

07 August 2024

India | Equity Research | Q1FY25 results review

Central Depository Services

Exchanges

Strong industry position, lower regulatory risk is well accounted in rich valuations

Depositories remain a structural play on India’s capital markets buoyed by higher retail participation. Central Depository Services (CDSL) benefits from: 1) Leadership (in a duopoly), in terms of number of demat accounts (market share at 77%, as of Jun’24 [calculated as per data on website]); 2) steady non-market-linked revenue (from annuity issuer charges); 3) possible operating leverage ahead despite investments made in FY24; and 4) optionality such as insurance repository and pledge income (pledge income increased from INR 30mn in Q1FY24 to INR 62.5mn in Q1FY25). Quarterly EBITDA of CDSL increased from average of INR 808mn per quarter in FY23 to INR 1,223mn per quarter in FY24 to INR 1,544mn in Q1FY25.

Downside risks: Decline in market volume and threat from alternative identification stacks other than KYC CRA. Upside risks: Revision in annual issuer charges and a sharp increase in market volume as seen in FY21/22.

CDSL – an attractive play in a possible bull market outlook

This is evident from past trends – between FY20–22, CDSL’s stock price bagged 6x returns, significantly higher than AMCs, RTAs, brokers or wealth managers. Similarly, we saw ~88% return in FY24 and ~25% in FY25-TD, as quarterly EBITDA increased to INR 1,479mn in Q4FY24 and INR 1,544mn in Q1FY25 from average INR 808mn in FY23. Average quarterly EBITDA in FY24 was INR 1,223mn.

Maintain HOLD; TP revised to INR 2,235 (from INR 2,142) on 40x (unchanged), FY26E core EPS of INR 51.6 (earlier 49.4)

We factor in FY24–26E revenue/EBITDA/PAT CAGR of 23%/25%/23%. Accordingly, CDSL’s core EPS is estimated at INR 44.2/INR 41.6 for FY25/26E, respectively. We also add free cash investments of INR 170 per share to the valuation. Our 40x multiple reflects strong growth in capital markets (effect of higher demat account is permanent), lower regulatory risk among capital market plays, possibility of operating leverage ahead and growth optionality in insurance depository business.

Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	5,551	8,123	10,787	12,337
EBITDA	3,233	4,894	6,553	7,655
EBITDA Margin (%)	58.3	60.3	60.8	62.1
Net Profit	2,759	4,195	5,460	6,394
EPS (INR)	26.4	40.1	52.3	61.2
EPS % Chg YoY	(10.5)	50.0	30.1	17.1
P/E (x)	87.5	57.6	44.2	37.8
P/B (x)	19.9	16.5	13.7	11.5
Dividend yield (%)	0.7	1.0	1.0	1.3
RoE (%)	23.9	31.3	33.9	33.2

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Market Data

Market Cap (INR)	241bn
Market Cap (USD)	2,874mn
Bloomberg Code	CDSL IS
Reuters Code	CENA.NS
52-week Range (INR)	2,594 / 1,106
Free Float (%)	0.0
ADTV-3M (mn) (USD)	47.1

Price Performance (%)	3m	6m	12m
Absolute	11.3	26.6	90.4
Relative to Sensex	4.7	16.8	70.5

Previous Reports

07-05-2024: [Q4FY24 results review](#)

05-02-2024: [Q3FY24 results review](#)

Q1 annual issuer charges increase 17% QoQ at INR 760mn; expect 17% revenue CAGR in this segment between FY24–26E

Q1FY25 annual issuer charges revenue increased 17%/21% QoQ/YoY to INR 760mn. Strong growth in revenue can be attributed to a combination of increase in demat accounts and positive sentiment in primary and secondary markets. Total demat accounts for CDSL increased by 9.9mn in Q1FY25 vs 5.2mn in Q1FY24. We expect this momentum to continue, and hence, expect a similar run-rate to continue in FY25E. We estimate annual issuer charges at INR 3.1bn in FY25E and INR 3.5bn in FY26E.

Q1 witnessed a decline of 1.3% QoQ in transaction charges; expect revenue CAGR of 28% in this segment between FY24–26E

Q1FY25 witnessed robust 1.3% QoQ decline in transaction charges despite strong growth in overall cash volume as CDSL reduced its transaction charges by 50 paise effective Jun'24. Overall industry cash volume was up 8.5% QoQ in Q1FY25 with BSE's cash ADTV above INR 100bn mark and NSE's cash ADTV above INR 1trn mark in Q1FY25. We expect FY25/26E transaction revenue to be strong as well, at INR 3.1bn/INR 3.6bn, driven by increasing cash volume. Cash ADTV of NSE/BSE in Jul'24 was INR 1.4trn/INR 206bn, respectively.

Revenue from online data charges at INR 530mn, flattish QoQ; expect revenue CAGR of 27% in this segment between FY24–26E

Online data charges remained flat QoQ but increased 120% on YoY basis to INR 530mn. We estimate online data charges at INR 2.1bn/2.4bn in FY25/26E, respectively.

IPO/corporate action charges remain flat QoQ to INR 270mn in Q1FY25

We expect INR 1.3/1.5bn of revenue in FY25–26E.

Overall costs increase higher than expected; company underlines investment in technology

Q1FY25 total opex stood at INR 1,029mn, up 11%/49% QoQ/YoY. This increase in opex was driven by increases in technology expenses. Technology cost increased 28% QoQ for CDSL in Q1FY25. Technology cost for the company has been around infrastructure, application, cyber security and network. As per management, CDSL is an infrastructure company and it has been investing in technology to pre-empt and keep up with the pace of growth in capital markets. Management plans to upgrade hardware application security, and all components of technology. As volumes grow, management also wants to plan for total capacity. This is more of a proactive investment, which will continue to happen to ensure CDSL will have the best type of technology platforms for the market. The technology stack takes time to build in, and hence, CDSL has been investing continuously. CDSL reported PAT of INR 1,342mn in Q1FY25.

Despite these investments, we expect operating leverage to play out gradually for the company and estimate total cost for FY25/26E to be INR 4.2bn/INR 4.7bn, respectively. We estimate EBITDA to be INR 6.6bn/INR 7.7bn in FY25/26E, respectively. We expect EBITDA margin to increase from 60.3% in FY24 to 60.8% in FY25E and 62.1% in FY26E. We estimate CDSL's PAT to be INR 5.5bn/INR 6.4bn in FY25/26E, respectively.

Exhibit 1: Q1FY25 result review

INR mn	Q1FY25	Q1FY24	% YoY	Q4FY24	% QoQ
Net revenues	2,574	1,497	72.0	2,408	6.9
Employee costs	267	226	18.3	276	(3.1)
Technology expenses	258	124	107.5	201	28.1
Other expenditure	504	340	48.4	451	11.6
Total expenditure	1,029	690	49.2	929	10.8
EBITDA	1,544	807	91.4	1,479	4.4
EBITDA margin (%)	60.0	53.9	610 bps	61.4	-142 bps
Other income	295	242	21.9	266	11.0
PBDIT	1,839	1,049	75.4	1,745	5.4
Depreciation	98	58	68.4	80	22.3
PBIT	1,741	991	75.8	1,665	4.6
Interest	0	0		0	
PBT	1,741	990	75.8	1,664	4.6
Tax	405	242	67.2	390	3.8
% of PBT	23.2	24.4	-120 bps	23.4	-19 bps
Adjusted PAT	1,342	737	82.1	1,294	3.7
Adjusted EPS (INR)	12.84	7.05	82.1	12.38	3.7

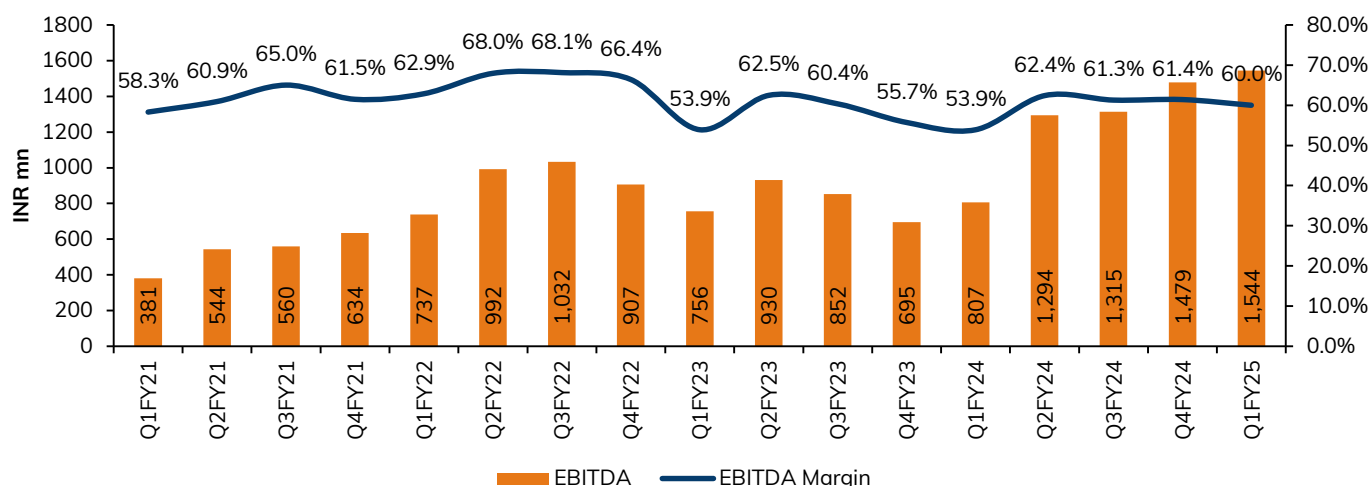
Source: I-Sec research, Company data

Exhibit 2: CDSL's Q1FY25 revenue breakup

INR mn	Q1FY25	Q1FY24	% YoY	Q4FY24	% QoQ
Annual Issuer charges	760	630	20.6	650	760
Transaction revenue	750	360	108.3	760	750
IPO / Corporate action charges	270	100	170.0	270	270
Online data charges	530	240	120.8	520	530
Others	264	167	58.2	208	264
Total	2,574	1,497	72.0	2,408	2,574

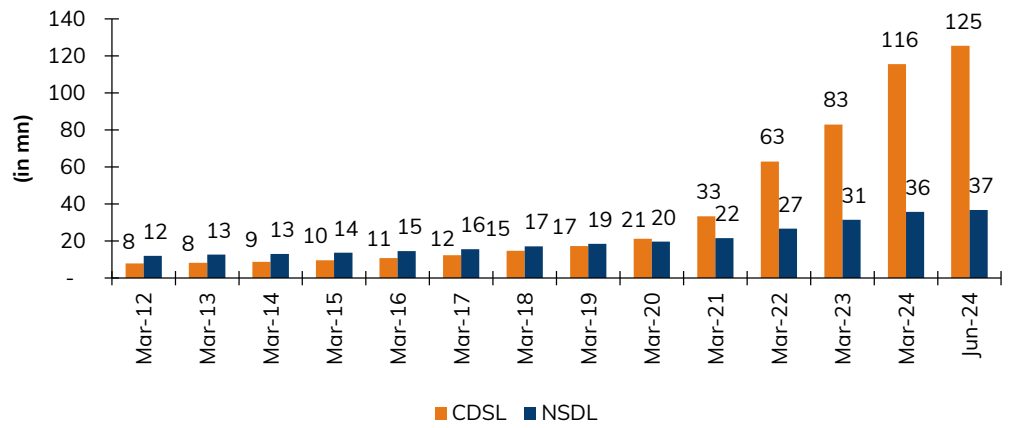
Source: I-Sec research, Company data

Exhibit 3: EBITDA and EBITDA margin trends



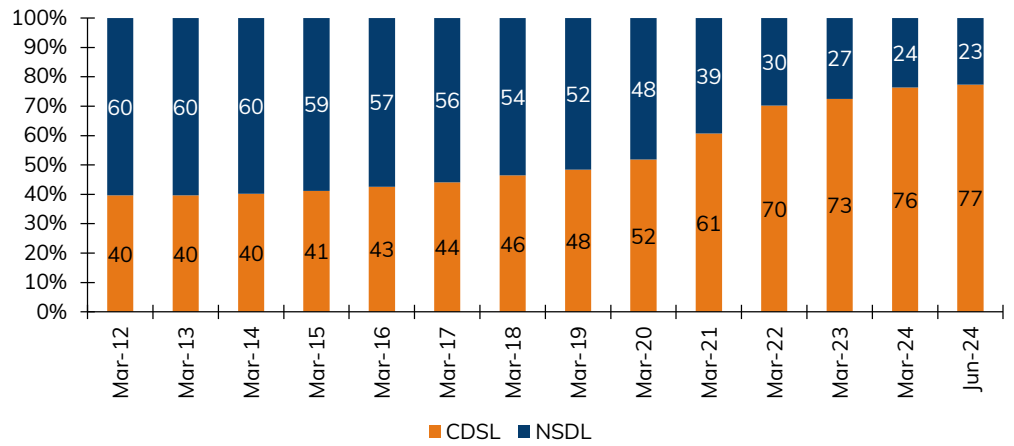
Source: I-Sec research, Company data

Exhibit 4: NSDL and CDSL demat account comparison



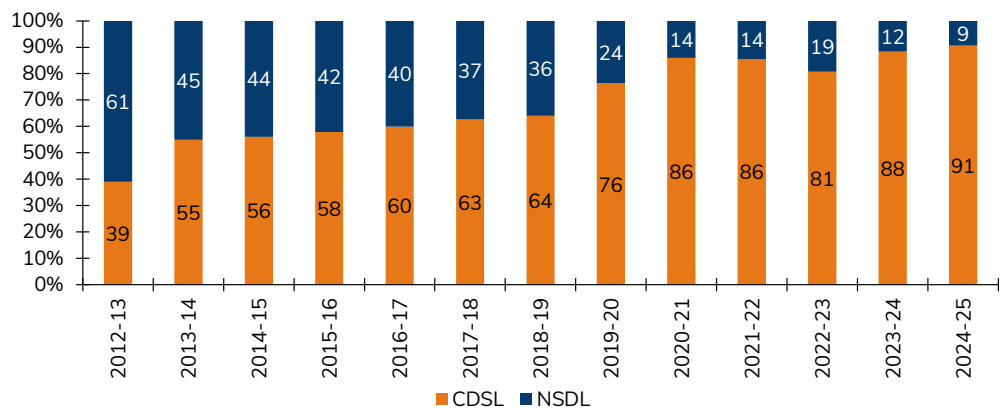
Source: I-Sec research, Company data

Exhibit 5: CDSL has 77% share in total demat accounts



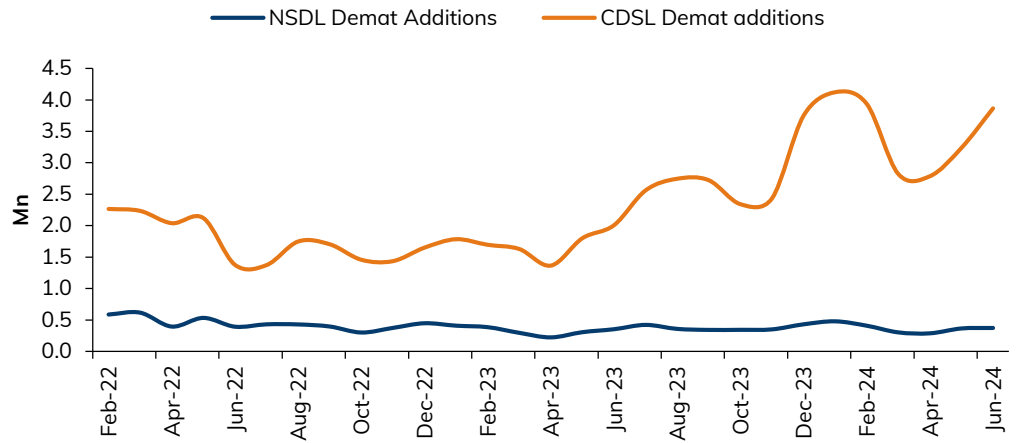
Source: I-Sec research, Company data

Exhibit 6: CDSL has 91% market share in incremental demat accounts in FY25-TD



Source: I-Sec research, Company data

Exhibit 7: NSDL and CDSL monthly demat account addition trends



Source: I-Sec research, Company data

Exhibit 8: Shareholding pattern

%	Dec'23	Mar'24	Jun'24
Promoters	15.0	15.0	15.0
Institutional investors	32.4	34.5	38.5
MFs and others	12.9	13.9	15.9
FIs/Banks	0.1	0.0	0.0
Insurance	8.1	8.9	8.6
FII	11.3	11.7	14.0
Others	52.6	50.5	46.5

Source: Bloomberg

Exhibit 9: Price chart



Source: Bloomberg

Financial Summary

Exhibit 10: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Net Sales	5,551	8,123	10,787	12,337
Operating Expenses	2,317	3,229	4,233	4,682
EBITDA	3,233	4,894	6,553	7,655
EBITDA Margin (%)	58.3	60.3	60.8	62.1
Depreciation & Amortization	195	272	382	442
EBIT	3,039	4,622	6,171	7,213
Interest expenditure	-	-	-	-
Other Non-operating Income	-	-	-	-
Recurring PBT	3,696	5,571	7,316	8,565
Profit / (Loss) from Associates	(44)	(11)	(12)	(13)
Less: Taxes	892	1,365	1,844	2,158
PAT	2,804	4,206	5,472	6,407
Less: Minority Interest	0	0	0	0
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	2,760	4,195	5,460	6,394
Net Income (Adjusted)	2,759	4,195	5,460	6,394

Source Company data, I-Sec research

Exhibit 11: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	1,872	2,435	3,305	3,781
of which cash & cash eqv.	1,235	529	774	887
Total Current Liabilities & Provisions	1,842	2,400	3,188	3,646
Net Current Assets	30	34	117	136
Investments	9,367	11,493	14,045	17,132
Net Fixed Assets	979	3,122	3,440	3,698
ROU Assets	-	-	-	-
Capital Work-in-Progress	1,732	-	-	-
Total Intangible Assets	278	331	331	331
Other assets	344	436	436	436
Deferred Tax Assets	-	-	-	-
Total Assets	12,730	15,416	18,369	21,732
Liabilities				
Borrowings				
Deferred Tax Liability	48	187	187	187
provisions	-	-	-	-
other Liabilities	110	158	158	158
Equity Share Capital	1,045	1,045	1,045	1,045
Reserves & Surplus	11,092	13,588	16,541	19,904
Total Net Worth	12,137	14,633	17,586	20,949
Minority Interest	434	438	439	439
Total Liabilities	12,730	15,416	18,369	21,732

Source Company data, I-Sec research

Exhibit 12: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Operating Cashflow	929	3,040	5,317	6,243
Working Capital Changes	68	(711)	162	94
Capital Commitments	(112)	(2,126)	(2,552)	(3,087)
Free Cashflow	1,042	5,166	7,869	9,330
Other investing cashflow	(35)	(53)	-	-
Cashflow from Investing Activities	(147)	(2,179)	(2,552)	(3,087)
Issue of Share Capital	-	-	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	-	-	-	-
Dividend paid	(1,672)	(2,299)	(2,508)	(3,031)
Others	67	731	(12)	(13)
Cash flow from Financing Activities	(1,605)	(1,568)	(2,520)	(3,043)
Chg. in Cash & Bank balance	(824)	(706)	245	113
Closing cash & balance	1,235	529	774	887

Source Company data, I-Sec research

Exhibit 13: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	26.4	40.1	52.3	61.2
Core EPS	22.0	33.4	44.2	51.6
Cash EPS	28.3	42.8	55.9	65.4
Dividend per share (DPS)	16.0	22.0	24.0	29.0
Book Value per share (BV)	116.1	140.0	168.3	200.5
Dividend Payout (%)	60.6	54.8	45.9	47.4
Growth (%)				
Net Sales	(11.9)	51.4	33.9	16.8
EBITDA	(11.3)	52.0	30.1	17.1
EPS (INR)	(8.4)	51.2	30.8	17.0
Valuation Ratios (x)				
P/E	87.5	57.6	44.2	37.8
P/CEPS	81.7	54.1	41.3	35.3
P/BV	19.9	16.5	13.7	11.5
EV / EBITDA	73.0	48.2	35.7	30.2
Dividend Yield (%)	0.7	1.0	1.0	1.3
Operating Ratios				
EBITDA Margins (%)	58.3	60.3	60.8	62.1
Effective Tax Rate (%)	24.1	24.5	25.2	25.2
Net Profit Margins (%)	50.5	51.8	50.7	51.9
Net Debt / EBITDA (x)	64.5	55.3	47.1	48.4
Profitability Ratios				
RoCE (%)	22.8	29.8	32.3	31.9
RoE (%)	23.9	31.3	33.9	33.2

Source Company data, I-Sec research

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