

## Financial Services

### Company Overview

Central Depository Services Limited (CDSL), incorporated in 1999 with an aim of providing convenient, dependable and secure depository services at affordable cost to all market participants. It offers dematerialization for equity and preference shares, MF units, debt instruments and G-Secs. It also provides various corporate facilities as well as other online activities such as credit securities to Beneficial owner accounts, e-voting, e-Locker, National Academy Depository, easi (Electronic Access to Security Information), easiest (Electronic Access to Security Information and Execution of Secured Transaction) drafting and preparation of wills for succession (myeasiwill) mobile application (myeasi, m-voting) and Transactions using Secured Texting (TRUST) with that it also conducts investor meetings and other various awareness programs.

### Investment Rationale

#### Prominent player with high entry barriers

In India, depository industry consist of two major players namely National Securities Depository Limited (NSDL) and Central Depository Services Limited (CDSL) promoted by NSE and BSE respectively. Over the years, CDSL has focused more on acquiring non institutional investors with a primary objective of volume being bigger driver of revenue for depositories than the value. In FY19, CDSL has managed to gain a market share of (63% in FY19) for Beneficial owner (BO) and depository participants (594 v/s 276 of NSDL). With a strong parental backup and high regulation by SEBI, these existing depositories have clear advantage over any new entrants.

#### Asset Light model and high scalability will enable to expand its operating margins

CDSL operates in a largely asset light model, with employees and technology infrastructure comprising 50% of overall costs. Therefore growth in revenue will largely percolate to operating profit. Over the last six years, its operating margins have significantly improved more than 20 percent i.e from 39.4% to 59.5%. Apart from operating leverage, SEBI lowered the contribution to Investor Protection Fund (IPF) to 5% from 25% of profit before tax (excluding other income) in FY16 which helped to scale up its overall profitability. Going ahead, such asset light model and operating leverage will expand margins by supporting cashflows.

#### Diversified revenue stream coupled with growth avenues beyond capital markets

Currently, around 70% of CDSL's revenue are generated from market inked activities such as transaction, IPO charges and annual issuer charges and the rest from online data charges/KYC and various other such services. Moreover other opportunities such as digitization of academic records, depository services to unlisted companies, insurance and commodity depositories will enable them diversify its service portfolio beyond the capital markets and increase its market share.

### Valuation and Outlook

CDSL's strong business model, diversified revenue stream, robust cash flow generation, new avenues of insurance and academics provides significant opportunity to increase its revenue and expand margins. All these factors coupled with competent management team helps in gaining visibility for long term sustainable growth. On valuation front, we have valued the company by assigning a multiple of 19.2x PE of FY21E with a Buy rating on the stock with target price of INR 268.

### Stock Rating

BUY	HOLD	SELL
> 15%	-5% to 15%	< -5%

### Sector Outlook

Positive

### Stock

CMP (INR)	226
Target Price (INR)	268
NSE Symbol	CDSK
Bloomberg	CDSL.IN
Reuters	CENA.BO

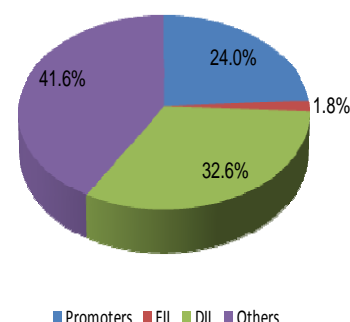
### Key Data

Nifty	12,056.05
52WeekH/L(INR)	247.9/180.8.
O/s Shares (Mn)	104.50
Market Cap (INR bn)	23.7
Face Value (INR)	10

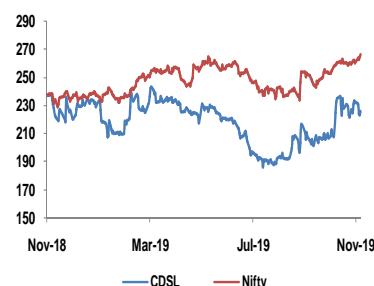
### Average volume

3 months	299,20,000
6 months	229,64,000
1 year	233,04,000

### Share Holding Pattern (%)



### Relative Price Chart





## Weekly Wealth

Key Financials					
YE March (Rs. mn)	FY17	FY18	FY19	FY20E	FY21E
<b>Revenue</b>	<b>1,460</b>	<b>1,877</b>	<b>1,947</b>	<b>2,201</b>	<b>2,420</b>
<i>Revenue Growth (Y-o-Y)</i>	28.6%	28.6%	3.7%	13.1%	10.0%
<b>EBIDTA</b>	<b>794</b>	<b>1,104</b>	<b>1,089</b>	<b>1,034</b>	<b>1,191</b>
<i>EBIDTA Growth (Y-o-Y)</i>	29.0%	39.0%	(1.3%)	(5.1%)	15.2%
<b>Net Profit</b>	<b>858</b>	<b>1,032</b>	<b>1,135</b>	<b>1,115</b>	<b>1,243</b>
<i>Net Profit Growth (Y-o-Y)</i>	20.3%	20.3%	10.0%	(1.8%)	11.5%
<b>Diluted EPS</b>	<b>8.2</b>	<b>9.9</b>	<b>10.9</b>	<b>10.6</b>	<b>11.8</b>
<i>Diluted EPS Growth (Y-o-Y)</i>	20.3%	20.3%	10.0%	(2.1%)	11.3%
Key Ratios					
<b>EBIDTA (%)</b>	<b>54.4%</b>	<b>58.8%</b>	<b>56.0%</b>	<b>47.0%</b>	<b>49.2%</b>
NPM (%)	58.8%	55.0%	58.3%	50.7%	51.4%
<b>RoE (%)</b>	<b>16.1%</b>	<b>17.2%</b>	<b>17.0%</b>	<b>15.2%</b>	<b>15.0%</b>
Valuation Ratios					
<b>P/E (x)</b>	<b>27.7x</b>	<b>23.0x</b>	<b>20.9x</b>	<b>21.4x</b>	<b>19.2x</b>
EV/EBITDA	29.3x	21.1x	21.3x	22.01x	18.80x
<b>P/BV (x)</b>	<b>4.4x</b>	<b>4.0x</b>	<b>3.6x</b>	<b>3.2x</b>	<b>2.9x</b>

Source: Company, BP Equities Research



## Disclaimer Appendix

**Analyst (s) holding in the Stock : Nil**

**Analyst (s) Certification:**

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