

Price: 1,488

Recommendation: Buy

Industry: Capital Markets

Sector: Financial Services

Report Date: 22-Jan-2025

Central Depository Services (India) Limited (CDSL), established in 1997 and based in Mumbai, offers comprehensive depository services in India. It operates through Depository, Data Entry and Storage, and Repository segments, providing services like dematerialisation, e-voting, and electronic insurance accounts. CDSL's recent growth is marked by a 56% rise in income and a 49% increase in net profit, driven by digital innovation and market expansion, reflecting strong investor trust.

Sales		Profit & Loss		Profitability Matrix	
Current Year	1035 Cr	Operating Profit(Year)	633 Cr	Operating Profit Margin	61.1 %
Previous Year	555 Cr	Operating Profit(Quarter)	200 Cr	EBITDA Margin	56.33 %
Current Quarter	322 Cr	PAT (Year)	419 Cr	Net Profit Margin	51.6 %
Previous Quarter	257 Cr	PAT (Quarter)	162 Cr	EPS	25.5
Revenue (QYoY)	207 Cr				
Valuation Matrix		Growth(YoY)		Growth(QoQ)	
Trailing P/E	58.4	Sales Growth	66.1 %	Sales Growth	25.29 %
PEG Ratio	1.95	PAT Growth	52.92 %	Sales Growth QYoY	55.56 %
EV/EBITDA	41.3	EPS Growth	51.52 %	PAT Growth	20.9 %
P/B	20.4	Dividend Yield	0.64	PAT Growth QYoY	48.62 %
Capital Allocation		Holdings		Leverage	
RoE	31.3 %	Promoter	15.0 %	Debt/Equity	0.00
RoA	25.9 %	FII	17.2 %	Debt	1.04 Cr
RoCE	40.2 %	DII	19.1 %	Market Cap	31099 Cr
RoIC	121 %	Public	48.7 %	Enterprise value	30924 Cr
		No of Shares	20.9 Cr	Cash Equivalents	177 Cr

Company's Overview Based on Recent Concall and Performance:

Central Depository Services (India) Limited (CDSL) has demonstrated robust growth in the second quarter of FY '24-'25, with a significant increase in both income and net profit. The company's total income for the quarter rose by 56% to INR 359 crores, while the net profit increased by 49% to INR 162 crores. This growth is attributed to the addition of 2 crore Demat accounts in the first half of the fiscal year, reflecting strong market trust. CDSL's focus on digital innovation, such as ASBA, has enhanced market accessibility and investor confidence, aligning with their commitment to empowering investors. The company remains dedicated to leveraging technology to drive a more inclusive and technologically advanced securities market.

CDSL is actively pursuing new initiatives and business strategies to enhance its market position. The company has opened a portal for end policyholders to directly open accounts and add policies, aiming to increase policy numbers. This strategic shift towards direct engagement with policyholders is expected to drive growth. Additionally, CDSL is continuously upgrading its core application to improve user experience, although no separate application launch is planned. The company is also exploring tie-ups with insurance agents to expand its reach, although specific details remain undisclosed. These efforts reflect CDSL's intent to bring best-in-class technology across its products and subsidiaries.

Looking ahead, CDSL's future growth and scaling perspectives are promising, driven by its commitment to technology and market expansion. The company plans to maintain its competitive edge by ensuring compliance and offering services at reasonable costs. While specific growth numbers are not disclosed, CDSL's strategy focuses on creating a secure and efficient infrastructure to meet market demands. The company's emphasis on technology as a core input highlights its long-term vision for sustained growth. However, the impact of pricing cuts on transaction charges will be realized from October, indicating a cautious approach to future pricing strategies.

From a positive perspective, CDSL's strong financial performance and strategic initiatives position it well for future growth. The company's focus on technology and market expansion is commendable, ensuring it remains competitive. However, there is room for improvement in terms of transparency and communication regarding future plans and growth projections. Providing more detailed guidance and updates on strategic initiatives could enhance investor confidence. Additionally, exploring opportunities for further shareholder rewards, such as interim dividends, could strengthen shareholder relations. Overall, CDSL's proactive approach and strategic focus bode well for its future prospects.

CDSL Daily Closing One Year Price Chart



Name	Mar Cap (Rs. Cr.)	P/E	ROE	Sales(G) QoQ	Sales(G) QYoY	PAT(G) QoQ	PAT(G) QYoY
BSE	77081.28	93.68	15.20%	21.27%	124.66%	30.83%	192.01%
CDSL	31099.24	58.38	31.31%	25.20%	55.45%	20.72%	48.79%
Multi Comm. Exc.	28910.24	56.39	5.82%	5.53%	57.35%	4.18%	3091.40%
Cams Services	19880.36	49.88	40.47%	11.00%	34.09%	13.07%	41.58%
KFin Technolog.	18525.77	62.00	24.47%	18.06%	34.22%	31.22%	45.52%

Aspect	Commentary
Revenue	The company shows strong revenue growth with a 66.1% YoY increase, indicating robust market demand and effective sales strategies. The quarterly growth of 25.29% further supports a positive trend, suggesting consistent performance improvements and potential for sustained future growth.
Profit & Loss	Operating profit margins are high at 61.1%, reflecting efficient cost management and strong operational performance. The PAT growth of 52.92% YoY highlights profitability improvements, while quarterly PAT growth of 20.9% suggests ongoing financial health.
Profitability Matrix	The company exhibits strong profitability with an operating profit margin of 61.1% and a net profit margin of 51.6%. These figures indicate effective cost control and pricing strategies, contributing to overall financial stability and investor confidence.
Valuation Matrix	The trailing P/E ratio of 58.4 suggests high market expectations for future growth. A PEG ratio of 1.95 indicates that the stock is fairly valued relative to its growth prospects. The EV/EBITDA of 41.3 reflects a premium valuation, possibly due to strong growth potential.
Growth (YoY)	The company demonstrates impressive YoY growth with sales increasing by 66.1% and PAT by 52.92%. This growth is driven by market expansion and operational efficiencies, indicating a strong competitive position and potential for continued success.
Growth (QoQ)	Quarterly growth figures show a 25.29% increase in sales and a 20.9% rise in PAT, reflecting effective short-term strategies and market responsiveness. These metrics suggest the company is well-positioned to capitalize on emerging opportunities.
Capital Allocation	The company efficiently allocates capital with a RoE of 31.3% and RoCE of 40.2%, indicating strong returns on investments. The high RoIC of 121% suggests excellent capital utilization, enhancing shareholder value and supporting future growth.
Holdings	The promoter holding is 15%, with significant institutional interest from FIIs and DIIs at 17.2% and 19.1%, respectively. Public holding stands at 48.7%, indicating a balanced ownership structure that supports market liquidity and investor confidence.
Leverage	The company maintains a strong financial position with a debt/equity ratio of 0.00, indicating no reliance on debt financing. This conservative leverage strategy enhances financial stability and reduces risk, supporting long-term growth prospects.

Analyst viewpoint: Central Depository Services (India) Limited (CDSL) continues to demonstrate strong performance, characterized by significant quarterly growth metrics and robust capital allocation. The company's sales growth of 25.29% QoQ, coupled with a 20.9% increase in profit after tax, underscores its effective market strategies and operational excellence. With a trailing P/E ratio of 58.4 and a high PEG ratio of 1.95, CDSL is positioned as a valued investment with promising growth potential. The company excels in capital efficiency, boasting a return on equity of 31.3% and a return on capital employed of 40.2%, which highlights its strategic use of capital to fuel expansion and shareholder value. Peer comparison indicates CDSL maintains a competitive edge, particularly in its advanced digital initiatives, enhancing its position in the financial services sector.

Though the growth outlook is very promising, CDSL is approaching a pivotal phase with the planned pricing adjustments slated for October that could potentially impact profitability. Despite this, their proactive ventures, including technology upgrades and strategic engagements, indicate adaptive strength and an eye for sustained expansion. This aligns with their ongoing commitment to innovation and market expansion as highlighted in recent concall summaries. However, in the interest of fortifying investor confidence, the company would benefit from increased transparency and detail in communicating its future strategies. Overall, CDSL's strategic foresight and robust financial architecture render it a compelling buy for the short to mid-term.

Please read detailed disclosure on next page.

Explanation of Investment Rating*	
Investment Rating	Expected Return (over 12-month)
BUY	>=15%
SELL	<-10%
NEUTRAL	>-10% to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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