

Multi Commodity Exchange

BUY

INDUSTRY	EXCHANGES
CMP (as on 23 Oct 2018)	Rs 742
Target Price	Rs 980
Nifty	10,147
Sensex	33,847
KEY STOCK DATA	
Bloomberg	MCX IN
No. of Shares (mn)	51
MCap (Rs bn) / (\$ mn)	38/514
6m avg traded value (Rs mn)	521
STOCK PERFORMANCE (%)	
52 Week high / low	Rs 1,112/650
	3M 6M 12M
Absolute (%)	(3.5) (5.6) (32.0)
Relative (%)	4.3 (3.8) (36.1)
SHAREHOLDING PATTERN (%)	
Promoters	-
FIs & Local MFs	39.24
FPIs	28.72
Public & Others	32.04
Source : BSE	

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Slow and steady improvement

MCX delivered muted set of numbers in 2QFY19, revenue was down 2.4% QoQ to Rs 711mn (vs our est. of Rs 734mn), led by 0.3% QoQ drop in volume (Rs 15.8 TN) and Rs 16.7mn impact from Liquidity Enhancement Scheme (LES). ADTV was up 1.2% QoQ and 12.2% YoY to Rs 246.55 bn led by Metals (+3.5%). Trading volume has picked-up in Sep-18, ADTV is at Rs 273.78bn (+22% YoY) led by Metals and Energy. Hedging in Bullions is witnessing increased traction after the regulatory push. Option volume registered strong growth in the quarter (ADTV of Rs 12.08bn, +121.3% QoQ, ~5% of futures) led by LES. The company will start charging for options only in FY20E when it reaches ~10% of futures volume.

Progress on regulatory tailwinds like institutional participation (Banks, MFs, PMS) is slow. However, partnership with retail banks subsidiaries is a positive and can boost volumes by additional 10%. BSE & NSE has launched commodity derivation trading (Gold & Silver) in Oct-18. This can lead to rise in competitive intensity, pricing pressure and some volume shifts however this opens the door for consolidation which

Financial Summary (Consolidated)

YE March (Rs mn)	2QFY19	2QFY18	YoY (%)	1QFY19	QoQ (%)	FY17	FY18	FY19E	FY20E	FY21E
Net Revenues	711	673	5.7	729	(2.4)	2,594	2,598	3,106	3,559	4,087
EBITDA	229	207	10.9	249	(8.1)	796	719	1,034	1,295	1,658
APAT	359	292	23.3	311	15.4	1,266	1,084	1,379	1,520	1,812
Diluted EPS (Rs)	7.1	5.7	23.3	6.1	15.4	24.9	21.3	27.1	29.9	35.6
P/B (x)						2.8	2.7	2.7	2.6	2.5
P/E (x)						29.8	34.8	27.4	24.8	20.8
EV / EBITDA (x)						35.5	38.9	27.0	21.4	16.5
RoE (%)						9.5	7.9	9.9	10.6	12.3

Source: Company, HDFC sec Inst Research

can ease competition. Management doesn't see the risk of any major shift of volume and expects the overall market size to increase. We see value in MCX based on (1) Embedded non-linearity, (2) ADTV growth despite rising competition, (3) Cost discipline and (4) Net cash of Rs 14bn (~39% of Mcap). We estimate revenue/PAT CAGR of 16/19% over FY18-21E. Maintain BUY with a TP of Rs 980 implying a P/E of 30x Sep-20E EPS.

Highlights of the quarter

- Bullion/Agri ADTV was down 1.0/4.4% QoQ to Rs 54.65/3.78bn. Metals ADTV was up 3.5% QoQ to Rs 108.32bn while Energy was flat QoQ at Rs 79.80bn.
- EBITDA margin stood 32.2% down 198bps QoQ (vs our exp of 33%). Cost control has led to EBITDA margin expansion of 670bps in 6MFY19 to 33.2%.
- **Near-term outlook:** Recovery in volumes will continue but Dec-18 is a seasonally weak month. In the near term there is no pricing risk. Any consolidation in the industry will ease competition and can result in re-rating.

Total traded volume declined 0.3% QoQ to Rs 15.8TN, while blended realisation was flat QoQ to Rs 21.9/mn

Ex LES impact the top-line stood at Rs 728mn (-0.1% QoQ)

EBITDA margin was impacted by LES and higher licence fees paid to LME and CME offset by lower employee cost

APAT stood at Rs 036bn up 15.4% QoQ due to higher other income

Tax rate was lower due to tax write back and deferred tax, adjusted tax rate was 22%

Quarterly Financials Snapshot

Rs mn	2QFY19	2QFY18	YoY (%)	1QFY19	QoQ (%)
Operating income	711	673	5.7	729	(2.4)
Software service expenses	145	127	14.7	139	4.5
Employee expenses	174	178	(2.3)	186	(6.0)
Computer & Tech expenses	52	57	(10.0)	51	1.0
Other operating expenses	111	104	6.8	104	6.6
EBITDA	229	207	10.9	249	(8.1)
Interest Cost	0	0	NM	0	NM
Depreciation	38	48	(20.8)	37	4.1
Other Income (including E/O items)	222	243	(8.7)	(112)	NM
PBT	413	401	2.8	100	312.2
Tax	53	110	(51.4)	27	98.9
RPAT	359	292	23.3	73	390.2
E/o gains (adj for tax)	0	0	NM	(238)	NM
APAT	359	292	23.3	311	15.4

Source: Company, HDFC Sec Inst Research

Margin Analysis

MARGIN ANALYSIS	2QFY19	2QFY18	YoY (bps)	1QFY19	QoQ (bps)
Software service expenses % of Net Sales	20.4	18.8	160	19.1	135
Employee Expenses % of Net Sales	24.5	26.5	(201)	25.5	(94)
Other Operating Expenses % of Net Sales	15.6	15.5	16	14.3	133
EBITDA Margin (%)	32.2	30.7	151	34.2	(198)
Tax Rate (%)	12.9	27.3	(1,442)	26.8	(1,386)
APAT Margin (%)	50.5	43.3	720	42.7	781

Source: Company, HDFC Sec Inst Research

The value of India's exchange traded commodity derivatives (ETCD) was up 1.6% QoQ, and 11.8% YoY to Rs 17.4tn

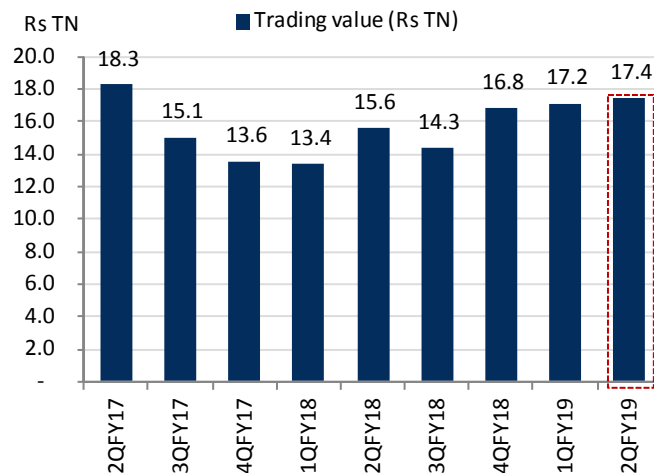
Bullion fall has stabilised but growth is led by Energy and Metals

Base Metal continues to grow strongly in the quarter and will be an important volume driver

In 6M FY19 Energy/Metals ADTV is up 20.2/42.8% YoY offset by fall in Bullion (-6.5% YoY)

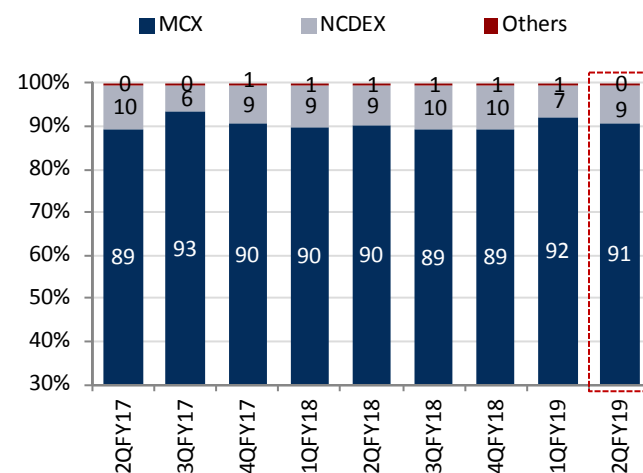
Market share declined from 92% to 91% in the quarter

India's Exchange Traded Commodity Derivatives (ETCD)



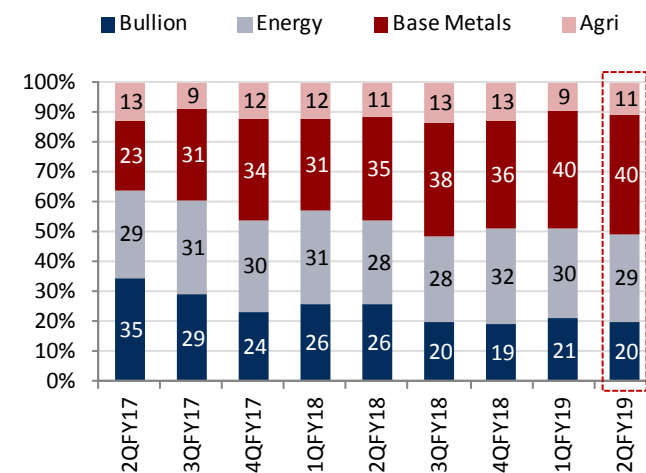
Source: Company, Industry, HDFC sec Inst Research

Market Share (%) Of Key Commodity Exchanges



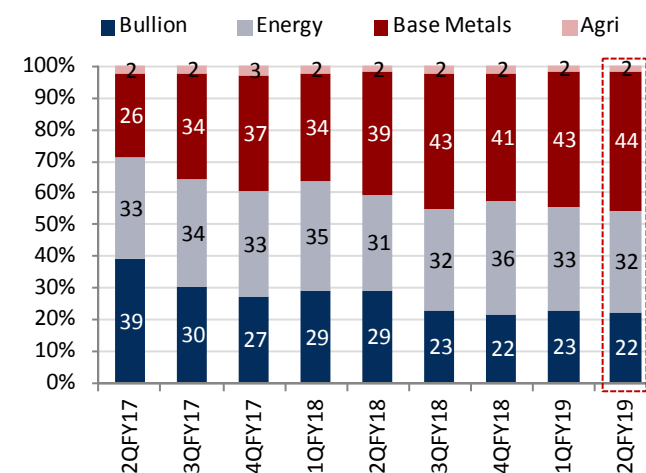
Source: Company, Industry, HDFC sec Inst Research

Composition Of India's ETCD



Source: Company, Industry, HDFC sec Inst Research

MCX's Traded Value: Sectoral Composition



Source: Company, Industry, HDFC sec Inst Research

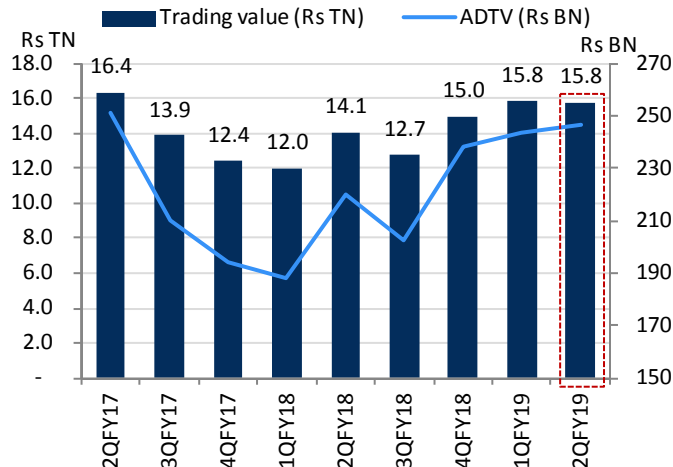
MCX started Liquidity Enhancement Scheme to boost options volumes in April-18. LES scheme has been withdrawn for Gold options

Total no of contracts traded was down 2.2% QoQ while average contract value increased 1.9% QoQ to Rs 0.29mn due to rise in commodity prices

In 6MFY19 ADTV is up 20.3% YoY

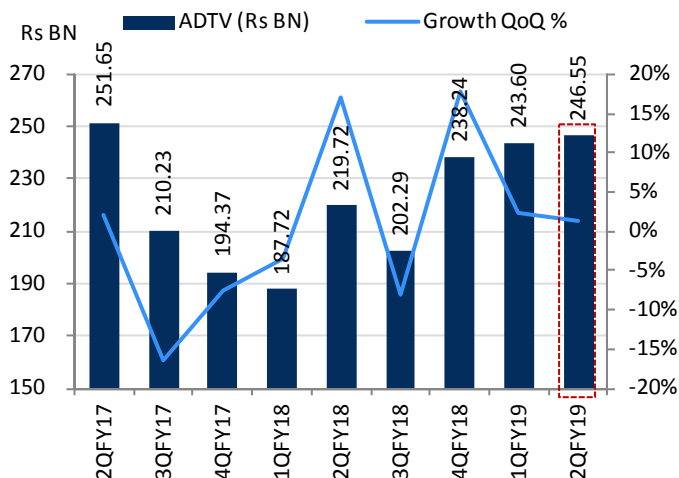
Crude oil, Zinc, Gold, Silver and Copper remain the top five traded commodity on MCX

MCX: Quarterly Trading Value Analysis



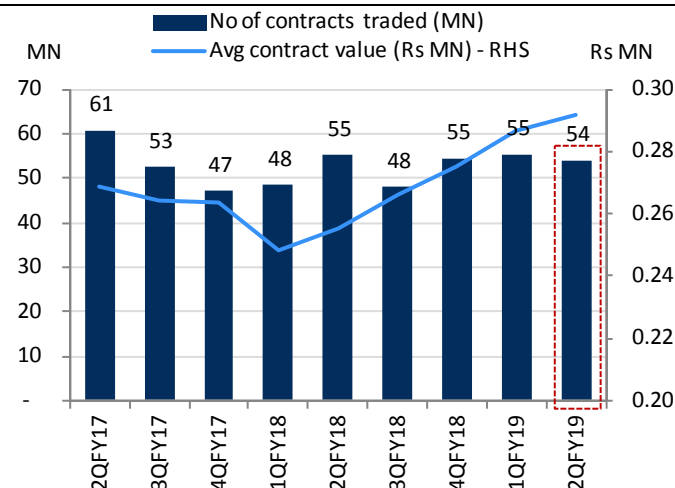
Source: Company, Industry, HDFC sec Inst Research

MCX ADTV Trend



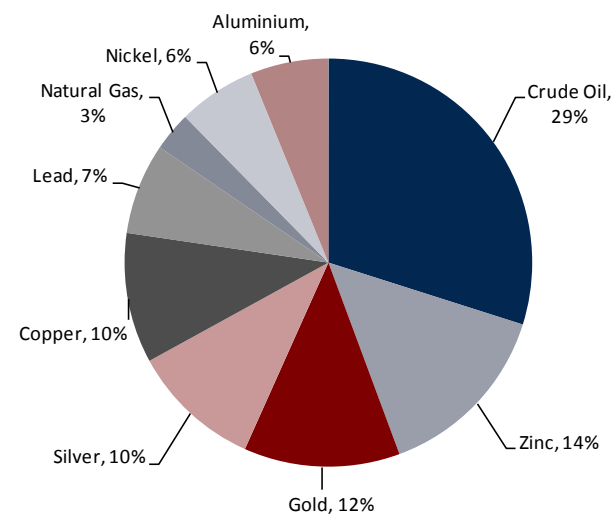
Source: Company, Industry, HDFC sec Inst Research

MCX: Detailed KPIs Of Contracts Traded



Source: Company, Industry, HDFC sec Inst Research

Mix Of Major Traded Commodities On MCX



Source: Company, Industry, HDFC sec Inst Research

Split Of Total ADTV

ADTV (Rs bn)	2QFY19	2QFY18	YoY %	1QFY19	QoQ %	6MFY19	6MFY18	YoY %
Bullion	54.65	63.46	(13.9)	55.19	(1.0)	54.92	58.74	(6.5)
Energy	79.80	67.44	18.3	79.82	(0.0)	79.81	66.39	20.2
Metals	108.32	84.80	27.7	104.64	3.5	106.46	74.55	42.8
Agri & others	3.78	4.03	(6.1)	3.96	(4.4)	3.87	4.04	(4.3)
Total	246.55	219.72	12.2	243.60	1.2	245.06	203.72	20.3

Source: Company, Industry, HDFC sec Inst Research

ADTV Composition

% ADTV Contribution	2QFY19	2QFY18	YoY (bps)	1QFY19	QoQ (bps)	6MFY19	6MFY18	YoY (bps)
Bullion	22.2	28.9	(671)	22.7	(49)	22.4	28.8	(642)
Energy	32.4	30.7	167	32.8	(40)	32.6	32.6	(2)
Metals	43.9	38.6	534	43.0	98	43.4	36.6	685
Agri & others	1.5	1.8	(30)	1.6	(9)	1.6	2.0	(41)
Total	100.0	100.0		100.0		100.0	100.0	

Source: Company, Industry, HDFC sec Inst Research

Key KPIs

MCX Key KPIs	2QFY19	2QFY18	YoY %	1QFY19	QoQ %	6MFY19	6MFY18	YoY %
Total Turnover (Rs TN)	15.8	14.1	12.2	15.8	(0.3)	31.6	26.1	21.2
MCX Market share (%)	90.6%	90.2%	0.4	92.3%	(1.8)	91.4%	90.1%	1.5
ADTV (Rs bn/day)	246.55	220	12.2	243.60	1.2	245	204	20.3
Transaction charges Rs/mn (single side)	21.9	22.2	(1.3)	21.9	0.0	21.9	22.3	(1.8)

Source: Company, Industry, HDFC sec Inst Research

Valuation

- We expect MCX to post 32% EBITDA CAGR, driven by revenue CAGR of 16% and EBITDA margin expansion (40.6% in FY21E vs 27.7% in FY18) for FY18-21E. Considering the asset-light nature of the business, we expect RoE to expand to 12.3% in FY21E vs 7.9% in FY18. MCX currently trades at 24.8x FY20E and 20.8x FY21E EPS (implying PEG 1.1x).
- The stock has been under pressure due to concerns related to increase in competition (NSE & BSE has launched gold & silver commodity derivatives trading). However the volume uptick in BSE is slow and in-fact volume in MCX has risen in Sep & Oct-18.

We believe it's difficult to shift liquidity from one exchange to other. Any merger possibility will trigger upside as the risk of competition will subside significantly.

- Positive developments have been (1) Recovery in ADTV for the last two quarters and (2) Return of volatility in commodities globally. Also there are some positive regulatory tailwinds like (1) Institutional participation, (2) Indices, and (3) Launch of more options contracts. We maintain our BUY rating with a TP of Rs 980, implying a P/E of 30x Sep-20 EPS.

MCX: Sensitivity Of Target Price To ADTV Assumptions

Target price (Rs)		PE (x)					% of peak ADTV in FY12
		20.0	25.0	30.0	35.0	40.0	
ADTV Assumption (Rs bn)	212	333	416	500	583	666	42.2%
	269	497	622	746	871	995	53.6%
	324	655	819	980	1,147	1,311	64.5%
	373	795	994	1,193	1,392	1,591	74.1%
	429	956	1,195	1,434	1,674	1,913	85.3%

Source: Company, HDFC sec Inst Research

Change In Estimates

Particulars	Earlier estimates	Revised estimates	% change
FY19E			
Revenue (Rs mn)	3,128	3,106	(0.7)
EBITDA (Rs mn)	1,054	1,034	(1.9)
EBITDA margin (%)	33.7%	33.3%	(40)bps
APAT (Rs mn)	1,420	1,379	(2.9)
FY20E			
Revenue (Rs mn)	3,764	3,559	(5.5)
EBITDA (Rs mn)	1,479	1,295	(12.4)
EBITDA margin (%)	39.3%	36.4%	(290)bps
APAT (Rs mn)	1,684	1,520	(9.7)

Source: Company, HDFC sec Inst Research

ADTV And Realisation Assumptions

Rs bn	FY16	FY17	FY18	FY19E	FY20E	FY21E
Futures ADTV	219.28	225.73	211.10	256.26	289.96	327.61
YoY %	7.9%	2.9%	-6.5%	21.4%	13.2%	13.0%
Options ADTV			0.41	13.21	34.36	83.61
YoY %				3153.7%	160.1%	143.4%
Total ADTV	219.28	225.73	211.50	269.47	324.31	411.22
YoY %	7.9%	2.9%	-6.3%	27.4%	20.4%	26.8%
Realization Of Futures (Rs/mn)	19.1	20.3	22.4	21.9	21.9	21.9
YoY %	-2.8%	6.5%	10.4%	-2.4%	0.0%	0.0%
Realization Of Options (Rs/mn)			0.0	0.0	4.4	4.4
YoY %				NM	NM	0.0%
Blended Realization (Rs/mn)	18.1	20.3	22.4	20.8	20.0	18.3
YoY %	-1.6%	12.0%	10.1%	-7.0%	-3.8%	-8.5%

Source: Company, HDFC sec Inst Research

Valuation: Exchanges

Company	M-Cap (Rs bn)	Rating	CMP (Rs)	TP (Rs)	P/E (x)			P/B (x)			EV/EBITDA (x)			RoE (%)		
					FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E
MCX	37.7	BUY	798	980	34.8	27.4	24.8	2.7	2.7	2.6	38.9	27.0	21.4	7.9	9.9	10.6
BSE	31.7	BUY	613	940	13.2	16.1	13.9	1.0	1.0	1.0	4.1	7.1	5.6	7.7	6.3	7.3
CDSL	24.7	BUY	236	320	23.9	24.7	21.4	2.7	2.7	2.6	38.9	27.0	21.4	7.9	9.9	10.6

Source:HDFC sec Inst Research

Key risks

- Increased competition from other exchanges after implementation of Universal exchange licence
- Regulatory delays

Income Statement (Consolidated)

YE March (Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
Net Revenues (Rs mn)	2,594	2,598	3,106	3,559	4,087
Growth (%)	10.4	0.2	19.5	14.6	14.8
Software support charges	426	418	479	525	579
Employee Expenses	644	682	739	804	826
SG&A Expenses	234	252	273	297	322
Other Operating Expenses	493	527	580	638	702
EBITDA	796	719	1,034	1,295	1,658
EBITDA Margin (%)	30.7	27.7	33.3	36.4	40.6
EBITDA Growth (%)	5.8	(9.8)	43.8	25.3	28.0
Depreciation	186	167	174	187	203
EBIT	611	552	860	1,108	1,455
Other Income (Including EO Items)	1,169	920	704	975	1,027
Interest	2	0	0	0	0
PBT	1,778	1,472	1,563	2,083	2,482
Tax (Incl Deferred)	512	388	422	562	670
Minority Interest	0	0	0	0	0
RPAT	1,266	1,084	1,141	1,520	1,812
EO (Loss) / Profit (Net Of Tax)	0	0	(238)	0	0
APAT	1,266	1,084	1,379	1,520	1,812
APAT Growth (%)	0.5	(14.4)	27.3	10.2	19.2
Adjusted EPS (Rs)	24.9	21.3	27.1	29.9	35.6
EPS Growth (%)	0.5	(14.4)	27.3	10.2	19.2

Source: Company, HDFC sec Inst Research

Balance Sheet (Consolidated)

YE March (Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
SOURCES OF FUNDS					
Share Capital - Equity	510	510	510	510	510
Reserves	13,114	13,295	13,378	13,736	14,176
Total Shareholders' Funds	13,624	13,805	13,888	14,246	14,686
Settlement guarantee fund	1,705	1,806	1,896	1,991	2,091
Total Debt	0	0	0	0	0
Net Deferred Taxes (Net)	76	172	172	172	172
Long Term Provisions & Others	345	238	238	238	238
TOTAL SOURCES OF FUNDS	15,750	16,021	16,194	16,647	17,187
APPLICATION OF FUNDS					
Net Block	1,519	1,594	1,731	1,900	2,106
CWIP	2	23	23	23	23
Investments	-	-	-	-	-
LT Loans & Advances	256	307	322	338	355
Total Non-current Assets	1,777	1,925	2,077	2,262	2,484
Debtors	28	63	77	88	101
Other Current Assets	878	862	936	1,073	1,232
Cash & Equivalents	16,011	16,814	16,919	17,594	18,380
Total Current Assets	16,918	17,738	17,932	18,754	19,712
Trading margin from members	2,149	2,789	2,851	3,289	3,801
Other Current Liabilities & Provns	796	853	963	1,079	1,209
Total Current Liabilities	2,945	3,642	3,814	4,368	5,009
Net Current Assets	13,973	14,096	14,117	14,386	14,703
TOTAL APPLICATION OF FUNDS	15,750	16,021	16,194	16,647	17,187

Source: Company, HDFC sec Inst Research

Cash Flow (Consolidated)

YE March (Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
Reported PBT	1,778	1,472	1,563	2,083	2,482
Non-operating & EO items	(1,169)	(920)	(704)	(975)	(1,027)
Interest expenses	2	0	0	0	0
Depreciation	186	167	174	187	203
Working Capital Change	(557)	617	69	390	452
Tax Paid	(512)	(388)	(422)	(562)	(670)
OPERATING CASH FLOW (a)	(272)	947	681	1,123	1,440
Capex	(306)	(263)	(310)	(356)	(409)
Free cash flow (FCF)	(578)	684	370	767	1,031
Investments	0	0	0	0	0
Non-operating Income	1,169	920	704	975	1,027
INVESTING CASH FLOW (b)	863	657	393	619	618
Debt Issuance/(Repaid)	0	0	0	0	0
Interest Expenses	(2)	(0)	(0)	(0)	(0)
FCFE	(580)	684	370	767	1,031
Share Capital Issuance	0	0	0	0	0
Dividend	(892)	(1,014)	(968)	(1,067)	(1,272)
FINANCING CASH FLOW (c)	(894)	(1,015)	(969)	(1,068)	(1,272)
NET CASH FLOW (a+b+c)	(303)	590	105	674	786
EO Items, Others	139	213	0	0	0
Closing Cash & Equivalents	16,011	16,814	16,919	17,594	18,380

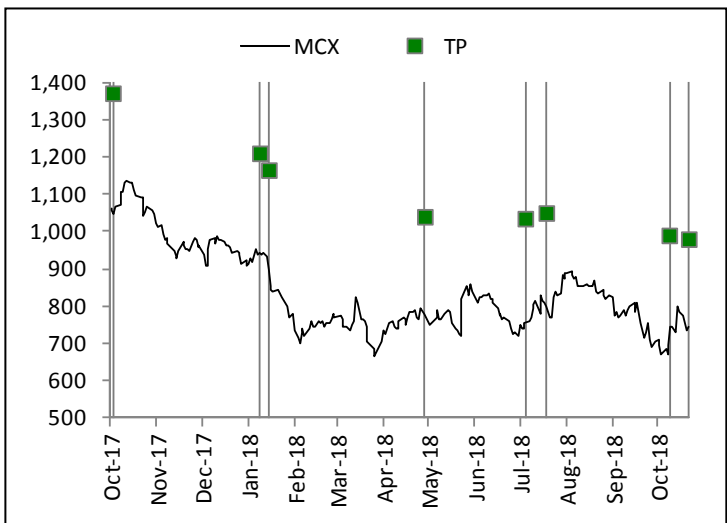
Source: Company, HDFC sec Inst Research

Key Ratios (Consolidated)

	FY17	FY18	FY19E	FY20E	FY21E
PROFITABILITY (%)					
GPM	83.6	83.9	84.6	85.2	85.8
EBITDA Margin	30.7	27.7	33.3	36.4	40.6
APAT Margin	48.8	41.7	44.4	42.7	44.3
RoE	9.5	7.9	10.0	10.8	12.5
RoIC (or Core RoCE)	21.9	19.8	31.4	38.0	50.2
RoCE	6.8	5.7	7.0	7.4	8.4
EFFICIENCY					
Tax Rate (%)	28.8	26.4	27.0	27.0	27.0
Fixed Asset Turnover (x)	0.1	0.1	0.2	0.2	0.2
Debtors (days)	4	9	9	9	9
Other Current Assets (days)	124	121	110	110	110
Other Current Liab & Provns (days)	252	260	264	270	275
Cash Conversion Cycle (days)	(124)	(130)	(145)	(151)	(156)
Debt/EBITDA (x)	(12)	(14)	(9)	(8)	(6)
Net D/E (x)	(1)	(1)	(1)	(1)	(1)
Interest Coverage (x)	NM	NM	NM	NM	NM
PER SHARE DATA (Rs)					
EPS	24.9	21.3	27.1	29.9	35.6
CEPS	28.5	24.6	30.5	33.6	39.6
Dividend	15.0	17.0	16.3	17.9	21.4
Book Value	267.9	271.5	273.1	280.2	288.8
VALUATION					
P/E (x)	29.8	34.8	27.4	24.8	20.8
P/BV (x)	2.8	2.7	2.7	2.6	2.6
EV/EBITDA (x)	35.5	38.9	27.0	21.4	16.5
OCF/EV (%)	(1.0)	3.4	2.4	4.1	5.3
FCF/EV (%)	(2.0)	2.4	1.3	2.8	3.8
FCFE/Mkt Cap (%)	0.2	0.4	0.3	0.5	0.5
Dividend Yield (%)	2.0	2.3	2.2	2.4	2.9

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
4-Oct-17	1,060	BUY	1,371
10-Jan-18	939	BUY	1,210
17-Jan-18	896	BUY	1,165
30-Apr-18	779	BUY	1,040
6-Jul-18	754	BUY	1,035
23-Jul-18	798	BUY	1,050
10-Oct-18	697	BUY	990
24-Oct-18	742	BUY	980

Rating Definitions

BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period
NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

Disclosure:

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