

RATING REPORT

CDC Share Registrar Services Limited

REPORT DATE:

December 12, 2023

RATING ANALYSTS:Musaddeq Ahmed Khan
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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A	A-1	A	A-1
Rating Date	December 12, 2023		October 24, 2022	
Rating Outlook	Stable		Stable	
Rating Action	Reaffirmed		Initial	

COMPANY INFORMATION

Incorporated in 2019	External auditors: Grant Thornton Anjum Rahman Chartered Accountants
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%	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: Corporates (May 2023)

<https://docs.vis.com.pk/docs/CorporateMethodology.pdf>

VIS Rating Scale

<https://docs.vis.com.pk/docs/VISRatingScales.pdf>

CDC Share Registrar Services Limited (CDCSR)

OVERVIEW OF THE INSTITUTION	RATING RATIONALE
<p><i>CDC Share Registrar Services Limited is a public unlisted company, incorporated in Pakistan on September 07, 2012. The Company received certificate of commencement of business on December 17, 2012. The objective of the Company is to provide share registrar services.</i></p> <p>Profile of CEO: <i>Mr. Abdul Samad is a member of the Institute of Chartered Accountants of Pakistan (ICAP) with a vast experience of over 25 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 served as a member of Quality Assurance board (QAB) of ICAP for two consecutive terms of 3 years each.</i></p>	<p>CDC Share Registrar Services Limited (‘CDCSR’, or the ‘Company’) was originally formed as a department in Central Depository Company of Pakistan Limited (CDCPL) in 2008 and was later carved out as a wholly owned subsidiary in 2019. CDCSR is a Balloter/Share Registrar share 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. CDCPL, 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.</p> <p><u>Key Rating Drivers</u></p> <p>Sponsor support remains a key rating driver</p> <p>Ratings drive strength from the parent – CDCPL being the sole securities depository in the country with sizeable market presence and a diversified presence spanning over two decades, serving as the backbone of the Pakistan Capital Market infrastructure and the only book entry securities depository in the country handling the electronic (paperless) settlement of transactions of securities carried out at Pakistan Stock Exchange.</p> <p>The rating also considers the seamless integration with the parent in terms of policies, procedures, IT infrastructure, and the effectiveness of internal audit and compliance functions. CDCSR has formalized this commitment through a Facilities Management Agreement (FMA) with CDCPL.</p> <p>Furthermore, the creditworthiness of CDCSR is supported by the financial standing of its parent, marked by substantial liquid assets and conservative leverage levels. The continued implicit sponsor support from the parent company throughout the rating horizon is deemed essential for the assigned ratings.</p> <p>Business Risk Profile</p> <p>In FY23, the Company successfully signed 54 new clients from various sectors, expanding its total client base to 290 (FY22: 250). CDCSR maintains a 23% market share (FY22: 25%) in the share registrar services industry for listed companies, reflecting a low business risk profile. Other key players include FAMCO Associates (13%), THK Associates (13%), and Corplink (Pvt.) Limited (8%).</p> <p>Competitive advantage of the Company stems from various automated solutions for maximum facilitation of shareholders and investors including e-Voting, e-Meeting solutions and electronic payment of stamp duty via franking machine in coordination</p>

with Sindh Board of Revenue. During FY23, the Company provided e-Voting services to 45 listed companies and managed to earn revenue of Rs. 6m.

In 2020, CDCSR obtained the license of Intermediary Services under the Intermediaries (Registration) Regulations 2017. Presently, the Company delivers services to 25 companies, both listed and unlisted.

The Company's revenue model is designed to ensure stability, incorporating inflationary adjustments that are reflected in the annual renewal of the fee structure. Additionally, the revenue stability profile is bolstered by the low switching risk among clients, attributable to the comprehensive one-window solutions offered by CDCSR.

Profitability

The Company sources its revenue from three main segments: RTA (Registrar/Balloter & Transfer Agent) Retainership (46%), Corporate Actions (48%), and Returns on Investments (6%).

Revenue exhibited timeline growth, reaching Rs. 188.6m (FY22: Rs. 151.7m; FY21: Rs. 138.5m) in FY23. The 24.3% YoY topline growth in FY23 was attributable to acquisition of new clients and the annual renewal of client fees. The concentration of the top 10 clients in revenue increased to 39.7% in FY23, up from 30% in FY22, incorporating both listed and unlisted companies. For FY24, management anticipates a further 14.0% growth in the revenue base, driven by the addition of new RTA clients and expansion into intermediary services.

The Company's operating margins have improved over the timeline, reaching 34.2% (FY22: 29.3%; FY21: 28.8%) in FY23. This increase can be attributed to higher fees, recurring revenue from existing clients, and additional revenue from incumbent clients. Operating and administrative expenses also increased to Rs. 124.1m (FY22: Rs. 107.3m; FY21: Rs. 98.6m) in FY23 due to inflation. Despite the rise in operating costs, the net margin of the Company increased to 31.3% (FY22: 25.8%; FY21: 23.8%) in FY23, supported by other income derived from exposure in mutual funds, amounting to Rs. 15.9m (FY22: Rs. 8.9m; FY21: Rs. 6.44m). Looking ahead, management anticipates further improvement in profitability against the backdrop of higher projected revenue.

Liquidity Profile

The Company maintains a sound liquidity profile, with no interest-bearing long-term or short-term obligations recorded. The liquidity position is supported by liquid assets on the balance sheet, including exposure in mutual funds and cash & bank balances, constituting 59.3% (Jun'22: 55.7% ; Jun'21: 56.8%) of the asset base at end-June'23. The remaining asset base is comprised of trade debts, which constituted 35.6% (Jun'22: 34.9%; Jun'21: 35.5%) of total assets at end-June'23, encompassing receivables from clients as monthly arrears. While outstanding receivables are manageable for now, the consistent and timely receipt of dues is crucial to support

the assigned ratings. The current ratio has consistently surpassed 4x over a period of time.

Capitalization

The Company's equity base has experienced growth, driven by internal capital generation, with a three-year Compound Annual Growth Rate (CAGR) of 17.4% (17.4% (Jun'20-Jun'23), albeit remains lower due to decent dividend payouts. As of June'23, the reported equity stands at Rs. 155.5m (Jun'22: Rs. 127.0m; Jun'21: Rs. 108.7m). Capitalization profile reflects a conservative approach with zero gearing and low leverage level 0.27x (Jun'22: 0.28x; Jun'21: 0.32x) at the year-end of Jun'23. Going forward, the Company plans to continue to maintain a dividend payment of ~50%. Maintenance of capitalization profile while augmenting the equity base will remain important for ratings.

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 meetings and discuss about the financial and operational progress of the Company on a regular basis. The Company has appointed Grant Thornton as the external auditors.

CDC Share Registrar Services Limited (CDCSR)
Annexure I

FINANCIAL SUMMARY			
	<i>(amounts in PKR millions)</i>		
<u>BALANCE SHEET</u>	FY21	FY22	FY23
Fixed Assets	5.1	4.5	3.4
Stock-in-Trade	NA	NA	NA
Trade Debts	50.8	56.7	70.4
Short term Investments	74	83	110
Cash & Bank Balances	7.1	7.4	7.0
Total Assets	143.0	162.4	197.8
Trade and Other Payables	25.1	27.8	34.5
Long Term Debt	-	-	-
Short Term Debt	-	-	-
Total Debt	-	-	-
Total Liabilities	34.3	35.4	42.3
Paid Up Capital	50.0	50.0	50.0
Total Equity	108.7	127.0	155.5
<u>INCOME STATEMENT</u>	FY21	FY22	FY23
Revenues	138.5	151.7	188.6
Operating Profit/(loss)	39.9	44.4	64.5
Profit Before Tax	46.2	53.2	80.3
Profit After Tax	33.0	39.1	58.9
<u>RATIO ANALYSIS</u>	FY21	FY22	FY23
Operating Margin (%)	28.8%	29.3%	34.2%
Net Margin (%)	23.8%	25.8%	31.3%
Total Income (Including Other income)	144.9	160.6	204.5
Other income/Total Income	4%	6%	8%
Other income/Short term investments	9%	11%	14%
Effective Tax Rate	29%	26%	27%
Net Margin	24%	26%	31%
Short Term Investments/Total Assets	52%	51%	56%
Trade Debts/Total Assets	36%	35%	36%
Trade Debts/Operating Income	37%	37%	37%
Leverage	0.3	0.3	0.3
DPS	4.0	4.0	6.0
EPS	6.6	7.8	11.8
Dividend Payout	61%	51%	51%
FFO	29.0	26.0	46.2
Current Ratio (x)	4.0	4.3	4.5
ROAA (%)	25%	26%	33%
ROAE (%)	32%	33%	42%

REGULATORY DISCLOSURES		Appendix II			
Name of Rated Entity	CDC Share Registrar Services Limited				
Sector	Financial Services				
Type of Relationship	Solicited				
Purpose of Rating	Entity Rating				
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
	<u>RATING TYPE: ENTITY</u>				
	Dec-12-2023	A	A-1	Stable	Reaffirmed
	Oct-24-2022	A	A-1	Stable	Initial
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.				
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Due Diligence Meetings	Name	Designation		Date	
	Mr. Moheel Ali Khan	CFO & Company Secretary		24-Nov-2023	
	Mr. Mohsin Rajab Ali	Senior Manager			