RATING REPORT

CDC Share Registrar Services Limited

REPORT DATE:
October 24, 2022

RATING ANALYSTS:

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RATING DETAILS		
	Initial Ratings	
Rating Category	Long-term	Short-term
Entity	A	A-1
Rating Date	October 24, 2022	
Rating Outlook	*Stable*	
Rating Action	Initial	

COMPANY INFORMATION	
Incorporated in 2012	**External auditors:** Grant Thornton
Public Unlisted Company	**Chief Executive Officer:** Mr. Abdul Samad
Key Shareholders (with stake 5% or more):	**Chairman:** Mr. Badiuddin Akber
CDC (Central Depository Company of Pakistan Limited) -100% Shareholding	

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria: Corporates (August 2021)
https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf

CDC Share Registrar Services Limited (CDCSR)

OVERVIEW OF THE INSTITUTION

Established as a Department of CDC (Central Depository Company of Pakistan Limited) in 2008 and later carved out as a wholly owned subsidiary in 2019, CDC Share Registrar Services Limited (CDCSR) is a Balloter/ Share Registrar that offers a composite portfolio of handling IPOs, maintenance, registration, verification of shareholders data,, handling of corporate actions, Intermediary Services, e-voting/e-meeting solutions and direct customer dealing on behalf of its clients. Grant Thornton audited financial Statements of the company for FY22.

Profile of CEO: ***Mr. Abdul Samad is*** *a member of the Institute of Chartered Accountants of Pakistan (ICAP) with a vast experience of over 20 years. Mr. Abdul Samad joined CDC in 1996. He has decades of diversified experience in the fields of Depository operations, trustee & Custodial operations and Share Registrar business. He also serves as a member of Quality Assurance board (QAB) of Institute of Chartered Accountants of Pakistan.*

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RATING RATIONALE

CDC Share Registrar Services Limited ('CDCSR', or 'Company') was originally formed as a department in Central Depository Company of Pakistan Limited (CDC) in 2008 and was later carved out as a wholly owned subsidiary in 2019. CDCSR is a Balloter/Share Registrarshare registry company that offers a composite portfolio of handling IPOs, maintenance, registration, verification of shareholders data, handling of corporate actions, Intermediary Services, e-voting/e-meeting solutions and direct customer dealing & interaction on behalf of its client companies as well as the shareholders of the clients. CDC, the parent is the sole book entry securities depository in the country handling the electronic (paperless) settlement of transactions of securities carried out at Pakistan Stock Exchange.

Scope of services offered by CDCSR include:

- Maintenance of computerized Members' Register.
- Services of Transfer of securities which includes:
  - Verification of physical security holders' signatures on Transfer Deeds.
  - Transfer of physical securities.
  - Deposit of physical securities in Central Depository System (CDS).
  - Withdrawal of securities from CDS in physical form.
  - Transmission of physical securities (Deceased cases).
- Processing of Corporate Actions which includes:
  - E-Dividend.
  - Bonus Issue.
  - Right Issue.
  - Profit/Redemption payments of Debt Securities.
  - Merger/Demerger of Securities.
- Activities related to General Meetings (Annual/Extra Ordinary) which include:
  - Taking Attendance of security holders.
  - Conducting Election of Directors.
  - Conducting Poll on any resolution
- Customer Support Services which includes:
  - Dealing with Investors on CDCSR counters located at Karachi, Lahore and Islamabad.
  - Assist Investors through dedicated call center services.
  - Timely respond to Investors Queries/Complaints emails.
- Intermediary Services which includes:
  - Monitoring of all reporting obligations of the companies.
  - Core sector reporting requirements of SECP/PSX.ssuance of Duplicate physical share certificates and their Split/Consolidation/Renewal
- Custody of undelivered Share certificates and dividend warrants

- Assisting client companies by preparing and providing of various reports related to the securities and Security holders.
- Bulk Printing and Mailing services related to Notices, Financial Statements, etc. to security holders on behalf of client companies.
- Other Value Added Services which includes
  - E-Meeting.
  - E-Voting.
  - E-Dividend Reconciliation.
  - Stamp Duty Payment (e-Stamps).
  - Centralized Customer Services Portal.
- Handling of Initial Public Offering (IPO) of Securities.

All policies implemented at the parent company are practiced in CDCSR. The company has also obtained the ISO/IEC 27001:2013 certification regarding Systems audit. The main office of CDCSR is situated at main building of CDC House in Karachi. The company also has two more offices in Lahore and Islamabad. CDCSR also maintains a record center of 7,000 square feet in Karachi for safe custody of physical records.

Key Rating Divers:

Sponsor support and dependence on them for clients, policies and other functions, remains a key rating driver

Ratings incorporate strength of the parent company-CDC which has diversified presence for over two decades and has evolved as the infrastructure backbone and the Ultimate Custodian of the Pakistan Capital Market.

Ratings also drive strength from the parent- CDC being the sole securities depository in the country; hence sizeable market presence of the parent acts as a key rating driver. Ratings also factor in business integration with the parent with reference to policies and procedures, IT infrastructure, Internal Audit and Compliance function. Against these, CDCSR has signed a Facilities Management Agreement (FMA) with CDC. Furthermore, sound financial profile of the parent company with sizeable liquid assets on the books and low leverage levels supports the ratings of CDCSR. Continuity of implicit sponsor support to the company over the rating horizon in case need arises will be important for ratings.

Business risk profile of the Company is considered low supported by strong market presence

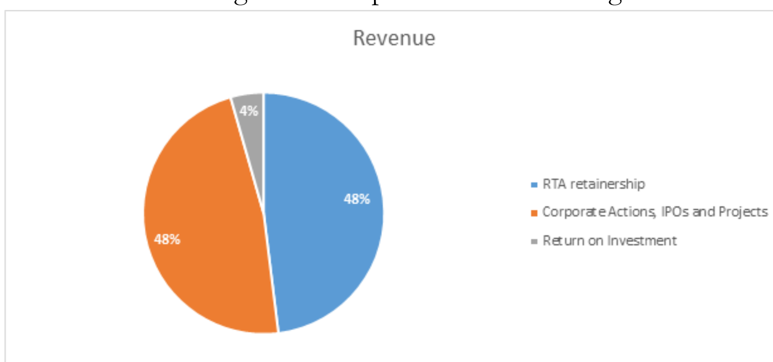
With a client base of 257, CDCSR holds a market share of 25% in share registrar services industry of Listed Companies depicting low business risk profile. Other key players include FAMCO Associates, THK Associates, and Corplink (Pvt.) Limited.

Competitive advantage of the company stems from state-of-the-art technology infrastructure of one-window operations, processional staff through service excellence and performance. By leveraging this technological expertise, the company was also able to cater 'E-Meetings and E-Voting Solutions' to the client companies for holding AGM/EOGM amidst COVID-19.

Revenue model of the company incorporates stability with inflationary adjustments reflected in the annual renewal of fee structure. Furthermore, revenue stability profile is also supported by low switching risk of clients due to one-window solutions provided by CDCSR.

Revenue of CDCSR has depicted healthy year on year growth during the last three years being primarily a function of onboarding new clients. With higher growth in topline, efficient cost management, and support of other income has improved profitability profile of the company.

The Company sources its revenue from three main segments: RTA (Registrar/Balloter & Transfer Agent) Retainer ship, Corporate Actions, and Returns on Investments with the first two segments contributing 96% of the total revenue base of the company. CDCSR's clientele of 257 companies comprises listed and unlisted both entities. As per management, the company holds 25% of market share among listed companies in the RTA segment.



Revenue has increased on a timeline basis and was reported at Rs. 151.7m (FY21: Rs. 138.5m; FY20: Rs. 125.2m) in FY22. During FY21 and FY22, net revenue registered a year-on-year (YoY) growth rate of ~11% and 10%, respectively. The growth has been a function of addition of new clients and inflationary impact of salaries paid is adjusted by annual renewal of fees for the clients. Top 10 client concentration in revenue was reported at around 30% during FY22 (FY21: 34%) with a blend of listed and unlisted companies. For FY23, management forecasts revenue base to grow by 27% through adding new clients and incremental revenue from a planned new business segment.

With higher fees charged, recurring revenue from existing clients and additional revenue from incumbent clients, operating margins of the company have been improving on a timeline basis and were reported higher at 29.3% (FY21: 28.8%; FY20: 24.5%) during FY22. Operating and Administrative Expenses were reported higher at Rs. 107.3m (FY21: Rs. 98.61; FY20: Rs. 94.6m) in FY22 due to escalation in salary expense and insurance cost. Despite increasing operating costs, net margin of the company increased in FY22 and was reported at 25.8% (FY21: 23.8%; FY20: 24.6%) further supported by other income from exposure in mutual funds to the tune of Rs. 8.9m (FY21: Rs. 6.44m, FY20: Rs. 8.8m) in FY22. Going forward, management envisages profitability to improve in the backdrop of higher projected revenue by expected increase in customer base.

Liquidity profile of the company is supported by liquid investments on the balance sheet. Equity base of the company has grown at a three-year CAGR of 24% (FY19-FY22) owing to profit retention. With no debt on books, leverage indicators are on the lower side.

Liquidity profile of the company is adequate as the company has no interest bearing obligations on the books. It is supported by liquid assets on the balance sheet comprising exposure in mutual funds and cash & bank balances constituting 56% (FY21: 57%, FY20: 44%) of the asset base at end-June'22. The remaining asset base comprises trade debts which constituted 35% of total assets at end-FY22 encompassing receivables from clients as monthly arrears. Consistent and timely receipt of dues is important to support assigned ratings.

Equity base of the company has grown at a three-year CAGR of 24% (FY19-FY22) and was reported at Rs. 127.0m (FY21: Rs. 108.7m; FY20: Rs. 96.0m) in FY22. The company has no dividend policy in place, however plans to pay around 60% of the earnings in FY23 as dividends. Historic dividend payout ratio stood at 40% and 60% in FY21 and FY22, respectively. Capitalization profile depicts a conservative policy with no interest bearing obligations on books as major costs comprises salaries expenses which are financed through the topline. Ratings take into account low leverage levels of 0.28x (FY21: 0.32x; FY20: 0.25x) at year-end FY22. Given projected increase in profitability, no expected debt drawdown, and profit retention, capitalization indicators are expected to further improve going forward. Maintaining the same at low levels is a key rating sensitivity.

Sound Corporate governance framework

Board of Directors (BOD) consists of five members comprising CEO and four other members. BOD include one Director from CDC Board, two Directors from CDC Management and one Independent Director. The board members conduct quarterly meetings and discuss about the financial and operational progress of the company. The company has appointed Grant Thornton as the external auditors.

CDCSR acquires Office Space, IT infrastructure, Internal Audit and Compliance Function from the parent company through an FMA (Facilities Management Agreement).

CDC Share Registrar Services Limited (CDCSR)

FINANCIAL SUMMARY *(amounts in PKR millions)* *Appendix I*				
BALANCE SHEET	**FY19**	**FY20**	**FY21**	**FY22**
Fixed Assets	-	2.6	5.1	4.5
Stock-in-Trade	NA	NA	NA	NA
Trade Debts	-	57.5	50.8	56.7
Short term Investments	67	51	74	83
Cash & Bank Balances	0	2.0	7.1	7.4
Total Assets	67	120.5	143.0	162.4
Trade and Other Payables	NA	NA	NA	NA
Long Term Debt	-	-	-	-
Short Term Debt	-	-	-	-
Total Debt	-	-	-	-
Total Liabilities	1	24.5	34.3	35.4
Paid Up Capital	50	50.0	50.0	50.0
Total Equity	66	96.0	108.7	127.0
INCOME STATEMENT	**FY19**	**FY20**	**FY21**	**FY22**
Revenues	-	125.2	138.5	151.7
Operating Profit/(loss)	(1)	30.6	39.9	44.4
Profit Before Tax	3	39.5	46.2	53.2
Profit After Tax	2	30.8	33.0	39.1
RATIO ANALYSIS	**FY19**	**FY20**	**FY21**	**FY22**
Operating Margin (%)	-	24.5%	28.8%	29.3%
Net Margin (%)	-	24.6%	23.8%	25.8%
Total Income (Including Other income)	5	134.0	144.9	160.6
Other income/Total Income	100%	7%	4%	6%
Other income/Short term investments	7%	17%	9%	11%
Effective Tax Rate	34%	22%	29%	26%
Net Margin	NA	25%	24%	26%
Short Term Investments/Total Assets	100%	42%	52%	51%
Trade Debts/Total Assets	0%	48%	36%	35%
Trade Debts/Operating Income	NA	46%	37%	37%
Leverage	0.0	0.3	0.3	0.3
DPS	-	-	4.0	4.0
EPS	0.4	6.2	6.6	7.8
Dividend Payout	0%	0%	61%	51%
FFO	(2)	26.4	29.0	26.0
Current Ratio (x)	65.0	4.7	4.0	4.3
ROAA (%)	3%	33%	25%	26%
ROAE (%)	3%	38%	32%	33%

ISSUE/ISSUER RATING SCALE & DEFINITION — Appendix II

VIS Credit Rating Company Limited

RATING SCALE & DEFINITIONS: ISSUES / ISSUERS

Medium to Long-Term

AAA
Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

AA+, AA, AA-
High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A+, A, A-
Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB+, BBB, BBB-
Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB+, BB, BB-
Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B+, B, B-
Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC
Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC
A high default risk

C
A very high default risk

D
Defaulted obligations

Short-Term

A-1+
Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

A-1
High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A-2
Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A-3
Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B
Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

C
Capacity for timely payment of obligations is doubtful.

Rating Watch: VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.vis.com.pk/images/criteria_watch.pdf

Rating Outlooks: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details.www.vis.com.pk/images/criteria_outlook.pdf

(SO) Rating: A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities and not on the basis of the credit quality of the issuing entity alone.

(blr) Rating: A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.vis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

REGULATORY DISCLOSURES	Appendix III
Name of Rated Entity	CDC Share Registrar Services Limited
Sector	Financial Services
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	see table below
Instrument Structure	N/A
Statement by the Rating Team	VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.
Probability of Default	VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.
Disclaimer	Information herein was obtained from sources believed to be accurate and reliable; however, VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. For conducting this assignment, analyst did not deem necessary to contact external auditors or creditors given the unqualified nature of audited accounts and diversified creditor profile. Copyright 2022 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.
Due Diligence Meetings	see table below

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
Oct-24-2022	A	A-1	Stable	Initial

Due Diligence Meetings

Name	Designation	Date
Mr. Moheel Ali Khan	CFO	16-Sept-2022