|---|---|---|---|
| | Revenue | EBITDA | FCF | EBITDA Margin | ROE | |
| **Stage 1 (FY23-27E)** | 12% | 15% | 20% | 45% | 40% | ▪ Expect revenue CAGR over FY23-FY27E to be driven by:<br>• New businesses growing at 23% CAGR due to opportunities within AIF, account aggregator, payment aggregator and insurance repository businesses.<br>• MF asset based revenues will growth at 11% driven by AUM growth of 16%.<br>▪ Gradual improvement in EBITDA margin driven by leverage from new businesses. |
| **Stage 2 (FY28-44E)** | 12% | 13% | 13% | 51% | 40% | Long-term we expect marginal slowdown in revenue growth due to growth opportunity in new businesses and potential to scale the platform to other businesses. While MF AUM growth will slow, AIFs and wealth management has a longer growth runway. |
| **Stage 3 (FY44 onwards)** | 7% | | | | | This is consistent with India's nominal GDP growth since 2000. |

*Source: Ambit Capital research*

**Exhibit 105: Key near-term assumptions – Expect revenue growth to be driven by non-MF businesses and new MF partners; margins will benefit from growing scale in the non-MF businesses**

| Assumptions | FY22 | FY23 | FY24E | FY25E | FY26E | Comments |
|---|---|---|---|---|---|---|
| **MF asset based business** | | | | | | |
| *AUM growth* | 16% | 8% | 18% | 13% | 18% | Currently, MFs with ₹1bn+ AUM accounts for 88% of the AUM serviced by CAMS. We expect larger MFs to grow AUM at 14-15% over the next decade compared to 20-25% growth for smaller MFs. For the industry we expect an AUM growth of 17%. |
| *Share of equity AUM* | 39% | 46% | 47% | 48% | 49% | We expect share of equity AUM to grow as retail investors and SIP share in the AUM increases. |
| *RTA fees* | 0.027% | 0.026% | 0.025% | 0.024% | 0.023% | Assuming a decline in RTA fees due to telescopic pricing and higher share of index funds. |
| **MF non-asset based business** | 39% | 2% | 12% | 5% | 5% | Lower paper based transactions being offset by growth in platforms such as MF Central. |
| **Non-MF business** | | | | | | |
| *AIF* | | 30% | 19% | 23% | 22% | Expect AIF AUM growth to be driven by greater penetration of the product, higher allocation and new funds being launched. |
| *CAMS PAY* | | 26% | 24% | 24% | 23% | The payment aggregator business will be driven by higher share of transactions processed as CAMS on board new partners and overall share of BFSI transactions increase. |
| *CAMS Rep* | | -8% | 2% | 20% | 18% | A new product "Bima Central" has been launched. We expect this business to be driven by introduction of compulsory holding of insurance policies in demat form. |
| *Account aggregator* | | n.a. | n.a. | 25% | 35% | This will be driven by on boarding of financial information providers (FIP) and financial information users (FIU). There is significant scope to provide value added analytics services to FIUs. |
| *Others* | | -3% | 47% | -25% | 22% | We expect market share of CAMS to increase in CRA driven by features such as multiple KYC options and partnership with top 6 PoPs. |
| **Cost** | | | | | | |
| *Employee* | 17% | 12% | 12% | 7% | 12% | CAMS made investment in employees and software over FY22 and FY23 to support the new businesses. This investment is now over with employee costs stabilizing. We expect scale benefits to emerge over FY25-27E as the new businesses grow in size. |
| *Software* | 30% | 44% | 13% | 3% | 8% | |
| *Others* | 20% | 12% | 13% | 6% | 11% | |
| D&A to gross block | 12% | 12% | 11% | 11% | 10% | |
| Capex to gross block | 19% | 15% | 12% | 8% | 9% | Assuming investment in computers will slow following investment over FY22/23. Also, not assuming any significant investment to develop software. |
| Finance cost to leases | 9% | 9% | 9% | 9% | 9% | Leases are typically of 5-7 years. Hence, assumed rates will not change during this period. |
| Dividend payout | 66% | 64% | 65% | 65% | 65% | Consistent with the company's dividend pay-out policy |
| **Outputs (₹ mn)** | **FY22** | **FY23** | **FY24E** | **FY25E** | **FY26E** | |
| Revenue | 9,097 | 9,718 | 11,039 | 12,046 | 13,745 | |
| EBITDA | 4,242 | 4,213 | 4,853 | 5,448 | 6,387 | |
| EBIT | 3,726 | 3,610 | 4,127 | 4,655 | 5,610 | |
| Other income | 173 | 268 | 275 | 334 | 413 | |
| Finance cost | 71 | 76 | 84 | 164 | 163 | |
| Net Profit | 2,871 | 2,847 | 3,233 | 3,613 | 4,387 | |
| EPS (₹) | 58 | 58 | 66 | 74 | 90 | |
| DPS (₹) | 39 | 38 | 43 | 48 | 59 | |
| **Key metrics** | **FY22** | **FY23** | **FY24E** | **FY25E** | **FY26E** | |
| Non-MF as a percentage of total revenue | 9.8% | 10.1% | 12.1% | 11.9% | 12.8% | |
| EBITDA Margin | 46.6% | 43.3% | 44.0% | 45.2% | 46.5% | |
| ROE | 49% | 40% | 39% | 38% | 40% | |

*Source: Company, Ambit Capital research*

# Market is attributing minimal value for new businesses

We assume the mature MF business is trading in line with FY25 EV/EBITDA of other capital peers (27x). This implies no value is being attributed to the non-MF businesses, which seems unfair given: i) businesses such as AIF, Payment Aggregator and KRA are already generating ₹200-250mn in revenues, ii) profitability of businesses such as AIF RTA is similar to the MF RTA business, while businesses such as KRA have even higher margins and iii) cross-sell opportunities within businesses (example: analytical solutions within account aggregator framework can be used by AIF/wealth managers to better target customers and by insurers to better underwrite policies).

**Exhibit 106: Estimating the implied value of the MF business**

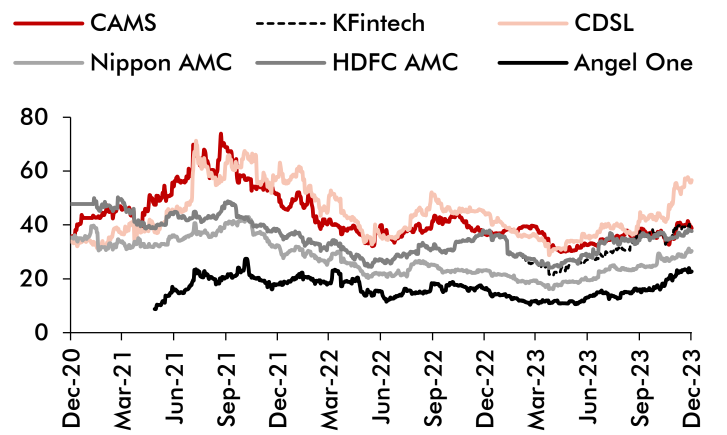
| ₹ bn | FY25E Revenue | EBITDA Margin | FY25E EBITDA | EV/EBITDA (x) | Value |
|---|---|---|---|---|---|
| MF business | 10.6 | 47% | 5.0 | 27 | 135 |
| Non-MF business | 1.5 | 30% | 0.4 | - | (12) |
| Net debt | | | | | (8) |
| Market cap | | | | | 131 |

*Source: Ambit Capital research*

**Exhibit 107: CAMS' trading at 37x 1year forward EPS**


*Source: Bloomberg, Ambit Capital research*

**Exhibit 108: CAMS is trading at a 20% premium to capital market peers**




*Source: Bloomberg, Ambit Capital research*

**Exhibit 109: Comparing RTAs with other capital market players**

| Companies | Mkt Cap | Revenue growth | | | EBIT Margin | | | ROE | | | P/E | | | EV/EBITDA | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | USD mn | FY24E | FY25E | FY26E | FY24E | FY25E | FY26E | FY24E | FY25E | FY26E | FY24E | FY25E | FY26E | FY24E | FY25E | FY26E |
| Nippon AMC | 3,310 | (8.6) | 11.8 | 12.1 | 55.0 | 50.0 | 54.8 | 21.1 | 25.8 | 27.7 | 36.4 | 30.0 | 26.9 | 31.6 | 29.3 | 23.9 |
| HDFC AMC | 7,565 | (19.3) | 13.5 | 13.0 | 70.7 | 73.0 | 72.0 | 24.6 | 27.1 | 28.1 | 44.9 | 37.3 | 33.1 | 37.4 | 31.9 | 27.2 |
| UTI AMC | 1,174 | (3.8) | 8.2 | 4.8 | 39.8 | 43.9 | 44.7 | 13.3 | 16.3 | 14.6 | 21.6 | 16.7 | 17.1 | 20.3 | | 15.1 |
| ABSL AMC | 1,563 | (13.9) | 3.9 | 8.2 | 56.2 | 56.6 | 56.2 | 25.9 | 25.9 | 24.4 | 21.6 | 19.1 | 18.1 | 17.2 | 17.5 | 15.6 |
| CDSL | 2,416 | (15.2) | 24.0 | 17.5 | 57.8 | 54.4 | 55.0 | 24.0 | 26.7 | 27.9 | 67.7 | 55.8 | 47.5 | 57.6 | 48.7 | 41.2 |
| Angel One | 2,992 | 10.5 | 15.7 | 22.5 | 42.9 | 43.0 | 39.2 | 42.4 | 38.0 | 33.9 | 22.5 | 19.2 | 17.0 | 13.7 | 11.7 | 10.2 |
| 360 One | 2,591 | (14.4) | 17.3 | 16.5 | 49.9 | 35.7 | 47.8 | 22.7 | 25.2 | 26.6 | 31.6 | 26.7 | 23.6 | 30.1 | 24.3 | 20.8 |
| **Average** | | **(9.3)** | **13.5** | **13.5** | **53.2** | **50.9** | **52.8** | **24.9** | **26.4** | **26.2** | **35.2** | **29.2** | **26.2** | **29.7** | **27.2** | **22.0** |
| CAMS | 1,706 | 13.3 | 9.4 | 13.2 | 37.4 | 38.6 | 40.8 | 38.4 | 37.7 | 39.6 | 40.9 | 36.6 | 30.1 | 27.1 | 24.1 | 20.7 |
| KFIN | 1,097 | 14.1 | 11.3 | 14.7 | 36.6 | 37.1 | 38.0 | 23.3 | 21.6 | 22.0 | 38.6 | 34.3 | 29.0 | 23.3 | 20.6 | 17.7 |

*Source: Bloomberg, Ambit Capital research*

Our DCF valuation gives a target price of ₹3,210, implying 43x FY25 EPS. We have taken a cost of equity of 13% and a terminal growth rate of 7%.

**Exhibit 110: Sensitivity of valuations to long-term growth and margin expectations**

| FY23-33E | Bear case | Base case | Bull case | Comments |
|---|---|---|---|---|
| MF revenue growth | 9% | 12% | 13% | **Base case:** AUM CAGR of 16% translating to 12% RTA revenue growth. Non-MF business grows faster at 18% driving higher margins.<br><br>**Bull case:** Both MF and non-MF businesses grow faster. In this scenario, we assume AUM CAGR of 18%. Higher margin expansion driven by operating leverage.<br><br>**Bear case:** Assume a prolonged period of low AUM growth (7% similar to FY08-13). This translates to 5% MF revenue growth. Expect non-MF businesses also struggling to gain scale. |
| Non-MF revenue growth | 14% | 18% | 20% | |
| Median EBITDA margin | 45.0% | 46.4% | 47.4% | |
| **Target Price** | **2,215** | **3,210** | **3,907** | |
| **Implied P/E** | **31** | **43** | **49** | |

*Source: Company, Ambit Capital research*

**Exhibit 111: Key building blocks in our valuation**

| **Assumptions** | |
|---|---|
| COE | 13% |
| Terminal growth | 7% |
| Total FCFF (₹ bn) | 69 |
| Terminal Value (₹ bn) | 706 |
| PV of Terminal Value (₹ bn) | 61 |
| Net debt (₹ bn) | (8) |
| 1 year forward valuation (₹ bn) | 156 |
| No. of shares (mn) | 49 |
| **Value per share (₹)** | 3,210 |
| CMP (₹) | 2,706 |
| Share price upside | 18.6% |
| Dividend yield | 1.5% |
| TSR | 20.1% |
| Implied PE | 43.2 |
| Current P/E | 36.6 |

*Source: Ambit Capital research*

# Board & Management

The board consists of 3 independent and 4 non-independent directors. The independent directors bring to the board insurance, accounting and management experience.

**Exhibit 112: Board of directors**

| Name | Position | Independent? | Has been a director since? | Director in other listed entities |
|---|---|---|---|---|
| Mr Dinesh Kumar Mehrotra | Chairman | Yes | Dec-19 | 3 |
| Natarajan Srinivasan | Director | Yes | Dec-19 | 2 |
| Vijayalakshmi Iyer | Director | Yes | Dec-19 | 5 |
| Narendra Ostawal | Nominee Director | No | | 2 |
| Vedanthachari Rangan | Director | No | | 2 |
| Anuj Kumar | Managing Director | No | Nov-18 | |
| Sandeep Kagzi | Nominee Director | No | | 2 |

*Source: Company, Ambit Capital research*

CAMS has added more technological expertise in its key management personnel over the last few years. While the CEO is with CAMS since 2016, COO and business heads of insurance repository, CRA and payment aggregator platform joined recently. Both COO and Chief Platform Officer bring to CAMS significant IT expertise. This, in our view, will be useful and the company expands into new BFSI segments, where its role will be solely of a technology provider.

**Exhibit 113: Overview of key management personnel**

| Name | Position | Has been with the company since? | Experience |
|---|---|---|---|
| Anuj Kumar | Managing Director | Mar-16 | 25 years of experience with Godrej & Boyce, Esscorts Finance, BillJunction Payments, IBM. |
| Ram Charan Sesharaman | CFO | Mar-20 | 22 years of experience in TVS, SSI, Lason India and Reliance Jio. A Chartered Accountant by profession. |
| Syed Hassan | COO | Mar-22 | Has been associated with DXC technology, Britannia and Unilever in various capabilities including global delivery, IT and supply chain for the last 26 years. |
| Ravi Kethana | Chief Platform Officer | Dec-19 | Experience in IT with TCS and Wipro. He has been in the IT sector for 29 years. |
| Vasath Jeyapaul | CEO - CAMS PAY | Oct-17 | 20 years of experience with Bennett, Coleman & Co, Financial Software & Systems |
| Vivek Bengani | CEO - CAMSRep | Mar-22 | Previously associated with Edelweiss Tokio Life, Exide Life. |
| Prasenjit Mukherjee | CAMS - CRA | Apr-22 | Previously associated with Protean |
| Tejinder Manchanda | CAMS - Finserv | Feb-22 | 25 years of experience with HFCL, ABN Amro Bank, Bill Junction Payments, Airtel and ICICI Bank. |

*Source: Company, Ambit Capital research*

# Catalysts & risks

**Risks**

- **MF TER are reduced:** As discussed in the thematic, TER cuts are a key risk. In our view, it is a bigger risk to AUM growth as compared to RTA fees. This is predicated on commissions being a larger part of MFs' expenses and playing a key role in distributors pushing MFs as an investment product. Hence, a decline in commissions can adversely impact AUM growth.
- **Higher share of index funds:** We expect the share of equity AUM within CAMS' overall AUM to increase to 56% from 46% currently. However, instead of managed equity funds, should investors prefer index funds then it could adversely impact CAMS' yields given index funds have lower TER.
- **Cyber-attacks:** MFs depend on technology platforms provided by RTAs for onboarding investors, compliance, transactions and data analytics. Further, CAMS' operates its own datacenter. Hence, any disruption in the infrastructure or loss of data to ransomware can adversely impact the reliability of a RTA.
- **New business opportunities fail to scale up:** We expect new businesses to grow at 19% CAGR over the next decade and account for 18% of CAMS' revenues by FY33E. However, should new businesses such as insurance repository and account aggregator fail to scale up, it could result in lower revenue growth and earnings.

**Catalysts**

- **Margins improve 200bps by FY25E:** We expect margins to improve by 200bps to 45.3% by FY25 driven by the expansion of new businesses and reduced investment intensity in them.
- **IRDA makes holding policies in demat form mandatory:** Insurance repository business currently contributes 1% of CAMS' revenue. The company launched a new app "Bima Central" to grow this business. A key catalyst for this business could be IRDA making holding insurance policies in demat format mandatory. This would increase the demand for eIA accounts and in turn benefit repositories such as CAMS.

**Exhibit 114: Explanation of our flags on the cover page**

| Segment | Flag | Comments |
|---|---|---|
| **Accounting** | **GREEN** | We do not find anything unusual in the company's accounting policies and believe reported numbers are a true reflection of performance. |
| **Predictability** | **AMBER** | Earnings can be cyclical given ~80% of revenues are asset based, which can be adversely impacted during economic downturn. |
| **Earnings momentum** | **RED** | Consensus has cut FY25E/FY26E EPS by 2-4%. |

*Source: Ambit Capital research*

# Financials - Consolidated

### Income statement

| Year to March (₹ mn) | FY22 | FY23 | FY24E | FY25E | FY26E |
|---|---|---|---|---|---|
| Income from operations | 9,097 | 9,718 | 11,039 | 12,046 | 13,745 |
| **Total Income** | **4,855** | **5,506** | **6,186** | **6,598** | **7,358** |
| EBITDA | 4,242 | 4,213 | 4,853 | 5,448 | 6,387 |
| EBIT | 3,726 | 3,610 | 4,127 | 4,655 | 5,610 |
| PBT | 3,827 | 3,802 | 4,318 | 4,825 | 5,859 |
| Tax expenses | 957 | 956 | 1,085 | 1,213 | 1,472 |
| **PAT** | **2,871** | **2,847** | **3,233** | **3,613** | **4,387** |

*Source: Ambit Capital research, Company*

### Balance sheet

| Year to March (₹ mn) | FY22 | FY23 | FY24E | FY25E | FY26E |
|---|---|---|---|---|---|
| Non-current assets | 3,387 | 3,672 | 4,583 | 4,323 | 4,225 |
| Current assets | 6,183 | 7,304 | 8,535 | 10,150 | 11,927 |
| **Total assets** | **9,571** | **10,976** | **13,118** | **14,474** | **16,152** |
| Equity | 6,476 | 7,825 | 8,958 | 10,223 | 11,758 |
| Non-current financial liabilities | 1,355 | 1,469 | 1,428 | 1,441 | 1,457 |
| Current financial liabilities | 1,740 | 1,682 | 1,041 | 1,067 | 1,118 |
| **Total liabilities and equity** | **9,571** | **10,976** | **13,118** | **14,474** | **16,152** |

*Source: Ambit Capital research, Company*

### Ratio analysis

| Year to March (₹ mn) | FY22 | FY23 | FY24E | FY25E | FY26E |
|---|---|---|---|---|---|
| EBITDA margin (%) | 46.6% | 43.3% | 44.0% | 45.2% | 46.5% |
| ROE (%) | 49.3% | 39.8% | 38.5% | 37.7% | 39.9% |
| Dividend payout (%) | 65.7% | 64.3% | 65.0% | 65.0% | 65.0% |
| EPS | 58.4 | 58.4 | 66.2 | 74.0 | 89.8 |
| DPS | 38.6 | 37.8 | 43.3 | 48.3 | 58.7 |

*Source: Ambit Capital research, Company*

KFIN Tech

BUY

INITIATING COVERAGE | KFINTECH IN EQUITY | December 12, 2023

# Best of both Worlds - equities & MFs

**KFIN has a strong position in both MF RTA and Issuer RTA markets. This places it well to benefit from tailwinds in capital markets as well as MFs. We see KFIN's international business at an inflexion point with the company's marquee customers and full product suite helping it win a major MF client in SE Asia. KFIN's experience in SE Asia could allow it to expand into larger international markets like Europe/US where RTA/IT expense for AMCs is significantly higher than in India. We estimate expansion into Europe/US could expand KFIN's TAM by 8x. A strong balance sheet positions KFIN well to pursue inorganic opportunities in Issuer RTA business and expand into new geographies. Our DCF valuation provides a TP of ₹665, implying 44x FY25E EPS. Key risks: Loss of major MF client, cyber-attacks and regulatory changes.**

Competitive position: STRONG    Changes to this position: STABLE

### Relationship with distributor MFs results in higher yields

KFIN is servicing MF AUM of ₹15tn, which is growing faster (3-year CAGR, 21%) than peer CAMS (15%). This is because KFIN has smaller MF partners, noting 17 of its MFs have less than ₹1bn in AUM vs CAMS' 9 MFs. KFIN has a strong relationship with distributor-led MFs, resulting in a higher share of equities within its serviced AUM. Hence, KFIN has better yields compared to CAMS.

### There is opportunity to expand beyond SE Asia

We expect international business revenue growth to accelerate from here till FY27E (CAGR of 13%) driven by: i) KFIN's relationship with marquee clients (Eastspring, Nomura, Aberdeen) helping it win major AMCs as new clients, and ii) cross-sell of fund accounting. We see opportunity to expand its RTA and fund administration services to new markets like Europe/US noting US AMCs are spending 5-7bps of AUM on RTA/IT expenses vs 3-4bps for Indian MFs.

### Issuer RTA market will consolidate in favour of large players

KFIN is a leader in the Issuer RTA market with 42% market share within folios. We expect the Issuer RTA market to consolidate in favour of large QRTAs as 20% of BSE 200 corporates are serviced by small RTAs, which will face more challenges with rising volumes and increasing regulatory requirements.

### Can KFIN trade at a premium to CAMS?

KFIN trades at an 8% discount to CAMS. We see scope for KFIN to trade at a premium to CAMS given: i) MF business for KFIN will grow at a faster rate, ii) KFIN is more diversified, iii) KFIN has transitioned fully to cloud while CAMS is yet to transition its MF business, and iv) KFIN has an in-house fund accounting platform whereas CAMS uses third-party software.

**Key financials (Consolidated)**

| Year to March | FY22 | FY23 | FY24E | FY25E | FY26E |
|---|---|---|---|---|---|
| Operating Rev (₹ bn) | 6,395 | 7,191 | 8,231 | 8,897 | 10,260 |
| EBITDA (₹ bn) | 2,879 | 2,981 | 3,623 | 3,978 | 4,660 |
| EBITDA Margin (%) | 45.0% | 41.4% | 44.0% | 44.7% | 45.4% |
| PAT (₹ bn) | 1,486 | 1,958 | 2,283 | 2,562 | 3,033 |
| EPS (₹) | 9.4 | 11.5 | 13.4 | 15.1 | 17.8 |
| RoE (%) | 30% | 26% | 23% | 21% | 21% |
| P/E (x) | 56.4 | 45.8 | 38.6 | 34.3 | 29.0 |

*Source: Company, Ambit Capital research*

**Non-lending Financials**

Recommendation

| | |
|---|---|
| Mcap (bn): | ₹89/US$1.0 |
| 6M ADV (mn): | ₹160/US$1.9 |
| CMP: | ₹518 |
| TP (12 month): | ₹665 |
| Upside (%): | 28% |

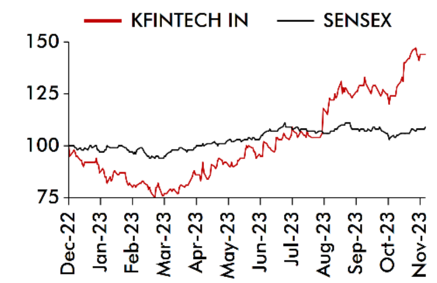
Flags

| | |
|---|---|
| Accounting: | GREEN |
| Predictability: | AMBER |
| Earnings Momentum: | GREEN |

Catalysts

- Win a major MF client in SE Asia in the next 12 months.
- 330bps of EBITDA margin by FY25E.

Performance




*Source: ICE, Ambit Capital Research*

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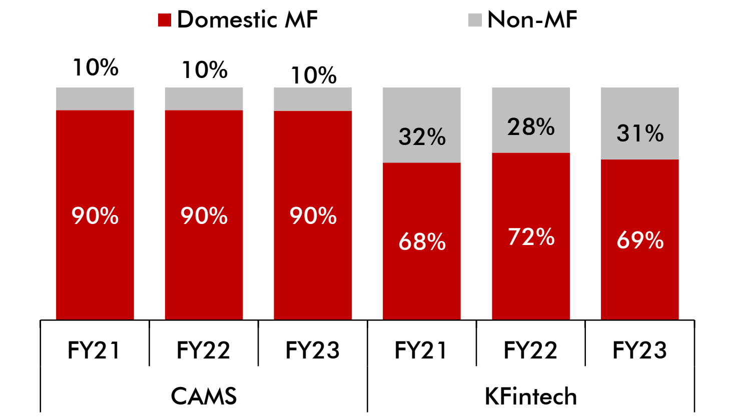
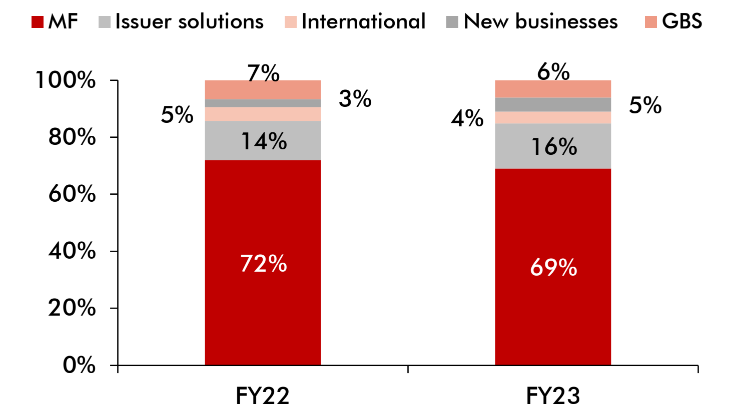
# The Narrative in Charts

**Exhibit 115: KFIN has a lower share of revenue from MFs compared to CAMS, a function of its origination**



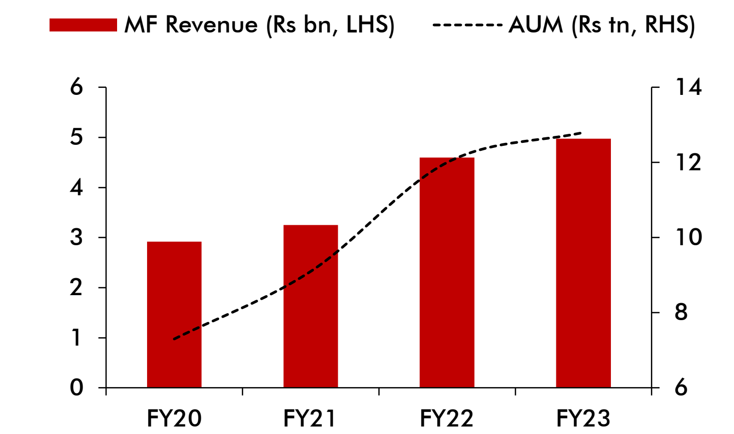

*Source: Company, Ambit Capital research*

**Exhibit 116: While MF RTA is a key business for KFIN, Issuer RTA is also a formidable business**



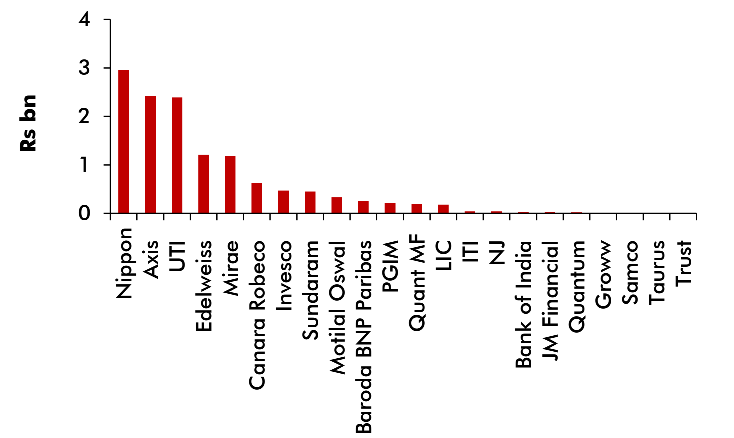

*Source: Company, Ambit Capital research*

**Exhibit 117: MF revenue has grown at 19% CAGR over the last 3 years compared to 21% AUM growth**



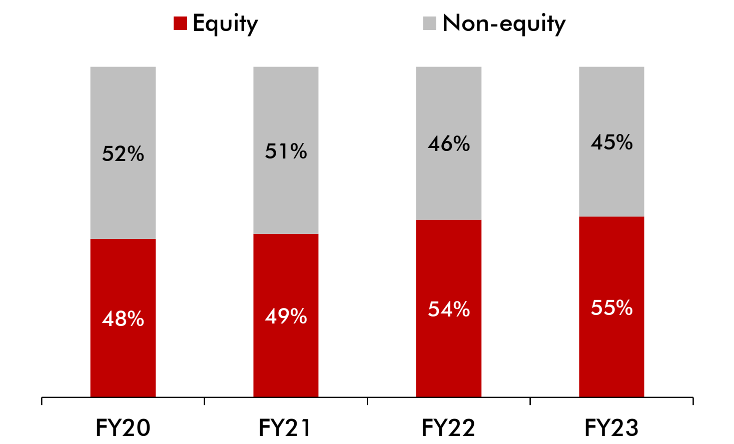

*Source: Company, Ambit Capital research*

**Exhibit 118: KFIN has a larger number of smaller, distributor driven businesses**



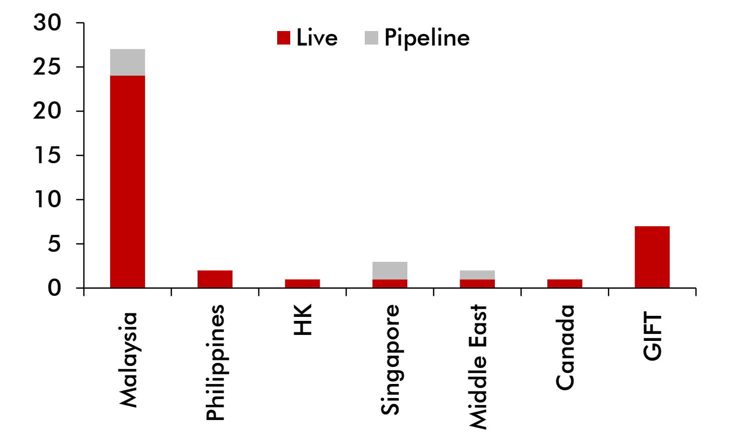

*Source: AMFI, Ambit Capital research*

**Exhibit 119: KFIN: A higher share of equity AUM results in higher yields for the company**




*Source: Company, Ambit Capital research*

**Exhibit 120: KFIN's international clients are mainly in Malaysia, with KFIN trying to make inroads in Singapore/HK**



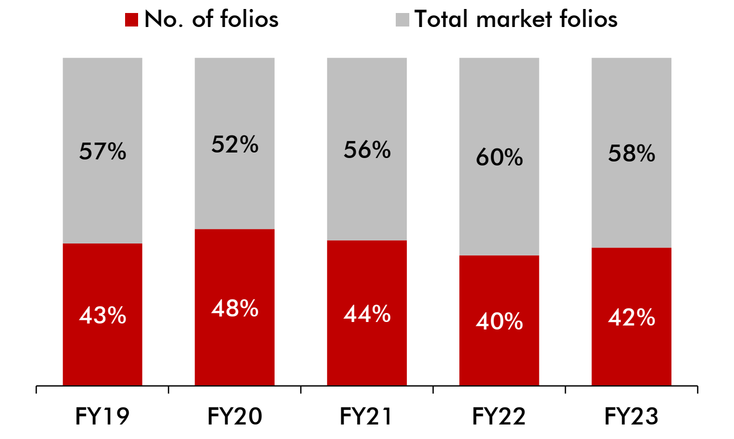

*Source: Company, Ambit Capital research*

**Exhibit 121: KFIN has marquee clients such as Eastspring, FT and Nomura in Malaysia**

| Malaysia | AUM (RM bn) | Fund administration | RTA |
|---|---|---|---|
| AHAM Capital | 81 | Deutsche Bank (Malaysia) | n.a. |
| AmInvest | 48 | Deutsche Bank (Malaysia) | n.a. |
| Eastspring Malaysia | 56 | Deutsche Bank (Malaysia) | KFin |
| Franklin Templeton Malaysia | 0.04 | Deutsche Bank (Malaysia) | KFin |
| Nomura AM | 30 | Deutsche Bank (Malaysia) | KFin |

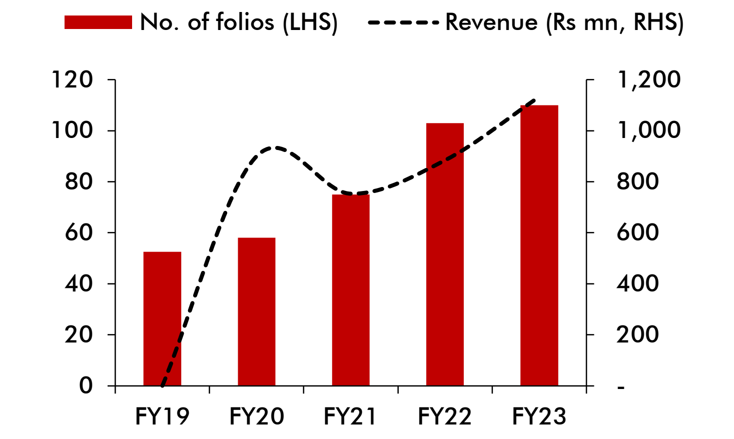
*Source: AMC websites, Ambit Capital research*

**Exhibit 122: KFIN's market share within folios has been 43% over the last 5 years**



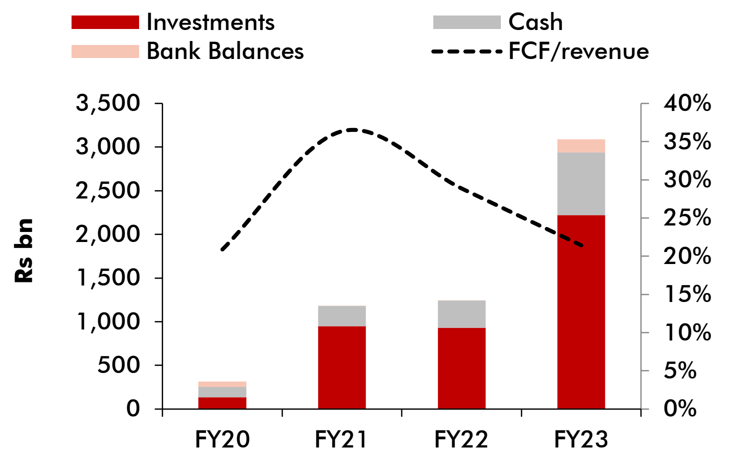

*Source: Company, Ambit Capital research*

**Exhibit 123: KFIN's Issuer RTA business has witnessed strong revenue growth in last 2 years driven by higher retail participation in equities and IPOs**



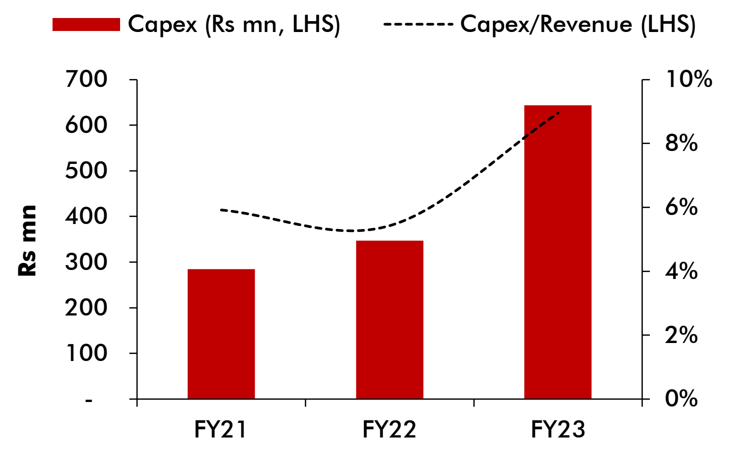

*Source: Company, Ambit Capital research*

**Exhibit 124: MF investments/cash growing 3x in last 2 years. FCF conversion has reduced as capex spend has increased**




*Source: Company, Ambit Capital research.*

**Exhibit 125: Capex has increased in recent years as KFIN has increased spend on software development**




*Source: Company, Ambit Capital research*

**Exhibit 126: Summary of our assumptions across three stages of DCF; we consider CoE of 13% and 7% terminal growth**

| | CAGR | | | Median | | Comments |
|---|---|---|---|---|---|---|
| | Revenue | EBITDA | FCF | EBITDA Margin | ROE | |
| **Stage 1 (FY23-27E)** | 13% | 16% | 21% | 45% | 23% | ▪ Expect revenue CAGR over FY23-FY27E to be driven by:<br>• Non-MF businesses ex global business services growing by 17% driven by strong momentum in AIF/Wealth segment and issuer solutions business benefiting from higher folios. Medium-term international fund solutions business can benefit from large AMC client wins.<br>• MF asset based revenues will growth at 13% driven by AUM growth of 18%.<br>• Gradual improvement in EBITDA margin driven by leverage from new businesses. |
| **Stage 2 (FY28-44E)** | 12% | 13% | 13% | 50% | 25% | Long-term we expect marginal slowdown in revenue growth due to growth opportunity in new businesses and potential to scale the platform to other businesses. While MF AUM growth will slow, AIFs and wealth management has a longer growth runway. |
| **Stage 3 (FY44 onwards)** | 7% | | | | | This is consistent with India's nominal GDP growth since 2000. |

*Source: Company, Ambit Capital research*

**Exhibit 127: Sensitivity of valuations to long-term growth and margin expectations**

| **FY23-33E** | **Bear case** | **Base case** | **Bull case** | **Comments** |
|---|---|---|---|---|
| MF revenue growth | 9% | 13% | 14% | **Base case:** AUM CAGR of 17% translating to 13% RTA revenue growth. Non-MF business grows faster at 14% driving higher margins.<br><br>**Bull case:** Both MF and non-MF businesses grow faster. In this scenario, we assume AUM CAGR of 18%. Higher margin expansion driven by operating leverage.<br><br>**Bear case:** Assume a prolonged period of low AUM growth (7% similar to FY08-13). This translates to 5% MF revenue growth. Expect non-MF businesses also struggling to gain scale. |
| Non-MF revenue growth | 9% | 14% | 16% | |
| Median EBITDA margin | 45.0% | 46.1% | 47.3% | |
| **Target Price** | **425** | **665** | **770** | |
| **Implied P/E** | **29** | **44** | **46** | |

*Source: Company, Ambit Capital research*

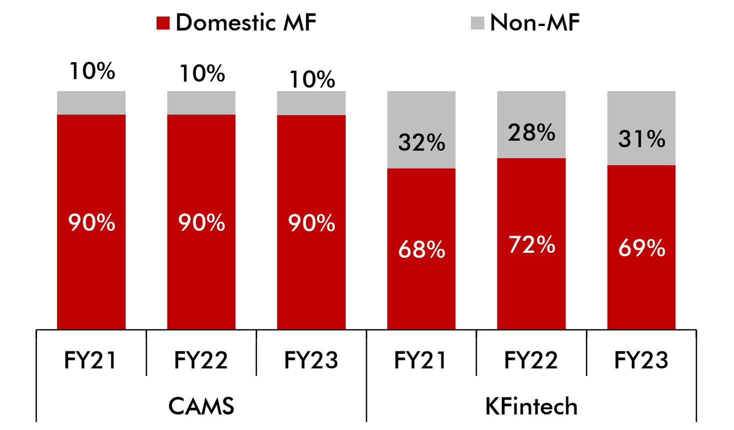
# Can small become big?

**KFIN is servicing ₹15tn of MF AUM (1HFY24), which has been growing faster (3-year CAGR of 21%) compared to peer CAMS (15%). This is a function of KFIN having smaller MF partners, which are growing off a low base; 17 of its MFs have less than ₹1bn AUM as of Mar'23 compared to CAMS' 9 MFs. KFIN has a higher share of equity AUM (55%) in its AUM due to its strong relationship with distributor-driven MFs like Edelweiss, Mirae and NJ. Thus, KFIN's yield is 7bps higher than CAMS. We expect KFIN's MF business to grow faster than CAMS over the medium term, a function of the former's higher share of smaller MFs.**

## Three businesses were merged to form KFIN

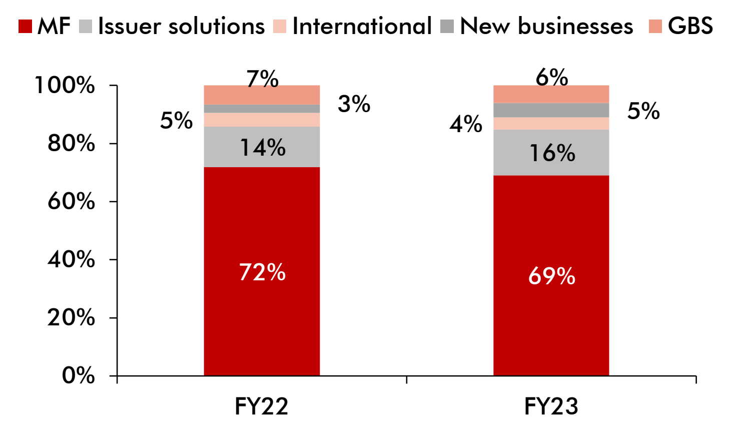
In 2017, Issuer RTA business of Karvy Consultants Ltd, Karvy Computershare Pvt Ltd. and KCPL Advisory Services merged to form KFIN Technologies. This gave KFIN a presence in MF RTA, Issuer RTA and international MF business. The MF business contributes 70% of KFIN's revenue with Issuer RTA business contributing 15%. It has also expanded into new businesses like RTA and fund accounting services for AIF/PMS and CRA.

**Exhibit 128: KFIN has a lower share of revenue from MFs compared to CAMS, a function of its origination**




*Source: Company, Ambit Capital research*

**Exhibit 129: While MF RTA is a key business for KFIN, Issuer RTA is also a formidable business**

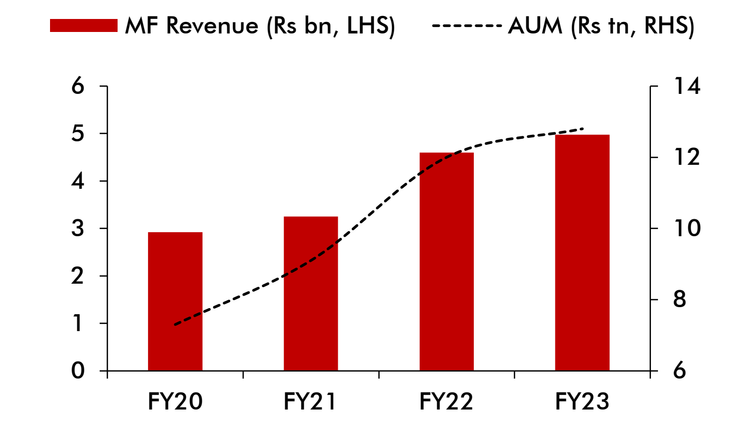



*Source: Company, Ambit Capital research*

### KFIN has a strong presence within distributor-led MFs

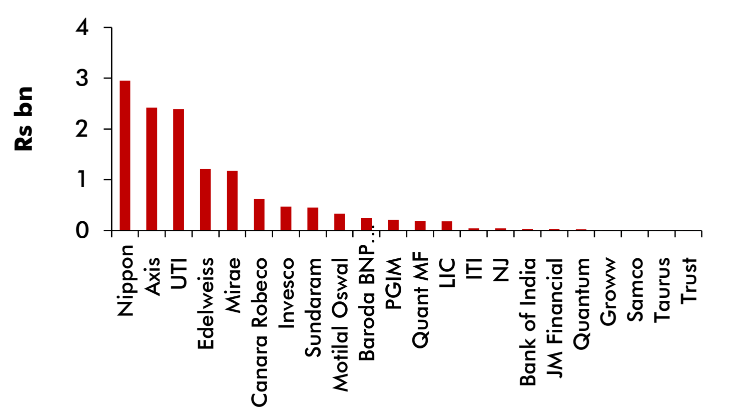
KFIN is presently servicing ₹15tn of MF AUM (1HFY24). This has grown at 21% over the last 3 years driving MF revenue growth of 19%. The transmission of AUM growth to revenue growth has been higher for KFIN as compared to CAMS given it has a greater presence within smaller MFs. Further, comparison of MF partnerships for CAMS and KFIN indicates the latter has strong relationship with distributor driven MFs.

**Exhibit 130: MF Revenue has grown at 19% CAGR over the last 3 years compared to 21% AUM growth**




*Source: Company, Ambit Capital research*

**Exhibit 131: KFIN has a larger number of smaller, distributor driven businesses**

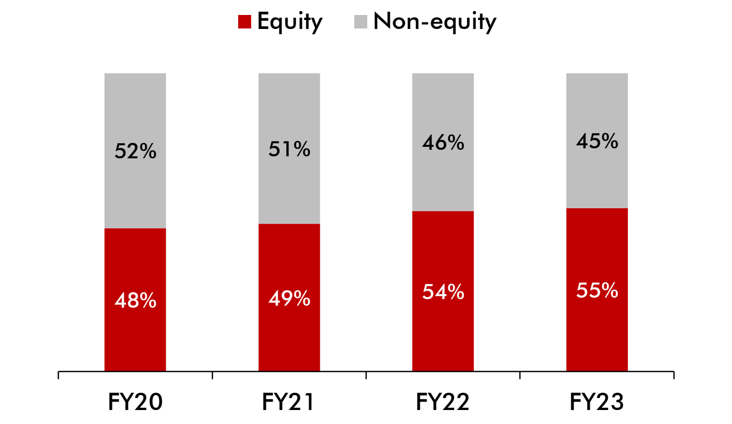



*Source: AMFI, Ambit Capital research*

### KFIN has a higher share of equity AUM

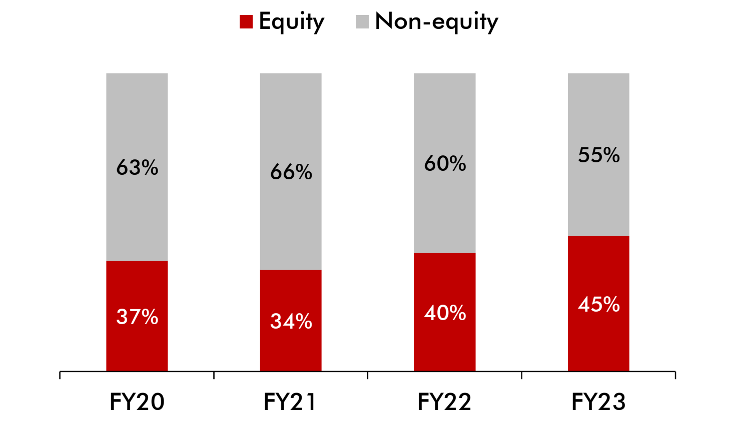
The strong presence in distributor-led MFs has a key advantage – it results in higher share of equity AUM as commission for equity products is higher (a function of the higher TE₹ allowed by SEBI). 55% of KFIN's serviced AUM was equities compared to 45% for CAMS.

**Exhibit 132: KFIN: A higher share of equity AUM results in higher yields for the company**




*Source: Company, Ambit Capital research*

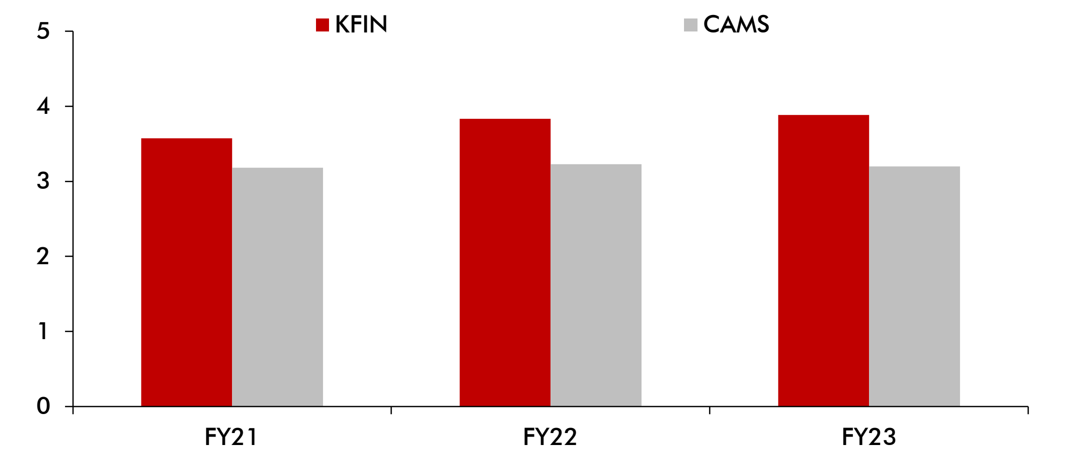
**Exhibit 133: CAMS: Has a lower proportion of equity AUM given presence in large MFs with strong debt products**




*Source: Company, Ambit Capital research*

This is one of the key factors behind KFIN's higher yields compared to CAMS. KFIN's yield from the MF business was 7bps higher than CAMS in FY23.

**Exhibit 134: Yields earned by KFIN and CAMS in the MF business**




*Source: Company, Ambit Capital research*

## KFIN will grow AUM faster than CAMS

We expect KFIN's MF RTA to deliver revenue CAGR of 14% over FY23-FY27E driven by:

- **MF AUM serviced growing of 18%:** This will be a function of smaller MFs (<₹1bn AUM) growing at 25%, while larger MFs post a moderate 15% CAGR.
- **Increasing share of equities:** We expect the share of equity AUM within the overall AUM to increase to 58% by FY27 (from 55%) driven by higher share of SIPs and retail participation.
- **Telescopic pricing:** However, MF asset based revenue growth will be slower at 14% due to telescopic pricing and increase in share of index funds offsetting benefits from higher equity AUM.
- **ETFs a lower risk for KFIN:** We see ETFs as a lower risk for KFIN given several of its MF partners are distributor driven. Typically distributors focus on selling equity funds given these products have higher commissions.

**Exhibit 135: Relationship with MFs and corporates along with a technology stack focused on providing value added services are KFIN's key strengths**

| Strengths | Weaknesses |
|---|---|
| ▪ **Strong partnership with distributor led MFs:** Has partnered with distributor led MFs resulting in higher share of high fee equity AUM<br>▪ **Strong market share in Issuer RTA market:** KFIN is the market leader in the issuer RTA market with 40% share in NSE 500 companies.<br>▪ **Focus on value added products:** Developed over 20 value added products and services in the last 4 years, including 2 new launches in FY23.<br>▪ **Fund accounting capabilities:** The acquisition of Hexagram has allowed KFIN to provide both RTA and Fund accounting services to AMC/AIFs. | ▪ **Lower share in large MFs:** KFIN has only 1 out of the top 5 MFs in India as its clients. This has resulted in its domestic MF RTA business being 40% smaller than CAMS.<br>▪ **Low market share in CRA:** KFIN currently has a 10% market share in NPS subscribers (State, Corporate, All Citizens). This is a market dominated by Protean. With State Governments reconsidering NPS there could be pressure on subscribers. |
| **Opportunities** | **Threats** |
| ▪ **Non-MF businesses:** These businesses (ex GBS) currently contribute only 25% of revenues. We see significant scope for these businesses to sale up over the medium-term and contribute 30% of revenues.<br>▪ **New MF relationships:** New MFs have been entering the market driven by increased retail participation and folios. KFIN's ability to win these new clients will drive AUM growth. KFIN has won Samco, NJ, Bajaj Finserv. | ▪ **TER cuts:** SEBI has been focused on reducing costs for investors to deepen the penetration of MFs in India. A TER cut will adversely impact distributor commissions, which in turn will result in slower AUM growth.<br>▪ **Cyber-attacks:** This can reduce RTAs reliability and compromise sensitive customer resulting in loss in key MF partnerships.<br>▪ **Increased regulation resulting in higher costs.** KFIN is a QRTA and hence subjected to higher compliance. Increase in compliance and regulatory requirements could result in higher manpower and technology costs.<br>▪ **Higher share of exchange traded MFs.** This bypasses RTAs and distributors and hence reduces revenue opportunity for RTAs. |

*Source: Company, Ambit Capital research*

# Has the time come to press the accelerator in SE Asia?

**KFIN entered the South East Asia market in 2016. It has since expanded its footprint to new markets like Singapore, Thailand and Hong Kong. We expect International business revenue growth to accelerate from here till FY27E (CAGR: 13%) given: i) KFIN established brand awareness in SE Asia through its marquee clients (Eastspring, Normua, Aberdeen, Franklin Templeton) which should help it win major AMCs as new clients and ii) opportunities to cross-sell fund accounting services to existing clients. We see opportunity for KFIN to expand its RTA and fund administration services to new markets like Europe/US as US AMCs are spending 5-7bps of AUM on RTA and IT expenses vs 3-4bps for Indian MFs.**

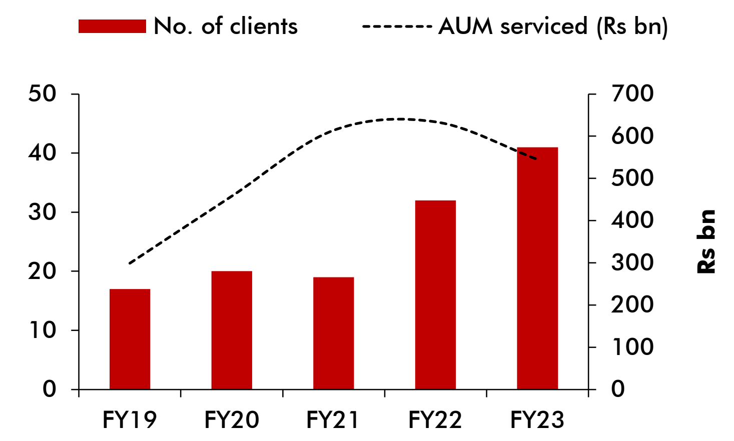
## SE Asia a mature market with penetration opportunities

We estimate SE Asia (HK, Singapore, Malaysia, Thailand and Philippines) asset and wealth managers to have USD9-10tn of assets under management. Singapore and Hong Kong are the major markets, accounting for 90% of the AUM. By contrast, AUM of MFs and AIFs in India is USD500bn. However, unlike India (15% AUM CAGR), AUM growth in SE Asia has been only 9% since FY20.

### KFIN's presence has increased, but limited to smaller funds

KFIN entered the South East Asia market by acquiring Deutsche Bank Malaysia's RTA business in 2016. The company now has 37 clients which are taking RTA and/or Fund Accounting services, with 13 more in the pipeline. However, majority of these customers have been smaller funds as indicated by KFIN servicing only USD7bn in AUM (0.07% of overall SE Asia AUM) across the South East Asian markets.

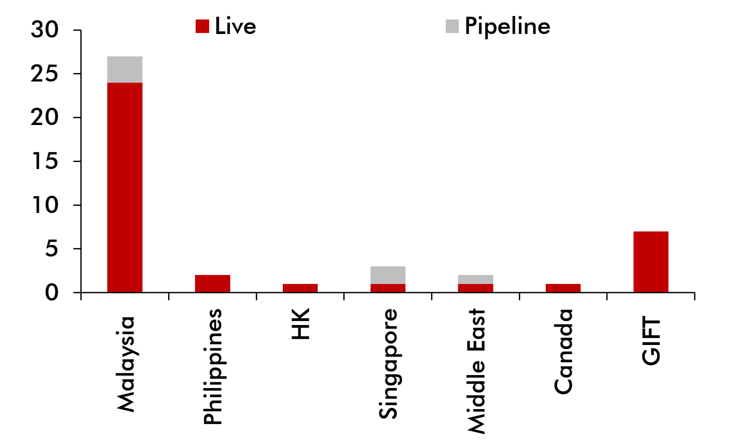
**Exhibit 136: The number of clients and AUM serviced for KFIN more than doubled in the last 5 years**




*Source: Company, Ambit Capital research*

*Note: Number of clients includes live and customers in the pipeline.*

**Exhibit 137: KFIN's clients are mainly in Malaysia, with KFIN trying to make inroads in larger Singapore/HK markets**




*Source: Company, Ambit Capital research*

### There are two levers of growth for KFIN in SE Asia

KFIN's global fund solution business has seen revenues decline over FY23 due to fall in AUM as SE Asian markets underperformed. We expect revenue growth to accelerate from here till FY27E (CAGR: 13%) driven by:

- **Opportunity to onboard larger AMCs/life insurers:** Our analysis of AMCs in Malaysia suggests that KFIN has been able to form partnerships with MNC asset managers like Eastpring, Nomura, Aberdeen and Franklin Templeton. The company has also partnered with life insurers like Manulife and AIA. This, in our view, provides KFIN brand awareness amongst large AMC/life insurers in SE Asia. Further, with low AUM growth cost pressures will increase in AMCs leading to outsourcing of activities like registry and transfer services, which certain funds appear to be doing in-house.

**Exhibit 138: AMCs controlling 1/4th of AUM in Malaysia: KFIN has marquee clients such as Eastspring, FT and Nomura in Malaysia.**

| Malaysia | AUM (RM bn) | Fund administration | RTA |
|---|---|---|---|
| AHAM Capital | 81 | Deutsche Bank (Malaysia) | n.a. |
| AmInvest | 48 | Deutsche Bank (Malaysia) | n.a. |
| Eastspring Malaysia | 56 | Deutsche Bank (Malaysia) | KFin |
| Franklin Templeton Malaysia | 0.04 | Deutsche Bank (Malaysia) | KFin |
| Nomura AM | 30 | Deutsche Bank (Malaysia) | KFin |

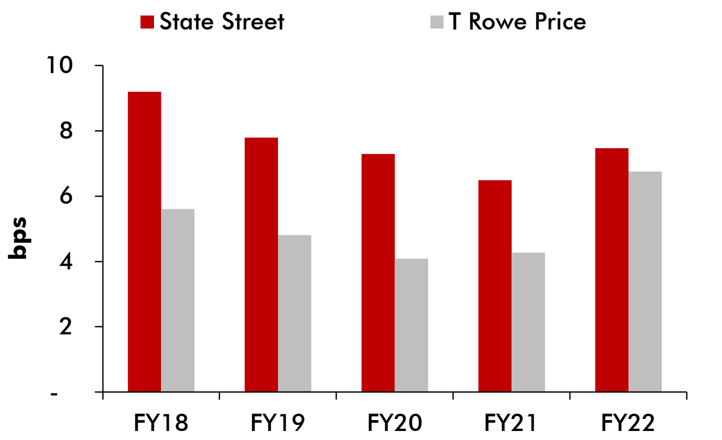
*Source: AMC websites, Ambit Capital research*

- **Cross-sell fund accounting solutions:** As seen in the table above, fund administration, which includes NAV calculation, compliance with regulations is typically outsourced to banks. These MNC banks also provide custody services, registrar and transfer services to AMCs. The popular fund administration platform used by MNC Banks is Temenos' Multifonds. KFIN's ability to provide both RTA and fund administration services following the acquisition of Hexagram will help the company win AMCs looking for complete solutions. Hexagram is nearly 1/5th cheaper than Multifonds. This will allow KFIN to be more competitive w.r.t. MNC banks.

## Why does it make sense for AMCs to outsource?

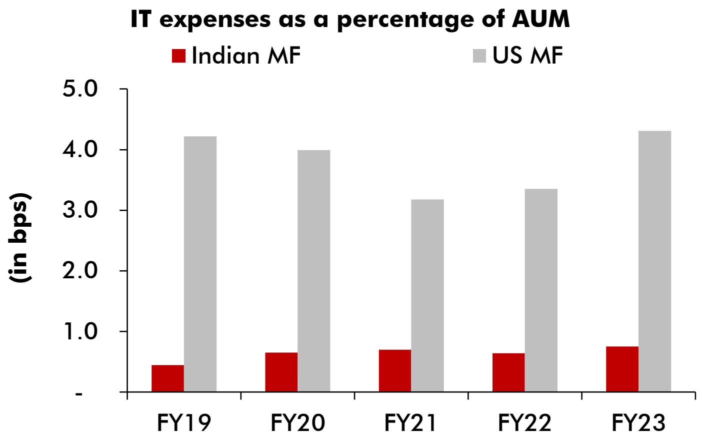
Specialized RTAs are not very common in most markets outside India. RTA services are typically offered by large banks along with custody and fund administration services, or performed in-house by the fund. With flows into active funds slowing, AMCs may see more value in outsourcing RTA and fund administration function to specialized players like KFIN. Our analysis of US AMCs indicate funds are spending 5-7bps of AUM on RTA and IT costs. By comparison, Indian MFs spend 3-4bps of AUM on similar costs. The lower costs for Indian MFs is a function of RTAs undertaking technology development and maintenance on behalf of MFs. A function which MNC banks do not do. We see an opportunity for KFIN to expand its RTA and fund administration services to new markets like Europe/US. These markets together account for AUM of USD58tn. However, KFIN may need to develop regulatory expertise before entering these markets. The company could consider acquiring a business or organically building its knowledge. We think the former will be a faster route to market for KFIN.

**Exhibit 139: RTA and IT charges for State Street and T Rowe Price as a proportion of AUM**




*Source: Company, Ambit Capital research*

**Exhibit 140: IT expense of Indian MFs is significantly lower than US MFs**




*Source: Company, Ambit Capital research*

# Multiple growth levers in Issuer RTA

**KFIN is a market leader in the Issuer RTA market with 38% market share in NSE500 companies and a 42% market share within folios. We expect issuer RTA revenue to post 15% CAGR between FY23-27E. This is higher than the domestic MF business, which we expect to grow at 13%. In our view, a key factor behind this will be the Issuer RTA market consolidating in favour of large QRTAs as our analysis indicates 20% of BSE 200 corporates are serviced by small RTAs, which will face more challenges with rising volumes and increasing regulatory requirements. KFIN has been differentiating itself from competition by leveraging technology including having a Data Recovery hot site and value added products like Fintracks and Puspak.**

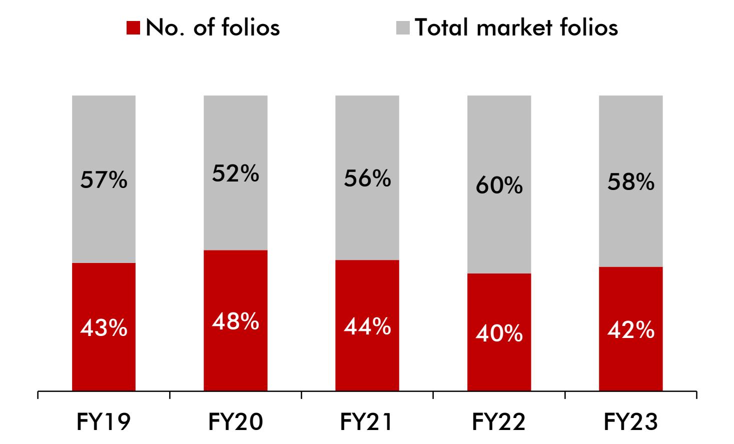
## KFIN dominating in a fragmented market

The Issuer RTA is a ₹2.5bn market. Unlike the MF RTA market which is a duopoly, the Issuer RTA market is fairly fragmented with multiple smaller players. KFIN has 38% market share in NSE500 companies and a 42% market share within folios. This makes it one of the only two Issuer RTAs with scale (>25% market share), with the other being Link Intime. This leaves behind a long tail of smaller players. KFIN's key clients in the issuer RTA business include Reliance, ICICI Bank, Infosys, HUL and Axis Bank.

### The business has benefitted from recent tailwinds

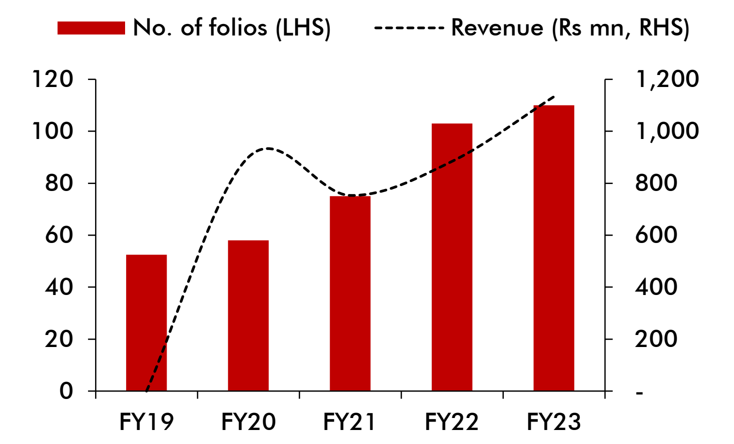
KFIN's Issuer RTA business has witnessed strong revenue growth over FY22/23 (2-year CAGR: 23%) driven by increase in shareholder folios and IPOs. The number of folios with the company has grown by ~50% in the last 2 years as retail participation in equities increased following the Covid disruption.

**Exhibit 141: KFIN's market share within folios was 43% over the last 5 years**




*Source: Company, Ambit Capital research*

**Exhibit 142: Issuer RTA business posted strong revenue growth last 2 years on higher retail participation in equities and IPOs**




*Source: Company, Ambit Capital research*

### What are the key drivers of this business?

RTAs to issuers/corporates typically have three revenue streams:

- Annual charge for addressing investor grievances, physical and electronic registry, maintenance and updating of shareholder details, data storage and retrieval facility. RTAs charge for these facilities based on the number of folios being carried by the company.
- RTAs charge a fee for corporate actions like IPOs, dividends and rights issues. This is again charged based on the number of folios.
- RTAs also provide corporates with other services including hosting of e-AGM. KFIN has developed a platform to track insider trading ("Fintrak").

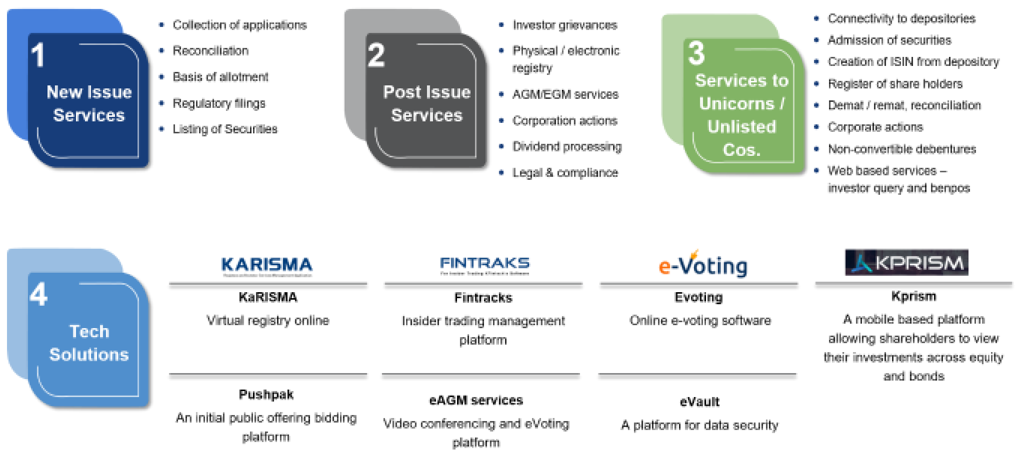
The services provided by RTAs to corporates/issuers are less complex as those provided to MFs. This has allowed smaller players with niche clients to exist in the market.

**Exhibit 143: Different revenue streams for Issuer RTAs**

| Figures in unit | |
|---|---|
| Number of companies | 1 |
| Number of shareholders | 100 |
| **Revenue Stream 1: Annual maintenance** | |
| Number of folios | 100 |
| Charge per folio | 6 |
| Revenue | 600 |
| **Revenue Stream 2: Corporate action charges** | |
| Number of folios | 100 |
| Charge per folio | 3 |
| Revenue | 300 |
| **Revenue Stream 3: Other services** | |
| Other services (e.g. e-AGM) | 100 |
| **Total Revenue** | **1,000** |

*Source: Company, Ambit Capital research*

**Exhibit 144: RTA services provided by KFIN to issuers/corporates**




*Source: Company*

### This is a fairly high-margin business

The Issuer RTA business has ~40% EBIT margin. This is a function of the recent increase in scale driven by the rise in folios. While this is lower than the domestic mutual fund business, it is significantly higher than new businesses like CRA and Fund Accounting.

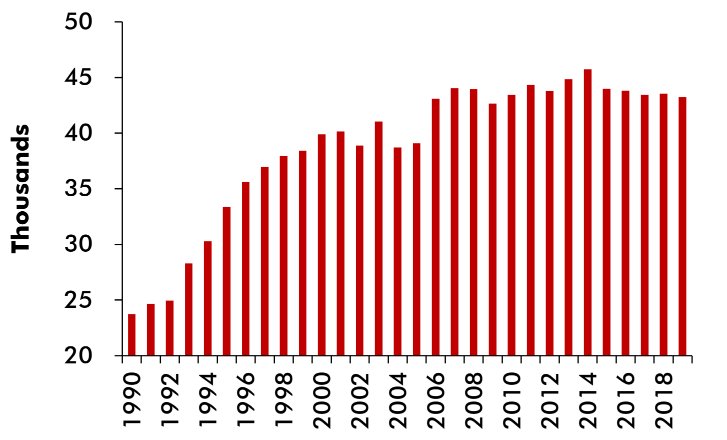
## We see the issuer RTA business as a key growth driver

We expect the issuer RTA revenue to grow at 15% CAGR between FY23-27E. This is higher than the domestic MF business, which we expect to grow at 13% over the same period. The issuer RTA business will be driven by:

### #1: Equitisation: More the merrier

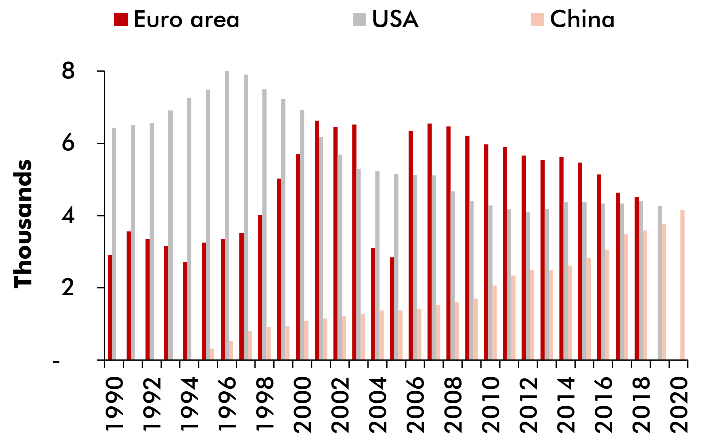
The word "equitisation" comes from Vietnamese, which denotes conversion of state-owned enterprises into public companies. The term has been used by economists/strategists to define the trend of more private companies getting listed on stock exchanges. According to World Bank, equity markets have gone through cycles of equitisation and de-equitisation. While Euro area and USA went through equitisation in 1990s/early 2000s, China's equitisation begun in early 2000s and continued till 2018.

**Exhibit 145: Number of listed companies globally: The world has gone through periods of equitisation & de-equitisation**




*Source: World Bank, Ambit Capital research*

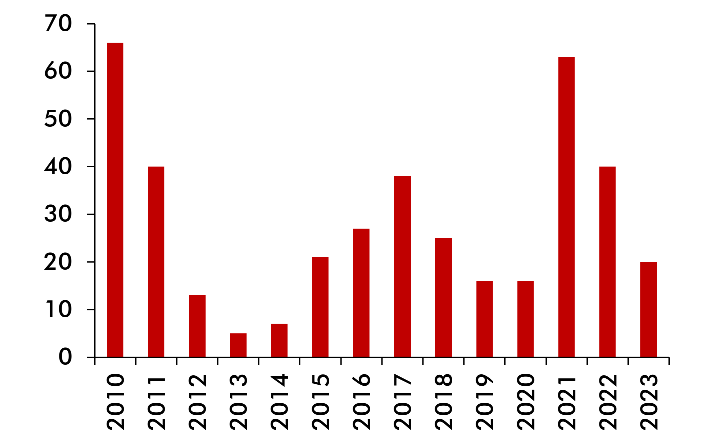
**Exhibit 146: In Euro area/USA equitisation took place in 1990s/early 2000s. In China equitisation begun in 2000s**




*Source: World Bank, Ambit Capital research*

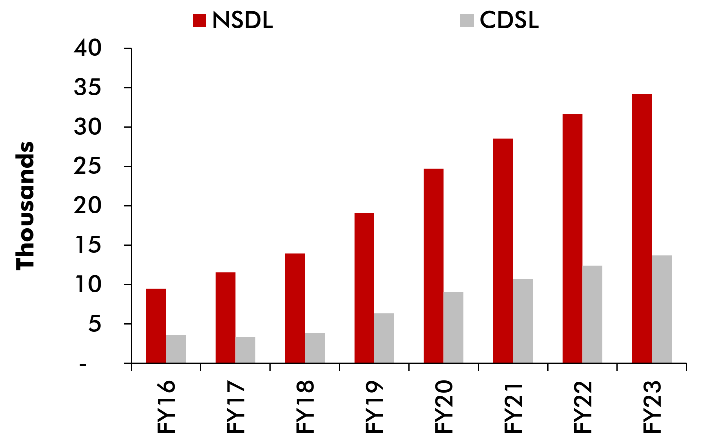
Interestingly, World Bank data indicates India has the largest number of listed companies globally. Despite this India saw a pickup in IPOs over the last 2 years driven by higher valuation and maturing business models. Increase in the number of listed companies results in higher annual and corporate charges for RTAs.

**Exhibit 147: Main board IPOs: The number of IPOs accelerated over the last 3 years**




*Source: Chittorgarh, Ambit Capital research*

**Exhibit 148: Number of unlisted companies whose shares are made available on CDSL/NSDL**




*Source: SEBI, Ambit Capital research*

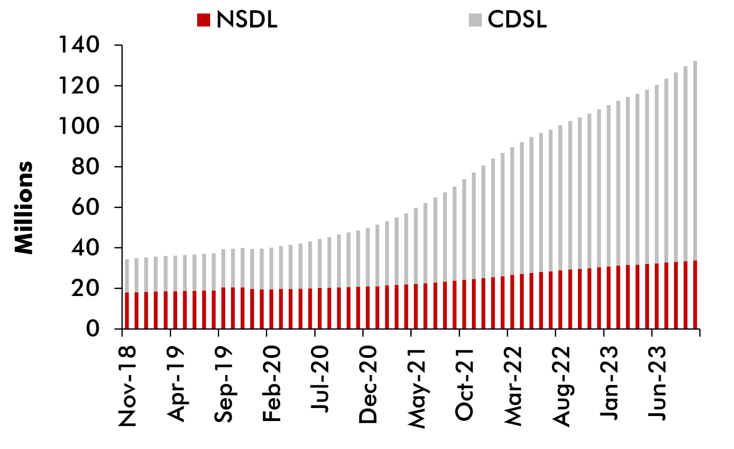
We expect the equitisation trend to continue in India similar to the cycle observed in China between 2000 and 2018 driven by:

- **Early stage investors looking to exit investments:** According to Inc42's Unicorn Tracker, India has 110 unicorns with only 11 of these companies being listed.
- **Capital requirements:** Private companies raising capital to fund future growth prospects. We note only 6 life insurance companies (out of 24) and 3 general insurance companies (out of 32) are listed. These companies will require capital to grow, particularly products which consume significant capital like term insurance.
- **New sectors emerging:** Government schemes/regulations to promote local manufacturing, drive EV penetration and reduce dependence on foreign defence imports will result in the emergence of new sectors. The EMS sector is one such example which has benefitted from companies diversifying away from China (45% of global EMS manufacturing).

#### #2: Higher retail participation in equities

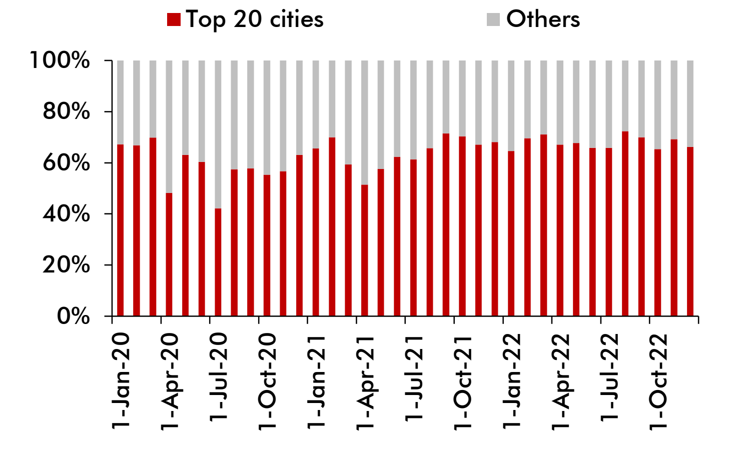
The number of demat accounts in India has grown 3x since the start of Covid. Despite this the penetration of demat accounts in India is only 9.5%. Should we adjust for investors holding multiple demat accounts, the number of unique demat accounts is only 40-50 million (3-4%). As highlighted in our recent CDSL initiation, we see demat penetration in India reaching 13% by FY30, similar to China/US/UK where penetration is 15-18%. The increased demat penetration would be a result of people increasingly investing in equities due to popularity of digital brokers and reducing attractiveness of other products.

**Exhibit 149: 60 million demat accounts have been added in the last 2 years**




*Source: CDSL, NSDL, Ambit Capital research*

**Exhibit 150: BSE cash equity turnover: Share of Top 20 cities have fallen while Tier 2/3 cities have gained**




*Source: Company, Ambit Capital research*

#### #3: Market consolidation driven by the demand for better service

As indicated earlier, the Issuer RTA market is fragmented with multiple small players. We see scope for larger RTAs like KFIN and Link Intime gaining share by winning new clients and acquiring smaller RTAs. Our analysis of top 200 (by market cap) BSE stocks indicates:

- 20% of the companies are covered by small RTAs, with many supporting 1-2 large corporates.
- ITC has in-house RTA. This could be an opportunity for players like KFIN, which can provide RTA services at a lower cost due to their scale.
- SBI has moved from a smaller RTA (Alankit Assignments) to KFIN.
- Link Intime consolidated the market by acquiring TSR Consultants (provides RTA service to Tata Steel, TCS, Tata Motors.

The increase in volumes and regulatory requirements (DR BCP hot site, faster settlement) can make operations for smaller RTAs more challenging. This would result in large corporates switching to larger RTAs. The switching costs in Issuer RTA business is lower than the MF RTA business as there is no major back-end technology integration and the services provided by RTAs is not integral to the company's business. We note KFIN has won back clients like Varun Beverages and Devyani International which the company had lost after the Karvy fiasco.

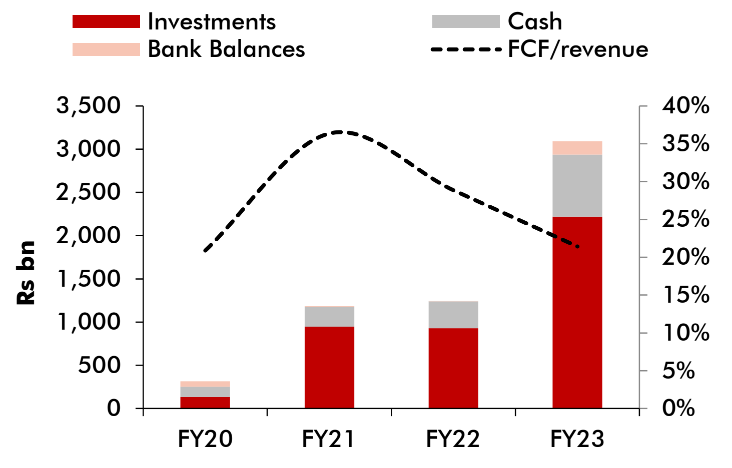
# Will KFIN give dividends?

**KFIN's investment/cash has grown 3x in last 2 years driven by FCF conversion. The company has nil borrowings, and it plans to redeem ₹1.3bn of preference shares in FY24. This positions the company well to pursue inorganic opportunities including expanding into new geographies, and vertically penetrating existing markets. Despite strong free cash flows, KFIN has not paid dividends. We expect this to change over the next few years as the company accrues capital and need to invest in new businesses reduce.**

## A strong balance sheet

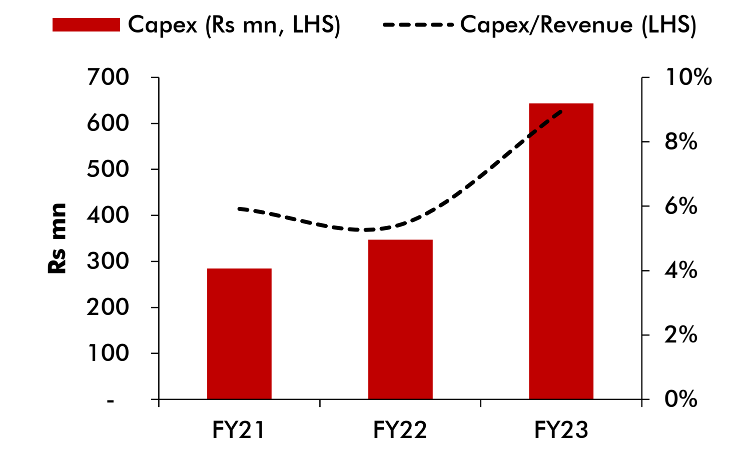
KFIN's balance sheet comprises ₹3bn cash, bank balances and mutual fund investments. This has more than doubled in the last 2 years driven by increase in free cash flow. The company is carrying ₹1.3bn of redeemable preference shares, which has been up for redemption since 25 October 2023. The company plans to redeem these preference shares which will result in investments and cash reducing in FY24.

**Exhibit 151: MF investments/cash growing 3x in last 2 years. FCF conversion has reduced as capex spend has increased**




*Source: Company, Ambit Capital research.*

**Exhibit 152: Capex has increased in recent years as KFIN has increased spend on software development**




*Source: Company, Ambit Capital research*

### Acquisitions have been aimed at adding new capabilities

In our view, a strong balance sheet positions KFIN well to undertake strategic acquisitions particularly to grow in International markets and Issuer RTA business. KFIN could acquire a RTA/Fund Administration business in Europe/Americas to expand into these geographies which account for 85% of global AUM. The company acquired Hexagram and Webile Apps over the last two years to expand its capabilities into fund accounting and UI/UX. The company has also taken a 26% stake in Fintech Products and Solutions to enter the account aggregator market.

**Exhibit 153: KFIN acquired Hexagram and Webile Apps to grow its capabilities in Fund Accounting and UI/UX**

| Acquisition | Date | Stake | Consideration | Expertise |
|---|---|---|---|---|
| Hexagram | Feb'22 | 100% | ₹252mn | Fund Accounting |
| Fintech Products and Solutions | Mar'23 | 26% | ₹65mn | Account aggregator |
| WebileApps | Apr'23 | 100% | ₹110mn | UI/UX solutions<br>AI/ML<br>Product developments |

*Source: Company, Ambit Capital research*

### We believe KFIN will start paying dividends by FY26E

Despite strong free cash flows, KFIN has not paid dividends as it wanted to preserve capital for acquiring businesses to expand its capabilities and enter new businesses. However, we think following redemption of the preferable shares in FY24, KFIN will be to build financial assets/cash over the next two years. Hence, we expect the company to start paying dividends from FY26E.

# Can KFIN trade at a premium to CAMS?

**KFIN has traded at a discount to CAMS since listing. However, the discount has reduced over the last 6 months. We see scope for KFIN to trade at a premium to CAMS given: i) MF business for KFIN will grow at a faster rate (15% CAGR between FY23-27E) than CAMS (13%), ii) KFIN has a more diversified revenue pool with 30% of its revenue being generated from non-domestic MF businesses, iii) it has transitioned fully to cloud, while CAMS is yet to transition its MF business, and iv) KFIN has an in-house fund accounting platform whereas CAMS uses third-party software. DCF valuation provides a TP of ₹700, implying 45x FY25E EPS.**

### Expect revenue CAGR of 14% over FY23-27E with gradual margin improvement

We expect CAMS to deliver revenue CAGR of 14% over FY23-FY27E driven by:

- **MF AUM serviced growing of 18%:** This will be a function of smaller MFs (<₹1bn AUM) growing at 20-25%, while larger MFs grow at a moderate CAGR of 14-15%. We expect industry AUM to grow at 17%. However, MF asset based revenue growth will be slower at 15% due to telescopic pricing and increase in share of index funds offsetting benefits from higher equity AUM.
- **Non-domestic MF businesses to clock 17% CAGR:** We expect non-MF businesses to be driven by: i) growth opportunities in the International business, ii) expansion within AIF/PMS, and iii) Issuer RTA business benefiting from equitisation and increased retail participation.

KFIN's operating costs have grown at 25% CAGR over FY21-23 due to increase in IT staff from 200 to 800 and investment in new businesses. We expect investment in non-MF businesses is largely over and IT staff costs have stabilized. Hence, as these businesses gain scale it would result in margin improvement. We forecast EBITDA margin of 45% in FY26E from 41% in FY23.

### Non-domestic MF businesses will account for 30% of revenues by FY33E

We expect the share of non-domestic MF businesses (ex. Global Business Solutions) in the revenue mix to increase to 30% by FY33E from 25% in FY23. This will be driven by:

- **Issuer RTA** business benefiting from more retail investors entering the market and IPOs.
- **International business** expanding driven by new client acquisitions and cross-sell of fund accounting services to existing clients.
- **AIF/PMS** benefiting from growing AUM and new client additions. Hexagram provides KFIN the opportunity to provide fund accounting services at a lower price compared to peers.

**Exhibit 154: Summary of our assumptions across three stages of DCF. We have considered CoE of 13% and 7% terminal growth**

| | CAGR | | | Median | | Comments |
|---|---|---|---|---|---|---|
| | Revenue | EBITDA | FCF | EBITDA Margin | ROE | |
| **Stage 1 (FY23-27E)** | 13% | 16% | 21% | 45% | 23% | ▪ Expect revenue CAGR over FY23-FY27E to be driven by:<br>• Non-MF businesses ex global business services growing by 17% driven by strong momentum in AIF/Wealth segment and issuer solutions business benefiting from higher folios. Medium-term international fund solutions business can benefit from large AMC client wins.<br>• MF asset based revenues will growth at 13% driven by AUM growth of 18%.<br>• Gradual improvement in EBITDA margin driven by leverage from new businesses. |
| **Stage 2 (FY28-44E)** | 12% | 13% | 13% | 50% | 25% | Long-term we expect marginal slowdown in revenue growth due to growth opportunity in new businesses and potential to scale the platform to other businesses. While MF AUM growth will slow, AIFs and wealth management has a longer growth runway. |
| **Stage 3 (FY44 onwards)** | 7% | | | | | This is consistent with India's nominal GDP growth since 2000. |

*Source: Company, Ambit Capital research*

**Exhibit 155: Key near-term assumptions – Expect revenue growth to be driven by non-domestic MF businesses and new MF partners. Margins will benefit from growing scale in the non-MF businesses**

| Assumptions | FY22 | FY23 | FY24E | FY25E | FY26E | Comments |
|---|---|---|---|---|---|---|
| **Domestic MF business** | | | | | | |
| *AUM growth* | 32% | 7% | 22% | 14% | 19% | Currently, MFs with ₹1bn+ AUM accounts for 75-80% of the AUM serviced by KFIN. We expect larger MFs to grow AUM at 14-15% over the next decade compared to 20-25% growth for smaller MFs. For the industry we expect an AUM growth of 17%. |
| *Share of equity AUM* | 54% | 55% | 56% | 56% | 57% | We expect share of equity AUM to grow as retail investors and SIP share in the AUM increases. |
| *RTA fees* | 0.038% | 0.039% | 0.037% | 0.036% | 0.035% | Assuming a decline in RTA fees due to telescopic pricing and higher share of index funds. |
| **Non-MF business** | | | | | | |
| **Issuer solutions** | | | | | | |
| *Number of folios* | 103 | 110 | 135 | 143 | 168 | Increase in number of folios driven by IPOs, and higher retail participation in equities. |
| *Revenue per folio* | 8.6 | 10.3 | 10.1 | 10.3 | 10.2 | We have assumed pricing remains broadly unchanged. |
| **Global fund solutions** | | | | | | |
| AUM growth | | -14% | 12% | 16% | 17% | Driven by acquisition of new customers. The company has laid a base to acquire large MFs in SE Asia. |
| RTA fees | 0.05% | 0.06% | 0.05% | 0.05% | 0.05% | Given overall AUM growth is low in SE Asia there is scope for RTA prices increasing. However, we have not built any price increase in our model. |
| *Global business services* | | 4% | -14% | -65% | -1% | We have assumed this business is adversely impacted by Computershare selling its US mortgage business. |
| **AIF/Wealth Management** | | | | | | |
| AUM growth | | 22% | 58% | 47% | 31% | Expect AIF AUM growth to be driven by greater penetration of the product, higher allocation and new funds being launched. |
| RTA fees | 0.025% | 0.030% | 0.028% | 0.027% | 0.026% | We have assumed a fall in RTA fees due to higher competition. |
| **CRA** | | | | | | |
| NPS subscribers (mn) | 3.7 | 4.6 | 5.5 | 6.6 | 7.9 | We have expected KFIN takes share within the NPS plans available for all employees. This business will take time to mature. |
| **Hexagram** | | | | | | |
| AUM growth | | | 19% | 16% | 14% | This will be driven by new client acquisition in India and globally. |
| RTA fees | | 0.005% | 0.005% | 0.005% | 0.005% | We have assumed a stable RTA fees of 5bps. |
| **Cost** | | | | | | |
| *Employee* | 23% | 24% | 8% | 9% | 16% | Employee costs increased over FY23-24E driven primarily salary inflation and support to new businesses. However, the cost headwinds appear to be easing with slowing wage inflation. |
| *Others* | 49% | 11% | 16% | 6% | 12% | |
| D&A to gross block | 17% | 17% | 15% | 14% | 13% | |
| Capex to gross block | 16% | 23% | 18% | 13% | 12% | Assuming investment in software will slow following investment over FY22/23. |
| Dividend payout | 0% | 0% | 0% | 0% | 60% | The company currently does not pay dividends. Expect this to change as cash on the balance sheet increases. |
| **Outputs (₹ bn)** | **FY22** | **FY23** | **FY24E** | **FY25E** | **FY26E** | |
| Revenue | 6,395 | 7,191 | 8,231 | 8,897 | 10,260 | |
| EBITDA | 2,879 | 2,981 | 3,623 | 3,978 | 4,660 | |
| EBIT | 2,508 | 2,514 | 3,019 | 3,286 | 3,885 | |
| Other income | 61 | 175 | 129 | 153 | 183 | |
| Finance cost | 529 | 106 | 104 | 23 | 24 | |
| Net Profit | 1,486 | 1,958 | 2,283 | 2,562 | 3,033 | |
| EPS (₹) | 9 | 12 | 13 | 15 | 18 | |
| DPS (₹) | 0% | 0% | 0% | 0% | 60% | |
| **Key metrics** | **FY22** | **FY23** | **FY24E** | **FY25E** | **FY26E** | |
| Non-domestic MF as a % of total revenue | 28.1% | 30.9% | 30.7% | 28.7% | 28.9% | |
| EBITDA Margin | 45.0% | 41.4% | 44.0% | 44.7% | 45.4% | |
| ROE | 29.9% | 25.8% | 23.2% | 20.8% | 21.4% | |

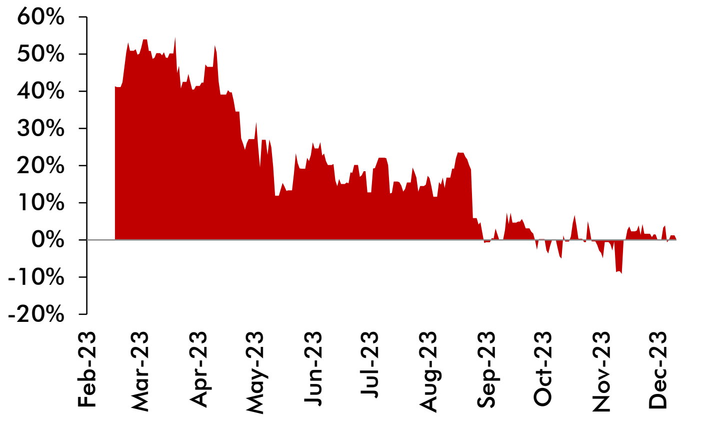
*Source: Company, Ambit Capital research*

# Can KFIN trade at a premium to CAMS?

KFIN has traded at a discount to CAMS since listing. However, the discount has reduced over the last 6 months. We see scope for KFIN to trade at a premium to CAMS given:

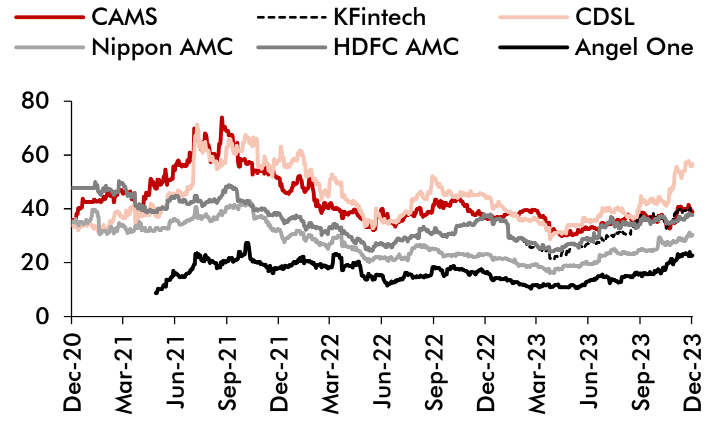
- KFIN's revenue share will increase w.r.t. CAMS in the MF RTA business.
- KFIN has higher share of equity AUM resulting in better yields.
- KFIN has migrated all its businesses to cloud, while CAMS is yet to transition its MF business to cloud.
- KFIN has a more diversified revenue pool compared to CAMS, with 30% of its revenues coming from non-domestic MF businesses.
- The company has a 40% market share in the Issuer RTA market as well. This market has multiple tailwinds including equitisation and increased retail participation.
- Hexagram gives KFIN an advantage within AIF/PMS and International markets as it expands the company's capabilities in fund accounting. CAMS depends on a third-party licensed software for fund accounting.

**Exhibit 156: KFIN's discount with CAMS has narrowed over the last 6 months**




*Source: Bloomberg, Ambit Capital research*

**Exhibit 157: KFIN is trading at a 20% premium to capital market peers**




*Source: Bloomberg, Ambit Capital research*

Our DCF valuation gives a target price of ₹665, implying 44x FY25 EPS. We have applied a two-stage DCF model based on our assumptions as discussed in Exhibit 28 and Exhibit 29. We have assumed a cost of equity of 13% and a terminal growth rate of 7%.

**Exhibit 158: Key building blocks of our valuation**

| **Assumptions** | |
|---|---|
| COE | 13% |
| Terminal growth | 7% |
| Total FCFF (₹ bn) | 50 |
| Terminal Value (₹ bn) | 514 |
| PV of Terminal Value (₹ bn) | 45 |
| Net debt (₹ bn) | (6) |
| 1 year forward valuation (₹ bn) | 113 |
| No. of shares (mn) | 170 |
| **Value per share (₹)** | **665** |
| CMP (₹) | 518 |
| Share price upside | 28% |
| Dividend yield | n.a. |
| TSR | 28% |
| Implied PE | 44.1 |
| Current P/E | 34.3 |

*Source: Ambit Capital research*

**Exhibit 159: Sensitivity of valuations to long-term growth and margin expectations**

| FY23-33E | Bear case | Base case | Bull case | Comments |
|---|---|---|---|---|
| MF revenue growth | 9% | 13% | 14% | **Base case:** AUM CAGR of 17% translating to 13% RTA revenue growth. Non-MF business grows faster at 14% driving higher margins.<br><br>**Bull case:** Both MF and non-MF businesses grow faster. In this scenario, we assume AUM CAGR of 18%. Higher margin expansion driven by operating leverage.<br><br>**Bear case:** Assume a prolonged period of low AUM growth (7% similar to FY08-13). This translates to 5% MF revenue growth. Expect non-MF businesses also struggling to gain scale. |
| Non-MF revenue growth | 9% | 14% | 16% | |
| Median EBITDA margin | 45.0% | 46.1% | 47.3% | |
| **Target Price** | **425** | **665** | **770** | |
| **Implied P/E** | **29** | **44** | **46** | |

*Source: Company, Ambit Capital research*

# Board & Management

The board consists of 5 independent and 4 non-independent directors. The independent directors bring to the board experience of being part of regulatory bodies, executive leadership and consulting.

**Exhibit 160: Board of directors**

| Name | Position | Independent? | Has been a director since? | Experience |
|---|---|---|---|---|
| M.V. Nair | Chairman | Yes | Nov-18 | He was previously the Chairperson and MD of UBI and Dena Bank. He was also the Chairman of TransUnion CIBIL. He serves/has served on several committees in the Ministry of Finance, Reserve Bank of India, Confederation of Indian Industries (CII) and the Federation of Indian Chambers of Commerce and Industry (FICCI) in areas pertaining to banking & financial services. |
| Sreekanth Nadella | MD & CEO | No | Jun-18 | 20 years of experience with Accenture, IBM, Capita. Previously he was COO with Callhealth Services. |
| Alok Misra | Additional director | No | Jul-23 | He is the operating partner and COO of General India. |
| Shantanu Rastogi | Nominee director | No | Nov-18 | He is the Managing director & Head- India of General Atlantic |
| Srinivas Peddada | Nominee director | No | Jul-20 | He is Principal advisor to General Atlantic US. |
| Prashant Saran | Director | Yes | May-20 | He has previously served as a whole time member of SEBI from May 2009 to May, 2012 and again from August, 2012 to June 2016 and as a chief general manager in charge at Reserve Bank of India. |
| Radha Rajappa | Director | Yes | Oct-23 | She is Executive Chairperson of a new age Industrial IOT startup Flutura Decision Sciences and Analytics. She also serves as an external advisor to Bain & Company. She was part of Microsoft and Mindtree's leadership teams. |
| Kaushik Mazumdar | Director | Yes | Nov-18 | He served as the general manager (operation and technology group head) at Samba Financial Group, as vice president at General Atlantic Private Limited and as the senior vice president at Citibank NA, India. He was also a director of IncValue Advisors Private Limited and founder, promoter and executive director at Svakarma Finance Private Limited. |
| Jaideep Hansraj | Director | Yes | Nov-21 | He has over 28 years of experience in retail operations in the banking and securities sectors. He is associated as chief executive officer and managing director with Kotak Securities Limited. He was previously associated with Kotak Mahindra Bank Limited. |

*Source: Company, Ambit Capital research*

The management team comprises executives with experience in technology, asset management and operations.

**Exhibit 161: Overview of management personnel**

| Name | Position | Has been with the company since? | Experience |
|---|---|---|---|
| Sreekanth Nadella | MD & CEO | Jun-18 | 20 years of experience with Accenture, IBM, Capita. Previously he was COO with Callhealth Services. |
| Vivek Mathur | CFO | Jan-20 | 30 years of experience in different companies like Bajaj Capital and Cigna TTK Health Insurance. |
| Vonkayala Venkata Giri | CTO | Aug-20 | Previously he was the Chief Data Architect in Michelin and Sr Director in GE Digital. He has significant experience in managing large databases. |
| Quah Meng Kee | Regional Head - SE Asia | Oct-15 | He has 2 decades of experience in Malaysian capital markets. He was with AIA Bhd and Deutsche Bank prior to KFIN |
| Giridhar G | Chief Business Officer, Corporate Registry | Jun-04 | He has been part of the mutual fund and AIF operations at KFIN for the last 2 decades. Prior to that he was with GIC Asset Management. |
| G Senthil | Chief Business Development Officer, India & Global Business | Aug-21 | He was previously with HDFC AMC as the Head of Institutional Sales. |
| Rajeev Mane | COO - GFS, GBS, NPS and Wealth Management | Sep-21 | He has been associated with State Street, Northern Trust, JP Morgan. In his previous role, he was the Global Delivery Head of State Street. |
| Manju Anand | Chief Compliance Officer | n.a. | n.a. |

*Source: Company, Ambit Capital research*

# Catalysts & risks

**Risks**

- **MF TER are reduced:** As discussed in the thematic, TER cuts is a key risk. In our view, it is a bigger risk to AUM growth as compared to RTA fees being cut. This is predicated on commissions being a larger part of MFs' expenses and playing a key role in distributors pushing MFs as an investment product. Hence, a decline in commissions can adversely impact AUM growth.
- **Higher share of index funds:** We expect share of equity AUM within KFIN's overall AUM to increase to 59% by FY28E from 55% in FY23. However, instead of managed equity funds, should investors prefer index funds then it could adversely impact KFIN's yields given index funds have lower TER.
- **Cyber-attacks:** MFs depend on technology platforms provided by RTAs for onboarding investors, compliance, transactions and data analytics. Hence, any disruption or data theft could adversely impact the credibility of the RTA.
- **Exchange traded mutual funds:** The increase in exchange is a key risk to the business model as it reduces revenue opportunity for RTAs. Increase in proportion of exchange traded MFs will adversely impact our MF RTA revenue forecasts.

**Catalysts**

- **Winning a major MF account in SE Asia:** KFIN has won marque customers in SE Asia including Eastspring, Nomura and Aberdeen. This, in our view, provides KFIN brand awareness amongst large AMC/life insurers in SE Asia. Further, with low AUM growth cost pressures will increase in AMCs, leading to outsourcing of activities like registry and transfer services, which certain funds appear to be doing in-house.
- **EBITDA margin expansion of 330bps by FY25E:** We expect EBITDA margin to expand by 330bps to 45.4% by FY25E driven by employee costs rationalizing and investments in new businesses being over.

**Exhibit 162: Explanation of our flags on the cover page**

| Segment | Flag | Comments |
|---|---|---|
| **Accounting** | GREEN | We do not find anything unusual in the company's accounting policies and believe reported numbers are a true reflection of performance. |
| **Predictability** | AMBER | Earnings can be cyclical given 75% of revenues is generated from MF RTA and Issuer RTA businesses. |
| **Earnings momentum** | GREEN | Consensus upgraded FY24E and FY25E EPS over the last 3 months. |

*Source: Ambit Capital research*

# Financials – Consolidated

## Income statement

| Year to March (₹ mn) | FY22 | FY23 | FY24E | FY25E | FY26E |
|---|---|---|---|---|---|
| Income from operations | 6,395 | 7,191 | 8,231 | 8,897 | 10,260 |
| EBITDA | 2,879 | 2,981 | 3,623 | 3,978 | 4,660 |
| EBIT | 2,508 | 2,514 | 3,019 | 3,286 | 3,885 |
| PBT | 2,040 | 2,583 | 3,044 | 3,416 | 4,044 |
| Tax expenses | 1,486 | 1,958 | 2,283 | 2,562 | 3,033 |
| **PAT** | **1,485** | **1,957** | **2,298** | **2,583** | **3,062** |

*Source: Ambit Capital research, Company*

## Balance sheet

| Year to March (₹ mn) | FY22 | FY23 | FY24E | FY25E | FY26E |
|---|---|---|---|---|---|
| Non-current assets | 7,610 | 7,764 | 8,319 | 8,527 | 8,730 |
| Current assets | 2,585 | 4,749 | 5,150 | 7,563 | 8,670 |
| **Total assets** | **10,195** | **12,513** | **13,469** | **16,091** | **17,400** |
| Equity | 6,457 | 8,702 | 11,000 | 13,582 | 14,825 |
| Non-current financial liabilities | 2,766 | 1,485 | 1,428 | 1,441 | 1,457 |
| Current financial liabilities | 971 | 2,326 | 1,041 | 1,067 | 1,118 |
| **Total liabilities and equity** | **10,195** | **12,513** | **13,469** | **16,091** | **17,400** |

*Source: Ambit Capital research, Company*

## Ratio analysis

| Year to March (₹ mn) | FY22 | FY23 | FY24E | FY25E | FY26E |
|---|---|---|---|---|---|
| EBITDA margin (%) | 45.0% | 41.4% | 44.0% | 44.7% | 45.4% |
| ROE (%) | 29.9% | 25.8% | 23.2% | 20.8% | 21.4% |
| EPS | 9.4 | 11.5 | 13.4 | 15.1 | 17.8 |
| DPS | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

*Source: Ambit Capital research, Company*

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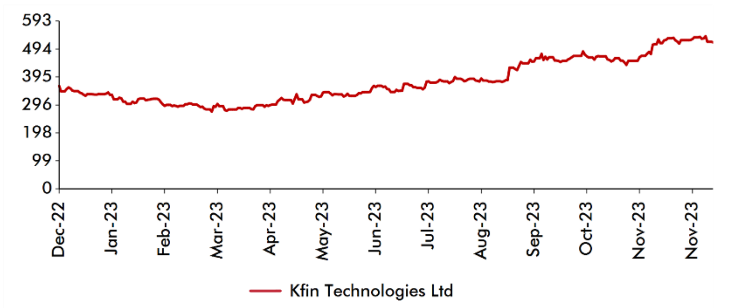
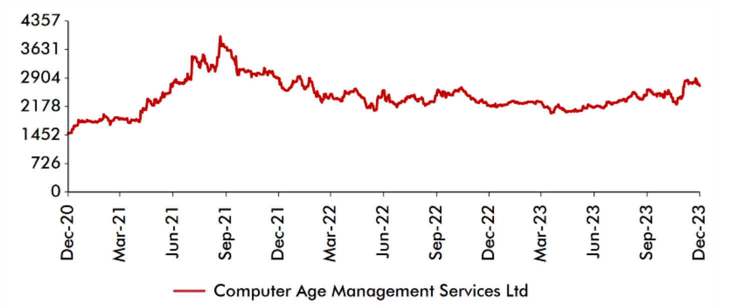
**Kfin Technologies Ltd (KFINTECH IN, BUY)**




*Source: ICE, Ambit Capital research*

**Computer Age Management Services Ltd (CAMS IN, BUY)**




*Source: ICE, Ambit Capital research*

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|---|---|
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