

Estimate change	↑
TP change	↑
Rating change	↔

Bloomberg	BSE IN
Equity Shares (m)	135
M.Cap.(INRb)/(USD\$)	73.2 / 0.9
52-Week Range (INR)	798 / 406
1, 6, 12 Rel. Per (%)	13/-5/-38
12M Avg Val (INR M)	519

**Financials & Valuations (INR b)**

Y/E Mar	FY23	FY24E	FY25E
Net Sales	8.2	9.2	10.1
EBITDA	2.0	2.9	3.2
PAT	2.1	2.9	3.2
EPS (INR)	15.2	21.2	23.7
EPS Gr (%)	-16.0	39.2	11.7
BV / Sh (INR)	200	206	214

**Ratios (%)**

RoE	7.6	10.3	11.1
Payout ratio	78.8	70.0	70.0

**Valuations**

P/E (x)	28.2	20.3	18.1
P / BV (x)	2.1	2.1	2.0

**Shareholding pattern (%)**

As On	Mar-23	Dec-22	Mar-22
Promoter	0.0	0.0	0.0
DII	0.6	0.6	1.0
FII	33.5	34.6	39.3
Others	65.9	64.8	59.7

FII Includes depository receipts

**CMP: INR540**
**TP: INR550 (+2%)**
**Neutral**
**Strong performance across parameters**

- BSE reported a PAT of INR886m in 4QFY23, up 24% YoY, registering a 75% beat on our estimate. PAT growth was driven by higher-than-estimated revenue in non-transaction securities services and strength in income from the tech subsidiary and clearing corporation. Overall expenses were lower than our estimates. The contribution to the Settlement Guarantee Fund (SGF) during the quarter was NIL (v/s our estimate of INR100m).
- BSE has undertaken new initiatives such as the reduction of tick size in the cash segment for stocks with prices up to INR100 and the introduction of a new strike price for USD-INR contracts in the currency derivatives segment. All these factors, along with the re-launch (w.e.f 15th May'23) of SENSEX and Bankex derivatives contracts with a lower lot size and a different expiry, shall boost the core business.
- The board has declared a final dividend of INR12 per share.
- **We have increased our FY24/FY25 revenue estimates by 14%/12%, factoring in strong growth in the securities services segment (excluding transaction charges). We reiterate our Neutral rating with a SoTP-based, one-year TP of INR550.**

**Lower expenses led to sharp jump in EBIDTA margin**

- Operating revenue grew 14% YoY to INR2.2b in 4QFY23 (21% beat). Transaction charges declined 13% YoY on account of cash volumes, which was offset by the currency segment, book building fees and a higher contribution from mutual funds (Star MF). Revenue from services given to corporates grew 10% YoY as book building fees rose 51% YoY.
- Opex (excluding SGF contribution) at INR1.2b was 14% below our estimate. EBIDTA margin increased sharply by 1397bp YoY to 43.8% in 4QFY23.
- Investment income stood at INR519m, up 26% YoY (12% miss).
- PAT jumped 24% YoY to INR886m (v/s our estimate of INR507m), owing to lower-than-expected expenses and NIL contribution to core SGF (v/s our estimate of INR100m).
- In FY23, while revenue was higher by 10%, EBIDTA/PAT was lower by 6%/16%.

**Key takeaways from the management commentary**

- Major steps taken to increase market share:
  - 1) The 1-paise tick for stocks with a price less than INR100 resulted in an increase in market share from 9% to 11% in the recent past; 2) For currency derivatives, the introduction of a 10-paise strike price has started playing out well; and 3) Equity derivatives segments: reduced the lot size for S&P BSE Sensex and S&P BSE Bankex, and changed the expiry day to Friday from Thursday to scale up derivatives volumes and reduce concentration risk within the overall industry.

**Valuation and view: Upgrade our estimates; reiterate Neutral**

BSE has multiple levers for growth in revenue and earnings over the medium term, such as: 1) continued momentum in the Star MF business, 2) levy of charges on equity derivatives, 3) levy of charges on the INX platform, 4) possibility of levying a fee for listing of debt securities, 5) start of operations at its Power Exchange, and 6) commencement of revenue from its Gold Spot exchange. We have increased our FY24/FY25 revenue estimates by 14%/12%, factoring in strong growth in the securities services segment (excluding transaction charges). We reiterate our Neutral rating with a SoTP-based one-year TP of INR550.

**Cons. Quarterly performance**

Y/E March	FY22				FY23				FY22 FY23		(INR m)	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			Est. 4Q	Var. (%/bp)
Revenue from operations	1,527	1,818	1,840	1,922	1,731	1,804	1,884	2,196	7,432	8,155	1,812	21.2
YoY Change (%)	47.9	41.6	55.7	29.8	13.4	-0.8	2.4	14.3	49.3	9.7	-6	1999bp
Total Expenditure	1,063	1,278	1,262	1,349	1,256	1,386	1,392	1,234	4,950	5,818	1,442	-14.4
EBITDA	464	540	578	573	475	418	492	962	2,481	2,338	369	160.4
Margins (%)	30.4	29.7	31.4	29.8	27.5	23.2	26.1	43.8	33.4	28.7	20	2341bp
Depreciation	116	117	123	127	104	122	170	207	483	603	180	15.2
Interest	42	52	52	76	76	74	65	60	222	275	73	-18.0
Investment income	331	440	346	412	247	594	566	519	1,204	1,384	590	-12.0
PBT before EO expense	637	811	750	782	542	815	823	1,214	2,981	2,844	707	71.8
Liquidity enhancement expense	94	141	89	88	116	457	258	84	350	363	170	-50.9
PBT	543	671	660	694	426	359	566	1,131	2,631	2,480	537	110.7
Tax	161	280	244	139	135	215	230	336	823	916	175	92.3
Rate (%)	30	42	37	20	32	60	41	30	31	37	33	-284bp
P/L of Asso. Cos.	136	176	169	161	109	150	141	92	642	492	145	0.0
Reported PAT	519	567	586	716	400	294	477	886	2,449	2,057	507	74.7
YoY Change (%)	60	23	86	125	-23	-48	-19	24	73	-16	-29	
Margins (%)	27.7	25.5	26.0	30.5	18.8	13.0	20.9	37.4	33.0	25.2	23	1484bp

**Key Perfor. Indicators**

Y/E March	FY22				FY23			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Transaction charges	584	680	630	695	538	641	631	603
Services to corporates	586	764	815	699	714	673	749	768
Listing Fees	371	376	424	388	412	421	423	432
Listing processing and other listing fees	119	192	148	184	145	167	152	176
Book building fees	85	166	218	91	137	55	118	137
Other services to corporates	10	30	24	34	19	31	56	23
Transaction charges income - Equity	471	545	475	530	368	431	392	334
Transaction charges income - currency derivatives	14	13	17	18	18	20	25	34
Listing fees	490	568	572	572	557	588	575	608
Book building and other services	95	196	242	125	156	86	174	160
Star MF platform	99	120	135	150	150	188	211	237

**Key takeaways from the management commentary****Business**

- Major steps taken to increase market share in various segments include 1) the 1-paise tick for stocks with price less than INR100 – there has been an increase in market share from 9% before this measure to 11% in the recent past. Also, the delivery volumes in the segment are significant at 80%; 2) Currency derivatives – the introduction of the 10-paise strike price has started playing out well but major traction should be seen over the longer term; and 3) Equity derivatives segment - Reduced the lot size for S&P BSE Sensex and S&P BSE Bankex, changed the expiry day to Friday from Thursday to scale up derivatives volumes and reduce concentration risk within the overall industry.

- BSE has discontinued the liquidity enhancement scheme (LES) for the derivative segment as the past spending did not yield commensurate results. Now the exchange will focus on product development, which will drive incidental gains both on P&L and RoI. Also, the company has discontinued the colocation hardware and software support. Cumulative savings from these initiatives will be INR320m on the standalone basis and INR380m on the consolidated basis.
- Transaction charges are at subsidized rates in many areas such as equity options, currency options (one-tenth) and currency futures (one-fifth). Colocation was all free earlier. BSE will increase charges once adequate scale is achieved.
- Star MF fee structure has two parts: 1) transaction charges for processing, and 2) recovery of the costs. Various slabs exist for transaction charges and overall recovery is INR4 per transaction.

### New Businesses

- Gift City IFSC – ADTO for FY23 came in at USD13.1b, with a market share of 90%+ for BSE. USD70b notes and USD50bn bonds have been listed. A lot of changes are expected in this space and BSE will be a part of it.
- New exchanges – The social stock exchange will not generate revenue. The bullion exchange is a separate exchange and Gold has a great potential. Currently, India is not a price setter in spite of a large share in global trade. Its EGR product is in early days but has a huge potential if tax issues are resolved. The power exchange is not generating revenue as it is a new exchange and will take time to scale up. However, BSE is providing technology services and earns revenue for it.

### Financials

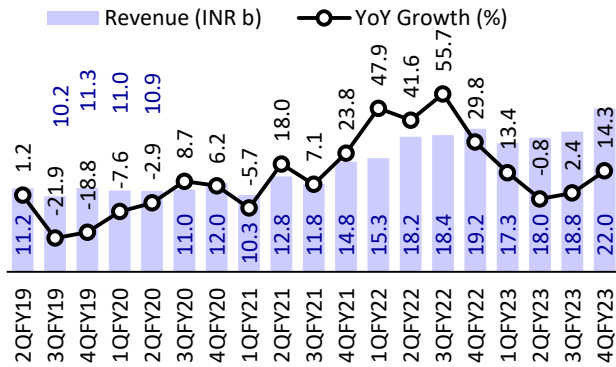
- Increase in other securities services was mainly driven by higher income from the clearing corporation. While other operating income saw an increase from healthy business growth in the Tech subsidiary.
- Other income was higher owing to an income tax refund and an expense reversal of INR20m.
- Going ahead, employee expenses will increase due to inflation and efforts to retain talent. Tech spending will see normal inflation, along with certain essential upgrades.

### Exhibit 1: Revisions to our estimates

INR b	Old Est.		New Est.		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue from Operations	8.1	9.0	9.2	10.1	13.6	12.2
Other income	1.9	2.0	1.6	1.7	-15.8	-16.0
<b>Total Income</b>	<b>10.0</b>	<b>11.0</b>	<b>10.8</b>	<b>11.8</b>	<b>8.1</b>	<b>7.1</b>
Operating Expenses	6.2	6.8	6.4	6.9	2.2	2.4
EBITDA	3.8	4.2	4.4	4.8	17.8	14.8
Core EBITDA	1.9	2.2	2.9	3.2	50.8	42.0
Depreciation/Int	0.9	0.9	0.9	0.9	5.1	4.6
<b>PBT</b>	<b>2.9</b>	<b>3.3</b>	<b>3.5</b>	<b>3.9</b>	<b>21.5</b>	<b>17.4</b>
<b>Core PBT</b>	<b>1.0</b>	<b>1.4</b>	<b>2.0</b>	<b>2.3</b>	<b>88.0</b>	<b>65.7</b>
Tax	1.0	1.2	1.2	1.4	21.5	17.4
<b>PAT</b>	<b>1.9</b>	<b>2.2</b>	<b>2.3</b>	<b>2.5</b>	<b>21.5</b>	<b>17.4</b>
<b>PAT after Associate profits</b>	<b>2.5</b>	<b>2.9</b>	<b>2.9</b>	<b>3.2</b>	<b>13.7</b>	<b>10.7</b>

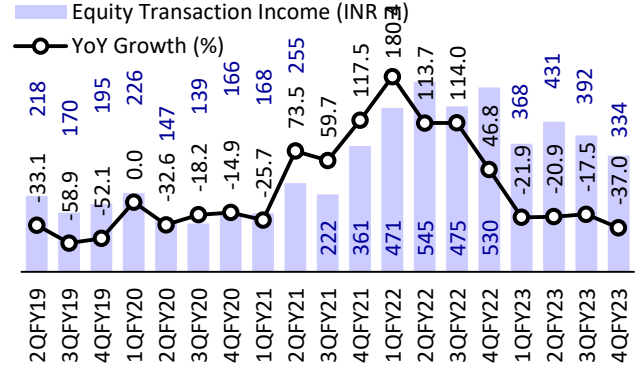
## Key exhibits

Exhibit 2: Revenue increased sequentially



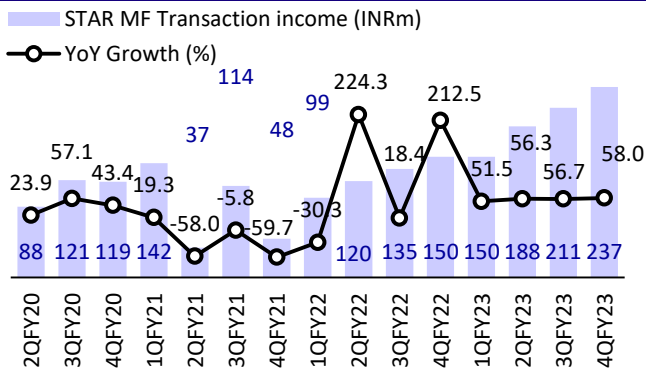
Source: MOFSL, Company

Exhibit 3: Equity Transaction revenue were muted



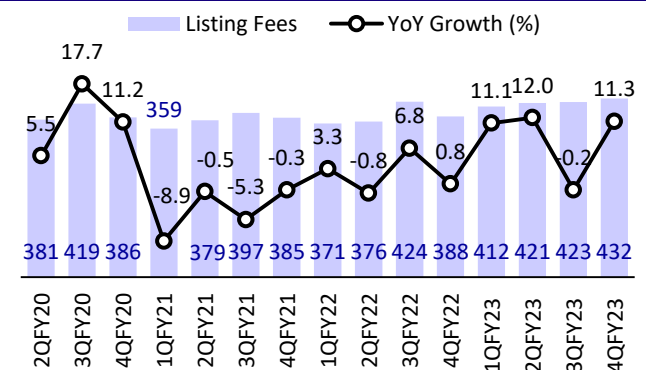
Source: MOFSL, Company

Exhibit 4: Revenue from Star MF improved QoQ



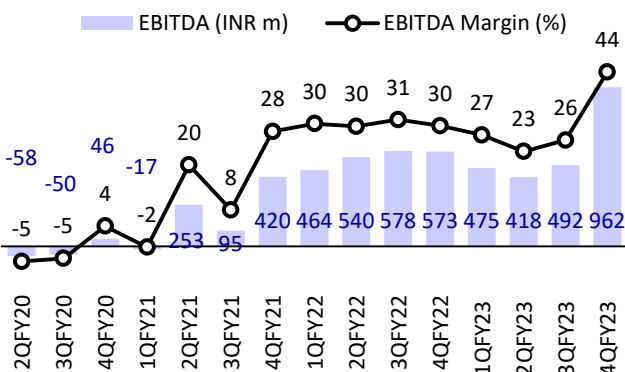
Source: MOFSL, Company

Exhibit 5: Listing fees were flat QoQ



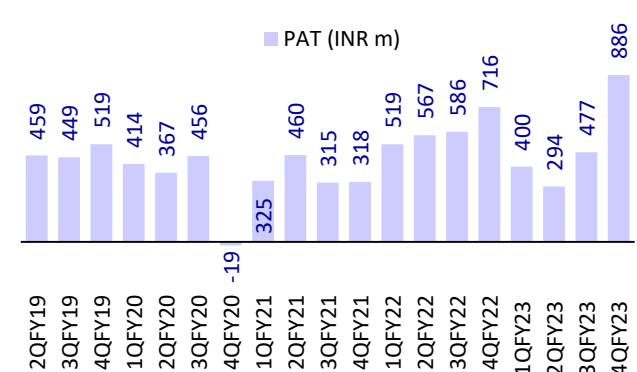
Source: MOFSL, Company

Exhibit 6: EBITDA and Margins increases sharply



Source: MOFSL, Company

Exhibit 7: Sharp increase in PAT sequentially



Source: MOFSL, Company

## Financials and valuations

Income Statement								(INR M)	
Y/E March	2017	2018	2019	2020	2021	2022	2023	2024E	2025E
Revenue	5,172	5,072	4,503	4,505	5,014	7,432	8,155	9,210	10,110
Change (%)	21.8	-1.9	-11.2	0.0	11.3	48.2	9.7	12.9	9.8
Employee expenses	1,415	1,201	1,392	1,512	1,487	1,773	1,802	1,910	2,025
Technology expenses	1,056	1,111	1,134	1,176	948	969	1,239	1,388	1,554
Admin & Others	1,733	1,684	1,811	2,132	1,854	2,209	2,777	3,054	3,360
Liquidity enhancement expenses	0	21	130	178	337	350	363	0	0
EBITDA	968	1,055	36	-493	388	2,131	1,974	2,858	3,171
EBITDA %	18.7	20.8	0.8	-10.9	7.7	28.7	24.2	31.0	31.4
Depreciation / Amortization	540	455	511	510	579	483	603	619	633
EBIT	429	601	-474	-1,003	-190	1,648	1,371	2,239	2,538
EBIT %	9.7	11.8	-10.5	-22.3	-3.8	22.2	16.8	24.3	25.1
Finance costs	10	10	9	24	103	222	275	275	275
Other Income	2,835	1,917	2,371	1,795	1,533	1,204	1,384	1,570	1,657
PBT	3,254	2,508	1,888	768	1,240	2,631	2,480	3,534	3,921
Tax	406	555	234	149	109	823	916	1,237	1,372
ETR %	12.5	22.1	12.4	19.4	8.8	31.3	36.9	35.0	35.0
PAT before associate profits	2,848	1,953	1,655	619	1,131	1,807	1,564	2,297	2,548
Share of Associates profit	11	199	292	267	432	642	492	566	651
PAT after Associate profits	2,859	2,152	1,947	886	1,562	2,449	2,057	2,863	3,199
Change (%)	38.5	-24.7	-9.5	-54.5	76.4	56.8	-16.0	39.2	11.7
PAT margin %	55.3	42.4	43.2	19.7	31.2	33.0	25.2	31.1	31.6
Exceptional items	208	5	5	-320	145	0	0	0	0
PAT after exceptional items	2,651	2,148	1,941	1,206	1,417	2,449	2,057	2,863	3,199
Balance Sheet								(INR M)	
Y/E March	2017	2018	2019	2020	2021	2022	2023	2024E	2025E
Total fixed assets	2,519	2,142	2,181	2,085	1,843	1,681	2,535	2,585	2,635
Non current investments	17,478	17,598	13,096	9,252	8,005	6,298	8,961	9,409	9,879
Other non current assets	1,128	1,676	1,830	4,207	4,914	4,339	9,871	10,069	10,270
Total non current assets	21,125	21,415	17,108	15,543	14,762	12,318	21,367	22,063	22,784
Cash & Current investments	24,258	19,826	15,481	16,092	19,269	35,117	30,496	32,241	34,631
Trade receivables	687	549	490	700	876	634	909	1,474	1,618
Other current assets	5,760	8,191	11,960	12,425	11,364	13,785	7,166	7,477	7,803
Total current assets	30,705	28,566	27,931	29,216	31,509	49,535	38,571	41,192	44,051
TOTAL ASSETS	51,830	49,980	45,039	44,759	46,271	61,854	59,938	63,254	66,835
Share Capital	321	311	320	270	270	271	271	270	270
R&S	26,303	30,495	29,037	23,981	24,796	26,275	26,741	27,600	28,559
Shareholders equity	26,624	30,806	29,357	24,251	25,066	26,545	27,012	27,870	28,829
Core SGF	2,045	3,585	3,945	4,354	5,391	6,409	7,576	7,576	7,576
Minority Interest	2,909	0	0	186	235	1,352	1,278	1,278	1,278
Deferred tax liabilities	0	142	0	1	0	0	0	0	0
LT borrowings	0	0	0	0	0	0	0	0	0
Other LT liabilities	88	95	114	111	124	81	145	145	145
Total non-current liabilities	88	236	114	113	124	81	145	145	145
Outstanding dues to creditors	563	629	419	758	982	729	804	959	1,047
Other current liabilities	19,601	14,725	11,205	15,098	14,473	26,739	23,123	25,426	27,959
Total current liabilities	20,164	15,354	11,623	15,856	15,455	27,467	23,927	26,385	29,006
TOTAL LIABILITIES	51,830	49,981	45,039	44,759	46,271	61,854	59,938	63,254	66,835

## Financials and valuations

### Ratios

Y/E March	2017	2018	2019	2020	2021	2022	2023	2024E	2025E
<b>Basic (INR)</b>									
EPS	19.6	15.9	14.4	8.9	10.5	18.1	15.2	21.2	23.7
EPS (excl EOI)	21.2	15.9	14.4	6.6	11.6	18.1	15.2	21.2	23.7
Cash EPS	20.6	16.7	15.3	9.9	11.6	19.0	16.4	22.4	24.9
Book Value	197.2	228.2	217.5	179.6	185.7	196.6	200.1	206.4	213.6
DPS	13.6	17.4	14.1	5.8	7.1	13.5	12.0	14.8	16.6
Payout %	69.4	109.3	97.9	64.6	67.9	74.4	78.8	70.0	70.0
<b>Valuation (x)</b>									
P/E	21.9	27.0	29.9	48.1	41.0	23.7	28.2	20.3	18.1
Cash P/E	20.8	25.7	28.1	43.5	37.2	22.6	26.3	19.2	17.3
Price/Book Value	2.2	1.9	2.0	2.4	2.3	2.2	2.1	2.1	2.0
Dividend Yield (%)	3.2	4.0	3.3	1.3	1.7	3.1	2.8	3.5	3.9
<b>Profitability Ratios (%)</b>									
RoE	10.0	7.0	6.6	5.0	5.7	9.2	7.6	10.3	11.1
RoCE	12.3	8.2	6.5	3.3	5.4	10.7	10.2	13.7	14.6

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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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