

Estimate change	↓
TP change	↓
Rating change	↔

**CMP: INR 600**

**TP: INR 620 (+3%)**

**Neutral**

Bloomberg	BSE IN
Equity Shares (m)	135
M.Cap.(INRb)/(USD\$)	81.2 / 1
52-Week Range (INR)	1047 / 460
1, 6, 12 Rel. Per (%)	-8/-39/29
12M Avg Val (INR M)	1894

#### Financials & Valuations (INR b)

Y/E Mar	FY23E	FY24E	FY25E
Net Sales	7.5	8.3	9.2
EBITDA	1.3	1.8	2.1
PAT	2.1	2.8	3.2
EPS (INR)	15.8	20.5	23.7
EPS Gr (%)	-12.7	29.3	15.6
BV / Sh (INR)	201	208	215

#### Ratios (%)

RoE	7.9	9.9	11.0
Payout ratio	70.0	70.0	70.0

#### Valuations

P/E (x)	37.9	29.3	25.4
P / BV (x)	3.0	2.9	2.8

#### Shareholding pattern (%)

As On	Sep-22	Jun-22	Sep-21
Promoter	0.0	0.0	0.0
DII	0.6	1.0	4.1
FII	36.6	37.2	34.7
Others	62.8	61.8	61.2

FII Includes depository receipts

### Modest operational performance

- BSE reported a PAT of INR294m in 2QFY23, down 48% YoY and 42% below our estimates. While revenues were broadly in line, opex came in 7% higher than estimates, led by technology-related costs. PAT was adversely impacted by INR363m contribution to Settlement Guarantee Fund (SGF) during the quarter, which was offset by a sharp increase in 'other income'.
- The core business continues to see sluggish growth as cash volumes fail to see any major momentum. Launch of electronic gold receipts (EGR), scale of MF revenues, and possibility of charging in other segments such as equity derivatives can add to long-term revenue growth.
- We adjust our earnings to factor in the earnings miss in 2QFY23, but we raise our future other income and subsidiary PAT assumptions. Overall, while EBIDTA (including SGF contribution) estimates have been cut 27%/16%/16% for FY23/FY24/FY25, respectively, PAT estimates have been cut 3% for FY23 and raised 1% for FY24/FY25, led by increase in estimates for 'other income'. We reiterate our **Neutral** rating with a SoTP-based, one-year TP of INR620.

### Higher opex partially offset by strong investment income

- Operating revenue grew 4% QoQ to INR 1.8b in 2QFY23, but was flat on a YoY basis, in-line with our estimates. Transaction charges were down 6% YoY but jumped 19% QoQ. While services to corporates was down 12% YoY, Star MF revenues was up 57% YoY.
- Opex was 7% higher than estimates, mainly led by 29% YoY increase in technology-related costs. EBIDTA margins declined 655bp YoY and 430bp QoQ to 23.2% in 2QFY23.
- Investment income was at INR594m (vs estimated INR284m), led by significant improvement in yield on assets.
- PAT declined 48% YoY and 27% QoQ to INR294m (v/s our estimate of INR502m). This was on the back of INR363m contribution to SGF during the quarter. Removing the impact of post-tax SGF/LES, PAT was at INR636m.
- Income from associates (primarily CDSL) came in at INR150m v/s our estimate of INR136m.
- For 1HFY23, BSE reported revenue/EBIDTA/PAT of INR3,535m/893m/694m, which was a change of +6%/-11%/-36%, respectively.

### Key takeaways from the management commentary

- BSE launched Electronic Gold Receipts (EGRs) on Diwali day with products of 10gms and 100gms in 995 and 999 grade. The transaction charges were levied from day 1 at Rs3.45/b of the turnover (same as equity segment).
- **BSE has to reduce its stake in CDSL to 15% by October 2023 from its current 20%.**

### Higher investment income estimate offsets the negative impact of SGF; Reiterate Neutral

BSE has multiple levers for growth in revenue and earnings over the medium term such as: 1) continued momentum in the Star MF business, 2) levy of charges on equity derivatives, 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. On the core business front, while we expect some challenges in book building fees, cash segment volumes can normalize as the impact of new margin norms is now in the base. We have cut our EBIDTA assumptions for BSE based on high contribution to SGF, but the same does not percolate to PAT as investment income assumptions have been increased to factor in better yields. PAT estimates have been cut 3% for FY23 and raised 1% for FY24/FY25, led by an increase in estimates of 'other income'. We reiterate our 'Neutral' rating with a SoTP-based, one-year TP of INR620.

#### Quarterly Performance

Y/E March	FY22				FY23E				FY22	FY23	Est. 2Q	Var. (%/bp)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
<b>Revenue from operations</b>	<b>1,527</b>	<b>1,818</b>	<b>1,840</b>	<b>1,922</b>	<b>1,731</b>	<b>1,804</b>	<b>1,917</b>	<b>2,024</b>	<b>7,107</b>	<b>7,476</b>	<b>1,812</b>	<b>-0.5</b>
YoY Change (%)	47.9	41.6	55.7	29.8	13.4	-0.8	4.2	5.3	42.7	5.2	0	-46bp
Total Expenditure	1,063	1,278	1,262	1,349	1,256	1,386	1,369	1,376	4,952	5,387	1,295	7.0
<b>EBITDA</b>	<b>464</b>	<b>540</b>	<b>578</b>	<b>573</b>	<b>475</b>	<b>418</b>	<b>547</b>	<b>648</b>	<b>2,156</b>	<b>2,089</b>	<b>517</b>	<b>-19.2</b>
Margins (%)	30.4	29.7	31.4	29.8	27.5	23.2	28.6	32.0	30.3	27.9	29	-539bp
Depreciation	116	117	123	127	104	122	124	125	483	475	127	-4.0
Interest	42	52	52	76	76	74	74	75	222	299	55	34.7
Investment income	331	440	346	412	247	594	475	461	1,529	1,777	284	109.1
<b>PBT before EO expense</b>	<b>637</b>	<b>811</b>	<b>750</b>	<b>782</b>	<b>542</b>	<b>815</b>	<b>825</b>	<b>910</b>	<b>2,980</b>	<b>3,092</b>	<b>619</b>	<b>31.7</b>
Liquidity enhancement expense	94	141	89	88	116	457	100	98	412	770	100	356.5
<b>PBT</b>	<b>543</b>	<b>671</b>	<b>660</b>	<b>694</b>	<b>426</b>	<b>359</b>	<b>725</b>	<b>812</b>	<b>2,568</b>	<b>2,322</b>	<b>519</b>	<b>-30.9</b>
Tax	161	280	244	139	135	215	214	249	823	813	153	40.5
Rate (%)	29.6	41.7	36.9	20.1	31.7	59.9	29.5	30.6	32.1	35.0	30	3042bp
P/L of Asso. Cos.	136	176	169	161	109	150	173	197	642	629	136	0.0
<b>Reported PAT</b>	<b>519</b>	<b>567</b>	<b>586</b>	<b>716</b>	<b>400</b>	<b>294</b>	<b>684</b>	<b>760</b>	<b>2,387</b>	<b>2,138</b>	<b>502</b>	<b>-41.5</b>
YoY Change (%)	59.8	23.1	86.2	125.4	-22.9	-48.1	16.7	6.3	56.3	-9.8	-20	
Margins (%)	27.7	25.5	26.0	30.5	18.8	13.0	29.3	30.8	39.7	34.1	22	-945bp

E: MOFSL Estimates

#### Key Performance Indicators

Y/E March	FY22				FY23	
	1Q	2Q	3Q	4Q	1Q	2Q
Transaction charges	584	680	630	695	538	641
Services to corporates	586	764	815	699	714	673
Listing Fees	371	376	424	388	412	421
Listing processing and other listing fees	119	192	148	184	145	167
Book building fees	85	166	218	91	137	55
Other services to corporates	10	30	24	34	19	31
Transaction charges income - Equity	471	545	475	530	368	431
Transaction charges income - currency derivatives	14	13	17	18	18	20
Transaction charges income - interest rate futures	0	0	0	0	0	0
Listing fees	490	568	572	572	557	588
Book building and other services	95	196	242	125	156	86
SME Listing fees	0	0	0	0	0	0
Star MF platform	99	120	135	150	150	188



## Key takeaways from the management commentary

### Business

- BSE launched EGRs on Diwali day with products of 10gms and 100gms in 995 and 999 grade. The transaction charges were levied from day 1 at Rs3.45/b of the turnover (same as equity segment).
- BSE has to reduce its stake in CDSL to 15% by October 2023 from its current 20%.
- With 92% market share, India INX in Gift city has been registering exponential growth.
- BSE EBIX insurance is now integrated with 26 companies. Insurance premium growth rate was 28%.
- BSE power Exchange is on-boarding new members on a sustained basis and create liquidity. Currently, there is no proposal from SEBI for allowing power futures.
- BSE has gone live with its KYC business under its Technology subsidiary. CDSL, wherein BSE has a 20% stake, also operates in the same business. In spite of this BSE entered the segment as regulator wanted exchanges to be a part of this ecosystem.

### Financials

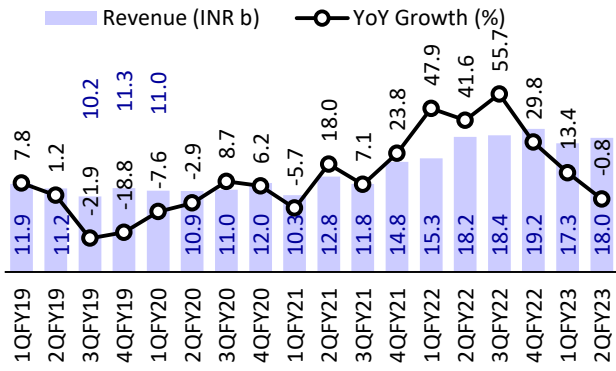
- The increased SGF investment was led by higher volatility and volumes in the currency segment.
- Listing fees were marginally increased for all companies and for highly capitalized companies, fees was linked to their market cap as against capital base earlier.
- Lower Book Building in 1HFY23 is a result of lesser number of IPOs in FY23 as compared to FY22.
- 'Other income' includes MTM of INR 40m. Also, BSE moved a large portion of its investments to debt and fixed income securities and expects to earn a yield of 6.5% for the year.
- Standalone free cash available stood at INR 13.07b

### Exhibit 1: Revisions to our estimates

INR b	Old Est.			New Est.			Change (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue from Operations	7.5	8.3	9.2	7.5	8.3	9.2	-0.6	-0.4	-0.1
Other income	1.2	1.5	1.6	1.8	1.9	2.0	51.4	27.6	27.6
<b>Total Income</b>	<b>8.7</b>	<b>9.8</b>	<b>10.8</b>	<b>9.3</b>	<b>10.2</b>	<b>11.2</b>	<b>6.4</b>	<b>3.8</b>	<b>3.9</b>
Operating Expenses	5.7	6.2	6.7	6.2	6.5	7.1	7.8	4.9	5.8
EBITDA	3.0	3.6	4.1	3.1	3.7	4.1	3.6	2.0	0.7
Core EBITDA	1.8	2.1	2.5	1.3	1.8	2.1	-27.3	-15.6	-15.8
Depreciation/Int	0.7	0.7	0.7	0.8	0.8	0.8	11.1	10.9	10.6
<b>PBT</b>	<b>2.3</b>	<b>2.9</b>	<b>3.4</b>	<b>2.3</b>	<b>2.9</b>	<b>3.3</b>	<b>1.4</b>	<b>-0.2</b>	<b>-1.4</b>
Tax	0.7	0.9	1.0	0.8	0.9	1.0	18.3	-0.2	-1.4
<b>PAT</b>	<b>1.6</b>	<b>2.0</b>	<b>2.4</b>	<b>1.5</b>	<b>2.0</b>	<b>2.3</b>	<b>-5.9</b>	<b>-0.2</b>	<b>-1.4</b>
<b>PAT after Associate profits</b>	<b>2.2</b>	<b>2.7</b>	<b>3.2</b>	<b>2.1</b>	<b>2.8</b>	<b>3.2</b>	<b>-3.4</b>	<b>1.3</b>	<b>1.1</b>

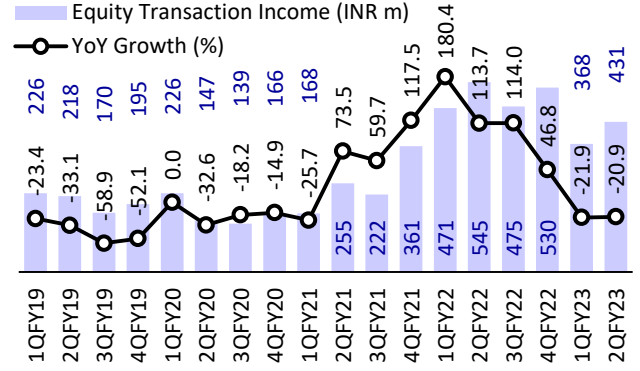
Key exhibits

Exhibit 2: Muted revenue growth...



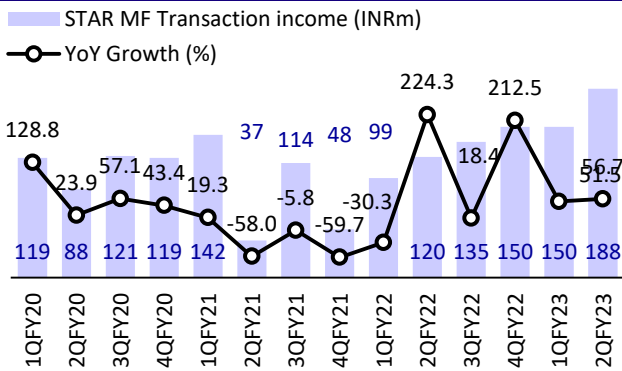
Source: MOFSL, Company

Exhibit 3: .. led by lower Equity Transaction revenue



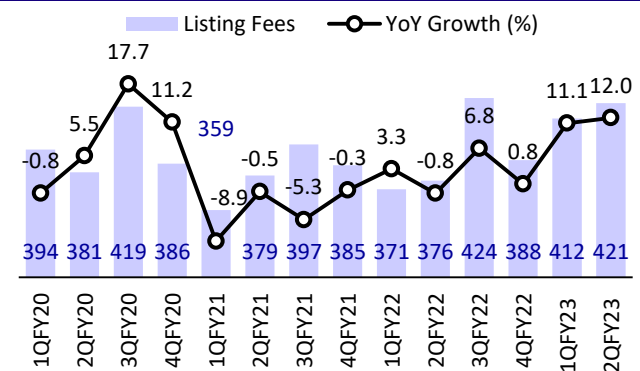
Source: MOFSL, Company

Exhibit 4: Revenue from Star MF improved QoQ



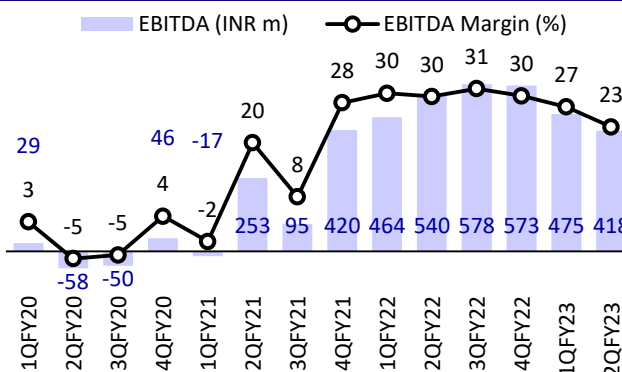
Source: MOFSL, Company

Exhibit 5: Listing fees grew 12% YoY



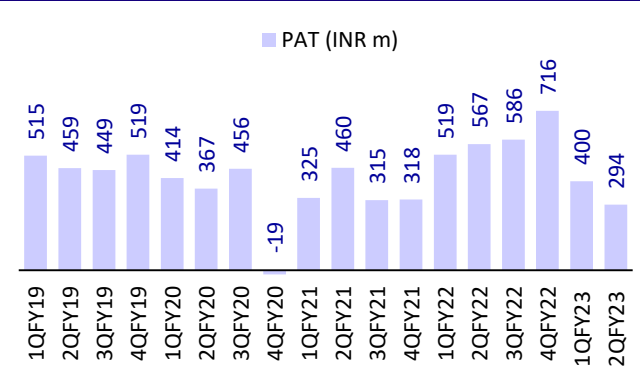
Source: MOFSL, Company

Exhibit 6: EBITDA and Margins decline sequentially



Source: MOFSL, Company

Exhibit 7: Volatility in PAT continues



Source: MOFSL, Company

## Financials and valuations

### Income Statement

Y/E March	2017	2018	2019	2020	2021	2022	2023E	2024E	2025E
Revenue	5,172	5,072	4,503	4,505	5,014	7,432	7,476	8,292	9,218
<b>Change (%)</b>	<b>21.8</b>	<b>-1.9</b>	<b>-11.2</b>	<b>0.0</b>	<b>11.3</b>	<b>48.2</b>	<b>0.6</b>	<b>10.9</b>	<b>11.2</b>
Employee expenses	1,415	1,201	1,392	1,512	1,487	1,773	1,879	2,030	2,192
Technology expenses	1,056	1,111	1,134	1,176	948	969	1,211	1,357	1,519
Admin & Others	1,733	1,684	1,811	2,132	1,854	2,209	2,297	2,481	2,679
Liquidity enhancement expenses	0	21	130	178	337	350	770	616	690
<b>EBITDA</b>	<b>968</b>	<b>1,055</b>	<b>36</b>	<b>-493</b>	<b>388</b>	<b>2,131</b>	<b>1,319</b>	<b>1,810</b>	<b>2,138</b>
<b>EBITDA %</b>	<b>18.7</b>	<b>20.8</b>	<b>0.8</b>	<b>-10.9</b>	<b>7.7</b>	<b>28.7</b>	<b>17.6</b>	<b>21.8</b>	<b>23.2</b>
Depreciation / Amortization	540	455	511	510	579	483	475	492	510
<b>EBIT</b>	<b>429</b>	<b>601</b>	<b>-474</b>	<b>-1,003</b>	<b>-190</b>	<b>1,648</b>	<b>844</b>	<b>1,317</b>	<b>1,628</b>
<b>EBIT %</b>	<b>9.7</b>	<b>11.8</b>	<b>-10.5</b>	<b>-22.3</b>	<b>-3.8</b>	<b>22.2</b>	<b>11.3</b>	<b>15.9</b>	<b>17.7</b>
Finance costs	10	10	9	24	103	222	299	299	299
Other Income	2,835	1,917	2,371	1,795	1,533	1,204	1,777	1,870	1,984
<b>PBT</b>	<b>3,254</b>	<b>2,508</b>	<b>1,888</b>	<b>768</b>	<b>1,240</b>	<b>2,630</b>	<b>2,322</b>	<b>2,888</b>	<b>3,313</b>
Tax	406	555	234	149	109	823	813	866	994
<b>ETR %</b>	<b>12.5</b>	<b>22.1</b>	<b>12.4</b>	<b>19.4</b>	<b>8.8</b>	<b>31.3</b>	<b>35.0</b>	<b>30.0</b>	<b>30.0</b>
<b>PAT before associate profits</b>	<b>2,848</b>	<b>1,953</b>	<b>1,655</b>	<b>619</b>	<b>1,131</b>	<b>1,807</b>	<b>1,509</b>	<b>2,022</b>	<b>2,319</b>
Share of Associates profit	11	199	292	267	432	642	629	742	876
<b>PAT after Associate profits</b>	<b>2,859</b>	<b>2,152</b>	<b>1,947</b>	<b>886</b>	<b>1,562</b>	<b>2,449</b>	<b>2,138</b>	<b>2,764</b>	<b>3,195</b>
<b>Change (%)</b>	<b>38.5</b>	<b>-24.7</b>	<b>-9.5</b>	<b>-54.5</b>	<b>76.4</b>	<b>56.7</b>	<b>-12.7</b>	<b>29.3</b>	<b>15.6</b>
<b>PAT margin %</b>	<b>55.3</b>	<b>42.4</b>	<b>43.2</b>	<b>19.7</b>	<b>31.2</b>	<b>33.0</b>	<b>28.6</b>	<b>33.3</b>	<b>34.7</b>
Exceptional items	208	5	5	-320	145	0	0	0	0
<b>PAT after exceptional items</b>	<b>2,651</b>	<b>2,148</b>	<b>1,941</b>	<b>1,206</b>	<b>1,417</b>	<b>2,449</b>	<b>2,138</b>	<b>2,764</b>	<b>3,195</b>

### Balance Sheet

Y/E March	2017	2018	2019	2020	2021	2022	2023E	2024E	2025E
Total fixed assets	2,519	2,142	2,181	2,085	1,843	1,681	1,731	1,781	1,831
Non current investments	17,478	17,598	13,096	9,252	8,005	6,298	6,613	6,944	7,291
Other non current assets	1,128	1,676	1,830	4,207	4,914	4,339	4,426	4,515	4,605
<b>Total non current assets</b>	<b>21,125</b>	<b>21,415</b>	<b>17,108</b>	<b>15,543</b>	<b>14,762</b>	<b>12,318</b>	<b>12,770</b>	<b>13,239</b>	<b>13,727</b>
Cash & Current investments	24,258	19,826	15,481	16,092	19,269	35,117	36,929	39,424	42,311
Trade receivables	687	549	490	700	876	634	1,196	1,327	1,475
Other current assets	5,760	8,191	11,960	12,425	11,364	13,785	14,463	15,175	15,922
<b>Total current assets</b>	<b>30,705</b>	<b>28,566</b>	<b>27,931</b>	<b>29,216</b>	<b>31,509</b>	<b>49,535</b>	<b>52,588</b>	<b>55,926</b>	<b>59,708</b>
<b>TOTAL ASSETS</b>	<b>51,830</b>	<b>49,980</b>	<b>45,039</b>	<b>44,759</b>	<b>46,271</b>	<b>61,854</b>	<b>65,359</b>	<b>69,165</b>	<b>73,434</b>
Share Capital	321	311	320	270	270	271	270	270	270
R&S	26,303	30,495	29,037	23,981	24,796	26,275	26,916	27,745	28,704
<b>Shareholders equity</b>	<b>26,624</b>	<b>30,806</b>	<b>29,357</b>	<b>24,251</b>	<b>25,066</b>	<b>26,545</b>	<b>27,186</b>	<b>28,015</b>	<b>28,974</b>
Core SGF	2,045	3,585	3,945	4,354	5,391	6,409	6,409	6,409	6,409
Minority Interest	2,909	0	0	186	235	1,352	1,352	1,352	1,352
Deferred tax liabilities	0	142	0	1	0	0	0	0	0
LT borrowings	0	0	0	0	0	0	0	0	0
Other LT liabilities	88	95	114	111	124	81	81	81	81
<b>Total non-current liabilities</b>	<b>88</b>	<b>236</b>	<b>114</b>	<b>113</b>	<b>124</b>	<b>81</b>	<b>81</b>	<b>81</b>	<b>81</b>
Outstanding dues to creditors	563	629	419	758	982	729	929	978	1,068
Other current liabilities	19,601	14,725	11,205	15,098	14,473	26,739	29,402	32,330	35,552
<b>Total current liabilities</b>	<b>20,164</b>	<b>15,354</b>	<b>11,623</b>	<b>15,856</b>	<b>15,455</b>	<b>27,467</b>	<b>30,331</b>	<b>33,309</b>	<b>36,619</b>
<b>TOTAL LIABILITIES</b>	<b>51,830</b>	<b>49,981</b>	<b>45,039</b>	<b>44,759</b>	<b>46,271</b>	<b>61,854</b>	<b>65,359</b>	<b>69,165</b>	<b>73,434</b>

(INR M)

## Financials and valuations

### Ratios

Y/E March	2017	2018	2019	2020	2021	2022	2023E	2024E	2025E
<b>Basic (INR)</b>									
EPS	19.6	15.9	14.4	8.9	10.5	18.1	15.8	20.5	23.7
EPS (excl EOI)	21.2	15.9	14.4	6.6	11.6	18.1	15.8	20.5	23.7
Cash EPS	20.6	16.7	15.3	9.9	11.6	19.0	16.7	21.4	24.6
Book Value	197.2	228.2	217.5	179.6	185.7	196.6	201.4	207.5	214.6
DPS	13.6	17.4	14.1	5.8	7.1	13.5	11.1	14.3	16.6
Payout %	69.4	109.3	97.9	64.6	67.9	74.4	70.0	70.0	70.0
<b>Valuation (x)</b>									
P/E	30.6	37.7	41.7	67.2	57.2	33.1	37.9	29.3	25.4
Cash P/E	29.1	35.8	39.1	60.7	51.9	31.5	35.9	28.1	24.4
Price/Book Value	3.0	2.6	2.8	3.3	3.2	3.1	3.0	2.9	2.8
Dividend Yield (%)	2.3	2.9	2.3	1.0	1.2	2.3	1.8	2.4	2.8
<b>Profitability Ratios (%)</b>									
RoE	10.0	7.0	6.6	5.0	5.7	9.2	7.9	9.9	11.0
RoCE	12.3	8.2	6.5	3.3	5.4	10.7	9.6	11.4	12.5

E: MOSL Estimates

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

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