

Stock update

Central Depository Services (India) Ltd

Mar 31, 2022





Central Depository Services (India) Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Depository Services	Rs.1453	Buy between Rs.1445-1465 & add more on dips of Rs.1303	Rs.1603	Rs.1715	2 quarters

HDFC Scrip Code	CDSLTDQNR
BSE Code	NA
NSE Code	CDSL
Bloomberg	CDSL IN
CMP Mar 30, 2022	1453
Equity Capital (Rs mn)	1045
Face Value (Rs)	10
Equity Share O/S (mn)	104.5
Market Cap (Rs bn)	151.2
Book Value (Rs)	84
Avg. 52 Wk Volumes	574623
52 Week High	1734.4
52 Week Low	621.4

Share holding Pattern % (Dec, 2021)	
Promoters	20.0
Institutions	36.2
Non Institutions	43.8
Total	100.0



HDFCsec Retail research
stock rating meter

for details about the ratings, refer at the end of the report

* Refer at the end for explanation on Risk Ratings

Fundamental Research Analyst

Nisha Sankhala

Nishaben.shankhala@hdfcsec.com

Our Take:

Central Depository Services Ltd (CDSL) is one of the two depositories in India and the only one in the listed space. Despite being a late entrant in the market, CDSL has been gaining market share from NSDL and has become the market leader. The company has tied up with many leading as well as new age discount brokers which is driving higher business for the company. Given the high risk of data pilferage and safety concerns, we believe there is limited scope for any other depository to be set up.

Past two years were tremendous in terms of growth for the industry as a lot of new investors came on board. Work from home culture, attractive equity market returns, record number of IPOs and low interest rates were the key reasons. More accounts opening drives two way benefits for the depositories; more transaction and online data charges leading to higher revenue. Further, underpenetrated Indian capital market provides long term opportunity for the business growth. The company has ventured into new businesses which will not only bring diversified revenue but some of them hold a promising future. Unlisted firms' dematerialization also provides good opportunity over the medium term.

We had issued Initiating Coverage report on CDSL on 29th June, 2020 and recommended Buy on dips to Rs.260-264 and add further between Rs242-246 band, for base case target of Rs. 289 and bull case target of Rs.307 over the next two quarters.

Link for the Initiating Coverage:

<https://www.hdfcsec.com/hsl.research.pdf/CDSL%20Ltd%20-%20Initiating%20Coverage-%2029062020.pdf>

Valuation & Recommendation:

We have envisaged 31% CAGR for revenue and 30% CAGR for Adjusted Net Profit over FY21-24E. EBIT margins are estimated to improve to 66.3% by FY24E as operating leverage derives further gains. Over the past few months the platform business theme has been trending and there has been decent run up in both BSE and CDSL's stock price, but looking at the growth prospects we feel that there is still room left on the upside. The company is trading at a valuation of 39x / 34.4x FY23E / FY24E adjusted earnings. We believe the business should command high multiples because of its asset-light nature, higher annuity revenue stream and excellent cash generation. CDSL has robust financials with high net cash on the balance sheet and a dividend yield of ~1%, which limits downside.

We have valued CDSL on SOTP basis. We assign a P/E multiple of 39x for base case fair value and 42x for bull case fair value to core earnings of FY24E and add back net cash to arrive at a SoTP based price of Rs.1603 for base case fair value and Rs.1715 for bull case fair



value. We feel that investors can enter the stock between to Rs. 1445-1465 band (35xcore earnings) and add further between Rs.1303 (31xcore earnings).

Financial Summary (Rs.mn)

	Q3FY22	Q3FY21	YoY (%)	Q2FY22	QoQ (%)	FY20	FY21	FY22E	FY23E	FY24E
Net Revenue	1,515	861	75.9	1,460	3.8	2,251	3,437	5,708	6,760	7,771
EBITDA	1,032	560	84.3	992	4.1	1,084	2,118	3,826	4,597	5,301
APAT	837	537	56	864	-3.1	1,255	2,003	3,196	3,901	4,409
Diluted EPS	8	5.1	56	8.3	-3.1	12	19.2	30.6	37.3	42.2
P/E (x)						121.1	75.7	47.5	39.0	34.4
EV / EBITDA (x)						139.1	70.2	38.5	31.6	27
RoE (%)						17.3	22.8	30.4	30.8	29.2

(Source: Company, HDFC sec)

Q3FY22 Result Update

Revenue during the quarter was up by 75.9% YoY and 3.8% QoQ to Rs. 1,515 mn. The annual issuer/transaction/KYC revenues were up +0.6/+6.0/+11.0% QoQ. Revenue from IPO/corporate action was up 8.9% QoQ, while others comprising evoting and e-CAS revenue declined by 18.2% QoQ. EBITDA margin at 68.1% remained flattish. Consolidated adj. PAT increased 56% YoY to Rs.837mn.

There was highest ever demat account addition of 9.1mn in Q3FY22 vs. 6.8 mn in Q2FY22. Total figure as of Dec 2021 stands at 55.6mn. The number of active companies as on December 31, 2021, was 17,748 which is an 11% year-on-year increase from 15,992. For the same period in comparison the value of securities and Demat custody increased by 47% to Rs. 37 trn at CDSL from Rs.25 trn last year same time.

The management has informed that CDSL has become one of the largest KYC Registration Agencies in the country with over 39.3 mn fully digitized KYC records as of Q3FY22 vs 34.5 mn in last quarter. On the insurance front, CDSL through its subsidiary CIRL and CCRL registered total 6.83 lakhs e-insurance accounts and 3,552 warehouses, respectively.



Improving market share

	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22
BO Accounts (mn)														
NSDL	21.1	21.3	21.7	21.9	22.2	22.5	22.9	23.3	23.8	24.2	24.6	25.0	25.5	26.07
CDSL	30.4	31.8	33.4	35.1	37.5	39.7	42.0	44.1	46.5	49.6	52.6	55.6	58.5	60.76
Total BO Accounts	51.5	53.1	55.1	56.9	59.6	62.2	64.9	67.4	70.2	73.8	77.2	80.6	84.0	86.83
BO Accounts Growth YoY %														
NSDL	8.5%	9.1%	10.2%	10.7%	11.6%	12.5%	13.5%	14.8%	16.1%	17.6%	18.7%	19.8%	20.8%	22.1%
CDSL	51.3%	54.9%	57.9%	60.9%	67.8%	71.2%	74.0%	76.3%	77.8%	83.7%	88.9%	92.0%	92.4%	91.2%
Total Growth	30.3%	32.5%	34.9%	37.0%	41.3%	44.0%	46.5%	48.8%	50.7%	55.1%	58.9%	61.7%	63.0%	63.5%
Market Share %														
NSDL	41.0%	40.2%	39.3%	38.4%	37.2%	36.2%	35.3%	34.6%	33.8%	32.8%	31.8%	31.1%	30.3%	30.0%
CDSL	59.0%	59.8%	60.7%	61.6%	62.8%	63.8%	64.7%	65.4%	66.2%	67.2%	68.2%	68.9%	69.7%	70.0%
Incremental BO Accounts (mn)														
NSDL	0.2	0.2	0.3	0.2	0.3	0.4	0.4	0.4	0.5	0.4	0.4	0.4	0.5	0.6
CDSL	1.5	1.4	1.7	1.6	2.4	2.2	2.3	2.1	2.4	3.1	3.0	2.9	2.9	2.3
Total	1.7	1.6	2.0	1.8	2.7	2.5	2.7	2.5	2.8	3.6	3.4	3.4	3.4	2.85
Incremental Market Share %														
NSDL	12.0%	15.4%	17.1%	9.8%	10.8%	13.9%	13.7%	16.3%	16.4%	12.5%	11.4%	12.8%	13.5%	21%
CDSL	88.0%	84.6%	82.9%	90.2%	89.2%	86.1%	86.3%	83.7%	83.6%	87.5%	88.6%	87.2%	86.5%	79%

(Source: Company, HDFC sec)

Long-term triggers

Underpenetrated Indian capital market provides long term opportunity

Indian stock exchanges have witnessed exponential growth in the past decade. However, it is still underpenetrated compared to the rest of the world. As of Feb-22, only 86.8 mn (NSDL+ CDSL) Indians have demat accounts, which is around 5.8% of the country's population. In comparison, over 32% of Americans (in 2018) own stocks. Even in China, 13.5% of the population are equity investors (Nov-21). Indian capital market also lags behind global peers in various parameters like Market Cap/GDP ratio, cash turnover velocity and free float etc. This indicates there is plenty of room for the growth further. With increase in financial literacy, mobile penetration, growing awareness and opening up of Jan Dhan bank accounts, demand for financial products is expected to rise especially in the tier 2-3 cities.



In fact the change is visible in past 2-3 years with rising demat accounts. In FY20 total demat accounts were 41mn which grew to 55 mn in FY21 and further to 81 mn till 9MFY22. The pandemic led lockdown was blessing for the industry as work from home culture, attractive equity market returns, record number of IPOs and low interest rates attracted a large number of new investors to the stock market. More account opening drives two way benefits for the depositories; more transaction and online data charges leading to higher revenue.

There has been also rise in the Mutual fund inflow in the market. Over the last decade, the Indian MF Industry has grown at a steady pace from Rs.7 trn to Rs.32.1 trn, an approximately 4 times increase in a span of 10 years. Further, during the year Industry saw a healthy growth of 9% in total folios largely due to increasing awareness and high retail participation. Further we believe that Indian mutual fund industry has a multiyear growth story lying ahead of them on the back of several structural benefits.

Unprecedented fund raisings by India companies

The Indian primary market was buzzing throughout the year. Fund mobilisation via the primary market route was the highest ever in FY21. Funds raised through Initial Public Offerings (IPOs), Follow-on Public Offerings (FPOs) and Offer for Sale (OFS) stood at a record Rs.747 bn in FY21 as compared to Rs.376.7 bn raised in FY20. The trend continued in H1FY22 also, which is benefitting CDSL also as many investors are opening new demat accounts. For the CY2022, the IPO pipeline continues to remain strong with 35 companies holding SEBI approval to raise roughly Rs.500 bn and another 33 companies awaiting regulator go-ahead to raise about Rs.600 bn. This excludes the much anticipated mega IPO of LIC, which is expected to be launched in this financial year. LIC's IPO is expected to be the largest IPO and we expect many first-time investors to open demat accounts just to invest in the IPO (it is expected that the policy holders could get discount to the issue price). This gives revenue visibility for the company. CDSL charges fees on processing of IPOs as well as transactions.

Continue to introduce new offerings to scale up businesses

The company has ventured into new business which will not only bring diversified revenue but some of them hold a promising future. We have explained below each new segment:

CDSL Ventures Ltd

CDSL Ventures Limited (CVL) is a wholly owned subsidiary of CDSL. After the introduction of the KRA regulations in 2011, CVL was the first entity to register as a KYC Registration Agency (KRA) with SEBI. As a KRA, CVL provides fully digitized KYC services to all intermediaries in the Capital Markets. CVL currently holds over 39.3 mn fully digitized KYC records. CVL is also working as a Registered Transfer Agent (RTA); it maintains and updates the KYC details, bank details, sends emails etc. It also offers Aadhaar based eKYC & esign services, GST Suvidha Provider Services for filing GST Returns, maintaining a Claim Repository and performing dedupe activity for claims under PMJJBY scheme. The company contributes meaningful revenue and past three years topline CAGR is above 25%.



Ministry of Finance (Department of Revenue) has recognized CDSL and CVL as a reporting entity to perform Aadhaar Authentication. Also, Securities Exchange Board of India (SEBI) has given nod to use technology for KYC. The above Initiative by SEBI & MoF helps registered capital market intermediaries to open trading and demat accounts digitally.

CDSL Insurance Repository Ltd (CIRL)

CDSL holds 51.25% stake in the company and remaining stake is held by 10 different insurance companies (both public and private sector). CIRL provides policyholders a facility to keep their insurance policies in electronic form and to undertake changes, modifications, and revisions in the insurance policy with speed and accuracy, to bring about efficiency, transparency and cost reduction in the issuance and maintenance of insurance policies. The services are provided for all kind of life as well as general insurance for both individuals and corporates. The company has tied up with majority of the insurance companies for holding policies in electronic form. LIC currently issues physical policies; if it makes make electronic insurance policies mandatory, there will be a sharp growth in revenue. The opportunity for the business is huge as we have high under-penetration in insurance business itself.

CIRL has also received a contract from an insurance company, to operate remote offices on their behalf and provide outsourcing services. As of FY21, three such centers had been established at present and four more centers were in the pipeline. The company is also interacting with other Insurance Companies to provide similar services. Considering the trend of companies outsourcing their activities, these services contracts will provide the company with new revenue streams, apart from the IR business.

CDSL Commodity Repository Ltd (CCRL)

Multi Commodity Exchange of India Ltd. (MCX) and BSE Investments Ltd. have each taken up 24% stake in CCRL and remaining is held by CDSL. Warehousing Development and Regulatory Authority (WDRA) is the regulator for CCRL. It serves three derivative commodity exchanges for their derivative trades in Agri-commodities: MCX, BSE Limited and ICEX. It facilitates in transacting and holding of commodity assets in electronic form instead of physical storage receipts via issuance of electronic Negotiable Warehouse Receipt (eNWRs).

CDSL IFSC Ltd

CDSL IFSC Limited (CIL) is a wholly owned subsidiary of CDSL and operates a depository in the IFSC at GIFT City. CIL is a foreign depository and caters to a global audience of investors. CIL operates under the regulatory oversight of International Financial Services Centres Authority (IFSCA) and it was registered on 12th March 2021. It facilitates in transacting and holding foreign securities, bullion, depository receipts and other such instruments. As the GIFT City route of investing in India picks up, we expect stronger business growth.



Tie ups with leading brokers

The company has tie-ups leading brokers like ICICI Securities, Kotak Securities, HDFC Securities, IIFL Securities, MOSL etc. and also some of the big discount brokers like Zerodha (highest active client), Angel, 5paisa etc. Although some of the top brokers such as Zerodha have also empaneled NSDL, they continue to use CDSL as primary depository for their clients. This could continue drive strong organic growth. In past 2 quarters, the company has ~86% average market share in new demat accounts. The approval for Aadhaar Authentication and eKYC was the game changer for the company as it provided first mover advantage of digital account opening. Many of the emerging discount brokers got benefited as now they could open trading and demat accounts digitally.

Unlisted firms' dematerialization is a big market

Unlisted companies is the big market opportunity for the depository firms as all the unlisted companies which are conducting corporate actions need to do that in dematerialized form only. Increasing trend of money raising via private equity and venture capital funds are driving the growth. The company has started focusing on unlisted public and private limited companies and endeavours to get their securities admitted in. This has dual benefits in terms of increase in Issuer Charges as well as opening of a larger number of Promoters Demat accounts.

Risks & Concerns

Capital market conditions

Capital market has inherent risk of volatility. Market volatility (especially downward) has high correlation with volumes growth. So any prolonged period of negative returns from equity, commodity or even currency market can hurt company's revenues as depository services business largely depends on volumes of capital market. Weak market conditions could also limit the new listings/ IPOs. If retail investors face losses for a few months in a row, then new depository account opening momentum could get impacted.

Advances Regulations

Any adverse change of regulation might impact the business growth of the company.

Competition

There is duopolistic situation in the industry and the company has been able to achieve higher incremental market share recently. So launch of any competitive products or price cut by the other player or even entry of new player/s could impact the company's business.

Information Technology

The company's operations significantly depend on IT systems. So any disruptive new development in the field or system failure could impact the business in a big way. Also any data leakage or security breach of data of customers might be costly for the company.



Economic Scenario

Weak economic conditions of the country may adversely affect listing and volume growth for the capital market. If the economic scenario is gloomy the domestic fund houses will have less inflow of money and for foreign investors, Indian market may become unattractive.

Large growth in FY21 and FY22 could create a big base on which growth rates could slow going forward.

Company Background:

Incorporated in 1999, Central Depository Services Ltd (CDSL) is one of two depositories in India and the only one to be listed. It was initially promoted by BSE Ltd with the objective of providing convenient, dependable and secure depository services at affordable cost to all market participants, but thereafter BSE Ltd has divested its stake to leading banks.

The company facilitates holding and transacting in securities in the electronic form and facilitates settlement of trades executed on stock exchanges. These securities include equities, debentures, bonds, Exchange Traded Funds (ETFs), units of mutual funds, units of Alternate Investment Funds (AIFs), Certificates of deposit (CDs), commercial papers (CPs), Government Securities (G-Secs), Treasury Bills (TBills), etc.

The company has four subsidiaries, namely CDSL Ventures Limited (CVL), CDSL Insurance Repository Limited (CIRL), CDSL Commodity Repository Limited (CCRL) and CDSL IFSC Limited.

Revenue Analysis (%)

	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Annual issuer charges	29.6%	34.5%	34.4%	25.1%	20.3%	19.9%	19.8%
Transaction charges	23.5%	20.2%	19.1%	34.7%	35.4%	37.2%	37.1%
IPO/corporate action charges	15.7%	10.2%	10.0%	9.6%	13.5%	14.3%	14.9%
Online data charges	15.5%	16.3%	16.4%	16.3%	21.5%	19.9%	19.9%
Others	15.6%	18.8%	20.1%	14.4%	9.3%	8.7%	8.3%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%



CDSL Update (as of 28-Feb-2022)	
Investor accounts(Excluding closed accounts)	6,07,62,732
Securities available for demat	
Equity	17,124
Debt instruments including debentures, bonds, Government securities, certificates of deposits, commercial paper, pass through certificates and Others	20,829
Mutual fund units	14,661
Depository Participants	
Number of Depository Participants	584
Number of branches with LIVE Connectivity	212
Number of cities/ towns with LIVE connectivity	107
Number of locations with LIVE connectivity	317
Demat Custody	
Number of securities in mn	5,41,922
Value (Rs. in mn)	3,56,76,515

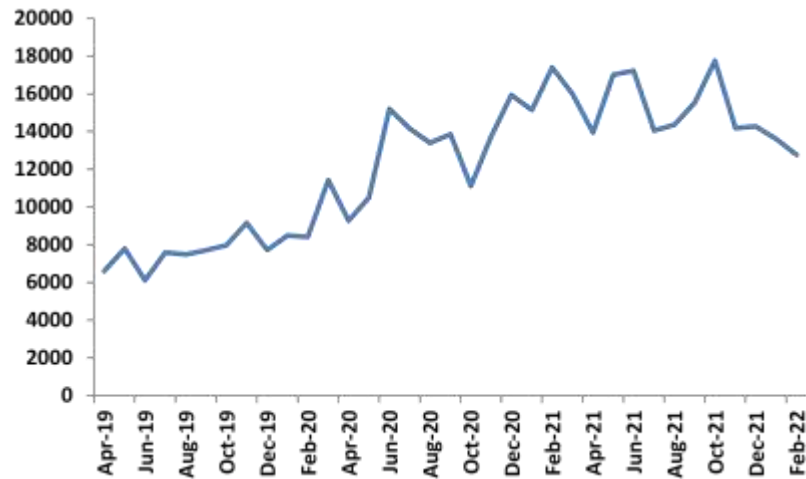
SoTP Valuation

	Base Case	Bull Case
Core FY24E PAT (Rs mn)	3918	3918
Core P/E Multiple (x)	39	42
Core Mcap (Rs mn)	152810	164565
Net Cash (Rs mn)	14,699	14,699
Target Mcap (Rs mn)	167510	179264
Target per share price (Rs)	1603	1715

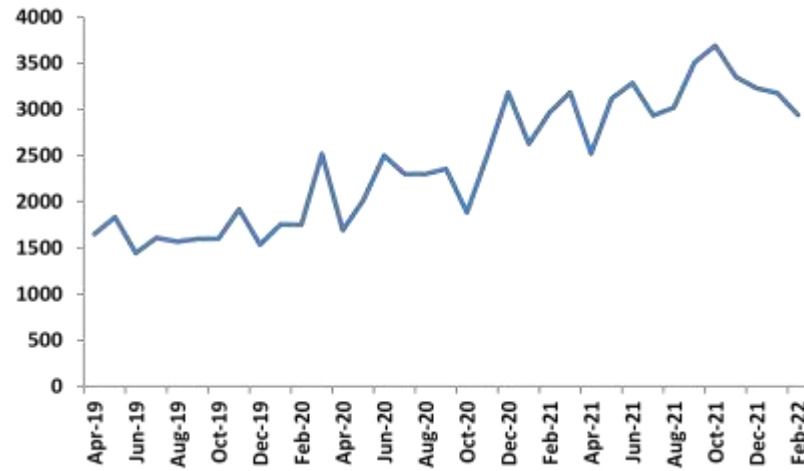


Central Depository Services (India) Ltd.

NSE Value of Shares Traded (Rs. Bn)



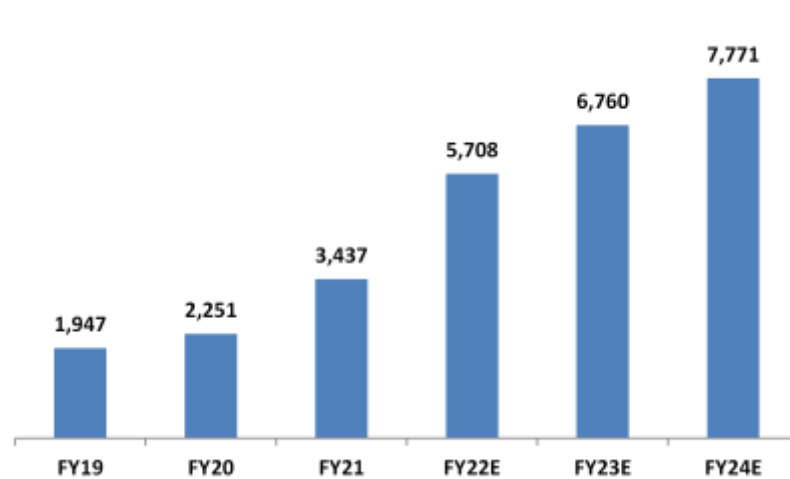
NSE Value of Shares Deliverable (Rs. bn)



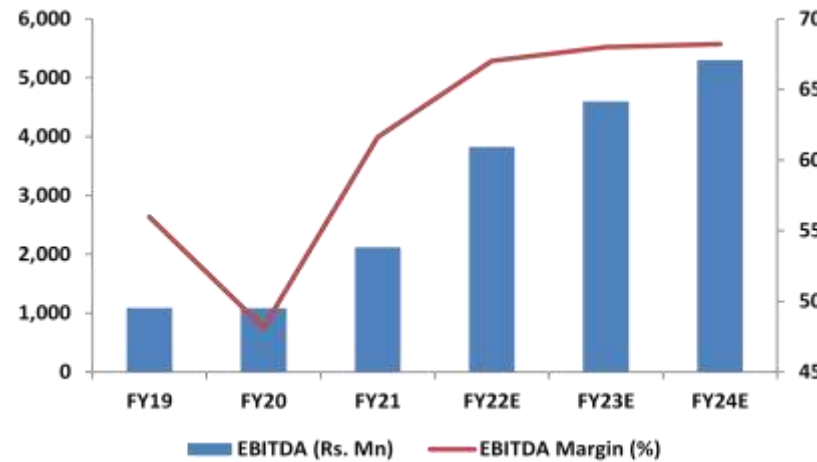
BSE Total No. of Trades (mn)



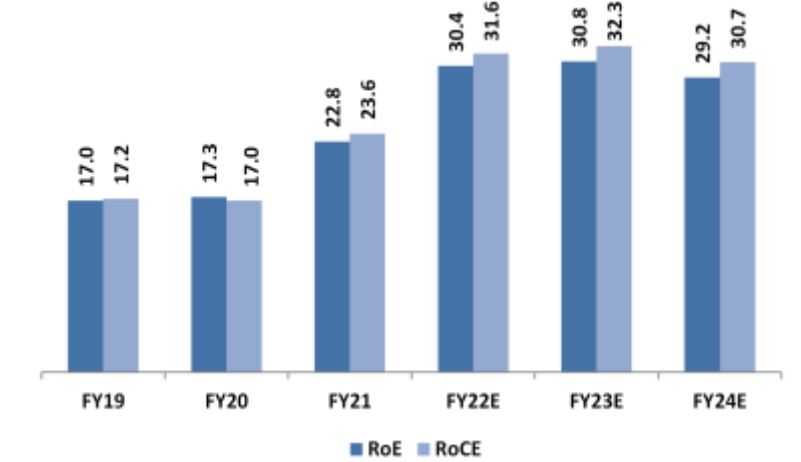
Estimated ~31% CAGR in revenue (Rs. mn) between FY21-24E



Margin Trend (%)



Return Ratios (%)





Financials

Income Statement

(Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Net Revenues (Rs mn)	2,251	3,437	5,708	6,760	7,771
Growth (%)	16	53	66	18	15
Employee Expenses	473	413	510	571	639
Other operating Expenses	694	906	1,372	1,592	1,831
EBITDA	1,084	2,118	3,826	4,597	5,301
EBITDA Margin (%)	48	62	67	68	68
EBITDA Growth (%)	-1	95	81	20	15
Depreciation	117	92	111	125	148
EBIT	966	2,026	3,715	4,472	5,153
EBIT Margin (%)	43	59	65	66	66
Other Income (Including EO Items)	398	569	545	672	660
Interest	0	0	0	0	0
PBT	1,364	2,595	4,260	5,144	5,813
Tax (Incl Deferred)	297	583	1,054	1,232	1,393
Minority Interest	6	9	1	1	1
Share of profit / (Loss) of associate			-10	-10	-10
RPAT	1,062	2,003	3,196	3,901	4,409
EO (Loss) / Profit (Net Of Tax)	-193	0	0	0	0
APAT	1,255	2,003	3,196	3,901	4,409
APAT Growth (%)	11	60	60	22	13
Adjusted EPS (Rs)	12	19	31	37	42

Balance Sheet

(Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
SOURCES OF FUNDS					
Share Capital - Equity	1,045	1,045	1,045	1,045	1,045
Reserves	6,195	7,727	9,485	11,631	14,056
Total Shareholders' Funds	7,240	8,772	10,530	12,676	15,101
Minority Interest	419	428	429	429	430
Total Debt	0	0	0	0	0
Net Deferred Taxes (Net)	10	23	23	23	23
Long Term Provisions & Others	39	26	26	26	26
TOTAL SOURCES OF FUNDS	7,708	9,248	11,007	13,153	15,579
APPLICATION OF FUNDS					
Net Block	743	734	852	997	1,160
CWIP	0	228	228	228	228
LT Loans & Advances & Others	309	158	799	946	1,088
Total Non-current Assets	1,052	1,120	1,879	2,172	2,476
Debtors	260	237	626	741	852
Other Current Assets	128	311	314	372	427
Cash & Equivalents	7,183	9,171	10,395	12,402	14,699
Total Current Assets	7,571	9,719	11,334	13,515	15,978
Creditors	121	127	188	222	255
Other Current Liabilities & Provns	795	1,464	2,018	2,311	2,619
Total Current Liabilities	915	1,591	2,206	2,533	2,875
Net Current Assets	6,656	8,128	9,128	10,982	13,103
TOTAL APPLICATION OF FUNDS	7,708	9,248	11,007	13,153	15,579

(Source: Company, HDFC sec)

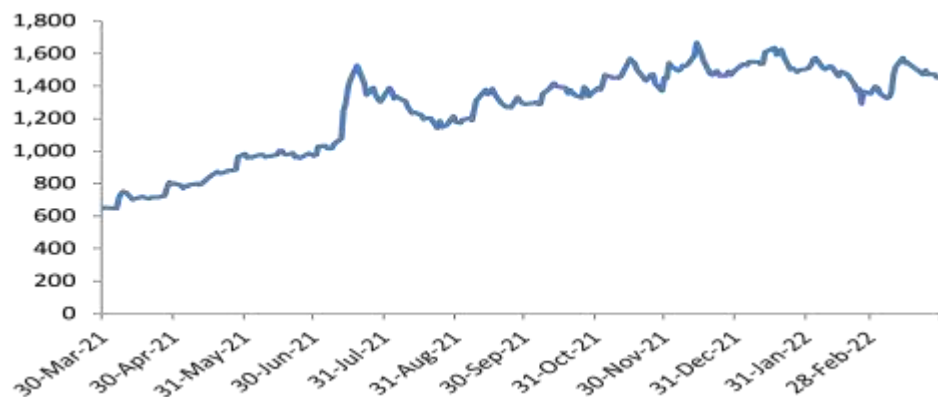


Central Depository Services (India) Ltd.

Cash Flow Statement

(Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Reported PBT	1,364	2,595	4,251	5,134	5,803
Non-operating & EO items	(433)	(496)	(545)	(672)	(660)
Depreciation	119	94	111	125	148
Working Capital Change	11	312	(417)	7	34
Tax Paid	(240)	(579)	(1,054)	(1,232)	(1,393)
OPERATING CASH FLOW (a)	821	1,926	2,345	3,362	3,932
Capex	(93)	(180)	(228)	(270)	(311)
Free cash flow (FCF)	729	1,745	2,117	3,091	3,621
Non-operating Income	133	122	545	672	660
INVESTING CASH FLOW (b)	41	(59)	317	401	349
Interest Expenses	(1)	(2)	0	0	0
FCFE	727	1,744	2,117	3,092	3,621
Dividend	(504)	(470)	(1,438)	(1,756)	(1,984)
FINANCING CASH FLOW (c)	(505)	(472)	(1,438)	(1,755)	(1,984)
NET CASH FLOW (a+b+c)	357	1,395	1,224	2,008	2,297
EO Items, Others	296	593	-	-	-
Closing Cash & Equivalents	7,183	9,171	10,395	12,402	14,699

One Year Price Chart



Key Ratio

	FY20	FY21	FY22E	FY23E	FY24E
PROFITABILITY (%)					
GPM	79.0	88.0	91.1	91.6	91.8
EBITDA Margin	48.2	61.6	67.0	68.0	68.2
APAT Margin	55.8	58.3	56.0	57.7	56.7
RoE	17.3	22.8	30.4	30.8	29.2
RoIC (or Core RoCE)	55.7	101.1	124.6	111.5	111.3
RoCE	17.0	23.6	31.6	32.3	30.7
EFFICIENCY					
Fixed Asset Turnover (x)	2.1	3.0	4.1	4.1	3.9
Debtors (days)	42	25	40	40	40
Other Current Assets (days)	21	33	20	20	20
Payables (days)	20	13	12	12	12
Other Current Liab & Provns (days)	129	156	129	125	123
Cash Conversion Cycle (days)	-85	-111	-81	-77	-75
Net D/E (x)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)
PER SHARE DATA (Rs)					
EPS	12.0	19.2	30.6	37.3	42.2
CEPS	13.1	20.1	31.6	38.5	43.6
Dividend	4.6	7.2	11.4	14.0	15.8
Book Value	69.3	83.9	100.8	121.3	144.5
VALUATION					
P/E (x)	121.1	75.7	47.5	39.0	34.4
P/BV (x)	21.0	17.3	14.4	12.0	10.1
EV/EBITDA (x)	139.1	70.2	38.5	31.6	27.0
Dividend Yield (%)	0.3	0.5	0.8	1.0	1.1

(Source: Company, HDFC sec)



Central Depository Services (India) Ltd.



HDFC Sec Retail Research Rating description

Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. This stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Yellow Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclical of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

Disclosure:

I, **Nisha Sankhala, (MBA)**, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. HSL has no material adverse disciplinary history as on the date of publication of this report. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Research Analyst or her relative or HDFC Securities Ltd. **does not have** any financial interest in the subject company. Also Research Analyst or his relative or HDFC Securities Ltd. or its Associate may have beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of the Research Report. Further Research Analyst or her relative or HDFC Securities Ltd. or its associate **does not have** any material conflict of interest.

Any holding in stock – No

HDFC Securities Limited (HSL) is a SEBI Registered Research Analyst having registration no. INH000002475.

Disclaimer:

This report has been prepared by HDFC Securities Ltd and is meant for sole use by the recipient and not for circulation. The information and opinions contained herein have been compiled or arrived at, based upon information obtained in good faith from sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. This document is for information purposes only. Descriptions of any company or companies or their securities mentioned herein are not intended to be complete and this document is not, and should not be construed as an offer or solicitation of an offer, to buy or sell any securities or other financial instruments.

This report is not directed to, or intended for display, downloading, printing, reproducing or for distribution to or use by, any person or entity who is a citizen or resident or located in any locality, state, country or other jurisdiction where such distribution, publication, reproduction, availability or use would be contrary to law or regulation or what would subject HSL or its affiliates to any registration or licensing requirement within such jurisdiction.

If this report is inadvertently sent or has reached any person in such country, especially, United States of America, the same should be ignored and brought to the attention of the sender. This document may not be reproduced, distributed or published in whole or in part, directly or indirectly, for any purposes or in any manner.

Foreign currencies denominated securities, wherever mentioned, are subject to exchange rate fluctuations, which could have an adverse effect on their value or price, or the income derived from them. In addition, investors in securities such as ADRs, the values of which are influenced by foreign currencies effectively assume currency risk.

It should not be considered to be taken as an offer to sell or a solicitation to buy any security. HSL may from time to time solicit from, or perform broking, or other services for, any company mentioned in this mail and/or its attachments.

HSL and its affiliated company(ies), their directors and employees may; (a) from time to time, have a long or short position in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.

HSL, its directors, analysts or employees do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of shares and bonds, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc.

HSL and other group companies, its directors, associates, employees may have various positions in any of the stocks, securities and financial instruments dealt in the report, or may make sell or purchase or other deals in these securities from time to time or may deal in other securities of the companies / organizations described in this report.

HSL or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

HSL or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from t date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction in the normal course of business.

HSL or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither HSL nor Research Analysts have any material conflict of interest at the time of publication of this report. Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. HSL may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Research entity has not been engaged in market making activity for the subject company. Research analyst has not served as an officer, director or employee of the subject company. We have not received any compensation/benefits from the subject company or third party in connection with the Research Report.

HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066

Compliance Officer: Binkle R. Oza Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

HDFC Securities Limited, SEBI Reg. No.: NSE, BSE, MSEI, MCX: INZ000186937; AMFI Reg. No. ARN: 13549; PFRDA Reg. No. POP: 11092018; IRDA Corporate Agent License No.: CA0062; SEBI Research Analyst Reg. No.: INH000002475; SEBI Investment Adviser Reg. No.: INA000011538; CIN - U67120MH2000PLC152193

Mutual Funds Investments are subject to market risk. Please read the offer and scheme related documents carefully before investing.

