

Bid for Long Term

Key Data	
Floor Price (Rs)	205
Face Value(Rs)	10
Issue Size(Rs)	856.9 Mn
Total offered	41.8 Lac shares
Retail	
Issue Opens	November 29, 2019
Issue Closes	November 29, 2019
Offered shares	4.18 Lac Shares
NSE Code	CDSL
52 Week High	247.95
52 Week Low	180.8
Source: NSE India	

Central Depository Services (India) Limited

Company Background:

Incorporated in 1999, Central Depository Services (India) Ltd (CDSL) is the second Indian central securities depository based in Mumbai. It is promoted by BSE Ltd. and sponsored by leading Banks. CDSL facilitates holding and transacting in securities in the electronic form and facilitates settlement of trades on stock exchanges. These securities include equities, debentures, bonds, units of mutual funds, AIFs, certificate of deposits (CDs), commercial paper (CP), Government securities and Treasury Bills. All leading stock exchanges like the BSE Ltd, National Stock Exchange and Metropolitan Stock Exchange of India have established connectivity with CDSL.

CDSL also offer other online services such as e-voting, e-Locker, National Academy Depository, easi (Electronic Access to Security Information), easiest (Electronic Access to Security Information and Execution of Secured Transaction) myeasiwill (drafting and preparation of wills for succession), myeasi and m-voting (mobile application) and Transactions using Secured Texting (TRUST).

Issue Details:

BSE Limited propose to sell up to 41.8 lakh equity shares representing 4% of the total paid up equity share capital of the company of face value of Rs.10 each. The floor price has been set at Rs.205 per share.

Allocation Methodology:

The allocation would be on a price priority method at multiple clearing prices in accordance with the SEBI OFS circular. The issue opens on November 28, 2019 for institutional bidders. **Retails investors can BID on November 29, 2019.**

Rationales:

Diversified business

CDSL handles diversified business and have various revenue streams. Of the total, ~36% revenues are annuity based and ~42% are market-linked (Transaction, IPO/corporate action and KYC). Demat process of 60,000 unlisted public company will contribute ~7% in FY20 growth with negligible incremental cost. Transactions charges/KYC revenue is improving with revival in retail participation as markets are maintaining their trend despite of global headwinds.

Depository business to grow with Capital Market growth

Demat accounts in India is just 34.8mn, much lesser than bank accounts. Only 40% of savings are in financial assets, while the balance 60% is still in physical assets. In fact, only 5% of financial savings are in equities in India, which is much lower than 15-40% in regions such as China, Brazil, Western Europe and the US. There is significant growth scope in India's capital market with more inclination towards equity investments by retailers.

Strong parentage support

CDSL was initially incorporated by BSE Limited which currently holds 24% stake and post OFS its stake will be down to 20%. CDSL hold 1.9Cr investor accounts. Its network is spread across 105 cities with 211 branches at 303 locations. Diversified business are operated through its subsidiaries which are CDSL Ventures Limited, CDSL Insurance Repository Limited, CDSL Commodity Repository Limited.

Associate

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Consistent Financial Performance

During FY17-19 company's revenue & profitability have grown at a CAGR of 9.2% & 9.9% respectively. EPS improved from Rs.8 to Rs.11. During Q2FY20, CDSL reported revenue of Rs.527mn, (down 0.9% YoY) with net profits of Rs.293mn (down 2.3% YoY) due to slowdown in government projects. During Q2FY20 460 unlisted companies applied for Demat. CDSL has 19.9mn KYC records. Around 541 universities have signed up with CDSL for the National Academic Depository and CDSL can start providing verification facility from Q3FY20.

Recommendations:

At floor price of Rs.205, CDSL stocks trades at 18.87x its FY19 EPS of Rs.10.86. Increasing investments in capital markets and more of listing of unlisted private company will benefit CDSL. CDSL have 73% market share. Digitalization in country will also boost other business segments of CDSL. **Hence, we recommend to BID the OFS on a long term basis.**

Asit C. Mehta

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