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Review Of Research



A COMPARATIVE STUDY OF FINANCIAL PERFORMANCE OF NSDL AND CDSL



Kalpesh K. Chauhan

Visiting Lecturer , Smt. K. S. N. Kansagara Mahila Arts and Commerce College,
Rajkot (Gujarat) (India)

ABSTRACT

A depository is a bank for securities. When all or a majority of investors deposit their securities in a depository, the registers of the company will contain only the depository's name instead of the thousands of investors. The updation of ownership account with the depository can be done by means of deposit/withdrawal slips. The account can be opened with a zero balance. A stock broker, who trades on behalf of his client or investors in and maintains securities account balances of his client and keeps them informed about their status from time to time. To avoid bad and mala fide practices in stock operations the concept of Depository System has emerged. An attempt has been made to analyze financial performance of depositories in this paper entitled "A Comparative Study of Financial Performance of National Securities Depository Limited (NSDL) and Central Depository Service (India) Limited (CDSL)". This study is based on secondary data. Accounting tool ratio analysis, trend analysis and statistical tool ANOVA have been applied to test various hypotheses set forth for the study.

KEYWORDS :Ratio, Trend, Profitability, Financial Performance, Depository.

INTRODUCTION

Technology has changed the face of the Indian stock markets in the post-liberalization era. Competition amongst the stock exchanges, increase in the number of players, and changes in the trading system led to a tremendous increase in the volume of activity. The traditional settlement and clearing system proved to be inadequate due to operational inefficiencies. Hence, there emerged a

need to replace this traditional system with a new system called the "Depository System". Depository, in very simple terms, means a place where something is deposited for safekeeping. A depository is an organization which holds securities of a shareholder in an electronic form and facilitates the transfer of ownership of securities on the settlement dates. According to section 2(e) of the Depositories Act, 1996, "Depository means a company formed and registered under the Companies Act, 1956 and which has been granted a certificate of registration under section 12(1A) of the Securities and Exchange Board of India Act, 1992". The depository system revolves around the concept of paperless or scrip less trading because the shares in a depository are held in the form of electronic accounts, that is, in dematerialized form. This system is similar to the opening of an account in a bank wherein a bank will hold money on behalf of the investor and the investor has to open an account with bank to utilize its services. Cash deposits and withdrawals are made in a bank, in lieu of which a receipt and bank passbook are given, while in depositories, scrips are debited and credited and an account statement is issued to the investor from time to time. An investor in a bank deals directly with the bank while an investor deals through a depository participant in a depository. In India, mainly there are two depositories NSDL and CDSL working currently. NSDL was promoted by Industrial Development Bank of India (IDBI), Unit Trust of India (UTI) and National Stock Exchange of India Limited (NSE) while CDSL was promoted by The Stock Exchange, Mumbai (BSE) jointly with leading banks such as State Bank of India, Bank of India, Bank of Baroda, HDFC Bank, Standard Chartered Bank, Union Bank of India and Centurion Bank.

REVIEW OF LITERATURE

Prior to conducting this research, relevant past studies and research papers have been referred which are as under.

Aggarwal Sanjiv (1996) pointed out that the introduction of depository system in India will eliminate many problems like back office functioning, post-trade, post-issue work, settlement and registration work.

Sarkar, A. K. (1996) analyzed the implications of the scripless trading and share transfer based on book entry merely due to the existence of the depository ordinance 1995.

George Philip (1996) explained the role of the NSDL in revolutionizing the paperless stock settlement system of the country. He also examined the steps taken by the depository to ensure that the scripless trading system is a success and stressed on the importance of the role of the regulator in making the depository system successful.

Rao, D. M. and Pramannik, A. K. (1998) studied the functioning of scripless trading, rights and obligations of depository. They have also shown the relationship between depository and other agencies, relationship between depository and participant, between depository and beneficiary, depository and SEBI and relationship of depository with Companies Act.

Mehla, Sunita and Turan, M. S. (2002) explored the depository system as a process, which eliminates the paper work and maintains the electronic record of the ownership of securities.

Gupta, R. K. (2002) examined the role of SEBI which enables the investors to choose their depository and the DP to keep their securities in the electronic form and to trade in the demat segment.

Ravi Shah (2002) highlighted that NSDL and CDSL have changed the face of the Indian capital market. The move from an account period settlement in 'paper form only' to a T+3 settlement in pure electronic form has been achieved in a record span of few years, whereas it took anywhere between 10-20 years in most of the developed countries.

Prof. Sultan Sing and Sakshi Goyal (2011) studied the factors affecting the decision making of the investors in depository system. Most of the investors are of the view that shorter settlement period, safety of securities with the depositories, attitude of the staff available with the DPs, timely services provided by the DPs to the investors, reduction in transaction cost, repatriation of sales proceeds of shares/debentures by NRIs are some of the factors which affects the decision making of the investors in depository system.

Bhatt, K. A. and Bhatt, K. (2012) analyzed the financial stability and profitability of NSDL and CDSL. It was revealed that both the depositories were working smoothly in terms of Demat Accounts, Settlement value and quality and the number of Depository Participants.

RESEARCH METHODOLOGY

Research methodology followed in present study is as follows:

TITLE OF THE PROBLEM

Title of the problem is "A Comparative Study of Financial Performance of NSDL and CDSL"

SIGNIFICANCE OF THE STUDY

In this research emphasis has been laid mainly on financial aspect of NSDL and CDSL. So it would be helpful to selected units to improve their financial performance. Moreover, investors and other stakeholders can get a view of financial performance of NSDL and CDSL. So, from the view point of researcher this study stands worth important.

OBJECTIVES OF THE STUDY

The main objectives of the study are:

- 1.To review and understand the overall operational performance of NSDL and CDSL.
- 2.To compare financial position of NSDL and CDSL with the help of various ratios.
- 3.To make suggestions keeping in view the outcomes of analytical approach.

HYPOTHESES OF THE STUDY

The broader hypotheses of the study are as under:

H₀: There is no significant difference in the various ratios of NSDL and CDSL during the study period.

H₁: There is significant difference in the various ratios of NSDL and CDSL during the study period.

PERIOD OF THE STUDY

The present study is conducted for the period of seven consecutive accounting years starting from 2007-08 to 2013-14.

TOOLS AND TECHNIQUES OF ANALYSIS

For the analysis of data researcher has used accounting as well as statistical tools and techniques like ratio analysis, trend analysis, mean, standard deviation, co-efficient of variation and t – test.

METHODS OF DATA COLLECTION

The main source of data used for the present study is secondary data drawn from published annual reports of NSDL and CDSL. Moreover, journals and newspapers in the field of commerce and

management have also been used as a source of secondary data.

LIMITATIONS OF THE STUDY

The study is entirely based on secondary data. So the rationality of data inevitably affects the study.

The study covers few financial parameters which limits the critical analysis.

The study focuses on financial performance only. Non-financial aspects may have its own impact on the financial performance.

Accounting and statistical tools and techniques used for the study may have their own limitations which also apply to the study.

DATA ANALYSIS AND INTERPRETATION

This part of the study covers an analytical aspect which includes tabulation, calculation and interpretation of the collected data as mentioned below.

Ratio of Income from Operations to Total Income

This ratio helps to assess operational performance of selected depositories during the study period. High ratio is an indication of good performance while low ratio is of weak performance. The ratio can be obtained by dividing the Income from Operations by Total Income and multiplying the resultant figure by 100.

Table – 1: Ratio of Income from Operations to Total Income

(in %)

Unit	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	Mean	t _(cal)	t _(tab)
NSDL	91.91	91.55	91.64	93.21	94.05	80.83	81.05	89.18	4.18	2.18
CDSL	82.93	77.58	80.10	82.46	76.54	72.12	71.54	77.61		

(Source: Calculated from annual reports of selected units)

H₀: There is no significant difference in the Ratio of Income from Operations to Total Income of NSDL and CDSL during the study period.

H₁: There is significant difference in the Ratio of Income from Operations to Total Income of NSDL and CDSL during the study period.

Table – 1 indicates Ratio of Income from Operations to Total Income of depositories. NSDL registered mix trend during the study period. The ratio was highest in the financial year 2011-12 while lowest in 2012-13. The average ratio was 89.18%. CDSL registered fluctuating trend during the study period. The ratio was highest in the financial year 2007-08 while lowest in 2013-14. The average ratio was 77.61%. The ratio has fluctuated more in NSDL as compared to CDSL which may have negative impact on consistency of operation. T-test shows difference is significant in the above ratio of NSDL and CDSL during the study period so the null hypothesis is rejected as the t(cal) > t(tab) at 5% level of significance.

RATIO OF OTHER INCOME TO TOTAL INCOME

This ratio helps to know how much portion of total income is earned by other than main

business by selected units. The other income includes Miscellaneous Income, Income from Interest and Dividend, Profit of Sale of Assets, etc. High ratio can be reckoned as better performance and vice-versa. The ratio can be obtained by dividing the Other Income by Total Income and multiplying the resultant figure by 100.

Table – 2: Ratio of Other Income to Total Income (in %)

Unit	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	Mean	t _(cal)	t _(tab)
NSDL	8.09	8.45	8.36	6.79	5.95	15.14	15.42	9.74	-5.56	2.18
CDSL	17.07	22.42	19.90	17.54	23.46	27.88	28.46	22.39		

(Source: Calculated from annual reports of selected units)

H₀: There is no significant difference in the Ratio of Other Income to Total Income of NSDL and CDSL during the study period.

H₁: There is significant difference in the Ratio of Other Income to Total Income of NSDL and CDSL during the study period.

Table – 2 indicates Ratio of Other Income to Total Income of depositories. NSDL registered fluctuating trend during the study period. The ratio was highest in the financial year 2013-14 while lowest in 2011-12. The average ratio was 9.74%. CDSL also registered fluctuating trend during the study period. The ratio was highest in the financial year 2013-14 while lowest in 2007-08. The average ratio was 22.39%. It reveals that CDSL earned more income from sources of other income as compared to NSDL during the study period. The ratio has fluctuated more in NSDL as compared to CDSL which may have negative impact on consistency of operation. T-test shows difference is not significant in the above ratio of NSDL and CDSL during the study period so the null hypothesis is accepted as the t(cal) < t(tab) at 5% level of significance.

RATIO OF TOTAL EXPENSES TO TOTAL INCOME

This ratio indicates that to meet obligations how much amount is spent after expenses out of total income. The Total Expenses include Administration and other Expenses. It can be stated that higher the ratio, adverse the profitability. The ratio can be obtained by dividing the Total Expenses by Total Income and multiplying the resultant figure by 100.

Table – 3: Ratio of Total Expenses to Total Income (in %)

Unit	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	Mean	t _(cal)	t _(tab)
NSDL	60.98	81.21	66.35	71.25	71.80	57.18	47.79	65.22	5.14	2.18
CDSL	33.90	38.26	33.50	32.84	32.46	48.52	51.84	38.76		

(Source: Calculated from annual reports of selected units)

H₀: There is no significant difference in the Ratio of Total Expenses to Total Income of NSDL and CDSL

during the study period.

H_1 : There is significant difference in the Ratio of Total Expenses to Total Income of NSDL and CDSL during the study period.

Table – 3 indicates Ratio of Total Expenses to Total Income of depositories. NSDL registered fluctuating trend during the study period. The ratio was highest in the financial year 2008-09 while lowest in 2013-14. The average ratio was 65.22%. CDSL registered mix trend during the study period. The ratio was highest in the financial year 2013-14 while lowest in 2011-12. The average ratio was 38.76%. It was seen that NSDL spent more as compared to CDSL during the study period. The ratio has fluctuated more in CDSL as compared to NSDL which shows inconsistency in expenses. T-test shows difference is significant in the above ratio of NSDL and CDSL during the study period so the null hypothesis is rejected as the $t_{(cal)} > t_{(tab)}$ at 5% level of significance.

CURRENT RATIO

The current ratio is a liquidity and efficiency ratio that measures a firm’s ability to pay off its short-term liabilities with its current assets. The current ratio is an important measure of liquidity because short-term liabilities are due within the next year. This ratio helps investors and creditors to understand the liquidity of a company and how easily the company will be able to pay off its current liabilities. The current ratio is calculated by dividing current assets by current liabilities. A higher current ratio is always more favorable than a lower one because it shows the company can more easily make current debt payments. As a conventional rule or as a general rule of thumb, a current ratio of 2 : 1 is reckoned as satisfactory.

Table – 4: Current Ratio

(in times)

Unit	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	Mean	$t_{(cal)}$	$t_{(tab)}$
NSDL	1.81	1.84	1.49	1.51	1.31	1.57	1.08	1.52	-2.15	2.18
CDSL	1.25	2.90	0.84	2.19	8.23	5.76	4.74	3.70		

(Source: Calculated from annual reports of selected units)

H_0 : There is no significant difference in the Current Ratio of NSDL and CDSL during the study period.

H_1 : There is significant difference in the Current Ratio of NSDL and CDSL during the study period.

Table – 4 indicates Current Ratio of depositories. NSDL registered fluctuating trend during the study period. The ratio was highest in the financial year 2008-09 while lowest in 2013-14. The average ratio was 1.52. CDSL registered highly fluctuating trend during the study period. The ratio was highest in the financial year 2011-12 while lowest in 2009-10. The average ratio was 3.70. It was observed that NSDL has low current ratio as compared to CDSL during the study period. The ratio has varied more in CDSL as compared to NSDL which shows significant changes in current assets and current liabilities. However, during the study period Current Ratio of CDSL remained high as compared to the ideal position of 2:1 except the years 2007-08 and 2009-10. T-test shows difference is not significant in the above ratio of NSDL and CDSL during the study period so the null hypothesis is accepted as the $t_{(cal)} < t_{(tab)}$ at 5% level of significance.

Ratio of Return on Net Worth

This ratio shows how efficiently fund of the company is utilized. This ratio is important for present and potential investors as well as management to know that how much return is eared on shareholder's fund. The ratio is calculated by dividing Profit After Interest and Tax by Shareholder's Fund. It can be said that higher the ratio, better the profitability of a firm.

Table – 5: Ratio of Return on Net Worth

(in %)

Unit	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	Mean	t _(cal)	t _(tab)
NSDL	20.38	9.57	22.03	19.53	20.52	7.15	12.68	15.98	-0.39	2.18
CDSL	20.86	17.18	20.58	18.17	16.16	13.25	12.65	16.98		

(Source: Calculated from annual reports of selected units)

H₀: There is no significant difference in the Ratio of Return on Net Worth of NSDL and CDSL during the study period.

H₁: There is significant difference in the Ratio of Return on Net Worth of NSDL and CDSL during the study period.

Table – 5 indicates Ratio of Return on Net Worth of depositories. NSDL registered fluctuating trend during the study period. The ratio was highest in the financial year 2009-10 while lowest in 2012-13. The average ratio was 15.98%. CDSL registered mix trend during the study period. The ratio was highest in the financial year 2007-08 while lowest in 2013-14. The average ratio was 16.98. It was observed that profitability was highly inconsistent in NSDL as compared to CDSL during the study period. However, the ratio in CDSL declined continuously during last four year of study period which suggests less profitable operation of business. The ratio fluctuated much more in NSDL as compared to CDSL which shows remarkable changes in profitability and instability in Return on Net Worth. T-test shows difference is not significant in the above ratio of NSDL and CDSL during the study period so the null hypothesis is accepted as the $t_{(cal)} < t_{(tab)}$ at 5% level of significance.

CONCLUSION

It can be concluded that Income from Operations of NSDL and CDSL was not consistent during the study period and Income from Operations was comparatively high in NSDL. On the other hand Other Income remained high in CDSL as compared to NDSL during the study period. It can be said that CDSL earned more from interest, dividend and profit from sale of assets during the study period. Control over expenses of NSDL was quite poor because NSDL spent almost double amount after total expenses as compared to CDSL during the study period. Liquidity position of CDSL was better than NSDL during the study period because the Current Ratio in CDSL remained almost more than conventional rule of 2 : 1 except the year 2009-10 while in NSDL it remained below ideal position. However, the profitability position of NSDL and CDSL was quite parallel during the study period. Though, the average return was high in CDSL as compared to NSDL during the study period. CDSL should try to increase income from main business. NSDL should cut expenses to make business more profitable. NSLD should improve its liquidity position to avoid insolvency. A notable progress was seen in NSDL and CDSL during the study period except little fallback. CDSL came into existence after NSDL but the performance is

almost parallel to NSDL. Increased demat accounts, depository participants, settlements etc. revealed investors' faith in both the depositories. Considering the above analysis overall financial performance of NSDL and CDSL was satisfactory during the study period.

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Kalpesh K. Chauhan

Visiting Lecturer , Smt. K. S. N. Kansagara Mahila Arts and Commerce College,
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