

**BSE SENSEX** 37,556  
**S&P CNX** 11,361

**CMP: INR822 TP: INR950 (+15%)**
**Buy**

Motilal Oswal values your support in the Asiamoney Brokers Poll 2018 for India Research, Sales and Trading team. We [request your ballot](#).



Bloomberg	BSE IN
Equity Shares (m)	55
M.Cap.(INRb)/(USD\$b)	44.3 / 0.6
52-Week Range (INR)	1100 / 726
1, 6, 12 Rel. Per (%)	-8/-10/-40
12M Avg Val (INR M)	146
Free float (%)	100.0

**Financials & Valuations (INR b)**

Y/E March	FY18	FY19E	FY20E
Net Sales	4.9	4.9	5.4
EBITDA	1.1	1.0	1.4
PAT	2.4	2.4	3.0
EPS (INR)	43.5	44.3	55.8
EPS Gr (%)	6.0	1.9	25.9
BV / Sh (INR)	574	701	711
P/E (x)	6.5	19.3	15.3
P / BV (x)	1.5	1.2	1.2
RoE (%)	7.6	6.3	7.8
RoCE (%)	10.7	9.1	10.7

**Estimate change**
**TP change**
**Rating change**

**Subdued markets weigh upon earnings**
**Emergence of new revenue streams like MF platform is positive**

- 1QFY19 results below expectations:** BSE's 1QFY19 consol. revenue grew 8% YoY to INR1.19b, below our estimate of INR1.21b, led by (i) a 14% YoY decline in transaction charges because of depreciation in small and midcap equities and (ii) lower book-building charges due to lower new issues. EBITDA margin of 16.3% missed our estimate by 170bp due to the revenue miss; expenditure was in line with our estimate on an absolute basis. Although investment income was below expectations, adj. PAT was to the tune of the miss on EBITDA because of a lower ETR. PAT of INR473m declined by 5% YoY (est. of +7% YoY).
- New segments continue building momentum:** INX saw the highest number of trades in a day of 62,222 on 18<sup>th</sup> July 2018. Similarly, the performance in the MF platform has been encouraging. BSE has started to monetize the platform and booked revenue of INR52m from it this quarter. Total transaction value was up 14% YoY and the number of orders was higher by 152% YoY in 1QFY19. BSE is also on track to commence commodity trading starting 1<sup>st</sup> October on getting the necessary regulatory approvals.
- Valuation view:** BSE has been partaking in the market momentum with healthy growth in volumes that have prevailed in recent quarters, barring aberrations in tandem with the markets. Scaling of new segments should continue driving growth in earnings, given that the benefits should flow directly to the bottom line. We value BSE on an SOTP basis, ascribing value to [1] core operations ex-cash income (INR400/share), [2] implied value from CDSL's market price @20% holding company discount (INR100/share), [3] owned unencumbered cash (INR290/share) and [4] float income from encumbered/margin money (INR160/share). Our target price of INR950 implies a 15% upside. Maintain **Buy**.

**Quarterly Performance (Consolidated)**

Y/E March	FY18				FY19				FY18	FY19E	Est. 1Q	Var. (%/bp)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Revenue from operations	1,099	1,108	1,301	1,386	1,185	1,304	1,118	1,304	4,894	4,911	1,214	-2.4
YoY Change (%)	22.7	20.0	49.7	25.0	7.8	17.7	-14.1	-5.9	28.9	0.3	13.3	-550bp
Total Expenditure	896	820	947	1,107	992	1,014	869	1,014	3,770	3,889	995	-0.3
EBITDA	203	288	354	279	193	290	249	290	1,124	1,022	218	-11.6
Margins (%)	18.5	26.0	27.2	20.1	16.3	22.3	22.3	22.3	23.0	20.8	18.0	-170bp
Depreciation	101	109	112	133	115	135	116	135	455	501	125	-8.1
Interest	2	4	3	2	2	3	2	3	10	10	3	
Investment income	513	556	454	572	479	610	523	610	2,095	2,222	556	-13.8
PBT before EO expense	614	731	694	716	555	763	654	763	2,754	2,734	646	-14.1
Extra-Ord expense	0	5	7	14	28	-6	-5	-6	26	10	0	
PBT	614	726	686	702	527	769	659	769	2,728	2,724	646	-18.5
Tax	118	126	162	149	70	166	142	166	555	545	129	-45.8
Rate (%)	19.2	17.4	23.6	21.2	13.3	21.6	21.6	21.6	20.3	20.0	20.0	-672bp
MI & P/L of Asso. Cos.	2	68	60	69	58	63	54	63	-199	-239	60	-2.8
Reported PAT	498	668	584	622	515	666	571	666	2,372	2,418	577	-10.7
Adj PAT	496	612	538	568	465	616	528	616	2,213	2,227	529	-12.1
YoY Change (%)	44.5	19.5	25.0	16.2	-6.3	0.7	-1.9	8.6	12.9	0.6	6.7	-1295bp
Margins (%)	45.1	55.2	41.4	41.0	39.2	47.3	47.3	47.3	45.2	45.3	43.6	-436bp

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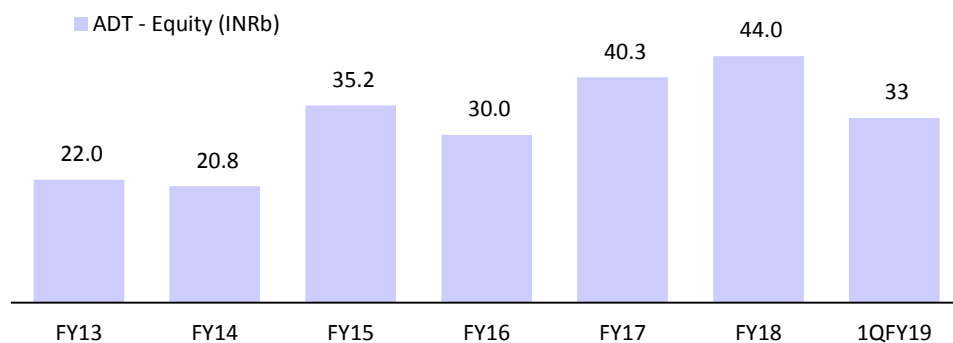
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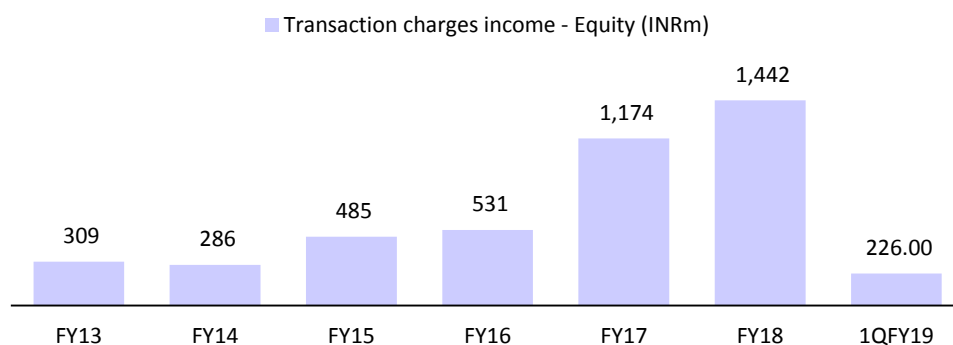
**Exhibit 1: Segment performance (INRm)**

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19
Transaction charges income - Equity	295	326	414	407	226
Transaction charges income - currency derivatives	21	24	22	15	19
Transaction charges income - interest rate futures	1	1	1	1	0.5
Listing fees	394	428	444	510	512
Book building and other services	83	100	137	110	48
SME Listing fees	6	9	9	15	9

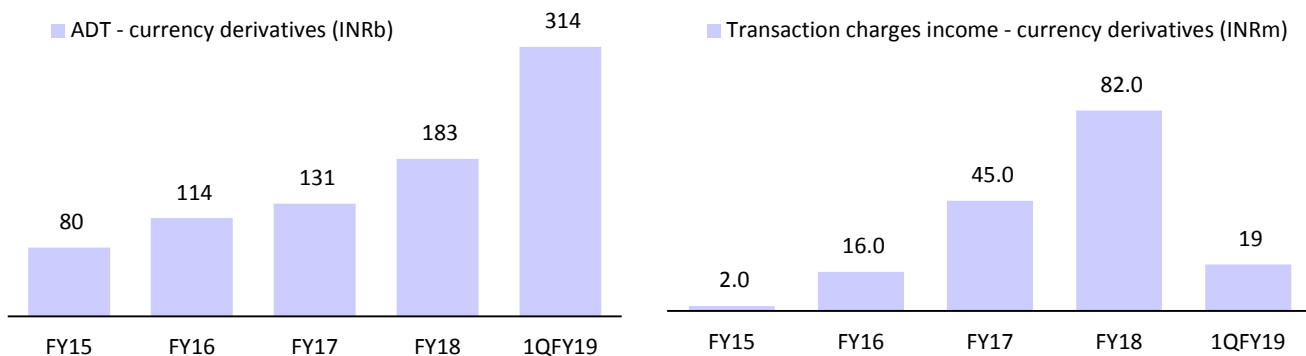
Source: MOSL, Company

**Exhibit 2: Equity ADT negatively impacted by market conditions**

Source: MOSL, Company

**Exhibit 3: Equity transaction charges down by 23% YoY to INR226m in 1QFY19**

Source: MOSL, Company

**Exhibit 4: Currency derivatives transaction income down by 10% in 1QFY19 due to change in pricing**

Source: MOSL, Company

### Takeaways from Management Commentary

- **MF platform – monetization started:** BSE recently commenced a steady source of revenue from the MF platform, which would grow with increasing participation of investors. It has an 82% share in the business and the platform contributed over 50% of the net MF inflow in equity funds in June 2018. The number of distributor registrations has now crossed 10,000.
- **Insurance distribution network:** BSE and EBIX set up a JV to develop an insurance distribution network with the goal of revolutionizing sales and processing of insurance in India. Leveraging of the technology from Ebix and the distribution network of both entities would be a key driver.
- **Unified exchange:** BSE has already made an application to the regulator for launching commodities at the exchange. It is currently holding mock trading sessions and is ready to launch on October 1, once approval from the regulator is in place.
- **1Q performance:** Revenue was lower on account of the downward trend in equity markets and its consequent impact on small and mid-cap stocks. There has also been a reduction in book-building charges, which are directly correlated to the number of new issues.

### Valuation and view

- **Oldest exchange gunning for the newest offerings:** BSE is Asia's oldest exchange, and boasts of the largest number of listed securities in the world. However, in the Indian context, NSE is the clear leader in equities with a monopolistic market share in derivatives and 85%+ in cash. As a result, BSE, which set off to transform itself under new management tried its hand through pricing in old segments and actively staying ahead in the game in new areas. Little change has been affected in equities, but the exchange has encouraging early progress in new areas such as currency, IR derivatives, MF platform, SME platform, new bond raising market as well as GIFT city. These remain marginal contributors today but lend an optionality of scale in earnings in the future.
- **Operating leverage higher from new segments:** Given BSE's scale of revenues, the impact from success in any one segment would appear much more handsome than that for its rival NSE, which has a higher base to grow on. Additionally, BSE is invested in the same and any triggers in any segment will flow to the bottom line, driving accentuated boost to earnings.
- **Technology prowess is an encouraging backbone:** Deutsche's strategic stake in BSE has not only lent an edge in terms of the best-in-class technology (Eurex platform), but also at a significantly lower cost, having linked the charges to success in business. That keeps BSE's backbone ready to address any potential opportunity ahead of peers, if not alongside them.
- **Valuation view:** BSE has been partaking in the market momentum with healthy growth in volumes that have prevailed in recent quarters; barring some aberrations in tandem with the markets. Scaling of new segments should continue driving growth in earnings, given that the benefits should flow directly to the bottom line with costs already baked in. This would also improve the earnings quality as dependency on cash income reduces. We value BSE on an SOTP basis, ascribing value to [1] core operations ex-cash income (INR400/share), [2] implied value from CDSL's market price @20% holding

company discount (INR100/share), [3] owned unencumbered cash (INR290/share) and [4] float income from encumbered/margin money (INR160/share). Our target price of INR950 implies a 15% upside. Maintain **Buy**.

#### **Key triggers**

- Pick-up in volume led by the introduction of new products like Options / Indices
- Introduction of new participants like Banks / FIs
- High volatility in key commodities like Bullion / Crude

#### **Key risks**

- Continued deterioration of cash volumes market share
- Pace of regulatory reforms and investor acceptance of INX
- Continued slow velocity in new segments

## Financials and valuations

Income Statement								(INR M)
Y/E March	2013	2014	2015	2016	2017	2018	2019E	2020E
Revenue	3,173.1	3,115.5	4,021.8	4,686.2	5,255.0	4,894.0	4,910.9	5,447.2
Revenue ex-CDSL	2,268.1	2,244.5	2,975.8	3,459.2	3,797.0	4,894.0	4,910.9	5,447.2
<b>Change (%)</b>	<b>-13.0</b>	<b>-1.0</b>	<b>32.6</b>	<b>16.2</b>	<b>9.8</b>	<b>28.9</b>	<b>0.3</b>	<b>10.9</b>
Employee expenses	772.4	853.7	998.7	1,115.5	1,415.0	1,201.0	1,273.1	1,349.4
Technology expenses	717.3	642.1	704.2	806.4	1,056.0	1,111.0	1,144.3	1,178.7
Admin & Others	931.0	927.9	1,491.5	1,655.7	1,732.0	1,458.0	1,471.3	1,545.9
<b>EBITDA</b>	<b>752.4</b>	<b>691.8</b>	<b>827.4</b>	<b>1,108.6</b>	<b>1,052.0</b>	<b>1,124.0</b>	<b>1,022.1</b>	<b>1,373.3</b>
<b>EBITDA %</b>	<b>23.7</b>	<b>22.2</b>	<b>20.6</b>	<b>23.7</b>	<b>20.0</b>	<b>23.0</b>	<b>20.8</b>	<b>25.2</b>
Depreciation / Amortization	283.1	323.5	587.7	616.8	540.0	455.0	500.5	510.5
<b>EBIT</b>	<b>469.3</b>	<b>368.3</b>	<b>239.7</b>	<b>491.8</b>	<b>512.0</b>	<b>669.0</b>	<b>521.6</b>	<b>862.7</b>
<b>EBIT %</b>	<b>14.8</b>	<b>11.8</b>	<b>6.0</b>	<b>10.5</b>	<b>9.7</b>	<b>13.7</b>	<b>10.6</b>	<b>15.8</b>
Finance costs	24.5	3.8	6.6	6.7	10.0	10.0	10.0	10.0
Investment income	2,356.3	2,182.7	2,225.7	1,896.5	2,785.0	2,095.0	2,222.1	2,595.3
<b>PBT</b>	<b>2,801.1</b>	<b>2,547.2</b>	<b>2,458.8</b>	<b>2,381.6</b>	<b>3,287.0</b>	<b>2,754.0</b>	<b>2,733.7</b>	<b>3,448.1</b>
Tax	376.9	339.9	437.8	324.1	406.0	555.0	544.7	689.6
<b>ETR %</b>	<b>13.5</b>	<b>13.3</b>	<b>17.8</b>	<b>13.6</b>	<b>12.4</b>	<b>20.2</b>	<b>19.9</b>	<b>20.0</b>
<b>PAT before MI and associate profits</b>	<b>2,424.2</b>	<b>2,207.3</b>	<b>2,021.0</b>	<b>2,057.5</b>	<b>2,881.0</b>	<b>2,199.0</b>	<b>2,189.0</b>	<b>2,758.5</b>
Minority Interest	248.5	244.1	213.3	363.5	446.0	0.0	0.0	0.0
Share of Associates profit	3.3	4.1	2.8	2.7	11.0	199.0	238.8	286.6
<b>PAT after MI and Associate profits</b>	<b>2,179.0</b>	<b>1,967.3</b>	<b>1,810.5</b>	<b>1,696.7</b>	<b>2,446.0</b>	<b>2,398.0</b>	<b>2,427.8</b>	<b>3,045.0</b>
<b>Change (%)</b>	<b>-6.8</b>	<b>-9.7</b>	<b>-8.0</b>	<b>-6.3</b>	<b>44.2</b>	<b>-2.0</b>	<b>1.2</b>	<b>25.4</b>
<b>PAT margin %</b>	<b>68.7</b>	<b>63.1</b>	<b>45.0</b>	<b>36.2</b>	<b>46.5</b>	<b>49.0</b>	<b>49.4</b>	<b>55.9</b>
Exceptional items	984.0	607.2	507.5	466.0	208.0	26.0	10.0	0.0
<b>PAT after exceptional items</b>	<b>1,440.2</b>	<b>1,600.1</b>	<b>1,513.5</b>	<b>1,591.5</b>	<b>2,238.0</b>	<b>2,372.0</b>	<b>2,417.8</b>	<b>3,045.0</b>

Balance Sheet								(INR M)
Y/E March	2013	2014	2015	2016	2017	2018	2019E	2020E
Total fixed assets	2,142	2,242	2,542	2,496	2,519	2,142	2,499	2,751
Non current investments	5,273	11,252	14,102	15,251	17,478	17,600	17,600	17,600
Other non current assets	636	867	940	1,327	1,128	1,537	1,679	1,699
<b>Total non current assets</b>	<b>8,052</b>	<b>14,362</b>	<b>17,585</b>	<b>19,074</b>	<b>21,125</b>	<b>21,278</b>	<b>21,777</b>	<b>22,049</b>
Cash & Current investments	28,747	25,306	23,184	21,474	29,278	27,243	36,038	38,180
Trade receivables	344	344	360	480	687	549	473	519
Other current assets	2,305	698	844	1,043	740	774	473	584
<b>Total current assets</b>	<b>31,397</b>	<b>26,347</b>	<b>24,389</b>	<b>22,996</b>	<b>30,705</b>	<b>28,566</b>	<b>36,985</b>	<b>39,283</b>
<b>TOTAL ASSETS</b>	<b>39,448</b>	<b>40,709</b>	<b>41,974</b>	<b>42,070</b>	<b>51,830</b>	<b>49,844</b>	<b>58,762</b>	<b>61,332</b>
Share Capital	104	104	107	107	108	107	107	107
R&S	22,786	23,604	24,502	24,385	26,516	31,237	38,150	38,694
<b>Shareholders equity</b>	<b>22,889</b>	<b>23,708</b>	<b>24,609</b>	<b>24,493</b>	<b>26,624</b>	<b>31,344</b>	<b>38,257</b>	<b>38,800</b>
Core SGF	8	56	1,113	1,761	2,045	2,910	2,910	2,910
Minority Interest	1,733	1,875	1,986	2,223	2,909	0	0	0
Deferred tax liabilities	55	96	27	2	0	142	53	45
LT borrowings	0	13	36	19	0	0	0	0
Other LT liabilities	2,756	601	648	719	88	95	95	95
<b>Total non-current liabilities</b>	<b>2,811</b>	<b>710</b>	<b>710</b>	<b>739</b>	<b>88</b>	<b>236</b>	<b>148</b>	<b>139</b>
ST borrowings	9	0	0	0	0	0	0	0
Outstanding dues to creditors	371	470	581	697	563	629	629	629
Other current liabilities	11,627	13,891	12,975	12,158	19,601	14,725	16,819	18,853
<b>Total current liabilities</b>	<b>12,007</b>	<b>14,360</b>	<b>13,556</b>	<b>12,854</b>	<b>20,164</b>	<b>15,354</b>	<b>17,448</b>	<b>19,483</b>
<b>TOTAL LIABILITIES</b>	<b>39,448</b>	<b>40,709</b>	<b>41,973</b>	<b>42,070</b>	<b>51,830</b>	<b>49,844</b>	<b>58,762</b>	<b>61,332</b>

## Financials and valuations

### Ratios

Y/E March	2013	2014	2015	2016	2017	2018	2019E	2020E
<b>Basic (INR)</b>								
EPS	21.8	24.8	23.8	24.4	41.0	130.3	44.3	55.8
EPS (excl EOI)	21.9	24.7	23.8	24.4	41.0	43.5	44.3	55.8
Cash EPS	27.0	30.7	34.5	34.2	51.0	138.6	53.5	65.1
Book Value	419.3	434.3	450.8	448.7	494.9	574.2	700.8	710.8
DPS	7.7	7.7	10.0	8.0	28.0	30.0	40.0	50.0
Payout %	35.6	31.3	42.1	32.9	68.3	23.0	90.3	89.6

### Valuation (x)

P/E	39.2	34.4	35.9	35.0	20.8	6.5	19.3	15.3
Cash P/E	31.6	27.8	24.7	25.0	16.7	6.2	16.0	13.1
EV/EBITDA	61.7	78.5	37.9	23.9	7.9	13.5	0.7	-2.4
EV/Sales	7.2	7.2	4.4	3.8	1.5	2.1	0.1	-0.3
Price/Book Value	2.0	2.0	1.9	1.9	1.7	1.5	1.2	1.2
Dividend Yield (%)	0.9	0.9	1.2	0.9	3.3	3.5	4.7	5.9

### Profitability Ratios (%)

RoE	5.2	5.7	5.3	5.4	8.3	7.6	6.3	7.8
RoCE	12.4	12.1	12.8	12.5	13.7	10.7	9.1	10.7

### Turnover Ratios

Debtors (Days)	45.8	47.1	36.4	41.2	48.5	44.9	40.0	40.0
Fixed Asset Turnover (x)	2.1	1.9	2.1	2.6	3.1	2.5	2.0	2.0

### Cash Flow Statement

Y/E March	2013	2014	2015	2016	2017	2018	2019E	2020E
<b>(INR M)</b>								
PBT	1,822	1,934	1,951	1,916	3,255	2,754	2,734	3,448
Depreciation	283	324	588	617	540	455	501	511
Contribution to SGF	0	0	258	174	208	26	10	0
Interest & Dividend income	-2,135	-1,977	-2,107	-1,901	-2,380	-1,687	-1,794	-2,146
Other adjustments	-132	-107	18	261	10	10	10	10
Working capital changes	2,549	2,103	-1,756	-825	7,670	-4,520	-365	1,760
Taxes paid	-649	-548	-480	-733	-406	-555	-545	-690
<b>CF - Operations</b>	<b>1,738</b>	<b>1,728</b>	<b>-1,528</b>	<b>-491</b>	<b>8,896</b>	<b>-3,517</b>	<b>551</b>	<b>2,893</b>
Capital expenditure	-314	-446	-726	-623	-650	-700	-750	-800
<b>FCF</b>	<b>1,424</b>	<b>1,283</b>	<b>-2,254</b>	<b>-1,115</b>	<b>8,246</b>	<b>-4,217</b>	<b>-199</b>	<b>2,093</b>
Other investment changes	1,314	-302	4,413	2,270	506	-967	1,794	2,146
<b>CF - Investments</b>	<b>1,000</b>	<b>-748</b>	<b>3,687</b>	<b>1,646</b>	<b>-144</b>	<b>-1,667</b>	<b>1,044</b>	<b>1,346</b>
Finance costs	-25	-2	-7	-7	-10	-10	-10	-10
Dividends including taxes	-821	-607	-607	-1,244	-670	-2,839	-4,258	-5,677
Others	-3,149	-2,102	159	34	-19	-26	0	0
<b>CF - Financing activities</b>	<b>-3,995</b>	<b>-2,711</b>	<b>-455</b>	<b>-1,217</b>	<b>-698</b>	<b>-2,875</b>	<b>-4,268</b>	<b>-5,687</b>
<b>Net change in cash</b>	<b>-1,256</b>	<b>-1,730</b>	<b>1,704</b>	<b>-62</b>	<b>8,053</b>	<b>-8,059</b>	<b>-2,673</b>	<b>-1,449</b>
Cash at beginning	20,484	14,695	14,525	16,101	24,258	19,690	28,485	30,627
<b>Cash at end</b>	<b>19,228</b>	<b>12,964</b>	<b>16,229</b>	<b>16,039</b>	<b>32,311</b>	<b>11,631</b>	<b>25,812</b>	<b>29,178</b>

NOTES



## Explanation of Investment Rating

### Investment Rating

BUY	>=15%
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

\*In case the recommendation given by the Research Analyst becomes inconsistent with the investment rating legend, the Research Analyst shall within 28 days of the inconsistency, take appropriate measures to make the recommendation consistent with the investment rating legend.

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