B/S 16/6/17

IPO REVIEW

CDSL IPO offers growth at a reasonable price

Stable revenues and high margins are key positives

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Mumbai, 14 June

High operating profit margins, stable revenue streams along with addition of new growth avenues strengthen the prospects of India's second largest depository — Central Depository Services (CDSL). Promoted by BSE, the company is looking to raise up to ₹524 crore through its initial public offering (IPO) slated to open for subscription on June 19. The depository, which holds securities in an electronic form, operates in an industry with high entry barriers and has limited capex requirements going forward.

Large part of its costs are towards technology upgradations and employee-related expenses which are more or less fixed in nature. With stable revenues and addition of new income streams, the benefits of scale will enable the company to maintain its high margins.

At the upper price band of ₹149 per share and assuming a 15 per cent growth in FY18 earnings per share; the issue is priced at 16 times, which is not expensive considering the strong prospects. There are no listed peers for CDSL.

CDSL has ramped up its revenue market share rapidly to 43 per cent since its inception in 1997, as against 57 per cent share of National Security Depository (NSDL). The revenue growth of both companies has been rather similar in the past few years- reflecting the strong competitive pressures.

Revenues of NSDL have grown at a CAGR of 12 per cent over the previous four financial year years, as opposed to CDSL's 11 per cent, believe analysts. However, CDSL has been adding demat accounts rapidly and has a 60 per cent market share in incremental demat accounts, as against 40 per cent for NSDL. Share of sticky revenues in the form of annual fees is higher at 35 per cent for CDSL, as against about 7 per cent in case of NSDL. Other larger revenue streams for CDSL are transaction charges to depository participants or DPs (21 per cent of revenues), IPO and corporate action charges (11 per cent), amongst others.

CDSL's financial performance has been steady with consolidated revenues from operations growing at 17.8 per cent over FY15-17. In fact, the company enjoys operating margins of about 54 per cent despite the fact that pricing is regulated by Sebi and competitive intensity is high (NSDL).

CDSL's net profit too has grown at a healthy clip of 22 per cent in the past three years. Going forward, it will add more revenue streams by entering into warehouse as well as commodity repository. CDSL has registered as a know your customer (KYC) service agency and an authorised service agency for UIDAI (Aadhar) in addition to providing KYC-related services to various educational institutions.

Any adverse ruling in the on-going service tax dispute will hurt CDSL's earnings, as the company would end up paying ₹40 crore in such a scenario. For now though the management remains confident of getting a favourable ruling in this case. Changing economic environment has a bearing on activity in capital markets and also on CDSL's revenues. These are amongst the key risks facing the company.

Overall, with strong economic moat, reasonable valuations and sound financials, investors can consider investing in the IPO.

STRONG SHOW

	FY15	FY16	FY17
Revenues from operation* (₹cr)	105	123	146
% change y-o-y	18.4	16.7	18.8
Net profit (₹cr)	57	69	86
% change y-o-y	15.5	22.6	23.6

Source: Company RHP

ISSUE DETAILS

Opens on	Jun 19
Closes on	Jun 21
Price band (₹/share)	145 - 149
Size (₹ crore)	510 - 524
No of shares (mn)	
Offer for sale	35

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6