Revenue moderates; market share gain continues

CDSL delivered a muted performance on revenue but margin came in above estimate. Revenue declined 3.4% QoQ due to a drop in transaction charges, IPO/corporate action, and e-voting. The transaction revenue run-rate, which almost tripled YoY, declined 6.9% QoQ (ex-Pledge) due to moderation in retail activity. Revenue from pledge (~INR 10mn monthly) will provide some cushion to transaction charges (market-linked). The annual issuer revenue (annuity) was stable, the rate hike is pending and the unlisted opportunity is unfolding, albeit at a slower pace. BO accounts are the building blocks for a depository business. CDSL continued to gain BO account market share from NSDL (stood at 58.1% in Dec-20 vs. 50.1% in Dec-19). Its incremental market share stood at 86% due to exclusive arrangements with discount brokers. Margin expanded 409bps QoQ to 65% (above expectation) due to lower provisions and overall cost savings. We cut our revenue estimates for FY22/23 by 6.0/5.9% due to moderation in growth (high base). FY22/23 EPS gets cut by 3.2/1.7%. We value CDSL on SoTP basis by assigning 30x to Dec-22E core profit and adding net cash to arrive at a target price of Rs 580. The stock trades at a P/E of 27.2/26.2x FY21/22E EPS. Maintain BUY.

- **3QFY21 highlights:** CDSL revenue stood at INR 0.86bn (~3.4/+59.2% YoY), lower than our estimate of INR 0.92bn. Annual Issuer/Transaction/IPO/KYC revenue was up +0.5/+1.3/-10.9/+0.8% QoQ. Revenue from others was down 17.3% QoQ due to lower e-voting revenue (seasonality). Other income increased 42.7% QoQ due to M2M gains. On the cost front, Employee/Technology/Other cost was down 10.2/23.1/12.5%, leading to EBITDA margin expansion. Provisions for the quarter declined 76.5% QoQ as collections improved. Net cash stood at Rs 8.1bn (~15% of Mcap).

- **Outlook:** We expect revenue growth of +45.8/+8.5/+11.8 and EBITDA margin of 62.3/62.2/63.3% in FY21/22/23E. The revenue CAGR of 10% over FY21 is at 3.4/+59.2% YoY, lower than our estimate of INR 0.92bn. Annual Issuer/Transaction/IPO/KYC revenue was up +0.5/+1.3/-10.9/+0.8% QoQ. Revenue from others was down 17.3% QoQ due to lower e-voting revenue (seasonality). Other income increased 42.7% QoQ due to M2M gains. On the cost front, Employee/Technology/Other cost was down 10.2/23.1/12.5%, leading to EBITDA margin expansion. Provisions for the quarter declined 76.5% QoQ as collections improved. Net cash stood at Rs 8.1bn (~15% of Mcap).

**Quarterly Financial summary**

<table>
<thead>
<tr>
<th>YE March (Rs mn)</th>
<th>3Q FY21</th>
<th>3Q FY20</th>
<th>YoY (%)</th>
<th>Q2 FY21</th>
<th>Q2 FY20</th>
<th>YoY (%)</th>
<th>FY19</th>
<th>FY20</th>
<th>FY21E</th>
<th>FY22E</th>
<th>FY23E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Revenues</td>
<td>861</td>
<td>541</td>
<td>59.2</td>
<td>892</td>
<td>-3.4</td>
<td>1,947</td>
<td>2,251</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EBITDA</td>
<td>560</td>
<td>266</td>
<td>110.3</td>
<td>544</td>
<td>3.0</td>
<td>1,089</td>
<td>1,084</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>APAT</td>
<td>537</td>
<td>314</td>
<td>71.1</td>
<td>487</td>
<td>10.1</td>
<td>1,135</td>
<td>1,255</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Diluted EPS (Rs)</td>
<td>5.1</td>
<td>3.0</td>
<td>71.1</td>
<td>4.7</td>
<td>10.1</td>
<td>10.9</td>
<td>12.0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>P/E (x)</td>
<td>47.8</td>
<td>43.2</td>
<td></td>
<td>27.2</td>
<td>26.2</td>
<td>23.2</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EV / EBITDA (x)</td>
<td>43.8</td>
<td>43.4</td>
<td></td>
<td>22.6</td>
<td>20.3</td>
<td>17.3</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>RoE (%)</td>
<td>17.0</td>
<td>17.3</td>
<td></td>
<td>23.9</td>
<td>21.9</td>
<td>21.7</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash/Mcap (%)</td>
<td>10.7</td>
<td>11.5</td>
<td></td>
<td>12.9</td>
<td>14.9</td>
<td>17.0</td>
<td></td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

Source: Company, HSIE Research, Consolidated Financials

**Change in Estimates**

<table>
<thead>
<tr>
<th>YE March (Rs mn)</th>
<th>FY21E Old</th>
<th>FY21E Revis</th>
<th>Change %</th>
<th>FY22E Old</th>
<th>FY22E Revis</th>
<th>Change %</th>
<th>FY23E Old</th>
<th>FY23E Revis</th>
<th>Change %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>3,375</td>
<td>3,281</td>
<td>-2.8</td>
<td>3,787</td>
<td>3,560</td>
<td>-6.0</td>
<td>4,231</td>
<td>3,981</td>
<td>-5.9</td>
</tr>
<tr>
<td>EBITDA</td>
<td>2,003</td>
<td>2,043</td>
<td>2.0</td>
<td>2,296</td>
<td>2,215</td>
<td>-3.5</td>
<td>2,611</td>
<td>2,539</td>
<td>-3.5</td>
</tr>
<tr>
<td>EBITDA margin (%)</td>
<td>59.4</td>
<td>62.3</td>
<td>239bps</td>
<td>60.6</td>
<td>62.2</td>
<td>160bps</td>
<td>61.7</td>
<td>63.3</td>
<td>159bps</td>
</tr>
<tr>
<td>APAT</td>
<td>1,917</td>
<td>1,995</td>
<td>4.0</td>
<td>2,144</td>
<td>2,075</td>
<td>-3.2</td>
<td>2,381</td>
<td>2,341</td>
<td>-1.7</td>
</tr>
<tr>
<td>EPS (Rs)</td>
<td>18.3</td>
<td>19.1</td>
<td>4.0</td>
<td>20.5</td>
<td>19.9</td>
<td>-3.2</td>
<td>22.8</td>
<td>22.4</td>
<td>-1.7</td>
</tr>
</tbody>
</table>

Source: Company, HSIE Research

**KEY STOCK DATA**

<table>
<thead>
<tr>
<th>BUY</th>
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<tbody>
<tr>
<td>CMP (as on 3 Feb 2021)</td>
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<tr>
<td>Target Price</td>
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<tr>
<td>NIFTY</td>
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<table>
<thead>
<tr>
<th>KEY CHANGES</th>
<th>OLD</th>
<th>NEW</th>
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<tr>
<td>Rating</td>
<td>BUY</td>
<td>BUY</td>
</tr>
<tr>
<td>Price Target</td>
<td>Rs 600</td>
<td>Rs 580</td>
</tr>
<tr>
<td>FY21E</td>
<td>FY22E</td>
<td></td>
</tr>
<tr>
<td>EPS %</td>
<td>+4.0</td>
<td>-3.2</td>
</tr>
</tbody>
</table>

**STOCK PERFORMANCE (%)**

<table>
<thead>
<tr>
<th>3M</th>
<th>6M</th>
<th>12M</th>
</tr>
</thead>
<tbody>
<tr>
<td>Absolute (%)</td>
<td>12.1</td>
<td>53.4</td>
</tr>
<tr>
<td>Relative (%)</td>
<td>(12.7)</td>
<td>17.3</td>
</tr>
</tbody>
</table>

**SHAREHOLDING PATTERN (%)**

<table>
<thead>
<tr>
<th>Sep-20</th>
<th>Dec-20</th>
</tr>
</thead>
<tbody>
<tr>
<td>Promoters</td>
<td>20.00</td>
</tr>
<tr>
<td>Fls &amp; Local MFs</td>
<td>31.83</td>
</tr>
<tr>
<td>FPIs</td>
<td>2.85</td>
</tr>
<tr>
<td>Public &amp; Others</td>
<td>45.32</td>
</tr>
<tr>
<td>Pledged Shares</td>
<td>0.00</td>
</tr>
</tbody>
</table>

Source: BSE

<table>
<thead>
<tr>
<th>Pledged shares as % of total shares</th>
</tr>
</thead>
</table>

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Disclosure:
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