CDSL I BUY I TP: 525

Structurally Wealthy

Initiating Coverage

We initiate coverage on Central Depository Services Ltd (CDSL) with BUY and Target price (TP) of Rs525. This thinly covered stock sports a well-diversified revenue mix, impressive margins, and correspondingly healthy returns. The asset-light model, duopoly play on the secular increase in stockholder accounts coupled with potential market share gains is an added positive. While this itself is a successful recipe for growth, the icing on the cake could be the massive unexploited revenue opportunities in CDSL's core activities, and leveraging its customer base and data for new businesses, a feat adroitly accomplished by similar sectors such as credit rating agencies (not to mention internet companies). Notably, none of these is currently factored into our estimates. Contrary to perception, our analysis indicates that CDSL is not much of a "market-linked stock".

- **Incremental opportunity, twice the existing run-rate:** The sheer nature of CDSL's existence (promoted by BSE) and business model has acted as a strong entry barrier for depositories. As of FY20, revenues from depository services (NSDL and CDSL combined) stood at Rs4.2bn (~15% CAGR over FY16-20). The highly regulated nature of operations, as seen in similar businesses, could well act as a catalyst for an incremental revenue opportunity, which, as per our estimates could be Rs9-12bn of depository revenues (~2x the current). The revenues could then shift permanently to a higher trajectory and grow at a steady rate thereafter.
- **Favourable macros, depositories better placed:** Improving macro variables (demographics, per capita income), push towards financial inclusion, and shift in savings towards financial assets bodes well for capital market intermediaries. Amongst various market participants (AMCs, exchanges, securities), we believe depositories are better placed (also evident from test of significance study and their stock β), and not strongly "market-linked", as they offer a blend of diversified revenues (part of which is fixed), healthy margins and return ratios.
- **Asset-light model; "aspirational RoE" an attractive proposition:** Given market share gains in terms of beneficiary accounts, diversified revenue mix including healthy contribution from subsidiaries, operating leverage benefit and an asset-light model, we expect CDSL to deliver 15.1%/18.7%/21.1% CAGR in revenue/EBIDTA /earnings over FY20-22E. We believe "aspirational RoE", could be significantly higher as CDSL forays into businesses that complement the existing revenue streams. For instance, CRISIL's entry into research (capitalising on information pool of rating/advisory services) over FY04-CY09 saw RoE double to 40%.
- **Valuation & Risks:** We have valued CDSL on two-stage dividend discount model and arrived at TP of Rs525 (highest on the street). Initiate with BUY. A foray into related businesses could well see EPS estimates revise upwards by ~20%; target price in such situations could well be at Rs625 (assuming 35x PE FY22E). Empirical studies suggest that limited-entry sectors tend to trade at higher multiples as investors gauge greater confidence in revenue/earnings, and more importantly, multiples tend to expand when new entities are listed. Likewise, a potential buyout of its controlling holding by a strategic investor could act as a trigger. Key risks: Change in regulatory norms on charges or subdued market activities.

Target Price	525
CMP*	406
Upside	*29.3%*

Key Data	
Bloomberg Code	CDSL IN
Curr Shares O/S (mn)	104.5
Diluted Shares O/S(mn)	104.5
Mkt Cap (Rsbn/USDmn)	42.5/577.2
52 Wk H / L (Rs)	436/179.8
5 Year H / L (Rs)	436/179.8
3M Average Vol.	1136515.0

Price Performance (%)	1M	6M	1Yr
CDSLIN	*16.5*	*53.5*	*108.2*
NIFTY	*2.8*	*1.7*	*3.3*

Source: Bloomberg, ACE Equity, MNCL Research, *on 31 Aug 2020

Shareholding pattern (%)

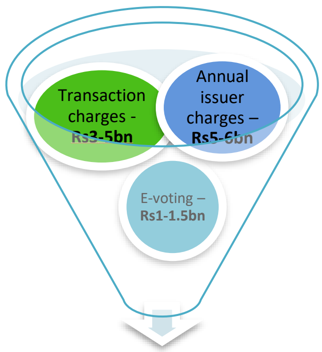
	June-20	Mar-20	Dec-19	Sept-19
Promoter	*20.0*	*20.0*	*20.0*	*20.0*
Institutions	*44.2*	*43.7*	*43.4*	*43.9*
Others	*35.8*	*36.3*	*36.6*	*36.1*

Source: NSE, MNCL Research

What to read in the report?

- *Incremental revenue opportunity in the core business*
- *Study of Global depository*
- *Normalised RoE vis-à-vis Aspirational RoE*
- *Valuation – Two-stage dividend discount model*

Incremental depository revenue opportunity at ~Rs9-12bn



Source: MNCL Research Estimates

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Y/E Mar (Rs mn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	PAT	YoY (%)	EPS	P/E (x)	RoE (%)	RoCE (%)
FY18	1,877	*29.0*	1,133	*60.3*	1,036	*19.7*	9.9	40.9	*18.3*	*18.2*
FY19	1,963	*4.6*	1,119	*57.0*	1,148	*10.8*	11.0	36.9	*18.1*	*17.7*
FY20	2,251	*14.7*	1,071	*47.6*	1,067	*(7.1)*	10.2	39.7	*15.3*	*16.4*
FY21E	2,608	*15.9*	1,281	*49.1*	1,350	*26.5*	12.9	31.4	*17.8*	*17.4*
FY22E	2,979	*14.2*	1,509	*50.7*	1,567	*16.0*	15.0	27.1	*18.9*	*18.5*

Source: Company, MNCL Research estimates

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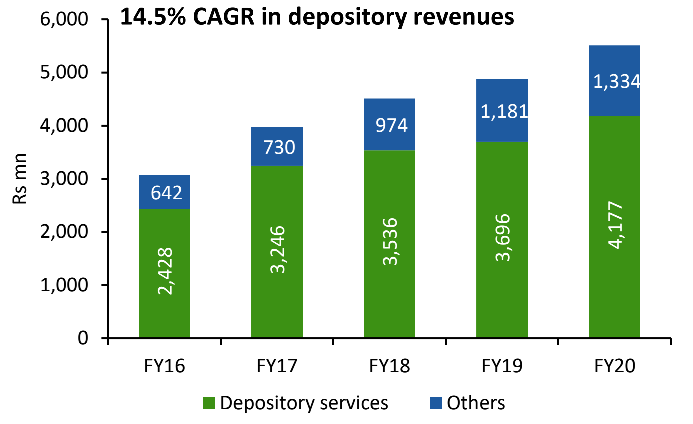
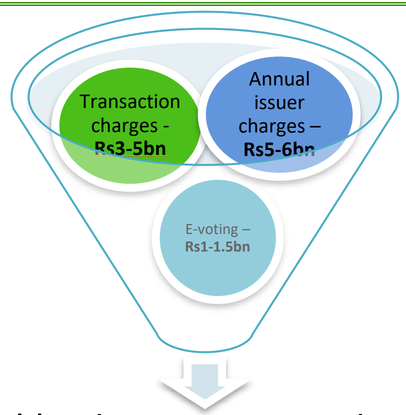
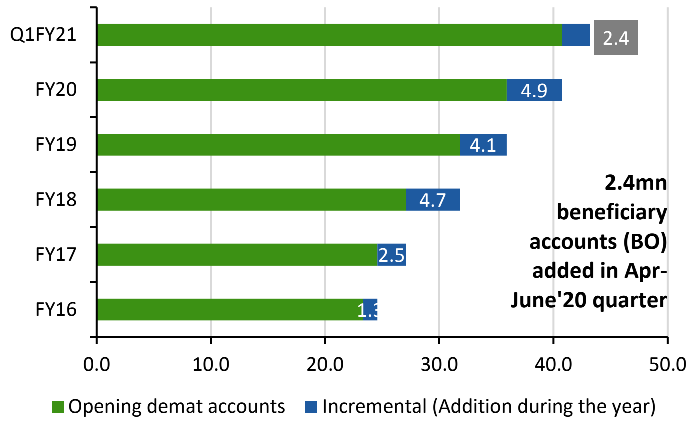
Investment Thesis in Charts

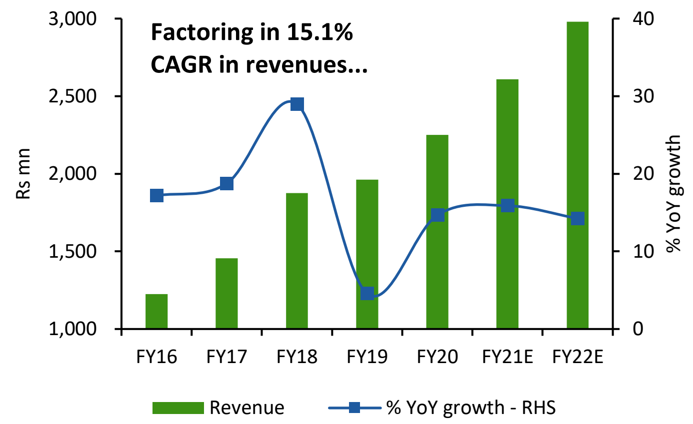


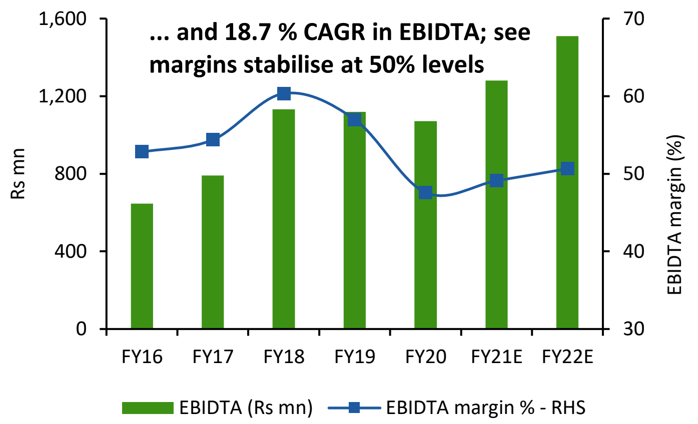


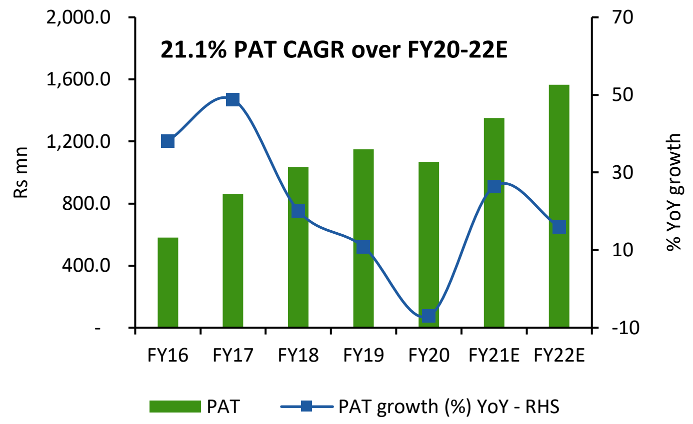
Incremental depository revenue opportunity at Rs9-12bn

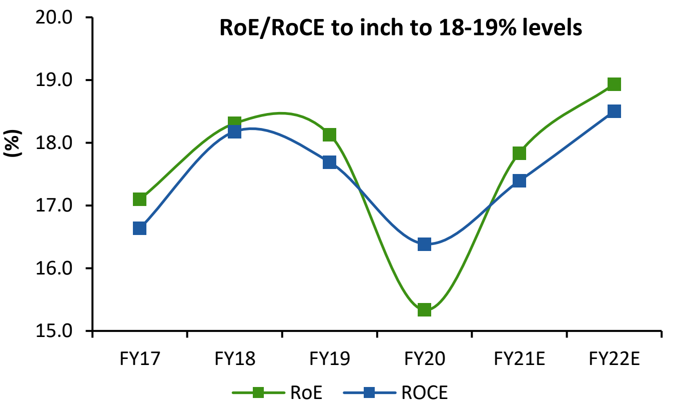


Depository	CDSL	NSDL
Networth (Rs mn)	20	30
Deposit (Rs mn)	0.5	1
Technology	Centralized server	DP to connect to NSDL server
DP	597	278
DP location	20,589	30,989
Demat holding (Rs bn)	20,421	180,757









Source: Company, MNCL Research Estimates

Incremental revenue opportunity from depository services at twice the existing run-rate

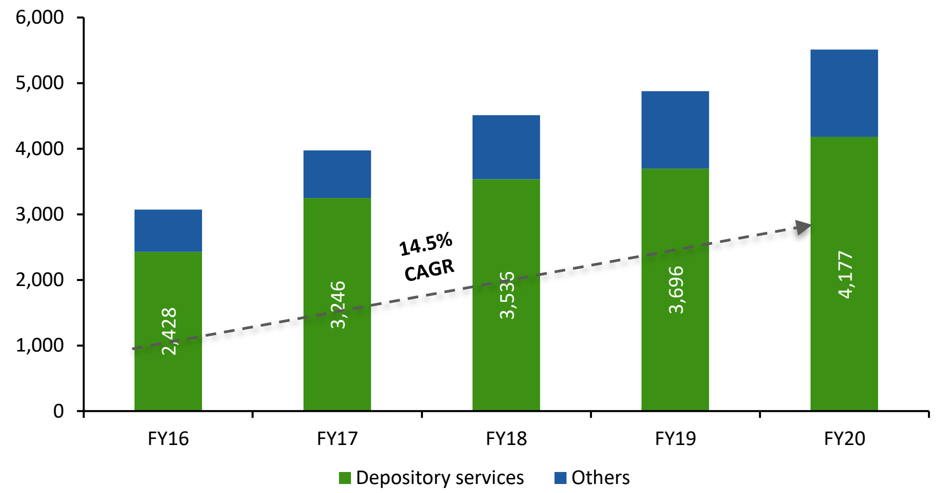
- **Sheer nature of existence coupled with current business model act as a strong entry barrier**
- **Depositories – A play on opportunity in capital market activities; NSDL and CDSL combined revenues at Rs5.5bn (FY20), 76% of revenues are in nature of depository services**
- **Estimates suggest incremental revenue growth opportunity from depository services at twice the existing run-rate following regulatory requirements**

CDSL (promoted by BSE) and NSDL (promoted by NSE) are the two entities that operate as depositories in India. Regulated by SEBI and registered under the Depositories Act, 1996, the sheer nature of CDSL's existence, i.e. promoted by stock exchanges and its business model has acted as a strong entry barrier. These entities thus enjoy a duopolistic nature of existence.

76% of revenues (FY20) is from depository services for NSDL and CDSL combined

As of FY20, CDSL's revenue from operations stood at Rs2.25bn, contribution from segments was depository activity (74.7%), data entry and storage (24.7%), and repository (0.5%). For NSDL, FY20 revenues stood at ~Rs3.3bn and contribution from segments was depository (76.5%), database management (21.6%), and banking (1.8%). The depository activities include annual issuer/custody charges, transaction charges, settlement charges, IPO/corporate charges, and other capital market-related activities. As of FY20, the combined revenue for the depositories (NSDL + CDSL) from depository services stood at ~Rs4.2bn and reported a healthy 14.5% CAGR over FY16-20.

Exhibit 1: 14.5% CAGR in depository revenues (NSDL + CDSL) over FY16-20



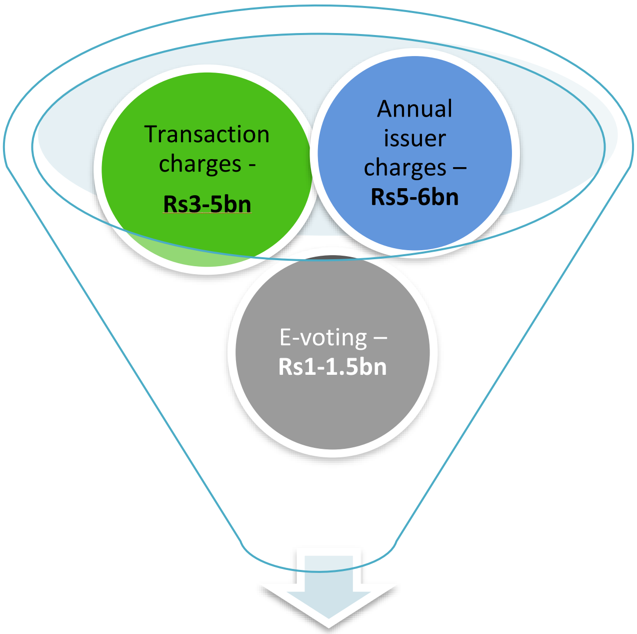
Source: Companies, MNCL Research. Others include – database management, Banking, Data entry and storage

Incremental revenue opportunity at twice the existing run-rate

Depositories are proxy-play to capital markets and with buoyancy therein, we expect a steady revenue trend for these depositories from the existing revenue streams. We have tried to assess the potential market opportunity given (a) the changing regulatory framework including regulatory requirement towards dematerialization of unlisted entities, (b) possibility of an increase in annual issuer charges (last revised in FY15 and due for revision in ensuing period), (c) increased participation across varied investor segments (transactions charges and price increase therein), (d) possibility of transaction charges being levied on value-of securities transacted vis-a-vis current norms of being levied on volume of trades executed, and (e) change in corporate preference to adhere to regulatory compliance (like E-voting), etc.

Our rough-cut estimate suggests an incremental revenue opportunity from the depository services at Rs9-12bn i.e. twice the existing revenue run-rate for NSDL and CDSL combined.

Exhibit 2: Incremental depository revenue opportunity at Rs9-12bn – 2x of the existing run-rate



Source: Monarch Research Estimates

For arriving at incremental depository revenue market opportunity, we have assumed that:

- Of the 80,000 unlisted entities, ~75% get their shares dematerialized under the regulations
- Assumed a 10%/20% increase in annual issuer charges on the folios due in the ensuing period. (In FY15, annual issuer fees were revised upwards by 37.5% to Rs11 per folio from Rs8 in FY10).
- Transaction charges: Change in pricing mechanism from a volume of securities and slab-based pricing traded to a value of securities traded and as a % of value of transaction, a practice normally prevalent in capital market-related businesses like AMC, Exchanges, securities etc.
- E-voting opportunity: Increased e-voting following ease and adhering to regulatory requirements.

SEBI norms on margin w.r.t. to pledge shares: In its recent ruling, effective 1st September, 20 SEBI has made it mandatory to collect upfront margin from the investors in the cash segment. Our interaction with laterals hint that this could well be a good revenue opportunity for the depositories. However, given the nascent nature of its implementation and the potential therein, it is difficult to pre-empt the extent of revenue opportunity for depositories.

Revenue opportunity for depositories like the episode of FY08-09 witnessed by credit rating agencies (CRA)

The incremental revenue opportunity for the depositories following the above regulatory compliance is subjective, and hence, difficult to pre-empt from both the quantum of opportunity and the timing therein. **We can, however, associate the possible opportunity to the episode of FY08-09 as seen in case of credit-rating agencies that saw a bump-up in revenues following the implementation of external based ratings approach on the back of a global financial crisis.** Over FY05-07, CARE and CRISIL combined witnessed 28.7% CAGR in its rating revenues; between FY07-09, revenues more than doubled to 60% CAGR following regulatory requirement, before normalizing at a higher revenue base thereafter.

Exhibit 3: Regulatory requirement (external based ratings) attributed to healthy 60% CAGR in revenues for rating agencies over FY07-09 before normalising thereafter

Rating revenue (Rs mn)	FY05	FY06	FY07	FY08	FY09	FY10
CARE	187	203	238	508	929	1,358
CRISIL (domestic)	427	603	779	1,353	1,675	1,984
Total	**614**	**806**	**1,017**	**1,861**	**2,604**	**3,341**
Growth rate (%)		***31.2%***	***26.2%***	***83.0%***	***39.9%***	***28.3%***
CAGR – FY05-07			***28.7%***			
CAGR – FY07-09					***60.0%***	

Source: Companies, MNCL Research

CDSL vis-à-vis NSDL: Key differentiation

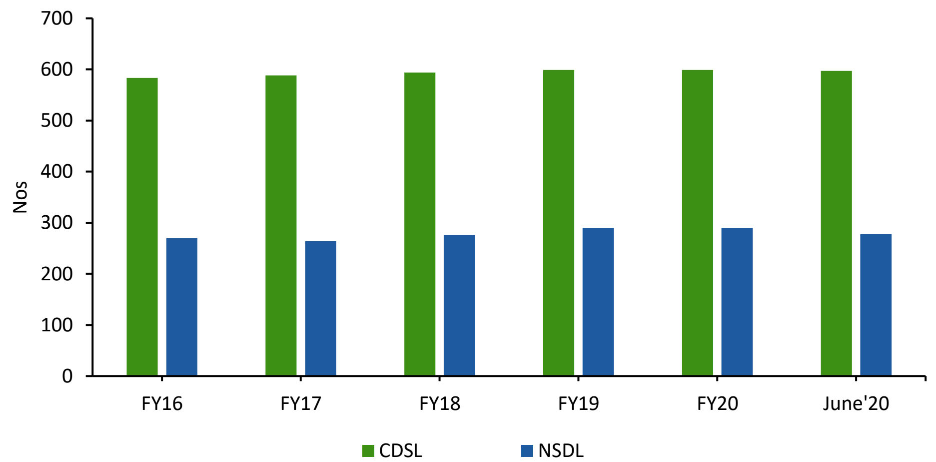
Between Mar'20 and June'20 – CDSL has added 2mn new accounts…

… NSDL has added 0.4mn new accounts over the same time

NSDL (promoted by NSE) and CDSL (promoted by BSE) are the only two depositories in India. The sheer nature of its existence (as also seen in the case of depositories globally), the business model, and regulation has acted as a strong entry barrier. The two players, i.e. CDSL and NSDL registered under the Depository Act and regulated by SEBI thus enjoy the duopolistic nature of existence.

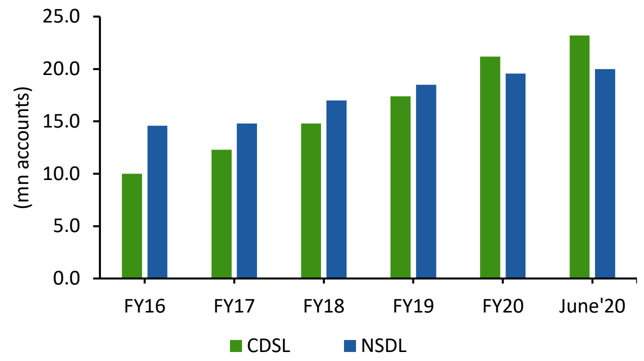
While being a late entrant, CDSL (commenced operations in 1999) in the recent past has gained considerate market share over NSDL (started operations in 1996) in terms of beneficiary accounts (BO). CDSL had 21.1mn BO accounts (20.6% CAGR over FY16-20) and compares with 19.6mn BO accounts for NSDL (7.7% CAGR in accounts opened over FY16-20). In terms of market share, CDSL thus, enjoys 52% of overall BO accounts as of FY20 (vs.41% as of FY16). On an incremental basis, CDSL's market share stood at 78% and the same has inched to 82% as of June'20. CDSL had 599 depository participants (DP) catered through 20,000+ service centres and compares with 280 DPs in case of NSDL.

Exhibit 4: Trend in Depository participants (DPs) across players



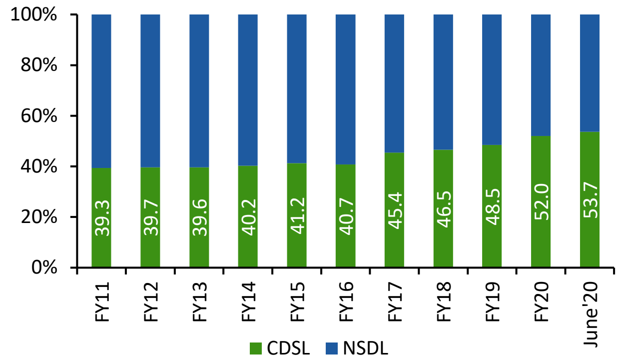
Source: Companies, SEBI, MNCL Research

Exhibit 5: Trend in Beneficiary accounts (BO; mn accounts)



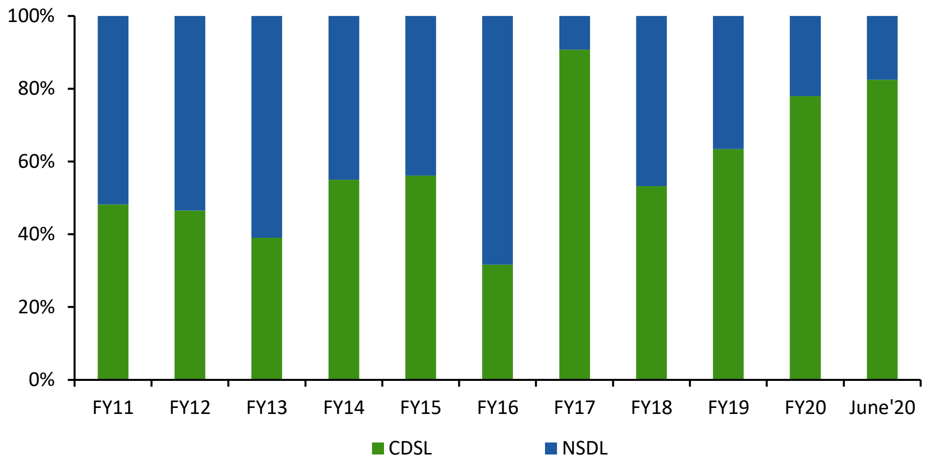
Source: Companies, SEBI, MNCL Research

Exhibit 6: CDSL has gained market share...



Source: Companies, SEBI, MNCL Research

Exhibit 7: ... and in terms of incremental BO market share too



Source: Companies, MNCL Research

According to SEBI monthly bulletin (June 2020), while the no of DPs for NSDL at 278 is on the lower side vis-à-vis CDSL at 597, NSDL has a higher share of DP locations at 30,989 vis-à-vis 20,589 for CDSL. Also, when seen in the context of the Demat quantity of securities held the same stands at 2.1tn for NSDL vs. 0.4tn for CDSL. Further, in terms of the value of securities held the same stands at Rs180tn for NSDL vis-à-vis Rs20.4tn for CDSL.

Exhibit 8: CDSL vs. NSDL – Key statistics

	DP	DP location	Companies Live	Demat Quantity securities (bn)	Demat value (Rs bn)
FY19					
CDSL	599	20,352	14,762	455.7	16,719.7
NSDL	279	30,874	30,335	2,351.6	160,327.9
FY20					
CDSL	597	20,589	14,891	439.8	20,420.7
NSDL	278	30,989	30,594	2,183.6	180,757.2

Source: SEBI

The low operating cost for CDSL vis-à-vis peer NSDL, networth criteria for depository participant (DP), and technology investments are some of the reasons that have possibly attributed to the former gaining market share (refer table below).

Exhibit 9: Depository participant: Key criteria

Depository	CDSL	NSDL
Networth criteria (Rs mn)	20	30
Deposit (Rs mn)	0.5	1
Technology	Centralized server and thus easy access through plug and play	DP to connect to NSDL server and thus cost associated is higher

Source: Companies, MNCL Research

In terms of pricing/depository related service charges, CDSL and NSDL are at par when it comes to annual issuer charges. This is also given the fact the same is regulated by SEBI.

Exhibit 10: Annual issuer charges: Uniform pricing

Rs	CDSL	NSDL
Annual custodian fees (per folio)	11	11
Nominal value of securities admitted (Rs)		
- Issued capital <Rs5mn	9,000	9,000
- Issued capital between Rs5-10mn	22,500	22,500
- Issued capital between Rs10-20mn	45,000	45,000
- Issued capital above Rs20mn	75,000	75,000
Corporate action fees (per record)	10	10

Source: Companies, MNCL Research

However, in terms of transaction charges, which are more linked to number of debit transactions, CDSL's transaction charges are more attractive than those of NSDL. While NSDL charges a flat rate of Rs4.50 per debit transaction irrespective of the DP's total monthly transaction bill amount, CDSL has a slab-based tariff structure (refer below table). Also, CDSL does not charge the DP in case there are no transactions in a BO account as against NSDL, which charges irrespective of whether the BO has made any transactions.

Exhibit 11: Transaction charges: CDSL rates are based on slabs vis-à-vis flat-rate charged by NSDL

Rs	CDSL	NSDL
Transaction charges (Rs per debit transaction)	4.25 – 5.50	4.50
Slab-structure (monthly transaction bill amount)		
Upto Rs0.1mn	5.50	
Rs0.1mn to Rs0.4mn	5.00	
Rs0.4mn to Rs1.5mn	4.50	
More than Rs1.5mn	4.25	

Source: Companies, MNCL Research

Favourable sector dynamics, revenue diversification augur well for steady revenues

- **CDSL saw healthy 16.4% CAGR in revenues during FY16-20 led by strong traction in core businesses and momentum in subsidiaries**
- **Favourable macros, diversified revenue mix (with an element of fixed revenue from certain segment) and market share gains bode well for CDSL**
- **Factoring in 15.1% CAGR in revenues over FY20-22E; led by 18% CAGR in core business**
- **Look into global depository reveals interesting studies and revenue opportunities**

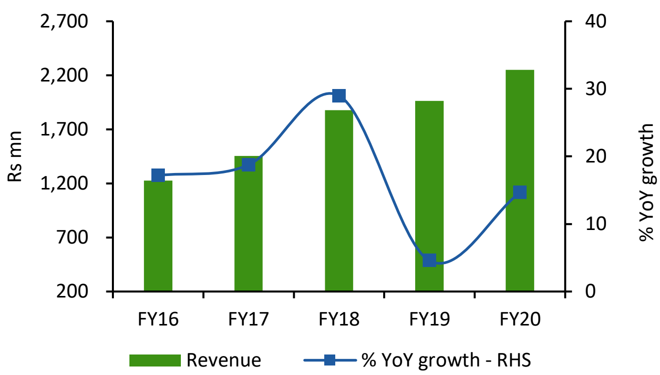
Dependence on direct market related activities remain limited…

CDSL's revenue from operations include transaction charges, account maintenance charges, and settlement charges levied on depository participants and the annual fees, IPO/corporate action charges, and e-voting and e-notices charges paid by companies whose securities are admitted with CDSL. Other services include KYC/C-KYC for its investors through its subsidiary – CDSL Ventures (CVL), holding of insurance policies in electronic form through CDSL Insurance, GST Suvidha provider, etc and electronic warehouse receipt through is CDSL Commodity repository.

<u>Thus, contrary to the investor's belief that CDSL revenues are correlated with market activities i.e. delivery-based volumes in cash market, and hence, could be susceptible to volatility in the event of decline, 75%+ of revenues are either fixed or has no direct bearing on market-wide cash volumes.</u>

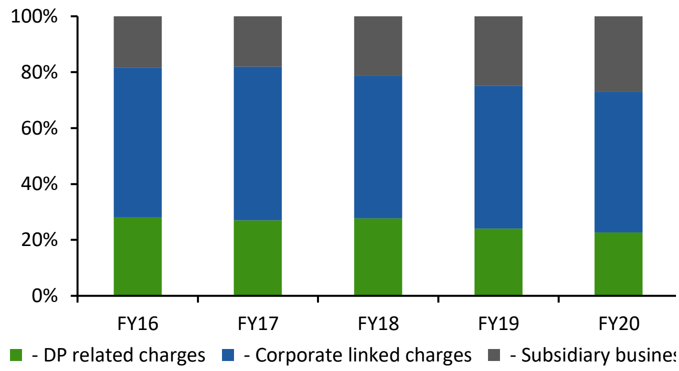
As of FY20, CDSL's revenue from operations stood at Rs2.2bn (16.4% CAGR over FY16-20). Of the same, revenues from corporate action witnessed 14.6% CAGR; transaction and related services (i.e. directly linked to capital market activities) up a mere 10.4% CAGR; subsidiary revenues have grown at 28.2% CAGR over FY16-20.

Exhibit 12: 16.4% CAGR in revenues over FY16-20…



Source: Company, MNCL Research

Exhibit 13: … augmented by strong traction across various business segments



Source: Company, MNCL Research

Revenue diversification enables mitigate volatility following unfavorable macros

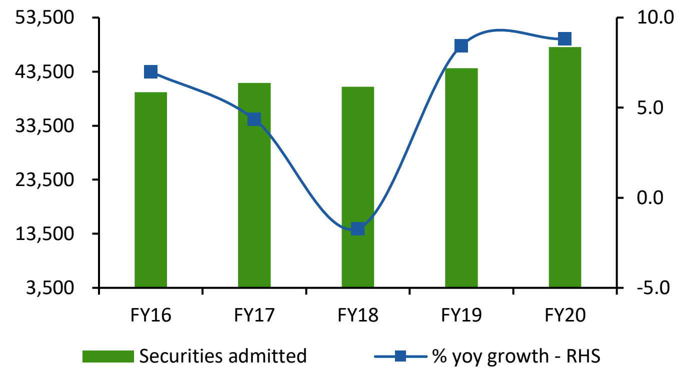
We believe that a well-diversified revenue mix is vital as it enables to mitigate the risk of excessive dependence on certain segments and thus overcome the volatility in revenue growth in the event of unfavorable macro-variables.

Core business segments to witness 18% CAGR over FY20-22E

Annual issuer charges: CDSL charges annual issuer fees to corporates for their securities admitted at a rate of Rs11 per folio, subject to minimum slab-based fees depending on the nominal value of securities. According to the regulations, corporates include public entity (listed and unlisted), private and government entities; definition of securities is extended to include shares, debentures, bonds, commercial paper (CP), certificate of deposits (CD), pass-through certificates (PTC), government securities and mutual fund units issued by the corporates. As a security depository, CDSL functions as the central accounting and record-keeping office of the securities of the companies admitted into its system and held with the demat account holders. **The annual issuer charges are fixed by the regulator (last revised in FY15 from Rs8 per folio), and hence, are uniform across both the depositories.**

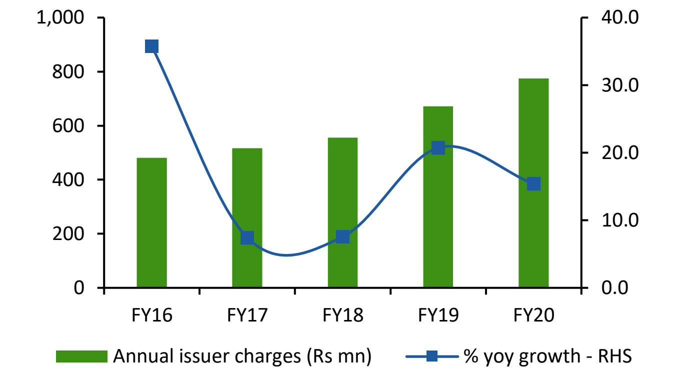
As of FY20, CDSL's annual issuer charges stood at Rs775mn, witnessing 12.6% CAGR over FY16-20. Over the same time, the no. of securities (in nature of all instruments i.e. equity/debt/others) admitted has inched to 48,029 (all combined) vs. 37,083 as at FY15.

Exhibit 14: Trend in securities admitted…



Source: Company, MNCL Research. Securities include Equity, debt and other instruments

Exhibit 15: … and in revenues therein

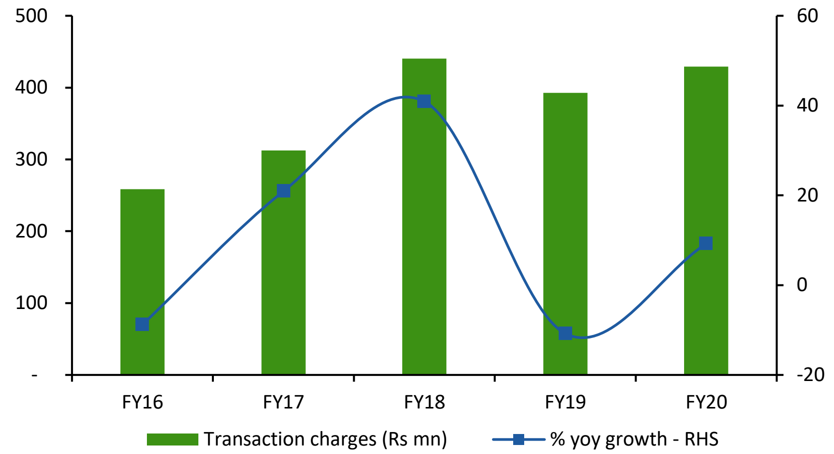


Source: Company, MNCL Research

With buoyancy in capital markets (new issuance, equity issuance in the nature of a bonus, rights issue, FPO), steady growth in debt issuance (both public and private including Govt. securities), we see revenue growth trajectory through the annual issuer charges to remain intact. In addition to revenue opportunity from the listed entities, SEBI norms also have directed for unlisted entities to get their shares dematerialized in the event of any corporate action, though in a phased manner and only in select cases. **As per MCA, there are ~80,000 unlisted entities and could well be a huge revenue opportunity in an event of requirements of dematerialization of these shares. As of FY20, CDSL's annual charges included 6-7% of its revenues from the unlisted entities as compared to a mere 2-3% in FY19.**

Transaction charges: Transaction charge for the depositories are directly related to the delivery-based transactions in the cash market and is a factor of number of shares traded, active beneficiary accounts, and overall investor sentiments. Contrary to NSDL, that charges flat-rate at Rs4.50, in case of CDSL, transaction charges are slab-based and on the monthly transaction bill amount. As of FY20, transaction fees for CDSL stood at Rs429mn (13.5% CAGR over FY16-20) and comprised 19% of overall revenues.

Exhibit 16: Transaction charges have witnessed 13.5% CAGR in revenues over FY16-20

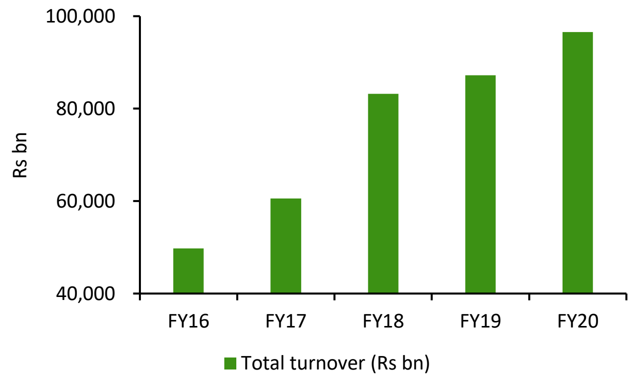


Source: Company, MNCL Research

The growth in transaction charges for CDSL and overall depositories is a result of (a) improved macros as evident in – 18% CAGR rise in exchange turnover (cash volumes), (b) 25.3% CAGR in securities traded (i.e. by value), (c) 14.6% CAGR in delivery of securities (by value), and (d) healthy 13.5% CAGR in beneficiary accounts (BO) over FY16-20.

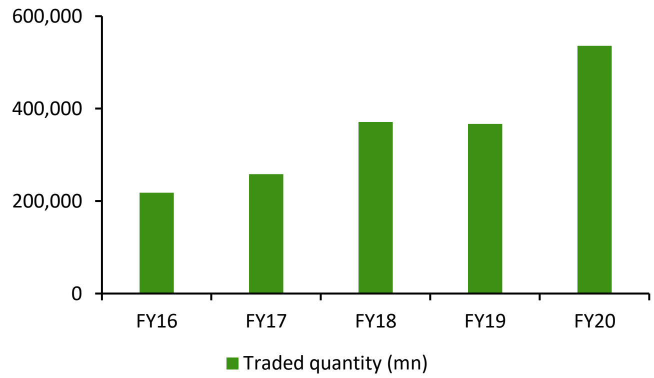
Also, when seen in terms of segment-wise participation, the industry has witnessed a sharp rise in the share of non-institutions i.e. proprietary and others. As of FY17, the share of these segments in overall exchange turnover was 73.1% and has inched to 85.5% as of June 2020.

Exhibit 17: 18% CAGR rise in cash-turnover (volume)…



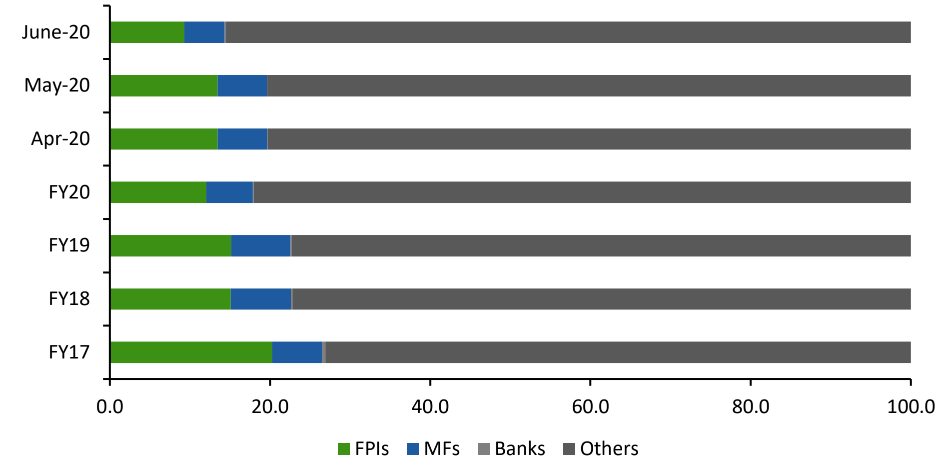
Source: Exchanges. MNCL Research. Exchanges include BSE + NSE

Exhibit 18: … and a healthy 25.3% CAGR in value of securities traded



Source: Exchange. MNCL Research.

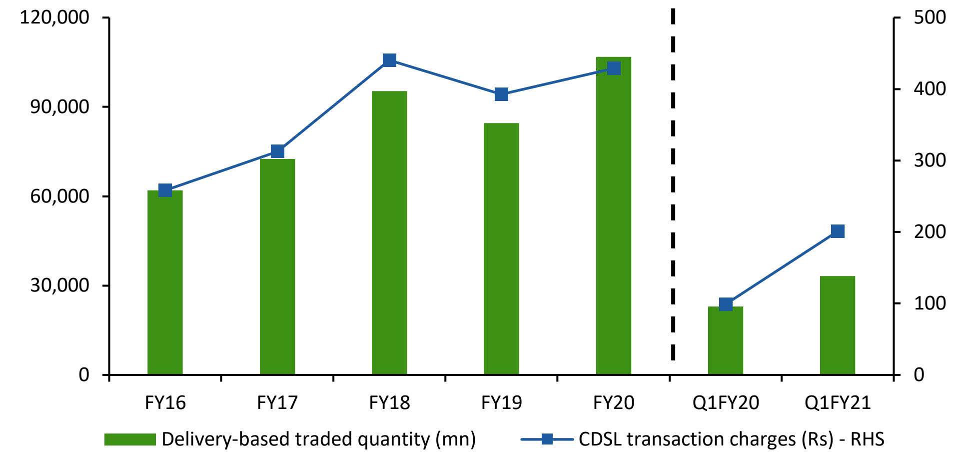
Exhibit 19: Recent past has seen sharp surge in share of proprietary and others (%)



Source: SEBI, NSE. Others include proprietary and Others

Exhibit 20: Transaction charges for CDSL are directly correlated to delivery-based transaction

Strong correlation between CDSL transaction charges and exchange wide delivery-based volumes

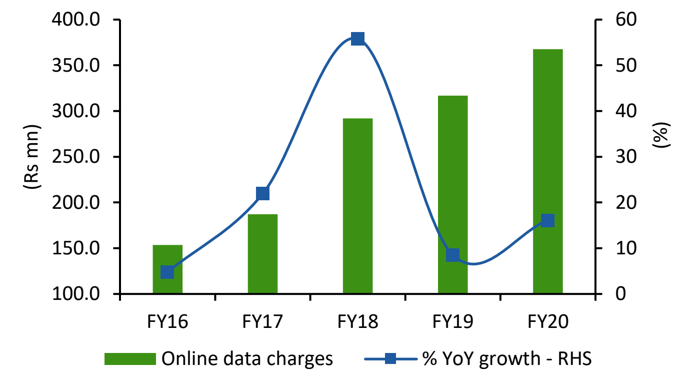


Source: NSE. Company, MNCL Research

Online data services: CDSL through its subsidiary, CDSL Ventures Limited (CVL) is into the business of KYC services for the capital market intermediaries including mutual funds. CVL is the first ever registered KRA entity with SEBI and had a 60% market share (as at FY19 compared with NMDL – 29% and 1% CAMS). It had the largest pool of 21.6mn KRAs and 2.4mn C-KYC as of FY20. Further, as of FY20, revenue from the online data storage segment stood at Rs368mn (16.4% of overall revenues) and has witnessed a robust 24.4% CAGR over FY16-20.

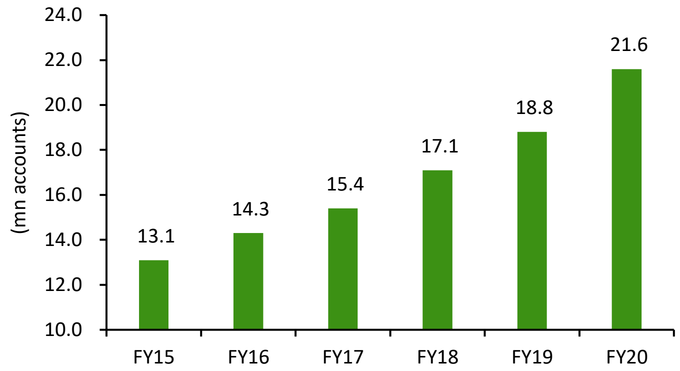
The KRA Regulations were notified in 2011 to centralize the KYC process by taking on the KYC details of the clients and collating such details into a central KYC repository of KYC details of clients in the securities market. With the KRA system in place, a KYC compliant client is not required to undertake the KYC process again when he approached any other intermediary in the securities market. CVL charges Rs15 for the creation of each KYC and Rs35 as data fetching to the intermediaries.

Exhibit 21: 24.4% CAGR in online data storage charges…



Source: Company, MNCL Research.

Exhibit 22: … led by 10.9% CAGR in KYC registered



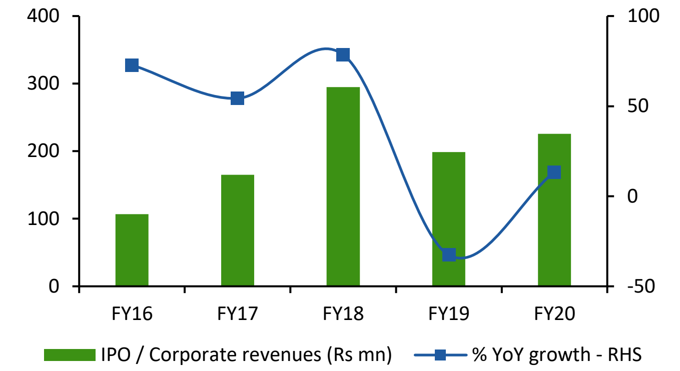
Source: Company, MNCL Research

In addition to KYC services, CVL is also engaged in the business of C-KYC processing, e-sign, GST suvidha provider services, Claim registry for life insurance companies that offer Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY) and has seen increased traction therein.

IPO/Corporate Charges: IPO/corporate charges for CDSL as of FY20 stood at Rs226mn (10% of overall revenues) and have witnessed 20.5% CAGR over FY16-20. CDSL charges Rs2/folio for verification of subscriptions and Rs10/folio for allotment to the issuing company in the year of issuance. Subsequently, depositories charge annual issuer fees at Rs11/folio for the second year and thereafter.

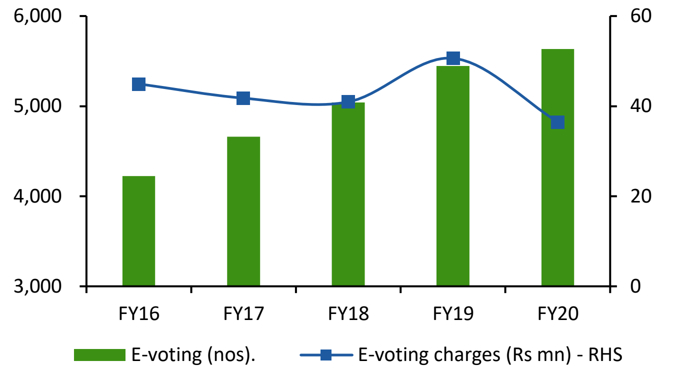
E-voting and e-notice: The e-voting and e-notice service by CDSL permits companies to enable their shareholders to receive notices in electronic form and to allow shareholders to cast their votes electronically, remotely, or at the meeting venue. As of FY20, 5,635 companies have signed an agreement with CDSL; revenue stood at Rs36.5mn.

Exhibit 23: 20.5% CAGR in IPO/corporate charges…



Source: Company, MNCL Research.

Exhibit 24: … steady trend in e-voting revenues



Source: Company, MNCL Research

Other revenue opportunities: Healthy contribution expected

Through its subsidiary – CDSL Insurance Repository (CDSL IR, incorporated in 2011), the company acts as an Insurance repository. The services include providing policyholders a facility to keep insurance policies in electronic form and to undertake changes, modifications and revisions in the insurance policy with speed and accuracy to bring about efficiency, transparency and cost reduction in the issuance and maintenance of insurance policies. As at FY20, CDSL had a database of 0.55mn e-insurance accounts.

CDSL Commodity Repository Limited (CCRL), registered under Warehousing Development and Regulatory Authority (WDRA) started is operations in September 2017. As at FY20, CCRL had cumulatively issued 14,311 negotiable warehouse receipts in electronic form (eNWR).

Exhibit 25: Trend in revenue and profitability across subsidiaries

Revenue from Operations (Rs mn)	FY17	FY18	FY19	FY20
CVL	209.9	242.8	366.9	420.4
CDSL IR	1.0	1.7	3.8	4.5
CCRL	0.0	0.0	6.8	8.9
PAT (Rs mn)	**FY17**	**FY18**	**FY19**	**FY20**
CVL	174.9	242.0	273.3	281.7
CDSL IR	17.5	10.0	19.9	NA
CCRL	0.0	2.2	11.2	NA

Source: Company, MNCL Research

Global depository: Interesting studies

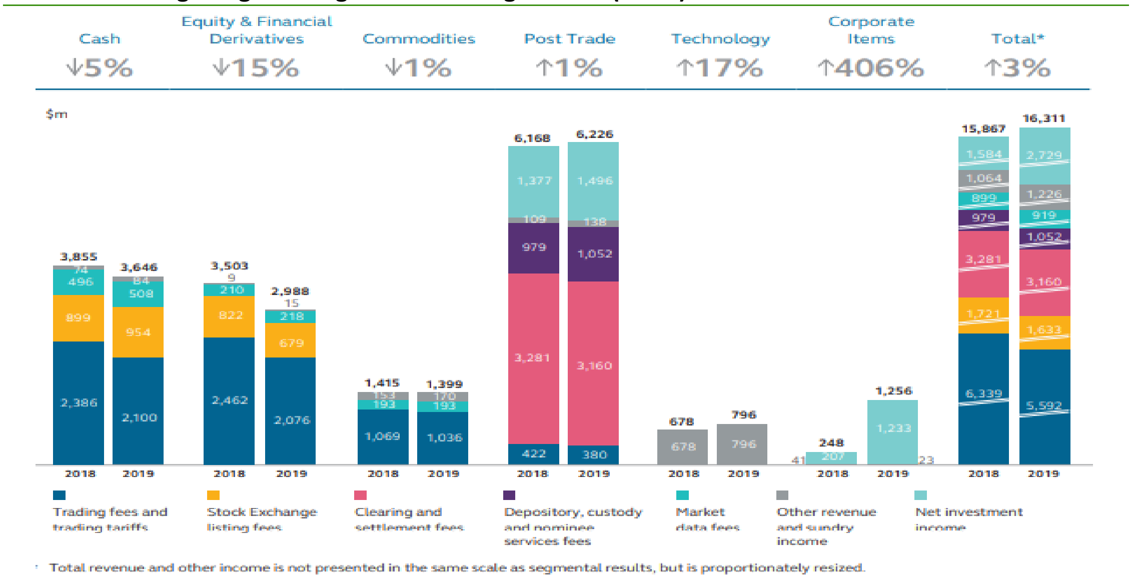
Hong Kong Exchanges and Clearing Limited (HKEX)

The inherent nature of the business model, regulatory framework, existence, and limited entry barriers have been the key distinct features for the depositories globally. This, in addition to a healthy margin profile, superior return ratios, asset-light model have been added positives.

We assessed Hong Kong Exchanges and Clearing Limited (HKEX), a leading financial market operator in the world. With operations in Hong Kong and an additional base in London, HKEX provides world-class facilities for trading and clearing securities and derivatives in Equities, Commodities, Fixed Income and Currency. Through its subsidiary - **Hong Kong Securities Clearing Company Limited (HKSCC),** the entity operates as clearing house for securities traded on the Stock Exchange in Hong Kong, Shanghai Stock Exchange and Shenzhen Stock Exchange in Mainland China through Stock Connect and the central securities depository, and provides custody and nominee services for eligible securities listed in Hong Kong and Mainland China via the Central Clearing and Settlement System (CCASS).

As at CY19, its revenue stood at $16,311mn and was in nature of Depository, custody and nominee services fees (38-39%), clearing and settlement fees (8-9%), trading fees (22-23%), stock exchange and listing fees (18-19%) and others.

Exhibit 26: Hong Kong Exchanges and Clearing Limited (HKEX) - Revenue mix



Source: Hong Kong Exchange and Clearing Limited Annual report.

Globally, in addition to equity-linked revenues, depository also earns a share of revenues from derivatives and OTC markets. However, under the existing framework, CDSL earns revenue for each debit transactions i.e. delivery-based volumes, which is limited to the cash segment. Thus, any element of extension of charges to derivative/OTC segment or other asset class i.e. fixed income, commodities, could well be a good revenue opportunity for depositories in India.

Shift in transaction charges from volume of securities traded to value therein could well act as strong revenue booster…

… a practice prevalent in business segments like AMC, brokerage charges, insurance, etc.

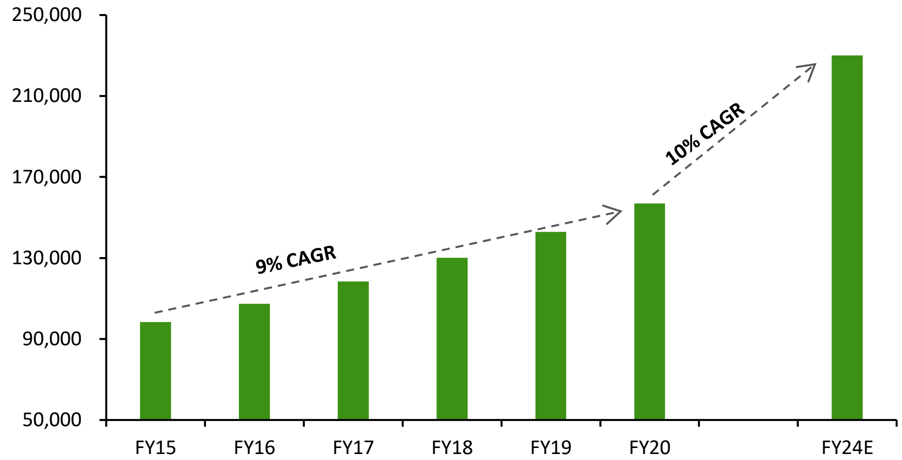
Also, under the existing framework, transaction charges are levied based on volumes of securities traded and not the value of the transaction. In other words, depositories charge clients (through the DP) on basis of no. of trades executed (i.e. volume) and not the value of the transactions (i.e. the contract amount). For e.g., the contract note for Rs2mn transaction value will be the same as that of Rs20mn. **This is in sharp contrast to percentage-linked charges across capital markets businesses viz. AMC charges being levied as % AUM in case of mutual fund, brokerage charges for stockbrokers, Insurance commission as % of premium, etc.**

Macro-indicators favourable

Confluence of improving demographics, rising per capita income, shift in savings towards financial assets

According to CRISIL estimates, the share of urbanization is slated to inch from 31-32% levels in FY20 to 35-37% by FY24-25. The study suggests deeper penetration of financial products in urban areas. Moreover, in the recent past a rise in penetration in financial products in semi-urban/rural areas has also been witnessed. Nominal per-capita GDP at Rs157,000 (as at FY20E) is estimated to witness 10% CAGR to Rs2,30,000 by FY24E (vis-à-vis 9.8% CAGR over FY15-20E).

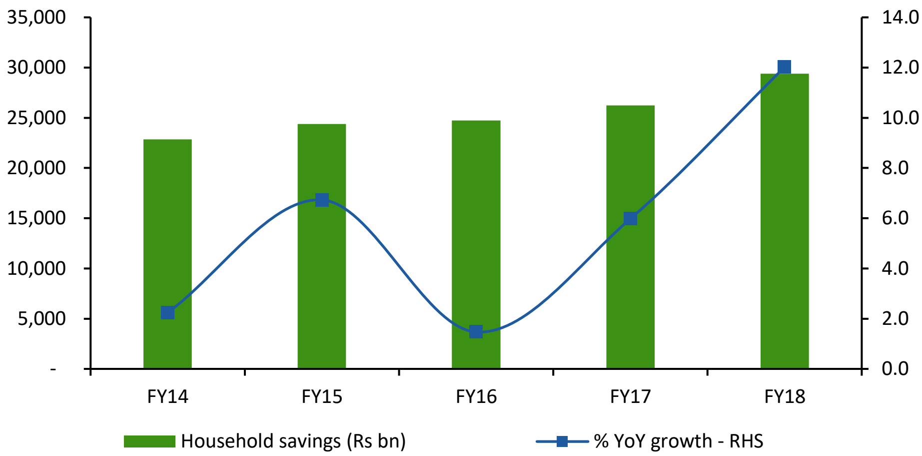
Exhibit 27: Per-capita income is expected to witness 10% CAGR over FY20-24E



Source: RBI, CRISIL Estimates

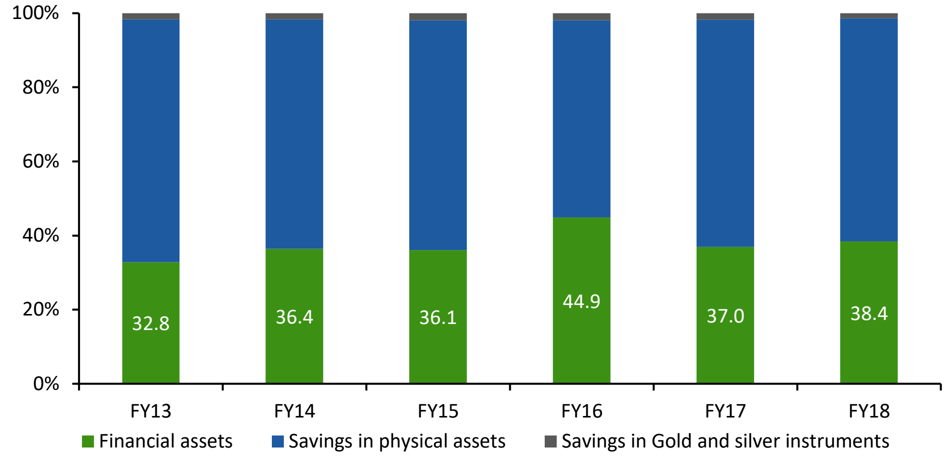
According to RBI, household savings as of FY18 stood at Rs29.3tn and have witnessed 5.2% CAGR over FY13-18. Over the same time frame, savings in physical assets have grown at 4.5% CAGR/savings in gold and silver instruments at a much slower pace of 2.3%. In other words, the recent past has seen a shift in household savings to financial instruments (shares and bonds, mutual fund, deposits, provident, pension fund, etc) and witnessed 6.3% CAGR over same time

Exhibit 28: Household savings have witnessed 5.2% CAGR over FY13-18 led by financial assets



Source: RBI

Exhibit 29: Share of financial assets % of household savings has been on rise



Source: RBI

Exhibit 30: Trend in financial savings – Increased shift towards capital market linked instruments

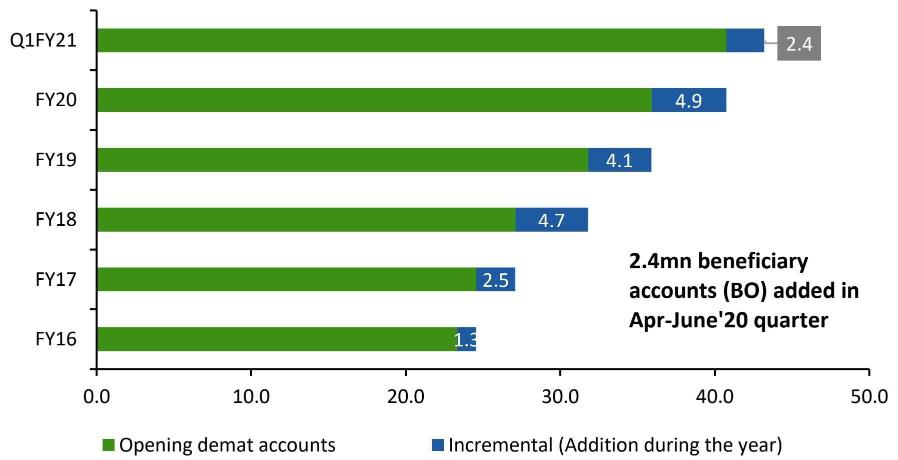
% of GNDI	FY12	FY13	FY14	FY15	FY16	FY17	FY18
Gross financial savings (A)	10.4	10.5	10.4	9.9	10.7	9.2	10.8
- Currency	1.2	1.1	0.9	1.0	1.4	-2.0	-
- Deposits	6.0	6.0	5.8	4.8	4.6	6.3	-
- Shares and debentures	0.2	0.2	0.2	0.2	0.3	0.2	-
- Claims on government	-0.2	-0.1	0.2	0.0	0.5	0.4	-
- Insurance funds	2.2	1.8	1.8	2.4	1.9	2.3	-
- Provident and pension fund	1.1	1.5	1.5	1.5	2.1	2.0	-
Financial liabilities (B)	3.2	3.2	3.1	3.0	2.7	3.0	4.3
Net financial savings (C)	7.2	7.2	7.2	6.9	7.9	6.2	6.5

Source: RBI

FY20 saw 4.9mn new demat accounts get added, strongest ever…

… momentum continues to remain strong with 2.4mn accounts getting added in Q1'20

Exhibit 31: Demat account base stands at ~41mn.



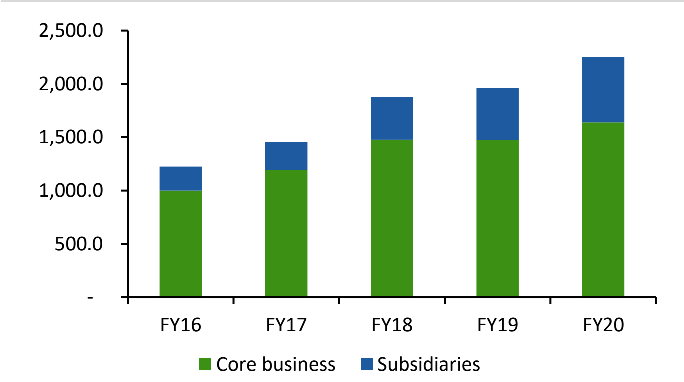
Source: Companies, SEBI, MNCL Research

Financial snapshot

Revenue to witness 15.1% CAGR over FY20-22E

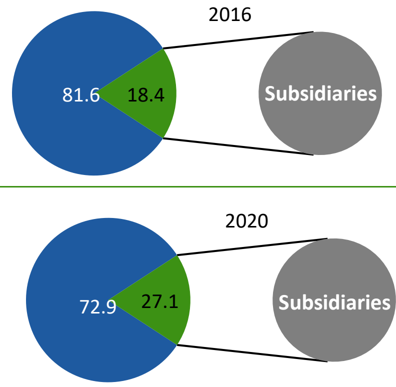
Buoyancy in capital markets, market share gains, and revenue diversification has attributed to healthy revenue growth for CDSL over FY16-20. In terms of BO accounts, CDSL now has 52% markets share (vs. 41% in FY16); 78% on incremental basis coupled with the surge in delivery-based volumes has attributed to a surge in transaction charges. Rise in no. of securities admitted and fund-raising activities by corporates have resulted in healthy growth in annual issuer/related fees. Further, with revenue diversification and healthy contribution from subsidiary business, CDSL has witnessed a healthy 16.4% CAGR in overall revenues over FY16-20.

Exhibit 32: 16.4% CAGR in overall revenue…



Source: Company, MNCL Research

Exhibit 33: …led by improved contribution from subsidiaries



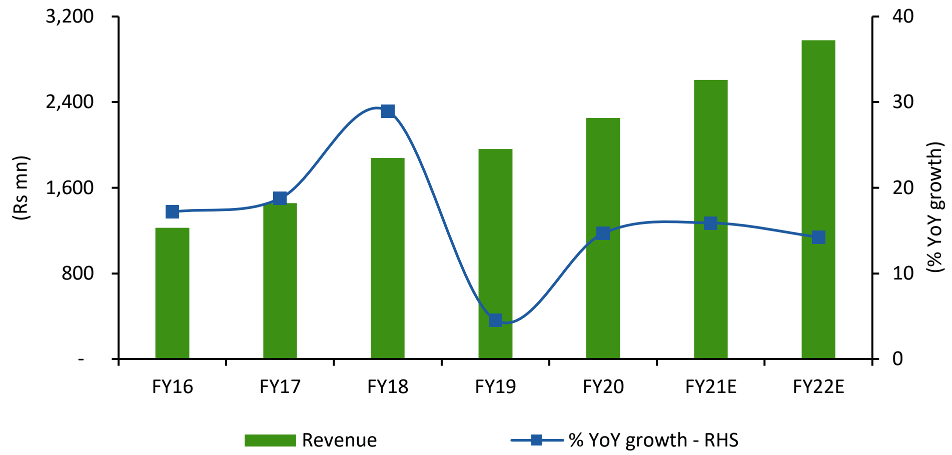
Source: Company, MNCL Research

Account activation duration has reduced to 2-3 months vs. 6-months earlier

Q1FY21 saw consolidated revenues grow 12% YoY and was led by strong traction in transaction charges (+100% YoY). This follows a surge in delivery-based volumes on an aggregate basis and market share gains for CDSL (53% as of June 2020). Further, according to management, the lockdown has seen account activation (i.e. opening of BO accounts and first trade therein) reduce to 2-3 months vs. 6-months earlier. With buoyancy in capital markets and rising share of non-institutions (key clientele for CDSL), we see continued traction in a transaction and related charges. Further, with the greater part of corporate India shifting towards e-voting and related services coupled with the surge in fund-raise activities, we expect steady improvement in annual issuer charges. We are thereby building in 15.1% CAGR in overall revenues over FY20-22E.

Our estimates do not factor in revenue opportunity based on (a) increase in annual issuer charges, (b) opportunity from the unlisted entities, (c) possibility of a shift in transaction charges from volume-based to value-based, (d) potential rise in e-voting opportunity or the e) opportunity arising out of recent SEBI norms on margin requirement w.r.t. to pledge/unpledged shares. These events are exceptional, and hence, difficult to pre-empt. However, if implemented, this would lead to a sharp surge in revenues/earnings. Revenue base, under such situations tends to shift upwards and normalise at higher rates thereafter.

Exhibit 34: Factoring in 15.1% CAGR in revenues over FY20-22E



Source: Company, MNCL Research Estimates

Our estimates for 15.1% CAGR in revenue are on the premise of healthy growth in revenues across core-business segments and subsidiaries, especially CVL. We believe revenue diversification is of relevance given the nature of business model, and hence, the fear of volatility in revenue/earnings.

Until CY05, CRISIL had a substantial part of its revenue from rating activities and advisory services. Consequently, any moderation in rating opportunities i.e. bank credit growth or bond issuance activity had a direct bearing on revenue growth. Post foray into research-related activities through acquisition, CRISIL has been able to diversify its revenue mix. As at CY19, revenue mix stood at rating (31.5%); research (60.3%) and advisory services (8.2%) vs. ratings (51%) and advisory (49%) as at CY05. The revenue diversification for CRISIL has enabled (a) mitigating risk to overall revenues following moderation in growth drivers therein, and (b) ensured consistency in revenue growth.

Exhibit 35: Trend in revenue and growth

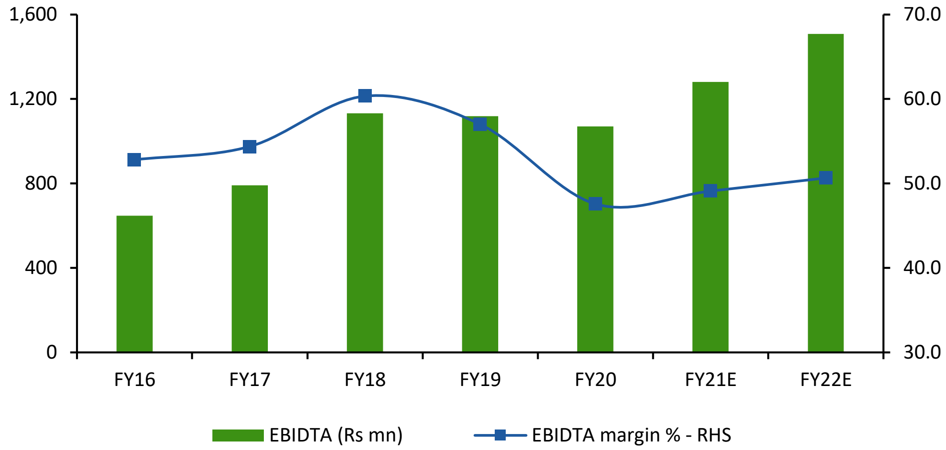
Rs mn	FY04	CY05	CY06	CY07
Operating income	**854.3**	**1,404.7**	**2,873.3**	**4,043.3**
- Rating revenues	486.3	521.4	904.7	1,300.8
- Advisory services	230.5	478.0	893.9	1,067.0
- Research revenues	137.5	405.4	1,074.7	1,675.6
Growth rate (%)				
Overall		***64.4%***	***104.5%***	***40.7%***
- Rating revenues		*7.2%*	*73.5%*	*43.8%*
- Advisory services		*107.4%*	*87.0%*	*19.4%*
- Research revenues		*194.7%*	*165.1%*	*55.9%*

Source: Company, MNCL Research

EBITDA margins to stabilise at 50% levels

FY20 saw EBIDTA margin dip to sub-40% owing to one-off expenses to the tune of Rs180.5mn - statutory dues (~Rs106mn) and an increase in bad/doubtful debt (~Rs75mn). With normalisation therein and led by operating efficiency across various expense line-items, we expect CDSL to report healthy 18.7% CAGR in EBITDA over FY20-22E. We see margins stabilise at ~50% over FY20-22E.

Exhibit 36: See EBIDTA margins stabilise at 50% levels

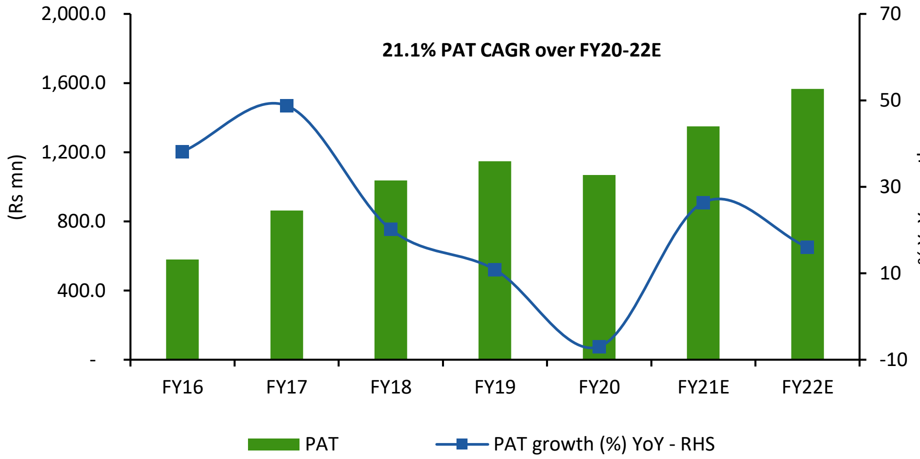


Source: Company, MNCL Research Estimates

Operating leverage to aid in strong earnings growth

Led by steady revenue growth and operating leverage benefits, we expect CDSL to report 21.2% CAGR in earnings over FY20-22E. Notably, Q1FY21 saw healthy growth in earnings following strong revenue growth and margin improvement. With improved capital market sentiments, we expect earnings growth to remain strong in the near-term.

Exhibit 37: Factoring in 21.1% CAGR in PAT over FY20-22E



Source: Company, MNCL Research Estimates

Asset light model + high return ratios

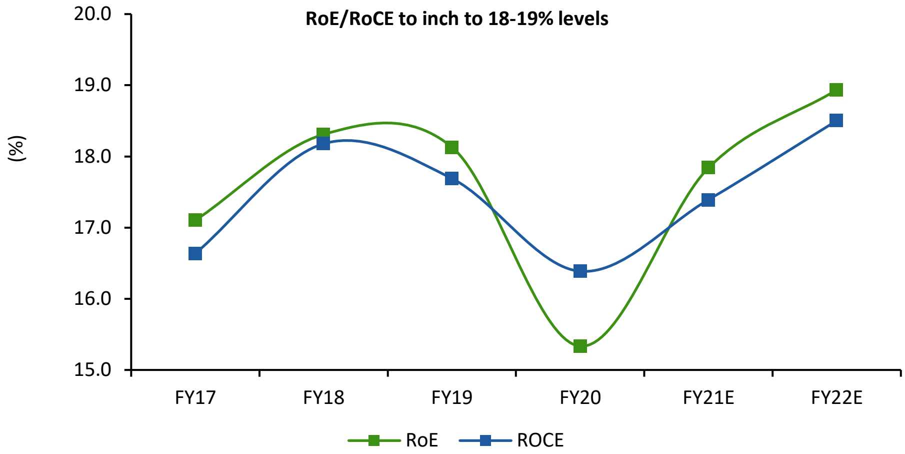
A healthy margin profile (EBIDTA margin at 50%+), the duopolistic nature of the business model, and free-cash-flow yield are some of the distinct features for CDSL. With improved earnings and revenues prospects, we expect return ratios for CDSL to inch higher.

Exhibit 38: Dupont analysis

	FY18	FY19	FY20	FY21E	FY22E
PAT/PBT	0.73	0.77	0.78	0.75	0.75
PBT/EBIT	1.33	1.45	1.43	1.55	1.52
EBIT/Sales	0.57	0.52	0.42	0.45	0.46
Asset turnover	0.29	0.27	0.27	0.29	0.30
Assets/Equity	1.12	1.11	1.12	1.13	1.13
ROE (%)	***18.3%***	***18.1%***	***15.3%***	***17.8%***	***18.9%***

Source: Company, MNCL Research Estimates

Exhibit 39: Return ratios to scale to 18-19% levels

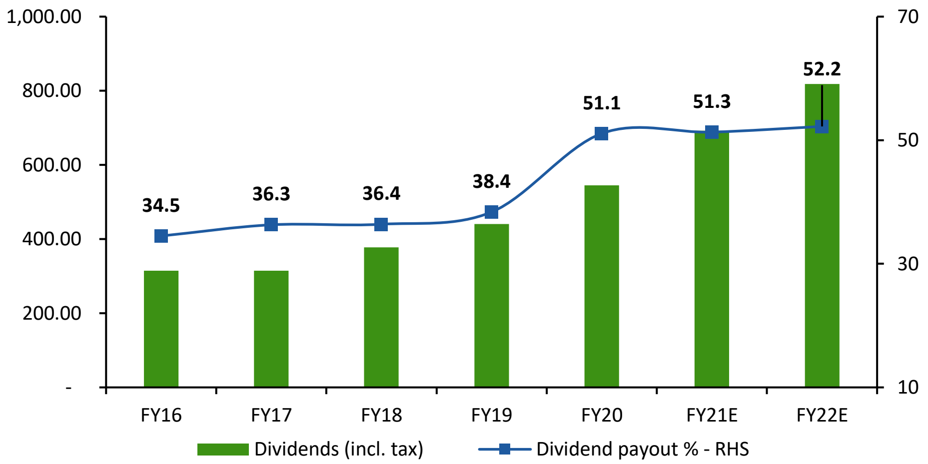


Source: Company, MNCL Research Estimates

Steady rise in dividend pay-out ratio; leaves room for further upside

FY20 saw dividend pay-out inch to 50% levels vs. sub-40% levels earlier. The asset-light nature of the business model and free-cash-flow yield could well provide an opportunity to increase the same even higher. Return ratios, in such situations, too will move higher. We have not really factored in a sharp increase in dividend pay-out into our estimates.

Exhibit 40: FY20 saw dividend pay-out inch to 50%+; upward movement therein cannot be ruled out



Source: Company, MNCL Research Estimates

High return ratios – A recipe for premium valuations

Businesses with high return ratios and healthy dividend payouts / healthy margin profile tend to trade at higher valuations

Study across different business cycles and sectors reveal that entities with healthy margin profile, asset-light model and free-cash flow tend to report healthy return ratios (RoE and ROCE). Additionally, businesses that have higher dividend-pay-out ratio and enjoy a duopolistic/near monopolistic nature of operations have historically reported superior/best-in class return ratios. These characteristics have also attributed to premium valuation multiples for these entities. Companies across FMCG, Pharma and IT (as can be seen in below exhibit) are classic examples of entities with superior return ratios, and thus, premium valuations. Rating agencies are another classic example of high return ratio and thus, premium valuations.

Exhibit 41: Businesses with higher return ratios tend to trade at premium valuations

		RoE (%)		P/E (x)	
Company Name	**Sector**	**FY19**	**FY20**	**FY19**	**FY20**
Honeywell Automation	Consumer Durables	22.7	25.1	77.2	56.4
Crompton Greaves	Consumer Durables	47.8	43.1	40.7	32.9
Hawkins Cookers Ltd.	Consumer Durables	47.5	56.1	46.4	34.7
Nestle India Ltd.	FMCG	45.3	70.3	98.1	80.0
Britannia Industries Ltd.	FMCG	30.3	32.4	80.4	66.5
Marico Ltd.	FMCG	41.2	35.0	43.3	47.3
Tasty Bite Eatables Ltd.	FMCG	26.3	28.0	108.7	80.0
Divi's Labs	Healthcare	21.0	19.3	61.1	60.0
CRISIL	Rating agencies	29.8	29.3	35.3	32.1

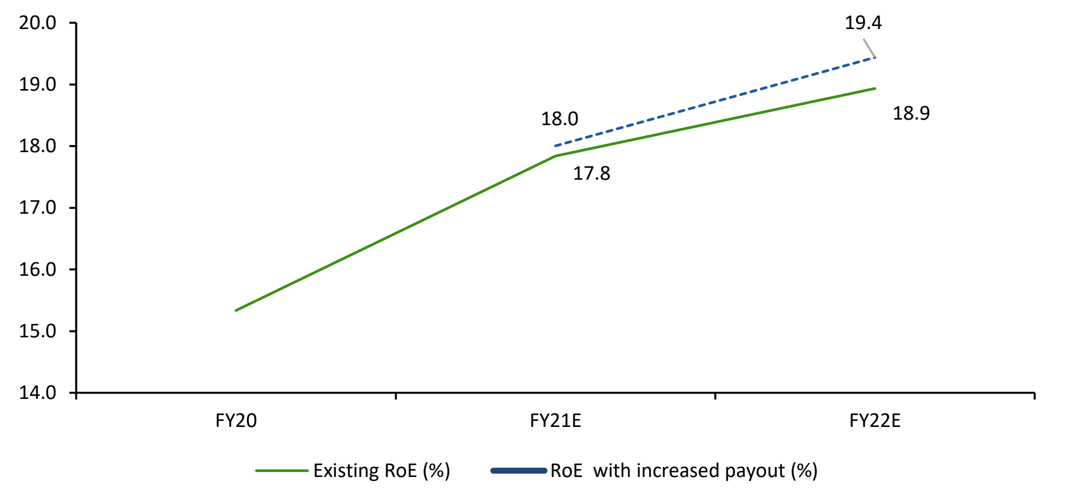
Source: Company, ACE Equity, MNCL Research

10% increase in dividend payout to push RoE up by 20-50bps…

… at 100% dividend payout, normalized RoE could well be at 20%+

While CDSL has had healthy dividend pay-out ratio, the sheer nature of its operations – i.e. free-cash flow and asset-light model does leave enough room to shore it even higher. In our assumptions, we have factored in dividend pay-out at 51-52% levels over FY21-22E (like FY20). RoE, under such situation is expected to remain at 18-19%. However, assuming a 10% increase in dividend pay-out – RoE will inch upwards by 20-50bps to 19%+ levels. Thus, while a bit more arithmetic, an improved dividend pay-out ratio, could well translate into an improved return ratio in ensuring periods.

Exhibit 42: 10% increase in dividend pay-out to result in 20-50bps increase in RoE



Source: Company, MNCL Research Estimates

Realistic RoE vis-à-vis Aspirational RoE

As seen above, with 10% increase in dividend pay-out ratio, RoE for CDSL inched by 20-50bps to 19%+ levels. In an event of 100% dividend pay-out, RoE could well be above 20%+ levels, keeping other things constant. We can term this phenomenon as "normalised RoE" vis-a-vis our current estimates of 18-19% levels over FY20-22E.

Empirical evidence suggests that businesses that have forayed into new revenue lines/businesses by **"capitalising on their pool of existing data resource/business verticals"** tend to report higher return ratios. This is simply given that with certain expenditure being constant (i.e. fixed expenditure), substantial part of revenue eventually flows down to bottom-line after adjusting for associated variable cost and taxation, for instance, cross-selling of third-party products by financial institutions to their existing clientele. With revenue opportunity here being "pool of information/data resource" pertaining to internal clientele, any revenue through sell of third-party product will translate into improved profitability, and thus, tend to be RoE accretive.

Drawing reference to CRISIL, until FY04 substantial part of revenue was in nature of ratings and advisory business. **By capitalising on the pool of information collated through ratings and advisory service offerings, CRISIL forayed into research business**. Starting with organic research (i.e. in-house research), and later through in-organic route, i.e. acquisitions, CRISIL witnessed increased contribution from research segment, thus **"enabling revenue diversification".** The high margin research business vis-à-vis ratings also translated into an improved overall EBIT. Between FY04-CY09, CRISIL's RoE doubled to 40% levels (average) vis-à-vis 20-21% as at FY04.

Increased asset turnover, following revenue diversification and higher margin, attributed to doubling of RoE over FY04-CY09

Exhibit 43: Dupont analysis: CRISIL - ROE doubled over FY04-CY09 following an improved asset turnover

CRISIL (x)	FY04	CY05	CY06	CY07	CY08	CY09
EBIT/Sales	0.30	0.24	0.26	0.27	0.35	0.36
Asset turnover	0.9	1.2	1.8	1.8	1.7	1.4
ROE (%)	**21.0%**	**20.7%**	**38.3%**	**36.1%**	**44.3%**	**40.6%**

Source: Company, MNCL Research

CDSL – Aspirational RoE vis-à-vis realistic RoE

Drawing reference to CRISIL (and businesses that have capitalised on their in-house data pool), we see a possibility of similar story play out in case of CDSL. **In the current era of aggregators/social media platforms (with millions and billions of registered users) and an increased usage of artificial intelligence (AI) and machine learning (MI), the interface could well be used to cross-sell/service wider set of product/requirements to the end-user through multiple channels. This could well act as revenue opportunity, parallel to the existing core revenue stream and tend to be RoE accretive.**

While being highly regulated (and thus, keeping the regulatory aspect in consideration), CDSL could well capitalise on its data pool of over 23.2mn beneficiary accounts (BO) or the 20mn+ KYC accounts and other clientele information to foray into newer business streams. It could either be in nature of consulting, cross-selling, revenue streams associated to existing revenue pool or any other aspirational (alternate) businesses that are heavily data dependent. For instance, CDSL charges Rs15 for new KYC and Rs35 for data fetching by intermediaries. **If one extrapolates the same, i.e. by sharing the pool of 20mn+ clientele, CDSL could potentially earn an incremental revenue of ~Rs300mn (i.e. 12% of FY21E revenue and thereafter). With no incremental operational cost associated therein, it would directly flow down to earnings contributing 17% of profit before tax.**

"**Aspirational RoE for CDSL thus, in our view, could well be in far excess of the existing RoE or for that matter the normalised RoE"**

Valuation - Initiate with a BUY and TP of Rs525

Valued on two-stage dividend discount model

We initiate coverage on CDSL with BUY and target price (TP) of Rs525 using the two-stage dividend discount model. With huge revenue opportunity either following regulatory requirements or buoyancy in capital markets and its direct bearing on revenues, it is difficult to assess the impact of the same on earnings either from the quantum or its timings. Our estimates also do not factor in any revenue opportunity following the foray into businesses of data / information sharing and contribution therein to revenue/earnings (as highlighted in our earlier section). However, given the inherent characteristics of the model i.e. healthy margin profile, free-cash flow nature of business and steady increase in dividend pay-out (which we believe can increase even further), we believe a prudent way of valuing such businesses is to assess them on dividend discount model. We have valued CDSL on two-stage dividend discount model and arrived at TP of Rs525. In our assumption, we have factored in dividend pay-out of 70% levels (during the normalised growth period ie FY27-30E), which we believe can even inch higher.

Exhibit 44: Fair value at Rs525 using dividend discount model

Year	2020	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	2028E	2029E	2030E
Dividend per share	4.5	5.5	6.8	8.1	9.7	11.7	14.0	15.3	16.6	18.1	19.8
Growth therein (%)	***28.6***	***22.2***	***22.7***	***20.0***	***20.0***	***20.0***	***20.0***	***9.0***	***9.0***	***9.0***	***9.0***
PV of dividend	**4.50**	**4.97**	**5.51**	**5.97**	**6.47**	**7.01**	**7.60**	**7.48**	**7.37**	**7.25**	**7.14**
Terminal value	1,256.5										
PV of terminal value	**454.1**										
Fair value (Target price)	**525.0**										

Source: MNCL Research Estimates

On a PE basis, our target price of Rs525 would mean a valuation of 35x FY22E EPS. In an event of revenue opportunity following foraying to related businesses (as discussed in earlier section), FY21/22E EPS would stand revised upwards by 22.2% / 19.2% respectively. RoE could well be at 22-23% levels in such scenarios. Assuming a 35x PE multiple on the revised EPS estimates, the target price could well be at Rs625.

Exhibit 45: Incremental revenue opportunity could well see EPS estimates revise upwards by 20%+

Change in estimates	Existing		Revised	
	FY21E	FY22E	FY21E	FY22E
EPS (Rs)	12.9	15.0	15.8	17.9
RoE (%)	***17.8%***	***18.9%***	***21.8%***	***22.6%***
Target multiple (x)		35x		35x
Target price		**525**		**625**

Source: Monarch Research Estimates

We believe the valuation multiplies are justified given the favourable macros and improved market sentiments, market share gains for CDSL (in terms of BO addition) and quick-turn-around therein, increased participation from non-institutions (key clientele for CDSL), and steady rise in earnings/revenue following the diversification in revenue mix and operating leverage benefits on the back of cost-rationalization measures. Relatively undiscovered sectors tend to trade at higher valuations as investors gauge greater confidence in revenues/earnings and we see the possibility of the same in case of CDSL given huge revenue opportunity.

Depositories better placed vis-à-vis other capital market intermediaries

The shift in savings pattern towards financial assets, especially equities and MF as an asset class bodes well for capital market intermediaries including CDSL. While one could also draw reference to asset management companies (AMC) /exchanges or brokerage as beneficiaries of improving savings patterns and buoyancy in capital market activities evident in the market sentiments, we believe depositories are a lot safer bet to play the capital market opportunity as the business model for depositories offers an element of earnings/revenue stability across various market cycles. For AMC, revenue growth tends to be lot volatile (dependent on inflows/AMC performance/management charges) or volumes/external factors that drive revenue growth for exchanges, on the flip-side, CDSL has certain revenue segments that tend to be a lot more fixed (annual issuer charges at 40%+ of total revenues), and hence, in the event of volatility, earnings tend to be less vulnerable to external factors vis-à-vis AMC/exchanges or brokerage entities.

"Test of significance" reveals no direct relation with market movement

CDSL vs. Nifty – R squared is at 11.7%, indicating that correlation is NOT strong

CDSL vs. delivered vol – R squared is at 0.01% implying virtually no correlation

Being a play on capital market, one of the commonly perceived notions for such intermediaries has been that the price movement for such stocks are correlated to index movement/prevailing market sentiments. In other words, stock price movement is directly related to the prevailing market sentiments. Like for example – for a pure play brokerage entity, revenue is directly a function of market activities (exchange turnover) and prevailing sentiments, market share gains or increased revenue following product diversification. For asset managers, revenue is correlated to inflows, new SIP accounts, prevailing market sentiments, etc.

Contrary to above, in case of CDSL, 25% of revenues (and being in nature of transaction charges and related activities, fees being recovered from depository participants) are directly linked to capital market activities. **Our "test of significance" studies reveal no direct correlation between CDSL and index movement (NSE) or for that matter even with aggregate delivery-based trading volume (the key source of revenue line item for CDSL).**

Also, when one looks at **"Beta coefficient (β) – a measure of the volatility or systematic risk of a security or portfolio compared to the market as a whole"** for CDSL vis-à-vis other capital market intermediaries or banking universe, the same for CDSL is the lowest amongst various companies.

Exhibit 46: Beta (β) for CDSL vis-a-vis various other capital market intermediaries / entities

Stock / group	Beta coefficient (β)
CDSL	0.79
HDFC AMC	0.90
MOSL	1.11
Nippon AMC	1.13
Pvt Banks	1.13
Housing-financers	1.18
ICICI Securities	1.22
Asset-financiers	1.40

Source: Bloomberg.

In our view, the sheer nature of its existence, i.e. promoted by stock exchange i.e. BSE and its business model have acted as a strong entry barrier. As of June 2020, ~80%+ of investor participation was from non-institution (key segment for CDSL); study suggests 25% CAGR in traded quantity and ~15% CAGR in delivery therein. The value of securities traded has grown at 18% CAGR and bodes well in the event of a shift in transaction charges pricing to value-based vis-à-vis volumes. CVL (subsidiary) has reported strong growth in earnings/revenues. We expect CDSL to report 15%/18.7%/21.2% CAGR in revenue/EBIDTA/PAT over FY20-22E. While we are factoring in RoE/RoCE at 18-19% levels, the same could well inch to 20% levels in an event of increased dividend pay-out. Aspirational RoE could be significantly higher in an event of foray into revenue accretive business, adding to investor's comfort.

We believe that in an event of normalised RoE for a sustained period (vis-à-vis the existing ROE), valuation multiples could well trend higher. An aspirational ROE (as discussed in the earlier section and in an event of occurrence), could see valuation band shift upwards and sustain therein as investors gain greater confidence.

Strategic investor or an aspirational ROE could well see valuation band shift upwards and well trade at significant premium to its rolling forward PE

Our thesis on valuation premium for CDSL is also based on the premise of a possible diversification in shareholding for CDSL (large part of holding is in the hands of FIs including banks) to a **more concentrated or a strategic investor**. Business model with characteristics of – high margin, asset-light, duopolistic nature of operations and superior returns ratios have historically drawn attention of such investors. In an event of such occurrence, valuation multiples for CDSL will trade at a significant premium to its existing valuation multiples.

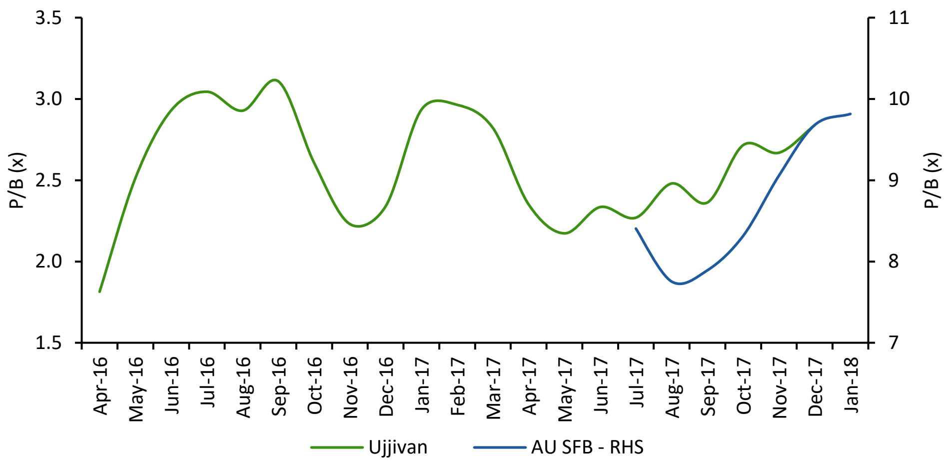
Case study: Small Finance Banks (SFB) and valuation catch-up

Empirical studies point to valuation multiple expansion as large numbers of entities get listed in the relatively under-discovered space. We have seen through this in the case of Small Finance Bank (SFB) (during 2017-2018), life insurance, and General insurance entities. For purpose of exercise, we have looked through the valuation multiple expansion for SFB space.

AU Small Finance Bank (AuSFB) got listed in July 2017 at the rich valuation of 8.4x FY18 ABV, Equitas Holdings and Ujjivan Financial Services (Ujjivan), which traded at average valuations of 2.5x and 2.2x in June 2017, respectively, got a minor boost with their P/ABV increasing to 2.6x and 2.3x FY18 ABV, respectively. Valuation multiples got a further boost (in the next 6-months) with Ujjivan valuation multiple inching further to 2.8x FY18 ABV and that at 9.8x FY18ABV for AuSFB

Empirical evidence suggests valuation multiple expansion following listing of newer players/assessment discovery

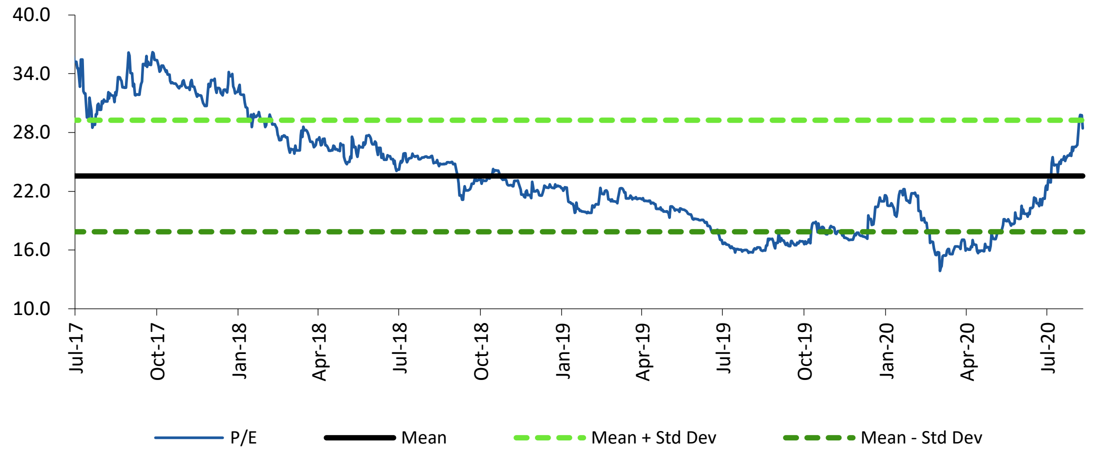
Exhibit 47: Ujjivan saw valuation multiples expand for a brief period following the listing of AuSFB



Source: Company, Bloomberg, MNCL Research

Drawing reference to incidences of expansion in valuation multiples as seen through various sectors, we believe that a similar story can play out in the case of CDSL. This is also given that CDSL along with NSDL are the only two depositories, the latter being unlisted. In terms of KYC business, CDSL through its subsidiary – CVL competes with NDML (subsidiary of NSDL) and CAMS. Thus, the listing of either of these entities (across business verticals), will aid in deriving certain valuation multiple. Our theory on valuation expansion for CDSL is also based on the premise of healthy revenues on the back of diversification, operating leverage, and return ratios.

Exhibit 48: Rolling forward P/E chart



Source: Bloomberg, Company, MNCL Research Estimates

Peer comparison

Exhibit 49: CDSL vs. NSDL – Key financial parameters (FY20)

INR mn	CDSL	NSDL
Revenue from operations	2,250.6	3,200.3
Total income	2,842.5	3,793.4
EBIDTA	1,071	1,168.2
EBIDTA margin (%)	*47.6*	*36.5*
Profit after Tax	1,067.4	1,247.5
EPS (Rs)	10.2	31.2
Networth	7,239.9	8,467.4
RoE (%) (average)	*15.3*	*15.8*

Source: Companies, MNCL Research

Exhibit 50: Peer comparison - CDSL and some of the entities in similar business segments

Co. Name	Price (Rs)	Market Cap (Rs mn)	CAGR (FY20-22E)		P/E (x)			RoE (%)		
			Revenue	PAT	FY20	FY21E	FY22E	FY20	FY21E	FY22E
CDSL*	**407**	**42,495**	***15.1***	***21.2***	**39.8**	**31.5**	**27.1**	***15.3***	***17.8***	***18.9***
BSE	498	22,433	*11.6*	*6.2*	18.3	19.7	16.3	*4.2*	*5.2*	*6.0*
MCX Exchange	1,598	81,516	*16.2*	*8.2*	34.5	35.4	30.0	*16.7*	*16.1*	*17.8*
HDFC AMC	2,411	513,190	*6.8*	*7.4*	40.6	39.7	35.2	*35.6*	*29.8*	*29.2*
Nippon AMC	273	166,946	*1.5*	*4.8*	31.4	32.5	28.7	*20.3*	*19.3*	*21.0*

Source: Bloomberg, *indicated MNCL Research Estimates. In the absence of like to like comparable n the listed space, we have looked for businesses that are into similar lines

Key risks to our thesis

- **Risk of new entrant:** While the sector does enjoy a more duopolistic nature of existence, with no entry barriers, it is exposed to increased risk following new entrants.
- **Loss of market share:** Any loss of market share (in terms of BO), could potentially impact revenue, and thus, earnings for CDSL.
- Appointment of Central Registry of Securitisation Asset Reconstruction & Security Interest of India (CERSAI) as central KYC registration agency, which could impact the KYC business of CDSL Ventures.
- **Overall capital market sentiments:** While our studies suggest no direct co-relation to equity markets (also given that mere 25% of revenues is directly linked to market movements), any change in investor sentiment can have a direct bearing on transaction charges and related services.
- **Risk of technology/data pilferage**: Being into business of technology, risk due to cyber-attacks cannot be ruled, and hence, remains one of the biggest risks.
- **Regulatory risk:** The heavily regulated nature of operations could act as dampeners in the event of change in pricing of certain services.

Corporate Governance

We believe that sound corporate governance is necessary for enhancing the trust of shareholders and other stakeholders. We have undertaken a detailed corporate governance study covering broad aspects such as the composition of the board of directors, independent directors, compensation paid to the promoter directors and independent directors, details of auditors, nature and amount of contingent liabilities, related party transactions and CSR expenditure.

Promoters and promoter group shareholding analysis

CDSL was initially promoted by BSE Ltd in 1999. Subsequently, it divested its stake to leading banks as “Sponsors” of CDSL. BSE Ltd sold 4% of its stake in CDSL in 2019 and is the only promoter of CDSL holding 20% stake of the company as on 30th June 2020.

Exhibit 51: Promoter shareholding has reduced to 20%

Holding (%)	Mar’2017	June’2017	Mar’20	June’20
BSE Ltd (Promoter)	50.05	24.00	20.00	20.00
State Bank of India	9.57	5.00	1.15	1.07
HDFC Bank Ltd.	7.18	7.18	7.18	7.18
Standard Chartered Bank	7.18	7.18	7.18	7.18
Canara Bank	6.45	6.45	5.58	5.58
Bank of India	5.57	5.57	0.0	0.0
Bank of Baroda	5.07	2.99	0.0	0.0
LIC	4.15	4.15	4.15	4.15
Union Bank of India	1.91	1.91	1.50	1.48
Bank of Maharashtra	1.91	1.91	0.0	--

Source: NSE, MNCL Research

Independent Directors’ representation analysis

CDSL, over the past 2 years, has witnessed restructuring in its Board of Directors, however, Independent Directors have remained above 50% of total strength.

Exhibit 52: Board Composition

Particulars	FY17	FY18	FY19	FY20
- Total Strength	10	10	7	8
- Non-Executive Independent Director	5	5	4	5
- Non-Executive Non-Independent Directors	4	2	2	4
- Executive Non-Independent Directors	1	1	1	1
- % Non-Executive Independent Directors	50%	57%	63%	50%
- % Non-Executive Non-Independent Directors	40%	29%	25%	40%
- % Executive Non-Independent Directors	10%	14%	13%	10%

Source: Company, MNCL Research

Key Management Personnel compensation analysis

Mr P. S. Reddy was first appointed as MD and CEO at CDSL in April 2012 for three years. He was re-appointed for another three years from April 2015 to March 2018, post which he was given a one-year extension and later resigned from his designation on March 31, 2019. CDSL had pitched to extend the tenure of Mr Reddy by 5 years in 2018, though it was rejected by SEBI. **Mr Nehal Vora was appointed the MD and CEO of CDSL in September 2019.**

Exhibit 53: KMP Compensation

Name (Rs mn)	FY16	FY17	FY18	FY19	FY20
Mr Nehal Vora (MD & CEO)					11.45
- % share of PBT					0.8%
Mr P. S. Reddy (MD & CEO)	8.4	6.8	13.7	23.4*	
- % share of PBT	0.6%	0.6%	1.0%	1.6%	

Source: Company, MNCL Research * includes full and final settlement

Independent directors' compensation analysis

In FY2020, CDSL had 5 independent directors. They were collectively paid Rs 3.23 mn, equivalent to 0.24% of PBT.

Exhibit 54: Independent directors & their compensation

Name	FY20 Compensation (Rs mn)	As % to PBT (FY20)
Mr. Balkrishna Vinayak Chaubal	1.15	0.08%
Dr. Bimal Kumar Natvarlal Patel	0.80	0.06%
Mrs. Preeti Saran	0.48	0.03%
Mr. Umesh Bellur	0.33	0.02%
Mr. Siddhartha Pradhan	0.48	0.03%

Source: Company, MNCL Research

Contingent liability analysis

CDSL's contingent liabilities 5-year-average has been 6.2% of its Net Worth on account of matters related to service tax and income tax.

Exhibit 55: Contingent liability

Particulars (Rs mn)	FY15	FY16	FY17	FY18	FY19	FY20
Service tax matters	226.19	226.19	398.47	397.88	397.88	0
Income tax matters	0.49	0.49	0.49	0.49	0.49	0
Total	**226.68**	**226.68**	**398.96**	**398.37**	**398.37**	**0**
% share of Net Worth	**6.1%**	**4.7%**	**7.5%**	**6.7%**	**6.0%**	**0**

Source: Company, MNCL Research

In FY20, CDSL took a one-time charge for non-recurring previous years anticipated statutory liability of Rs105.6mn (against the total contingent liability of Rs397.88mn), thus reducing its contingent liability close to NIL.

Related party transaction analysis

CDSL's transactions with its subsidiaries – CDSL Ventures Limited & CDSL Insurance Repository Limited have been on arm length.

Auditor compensation analysis

S. R. Batliboi & Co. LLP was appointed as CDSL's auditor in FY2018 AGM for a year and the same was extended till FY23 in FY19 AGM. Prior to S. R. Batliboi & Co. LLP, M/s. Deloitte Haskins & Sells were CDSL's auditors

Exhibit 56: Auditors (FY2019)

Auditor Name	Type	Auditor Since	Auditor Fees – FY20 (Rs mn)	As % to PBT
S. R. Batliboi & Co. LLP	Statutory	2018	1.98	0.14

Source: Company, MNCL Research

CSR activity analysis

CSR spending of CDSL has been relatively low over the past years. However, in FY20 CDSL has contributed Rs68.1mn as support towards the Government's initiatives against COVID-19.

Exhibit 57: CSR Activity Spend

Particulars	FY16	FY17	FY18	FY19	FY20
Prescribed Expenditure	12.6	15.7	16.8	20.6	21.0
Total Spend	7.4	11.9	10.7	6.3	59.9
Total spend as % of prescribed limit	58.9%	76.0%	63.7%	30.5%	284.6%

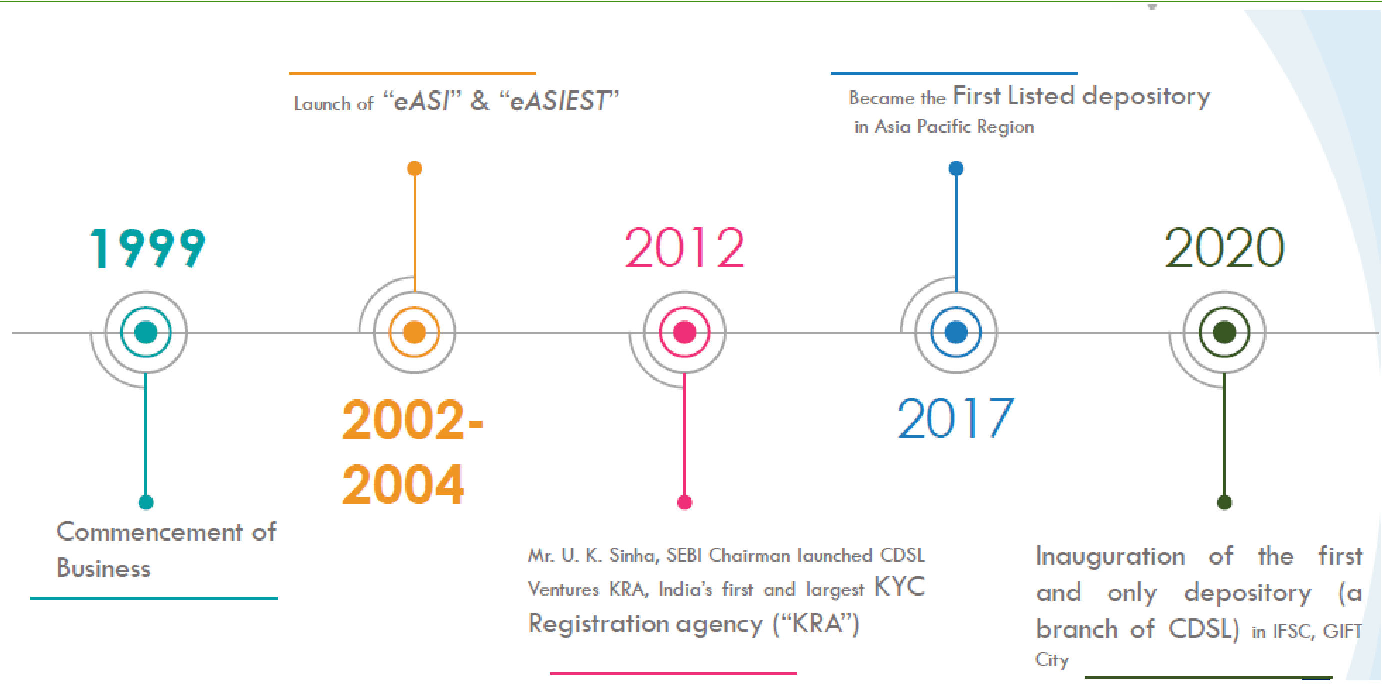
Source: Company, MNCL Research

Company Background

Incorporated in 1999, Central Depository Services (India) Limited (CDSL) is one of the depositories in India, NSDL (promoted by NSE) being the second. Regulated by SEBI and registered under the Depository Act, CDSL was promoted by BSE along with sponsors - SBI, Bank of Baroda, Bank of India, HDFC Bank, Standard Chartered Bank and Union Bank of India. CDSL earns revenue by charging annual issuer fee to corporates and account maintenance charges, user facility charges and transaction fees to depository participants (DPs). It also facilitates a range of non-cash corporate actions, digitization of academic records, insurance policies, e-warehouse receipts etc. In addition to securities depository services, CDSL Ventures (CVL) is registered with the SEBI and the Unique Identification Authority of India (UIDAI). It undertakes common Know Your Client (C-KYC) services for investors in the capital markets, including mutual fund industry. As at FY20, CDSL had 21.2mn beneficiary accounts (BO) and enjoyed 52% market share. In terms of incremental BO, market share stood at 78% as at FY20.

In its recent initiatives, CDSL is the first and only depository in India which has been approved by SEBI to launch its IFSC (International Financial Service Centre) branch located in IFSC, GIFT City (Gujarat International Finance Tech-City), Gandhinagar, Gujarat. CDSL has also developed APIs for its Depository Participants (DPs), which will help DPs to automate their processes and back-office operations. APIs have been developed for Account Opening, Common Transaction Upload (which includes Off-market, On-Market, Early Pay-in & Inter Depository Transactions), Pledge/ Un-pledge/Confiscation transactions and advise its DPs to get in touch with RMs to get to know the entire suite of transactions on which APIs are available.

Exhibit 58: CDSL' key milestones



Source: Company, MNCL Research

Exhibit 59: Subsidiary companies and holding therein

Name of the entity	Principal Activity	% of holding
CDSL Ventures Limited	KYC Registration	100.0%
CDSL Insurance Repository Limited	Holding insurance policies in electronic mode	54.3%
- On its own name		51.0%
- Through CDSL Ventures Limited		3.3%
CDSL Commodity Repository Limited	Commodity Repository	52.0%

Source: Company, MNCL Research

Subsidiaries and its business

CDSL Ventures Limited (CVL)	CDSL Insurance Repository Limited (CIRL)	CDSL Commodity Repository Limited (CCRL)
CVL is registered with Securities Exchange Board of India (SEBI), Unique Identification Authority of India (UIDAI) and Goods and Services Tax Network (GSTN). CVL is the first KYC registration agency registered with SEBI. CVL is also registered with SEBI as a Registrar & Transfer Agent (RTA) to provide various services to corporates. CVL is registered as GST (Goods and Service Tax) Suvidha Provider (GSP) with GSTN.	CIRL is regulated by Insurance Regulatory and Development Authority of India (IRDAI) and is in the business of enabling policy holders to hold life policies, motor policies, health policies and all other types of general (non-life) policies. The subsidiary has arrangements with several life insurance companies, health insurance companies and general insurance companies for holding policies in electronic form. The arrangement enables policy holders to hold, centrally manage the e-insurance account and monitor insurance policies with ease.	CCRL is regulated by the Warehousing Development and Regulatory Authority (WDRA) and is in the business of holding and transacting in electronic negotiable warehouse receipts (eNWR). The arrangement enables farmers, Farmer Producer Organizations (FPOs), etc. to hold commodities in eNWR form as against holding it in the form of a physical storage receipts. This also allows Banks / Non-Banking Financial Institutions (NBFs) to pledge, de-pledge (pledge closure) or invoke eNWRs and control the eNWRs more effectively, cut down on their risk of funding against duplicate / fake warehouse receipts and thereby realize their income at a lesser risk due to clearer title on the eNWRs.

Quarterly Financials & Key Operating Metrics

Exhibit 60: Quarterly Financials

Y/E March (Rs. mn)	Q2FY19	Q4FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Net Sales	**536.6**	**460.9**	**509.5**	**584**	**526.6**	**541.1**	**598.8**	**652.7**
Employee Costs	83.7	78.9	98.9	142.8	113.3	123.3	93.4	101.7
Computer related exp.	34.4	35.2	30	35.4	38.4	37.1	46.4	40.4
Other Expenditure	90.4	122.7	100	179.5	129.6	114.1	201	130
EBITDA	328.1	224.1	280.6	226.4	245.3	266.6	257.9	380.5
Depreciation	22.2	25.8	26.2	26.9	29.8	30.3	30.3	24.6
Interest	0	0	0	0	0	0	0.3	0.1
Other Income	97.8	164.3	177.4	150.3	166.8	143.8	130.9	207.5
Profit Before Tax	403.7	362.6	431.9	349.8	382.3	380.1	358.2	563.4
Tax	102.2	78	90	70.7	91.6	58.2	76.8	96.1
Tax rate (%)	25.3	21.5	20.8	20.2	24	21.2	21.4	17.1
Reported PAT	301.5	284.6	341.9	279.1	290.7	216.4	281.4	467.2
Adjusted PAT	301.5	284.6	341.9	279.1	290.7	322	281.4	467.2
Y-o-Y Growth (%)								
Revenue	*13.6*	*-10.2*	*-1.6*	*28.2*	*-1.9*	*17.4*	*17.5*	*11.8*
EBITDA	*9.3*	*-28.3*	*-5.0*	*-11.8*	*-25.2*	*19.0*	*-8.1*	*68.1*
Adj. PAT	*12.2*	*12.0*	*31.8*	*26.6*	*-3.6*	*-24.0*	*-17.7*	*67.4*
Q-o-Q Growth (%)								
Revenue	*17.8*	*-14.1*	*10.5*	*14.6*	*-9.8*	*2.8*	*10.7*	*9.0*
EBITDA	*27.8*	*-31.7*	*25.2*	*-19.3*	*8.3*	*8.7*	*-3.2*	*47.5*
Adj. PAT	*36.7*	*-5.6*	*20.1*	*-18.4*	*4.1*	*-25.6*	*30.1*	*66.0*
Margin (%)								
EBITDA	*61.1*	*48.6*	*55.1*	*38.8*	*46.6*	*49.3*	*43.1*	*58.3*
PAT	*56.2*	*61.7*	*67.1*	*47.8*	*55.2*	*40.0*	*47.0*	*71.6*
Segmental								
Segmental revenue	**536.6**	**460.9**	**509.3**	**584.8**	**526.8**	**541.2**	**599.2**	**652.7**
Depository activity	409.8	370.9	378.8	405.4	405.9	417.4	452.7	521.8
Data entry and storage	125.8	87.7	123.8	170.7	130.1	112.8	143.6	129.1
Repository	1.0	2.3	6.7	8.7	(9.2)	11.0	2.9	1.8
Segmental EBIT								
Depository activity	223.2	156.4	176.3	137.6	165.1	72.8	165.2	296.5
Data entry and storage	88.9	50.2	81.1	65.1	72.6	55.3	72.4	69.4
Repository	(6.4)	(8.4)	(3.1)	(3.1)	(22.4)	2.3	(10.3)	(10.0)

Source: Company, MNCL Research

Financials

Exhibit 61: Income Statement (Consolidated)

P&L - Y/E March (Rs mn)	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Revenues	**905**	**871**	**1,046**	**1,225**	**1,455**	**1,877**	**1,963**	**2,251**	**2,608**	**2,979**
Employee cost	171	174	192	215	249	303	342	473	554	620
% of revenues	18.9	20.0	18.3	17.5	17.1	16.2	17.4	21.0	21.2	20.8
Others	379	388	408	363	415	441	502	707	774	850
% of revenues	41.8	44.5	39.1	29.7	28.5	23.5	25.6	31.4	29.7	28.5
EBITDA	**355**	**309**	**446**	**647**	**791**	**1,133**	**1,119**	**1,071**	**1,281**	**1,509**
EBITDA margin (%)	39.2	35.4	42.6	52.8	54.4	60.3	57.0	47.6	49.1	50.7
Depreciation & Amortization	26	50	62	42	37	69	99	117	116	131
EBIT	**329**	**259**	**383**	**605**	**754**	**1,063**	**1,020**	**953**	**1,165**	**1,378**
Interest expenses	-	-	-	-	-	-	-	0	-	-
Profit before tax	**329**	**259**	**383**	**605**	**754**	**1,063**	**1,020**	**953**	**1,165**	**1,378**
Other income	335	357	226	388	413	380	492	592	688	766
Exceptional items	-	-	-	(11)	(2)	(29)	(29)	(181)	(52)	(56)
PBT	**664**	**616**	**609**	**982**	**1,166**	**1,414**	**1,482**	**1,365**	**1,800**	**2,089**
Taxes	152	129	192	402	300	378	334	297	450	522
Effective tax rate (%)	23%	21%	32%	41%	26%	27%	23%	22%	25%	25%
PAT	**512**	**487**	**417**	**580**	**866**	**1,036**	**1,148**	**1,067**	**1,350**	**1,567**
Minority/Associates	-	-	-	-	-	-	-	-	-	-
Extraordinary Items	6	2	2	(0)	(3)	(0)	0	1	-	-
Reported PAT	**518**	**489**	**420**	**580**	**863**	**1,036**	**1,149**	**1,068**	**1,350**	**1,567**

Source: Company, MNCL Research Estimates

Exhibit 62: Key Ratios (Consolidated)

Year-ended	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Growth Ratio (%)									
Revenue	*(3.8)*	*20.1*	*17.2*	*18.8*	*29.0*	*4.6*	*14.7*	*15.9*	*14.2*
EBITDA	*(13.1)*	*44.4*	*45.2*	*22.3*	*43.1*	*(1.2)*	*(4.3)*	*19.6*	*17.8*
Adjusted PAT	*(5.0)*	*(14.3)*	*39.0*	*49.2*	*19.7*	*10.8*	*(7.1)*	*26.5*	*16.0*
Margin Ratios (%)									
EBITDA	*35.4*	*42.6*	*52.8*	*54.4*	*60.3*	*57.0*	*47.6*	*49.1*	*50.7*
PBT from operations	*29.7*	*36.7*	*49.4*	*51.8*	*56.6*	*52.0*	*42.4*	*44.7*	*46.3*
Adjusted PAT	*55.9*	*39.9*	*47.4*	*59.5*	*55.2*	*58.5*	*47.4*	*51.8*	*52.6*
Return Ratios (%)									
ROE	*14.3*	*10.8*	*13.0*	*17.1*	*18.3*	*18.1*	*15.3*	*17.8*	*18.9*
ROCE	*14.3*	*10.6*	*12.7*	*16.6*	*18.2*	*17.7*	*16.4*	*17.4*	*18.5*
Per share ratio									
Adjusted EPS	4.7	4.0	5.6	8.3	9.9	11.0	10.2	12.9	15.0
BVPS	33.8	39.8	45.9	51.0	57.3	63.9	69.3	75.6	82.7
CEPS	5.2	4.6	5.9	8.6	10.6	11.9	11.3	14.0	16.2
DPS	2.3	2.6	3.0	3.0	3.6	4.2	5.2	6.6	7.8
Dividend payout %	*50.0%*	*65.9%*	*54.2%*	*36.5%*	*36.4%*	*38.4%*	*51.0%*	*51.3%*	*52.2%*
Valuation ratios									
P/E (adjusted)				49.0	40.9	36.9	39.7	31.4	27.1
P/BV				8.0	7.1	6.3	5.9	5.4	4.9
Dividend yield %				-	*1.6*	*1.9*	*2.4*	*2.9*	*1.9*

Source: Company, MNCL Research Estimates. Stock got listed on 30th June, 2017.

Exhibit 63: Balance Sheet (Consolidated)

Balance sheet	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Non-current assets	**506**	**713**	**2,653**	**2,439**	**3,035**	**4,638**	**5,742**	**3,796**	**4,007**	**4,202**
(a) Property, plant and equipment	67	67	51	30	47	746	726	715	674	630
(b) Goodwill										
(c) Intangible assets	18	30	16	6	6	15	26	28	45	58
(d) Intangible assets under development	13	2	-	-	3	-	-	-	-	-
(e) Financial assets	**272**	**459**	**2,465**	**2,267**	**2,825**	**3,714**	**4,833**	**2,934**	**3,122**	**3,327**
(f) Deferred tax assets (net)	46	40	8	-	23	32	35	10	10	10
(g) Tax assets	90	116	111	132	131	121	117	92	140	162
(h) Other non-current assets	-	-	1	3	1	10	5	16	16	16
Current assets	**3,650**	**3,837**	**2,461**	**3,091**	**3,038**	**2,278**	**2,097**	**4,837**	**5,403**	**6,021**
(a) Financial assets	**3,625**	**3,814**	**2,444**	**3,070**	**3,014**	**2,224**	**2,011**	**4,758**	**5,323**	**5,940**
(b) Other current assets	24	23	18	21	24	54	87	79	80	81
TOTAL ASSETS	**4,156**	**4,550**	**5,114**	**5,530**	**6,072**	**6,916**	**7,839**	**8,633**	**9,410**	**10,224**
Equity	**3,285**	**3,534**	**4,306**	**4,940**	**5,488**	**6,147**	**7,094**	**7,658**	**8,316**	**9,065**
(a) Equity share capital	1,045	1,045	1,045	1,045	1,045	1,045	1,045	1,045	1,045	1,045
(b) Other equity	2,240	2,489	3,261	3,895	4,443	5,102	6,049	6,613	7,271	8,020
Non-current liabilities	**0**	**1**	**14**	**34**	**14**	**22**	**11**	**38**	**39**	**39**
Current liabilities	**747**	**879**	**795**	**556**	**571**	**747**	**734**	**936**	**1,055**	**1,119**
TOTAL EQUITY AND LIABILITIES	**4,032**	**4,414**	**5,114**	**5,530**	**6,072**	**6,916**	**7,839**	**8,633**	**9,410**	**10,224**

Source: Company, MNCL Research Estimates. Financials are as per Ind-AS.

Exhibit 64: Cashflow (Consolidated)

Y/E March (Rs mn)	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Operating profit bef working capital changes	537	480	622	903	1,106	1,248	1,185	1,466	1,698
Changes in working capital	130	(259)	(258)	4	165	(56)	80	23	(3)
- change in current assets	14	(2)	(96)	(37)	(21)	(4)	(108)	(43)	(45)
- change in non-current assets	(18)	(186)	57	46	1	(28)	(41)	(52)	(22)
- change in current liabilities	132	(84)	(239)	15	176	(13)	202	119	64
- change in non-current liabilities	1	12	21	(21)	9	(11)	27	0	0
Cash flow from operations	**666**	**221**	**364**	**907**	**1,271**	**1,192**	**1,265**	**1,490**	**1,695**
Adj. OCF (OCF - Interest)	666	221	364	907	1,271	1,192	1,264	1,490	1,695
Net Capex	(13)	493	(28)	(50)	(776)	(88)	(95)	(92)	(99)
Adj. FCF	680	(272)	392	957	2,046	1,280	1,360	1,582	1,793
Cash flow from investments	**(334)**	**(387)**	**(434)**	**(454)**	**(181)**	**(764)**	**(671)**	**(570)**	**(630)**
Cash flow from financing	**(245)**	**(277)**	**(314)**	**(314)**	**(377)**	**(441)**	**(545)**	**(693)**	**(818)**
Net change in cash	**88**	**(443)**	**(384)**	**138**	**712**	**(14)**	**48**	**227**	**246**

Source: Company, MNCL Research Estimates.

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