

Estimate change	↑
TP change	↑
Rating change	↔

Bloomberg	BSE IN
Equity Shares (m)	131
M.Cap.(INRb)/(USDb)	272.4 / 3.3
52-Week Range (INR)	2084 / 406
1, 6, 12 Rel. Per (%)	42/274/241
12M Avg Val (INR M)	1369

#### Financials & Valuations (INR b)

Y/E Mar	FY23	FY24E	FY25E
Net Sales	8.2	12.9	18.0
EBITDA	2.0	5.1	8.8
PAT	2.1	8.1	8.2
Adj. PAT	2.1	4.0	8.2
EPS (INR)	15.7	30.5	62.8
EPS Gr (%)	-16.1	94.0	106.1
BV / Sh (INR)	206	196	215

#### Ratios (%)

RoE	7.6	31.4	29.2
Payout ratio	78.8	70.0	70.0

#### Valuations

P/E (x)	127.3	65.6	31.8
P / BV (x)	9.7	10.2	9.3

#### Shareholding pattern (%)

As On	Sep-23	Jun-23	Sep-22
Promoter	0.0	0.0	0.0
DII	8.1	0.5	0.6
FII	33.0	34.6	36.6
Others	58.9	64.8	62.8

FII Includes depository receipts

**CMP: INR2,011      TP: INR2,250 (+12%)      Neutral**

### Strong performance across parameters

- BSE reported PAT of INR1.2b in 2QFY24 (beat on our estimates), up 303% YoY but down 73% QoQ (gain on sale of CDSL stake recorded in 1QFY24). However, adjusted PAT came in at INR1.07b, up 71% QoQ.
- BSE reported operating revenue of INR3.1b, up 46% QoQ and 59% YoY, beating our estimates.
- After the relaunch, derivative contracts (Sensex and Bankex) are witnessing significant traction from market participants. BSE has increased transaction charges on Sensex options (only on near expiry), with effect from 1st Nov'23. Thus, the derivative segment would see strong revenue growth.
- We have upgraded our EPS estimates by 16%/23% for FY24/FY25 to factor in the better-than-expected equity cash volumes and increasing treasury income from clearing and settlement funds. **Reiterate Neutral with a one-year TP of INR2250 (based on SOTP).**

### Transaction income drives profitability

- EBIDTA in 2QFY24 doubled QoQ as revenue jumped 46%, led by strong cash volumes and high treasury income from clearing and settlement funds.
- Transaction charges rose 53% YoY owing to improvements in cash volumes (26% YoY jump) and a 56% YoY jump in Star MF revenue.
- Though ADT (average daily turnover) for currency derivatives declined QoQ, the increase in transaction charges led to 25% QoQ growth in currency derivative revenues.
- Treasury income from clearing and settlement funds surged 151% YoY to INR573m in 2QFY24. Investment income stood at INR525m, up 25% YoY but down 6% QoQ.
- Opex for the quarter came in at INR1.7b, up 19% QoQ. Other expenses grew 42% QoQ because of a sequential increase in clearing charges of INR200m (due to scale-up in options volumes).
- EBIDTA margins for the quarter came in at 45.4% vs. 29.9% in 2QFY23.

### Key takeaways from the management commentary

- BSE has 70m UCCs uploaded into the equity derivatives segment, of which 1m have traded so far and 0.3m are trading regularly. A significant increase can be expected in the next few years.
- Bankex expiry was shifted to Monday from mid-Oct'23 and since then significant interest has been generated. In the last expiry, 13.5m trades were placed with INR10t notional turnover. 205 members have participated in the same. The Sensex trajectory took 8-12 weeks to reach this scale, while for Bankex, it happened in four weeks.
- Clearing settlement income has seen a sharp increase owing to higher funds of members lying with the clearing corporation. A large portion of this was because of margin money as the rules changed for upstreaming of funds.

**Valuation and view: Raise estimates; reiterate Neutral**

- The relaunch of BSE derivatives products has proved to be a trend-changing measure. Increased member participation, increasing awareness about products and a shift in Bankex expiry would continue to drive market share gains for BSE. Currently, BSE has a 10% market share in notional turnover and 3% premium turnover market share in equity derivatives segment. We expect this to scale up going ahead.
- Other levers that will support growth over the medium term include: 1) continued momentum in the Star MF business, 2) growth in cash segment, 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 upgraded our EPS estimates by 16%/23% for FY24/FY25 to factor in better-than-expected equity cash volumes and increasing treasury income from clearing and settlement funds. Reiterate Neutral with a one-year TP of INR2,250 (based on SOTP).

**Cons. Quarterly perf.****Y/E March**

	FY23				FY24E				FY23	FY24E	Est. 2Q
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			
Revenue from operations	1,869	1,977	2,040	2,270	2,153	3,144	3,612	3,952	8,154	12,861	2,237
YoY Change (%)	19.0	4.8	5.9	10.9	15.2	59.0	77.1	74.1	9.7	57.7	13
Total Expenditure	1,256	1,386	1,392	1,234	1,437	1,716	2,184	2,416	6,181	7,752	1,422
EBITDA	613	591	648	1,036	716	1,429	1,428	1,536	1,973	5,109	815
Margins (%)	32.8	29.9	31.8	45.6	33.3	45.4	39.5	38.9	24.2	39.7	36
Depreciation	104	122	170	207	214	227	229	235	603	905	216
Interest	76	74	65	60	65	85	90	95	275	335	68
Investment income	109	421	410	445	556	525	525	531	1,384	2,136	470
PBT before EO expense	542	815	823	1,214	992	1,642	1,635	1,737	2,479	6,006	1,000
Exceptional items	-116	-457	-258	-84	4,048	-13	0	0	0	4,066	0
PBT	426	359	566	1,131	5,040	1,629	1,635	1,737	2,479	10,072	1,000
Tax	135	215	230	336	762	636	572	549	916	2,518	350
Rate (%)	32	60	41	30	15	39	35	32	37	25	35
P/L of Asso. Cos.	109	150	141	92	119	190	199	-8	492	500	95
Reported PAT	400	294	477	886	4,398	1,183	1,262	1,180	2,055	8,054	745
Adj PAT	479	477	629	945	961	1,191	1,262	1,180	2,055	3,988	745
YoY Change (%)	-23	-48	-19	24	999	303	165	33	-16	292	154
Margins (%)	25.6	24.1	30.8	41.6	44.6	37.9	34.9	29.9	25.2	62.6	31

E: MOFSL Estimates

**Key Perfor. Indicators****Y/E March**

	FY23				FY24E			
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE
Transaction charges	538	641	631	603	658	982	1435	1708
Services to corporates	714	673	749	768	707	870	897	944
Listing Fees	412	421	423	432	460	473	478	514
Listing processing and other listing fees	145	167	152	176	133	198	208	216
Book building fees	137	246	-73	137	93	147	154	151
Other services to corporates	19	35	52	23	21	52	57	63
Transaction charges income - Equity	368	431	392	334	392	605	623	622
Transaction charges income - currency derivatives	18	20	25	34	28	35	35	37
Listing fees	557	588	575	608	593	671	686	730
Book building and other services	156	281	-21	160	114	199	212	214
Star MF platform	150	188	211	237	238	294	323	345

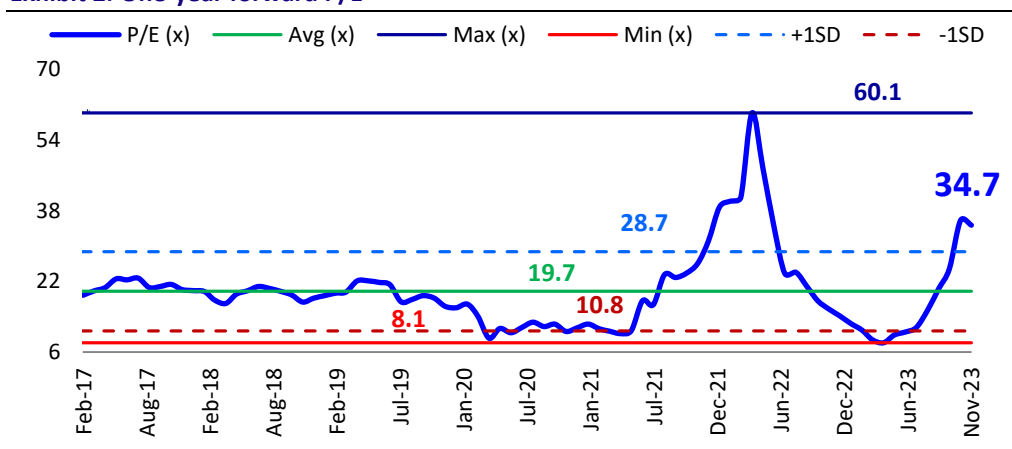


## Key takeaways from the management commentary

- The derivative segment is executing 270m contracts with a notional turnover INR177t now, 1.4b orders and 60m trades, which are higher than the cash segment. More than 350 members representing more than 1m UCCs are participating in the derivatives segment.
- Bankex expiry was shifted to Monday from mid-Oct'23 and since then significant interest has been generated. In the last expiry, 13.5m trades were placed with INR10t notional turnover. 205 members participated in it. The Sensex trajectory took 8-12 weeks to reach this scale, while for Bankex, it happened in four weeks.
- The increase in pricing of Sensex options has happened earlier than expected, with an aim of covering the settlement and clearing costs and scaling up Bankex volumes.
- The exchange has increased its capacity to process orders to 8b per day from 1.1b six months back, while the number of trades has increased to 180m from 25m. It will focus on expanding this capacity further.
- Based on the rising derivative volumes and increasing demand for colocation from members, BSE is working to increase the capacity at its colocation facility.
- Clearing settlement income has seen a sharp increase owing to higher funds of members lying with the clearing corporation. Large portion of this was due to margin money as the rules changed for upstreaming of funds. Earlier the broker would transfer the net margin money, while under new rules, the entire fund needs to be transferred.
- In 2QFY24, settlement and clearing costs were significantly higher than revenue in the derivatives segment. In Sep'23, INR170m was the cost and a large portion of it went to NSE's clearing corporation.
- The increasing share of closer to at the money and longer dated options will help reduce the unit cost of clearing and settlement.
- BSE is making efforts to increase participation of its clearing corporation in clearing and settlement.
- Bankex pricing will be changed at an appropriate time. Volumes have to be sustainable for revising the pricing.
- At some point if the market is prepared to take higher charges, it will increase prices. Also, if there is a change in process wherein the burden to collect clearing and settlement charges is shifted from exchange to the clearing corporation, the paradigm would change materially. Pricing decisions would always be made considering profitability and interest of various stakeholders.
- BSE has 70m UCCs uploaded into the equity derivatives segment, of which 1m have traded so far and 0.3m are trading regularly. A significant increase can be expected in the next few years. It aims to grow 10x and reach about the NSE level in due course.
- Many of the large algo traders are already participating and BSE expects more participation.
- It plans to launch new products and will check with members as to expiry day.
- Market share in MF stands at 89% in exchange volumes.
- Focusing on Star MF and improve functionality in the platform

**Exhibit 1: Revisions to our estimates**

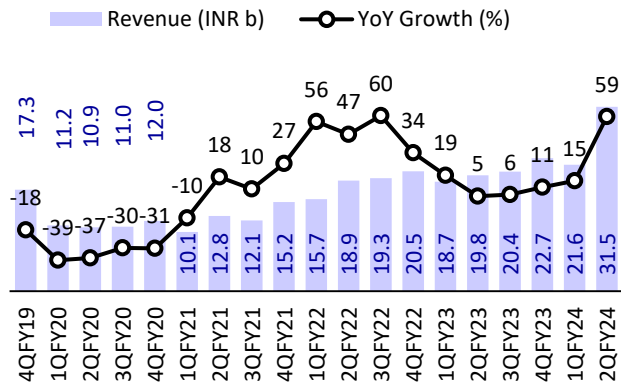
INR b	Old Est.		New Est.		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue from Operations	9.5	14.0	12.9	18.0	34.9	28.8
Other income	1.9	1.9	2.1	2.7	13.3	42.1
<b>Total Income</b>	<b>11.4</b>	<b>15.9</b>	<b>15.0</b>	<b>20.7</b>	<b>31.4</b>	<b>30.4</b>
Operating Expenses	5.9	6.4	7.8	9.2	31.6	45.1
EBITDA	5.5	9.5	7.2	11.4	31.1	20.5
Core EBITDA	3.6	7.6	5.1	8.8	40.3	15.2
Depreciation/Int	1.2	1.2	1.2	1.3	7.5	4.9
<b>PBT</b>	<b>4.4</b>	<b>8.3</b>	<b>6.0</b>	<b>10.2</b>	<b>37.3</b>	<b>22.8</b>
<b>Core PBT</b>	<b>2.5</b>	<b>6.4</b>	<b>3.9</b>	<b>7.5</b>	<b>55.4</b>	<b>17.1</b>
Tax	1.9	2.1	2.5	2.5	32.6	22.8
<b>PAT</b>	<b>2.5</b>	<b>6.2</b>	<b>3.5</b>	<b>7.6</b>	<b>40.9</b>	<b>22.8</b>
<b>PAT after Associate profits</b>	<b>7.0</b>	<b>6.7</b>	<b>8.1</b>	<b>8.2</b>	<b>15.6</b>	<b>22.8</b>

**Exhibit 2: One-year forward P/E**

Source: MOFSL, Company

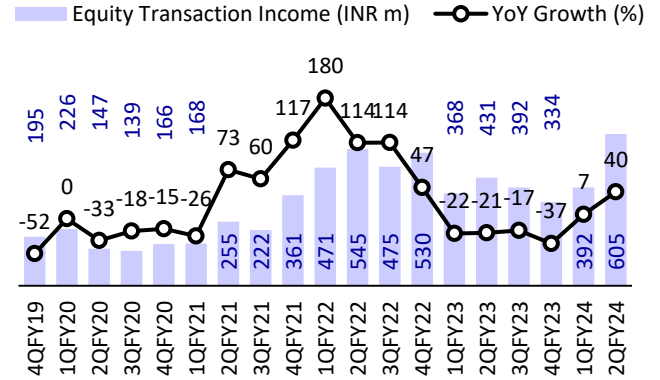
## Key exhibits

Exhibit 3: Revenue increased 59% YoY



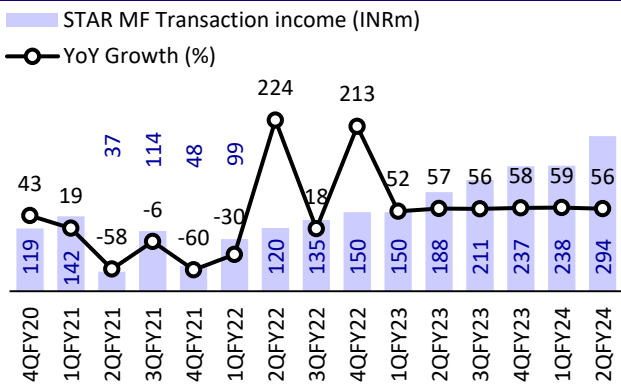
Source: MOFSL, Company

Exhibit 4: Equity transaction revenue grew QoQ



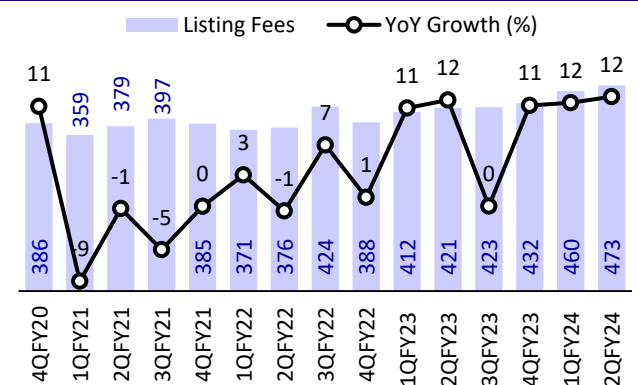
Source: MOFSL, Company

Exhibit 5: Revenue from Star MF improved YoY



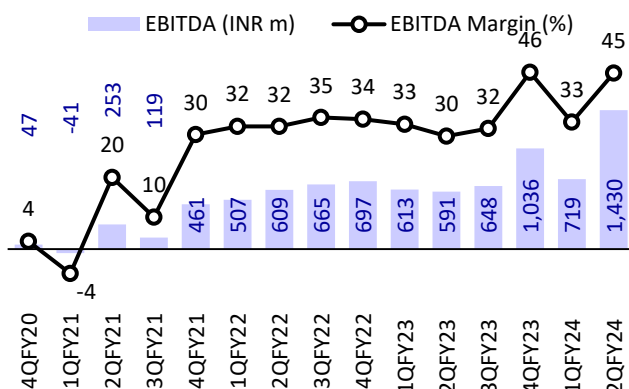
Source: MOFSL, Company

Exhibit 6: Listing fees were increased YoY



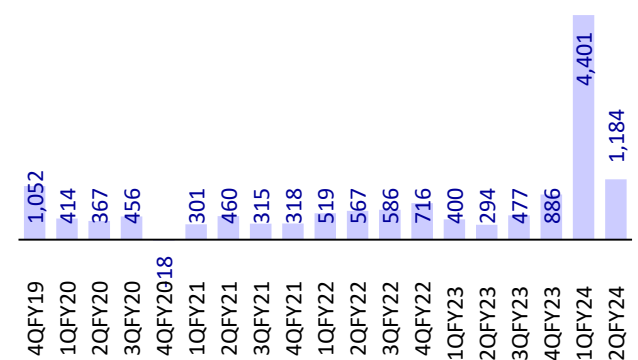
Source: MOFSL, Company

Exhibit 7: Trends in EBITDA and Margin



Source: MOFSL, Company

Exhibit 8: Trend in Quarterly PAT



Source: MOFSL, Company

## Financials and valuations

Income Statement						(INR m)	
Y/E March	2019	2020	2021	2022	2023	2024E	2025E
Revenue	4,503	4,505	5,014	7,432	8,154	12,861	18,012
Change (%)	-11.2	0.0	11.3	48.2	9.7	57.7	40.0
Employee expenses	1,392	1,512	1,487	1,773	1,802	2,162	2,292
Technology expenses	1,134	1,176	948	969	1,239	1,425	1,539
Admin & Others	1,811	2,132	1,854	2,209	2,777	4,165	5,414
Liquidity enhancement expenses	130	178	337	350	363	0	0
EBITDA	36	-493	388	2,131	1,973	5,109	8,766
EBITDA %	0.8	-10.9	7.7	28.7	24.2	39.7	48.7
Depreciation / Amortization	511	510	579	483	603	905	948
EBIT	-474	-1,003	-190	1,649	1,370	4,204	7,818
EBIT %	-10.5	-22.3	-3.8	22.2	16.8	32.7	43.4
Finance costs	9	24	103	222	275	335	335
Other Income	2,371	1,795	1,533	1,204	1,384	2,136	2,674
PBT	1,888	768	1,240	2,631	2,479	6,006	10,157
Tax	234	149	109	823	916	2,518	2,539
ETR %	12.4	19.4	8.8	31.3	37.0	41.9	25.0
PAT before associate profits	1,655	619	1,131	1,808	1,563	3,488	7,618
Share of Associates profit	292	267	432	642	492	500	600
PAT after Associate profits	1,947	886	1,562	2,449	2,055	3,988	8,218
Change (%)	-9.5	-54.5	76.4	56.8	-16.1	94.0	106.1
PAT margin %	43.2	19.7	31.2	33.0	25.2	31.0	45.6
Exceptional items	-5	320	-145	0	0	4,066	0
PAT after exceptional items	1,941	1,206	1,417	2,449	2,055	8,054	8,218
Balance Sheet						(INR m)	
Y/E March	2019	2020	2021	2022	2023	2024E	2025E
Total fixed assets	2,181	2,085	1,843	1,681	2,535	3,035	3,535
Non-current investments	13,096	9,252	8,005	6,298	8,961	9,409	9,879
Other non-current assets	1,830	4,207	4,914	4,339	9,871	10,069	10,270
Total non-current assets	17,108	15,543	14,762	12,318	21,367	22,513	23,684
Cash & Current investments	15,481	16,092	19,269	35,117	30,496	42,718	46,976
Trade receivables	490	700	876	634	909	2,058	2,882
Other current assets	11,960	12,425	11,364	13,785	7,166	7,477	7,803
Total current assets	27,931	29,216	31,509	49,535	38,571	52,253	57,660
TOTAL ASSETS	45,039	44,759	46,271	61,854	59,938	74,765	81,344
Share Capital	320	270	270	271	271	262	270
R&S	29,037	23,981	24,796	26,275	26,741	25,427	27,892
Shareholders equity	29,357	24,251	25,066	26,545	27,012	25,688	28,162
Core SGF	3,945	4,354	5,391	6,409	7,576	7,576	7,576
Minority Interest	0	186	235	1,352	1,278	1,278	1,278
Other LT liabilities	114	111	124	109	145	145	145
Total non-current liabilities	114	113	124	109	145	145	145
Outstanding dues to creditors	419	758	982	729	804	1,169	1,393
Other current liabilities	11,205	15,098	14,473	26,711	23,123	38,908	42,789
Total current liabilities	11,623	15,856	15,455	27,439	23,927	40,077	44,182
TOTAL LIABILITIES	45,039	44,759	46,271	61,854	59,938	74,765	81,344

## Financials and valuations

### Ratios

Y/E March	2019	2020	2021	2022	2023	2024E	2025E
<b>Basic (INR)</b>							
EPS	14.8	9.2	10.8	18.7	15.7	61.5	62.8
EPS (excl EOI)	14.9	6.8	11.9	18.7	15.7	30.5	62.8
Cash EPS	15.8	10.2	11.9	19.6	16.9	63.3	64.6
Book Value	224.4	185.3	191.6	202.9	206.4	196.3	215.2
DPS	14.5	6.0	7.4	13.5	12.0	43.1	44.0
Payout %	97.9	64.6	67.9	72.1	78.8	70.0	70.0
<b>Valuation (x)</b>							
P/E	134.4	295.5	167.5	106.8	127.3	65.6	31.8
Cash P/E	126.5	196.2	167.6	101.8	118.6	31.6	31.0
Price/Book Value	8.9	10.8	10.4	9.9	9.7	10.2	9.3
Dividend Yield (%)	0.7	0.3	0.4	0.7	0.6	2.2	2.2
<b>Profitability Ratios (%)</b>							
RoE	6.6	5.0	5.7	9.2	7.6	31.4	29.2
RoCE	6.5	3.3	5.4	10.7	10.2	24.7	37.3

E: MOFSL Estimates

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NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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