**Note on NSE by Planify Capital**

**Introduction**

- NSE India was incorporated at Mumbai on November 27, 1992. The company was granted recognition as a stock exchange on April 26, 1993. NSE is the **world's largest derivative exchange** for fifth consecutive Year Ranks 3rd largest globally in equity segment in calendar year 2023
- NSE owns and manage the popular NIFTY 50 index, a leading benchmark for the Indian capital markets. The company offers comprehensive coverage of the Indian capital markets across asset classes, including equity, fixed income and derivative securities

**The Background**

- NSE is the leader in all the segments of market and holds either all of the market share or most of it. The leadership position of the company in all the segments can be seen from the table below.

| **Quarter** | **Q1 FY24** | **Q2 FY24** | **Q3 FY24** | **Q4 FY24** |
|---|---|---|---|---|
| **Cash Market** | | | | |
| **BSE** | 6% | 7% | 8% | 8% |
| **NSE** | 94% | 93% | 92% | 92% |
| **Equity Options** | | | | |
| **BSE** | 0% | 4% | 12% | 15% |
| **NSE** | 100% | 96% | 88% | 85% |
| **Equity Futures** | | | | |
| **BSE** | 0.02% | 0.05% | 0.07% | 0.10% |
| **NSE** | 100.0% | 100.0% | 99.9% | 99.9% |
| **Currency Futures** | | | | |
| **BSE** | 31% | 25% | 16% | 17% |
| **NSE** | 67% | 74% | 81% | 78% |
| **Currency Options** | | | | |
| **BSE** | 1.0% | 0.7% | 0.2% | 0.2% |
| **NSE** | 99.0% | 99.3% | 99.8% | 99.8% |

**Loss in the Market Share by NSE**

- NSE lost the market share in Equity Options segment from 100% in Q1 FY24 to 85% in Q4 FY24. In equity options, two segments are offered one is Index options (Nifty 50 & Bank Nifty) and second is Stock Options.
  Now the Index options holds the maximum share in terms of total transactions done in the option market. This is quite visible in the table below which shows that out of total transactions done in the options market 99% are done in the index options and only 1% is the contribution from stock options and this trend has been very much intact.

| Quarter | Q1 FY23 | Q2 FY23 | Q3 FY23 | Q4 FY23 | Q1 FY24 | Q2 FY24 | Q3 FY24 | Q4 FY24 |
|---|---|---|---|---|---|---|---|---|
| **Contribution to total Option Trading (%)** | | | | | | | | |
| **Index Options** | 98% | 98% | 99% | 99% | 99% | 99% | 99% | 99% |
| **Stock Options** | 2% | 2% | 1% | 1% | 1% | 1% | 1% | 1% |

**Why NSE lost the market share?**

- On May 15 2023, **BSE relaunched Sensex and Bankex derivative contracts with reduced lot size** allowing retail investors to participate in the derivative markets. The lot size of F&O has been reduced to 10 from 15 for Sensex and 15 from 20 in case of Bankex. Also, on 23rd October 2023, **BSE increased its transaction charges on BSE Sensex Options** which became effective from 01st November 2023 and company got benefitted from the same as its revenues got significant growth in its revenues

| **NSE** | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Quarter** | **Q1 FY22** | **Q4 FY22** | **Q1 FY23** | **Q4 FY23** | **Q1 FY24** | **Q2 FY24** | **Q3 FY24** | **Q4 FY24** |
| Revenue from Operations | 1,580 | 2,501 | 2,488 | 3,295 | 2,833 | 3,386 | 3,170 | 4,123 |
| Growth in Revenue from Operations | -3% | 23% | -1% | 25% | -14% | 20% | -6% | 30% |
| Index Options Market Share | 93% | 97% | 99% | 100% | **100%** | **96%** | **88%** | **85%** |
| **BSE** | | | | | | | | |
| Revenue from Operations | 133 | 155 | 142 | 156 | 157 | 207 | 278 | 379 |
| Growth in Revenue from Operations | 3% | -4% | -9% | 1% | **0%** | **32%** | **35%** | **36%** |
| Index Options Market Share | 7% | 3% | 1% | 0% | **0.1%** | **4%** | **12%** | **15%** |

- Now, again on **30th April 2024, BSE further increased its transaction charges on BSE Sensex and BSE Bankex Options significantly**. The details of which are as follows. Now the increased charges became effective from today (13th May 2024)

<table>
<tr><th>Date</th><th rowspan="2">Transaction Charges<br>Rs per Cr.</th><th>Segment</th><th>Effective from</th><th>Instrument</th></tr>
<tr><td>20-Oct-23</td><td rowspan="8">Derivatives</td><td rowspan="8">01-Nov-23</td><td rowspan="8">S&P BSE SENSEX Options</td></tr>
<tr><td>Upto 3 Crores</td><td>500</td></tr>
<tr><td>More than 3 Cr upto Rs 100 Crores</td><td>3,750</td></tr>
<tr><td>More than 100 Crores upto Rs 750 Crores</td><td>3,500</td></tr>
<tr><td>More than 750 Crores upto Rs 1500 Crores</td><td>3,000</td></tr>
<tr><td>More than 1500 Crores upto Rs 2000 Crores</td><td>2,500</td></tr>
<tr><td>Above 2000 Crores</td><td>2,000</td></tr>
<tr><td></td><td></td></tr>
<tr><th>Date</th><th rowspan="2">Transaction Charges<br>Rs per Cr.</th><th rowspan="2">Growth</th><th>Effective from</th><th>Instrument</th></tr>
<tr><td>30-Apr-24</td><td rowspan="7">13-May-24</td><td rowspan="7">S&P BSE Sensex Options<br>S&P BSE BANKEX</td></tr>
<tr><td>Upto 3 Crores</td><td>500</td><td>0%</td></tr>
<tr><td>More than 3 Cr upto Rs 100 Crores</td><td>4,950</td><td>32%</td></tr>
<tr><td>More than 100 Crores upto Rs 750 Crores</td><td>4,700</td><td>34%</td></tr>
<tr><td>More than 750 Crores upto Rs 1500 Crores</td><td>4,200</td><td>40%</td></tr>
<tr><td>More than 1500 Crores upto Rs 2000 Crores</td><td>3,700</td><td>48%</td></tr>
<tr><td>Above 2000 Crores</td><td>2,950</td><td>48%</td></tr>
</table>

**NSE's Response**

- Looking at the gain in market by BSE strategy of reducing lot size, **NSE on April 2024 reduced the lot sizes of F&O for Nifty from 50 to 25, FINNifty from 40 to 25 and MIDCAPNIFTY from 75 to 50.** The impact of the same will be interesting to see going ahead. **Also, recently NSE had reduced 1% transaction charges on cash equity and derivatives.**

**Implications/Conclusion**

- **Reduction in the lot size in the index options and the transaction charges in all the segments by NSE is expected to increase the turnover of NSE option segment and also increase the market share** as it is expected to increase the participation by retail investors in the market.
- On the other the **rise in the transaction charges by BSE is expected to hurt its turnover and hence the market share in the index options market.**
- Both the above-mentioned expectations should be visible in the two quarters on the turnover/ADTO side and the market share side and also on the growth of the revenue