

BSE

Regulatory setback

As per the letter dated 26th April 2024, SEBI has asked BSE to pay the regulatory fee on the annual turnover considering “notional value” in the case of options contracts. BSE was paying the regulatory fee based on annual turnover considering the premium turnover of options for the last many years. The definition of ‘annual turnover’ is not very clear as per the ‘exchanges and clearing corporations regulations 2018’ but in the ‘SEBI stockbroker regulation 1992’, it clearly states that the ‘turnover’ is calculated based on the premium of options and notional for options contracts that are exercised. The shift from premium to notional is a regulatory setback and BSE will have to pay a regulatory fee of ~INR 1/2.5/3.1bn, which is ~13/21/22% of FY24/25/26E APAT. Another way to offset the impact of higher regulatory fees is to increase the transaction charges by ~25% and reduce clearing charges by ~10%, which will reduce the impact to only -5/-2% for FY25/26E. The exchanges earn revenue on the premium, which is only 6/19bps of the notional value, and the payment of the regulatory fees will be on the notional turnover. NSE has been paying the regulatory fees based on the notional turnover. We have not changed our estimates and will wait for more clarity. We expect a revenue/EPS CAGR of ~34/42% over FY24-26E, led by a revival in transaction revenue. We maintain our BUY rating and assign a SoTP-based target price of INR 3,100, based on 40x core FY26E PAT + CDSL stake + net cash ex SGF.

- Sebi regulatory fee:** The SEBI regulatory fee is 0.000012% of the annual turnover and NSE paid a regulatory fee of INR 4.78/9.55bn in FY23/24E (3.8/6.6% of revenue). The regulatory fee for NSE has witnessed a sharp jump over the last five years (5Y CAGR of 106%) after the upper limit of INR 0.2bn for the regulatory fee was removed in 2018 and notional volume multiplied 37x in five years. BSE will have a payout of INR 0.96bn for FY24E and ~INR 2.53bn in FY25E because of a ~2.5x increase in notional volumes. The implied regulatory fee for NSE/BSE is 9/38% of the options pricing. The regulatory fee impact for BSE is amplified because it collects ~1/3rd premium for the same notional volume and pricing is ~25% lower vs NSE.
- Price hike to offset the impact:** BSE options price hike was an optionality to earnings but has now become a necessity. BSE can take a price hike to offset the impact of the higher regulatory fees. NSE charges ~INR 35/bn on options premium and the clearing/regulatory cost is ~9/10% of the derivative revenue. Similarly, BSE charges ~INR 26/bn on option premium and the clearing and regulatory cost is ~29/38% of the derivative revenue. If we assume a 25% rate hike and a 10% lower clearing cost, the APAT impact for FY25/26E will come down to 5.3/2.0%.

Financial Summary (consolidated)

| YE March (INR mn) | FY21 | FY22 | FY23 | FY24E | FY25E | FY26E |
|-------------------|-------|-------|-------|--------|--------|--------|
| Net Revenues | 5,014 | 7,432 | 8,155 | 13,540 | 19,960 | 24,303 |
| EBITDA | 725 | 2,772 | 2,887 | 6,266 | 11,102 | 14,081 |
| PAT | 1,449 | 2,543 | 2,207 | 8,421 | 8,122 | 10,078 |
| APAT | 1,674 | 3,024 | 2,891 | 5,563 | 9,090 | 11,184 |
| Diluted EPS (INR) | 12.4 | 22.4 | 21.3 | 41.1 | 67.1 | 82.6 |
| P/E (x) | 259.3 | 143.6 | 150.4 | 78.1 | 47.8 | 38.9 |
| EV / EBITDA (x) | 578.7 | 150.3 | 144.3 | 66.0 | 37.3 | 29.3 |
| RoE (%) | 6.8 | 11.7 | 10.8 | 19.1 | 28.2 | 31.5 |

Source: Company, HSIE Research

BUY

| | |
|-------------------------|-----------|
| CMP (as on 26 Apr 2024) | INR 3,210 |
| Target Price | INR 3,100 |
| NIFTY | 22,420 |

| KEY CHANGES | OLD | NEW |
|--------------|--------------|--------------|
| Rating | BUY | BUY |
| Price Target | INR 3,100 | INR 3,100 |
| EPS % | FY25E 0.0 | FY26E 0.0 |

KEY STOCK DATA

| | |
|------------------------------|---------------|
| Bloomberg code | BSE IN |
| No. of Shares (mn) | 135 |
| MCap (INR bn) / (\$ mn) | 435/5,217 |
| 6m avg traded value (INR mn) | 2,930 |
| 52 Week high / low | INR 3,265/493 |

STOCK PERFORMANCE (%)

| | 3M | 6M | 12M |
|--------------|------|------|-------|
| Absolute (%) | 51.3 | 78.4 | 543.0 |
| Relative (%) | 47.0 | 61.7 | 520.8 |

SHAREHOLDING PATTERN (%)

| | Dec-23 | Mar-24 |
|-----------------|--------|--------|
| Promoters | 0.00 | 0.00 |
| FIs & Local MFs | 11.3 | 12.7 |
| FPIs | 12.0 | 13.0 |
| Public & Others | 76.7 | 74.3 |
| Pledged Shares | 0.00 | 0.00 |

Source : NSE

Amit Chandra
 amit.chandra@hdfcsec.com
 +91-22-6171-7345

SEBI regulatory fee as per Stock Exchanges and Clearing Corporation Regulations 2018 (Schedule – III PART – A)

| SEBI Regulatory fee based on annual turnover | INR cr |
|--|---|
| Annual turnover <= 10,000 cr | 0.01 |
| Annual turnover between 10,000-1,00,000 cr | 0.1 |
| Annual turnover between 1,00,000- 5,00,000 cr | 0.5 |
| Annual turnover between 5,00,000- 10,00,000 cr | 1.0 |
| Annual turnover between >10,00,000 cr | 1cr plus 0.000012% of turnover over 1cr |

Source: SEBI, HSIE research

The definition of Annual turnover as per the Stock Exchanges and Clearing Corporation Regulations 2018 is as follows:

Every recognised stock exchange shall be charged, a regulatory fee payable to the Board, at such rates and within such time as is mentioned in sub-regulation (2) and sub-regulation (3).

A recognised stock exchange shall pay to the Board, based on its annual turnover, an amount specified under Part –A of Schedule -III of these regulations within thirty days of the conclusion of the relevant financial year.

Explanation: For the purposes of this sub-regulation, the expression “annual turnover” shall mean the aggregate value of the transactions, excluding turnover on agricultural commodity derivatives, which took place on the recognised stock exchange during the relevant financial year.

As per the Securities and Exchange Board of India (Stockbrokers) Regulations 1992 ‘turnover’ is defined as follows:

Explanation. – (A) The expression ‘turnover’ shall include the value of the trades executed by the stockbroker on the concerned segment of the recognized stock exchange and of the trades settled on the expiration of the contracts.

(B) In case of options contracts, ‘turnover’ shall be computed on the basis of premium traded for the option contracts and in case where the option is exercised or assigned, it shall be additionally computed on the basis of notional value of option contracts exercised or assigned.

| BSE Derivatives P&L – Sebi regulatory fee impact | FY24E | FY25E | FY26E |
|---|--------------|--------------|--------------|
| Derivatives Notional volume (INR trn) | 8028 | 21075 | 27339 |
| Derivatives Premium volume (INR trn) | 5 | 16 | 21 |
| Premium/Notional % (bps) | 6 | 7 | 8 |
| Pricing (INR/cr) - both sides | 5200 | 5200 | 5200 |
| Clearing Cost (INR/cr) | 1500 | 1500 | 1500 |
| Implied SEBI turnover fees (INR/cr) | 1955 | 1617 | 1583 |
| SEBI regulatory fee (rate) | 0.000012% | 0.000012% | 0.000012% |
| BSE derivative Revenue (INR bn) | 2.56 | 8.14 | 10.78 |
| Costing | | | |
| Clearing cost (INR bn) | 0.74 | 2.35 | 3.11 |
| SEBI Fees (INR bn) | 0.96 | 2.53 | 3.28 |
| Derivatives EBITDA (old) (INR bn) | 1.82 | 5.79 | 7.67 |
| Derivatives EBITDA (after SEBI regulatory fee) | 0.86 | 3.26 | 4.39 |
| EBITDA % | 71% | 71% | 71% |
| EBITDA % New (post regulatory fee) | 34% | 40% | 41% |

| | | | |
|--|--------------|--------------|--------------|
| BSE APAT (INR bn) | 5.56 | 9.09 | 11.18 |
| SEBI fess as % of APAT (tax adjusted) | 13.0% | 20.9% | 22.0% |

Source: HSIE research

| BSE Derivatives P&L – Post options rate hike, lower clearing and SEBI regulatory fee impact | FY24E | FY25E | FY26E |
|--|--------------|--------------|--------------|
| Derivatives Notional volume (INR trn) | 8028 | 21075 | 27339 |
| Derivatives Premium volume (INR trn) | 5 | 16 | 21 |
| Premium/Notional % (bps) | 6 | 7 | 8 |
| Pricing (INR/cr) - both sides assuming 25% increase in pricing | 5200 | 6500 | 6500 |
| Clearing Cost (INR/cr) | 1500 | 1400 | 1300 |
| Implied SEBI turnover fees (INR/cr) | 1955 | 1617 | 1583 |
| SEBI regulatory fee (rate) | 0.000012% | 0.000012% | 0.000012% |
| BSE derivative Revenue (INR bn) | 2.56 | 10.17 | 13.47 |
| Costing | | | |
| Clearing cost (INR bn) | 0.74 | 2.19 | 2.69 |
| SEBI Fees (INR bn) | 0.96 | 2.53 | 3.28 |
| Derivatives EBITDA (INR bn) | 1.82 | 5.79 | 7.67 |
| Derivatives EBITDA (post SEBI fee and fee hike) (INR bn) | 0.86 | 5.45 | 7.50 |
| EBITDA % Old | 71% | 71% | 71% |
| EBITDA % New | 34% | 54% | 56% |
| Impact % | -53% | -5.9% | -2.2% |
| BSE APAT (INR bn) | 4.87 | 8.61 | 10.96 |
| % impact | | -5.3% | -2.0% |

Source: HSIE research

| NSE - Sebi regulatory fee calculation | FY21 | FY22 | FY23 | FY24 |
|--|------------------|--------------------|--------------------|--------------------|
| Notional turnover Index Options (INR bn) | 59,00,991 | 1,60,94,972 | 3,73,45,220 | 7,86,76,913 |
| Notional turnover Stock Options (INR bn) | 2,63,730 | 5,62,676 | 5,92,077 | 9,21,118 |
| Total options Notional turnover (INR bn) | 61,64,721 | 1,66,57,648 | 3,79,37,297 | 7,95,98,031 |
| Regulatory charges on notional turnover | 0.000012% | 0.000012% | 0.000012% | 0.000012% |
| Index Options (INR cr) | 71 | 193 | 448 | 944 |
| Stock Options (INR cr) | 3 | 7 | 7 | 11 |
| Sebi Regulatory Fees (INR cr) | 74 | 200 | 455 | 955 |
| Actual Paid by NSE (Annual report) | 92 | 220 | 478 | * |
| Total revenue (INR cr) | 5,625 | 8,313 | 11,856 | 14,541 |
| % of total revenue | 1.3% | 2.4% | 3.8% | 6.6% |
| Premium Volume (INR bn) | | | | |
| Index Options (INR bn) | 26,294 | 58,423 | 1,09,556 | 1,38,196 |
| Stock Options (INR bn) | 5,794 | 10,388 | 9,327 | 9,343 |
| Total options Premium | 32,088 | 68,812 | 1,18,883 | 1,47,539 |
| Implied rate on Premium (one side) | | | | |
| Index Options INR/cr | 135 | 165 | 205 | 342 |
| Stock Options INR/cr | 27 | 32 | 38 | 59 |
| Total options Notional | 115 | 145 | 191 | 324 |
| NSE Options Blended Charges (INR/cr) - One side | 3,500 | 3,500 | 3,500 | 3,500 |
| % of Option tariff on Blended | 3% | 4% | 5% | 9% |

Source: NSE, HSIE research, * NSE paid SEBI charges of INR 7.91bn in 9MFY24

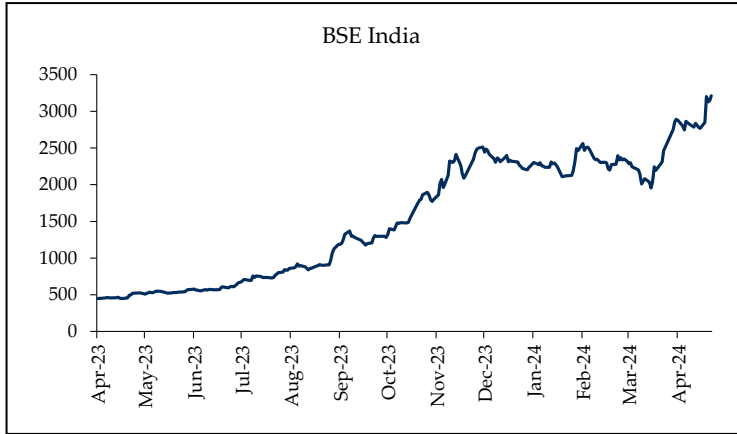
| BSE - Sebi regulatory fee calculation | FY21 | FY22 | FY23 | FY24 |
|--|------------------|------------------|------------------|------------------|
| Notional turnover Index Options (INR bn) | 3,50,602 | 6,60,783 | 3,38,679 | 80,28,151 |
| Notional turnover Stock Options (INR bn) | 0 | 0 | 0 | 0 |
| Total options Notional turnover (INR bn) | 3,50,602 | 6,60,783 | 3,38,679 | 80,28,151 |
| Regulatory charges on notional turnover | 0.000012% | 0.000012% | 0.000012% | 0.000012% |
| Index Options (INR cr) | 4 | 8 | 4 | 96 |
| Stock Options (INR cr) | 0 | 0 | 0 | 0 |
| Sebi Regulatory Fees (INR cr) | 4 | 8 | 4 | 96 |
| Actual Paid by BSE (Annual report) | 2 | 3 | 3 | |
| Total revenue | 816 | 1,354 | 1,996 | 2,430 |
| % of total revenue | 0.5% | 0.6% | 0.2% | 4.0% |
| Premium Volume (INR bn) | | | | |
| Index Options (INR bn) | 0 | 0 | 0 | 4,927 |
| Stock Options (INR bn) | 0 | 0 | 0 | 0 |
| Total options Premium (INR bn) | 0 | 0 | 0 | 4,927 |
| Implied rate on Premium (one side) | | | | 978 |
| BSE Options Blended Charges (INR/cr) - One side | | | | 2,600 |
| % of Option tariff on Blended | | | | 38% |

Source: BSE, HSIE research

| BSE Derivative P&L - Assumptions | FY24E | FY25E | FY26E |
|---|--------------|--------------|--------------|
| Derivatives Notional ADTV (INR tn) | 35 | 85 | 110 |
| Growth % | | 144% | 30% |
| Derivatives Premium Turnover ADTV (INR bn) | 21.33 | 62.83 | 83.58 |
| Growth % | | 195% | 33% |
| Pricing (INR/mn) - One side | 178 | 260 | 260 |
| Pricing (bps) - both side - BSE (Assumed) | 4 | 5.2 | 5.2 |
| Pricing (bps) - both side - NSE (Blended) | 7.0 | 6.9 | 6.9 |
| Discount to NSE % | -49% | -25% | -25% |
| Revenue from derivatives | 1,752 | 8,135 | 10,778 |
| % of BSE revenue | 13% | 41% | 44% |
| Expenses (@1.5bps) | 1,330 | 2,347 | 3,109 |
| EBITDA | 421 | 5,789 | 7,669 |
| EBITDA % | 24% | 71% | 71% |
| % of BSE Total EBITDA | 7% | 52% | 54% |
| Days (Nos) | 231 | 249 | 248 |
| PAT from Derivatives (INR mn) | 316 | 4,341 | 5,752 |
| PAT margin % | 18% | 53% | 53% |
| % of BSE Total PAT | 6% | 48% | 51% |
| NSE | | | |
| NSE derivatives ADTV (INR tr) | 329 | 347 | 386 |
| BSE notional market Share % | 10.6% | 24.4% | 28.5% |
| NSE premium ADTV (INR bn) | 625.42 | 625.42 | 656.69 |
| BSE premium market Share % | 3.3% | 9.1% | 11.3% |
| NSE Options revenue (INR mn) | 1,09,448 | 1,09,448 | 1,14,920 |
| BSE revenue share % | 1.6% | 6.9% | 8.6% |
| Premium/Notional (bps) | | | |
| NSE | 19 | 18 | 17 |
| BSE | 6 | 7 | 8 |

Source: NSE, BSE, HSIE research

1 Yr Price movement



Rating Criteria

- BUY: >+15% return potential
- ADD: +5% to +15% return potential
- REDUCE: -10% to +5% return potential
- SELL: > 10% Downside return potential

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HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066

Compliance Officer: Murli V Karkera Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

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Unit No. 1602, 16th Floor, Tower A, Peninsula Business Park,

Senapati Bapat Marg, Lower Parel, Mumbai - 400 013

Board: +91-22-6171-7330 www.hdfcsec.com