

Result Update

Stock Details

Market cap (Rs mn)	:	28006
52-wk Hi/Lo (Rs)	:	398 / 251
Face Value (Rs)	:	10
3M Avg. daily vol (Nos)	:	360,442
Shares o/s (m)	:	105

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenue	1,910	2,089	2,366
Growth (%)	30.8	9.4	13.2
EBITDA	1,137	1,230	1,401
EBITDA margin (%)	59.5	58.9	59.2
PAT	1,032	1,105	1,251
EPS	9.9	10.6	12.0
EPS Growth (%)	20.3	7.1	13.2
BV (Rs/share)	10	11	12
Dividend/share (Rs)	3.5	4.2	4.8
ROE (%)	17.2	16.6	16.9
ROCE (%)	17.8	17.1	17.4
P/E (x)	27.1	25.3	22.4
EV/EBITDA (x)	19.7	17.9	15.3
P/BV (x)	4.7	4.2	3.8

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Jun-18	Mar-18	Dec-17
Promoters	24.0	24.0	24.0
FII	1.6	2.2	2.3
DII	48.7	48.0	48.9
Others	25.7	25.8	24.8

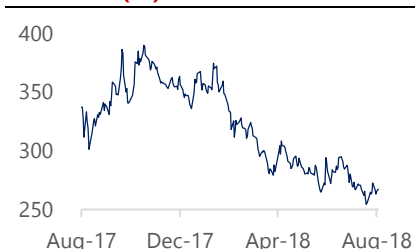
Source: Company

Price Performance (%)

(%)	1M	3M	6M
Central Dep Ser	(0.7)	(5.4)	(15.9)
Nifty	6.2	6.4	5.6

Source: Bloomberg

Price chart (Rs)



Source: Bloomberg

CENTRAL DEPOSITORY SERVICES (INDIA) LTD

PRICE RS. 268

TARGET RS.320

BUY

Central Depository Services (CDSL) 1QFY19 operating performance was in line, but lower other income weigh on PAT. Owing to the volatile capital markets, key segments (except data processing) grew at subdued pace. Data Processing revenue declined on challenging capital markets and lesser primary market traction.

Key Highlights

- Central Depository Services (CDSL) has reported an in-line EBITDA in 1QFY19, which rose 11.9% YoY to Rs257 mn (-13% QoQ), with an EBITDA margin of 56.8% vs 56.6% in 1QFY18 (supported by cost control).
- CDSL continues to focus on increasing DPs with net beneficial owner accounts rising by 24% YoY to 15.3mn, which implies the highest ever incremental addition of ~3mn accounts, with an incremental market share of 71%.

Valuation & outlook

CDSL's annuity based revenue stream, new growth avenues of Insurance & Academics, fixed operating costs, robust cash flow generation coupled with a strong balance sheet and stable dividend policy is likely to drive earnings growth and keep valuation at the higher side. Return ratios are optically suppressed due to cash in the Balance Sheet. Besides this, compulsory demat of unlisted companies if it materializes, will further support higher valuation. We reiterate our BUY rating with an unchanged target price of Rs320. At CMP, the stock is trading at 25.3x/22.4x FY19E/FY20E earnings.

Quarterly performance table

Particulars (Rs Mn)	1QFY19	1QFY18	YoY (%)	4QFY18	QoQ (%)
Revenue	453	405	11.6	518	(12.6)
Employee Expenses	80	70	14.1	96	(16.0)
Other Expenses	92	82	11.5	102	(10.4)
Total Expenses	196	176		223	
EBITDA	257	230	11.9	295	(13.0)
EBITDA Margin (%)	56.8	56.6		57.0	
Depreciation	25	10	138.5	27	(5.8)
EBIT	232	219	5.9	269	(13.7)
Interest	0	0		0	
Other Income	52	98	(47.2)	99	(47.7)
Exceptional Items	0	0		0	
PBT	284	317	(10.5)	367	(22.8)
Tax	64	62	2.1	108	(41.3)
ETR (%)	22.4	19.6		29.4	
PAT	220	255	(13.6)	259	(15.1)

Source: Company, Kotak Securities – Private Client Research

Key Risks

a) Low pricing power, b) dependence on capital market volume, c) regulatory oversight, d) loss of KYC business after the appointment of Central Registry of Securitization Asset Reconstruction and Security Interest of India (CERSAI) are the key risks to our estimates

Jatin Damania

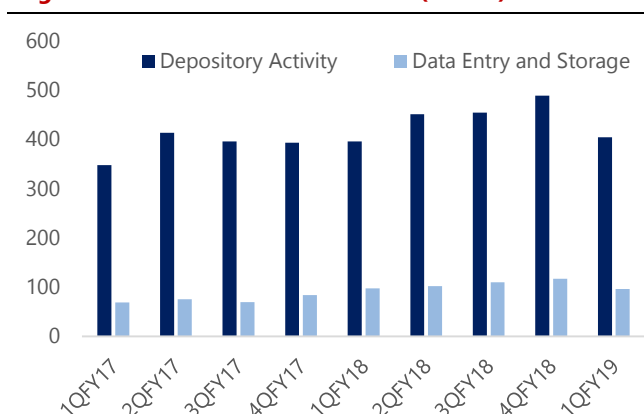
jatin.damania@kotak.com

+91 22 6218 6440

Volatile market restricted revenue growth

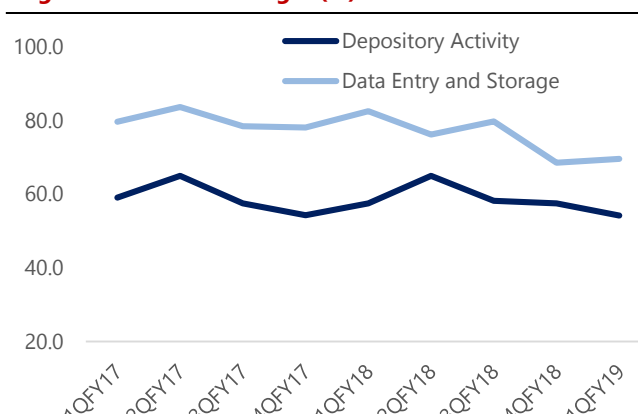
Volatile market condition in 1QFY19, resulted in subdued revenue across the segments. Revenue grew 11.6% YoY to Rs453 mn (down 12.6% QoQ). Transaction Charges revenue rose by 7% YoY (42% YoY in 4QFY18), IPO/Corporate Action Charges revenue rose by 8.6% YoY (70.8% YoY in 4QFY18) and KYC/Online Data Charges rose by 11.2% YoY (59.9% YoY in 4QFY18). The segment which witnessed the decline was Data Processing as growth in “downstream revenue” relating to KYC services led by new demat account openings slowed (related to market activities).

Segment wise revenue contribution (Rs Mn)



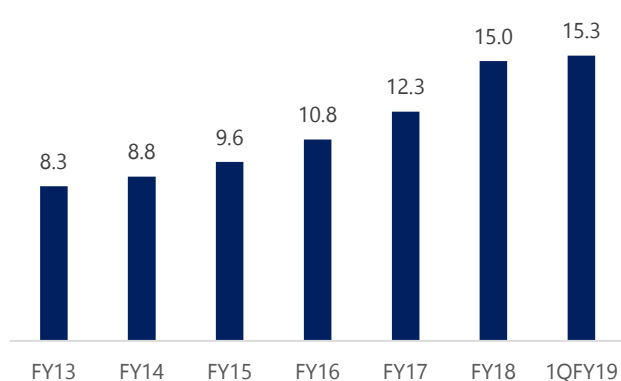
Source: Company

Segment wise EBIT Margin (%)



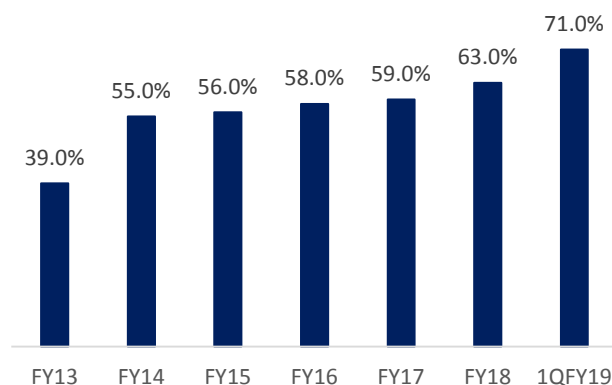
Source: Company

Growth in CDSL's Demat account (mn)



Source: Company

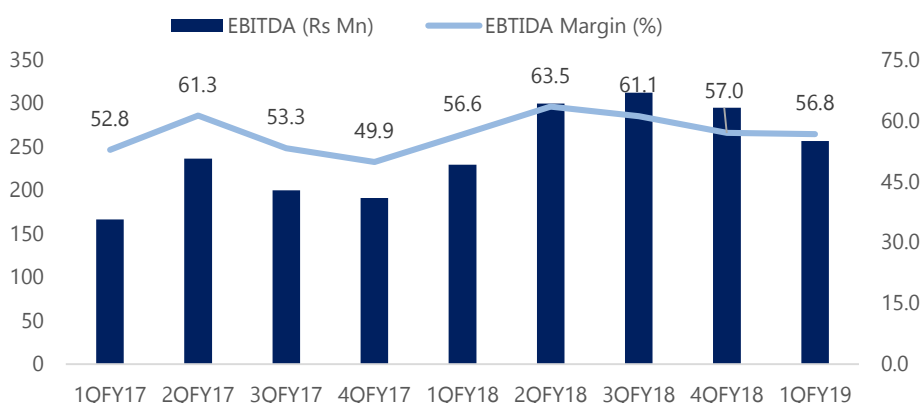
CDSL Incremental market share



Source: Company

Margin above 55%

EBITDA during the quarter grew 11.9% YoY to Rs257mn (down 13% QoQ), with an EBITDA margin of 56.8%. Despite the sharp fall in the data processing revenue, margin continued to remain strong due to an effective cost control.

EBITDA and EBITDA Margin (%) trend

Source: Company

Other Highlights

- CDSL continues to sustain leadership in demat segment in terms of incremental market share (71% in 1QFY19). Overall market share improved 50bps to 47%.
- Transaction charges during the quarter was up 7% YoY to Rs96.6 mn, as against 20% YoY growth in cash delivery volume in the market.
- The company had invested in new office facilities in 4QFY18, which resulted into steep rise in depreciation YoY.
- Lower other income in 1QFY19 is attributed to lower MTM value of investments (Rs19.4mn vs. Rs52mn in 1QFY18).
- The company is looking to diversify its e-voting business beyond corporates to other potential customers like insolvency professionals and academic institutes etc. It enabled conduct of student union elections in Tata Institute of Social Sciences (TISS) through its e-voting service.
- CDSL Ventures sustained its leadership with 17.4mn accounts at the end of 1QFY19 vs 1.70mn at the end of 4QFY18 in KYC business.
- Clarity on dematerialization of unlisted companies should come in the next two months, as per the management. If it materializes, revenue will start reflecting from 3Q onwards.
- National Academic Depository service has tied up with ~300 universities as against ~250 of NSDL. The rampup of these services will provide additional revenue growth drivers over the long term

Recommend BUY

CDSL's annuity based revenue stream, new growth avenues of Insurance & Academics, fixed operating costs, robust cash flow generation coupled with a strong balance sheet and stable dividend policy is likely to drive earnings growth and keep valuation at the higher side. Return ratios are optically suppressed due to cash in the Balance Sheet. Besides this, compulsory demat of unlisted companies if it materializes, will further support higher valuation. We reiterate our BUY rating with an unchanged target price of Rs320. At CMP, the stock is trading at 25.3x/22.4x FY19E/FY20E earnings.

Company Background

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

Financials: Consolidated

Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Net sales	1,460	1,910	2,089	2,366
growth (%)	18.8	30.8	9.4	13.2
Operating expenses	666	773	859	965
EBITDA	794	1,137	1,230	1,401
growth (%)	24.3	43.2	8.2	13.9
Depreciation	37	69	90	108
EBIT	757	1,068	1,140	1,292
Other income	408	347	380	428
Interest paid	0	0	0	0
Exceptional items	0	0	0	0
PBT	1,166	1,414	1,520	1,720
Tax	300	378	410	464
Effective tax rate (%)	25.7	26.7	27.0	27.0
Net profit	866	1,036	1,110	1,256
Minority interest	8	5	5	5
Reported Net profit	858	1,032	1,105	1,251
Non-recurring items	0	0	0	0
Adjusted Net profit	858	1,032	1,105	1,251
growth (%)	48.2	20.3	7.1	13.2

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
PBT	1,159	1,410	1,520	1,720
Depreciation	37	69	90	108
Chg in working capital	47	129	59	12
Taxes	300	378	410	464
Others	20	(12)		
Operating CF	963	1,218	1,259	1,377
Capital expenditure	(53)	(706)	(275)	(275)
Chg in investments	(454)	(146)	(258)	(270)
Other investing activities	0	0	0	0
Investing CF	(507)	(852)	(532)	(544)
Equity raised/(repaid)	0	0	0	0
Debt raised/(repaid)	0	0	0	0
Dividend (incl. tax)	376	439	533	603
Other financing activities	0	0	0	0
Financing CF	(376)	(439)	(533)	(603)
Net chg in cash & bank bal.	79	(73)	194	230
Closing cash & bank bal	483	410	604	834

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Cash & Bank balances	483	411	604	834
Other Current assets	351	417	350	385
Investments	5,029	5,175	5,434	5,705
Net fixed assets	55	761	1,035	1,310
Goodwill & intangible assets	0	0	0	0
Other non-current assets	154	170	172	173
Total assets	6,072	6,933	7,595	8,407
Current liabilities	571	765	762	812
Borrowings	0	0	0	0
Other non-current liabilities	14	20	13	13
Total liabilities	584	785	775	825
Share capital	1,045	1,045	1,045	1,045
Reserves & surplus	4,288	4,943	5,608	6,362
Shareholders' funds	5,333	5,988	6,653	7,407
Minority interest	155	159	167	176
Total equity & liabilities	6,072	6,932	7,595	8,407

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Profitability and return ratios (%)				
EBITDAM	54.4	59.5	58.9	59.2
EBITM	51.9	55.9	54.6	54.6
NPM	58.8	54.0	52.9	52.9
RoE	16.1	17.2	16.6	16.9
RoCE	14.2	17.8	17.1	17.4
RoIC	99.0	57.7	58.3	54.2
Per share data (Rs)				
EPS	8.2	9.9	10.6	12.0
FDEPS	8.2	9.9	10.6	12.0
CEPS	8.6	10.5	11.4	13.0
BV	51.0	57.3	63.7	70.9
DPS	3.0	3.5	4.2	4.8
Valuation ratios (x)				
PE	32.6	27.1	25.3	22.4
P/BV	5.3	4.7	4.2	3.8
EV/EBITDA	28.3	19.7	17.9	15.3
EV/Sales	15.4	11.7	10.5	9.1
Other key ratios				
DSO (days)	33	36	36	36

Source: Company, Kotak Securities – Private Client Research

RATING SCALE

Definitions of ratings

BUY	– We expect the stock to deliver more than 12% returns over the next 12 months
ACCUMULATE	– We expect the stock to deliver 5% - 12% returns over the next 12 months
REDUCE	– We expect the stock to deliver 0% - 5% returns over the next 12 months
SELL	– We expect the stock to deliver negative returns over the next 12 months
NR	– Not Rated. Kotak Securities is not assigning any rating or price target to the stock. The report has been prepared for information purposes only.
SUBSCRIBE	– We advise investor to subscribe to the IPO.
RS	– Rating Suspended. Kotak Securities has suspended the investment rating and price target for this stock, either because there is not a Sufficient fundamental basis for determining, or there are legal, regulatory or policy constraints around publishing, an investment rating or target. The previous investment rating and price target, if any, are no longer in effect for this stock and should not be relied upon.
NA	– Not Available or Not Applicable. The information is not available for display or is not applicable
NM	– Not Meaningful. The information is not meaningful and is therefore excluded.
NOTE	– Our target prices are with a 12-month perspective. Returns stated in the rating scale are our internal benchmark.

FUNDAMENTAL RESEARCH TEAM

Rusmik Oza Head of Research rusmik.oz@kotak.com +91 22 6218 6441	Arun Agarwal Auto & Auto Ancillary arun.agarwal@kotak.com +91 22 6218 6443	Amit Agarwal Transportation, Paints, FMCG agarwal.amit@kotak.com +91 22 6218 6439	Nipun Gupta Information Tech, Midcap nipun.gupta@kotak.com +91 22 6218 6433	Krishna Nain Special Situations krishna.nain@kotak.com +91 22 6218 7907
Sanjeev Zarbade Cap. Goods & Cons. Durables sanjeev.zarbade@kotak.com +91 22 6218 6424	Ruchir Khare Cap. Goods & Cons. Durables ruchir.khare@kotak.com +91 22 6218 6431	Jatin Damania Metals & Mining, Midcap jatin.damania@kotak.com +91 22 6218 6440	Cyndrella Carvalho Pharmaceuticals cyndrella.carvalho@kotak.com +91 22 6218 6426	K. Kathirvelu Production k.kathirvelu@kotak.com +91 22 6218 6427
Teena Virmani Construction, Cement, Building Mat teena.virmani@kotak.com +91 22 6218 6432	Sumit Pokharna Oil and Gas, Information Tech sumit.pokharna@kotak.com +91 22 6218 6438	Pankaj Kumar Midcap pankajr.kumar@kotak.com +91 22 6218 6434	Jayesh Kumar Economy kumar.jayesh@kotak.com +91 22 6218 5373	

TECHNICAL RESEARCH TEAM

Shrikant Chouhan shrikant.chouhan@kotak.com +91 22 6218 5408	Amol Athawale amol.athawale@kotak.com +91 20 6620 3350
---	---

DERIVATIVES RESEARCH TEAM

Sahaj Agrawal sahaj.agrawal@kotak.com +91 79 6607 2231	Malay Gandhi malay.gandhi@kotak.com +91 22 6218 6420	Prashanth Lalu prashanth.lalu@kotak.com +91 22 6218 5497	Prasenjit Biswas, CMT, CFTe prasenjit.biswas@kotak.com +91 33 6625 9810
---	---	---	--

Disclosure/Disclaimer

Kotak Securities Limited established in 1994, is a subsidiary of Kotak Mahindra Bank Limited. Kotak Securities is one of India's largest brokerage and distribution house. Kotak Securities Limited is a corporate trading and clearing member of Bombay Stock Exchange Limited (BSE), National Stock Exchange of India Limited (NSE), Metropolitan Stock Exchange of India Limited (MSE). Our businesses include stock broking, services rendered in connection with distribution of primary market issues and financial products like mutual funds and fixed deposits, depository services and Portfolio Management.

Kotak Securities Limited is also a depository participant with National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL). Kotak Securities Limited is also registered with Insurance Regulatory and Development Authority as Corporate Agent for Kotak Mahindra Old Mutual Life Insurance Limited and is also a Mutual Fund Advisor registered with Association of Mutual Funds in India (AMFI). We are registered as a Research Analyst under SEBI (Research Analyst) Regulations, 2014.

We hereby declare that our activities were neither suspended nor we have defaulted with any stock exchange authority with whom we are registered in last five years. However SEBI, Exchanges and Depositories have conducted the routine inspection and based on their observations have issued advise/warning/deficiency letters/ or levied minor penalty on KSL for certain operational deviations. We have not been debarred from doing business by any Stock Exchange / SEBI or any other authorities; nor has our certificate of registration been cancelled by SEBI at any point of time.

We offer our research services to clients as well as our prospects.

This document is not for public distribution and has been furnished to you solely for your information and must not be reproduced or redistributed to any other person. Persons into whose possession this document may come are required to observe these restrictions.

This material is for the personal information of the authorized recipient, and we are not soliciting any action based upon it. This report is not to be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. It is for the general information of clients of Kotak Securities Ltd. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients.

We have reviewed the report, and in so far as it includes current or historical information, it is believed to be reliable though its accuracy or completeness cannot be guaranteed. Neither Kotak Securities Limited, nor any person connected with it, accepts any liability arising from the use of this document. The recipients of this material should rely on their own investigations and take their own professional advice. Price and value of the investments referred to in this material may go up or down. Past performance is not a guide for future performance. Certain transactions -including those involving futures, options and other derivatives as well as non-investment grade securities - involve substantial risk and are not suitable for all investors. Reports based on technical analysis centers on studying charts of a stock's price movement and trading volume, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals.

Opinions expressed are our current opinions as of the date appearing on this material only. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance or other reasons that prevent us from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice. Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

Kotak Securities Limited has two independent equity research groups: Institutional Equities and Private Client Group. This report has been prepared by the Private Client Group. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, target price of the Institutional Equities Research Group of Kotak Securities Limited.

We and our affiliates/associates, officers, directors, and employees, Research Analyst(including relatives) worldwide may: (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company/company (ies) discussed herein or act as advisor or lender / borrower to such company (ies) or have other potential/material conflict of interest with respect to any recommendation and related information and opinions at the time of publication of Research Report or at the time of public appearance. Kotak Securities Limited (KSL) may have proprietary long/short position in the above mentioned scrip(s) and therefore may be considered as interested. The views provided herein are general in nature and does not consider risk appetite or investment objective of particular investor; readers are requested to take independent professional advice before investing. This should not be construed as invitation or solicitation to do business with KSL. Kotak Securities Limited is also a Portfolio Manager. Portfolio Management Team (PMS) takes its investment decisions independent of the PCG research and accordingly PMS may have positions contrary to the PCG research recommendation. Kotak Securities Limited does not provide any promise or assurance of favourable view for a particular industry or sector or business group in any manner. The investor is requested to take into consideration all the risk factors including their financial condition, suitability to risk return profile and take professional advice before investing.

The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

No part of this material may be duplicated in any form and/or redistributed without Kotak Securities' prior written consent.

Details of Associates are available on our website ie www.kotak.com

Research Analyst has served as an officer, director or employee of subject company(ies): No

We or our associates may have received compensation from the subject company(ies) in the past 12 months.

We or our associates have managed or co-managed public offering of securities for the subject company(ies) in the past 12 months: No

We or our associates may have received compensation for investment banking or merchant banking or brokerage services from the subject company(ies) in the past 12 months. We or our associates may have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company(ies) in the past 12 months. We or our associates may have received compensation or other benefits from the subject company(ies) or third party in connection with the research report. Our associates may have financial interest in the subject company(ies).

Research Analyst or his/her relative's financial interest in the subject company(ies): No

Kotak Securities Limited has financial interest in the subject company(ies) at the end of the month immediately preceding the date of publication of Research Report: No
Our associates may have actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of Research Report.

Research Analyst or his/her relatives has actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of Research Report: No.

Kotak Securities Limited has actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of Research Report: No

Subject company(ies) may have been client during twelve months preceding the date of distribution of the research report.

"A graph of daily closing prices of securities is available at www.nseindia.com and <http://economicstimes.indiatimes.com/markets/stocks/stock-quotes>. (Choose a company from the list on the browser and select the "three years" icon in the price chart)."

Kotak Securities Limited. Registered Office: 27 BKC, C 27, G Block, Bandra Kurla Complex, Bandra (E), Mumbai 400051. CIN: U99999MH1994PLC134051, Telephone No.: +22 43360000, Fax No.: +22 67132430. Website: www.kotak.com/www.kotaksecurities.com. Correspondence Address: Infinity IT Park, Bldg. No 21, Opp. Film City Road, A K Vaidya Marg, Malad (East), Mumbai 400097. Telephone No: 42856825. SEBI Registration No: NSE INB/INF/INE 230808130, BSE INB 010808153/INF 011133230, MSE INE 260808130/INB 260808135/INF 260808135, AMFI ARN 0164, PMS INP000000258 and Research Analyst INH000000586. NSDL/CDSL: IN-DP-NSDL-23-97. Our research should not be considered as an advertisement or advice, professional or otherwise. The investor is requested to take into consideration all the risk factors including their financial condition, suitability to risk return profile and the like and take professional advice before investing. Investments in securities market are subject to market risks, read all the related documents carefully before investing. Derivatives are a sophisticated investment device. The investor is requested to take into consideration all the risk factors before actually trading in derivative contracts. Compliance Officer Details: Mr. Manoj Agarwal. Call: 022 - 4285 8484, or Email: ks.compliance@kotak.com. In case you require any clarification or have any concern, kindly write to us at below email ids:

- **Level 1:** For Trading related queries, contact our customer service at 'service.securities@kotak.com' and for demat account related queries contact us at ks.demat@kotak.com or call us on: Toll free numbers 18002099191 / 1800222299, Offline Customers - 18002099292
- **Level 2:** If you do not receive a satisfactory response at Level 1 within 3 working days, you may write to us at ks.escalation@kotak.com or call us on 022-42858445 and if you feel you are still unheard, write to our customer service HOD at ks.servicehead@kotak.com or call us on 022-42858208.
- **Level 3:** If you still have not received a satisfactory response at Level 2 within 3 working days, you may contact our Compliance Officer (Mr. Manoj Agarwal) at ks.compliance@kotak.com or call on 91- (022) 4285 8484.
- **Level 4:** If you have not received a satisfactory response at Level 3 within 7 working days, you may also approach CEO (Mr. Kamlesh Rao) at ceo.ks@kotak.com or call on 91- (022) 4285 8301.