

	20-May	% Chg		
		1 Day	1 Mth	3 Mth:
Indian Indices				
SENSEX Index	30,819	2.1	0.6	(25.1)
NIFTY Index	9,067	2.1	0.9	(25.0)
NSEBANK Index	17,840	2.0	(13.1)	(42.3)
NIFTY 500 Index	7,427	2.0	(2.5)	(25.4)
CNXMcap Index	12,664	1.6	(3.4)	(30.1)
BSESMCAP Index	11,278	1.5	(4.4)	(28.1)
World Indices				
Dow Jones	24,576	1.5	6.8	(15.2)
Nasdaq	9,376	2.1	13.5	(2.1)
FTSE	6,067	1.1	7.6	(18.1)
NIKKEI	20,693	0.5	7.3	(11.5)
Hangseng	24,400	-	2.5	(10.7)
Shanghai	2,883	-	2.0	(5.0)

Value traded (Rs cr)	20-May	% Chg Dz
Cash BSE	2,025	(81.0)
Cash NSE	46,535	(5.0)
Derivatives	12,20,838	12.5

Net inflows (US\$ mn)	19-May	MTD	YTD
FII	(176)	1,087	(5,546)
Mutual Fund	93.0	(93)	4,683

Nifty Gainers & Losers	Price	Chg	Vol
20-May	(Rs)	(%)	(mn)
Gainers			
Shree Cement	19,485	6.2	0.1
HDFC	1,635	6.2	6.8
Dr Reddy's	3,915	5.8	4.2
Losers			
Infratel	203	(7.0)	22.3
Indusind Bank	358	(2.6)	29.7
Hero MotoCorp	2,025	(2.3)	2.8

Advances / Declines (BSE)					
20-May	A	B	T	Total	% total
Advances	350	430	88	868	100
Declines	133	353	89	575	66
Unchanged	7	28	15	50	6

	20-May	% Chg		
		1 Day	1 Mth	3 Mth:
Commodity				
Crude (US\$/BBL)	26.0	(25.3)	2.2	(55.8)
Gold (US\$/OZ)	1,745.0	(0.5)	2.4	6.6
Silver (US\$/OZ)	18.0	(1.7)	15.1	(4.2)

Debt / Forex Market*	20-May	1 Day	1 Mth	3 Mth:
10 yr G-Sec yield %	6.3	-	(29.0)	(36.0)
Re/US\$	75.5	-	(142.0)	366.0

*Change, basis points

Nifty



Source: Bloomberg

News Highlights

- ▶ As per ICRA's report, India's GDP to see 5% contraction in FY21. The report estimated sharper de-growth in the first and second quarters of FY21 at -25% and -2.1% respectively, down from a range of 16%-20% contraction in Q1 and 2.1% growth in Q2 before. With two consecutive quarters of contraction, it implied the economy was in recession. The report cited the extended lockdown and labour mismatches causing further delays in supply chain resumption as the reason for the downgrade. (ET)
- ▶ Govt has relaxed the norms of the Partial Credit Guarantee Scheme (PCGS) and extended its time period (from June 30, 2020 to March 31, 2021) in order to widen the coverage to include a larger number of NBFCs, HFCs and micro finance institutions. Under the modified PCGS, sovereign guarantee of up to 20% of first loss will be provided to state-owned banks for purchase of bonds or commercial papers of NBFCs, MFIs and housing finance companies (HFCs) having a credit rating of AA or below, including unrated paper with original maturity of up to one year. (ET)
- ▶ The Securities and Exchange Board of India (SEBI) has mandated listing of units of schemes being wound up, giving investors of schemes in Franklin Templeton Mutual Fund (FTMF) an alternative route to access liquidity if they don't wish to wait for receipts from portfolio investments. As per the experts, Sebi's move could also help in creating a market, where investors can get some access to liquidity even in stressed debt portfolios. (BS)
- ▶ A committee meeting to review fiscal consolidation, led by Finance Commission chairman NK Singh, will be held today (Thursday) to work out the fiscal consolidation roadmap for the government from 2021-22 to 2025-26. (ET)
- ▶ **InterGlobe Aviation & SpiceJet:** Aviation Minister Hardeep Singh Puri stated that domestic civil aviation operations will recommence in a calibrated manner from May 25. All airports & air carriers are being informed to be ready for operations. SOPs for passenger movement are also being separately issued by the ministry. (BQ)
- ▶ **Monsanto India:** Delhi High Court has dismissed a plea by Monsanto to quash the investigation initiated by the Competition Commission of India (CCI) against the company in February 2016. The investigation against Monsanto was initiated by the CCI over a complaint which alleged abuse of dominant position by Monsanto in manufacture and sale of BT Cotton seeds in India. (FE)
- ▶ **Kalpataru Power:** The Board approves buyback of up to 72.72 lakh shares (4.7% of paid up equity capital) at a maximum price of Rs 275 per share, aggregating to Rs 2 bn. Buyback price is at a 43% premium to Wednesday's closing price. (BQ)
- ▶ **Tata Motors** has issued non-convertible debentures (NCDs) worth Rs 10 bn for a 3-year tenor at a coupon rate of 8.8% per annum. The debentures will be listed on the BSE and the NSE. The company was rated AA- with a negative outlook by rating agency Crisil. (ET)
- ▶ **Blue Star:** CARE Ratings re-affirms credit rating for long-term and short-term credit facilities at AA+. The outlook has been revised to negative due to temporary shutdown of facilities. Lower demand of consumer durables in the near to medium-term is another factor behind the downgrade. The outlook may be revised to stable again in case of faster than anticipated recovery in demand, resulting in sustained improvement in the company's business and financial risk profile. (BQ)

What's Inside

- ▶ **Result Update:** Central Depository Services (India) Ltd

Source: ET = Economic Times, BS = Business Standard, FE = Financial Express, IE = Indian Express, BL = Business Line, BQ = BloombergQuint, ToI = Times of India, BSE = Bombay Stock Exchange, MC = Moneycontrol

Result Update

Stock Details

Market cap (Rs mn)	:	25410
52-wk Hi/Lo (Rs)	:	301.8/179.8
Face Value (Rs)	:	10
3M Avg. daily vol (Nos)	:	6,38,749
Shares o/s (m)	:	105

Source: Moneycontrol

Financial Summary

Y/E Mar (Rs mn)	FY20	FY21E	FY22E
Revenue	2,251	2,235	2,374
Growth (%)	15.6	(0.7)	6.2
EBITDA	890	1,073	1,140
EBITDA margin (%)	39.6%	48.0%	48.0%
PAT	1,062	1,165	1,228
EPS	10.2	11.2	11.7
EPS Growth (%)	-6.5	9.8	5.3
BV (Rs/share)	69	75	82
Dividend/share (Rs)	4.5	5.0	5.5
ROE (%)	14.7	14.8	14.4
ROCE (%)	10.7	11.9	11.5
P/E (x)	23.8	21.7	20.6
EV/EBITDA (x)	23.4	19.2	17.7
P/BV (x)	3.5	3.2	3.9

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Mar-20	Dec-19	Sep-19
Promoters	24.0	24.0	24.0
FII	1.8	1.8	1.6
DII	46.6	46.6	44.9
Others	27.7	27.7	29.5

Source: Moneycontrol, BSE

Price Performance (%)

(%)	1M	3M	6M
CDSL	3.0	11.5	18.3
Nifty	0.9	(25.0)	(25.3)

Source: Moneycontrol, BSE

Price chart (Rs)



Source: Moneycontrol

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CENTRAL DEPOSITORY SERVICES (INDIA) LTD

PRICE Rs.243

TARGET Rs.255

REDUCE

Central Depository Services (CDSL) Q4FY20 operating performance was above our estimates, supported by higher than expected contribution from Depository activity and data entry. Depository activity witnessed improvement on YoY and QoQ, supported by higher transaction charges. Strong revenue led to an improvement in operating performance, the benefit of the same was partially offset by non-recurring expenses (CSR + legal expenses of previous years). PAT during the quarter came in at Rs286 mn.

Key Highlights

- CDSL reported sequential improvement in EBITDA to Rs258 mn, which grew 60.5% QoQ (-8.1% YoY), with an EBITDA margin of 43.1%. Previous quarter performance was impacted by settlement of service tax matters.
- Operating profit declined 18.3% YoY to Rs890 mn, due to cost overrun in FY20. Major drivers of the cost overrun were: other expenses (+87.4% YoY in FY20) followed by employee costs (+38.3% YoY in FY20). One-off items in FY20 included: (1) Covid-19 donation of Rs68mn, (2) Rs100mn payment towards settlement of tax disputes.
- In FY20, CDSL revenue was driven by 15%, 26%, 17% and 9% YoY growth in annual issuer charges, IPO/corporate action, online data charges and transaction charges, respectively. We expect revenue growth in FY21E likely to remain subdued due to decline in IPO/corporate action
- CDSL continues to focus on increasing DPs with net beneficial owner (BO) accounts increased to 21.2 mn (higher than NSDL BO of 19.7 mn) from 19.6 mn in 3QFY20, with an incremental market share of 76%, the company added ~1.6mn accounts in 4QFY20.
- During the year, the company added 2120 companies in the listed space, which contributed Rs22.4 mn to the annual issuer charges. As per the management, there are ~73,000 companies in the space and of which, 11,000 has been admitted with both the depositories.

Quarterly performance table

Particulars (Rs Mn)	4QFY20	4QFY19	% YoY	3QFY20	% QoQ
Revenue	599	505	18.5	541	10.7
Employee Expenses	93	99	(5.5)	123	(24.3)
Other Expenses	205	96	112.4	220	(6.8)
Total Expenses	341	225	380		
EBITDA	258	281	(8.1)	161	60.5
EBITDA Margin (%)	43.1	55.5	29.7		
Depreciation	30	26	15.9	30	0.3
EBIT	228	254	(10.5)	130	74.5
Interest	0	0	0	0	
Other Income	131	177	(26.2)	144	(8.9)
Exceptional Items	0	0	0	0	
PBT	358	432	(17.0)	274	30.6
Tax	77	90	(14.6)	58	32.1
ETR (%)	21.4	20.8	21.2		
PAT	281	342	(17.7)	216	30.2
Minority Interest	-5	6	8		
PAT after Minority Interest	286	336	(14.8)	208	37.4

Source: Company, Kotak Securities - Private Client Group

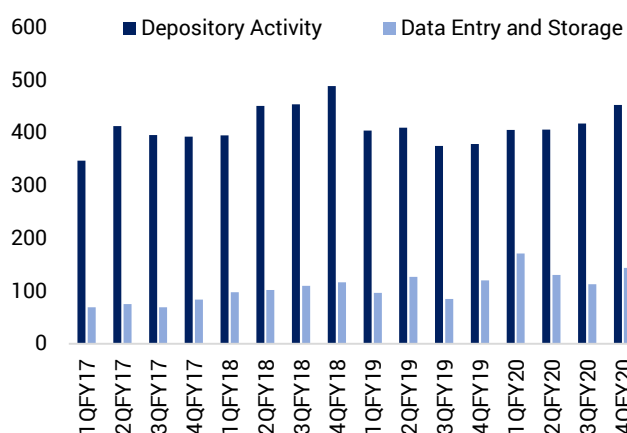
Valuation & outlook

We believe CDSL is an attractive play on the capital markets growth, given its annuity based revenue stream, new growth avenues of Insurance, fixed operating costs, robust cash flow generation coupled with a strong balance sheet and stable dividend policy. Besides this, strong room to scale up, minimal capex requirement, with healthy cash flow generation, makes CDSL a long term story. The stock has moved up ~9% since our last update dated 13th May, 2020. And is currently trading at 21.7x and 20.6x FY21E and FY22E earnings, respectively. We continue to maintain our positive view on the stock. However, given the limited upside we recommend **REDUCE** (earlier BUY) with unchanged target price of Rs255.

Higher contribution from transaction, online data and annual issuer charges supported revenue

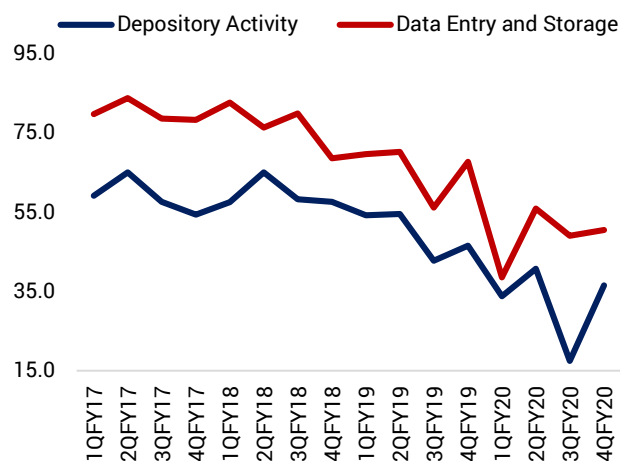
Revenue during the quarter grew 18.5% YoY and 10.7% QoQ to Rs599, supported by the growth in Depository activity and online data charges. The growth in transaction charges grew from Rs 113.6 mn in Q3FY20 to Rs126 mn in Q4FY20 was led by huge volatility in the capital market. On the other hand, contribution from IPO/corporate action remained subdued during the quarter. We expect contributions from IPO/corporate action charges to decline in FY21E, due to subdued primary market activities.

Segment wise revenue contribution (Rs Mn)



Source: Company, Kotak Securities – Private Client Group

Segment wise EBIT Margin (%)

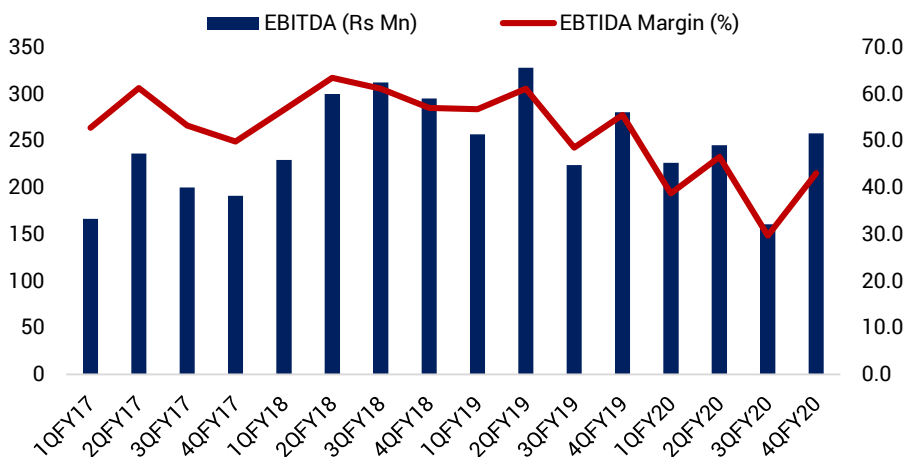


Source: Company, Kotak Securities – Private Client Group

Margin improved sequentially

EBITDA during the quarter grew 60.5% YoY to Rs258 mn (-8.1% QoQ). In addition to the higher contribution from depository activity and data storage, absence of service tax matters, which impacted 3QFY20 performance, supported operating performance in Q4FY20. As a result, EBITDA margin improved from 29.7% in Q3FY20 to 43.1% in Q4FY20. Q4FY20 operating performance was also impacted by non-recurring expenses of ~Rs70mn towards CSR activities and ~Rs17 mn towards previous years legal matters. Adjusting to the same, EBITDA margin would have been above ~50%.

EBITDA and EBITDA Margin (%) trend

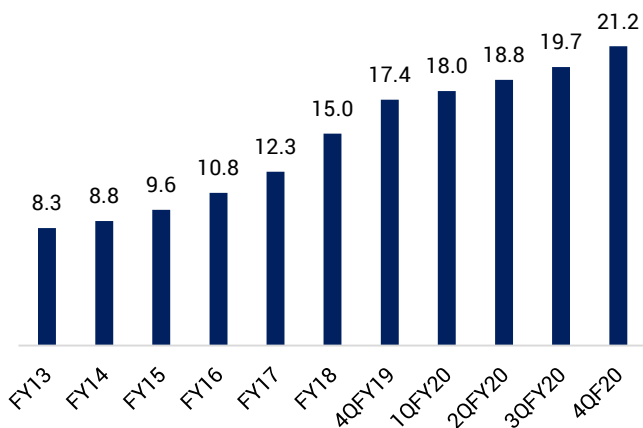


Source: Company, Kotak Securities – Private Client Group

CDSL continues to gain incremental market share

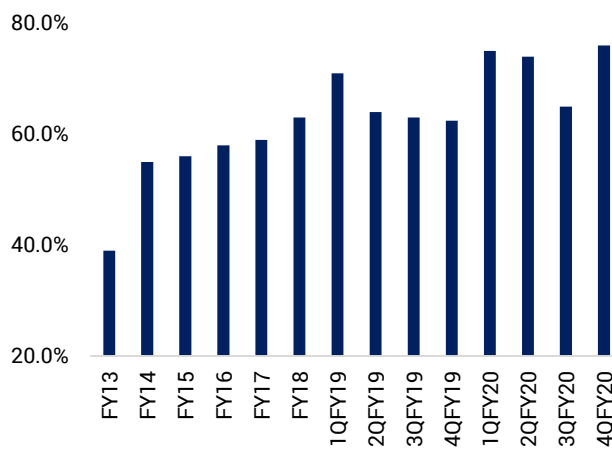
As per the data published by SEBI, it is witnessed that, CDSL continued to gain the higher share of incremental demand accounts. The company added ~1.6mn accounts in Q4FY20 to take the total accounts to 21.2 mn at the end of FY20. CDSL market share exceeded NSDL. Despite being a late entrant, CDSL beneficiary owner’s market share at the end of FY20 stands at 51.8%

Growth in CDSL’s Demat account (mn)



Source: Company, SEBI, Kotak Securities – Private Client Group

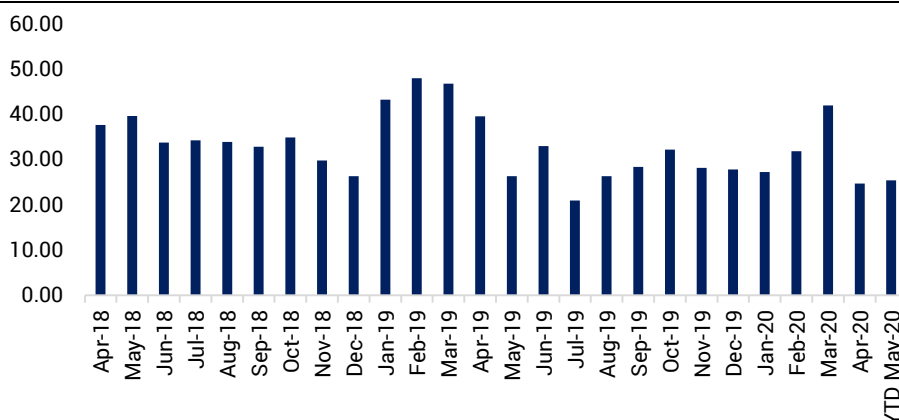
CDSL Incremental market share



Source: Company, SEBI, Kotak Securities – Private Client Group

Given the huge volatility in the secondary market, the average daily cash turnover on BSE has increased to Rs25.35 bn in 3QFY20 to Rs30.03 bn in 4QFY20 (as per SEBI monthly bulletin), but was still ~29% lower as compared to Q4FY19. Going ahead, we believe transaction charges continues to remain strong, however, the benefit of the same will be partially offset by lower contribution from primary market activities.

BSE average daily cash turnover (Rs bn)

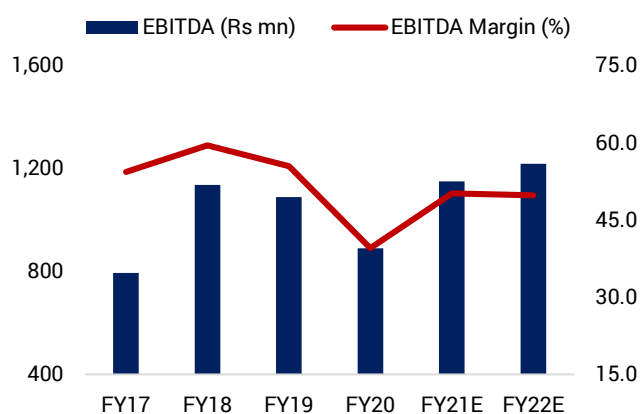


Source: SEBI, BSE, Kotak Securities – Private Client Group

Strong operating activities and limited capex to keep operating cash flow strong:

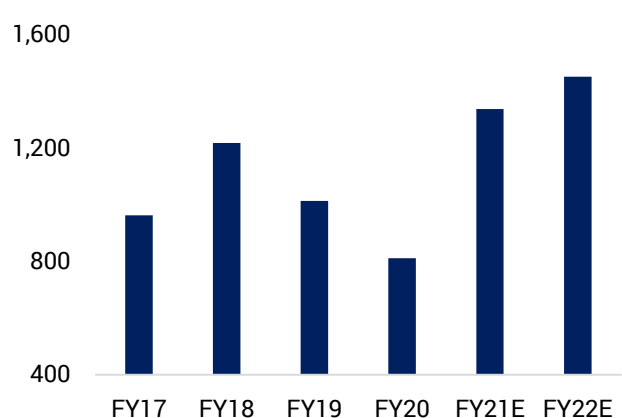
CDSL operates in largely fixed operating cost environment, with employee expenses and software development (IT)/maintenance costs constituting ~50% of its total costs. 3QFY20 EBITDA margin was impacted due to service tax settlement, however, given the cost structure and diversified but stable revenue (annual issuer charge), we expect EBITDA margin to remain to be at 48% in FY21E/FY22E. This, coupled with the minimal capex requirement, we expect FCF to remain strong in the coming years.

Strong EBITDA margin (%)



Source: Company, Kotak Securities – Private Client Group

Strong operating cash flow (Rs Mn)



Source: Company, Kotak Securities – Private Client Group

Key Risks

a) Low pricing power, b) dependence on capital market volume, c) regulatory oversight are the key risks to our estimates

Company Background

Central Depository Services (India) Limited (“CDSL” or the “Company”) was set up with the objective of providing convenient, dependable and secure depository services at affordable cost to all market participants. A depository facilitates holding of securities in the electronic form and enables securities transactions to be processed by book entry by a Depository participant (DP) who as an agent of the depository, offers depository services to investors. CDSL is the leading securities depository in India by incremental growth of Beneficial Owner (BO) accounts over the last three Fiscal years. (Source: Company)

Financials: Consolidated

Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY19	FY20	FY21E	FY22E
Net sales	1,947	2,251	2,235	2,374
growth (%)	1.9	15.6	(0.7)	6.2
Operating expenses	857	1,360	1,162	1,235
EBITDA	1,089	890	1,073	1,140
growth (%)	(4.2)	(18.3)	20.5	6.2
Depreciation	99	117	133	155
EBIT	990	773	940	985
Other income	492	592	581	617
Interest paid	0	0	0	0
PBT	1,482	1,364	1,521	1,602
Tax	334	297	350	368
Effective tax rate (%)	22.5	23.0	23.0	23.0
Net profit	1,148	1,067	1,171	1,233
Minority interest	13	6	6	6
Reported Net profit	1,135	1,062	1,165	1,228
Non-recurring items	0	0	0	0
Adjusted Net profit	1,135	1,062	1,165	1,228
growth (%)	10.0	(6.5)	9.8	5.3

Source: Company, Kotak Securities – Private Client Group

Cash flow Statement (Rs mn)

(Year-end Mar)	FY19	FY20E	FY21E	FY22E
PBT	1,482	1,364	1,521	1,602
Depreciation	99	117	133	155
Chg in working capital	25	11	-0	-28
Taxes	-336	-240	-350	-368
Others	-415	-432	-581	-617
Operating CF	854	821	723	743
Capital expenditure	-112	-93	-202	-202
Chg in investments	-675	-367	-600	-550
Other investing activities	119	133	581	617
Investing CF	-668	-327	-221	-135
Equity raised/(repaid)	0	0	0	0
Dividend (incl. tax)	-441	-504	-523	-575
Others	240	-1	0	0
Financing CF	-201	-505	-523	-575
Net chg in cash & bank bal.	-14	-10	-21	33
Closing cash & bank bal	45	37	17	50

Source: Company, Kotak Securities – Private Client Group

Balance sheet (Rs mn)

(Year-end Mar)	FY19	FY20E	FY21E	FY22E
Cash balances	45	37	17	50
Other Current assets	280	388	355	375
Investments	6,485	7,146	7,746	8,296
Net fixed assets	752	743	812	859
Goodwill & intangible assets	0	0	0	0
Other non-current assets	277	318	318	318
Total assets	7,839	8,632	9,247	9,897
Current liabilities	734	943	909	901
Borrowings	0	0	0	0
Other non-current liabilities	11	32	32	32
Total liabilities	745	975	941	933
Share capital	1,045	1,045	1,045	1,045
Reserves & surplus	5,636	6,195	6,838	7,491
Shareholders' funds	6,681	7,240	7,883	8,536
Minority interest	413	419	424	430
Total equity & liabilities	7,839	8,632	9,247	9,897

Source: Company, Kotak Securities – Private Client Group

Ratio Analysis

(Year-end Mar)	FY19	FY20E	FY21E	FY22E
Profitability and return ratios (%)				
EBITDAM	56.0	39.6	48.0	48.0
EBITM	50.9	34.3	42.0	41.5
NPM	58.3	47.2	52.1	51.7
RoE	17.0	14.7	14.8	14.4
RoCE	14.8	10.7	11.9	11.5
Per share data (Rs)				
EPS	10.9	10.2	11.2	11.7
FDEPS	10.9	10.2	11.2	11.7
CEPS	11.8	11.3	12.4	13.2
BV	63.9	69.3	75.4	81.7
DPS	4.0	4.5	5.0	5.5
Valuation ratios (x)				
PE	22.3	23.8	21.7	20.6
P/BV	3.8	3.5	3.2	3.0
EV/EBITDA	21.5	23.4	19.2	17.7
EV/Sales	12.1	9.3	9.2	8.5
Other key ratios				
DSO (days)	36	42	37	38

Source: Company, Kotak Securities – Private Client Group

RATING SCALE (PRIVATE CLIENT GROUP)

Definitions of ratings

BUY	– We expect the stock to deliver more than 15% returns over the next 12 months
ADD	– We expect the stock to deliver 5% - 15% returns over the next 12 months
REDUCE	– We expect the stock to deliver -5% - +5% returns over the next 12 months
SELL	– We expect the stock to deliver < -5% returns over the next 12 months
NR	– Not Rated. Kotak Securities is not assigning any rating or price target to the stock. The report has been prepared for information purposes only.
SUBSCRIBE	– We advise investor to subscribe to the IPO.
RS	– Rating Suspended. Kotak Securities has suspended the investment rating and price target for this stock, either because there is not a sufficient fundamental basis for determining, or there are legal, regulatory or policy constraints around publishing, an investment rating or target. The previous investment rating and price target, if any, are no longer in effect for this stock and should not be relied upon.
NA	– Not Available or Not Applicable. The information is not available for display or is not applicable
NM	– Not Meaningful. The information is not meaningful and is therefore excluded.
NOTE	– Our target prices are with a 12-month perspective. Returns stated in the rating scale are our internal benchmark.

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