

Estimate change



TP change



Rating change



CMP: INR2,561

TP: INR2,725 (+6%)

Neutral

	BSE IN
Bloomberg Equity Shares (m)	131
M.Cap.(INRb)/(USDb)	346.9 / 4.2
52-Week Range (INR)	2595 / 406
1, 6, 12 Rel. Per (%)	11/186/390
12M Avg Val (INR M)	1978

Financials & Valuations (INR b)

Y/E Mar	FY24E	FY25E	FY26E
Net Sales	13.6	19.4	23.4
EBITDA	4.7	8.8	10.7
PAT	8.1	8.5	10.2
Adj. PAT	4.1	8.5	10.2
EPS (INR)	31.1	65.0	77.9
EPS Gr (%)	98.2	108.7	19.9
BV / Sh (INR)	197	216	239

Ratios (%)

RoE	31.7	30.1	32.5
Payout ratio	70.0	70.0	70.0

Valuations

P/E (x)	82.5	39.5	33.0
P / BV (x)	13.1	11.9	10.7

Shareholding pattern (%)

As On	Dec-23	Sep-23	Dec-22
Promoter	0.0	0.0	0.0
DII	11.3	8.1	0.6
FII	35.2	33.0	34.6
Others	53.6	64.8	64.8

FII Includes depository receipts

Contribution to SGF reduces profitability

- BSE reported a PAT of INR1.06b in 3QFY24 (23% below our estimate), up 124% YoY but down 10% QoQ, mainly owing to its contribution of INR917m to SGF for the currency derivatives segment.
- Operating revenue grew 18% QoQ and 82% YoY to INR3.7b, broadly in line with our estimate.
- 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 7%/6% for FY25/FY26 to factor in the higher volume trajectory for its equity derivatives segment. **Reiterate our Neutral rating with a one-year TP of INR 2,725 (based on 35x FY26E EPS).**

Strong growth in transaction income

- Transaction charges surged 69% QoQ and 163% YoY to INR1.66b, while services to corporates increased 20% YoY.
- Transaction charges for the cash segment (INR693m, +77% YoY) and the equity derivatives segment (INR567m) were in line with our expectations. Revenue from the StAR MF platform jumped 55.5% YoY to INR328m.
- Treasury income from clearing and settlement funds surged 115% YoY to INR469m in 3QFY24 (18% below our expectation). Investment income stood at INR598m, up 46% YoY and 14% QoQ.
- Opex came in 27% higher than our estimates at INR2.8b, due to a higher contribution to SGF for the currency derivatives segment. Hence, EBIDTA margins declined to 25.2% vs. our expectation of 42.7% and 31.8% in 3QFY23. Excluding the SGF contribution, EBIDTA margins came in at 49.9%.
- 3QFY24 PAT stood at INR1.06b, a 124% jump YoY but down 10% QoQ.
- For 9MFY24, revenue/Adj PAT grew by 53%/70% to INR9b/INR3.2b (*Note - gain on sale of CDSL stake recorded in 1QFY24*).

Key takeaways from the management commentary

- BSE is developing a colocation facility - a strategic investment in the short term that will benefit in the long term. 2024 will be a transformational year as BSE is committed to growing in new areas such as expansion of data centers, new MF platform, improving clearing & settlement services, and enhancing index and data services.
- Two factors impacted profitability: 1) Core SGF of INR917m, ~67% higher than previous year; 2) Clearing and settlement charges of INR638m in standalone financial statements vs. INR438m in consolidated financials. In order to further reduce clearing and settlement costs, the exchange is trying to review the contract terms with NSCL and increase its institutional presence, for which it is closely working with FPIs as DIIs do not have a lot of scope to increase activity.

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Valuation and view: Raise estimates; reiterate Neutral

- The relaunch of BSE derivatives products has proved to be a trend-changing measure. Increased member participation, rising awareness about products, and a shift in Bankex expiry would continue to drive market share gains for BSE. Currently, BSE has a 13% market share in the notional turnover and 5% premium turnover market share in the equity derivatives segment. We expect BSE to scale up in these parameters going ahead.
- Other levers that will support growth over the medium term include: 1) repricing of derivatives contracts, 2) colocation revenues, 3) continued momentum in the StAR MF business, 4) growth in cash segment, 5) possibility of levying a fee for listing of debt securities, 6) start of operations at its Power Exchange, and 7) commencement of revenue from its Gold Spot exchange.
- We have upgraded our EPS estimates by 7%/6% for FY25/FY26 to factor in the higher volume trajectory for equity derivatives segment. **Reiterate our Neutral rating with a one-year TP of INR 2,725 (based on 35x FY26E EPS).**

Cons. Quarterly perf.

Y/E March	(INR m)											
	FY23				FY24E				FY23	FY24E	Est. 3Q	Var. (%/bp)
	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24E				
Revenue from operations	1,869	1,977	2,040	2,270	2,153	3,144	3,717	4,591	8,154	13,568	3,809	-2.4
YoY Change (%)	19.0	4.8	5.9	10.9	15.2	59.0	82.2	102.2	9.7	66.4	87	-451bp
Total Expenditure	1,256	1,386	1,392	1,234	1,437	1,716	2,780	2,930	6,181	8,863	2,184	27.3
EBITDA	613	591	648	1,036	716	1,429	937	1,661	1,973	4,705	1,625	-42.3
Margins (%)	32.8	29.9	31.8	45.6	33.3	45.4	25.2	36.2	24.2	34.7	43	-1746bp
Depreciation	104	122	170	207	214	227	249	249	603	939	229	8.6
Interest	76	74	65	60	65	85	0	80	275	230	90	-100.0
Investment income	109	421	410	445	556	525	598	638	1,384	2,316	525	13.9
PBT before EO expense	542	815	823	1,214	992	1,642	1,287	1,970	2,479	5,853	1,832	-29.8
Exceptional items	-116	-457	-258	-84	4,048	-13	-16	0	0	4,066	0	
PBT	426	359	566	1,131	5,040	1,629	1,271	1,970	2,479	9,919	1,832	-30.6
Tax	135	215	230	336	762	636	371	712	916	2,480	641	-42.1
Rate (%)	32	60	41	30	15	39	29	36	37	25	35	
P/L of Asso. Cos.	109	150	141	92	119	190	165	226	492	700	199	-17.0
Reported PAT	400	294	477	886	4,398	1,183	1,065	1,484	2,055	8,139	1,390	-23.4
Adj PAT	479	477	629	945	961	1,191	1,076	1,484	2,055	4,073	1,390	-22.6
YoY Change (%)	-23	-48	-19	24	999	303	124	67	-16	296	192	
Margins (%)	25.6	24.1	30.8	41.6	44.6	37.9	29.0	32.3	25.2	60.0	36	-753bp

Key Perfor. Indicators

Y/E March	FY23				FY24E			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE
Transaction charges	538	641	631	603	658	982	1660	2153
Services to corporates	714	673	749	768	707	870	896	945
Listing Fees	412	421	423	432	460	473	481	510
Listing processing and other listing fees	145	167	152	176	133	198	203	221
Book building fees	137	246	-73	137	93	147	142	163
Other services to corporates	19	35	52	23	21	52	70	51
Transaction charges income - Equity	368	431	392	334	392	605	693	552
Transaction charges income - currency derivatives	18	20	25	34	28	35	35	37
Listing fees	557	588	575	608	593	671	684	732
Book building and other services	156	281	-21	160	114	199	212	214
Star MF platform	150	188	211	237	238	294	328	340



Key takeaways from the management commentary

Future investments

- Invested in the expansion of core data centers, which will solidify its performance and the on-boarding of new members.
- BSE is developing a colocation facility - a strategic investment in the short term to benefit in the long term.
- 2024 will be a transformational year as BSE is committed to growing in new areas such as expansion of data centers, new MF platform, improving clearing & settlement services, and enhancing index and data services.
- For the GIFT City merger, the company is working to expedite the process; however, timelines cannot be predicted as it needs multiple regulatory approvals.
- The company is implementing a colocation project and the racks are expected to be delivered in 1QCY24. The current focus is on setting up the infrastructure and facilitation of brokers to utilize the services. Eventually, the rack rates will be in line with industry rates.

Derivatives

- BSE is now the second biggest global exchange in terms of volumes and Sensex is the fourth largest product globally.
- Sensex derivatives broke its recorded orders of 22m and achieved 180m trades with 8b+ contracts.
- BSE is now focusing on the diversification of participation base and building volumes in longer-dated contracts.
- Active UCCs stand at 2.3m for Sensex derivatives and 0.2m for Bankex derivatives.
- About 82% of total volumes come from Sensex options and the rest from Bankex.
- Pricing in the derivatives segment will not be dependent on benchmarking with NSE. Liquidity and rise in bid-ask spread owing to increase in charges is critical for pricing decision.

Finance

- Two factors impacted profitability – 1) Core SGF of INR917m, ~67% higher than previous year; 2) Clearing and settlement charges of INR638m in standalone financial statements vs. INR438m in consolidated financials.
- In the primary market, it enabled transactions worth INR4.1t (equity, bonds, CPs).
- SGF for currency volumes went up in spite of falling volumes as the concentration risk increased.
- In order to further reduce clearing and settlement costs, the exchange is trying to review the contract terms with NSCL and increase its institutional presence, for which it is closely working with FPIs as DIIs do not have a lot of scope to increase activity.
- Net cash balance on the funding side stood at INR20b.

StAR MF

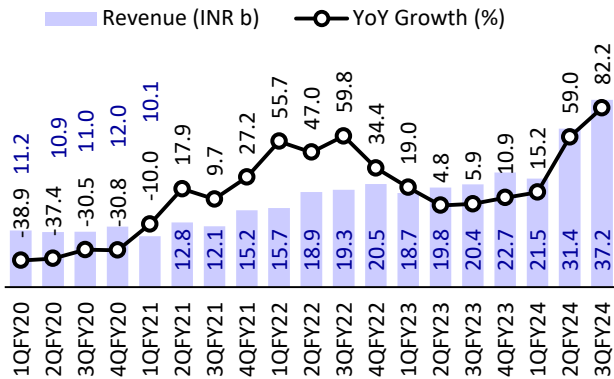
- In the MF segment, the market share is more than 85% among the exchange platforms.
- The MF business is reaching new heights as the volume of transactions is increasing day by day (434m transactions in Jan'24) and it will remain the focus area of the company.

Exhibit 1: Revisions to our estimates

INR b	Old Est.			New Est.			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue from Operations	13.5	19.1	23.1	13.6	19.4	23.4	0.8	1.8	1.4
Other income	2.1	2.7	2.9	2.3	2.7	2.9	8.4	-0.1	-0.1
Total Income	15.6	21.8	26.0	15.9	22.1	26.3	1.8	1.6	1.2
Operating Expenses	7.9	10.7	12.7	8.9	10.7	12.7	12.3	-0.3	-0.3
EBITDA	7.7	11.1	13.3	7.0	11.4	13.6	-8.9	3.3	2.6
Core EBITDA	5.6	8.4	10.4	4.7	8.8	10.7	-15.6	4.4	3.4
Depreciation/Int	1.2	1.3	1.4	1.2	1.2	1.4	-5.7	-5.8	-5.2
PBT	6.5	9.8	11.8	5.9	10.2	12.2	-9.6	4.5	3.5
Core PBT	4.3	7.1	8.9	3.5	7.5	9.3	-18.4	6.3	4.7
Tax	2.6	2.4	3.0	2.5	2.6	3.1	-5.9	4.5	3.5
PAT	3.8	7.3	8.9	3.4	7.7	9.2	-12.1	4.5	3.5
PAT after Associate profits	8.4	7.9	9.6	8.1	8.5	10.2	-3.1	7.2	6.3

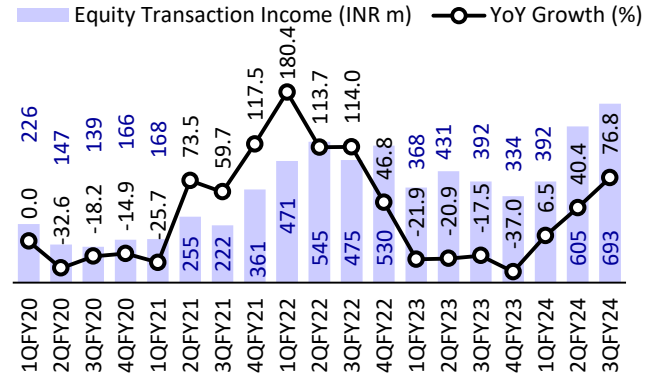
Key exhibits

Exhibit 2: Revenue increased 82% YoY



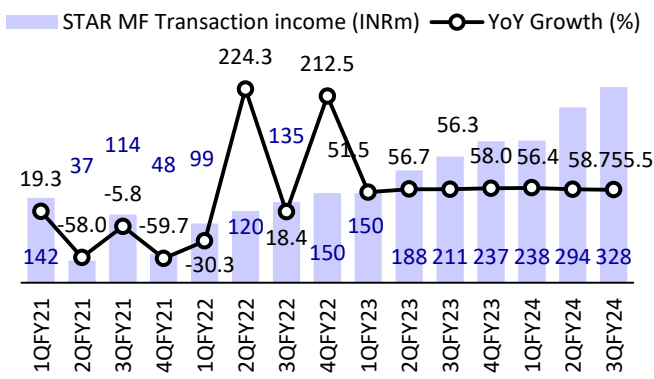
Source: MOFSL, Company

Exhibit 3: Equity transaction revenue grew 77% YoY



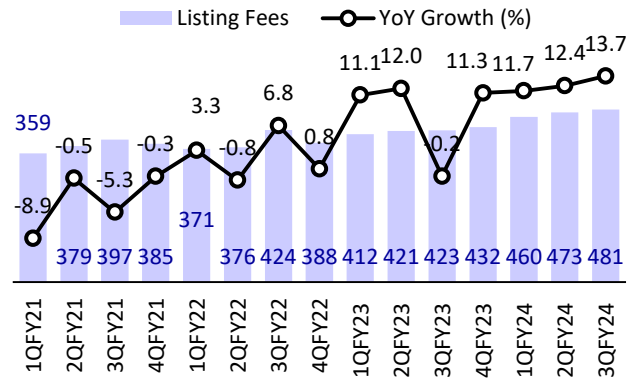
Source: MOFSL, Company

Exhibit 4: Revenue from StAR MF improved YoY



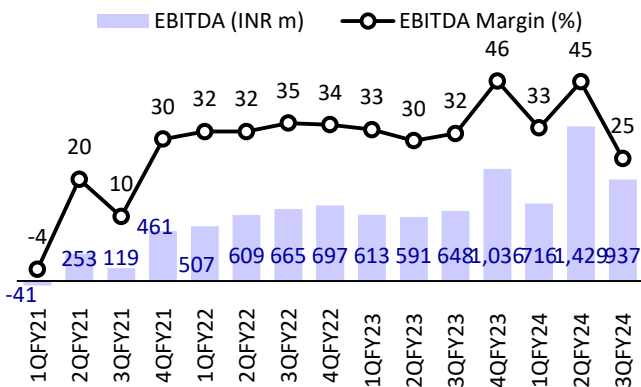
Source: MOFSL, Company

Exhibit 5: Listing fees were increased YoY



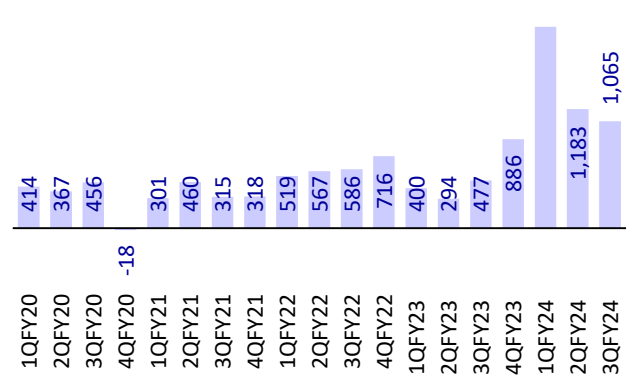
Source: MOFSL, Company

Exhibit 6: Trends in EBITDA and Margin



Source: MOFSL, Company

Exhibit 7: Trend in Quarterly PAT



Source: MOFSL, Company

Financials and valuations

Income Statement								(INR m)
Y/E March	2019	2020	2021	2022	2023	2024E	2025E	2026E
Revenue	4,503	4,505	5,014	7,432	8,154	13,568	19,440	23,370
Change (%)	-11.2	0.0	11.3	48.2	9.7	66.4	43.3	20.2
Employee expenses	1,392	1,512	1,487	1,773	1,802	2,162	2,292	2,430
Technology expenses	1,134	1,176	948	969	1,239	1,425	1,539	1,662
Admin & Others	1,811	2,132	1,854	2,209	2,777	5,276	6,858	8,573
Liquidity enhancement expenses	130	178	337	350	363	0	0	0
EBITDA	36	-493	388	2,131	1,973	4,705	8,751	10,706
EBITDA %	0.8	-10.9	7.7	28.7	24.2	34.7	45.0	45.8
Depreciation / Amortization	511	510	579	483	603	939	978	1,128
EBIT	-474	-1,003	-190	1,649	1,370	3,766	7,772	9,578
EBIT %	-10.5	-22.3	-3.8	22.2	16.8	27.8	40.0	41.0
Finance costs	9	24	103	222	275	230	230	230
Other Income	2,371	1,795	1,533	1,204	1,384	2,316	2,673	2,896
PBT	1,888	768	1,240	2,631	2,479	5,853	10,216	12,244
Tax	234	149	109	823	916	2,480	2,554	3,061
ETR %	12.4	19.4	8.8	31.3	37.0	42.4	25.0	25.0
PAT before associate profits	1,655	619	1,131	1,808	1,563	3,373	7,662	9,183
Share of Associates profit	292	267	432	642	492	700	840	1,008
PAT after Associate profits	1,947	886	1,562	2,449	2,055	4,073	8,502	10,191
Change (%)	-9.5	-54.5	76.4	56.8	-16.1	98.2	108.7	19.9
PAT margin %	43.2	19.7	31.2	33.0	25.2	30.0	43.7	43.6
Exceptional items	-5	320	-145	0	0	4,066	0	0
PAT after exceptional items	1,941	1,206	1,417	2,449	2,055	8,139	8,502	10,191

Balance Sheet								(INR m)
Y/E March	2019	2020	2021	2022	2023	2024E	2025E	2025E
Total fixed assets	2,181	2,085	1,843	1,681	2,535	3,135	3,635	4,135
Non-current investments	13,096	9,252	8,005	6,298	8,961	9,409	9,879	10,373
Other non-current assets	1,830	4,207	4,914	4,339	9,871	10,069	10,270	10,476
Total non-current assets	17,108	15,543	14,762	12,318	21,367	22,613	23,784	24,984
Cash & Current investments	15,481	16,092	19,269	35,117	30,496	42,697	46,974	52,428
Trade receivables	490	700	876	634	909	2,171	3,110	3,739
Other current assets	11,960	12,425	11,364	13,785	7,166	7,477	7,803	8,143
Total current assets	27,931	29,216	31,509	49,535	38,571	52,345	57,887	64,310
TOTAL ASSETS	45,039	44,759	46,271	61,854	59,938	74,958	81,672	89,294
Share Capital	320	270	270	271	271	262	270	270
R&S	29,037	23,981	24,796	26,275	26,741	25,452	28,003	31,060
Shareholders equity	29,357	24,251	25,066	26,545	27,012	25,714	28,273	31,330
Core SGF	3,945	4,354	5,391	6,409	7,576	7,576	7,576	7,576
Minority Interest	0	186	235	1,352	1,278	1,278	1,278	1,278
Other LT liabilities	114	111	124	109	145	145	145	145
Total non-current liabilities	114	113	124	109	145	145	145	145
Outstanding dues to creditors	419	758	982	729	804	1,336	1,610	1,906
Other current liabilities	11,205	15,098	14,473	26,711	23,123	38,908	42,789	47,058
Total current liabilities	11,623	15,856	15,455	27,439	23,927	40,244	44,399	48,964
TOTAL LIABILITIES	45,039	44,759	46,271	61,854	59,938	74,958	81,672	89,294

Financials and valuations

Ratios								
Y/E March	2019	2020	2021	2022	2023	2024E	2025E	2025E
Basic (INR)								
EPS	14.8	9.2	10.8	18.7	15.7	62.2	65.0	77.9
EPS (excl EOI)	14.9	6.8	11.9	18.7	15.7	31.1	65.0	77.9
Cash EPS	15.8	10.2	11.9	19.6	16.9	64.0	66.8	80.0
Book Value	224.4	185.3	191.6	202.9	206.4	196.5	216.1	239.4
DPS	14.5	6.0	7.4	13.5	12.0	43.5	45.5	54.5
Payout %	97.9	64.6	67.9	72.1	78.8	70.0	70.0	70.0
Valuation (x)								
P/E	172.7	379.5	215.2	137.2	163.6	82.5	39.5	33.0
Cash P/E	162.5	252.0	215.3	130.8	152.4	40.1	38.4	32.1
Price/Book Value	11.5	13.9	13.4	12.7	12.4	13.1	11.9	10.7
Dividend Yield (%)	0.6	0.2	0.3	0.5	0.5	1.7	1.8	2.1
Profitability Ratios (%)								
RoE	6.6	5.0	5.7	9.2	7.6	31.7	30.1	32.5
RoCE	6.5	3.3	5.4	10.7	10.2	23.7	36.9	39.8

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NOTES

Explanation of Investment Rating	
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BUY	>=15%
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NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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