

**Target: Rs.445**
**CMP Rs356.6 (24.4x FY23 P/E)**
**BUY**

Index Details	
Sensex	38,407
Nifty	11,322
Industry	Financial Service

**Asset light CDSL (Central Depository Services Ltd) is a proxy play on the financial services economy. As part of a duopoly, CDSL has done well to emerge as a leader (market share of ~54% in terms of investor accounts) in the Depository DP segment while it lags (market share of ~33%) its competitor NSDL in the corporate issuers segment.**

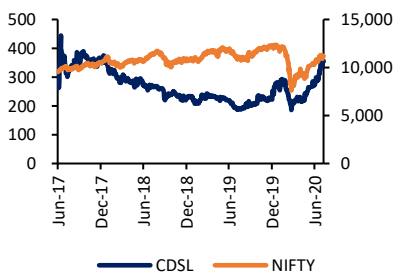
Scrip Details	
Mkt Cap (Rs Cr)	3,727
O/S Share (Cr)	10.4
3 M Avg Vol (000)	989.9
52 Wk H/L (Rs)	372/180
Div Yield (%)	1.2
FVPS (Rs)	10.0

**With the brokerage industry undergoing a rapid pricing-based disruption, we expect retail participation to grow significantly. Consequently, CDSL's DP revenues are expected to grow at a CAGR of 18.7% to Rs.72.0 cr by FY23. The key driver for the DP revenues is the surge in transaction volumes which are expected to grow at a CAGR of 18.7% to 160 mn nos by FY23.**

Shareholding Pattern	
Shareholder	%
Promoters	20.0
Institutional	43.4
Public	36.6
Total	100.0

**The Corporate issuer segment is expected to grow at a CAGR of 5.7% to Rs.162.0 cr by FY23, driven by the new compliance norms (wherein stock transfers can take place only in the dematerialized form). The key drivers for the revenues of the corporate issuer segment are:**

- Annual issuer charge growing at a CAGR of 5.3% to Rs.90.4 cr
- IPO/Corporate Action Fees expected to rise by a CAGR of 9.2% to Rs.29.4 cr, and
- Online data charges growth of 4.5% CAGR to Rs.42.1 cr

**CDSL vs. Nifty**


**Through its 100% subsidiary CVL (CDSL Ventures Ltd) other revenue streams are as follows:**

- e-KYC services
- Consolidated account statement services
- Insurance repository services

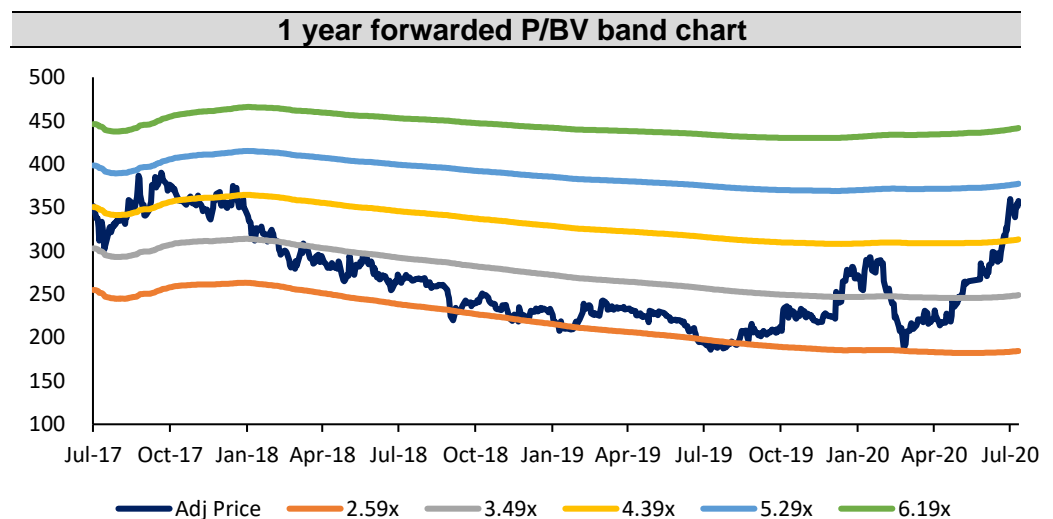
**It is pertinent to note that the insurance repository business is expected to remain a non-performer given that the insurance domain players have formed their own captive digital platforms, which provide their customers seamless access besides preventing vital customer data leakages. Given the uncertain outlook, we expect the company to seize operations of this vertical eventually.**

**Key Financials (in ₹ crores)**

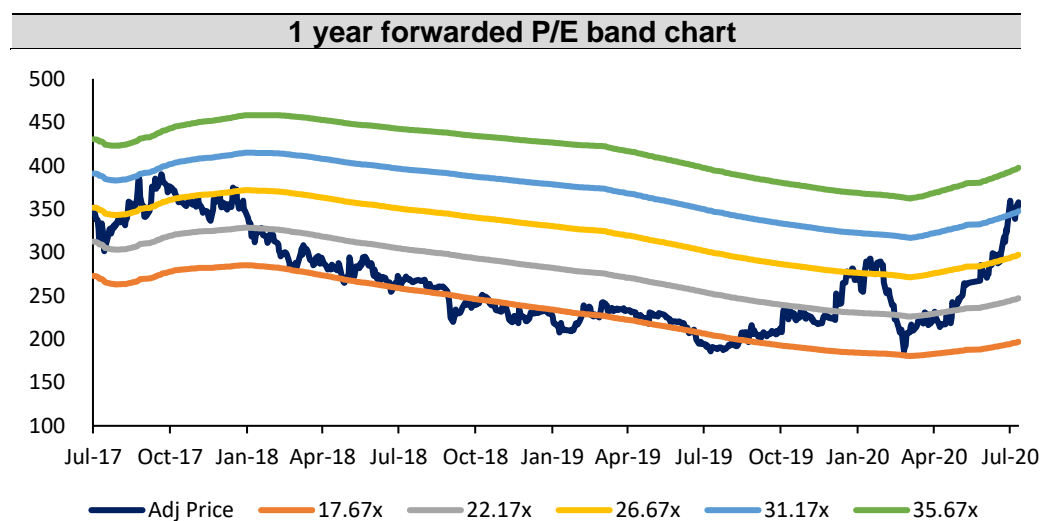
	Sales	EBITDA	Net Profit	EBITDA Margin (%)	Net Margin (%)	EPS ₹	BV ₹	RoE (%)	RoCE (%)	P/E (x)	P/BV (x)	EV/EBITDA (x)
<b>FY19</b>	194.7	108.9	113.5	56.0	58.3	10.9	64.2	17.0	11.5	33.3	5.7	28.8
<b>FY20</b>	225.1	89.0	105.4	39.6	46.8	10.1	69.6	14.6	8.3	35.8	5.2	34.5
<b>FY21E</b>	265.2	131.8	140.7	49.7	53.1	13.5	76.4	17.7	11.3	26.8	4.8	22.7
<b>FY22E</b>	282.3	143.0	147.5	50.7	52.2	14.2	82.9	17.1	11.3	25.6	4.4	20.5
<b>FY23E</b>	292.4	147.2	154.4	50.3	52.8	14.9	89.1	16.7	10.8	24.4	4.1	19.4

Overall, we expect revenues to grow at a CAGR of 9.1% to Rs.292.4 cr by FY23. Over the same period, operating profit and net earnings are expected to grow at a CAGR of 18.2% and 13.6% to Rs.147.2 cr and Rs.154.4 cr, respectively, given the operating leverage that the company enjoys. RoE is expected to remain stable hovering around the historical range of 16-17%. The asset light model of CDSL ensures that the future dividend pay-outs / buybacks will be liberal

We initiate coverage on CDSL with a Buy on declines for a 24-month PT of Rs.445 (30x FY23 earnings). There exists an upside risk to our estimates from a valuation re-rating given the disruptions that are imminent in the financial services industry.



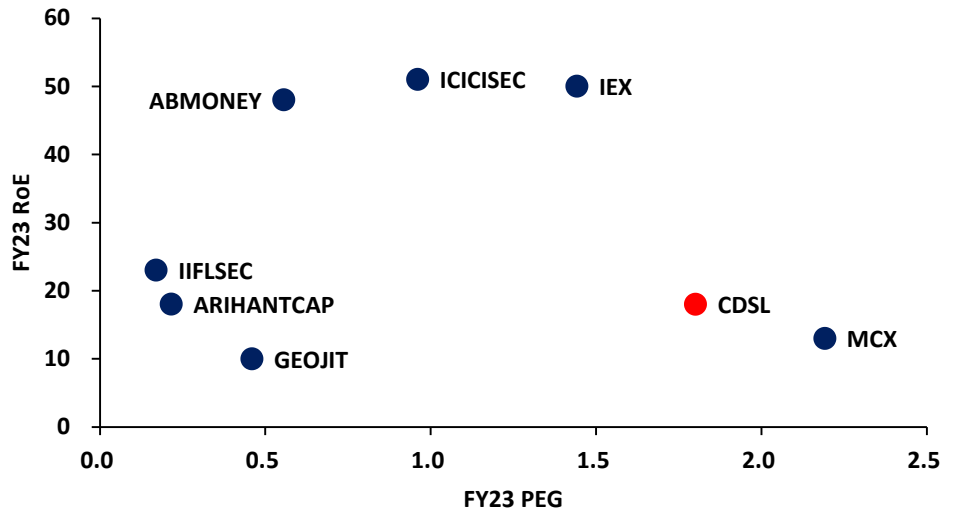
Source: Ventura Research



Source: Ventura Research

Change in dividend policy, with aggressive dividend payout in future (which is expected) could significantly boost RoE in coming years

**Financial intermediaries peer comparison**

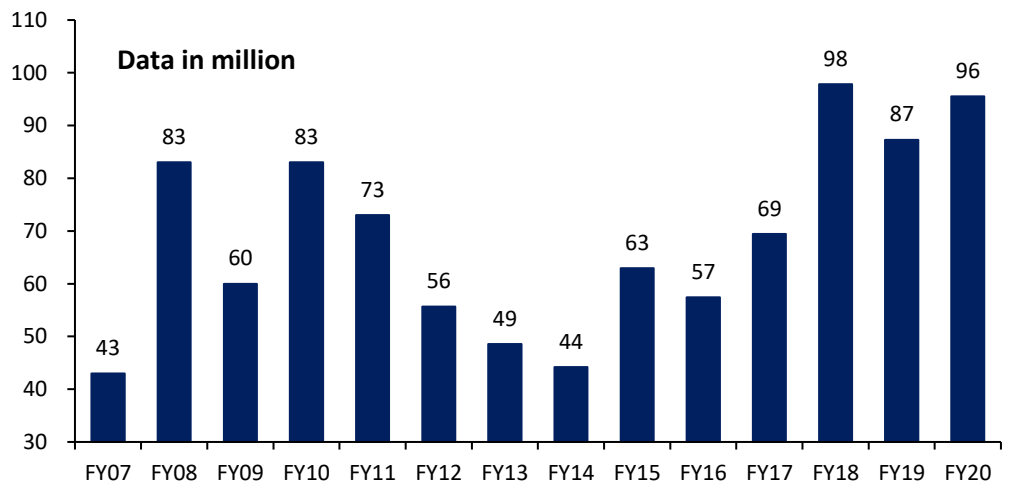


Source: Ventura Research

**Why there exists a case for a valuation multiple re-rating**

While the intermediate trend of depository account opening has been encouraging, we are cognisant of the fact that the capital market volumes have historically been cyclical.

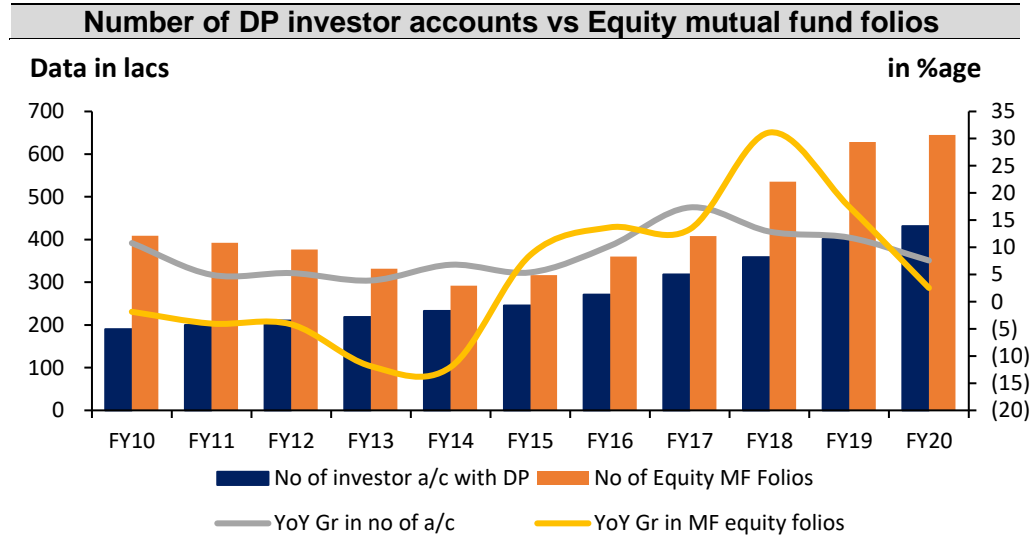
**Number of transactions through CDSL**



Source: Company Reports & Ventura Research

We will be monitoring the current trend playing out to ascertain whether there is a long-term shift in investor preference towards direct investment in equities.

More and more retail investors are participating through the direct route, which decelerated new folio growth for equity MFs

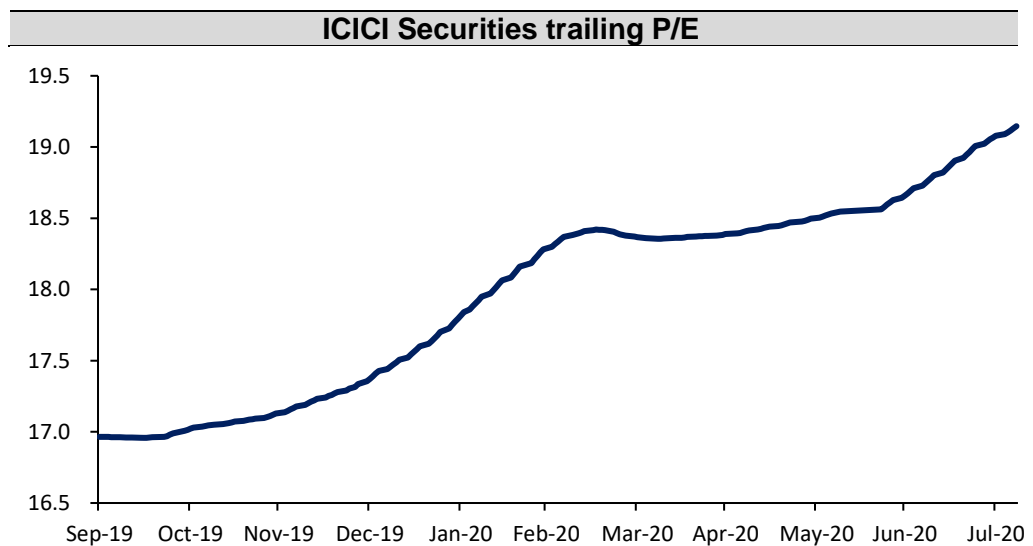


Source: Company Reports & Ventura Research

It can be seen that despite sharp increases in the volumes on the bourses, new folio growth for MFs has been decelerating, suggesting that increasingly retail investors are opting for direct participation in the market.

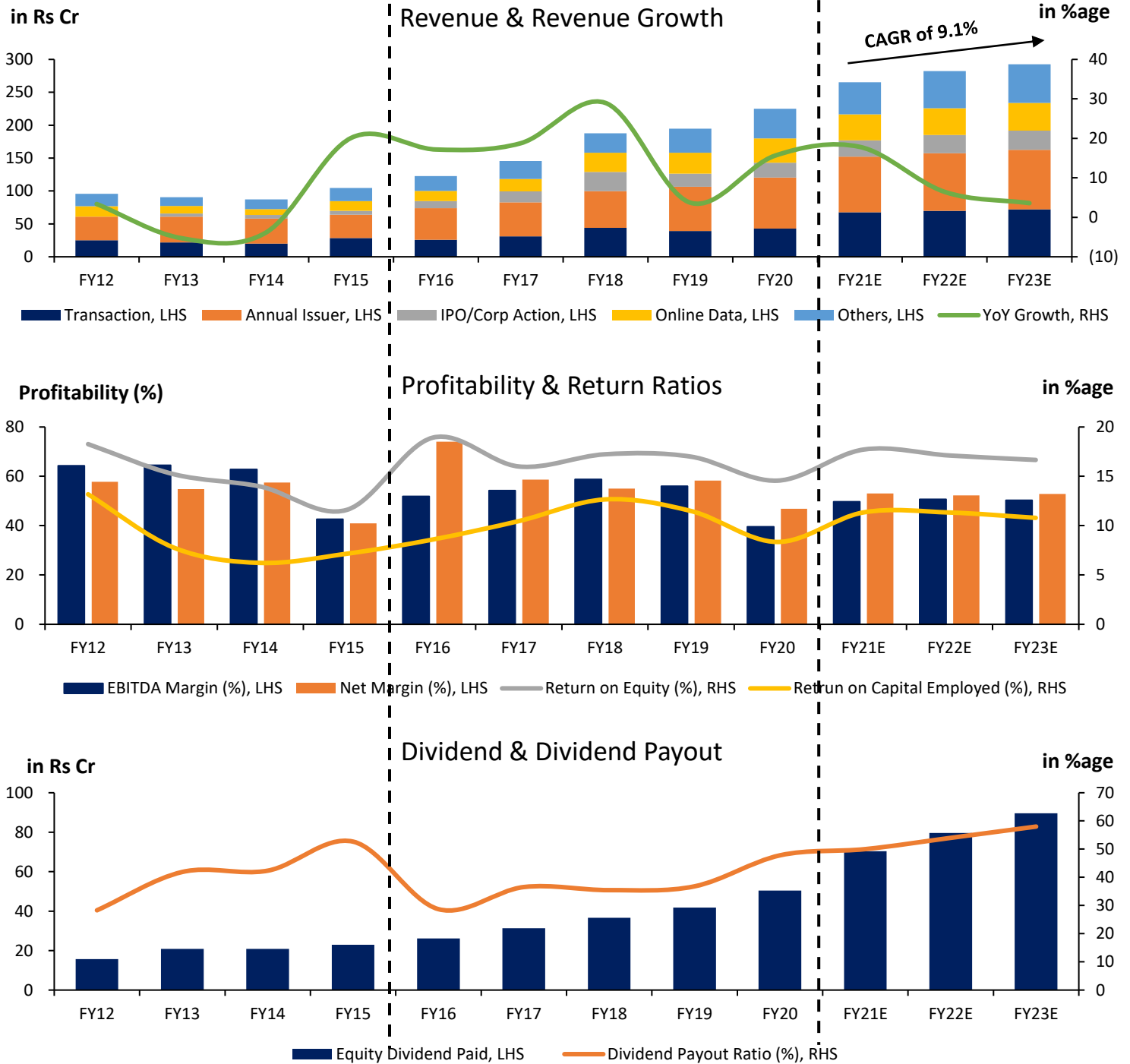
It is quite possible that we may be at the cusp of a long-term trend, similar to what played out through the 1980-2000 era in the US capital markets. During that period, retail participation, which was around 5-6% in the early 80s ramped up to 45.7% by early 2000.

In case an anticipated bull trend plays out, then there exists the strong possibility of a rerating in the valuation multiples as witnessed in the case of ICICI Securities and other broking stocks recently.



## Story of CDSL in pictorial format

### Performance charts of CDSL

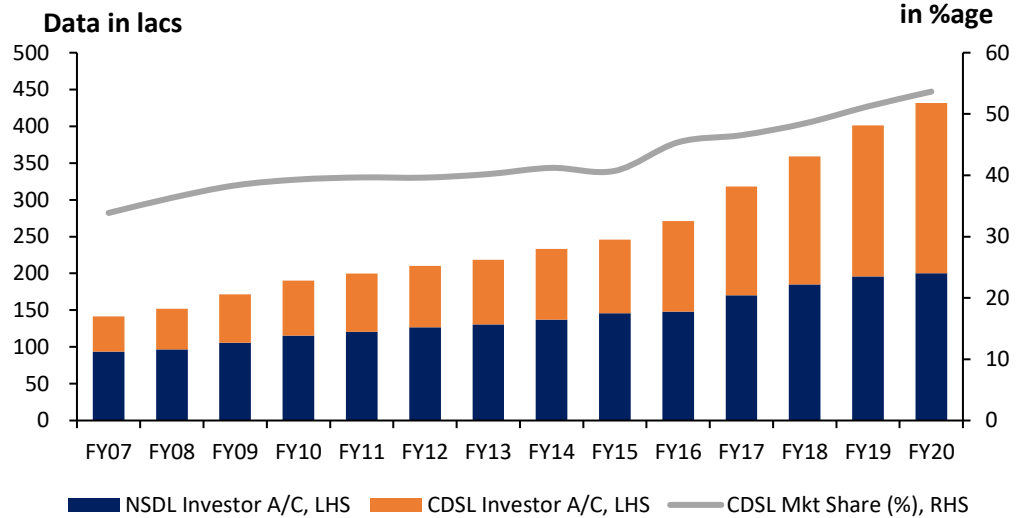


Source: Company reports & Ventura Research

Despite being a late entrant in the market, CDSL has been gaining market share from NSDL

### Number of investor accounts

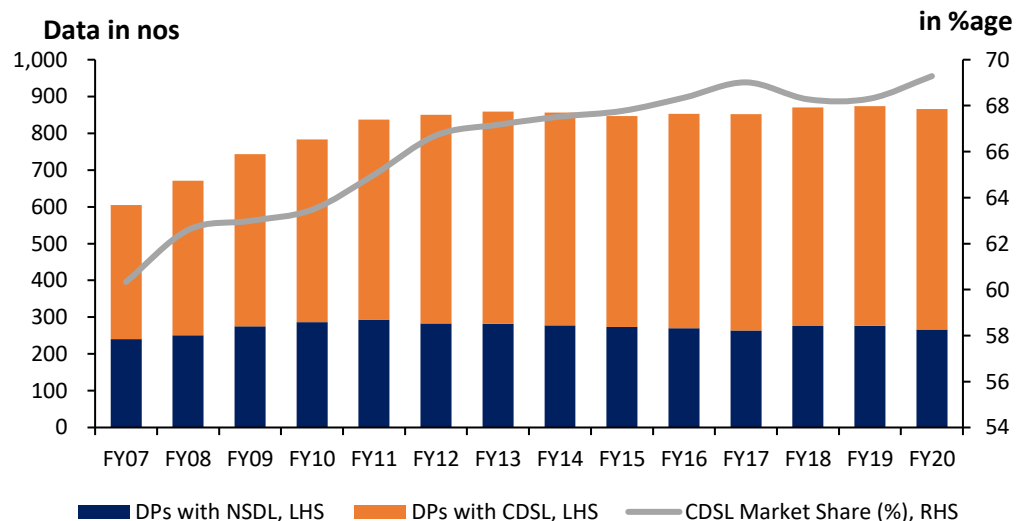
CDSL market share of investor accounts stands at 54% in FY20, improved by 1.6x since FY07. Retail focus is the prime reason for market share gain.



Source: Company Reports & Ventura Research

### Number of depository participants

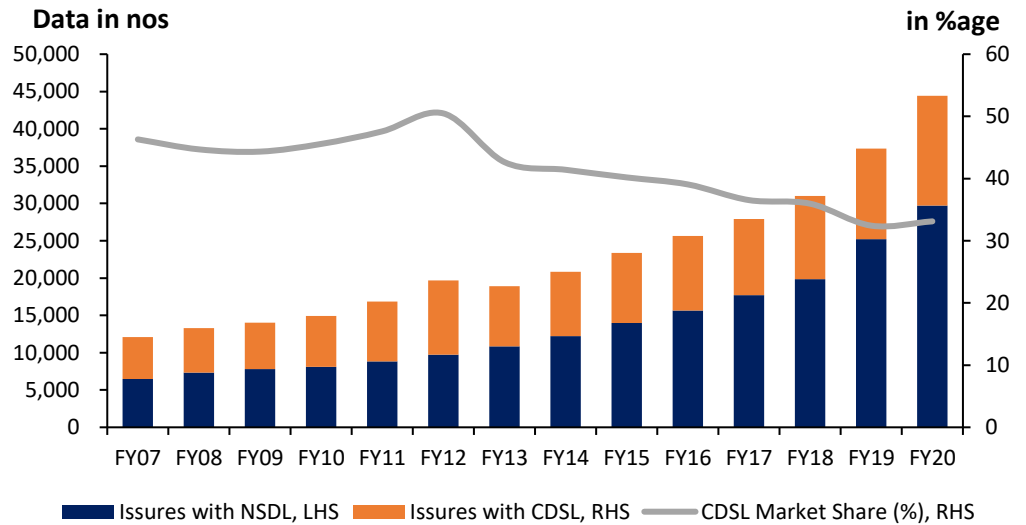
Due to a retail centric structure, the geographical spread of CDSL is better than that of NSDL. That's why the number of DPs associated with CDSL are more than 2.0x of NSDL



Source: Company Reports & Ventura Research

### Number of corporate issuers

Unlike CDSL, NSDL is more focused on the institutional segment, as a result the corporate issuers naturally align with NSDL. This is reflected in the number of issuer accounts which have grown from 6,500 in FY07 to 29,700 in FY20. CDSL managed a relatively tepid growth from 5,600 to 14,700 during the same period



Source: Company Reports & Ventura Research

### Key management personnel

Key Person	Designation	Description
Mr Balkrishna V Chaubal	Chairperson	Prior to joining our Board, Shri Chaubal was the Deputy Managing Director at State Bank of India. He is a Certified Associate of the Indian Institute of Bankers. He was a visiting Professor at the National Institute of Bank Management, Pune, specializing in commercial banking, corporate governance and strategy. He holds a Bachelor's degree in Science from the Institute of Science and Master's degree of Science from the Indian Institute of Technology, Mumbai. He is the MD & CEO of CDSL since Sept 24, 2019. CSDL under his leadership, has become the leading depository of India with over 2 crore beneficiary accounts and is the first and the only depository to have its Branch at the at the GIFT City, Gandhinagar. In addition, he continues to implement strong systems and processes for effective governance. He started his career with SEBI in 1996. He spent the next 10 years in various functions including the Derivatives and New Products Department, covering policy, product and process innovation in areas of derivatives. After making his mark at SEBI, he joined DSP Merrill Lynch Ltd. as Director, Law and Compliance. Here, he headed the Broking and Investment Banking Compliance for a period of 3 years. In 2009, he joined BSE Limited and as the Chief Regulatory Officer headed all the Regulatory functions of BSE Ltd
Mr Nehal Vora	MD & CEO	He has over 25 years of rich experience in field of Finance, Accounts, Auditing, Taxation, Compliance and Internal Controls. Maestro in finalization, auditing, compliance, treasury, internal controls and taxation and preparation of annual report. Before joining CDSL as CFO, he has worked with BSE Ltd for 11 years

Source: Company Reports

## Financial Statements

Figures in Rs Cr	FY19	FY20	FY21E	FY22E	FY23E		FY19	FY20	FY21E	FY22E	FY23E
<b>Income Statement</b>						<b>Per Share Data</b>					
Net Sales	194.7	225.1	265.2	282.3	292.4	Adjusted EPS	10.9	10.1	13.5	14.2	14.9
YoY Growth (%)	3.7	15.6	17.8	6.4	3.6	Adjusted Cash EPS	11.9	11.3	14.6	15.4	16.2
Operating Expenses	85.7	136.0	133.4	139.3	145.3	Dividend Payout Ratio (%)	36.8	47.8	50.0	54.0	58.0
YoY Growth (%)	10.9	58.7	(2.0)	4.4	4.3	Dividend Yield (%)	1.0	1.2	1.9	2.1	2.4
<b>EBITDA</b>	<b>108.9</b>	<b>89.0</b>	<b>131.8</b>	<b>143.0</b>	<b>147.2</b>	FCFF per Share	7.0	6.0	8.6	9.4	9.8
Margins (%)	56.0	39.6	49.7	50.7	50.3	FCFF Yield (%)	2.0	1.7	2.4	2.6	2.7
Depreciation	9.9	11.7	11.5	12.5	13.5	Adjusted Book Value per Share	64.2	69.6	76.4	82.9	89.1
Depreciation to Gross Block (%)	10.0	10.7	9.5	9.5	9.5	<b>Return Ratios</b>					
<b>EBIT</b>	<b>99.0</b>	<b>77.3</b>	<b>120.4</b>	<b>130.6</b>	<b>133.7</b>	Return on Equity (%)	17.0	14.6	17.7	17.1	16.7
Margins (%)	50.9	34.3	45.4	46.2	45.7	Return on Capital Employed (%)	11.5	8.3	11.3	11.3	10.8
Other Income	49.2	59.2	69.0	67.2	72.7	Return on Invested Capital (%)	15.8	21.7	32.5	35.6	36.9
Finance Cost	0.0	0.0	0.0	0.0	0.0	<b>Working Capital</b>					
<b>PBT</b>	<b>148.2</b>	<b>136.5</b>	<b>189.4</b>	<b>197.8</b>	<b>206.4</b>	Receivable Days	36	42	40	40	40
Margins (%)	76.1	60.6	71.4	70.1	70.6	Payable Days	7	20	20	20	20
Tax	33.4	29.7	47.7	49.8	52.0	Net Working Capital Days	29	23	20	20	20
Tax Rate (%)	22.5	21.8	25.2	25.2	25.2	<b>Valuation Ratios</b>					
<b>PAT</b>	<b>114.8</b>	<b>106.7</b>	<b>141.7</b>	<b>148.0</b>	<b>154.4</b>	P/E	33.3	35.8	26.8	25.6	24.4
Margins (%)	59.0	47.4	53.4	52.4	52.8	P/BV	5.7	5.2	4.8	4.4	4.1
Minority Interest	(1.3)	(1.3)	(1.0)	(0.5)	0.0	EV/Sales	15.8	13.4	11.1	10.2	9.6
<b>Net Profit</b>	<b>113.5</b>	<b>105.4</b>	<b>140.7</b>	<b>147.5</b>	<b>154.4</b>	EV/EBITDA	28.2	33.8	22.3	20.0	19.0
Margins (%)	58.3	46.8	53.1	52.2	52.8	<b>Cash Flow Statement</b>					
<b>Balance Sheet</b>						Profit Before Tax	148.2	136.5	189.4	197.8	206.4
Share Capital	104.5	104.5	104.5	104.5	104.5	Adjustments	4.6	3.3	11.9	13.0	15.0
Total Reserves	563.6	619.5	689.8	757.7	822.6	Change in Working Capital	(0.7)	1.5	(0.6)	(0.9)	(0.6)
<b>Shareholders' Fund</b>	<b>668.1</b>	<b>724.0</b>	<b>794.3</b>	<b>862.2</b>	<b>927.1</b>	Less: Tax Paid	(33.4)	(29.7)	(47.7)	(49.8)	(52.0)
Non Controlling Interest	41.3	41.9	41.9	41.9	41.9	<b>Cash Flow from Operations</b>	<b>118.8</b>	<b>111.6</b>	<b>153.1</b>	<b>160.1</b>	<b>168.9</b>
Net Deferred Tax Liabilities	(3.3)	0.0	0.0	0.0	0.0	Net Capital Expenditure	(11.2)	(9.3)	(10.0)	(10.5)	(11.0)
Other Long Term Liabilities	1.0	1.2	1.2	1.2	1.2	Change in Investment Activities	(73.9)	(53.7)	(58.8)	(50.0)	(50.0)
Long Term Provisions	0.0	0.6	0.6	0.6	0.6	<b>Cash Flow from Investing</b>	<b>(85.1)</b>	<b>(63.0)</b>	<b>(68.8)</b>	<b>(60.5)</b>	<b>(61.0)</b>
<b>Total Liabilities</b>	<b>707.1</b>	<b>767.6</b>	<b>838.0</b>	<b>905.8</b>	<b>970.7</b>	Proceeds from Equity	24.0	0.0	0.0	0.0	0.0
Gross Block	99.3	110.1	120.1	130.6	141.6	Dividend & DDT	(44.1)	(50.4)	(70.3)	(79.7)	(89.6)
Less: Accumulated Depreciation	24.0	35.8	47.2	59.7	73.2	<b>Cash Flow from Financing</b>	<b>(20.1)</b>	<b>(50.4)</b>	<b>(70.3)</b>	<b>(79.7)</b>	<b>(89.6)</b>
<b>Net Block</b>	<b>75.2</b>	<b>74.4</b>	<b>72.9</b>	<b>70.9</b>	<b>68.4</b>	<b>Net Cash Flow</b>	<b>13.6</b>	<b>(1.8)</b>	<b>13.9</b>	<b>19.9</b>	<b>18.3</b>
Non Current Investments	471.2	273.4	273.4	273.4	273.4	Opening Cash Balance	42.0	55.5	53.7	67.6	87.5
Long Term Loans & Advances	12.4	0.1	0.1	0.1	0.1	<b>Closing Cash Balance</b>	<b>55.5</b>	<b>53.7</b>	<b>67.6</b>	<b>87.5</b>	<b>105.8</b>
Other Non Current Assets	11.9	29.7	29.7	29.7	29.7						
Net Current Assets	136.4	390.1	461.9	531.7	599.1						
<b>Total Assets</b>	<b>707.1</b>	<b>767.6</b>	<b>838.0</b>	<b>905.8</b>	<b>970.7</b>						

Source: Company Reports & Ventura Research



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### Ventura Securities Limited

Corporate Office: I-Think Techno Campus, 8<sup>th</sup> Floor, 'B' Wing, Off Pokhran Road No 2, Eastern Express Highway, Thane (W) – 400608