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CREATION OF WEALTH

11th September, 2018

Sector	Sensex / Nifty	CMP	Recommended	Target Price	Time Horizon
Financial Services	37,413.13/11,287.50	258.95	BUY	325	12 Months

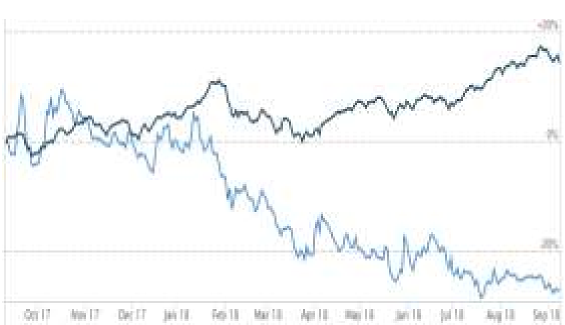
CENTRAL DEPOSITORY SERVICES (INDIA) LIMITED

Overview: Central Depository Services Limited

Central Depository Services (India) Limited (CDSL), was incorporated in 1999 as a subsidiary of BSE Limited which operates as a securities depository. It is headquartered in Mumbai, Maharashtra. They offer various services, such as account opening, dematerialization, processing delivery and receipt instructions, account statement, re-materialization, pledging, nomination, transmission of securities, change in address, bank account details and SMS services for depository participants. CDSL also offers facilities like KYC services and holding of insurance policies in electronic form to their holders of various insurance companies. CDSL manages a wide range of instruments including equity shares, preference shares, mutual fund units, debt instruments, government securities, certificates of deposits and commercial papers.

Stock Details	
Face Value (Rs.)	10.00
Market Cap (Rs. Cr.)	2,707.59
Book Value(Rs.)	57.30
CMP (Rs.)	259.95
EPS (Rs.)	9.87
P/E (x)	27
Beta (12M)	1.36
52W H/L	398.45/251.00

Shareholding Pattern	% holding
Promoter & Promoter group	24.00%
DII / FI/ MF	47.07%
FPI	1.60%
Public & Others	27.33%



NIFTY CDSL

Investment Rationale

CDSL's relationship with Depository Participants aids increasing market share

CDSL is the second largest depositary in India after NSDL with increasing market share from 42% in FY16 to 46.5% in FY18 in terms of revenue and 12% CAGR growth in number of Demat accounts over FY11- FY18 accounting to 54% market share in FY18.

Benefit from rising capital market participation in India

India's demographic dividend, growth in per capita income and savings, along with government initiatives will boost participation in the capital markets. There is a huge shift in financial savings pattern as shares and debentures forms 10% of household gross financial savings as compared to 2% in FY12.

Duopoly business with high entry barriers

The sector is highly regulated and there is limited scope for any depository to differentiate in pricing and offerings. Annual Issuer charges are fixed by SEBI and the two depositories have to offer the same without any changes or modifications.

Company Background

Incorporated in 1999, Central Depository Services (India) Limited (CDSL), a subsidiary of BSE Limited. CDSL, headquartered in Mumbai, is in the business of depositary services. CDSL commenced their depository business in 1999 with the objective of providing convenient, dependable and secure depository services at affordable cost to all market participants. CDSL was initially promoted by the BSE which subsequently divested a part of its stake to leading Indian banks. They have connectivity with clearing corporations of all the leading Indian stock exchanges including the BSE, National Stock Exchange ("NSE") and Metropolitan Stock Exchange of India. They have also entered into MoUs with depositories globally including with DTCC, JASDEC and Euroclear.

Brief Profile of the Company

Their core business involves enabling shareholders to hold and transfer their securities in an electronic form. Depository services they offer include the deposit, transfer and withdrawal of securities, book-entry for trade settlement, and book-keeping in respect of investors' securities accounts. They also facilitate crediting of securities for IPO and other corporate actions, such as share splits and consolidation, as well as payment of dividends. They operate and maintain a central depository system, an electronic book-entry system used to record and maintain securities and to register the transfer of securities. The system changes the ownership of securities without any physical movement or endorsement of certificates and execution of transfer instruments. They are also a GST Suvidha Provider.

CDSL manages a wide range of instruments including equity shares, preference shares, mutual fund units, debt instruments, government securities, certificates of deposits and commercial papers.

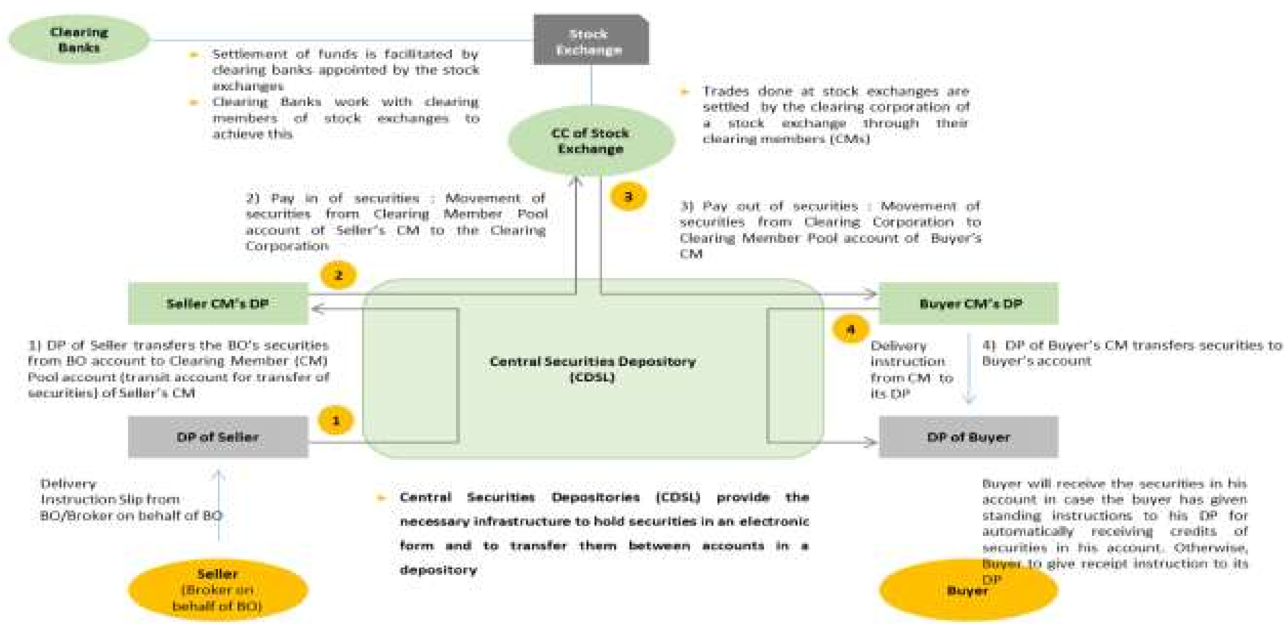
As of July 31st, 2018, CDSL had over 1,55,72,153 investor accounts. In Fiscal 2018, it held a 63% market share of incremental BO accounts with a net growth in BO accounts of 15.99% from Fiscal 2017 to Fiscal 2018. Over 3,07,963 million securities under its custody representing a total value of Rs. 2,09,57,498 million . 596 registered DPs who had over 17,473 DP service centers. CDSL is leading securities depository in India by incremental growth of Beneficial Owner ("BO") accounts over the last three Fiscals and by the total number of registered 596 Depository Participants ("DPs"), as at the end of Fiscal 2018.

Its revenue from operations includes transaction charges, account maintenance charges and settlement charges paid by DPs and annual fees, corporate action charges and e-voting charges paid by companies whose securities are admitted to CDSL's systems.

Customers:

- Depository Participants
- Other capital markets intermediaries DP is a "Point of Service" for the investor
  - Registrar & Transfer Agents- includes online connectivity with RTA's which indirectly provides benefit of secured systems and back-up storage.
  - Clearing Members- A CM's main activity is to facilitate pay-in and pay-out of securities to and from the clearing house respectively either on their own behalf or on behalf of their clients.
  - Stock exchange
- Corporates- various companies including public (listed and unlisted), private and government companies, who have issued securities
- Insurance Companies
- Investors

Overview of securities trade and settlement process



The depositories provide the necessary infrastructure to hold securities in an electronic format and to transfer them between accounts in a depository. The seller's DP transfers the BO's securities from the BO account to the clearing member pool account. The securities then move from here to the clearing corporation. The clearing banks facilitate the settlement of funds followed by the movement of securities from the clearing corporation to the clearing member pool account of the buyer BO. Finally, the buyer receives the securities from his CM's account. Our platform has electronic connectivity with various market participants including DPs, RTAs, clearing members and clearing corporation of stock exchanges.

CDSL Services

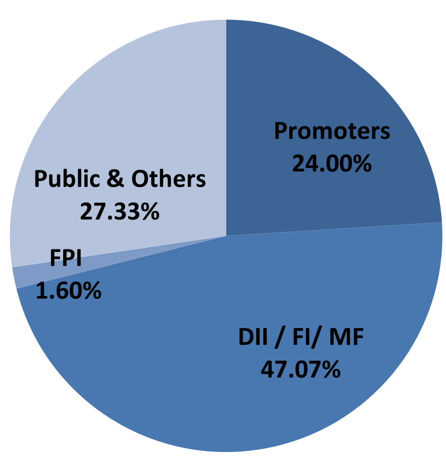
- Dematerialization
- Bonus issue, subdivision of holdings and conversion of securities in a merger, amalgamation or an initial public offering
- KYC services
- Other services- e-voting, e-Locker, drafting and preparation of wills for succession (myeasiwill)
- GST Suvidha Provider
- Processing delivery and receipt instructions, account statement, re-materialization, pledging, nomination, transmission of securities, change in address, bank account details and SMS services for depository participants.
- Holding of insurance policies in electronic form

Management

Name	Designation	Professional details
P. S. Reddy	MD and CEO	Has 21+ years of experience, joined BSE in 1988 and served as Chief General Manager of BSE Ltd. until Nov-2006. Has been Director in CDSL since 2009. He has done his Master's Degree in Arts (economics) from University of Hyderabad.
Shri T.S.Krishna Murthy	Chairman	He is on Board since March 30,2016. He served GOI at various levels. He holds a bachelor degree in Economics and Law from University of Mysore and Madras respectively and a Master degree from Bath University.
Joydeep Dutta	ED & Group CTO	Over 30+ years of experience, Has done BE in Electrical Engineering and MS in Computer Science from Tuskegee university.
Bharat Sheth	CFO	CA and has serviced various roles in the finance department of CDSL. He has been associated with the Company since May 27, 1998. He has over 25 years of experience as a statutory auditor, share accountant and co-manager or registrar to public issues, registrar and transfer agents to issuers.

The company pays 2.90% of profit as remuneration to key managerial personnel.

Shareholding Pattern:



Depositary Industry

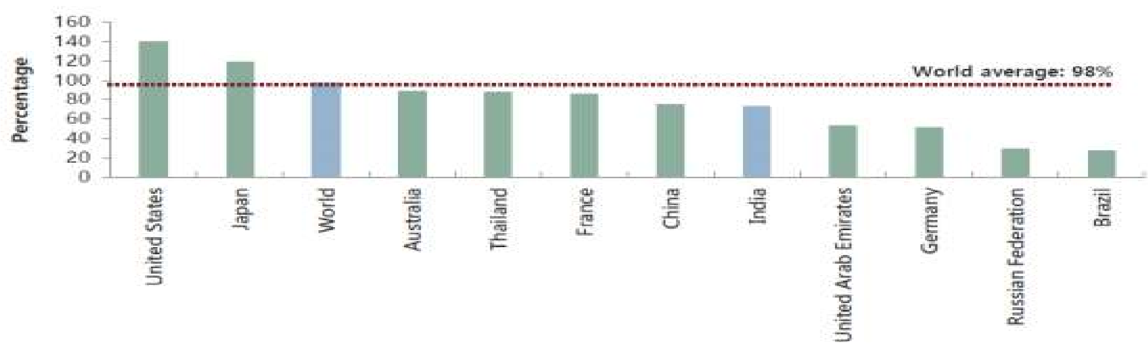
Depository business: Proxy for capital market growth

Capital market activity and Depository business growth is directly co-related. We believe there is significant room for growth in Indian Capital market based on the following factors

(1) India's market cap to GDP ratio stands at an average 78% (FY07-FY18) v/s developed market average of 131%

India's market capitalization to GDP ratio is 25% lower compared to the global average, however India has the second highest ratio among the BRIC (Brazil, Russia, India and China) economies, while it is below that of developed economies such as Japan and the US. India has a large number of companies that are unlisted, however with growth in the economy the number of listed companies is expected to increase.

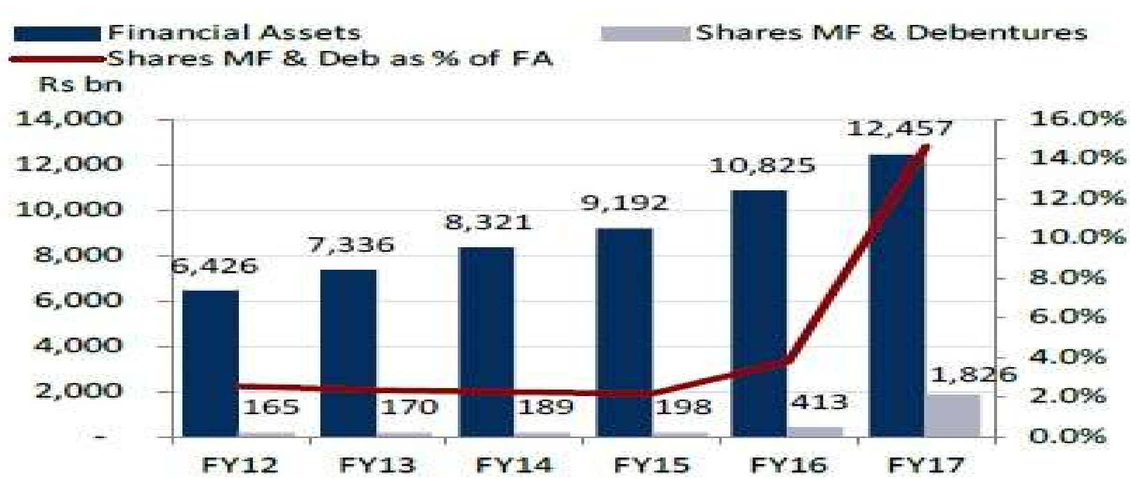
Market capitalization to GDP ratio



Source: DRHP CDSL

(2) Shift of money from physical assets (Real estate & Gold) to financial assets with higher allocation of Financial Assets into Capital market instruments like Stocks, MFs, Bonds, Debentures etc.

Demonetization was a significant step towards financial inclusion and led to a significant shift of capital from physical assets to financial assets. Financial Assets grew at a CAGR of 14% over FY12-17and now stand at Rs 12,457bn in FY17, +15% YoY. Within Total Financial Assets the share of Equity related assets (Shares & Debentures) has grown at a CAGR of 62% over FY12-17 and stands Rs 1,826bn in FY17 up 342% YoY (14% of Financial Assets). This led to a significant boost to the Depository business in the last two years.



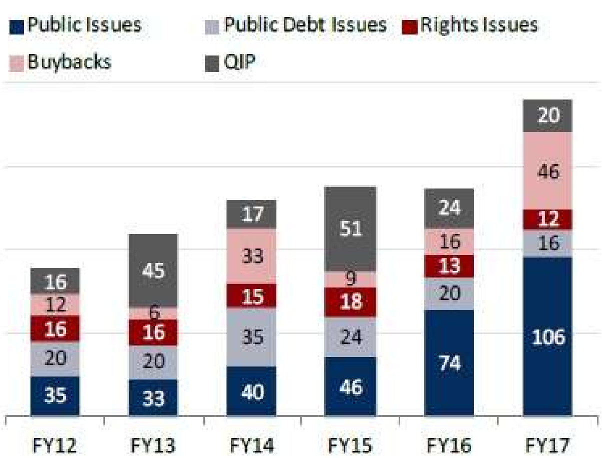
Source: AMFI, HDFC AMC

(3) Growth in trading volume will be led by

Increasing retail participation, Steady inflows in MFs , Greater penetration of capital market products ,Use of mobile trading platforms , Plans for divestment ,Rising free float levels , Large number of upcoming IPOs and Rising investor confidence, the depository business in India is poised to grow at a healthy pace.

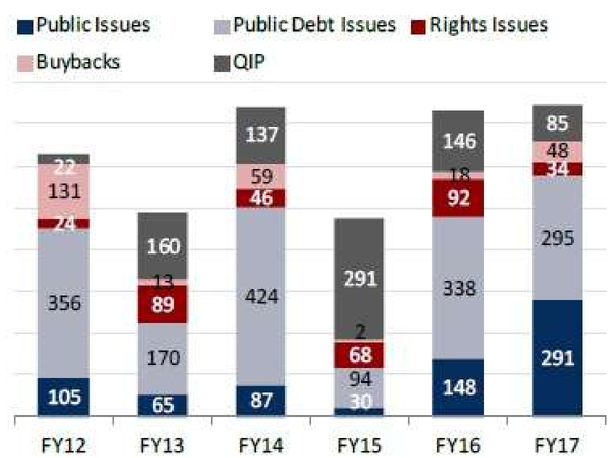
Equity and Balanced Funds grew at a CAGR of 37% and 61% to Rs 8,467 and 1,745bn respectively over FY13-18. This strong growth in AUM directly benefits CDSL as the money is deployed into buying of securities resulting in higher transaction income. Increase in retail penetration results in opening of new BO accounts, which results in higher revenue for depositories. The no. of IPOs has increased at a rate of 34% over FY13-17 and the money raised has grown at a CAGR of 45% over the same period. FY17 saw a total of 106 IPOs and 46 buybacks. Total money raised through IPOs/Rights/Buyback/Public debt/QIPs was Rs 753bn (11% CAGR overFY13-17)

High Growth In Issues Through Various Instruments Is Positive for Depositories (Nos)



Source: SEBI, HDFC sec Inst Research

Resource Mobilisation Through Primary An Secondary Markets In India (Rs bn)



Source: SEBI, HDFC sec Inst Research

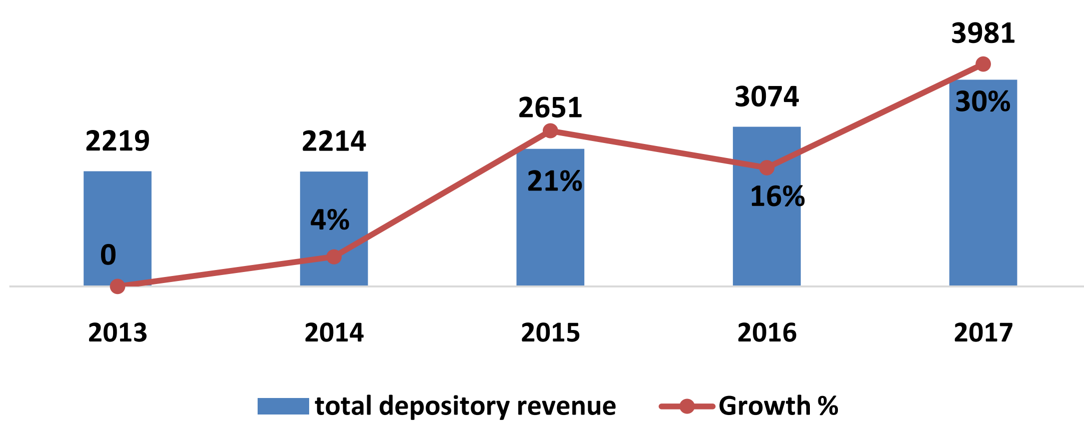
Depositories in India: A duopoly business

CDSL (promoted by BSE) and NSDL (promoted by NSE) are the two depositories present in India, making it a duopoly market. The duopoly nature of the depository business has resulted in healthy competition and has proved beneficial for investors.

- The total market size of the depository business stands at Rs 4.0bn in FY17 (CAGR of 17% over FY13- 17). NSDL and CDSL contribute 63/37% to total revenue and have grown at a CAGR of 20/13% over FY13-17respectively.
- According to the recommendations of the panel set- up by SEBI under the guidance of former RBI Deputy Governor R Gandhi, SEBI is evaluating allowing corporates to enter into the depository business. This step is to end the dominance of exchange owned depositories and increase competition in the market.
- But there is no scope for any other depository unless a new exchange arrives on the scene. There is also huge security risk of data pilferage which limits the scope for any other depository. Globally most depositories are promoted by stock exchanges and they prefer not to share data with any third party for security reasons. However, if corporates are allowed to do depository business it can be a negative development for CDSL and can increase competition.

- Also worldwide there are 1 or 2 maximum depositories in different countries, for example China has 2 depositary 1 for debt and 1 for equity, US,UK and many has just 1 depository. So again there are very less chances of India coming up with 3rd depository.
- The sector is highly regulated and there is limited scope for any depository to differentiate in pricing and offerings. Annual Issuer charges are fixed by SEBI and the two depositories have to offer the same without any changes or modifications. Some flexibility does exist in DP and transactions charges but SEBI monitors the changes very closely.

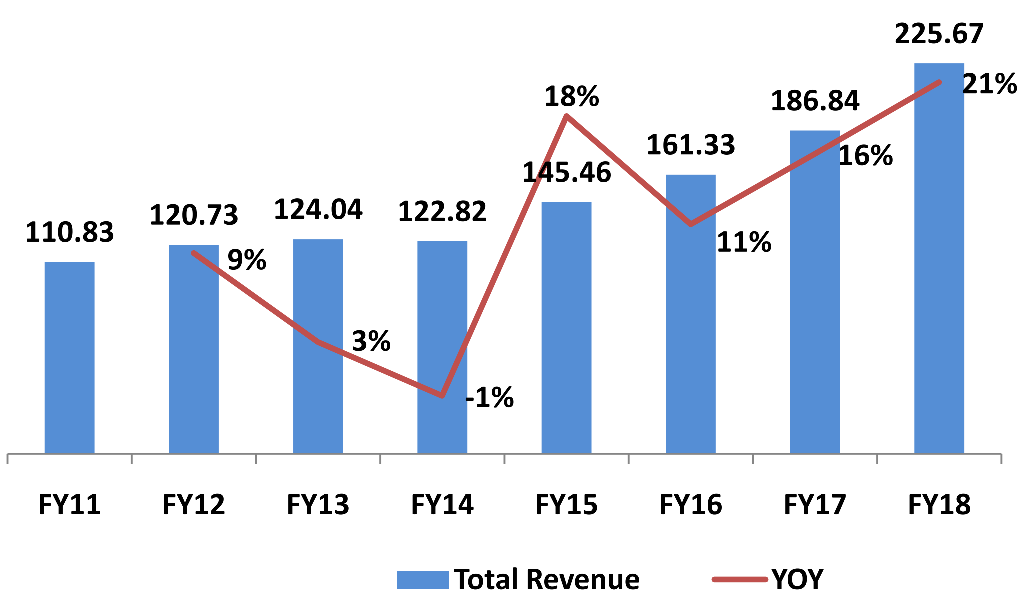
Growth of depository business (in Cr.)



Analysis

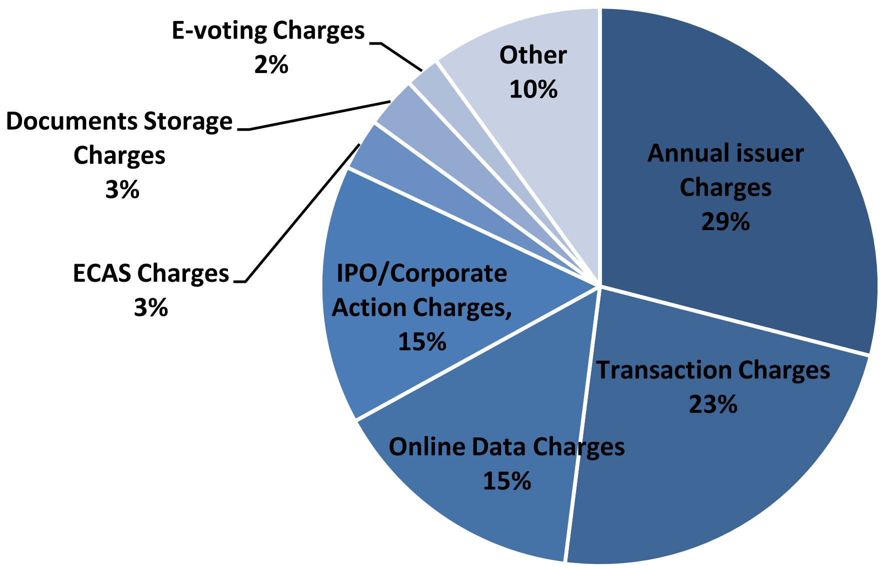
Total Revenue

(in Cr.)

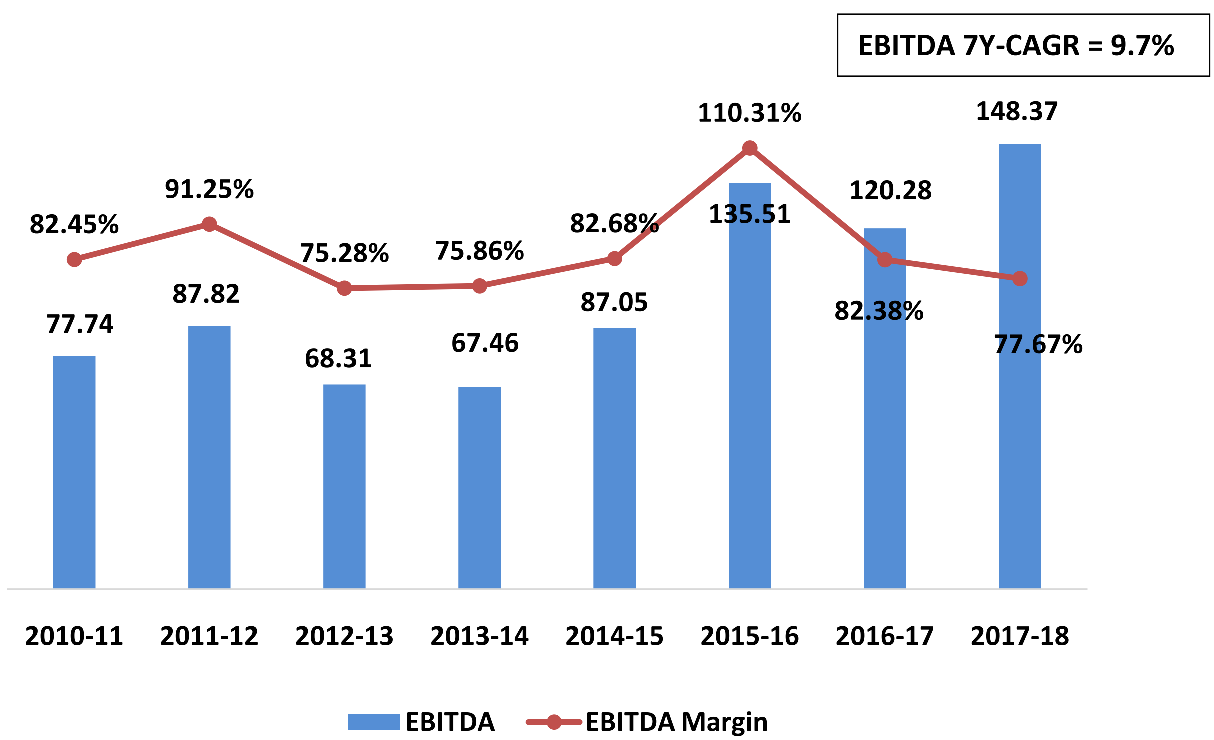


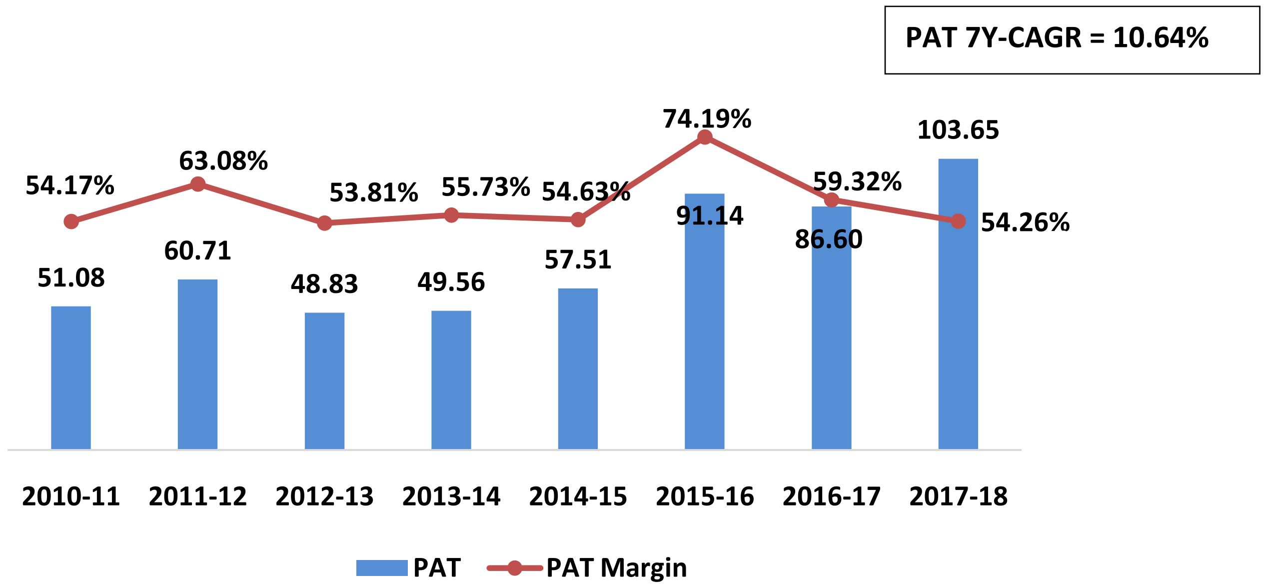
Taking FY2018 in consideration, 7Y CAGR from 2011-18 for sales is 10.67%, while EBITDA for the same period has grown at a CAGR of 9.67%.

Revenue Breakup (FY2018)

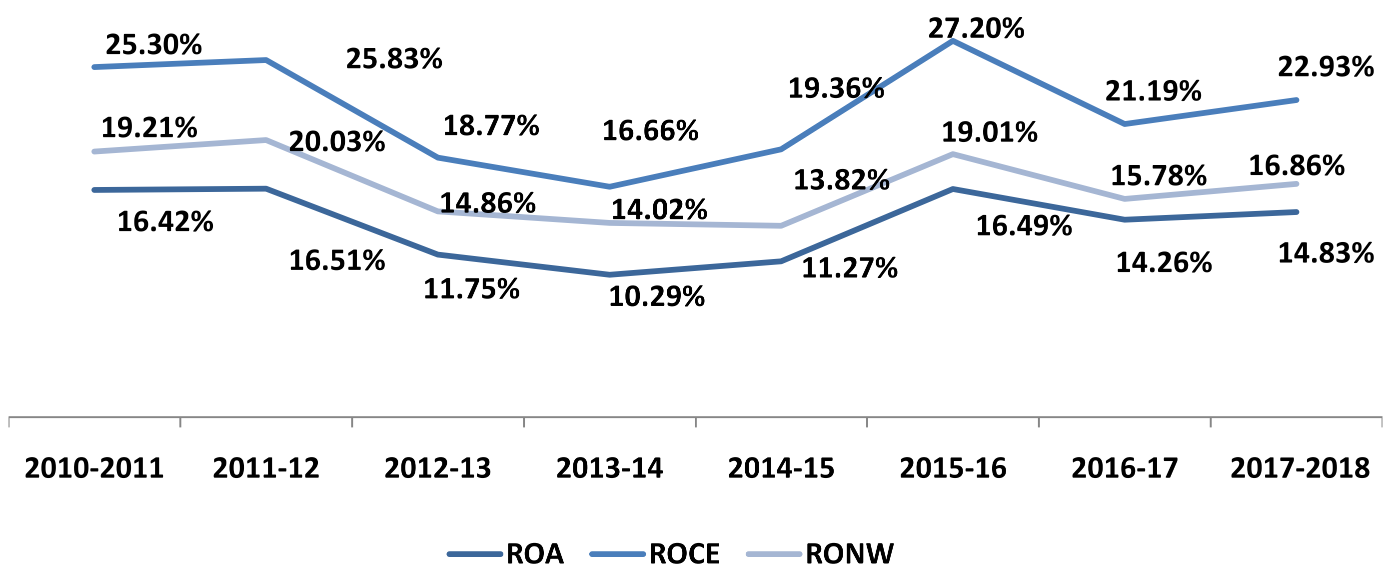


Operational Parameters





Return Ratios



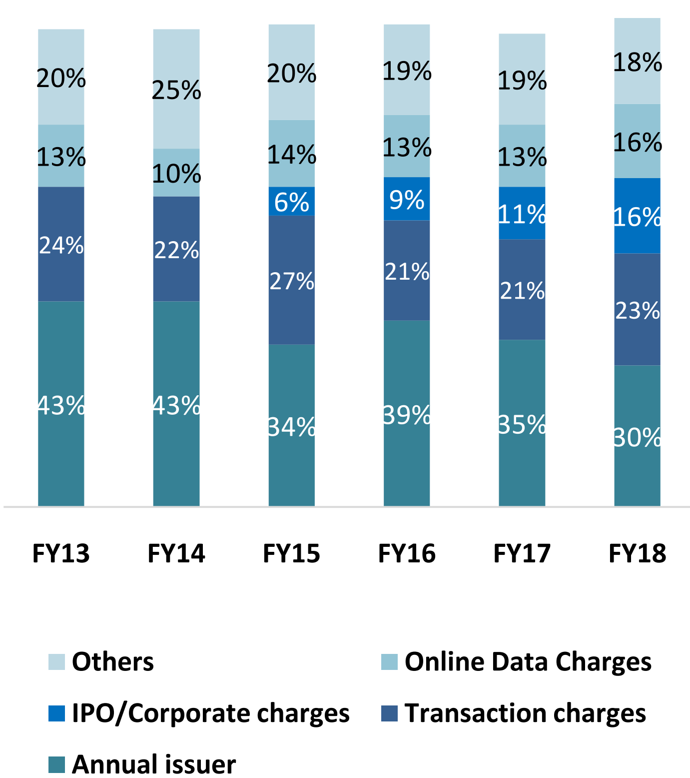
Investment Rationale

➢ CDSL: Diversified revenue stream

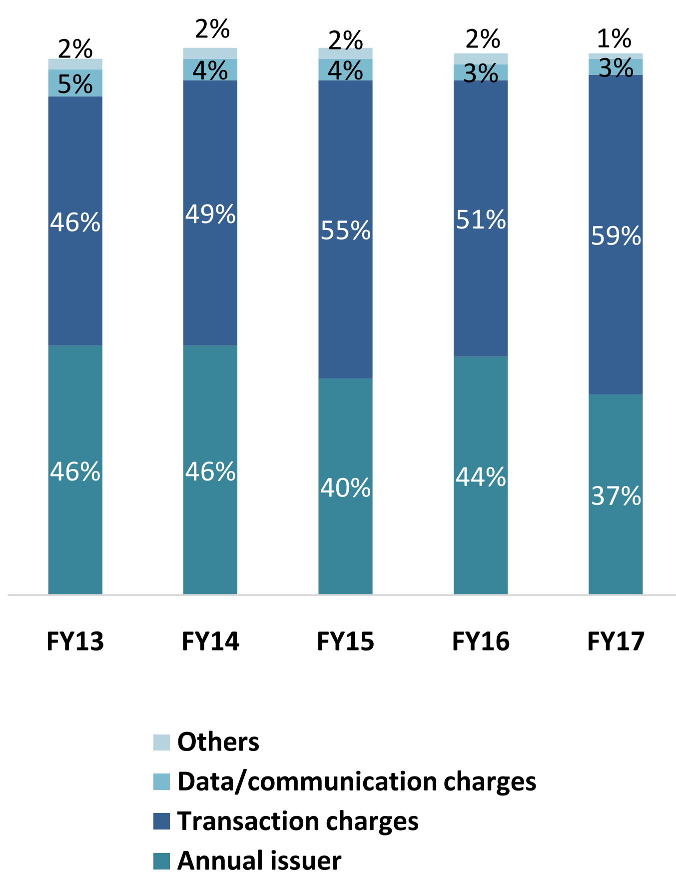
CDSL has a well diversified revenue mix with a higher proportion of annuity revenue which is not market linked and non-cyclical.

- CDSL derives ~21% of revenue from transaction charges; this is market linked and depends on the no. of debit transactions processed. Over the long term it has grown at a CAGR of 9% overFY13-17.
- IPO & corporate action/online data charges (KYC) constitute 11/13% to revenue and have grown at a CAGR of 63/13% over FY13-17. The robust growth in IPO and corporate revenue is due to the higher no. Of IPOs and corporate actions in the last three years.
- Online data charges revenue is mainly the revenue derived from CDSL ventures (100% subsidiary of CDSL). CDSL Ventures provides KYC services for investors in the capital markets, including the mutual fund industry. It has ~70% market share andholds~16mn investor records. Revenue has grown 13% CAGR over FY13-17.
- Other revenue (19% of revenue) include e-voting, account maintenance, settlement charges, GST Suvidha, warehouse repository services, Insurance repository and e-CAS (consolidated account statement).

CDSL Revenue Breakup- Well diversified



NSDL Revenue Breakup: Transaction and annual issuer charges are 96% of total



➢ Tariff structure: More flexible v/s competition

- Annual issuer charge is the fees charged to corporates annually for offering Demat services. The annual issuer charge is fixed by SEBI and revised periodically (was last increased in FY16 from Rs 8/folio to Rs 11/folio). CDSL and NSDL charge Rs 11/folio or follow a slab based structure based on issued capital, whichever is higher.
- In order to bring down the cost of DP operations, CDSL follows a slab based structure. It ranges from Rs 4.25 to 5.5/debit based on the total monthly billing. On the other hand NSDL charges are fixed at Rs 4.5/debit. CDSL's flexible transaction tariff structure encourages higher volumes, with reducing charges on higher volume that can drive scale by bringing more DPs to its platform.
- Another key positive about CDSL traffic structure is that it does not charge anything to DPs if there are no transactions. NSDL on the other hand charges a fixed minimum fee irrespective of whether or not the BO has made any transactions. This has helped CDSL to penetrate more into retail BO accounts and is also gaining market share.
- For IPO's, CDSL charges Rs 2/folio for verification and Rs 10/folio on allotment to the issuing company. For corporate actions like bonus/split the charges are Rs 10/folio.
- CDSL has 9,887 issuers and revenue/issuer is Rs 52,305. NSDL's revenue/issuer stands at Rs 52,651.

Transaction Charges	CDSL	NSDL
Monthly Transaction Bill Amount (Rs)	Rate per Debit (Rs)	Rate per Debit (Rs)
> Rs 1.5mn	4.3	Flat rate of Rs 4.5/debit transaction
Rs 0.4mn to Rs 1.5mn	4.5	
Rs 0.1mn to Rs 0.4mn	5.0	
Up to Rs 0.1mn	5.5	

Annual issuer charges based on no. of folios and issued capital, whichever is higher	CDSL	NSDL
Annual Issuer Charges per folio	Rs 11	Rs 11
Nominal Value of Securities		
Issued capital up to Rs 50mn	9,000	9,000
Issued capital between Rs 50-100mn	22,500	22,500
Issued capital between Rs 100-200mn	45,000	45,000
Issued capital greater than Rs 200mn	75,000	75,000
Corporate action fee/record	Rs 10	Rs 10

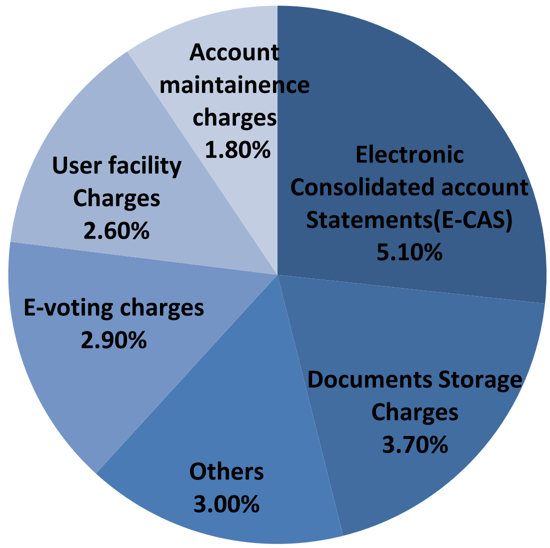
➢ CDSL operates at robust margins: Embedded non-linearity

- CDSL has a fixed cost structure where Employee/IT cost is 37/13% of total cost and 17/6% of revenue. Employee cost and IT cost has grown at a CAGR of 10/6% over FY13-17 v/s 13% growth over the same period in top-line, reflecting non-linearity.
- Contribution to Investor protection fund (IPF) has declined by 23% over FY13-17 led by change in SEBI regulations. In FY16 SEBI revised the percentage of contribution to IPF from 25% of profit to 5% of profit with retrospective effect. This has led to the healthy expansion of EBITDA margin from 74% in FY13 to 77.83% in FY18.
- Other expenses (ex IT cost & IPF) have grown at a CAGR of 12% over FY13-17. These comprise Annual SEBI fees, legal & professional charges and postage & communication charges.
- NSDL on the other hand operates at an EBITDA margin of 59% for FY18. Employee/IT cost is almost in-line with that of CDSL but the major difference is in the other expenses. NSDL's other expenses are 33% of revenue as compared to 20% for CDSL, which suggests better cost management by CDSL.

➢ New avenues for growth

- In line with the Digital India initiative, Government is creating repositories for insurance policies, academic certificates and warehouse receipts. CDSL is well poised to capture this opportunity through its subsidiaries CDSL Ventures Ltd, CDSL Insurance Repository and CDSL Commodity Repository.
- Academic Depository Services: Govt. has set-up the National Academic Depository (NAD) in 2017 for storing secured authenticated copies of academic certificates online. NAD will register various academic institutions, boards, students, and other verifying entities like bank, companies and government agencies. CDSL Ventures is one of the two depository registered with NAD, and will assists these academic institutions for uploading data on its servers.
- CDSL is currently not charging anything to the academic institutions for uploading their data. But once CDSL builds the database, it can be used to generate revenue based on pay per use basis. Currently the progress is slow, CDSL has tied up with~67-70 universities for uploading data but the opportunity here is interesting and materially large.
- Insurance Repository Services: CDSL through its subsidiary CDSL Insurance Repository provides depository services for e-insurance policies issued by insurance companies. Online storage of policies will give more transparency and flexibility both to the insurance company and the buyer.
- According to a report by BCG, online sales of insurance policies through online channel will grow 20x in 2020. Three out of every four policies are sold through Digital channel. Currently CDSL has opened 325,000 e-insurance accounts and holds 66,000 policies in electronic form.
- CDSL Commodity Repository Ltd (CCRL): CDSL has setup a commodity repository under CDSL Commodity Repository which will be governed by Warehousing Development Regulatory Authority (WDRA). CDSL will own 52% and BSE and MCX will own 24% each in the the repository. CCRL has received registration certificate in Sep-2017 but the the regulatory framework is still under development.
- Government has launched the Electronic Negotiable Warehouse Receipt (e-NWR) in Sep-2017 to help farmers get better prices for their produce. These receipts can be stored on CCRL and can be traded.
- CDSL also provides other value-added services like e- voting to corporates, online drafting solutions for wills through Myeasiwill (~1,000 registrations), e- Notices as part of the Ministry of Corporate Affairs' Green Initiative, Corporate Bond Repository, KYC search assistance for Aadhaar card holders and GST Suvidha Provider.
- Electronic consolidated account statement (e-CAS) and document storage charges are the main components of others revenue, 5.1/3.7% of revenue.These services in total constitute 19% of CDSL revenue, which has grown at a CAGR of 11% over FY13-17.

Others Revenue Breakup



List of Subsidiaries for different business

Subsidiaries	Year of commencement	Business
CDSL Ventures Ltd	2006	KYC for Mutual funds, National Academic Depository (NAD)
CDSL Insurance Repository Ltd	2011	Storage of E- insurance policies
CDSL Commodity Repository Ltd	2017	Commodity Warehouses, Repository Participants

➢ Fixed cost model

Stable growth in annual issuer charges, increased market traction, higher no of IPO and huge in-flow in MFs (KYC), can combine to deliver revenue CAGR of 22% over FY17-20E. CDSL has a fixed cost structure (employee/IT cost is 37/13% of total cost in FY17). Revenue has risen at 13% CAGR over FY13-17, while cost increased by only 5% over the same period.

➢ High Entry Barriers

The sector is highly regulated and there is limited scope for any depository to differentiate in pricing and offerings. Annual Issuer charges are fixed by SEBI and the two depositories have to offer the same without any

changes or modifications. Some flexibility does exist in DP and transactions charges but SEBI monitors the changes very closely. Globally there are maximum 2 depositories in a country for example China has 2 depositories 1 for debt and another for equity , and other countries like US,UK etc have 1 depositories only

- **Focusing on developing new DPs relationships and leveraging existing DP network:**

It also aims to strategically expand its network of DPs and service centres to better reach potential investors. CDSLcurrently expect that a significant portion of its new DP relationships will include DPs present in tier II and tier III cities due to relatively lower scale of DP services currently available in these cities.

- **Benefit from Rising capital market and shift in savings pattern in India**

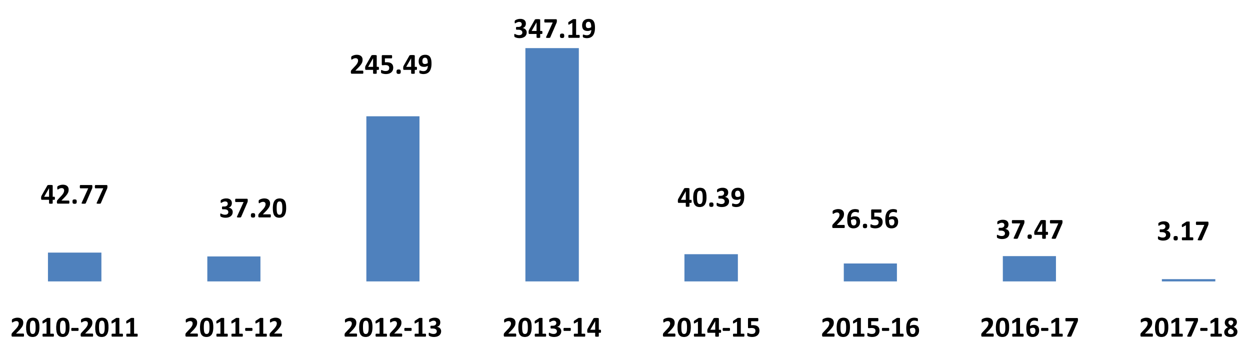
- India's demographic dividend, growth in per capita income and savings, along with government initiatives will boost participation in the capital markets.
- There is a shift in savings pattern as shares and debentures are now forming 10% of household gross financial savings as compared to 2% in FY 12.

- **Zero-debt & healthy balance sheet**

CDSL has high operating leverage in its business. It is consistently free cash flow generating company which doesn't needs to be reinvested as the business is self-sustainable with ROE of 22.93% in FY2018.

Free Cash Flow

(Rs in cr.)



Risks and Concerns

- **Appointment of CERSAI as central KYC registration agency may have a significant adverse impact on the business prospects:**

Since the GoI has authorised CERSAI (Central Registry of Securitisation Asset Reconstruction and Security Interest of India) to act as, and to perform the functions of, the central KYC records registry under the Prevention of Money Laundering Rules 2005, including receiving, storing, safeguarding and retrieving the KYC records in digital form, its subsidiary, CDSL Ventures may lose a substantial portion of its business.

- **Large proportion of business is transaction-based and dependent on trading volumes:**

A large proportion of CDSL's business is transaction based and dependent on a number of external factors, such as delivery-based trading activity and price levels on the major stock exchanges of India. Therefore, any declines in trading volumes and market liquidity would adversely affect the business and profitability may experience fluctuations.

- **Require a number of approvals in relation to the business (SEBI)**

CDSL require a number of regulatory approvals, registrations and permissions to operate its business, including at a corporate level as well as at the level of each of its branches. Further, its operations are subject to continued review and the governing regulations may change.

- **Over dependence on Capital Markets**

If there is a shift in consumer preferences away from investing and trading in securities to other products and services, it could significantly reduce demand for services. If a significant portion of CDSL existing service offerings becomes outdated or loses market favor and it is unable to offer new services in their place, or if it fails to increase the demand by investors for its services, its business, results of operations and prospects could be materially adversely affected.

Financials

Consolidated Statement of Assets and Liabilities

Rs in Crores

Particulars	2012	2013	2014	2015	2016	2017	2018
ASSETS							
Non-Current Assets							
Tangible Assets	6.00	6.69	6.64	5.10	3.02	4.65	74.63
Intangible Assets	0.23	2.21	29.76	1.55	0.65	0.82	1.45
Financial Assets							
- Investments	57.76	25.75	44.68	223.20	210.40	272.89	358.74
- Loans	1.39	10.45	12.80	0.08	0.03	0.08	0.09
- Other Financial Assets	2.91	4.61	4.03	35.26	29.58	24.98	26.03
Current Assets							
Current Investments	249.67	316.23	330.70	190.88	247.00	230.00	158.73
Inventories	0.00	0.00	0.00	0.00	0.00	13.27	18.85
Financial Assets							
- Trade Receivables	6.68	8.45	6.19	6.90	13.00	31.43	5.91
- Cash & Cash Equivalents	35.98	35.32	40.97	42.27	40.36	16.88	41.03
- Loans	5.02	2.44	2.28	0.11	0.08	0.11	0.09
- Other Financial Assets	0.00	0.00	0.00	3.34	6.54	9.69	8.12
Other Current Assets	0.00	1.99	2.50	3.51	1.78	2.13	2.38
TOTAL ASSETS	**367.63**	**415.51**	**481.56**	**510.47**	**552.79**	**607.18**	**699.05**
EQUITY AND LIABILITIES							
Equity							
Equity Share Capital	104.50	104.50	104.50	104.50	104.50	104.50	104.5
Other Equity	198.52	224.01	248.91	311.50	374.81	428.82	494.25
Non-Current Liabilities							
Deferred Tax Liabilities	0.00	0.00	0.11	1.03	2.91	0.60	0.75
Other Liablities	20.74	21.56	21.63	0.31	0.51	0.74	1.28
Current Liabilities							
- Provisions	0.00	26.69	26.78	1.83	5.01	7.57	8.83
- Trade Payables	2.16	5.14	5.63	7.10	7.31	8.98	13.04
- Other Liabilities	0.00	0.00	0.00	22.86	22.92	23.22	32.29
Other Current Liabilities	19.87	21.27	33.83	47.18	16.89	12.10	17.78
Current Tax liabilities	10.87	0.00	0.00	0.51	3.41	5.18	4.54
TOTAL LIABILITIES	**367.63**	**415.51**	**481.56**	**510.47**	**552.79**	**607.18**	**699.05**

Consolidated Statement of Profit and Loss

Rs In Crores

Particulars	2012	2013	2014	2015	2016	2017	2018
INCOME							
Revenue from Operations	96.24	90.74	88.93	105.28	122.85	146.00	191.02
Other Income	24.49	33.30	33.89	40.18	38.48	40.84	34.65
Total Revenue	120.73	124.04	122.82	145.46	161.33	186.84	225.67
EXPENSES							
Impairment loss	0.00	0.00	0.00	1.13	1.11	0.19	0.00
Employee Expenses	12.4	17.15	17.45	19.20	21.48	24.86	30.33
Other Expenses	23.17	37.86	38.76	39.76	36.33	41.51	46.97
Total Expenses	39.77	57.61	61.17	66.33	63.11	70.26	84.24
EBITDA	**77.74**	**87.82**	**68.31**	**67.46**	**87.05**	**135.51**	**120.28**
EBITDA Margin (%)	82.45%	91.25%	75.28%	75.86%	82.68%	110.31%	82.38%
Depreciation & Amortisation Expenses	4.2	2.60	4.96	6.24	4.19	3.70	6.94
EBIT	**83.62**	**65.71**	**62.50**	**80.81**	**131.32**	**116.58**	**141.43**
EBIT Margin (%)	86.89%	72.42%	70.28%	76.76%	106.89%	79.85%	74.04%
Finance Costs	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Profit before Exceptional Item & Tax	80.96	66.43	61.65	79.13	98.22	116.58	141.43
Exceptional Item	2.66	-0.72	0.85	1.68	33.10	0.00	0.00
PBT	**83.62**	**65.71**	**62.50**	**80.81**	**131.32**	**116.58**	**141.43**
PBT Margin (%)	86.89%	72.42%	70.28%	76.76%	106.89%	79.85%	74.04%
Tax Expenses	22.91	16.88	12.94	23.30	40.18	29.98	37.78
PAT	**60.71**	**48.83**	**49.56**	**57.51**	**91.14**	**86.60**	**103.65**
PAT Margin (%)	63.08%	53.81%	55.73%	54.63%	74.19%	59.32%	54.26%
EPS	5.30	4.85	4.82	5.52	8.71	8.21	9.87

Cash Flow Analysis

Rs in Crores

Particulars	2012	2013	2014	2015	2016	2017	2018
Cash Flow from Operating Activities	39.19	251.70	353.27	42.95	28.41	42.74	79.29
Cash Flow from Investing Activities	(34.31)	(0.86)	(12.53)	(19.44)	0.26	18.18	-67.08
Cash Flow from Financing Activities	-4.32	-16.71	-23.45	-23.47	-27.67	-31.44	-37.73
Free Cash Flow to Firm	**37.20**	**245.49**	**347.19**	**40.39**	**26.56**	**37.47**	**3.17**

Financial Ratios

Particulars	2016	2017	2018
BVPS	45.87	51.04	57.30
P/E (x)	18.15	31.86	27.21
P/B (x)	-	26.16	2.69
Market cap / Sales (x)	9.65	14.63	12.44

- The revenue growth performance has been robust, due to increased market activity, higher no of IPO's & corporate actions and increased sale of MF's.
- Issuer charges are fixed by SEBI and there is very little scope for differentiation. The difference lies in the way issuer fees are charged (folio or slab basis). Roughly ~15% of the companies are charged on folio basis but contributes ~50% of revenue, resulting in higher yield.
- Transaction charge is a function of the no of debit/BO account and is moderately cyclical in nature. With increased market activity transaction charges will grow gradually.
- IPO/corporate action has registered robust growth in the last two years due to higher no of IPO's and corporate action.
- CDSL operates at a healthy EBITDA margin with embedded non linearity, which led to healthy margin expansion
- CDSL has a diversified revenue stream, with a high component of annuity revenue. Growth in market activity and higher number of IPOs will fuel transaction/IPO revenue. Embedded non-linearity and will lead to margin expansion. No CAPEX will lead to lower depreciation and revenue growth will directly flow to Profit and eventually generate free cash

Peer Comparison

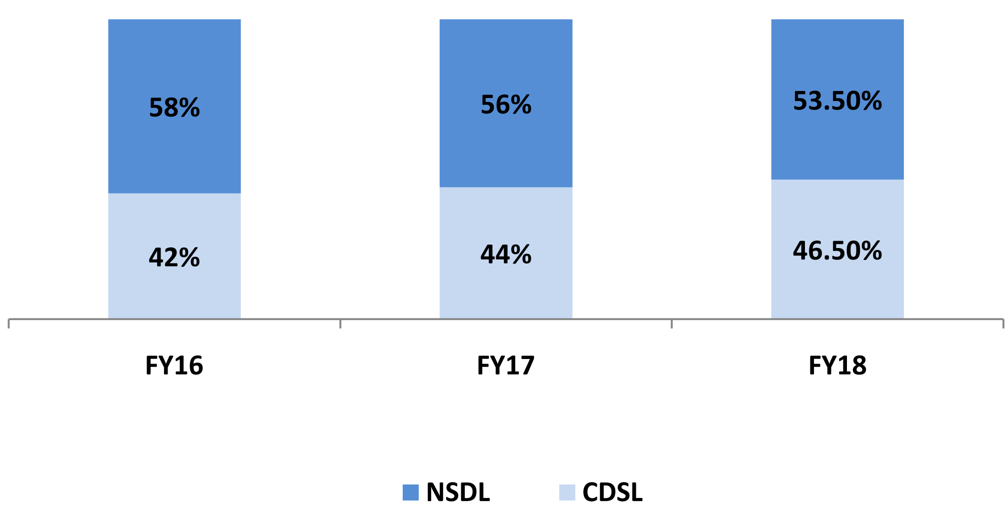
➢ CDSL gaining market share

CDSL has been consistently gaining market share from NSDL despite being a late entrant in the market. NSDL started operations in 1996 while CDSL was incorporated in1999.

REASONS:

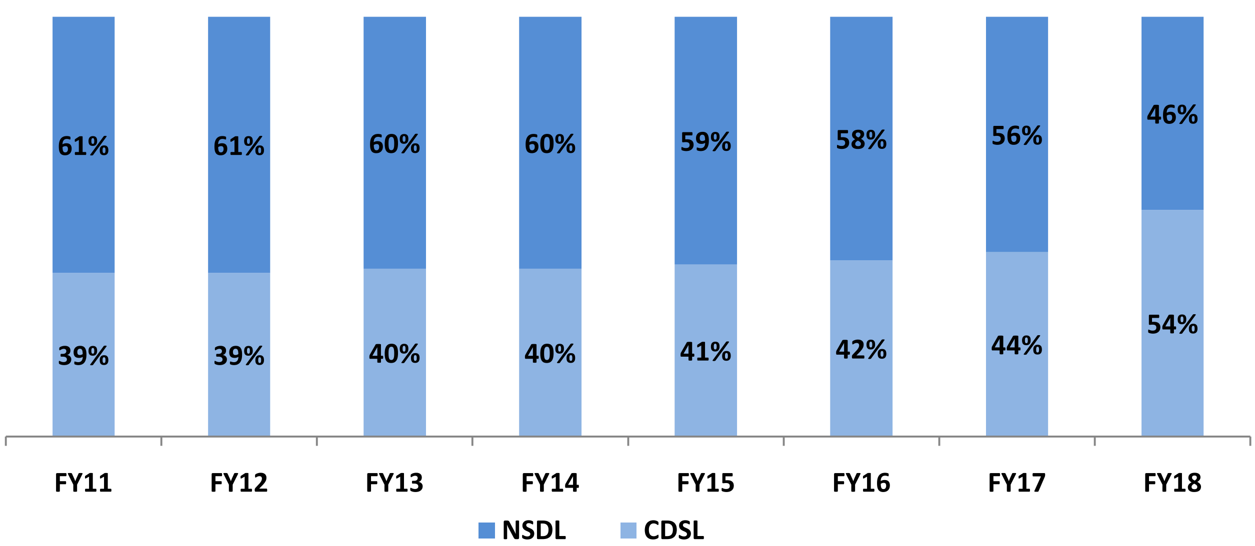
- Relaxed net worth and deposit requirement: Minimum net worth requirement for CDSL DPs is Rs 20mn vs. Rs 30mn for NSDL. Similarly the minimum deposit required for CDSL id Rs 0.5mn vs. Rs 1mn for NSDL. This helps in more retail penetration for CDSL and small brokers can also act as CDSL's DP.
- Lower set-up cost: DPs can directly connect to the CDSL centralized server, enabling plug-and-play model. On the other hand, brokers registered with NSDL have to invest in an on-premise server to interact with NSDL's IT systems, which requires an up-front investment. Thus the initial cost of setting up a DP with CDSL is much less than that of NSDL.
- CDSL also offers attractive slab based traffic structure to DPs, rewarding them for higher volumes. CDSL also offers zero custodian fees to DPs and lower settlement fees.
- Some of the DPs suggest that CDSL is more flexible and relationship managers respond more promptly to queries raised by DPs. While NSDL has more DP service centers, the geographical spread of CDSL is better than that of NSDL

Market Share by revenue of CDSL and NSDL:



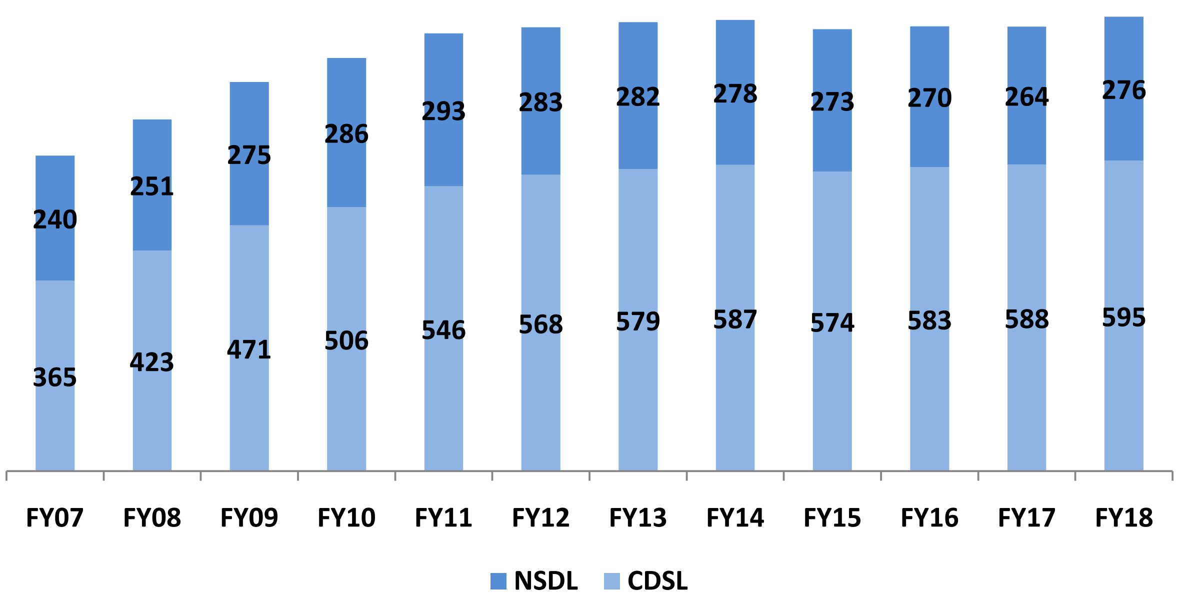
CDSL market share has increased from 42% in FY16 to 46.5% in FY18.

No. of BO Accounts

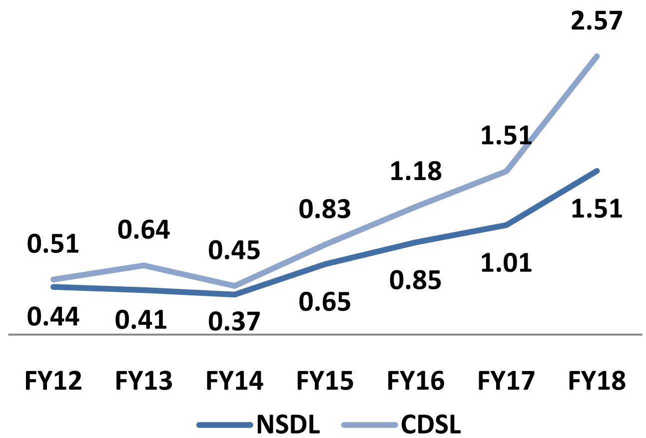


The no. of Beneficiary Owner (BO) accounts with CDSL has risen at a 10 year CAGR of 17.9% to 12.3mn in FY17. India's total BO accounts have grown at a 10 year CAGR of 10.5%, while NSDL's count of BO a/c's has grown at 7.0%.

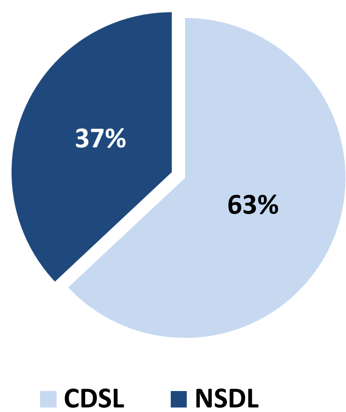
No. of DP Registered



No. of incremental BO Accounts

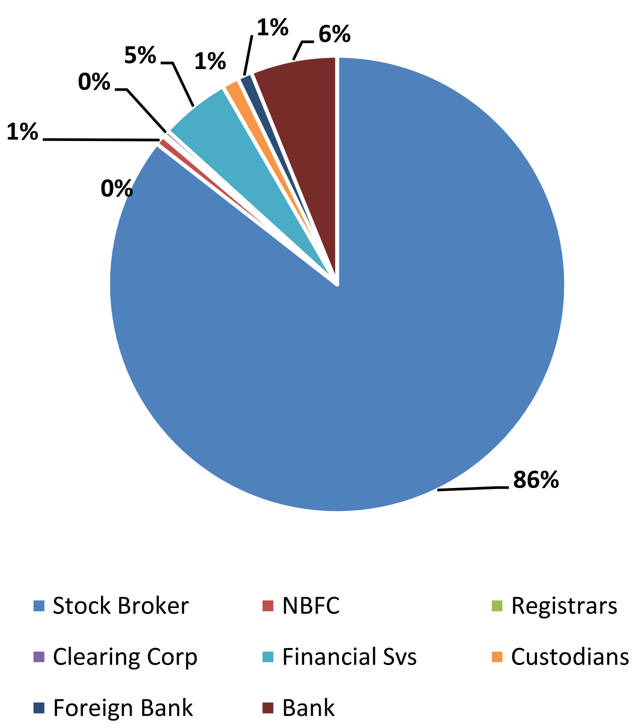


Market share as per incremental BO Accounts

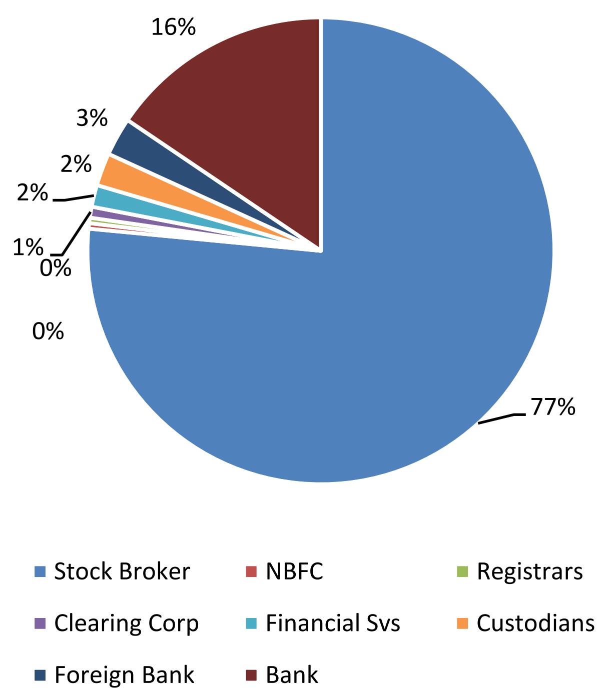


CDSL has gained in market share with respect to incremental demat accounts from 46% in Fiscal 2012 to 62.99% in Fiscal 2018.

CDSL DP's Split (2017)



NSDL DP's Split (2017)



Growth across parameters	CAGR 5Y (till FY2017)	CAGR 10Y (till FY2017)	CAGR 15Y (till FY2017)
No of Companies Available in Demat			
NSDL	13%	11%	9%
CDSL	1%	7%	5%
No of DPs			
NSDL	-1%	1%	1%
CDSL	1%	5%	8%
DP Service Centers			
NSDL	14%	17%	20%
CDSL	11%	39%	28%
No. of Dematerialized Securities			
NSDL	18%	20%	22%
CDSL	13%	23%	26%

CDSL Valuation and Outlook

We believe the business should command higher multiple because it is less cyclical in nature vs exchanges (MCX, BSE) and brokerages (ICICI). We assign a P/E multiple of 27x to core earnings and add back net cash to arrive at a TP price of Rs 325 (25% upside from CMP). CDSL's bottom line grew at a 5Y-CAGR of 16.25%, assuming the same will continue in the next year; PAT might be around Rs. 120.49 in FY2019. The next best depository in this sector i.e. NSDL operates with lesser margins as compared to CDSL so at P/E multiple of 27x of earnings, value is imminent and merits a BUY. We initiate coverage on CDSL with a BUY rating and TP of Rs 325.

Rationale behind the Target Price Valuation:-

Particulars			(in Cr.)
Current Net Profit (FY2018)		A	103.65
5Y-CAGR		B	22%
Projected Net Profit	(A+B)	C	125.80
Expected P/E		D	27
Projected Market Cap	(C*D)	E	3,397
Current Market Cap		F	2,707.59
Anticipated percentage increase	(E/F)	G	25.46%

As no company can keep their shares or bonds in physical form and have to keep them in de-mat form mandated by government and conversion deadline is till December 2018 so depositories have a huge pool of opportunity lying ahead for them. This duopoly enjoys the benefit of positive capital market outlook and increased participation on the other hand it faces a challenge of limited pricing power due to SEBI regulations.

We see value based on (1) Diversified revenue stream, (2) Fixed cost model, (3) Limited competition(4) Healthy balance sheet (Net cash of Rs 4.9bn, ~90% of BS), (5) High return ratios (RoE 23%, RoNW 17%) (6) Option value of new growth engines like NAD and e- warehouse receipts (4) No CAPEX required to fund growth, (5) Asset light model (6) Excellent operating cash generation CDSL's growing market share, high margin command and high return ratios make it worth a look.

Source :
Company’s Annual Reports, RHP presentations, Proprietary Research, News, NSDL Annual Reports

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