

Investing for the future

We maintain BUY on BSE based on in-line revenue and better margins. Increasing revenue contribution from StAR MF platform and rise in listing fee (exclusively listed) are positives. Buyback of Rs 4.6bn will be completed and tax applicable is only Rs 0.12bn (~3%). We arrive at a SoTP of Rs 655 at 25x core FY21E PAT plus Rs 134/share for stake in CDSL plus net-cash (ex-buyback and with 20% discount).

HIGHLIGHTS OF THE QUARTER

- Revenue is down 3.1% QoQ to Rs 1.12bn (vs. est. of Rs 1.15) led by 7.7% fall in services to corporate offset by 21.3% QoQ rise in transaction revenue.
- StAR MF revenue stood at Rs 119mn (+43.4% QoQ) led by price hike (+25%, Rs 9.8/transaction) and higher volumes (+14.1% QoQ). BSE's investment in StAR MF platform is yielding results. There is pricing power and it operates at a higher margin (~50%).
- BSE is struggling to maintain its equity cash market share, down 114/248 bps QoQ/YoY to 7.4%. However, interoperability of clearing corporations (effective July-19) might help in gaining some share (still a hope).
- EBITDA margin improved to 4.9% (est. 1.2%) vs. 2.1% last quarter, led by growth in higher-margin StAR MF. Investments in new initiatives and a drop in revenue led to steep fall in margins YoY (1060bps).

Financial Summary

| YE March (Rs mn) | 1QFY20 | 1QFY19 | YoY (%) | 4QFY19 | QoQ (%) | FY17 | FY18 | FY19 | FY20E | FY21E |
|------------------|--------|--------|---------|--------|---------|-------|-------|-------|-------|-------|
| Net Revenues | 1,121 | 1,148 | (2.3) | 1,157 | (3.1) | 3,937 | 5,072 | 4,503 | 5,003 | 5,596 |
| EBITDA | 55 | 178 | (69.2) | 24 | 126.4 | 359 | 1,302 | 291 | 573 | 884 |
| APAT | 451 | 543 | (17.0) | 557 | (19.1) | 2,197 | 2,399 | 2,077 | 1,956 | 2,237 |
| Diluted EPS (Rs) | 10.0 | 12.1 | (17.0) | 12.4 | (19.1) | 48.8 | 53.3 | 46.1 | 43.4 | 49.7 |
| P/E (x) | | | | | | 9.9 | 9.0 | 10.4 | 11.1 | 9.7 |
| EV / EBITDA (x) | | | | | | -23.9 | -3.4 | -9.3 | 3.9 | 2.9 |
| RoE (%) | | | | | | 8.3 | 7.8 | 7.1 | 7.9 | 9.2 |

Source: Company, HDFC sec Inst Research # Consolidated

- BSE has taken ~20% hike in annual listing fees for exclusively listed companies which will boost the annuity revenue stream (~40% of rev).
- INX is currently in investment mode (burning ~Rs 0.32bn annually). INX ADTV stood at USD 1.9bn (+9% QoQ) and number of daily trades was 44K (+79% QoQ). Revenue from INX will start contributing from FY21E.
- Near-term outlook:** Transaction revenue will grow fueled by StAR MF. EBITDA margin will recover gradually with growth and cost control.

STANCE: Traditional channel under stress, value emerging

BSE has been investing in future growth drivers like INX, Insurance distribution, SME and StAR MF. Out of these only StAR MF has started generating revenue while the rest would need more time. Incremental revenue from StAR MF, volume revival and higher listing fee should lead to revenue growth of 11.1/11.8% in FY20/21E. We expect some operating leverage to play out with growth (EBITDA margin of 11.4/15.8% for FY20/21E).

The stock is down 23% in the last 3M due to stress in the tradition revenue stream, continued investments despite slowdown and buyback tax. Value is emerging with net cash of Rs 20bn (~80% of MCap) and a dividend yield of ~7%. Risks include a rise in competition, loss of market share and an increase in investments.

| INDUSTRY | EXCHANGES |
|---------------------------------|----------------------|
| CMP (as on 2 Aug 2019) | Rs 481 |
| Target Price | Rs 655 |
| Nifty | 10,997 |
| Sensex | 37,118 |
| KEY STOCK DATA | |
| Bloomberg | BSE IN |
| No. of Shares (mn) | 52 |
| MCap (Rs bn) / (\$ mn) | 25/358 |
| 6m avg traded value (Rs mn) | 68 |
| STOCK PERFORMANCE (%) | |
| 52 Week high / low | Rs 826/475 |
| | 3M 6M 12M |
| Absolute (%) | (23.6) (18.2) (40.1) |
| Relative (%) | (18.8) (20.0) (40.0) |
| SHAREHOLDING PATTERN (%) | |
| | Mar-19 June-19 |
| Promoters | 0.00 0.00 |
| FIs & Local MFs | 10.29 9.90 |
| FPIs | 19.07 19.56 |
| Public & Others | 70.64 70.54 |
| Pledged Shares | 0.00 0.00 |
| Source : BSE | |

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Revenue was down 3.1/2.1% QoQ/YoY to Rs 1.12bn led by fall in services to corporate revenue (-7.7% QoQ) and higher security services (+2.2% QoQ)

EBITDA margin stood at 4.9% +279bps QoQ due to fall in other operating expenses (provisions of Rs 0.2mn vs. Rs 25mn last quarter)

Employee cost was up 11.4% YoY led by investments in new initiatives, growth in total cost will be 5-6% YoY

Total exposure to IL&FS group is Rs 0.17bn out of which provisions of Rs 0.12bn have been provided

APAT for the quarter stood at Rs 0.45bn down 19.1% QoQ led by lower other income (-16.5% QoQ) and associate profit (CDSL -19.7% QoQ)

Other income for 4QFY19 includes Rs 66mn tax refunds, adjusted other income is down only 6% QoQ

Quarterly Consolidated Financials Snapshot

| YE March (Rs mn) | 1QFY20 | 1QFY19 | YoY (%) | 4QFY19 | QoQ (%) |
|---|--------------|--------------|----------------|--------------|---------------|
| Total Revenue | 1,121 | 1,148 | (2.3) | 1,157 | (3.1) |
| Employee Cost | 376 | 337 | 11.4 | 355 | 5.9 |
| Technology Expenses | 300 | 281 | 6.8 | 277 | 8.0 |
| Other Operating Expenses | 391 | 352 | 11.0 | 500 | (21.8) |
| EBITDA | 55 | 178 | (69.2) | 24 | 126.4 |
| Depreciation | 120 | 115 | 4.0 | 147 | (18.6) |
| EBIT | -65 | 63 | (203.3) | -123 | (47.2) |
| Interest Cost | 5 | 2 | 166.7 | 2 | 152.6 |
| Other Income | 501 | 466 | 7.4 | 600 | (16.5) |
| PBT | 431 | 527 | (18.2) | 475 | (9.3) |
| Tax | 88 | 70 | 25.8 | 44 | 99.5 |
| Share of Profit Loss from JV & Associates | 70 | 58 | 20.8 | 87 | (19.7) |
| Minority Interest | 0 | 0 | NM | 0 | NA |
| RPAT | 413 | 515 | (19.8) | 519 | (20.3) |
| E/o gains (adj for tax) | 38 | 28 | NM | 39 | (3.4) |
| APAT | 451 | 543 | (17.0) | 557 | (19.1) |

Source: Company, HDFC sec Inst Research

Margin Analysis

| MARGIN ANALYSIS | 1QFY20 | 1QFY19 | YoY (bps) | 4QFY19 | QoQ (bps) |
|----------------------------------|--------|--------|-----------|--------|-----------|
| Employee Cost % of Net Rev | 33.5 | 29.4 | 413 | 30.7 | 284 |
| Technology Expenses % of Net Rev | 26.7 | 24.4 | 228 | 24.0 | 275 |
| Other Operating Exp % of Net Rev | 34.9 | 30.7 | 419 | 43.3 | (838) |
| EBITDA Margin (%) | 4.9 | 15.5 | (1060) | 2.1 | 279 |
| EBIT Margin (%) | (5.8) | 5.5 | (1124) | (10.6) | 484 |
| Tax Rate (%) | 20.5 | 13.3 | 715 | 9.3 | 1116 |
| APAT Margin (%) | 40.2 | 47.3 | (713) | 48.2 | (799) |

Source: Company, HDFC sec Inst Research

Transaction charges were up 21.3% QoQ boosted by StAR MF (+43.4% QoQ)

Interoperability of clearing corporation will help BSE gain some market share in the cash segment

Listing revenue was down due to compulsory de-listing of companies

Cash market share is in single digit for the last five quarters

Total cash ADTV was up 2.9% QoQ to Rs 364.22bn while BSE ADTV was down 13.8% QoQ to Rs 26.83bn (lowest in the last four years)

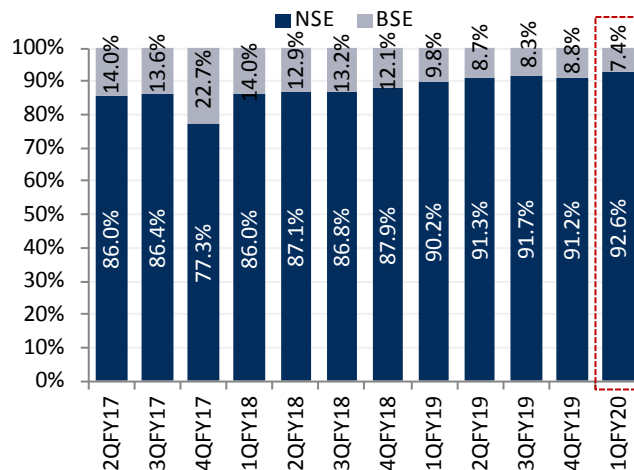
NSE ADTV was also up 4.5% QoQ to Rs 337.39bn

Segmental Revenue Analysis

| Rs mn | 1QFY20 | 1QFY19 | YoY (%) | 4QFY19 | QoQ (%) | FY19 | FY18 | YoY (%) |
|--|--------------|--------------|---------------|--------------|--------------|--------------|--------------|---------------|
| Transaction Charges | 348 | 274 | 27.0 | 287 | 21.3 | 1,139 | 1,581 | (28.0) |
| Treasury Income | 74 | 89 | (16.9) | 72 | 2.8 | 307 | 408 | (24.8) |
| Other Income | 45 | 82 | (45.1) | 98 | (54.1) | 269 | 311 | (13.5) |
| Total Security Services (A) | 467 | 445 | 4.9 | 457 | 2.2 | 1,715 | 2,300 | (25.4) |
| Annual listing | 438 | 512 | (14.5) | 443 | (1.1) | 1,881 | 1,776 | 5.9 |
| Book building | 43 | 32 | 34.4 | 48 | (10.4) | 149 | 331 | (55.0) |
| Other Services | 11 | 17 | (35.3) | 42 | (73.7) | 102 | 100 | 2.0 |
| Total Services to corporate (B) | 492 | 561 | (12.3) | 533 | (7.7) | 2,132 | 2,207 | (3.4) |
| Data Feed +Others (C) | 162 | 142 | 14.5 | 167 | (2.8) | 656 | 565 | 16.1 |
| Total Revenue (A+B+C) | 1,121 | 1,148 | (2.3) | 1,157 | (3.1) | 4,503 | 5,072 | (11.2) |

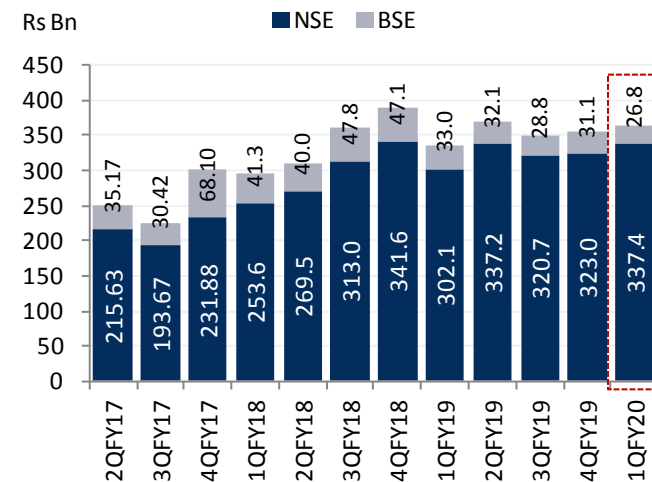
Source: Company, HDFC sec Inst Research

BSE Cash Market Share: Under Stress



Source: BSE, NSE, HDFC sec Inst Research

Cash ADTV: BSE Losing The Ground



Source: BSE, NSE, HDFC sec Inst Research

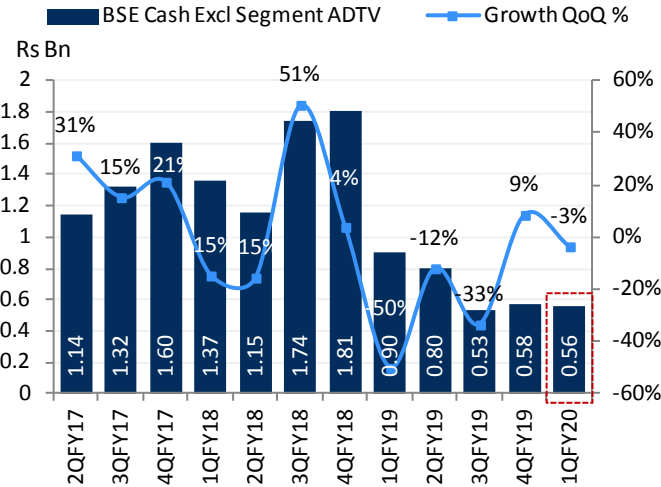
Exclusive listed stock volume was down 3% QoQ but fall in non-exclusive was more steep (-14% QoQ)

BSE has been able to grab currency market share, gained 566bps in the quarter to touch 47.8%

Revenue from currency stood at Rs 16mn down 11.1% QoQ despite higher volume

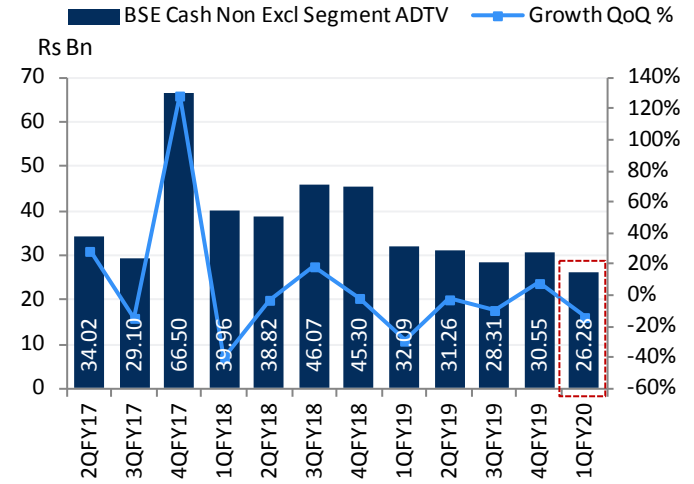
Total currency ADTV was up 1.1% QoQ while BSE ADTV was up 14.7% QoQ

Exclusive Segment Volume: Stable For Three Quarters



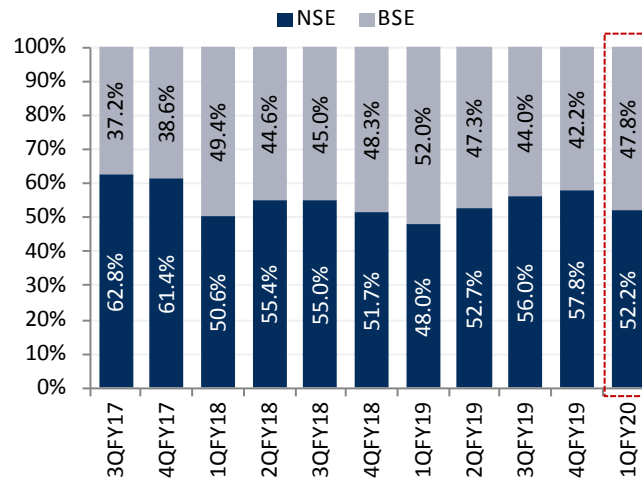
Source: BSE, HDFC sec Inst Research

Non-Exclusive Segment Volume: On Downward Trend



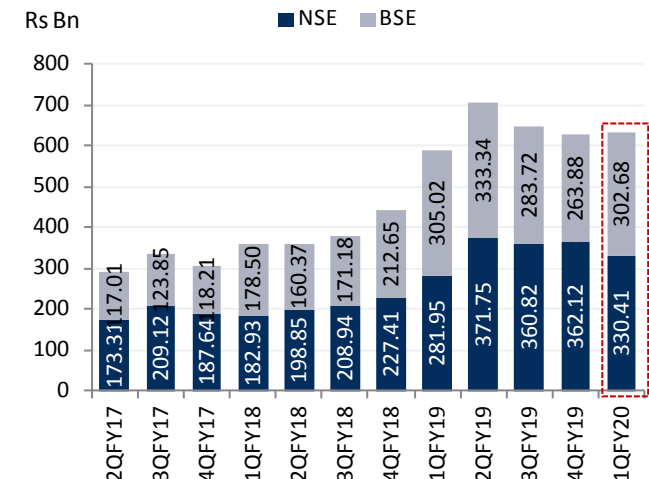
Source: BSE, HDFC sec Inst Research

Currency Derivatives: BSE Gained Share



Source: NSE, BSE, HDFC sec Inst Research

Currency Derivatives ADTV: BSE On Strong Footing



Source: NSE, BSE, HDFC sec Inst Research

INX volume is picking up significantly; ADTV for 1Q stood at USD 1.9bn +9% QoQ led by liquidity enhancement scheme (LES). BSE is spending Rs 38mn as LES

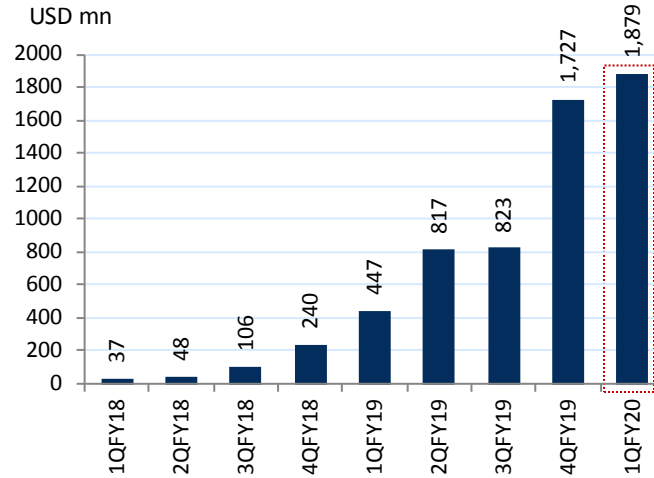
Total no of trades stood at 43,476 trades/day +79% QoQ

BSE is going to charge on per trade basis from of FY21E at ~Rs 15/trade

StAR MF has contributed Rs 119mn in the quarter at Rs 9.8/order

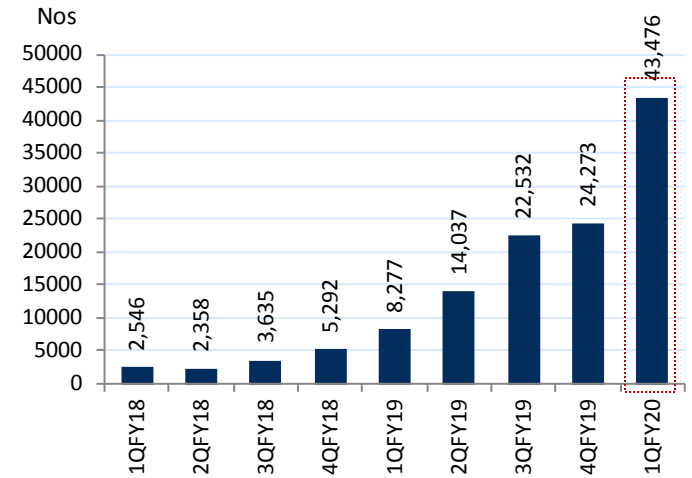
Assuming the current run-rate the total revenue for FY20E will be Rs 554mn (~11% of revenue)

INX ADTV: Strong Growth, Early Days



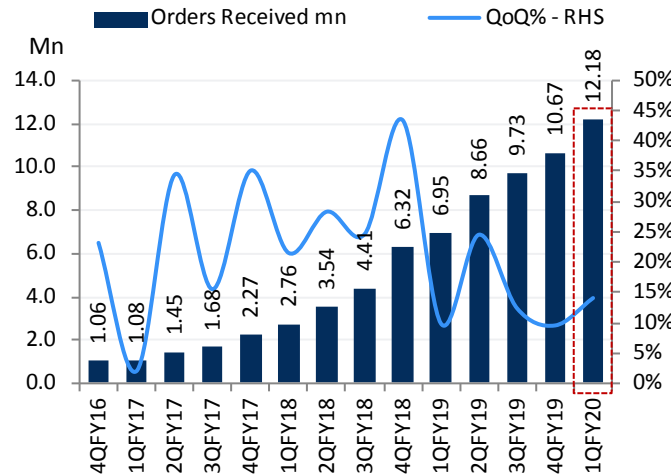
Source: BSE, HDFC sec Inst Research

INX: Daily Trades: Picking Up



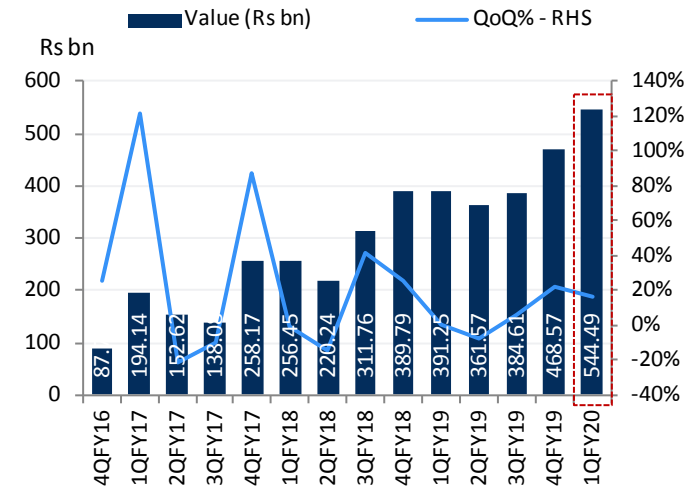
Source: BSE, HDFC sec Inst Research

StAR MF Orders: Growing Steadily



Source: BSE, HDFC sec Inst Research

Star MF Value Of Trades: On The Rise

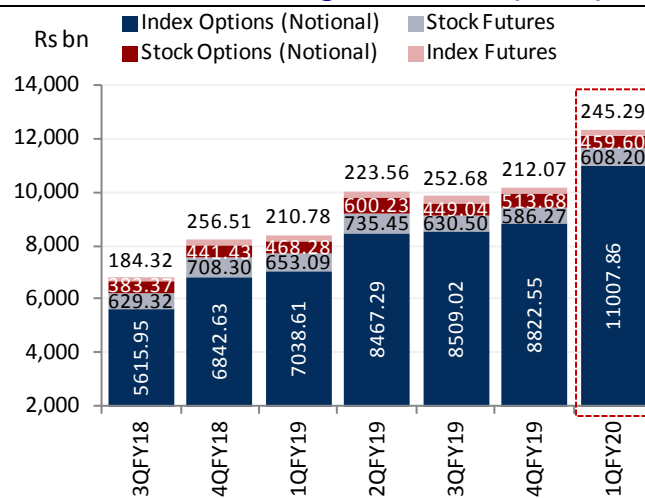


Source: BSE, HDFC sec Inst Research

NSE is a definite market leader in the Cash and Derivative segments

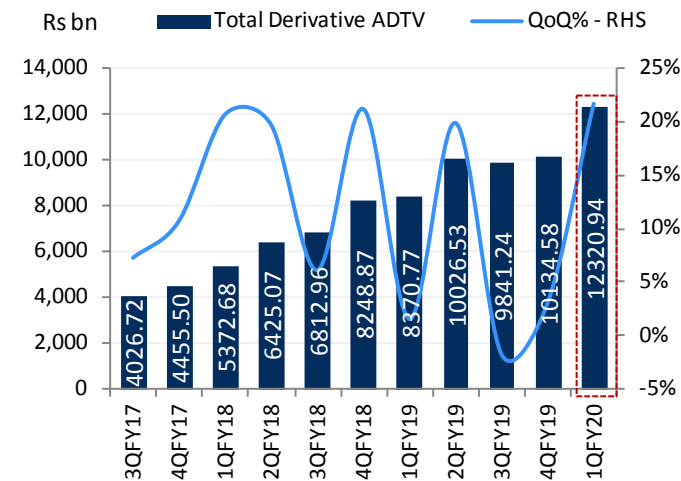
NSE's total derivative turnover was up by 22% QoQ and 47% YoY in 1QFY20 to Rs 12,320.94bn

NSE's Derivatives' Trading Volume Mix (ADTV)



Source: NSE, HDFC sec Inst Research

NSE's Total Derivatives' Volume



Source: NSE, HDFC sec Inst Research

Change in Estimates

| Particulars | Earlier estimates | Revised estimates | % change |
|-------------------|-------------------|-------------------|----------|
| FY20E | | | |
| Revenue (Rs mn) | 5,028 | 5,003 | (0.5) |
| EBITDA (Rs mn) | 598 | 573 | (4.2) |
| EBITDA margin (%) | 11.9% | 11.4% | -44 |
| APAT (Rs mn) | 1,976 | 1,956 | (1.0) |
| FY21E | | | |
| Revenue (Rs mn) | 5,563 | 5,596 | 0.6 |
| EBITDA (Rs mn) | 900 | 884 | (1.9) |
| EBITDA margin (%) | 16.2% | 15.8% | -40 |
| APAT (Rs mn) | 2,263 | 2,237 | (1.1) |

Source: BSE, HDFC sec Inst Research

BSE's Revenue Segments & Assumptions

| Segments | FY13 [^] | FY14 [^] | FY15 [^] | FY16 [^] | FY17 | FY18 | FY19 | FY20E | FY21E | CAGR FY14-19 | CAGR FY16-19 | CAGR FY19-21E |
|--|-------------------|-------------------|-------------------|-------------------|--------------|--------------|--------------|--------------|--------------|-----------------|-----------------|------------------|
| Securities services | | | | | | | | | | | | |
| Transaction Charges | 317 | 294 | 505 | 550 | 1,224 | 1,581 | 1,139 | 1,381 | 1,724 | 31.1% | 27.5% | 14.8% |
| Income from Depository Services | 905 | 871 | 1,046 | 1,227 | 0 | 0 | 0 | 0 | 0 | NM | NM | NM |
| Treasury Income on margin deposit | 339 | 439 | 532 | 413 | 405 | 408 | 307 | 301 | 295 | -6.9% | -9.4% | -1.3% |
| Others | 375 | 269 | 254 | 223 | 292 | 311 | 269 | 285 | 299 | 0.0% | 6.4% | 3.6% |
| Total (A) | 1,936 | 1,872 | 2,337 | 2,413 | 1,921 | 2,300 | 1,715 | 1,967 | 2,318 | -1.7% | -10.8% | 10.6% |
| Growth YoY % | -11.3% | -3.3% | 24.8% | 3.3% | -20.4% | 19.7% | -25.4% | 14.7% | 17.9% | | | |
| Securities services (ex CDSL) | | | | | | | | | | | | |
| Transaction Charges | 317 | 294 | 505 | 550 | 1,224 | 1,581 | 1,139 | 1,381 | 1,724 | 31.1% | 27.5% | 14.8% |
| Treasury Income on margin deposit | 339 | 439 | 532 | 413 | 405 | 408 | 307 | 301 | 295 | -6.9% | -9.4% | -1.3% |
| Others | 375 | 269 | 254 | 223 | 292 | 311 | 269 | 285 | 299 | 0.0% | 6.4% | 3.6% |
| Total (B) | 1,031 | 1,002 | 1,291 | 1,186 | 1,921 | 2,300 | 1,715 | 1,967 | 2,318 | 11.4% | 13.1% | 10.6% |
| Growth YoY % | -16.0% | -2.8% | 28.9% | -8.1% | 62.0% | 19.7% | -25.4% | 14.7% | 17.9% | | | |
| Services to corporate | | | | | | | | | | | | |
| Listing Fees | 426 | 484 | 958 | 1,446 | 1,382 | 1,776 | 1,881 | 2,048 | 2,199 | 31.2% | 9.2% | 5.3% |
| Book Building Software Charges | 75 | 74 | 55 | 112 | 143 | 331 | 149 | 159 | 172 | 14.9% | 9.9% | 4.9% |
| Others | 78 | 33 | 41 | 53 | 44 | 100 | 102 | 107 | 112 | 25.2% | 24.5% | 3.3% |
| Total (C) | 579 | 591 | 1,054 | 1,611 | 1,569 | 2,207 | 2,132 | 2,315 | 2,483 | 29.2% | 9.8% | 5.2% |
| Growth YoY % | -24.1% | 2.1% | 78.2% | 52.9% | -2.6% | 40.7% | -3.4% | 8.6% | 7.3% | | | |
| Data Dissemination (D) | | | | | | | | | | | | |
| | 224 | 204 | 221 | 224 | 447 | 565 | 656 | 722 | 794 | 26.3% | 43.0% | 6.6% |
| Growth YoY % | 7.8% | -8.8% | 8.3% | 1.4% | 99.4% | 26.4% | 16.1% | 10.0% | 10.0% | | | |
| Total revenue from Operations (A+C+D) | | | | | | | | | | | | |
| | 2,739 | 2,668 | 3,611 | 4,248 | 3,937 | 5,072 | 4,503 | 5,003 | 5,596 | 11.0% | 2.0% | 7.5% |
| Growth YoY % | -13.1% | -2.6% | 35.4% | 17.6% | -7.3% | 28.8% | -11.2% | 11.1% | 11.8% | | | |
| Total revenue from Operations (ex CDSL) (B+C+D) | | | | | | | | | | | | |
| | 1,834 | 1,797 | 2,566 | 3,021 | 3,937 | 5,072 | 4,503 | 5,003 | 5,596 | 20.2% | 14.2% | 7.5% |
| Growth YoY % | -16.5% | -2.0% | 42.8% | 17.7% | 30.3% | 28.8% | -11.2% | 11.1% | 11.8% | | | |

 Source: BSE, HDFC sec Inst Research, [^]excluding CDSL, FY13-16 Including CDSL

BSE's Cost Analysis And EBITDA

| Expenses (Including CDSL) | FY13 | FY14 | FY15 | FY16 | FY17 | FY18 | FY19 | FY20E | FY21E | CAGR FY14-19 | CAGR FY16-19 | CAGR FY19-21E |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|-----------------|-----------------|------------------|
| Employee Expenses | 772 | 854 | 999 | 1,074 | 1,162 | 1,201 | 1,392 | 1,503 | 1,639 | 10.3% | 9.0% | 5.6% |
| Technology Expenses | 717 | 642 | 704 | 806 | 964 | 1,111 | 1,134 | 1,191 | 1,250 | 12.1% | 12.0% | 3.3% |
| Other operating Expenses | 931 | 928 | 1,492 | 1,695 | 1,452 | 1,458 | 1,686 | 1,736 | 1,823 | 12.7% | -0.2% | 2.6% |
| Total Expenses | 2,421 | 2,424 | 3,194 | 3,576 | 3,578 | 3,770 | 4,212 | 4,430 | 4,712 | 11.7% | 5.6% | 3.8% |
| Growth YoY % | 10.6% | 0.1% | 31.8% | 11.9% | 0.1% | 5.4% | 11.7% | 5.2% | 6.4% | | | |
| EDITDA (Including CDSL till FY16) | 319 | 244 | 417 | 673 | 359 | 1,302 | 291 | 573 | 884 | 3.6% | -24.3% | 44.8% |
| Margin % | 11.6% | 9.2% | 11.5% | 15.8% | 9.1% | 25.7% | 6.5% | 11.4% | 15.8% | | | |

| Expenses (Excluding CDSL) | FY14 | FY15 | FY16 | FY17 | FY18 | FY19 | FY20E | FY21E | CAGR FY14-19 | CAGR FY16-19 | CAGR FY19-21E |
|---------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|-----------------|-----------------|------------------|
| Employee Expenses | 679 | 807 | 859 | 1,162 | 1,201 | 1,392 | 1,503 | 1,639 | 15.4% | 17.5% | 5.6% |
| Technology + Other Operating Expenses | 1,182 | 1,787 | 2,127 | 2,415 | 2,569 | 2,820 | 2,927 | 3,073 | 19.0% | 9.8% | 2.9% |
| Total Expenses (ex CDSL) | 1,862 | 2,593 | 2,986 | 3,578 | 3,770 | 4,212 | 4,430 | 4,712 | 17.7% | 12.1% | 3.8% |
| Growth YoY % | -0.5% | 39.3% | 15.1% | 19.8% | 5.4% | 11.7% | 5.2% | 6.4% | | | |
| EBITDA (ex CDSL) | (83) | (35) | 33 | 359 | 1,302 | 291 | 573 | 884 | | 106.2% | 44.8% |
| Margin % | -4.6% | -1.4% | 1.1% | 9.1% | 25.7% | 6.5% | 11.4% | 15.8% | | | |

Source: BSE, HDFC sec Inst Research

Valuation and outlook

- We expect BSE's revenue to increase at a CAGR of 11% over FY19-21E. The EBITDA margin will expand from 6.5% in FY19 to 15.8% in FY21E due to revenue growth and operating leverage.
- RoE for the business is only 7.1%, owing to high cash levels on the books (Rs 24bn ex-SGF and clearing and settlement cash). The buyback of Rs 4.6bn will boost return ratio by ~100bps for FY20E.
- BSE has been constantly innovating and investing in technology and is building future platforms for growth. BSE has huge net cash of Rs 20bn (~Rs 440/sh, ~79% of MCap) which is excluding SGF, earmarked funds, and the buyback amount. The current dividend yield of ~7% is attractive. BSE currently trades at 11.1/9.7x FY20/21E EPS (steep discount to MCX valuations).
- We have valued BSE on SOTP basis by assigning a TP of Rs 320 to CDSL and 25x to BSE's core earnings (ex-CDSL) and adding back net-cash of Rs 15.8bn (excluding buyback amount and for buyback tax). We maintain BUY on BSE, with a TP of Rs 655 (36% upside from CMP), which includes the core BSE value at Rs 169/sh, Net Cash of Rs 351/sh and CDSL stake value of Rs 134/sh.

BSE's SOTP Valuation

| | |
|-----------------------|------------|
| Core PAT FY21 (Rs mn) | 305 |
| 25X Core PAT (Rs mn) | 7,619 |
| Add: Net Cash (Rs mn) | 15,814 |
| Mcap (Rs mn) | 23,432 |
| Price per Share (Rs) | 520 |
| CDSL Value/share (Rs) | 134 |
| TP (Rs) | 655 |
| Upside (%) | 36% |

Source: Company, HDFC sec Inst Research

CDSL Valuation

| | |
|-----------------------------|--------|
| CDSL TP (Rs) | 320 |
| CDSL Target Mcap (Rs mn) | 33,393 |
| Stake (%) | 24% |
| Value of BSE Stake (Rs mn) | 8,014 |
| Taking 25% Discount (Rs mn) | 6,011 |
| Value /Share of CDSL (Rs) | 134 |

Source: Company, HDFC sec Inst Research

Peer Set Comparison

| Company | M-Cap (Rs bn) | Rating | CMP (Rs) | TP (Rs) | P/E (x) | | | | EV/EBITDA (x) | | | | RoE (%) | | | |
|------------|------------------|------------|-------------|------------|------------|-------------|-------------|------------|---------------|------------|------------|------------|------------|------------|------------|------------|
| | | | | | FY18 | FY19 | FY20E | FY21E | FY18 | FY19 | FY20E | FY21E | FY18 | FY19 | FY20E | FY21E |
| MCX | 41.0 | BUY | 806 | 962 | 37.8 | 27.3 | 26.4 | 20.5 | 2.1 | 2.2 | 2.3 | 2.9 | 7.9 | 11.4 | 12.3 | 15.4 |
| BSE | 24.9 | BUY | 481 | 655 | 9.0 | 10.4 | 11.1 | 9.7 | 7.5 | 7.3 | 7.1 | 8.3 | 7.8 | 7.1 | 7.9 | 9.2 |
| CDSL | 20.0 | BUY | 191 | 320 | 19.3 | 17.6 | 16.9 | 15.0 | 1.8 | 2.1 | 2.2 | 2.5 | 17.2 | 17.0 | 16.1 | 16.5 |

Source: HDFC sec Inst Research

Key Risks

- Increased competition from other exchanges, market share loss
- Regulatory delays
- Technology risks
- Delay in revenues from new platforms like India INX, Insurance, etc

Income Statement (Consolidated)

| YE March (Rs mn) | FY17 | FY18 | FY19 | FY20E | FY21E |
|--|---------------|--------------|---------------|--------------|--------------|
| Net Revenues (Rs mn) | 3,937 | 5,072 | 4,503 | 5,003 | 5,596 |
| Growth (%) | (7.3) | 28.8 | (11.2) | 11.1 | 11.8 |
| Employee Expenses | 1,162 | 1,201 | 1,392 | 1,503 | 1,639 |
| Technology Expenses | 964 | 1,111 | 1,134 | 1,191 | 1,250 |
| Other operating Expenses | 1,452 | 1,458 | 1,686 | 1,736 | 1,823 |
| EBITDA | 359 | 1,302 | 291 | 573 | 884 |
| EBITDA Margin (%) | 9.1 | 25.7 | 6.5 | 11.4 | 15.8 |
| EBITDA Growth (%) | (46.6) | 262.6 | (77.6) | 96.7 | 54.3 |
| Depreciation | 503 | 455 | 511 | 525 | 560 |
| EBIT | -144 | 848 | -220 | 47 | 324 |
| Other Income (Including EO Items) | 2,238 | 1,891 | 2,111 | 1,965 | 2,034 |
| Interest | 10 | 10 | 9 | 18 | 19 |
| PBT | 2,085 | 2,729 | 1,883 | 1,994 | 2,339 |
| Tax (Incl Deferred) | 107 | 555 | 234 | 359 | 421 |
| Minority Interest | 0 | 0 | 0 | 0 | 0 |
| Share of profit / (Loss) of associate | 11 | 199 | 292 | 283 | 319 |
| RPAT | 1,989 | 2,373 | 1,942 | 1,918 | 2,237 |
| EO (Loss) / Profit (Net Of Tax) | -208 | -26 | -135 | -38 | 0 |
| APAT | 2,197 | 2,399 | 2,077 | 1,956 | 2,237 |
| APAT Growth (%) | 22.4 | 9.2 | (13.4) | (5.8) | 14.4 |
| Adjusted EPS (Rs) | 48.8 | 53.3 | 46.1 | 43.4 | 49.7 |
| EPS Growth (%) | 22.4 | 9.2 | (13.4) | (5.8) | 14.4 |
| Core PAT (ex other income and associate profit) | -153 | 836 | -228 | 29 | 305 |

Source: Company, HDFC sec Inst Research

Balance Sheet (Consolidated)

| YE March (Rs mn) | FY17 | FY18 | FY19 | FY20E | FY21E |
|---------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| SOURCES OF FUNDS | | | | | |
| Share Capital – Equity | 108 | 107 | 104 | 90 | 90 |
| Reserves | 26,516 | 30,699 | 29,253 | 24,510 | 24,321 |
| Total Shareholders' Funds | 26,624 | 30,806 | 29,357 | 24,600 | 24,411 |
| Settlement guarantee fund | 2,045 | 3,585 | 3,945 | 3,945 | 3,945 |
| Minority Interest | 2,909 | 0 | 0 | 0 | 0 |
| Total Debt | 0 | 0 | 0 | 0 | 0 |
| Net Deferred Taxes (Net) | (189) | (880) | (1,025) | (1,025) | (1,025) |
| Long Term Provisions & Others | 88 | 95 | 114 | 127 | 142 |
| TOTAL SOURCES OF FUNDS | 31,477 | 33,606 | 32,391 | 27,648 | 27,474 |
| APPLICATION OF FUNDS | | | | | |
| Net Block | 1,644 | 1,697 | 1,662 | 1,687 | 1,715 |
| CWIP | 60 | 70 | 182 | 182 | 182 |
| Goodwill | 850 | 374 | 374 | 374 | 374 |
| Investments | 26 | 3,961 | 4,302 | 4,302 | 4,302 |
| LT Loans & Advances & Others | 3,434 | 1,867 | 1,724 | 2,001 | 2,238 |
| Total Non-current Assets | 6,014 | 7,970 | 8,244 | 8,546 | 8,811 |
| Inventories | 0 | 0 | 0 | 0 | 0 |
| Debtors | 689 | 549 | 490 | 548 | 613 |
| Other Current Assets | 973 | 302 | 304 | 355 | 397 |
| Cash & Equivalent | 43,966 | 40,281 | 34,976 | 31,056 | 32,033 |
| Total Current Assets (ex Cash) | 1,662 | 850 | 795 | 904 | 1,011 |
| Trading margin from members | 4,714 | 4,940 | 4,960 | 5,193 | 5,401 |
| Other Current Liabilities & Provns | 15,451 | 10,556 | 6,664 | 7,665 | 8,980 |
| Total Current Liabilities | 20,164 | 15,496 | 11,623 | 12,858 | 14,381 |
| Net Current Assets | (18,503) | (14,645) | (10,829) | (11,955) | (13,370) |
| TOTAL APPLICATION OF FUNDS | 31,477 | 33,606 | 32,391 | 27,648 | 27,474 |

Source: Company, HDFC sec Inst Research

Cash Flow (Consolidated)

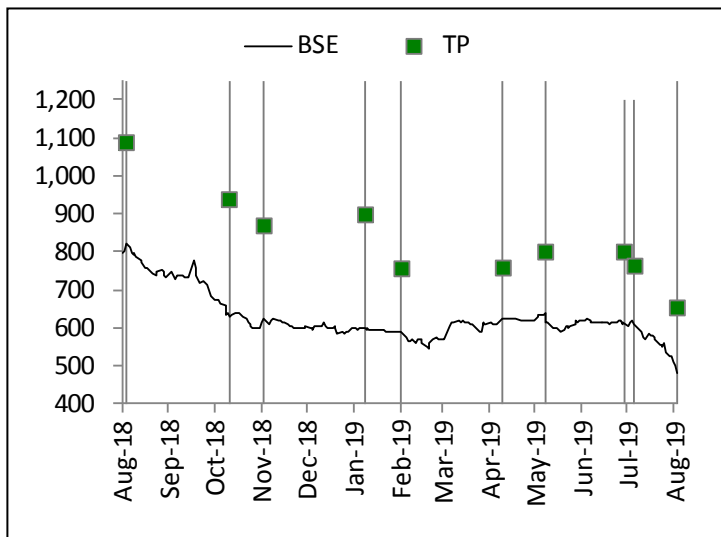
| YE March (Rs mn) | FY17 | FY18 | FY19 | FY20E | FY21E |
|---------------------------------------|---------------|----------------|----------------|----------------|----------------|
| Reported PBT | 2,085 | 2,729 | 1,883 | 1,994 | 2,339 |
| Non-operating & EO items | (1,588) | (716) | (1,886) | (2,002) | (2,034) |
| Interest expenses | 10 | 10 | 9 | 18 | 19 |
| Depreciation | 503 | 455 | 511 | 525 | 560 |
| Working Capital Change | 6,966 | (4,098) | (3,800) | 862 | 1,194 |
| Tax Paid | (26) | (1,095) | (234) | (359) | (421) |
| OPERATING CASH FLOW (a) | 7,949 | (2,715) | (3,517) | 1,039 | 1,656 |
| Capex | (584) | (626) | (475) | (550) | (588) |
| <i>Free cash flow (FCF)</i> | 7,365 | (3,341) | (3,992) | 488 | 1,069 |
| Investments | (11) | (3,282) | (341) | 0 | 0 |
| Non-operating Income | 1,855 | 1,548 | 2,246 | 2,002 | 2,034 |
| INVESTING CASH FLOW (b) | 1,261 | (2,360) | 1,431 | 1,452 | 1,447 |
| Debt Issuance/(Repaid) | 0 | 0 | 0 | 0 | 0 |
| Interest Expenses | 332 | (11) | (9) | (18) | (19) |
| <i>FCFE</i> | 7,698 | (3,352) | (4,001) | 470 | 1,050 |
| Share Capital Issuance | 0 | (450) | (3) | (4,600) | 0 |
| Dividend | (684) | (1,839) | (1,844) | (1,792) | (2,108) |
| FINANCING CASH FLOW (c) | (352) | (2,300) | (1,856) | (6,410) | (2,126) |
| NET CASH FLOW (a+b+c) | 8,858 | (7,375) | (3,942) | (3,919) | 976 |
| EO Items, Others | 982 | 3,690 | (1,363) | 0 | 0 |
| Closing Cash & Equivalents | 43,966 | 40,281 | 34,976 | 31,056 | 32,033 |

Source: Company, HDFC sec Inst Research

Key Ratios (Consolidated)

| | FY17 | FY18 | FY19 | FY20E | FY21E |
|---|--------|--------|--------|-------|-------|
| PROFITABILITY (%) | | | | | |
| GPM | 70.5 | 76.3 | 69.1 | 69.9 | 70.7 |
| EBITDA Margin | 9.1 | 25.7 | 6.5 | 11.4 | 15.8 |
| APAT Margin | 55.8 | 47.3 | 46.1 | 39.1 | 40.0 |
| RoE | 8.3 | 7.8 | 7.1 | 7.9 | 9.2 |
| RoIC (or Core RoCE) | (5.4) | 15.5 | (2.5) | 0.5 | 3.2 |
| RoCE | 7.2 | 7.4 | 6.3 | 6.6 | 8.2 |
| EFFICIENCY | | | | | |
| Tax Rate (%) | 5.1% | 20.3% | 12.4% | 18.0% | 18.0% |
| Fixed Asset Turnover (x) | 0.8 | 0.9 | 0.7 | 0.7 | 0.8 |
| <i>Inventory (days)</i> | 0 | 0 | 0 | 0 | 0 |
| <i>Debtors (days)</i> | 64 | 39 | 40 | 40 | 40 |
| <i>Other Current Assets (days)</i> | 90 | 22 | 25 | 26 | 26 |
| <i>Payables (days)</i> | 437 | 355 | 402 | 379 | 352 |
| <i>Other Current Liab & Provns (days)</i> | 1,433 | 760 | 540 | 559 | 586 |
| Cash Conversion Cycle (days) | -1,716 | -1,054 | -878 | -872 | -872 |
| Debt/EBITDA (x) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net D/E (x) | -1.7 | -1.3 | -1.2 | -1.3 | -1.3 |
| Interest Coverage (x) | -15 | 82 | -25 | 3 | 17 |
| PER SHARE DATA (Rs) | | | | | |
| EPS | 48.8 | 53.3 | 46.1 | 43.4 | 49.7 |
| CEPS | 60.0 | 63.4 | 57.5 | 55.1 | 62.1 |
| Dividend | 28.0 | 36.0 | 35.0 | 34.0 | 40.0 |
| Book Value | 591.2 | 684.0 | 651.9 | 546.2 | 542.0 |
| VALUATION | | | | | |
| P/E (x) | 9.9 | 9.0 | 10.4 | 11.1 | 9.7 |
| P/BV (x) | 0.81 | 0.70 | 0.74 | 0.88 | 0.89 |
| EV/EBITDA (x) | (23.9) | (3.4) | (9.3) | 3.9 | 2.9 |
| OCF/EV (%) | (92.5) | 60.6 | 129.9 | 46.9 | 64.9 |
| FCF/EV (%) | (85.7) | 74.6 | 147.5 | 22.1 | 41.9 |
| FCFE/Mkt Cap (%) | 35.5 | (15.5) | (18.5) | 2.2 | 4.8 |
| Dividend Yield (%) | 5.8 | 7.5 | 7.3 | 7.1 | 8.3 |

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY


| Date | CMP | Reco | Target |
|-----------|-----|------|--------|
| 4-Aug-18 | 823 | BUY | 1,090 |
| 10-Oct-18 | 639 | BUY | 940 |
| 5-Nov-18 | 625 | BUY | 871 |
| 8-Jan-19 | 597 | BUY | 900 |
| 3-Feb-19 | 588 | BUY | 758 |
| 9-Apr-19 | 619 | BUY | 760 |
| 8-May-19 | 637 | BUY | 802 |
| 28-Jun-19 | 610 | BUY | 802 |
| 5-Jul-19 | 607 | BUY | 765 |
| 3-Aug-19 | 481 | BUY | 655 |

Rating Definitions

- BUY** : Where the stock is expected to deliver more than 10% returns over the next 12-month period
NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12-month period
SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12-month period

INSTITUTIONAL RESEARCH

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