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IL&FS to Sell Custody and Depository Unit



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Securities Services on the block almost five years after IndusInd Bank pulled out of a deal to buy the entity. Bidders can either bid for the custody or the depository biz separately or both together, a document seeking EoIs showed.

Joel Rebello reports. ►► 13

INVITES BIDS five years after IndusInd talks failed; offers can be made for ISSL's custody or depository business or both

IL&FS to Sell Custody & Depository Unit

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Mumbai: The IL&FS board has put the group's custody and depository business, IL&FS Securities Services (ISSL), on the block almost five years after IndusInd Bank pulled out of a deal to acquire the entity following the collapse of the infrastructure financier in September 2018.

Unlike last time, however, bidders can either bid for the custody business or the depository (brokerage) business separately or both together, a document seeking expressions of interest (EOI) showed.

ISSL is a rare non-bank custodian that holds financial securities like stocks, bonds or gold for safekeeping. It also has a separate depository licence that allows it to offer brokerage services.

"ISSL is neither a big depository nor a custodian; so there is not much business to be gained. But it is a rare non-bank entity that has both licences and is available for sale," said a person familiar with the industry.

"The Reserve Bank of India has long ago discontinued giving new custodial licences to non-banks; so in that sense that could be an attractive proposition for an entity seeking to build this business either on its own or along with a brokerage," said the person cited above.

ISSL is among the 17 SEBI-registered custodians in India. IL&FS owns an 81% stake in the company.

With average assets under custody (AUC) of around ₹9,000 crore and 1,700 clients, ISSL's business is small in comparison with that of market leader Stock Holding Corporation of India (SHCI), which services millions of retail and institutional clients and has an AUC of more than ₹34 lakh crore.

On the depository side, it has more than 90,000 accounts. Zerodha, by contrast, has 2.9 million monthly active clients.

"On the business side, it is inconsequential in the market but it has a base that can be built on provided the new buyer invests. The dual licences are the only thing worth in

Lookout for a New 'Custodian'



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It also has a separate depository licence, allowing it to offer brokerage services

It has more than **90,000 depository accounts**, which is tiny in comparison to **Zerodha**

It is a small player servicing **1,700 clients** and has average assets under custody of around **₹9,000 crore**

Bankers say active licences for both businesses may make the firm attractive

this deal," said a second person aware of the industry dynamics.

Since the fall of IL&FS, revenues from both businesses have been on a decline and were down to ₹5 crore and ₹2 crore for the brokerage and custody businesses, respectively, in the fiscal ended March 2023.

IL&FS has asked interested parties to submit an EOI by the end of the month. The company expects to

complete the sale within this fiscal.

"This process will take at least three to six months as it will need the interested parties to go through the company's financials and value it accordingly," said a person familiar with the process.

ISSL was expected to be the first company to be monetised by the new board when it took over in October 2018 since an agreement for a take-

over by IndusInd in 2017 was already in place. The bank had signed a definitive agreement to acquire 100% of the company in June 2018 but pulled out citing certain unfulfilled conditions in November of that year.

Later in 2019, ISSL was hit by a case against the company by the Dalmia Group, which had alleged that mutual fund units were illegally transferred from the demat accounts of its two subsidiaries. The group had registered an FIR with the Economic Offences Wing (EOW) of the Delhi police, alleging that Allied Financial Services, Money Mishra Overseas and ISSL duped the company of securities worth ₹344 crore.

Dalmia Group got the securities back in 2021. SEBI had imposed a penalty of ₹26 crore on ISSL and also restrained it from acquiring any new clients for a period of two years.

"All these issues had stalled the company's sale. But since they are now behind us, the sale can now be initiated," said the person familiar with the process cited above.