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Q4FY20 result review
and earnings revision

Indian Exchanges

Target price: Rs260

Earnings revision

(%)	FY21E	FY22E
Sales	↑ 3.2	↑ 3.2
EBITDA	↑ 9.0	↑ 7.7
PAT	↑ 1.0	↑ 6.8

Target price revision

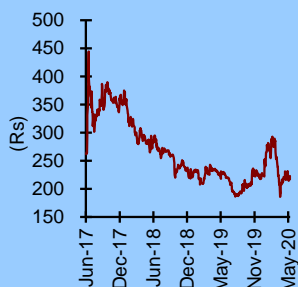
Rs260 from Rs275

Shareholding pattern

	Sep '19	Dec '19	Mar '20
Promoters	24.0	20.0	20.0
Institutional investors	43.9	43.4	43.7
MFs and others	9.6	10.7	12.9
FIs/ Banks	22.4	20.6	19.8
Insurance Cos.	2.3	2.0	1.9
FII	9.6	10.1	9.1
Others	32.1	36.6	36.3

Source: NSE

Price chart



Central Depository Services

BUY

Maintained

Stable business model can weather disruption

Rs223

CDSL is a balanced play on market growth with non-market linked revenues (estimated at 54% of total revenues in FY20) providing steady earnings with total cash of Rs7.2bn and free cash of Rs4.4bn lending business stability. Near-term challenges include weak outlook on market-linked revenues and rising cost profile, which offset an otherwise healthy FY20 revenue performance. We expect revenue/PAT to witness CAGRs of 2.3%/0.6% between FY20-FY22E. Growth is expected to be lower due to decline in market-linked revenues in FY21E. Factoring-in the lower earnings growth, lost opportunity in growth drivers like NAD being transferred to Digilocker and SEBI allowing eight other entities to undertake E-KYC using Aadhar, we cut our forward core multiple EPS from 30x to 25x. We revise our target price to Rs260 (earlier: Rs275) based on 25x FY22E core EPS of Rs7.1 and add cash and investments of Rs8.5bn (Rs82/share). Maintain BUY.

- **FY20 was disappointing due to cost overrun:** Operating income grew 14.7% from Rs1.96bn in FY19 to Rs2.25bn in FY20. However, operating expenses including depreciation (for similar comparison between pre and post Ind-AS adoption) increased 20% from Rs972mn in FY19 to Rs1.17bn in FY20. Major drivers of the cost overrun were: other expenses (87.4% higher in FY20) followed by employee costs (38.3% higher in FY20). One-off items in FY20 included: (1) Covid-19 donation of Rs68mn, (2) Rs100mn payment towards settlement of tax disputes, (3) write-back of Rs17.4mn in respect of AY 2013-14, which was netted off from tax expense, and (4) Rs22mn received as interest on refund included in 'other income' during FY20.
- **Market-linked revenues expected to remain under pressure.** We expect transaction revenues to increase from Rs393mn in FY19 to Rs468mn in FY22E (6% CAGR). Transaction revenues clocked 15% CAGR between FY14-FY19, but has stagnated at Rs400mn over the past three years. Revenues from IPO / corporate action is expected to witness sharp decline in FY21 due to weak market sentiment resulting in lower capital raise activities while online data charges are likely to decline in FY21 and recover in FY22. We expect income from IPO / corporate action charges to reduce at 14% CAGR between FY19-FY22E (+29% CAGR between FY14-FY19) and online data charges to grow 3% during the same period (29% CAGR in FY14-FY19).
- **Total turnover in the cash segment has been witnessing a healthy growth, however delivery mix on the decline.** This arithmetic impacts CDSL considering that the transaction revenue is based on number of cash debit transactions (refer chart 1).
- **Expect annual issuer charges to increase from Rs672mn in FY19 to Rs945mn in FY22E (12% CAGR).** Annual issuer charges clocked 12% CAGR between FY14-FY19. Any rate hike can give a positive surprise to earnings.
- **Expect EBITDA margin to remain -47-48% in FY22E.** CDSL has been unable to gain any operating leverage due to rising costs.

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Market Cap	Rs23.3bn/US\$309mn	Year to Mar	FY19	FY20E	FY21E	FY22E
Reuters/Bloomberg	CENA.BO / CDSN IN	Net Revenue (Rs mn)	1,963	2,251	2,089	2,356
Shares Outstanding (mn)	104.5	Net Profit (Rs mn)	1,135	1,197	957	1,180
52-week Range (Rs)	293/186	Dil. EPS (Rs)	10.9	11.2	9.2	11.3
Free Float (%)	80.0	% Chg YoY	9.3	2.7	(18.0)	23.3
FII (%)	9.1	P/E (x)	20.5	20.0	24.4	19.8
Daily Volume (US\$'000)	2,683	CEPS (Rs)	11.8	12.3	10.4	12.6
Absolute Return 3m (%)	(19.6)	EV/EBITDA (x)	20.1	18.1	21.4	16.2
Absolute Return 12m (%)	0.9	Dividend Yield (%)	1.8	1.8	2.0	2.2
Sensex Return 3m (%)	(24.4)	RoCE (%)	17.3	15.8	12.1	13.9
Sensex Return 12m (%)	(15.2)	RoE (%)	17.9	16.8	12.8	14.6

Please refer to important disclosures at the end of this report

Table 1: Q4FY20 result review

(Rs mn, year ending March 31)

Consolidated	Q4FY20	Q4FY19	% YoY	Q3FY20	% QoQ	FY20	FY19	YoY
Net revenues	599	509	17.5	541	10.7	2,251	1,963	14.7
Employee costs	93	99	(5.5)	123	(24.3)	473	342	38.3
% of sales	15.6	19.4	-380 bps	22.8	-721 bps	21	17	359 bps
Technology expenses	43	30	42.0	37	14.6	154	140	9.9
% of sales	7.1	5.9	123 bps	6.9	24 bps	7	7	-30 bps
Other expenditure	137	100	36.8	114	19.8	560	392	43.0
% of sales	22.8	19.6	321 bps	21.1	173 bps	25	20	493 bps
Total expenditure	273	229	19.2	275	(0.7)	1,186	873	35.9
EBITDA	326	281	16.2	266	22.4	1,064	1,089	(2.3)
EBITDA margin (%)	54.4	55.1	-63 bps	49.2	523 bps	47	56	-822 bps
Other income	131	177	(26.2)	144	(8.9)	570	492	15.9
PBDIT	457	458	(0.2)	410	11.4	1,634	1,581	3.3
Depreciation	30	26	15.9	30	0.3	117	99	18.3
PBIT	427	432	(1.2)	380	12.3	1,517	1,482	2.3
Interest	0	-	NA	-	NA	0.3	-	-
PBT	426	432	(1.3)	380	12.2	1,516	1,482	2.3
Tax	77	90	(14.6)	58	32.1	314	334	(5.8)
% of PBT	18.0	20.8	-281 bps	15.3	271 bps	21	23	-180 bps
PAT before MI	350	342	2.2	322	8.7	1,202	1,148	4.7
Exceptional items	(68)	-	-	(106)	-	(134)	-	na
Share of Assoc./JV and MI	(5)	6	-	-	-	6	13	(57.2)
Reported PAT	286	336	(14.8)	216	32.4	1,062	1,135	(6.4)
Adjusted PAT	354	336	5.5	322	10.1	1,166	1,135	2.7
EPS (Rs)	3.4	3.2	5.5	3.1	10.1	11.2	10.9	2.7

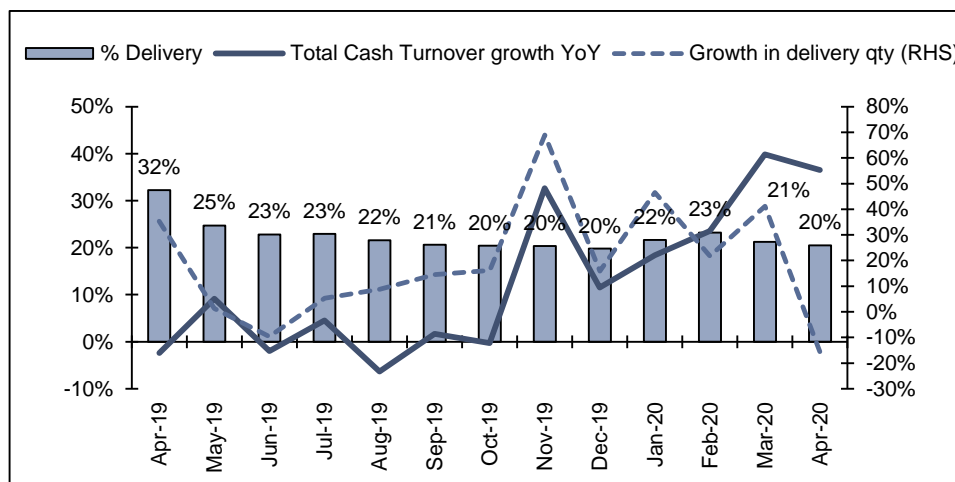
Source: Company data, I-Sec research

Q4FY20 was better sequentially despite lower margin YoY

- Topline grew by 17.5% to Rs599mn.
- EBITDA margin declined by 63bps to 54.4%
- Adjusted PAT (excluding Covid-19 donation of Rs68mn) was Rs354mn, up 5% YoY.

Table 2: Total and free cash of CDSL

	FY18	FY19	FY20E
Cash and bank balance	420	555	537
Current investments	1,583	1,263	3,960
Non-current investments	3,628	4,712	2,733
Total cash and investments	5,630	6,530	7,230
Net worth requirements			
CDSL	1,000	1,000	1,000
CCRL	260	500	500
CVL	250	750	750
CDSL Insurance repository	300	300	300
Total net worth requirements	1,810	2,550	2,550
Deposits	230	270	270
Distributable cash	3,554	3,668	4,410

Chart 1: Total cash volumes are rising, but % delivery remains lower

Source: Company data, I-Sec research

Earnings change and valuation

Table 3: Valuation based on core earnings

Particulars	FY22
FY22 Core EPS (Rs)	7.1
Target core P/E (x)	25
Core price (Rs per share)	178
Number of shares (mn)	105
Core value (Rs mn)	18,649
Cash and investments (Rs mn)	8,534
Total value (Rs mn)	27,183
Target price (Rs per share)	260

Source: Company data, I-Sec research

Table 4: Earnings revision

(Rs mn)	FY21E			FY21E		
	Old	New	Change (%)	Old	New	Change (%)
Net Sales	2,024	2,089	3.2	2,283	2,024	3.18
EBITDA	822	896	9.0	1,055	822	7.72
PAT	947	957	1.0	1,105	947	6.77

Source: Company data, I-Sec research

Operational highlights

Table 5: Key revenue drivers

	NSDL			CDSL		
	FY20	5yr CAGR	10yr CAGR	FY20	5yr CAGR	10yr CAGR
Live companies	30,335	20%	15%	14,762	11%	9%
No. of DPs	279	0%	0%	599	1%	3%
DP locations	30,874	16%	13%	20,352	12%	11%
No of demat accounts (mn)	20	9%	7%	21	19%	14%
Demat value (Rs bn)	1,60,328	12%	18%	16,720	9%	14%
Demat quantity (mn securities)	23,51,603	24%	24%	4,55,727	21%	20%

Source: Company data, I-Sec research

Chart 2: Number of active demat accounts

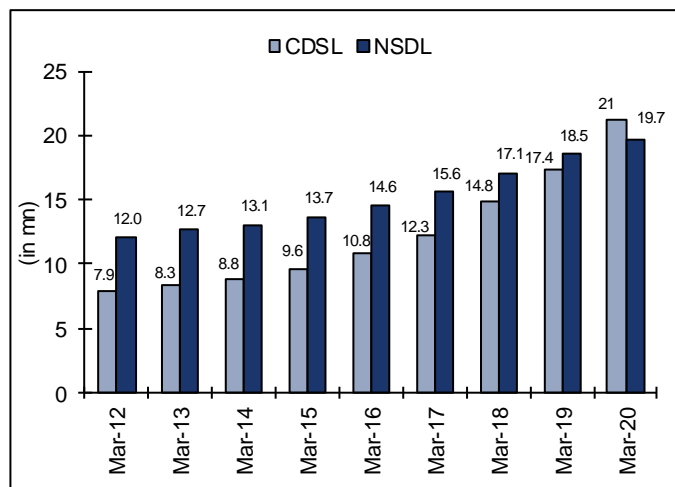


Chart 3: Market share of demat accounts

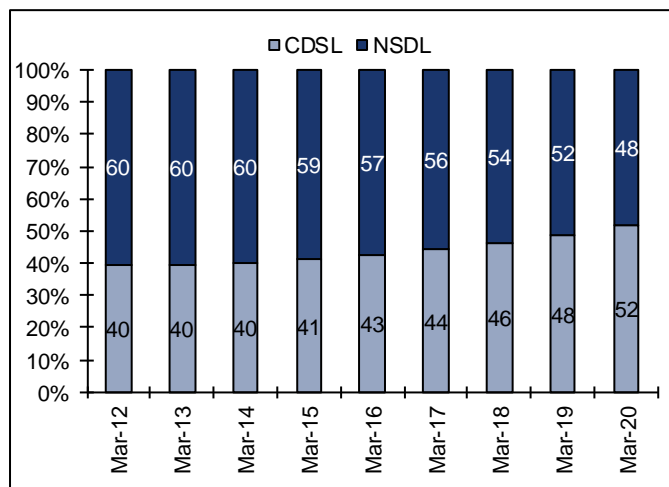
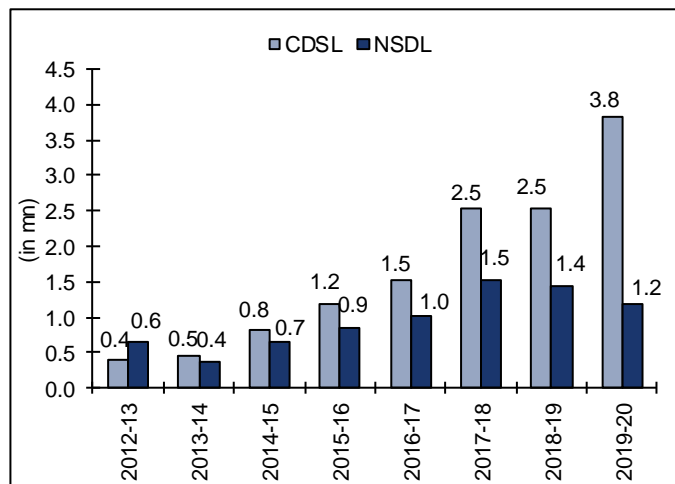
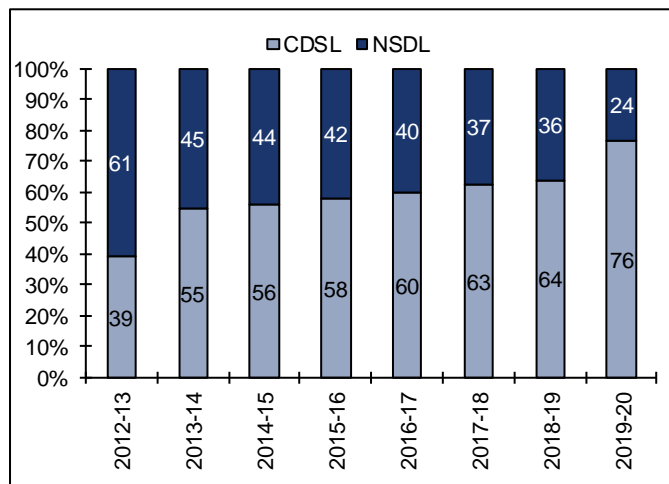


Chart 4: Number of incremental demat accounts



Source: CDSL, NSDL, I-Sec research

Chart 5: Share of incremental demat accounts



Source: CDSL, NSDL, I-Sec research

Financial summary (consolidated)

Table 6: Profit & loss statement

(Rs mn, year ending March 31)

	FY19	FY20E	FY21E	FY22E
Net Revenues	1,963	2,251	2,089	2,356
Operating Expenses	873	1,186	1,193	1,219
EBITDA	1,089	1,064	896	1,136
<i>% margins</i>	55.5%	47.3%	42.9%	48.2%
Depreciation & Amortisation	99	117	125	134
Interest	-	0	0	0
Other Income	492	570	514	580
Profit before Tax	1,482	1,516	1,284	1,583
Less: Taxes	334	314	324	399
Less: PAT attributable to Non-Controlling Interest	13	6	4	4
Recurring Net Income	1,135	1,197	957	1,180
Extraordinaries (Net)	-	(134)	-	-
Net Income (Reported)	1,135	1,331	957	1,180
Net Income (Adjusted)	1,135	1,166	957	1,180

Source: Company data, I-Sec research

Table 7: Balance sheet

(Rs mn, year ending March 31)

	FY19	FY20E	FY21E	FY22E
Assets				
Total Current Assets	2,097	4,837	4,916	5,657
<i>of which cash & cash eqv.</i>	555	537	588	589
Total Current Liabilities & Provisions	734	936	869	980
Net Current Assets	1,363	3,901	4,047	4,677
Investments	4,712	2,733	3,133	3,233
Other Non-current Assets	277	319	319	319
Net Fixed Assets	726	715	660	596
Capital Work-in-Progress	-	-	-	-
Goodwill and Other Intangibles	26	28	28	28
Total Assets	7,105	7,696	8,187	8,853
Liabilities				
Borrowings	-	-	-	-
Deferred Tax Liability	1	20	20	20
Other Non-current liabilities	10	18	18	18
Minority Interest	413	419	423	427
Equity Share Capital	1,045	1,045	1,045	1,045
<i>Face Value per share (Rs)</i>	10	10	10	10
Reserves & Surplus	5,636	6,195	6,681	7,344
Less: Misc. Exp. n.w.o.				
Net Worth	6,681	7,240	7,726	8,389
Total Liabilities	7,105	7,696	8,187	8,853

Source: Company data, I-Sec research

Table 8: Quarterly trends

(Rs mn, year ending March 31)

	Jun-19	Sep-19	Dec-19	Mar-20
Total Income	584	527	541	599
% growth (YoY)	28.2	-0.9	17.4	29.9
EBITDA	226	245	266	326
Margin (%)	38.8	46.6	49.2	54.4
Other income	150	167	144	131
Add: Extraordinaries	-	-	106	68
Net profit	274	293	322	354

Source: Company data, I-Sec research

Table 9: Cashflow statement

(Rs mn, year ending March 31)

	FY19	FY20E	FY21E	FY22E
Operating Cashflow	1,220	1,152	1,086	1,317
Working Capital Changes	303	142	(43)	71
Capital Commitments	(79)	(106)	(70)	(70)
Free Cashflow	1,444	1,188	973	1,318
Cashflow from Investing Activities	(776)	(721)	(452)	(800)
Change in Reserves	302	-	0	0
Inc (Dec) in Borrowings	-	-	-	-
Dividend paid	(503)	(504)	(470)	(517)
Change in Deferred Tax Liability	(11)	19	-	-
Chg. in Cash & Bank balance	456	(18)	51	1

Source: Company data, I-Sec research

Table 10: Key ratios

(Year ending March 31)

	FY19	FY20E	FY21E	FY22E
Per Share Data (Rs)				
EPS	10.9	11.2	9.2	11.3
Core EPS	7.2	7.1	5.5	7.1
Cash EPS	11.8	12.3	10.4	12.6
Dividend per share (DPS)	4.0	4.0	4.5	5.0
Book Value per share (BV)	63.9	69.3	73.9	80.3
Growth (%)				
Net Sales	4.6	14.7	-7.2	12.8
EBITDA	-2.0	-2.3	-15.8	26.9
PAT	9.3	2.7	-18.0	23.3
Cash EPS	11.4	4.0	-15.7	21.4
Valuation Ratios (x)				
P/E	20.5	20.0	24.4	19.8
P/CEPS	18.9	18.2	21.5	17.7
P/BV	3.5	3.2	3.0	2.8
EV / EBITDA	20.1	18.1	21.4	16.2
EV / Sales	11.2	8.5	9.2	7.8
Operating Ratios				
Employee cost / Sales (%)	17.4	21.0	25.4	24.8
SG&A / Sales (%)	27.1	31.7	31.8	27.0
Other Income / PBT (%)	33.2	37.6	40.1	36.6
Effective Tax Rate (%)	22.5	20.7	25.2	25.2
Receivables (days)	35.1	41.6	41.6	41.6
Payables (days)	6.7	19.3	19.3	19.3
Net D/E Ratio (x)	0.0	0.0	0.0	0.0

Return/Profitability Ratios (%)

Net Income Margins	57.8	51.8	45.8	50.1
RoACE	17.3	15.8	12.1	13.9
RoAE	17.9	16.8	12.8	14.6
Dividend Payout	43.8	47.2	48.9	43.7
Dividend Yield	1.8	1.8	2.0	2.2
EBITDA Margins	55.5	47.3	42.9	48.2

Source: Company data, I-Sec research

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