

Estimate change ↔  
TP change ↔  
Rating change ↔

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Bloomberg	BSE IN
Equity Shares (m)	47
M.Cap.(INRb)/(USDb)	23 / 0.3
52-Week Range (INR)	590 / 275
1, 6, 12 Rel. Per (%)	6/5/7
12M Avg Val (INR M)	83

**Financials & Valuations (INR b)**

Y/E Mar	2020	2021E	2022E
Sales	4.5	4.2	4.6
EBIT Margin (%)	-12.1	-13.7	-11.8
PAT	1.4	1.3	1.3
EPS (INR)	24.9	24.7	28.7
EPS Gr. (%)	-32.5	-0.8	16.2
BV/Sh. (INR)	493.9	530.0	534.6

**Ratios**

RoE (%)	5.0	4.7	5.4
RoCE (%)	7.9	8.3	8.5

**Valuations**

P/E (x)	20.5	20.7	17.8
P/BV (x)	1.0	1.0	1.0

**Shareholding pattern (%)**

As On	Mar-20	Dec-19	Mar-19
Promoter	0.0	0.0	0.0
DII	10.5	11.3	14.0
FII	42.5	43.9	43.0
Others	47.0	44.9	43.0

FII Includes depository receipts

**CMP: INR511 TP: INR640 (+25%) Buy**

**Stable commentary!**

**Decision to unlock value in Star MF is encouraging**

- BSE's 1QFY21 reported revenue was below estimates, while the margin was largely in-line. Management's decision to explore options to unlock value from its Star MF segment is encouraging. Cross-subsidization by NSE has limited monetization opportunities for BSE in the Star MF, INX, and Commodity Derivatives segments in the near term. While the announced additional income streams may be small currently, some of them have the potential to present meaningful opportunity over the long term.
- We adjust our revenue and margin trajectory to reflect the revised outlook for the Listing Fees sub-segment. Our EPS estimate over FY21-22 remains largely unchanged. Reiterate **Buy**.

**Margins largely in-line**

- BSE reported revenue/EBITDA/PAT growth of -6%/-158%/-21% YoY.
- 1QFY20 revenue of ~INR1.0b was below our estimate, weighed by lower listing fees and transaction charges. Listing fees were impacted due to COVID-19 (lower listings) and BSE suspending over 1000 default companies in 4QFY20 (which were billed and later provisioned for).
- Despite a 39% YoY increase in average daily turnover, transaction charges were lower in 1QFY21. This was primarily due to a decrease in turnover by 26% YoY in the Equity Cash segment (special rate group) in 1QFY21 and one-off income in 1QFY20.
- While total expenditure of INR1.0b was lower than estimated, overall decline in revenues resulted in largely in-line EBITDA (v/s estimates).
- Higher-than-expected investment income, partially offset by higher-than-expected tax rate, resulted in a PAT beat.
- The average daily number of orders processed on the Star MF platform increased sharply by 54% YoY.
- Average daily turnover in the Commodity segment witnessed a healthy increase.

**Key highlights from management commentary**

- The board approved the management's request to explore options to unlock value in the Star MF Platform.
- Post regulation changes, BSE suspended over 1000 default companies last quarter, which were billed, but were bad accounts and had to be provisioned for. These companies are now not required to be billed.
- NSE's competitive pricing has impacted BSE's ability to charge in the Star MF, INX, and Commodity Derivatives segments. BSE would approach the regulator to intervene on anti-competitive practices; until then, BSE would continue with its liquidity enhancement schemes and no/low charges (Star MF).

- BSE launched Commodity Options in GoldM and SilverKG contracts in June 2020. The exchange now has the second largest market share in the overall Commodity Derivatives market and the largest in Commodity Options.
- BSE had commenced insurance broking with Motor segment. It has recently also expanded in health and life insurance.
- License approval for the power exchange from the Central Electricity Regulatory Commission (CERC) is delayed but in progress.
- BSE would maintain its capital allocation policy of returning 90–95% standalone profit to shareholders. No buyback is planned in the near term.

### Valuation and view – play on optionality, yield, and valuations

- Our 'Buy' thesis on BSE is centered on the yield (dividend and buyback) at low valuations and option value from new segments (Star MF platform, Commodities, and INX) over and above the SOTP value of its businesses.
- Our SOTP fair valuation of BSE ascribes value to: (i) BSE operations, including cash and margin money income (INR520/share), and (ii) implied value from CDSL's market price at holding company discount (INR120/share). Our TP of INR640 implies a 25% upside.

### Cons. quarterly perf.

Y/E March	(INR m)											
	FY20				FY21E						Est. 1Q	Var.
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE	FY20	FY21E		(%/bp)
<b>Revenue from operations</b>	<b>1,095</b>	<b>1,088</b>	<b>1,104</b>	<b>1,196</b>	<b>1,032</b>	<b>1,034</b>	<b>1,043</b>	<b>1,064</b>	<b>4,483</b>	<b>4,174</b>	<b>1,237</b>	<b>-16.6</b>
YoY Change (%)	-7.6	-2.9	8.7	6.2	-5.7	-5.0	-5.5	-11.0	0.8	-6.9	13	-1874bp
Total Expenditure	1,066	1,146	1,154	1,150	1,049	1,046	1,050	1,060	4,516	4,205	1,226	-14.4
<b>EBITDA</b>	<b>29</b>	<b>-58</b>	<b>-50</b>	<b>46</b>	<b>-17</b>	<b>-12</b>	<b>-7</b>	<b>5</b>	<b>-33</b>	<b>-31</b>	<b>12</b>	<b>-242.1</b>
Margins (%)	2.6	-5.3	-4.5	3.8	-1.6	-1.2	-0.7	0.4	-0.7	-0.8	1	-258bp
Depreciation	120	125	132	134	132	133	136	138	511	539	136	-2.9
Interest	5	4	5	10	22	22	22	22	24	88	10	114.6
Investment income	565	507	383	362	589	435	424	440	1,817	1,888	368	60.0
<b>PBT before EO expense</b>	<b>470</b>	<b>320</b>	<b>196</b>	<b>264</b>	<b>418</b>	<b>268</b>	<b>259</b>	<b>285</b>	<b>1,249</b>	<b>1,229</b>	<b>233</b>	<b>79.0</b>
Extra-Ord expense	38	66	-211	267	121	0	0	0	160	121	0	
<b>PBT</b>	<b>432</b>	<b>254</b>	<b>407</b>	<b>-3</b>	<b>297</b>	<b>268</b>	<b>259</b>	<b>285</b>	<b>1,089</b>	<b>1,108</b>	<b>233</b>	<b>27.1</b>
Tax	88	-40	8	82	73	67	65	71	138	276	47	57.1
Rate (%)	20.4	-15.7	2.0	-2,562.5	24.7	25.0	25.0	25.0	12.7	24.9	20	471bp
MI & P/L of Asso. Cos.	70	73	57	72	101	64	65	69	272	299	81	26.0
<b>Reported PAT</b>	<b>414</b>	<b>367</b>	<b>456</b>	<b>-13</b>	<b>325</b>	<b>265</b>	<b>259</b>	<b>283</b>	<b>1,223</b>	<b>1,132</b>	<b>267</b>	<b>21.5</b>
YoY Change (%)	-19.7	-20.0	1.6	-102.5	-21.5	-27.8	-43.2	-2,240.7	-33.5	-7.2	-35	1391bp
Margins (%)	32.7	26.0	36.2	-161.4	24.1	21.0	20.2	21.7	32.6	32.5	16	767bp

### Key perf. indicators

Y/E March	FY20				FY21				FY20
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	
Listing Fees	394	381	419	386	359				1580
Listing processing and other listing fees	44	68	81	107	32				300
Book building fees	43	49	26	64	18				182
Other services to corporates	11	16	18	13	7				58
Transaction charges income - Equity	226	147	139	166	168				678
Transaction charges income - currency derivatives	16	17	16	19	13				68
Listing fees	438	449	500	493	391				1880
Book building and other services	54	65	44	77	25				240
Star MF platform	119	88	121	119	142				447



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## Financials and valuations

Income Statement								(INR m)
Y/E March	2015	2016	2017	2018	2019	2020	2021E	2022E
<b>Revenue</b>	<b>4,022</b>	<b>4,686</b>	<b>5,255</b>	<b>4,894</b>	<b>4,448</b>	<b>4,483</b>	<b>4,174</b>	<b>4,591</b>
Revenue ex-CDSL	2,976	3,459	3,797	4,894	4,448	4,483	4,174	4,591
<b>Change (%)</b>	<b>32.6</b>	<b>16.2</b>	<b>9.8</b>	<b>28.9</b>	<b>-9.1</b>	<b>0.8</b>	<b>-6.9</b>	<b>10.0</b>
Employee expenses	999	1,116	1,415	1,201	1,392	1,513	1,418	1,546
Technology expenses	704	806	1,056	1,111	1,134	1,177	1,084	1,181
Admin & Others	1,492	1,656	1,732	1,458	1,736	1,826	1,703	1,856
<b>EBITDA</b>	<b>827.4</b>	<b>1,108.6</b>	<b>1,052.0</b>	<b>1,124.0</b>	<b>186.0</b>	<b>-33.0</b>	<b>-31.4</b>	<b>7.6</b>
<b>EBITDA %</b>	<b>20.6</b>	<b>23.7</b>	<b>20.0</b>	<b>23.0</b>	<b>4.2</b>	<b>-0.7</b>	<b>-0.8</b>	<b>0.2</b>
Depreciation / Amortization	588	617	540	455	511	511	539	550
<b>EBIT</b>	<b>239.7</b>	<b>491.8</b>	<b>512.0</b>	<b>669.0</b>	<b>-325.0</b>	<b>-543.5</b>	<b>-570.1</b>	<b>-542.0</b>
<b>EBIT %</b>	<b>6.0</b>	<b>10.5</b>	<b>9.7</b>	<b>13.7</b>	<b>-7.3</b>	<b>-12.1</b>	<b>-13.7</b>	<b>-11.8</b>
Finance costs	7	7	10	10	9	24	88	88
Investment income	2,226	1,897	2,785	2,095	2,427	1,817	1,888	1,924
<b>PBT</b>	<b>2,458.8</b>	<b>2,381.6</b>	<b>3,287.0</b>	<b>2,754.0</b>	<b>2,093.0</b>	<b>1,249.4</b>	<b>1,229.4</b>	<b>1,294.1</b>
Tax	438	324	406	555	233	138	276	324
ETR %	17.8	13.6	12.4	20.2	11.1	11.0	22.5	25.0
<b>PAT before MI and associate profits</b>	<b>2,021.0</b>	<b>2,057.5</b>	<b>2,881.0</b>	<b>2,199.0</b>	<b>1,860.0</b>	<b>1,111.4</b>	<b>953.1</b>	<b>970.5</b>
Minority Interest	213	364	446	0	0	-6	0	0
Share of Associates profit	3	3	11	199	292	266	299	344
<b>PAT after MI and Associate profits</b>	<b>1,810.5</b>	<b>1,696.7</b>	<b>2,446.0</b>	<b>2,398.0</b>	<b>2,152.0</b>	<b>1,383.4</b>	<b>1,252.5</b>	<b>1,314.9</b>
<b>Change (%)</b>	<b>-8.0</b>	<b>-6.3</b>	<b>44.2</b>	<b>-2.0</b>	<b>-10.3</b>	<b>-35.7</b>	<b>-9.5</b>	<b>5.0</b>
<b>PAT margin %</b>	<b>45.0</b>	<b>36.2</b>	<b>46.5</b>	<b>49.0</b>	<b>48.4</b>	<b>30.9</b>	<b>30.0</b>	<b>28.6</b>
Exceptional items	508	466	208	26	210	160	121	0
<b>PAT after exceptional items</b>	<b>1,514</b>	<b>1,592</b>	<b>2,238</b>	<b>2,372</b>	<b>1,942</b>	<b>1,223</b>	<b>1,132</b>	<b>1,315</b>

Balance Sheet								(INR m)
Y/E March	2015	2016	2017	2018	2019	2020	2021E	2022E
Total fixed assets	2,542	2,496	2,519	2,142	2,181	2,085	2,341	2,611
Non-current investments	14,102	15,251	17,478	17,600	13,096	9,252	9,252	9,252
Other non-current assets	940	1,327	1,128	1,537	1,830	4,207	4,168	4,156
<b>Total non-current assets</b>	<b>17,585</b>	<b>19,074</b>	<b>21,125</b>	<b>21,278</b>	<b>17,108</b>	<b>15,543</b>	<b>15,761</b>	<b>16,018</b>
Cash & Current investments	23,184	21,474	29,278	27,715	27,137	28,196	29,328	31,216
Trade receivables	360	480	687	549	490	700	457	503
Other current assets	844	1,043	740	302	304	321	515	566
<b>Total current assets</b>	<b>24,389</b>	<b>22,996</b>	<b>30,705</b>	<b>28,566</b>	<b>27,931</b>	<b>29,216</b>	<b>30,300</b>	<b>32,285</b>
<b>TOTAL ASSETS</b>	<b>41,974</b>	<b>42,070</b>	<b>51,830</b>	<b>49,844</b>	<b>45,039</b>	<b>44,759</b>	<b>46,061</b>	<b>48,304</b>
Share Capital	107	107	108	107	104	90	90	90
R&S	24,502	24,385	26,516	31,237	29,253	24,161	24,184	24,391
<b>Shareholders' equity</b>	<b>24,609</b>	<b>24,493</b>	<b>26,624</b>	<b>31,344</b>	<b>29,357</b>	<b>24,251</b>	<b>24,274</b>	<b>24,481</b>
Core SGF	1,113	1,761	2,045	2,910	3,945	4,354	4,354	4,354
Minority Interest	1,986	2,223	2,909	0	0	186	186	186
Deferred tax liabilities	27	2	0	142	0	1	36	45
LT borrowings	36	19	0	0	0	0	0	0
Other LT liabilities	648	719	88	95	114	111	111	111
<b>Total non-current liabilities</b>	<b>710</b>	<b>739</b>	<b>88</b>	<b>236</b>	<b>114</b>	<b>113</b>	<b>148</b>	<b>156</b>
Outstanding dues to creditors	581	697	563	629	419	758	758	758
Other current liabilities	12,975	12,158	19,601	14,725	11,205	15,098	16,341	18,369
<b>Total current liabilities</b>	<b>13,556</b>	<b>12,854</b>	<b>20,164</b>	<b>15,354</b>	<b>11,623</b>	<b>15,856</b>	<b>17,100</b>	<b>19,127</b>
<b>TOTAL LIABILITIES</b>	<b>41,973</b>	<b>42,070</b>	<b>51,830</b>	<b>49,844</b>	<b>45,039</b>	<b>44,759</b>	<b>46,061</b>	<b>48,304</b>

## Financials and valuations

### Ratios

Y/E March	2015	2016	2017	2018	2019	2020	2021E	2022E
<b>Basic (INR)</b>								
EPS	23.8	24.5	41.6	130.3	36.9	24.9	24.7	28.7
EPS (excl EOI)	23.8	24.5	41.6	43.5	36.9	24.9	24.7	28.7
Cash EPS	34.5	34.4	51.6	138.6	46.6	35.3	36.5	40.7
Book Value	450.8	448.7	494.9	574.2	558.3	493.9	530.0	534.6
DPS	10.0	8.0	28.0	30.0	40.0	50.0	40.0	50.0
Payout %	42.1	32.6	67.3	23.0	108.3	200.7	161.9	174.2
<b>Valuation (x)</b>								
P/E	21.5	20.9	12.3	3.9	13.9	20.5	20.7	17.8
Cash P/E	14.8	14.9	9.9	3.7	11.0	14.5	14.0	12.6
EV/Sales	-0.8	-0.6	-2.1	-2.2	-1.8	-1.6	-1.9	-2.0
Price/Book Value	1.1	1.1	1.0	0.9	0.9	1.0	1.0	1.0
Dividend Yield (%)	2.0	1.6	5.5	5.9	7.8	9.8	7.8	9.8
<b>Profitability Ratios (%)</b>								
RoE	5.3	5.5	8.4	7.6	6.6	5.0	4.7	5.4
RoCE	12.8	12.6	13.8	10.7	9.3	7.9	8.3	8.5
<b>Turnover Ratios</b>								
Debtors (Days)	36.4	41.2	48.5	44.9	50.0	73.3	40.0	40.0
Fixed Asset Turnover (x)	2.1	2.6	3.1	2.5	2.0	2.0	2.1	2.1

### Cash Flow Statement

Y/E March	2015	2016	2017	2018	2019	2020	2021E	2022E
(INR m)								
PBT	1,951	1,916	3,287	2,754	2,093	1,249	1,229	1,294
Depreciation	588	617	540	455	511	511	539	550
Contribution to SGF	258	174	208	26	210	160	121	0
Interest & Dividend income	-2,107	-1,901	-5,255	-4,894	-4,448	-4,483	-4,174	-4,591
Other adjustments	18	261	10	10	9	24	88	88
Working capital changes	-1,756	-825	7,670	-4,064	-3,899	1,972	-1,366	1,127
Taxes paid	-480	-733	-406	-555	-233	-138	-276	-324
<b>CF - Operations</b>	<b>-1,528</b>	<b>-491</b>	<b>6,053</b>	<b>-6,268</b>	<b>-5,757</b>	<b>-705</b>	<b>-3,839</b>	<b>-1,856</b>
Capital expenditure	-726	-623	-650	-700	-701	-379	-800	-800
<b>FCF</b>	<b>-2,254</b>	<b>-1,115</b>	<b>5,403</b>	<b>-6,968</b>	<b>-6,458</b>	<b>-1,083</b>	<b>-4,639</b>	<b>-2,656</b>
Other investment changes	4,413	2,270	3,381	1,904	5,184	7,880	4,174	4,591
<b>CF - Investments</b>	<b>3,687</b>	<b>1,646</b>	<b>2,731</b>	<b>1,204</b>	<b>4,483</b>	<b>7,502</b>	<b>3,374</b>	<b>3,791</b>
Finance costs	-7	-7	-10	-10	-9	-24	-88	-88
Dividends including taxes	-607	-1,244	-670	-2,839	-4,258	-5,677	-7,096	-5,677
Others	159	34	-19	-26	0	0	0	0
<b>CF - Financing activities</b>	<b>-455</b>	<b>-1,217</b>	<b>-698</b>	<b>-2,875</b>	<b>-4,267</b>	<b>-5,701</b>	<b>-7,185</b>	<b>-5,766</b>
<b>Net change in cash</b>	<b>1,704</b>	<b>-62</b>	<b>8,086</b>	<b>-7,939</b>	<b>-5,540</b>	<b>1,095</b>	<b>-7,650</b>	<b>-3,831</b>
Cash at beginning	14,525	16,101	24,258	19,826	15,481	16,092	17,224	19,112
<b>Cash at end</b>	<b>16,229</b>	<b>16,039</b>	<b>32,343</b>	<b>11,887</b>	<b>9,941</b>	<b>17,187</b>	<b>9,575</b>	<b>15,282</b>

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
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 is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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