

## Good performance in a tough environment

**NSE's 3QFY25 adjusted profits grew by 26% yoy to Rs30bn – 11% ahead of estimates. Sequentially, profit growth moderates (+4%) as transaction revenues declined by 4% qoq, C&S income fell by 17% and operating investment income fell by 15%. The new derivative regulations have impacted NSE's Equity Options notional turnover by 52% (Jan-25 over Oct-24) and premium turnover by 24%. Further, unique investor base is also down by 13% to 3.84mn. Despite this, the premium turnover trajectory has been better than our expectation given uptick in premium ratios (up 10bps to 28bps). We upgrade our FY25-27ii EPS by 3-5% to account for this. At Rs1600, the stock trades reasonably at 34x FY25ii and 30x FY27ii EPS. Key risk: Market correction leading to slowdown in trading activity.**

**Beat estimates:** NSE's 3QFY25 reported profits were up 94% yoy to Rs38.3bn. Adjusting for Rs11.5bn gains on sale of Protean e-Governance stake, the profits grew by 26% yoy and 3% qoq to Rs30bn – 11% ahead of estimates. The beat in profits was driven by i) higher listing revenues (up 24% qoq), ii) lower than expected impact in colo revenues (up 4% qoq) and iii) tight control over operating costs (down 7% qoq). Equity Options (up 22% yoy) continues to be the key driver of the business, accounting for 78% of transaction revenues and 61% of operational revenues.

**New derivative regulations impact Equity Option volumes:** The new Index derivative regulations are being implemented in phases starting November 2024. The key changes have already been implemented such as restricting weekly expiry to one per exchange (December 2024) and increase in lot sizes (January 2025). Among other key changes is shift to intra-day monitoring of position limits (vs. end of day now) from 1<sup>st</sup> April 2025 – this could have some impact on volumes. In last 3 months i.e. Oct-24 to Jan-25, we note NSE

notional turnover is down >50% and premium turnover is down 24%. NSE shared that it is difficult to quantify what could be incremental impact on volumes due to implementation of pending regulations.

**Unique investor base is down by 13% in Equity Options:** The new regulations have also impacted the retail participation in the equity option market. We note that unique investors in NSE's Equity Option segment are down by 13% to 3.84mn in Dec-24 over Oct-24. Basis turnover distribution, 10-30% decline is seen in slabs ranging from less than Rs10,000 per month to Rs100mn per month. Despite this, we note individual share in Index Option premium turnover has increased from 36% in Oct-24 to 37.3% in Dec-24.

**Robust plans to ramp-up co-location facility:** NSE shared that it is the largest colocation provider globally. It currently has 1200 racks and has plans to add another 300 racks by 1QFY26 end. It also plans to add 2000 racks over the next 2 years given the strong demand from market participants for enhanced colocation infrastructure. Company would spend Rs3bn for 1200 racks (Rs2.5mn per rack).

**No new update on ongoing regulatory cases:** There has been no update on the pending colocation case in Supreme Court. For the IPO, company said it is still awaiting approval from the regulator.

**Market volumes pan out better than expectations, upgrading EPS by 3-5%:** As against our expectation of 30-35% decline in Equity Option volumes (compared to Oct-24), the actual decline so far is only 18% in Jan-25. The improvement in premium ratio (from 15bps to 22bps) has surprised us positively – this implies that investors are willing to trade in near week expiry contracts (share of non-expiry volumes has increased from 58% in Oct-24 to 77% in Jan-25). This coupled with better cost management seen in 3Q leads to an upside in our estimate. We upgrade our FY25-27ii EPS by 3-5%. On revised estimates, adjusted PAT is likely to grow at 14% yoy in FY25ii to Rs116bn (EPS: Rs46.8) and FY25-27ii profits are likely to grow by 9% pa to Rs130bn (EPS: Rs52.5). At Rs1600 (recent transaction), the stock trades at 34x FY25ii EPS and 30x FY27ii EPS.

## 3QFY25 review: Ahead of estimates

Figure 1: NSE's 3QFY25 PAT was up 26% yoy – 11% beat

| Consolidated (Rs m)               | 3QFY24        | 2QFY25        | 3QFY25        | % YoY      | % QoQ      |
|-----------------------------------|---------------|---------------|---------------|------------|------------|
| <b>Operating revenues</b>         | <b>35,166</b> | <b>45,102</b> | <b>43,494</b> | <b>24%</b> | <b>-4%</b> |
| Treasury income                   | 3,756         | 5,131         | 4,571         | 22%        | -11%       |
| Net Sales                         | 38,922        | 50,232        | 48,066        | 23%        | -4%        |
| Operating costs                   | 6,999         | 9,227         | 8,556         | 22%        | -7%        |
| Employee costs                    | 1,174         | 1,942         | 1,627         | 39%        | -16%       |
| Other Overheads                   | 5,825         | 7,285         | 6,929         | 19%        | -5%        |
| <b>EBITDA</b>                     | <b>31,923</b> | <b>41,006</b> | <b>39,509</b> | <b>24%</b> | <b>-4%</b> |
| <b>EBITDA Margin</b>              | <b>82.0%</b>  | <b>81.6%</b>  | <b>82.2%</b>  | <b>18</b>  | <b>57</b>  |
| Depreciation                      | 1,132         | 1,370         | 1,324         | 17%        | -3%        |
| Exceptional Items                 | -4,746        | -2,436        | 10,595        |            |            |
| PBT                               | 26,045        | 37,201        | 48,780        | 87%        | 31%        |
| Tax                               | 6,225         | 10,226        | 10,993        | 77%        | 7%         |
| PAT                               | 19,820        | 26,975        | 37,787        | 91%        | 40%        |
| Share of profits in JV/Associates | 307           | 298           | 367           | 20%        | 23%        |
| Reported PAT (Continuing ops.)    | 20,127        | 27,272        | 38,154        | 90%        | 40%        |
| PAT Margin                        | 52%           | 54%           | 79%           |            |            |
| Discontinued Operations           | (369)         | 4,100         | 182           |            |            |
| <b>Reported PAT</b>               | <b>19,757</b> | <b>31,373</b> | <b>38,336</b> | <b>94%</b> | <b>22%</b> |
| Rep. PAT Margin                   | 51%           | 62%           | 80%           |            |            |
| One-off Adjustments (post tax)    | 3,612         | 1,766         | (8,207)       |            |            |
| <b>Adjusted PAT</b>               | <b>23,739</b> | <b>29,039</b> | <b>29,947</b> | <b>26%</b> | <b>3%</b>  |
| Adj. PAT Margin                   | 61%           | 58%           | 62%           |            |            |

Source: Company, IIFL Research

Figure 2: Transaction income account for >70% of the revenues

| Revenue break-up (Rs mn)                  | 3QFY24        | 2QFY25        | 3QFY25        | % YoY      | % QoQ      |
|---|---------------|---------------|---------------|------------|------------|
| <b>Transaction Charges</b>                | <b>28,190</b> | <b>35,860</b> | <b>34,450</b> | <b>22%</b> | <b>-4%</b> |
| Listing Services                          | 620           | 800           | 990           | 60%        | 24%        |
| Data Centre & Connectivity Charges (Colo) | 2,290         | 2,940         | 3,050         | 33%        | 4%         |
| Data Feed & Terminal Charges              | 910           | 1,040         | 1,030         | 13%        | -1%        |
| Index Licensing & Data Subscription       | 230           | 280           | 320           | 39%        | 14%        |
| C&S Services                              | 460           | 1,010         | 840           | 83%        | -17%       |
| Operating investment income               | 2,150         | 2,590         | 2,210         | 3%         | -15%       |
| Other operating income                    | 320           | 580           | 600           | 88%        | 3%         |
| <b>Total Operational income</b>           | <b>35,170</b> | <b>45,100</b> | <b>43,490</b> | <b>24%</b> | <b>-4%</b> |
| Investment income                         | 4,540         | 5,040         | 4,470         | -2%        | -11%       |
| Other non-operating income                | 30            | 90            | 100           | 233%       | 11%        |
| <b>Total Income</b>                       | <b>39,740</b> | <b>50,230</b> | <b>48,060</b> | <b>21%</b> | <b>-4%</b> |

### Revenue share

| Transaction Charges                       | 70.9%         | 71.4%         | 71.7%         | 0.7%        | 0.3%        |
|---|---------------|---------------|---------------|-------------|-------------|
| Listing Services                          | 1.6%          | 1.6%          | 2.1%          | 0.5%        | 0.5%        |
| Data Centre & Connectivity Charges (Colo) | 5.8%          | 5.9%          | 6.3%          | 0.6%        | 0.5%        |
| Data Feed & Terminal Charges              | 2.3%          | 2.1%          | 2.1%          | -0.1%       | 0.1%        |
| Index Licensing & Data Subscription       | 0.6%          | 0.6%          | 0.7%          | 0.1%        | 0.1%        |
| C&S Services                              | 1.2%          | 2.0%          | 1.7%          | 0.6%        | -0.3%       |
| Operating investment income               | 5.4%          | 5.2%          | 4.6%          | -0.8%       | -0.6%       |
| Other operating income                    | 0.8%          | 1.2%          | 1.2%          | 0.4%        | 0.1%        |
| <b>Total Operational income</b>           | <b>88.5%</b>  | <b>89.8%</b>  | <b>90.5%</b>  | <b>2.0%</b> | <b>0.7%</b> |
| Investment income                         | 11.4%         | 10.0%         | 9.3%          | -2.1%       | -0.7%       |
| Other non-operating income                | 0.1%          | 0.2%          | 0.2%          | 0.1%        | 0.0%        |
| <b>Total Income</b>                       | <b>100.0%</b> | <b>100.0%</b> | <b>100.0%</b> | <b>0.0%</b> | <b>0.0%</b> |

Source: Company, IIFL Research

**Figure 3: Volumes across segments were down qoq**

| Equity ADTO (Rs bn)        | 3QFY24 | 2QFY25 | 3QFY25 | % YoY | % QoQ |
|----------------------------|--------|--------|--------|-------|-------|
| Trading days               | 61     | 64     | 62     | 2%    | -3%   |
| Equity - Cash              | 804    | 1,290  | 1,041  | 29%   | -19%  |
| Equity - Futures           | 1,310  | 2,016  | 1,718  | 31%   | -15%  |
| Equity - Options (premium) | 567    | 657    | 613    | 8%    | -7%   |

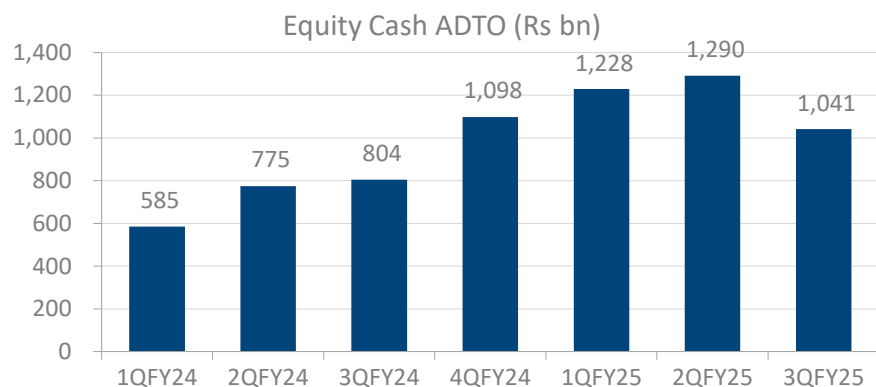
Source: Company, IIFL Research

**Figure 4: Despite the decline in equity option volumes on qoq basis, revenues were flat as company has taken tariff increase**

| Eq. transaction revenue break-up (Rs mn) | 3QFY24 | 2QFY25 | 3QFY25 | % YoY  | % QoQ  |
|--|--------|--------|--------|--------|--------|
| Cash Market                              | 3,020  | 5,000  | 3,840  | 27%    | -23%   |
| Futures                                  | 2,860  | 4,530  | 3,690  | 29%    | -19%   |
| Options                                  | 21,890 | 26,020 | 26,620 | 22%    | 2%     |
| Equity transaction Revenues              | 27,770 | 35,550 | 34,150 | 23%    | -4%    |
| Equity revenue share                     |        |        |        |        |        |
| Cash Market                              | 11%    | 14%    | 11%    | 0.37%  | -2.82% |
| Futures                                  | 10%    | 13%    | 11%    | 0.51%  | -1.94% |
| Options                                  | 79%    | 73%    | 78%    | -0.88% | 4.76%  |

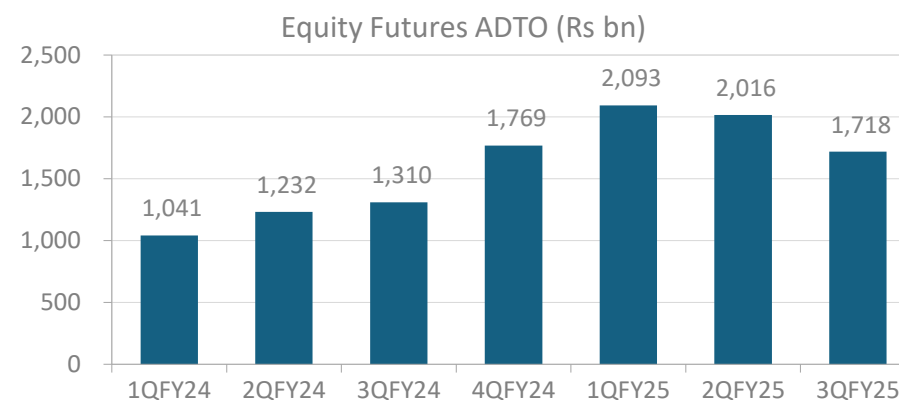
Source: Company, IIFL Research

**Figure 5: Equity cash volumes were down 19% qoq**



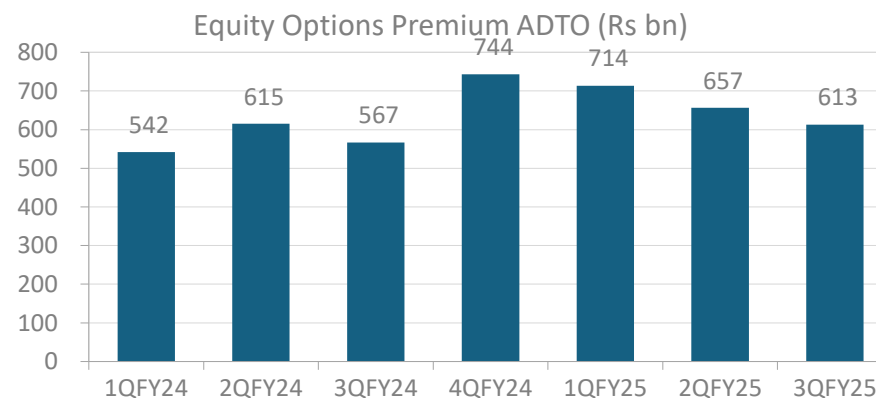
Source: Company, IIFL Research

**Figure 6: Equity futures volumes were down 15% qoq**



Source: Company, IIFL Research

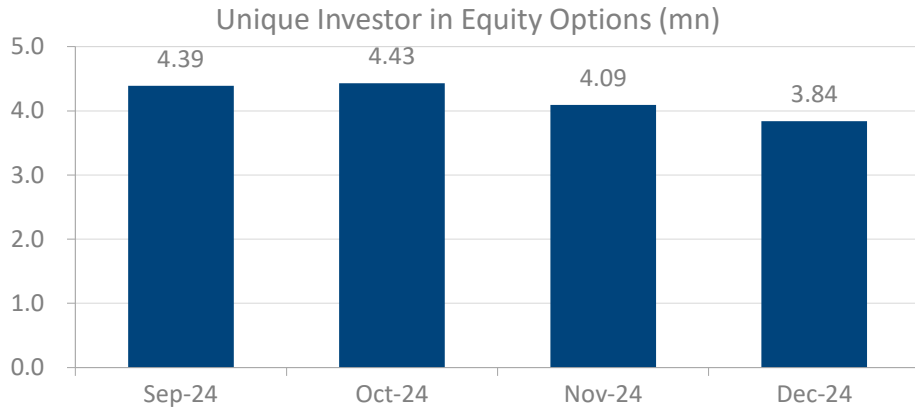
**Figure 7: Equity options premium volumes were down 7% qoq**



Source: Company, IIFL Research

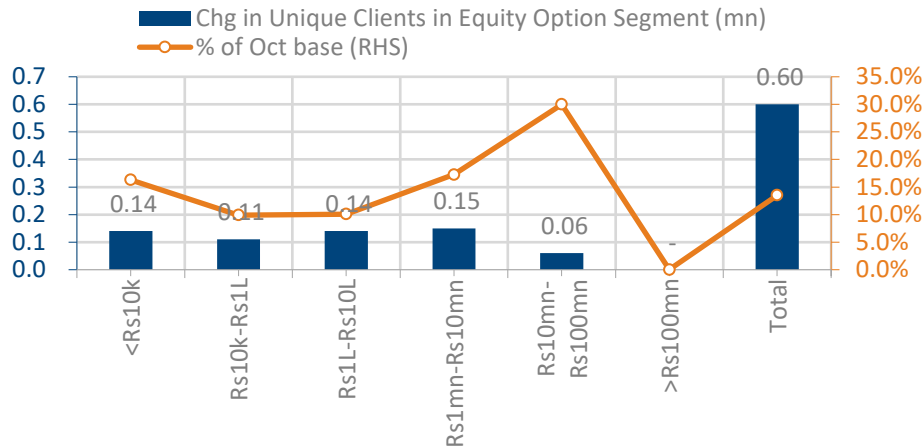
## New regulations impacted retail participation

**Figure 8:** Unique investors in NSE equity Option segment is down 13% over Oct-Dec 2024



Source: Company, IIFL Research

**Figure 9:** The decline has been across the segments



Source: Company, IIFL Research

**Figure 10:** Distribution of turnover by Investor category

| Oct-24         | Premium T/o (Rs bn) | % of total    | Unique Investors (mn) | % of total    |
|----------------|---------------------|---------------|-----------------------|---------------|
| <Rs10k         | 1                   | 0.0%          | 0.86                  | 19.4%         |
| Rs10k-Rs1L     | 23                  | 0.2%          | 1.11                  | 25.0%         |
| Rs1L-Rs10L     | 268                 | 1.7%          | 1.39                  | 31.3%         |
| Rs1mn-Rs10mn   | 1,402               | 9.1%          | 0.87                  | 19.6%         |
| Rs10mn-Rs100mn | 2,517               | 16.4%         | 0.20                  | 4.5%          |
| >Rs100mn       | 11,182              | 72.6%         | 0.01                  | 0.2%          |
| <b>Total</b>   | <b>15,394</b>       | <b>100.0%</b> | <b>4.44</b>           | <b>100.0%</b> |

| Dec-24         | Premium T/o (Rs bn) | % of total    | Unique Investors (mn) | % of total    |
|----------------|---------------------|---------------|-----------------------|---------------|
| <Rs10k         | 1                   | 0.0%          | 0.72                  | 18.8%         |
| Rs10k-Rs1L     | 21                  | 0.2%          | 1.00                  | 26.0%         |
| Rs1L-Rs10L     | 239                 | 2.2%          | 1.25                  | 32.6%         |
| Rs1mn-Rs10mn   | 1,129               | 10.2%         | 0.72                  | 18.8%         |
| Rs10mn-Rs100mn | 1,825               | 16.6%         | 0.14                  | 3.6%          |
| >Rs100mn       | 7,804               | 70.8%         | 0.01                  | 0.3%          |
| <b>Total</b>   | <b>11,019</b>       | <b>100.0%</b> | <b>3.84</b>           | <b>100.0%</b> |

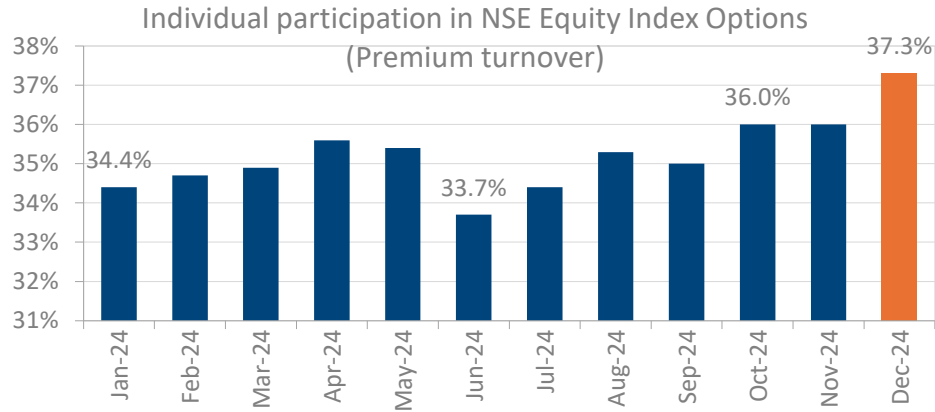
Source: Company, IIFL Research

**Figure 11:** Volume decline and reduction in clients seen across segments

| Dec over Oct   | Decline in premium turnover | Decline in Unique clients |
|----------------|-----------------------------|---------------------------|
| <Rs10k         | -14%                        | -16%                      |
| Rs10k-Rs1L     | -9%                         | -10%                      |
| Rs1L-Rs10L     | -11%                        | -10%                      |
| Rs1mn-Rs10mn   | -19%                        | -17%                      |
| Rs10mn-Rs100mn | -28%                        | -30%                      |
| >Rs100mn       | -30%                        | 0%                        |
| <b>Total</b>   | <b>-28%</b>                 | <b>-14%</b>               |

Source: Company, IIFL Research

**Figure 12: Despite the decline in numbers, the retail participation has improved MoM**



Source: Company, IIFL Research

**Figure 13: Participation in December is the highest in last 12 months**

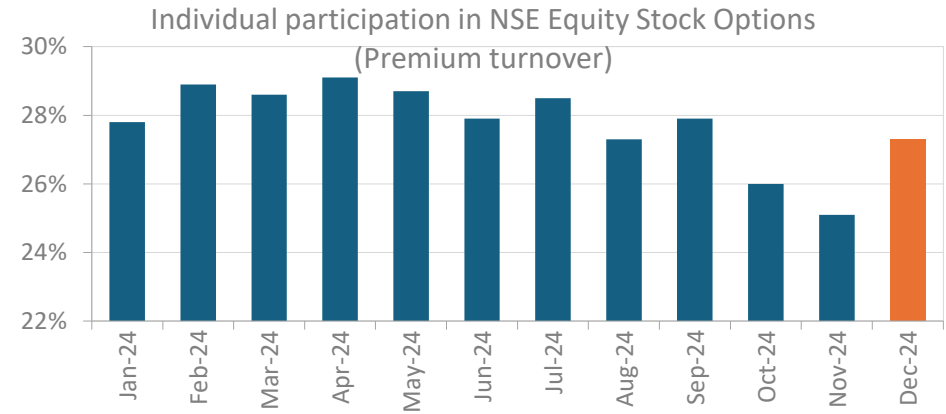
**Table 75: Monthly trend of category-wise share in Index Options turnover (Premium) of NSE in 2024 (%)**

| Client category   | Jan  | Feb  | Mar  | Apr  | May  | Jun  | Jul  | Aug  | Sep  | Oct  | Nov  | Dec  |
|-------------------|------|------|------|------|------|------|------|------|------|------|------|------|
| Corporates        | 2.5  | 2.5  | 2.4  | 2.5  | 3.7  | 4.9  | 4.8  | 4.8  | 5.2  | 5.9  | 3.1  | 2.5  |
| DIIIs             | 0.1  | 0.1  | 0.1  | 0.1  | 0.1  | 0.1  | 0.1  | 0.1  | 0.1  | 0.1  | 0.1  | 0.1  |
| Foreign Investors | 10.7 | 11.5 | 12.0 | 12.2 | 10.7 | 9.5  | 9.1  | 9.4  | 9.9  | 9.2  | 9.9  | 10.8 |
| Individuals       | 34.4 | 34.7 | 34.9 | 35.6 | 35.4 | 33.7 | 34.4 | 35.3 | 35.0 | 36.0 | 36.0 | 37.3 |
| Prop              | 48.2 | 47.3 | 46.5 | 45.8 | 46.3 | 48.8 | 48.6 | 47.4 | 47.3 | 46.0 | 48.1 | 46.6 |
| Others            | 4.0  | 3.9  | 4.2  | 3.8  | 3.8  | 3.1  | 3.0  | 2.9  | 2.5  | 2.9  | 2.8  | 2.6  |

Source: NSE EPR.

Source: Company, IIFL Research

**Figure 14: In Equity Stocks Options too participation has increased MoM, but in line with long term trend**



Source: Company, IIFL Research

**Figure 15: Long term client wise participation in Equity Stock Options premium turnover**

**Table 76: Share of client participation in Stock Options (Premium Turnover) of NSE in 2024 (%)**

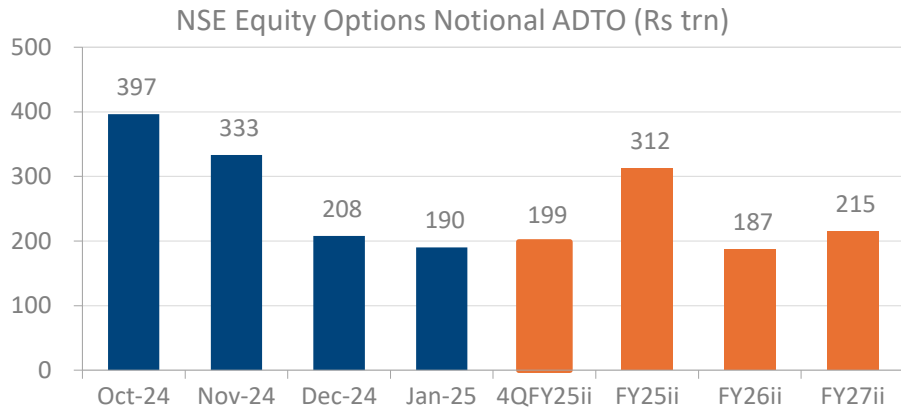
| Client category   | Jan  | Feb  | Mar  | Apr  | May  | Jun  | Jul  | Aug  | Sep  | Oct  | Nov  | Dec  |
|-------------------|------|------|------|------|------|------|------|------|------|------|------|------|
| Corporates        | 3.2  | 3.3  | 2.9  | 2.8  | 3.8  | 4.6  | 4.9  | 6.7  | 7.0  | 6.6  | 4.3  | 3.0  |
| DIIIs             | 0.2  | 0.1  | 0.2  | 0.2  | 0.2  | 0.1  | 0.2  | 0.2  | 0.2  | 0.2  | 0.3  | 0.2  |
| Foreign Investors | 5.1  | 6.0  | 7.7  | 7.3  | 7.7  | 8.4  | 8.2  | 7.8  | 7.4  | 9.7  | 10.6 | 13.1 |
| Individuals       | 27.8 | 28.9 | 28.6 | 29.1 | 28.7 | 27.9 | 28.5 | 27.3 | 27.9 | 26.0 | 25.1 | 27.3 |
| Prop              | 61.8 | 59.6 | 58.7 | 58.8 | 57.4 | 56.9 | 56.0 | 56.0 | 56.0 | 55.8 | 58.2 | 55.1 |
| Others            | 1.9  | 2.0  | 1.9  | 1.9  | 2.1  | 2.0  | 2.3  | 2.0  | 1.5  | 1.6  | 1.5  | 1.3  |

Source: NSE EPR.

Source: Company, IIFL Research

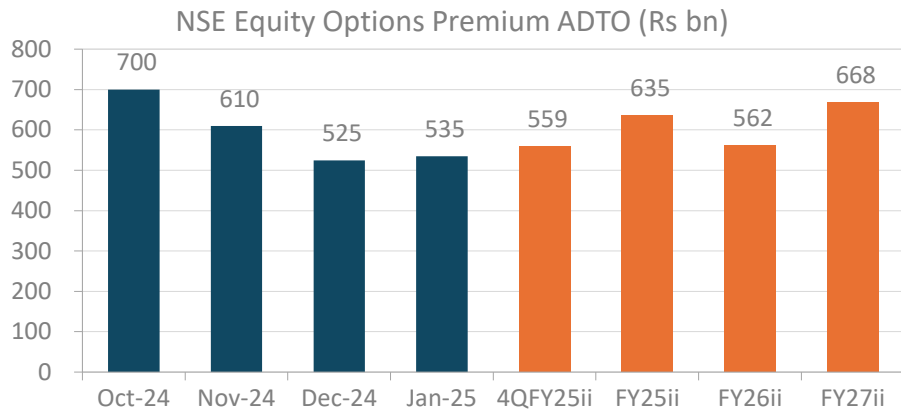
## NSE key assumptions and financial summary

**Figure 16: NSE's Notional ADTO has seen a sharp decline owing to new regulations...**



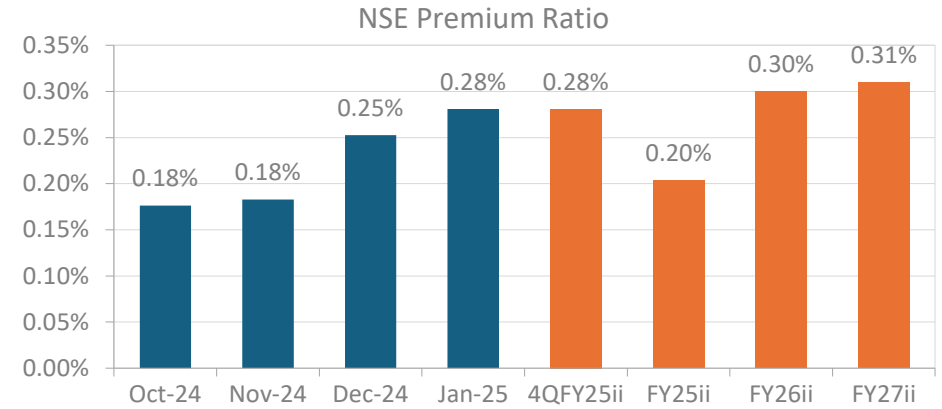
Source: Company, IIFL Research

**Figure 17: ...however decline in premium ADTO is lower given uptick in premium ratio**



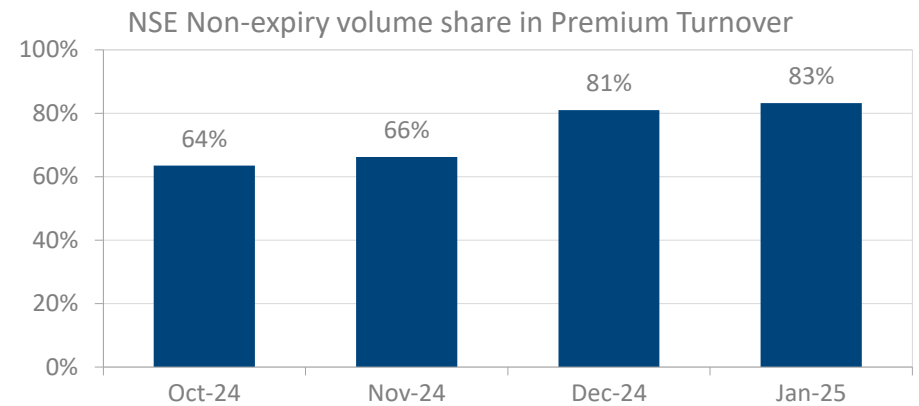
Source: Company, IIFL Research

**Figure 18: Premium ratios are up from 0.18% to 0.28% as share of non-expiry volumes has increased**



Source: Company, IIFL Research

**Figure 19: Share of Non-expiry volumes have increased from 64% to 83%**



Source: Company, IIFL Research

Figure 20: NSE profits are estimated to grow by 10% over FY25-27ii

| Rs mn                     | FY23           | FY24           | FY25ii         | FY26ii         | FY27ii         |
|---------------------------|----------------|----------------|----------------|----------------|----------------|
| <b>Operating revenues</b> | <b>118,546</b> | <b>147,800</b> | <b>172,863</b> | <b>168,545</b> | <b>196,566</b> |
| Treasury income           | 9,091          | 15,722         | 19,607         | 21,744         | 24,557         |
| Total Income              | 127,637        | 163,522        | 192,470        | 190,289        | 221,122        |
| yoy growth                | 43.8%          | 28.1%          | 17.7%          | -1.1%          | 16.2%          |
| <b>Employee Costs</b>     | <b>3,661</b>   | <b>4,604</b>   | <b>6,715</b>   | <b>7,458</b>   | <b>8,950</b>   |
| Admin & Other Expenses    | 17,587         | 27,090         | 28,535         | 27,663         | 31,790         |
| Total Costs               | 21,248         | 31,694         | 35,251         | 35,121         | 40,740         |
| yoy growth                | 24.4%          | 49.2%          | 11.2%          | -0.4%          | 16.0%          |
| <b>Ebitda</b>             | <b>106,389</b> | <b>131,829</b> | <b>157,219</b> | <b>155,168</b> | <b>180,382</b> |
| yoy growth                | 48.5%          | 23.9%          | 19.3%          | -1.3%          | 16.2%          |
| Margin                    | 83.4%          | 80.6%          | 81.7%          | 81.5%          | 81.6%          |
| Depreciation              | 3,841          | 4,396          | 5,625          | 5,419          | 5,281          |
| Interest Cost             | -              | -              | -              | -              | -              |
| Exceptional items         | -4,493         | -17,603        | 5,595          | -2,704         | -3,134         |
| PBT                       | 98,055         | 109,830        | 157,189        | 147,044        | 171,967        |
| Tax                       | 25,397         | 27,778         | 38,511         | 37,055         | 43,336         |
| Tax rate                  | 25.9%          | 25.3%          | 24.5%          | 25.2%          | 25.2%          |
| PAT                       | 72,658         | 82,052         | 118,678        | 109,989        | 128,632        |
| Minority Int / Associates | 873            | 1,006          | 1,306          | 1,306          | 1,306          |
| <b>Reported PAT</b>       | <b>73,532</b>  | <b>83,059</b>  | <b>119,984</b> | <b>111,295</b> | <b>129,938</b> |
| Adjustments               | 3,361          | 13,167         | -4,185         | 2,023          | 2,344          |
| <b>Adjusted PAT</b>       | <b>76,893</b>  | <b>96,225</b>  | <b>115,799</b> | <b>113,318</b> | <b>132,282</b> |
| yoy growth                | 47.0%          | 25.1%          | 20.3%          | -2.1%          | 16.7%          |

Source: Company, IIFL Research

Figure 21: NSE Equity segment volume assumptions

|                                   | FY23      | FY24      | FY25ii    | FY26ii    | FY27ii    |
|-----------------------------------|-----------|-----------|-----------|-----------|-----------|
| Equity Cash ADT (Rs m)            | 534,340   | 817,213   | 1,144,098 | 1,235,626 | 1,334,476 |
| yoy growth                        | -20.0%    | 52.9%     | 40.0%     | 8.0%      | 8.0%      |
| Equity Futures ADT (Rs m)         | 1,148,315 | 1,340,003 | 1,876,005 | 2,026,085 | 2,188,172 |
| yoy growth                        | -3.4%     | 16.7%     | 40.0%     | 8.0%      | 8.0%      |
| Equity Options Premium ADT (Rs m) | 477,440   | 617,788   | 635,417   | 562,040   | 667,891   |
| yoy growth                        | 72.1%     | 29.4%     | 2.9%      | -11.5%    | 18.8%     |

Source: Company, IIFL Research

Figure 22: NSE Valuation matrix – stock is trading reasonably

| Ratio Analysis | FY23  | FY24  | FY25ii | FY26ii | FY27ii |
|----------------|-------|-------|--------|--------|--------|
| Adj. EPS       | 31.1  | 38.9  | 46.8   | 45.8   | 53.4   |
| Rep EPS        | 29.7  | 33.6  | 48.5   | 45.0   | 52.5   |
| BPS            | 82.7  | 96.9  | 122.5  | 140.8  | 168.6  |
| DPS            | 16.0  | 18.0  | 26.7   | 24.7   | 28.9   |
| payout         | 52%   | 46%   | 57%    | 54%    | 54%    |
| ROE            | 41.0% | 37.4% | 44.2%  | 34.2%  | 33.9%  |
| PE             | 53.7  | 47.6  | 32.9   | 35.5   | 30.4   |

Source: Company, IIFL Research

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**BUY** - Stock expected to give a return 10%+ more than average return on a debt instrument over a 1-year horizon.

**SELL** - Stock expected to give a return 10%+ below the average return on a debt instrument over a 1-year horizon.

**Add** - Stock expected to give a return 0-10% over the average return on a debt instrument over a 1-year horizon.

**Reduce** - Stock expected to give a return 0-10% below the average return on a debt instrument over a 1-year horizon.

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