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Q1FY22 result review
and reco change

Exchanges

Target price: Rs1,200

Target price revision

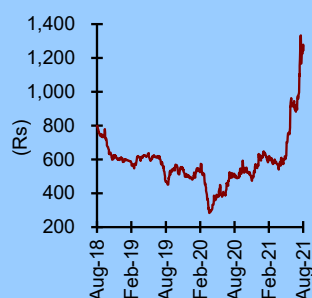
Rs1,200 from Rs577

Shareholding pattern

	Dec '19	Mar '21	Jun '21
Trading members	29.0	26.5	27.4
Institutional investors	17.0	14.7	14.4
MFs and other	1.1	1.2	1.2
FIs / Banks	0.1	0.1	0.1
Insurance Cos.	0.3	0.3	0.4
FII	12.9	11.4	11.0
Other Inst.	2.6	1.7	1.7
Others	54.0	58.8	58.2

Source: BSE, NSE

Price chart



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INDIA



BSE Limited

HOLD

Downgrade from ADD

Strong business momentum from macro tailwinds as well as executions

Rs1,218

BSE Limited (BSE) is on a strong business momentum from market share and overall volumes in equities as well as new segments like commodity options and GIFT city. The value of CDSL has also increased substantially, in-line with momentum in capital market activity, which also increases BSE's valuation. We do an SoTP-based valuation of BSE as follows: (1) ~20x multiple to core earnings (excluding other income), (2) BSE's 20% stake in CDSL at our target price (Rs1,164 per share) post a holding company discount of 20%, and (3) free cash of Rs20bn (Rs456/share) to arrive at a target price of Rs1,200 (earlier: Rs577). Recommend HOLD.

- **Q1FY22 exhibited positive all-round performance, BSE StAR MF reported lower revenue growth due to decline in realisations:** Q1FY22 transaction charges grew at robust pace of 93% led by strong growth in volumes. Equity cash ADTV / revenue grew 52% / 179% on account of revision in transaction charges. Interoperability aided improvement in cash market share for BSE. Introduction of weekly options with Monday expiry has helped BSE gain market share in equity derivatives segment. Revenue from currency derivatives segment grew 8% QoQ. BSE StAR MF platform transactions grew 90% while revenue declined 30% YoY due to lower realisations. Commodity options clocked strong revenue growth; however, BSE has abstained itself to charge in this segment. Charging in this segment will be growth optionalities going forward.
- **Expect core revenue to clock 13% CAGR between FY21-23 leading to Rs2.2bn PAT in FY23:** We expect total transaction charges to grow 39% / 25% led by higher revision in equity cash transaction charges. We expect revenue from BSE StAR MF to grow ~50% CAGR, in-line with growth in number of transactions. We expect EBITDA margin (ex -investment income) to grow from 14% in FY21 to 20.5% and 22% in FY22 and FY23. This will translate to PAT of Rs1.8bn / Rs2.2bn in FY22/23. Core PAT is expected to be Rs808mn / Rs1bn in FY22/23 compared to Rs305mn/Rs667mn in Q1FY21/FY21, respectively.
- **There is an overall macro tailwind and also turnaround signs in exchange business. Core valuations have reflected that.** The absolute levels of cash/derivative volume (in ADTV terms) of BSE was Rs42bn/1.4trn in FY21 compared to Rs26.8bn/10.6bn in FY20 and Rs31.3bn/91mn in FY19. Q1FY22 run rate of Rs57bn/3.2trn will itself lead to 35/123% YoY growth in cash/derivative volumes in FY22. Additionally, the equity cash/derivative market share of BSE has improved from 6.8%/0.1% in FY20 and 6.4%/5.2% in FY21 to 7.2%/6.5% in Q1FY22. The commodity options volumes (ADTV terms) have reached to Rs33bn in Q1FY22 compared to Rs28bn in FY21. The volumes in GIFT city (ADTV terms) have been US\$12bn in Q1FY22 with market share of 100% (on bonds trading platform) vs US\$7bn in FY21. Accordingly, the core valuations of BSE (ex-cash and CDSL) turned positive in FY22 after being negative from mid FY20 to FY21. (Refer chart 1 below for details).

Market Cap	Rs54.8bn/US\$739mn
Reuters/Bloomberg	BSE.BO / BSE IN
Shares Outstanding (mn)	45.0
52-week Range (Rs)	1333/473
Free Float (%)	69.1
FII (%)	11.5
Daily Volume (US\$/'000)	14,247
Absolute Return 3m (%)	81.3
Absolute Return 12m (%)	149.0
Sensex Return 3m (%)	11.6
Sensex Return 12m (%)	44.3

Year to Mar (Cons)	FY20	FY21	FY22E	FY23E
Revenue (Rs mn)	6,092	6,305	6,835	7,857
Rec. Net Income (Rs mn)	1,303	1,931	1,763	2,191
Rec. EPS (Rs)	29.0	42.9	39.2	48.7
% Chg YoY	(37.3)	48.1	(8.7)	24.3
P/E (x)	42.1	28.4	31.1	25.1
CEPS (Rs)	40.3	55.8	53.1	63.7
EV/E (x)	324.9	40.8	25.3	21.2
Dividend Yield (%)	1.4	1.2	1.6	1.6
RoCE (%)	3.3	5.2	4.7	5.7
RoE (%)	4.9	7.8	7.0	8.5

Please refer to important disclosures at the end of this report

Table 1: Q1FY22 result review*(Rs mn, year ending March 31)*

	Q1FY22	Q1FY21	% YoY	Q4FY22	% QoQ
Operating income	1,570	1,032	52.1	1,522	3.1
Inv. and deposits income	229	544	(57.9)	131	74.7
Net revenues	1,798	1,576	14.1	1,653	8.8
Employee costs	414	376	9.9	373	10.9
% of sales	23.0	23.9	-88 bps	22.6	43 bps
Technology expenses	246	262	(6.0)	199	23.7
% of sales	13.7	16.6	-294 bps	12.1	165 bps
Other expenditure	402	472	(14.7)	489	(17.7)
% of sales	22.4	29.9	-757 bps	29.6	-720 bps
Total expenditure	1,063	1,111	(4.3)	1,061	0.1
EBITDA	736	465	58.2	592	24.4
<i>EBITDA margin (%)</i>	<i>40.9</i>	<i>29.5</i>	<i>1139 bps</i>	<i>35.8</i>	<i>512 bps</i>
Other income	59	45	29.7	47	24.5
PBDIT	795	511	55.6	639	24.4
Depreciation	116	132	(12.7)	153	(24.3)
PBIT	679	378	79.6	486	39.6
Interest	42	22	90.0	28	50.0
PBT	637	356	78.9	458	39.0
Tax	161	73	119.1	165	(2.7)
% of PBT	25.2	20.6	462 bps	36.0	-1082 bps
PAT before share of assc.	477	283	68.5	293	62.5
Exceptional & EO items	(94)	(59)		(88)	
Share of Assoc./JV and MI	152	108		121	
Reported PAT after MI	534	332	<i>nm</i>	326	64.0
Adjusted PAT after MI	628	391	<i>60.7</i>	414	51.8
Reported EPS (Rs)	11.9	7.4	<i>nm</i>	7.2	64.0

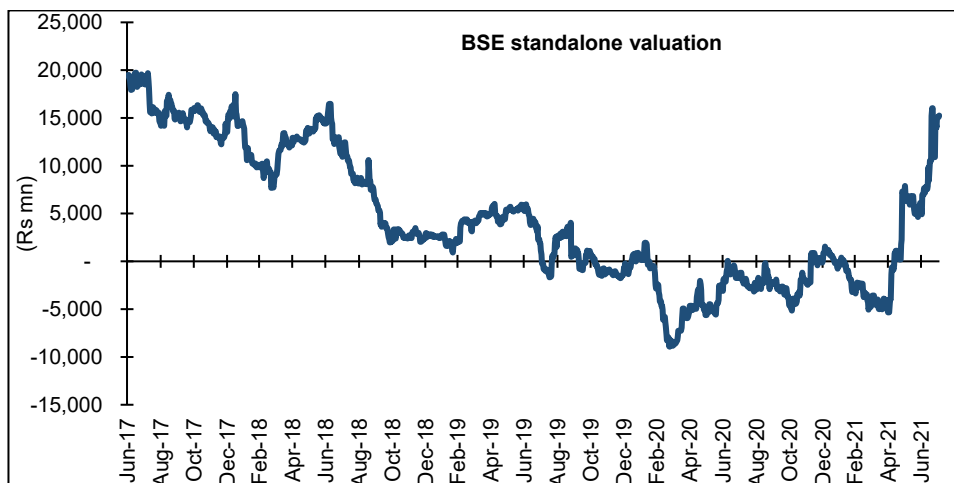
Source: Company data, I-Sec research

Table 2: Revenue by segment*(Rs mn, year ending March 31)*

	Q1FY22	Q1FY21	% YoY	Q4FY22	% QoQ
Securities Services	843	463	82.1	712	18.4
Services to Corporates	585	416	40.6	662	(11.6)
Data Dissemination	141	153	(7.8)	145	(2.8)
Investments and Deposits Income	229	544	(57.9)	131	74.8
Total	1,798	1,576	14.1	1,650	9.0

Source: Company data, I-Sec research

Note: Data dissemination charges are calculated on approximation basis as break is not available.

Chart 1: BSE standalone valuation

Note: For calculating BSE valuation of core business, we have deducted CDSL valuation (post 20% holding co discount and value of cash and investment from total market cap of BSE)

Source: Capital Line

Valuation

We do an SoTP-based valuation of BSE as follows: (1) ~20x multiple to core earnings (excluding other income), (2) BSE's 20% stake in CDSL at our target price (Rs1,164 per share) post a holding company discount of 20%, and (3) free cash of Rs20bn (Rs456/share) to arrive at a target price of Rs1,200(earlier: Rs577).

Table 3: Valuation based on core earnings

Valuation based on core earnings ex-CDSL	FY22
Core EPS ex-CDSL (Rs) *	15.5
Target P/E (x)	20.0
BSE core value per share (Rs)	310
CDSL market cap at our target price (Rs mn)	1,21,638
Holding Co. discount (%)	20.0
Value of CDSL (20% holding) (Rs mn)	19,462
Value of CDSL per share (post holding co. discount) (Rs)	432
Own cash (Cash minus margin money) (Rs mn)	20,523
Own cash per share (Rs)	456
TP (Rs per share)	1200

Source: Company data, I-Sec research

* Excludes annual expenses attributable to India INX, GIFT City

Table 4: Own cash

<i>(Rs mn)</i>	FY21	FY22E	FY23E
Cash	33,488	33,899	34,795
(-)SGF	5,391	5,591	5,791
(-)Margin Money	9,212	8,808	8,480
Total Own cash	18,884	19,500	20,523

Source: Company data, I-Sec research

Financial summary (consolidated)

Table 5: Profit & loss statement
(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Net Revenues	6,092	6,305	6,835	7,857
Operating Expenses	4,597	4,289	4,521	5,039
EBITDA	1,495	2,016	2,315	2,817
% margins	24.5%	32.0%	33.9%	35.9%
Core EBITDA	116	967	1,428	1,656
Depreciation & Amortisation	510	579	626	673
Gross Interest	24	103	103	103
Other Income	208	242	261	300
Recurring PBT	1,169	1,576	1,847	2,341
Less: Taxes	149	109	462	585
Add: Share of profit/loss in associates	283	464	378	435
Add: Share of CDSL	-	-	-	-
Recurring Net Income	1,303	1,931	1,763	2,191
Extraordinaries (Net)	80	482	-	-
Net Income (Reported)	1,223	1,449	1,763	2,191

Source: Company data, I-Sec research

Table 6: Balance sheet
(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Assets				
Total Current Assets	29,216	31,509	32,155	33,493
of which cash & cash eqv.	16,092	19,269	16,288	16,406
Total Current Liabilities & Provisions	15,855	15,455	16,162	17,121
Net Current Assets	13,361	16,054	15,993	16,372
Investments	7,402	6,204	6,466	6,747
Investment in Associate / JV	3,862	4,220	4,901	5,684
Other Non-current Assets	2,159	2,462	2,462	2,462
Net Fixed Assets	1,235	1,141	815	442
Capital Work-in-Progress	83	2	2	2
Goodwill and Other				
Intangibles	802	733	733	733
Total Assets	28,904	30,817	31,373	32,442
Liabilities				
Borrowings	-	-	-	-
Core Settlement Guarantee Fund	4,354	5,391	5,591	5,791
Deferred Tax Liability	-	-	-	-
Other Non-current liabilities	113	124	136	150
Minority Interest	186	235	235	235
Equity Share Capital	90	90	90	90
Face Value per share (Rs)	2	2	2	2
Reserves & Surplus	24,161	24,976	25,319	26,175
Net Worth	24,251	25,066	25,409	26,265
Total Liabilities	28,904	30,817	31,373	32,442

Source: Company data, I-Sec research

Table 7: Quarterly trends
(Rs mn, year ending March 31)

	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Total Income	1,499	1,577	1,653	1,798
% growth (YoY)	-2.7	9.6	10.1	14.1
EBITDA	469	490	592	736
Margin (%)	31.3	31.1	35.8	40.9
Other income	105	45	47	59
Add: Extraordinaries	237	97	88	94
Net profit	468	324	326	534

Source: Company data, I-Sec research

Table 8: Cashflow statement
(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Operating Cashflow	400	2,386	2,224	2,643
Working Capital Changes	4,016	(1,152)	469	709
Capital Commitments	(451)	(404)	(300)	(300)
Free Cashflow	3,966	831	2,393	3,052
Cashflow from Investing Activities	2,515	2,949	(4,332)	(2,034)
Change in Reserves	(5,103)	72	(142)	(0)
Inc (Dec) in Borrowings	-	-	-	-
Dividend paid	(765)	(675)	(900)	(900)
Change in Deferred Tax Liability	-	-	-	-
Chg. in Cash & Bank balance	612	3,177	(2,981)	118

Source: Company data, I-Sec research

Table 9: Key ratios
(Year ending March 31)

	FY19	FY20	FY21E	FY22E
Per Share Data (Rs)				
EPS	29.0	42.9	39.2	48.7
Cash EPS	40.3	55.8	53.1	63.7
Core EPS (ex-CDSL)	-8.1	5.9	11.6	14.7
Dividend per share (DPS)	17.0	15.0	20.0	20.0
Book Value per share (BV)	444.3	459.2	465.5	481.2
Growth (%)				
Net Sales	-6.6	3.5	8.4	14.9
EBITDA	-31.7	34.9	14.8	21.7
PAT	-37.3	48.1	-8.7	24.3
Cash EPS	-29.9	38.4	-4.8	19.9
Valuation Ratios (x)				
P/E	42.1	28.4	31.1	25.1
P/CEPS	30.3	21.9	23.0	19.2
P/BV	2.7	2.66	2.62	2.5
EV / EBITDA	324.9	40.8	25.3	21.2
EV / Sales	4.4	4.0	3.7	3.0
Operating Ratios				
Employee cost / Sales (%)	24.8	23.6	22.5	21.2
SG&A / Sales (%)	50.6	44.4	43.7	43.0
Other Income / PBT (%)	17.8	15.4	14.1	12.8
Effective Tax Rate (%)	12.7	6.9	25.0	25.0
Receivables (days)	41.4	50.0	52.3	51.2
Payables (days)	88.5	126.1	134.3	133.5
Net D/E Ratio (x)	0.0	0.0	0.0	0.0

Return/Profitability Ratios (%)

Net Income Margins	21.4	30.6	25.8	27.9
RoACE	3.3	5.2	4.7	5.7
RoAE	4.9	7.8	7.0	8.5
Dividend Payout	75.0	46.0	65.0	51.3
Dividend Yield	1.4	1.2	1.6	1.6
EBITDA Margins	24.5	32.0	33.9	35.9

Source: Company data, I-Sec research

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