

07 May 2024

India | Equity Research | Q4FY24 results review

Central Depository Services

Exchanges

Strong industry position, lower regulatory risk merit higher valuations

Depositories remain a structural play on India's capital markets buoyed by higher retail participation. Central Depository Services (CDSL) benefits from: 1) leadership (in a duopoly), in terms of number of demat accounts (market share at 76%, as of Mar'24 [calculated as per data on website]); 2) steady non-market-linked revenues (from annuity issuer charges); 3) possible operating leverage ahead despite investments made in FY24; and 4) optionality such as insurance repository and pledge income (pledge income increased from INR 30mn in Q1FY24 to INR 60mn in Q4FY24). Quarterly EBITDA of CDSL has increased from average INR 808mn in FY23 to INR 1,479mn in Q4FY24. Downside risks include decline in market volumes and threat from alternate identification stacks other than KYC CRA. Upside risks can stem from revision in annual issuer charges and a sharp increase in market volume as seen in FY21/FY22.

CDSL – an attractive play in a possible bull market outlook

This is evident from past trends – between FY20–22, CDSL's stock price bagged 6x returns, significantly higher than AMCs, RTAs, brokers or wealth managers. Similarly, we saw ~88% return in FY23, as quarterly EBITDA increased to INR 1,479mn in Q4FY24 from average INR 808mn in FY23. Average quarterly EBITDA in FY24 was INR 1,223mn.

Maintain HOLD; TP revised to INR 2,142 (from INR 1,825) on 40x (earlier 35x), FY26E core EPS of INR 49.4 (earlier 46.6)

We factor in FY24–FY26E revenue/EBITDA/PAT CAGR of 17.8%/21.6%/19.8%. Accordingly, CDSL's core EPS is estimated at INR 41.3/INR 49.4 for FY25/26. We also add free cash investments of INR 166 per share to the valuation. Increase in multiple reflects strong growth in capital markets (effect of higher demat account is permanent), lower regulatory risk among capital market plays, possibility of operating leverage ahead and growth optionality in the insurance depository business.

Ansuman Deb

ansuman.deb@icicisecurities.com
+91 22 6807 7312

Shubham Prajapati

shubham.prajapati@icicisecurities.com

Sanil Desai

sanil.desai@icicisecurities.com

Market Data

Market Cap (INR)	224bn
Market Cap (USD)	2,686mn
Bloomberg Code	CDSL IS
Reuters Code	CENA.NS
52-week Range (INR)	2,200 /975
Free Float (%)	0.0
ADTV-3M (mn) (USD)	44.4

Price Performance (%)	3m	6m	12m
Absolute	16.0	33.8	116.7
Relative to Sensex	13.6	20.1	95.7

Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	5,551	8,123	9,872	11,263
EBITDA	3,233	4,894	6,107	7,234
EBITDA Margin (%)	58.3	60.3	61.9	64.2
Net Profit	2,759	4,195	5,027	6,024
EPS (INR)	26.4	40.1	48.1	57.6
EPS % Chg YoY	(10.5)	50.0	19.8	19.8
P/E (x)	81.3	53.5	44.6	37.2
P/B (x)	18.5	15.3	13.1	11.1
Dividend yield (%)	0.7	1.0	1.1	1.4
RoE (%)	23.9	31.3	31.6	32.3

Previous Reports

05-02-2024: [Q3FY24 results review](#)

30-10-2023: [Q2FY24 results review](#)

Q4 annual issuer charges flattish QoQ at INR 650mn; expect 13% revenue CAGR in this segment between FY24–26E

After strong 34% QoQ growth in Q1FY24 to INR 630mn, annual issuer charges revenue remained flattish in FY24 at INR 630/640/650mn in Q2/Q3/Q4FY24. Strong growth in revenue in FY24 can be attributed to a combination of increase in demat accounts and positive sentiment in primary and secondary markets. We expect this momentum to continue in the near term in FY25. We estimate annual issuer charges of INR 2.9bn/3.2bn in FY25E/FY26E. Any rate hike could pose an upside risk.

Q4 witnessed 28% QoQ increase in transaction charges; expect revenue CAGR of 28% in this segment between FY24–26E

Q4FY24 witnessed robust 28% QoQ growth in transaction charges driven by strong growth in overall cash volumes. Overall industry cash volumes were up 37.4% QoQ in Q4FY24 with BSE breaching the INR 100bn mark and NSE breaching the INR 1trn mark in the quarter. We expect FY25E/26E transaction revenue to be strong as well, at INR 3.1bn/INR 3.6bn, driven by increasing cash volumes. Cash ADTV of NSE/BSE in Apr'24 was INR 1.06trn and INR 76bn, respectively.

Revenue from online data charges at INR 430mn, flattish QoQ; expect revenue CAGR of 15% in this segment between FY24–26E

Online data charges witnessed strong 75% QoQ growth in Q2FY24, but since then have remained flattish at INR 420mn/INR 430mn in Q3/Q4FY24. We expect FY25E/26E revenue to be INR 1.7bn/INR 2bn, respectively.

IPO/corporate action charges decline 13% QoQ to INR 270mn in Q4

We expect INR 1.1/1.3bn revenue in FY25E/26E.

Overall costs increase higher than expected; company underlines investment in employees and technology

Q4FY24 total opex stood at INR 929mn, up 12% QoQ driven by increases in employee and technology expenses. Employee expenses grew by 16.5% QoQ and 49% YoY to INR 276mn in Q4. Total number of employees for CDSL (standalone) increased from 279 in FY23 to 335 in FY24. Computer and Technology expenses grew by 28.3% QoQ and 86% YoY to INR 201mn in Q4. Technology cost for the company has been around infrastructure, application, cyber security and network. As per management, CDSL is an infrastructure company and it has been investing in technology to pre-empt and keep up with the pace of growth in capital markets. The technology stack takes time to build in, and hence, CDSL has been investing continuously.

Despite these investments, we expect operating leverage to play out gradually for the company and estimate total costs/EBITDA for FY25E/26E to be INR 3.8bn/INR 4bn and INR 6.1bn/INR 7.2bn, respectively. We expect EBITDA margin to increase from 60.3% in FY24 to 61.9% in FY25E and 64.2% in FY26E.

Exhibit 1: Q4FY24 result review

INR mn	Q4FY24	Q4FY23	% YoY	Q3FY24	% QoQ
Net revenues	2,408	1,248	93.0	2,145	12.3
Employee costs	276	185	49.5	237	16.5
Technology expenses	201	108	86.8	157	28.3
Other expenditure	451	260	73.7	436	3.4
Total expenditure	929	552	68.2	830	11.9
EBITDA	1,479	695	112.7	1,315	12.5
EBITDA margin (%)	61.4	55.7	570 bps	61.3	13 bps
Other income	266	191	39.6	215	23.8
PBDIT	1,745	886	97.0	1,529	14.1
Depreciation	80	55	46.6	69	16.2
PBIT	1,665	831	100.3	1,460	14.0
Interest	0	0		0	
PBT	1,664	831	100.3	1,460	14.0
Tax	390	187	108.1	375	3.9
% of PBT	23.4	22.6	87 bps	25.7	-227 bps
Adjusted PAT	1,294	631	105.1	1,075	20.4
Adjusted EPS (INR)	12.38	6.04	105.1	10.29	20.4

Source: I-Sec research, Company data

Exhibit 2: CDSL Q4FY24 revenue breakup

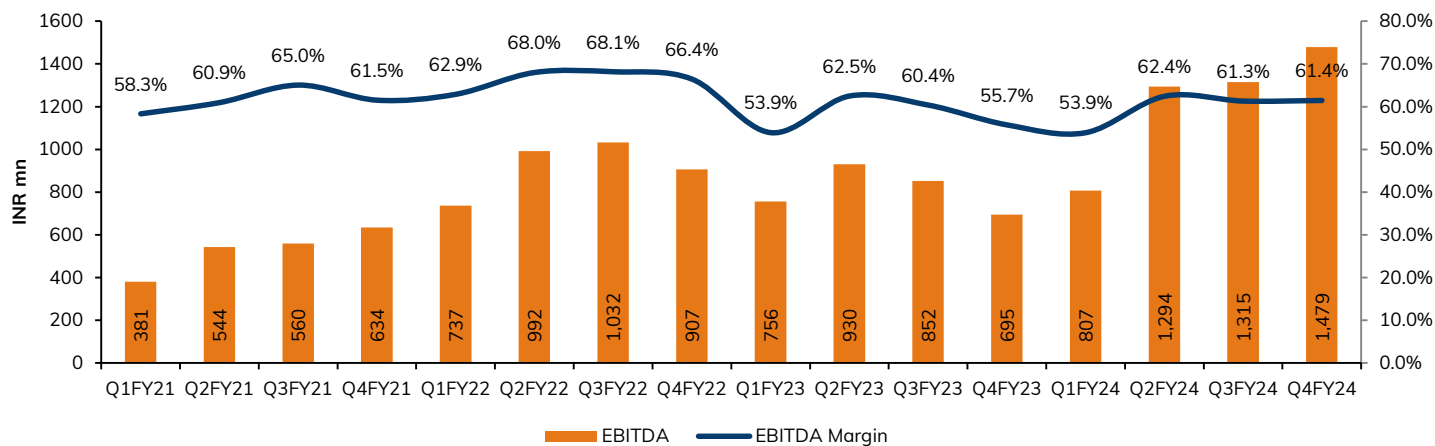
INR mn	Q4FY24	Q4FY23	% YoY	Q3FY24	% QoQ
Annual Issuer charges	650	470	38.3	640	1.6
Transaction revenue	760	330	130.3	590	28.8
IPO / Corporate action charges	270	70	285.7	310	(12.9)
Online data charges	430	240	79.2	420	2.4
Others	298	138	116.4	185	61.2
Total	2,408	1,248	93.0	2,145	12.3

Source: I-Sec research, Company data

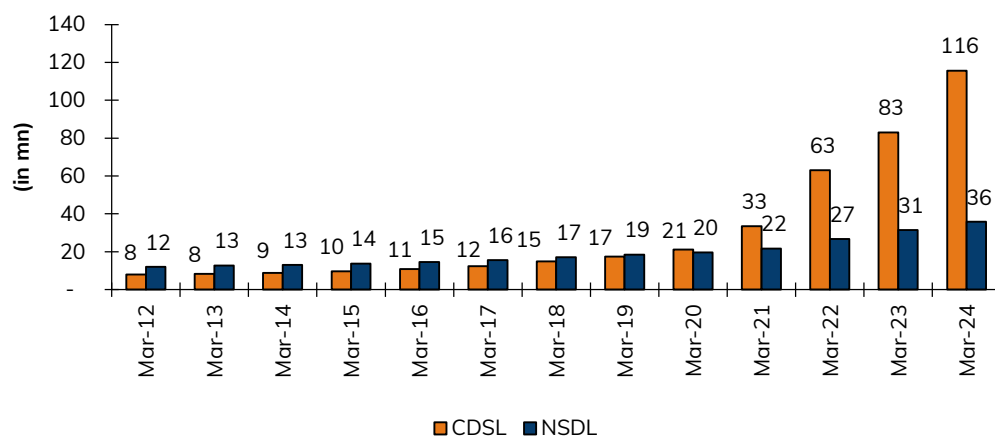
Exhibit 3: FY24 Review

INR mn	FY23	FY24	% YoY
Net revenues	5,551	8,123	46%
Employee costs	810	964	19%
Technology expenses	384	633	65%
Other expenditure	1,124	1,631	45%
Total expenditure	2,317	3,229	39%
EBITDA	3,233	4,894	51%
EBITDA margin (%)	58.3	60.3	
Other income	658	950	44%
PBDIT	3,892	5,844	50%
Depreciation	195	272	40%
PBIT	3,697	5,572	51%
Interest	1	1	
PBT	3,696	5,571	51%
Tax	892	1,365	53%
% of PBT	24.1	24.5	
Adjusted PAT	2,759	4,195	52%
Adjusted EPS (INR)	26.41	40.15	52%

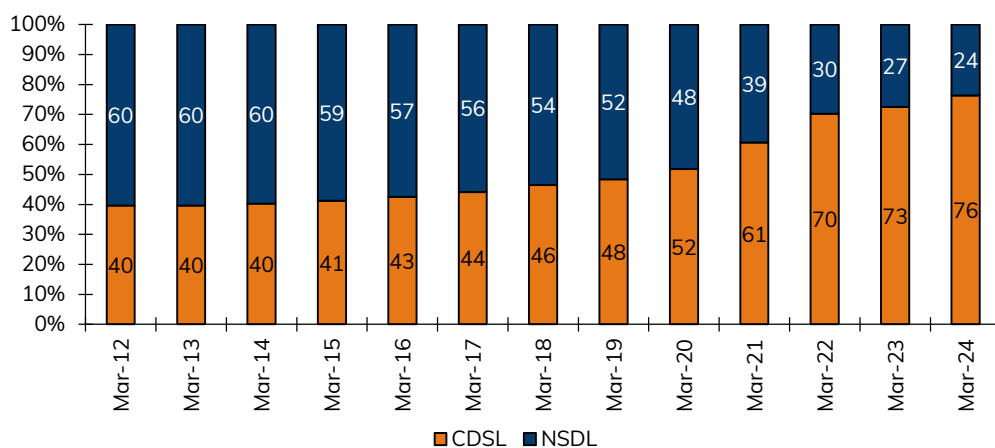
Source: I-Sec research, Company data

Exhibit 4: EBITDA and EBITDA margin trends

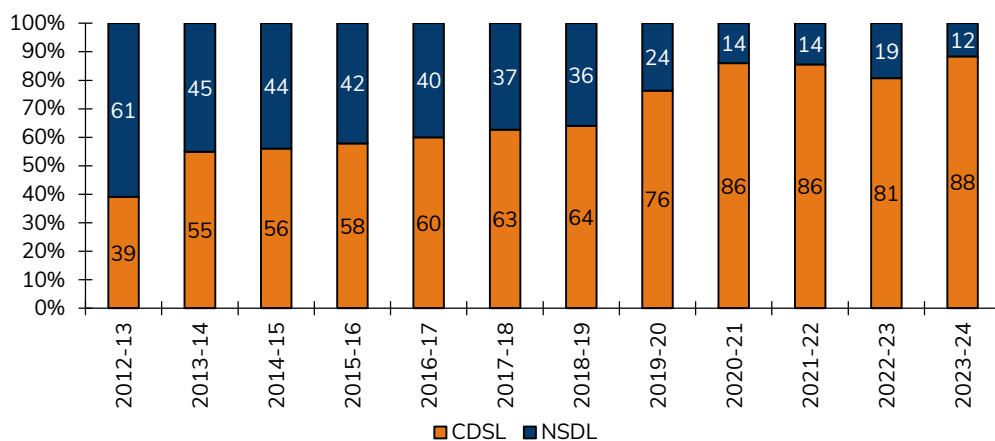
Source: I-Sec research, Company data

Exhibit 5: NSDL and CDSL demat account comparison

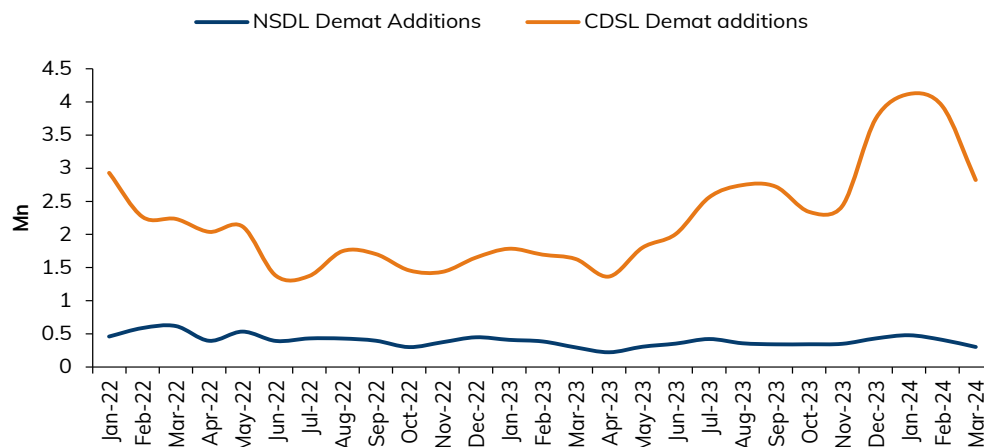
Source: I-Sec research, Company data

Exhibit 6: CDSL has 76% share in total demat accounts

Source: I-Sec research, Company data

Exhibit 7: CDSL has 88% market share in incremental demat accounts in FY24

Source: I-Sec research, Company data

Exhibit 8: NSDL and CDSL monthly demat account addition trends

Source: I-Sec research, Company data

Exhibit 9: Shareholding pattern

%	Sep'23	Dec'23	Mar'24
Promoters	15.0	15.0	15.0
Institutional investors	37.2	32.4	34.5
MFs and others	12.5	12.9	13.9
FIs/Banks	0.6	0.1	0.0
Insurance	8.5	8.1	8.9
FIIIs	15.6	11.3	11.7
Others	47.8	52.6	50.5

Source: Bloomberg

Exhibit 10: Price chart

Source: Bloomberg

Financial Summary

Exhibit 11: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Net Sales	5,551	8,123	9,872	11,263
Operating Expenses	2,317	3,229	3,765	4,029
EBITDA	3,233	4,894	6,107	7,234
EBITDA Margin (%)	58.3	60.3	61.9	64.2
Depreciation & Amortization	195	272	301	330
EBIT	3,039	4,622	5,806	6,904
Interest expenditure	-	-	-	-
Other Non-operating Income	-	-	-	-
Recurring PBT	3,696	5,571	6,737	8,070
Profit / (Loss) from Associates	(44)	(11)	(12)	(13)
Less: Taxes	892	1,365	1,698	2,034
PAT	2,804	4,206	5,039	6,037
Less: Minority Interest	0	0	0	0
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	2,760	4,195	5,027	6,024
Net Income (Adjusted)	2,759	4,195	5,027	6,024

Source Company data, I-Sec research

Exhibit 12: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	1,872	2,435	3,320	3,767
of which cash & cash eqv.	1,235	529	1,004	1,125
Total Current Liabilities & Provisions	1,842	2,400	2,918	3,329
Net Current Assets	30	34	403	439
Investments	9,367	11,493	13,545	16,432
Net Fixed Assets	979	3,122	3,221	3,292
ROU Assets	-	-	-	-
Capital Work-in-Progress	1,732	-	-	-
Total Intangible Assets	278	331	331	331
Other assets	344	436	436	436
Deferred Tax Assets	-	-	-	-
Total Assets	12,730	15,416	17,935	20,929
Liabilities				
Borrowings	-	-	-	-
Deferred Tax Liability	48	187	187	187
provisions	-	-	-	-
other Liabilities	110	158	158	158
Equity Share Capital	1,045	1,045	1,045	1,045
Reserves & Surplus	11,092	13,588	16,108	19,101
Total Net Worth	12,137	14,633	17,153	20,146
Minority Interest	434	438	439	439
Total Liabilities	12,730	15,416	17,935	20,929

Source Company data, I-Sec research

Exhibit 13: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Operating Cashflow	929	3,040	5,047	6,051
Working Capital Changes	68	(711)	107	85
Capital Commitments	(112)	(2,126)	(2,052)	(2,887)
Free Cashflow	1,042	5,166	7,099	8,938
Other investing cashflow	(35)	(53)	-	-
Cashflow from Investing Activities	(147)	(2,179)	(2,052)	(2,887)
Issue of Share Capital	-	-	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	-	-	-	-
Dividend paid	(1,672)	(2,299)	(2,508)	(3,031)
Others	67	731	(12)	(13)
Cash flow from Financing Activities	(1,605)	(1,568)	(2,520)	(3,043)
Chg. in Cash & Bank balance	(824)	(706)	475	121
Closing cash & balance	(824)	(706)	475	121

Source Company data, I-Sec research

Exhibit 14: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	26.4	40.1	48.1	57.6
Core EPS	22.0	33.4	41.6	49.4
Cash EPS	28.3	42.8	51.0	60.8
Dividend per share (DPS)	16.0	22.0	24.0	29.0
Book Value per share (BV)	116.1	140.0	164.1	192.8
Dividend Payout (%)	60.6	54.8	49.9	50.3
Growth (%)				
Net Sales	(11.9)	51.4	24.8	18.5
EBITDA	(11.3)	52.0	19.8	19.8
EPS (INR)	(8.4)	51.2	19.3	19.2
Valuation Ratios (x)				
P/E	81.3	53.5	44.6	37.2
P/CEPS	75.9	50.2	42.1	35.3
P/BV	18.5	15.3	13.1	11.1
EV / EBITDA	67.7	44.7	35.4	29.6
Dividend Yield (%)	0.7	1.0	1.1	1.4
Operating Ratios				
EBITDA Margins (%)	58.3	60.3	61.9	64.2
Effective Tax Rate (%)	24.1	24.5	25.2	25.2
Net Profit Margins (%)	50.5	51.8	51.0	53.6
Net Debt / EBITDA (x)	64.5	55.3	58.4	62.4
Profitability Ratios				
RoCE (%)	22.8	29.8	30.2	31.0
RoE (%)	23.9	31.3	31.6	32.3

Source Company data, I-Sec research

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Name of the Compliance officer (Research Analyst): Mr. Atul Agrawal, Contact number: 022-40701000, **E-mail Address** : complianceofficer@icicisecurities.com

For any queries or grievances: [Mr. Prabodh Avadhoot](#) Email address: headservicequality@icicidirect.com Contact Number: 18601231122
