Central Depository Services (India) Ltd

Issue Snapshot:

Issue Open: June 19 - June 21 2017

Price Band: Rs. 145 – 149

Issue Size: 35,167,208 Equity Shares (including Employee Reservation of 700,000 eq sh) (entirely offer for sale)

*Offer Size: Rs.523.99 crs

QIB	upto	17,233,604 eq sh
Retail	atleast	12,063,523 eq sh
Non Institutional	atleast	5,170,081 eq sh

Face Value: Rs 10

Book value: Rs 51.04 (March 31, 2017)

Bid size: - 100 equity shares and in multiples thereof

100% Book built Issue

Capital Structure:

Pre Issue Equity: Rs. 104.50 cr

Post issue Equity: Rs.104.50 cr

Listing: NSE

Global Co-ordinators and Book Running Lead Manager: Axis Capital Ltd, Edelweiss Financial Services Ltd, Nomura Financial Advisory & Securities (India) Pvt Ltd, SBI Capital Markets Ltd

Book Running Lead Manager: Haitong Securities India Pvt Ltd, IDBI Capital Markets & Securities Ltd, Yes Securities (India) Ltd

Registrar to issue: Link Intime India Pvt Ltd

Shareholding Pattern

Shareholding Pattern	Pre issue %	Post issue %
Promoters & Promoter Group	50.05	24.00
Public (Including Trading Members))	49.95	76.00
Total	**100.0**	**100.0**

*= assuming pricing at the higher end of price band

Source of the note : RHP

Background & Operations:

Central Depository Services India Ltd (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, It offers services to the following clients:

Depository Participants and other capital market intermediaries: CDSL offers dematerialization for a wide range of securities including equity shares, preference shares, mutual fund units, debt instruments, government securities. As a securities depository, it facilitates holding of securities in electronic form and enable securities transactions (including off-market transfer and pledge) to be processed by book entry. The DPs act as its agent and offer depository services to the BO of the securities. The Registrar and Transfer Agents ("RTAs") and Clearing Members ("CMs") are the other intermediaries involved in the process of issue and transfer of securities on its electronic platform.

Corporates: CDSL offer facilities to issuers to credit securities to a shareholder's or applicant's demat accounts to give effect to a range of non-cash corporate actions such as bonus issue, subdivision of holdings and conversion of securities in a merger, amalgamation or in an initial public offering.

Capital market intermediaries: It offers KYC services in respect of investors in Indian capital markets to capital market intermediaries including to mutual funds.

Insurance Companies: It offers facilities to allow holding of insurance policies in electronic form to the holders of these insurance policies of several insurance companies.

Others: 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) drafting and preparation of wills for succession (myeasiwill) mobile application (myeasi, m-voting) and Transactions using Secured Texting (TRUST). It also regularly conduct investor meetings and other awareness programs.

CDSL's revenue from operations includes transaction charges, account maintenance charges and settlement charges paid by DPs and annual fees, corporate action charges and e-voting charges paid by companies whose securities are admitted to its systems. It has connectivity with clearing corporations of all the leading Indian stock exchanges including the BSE, National Stock Exchange ("NSE") and Metropolitan Stock Exchange of India. It has also entered into MoUs with depositories globally including with DTCC, JASDEC and Euroclear.

As of April 30, 2017, CDSL had: Over 12.4 million investor accounts. In Fiscal 2017, it held a 59% market share of incremental BO accounts with a net growth in BO accounts of 13.68% from Fiscal 2016 to Fiscal 2017. Over 253 billion securities of 9,934 issuers under its custody representing a total value of Rs.18.3 trillion. 589 registered DPs who had over 17,000 service centres across India. Over 15 million KYC records with a market share of approximately 67%. Its revenue from operations includes transaction charges, account maintenance charges and settlement charges paid by DPs and annual fees, corporate action charges and e-voting charges paid by companies whose securities are admitted to CDSL's systems.

Objects of Issue:

The objects of the Offer are to achieve the benefits of listing the Equity Shares on NSE and for the sale of Equity Shares by the Selling Shareholders. Further, CDSL expects that listing of the Equity Shares will enhance its visibility and brand image and provide liquidity to its existing Shareholders. The Company will not receive any proceeds of the Offer and all the proceeds of the Offer will go to the Selling Shareholders in the proportion of the Equity Shares offered by them.

Competitive Strengths:

Stable revenue base due to repeat business in multiple offerings in the Indian securities and financial services market*:* CDSL, along with its Subsidiaries, offer services to several sub-sectors of the Indian securities and financial services market including capital markets, mutual funds and insurance companies. Its diversified offerings to several client bases including DPs, corporates, stock exchanges, clearing corporations, registrars and the investors has provided it with multiple streams of stable, recurring operating revenue. In addition to its securities depository services, CDSL Ventures is registered with the SEBI and the Unique Identification Authority of India ("UIDAI") as both an AUA and KUA. CDSL Ventures undertakes common Know Your Client ("KYC") services for investors in the capital markets including to the mutual fund industry. It also provides facilities allowing holding of insurance policies in electronic form and enable policy holders to undertake changes, modifications and revisions to insurance policies with the aim of introducing efficiency, transparency and cost reduction to the issuance and maintenance of insurance policies.

High economies of scale leading to steady growth in profitability: Commencing CDSL's business in 1999, it is the leading securities depository in India by incremental growth of BO accounts according to the CRISIL Report. However, in terms of market share, it is the second largest depository in India. Its largely fixed operating costs result in high economies of scale. Its main costs are employee wages and post employee benefits and software development and maintenance costs. Its stable business and steady revenue growth has allowed CDSL to consistently pay dividends.

India's leading securities depository with the highest share of incremental growth of BO accounts: CDSL is the leading securities depository in India by incremental growth of BO accounts and by the total number of registered DPs and, according to the CRISIL Report. It has a wide network of DPs, who act as points of service for its investors, operating from over 17,000 sites across the country, offering convenience for an investor to select a DP based on its cost structure and locational convenience to engage its services. As of April 30, 2017 it had 589 DPs servicing across 29 states and 7 union territories including two overseas centres. The number of service centres grew at 21.35% from 11,877 in Fiscal 2015 to 17,489 in Fiscal 2017. Its BO accounts grew at a CAGR of 12.98% from 9,610,002 in Fiscal 2015 to 12,267,432 in Fiscal 2017.

Convenient and dependable depository services at competitive prices for a wide range of securities: CDSL provides affordable depository services to investors through competitive tariff structures. It has a wide network of DPs, regularly audited by it, operating from over 17,000 centres, across India, offering investor's convenience of selecting a DP close to them. It is directly connected to its DPs through its centralised database systems which ensure relatively low initial set up costs and minimal incremental costs. This allows DPs to offer depository services on a real-time basis to its investors at competitive prices. CDSL has contingency terminals to ensure DPs' access to information remains unaffected in case of technical disruptions at a particular DP location. It also provides internet access to DPs as a contingency measure. Moreover, it also provides BOs access to their respective accounts on the internet. It has developed expertise in handling large data volumes due to several years of experience of working with a large network of DPs across the country.

State-of-the-art technology and robust infrastructure and IT systems: CDSL has state-of-the-art IT systems. It has deployed its core depository system based on a centralised architecture providing real-time updated information to users. Its system can be accessed over the internet as well as the intranet though a secure channel using multi-factor user authentication. It has deployed state-ofthe- art server hardware, enterprise flash storages and highly resilient network infrastructure. Also it has an experienced team of internal IT professionals, supported by third party IT service providers, to operate and support its infrastructure and software as well as to create and implement new technologies. Its IT policies are constantly assessed, in compliance with SEBI guidelines and strictly followed and audited annually by an independent auditor.

Led by an experienced senior management team*:* CDSL has a management team with extensive experience and know-how in the Indian capital markets. The quality of its management team has been critical in achieving its business results. CDSL's senior members of its management team has an average work experience of over 25 years which will help it to make timely strategic and business decisions in response to evolving customer needs and market conditions. CDSL's employees has been an important factor in its success as the quality and efficiency of the services it provides are dependent on them.

Business Strategy:

Continue to focus on developing new DPs relationships and leveraging existing DP network*:* India's demographic dividend with a large working age population and a low dependency ratio, increasing literacy and rising per capital income are likely to drive future growth of the Indian depositories. CDSL will continue to build on its existing DP relationships and leverage their extensive network all over India to take its offering to new investors. It also aims to strategically expand its network of DPs and service centres to better reach potential investors. CDSL currently expect that a significant portion of its new DP relationships will include DPs present in tier II and tier III cities due to relatively lower scale of DP services currently available in these cities.

Continue to introduce new offerings and scale up recently started businesses: CDSL endeavour to provide its investors with a comprehensive range of services at competitive prices and to maintain optimal service standards. In order to maintain and enhance competitive position, it will continue to offer its services at low prices achieved through its low operational costs driven by operational efficiency, high economies of scale and innovative service implementation. CDSL will continue to diversify its product and service offerings depending on investors' needs. It is also planning to expand its NAD project to include more educational institutions in the future. Finally, it has also registered as a KYC Service Agency (“KSA”) & Authorised Service Agency (“ASA”) and as a KYC User Agency (“KUA”) & Authorised User Agency (“AUA”) with the UIDAI.

Continue to invest and upgrade IT infrastructure and systems leading to Enhancement of operational efficiency and service quality: CDSL intends to regularly allocate optimal resources towards upgrading IT infrastructure and systems, with the goal of improving market efficiency and transparency, enhancing user access and providing flexibility for future business growth and market needs. Its IT strategy committee consists of external IT experts and professionals advises its board in relation to improving and maintaing IT infrastructure on an ongoing basis. It also plan to invest further in its IT and data management systems to improve productivity and time savings thereby increasing operating efficiency.

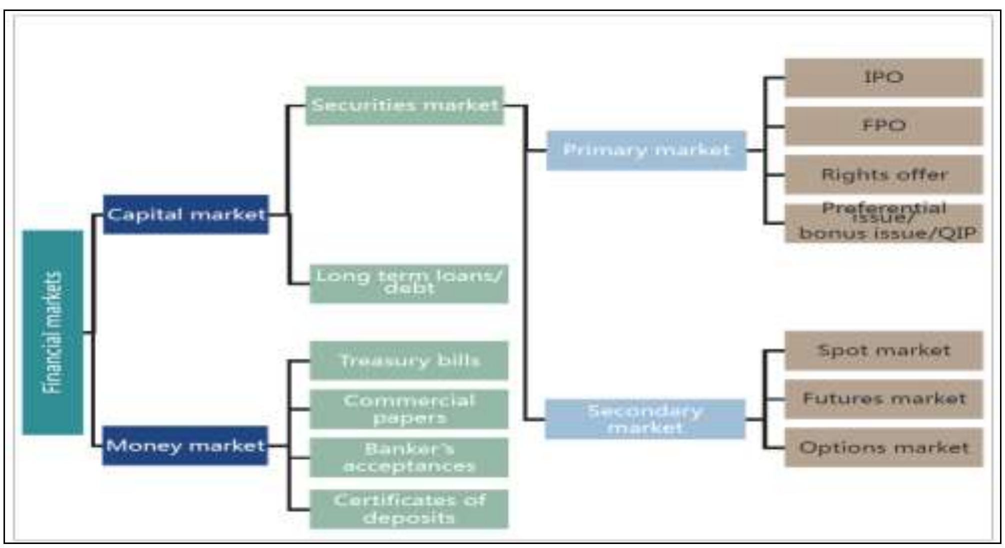
Continue investor education initiatives to foster a rise in the number of potential new investors and deepening of the Indian securities market: CDSL intend to continue to focus on financial inclusion through retail participation. It conducted over 400 investor awareness programs in Fiscal 2017, allowing investors across geographies, professions and age groups to come together and learn about the advantages of holding securities in dematerialised form and the investment opportunities available to them. It plans to, and has initiated steps to, further these programs by targeting the general public in tier-2 and tier-3 cities in India to introduce and explain the benefits of investing in securities. It is and will continue to work with various regional newspapers to attract a large number of potential new investors to these events, where it intends to distribute informative booklets in English, Hindi and other regional languages.

Industry:

Indian Capital Markets

Classification of financial markets in India

The financial markets in India are classified into two main markets, the money market and the capital market. The money market refers to where borrowers and lenders exchange short-term funds to solve their liquidity needs, encompassing the trading and issuance of short-term, non-equity, debt instruments such as treasury bills, commercial papers, banker’s acceptance and certificates of deposits. Key features of the money market include low default risk, maturities under one year and high marketability. The capital market is a market for long-term debt and equity shares where capital funds (financial instruments with more than one year maturity) comprising both equity and debt are issued and traded (including private placement sources of debt and equity as well as organised markets like stock exchanges).

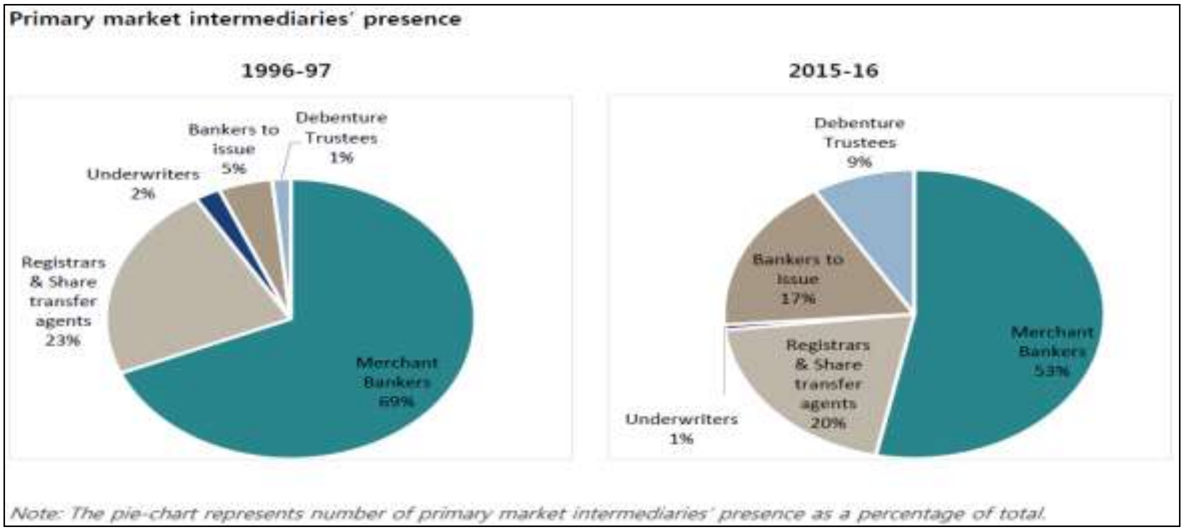


Capital market – securities market

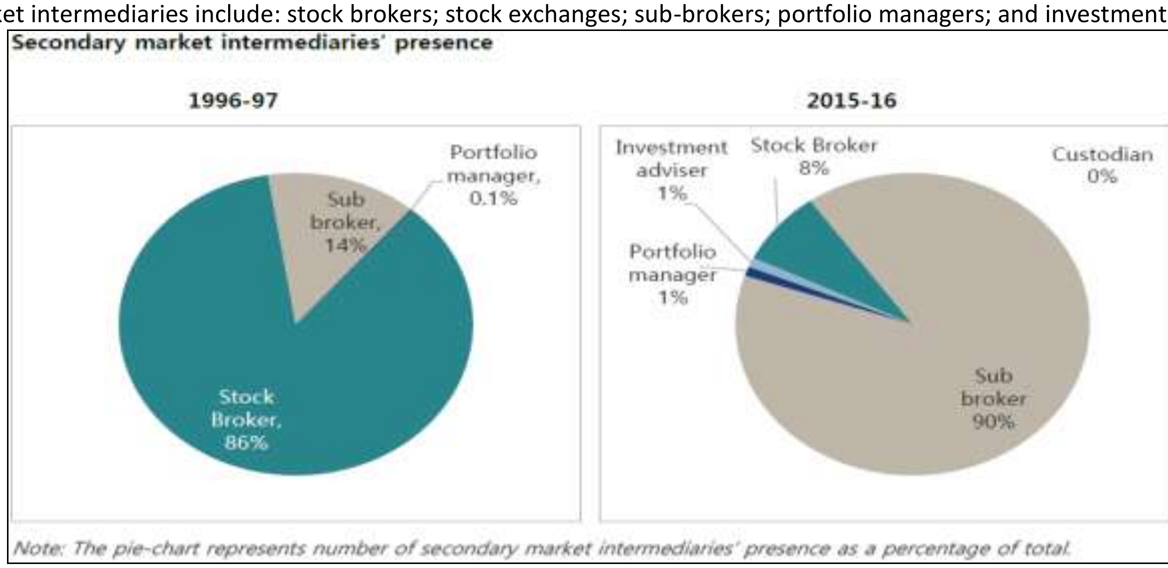
The securities market refers to markets for those financial instruments that are commonly and readily transferable by sale. This market has two inter-dependent and inseparable segments; the primary (new issues) and secondary (stock) markets. The primary market provides the channel for the sale of new securities. The issuer sells securities in the primary market to raise funds for investment and/or to discharge an obligation. The types of issues in the primary market include: an initial public offer (IPO); follow-on public offer (FPO); a rights offer where securities are offered to existing shareholders; preferential issue/bonus issue/qualified institutional buyer placement; or a composite issue (comprising a mixture of a rights and public offer, or an offer for sale). The secondary market enables those who hold securities to transact their holdings in response to changes in their assessment of risk and return. The secondary market primarily comprises of stock exchanges (the trading platforms of which are only accessible through intermediaries) which provide the platform for purchase and sale of securities by investors. The secondary market has other components including the spot market, futures market and options market.

Key intermediaries of capital markets in India

Primary market intermediaries include: merchant bankers; registrars and share transfer agents; stock exchanges; underwriters; bankers to the issue; and debenture trustees.



Secondary market intermediaries include: stock brokers; stock exchanges; sub-brokers; portfolio managers; and investment advisers



Depository Industry in India

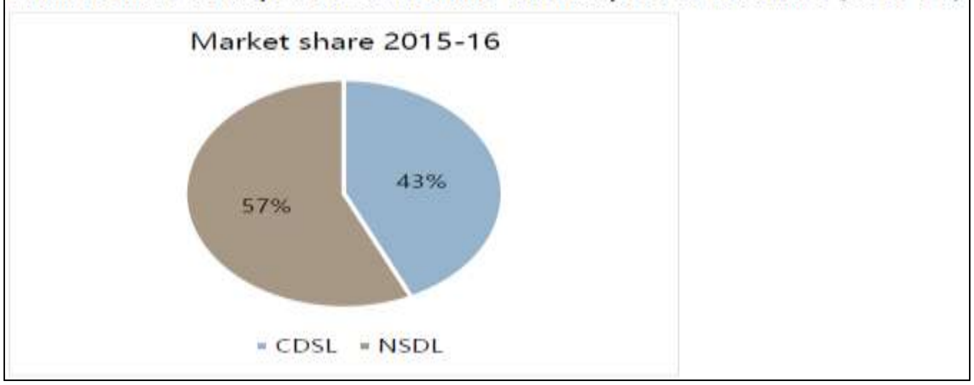
Following extensive discussions and consultations with stock exchanges, market participants and investor groups, SEBI released the Depositories and Participants Regulations, 1996, in May 1996 before legislating The Depositories Act in August that year. The Depositories Act, 1996 recommended multiple depository systems in order to accelerate scripless clearing and settlement. The existence of multiple depositories was recommended to encourage competition, which would resulting in economic benefits such as low services fees and better service to investors. The depository system in India is a Rs.2.4 billion industry, as of Fiscal 2016, which has grown at a CAGR of 12% over the last three Fiscals and 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 shortly following the implementation of compulsory trading in dematerialised securities for all investors in January, 1999. The presence of a multi depository system in India has resulted in a competitive scenario and helped to reduce transaction charges for investors. 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 (if any is planned). If a new peer plans to enter this industry, they will face stiff competition and will find it difficult to gain a market share.

Comparison of CDSL and NSDL

Revenue

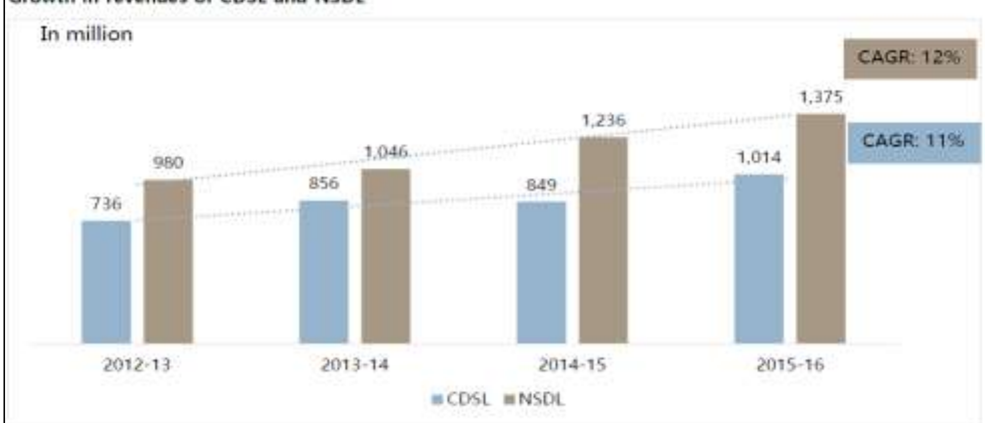
In terms of revenue, CDSL holds an approximate market share of 43% while NSDL's market share is 57%.

Market share of depositories in India with respect to revenues (2015-16)



The revenue of NSDL has grown at a CAGR of 12% over the previous four Fiscals as opposed to CDSL's 11%.

Growth in revenues of CDSL and NSDL



Note: For 2015-16 values of NSDL, 'Financial Results for the quarter and year ended 31st March, 2016' is referred.

Number of BO Accounts

In terms of market share of demat accounts, CDSL has been growing at a higher rate with a CAGR of 8%, compared with 5% for NSDL.CDSL has experienced a growth in market share from 39% in Fiscal 2011 to 43% in Fiscal 2016.

Number of Incremental BO Accounts

Furthermore, CDSL's market share with respect to incremental demat accounts has been growing at a higher rate, with a CAGR of 28% (as opposed to NSDL's 14% growth) from Fiscal 2011 to Fiscal 2016. Consequently, CDSL has gained in market share with respect to incremental demat accounts from 46% in Fiscal 2012 to 58% in Fiscal 2016.

Historical factors of Depository Growth

The growth of depositories in India is linked to growth in capital market transactions, and over the last two decades depositories have witnessed significant growth due to a number of factors as set out below

Growth in transaction volumes of instruments in India

Equity Market

The Indian equity market has witnessed strong growth over the last two decades, resulting in the growth of depositories. Since the launch of the depository system in 1996, trading volumes on the NSE and BSE have increased significantly. In 1999, trading became compulsory in demat form for all investor types, acting as a catalyst for active participation of investors in Indian capital markets. This active participation was demonstrated with the increase in the number of shares traded on the BSE rising from 18.22 billion in Fiscal 2002, to 76.25 billion in Fiscal 2016, giving BSE a 24.7% share of total shares traded, while trading on the NSE increased from 27.84 billion shares to 220.18 billion shares in the same period, giving NSE a 74.2% share of total shares traded.

As of March 31, 2016, there were 14.57 million and 10.79 million demat accounts, respectively, at NSDL and CDSL. The number of demat accounts with NSDL and CDSL grew at a CAGR of approximately 5% and 8% respectively. Furthermore, 15,638 companies had signed up for dematerialisation at NSDL while 10,021 companies had signed up for dematerialisation at CDSL. The number of companies available in demat form grew at a CAGR of approximately 12% for NSDL and 5% for CDSL.

Debentures and bonds

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

Mutual funds

The Indian mutual fund industry remains one of the fastest growing and most competitive segments of the securities market. In Fiscal 2016, the net inflows to the industry were the most significant since Fiscal 2009, and the assets under management ("**AUM**") were at an all-time high. This growth may be jointly attributed to a positive outlook in domestic markets, along with well-timed initiatives by the SEBI to re-energise the mutual funds industry The AUMs of the mutual funds industry grew by approximately Rs.6,456 billion during the last five years. The cumulative net assets of all mutual funds, as of March 31, 2016, was Rs.12,328.24 billion as compared to Rs.10,827.57 billion on March 31, 2015, representing an increase of 13.9%. Despite the eligibility of mutual funds units to be held in dematerialised form, some remain held in book entry form. The number of mutual funds held in dematerialised form is expected to increase over time resulting in higher revenues for depository companies.

Adaptation of the multi-depository system led to faster growth

The adoption of a multi depository system in India has led to competition between the CDSL and NSDL, which has resulted in the following advantages.

Growth in the number of DPs

Growth in the number of DPs implies there is a greater amount of business for the depositories. Therefore, every depository strives to grow its depository services across the country.

The number of DPs has increased significantly over the last 15 years. CDSL witnessed a CAGR of approximately 10% between Fiscal 2001 and Fiscal 2016. India's multi-depository system has a wide presence across the country, which has in turn helped investors to transact with DPs locally. As of October 31, 2016, there were approximately 26.7 million BO accounts in India. The number of BO accounts held by CDSL has grown at a CAGR of 8%, from 7.9 million in Fiscal 2012 to 11.6 million in Fiscal 2016, while that of NSDL has grown at 5% CAGR over the same period.

Factors Expected to Impact Future Growth

Depositories in India are expected to benefit in the future from rising capital market participation, value-added service offerings and SEBI initiatives relating to investor education, promotion of financial literacy and regulatory measures.

Rising capital market participation

India's inherent strengths, coupled with a concerted push from the government, have ensured that the country remains one of the world's fastest emerging economies. According to CRISIL, India's demographic dividend, growth in per capita income and savings, along with government initiatives will boost participation in the capital markets.

Demographic dividend

India is at the peak of a demographic dividend, with a large working age population (15-64 years) and a low dependency ratio (proportion of children and elderly). According to a 2014 United Nations Population Fund's State of the World Population report, India had 356 million people in the 10-24 year age group, which is approximately 87 million more than in China. According to the 2011 Census, 62.5% of India's population falls within the working-age group of 15 to 59 years old. This larger working class is expected to increase the amount of investments, which may result in growth for depositaries.

Growth in per capita income

India’s per capita income rose to Rs.93,293 in Fiscal 2016. In real terms, per capita income is estimated to have grown by 6.2% in Fiscal 2016, compared with 5.8% in the preceding Fiscal. However, gross national income was lower than GDP between Fiscal 2012 and Fiscal 2015. This buoyant trend in per capita income is expected to continue. In the short-to-medium term, disposable income is expected to rise as a result of: (i) the government’s implementation of the Seventh Pay Commission’s recommendations; (ii) the One Rank One Pension scheme; and (iii) sustained low inflation, which will enable greater domestic consumption.

Improving literacy

Literacy in India, defined by Census of India as the ability to read and write in any language from the age of seven, was 74.07% in the 2011 Census, which represented an increase of 14% since 2001. The adult literacy rate among those aged 15 and above was 69.3%, which again represented an increase of 14% since 2001. The literacy rate in India has been steadily rising over the last three decades due to various initiatives such as Sarva Siksha Abhiyan, Mid-Day Meal Scheme and the Right to Education Act 2009, as well as increased spending on education by the central and state governments. Going forward, literacy rates are expected to improve further.

New value-added service offerings

Indian depositories are expected to evolve and add newer services, such as those detailed below, which are expected to contribute to future growth. For example, record keeping is a significant challenge for investors, financial institutions and intermediaries. There is currently no common platform where an investor can access all the details of their investments. The concept of the provision of a single demat account for all financial assets was announced in the budget of Fiscal 2015. A single demat account is envisaged as a one-stop account for all financial investments including pension funds, fixed deposits, life insurance policies and public issues. It will bring all financial investments under one electronic platform, allowing intermediaries to attract other investors to mutual funds and equities more easily, as well as introducing uniformity to current know your customer processes.

SEBI Investor Education and Financial Literary Initiatives

The SEBI intends to boost participation in the Indian capital markets by combining regulatory measures with both investor education and the promotion of financial literacy thorough various awareness initiatives, as described below.

Investor awareness programmes and regional seminars

The SEBI has organised over 1,350 investor education programmes, in collaboration with exchanges, depositories and various trade bodies such as investors’ associations, widening its reach over the years. The SEBI also seeks to create awareness through regional investor education seminars. This initiative conducts workshops led by specially trained lecturers who provide investors with useful information related to the securities market. These seminars are attended by the SEBI and trade bodies’ officials from various levels. These seminars are conducted across the country, focussing on tier-2 and tier-3 cities. Over 260 programmes have been conducted since the beginning of the initiative in Fiscal 2012.

Mass media campaign

The SEBI has broadcast important messages to investors through television, radio, print media and bulk SMSs. These messages are intended to educate people about the SEBI’s grievance redress mechanism, the SEBI complaints redress system (“**SCORES**”) and toll-free helpline. The SEBI's main aim is to caution investors about schemes seeking to mobilise capital for speculative purposes by offering unrealistic returns. It also urges investors to avoid relying on hearsay when investing and instead carry out proper due diligence.

Dedicated investor website
A dedicated investor website is maintained for the benefit of investors. The website provides relevant education and awareness material and other useful information. The schedule of various investor education programmes are also displayed on the website to update investors about the forthcoming activities and seminars held by the SEBI.

Investor assistance
The SEBI has also adopted measures to expedite the process for redressal of investor grievances, by way of a new web based centralised grievance redress system called SCORES. The SEBI also provides assistance to investors through email, telephone, letter and face-to-face consultation. Approximately 3,282 replies were sent providing guidance to investors in Fiscal 2016.

Other initiatives
The SEBI also undertakes other initiatives in relation to investor guidance, such as (i) operating stalls at various fairs and exhibitions; (ii) dedicated programmes for differently-abled people; (iii) providing education and training to various government departments; (iv) participating in various investor awareness programmes undertaken by state level coordination committees; (v) managing a dedicated campaign for Application Supported by Blocked Amount ("**ASBA**"); and (vi) collaborating with the OECD to host an Asian seminar on the emerging trends in financial consumer protection across Asia.

CDSL's services are offered by the following entities

Name of the entity	Year of commencement	Clients	Entity type
CDSL	1999	DPs, corporates and others	Parent
CDSL Ventures Limited ("CDSL Ventures")	2006	Capital market intermediaries	Subsidiary
CDSL Insurance Repository Limited ("CDSL Insurance")	2011	Insurance companies	Subsidiary
CDSL Commodity Repository Limited ("CDSL Commodity")	2017	Commodity Warehouses, Repository Participants (RPs)	Subsidiary

Key Concerns

Securities depository business competes closely with competitor for DPs, investor accounts and number of instruments on systems: CDSL are one of the two securities depositories in India. It faces significant competition for investor accounts from its competitor and expects such competition to continue. It compete with its competitor, in a variety of ways, including on cost, quality and speed of service, functionality, ease of use and performance of systems, the range of services offered to clients and technological innovation and reputation. In addition, increased competition particularly in a highly regulated environment may exert a downward pressure on fees in order for CDSL to remain competitive, which could materially adversely affect the business, financial condition and results of operations. If CDSL fails to compete successfully, its business, financial condition and results of operations may be materially adversely affected.

Inability to effectively manage growing DP network or any disruptions in supply or distribution infrastructure may have an adverse effect on the business, results of operations and financial condition: As of April 30, 2017, CDSL had 589 registered DPs with over 17,000 service centres. Its ability to expand and grow service reach significantly depends on the reach and effective management of DP network as CDSL do not interact directly with the investors or holders of securities. It continuously seek to increase the penetration of its services by appointing new DPs in different investor groups and regions or by depending on existing DPs to open new centres in different neighbourhoods. If CDSL is unable to identify or appoint DPs or its existing DPs do not expand their offerings or reach, it may affect the distribution capabilities. Furthermore, changes in the regulatory framework may affect the business and growth of DPs. For example, the SEBI issued a circular (No. CIR/MID/DP/20/2015) dated December 11, 2015 requiring DPs to convert existing accounts into Basic Service Demat Accounts ("BSDAs") and barring them from charging annual maintenance charges. This has adversely impacted DPs and may continue to do so. This negative effect on DPs may also have an adverse effect on its results of operations and financial condition.

Any interruptions or malfunctions in the operation of IT systems could damage the reputation and cause loss for the business: CDSL rely heavily on technological equipment and IT at its facilities and typically the supply and maintenance of these systems and equipment is undertaken by third party contractors. Its IT systems are highly specialised and customised, and are not widely used outside of its depositories business in India or elsewhere. Interruptions in the availability of technological equipment or IT systems could adversely impact the business, and its inability to make alternative arrangements in a timely manner could cause losses to CDSL due to temporary loss of connectivity with its DPs. Any such loss in connectivity would negatively affect the service it offers to its clients, and may subject it to litigation or damage reputation and adversely affect the results of operations and financial condition.

If there is a shift in consumer preferences away from investing and trading in securities to other products and services, it could significantly reduce demand for services: CDSL's revenue is comprised of revenue from operations, which consists of revenue from (i) transaction charges; (ii) annual issuer fees; (iii) account maintenance charges; (iv) settlement charges; (v) corporate action charges; and (vi) e-voting charges. Its current services may become outdated or lose market favour before adequate enhancements or replacements can be developed. In particular, a significant portion of its revenues depend on the volumes of delivery-based trading. If a significant portion of CDSL existing service offerings becomes outdated or loses market favour and it is unable to offer new services in their place, or if it fails to increase the demand by investors for its services, its business, financial condition, results of operations and prospects could be materially adversely affected.

Fraud due to unauthorised transfer of securities or service deficiency could result in losses: CDSL rely mostly on automated data processing. However, not all of the data processing is automated and manual data processing in relation to certain services rendered to its clients is required. Therefore, operator errors or omissions may occur that relate mainly to manual input of data. As a result, it is exposed in certain of its businesses to the risk of inadequate handling of client instructions.

Appointment of CERSAI as central KYC registration agency may have a significant adverse impact on the business prospects: CDSL's Subsidiary, CDSL Ventures, was the first KRA registered with the SEBI under the KRA Regulations. As of April 30, 2017, it held over 15 million capital market investor records under the KRA Regulations representing approximately 67% market share. Revenue from operations of CDSL Ventures was 16.63%, 17.09% and 18.52% of its total operational revenue for the Fiscal 2017, 2016 and 2015 (proforma), respectively The KRA Regulations were notified in 2011 to centralise the KYC process by taking on the KYC details of the clients and collating such details into a central KYC repository of KYC details of clients in the securities market. With the KRA system in place, a KYC compliant client did not need to undertake the KYC process again when it approached any other intermediary in securities market. Since the GoI has authorised CERSAI (Central Registry of Securitisation Asset Reconstruction and Security Interest of India) to act as, and to perform the functions of, the central KYC records registry under the Prevention of Money Laundering Rules 2005, including receiving, storing, safeguarding and retrieving the KYC records in digital form, its subsidiary, CDSL Ventures may lose a substantial portion of its business and thus, adversely affecting its business prospects, results of operations and financial condition.

Broad market trends, economic and market conditions and other factors beyond control could significantly reduce demand for CDSL's services and harm business, financial condition and results of operations: Adverse economic conditions, such as those experienced in the aftermath of the 2008 global financial and economic crisis, can negatively impact the business. Such adverse economic conditions may result in, a decline in the Indian securities market. Furthermore, adverse economic conditions may negatively impact results of operations of CDSL's issuer company clients, which may result in reduced liquidity and lower trading prices of the securities of these companies, which in turn would reduce its fee and commission income generated by the services it provide. Its revenue is also materially affected by the level of interest and other finance income, which is in turn impacted by levels of activity in the Indian securities market. Any decline in trading due to adverse market conditions or other factors could adversely impact on its interest and other finance income.

Insufficient systems capacity and systems failures could materially and adversely affect the business: CDSL's business depends on the performance and reliability of complex computer and communications systems. Heavy use of its platforms could cause its systems to operate slowly or even to fail for periods of time. Its failure to maintain systems or to ensure sufficient capacity may also result in a temporary disruption of its regulatory and reporting functions. It has experienced systems failures in the past such as non-availability of its servers and website downtime. It is possible that it will experience systems failures in the future. It also rely on third parties for systems support. Any interruption in these third-party services or deterioration in the performance of these services could also be disruptive to its business. If it cannot expand system capacity and performance to handle increased demand or any increased regulatory requirements, or if its systems otherwise fail to perform and it experience disruptions in service, slower response times or delays in introducing new products and services, then it could incur reputational damage, regulatory sanctions, litigation, loss of demat accounts, and loss of revenues, any of which could materially and adversely affect the business, results of operations, financial condition and cash flows.

Face intense competition as well as regulatory oversight on pricing: The securities industry in which CDSL operates is characterised by intense price competition and regulatory scrutiny. In case of CDSL, it is required to follow and comply with the pricing determined by the SEBI. Further, it also faces pricing pressures from its competitor and may continue to face these in the future. In addition, a decrease in its market share of DPs, BO accounts, issuer company clients and RTAs as a result of price pressure could adversely impact the other product offerings, such as E-voting and KYC. If CDSL is unable to compete effectively in pricing of its products and services, its business, financial condition, results of operations and prospects may be materially adversely affected.

CDSL's electronic platform, networks and those of its third-party service providers may be vulnerable to security risks and cyber-attacks: CDSL's electronic platforms involve the storage and transmission of its clients' proprietary information. A failure of the platform, including a security breach or a cyber-attack, could result in the loss or misappropriation of client data and, as a consequence, its activities could be disrupted and it could face litigation and be required to compensate a portion of damages sustained by its clients. The secure transmission of confidential information over public and other networks is also a critical element of its operations. Its depository network, and internet network and those of its third-party service providers, may be vulnerable to unauthorized access, cyber-attacks, computer viruses and other security problems. Its systems has experienced attempts at unauthorised access in the past, and its public websites in the past has been subject to attempted attacks. It is possible that its systems may experience security problems in the future that it cannot mitigate and that may materially and adversely affect the business. Any of these security risks could cause CDSL to incur reputational damage, regulatory sanctions, litigation, loss of DP accounts and loss of revenues, any of which could have a material adverse effect on its business, results of operations, financial condition and cash flows.

CDSL intends to continue offering new products, enter into or increase presence in new markets and attract new clients, which will involve risks: CDSL intends to continue to explore and pursue opportunities to strengthen its business and grow its company. In so doing, CDSL may launch new products and enter into or increase its presence in other markets. Currently CDSL is in the process of applying for registration as a registrar and transfer agent. It is also planning to expand its NAD project to include more educational institutions in the future. It has also registered as a KYC Service Agency ("KSA") & Authorised Service Agency ("ASA") and KYC User Agency ("KUA") & Authorised User Agency ("AUA") with the UIDAI. If CDSL is unable to introduce new services and products to successfully compete, its business, results of operations, and financial condition could be materially adversely affected.

Large proportion of business is transaction-based and dependent on trading volumes: A large proportion of CDSl's business is transaction-based and dependent on a number of external factors, such as delivery-based trading activity and price levels on the major stock exchanges of India. Therefore, any declines in trading volumes and market liquidity would adversely affect the business and profitability may experience fluctuations.

Tariff structures do not accurately anticipate the cost and complexity of performing work: Inherent to industry, CDSL's cost structure is largely fixed and it expect that it will continue to be largely fixed in the foreseeable future. Its ability to improve or maintain profitability is dependent on managing costs successfully. Its cost management strategies include maintaining appropriate alignment between the demand for its services and resource capacity, optimising the costs of service delivery, and effectively leveraging its sales and marketing and general and administrative costs. Any increased or unexpected costs, or wide fluctuations compared to original estimates or delays, or unexpected risks it encounter in connection with the performance of these services, including those caused by factors outside of itscontrol, could make these services less profitable or unprofitable, which could adversely impact the profit margin.

Require a number of approvals in relation to the business: CDSL require a number of regulatory approvals, registrations and permissions to operate its business, including at a corporate level as well as at the level of each of its branches. Further, its operations are subject to continued review and the governing regulations may change. In addition, CDSL's business operations also rely heavily on various intermediaries, and any change in regulations governing the intermediaries may have a material and adverse impact on the company.

In the event of a default in relation to an investment, CDSL will bear a risk of loss of principal and accrued Interest: CDSL invest primarily in debt securities such as debt instruments of banks and financial institutions; corporate debt and debt mutual funds; and government securities. The interest income from these investments forms a significant part of its other income. The geographic concentration of its investment portfolio in India means that it may be subject to significant losses if the Indian economy in general or debt markets in particular were to experience difficulties. It is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows and thus changes in interest rates may materially adversely affect the value of its investments. In the event of a default in relation to an investment, CDSL will bear a risk of loss of principal and accrued interest on that investment this may materially adversely affect the business, financial condition, results of operations and/or the market price of the Equity Shares.

Leakage of sensitive data may violate laws and regulations that could result in fines and loss of reputation: CDSL accumulate, store and use in its operating business data which is sensitive or protected by data protection laws in India. Indian data protection authorities have the right to audit CDSL and impose fines if they find it has not complied with applicable laws and adequately protected client data. The company works with third-party service providers, and although its contracts with them restrict the usage of client data and impose protective precautions, there is no assurance that they will abide by the contractual terms or that the contracts will be found to be in compliance with data protection laws. Loss or leakage of sensitive data or violation of data protection laws may result in fines and loss of reputation.

The increase in concentration of offices of DPs, over which CDSL has no control, could lower the profitability and harm its ability to compete: CDSL derives a large proportion of its revenues from sales of its services to investors through DPs and service centres of DPs. CDSL expects such sales to continue to represent a significant portion of its revenues. It has in recent years experienced a significant increase in the concentration of offices of DPs, either because they are expanding their share in the relevant market, or as a result of increased consolidation among DPs. All its DPs are not exclusive to it and may promote its competitor to new investors opening incremental BO accounts which could reduce the market share and could lower its profitability and adversely affect the ability to compete.

Operate in a highly regulated industry: CDSL operates in a highly regulated industry and are subject to extensive regulation. SEBI regulates it and has broad powers to withhold approvals or consents with respect to proposals made by it (whether with respect to rule amendments, product range or infrastructure or market development initiatives), to issue suspension orders and to require it to produce records and supply information. Additionally, it exercise by way of its regulations, rules and bye-laws certain regulatory functions, including monitoring of compliance of certain securities laws by entities hosted by its platform. Any increase in the levels of monitoring that it is required to perform, including on account of regulatory changes, may impose or result in increased or excessive regulatory burdens on and compliance costs for it. In the case of actual or alleged non-compliance with regulatory requirements, CDSL could be subject to investigations and administrative or judicial proceedings that may result in substantial penalties. Any such investigation or proceeding, whether successful or unsuccessful, could result in substantial costs and diversions of resources, which could negatively affect its reputation and have a material adverse effect on its business and cash flows, financial condition and results of operations

Profit & Loss

Rs in million

Particulars	FY17	FY16	FY15
Revenue from Operations	1460.0	1228.5	1052.8
Other Income	408.5	384.8	401.9
Total Income	1868.5	1613.4	1454.7
Total Expenditure	665.8	589.4	601.1
Employee benefits expense	248.7	214.9	192.1
Other expenses	415.2	363.3	397.7
Impairment loss on financial assets	2.0	11.1	11.4
PBIDT	1202.7	1024.0	853.6
Interest	0.0	0.0	0.0
PBDT	1202.7	1024.0	853.6
Depreciation	37.1	41.9	62.4
PBT	1165.6	982.1	791.2
Exceptional items	0.0	-331.0	-16.9
Tax (incl. DT & FBT)	299.8	401.9	233.1
Tax	342.2	374.4	206.5
Fringe Benefit Tax	0.0	0.0	0.0
Deferred Tax	-42.4	27.4	26.6
Reported Profit After Tax	865.9	911.2	574.9
EPS (Rs.)	8.3	8.7	5.5
Equity	1045.0	1045.0	1045.0
Face Value	10.0	10.0	10.0
OPM (%)	54.4	52.0	42.9
PATM (%)	59.3	74.2	54.6

Balance Sheet:

Rs in million

Particulars	FY17	FY16	FY15
ASSETS			
Non-current assets			
Property, plant and equipment	**46.5**	**30.2**	**51.4**
Intangible assets	**5.7**	**6.5**	**15.5**
Intangible assets under development	**2.6**	**0.0**	**0.0**
Financial Assets	**2825.1**	**2266.9**	**2465.4**
Investments	*2729.0*	*2104.7*	*2232.1*
Loans	*0.8*	*0.4*	*0.9*
Other financial assets	*95.3*	*161.8*	*232.3*
Deferred tax assets (net)	**22.9**	**0.0**	**8.4**
Non- current tax assets (net)	**131.3**	**131.9**	**111.2**
Other non-current assets	**0.6**	**3.1**	**1.2**
Total Non-Current Assets	**3034.6**	**2438.6**	**2653.0**
Current assets			
Financial Assets	**3014.0**	**3070.0**	**2443.7**

Other investments	*2300.0*	*2470.0*	*1909.0*
Trade receivables	*132.7*	*130.1*	*69.1*
Cash and cash equivalents	*314.4*	*19.5*	*9.4*
Bank balances other than Cash and cash equivalents	*168.8*	*384.1*	*421.6*
Loans	*1.1*	*0.8*	*1.2*
Other financial assets	*96.9*	*65.4*	*33.4*
Other current assets	**23.8**	**21.4**	**17.8**
Total Current Assets	**3037.8**	**3091.3**	**2461.5**
Total Assets	**6072.4**	**5529.9**	**5114.5**
Equity			
Equity Share capital	*1045.0*	*1045.0*	*1045.0*
Other Equity	*4288.2*	*3748.2*	*3115.4*
Equity attributable to owners of the Company	**5333.2**	**4793.2**	**4160.4**
Non-controlling Interests	**154.9**	**146.8**	**145.6**
Total Equity	**5488.1**	**4940.0**	**4305.9**
LIABILITIES			
Non-current liabilities			
Financial Liabilities	**6.07**	**5.16**	**3.15**
Other financial liabilities	*6.07*	*5.16*	*3.15*
Deferred tax liabilities (Net)	**7.44**	**29.11**	**10.35**
Total Non-Current Liabilities	**13.51**	**34.27**	**13.5**
Current liabilities			
Financial Liabilities	**322.12**	**302.4**	**299.66**
Total outstanding dues of creditors other than micro enterprises and small enterprises	*89.83*	*73.18*	*71*
Other financial liabilities	*232.29*	*229.22*	*228.66*
Provisions	**75.77**	**50.15**	**18.37**
Current tax liabilities (Net)	**51.88**	**34.11**	**5.18**
Other current liabilities	**121.08**	**168.97**	**471.89**
Total Current Liabilities	**570.85**	**555.63**	**795.1**
Total Equity and Liabilities	**6072.4**	**5529.9**	**5114.5**

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