

ANNUAL REPORT 2015-2016



“BE THE CHANGE THAT YOU WISH
TO SEE IN THE WORLD”

-Mahatma Gandhi

A stylized, abstract illustration of a modern building and a dome. The building is composed of several vertical, curved sections in shades of blue and grey, with a series of horizontal lines suggesting windows or architectural details. To the right of the building is a large, dome-shaped structure with horizontal grey and white stripes. Below these structures is a solid blue horizontal band, and at the very bottom is a dark blue band containing the text.

THE WORLD'S FASTEST EXCHANGE WITH A SPEED OF 6 MICROSECONDS

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BOARD OF DIRECTORS

(As on 5th May, 2016)



Mr. Sudhakar Rao
Chairman



Mr. Ashishkumar Chauhan
Managing Director & CEO



Dr. K. Kasturirangan



Mr. Dhirendra Swarup



Ms. Usha Sangwan



Dr. Sriprakash Kothari



Mr. S. Ravi



Ms. Rajeshree Sabnavis



Mr. Thomas Bendixen

BOARD OF DIRECTORS
Chairman (Public Interest Director)
Mr. Sudhakar Rao (<i>w.e.f. 22nd March, 2016</i>)
Mr. S. Ramadorai (<i>upto 7th March, 2016</i>)
Managing Director & CEO
Mr. Ashishkumar Chauhan
Public Interest Directors
Dr. K. Kasturirangan
Mr. Dharendra Swarup
Mr. S. Ravi (<i>w.e.f. 5th February, 2016</i>)
Dr. Sanjiv Misra (<i>upto 21st April, 2016</i>)
Late Mr. S. H. Kapadia (<i>upto 4th January, 2016</i>)
Shareholder Directors
Mr. Thomas Bendixen
Dr. Sriprakash Kothari (<i>w.e.f. 4th September, 2015</i>)
Ms. Rajeshree Sabnavis (<i>w.e.f. 4th September, 2015</i>)
Ms. Usha Sangwan (<i>w.e.f. 4th September, 2015</i>)
Company Secretary
Ms. Neena Jindal

EXECUTIVE MANAGEMENT COMMITTEE
Mr. Ashishkumar Chauhan MD & CEO
Mr. V. Balasubramaniam Chief Business Officer
Mr. Nehal Vora Chief Regulatory Officer
Mr. Nayan Mehta Chief Financial Officer
Mr. Kersi Tavadia Chief Information Officer
Mr. Neeraj Kulshrestha Chief of Business Operations

STATUTORY AUDITORS
Deloitte Haskins & Sells LLP Chartered Accountants

REGISTRAR & TRANSFER AGENT
Karvy Computershare Private Limited Karvy Selenium Tower B, Plot No 31 & 32 Gachibowli, Financial District, Nanakramguda, Serilingampally Hyderabad – 500 032 E-Mail: einward.ris@karvy.com Tel. No.: +91 40 6716 1500 Fax. No.: +91 40 2342 0814

REGISTERED OFFICE
25 th Floor, P. J. Towers, Dalal Street, Mumbai 400 001

ELEVENTH ANNUAL GENERAL MEETING
Day : Friday
Date : 24 th June, 2016
Time : 11.30 a.m.
Venue : Sir Dinshaw Petit International Convention Hall, 1 st Floor, P. J. Towers, Dalal Street, Mumbai - 400 001



Shri Ashishkumar Chauhan, MD & CEO, BSE interacting with Shri Arun Jaitley, Hon'ble Minister of Finance, Corporate Affairs, Information and Broadcasting, Govt. of India, at the Asia Pacific Investment Co-operation Summit Hong Kong on September 25, 2015.

Directors' Report

Your Directors take great pleasure in presenting the Eleventh Annual Report of BSE Limited along with the audited financial statements for the financial year ("FY") ended March 31, 2016.

1. The Economic Environment

1.1 Global Outlook

Global growth is estimated at 2.4% in 2015, 0.4% below the projections as per the January 2016 World Bank Report on Global Economic Prospects. The below par performance largely reflected a continued growth deceleration in emerging and developing economies amid post-crisis lows in commodity prices, weaker capital flows and subdued global trade. In developing countries, growth in 2015 is estimated at a post-crisis low of 4.3%, down from 4.9% in 2014 and 0.4% lower than that projected in June 2015. The economic rebalancing in China is continuing and is accompanied by slowing growth. Brazil and Russia have been going through severe adjustments in the face of external and domestic challenges. More generally, 2015 growth estimates for more than half of the developing countries were further lowered.

According to the World Bank Global Economic Outlook 2016, global growth is projected to accelerate in the coming years reaching 2.9% in 2016 and 3.1% in 2017-18. This pickup is predicted on continued gains in major high-income countries, a gradual tightening of financing conditions, a stabilization of commodity prices, and a gradual rebalancing in China. The forecast is subject to downside risks, including a possible slowdown in major emerging market economies, financial market uncertainties arising from sudden shifts in borrowing costs and elbow room available for corrections to be attempted by the policy makers.

Growth in major high-income countries gained traction last year. This has been increasingly driven by stronger domestic demand, particularly in the United States, where employment conditions have improved. In the Euro area, credit growth is picking up and unemployment is declining. The recovery remains fragile in Japan despite substantial policy stimulus. With

external demand negatively affected by a slowdown in large emerging market economies, growth forecasts across major high-income economies in 2016 have been calibrated down. The tightening cycle of the U.S. Federal Reserve is projected to be very gradual, while policy accommodation is likely to continue in the Euro area and Japan. China's gradual slowdown and rebalancing continued in 2015, as further deceleration in sectors with excess capacity was partially offset by growth in services.

Overall, for world economies, downside risks dominate and have become increasingly centered on emerging and developing countries, as a gradual recovery in major high-income countries takes hold. As yet, unrealized gains from declining oil prices for importers pose an upside opportunity. India remains one of the brighter spots in the midst of uncertainty at the global level.

1.2 Indian Outlook

1.2.1 Economic performance in FY 2015-16

The Economic Survey released in February 2016 depicts an optimistic picture of the Indian economy. Amidst persisting global headwinds, India remains



Shri Ashishkumar Chauhan, MD & CEO, BSE; Shri Ravi Shankar Prasad, Hon'ble Union Minister for Communications & Information Technology & Shri S. Ramadorai, Former Chairman, BSE on the dais during the "Launch of Free Public Wi-Fi" at BSE on January 10, 2016.

one of the best performing economies. Inflation, fiscal deficit and current account balance have exhibited distinct signs of improvement. As per the advanced estimates of the Government, the country is expected to register a GDP growth of 7.6% in FY 2015-16, as compared to 7.2% in 2014-15 (with the base as 2011-12), recording the highest percentage increase in the last five years. This year, India became the fastest growing major economy, surpassing China in terms of GDP growth. The economic reforms introduced by the government, a stable macro-economic environment and the falling commodity prices are some of the factors that have helped India achieve robust economic growth estimates.

According to the Economic Survey, India's GDP is estimated to grow at 7-7.5% in the FY 2016-17 despite moderate global growth. The survey indicated that encouraging demand would be vital, and the implementation of the Seventh Pay Commission and onset of normal monsoons, are expected to provide some added optimism. The Survey states that the economy would be able to grow at 8.0% over the next couple of years. Further, it goes on to state that the country's long run potential growth rate is still around 8-10% and realizing this potential requires a push on at least three fronts: being genuinely pro-competition, major investments in health and education of people, and focus on agriculture.

The Asian Development Outlook 2016 supports the Economic Survey findings and expects a 7.6% growth in GDP for the FY 2015-16 despite a double-digit decline in exports. The GDP growth is projected to dip marginally in FY 2016-17 due to a slowdown in public investment, stressed corporate balance sheets, and declining exports,



Shri Ashishkumar Chauhan, MD & CEO, BSE presenting a memento to Shri Ahmad Javed, Commissioner of Police, Mumbai during an Open Interactive Session with him on November 9, 2015 at BSE.

then pick up in FY 2017-18 as newly strengthened bank and corporate finances allow a revival in investment. The growth estimates for FY 2016-17 is 7.4% and for FY 2017-18 is 7.8%. Notwithstanding unexpected delays in enacting some economic reform, the prospects for continued rapid growth are undiminished.

Despite a weak monsoon for a second consecutive year, agriculture grew by 1.1% in FY 2015-16, mainly on strong growth in livestock. Food grain production is estimated to have increased by 0.5% in FY 2015-16, though there was lower production of rice, coarse cereals, oilseeds, and sugarcane.

After growing by 5.9% in FY 2014-15, industry accelerated further to 7.3% in FY 2015-16. Manufacturing growth also rebounded to 9.5%, much higher than the 5.5% growth in FY 2014-15, primarily with the aid of robust performance in the manufacturing operations of private corporations, whose margins have been inching up due to lower input costs. The strong growth in manufacturing, which is based on value added, continues to be at variance with muted growth in industrial production, which measures volume. Growth in other industry subsectors - mining, construction, and utilities - moderated in FY 2015-16.

Expansion in services also moderated to 9.2%, largely in line with slower growth in public administration, defence, and the "other services" category. An increase in bank deposit and credit growth in the second half of FY 2015-16 helped financial, real estate, and professional services grow at a healthy 10.3%, while robust growth in airline passengers and sales of commercial vehicles bolstered expansion in trade, hotels, transport, and communications to 9.5%.



Shri Ashishkumar Chauhan, MD & CEO, BSE presenting a memento to Shri Himanshu Kapania, Managing Director, Idea Cellular Limited during the ETNow BSE day on December 28, 2015 at BSE.



Shri Ashishkumar Chauhan, MD & CEO, BSE; Shri S. Ramadorai, Former Chairman, BSE and Shri Sameer Kochar, Chairman, Skoch Group presenting the award to Shri Anthony J.C. deSa, Chief Secretary, Madhya Pradesh, during the Skoch Awards on June 12, 2015 at BSE.

Private consumption growth is estimated to have picked up to 7.6% in FY 2015-16 from 6.2% a year. Much of the improvement in private consumption stems from a pickup in urban consumption, while rural consumption has remained subdued as a result of two consecutive weak monsoons. Government consumption growth also stayed moderate as the central government boosted capital expenditure and curtailed current expenditure. A 20.9% increase in capital expenditure undertaken by the central government helped investment growth improve to 5.3% from 4.9% in FY 2014-15. However, private investment remained weakened by overcapacity and Indian corporations' debt overhang.

Inflation has been stable, averaging 5.0% in FY 2015-16. The easing of food inflation overall was helped by lower global commodity prices, restrained increases in domestic procurement prices, and improved management of government food stocks. Core inflation has remained steady, settling within the narrow range of 4.1% to 4.8% in FY 2015-16.

The government was able to achieve its target of reducing the budget deficit to the equivalent of 3.9% of GDP from 4.1% in FY 2014-15. The reduction came through curtailed current expenditure and through augmentation of tax revenue growth that exceeded the budgeted estimates. While corporate and personal income tax collection fell short of their targets, revenue from excise duties and taxes on services grew faster than planned, aided by hikes in excise duties on petroleum products. Despite receipts from planned asset sales falling well below their target, non-tax revenue registered healthy growth at over 30% as public sector enterprises, including public banks, paid higher dividends.

Expenditure grew by 7.3% in FY 2015-16, marginally higher than budgeted growth at 6.8%. Unlike in previous years, capital expenditure grew robustly, by 20.9%, such that the ratio of capital expenditure to GDP rose to 1.8% in FY 2015-16. By contrast, current expenditure growth was contained at 5.5%. The sharp drop in global oil prices, deregulation of diesel prices, and use of cash transfers to qualified recipients to rationalize the subsidized cooking gas benefit cut expenditures on the petroleum subsidy by more than half. However, there was an uptick in the outgo on account of fertilizer and food subsidies.

Buoyed by measures to enhance foreign direct investment - including raising the ceiling for investment in several important sectors such as broadcasting and defence, as well as rationalizing and simplifying procedures - net flows of foreign direct investment surged to an estimated \$32 billion, nearly 26% higher than in the previous year. FDI inflows were primarily driven by investments in infrastructure and the services sector. Inflows in the form of deposits by non-resident Indians also remained strong, growing to nearly \$15 billion in FY 2015-16. These inflows and continuing business and government loan inflows increased gross international reserves by \$9.2 billion in FY 2015-16 to over \$350 billion.

The Indian rupee depreciated by 8% against the US dollar in FY 2015-16. However, it weakened in nominal effective terms by a smaller 5%, and in real effective terms by less than 3%, implying that it moved in parallel with the currencies of its trading partners.



(L to R) CS Ashish Garg, Central Council Member & Program Director, ICSI; CS Atul Mehta, President, ICSI; Shri Ashishkumar Chauhan, MD & CEO, BSE; CS Makarand Lele, Central Council Member & Chairman, Financial Services Committee, ICSI and CS Rishikesh Gagan Vyas, Chairman, ICSI-WIRC & program coordinator present on dais during the ICSI Capital Markets Week June 2, 2015 at BSE.

Foreign Portfolio Investors (“FPI”) net investments in Indian equities and debt reached record highs in FY 2015-16 backed by expectations of an economic recovery, falling interest rates and improving earnings outlook. FPIs net investments stood at ₹ 18,106 Crore in March 2016, out of which ₹ 16,731 Crore was invested in equities and ₹ 1,375 Crore invested in debt. In the Asia-Pacific region ex-China, India was the highest recipient of inflows in equities and ranked third for debt.

1.2.2 Economic Prospects for FY 2016-17

While public investment and urban consumption were the major drivers of growth in FY 2015-16, a revival of private investment and rural consumption is critical if growth is to remain strong in FY 2016-17 and FY 2017-18, given the likely sluggish recovery in the advanced economies and the bleak outlook for global trade. Urban consumption is expected to receive a boost due to the implementation of 7th Pay Commission recommendations. Rural incomes and spending also received a boost in the Budget 2016-17 as it supports programs aimed to improve agricultural productivity and funding of the government employment scheme for poor rural families. An expectation of normal monsoon to above-normal monsoon gives hope to mitigate some of the pressure on food prices, which firmed up in the second half of FY 2015-16.

Public investment will continue to be an important driver of growth, as the government is expected to use savings from oil to further boost government investment. Ongoing deleveraging by private corporations, reductions in policy rates, and positive externalities from public investment are likely to initiate a recovery in private investment. The manufacturing purchasing managers’ index declined for 6 consecutive months to December



Shri Ashishkumar Chauhan, MD & CEO, BSE, interacting with the delegate at the Dun & Bradstreet Risk Management Conclave on May 22, 2015.



Shri Ashishkumar Chauhan, MD & CEO, BSE with Shri V.P. Nandakumar, MD & CEO, Manappuram Finance ringing the Opening Bell on Completion of 20 years of Manappuram Finance on November 6, 2015 at BSE.

but rose in January, February and March 2016 on new orders and exports. The services index has been more robust, reaching a 21-month high in January but then falling in February and again rising in March 2016 on a marginal increase in output.

RBI’s monetary policy over the last year had rested on rate cuts and liquidity measures - in that sequence of events and importance. The central bank has signaled an accommodative monetary stance and delivered a 25bp rate cut in April 2016 to bring down the policy repo rate to 6.5% in line with market expectations and stuck to its “accommodative” forward guidance. Though further cuts to key policy rates would be contingent on the evolving inflation trajectory and the implementation of planned budget consolidation. RBI’s projection for March 2017 CPI is at 5% and they target it to be 4.2% by early 2018. Thus, while aggressive rate cuts are unlikely, FY 2016 may see some monetary easing. The lending rates of the banks have not come down in tandem with the RBI rate cuts and the focus of the RBI is now on transmission of these rate cuts.

As per the survey conducted by Centre for Monitoring Indian Economy Pvt. Ltd. (“CMIE”), 41.2% of the respondents expect an increase in industrial production which is slightly less than 48.6% respondents who don’t expect it to change. A positive sign is that respondents who feel that production will decrease has never crossed 14% since Q1-11 and form a minority.

The FY 2016-17 budget displays fiscal prudence by reaffirming the path of fiscal consolidation and reducing the fiscal deficit to 3.5% of GDP. The Budget of 2016-17 has focused on a 9-pillar theme that supports the inclusive and overall growth