

1st February 2022

Central Depository Services Ltd.

CMP :1502
Target Price :1923
Upside : 28%
Stop Loss :1340

Investment Thesis

Leading & only Listed Depository: an objective of providing convenient, dependable and secure depository services at affordable cost to all market participants. As a result CDSL maintains and services 6 cr+ Demat accounts of Investors or Beneficial Owners (BOs) spread across India. These BOs are serviced by CDSL's 590+ Depository Participants from over 21,400+ locations.

CDSL continues to gain incremental market share :As per the data published by the SEBI, it is witnessed that, CDSL continued to gain the higher share of incremental demat accounts in Q3FY22. As per the company's presentation, CDSL added 91 lakhs accounts in Q3FY22 to take the total accounts to 5.85cr. CDSL one of the biggest beneficiaries of revival of capital market. CDSL market share continues to remain above 50%. We have about 5.85cr demat account and 75cr smart phone user and more than 100cr account holder as per the data published by the SEBI, it is witnessed that, CDSL continued to gain the higher share of incremental demat accounts in Q3FY22. As per the company's presentation, CDSL added 91 lakhs accounts in Q3FY22 to take the total accounts to 5.56cr. CDSL market share continues to remain above 50%.CDSL continues to focus on increasing DPs with net beneficial owner (BO) accounts increased to 5.56 cr (higher than NSDL BO of 2.5cr) from 3.97cr at the end of FY21. With an incremental market share of 88%, the company added 91 lakhs accounts in 3QFY22, as per SEBI monthly bulletin. **Nature of the Business:** The depository sector is duopolistic in nature. This means that there is an entry barrier for any other company to enter the sector.

Expansion & Awareness: It has also signed an agreement with Nepal stock exchange Ltd to set up a depository and clearing settlement system in Nepal. There is also an increasing awareness of the stock market in tier-2, tier-3 and tier-4 towns, which provides a lot of potential for the two depositories in India.

Another key to growth is to add more depository participants due to there will be more demat account openings.CDSL gained competitive advantage over NSDL by being first mover in registering for and rolling KYC process electronically and allowing single account holder.there were the hurdles in NSDL due to this reason CDSL has almost twice DPs as compared to NSDL, most of Fintech's associated themselves with CDSL.who deal with them are angel one, Upstox, Zerodha and Motilal oswal.

Financials

- Total income (standalone) stood at ₹121.6 crore for Q3 FY22 v/s ₹81.3 crore for Q3 FY21.Net profit stood at ₹63.8 crore for Q3 FY22 v/s 43 crore for Q3 FY21.
- The Revenue CAGR of 31.2% over FY21-FY24E while PAT CAGR of 30.3% over FY21-FY24E in the same period.

Particulars	FY20	FY21	FY22E	FY23E	FY24E
Net Revenue	225.1	343.7	570.8	676	777.1
EBITDA	108.4	211.8	386.2	459.7	530.1
Growth	-16.0%	95.4%	82.3%	19.0%	15.3%
PAT	125.5	200.3	320.6	390.1	442.8
EPS	12	19.2	31.2	38.1	42.8
P/E (x)	125.2	78.2	48.1	39.4	35.1
RoE (%)	17.3	22.8	30.8	31.2	29.3

Stock Data

Market Cap (Rs. Mn)	Rs. 1,40,340
Market Cap (\$ Mn)	1821.84
Shares O/S (in Mn)	104.5
Avg. Volume (1 month)	624627
52-Week Range (Rs.)	Rs. 1734 / Rs. 566

Shareholding Pattern

Promoters-*	20.00%
Mutual Funds	8.00%
Foreign Portfolio Investors	9.00%
Banks / Financial Institutions / AIF	5.00%
Others (incl. body corporate)	58.00%

Performance (%)	1M	6M	1Yr
Absolute	-11.63%	6.36%	123.32%

Key Ratios

Div Yield	0.66 %
TTM PE	49.2 X
ROE	25 %
TTM EPS (Rs.)	27.3 /-

Business Verticals & Subsidiary

- CDSL becomes the first depository to open 6 crore active Demat accounts. Segment break ups.

Revenue (Cr.)	Q1 FY22	Q2 FY22	Q3 FY22
Transactions and market driven income	78.77	103.72	112.33
Annual issuer charges	28.14	28.81	28.98
Account maintenance charges	0.85	0.87	
Foreign Investment Limit Monitoring	0.59	0.6	10.21
Others	8.93	11.97	

Subsidiaries:

- CDSL Ventures Limited (CVL):** Received approval from The Controller of Certifying Authorities (CCA) to provide eSign services to Application Service Providers, based on online Aadhaar eKYC. eSign or Electronic Signature Service can be integrated with various applications to facilitate digital signing of a document.
- CDSL Insurance Repository Limited (CDSLIR):** Received registration certificate from Insurance Regulatory and Development Authority of India to act as an 'Insurance Repository' under the Guidelines on Insurance repositories and electronic issuance of insurance policies dated 29th May 2015.
- CDSL Commodity Repository Limited (CCRL):** Allows the Farmer, Farmers Producer Organizations (FPOs), Manufacturers, etc., to obtain electronic warehouse receipts (negotiable or non-negotiable) [eNWRs or eNNWRs] in a demat account against deposit of commodities in any of the warehouses registered with Warehousing Development and Regulatory Authority (WDRA).
- CDSL IFSC Limited (CIL):** Company operates a depository in the International Financial Services Centre (IFSC) at Gujarat International Financial Tech City (GIFT). CIL is a foreign depository and shall cater to a global audience of investors. CIL operates under the regulatory oversight of International Financial Service Centres Authority (IFSCA).

Key Business Highlights

- CDSL at present, 70% market share where the total number of demat accounts stood at 8.4 cr as on 31st December, 2021. And 6 Cr. active accounts. The company has 9.6 cr. unique client codes witnessing a growth of 57% YoY. 91 lakh demat accounts were opened in Q3 FY22, highest ever quarterly addition v/s 28 lakh in Q3 FY21. Number of securities in demat custody and value of securities stood at ₹53,302 crore and ₹36,93,975 crore.
- The number of live companies registered on the exchange stood at 17,748, witnessing a growth of 11% from 15,992 companies as on 31st December, 2020 and the number of depository participants stood at 592. DP participants are the main source of growth in BO account opening as per latest data, CDSL has more than twice the number of DP participants as compared to NSDL.

Valuation

- The reassuring part is that the company continues to add BO accounts at a healthy rate (+92.4% YoY) and gain market share. The market-linked revenue (70%) is volatile but delivered a pre-pandemic (FY15-FY20) CAGR of 16%. We continue a positive stance, Our recommendation with a buy call on CDSL with multiple of 45x FY24E EPS of 42.8 to arrive at a target price INR 1923.
- Based on the following trigger points such as ongoing momentum in transaction/pledge/IPO revenue, led by retail activity (online brokers), continued gains in BO account market share (+1,061bps YoY to ~70%), growth in annual issuer charges and higher activity in the IPO market +16.2/17.2% revenue/EBITDA CAGRs over FY22-24E, following two strong years of revenue growth (+53/66% growth in FY21/22E).

Risk & Concern

- Inability to increase the pricing when cost goes up can impact the profitability.
- A large proportion of the business is transaction related and dependent on trading volume.
- The business of the organization has direct correlation with the level of delivery based volumes and price levels on major stock exchanges.
- Any declines in trading volume and market liquidity could adversely affect the operations of the company.

Graphs & Charts

Figure 1: Net Sales Trend

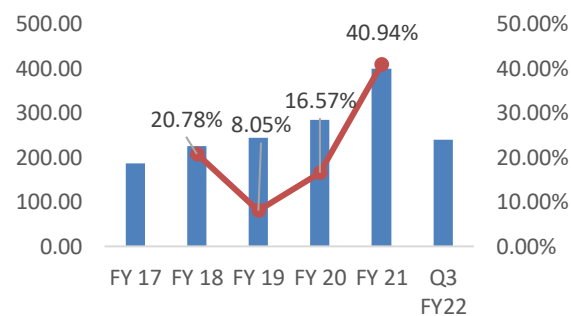


Figure 2: EBITDA & EBITDA Margin Trend

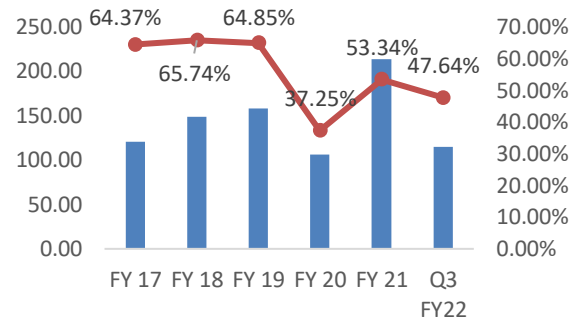


Figure 3: PAT Trend

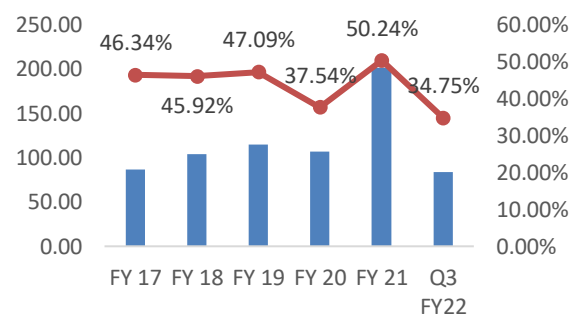
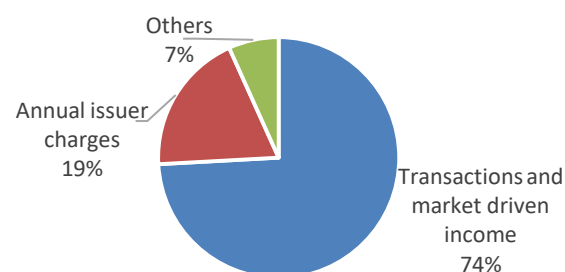


Figure 4: Segment-Wise Revenue (Q3 FY22)



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