

March 20, 2020 ^{Revised}

Kfin Technologies Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible Debenture Programme	400.00	400.00	[ICRA]AA-(Stable); reaffirmed
Total	400.00	400.00	

*Instrument details are provided in Annexure-1

Rationale

The rating factors in the company's long track record along with its significant market share in the mutual fund transfer agency (MFTA) and corporate registry businesses as well as the high entry barriers in the industry. The rating is further supported by Kfin's strong financial metrics with improving profitability and considerable cash flow generating business. The rating also factors in the strong funding and liquidity flexibility enjoyed by Kfin Technologies Private Limited (Kfin) due to its ownership with General Atlantic (GA) holding a stake of 83.25% in the company. The rating is, however, constrained by the limited diversification in the revenue profile and the concentration of the clientele in the MFTA business.

Key rating drivers and their description

Credit strengths

One of the two major players in MFTA business – Kfin offers end-to-end services to investors and distributors of mutual funds. It renders financial services to 40 asset management companies (AMCs) globally and more than 45 million investors with over 3,000 mutual fund schemes. The company had a market share of 26% in FY2019. The total AUM under coverage was Rs.6,16,192 crore as of September 30, 2019 (7% de-growth over last year same period). Kfin has not lost any large client in the last five years. ICRA also notes that the barriers to entry in the MFTA business are high, both financially and operationally.

Established position in corporate registry business – Kfin is one of the largest registrars and a market leader servicing over 50 million investor accounts spread across 1,500+ issuers including banks, PSUs and Corporates. This line of business operations is not exposed to any kind of market risk associated with the capital market. However, as a large amount of data processing is involved in this business, it is exposed to operational risks and human error. Kfin's total revenue through the corporate registry business was Rs. 35 crore in H1 FY2020 (60% growth with an EBITDA margin of 47%). Kfin has a workforce of 5,000+ experienced professionals drawn from various disciplines. The company has emerged as a market leader in investor servicing in the country by offering its services through its network of 200+ branches across the country.

Healthy operating margins and strong operating cash flows – Kfin's OPBDITA/OI margin improved in H1 FY2020 to 36.6% after declining to 30.6% in FY2019 from 33.1% in FY2018. The improvement in the OPBDITA margin was driven by the high growth in the corporate registry segment, which had an OPBDITA margin of 47%, and an improvement in the margins in the mutual fund registry business in H1 FY2020. Kfin's profitability is expected to remain in the range of 35-40% in the next

couple of years. ICRA also notes the strong cash flow generation of the business with average cash flow from operations of Rs. 110 crore in the last two years.

Credit challenges

Revenue profile remains dominated by MFTA and registry businesses – The company’s revenues are predominantly from the MFTA (60% in H1 FY2020) and registry businesses (16% in H1 FY2020). In fact, till FY2012, these were the only sources of revenue for the company. However, Kfin has been making efforts to diversify its revenue mix in the last few years. Hence, Global Business Services, Global Financial Services, Pension Services and the Bahrain business were started in the last few years and their share in the revenue mix has been increasing over time. While these businesses are in the initial stages and their share in the overall revenue mix remains small at present, the share of the MFTA and registry businesses in the overall mix has declined to 86% in FY2019 from 97% in FY2013. Going forward, the company is looking to increase the share of the other businesses while continuing to focus on the traditional business of MFTA and corporate registry.

Client concentration – In terms of concentration of clients in the MFTA segment, the top 5 clients accounted for 49% of the company’s revenue as on September 30, 2019 (49% in FY2019 and 51% in FY2018). This is partly mitigated by the duopoly nature of the market.

Liquidity position: Adequate

Kfin’s liquidity comprised cash and equivalents of Rs. 145.56 crore in the form of Rs. 26.37 crore of cash and bank balances and Rs. 119.19 crore of liquid investments in the books as on September 30, 2019. The company had payment obligations of Rs. 8 crore till March 31, 2020.

Rating sensitivities

Positive triggers – ICRA could upgrade the rating or change the outlook if there is a sustained improvement in Kfin’s business profile, supported by a further increase in its scale and a meaningful diversification of revenues across business segments, coupled with Total Debt/OPBDITA of less than 1.5 times on a sustained basis.

Negative triggers – Pressure on Kfin’s rating or outlook could arise if the revenue growth becomes stagnant due to a change in regulations and the operating environment. Also, the weakening of Total Debt/Total Net Worth above 1 times (including inorganic expansions) or Total Debt/OPBDITA above 2 times in FY2021 and above 1.5 times in FY2022 could lead to a downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate credit rating methodology
Parent/Group Support	Ownership of General Atlantic (GA) (83.25% stake in KFPL) provides funding and liquidity flexibility
Consolidation/Standalone	Consolidated

About the company

Kfin Technologies Private Limited (formerly known as Karvy Fintech Private Limited) was incorporated in 2017. It was created as an operating entity through a scheme of arrangement and amalgamation of a previously operating entity, Karvy Computershare Private Limited (KCPL), with a demerged undertaking of Karvy Consultants Limited (KCL), one of the parent companies of Kfin. KCL, founded in 1981, provided issuer and investor services to major corporations in India. Kfin, a demerged entity of KCL, subsequently became a joint venture between KCL and Computershare Limited, an Australian company, in 2004 and started providing issuer and investor services.

Kfin reported a net profit of Rs. 57.64 crore on an operating income of Rs. 441.28 crore in FY2019 compared to a net profit of Rs. 88.80 crore on an operating income of Rs. 406.85 crore in FY2018. In H1 FY2020, it reported a net profit of Rs. 7.82 crore on an operating income of Rs. 223.88 crore.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income	406.85	441.28
PAT	88.80	57.64
OPBDITA/OI (%)	33.07%	30.61%
RoCE (%)	46.84%	17.16%
Total Outside Liabilities / Net Worth (times)	0.24	0.88
Total Debt / Net Worth (times)	0.00	0.75
Total Debt/OPBDITA (times)	-	2.88
Interest Coverage (times)	-	7.08
DSCR	-	5.79

Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

Instrument	Current Rating (FY2020)			Chronology of Rating History for the Past 3 Years						
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	20-Mar-20	FY2019	FY2018	FY2017			
		(Rs. crore)	(Rs. crore)		05-Dec-18	30-Aug-18	03-May-18	03-Jan-18	05-Sep-17	-
1 Non-convertible Debenture Programme	Long Term	400.00	392.00	[ICRA]AA- (Stable)	[ICRA]AA- (Stable); Provisional [ICRA]AA- (SO) (Stable)	Provisional [ICRA]AA- (SO) (Stable); reassigned	Provisional [ICRA]AA- (SO) (Stable)	Provisional [ICRA]AA- (Stable)	Provisional [ICRA]AA- (SO) (Stable); Assigned	-

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE138Y07017	Non-convertible Debentures	16-Nov-18	11.50	16-Nov-23	400.00	[ICRA]AA- (Stable)

Source: Kfin Technologies Private Limited

Corrigendum-

Document dated March 20, 2020 has been corrected with revision as detailed below:

- Name of the section: Annexure-1: Instrument details, Page No. 5 of the document

Revision: Maturity Date of the instrument changed to “November 16, 2023”

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