

Presents To You a

## RESEARCH REPORT ON

## CDSL

**COMPANY NAME** 



### **PROFILE**

Central Depository Services (India) Limited (CDSL) is India's leading and only listed depository, with an objective of providing 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 and it facilitates holding and transacting in securities in the electronic form and facilitates settlement of trades on stock exchanges. CDSL maintains the services of over 2.4 crore Demat accounts of Investors or Beneficial Owners (BOs) spread across India. These BOs are serviced by CDSL's 597 Depository Participants (DPs) from over 19,500 locations.



## SERVICES PORTFOLIO

## Depository Participants (DPs) and other capital market intermediaries

The DPs act as agent and offer depository services to the beneficial owner (BO) of the securities. The Registrar and Transfer Agents ("RTAs") and Clearing Members ("CMs") and Clearing Corporations ("CCs") are the other intermediaries involved in the process of issue and transfer of securities on the electronic platform.

#### Corporate Services

The company offers facilities to Issuers to credit securities to a shareholder's or applicant's demat accounts to give effect to a range of non-cash corporate actions such as bonus issue, subdivision of holdings and conversion of securities in a merger, amalgamation or in an initial public offering. Similarly, in the case of debit of securities to a shareholder's demat accounts to give effect to a range of non-cash corporate actions such as redemption, buyback, reduction in capital, demerger, etc. it also offers other services like E-voting, Foreign Investment Monitoring, System Driven Disclosures (SDD) with respect to PIT regulations etc

#### Capital market intermediaries

The company through its subsidiary CVL, provides KYC services in respect of investors in Indian capital markets to all capital market intermediaries like Depository Participants (DPs), Clearing Members (CMs), Custodians, etc.



## SERVICES PORTFOLIO

#### Insurance Companies

Through its subsidiary CIRL, it facilitates holding of insurance policies in electronic form to the holders of these policies.

#### Commodity Exchanges and Warehouse Service Provider

The company through its subsidiary CCRL facilitates holding and transacting in electronic negotiable warehouse receipts (eNWRs). The eNWRs can be pledged or transferred in off market or on market mode.

#### **Others**

It extend online services such as Easi (Electronic Access to Security Information), easiest (Electronic Access to Security Information and Execution of Secured Transaction), eVoting, eNotices, eLocker, and mobile application (MyEasi, mVoting), etc. The company also regularly conducts investor meets and Investor Awareness Programmes (IAPs) to educate the investors about depository services in general and CDSL in particular. It regularly conducts trainings on Continuing Professional Education, Prevention of Money Laundering Act, New utility releases, etc. for the employees of Depository Participants.

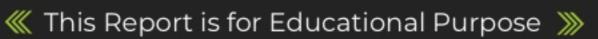


## INVESTMENT RATIONALE

## Proxy on the capital markets growth story

## Increase in trading volumes and retail participation

CDSL has experienced a substantial growth in the number of companies / Issuers admitted in demat from 541 in FY 1999-00 to 14,018 in FY 2019-20, a growth of 18% CAGR. Retail investors have been increasingly investing in equities, which is evident from the rise in number of investor's accounts from 1.9 cr. accounts in 2010 to 4.3 cr. accounts as June 2020 and increase in turnover of shares traded on the stock market – trading on BSE increased from 5.21 lakh crore in FY 2013-14 to 6.61 lakh crore in FY 2019-20 (CAGR of 4.05%); while trading on NSE increased from 28.08 lakh crore in FY 2013-14, to 89.99 lakh crore in FY 2019-20 (CAGR of 21.42%).





## INVESTMENT RATIONALE

## Proxy on the capital markets growth story

#### Gaining market share from NSDL

In terms of cumulative market share of active demat accounts, CDSL has experienced a growth in market share from 40% in FY 2013-14 to 51% in FY 2019-20. As on 30th June, CDSL's aggregate market share was 54% of investors' accounts. The number of demat accounts opened with CDSL in FY 2019-20 stood at 38 lakhs as compared to 10.5 lakhs accounts for NSDL. CDSL opened 8.3 lakh investors' accounts in the month of June 2020, the highest in the history of CDSL.

#### Duopoly business with high entry barrier

CDSL (promoted by BSE) and NSDL (promoted by NSE) are the only 2 depositories present in India. Because of their strong parentage, these depositories have clear advantage and duopoly nature has resulted in healthy competition. We believe the sector is highly regulated and there is no scope for any other depository.

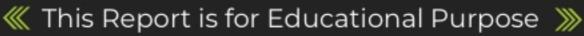


### INVESTMENT RATIONALE

## Proxy on the capital markets growth story

Diversified revenue stream with high operating leverage

Around 64% of CDSL's revenue comes from market-linked activities like transaction charges, annual issuer charges and IPO charges. The balance 36% comes from online data charges, E-Voting, Document verification, E-CAS charges and other value added services. CDSL is an asset light business with high operating leverage, has robust EBITDA margin of 44% with major costs being that for technology and human resources.





#### **FINANCIALS**

In FY2020, the CDSL delivered an increase of 15 percent in its operational income of Rs 22,505.93 Lakhs as compared to Rs 19,625.17 Lakhs in previous financial year. Operating margin was at a glorious 48% and Net Profit for the year was Rs 10,671.82 Lakhs. Moreover the company continues to remain as a debt free company. CDSL delivered a robust performance, driven by traction in transaction charges (34% of revenue). The transaction charges surged due to high retail activity, an increase in delivery volume, and strong addition of new accounts (+35% YoY). Increase in pledge activity due to change in regulations will further boost transaction revenue. Online data charges (+32% QoQ) revived, led by a strong increase in KRA records (+26% YoY). The pandemic has led to increased demand for Digital services (virtual AGMs, evoting, Aadhaar based e-KYC, etc.) and CDSL is the prime beneficiary. CDSL continued to gain BO account market share from NSDL (stood at 56.1% in Sep-20 vs. 51.8% in FY20). Its incremental market share stood at 87% due to exclusive arrangements with discount brokers. BO accounts are the building blocks for a depository and have a high correlation to revenue growth.



## INDUSTRY

The presence of depositories supports the capital market growth in a variety of ways including substantial reduction in bad deliveries, enhanced liquidity of securities, reduction in transaction cost, elimination of problems relating to change of address of investors, transmission etc, makes faster disbursement of non-cash corporate benefits like rights, bonus, etc. possible, faster settlement cycle. Business of depositories grows in direct proportion to growth in capital markets. The past three-to-four years have witnessed a steady structural shift of savings from physical assets such as real-estate and gold into financial assets. The prevailing positive interest rates should enable this trend to continue. Within financial assets, the allocation towards equities has been increasing steadily due to the relatively low base; given that the retail investor has traditionally been under-invested in equities.



## CLIENTELE

## CDSL's clientele can be broadly classified into various categories namely:

#### Depository Participants (DPs)

An investor opens an account through the agent of depository known as Depository Participant (DP). After opening the account, the investor can convert the physical shares issued by Issuer companies into electronic form through the DP. An investor can transfer such electronically held securities from his account to any other account by submitting the delivery instruction slip (DIS) 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 applicant's demat account.

#### Capital Market Intermediaries

CDSL provides facility of holding and managing settlements of trades undertaken in the stock exchanges by the various capital market intermediaries for their clients.



## CLIENTELE

## CDSL's clientele can be broadly classified into various categories namely:

#### **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 electronic negotiable warehouse receipts (eNWRs).

#### **CDSL** offers other online services

- I) Easi (Electronic Access to Security Information)
- (II) Easiest (Electronic Access to Securities Information and Execution of Secured Transaction)



## RISKS & CONCERN

## Concern over second wave of Coronavirus (COVID-19)

The coronavirus recession, also known as the Great Lockdown, is an ongoing severe global economic recession which began affecting the world economy in early 2020. The recession is considered to be the steepest economic downturn since the Great Depression of 1929. On April 14, 2020, the International Monetary Fund (IMF) reported that all of the G7 nations had already entered or were entering into what was called a 'deep recession', alongside most of the western world with significant slowdown of growth across developing and emerging economies. The IMF has stated that the economic decline is 'far worse' than that of the Great Recession of 2009. With recent surge in cases in European countries raises concern over second wave of Covid. This may result in weak and volatile stock markets which may inturn lead to Volatility in Operational Revenues for the company.



## RISKS & CONCERN

#### CDSL Tariff control by SEBI

CDSL Tariff charges for Depository Participants (DPs) as well as Issuers are approved by SEBI. Operational income is dependent on the capital market activities. If the markets remain volatile due to COVID – 19 effects then market driven revenues are likely to go down.

#### Cyber security

The financial sector has always faced major risk of cyber security attacks due to the amount of money involved. These cyberattacks can shut down the Organization causing business and reputational loss. Also due to the COVID-19 lockdown majority of the employees are working from home (WFH). Though adequate security controls have been put in place before enabling the WFH for the users, the attack landscape has increased. This makes it all the more critical to be proactive when it comes to cybersecurity issues.



## RISKS & CONCERN

#### Regulatory Issues

Bulk of the accounts are presently being opened by the online account opening mechanism, which primarily depends on the online feed from / to depositories / stock exchanges / KRAs. Any changes to the mode of exchange of information from / to these entities enforced due to regulatory directions from SEBI, etc., could adversely impact account opening.



## OUTLOOK & VALUATION

CDSL delivered robust performance in Q1 driven by strong traction in transaction charges. We believe there is a strong tailwind with increase in trading volumes and retail participation. CDSL is a proxy to capital market growth and it continues to gain market share from NSDL. We like CDSL because of duopoly nature of business, low capex requirement and cash rich balance sheet. We initiate 'Buy' on CDSL for long term horizon.



#### **NEXT GENERATION CALL**

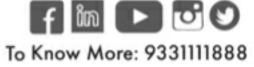
#### **10TH NOVEMBER 2020**



CMP 466 BUYING RANGE 450-470 TGT 650 DURATION 2 YRS







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IHANK YOU!





Alok Daiya's Trading Desk

