

# “Central Depository Services Limited Q2 FY18 Earnings Conference Call”

**October 31, 2017**

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**MODERATOR: MR. PRAVEEN AGARWAL – RESEARCH ANALYST, AXIS CAPITAL**

**Moderator:** Good day, ladies and gentlemen and a very warm welcome to the CDSL Q2 FY18 Earnings Conference Call hosted by Axis Capital. As a reminder, all participant lines will be in the listen-only mode. 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. Thank you and over to you, sir.

**Praveen Agarwal:** Thank you Ali. Good evening, everybody and welcome to the Earnings Call of CDSL. We have with us Mr. P. S. Reddy - MD & CEO, Mr. Bharat Sheth - CFO, and Mr. Nilesh Kittur - AVP. We would request the management to share their thoughts on the quarterly results post which we will open the floor for Q&A. Over to you, sir.

**P.S. Reddy:** Thank you, Mr. Praveen and welcome to the Q2 concall analyst call. This is the second one but then first one from the new premises that we have occupied and yesterday we have moved over to our new premises which is at the Marathon Futurex is on the 25<sup>th</sup> floor at Lower Parel in Mumbai. As regards to the company results are now, so in line with the trend, that is with the markets are doing and we are there to grab every opportunity that comes in our way and we have done fairly reasonably well in this second quarter.

As regards to the lines of business, yes we have a national academic depository. The government is pushing for more and more universities to join and almost all 160 plus universities and academic institutions have signed up with us and we are doing well, pretty well out there. The second area that we have been doing well is the KUA, KSA, AUA, ASA operations. Now most of the transactions are taking place online, so that is one niche area that we are looking at it and many people have surrendered their AUA, KUA, such kind of licenses that they have, because Aadhaar has introduced or UIDAI has introduced, the tariff structure, new tariff whereby about 2 crores if you are an ASA, KSA they charge you, I mean for 2 years they will charge you about 2 crores and so many of them surrendered their licenses and then are joining us sub ASA, sub KSA, etc. and at the same time we are also offering the online account opening services through our subsidiaries of course. That is another thing that we have been doing.

The other area that we have continued to maintain our lead is the e-voting services and we continue to be the leader in the market and of course the competitive pressures are there. So, margins are coming down and portfolio realizations have slightly gone down. It is not substantial but it is about 10% or so has gone down and so that is one area we continue to maintain our lead. In terms of Demat accounts as you have seen that our incremental market share continues to be high. It is almost 62% and we will continue to maintain that growth given the kind of efforts that we have been making. And as we have been saying it, some of these initiatives that we have already taken are long term in nature and it will take about 2 years to 3 year to fructify. Recently again, recent in the sense, last month that is in September, we have inaugurated CDSL commodity repository limited activities. we received a license from WDRA and that was inaugurated by the Honorable Minister for Consumer Affairs that is how we launched it., the commodity warehouse receipts can be secured, kept in a warehouse registered with WDRA and finance can be extended and the financiers can be pretty well sure about the quality and quantity of the stock that is kept in these

warehouses. Provided they dematerialize the warehouse receipts and keep it in the repository. So, there also we are seeing a good traction and it is almost about 4-5 repository participants have already are admitted and many more are showing interest. So, efforts are on to focus more on the commodity warehouse repository business.

As we have already said that the MCX and BSE has expressed interest to take stake in the commodity warehouse repository business. So, we are coming out with a postal ballot and that will be at nominal value. It was agreed much before the receipt of registration from WDRA. We have also indicated in our earlier correspondence, our earlier information to the shareholders, in our IPO documents, also we have mentioned that both the MCX and BSE has expressed interest to take stake.

So, now we are going for postal ballot to complete the process. So, barring this I think there are no major developments and I will ask our Bharat Sheth to brief you all about the Q2 results and where we did well and where we did not if any. Thank you.

**Bharat Sheth:**

Good evening, everybody and wishing you happy New Year and happy Diwali's and this Diwali really brought happiness to all of us. Our Q2 2018 if you compare with Q2 2017, my operational income increased by 22% overall. If you see major items of operational income is that transaction charges increased by 26%, IPO corporate action charges increased by 68% and online data charges that is KYC pertains to 41%. So, overall growth in operational income is 22% and EBITDA if you see it is that 69% as compared to 69% and profit after tax it increased by 8%. On a standalone basis if you see, standalone basis also my overall Profit after tax that is Q2 2018 versus Q2 2017 is increased by 4% and operational income increased by 19% and profit before tax it increased by 8%. So, overall good growth is there compared to previous quarter and if you see H1. consolidated H1 of 2018 versus 2017, 22% growth is in the PAT is there. Operational income increased by 25% and PBDIT that is 16% growth is there. So, profit after tax is increased by 22%. So, overall a good picture is there. So, if you want to ask me any questions then I can give you in detail about it.

**Moderator:**

Thank you. Ladies and gentlemen, we will now start the question and answer session. We will first take the question from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.

**Pritesh Chheda:**

Sir, I had attended the interaction during IPO, so just two questions and clarification on the growth part. So, when we look at the growth it is about 20% topline growth in H1 plus 20%. Just wanted to understand the base business which is our issue or charges corporation action charges and transaction charges, is this the piece which would have grown 20% or and what could have been the growth in the client verification record charges which is basically linked with the mutual fund folios and is my understanding right on this part?

**Management:**

Yes. If you see, I can give you top five operational incomes that annual issuer charges growth is 6%, transaction charges growth is 26% and comparing Q2 2018 versus Q2 2017. IPO corporate action charges growth by 68% and that KYC online data charges growth by 41%. So, overall growth is 22% only.

- Pritesh Chheda:** And this online 48% data charges this will get reflected in CDSL ventures, right? Which is our subsidiary.
- Management:** Yes, correct. CDSL ventures.
- Pritesh Chheda:** Can you give the H1 growth numbers for the same? and if you could give the absolute number also absolute amount?
- Management:** Yes, see H1 on consolidated basis if you see annual issuer charges from 25 crores to 27 crores is there.
- Pritesh Chheda:** So, what is the growth 20? Okay no problem you can give the absolute number, so 27 versus 25.
- Management:** Yes. Then transaction charges from 15 crores to 19 crores.
- Pritesh Chheda:** Okay, Rs. 19 crores versus Rs. 15 crores.
- Management:** Then IPO corporate expense charges from 8 crores to 13 crores and online data charges from 9 crores to 13 crores.
- Pritesh Chheda:** My second question is we had the new line of business in the form of GST Suvidha provider which was supposed to come up and CDSL commodity and the third is the national academic repository, these three lines of revenues. If you could give the progress, there and what kind of revenue is possible in these three lines of businesses over the next 2 years or next 3 years whatever way you want to put in.
- P. S. Reddy:** Yes, GST Suvidha provider it is still to pick up and you know whatever you are reading in the newspapers is by and large correct. So, we are not at this point in time putting any figure to that and it is still in a nebulous state. The competition is still to adjust to the new norms and new pricing structure that is there in the market and not much revenues have come through as yet, okay.
- Pritesh Chheda:** I am unaware about the pricing structure if you could update what kind of, how it is, is it like the record charges which is Rs. 2, is it per transaction how it is in ...
- P. S. Reddy:** It is per API call, the charges are per API call. So, that is the way it is and there are smaller ASPs. For an ASP it is based on the API call for a person who is filing the individual this one based on number of lines or number of invoices put into this that is the way it is being currently structured. Coming back to the GST as I said it is still in early stage to comment and we will discontinue this from CDSL. CVL has already got the license we will be shifting this operations from CDSL to CVL.
- Pritesh Chheda:** What is CVL?
- P. S. Reddy:** CDSL Venture, where the KYC and other activities are being done.

- Pritesh Chheda:** So, this Suvidha provider will be shifted there?
- P. S. Reddy:** Yes, that is right and that is the only one subsidiary. So it does not matter from the finance point of view and the second one is NAD and other thing that till 2019 MHRD has mandated neither CDSL nor NSDL can charge. It is free of cost as far as universities are concerned but verifiers are concerned we can charge them, verifiers i.e. the third parties whoever wants to verify the records unless we have a critical mass we will not be able to charge that. So, even academic institutions are signing up but then they are very slow in uploading the data. So, I just said it is about 2 years to 3 years' time it will start looking up. I would say that, we have to wait and watch. As regards to the commodity repository, we just launched, and the response has been very good very encouraging. There is only one competitor i.e. from a subsidiary of NCDEX and we are of the view that we will be able to grow better than competition that is our view, but we are not, I will not be able to put any numbers to this. But that also will take about 2 years' time, 2 years to 3 years' time.
- P. S. Reddy:** See, the NAD again is under CVL and the CCRL is a separate company anyway. From day one it has been a separate company and in the case of GST we have tied up with another vendor for a revenue sharing. So, as and when revenues come that we may incur but otherwise one or two people here and there kind of expenditure we are incurring. For NAD we have not much spending, I will not be able to disclose those numbers, currently we are not disclosing it, item wise and but it is not much. That is all I can say.
- Pritesh Chheda:** I have two more questions. One on the expense inflation side if you could tell what will be your expense inflation and second, last year we had a higher I think some higher other income because of booking of some funds, so if you could give some sense on the other income side. Because there is some utilization of cash flow, you are creating a new building complex, so if you could give some sense on other income and your expense?
- Bharat Sheth:** So, on expense front, if you see on consolidated basis for H1 my total expense from 31 crores it has increased to 37 crores that is increased by 18%. Then major cost is employee cost, if you compare that H1 2017 against these 11 crores versus 13.65 crores, increased by 27% because from 1<sup>st</sup> October 2016 we have given to the employees 20% raise across the board. It is not reflecting here that is why that is not comparable that way. Other expenses if you see all other things major expense is that is of computer and computer technology related expenses there 4.75 crores against 3.85 crores it comes to around 13% of total expenses. So, out of these total Rs. 100 I am spending 50% that is towards employee cost 37 and computer technology 13%. All other things are in line otherwise.
- Pritesh Chheda:** Other income this year versus last year how do you see? Sir, I have the numbers for H1, you had a FY17 of (+30) crores other income what it will be for FY18?
- Bharat Sheth:** See, for FY18 on consolidated basis it is 18.85 crores as against 21.58 is there, that is other income. Here reduction is due to because we have invested in the property, so around 65 crores to 70 crores for investment in property because of this less surplus was available and FMP matured during last

year have been invested with a lower interest rate. Because of that only decline is there i.e. because of the interest rate only. Otherwise on an average it is on par as such.

**P.S. Reddy:** See on a corpus of about 340 crores – 330 crores, earlier we were getting a yield of 8% to 9%. Now it is come down substantially because interest rates have substantially come down. So, obviously that will impact our revenues.

**Pritesh Chheda:** Yield has come down last from what you said? from?

**P.S. Reddy:** from 8.5 to 7.4.

**Moderator:** Thank you. We will take the next question from the line of Arpit Kapoor from IDFC Mutual Fund. Please go ahead.

**Arpit Kapoor:** Sir, on the first with the annual issuer charges we have seen some moderation in the second quarter the first half growth rate I assume is 8%, the second quarter growth rate is 6%. So, what would have driven and going forward how to, so would the growth rate be similar, 7% to 10% in the range of 6% to 10%?

**P.S. Reddy:** Yes, it should be by and large the same. This tariff is regulated by SEBI. The more the new companies come, more IPOs will come or more capital is raised by the existing companies again we will get higher income, but the tariffs, slabs are fixed by SEBI. If more and more IPOs come or the number of folios increases even for the existing companies so instead of paying based on the slab rate of the capital they pay per folio. So, again to that extent it is market driven.

**Arpit Kapoor:** We have seen decent bit if IPO charges increase. So they have been so let say there are 62% growth in 1Q and even I believe last year we have started seeing steady flow of IPOs in the second half of last year. So, then annual issuer charges this quarter should have had some higher increase as compared to what we have reported.

**P.S. Reddy:** See, the annual issuer charges have to be paid based on the 31<sup>st</sup> March folios. So, this year all the whatever is the bull run that is taking place it all depends on what kind of folios that remain as on 31<sup>st</sup> March. Then average we take it and then based on that we calculate and then charge for the next year not for this year that is the rule.

**Arpit Kapoor:** So, let's say whatever IPOs are coming this year the annual issuer charges would get reflected next year.

**P.S. Reddy:** That is right. But in IPO corporate action, it will be immediately realized.

**Arpit Kapoor:** And what would be the revenue contribution for the current quarter of course the various headlines, so let's say an annual issuer transaction IPO and online data charges if you can share that?

**P.S. Reddy:** That is on Q2 basis you want it or H1 basis you want it?

**Arpit Kapoor:** Q2 basis?

**Bharat Sheth:** Then on consolidated basis Q2 2018, 13.64 crores for annual issuer charges are there. Transaction charges 10.42 crores and telling you only major sources of income only.

**Arpit Kapoor:** Sure, IPO and online data those are the other two heads that I want.

**Bharat Sheth:** IPO of corporate expense are 8.43 crores and online data charges 6.81 crores and document storage charges 1.23 crores.

**Arpit Kapoor:** And sir on the GSTN and so do we see any revenue contribution coming in from next year or how do you see this revenue contribution coming from that part of the business?

**P.S. Reddy:** I think you can expect only from next year till then it will take time to stabilize.

**Bharat Sheth:** Yes, let it stabilize first.

**Arpit Kapoor:** And on the movement congratulations that you guys, you moved to the new building. So, for that would there be higher depreciation going forward or how do you, so will there be any changes on that account?

**Bharat Sheth:** No, if you see depreciation under the Companies Act for office premises we have to provide for useful life of 60 years. So, in my books depreciation is on 60 years of useful life and I have to provide at around 1.66% of value of the property per annum. But for income tax purpose I have to provide for 10 years useful life and 10% I have to provide. So, my taxes are less compared to previous quarter as well as previous year because of these, only for taxation purpose taking 10% depreciation. For example, 65 crores is there than 6.5 crores means half year it is 3.25 crores. So, Companies Act purpose I have to take it only 1.6, so it comes to around 35 lacs. So, my book profit is still more but taxation purpose my tax are less compared to this, this are the difference.

**Arpit Kapoor:** So the increase in depreciation in this quarter is because of that only?

**Bharat Sheth:** Yes, because of that only.

**Arpit Kapoor:** And the tax rate what will be our tax rate guidance, so it would be full taxation 30% to 31%-odd or it would be lower?

**Bharat Sheth:** Effective tax rate comes to 25%.

**Moderator:** Thank you. We will take the next question from the line of Harit Shah from Reliance Securities. Please go ahead.

**Harit Shah:** Sir, you gave the details of about your segment wise some of your major segments, do you also have data about your certain other operating metrics like for example the beneficial owner account for the quarter or the depository participants, e-voting corporate clients that kind of data which you

obviously have, you have disclosed that in your annual report. So, could you also do that on a quarterly basis so that we can at least get some better sense of how different segments are doing in terms of the way its operating metrics?

**P.S. Reddy:** We will do it, as far as the BOs are concerned we are putting up on the website at the end of the month. We supposed to be doing it anyway that is a regulatory requirement but on the e-voting we have not done that, but we can look at it. But I do not want to give out any more numbers to competition than what is needed that is important also.

**Harit Shah:** Sir, I think probably you have some very basic numbers like BO accounts, so I guess that has as you said that you any ways do it on a monthly basis. So if you can disclose along with your quarterly results I think that will be quite helpful.

**P.S. Reddy:** We will do that.

**Moderator:** Thank you. The next question is from Vetri Raju, Equity Analyst. Please go ahead.

**Vetri Raju:** I just have a follow up question on whatever we discussed till now. So, this CCRL, is it the Commodity Repository?

**P.S. Reddy:** That is a CDSL, Commodity Repository Limited, CCRL that is right.

**Vetri Raju:** Now, Mr. Reddy you said that it is a separate company, so does it mean it is an associate or and what will be our stake in that company?

**P. S. Reddy:** As of now it is 100% subsidiary. Going forward also it is going to be a subsidiary but it will not be 100% about 24% MCX and 24% BSE Investments.

**Vetri Raju:** Now, congratulations that we are actually kind of reducing the risk by moving to non-capital market kind of revenues. So, what is the long-term strategy of de-risking ourselves or reducing the concentration risk of us from the capital market this GSTN Academic Commodity Repository. So, what is our plan may be 5 years down the line may be what percentage of this all this put together will be in 100% of our revenues.

**P. S. Reddy:** It is difficult to answer rather that I can say is more and more digitalization activities we undertake in various Tiers, housing is one which is coming up. Land records somewhere suggesting but then I know we have been looking at various options, how we can help to digitalize those areas but then it is too premature to talk about those areas as well and but digitization and CDSL should be seen as a company which is providing a platform for large databases and large scale digitization, that is the way I look at it and that could be any industry not just confined to capital markets.

**Vetri Raju:** Any idea among the current initiatives in academy and or commodity repository or GST what do you think out of these 3-4 what do you think we will has a better potential?



- P. S. Reddy:** See, the way that the government looks at is that we are owned by the banks and some of the market infrastructure institutions we must be a long-term player not that we should be very quick in making the buck and then exiting when there is no money. So, they expect us to offer services at a substantially lower cost to induce people to get into these activities. At the same time offer robust infrastructure and in the long run we should be able to make money on those infrastructures that we provided. So, I will not be able to specifically say this one will do better and this particular activity will not. We expect all of them to do well and to the extent that they needed that is the industry requires our support and infrastructure we will be providing them.
- Vetri Raju:** Just one last question, in this commodity repository, what is the kind of revenue model, is it something very similar to the depository participant?
- P. S. Reddy:** That is right. It will be similar to that.
- Vetri Raju:** So, there is some revenue stream from the participant and some revenues stream from the end users, is it?
- P. S. Reddy:** That is right.
- Moderator:** Thank you. That was the last question. I now hand the conference over to the management for their closing comments.
- P. S. Reddy:** Well, we hope that we have answered everyone's question to their satisfaction and I thank everybody for participating in. Thank you so much Axis Capital as well and thank you for the service provider.
- Moderator:** Thank you. Ladies and gentlemen, on behalf of Axis Capital that concludes this conference call for today. Thank you for joining us and you may now disconnect your lines.