



“Central Depository Services (India) Limited
Q1 FY18 Earnings Conference Call”

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Moderator: Ladies and gentlemen good day and welcome to the CDSL Q1 FY2018 Earnings Conference Call hosted by Axis Capital Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Praveen Agarwal from Axis Capital Limited. Thank you and over to you Sir!

Praveen Agarwal: Thank you Rio. Good evening everybody and welcome to the earnings call of CDSL. This is the first earnings call for CDSL. We have with us Mr. P.S. Reddy, MD & CEO, Mr. Bharat Sheth, CFO, and Mr. Nilesh Kittur, AVP. We congratulate Mr. Reddy on a good set of numbers and I would request him to share his thoughts on the quarterly results post which we will open the session for Q&A. Over to you Sir!

P.S. Reddy: Thank you for organizing this conference call and let me thank all the participants for supporting us in the IPO, I am sure many of you may have applied, but then you may be lucky may not be lucky, but to get the allotment, but I am grateful to all of you for making it a grand success.

Coming back to the Q1 presentation many of you have seen our IPO document that we have two revenue streams, one is more or less stable, which is annual issuer charges, other one is the transaction charges, which is based on the market volatility and in the transaction charges we have what is called for every debit transaction we have a charge of on an average of Rs.5 we get and that is what is called billable transactions and that is what has helped us in this quarter substantially and Mr. Bharat , our CFO will give some briefing on all those numbers. The other one is the IPO corporate action charges ,again the more the IPOs we get good



amount of revenues from that, that is another piece that has contributed substantially and I will ask Mr. Bharat Sheth to speak on the numbers then thereafter I will tell you what are the growth initiatives that we have lined up and how they are doing and as again I have said in the past also except for GST, GST Suvidha Provider Service which is expected to be launched because still the GST is working out on the file formats and it will take some time before it could be launched maybe, before September we would be launching any day. As and when the file formats are finalized we will be developing the application and give it for testing. Except that maybe other revenue streams again listed out in our document will take some time to rake in revenues, so I will now ask our Bharat Sheth to brief on the numbers for the Q1.

Bharat Sheth:

Good evening everybody. Welcome to CDSL con call. Now regarding financial side let me tell that consolidated basis our operational income increased by 29%, main part of it that is annual issuer charges, transaction charges and IPO corporate action charges. Significant jump is there. Transaction charges increased by 31% compared to corresponding quarter whereas IPO corporate action charges because of more IPOs and more corporate action it is increased to 62% compared to corresponding quarter and one more thing about the KYC charges, online data charges where 60% jump is there whereas overall operational income increased by 9 Crores compared to previous corresponding that is over 29% growth is there. On the expense side increases by 19% where employee expenses cost on employees increased by 30% and other expenses by 12%, overall increased by 19% is there, so if you see my profit before tax on consolidated basis increased by 20% and profit after tax because of tax benefit what I got it is increased by 40%. On the employee expenses increased by 30% because in Q3 of 2016 we have increased the salary by 20% across the board and number of employees compared to corresponding quarter is increased by around 15 employees



increased because of that only, otherwise if you see previous quarter to this quarter hardly any jump in the employee cost is there. So overall scenario that is 40% on consolidated basis and 38% on standalone basis are increase in the PAT is there. So if you see that is on consolidated basis my operational income is 81%, other income is 19% whereas expenses are 37% for PBT and PAT is 65%, which is comparable to previous year also and previous quarter also and profit after tax is 51% compared to 43% of corresponding quarter. Now I will hand over to Mr. Reddy to talk about the growth in revenues.

P.S. Reddy:

As we have been explaining about three, four initiatives that we have been talking about, one is the national academic depository the launch was formally done by the Honourable President of India on July 8, 2017 and many academic institutions are now joining, I do not want to give the names and numbers, but they are joining in.

MHRD has also decided that for upload of academic records we should not be charging the academic institutions for the next two years and in any case that is going to be a raw material for our purpose and we need to earn lot of money from verifications, verifications from employers, verifications from academic institutions who are giving admission for higher education institutions in courses, so that will take some time to come in, so it is too early for us to say anything on that part of it, but keeping in view of our revenue streams coming a little later we are keeping cost under tight control so that it is not an issue at this point in time.

Second important initiative, which we were looking at is the commodity warehouse repository, which again is just launched and the system is not yet formally launched by the WDRA, they are coming for inspection now and thereafter they will be formally launching maybe, soft launch and thereafter maybe they may find some VIP to inaugurate the systems



and this is one part of it and it is too early again for us to get any revenue from that stream as well and third initiative is the GST and the GST Suvidha Provider, which we have already discussed it and that will take again, tough competition is there, but we are seeing lot of traction, a lot of companies have come forward and then signed up with us agreements and about 14 ASPs that is application service providers have signed up with us and which is for self use as well as for giving service to other taxpayers, so this is the way we are doing it and there also we are expecting good growth.

The fourth one is CDSL Ventures Limited, which is again giving us good revenue and thanks to the mutual fund industry growth. Lot of new investors who are investing in mutual fund, they are verifying their records in the CDSL Ventures Limited database and that is how we got a very good growth in the numbers in CDSL Ventures. The fact that the net profit of CDSL Ventures Limited increased by 44%. we had for the quarter June 30, 2016 profit of 3.78 Crores and in the current quarter we had about 5.43 Crores profits, so we have done well in this venture. These are the issues that we have currently and we will be planning to have what you call the postal ballot. Our board has already approved it. The reason for going with postal ballot is as you have seen in the management board outcome, which was put up on the website, one is that BSE has divested, but at the time of divestment when SEBI gave a permission they said that article 112 of Articles of Association, which gives the right to certain shareholders be dropped, dropped in the sense that it is to be kept in suspended animation and post IPO the shareholders have to approve that right of the BSE to exercise that right by way of a special resolution. So currently BSE has 24% and they have a right to nominate 24% of the Board of Directors that is the way the right is. That right is there for SBI, Bank of India, Bank of Baroda as long as they continue to hold a 10% or 10 Crores paid up capital of the



company. So SEBI said that, that has to be dropped and shareholders post IPO must approve it only then the institutions can exercise that right, so that BSE requested that we should take it to the shareholders as early as possible so we are going for that, the board said that take it to shareholders for necessary action as may be needed. This is one activity that we are going to do it.

The second is the commodity warehouse repository, which we have started, we started some time in the month of March, but prior to that itself both the Bombay Stock Exchange and MCX have expressed desire to take stake in this company before it was formed, but then they too had to take approvals from regulators as well as internal as well as external approvals, so we took time for them to come back and meanwhile we were filing our IPO document so we could not really process that particular request. Now that it has been done and we want to again come back to the shareholder that is a requirement I believe under the company's act, so each one of them will be taking 24% in commodity warehouse repository and CDSL will continue to have 52% and this was approved again by the board not now prior to the IPO itself, so we will be taking it to the board to the shareholders for necessary execution of these proposals. Other than that we have appointed a new company secretary and he is expected to join on August 7, 2017 if I am not mistaken, so those are the activities that board has considered important ones in the last meeting. Now we can keep it open for discussions of the analysts and the investors.

Moderator:

Sure thank you very much. We will now begin with the question and answer session. We have the first question from the line of Dimple Kotak from ASK Capital. Please go ahead.



Dimple Kotak: Congrats on a good set of numbers. I have a question regarding the annual issuer charges what has been the growth in that segment for this quarter?

P.S. Reddy: See the annual issuer charges have been by and large remained static because SEBI increases those annual issuer charges. What triggers the SEBI maybe once in five years when both the depositories approach them so in 2004 or 2005 they introduced it and in 2009 they increased it and in 2015 they increased it. Now it is all determined by SEBI. Second this annual issuer tariff if you look at it how it is determined is that there is a slab rate and there is a folio rate. If the company has got more number of shareholders that is folios and number of folios multiplied by Rs.11 or the slab rate, whichever is higher is what company's pay. The more the IPOs then the more the folios will be and similarly if the market activity is good, more and more investors directly invest in stock market and the number of folios will increase so that slab rate is definitely lower than the folio rate, so we will get more and more folio based incomes and that's the way it works madam, so it is more or less stable.

Dimple Kotak: So for the whole year will it remain static or we will see some increase in this?

P.S. Reddy: Marginal increase about 8% we have seen it from quarter-to-quarter and I do not say that is going to be a great number in that sense.

Dimple Kotak: Basically we will be seeing good growth in transaction and IPO charges?

P.S. Reddy: That is absolutely right, you got it right.

Dimple Kotak: IPO if I am not mistaken it contributes around 9% to the revenues and transaction charges around 30%?



- P.S. Reddy:** The transaction charges about 18% on consolidated and IPO corporate action 10%.
- Dimple Kotak:** Going ahead for the full year shall we see the similar kinds of growth trajectory, which we have seen in Q1 of 31% and 62%?
- P.S. Reddy:** If markets are doing well we will continue to do well that is only way I can answer.
- Dimple Kotak:** One thing I missed out was on the commodity warehouse repository where you said that BSE would be investing, so what is the percentage they would be investing?
- P.S. Reddy:** They will be taking 24% of 50 Crores capital madam that is about 12 Crores nominal capital.
- Dimple Kotak:** And this currently is not contributing to our revenues or anything?
- P.S. Reddy:** It just started. In the month of March 2017 we incorporated the company and WDRA has given us the timeline, i.e. by August we need to keep the system in place and we have kept the systems in place and invited them for inspection then they will give us a formal license, at this point in time letter of intent is what they have given.
- Dimple Kotak:** That is all from my side. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Prakash Kapadiya from Anived Portfolio Management. Please go ahead.
- P Kapadiya:** Thanks for the opportunity. Congrats on a bumper listing and a good set of numbers. Sir wanted to get some colour in your opening remarks you mentioned about CDSL ventures and the strong momentum we are seeing due to higher participation in mutual funds can you give us some colour of incremental folios because I think historically we had some 16



billion folios, so what is the kind of addition we have seen during the quarter that was my first question and second if I look at consolidated tax rates we have seen a decline as compared to our PBT so is it some tax free income, is there one-off in this and what kind of a tax rate do we see say for FY18 as a whole?

Bharat Sheth: Regarding consolidated basis?

P Kapadiya: Yes.

Bharat Sheth: Effective tax rate is 15% mainly because of the other income that is long-term capital gain and dividend income. Now under IndAS we have to provide income as mark-to-market as such, but for income tax purpose we cannot take this. So in earlier years whatever we have provided under IndAS under deferred tax liability and so in the current year in current quarter it has got matured, so reversal of deferred tax liability has occurred because of that tax has gone down if you see compared to previous quarter.

P Kapadiya: So we would expect some amount of still neutralized deferred tax liability to continue and it is fair to assume really be at say 20% to 22% tax rate for the year as a whole is that a fair assumption at a consolidated level?

Bharat Sheth: On a consolidated level because most of the -FMPs have got matured in last quarter as well as this quarter current quarter, so now hardly anything left, so whatever is...

P Kapadiya: This was more a one-off and this is not sustainable?

Bharat Sheth: Not sustainable means every three years has got...

P Kapadiya: Yes for the rest of the year it is not a representative of the...



- Bharat Sheth:** Otherwise effective tax rate would be around 25% to 26%.
- P Kapadiya:** Understood.
- P.S. Reddy:** Now on the KYC for the first quarter in the 430000 KYCs we have done as against 320000 KYCs so that is 110000 new KYCs over the corresponding quarter we have done it, but what is important here is it is not just the new KYCs from which we get revenue even the existing KYCs if the same investor goes to multiple mutual funds or for that matter for any other stockbroker the same KYC yields additional revenue, so it is not necessary that I need to have additional new KYCs in my stuff that is the way it works.
- P Kapadiya:** Sure, so you are saying it is a combination of both it is new client plus same client trying to build multiple schemes or newer folios or newer broking relationships?
- P.S. Reddy:** That is right.
- P Kapadiya:** Understood and you know always maintained some of these things are longer-term in nature and in your opening remarks you did mention about the status of each of these, so the government intention is very clear is it fair to say two years from now we should really see some bigger traction in the new businesses.
- P.S. Reddy:** You are right. The reason is, see government looks it as a infrastructure institution and these are all small ticket, but high volume initiatives and we want to be part of the government initiatives wherever we are able to participate, so it is important that we will continue to play that kind of role. We do not want to be a kind of pleasing the customer and some kind of that we do not want to communicate that kind of impression and stable revenue growth is what we are looking at and it will happen in the next two to three years time.



- P Kapadiya:** Great Sir! Very nice. Wishing you all the best.
- Moderator:** Thank you. The next question is from the line of Deepak Agarwal from Axis Mutual Fund. Please go ahead.
- D Agarwal:** Sir just wanted to understand on this GST service provider so what are the kind of services we will offer and just in terms of the number of transactions or the industry size, which it can be once it stabilizes and all, so how big is this revenue line item for the industry and for you what it can be?
- P.S. Reddy:** Well it is too early to talk in terms of revenues that is why I am not making any comment on that, but the kind of services that we are offering I can definitely share with you and in fact it is in the public domain of course in the sense it is not a very big money. We won the bid of a New India Assurance and like that many government organizations are looking for it and we are bidding for them and then some are successful and some are not and what kind of services we are offering I tell you that. We have a GST and also have an in-house ASP. This ASP can be installed at any of those people who wants to either self-service themselves or in turn service the retail customers/ taxpayers, so that is where we have signed up with 14 of them. Now some of them are also asking us to maintain servers on their behalf also even in this ASP, the ASP can hold the data and then upload once in a while to the GSTN, so that is another model we are offering where we will be hosting their applications and also maintain their servers and then giving them service. The third party ASPs are coming, the ASP is not developed by us and they want to use the only the GST services of CDSL, so that is how they connect themselves and we get some revenues. Today it is very nebulous and there is a cut throat competition we have been seeing it as we go on bid for various entities. This has been brought down to a kind of a number of what you call the data size that they download is and that



is going to determine the rate. That is the way it has been at this point in time of course with a minimum monthly billing of ex-amount, so again it is not stable and varies from client-to-client and we do not intend also to sell our services that cheap just for the sake of getting it and quality we have to maintain. We have to be conscious of quality and that is all I can say. I do not think we will be able to give any numbers at this point in time.

D Agarwal: Sure Sir! Now as you mentioned you won the bid for new India Assurance, so now essentially that means you would handle the entire GST filing for their branches across India on their behalf?

P.S. Reddy: We do not handle their GST, but the only application will be ours and the hardware we will maintain it and then upgrades we will be giving them that is all. It is a web based solution and each of their branches they will be uploading it. It is a value added services. If you have a foot in the door then going forward they may consider you for some other services also. That is the way we look at it, it is a very nimble way of getting into various other services.

D Agarwal: Any rough numbers you can share like this is what annual contract 5-year, 10-year contract and how is the pricing or it just lump sum they pay some amount and...

P.S. Reddy: Lump sum per annum. For New India it is for two years.

D Agarwal: To use your infrastructure they are paying you some IT infrastructure...

P.S. Reddy: Even infrastructure cost we are recovering and we will not be out of pocket for any of these services that we are doing and they will be paying upfront per year per annum.



D Agarwal:

Coming to this commodity repository where you have MCX and BSE now as JV partners, so now to understand what exactly so the commodities in a way, which are lying in the warehouses against that the warehouse receipts will be in the Demat form sitting in this particular repository right?

P.S. Reddy:

I will explain slightly, what is the existing relationship. Banks give a financing for a commodity, they identify a warehouse and it is a bilateral relationship between the bank and the warehouse and the farmer or a trader whosoever he goes and then deposits that good in that warehouse and the bank lends against that and they take that risk of misuse by the warehouse service provider or the loss of goods, quality being deteriorated, quantity not being there, etc., so it is purely bilateral there is no regulatory framework under which they are doing it. Now going forward WDRA is registering all the warehouses. Now those warehouses are the one who are allowed to issue eNWR that is Electronic Negotiable Warehouse Receipts so a farmer goes or a trader goes and then deposits that commodity in any of these ones and the WDRA and the warehouse service man they are holding them responsible for all the quantity and quality so all the inspections will be done by the WDRA and quality control are maintained and who can qualify to be a registered warehouse, etc., who can qualify to be a WSP and what kind of net worth requirements, etc., etc., prescribed by WDRA. After depositing the commodity by the trader or the farmer then that e-warehouse receipts will be demat'd into a repository. Once it is demat'd he can go to any bank and then pledge it. Now the bank also with a great degree of confidence can lend against that e-warehouse receipt, they do not need to worry much about the stock being there or not, quality being there or not, etc., that is the way it was and the whole regulatory framework is being put in place gradually. Now the WDRA is going to approach RBI and SEBI maybe at the backend we have negotiations of discussions



with all of them, so the whole regulatory framework is being put in place and presentations will also take place to maybe Indian Banks Association (IBA) as to how this whole framework works. So the whole ecosystem is being gradually rolled out and it will take some time before we actually see the tangible benefits of this system.

D Agarwal: Generally it will not be very granular it would be more of larger tickets not very retail or individual kind of farmers will walk in, be large farmers or to some commodity traders who would be operating that space?

P.S. Reddy: The thinking is big. How it will be rolled out I do not know. The government's thinking and WDRA's thinking is that there is a eNAM facility that is electronic national agriculture market, which is being rolled out where spot transactions are also can take place on that platform and today what is happening is a farmer takes the entire stock to a mandi and there are traders and who sees the stock and then they buy it or they reject it and the farmer has no choice but to sell it because the whole stock he has brought it to the mandi and he has exposed himself. Now what WDRA's thinking again I am not saying how far it will materialize, but what their thinking is instead of taking the entire stock to mandi the farmer can deposit in the warehouse and the e-warehouse receipt will be created, then he can only take that e-warehouse receipt to the mandi and he can negotiate and if he does not get a good rate he can leave the stock in the warehouse and then he can come after a week or so for a better price, so if it goes to that level and if their thinking materializes probably it is at a very granular level, but if that does not materialize it remains as a more financing activity kind of thing.

D Agarwal: This also applies to your metals and all, gold metals and all?



- P.S. Reddy:** WDRA does not deal with this as of now, but it may come in future.
- D Agarwal:** On the CDSL Ventures as you mentioned the number of folios were like some 430000...
- P.S. Reddy:** No, new accounts were opened, 430000 new KYC records were created in this quarter and then we already have 1.6 Crores in the system, now in addition to that, this 4 lakhs get added, then the verification takes place on the total number but not on just 4 lakhs.
- D Agarwal:** In pricing you are free to price or there is a regulatory cap that you can price an ex person value per transaction how does it works?
- P.S. Reddy:** Come again what it is?
- D Agarwal:** The pricing for this KYC there is a regulatory cap or you are free to price it?
- P.S. Reddy:** We are free to price it, but there is competition of course, there are three others, probably they may not take away my existing one. If I keep the price too high probably new KYCs may not come into my depository so I do not want to lose out on that.
- D Agarwal:** Got it Sir! Thank you so much.
- Moderator:** Thank you. The next question is from the line of Ashish Chopra from Motilal Oswal Securities. Please go ahead.
- Ashish Chopra:** Thanks for the opportunity. Couple of questions from my side, so this is largely a duopoly market, so just wanted to understand from you from what we understand reading in your IPO document that you are gaining strides what is a larger competition on the individual Demat side, which is where your focus is whereas relatively lesser on the corporate side, so could you just elaborate on the strength and weaknesses for you today



within this market and what really drives the whole focus on the individual segment versus the corporate section?

P.S. Reddy:

If you see the tariff structure, the tariff maybe about 15 years ago when the CDSL started it was ad valorem so the custody based business was really making sense, so institutions, FIIs they were paying higher than the retail who have a small ticket size, so they do not pay much. Because the tariff base has been changed, the tariff mechanism has been changed to per transaction basis today I received only Rs.5 whether one sells maybe Rs.100 Crores worth of stuff of ACC or some other stuff or somebody else sells just 100 shares of the same stock, I just get Rs.5 on an average. So that is why our focus has been more and more retail, but not the custody, so today custody continues to be substantially with NSDL and we are not so much worried, the reason is this as I told you. If you see our revenue proportion also of both the depositories, it follows the pattern of the Demat account share rather than the custody value, so their revenues are also about 55, 56, ours is about 44%, 45%, so it is not custody value of 15% and 85% or that kind of ratio. This is one important thing. Now the weakness that I see if retail investor shun this market and then go only to mutual funds, let us say probably that is where we may lose this particular advantage that we are currently having it, by having a 60% incremental market share of retail investor accounts, it may not yield any great revenues, but I do not think, that kind of structural shift will happen in the market and in the next one decade I do not see that kind of thing happening.

Ashish Chopra:

Fair enough Sir and secondly just on this whole stress asset side if you could just share your thoughts on the development because I understand that has been quoted as one of the key rates to your KYC based revenues in CDSL Ventures, so maybe how long drawn would that be and secondly how much of risk is it really pragmatically speaking to this



business segment of yours, which is growing at a very healthy rate today?

P.S. Reddy:

Today SEBI has not withdrawn a circular saying that you have to upload it on the KRA, that old circular continues to be in force, of course they said that you have to upload it and CKYC, so both are in force in a sense and there is also a deviation in KYC requirement. For the CKYC you need only a subset of what is being done in the KRA and more is needed in our KRA regime. For KRA you need to do the in person verification, you need to check the originals, you need to do the what you call due diligences being done for the KYC. For KRA PAN is being checked from the Income Tax website and PAN is not a mandatory requirement in the CKYC regime now. So what many brokers and many intermediaries who are continuing relationship with CVL KRA are doing is that, we will give you all the information, we upload the KYC, you do the due diligence and once the due diligence is done and if everything is in order, you prepare a file out of this and then give it to them that is needed to simply upload it on the CKYC, so CKRA or CKYC whatever it is, central KYC let us say, so what we are doing is ,this is a value added service we are giving it, once the file is uploaded we are generating a file, which is needed to be simply push it to CKYC and that has seen a good traction and many are keen to continue with that service. So I do not want to predict as to what is going to happen, how really the threat I do not know that is what my intention is, that is why we want to be conservative, but yes you are right that the data we have about 6.15 Crores is what we have seen in the Q1 as against the corresponding quarter 3.85 Crores revenue, so you are right that we have done very well in that space.

Ashish Chopra:

Right. That is very helpful Sir! So if I understand correctly then you would be a kind of a service provider who is offering any which ways



will remain relevant, so whichever way this setup evolves in the long run that would be...

P.S. Reddy: That is the way we are positioning ourself at this point in time as the situation evolves we are also evolving it, we are also trying to see where this KYC can be used other than the financial sector and some exploratory work is going on in that area.

Ashish Chopra: Just lastly from my side, could you shed your thoughts on the dividend policy going forward?

P.S. Reddy: As we said we have a stable dividend policy we have about 60% payout ratio and at the same time we would like to also maintain at least 30% rate of dividend which we have declared. So sometimes even if our revenues go down we will make sure that we pay at least 30% that is another way of looking it and 60% payout on an average basis are there since last four years, so we would like to maintain that, continue that.

Ashish Chopra: Thanks a lot Sir and all the best.

Moderator: Thank you. The next question is from the line of Atul Mehra from Motilal Oswal Asset Management.

Atul Mehra: Thanks for the opportunity. Just a further clarification on this –CDSL Ventures Limited so what we understand is once a lot of database has been captured under –CDSL Ventures Ltd the retrieval will be largely no charge, so how do we see that in this common sense that how do we see this transition going forward because right now a lot of mutual fund industries using our platform to retrieve data, but maybe two year, three year down the line they could use CVL as a platform to retrieve data, so how do we see this transition for us?



P.S. Reddy:

As you said the KYC is not uniform at both identical to say, requirements are not identical, PAN is mandatory in the capital market so is for mutual fund, it is not there for CKYC. If they say that Aadhar is one number that is good enough and the Pan is not needed and going forward that is good enough and the brokers are happy with that, be that so we have no issues, but those who are using the CKYC currently they find, that there is no verification that is being done, you push a blank paper that is the way it is. The quality we have taken up with the government, SEBI itself took up with the government there is no due diligence that is done. Because there is no due diligence that is why they are able to offer at Rs.2 or Rs.3 or Rs.1. My colleague saying that why it is Rs.1. I do not know Rs.1 what kind of quality service that can come. So if brokers still feel that there is a liability for whatever that is being done on the CKYC platform and they want to mitigate that, so they may continue to use my services, have it verified and then I will make a file and give it to them, so that can also value added service that we can do.

Atul Mehra:

Secondly Sir in terms of what we have seen in this quarter in terms of your opex so has gone up quite significantly even as revenue growth has been strong, so how do we see this going forward in the sense that what we understand is yours is a business, which will be very high operating leverage, so how do we see opex growth for you over the next three to five years?

P.S. Reddy:

Opex has gone up because this is being compared with the corresponding quarter where there was no growth in the employee this one. There is a 20% salary revision has been given. Once in three years generally our board consider a 20% rise across the board because we do not have call DA limit, we have much like public sector scales but, dearness allowance is not there, so it is not compensated for any of the growth in inflation, etc., so once in three years they give 20% rise and



that has been happening, twice it happened and this is the third time it happened. Now that has affected from October 1, 2016, so you do not find in the corresponding quarter of June 30, 2016 this particular growth in this one that is why you will find some difference. The other variation is because NAD is being launched and the CKYC what you call CCRL has been launched that is commodity warehouse repository. Before we actually incorporated we have taken some people on the roles, so we take generally on the roles of CDSL with a clear understanding that once the company is started then you will be pushed over there, so those employers are yet to be transferred to CCRL and that is the reason why you find some growth in the employee thing. What are the other costs Bharat you can explain

Bharat Sheth: No, if you see my EBDIT that is across all the quarters if you see that is of 65% of June, 2017 then June, 2016 as well as for the year 2017 that is 65% is there and overall last three years if you see 62% on an average EBDIT is there, so keeping in mind our cost we are very conservative on that because of that only we are able to maintain this EBDIT.

Atul Mehra: Just one question in terms of the fee structure for us in terms of transaction charges is more on we know in terms of Rs.5 in transaction, but if you look at some other stuff like maybe stock exchanges for example the way they charges more on maybe ad valorem in some cases and globally it is very differing, so the models keep differing quite in terms of globally versus stock exchanges and depositories, so how do we see this, do we see this as a risk factor at all in terms of if we were to move from Rs.5 transaction to ad valorem, so do you think there is any kind of risk there in terms of?

P.S. Reddy: That is not going to happen let be very clear on that. One is that we are regulated by SEBI and every tariff that we charge we have to go to SEBI for approval. Now if I go with ad valorem SEBI will shoot down every



time, anything that impact the investors they will not approve it, so whatever has come if you are reducing it they will be too glad, but if there is a marginal increase maybe possible provided the competition does so, but definitely shifting the base itself from a fixed transaction charge to ad valorem that is not going to happen.

Atul Mehra: That how is it globally Sir for depositories?

P.S. Reddy: First of all globally there is only one depository, there are no two depositories. In China there are two depositories, but one for debt, one for equity that is separated and globally again there are more or less operated either by the government and the bank or banks and the stock exchanges or the stockbrokers and the stock exchanges, etc., and maybe India is a different experience that is the way it is.

Atul Mehra: Globally, it is fixed basis or ad valorem?

P.S. Reddy: Ad valorem globally.

Atul Mehra: One final question if you would take a more medium to longer term view on your business, so what we look at is say last five years we would have grown revenue about 9% CAGR and EBITDA at about similar 8%, 9% CAGR, but as we look at it from the next five to seven years perspective, so how do you see growth for your business assuming stable markets in a way not very buoyant or something, but steady state base case kind of scenario. What is the kind of growth that you see in your topline and overall bottomline over the next five to seven years if you look at it?

P.S. Reddy: If you see that five year CAGR, you have some good year, some bad year, so that is the norm and going forward also it is going to happen probably we will be able to maintain that kind of growth rate. I do not think there is any worry about that.



- Atul Mehra:** It is the same 8% to 10% we should look at or how do we?
- P.S. Reddy:** We should be able to that is the way again it all depends on the market I am not giving any number here, but we will be able to grow. There is no reason why we should not be doing better.
- Atul Mehra:** Great Sir! That is it from my end and wish you all the best.
- P.S. Reddy:** By the way on a lighter note, the more the operational efficiencies that we show brokers will start asking us for more and more discounts and say that you are doing well, so please cut down the cost.
- Atul Mehra:** That is possible. Great Sir! Wish you all the best.
- Moderator:** Thank you. The next question is from the line of Sunil Jain from Nirmal Bang. Please go ahead.
- Sunil Jain:** Congratulation on good set of number Sir! Sir is it possible to get breakup of revenue under the head like annual issuer charges, transaction charges and online data charges and all?
- Bharat Sheth:** Operational income on consolidated basis, there are annual issuer charges we are getting around 33% revenue from operational, transaction charges we are getting 22%, user facility charges 2%, settlement charges 1%, account maintenance 2%, e-voting 1%, e-cash charges 4%, IT or corporate expense charges 13% we are getting, online data charges 20% we are getting, so these are the major breakup of operational income consolidated basis.
- Sunil Jain:** These online data charges you said you are getting 20%...
- Bharat Sheth:** KYC charges from CDSL ventures what we get.
- Sunil Jain:** And this IPO and corporate expense charges?



- Bharat Sheth:** That is 13% IPO and corporate action charges. whenever new IPO comes that time beneficial owner verification charges are there, corporate action are there for each credit. We are charging Rs.10 per folio that is IPO corporate action charges are there whenever right issue is there, bonus issue is there, split of sales are there we are charging on that.
- Sunil Jain:** Annual issuer charges growth rate year-on-year how much you said Sir it is 8% or 31%?
- Bharat Sheth:** Annual issuer charges for growth rate would be around....
- P.S. Reddy:** 8% which was there?
- Bharat Sheth:** No, 8% quarter to quarter it is there.
- Sunil Jain:** Last year to this year.
- Bharat Sheth:** Last year to this year 8% is there.
- Sunil Jain:** 8%.
- Bharat Sheth:** Because of more number of IPOs and more number of folios are there accordingly.
- Sunil Jain:** Transaction charges what was the growth?
- Bharat Sheth:** Transaction charges growth was 29%.
- Sunil Jain:** Online data you said 60% and IPO 62%?
- Bharat Sheth:** Yes.
- Sunil Jain:** Thank you very much Sir!



Moderator: Thank you. We have the last question from the line of Hiten Jain from Invesco Asset Management. Please go ahead.

Hiten Jain: My question is with regards to this academic institution certificate repository so we saw in the media that CBSE has tied up with NSDL, so is it exclusive or even we have partnered with CBSE?

P.S. Reddy: We do have partnered with CBSE. CBSE has given two year data to NSDL, two year data to CDSL. Now the way it works is even if the academic institution tie-up only with NSDL still the data has to be replicated on CDSL and vice versa, if somebody has not done with NSDL but then they do only with CDSL we have no choice, but to replicate the data with NSDL, but going forward academic institution pays it they pay only one of the institution with whom they have signed up that is one issue now what is crucial here for revenue is the verification, so we need to tie up with verifier because the data will be common with both the institutions so we need to tie-up with verifiers and then the verifiers will be verifying from these platform. Second the students have to give consents for which students have to register on the platform so when we are going with the academic institution we are suggesting them that they should also ask the students to register with the CDSL site so that is the way the business model works.

Hiten Jain: Second question is on a KYC so you said all financial institutions use it so like in terms of our client telling that KYC it is mutual funds and stockbrokers so if you can give the breakup between how much is of our total KYC or total revenue in our KYC subsidiary which is into KYC business what percentage is from mutual fund, stockbrokers and who are the other participants?

P.S. Reddy: That breakup is not available immediately at least at this point, but the issue is not so much that. There are five entities, which are doing the



KYC. Now the KYC can exist only with one of us let us say P.S. Reddy KYC it can be only with CDSL or NDML or the CAMS, Karvy or the DotEx. It cannot be with any of them, so since I have the largest market share even if tomorrow I go to another institution let us say see ABC now is a stockbroker he wants to verify via DotEx now when he comes to DotEx he logs into the system and searches for P.S. Reddy pan number is so much then that particular query lands in our CVLKRA and CVLKRA will charge Rs.35 to DotEx and DotEx in turn collect Rs.35 so it is immaterial, there is no competition out here in that sense. Competition will be there for creation and one set is created the record will exist with us they cannot remove it also.

Hiten Jain: No, what I was trying to understand is that which all other players can actually access KYC from us, so I understand mutual funds and stockbrokers are the biggest clientele for this business, so is it the insurance companies then you have banks?

P.S. Reddy: No not allowed as yet only the SEBI those participants who are in the SEBI jurisdiction and the commodity brokers now they have joined they also can, intermediary is registered with SEBI that is the way it is.

Hiten Jain: Understood. All right thank you very much Sir!

Moderator: Thank you very much. That was the last question. I would now like to hand the conference back to the management for any closing comments.

P.S. Reddy: Thank you so much to all of you for supporting us and I hope we answered to your satisfaction all the questions. Thank you once again. Thanks to Axis Capital for organizing this call.

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