

**Background:** The depository system in India comprises of two depositories, NSDL and CDSL. NSDL, the first depository, was established in 1996 and was followed by CDSL in 1999. *CDSL is the leading securities depository by incremental growth of Beneficial Owner accounts over the last three years and by the total number of registered Depository Participants, as at the end of Fiscal 2016, according to CRISIL Report.* However, in terms of market share, CDSL is the second largest with 43% market share. CDSL derive revenue in the form of Transaction Charges, Annual Issuer Fees, Account Maintenance Charges, Settlement Charges, Corporate Action charges and e-voting charges.

**Business Prospects:** *Strong Economic growth, Rising Per-capita income, Urbanization and increasing financial savings will be the key growth drivers for depository business.* According to statistics published by the RBI, from Fiscal 2009 to Fiscal 2016, savings in financial assets have seen a growth at 10% CAGR which indicates an increasing interest of people in the capital markets. According to the RBI statistics, the percentage of net investment in shares, mutual funds and debentures has increased at a remarkable 54% CAGR from Fiscal 2012 to Fiscal 2016. The total net investment in shares, mutual funds and debentures is expected to be around 9% of the total household savings invested in financial assets, having increased by 3% over the past year.

Apart from equity shares, the demat facility was also extended to instruments such as commercial papers and bonds. CDSL also provide facility to hold Insurance Policies in demat form. Services like *e-voting* are also gathering pace with increasing shareholder activism.

**Valuation:** At the upper band, the issue is priced at 18X FY2017 EPS and at 2.9X FY2017 BV, which is fair. There is significant income in the form of interest/ income from investments due to cash and investments to the extent of Rs. 550 Crores. Earnings have grown at double digits in last two years. The business has high entry barriers, but less capital investment. *Investors can subscribe to the issue.*

**Concerns:** A significant portion of revenue depend on delivery volume in exchanges. Also, revenue from KRA operations (through CDSL Ventures) is material (18% of total in FY2017), which would get impacted as Govt. has authorised CERSAI to perform functions of central KYC records registry. CDSL had 67% market share with 15 million records.

### Issue Details

Offer Period	: June 19-21
Price band	: Rs.145-149
Face Value	: Rs.10
Book Value	: Rs.51

Minimum Qty	: 100 shares
Issue Size	: Rs.524 Cr
(Offer for sale by BSE and other Sponsors)	

No. of shares	: 10.4
Market Cap	: Rs.1,550 Cr
(Post Issue)	

### Shareholding Pattern (Post Issue)

BSE	24%
Other Sponsors*	36.23%
Public	39.77%

(\*BoB, Bol, SBI, Canara Bank, Union Bank, HDFC Bank and Standard Chartered Bank)

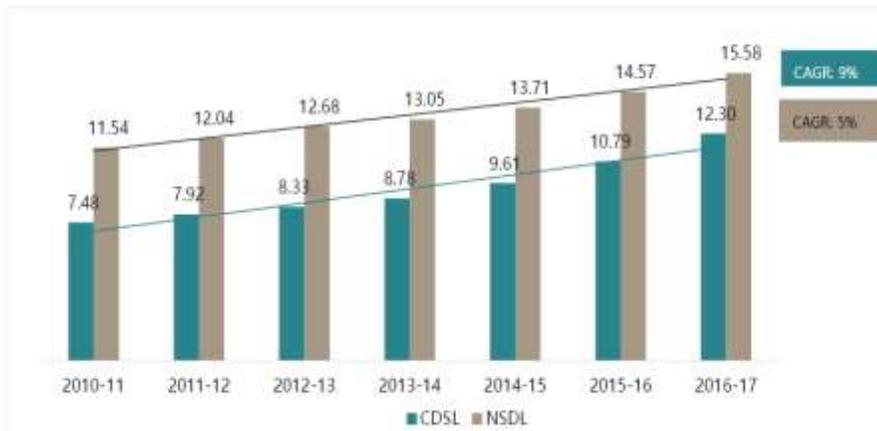
Key Financial Highlights	Rs. Crores
	FY 2017
Operating Income	146.00
Other Income	40.85
Total Income	186.85
Total Expenditure	66.58
PBIDT	120.27
PBIDTM%	82.37
PBIT	116.56
PBT	116.56
PAT	86.59
PATM%	59.30
EPS	8.33
Equity Dividend %	25.00
ROCE (%)	23.02
RONW (%)	17.10

## ABOUT CDSL

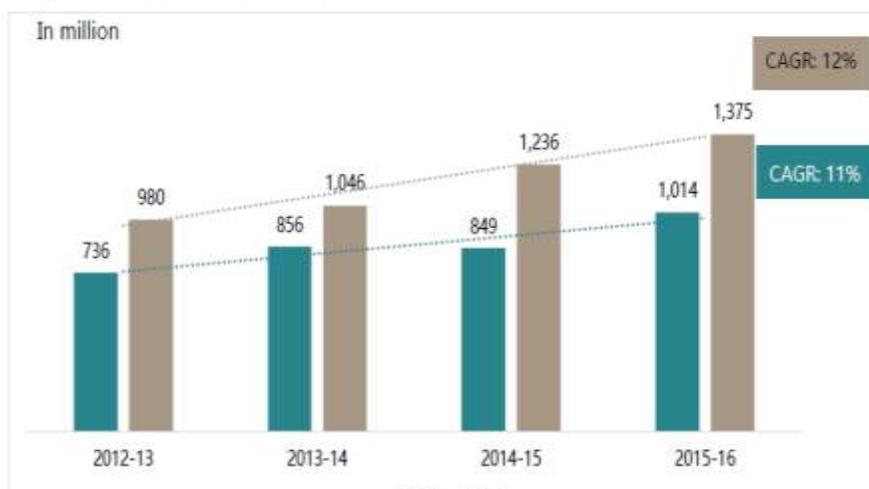
CDSL is the leading securities depository in India by incremental growth of Beneficial Owner (“BO”) accounts over the last three Fiscals and by the total number of registered Depository Participants (“DPs”), as at the end of Fiscal 2016, according to the CRISIL Report. However, in terms of market share, CDSL is the second largest depository. As of March 31, 2017, there are 12.30 million demat accounts at CDSL. The number of demat accounts grew at a CAGR of approximately 9%

In terms of revenue, CDSL holds an approximate market share of 43% while NSDL’s market share is 57%. In terms of market share of demat accounts, CDSL has been growing at a higher rate with a CAGR of 9%, compared with 5% for NSDL. CDSL has experienced a growth in market share from 39% in Fiscal 2011 to 43% in Fiscal 2017. Consequently, CDSL has gained in market share with respect to incremental demat accounts from 46% in Fiscal 2012 to 60% in Fiscal 2017.

Number of demat accounts (in million)



Growth in revenues of CDSL and NSDL



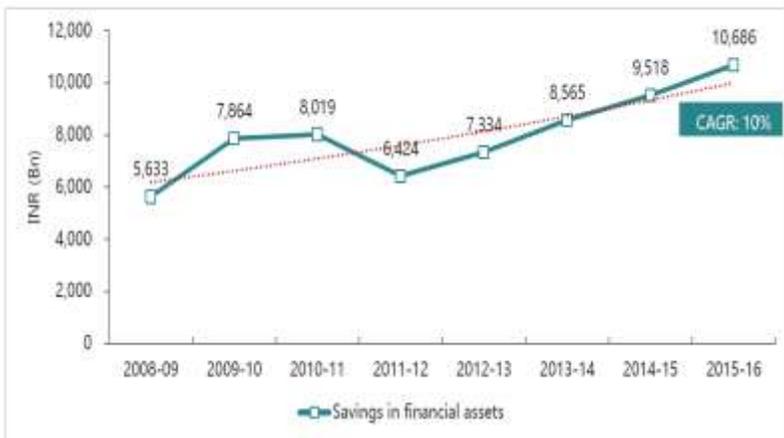
*Following extensive discussions and consultations with stock exchanges, market participants and investor groups, SEBI released the Depositories and Participants Regulations, 1996, in May 1996 before legislating The Depositories Act in August, 1996. The Depositories Act, 1996 recommended multiple depository systems in order to accelerate scrip less clearing and settlement. The existence of multiple depositories was recommended to encourage competition, which would result in economic benefits such as low services fees and better service to investors.*

*The depository system in India comprises of two depositories, namely NSDL and CDSL. NSDL, established in 1996, was the first depository in India and was followed by the establishment of CDSL three years later in 1999. The industry has a strong entry barrier as each of the current depositories are promoted by each of the two major stock exchanges in India i.e. NSDL by NSE and CDSL by BSE. With strong parental lineage, these depositories have a clear advantage over any new entrant.*

## BUSINESS PROSPECTS

*Strong **Economic growth**, Rising Per-capita income, Urbanisation and increasing financial savings will be the key growth drivers for depository business.* India's per capita income grew at a healthy rate during Fiscals 2015, 2016 and 2017, and rose to Rs.93,653 in Fiscal 2017. In real terms, per capita income is estimated to have grown at 6.6% in Fiscal 2016 compared to 5.9% in Fiscal 2017. The increasing trend in per capita income is expected to continue. The share of urban population in total population has been consistently rising, reaching approximately 31% in 2011. Approximately 36% of India's population is expected to live in urban locations by 2020.

Trends in savings in financial assets



Aside from equity shares, the dematerialisation facility was also extended to instruments such as commercial papers and bonds. The number of active instruments and the dematerialised value of debentures/bonds increased at both depositories between Fiscal 2012 and Fiscal 2016.

Depository statistics: debentures/bonds



*According to SEBI's annual report for Fiscal 2016, the household sector continued to be the highest contributor to gross savings. The share of savings in financial assets, from household savings, rose to 40.4% in Fiscal 2015 from 36.5% in Fiscal 2014. The proportion of the share of financial assets, out of gross savings, was 23.4% in Fiscal 2015. According to statistics published by the Reserve Bank of India (RBI), from Fiscal 2009 to Fiscal 2016, savings in financial assets have seen a growth at 10% CAGR which indicates an increasing interest of people in the capital markets. According to the RBI statistics, the percentage of net investment in shares, mutual funds and debentures has increased at a remarkable 54% CAGR from Fiscal 2012 to Fiscal 2016. The total investment in shares, mutual funds and debentures is expected to be 9% of the total household savings invested in financial assets, having increased by 3% over past year.*

**New Initiatives:** CDSL facilitates holding of **insurance policies in electronic form** and enable policy holders to undertake changes, modifications and revisions to insurance policies. As of April 30, 2017, CDSL had opened approximately 325,000 e-Insurance accounts, holding more than 66,000 insurance policies in electronic form. Services like **e-voting** are also gathering pace with increasing shareholder activism.

## FINANCIAL HIGHLIGHTS

CDSL derive revenue in the form of Transaction Charges, Annual Issuer Fees, Account Maintenance Charges, Settlement Charges, Corporate Action charges and e-voting charges. Revenue from operations accounted for 78.14%, 76.15% and 72.37% of total revenue for Fiscal 2017, 2016 and 2015, respectively.

*On a consolidated restated basis, total revenue grew at a CAGR of 13.33% from Rs.145 Crores in Fiscal 2015 to Rs.186 Crores in FY 2017, whereas Net Profit grew at a CAGR of 22% from Rs.57 Crores in Fiscal 2015 to Rs. 86 Crores in FY2017. There is significant other income in the form of interest/ income from investments due to substantial cash and investments in the company.*

### Consolidated Financials

	Rs. Crores					
<b>For FY Ended 31<sup>st</sup></b>	<b>Mar-17</b>	<b>Mar-16</b>	<b>Mar-15</b>	<b>Mar-14</b>	<b>Mar-13</b>	<b>Mar-12</b>
Operating Income	146.00	122.85	105.42	88.93	90.75	96.24
<i>Other Income</i>	<i>40.85</i>	<i>38.48</i>	<i>21.76</i>	<i>33.89</i>	<i>33.30</i>	<i>24.50</i>
<b>Total Income</b>	<b>186.85</b>	<b>161.34</b>	<b>127.18</b>	<b>122.82</b>	<b>124.05</b>	<b>120.74</b>
Total Expenditure	66.58	58.94	60.00	56.22	55.01	35.76
PBIDT	120.27	102.40	67.18	66.61	69.04	84.98
<i>PBIDTM%</i>	<i>82.37</i>	<i>83.35</i>	<i>63.73</i>	<i>74.90</i>	<i>76.08</i>	<i>88.30</i>
PBIT	116.56	131.31	62.62	62.49	65.70	78.30
PBT	116.56	131.31	62.62	62.49	65.70	78.30
PAT	86.59	91.13	43.42	49.55	50.52	55.38
<i>PATM%</i>	<i>59.30</i>	<i>74.17</i>	<i>41.19</i>	<i>55.72</i>	<i>55.67</i>	<i>57.55</i>
<b>EPS</b>	<b>8.33</b>					
<i>Equity Dividend %</i>	<i>25.00</i>	<i>22.00</i>	<i>26.48</i>	<i>23.40</i>	<i>23.40</i>	<i>17.43</i>
Equity Paid Up	104.50	104.50	104.50	104.50	104.50	104.50
Net Worth	533.32	479.32	369.40	353.41	328.51	303.03
<i>Investments</i>	<i>502.90</i>	<i>457.47</i>	<i>389.26</i>	<i>375.39</i>	<i>341.99</i>	<i>307.44</i>
<i>Cash and Bank balance</i>	<i>48.32</i>	<i>40.37</i>	<i>65.60</i>	<i>40.98</i>	<i>35.33</i>	<i>35.99</i>
ROCE (%)	23.02	30.94	17.33	18.33	20.81	27.52
RONW (%)	17.10	21.47	12.01	14.53	16.00	19.47

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