Equity Research
August 2, 2021
BSE Sensex: 52587

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Q1FY22 result review and reco change

Indian Exchanges

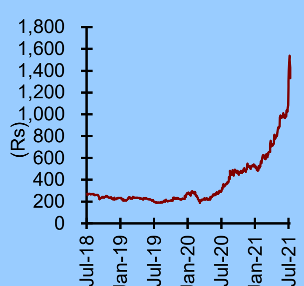
Target price: Rs1,160

Shareholding pattern

	Dec '20	Mar '21	Jun '21
Promoters	20.0	20.0	20.0
Institutional investors	42.7	42.0	41.4
MFs and others	8.1	6.7	8.0
FIs/ Banks	20.6	18.9	16.4
Insurance Cos.	7.6	7.9	8.0
FIIs	6.4	8.5	9.0
Others	37.3	38.0	38.6

Source: NSE

Price chart



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INDIA

ICICI Securities

Central Depository Services

REDUCE
Downgrade from HOLD

More likely on a cyclical top

Rs1,331

Central Depository Services (CDSL) remains a stable play on capital markets and is a prime beneficiary of higher retail participation. This led to 53% growth in FY21 revenues split 101%/10% between market linked/non-market linked components. While CDSL's leadership in demat account additions and cost control remained strong achievements in FY20/FY21, the cyclical nature of retail business is an inherent limitation to secular earnings growth. Going ahead, growth will become challenging on the high base of FY21 (Q1FY22 sequential revenues grew only 14%). Post ~300% increase in stock price over the past year, we recommend REDUCE with a target price of Rs1,160.

- **What are the constructs of rich multiples for CDSL post FY21?** The following facts about CDSL were always known: 1) it enjoys a duopoly in India's depository ecosystem along with NSDL (market share as at Jun'21 for CDSL / NSDL was 64%/36% in terms of demat accounts); 2) it is almost a monopoly in incremental demat account additions (88% market share in FY22-TD); 3) it has optionality in terms of digital avenues for growth; and 4) it has a steady non-market linked annuity component. Yet, EBITDA grew at only 12.5% CAGR between FY16-FY20. This was because market linked / non-market linked revenues expanded at only 20%/14% CAGRs in that time period. Market linked revenues include transaction charges, IPO / corporate action charges, online data charges, etc., while non-market linked revenues include annual issuer charges, E-CAS, E-voting, etc. FY21 was a watermark year for CDSL as market linked revenues jumped 101% while its non-market linked counterpart grew only 10% during the year. Hence, the investment thesis, which is added to the already existing list, is the high amplitude of a retail upcycle as seen in FY21. This will keep getting directionally stronger with continuous demat additions. Hence, CDSL becomes a safe play on retail flows along with the merits of steady non-market linked annuity revenue streams and valid optionalities. We accordingly ascribe 40x multiple to core earnings of CDSL's for valuations.
- **Recommend REDUCE:** We expect a revenue CAGR of 25% between FY21-FY23E driven by strong growth in market linked revenues (29% CAGR during the period). We expect non-market linked revenues to clock an 18% CAGR across the same timeline. Within market linked revenues, we expect transaction revenues to witness a strong CAGR of 33%. We also estimate IPO / Corporate action and Online data charges to grow at 27% / 25% CAGR on the back of continued retail participation in capital markets in the medium term. Within non-market linked revenues, we expect annual issuer charges to rise at 13% CAGR between FY21-FY23E. We also forecast operating leverage benefits to accrue resulting in margin expansion from 61.6% in FY21 to 67% in FY22, and 69% in FY23**.** We value CDSL at 40x core EPS of Rs25.7 and free cash of Rs136/share to arrive at a target price of Rs1,160.

Market Cap	Rs139bn/US$1.9bn
Reuters/Bloomberg	CENA.BO / CDSN IN
Shares Outstanding (mn)	104.5
52-week Range (Rs)	1537/339
Free Float (%)	80.0
FII (%)	9.0
Daily Volume (US$'000)	13,413
Absolute Return 3m (%)	65.0
Absolute Return 12m (%)	285.1
Sensex Return 3m (%)	8.4
Sensex Return 12m (%)	41.4

Year to Mar	FY20	FY21	FY22E	FY23E
Net Revenue (Rs mn)	2,251	3,437	4,552	5,350
Net Profit (Rs mn)	1,196	2,003	2,712	3,260
Dil. EPS (Rs)	11.2	19.2	25.9	31.2
% Chg YoY	3.0	71.3	35.3	20.2
P/E (x)	119.0	69.5	51.3	42.7
CEPS (Rs)	12.3	20.1	26.9	32.2
EV/EBITDA (x)	131.9	62.4	43.3	35.0
Dividend Yield (%)	0.3	0.7	0.6	0.5
RoCE (%)	15.9	23.8	26.7	26.3
RoE (%)	16.8	25.0	27.9	27.4

- **Estimating revenues from demat additions – an empirical approach.** Demat accounts can be linked to market linked revenue streams. However, demat account additions will be somewhat proportional to capital market activity also. So, empirically, we calculate the revenues possible for CDSL with 60mn demat accounts (*vs* 40mn currently). Total revenues per average demat account increased from Rs118 in FY20 to Rs128 in FY21. While FY21 was a cyclical top in terms of retail market activity, at the FY21 rate of revenue per demat account, CDSL's potential revenues can be Rs7.7bn with 60mn demat accounts *vs* our estimate of Rs5.3bn in FY23E.

- **Risks: Continued retail momentum and increase in pricing are key upside risks.**

Table 1: Q1FY22 result review

(Rs mn, year ending March 31)

	Q1FY22	Q1FY21	% YoY	Q4FY21	% QoQ
Net revenues	**1,173**	**653**	***79.7***	**1,031**	***13.8***
Employee costs	120	102	*17.9*	113	*6.0*
% of sales	*10.2*	*15.6*	*-535 bps*	*11.0*	*-75 bps*
Technology expenses	52	40	*27.6*	51	*1.2*
% of sales	*4.4*	*6.2*	*-179 bps*	*4.9*	*-55 bps*
Other expenditure	264	130	*103.0*	233	*13.4*
% of sales	*22.5*	*19.9*	*259 bps*	*22.6*	*-8 bps*
Total expenditure	**435**	**272**	***60.0***	**397**	***9.7***
EBITDA	**737**	**381**	***93.8***	**634**	***16.3***
EBITDA margin (%)	*62.9*	*58.3*	*456 bps*	*61.5*	*138 bps*
Other income	125	207	*(39.7)*	72	*74.6*
PBDIT	**862**	**588**	***46.7***	**706**	***22.2***
Depreciation	16	25	*(33.2)*	16	*0.8*
PBIT	**846**	**563**	***50.2***	**689**	***22.7***
Interest	0	-	*NA*	0	*(4.0)*
PBT	**846**	**563**	***50.1***	**689**	***22.7***
Tax	206	96	*114.4*	173	*19.3*
% of PBT	*24.4*	*17.1*	*730 bps*	*25.1*	*-71 bps*
PAT before MI	**640**	**467**	***36.9***	**516**	***23.9***
Exceptional items	-	-		-	
Share of Assoc./JV and MI	1	6		1	
Reported PAT	**639**	**462**	*38.3*	**517**	***23.4***
Adjusted PAT	**639**	**462**	*38.3*	**517**	***23.4***
Adjusted EPS (Rs)	**6.1**	**4.4**	***38.3***	**5.0**	***23.4***

Source: Company data, I-Sec research

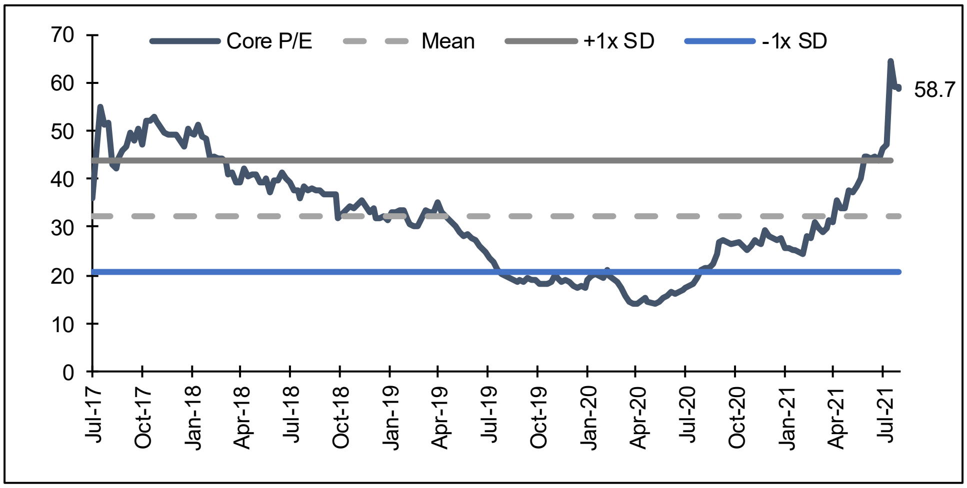
Valuation

Table 2: Valuation based on core earnings

Particulars	FY23E
FY23 Core EPS (Rs)	25.7
Target core P/E (x)	40
Core price (Rs per share)	1,027
Number of shares (mn)	105
Core value (Rs mn)	1,07,363
Cash and investments (Rs mn)	14,248
Total value (Rs mn)	1,21,611
Target price (Rs per share)	**1,160**

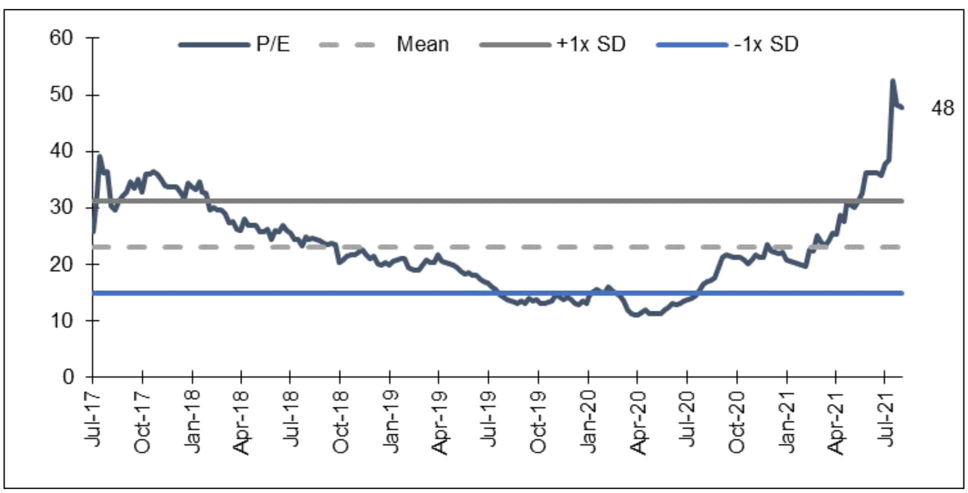
Source: Company data, I-Sec research

Chart 1: CDSL core FY+1 P/E trend



Source: Company data, I-Sec research

Chart 2: CDSL FY+1 P/E trend



Source: Company data, I-Sec research

Operational highlights

Table 3: Key revenue drivers

	NSDL			CDSL		
	Jun 21	5yr CAGR	10yr CAGR	June 21	5yr CAGR	10yr CAGR
Live companies	34,888	17%	14%	16,778	12%	7%
No. of DPs	278	1%	-1%	588	0%	1%
DP locations	36,113	6%	11%	21,205	5%	8%
No of demat accounts (mn)	23	9%	7%	39.65	29%	18%
Demat value (Rs bn)	2,67,410	16%	15%	31,860	18%	11%
Demat quantity (mn securities)	25,93,950	18%	18%	4,95,622	16%	15%

Source: Company data, I-Sec research

Chart 3: Number of active demat accounts

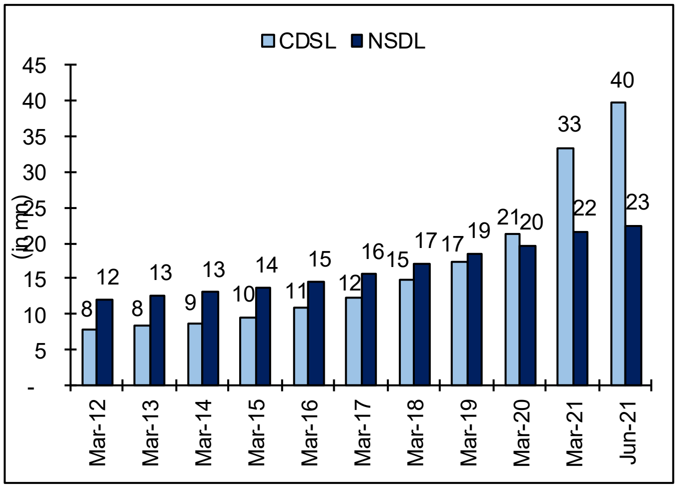


Chart 4: Market share of demat accounts

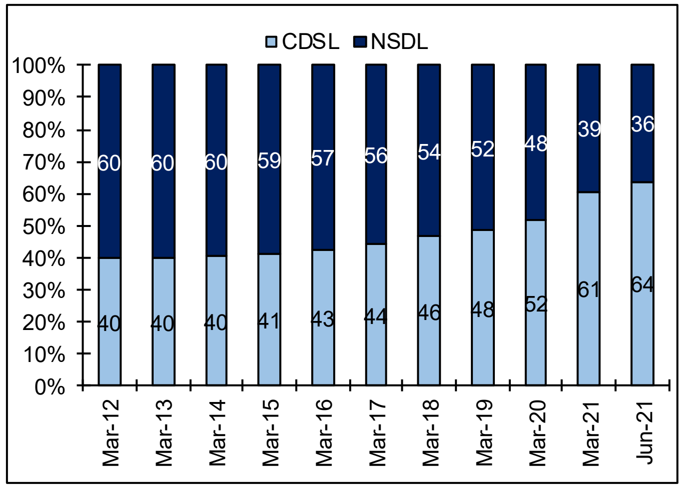
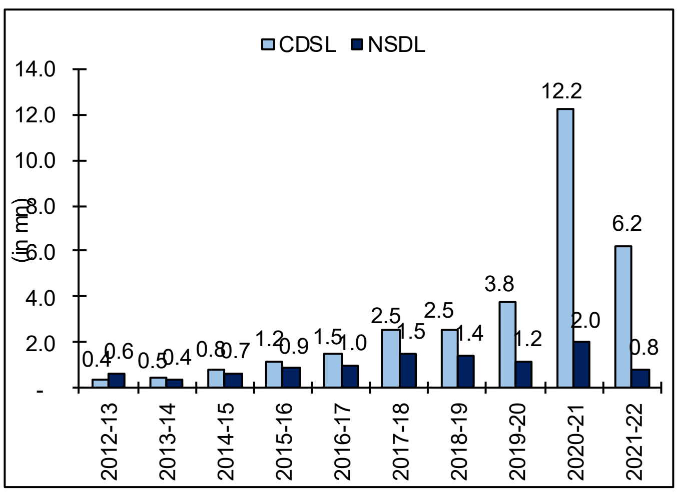
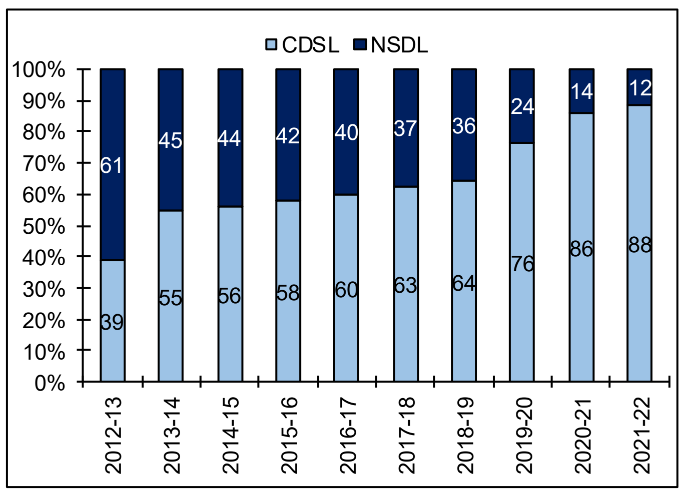


Chart 5: Number of incremental demat accounts



Source: CDSL, NSDL, I-Sec research

Chart 6: Share of incremental demat accounts



Source: CDSL, NSDL, I-Sec research

Financial summary (consolidated)

Table 4: Profit & Loss statement

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Net Revenues	**2,251**	**3,437**	**4,552**	**5,350**
Operating Expenses	**1,226**	**1,319**	**1,513**	**1,654**
EBITDA	**1,024**	**2,118**	**3,039**	**3,697**
% margins	45.5%	61.6%	66.8%	69.1%
Depreciation & Amortisation	117	92	98	102
Interest	0	0	0	0
Other Income	592	569	690	770
Profit before Tax	**1,499**	**2,595**	**3,630**	**4,364**
Less: Taxes	297	583	915	1,100
Less: PAT attributable to Non-Controlling Interest	6	9	4	4
Recurring Net Income	**1,196**	**2,003**	**2,712**	**3,260**
Extraordinaries (Net)	(134)	-	-	-
Net Income (Reported)	**1,330**	**2,003**	**2,712**	**3,260**
Net Income (Adjusted)	**1,169**	**2,003**	**2,712**	**3,260**

Source: Company data, I-Sec research

Table 5: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Assets				
Total Current Assets	4,837	8,055	8,641	11,019
of which cash & cash eqv.	537	2,077	2,801	4,252
Total Current Liabilities & Provisions	936	1,591	2,107	2,477
Net Current Assets	**3,901**	**6,464**	**6,533**	**8,542**
Investments	2,734	1,665	3,734	4,084
Other Non-current Assets	319	158	158	158
Net Fixed Assets	715	681	653	600
Capital Work-in-Progress	-	230	-	230
Goodwill and Other Intangibles	28	51	51	51
Total Assets	**7,697**	**9,250**	**11,129**	**13,666**
Liabilities				
Borrowings	-	-	-	-
Deferred Tax Liability	20	23	23	23
Other Non-current liabilities	18	27	27	27
Minority Interest	419	428	432	436
Equity Share Capital	1,045	1,045	1,045	1,045
Face Value per share (Rs)	*10*	*10*	*10*	*10*
Reserves & Surplus	6,195	7,727	9,603	12,135
Less: Misc. Exp. n.w.o.				
Net Worth	**7,240**	**8,772**	**10,648**	**13,180**
Total Liabilities	**7,697**	**9,250**	**11,129**	**13,666**

Source: Company data, I-Sec research

Table 6: Quarterly trends

(Rs mn, year ending March 31)

	2QFY21	3QFY21	4QFY21	1QFY22
Total Income	892	861	1,031	1,173
% growth (YoY)	69.4	59.2	98.9	79.7
EBITDA	544	560	634	737
Margin (%)	60.9	65.0	61.5	62.9
Other income	120	171	72	125
Add: Extraordinaries	-	-	-	-
Net profit	488	537	517	639

Source: Company data, I-Sec research

Table 7: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Operating Cashflow	**1,286**	**2,274**	**2,814**	**3,366**
Working Capital Changes	142	446	338	242
Capital Commitments	(106)	(288)	160	(280)
Free Cashflow	**1,321**	**2,431**	**3,312**	**3,328**
Cashflow from Investing Activities	**(721)**	**(423)**	**(1,751)**	**(1,150)**
Change in Reserves	(133)	469	(0)	4
Inc (Dec) in Borrowings	-	-	-	-
Dividend paid	(504)	(941)	(836)	(732)
Change in Deferred Tax Liability	**19**	**2**	**-**	**-**
Chg. in Cash & Bank balance	**(18)**	**1,540**	**725**	**1,451**

Source: Company data, I-Sec research

Table 8: Key ratios

(Year ending March 31)

	FY20	FY21	FY22E	FY23E
Per Share Data (Rs)				
EPS	11.2	19.2	25.9	31.2
Core EPS	6.90	14.95	21.01	25.68
Cash EPS	12.3	20.1	26.9	32.2
Dividend per share (DPS)	4.0	9.0	8.0	7.0
Book Value per share (BV)	69.3	83.9	101.9	126.1
Growth (%)				
Net Sales	14.68	52.72	32.43	17.54
EBITDA	-5.95	106.77	43.45	21.65
PAT	3.00	71.35	35.35	20.22
Cash EPS	4.23	62.87	34.08	19.67
Valuation Ratios (x)				
P/E	119.0	69.5	51.3	42.7
P/CEPS	108.2	66.4	49.5	41.4
P/BV	19.2	15.9	13.1	10.6
EV / EBITDA	131.9	62.4	43.3	35.0
EV / Sales	60.0	38.4	28.9	24.2
Operating Ratios				
Employee cost / Sales (%)	21.0	12.0	10.2	9.1
SG&A / Sales (%)	33.5	26.3	23.0	21.8
Other Income / PBT (%)	39.5	21.9	19.0	17.6
Effective Tax Rate (%)	19.8	22.4	25.2	25.2
Receivables (days)	41.6	24.9	24.9	24.9
Payables (days)	19.3	0.0	0.0	0.0
Net D/E Ratio (x)	0.0	0.0	0.0	0.0
Return/Profitability Ratios (%)				
Net Income Margins	52.0	58.3	59.6	60.9
RoACE	15.9	23.8	26.7	26.3
RoAE	16.8	25.0	27.9	27.4
Dividend Payout	47.2	46.7	30.8	22.4
Dividend Yield	0.3	0.7	0.6	0.5
EBITDA Margins	45.5	61.6	66.8	69.1

Source: Company data, I-Sec research

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