Central Depository Services Limited (CDSL) – Investment BUY Call Thesis

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Industry/Sector	Target Price	Upside Potential	Investment Duration
Capital Market - Depository	1585	17%	9 to 15 Months (3 to 5 quarters)

1. Core Business Model & Market Infrastructure Architecture

- **Digital Vault Infrastructure & Systemic Utility Moat:** Central Depository Services (India) Limited (CDSL) functions as the central digital vault for India's capital markets, providing safe keeping and electronic custody of financial assets. Incorporated following the enactment of the Depositories Act to eliminate physical share certificates, CDSL opened in 1999 and listed on the stock exchange in 2017. It has evolved into India's largest depository by number of investor accounts, holding over 19.34 crore demat accounts with an aggregate asset custody value of INR 89 lakh crore by Q2FY27. Its core utility infrastructure allows investors to hold equity shares, mutual fund units, corporate bonds, government securities and commercial papers in dematerialized form, creating a high-barrier-to-entry business model supported by regulatory licenses and network effects.
- **Centralized System Architecture & Low-Cost Infrastructure Moat:** Unlike its competitor's hub-and-spoke operational model, CDSL utilizes a single, centralized system architecture. This design allows depository participants (DPs) to plug in seamlessly via standardized APIs, enabling faster rollout of market reforms and lower overall infrastructure maintenance costs. Centralized structure allows CDSL to achieve strong economies of scale, maintaining lower operational friction while managing surge loads during periods of intense market activity.
- **B2B2C Intermediary Ecosystem & Network Distribution:** CDSL operates a B2B2C distribution framework, partnering with 574 Depository Participants—including leading digital fintech brokers like Zerodha and Groww as well as traditional bank-led brokerages—who directly onboard and service retail and institutional investors. While DPs manage customer acquisition and account servicing, CDSL provides the core technological rails, data security and digital tools like e-Voting, e-CAS and MyEasi portal.

2. Segmental Business Ecosystem, Geographic Reach & Proxy Drivers

- **Core Depository Revenues & Folio-Driven Asset Coverage:** The core depository segment generates approximately 90% of CDSL's standalone operating revenue through a balance of transaction-linked and recurring fees. Revenue streams comprise transaction charges on demat debits, recurring annual issuer fees from admitted companies and corporate action processing charges for IPOs, dividends, rights issues and stock splits. CDSL has admitted over 48,000 corporate issuers, establishing a broad corporate fee base that expands mechanically alongside Indian equity market listings and total folio counts (which reached 38.73 crore in Q1FY27).
- **Subsidiary Ecosystem (CVL, CIRL & CCRL):** CDSL extends its dematerialization expertise across investor identity, insurance and commodities through three subsidiaries. CDSL Ventures Limited (CVL, 100% owned) operates India's largest KYC Registration Agency holding over 10.97 crore records (~70% market share) while also offering RTA and eSign services. Centrico Insurance Repository Limited (CIRL, 54.25% stake) holds over 26.23

lakh policies across 22.6 lakh e-insurance accounts partnered with 49 insurers (with LIC integration going live in November 2025). Countrywide Commodity Repository Limited (CCRL, 52% stake) manages electronic Negotiable Warehouse Receipts (eNWRs) under WDRA oversight for agricultural and non-agricultural goods.

- **Tier-2/Tier-3 Financialization & Capital Market Proxies:** CDSL's growth is directly tied to India's secular transition from physical savings to financial assets. Over 84% of new demat accounts added in FY26 originated from Tier-2 and Tier-3 cities, while 62% represented first-time capital market investors. CDSL acts as a direct proxy for Indian primary and secondary market momentum, benefiting from expanding demat account penetration, equity mutual fund inflows and corporate capital-raising activity across geographies.

3. Financial Performance, Balance Sheet Strength & Cash Flow Conversion

- **Operational Growth in Q2FY27, Q1FY27 & FY26:** CDSL delivered strong consolidated financial results in Q2FY27, driven by sustained account additions and primary market activity. Consolidated total income reached INR 417.30 crore in Q2FY27 (up 22.2% YoY from INR 341.57 crore), while consolidated PAT expanded 23.8% YoY to INR 173.30 crore. For H1FY27, consolidated total income rose to INR 757.80 crore (vs INR 636.53 crore in H1FY26) with consolidated PAT at INR 290.97 crore. Standalone H1FY27 PAT excluding inter-company dividends reached INR 268.29 crore (vs INR 217.51 crore in H1FY26). In FY26, standalone total income reached INR 1,096 crore with PAT at INR 468 crore, supporting a highest-ever dividend payout of INR 12.75 per share.
- **Zero-Debt Balance Sheet Strength & Treasury Management:** CDSL maintains a zero-debt balance sheet with zero financial leverage, funding all capex and business expansions through internal accruals. The company's liquidity is deployed primarily in high-quality debt mutual fund schemes with conservative equity ETF exposure (~5%–7%), generating stable treasury income. Consolidated other income (INR 75 crore in Q1FY27) includes investment MTM gains, interest accruals, e-Voting revenues (INR 22 crore in Q2FY27) and e-CAS fees (INR 12.77 crore in Q2FY27).
- **Cash Flow Conversion Stats & Working Capital Efficiency:** CDSL's business model requires minimal working capital, delivering strong cash conversion ratios. Cash Flow from Operations (CFO) consistently exceeds both operating profits and net profit across financial years

Fiscal Year	CFO to Operating Profit Ratio (%)	CFO to PAT Ratio (%)
FY24	102%	92%
FY25	110%	103%
FY26	107%	102%

4. Growth Catalyst 1 - Demat Account Compounding & Pending Repricing Upside

- **Scale Compounding Across 19.34 Crore Investor Base:** CDSL added 75 lakhs net demat accounts in Q2FY27 and 58 lakhs in Q1FY27, reaching a total base of 19.34 crore beneficiary accounts with market share holding at over 80%. As household savings continue to shift into equities, SIPs and mutual funds, CDSL's expanding account base drives higher recurring custody and transaction fees.

- **Recurring Issuer Fee Expansion via Folio Growth:** Annual issuer charges represent CDSL's largest and most recurring revenue stream, expanding 40% YoY to INR 456 crore in FY26. Because issuer fees are formulaically linked to folio counts (which grew to 38.73 crore in Q1FY27 from 33.26 crore in FY25), ongoing retail portfolio diversification expands the issuer revenue base without incremental client acquisition costs.
- **Upside Potential from Pending Issuer Tariff Re-pricing:** Management has kept annual issuer charges unchanged for several years despite expanding platform infrastructure and inflation. Management noted in recent commentary that an issuer fee revision will be sought at the appropriate time subject to SEBI approval. Given that issuer revenues generated INR 456 crore in FY26, any approved tariff increase would flow straight to operating profit at near-100% incremental margin.

5. Growth Catalyst 2 - Expansion into Unlisted Companies & Non-Equity Asset Monetization

- **Regulatory Parity in Unlisted Company ISIN Issuance:** Historically, ISIN issuance rights for unlisted public companies were exclusively allocated to CDSL's competitor. Regulatory shifts opening unlisted ISIN allocation to both depositories remove this historical structural imbalance, allowing CDSL to actively capture unlisted corporate onboarding fees.
- **Broadening Private Corporate Dematerialization Pipeline:** Mandatory dematerialization guidelines for unlisted public companies are creating a new growth channel. In Q2FY27, CDSL generated INR 87 lakh from unlisted issuer fees and INR 2.2 crore from unlisted application processing fees, reflecting early monetization of a private corporate segment that will expand as more firms join the depository network.
- **Diversification into Insurance, Debt & Commodity Assets:** CDSL is expanding monetization beyond traditional equities into non-cyclical asset classes. Centrico Insurance Repository is positioned to capture policy dematerialization following integration with major insurers like LIC, while CCRL scales electronic warehouse receipts (71,610 eNWRs issued across 6,141 client accounts in FY26). Additionally, growth in Electronic Gold Receipts (EGRs), municipal bonds, commercial papers and dematerialized debt instruments provides recurring revenue streams.

6. Growth Catalyst 3 - CVL Identity Scale-Up, KRA Volume Resurgence & GIFT IFSC Expansion

- **CVL Dominance as India's Primary Identity Layer:** Subsidiary CDSL Ventures Limited (CVL) maintains over 10.97 crore KYC records (~70% market share), benefiting from SEBI mandates requiring standardized e-KYC, periodic re-KYC and investor accreditation across mutual funds, brokerages and banks. With ~80% of CVL's KRA activity driven by record fetching, expanding capital market onboarding provides continuous volume growth.
- **Offshore Growth via GIFT IFSC KRA Registration:** In February 2026, CVL received its official certificate of registration from IFSCA to set up the first KRA at GIFT IFSC (following SEBI no-objection in August 2025). This offshore presence enables CVL to provide identity verification and KYC services to international investors, foreign portfolio managers and global issuers operating at the GIFT International Financial Services Centre.
- **Monetization of Adjacent Compliance & Search Services:** To offset SEBI's KRA pricing reset effective April 1, 2026, CVL introduced monetization for Search APIs (charging INR 0.25 per PAN search where no creation/fetch occurs) alongside expanding high-margin Aadhaar eKYC, eSign (Qsigner) and RTA services for 3,242 companies. Higher fetch volumes and identity compliance requirements continue to stabilize CVL's top-line contribution.

7. Growth Catalyst 4 - Direct Pay-Out Settlement, Tokenized Bonds & Value-Added Digital Utilities

- **Implementation of Direct Pay-Out Settlement Framework:** Regulatory implementation of the Direct Pay-Out Settlement framework delivers securities directly into investor demat accounts rather than clearing pool accounts. This shift increases direct operational engagement between CDSL and end-investors, strengthening platform reliance and solidifying transaction frequency across the depository ecosystem.
- **Demat 2.0 DLT Pilot for Tokenized Corporate Bonds:** CDSL is implementing Demat 2.0 as part of the SEBI-RBI pilot project for the tokenization of corporate bonds utilizing Distributed Ledger Technology (DLT) and wholesale Central Bank Digital Currency (CBDC). Serving as the core custody and settlement rails for tokenized debt positions CDSL to capture early transaction and custody fees as tokenized assets gain adoption.
- **Expansion of High-Margin Digital Investor Utilities:** CDSL continues to roll out value-added digital services, including e-Voting (generating INR 22 crore in Q2FY27), electronic Consolidated Account Statements (eCAS generating INR 12.77 crore in Q2FY27), eDIS and e-Nomination tools. Integration of proxy advisor recommendations on the e-voting platform and expanded API connectivity across DPs allow CDSL to offer premium corporate governance tools to institutional and retail market participants.

8. Growth Catalyst 5 - Operating Leverage & Digital Infrastructure Scalability

- **High Operating Leverage in Digital Vault Infrastructure:** Due to its technology-driven depository model, CDSL operates with high operating leverage. The incremental cost of opening a new demat account, processing an extra electronic debit instruction or servicing additional folios is near zero once baseline server and security infrastructure is established.
- **Strategic Capacity Reinvestment Ahead of Demand:** Management maintains an explicit strategy of investing in technology infrastructure capacity ahead of market demand curves. As confirmed by management during recent concalls, technology investments are structurally ongoing to ensure platform resilience during peak daily trading surges and record IPO processing volumes.
- **Direct Profit Drop-Through of Incremental Volumes:** As secondary market trading velocity, primary market issuances and margin pledges expand over coming quarters, incremental revenue drops straight to operating profit. This structural drop-through supports expanding operating margins and maintains robust standalone EBITDA margins despite periodic compliance investments.

9. Headwinds & Risks - Secondary Market Cyclicality & Primary Capital-Raising Volatility

- **Transaction Fee Sensitivity to Secondary Market Volatility:** Operational revenues derived from demat transaction charges are linked to cash market trading volumes and delivery transactions. During periods of macroeconomic uncertainty, market consolidation, sharp corrections or sideways equity price action, trading delivery volumes moderate, creating short-term variability in transaction-based fee income.
- **Sensitivity to IPOs, QIPs, OFSs, Bulk & Block Deals:** Corporate action and issuer-related revenues are sensitive to primary market activity, including Mainboard IPOs, SME listings, Qualified Institutional Placements (QIPs), Offers for Sale (OFS) and large bulk/block deals. In Q2FY27, primary market activity surged (with July–September IPO proceeds surpassing USD 9 billion / INR 86,500 crore). However, any temporary cooldown in capital raising due to global rate volatility or FII capital outflows directly reduces corporate action and verification fees (e.g., IPO application verification charged at INR 2 per BO application).

- **Dependency on PE & Promoter Stake Sale Velocity:** Corporate action and transaction volumes are also influenced by Private Equity (PE) exit activity, secondary market block deals and promoter stake sales. A deceleration in strategic sponsor exits or institutional block transactions reduces incremental transaction velocity and corporate processing revenues during market slowdowns.

10. Headwinds & Risks - SEBI Regulatory Interventions, Cybersecurity & Technology Outlays

- **SEBI Regulatory Tariff Resets & Fee Restrictions:** As a regulated Market Infrastructure Institution, CDSL's tariff adjustments require prior SEBI approval. Regulatory mandates focused on reducing overall market transaction costs for participants create price ceiling risks. A key example is SEBI's KRA fee structure reset effective April 1, 2026, which reduced KRA record creation rates by 75% (from INR 20 to 5) & fetch rates by 20% (from INR 35 to 28), causing temporary margin compression at subsidiary CVL (H1FY27 PBT fell 11% YoY to INR 22 cr.).
- **High Technology Capex & Cybersecurity Infrastructure Spend:** Operating as a critical core utility requires continuous capital outlays for cybersecurity, threat monitoring, cloud infrastructure and data privacy compliance. Management explicitly highlighted that annual technology spend has overtaken human resource costs. Because technology infrastructure costs represent sticky fixed expenses, any sequential drop in market activity can cause temporary operating margin compression.
- **Compliance Friction & Evolving DPDP Data Privacy Costs:** Stricter operational guidelines—such as revised online e-KYC norms, UIDAI Aadhaar verification requirements, interoperability expenses and compliance under the Digital Personal Data Protection (DPDP) Act 2023—increase administrative and operational expenses. For example, CVL's expenditure rose 33% YoY in H1FY27 to INR 75.81 crore due to higher UIDAI charges for sub-KUAs and increased KRA interoperability fees.

11. Conclusion & Investment Thesis for BUY Conviction (9 to 15 Months Horizon)

- **Strong Medium-Term Rationale Driven by Structural Financialization:** CDSL offers a strong medium-term investment thesis for a 9 to 15-month horizon (3 to 5 quarters), backed by its position as India's premier depository holding over 80% market share with 19.34 crore demat accounts. The structural transition of Indian household savings into equity markets, SIPs and mutual funds provides a compounding tailwind that generates growing, high-margin utility revenue.
- **Earnings Defense via Operating Leverage & Growth Catalysts:** Despite near-term regulatory fee resets and technology reinvestment costs, CDSL's business model is protected by strong operating leverage, zero financial debt, high liquidity reserves and exceptional cash conversion (CFO to PAT exceeding 100% across FY24–FY26). Multi-quarter growth catalysts—including pending issuer fee revisions, unlisted company onboarding, GIFT IFSC KRA scale-up, Demat 2.0 tokenization pilots and expanding insurance policy dematerialization—provide multi-engine growth optionality.
- **High-Conviction Risk-Adjusted BUY Recommendation:** Supported by strong underlying earnings growth (standalone H1FY27 PAT excl. subsidiary dividends up 23.3% YoY to INR 268.29 crore), high return metrics and monopoly market structure, CDSL represents a resilient proxy on India's capital market expansion. At current operational levels, any cyclical softness provides an attractive entry point, supporting a high-conviction BUY rating for a 9 to 15-month investment horizon.

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