



“Central Depository Services (India) Limited  
Q2 FY2020 Investors Conference Call”

October 22, 2019



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*Central Depository Services (India) Limited  
October 22, 2019*

**Moderator:** Ladies and gentlemen, good day, and welcome to the Central Depository Services (India) Limited Q2 FY2020 Investors Conference Call hosted by Axis Capital Limited. Please note that CDSL does not provide specific revenue or earnings guidance. Anything said on this call, which reflects CDSL's outlook for the future or which could be construed as a forward-looking statement must be reviewed in conjunction with the risks that the company faces. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “\*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Aditya Bagul from Axis Capital. Thank you, and over to you, Sir.

**Aditya Bagul:** Thank you, Nirav. Good afternoon ladies and gentlemen, and a warm welcome to the Q2 FY2020 Earnings Call of CDSL Limited. From the management today, we have Mr. Nehal Vora, Managing Director and CEO; Mr. Bharat Sheth, CFO; Mr. Sunil Alvares, COO, CDSL Ventures; Mr. Gaurang Shah, Vice President; and Mr. Nilesh Kittur, Assistant Vice President. I will hand over the call to Mr. Nehal Vora for his opening remarks, post which we will open the floor for Q&A. Over to you, Sir.

**Nehal Vora:** So first of all, I would like to welcome all of you and a very good afternoon. This is Nehal Vora. I am the MD and CEO of CDSL. I have just joined CDSL on the 24th of September. So it has been around 3 weeks since I have taken over. I welcome you all to the quarterly conference call for discussing the standalone and consolidated results for the CDSL Group for the quarter ended September 30, 2019.

So as you know that due to the overall slowdown and various uncertainties in the Indian economy, global factors like trade wars between U.S. and China, oil prices, etc., the Indian stock markets were in turmoil, which resulted in not many IPOs hitting the market whilst the overall sentiment has been muted. This has resulted in the CDSL topline showing a 10% downtrend quarter-on-quarter and a marginal downtrend on a year-on-year basis.

Despite the slowdown in the economy, CDSL has been able to maintain a flat bottom line. CDSL continues to have a healthy operating profit margin of 47% on a consolidated basis and 46% on a standalone basis. The price to earnings ratio is about 19. During the Q.E. September 2019, CDSL added around 8 lakh beneficiary ownership accounts as compared to 6.37 lakhs in the previous quarter. CDSL now has an incremental market share of around 74% up to August 2019.

In the case of CDSL Ventures, CVL, the KRA performance is linked to the stock market, which has also remained muted in the quarter which has ended. However, compared to that, we have around 1.99 Crores KYC records as on September 2019, whilst the corresponding number in June 2019 was 1.93 Crores.



*Central Depository Services (India) Limited*  
*October 22, 2019*

CDSL Insurance Repository has crossed 5.37 lakh e-insurance accounts, at about 2.73 lakh policies. CDSL Commodity Repository, CCRL, is also making steady progress with around 1000-plus registered warehouse service providers, about 1200 clients as on September 30, 2019.

I request my colleague, Mr. Bharat Sheth, CFO, to give a brief on the financial performance.

**Bharat Sheth:**

Good afternoon everyone. The numbers stack up as follows: first, consolidated results on quarter-on-quarter basis and then year-on-year basis.

Operational income for the quarter ended September 2019 was 53 Crores against 58 Crores for quarter ended June 2019, that is down by 10%. Whereas other income is up by 11% from 15.02 Crores to 16.68 Crores. So total income overall down by 6% from 73.42 Crores to 69.35 Crores. Whereas my total expenses down 19%, that is from 38.44 Crores to 31.13 Crores, mainly due to employee costs down by 21%, system maintenance up by 8% and other expenses down by 27%, mainly due to lower incremental expenditure on government projects.

So overall, profit after tax is up by 4%, that is from 27.91 Crores to 29.05 Crores. Now major heads of operational income on quarter-on-quarter basis, annual issuer charges from 19.23 Crores to 19.18 Crores that is hardly any change, whereas transaction charges down by 7% from 9.86 Crores to 9.16 Crores. Consolidated account statement charges down by 14% from 2.37 Crores to 2.03 Crores.

IPO corporate action charges down by 9% from 5.32 Crores to 4.85 Crores. Online data charges, which is KYC, up by 6% from 7.63 Crores to 8.11 Crores, and government projects down by 65% on quarter-on-quarter basis that is from 6.94 Crores to 2.46 Crores.

Whereas on year-on-year basis, that is quarter ended September 2019 to quarter ended September 2018. Operational income down by 2%, that is from 53.66 Crores to 52.66 Crores. Other income up by 71%, that is from 9.79 Crores to 16.69 Crores due to higher mark-to-market gain. So total income up by 9%, that is from 63.46 Crores to 69.35 Crores. Whereas total expenses up by 35%, that is 23 Crores to 31 Crores, up 35% mainly due to increase in employee cost, salary risen by 35% to bring the salary levels to market levels and corresponding gratuity and leave actuarial provisions and other expenses increased by 49%, mainly due to expected credit loss provision that is provision for doubtful debts of 2 Crores 40 lakhs. So my profit after tax down by 4%, that is from 30.15 Crores to 29.06 Crores.

Major head of operational income that is annual issuer charges from quarter-ended September 2018, 15.96 Crores. It went up to 19.18 Crores that is up by 20%. Whereas transaction charges down by 11% because of bad market conditions, from 10.26 Crores to 9.16 Crores.

Whereas consolidated account statement charges up by 13%, that is from 1.8 Crores to 2.02 Crores. IPO/Corporate action charges because of market conditions, less number of IPOs, down by 21%



*Central Depository Services (India) Limited  
October 22, 2019*

that is from 6.15 Crores to 4.85 Crores, and online data charges down, that is for KYC, from 10.17 Crores to 8.11 Crores, and government projects, for quarter ended September 2019, up by 2.45 Crores against it is up by 100%.

Now on standalone basis that is quarter-on-quarter, quarter ended September 2019 versus quarter ended June 2019. There are hardly any change in operational income, that is 40.53 Crores in June 2019 versus 40.59 Crores in September 2019.

Other income is 6% up due to mark-to-market gain, that is from 11.31 Crores to 11.98 Crores. That is total income up marginally by 1%, hardly any change, that is from 51.85 Crores to 52.57 Crores.

Whereas total expenses down 10%, mainly due to employee costs down by 23%, system maintenance up by 6%, that is 26.84 Crores to 24.10 Crores, and profit after tax up by 8% from 20.35 Crores to 21.95 Crores.

Major heads of operational income, annual issuer charges on quarter-on-quarter basis, that is from 19.23 Crores to 19.19 Crores, hardly any change. Transaction charges down by 7%, that is from 9.87 Crores to 9.16 Crores. CAS charges down by 14%, that is from 2.37 Crores to 2.02 Crores. Whereas IPO/ Corporate action charge is from 5.32 Crores to 4.85 Crores, that is down by 9%.

Whereas on year-on-year basis, that is quarter-ended September 2019 to quarter ended September 2018, operational income, hardly any difference, that is down by 1%, that is from 40.98 Crores to 40.59 Crores. Whereas other income up 66% due to higher mark-to-market gain that is from 7.22 Crores to 11.98 Crores, and total income up by 9%, that is from 48.20 Crores to 52.57 Crores. Whereas my total expenses are up by 30% mainly due to increase in employee costs by 32% and other expenses by 51% which is due to increase in expected credit loss, that is for provision for doubtful debts, it was not there last time that is now at 2.43 Crores, thus total expenses have increased from 18.16 Crores to 24.10 Crores.

So profit after tax down by 1%, that is from 22.09 Crores to 21.95 Crores.

Major heads of operational income, that is annual issuer charges from 15.95 Crores to 19.18 Crores, that is up by 20%. Transaction charges down 11% due to market conditions, that is from 10.26 Crores to 9.16 Crores.

Consolidated account statement charges from 1.80 Crores to 2.02 Crores, up by 13%, and IPO/ Corporate action down by 21%, that is from 6.15 Crores to 4.85 Crores.

With this, I leave the floor open for questions and answers.

**Moderator:**

Thank you very much. We will now begin the question and answer session. The first question is from the line of Prakash Kapadia from Anived Portfolio Management Service. Please go ahead.



*Central Depository Services (India) Limited  
October 22, 2019*

**Prakash Kapadia:** I had 2 questions. If I look at the first half employee costs, they are up 56%. So I think last quarter, you had mentioned some impact of gratuity and annuity. So is that continuing in the current quarter also? And for H2 basis, what is the trend in employee cost? How should we read this? Will it be more like a 12 Crores, 13 Crores kind of run rate? Do we annualize it? So it will be more like 40 Crores, 42 Crores? Or it will be more like 50 Crores on the employee cost front?

**Bharat Sheth:** Yes. Hello, Mr. Prakash. If you see, last quarter also, I told that impact of 32% increase, that is 25% plus 7% annual increment would be on first quarter more because of actuarial liability as well as leave encashment. So major impact would come in that quarter only. So if you see it was 14.27 Crores in quarter ended June 2019. It went down to 11.33 Crores. That is down by 21% because of this actuarial liability as well. So it would not be there on what we call on quarter-on-quarter basis because whatever impact was there as on March 31, 2019 on which we have provided in first quarter only. So incremental only would be there in quarter-on-quarter basis.

**Prakash Kapadia:** So this will be more like this run rate rather than what we have seen?

**Bharat Sheth:** Yes.

**Prakash Kapadia:** And if I look at CDSL Ventures in the revenue reported in the segment revenue. Revenues have degrown for us on a year-on-year basis. How do I look at this because at a time when SIP accounts are growing, flows are steady, so is there some change in pricing? Is there some market share change or the segment revenue includes other income and other income is lesser in this segment because on a year-on-year basis, if I look at that segment, revenues have actually degrown from 138 million to 130 million?

**Bharat Sheth:** Yes. See this is mainly because of other projects, that government project, what we took it. If you see quarter 4, 2019, that means March 2019 quarter, there other project income was around 2.5 Crores. In June 2019, it was around 9 Crores, and in this quarter, 2.45 Crores, mainly due to that. That is a one-off project is there.

**Prakash Kapadia:** Okay, okay. Q1, you said, it was around 9-odd Crores.

**Bharat Sheth:** Yes.

**Prakash Kapadia:** Last year, what was it?

**Bharat Sheth:** 2.5 Crores around. On last quarter only, means quarter ended March 2019.

**Moderator:** Mr. Kapadia, sorry to interrupt you, you are not audible. Can you please speak a bit louder?

**Prakash Kapadia:** I was looking, Bharat bhai, on a year-on-year basis, where I am comparing September last year versus September this year where it says 138 million to 130 million?



*Central Depository Services (India) Limited  
October 22, 2019*

- Bharat Sheth:** Yes.
- Prakash Kapadia:** Where data entry and storage has decreased from 138 million to 130 million. So I was trying to understand that. Not on a sequential basis where you mentioned the government project and that contribution to revenues has fallen. So revenues are down sequentially from 17 Crores to 13 Crores.
- Sunil Alvares:** The number of KYCs processed by CDL as compared to last half year has gone up, but the number of fetches, okay, where we also get some revenue, has gone down. That is primarily because last year, SEBI had mandated that all AMC's who have not fetched certain KYCs, they had to fetch the KYCs otherwise the distributor commissions would not be paid. So because of that many of the AMC's had a onetime fetch. So that had boosted up the numbers last year.
- Prakash Kapadia:** So Sunil, the way to understand this is that is more of a onetime this thing, which was there in the base last year, and there is no change in market share or pricing in terms of our KYC business?
- Sunil Alvares:** Yes, but there are 2 things to it. As compared to last year, we have processed more KYCs this year. That is new KYCs into the system.
- Prakash Kapadia:** But that new KYC has to give us better pricing, right?
- Sunil Alvares:** No, but what has happened is correspondingly the fetches have gone down. So that has reduced the income.
- Prakash Kapadia:** Fine. Understood, and the last question from my side is, is there clarity on the academic depository pricing because government was to revert, and we were to start billing. So any update on that?
- Sunil Alvares:** We are in discussion with the MHRD. They have formed a committee, and they would be deciding on the pricing. That is the latest what we have.
- Prakash Kapadia:** Thanks. I will come back, if I have more questions.
- Moderator:** Thank you. The next question is from the line of Anand Bhavanani from Unifi Capital Pvt. Ltd. Please go ahead.
- Anand Bhavanani:** I have 3 questions. The first question is on the provision for doubtful debts. So can you elaborate on it? Like, is it some kind of investments that have gone bad?
- Bharat Sheth:** Yes. Then?
- Anand Bhavanani:** So if you can, I mean the questions are unrelated. So I want to go one by one.
- Bharat Sheth:** Okay. About doubtful debts, that is on annual issuer charges. Generally we will be able to recover around 92% to 93%, 7% to 8% we have to provide for doubtful debts or bad debts. So generally,



*Central Depository Services (India) Limited*  
*October 22, 2019*

we were doing in third or fourth quarter, but this year, auditor told us that you have to prorate it for all 4 quarters. So because of that, if you compare with 6 months ended September 2018 versus September 2019, major cost of that 4 Crores total what we have provided.

- Anand Bhavanani:** Okay, and similar 4 Crores can be expected in the H2?
- Bharat Sheth:** That would be around 7.5 Crores to 8 Crores.
- Anand Bhavanani:** Sure, and Sir, if I were to look at segment assets and liabilities. For repository, there has been a fall in segment assets and for depository activity, there has been rise in segment liabilities. So if you can help us understand why is it so?
- Bharat Sheth:** No. Segment assets and liabilities, 1 minute.
- Anand Bhavanani:** Sir, if you have to see for repository activity, it has fallen from 55.67 Crores to 32 Crores.
- Bharat Sheth:** No that is because of, if you see that is segment assets, that is because of new assets what we bought it, and not major changes are there accordingly.
- Anand Bhavanani:** No, but it has fallen by 23 Crores. So why would it fall by 23 Crores in 6 months, repository assets?
- Bharat Sheth:** Okay, I will get back to you on this question.
- Anand Bhavanani:** And similarly, if you were to see depository liabilities, they have risen by close to 46 Crores. So again, why would they rise by 46 Crores in a span of 6 months?
- Bharat Sheth:** No, no. It is, see for annual income, we are allocating on a pro rata basis. So annual income is suppose 80 Crores is there, then I can book it 40 Crores and income received in advance will come to 40 Crores. So it will come under liability, like that.
- Anand Bhavanani:** Okay. So it is unearned revenue and hence the liability?
- Bharat Sheth:** Right, like that. On that level.
- Anand Bhavanani:** Yes, and Sir, you gave out certain details in terms of numbers for our revenues. I just wanted to check if we review the presentation or the numbers given are only on the con call? Have you received a presentation in general to the shareholder?
- Bharat Sheth:** Not yet, not yet. So on con-call basis also we can give you.
- Anand Bhavanani:** Sir, just a modest and humble request from us. That the numbers that you give are very important in terms of understanding the business. If you were to give us in the presentation beforehand, the discussion would be a lot more detailed around the numbers. Otherwise, the numbers that you



*Central Depository Services (India) Limited*  
*October 22, 2019*

throw up initially and then we have follow-up questions, we have to email you so, if you just consider.

**Bharat Sheth:** Definitely, we will consider.

**Nehal Vora:** I think we will, so we will surely take this as a feedback, and from next quarter call onwards we will do that.

**Anand Bhavanani:** Sure, and lastly, you spoke about environment being subdued. So is it fair to assume that the environment continues to be subdued and in terms of next 6 months as well, we might not see any deviation upside or downside in our revenues and profitability?

**Nehal Vora:** That is a very difficult question to predict. It is like predicting if the market is going to go up or down tomorrow. It is a function of market. We are a market infrastructure institution. Our core business is to provide the requisite infrastructure for the securities market, and we are in function of ensuring that the services are really available, and we have as many depository participants, which have grown and have been steadily growing. Whether that will lead to further transactions is a function of market, which is a collective response of the entire market and difficult to predict.

**Anand Bhavanani:** Sure, but my question was more of like, do we have any specific revenue stream? For example, the repository business for MHRD. Anything similar, which can be commercialized this year and you might see any revenue inflow from there? Any potential growth from those kind of newer ventures?

**Nehal Vora:** So I think SEBI has been giving out a lot of proposals for new products, new kind of asset classes, and there is a general push on the digital side. So obviously, the importance of the depository services is going to grow as and when as we move forward. But it will be difficult to categorize quarter wise in terms of revenue, but the overall trend is moving towards more assets, moving from the physical more to the digital world, and therefore, the importance of the depository services are going to grow as time passes.

**Anand Bhavanani:** Thank you Sir, I will come back in the queue.

**Moderator:** Thank you very much. The next question is from the line of Harit Shah from Reliance Securities Limited. Please go ahead.

**Harit Shah:** I just wanted to get a sense of free education, an idea of the number of unlisted companies that are there in your fold? I think last quarter, it was about 2,000, 2,000 odd, somewhere in that range and the revenue that you have essentially earned from that incremental unlisted companies?

**Bharat Sheth:** So as on 30th September, there are 2,530 unlisted companies under our fold.

**Harit Shah:** Okay, so you added almost 500 in this quarter?





*Central Depository Services (India) Limited*  
*October 22, 2019*

- Bharat Sheth:** Yes. 463 is what we had added.
- Harit Shah:** Right, and what was the revenue that you earned in this quarter?
- Bharat Sheth:** Yes, it would be around 57,32,000.
- Harit Shah:** Okay. It is 57 lakhs in this quarter. Okay. Great, and any update on the NAD, National Academic Depository. So I think from now on, you can charge from this quarter onwards, right? So if you could give any updates on that front? How is that progressing?
- Sunil Alvares** Yes. We have been discussing with the MHRD with regard to the charges because we need the approval before we start charging, and the latest is that they have formed a committee and based on what is going to be our charges, they would be most likely giving a grant to both the depositors.
- Harit Shah:** Okay, fair enough, and how many are now in panel with you? And I think last quarter it was about 520 or something. Is that right? Those universities and all?
- Bharat Sheth:** We have 541 universities signing agreement with us.
- Harit Shah:** Thank you very much, I will come back if I have any further queries. Thank you.
- Moderator:** Thank you very much. The next question is from the line of Yash Nirodkar from PPFAS Mutual Fund. Please go ahead.
- Yash Nirodkar:** So I have 3 questions, basically, and these are on different topics. So I will just go one by one. The first thing is, in your financial statements for this quarter, I read something about Ind AS 116 being implemented. So what is it regarding?
- Bharat Sheth:** That is about the lease rental, what we are saying on that basis. That is, we are having a lease agreement with Reliance that is a major one.
- Yash Nirodkar:** So what is this regarding, lease rental?
- Bharat Sheth:** That is for our DR site.
- Yash Nirodkar:** Okay.
- Nehal Vora:** Different data servers are hosted.
- Yash Nirodkar:** So how much are these expenses, the rentals which are being paid?



*Central Depository Services (India) Limited*  
*October 22, 2019*

- Bharat Sheth:** But it is not material because they are providing services to us. So we are evaluating it. That is why we were mentioning notes to accounts that we are evaluating it. It won't come under lease as such because bundled services they are providing.
- Yash Nirodkar:** All right. The second question which I had was on the recent notification which came out about the corporate taxes. So what impact would it have for your company, and sort of if you could provide an effective tax rate if you all are going to utilize this benefit?
- Bharat Sheth:** Correct. See at present, we are in 25% bracket because less than 250 Crores turnover is there. So for this quarter and next quarter, we are going to continue with it because as of March 31, 2019, MAT credit is available to us. If we shift to 22%, then it would not be available. So we are evaluating it, and later on, by March, we are going to decide whether to go for 22% bracket or this bracket. So overall, effective tax rate comes to 22% to us on consolidated basis.
- Yash Nirodkar:** So as of now, you are talking about utilizing the MAT credit.
- Bharat Sheth:** Yes, yes, as of September.
- Yash Nirodkar:** So you all are currently indifferent as to whether to go for the current corporate tax rates or continue with the same?
- Bharat Sheth:** Correct, correct, but MAT credit, if I want to avail, then I cannot go to 22% actually.
- Yash Nirodkar:** Okay, and just last question. So you all had for the previous 2 quarters, the government project. So last quarter, you all booked somewhere around 9 Crores. This quarter, you all booked around 2.5 Crores. So excluding that, what is the operating revenue?
- Bharat Sheth:** Excluding that?
- Yash Nirodkar:** Yes.
- Bharat Sheth:** CDSL Venture, what you say.
- Yash Nirodkar:** No, no. Not CDSL Ventures. Overall, I am talking about the consolidated, excluding the government project?
- Bharat Sheth:** You have to remove 11 Crores from Income and the total 6.5 Crores from expenses you have to remove. So overall, my profit is down by 4 Crores on a consolidated basis.
- Yash Nirodkar:** The profit is down by 4 Crores, you are saying?



*Central Depository Services (India) Limited*  
*October 22, 2019*

- Bharat Sheth:** Yes. On this government project, my net profit is around, means gross profit would be around 4 Crores. So on consolidated basis, my profit is down by that. I am talking of profit before tax down by 4 Crores.
- Yash Nirodkar:** Alright, thanks a lot.
- Moderator:** Thank you very much. The next question is from the line of Jatin Damania from Kotak Securities. Please go ahead.
- Jatin Damania:** Sir, just going back to what you said that in this financial year, though we have added a number of more KRAs, the fetch on, I mean the realization of the fetch was much lesser compared to the previous year, right?
- Bharat Sheth:** Yes.
- Jatin Damania:** Sir, but if I am looking at the previous quarter, where we had 1.93 Crores of KYC records, revenue was from data online and storage was to the tune of 171, means 17 Crores, which has declined to almost 13 Crores. So what was the reason for this sequential decline despite 6 lakhs increase in the records?
- Bharat Sheth:** That is mainly due to government projects. If you see in Q1, 2019, means this June 2019, see my income from this government project is around 6 Crores. It went down to 2.5 Crores. So that is a major difference of 4 Crores.
- Jatin Damania:** Okay. So Sir, do you think that our government project will still continue or the project is almost over?
- Nehal Vora:** We got an extension for 1 more year.
- Jatin Damania:** So you got an extension for 1 more year?
- Nehal Vora:** That is right.
- Jatin Damania:** And Sir, what is the cost pertaining to this project because last quarter, we had a significant cost due to this, and because of this our other expenses has also gone up?
- Bharat Sheth:** Correct.
- Jatin Damania:** So how was the situation in the second quarter?
- Bharat Sheth:** See, first phase got over, income we have booked, and expenses also we have booked. So now nothing left for first phase of the project. Second phase once starts, then income and expenses will come into picture.



*Central Depository Services (India) Limited*  
*October 22, 2019*

- Jatin Damania:** Okay, Sir, and second is, can you help us with the e-Voting revenue for the second quarter?
- Bharat Sheth:** E-Voting is 2 Crores 48 lakhs for the second quarter.
- Jatin Damania:** 2 Crores 48 lakhs.
- Bharat Sheth:** Yes.
- Jatin Damania:** Thank you.
- Moderator:** Thank you very much. Next question is from the line of Amit Chandra from HDFC Securities. Please go ahead.
- Amit Chandra:** Sir, I would like to understand on the annual issuer charges. So now we have been seeing that the companies that has been added has been slowing down the last 2 quarters, and now we are at a rate of 100, 150 companies per month. So how do you see this panning out? Whether it is opportunity that was there initially and now, it is eventually, like fading away or you see like more and more companies approaching because if I see in terms of the competition, they have been adding on a steady basis. So your views on it?
- Bharat Sheth:** See there also decline is there, but unlisted company that is, but overall, if you see from October 1, 2018 to 30th September, around 2530 companies what we have added, it comes to, on an average basis, 210 companies. But as you say rightly, that in quarter, it has come down from 200 to 154 because it is not yet compulsory. But our endeavor is to admit more, whenever transaction takes place, then only. So it is not mandatory. So unless and until it becomes mandatory then, but our marketing efforts are going on.
- Amit Chandra:** Yes. So my next question was on that. That last quarter, you mentioned that you are providing some kind of commission to the RTA for bringing the company to CDSL. So what is the progress on that? Are you spending aggressively on that or.
- Bharat Sheth:** No, we have started from 1st September, we have already started that referral fee, which we have increased.
- Nayana Ovalekar:** We are also trying to enhance the system, so that digitization takes place, and we get online applications, and we hope that because of this initiative, there will be more inflow of companies in the period. We are planning to implement that.
- Amit Chandra:** Okay, and Sir, on the revenues earned from the unlisted companies. Last quarter, it was around 15000, but in this quarter, it is coming to around 11500. There has been a drop. So has there been a change in the fees that you are charging?



*Central Depository Services (India) Limited*  
*October 22, 2019*

- Bharat Sheth:** No, nothing. Not changed, but on quarterly basis only.
- Nayana Ovalekar:** Yes. But when the admission of companies takes place, we charge them on pro rata basis, the annual issuer fees for that particular year, and then as the quarters progress, fees will get released even though companies want to.
- Bharat Sheth:** On a pro rata basis we are charging.
- Nayana Ovalekar:** Here onwards, it will be charged on same rate.
- Amit Chandra:** Understood, understood, and Sir, my last question would be on the government project. Like you mentioned that you have received the extension, but you mentioned that there were around 4 Crore accounts that has to be verified. So how we are placed there? And how can we project the revenues from it because it is very lumpy in nature?
- Sunil Alvares** See, there are 4.5 Crore investors. But when the scheme was opened for refund, about 1.5 Crore investors have applied. So that is the status right now, and the scheme was supposed to have 2 phases, phase A and phase B, okay? And we have completed phase A, and the regulators have to take a call on phase B whether they want to implement it or not. So that is the status as of now.
- Amit Chandra:** Okay, Sir, and Sir, lastly, on the opportunities in terms of the National Academy Depository and the e-warehouse receipts opportunity. So the progress on that has been pretty slow. So are we seeing any kind of pickup there in terms of NAD and e-warehouse receipts? If you can elaborate that, how we are approaching that?
- Sunil Alvares:** If you see in terms of number of records on the NAD, we have crossed about 2 Crores 30 lakhs of government projects and even the number of students registered is going up by the day. So it is just a function for MHRD to make it mandatory for all universities and students, and then you can really see this taking off.
- Amit Chandra:** Okay. So as of now, you are not charging anything. So you said that, earlier said that charging can start by September end. So any update on that?
- Sunil Alvares:** Yes. As per the agreement, we were supposed to charge post-September 2019. But after discussion with MHRD and the UGC, they are not very keen that the universities and students be charged and at best, they are thinking of giving us a grant so that the project continues in its current form.
- Amit Chandra:** Thanks for the opportunity.
- Moderator:** Thank you very much. Next question is from the line of Pawan Kumar from Ratna Traya Capital Partners. Please go ahead.



*Central Depository Services (India) Limited*  
*October 22, 2019*

- Pawan Kumar:** Sir, you mentioned about around 2.5 Crores of revenues from the government project this particular quarter. So what are the expense pertaining to that? And number two, since you are also mentioning about an extension in this project. So how would the revenues play out, I mean from this particular project over next 1 year?
- Bharat Sheth:** See, expenses pertains to government project for this quarter, around 27 lakhs is there.
- Pawan Kumar:** 27 lakhs?
- Bharat Sheth:** Yes.
- Pawan Kumar:** Okay. Okay, and do you expect this run rate to continue going forward every quarter from now on?
- Bharat Sheth:** See phase 1 is already completed. So for which we have already booked the income as well as expenses. Now once phase 2 starts, then further income and expenses will come into picture.
- Pawan Kumar:** Okay. But overall, what would be the revenue potential of this project for the next 1 year?
- Sunil Alvares:** See, difficult to predict actually because we do not know whether the window will be open again for investors to apply for a refund. So it all depends on that.
- Pawan Kumar:** Okay, Sir, if given the window did not open again, then what would be the potential?
- Sunil Alvares:** No, we cannot really predict anything on that.
- Pawan Kumar:** Okay, okay. On the other expenses part of it, I am taking the employee expenses off, Q2 other expenses part of it, when you deduct the employee expenses, whatever. Is there going to be a steady run rate from now on, Q3 and Q4?
- Bharat Sheth:** Yes, it will be steady.
- Pawan Kumar:** Okay Sir, fine that is all.
- Moderator:** Thank you very much. Next question is from the line of Rohit Balakrishnan from VRDDHI Capital Investment Advisors. Please go ahead.
- Rohit Balakrishnan:** I had 3 or 4 questions. So Sir, in terms of our annual issuer charges if I get the number right, so it is around 19 Crores, and it has grown at a very good rate this quarter, on a Y-o-Y basis. So what is driving this growth? Even last year, the growth was quite good. So if you can just speak a bit about that Sir.



*Central Depository Services (India) Limited*  
*October 22, 2019*

**Bharat Sheth:** See, our annual issuer charge is based on either on a slab basis, that is capital basis or number of folios, whichever is higher. So if you compare last year with this year, income from number of folios are more compared to last year because of that, and more number of IPOs, because of that new issuer admitted in the system.

**Rohit Balakrishnan:** Got it, and Sir in this, we usually have a price revision as per SEBI, so is that due anytime soon?

**Bharat Sheth:** In 2015, they have increased the tariff. So now it is due, means every 4 to 5 years both the depositories will approach, and so now it is due. Next year, definitely we will go to SEBI and we will ask for the increase.

**Rohit Balakrishnan:** Okay, got it. Sir, the second question also in our, the IPO and corporate action charges. So what could be the mix between IPO and corporate action, I mean how to split between these 2, what would be the mix, revenue mix broadly?

**Bharat Sheth:** It would not be possible to give us those figures. It is confidential, so I cannot give those figures.

**Rohit Balakrishnan:** Actually, Sir, what I wanted to understand is that in an environment like what we have been seeing in the last 2, 3 quarters or even more, where IPOs are sort of not coming forth. Some of these are not coming forth with their IPOs. So what would be the steady state revenue for this kind of a business because corporate action would still be happening and buybacks and splits and all those things we continue to come? So, Sir you can give me a very broad answer to what exact number?

**Bharat Sheth:** I can give you overall picture. In March 2018, IPO corporate action charges, total income was around 29 Crores. It went down from March 2019 to 19 Crores or 20 Crores. Now it is in similar line only, if you see 6 monthly results, it is down by 1 Crore. So it is depends on number of IPO. If you see that prime database that last year, it was 92,000 Crores worth IPOs there. It is down to 46,000 Crores. So that depends on the market.

**Rohit Balakrishnan:** Right, so actually, that was the question, Sir. So this 18 Crores, 20 Crores of run rate on this IPO and corporate, in an environment like today where hardly any IPOs that are coming. Do you think that is broadly sustainable?

**Bharat Sheth:** That is IPO and corporate action charges are intermingled, so it becomes very difficult to give towards IPO how much and towards corporate action how much. Because on application also we are charging and allotment also are charging, so that comingled as such.

**Rohit Balakrishnan:** But Sir, if there are no IPOs, then there would be no applications also for you to charge, right? So in that case, whatever revenue that you have been earning in the last couple of quarters that would be hardly any IPO, right? Because there have been any hardly 2 IPOs in the last 2 quarters?

**Bharat Sheth:** Yes, yes. Theoretically, yes. That is one way of looking at it, yes.



*Central Depository Services (India) Limited*  
*October 22, 2019*

**Rohit Balakrishnan:** Got it. Sir, the other question was on the CDSL Ventures. So a couple of quarters back, SEBI had come out with a regulation where we could not sort of, where except telecom and I think one more entity, you could not sort of use the Aadhar to directly do the KYC. So I mean, and since then also we have been able to sort of grow that part of business. It is not at a very good rate, but it is steady. So do you see any impact further like, I mean just wanted to hear your views on that. I mean what, how is the ecosystem coping with that?

**Sunil Alvares:** See currently, we are not allowed to do eKYC using Aadhar post the Supreme Court verdict. But we have been, subsequent to that, there has been a circular from the Ministry of Finance that in case we want to do eKYC, we have to approach UIDAI through our regulator SEBI, and then once UIDAI gives its approval, then they will notify the government and permit us as capital market intermediaries to do eKYC. We have done all of that. We have approached our regulator and our regulator has approached UIDAI to permit us to do eKYC.

**Rohit Balakrishnan:** So are we allowed at this point of time to do...

**Sunil Alvares:** As of now, we have not yet received the approval.

**Rohit Balakrishnan:** So in the absence of that, so that was the question, Sir. So in the absence of, so we will still be able to maintain the revenues and some of it is, I think is because of the government project also. But if you ex that, how would, I mean how has that business shaped up for us? While we maintain our market share but has that overall pie has degrown in the overall market?

**Sunil Alvares:** See for all players in the market, eKYC is a problem because they are not allowed to use it right now, post the Supreme Court verdict. UIDAI has introduced something called an off-line eKYC, which we have introduced for some of our clients. Where I do not require specific UIDAI approval to go like that.

**Rohit Balakrishnan:** Okay, okay, and this approval, you are expecting anytime soon? Or I mean any comments on that from UIDAI?

**Nehal Vora:** All I can say, it is in a very advanced stage with the UIDAI.

**Rohit Balakrishnan:** And Sir, the last question from my side is on the utilization of cash. So while we have a good payout ratio, but I think if you look at some of the other similar kind of businesses, the payout ratios, there is a room for payout ratios to go even higher. So I mean any comments on that? If you can may be lay out what you are thinking and what is the thinking at the Board level?

**Nehal Vora:** See, we are a market infrastructure institution. It is the licenses which we get for various products and financial resiliency in terms of cash balances becomes an important component when that license is granted. So whilst we ensure that there is a high payout ratio so that whatever is earned as the operating income gets paid out to the shareholders. There is also a need to keep a sufficient





*Central Depository Services (India) Limited*  
*October 22, 2019*

amount of optimum cash balances to show the overall financial health of the company, which is necessary for future growth of the business.

**Rohit Balakrishnan:** Right. So I think if I get the numbers right. We have about 700 Crores, 720 Crores of cash on the books at this point of time and we have I think around 300 Crores of regulatory cash requirement. So in that sense, we have excess of 500 Crores as cash, which can be used for this overall shoring up of our financial resilience. But anything incrementally that we are earning because there is no incremental requirement in terms of Capex or anything. Just on that, I mean I think you are close to 40% on a consolidated basis. So on that, do you think that this is optimum or you think, I mean is there a possibility of this inching up?

**Nehal Vora:** No. So you look at subsidiaries. You should not only look at the requirement that regulatory capital of CDSL as a parent. But also a subsidiary like CVL, etc., would require a sufficient amount of regulatory capital, be it NAD, or be it the CVL Venture.

**Bharat Sheth:** Government project.

**Nehal Vora:** And then government projects, which we are getting. This becomes a very important component when government projects, which are large in size, which would get awarded to us. So I think it is what we have stated earlier that the operating income we will be having, we will be maintaining a high amount of payout ratio. But I think the current cash levels are necessary keeping in mind some of the future ventures which are expected to come.

**Moderator:** Mr. Balakrishnan, sorry to interrupt you. I request you to come back in the question queue for a follow-up question.

The next question is from the line of Hiten Jain from Invesco Mutual Fund. Please go ahead.

**Hiten Jain:** So this quarter, I think you gave that number. So what was provisions for doubtful debt this quarter?

**Bharat Sheth:** This quarter, 2.24 Crores.

**Hiten Jain:** Okay. So if I add, so previous quarter, it was 1.6 Crores and now...

**Bharat Sheth:** So total 4 Crores.

**Hiten Jain:** Yes. Total 4 Crores, but last few years as I see the data, we used to have provisions for doubtful debt in the range of 2 Crores to 3 Crores for the full year.

**Bharat Sheth:** No, no. Even last year, provision for doubtful debt was 4.95 Crores, right? But there you have to see bad debts as well as provision for doubtful debts. So overall impact would be around 3 Crores.



*Central Depository Services (India) Limited*  
*October 22, 2019*

- Hiten Jain:** Yes. So this line item, impairment loss allowance on trade receivables in FY2019, we had 2.93 Crores.
- Bharat Sheth:** Correct. But here, if you see, last year my income was 66 Crores from annual issuer charges. It went up to 80 Crores. So similarly, doubtful debts also increases with that.
- Hiten Jain:** But, you are saying for the first half, it is 4 Crores, and for second half, also we should annualize it. So for the full year, we should expect 8 Crores.
- Bharat Sheth:** No, that is not, see, that is around 75% to 80% I am getting in first 2 quarters, whatever, 84% already we have recovered. Now only 16% we have to recover. So it depends on our recovery, it depends. But with expected credit loss policy, we have to do it under Ind AS.
- Hiten Jain:** So you are saying the second half would have a lower provision for doubtful debt compared to first half, as per the Ind AS policy?
- Bharat Sheth:** Possibly, probably. Not, otherwise it is 8 Crores what you mean to say.
- Hiten Jain:** Okay, okay. So that means whenever your annual issuer charges goes up meaningfully, you would also have provisions for doubtful debt?
- Bharat Sheth:** Yes, that is true.
- Hiten Jain:** Alright, thanks.
- Moderator:** Thank you very much. As there are no further questions, I will now hand the conference over to the management for closing comments.
- Nehal Vora:** So I think as I stated earlier, I have just joined around 3 weeks ago. We are in the business of a market infrastructure institution, and whilst we are, a part of our revenue is dependent on the movement of the markets. But really overall, it is the technology spend as well as the quality of our service, which is going to ensure and also the distribution network which is critical to our business. So we have around 606 depository participants' vis-à-vis our competition at around 280, and I think that will become a critical portion as we move forward. The general government's push to move physical into a digital mode is also going to become an important impetus to our business. But having said that, we need to continuously really invest in our technology, in our systems and in our people to ensure that this module keeps on consistently going on.
- I would like to wish all of you a very happy Diwali and a prosperous New Year and thank you all for joining the call.



*Central Depository Services (India) Limited*  
*October 22, 2019*

**Moderator:** Thank you very much. On behalf of Axis Capital Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.