



BULL STREET
CONSULTANCY

January 23, 2017

BSE IPO

Recommendation: **SUBSCRIBE**

BSE established in 1875, is the oldest Stock Exchange in Asia with a glorious history of over 140 years. It is the fastest Stock Exchange in the world clocking a median trade speed of 6 micro seconds. BSE is one of the most recognizable brand names in India. This global brand helps in attracting companies to list on the exchange, attracting retail and wholesale participants to the various market offerings. This makes BSE the world's largest exchange by number of listed companies (5,329) and India's largest and world's 10th largest exchange by way of market capitalization, with US\$ 1.7 trillion in total market capitalization of all listed companies. According to CARE Research, BSE ranks third globally in terms of currency options and futures contracts traded in 2015, with 430 million currency derivative contracts traded. During the period FY14 to FY16, the total number of currency contracts traded on the BSE increased from 87 million to 420 million.

Issue Snapshot

Issue Open	23-Jan-17
Issue Close	25-Jan-17
Price Band	INR 805-806
Issue Size	INR 1234.43Cr
Minimum application	18 share (INR 14508)
Listing	NSE
Face Value	INR 2
OFS Issue Size (No. of shares) *	1.5427cr
QIBs	50% of Net Issue
Non-institutional	15% of Net Issue
Retail	35% of Net Issue

Object of the Issue

- To Achieve the benefits of Listing the Equity Share on NSE
- To Sale of Equity share by Existing Shareholder

The company will not receive any proceeds of the offer and all the proceeds will go to the selling shareholder in the proportion of the equity shares offered by them.

Investment Rationale

Strong brand recognition

BSE is one of the most recognizable brand names in India. According to CARE Research, the BSE ranks third globally in terms of currency options and futures contracts traded in 2015, with 430 mn currency derivatives traded (up 103% YoY). Further, its turnover from the interest rate derivatives segment grew from INR 26 bn in FY14 to INR 1141 bn in FY16. BSE has introduced new products and services from time to time like BSE StAR and BSE SME. BSE StAR offers a platform to trade and redeem in 39 AMCs with 6112 different mutual fund schemes. BSE SME provides a platform for the listing and trading in shares of SMEs.

Diversified and integrated business model

BSE 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. By providing such integrated services, BSE supports it's members throughout the entire life-cycle of a trade. Such an integrated approach benefits and keeps costs low for our participants and members by providing efficiencies that are associated with having a wide range of services integrated under one entity.

Particulars ((INR Crs)- FY16	BSE	MCX
Total Income	670	333
EBITDA	312	175
PAT	177	42
Face Value	2	10
Share Capital	10.7	51
Reserves	2515	1156
Net worth	2526	1207
CMP	806*	1203
Market Capitalization	4328	6134
EPS	33	8.3
Book Value	470	237
P/BV Ratio	1.7	5.1
PE Ratio	24.5	144.4

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KEY RATIO			
Particular	FY14	FY15	FY16
Per Share Data (INR)			
Adj. EPS	24.76	23.77	7.58
CEPS	30.69	34.53	9.74
BVPS	435.32	471.17	490.52
Return Ratios (%)			
RoACE	5.69%	5.04%	1.55%
RoANW	5.70%	5.06%	1.55%
Liquidity Ratios			
Net Debt/Equity	-0.07	-0.13	-0.06
Interest Coverage Ra	553.53	311.36	269.8
Current Ratio	1.1	1.16	1.43
Valuation Ratios			
P/E (x)*	34.33	35.76	28.03
P/BV (x)*	1.95	1.8	1.73
P/CEPS (x)*	27.7	24.62	87.27
EV/Net Sales (x)*	9.22	7.37	28
EV/EBIDTA (x)*	18.42	16.28	68.24

State of the art infrastructure and technology

BSE provides electronic systems for entry, trading, clearing, settlement and depository services. It is always looking to improve its IT capabilities, the reliability and consistency of which helps it to maintain competitive position.

BSE's electronic systems include BOLT+ and precision time protocol. BSE's 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.

Valuations

BSE India's largest and world's 11th largest exchange by market capitalization, with USD 1.52 trillion in total market capitalization of listed companies. India's exchange sector is still at nascent stage as compared to developed and developing economies. Equity as % of financial savings in India is mere 5% compared to 14% in China, 15% in Brazil, 20% in Indonesia and 42% USA. This participation is only going to increase going ahead and that will boost the exchange business. We believe that there is significant growth potential for BSE given - a) Government's efforts on increasing retail and EPFO participation in capital markets, b) New products and innovations such as REITs, commodity trading and infrastructure investment trusts and c) Information services segment which currently contributes 4% of revenue vis-à-vis global revenue contribution of 10-25%. At the upper end of the price band, the stock is available at P/E of 28x based on annualized FY17E earnings. Its nearest comparable MCX is trading at P/E of 39x based on FY17E earnings. We recommend **SUBSCRIBE** to the issue with long term perspective.