



Central Depository Services (India) Limited

CDSL/CS/NSE/PSB/2021/273

December 27, 2021

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

Symbol: CDSL
ISIN: INE736A01011

Dear Madam/ Sir,

Sub: Analyst /Investor Call /Conference Call held on December 22, 2021

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

This is with reference to our intimation dated December 20, 2021 regarding the Conference call scheduled on December 22, 2021 with Manulife Investment Management, Canada, please find attached the transcript of the aforesaid conference call.

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

This is for your information and record.

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

Nilay Shah
Group Company Secretary & Head Legal

Enclosures: As above

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“Central Depository Services (India) Limited Conference Call with Manulife Investments”

December 22, 2021



SPEAKERS:

**MR. GIRISH AMESARA – CHIEF FINANCIAL OFFICER,
CENTRAL DEPOSITORY SERVICES (INDIA) LIMITED**

**MR. RAMKUMAR – HEAD, OPERATIONS & BUSINESS
DEVELOPMENT, CENTRAL DEPOSITORY SERVICES (INDIA)
LIMITED**

**MR. SUNIL ALVARES – MANAGING DIRECTOR & CHIEF
EXECUTIVE OFFICER – CDSL VENTURES LIMITED**

**MR. NILESH KITTUR – AVP, CENTRAL DEPOSITORY
SERVICES (INDIA) LIMITED**

MS. SARAH YOSHIDA – MANULIFE INVESTMENTS

**MR. PRAKASH CHAUDHARI – MANULIFE
INVESTMENTS**

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

As a reminder, all participants' lines will be in the talk mode, if you are travelling or in a crowded place please mute or unmute your lines by pressing '*' and '6' on your touchtone phone. We also request the participants not to place the call on hold during the conference call. Should you need assistance during the conference call please signal an operator by pressing '*' and '0' on a touchstone phone. I now hand the conference over to Mr. Nilesh Kittur. Thank you. And over to you, sir.

Nilesh Kittur: Thank you. Welcome to CDSL Conference Call. From CDSL management team., we have Mr. Girish Amesara, CFO of CDSL, Mr. Sunil Alvares, MD & CEO of CDSL Ventures Limited, and Mr. Ramkumar s Head of Business Development and Operations. I now request, Nirav to open the floor for discussion

Moderator: Thank you very much. And I open the lines for questions.

Sarah Yoshida: Hi, this is Sarah from Manulife Investments and I have on the line with me Prakash Chaudhari. So, he's the Portfolio Manager on our team. And maybe just to give you some background on us, we are based in Toronto, we manage about \$27 billion of North American and global equities. And we look to invest in businesses for the long term. So, that's just some background on us. And we are just looking to get some more confidence in the growth profile of the business and then get a better understanding of the regulatory environment is kind of the main objectives that we have.

So, I had some specific questions prepared, but maybe I will ask you, what's, is there a specific way that you would prefer to go through this call? Or can I start with questions.

Sunil Alvares: So, you can go ahead with your question, we can start this discussion.

Sarah Yoshida: Okay, so one of the questions that we have is that we understand that there are two depositories in India so being NSDL and then and then yourselves the

CDSL. And from our understanding the NSDL is linked to NSE and CDSL linked to the BSE, the Bombay Stock Exchange. So, maybe it just to help us with just an understanding, can you give us maybe the background on the regulatory environment, because from our understanding, there are portions of your business and price structure that is regulated. So, just trying to understand just kind of the competitive landscape and industry structure between those two entities?

Girish Amesara: So, just to reiterate, CDSL was promoted by BSE and other investors and now CDSL is the only listed company in Asia Pacific region. And all the shareholders are public shareholders. And BSE holds around 20% in CDSL and the competition that is NSDL was promoted by NSE and that's where it remains.

Girish Amesara: And you were asking on the pricing. So, our income is largely contributed by transaction charges, IPO corporate action, annual issuer charges income, online data charges with respect to our subsidiary and other miscellaneous income. Now, annual issuer charge income is a regulated income, but the charges that we levy to our customer who are the listed companies, who are admitted with both the depositories are regulated by SEBI. And the charge structure is based on the share capital that is admitted with depository as on 31st of March, based on every 31st March based on that share capital. The invoicing is done in the month of April.

And the structure is based on the capital structure, starting from minimum fee of Rs. 5000 for unlisted company and Rs. 9000 for listed companies up to Rs. 75,000 charge which is the maximum charge that is levied based on the capital structure. Apart from that on the average folio holding during the previous year, at a rate for portfolio Rs. 11 rupees is also calculated. And the levy on the company is made by comparison of the structure based charge and the folio based charge whichever is higher is levied on the company. And that is annual issuer charges thereafter transaction charges based on --

Sarah Yoshida: Sorry, maybe, can I just ask a quick question on the annual issuer charge. So, from our understanding, that charge per folio so, that Rs. 11 that actually increased back in I believe it was 2009. But can you just give us a better

understanding of why the regulator raised prices and if you have any visibility on I guess price increases for this part of your business.

Girish Amesara: So, the last charge increase effected by the regulator was in 2015. Prior to that the charge increase was done in 2010. So, as a practice every five year, the regulator has been allowing the increase in the annual issuer charges. In 2020 the same was due for increasing the charge, however, considering the pandemic situation, we have not yet decided to go to the regulator seeking increase in charge.

Basically, this activity is a joint activity between both the depositories. So, both the depositories has to make a representation to SEBI which is our regulator and based on the representation SEBI may consider revision, based on the discussion that they have with the depositories. So, considering this pandemic situation, we have not yet gone to SEBI. And that's the situation as of now.

Sarah Yoshida: Okay. And I guess that would be, when you are raising prices, it would be all the companies that would need to list, that would be charged to them. So, maybe as well, one of the questions we had was if your company, and if you are listed and you need to be dematerialized. How do these companies choose between using NSDL versus CDSL? And how do they make that decision -- capital or initially go public? Do they need to list with both stock exchanges - -?

Ramkumar: A listed company as per the present regulations has to admit the securities with both the depositories. So, a listed company doesn't have a choice of one over the other.

Sarah Yoshida: Okay. And then I guess how if companies need to raise additional capital, how do they choose between NSDL and CDSL?

Ramkumar: The same logic applies ma'am, when they want to do additional capital, increase capital it could be by the preferential allotment or it could be rights or it could be a bonus. So, all these are all going to the demat account holders only, to that extent, they have to admit with both depositories.

, since the existing shares are listed by definition the additional capital and hence the shares covered by the additional capital also need to be listed. So, we go back to the earlier regulation point which says that every listed company should be admissible with both the depositories.

There is also a regulation which says that all allotments will be made only in the demat form. So, to that extent, a person who is coming out with a new issue, a person means a company, coming out with new issue or is coming out with the preferential allotment or rights will necessarily be giving allotment only in the demat form in either of the depositories.

Sarah Yoshida:

Okay, that that helps. And then I guess just my last question, then on the annual issuer charges, can you help us quantify. So, we have read, a number of data points around how many companies still need to Dematerialize versus how many companies exist in India. Can you just help us understand what the opportunity is going forward for how many companies still need to go through this process? And if we are thinking 10 years out, how does the growth profile for this annual issuer charges piece of the business change?

Ramkumar:

Ma'am we don't forecast into the future in terms of saying how much we will be able to bill or how much we will be able to receive .

presently every listed company is admitted with both the depositories. So, to take the discussions further any company that gets listed henceforth will need to necessarily be admitted with both the depositories. So, shares of all these IPOs that you would be aware of that comes or hits the market would need to be admitted with both the depositories.

, is that, presently any unlisted company, unlisted company means the ones which is not listed in the stock exchanges, need to get their share Dematerialized as and when there is a transfer or fresh allotment to be done by that unlisted company. This is what the regulations are. There are very few unlisted companies which go for additional capital or capital infusion or they get any transfers because they are a closely held companies. So, that probably answers your question ma'am.

Sarah Yoshida: Okay. So, there are very few unlisted companies and any company that wants to raise capital, we have to go through those --.

Ramkumar: No, ma'am there are more than a lakh i.e. Hundred Thousand of unlisted companies, but the companies which would go in for additional capital, or the companies, which would go in for transfers, because some investor within the company requested for transfer would be very small ma'am.

Sarah Yoshida: Okay.

Ramkumar: One lac is 100,000 It is about 110,000 in terms of number of unlisted companies.

Prakash Chaudhari: Just to clarify so, because our understanding was that there was going to be a large number of companies that need to Dematerialize of that 100,000 companies that are still private. Are you saying there are not many more companies that need to Dematerialize --

Ramkumar: No, I would like to correct this understanding what I mentioned is there are 110,000 odd unlisted companies. But the trigger point for the unlisted companies to admit the securities in the depository would be either that company is going for fresh capital or capital infusion, as we call it or the shareholders going for transfer, only then the company needs to admit. So, unlisted company, although there are 110,000 companies, very few of them would be in a situation where for infusion of capital or the shareholders within the company would like to do a transfer. I hope this clarifies.--

Prakash Chaudhari: Sorry, it's just that last point that you mentioned, that's confusing us. I think, is when you say there was very few --

Ramkumar: That is what, see the unlisted companies, if the unlisted company is adequately capitalized, they will not fall in the bracket of having to compulsorily demat the security.

Prakash Chaudhari: Right, but it's difficult to ascertain of those 110,000, how many may need to raise capital, is that correct?

Ramkumar: Correct, that is perfect, your understanding is right.

Prakash Chaudhari: And I just have one more question before I pass it back to my colleague, Sarah. when you talked about the annual issuer income, you mentioned that companies must admit with both CDSL and NSDL. But my question is, does that mean the revenue that is generated by CDSL and NSDL for annual issuer income is exactly the same for both companies, because every company that has Dematerialized must pay a regulated amount to both companies is that correct?

Ramkumar: It is partially right. Slab wise if you see the rates are exactly same in NSDL and CDSL but there is also a rider on number of folios, as Madam mentioned some time back Rs. 11 per folio. If the number of folios is more multiplied by 11 is more than the slab rate than that depository stands to get more income. So, to that extent the income is derived from the number of folios held by the depositor. Folios means, demat accounts.

Prakash Chaudhari: And folios correlate with the number of individual and clients that own securities, is that correct?

Ramkumar: Perfect.

Sarah Yoshida: I think that's clear. So, I have maybe just one last piece on that. So, when you say it's determined by the number of folios, I guess maybe a different way to ask would be why would there be a different number of folios at the different depositories?

Sunil Alvares: The way it works ma'am is that, the investor opens the account through a depository participant of the depository. So, when he opens the account, okay, he is agnostic whether he is opening it in CDSL or NSDL. So, there is a possibility that there are more number of shareholder accounts of a particular company in CDSL as compared to NSDL. So, in that case, the annual issuer fee on CDSL would be higher. It's not necessary that the investor has to open both accounts, the investor can open an account either with the CDSL depository or with an NSDL depository.

So, if I have, say about 10,000 investors in a particular company, say 7000 would have opened in CDSL then if I take 7000 and multiply by 11, obviously, the income on CDSL would be higher. So, that's how it works.

Sarah Yoshida: So, it depends on the number of accounts, and it's the actual company that pays
—

Sunil Alvares: So, effectively, there are two ways we bill the customers, one is based on the issued capital or paid up capital and secondly is on the number of folios, whichever is higher.

Sarah Yoshida: So, I think that was it on the, maybe if we can, I think I cut you off before when we were starting to talk about the transaction income. And maybe if we could
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Prakash Chaudhari: I have got one more question on the annual issuer income before we go to this transaction. I just was thinking back to when you talked about increasing prices, you mentioned that both --. I want to clarify this, do both NSDL and CDSL have to cooperate and both agree to propose to SEBI to request an increase in price? And do both CDSL and NSDL have to come to an agreement on how much that price increase would be before getting a price increase? What I am trying to understand is if you wanted an increase, but NSDL did not would that prevent any price increase? And then attached to that question or related to that question is what are the incentives that NSDL has increased prices? And what are your incentives in the sense that is management compensated these are variable compensation to management at CDSL to grow profits and maybe you can elaborate on that.

Sunil Alvares: See so far as both the depositories are concerned there is an incentive in the sense it adds both to the top-line and to the bottom line whenever there is an increase in the pricing, okay. So, far as whether we could go it alone, it would be difficult in the sense because these are guidelines issued by the regulator so far as the charges are concerned. So, once the regulator issues directive for increasing the annual issuer charges, then it becomes applicable for both depositories.

#3 The question which you asked is whether CDSL can go ahead and NSDL may not join in, if that happens, then maybe the regulator might not agree to increase the charges. So, basically, there are a lot of factors which the regulator also decides whether there is any justification in increasing the charges,. So, earlier it has happened every five years, but that is not to say that it will happen every five years, it is just a coincidence that earlier it happened every five years.

#4 is there a variable income component of the income for the management, so yes, there is some I think maybe my CFO will be able to throw more light on that.

Girish Amesara: So, in case of, if you are asking a question for on variable component in employee costs, there is yes there is a percentage of variable component which is decided by the Nomination and Remuneration Committee and the Board of Directors for Employees.

Sarah Yoshida: I was just, I think you were going to speak on the transaction income. So, next just as it relates to the regulated portion and from my understanding, this is the charge that this is the DP, the Depository Participant pays this charge, and it's based on trading activity that's directed by the end client, but maybe if you can just start just on what that business is exactly. And then if you want to touch on it from a regulatory perspective, because I do believe I said the price that the price per trade is going down. So, if you can just provide some color on that?

Girish Amesara: So, that's the transaction charges are levied on depository participants by the depositories. And the transaction charges is levied on debit happening in the DEMAT account. The rate of transaction charges, for CDSL it is starting from Rs. 5.50 per transaction and it goes down till Rs. 4.25 paisa based on the volume generated by the depository participant. And the competition charge a flat rate of Rs. 5 per transaction. I hope I've answered the question.

Sarah Yoshida: Yes, maybe just on yes, the price going down, I guess. Just on the lowering prices, like is there a floor to how low that price could go? And maybe it's what I was thinking because I read about the rise of online brokerage platforms or online trading platforms. And just curious as to you know, if the depository

participants are paying this key, like who ends up absorbing the cost if these online brokerages come in as a low cost competitor? If you could help me understand that part.

Sunil Alvares: See on the debit side, now the lowest we go is to Rs. 4.25 INR that is. And that depends on the volume of transactions done by the depository participants. So, we have a slab based structure. We start at Rs. 5.50 and as the volume of transactions increase, we charge a lower rate of Rs. 4.25. That's the lowest that we can go to.

Now, so far as the depository participants are concerned they levy a markup and they charge the end investor. So, the end investor may be online or he may be going physically to the depository participant. The depository participant has a mechanism where he debits the account of the investor. So, that is how it works. I hope that answered your question.

Sarah Yoshida: And maybe just on the competitive piece, so NSDL, from my understanding, you do have some benefits, or maybe it would be great if you could talk about the competitive advantage that CDSL has. And I believe it would be just the depository participant network that you have but --. My question is, why doesn't NSDL, I guess I think the difference is that they have higher account minimums and there are these benefits of being – compete.

Sunil Alvares: Ma'am we are very clear that from a competitive perspective, we believe right from the beginning that as we have a wider network of participants, we will have more accounts which will get added into CDSL. So, over a period of time, we have added about 600 participants and NSDL has about 275 odd participants.

Secondly, we also believe the way the tariff structure is being designed in the depositories is that only if there are transactions in an account, the depository get some revenue so far as transactions are concerned. So, at that point in time we focused on transacting brokers who would have large number of transactions, so that if they become participants that really add to the transacting income.

So, that's how we have had a large number of brokers, okay who do a large number of transaction and that adds substantially to our transacting income. And so also most of the large fintech's have joined up with CDSL. And again out there, there are a large number of transactions and that adds to our transacting income.

As against NSDL, they had more of institutional DPs or depository participants. So, many of those accounts, I would say, are not as active as the accounts which are there with the brokers. I hope that answers your question.

Prakash Chaudhari: Can I just ask one clarification question. When you say NSDL has mainly institutional clients, would that be something like a large pension fund manager, who would use, I guess their DP account would be with NSDL, is that what you mean rather than retail trading?

Sunil Alvares: Let me clarify, NSDL would have both retail accounts as well as institutional accounts. But since they started off almost two and a half, three years earlier to CDSL, and at that point in time, the regulator made it mandatory to hold securities in the DEMAT form, most custodians developed their systems for their institutional clients, for NSDL only. So, that has continued over a period of time. But so far as retail is concerned, we have almost about 50 million accounts whereas NSDL has around 24 million accounts, I would say, as of date.

So, to a large extent, we are like a retail depository where all the retail customers have, most of the retail customers have their accounts with us. To give you an example, I mean, we almost have 70% market share. And the NSDL would have a large percentage of the institutional account.

Prakash Chaudhari: And my understanding, institutional accounts would be accounts on behalf of investments, investors who have larger amounts of assets or capital like pension funds and mutual fund companies. Is that --

Sunil Alvares: So, to answer your question, both the depositories have retail as well as institutional accounts. The only difference is NSDL would have a larger

percentage of institutional account, whereas CDSL would have larger percentage of retail accounts.

Prakash Chaudhari: And is there a chance that you could, so you got greater market share in the retail accounts, but what would need to occur for you to have a bigger market share in the institutional accounts?

Sunil Alvares: I would require more of the institutions to open accounts with us and then ensure that they transact through CDSL and also that the custodian supports CDSL to that extent.

Prakash Chaudhari: So, I just want to understand when you see open accounts with you, the institutions don't, from my understanding they don't open the account directly with yourself. They would open it with a DP, is --

Sunil Alvares: Open it with the custodians also DPs, that's right.

Prakash Chaudhari: Okay. So, really, would you not need to convince the custodian to switch, to use you rather than NSDL? Would it not really be that the institution would be sort of agnostic as to which, whether they are using NSDL or yourselves, and it's more, the bigger decision is which custodian they use, is that correct?

Sunil Alvares: No, it's more a matter of, I would say it's more of a business call in the sense that today we charge say Rs. 5.50 and NSDL charges Rs. 5 at the highest slab. And in terms of custodial transactions, they are very few, I would say compared to retail transactions. So, it should make business sense for them. But at the same time, we have been adding a lot of facilities to our services to try and convince these custodians to push a CDSL also on the institutional side.

Prakash Chaudhari: I think I understood, you correct, even though there is a pricing difference between CDSL and the NSDL, that's a smaller portion of the cost of an institution versus the custodians.

Sunil Alvares: See one thing is that - No, you have to understand how the depositories tariff structure works out here. Here for every debit into an account whether it is an institutional account or retail account, I levy a charge of say RS. 5.50 and NSDL levy the charge of Rs. 5, okay. You can say almost 99% of the

transactions which are billed today, they come from retail accounts. So, rather my focus has been totally on retail accounts. Though, we would be very happy to add institutional accounts as well, but the revenue actually comes from more of retail accounts.

Prakash Chaudhari: Understood, because institutions don't make many debit transactions, is that correct?

Sunil Alvares: Absolutely. And even if they do that, it comes, there are large tranches of transactions, so there will be huge volumes out there. But in terms of revenue, I will generate just say Rs. 5.50. So, to give you an example for institution whether I do a one billion transaction also I generate Rs. 5.50 and for a retail investor if I do a Rs. 1 transaction also I will be generating Rs. 5.50.

Sarah Yoshida: Maybe I guess, what would be the largest driver or how do we think about growth of transaction income, not necessarily a number, but what are the drivers of growth for this segment over the long term?

Sunil Alvares: See one of the drivers is the number of accounts which get added because as the number of accounts get added the transactions would definitely come in over a period of six months once the account is opened. And secondly, once the transactions happen and securities are held in that account, the annual issuer fees also would kick in for us. So, these are two major drivers for us.

And also the primary market is the second driver in a sense that whenever there are large number of IPOs a large number of accounts get added into the depository. So, that's the second driver for the depository market.

Sarah Yoshida: Can you just repeat that last part on secondary market?

Sunil Alvares: I said so far as we have the primary markets, if they tend to be very buoyant, then a large number of IPOs when they hit the market, it helps in number of accounts getting added at that point in time. So, that's the second driver for the depositories account growth.

Sarah Yoshida: I think that was my last question on the transaction income. But was there anything I missed on I guess that portion of the business I was thinking, if we

could speak about the KYC or the CVL business, and some of those other services and any other parts of the business that were missing in terms of other growing parts of the business or how other parts will survive.

Sunil Alvares:

So, for as the KYC business is concerned, we were the pioneers of KYC, centralized KYC in the country. We conceptualized, designed and implemented the first KYC registration agency in around 2006, with the AMFI - Association of Mutual Funds. And we ran it for about four years then the regulator made it mandatory in 2012 for the entire capital markets by coming out with the KYC regulations. And since then, we are, I would say one of the largest KYC registration agencies in the country.

And there are two legs to the charges, one is any intermediary can create a KYC of an investor, and we charge Rs. 20 out there. And once that KYC is created and pushed into the KRA, and the investor decides to invest through any other intermediary, and is required to do his KYC, then he can go to intermediary and quote his PAN number, then the intermediary can fetch the KYC from the KRA, and he is levied a charge of Rs. 35. So, that's how the KYC model works in India.

And we also have recently registered as agency for providing Aadhar-based e-KYC. And using Aadhar-based e-KYC, an investor can do his KYC online, and which can subsequently be pushed into the KRA. So, I hope that answers your question.

Sarah Yoshida:

And I get, it sounds like the driver of growth would be the opening of additional beneficiary owner account. Is that correct? That would be kind of the main driver of the growth because every time they open an account, I would assume you would have to set up --

Sunil Alvares:

It's not only a beneficiary account, but it could also be a broking account, it could be a DEMAT account or it could be any other account which is opened in the capital markets. Then if the investor's KYC is done, then the record is fetched. Otherwise, if the record is not available in the KRA, then the record has to be created and uploaded into the KRA.

Sarah Yoshida: And then, I guess this question came to mind, but I was just thinking about the depository participants. This is somewhat unrelated, but will help in my understanding. So, the depository participant, I noticed that there is a difference in the number of DPs registered with NSDL versus CDSL. How does the depository participant decide which depository to be registered with? And if they have a client that comes to them, how are they choosing whether to open the account with NSDL or CDSL? How does the DP make that decision?

Sunil Alvares: See that, I mean, the depository participant, whoever decides to first and foremost to register with whichever depository, I mean, one is they would be getting proposals from both the depositories and then they evaluate that is one. Point number two is, it's also a lot of marketing from both the depositories side to the depository participant. And then whichever depository is successful, they are able to convert that particular intermediary as the depository participant. And among the depository participants also, they also speak to other intermediaries, and then decide what is good for them. So, that's how it works out here.

Prakash Chaudhari: Just to be clear, sorry, each depository participant is either with CDSL or NSDL, right? You can't be with both, it's only, it's a choice to one or the other, is that correct?

Sunil Alvares: No, that's incorrect. Each depository participant can be either with CDSL or with NSDL or with both. So, that's how it works.

Prakash Chaudhari: So, if they are with, maybe that's where I am a bit confused, if they are with both and they are attracting clients, on a client-by-client basis, how are they choosing, whether they use CDSL or NSDL, because they only can use, each end client will only be with either CDSL or NSDL. Is that not correct? So, I would have thought they would choose one for all their clients, if not, how are they choosing for each individual client?

Sunil Alvares: Okay. So, there are three ways they normally do it. One is, if a depository participant is both with CDSL and NSDL, one is that he may decide that certain channels are allocated to CDSL and certain channels are located to NSDL. So, some depository participants have a digital channel so, they may allocate to

CDSL. If somebody may have a physical channel where you know applications are collected at the branches, where he may allocate only to NSDL, okay. Then there are large players like banks, so, certain banks may allocate certain branches only to CDSL, certain branches only to NSDL.

Certain depository participants who are only online then they give an option whether you want to CDSL or NSDL account. So, you have all types of permutation combinations which actually work out. I hope that answers your question, sir.

Prakash Chaudhari: When you said online, you give the, they get the option of CDSL or NSDL. Is that the end participant or is it the DP that gets that option?

Sunil Alvares: No, no, it is the end investor who gets the option because he comes online to the participant's website and he opens an account. He doesn't come to me directly to open an account.

Prakash Chaudhari: Okay, so the end investor chooses CDSL or NSDL. Is that correct?

Sunil Alvares: Yes, some of the participants do give an option online.

Prakash Chaudhari: Okay, some of the DPs. Okay, so some DPs, gives the option to their customers to choose?

Sunil Alvares: That's right.

Prakash Chaudhari: And why it would, it seems to me that it seems, it would be very confusing to, especially when you mention that some banks would use, some branches would use CDSL and others would use NSDL. Does this have something to do with? I think somewhere I read that NSDL uses on premise servers, whereas CDSL uses a Cloud approach to running all the background infrastructure. Is that why some banks might choose one or the other? And could you just elaborate on how that choice is made by DPs?

Ramkumar: We are also, CDSL is also running on-prem only, the data center is in our control, so that all the data related to CDSL in terms of further details of the account, details of the transaction is stored in our server. So, it's on-prem. As

far as on-prem issue is concerned both NSDL, CDSL has that on-prem concept, so we are not storing anything on Cloud #1.

#2 The DP chooses convenience over any other thing, convenience and money. So, if the DP feels that volumes are going to be high than they will choose CDSL over NSDL because then you get the benefit of about say 20%, 25% reduction on the transaction charges, because our lowest charge is Rs. 4.25 paisa, as against Rs. 5 charged by the competitor. So, that would be one deciding reason. Another would be the setup cost, which the DP may feel is lesser in one depository over the other. This is the second reason.

#3 Of course the IT services that you were talking about. But there is not much too, because both of us are using on-prem, both of us are having equally good cyber security checks in.

Prakash Chaudhari: So, both of you are using on-premise solutions, but when you said the setup cost might be different. Are your setup costs lower in general than NSDL's?

Ramkumar: Yes correct.

Prakash Chaudhari: You said yes, right.

Ramkumar: Yes.

Prakash Chaudhari: I think this is helpful. So, the DP will choose based on transaction volume. So, they would have an estimate of whether their customers are generally going to be doing a lot of debits. And if they are then they are going to benefit from that volume discount. And if they are not, then it may not make a large difference. So, they may for whatever reason, choose NSDL.

I guess I am trying to think of any reason, maybe the other way to ask this question is, in what scenario would NSDL be more convenient for a DP, because even if the transaction volume is very low, it's, I guess that's the point is it still Rs. 5, is still cheaper than Rs. 5.50. So, if it's very low, it's possible that it's cheaper to use NSDL, is that correct?

Ramkumar That is to, for DP who knows for sure that his transactions are going to be very limited he may want to use the NSDL over CDSL for that reason of that 50 paise difference that you spoke about. But such DPs would be large DPs, that is point number one. And large DPs typically would be having both depositories in place, the reason being they wouldn't want to tell their clients 'No.' Suppose there is client who come to a DP, saying I want to open account through CDSL. And while the DPs has got only account with NSDL, they may be losing the customer. So, to that extent all large entities where about maybe about 180 to 200 DPs were common, common means they are having registration with NSDL as well as CDSL. So, why they are having that is because they want to give choice to the customer as to whether they want to open account with CDSL or with NSDL. So, basically, the call is a business call. And also the convenience of the operations team of that particular operation is management team of that particular entity, the DP entity

Prakash Chaudhari: So, does that mean that you are spending some of your marketing to end customers, to let them know why using CDSL might be a better service for them versus NSDL?

Ramkumar We do Investor Awareness Programs where we speak about the advantages of holding securities in the DEMAT form, etc. that is under the banner of CDSL Investor Protection Fund that is one. So, indirectly we are talking about CDSL, point number one. Point number two is, more than us marketing to the end customer about the virtues of CDSL or the depository, it is the DP who drives the customer towards choosing one or the other. There is a DP who does the marketing in terms of saying open account here, open account there. And then whatever benefits he wants to give, he will extend it to the end customer, related to which depository he wants to, give advantage to.

Sarah Yoshida: I just had one last question before I wanted to ask some questions just on the expenses, but for last question as it comes to NSDL versus CDSL. It's just from everything that I understand about the rise of retail investing in India, and there is this shift in bonds, and you have obviously been focusing on the retail investor. How come, you know, why wouldn't NSDL compete if that is higher growth, I guess, in terms of number of transactions, number of accounts, the

annual issue income is all linked to the retail investors. So, why doesn't NSDL, compete over the long run?

Ramkumar: Ma'am that is a question that should be posed to NSDL. So, we wouldn't be in a position to answer as to why the competitor would like to compete, not compete.

Sarah Yoshida: Right. Okay.

Prakash Chaudhari: Maybe just ask the question differently. Is there any reason that NSDL couldn't change its pricing structure to match yours?

Sunil Alvares: No, I think it's not that it's, we are having a larger retail share only because of pricing, there have been very various other factors. And I think one is that from the depository participants, we have been more proactive in giving them more solutions in terms of setting up their business to allow us, you know helping them expand your business. To that extent, we have had larger share of the depository participant. And it is the depository participants who actually drive the business. So, pricing is one part, but it is not the only thing which actually drives the business.

Prakash Chaudhari: Maybe you could elaborate on what is it specifically that you have done to help the DPs, to expand their market share that NSDL hasn't provided their DPs?

Sunil Alvares: So, it's more a matter of internal strategy. So, I really wouldn't like to discuss this in the public domain.

Sarah Yoshida: I guess, before I have some questions on just expenses, and how to think about the cost base, was there any other part of the business that we missed that would be a driver of growth? If it's, I know that there is other segments with online services and other pieces, but is there any other growth pieces that we missed from a top-line perspective?

Sunil Alvares: I think the discussion has fairly covered everything ma'am.

Sarah Yoshida: Maybe just on cost, then can you just, your cost base, can you just highlight what the main expense items would be and how is it your cost base would be

fixed versus variable and how to think about expense growth relative to your top-line growth?

Girish Amesara: So, just on the expense part, see largely our cost are divided into four main areas, one is employee cost, second is technological cost, third is regulatory cost and the last portion is the other ancillary costs like auditors remuneration, business promotion or miscellaneous expenses or rent, office maintenance, postal, telephone. So, all these are part of the ancillary costs which are associated with a business.

Now talking about technological costs, generally technological costs would have an inflationary cost escalation of 10% to 15%, and at the same time, there are various regulatory push that is required to be implemented. So, we may incur additional costs towards those activities. For example, this year we implemented eDIS facility. And last year we also implemented the margin system, Pledge Margin System. So, that required additional development. And talking about employee cost, employee cost generally would be having inflationary expenditure of roughly 10% to 15% again.

And the regulatory cost largely contains a charge which is levied on the depository, which is based on a SEBI regulation which requires us to charge 5% of our operating profits to be paid to the Investor Protection Funds. The regulatory cost mainly consists of this charge and apart from that, there are certain fees that we have to pay to SEBI, based on the collection that we make from the issuer income. So, largely this covers the overall cost structure. I hope I have answered your

Sarah Yoshida: So, maybe just on this tech cost and the additional cost to incur, how long are you going to have to make those investments, and I guess, yes, going forward, how much of that, how much spend is there required for this ongoing or additional costs?

Girish Amesara: We are in a way a technological company. We are maintaining investor's data electronically. So, this cost is going to remain for a longer time. And we are going to incur this cost. But if you ask me to put up a value to it right now for

future that I will not be able to do it. What I can say that this, whatever cost we are incurring is going to stay.

Prakash Chaudhari: Yes, maybe I will just ask the question a little bit differently. Do you have any commentary on margin for your business in terms of, is there room for improvement on margin or are there reasons why margin might come under pressure and fall?

Girish Amesara: At present, if you look at our margin, we are doing fairly well. And pressure would be something like we cannot estimate on the transactions which are going to happen in the market. So, that risk is always there, that in case of lower transaction in the capital market, we may have lesser amount of transaction charges. So, that risk is going to be there for both the depositories, and for stock exchange.

Prakash Chaudhari: Yes so if we say that maybe another way to ask is, is there a scale in your business? So, if we assumed that transactions doubled, would your margins improve? Because are there some portion of your costs that are fixed because you did mention SEBIs are variable, directly variable with your operating profit, but is the rest of your profits relatively or the rest of your cost structure relatively fixed?

Girish Amesara: I would not comment on any futuristic statement but your assumption is correct.

Sarah Yoshida: Maybe just the last piece of, as a management team, how are you incentivized to drive return for shareholders like are you incentivized based on growth growing margins or is it return on capital? Or how are you incentivized to earn a shareholder return?

Girish Amesara: See, currently, our dividend policy is at 60%. Generally, we pay 60% of our net profits as a dividend so that we are going to continue as per our dividend policy. And that's about it.

Prakash Chaudhari: Our understanding is that senior management is appointed by the regulator for CDSL. If I am incorrect, let's just start there. How does senior management of

CDSL determined, do shareholders propose a Board or, and how do senior management selected --? Can you elaborate a little bit more on that?

Girish Amesara: So, as per the dividend policy, generally company recommends to the Board of Directors and Board of Directors reprimand to shareholders. Shareholders approves the dividend and that's how dividend gets paid to the shareholder. This is the structure defined under the Companies Act in India.

Prakash Chaudhari: Sorry, I am not actually asking about the dividend. I am more asking about the selection and the appointment of management in terms of the CEO, the CFO, how are those positions decided on?

Girish Amesara: So, generally, in case of Managing Director or in case of a Senior Management, the candidates are identified through an agency or by issuing a public notice in newspaper. And the Board of Director, a committee of the Board of Directors selects the candidates. In case of Managing Director, the selection has to be approved by the Board of Directors, then shareholder and then it goes to SEBI for their approval. And based on SEBI's approval, the Managing Director is appointed. In case of Senior Management, the Board of Director takes the final call.

Prakash Chaudhari: So, in fact, the private shareholders of CDSL have an opportunity to select and influence who the Managing Directors are, and to select the Board of Directors, it's just that SEBI also needs to approve it, am I understanding that correctly?

Girish Amesara: So, the structure of Board of Directors specified by SEBI that a majority of Directors should be Public Interest Directors. And this Public Interest Directors are also appointed based on final approval of SEBI.

So, currently, if you look at our Board of Director structure, we have five Public Interest Directors, one Managing Director and two Shareholder Directors. So, what you are seeing may not be correct always. There is lesser possibility to influence the directors in such a scenario. And ultimately SEBI decides as to who should be appointed as Managing Director.

So, when company puts a proposal, company has to provide the minimum two names to SEBI for appointment of Public Interest Directors. And similarly, for whenever there is a proposal sent for appointment of Managing Director to SEBI for their approval, minimum three names has to be provided.

- Participant:** And why does SEBI want so much control over the Board of Directors?
- Girish Amesara:** I cannot comment on that aspect because these are regulations in India, and we have to follow those regulations. Basically, these regulations are applicable for all market infrastructure institutions. So, basically all stock exchanges and depository has to follow these regulations in India.
- Prakash Chaudhari:** Just before we run out of time, is there a direct contact information like an email that we could have of yourself. So, that if we want to schedule a follow up call, or potentially when COVID is over, a visit in-person, we could communicate directly rather than going through a broker, is there some way we could get your best contact information.
- Sunil Alvares** We can provide the email addresses, there is no issue.
- Prakash Chaudhari:** Sure.
- Jatin Damania:** You can send the mail addresses to me, I will forward it to the management. Thank you.
- Prakash Chaudhari:** Sorry, did you did you say that? We can send an email to you and you will forward it to management?
- Jatin Damania:** Yes, I will do that.
- Prakash Chaudhari:** Sorry. What's your email? Sorry?
- Jatin Damania:** It is jatin.damania@kotak.com.
- Prakash Chaudhari:** Oh, okay. Sarah, do you have that email?
- Sarah Yoshida:** Yes, I have that.

Prakash Chaudhari: Okay, and then maybe if management could respond to that, so that we have their direct email. That would be great. Sarah, do you have any other questions?

Sarah Yoshida: That was it for me. I didn't have any more.

Prakash Chaudhari: Okay, I think I am out of questions for now as well. So, I appreciate the time. And Sarah, do you want to close up or do you want me to close up?

Sarah Yoshida: Yes, no, thank you so much. Thank you so much for your time and apologies for what had happened last week. I got the notice late and then it was 12:30 AM here. So, I apologize for that. And I am really, really appreciative of your time. So, thank you again. And thank you, Jatin, for helping facilitate this.

Jatin Damania: Thank you, Sarah and thank you the entire team of CDSL. Thank you Nilesh Sir. Thank you.

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