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Q1FY21 result review  
and reco change

## Indian Exchanges

Target price: Rs354

### Earnings revision

(%)	FY21E	FY22E
Sales	↑ 21	↑ 23
EBITDA	↑ 47	↑ 42
PAT	↑ 40	↑ 34

### Target price revision

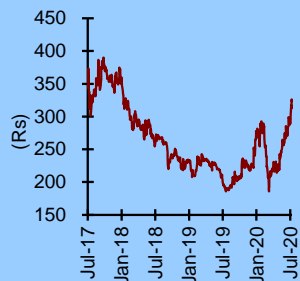
Rs354 from Rs260

### Shareholding pattern

	Dec '19	Mar '20	Jun '20
Promoters	20.0	20.0	20.0
Institutional investors	43.4	43.7	44.1
MFs and others	10.7	12.9	13.4
FIs/ Banks	20.6	19.8	19.7
Insurance Cos.	2.0	1.9	2.2
FII	10.1	9.1	8.8
Others	36.6	36.3	35.9

Source: NSE

### Price chart



# Central Depository Services

**HOLD**

Downgrade from BUY

Retail participation is volatile and not linear in growth

**Rs351**

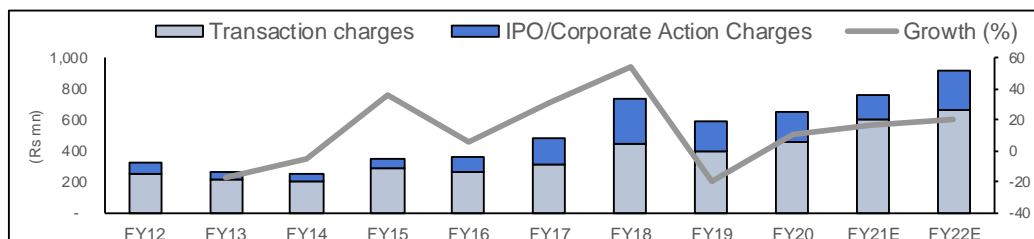
Market-linked revenue transaction and IPO / corporate action charges (play on retail participation), which contributed 29% in FY20, have a volatile track record. Contrary to our expectations of a slowdown in cash delivery volumes on account of Covid-19 outbreak in FY21, there has been strong 45/31% growth in NSE/BSE share deliveries in Q1FY21. While this coupled with better cost outlook leads to 40/34% upgrade in our FY21/22 PAT estimates, the volatile nature of retail cash delivery volumes makes structural growth uncertain. Post 45% rally in the stock price in the past two months, we downgrade the stock from *Buy* to *HOLD*. At CMP, stock trades at 25x FY22 core EPS.

► **FY21 begins on an optimistic note:** Revenue grew 12% YoY in Q1FY21. Surge in retail participation led to strong 108% YoY growth in transaction revenue in Q1FY21. Annual issuer charges and online data revenue were 8% and 29%, respectively. Annual issuer charges grew by a slower pace of 8% YoY as fewer companies were added in Q1FY21. Weak market sentiment impacted the IPO / corporate action charges (down 5% YoY), while other revenues declined 45% due to absence of government order in Q1FY21 (this business stream was margin dilutive). Margins grew from 39% in Q1FY20 to 58% in Q1FY21 as employee cost declined 30% YoY on account of reversal of bonus provisions while other expenditure declined 29% YoY.

► **Expect revenue to grow at 13.5% CAGR between FY20-22.** We expect transaction revenues to grow at 21% CAGR between FY20-22 compared to 10% CAGR witnessed between FY15-FY20. Annual issuer charges are expected to grow at CAGR of 12% compared to 17% between FY15-FY20. Any rate hike (as seen in FY16) can give a positive surprise to earnings. Revenues from IPO / corporate action are expected to grow at 13% CAGR between FY20-FY22 compared to 26% CAGR between FY15-FY20 and online data charges may grow 11% during the same period (19% CAGR in FY15-FY20).

► **Expect EBITDA margin to increase from 47% in FY20 to 55% in FY22.** Stable revenue growth and CDSL's target to maintain cost should enable operating leverage.

Chart 1: Volatile track record of transaction and IPO / corporate action charges



Source: Company, I-Sec research

Market Cap	Rs36.7bn/US\$491mn	<b>Year to Mar</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21E</b>	<b>FY22E</b>
Reuters/Bloomberg	CENA.BO / CDSN IN	Net Revenue (Rs mn)	1,963	2,251	2,521	2,899
Shares Outstanding (mn)	104.5	Net Profit (Rs mn)	1,135	1,197	1,337	1,575
52-week Range (Rs)	326/186	Dil. EPS (Rs)	10.9	11.2	12.8	15.1
Free Float (%)	80.0	% Chg YoY	9.3	2.7	14.7	17.8
FII (%)	8.8	P/E (x)	33.0	32.2	28.1	23.8
Daily Volume (US\$'000)	2,939	CEPS (Rs)	11.8	12.3	14.0	16.4
Absolute Return 3m (%)	51.8	EV/EBITDA (x)	33.2	31.4	24.9	19.7
Absolute Return 12m (%)	84.7	Dividend Yield (%)	1.1	1.1	1.3	1.4
Sensex Return 3m (%)	17.0	RoCE (%)	17.3	15.8	16.5	17.4
Sensex Return 12m (%)	2.2	RoE (%)	17.9	16.8	17.4	18.2

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**Table 1: Q1FY21 result review***(Rs mn, year ending March 31)*

	Q1FY21	Q1FY20	% YoY	Q4FY20	% QoQ
<b>Net revenues</b>	<b>653</b>	<b>584</b>	<b>11.8</b>	<b>599</b>	<b>9.0</b>
Employee costs	102	143	(28.8)	93	8.8
% of sales	15.6	24.4	-887 bps	15.6	-3 bps
Technology expenses	40	31	29.7	43	(5.1)
% of sales	6.2	5.3	86 bps	7.1	-92 bps
Other expenditure	130	184	(29.2)	137	(4.9)
% of sales	19.9	31.5	-1153 bps	22.8	-292 bps
<b>Total expenditure</b>	<b>272</b>	<b>358</b>	<b>(23.9)</b>	<b>273</b>	<b>(0.3)</b>
<b>EBITDA</b>	<b>381</b>	<b>226</b>	<b>68.1</b>	<b>326</b>	<b>16.7</b>
<i>EBITDA margin (%)</i>	<i>58.3</i>	<i>38.8</i>	<i>1954 bps</i>	<i>54.4</i>	<i>386 bps</i>
Other income	207	150	38.1	131	58.4
<b>PBDIT</b>	<b>588</b>	<b>377</b>	<b>56.1</b>	<b>457</b>	<b>28.7</b>
Depreciation	25	27	(8.4)	30	(18.9)
<b>PBIT</b>	<b>563</b>	<b>350</b>	<b>61.1</b>	<b>427</b>	<b>32.1</b>
Interest	-	-	NA	0	(100.0)
<b>PBT</b>	<b>563</b>	<b>350</b>	<b>61.1</b>	<b>426</b>	<b>32.2</b>
Tax	96	71	36.0	77	25.1
<i>% of PBT</i>	<i>17.1</i>	<i>15.2</i>	<i>182 bps</i>	<i>18.0</i>	<i>-96 bps</i>
<b>PAT before MI</b>	<b>467</b>	<b>279</b>	<b>67.4</b>	<b>350</b>	<b>33.7</b>
Exceptional items	-	-		(68)	
Share of Assoc./JV and MI	6	5		5	
<b>Reported PAT</b>	<b>462</b>	<b>274</b>	<b>68.3</b>	<b>286</b>	<b>61.4</b>
<b>Adjusted PAT</b>	<b>462</b>	<b>274</b>	<b>68.3</b>	<b>354</b>	<b>30.4</b>
<b>Adjusted EPS (Rs)</b>	<b>4.4</b>	<b>2.6</b>	<b>68.3</b>	<b>3.4</b>	<b>30.4</b>

Source: Company data, I-Sec research

Highest EBITDA margin in the last seven quarters: Q1FY21 EBITDA margin came at 58%.

Other expense as a percentage of top line has also showed improvement at ~20% for Q1FY21 compared to 32% in Q1FY20 and 23% in Q4FY20.

Other income grew on account of MoM gains in investments. Yields in Q4FY21 were 112% against 8.5% in Q1FY20.

**Table 2: Total and free cash of CDSL**

	FY18	FY19	FY20
Cash and bank balance	420	555	537
Current investments	1,583	1,263	3,960
Non-current investments	3,628	4,712	2,733
<b>Total cash and investments</b>	<b>5,630</b>	<b>6,530</b>	<b>7,230</b>
<b>Net worth requirements</b>			
CDSL	1,000	1,000	1,000
CCRL	260	500	500
CVL	250	750	750
CDSL Insurance repository	300	300	300
<b>Total net worth requirements</b>	<b>1,810</b>	<b>2,550</b>	<b>2,550</b>
Deposits	230	270	270
<b>Distributable cash</b>	<b>3,554</b>	<b>3,668</b>	<b>4,410</b>

Source: Company data, I-Sec research

## Earnings change and valuation

**Table 3: Earnings revision**

(Rs mn)

	New		Old		Change (%)	
	FY21	FY22	FY21	FY22	FY21	FY22
Revenue	2,521	2,899	2,089	2,356	20.7	23.0
EBITDA	1,319	1,610	896	1,136	47.2	41.7
EBITDA Margin	52.3	55.5	42.9	48.2		
PAT	1,337	1,575	957	1180	39.7	33.5

Source: Company data, I-Sec research

**Table 4: Valuation based on core earnings**

Particulars	FY22E
FY22 Core EPS (Rs)	10.5
Target core P/E (x)	25
Core price (Rs per share)	263
Number of shares (mn)	105
Core value (Rs mn)	27,497
Cash and investments (Rs mn)	9,454
Total value (Rs mn)	36,951
<b>Target price (Rs per share)</b>	<b>354</b>

Source: Company data, I-Sec research

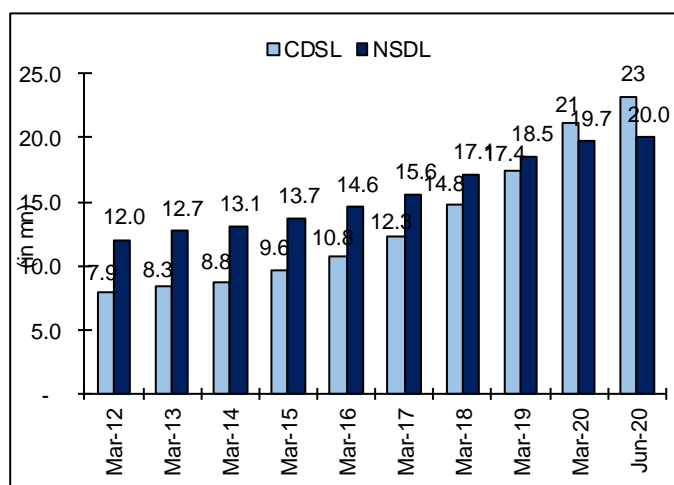
## Operational highlights

**Table 5: Key revenue drivers**

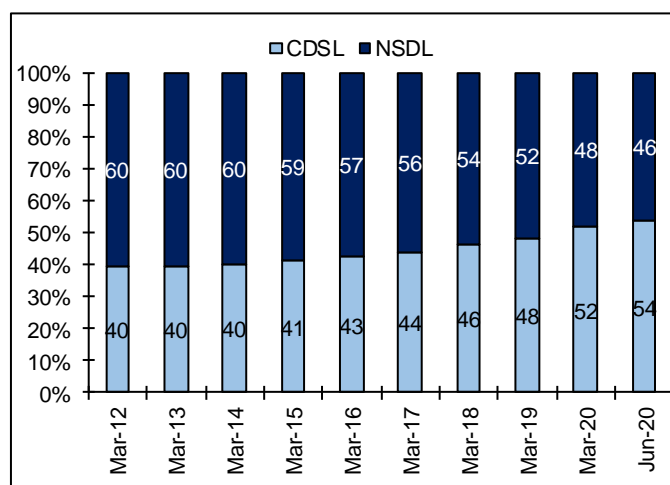
	NSDL			CDSL		
	FY20	5yr CAGR	10yr CAGR	FY20	5yr CAGR	10yr CAGR
Live companies	30,335	20%	15%	14,762	11%	9%
No. of DPs	279	0%	0%	599	1%	3%
DP locations	30,874	16%	13%	20,352	12%	11%
No of demat accounts (mn)	20	9%	7%	21	19%	14%
Demat value (Rs bn)	1,60,328	12%	18%	16,720	9%	14%
Demat quantity (mn securities)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

Source: Company data, I-Sec research

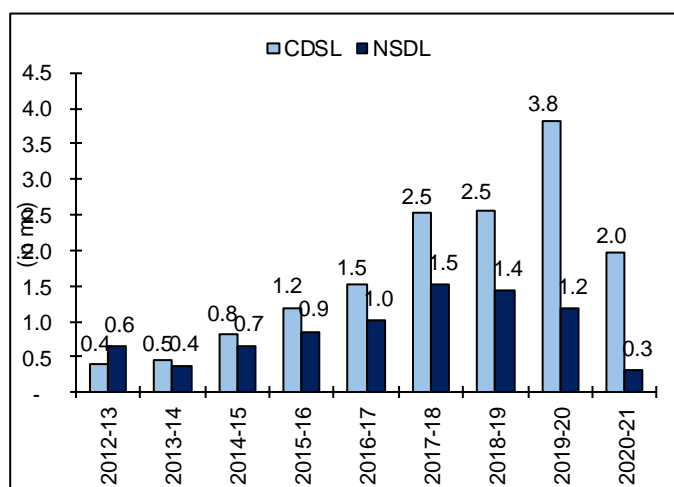
**Chart 2: Number of active demat accounts**



**Chart 3: Market share of demat accounts**

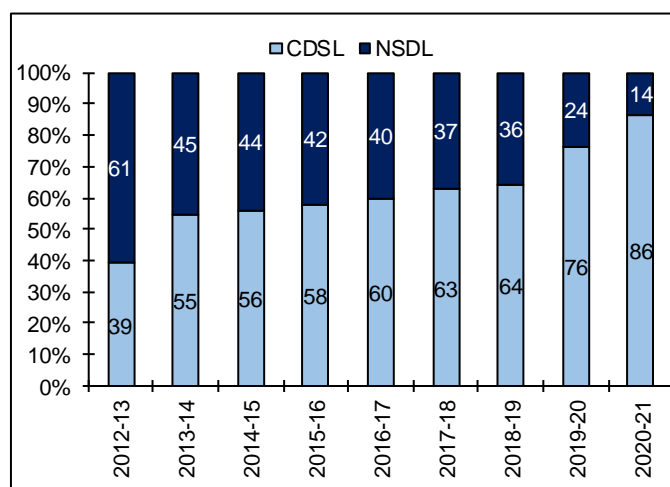


**Chart 4: Number of incremental demat accounts**



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 &amp; loss statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
<b>Net Revenues</b>	<b>1,963</b>	<b>2,251</b>	<b>2,521</b>	<b>2,899</b>
<b>Operating Expenses</b>	<b>873</b>	<b>1,186</b>	<b>1,202</b>	<b>1,289</b>
<b>EBITDA</b>	<b>1,089</b>	<b>1,064</b>	<b>1,319</b>	<b>1,610</b>
% margins	55.5%	47.3%	52.3%	55.5%
Depreciation & Amortisation	99	117	125	134
Interest	-	0	0	0
Other Income	492	570	600	636
<b>Profit before Tax</b>	<b>1,482</b>	<b>1,516</b>	<b>1,793</b>	<b>2,111</b>
Less: Taxes	334	314	452	532
Less: PAT attributable to Non-Controlling Interest	13	6	4	4
<b>Recurring Net Income</b>	<b>1,135</b>	<b>1,197</b>	<b>1,337</b>	<b>1,575</b>
Extraordinaries (Net)	-	(134)	-	-
<b>Net Income (Reported)</b>	<b>1,135</b>	<b>1,331</b>	<b>1,337</b>	<b>1,575</b>
<b>Net Income (Adjusted)</b>	<b>1,135</b>	<b>1,166</b>	<b>1,337</b>	<b>1,575</b>

Source: Company data, I-Sec research

Table 7: Balance sheet

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
<b>Assets</b>				
Total Current Assets	2,097	4,837	5,476	6,659
of which cash & cash eqv.	555	537	1,083	1,508
Total Current Liabilities & Provisions	734	936	1,049	1,206
<b>Net Current Assets</b>	<b>1,363</b>	<b>3,901</b>	<b>4,427</b>	<b>5,453</b>
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
<b>Total Assets</b>	<b>7,105</b>	<b>7,696</b>	<b>8,567</b>	<b>9,629</b>
<b>Liabilities</b>				
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
Face Value per share (Rs)	10	10	10	10
Reserves & Surplus	5,636	6,195	7,062	8,120
Less: Misc. Exp. n.w.o.	-	-	-	-
<b>Net Worth</b>	<b>6,681</b>	<b>7,240</b>	<b>8,107</b>	<b>9,165</b>
<b>Total Liabilities</b>	<b>7,105</b>	<b>7,696</b>	<b>8,567</b>	<b>9,629</b>

Source: Company data, I-Sec research

Table 8: Quarterly trends

(Rs mn, year ending March 31)

	Sep-19	Dec-19	Mar-20	Jun-20
Total Income	527	541	599	653
% growth (YoY)	-0.9	17.4	29.9	11.8
EBITDA	245	266	326	381
Margin (%)	46.6	49.2	54.4	58.3
Other income	167	144	131	207
Add: Extraordinaries	-	106	68	-
<b>Net profit</b>	<b>293</b>	<b>322</b>	<b>354</b>	<b>462</b>

Source: Company data, I-Sec research

Table 9: Cashflow statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
<b>Operating Cashflow</b>	<b>1,220</b>	<b>1,152</b>	<b>1,466</b>	<b>1,713</b>
Working Capital Changes	303	142	72	100
Capital Commitments	(79)	(106)	(70)	(70)
<b>Free Cashflow</b>	<b>1,444</b>	<b>1,188</b>	<b>1,468</b>	<b>1,743</b>
<b>Cashflow from Investing Activities</b>	<b>(776)</b>	<b>(721)</b>	<b>(452)</b>	<b>(800)</b>
Change in Reserves	302	-	-	(0)
Inc (Dec) in Borrowings	-	-	-	-
Dividend paid	(503)	(504)	(470)	(517)
<b>Change in Deferred Tax Liability</b>	<b>(11)</b>	<b>19</b>	<b>-</b>	<b>-</b>
<b>Chg. in Cash &amp; Bank balance</b>	<b>456</b>	<b>(18)</b>	<b>546</b>	<b>426</b>

Source: Company data, I-Sec research

Table 10: Key ratios

(Year ending March 31)

	FY19	FY20	FY21E	FY22E
<b>Per Share Data (Rs)</b>				
EPS	10.86	11.16	12.79	15.07
Core EPS	7.22	7.13	8.50	10.53
Cash EPS	11.81	12.28	13.99	16.35
Dividend per share (DPS)	4.00	4.01	4.50	4.95
Book Value per share (BV)	63.94	69.28	77.58	87.70
<b>Growth (%)</b>				
Net Sales	4.56	14.68	12.00	15.00
EBITDA	-1.95	-2.31	23.91	22.08
PAT	9.25	2.72	14.66	17.83
Cash EPS	11.35	3.98	13.95	16.85
<b>Valuation Ratios (x)</b>				
P/E	33.05	32.17	28.06	23.81
P/CEPS	30.39	29.23	25.65	21.95
P/BV	5.61	5.18	4.63	4.09
EV / EBITDA	33.15	31.42	24.91	19.71
EV / Sales	18.40	14.86	13.03	10.94
<b>Operating Ratios</b>				
Employee cost / Sales (%)	17.4	21.0	19.8	19.1
SG&A / Sales (%)	27.1	31.7	27.9	25.4
Other Income / PBT (%)	33.2	37.6	33.5	30.1
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
<b>Return/Profitability Ratios (%)</b>				
Net Income Margins	57.8	51.8	53.0	54.3
RoACE	17.3	15.8	16.5	17.4
RoAE	17.9	16.8	17.4	18.2
Dividend Payout	43.8	47.2	35.1	32.8
Dividend Yield	1.1	1.1	1.3	1.4
<b>EBITDA Margins</b>	<b>55.5</b>	<b>47.3</b>	<b>52.3</b>	<b>55.5</b>

Source: Company data, I-Sec research

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