

“CDSL Q3 FY18 Earnings Conference Call”

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MANAGEMENT: **MR. P. S. REDDY – MD & CEO, CDSL**
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MODERATOR: **MR. PRAVEEN AGARWAL – AXIS CAPITAL**

Moderator: Ladies and gentlemen, good day and welcome to the CDSL Q3 FY18 Earnings Conference Call hosted by Axis Capital Limited. 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 telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Praveen Agarwal from Axis Capital. Thank you and over to you, sir.

Praveen Agarwal: Thank you, Karuna. Good evening everybody and welcome to this earnings call. We have with us Mr. P. S. Reddy – MD & CEO; Mr. Bharat Sheth – CFO and Mr. Nilesh Kittur – AVP to discuss the results. I would request Mr. Reddy to give us brief highlights of the quarterly results, post which we will open the floor for Q&A. Over to you, Mr. Reddy.

P. S. Reddy: Thank you, Mr. Praveen. I welcome all of you for the Q3 Call and as yes, you have seen results, we have done reasonably well, and it is for you to of course decide whether it is reasonable or not, but then in our view given the markets, we have done reasonably well. I will ask Mr. Bharat Sheth to brief you as to the numbers as we are speaking.

Bharat Sheth: Good evening, everybody and wish you very Happy New Year to all of you and this New Year really brought happiness to all of us. December 31, 2017 i.e. for 9 months compared with the corresponding period, our operational income increased by 29%, I am talking of 9 months period of 31st December 2016. As of 31st December, on a consolidated basis, operational income increased by 29% whereas profit before tax increased by 18% and profit after tax by 24%. And if you compare it with quarter 3 '18 versus quarter 3 '17, operational income increased by 36% on a quarterly basis whereas other income down by 38% due to mark-to-marking of investments and high rise in yields and because of that only, it has been down and also decline in interest rates. This quarter-to-quarter expenditure has increased by 18% mainly because of personal cost and system maintenance charges were 14% rise was there last year if you compare it. So PBDIT there is 25% increase and if you see my margin, operating margin at 65% we are working on it.

And on the standalone basis if you see, 9 months my operational income increased by 24% whereas profit before tax increased by 11% and profit after tax increased by 17% because of the market condition if you see my total operational income, there are 5 major sources where good number of increases are there and there are annual issuer charges increased by 8% on quarterly basis, transaction charges increased by 67%. IPO corporate action charges compared to quarter 3, if you see, it has increased by 122% and online data charges that is from the KYC income has increased by 74%. So overall increase in quarter 3, 36% is there with corresponding quarter. And already I have told about the quarter 3, on consolidated basis it has increased by 29%.

I will like people to ask questions.

P. S. Reddy:

Before you release it for questions, I am Reddy here once again. As you are all aware that we continue to get good amount of revenues from three major sources. One is the transaction income and transactions have substantially gone up and the new accounts that are opened in CDSL are almost all 64% that is the incremental market share CDSL has is about 64%. Now that is driving us more and more new accounts. That also leads to the higher transactions because they trade in a market and obviously we get average realization of about Rs. 5 per every debit transaction.

Second boom that came from is the IPOs. When our IPOs have done, right from the beginning of application form and verification, we have a few charges for verification and when the investors actually get allotment again, there is a corporate action charges and this has substantially has gone up in this quarter and which is nine months that is another major revenue stream that we have. The KYC which we have been suspecting that it may go away one fine morning, but still continue to do well. As I said, the SEBI has not withdrawn the requirement of doing KYC with KRAs and since we already have about 1.65 crore fully digitized KYCs and mutual fund industry doing exceedingly well and more and more KYC hits have come, that is why our online data charges that is reflected in the item online data charges and there we have done exceedingly well.

The new revenue streams are trickling in, but it will take some time like National Academic Depository, some of you have an expectation that it will take some more time for other universities to join and upload the data on the portal. Of course, currently the number of universities signed up with CDSL or rather CDSL Ventures Limited are more than what is done with the competition. So, we are doing still well there. There is also eKYC that we have ventured into that is one area we are growing little by little and that is also going to give us good revenues maybe in the years to come and anything else Bharat bhai you wanted to add?

Bharat Sheth:

And one good news is that first time in the history of CDSL, we have crossed on consolidated basis profit before tax of 100 crores that is 105 crores is there and in standalone operational income, we crossed 100 crores within 9 months' time. So now floor is open for the question and answers.

Moderator:

Thank you very much sir. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of Nitin Agarwal from JM Financial. Please go ahead.

Nitin Agarwal:

Sir, I just wanted to know the breakup of revenue of each line item annual issuer charge, transaction charge, IPO charge and online data charge for the third quarter?

Bharat Sheth:

Quarter 3 2017 versus quarter 3 2018, I am giving data. Against ₹ 1,287 lacs for annual issuer charges, it has increased to ₹ 1,389 lakhs by 8% over that. Transaction charges from ₹ 759 lakhs, it has increased to ₹1271 lakhs that is increased by 67%. Then IPO corporate action charges from ₹ 375 lakhs, it has increased to ₹ 834 lakhs, increased by 122% and KYC data that is online data charges from ₹ 447 lakhs, it has increased to ₹ 777 lakhs, increased by 74%.

- Nitin Agarwal:** And sir if we see the revenue from the IPO and corporate action charges has increased at the CAGR of approximately 35% over FY13 to 17. Do we see this kind of a high growth to be sustained in next 2-3 years like do we have that pipeline of IPOs and other activities which will support that high growth of revenue going forward?
- P. S. Reddy:** Definitely. If market is good, definitely. If you see, last year 16 crores we have earned from IPO corporate action charges and in 9 months only, we have surpassed it. So it depends on a market. More number of IPOs are there and more number of participants from the retail investors are there, definitely we will.
- Nitin Agarwal:** And sir one last question like to talk about the IT costs, so we have a quarterly run rate at consolidated level of around 25 million. So do we see any major inflation in the next 2 years in the IT cost or will it remain at the similar level in the next 2-3 years?
- P. S. Reddy:** Last year Q3 '17, it is ₹ 256 lakhs, it is reduced to ₹ 251 lakhs. So more or less it will remain same.
- Nitin Agarwal:** So we are not expecting any major inflation or high maintenance or something in coming years?
- P. S. Reddy:** No, that is whatever standard 7% to 8% increases.
- Moderator:** Thank you. The next question is from the line of Rohan Shah from Croma LLP. Please go ahead.
- Rohan Shah:** Mr. Reddy, in 2010 we last received SEBI's approval for an increase in issuer charges that was by about 50%?
- P. S. Reddy:** But we got it in 2015 as well.
- Rohan Shah:** 2015 also, okay. So the next one would be 2020?
- P. S. Reddy:** And it is like betting with regulators, but then I do not know when it will be, but then usually for every 4-5 years, we get some.
- Rohan Shah:** And what would you estimate? It would be in the same range of 40% to 50% or?
- P. S. Reddy:** Various other issues are there what is the inflation that is there, what kind of additional issuer services that we have already introduced or what are the regulatory burden that are imposed on the depositories to cater to the issuers. All these things keeping in mind they will revise it.
- Rohan Shah:** Okay, I understand. Now coming to the Aadhaar KYC verification the new norms, what are the risks to our current KYC business?

P. S. Reddy: Currently, the SEBI has not withdrawn the KYC that is needed as per our requirements. The Aadhaar is not mandatory. Currently, the depository participants have to necessarily collect the PAN, so is the capital market intermediaries and PAN verification is needed and various documents that are being submitted have to be what you call in person verification, there is a concept called in person verification have to be certified. Now after doing all that, that should be digitized that is the current requirement. Now Aadhaar based verification that essentially each time investor has to necessarily do the KYC with the intermediary. If it is the KRA system, one intermediary has done, then that can be done used by another intermediaries. So that kind of thing is not as yet there. So let us see, we are also speaking to Aadhaar, we are speaking to SEBI and requesting the KRAs to interact with UID rather than all intermediaries going in and then interacting with that. So we are trying to find some kind of mechanism to interact with existing KRA system that will come through that is what our hope is.

Rohan Shah: So what are the other ways of monetizing this data which we hold?

P. S. Reddy: We will not be able to sell this data to anybody, that is very clear and without SEBI's permission, without the KRA regulations amendment, we will not be able to do that. Only for the capital market intermediaries, it can be used and subsequently it is extended to the commodity market intermediaries as well. If government thinks or SEBI thinks that this can be used by other financial sector intermediaries and to that extent, the usage will increase.

Moderator: We have the next question from the line of Rahul Agarwal from Stewart & Mackertich. Please go ahead.

Rahul Agarwal: Sir my first question is how do you see the growth in the registration of demat accounts. It can be quite fruitful to your business. So how do you see that growth since the economy has been doing pretty well in the past 1.5 years post demonetization also whereas people have invested a lot of money in mutual funds which has led to rise in registration?

P. S. Reddy: See, we are looking for not just dematerialization only for the equity shares or the capital market products. We are banking heavily on the single demat account for all financial assets and we have been speaking to the government that other assets like fixed deposits can be in demat, so is your insurance policies and so are your company fixed deposits etc. And we are at in advanced stages of discussion and we are hopeful that that will definitely drive the demat account opening and then their usage substantially.

Rahul Agarwal: And sir since your operating costs are mostly fixed like employee wages, software development, so having a fixed operating cost since your revenue model turn out to be volatile as we were telling about the KYC, are you making any provisions regarding that?

P. S. Reddy: Provisions for what, I did not understand. What is that for provisioning, I should do.

Rahul Agarwal: Sir like the KYC issue which you were telling sir can you give some light as how will it turn out to be like is there a negative impact of that on your business?

- P. S. Reddy:** We have already, even with the time of IPO document, we have mentioned what are the risks in the business, okay. When the central KYC, CKYC concept came and government said that all intermediaries must be doing using the CKYC, but then that did not establish itself comfortably for all users. Now, the KRAs are doing well established system and in KRA what we have done is in addition to as I said that PAN is mandatory in the capital market, but that is not the requirement for banking transactions or for the CKYC purposes. So what we have done is the intermediaries continue to upload in the CDSL's KRA and they also upload the KYC and they also upload the PAN card and etc. We do that due diligence including the verification of the data entered by the intermediaries. We make a file out of it and then give it back to the intermediary who can seamlessly upload into the CKYC system, so that is what currently how we have found ourselves to be relevant in this context, but at the same time SEBI has also not withdrawn the requirement of uploading in the KRA, KYC data. So keeping that sword hanging in mind, we have said that this is a risky and any time may go. If SEBI withdraws that requirement of uploading on KRAs, probably some people may not continue to upload.
- Moderator:** Thank you. The next question is from the line of Aditya Bagul from Axis Capital. Please go ahead.
- Aditya Bagul:** Sir, just a couple of questions while you highlighted in your initial comments we have seen quite a bit of jump in your employee and other expenses even on a QoQ basis, can you highlight what could be the reason behind it. Also is there a sequential increase in the number of employees?
- P. S. Reddy:** See, there is some marginal increase in employees about 10-15 people, okay. But that is not a big jump in that sense. The rise probably you are comparing is with 2016. And in 2016, in the first two quarters, you do not find the 20% rise that the board has approved for the employees with effect from 1st October 2016. That is the reason why, in the comparison you will find that there is a substantial jump. But then it will get evened out maybe in the coming....
- Aditya Bagul:** Right sir. Sir I was actually referring to December versus September of 2017 where the employee costs have increased by about 7% quarter-on-quarter. So I just wanted to understand and the same case is with the other operating cost as well.
- Bharat Sheth:** If you see employee expenses on the quarterly basis if you see, that is you want to see this September quarter, right?
- Aditya Bagul:** Yes sir.
- Bharat Sheth:** That is ₹ 661 lakhs, it has increased to ₹ 710 lakhs, that is ₹ 49 lakhs increase, that is 7% increase is there. That is due to, see, previous period 190 employees were there. It has increased to around 200 employees, means 10 employees more are there. Annual increment and it goes on, like that on monthly basis. That is a standard increase as such. Nothing more than that.

- Aditya Bagul:** Right. So there is no one-off in that?
- Bharat Sheth:** No, nothing one-off sort of things.
- Aditya Bagul:** Great. Sir, secondly I just wanted to ask you, while again you touched upon the initial comment. In the data storage business that is the KYC business, you talked about the issues that could crop up because of SEBI putting up cap on that. How far do you think that is from today or has SEBI contacted you regarding something on that front or do you think this will be a steady path for the next few years?
- P. S. Reddy:** No. We are in touch with SEBI requesting them to use the KRA business for the entire capital market. Today there is an interoperability that is happening, isn't it? So even if you are connected to one KRA and the KYC that you wanted existed in some other KRA, you still be able to fetch that KRA because there is an interoperability. So what we suggested to SEBI is, since this interoperability is already existing among 4 KRAs, the CKYC also can be a part of this interoperability and then anyone who uploaded on CKYC can also be fetched by a KRA. That is the way we have given the proposal. So we have not heard anything negative so far. In fact, we are positive about it.
- Aditya Bagul:** Okay, sir. That is quite helpful. Sir, lastly if I look at your annual issuer charges, I just wanted to understand this concept slightly better, what is the trend in the number of companies that are charged on a portfolio or a folio basis as against on a capital base and what is the change that the company has to go through to change from a folio basis to a capital base or vice versa?
- P. S. Reddy:** Company has no role to play in that. Essentially, a slab is there. 4-5 slabs are there and then number of folios are there for each company. So number of folios multiplied by Rs. 11 is what SEBI tariff says. So if that exceeds the slab in which they are falling, then they pay the higher amount. So it is not the company which chooses or I negotiate with each individual company. So 83% of the number of companies pay on slab basis and 17% of the companies pay on folio basis. But in terms of revenues, 42% of the revenue comes from the slab basis and the remaining 58% comes from the folio basis.
- Aditya Bagul:** Okay. That is quite interesting sir. And just one last question, on the same topic. Have you seen the number of companies who are charged on the folio basis? Have you seen that share increase over the last few years and how do you see that going forward?
- Bharat Sheth:** Once in a year we are charging, so next year we will come to know.
- P. S. Reddy:** Because yearly once only we are allowed to fix this tariff based on the previous years this one, what you call number of folios. So we send a bill, annual bill to the companies only on 1st April or in the month of April rather.
- Bharat Sheth:** So if you see in financial year 16-17, 51% have got it from on a folio basis. This year it has increased 17-18 to 58% from a folio basis, like that, trending.

- Aditya Bagul:** Total value of income, right?
- Bharat Sheth:** Yes, total value of issuer charges, annual income.
- Moderator:** Thank you. The next question is from the line of Abhishek Jain from Vallum Capital. Please go ahead.
- Abhishek Jain:** So recently I have read an article about the dematerialization of the private company accounts. So how big is the opportunity, if in case it does happen that dematerialization of private limited companies because the number of private limited company goes to 6 lakh around. So how big is the opportunity for the same to the CDSL and NSDL and how much of the share can be grasp upon by the CDSL. And my second question is about the opportunity size and improvements in warehouse receipts?
- P. S. Reddy:** Okay. See, the first question with respect to the unlisted companies getting admitted or the private limited companies, yes, the higher the cost for the companies, the greater the opportunity for the deposit rates. But then obviously the MCA is also conscious that these companies are closely held and for the sake of regulation, they are forced to come to the depository and then pay for it. So obviously the tariff that we have currently applying for these companies, that is the listed companies or unlisted companies which are coming voluntarily unlisted companies may not be applicable for those companies. Then MCA negotiate or they may come out with a common tariff and that may not be very big. But please appreciate one thing that government also looks at depository as a public institution and public infrastructure institution, which will help and aid the government in regulating all these companies etc. So the work is big, no doubt. There will be substantial work for this and maybe they will compensate for the work that we do and not in terms of, not too much margin maybe left, that is the way I look at it. And coming back to the warehousing part, receipts part, the ecosystem is not fully developed as yet. The regulatory framework is not in place in the sense the WDRA has promoted this warehouses registration and warehouse depository rather depositories have been promoted. But the RBI is yet to make mandatory for the banks to lend against only the eNWR, that is electronic negotiable warehouse receipts and that is still in the discussion phase between RBI and WDRA and IBA etc. Similarly, they have also taken up the issue with SEBI, so that SEBI can also mandate the commodity exchanges when they are settling the trades against the physical delivery of stock that must be coming out of this eNWRs and that are kept in repositories. So once this regulatory piece is in place, then you will see some kind of growth in that business.
- Abhishek Jain:** But how big is the market for the same, like any ballpark figure?
- P. S. Reddy:** No, we are not supposed to be guessing on that.
- Abhishek Jain:** And sir you have told that common tariff will be there, the size will be there, but will it be like economical for you to operate that or it will be a profitable size?

- P. S. Reddy:** Yes, definitely. It will be economical. No doubt about it.
- Abhishek Jain:** Anything multiplied by 6 lakhs will be divided between NSCL and CDSL or...
- P. S. Reddy:** Yes, obviously. We don't know how many, whether all 6 lakhs will be there or some of them are getting closed because of, some of them are Shell companies etc. and we shouldn't be taking that number as really true in that sense. It may substantially come down also.
- Moderator:** Thank you. We have the next question from the line of Giriraj Daga from KM Visaria Family Trust. Please go ahead.
- Giriraj Daga:** Just a couple of questions on other income like it has gone down substantially. So is there any mark-to-market loss we have booked there?
- Bharat Sheth:** Yes. There is a depreciation in the value.
- Giriraj Daga:** How much is the amount?
- Bharat Sheth:** There is no booking of it. There is no actual loss. There is mark-to-mark investment what we...
- Giriraj Daga:** Yes. I understand that, but what is the amount of that mark-to-market or let me put it this way what could have been other income had this be not been there?
- Bharat Sheth:** No. Other income includes only investment income. 9 months figure if you see, as on December 2017, ₹ 25 crores is there, ₹24.78 crores is there against ₹ 31.18 crores for the 9 months corresponding period. So in 2017 return is 7.52%, as against 9.78% earned in the previous period.
- Giriraj Daga:** So last quarter was substantially low sir. It was only 5.9 crores.
- Bharat Sheth:** Quarterly Yes, correct. ₹ 907, it has come down to ₹ 592. That is overall decrease by 35% because in this last quarter only, depreciation in value as yield has increased on all these bonds because of that only.
- Giriraj Daga:** Okay, right. What is the cash level sir as of September, how much cash we are holding, net cash?
- Bharat Sheth:** Net cash we are holding around 530 crores.
- Giriraj Daga:** What is the CAPEX for this year?
- Bharat Sheth:** This year already we have spent around 75 crores in property, And other CAPEX is on an average 3 to 4 crores always there.
- Giriraj Daga:** Next year also similar number would be there?

- Bharat Sheth:** Except for property, it would be in the same line 4-5 crores.
- Giriraj Daga:** And any plan for property next year?
- Bharat Sheth:** No. That is one time only.
- Moderator:** Thank you. The next question is from the line of Hiten Jain from Invesco. Please go ahead.
- Hiten Jain:** Yes. Could you help me understand your other expenses part which has gone up from 8 crores in 2Q 18 to 10 crores in 3Q 18 which is a growth of 25%.
- Bharat Sheth:** You want Q2 versus Q3 only, right?
- Hiten Jain:** Yes. It is a big jump 25%.
- Bharat Sheth:** First year, telephone and communication charges, it has increased from ₹124 lakhs to ₹198 lakhs. That is jump of over 60% because of eCas charges and leased line charges are there but eCas charges is the major one as such. That is consolidated account statement we are sending on which postage & communication charges are incurred that is the major one.
- Hiten Jain:** Sir, I didn't understand sorry, what is this postage?
- Bharat Sheth:** Postage communication charges has increased by 60%.
- P. S. Reddy:** Because we are dispatching cas, common account statement for the consolidated account statement for the mutual funds and, etc. and where there is a physical thing used to be send whenever there is a what to call bouncing of the emails. So that is one thing that has happened.
- Hiten Jain:** Okay. But this would be recurring thing in our business, right?
- P. S. Reddy:** Yes, but then we are also getting the revenue, right?
- Hiten Jain:** That is why I am saying. So this is normal expense, okay.
- P. S. Reddy:** Yes.
- Bharat Sheth:** Then one more charges that is of online data charges means point of services charges also there, there is KYC income has increased, there also charges are there.
- P. S. Reddy:** There is another major input. That is the KYCs, the new KYCs created and then we pay to the vendor who is actually doing the data entry etc. Because the KYC income has also increased, then there is a expense to that extent.
- Hiten Jain:** Okay. So some part of this expenses directly link to KYC income.

- P. S. Reddy:** Yes.
- Bharat Sheth:** It is a consolidated basis, right. So overall if you see, only 3 crores is increased that is 16% increase is there. From ₹ 1,865 lakhs it has went up to ₹ 2,171 lakhs total figure.
- Hiten Jain:** Okay. So sir the remaining is explained by this postage mutual fund thing, which is again related to KYC and you are seeing the vendor charge that you have to pay for outsource services.
- Bharat Sheth:** Yes.
- Hiten Jain:** Correct. And the second question was on this employee addition. So you said that we added 11 employees this quarter. So what is our plan in terms of employee addition going forward? Are we looking to hire people, add people?
- Bharat Sheth:** It is not like that. New projects are coming, right? National Academic Depository, then on CCRL i.e. Commodity Repository. There increase in employees are there because of that only.
- Hiten Jain:** So what is your plan like say for...
- P. S. Reddy:** See, although there is no income from the commodity repository as yet, okay, but we need to have some employees out there. So that means that is what the initial expenditure that we have gone into. That is why expenses have gone up.
- Hiten Jain:** I understood that, but I was just asking in terms of your strategy. What is your plan in terms of hiring? Are you looking to further add people for this new projects or you are done or you are still contemplating about it.
- P. S. Reddy:** We may add about another 10 people maybe in a year or so.
- Hiten Jain:** But not much.
- P. S. Reddy:** Not much.
- Hiten Jain:** The last question sir I missed the data point which you said your transaction revenue. Could you please repeat that for me once, 3Q 17 number absolute and 3Q 18 number?
- Bharat Sheth:** Transaction data from ₹759 lakhs, it has increased to ₹ 1,270 lakhs.
- Hiten Jain:** So increase of 67% year-on-year.
- Bharat Sheth:** Yes, 67%. IPO corporate action charges 122% jump is there, from ₹375 lakhs to ₹834 lakhs.
- Moderator:** Thank you. The next question is from the line of Nitin Agarwal from JM Financial. Please go ahead.

Nitin Agarwal: Sir, request you to elaborate more on how the CERSAI implementation will impact the KYC business. So like you spoke about, in the central KYC will come, you are now requesting SEBI to get it linked to the already existing platform of 4 KRAs, but, I just want to know, what is the exact event which will lead to you know a complete draw down of this business. So will it be like central KYC coming in and all the other KRAs will have to..

P. S. Reddy: See, already central KYC has come in. That is what the CERSAI doing it, is not it? But then that is mostly banks are uploading it. If you look at that, how it works, how it operates is the banks are doing the KYC. Each bank is doing it. There is no unique number based on which they are doing it. Sometimes Aadhaar, there could be without Aadhaar also that bank can open a bank account. So what are KYC they collected, they are simply uploading it. So no one verifies the data entry. No one authenticates the documents that are submitted. In the case of KRAs, we are authenticating the PAN, we are verifying with the income tax side. Our intermediaries are doing the KYC and in person verification, they are doing it and they are certifying the documents. Such kind of things are not there in the CKYC. So intermediaries are not comfortable, they have got the data entry, the kind of quality of the document that are there in the CKYC. So not all intermediaries are also uploading it on the CKYC and PAN is not mandatory again in the CKYC. It is only for the KRAs, rather in the captive market. Unless the CKYC also implement all these quality checks and also continue to take the PAN number, it will not be on par with the KRAs. Only when it is on par with the KRAs, probably the government or SEBI may look at, SEBI essentially may look at discontinuing it, but I do not know, I keep my fingers crossed.

Nitin Agarwal: What are the probability that the CKYC will start using PAN?

P. S. Reddy: Honestly, I will not be able to say that because for many transactions, PAN is not mandatory and if they say it is mandatory, then every bank has to necessarily collect it. So which may not happen. So my view is that will not happen, CKYC collecting PAN number will not happen. That is my view.

Nitin Agarwal: So we can assume that the KYC business will sustain for all the 4 KRAs going forward?

P. S. Reddy: I will not be able to comment on the prospects of the continuation of this business, but then I keep my fingers crossed and then under the fear only, we are doing well. That is the way it is.

Moderator: Thank you. The next question is from the line of Lavish Jain from Sushil Finance. Please go ahead.

Lavish Jain: What is that unique thing which make CDSL different from others?

P. S. Reddy: We have a bouquet of services and in some of them, there is definitely you ask any stockbroker, the service matters a lot and we are in a service industry and that makes unique, that makes one feel that doing business with CDSL is not bureaucratic and it is business friendly and while we are compliant on all fronts, we support stockbrokers, we support

depository participants any time anywhere and we are also innovative and our products are on technology front also. You see that good amount of investments and low cost solutions that we are offering and that is very important thing. And you see that for example the DAS scanning, we do not charge anything, but the competition charges and you sit back and as a DP, you do not need to store that DAS and I am storing it. The competition simply digitally signs it and gives it back to you and then you have to keep and store that particular DAS. So like that there are many things. Those who are operating with CDSL will know what the USP of CDSL is at the operational level.

Moderator: Thank you. The next question is from the line of Rohan Shah from Croma LLP. Please go ahead.

Rohan Shah: Mr. Reddy, by regulation you have to retain 250 crores cash correct?

P. S. Reddy: By regulation, we have to retain about 100 crores for depository and 50 crores for CCRL and about 30 crores for CIRL and for another 30 crores for CVL.

Rohan Shah: That is 210.

P. S. Reddy: That is right.

Rohan Shah: So, what would be your guidance as to what the board would pay out, just to give a guidance to the street.

P. S. Reddy: We have been paying out about 60%, 60% is the payout ratio we have on an average.

Rohan Shah: 60% of your EPS?

Bharat Sheth: 60% on standalone basis.

Rohan Shah: On standalone basis, okay because Bombay stock exchange cannot consolidate CDSL EPS anymore so they would be happier and even we would be happier if big payout is given.

Bharat Sheth: Definitely.

P. S. Reddy: Let the year end, then we will see.

Moderator: Thank you. The next question is from the line of Abhishek Jain from Vallum Capital. Please go ahead.

Abhishek Jain: Sir, how the revenue from GST Suvidha Provider is shaping up and again how much time you are expecting the business from this education, digitization of this certificates?

P. S. Reddy: On the GST front, you are aware we have imagined that there will be millions of returns will be filed, but then that itself is a cause of concern for the taxpayer, so the government is

minimizing the filing. So to that extent, obviously GSP what to call earnings will be lower unlike as expected. Similarly, the GST has not stabilized because there are so many changes are happening in the system with the GST and as well. So it will take some time before everybody gets used to the filing via GSP. So that is the comment on the GSP. When it comes to the national academic depository, government has said that we cannot charge the academic institutions for next 2 years. So we will not charge them, so that revenue may not come. But most important revenue that we can do is the verification charges from academic institutions, employers etc. Verification charges will come only when the data is uploaded and the academic institutions are very slow in uploading the data and the more the old data they upload, the greater will be the usage of the academic depository. Otherwise, if they say that only current year we will upload the data, but then we will take another 5 years to fully populate it with the 5-year data, then only it will be used. To that extent, gestation period will increase. But if the academic institutions choose to upload their old data also so that they can provide better service to their customers via NAD. Then data usage will be much higher. So we are at that threshold. The government is pushing the academic institutions to upload the data as early as possible and in the recently also in Delhi there was a state education minister's meeting and they have been requested to push the academic institutions to upload the data as early as possible.

Abhishek Jain:

Sir, there are 34 shortlisted for this GST Suvidha Provider, so how much share you are expecting from that aspect?

P. S. Reddy:

As I said, the market itself we are not able to quantify as yet because the number of filings that are required are coming down. So it is too early for me to premature to make any comment on that.

Moderator:

Thank you. Ladies and gentlemen, due to interest of the time, we take the last question from the line of Amit Chander from HDFC. Please go ahead.

Amit Chander:

So just wanted to understand that we have been saying that we are gaining market share. So in terms of incremental market share 60%-70% of the incremental market share CDSL is gaining, so what exactly is driving this and what are the benefits that you are providing this competition. Is it pricing or is it service or can you elaborate on the pricing structure versus competition?

P. S. Reddy:

Pricing does not make much difference. If you look at the growth in demat accounts, major flow comes from the banks. Now the banks like your HDFC Bank, ICICI bank, Axis and SBI, these are all the ones who are driving the three in one account growth. So they contribute partly in NSDL, partly in CDSL. Of course, service makes them to decide way to do what. Apart from service, maybe once in a while the contest they conduct and for their employees and we participate, that also makes the difference. But more than that, assuming that these banks are contributing equal number 50-50, what gives us the major growth is the depository participants other than the banks and financial institutions, we have 590 total DPs as against NSDL about 260 plus and this substantial growth comes from the DPs who are exclusively

with us and there are many DPs who are exclusively with us who are driving our business and since the markets are booming and they are also doing well, this stockbroker DPs and many accounts are opened by them and mind you vis-à-vis the stockbroker DP, I mean vis-à-vis the bank DPs, the stockbroker DPs open most of the act to trading accounts in the sense it is not just 3-in-1 account whereas salary account is opened, so you open a bank account, you open demat account and that may never be used. Sometimes they do open, but the stockbrokers make sure that the client substantially trade or do capital market investments.

Amit Chander: So you are saying that you are more penetrated on the retail side rather than the institutional side and the focus is going to be same or is going to change?

P. S. Reddy: We are not ignoring the institutions or anything. The institutions also gives us business, but it is the retail which matters a lot because custody for example, the FII may be having huge custody in NSDL vis-à-vis the CDSL, but a retail investor sells 100 shares and FII sells one lakh shares or two lakh shares, still they pay us only Rs. 5. So what matters is more and more retail accounts and more and more transaction-based accounts rather than big value.

Amit Chander: But in retail, is it cost of serving retail account or cost of...

P. S. Reddy: But we do not service them, is not it? We are not dealing with the investors anyway. It is the depository participants who are dealing. We do not directly market to the investors.

Amit Chander: So in terms of adding accounts, so is there any cost associated to it in terms of I think....

P. S. Reddy: Absolutely no cost.

Amit Chander: So that is why I was seeing you revenue market so in terms of accounts market share, it is around 45%, but in terms of revenue market share, how much it is?

P. S. Reddy: In fact, accounts market share is aggregate is 45%, 46% almost. Now in terms of revenue also, it is about 40%-43%. It is about that.

Moderator: Thank you. Ladies and gentlemen, with this I hand over the floor back to the management for their closing comments. Over to you sir.

P. S. Reddy: Thank you everyone of you for participating it. Thanks to Axis Capital and Mr. Praveen for organizing this. Thank you madam for coordinating the call.

Moderator: Thank you sir. Ladies and gentlemen, on behalf of Axis Capital that concludes this conference call. Thank you for joining us and you may now disconnect your lines.