

# MULTI COMMODITY EXCHANGE OF INDIA

## Volume triggers deferred a bit; operating leverage kicks in

India Equity Research | Banking and Financial Services



Q1FY18 marked another quarter of soft volumes post demonetisation for Multi Commodity Exchange of India (MCX) – ADTV fell 24% YoY/3% QoQ to INR188bn. However, better yield realisation of INR2.24/lakh (post upward revision in transaction charges) and controlled opex (up <7% YoY) supported earnings (PAT of INR263mn, in line with estimate). Positively, post GST implementation, some uptick in volumes was witnessed (ADTV >INR210bn in July). However, our earlier volume estimate of INR290bn for FY18 seems stretched given low price volatility, Q1FY18 trend, gradual roll out of options and introduction of institutional participation in phases. We, therefore, normalise our FY18 ADTV assumption to INR222bn (>20% cut) expecting benefits of option trading and institutional participation to be visible in FY19 instead of FY18. With volumes being a key driver of earnings growth, there is a similar cut in earnings as well. Given structural volume growth visibility (though now deferred beyond FY18), operating leverage benefits and MCX's entrenched leadership, we assign 36x earnings multiple giving us a fair value of INR1,310 for the stock. Maintain 'BUY'.

### Volumes soft, green-shoots visible

MCX's volumes continued to be soft — ADTV down >3% QoQ to INR188bn — due to slowdown in bullion (down from INR99bn to INR54bn) following lower activity in the underlying spot market owing to impact of demonetisation and uncertainty surrounding GST implementation. However, with elimination of the latter concern, few green-shoots are visible — ADTV up to >INR210bn during first few days of July, with bullion ADTV rising by >INR10bn. This, along with gradual roll out of options (of the 9 eligible contracts, MCX expects to launch 1kg gold contracts by August, followed by the other contracts by December), institutional participation (SEBI has given the nod to AIF-III investors, who are likely to begin trading by end of second quarter, and the regulator is expected to follow up with approvals for PMS and MF players) and shift from dabba trading post demonetisation are expected to structurally drive volumes going ahead.

### Outlook and valuations: Visibility improving; maintain 'BUY'

Initial signs of operating leverage benefits were visible in Q1FY18 and benefits will be more prominent when volumes see uptick in FY19. Volumes can possibly grow upwards of 30% in FY19 with options being rolled out and institutions (AIF, MF and PMS) also being allowed to trade by FY18, leading to spurt in earnings. At CMP, the stock is trading at 30x FY19E P/E. Maintain 'BUY/SP' with revised TP of INR1,310 (INR1,455 earlier).

Financials		(INR mn)						
Year to March	Q1FY18	Q1FY17	Growth %	Q4FY17	Growth %	FY17	FY18E	FY19E
Net revenue	868	938	(7.4)	869	(0.1)	3,759	4,093	4,975
Net profit	263	328	(20.0)	219	20.0	1,263	1,394	1,866
Dil. EPS (INR)	5.2	6.5	(20.1)	4.3	20.3	24.8	27.3	36.6
Book Value (INR)						300	310	327
Price/Book (x)						3.7	3.5	3.4
Price/Earnings (x)						44.3	40.1	30.0

#### EDELWEISS 4D RATINGS

Absolute Rating	BUY
Rating Relative to Sector	Performer
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Overweight

#### MARKET DATA (R: MCEI.BO, B: MCX IN)

CMP	: INR 1,097
Target Price	: INR 1,310
52-week range (INR)	: 1,420 / 925
Share in issue (mn)	: 51.0
M cap (INR bn/USD mn)	: 56 / 868
Avg. Daily Vol.BSE/NSE('000)	: 442.7

#### SHARE HOLDING PATTERN (%)

	Current	Q4FY17	Q3FY17
Promoters *	-	-	-
MF's, FI's & BK's	36.5	37.5	39.8
FII's	22.3	23.7	19.2
Others	41.1	38.8	40.9
* Promoters pledged shares (% of share in issue)			NIL

#### PRICE PERFORMANCE (%)

	Stock	Nifty	EW Banks and Financial Services Index
1 month	2.5	2.8	2.1
3 months	(9.4)	8.0	9.7
12 months	4.6	15.4	25.3

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## Banking and Financial Services

**Table 1: Key takeaways from Q1FY18 earnings**

(INR mn)	Q1FY18	Q1FY17	YoY (%)	Q4FY17	QoQ (%)	Comments
Revenues	868	938	(7.4)	869	(0.1)	Subdued in nature following softer volumes; expect gradual recovery with pick-up in ADTV
Expenses	460	408	12.7	495	(7.1)	
- Employee Benefits Expense	178	143	23.9	160	11.3	Aim is to restrict employee expense growth to <10%
- Software Support Charges and Product License Fees	114	112	1.4	122	(6.3)	Revenue-linked in nature - ~13-13.5% of revenues
- Other Expenses	168	153	10.4	214	(21.2)	Target is to limit other expenses at prior year levels
EBIDTA	409	530	(22.9)	374	9.2	
- Finance Costs	-	1	NA	1	NA	
- D&A Expense	48	49	(2.6)	49	(2.4)	
Profit before Tax	361	480	(24.9)	325	11.2	
Tax Expenses	98	152	(35.4)	106	(7.1)	
Net Profit after Tax	263	328	(20.0)	219	20.0	Despite weak revenue momentum, lower other opex fed into in-line profitability
Diluted EPS (INR)	5.2	6.5	(20.1)	4.3	20.3	
<b>Ratios (%)</b>						
EBITDA Margin	47.1	56.5		43.1		Operating leverage benefit to kick-in given focus on cost rationalisation
PAT Margin	30.2	35.0		25.2		
Tax Rate	27.2	31.7		32.6		Lower tax rate supported by greater contribution from other income
<b>ADTV (INR bn)</b>						
Total	188	246	(23.7)	194	(3.4)	Gradual roll-out of SEBI's measures and benefits of GST & demonetisation to lead to build-up in volumes
-Gold & Silver	54	99	(45.7)	53	2.1	Green-shoots visible, with bullion volumes up by >INR10bn during July
-Crude Oil	53	68	(22.6)	50	6.1	
-Agri	4	5	(21.8)	6	(26.4)	
-Others	77	73	5.2	86	(10.9)	

Source: Company, Edelweiss research

**Table 2: Volumes continue to be soft...**

(INR bn)	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	QoQ	YoY	FY16	FY17	YoY
Average Daily Trading Volumes	246	252	210	194	188	(3.4)	(23.7)	219	226	2.9
-Gold	62	54	34	31	30	(3.5)	(52.0)	48	45	(7.1)
-Silver	37	45	29	22	24	9.9	(35.2)	32	33	4.3
-Crude Oil	68	68	54	50	53	6.1	(22.6)	65	60	(7.9)
-Agri	5	6	4	6	4	(26.4)	(21.8)	5	5	13.2
-Others	73	78	89	86	77	(10.9)	5.2	69	82	19.0

Source: Company

Table 3: ...driven by slowdown in bullion

(INR bn)	Qty Denomination	ADTV Q1FY18		ADTV Q1FY17		Change in ADTV (YoY)		ADTV Q4FY17		Change in ADTV (QoQ)		ADTV FY17		ADTV FY16		Change in ADTV (YoY)	
		Value	Volume	Value	Volume	Value	Volume	Value	Volume	Value	Volume	Value	Volume	Value	Volume	Value	Volume
Gold	000 Kgs	29.8	10,339	62.0	20,786	(52.0)	(50.3)	30.8	10,721	(3.5)	(3.6)	45.0	15,028	48.4	18,064	(7.1)	(16.8)
Silver	000 Kgs	24.3	611	37.5	929	(35.2)	(34.2)	22.1	529	9.9	15.4	33.5	782	32.1	893	4.3	(12.4)
Crude Oil	000 BBLs	52.9	17,038	68.4	22,511	(22.6)	(24.3)	49.9	14,370	6.1	18.6	60.2	19,008	65.4	23,037	(7.9)	(17.5)
Copper	000 Kgs	15.6	42,166	17.7	56,143	(12.4)	(24.9)	17.5	44,513	(11.2)	(5.3)	17.1	49,101	17.0	50,034	0.2	(1.9)
Zinc	000 Kgs	24.0	1,42,936	20.8	1,60,823	15.4	(11.1)	26.5	1,42,580	(9.6)	0.2	24.9	1,56,689	15.2	1,28,582	63.2	21.9
Lead	000 Kgs	13.1	93,791	11.1	95,997	18.1	(2.3)	14.5	95,148	(9.6)	(1.4)	12.9	95,585	11.4	98,183	13.4	(2.6)
Nickel	000 Kgs	6.6	10,975	6.1	10,146	8.4	8.2	7.8	11,248	(15.3)	(2.4)	7.4	10,980	8.9	12,893	(16.0)	(14.8)

Source: Company

Table 4: Commodity-wise ADTV assumptions

	FY16	FY17	FY18E	FY19E
<b>SILVER</b>				
Avg daily volume (INR bn)	32	33	28	40
Vol (kgs)	893	782	704	951
Avg price (INR)	35,970	42,558	40,430	42,452
Proportion of total volume (%)	14.6	14.8	12.8	13.8
<b>GOLD</b>				
Avg daily volume (INR bn)	48	45	36	51
Vol (gms)	18,064	15,028	13,525	18,259
Avg price (INR)	26,807	29,694	26,724	28,060
Proportion of total volume (%)	22.1	19.8	16.3	17.5
<b>COPPER</b>				
Avg daily volume (INR bn)	17	17	18	25
Vol (kgs)	50	49	49	64
Avg price (INR)	3.4	3.5	3.7	3.9
Proportion of total volume (%)	7.8	7.6	8.3	8.6
<b>CRUDE OIL</b>				
Avg daily volume (INR bn)	65	61	61	80
Vol ('000 bbls)	23	19	21	25
Avg price (INR)	28.4	32.2	29.0	31.9
Proportion of total volume (%)	29.8	27.2	27.3	27.4
<b>ZINC</b>				
Avg daily volume (INR bn)	15	25	26	33
Vol (kgs)	128,582	156,689	151,988	182,385
Avg price (INR)	1.2	1.6	1.7	1.8
Proportion of total volume (%)	6.9	11.1	11.7	11.2
<b>LEAD</b>				
Avg daily volume (INR bn)	11	13	15	19
Vol (kgs)	98,183	95,585	100,365	120,438
Avg price (INR)	1.2	1.4	1.5	1.6
Proportion of total volume (%)	5.2	5.7	6.7	6.5
<b>NICKEL</b>				
Avg daily volume (INR bn)	9	7	9	11
Vol (kgs)	12,893	10,980	12,078	14,494
Avg price (INR)	6.9	6.8	7.1	7.5
Proportion of total volume (%)	4.0	3.3	3.9	3.7
<b>AGRI</b>				
Proportion of total volume (%)	4.4	5.3	6.4	7.6
<b>OTHERS</b>				
Proportion of total volume (%)	2.0	2.3	2.9	2.6
<b>TOTAL</b>				
	219	226	222	293

Source: Company, Edelweiss research

## Financial snapshot

(INR mn)

Year to March	Q1FY18	Q1FY17	% change	Q4FY17	% change	FY17	FY18E	FY19E
Net revenues	868	938	(7.4)	869	(0.1)	3,759	4,093	4,975
Expenses	460	408	12.7	495	(7.1)	1,797	1,957	2,189
- employee cost	178	143	23.9	160	11.3	644	756	875
- other expenses	282	265	6.6	335	(15.8)	1,153	1,201	1,314
EBITDA	409	530	(22.9)	374	9.2	1,962	2,136	2,787
Interest	-	1	NA	1	NA	2	-	-
Depreciation	48	49	(2.6)	49	(2.4)	186	201	195
PBT	361	480	(24.9)	325	11.2	1,774	1,936	2,592
Tax	98	152	(35.4)	106	(7.1)	512	542	726
PAT	263	328	(20.0)	219	20.0	1,263	1,394	1,866
Diluted EPS (INR)	5.2	6.5	(20.1)	4.3	20.3	24.8	27.3	36.6

## Ratios (%)

EBITDA margin	47.1	56.5		43.1		52.2	52.2	56.0
PAT margin	30.2	35.0		25.2		33.6	34.0	37.5
Employee cost/revenues	20.5	15.3		18.4		17.1	18.5	17.6
Software chg./revenues	13.1	12.0		14.0		11.3	11.2	10.8
Tax rate (%)	27.2	31.7		32.6		28.8	28.0	28.0

## Valuation metrics

Book value / share						299.9	309.8	327.1
Price/ Book (x)						3.7	3.5	3.4
Price/ Earnings						44.3	40.1	30.0

## Change in Estimates

	FY18E			FY19E			Comments
	New	Old	% change	New	Old	% change	
Net revenue	4,093	4,865	(15.9)	4,975	5,821	(14.5)	Benefit of SEBI's measures to be visible in FY19 instead of FY18
Operating profit	2,136	2,779	(23.1)	2,787	3,491	(20.2)	
Reported PAT	1,394	1,833	(24.0)	1,866	2,319	(19.5)	
Operating margin	52.2	57.1		56.0	60.0		

## Q1FY18 Earnings Conference Call

### With respect to operations

- **Post GST, management expects uptick in stocking to translate into higher volumes and more deliveries to increase market depth**
- ADTV decline was mainly on back of lower bullion volumes – down from INR98.5bn to INR48.8bn post demonetisation
  - **However, post GST roll-out, have seen strong traction on this front – bullion volumes up by INR11bn**
  - **If the traction seen in July continues going forward, expect volumes to reach last year levels by end of second quarter**
- Although business got re-based post demonetisation, there has not been any behavioural change in any segment
- Realisations were down marginally as larger portion of fall came from smaller brokers as compared to bigger ones
- **Will retain expenses (ex-software support charges and product license fees, which are linked to revenues) at last year levels**
  - Aim is to restrict employee expense growth to <10%, while also limiting advertising expenses (INR1.7mn during Q1FY18)
  - Software support charges and product license fees are based on long-term contracts (5 year duration) - ~13-13.5% of revenues
- Lower tax rate during the quarter is attributable to greater contribution from other income, which includes tax-free investments, etc.
  - Softening of interest rates led to better treasury income during the quarter

### Other highlights

- **Looking forward to launch options by August**
  - Out of 9 contracts eligible, MCX finally decided to apply on 1 kg gold contracts
    - **Roll-out of incremental contracts should take place by December**
  - **Believe that options will contribute meaningfully to revenues only starting next year**
    - Should lead to incremental revenues of 20-30% vis-a-vis futures
- **Expect AIF-III investors to start trading by end of second quarter**
  - Believe that SEBI will follow up by allowing PMS and MF players to invest
- Income tax notice, which was received during the quarter, has no specific amount asked for
  - **Management does not see a requirement to make any provisions for the same**
- Have received a couple of approvals from SEBI for new contracts (gold, diamond)
  - Will try to sequence the launch post options – likely within next 3-4 months
  - Additionally, awaiting a couple of approvals on the agri business
- Expect in-principle approval by SEBI for clearing corporation anytime now

### Q4FY17 Earnings Conference Call

#### With respect to operations

- **Revenues were impacted by drop in bullion contract volumes due to impact of demonetisation and uncertainty with regard to GST rates**
  - Excluding bullion segment, volumes have more-or-less returned to pre-demonetisation levels
- Treasury income was lower during the quarter on account of drop in yields
  - ~1/7<sup>th</sup> of the treasury income is attributable to broker money parked with the exchange
- The company has consciously reduced spends on advertising
  - **Going forward, advertising expenses should be somewhere between FY16 and FY17 levels**
- Rise in other expenses was attributable to higher regulatory fees, investment in GIFT City, and technology & licensing-related expenses
  - Technology expenses are either expensed or capitalised based on quantum of expenditure
  - **Going forward, other expenses should be held at FY17 levels**
- MCX has a healthy settlement guarantee fund (SGF) - >INR2.2bn, with cash balance of ~INR1.7bn
  - **Going forward, the company may not need to make any incremental contributions to the SGF**
- MCX has owned funds to the tune of ~INR12bn, with ~INR2bn of broker money
  - Once the proposed clearing corp. (CC) is set up, ~INR5bn may sit in the CC and the remaining ~INR9bn with the parent company
- The company has a dividend policy which mandates ~30-50% payout ratio
  - However, given no immediate need of funds, dividend payout this year ~75%

#### Other highlights:

- **Options would likely be launched in the next 2-3 months**
  - **At least 6 contracts have necessary market depth for options: Gold, silver, copper, crude oil, cotton and crude palm oil**
  - In the long run (3-5 years), management plans to achieve ~40% incremental revenues through options
  - Following options, the company may launch index products and complex derivatives in that order
- **Universal exchanges may get operational by end of this year or early next year**
  - In this regard, MCX may consider launching currency and interest rate derivatives
- The company is still evaluating feasibility of setting up an exchange at GIFT City
- Number of members has reduced by ~3% YoY to 689
- Unique client codes has increased by >12% YoY to 26,77,335

### Company Description

MCX is a leading electronic commodity futures exchange in India promoted by FTIL (though has not ceased to be a promoter with NSEL fallout) facilitating online trading, clearing & settlement operations for futures market across the country. The exchange started operations in November 2003 and within eight years it has emerged the market leader in commodities future industry with 85% plus market share, leveraging on product and service innovations and effective use of technology. Well designed technology platform that ensures security, reliability, flexibility and scalable architecture with handling capacity of 40mn transactions in a day. In terms of innovation, it is the first exchange in India to launch mini contracts to cater to needs of small traders and SMEs and has initiated evening sessions to synchronise with trading hours of exchanges in London, New York and other major international markets.

### Investment Theme

Multi commodity exchange (MCX) was fraught with challenges since past couple of years with its promoter, FTIL, being declared not “fit and proper” to run the exchange post NSEL fallout leading to entire top management rejig. Moreover, imposition of CTT had an adverse impact on trading volumes, coupled with sharp fall in commodity prices. Despite such turmoils, the company emerged unscathed maintaining market leadership (with >80% market share) bearing testimony to its underlying business strength. Infact, the model has evolved much stronger with experienced management backed by strong financial partner (Kotak). This further supported with structural growth levers and potential regulatory changes (FCRA Act clearance) place MCX in a favorable position to capitalise on emerging opportunities. Volumes can possibly grow upwards of 30% in FY19 with options being rolled out and institutions (AIF, MF and PMS) also being allowed to trade by FY18, leading to spurt in earnings. Operating leverage benefit will provide >380bps of positive delta to operating margin.

### Key Risks

- Higher regulatory risks due to speculative nature of trades: i) Delay in implementation of proposed policy measures; ii) Ban on trading in certain commodities; iii) Revision in open position limits, higher margin requirement, CTT imposition etc.
- Significant dependence on a few commodities: Top four commodities—gold, silver, crude oil and copper—accounted for more than 85% of total volumes on MCX
- Long-term pricing pressure likely in commodities futures.

## Financial Statements

## Key Assumptions

Year to March	FY16	FY17	FY18E	FY19E
<b>Macro</b>				
GDP(Y-o-Y %)	7.2	6.5	7.1	7.7
Inflation (Avg)	4.9	4.5	4.0	4.5
Repo rate (exit rate)	6.8	6.3	5.8	5.8
USD/INR (Avg)	65.0	67.5	66.0	66.0
<b>Sector</b>				
Credit growth	9.3	9.0	12.0	14.0
Deposit growth	8.6	14.0	12.0	13.0
CRR	4.0	4.0	4.0	4.0
SLR	20.8	20.0	20.0	20.0
G-sec yield	7.5	6.5	6.5	6.5
<b>Company</b>				
Operating margin	54.6	52.2	52.2	56.0
Employee cost/revenues	11.9	17.1	18.5	17.6
Technology cost/revenues	10.6	11.3	11.2	10.8
Dividend payout	35.0	45.0	45.0	45.0
Dividend tax	17.0	17.0	17.0	17.0
Tax rate (%)	28.4	28.8	28.0	28.0
Avg Daily Trading Vol.	219.3	225.6	221.8	292.7
- Gold	48.4	44.6	36.1	51.2
- Silver	32.1	33.3	28.5	40.4
- Crude Oil	65.4	61.3	60.6	80.1
- Agri	4.4	5.3	6.4	7.6
- Others	68.9	81.1	90.1	113.4
Commission yields	1.8	2.0	2.2	2.2
# of members	2,074	2,101	2,138	2,175
# of employees	295	395	399	429
# of terminals	550	631	694	764

## Income statement

(INR mn)

Year to March	FY16	FY17	FY18E	FY19E
Net revenue	3,514	3,759	4,093	4,975
Operating expenses	1,596	1,797	1,957	2,189
- Employee Cost	419	644	756	875
- Technology Costs	374	426	459	540
- Advt. & Business Development	192	36	39	43
- Admin & Other Expenses	612	690	702	731
Operating profits	1,918	1,962	2,136	2,787
Depreciation	246	186	201	195
EBIT	1,672	1,776	1,936	2,592
Interest expense	3	2	-	-
Profit Before Tax	1,669	1,774	1,936	2,592
Less: Provision for Tax	475	512	542	726
Net profit	1,194	1,263	1,394	1,866
Exceptional items	(56)	-	-	-
Reported Profit	1,138	1,263	1,394	1,866
Adj. Diluted EPS (INR)	23.4	24.8	27.3	36.6
Dividend per share (DPS)	8.2	11.1	12.3	16.5
Dividend Payout Ratio(%)	35.0	45.0	45.0	45.0

## Growth ratios (%)

Year to March	FY16	FY17	FY18E	FY19E
Revenues	NA	7.0	8.9	21.6
- Transaction fee growth	NA	13.7	12.9	29.6
Opex growth	NA	12.5	8.9	11.8
Operating margin growth	NA	2.3	8.9	30.5
PBT	NA	6.3	9.1	33.9
Adjusted Profit	NA	5.7	10.4	33.9

## Operating ratios

Year to March	FY16	FY17	FY18E	FY19E
Operating margin	54.6	52.2	52.2	56.0
PAT margin	34.0	33.6	34.0	37.5
Employee cost/revenues	11.9	17.1	18.5	17.6
Technology cost/revenues	10.6	11.3	11.2	10.8
Opex/revenues	45.4	47.8	47.8	44.0
Tax rate	28.4	28.8	28.0	28.0

## Multi Commodity Exchange of India

Balance sheet		(INR mn)			
As on 31st March	FY16	FY17	FY18E	FY19E	
Share capital	510	510	510	510	
Net worth	14,780	15,293	15,800	16,684	
Def. Tax Liability (net)	(46)	75	86	100	
<b>Total liabilities</b>	<b>14,734</b>	<b>15,368</b>	<b>15,886</b>	<b>16,784</b>	
Gross Block	3,715	4,021	4,171	4,321	
Depreciation	2,313	2,499	2,700	2,894	
Net Block	1,401	1,521	1,471	1,426	
Investments	11,110	11,948	12,198	12,848	
Cash and Equivalents	207	40	57	288	
Sundry Debtors	42	28	37	91	
Fixed Deposits	4,795	3,849	4,099	4,749	
Loans & Advances	922	1,219	1,334	1,423	
Other Current Assets	60	51	62	74	
Total current assets	6,026	5,188	5,589	6,625	
Current liabilities	2,988	2,780	2,811	3,498	
Security Deposits	96	98	100	102	
Networking Equip. Dep.	4	4	4	4	
Trading Margin from Mem.	2,193	2,256	2,264	2,927	
Other Current Liab	695	422	443	465	
Net current assets	3,038	2,408	2,778	3,127	
Provisions	814	510	561	617	
<b>Total assets</b>	<b>14,734</b>	<b>15,368</b>	<b>15,886</b>	<b>16,784</b>	
BVPS (INR)	289.8	299.9	309.8	327.1	

Key operating metrics					
Year to March	FY16	FY17	FY18E	FY19E	
Avg Daily Trading Vol.	219.3	225.6	221.8	292.7	
- Gold	48.4	44.6	36.1	51.2	
- Silver	32.1	33.3	28.5	40.4	
- Crude Oil	65.4	61.3	60.6	80.1	
- Agri	4.4	5.3	6.4	7.6	
Commission yields	1.8	2.0	2.2	2.2	
# of members	2,074	2,101	2,138	2,175	
# of terminals	550	631	694	764	

Valuation parameters					
Year to March	FY16	FY17	FY18E	FY19E	
Adj. Diluted EPS (INR)	23.4	24.8	27.3	36.6	
Y-o-Y growth (%)	(4.5)	5.7	10.4	33.9	
BV per share (INR)	289.8	299.9	309.8	327.1	
RoE (%)	7.9	8.4	9.0	11.5	
Diluted P/E (x)	46.8	44.3	40.1	30.0	
P/B (x)	3.8	3.7	3.5	3.4	
Dividend Yield (%)	0.7	1.0	1.1	1.5	

### Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X)		P/B (X)		ROAE (%)	
		FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
Multi Commodity Exchange of India	868	40.1	30.0	3.5	3.4	9.0	11.5
Dewan Housing Finance	2,156	12.5	10.9	1.6	1.5	13.7	14.3
HDFC	40,730	23.9	20.7	4.8	4.0	20.0	20.8
Indiabulls Housing Finance	7,395	13.7	11.5	3.6	3.1	27.7	29.2
LIC Housing Finance	5,813	17.2	15.6	2.9	2.5	19.6	18.9
Mahindra & Mahindra Financial Services	3,282	31.1	21.3	3.1	2.8	10.2	13.8
Manappuram General Finance	1,321	10.2	8.8	2.4	2.1	24.9	24.9
Muthoot Finance	2,932	13.6	12.1	2.5	2.2	19.7	19.4
Power Finance Corp	5,078	4.8	4.7	0.8	0.7	17.8	16.1
Reliance Capital	2,649	13.8	11.1	1.0	0.9	7.4	8.6
Repco Home Finance	770	23.0	19.0	3.7	3.2	17.5	18.0
Rural Electrification Corporation	5,630	6.1	5.7	1.0	0.9	16.6	15.9
Shriram City Union Finance	2,319	17.7	12.4	2.6	2.2	15.7	19.3
Shriram Transport Finance	3,636	13.9	9.1	1.9	1.6	14.2	18.8
Median	-	13.9	11.8	2.6	2.2	17.1	18.4
AVERAGE	-	17.8	14.3	2.6	2.3	16.7	17.8

Source: Edelweiss research

## Additional Data

### Directors Data

Saurabh Chandra	Chairman	Parveen Kumar Singhal	President & Whole Time Director
Mrugank M. Paranjape	Managing Director & CEO	Arun Nanda	Director
S K Mitra	Director	M. Govinda Rao	Director
Padma Raghunathan	Director	Madhu Vadera Jayakumar	Director
Amit Goela	Director	Arun Bhargava	Director
Pravin Tripathi	Director	Hemang Raja	Director
Prithvi Haldea	Director	C. Jayaram	Director

Auditors - Shah Gupta & Co.

*\*as per last annual report*

### Holding - Top 10

	Perc. Holding		Perc. Holding
Kotak Mahindra	15.00	Axis Asset Management	4.01
Jhunjhunwala Rakesh	3.92	Reliance Capital Trustee	3.04
Goldman Sachs Group	2.38	Baron Capital	2.09
Baron Emerging Markets Fund	2.01	IDFC Mutual Fund	1.96
J.P. Morgan Chase & Co.	1.78	Tata Mutual Fund	1.55

*\*as per last available data*

### Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
29 Sep 2016	Nomura Singapore Ltd	Buy	397800	1352.69

*\*in last one year*

### Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
09 Dec 2016	Blackstone Gpv Capital Partners (Mauritius) Vi Fii Ltd	Sell	2421028.00
09 Dec 2016	Swiss Finance Corporation (Mauritius) Ltd	Buy	2409194.00

*\*in last one year*

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Allahabad Bank	HOLD	SU	M	Axis Bank	BUY	SO	M
Bajaj Finserv	BUY	SP	L	Bank of Baroda	BUY	SP	M
Bharat Financial Inclusion	BUY	SO	M	Capital First	BUY	SO	M
DCB Bank	REDUCE	SU	M	Dewan Housing Finance	BUY	SO	M
Equitas Holdings Ltd.	BUY	SO	M	Federal Bank	BUY	SP	L
HDFC	HOLD	SP	L	HDFC Bank	BUY	SO	L
ICICI Bank	BUY	SO	L	IDFC Bank	HOLD	SP	L
Indiabulls Housing Finance	BUY	SO	M	IndusInd Bank	BUY	SP	L
Karnataka Bank	BUY	SP	M	Kotak Mahindra Bank	HOLD	SP	M
L&T FINANCE HOLDINGS LTD	BUY	SO	M	LIC Housing Finance	BUY	SP	M
Magma Fincorp	BUY	SP	M	Mahindra & Mahindra Financial Services	HOLD	SU	M
Manappuram General Finance	BUY	SO	H	Max Financial Services	BUY	SO	L
Multi Commodity Exchange of India	BUY	SP	M	Muthoot Finance	BUY	SO	M
Oriental Bank Of Commerce	HOLD	SP	L	Power Finance Corp	BUY	SO	M
Punjab National Bank	BUY	SP	M	Reliance Capital	BUY	SP	M
Repco Home Finance	BUY	SO	M	Rural Electrification Corporation	BUY	SO	M
Shriram City Union Finance	BUY	SO	M	Shriram Transport Finance	BUY	SO	L
South Indian Bank	BUY	SP	M	State Bank of India	BUY	SP	L
Union Bank Of India	HOLD	SP	M	Yes Bank	BUY	SO	M

### ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

### RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

### RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

### SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return



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## Coverage group(s) of stocks by primary analyst(s): Banking and Financial Services

Allahabad Bank, Axis Bank, Bharat Financial Inclusion, Bajaj Finserv, Bank of Baroda, Capital First, DCB Bank, Dewan Housing Finance, Equitas Holdings Ltd., Federal Bank, HDFC, HDFC Bank, ICICI Bank, IDFC Bank, Indiabulls Housing Finance, Indusind Bank, Karnataka Bank, Kotak Mahindra Bank, LIC Housing Finance, L&T FINANCE HOLDINGS LTD, Max Financial Services, Multi Commodity Exchange of India, Manappuram General Finance, Magma Fincorp, Mahindra & Mahindra Financial Services, Muthoot Finance, Oriental Bank Of Commerce, Punjab National Bank, Power Finance Corp, Reliance Capital, Rural Electrification Corporation, Repco Home Finance, State Bank of India, Shriram City Union Finance, Shriram Transport Finance, South Indian Bank, Union Bank Of India, Yes Bank

### Recent Research

Date	Company	Title	Price (INR)	Recos
14-Jul-17	Insurance	Insurance premiums: Healthy growth momentum sustains; <i>Sector Update</i>		
13-Jul-17	South Indian Bank	Core improving; stress crystallisation on expected lines ; <i>Result Update</i>	28	Buy
11-Jul-17	Indusind Bank	Moving up the quality curve; <i>Result Update</i>	1,561	Buy

### Distribution of Ratings / Market Cap

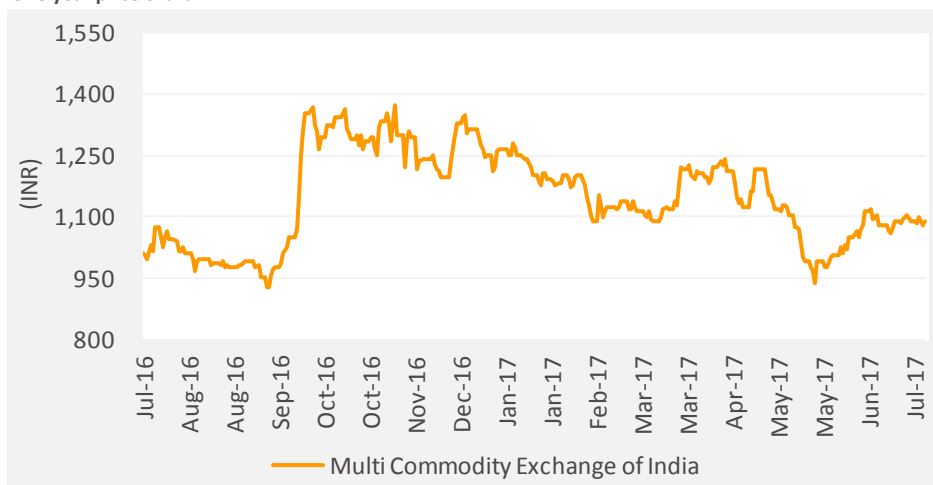
#### Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240
* 1stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	156	62	11	

### Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

### One year price chart



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