

## MULTI COMMODITY EXCHANGE OF INDIA

### EXCHANGES

### Recovery seen in bullion volumes

Revenue declined ~1% QoQ to Rs 868 mn due to lower traded value (down 3.4% QoQ) in bullion (GST uncertainty) and base metals. The quarter saw a deceleration in the decline in gold volumes – down 3.5% QoQ vs. 11% QoQ in Q4. EBITDA margin (post float income) expanded 380 bps QoQ, driven by cost reduction in the operating expenses. PAT was up 18% QoQ at Rs 263 mn on lower tax outgo.

**Update on regulatory developments and new products:** Management expects to launch options in the second half of August 2017. CBDT clarification on CTT/ STT is awaited. SEBI has allowed Cat III Alternative Investment Funds to participate in commodities, which should boost volumes. Following this, management expects Portfolio Management Services and Mutual Funds to be permitted.

# BUY

Target Price: Rs 1,302

CMP : Rs 1,089  
Potential Upside : 20%

#### MARKET DATA

No. of Shares : 51 mn  
Free Float : 100%  
Market Cap : Rs 55 bn  
52-week High / Low : Rs 1,420 / Rs 925  
Avg. Daily vol. (6mth) : 405,002 shares  
Bloomberg Code : MCX IB Equity  
Promoters Holding : 0%  
FII / DII : 23% / 36%

### Concall highlights

- ◆ MCX has applied for options trading on Gold 1kg contract. Management expects that options for the other qualifying commodities would be launched some time in December
- ◆ Incremental operating expenses on options launch will largely depend on business development. This is likely to be funded out of the Investor Education Fund
- ◆ Gold volumes have recovered in July with GST clarity. Post GST implementation, management expects that uptick in stocking levels and ease of transport would boost deliveries, which bodes well for MCX
- ◆ MCX has received approvals for commodities futures including diamonds and is awaiting two approvals in the agri segment. It expects to launch at least two more futures products in the next 3-4 months post the launch of the Gold options

### Financial summary (Consolidated) before regulatory reforms

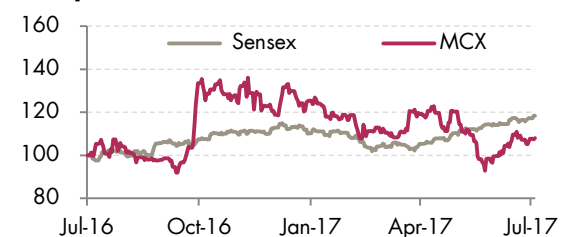
Y/E March	FY16	FY17	FY18E	FY19E
Sales (Rs mn)	2,135	2,386	2,998	3,395
Adj PAT (Rs mn)	1,203	1,266	1,389	1,562
Con. EPS* (Rs)	-	-	32.6	44.6
EPS (Rs)	23.6	24.8	27.2	30.6
Change YOY (%)	(4.4)	5.3	9.7	12.4
P/E (x)	46.2	43.9	40.0	35.6
RoE (%)	9.6	9.5	9.8	10.0
RoCE (%)	11.4	11.6	12.0	12.5
EV/E (x)	90.2	81.4	49.1	41.6
DPS (Rs)	6.5	15.0	16.3	18.4

Source: \*Consensus broker estimates, Company, Axis Capital

### Key drivers

(YoY)	2016	2017	2018E	2019E
Gold	-3%	-6%	-17%	15%
Silver	-16%	5%	-16%	12%
Crude Oil	35%	-7%	8%	18%
<b>Total</b>	<b>4%</b>	<b>5%</b>	<b>3%</b>	<b>13%</b>

### Price performance

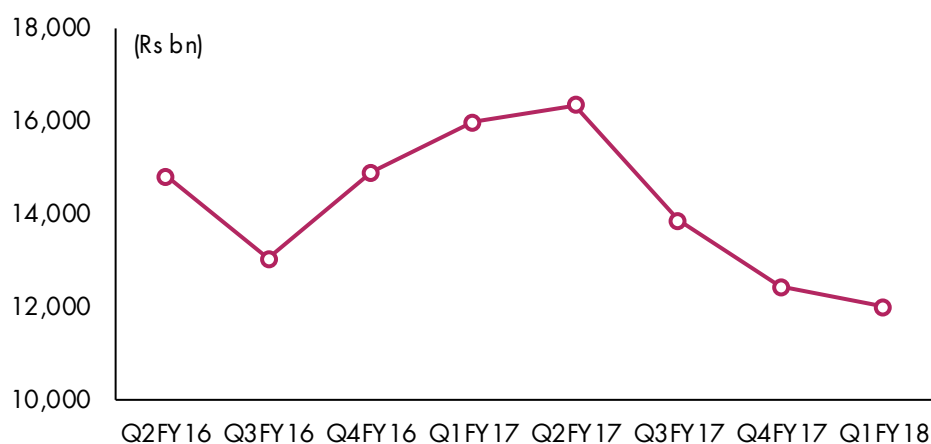


**Exhibit 1: Results update (before regulatory reforms)**

(Rs. mn)	Quarter ended					12 months ended		
	Jun-17	Jun-16	% chg	Mar-17	% chg	FY18E	FY17	% chg
<b>Net sales</b>	<b>868</b>	<b>938</b>	<b>(7.4)</b>	<b>874</b>	<b>(0.6)</b>	<b>2,998</b>	<b>2,386</b>	<b>25.7</b>
EBITDA	409	530	(22.9)	378	8.3	927	588	57.7
Other income	0	0	-	0	-	1,228	1,377	(10.9)
<b>PBIDT</b>	<b>409</b>	<b>530</b>	<b>(22.9)</b>	<b>378</b>	<b>8.3</b>	<b>2,155</b>	<b>1,965</b>	<b>9.6</b>
Depreciation	48	49	(2.7)	49	(2.5)	197	186	5.8
Interest	0	1	-	0	-	2	2	5.0
<b>PBT</b>	<b>361</b>	<b>480</b>	<b>(24.9)</b>	<b>328</b>	<b>10.0</b>	<b>1,956</b>	<b>1,778</b>	<b>10.1</b>
Tax	98	152	(35.4)	106	(7.3)	567	512	10.9
<b>Adjusted PAT</b>	<b>263</b>	<b>328</b>	<b>(20.0)</b>	<b>222</b>	<b>18.3</b>	<b>1,389</b>	<b>1,266</b>	<b>9.7</b>
No. of shares (mn)	51	51	-	51	0	51	51	-
EBITDA margin (%)	47.1	56.5	-	43.2	-	30.9	24.6	-
PBIDT margin (%)	47.1	56.5	-	43.2	-	71.9	82.4	-
<b>EPS - annualized (Rs)</b>	<b>20.6</b>	<b>25.7</b>	<b>(20.0)</b>	<b>17.4</b>	<b>18.3</b>	<b>27.2</b>	<b>24.8</b>	<b>9.7</b>

Source: Company, Axis Capital

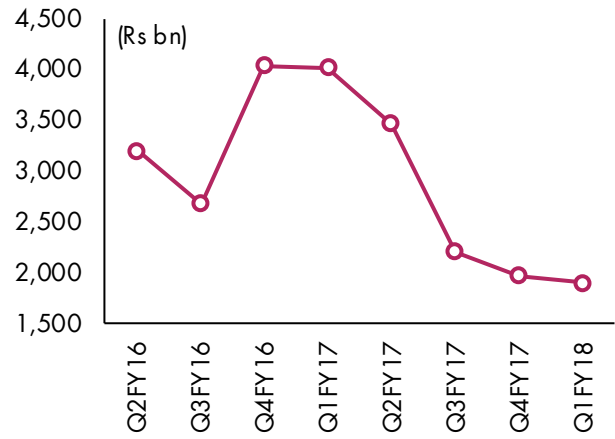
**Our forecast (existing products):** Over FY17-19, we forecast 8%/ 13% / 11% CAGR in traded value/transaction fees/ EBITDA (including float income) to incorporate lower volumes in Q1FY18 as GST uncertainty impacted traded value in bullion segment partly offsetting impact of increase in transaction fees (effective 1 October 2016). Management expects material impact of the launch of options to be seen from FY19 as more commodity options are launched. We have valued MCX at Rs 1,302 (Rs 1,326 earlier): Rs 704 (23x FY19E, at Asian average: ~25x) for existing products and Rs 597 (FY20 EPS discounted back at 12%, 23x) for new product/ participant introductions. Maintain **BUY** with upside of 20%.

**Exhibit 2: All segments – Traded Value down**


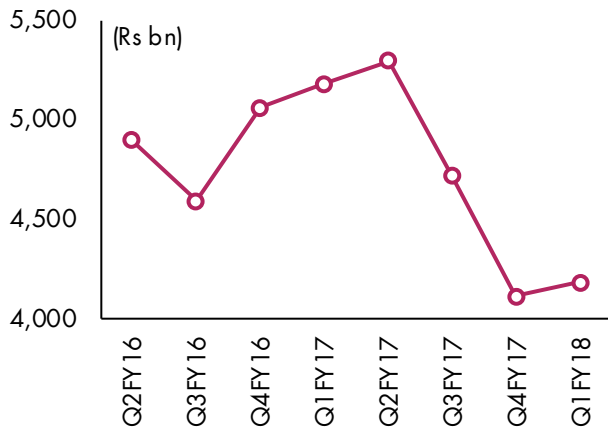
Source: MCX

**Exhibit 3: Bullion**

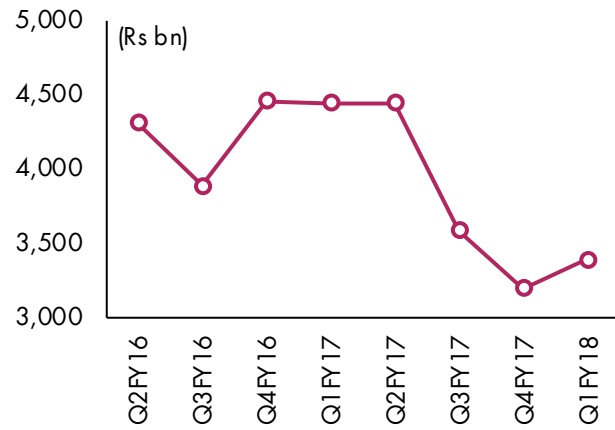

Source: MCX

**Exhibit 4: Gold**


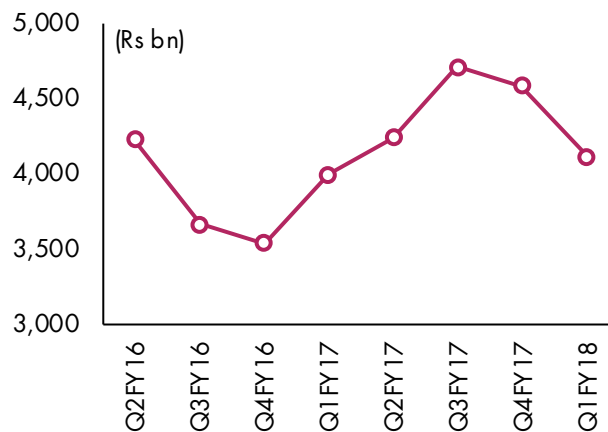
Source: MCX

**Exhibit 5: Energy**


Source: MCX

**Exhibit 6: Crude Oil**


Source: MCX

**Exhibit 7: Base metals**


Source: MCX

**Exhibit 8: Agri trading**


Source: MCX

**Exhibit 9: Table of International Valuations**

(USD mn)	North America				Europe			Asia/Australia				Others			Mean	Median
	NASDAQ	CME	ICE	TMX	DB	LSE	BOLSAS	BURSA	OSAKA	SGX	HKEX	JSE	BOLSA	BOVESPA		
Price (USD)	71	123	66	54	110	48	36	2	17	5	27	10	2	6		
Mcap (USDm)	11,782	41,927	38,999	2,999	21,263	16,684	3,030	1,298	9,545	5,734	32,960	831	1,059	12,925		
<b>CMP (USD)</b>	<b>71</b>	<b>123</b>	<b>66</b>	<b>54</b>	<b>110</b>	<b>48</b>	<b>36</b>	<b>2</b>	<b>17</b>	<b>5</b>	<b>27</b>	<b>10</b>	<b>2</b>	<b>6</b>		
Mcap (USDm)	11,782	41,927	38,999	2,999	21,263	16,684	3,030	1,298	9,545	5,734	32,960	831	1,059	12,925		
EV (USDm)	14,797	42,784	44,935	3,455	22,078	17,295	2,669	874	8,745	5,204	5,908	685	948	9,882		
<b>EV/Sales (x)</b>																
CY15/FY16	4.3	12.9	13.5	6.2	9.1	8.0	7.2	7.0	9.1	8.8	3.7	4.1	5.7	14.6	8.2	7.6
CY16/FY17e	4.0	11.9	10.0	6.2	8.5	7.8	7.5	7.6	8.8	8.9	4.4	4.3	6.2	14.8	7.9	7.7
CY17/FY18e	6.2	11.5	9.6	6.0	7.6	7.5	7.1	6.9	8.9	8.3	3.7	4.1	5.6	8.1	7.2	7.3
CY18/FY19e	5.9	10.9	9.2	5.8	7.1	6.8	7.1	6.6	8.7	7.8	3.3	3.6	5.3	7.4	6.8	7.0
<b>Adj PAT</b>																
CY15/FY16	581	1305	1359	134	850	653	193	51	374	251	1026	70	51	554		
CY16/FY17e	621	1536	1665	171	897	613	177	47	390	251	743	62	52	692		
CY17/FY18e	697	1659	1784	201	1041	674	181	52	374	274	885	60	59	563		
CY18/FY19e	750	1824	1989	214	1159	755	182	54	376	292	987	73	64	633		
<b>P/E (X)</b>																
CY15/FY16	21.0	32.0	27.1	19.0	24.0	24.3	15.7	25.3	25.5	22.8	31.0	11.9	20.9	20.3	22.9	23.4
CY16/FY17e	19.4	27.2	23.7	16.0	22.9	27.3	17.1	27.6	24.4	22.8	43.6	13.3	20.4	16.2	23.0	22.9
CY17/FY18e	17.3	25.4	21.9	15.0	19.8	25.1	16.8	24.9	24.8	20.9	37.0	14.9	17.9	20.9	21.6	20.9
CY18/FY19e	15.9	23.1	19.2	13.9	17.6	21.9	16.6	24.2	24.7	19.6	33.5	12.7	16.5	19.0	19.9	19.1
<b>P/FCF (x)</b>																
CY15/FY16	21.5	29.9	37.7	19.9	(594.9)	26.5	15.1	23.0	19.3	22.1	33.8	12.4	15.0	43.4	(19.7)	21.8
CY16/FY17e	17.6	25.8	21.9	14.6	12.2	65.5	21.7	24.6	22.3	33.6	91.7	12.9	17.7	(6.4)	26.8	21.8
CY17/FY18e	16.3	24.1	21.2	15.1	20.6	26.1	16.8	33.1	19.4	22.0	33.4	14.4	17.0	25.5	21.8	20.9
CY18/FY19e	15.2	22.4	19.2	13.9	18.8	25.2	17.2	20.5	18.7	18.4	31.1	12.1	15.9	15.4	18.9	18.5

continued...

(USD mn)	North America				Europe			Asia/Australia				Others			Mean	Median
	NASDAQ	CME	ICE	TMX	DB	LSE	BOLSAS	BURSA	OSAKA	SGX	HKEX	JSE	BOLSA	BOVESPA		
<b>P/B (x)</b>																
CY15/FY16	2.1	2.0	2.6	1.5	5.3	4.1	6.4	6.9	4.2	7.8	8.4	4.4	3.4	2.4	4.4	4.2
CY16/FY17e	2.2	2.1	2.5	1.4	4.4	4.4	6.8	6.7	4.1	7.7	7.9	3.5	3.8	1.9	4.2	4.0
CY17/FY18e	2.2	2.0	2.4	1.3	3.8	3.9	6.1	6.5	3.9	7.2	7.6	3.5	3.3	1.8	4.0	3.7
CY18/FY19e	2.0	2.0	2.3	1.2	3.4	3.6	6.0	6.3	3.8	6.7	7.3	3.1	3.2	1.7	3.8	3.3
<b>EV/EBITDA (x)</b>																
CY15/FY16	17.2	19.3	21.2	14.1	18.4	18.2	9.8	12.2	13.8	15.4	4.6	7.9	12.6	14.3	14.2	14.2
CY16/FY17e	14.7	17.6	16.2	12.7	16.6	19.2	11.2	13.3	13.6	15.4	6.0	9.5	11.6	28.7	14.7	14.1
CY17/FY18e	11.3	15.9	15.1	11.0	13.0	14.4	10.8	11.5	14.5	14.4	5.1	10.1	10.3	13.4	12.2	12.2
CY18/FY19e	10.7	16.0	13.9	10.3	11.9	12.9	10.8	11.1	14.2	13.6	4.6	8.3	9.6	11.2	11.4	11.1
<b>RoE (%)</b>																
CY15/FY16	7.5	6.0	9.4	(1.8)	19.1	12.5	40.7	25.6	18.2	35.5	31.1	33.1	12.6	11.8	18.7	15.4
CY16/FY17e	2.0	7.5	9.3	6.9	31.7	5.2	37.4	23.2	16.4	34.5	18.6	29.5	17.4	7.7	17.7	16.9
CY17/FY18e	12.7	8.0	11.2	8.8	20.3	15.4	37.3	25.7	15.9	35.5	20.8	27.0	18.7	10.5	18.4	15.9
CY18/FY19e	13.6	8.7	12.1	9.1	20.5	16.1	39.1	26.4	14.8	35.5	22.5	28.7	19.0	9.3	19.1	16.1
<b>CAGR FY17-19E (%)</b>																
Sales	(18.0)	4.5	4.4	3.4	9.2	6.6	3.1	7.5	0.3	6.3	15.1	9.4	8.4	41.0	7.2	6.5
EBITDA	17.0	5.1	7.9	11.1	18.0	22.1	1.8	9.4	(2.3)	6.5	13.6	7.0	9.5	60.0	13.3	9.4
PAT	9.9	9.0	9.3	12.0	13.7	10.9	1.4	7.1	(1.8)	7.9	15.3	8.3	10.8	(4.4)	7.8	9.1
EPS	10.3	8.6	11.0	7.2	14.3	11.6	1.5	6.9	(0.5)	7.8	14.1	2.6	11.1	(7.7)	7.0	8.2

Source: Bloomberg; Note: NYMEX Acquired by CME

## Financial summary (Consolidated) before regulatory reforms

### Profit & loss (Rs mn)

Y/E March	FY16	FY17	FY18E	FY19E
Net sales	2,135	2,386	2,998	3,395
Other operating income	-	-	-	-
<b>Total operating income</b>	<b>2,135</b>	<b>2,386</b>	<b>2,998</b>	<b>3,395</b>
Cost of goods sold	(793)	(1,071)	(1,126)	(1,259)
Gross profit	1,342	1,316	1,872	2,136
<i>Gross margin (%)</i>	<i>62.9</i>	<i>55.1</i>	<i>62.4</i>	<i>62.9</i>
Total operating expenses	(804)	(728)	(945)	(1,059)
<b>EBITDA</b>	<b>539</b>	<b>588</b>	<b>927</b>	<b>1,077</b>
<i>EBITDA margin (%)</i>	<i>25.2</i>	<i>24.6</i>	<i>30.9</i>	<i>31.7</i>
Depreciation	(246)	(186)	(197)	(221)
<b>EBIT</b>	<b>293</b>	<b>402</b>	<b>731</b>	<b>856</b>
Net interest	(3)	(2)	(2)	(2)
Other income	1,383	1,377	1,228	1,346
<b>Profit before tax</b>	<b>1,673</b>	<b>1,778</b>	<b>1,956</b>	<b>2,199</b>
Total taxation	(470)	(512)	(567)	(638)
<i>Tax rate (%)</i>	<i>28.1</i>	<i>28.8</i>	<i>29.0</i>	<i>29.0</i>
Profit after tax	1,203	1,266	1,389	1,562
Minorities	-	-	-	-
Profit/ Loss associate co(s)	-	-	-	-
Adjusted net profit	1,203	1,266	1,389	1,562
<i>Adj. PAT margin (%)</i>	<i>56.3</i>	<i>53.1</i>	<i>46.3</i>	<i>46.0</i>
Net non-recurring items	(56)	-	-	-
Reported net profit	1,146	1,266	1,389	1,562

### Balance sheet (Rs mn)

Y/E March	FY16	FY17	FY18E	FY19E
Paid-up capital	510	510	510	510
Reserves & surplus	12,424	13,114	14,294	15,855
Net worth	12,934	13,624	14,804	16,365
Borrowing	-	-	-	-
Other non-current liabilities	2,098	2,126	2,021	2,023
<b>Total liabilities</b>	<b>15,033</b>	<b>15,751</b>	<b>16,825</b>	<b>18,388</b>
Gross fixed assets	3,773	4,204	4,654	5,067
Less: Depreciation	(2,376)	(2,685)	(2,881)	(3,102)
Net fixed assets	1,397	1,519	1,773	1,965
Total fixed assets	1,401	1,522	1,778	1,970
Total Investment	2,529	4,380	4,380	4,380
Debtors	42	28	50	65
Cash & bank	5,003	3,890	6,213	6,955
Loans & advances	3	3	3	3
Current liabilities	3,586	2,945	2,696	2,904
Net current assets	2,130	1,851	4,502	5,163
Other non-current assets	8,972	7,998	6,166	6,876
<b>Total assets</b>	<b>15,033</b>	<b>15,751</b>	<b>16,825</b>	<b>18,388</b>

Source: Company, Axis Capital

### Cash flow (Rs mn)

Y/E March	FY16	FY17	FY18E	FY19E
Profit before tax	1,673	1,778	1,956	2,199
Depreciation & Amortisation	246	186	197	221
<i>Chg in working capital</i>	<i>(306)</i>	<i>(834)</i>	<i>(328)</i>	<i>81</i>
<b>Cash flow from operations</b>	<b>1,139</b>	<b>616</b>	<b>1,256</b>	<b>1,862</b>
<i>Capital expenditure</i>	<i>(181)</i>	<i>(430)</i>	<i>(453)</i>	<i>(413)</i>
<b>Cash flow from investing</b>	<b>1,538</b>	<b>(1,276)</b>	<b>1,277</b>	<b>(1,119)</b>
<i>Equity raised/ (repaid)</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
<i>Dividend paid</i>	<i>(399)</i>	<i>(918)</i>	<i>(1,000)</i>	<i>(1,124)</i>
<b>Cash flow from financing</b>	<b>(396)</b>	<b>(916)</b>	<b>(998)</b>	<b>(1,122)</b>
<b>Net chg in cash</b>	<b>2,281</b>	<b>(1,576)</b>	<b>1,534</b>	<b>(380)</b>

### Key ratios

Y/E March	FY16	FY17	FY18E	FY19E
<b>OPERATIONAL</b>				
FDEPS (Rs)	23.6	24.8	27.2	30.6
CEPS (Rs)	27.3	28.5	31.1	35.0
DPS (Rs)	6.5	15.0	16.3	18.4
Dividend payout ratio (%)	35	73	72	72
<b>GROWTH</b>				
Net sales (%)	(4.0)	11.7	25.7	13.2
EBITDA (%)	(38.5)	9.1	57.7	16.1
Adj net profit (%)	(4.4)	5.3	9.7	12.4
FDEPS (%)	(4.4)	5.3	9.7	12.4
<b>PERFORMANCE</b>				
RoE (%)	9.6	9.5	9.8	10.0
RoCE (%)	11.4	11.6	12.0	12.5
<b>EFFICIENCY</b>				
Asset turnover (x)	0.3	0.4	0.6	0.7
Sales/ total assets (x)	0.1	0.1	0.2	0.2
Working capital/ sales (x)	(1.4)	(1.0)	(0.6)	(0.5)
Receivable days	7	4	6	7
Payable days	43	61	40	40
<b>VALUATION</b>				
<b>PE (x)</b>	<b>46.2</b>	<b>43.9</b>	<b>40.0</b>	<b>35.6</b>
EV/ EBITDA (x)	90.2	81.4	49.1	41.6
EV/ Net sales (x)	22.7	20.1	15.2	13.2
PB (x)	4.3	4.1	3.8	3.4
Dividend yield (%)	0.6	1.4	1.5	1.7
<b>Free cash flow yield (%)</b>	<b>1.7</b>	<b>0.3</b>	<b>1.4</b>	<b>2.6</b>

Source: Company, Axis Capital

## Disclosures:

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