

Central Depository Services Ltd | BUY



Annuity based revenue stream - relatively resilient

CDSL reported consolidated adj. PAT of INR 391mn (+16% YoY) in 4Q, higher than JMfe of 289mn. Consolidated revenue increased 15% YoY in FY20, driven by a) c.16% YoY growth in Annual issuer charges (c.35% of revenue) and b) c. 15% YoY growth in online data charges (c 16% of revenue). Consolidated adj. EBITDA remained broadly flat at INR 1.1bn in FY20. Operating costs increased 39% YoY driven by a) 38% YoY increase in employee costs and b) 22% YoY increase in technology costs. CDSL's annuity based revenue stream (c.40% of revenues), new avenues of commodity repository and dematerialisation of unlisted public companies are likely to fuel future revenue growth. High FCF generation (FCF yield – c.5%), stable dividend policy (>35% payout) and a strong balance sheet (net cash – c.INR 7bn+) provide further support, in our view. Our FY22 P/E based fair value stands at INR275/sh. Maintain BUY.

- Strong broad-based revenue growth:** In 4QFY20, CDSL's consolidated revenue increased 18% YoY to INR 599mn, driven by a) c.73% YoY growth in IPO/Corporate action charges, and b) c. 52% YoY growth in online data charges, partly offset by a) c.20% decline in other revenues (e-voting, e-CAS etc.). Transaction charges increased c.28% YoY in 4QFY20 to 126mn. Annual issuer charges improved sequentially to INR 198mn (+10% YoY). During the year, National Academic Depository (NAD) project was transferred from CDSL to Digi Locker by Gol. CDSL has incurred an expense of >INR 60mn over the span of 4 years.
- Management assesses no material impact of pandemic on ops.:** In 4QFY20, consolidated EBITDA increased 22% YoY to INR 343mn, after adjusting for – a) INR 68mn CSR expenses, b) Provision for litigation settlement of INR 17mn and c) INR 19.7mn on account of DTA write-off. Consolidated adj. EBITDA remained broadly flat at INR 1.1bn in FY20 after adjusting for a) INR 105.6mn paid towards 'Sabka Vishwas legacy dispute resolution scheme' to settle service tax dues of previous years and b) INR 39.8mn received post completion of assessment for FY13-14 with interest thereon, apart from the ones mentioned in 4Q. Operating costs increased 14% YoY driven by a) 44% YoY increase in technology costs and b) 24% YoY increase in other costs. Staff costs declined 5% YoY in 4QFY20. Consolidated adj. PAT stood at INR 391mn (+ 16% YoY), lower than JMfe of INR 289mn. Based on management assessment, CDSL expects the impact of COVID-19 on its operations and carrying value of assets and liabilities to be non-material.
- Diversification into high growth services to drive earnings; Maintain BUY:** CDSL's annuity based revenue stream, new growth avenues of commodity repository and dematerialisation of unlisted public companies, fixed operating costs, robust cash flow generation coupled with a strong balance sheet and stable dividend policy is likely to drive earnings growth. a) Low pricing power, b) dependence on capital market volume, c) regulatory oversight (new license issue), are the key risks to our estimates. Return ratios are optically suppressed due to net cash of c.INR 7bn+ in the Balance Sheet. Our FY22 P/E based fair value stands at INR275/sh. Maintain BUY.

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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	275
Upside/(Downside)	22.2%
Previous Price Target	350
Change	-21.4%

Key Data – CDSL IN

Current Market Price	INR225
Market cap (bn)	INR25.3/US\$0.3
Free Float	61%
Shares in issue (mn)	104.5
Diluted share (mn)	104.5
3-mon avg daily val (mn)	INR147.7/US\$1.9
52-week range	302/180
Sensex/Nifty	30,819/9,067
INR/US\$	75.8

Price Performance

%	1M	6M	12M
Absolute	6.2	5.3	7.9
Relative*	9.1	38.8	37.8

* To the BSE Sensex

Financial Summary					(INR mn)
Y/E March	FY18A	FY19A	FY20A	FY21E	FY22E
Net Sales	1,910	1,973	2,251	2,167	2,552
Sales Growth (%)	30.8	3.3	14.1	-3.7	17.8
EBITDA	1,137	1,115	1,053	956	1,238
EBITDA Margin (%)	59.5	56.5	46.8	44.1	48.5
Adjusted Net Profit	1,032	1,135	1,204	954	1,306
Diluted EPS (INR)	9.9	10.9	11.5	9.1	12.5
Diluted EPS Growth (%)	20.3	10.0	6.1	-20.8	37.0
ROIC (%)	291.0	139.8	144.6	137.9	213.1
ROE (%)	18.2	17.9	17.3	12.8	16.3
P/E (x)	22.8	20.7	19.5	24.7	18.0
P/B (x)	3.9	3.5	3.2	3.1	2.8
EV/EBITDA (x)	15.9	15.6	15.9	17.0	12.6
Dividend Yield (%)	1.6	1.8	2.0	1.7	2.5

Source: Company data, JM Financial. Note: Valuations as of 20/May/2020

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Exhibit 1. Financial summary – consolidated

(INR mn)

	4QFY20	4QFY20E	Var. %	4QFY19	YoY %	3QFY20	QoQ %	FY20	FY19	YoY %
Net Sales	599	514	17	505	18	541	11	2,251	1,951	15
Annual issuer charges	198	195	1	179	10	196	1	778	672	16
Transaction charges	126	114	10	98	28	110	15	426	393	9
IPO/corporate action charges	72	45	60	42	73	48	50	222	199	12
Online data charges	114	90	27	75	52	93	23	365	317	15
Others	89	69	29	111	-20	94	-6	460	371	24
Total expenditure	256	263	(3)	225	14	275	-7	1,198	860	39
Employee Expenses	93	129	(27)	99	-5	123	-24	473	342	38
Technology cost	43	37	15	30	44	37	15	149	122	22
Other expenses	120	97	24	96	24	114	5	575	396	45
EBITDA	343	251	37	281	22	266	29	1,053	1,090	-3
EBITDA (%)	57.3	48.9		55.5		49.2		46.8	55.9	
Depreciation	30	30	1	26	16	30	0	117	99	18
EBIT	313	221	41	254	23	236	32	935	991	-6
Other income	131	155	(16)	177	-26	144	-9	570	491	16
PBT	443	376	18	432	3	380	17	1,505	1,482	2
Tax	57	87		90		58		295	333	
Eff. Tax rate (%)	12.9	23.0		20.8		15.3		20	22.5	
XO income / (expenses)	(105)	-		-		(106)		(143)	-	
PAT before MI/Assoc.	281	290	(3)	342	-18	216		1,067	1,149	
Minority Interest	(5)	1		6		8		6	13	
PAT- Reported	286	289	(1)	336	-15	208	37	1,062	1,135	-7
PAT- Adjusted	391	289	35	336	16	314	25	1,204	1,135	6
Diluted EPS (Rs)	3.7	2.8	35.4	3.2	16	3.0	25	11.5	10.9	6

Source: Company, JM Financial

Exhibit 2. Financial summary – standalone (INR mn)

	4QFY20	4QFY19	YoY %	3QFY20	QoQ %	FY20	FY19	YoY %
Net Sales	453	379	19	417	8	1,682	1,524	10
Expenditure	179	182	-2	217	-18	892	706	26
Employee Expenses	67	88	-23	110	-39	400	298	34
Technology cost	38	27	41	34	11	135	111	22
Contribution to IPF	-	-		-		-	9	
Admin & other expenses	74	68	8	73	0	358	288	24
EBITDA	274	197	39	200	37	789	819	-4
EBITDA (%)	60.6	51.9		48.0		46.9	53.7	
Depreciation	24	20	18	22	9	87	83	5
EBIT	250	176	42	178	40	702	736	-5
Interest	0	-		-		0	-	
Other income	95	131		104		410	360	
PBT	345	307	12	282	22	1,112	1,097	1
Tax	42	63		36		208	253	
Eff. Tax rate (%)	12.2	20.5		12.9		18.7	23.1	
XO income / (expenses)	(93)	-		(106)		(131)	-	
PAT- Reported	210	244	-14	141	49	773	844	-8
PAT- Adjusted	303	244	24	246	23	904	844	7
Diluted EPS (Rs)	2.9	2.3	24	2.4	23	8.7	8.1	7

Source: Company, JM Financial

Exhibit 3. Change in earnings

	OLD		NEW		% Change	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
EPS (INR)	12.4	14.0	9.1	12.5	-26.4%	-10.8%

Source: JM Financial

Financial Tables (Consolidated)

Income Statement		(INR mn)				
Y/E March	FY18A	FY19A	FY20A	FY21E	FY22E	
Net Sales	1,910	1,973	2,251	2,167	2,552	
Sales Growth	30.8%	3.3%	14.1%	-3.7%	17.8%	
Other Operating Income	0	0	0	0	0	
Total Revenue	1,910	1,973	2,251	2,167	2,552	
Cost of Goods Sold/Op. Exp	0	0	0	0	0	
Personnel Cost	0	0	0	0	0	
Other Expenses	773	857	1,198	1,211	1,315	
EBITDA	1,137	1,115	1,053	956	1,238	
EBITDA Margin	59.5%	56.5%	46.8%	44.1%	48.5%	
EBITDA Growth	43.2%	-1.9%	-5.6%	-9.2%	29.5%	
Depn. & Amort.	69	99	117	126	127	
EBIT	1,068	1,016	935	830	1,111	
Other Income	347	466	570	421	599	
Finance Cost	0	0	0	0	0	
PBT before Excep. & Forex	1,414	1,482	1,505	1,251	1,709	
Excep. & Forex Inc./Loss(-)	0	0	0	0	0	
PBT	1,414	1,482	1,505	1,251	1,709	
Taxes	378	334	295	288	393	
Extraordinary Inc./Loss(-)	0	0	-143	0	0	
Assoc. Profit/Min. Int.(-)	5	13	6	10	10	
Reported Net Profit	1,032	1,135	1,062	954	1,306	
Adjusted Net Profit	1,032	1,135	1,204	954	1,306	
Net Margin	54.0%	57.5%	53.5%	44.0%	51.2%	
Diluted Share Cap. (mn)	104.5	104.5	104.5	104.5	104.5	
Diluted EPS (INR)	9.9	10.9	11.5	9.1	12.5	
Diluted EPS Growth	20.3%	10.0%	6.1%	-20.8%	37.0%	
Total Dividend + Tax	440	503	566	490	697	
Dividend Per Share (INR)	3.5	4.0	4.5	3.9	5.5	

Source: Company, JM Financial

Cash Flow Statement		(INR mn)				
Y/E March	FY18A	FY19A	FY20A	FY21E	FY22E	
Profit before Tax	1,410	1,469	1,499	1,241	1,699	
Depn. & Amort.	69	99	117	126	127	
Net Interest Exp. / Inc. (-)	0	0	0	0	0	
Inc (-) / Dec in WCap.	125	2	37	-22	54	
Others	0	0	0	0	0	
Taxes Paid	-378	-334	-295	-288	-393	
Operating Cash Flow	1,226	1,237	1,358	1,057	1,487	
Capex	-773	-88	-108	-80	-80	
Free Cash Flow	453	1,149	1,250	977	1,407	
Inc (-) / Dec in Investments	-146	-800	-671	-500	-500	
Others	61	299	-30	10	10	
Investing Cash Flow	-858	-589	-810	-570	-570	
Inc / Dec (-) in Capital	0	0	0	0	0	
Dividend + Tax thereon	-440	-503	-566	-490	-697	
Inc / Dec (-) in Loans	0	0	0	0	0	
Others	0	0	0	0	0	
Financing Cash Flow	-440	-503	-566	-490	-697	
Inc / Dec (-) in Cash	-72	144	-18	-2	220	
Opening Cash Balance	483	411	555	537	535	
Closing Cash Balance	411	555	537	535	755	

Source: Company, JM Financial

Balance Sheet		(INR mn)				
Y/E March	FY18A	FY19A	FY20A	FY21E	FY22E	
Shareholders' Fund	5,988	6,681	7,240	7,704	8,313	
Share Capital	1,045	1,045	1,045	1,045	1,045	
Reserves & Surplus	4,943	5,636	6,195	6,659	7,268	
Preference Share Capital	0	0	0	0	0	
Minority Interest	159	413	419	429	439	
Total Loans	0	0	0	0	0	
Def. Tax Liab. / Assets (-)	-19	-33	10	10	10	
Total - Equity & Liab.	6,128	7,061	7,669	8,143	8,762	
Net Fixed Assets	761	752	743	698	651	
Gross Fixed Assets	905	993	1,101	1,181	1,261	
Intangible Assets	0	0	0	0	0	
Less: Depn. & Amort.	144	240	358	483	610	
Capital WIP	0	0	0	0	0	
Investments	5,175	5,975	6,646	7,146	7,646	
Current Assets	964	1,078	1,234	1,225	1,475	
Inventories	0	0	0	0	0	
Sundry Debtors	189	191	260	256	286	
Cash & Bank Balances	411	555	537	535	755	
Loans & Advances	2	2	2	2	2	
Other Current Assets	363	329	434	432	432	
Current Liab. & Prov.	773	744	954	926	1,010	
Current Liabilities	130	36	121	92	97	
Provisions & Others	642	708	834	834	913	
Net Current Assets	192	334	280	299	465	
Total - Assets	6,128	7,061	7,669	8,143	8,762	

Source: Company, JM Financial

Dupont Analysis		FY18A	FY19A	FY20A	FY21E	FY22E
Y/E March						
Net Margin		54.0%	57.5%	53.5%	44.0%	51.2%
Asset Turnover (x)		0.3	0.3	0.3	0.3	0.3
Leverage Factor (x)		1.0	1.0	1.1	1.1	1.1
RoE		18.2%	17.9%	17.3%	12.8%	16.3%

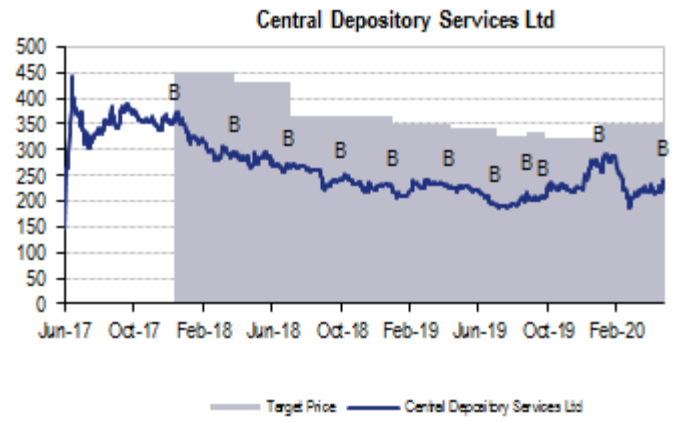
Key Ratios		FY18A	FY19A	FY20A	FY21E	FY22E
Y/E March						
BV/Share (INR)		57.3	63.9	69.3	73.7	79.5
ROIC		291.0%	139.8%	144.6%	137.9%	213.1%
ROE		18.2%	17.9%	17.3%	12.8%	16.3%
Net Debt/Equity (x)		-0.9	-1.0	-1.0	-1.0	-1.0
P/E (x)		22.8	20.7	19.5	24.7	18.0
P/B (x)		3.9	3.5	3.2	3.1	2.8
EV/EBITDA (x)		15.9	15.6	15.9	17.0	12.6
EV/Sales (x)		9.5	8.8	7.5	7.5	6.1
Debtor days		36	35	42	43	41
Inventory days		0	0	0	0	0
Creditor days		62	15	37	28	27

Source: Company, JM Financial

History of Earnings Estimate and Target Price

Date	Recommendation	Target Price	% Chg.
9-Jan-18	Buy	450	
24-Apr-18	Buy	430	-4.4
31-Jul-18	Buy	365	-15.1
29-Oct-18	Buy	365	0.0
28-Jan-19	Buy	350	-4.1
8-May-19	Buy	340	-2.9
29-Jul-19	Buy	325	-4.4
23-Sep-19	Buy	335	3.1
22-Oct-19	Buy	322	-3.9
29-Jan-20	Buy	350	8.7
20-May-20	Buy	275	-21.4

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

(formerly known as JM Financial Securities Limited)

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd., National Stock Exchange of India Ltd. and Metropolitan Stock Exchange of India Ltd.

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