

Central Depository Services

BUY

INDUSTRY	EXCHANGES
CMP (as on 29 Oct 2018)	Rs 240
Target Price	Rs 380
Nifty	10,251
Sensex	34,067

KEY STOCK DATA			
Bloomberg	CDSL IN		
No. of Shares (mn)	105		
MCap (Rs bn) / (\$ mn)	25/341		
6m avg traded value (Rs mn)	86		

STOCK PERFORMANCE (%)			
52 Week high / low	Rs 383/205		
	3M	6M	12M
Absolute (%)	(12.0)	(18.3)	(36.2)
Relative (%)	(3.3)	(15.7)	(39.0)

SHAREHOLDING PATTERN (%)	
Promoters	24.00
FIs & Local MFs	46.60
FPIs	2.08
Public & Others	27.32

Source : NSE

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Back on growth path

CDSL posted robust 2QFY19, both revenue and margin performance was better than expectation. Revenue was up 17.4% QoQ to Rs 531mn (vs est. of Rs 433mn). Growth was led by 6.2/48.5% QoQ rise in Transaction/Online data charges revenue (MF KYC). Discontinuation of OTP based Aadhaar KYC for MFs led to surge in demand for CVL KYC. Margin expanded 504bps QoQ to 61.8% vs our estimate of 54% led by non-linearity. CDSL continued to gain BO market share (~48% in 2QFY19, +56bps QoQ). Incremental market share for CDSL stood at 64% (vs 63% in FY18), which indicates DPs preference of CDSL over NSDL.

Demat of shares of unlisted public companies (~60K) is a big opportunity but will be come in phases. In Oct-18 ~200 unlisted companies have requested CDSL for demat services. The total opportunity could be ~Rs 0.18bn (taking 50% share) with negligible incremental cost. Transaction charges/IPO revenue is market linked and will gradually pick-up. Online data charges (KYC business), which was under threat from e-KYC, is **Financial Summary (Consolidated)**

YE March (Rs mn)	2QFY19	2QFY18	YoY (%)	1QFY19	QoQ (%)	FY17	FY18	FY19E	FY20E	FY21E
Net Revenues	531	472	12.5	453	17.4	1,460	1,910	2,130	2,365	2,655
EBITDA	329	300	9.5	257	27.8	794	1,137	1,283	1,446	1,656
APAT	300	267	12.3	219	37.2	858	1,032	1,109	1,260	1,419
Diluted EPS (Rs)	2.9	2.6	12.3	2.1	37.2	8.2	9.9	10.6	12.1	13.6
P/B (x)						4.7	4.2	3.8	3.4	3.1
P/E (x)						29.2	24.3	22.6	19.9	17.7
EV / EBITDA (x)						24.6	17.1	14.7	12.6	10.5
RoE (%)						16.1	17.2	16.8	17.3	17.6
Cash/Mcap (%)						19.7	19.2	21.4	23.9	26.8

Source: Company, HDFC sec Inst Research

HDFC securities Institutional Research is also available on Bloomberg HSLB &ltGO> & Thomson Reuters

witnessing increased demand after change in OTP based KYC regulations.

We continue to like CDSL based on (1) Diversified revenue stream, (2) Healthy balance sheet (Net cash of Rs 6.13bn, ~25% of Mcap), (3) Huge option value and (4) Additional revenue stream from demat of unlisted shares. We expect CDSL revenue/EBITDA/PAT to grow at a CAGR of 12/13/11% over FY18-21E. We maintain our BUY rating, have assigned 33x multiple to core Sep-20 earnings and added back net cash to arrive at a TP of Rs 380 (~59% upside form CMP).

Highlights of the quarter

- No of DPs stood at 595 vs 276 for NSDL in 2QFY19. Total no. of BO accounts for CDSL is at 16.1mn (+18.4% QoQ) vs 17.7mn (+9.1% QoQ) for NSDL.
- CVL KYC records stand at 17.5mn and has 60% market share in the KYC business.
- Near-term outlook:** We expect growth to continue led by growth in Annual Issuer and KYC revenue. Margins will improve with growth, led by non-linearity.

Quarterly Consolidated Financials Snapshot

YE March (Rs mn)	2QFY19	2QFY18	YoY (%)	1QFY19	QoQ (%)
Total Revenue	531	472	12.5	453	17.4
Employee Cost	84	66	26.6	80	4.2
Technology Expenses	34	24	39.2	24	44.0
Other Operating Expenses	85	82	4.0	92	(7.1)
EBITDA	329	300	9.5	257	27.8
Interest Cost	0	0	NM	0	NM
Depreciation	22	14	58.4	25	(11.2)
Other Income	97	91	7.3	52	88.6
PBT	404	377	7.2	284	42.3
Tax	102	108	(5.5)	64	60.9
Share of Profit Loss from JV & Associates	0	0	NM	0	NM
Minority Interest	2	1	20.9	2	(1.5)
RPAT	300	267	12.3	219	37.2
E/o gains (adj for tax)	0	0	NM	0	NM
APAT	300	267	12.3	219	37.2

Source: Company, HDFC sec Inst Research

Margin Analysis

MARGIN ANALYSIS (%)	2QFY19	2QFY18	YoY (bps)	1QFY19	QoQ (bps)
Employee Cost % of Net Rev	15.8	14.0	175	17.7	(199)
Technology exp % of Net Rev	6.4	5.2	123	5.2	118
Other Operating Exp % of Net Rev	16.0	17.4	(131)	20.3	(423)
EBITDA Margin (%)	61.8	63.5	(167)	56.8	504
Tax Rate (%)	25.3	28.7	(341)	22.4	294
APAT Margin (%)	56.4	56.6	(11)	48.3	816

Source: Company, HDFC sec Inst Research

Annual issuer charges is annuity revenue stream, while transaction income is cyclical in nature

Technology expenses were up due to investments in buying Oracle licence

Margin performance was better than expected, led by efficient cost management

Other income was up sharply due to recovery in M2M losses; hence forth we don't expect huge volatility in interest income

Annual issuer charges grew 2.1% QoQ in the quarter but growth will accelerate in 3Q with demat of unlisted public companies

Online data charges (KYC) revenue was up 45.6% QoQ led by regulatory tailwinds, eKYC is no longer a threat to CVL revenues

IPV (In person verification) and manual error checking remains the key strengths for CVL. The company is also enabling barcode based Aadhaar verification which could boost volume further

Others consists of document storage charges, e-voting, ECAS charges etc.

Transaction and IPO/corporate action revenue will revive with improved market conditions

Segmental Revenue Analysis

Segments Split (Rs mn)	2QFY19	2QFY18	YoY (%)	1QFY19	QoQ (%)	6MFY19	6MFY18	YoY (%)
Annual Issuer charges	160	136	17.3	157	2.1	860	785	9.6
Transaction charges	103	104	(1.5)	97	6.2	659	487	35.4
IPO/corporate action charges	62	84	(26.9)	59	4.4	435	261	66.8
Online data charges	102	68	48.7	69	48.5	444	305	45.6
Others	106	79	33.4	72	46.7	483	411	17.4
Total	531	472	12.5	453	17.4	2,881	2,249	28.1

Source: Company, HDFC sec Inst Research

Segmental Revenue Contribution

Segment Contribution (%)	2QFY19	2QFY18	YoY (bps)	1QFY19	QoQ (bps)	6MFY19	6MFY18	YoY (bps)
Annual issuer charges	30.1	28.9	123	35	(451)	29.8	34.9	(577)
Transaction charges	19.3	22.1	(275)	21	(203)	22.9	21.7	137
IPO/corporate action charges	11.6	17.8	(625)	13	(144)	15.1	11.6	383
Online data charges	19.1	14.5	466	15	401	15.4	13.6	172
Others	19.9	16.8	311	16	397	16.8	18.3	(115)
Total	100.0	100.0		100.0		100.0	100.0	

Source: Company, HDFC sec Inst Research

Change in estimate

Particulars	Earlier estimates	Revised estimates	% change
FY19E			
Revenue (Rs mn)	2,019	2,130	5.5
EBITDA (Rs mn)	1,149	1,283	11.6
EBITDA margin (%)	56.9%	60.2%	334
APAT (Rs mn)	999	1,109	11.0
FY20E			
Revenue (Rs mn)	2,249	2,365	5.1
EBITDA (Rs mn)	1,274	1,446	13.5
EBITDA margin (%)	56.7%	61.2%	452
APAT (Rs mn)	1,152	1,260	9.4

Source: Company, HDFC sec Inst Research

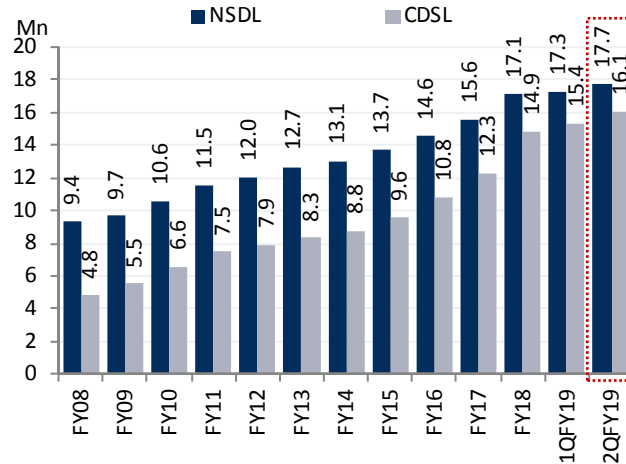
Total BO accounts stood at 33.76mn in the quarter (+13.5% QoQ)

CDSL has more no of DP's than NSDL due to more retail focus, whereas NSDL focus is institutional

CDSL is more DP friendly than NSDL on various aspects like lower transaction fee for higher volume, zero fixed fees for no activity

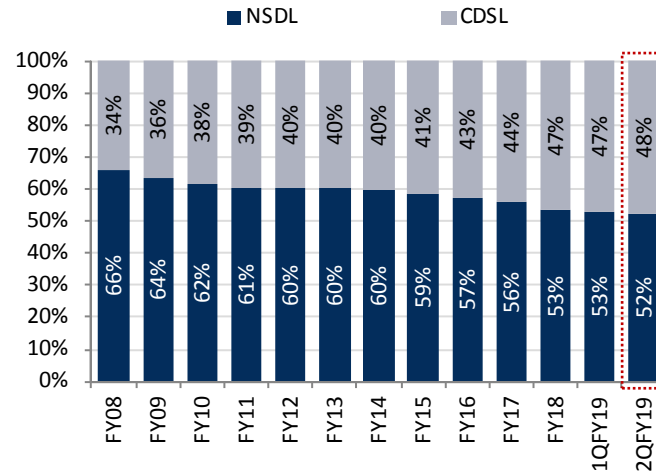
CDSL growth in BO accounts has been impressive, current market share stands at 48%

No of BO Accounts, CDSL Catching Up With NSDL



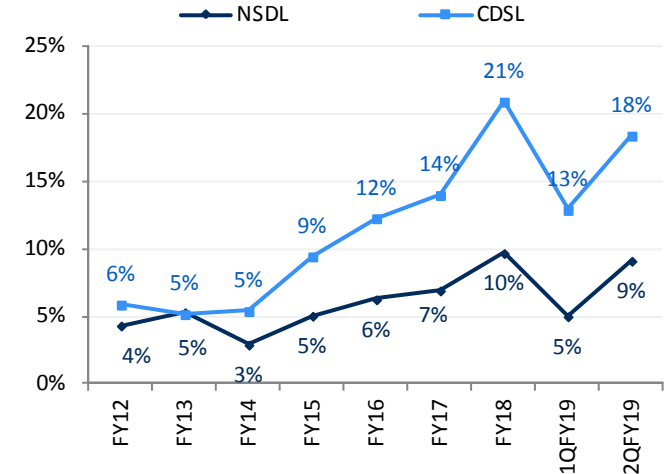
Source: CDSL, NSDL, HDFC sec Inst Research

CDSL Gaining Market Share From NSDL



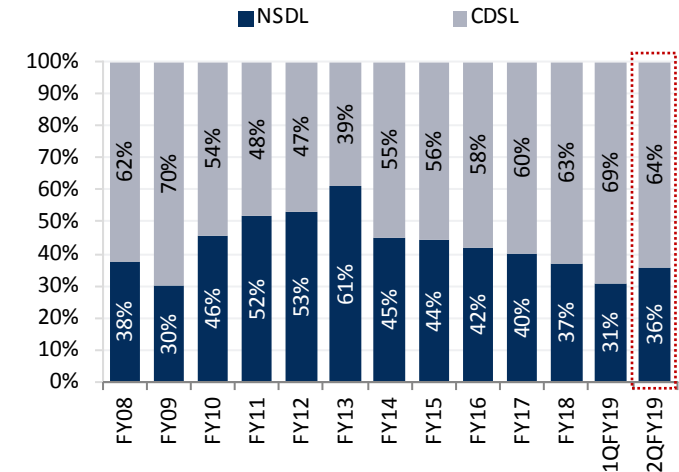
Source: CDSL, NSDL, HDFC sec Inst Research

Growth In BO Accounts



Source: CDSL, NSDL, HDFC sec Inst Research, 2QFY19 growth is QoQ

Incremental Market Share (%)



Source: CDSL, NSDL, HDFC sec Inst Research

CDSL Revenue Break-up And Assumptions

CDSL Revenue (Rs mn)	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E	CAGR 13-18	CAGR 15-18	CAGR 18-21E
Annual Issuer Charges	382	355	481	517	556	690	793	865	7%	16%	16%
Growth %	-1.9%	-7.3%	35.8%	7.4%	7.6%	24.0%	15.0%	9.0%			
% of Revenue	43.0%	33.7%	39.2%	35.4%	29.1%	32.4%	33.5%	32.6%			
Transaction Charges	199	283	258	312	440	415	456	547	15%	16%	8%
Growth %	-9.0%	42.4%	-8.8%	20.9%	40.8%	-5.8%	10.0%	20.0%			
% of Revenue	22.4%	26.9%	21.0%	21.4%	23.0%	19.5%	19.3%	20.6%			
IPO/Corporate action	0	62	107	165	295	248	260	281	NM	68%	-2%
Growth %	NM	NM	72.8%	54.3%	78.5%	-16.0%	5.0%	8.0%			
% of Revenue	0.0%	5.9%	8.7%	11.3%	15.4%	11.6%	11.0%	10.6%			
Online Data Charges	89	147	154	187	292	388	427	491	20%	26%	19%
Growth %	-23.0%	64.1%	4.8%	21.9%	55.8%	33.0%	10.0%	15.0%			
% of Revenue	10.0%	13.9%	12.5%	12.8%	15.3%	18.2%	18.1%	18.5%			
Others	219	206	228	278	327	390	429	471	12%	17%	13%
Growth %	19.4%	-5.6%	10.5%	21.9%	17.8%	19.0%	10.0%	10.0%			
% of Revenue	24.6%	19.6%	18.6%	19.0%	17.1%	18.3%	18.1%	17.8%			
Total	889	1,053	1,229	1,460	1,910	2,130	2,365	2,655	16%	22%	12%
Growth %	-2.0%	18.4%	16.7%	18.8%	30.8%	11.5%	11.0%	12.3%	7%	16%	16%

Source: Company, HDFC sec Inst Research

CDSL Cost Analysis and Assumptions

CDSL Costing Analysis (Rs mn)	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E	CAGR 13-18	CAGR 15-18	CAGR 18-21E
Employee Cost	175	192	215	249	303	340	370	407	12%	14%	10%
Growth %	1.8%	10.0%	11.9%	15.7%	22.0%	12.0%	9.0%	10.0%			
% of Revenue	19.6%	18.2%	17.5%	17.0%	15.9%	16.0%	15.7%	15.3%			
% of Total Cost	31.0%	31.9%	36.5%	37.3%	39.2%	40.1%	40.3%	40.8%			
IT Cost	80	79	79	84	97	107	117	129	8%	12%	10%
Growth %	21.4%	-1.0%	-0.2%	7.1%	15.2%	10.0%	10.0%	10.0%			
% of Revenue	9.0%	7.5%	6.4%	5.8%	5.1%	5.0%	5.0%	4.9%			
% of Total Cost	14.2%	13.1%	13.3%	12.7%	12.5%	12.6%	12.8%	12.9%			
Other cost	179	207	273	287	332	353	381	410	13%	17%	7%
Growth %	-0.8%	15.6%	31.9%	5.2%	15.7%	6.4%	7.8%	7.8%			
% of Revenue	20.1%	19.6%	22.2%	19.7%	17.4%	16.6%	16.1%	15.5%			
% of Total Cost	31.8%	34.4%	46.3%	43.1%	42.9%	41.7%	41.5%	41.1%			
IP Fund	129	123	23	46	41	47	50	52	-21%	-31%	9%
Growth %	-2.7%	-4.4%	-81.3%	98.8%	-11.2%	16.0%	5.0%	5.0%			
% of Revenue	14.5%	11.7%	1.9%	3.1%	2.1%	2.2%	2.1%	2.0%			
% of Net Profit	26.6%	22.1%	4.0%	5.4%	4.0%	4.3%	3.9%	3.7%			
Total Cost	562	601	589	666	773	847	918	999	7%	9%	9%
Growth %	2.2%	6.9%	-2.0%	13.0%	16.1%	9.6%	8.4%	8.8%			
EBITDA	327	452	639	794	1,137	1,283	1,446	1,656	26%	36%	13%
Growth %	-8.4%	38.1%	41.5%	24.3%	43.2%	12.8%	12.8%	14.5%			
EBITDA Margin %	36.8%	42.9%	52.0%	54.4%	59.5%	60.2%	61.2%	62.4%	2,015	1,662	284

Source: BSE, HDFC sec Inst Research

Valuation & outlook

- We expect CDSL revenue/EBITDA/PAT to increase at a CAGR of 12/13/11% over FY18-21E. EBITDA margin will expand from 59.5% in FY18 to 62.4% in FY21E led by a fixed cost business model (cost to grow at 9% CAGR over FY18-21E)
- RoE for the business is only 17.2%, owing to high net cash on the books (Rs 6.13bn in 1HFY19, ~25% of Mcap). Adjusting for cash, RoIC stands at ~85% in FY18. RoIC is likely to moderate in FY19E, given the rise in core capital employed in the business (purchased office for Rs 0.7bn in FY18).
- We see value based on (1) Diversified revenue stream, (2) Fixed cost model, (3) Limited competition (4) Healthy balance sheet (Net cash ~79% of BS), (4) High return ratios (RoE 17%, RoIC 85% in FY18) (5) Option value of new growth engines like NAD and e-warehouse receipts (4) No capex required to fund growth, (5) Asset light model (6) Excellent operating cash generation (~77% of EBITDA and 85% of PAT in FY18).

- We believe the business should command higher multiple because it is less cyclical in nature vs exchanges (MCX, BSE) and brokerages (ICICI). We assign a P/E multiple of 33x (10% premium to MCX) to core earnings and add back net cash to arrive at a TP price of Rs 380 (59% upside from CMP). At P/E multiple of 23/20x FY19/20E earnings, value is imminent and we maintain our BUY rating.

CDSL Valuation Table

Core Sep-20 PAT (Rs mn)	1,055
Core P/E Multiple (x)	33
Core Mcap (Rs mn)	34,826
Net Cash (Rs mn)	4,820
Target Mcap (Rs mn)	39,646
TP (Rs)	380
CMP (Rs)	240
Upside from CMP (%)	59%

Source: Company, HDFC sec Inst Research

Peer Set Comparison

Company	MCap (Rs bn)	Rating	CMP (Rs)	TP (Rs)	P/E (x)			P/B (x)			EV/EBITDA (x)			RoE (%)		
					FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E
MCX	36.5	BUY	718	980	33.7	26.5	24.0	2.6	2.6	2.6	37.2	25.8	20.4	7.9	10.0	10.8
BSE	31.1	BUY	600	940	12.9	15.5	13.5	1.0	1.0	1.0	3.6	6.2	5.0	7.7	6.4	7.4
CDSL	25.1	BUY	240	380	24.3	22.6	19.9	4.2	3.8	3.4	17.1	14.7	12.6	17.2	16.8	17.3

Source: Company, HDFC sec Inst Research

Income Statement (Consolidated)

YE March (Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
Net Revenues (Rs mn)	1,460	1,910	2,130	2,365	2,655
Growth (%)	18.8	30.8	11.5	11.0	12.3
Employee Expenses	249	303	340	370	407
Other operating Expenses	417	470	507	548	592
EBITDA	794	1,137	1,283	1,446	1,656
EBITDA Margin (%)	54.4	59.5	60.2	61.2	62.4
EBITDA Growth (%)	24.3	43.2	12.8	12.8	14.5
Depreciation	37	69	98	96	115
EBIT	757	1,068	1,185	1,351	1,540
Other Income (Including EO Items)	408	347	341	382	411
Interest	0	0	0	0	0
PBT	1,166	1,414	1,525	1,733	1,951
Tax (Incl Deferred)	300	378	412	468	527
Minority Interest	8	5	5	5	5
RPAT	858	1,032	1,109	1,260	1,419
EO (Loss) / Profit (Net Of Tax)	0	0	0	0	0
APAT	858	1,032	1,109	1,260	1,419
APAT Growth (%)	26.1	20.3	7.5	13.6	12.6
Adjusted EPS (Rs)	8.2	9.9	10.6	12.1	13.6
EPS Growth (%)	26.1	20.3	7.5	13.6	12.6

Source: Company, HDFC sec Inst Research

Balance Sheet (Consolidated)

YE March (Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
SOURCES OF FUNDS					
Share Capital - Equity	1,045	1,045	1,045	1,045	1,045
Reserves	4,288	4,943	5,552	6,245	7,026
Total Shareholders' Funds	5,333	5,988	6,597	7,290	8,071
Settlement guarantee fund					
Minority Interest	155	159	164	169	175
Total Debt	0	0	0	0	0
Net Deferred Taxes (Net)	(15)	(19)	(19)	(19)	(19)
Long Term Provisions & Others	6	8	8	8	8
TOTAL SOURCES OF FUNDS	5,479	6,135	6,750	7,448	8,234
APPLICATION OF FUNDS					
Net Block	55	761	738	725	702
LT Loans & Advances & Others	228	229	298	331	372
Total Non-current Assets	283	990	1,036	1,056	1,074
Debtors	133	189	210	233	262
Other Current Assets	122	137	149	166	186
Cash & Equivalents	5,512	5,585	6,197	6,892	7,682
Total Current Assets	5,767	5,911	6,556	7,291	8,129
Creditors	90	130	146	162	182
Other Current Liabilities & Provns	481	635	696	737	788
Total Current Liabilities	571	765	841	899	969
Net Current Assets	5,196	5,146	5,714	6,392	7,160
TOTAL APPLICATION OF FUNDS	5,479	6,135	6,750	7,448	8,234

Source: Company, HDFC sec Inst Research

Cash Flow (Consolidated)

YE March (Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
Reported PBT	1,166	1,414	1,525	1,733	1,951
Non-operating & EO items	(408)	(347)	(341)	(382)	(411)
Interest expenses	0	0	0	0	0
Depreciation	37	69	98	96	115
Working Capital Change	4	120	(27)	(15)	(19)
Tax Paid	(300)	(378)	(412)	(468)	(527)
OPERATING CASH FLOW (a)	498	880	844	963	1,110
Capex	(50)	(776)	(75)	(83)	(93)
<i>Free cash flow (FCF)</i>	<i>448</i>	<i>104</i>	<i>769</i>	<i>881</i>	<i>1,017</i>
Investments	0	0	0	0	0
Non-operating Income	408	347	341	382	411
INVESTING CASH FLOW (b)	358	(429)	266	299	318
Debt Issuance/(Repaid)	0	0	0	0	0
Interest Expenses	0	0	0	0	0
<i>FCFE</i>	<i>448</i>	<i>104</i>	<i>769</i>	<i>881</i>	<i>1,017</i>
Share Capital Issuance	0	0	0	0	0
Dividend	(377)	(444)	(499)	(567)	(639)
FINANCING CASH FLOW (c)	(377)	(444)	(499)	(567)	(639)
NET CASH FLOW (a+b+c)	479	7	611	696	790
EO Items, Others	55	66	0	0	0
Closing Cash & Equivalents	5,512	5,585	6,197	6,892	7,682

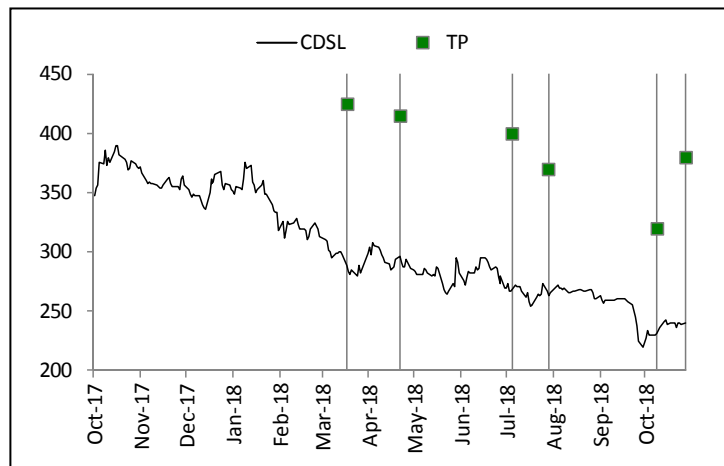
Source: Company, HDFC sec Inst Research

Key Ratios (Consolidated)

	FY17	FY18	FY19E	FY20E	FY21E
PROFITABILITY (%)					
GPM	83.0	84.1	84.0	84.3	84.7
EBITDA Margin	54.4	59.5	60.2	61.2	62.4
APAT Margin	58.8	54.0	52.1	53.3	53.5
RoE	16.1	17.2	16.8	17.3	17.6
RoIC (or Core RoCE)	103.3	84.5	63.8	69.2	75.6
RoCE	16.4	17.8	17.2	17.7	18.1
EFFICIENCY					
Tax Rate (%)	25.7%	26.7%	27.0%	27.0%	27.0%
Fixed Asset Turnover (x)	11.3	2.1	2.2	2.2	2.3
<i>Inventory (days)</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>
<i>Debtors (days)</i>	<i>33</i>	<i>36</i>	<i>36</i>	<i>36</i>	<i>36</i>
<i>Other Current Assets (days)</i>	<i>30</i>	<i>26</i>	<i>26</i>	<i>26</i>	<i>26</i>
<i>Payables (days)</i>	<i>22</i>	<i>25</i>	<i>25</i>	<i>25</i>	<i>25</i>
<i>Other Current Liab & Provns (days)</i>	<i>120</i>	<i>121</i>	<i>119</i>	<i>114</i>	<i>108</i>
Cash Conversion Cycle (days)	(79)	(84)	(83)	(77)	(72)
Debt/EBITDA (x)	0.0	0.0	0.0	0.0	0.0
Net D/E (x)	(1.0)	(0.9)	(0.9)	(0.9)	(1.0)
Interest Coverage (x)	NM	NM	NM	NM	NM
PER SHARE DATA (Rs)					
EPS	8.2	9.9	10.6	12.1	13.6
CEPS	8.6	10.5	11.5	13.0	14.7
Dividend	3.0	3.5	4.0	4.5	5.1
Book Value	51.0	57.3	63.1	69.8	77.2
VALUATION					
P/E (x)	29.2	24.3	22.6	19.9	17.7
P/BV (x)	4.7	4.2	3.8	3.4	3.1
EV/EBITDA (x)	24.6	17.1	14.7	12.6	10.5
OCF/EV (%)	2.5	4.5	4.5	5.3	6.4
FCF/EV (%)	2.3	0.5	4.1	4.8	5.9
FCFE/Mkt Cap (%)	1.8	0.4	3.1	3.5	4.1
Dividend Yield (%)	1.3	1.5	1.7	1.9	2.1

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
19-Mar-18	289	BUY	425
24-Apr-18	296	BUY	415
6-Jul-18	267	BUY	400
31-Jul-18	267	BUY	370
10-Oct-18	231	BUY	320
30-Oct-18	240	BUY	380

Rating Definitions

BUY : Where the stock is expected to deliver more than 10% returns over the next 12-month period

NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12-month period

SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12-month period

INSTITUTIONAL RESEARCH

Disclosure:

We, **Amit Chandra, MBA, Apurva Prasad, MBA & Akshay Ramnani, CA**, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. HSL has no material adverse disciplinary history as on the date of publication of this report. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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