

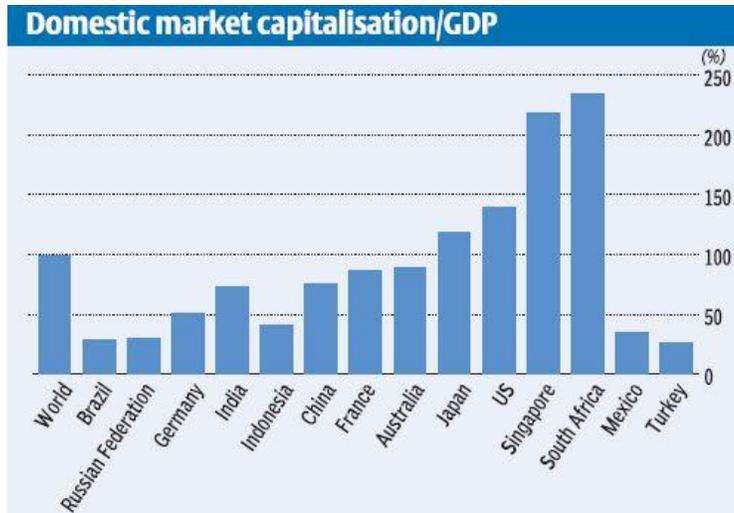
## Taking stock of Indian exchanges

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Best Stocks to Buy

Cheap Stocks to Buy

Top Stocks to Invest In



**Financial snapshot**

	BSE FY Mar 16	NSE FYE Mar 16	ASX FY Jun 16	HKex FY Dec 15	JEG FY Mar 16	SGX FY Jun 16
Revenues (\$ million)	64	357	674	1,578	1,021	606
Reported CFO Margin (%)	-12	69	31	62	52	52
Interest & Dividend Income (\$ million)	25	53	120	98	15	8
Adjusted CFO Margin (%)	27	84	49	68	53	53
Net Debt / CFO (Times)	Net cash	Net cash	Net cash	Net cash	Net cash	Net cash
Share Price on February 10, 2017 (\$)	15.13	NA	38.87	25.24	14.68	5.37
Market Capitalization (\$ billion)	0.16	NA	7.16	29.74	7.56	5.58
Share Price - 52 Week Range (\$)	NA	NA	29.00 - 39.59	20.78 - 27.48	9.41 - 16.14	4.72 - 5.63
Price Earnings Ratio (Times)	114	NA	22.23	28.16	21.40	23.68
Price to Book Value (Times)	NA	NA	2.52	7.32	3.42	8.72

*An eventual listing of India INX along with the NSE going public will push India as a leading financial destination*

These are interesting times for Indian stock exchanges. Asia's oldest stock exchange, the BSE's initial public offering (IPO) constituting about 28.26 per cent of outstanding shares was almost 12.0 times over-subscribed, raising over ₹1,200 crore. BSE's share price closed at ₹1,069.20, a premium of 33 per cent over its IPO price of ₹806 on the day of its market debut (February 3).

However, retail investors who either missed the BSE IPO or did not get the allocation they desired need not despair. BSE's rival, the NSE had filed its draft prospectus with market regulator SEBI on December 28, 2016 to raise ₹10,000 crore by selling a 25-per cent stake.

The prospects for Indian stock exchanges are favourable, supported by the country's relatively smaller-sized corporate sector, as indicated by the low ratios of domestic market capitalisation and outstanding corporate bonds to GDP, and the opportunities offered by the robust growth India is expected to clock even after the recent demonetisation drive.

### NSE's market leadership

The domestic market capitalisation of BSE and NSE is almost at a par at \$1.5 billion each as of December 2016, making them very distant fifth and sixth largest exchanges in Asia Pacific, following the Japan Exchange Group (JEG), Shanghai Stock Exchange, Shenzhen Stock Exchange and Hong Kong Exchanges and Clearing (HKEX).

NSE has built a clear lead over BSE, both in terms of share liquidity and product capabilities. Share turnover velocity, defined as the annualised ratio of domestic shares turnover to market capitalisation, is a measure of share liquidity. BSE is the least liquid of the ten largest APAC stock exchanges. While the NSE's share liquidity is lower than those of the Shanghai and Shenzhen stock exchanges and JEG, it is comparable with Hong Kong Exchanges and Clearing (HKEX) and the Singapore Exchange (SGX).

### Strong, liquid balance sheets

Stock exchanges, aided by the essential nature of services they provide and regulatorily imposed barriers to entry, possess strong and liquid balance sheets. All the APAC stock exchanges covered in Table 2, without exception, are in a net cash position i.e., their cash holdings exceed debt.

BSE's CFO Margin — cash flow from operations (CFO) expressed as a percentage of revenues — is the weakest among APAC's exchanges, while NSE is the strongest. According to BSE's IPO Prospectus dated January 11, 2017, the stock exchange reported negative CFO margin in three years during the five year period FYE March 2012 to FYE March 2016, due to its high working capital intensity. All stock exchanges hold security deposits and margin money, from which they earn interest income.

A stock exchange's interest and dividend income may be treated as operating income, though most stock exchanges report these items as investment income in compliance with accounting standards. BSE's adjusted CFO (the sum of reported CFO and interest and dividend income) margin is positive at 27 per cent in FYE Mar 2016, though still lower than the adjusted CFO margin of the other APAC exchanges.

There are two key takeaways for investors. Firstly, BSE's high price earnings ratio (P/E ratio) in relation to other major APAC stock exchanges is on account of its novelty.

The only other listed stock exchange stock in India is that of the thinly traded Multi Commodity Exchange of India, whose current P/E ratio is 137.45.

Secondly, the NSE stock could be an attractive proposition for those investors seeking an exposure to Indian stock exchange equities given its market leadership and strong financial profile.

### India International Exchange

BSE's wholly owned subsidiary, the India International Exchange (India INX) started operations on January 17, 2017. India INX is touted to be one of the world's most advanced technology platforms with a turn-around-time of 4 micro seconds which will operate for 22 hours a day, allowing international investors and NRIs to trade from anywhere across the globe. India INX offers equity, currency, commodity and interest rate derivatives and proposes to offer depository receipts and bonds once the infrastructure is in place.

APAC exchanges including HKeX, JEG and SGX are in the fray to secure a share of what is touted to be the world's largest IPO in 2018 — Saudi Arabia's oil and gas company, Saudi Aramco. Singapore is reportedly in talks with Saudi Aramco and is offering package deal whereby the Saudi Aramco stock will be listed on the SGX and one of the public sector investment firms, Government of Singapore Investment Corporation (GIC), could be a cornerstone investor in Saudi Aramco's stock.

The SGX is the smallest of the ten major APAC exchanges in terms of domestic market capitalization. India INX securing this high profile mandate would be the first step in achieving its goal of being a leading player in global financial markets.

The guidelines for Indian retail investors investing in FX-denominated products through the INX have not yet been released. The INX ought to clarify if retail investors could invest through the INX, if investment through the INX will be subject to the Reserve Bank of India stipulated cap of \$250,000 (about ₹1.67 crores) per financial year under the Liberalised Remittance Scheme and the eligibility criteria resident and non-resident Indian citizens ought to comply with to invest through India INX.

While BSE and NSE are competitors in the domestic space, it would serve India well if NSE became a joint venture partner in India INX. BSE's product suite thus far has been narrow, focussing on domestic listings and currency derivatives. NSE's product suite encompasses listings and equity, currency, and interest rate derivatives.

The successful listing of NSE and operationalising and ultimately listing India INX is essential for India to emerge as a premier financial destination.

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