

MAY 10, 2019

	9-May	% Chg		
		1 Day	1 Mth	3 Mths
Indian Indices				
SENSEX Index	37,559	(0.6)	(2.7)	2.8
NIFTY Index	11,302	(0.5)	(2.4)	3.3
NSEBANK Index	28,885	(0.4)	(3.1)	5.8
NIFTY 500 Index	9,300	(0.4)	(3.4)	2.9
CNXMcap Index	16,951	(0.1)	(6.2)	2.1
BSESMCAP Index	14,076	(0.4)	(6.0)	3.1
World Indices				
Dow Jones	25,828	(0.5)	(1.3)	2.9
Nasdaq	7,911	(0.4)	(0.7)	8.4
FTSE	7,207	(0.9)	(2.9)	1.9
NIKKEI	21,402	(0.9)	(0.7)	6.0
Hangseng	28,311	(2.4)	(5.0)	2.4
Shanghai	2,851	(1.5)	(10.6)	10.7

Value traded (Rs cr)	9-May	
		% Chg Day
Cash BSE	1,873	(2.4)
Cash NSE	30,108	(4.7)
Derivatives	2,148,920	62.2

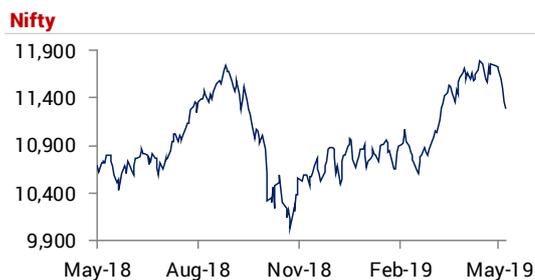
Net inflows (Rs cr)	8-May		
	MTD	YTD	
FII	(768)	2,806	71,028
Mutual Fund	457	1,455	(1,207)

Nifty Gainers & Losers	Price	Chg	Vol
9-May			
Gainers			
Zee Entertainment	358	7.9	37.2
Yes Bank	170	5.9	88.7
Bajaj Finance	2,971	1.7	1.8
Losers			
Reliance Ind	1,256	(3.3)	19.5
BPCL	368	(3.1)	4.5
Bharti Airtel	315	(2.8)	7.9

Advances / Declines (BSE)						
9-May	A	B	T	Total	% total	
Advances	200	403	42	645	100	
Declines	256	551	62	869	135	
Unchanged	4	26	12	42	7	

Commodity	9-May	% Chg		
		1 Day	1 Mth	3 Mths
Crude (US\$/BBL)	71.0	0.9	(1.0)	14.4
Gold (US\$/OZ)	1,284.0	0.2	(1.8)	(2.3)
Silver (US\$/OZ)	14.8	(0.6)	(2.8)	(6.5)

Debt / Forex Market	9-May			
	1 Day	1 Mth	3 Mths	
10 yr G-Sec yield %	7.4	7.4	7.4	7.3
Re/US\$	69.9	69.7	69.3	71.2



Source: Bloomberg

News Highlights

- ▶ The inflow into equity schemes of mutual funds was down 60 per cent in April to Rs.46.1 bn from Rs.115.76 bn logged in March. The equity assets under management (AUM) of mutual funds dropped 12 per cent to Rs.7.37 Tn from Rs. 8.40 Tn in March. (BL)
- ▶ The country's fiscal deficit at ₹8.51 trillion at the end of February 2019 had touched 4.52% of the GDP, a senior Finance Ministry source said citing its data in this regard. (Mint)
- ▶ **Tata Motors** denied reports that said the company is in the process of selling its British arm Jaguar Land Rover (JLR) to French automotive major PSA Groupe. (ET)
- ▶ **Larsen and Toubro Ltd (L&T)** has scooped up more shares of Mindtree Ltd to raise its total ownership in the software services firm to 26%, two people aware of the transactions said, crossing the 25% mark that ensures L&T gets a board seat and the power to propose or block special resolutions. (Mint)
- ▶ **Maruti Suzuki India (MSI)** said it has slashed its vehicle production by around 10 per cent across its factories in April. It is the company's third consecutive month of taking a production cut. (ET)
- ▶ The Supreme Court asked the government to study the possibility of taking over beleaguered realty firm **Unitech Ltd** and completing its pending projects to protect the interest of the homebuyers, noting that the court lacked expertise in finance or real estate. (BS)
- ▶ Reliance Brands, a subsidiary of the **Reliance Industries** has signed a definitive agreement to acquire 100% equity shares of Hamleys Global Holdings. (MC)
- ▶ **Welspun Corp** to consider proposal to buyback the fully paid-up equity shares of the company on May 14. Company has received additional pipe orders of 103 KMT which will be serviced from India. (MC)
- ▶ **Tata Steel** has agreed to sell 19% stake in Oman-based Al Rimal Mining, a limestone mining unit, to Oman National Investments Development Co. (ToI)
- ▶ **Quess Corp** completed the acquisition of 100% equity in Greenpiece landscape. (MC)
- ▶ **Edelweiss Financial Services** - ECL Finance announced the public issue of Secured Redeemable Non-Convertible Debentures (NCDs) of Rs 3000 mn. (MC)
- ▶ UK firm offers bid for grounded **Jet Airways**, keen to partner Etihad. (BS)

What's Inside

- ▶ **Result Update:** Central Depository Services (India) Ltd

Source: ET = Economic Times, BS = Business Standard, FE = Financial Express, IE = Indian Express, BL = Business Line, BQ = BloombergQuint, ToI: Times of India, BSE = Bombay Stock Exchange, MC = Moneycontrol

Result Update

CENTRAL DEPOSITORY SERVICES (INDIA) LTD

Stock Details

Market cap (Rs mn)	:	23,730
52-wk Hi/Lo (Rs)	:	302 / 205
Face Value (Rs)	:	10
3M Avg. daily vol (Nos)	:	168,063
Shares o/s (m)	:	105

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY19	FY20E	FY21E
Revenue	1,947	2,098	2,222
Growth (%)	1.9	7.8	5.9
EBITDA	1,089	1,194	1,271
EBITDA margin (%)	56.0%	56.9%	57.2%
PAT	1,135	1,155	1,225
EPS	10.9	11.1	11.7
EPS Growth (%)	10.0	2.5	6.0
BV (Rs/share)	63	70	78
Dividend/share (Rs)	4.0	4.0	4.2
ROE (%)	17.0	15.6	14.8
ROCE (%)	14.8	14.4	13.6
P/E (x)	20.8	20.3	19.1
EV/EBITDA (x)	15.7	13.7	12.3
P/BV (x)	3.5	3.2	2.8

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Mar 19	Dec-18	Sep-18
Promoters	24.0	24.0	24.0
FII	1.6	1.6	2.2
DII	44.9	44.9	48.0
Others	29.5	29.5	25.8

Source: Bloomberg

Price Performance (%)

(%)	1M	3M	6M
Central Dep Ser	(4.3)	6.4	(9.2)
Nifty	(3.2)	3.3	6.8

Source: Bloomberg

Price chart (Rs)



Source: Bloomberg

PRICE Rs.226

TARGET Rs.265

BUY

Central Depository Services (CDSL) 4QFY19 operating performance was above our estimates, supported by higher than expected contribution from KY/online data related segment. Going ahead, we expect growth will be led by annual Issuer charges (supported by addition from unlisted companies) and KYC revenue. Margins will improve with growth led by non-linearity.

Key Highlights

- CDSL reported higher than estimated EBITDA in 4QFY19, which grew 25.2% QoQ to Rs281 mn (+1.4% YoY), with an EBITDA margin of 55.5%, up 660 bps QoQ, due to higher than expected contribution from KYC/online data related segment and decline in other expenses. The contribution from transaction charges and primary market activities was up marginally QoQ to Rs98.3 mn (Rs95 mn in 3QFY19) and Rs41.6 mn (Rs40 mn in 3QFY19), respectively.
- The growth in KYC business was also supported by Rs28.5 mn as one time income from the government projects for document verifications and the management expects the same to continue in 1QFY20 also.
- Strong operating performance coupled with higher than expected other income, led to 31.9%/20.1% YoY/QoQ jump in PAT to Rs342 mn as against estimates of Rs291 mn.
- CDSL continues to focus on increasing DPs with net beneficial owner accounts increased to 17.3 mn from 16.7 mn in 3QFY19, with an incremental market share in the range of 62-63%. Overall market share improved YoY and at the end of FY19 stood at ~49%.
- During FY19, the company added ~1400 companies in unlisted space, which gave incremental revenue of Rs30 mn and expects to add further 200/250 companies every month (incremental revenue per company = Rs15,000 as one time admission fees and Rs5,000 annually for a company with a share capital of Rs25 mn).

Quarterly performance table

Particulars (Rs Mn)	4QFY19	4QFY18	% YoY	3QFY19	% QoQ
Revenue	505	499	1.2	458	10.4
Employee Expenses	99	96	3.3	79	25.3
Other Expenses	96	102	(5.9)	126	(23.3)
Total Expenses	225	223		234	
EBITDA	281	277	1.4	224	25.2
EBITDA Margin (%)	55.5	55.4		48.9	
Depreciation	26	27	(1.3)	26	1.5
EBIT	254	250	1.6	198	28.3
Interest	0	0		0	
Other Income	177	117	51.5	164	7.9
Exceptional Items	0	0		0	
PBT	432	367	17.5	363	19.1
Tax	90	108	(16.8)	78	15.2
ETR (%)	20.8	29.4		21.5	
PAT	342	259	31.9	285	20.1

Source: Company, Kotak Securities – Private Client Research

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Valuation & outlook

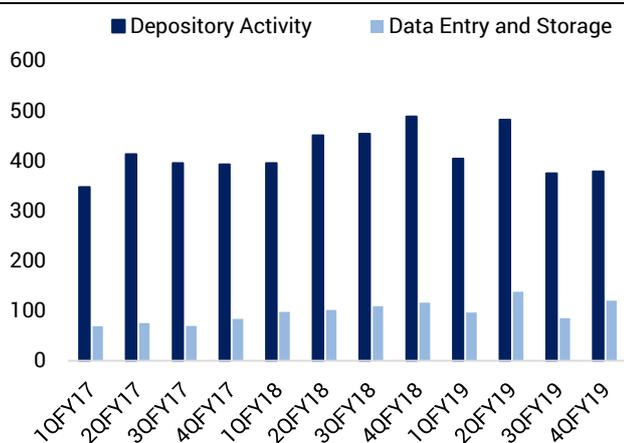
Factoring 4QFY19 performance and growth in annuity revenue stream led by unlisted opportunity, we have revised our FY20E estimates to Rs11.1 (earlier Rs10.6) and introduced FY21E with an EPS of Rs11.7. We continue to maintain our positive view on CDSL's business model, having an annuity based revenue stream (opportunity is emerging with the demat of 60-65k unlisted public companies with negligible costs), new growth avenues of Insurance & Academics (starting from September 2019), fixed operating costs, robust cash flow generation coupled with a strong balance sheet (**Net cash of Rs 6.53bn, ~28% of Mcap**) and stable dividend policy. We reiterate our BUY rating with a revised target price of Rs265 (earlier Rs285), valuing CDSL on SOTP basis, by assigning 30x to core FY21E earnings and adding net cash. At CMP, the stock is trading at 20.3x/19.1x FY20E/FY21E earnings.

Strong contribution from KYC/Online data segment boost performance

Revenue during the quarter grew 10.4% QoQ to Rs505 mn (+1.2% YoY), driven by 42% sequential increase in KYC/online data revenue to Rs120 mn. The contribution from transaction charges and primary market activities was up marginally QoQ to Rs98.3 mn (Rs95 mn in 3QFY19) and Rs41.6 mn (Rs40 mn in 3QFY19), respectively. The sequential jump in KYC revenue was supported by Aadhar based offline e-KYC. The offline e-KYC is done using QR code on a voluntary basis and maintains privacy. This will boost the demand for e-KYC services and CDSL, which has ~60% market share (with 18.8 mn accounts/records) will be a beneficiary. KYC revenue was also supported by Rs28.5 mn one time income from the government projects (document verification).

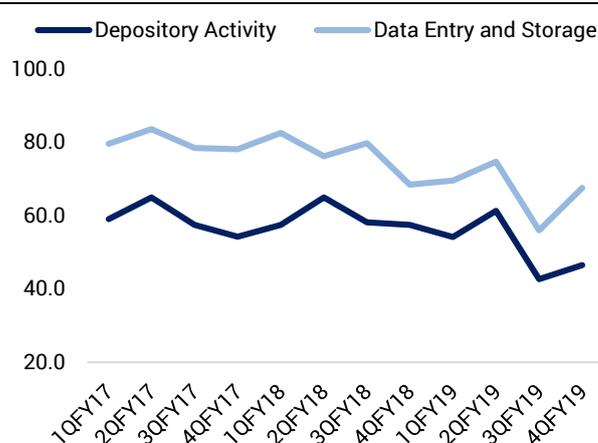
The contribution from the Depository Activity segment was largely flat QoQ. Transaction charges during the quarter declined to Rs98.3 mn from Rs118.8 mn in 4QFY18. During FY19, the company added ~1,400 companies in unlisted space, which gave incremental revenue of Rs30 mn. The management indicated in the conference call that they would be adding 200/250 companies every month in an unlisted space, which can give incremental revenue of Rs4mn/5mn on a monthly basis.

Segment wise revenue contribution (Rs Mn)



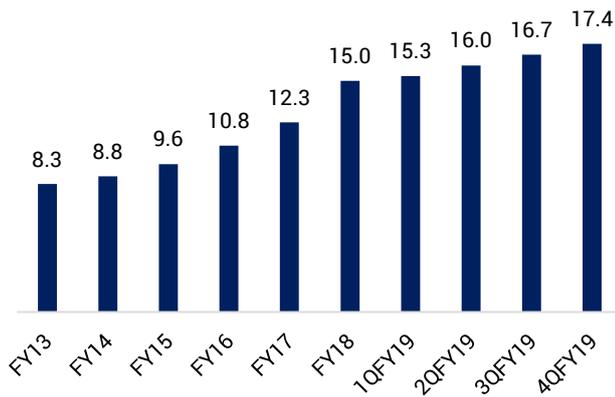
Source: Company

Segment wise EBIT Margin (%)



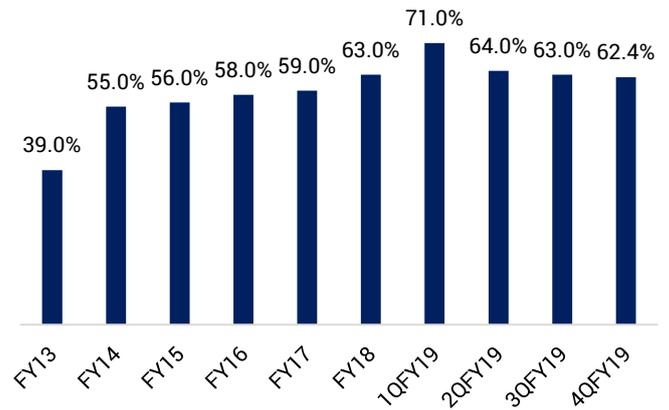
Source: Company

Growth in CDSL's Demat account (mn)



Source: Company

CDSL Incremental market share

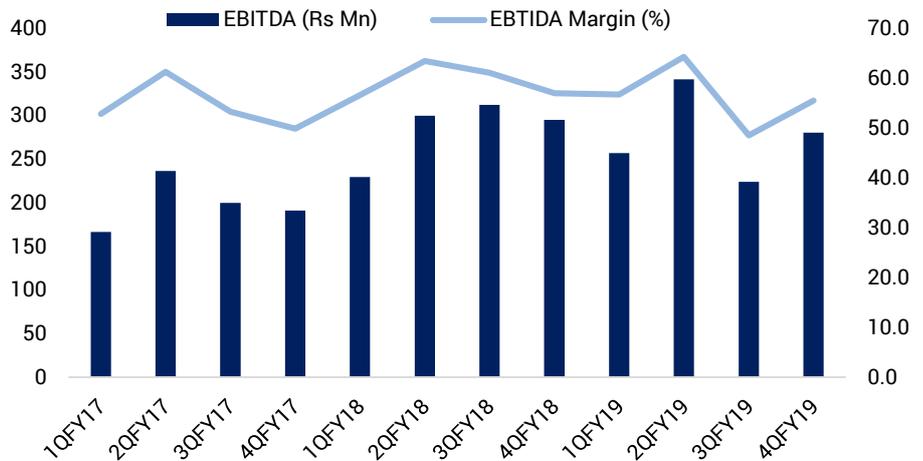


Source: Company

Margin flat YoY

EBITDA during the quarter grew 25.2% QoQ to Rs281mn (+1.4% QoQ), with an EBITDA margin of 55.5% (flat YoY, +660 bps QoQ). The sequential expansion in margin is supported by strong contribution from KYC/online data segment and decline in other expenses. Other expenses in 3QFY19 was higher due to increase in bad debt provisioning (Rs30 mn).

EBITDA and EBITDA Margin (%) trend



Source: Company

Key Risks

a) Low pricing power, b) dependence on capital market volume, c) regulatory oversight are the key risks to our estimates

Company Background

Central Depository Services (India) Limited (“CDSL” or the “Company”) was set up with the objective of providing convenient, dependable and secure depository services at affordable cost to all market participants. A depository facilitates holding of securities in the electronic form and enables securities transactions to be processed by book entry by a Depository participant (DP) who as an agent of the depository, offers depository services to investors. CDSL is the leading securities depository in India by incremental growth of Beneficial Owner (BO) accounts over the last three Fiscal years.

Financials: Consolidated

Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Net sales	1,910	1,947	2,098	2,222
growth (%)	30.8	1.9	7.8	5.9
Operating expenses	773	857	904	951
EBITDA	1,137	1,089	1,194	1,271
growth (%)	43.2	(4.2)	9.6	6.5
Depreciation	69	99	119	143
EBIT	1,068	990	1,075	1,129
Other income	347	492	525	568
Interest paid	0	0	0	0
PBT	1,414	1,482	1,600	1,696
Tax	378	334	432	458
Effective tax rate (%)	26.7	22.5	27.0	27.0
Net profit	1,036	1,148	1,168	1,238
Minority interest	5	13	13	13
Reported Net profit	1,032	1,135	1,155	1,225
Non-recurring items	0	0	0	0
Adjusted Net profit	1,032	1,135	1,155	1,225
growth (%)	20.3	10.0	2.5	6.0

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
PBT	1,414	1,482	1,600	1,696
Depreciation	69	99	119	143
Chg in working capital	129	41	41	27
Taxes	378	334	432	458
Others	(16)	208	0	0
Operating CF	1,218	1,496	1,328	1,408
Capital expenditure	(706)	(50)	(125)	(125)
Chg in investments	(146)	(800)	(589)	(530)
Other investing activities	0	0	0	0
Investing CF	(852)	(850)	(714)	(655)
Equity raised/(repaid)	0	0	0	0
Debt raised/(repaid)	0	0	0	0
Dividend (incl. tax)	439	502	502	527
Financing CF	(439)	(502)	(502)	(527)
Net chg in cash & bank bal.	(73)	145	113	227
Closing cash & bank bal	410	555	667	894

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Cash & Bank balances	411	555	667	894
Other Current assets	417	347	385	399
Investments	5,175	5,975	6,564	7,094
Net fixed assets	761	811	935	1,060
Goodwill & intangible assets	0	0	0	0
Other non-current assets	169	152	152	152
Total assets	6,932	7,839	8,704	9,599
Current liabilities	765	735	815	856
Borrowings	0	0	0	0
Other non-current liabilities	20	9	14	14
Total liabilities	785	745	828	870
Share capital	1,045	1,045	1,045	1,045
Reserves & surplus	4,943	5,636	6,417	7,271
Shareholders' funds	5,988	6,681	7,462	8,316
Minority interest	159	413	413	413
Total equity & liabilities	6,932	7,839	8,704	9,599

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Profitability and return ratios (%)				
EBITDAM	59.5	56.0	56.9	57.2
EBITM	55.9	50.9	51.2	50.8
NPM	54.0	58.3	55.5	55.5
RoE	17.2	17.0	15.6	14.8
RoCE	17.8	14.8	14.4	13.6
Per share data (Rs)				
EPS	9.9	10.9	11.1	11.7
FDEPS	9.9	10.9	11.1	11.7
CEPS	10.5	11.8	12.2	13.1
BV	57.3	63.3	70.3	78.2
DPS	3.5	4.0	4.0	4.2
Valuation ratios (x)				
PE	22.9	20.8	20.3	19.1
P/BV	3.9	3.5	3.2	2.8
EV/EBITDA	15.9	15.7	13.7	12.3
EV/Sales	9.4	8.8	7.8	7.0
Other key ratios				
DSO (days)	36	36	40	40

Source: Company, Kotak Securities – Private Client Research

RATING SCALE

Definitions of ratings

BUY	–	We expect the stock to deliver more than 15% returns over the next 12 months
ADD	–	We expect the stock to deliver 5% - 15% returns over the next 12 months
REDUCE	–	We expect the stock to deliver -5% - +5% returns over the next 12 months
SELL	–	We expect the stock to deliver < -5% returns over the next 12 months
NR	–	Not Rated. Kotak Securities is not assigning any rating or price target to the stock. The report has been prepared for information purposes only.
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NA	–	Not Available or Not Applicable. The information is not available for display or is not applicable
NM	–	Not Meaningful. The information is not meaningful and is therefore excluded.
NOTE	–	Our target prices are with a 12-month perspective. Returns stated in the rating scale are our internal benchmark.

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