



SUBLIME FINANCIAL ADVISORY
NO COMPROMISE IN EXCELLENCE

BSE Ltd (BSE)

-New Initiatives to drive growth

Recommendation	:	Buy
CMP	:	Rs 862
Target	:	NA
% Allocation	:	5%
<hr/>		
Sector	:	MISC
Sensex	:	35634
NSE code	:	BSE
BSE Code	:	NA

AT A GLANCE

52 Week High Low	:1178.35/726.00
Mkt. Cap (Rs. in Crs)	4591
Major Shareholders	
Promoters (%)	:NA
Others (%)	:100.00%

Background: BSE Ltd (BSE) owns and operates the BSE exchange platform (formerly, the Bombay Stock Exchange), the first stock exchange in Asia, which was formed on July 9, 1875. At the end of October 2016, the BSE was the world's largest exchange by number of listed companies, and India's largest and the world's 10th largest exchange by market capitalization, with US\$ 1.7 trillion in total market capitalization of listed companies. It regulates listed issuers and provides a market for listing and trading in various types of securities as may be allowed by SEBI from time to time.

Strong brand recognition

BSE is Asia's first and one of the most recognisable brand names in India, which enables it to attract companies to its listing platforms and retail investors along with other market participants. As of October 2016, BSE was the world's largest exchange by number of listed companies and tenth largest exchange by market capitalization.

Diversified revenue stream

BSE has diversified sources of revenues with securities services (includes transaction income from equity, equity derivatives and other derivatives but excludes CDSL revenues now), services to corporates, data dissemination and income from investments and deposits constituting 44.4%, 20.8%, 3.3% and 31.5% of operating revenues respectively

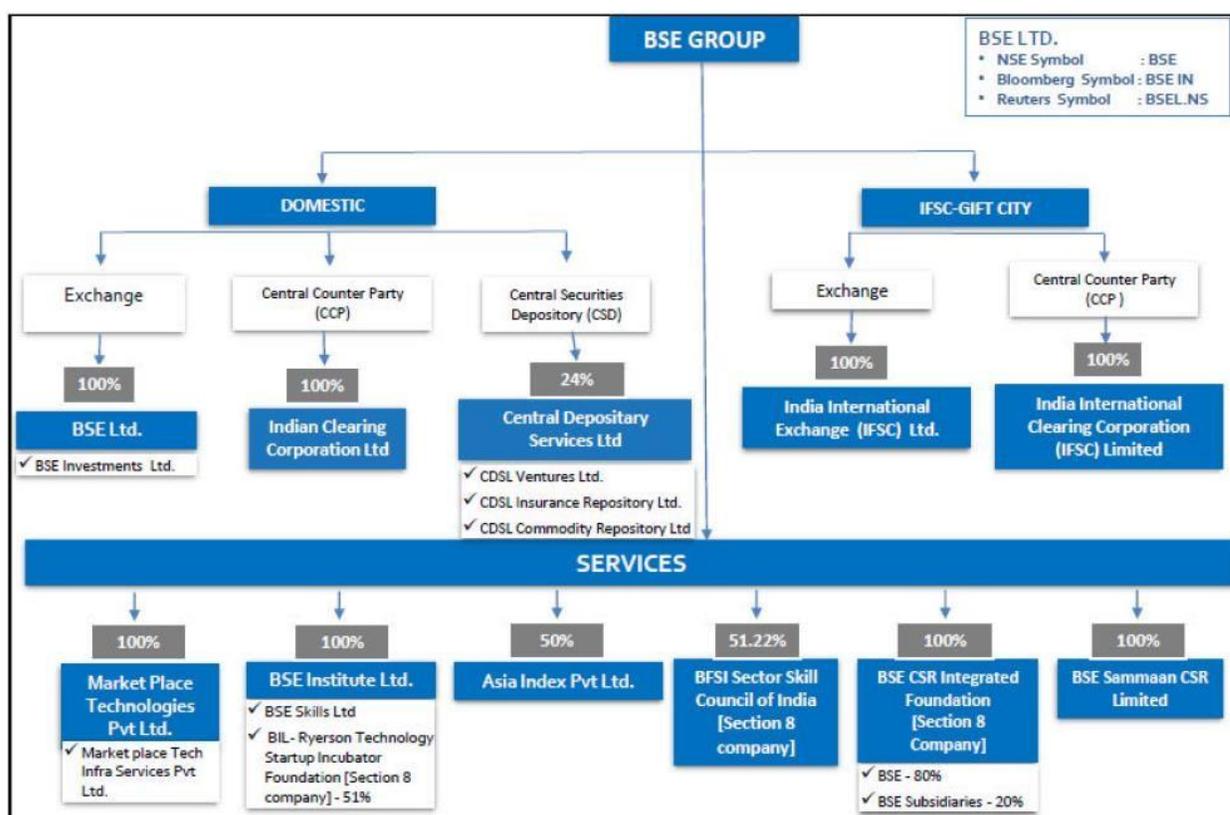
Outlook & Valuation

We Initiate coverage of BSE Ltd with a **BUY** rating. Given the strong brand, diversified product portfolio, Stable market share and entry into international exchange are key positives for the stock. At the CMP of INR 862, the stock trades at 27.86x EPS of FY19. **Key Risks** to our recommendation include any steep increase in competition and steep decrease in stock markets which might adversely impact the company.

Investment Arguments

Company Profile: BSE Ltd (BSE) owns and operates the BSE exchange platform (formerly, the Bombay Stock Exchange), the first stock exchange in Asia, which was formed on July 9, 1875. At the end of October 2016, the BSE was the world's largest exchange by number of listed companies, and India's largest and the world's 10th largest exchange by market capitalization, with US\$ 1.7 trillion in total market capitalization of listed companies. It regulates listed issuers and provides a market for listing and trading in various types of securities as may be allowed by SEBI from time to time.

BSE has 1,446 unique members across all segments, and in FY2016 the BSE accepted an average of 284.92 million orders and 1.55 million trades in equity shares per trading day, placing it as the 12th most active exchange in the world in terms of electronic book trades in equity shares.



Primary lines of business:

- The listing business, which consists of the primary market, which relates to the issuance of new securities and annual fees from listed companies.
- The market business, which consists of (i) the secondary market, which relates to the purchase and sales of previously-issued securities, (ii) BSE StAR MF ("BSE StAR"), BSE's online platform for the placement of orders and redemptions of units in mutual funds, (iii) NDS-RST, its platform for the reporting of over-the counter corporate bond trading, (iv) membership, which includes membership in the Exchange and clearing

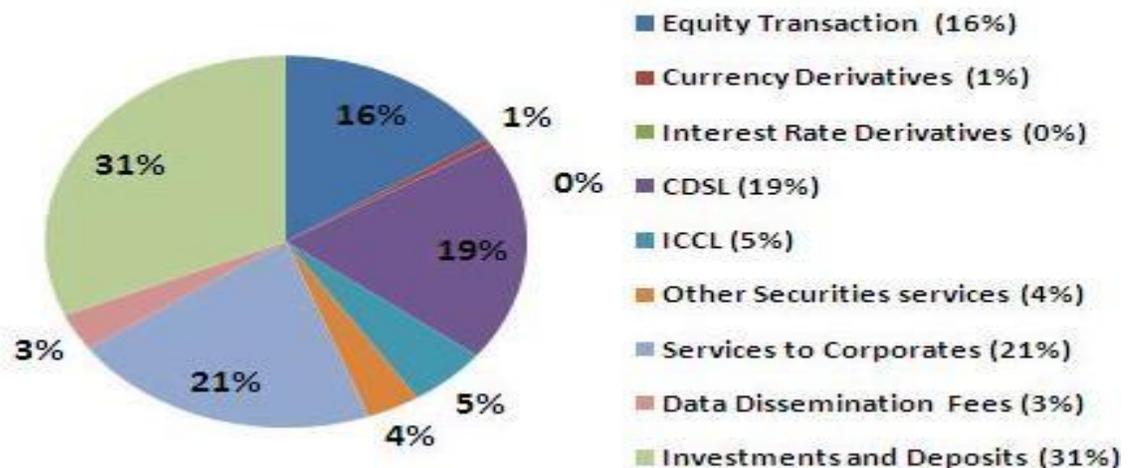
corporation ICCL, and membership of depository participants in its depository CDSL, and (v) post-trade services, namely the clearing corporation and depository.

- The data business, which consists of the sale and licensing of information products.
- Providing IT services and solutions through subsidiary Marketplace Technologies Pvt. Ltd
- Licensing index products such as the S&P BSE SENSEX
- Providing financial and capital markets training through BSE Institute Ltd
- An active treasury function focused on managing its cash, including both its own funds as well as funds that it holds on behalf of third parties (such as margins placed by clearing members).

The standalone business consists of listing fees, data dissemination business, treasury income from investments and cash equivalents in standalone balance sheet and transaction services income from equity cash, derivatives (equity, currency, interest rate), debt trading and mutual fund platform.

The consolidated financial statements, in addition to revenue sources of standalone business, include revenues from Indian Clearing Corporation Ltd (ICCL), IT services (Marketplace Technologies), BSE institute and income from associate CDSL (Equity method accounting followed now, as against line by line consolidation done earlier when it was subsidiary). Once International exchange is monetized, it will contribute to the consolidated revenues and profits.

Revenue Breakup (%) - FY17



Strong brand recognition:

BSE is Asia's first and one of the most recognisable brand names in India, which enables it to attract companies to its listing platforms and retail investors along with other market participants. As of October 2016, BSE was the world's largest exchange by number of listed companies and tenth largest exchange by market capitalisation. According to World Federation of Exchange (WFE), BSE ranks third globally in terms of currency options and futures contracts traded in 2015 with 430 mn currency derivatives traded.

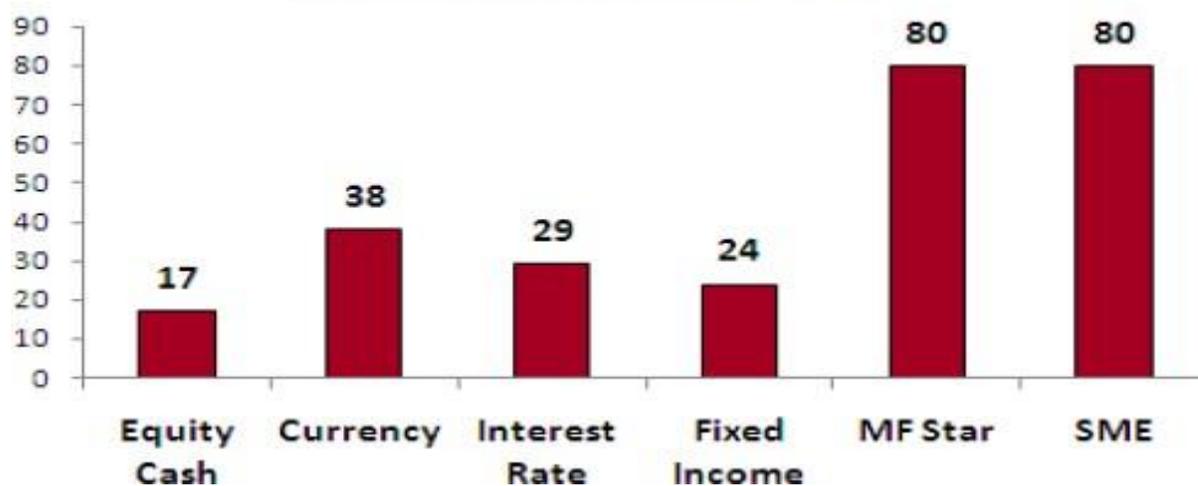
Exchange	No. of companies	Rank in 2015	Currency options and futures contracts traded in 2015		
			Rank	Exchange	Million
BSE	5836	1			
BME Spanish Exchange	3651	2	1	Moscow Exchange	1005
TMX Group	3559	3	2	NSE	612
Japan Exchange Group	3513	4	3	BSE	430
NASDAQ	2859	5	4	CME Group	220
			5	BM&FBOVESPA	113
			Total		2533

Diversified revenue stream

BSE has diversified sources of revenues with securities services (includes transaction income from equity, equity derivatives and other derivatives but excludes CDSL revenues now), services to corporates, data dissemination and income from investments and deposits constituting 44.4%, 20.8%, 3.3% and 31.5% of operating revenues respectively.

Within transaction revenues, equity cash (non exclusive), equity cash (exclusive), derivatives and other revenues stood at 44%, 51%, 5% and 1% of transaction revenues respectively. Though it has lower market share in equity segment, it is making up for the market share loss by expanding in currency futures, debt placement, SME listing and mutual fund businesses successfully. It has also launched interest rate futures and international exchange and is waiting to launch commodity derivative trading.

Marketshare (%) - FY17



Stable market share

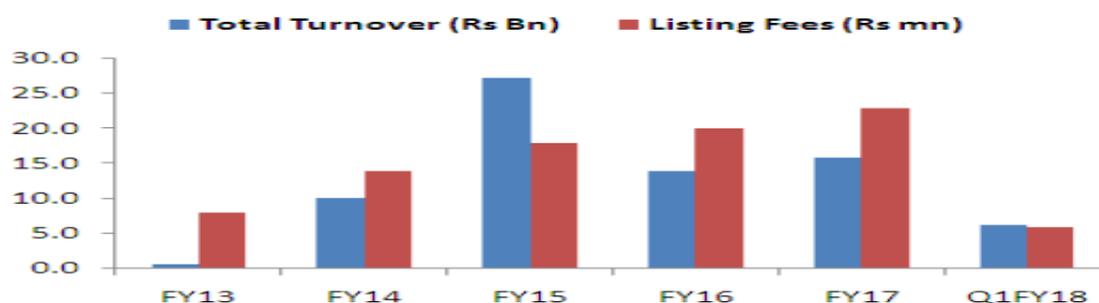
After addressing its management legacy issues and revamping its technology to become the fastest exchange in the world, BSE has been able to keep its market share stable in the equity cash segment at 15-17% over FY14 till date. It has terminated its efforts to expand in the equity derivatives segment where NSE is the market leader with almost 100% market share. Instead it's focusing on developing derivatives in the international exchange set up at GIFT City.

Considering that approximately 2500 stocks are listed exclusively on BSE, in January 2016 the exchange increased transaction charges in this segment from Rs 27.5/mn to Rs 1000/mn which led to steep increase of 122.7% in transaction charges revenue. Besides this in order to attract bulk deals from NSE it changed pricing structure in non exclusive segment from ad-valorem basis (Rs 27.5/mn) to a flat fee structure that was Rs 0.3-1 per trade w.e.f April 3, 2017, which was increased to Rs 0.5-1.5 per trade w.e.f August 1, 2017. As a result of stable market share coupled with price and volume increases we expect transaction revenues in the equity segment to grow at a CAGR of 13.5% over FY17-FY19E from Rs 1.2bn in FY17 to Rs 1.5bn in FY19E.

Revision in transaction charges of equity segment w.e.f August 1, 2017	
Slab-wise Rates	
Monthly Trades Count	Rate (in Rs.) per Trade
0 – 1,00,000	1.5
1,00,001 – 3,00,000	1.25
3,00,001 – 5,00,000	1
5,00,001 – 20,00,000	0.75
> 20,00,000	0.5

SME Platform - Emerging Opportunity

BSE launched SME platform in December 2012 to facilitate capital raising by SMEs and startup companies and provide easy exit options for angel investors, VC, PEs etc. At present the current tariff is Rs 27.5/mn turnover for trading on SME platform. Besides, this platform also contributes to listing revenues. From 2012 until now 191 companies have been listed on the SME platform of which 33 have moved to main platform of BSE, which have a market capitalization of Rs 72.2bn. At present 158 companies are listed on SME index which have a total market capitalization of Rs 105.7bn. BSE had a market share of 80% in terms of number of companies listed in the SME segment in FY17.



Currency Market:

In FY16, BSE generated estimated revenue of Rs.33.1 mn on turnover of Rs.27639 Bn from currency futures business. BSE charged transaction fees of Rs.10 for brief period in FY16. The journey of price hike is interesting in case of BSE. BSE had launched its currency derivatives platform in November 2013 and did not levy any transaction fees for trades done on this segment for almost a year. However, since December 2014 it began charging for currency derivatives. Since October 2015, the exchange has been levying a transaction fee of Rs 10 on the currency derivative trades.

The currency derivatives market has just started its dream run and it is able to deliver exponential growth in next 5 years. BSE's pricing is far below competitor NSE's fee structure. While BSE charges Rs.12 per crore, NSE levies humongous Rs.110 per crore. This gives BSE enough scope to scale up its price from current Rs.12 to Rs.80 in phased manner (3-4 years) and without impacting its market share. Assuming a modest growth of 20% in turnover and conservative transaction fees of Rs.65 per crore would generate Rs.447.0 mn in revenue and translate to approximate profit from currency segment of Rs.150 mn. Since most of the incremental revenue would be generated due to price hike, fixed and variable cost would be mildly affected. This profit of Rs.150 mn on FY16 PAT of Rs.1590 mn would mean significant contribution of currency derivatives segment of approximate 9.5% from meagre 0.1% currently.

NSE's market leading streak continues from start and it is a dominator in currency derivatives segment. NSE has around 59% market share in this segment and this is followed by BSE with 36.7%. MSEI is lagging behind with market share of approximate 4% which has reduced considerably from its 37% market share in FY12. However, in the options segment, BSE has overtaken NSE by a long shot. This could be attributed to the pricing structure where BSE charges transaction fees of Rs.12 per crore, NSE charges hefty transaction fees of Rs.110 per crore on both legs.

International Exchange - Early mover advantage

BSE is investing about ~Rs 500 crore in the international exchange over the next three years, International exchange in GIFT City (Ahmadabad) may turn into major success due to first- mover advantage. Establishing this exchange will increase BSE's brand's profile and also provide with additional sources of revenue. BSE intends to offer across equity and index derivatives, currency derivatives and commodities in foreign currency. It will also offer interest rate futures, fixed income securities and provide an electronic trading platform.

The exchange will be a beneficiary of several tax sops, including exemptions from stamp duty, service tax, dividend distribution tax, as well as commodity and securities transaction tax (STT). STT is one of the biggest sore points for investors participating in derivatives trading and the new exchange will eliminate that. A lot of Indian traders dealing in equity derivatives from Singapore and Dubai may be tempted to set up desks here. At present, sellers of options contracts have to pay an STT of 0.05 per cent on the premium value. In addition, STT on buying options that get exercised is 0.125 per cent of the entire contract value. For futures contracts, sellers have to pay an STT of 0.01 per cent.

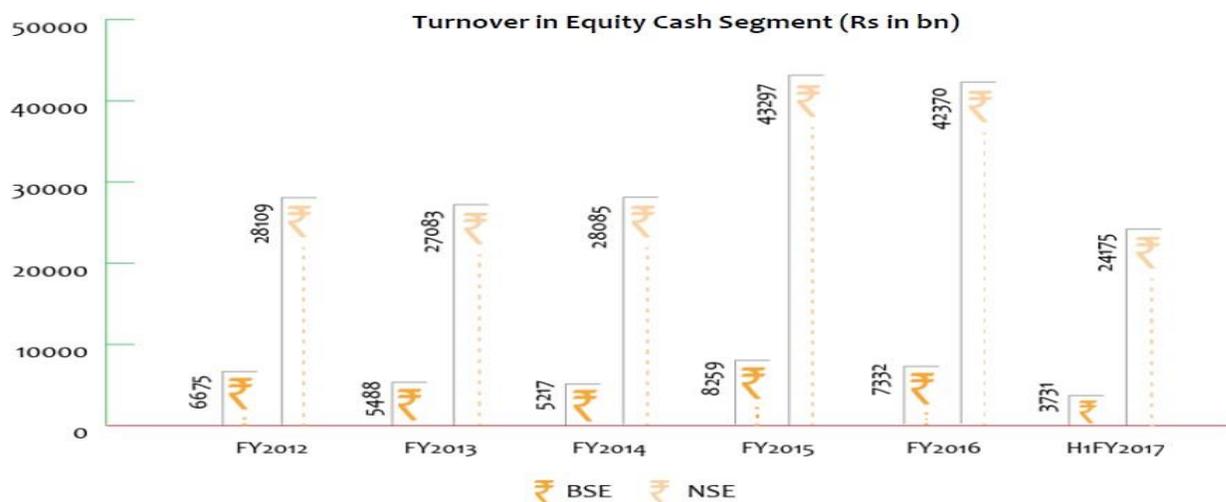
Indian Exchange Industry:

India is in sweet spot and one of the preferred global investment destinations given its macro-economic stability, long-term growth prospects and ongoing economic and social reforms. With India's GDP growing at a rate of 7% to 8% in the current financial year, India is one of the fastest growing economies in the world compared to the relatively muted growth of other major global economies. We expect the growth of the Indian economy to attract foreign investments in coming years. Global events such as Brexit are also expected to attract new investors to India given slower growth in the European continent. Given the rise in the Indian capital markets, 269 new Foreign Portfolio Investors ("FPIs") registered with SEBI in April 2016.

Globally, there are over 70 major stock exchanges with a market capitalization of more than US\$5 billion. The total global market capitalization of WFE member exchanges aggregated to US\$66 trillion at the end of June 2016. The Intercontinental Exchange: NYSE dominates with a market capitalization of about US\$18.7 trillion at the end of June 2016. In terms of turnover, the Shanghai Stock Exchange topped the list with a turnover of about US\$21.3 trillion in 2015. The BSE Limited was the largest exchange in the world in terms of number of listed companies at the end of December 2015, with 5,836 companies.

Equity - Cash Segment

The two major stock exchanges in India are the BSE and the NSE. The market capitalisation of both stock exchanges has gradually increased in line with a rise in trading activities and increasing share prices for listed companies. NSE is leader in equity cash segment.



Primary Market

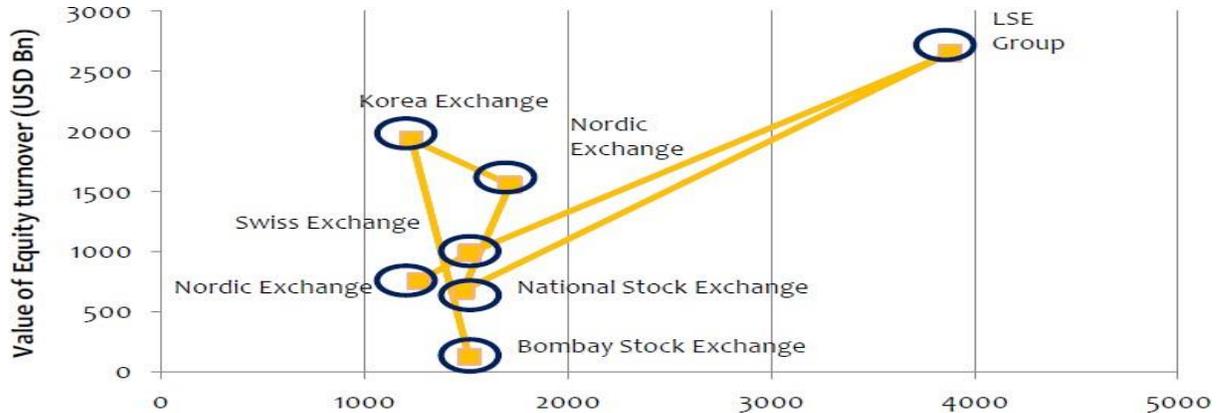
The number of listed companies in the BSE and the NSE has grown over the period of FY2012 to FY2016, resulting in the rise of market capitalisation of both exchanges. From 5,133 companies listed on BSE in FY2012, this number has increased to 5,911 in FY2016. On NSE, the number of listed entities increased from 1,646 in FY 2012 to 1,808 in FY2016. As at the end of September 30, 2016, there were 5,844 and 1,822 listed entities on the BSE and NSE, respectively.

Period	Category – wise				Total	
	Public		Rights			
	No. of comp.	Amount (INR. Million)	No. of comp.	Amount (INR. Million)	No. of comp.	Amount (INR. Million)
FY2011	68	5,81,050	23	95,030	91	6,76,090
FY2012	55	4,60,930	16	23,750	71	4,84,680
FY2013	53	2,35,100	16	89,450	69	3,24,550
FY2014	75	5,10,750	15	45,760	90	5,56,520
FY2015	70	1,24,520	18	67,500	88	1,92,020
FY2016	95	4,89,280	13	92,390	108	5,81,670
1HFY2017	67	4,12,100	3	6,180	70	4,18,280

Global peer comparison

Bombay Stock Exchange has lowest figures in both the variables i.e. value of equity turnover (USD Bn) and market capitalization of listed companies (USD Bn). BSE has market cap of listed companies at around USD 1516 Bn in FY15 with value of equity turnover at USD 121 Bn while NSE has market cap of listed companies at USD 1485 Bn in FY15 with accelerating value of equity turnover at USD 677 Bn. This shows poor performance of BSE in equity segment compared to country peer National Stock Exchange (NSE) which even though having similar market capitalization of listed companies has almost 5x value of equity turnover.

Marketcap of listed companies (USD Bn)



Financials

Profit & Loss

Particulars(Rs.Cr)	FY15	FY16	FY17	FY18E	FY19E
Net Sales	361.14	424.79	517.23	418.83	498.56
EBITDA	290.06	277.42	334.89	287.59	345.14
PBT	220.92	211.94	304.66	279.80	337.71
PAT	155.53	132.93	220.57	229.59	298.99
EPS	14.49	12.39	20.56	21.40	27.86

Balance Sheet

Particulars(Rs.Cr)	FY15	FY16	FY17	FY18E	FY19E
Share Capital	107.30	107.40	107.60	107.60	107.60
Reserves & Surplus	2424.52	2512.19	2651.64	3160.99	3233.08
Core Settlement Guarantee Fund	136.91	176.05	204.52	267.28	267.28
Non-controlling Interest	198.64	237.27	290.88	304.13	304.1
Deferred Tax Liabilities (net)	2.67	3.26	0.00	0.00	0.00
Other Long-term Liabilities	49.32	8.13	8.78	8.78	8.78
Deposits from Members and other Deposits	129.27	150.12	155.97	159.09	162.27
Clearing and Settlement	654.63	624.65	1179.97	1140.81	1163.6
Other Current Liabilities	545.64	475.98	635.49	654.40	778.39
Total Liabilities	4248.9	4295.05	5234.85	5803.08	6025.16
Total Fixed Assets	169.19	136.38	150.25	157.76	165.65
Goodwill	85.04	85.04	85.04	85.04	85.04
Investments	2276.18	2114.82	1996.19	2195.81	2415.39
Cash & Bank	1452.48	1299.33	2425.76	2785.31	2675.0
Deferred Tax(Net)	6.31	5.84	18.89	18.89	18.89
Other Assets	259.70	653.60	558.70	560.3	665.2
Total Assets	4248.90	4295.0	5234.8	5803.1	6025.2

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