

BSE SENSEX 31076
S&P CNX 9578

SUBSCRIBE**Price Band: INR 145 - 149****ISSUE SUMMARY**

Issue Opens	19-Jun-17
Issue Closes	21-Jun-17
Offer Price (INR per share)	145-149
Pre Issue Shares o/s (mn)	104.5
Offer for Sale (No of sh. mn)	35.17
Post Issue shares o/s (mn)	104.5
Issue Size (INR mn)	5099-5240
QIB	50%
Non-institutional	15%
Retail	35%

POST ISSUE DETAILS

Mcap@INR 149/sh INR mn)	15570.5
Shareholding pattern	
Promoters	16%
Non-Promoters	84%

Investors are advised to refer through disclosures made at the end of the Research Report.

Introduction: Incorporated in 1999, Central Depository Services (India) Limited (CDSL), a subsidiary of BSE Limited operates as a securities depository in India. They offer various services, such as account opening, demat, processing delivery & receipt instructions, account statement, re-mat, 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 or applicants demat account, 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 also provides 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

Object of issue: To achieve the benefits of listing the equity share on NSE and sale of up to 35.2 mn Equity Shares by existing shareholders

View: CDSL is the second largest depository in terms of market share and has been growing at decent CAGR of 23%/14% in 3/5 years (and revenues grew by 13%/18%). Further, the key positive about the company is that it has controlled operating expenses in last 3 years which has led to significant margin expansion of 1150 bps since FY15 to 54% in FY17. At the upper band of INR149, the offer is available at 18.2x FY17 EPS which we believe is attractive considering - 1) strong parentage and entry barrier 2) stable earnings growth 3) strong margins and 4) decent ROE of 16%. Hence we recommend to **SUBSCRIBE** for long term investment.

Financials (INR mn) :

Y/E March	FY13	FY14	FY15	FY16	FY17
Revenue	907	889	1,053	1,229	1,460
Growth		-2%	18%	17%	19%
EBITDA	357	327	452	639	794
EBITDA Margin	39%	37%	43%	52%	54%
PAT	505	495	575	911	866
EPS	4.8	4.7	5.5	8.7	8.2
ROE	30%	14%	15%	20%	17%
ROCE	10%	8%	9%	12%	14%

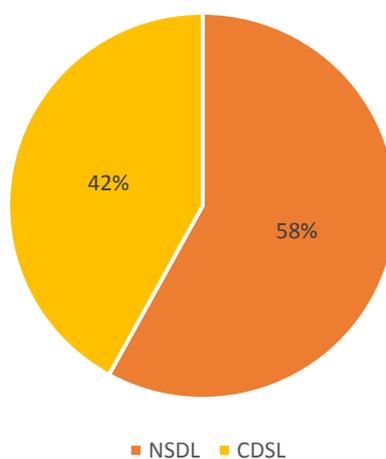
Source: RHP

Key Strengths

Highest share of incremental growth of BO accounts and second largest in terms of market share, continue to focus on developing new DPs and leverage existing network:

CDSL is the leading securities depository by incremental growth of BO accounts and by the total number of registered DPs. It is second largest depository in India in terms of market share. As on April 2017, the company has 589 DPs (from 574 in FY15), 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 BO accounts grew at a CAGR of 13% from 9.6mn in FY15 to 12.3mn in FY17. The company is aiming to expand its network of DPs and service centres. It expect significant portion of new DPs in tier II and tier III cities due to relatively lower penetration in these cities.

Revenue Market Share FY16



Number of Demat Accounts: Market Share



Source: RHP

Stable/recurring revenue stream:

The company has diversified offerings for its several clients which are DPs, Corporates, Stock Exchanges, Clearing Corporations, Registrars and the Investors. This has provided the company with multiple streams of stable and recurring operating revenue like income from fixed annual charges (AMC) collected from companies registered with them and transaction-based fees collection. The company also offers dematerialization for securities including equity shares, preference shares and bonds of public and private companies, units of mutual funds, government securities, commercial papers and certificates of deposits. It also leverages on its existing relationship with corporates to offer services like e-notices and e-voting services which generates an additional source of revenue.

High economies of scale leading to expand EBIDTA margin:

As per RHP, the company has fixed operating costs and thus high economies of scale which has helped to improve margins. Other expenses as % of total expenses reduced from 66% in FY15 to 62% in FY17. Other main cost components are employee expenses, software development and maintenance cost. As a result of high economies of scale and better cost control, EBITDA margins have improved from 43% to 54% over FY15 to FY17, EBITDA grew by 33% CAGR as against 18% CAGR in revenues over FY15-17.

Key Concerns

- ✓ The company's securities depository business competes closely with competitor for DPs, investor accounts and number of instruments.
- ✓ Appointment of CERSAI as central KYC registration agency may have a significant adverse impact on the business prospects and result of operations of its Subsidiary, CDSL Ventures.
- ✓ A large proportion of company's business is transaction-based and dependent on trading volumes.

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SEBI pursuant to a complaint from client Shri C.R. Mohanraj alleging unauthorized trading, issued a letter dated 29th April 2014 to MOSL notifying appointment of an Adjudicating Officer as per SEBI regulations to hold inquiry and adjudge violation of SEBI Regulations; MOSL replied to the Show Cause Notice whereby SEBI granted us an opportunity of Inspection of Documents. Since all the documents requested by us were not covered we have requested to SEBI vide our letter dated June 23, 2015 to provide pending list of documents for inspection.

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CDSL

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**Motilal Oswal Securities Ltd**

Motilal Oswal Tower, Sayani Road, Prabhadevi, Mumbai 400 025

Phone: +91 22 3089 4200 E-mail: info@motilaloswal.com