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# CDSL LTD

"SUBSCRIBE "
19th June 2017

*IPO Note*

## Issue Detail

| | |
|---|---|
| Type | 100% Book Building |
| Issue Size | Rs.523 Crore |
| Offer Price | *Rs (145 - 149)/Equity Share |
| Min App Size | 100 Shares |
| Issue Open | 15-Mar-17 |
| Issue Close | 17-Mar-17 |
| Shares Offer | 3.5Cr |
| Face Value | Rs 10 |
| Lead Mgrs | Axis Capital Ltd, Edelweiss Capital Ltd, IDBI Capital Market Services, |
| Listing | NSE |
| Registrar | Link Intime India Private Ltd |
| Market Cap (Post Issue) | 1557.1 |

## No of shares ( Post & Pre Issue)

| | |
|---|---|
| No of Shares (Pre Issue) | 1045,00,000 |
| Offer for Sale | 351,67,208 |
| Fresh Issue made | |
| No of Shares (Post Issue) | 104500000 |

## Bid allocation pattern

| | |
|---|---|
| QIB | 50% |
| Non-Institutional | 15% |
| Retail | 35% |

## Company Overview

Central Depository Services (India) Limited (CDSL) is a subsidary of BSE India which was incorporated in 1999. It operates as a securities depository in India. They offers various services, such as account opening, dematerialization, processing delivery and receipt instructions, account statement, re-materialization, pledging, nomination, transmission of securities, change in address, bank account details and SMS services for depository participants

CDSL also offers facilities to issuers to credit securities to a shareholder's or applicant's demat accounts; KYC services in respect of investors in capital markets to capital market intermediaries; and facilities to allow holding of insurance policies in electronic form to the holders of these insurance policies of various insurance companies

They provides other online services, such as e-voting, e-locker, national academy depository, electronic access to security information, electronic access to security information and execution of secured transaction, drafting and preparation of wills for succession, and mobile application and transactions using secured texting. It serves investors through intermediaries, such as depository participants, issuer companies, registrar and transfer agents, beneficial owners, and clearing members.

## Company Strategies

> Company offers services to several sub-sectors like capital markets, mutual funds and insurance companies. There were several client bases including DPs, corporates, stock exchanges, clearing corporations, registrars and the investors. Company have a high stability of operating income from the fixed annual charges collected from companies registered and transactionbased fees collected from DPs.

> Company main costs are employee wages and post employee benefits and software development and maintenance costs. The employee benefits and software development and maintenance costs. Company has high economies of scale leading to steady growth in profitability

## Objects of the Issue:

| Particulars |
|---|
| Achieve the benefits of listing the equity share on NSE |
| Enhance it's visibility and brand image and provide liquidity to it's existing shareholders. |

## Shareholder Selling Stake

| Name of Shareholder | Number of Equity Share | (%) |
|---|---|---|
| BSE Limited | 272,17,850 | 25% |
| State Bank of India | 47,75,000 | 4.57% |
| Bank of Baroda | 21,74,358 | 2.08% |
| The Calcutta Stock Exchange | 10,00,000 | 0.96% |
| Total | 351,67,208 | 32.61% |

## Recommendation

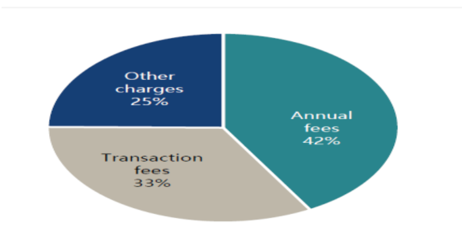
**CDSL and NSDL are the only two share depositories in India. BSE currently owns 50% stake in CDSL and through the offer is selling its 25% stake. CDSL is being offered at P/b of 2.8 times FY17 BV. The company provides sustainable Roe visibility of 16% for long term. We recommend SUBSCRIBE owing to following counts:**

**>>Niche business segment**
**>>Asset light business model**
**>>High operating leverage**
**>> Sustainable return ratios visibility**
**>>Attractive dividend yield (~2.5%)**

## Top 10 shareholders

| Shareholder | Number of Equity Shares | Percentage (%) |
|---|---|---|
| BSE Limited | 522,97,850 | 50.05 |
| State Bank of India | 100,00,000 | 9.57 |
| HDFC Bank Limited | 75,00,000 | 7.18 |
| Standard Chartered Bank | 75,00,000 | 7.18 |
| Canara Bank | 67,44,600 | 6.45 |
| Bank of India | 58,20,000 | 5.57 |
| Bank of Baroda | 53,00,000 | 5.07 |
| Life Insurance Corporation of India | 43,36,750 | 4.15 |
| Union Bank of India | 20,00,000 | 1.91 |
| Bank of Maharashtra | 20,00,000 | 1.91 |
| **Total** | **1034,99,200** | **99.04** |

## CDSL Revenue streme




## Competitive Risks

> There are two securities depositories in India . Company face significant competition for investor accounts from competitor and Company expects such competition to continue. The securities depository business competes closely with competitor for DPs, investor accounts and number of instruments on systems.

> Company rely heavily on technological equipment and IT at our facilities and typically the supply and maintenance of these systems and equipment is undertaken by third party contractors. Any interruptions or malfunctions in the operation of IT systems could damage reputation and cause loss for the business

> Company involved in various criminal, civil, labour and tax-related litigations, which are at different stages of adjudications before various fora. There is outstanding litigation against our Company, Promoter, Group Companies and Directors which if determined adversely, could affect business and results of operations.

> There is a shift in consumer preferences away from investing and trading in securities to other products and services, it could significantly reduce demand for services and adversely affect business, financial condition and results of operations

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## Financials Snap Shot

### Income Statement

Rs in Crores

| Y/E March | FY15 | FY16 | FY17 |
|---|---|---|---|
| **Revenue (Net)** | 105.3 | 122.9 | 146.0 |
| Other Income | 40.2 | 38.5 | 40.8 |
| **Total Revenue** | **145.5** | **161.3** | **186.9** |
| Employee Benefits Expense | 19.2 | 21.5 | 24.9 |
| Other expenses | 39.8 | 36.3 | 41.5 |
| **Total Expenses** | **59.0** | **57.8** | **66.4** |
| **EBITDA** | **46.3** | **65.0** | **79.6** |
| Depreciation | 6.2 | 4.2 | 3.7 |
| **EBIT** | **40.1** | **60.8** | **75.9** |
| Finance Costs | 0.0 | 0.0 | 0.0 |
| **Profit before Tax** | **40.1** | **60.8** | **75.9** |
| Current tax (MAT) | 20.6 | 37.4 | 34.3 |
| Deferred Tax | 2.7 | 2.7 | -4.2 |
| Total tax expense | **23.3** | **40.2** | **30.1** |
| **PROFIT AFTER TAX** | 56.9 | 59.1 | 86.7 |
| Exceptional Item | 1.7 | 33.1 | 0.0 |
| **PROFIT AFTER TAX** | **55.3** | **26.0** | **86.7** |

### Key Ratios

| Y/E March | FY15 | FY16 | FY17 |
|---|---|---|---|
| EPS | 5.3 | 2.5 | 8.3 |
| Book Value Per share | 39.8 | 45.9 | 51.0 |
| **Valuation(x)** | | | |
| P/E ( Upper Band ) | 28.2 | 59.8 | 18.0 |
| P/E ( Lower Band ) | 27.4 | 58.2 | 17.5 |
| Price / Book Value | 3.6 | 3.2 | 2.8 |
| EV | 1556.1 | 1555.0 | 1525.6 |
| EV/Sales | 14.8 | 12.7 | 10.4 |
| EV/EBITDA | 33.6 | 23.9 | 19.2 |
| **Profitability Ratios** | | | |
| RoE | 13% | 5% | 16% |
| RoCE | 10% | 13% | 14% |
| **Liquidity Ratios** | | | |
| Interest Coverage Ratio | 0.0 | 0.0 | 0.0 |
| Current Ratio | 3.1 | 5.6 | 5.3 |

### Balance Sheet

Rs in Crores

| Y/E March | FY15 | FY16 | FY17 |
|---|---|---|---|
| Share Capital | 104.5 | 104.5 | 104.5 |
| Reserves | 311.5 | 374.8 | 428.8 |
| **Net Worth** | **416.0** | **479.3** | **533.3** |
| **Minority Interest** | 14.6 | 14.7 | 15.5 |
| Other Long-term Liabilities | 0.3 | 0.5 | 0.6 |
| Deferred tax liabilitie | 1.0 | 2.9 | 0.7 |
| **Non - current liabilities** | **1.4** | **3.4** | **1.4** |
| Trade payables | 7.1 | 7.3 | 9.0 |
| Other current liabilities | 70.1 | 39.8 | 35.3 |
| Short-term provisions | 1.8 | 5.0 | 7.6 |
| Current tax liabilities | 0.5 | 3.4 | 5.2 |
| **Current liabilities** | **79.5** | **55.6** | **57.1** |
| **Total Liabilities** | **511.5** | **553.0** | **607.2** |
| Tangible assets | 5.1 | 3.0 | 4.7 |
| Intangible assets | 1.6 | 0.7 | 0.8 |
| Non-current Investments | 246.5 | 226.7 | 282.5 |
| Non-current tax asset | 11.1 | 13.2 | 13.1 |
| Deferred Tax Assets | 0.842 | 0 | 2.287 |
| **Non-current assets** | **265.2** | **243.5** | **303.4** |
| Current investments | 190.9 | 247.0 | 230.0 |
| Trade receivables | 6.9 | 13.0 | 13.3 |
| Cash and bank balances | 0.9 | 2.0 | 31.4 |
| Short-term loans and advances | 42.3 | 38.5 | 17.0 |
| Other current assets | 5.1 | 8.7 | 12.1 |
| Current assets | 246.2 | 309.1 | 303.8 |
| **TOTAL Assets** | **511.3** | **552.7** | **607.2** |

### Cash Flow Statement

Rs in Crores

| Y/E March | FY15 | FY16 | FY17 |
|---|---|---|---|
| PBT | 57.5 | 91.1 | 86.6 |
| **Adjustments for** | | | |
| Income tax expenses recognised in profit or l | 23.3 | 40.2 | 30.0 |
| Depreciation | 6.2 | 4.2 | 3.7 |
| sale / disposal of Propert | (0.0) | (0.0) | (0.1) |
| Provision for gratuity & compensated absen | 0.4 | 0.3 | 0.9 |
| Interest incomed in profit or loss | (8.5) | (12.7) | (12.4) |
| Dividend income in profit or loss | (2.7) | (2.7) | (5.6) |
| Net gain arisingmeasured at FVTPL | (28.3) | (22.0) | (22.0) |
| Impairment loss and bad debts written off | 3.0 | 2.6 | 3.8 |
| **Operating profit before working capital cha** | **50.9** | **101.0** | **84.9** |
| Trade Receivables | (3.7) | (8.7) | (4.0) |
| Loans and other assets | 0.1 | (0.3) | (0.6) |
| Other financial assets | 0.0 | (0.5) | (3.9) |
| Trade payables | 1.7 | 0.2 | 1.7 |
| Provisions | 0.0 | 3.2 | 2.6 |
| Other financial liabilities and other liabilities | 14.4 | (29.9) | (5.7) |
| **Cash Generated from operations** | **63.4** | **65.0** | **74.8** |
| Direct taxes paid | 20.4 | 36.6 | 32.1 |
| **NET CASH FLOW FROM OPERATING ACTIVIT** | **43.0** | **28.4** | **42.8** |
| **Net cash generated from investing activitie** | **(19.4)** | **0.3** | **18.2** |
| **Net cash used in financing activities** | (23.5) | (27.7) | (31.4) |
| **Net increase in cash and cash equivalents** | **0.03** | **1.01** | **29.49** |
| Cash and cash equivalents at the beginning o | 0.9 | 0.9 | 2.0 |
| **Cash and cash equivalents at the end of the** | **0.94** | **1.95** | **31.44** |