“Computer Age Management Services Limited

Q2 and H1 FY27 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day, and welcome to Computer Age Management Services Limited Q2 and H1 FY27 Earnings Conference Call. 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. Thank you, and over to you, sir.

Nikunj Seth: Thank you, Huda. Good morning, everyone. Welcome to Q2 and H1 FY27 earnings conference call of Computer Age Management Services Limited Mr. Anuj Kumar MD and CEO; Mr. Ram Charan, CFO, and Anish Sawlani, Investor Relations.

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: Good morning, everyone, and thanks, Nikunj. Thanks, everyone, for joining this 2Q FY27 earnings call of CAMS. The presentation would be with you now. I will take you through the initial highlights of the quarter and how the business transpired.

Broadly, operating revenue at the enterprise level grew 10% year-on-year to become INR415 crores. This is the first time we have crossed the INR400 crores mark. And in a quarter which wasn't very easy because you have seen the markets and you have seen the trends in AUM, etcetera, I think this is fairly creditable. And I will get to the various components as I progress.

On this 10% year-on-year revenue growth, EBITDA increased by 13.5% to almost INR191 crores. Do keep in mind that this INR191 crores is after absorbing a large-scale employee increment, which we had deferred from first quarter to second. So that cost was incurred in the second quarter.

Also, the fact -- so speaking about margins, EBITDA increased -- on this 10% revenue increase year-on-year, EBITDA increased 13.5%. This was after taking the cost of employee increments, which happened in the second quarter. Also, there is a component of about INR4 crores, which is -- and we will speak about that in detail, which is cost incurred on the new platform, which is now slowly coming into the P&L. So this INR191 crores has to be read in the backdrop of that.

EBITDA margin expanded 140 basis points to 46%. Now, how I would characterize this entire thing is that typically in good quarters we have had asset increases of 18%, 19%, 20% and even higher than that. And therefore, you expect baseline results to kind of align to that kind of asset

growth and that kind of revenue growth. This time, the asset growth was just north of 12%, so significantly more than that in line with the industry. However, producing this quality of results, both in the revenue and the EBITDA side, I think is fairly credible.

So a lot of you continue to ask us questions on what will happen if it wasn't such a strong quarter. I think this is a great example of a quarter we did not see significant AUM growth in line with the past. But the financial results have been -- have vindicated how solid the model is. PAT on the back of this 140 basis point expansion in EBITDA grew 14.5 year-on-year. So 10% revenue growth, 13.5% EBITDA growth, 14.5% PAT growth, that's really the summary of the quarter.

And also, I would say that 3 or 4 years back when revenue diversification outside of mutual funds was not as significant as what it is today, I think a lot of this financial gross contribution has been driven because of what's happened in the non-MF business. In the past trailing 12 quarters, in most of the quarters, we reported in excess of 20% annual growth in the non-MF business. And we are confident this will continue to happen.

The good news is that this is not a cash-guzzling business. The margins continue to improve. So overall, this business, the non-MF business, grew almost 22%. CAMSPay, the payment services cross 6% revenue contribution. This used to be about 3%, 2 - 2.5 years back. So fairly significant build-out there.

Just kind of splitting this, I'll move to the next chart. On the MF and non-MF side, CAMS MF AUM, as I said, grew about 12.5%, got to about INR58.5 lakh, 67% market share. But I think what is significant in this is that the equity AUM grew 15.5%. So ahead of industry, industry was 15.2%. Why did this happen? If you reflect on the equity net sales for the last 1 year, even longer, but I would say just look at it over the last 1 year, our share in equity net sales was upwards of 70%. So that's driven the growth in equity MF AUM above industry.

The net sales number of 70% of the industry net sales, driven to an extent by SIP collections. So SIP collections, I'm talking of the gross number, not the net number. But in the quarter, SIP collections grew 16.5% year-on-year. This is against the industry 12.4% number. So again, you can look at it at a gross basis, overall assets grew 12.1%, equity AUM grew 15.5% ahead of the industry. Within that, SIP collections gross grew 16.5% against industry of 12.4%. So significant lift over the industry.

And the net sales number is 70% of the industry in the last 1 year. So all of this contributed to equity MF AUM increase ahead of the industry. Live SIPs and investor base, both of them grew in share and grew ahead of industry. So again, from a foundational metric perspective, everything's solid, everything's positive. In a quarter against baseline of high-teens growth, this was not even a teen MF AUM growth, 12%. But we have managed to grow every metric [inaudible 0:07:38] significantly, including PAT at 14.5%.

Some of the other trends which became visible, SIF new product class, almost 12 of our AMCs have now launched SIFs. Overall AUM at INR20,000 crores. Still early days. We were getting to about 1 lakh investors, but we believe that from a portfolio diversification perspective, this

will become a hugely popular product. Also, GIFT City retail funds continue to scale with 5 launches that have happen, 2 more, 2 to 3 more will happen in the current quarter.

So the AUM crossed INR1,500 crores. I would again say early days, but the promising product allows you -- a lot of this is outbound, a lot of this is outbound. Domestic investors investing in FOFs or ETFs overseas through the GIFT City architecture. That's done well. InCred AMC appointed CAMS as its MF RTA, a fairly significant win for us. So we get with this from a client count perspective to 32 out of 64 licensed AMCs, you know that at one time.

While our market share has been high 60s, early 70s, the count of AMCs was smaller. I think in the last 2, 2.5 years, we have flattened that completely. So 32 out of 64 licensed AMCs. And if you reflect on the logos in the last 3 to 4 years, we continue to believe that we have won everything that we wanted to.

ASK Investments and Carnelian, these 2 went live with their maiden funds during the quarter. And Oaklane and Neo are expected to go live in the coming quarter, which is 3Q. So that will kind of continue from a new AMC and new AMC MF AUM build-out perspective. We'll continue to give support as much as we need from a new logo perspective.

On the beyond mutual funds, non-MF revenue contribution grew to just short of 16%, 150 basis points up. But I would say that underneath the hood, some very strong trends. CAMSPay grew in excess of 50% year-on-year, 13% quarter-on-quarter. Both the base recurring payments through NACH, eNACH and UPI AutoPay and the newly grown and growing cards business, both have done very well. Significant client additions. So we don't believe that any of this is either one-time or will stay this way. We'll continue to scale.

Alternatives, again, great story. I've been telling you that despite the significant depth of what competitors are doing, 22% year-on-year revenue growth, AUM just crossed INR3.3 lakh, 50-plus new mandates, 15 new marquee relationships. So you will see that a lot of these businesses, PFs especially, doesn't have a lot to do now with the capital markets. A lot of it is diversified, it's non-capital market revenue. Alternatives is capital markets, but a lot of it is derived from non-MF AMCs. Those are not the AMCs with whom we do MF work.

And then when you look at KRA, 3 years back we literally had almost 100% of the revenue derived from mutual funds. Today, 5 of the top 10 broking houses in India are actively doing business with us. We may not have 50% or 60% market share with them. We may have 10% to 25%, but it's a very nice break-in.

And the reason we've shown you quarter-on-quarter revenue growth because in the year-on-year numbers, it was that large fee remission of 20% plus that we have taken in the first quarter. So we believe Q-on-Q is the relevant number. Again, nothing one-off, nothing one-time. This is just native growth.

And again, given the fact that capital markets have had their share of headwinds, I think all of this is fairly creditable. I will get to the repository. We crossed 15 million, 1.5 crores demat policies. The important thing is that Bima Central now has a module for brokers. So you can get

to the CAMS app and the website the CAMS website and do your work. But you could also get to these brokers who are active sellers of insurance, and they are now driving 2 things, they're driving policies in demat. They're driving those consumers of theirs to now start doing transactions on Bima Central. Of course, it's like a white label solution on their apps and their websites. So that's good. We expect that trend to continue deepening.

Also, while it's early days, I don't want to start calling out the impact of new -- potentially new regulation, etcetera. But you guys are aware that there is directionally a possibility that this industry may go heavily into a digital format. We will continue to remain a sold product, a significantly sold product, not a sought product.

But digital interventions, do-it-yourself, etcetera, will become -- is likely to become a lot more deeper and abiding. And we believe we are in the best place to take this journey forward for the industry, the single player, which has this significant servicing layer on top. So again, like I said, early days, all of the story should likely unravel itself in the next 2 or 3 quarters. We'll keep you posted.

Account aggregator grew 19% again on a small base. But in the analytics use case, you know that for one of the largest banks in India, we have deployed the PFM module for their banking app, and they're showing now financial wellness and financial scores. This will get adopted by many other players over a period of time.

Also in the account aggregator market, although it remains a small business, a new pricing model, remunerating SIPs, etcetera, is about to come in. You may have read something about it. We will talk about this in more detail perhaps in the ensuing months when something solid has happened. But I think both in AA and in insurance, there are possibilities that some of these regulatory wins may shape a more meaningful future cruise, but we'll keep keeping you posted on how that works.

And then ConsenPro, we've been talking about this product. You may have seen some of our PR. It's a pioneering DPDP implementation. We are focusing on the BFSI segment. Under implementation with 20 clients. We believe, of course, this has to scale significantly, maybe 10 to 20x from these 20 clients to become meaningful in our product and business armory. But a very good start.

A lot of mutual funds, broking houses, NBFCs, those kind of people have opted. Almost half of them would be mutual funds, I would say, the half are other entities. But it's a great start. We went into this market seriously maybe in the month of April, May. So building it out is a great capability to have on the side as we move forward.

On the technology side, I think some of the metrics are visible to you. But I would just say that the progress is very good and very strong. And some of this, I will not claim you're seeing it in the financial results already. A bit of it you are, but in the next 3 to 4 quarters, every quarter, starting from this quarter, you will see those things happen. So from a modernization, new launch perspective, FUNDSNet is really the face of the RTA utility because this is how the transactions,

millions of transactions every day come in. This has all gone live. We are planning to sunset the legacy utility by March, April.

This will spread significant productivity in the organization, will spread significant productivity, more importantly, in the MF industry where time and effort taken by people, by brokers, by aggregators, by platforms, by AMCs, their branches, their operations teams will significantly reduce. So it is productivity enhancing for the entire industry and of course, for CAMS.

On the form reading, data reading, I think the use cases are already deployed. We've spoken a little about it. You've seen some impact on our headcount. We've continued to grow on falling headcount this year after April. You will continue to see that trend as we progress. We're also seeing rub-off benefits and lower complaints, etcetera.

AI's ability to read written characters is very good. Of course, we have not taken out the maker yet. We've only taken out the checker in some cases. But after 7 or 8 months of having this in production after March, April, we are very convinced that this is the way to go. So we will continue deepening this.

You may have read about CAMS Lens. Some of you, I know, have been in a close user group, etcetera, with us testing this out. NISM adopted this as the AI-powered training partner for compliance for themselves and for their students. So it becomes part of their pedagogy platform, which is good news for us.

And again, from a data reporting, new platforms for GIFT City, GIFT City platforms are complex because the way you do KYC, the way money gets transferred, there's Forex involved. All of these things and the quality of APIs you build are very different. All of this is now getting done through the new utility. We also built out KYCHUB. Some of you may have seen this in the GFF which is our new eKYC platform, again, finding a lot of adoption across the industry. So very strong progress on the new platform side.

I just think that it's probably 30% done. It's probably about in all avatars, 30% done. But the impact is already visible to us. I think the headcount impact is in the financials. A lot of that will become stronger and stronger. But from a performance, quality of integration, quality of tech in the market, time taken to conclude anything, all of those things, time taken to build a new utility or a new app, time to onboard customers, curate or cure faulty transactions, all of that we're seeing a significant lift.

I will pause here now and hand over to Ram Charan to take you through the financials.

Ram Charan: Thanks, Anuj. Anuj has already gone through the financial highlights. I'd just like to reiterate a few points, especially with regard to AUM to growth and the question on yields. I think it's been a reasonably stable quarter with regard to yields. I think we have always guided that you will see -- some quarters, you will see a 3% to 3.5% drop in yields. But I think quarter-on-quarter, we've done much better. The drop in yield is less than 1%.

And year-on-year, due to a combination of factors. One is obviously the scale-based pricing because the assets have grown almost INR7 lakh crores on a year-on-year basis and also because of the mix, which is that you do have less of debt and more of passives in this mix, although both are almost like similar number in terms of absolute AUM.

So because of that, you will see -- and it's well within the range that we have predicted, which is the yield drops around 3% year-on-year and less than 1% on quarter-on-quarter basis. No big pricing corrections have happened. And as we have said, there are some negotiations happening. A couple have been closed, a couple are in progress. So this is -- there is no big price correction that's happened nor do we expect something large to happen in the next few quarters.

In terms of non-MF growth, I think as Anuj mentioned, it's been an excellent quarter, 21% year-on-year growth, 11% quarter-on-quarter growth. CAMSPay has done very well. And we have kind of the -- and KRA has bounced back. KRA has bounced back in terms of its revenue growth. So this is kind of very beneficial from the overall non-mutual fund profitability perspective.

We have said that we will try to exit the year with a close to 20% profitability. Happy to say that even in the last quarter, given the mix of growth that we have seen in the non-mutual fund business, the non-mutual fund profitability is upwards of 18%, right? So which means it's a very good development from a profitability perspective. So not only are we scaling non-mutual fund businesses, we're also scaling it profitably.

And you've seen also from an expense growth perspective, we had guided in the initial part of the year that we will try to keep it less than 10%. Happy to say again that the expense growth on a year-on-year basis has been a little more than 7%. And as Anuj pointed out, this is the quarter in which we have also given the annual appraisal. So that is an INR8.5 crores impact, which is almost a 2% impact. And in spite of that, our expense growth even on a quarter-on-quarter basis is only 7%. So well on track, aided by productivity improvements and some improvements happening because of deployment of our re-architecture platform and AI.

And as Anuj mentioned, this is going to be a sustained kind of a moment. It's not a one-off thing that we are seeing. So expenses well under control. I think yields are broadly in line with what we had predicted. We see no big strain on the yields going forward also. And the non-mutual fund growth, diversification, well on track with a 20% plus growth. We are at the 16%, almost non-mutual fund proportion of sales. And as we said, our target is to get to 20% within the next couple of years.

From a cash position, we ended the quarter with a very comfortable INR900 crores cash position. This is after paying around INR160 crores of dividend during the quarter for the earlier 2 quarters. And we've also declared INR3.25 dividend as an interim dividend. Overall, I think very strong cost control measures. We have rationalized a lot of things aided by technology productivity.

The non-mutual fund growth back on track in terms of KRA and doing very well in terms of payments and stable in terms of a few other businesses, AIF doing very well in terms of growth. And we are looking forward to this growth in non-mutual fund sustaining. As Anuj said, none of it is onetime, nor are we expecting some slowdown in growth in our major non-mutual fund businesses.

So that's the summary of the financials, and I will leave it to the moderator to open it up for questioning.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Swarnabha Mukherjee from 360 ONE Capital.

Swarnabha Mukherjee: Congratulations on a good set of numbers. I have 2 primary questions. One is on the -- I mean, both on the non-MF part of the business. So first, I wanted to ask on CAMSPay. So I think CAMSPay has delivered fairly strong growth for multiple quarters. And as we move ahead for the second half of the year, I think the base is reasonably high in terms of growth.

So just wanted to understand from you what underlying trends you are seeing? And would you expect a similar kind of growth momentum to be maintained in this? Or would we see some like a natural moderation in growth because we are sitting on a very high base? And if the growth is likely to continue, if you could highlight some -- what are the drivers of the strategy can play out. So that is on pay.

And the second is on KRA. Sir, last quarter in the call, we had discussed that you have some additional fetch-oriented revenue that was -- has now started to get priced. And so I just wanted to understand that this bounce back in CAMS KRA, how much of this is attributable to the higher number of higher amount of activity that was there in the market and through this additional pricing benefit that we are getting? And how should we think about this number? Should we roughly think about this should continue at INR100 crores plus kind of a level a quarter? These are my questions.

Anuj Kumar: Sure. So on CAMSPay, I would say the -- you're right. In the last 3 years, you've seen us expand almost by the quarter, and the growth has been very strong. It was a business where we only had a payment aggregator license. Now we also do cards. So it is a PA plus PG. Some of the growth that you are seeing is coming out of the cards business from PG.

We are still inside financial services. We don't have any point-of-sale presence. We don't do e-commerce or food delivery, etcetera. So we continue to remain focused. Our broad estimate is that obviously expecting 50% year-on-year on what is now almost INR100 crores plus base is not going to be easy. Our public statements have been that CAMSPay should grow in a fair manner by about 30-odd percent for the next 2 years.

So broadly, I would say that 50% may last for another quarter or 2, may last. You should expect the payment business in the next 2 years to grow about late 20s, 30% each year in the next 2 years. That is something that we have a reasonable handle on without diluting on profitability or any other metric. So think more of 30%, early 30% than 50%. That's one.

On the KRA side, again, this is -- there's a slow change which has happened in the portfolio. Just like in payments, it's a change which has happened in the portfolio. It's a structural change, both product and sales. In KRA, again, it's led by both product and sales. We've continued to gain share. Wherever you see, we will continue to gain share. But the big thing is that we were playing 3 years back in, let's say, a 25%, 30% segment of the market. 30% segment of the market would be originators being mutual funds, 70%, 75% was demat and broking.

Our share of demat and broking has continued to go up. So what you've seen despite the price drop in the first quarter starting April, you've seen a significant quarter-on-quarter growth. I would say this is typically usage growth, both by the base because there's been some increased activity, also by new clients which have been onboarded.

Like I said, some of these clients, I just think about it, if you had 70% share of the market segment that I was not selling in, I've started selling into it, and it continues to increase every quarter, 5 of the top 10 brokerages are now our clients. Out of the 70%, they perhaps contribute 40% of the 70% to the overall market.

So we are now playing in that segment. We're still not at optimum share. We would like more share there, but whatever share we have is having an impact. I think that's how you should read the KRA business. Will this continue for some time? Yes, you should expect this growth to continue over a period of time.

Ram Charan: Just to answer the second part of your question on the Phase 1 hits, etcetera. Yes, the revenue for the current quarter, as we said last quarter, does include the Phase 1 inquiry, status inquiry kind of APIs, but not everything is attributable to that. And the factors that Anuj mentioned contribute a lot to this entire increase.

To give you in terms of numbers, I think the incremental revenue would be hardly around INR1.5 crores because of this in the entire increase that you have seen. So a lot of it is attributable only to the new customers we have onboarded and the increase in volume. And some of it is attributable to the Phase 1 hits that we are seeing.

Swarnabha Mukherjee: Very clear, sir. Understood. Just 1 question. If I look at the -- at a consolidated level depreciation numbers, I see some volatility in the last 3, 4 quarters, like it moved from INR25 crores in 3Q INR26 to INR28 crores in 4Q, then again came down to INR25 crores and now again, INR28 crores. So how should I think about this number and why this volatility?

Ram Charan: So 2 aspects. Number one is basically in terms of the depreciation that we follow. And I think I mentioned this in the last or the earlier call, which is basically written down value method. So you do have a higher depreciation of 40% coming in year 1, given the method of depreciation that we follow. And in quarters where you have a muted increased depreciation, you will see a drop in depreciation.

So in fact, last quarter, when we said the depreciation, we also kind of said that this is not going to be the trend going forward also. So I think you should take the current base, we did have a

significant addition of storage servers and given the hardware prices that there are, so the capitalization has increased this quarter, which causes this depreciation.

Second aspect is the rearchitecture. As Anuj mentioned, almost 30% of the work is done, so which means that a lot of these modules have gone live. And once they go live, we start amortizing. So actually, of the increased INR3.5 crores in depreciation in the quarter, more than INR1.5 crores is actually attributable to the new modules that have gone live in the rearchitecture project. So I would rather urge you to keep this as the base rather than any of the earlier quarters.

Moderator: The next question is from the line of Supratim Datta from Jefferies.

Supratim Datta: My first question is on the yield bit. So I do understand that you said that Q-o-Q yield contraction has only been less than 1%. However, some of your larger customers have shown a Q-o-Q increase in their yields. Also, what we have seen this quarter is some of the smaller AMCs have been growing faster. So just wanted to understand that despite this, is it only related to telescopic pricing? Or is there something else also that is there that in the yield piece. If you could give some more color on that, that would be helpful.

Secondly, on the SIF bit, and that has been a growing segment, are the yields similar to what you make on the equity side, if you could clarify that. Moving to the non-MF business, if you could give us some understanding around how is the margins now tracking in that business? You did suggest that there is a 15% increase, but I wanted to understand how is the margin tracking there? If you could give some color around that, that would be helpful.

And then on the overall cost structure bit, you have been managing costs very really well. But if I look at it more from a 3-year perspective and if asset growth remains weak, then would you be able to manage cost growth at somewhere around that 10% level? And what would allow you to do that? Those were my 3 questions.

Ram Charan: Yes. The question on yield is a great question, and I'm sure many of your colleagues also have the same question. So I'll just say and just recap the basics in terms of what the yield is influenced by. A few of the things you did mention rightly. And if you see from overall perspective, the customer mix plays a part, the asset mix plays a part, the discount plays a part. And so in this quarter, if you see, while from an asset mix perspective, while it is true that equity has grown probably a little more than the overall asset growth.

If you see the remaining asset classes, you've seen debt falling down by X percentage, and you've seen the passives going up by the same percentage. So in my asset mix, what you have seen is whatever the yield is given the same absolute number, whatever the yield was contributing by debt, which is, say, a little more than 2, 2.25 bps, has been replaced by passives, which is probably 0.5 bps, right? So that mix is having an impact on this entire yield that you are seeing there.

A lot of it is telescopic pricing. In a normal year, even just all assets going in the same place, you will get a 2% kind of a telescopic pricing impact. Rest will be because of the impact. And in terms of yield, yes, some of the larger customers have grown also, which -- that at least 3 of

my top 6 customers have grown in line or greater than the average asset growth, which means that overall mix from a customer perspective is also not great from a yield perspective. So all these things have contributed.

The only thing I would like to reiterate is please don't use it as a proxy for any discount that we have given, right? And we reiterate the stance which we gave last time, which is there is no large customer discounts given or no renewal discounts that are given in the numbers that you're seeing. It is entirely attributable to either customer mix. In this case, it's more an asset mix as well as a telescopic pricing that you are seeing.

That was on your yields. On the SIF, yes, the pricing of the SIF broadly mirrors what we do for the usual funds. So if it is an equity kind of a fund that we have, you will see the same rates that we are charging effectively for equity and regular schemes to be charged for SIF. So you won't see a higher or lower yield because of SIF. It will be kind of the same. It's almost like from a billing perspective, if you consider it as another scheme of the same mutual fund from a billing perspective. There is no big difference between the two.

In your non-mutual fund business margins, and this is something that I mentioned, which is we've not only grown non-mutual fund more than 20%, we've also grown it profitably, right? So if you see our last quarter margins were much less than 15%. But given that payment continues to do business at reasonably good margins of 20% and the KRA in the mix has increased, KRA is a very profitable business. It's now increased in the overall scheme of things and has delivered growth profitably.

The overall margin for non-mutual fund is much ahead of what we had projected, because it's more than 18%. In fact, close to 19% is the non-mutual fund margin bucket that we have. So which actually is very favorable from the overall margin profile also, right? So 16% of the business contributing 19% versus 15% contributing 12% last time, it's been a good plus from the overall margin perspective. And from a cost structure perspective, I mean the sustainability of costs.

Anuj Kumar: No, sure. So from a cost structure, I think your point was that if we see weaker AUM growth, what happens, or more moderate AUM growth. I think in the last 2 years, we've seen quite a bit. Last year was 17% AUM growth against a benchmark of 19%, 20%. This quarter, we've seen 12% AUM growth, and therefore, MF revenues grew 10%. So our ability to manage cost, I think, in the next 3 or 4 years, a lot of it will be predicated on how we infuse productivity and how we manage the new platform.

I would say that is contributor number one. There are many other contributors, but that's perhaps more than 50% of the contributor. We believe for the last many years, we've not expanded headcount at company level. Last 12 months, we've been dropping headcount just by not backfilling. And we believe that this has happened after 30% or approximately 30% of the work on the new platform is done.

That is perhaps a trend which will last at least the next 3 more years, which means that we will continue to take modules live. We will be able to infuse significantly deep productivity inside

the system. We will also be able to infuse productivity, significant productivity in the industry, but that's a different story. We will not get paid for it. What is internal is internal. So employee productivity is on an up and will be on a significant up. So therefore, I would condense the argument by saying that mentally we delivered a 12% growth in MF AUM and showed you a 14.5%, 15% PAT growth.

Is that demonstrable? We have demonstrated it. What if this happens for the next 2 years, can we demonstrate it? I would say broadly, yes. I would say broadly, yes, that we are mentally prepared that if something like that were to happen, we know how to deal with it. Now your next question can be that what if MF AUM grow only 7% or 8%. Well, I can give you a hypothetical answer. We will answer it once we've seen a quarter like that.

But that significantly moderate level of AUM growth by growing the other parts of the franchise, by growing other parts profitably, by holding margins at enterprise level and managing the cost line in real terms, nothing is one-off. There is no onetime billing. There is no onetime recognition. There is no past-faded thing which we brought forward. None of that has happened. These are just as straightforward as you can. So that's how I would answer your question.

Supratim Datta: Just one follow-up. So then we should be taking the employee cost that you have incurred in 2Q as largely the run rate for the remaining quarters? Would that be a fair assumption to make given there is no one-off?

Anuj Kumar: Yes. Yes, you can take it.

Supratim Datta: Got it. And sorry, just one last question, and this is more fundamental. So there is a lot of talk around headless architectures now on the software side. Just wanted to understand that given you also provide software solution, back-end solutions to the mutual funds, how much of these AI systems and these headless architecture, how much of a risk is this may not be in 2 years' time or 3 years' time, but if I'm looking at it more from a 5- or 10-year perspective, how much of a risk could this be to a segment like yours?

Anuj Kumar: See, right now, our belief is that all of the AI is being deployed by us and used by us in various components of the software that we build and test. A lot of this build-out is still dependent upon understanding of regulations, understanding of process, etcetera. Just taking a large LLM or just building a more intelligent SLM on top of it, giving it some instructions and getting the software built is still some distance away. It's just like asking a question that can you build an entire airline booking and ticketing system and its linkages with the dozens of entities that deals with or a core banking solution, can you build it just by deployment of AI.

I mean, simple steps, individual steps, individual modules, people are trying. When you try that on an LLM, you give up almost all your rights to the IP because you fed it into the LLM, it is available for the world to use, so you have to be discrete. And therefore, we have deployed discretion. We do not believe -- if your question is that can somebody just come in, get on top of these utilities, start giving commands now go and build a transaction origination system for mutual funds, go and build a KYC verification system for mutual funds. All of that is still some distance away.

Moderator: The next question is from the line of Prayesh Jain from Motilal Oswal.

Prayesh Jain: Just an extension to the previous question actually. AMCs today are paying -- especially the large ones are paying decent amounts to RTAs. At what size it becomes for them to kind of evaluate between having it in-house and using AI tools because some part of KYC, they already know they would be doing on the direct business, right?

And probably you are helping them out there. But do you think at any point, at a certain scale, they would start thinking of building it in-house and using AI tools, which can bring down the costs to kind of shift towards in-house? I know it's a hypothetical one, but yes, I think that keeps running in the mind.

Anuj Kumar: No, no, absolutely. Absolutely. So as something becomes easy, does it become easy and cheap? If it becomes easy and cheap, do I in-source? I think the examples, Prayesh, are enough to be read when you look at global benchmarks, go back and look at all the global banks. And if they in-source a lot of stuff, there will be some instances, small ones, but 90%, 95% of the outsourced industry has been intact, whether you take airlines, telcos, banks, insurance companies, all of that.

Today, when you see how the Indian MF industry is architected, and you can take a cohort. You can take, let's say, domestic insurance. It's a nice cohort, belongs to the same people who set up the same AMCs and look at the cost structures. There, what you do is either you build some of the software yourself, but the core policy admin, etcetera, you buy from someone as a software. You set up your own service centers and then you try to do everything yourself. This kind of mass scale outsourcing is not possible. Show me 1 example where anybody is able to condense all their operating costs to 7 or 6 or 5 or 4 bps, there will be no one. There will absolutely be no one.

The same logic will apply for the MF industry. Today, this platform that you're seeing is deployed over INR60 lakh crores AUM base, it is deployed over, let's say, INR6 crores, INR5.5 crores, INR6 crores investors, about INR8 crores SIPs. So the benefit of scale is spread everywhere. The argument has to be that the same benefits are available at let's say, INR10 lakh crores or INR11 lakh crores or INR15 lakh crores or INR20 lakh crores because progressively, you are seeing that the instance of per unit cost is going down. And the effort involved in recruiting, managing today, just the regulation.

So for example, we are required to have 4 data centers, 3 which are normal data centers, 1 air gapped. The asset managers are not supposed to have as many data centers because they only have a copy of the data, a constricted copy of the data, we have the full data. The amount of stuff that they will have to start doing will be significantly more than well, comparing the bill and seeing whether it can be done in the same amount and doing it in the same amount is not going to be easy.

I think just look at the world around you, look at Indian banks, look at foreign banks, look at airlines and telcos and how many times this has happened because it is the same. It is getting easy, it is getting cheaper. The party line is the same. It's not any different for the Indian MF

industry. I think that will call for a very large global trend to emerge for something like this to happen. And I don't think the world is ready for that yet.

Prayesh Jain: Got that. Just extending that point further, today, when we are coming on a negotiation table with the AMCs, what are the points which they are putting across apart from the AUM growth that they have been giving to CAMS, what are the other points that they kind of bring across on the table for -- to cut yields? So whether it's AI cost that you are -- AI can bring down costs or what other elements are they kind of pushing to bring down the yields that they are being charged?

Anuj Kumar: Well, if they want to ask the AI question, we should actually increase prices. Like I said, apart from the base cost, I incurred INR4 crores in 1 quarter. I mean, I took that much. I could not capitalize it. So we had to take it to the P&L. So we're actually incurring a little more cost, and that is true of the world, Prayesh.

Whoever is telling you that he's reduced cost, hasn't really sunset the old system, has built a new one or parts of new one, and now he's paying for both the new and the old and still trying to figure out how to get rid of some of the people that he doesn't need like we've got rid of probably not backfill 250 or 300, but that's not a very large mass.

So today, AI has not -- in the next 12 months also, I don't see that unit cost will go down because 2 instances of a lot of things will exist. We will sunset some of them. We have begun sunsetting. Sunsetting itself is a process. So AI and our cost has never been an element with them because it's not a cost of pricing.

A lot of outsourcing, including IT services and BPO work on cost of pricing. This is eating of the same plate pricing, which means they get bps, we get bps. The distributor also gets bps, the fund accountant and the custodian get bps. So everybody gets some bps.

And typically, I think the price question has always been, the first vector has been that, look, market has grown 19%, we've grown 23%, we should get something extra. All the net sales have been small or the gross sales have been small, the mark-to-market has been very large. We should get something extra.

Those are typically vector number 1 and vector number 2. I don't think so far cost is exposed to them to such an extent or headcount is exposed to them to such an extent. It's a very outcoming kind of industry, not an outsourcing industry. So I would still say the arguments haven't changed. They're still the tough arguments.

Prayesh Jain: Got it. Last question, again, more strategic question than based on quarter. How would you think you can diversify your revenues further? Today, obviously, we are scaling up the non-MF businesses and they have reached 15% plus, and you do have a target of crossing 20% threshold in due course. Any other new business avenues that kind of excite you to get into and look to get into?

Anuj Kumar: I think, Prayesh, the honest answer is that for a company of our size to run more businesses will not make a lot of sense. So you know that the core franchise of MF continues to scale. And in the non-MF, 3 have passed the demonstration mark, okay? Payments, KRA and alternatives have passed the demonstration mark. They're all 12, 15 years old. They're all of a critical size. They are all -- 2 of them are immensely profitable. AIF is not that profitable. It is still services. The other 2 are pure platform.

I would find it a good -- and we are now scaling non-MF contribution by about 2% a year, slightly lower than what we would have thought. I would like it to grow a little faster, but we will do -- continue doing 2% displacement this 84% will come 82%, 80% and probably go down to 78%, 76%. Maybe in 5 years' time, we could be in the early 70% on the MF side. And then there is an extent to which you want to contract your most profitable franchise, right?

You don't need diversification in the name of diversification. I would be very happy if some of the stuff which is being spoken about in insurance turns into a directional 10-year trend line, just like equity broking kind of hit that trend line in 2010, mutual funds hit that trend line in 2014-'15 when the SIP and digitization culture came in. I would hope that we find one market like that. Insurance, there is a 50% chance it could be that market given what's happened in the last 2, 3 months, but still very early days for me to predict.

ConsenPro is a good product to have. We're not expecting it to be INR100 crores franchise, could INR20 crores, INR30 crores franchise 2, 3 years from now. So we will stay with the products right now, Prayesh. We don't want to just start going after everything and then finding we can do nothing. We'll be very focused and stay with the franchise that we have today.

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

Devesh Agarwal: So first question on the yield. I think I wanted to understand on one more aspect of the yield. Basically, incrementally, we are seeing now the smaller and younger AMCs, which started operations in the last 2, 3 years have started to ramp up. So is that also can have an impact on the overall yield wherein the AUM growth is coming from these newer AMCs, but revenue may come with a lag?

Ram Charan: So Devesh, when you say small AMCs, I assume that you mean the ones that have been launched at least more than 5 years, right? Because I think the other things, revenue contribution will be very minimal. So I'll just say that -- and I think from a customer mix perspective, we have seen a fair share of the midsized AMCs growing, right? We don't take specific names, but at least 3, 4 of them have outgrown the market. So this should, in normal course have a positive influence on the yields.

But the very smaller ones actually do not contribute significant revenue for them to make a difference on the yield. So the midsized ones growing is a good thing for us. Everybody growing is a good thing for us. Please don't get me wrong. But the midsized one growing has got a positive impact on the yield. But the smaller ones do not impact it so much given that the magnitude of the revenue is not very high.

Devesh Agarwal: And as these newer AMCs, which probably came in the last 3 to 4 years, as they gain size, could they have a drag on your blended yield? Or again, that is unlikely?

Anuj Kumar: No, Devesh, that's quite unlikely. So while I don't have a number in front of me, I will tell you that of this INR58 lakh crores, INR59 lakh crores, if I took the sigma of all the new AMCs which came in the last 5 years, I'll struggle to get to INR3 lakh crores. I may get may get to INR2 lakh crores, but that's also doubtful. So think of a INR2 lakh crores on a INR60 lakh crores base and think of how much dispersion from means you will get there. And that dispersion from the means is not going to be very different a quarter from now or a year from now.

But like Ram said, in each of those cases, absolute revenue for the same AUM will be better because the larger ones may be at lower yields given their scale. The younger ones will be at much better prices, much higher prices because they are only INR10,000 crores or INR15,000 crores or INR20,000, but they are not INR2 lakh or INR3 lakh or INR5 lakh crores. So to that extent, price will be better.

All I'm saying is that at a portfolio level, that contribution of last 5-year launches will not be either 20% of the AUM book or 20% of the revenue book. It will probably be 5% to 7% of the AUM and the revenue book. To that extent, whatever impact a better pricing in 5% to 7% of your revenue book can have, it will have the same impact.

Devesh Agarwal: Sure, sir. And secondly, sir, on the margin part, you did mention about this INR4 crores expense being incurred towards a new platform. So if you could give more details what would be the trajectory going forward? And what will be the drag from this new platform?

Ram Charan: So this is kind of a continuous process. So as and when the modules keep going live, we will have the corresponding costs that we do to kind of make enhancements, small enhancements to the module, keeping the modules live going to. This is the standard accounting treatment that we do. Just to give you a perspective, it's not something that started now. In the overall project so far, we've actually taken around INR27 crores to the opex already cumulatively over the period of time. So what is going to happen is this is going to accelerate. This is going to accelerate as more and more modules get live.

Just to give you a perspective, in the Q2, we actually had around INR5 crores of cost coming in, which is probably INR2.5 crores of incremental cost coming into the P&L, and there was another INR1.5 crores of depreciation that came in. Going forward, this INR5 crores will become probably INR8 crores and then INR10 crores as we go for Q3 and Q4. This is just one part of the equation.

The second part of the equation is, is there going to be some corresponding decrease in the cost because of -- obviously, this will kind of replace some of the work that we are doing, not all the work, but some of the work we are doing. So what we are saying is the increase in the rearchitecture, steady state kind of a cost that goes to the P&L will be broadly offset by the savings that we get because of the productivity increases and the other savings that we do because of the new platform.

So we don't expect the incremental cost per quarter from an opex perspective to be more than a couple of crores, right? I think which is something that we can obviously make good in terms of other productivity improvements, in terms of operating leverage, etcetera.

Yes. So you will see this INR5 crores per quarter going to INR8 crores going to INR9.5 crores over the next 2 quarters. But the net impact will be much, much lesser. It will probably be incremental INR1.5 crores or maximum INR2 crores a quarter, which will be more than made up by the other operating leverage that we have. That is the way we look at this.

Devesh Agarwal: Understood, sir. And sir, lastly, you did mention there has been some reduction in the headcount over the last 12 months. Could you give me what has been the reduction? And what is the latest headcount?

So when we started the year, we had around 8,450 was the headcount. I think we are ending the quarter around 8,200. So there's been a 250 reduction in the headcount and some other outsourced kind of reduction in headcount also. So I think between 250 and 300 will be the reduction in headcount. So current is around 8,200.

Moderator: The next question is from the line of Ansuman Deb from ICICI Securities.

Ansuman Deb: Sir, could you just tell us any idea about the benefits that CAMSPay can get from MDR on UPI? Any idea on that? That is the only question.

Anuj Kumar: No, sure. I mean, in your model, you should believe that there will be very little impact from the MDR. As you know that while MDR and UPI will be of the order of, let's say, 40 bps. On financial transactions and mutual funds, this will be of the order of, let's say, 2 bps. And therefore, its ability to drive, although it's an expanding segment, its ability to drive revenue upside for CAMSPay will be very small, which means that in a INR100 crores book, once it becomes -- once it gets implemented, you will certainly see INR1 crores or INR2 crores up -- so that you will certainly see.

But unlike a lot of the other companies, which are in this retail UPI, you've seen some of those statements where people believe they will gain tens of crores or hundreds of crores. CAMSPay will not get that scale of benefit. It will get a couple of crores a year whenever this becomes implemented, but not very large numbers. It will not be a very large percentage of revenue.

Moderator: The next question is from the line of Aditya Chheda from InCred Asset Management.

Aditya Chheda: Following what has been delivered in H1 versus our earlier expectation of a 2.5% to 3% decline in yield, would you want to revise the outlook for asset-based yields on what has transpired so far for FY27?

Ram Charan: So sorry, do you mean revised upwards or downwards?

Aditya Chheda: Upwards. The decline.

Ram Charan: No, no, I don't think anything has happened which is causing us -- nothing has been surprising in this quarter, to be very clear. So on a quarter-on-quarter, we have seen the decline to be sub-1%. Year-on-year for the reasons that I mentioned, it's kind of a little more than 3%. So we have always said around 3% will be what you will expect. In a good quarter, it will be less than 2.5%. In a reasonable quarter, it will be around 3%. So we still hold that -- absolutely hold that view.

And I don't think that you will see any revision that is needed at all in the yield projection. As I said, the thing to take away is that there is nothing that's as an incremental discount given to the customers, etcetera, that is causing. It's more a mix, either a customer mix or asset mix and a scale-based pricing that's playing out. So we don't see any reason for us to change the guidance that we have given.

Moderator: The next question is from the line of Divij Punjabi from Banyan Tree Advisors.

Divij Punjabi: I had 2 questions. One was on the non-asset-based MF revenue that is there. If you were to look at the last couple of years, the mix -- revenue mix of it has come down from, say, around 14% to around 11% now. So with the new platform coming through, can you help us understand what this segment would look like in the next 3 to 5 years? That is question one. And the other question is with the increasing mix of direct MF, do you see any impact on the asset-based business in terms of yields?

Ram Charan: I'll answer the first question, which is your non-asset-based revenue in your mutual fund. So as I just try to recap that what it contains are transaction revenue, some application revenue, call center, NFO and your reimbursement expenses. And these are not driven by asset base. So we generally guide that you please don't build it based on asset increase, but rather kind of a percentage increase on a year-on-year basis because this is more driven by physical transaction increase, some MFCentral transactions and call center and OPE revenue. So I think overall, as asset grows, the percentage of this will keep coming down.

The growth in non-asset-based revenue, although this quarter has been on par with asset-based revenue, but generally, you will see that, that will lag the asset-based revenue. So the share of that will keep coming down. The better way to look at it is to have a percentage increase on a year-on-year basis rather than link it to the assets. And that's why we segment the 2 and give it to you separately.

In this particular quarter, for example, we had a good uptick in transactions from MF Central perspective, and we had some increase in miscellaneous that is your application fee, etcetera. But if you see on a year-on-year basis, NFOs went down drastically. So you would have seen a drop. So it's not something that you can model specifically based on asset-based -- asset growth rather. On the second question, can you just repeat that question?

Anuj Kumar: Direct plan.

Divij Punjabi: Yes. So increasing mix of direct mutual funds, does that have an impact on our yields?

Anuj Kumar: So as far as our pricing is concerned, it's constant pricing. It does not matter where the transaction came in, what was the plan, how the units were held. The pricing remains constant. So direct plans have kind of -- they did not exist at one time and then they have grown significantly over a period of time. But for a large segment of the market, this is for do-it-yourself consumers, there are a large number of consumers who are not do-it-yourself for whom the regular plans will continue scaling. It does not have an impact on our pricing.

Divij Punjabi: Sure. Got it. If I can just ask one more question regarding the new platform. Like you mentioned that the FUNDSNet 2.0 was implemented and over a period of time, more modules would be implemented. So our understanding is that it makes more of the cost base fixed in nature. So from a longer-term point of view, can margins increase from current levels as operating leverage phase out?

Anuj Kumar: Well, whether it's a new platform or the old platform, I think it has been a largely fixed cost model. which means that we don't flex cost too much. So our approach has been and the reality of the business is that the more revenue you pour on any platform business, the more margin you can get because a larger and larger part of that will go to the top line. That is true of all our businesses today, except for AIF, which still retains a very services character.

Everything else is turning, whether it is repository or KRA or payments or MF RTA, atleast these 4 are definitely 100% -- I mean, largely platform. So yes, your point is right that margins could expand. We've always said that in normal years, we expect margins to expand by 100 to 200 bps. That trajectory should continue.

Moderator: The next question is from the line of Dipanjan Ghosh from Goldman Sachs.

Dipanjan Ghosh: A few questions from my side. First, I think in your answer to one of the previous participant's question, you mentioned that the yields have been stable and you do not expect any substantial renegotiation or discounts over the next few quarters. So I just wanted to get some color on this statement. Does this also include any large renegotiations with larger AMCs in FY28? Or is it more of a 2H guidance? So some color on that.

The second question is on the non-MF margins, which is closer to 18%, 19% right now. You have mentioned that you expect margins at an overall level to improve. But if you were to take more of a 3- to 5-year view, where do you see the non-MF margins settling? And within that, maybe more specific to the AIF and the payments and the KRA business, which are relatively more margin accretive, where do you see these 3 particular segments settling now? Yes. Those are my 2 questions.

Ram Charan: Thanks, Dipanjan. So from a yields perspective, definitely for H2, definitely for H2 and where we think have visibility into what will happen. In terms of the larger customers, we will see next year, there is obviously a renewal that is going to happen with a couple of these large customers. And I don't think it will be proper for my part to comment on what's going to happen then now. But I think our stance has been very clear, and we have kind of clarified several times saying that there is no reason for us to have a disproportionate higher discount or a reduction in bps on any of these discussions.

And there are several factors, including the productivity increases that we are bringing to the table, including the efficiency that we do, including the cost of hardware that we are incurring, including the SEBI requirements that we are investing in several hundred crores. So those are for a discussion with the AMCs when they do come up for renewal, but our stance has been very clear in terms of the discounts that we are giving. So yes, definitely H2. Next year, we will see what happens, but we are very confident that our stance will prevail. And I don't think you will see a similar event of what happened in the past in the future. Whatever happens, we will kind of update you at that point of time.

In terms of the non-mutual fund margins, I think just to give you broadly, the payments has been growing at a profitability level, which exceeded our expectations. So to have a card business mix and then still continue to have a margin of 20% is good. And we don't see this as any one-off. We see that this is sustaining.

So 3 years from now, there is no reason why this margin cannot be 25%, predicated on KRA going because KRA is a very profitable franchise for us. AIF is very stable at a 20% kind of a margin. As Anuj mentioned, this is one of the things that probably operating leverage is a little less given the service nature of what we do in at least some part of the business.

So if you kind of have these 3 doing the same proportion as what they are going now, I think a steady-state margin of 25% plus is very much on the cards in the 3-year period that we're talking about. Our aim will be to get closer to 30%, but a 25% margin is something very much on the cards.

Moderator: Ladies and gentlemen, due to time constraints, that was the last question for today. I now hand the conference over to Mr. Ram Charan for closing comments. Over to you, sir.

Ram Charan: Thank you to all the participants for your interest in CAMS and taking time off to be part of this call. As usual, please do reach out to Anish or to the IR team in case you have any queries or you want further clarifications, we are happy to kind of get into a call. Thank you once again.

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