

Headline: NSE's public offer likely to see good investor demand

Source: Economic Times

Date: 5 September 2016

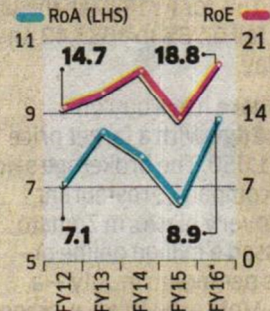
DOMINANCE IN domestic equity markets, profitability and plans to diversify business add to charm **NSE's Public Offer Likely to See Good Investor Demand**

The Scorecard

Financials

	FY16 (₹ Cr)	5-yr CAGR (%)
Total OI	1480.4	7.2
Other Income	564.1	11.2
Total Expenses	694.5	6.0
Operating Profit	785.9	8.3
PBET*	1350	9.5
OPM (%)	53.1	-

Return Ratios (In %)



*reversing exceptional items; Source: NSE

ET ANALYSIS

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ET Intelligence Group: The National Stock Exchange (NSE) is planning to file for an initial public offering (IPO) in January next year to give an exit to some of the institutional holders. Given its dominance in the domestic equity market, profitability record and efforts to diversify the business model, investor

recently done away with this requirement.

NSE reported a healthy 9% CAGR in profit before exceptional items during the last five financial years. Adjusting for this exception, return ratios have stayed strong over the last five years. In FY16, return on average assets (RoAA) and return on equity (RoE) stood at impressive levels of 10.7% and 18.8%, respectively. Although the total debt to equity ratio has hovered around 2 times since FY12, the IPO proceeds are likely to bring

response to the forthcoming equity offering is likely to be good although valuation premium may depend on some of the emerging concerns for the industry, including recently proposed algo-trading guidelines and impending implementation of GAAR (General Anti Avoidance Rules).

NSE has proved its foothold in the Indian exchange space by fetching majority of equity trading on its platform. While it accounts for 85% turnover in the equity cash segment, it is an undisputed leader in the derivatives division, driving the market volumes. It is present in the growing currency derivatives segment with more than 30% and 60% market share in futures and options, respectively.

Although it offers trading on interest rate futures and debt market instruments, the activity there is relatively muted, with the total average daily turnover (ADT) being just about a quarter of that in the equity cash segment. Eight years after its introduction, NSE has made a good headway in the direct market access, algorithmic trading and co-location services; more than 40% of trading currently takes place through these modes.

While majority of revenue and earnings come through trading and clearing services, index licensing and data feed collectively contribute about 10% to the top line. NSE provides index and related product services even to other market participants through subsidiary India Index Services (IISL). It has a thriving treasury book; in FY16 total investments was about Rs 5,100 crore and income from investments on average was 45% of operating revenue in the last three fiscals.

Given these streams of revenue generations, NSE boasts strong operating profit margin of more than 50%, while net profit margin stands around 40%. In the last two years, a regulatory requirement that asked for setting aside 25% of annual profit to a settlement guarantee fund (SGF). However, Sebi has



STRONG NUMBERS



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it down. As such, the current ratio, that measures a company's ability to pay its short-term liabilities, rests at a healthy level of 1.9 in FY16.

While its performance track record proves why the IPO may see a good reaction, the valuation may depend on some of the emerging concerns for the industry as a whole. For instance, recently proposed guidelines on algo-trading by Sebi may impact participation in Indian equity market due to suggestions like speed bumps in order processing and introduction of minimum resting time for orders. Even impending implementation of GAAR that makes Mauritius residents also liable to capital gains tax on certain investments after April 1, 2017 could affect volumes.