

Central Depository Services (India)

Rs 464
Gaining share in an expanding market

Sensex: 41,893

Nifty: 12,264

FINANCIALS SUMMARY

	SALES	OPM (%)	OP	OTHER INC.	PBDT	DEP.	PBT BEFORE EO	EO	PBT AFTER EO	TAX	PAT BEFORE MI	MI#	PAT	PPA	PAT AFTER PPA	EPS (Rs)*
1903 (12)	196.25	55.5	108.93	49.19	158.12	9.92	148.21	0	148.21	33.38	114.83	1.31	113.51	0	113.51	10.9
2003 (12)	225.06	47.3	106.36	56.96	163.32	11.73	151.58	15.14	136.45	31.47	104.98	0.56	104.41	1.74	106.16	11.3
2103 (12P)	314.06	58.89	184.96	63.48	248.44	11.06	237.38	0	237.38	59.65	177.73	1.18	176.54	0	176.54	16.9
2203 (12P)	376.87	57	214.82	69.83	284.64	12.17	272.48	0	272.48	68.66	203.81	1.42	202.39	0	202.39	19.4

*Annualized on current equity of Rs 104.5 crore of face value of Rs 10 each. #MI and share of associates.

EPS Is Calculated After Excluding EO And Relevant Tax. Figures In Rs Crore (P): Projections. Source: Capitaline Database

Central Depository Services (CDSL) is India's largest and only listed depository, which provides convenient, dependable and secure depository services at affordable cost to all market participants. CDSL received its certificate of commencement of business from SEBI in February 1999. Major shareholders of CDSL include BSE, Canara Bank, HDFC Bank, LIC and Standard Chartered Bank.

The company facilitates holding and transacting in securities in the electronic form and facilitates settlement of trades executed on stock exchanges. These securities include equities, debentures, bonds, Exchange Traded Funds (ETFs), units of mutual funds, units of Alternate Investment Funds (AIFs), Certificates of deposit (CDs), commercial papers (CPs), Government Securities (G-Secs), Treasury Bills (TBills), etc.

All leading stock exchanges like BSE (BSE), National Stock Exchange of India (NSE) and Metropolitan Stock Exchange of India (MSEI) and the leading clearing corporations like Indian Clearing Corporation (ICCL), NSE Clearing (NCCL) and Metropolitan Clearing Corporation of India (MCCIL) have established connectivity with the Company.

CDSL maintains and services 2.61 crore Demat accounts of Investors or Beneficial Owners (BOs) spread across India. These BOs are serviced by CDSL's 593 Depository Participants (DPs) from over 20,694 locations, accounting for 95% of the pin codes in India.

CDSL's enduring focus on delivering quality services and innovative products has propelled it on a high-growth path in recent years. Since the financial services industry has become increasingly IT-reliant, cutting-edge technology is at the heart of CDSL's strategic vision.

CDSL along with its subsidiaries also provides a host of services to the financial intermediaries and markets. CDSL Ventures (CVL), a wholly owned subsidiary, looks after "Customer profiling and Record Keeping" for issuance of Know Your Client (KYC) acknowledgement to mutual fund investors. It is the first and largest KYC Registration Agency (KRA) in India with over 2 crore KYC records. The KRA enables a KYC compliant investor to avoid duplication of KYC process while opening an account for the purpose of trading / investment through multiple intermediaries in the securities market. CVL also provides eKYC and is registered as AUA/KUA with UIDAI.

CDSL Insurance Repository (CDSLIR), a 51% subsidiary, is a company registered under the Companies Act, 1956. CDSL IR has received registration certificate from



STOCK DATA

BSE Code	:	Not listed
BSE Group	:	-
NSE Code	:	CDSL
Bloomberg	:	CDSL.IN
Reuters	:	CENA.BO
Par Value	:	Rs 10
52-week High/Low	:	Rs 514 / Rs 180
Sector	:	Miscellaneous

SHAREHOLDING PATTERN *

Category	% of equity
Foreign	12.90
Institutions	31.84
Govt Holding	0.00
Corporate Holding	5.15
Promoters	20.00
Public & Others	30.10

* as on 30/09/2020

Source: Capitaline Databases

Insurance Regulatory and Development Authority of India (IRDAI) 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, a 52% subsidiary 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 maintains and services more than 2 crore Demat accounts of Investors or Beneficial Owners (BOs) spread across India. These BOs are serviced by CDSL's 600 Depository Participants (DPs) from over 19,500 locations. These Depository Participants comprise of Clearing Members, Banks, Custodians & Non-Banking Financial Companies.

Largest depository, sharply gaining market share

The net number of active Demat accounts opened with the company has increased sharply to 2.61 crore end September 2020. CDSL is currently the largest depository in the country in terms of active demat accounts and its sharply gaining market share to 56% end September 2020 from 52% end March 2020 48% end March 2019 and 40% end March 2014.

Number of DPs with CDSL stood at 593 against 280 for NSDL. CDSL has more no of DP's than NSDL due to more retail focus, whereas NSDL is institutional focused. CDSL is more DP friendly than NSDL on various aspects like lower transaction fee for higher volume, zero fixed fees for no activity.

CDSL, which began its operations in 1999, reached the 1 crore (10 million) active demat accounts in September, 2015 and crossed the 2 crore mark in January 2020. However, the company has further sharply accelerated active demat account base to 2.12 crore end March 2020 and 2.61 crore end September 2020. The demat account of NSDL has increased marginally to 2.04 crore end September from 1.975 crore end March 2020.

The growing active demat accounts are testimony to CDSL's ability to offer ease of doing business to its demat account holders, DPs, Registrar & Transfer Agents (RTAs) and Issuers.

The company has added 49 lakh demat accounts in the first half of FY2021, which is higher than 48 lakh accounts added in last full year FY2020. In last one and half year the company has almost added one crore demat accounts. Thus, the number of active Beneficial Owners accounts with CDSL has increased sharply to 2.61 crore end September 2020 from 2.12 crore end March 2020 and 1.74 crore end March 2019. The securities of almost all listed companies have been admitted with CDSL for demat. Further, a large number of private and unlisted companies are also admitted with CDSL. As on 30 September 2020, the securities of 15455 companies have been admitted for demat with CDSL.

Offering multiple services

CDSL's clientele can be broadly classified into six main categories namely:

- Depository Participants (DPs): An investor opens an account through the agent of depository known as Depository Participant. After opening the account, the investor can convert the physical shares issued by issuers companies into electronic mode through the DP. An investor can transfer

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securities from his account to any account by submitting the delivery instruction slip to the DP.

- Issuer companies: A wide range of securities including equity shares, preference shares, mutual fund units, debt instruments, government securities, etc. are available for dematerialization in CDSL. CDSL enables issuer companies to credit securities including non-cash corporate benefits to a shareholder's or applicants demat account.
- Capital market intermediaries: CVL is SEBI registered KRA which offers KYC services to investors in Indian Capital markets.
- Insurance Companies: Through its subsidiary, CDSL Insurance Repository Limited, the Company offers facilities for holding of insurance policies in electronic form.
- Warehouse Service Providers / Warehouses: Through its subsidiary, CDSL Commodity Repository Limited, the Company offers facilities for holding and transacting of warehouse receipts in electronic form.
- Others: CDSL offers other online services such as e-voting, e-Locker, National Academic Depository (NAD), easi (Electronic Access to Security Information), easiest (Electronic Access to Securities Information and Execution of Secured Transaction) and mobile application (Myeasi, m-Voting).

Moreover, 541 universities have signed up with CDSL for the National Academic Depository.

Diversified revenue streams

CDSL has a diversified revenue stream, 35% of the revenue is annuity in nature and 42% is market linked (Transaction, IPO/corporate action and KYC).

Annual Issuer Charges contributing to around 35% of revenues are recovered from corporates. Irrespective of a bull or bear market, these are the charges payable by corporate every year to CDSL. The growth in this vertical is triggered by addition of new companies and any increase in the annual charges as levied by CDSL. The opportunity related to demat of 60K unlisted public companies is unfolding and hike in Annual issuer charges are future growth drivers.

Transaction charges contribute around 20% of revenues earned through a transaction charge of Rs 18.5, every time a delivery based transaction is executed through a stock broker who has availed CDSL as their depository. Irrespective of whether the investor sells 100 shares or 10 lakh shares, per transaction CDSL will earn Rs 18.5. Hence, the transaction charges are dependent on transaction volumes. More the delivery-based transaction volumes, higher will be the transaction income.

Know Your Customer (KYC) revenues contributes around 15% of revenues through its wholly owned subsidiary-CVL Ventures, which is in the business of doing Know Your Customer (KYC) for capital market intermediaries. CVL is the largest KYC Registration Agency (KRA) controlling about 60% of the market share in the KYC of capital market. There is a compulsory requirement of furnishing of PAN for doing KYC in capital market. Hence, CDSL verifies the PAN details as submitted by user in the KYC form as well as does an in-person verification check of the user.

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Another major source of revenues is from IPO and corporate action of around 10% of the consolidated revenues that includes bonus issue, right issue, split of shares, mergers, amalgamations, buy-back etc. The more the corporate actions and IPOs, the higher will be the revenue from this segment.

Many fresh revenue streams

CDSL also conducts e-voting for passing resolutions and send e-CAS statements which are some other revenue streams for the company and these revenues are non-cyclical in nature.

SEBI vide circular no. SEBI/HO/MIRSD/DOP/CIR/P/2020/28 dated 25 February 2020 had prescribed a new system of margin pledge wherein the shares lying in the investor's account would be pledged to the trading member and in turn to the clearing members and Clearing Corporation. This system would ensure that there would not be any need to transfer the securities from the investors' account to the trading members or clearing members for purpose of pledging it with the Clearing Corporation for the purpose of margins as per the extant risk containment system prescribed. CDSL currently charges Rs 5 for margin pledge / margin unpledge involving the end investor, while levying a charge of only Re 1 for each margin repledge or unpledge of margin repledge. The new system of margin pledge is going to become routine income stream for the company, going ahead.

Annual issuer charges accounting for one-third of the revenues of the company, are regulated and decided by the SEBI. The decision on hike in annual issuer charges is due, but SEBI has delayed decision on the same due to pandemic. However, once the SEBI decide on the change in charges, it will boost the revenues of the company ahead.

The Ministry of Corporate Affairs has issued guidelines that the unlisted companies have to de-materialize shares before any transfer or corporate action. There are about 80,000 unlisted companies in India. Out of that nearly 11000 have been admitted for de-materialisation so far. This provides significant revenue opportunity for the company.

State-of-the-art technology and infrastructure

Maintaining and improving technology is critical to CDSL's business. The company intends to regularly allocate optimal resources towards upgrading IT infrastructure and systems, with the goal of improving market efficiency and transparency, enhancing user access and providing flexibility for future business growth and market needs. The company prioritizes the improvement in cyber-security framework and information security management systems. The company was identified as a National Critical Information Infrastructure by National Critical Information Infrastructure Protection Centre. The company also plans to invest further in IT and data management systems to improve productivity and time savings thereby increasing operating efficiency. The focus of the company is to create safe, secure and sustainable platform for the investors.

High entry barriers

The depository industry in India comprises of two players: NSDL (promoted by NSE) and CDSL (promoted by BSE). NSDL was the first depository established in India (in 1996), followed by CDSL (in 1999). The chances of a successful third depository in India are very thin. Moreover, with the strong parental lineage,

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these existing two depositories have a clear advantage over any new entrant Robust account addition and strong market activity boost earnings in H1FY2021 Central Depository Services has posted robust 66% growth in consolidated net profit to Rs 48.75 crore for the quarter ended September 2020. The consolidated revenue of the company increased 69% to Rs 89.20 crore in Q2FY2021. Operating margin (OPM) increased by sharp 1437 bps to 60.93%. As a result, the operating profit (OP) climbed up 122% to Rs 60.93 crore. Other income declined 28% to Rs 11.96 crore. Depreciation fell 13% to Rs 2.60 crore. PBT moved up 67% to Rs 63.71 crore in Q2FY2021. The tax expenses were up by 62% to Rs 14.84 crore. The effective tax rate eased 68 bps to 23.29%. The PAT before MI and Share in Profit of Associates gained 68% to Rs 48.87 crore. After accounting loss of Rs 0.12 crore in minority interest, the Net Profit jumped by 66% to Rs 48.75 crore.

For six months ended September 2020, the consolidated revenues of the company were up 39% to Rs 154.47 crore. OPM zoomed by 1736 bps to 59.8%, thus, OP galloped 96% at Rs 92.40 crore. Other income advanced 11% to Rs 32.71 crore. After accounting for depreciation (down by 11% at Rs 5.06 crore), the PBT increased 69% to Rs 120.04 crore in H1FY2021. After EO of Rs 2.23 crore for H1FY2020, PBT increased 64% to Rs 120.04 crore. The effective tax rate eased 418 bps to 20.4%. Thus, the PAT before MI gained 73% to Rs 95.59 crore. After accounting loss of Rs 0.68 crore in minority interest, the Net Profit, as a result, grew by 67% to Rs 94.91 crore in H1FY2021.

Valuation

We expect Central Depository Services (India) to register consolidated EPS of Rs 16.9 in FY2021 and Rs 19.4 in FY2022. The scrip trades around Rs 464 on NSE. P/E on FY 2022 projected consolidated EPS works out to around 24 times.

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CENTRAL DEPOSITORY SERVICES (INDIA) : CONSOLIDATED RESULTS

PARTICULARS	2009 (3)	1909 (3)	VAR. (%)	2009 (6)	1909 (6)	VAR. (%)	2003 (12)	1903 (12)	VAR. (%)
Sales	89.20	52.66	69	154.47	111.07	39	225.06	196.25	15
OPM %	60.93	46.55		59.82	42.46		47.26	55.50	
OP	54.35	24.52	122	92.40	47.16	96	106.36	108.93	-2
Other Income	11.96	16.69	-28	32.71	29.48	11	56.96	49.19	16
PBDT	66.31	41.21	61	125.11	76.64	63	163.32	158.12	3
Depreciation	2.60	2.99	-13	5.06	5.67	-11	11.73	9.92	18
PBT before EO	63.71	38.22	67	120.04	70.97	69	151.58	148.21	2
EO	0.00	0.00	-	0.00	-2.23	-	15.14	0.00	-
PBT After EO	63.71	38.22	67	120.04	73.20	64	136.45	148.21	-8
Tax	14.84	9.16	62	24.45	17.97	36	31.47	33.38	-6
PAT before MI	48.87	29.06	68	95.59	55.23	73	104.98	114.83	-9
MI and share of associates	0.12	-0.25	PL	0.68	0.23	200	0.56	1.31	-57
PAT	48.75	29.31	66	94.91	55.00	73	104.41	113.51	-8
PPA	0.00	0.00	-	0.00	1.74	-	1.74	0.00	-
PAT after PPA	48.75	29.31	66	94.91	56.75	67	106.16	113.51	-6
EPS*	18.7	11.2		18.2	10.5		11.3	10.9	

* Annualized on current equity of Rs 104.5 crore. Face Value: Rs 10 per share, Figures in Rs crore, EPS is calculated after excluding EO and relevant tax

Source: Capitaline Databases