

Incorporated in 1999, Central Depository Services (India) Limited (CDSL) is a subsidiary of BSE which operates as a securities depository in India. As on April 2017, it has 589 DPs, servicing across 29 states and 7 union territories. The number of service centres grew at CAGR of 21.4% from 11,877 in FY15 to 17,489 in FY17 and beneficial owner (BO) accounts grew at a CAGR of 13% from 9.6mn in FY15 to 12.3mn in FY17. The company is coming out with an IPO which is 100% offer for sale. BSE is selling its stake to meet the regulatory requirement of maximum 24% stake.

Key Investment Rationale

- CDSL gaining market share in recent times:** CDSL is 2nd largest depository in India with 44% market share in terms as on FY17. However, **it is noteworthy that CDSL held 60% market share of FY17 incremental BO accounts at 13.7% YoY growth.** CDSL has been gaining market share in recent times which provides us comfort in terms of visibility of revenue growth.
- Repeat business and diverse offerings provide revenue visibility:** CDSL has a well-diversified revenue stream including Annual issuer charges (36%), Transaction charges (21%), Online data charges (13%), IPO/corporate action charges (11%), ECAS charges (5%), Document storage charge (4%), E-voting charges (3%) and others (7%). Fixed annual charges collected from registered companies and transaction-based fees collected from its DPs provide high stability to operating income.
- Operating leverage leading to improvement in EBITDA margin:** CDSL's business largely has fixed operating cost and thus high economies of scale which has helped to improve margins. Its EBITDA margins have improved from 43% in FY15 to 54% in FY17, As BO accounts continue to grow at an enhanced pace, we expect benefit of operating leverage to continue to reflect in EBITDA margin and profitability going ahead.
- Focus high on state of the art technology:** CDSL has deployed core depository system based on a centralised architecture providing real-time updated information to users. Its system can be accessed over the internet as well as the intranet through a secure channel using multi-factor user authentication. CDSL's Information Security Management System complies with ISO 27001 standard and protects information throughout the life span.
- IPO priced at attractive valuation**
Steady growth, asset-light nature of business and decent RoE of ~20% shall enable the stock to command high valuation. Asset light nature of business enables the company to distribute 35-50% of profits as dividend. In FY17, it had paid ₹ 3/share as dividend. The IPO is attractively priced with TTM PE of 18x at higher price band of ₹ 149. Recommend **SUBSCRIBE** on the issue.

Long Term Investors	Subscribe
Short Term Investors	Subscribe
Issue Details	
Issue Opens	19-Jun-17
Issue Closes	21-Jun-17
Equity Offerings (In MN shares)	35.2
Face Value	10
Price Band (₹)	145-149
Bid Lot	100
Issue Size (₹bn)	5.24
Maximum Application for Retail Investor (₹)	2,00,000.0
Issue Type	100% Book Building
Listing	NSE
BRLMs	Axis cap, Edelweiss Fin, Nomura, SBI Cap, Yes Sec, Haitong, IDBI cap
Registrar	Link Intime

	Pre Issue	Post Issue
Promoter	50.1%	24.0%
Non Promoter	49.9%	76.0%

Issue Structure (In mn no. of shares)	
Issue size	35.2
Fresh Issue	0.0
Break-up of net issue to public:	
QIB's portion	50.0
Non-institutional portion	15.0
Retail Portion	35.0

Source: ABML Research, RHP

Analyst Details
Jaymin Trivedi
022-62257275
jaymin.trivedi@adityabirla.com

About Company

CDSL 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. It also 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.

Objects of the issue

- The objects of the offer are to achieve the benefits of listing the equity Shares on NSE and for the sale of equity shares by the selling shareholders. Further, the company expects that listing of the equity Shares will enhance its visibility and brand image and provide liquidity to its existing shareholders. The company will not receive any proceeds of the offer and all the proceeds of the offer will go to the selling shareholders in the proportion of the equity shares offered by them.

Risks & concerns

- As CDSL relies heavily on technological equipment and IT systems, any interruptions in availability could adversely impact CDSL's business. Also, it may impact the reputation and adversely impact the business.
- If competition intensifies, then it could impact market share or margin of the company.

Income Statement (Consolidated)

In ₹ mn	FY15	FY16	FY17
Revenue from operations	1052.8	1228.5	1460.0
Other income	401.9	384.8	408.5
Total income	1454.7	1613.4	1868.5
Employee expenses	192.1	214.9	248.7
Other expenses	409.1	374.5	417.2
Total expenses	601.1	589.4	665.8
Operating profit	451.7	639.2	794.2
Depreciation	62.4	41.9	37.1
Profit before exceptional item	791.2	982.1	1165.6
Exceptional item	16.9	331.0	0.0
PBT	808.0	1313.1	1165.6
Tax	233.1	401.9	299.8
PAT	574.9	911.3	865.9

Source: ABML Research, RHP

Balance Sheet (Consolidated)

In ₹ mn	FY15	FY16	FY17
Share Capital	1045.0	1045.0	1045.0
Reserves	3115.4	3748.2	4288.2
Minority interest	145.6	146.8	154.9
Networth	4305.9	4940.0	5488.1
Borrowing	0.0	0.0	0.0
Deferred Tax liability	10.4	29.1	7.4
Provision	18.4	50.2	75.8
Other liabilities	779.9	510.6	501.2
Total Liabilities	5114.5	5529.9	6072.4
Fixed assets	66.9	36.7	54.8
Investments	2232.1	2104.7	2729.0
Deferred tax assets	8.4	0.0	22.9
Non- current tax assets	111.2	131.9	131.3
Current assets			
Investments	1909.0	2470.0	2300.0
Trade receivables	69.1	130.1	132.7
Cash & Bank balance	431.0	403.7	483.2
Other financial assets	286.8	252.8	218.6
Total Assets	5114.5	5529.9	6072.4

Source: ABML Research, RHP

Cash Flow

In ₹ mn	FY15	FY16	FY17
Cash Flow from Operations	429.5	284.2	427.6
Cash Flow from Investing	-194.4	2.6	181.7
Cash Flow from Financing	-234.8	-276.7	-314.4

Ratios	FY15	FY16	FY17
Revenue growth	NA	16.7%	18.8%
Operating profit growth	NA	41.5%	24.3%
PAT growth	NA	58.5%	-5.0%
Operating profit margin	42.9%	52.0%	54.4%
PAT margin	39.5%	56.5%	46.3%
Dividend/share	2.2	2.5	3.0
Dividend payout ratio	48.1%	34.5%	43.6%
RoE	-	19.7%	16.6%
EPS	5.5	8.7	8.2
P/E	27.0	17.1	18.1
BV	41.2	47.3	52.5
P/BV	3.6	3.2	2.8

Source: ABML Research, RHP

Research Team

Vivek Mahajan	Hemant Thukral
Head of Research	Head – Derivatives Desk
022-6225 7220	022-6225 7230
vivek.mahajan@adityabirla.com	hemant.thukral@adityabirla.com

Fundamental Team

Avinash Nahata	Head Equity Analyst	022-6225 7208	avinash.nahata@adityabirla.com
Jaymin Trivedi	Banking & Finance	022-6225 7275	jaymin.trivedi@adityabirla.com
Naveen Baid	IT	022-6225 7274	naveen.baid@adityabirla.com
Suresh Gardas	Pharma & Chemicals	022-6225 7271	suresh.gardas@adityabirla.com
Mahavir Jain	Mid caps	022 62257270	mahavir.jain@adityabirla.com

Quantitative Team

Sudeep Shah	Sr.Technical Analyst	022-6225 7265	sudeep.shah@adityabirla.com
Ammolh Paatil	Sr. Derivative Analyst	022-6225 7264	ammolh.paatil@adityabirla.com
Rahil Vora	Technical Analyst	022-6225 7266	rahil.vora@adityabirla.com
Smita Dhale	Sr.Executive –Derivative Desk	022-6225 7269	smita.dhale@adityabirla.com

Advisory Team

Salim Hajiani	Advisory Desk	022-6225 7277	salim.hajiani@adityabirla.com
Pradeep Parkar	Equity Advisor	022-6225 7272	pradeep.parkar@adityabirla.com
Mohan Jaiswal	Sr. Executive.-Research Support	022-6225 7273	mohan.jaiswal@adityabirla.com

ABML research is also accessible in Bloomberg at ABMR

Disclaimer:

This document is not for public distribution and is meant solely for the personal information of the authorised recipient. No part of the information must be altered, transmitted, copied, distributed or reproduced in any form to any other person. Persons into whose possession this document may come are required to observe these restrictions. This document is for general information purposes only and does not constitute an investment advice or an offer to sell or solicitation of an offer to buy / sell any security and is not intended for distribution in countries where distribution of such material is subject to any licensing, registration or other legal requirements.

The information, opinion, views contained in this document are as per prevailing conditions and are of the date appearing on this material only and are subject to change. No reliance may be placed for any purpose whatsoever on the information contained in this document or on its completeness. Neither Aditya Birla Money Limited (ABML), its group companies, its directors, associates, employees nor any person connected with it accepts any liability or loss arising from the use of this document. The views and opinions expressed herein by the author in the document are his own and do not reflect the views of Aditya Birla Money Limited or any of its associate or group companies. The information set out herein may be subject to updation, completion, revision, verification and amendment and such information may change materially. Past performance is no guarantee and does not indicate or guide to future performance.

Nothing in this document is intended to constitute legal, tax or investment advice, or an opinion regarding the appropriateness of any investment, or a solicitation of any type. The contents in this document are intended for general information purposes only. This document or information mentioned therefore should not form the basis of and should not be relied upon in connection with making any investment. The investment may not be suited to all the categories of investors. The recipients should therefore obtain their own professional, legal, tax and financial advice and assessment of their risk profile and financial condition before considering any decision.

Aditya Birla Money Limited, its associate and group companies, its directors, associates, employees from time to time may have various interests/ positions in any of the securities of the Company(ies) mentioned therein or be engaged in any other transactions involving such securities or otherwise in other securities of the companies / organization mentioned in the document or may have other interest with respect to any recommendation and / related information and opinions. The company follows Employee Trading Policy which regulates the trading activities of the research analysts. The compensation of the research analysts is governed as per the Board approved "Research Analyst" Policy.

Aditya Birla Money Limited is acting as a Research Analyst and is registered under SEBI (Research Analyst) Regulations, 2014. SEBI Registration No. INH000002145