"Computer Age Management Services Limited Q1 FY27 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to Computer Age Management Services Limited Q1 FY27 Earnings Conference Call, hosted by MUFG Intime. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing star, then zero on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Nikunj Seth from MUFG Intime. Thank you, and over to you, sir.

Nikunj Seth: Thank you, Sumit. Good morning, everyone. Welcome to Q1 FY27 earnings conference call of Computer Age Management Services Limited. From the management, we have with us Mr. Anuj Kumar, MD and CEO; Mr. Ram Charan, CFO; and Mr. Anish Sawlani, Head, Investor Rations.

Before we proceed to the opening remarks, I would like to give a small disclaimer that this conference may contain certain forward-looking statements about the company, which are based on beliefs, opinions and expectations of the company as on date. These statements are not guarantees of future performance and involve risks and uncertainties. A detailed disclaimer has been published in the investor presentation.

Now I would like to hand over the conference to Mr. Anuj Kumar for his opening remarks. Thank you, and over to you, sir.

Anuj Kumar: Nikunj, thank you very much. Good morning to everyone. Appreciate everyone joining the earnings call for the first quarter FY27. So I presume all of you would have read the press release and you would have downloaded a copy of the presentation. So I'll just quickly jump into the details.

Just given the backdrop of the times we are in, I think it was a solid quarter from us. You've seen that EBITDA grew over 18% year-on-year to get to INR183 crores. This is our highest ever number. And despite the challenging market conditions, I think it did 2 things. One, despite the fact that AUM did not grow as much as it traditionally would have grown, we were able to post an 18% increase in EBITDA, 17% in PAT.

Also the fact that this perhaps now almost puts in the background all the pricing adjustments of the last year because you know that we had dropped from similar levels to about 42% operating EBITDA and climb back in the next 4 to 5 quarters back to 46%. So to that extent, 46.4% operating EBITDA looks like a very nice number.

EBITDA margin expansion, 270 basis points. This all of you know from 43.7% a year back to 46.4%. We are now heading towards -- our highest was a shade above 47%. So we are heading in that direction. And again, I would say pretty sound just given the times that the last 2 years, AUM expansion has not been as much as you would expect. And the fact that the pricing adjustment, the onetime pricing adjustment is a bit of the backdrop, but not very recent, but 1 year old.

Operating revenue grew 11.5% to INR395 crores. Within this, the 2 components are the MF revenue. The MF revenue actually -- absolute MF revenue grew under 10%. Asset-based revenue grew about a little over 11%. But if you see the non-MF businesses, they grew collectively over 28%.

And I would say that I'm personally pretty happy with the progress of non-MF because you know that we've not done significantly margin dilutive stuff anywhere in the portfolio. We've taken bets. Those bets have paid off. I think a lot of the bets have paid off. Pay has paid off significantly. Alternatives despite all the competition and new players who entered in the last many years and continue to enter, we grew in the mid-20s.

KRA, which is the third large non-MF contributor, obviously, did not grow given the backdrop of the price adjustment that the industry has taken. But I think from the second quarter onwards, things will start looking good in that territory also.

So on a blended basis, 11.2% MF revenue growth, 28% plus non-MF growth. We expect, therefore, that non-MF growth will stay blended upwards of 20%. We are now in the kind of -- we've had half of the second quarter done, and we have some view of what will happen in the second quarter.

So we believe that for the year, overall blended non-MF revenue will certainly be 20%. If you're lucky, it could come at 22%, 23%. MF revenue, we would like it to grow at least 12%. Blended, we are expecting about a 13% overall revenue growth, about a 16% EBITDA growth. So it seems to be on that track.

And from a broad basis, if you see the growth levers, what are the growth levers? Like I said, payments, we started the cards business seems to be picking up very well. In AIF, the base has grown quite well. New logo acquisition has been sound. CAMS WealthServ has done well, continues to add heft, which you may have read in the presentation.

Also the fact now that as far as GIFT City is concerned, you would have read that we have in principle approval to start a KRA operation. We are also in the process of applying for a payment service provider license. And we haven't applied that because there's a process related to the application. But once we have a wholesome offering of base RTA, fund accounting, KRA for which we have in principle, and this KRA just does not apply to capital market entities in GIFT is a far broader application.

And then for payments, you know that over a period of time, these outbound funds are bigger attracting money. I would say it's just the beginning about 2 quarters old. But over a period of time, as I think a lot of -- there's a lot of press on portfolio rebalancing and trying overseas markets, a lot of people are adding all these things.

That trend should deepen the SIB kind of concept and overseas investment through GIFT city should deepen. All of that can drive the payments business also. So those growth drivers are in place, and I think they're doing well.

From a new logo perspective, you know that we've taken 6 AMCs live last year. We've taken one live this year, which is AlphaGrep. We have 3 large installations, which should be live from now up to the end of the year, which is Carnelian, ASK and Neo and 1 or 2 with smaller ones also, but those are the salient ones. So all of that should play out in the coming months. Move to the next.

From an MF perspective, therefore, you would have seen that AUM grew just under 15% year-on-year to be about INR56 lakh crores. Of course, the month of July has been a lot better. April, May, June were muted months. In July, we've been much better. We've kind of grazed close to INR60 lakh, but haven't got there yet, but we should get there. Market share stayed at about 67.2%.

I think, again, from a foundational perspective, if you look at other growth metrics, so what happened to equity AUM grew ahead of market ,industry at 16% and at some change, we had 17.6%. Equity net sales grew ahead of industry growth. Live SIP counts grew ahead of industry.

So, if I just took those 3, which is gross equity AUM growth, equity net sales growth and live SIP account growth, I think that sums up the equity picture because 60%, 65% of the MF asset revenue comes from there. So those are again, those are great foundational metrics which have been playing out for the last maybe about a couple of years, but happy to kind of share with you that all of that continues to do well.

And even in tough times where the markets have bottomed out, peaked back again and then went all the way back again in April, May, June, the SIP collections continue to hold which is a great peak into the resilience and nerve and strength of the Indian investor, the retail investor. So, this number holds in Q1 at just short of INR60,000 crores.

And again, from an industry collections growth perspective for SIP has outperformed the industry. Similarly for the unique investor base. So, I could not have compiled a better set of what I would say are foundational enough metrics all in front of you that all of this has do well.

On the growth front, I must also point out apart from GIFT, which is GIFT retail, very formative, very early, so I will not start using adjective to describe the growth. All I would say is we have started with the first 10,000 investors, we are nudging INR750 crores of AUM.

But like I said, given the dip in the market 1, 1.5 years back, it was about being in metal ETFs and ETF Today, it's about using GIFT City intelligently to do some overseas investing. I think that part has started.

I'm also very happy with the SIF segment where if you were talking to you in the beginning of August last year, we did not have a single launch. The first launch happened in early October. So, it's just a 10-month old story. 11 unique SIFs have launched, 3 or 4 more will launch.

And this segment has done well, just look at the numbers, about INR1,000 crores. I mean, there's not much difference between net and gross sales in the first year. But if I just look at it as a net sale metric, about INR1,000 crores of net sales metric every month. So, it's accumulated to about just in excess of INR12,000 crores now, almost 50,000 investors.

And when you look at the base of investors in India, and this is a slightly more wholesome product because you allowed leverage, you can short the market, etcetera. You know all of that stuff. I think both GIFT and SIF should open up as new asset classes, which will grow into meaningful franchises for us. Someday, I should be talking about them with the same energy and as I talk about alternatives, but that may come after some years. But I would say just a great start to this story.

I spoke about AlphaGrep and the 3 other AMCs, which are about to launch in the coming part of the year. I should also name Oaklane, sorry. So, ASK, Carnelian, Oaklane and Neo which are expected to -- they will definitely go live before December. So, I think from a new AMC buying from insurance from the new logo perspective, we have some of the best names, the best names, which will start work with us in addition to the 6 that went live last year. Go to the next.

Beyond MF, I think I spoke about this, so I don't want to repeat 28% plus year-on-year revenue growth. Non-MF revenue just getting to about 15%. I'm hoping this will certainly be 16% by the end of the year, but we'll watch this closely.

Pay, of course, did the best, grew just short of 70% year-on-year, largely riding on cards. And cards is a business that we want to grow, but don't want to scale too much. And we'll be intelligent about scaling because it's a high bank charges kind of business where your margins will remain limited. The retail recurring, that kind of business, it is a better business to do, but we started cards about a year back.

Alternatives, I said, grew mid-20s AUM overall cross INR 3.2 lakh crores. We won 50 new mandates, several new logos. So that part did well. KRA was a bit of a story in the first quarter had to be like that. So, I don't know whether your expectation was any different, but we knew that there was a rate revision starting 1st April about 29%, 30% rates down.

The market was also slightly subdued. So, it was a slightly revenue down quarter. We expect that from the second quarter, things will look -- well, better. We will certainly look better in KRA. So, as KRA starts firing back, you will have pay alternatives in KRA, all 3 firing on the non-MF side, MF, SIF and GIFT City Retail firing on the MF side. So that should be a good combination if all of this happens in the second quarter.

Rep's Bima Central expanded user base, I still don't think it is meaningful revenue yet, but we are waiting for that day. I think retail acceptance continues to scale quite well. And I do want to talk to you about ConsentPro where I think we've stated a little in the past, but not too much that we started building this capability in-house just given the fact that retail consumer consent across our businesses, whether it is MF, KRA, CRA and pension or insurance repository is kind of a controls consenting capability that we had to have in-house at some time between CAMS and Think, we built this out.

Happy to let you know that we will have our first signed contracts shortly. We've started work in about 7 or 8 clients. Some inside the capital markets, some in different markets. This is not just a capital markets or financial services story. I will not make it a big deal right now. We have early wins. We are very happy. I think hopefully, when we come back to you, I will have something meaningful to report and share with you in a quarter from now.

But I just wanted to mention that you may see some press some PR some stuff on our website, etcetera, don't be surprised. And you've been seeing this over the last 2, 3 months. You will just see that in a more accurate manner. Don't ask me for revenue numbers because it's too early for us to start projecting numbers. It's just a good start to a new thing.

On the new platform from a re-architecture AI perspective, again, I think you read stuff that we put out. So, you're aware of what- we have done. But on the transaction acceptance, which is basically that big hairy gorilla that we have to take live because that is about transaction acceptance. It's all the sum total of the external work that we do with the markets.

A lot of the other work in the platform happens internally, but this is the work we do with acceptance of transactions coming in of money coming in of KYCs and then a lot of other stuff with the exchanges, depositories, sellers, banks, all of that. That's now beginning to go live step by step in August, September. We believe we would have concept the entire transaction acceptance part of the platform by the end of the financial year.

And then other things in terms of data warehouse, CAMS Lens, our revamped KRA offering, stuff on EKYC and deep fakes, all of that is now live. I'd also mentioned in some of our meetings that physical transaction acceptance is now going through and we have a capability. I can convert the entire thing to AI-led transaction acceptance 100% today if we wanted. We are not doing it today because there's a risk in kind of just blindly doing it.

So out of our 8 transaction types, 4 are live. When I come back to you and talk to you in November, all will be live. And within those, it's our choice on how fast we want to go. So we've converted about 10% of our gross payload into AI-based acceptance. We just read the forms, go to our database, do cross referencing and then just access the form.

I still have a manual checker, but this 10% will scale to 100% acceptance at the maker level in the next 12 months. We will deal with the checker at some point in time. But again, very happy with this bit of AI-led automation that's happened in the base.

So I think one of the things we said to you is that we will show definitive -- although we don't quote revenue per headcount or transactions per headcount as standard metrics, and we're not inventing them yet. But average headcount at the enterprise level, it's a simple thing for you to measure and not keep looking for the number.

We'll give you that number, and that number is expected to have a 4% to 5% down impact in the financial year, which has already started from 1st April onwards. We are about 2%, 3% down already. So we'll demonstrate that. And I think over the next 3 or 4 years as this platform settles down. you will just keep seeing meaningful impacts in that area. What else? Let's go to the next.

Okay. So what I'll do is I'll hand over to Ram Charan to take you briefly through the financials, and then we can come back and talk about whatever questions you have. Ram?

Ram Charan: Thanks, Anuj. Anuj has already gone through the highlights in terms of numbers. So I won't repeat the numbers. I'll just add a few points, which might kind of up broaden the understanding on these numbers.

You all saw a revenue growth of 11.5%. It was actually split into asset-based revenue and non-asset-based revenue. The non-asset-based revenue, we have said is not dependent on the asset growth assets and that's we're showing it separately. There are 4, 5 components to it.

So the decline in the quarter-on-quarter was predominantly because of OP reduction and some sort of transaction reduction. So this is something that will not keep pace with the AUM growth. But however, from an asset-based revenue perspective, we are back to where we generally guide, which is there is no yield decline as such in the current quarter. Obviously, mix played some impact on this. But even otherwise, there has been no decline in yields quarter-on-quarter.

The biggest question that we had over the course of last year was your yields be stable? I think for the last 2, 3 quarters, we have been demonstrating that the yields are within acceptable range. And this year, there have actually been no depletion in quarter-on-quarter.

From an overall cost perspective, we mentioned in the last earnings call, but again, we are reiterating that the numbers here, generally the appraisal impact, which is salary increase for the employees, we have deferred by a quarter. So what should have been effective from April 1st will be effective from July 1st. So you will see an additional cost impact coming in the current quarter, which is not in the earlier quarter, depending on how revenue ramps anywhere close to percentage of overall revenue.

But having said that, I think from an overall cost perspective, at the beginning of the year, I think when people asked for an estimate, we said that if we keep the overall cost increase year-on-year basis to less than 10%, that will be our target. I'm happy to say for the last quarter, on a year-on-year basis, the cost increase has been less than 7% excluding depreciation. And the increase has been almost negligible on a quarter-on-quarter basis.

So this is expected to sustain, as Anuj was mentioning about going live of various react modules. We expect that this productivity will be sustained. In fact, on a headcount basis, we've had a net reduction in headcount on a quarter-on-quarter basis of more than 200, on a year-on-year basis, about 85. So the productivity improvements are continuing and will continue going forward. And this will keep a kind of control over the costs that we are incurring.

From a non-MF I think we saw the numbers. Pay has seen extremely strong in growth, 67% growth. AIF has been very strong in terms of 25% growth. And KRA because of the price impact that we are seeing has shown -- has not shown much of a growth, in fact, has gone down year-on-year. But if you normalize that for going forward increase in revenue, I think we are well on track for this 20% plus growth in non-mutual fund.

In terms of cash and cash equivalent, you would have seen that we ended the quarter with a very comfortable INR980 crores almost cash balance, and the Board has declared INR2.5 interim dividend for the Q1.

So all pointers are looking good. We are seeing asset growth come back to a large extent in the last -- in the current quarter, yields being stable, non-mutual fund growth on track and cost control measures in place. So that is a summary of the financials.

I'll now hand it back to the moderator, Sumit for questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Devesh Agarwal from IIFL Capital. Please go ahead. As he was disconnected, the next question is from the line of Swarnabh Mukherjee from 360 ONE Capital.

Swarnabh Mukherjee: I have 3 questions. First is on the growth front, sir, you mentioned broad expectation is around 13% kind of a blended growth from the top line point of view. Just wanted to understand that in this how -- what would be your expectation for AUM growth and yield compression? Because -- I mean, I just wanted more color on the fact that given that we have several large clients where internally also the schemes are quite large in size. What is the downside possibility…?

Anuj Kumar: I think we lost Swarnabh.

Moderator: The next question is from the line of Devesh Agarwal from IIFL Capital.

Devesh Agarwal: Congratulations on good set of numbers. Sir, my first question would be just to get a clarity, this year, how many AMCs are up for renewal?

Ram Charan: So this -- as we said last time, Devesh, there are a few midsized AMCs up for renewal. A couple have been concluded and 2 more are in discussion. So that's the score for the current year.

Devesh Agarwal: And whatever the impact would have been for the ones which have concluded are already in 1Q pricing?

Ram Charan: Yes, they are already in 1Q pricing. As we said earlier, the impact because of this is expected to be very muted.

Devesh Agarwal: Right, sir. Sir, secondly, if we see the KRA business, as you rightly pointed out, there was a pricing reset that went live from 1st of April that led to the impact. But if you see the same for CDSL, the impact was significantly lower. And the reason that they highlighted was that there were the fetch volumes were higher as well as there were some incremental revenues which were allowed by SEBI. So, did we not have this benefit as an industry for us?

Anuj Kumar: So Devesh, yes, interesting point. You know that the pricing structure has changed and some of -- I don't want to take you into too much technical detail, but some of the fetch which used to be free has now got priced. So we're getting into that. The opportunity is the same as for them, it is the same for us.

From a blend perspective, our revenue is still about 70%, 75% MF and about 25%, 30% non-MF, which is DP and broking. My estimate is that for them, this mix will be very different. It will probably be just the reverse, the segment from which they derive core revenue. So we've seen the results, and we are getting into it, and we can have a conversation later.

But the pricing components, obviously, it is not that the IOP Phase 1 fetch applies only to them and not to us, it applies to both. Some of the mix would have been different. Markets have been muted. Account opening is not of the same level that it used to be, let's say, 1, 1.5 years back. So, you have to get into the depth of this and what the contrast is, we will explain it to you. But at first side, the segments from which they derive fetch revenue and from which we derive fetch revenues the segments are slightly different.

Devesh Agarwal: Understood, sir. On an overall basis, on non-MF business, what is the margin that we are delivering in Q1 and the expected margin for FY 2027?

Ram Charan: So, if you recollect last quarter, we kind of came to around 17 percent plus margin. But the first quarter, we have seen the KRA revenue drop a little, right? KRA a high contributor to the overall non-MF margin. So we are at 13% now. I think this is probably 1 quarter impact as the KRA revenue recovers and the losses in the other parts of the repository and account aggregator reduced. We are confident of getting it if not 20%, at least close to 20% by the end of the year. I would kind of say that it will not be kind of 20%, but you should expect probably 17% kind of a margin.

Devesh Agarwal: Right, sir. And sir, you did mention that SIF is now gaining traction. Could you just help us refresh what exactly is the economics in SIF for us? And how do we charge?

Anuj Kumar: See, the economics in SIF are that you take a scheme, you slot it in an asset type, if it is equity-led, which most of it is, then it's an equity scheme for us and the same rates apply. The same rates apply that the AMC does. So to that extent, you can think of it as just MF AUM scaling.

We have some cost because it is supposed to be set up as a separate segregated schema. You would see on the website also that we don't show it and mutual funds don't show it as part of your MF portfolio. It's shown as a separate portfolio. So it's some costs.

So think of it this way that at about INR10,000 crores, INR12,000 crores, we've already taken the cost of setting SIF as a separate schema for all the 11 SIFs. That cost is now in the base. Any scaleup will help us defray that cost. The pricing will be identical to MF price.

Moderator: The next question is from the line of Uday Pai from Investec.

Uday Pai: Just wanted to get the sense on employee headcount. You mentioned that we have seen 2%, 3% reduction on a Q-o-Q basis. And for the full year, you are expecting 4% to 5% reduction. So does this benefit our margin very significantly in Q4 because the full impact of that will come in Q4? Already you have done very well on Q1. Generally, it's a low margin quarter. So how do we think about employee cost on a quarter-on-quarter basis? And for the next year as well, is there any further benefits that you expect on the headcount?

Anuj Kumar: So I'll just give you a bit of perspective and then I'll get to the point. Base automation has continued to make sure that we run the enterprise at constant headcount, okay? So in the last 10 years, our enterprise headcount is more or less constant.

In this year, we've stated, if you take FY27 that we will drop enterprise headcount by about 5%. That's just taking away backfilling of frontline positions, all those tasks which are getting automated. They were getting automated in the past, too. But given the re-architecture program, the speed of automation will be faster.

So therefore, as progressively we are able to drive this productivity, you will see some diminution in employee cost, some in infra cost because it's basically a seat in headcount takeout. Do keep in mind that a lot of this also means that we are hiring expensive AI resources and expensive automation resources or certainly backfilling those because you can't do without backfilling.

So don't do your math, assuming that 500 people and 500 seats will completely go away. Yes, they will go away, but there will be some offsetting influence of adding new talent. So, the net, you will not see a 5% cost drop in those 2 heads. You may see, let's say, a 3%, 3.5% cost drop. That's perhaps what you should expect.

Moderator: The next question is from the line of Sanketh Godha from Avendus Spark.

Sanketh Godha: Sir, again on costs, maybe the question is on employee cost because it seems to be the key driver of your EBITDA margin expansion trajectory going ahead. So, if I look at the data last year, full year, you had -- and if I exclude the one-off labor crore impact, then you were almost at INR470 crores of employee cost last year.

Given headcount number will keep on coming down as you go and more automation or AI mode of doing the work, is it fair to say that even if you assume annual escalation and probably fill with the little more talented or skilled employees, this number should grow at a low -- very low single-digit rate for the next few years in that sense, and that will be the key driver of the EBITDA margin?

Ram Charan: So Sanketh, I think in last call also, we said the same thing. We'll be kind of endeavor to keep the employee cost growth to around 5%, including the appraisal number. Bear in mind that while there is a productivity increase and automation that happens, the other part of the business, which is your risk, compliance, software development, etcetera, they will still require some investment on people, right? So, it will not be just a one-sided reduction in one side and other side no filling up happening. So, I think it will be a balanced kind of an approach, but our target is to keep it around 5% employee cost increase on a year-on-year basis.

Sanketh Godha: Understood, sir. The reason why I'm asking is that you have employee cost lever and you have the lever from other businesses showing a better margin trajectory, which you already told that it will go from 17% to 20% probably in the current year and maybe it will further expand in the next year.

So, if I look at in combo last year, you were at 45. Is it fair to say that -- maybe you already told it, but fair to say that more -- assuming no yield meaningful pressure, the normalized margins will be at least 150 to 200 basis points compared to currently what we are reporting?

Anuj Kumar: So Sanketh, directionally, maybe yes. Do remember that, A, as Ram pointed out, since we deferred increments by a quarter, you did not see the base impact in the first quarter. You see the base impact in the second quarter. But if I talk of the year, it makes no difference in which quarter I make the increments. It will show up in the year's trajectory. That's point number one.

Secondly, also think of all investments in technology to be not just people. You are seeing -- you're reading the same articles I'm reading, that manufacturers of hardware and data centers services are getting expensive because of hyperscalers getting a lot of demand from the AI-led segment. So, there is some cost expansion there.

The puts and takes, therefore, are that when I take all of this together, we have stated in the past that you can expect about a 1% margin expansion from our side. Can we get to 1.5%? I would say yes. I mean let's just watch it closely. We hope we get there, but directionally, you are right. We will still say that 1% we are very confident of, we may get to 1.5%.

Sanketh Godha: Understood, sir. And maybe on the employee count number, if you can call out that number in the current quarter compared to the last year? And second is on Think360, we increased the stake. So what is our current ownership? And how do we see the ownership to play out in Think360 eventually?

Anuj Kumar: Think360, the transaction had happened in 2023, both the founders and us have the option to expand shareholding at the end of the third and the end of the fourth year. So, the founders obviously will move at some time, like all founders. And what you're seeing is expansion in ownership is the first tranche of our call of their put getting executed. You will see the second tranche of this get executed about a year from now. I won't -- I'm not sure about which month, but it will certainly happen in about 12 months' time.

So that's one thing that you will see happen. We may still choose because it's an award-winning company with a lot of IP-related work in segments where CAMS has not been present. We may continue running the company separately and may never sunset the name. That's a decision we still have to take. So, we may not -- because they work in the NBFC and fintech segment. We would not like to merge it with CAMS at any point in time. I just want to run it separately. But that's on the ownership. So, on first point which is employee count...

Ram Charan: So, you should look at our headcount currently to be just shy of 8,300 for the company. On a year-on-year basis, we are down around 85 in headcount. And on a quarter-on-quarter basis, we are around 225 down on headcount.

Moderator: The next question is from the line of Madhukar from JPMorgan.

Madhukar: Congratulations on good numbers. Sir, first on this employee cost expense, you gave a guidance of 5% growth. That is like for what time period? Is it like a medium-term guidance? So, that's the first thing.

Second, on the KRA revenues, one of the other companies in this business pointed out of an additional way that you can charge your customers. I was not clear whether you are also charging that additional fee? Or is it that sort of different players are adopting a different revenue model over here right now and which is a little unclear how this is changing. So I'm a little confused about that. So if you could clarify on both these things.

Anuj Kumar: Sure. So let me answer the second question first. When the price contraction in KRA was proposed, that was largely proposed so that expansion in demat accounts and mutual fund folios does not get constrained because of any single cost line, and it was the attempt of the industry to bring it to more rational limits. You know that for things like Choti SIP, etcetera, the price were already rationalized. So this part had happened.

At that time, there is one component of KRA where any participant, any market intermediary can come to us and check whether, let's say, it's my case, Anuj Kumar is present in one of the KRAs or not. He's still not downloading the information. He's just asking that question. So these kind of things used to be free at one time and the new dispensation, it was believed that since the KRA industry is taking a large haircut, you should be allowed to charge for these kind of things also.

So just to make it clear, there are no asymmetries in the charging methodology for KRAs. There are no asymmetries. Everybody charges uniformly and for the same utility. And largely, the prices will be same. I mean, it is not disallowed not to do any private deals with large consumers. So there will be 5 or 10 or 15 large deals in the industry. But other than that, it is more or less uniform pricing.

So whatever the other guys told you applies to us also, like we said at the beginning of this call that we also want to go back and check because we don't believe it's such a large impacting item at all. It's not a large impact item. This was the first quarter of invoicing. But just to give you a short answer, all of us are allowed to charge in the same way. On the first part of your question, Madhukar, you asked whether 5% expansion is for a definite period. I'll let Ram take it.

Ram Charan: So this is basically a simple math. I see for the last year, the cost was around INR500 crores. So what we said is for the year, the time frame is a year. So end of the year, we will try to keep it and increase to be between INR25 crores and INR30 crores. So this is a steep order given that incremental impact could itself be more than that, but that's where the productivity increases and the rationalization comes. So to answer your question, it is end of the year, year-on-year, your cost increase should be around 5% for employees.

Madhukar: And for a more medium-term guidance, like if I were to ask you for a period of FY28, FY29, do you think this is a sustainable number on an overall sort of -- so for employee costs and even the other expenses, if you could give us some color whether you could continue to sustain this kind of efficiency levels going forward?

Ram Charan: Yes. So we are confident of 2 things. One is that there will be further rationalization that happens in terms of -- driven by productivity and automation, especially after VR goes live. But the second part of the equation is what Anuj was mentioning, which is that it's not a stand-alone employee count or cost that is relevant from a bottom line perspective. It is also what we spend on other variable component given that we are variabilizing some of our costs in terms of cloud, etcetera.

And I think overall, from a cost perspective, we have taken a target that our cost increase should not be -- should be less than 10% for the year. And that's a target that we will have for the remaining years also. So, to answer your question, we will keep our cost increase down to less than 10% overall across all the heads of expense for the next two, three years. At least that's the endeavor that we have.

Moderator: The next question is from the line of Lalit Deo from Equirus Securities.

Lalit Deo: Just one question on this non-asset based MF revenues. So, in the past you have highlighted that almost like 50% of that revenue comes from the transaction business. So if I look at the number of transactions on a Y-o-Y basis, that has increased by 20%, but on a Y-o-Y level the non-asset-based MF revenues has declined. So what is causing this decline? Could you explain the same?

Ram Charan: So 2 things. One is that the total transactions are fine, but most of them are digital transactions. If you see the paper transactions, they are only less than 10% of the overall transactions. So what we charge for is a subset of the paper transactions.

And -- so on a year-on-year basis, actually, if you see the contributing factors was there is also NFO decline. The transaction was a small decline, but the NFO decline and there are some application fees that we do. We had some arrangement with some of our customers like NSE, which has wound down. So that's the contributing to this.

On a quarter-on-quarter basis, there has been a drop in transaction. It's also driven by some MF Central-related revenues. It's also driven by OPE . So I urge you not to take the overall transaction count as a proxy for finding this revenue because a lot of it is actually digital transactions. We charge only part of the transactions under part the paper transaction.

Moderator: The next question is from the line of Abhijeet from Kotak.

Abhijeet: My first question was on the AI and automation related gains. So in terms of like how do you think about being able to sustain and retain these gains beyond, let's say, the next maybe a year or so? Because in the past, generally, the commentary on the industry has been that whenever you have AUM growth, AMC is always saying that part of it is led by the market, right?

So in terms of absolute value addition, there is always a question mark. But in this particular case, all the investments and efforts have been made by the industry in terms of being able to retain some of those benefits, how do you see that playing out beyond the next 1 year itself?

The second question was specifically if there's been like if I missed if there's a yield outlook for the rest of the year. And the last question is on the payment side, it's good to see the jump in revenue growth, but if you could give some color in terms of, let's say, any new segments which are contributing to the growth and it's all transaction driven or there is like a onetime onboarding related revenues here as well?

Anuj Kumar: Yes, sure, Abhijeet. So I'll try to take your questions in sequence. As far as deployment of AI, etcetera, is concerned, don't overplay it in your mind. Like I said that we have scaled this company significantly on constant headcount in 10 years basis base automation. So automation as a story continues to play out. The benefits are seen in the way we operate and all of you have seen that.

The AI-led benefits are largely the new platform. Why are we're building the new platform? Because we still operate off a platform, which is 2.5 decades old and technologies were not available to do things that we can do today. So it was a necessity. We are well into the process now. We will build the new platform.

All the incremental benefits, therefore, I will call them incremental benefit because base automation benefits anyway would have happened is what you are seeing in not constant, but a dropping headcount. And I think this process will last maybe the next 3 years, perhaps 4 years. I mean it will certainly be 3 years where gradually as we take things live item by item, we will drive productivity inside our system.

I must also tell you that we will be driving larger productivity outside of CAMS across the industry, where more and more transactions will become untouched. More and more remediation will be a single shot remediation. More and more rework or excessive communication, etcetera, will get eliminated. So, this is accretive for the industry.

And I would venture out to say that it will be more accretive for the industry than it will be for CAMS. It will take cost out, not just from our base, but from the base of the AMCs and distributors and exchanges, whoever you name because everything in the end converges upon us. So that's one part.

Is all of that going to show up in our base P&L? Some of it certainly will. But like I said, and all of you are reading this, the story which is playing out in the cloud cost, data center, hardware arena is very different where things are becoming expensive faster than we thought. And some of that will hit us. Net-net, of course, it will be accretive, but some of that will certainly hit us.

As far as the AMCs are concerned, what are they going to see? They are going to see a more productive phase for themselves, for the industries that they deal with and of course, the more productive CAMS. Will that be margin accretive for us? Like we said today, we're not claiming that a 1% annual margin expansion will go to 2% or 3%. We are not saying that. I said we may get to 1.5%, but let's wait till the end of the year.

So the AMCs will their fundamental behavior and their fundamental attitude to efficiency change? I don't think the answer is either way. I'm expecting constant behavior on both sides.

And I would say this is a step-by-step accretive process. We are not announcing it like big bang like the rest of the world is talking about what AI will do.

We've not made a single statement. I will not make that statement even today. You should just assume that we will continue getting more efficient and some of that after everything is taken will show up in the base. So that was one of your questions. So, what was the second?

Abhijeet: Payment revenue.

Anuj Kumar: On payments, we have said that recurring payments inside of insurance, mutual funds and NBFC was a core base 1.5 years back, we opted to get the -- we have a PA license. Now we do PG work. It's largely credit cards.

Some of the revenue expansion you are seeing is credit card transaction related. I said at the beginning that it's a low-margin business. And you know that our preference to have a book dominated by low-margin business is limited. So we will grow cards, but we will grow it step by step.

We do not want to do margin dilutive stuff in the base. That's just against our nature. But that's a new thing which has happened. Education as a segment has opened, but I will not attribute a lot of revenue increase to that. I think cards is certainly revenue accretive, not as much payments.

And there was nothing onetime. We've said this in the past, Abhijeet, that to build the book, we never take anything onetime and then drop it in the next quarter. Go back to our entire listed history of, I don't know, 40 quarters, you will not find -- sorry, not 24, 26 quarters, you'll not find a single instance. So there's nothing onetime.

Ram Charan: Yield.

Anuj Kumar: Yes. As far as the yield is concerned, I think we said this, and I said this in my commentary, so did Ram, that we've come out of the compression that we had reported in 4Q '25, 1Q '26. So that is now all in the base. A lot of the stuff which belongs to this year, whatever had to be done is in the base in the first quarter. What is residual for the next 3 or 4 quarters will not be significant. So that is what I would think you should take a broad guidance.

Now the telescopic part of the contraction has nothing to do with any negotiation. It's anyways in the base. You will see that play out, but you've said historically that you should see 2.5% to 3% annually. My guess is that's perhaps the number you'll end up seeing when we speak to you in May.

Moderator: The next question is from the line of Sonal Gandhi from AMSEC Securities.

Sonal Gandhi: This is Sonal from AMSEC. Just a couple of them. How do you see capex playing out, say, FY 2027 and FY 2028? What are the components of this capex expense ? Also, just wanted some clarity, do you capitalize AI-related headcount expenses into capex, or is it shown as part of the employee cost?

Another one was on the depreciation. We have seen that depreciation is down on quarter-on-quarter basis. So, how do we see depreciation kind of playing out for the rest of the three quarters? I think you've alluded to EBITDA growth of 16%. So, how do you see PAT growth for the year?

Ram Charan: Okay. So, I'll just take the first question on capex outlook. So, for the current year, I think the last quarter also we mentioned that we expect for the coming year the on-prem related capex, including tools and servers and storage and premises, etcetera, to be in the region of INR75 crores. This will progressively go down in the subsequent years once the cloud infrastructure gets up and running and we migrate to the cloud for the re-architecture project.

From a re-arch perspective, we expect to spend -- the overall project cost, as we have said, is around INR500 crores. We have so far spent INR123 crores on this and part of it is capex, part of it is opex. On the overall INR500 crores, we expect around INR290 crores to be the capex number, out of which in the current quarter, we have capitalized around INR40 crores, right?

So because of going live of some of these projects, we kind of take it to capex and start amortizing. It just happened in the first quarter. So in the rest of the year, we will expect that at least another INR80 crores will get capitalized. And going forward, a similar number will get capitalized the year and year after.

So you should expect -- and this is a 10-year amortization. So if you kind of average it out on a yearly basis, you should expect in the current year at least an increase in depreciation to the extent of INR4 crores to INR5 crores for the rest of the year because of the re-arch capitalization.

And next year onwards, this will be added this INR8 crores plus another INR4 crores to INR5 crores. So it will have another INR12 crores additional depreciation next year. And similarly for the year after, after everything will be in the base. So this is the re-arch part of it. The other capitalization, what you see will go on as it is.

The reason why you saw a decline in depreciation this year was basically the written down value actually has a steep decline in depreciation quarter-on-quarter because that's the way depreciation is charged. So we had a large capex outflow similar quarter last year, which kind of went off year 1.

So the year 2 depreciation is significantly lower and further capitalization for the quarter has been very, very muted from an on-prem perspective. So if you see the net of that, there has been a drop in depreciation, but this is not something that you will see every quarter. This is more to do with a very muted capitalization in the first quarter, which will pick up as we go along.

So I would urge you not to extrapolate the decline in depreciation this quarter for the rest of the year and say we will have INR15 crores drop in depreciation. That will not happen. In fact, you will see an increase in depreciation because of the capitalization we do for the re-arch expenditure.

The policy that we follow has been very conservative in terms of capitalization development cost. The core mutual fund platform, the KRA platform, the payments platform, everything, all expenses that we do, whether it is AI, not AI related, automation, maintenance, bucket, etcetera, each taken as part of the employee cost.

We have 100% subsidiary sterling software whose cost is taken as employee cost in the base. Only for the fresh re-architecture project, people who are actually involved in coding the new platform on the cloud, their cost alone is taken as a capital expenditure, and that is the INR290 crores that I spoke about earlier out of the INR500 crores cost that we're talking. On the EBITDA growth, I think Anuj has spoken in detail about how we plan to get there. Is there any specific component of that you have a question, I'd be happy to answer.

Sonal Gandhi: Sir, my question was more to how do we see PAT growth for the year?

Ram Charan: So you will see, right? So you see that there is -- if your EBITDA growth is around 45% your PAT growth is around 31%. So we expect that our PAT margins will continue to be around 30%, 31% going forward also.

Moderator: The next question is from the line of Divyansh Jaju from Trinetra Asset Managers.

Divyansh Jaju: My major questions are covered. Still, I want to know more about -- in the recent quarter, the overall business level revenue growth has seen muted. In our distributor services space, the competition is also rising. What are the key things as a business we are doing to accelerate revenue going forward?

Anuj Kumar: I'm still trying to understand your question. You're saying in the distributor services space, competition is going up. In the MF segment, distributor-led services are not very revenue accretive. If you take out MF Central CAS and some of the APIs that we sell to them and we may have done a few websites, etcetera, it isn't a very large segment. So I'm not clear what you mean by that.

But just think of it this way that the MF pay us most of the money, neither the individual consumers nor the distributors pay any large lumps of money for that to be meaningful. Competition there, I would again kind of grope a little for the genesis of that statement. But competition perhaps remains what it used to be.

Divyansh Jaju: Okay. I'm not sure if I have before even asked question apart from our mutual fund and non-mutual fund space, what is the EBITDA margin currently we have and we expect in the coming year?

Ram Charan: Yes. So this first quarter, given the KRA revenue was a little lesser than what generally it is, the revenue -- the margin was around 13%. But I think our outlook for the year, we said will be 16% to 17% given that KRA will recover and the losses in a few other businesses will come down as the year progresses.

Moderator: The next question is from the line of from Rengavarshini K from Wealthfield.

Adhish: Am I audible?

Moderator: Yes.

Adhish: This is here, Rengavarshini's colleague. The question is again on the margin side. So now the EBITDA margin is right now at around 47%. Now, we are aspiring to reach there. So, the non-MF business contribution of 14%. See,as and when the business matures, based on what Anuj has stated, is it safe to assume that we are going to be margin accretive in nature?

Anuj Kumar: So most of these businesses in the non-MF portfolio platform-based businesses, which means that once you build the platform, you've taken a large part of the cost of operation in the base. And once you start selling, you've taken the cost of sales. So beyond a point, revenue contributes significantly to profit. Some of our businesses like Bima Central and account aggregator, especially those 2. And to an extent, MF Central are in that category where revenue is scaling, revenue is still not gross cost. Most of the cost is fixed cost.

Variable cost on incremental revenue is a smaller component. So as and when that happens, you will see profitability by individual business lines. But like Ram had said, if you take all of non-MF as a single lump, we are expecting that to grow in excess of 20% and for profitability to scale from about 16%, 17% last year to get closer to 20%. That's the broad statement on the portfolio.

Adhish: Out of this, which one of them are to yet to become EBITDA breakeven?

Ram Charan: So from an individual perspective, account aggregator, pension and CAMS Repository are not yet EBITDA positive. Of this, we do expect CAMSRep at least on a final quarter basis to become EBITDA positive. Think Analytics is almost there. So, we have these businesses which are not yet EBITDA positive.

Adhish: So on the account aggregator side, are we seeing any kind of difficulty in terms of adoption in the industry part ? Is there any bottleneck there?

Anuj Kumar: Well, I would say there is a bottleneck. It's just a brand new concept seems to be getting adopted on the fintech and lending side, on the capital market side, not as much.

Moderator: Ladies and gentlemen, that was the last question. I would now like to hand the conference over to the management for closing comments.

Ram Charan: So thank you to all the participants for your time you spent on following CAMS and attending this call. And in case of any questions, please feel free to reach out to Orient Capital MUFG or to Anish Sawlani, Investor Relations in CAMS, and they will be happy to take your questions. Thank you once again.

Moderator: On behalf of Computer Age Management Services Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.