

CDSL Q1 FY20 Investor Conference Call”

July 29, 2019

MANAGEMENT: **MR. BHARAT SHETH – CFO**
MR. GAURANG SHAH-VICE PRESIDENT
MR. NILESH KITTUR – ASSISTANT VICE PRESIDENT
MR. SUNIL ALVARES – COO - CDSL VENTURES LTD

MODERATOR: **MR. ADITYA BAGUL – AXIS CAPITAL**

Moderator: Ladies and Gentlemen, Good day and welcome to the CDSL Q1 FY20 Investor Conference Call hosted by Axis Capital. 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 for an operator by pressing '*' and 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.

Aditya Bagul: Thank you. Good evening Ladies and Gentlemen and a warm welcome to the CDSL Q1 FY20 Earnings Call. From the management we have Mr. Bharat Sheth – CFO, Mr. Gaurang Shah – Vice President and Mr. Nilesh Kittur – Assistant Vice President. Without further ado I will hand over the phone to Mr. Bharat Sheth for his opening remarks. Over to you, sir.

Bharat Sheth: Thank you Aditya. Good evening to everyone. With me Mr. Sunil Alvares from CDSL Venture is there and Gaurang and Nilesh are also there. I welcome you all to the quarterly conference call for discussing the standalone and consolidated results of CDSL Group for the quarter ended 30th June, 2019. Due to various uncertainties in the economy like election, budget and global factors like fed interest rate movements, oil price etc. the Indian stock market was in turmoil which resulted in not many IPO hitting the market and overall sentiment was negative. This resulted in the CDSL topline showing a marginal uptrend on quarter-on-quarter basis however there was a healthy growth of top line year-on-year basis.

In case of subsidiaries CDSL Venture Limited the KRA performance is linked to the stock market which remained weak resulting in lower KYC generations and fetching. However, compared to 1.88 crores KYC record as on March 2019, 1.93 crores KYC records are as on June 2019.

Other subsidiary, CDSL Insurance Repository Ltd (CIRL) has crossed 5 lakhs insurance accounts and 2.5 lakhs policies. CIRL has also started to offer its services to health insurance companies. Regarding CDSL Commodity Repository Limited is also making steady progress with 970 registered warehouse service providers, 1,000 clients and 5,500+ E&W are generated as on 30th June, 2019.

The number stake up as follows:

Consolidated results Q-on-Q basis that is quarter ended June '19 to quarter ended March '19. Operational income up by 15% that is from 50.95 crores to 58.40 crores whereas other income down by 15% due to higher mark-to-mark gain in March 19 that is from 17.74 crores to 15.02 crores. For total income altogether up by 7% that is from 68.68 crores to 73.42 crores. Whereas total expenses that is from 25.50 crores to 38.44 crores that is up 51% mainly due to increase in employee cost salary revision by approximately 30% to 32% across the board to bring the salary levels to market levels and corresponding gratuity and leave actuarial provisions and other expenses like projects that pertains to committee appointed by Supreme Court we are doing that and expected credit loss provision that is provision for doubtful debts, postage, telephone expenses etc.

So, Profit after tax on consolidated basis on Q-on-Q is down by 18% from 34 crores to 27.91 crores. Major head of operational income on consolidated basis were issuer charges up by 7% on Q-on-Q basis that is 17.91 crores to 19.23 crores. Transaction charges hardly any negligible due to market condition i.e. from 9.84 crores to 9.86 crores. Consolidated account Statement (CAS) charges up by 25% that is 1.89 crores to 2.37 crores. IPO & Corporate action charges up by 28% that is 4.16 crores to 5.31 crores whereas the committee appointed by SC that is projects that we have taken it has increased from 2.85 crores to 6.93 crores that is up by 143% that is first phase we have completed as such whereas on year-on-year basis that is quarter ended June, 19 to quarter ended June, 18 figures are as follows.

Operational income up by 28% that is 45.54 crores to 58.40 crores. Other income up by 5.22 crores to 15.02 crores that is 188% due to that is higher mark-to-market gain and interest on IT refunds what we have received. So, total income up by 45% that is 50.76 crores to 73.42 crores on year-on-year basis whereas total expenses up by 72% that is 22.38 crores to 38.44 crores mainly due to increase in employee cost salary revision by 30% to 32% and corresponding impact on gratuity and leave actuarial and other expenses like postage, ECL provision, etc. For PAT that is profit after tax is up by 27% that is 22 crores to 27.91 crores. Major head of operational income that is Annual Issuer Charges is up by 23% that is 15.66 to 19.22 crores, transaction charges up by 2% that is 9.66 crores to 9.86 crores. Consolidated account Statement charges from 2.03 crores to 2.37 crores, online data charges that is KYC that is 6.84 crores to 7.64 crores and that committee appointed by supreme court in which what we did it is 6.93 crores against Nil that is up by 100%.

Now I am going to standalone results:

On Q-on-Q basis that is quarter ended June '19 versus quarter ended March '19. Operational income up by 7% that is 37.88 crores to 40.54 crores. Other income down by 14% that is 13.10 crores to 11.31 crores due to lower mark-to-market gain. For total income from 50.99 crores to 51.85 up marginally by 2% whereas total expense is 20.25 crores to 26.84 that is up by 33% mainly due to increase in employee cost. Salary revision by 30% to 32% to bring the salary levels to market levels and corresponding impact on gratuity and leave actuarial provisions and other expenses like provision for doubtful debt, postage and telephone expenses. So, profit after tax down by 17% from 24.43 crores to 20.35 crores. Major head of operational income Annual Issuer Charges that is 17.92 crores up by 7% to 19.23 crores. Transaction charges marginally up that is 9.83 crores to 9.86 crores. CAS charges that is 1.88 crores to 2.37 crores that is up by 25% and IPO & corporate action charges up by 28% from 4.16 crores to 5.32 crores.

On standalone results on year-on-year basis that is quarter ended June '19 versus quarter ended June '18. Operational income up by 11% up from 36.37 crores to 40.53 crores. Other income up by 181% due to interest on IT refunds as well as higher mark-to-market gain that is 4.02 crores to 11.31 crores. So, my total income up by 28% that is 40.40 crores to 51.85 crores whereas total expenses up mainly 45% due to increase in employee cost that is 18.50 crores to 26.84 crores whereas PAT up by profit after tax up by 25% that is 16.32 crores to 20.34 crores. The major head of operational income that is Annual Issuer Charges of 15.67 crores as against

corresponding period of 19.23 crores that is up by 23%, transaction charges from 9.66 to 9.86 crores. CAS charges from 2.04 crores to 2.37 crores and foreign investment monitoring last year it was not there during that corresponding quarter this year it is 54.70 lakhs. With this, I leave the floor open for questions 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 Prakash Kapadia from Anived PMS. Please go ahead.

Prakash Kapadia: If you could give us the status of the appointment of the new MD& CEO where are we in that phase and I think we had suggested one name and then SEBI said give us more names and those who were to be approved by shareholders, so is that the status by when do we see this closure?

Bharat Sheth: Mr. Prakash when we gave one name to SEBI, they told us to give at least two names. So, our board has given three names without any preference. So, SEBI first want is that you have to get shareholder approval. So, in June 27th we have started postal ballot and it has got over on July 27th. Today we have received the results and we have updated SEBI about it means shareholders has to approve panel of the three names and then SEBI is going to decide about it. So, we have submitted to the SEBI, panel of names now ball is in the court of SEBI to decide about it.

Prakash Kapadia: Sir on the Aadhar status update I think supreme court came out with a ruling, so is my understanding correct you can use online Aadhar as you were doing earlier for KYC, but you have to do physical verification in one year, is that the right way to interpret the law?

Bharat Sheth: My colleague Sunil is from CDSL Venture he will tell you about it.

Sunil Alvares: So, far as online Aadhar is concerned it can be used only for direct benefits schemes which is emanated out of the consolidated fund of India and all other private parties except for telecom and banks because recently the Aadhar act was amended permitting telecom and banking investor KYC to be done, but for all other parties they have to do an offline e-KYC, for which Aadhar has come out with a guidelines and we are currently doing offline e-KYC for some of our projects. In case you want to continue doing online e-KYC, we have to approach Aadhar through our regulator. so we have approached SEBI requesting them that you approach Aadhar and permit us to do online e-KYC as well for the industry and once SEBI approaches Aadhar then there will be some act changes in the UID act or a permission given by the Central government after which we will be permitted to do online e-KYC.

Prakash Kapadia: So, we have to do offline.

Sunil Alvares: Currently all private parties can do only offline e-KYC.

Prakash Kapadia: Except you said banks and telecoms?

Sunil Alvares: Except banks and telecoms because the law was recently amended.

- Prakash Kapadia:** I had one more question what is the mark-to-market impact of gains on the investment book in the other income if you can quantify that figure?
- Bharat Sheth:** See on quarter-on-quarter basis for the quarter ended March 19 we have got a gain of 9.73 crores against with June '19 8.7 crores, but if you compare it with the year-on-year basis that is June '18 gain was only 1.9 crores against 8.97 crores is there.
- Prakash Kapadia:** Lastly whereby you mentioned about you know that 6.93 crores revenue stream saying this is we have completed the first phase the committee this thing and there were some expenses pertaining to that, so that is about a government project and how much of that is in other expenditure if you could explain that is the last question?
- Bharat Sheth:** See 6.93 crores is the government means Supreme Court has appointed committee that project we are doing and that is the refund of investors fund. So, 6.93 crores we have booked during this quarter.
- Prakash Kapadia:** Is it IEPF related work investor education protection fund or is this some other scheme?
- Bharat Sheth:** Some other things that is a confidential that we cannot divulge in that way. So, against 6.93 which we have booked as an income, during this quarter we have booked expenses also. We have provided for it that is 5.48 crores that is why other expenses are higher.
- Prakash Kapadia:** Mainly other expenditure goes up?
- Bharat Sheth:** Yes because of that mainly.
- Prakash Kapadia:** So, this is a lower margin business as compared to some of our existing businesses, but because it is a government, we are doing it because it is like mandatory.
- Bharat Sheth:** Yes.
- Prakash Kapadia:** And few quarters ago there was a revenue stream of 2 crores, 2.5 crores which we had said it was our government order, so this is the same or that was separate?
- Sunil Alvares:** Same thing only.
- Moderator:** Thank you. The next question is from the line of Harith Shah from Reliance Securities. Please go ahead.
- Harith Shah:** I just had one clarification just one small data point does your ECAS revenue this quarter was 2.37 and the year ago was 1.88 crores?
- Bharat Sheth:** One year ago, 1.89 crores and now it is 2.37 crores.

- Harith Shah:** Secondly can you give your data regarding the incremental market share on the beneficiary owner account versus your main competitor and approximate number of accounts that are there at the end of the quarter?
- Bharat Sheth:** As on June quarter we have added net 6,38,000 new accounts against other depository he has added 2, 17,000 accounts that is our incremental markets share is 75% for this quarter.
- Harith Shah:** Can you give me figure for the number of unlisted companies that has been admitted I think it was about 1400 at the end of last year?
- Bharat Sheth:** So, in this quarter further 643 companies newly added so it comes to around 2050 companies as such.
- Moderator:** Thank you. The next question is from the line of Atul Mehra from Motilal Oswal AMC. Please go ahead.
- Atul Mehra:** So, what I like to know doubling of other expenditure in terms of line items to 9 crores last year versus 18 crores for the current year?
- Bharat Sheth:** Yes I can tell you major expenses in personal other expenses due to this government project in which we have provided around 5.49 crores against 6.93 as our income.
- Atul Mehra:** 6.93 in terms of income for the current quarter?
- Bharat Sheth:** Yes. Then impairment loss on financial asset that is now we have to provide for doubtful debt very first quarter only it is around 1.62 crores we have provided for that that is a major in the KRA charges that is increase of 60 lakhs is there and system maintenance cost increase by 71 lakhs these are the major head.
- Atul Mehra:** During the quarter sir we also had some recovery right from the past I think in the footnote you had mentioned as a write back of 1.8 crores?
- Bharat Sheth:** That is for assessment year 2012-2013 income tax has given us a refund with interest that is around 2 crores interest amounts is 2.2 crores.
- Atul Mehra:** Along with that 2.23 crores?
- Bharat Sheth:** Is the interest on refund.
- Atul Mehra:** So, total you have another 4 crores of receivables which have come this quarter right 4 crores of written back amount for the quarter?
- Bharat Sheth:** No 2.23 and 1.74 is the write back amount so overall 4 crores whatever you are telling is correct.

- Atul Mehra:** Sir the other income is purely a function of booking capital gains right 5 crores going to 15 crores probably a function of that right?
- Bharat Sheth:** Yes and it includes 2.23 crores of income tax refund interest on income tax refund.
- Moderator:** Thank you. The next question is from the line of Nitin Agarwal from JM Financial. Please go ahead.
- Nitin Agarwal:** Sir can you give more light on what exactly is this committee appointed by supreme court and how is it functioning and are we earning revenue from that and going forward what is the revenue potential from this or is this just a short span when we will be earning revenue from this stream?
- Sunil Alvares:** First and foremost this is a one-off assignment this is committee appointed by supreme court to ensure refund to investors in a particular company who are defrauded by the company and we have been appointed to create a database of these investors, call for their certificate and receipts based on that we will decide on the refund and then we will credit the refund to the investors account. So, once this is done it is a one-off event.
- Nitin Agarwal:** So, till when is it expected to continue for next how many quarters do we see?
- Sunil Alvares:** See the contract is for one year, but there are large number of investors about 4.5 crores investors. So, we expect it to spill over maybe to the next year as well.
- Nitin Agarwal:** Next year as in FY21?
- Sunil Alvares:** That is right purely because of the numbers involved.
- Nitin Agarwal:** And what is the potential revenue which we can get in this year and next year from the stream?
- Sunil Alvares:** That depends on number of application received.
- Bharat Sheth:** See we will be billing based on the number of applications i.e. per application basis so it all depends on the number of applications which come in because it is an old matter many of the applicants do not have their certificates, they do not have their receipts so those type of challenges remain.
- Nitin Agarwal:** And what is the fees on per application?
- Bharat Sheth:** See everything we cannot divulge..
- Nitin Agarwal:** Which entity are we recording this, this is not there in standalone so it must be in some other entity?
- Bharat Sheth:** CDSL Venture Limited.

- Nitin Agarwal:** And sir my second question is regarding the employee cost increase so there is a 30% increase across the board, so this is coming after how many years like such kind of increase, do we have a set pattern that every after these many years we increasing on employee cost base?
- Bharat Sheth:** See last revision was in October 2016 we did it so every two to three years we are doing it.
- Nitin Agarwal:** So, this time it was for this particular so this 30% increase will be witnessed like throughout going forward in next quarter also you are having an increase?
- Bharat Sheth:** No there is a onetime impact due to this leave encashment and actuarial valuation of leave encashment and gratuity. So, around approximately 3.5 to 4 crores impact was there in first quarter, but it would not be there in next quarter.
- Nitin Agarwal:** So, if we remove like 3.5 to 4 crores, we are still getting around 10 to 11 crores of quarterly run rate so that run rate should continue going forward for employee cost?
- Bharat Sheth:** Yes that much additional 1.5 to 2 crores so it comes to that much only.
- Moderator:** Thank you very much. The next question is from the line of Priyesh Babariya from Kotak Securities. Please go ahead.
- Priyesh Babariya:** My question was regarding I did not catch the number of revenue bifurcation on a year-on-year basis for the transaction charges IPO annual issuer etc, could you please share the same?
- Bharat Sheth:** Year-on-year basis you want it.
- Priyesh Babariya:** Yes.
- Bharat Sheth:** That is annual issuer charges from 15.66 crores to 19.22 crores.
- Priyesh Babariya:** IPO.
- Bharat Sheth:** IPO corporate expense from 5.55 crores to 5.32 crores.
- Priyesh Babariya:** Transaction charges?
- Bharat Sheth:** 9.67 crores to 9.86 crores.
- Priyesh Babariya:** What about online income?
- Bharat Sheth:** Online income from 6.84 crores to 7.64 crores.
- Priyesh Babariya:** And eVoting?
- Bharat Sheth:** eVoting from 57.85 lakhs to 44.86 lakhs.

- Priyesh Babariya:** Any my second question is regarding what will be income from the government projects regards to document verification in the second quarter for the financial year 20?
- Bharat Sheth:** See first phase was over so we already book the income for that first phase. When second phase is going to start that time we will know.
- Priyesh Babariya:** So, what could be the possible time horizon for the second phase?
- Bharat Sheth:** See contract is for one year so within this financial year only you will get some.
- Priyesh Babariya:** Could you please share the number of a cash at the end of first quarter Financial Year '20?
- Bharat Sheth:** It would be 715 crores altogether against that we have to make a payment for 50 crores dividend and 30 crores is refundable deposits are there. So, around 650 crores net.
- Priyesh Babariya:** And also, that could you please share the information regarding the number of new universities add and rolled under the national academic depository and the number of records updated on the same?
- Bharat Sheth:** See year-on-year basis that is June '18 versus June '19 against 325 academic institutions we have signed agreement it has went up to 515 universities and number of academic records added launches is from 40.41 lakhs to 1.71 crores records.
- Priyesh Babariya:** 44 point.
- Bharat Sheth:** 40.47 lakhs means 40, 46,000 records it went up to 1.71 crores records.
- Priyesh Babariya:** And are we on track to generate revenue from September 2019 onwards also?
- Bharat Sheth:** Yes.
- Sunil Alvares:** MHRD is to notify what would be the charges, but once they notify, I think we should be on track. We have not indicated that it has to be the free period has to be increased or anything like that what feelers we are getting is that they will be notifying this.
- Priyesh Babariya:** And could you please share the information on regarding how the pricing is decided on the same?
- Sunil Alvares:** See there are two types of charges one is for upload of records and second is in case any record is verified a charge is levied by the verifier so you have the verifier charges as well as our charges and like I said there are two charges – one for upload of the record by the university and one for verification.
- Moderator:** Thank you. The next question is from the line of Ashish Sood from Vishuddh Capital. Please go ahead.

- Ashish Sood:** My question is regarding insurance repository business so as on date how many health insurance policies are you doing online and life insurance policy, can you give break up and charges for them?
- Bharat Sheth:** See around 5,000 health insurance policy is added into the system.
- Ashish Sood:** So, this is the first-time health insurance policies have been added?
- Bharat Sheth:** Yes.
- Ashish Sood:** And pricing what is the pricing on them Rs. 50 or it is different?
- Bharat Sheth:** No, it is different that is around Rs. 30 to Rs. 35.
- Moderator:** Thank you. The next question is from the line of Shriram Shrinivasan from Ksema Wealth Management. Please go ahead.
- Shriram Shrinivasan:** You were speaking of different unlisted companies have been added during the quarter right what would be added at the end of last quarter?
- Bharat Sheth:** Last quarter it has been added by around 533 companies in last quarter.
- Shriram Shrinivasan:** 533 companies have been added.
- Bharat Sheth:** Yes, against it now it is 633.
- Shriram Shrinivasan:** What about the other repository have been added?
- Bharat Sheth:** That details we do not have.
- Shriram Shrinivasan:** We are already engaged in doing insurance repository business right?
- Bharat Sheth:** That is right.
- Shriram Shrinivasan:** What is the breakup that you can give it now insurance repository added?
- Bharat Sheth:** See there are 2,50,000 polices are there as on 30th June against 2,25,000 March '19 so 25,000 additional policies.
- Sriram Srinivasan:** 25,000 have been added.
- Bharat Sheth:** Yes.
- Shriram Shrinivasan:** How we can see the trend of unlisted company, last time you have said that almost 200 to 250 companies we can see on month-on-month basis so we can see the same trend?

Bharat Sheth: Yes same trend 633 companies in one quarter it comes to 253.

Shriram Shrinivasan: We can see the similar kinds of things right?

Bharat Sheth: Yes definitely.

Shriram Shrinivasan: Sir as well as in terms of other expenses you have said that the supreme court have ordered us to do some specific project for investor funding in such case you have made 5.48 crores has been provisioned for that business and we have mentioned 6.93 as an income, right?

Bharat Sheth: Correct.

Shriram Shrinivasan: Is this 6.93 maybe it may refer to the income range but it is 5.48 will be provisioning at every quarter or it is a one-time?

Sunil Alvares: It is a one time for the phase one of the project. For the phase two of the project we again will have some income and some expenditure out there.

Shriram Shrinivasan: What will be the expenditure that you can expect or at least we can make it up into the total sale?

Sunil Alvares: I mean we are actually in the process of finalizing the vendor and all of that so we will not be able to disclose anything at this point in time.

Shriram Shrinivasan: Sir in terms of the market share that you have been seeing 75% of incremental market share that we are holding right?

Sunil Alvares: Yes.

Shriram Shrinivasan: Can you give the number of beneficiary account total number of accounts?

Sunil Alvares: It is around 6,38,000 in this quarter were added by us and about 2.18 lakhs were added by NSDL.

Shriram Shrinivasan: Sir in terms of university business you have said that the same quarter of last year it was 325 universities which was almost 14.5 lakhs of records we are holding. now 515 with 1.71 crores of records we have been holding right?

Bharat Sheth: That is right.

Shriram Shrinivasan: Such cases we have been expecting from second phase of this financial year, right?

Sunil Alvares: See we will be permitted to charge from September '19 that is what our MoU with the MHRD says. So, MHRD has to come out and specifically issue a circular to all the university saying that going forward they will have to pay this charge so that is how things stands currently.

- Shriram Shrinivasan:** One last question sir in terms of the transaction charges we can see that total number is lowering in the last two quarter because of respective of the market conditions, how about the interest exchange have been placed in this quarter because June 1 we can do the inter-clearing person who can do while in NSE even he can do on BSE, the charges will be on one side?
- Sunil Alvares:** As it does not matter if somebody has sold a security there will be debit in one account and a credit in the other account. Our charges are based purely on the debit into those account irrespective of where he is doing a settlement from which clearing corporation.
- Shriram Shrinivasan:** So, this inter-clearing corporation does not impact our business?
- Sunil Alvares:** It does not impact our business much.
- Moderator:** Thank you. The next question is from the line of Hiten Jain from Invesco AMC. Please go ahead.
- Hiten Jain:** Sir I would like to understand this other expense better so if I look at it so last year that is Q1 '19 other expense was 9.5 crores which has now become 18.4 crores so approximately an increase of 9 crores out of that if I remove this 5.5 crores which is you are saying one time related to this specific project that we have signed up still despite that this 9.5 has gone up to 12.9 which is an increase of 36% year-on-year so I am not able to understand so normally historically if I see we do not have other expense growing at this scale so what has exactly happened this quarter?
- Bharat Sheth:** Other expenses if you remove that 6.23 in employee expenses that is 16.06 other expenses. See apart from this 5.49 crores in this government project other than that 1.62 crores we have provided for doubtful debts.
- Hiten Jain:** So, sir you would have also provided us provisions for doubtful debts in Q1 '19 also right?
- Bharat Sheth:** No.
- Hiten Jain:** Then why this 1.6 crores what has changed to this quarter?
- Bharat Sheth:** See last year auditor was different, this year auditor is different. For the current year income also they told us to provide that is expected credit loss. Previously ours was a simplistic approach at present also that, but expected credit loss for the year was generally provided on third and fourth quarter, but auditor insisted that from this first quarter also we have to provide for it that is all.
- Hiten Jain:** So, if I remove that also still it is up 19% year-on-year other expense normally we see 10% to 15%.
- Bharat Sheth:** Yes, but certain expense is like postage, telephone & communication increased by 62 lakhs that is because of this government project.

Sunil Alvares: This project of this government project all communication was by way of SMS so there was a steep increase on the SMS charges?

Hiten Jain: So, sir is this project loss-making for us?

Bharat Sheth: No, right now very low margin you can say.

Sunil Alvares: It is a very high volume and low margin.

Hiten Jain: Because if I look at the revenue contribution is 6.93 expense you are saying 5.5 plus 70 lakhs increase due to electricity posted further 70 lakhs?

Bharat Sheth: Those are reimbursable expenses basically. So, basically, I incur those cost and those are reimbursed to me on actuals.

Hiten Jain: And my second question is if I heard you correct you said you take salary hikes after three years is it so?

Bharat Sheth: That is right.

Hiten Jain: But if I look at your employee expense over the last three years, so even in FY19 employee expenses grew by 13% FY18 also employee expense grew by 22% and FY17 also it grew by 16% so always it has grown more than around close to 15%, 20%, so why would that be then?

Bharat Sheth: That is on total expenses you are converting that is 14% and like that. See for the new project number of employees also if you see in June '18 235 employees were there, now it has increased to 253 employees then all this promotions, annual increment that also you have to consider it.

Hiten Jain: So, you have annual increments, right?

Bharat Sheth: Yes.

Hiten Jain: So, then what is this three-years hike?

Bharat Sheth: That is to compare with the market.

Hiten Jain: So, every year you give a hike but after three years?

Sunil Alvares: See the earlier annual increment was 2% to 3% which was not keeping in pace with the inflation as well. So, that is why every three years they look at having a revision of the pay scale as well.

Bharat Sheth: We do not have dearness allowance and all.

Hiten Jain: And you are saying the employee expense growth that we are seeing is because of addition of new people?

Sunil Alvares: Yes, addition of the new people because as the projects have increased people have increased unlisted companies, we required more people. So, overall, the number of people are increasing.

Hiten Jain: So, I mean do you envisage to add more newer because this is a new opportunity which we were getting revenues from in terms of unlisted shares so do you expect addition of more employees going forward?

Sunil Alvares: See if the volume increases substantially I think number of employees will also have to keep in pace with as the business increases it cannot be that the business increases and the number of employees remain the same plus as we get into new projects obviously there will be some addition so there as well or say has the academic depository picks up steam and MHRD perimeters to levy a charge we will require people to market the product. So, these things will happen I mean it is not that it remain at a standstill.

Moderator: Thank you. The next question is from the line of Amit Chandra from HDFC Securities. Please go ahead.

Amit Chandra: My question is related to the unlisted opportunity so we are adding around 200 companies monthly whereas the competition is adding around 500 companies on monthly basis, so I would like to understand is that these 500 companies or 200 companies are all on incoming basis or are we incurring any cost or sales cost to paid these 200 companies and if you want to compete with them in terms of adding more company so can we see an increase in cost sales cost basically related to the unlisted company?

Sunil Alvares: There is some incentive we pass on to RTAs to admit more their companies into CDSL. So, as we get more aggressive that cost could go marginally up. I would look at it more as a promotion expense.

Amit Chandra: So, we are providing incentives to the RTAs?

Sunil Alvares: We have just started business.

Amit Chandra: So, these incentives are recorded in other expenses it is a part of that?

Bharat Sheth: No that is business promotion expenses. At present hardly anything. Recently only we have introduced this scheme.

Amit Chandra: Sir in terms of the government project that we are doing as it has already been discussed that the margins are pretty low in that, so can you quantify that what exactly the margins and can this margins increase with scale or just the starting point where the margins are lower, so as we reach scale so margins can increase or how to see it if you see from quarterly point of view the margins were lower, but if you see from an yearly point of view what is the targeted margins that you look at?

- Sunil Alvares:** I think the margins are pretty okay it is around 30%-odd and we have already book some income in the last quarter not only this previous quarter the quarter previous to that as well.
- Amit Chandra:** So, this 30% margin is for the government project can be for the full year?
- Sunil Alvares:** Yes, it was a full year.
- Amit Chandra:** And sir the last question would be on the salary cost, we have taken the increment 30% so this includes the increase that we are seeing salary cost, includes only the impact for three months or it is applicable previous also there or it is applicable from January or six month impact is there or it is only three month impact?
- Bharat Sheth:** Amit, one permanent impact, one temporary impact. Now as on 31st whatever actuarial valuation on leave encashment and gratuity was there that has come into picture in this June '19 means around 4 crores we have been impacted during this quarter it would not be there in second or third quarter. So, whatever increase is there for e.g . 100 becomes 130 then 30 becomes by permanent one as such.
- Amit Chandra:** So, the next quarter the employee cost would be in the range of 10 to 11 crores.
- Bharat Sheth:** yes 10 to 11 crores.
- Moderator:** Thank you. The next question is from the line of Nitin Shakhder from Green Capital. Please go ahead.
- Nitin Shakhder:** My question pertains to I am giving to understand that the cash and investments and general reserves are around 650 to 670 crores as what you had highlighted, so my question is why is it possible to deploy certain amount of reserves from the treasury in terms of creating a buyback for the shareholders or improving that there is a yield because isn't that a better use of the cash rather than deploying at a yield of 78% just wanted to hear the management few points on that?
- Bharat Sheth:** Our dividend policy is consistent that is around 60% payout ratio is always there and on consolidated basis around 44% payout ratio is there. Regarding buyback of shares tax benefits and all now in this budget everything has gone down tax payment is equal to whatever dividend tax you are giving it comes to same only, but definitely in the near future, when new MD comes, we will review it and then we will come back to shareholder about it.
- Moderator:** Thank you very much. The next question is from the line of Gaurav Lohiya from BowHead Investments. Please go ahead.
- Gaurav Lohiya:** Have you approached the SEBI for revision in the annual issuer fees?
- Bharat Sheth:** Not yet.
- Gaurav Lohiya:** But are we looking in the near run or probably it will spill over to FY20?

Bharat Sheth: In 2015 they have revised the tariff so now this year or next will do.

Gaurav Lohiya: And sir what was the revenue from this unlisted public companies in Q1 in annual issuer charge of 19 crores?

Bharat Sheth: It would be around 75 lakhs.

Gaurav Lohiya: And how much of that would be one-time admission fee that would be much higher side out of these 75 lakhs?

Bharat Sheth: There is 500 companies around 15 around Rs. 15,600 19 lakhs around.

Gaurav Lohiya: 19 lakhs or 90?

Bharat Sheth: Not 90.

Gaurav Lohiya: 19 lakhs and sir you had mentioned that around 65,000 public companies are there and out of that about 5,000 to 6,000 companies would have the demat this thing now how many companies would be left with the run rate that we are going or our competition is adding up?

Bharat Sheth: About unlisted company?

Gaurav Lohiya: Yes.

Bharat Sheth: See around 65,000 unlisted companies are there. Out of which 2,000-odd admitted over here then whatever you say that is around 4,000 NSDL so still 60,000 companies to come, but it is not mandatory unless and until they issue shares or some transfer of shares takes place that time it is mandatory.

Gaurav Lohiya: And any word on the private companies as well this is only for publicly and listed company, but any word on private company?

Bharat Sheth: That is a second phase that is MCA is going to coming out.

Gaurav Lohiya: But there is no clarity as of now when that would happen?

Bharat Sheth: Not yet.

Gaurav Lohiya: And sir what was the ECL provision last year? Was there any provision last year or there was no provision it was only in Q3 or Q4?

Bharat Sheth: That is Q3, Q4 also.

Gaurav Lohiya: Okay there was nothing in Q1?

Bharat Sheth: Yes.

Moderator: Thank you. The next question is a follow up from Priyesh Babariya from Kotak Securities. Please go ahead.

Priyesh Babariya: Sir just one more question with regards to I did not catch the numbers of revenue contribution from the unlisted space of the company, could you please share the same?

Bharat Sheth: See previously I have made a mistake, but in this quarter 643 companies added and we have income of 99.63 lakhs.

Moderator: Thank you. As there are no further questions, I now hand the conference over to the management for closing remarks. Over to you.

Bharat Sheth: Thank you very much to all of you and keep faith on us we will definitely give your good results. Thank you very much.

Moderator: Thank you very much members of management. Ladies and gentlemen on behalf of Axis Capital that concludes today's conference call. Thank you all for joining us and you may now disconnect your lines.