MCX

BSE SENSEX	S&P CNX
38,506	11,428
Bloomberg	MCX IN
Equity Shares (m)	51
M.Cap.(INRb)/(USDb)	51.8 / 0.7
52-Week Range (INR)	1031 / 644
1, 6, 12 Rel. Per (%)	4/32/29
12M Avg Val (INR M)	569
Free float (%)	100.0

Financials & Valuations (INR b)

Y/E March	2019	2020E	2021E
Net Sales	3.0	3.9	4.6
EBITDA	0.9	1.8	2.2
NP	1.5	2.3	2.4
EPS (INR)	28.7	44.7	47.0
EPS Gr. (%)	35.2	55.9	5.1
BV/Sh. (INR)	245.3	267.9	291.9
RoE (%)	11.1	17.4	16.8
RoCE (%)	12.5	16.9	16.3
Payout (%)	84.6	54.1	64.3
Div. Yield	2.4	2.4	3.0

Estimate change	↑
TP change	↔
Rating change	↔

CMP: INR1,017 TP: INR1,250 (+23%) Buy

Sporadic increase in volumes drives strong performance

Operationally in line; PAT exceeds estimate

- Revenue increased 26% QoQ to INR1,002m in 2QFY20, marginally below our estimate of INR1,044m.
- Volumes were up 40.2% YoY to INR23.2t, mainly led by Gold (+131% YoY) and Crude (+88% YoY), partly offset by lower base metal volumes. Aluminum volumes declined 71% YoY, while copper, lead and zinc volumes were down 25%, 52% and 50%, respectively.
- EBIT increased 82% QoQ to INR430m, with the margin of 43% exceeding our estimate of 40.4%.
- PAT was up 65% QoQ to INR719m, significantly ahead of our estimate of INR529m, mainly because of higher other income (INR444m v/s our estimate of INR241m). PAT margin came in at 72%.
- On a YoY basis, revenue/EBIT/PAT were up 41%/131%/99%.
- EPS stood at INR14.1 versus our estimate of INR10.4.

Volumes driven by bullion/crude, partly offset by base metals

Gold and crude volumes increased steeply by 133% and 88% YoY, respectively. However, base metal volumes declined sharply due to (1) the SEBI's directive to allow trading of only one contract per commodity and (2) the switch from cash settlement to delivery based settlement.

Valuation view

We expect volume/revenue/earnings CAGR (FY19-21) of 22%/24%/28%. Over the past few months, sentiment around MCX reversed from that of competition concerns to one of optimism largely driven by growth in bullion volumes. Its monopolistic market share has remained intact and it now ruled out the possibility of a price cut, which was earlier on the anvil. We upgrade our FY20 earnings estimate by 11%, largely led by operative leverage. Our TP of INR1,250 discounts forward earnings by 25x and implies a 23% upside. Maintain **Buy**.

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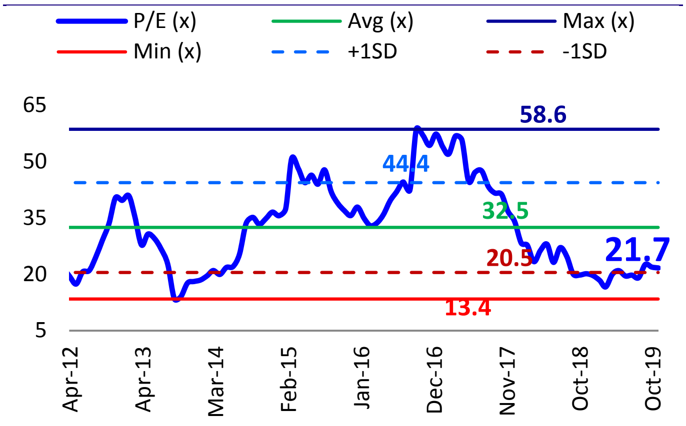
Quarterly Performance (INR M)

	FY19				FY20E				FY19	FY20E	Est.	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2Q	(%/bp)
Sales	**729**	**711**	**769**	**791**	**795**	**1,002**	**1,055**	**1,084**	3,000	3,935	1,044	(4.1)
Q-o-Q Gr. (%)	3.2	-2.4	8.2	2.9	0.4	26.1	5.4	2.7	16.3	31.2	31.4	-537bp
Staff Costs	186	174	177	188	188	195	196	197	725	775	191	2.0
Other expenses	294	312	383	352	330	334	362	383	1,336	1,408	392	(14.9)
Depreciation	37	38	38	41	40	42	42	42	154	167	39	7.9
EBIT	**213**	**187**	**171**	**211**	**237**	**430**	**455**	**462**	**785**	**1,585**	422	2.1
Margins (%)	29.2	26.3	22.2	26.6	29.8	43.0	43.2	42.6	26.2	40.3	40.4	259bp
Interest Costs	0	0	0	0	1	1	1	1	0	4	1	
Other Income	126	222	322	317	314	444	242	250	986	1,250	241	84.3
PBT bef. Exceptional items	**338**	**408**	**493**	**527**	**550**	**873**	**696**	**712**	**1,771**	**2,831**	**661**	**32.0**
Tax	27	53	75	-80	114	154	139	143	75	549	132	16.0
Rate (%)	7.9	13.1	15.3	-15.2	20.7	17.6	20.0	20.0	4.2	19.4	20.0	-243bp
PAT	**73**	**359**	**418**	**607**	**436**	**719**	**557**	**569**	**1,458**	**2,281**	529	36.0
Q-o-Q Gr. (%)	-78.4	390.2	16.3	45.4	-28.2	65.0	-22.6	2.2	34.8	56.0	21.3	
EPS (INR)	**1.4**	**7.0**	**8.2**	**12.0**	**8.6**	**14.1**	**10.9**	**11.2**	**28.6**	**44.7**	**10.4**	**35.5**
Total volumes (INR t)	**16.2**	**16.6**	**17.4**	**17.6**	**17.7**	**23.2**	**22.9**	**23.6**	**67.7**	**87.4**	**23.2**	
Q-o-Q Gr. (%)	7.6	2.2	5.1	1.2	0.7	31.0	-1.1	2.7			31.0	
Y-o-Y Gr. (%)	34.7	17.7	35.7	17.0	9.4	40.2	31.9	33.9	25.6	29.1	40.2	

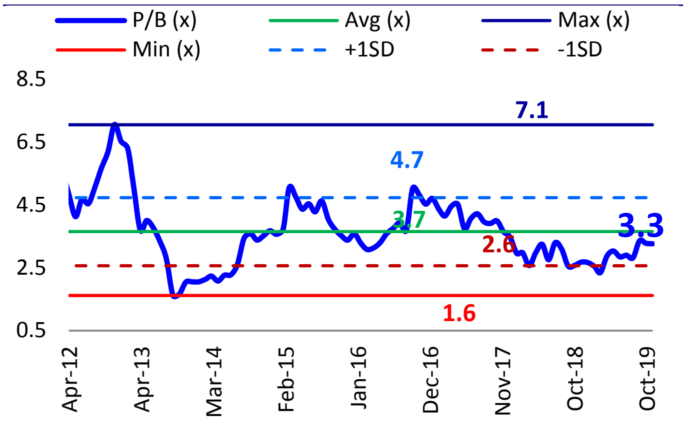
E: MOFSL Estimates

Exhibit 1: P/E



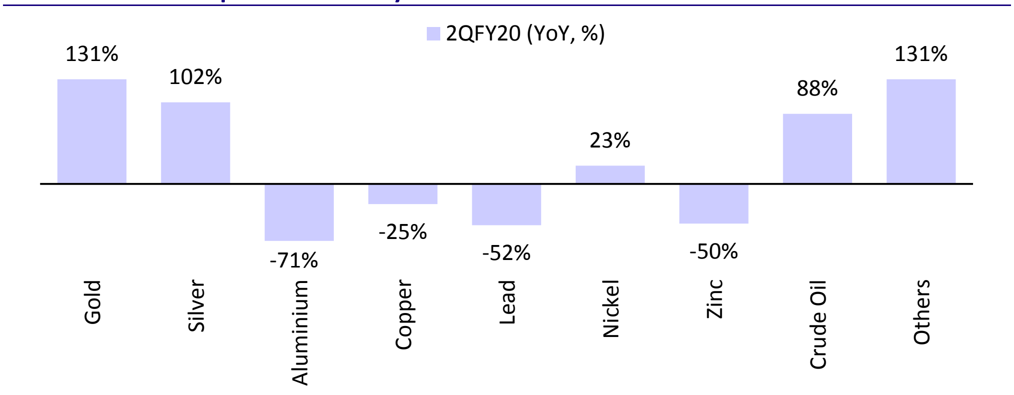
Source: MOFSL, Company

Exhibit 2: P/B



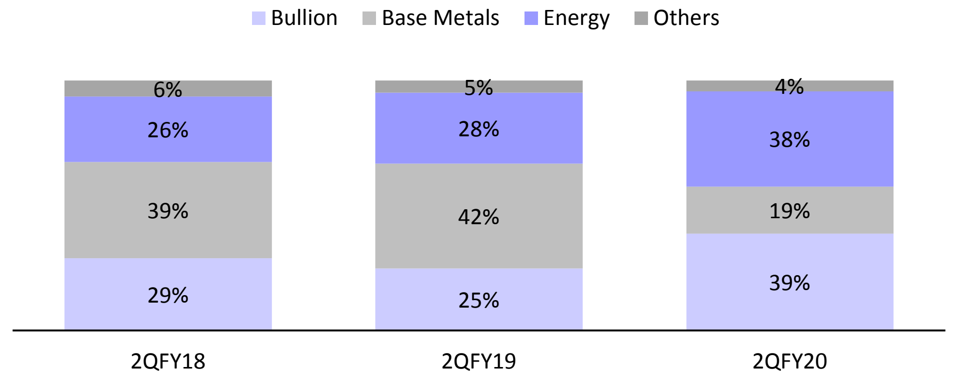
Source: MOFSL, Company

Exhibit 3: Volume uptrend driven by Crude and Gold



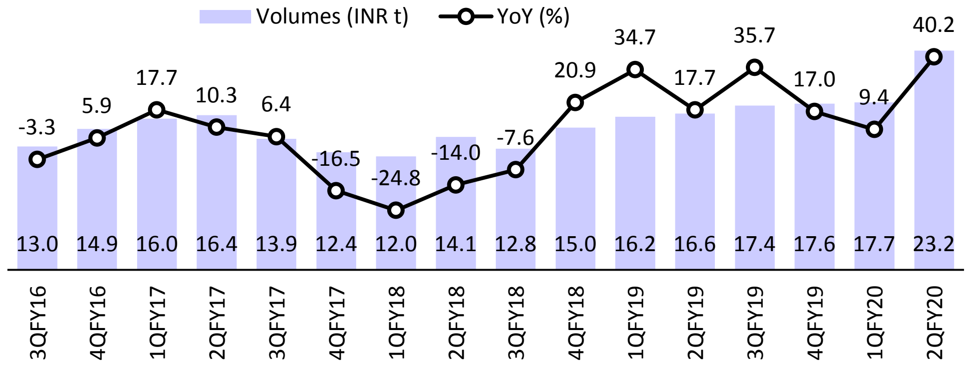
Source: Company, MOFSL

Exhibit 4: Market share of Bullion, Energy inches up sharply in total value traded



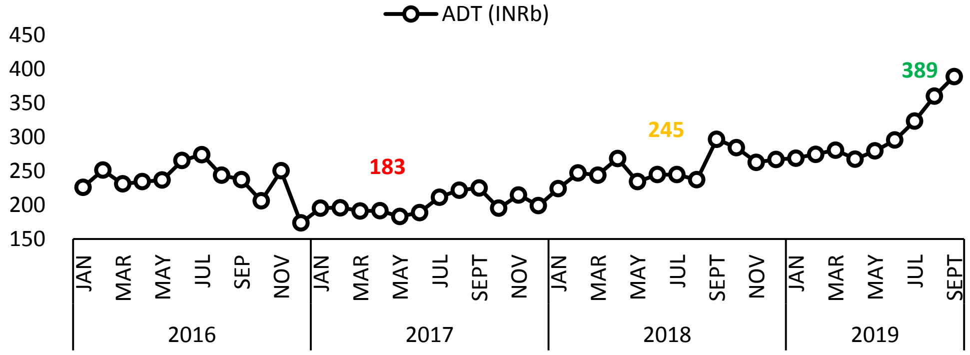
Source: Company, MOFSL

Exhibit 5: Total traded volume (including options) up 40% YoY



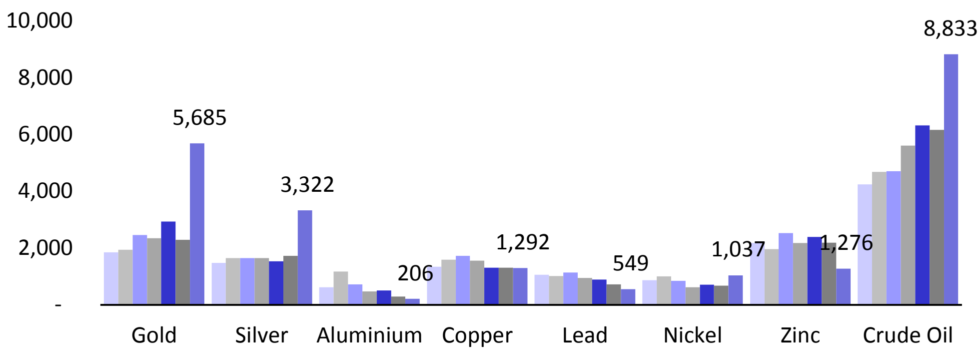
Source: Company, MOFSL

Exhibit 6: ADT on uptrend (including Options)



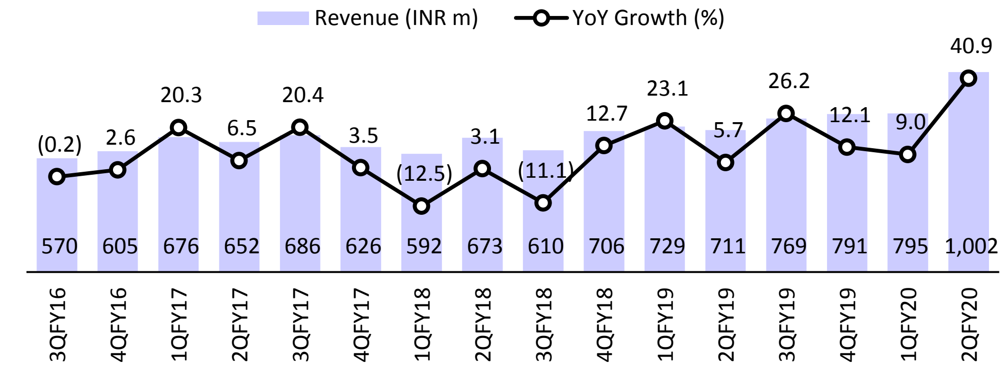
Source: Company, MOFSL

Exhibit 7: …aided by strength in Gold and Crude (quarterly data in INR b of value traded)



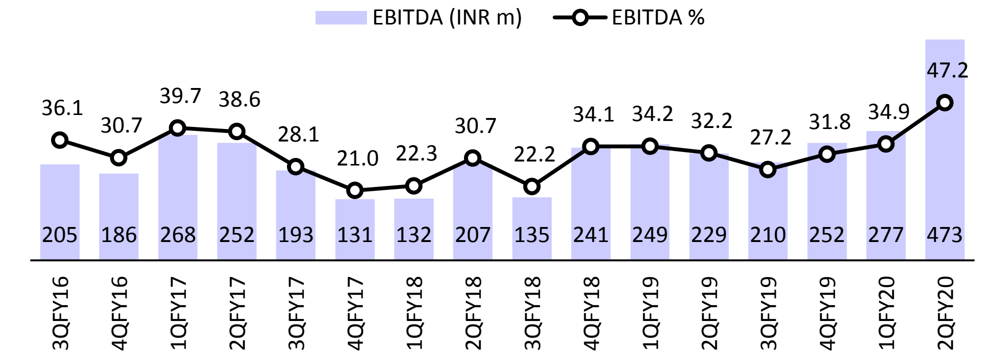
Source: Company, MOFSL

Exhibit 8: Highest revenue growth in recent years on the back of strong bullion volumes



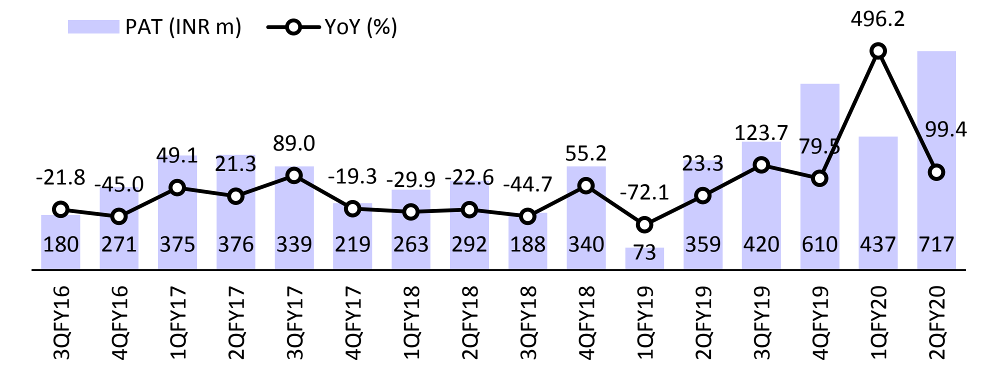
Source: Company, MOFSL

Exhibit 9: Steep expansion in margins on the back on top-line growth and reduced costs



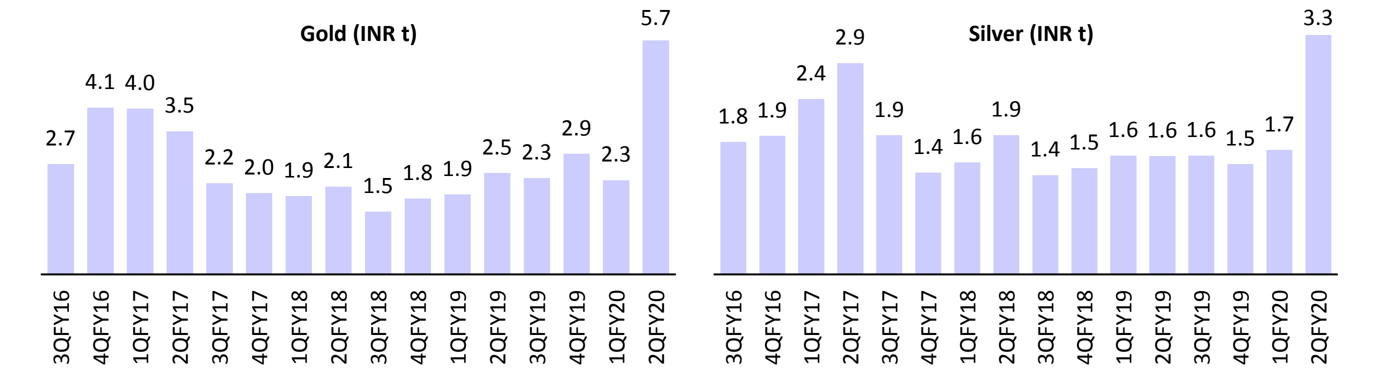
Source: Company, MOFSL

Exhibit 10: PAT increased 99% YoY due to high operational and other income



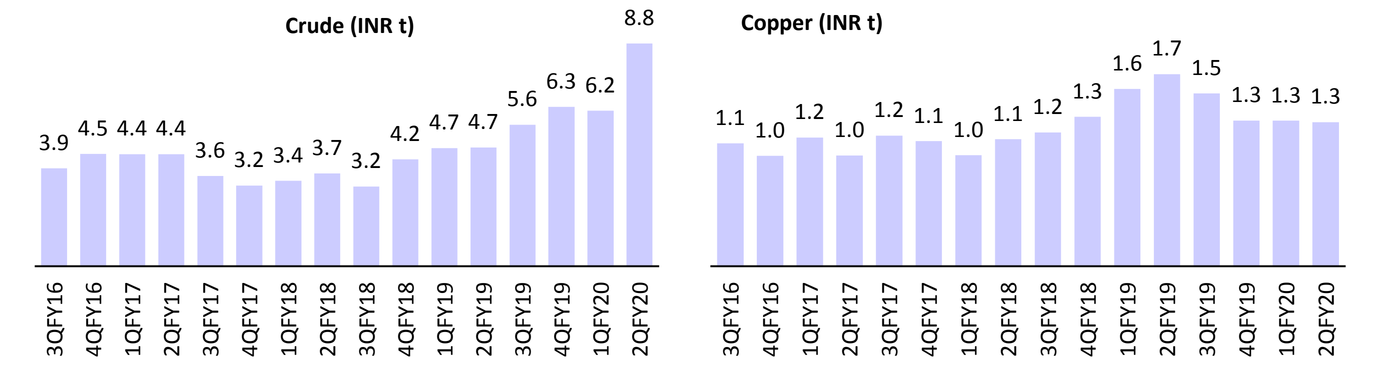
Source: Company, MOFSL

Exhibit 11: Gold and Silver growing steeply QoQ



Source: Company, MOFSL

Exhibit 12: …so did Crude, while Copper was flat QoQ



Source: Company, MOFSL

Takeaways from management commentary

- **Margins:** While growth in the top line helped, the reduction in costs was the icing on the cake. Strong control on fixed costs and a slight reduction in variable cost (toward LME, as everything is deliverable) further helped improve margins.
- **Other income:** A significant increase was due to favorable yield income.
- **Distribution by banks and on-boarding of customers**: This remains WIP. Most banks that have been on-boarded had done a soft launch. They have gone slow as they are grappling with equity market requirements. Some are rethinking their need to venture in such products.
- **Base metal volumes decline**: The SEBI has asked to discontinue mini contracts. Volumes at this point of time appear to be affected by switch from cash settlement to delivery-based settlement. One of the triggers for volumes to go up can be: companies that hedge in international markets starting to hedge on this platform as well.
- **Impact of overseas hedging ban on Bullion**: Many large companies have opened membership; proprietary players will trade on their books. That has been a positive.
- Linear business growth is around 10-15% YoY. Rest is driven by volatility.
- Options have not reached the desired volume to start pricing yet.
- Sanjay Wadhwa, CFO has resigned to pursue better opportunities.
- **PMS / AIFs**: Custodians are not able to take the risks yet. Proposing custodians can choose the areas they would like to participate. It remains to be seen when they can contribute toward ADT at MCX.
- **Corporate tax benefit**: Tax cut for companies with revenue less than INR2,500m brings immediate benefit. Apart from that, currently there is MAT credit lying. Thus, the firm will utilize that and not take tax rate cut benefit immediately. Tax rate to be around 20-22%.
- **Pricing yields:** There was no change in pricing. Yield in any quarter is a function of concentration.

Valuation and view

- **Market leadership in winner-takes-all business:** MCX has retained its market leadership position with a share of 80-90% (91.2% as on 9MFY19). Even in the most turbulent of months during FY13-14, when the parent's existence was jeopardized amid revelations fraud around National Spot Exchange (NSEL), the exchange managed to retain its share. Additionally, it has remained without a fulltime MD & CEO since May 2014 when Mr Manoj Vaish resigned after just three months. This is a reflection of the winner-takes-all nature of the business model.
- **Monopoly share in multiple commodities takes care of concentration risk:** MCX's golden run in terms of volumes came at the time of significant run-up in gold and silver prices in FY12 and FY13. That was also perceived to be a risk, given that the share of volumes from these two commodities had exceeded 70%. However, presence in multiple commodities helps avert the concentration risk, and this was evidenced in FY15, when action in oil prices drove energy to exceed gold as the largest traded commodity at MCX by value.
- **Reforms post the SEBI-FMC merger have been gradual:** SEBI's merger with FMC is now complete, paving the way for much awaited reforms in the ecosystem. The progress following the same has been gradual and in a phased manner. SEBI already has the ball rolling in terms of reform with launch of options and also universal licenses. By FY20, institutional participation and index products should also be allowed on the commodity derivative exchanges.
- **Volumes are coming back after multi-pronged hit:** Volumes suffered 2HFY17 onwards on account of the impact of demonetization on gold volumes. Post this, a failure in pick-up has resulted out of tepid activity in the physical market. This time, it is compounded by uncertainty posed by GST. While bullion has come back sharply compared to pre-demonetization levels and along with the volatility in energy, it has resulted in strong growth in volumes recently. Base metals have started to decline and been offsetting growth partially.
- **Valuation and View:** We expect volume/revenue/earnings CAGR (FY19-21) of 22%/24%/28%. Over the last few months, sentiment around MCX has reversed from concerns around competition from the likes of BSE, to one of optimism, driven by multiple factors feeding into volumes growth. Its monopolistic market share has remained intact, and MCX has now ruled out the possibility of a price cut, which was earlier on the anvil. We raise our earnings estimate of FY20 11% led by operative leverage. Our TP of INR1,250 discounts forward earnings by 25x and implies a 23% upside. Maintain **Buy**.

Key triggers

- Pick-up in volume led by introduction of new products like Options / Indices.
- Introduction of new participants like Banks / FIs.
- High volatility in key commodities like Bullion / Crude.

Key risk – increased competition from equity exchanges

One of the implications of FMC's merger with the SEBI is that stock exchanges will be able to become universal exchanges, where equities, debt instruments and currencies are traded under the same roof as commodity derivatives. Competitive intensity by peers may impact MCX's market share, and also potentially lead to a cut in pricing.

Financials and valautions

Income statement									(INR m)
Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Sales	**5,160**	**3,407**	**2,225**	**2,349**	**2,641**	**2,580**	**3,000**	**3,935**	**4,599**
Change (%)	(2)	(34)	(35)	6	12	(2)	16	31	17
Cost of Services	1,072	935	733	779	1,071	1,174	1,338	1,465	1,641
SG&A Expenses	812	1,014	616	804	726	691	723	719	802
Provisions									
EBITDA	**3,276**	**1,457**	**876**	**766**	**844**	**715**	**940**	**1,752**	**2,155**
% of Net Sales	63	43	39	33	32	28	31	45	47
Depreciation	307	343	259	246	186	167	154	167	162
Interest	0	11	14	0	2	-	-	4	4
Other Income	1,259	993	1,098	977	1,164	917	986	1,250	1,008
EO Item (net)	-	-	-	667	-	-	238	-	-
PBT	**4,227**	**2,097**	**1,701**	**831**	**1,821**	**1,465**	**1,533**	**2,831**	**2,997**
Tax	1,065	569	450	413	512	383	75	549	600
Rate (%)	25	27	26	50	28	26	5	19	20
PAT	**3,162**	**1,528**	**1,251**	**418**	**1,309**	**1,081**	**1,458**	**2,281**	**2,397**
Extraordinary									
Net Income	**3,162**	**1,528**	**1,251**	**418**	**1,309**	**1,081**	**1,458**	**2,281**	**2,397**
Change (%)	10	(52)	(18)	(67)	213	(17)	35	57	5

Balance Sheet									(INR m)
Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	510	510	510	510	510	510	510	510	510
Reserves	11,058	10,931	11,512	11,529	13,078	13,253	11,999	13,153	14,374
Net Worth	**11,567**	**11,441**	**12,022**	**12,039**	**13,588**	**13,763**	**12,509**	**13,663**	**14,884**
SGF		1,720	1,871	1,879	1,705	1,806	3,298	3,298	3,298
Loan & other long term liab.	569	449	343	282	420	408	414	414	414
Capital Employed	**12,136**	**13,610**	**14,236**	**14,201**	**15,713**	**15,977**	**16,221**	**17,375**	**18,596**
Net Block	**2,044**	**1,735**	**1,553**	**1,430**	**1,633**	**3,624**	**3,451**	**3,571**	**3,809**
CWIP	-	-	-	-	-	-	-	-	-
Other LT Assets	531	281	281	281	281	281	281	281	281
Investments	1,481	132	132	2,230	4,404	5,316	4,839	4,839	4,839
Curr. Assets	**13,802**	**15,267**	**16,278**	**14,227**	**12,340**	**10,393**	**12,175**	**13,569**	**14,431**
Current Investments	9,201	10,766	12,795	8,511	7,544	8,878	5,824	5,824	5,824
Debtors	69	90	107	42	28	63	60	119	129
Cash & Bank Balance	3,475	3,417	2,655	5,003	3,890	596	5,346	6,323	7,065
Loans & Advances	530	676	456	268	3	3	2	12	13
Other Current Assets	525	319	265	404	875	854	943	1,292	1,400
Current Liab. & Prov	**5,721**	**3,805**	**4,007**	**3,967**	**2,945**	**3,636**	**4,524**	**4,885**	**4,764**
Net Current Assets	**8,080**	**11,462**	**12,271**	**10,260**	**9,395**	**6,757**	**7,651**	**8,684**	**9,667**
Application of Funds	**12,136**	**13,610**	**14,236**	**14,201**	**15,713**	**15,977**	**16,221**	**17,375**	**18,596**

E: MOFSL Estimates

Financials and valautions

Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Basic (INR)									
EPS	**58.6**	**30.0**	**24.6**	**23.4**	**24.8**	**21.2**	**28.7**	**44.7**	**47.0**
Cash EPS	68.0	36.9	29.6	13.0	29.3	24.5	31.6	48.0	50.2
Book Value	226.8	225.4	235.8	236.1	266.4	269.9	245.3	267.9	291.9
DPS	0.5	10.2	10.2	-	15.3	17.3	20.4	20.4	25.5
Payout %	0.9	39.0	48.5	-	70.7	97.0	84.6	54.1	64.3
Valuation (x)									
P/E	17.5	34.1	41.6	43.8	41.2	48.2	35.7	22.9	21.8
Cash P/E	15.0	27.8	34.5	78.5	34.9	41.8	32.4	21.3	20.4
EV/EBITDA	12.2	26.1	42.2	50.7	48.6	60.2	44.1	23.1	18.4
EV/Sales	7.7	11.2	16.6	16.5	15.5	16.6	13.8	10.3	8.6
Price/Book Value	4.5	4.5	4.3	4.3	3.8	3.8	4.2	3.8	3.5
Dividend Yield (%)	0.1	1.1	1.2	-	1.8	2.0	2.4	2.4	3.0
Profitability Ratios (%)									
RoE	29.4	13.3	10.7	3.5	10.2	7.9	11.1	17.4	16.8
RoCE	28.1	12.8	10.4	8.8	10.0	7.7	12.5	16.9	16.3
RoIC	(173.6)	(145.9)	(50.7)	(99.5)	19.1	7.5	12.9	24.8	29.2
Turnover Ratios									
Debtors (Days)	5	10	17	7	4	9	7	11	10
Fixed Asset Turnover (x)	28	19	12	13	14	13	15	18	20

Cash Flow Statement (INR m)

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
CF from Operations	2,470	1,949	849	793	804	837	1,624	2,153	2,559
Cash for Working Capital	(1,941)	(1,565)	503	22	(1,251)	767	2,300	(56)	(241)
Net Operating CF	**529**	**385**	**1,352**	**815**	**(447)**	**1,604**	**3,924**	**2,097**	**2,318**
Net Purchase of FA	(462)	(59)	(1,250)	(1,250)	(1,250)	(1,250)	(1,250)	(1,250)	(1,250)
Free Cash Flow	**68**	**325**	**102**	**(435)**	**(1,697)**	**354**	**2,674**	**847**	**1,068**
Net Purchase of Invest.	1,910	586	(850)	2,783	586	(3,647)	2,075	1,092	932
Net Cash from Invest.	**1,448**	**527**	**(2,100)**	**1,533**	**(664)**	**(4,897)**	**825**	**(158)**	**(318)**
Proc. from equity issues	-	-	-	-	-	-	-	-	-
Proceeds from LTB/STB	-	-	-	-	-	-	-	-	-
Dividend Payments	(2,134)	(1,133)	-	-	-	-	-	(925)	(1,180)
Cash Flow from Fin.	**(2,134)**	**(1,133)**	**-**	**-**	**-**	**-**	**-**	**(925)**	**(1,180)**
Others		-	-						
Net Cash Flow	**(156)**	**(221)**	**(748)**	**2,348**	**(1,111)**	**(3,292)**	**4,750**	**1,014**	**820**
Opening Cash Bal.	**3,124**	**3,475**	**3,417**	**2,655**	**5,003**	**3,890**	**596**	**5,346**	**6,323**
Add: Net Cash	(156)	(221)	(748)	2,348	(1,111)	(3,292)	4,750	1,014	820
Closing Cash Bal.	**2,968**	**3,255**	**2,669**	**5,003**	**3,892**	**597**	**5,346**	**6,360**	**7,143**

Explanation of Investment Rating	
Investment Rating	**Expected return (over 12-month)**
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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