Central Depository Services (India) Limited

CDSL/CS/NSE/HS/2022/109 June 27, 2022

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

Symbol: CDSL
ISIN: INE736A01011

Dear Madam/ Sir,

Sub: Analyst /Investor Call /Conference Call held on June 21, 2022.

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

With reference to our intimation dated June 20, 2022 for scheduling of Analyst /Investor Call /Conference Call on June 21, 2022, please find attached the transcript of the aforesaid Analyst /Investor Call /Conference Call:

1. GIC Private Limited, Singapore.
2. Epoch Investment Partners, New York.

The above information is also available on the website of the Company: www.cdslindia.com.

This is for your information and record.

Thanking you,
Yours faithfully,

For Central Depository Services (India) Limited

NILAY RAJENDRA SHAH
Digitally signed by NILAY RAJENDRA SHAH
Date: 2022.06.27 17:58:08 +05'30'

Nilay Shah
Group Company Secretary & Head Legal

Encld: As above

"Central Depository Services (India) Limited Conference Call"

June 21, 2022

MANAGEMENT: **MR. NEHAL VORA – MD & CEO, CENTRAL DEPOSITORY SERVICES (INDIA) LIMITED**
MR. RAM KUMAR – HEAD OF BUSINESS DEVELOPMENT & OPERATIONS, CENTRAL DEPOSITORY SERVICES (INDIA)LIMITED
MR. SUNIL ALVARES – MD & CEO, CDSL VENTURES LIMITED
MR. GIRISH AMESARA – CFO, CENTRAL DEPOSITORY SERVICES (INDIA) LIMITED
MR. SWAROOP GOTHI – VP, CENTRAL DEPOSITORY SERVICES (INDIA) LIMITED
MR. NILESH KITTUR – AVP, CENTRAL DEPOSITORY SERVICES (INDIA) LIMITED
MR. ADITYA AGARWAL – PORTFOLIO MANAGER, GIC PRIVATE LIMITED

Moderator: Ladies and gentlemen good day and welcome to Central Depository Service 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 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 Kittur. Thank you and over to you sir.

Nilesh Kittur: Good morning. Welcome to CDSL conference call. Today from CDSL' management side we have Mr. Nehal Vora, MD & CEO of CDSL, Mr. Ram Kumar, who is the Head of the Business Development and Operations, Mr. Sunil Alvares,MD & CEO, CDSL Ventures Limited.

Jigar Chheda: This is Jigar Chheda here. Sir who is this?

Nilesh Kittur: This is Nilesh here.

Jigar Chheda: Aditya should just be joining, Aditya you're there already?

Aditya Agarwal: Yes, I'm here.

Jigar Chheda: Hello. Nilesh, so Nehal is also joining already?

Nilesh Kittur: Yes.

Nehal Vora: I am here, I'm joined my team. I'm Nehal here. So, hi good morning to all of you.

Jigar Chheda: Aditya anybody else also joining us or we can start?

Nehal Vora: So, Aditya can you speak up a little bit? Your voice is very faint. Yes, Aditya your voice is very faint. Can you come closer to the microphone?

Moderator: Aditya Agarwal sorry to interrupt you. But your voice is breaking. May I request you to rejoin the call.

Jigar Chheda: Probably he might be rejoining.

Moderator: Sir we have Aditya Agarwal's line reconnected.

Aditya Agarwal: Hello can you hear me?

Nehal Vora: Yes, we can hear you now clearly Aditya. So hi, Aditya, very good morning.

Aditya Agarwal: Very good morning, guys. Thank you. Thank you for taking time out and speaking to us. Jigar Chheda, can you hear me as well?

Jigar Chheda: Yes. I can hear you.

Aditya Agarwal: Hopefully, the line stays good.

Jigar Chheda: Yes, now it's fine. So, Aditya we can start right and nobody else joining.

Aditya Agarwal: Yes.

Jigar Chheda: Okay. Perfect. So, Nehal sir and Nilesh, so I will hand it over to you guys and Aditya to take it forward and Aditya will exit for now. Thank you.

Aditya Agarwal: Hi guys.

Nehal Vora: Okay. So, I have my team here. I'm Nehal Vora. I am the MD and CEO of CDSL. I'm joined by my Head of Business, Ram Kumar, Head of Finance Girish. Sunil is the Head of our Material subsidiary. He's the MD and CEO of CDSL Ventures. Nilesh and Swarup are from the finance team. That's all from our side. So, Aditya….

Aditya Agarwal: Okay. I'm the portfolio manager for the IEI portfolio. This is about a $5 billion pool of capital from GIC. We've been a longtime admirer of CDSL, frankly. I think there are lots of things that you guys are doing right. I thought it was a good time to now use the market correction to invest in companies that are rock solid, will stay around for the next 5-10 years of market leadership etc. and I thought that CDSL is a good candidate for that. So, you know we're not at all interested in the next quarter, quarter after next, next year earnings or anything like that. That's not our objective. What we are really just interested in is understanding your fundamental market position which is how do you see the underlying market evolving over a period of time? CDSL has been dramatic in gaining market share away from competition which is quite surprising given the structure of your parent, the parentage should be…almost tells a very different story. I will be very curious to know the history and how it speaks to the…..

Nehal Vora: Perfect, Aditya. I think that sets the tone. I will first give you my brief background so that you will know from where I come from. I've got about 26 years of experience in the securities market. I started my career and basically SEBI for 10 years. I was in SEBI, in 10 years I have gone through a lot of the regulatory reforms in the market, been part of that. I left SEBI in 2006 and I was with DSP Merrill Lynch for 3 years. I was heading their legal and compliance for India, went through the merger of Merrill with Bank of America and then I decided to move on. I joined the Bombay Stock Exchange, BSE which was going through a management revamp in 2009. I headed the regulation for the entire BSE and BSE Group. So, it comprises about eight subsidiaries and we made BSE, come out with an IPO. We got it listed. I was part of as a nominee on the CDSL board as a BSE nominee for about 5 years and was kind of part of the board when CDSL got listed also. It was primarily to divest the stake of BSE which was at about 54% to 24% as required under the SEBI regulations. Now currently the new SEBI regulations require BSE to divest it further to 15%. It's currently at about 20%. In terms of our current structure is about, we are the only listed depository in Asia-Pac and only the second in the world. Peru is the other one which is a small depository. We are the only meaningful depository listed in the world. In terms of our shareholding structure, we are about 60% of institutional holding comprising of banks mainly. So, BSE is at about 20%. That's the largest shareholder. It no longer is a promoter. So, it's a company without any kind of identifiable promoter. We have other banks like basically the HDFC Bank, Standard Chartered Bank. We have FPIs which has a small stake. We have the LIC and we have about 1.5 to 2 lakh shareholders comprising of non-kind of institution to about 40%. The depository regulations came in 1996 through an act of parliament. So, the depositories act got mooted in 1996 and the NSDL had got set up in '96 as a first depository. India always believes in the number of two. So having two critical institutions running critical services to create competition and India is a large country, size of basically a sub-continent. We need to be able to ensure that there is no too big to fail syndrome. CDSL got set up in about '98 but it became operational at about 2002. Interestingly the inter-depository framework got set up in 1998-99. So right from inception this was conceptualized to be interoperable amongst both the depositories. CDSL because it had a late start of about 6 years and NSDL had got a bulk of basically institutional volume and they continue to have that obviously because of you know that basically the institutions once they are in a particular place, they need a real push to be moved on to another kind of framework. But there has been a credible change which has happened in the last two years.. So, I joined CDSL as CEO in 2019 September just before COVID. I have a 5-year term that's a maximum permissible under the SEBI regulations and we revamped the entire, So today as we stand the entire ethos has been to ensure that it becomes a sustainable, system driven depository and we've invested a lot into the technology. So CDSL has been at the forefront of investing in its technology. It kind of automated the entire account opening process to the transfers, to the off-market being completely automated and the proof of the pudding is in the eating and can be seen in during the pandemic which hit us in March 2020 when everything was kind of locked down, the securities market continued. Whilst we were all working from home, the depository participants as well as CDSL continued to run seamlessly and not only run seamlessly but grow seamlessly and rather basically in by a huge amount. So, just to give you a sense it took about 15 years for CDSL to gain its first crore of demat account. The first 10 million demat accounts came in 15 years, the next 10 million came in about 5 years, the third 10 million came in a year and the next 30 million came in 1 year. Currently we are at about (+6.75) crores demat accounts, NSDL is at about 2.7 crores demat account. We have about a 70% market share right now. In terms of number of depository participants, we had about 600, depositaries. So, 588 depository participants versus NSDL having about 278 participants. There are a large number of depository participants which are exclusively on CDSL and we pride ourselves in two basic things. One is our technology is a centralized kind of an architecture. So, it's a push which kind of all the depository participants get connected to us but it's a centralized architecture. So, from a security standpoint, it's kind of the superior kind of a technology. Now competition has basically hub and spoke model which kind of a partially implemented at the DPs and partially at their end. Reforms etc. take a little longer when you have a hub and spoke model. Conceptually from an architectural standpoint, this is kind of the one of the key differences where CDSL has. Second is the cost of infra is a lot lower when it's a centralized model because there is basically the economies of scale which come into play and the DPs have to just basically plug and play whenever they have to link up with CDSL. Third is obviously been our electronic interface for the transfer of securities that has been extremely seamless and SEBI has been kind of promoted these reforms to enable people from to basically authenticate and we moved into a very interesting framework where the authentication directly happens with the depository. There is an Application Protocol Interface which connects the broker to the investor but when he has to authenticate its transfer that API is called through the back office of the broker and authenticates directly with the CDSL; the investor doesn't have to share its one-time password etc. with the broker but is directly authenticated by the system. That the system protocol handshake which happens between CDSL and the brokers back office and that kind of…. This all is extremely seamless and it happens in a fraction of a second. That kind of ensures that, that has seen a lot of growth with CDSL has seen in terms of number of demat accounts which have just mentioned. This is kind of a brief historical connect into where we are today and we continue to invest in technology to ensure that we are really, give that kind of ease of doing business at the same time put in place the right controls in place to ensure that the system grows in a proper manner. So, Aditya is there?

Aditya Agarwal: I had a basic question that it's quite interesting what you have achieved at CDSL specially starting out from a weaker starting point. In your assessment obviously you have a superior product with significant technology digital interface etc. but what allowed people to sort of choose between what is perceived as a market leader and yourself? Obviously today obviously your market share is far larger but 5 years out, 10 years out…

Nehal Vora: No, not 5 years, about 2.5 years when I joined, we were lower than that of our competition. We were at about 1.8 crores demat accounts in September of 2019.

Aditya Agarwal: Exactly, even more so. So, is that your choice of **(Inaudible)** (16.28) has helped you it's indirectly or **(Inaudible)** (16.32).

Nehal Vora: Yes, voice is still breaking Aditya. Can you join from landline or something? Do you have a landline from where you can join?

Aditya Agarwal: Hello…

Nehal Vora: Yes, Aditya voice is not coming through. Can you join from basically a landline? Because I think the voice is coming on intermittently, can't hear you clearly. So, Aditya are you joining in?

Moderator: His line has dropped. He is calling back.

Nehal Vora: Just can you check if he's planning to join in or he is not joining?

Moderator: He has not dialed in yet.

Nehal Vora: Can you call him and ask him offline?

Moderator: Sure, or shall I check with Jigar Chheda?

Nehal Vora: Yes, whoever but just get it done because if it's not happening then I would rather ease of things going on. So rather than finish that off.

Moderator: One moment. Sir I will be away from the call while I connect with them.

Nehal Vora: Sure, okay.

Moderator: Sir, Neerav here. I spoke with Aditya sir and he said that he is not able to dial in. There is some issue at his end so he spoke to Jigar Chheda and he has apologized that today's session didn't go through because of the issue that he's facing about dialing in. So, he said to reschedule and he said that Jigar Chheda will coordinate with Nilesh sir and they will reschedule this meeting.

Nehal Vora: Okay. Thanks.

"Central Depository Services (India) Limited Conference Call"

June 21, 2022

MANAGEMENT: **MR. SUNIL ALVARES – MD & CEO, CDSL VENTURES LIMITED.**
MR. GIRISH AMESARA – CFO, CDSL.
MR. SWAROOP GOTHI – VICE PRESIDENT, CDSL
MR. NILESH KITTUR – CDSL.
MR. NICK PATRICO-EPOCH INVESTMENT PARTNERS
MR. DAVID ZEINO- EPOCH INVESTMENT PARTNERS

Moderator: Ladies and gentlemen, good day and welcome to Central Depository Services (India) Limited Conference Call.

As a reminder, all participant lines will be in the talk mode. If you are traveling or in a crowded place please mute and unmute your lines by pressing '*' and '6' on your touchtone telephone. 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 Kittur. Thank you and over to you sir.

Nilesh Kittur: For today's call, CDSL Management team is represented by Mr. Sunil Alvares, who is the MD and CEO of CDSL Ventures Limited, Mr. Girish Amesara, who is the CFO of CDSL, and Mr. Swaroop Gothi who is the Vice President of Finance. Now I request, Faizaan to open the floor for discussion.

Moderator: Thank you. All the lines in talk mode.

Nick Patrico: Yes, hi, this is Nick Patrico from EPOCH, just a quick introduction, we are here with David Zeino. David Zeino is the Portfolio Manager on the Strategy that is very interested in owning CDSL as part of the portfolio. And I will let David describe the portfolio. I am an Analyst that works with him. And also, on other strategies that potentially could also own CDSL.

Just so the way of background EPOCH is a long-term equity asset manager. We invest in stocks globally. We have a relatively long-time horizon. We like stable growing, cash flow generating, high return on equity businesses like yours. I will let David introduce himself.

David Zeino: Good evening gentleman, or good afternoon. I am David Zeino, I work on a strategy that focuses on companies with --. So, as Nick mentioned, I work on strategies that focuses on businesses with high return on capital, sustainable months, sustainable barriers to entry, and I can tell on growth stories, structural growth stories, and we identified CDSL, potentially as one of those types of businesses.

So, we ought to spend today trying to better understand your business model and how you make money, how you compete with your large competitor NSDL. And we would like to understand your fee structure and your cost structure as well.

So, maybe, to begin, we can start, if you would not mind just walking us through your fee streams. We have some idea of how you make money, but we would love to hear it from you. If you could start there. Thank you.

Girish Amesara: Hi, this is Girish Amesara, CFO of CDSL. I will just run through the streams of revenue and the details of the expenditure that CDSL have. So, our income if you understand the nature of our income, our income are largely coming from companies which are admitted with CDSL, okay, the securities are admitted with CDSL as a depository. So, from that we receive annual issuer charges.

Second main stream of revenue is the transaction charges that are charged by CDSL as a depository to the debit transaction that happens in the Demat account.

Third line of our income is the KYC charges that our wholly-owned subsidiary, CDSL Venture Limited earns.

And fourth largest revenue stream is the IPO & Corporate Action charges.

And apart from that, we have something called CAS Statement charges, basically the holding statement that we are supposed to send to the investor. Those are the charges that we receive from the depository participants of CDSL.

In addition to above we have e-Voting charges that we earn on conducting eAGMs, sending reminders to the shareholders and related income.

All these income stream covers almost 90% of our total operating revenue. Apart from that, there are other income which are basically ancillary, related to the services that CDSL offers as a part of overall depository business. So, this covers majority of our income stream.

And in terms of expenditure, our expenses are largely incurred on employee costs, technological costs, costs that are mandated by our regulator, that is SEBI (Security Exchange Board of India Limited). And apart from that, there are routine business related expenditure incurred for carrying out the business smoothly. So, this covers the flare of overall income and expenditure.

David Zeino: So, if I may, maybe before we kind of move on to broader topics, just on the revenue side. We would like to understand a little bit better, who is paying the corresponding fees for the annual issuer charges for example, that is --?

Girish Amesara: So, I will touch upon that also. The annual issuer charges is the main source of revenue which is billed to the companies whose securities are admitted with CDSL. So, basically, the companies who issues equity shares or any security instrument, then it is mandated to admit their securities with the depository. So, company which are listed are charged the annual issuer charges. Sometime in 2018the Ministry of Corporate Affairs had stipulated that unlisted company, who wants to do a Corporate Action, are also required to be admitted with any depository of their choice. The unlisted company has a option to list their company either with CDSL or NSDL and hence the Company has a option to admit the security with any one of them. Corporate Action is an activity when the company wants to issue further share, or they want to split or they want to basically do any changes in the share capital. So, these charges are for the Company

David Zeino: Sorry to interrupt, but is this exclusive? Let's say, ICICI issues stock initially as an IPO, do they only register on one of the depositories? And do they stay there for as long as they have to or and maybe split the IPO versus kind of the ongoing charges, what is the process?

Girish Amesara: So, all listed companies have to mandatorily admit their securities with both the depositories, CDSL as well as NSDL. So, in case of listed entity, they don't have a choice, they have to admit their security with both the depository. In case of unlisted company which is a smaller portion, they have a choice to admit the security with any one of them, whenever they want to do any corporate action with respect to their securities. So, that is starking difference between this two category of companies. However, the listed company contribution is much larger.

The second most income that I said was transaction charges. These transaction charges are billed to the depository participants. Those are registered with the depository. Now CDSL has around 600 depository participants. And whenever there is an debit transaction in the Beneficial Owner account registered with such depository participants the transaction charge is levied.

David Zeino: Right.

Girish Amesara: Beneficial owner. Whenever there is a debit, there is a charge raised by CDSL on the depository participant. So, depository participants makes payments to CDSL for the invoice.

David Zeino: And when they debit that means when they purchase a stock.

Girish Amesara: When they sell or anyone who is selling is supposed to me make payment for transaction charges. Anyone who purchases, is not levied the transaction charge. And the investor who sells the security, on that particular quantity the transaction charge is levied.

Sunil Alvares: In short, we do not levy any charge on credit of securities into the Demat account. But charges are levied for every debit which takes place in the Demat account.

David Zeino: Okay. And then the IPOs those are, I guess, you have the issuer, to your point has to register with both depositories. So, they would pay both depositories upfront.

Sunil Alvares: Yes. That would be the number of allottees which are available in each of the depositories. So, if in one depository has a large number of allottees, the issuer would have to pay a larger amount to that depository.

David Zeino: I am sorry pays a larger amount to where?

Sunil Alvares: To the depository which has the larger number of allottees. So, if the actual number of allottees are large in say depository then whatever is the base charge applied by the number of allottees has to be paid to that particular depository.

David Zeino: And just to understand, you are a depository, so, you are essentially the equivalent of what we call a custodian here, you retain the asset, the securities in street name the way it is here in the U.S., is that fair?

Sunil Alvares: Yes, in India, we follow a BO level accounting. So, what really happens is the certificates are collected by the participant and sent to the company, and the company subsequently cancels the physical certificate. Thereafter an electronic credit is given into the investor’s account. So, for all practical purposes, this database is maintained by us. Unlike U.S., which follows storage of the physical certificates and gives a credit, we equivalent do not follow that process. That is, we follow the Demat process or Dematerialization process, where we cancel the certificate and give a credit into the investor’s demat account.

David Zeino: And to the extent that there are securities lending, do you authorize that in any way? Or is it up to the brokerage company that's a participant we deal and you don't really have much of a participation in that transaction?

Sunil Alvares: Actually, there are intermediaries who do security lending and borrowing. We only provide platformto do that.

David Zeino: Okay. And then just so just moving on then the KYC, that is a separate charge from the annual issuer charges, and it says that it's paid by the agency, but I am not very clear who that agency is, and how that transaction work?

Sunil Alvares: So, we are a KYC Registration Agency, which is registered with the SEBI, our regulator. We were the first and the largest KYC regulation agency. And basically, the way it works is for every KYC, which is created in the system, we charge an amount of Rs. 20 to the intermediary. And for every KYC which is created in the system and fetched by another intermediary, we charge the amount of Rs. 35 to that intermediary.

David Zeino: Well, that's great, that's very helpful. Now, obviously, over the last many couple of years, there has been significant increase in participation by retail investors, and you have benefited. I mean, it's been around the world, but certainly true for India. And you have been one of the major beneficiaries if not the beneficiary of it. Can you talk about that trend, obviously, the last quarter things slowed down a little bit, actually went negative quarter-over-quarter, which makes all the sense in the world. But how do we think about the trend. And to the extent that you have had significant amount of IPOs, going along with increased transactions and increased participation, how much of the increase in revenue that you have gotten overtime you think, is sustainable, because all these companies like I guess, the IPOs companies, they will have to continue to pay the annual issuer charges. I would imagine the transactional charges will slow down somehow, somewhat, and then the IPOs probably as well, although we had the insurance company, the Life Insurance Company, I don't know if it's come through yet, or anything. But if you can talk about revenue trends, that will be very good.

Girish Amesara: See you could really break up our business model into two, one is market driven income and one is a non-market driven income. So, typically, market driven income depends on transaction income, CA/IPO Corporate Action chargesand KYC income, , because all three are dependent on the market. So, if we are in a bull market, you will see more transactions happening. If there is a bear market, obviously, there will be less number of transactions happening. So, that is really depends on how the market moves.

Whereas the non-market driven income, consists of issuer charges, CAS statements and e-Voting charges. So, I would say this is in a way you could break up the charges, what we levy. And I hope I answered your question.

David Zeino: Yes. And I guess the reasonable thing to do would be just to take the annual issuer charges, data charges and other revenues and kind of extrapolate forward because these are, the companies that are listed so they, these are very defendable kind of lines of revenue. And then we have to take a view on the rest, I guess the IPO and transactions, is that --

Girish Amesara: In a way, the non-market driven income becomes a fixed income sort of thing, whereas the market driven becomes the variable income.

David Zeino: Right. So, but then in terms of the transaction charges, maybe a broader question, I mean, we looked at the penetration, the brokers that cover, you talk about the penetration within the retail space, and they are showing how the participation doubled from like about 3% into 6%. And you could compare that to more developed markets that number is much bigger, but then if you compare it to China or other kind of more emerging markets, 6% is not too low.

Do you have a view as to what that would look like? And do you have a view as to whether, as the market becomes more volatile, maybe that participation goes back down to like 3%. And a lot of people kind of get burned from the volatility and kind of pull back from speculation?

Sunil Alvares: We really can't make statements on what the markets are going to look like. But to give you a perspective is that we have, the number of Demat accounts opened is approximately 6% of the target population. So, we have just about scratched the surface, and there could be a huge potential in terms of Demat accounts going forward.

David Zeino: When you say that, what do you base that on? Why do you think that 6% could be too low over time? Do you compare yourselves to other countries or are just basically within India, why is that a fair statement?

Sunil Alvares: It is a fair statement in the sense considering the target population and the number of Demat accounts have actually opened which is about 6%. We are not even taking into consideration the number of multiple accounts which have been opened because the Depositories Act allows an investor to open multiple accounts as well.

David Zeino: So, within that 6% --

Sunil Alvares: See the demographic population of India, many residents are in the 20 plus age group. So, as per the last trend in account opening, we have seen many of these Gen Z have been actually opening demat accounts.

David Zeino: Now, in terms of competition, it is the two depository institutions in India, what is the likelihood that there could be others in the future? Why is this model of having two, sustainable overtime?

Sunil Alvares: See all along in India we have believed in the power of two, so, we had two exchanges and two depositories. India is a very vast country and it helps to reach out to the furthermost corner of the country with the Depository, Demat and Broking services. Point number two, it creates a sense of competition, which really helps the intermediary as well as the investor to get the best possible services at the lowest possible cost.

David Zeino: So, you are regulated, can you talk about who oversees what institutions oversee and which charges are all of your charges subject to regulatory approval? And given that you are more or less on oligopoly to company monopoly, what is the kind of driving factor as to what you can charge? And do you have pricing power, I guess is kind of better way of asking that?

Sunil Alvares: Our charges are highly regulated, in case we want to make any changes in our charges, we have to approach the regulator and the regulator needs to approve those charges.

David Zeino: And how has that worked historically, have been increasing or declining? Have there been different market conditions under which you had to adjust prices one way or the other?

Sunil Alvares: So, far as transaction charges are concerned, we have been on the same since 2004. And so far as the issuer charge is concerned, every five years we have got it revised from the regulator. We have approached the regulator and have revised the charges. But during the last two years because of COVID, we have not approached the regulator as yet.

David Zeino: Maybe moving on to the cost side. You have experienced tremendous growth over the last couple of years on the revenue side. And your margins expanded, but not nearly as much so that means that your cost has grown. Can you talk about the breakdown, I understand that it's people's as you said earlier, it's people cost and it's also IT, can you break it down between the two, and talk about why the increasing cost was almost as big as revenue, not quite but almost?

Girish Amesara: So, in terms of technology cost structure, as I had already explained cost generally increased by roughly by 10%. And see basically we do a lot of things using technology, almost everything is technology-based solutions. So, technology cost is something that would increase in terms of growth that we do in business. And apart from that there are certain costs which are mandated by regulation. For example, we have to contribute 5% of our operating profits to Investor

Protection Fund. So, higher the profits higher will be this contribution that we will be required to made towards this fund.

Apart from that there are collection based charges which we have to pay to SEBI, and also to pay as an incentive to our depository participants. So, these are all regulatory charges which keep on increasing based on the operating profit that we see an increase in it. So, it is directly proportionate to our increase in the profits.

David Zeino: Can you talk about the incentive charges that you mentioned, to the participants?

Girish Amesara: , , Our regulator SEBI, has mandated that we have to pay 20% of our incremental issuer income that we earn, to be paid to the depository participants, based on a predefined formula provided by SEBI. So, the tariff rate of 2015 and the current tarriff rate i.e. prevailing rate is compared and whatever is incremental revenue that we generate, 20% has to be paid as an incentive.

David Zeino: So, you are sharing the revenue with the participants which incentivize them. Again, is that true for -- this is also true for NSDL --?

Girish Amesara: It is applicable to both. In fact, all these regulatory costs are applicable to both the depositories.

David Zeino: So, if your margin is just north of 60%, 20% of that cost, is really the revenue sharing and the other 20% or so, is the actual cost that you incur, is that fair?

Girish Amesara: Yes.

David Zeino: Okay. And so, if you can talk about, so, I understand the 20% and the 5% for the fund, the rest, how is your IT spent needs from here, are they also proportionate to the revenue or is it that you have to continuously invest in technology and if transactions were to slow down, can you slow down that part of the spend or that has to be constantly going up?

Girish Amesara: So, with respect to the technology, we have to build technology, which is sustainable, and we have to incur the expense on technology irrespective of whether we earn that kind of income or not, because this is expected by our regulator, that our technology should be up and running without any kind of stoppage in the services. So, we have to keep on investing into technologies, to have best-in-class technology. So, technology cost, as I said, we have to incur it, whether we, there are higher profits, it would be a good to incur. But in case of bear market, we still have to incur the technological costs.

David Zeino: So, that would suggest that your margin can shrink significantly if 10% or so of your cost being technology, I mean of revenue, I guess, what will be the breakdown between people cost in technology, what is the breakdown, like what percent of revenue and you are saying that that's going to be stable and/or growing, so the margin would actually shrink in a bear market.

Girish Amesara: So, if you follow what Sunil had initially told about market driven income and non-market driven income. Our endeavor is to ensure that our non-market driven income covers our operational expenses. So, that we are able to achieve that year-on-year basis till now, so if there is bear pressure on transaction level income, to that extent, it will impact our margins. But our non-market driven income will cover our expenditure. And that we have witnessed, till now we have witnessed.

David Zeino: That's very helpful, thank you. Now in terms of you have been listed for only a short period of time and we don't have access to your longer-term financials. But what would the market, what would your margin look like, if you look back in a prior bear market, and then I am not sure when I mean obviously, the biggest one was in '09, but after that there were certainly a lot of volatility so the market draws down 10% to 20%, what happens to margins?

Girish Amesara: So, if you look at initially, when we started the business, we were not making much money. If you look at our old earlier period's profit and loss account. And just to inform you, our annual reports are there on our website, if you can look at it, prior to our listing also, they are there on our website. So, if you look at those earlier period annual reports and financial statements, you will realize that initially, we were not making that kind of money. But over a period of time, once we geared the operation, I think the margin that we have, been maintained to a sustainable basis. But I will request you to have a look at it on our website.

David Zeino: Okay, I will, but if you don't mind, just clarifying a little bit. So, your margin profit was about 59%, I think, based on what I see, in 2017, it shrunk to 47% in '20. Now, when you are saying earlier periods, like how far back and what is different now? Is it just purely that the market revenue, was back then when you were not making money, was it also the case that your sustainable revenue, the fixed income revenue that you said covered your fixed cost, but then there were not a lot of transactions, is that why you are not making money or if you can just qualify it out a little bit, it will be helpful.

Girish Amesara: So, if you particularly look at 2020, i.e. March 2020 results, there were extraordinary items reported as an expense part. We had an statutory payment of roughly around Rs. 10 crore to be made to the statutory authorities, which was a fee on account of Service Tax, okay, which was pertaining to the year 2006/2007 to 2009/2010 onwards. There were certain litigation pending with respect to the government authority. So, that got crystallized and we had to pay it in that year. Apart from that we had also paid earlier period CSR expenditure, which was roughly around Rs. 5 crores. So, if you remove this, you will find that the margins were not under pressure. This extraordinary and/or exceptional items had put pressure on margin in that particular year.

David Zeino: But when you said that you were not making a lot of money in prior periods --

Girish Amesara: So, when the company was incorporated, I am talking about those years.

David Zeino: Okay. Because initially you didn't have obviously scale or anything and I forget what you were incorporated in which year? No, in '99, okay so that's 22 years ago. What about during the financial crisis like '08/'09 when volatility was very big, what was your, when did you start making like higher margins --?

Girish Amesara: Well, I am sorry,. During those periods I was not associated with CDSL, I need to go back and look at those numbers and find out on your question.

David Zeino: Okay. But your point is, I guess going forward that we should think about your operating cost being covered by, you will make your effort to cover your operating costs with the fixed revenue and then --

Girish Amesara: Yes.

David Zeino: So, anyways, my question as a management team would you be comfortable with having a very volatile margin given that you would be breaking even if there is not a lot of transactions or doing great when there are lots of transactions, I would imagine it would be very volatile margin.

Girish Amesara: We already explained that, in case of volatile market or in case of bear market, the transaction charge is going to be impacted. That, I guess, we will not be able to do anything about it.

David Zeino: So, in terms of the, your compensation incentives, what do you compensated on? Are there certain profitability or growth or other factors that impact your compensation?

Girish Amesara: So, generally, our compensation is, it's breaked up into fixed and variable portion. Apart from that, SEBI doesn't allow us to give ESOPs, these are restricted with respect to depository or market infrastructure institution in India. So, that is ruled out. What our compensation policy provides is that we have to consider, while considering the compensation of all the employees, various factor which are again pre-decided by the regulator. So, if you have a chance to look at SEBI, Depository Participant Regulation, it provides for, the criteria that depository has to take into consideration while framing the compensation policy for employees. So, basically we are tightly governed by the regulator with respect to revenue and also on the compensation that we have to pay.

Again, the compensation of senior management, the Management team, the variable pay has to be, deferred and paid after three years. So, 50% of the variable pay which is declared for senior management is paid in the year in which it is declared and 50% is held back by the company, and it is paid after expiry of three years. And this is subject to Malus and Clawback Provisions. So, SEBI is tightly monitoring this portion as well. I hope I have answered your question.

David Zeino: Yes you did, but the point is that you don't necessarily target any margins or return on equity or payout just because it's so volatile that it probably is difficult to link your performance to that, is that a fair statement?

Girish Amesara: So, just to give another scenario with respect to the regulatory requirements. We are supposed required to do certain regulatory functions. Now those regulatory team has to be deployed by the depository, irrespective of whether you are making money or not. So, that cost would always be there.

David Zeino: Just quickly on that extra ordinary charge in 2020 that was related to prior years. What was the reason behind it? I mean, what have you done to prevent that from happening again?

Girish Amesara: This was pertaining to, I think for financial year 2006 to 2010/2011, when Government of India had introduced a new tax regime for the services that companies offer, the taxpayers offer, it is called Service Tax Regime. So, at that point in time, certain positions were taken based on directives and circular issued by the Government of India, which were challenged by tax authority. And ultimately that liability had crystallized, and we were required to make payment.

Now the good part of it was that there was an Amnesty Scheme, which had came in 2020, in financial year '19/'20, whereby we managed to pay I think, less than one-fifth of what could have been the liability, if we had counter challenged. So, that scheme provided for paying the much amount and get the cases closed. So, that keeps on happening in India, with respect to a legal position that someone takes. And the Board took that decision that we should close this old matters and go ahead and make the payment as per the amount decided by tax authorities.

David Zeino: So, it was your tax liability for the company, it wasn't related to any custodian account or anything like --

Girish Amesara: No, that was company's tax liability.

David Zeino: Your company?

Girish Amesara: Yes.

David Zeino: And just may broadly in terms of your decision to list the company on the public market. There are very few custodians, I guess, out that are pure custodians that are listed. So, for us that as investors that's a great proposition but what was the reason why you listed it? Why would you like to have public shareholders?

Girish Amesara: Sorry, I could not get your question. Can you repeat it please --?

David Zeino: Yes, CDSL became a public company in 2017. You listed it, right. What was the reason behind it?

Girish Amesara: Basically, you know our parent company, which was BSE Limited at that point in time. SEBI had come out with a regulation that stock exchange can invest up to a specific limit. CDSL was a subsidiary of BSE Limited at that point in time and BSE was holding roughly around 52%, shareholding of CDSL. And SEBI had come out with a regulation whereby this shareholding had to be reduced to 26%. And based on the discussion held at that point in time, it was decided that this divestment shall be done through an OFS route. And that's how, and at that point in time the management of CDSL also had intention to do the listing, in line with BSE, the holding company had done the listing. So, basically, this was the main reason that I guess --

David Zeino: Do you know if BSE wants to continue to hold 20% or do they want to exit?

Girish Amesara: So, there is a regulatory mandate once again which will get triggered in next year, I guess sometime around October '23, by October '23 they have to reduce their holding up to 15%. So, I guess BSE will decide as to how they want to do it.

David Zeino: Just very briefly, I think we have another five minutes or so. On the competition with NSDL, how is that done, I mean, I would imagine you really don't have to compete, but then on the other side, you like to have more individual accounts so you were very good at that. So, what is the competitive dynamics between the two and how do you compete?

Sunil Alvares: Can you come again; I didn't get this question.

David Zeino: So, how do you compete with the other depository? How do you get participants to list with you rather than with them? What is the proposition like how are you able to get people to come to you versus NSDL?

Sunil Alvares: There is a lot of marketing efforts which goes behind the scenes. So, we approach intermediaries well in time. And there is a lot of hand holding we do for them to make their application as a depository participant and thereafter once they become a depository participant, there is a lot of hand holding and helping them to start their operations. So, what happened for us over the last couple of years is that many e Fintechs have registered as a participant only of CDSL, and in the last couple of years, bulk of the demat accounts have been opened by these Fintechs.

David Zeino: And as a Management team I understand that your compensation is, as you described it but do you benefit from taking market share? Do you do you benefit from growing the company fast? Like what is the incentive for you to drive that?

Girish Amesara: See basically, as an employee, senior management employee, we try to achieve whatever best we can do, as far as our functional area is concerned. And compensation is, there are certain rules, which are very strictly defined in the SEBI D&P Regulations. If you go through you will find out. So, you cannot directly link the financial incentive with the work that we carry on as a senior management team, that is the fundamental I wanted to highlight to you.

Sunil Alvares: In a way, the way it works is whatever is the variable pay paid to all the is paid to the senior Management team as well.

David Zeino: So, it gives you some incentive to compete and get the Fintechs and accounts listed on your exchange versus NSDL.

Sunil Alvares: Yes, in a way you could say that, yes.

David Zeino: My last question would be, on the dividend, what is the policy there? Do you pay 50% of price profits and how important is that for shareholders and for you to be able to sustain that?

Girish Amesara: Our dividend policy is to make pay out of 60% of profit that we make, is paid off as a dividend to the shareholder. And that we will continue to do. I think in past three years also, we have continued to do that, earlier also we used to do it, earlier, some portion was taken out as a dividend distribution tax. Now, it is not there in India. So, it has been merged into the value of the dividend. And that's what I can say that we will continue to pay 60% of our net profits.

David Zeino: Do you know if you have a lot of non-Indian shareholders, foreign institutions like ours?

Girish Amesara: Yes.

David Zeino: Do you know roughly what the split what percentage it is?

Girish Amesara: So, there is a requirement under the listing regulation that we have to publish our shareholding pattern, and submit it to the stock exchange on a quarterly basis. So, these details are available in public domain.

David Zeino: Well, thank you. I appreciate your time. Do you travel? Do you come to New York at all?

Girish Amesara: No, we don't, yet.

David Zeino: Okay. Well, hope to speak with you in the future, appreciate your time.

Girish Amesara: Yes, sure. Thank you.

David Zeino: Thank you.

Moderator: Thank you. Ladies and gentlemen 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.