

25 October 2023

India | Equity Research | Company Update

BSE Limited

Exchanges

Consolidating on the newly found right to win in derivatives

Bombay Stock Exchange (BSE) is consolidating on its newly-found traction in equity index options segment. Volume growth has been stellar in Q2FY24 (index options ADTO in Sensex moved from almost 0 in May'23 to INR 26trn in Sep'23) and now pricing has also improved substantially (INR 50/mn of premium turnover in Apr'23 to ~INR 260/mn on weighted basis as per notification in Oct'23). H2 may witness traction in new products (Bankex) and new distribution channels (large brokerages may add BSE product offering). We had upgraded the stock in Jul'23 ([Link](#)), basis establishment of right to win in the large equity derivative market of India. Going ahead, it may have to consolidate its position. Key risk includes any adverse regulatory changes.

We estimate option revenue of INR 1.2/5.8bn in FY24/25E

BSE in Apr'23 made product changes in its index derivatives which included lowering the ticket size and introduction of Friday expiry. Due to these changes, BSE options volumes, which were non-existent between Jan'23-May'23, have risen above INR 26trn (ADTV on notional basis) in Sep'23. In Sep'23, BSE options ADTV was ~8% of NSE's options ADTV while on Oct 13, '23, BSE's options volumes were higher than NSE's volume for the first time. From Nov 1, '23, BSE has revised its transaction charges from INR 50/mn to ~INR 260/mn (weighted basis) leading to a likely increase in revenue. Going ahead, we expect BSE's options turnover to increase 9% every month in H2FY24. This would translate to INR 20trn ADTV for FY24E and exit ADTV of INR 44trn in Mar'24E. In FY25E, we expect BSE options turnover to grow ~8% every month which would translate to INR 68trn ADTV and exit ADTV of INR 95trn in Mar'25. Basis INR 20/68trn index option ADTV in FY24/FY25E, our option revenue estimate for BSE stands at INR 1.2/5.8bn in FY24/25E. We factor average realisation of INR 200/300 per mn of premium turnover for FY24/25E with premium as 5bps of notional turnover.

Sensitivity establishes good runway for profit growth depending on the traction in options

Basis BSE being able to clock 10-30% of NSE options ADTV and pricing being INR 250-350 per mn of premium turnover, option revenue for BSE could be in the range of INR 2.4-10.4bn in FY25E (refer Exhibit 8).

Financial Summary

Y/E March	FY22A	FY23A	FY24E	FY25E
Net Revenue (INR mn)	7,297	7,968	10,459	16,012
Rec. Net Income (INR mn)	2,893	3,120	3,890	6,755
Core PAT (INR mn)	1,451	1,680	2,498	5,179
% Chg YoY	-	15.7	48.7	107.4
P/E (x)	79.8	74.0	59.4	34.2
CEPS (INR)	25.0	27.5	33.6	55.2
EV/EBITDA (x)	78.8	69.7	51.7	27.9
Dividend Yield (%)	0.8	1.0	1.3	2.5
RoCE (%)	7.1	7.6	9.1	15.0
RoE (%)	11.2	11.7	13.3	21.1

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Market Data

Market Cap (INR)	231bn
Market Cap (USD)	2,781mn
Bloomberg Code	BSE IN
Reuters Code	BSEL NS
52-week Range (INR)	1,798 /406
Free Float (%)	0.0
ADTV-3M (mn) (USD)	31.1

Price Performance (%)	3m	6m	12m
Absolute	134.7	283.5	196.8
Relative to Sensex	137.6	274.1	186.5

ESG Disclosure	2021	2022	Change
ESG score	-	-	-
Environment	-	-	-
Social	-	-	-
Governance	-	-	-

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

Earnings Revisions (%)	FY24E	FY25E
Revenue	37.4	66.7
EBITDA	15.9	58.1
EPS	16.3	59.2

Previous Reports

11-08-2023: [Q1FY24 results review](#)

10-07-2023: [Company Update](#)

Core business ex options remains steady

Cash volumes for BSE stood at INR 59bn (ADTV on notional basis) in Sep'23. We expect BSE's cash ADTV to be INR 54bn/62bn in FY24/25E. Basis this turnover, the revenue from cash segment is expected to be INR 2.2/2.5bn in FY24/25E vs INR 1.5bn in FY23. With effect from Sep 1, '23, pricing of currency futures was also increased by BSE. Currency futures turnover has been declining for BSE and we expect the ADTV to be flattish at INR 106/108bn for FY24/25E vs INR 256bn in FY23. This would translate to revenue for currency segment at INR 190/277mn in FY24/25E vs INR 97mn in FY23. BSE's star MF has seen strong growth in orders in FY24-TD and we expect orders to grow 5% per month in FY24E and 15% overall in FY25E. This would translate to revenue for BSE Star MF at INR 1.0/1.2bn in FY24/25E vs INR 0.8bn in FY23.

Expect FY25E EBITDA at INR 8.6bn for operations including options

We factor EBITDA ex options at INR 4.3/4.0bn in FY24/25E. We factor option EBITDA of INR 0.5/4.6bn in FY24/25E assuming 50%/80% EBITDA margin for BSE in options in FY24/25E. The variable cost related to options would largely be the clearing and settlement charges which depends on premium turnover and the number of orders, among other things. As such, our aggregate EBITDA for BSE stands at INR 4.8bn/8.6bn for FY24/25E with EBITDA margins of 42.2/50.2% which includes investment income from margins at INR 1.1/1.3bn in FY24/25E vs INR 1.1bn in FY23.

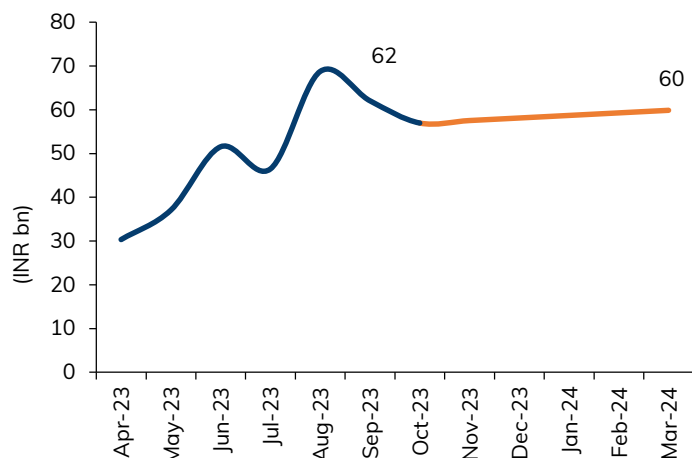
Downgrade to ADD from Buy

Basis 40x multiple to BSE's FY25 core earnings, adding CDSL's 15% stake value after 20% holding company discount of INR 1210/share and free cash of INR 21.3/share, our revised target price stands at INR 1,799/share (from INR 1,034).

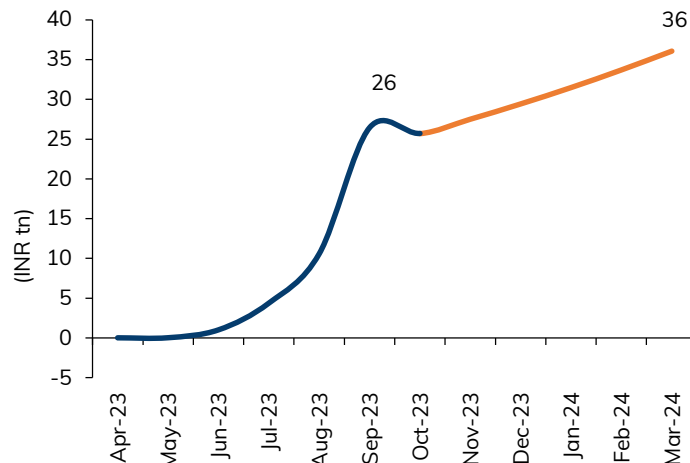
Exhibit 1: ADTV comparison between NSE and BSE

ADTV - INR bn	Cash			FO			Futures			Options		
	NSE	BSE	Total	NSE	BSE	Total	NSE	BSE	Total	NSE	BSE	Total
FY19	321	31	352	9,569	0.09	9,569	875	0	875	8,694	0	8,695
FY20	364	27	391	13,983	10.6	13,994	875	1	876	13,108	10	13,118
FY21	618	42	660	25,848	1,408	27,256	1,090	0.2	1,090	24,758	1,408	26,166
FY22	668	54	722	68,356	2,664	71,021	1,188	0.0	1,188	67,168	2,664	69,832
FY23	534	41	576	1,53,505	1,368	1,54,874	1,148	0.0	1,148	1,52,359	1,368	1,53,727
Growth YoY	-20%	-23%	-20%	125%	-49%	118%	-3%	-88%	-3%	127%	-49%	120%
CAGR (last 5 years)	13%	-1%	11%	87%		87%	7%	-55%	7%	92%		92%
Quarterly trend												
Q1FY22	730	57	787	45,357	3,146	48,503	1,146	0	1,146	44,211	3,146	47,357
Q2FY22	647	56	703	59,958	2,562	62,520	1,085	0	1,085	58,872	2,562	61,435
Q3FY22	667	52	719	73,073	2,479	75,552	1,221	0	1,221	71,852	2,479	74,331
Q4FY22	629	51	680	95,158	2,480	97,638	1,304	0	1,304	93,854	2,480	96,334
Q1FY23	562	41	603	1,06,395	1,201	1,07,596	1,192	0	1,192	1,05,203	1,201	1,06,404
Q2FY23	554	47	602	1,31,980	2,220	1,34,200	1,186	0	1,186	1,30,794	2,220	1,33,014
Q3FY23	528	42	570	1,60,441	1,967	1,62,408	1,089	0	1,089	1,59,358	1,967	1,61,325
Q4FY23	493	35	527	2,15,552	73	2,15,626	1,126	0	1,126	2,14,426	73	2,14,500
Q1FY24	585	40	625	2,51,458	353	2,51,811	1,041	0	1,041	2,50,418	353	2,50,770
Q2FY24	775	59	834	3,12,162	13,528	3,25,690	1,232	1	1,232	3,10,930	13,527	3,24,458
Growth YoY	39.8%	24.9%	38.7%	136.5%	509.5%	142.7%	3.9%		3.9%	137.7%	509.4%	143.9%
Growth QoQ	32.5%	47.2%	33.4%	24.1%	3731.5%	29.3%	18.3%		18.4%	24.2%	3733.2%	29.4%
Monthly trend												
Dec-21	536	43	579	75,531	2,575	78,106	1,011	0	1,011	74,520	2,575	77,095
Jan-22	642	54	695	89,870	2,532	92,403	1,274	0	1,274	88,597	2,532	91,129
Feb-22	584	48	633	1,00,089	2,412	1,02,501	1,319	0	1,319	98,770	2,412	1,01,182
Mar-22	659	51	710	95,497	2,495	97,992	1,317	0	1,317	94,180	2,495	96,675
Apr-22	680	53	733	1,04,453	1,519	1,05,972	1,324	0	1,324	1,03,129	1,519	1,04,648
May-22	577	42	619	1,04,109	138	1,04,247	1,215	0	1,215	1,02,894	138	1,03,032
Jun-22	446	28	475	1,10,255	1,940	1,12,195	1,056	0	1,056	1,09,199	1,940	1,11,139
Jul-22	466	32	498	1,09,358	2,368	1,11,726	1,095	0	1,095	1,08,263	2,368	1,10,631
Aug-22	580	56	636	1,34,421	2,259	1,36,680	1,191	0	1,191	1,33,229	2,259	1,35,489
Sep-22	615	54	669	1,51,355	2,042	1,53,397	1,267	0	1,267	1,50,088	2,042	1,52,130
Oct-22	480	44	524	1,42,859	1,976	1,44,835	1,159	0	1,159	1,41,719	1,976	1,43,695
Nov-22	572	44	616	1,45,524	2,071	1,47,595	1,074	0	1,074	1,44,450	2,071	1,46,521
Dec-22	528	39	567	1,89,866	1,858	1,91,724	1,043	0	1,043	1,88,823	1,858	1,90,682
Jan-23	486	32	518	2,02,152	95	2,02,247	1,136	0	1,136	2,01,016	95	2,01,112
Feb-23	502	36	538	2,08,174	70	2,08,244	1,147	0	1,147	2,07,027	70	2,07,097
Mar-23	490	37	526	2,35,980	55	2,36,034	1,097	0	1,097	2,34,883	55	2,34,938
Apr-23	517	30	548	2,42,205	0	2,42,205	1,034	0	1,034	2,41,171	0	2,41,171
May-23	601	37	638	2,52,186	10	2,52,196	1,045	0	1,045	2,51,141	10	2,51,151
Jun-23	623	52	675	2,58,186	998	2,59,185	1,042	0	1,042	2,57,145	998	2,58,142
Jul-23	727	46	773	3,03,031	4,358	3,07,389	1,231	0	1,231	3,01,800	4,357	3,06,157
Aug-23	766	69	834	3,03,457	10,557	3,14,014	1,174	1	1,175	3,02,283	10,556	3,12,839
Sep-23	836	62	898	3,31,325	26,425	3,57,750	1,295	1	1,296	3,30,030	26,424	3,56,454
Growth YoY	35.8%	15.6%	34.2%	118.9%	1194.1%	133.2%	2.2%		2.3%	119.9%	1194.1%	134.3%
Growth MoM	9.1%	-9.8%	7.6%	9.2%	150.3%	13.9%	10.3%	14.9%	10.3%	9.2%	150.3%	13.9%

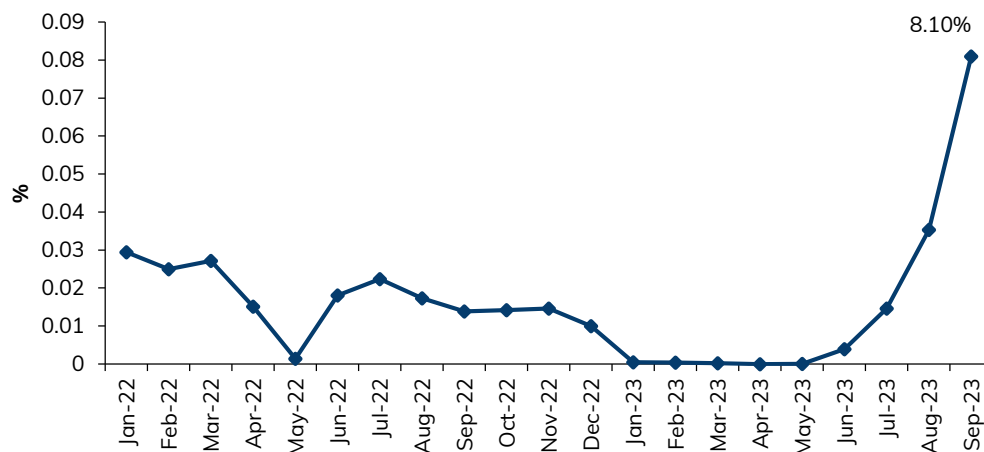
Source: I-Sec research, Company data

Exhibit 2: We expect cash ADTV for BSE to be flattish in H2FY24


Source: I-Sec research, Company data; Note: ADTV from Oct'23 are estimates

Exhibit 3: We expect options ADTV for BSE to increase 7% per month in H2FY24


Source: I-Sec research, Company data; Note: ADTV from Oct'23 are estimates

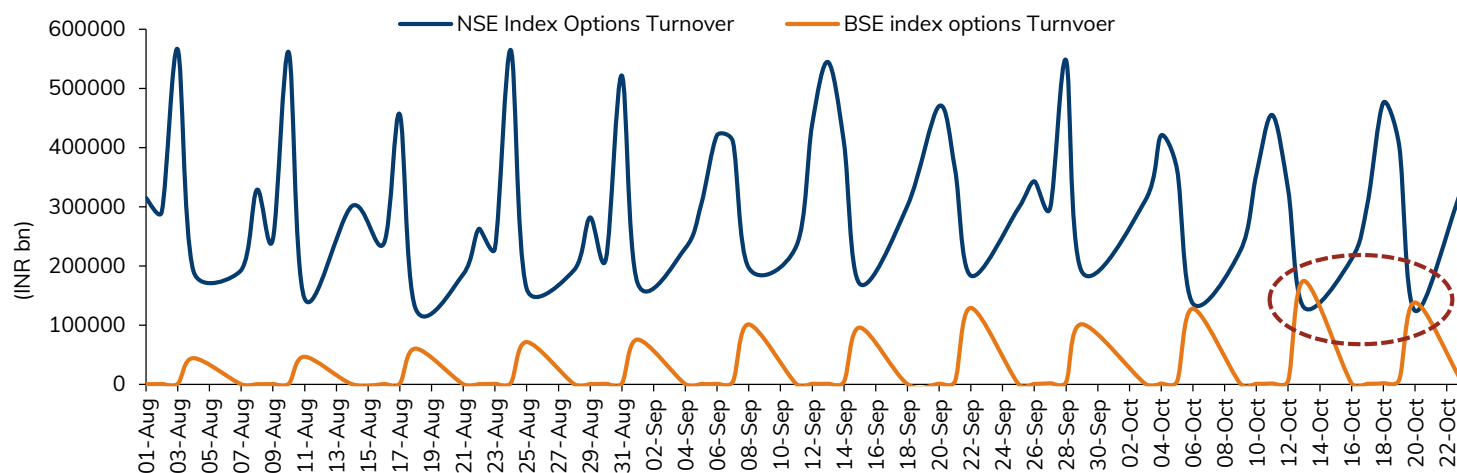
Exhibit 4: BSE index option ADTV as a % of NSE index option ADTV


Source: I-Sec research, Company data

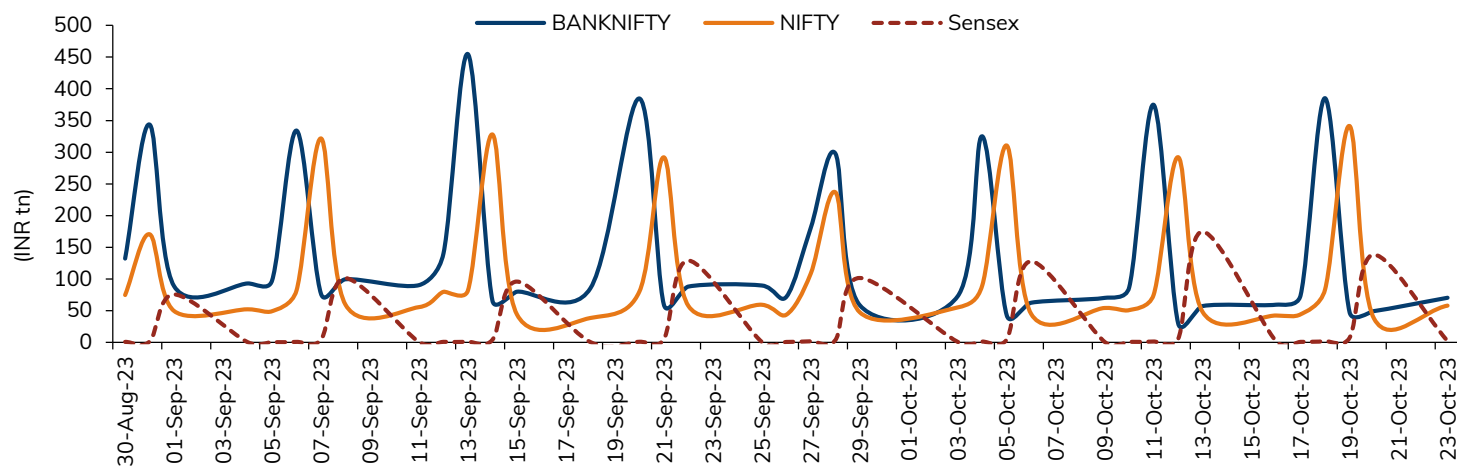
Exhibit 5: BSE's non-expiry volume market share is increasing

INR (trn)		NSE			BSE			BSE Market share (%)		
		Total Volumes	Expiry Volumes	Non Expiry Volumes	Total Volumes	Expiry Volumes	Non Expiry Volumes	Total Volumes	Expiry Volumes	Non Expiry Volumes
03-Jul-23	07-Jul-23	1,539	908	631	14	14	0.32	0.90	1.47	0.05
10-Jul-23	14-Jul-23	1,457	838	619	18	18	0.54	1.22	2.05	0.09
17-Jul-23	21-Jul-23	1,632	982	650	29	28	0.63	1.72	2.77	0.10
24-Jul-23	28-Jul-23	1,469	907	561	31	30	0.66	2.06	3.22	0.12
31-Jul-23	04-Aug-23	1,526	882	644	45	44	1.28	2.89	4.77	0.20
07-Aug-23	11-Aug-23	1,473	890	583	48	46	1.36	3.14	4.96	0.23
14-Aug-23	18-Aug-23	1,124	758	366	62	60	1.39	5.21	7.37	0.38
21-Aug-23	25-Aug-23	1,406	828	578	75	71	3.24	5.04	7.94	0.56
28-Aug-23	01-Sep-23	1,380	804	576	78	76	2.68	5.37	8.59	0.46
04-Sep-23	08-Sep-23	1,562	1,135	427	107	101	5.92	6.42	8.19	1.37
11-Sep-23	15-Sep-23	1,797	1,394	403	102	96	6.37	5.38	6.44	1.55
18-Sep-23	22-Sep-23	1,320	835	485	135	129	6.31	9.31	13.40	1.28
25-Sep-23	29-Sep-23	1,677	891	786	108	102	6.52	6.05	10.23	0.82
02-Oct-23	06-Oct-23	1,232	1,095	136	135	128	6.66	9.85	10.45	4.66
09-Oct-23	13-Oct-23	1,496	1,140	356	183	175	8.39	10.90	13.29	2.30
16-Oct-23	20-Oct-23	1,397	1,185	212	150	138	11.50	9.69	10.45	5.15

Source: I-Sec research, Company data

Exhibit 6: For the first time in Oct'23, BSE index option turnover on expiry was higher than NSE index option turnover


Source: I-Sec research, Company data

Exhibit 7: BSE Sensex options volume comparison with NIFTY and Bank NIFTY options volume since Sep'23


Source: I-Sec research, Company data

Exhibit 8: Sensitivity of BSE options revenue for FY25E

Options Revenue (INR mn)		Blended Rate on Options				
		250	275	300	325	350
BSE Options Turnover as a % of NSE	10.00%	2,486	2,735	2,984	3,232	3,481
	15.00%	3,729	4,102	4,475	4,848	5,221
	19.00%	4,697	5,167	9,613	6,106	6,576
	25.00%	6,216	6,837	7,459	8,080	8,702
	30.00%	7,459	8,205	8,951	9,697	10,442

Source: I-Sec research, Company data; Note: As of Sep'23 BSE options ADTV is INR 26trn and NSE options ADTV is INR 330trn which translates BSE to ~8% of NSE.

Exhibit 9: Sensitivity of BSE's target price

Target Price (INR)		Blended Rate on Options				
		250	275	300	325	350
BSE Options Turnover as a % of NSE	10.00%	1,434	1,462	1,491	1,520	1,549
	15.00%	1,578	1,621	1,664	1,708	1,751
	19.00%	1,690	1,744	1,799	1,853	1,908
	25.00%	1,866	1,938	2,010	2,082	2,154
	30.00%	2,010	2,097	2,183	2,270	2,356

Source: I-Sec research, Company data; Note: As of Sep'23 BSE options ADTV is INR 26trn and NSE options ADTV is INR 330trn which translates BSE to ~8% of NSE.

Exhibit 10: Cost breakup for BSE options on INR 50/mn pricing

Particulars	Rate	Buy	Sell	Total
Sensex Call 66,600 (Lot size - 10)		333	360	
Premium = Lot size * rate		3,330	3,600	6,930
List of Cost				
Brokerage (Assuming disc brokerage of INR 20 per order)		20	20	40
STT total	0.0125%		2	2
Exchanges txn charge (INR 50 per mn)	50	0.17	0.18	0.35
Clearing Charge		0	0	0.00
GST (on Brokerage)	18%	3.6	3.6	7.20
SEBI charges (INR 1 per mn)	1	0.00	0.00	0.01
Stamp duty	0.003%	0.00		0.00
Total tax and charges				49.55
Calculating Profit and Loss				
Investment Amount (Including Charges)				3,353.77
Net Realisation				3,574.22
Net Profit				220.45
ROE				6.57%

Source: I-Sec research, Company data; Note: This calculation is done basis of a ~10% Gain for trader. If the profit on trade increases the ROE would also increase for the trader

Exhibit 11: Cost breakup for BSE options on revised pricing of INR 300/mn

Particulars	Rate	Buy	Sell	Total
Sensex Call 66,600 (Lot size - 10)		333	360	
Premium = Lot size * rate		3,330	3,600	6,930
List of Cost				
Brokerage (Assuming disc brokerage of INR 20 per order)		20	20	40
STT total	0.0125%		2	2
Exchanges txn charge (INR 300 per mn)	300	1.00	1.08	2.08
Clearing Charge		0	0	0.00
GST (on brokerage)	18%	3.6	3.6	7.20
SEBI charges (INR 1 per mn)	1	0.00	0.00	0.01
Stamp duty	0.003%	0.00		0.00
Total tax and charges				51.29
Calculating Profit and Loss				
Investment Amount (Including Charges)				3,354.60
Net Realisation				3,573.32
Net Profit				218.71
ROE				6.52%

Source: I-Sec research, Company data; Note: This calculation is done basis of a ~10% Gain for trader. If the profit on trade increases the ROE would also increase for the trader

Exhibit 12: Shareholding pattern

%	Mar'23	Jun'23	Sep'23
Promoters	25.9	25.9	25.1
Institutional investors	8.2	11.3	16.0
MFs and others	0.3	0.2	4.8
FIs/Banks	0.3	0.4	1.2
Insurance	0.0	0.0	2.1
FII	7.6	10.7	7.9
Others	65.9	62.8	58.9

Source: Bloomberg

Exhibit 13: Price chart

Source: Bloomberg

Financial Summary

Exhibit 14: Profit & Loss

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Net Sales	7,297	7,968	10,459	16,012
Operating Expenses	4,950	5,268	6,678	8,606
Core EBITDA	2,347	2,700	3,781	7,406
Core EBITDA Margin (%)	32.2	33.9	36.1	46.3
Depreciation & Amortization	483	603	664	724
EBIT	2,227	2,575	3,619	7,210
Interest expenditure	222	275	280	286
Other Non-operating Income	976	1,093	1,101	1,264
Recurring PBT	2,981	3,394	4,440	8,188
Profit / (Loss) from Associates	642	492	479	540
Less: Taxes	823	916	1,119	2,063
PAT	2,158	2,478	3,321	6,125
Extraordinaries (Net)	(350)	(913)	3,748	-
Net Income (Reported)	2,543	2,207	7,638	6,755
Net Income (Adjusted)	2,893	3,120	3,890	6,755
Core PAT	1,451	1,679	2,498	5,179

Source Company data, I-Sec research

Exhibit 15: Balance sheet

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Total Current Assets	36,121	32,989	40,407	42,784
of which cash & cash eqv.	35,117	30,495	37,439	39,846
Total Current Liabilities & Provisions	27,461	23,927	25,014	25,601
Net Current Assets	8,660	9,062	15,393	17,183
Investments	19,681	14,535	13,853	14,285
Net Fixed Assets	1,011	1,555	1,291	967
ROU Assets	-	-	-	-
Capital Work-in-Progress	18	1	1	1
Total Intangible Assets	683	986	986	986
Other assets	4,339	9,872	9,872	9,872
Deferred Tax assets	-	-	-	-
Total Assets	34,393	36,012	41,397	43,294
Liabilities				
Borrowings	-	-	-	-
Deferred Tax Liability provisions	-	-	-	-
other Liabilities	6,496	7,721	8,736	9,752
Equity Share Capital	271	271	271	271
Reserves & Surplus	26,275	26,741	31,202	32,173
Total Net Worth	26,545	27,012	31,473	32,444
Minority Interest	1,352	1,278	1,188	1,098
Total Liabilities	34,393	36,012	41,397	43,294

Source Company data, I-Sec research

Exhibit 16: Cashflow statement

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Operating Cashflow	16,364	(582)	5,612	8,482
Working Capital Changes	12,774	(5,024)	613	617
Capital Commitments	615	(953)	(400)	(400)
Free Cashflow	15,749	371	6,012	8,882
Other investing cashflow	(1,192)	4,067	-	-
Cashflow from Investing Activities	(577)	3,114	(400)	(400)
Issue of Share Capital	-	-	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	-	-	-	-
Dividend paid	(1,826)	(1,626)	(3,087)	(5,693)
Others	2,265	(853)	3,753	18
Cash flow from Financing Activities	439	(2,478)	667	(5,675)
Chg. in Cash & Bank balance	16,226	53	5,879	2,407
Closing cash & balance	16,226	53	5,879	2,407

Source Company data, I-Sec research

Exhibit 17: Key ratios

(Year ending March)

	FY22A	FY23A	FY24E	FY25E
Per Share Data (INR)				
Reported EPS	21.4	23.1	28.7	49.9
Cash EPS	25.0	27.5	33.6	55.2
Dividend per share (DPS)	13.5	17.0	22.8	42.0
Book Value per share (BV)	196.2	199.7	232.7	239.9
Growth (%)				
Net Sales	34.0	9.5	27.6	49.5
EBITDA	76.1	14.2	28.7	77.6
PAT	49.8	7.8	24.7	73.6
Cash EPS	34.5	10.3	22.1	64.2
Valuation Ratios (x)				
P/E	79.8	74.0	59.4	34.2
P/CEPS	68.4	62.0	50.8	30.9
P/BV	8.7	8.5	7.3	7.1
EV / EBITDA	78.8	69.7	51.7	27.9
EV / Sales	22.2	21.6	16.4	10.8
Operating Ratios				
Employee cost / Sales (%)	21.4	19.9	15.8	12.5
SG&A / Sales (%)	38.4	38.2	41.9	37.3
Other Income / PBT (%)	12.2	14.1	11.3	6.4
Effective Tax Rate (%)	27.6	27.0	25.2	25.2
Receivables (days)	27.6	36.1	36.0	25.3
Payables (days)	81.9	82.8	60.5	50.4
Return/Profitability Ratios (%)				
Net Income Margins	35.0	34.4	33.7	39.1
RoACE	7.1	7.6	9.1	15.0
RoAE	11.2	11.7	13.3	21.1
Dividend Payout	84.6	65.6	93.0	93.0
Dividend Yield	0.8	1.0	1.3	2.5
EBITDA Margins	32.2	33.9	36.1	46.3

Source Company data, I-Sec research

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