



Central Depository Services (India) Limited

CDSL/CS/NSE/PSB/2021/191

August 24, 2021

**The Manager,
Listing Compliance Department,
National Stock Exchange of India Ltd,
Exchange Plaza, Bandra Kurla Complex,
Bandra (East), Mumbai – 400051**

Symbol: CDSL

ISIN: INE736A01011

Sub: Transcript of Analyst /Investor Call /Conference Calls held on August 18, 2021

**Re: Disclosure under Regulation 30 of Securities and Exchange Board of India
(Listing Obligations and Disclosure Requirements) Regulations, 2015.**

Dear Madam/ Sir,

With reference to our intimation regarding the analyst call vide letter reference CDSL/CS/NSE/PSB/2021/185 dated August 16, 2021, please find attached the transcript of the conference calls held on August 18, 2021.

The above information may also be available on the website of the company:
www.cdslindia.com

This is for your information and record.

Yours faithfully,
For **Central Depository Services (India) Limited**

Nilay Shah
Group Company Secretary & Head Legal



“CDSL Conference Call with Pinebridge Investments”

August 18, 2021



MANAGEMENT: MR. SUNIL ALVARES – MD & CEO, CDSL VENTURES LIMITED
MR. GIRISH AMESARA – CFO, CDSL
MR. RAMKUMAR – HEAD OF BUSINESS DEVELOPMENT AND OPERATIONS, CDSL
MR. NILESH KITTUR – CDSL
MR. SANJAY SINGH – PINEBRIDGE INVESTMENTS

Moderator: Good morning ladies and gentlemen. Welcome to the Central Depository Services (India) Limited Conference Call. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the 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. Nilesh Kittur from Central Depository Services (India) Limited. Thank you and over to you sir.

Nilesh Kittur: Good morning and warm welcome to the participants of the conference call of Central Depository Services (India) Limited. From CDSL management team we have Mr. Sunil Alvares, MD and CEO of CDSL Ventures Limited, Mr. Girish Amesara, Chief Financial Officer of CDSL and Mr. Ram Kumar, Head of Business Development and Operations from CDSL. Now I request the operator to unmute the lines of participants so that they can interact with the management.

Moderator: Participants your lines are now placed in the talk mode.

Sanjay: This is Sanjay from PineBridge Investments. Thank you very much for taking time out for the call. We have been shareholder in CDSL for the last more than one year, we bought after COVID and of course it’s done very well for us and first of all would like to thank the management for the excellent execution over the last year or so, I mean year before but last year the probably the fruits came in. So that’s it, we we’ve been happy shareholders for the last one year and while I know the business reasonably okay. I’ve been following your conference calls. I have read earlier annual reports. But unfortunately, we’ve never been able to interact directly and I thought given that we hold the stock and it’s a decent position for the fund, especially after the move and hence we thought, just let me spend some time to probably get to know the mechanics or the nitty gritty of the company better. So, what I’ll do is I’ll start straight away from the different businesses which we have and then probably and see what questions I’ll tell you my questions and we can go forward from there. Is that fine with you?

Girish Amesara: Yes. That is fine.

Sanjay: So, we start with the annual issuer charges of the custodian business which is there. I just wanted to know, I know that there is a rate based on the net worth of a company and the minimum is Rs. 9000 and the maximum is Rs. 75,000. But the companies which are listed. it is based on number of folios or if the amount is the more than 75,000 it is based on number of folios. Now when I look at the some of the large company with a large retail base, a Reliance. a Yes Bank. For example, Yes Bank probably has the highest number of retail shareholders at around 35 lakhs. So is it fair to assume that Yes Bank would pay 35 lakhs into Rs. 11 to around 3.7 or 3.8 crores through either CDSL, mix of CDSL, is that the right understanding?

Sunil Alvares: That’s right understanding.

Sunil Alvares: There would be some physical shareholders that should be paid to the RTA but apart from that whatever is in the Demat would be paid to the depositor.

Sanjay: So, if I go by that sir, even CDSL for example I think 1.5 lakh shareholders. So, the CDSL would be paying 15 lakhs to I don't know itself or NSDL or whatever. This means the bulk of the revenue which you get, I think you have around 88 crores revenue in FY21 from the annual issuer charges. So, the bulk of this revenue comes only from listed company. Is that a fair understanding?

Sunil Alvares: Yes. It's a fair understanding because unless there are folios it will be capital based.

Sanjay: I think I looked at NSDL numbers also, I think NSDL has around at least FY20, I couldn't see FY21 numbers, the quarterly. I have seen the annual report of FY20, they also make around 120 crores or 110 crores from this annual issuer charges, is understanding right?

Sunil Alvares: Right now, I will not be able to comment on the NSDL numbers.

Sanjay: Okay. But they would be similar. Right. What do you do from annual issuer charges? I mean it's not like they will be very low or very high.

Sunil Alvares: It depends on how many folios they have because they got more active folios then they could be having larger number or, the lower amount of income depending on the number.

Sanjay: Now typically how does this work? Every company would pay both NSDL and CDSL because either CDSL would have the folio. I mean some folio CDSL would have, some folios NSDL would have. So, every company pays to both of them. It's not like any company can pay to only one of them. How does this work?

Sunil Alvares: Yes, that's it. The company has to admit its full shares on, if it's a listed company it's mandatory to admit on both the depository, if it is not a listed company then it has a choice to either admit it on one or both.

Sanjay: Yes. I'm talking about listed companies.

Sunil Alvares: So, if it is listed companies then it is admitted on both and then fees have to be paid to both the depositors.

Sanjay: Basically, if the market share in the annual issuer charges business is a function of number of beneficiary accounts you have, right?

Sunil Alvares: Yes. You can say that in a way.

Sanjay: Because even if somebody has one share or somebody has 1 lakh shares, he will pay the same Rs. 100, right?

- Sunil Alvares:** That's right. Yes.
- Sanjay:** So, it doesn't matter who has more quantity, who has more number of beneficiary accounts, is it the fair understanding, right?
- Sunil Alvares:** Yes, it is fair.
- Sanjay:** So basically, for the listed companies, there is nothing you can do. I mean it's the number of folios into Rs. 11 you will get. There's nothing to increase your share or nothing, the only way to increase share in the annual issuer charges business in the listed space is to have more beneficiary accounts.
- Sunil Alvares:** Yes, more beneficiary accounts with more active ISIN in them.
- Sanjay:** Active in the sense, what would you mean by that? That would come in transaction, the more number of trained people you will get...
- Sunil Alvares:** It's like this, if somebody opened the Demat account that's not enough for us. He needs to transact and he has to take credit of a security. Only after that I will get the ISIN charges.
- Sanjay:** Got you. If it's just a Demat account and he just buys one IPO in a year then it doesn't make sense. That point I get. Now one more thing is the folios will keep on changing. Every day you will have X number of folios, NSDL has wide number of folios. Are the annual issuer charges paid on the cutoff date?
- Girish Amesaras:** Yes, it is as on 31st March.
- Ramkumar:** Is it the average folios across the year but as of 31st March we take the average folios for the year for each of the ISIN. That will be issued by the company.
- Sanjay:** Yes, I got a sense of this. Now coming to the transaction charges, you've been a fabulous job. I mean again congratulations to that on the number of beneficiaries accounts the way it has increased for CDSL across all retail brokerages. While I understand that you have probably the sole depository for Zerodha or Upstox or some of these new age brokerage accounts. But what have you done to get this I'm not very sure? Is there anything apart from marketing or about management because the rates are same largely. I mean the Rs. 4.50 or 5 as per the block that is same. There is no difference in transaction charges. So, if you can take some time out and make me understand how has CDSL been able to gain such a disproportionate share of the new age I mean overall number of retail accounts?
- Sunil Alvares:** Actually Mr. Sanjay what you're asking is for our internal strategy which we do not discuss in a public domain. I would request you.

- Sanjay:** I don't want any details, if you can just give me roughly, that is it because of your systems are better or is it your charges are better. I don't want what is the exact charge.
- Sunil Alvares:** Charges are there in the public domain, the system in terms of services is there in the public domain. So that beyond that we really do not discuss on how we are getting more accounts.
- Sanjay:** So, if you can give me, what is the difference NSDL and CDSL. I don't want your strategy but something which is understandable or if I'm Zerodha what is the difference between NSDL and CDSL, something on that front. I don't want something which is very pertinent to organization but something which is probably anybody who knows the business well would understand.
- Sunil Alvares:** No, typically if we put both depositories, you could see they're almost the same. And there's no difference. They offer the same set of services which are permitted by the Depositories Act and so do we. In terms of our charges, it is a published rate so far as our transaction charges are concerned. And so far as the annual issuer charges are concerned, those too are published charges and they are again controlled by SEBI. There's hardly any difference between us, we are almost the same. It's more in terms of the I would say the comfort level what the people have with us and that's what giving us more business.
- Sanjay:** Let me understand this from a broker's perspective. If CDSL let's say with Zerodha, is there any reason what will trigger Zerodha to move some CDSL to NSDL. There's nothing right. I mean the service quality, service level, everything is more or less same. So, what can trigger one broker to move from one depository to another?
- Sunil Alvares:** That's again on the broker's comfort level. At the end of the day tomorrow if he decides he wants to split his risk among the two depositories, he may decide to have his accounts in both places. So that's a call that the broker ultimately takes.
- Sanjay:** Typically, these large brokers have only with one guy, I mean Zerodha and Upstox would only have with you or do they have with both the people?
- Sunil Alvares:** Historically most of the large brokers, the earlier large brokers like Kotak had with both. However, with the new age brokerages have it with only one depository.
- Sanjay:** I think I have my Demat account with ICICI Direct, I think ICICI Direct is with NSDL if I'm not wrong, I don't know. Maybe I'm wrong.
- Sunil Alvares:** No, they have with both.
- Sanjay:** Is it also a function of you targeted the retail account more aggressively than probably your competition, that seems to be the most logical answer.

Sunil Alvares: We won't be able to comment because we don't know what NSDL is doing to target retail customer. It's a question which we really do not have. Our business is such that whatever efforts are taken by NSDL will not be reflected in NSDL's effort but ultimately it will reflect in the efforts of the DP. We really don't know who's doing what, so that's a very unique thing to our business.

Sanjay: Now when I look at some basic math, so when I look at your transaction charges and divide by number of average accounts you have across the year, for many years it was around Rs. 25 roughly per account. And that has jumped to Rs. 44 in FY21 which is understandable because there are higher number of retail trading which increased during lockdown and it's understandable why it has moved up. What I wanted to know is of your 4 crores beneficiary accounts, is there something you have that definition, I think CDSL in its annual report gives a definition of active and inactive or something, so out of this 4 crores beneficiary accounts is there any way you define what is active and what is inactive, maybe some people who trade once in a quarter or people who trade once in a year or something, any color you want to give on that 4 crores beneficiary accounts?

Sunil Alvares: Typically, we define the people who are active, who has investor who have some ISIN in their account.

Sanjay: Having some...

Sunil Alvares: Some ISIN in their account.

Sanjay: Some shares basically?

Sunil Alvares: Some shares in their account.

Sanjay: Even if he doesn't trade for one year as for you it's active account.

Management: Yes, basically we look at it as active account.

Sanjay: I understand that there's nothing that you can do to make, that's a job of a broker or DP whatever you say for a participant to trade more or have more shares in his account. That's not your job. You have created an infrastructure and that is what for the broker and the depositor to use. But do you see, I don't know how to frame it but do you see this trend increasing in terms of more retail trades based on your activity that you are seeing or do you see it more one-off for, anything you can give or sharing your thoughts on the same?

Sunil Alvares: Honestly, it's a forward-looking statement and we would not like to comment on that.

Sanjay: One more thing I wanted to ask is that I was looking at all the brokerage numbers. So unfortunately, this is not a this thing that I can share the data with you. But just a second. So if I

look at let's say I'll give you a number, let's say first FY21. So FY21 if I add up all the accounts of Zerodha, Upstox, Angel, ICICI, 5paisa, HDFC, all the names, Religare, Paytm stuff like that. Now that number of accounts was around 1.9 crores, 19 million. The same number was around 10.8, around 11 million so 11 to 19 million from FY20 to FY21. So, addition of around 8 million accounts which happened with all the brokers. Whereas when I see your numbers from FY20 to FY21, you have added 12 million accounts. So, all the brokers put together, all the known broker that we have, have added 8 million accounts and you have added 12 million accounts assuming you have 100% market share with all of them which is probably not the case. So where does this extra number come from? Is it from, I don't know, you just throw some light on this? And same thing happened with June quarter. So, June quarter from March '21, all the brokers have added 3.5 million accounts and you have added 6.3 million accounts. I'm not able to reconcile this.

Sunil Alvares: It's not only brokers, we also have banks who are our depository participants. It's what you would have taken are just the top 10 and added that. But we have close to 600 depository participants. So, I'm sure each one adding his own number because at the end of the day contributes substantially at the end of the quarter or end of the year. That's how it actually works.

Sanjay: So, you see any consolidation happening in terms of smaller brokerages holding up and larger brokerages like the new age ones, increasing or reducing because of the strong participation of retail in the market, even small brokers opening up.

Sunil Alvares: No, so far this consolidation is concerned. It's again a forward-looking statement. I cannot comment on that. So far as smaller brokers contributing yes, all DPs of CDSL contribute at the end of the day in their own little way so far as adding accounts is concerned.

Sanjay: No, I am not asking a forward-looking statement. What I am trying to ask is...?

Sunil Alvares: No, you are asking whether it will get consolidated for smaller brokers.

Sanjay: Let me rephrase the question. Last 2 years or last 18 months your market share of the number of top brokers let's say the big brokers had in your beneficiary account, has it increased or has it decreased or has it remained the same?

Sunil Alvares: It's increased.

Sanjay: So that's preferred time to see, is there a trend of increasing which is obvious to understand but I was just.

Sunil Alvares: The large broker obviously based on his scale of operation, all large brokers market share would have increased which would have, at the end of the day added to our overall market share. So, if you see on a scale of 100, if a small broker is giving me 1% and a large broker is giving me 10% so tomorrow even if has the market share increases it is his share will increase according to his earlier share of 10. That's how it works.

- Sanjay:** One more thing on the transaction charges business. Is technology a big difference between you and the competitor, it is more or less same from a broker's perspective? Always, technology a big component here. I mean I don't know how localized server or something, something which you have been able to create a mode or you have been able to create something from a technology perspective?
- Sunil Alvares:** No, not really. It's almost the same.
- Sanjay:** The pledging thing is also part of the transaction charges, right? Which pledging charges?
- Girish Amesara:** Pledging is a part of transaction charge.
- Sanjay:** How much for the total pledging, if you have the number in FY21, total to maintain.
- Girish Amesara:** You want full FY21 number of pledge, right?
- Sanjay:** Pledge charges. Revenues from pledge?
- Girish Amesara:** Pledge revenue was around 7 crores in financial year 2021.
- Sanjay:** This is mostly in the second half because the rule came into second half?
- Girish Amesara:** It came from August 2020. So, August 2020 and September were starting point of this charge.
- Sanjay:** Now under the IPO business, I understand that IPO and the corporate action charges business. I understand that it's a function of number of IPOs happening in the market but again can you help us understand that? And I did my rough number and correct me if I am wrong. It is roughly between 75-80 lakhs per IPO you get, is it a fair understanding? I just did the number of IPOs every quarter] and the revenue from IPOs. Is that a right way of doing it?
- Sunil Alvares:** No that's not a correct way of doing it because the IPOs are charged on the number of folios we process.
- Sanjay:** So, is that data public? How much you get per folio process?
- Sunil Alvares:** Yes it is public. It is Rs. 10 per folio.
- Sunil Alvares:** Rs. 10 per folio what we charge.
- Sunil Alvares:** But actually, if you want to do this analysis. If you take the number of applications, which also available in the public domain. One IPO is not same as another in terms of number of applications. So that should be fair for your calculation.

- Sanjay:** That's what I wanted to know whether it is based on number of applications or its based-on number of people who actually get the shares?
- Ramkumar:** Actually, it is not based on number of applications but people who are actually getting the shares which is also available in the public domain. It's not on application, it's on the number of people who are successful allottees.
- Sunil Alvares:** If you see the basis of allotment, you will get a fair idea. So those basis of allotment are available with the stock exchanges.
- Ramkumar:** Correct, you get an ad, as per the rules, the company is supposed to put an ad in the newspapers. After the basis of allotment is finalized. So, you can pick up the numbers from there.
- Sanjay:** Again, the function of how much money or how much market share you get in this business is a function of number of beneficiary accounts right? It's same like annual issuer charges, right?
- Sunil Alvares:** You can say overall similarity is t there.
- Sanjay:** I mean number of active beneficiary accounts in whatever way you can say. But the more number you have to the typically this will be more from retail, right? I mean and hence the more number of people apply and get allotment you will get more money and that is a function of how much market share you have with the retail participants, that's the right understanding, right?
- Sunil Alvares:** That would be a logical answer.
- Sanjay:** Now I don't know whether you can recall or not. In June quarter 2020 which is April-May-June 2020, peak of COVID. There was no IPO in that quarter but still you at a revenue of 5 crores from this IPO and transaction, corporate action charges. Was there anything really something big happened because without any IPO still under 5 crores revenue, can you recall or?
- Sunil Alvares:** When we say IPO corporate action, it could be IPOs coming in or corporate actions from existing companies. So, it could be those charges as well. Right now, we cannot recall but it is either of.
- Sanjay:** So, corporate action means....
- Sunil Alvares:** Corporate action could be a bonus, rights, anything of those things which would have come out during that period. At that point in time the corporate action charge would have kicked in and again the same charge of Rs. 10 per folio as corporate action charge.
- Sanjay:** Now, I mean this last business which is a big part of your revenues and which has increased very well, is the KYC and online data charges. And my understanding of this business is very limited. I have been trying to understand this better. And can you please explain that you mentioned I think you have 3 crores KYC records. How did you get these records, how will you increase the

number of records? Who is the competition in this business? Is it same only you and NSDL or there's somebody more, who was a customer within the only AMC and brokerages or is it more? Personally, as a consumer I have never used this online KYC. If you can just touch upon this business is how does the mechanics of this business work, who is the competition, who is the customer, what are the charges, how do you increase the number of records which you have? If you can give a 5-minute overview on this?

Sunil Alvares:

Yes, see basically the KYC in India is regulated by SEBI through the KRA regulations of 2011. And all entities who wish to open any account in the securities market are required to do a KYC first and then open a Demat broking or whatever account they want to open post that. In 2015 there was this CKYC regulation which has come as well where you need to do the KYC centrally. Currently investors are required to do KYC both with CKYC as well as with the KRA. So far as the KRA is concerned there are five players in the market and these five players are CDSL Ventures Limited, NDML, that is the subsidiary of NSDL. CDSL Ventures Limited, NSDL Data Management Limited, the subsidiary of NSDL. We have CAMS, Karvy and NSE DotEx. So far as the, what volumes are handled were each of these entities. These figures are not public but since we were the first player in the market, we assume that we have an over 50% market share in this business.

Sanjay:

What do you mean by 50% market share? Number of people who are fetching data from you?

Sunil Alvares:

No, we mean that number of KYC records created with us. The total number of KYC records created in the market, we have about (+50) market share, 50% market share, more than 50% market share so far as the records are concerned. Point number two is that how do we add to these numbers? So, typically you have all these intermediaries who open Demat accounts. So many of these intermediaries to their KYC through CVL, that's how the records go up. Secondly, we also have mutual funds who also add their customer KYC to our records so that's how the number of records plays out. So far as the charges are concerned, we charge Rs. 35 if somebody fetches an existing KYC and Rs. 20 if he creates a KYC. There are no other charges apart from these two charges.

Sanjay:

Basically, it is not like your person going and getting the KYC done. It is let's say today I want to open a mutual fund account and then I go and say I want to open an account. He will say you have to do a KYC and then he will take all the records and probably upload in your website and all, the way it is done and that's how you get the record, right?

Sunil Alvares:

That's right, yes.

Sanjay:

And then once you get that record anybody else can fetch it?

Sunil Alvares:

That's right.

- Sanjay:** When the mutual fund guy opens his account, he would first try and find out whether I already have a KRA done or whatever, is it right?
- Sunil Alvares:** That's right.
- Sanjay:** What is the difference in KRA and eKYC? When you did a KRA, when you did an eKYC?
- Sunil Alvares:** No, you have to do CKYC. What has happened is first the KRA regulations came and we have been following a certain protocol so far as data etc. is being stored. Then the CKYC came. So far as their records are concerned, they do not verify the record. So, so far as the security market is concerned, they are still comfortable using the KRA record. Obviously, they are also required to upload it in the CKYC as of now.
- Sanjay:** Who releases the CKYC data?
- Sunil Alvares:** Basically, CKYC came in as a common database for all banks, insurance companies, the entire financial markets. And that included all the banks etc. who could upload their data into the CKYC. Whereas KRA is specifically for the securities market.
- Sanjay:** You also get revenue from the CKYC, no?
- Sunil Alvares:** No, we have nothing to do the CKYC.
- Sanjay:** You do only KRA which is, so I am trying to just understand it. And again, correct me if I am wrong. Basically, this 2011 there is this SEBI regulation came on this KRA that anybody, any who opens up an account in the financial markets needs to have a KRA done. And because you were the first mover, you have more number of records there, 50% of records? And today because it is mandatory so whenever somebody opens up either a mutual fund or a brokerage. These are only two I think relevant.
- Sunil Alvares:** Yes, broking and Demat.
- Sanjay:** Broking Demat and this thing also the mutual fund, right?
- Sunil Alvares:** That's right.
- Sanjay:** So, then he will either fetch the data and you will get the money Rs. 35 or if there is no data then he will create the data and pay you Rs. 20 for that data creation and then that record gets added to your accounts and later on if somebody wants to fetch it you have to pay Rs. 35 but CKYC is used one by all other participants like let's say telecoms. Let's say today, I want to open account with Airtel then KRA is not involved, then CKYC is involved, right?
- Sunil Alvares:** That's right.

- Sanjay:** Who gets the money for CKYC? There are some different participants for CKYC?
- Sunil Alvares:** There is a company called CERSAI. They have been appointed by the government to handle CKYC.
- Sanjay:** But is there any difference between CKYC and KRA or is it just like because there are two regulatory bodies and hence there are two different rules?
- Sunil Alvares:** There are certain differences in the way we handle the KYC. We do a verification whereas CERSAI does not do verification of the data. That is the most important thing between us and CERSAI.
- Sanjay:** Who does the verification? You do the verification or the guy who opened the account does the verification.
- Sunil Alvares:** Actually, both do it. The guy who opens, the intermediary opens the account does a thorough verification. Post that, when the images come to us, we verify the data with the images again.
- Sanjay:** Now so from what I understand is, is there a possible risk that tomorrow the government says these two separate things are happening. There should be only one CKYC which is more, seems to be more prevalent. Do you see anything of that sort I mean risk or how do you see risk in this business?
- Sunil Alvares:** Again, it's a forward-looking question. I cannot clearly answer that but there have been talks earlier that there could be CKYC could be the only agency for all practical purposes that sword has been hanging on our heads since in the last 5 years.
- Sanjay:** Is there any play off this, CERSAI is basically a government body, right? This whatever you said.
- Sunil Alvares:** That's right.
- Sanjay:** Is there any play that DigiLocker does in this whole thing?
- Sunil Alvares:** No, DigiLocker has no role to play in this.
- Sanjay:** How much does CERSAI charge for fetching account?
- Sunil Alvares:** They charge Rs. 1 for every transaction. So, every time you upload, you make any changes, you fetch, every transaction you do you keep on paying Rs. 1-1.
- Sanjay:** Typically, all everybody else like telecom companies and all, they use CKYC, right?
- Sunil Alvares:** They use both. They have to use both right now as per law.

- Sanjay:** Telecom companies also use KRA?
- Sunil Alvares:** No, not telecom. I am talking about the securities, market participation. We are only talking about security and market participation.
- Sanjay:** So, security market participation so when I opened up an account, he would fetch the data from both or he would only create the data for both?
- Sunil Alvares:** Typically, you fetch it from the KRA first.
- Sanjay:** You fetch it from the KRA but when you create the data you give it to both CKYC as well KRA, right?
- Sunil Alvares:** The difference between us, KRA and the CKYC is all our records are indexed on an investor's PAN. Whereas the PAN is not a mandatory field in the CKYC. That is why investors will first verify the KYC done, fetch it and they will move ahead.
- Sanjay:** That is very important. That you have the PAN and they don't have the PAN. Just quickly on some of the other things, smaller things which I don't know fully well. I will just ask you. What is this user facility charges revenue in the line item?
- Sunil Alvares:** It's basically what we charge has software fees as well as connectivity charges etc. to the depository Participant.. So, as a depository we charge them a annual software fee of 40,000 and there is some connectivity charges. all that comes in the User Facility charges.
- Sanjay:** Is this also these rates are also defined by SEBI or this is something which you can charge whatever you want?
- Sunil Alvares:** No, that is determined by us but then it has to be reasonable because there are all type of DPs involved. So, we have to ensure they are able to pay at the end of the day.
- Sanjay:** And what is the supplement charges?
- Sunil Alvares:** We charge them across all entities. It's not that because somebody is bigger, we charge him r fees for software payment, it's a software which is standard for all DPs.
- Sanjay:** And what is the settlement charges business?
- Sunil Alvares:** Settlement charges what happens is, we have clearing members accounts, we charge them Rs. 500 per month. So, that totally comes down to about Rs. 6000 we charge per clearing member for settling their trades. Basically, each clearing member has to open one account NSE and I think two on BSE totally these three accounts are with us.
- Sanjay:** Each clearing member has to open how many accounts? I lost the last part.

- Sunil Alvares:** I think one with the NSE, one with may be MCX and two...
- Ramkumar :** Depends on where he is member? If he is a member only of BSE, he has to open only one account for BSE, if he is member of BSE and NSE then one-one account. One account for each of the exchanges where he is a member.
- Sanjay:** And what are these accounts maintenance charges?
- Girish Amesara:** That is the charge we levy on the corporate accounts which is about 500 per year. All these charges whether you call user facility charges or settlement charges or account, all these charges put together contribute around 2% to 3% to our overall revenue. The main focus is on annual issuer charges, transaction charges, IPO corporate exchange, online data charges these are all main focus area which are all charges for which we provide various kind of ancillary services and these keep on and it will continue to remain in this line?
- Sanjay:** So, this account maintenance charge is basically a subset of the annual issuer charges which we charge to corporates. A separate something.
- Sunil Alvares:** Correct.
- Sanjay:** This is how much you said Rs. 500 per year?
- Ramkumar:** Per year per corporate account. It is not charge for individuals.
- Sanjay:** And this e-voting thing what was the total revenue from e-voting or e-AGM, do you also do e-AGM? I'm not too sure, so how much did you do revenue from e-voting in FY21?
- Girish Amesara:** e-Voting charges that we earned was around 6.5 crores during last year.
- Sanjay:** And this includes e-AGM or e-AGM is separate? Do you do e-AGM?
- Ramkumar:** We do e-AGM it is nothing but doing AGM through video conferencing. That is called e-AGM by us.
- Sanjay:** That charges are part of e-voting or something else?
- Ramkumar:** No it is combined; whatever sir has said you the amount it includes typically e-voting as well as e-AGM.
- Sanjay:** And this ECAS charges is basically the statement charges sent to account holders?
- Girish Amesara:** Yes.
- Sanjay:** You charged to the individual or to the DP how does it work?

- Girish Amesaras:** DP.
- Sanjay:** This is how much per account?
- Nilesh Kittur:** We charge it to DP's as well as AMC's. For DP's for e-Mail it is around Rs. 0.50 and for physical it is Rs. 6 to DP's and Rs. 2 for AMC's and Rs. 0.30 for e-Mail send to AMC's. These are the standard rate charged by both the Depositories..
- Sanjay:** And this is everybody has to ask for it so if I'm a holder with Zerodha will have to ask for e-cash thing or e-cash thing will automatically default will be there.
- Ramkumar:** It is a trigger-based event so if you're having Demat account and you're also having mutual funds in the statement of account format, that is in physical form. Then there is trigger mechanism which ensure that you get the ECAS or CAS as the case maybe, depending on the availability of the e-Mail ID point number one. Point number two is that it is automatically triggered for all those whoever having this type of combination because it is a set trigger driven exercise. You as an investor can say I don't want ECAS by going to our link and saying no. By default, it is given to everybody but somebody can say that I don't want this ECAS or I don't want, it'll be reverted.
- Sanjay:** And last thing in this is what is this document storage and inter KRA?
- Sunil Alvares :** We store some physical documents we work as KRA since 2007 for the mutual fund industry and post that documents were transferred to the KRA after the KRA regulations. We continue to store these documents for the mutual fund industry. So those charges are being levied on the mutual funds for the physical documents which you actually stored by us. Earlier KYC required that there's a physical document to be sent to the KRA and the KRAs have to store these documents.
- Sanjay:** It is for old thing newer one there is no documents today?
- Sunil Alvares:** Yes.
- Sanjay:** You know you have around 900 crores of cash. How much money do you need to keep for regulatory need some 200 crores right?
- Girish Amesara:** We for our regulatory requirement estimate around Rs 350 crores which is required for net worth requirement. In addition to that we also bid for government projects there also we need to have a net worth requirement prescribed by them. So, on an average we see that this kind of net worth would be required for maintaining for putting in a bid for government projects.
- Sanjay:** So, your dividend policy I think you paid around 50% of profits of dividend in the last few years, so is there any range that you would like to save?

- Girish Amesara:** Earlier before 2 years if you look at our dividend policy it was 40% and then we have to pay the DDT. Since 2 years the dividend distribution tax has been abolished then accordingly we generally pay i.e.our payout ratio is around 60% of our profits. So if you look at our dividend this year it is around odd 59%, last year also it was around odd 59% so that's our policy as of now.
- Sanjay:** Do you have any limit that once you have so much of cash you will give all the cash of dividend anything of that certain thought?
- Girish Amesara:** As and when there is a need felt our board will take appropriatedecision, as of now we don't have any such plans.
- Sanjay:** Have you ever debated about dividend versus buyback? Do you think buyback is better or dividend is better any thoughts which you have?
- Girish Amesara:** As of now our board is comfortable with dividend, we'll see how in future if any discussion is required then our board will take suitable decision at that point in time or I think after introduction of that buyback tax by central government I think a buyback would not be it's not tax savvy. That is my personal view, unless a company doesn't have a large share premium account in their balance-sheet buyback is not advisable because when you have share premium account, your cost of acquisition of share would be much more higher. It would be almost near to your market price whenever you decide on buyback.
- Sanjay:** So, I didn't understand this if you kindly elaborate this?
- Girish Amesara:** So, what the income tax rule requires that whenever you've issued a share at that time yours that price has to be considered and compared with the price at which you offer for buyback the differential amount is taxed and the company has to pay buyback tax on such differential amount. So, if we CDSL would have issued share at a premium then the difference between the buyback price and the cost of acquisition that CDSL have issued the share would be minimal. And hence there'll be a negligible tax impact.
- Sanjay:** So, if you're saying that let's say today, I'll give you a practical example. Let's say there is a company called Infoedge which has done a QIP at Rs. 3600 and today the share price is let's say Rs. 5000, so if I do a buyback now because just done a QIP at Rs. 3600 there is a substantial amount of money in the share premium account. Now if I do a buyback at Rs. 5000 then the tax rate is only on the Rs. 5000 minus.
- Girish Amesara:** Yes, on the differential and if the differential is negative there'll be no tax.
- Sanjay:** But it's the same thing let's say for you I think all you shares were issued at Rs. 10 or whatever, so in the IPO I think you didn't have any secondary sale right?

- Girish Amesara:** No, it was OFS.
- Sanjay:** So, in your case it is Rs. 10 and hence it doesn't make sense?
- Girish Amesara:** Yes.
- Sanjay:** Only one point in this is that even today let's say Rs. 10 also is there the buyback tax if I'm not wrong 20%, right?
- Girish Amesara:** It is around 20, it is at normal rate I think whatever is your tax rate plus cess and surcharge. So currently we are at 22% so on 22% surcharge and cess.
- Sanjay:** Dividend today if you're an individual shareholder and if you're above a 5 crores bracket or 2 crores bracket it will be 35%-40%?
- Girish Amesara:** Yes.
- Sanjay:** There's still a gap but I agree that the gap which was there quite a bit has significantly reduced. You know the gap is no longer and plus I think the only other time it makes sense is when you think your share price is different. When you are less than a let's say other income yield or whatever then let's say less than 20 P/E or 15 P/E kind of stock then you're actually to be EPA separated. Whereas if you are at a higher valuation than it is not EPA separate.
- Girish Amesara:** And this removal of DDT's passed on the benefit to the shareholders because company is not paying DDT and most of the company has adopted that whatever we used to pay as DDT we'll pass it onto the shareholders.
- Sanjay:** Correct. Lastly, we have some 4-5 minutes left so if you can there are these due businesses are I mean one is you do whatever you're currently doing and while it you can say it a forward-looking statement in a way but no there are is there any other thing which you think you can do or which you think is the future growth avenues you've tried commodity it has not worked very well. As me it's not scaled up pretty well as of now maybe it will in the future. Insurance is one big market which is I think you mentioned the LIC which will not doesn't want to come into the fold as a regulation is not make it compulsory. Then there is digital gold that is I don't know what you're doing everything on digital currency you can do in the future, demat of mutual fund units so anything you think something which you will think in the future can become bigger or property digitization so how is the CDSL looking at future growth I'm not asking for any number or anything but how you are looking at future growth avenues?
- Sunil Alvares:** It's too early, it's very difficult to answer that question because again it's like making a forward-looking statement but we are looking at wherever there is a physical paper involved. We are looking at digitizing that paper, so basically if you see most of our businesses are on the same lines whether it is Demat we converted physical certificates into the demat, whether it is KYC

we converted physically KYC into electronic records and we did lot of other projects also same thing with e-insurance policies where we convert any policies into the electronic form as well as CCRL where we come, we converted warehouse receipts each pertaining to commodities to the electronic form. So going forward there is nothing that really stops us from getting into other lines of business where digitization is required. So, I think our expertise basically lies in handling huge databases and handling large number of transactions and specifically and meeting deadlines so far as those transactions. I think our expertise can always be foot to use in any of the businesses what you have just talked about.

Sanjay: Do you see any traction in the insurance business? What is the key hindrance there? Is it regulation or is it what if you can just elaborate?

Sunil Alvares: Presently in the insurance business there is no mandate, it is not mandatory to hold policies in electronic form. Although there is a huge advantage for a policy holder to hold all the policies that he has across those policies and across the insurance company in the electronic form to one of the repositories. There is not much traction there as of date simply because there's a no mandate from the regulator that is one. Second thing is there is no momentum from the investors themselves because the distributors of the insurance policies are also not pushing this aggressively for the reason that they don't see much benefit in having this in electronic form because they tend to lose the text points with the customers that they generally do in terms of giving the premium notice or any of those other documents at various points in time in the course of the year and thereby has standard chance to get one more policy signed up from. So these are the couple of reasons why presently the volumes in insurance policies are not much electronic insurance policies.

Sanjay: What is the thing you get on today that listing on demating of the of the MF units. So does that help you because then it's become just like a shelf for every holding you will get that Rs. 4.5 or whatever you get is there any traction on that front?

Girish Amesara: That's right the same charges taken.

Sunil Alvares: For us it is like any other securities so we have not really map as to whether person actively does a mutual fund only, only securities or mutual funds and security for only mutual funds. So there is like any other security so we do equal in our IAP that is investor awareness programs we do mention that it is best to have all the securities including mutual funds in one demat account but the progress has been slow because many of those mutual fund holders do not operate through a broker or any such entity. Those who do operate have mutual fund policy in the electronic form those who do not operate through brokers or they don't have any interaction with the brokers they kind of hold in the statement as confirmed.

Sanjay: So, correct me if today if I buy from Zerodha, mutual funds which will be at demat format or which it be in what format?

- Sunil Alvares:** I wouldn't know about the way the platform of Zerodha is design but maybe they giving a choice holding it in electronic form or shipment of confirmed, I wouldn't know that because that is unique to the platform developed by Zerodha for his customers. Similarly, there could be up-stock who is developer his customers or many all the other n number of mutual fund distributors who also duping at brokers.
- Sanjay:** So, it is basically the broker who will decide whether it's a Demat format or not a Demat format?
- Sunil Alvares:** No whether to be the choice or not whether to have it in Demat form of keeping that account for.
- Sanjay:** Because when I buy directly from HDFC mutual fund it is not Demat right I mean I just get a.
- Ramkumar:** That is what I'm saying there's also you've choice of same if you want it in Demat form or physical form. Even if you go to HDFC mutual fund site directly they asked the same. But typically, people don't use the choice of Demat but it is available.
- Sanjay:** Thank you for your time. It's really helpful I got lot of clarifications which I had in my mind and I really appreciate you taking time out for this. Thank you very much for this.
- Sunil Alvares:** Thanks a lot.
- Moderator:** Thank you. Ladies and gentleman, on behalf of Central Depository Services India Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.



“Eternity Capital's Discussion with Central Depository Services (India) Limited Conference Call”

August 18, 2021



SPEAKERS:

- MR. GIRISH AMESARA – CHIEF FINANCIAL OFFICER, CENTRAL DEPOSITORY SERVICES (INDIA) LIMITED**
- MR. RAMKUMAR, HEAD, BUSINESS DEVELOPMENT & OPERATIONS, CENTRAL DEPOSITORY SERVICES (INDIA) LIMITED**
- MR. SUNIL ALVARES – MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER, CDSL VENTURES LIMITED**
- MR. NILESH KITTUR – CENTRAL DEPOSITORY SERVICES (INDIA) LIMITED**
- MR. SANJEEV VAIDYANATHAN– ETERNITY CAPITAL**
- MR. PADMASELVAN – ETERNITY CAPITAL**

Moderator: Ladies and gentlemen, good day and welcome to Central Depository Services Limited Conference Call. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during 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. Nilesh Kattur from Central Depository Services Limited. Thank you and over to you, sir.

Nilesh Kattur: Good afternoon. A Warm Welcome to CDSL Conference Call. From management side, we have Mr. Girija Amesara who is the CFO of CDSL; Mr. Ramkumar, who is the Head of Business Development and operations; and Mr. Sunil Alvares who is the M.D. and CEO of CDSL Ventures Limited. Now I request Neerav to open the floor for discussion.

Moderator: Thank you very much. We'll now open the floor for discussion.

S Vaidyanathan: Hi, my name is Sanjeev Vaidyanathan from Eternity Capital. Thanks for giving us the opportunity to have this interaction. This is actually the first time we are interacting with the company. So, first of all, congrats on extremely successful performance from the company over the last many years.

Our intention, when we speak to the company is to answer two main questions. Question one is how do you think about the long-term growth and returns outlook for the business? And second is what kind of competitive advantage do you think that you have which allows you to grow and have that kind of margins? Those are our main questions. If we have some time, I can go over to the next questions.

Girish Amesara: A question on your long-term, I think it's a futuristic question and I doubt we will be able to answer your question on any futuristic essentially.... I think we will focus our discussion on what is the result that we have achieved and any forward-looking statement should be avoided.

S Vaidyanathan: Okay, I mean, again, I'm not looking for exact numerical answers, but I'm sure as a business or as a company, you'd have a certain strategic outlook for, when I say, long term in the next five to 10 years, you would have certain thinking about how you would like to approach the growth of the business itself. So, anything that you can share on that without having to share anything futuristic in terms of what we just mentioned, it will be helpful for us to understand how the management thinks about their long-term prospect?

Girish Amesara: Ramkumar, do you have anything on business front to tell?

Ramkumar: I was logging in. So, I didn't hear the question.

- Girish Amesara:** Sanjeev, can you repeat your question, please?
- S Vaidyanathan:** Sure. Maybe I actually did a one more additional line of content. So, Eternity Capital, we are a long-term long only fund. What that means is we tend to invest in businesses with an intention to own for at least five years, if not longer. And we only invest in what we consider high quality businesses. And again, I am sure everyone has their own definition. From whatever we know about CDSL, we think it qualifies, and that's why having this conversation. So, when we do work on companies like this, the two main questions we try to answer. What is the long term, when I say, long term, it's five years, if not longer, outlook for the business? And what we'd like to hear how the company itself thinks about it, in whichever way you can share with us, how do you think about the long-term outlook for the business? And connected to that, what is the competitive advantage that a company enjoys? Not all the companies have a competitive advantage, which is why they don't have visibility about either growth or margins and usually neither of them are very attractive. In your particular case, you have certain things that you are very positive about the business and the business model. What is that which allows you to do that? And in your view, what are the competitive advantages you enjoy today and you'll likely enjoy in the future? These two are our main questions. I'm sure we'll have additional questions, but just to start out with, these two would be great if you can help answering.
- Ramkumar:** So, I can answer this question part of it at least. Sir, as far as this outlook for five years is concerned; we will not be able to comment on this, because as a policy, we don't do any future-looking statements. Second thing is in terms of our strengths and weaknesses that I can tell you are that right from day one, when we started operation, our emphasis has always been on giving service and better technological support to the DP, I may say, exclusively as client. So, this has been the fulcrum of ours and we were the first ones to start the concept of relationship manager. So, each of the business partners, be it DP or RTA or if your company is attached to one particular individual within the company, and then they take it forward in terms of liaising with various departments within the depository. So, these are the three pillars of the way in which we look at things. So, that is something that we have maintained right from day one of operations. So, we will continue to do that.
- S Vaidyanathan:** I know you can't talk about the future, but clearly, when people talk about depositories in India, they either talk about you or they talk about NSDL. I think there are others who are very, very small, but almost as if they don't exist for a majority of individuals or companies. What is....
- Ramkumar:** Sir, it's a duopolistic kind of institution in India. There are only two depositories – NSDL and CDSL. So, there is no other depository if you're talking about security depositories.
- S Vaidyanathan:** Correct. So, I was going to go into some other, but let me talk about this for a moment. So, clearly between you and NSDL, you have certain advantages over them and they have certain advantages over you. How do you think about building those advantages out from your point

of view where are you stronger, where are you weaker, would love to hear a little bit more about that?

Ramkumar: Generalized statement I made about these three pillars that we believe in. So, I would leave it with you because we wouldn't want to discuss strategy here, because that could create the business issues for us.

S Vaidyanathan: But anything that you can chime in, as if one were to become a shareholder, would it require some level of understanding about the business, whatever you can say, I am not asking you to share competitive intelligence, but...?

Ramkumar: As an investor, what you need to know is that we are a depository. As far as the regulatory directives are concerned, we are entrusted with the role or job of holding securities in the DEMAT form for all the clients who are having transactions in terms of holding or doing transactions in India. So, this is a base. In addition to that, you can look at our website to see what our bylaws or operating sections to see how we are operating each of those activities that I mentioned earlier. And lastly is the income stream. That again is available in the operating instructions as to this is what we charge for each of these activities. That again is regulated by SEBI in terms of what the rates could be what the tariff could be, as far as we are allowed to charge. So, to that extent, we are living in a tightly regulated environment as far as billing is concerned. But in terms of the services, that is something that we can only do better as we go along.

S Vaidyanathan: Great, I think this is helpful. And we have read a large amount of your material already during this call. For us, it's more confirmatory than anything else, but I understand the constraints over. Maybe if I can move on to the regulatory aspect of what you just talked about, so, clearly, there are certain restrictions, as a part of the business where the pricing is regulated, not all parts of the business...actually even before that there is entry barrier itself. While more lenient depository licensing regime has been talked about, right now, there are only two of you. So, that is one big regulation. Apart from that...

Ramkumar: No, sir. Actually there is a gap here if I may say so, is that as per the regulations, any entity can come up with being a depository. So, it's not that nobody can come in. Presently, people are not coming for whatever reason. Business maybe. But people can come in.

S Vaidyanathan: Actually, that's a good point. I thought it was only being debated about corporate...

Ramkumar: No, no, no, there is clear cut regulation that any entity can come in as far as setting up exchange or depository. In fact, they use MI, which includes Exchange, Clearing Corporation and Depository. So, people can come in, they have given certain rules as to who can hold how many shares and shares means in terms of percentage holding, and in how many years they have to divest, all those things are mentioned in the regulation as far as the SEBI is concerned. But presently what you said is right, there is a duopolistic kind of an environment and there is

a certain amount of entry barriers. But regulatory there is no barrier, it is only that business reasons wise there could be some barriers that people may think twice before entering business.

S Vaidyanathan: Have other companies tried to enter this in the past from, let's say, in the last five years or 10 years apart from CDSL, NSDL to enter the market?

Ramkumar: As far as depository is concerned, I'm not aware of it, but if you look at depository, it will be beyond. In terms of commodities, yes, there have been several entities which have started the depository for commodities, for example, MCX, NSE, and BSE, everybody running their own depository for bullion. Then, if you talk about agri commodities, there are two companies; one is our own subsidiary called CDSL Commodity Repository Limited and other is NERL, wholly-owned subsidiary of NCDEX.

S Vaidyanathan: Your point is lesser regulatory thing, it's more of a business reason why people have not....?

Ramkumar: Correct. So, there is not an entry barrier so to say.

S Vaidyanathan: But there is a pricing thing, just going back to your point. So, there are certain things that you are allowed to price to a limit and there are certain things you have a little bit more to charge pricing?

Ramkumar: No, sir, every bit of pricing that we do is tightly regulated by SEBI. So, whatever we do in terms of pricing, we have to run it through SEBI, only after they say go ahead, we can go ahead with terms of updating it to the market.

S Vaidyanathan: And in general, I think my understanding is at least I don't think SEBI has ever said no to your pricing request, is that correct?

Ramkumar: No, that will not be known to you.

S Vaidyanathan: Only what is accepted comes out to you, is it?

Ramkumar: Obviously.

S Vaidyanathan: So, when you do think about the pricing decision that you take, how does that get determined, meaning both regulatory as well as commercially, what is the thinking behind pricing chain, higher or lower?

Ramkumar: Higher and lower? It's very difficult to answer. But whatever we do, we look at some aspects of how much it will cost us and then we put forward a proposal to SEBI. Then we can say that we have to go ahead with the price or we have to reduce it. There is no question of SEBI asking us to increase from what we propose.

S Vaidyanathan: I ask this question because again, I'm telling you something you know much better than I do. In a business like yours, every incremental revenue has very high margins and very, very high return. So, logically what one would expect is, over long periods of time pricing to fall, it's just the pace of the fall or if you can maintain the pricing even, that would be amazing, because there will be a cost pressure as well correct?

Ramkumar: Correct. If you see historically, see in '99, when we started, the price was much, much higher, when I say we, it's depository, that I'm talking about in a consolidated manner. The price was in percentage terms of the value of the underlying stock covered by the transaction. Now you have come to a very flat rate. If you transact in US dollar terms, it is hardly anything, it is Rs.4.25 as far as CDSL is concerned at the highest slab. Rs.4.25 is not even 10 cents. Maybe five cents or a little bit more than.

S Vaidyanathan: Your point is it has reached the level by now that the pressure to reduce pricing is no longer as high as it was 20 years or 30 years back...

Ramkumar: No, sir, pressure to reduce price will always be there from the market, from everybody because everybody at the end of the day wants things free, but there is a fine balance that we need to find out between free and between what we think is palatable to us.

S Vaidyanathan: That's correct. And I think here is where my earlier question also comes in, which is to some extent it seems like and please correct me if I'm wrong in my perception because while you are listed, NSDL is not, it seems like you have taken approach where you are far stronger in individual BOs and actually retail segments, whereas NSDL has either chosen or has moved towards larger entities and corporates. Is that correct? And if so, was there a particular point at which the decision ended up happening or was it just a more natural progression.?

Ramkumar: So, I will put it this way, it is because of historical legacies, in the sense that we started maybe in 1999-2000, so 22nd March 1999 was when we started our business operation. So, that was about maybe three, three and a half years after NSDL. So, by which time all the institution because of the regulatory push, they had opened accounts or started operating through NSDL, because of which they are having higher proportion or a large number of institutional investors. We started much later. The institutional investors, some of them have adopted to CDSL way of functioning. So, there are quite a few institutional investors' accounts in CDSL also. But, because of the legacy, historical reasons, we are having a higher percentage of retail investors, thereby having a larger percentage of the shares i.e., the number of shares in terms of units, we may be having more, but the value of the shares with them is far higher, in terms of units as well as value is far higher there, in terms of number of BOs, we may be higher. This is visible in our website, we do publish on a monthly basis, the value, volume of Securities held.

S Vaidyanathan: Your point is this is not a last, five years or a 10-year thing, this is basically in some way quirk of history, the way the company started, that's what it led to. After that, neither of you had wantedly or otherwise try to change that equation. I think it is probably difficult for them to

move towards what you are doing and for you to go towards what they were doing and big difference remains in the same way.

Ramkumar: In GOAL language, you can say that we started with a handicap, so that is how you have to catch up as far as the institutional volume business is concerned.

S Vaidyanathan: And just to finish off our discussion on regulations, I think, apart from your core depository business, you obviously also have the KRA business. And then there seems to be the establishment of CERSAI, I forget exactly when that came in. But is that the regulatory risk for your business on the KRA side?

Ramkumar: Sunil would be better placed to answer this, sir. He handles our CDSL Ventures Limited. He is MD & CEO. of CDSL.

Sunil Alvares: Yes, it is a sword hanging on our head for the last five years.

S Vaidyanathan: Mr. Sunil, what do you do at this point because you've already built up, we are also used to KRA from our funds KYC point. How does that change, right, I mean, what can you do, why has the government or why is the regulator decide to do this, would be helpful to understand, just the setup, why does this happen?

Sunil Alvares: It's very difficult to understand what is their idea of this, because we are the guys who conceptualized this entire process of KRA in mutual fund industry in 2006. And we ran independently for about five years. And then the KRA regulations came out with SEBI. We are First KRA in the country and today we are the largest KRA. And then I think somewhere down the line, maybe the government thought it is a good thing to do it across all financial markets through RBI and IRDA, all had to adopt to it. Earlier, KRA was adopted only by the securities market, whereas CERSAI-based KYC was adopted for the entire, that is telecom, IRDA, securities market, all these, industries have thought they could use a common KYC platform. So, they came up with it, but there was a huge challenge, because many of the banks had to get in their legacy record, and getting records from State Bank and all those banks, became a challenge. So, really don't know now how many records have really been updated. And what has kept us going so far is that all our records are indexed on PAN whereas that is not the case on the CKYC, they issue a separate CKYC number. And point number two is that they do not verify the record at the CKYC level, so, whereas in our case, the records are verified at the intermediary level as well as the KRA level as well. So, to that extent our data would be much more cleaner and in spite of us charging Rs.35 per record and they are charging about Re.1 per record. The securities market prefers to use the KRA as well.

S Vaidyanathan: I guess this is one of those things where the intention seems right, and as a user of both, CDSL execution is obviously better. So, I think we will see how this plays out, but as of now, has there been any change in the status of this even before COVID or in the last few years, has

there been any additional push, has there been any other change in regulatory aspect on the CERSAI?

Sunil Alvares: The PMLA thing came in that you have to update into CERSAI as well, but beyond that there's nothing as well. So, in between there were a lot of noise made about, then you have the CERSAI and SEBI and all coming together and then all the intermediaries update the record in CERSAI as well. But beyond that, there was nothing earlier.

S Vaidyanathan: Thank you for clarifying that, I guess that's a candid explanation...

Sunil Alvares: One important thing for the securities market, all companies are identified by ISIN and all investors identified by PAN. So, tomorrow if the securities regulator comes and he says that what to say, you freeze the accounts of this particular investor having PAN so and so. So, what happens is with this one order, both CDSL and NSDL can freeze all the accounts which have that particular brand. Whereas in a case if it is a CERSAI-based KYC, then they have to mention the CERSAI-based number. So, that number, how it is linked to these accounts that is not there in place right now. So, they will not only have to give the CERSAI-based number, they will also have to give each and every DEMAT account which has to be frozen. So, there is a chance that certain DEMAT accounts may not come under the purview of that. So, to that extent, I think even the regulator feels that it's a better option.

S Vaidyanathan: Understand. Got it. I think that is very clear. As of now, at least it seems like, for good reason, this should not be too much of a worry, but we never know what the regulator or the government thinks of as and when if they want to prioritize this for whatever reason?

Sunil Alvares: Yes, we never know what's in their mind.

S Vaidyanathan: So, one more question and then I will ask my colleague as well to ask any questions he may have. From a capital management again, this is the kind of business which is very cash-generative, I mean, the overall consolidated business is very cash-generative. I think you do pay us quite a bit of dividend. I'm sure you have been asked a question about why not higher dividend? And you probably have debated that at the board level if not at a company level. Could you just help us understand what's the best way to understand how you think about your capital management, either be it dividend or reinvestment in your business or any other, even M&A and other opportunities would be good to hear how the company thinks about that?

Girish Amesara: So, post our IPO and post our listing, we had the dividend policy of around 40%. And after abolishing dividend distribution tax by government, we had added the amount of DDT to dividend payout ratio, and as of now, since last two years after the abolition of the DDT, we have been paying a dividend payout ratio for almost 60%. That our board has considered and the board is going to continue sticking to this dividend policy. As far as capitalization is concerned, there are regulatory requirements to have networth for CDSL and some of its subsidiary. So, in order to maintain this networth requirement with the regulator, we need to

have roughly networth in a range of 300 to 350 crores on a consolidated basis. And accordingly, that amount would be always kept as a networth. And last year in our subsidiary, CVL, we had bid for a government project last to last year, and that had yielded a very good revenue for that subsidiary. However, for such a bidding process, we need to have a very good strong balance sheet and accordingly it is thought that right now, the remaining amount of profits shall be ploughed back and networth shall be strengthened. As and when the board will decide, board will take a considerate view as to whether to continue with this policy of dividend payment or whether it needs to be relooked at. So, that is something which board will consider at an appropriate time.

S Vaidyanathan: I guess, part of the reason that you maintain, and this is just an exaggerated version, technically, you can pay out 100% because once you reach the 350 crores regulatory minimum, I don't know whether that number keeps going up. But even if it has to go up, I am guessing it has to go up only by a small amount. So, right now, while you're paying out 60%, which is a high number, technically, you could even go up to 100%, right? I am assuming that is part of the policy decision making that has happened at the board level. Is that thinking correct?

Girish Amesara: You may think so, but board will suitably take the decision as and when there is a need felt by them.

S Vaidyanathan: Is there anything else apart from dividend and retention, like either investment into one of the subsidiaries for their growth or for M&A activities, or for buybacks, is there any other choice that you're thinking about or these two are the main choices; either to retain it or to dividend?

Girish Amesara: I think our board has decided to retain what we're doing right now. And going forward obviously it will come immediately in the public domain.

S Vaidyanathan: Nothing announced on anything else yet, that's the thinking?

Girish Amesara: Yes.

S Vaidyanathan: I will take a pause here. Padmaselvan, if you're on the line, you may go ahead and ask any questions of your own?

Padmaselvan: Thank you, Sanjeev. Sir, just a couple of questions, particularly related to the depository investment. The first question is, in the last five to 10-year period, were there instances where substantially different from CDSL, NSDL or is it same CDSL? If that's the case, why did it happen?

Sunil Alvarez: No, we don't think there are any such instances for the accounts, which have got transferred from CDSL to NSDL and NSDL to CDSL. It could have happened maybe in very few instances where a DP which is a standalone DP of NSDL or CDSL alone, which has closed

down its operations and when investors have decided to shift their account from that DP, at that point in time, they would have shifted to a NSDL or a CDSL, that could have caused this.

Padmaselvan: These are all very tricky customers, right sir?

Sunil Alvares: Today, if there is a DP, which is running in CDSL and it has even substantial number of accounts, even to shift from all the accounts from CDSL to CDSL is a huge challenge. But however, if you expect the accounts to get transferred majority from one depository to another, it's highly unlikely because it is quite cumbersome.

Padmaselvan: Last five years, if you look at the number of BOS, you have been ramping up significantly over NSDL. So, how is NSDL reacting to your strategy to gain market share?

Sunil Alvares: To be honest, I will not be able to answer that question because we don't see them doing anything as such. Today, our market share is almost at around 90%. So, I think at the same time, we are also careful that what are they doing. What we heard lately is that they're trying to reduce prices or do away with prices, but I don't know how much is going to work. So, once they declare their strategy, maybe we'll try to figure out what should be our reaction to it?

Sanjeev Vaidyanathan: One question is, if I'm not mistaken, the CEO shouldn't be new anymore, but when the CEO joined in was about two years back, is that correct?

Sunil Alvares: That's right.

S Vaidyanathan: And Mr. Girish, I think you also joined probably, I don't know exact dates, but around the same time, so the new management team, if I'm not mistaken, have been two to three years in the company?

Girish Amesara/: Roughly two years, you can say so. We are here from September '19. I have joined in November '19 and CTO has joined in October '19.

S Vaidyanathan: It's been two years for the new management team and hopefully, it'll be longer time as well. So, my understanding is I think some members of your management team have previously worked at BSE, some of them haven't, is that how it work?

Girish Amesara: Myself, Nehal and Amit had worked with BSE and that's it.

S Vaidyanathan: I'll break it into two questions. Again, maybe a little roundabout but just would love to hear your views. I think the CDSL is a subsidiary of BSE it used to be a larger subsidiary, now, I think BSE has 20% or so market share. What is the interaction level between BSE and CDSL, question number one? And somewhat related to that is, given some of the members of the management team have come from BSE working environment, Is there something different that you have done once you've come onboard in the last two years, because last few years

have been a very drastically superior performance for the company. And maybe I'm just putting words in your mouth, but it seems like some part of the performance has also had to do with the new management team. I would love to hear on both sides from BSE involvement, CDSL point of view and with the new management team, many of whom came from BSE, have they done anything different with respect to the company?

Girish Amesara: See, at times, whenever there is requirement, we interact with all the market infrastructure entities, and not only BSE. For operating purpose, definitely we have to interact with all the entities. And as far as the performance is concerned, I think it is attributable to the whole management team that we are having at CDSL, it is not a contribution, which can be attributed to a single person. So, that's my view. Ramkumar, do you want to add?

Ramkumar: You are right, spot on as far as CDSL is concerned. We have to interact as much with BSE as with NSE, as much with ICCL as with NSCCL and of course, MSE, MCX, ICEX and NCDL. I am talking from across CDSL and the group companies.

S Vaidyanathan: It's very nice of you to mention that it's the team effort. I'm sure some of the outcomes we are seeing today was the effort put in five or 10 years back. Many of the points you mentioned about how you've been focused on the customer, delivering your technology improvements over the competitor, I think all of that set you up nicely when the demand came. And when people wanted to sign up, they felt comfortable and easy to sign up with CDSL by choice. Last question from me. So, clearly, it's been the last one and a half years especially probably has been one of the stronger demand environments for your service. Many individuals have signed up. I think the record number of BOs have been added in the last few quarters. Given all of this and given generally, I think the business has been doing quite well, again, congrats on all of that. Is there anything about the company, about the industry about what's been happening is not very well understood according to you know given all your interactions with investors as well as other folks in the market, is that something that people don't understand, they keep asking you, but you have to clarify or explain?

Sunil Alvares: It's a very simple business to understand actually, but earlier because it was a duopoly and the rate of growth was not very high, so people were really not interested. I think it's more in line with the last two years where I think the markets have gone up and primarily the stock has come into the limelight with going upwards. So, I think it's more to do with the stock price. Otherwise, for us, everything else remains the same.

S Vaidyanathan: It's nice of you to say that, I think a little bit of humility, not a lot, I completely understand what you're saying. It seems like, as I mentioned before, you have set yourself up for growth, whenever it came, it just so happened that a lot of the growth came in a concentrated period of time. But the fact that you're able to execute on that without any major failures, technology, I'm sure is a big, big part of what you do, we constantly hear about, at least RBI and the banks when technology seems to be not as well taken care of. I am sure at your end between cyber security, backup data, redundancy, all of these are very important things to think about.

- Sunil Alvares:** Yes, we do take care of that. It's always uppermost in our mind.
- S Vaidyanathan:** Anything particular that has to be done from a regulatory point of view on cyber security, I'm just curious to know whether depositories have any regulatory requirements as to either data security or data privacy?
- Ramkumar:** No, that is why I said, data security is linked to cyber security, which is I think your question. Data privacy presently is not directly addressed by the regulator, at the same time, right from day one of our starting the operation, the regulator that is SEBI has been very clear that we should not be sharing the data to any third party. The only entity with whom we share data is the person himself that is BO account holder himself. And his or her DP, for the reason that they are the persons to whom this is operated, this is one. So, the second thing is in terms of cyber security, there are several conditions, rules and all put by SEBI on us as well as by CERT-in because we are one of the organizations which is part of the important organizations as identified by the country. So, CERT-in is also giving certain things that we need to do, we need not do. So, as far as cyber security is concerned, we are covered in these two fronts. And we are supposed to file a regular report with SEBI to ensure that if any instances are there, we report those instances and regular checks on the system in terms of VAPT and then again submit report to SEBI. So, to that extent, cyber security is taken care of well, and data privacy is being taken care of right from the beginning, but there is nothing in writing in terms of a rule book or a condition, except that single line from SEBI saying that we should not be sharing any information within third-party.
- S Vaidyanathan:** I think you've clearly answered all our questions. Anything else that we should have asked you, but we didn't ask you? And you are right, it is a simple business, but I think there are certain nuances, especially with respect to some of the regulatory aspects as well as understanding what is the normalized level of sort of demand and growth that will probably come to us. But is there anything else that you think is worth understanding that we didn't talk about today?
- Ramkumar:** I thought important from understanding perspective has been covered. There might be several nitty-gritty which may not really needed.
- S Vaidyanathan:** Great. Thank you, again. Thank you for taking the time. I know I've been a little persistent about getting this call done. We've been trying. We've been reading about the company for the last two years, if not longer. So, we just like to spend some time on the company before we speak to the management. And thank you for giving us the opportunity to speak to you and clarify our views. Again, congrats on the great journey. Have a nice day.
- Ramkumar:** Thank you.
- Sunil Alvares:** Thank you very much



*CDSL
August 18, 2021*

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