Research Note on NSDL by Sunil Kumar Pant (Senior Financial Analyst at Planify Capital)

Face Value (Rs)	**2**	**PAT (FY23)**	**234 Cr**	**ROE (FY23)**	**17.8%**
Total Share	**20,00,00,000**	**EPS (FY23)**	**11.7**	**ROCE (FY23)**	**17.5%**
Revenue (FY23)	**1,031 Cr**	**BVPS (Rs FY23)**	**66**	**Debt (FY23 Rs Cr)**	**17**

Summary

- The depository business of the company started in the year 1996 making it the oldest depository in India
- NSDL is the largest depository in India in terms of number of issuers, number of active instruments, market share in demat value of settlement volume and value of assets held under custody
- Company is managed by the team of professionals and the major stake in the company is held by the institutions like IDBI Bank (26.1%), National Stock Exchange (24%), HDFC Bank (8.9%), UTI (6.8%), SBI (5%) and Union Bank of India (2.8%)

IPO Details

- IPO is an Offer for Sale (OFS) where the existing promoters are selling 57,260,001 shares. The details of the shares offered are below

Seller	**No. of Shares**
IDBI Bank Limited	22,220,000
National Stock Exchange	18,000,001
Union Bank of India	5,625,000
SBI	4,000,000
HDFC Bank Limited	4,000,000
UTI	3,415,000

Subsidiaries

- NSDL Database Management Limited (NDML)
- NSDL Payments Bank Limited (NPBL)

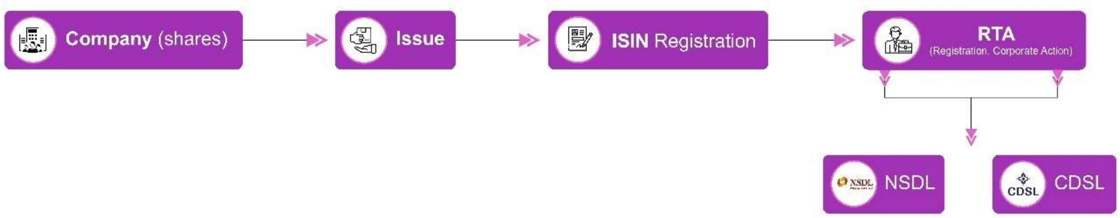
Products & Services

NSDL	**NDML**	**NPBL**
Maintaining Allotment & Transfer of Ownership Records	KYC Registration Agency	Financial Inclusion
Account Opening and Management	Insurance Repository	Digital Banking
Settlement of market and off-market transfers	Payment Aggregator Business	Merchant Acquisition
Dematerialization of Securities	Registrar and Transfer Agent	Third Party Product Distribution
Corporate Actions	National Skills Registry	
Pledge	-	-
Margin Pledge	-	-

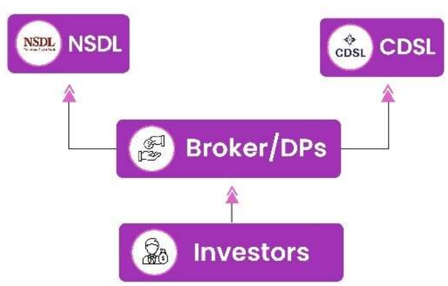
Non-Disposal Undertakings (NDUs)	-	-
Consolidated Account Statement (CAS)	-	-
Providing a comprehensive suite of APIs	-	-
Cash Benefit Services	-	-

Business Model

- NSDL is a SEBI registered **market infrastructure institution (MII)** offering a wide range of products and services to the financial and securities markets in India.
- Company's depository facilitates securities to be held in digital form by investors through accounts known as **"Demat Accounts"** held with the company through depository participants **(DPs)**. The digital assets include equities (listed and unlisted), preference shares, warrants, funds ((mutual funds, REITs, InvITs and AIFs), debt instruments (corporate debt, commercial paper, certificate of deposit, pass through certificate, security receipts, government securities, sovereign gold bonds, municipal debt, treasury bill) and electronic gold receipts
- Let's understand the process from the companies' point of view issuing new shares in dematerialized form. The picture below depicts the **process of issuing of new dematerialized shares by the company**



- Now, let's see from the **investors point of view**. When an investor wants to open his trading account that can be opened with a broker. Now many brokers are DPs as well so they open the demat account too with the depositories. **The demat accounts are opened with the depositories through DP**



- So, the **company provides the depository services to investors, issuers, depository participants, financial institutions, stockbrokers, custodians, clearing corporations and other market intermediaries**
- **NDML is a technology solutions and product services company** focused on developing e-Governance solutions, payment solutions, regulatory support systems, market infrastructure services, industry solutions and digital customer onboarding products.
- **NPBL offers a range of financial products and services on a B2B basis**, including **digital banking solutions,** inclusive banking products (covering domestic money transfers, savings accounts, micro-ATMs and Aadhar-enabled Payment System), **prepaid cards** (including general purpose reloadable payment cards, gift cards and use case-based cards), **merchant acquisition services** (including payment gateway solutions, UPI-payment services and point-of-sale solutions) and the **distribution of third party products** such as life insurance, health insurance and mutual fund schemes

How Company Earns Money?

On the depository front company has mainly two streams of revenues

- **Transactional Charges: -** The company **charges transaction fees to the DPs** and issuers of securities
- **Annual Fees + Custody Charges: -** The company **charge issuers of securities custody fees** and **annual maintenance fees is charged to DPs** in relation to corporate accounts serviced through our depository platform. **This is annual recurring revenue for the depositories**

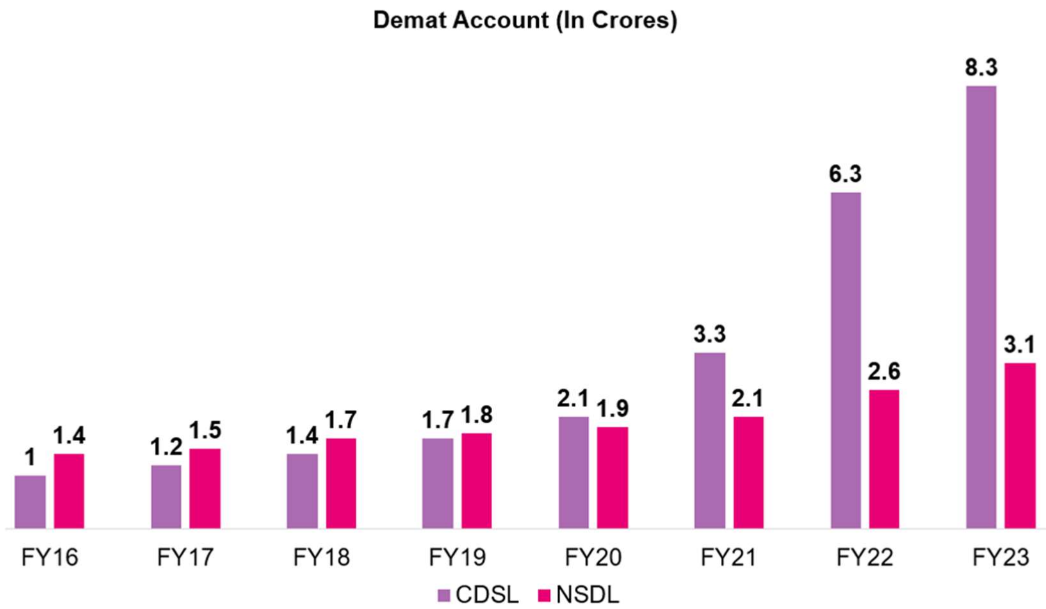
Let's have a look at the **transactional charges and annual + custody charges of NSDL & CDSL** along with their revenues

Year	**2022**	**2022**	**2023**	**2023**
Company	**NSDL**	**CDSL**	**NSDL**	**CDSL**
Transactional Charges (Rs)	**68**	**45**	**64**	**30**
Annual Fees + Custody Fees	70	21	66	24
Demat Accounts (Crore)	2.6	6.3	3.1	8.3
Transactional Revenue (Cr)	**177**	**285**	**198**	**252**
Transactional Contribution to Total Revenue	**49.2%**	**68.8%**	**49.2%**	**55.8%**
Annual + Custody Revenue (Cr)	183	130	205	199
Annual + Custody Contribution to Total Revenue	**50.8%**	**31.2%**	**50.8%**	**44.2%**
Total Operational Income	**360**	**415**	**403**	**451**

Now two important points to be taken from the above table: -

1. The number of **demat accounts which are more for CDSL** as compared to NSDL. This is an important observation to keep in mind going ahead in this report
2. **Contribution of transactional income to total revenue is more for CDSL** as compared to NSDL and **contribution of annual + custody revenue for NSDL is more than CDSL.** The transactional charges for CDSL are way less than NSDL.

Now, let's have a discussion of **point number 1 and 2 in detail** and **understand it implications** on the **operational performance of the company**



As we can see from the chart above that the Demat accounts for CDSL and NSDL were almost same until FY20 but during **covid lockdown, lot of first-time investors opened their trading and demat account but most of them opted for discount brokers**.

Now, most of the discount brokers have CDSL as their preferred depository due to the **low transaction fee and annual + custody fee** and hence the **greater number of demat accounts** and due to this **high volume generated (CDSL having low transactional fee compared to NSDL)** with the **discount brokers, high contribution of transactional revenues** compared to NSDL and hence the **high EBIT margins** too as their volume of transaction is high.

The number of DPs in FY23 for NSDL & CDSL are as follows

NSDL	283
CDSL	588

Market Share of top brokers in India (in terms of number of active clients)

Groww	19.8%
Zerodha	19.4%
AngelOne	14.5%
Upstox	6.5%
ICICI Sec	5.7%
HDFC Sec	3.0%
Kotak Sec	3.0%

As it is quite clear from the above table that the combined **market share of first 4 discount brokers is 60.2% which clearly benefits CDSL** as it has onboarded the discount brokers and has been enjoying the leading position

The above-mentioned thesis of a **greater number of demat accounts** and the **increase in the EBIT margins** due to the **volumes of low-cost transactions generated at discount brokers** is further validated by the rise in the EBIT margins of CDSL compared to NSDL.

Quarter	Q1 FY20	Q4 FY20	Q1 FY21	Q4 FY21	Q1 FY22	Q4 FY22	Q1 FY23	Q4 FY23	Q1 FY24	Q3 FY24
NSDL (Standalone)										
Revenue (Rs Cr)	63	65	65	90	85	89	97	93	100	117
EBIT	36	35	44	55	52	54	59	59	62	72
EBIT Margin	50.9%	45.3%	56.0%	54.8%	54.2%	53.2%	54.4%	53.8%	51.5%	52.6%
PAT	27	28	34	40	41	43	44	49	49	59
PAT Margin	38.2%	36.5%	42.9%	40.0%	42.1%	43.0%	40.4%	44.0%	40.9%	43.1%
CDSL (Standalone)										
Revenue (Rs Cr)	41	45	52	79	89	100	112	98	123	170
EBIT	25	26	44	56	89	72	104	66	112	116
EBIT Margin	48.2%	47.5%	66.4%	65.8%	73.5%	66.2%	65.9%	58.8%	66.0%	68.6%
PAT	20	21	37	42	73	55	89	50	92	86
PAT Margin	39.2%	38.3%	55.3%	49.4%	60.1%	50.0%	56.5%	44.0%	54.1%	46.1%

One can clearly see the shift in the **range of EBIT Margins of CDSL from 48.2% in Q1 FY20 to 66.4% in Q1 FY21** and then maintaining the margins at those levels due to the **rise in the number of demat accounts with the discount brokers** whereas the margins of NSDL has been in the same range **(Note the timeline of increase in the number of demat accounts and the shift in the change of EBIT margins of NSDL i.e. FY21)**

Trouble for NSDL on the consolidated basis as well

Let's understand the revenue segmentation of both companies and deep dive into it.

Quarter	Q1 FY20	Q4 FY20	Q1 FY21	Q4 FY21	Q1 FY22	Q4 FY22	Q1 FY23	Q4 FY23	Q1 FY24	Q3 FY24
NSDL (Consolidated)										
Depository	78.5%	77.2%	82.4%	57.7%	44.5%	45.9%	44.4%	32.8%	33.6%	37.4%
Database management services	21.5%	21.0%	15.5%	13.5%	11.5%	11.2%	9.0%	6.1%	5.6%	6.0%
Banking services	0.0004%	1.8%	2.1%	28.8%	44.0%	42.9%	46.7%	61.2%	60.8%	56.6%
EBIT Margin	44.7%	41.2%	50.0%	40.0%	34.5%	25.6%	30.2%	24.1%	22.7%	24.7%
CDSL (Consolidated)										
Depository	69.3%	75.6%	79.9%	77.0%	75.6%	73.4%	79.7%	78.6%	81.7%	79.1%
Data Entry and Storage	29.2%	24.0%	19.8%	22.5%	24.0%	26.0%	19.7%	21.1%	18.0%	20.7%
Repository	1.5%	0.5%	0.3%	0.6%	0.4%	0.6%	0.6%	0.3%	0.3%	0.2%
EBIT Margin	47.6%	49.1%	65.5%	62.5%	65.2%	66.6%	53.0%	57.8%	57.0%	61.9%

On the **consolidated basis**, the **contribution to total revenue of banking business** of NSDL has **grown significantly from 1.8% in Q4 FY20 to 56.6% in Q3 FY24** whereas the contribution of depository business has reduced from 78.5% in Q1 FY20 to 37.4% in Q3 FY24

The **banking business** of NSDL has turned **profitable in FY23** clocking a **minimal profit of Rs 8 Cr in FY23** and has **negatively** impacted the consolidated **EBIT margins** of the company which **has reduced from 44.7% in Q1 FY20 to 24.7% in Q3 FY24**

The banking business of the company started in 2018 and is in nascent stage as compared to its peers and **will take time before it starts to add value to the margins of the company.** Let's see how this business stands as compared to its peers. **The data of comparison is for FY22.**

Players	CASA Deposits (Rs bn)	Net Worth (Rs bn)	CRAR (%)	Branches
Airtel Payments	9.9	3.4	58.2	27
Fino Payments	5.0	4.7	125.5	77
India Post	36.9	4.7	40.8	651
Jio Payments	0.19	1.23	3,325	11
NSDL Payments	0.13	1.35	501.5	1
Paytm Payments	47.6	4.8	62.4	6

If you see in **case of CDSL**, the **contribution of depository business to the total revenues** has **increased from 69.3% in Q1 FY20 to 79.1% in Q3 FY24** and so are the **margins of the company from 47.6% in Q1 FY20 to 61.9% in Q3 FY24**

Interesting fact about NSDL

- **The value of digital assets of NSDL stands at Rs 302 lakh Cr compared to CDSL which is just at 40 lakh Cr.** That huge value is further attributed to the association of NSDL with traditional brokers like HDFC Securities, ICICI Securities and so on. Now, the **total market cap of Nifty 50 companies stands at Rs 181 lakh Cr** and the total **market cap of Nifty 500 companies stands at 369 lakh Cr**
- In terms of **companies signed up** (listed & unlisted), NSDL takes the lead and is way ahead as compared to CDSL. **In FY23, the number of companies signed with NSDL and CDSL are 40,987 and 20,323 respectively**
- For some unknown reason which needs to be enquired from the management of the company, the **second quarter is the best quarter for the company.** **The median increase in Q2 EPS of the company compared to the Q1 EPS of the company is 45.5%**

Positives and Concerns about the company

- Though the company is the largest depository in terms of digital assets held by the company and is backed by the big institutions which gives confidence about the business of the company
- The banking segment is still a huge concern as on a consolidated basis as it is negatively impacting the margins of the company and has turned profitable in FY23 with only Rs 8 Cr as net profit. It will take little longer before the banking segment starts to add value to the overall margins of the company

- Another concern is the low contribution of the transactional revenue to the overall revenues which further is impacting the margins on the standalone basis

Valuation

- As per a report by Jefferies, the FY25 P/E multiple of Depositories stands at 48.

Year	FY20	FY21	FY22	FY23	FY24E	FY25E
EPS	5.4	8.8	9.2	10.5	12.2	13.3
Share Price					636	
Market Cap					12,728	
Number of Shares					200,000,000	

- Another approach to value the company could be on the basis of its listed peer CDSL. So, NSDL is an **unlisted company** and there will be a **discount of lack of marketability (DLOM) of 35.0%** with this the following is the valuation of NSDL

CDSL	
Market Cap (CDSL)	21,705
Market Cap (NSDL)	14,108
Number of Shares	200,000,000
Share Price	705
P/E	58

Conclusion

The share price of the company seems to be **fairly valued within a range of Rs 630 to Rs 705.** If the offered price during the IPO is less than Rs 630 then it definitely offers an opportunity to consider with a reasonable safety of margin