

**BSE Limited**  
**IPO Note**  
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**Analyst:**

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# IPO details

Key Data	
Issue Opens	23-Jan-17
Issue Closes	25-Jan-17
Equity Shares Offered (in mn.)	15.43
QIB	Up to 50%
NIB	Min 15%
Retail	Min 35%
Face Value (₹)	2
Price Band (₹)	805-806
Max. Issue Size (₹ mn)	12,434
Lot Size (Eq. Shares)	18 and multiple thereof

Valuation	@ ₹805 per share	@ ₹806 per share
Market Cap (₹ mn)	43,943	43,998
Net Debt (₹ mn)	0	0
Enterprise Value (₹ mn)	43,943	43,998
EV/ Sales	7.1	7.1
EV/ EBIDTA	17.0	17.0
P/B	1.8	1.8
P/E	35.9	35.9

Source: Red Herring Prospectus, Destimoney Research

	Pre Issue		Post Issue <sup>^</sup>	
	# mn Shares	% Holding	# mn Shares	% Holding
Public & Trading Members	54.6	100.0%	39.2	71.8%
Offer For Sale			15.4	28.3%
Total	54.6	100.0%	54.6	100.0%

## Object of Offer for sale

- To enhance company's visibility and brand
- Will not receive any proceeds of the Offer

<sup>^</sup>NOTE: Valuation Parameters considered are fully subscribed issue for FY16 financials

# BSE is Asia's first and oldest stock exchange

- ❑ BSE exchange platform (formerly, the Bombay Stock Exchange), is the first stock exchange in Asia, which was formed on July 9, 1875. As of June 30, 2016, the BSE was the world's largest exchange by number of listed companies, and India's largest and the world's 11th largest exchange by market capitalization, with US\$ 1.52 trillion in total market capitalization of listed companies.
- ❑ BSE operate in three primary lines of business, namely:
  - **Listing business**, which consists of the primary market, which relates to the issuance of new securities.
  - **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"), its 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, membership in its clearing corporation ICCL, and 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.
- ❑ As at June 30, 2016, the BSE had 1,440 unique members across all segments, and in Fiscal Year 2016 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.
- ❑ BSE derives revenue from a number of sources, including securities services, services to corporate, data dissemination fees, investments and deposits, and other sources. In FY2016, revenue from operations (comprised of revenue from securities services, services to corporate and data dissemination fees), income from investments and deposits and other income comprised of 64.8%, 28.8% and 6.4% of its total revenue, respectively.
- ❑ The offering will allow individuals and institutions to own a slice of the exchange, Currently, Multi Commodity Exchange of India (MCX) is the only listed entity in the exchange space. Meanwhile, the National Stock Exchange (NSE) is also in the process of going public. Though it is expanding its line of business in derivatives it has been facing stiff competition from NSE which has near monopoly in the equity derivatives. The bourse has shown subdued performance of 3 per cent CAGR growth over FY12-16. The exchange lags in financial performances as it operates at 49 per cent and 26 per cent EBITDA and PAT margins, respectively, as compared to its peer NSE's 74 per cent and 49 per cent margins, respectively. It has zero debt and a huge cash reserve of `16101 million. On the valuation front, considering upper band of Rs 806 the stock is available at P/E of 36x on FY16 earnings it is at a discount to its near listed peer MCX which has P/E of 46x ,we recommend **SUBSCRIBE** to the IPO listing on long term perspective.

Source: Red Herring Prospectus, ACE Equity

# Top 10 Shareholders

Name	No. of Equity Shares	Percentage of shareholding (%)
Deutsche Boerse	5,098,886	4.7
Singapore Exchange	5,098,886	4.7
State Bank of India	5,097,365	4.7
Life Insurance Corporation of India	5,019,443	4.7
GKFF Ventures	4,913,863	4.6
Quantum (M) Limited	4,015,544	3.7
Caldwell India Holdings Inc.	4,015,544	3.7
Atticus Mauritius Limited	4,015,544	3.7
Acacia Banyan Partners Limited	4,015,544	3.7
Bajaj Holdings and Investment Limited	3,006,796	2.8
<b>Total</b>	<b>44,297,415</b>	<b>41.3</b>

Source: Red Herring Prospectus, ACE Equity

# Strengths of BSE

- ❑ *Strong brand recognition:* the most recognizable brand names in India. companies. According to CARE Research, the BSE ranks third globally in terms of currency options and futures contracts traded in 2015, with 430 million currency derivatives traded, a 103% increase from FY 2015. Further, our turnover from the interest rate derivatives market grew from ` 26 billion in FY2014 to ` 1,141 billion in FY2016.
- ❑ It introduced BSE StAR, its online platform for the placement of orders and redemptions of units in mutual funds, in December 2009. As at June 30, 2016, BSE StAR offers a platform to invest and redeem in 39 asset management companies ("AMCs") with 6,112 different mutual fund schemes. BSE SME platform, a platform for the listing and trading in shares of small and medium enterprises ("SMEs"), in March 2012, won the SKOCH Achiever Award for SME enablement in 2016.
- ❑ *Diversified and integrated business model:* operates a diversified and integrated business model including trading, clearing and settlement of products listed and traded on the BSE, as well as the provision of data products, IT services and solutions, index products and training. BSE's diversified and integrated business model provides us with an active relationship with market participants. Our alliance with exchanges in each of the "BRICS" nations (in addition to India, these are Brazil, Russia, China and South Africa) allows us to do so, and we plan to explore opportunities under the BRICS Exchange Alliance to further promote interaction and cooperation between the respective markets. Our efforts to actively engage with market participants have led to an increase in the number of unique members in our exchange, increasing from 1,375 as of the end of FY 2014 to 1,440 as of June 30, 2016..
- ❑ *State-of-the-art infrastructure and technology:* BSE has electronic systems for entry, trading, clearing and settlement and depository services and we continually seek to improve our core IT capabilities, the reliability and consistency. BSE's electronic systems includes BOLT+ a fully-automated online trading platform and precision time protocol, a time synchronization standard. All platforms are interconnected and operated through the same network and workstation, which helps to provide market participants with a seamless experience and efficient operations. To boost investor confidence and transparency, it has also implemented real-time risk management system, which conducts real time calculations of members' margins and limits. BSE also uses the standard portfolio analysis of risk ("SPAN") margin system, an industry-standard margin system used by over 30 exchanges and clearing organizations worldwide that is designed to evaluate the overall risk in a portfolio and accurately match margins to risk.

Source: Red Herring Prospectus, ACE Equity

# Future road ahead

- ❑ BSE intends to strengthen its position as a preferred exchange in India and expand its cross-border reach by entering into strategic alliances. Internationally, it has signed an agreement with Deutsche Boerse whereby they sell and market BSE market data and information to international clients. To expand its position in India, it has entered into a strategic partnership with S&P Dow Jones Indices LLC, USA ("SPDJI") to grow its index business by calculating, disseminating and licensing various of its index products, which has culminated in the formation of an India based joint venture, Asia Index Pvt. Ltd. Further, it is a member of the BRICS Exchanges Alliance, whereby leading exchange in Brazil, Russia, India, China and South Africa cross-list futures products based on the flagship indices of each of the other exchanges. Similarly, options and futures based on the S&P BSE SENSEX are listed and traded on Eurex and the Dubai Gold and Commodities Exchange, and it has entered into an MOU with the Korea Exchange to cooperate in other areas such as research, product development and information technology.
- ❑ BSE actively evaluates products and asset classes outside its traditional focus areas in order to diversify its revenue sources. By doing so, it would continue to attract market participants and issuers and to capture the significant revenue potential that comes with a broader product line, particularly derivative products. BSE is also looking to add commodity derivatives to its current portfolio of product offerings. It has applied to SEBI on June 12, 2015 to seek their approval to commence trading in commodities derivatives products and are awaiting approval.
- ❑ Diversify its product and service offerings and maintain new product innovation and development.
- ❑ Maintain and improve best-in-class platform infrastructure.
- ❑ Intend to establish an international exchange in the Gujarat International Finance Tech City – International Financial Service Centre ("GIFT City").
- ❑ Capture growth in the underpenetrated Indian financial markets.

Source: Red Herring Prospectus, ACE Equity

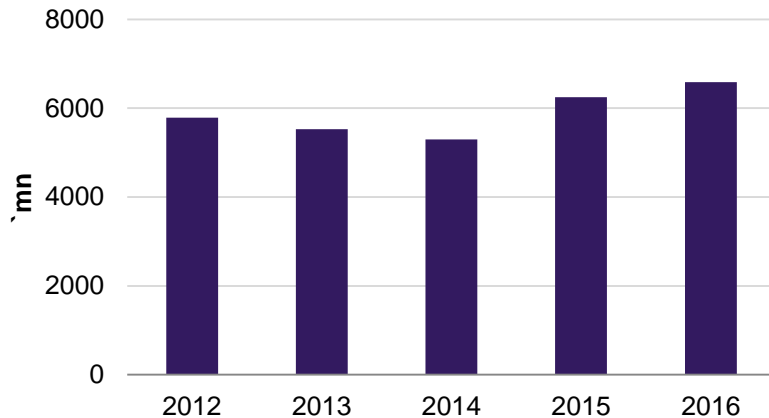
# Key growth drivers for Stock markets in India

- ❑ *Demographic Dividend:* India's favourable demographics dividend is a major strength of the economy, not only in terms of a fast-growing population but also its favourable composition. Further, India's working age population (population in between 15 to 60 years) constitutes more than 60% of the overall population. A rising working age population results in a boost to consumer spending in the economy.
- ❑ *Participation by retail investors:* One of the reasons for Indian investors' low preference for equity over other asset classes is the low level of financial awareness. In recent years, equity investments by Indian investors is slowly increasing due to specific tax breaks for equity investors and financial awareness programmes conducted by mutual fund houses and stock exchanges.
- ❑ *Initiatives by the Government of India:* Government of India allowed the Employee Provident Fund Organisation ("EPFO") to begin investing in equity markets to boost equity investments in India. EPFO investment in the stock market is expected to help the equity market as it gives greater stability and adds liquidity to the stock market.
- ❑ *Global inflow of funds:* Given the rise in the Indian capital markets, 269 new Foreign Portfolio Investors ("FPIs") registered with SEBI in April 2016. CARE expects 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.
- ❑ *Introduction of new products and initiatives:* There is room to introduce innovative derivative products like weather derivatives, energy derivatives and credit derivatives, which are currently traded in major exchanges worldwide. The availability of such new products would bring additional business volumes on the exchanges. Also as per SEBI norms, foreign institutional investors are not permitted to trade in currency futures. Going forward, gradual easing of this restriction by the regulatory bodies could add further volumes to the currency market.

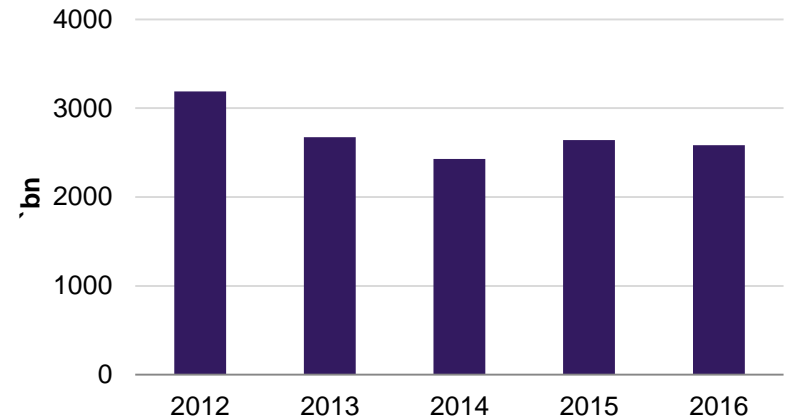
Source: Red Herring Prospectus, ACE Equity

# It has shown a growth in its revenue consistently

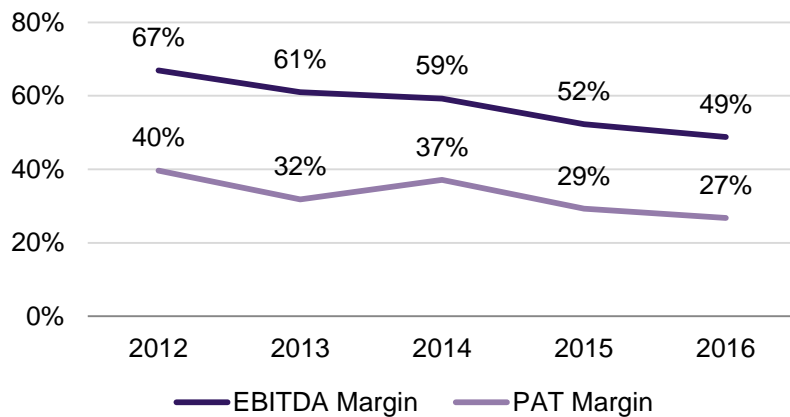
## Revenue Trend



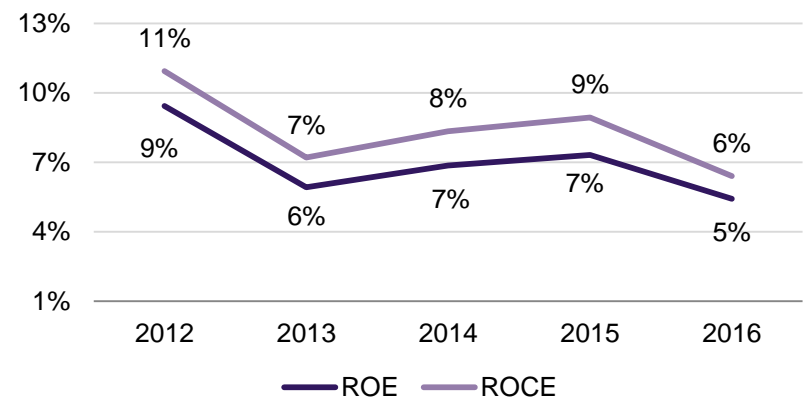
## Operating Profit



## Healthy Margins



## Return Ratios



Source: Red Herring Prospectus, ACE Equity



# Consolidated Summary Financials

## Income Statement

mn	As at Sept FY16	FY16	FY15	FY14
Total Income	3,534	6,162	5,837	4,851
COGS	-	-	-	-
Operating Expense	1,904	3,578	3,194	2,424
EBIDTA	1,630	2,584	2,643	2,427
Interest & Fin. Charges	6	7	7	4
Depreciation	246	617	588	324
Other Income	301	421	410	448
Exceptional items	208	466	508	613
PBT	1,471	1,916	1,951	1,934
Tax	224	324	438	340
Extraordinary item	-	-	-	(6)
PAT	1,248	1,592	1,514	1,600
Share of Minority	198	364	213	244
Share of loss of Associate	-	3	3	4
Net Profit	1,049	1,225	1,297	1,352

mn	As at Sept FY16	FY16	FY15	FY14
EBIDTA Margin	54.6%	48.8%	52.3%	59.3%
Net Margin	38.2%	26.7%	29.3%	37.1%
ROE	4.1%	5.0%	5.3%	5.7%
ROCE	5.6%	8.2%	8.7%	9.8%
EBIT	1,685	2,388	2,465	2,551

Source: Red Herring Prospectus

## Balance Sheet

mn	As at sept FY16	FY16	FY15	FY14
<b>Liabilities</b>				
Share capital	107	107	107	104
Reserves and surplus	25,422	24,385	24,502	23,604
Core Settlement	1,921	1,761	1,113	56
Share Application Money Pending Allotment	0	0	0	0
Minority Interest	2,277	2,223	1,986	1,875
Deferred tax liabilities	2	2	27	96
Other long term liabilities	537	521	450	286
Long term provisions	11	8	8	4
Long term borrowings	-	19	36	13
Deposits from Trading Members	173	190	190	310
Total outstanding dues of creditors other than SME	774	697	581	470
Other current liabilities	12,937	11,391	12,144	13,309
Short-term borrowings	-	-	-	-
Short-term provisions	362	767	831	582
<b>Total Liabilities</b>	<b>44,523</b>	<b>42,070</b>	<b>41,974</b>	<b>40,709</b>
<b>Assets</b>				
Net Block	1,397	1,435	1,363	851
CWIP	93	26	37	339
Intangible assets	179	185	292	202
Goodwill	850	850	850	850
Non- Current Investment	13,639	15,251	14,102	11,252
Other non-current assets	6	15	21	29
Deferred Tax Assets (Net)	114	108	63	47
Long term loans and advances	1,007	1,204	856	791
Current Investments	8,000	5,373	8,660	10,611
Trade receivables	639	480	360	344
Cash & bank balances	16,921	16,101	14,525	14,695
Short-term loans and advances	543	197	247	169
Other Current Assets	1,136	846	597	529
<b>Total Assets</b>	<b>44,523</b>	<b>42,070</b>	<b>41,974</b>	<b>40,709</b>

# Key Risks

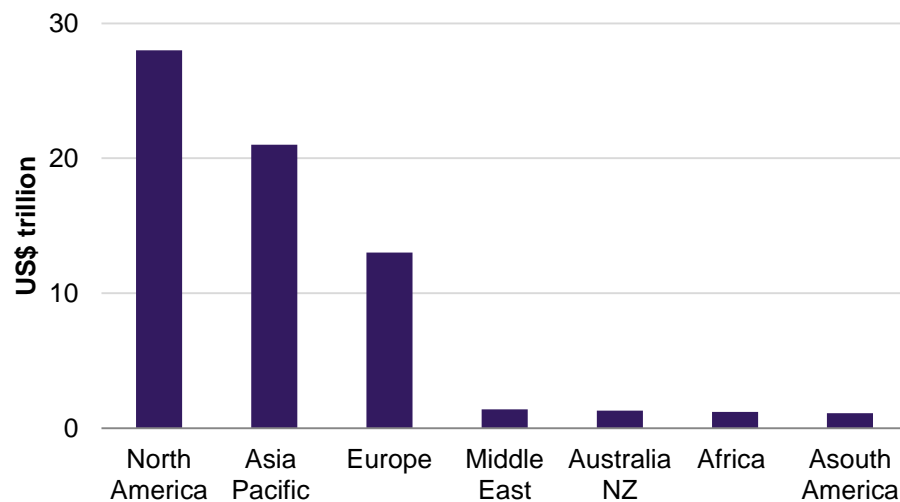
- ❑ Broad market trends and other factors beyond our control could significantly reduce demand for its services and harm its business, financial condition and results of operations.
- ❑ BSE's proposed international exchange in GIFT City is subject to numerous contingencies and uncertainties.
- ❑ Trading on BSE'S equity derivatives segment is less than that on the NSE and there is no guarantee that it can successfully compete in the equity derivatives segment against the NSE.
- ❑ BSE's existing products may lose market appeal and it may be unable to expand into new product lines or attract new types of investors
- ❑ Insufficient systems capacity and systems failures could materially adversely affect our business and reliance on third party service providers.
- ❑ Changes in regulations concerning BSE's ownership in CDSL may have a material adverse effect on BSE.

# Annexures

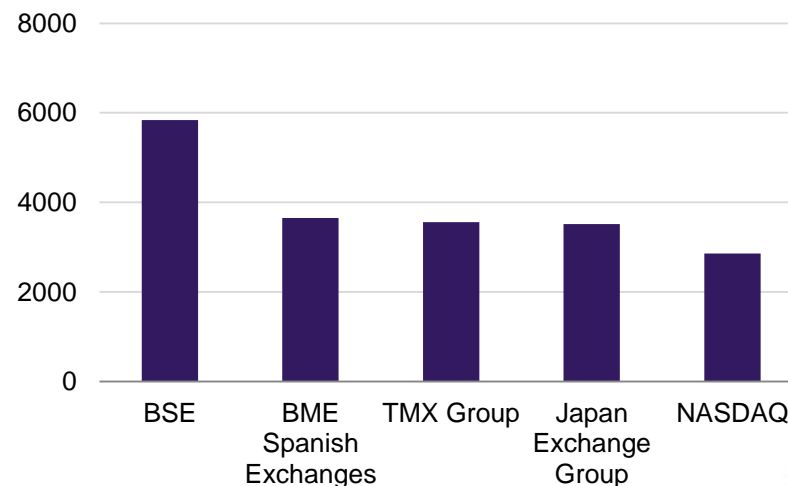
# Global Overview of exchange sector

- Globally, there are over 70 major stock exchanges with a market capitalisation of more than US\$5 billion. The total global market capitalisation of WFE member exchanges (the "WFE Exchanges") aggregated to US\$66 trillion at the end of June 2016 (Source: World Federation of Exchanges). 16 of these stock exchanges had a market capitalisation of above US\$1 trillion each. Market capitalisation of the aforementioned 70 major stock exchanges taken together accounted for 86% of the total global market capitalisation.
- The Intercontinental Exchange: NYSE ("ICE: NYSE") dominates with a market capitalisation of about US\$18.7 trillion at the end of June 2016. In terms of turnover (defined as the value of shares traded), 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.

Regionwise Market Capitalisation at the end of June 2016



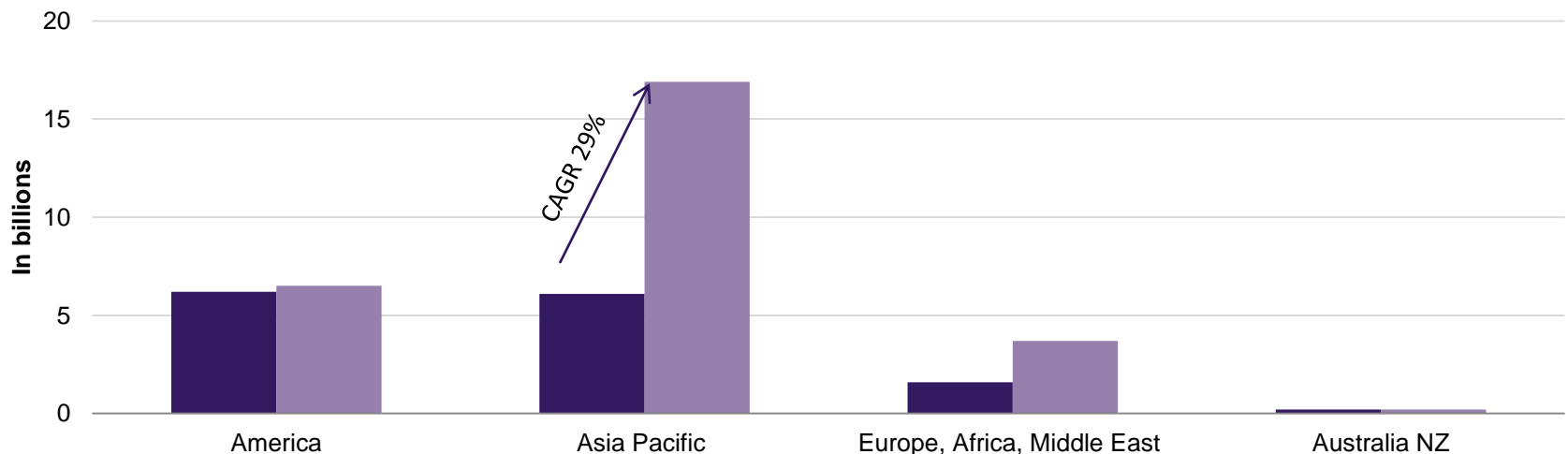
Number of listed companies on Exchanges



# Global Overview of exchange sector

- ❑ The total turnover of all exchanges worldwide grew from US\$78 trillion in 2011 to US\$114 trillion in 2015. Exchanges in Asia Pacific had the highest turnover in 2015 with US\$54 trillion. Turnover of exchanges in Asia Pacific increased substantially from US\$17 trillion in 2011 to US\$54 trillion in 2015, at a compounded annual growth rate ("CAGR") of 34%.
- ❑ In 2015, the total value of shares traded globally increased by 41% on a year-on-year basis. The rise is driven predominantly by trading activity in Asia Pacific, particularly in China. In 2015, the value of shares traded in Asia Pacific rose by 127% compared to that in 2014. The value of shares traded in China increased by 218% from US\$13.5 trillion in 2014 to US\$43 trillion in 2015.
- ❑ Over the period 2011 to 2015, the global number of trades grew from 14.1 billion in 2011 to 27.4 billion in 2015. On a year-on-year basis, the total number of trades increased by 56% from 17.5 billion in 2014 to 27.4 billion in 2015. Asia Pacific accounted for most of this growth, as the region witnessed a 117% rise in the number of trades from 7.9 billion trades in 2014 to 16.9 billion trades in 2015.

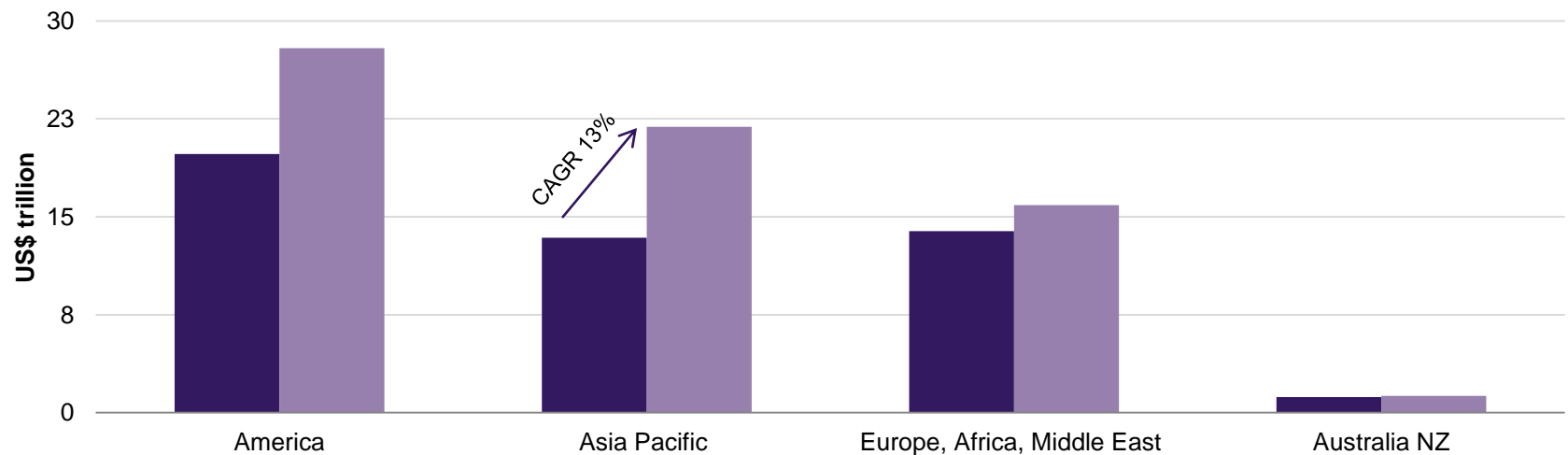
**Number of trades on stock exchanges in different regions**



# Global Overview of exchange sector

- The market capitalisation of domestic companies in Asia Pacific grew at CAGR of 11.5% from 2003 to 2015, as compared to the CAGR of market capitalisation of domestic companies in America (4.9%) and Europe, Middle East & Africa (5.4%). The market capitalisation surge in Asia Pacific was mainly driven by China. Despite the 108 turmoil in Chinese markets, this trend is expected to continue on account of the growth outlook of India and China.
- Market capitalisation of listed companies on exchanges in Asia Pacific grew at a CAGR of 13% from US\$13.4 trillion in 2011 to US\$21.9 trillion in 2015. The following chart shows trend of market capitalisation of different regions over the period 2011 to 2015.

Number of trades on stock exchanges in different regions



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