

**Headlines:** NSE IPO values it at Rs45,000 cr

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# NSE IPO values it at Rs45,000 cr

Valuation pegged at 30 times projected earnings for fiscal 2018; exchange planning to offer at least 20% stake through a pure OFS

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**B**ankers for National Stock Exchange of India Ltd (NSE) are asking investors to sell a part of their holding in the bourse's proposed initial share sale at a price that values it at Rs45,000 crore, three people with direct knowledge of the matter said.

The valuation of NSE is around two-and-a-half times the level at which shares in the bourse last changed hands. In July, State Bank of India (SBI) sold a 5% stake in NSE to Mauritius-based Veracity Investments Ltd for Rs911 crore, valuing the exchange at Rs18,200 crore.

The valuation is being pegged at 30 times NSE's projected earnings for fiscal 2018, said two of the three people cited above. The three, including investors and an exchange official, spoke on condition of anonymity.

That implies a net profit of Rs1,500 crore for 2017-18. In fiscal 2016, NSE's consolidated net profit fell to Rs654 crore from Rs1,026.5 crore in the previous year due to one-off expenses related to settlement guarantee funds, according to its latest annual report.

A 30 times price to one-year forward earnings multiple compares well with 34 times for Multi Commodity Exchange of India Ltd, the only listed bourse in India. Globally, the Hellenic Exchange-Athens (29.08) and CBOE Holdings Inc. (28.62) have comparable multiples,

according to *Bloomberg* data.

However, this valuation prices the issue to perfection and there may not be much left on the table for new investors, said the third person. Such a valuation would be closer to the higher end of any price band for NSE's proposed initial public offering (IPO) and a more reasonable price might be around two times the last known transaction price, this person said.

To be sure, the final valuation that will emerge will depend on a number of factors such as the state of the markets, the merchant bankers' evaluation of investor appetite and so on.

"Valuation is always different when viewed from the perspective of buyers and sellers. From the point of view of one set of investors it will always appear higher. For other investors, it could appear lower. In the case of exchanges, it would be a function of the prospect one sees in the exchange businesses," said Prithvi Haldea, founder of Prime database, which tracks primary markets.

NSE's IPO will be a pure offer for sale (OFS); the exchange is planning to offer at least 20% stake. Securities and Exchange Board of India rules mandate that existing investors together divest at least 10% of their stake in an IPO.

The exact stake sales are yet to be worked out with the investors. This process is expected to be completed in the next 45-60 days, said one of the three persons cited above. The draft sale prospectus is expected to be released in early 2017.

Unlike BSE, where strategic shareholders including Singapore Exchange Ltd and Caldwell Invest-

ment Management Ltd exited entirely, most NSE investors want to retain part of their holdings, said the second person.

The investors would only sell a part stake as they expect valuations to improve after the listing, said the first person.

Surprisingly, SBI, which has been one of the major voices calling for NSE's listing, has decided against participating in the OFS. "We will hold our stake in NSE and take a decision of exiting after seeing the IPO pricing. But as of now, we expect valuations to improve post the listing," said Arundhati Bhattacharya, chairman of India's largest lender.

After its stake sale in July, SBI has a 5.19% stake in the exchange. Other big shareholders include Life Insurance Corporation of India (10.51%), Goldman Sachs (5%), Tiger Global Management (3%) and Citigroup Strategic Holdings Mauritius (2%).

An NSE spokesperson did not respond to an email seeking comment.

On 23 August, NSE named Citigroup Global Markets India Private Ltd, JM Financial Institutional Securities Ltd, Kotak Mahindra Capital Co. Ltd and Morgan Stanley India Company Pvt. Ltd as global coordinators for its plan to go public. Cyril Amarchand Mangaldas was appointed as legal advisor.

NSE's rival BSE Ltd, Asia's oldest exchange, filed its offer for sale prospectus earlier this month to sell a 27.43% stake. With an 86% market share in cash equities and nearly 100% share in equity derivatives, NSE is India's biggest stock exchange.

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