

25 January 2024

India | Equity Research | Company Update

**BSE Limited**

Exchanges

**Better-than-expected volume trend leads to an upgrade**

We were positive on BSE's equity option revenue potential in Aug'23 which led to our upgrade to BUY. However, the subsequent tripling of the stock price led to our downgrade to **HOLD** in Nov'23. Yet, we believe Dec'23 volumes have set the possibility of an accelerated frontier for growth for BSE (refer our recent exchange tracker note, [link](#)). Accordingly, we revise our estimates upwards leading to core PAT upgrade of 23/9% for FY24E/25E along with the introduction of FY26 estimates. We upgrade the stock to **BUY** with a revised target of INR 2,686 (INR 2,411 earlier) after rolling over to FY26E on a 35x (40x earlier, cut factoring a higher base now) FY26E core PAT of INR 9.2bn plus cash and 15% value of CDSL post holding company discount of 20%. Risks include possible drop in volumes.

**Factoring in options ADTV of INR 127trn in FY26**

Dec'23 saw strong growth in BSE's options ADTV, which increased to INR 71trn from INR 35trn in Nov'23. This increase in options volumes provides significant fast tracking of options growth in BSE. We expect BSE options to end FY24 at a flattish monthly note with less trading days in Feb-Mar'23. However, we expect BSE's options to reach INR 106trn by the end of FY25E, translating to overall ADTV of INR 90trn for FY25E. For FY26E, we expect BSE's options ADTV to reach INR 150trn by the Mar'26, translating to ADTV of INR 127trn for FY26. We expect premium as a % of options turnover to remain the same as it was in Dec'23 (0.054%). This can give positive surprise.

**Key BSE assumptions of revenue drivers**

- INR 127trn options ADTO in FY26E (INR 71trn in Dec'23) which translate to cumulative monthly growth of 3% between Dec'23 and Mar'26E. INR 1,785bn monthly option premium by Mar'26E (INR 806bn in Dec'23).
- INR 93bn of cash ADTO in FY26E (INR 55bn in 9MFY24 and INR 96bn in Dec'23). This may translate to cumulative monthly growth of 1% between Dec'23 and Mar'26E.
- INR 1,480bn of MF platform revenue in FY26E (INR 294bn in Q2FY24).
- Non transaction income of INR 9.2/10bn for FY25/26E vs INR 2.1bn in Q2FY24. This segment is benefitting from margin money driven income.

**Financial Summary**

Y/E March (INR mn)	FY23A	FY24E	FY25E	FY26E
Net Revenue (INR mn)	7,968	14,052	20,921	25,495
Rec. Net Income (INR mn)	3,120	5,815	9,467	11,946
Core PAT (Ex-CDSL) (INR mn)	1,679	3,787	7,098	9,237
% Chg YoY	15.7	125.5	87.4	30.1
P/E (x)	91.6	53.8	32.6	26.1
CEPS (INR)	27.5	44.1	70.1	86.7
EV/EBITDA (x)	86.9	40.0	24.6	19.3
Dividend Yield (%)	0.8	1.5	2.6	3.4
RoCE (%)	7.6	12.7	19.6	23.6
RoE (%)	11.7	18.1	27.3	32.8

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**Market Data**

Market Cap (INR)	286bn
Market Cap (USD)	3,442mn
Bloomberg Code	BSE IN
Reuters Code	BSEL NS
52-week Range (INR)	2,595 / 406
Free Float (%)	0.0
ADTV-3M (mn) (USD)	41.7

Price Performance (%)	3m	6m	12m
Absolute	23.7	189.9	293.2
Relative to Sensex	13.7	182.9	276.7

**Previous Reports**

14-11-2023: [Q2FY24 results review](#)

25-10-2023: [Company Update](#)

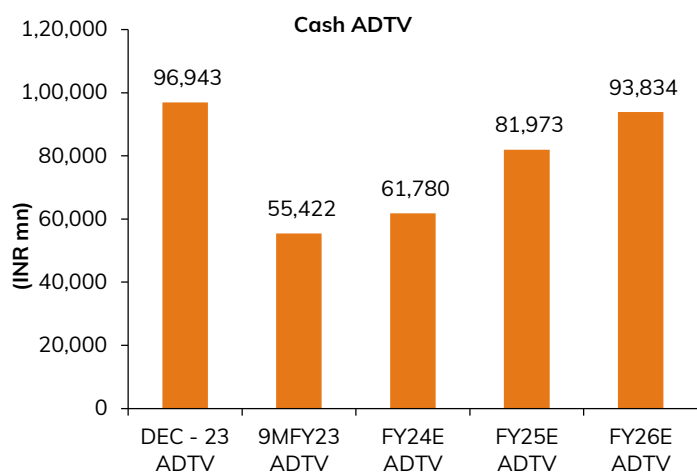
### Key BSE cost assumptions

- Cost ex options CAGR of 25% between FY23-26E. This includes SGF allocation. With increasing volumes, we expect SGF contribution of INR 500/700/1000mn in FY24/25/26E respectively. (INR 200.5mn in H1FY24)
- Options cost of INR 170/141/125 per million of premium in FY24E/25E/26E, respectively. The reduction is driven by volume driven leverage.

### Strong Dec'23 provides earnings estimates upgrade potential

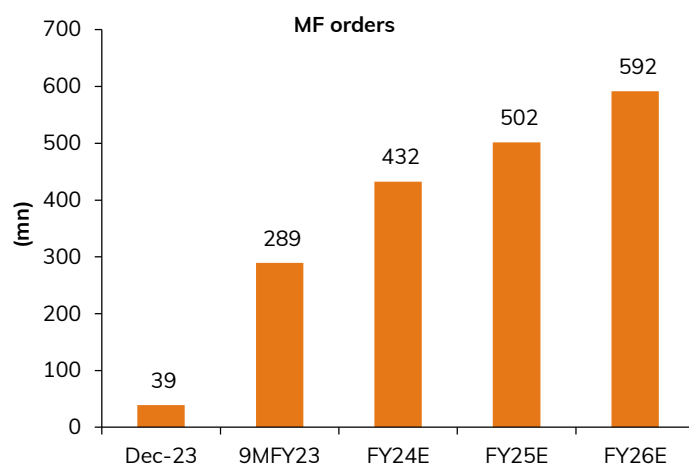
Dec'23 saw BSE options volume reach new highs. BSE options ADTV reached INR 71trn in Dec'23 from INR 35trn in Nov'23 (up 102% MoM). Cash volumes for BSE also increased sharply by 83% MoM to INR 97bn in Dec'23 from INR 53bn in Nov'23. This increase in volumes has fast tracked the growth potential for BSE and we expect similar volumes each month going ahead (ADTV for first 20 days for Jan'24 is INR 68trn). This translates to up fronting of revenue profile for BSE and also reduces sensitivity of earnings to future estimates (Refer exhibit 8-10).

**Exhibit 1: BSE cash ADTV forecast**



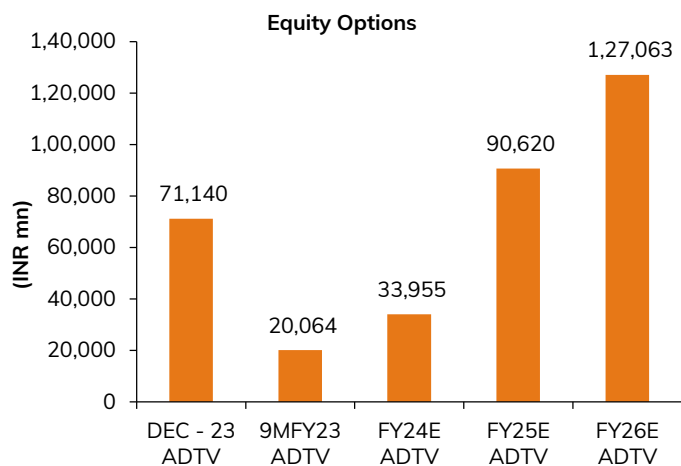
Source: I-Sec research, Company data

**Exhibit 2: BSE star MF total order forecast**



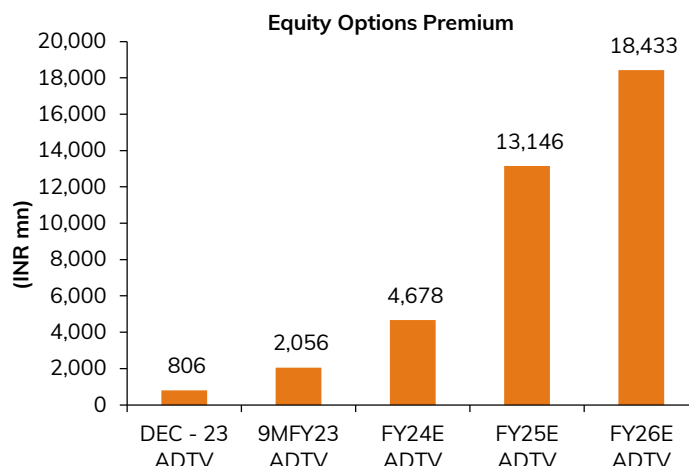
Source: I-Sec research, Company data

**Exhibit 3: BSE equity options ADTV forecast**



Source: I-Sec research, Company data

**Exhibit 4: BSE equity options premium turnover forecast**

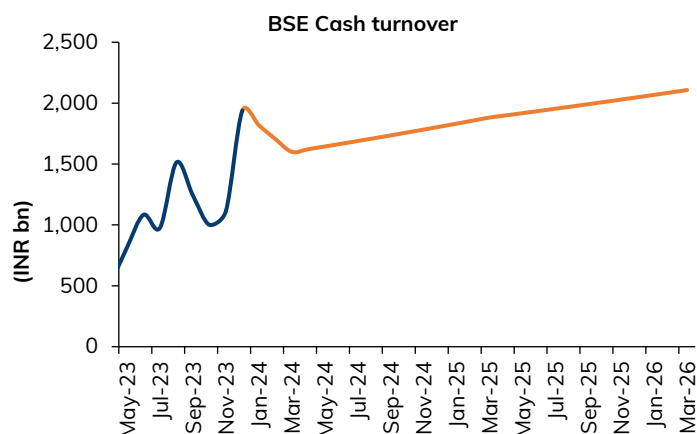


Source: I-Sec research, Company data

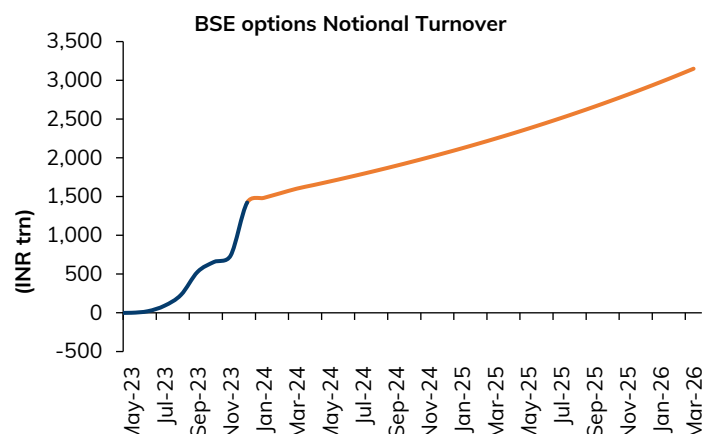
**Exhibit 5: Sensitivity of BSE's EBITDA to FY26 Cash ADTV/Options ADTV and Options cost**

	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5
Cash ADTV in FY26E (INR mn)	70,000	85,000	93,834	1,05,000	1,20,000
EBITDA	14,883	15,171	15,340	15,555	15,939
Options ADTV at end of FY26E (INR bn)	1,25,000	1,40,000	1,50,000	1,60,000	1,75,000
EBITDA	14,323	14,937	15,340	15,738	16,326
Options Cost (INR/mn)	100	115	125	135	150
EBITDA	15,801	15,525	15,340	15,156	14,879

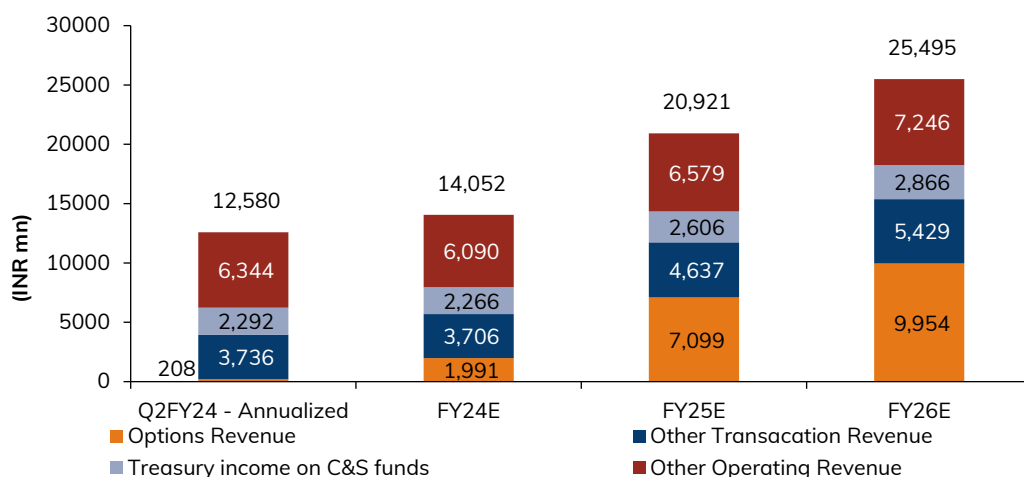
Source: I-Sec research; Note: sensitivity is done keeping all other things constant

**Exhibit 6: Sharp growth in Dec'23 provides higher base for cash volumes going ahead**

Source: I-Sec research, Company data

**Exhibit 7: Sharp growth in Dec'23 provides higher base for options volumes going ahead**

Source: I-Sec research, Company data

**Exhibit 8: Options growth is the main driver for BSE's earnings potential**

Source: I-Sec research, Company data

**Exhibit 9: Shareholding pattern**

%	Jun'23	Sep'23	Dec'23
Promoters	25.9	25.1	23.1
Institutional investors	11.3	16.0	23.3
MFs and others	0.2	4.8	7.8
FIs/Banks	0.4	1.2	0.0
Insurance	0.0	2.1	2.2
FIIIs	10.7	7.9	13.3
Others	62.8	58.9	53.6

Source: Bloomberg

**Exhibit 10: Price chart**

Source: Bloomberg

## Financial Summary

### Exhibit 11: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Net Sales	7,968	14,052	20,921	25,495
<b>Operating Expenses</b>	<b>5,268</b>	<b>7,653</b>	<b>10,248</b>	<b>11,610</b>
Core EBITDA	-	-	-	-
<b>Core EBITDA Margin (%)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Depreciation & Amortization	603	664	724	799
EBIT	2,575	6,238	10,476	13,086
Interest expenditure	275	280	286	292
Other Non-operating Income	1,093	1,382	1,388	-
Recurring PBT	3,394	7,339	11,578	12,794
<b>Profit / (Loss) from Associates</b>	<b>492</b>	<b>479</b>	<b>540</b>	<b>621</b>
<b>Less: Taxes</b>	<b>916</b>	<b>2,094</b>	<b>2,741</b>	<b>3,478</b>
PAT	2,478	5,246	8,837	9,316
Extraordinaries (Net)	(913)	3,748	-	-
Net Income (Reported)	2,207	9,563	9,467	9,937
Net Income (Adjusted)	3,120	5,815	9,467	11,946
<b>Core PAT</b>	<b>1,679</b>	<b>3,787</b>	<b>7,098</b>	<b>9,237</b>

Source Company data, I-Sec research

### Exhibit 12: Balance sheet

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Total Current Assets	32,989	43,504	48,665	51,699
of which cash & cash eqv.	30,495	40,536	45,727	48,702
Total Current Liabilities & Provisions	23,927	28,010	31,240	33,609
<b>Net Current Assets</b>	<b>9,062</b>	<b>15,494</b>	<b>17,425</b>	<b>18,091</b>
Investments	14,535	13,853	14,285	14,782
Net Fixed Assets	1,555	1,291	967	668
ROU Assets	-	-	-	-
Capital Work-in-Progress	1	1	1	1
Total Intangible Assets	986	986	986	986
Other assets	9,872	9,872	9,872	11,375
Deferred Tax assets	-	-	-	-
<b>Total Assets</b>	<b>36,012</b>	<b>41,497</b>	<b>43,537</b>	<b>45,903</b>
<b>Liabilities</b>				
<b>Borrowings</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Deferred Tax Liability</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
provisions	-	-	-	-
other Liabilities	7,721	8,736	9,752	10,769
Equity Share Capital	271	271	271	271
Reserves & Surplus	26,741	31,302	32,416	33,764
<b>Total Net Worth</b>	<b>27,012</b>	<b>31,573</b>	<b>32,687</b>	<b>34,035</b>
Minority Interest	1,278	1,188	1,098	1,098
<b>Total Liabilities</b>	<b>36,012</b>	<b>41,497</b>	<b>43,537</b>	<b>45,903</b>

Source Company data, I-Sec research

### Exhibit 13: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
<b>Operating Cashflow</b>	<b>(583)</b>	<b>10,034</b>	<b>13,137</b>	<b>14,451</b>
Working Capital Changes	(5,024)	3,610	3,260	2,309
Capital Commitments	(953)	(400)	(400)	(500)
<b>Free Cashflow</b>	<b>(1,536)</b>	<b>9,634</b>	<b>12,737</b>	<b>13,951</b>
<b>Other investing cashflow</b>	<b>4,066</b>	<b>0</b>	<b>-</b>	<b>-</b>
Cashflow from Investing Activities	3,113	(400)	(400)	(500)
Issue of Share Capital	-	-	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	-	-	-	-
Dividend paid	(1,626)	(4,411)	(7,563)	(9,597)
Others	(853)	3,753	18	124
Cash flow from Financing Activities	(2,478)	(658)	(7,545)	(9,473)
<b>Chg. in Cash &amp; Bank balance</b>	<b>53</b>	<b>8,976</b>	<b>5,192</b>	<b>4,478</b>
Closing cash & balance	53	8,976	5,192	4,478

Source Company data, I-Sec research

### Exhibit 14: Key ratios

(Year ending March)

	FY23A	FY24E	FY25E	FY26E
<b>Per Share Data (INR)</b>				
Reported EPS	23.1	39.2	64.7	80.8
Cash EPS	27.5	44.1	70.1	86.7
Dividend per share (DPS)	17.0	32.6	55.8	70.8
Book Value per share (BV)	199.7	233.4	241.6	251.6
<b>Growth (%)</b>				
Net Sales	9.5	70.3	44.5	20.8
EBITDA	14.2	105.1	55.0	27.2
PAT	7.8	70.3	64.9	24.9
Cash EPS	10.3	60.3	58.7	23.8
<b>Valuation Ratios (x)</b>				
P/E	91.6	53.8	32.6	26.1
P/CEPS	76.7	47.9	30.1	24.4
P/BV	10.6	9.0	8.7	8.4
EV / EBITDA	86.9	40.0	24.6	19.3
EV / Sales	27.7	15.6	10.6	8.7
<b>Operating Ratios</b>				
Employee cost / Sales (%)	19.9	15.5	11.8	10.9
SG&A / Sales (%)	38.2	34.1	34.1	32.2
Other Income / PBT (%)	14.1	6.8	4.6	3.7
Effective Tax Rate (%)	27.0	30.6	25.2	25.2
Receivables (days)	36.1	27.0	19.6	15.7
Payables (days)	82.8	55.7	42.7	39.5
<b>Return/Profitability Ratios (%)</b>				
Net Income Margins	34.4	34.4	39.3	40.6
RoACE	7.6	12.7	19.6	23.6
RoAE	11.7	18.1	27.3	32.8
Dividend Payout	65.6	93.0	93.0	93.0
Dividend Yield	0.8	1.5	2.6	3.4
EBITDA Margins	33.9	45.5	51.0	54.5

Source Company data, I-Sec research

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