

11 August 2023

India | Equity research | Q1FY24 results review

## Central Depository Services

Exchanges

### Beneficiary of capital market momentum; new cost structure reduces operating leverage

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 the number of demat accounts (market share at 73% as of Jun'23); 2) growth optionalities for its digital platforms (insurance repository included); and 3) steady non-market-linked revenues (from annuity issuer charges). Mix in terms of market-linked and non-market-linked revenues stood at 45% and 55% respectively in Q1FY24. However, new cost structure with linkage to revenues limits margin expansion even in an upcycle. Downside risks include decline in market volumes and threat from alternate identification stacks other than the KYC CRA. Upside risks can come from revision in annual issuer charges and sharp increase in market volume as seen in FY21/FY22.

**Downgrade the stock to HOLD (from Add) with a revised target price of INR 1,212 (earlier: INR 1,130) based on 35x (unchanged) FY25E core EPS of INR 30.8 (earlier: FY24E) and cash per share of INR 132**

We factor-in FY23-FY25E revenue / EBITDA / PAT CAGRs at 17.6% / 19.2% / 19% respectively. Accordingly, CDSL's core EPS is estimated at INR 24.2 / INR 30.8 for FY24E/FY25E.

**Revenue from annual issuer charges at INR 630mn, up 34% QoQ**

Q1FY24 revenue increased 34% QoQ. Strong growth in revenues 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, and hence, expect a similar run-rate to continue in FY24E. We estimate annual issuer charges at INR 2.5bn in FY24E and INR 3bn in FY25E. On the anticipated rate hike, there has been no update as on date, but management continues to engage with the regulator on the same.

**Revenue from transaction charges at INR 360mn in Q1FY24, up 9% QoQ**

We expect FY24E / FY25E transaction revenues to be INR 1.7bn / 2bn. Apr/May'23 was muted and Jun'23 has seen some pick-up in line with the capital markets. As such, we factor-in a higher transaction revenue run-rate in FY24E compared to Q1FY24. Pledge income in Q1FY24 was INR 30mn.

### Financial summary

Y/E March (INR mn)	FY22A	FY23A	FY24E	FY25E
Net Revenue	5,513	5,551	6,420	7,673
EBITDA	3,669	3,234	3,628	4,595
EBITDA Margin (%)	66.5	58.3	56.5	59.9
Net Profit	3,112	2,760	3,162	3,910
EPS (INR)	30.0	26.8	30.7	37.9
EPS % Chg YoY	55.6	(10.5)	14.5	23.4
P/E (x)	40.0	44.7	39.0	31.6
P/B (x)	14.3	11.5	10.3	9.1
Dividend yield (%)	1.3	1.3	1.3	1.7
RoE (%)	36.9	26.8	26.4	29.3

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#### Market Data

Market Cap (INR)	125bn
Market Cap (USD)	1,517mn
Bloomberg Code	CDSL IN
Reuters Code	CENA.NS
52-week Range (INR)	1,452 / 881
Free Float (%)	0.0
ADTV-3M (mn) (USD)	10.0

Price Performance (%)	3m	6m	12m
Absolute	21.9	19.8	4.4
Relative to Sensex	7.0	9.3	13.1

ESG Disclosure	2021	2022	Change
ESG score	-	-	-
Environment	-	-	-
Social	-	-	-
Governance	-	-	-

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

Earnings Revisions (%)	FY24E	FY25E
Revenue	(2.2)	NA
EBITDA	(13.2)	NA
EPS	(9.7)	NA

### Revenue from online data charges at INR 220mn, flat sequentially

Management highlighted that revenue from online data charges picked up pace with a lag and, as such, is likely to show better traction ahead. There has been no pressure on pricing in this segment. We expect FY24E/FY25E revenue to be INR 876mn / 1,008mn.

### IPO/Corporate action charges stood at INR 100mn, up 43% QoQ

Increase in IPO/corporate action charges on QoQ basis can be attributed to positive primary market conditions. We expect INR 461mn / 530mn revenues in FY24E / FY25E.

### Other expenses increased sequentially on account of increase in regulatory costs

Q1FY24 total opex stood at INR 690mn, up 25% QoQ. Employee costs increased by 22% QoQ to INR 226mn and management expects this run-rate to continue in FY24. Tech spends increased 15% QoQ to INR 124mn while other opex rose 31% QoQ to INR 340mn. Increase in other opex includes INR80mn regulatory-related costs, which includes SEBI fees and other charges linked to annual issuer charges. We expect a total operating cost of INR 2.8bn / 3bn in FY24E / FY25E. Accordingly, we expect an EBITDA margin of 56.5% / 60% in the same period.

#### Exhibit 1: CDSL Q1FY24 result review

INR mn	Q1FY24	1QFY23	% YoY	Q4FY23	% QoQ
<b>Net revenues</b>	<b>1,497</b>	<b>1,402</b>	<b>6.8</b>	<b>1,248</b>	<b>20.0</b>
Employee costs	226	259	(12.8)	185	22.4
Technology expenses	124	84	48.0	108	15.3
Other expenditure	340	303	12.1	260	30.6
<b>Total expenditure</b>	<b>690</b>	<b>646</b>	<b>6.8</b>	<b>552</b>	<b>24.9</b>
<b>EBITDA</b>	<b>807</b>	<b>756</b>	<b>6.8</b>	<b>695</b>	<b>16.0</b>
EBITDA margin (%)	53.9	53.9	-1 bps	55.7	-182 bps
Other income	242	61	295.4	191	27.0
PBDIT	1,049	817	28.4	886	18.4
Depreciation	58	42	39.0	55	6.5
PBIT	991	775	27.8	831	19.2
Interest	0	0		0	
PBT	990	775	27.8	831	19.2
Tax	242	190	27.5	187	29.2
% of PBT	24.4	24.5	-6 bps	22.6	188 bps
<b>Adjusted PAT</b>	<b>737</b>	<b>577.8</b>	<b>27.5</b>	<b>631.0</b>	<b>16.8</b>
<b>Adjusted EPS (INR)</b>	<b>7.05</b>	<b>5.53</b>	<b>27.5</b>	<b>6.04</b>	<b>16.8</b>

Source: I-Sec research, Company data

#### Exhibit 2: CDSL Q1FY24 Revenue Recognition

INR mn	Q1FY24	1QFY23	% YoY	Q4FY23	% QoQ
Annual Issuer charges	630	452	39.3	470	34.0
Transaction revenue	360	408	(11.8)	330	9.1
IPO / Corporate action charges	100	140	(28.6)	70	42.9
Online data charges	220	225	(2.4)	220	-
Others	187	176	6.1	158	18.5
<b>Total</b>	<b>1,497</b>	<b>1,402</b>	<b>6.8</b>	<b>1,248</b>	<b>20.0</b>

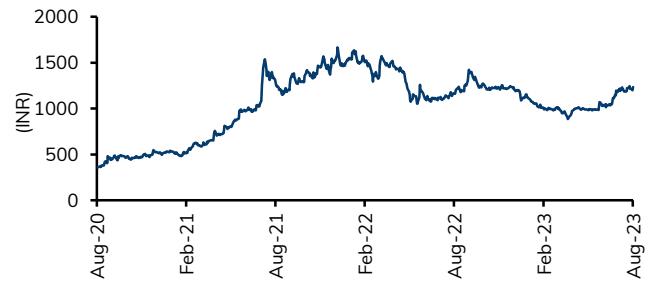
Source: I-Sec research, Company data

### Exhibit 3: Shareholding pattern

%	Dec'22	Mar'23	Jun'23
Promoters	20.0	20.0	15.0
Institutional investors	34.4	33.2	37.1
MFs and others	7.4	7.8	11.5
FIs/Banks	9.5	2.2	2.2
Insurance	8.8	8.5	9.1
FIIIs	8.7	14.7	15.3
Others	45.6	46.8	47.9

Source: Bloomberg

### Exhibit 4: Price chart



Source: Bloomberg

## Financial Summary

### Exhibit 5: Profit & Loss

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
<b>Net Sales</b>	<b>5,513</b>	<b>5,551</b>	<b>6,420</b>	<b>7,673</b>
Operating Expenses	1,845	2,317	2,792	3,077
<b>EBITDA</b>	<b>3,669</b>	<b>3,234</b>	<b>3,628</b>	<b>4,595</b>
EBITDA Margin (%)	66.5	58.3	56.5	59.9
Depreciation & Amortization	115	195	243	290
EBIT	3,554	3,039	3,385	4,306
Interest expenditure	0	1	1	1
Other Non-operating Income	-	-	-	-
<b>Recurring PBT</b>	<b>4,099</b>	<b>3,696</b>	<b>4,292</b>	<b>5,298</b>
<b>Profit / (Loss) from Associates</b>	<b>(14)</b>	<b>(44)</b>	<b>(49)</b>	<b>(53)</b>
Less: Taxes	967	892	1,082	1,335
PAT	3,132	2,804	3,211	3,963
Less: Minority Interest	6	0	0	0
Extraordinaries (Net)	-	-	-	-
<b>Net Income (Reported)</b>	<b>3,118</b>	<b>2,760</b>	<b>3,162</b>	<b>3,910</b>
<b>Net Income (Adjusted)</b>	<b>3,112</b>	<b>2,760</b>	<b>3,162</b>	<b>3,910</b>

Source Company data, I-Sec research

### Exhibit 6: Balance sheet

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
<b>Total Current Assets</b>	<b>2,626</b>	<b>2,678</b>	<b>1,872</b>	<b>2,648</b>
of which cash & cash eqv.	2,077	2,059	1,235	1,912
<b>Total Current Liabilities &amp; Provisions</b>	<b>1,591</b>	<b>1,757</b>	<b>1,842</b>	<b>2,131</b>
<b>Net Current Assets</b>	<b>1,035</b>	<b>921</b>	<b>29</b>	<b>517</b>
Investments	7,094	9,255	9,367	10,303
Net Fixed Assets	681	857	979	1,136
ROU Assets	-	-	-	-
Capital Work-in-Progress	230	-	1,732	1,732
Total Intangible Assets	51	242	255	255
Other assets	158	223	366	366
Deferred Tax assests	-	-	-	-
<b>Total Assets</b>	<b>9,250</b>	<b>11,499</b>	<b>12,729</b>	<b>14,310</b>
<b>Liabilities</b>				
<b>Borrowings</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Deferred Tax Liability</b>	<b>23</b>	<b>58</b>	<b>48</b>	<b>48</b>
provisions	-	-	-	-
other Liabilities	27	77	110	110
Equity Share Capital	1,045	1,045	1,045	1,045
Reserves & Surplus	7,727	9,884	11,092	12,673
<b>Total Net Worth</b>	<b>8,772</b>	<b>10,929</b>	<b>12,137</b>	<b>13,718</b>
Minority Interest	428	434	434	434
<b>Total Liabilities</b>	<b>9,250</b>	<b>11,499</b>	<b>12,729</b>	<b>14,310</b>

Source Company data, I-Sec research

### Exhibit 7: Cashflow statement

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
<b>Operating Cashflow</b>	<b>3,249</b>	<b>907</b>	<b>3,243</b>	<b>4,125</b>
Working Capital Changes	95	68	189	272
Capital Commitments	(2,161)	(112)	(936)	(1,547)
<b>Free Cashflow</b>	<b>5,409</b>	<b>1,019</b>	<b>4,179</b>	<b>5,672</b>
<b>Other investing cashflow</b>	<b>(192)</b>	<b>(13)</b>	<b>-</b>	<b>-</b>
Cashflow from Investing Activities	(2,352)	(125)	(936)	(1,547)
Inc (Dec) in Borrowings	-	-	-	-
Dividend paid	(1,568)	(1,568)	(1,581)	(2,150)
Others	634	(39)	(48)	(53)
Cash flow from Financing Activities	(934)	(1,606)	(1,629)	(2,204)
Chg. in Cash & Bank balance	(37)	(824)	677	375
Closing cash & balance	(37)	(824)	677	375

Source Company data, I-Sec research

### Exhibit 8: Key ratios

(Year ending March)

	FY22A	FY23A	FY24E	FY25E
<b>Per Share Data (INR)</b>				
Reported EPS	30.0	26.8	30.7	37.9
Cash EPS	30.9	28.3	32.6	40.2
Dividend per share (DPS)	15.0	15.0	15.1	20.6
Book Value per share (BV)	83.9	104.6	116.1	131.3
Dividend Payout (%)	50.0	55.9	49.2	54.3
<b>Growth (%)</b>				
<b>Net Sales</b>	<b>60.4</b>	<b>0.7</b>	<b>15.7</b>	<b>19.5</b>
EBITDA	73.1	(11.9)	12.2	26.6
EPS (INR)	55.6	(10.5)	14.5	23.4
<b>Valuation Ratios (x)</b>				
<b>P/E</b>	<b>40.0</b>	<b>44.7</b>	<b>39.0</b>	<b>31.6</b>
P/CEPS	38.9	42.4	36.8	29.9
P/BV	14.3	11.5	10.3	9.1
EV / EBITDA	(2.5)	(3.5)	(2.9)	(2.7)
<b>Operating Ratios</b>				
EBITDA Margins (%)	66.5	58.3	56.5	59.9
<b>Effective Tax Rate (%)</b>	<b>23.6</b>	<b>24.1</b>	<b>25.2</b>	<b>25.2</b>
<b>Net Profit Margins (%)</b>	<b>56.8</b>	<b>50.5</b>	<b>50.0</b>	<b>51.7</b>
<b>Profitability Ratios</b>				
RoE (%)	36.9	26.8	26.4	29.3
RoIC (%)	32.2	22.4	21.2	24.1

Source Company data, I-Sec research

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