AXIS DIRECT

MULTI COMMODITY EXCHANGE OF INDIA

EXCHANGES

25 OCT 2017 Quarterly Update

BUY

Target Price: Rs 1,280

Strong Q2; All eyes on option volumes

Revenue increased ~5% QoQ to Rs 915 mn due to higher traded value (up ~17% QoQ) led by bullion (up ~17% QoQ) and base metals (up ~32% QoQ). EBITDA margin (including float income) expanded to 23.6% (Q1: 13.7%) driven by operating leverage and flat cost even as yields led to lower float income. PAT was up 4% QoQ at Rs 265 mn.

Upbeat on new products, new participants: MCX to launch options on Gold on 17 Oct 2017. It expects launch of options on more commodities in coming quarters. Response from Cat III Alternative Investment Funds in options has been encouraging. Following this, management expects PMS and MFs will also be permitted, which should boost traded value.

CMP	: Rs 1,133
Potential Upside	: 13%

MARKET DATA

No. of Shares	: 51 mn
Free Float	: 100%
Market Cap	: Rs 58 bn
52-week High / Low	: Rs 1,411 / Rs 932
Avg. Daily vol. (6mth)	: 349,118 shares
Bloomberg Code	: MCX IB Equity
Promoters Holding	: 0%
FII / DII	: 26% / 35%

Concall highlights

- MCX has received approval for launching options on gold contracts. Management shared that it will not charge transaction fees for some time (3 months) to encourage member participation and experience. It has incurred negligible capex to launch the options contract. It expects approval for options contract on other products by the end of year
- White paper on participation of Portfolio Management Services (PMS) and Mutual Funds (MFs) is expected to be floated in short term. Increased institutional participation will be positive for MCX, as it will push Average Traded Value (ADT) up at MCX
- MCX is looking at other asset classes, but looks at currency derivatives as the next preferred asset class to enter
- MCX awaits regulatory approval for launch of contract on diamond

Financial summary (Consolidated) before options/ regulatory reforms

Y/E March	FY16	FY17	FY18E	FY19E
Sales (Rs mn)	2,349	2,594	2,758	3,324
Adj PAT (Rs mn)	1,203	1,266	1,364	1,518
Con. EPS* (Rs)	-	-	29.8	42.3
EPS (Rs)	23.6	24.8	26.7	29.8
Change YOY (%)	(4.4)	5.3	7.7	11.3
P/E (x)	48.0	45.6	42.4	38.0
RoE (%)	9.6	9.5	9.6	9.8
RoCE (%)	11.4	11.6	12.0	12.3
EV/E (x)	67.5	62.5	58.3	46.3
DPS (Rs)	6.5	15.0	16.0	17.9

Source: *Consensus broker estimates, Company, Axis Capital

Key drivers

(YoY)	2016	2017	2018E	2019E
Gold	-3%	-6%	-22%	15%
Silver	-16%	5%	-21%	12%
Crude Oil	35%	-7%	-3%	31%
Total	4%	5%	-3%	18%

Price performance

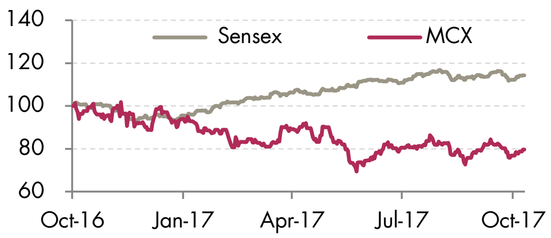


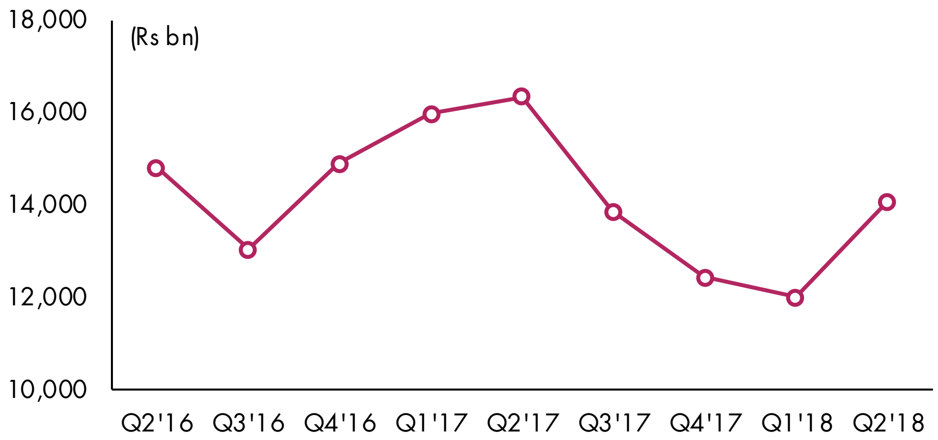
Exhibit 1: Results update (before options/ regulatory reforms)

	Quarter ended					12 months ended		
(Rs. mn)	Sep-17	Sep-16	% chg	Jun-17	% chg	FY18E	FY17	% chg
Net sales	**915**	**954**	**(4.1)**	**868**	**5.4**	**2,758**	**2,594**	**6.3**
EBITDA	449	553	(18.8)	405	10.9	821	796	3.2
Other income	-	-	-	-	-	1,345	1,169	15.1
PBIDT	**449**	**553**	**(18.8)**	**405**	**10.9**	**2,167**	**1,965**	**10.2**
Depreciation	48	42	13.5	48	0.4	218	186	17.6
Interest	-	-		-	-	-	2	-
PBT	**401**	**511**	**(21.4)**	**357**	**12.3**	**1,948**	**1,778**	**9.6**
Tax	110	134	(18.2)	98	11.6	584	512	14.2
Adjusted PAT	**292**	**376**	**(22.6)**	**259**	**12.5**	**1,364**	**1,266**	**7.7**
No. of shares (mn)	51	51	-	51	0	51	51	-
EBITDA margin (%)	49.1	58.0	-	46.7	-	29.8	30.7	-
PBIDT margin (%)	49.1	58.0	-	46.7	-	78.5	75.8	-
EPS - annualized (Rs.)	**22.9**	**29.5**	**(22.6)**	**20.3**	**12.5**	**26.7**	**24.8**	**7.7**

Source: Company, Axis Capital

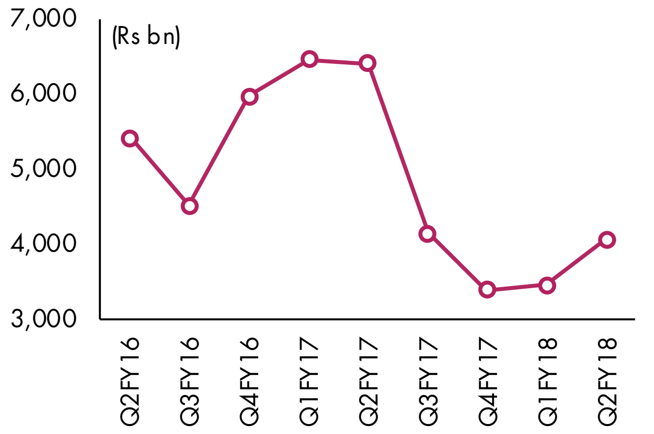
Our forecast (existing products): Over FY17-19, we estimate traded value/transaction fees/ EBITDA at 7%/ 13% / 12% CAGR (including float income). Management expects material impact of launch of options from FY19, as more commodity options are launched. We have valued MCX at Rs 1,280 (Rs 1,302 earlier): Rs 685 (23x FY19E, at Asian average: ~26x) for existing products and Rs 595 (FY20 EPS discounted back at 12%, 23x) for new product/ participant introductions. Maintain **BUY** with an upside of 13%.

Exhibit 2: All segments – Traded value



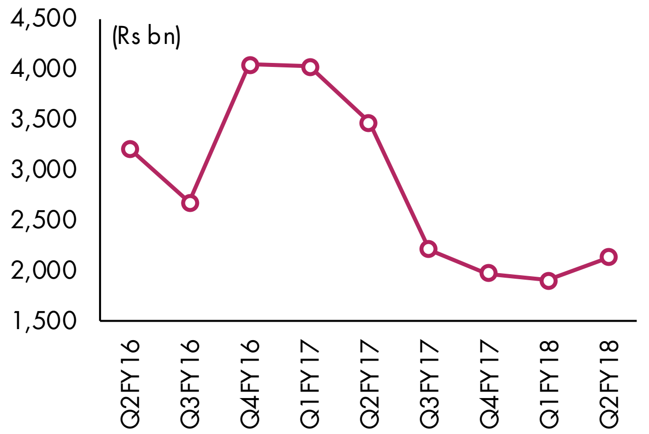
Source: MCX

Exhibit 3: Bullion



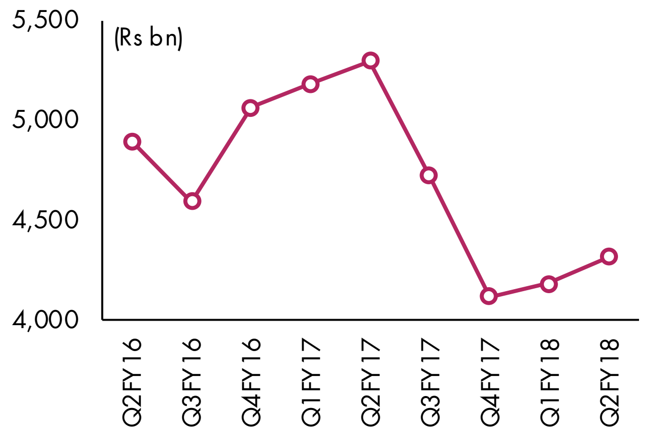
Source: MCX

Exhibit 4: Gold



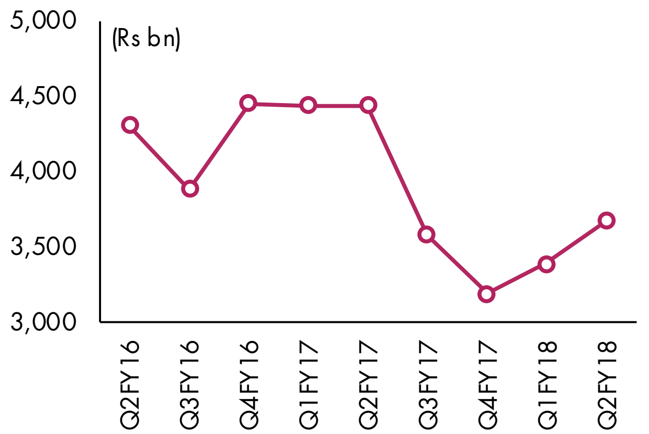
Source: MCX

Exhibit 5: Energy



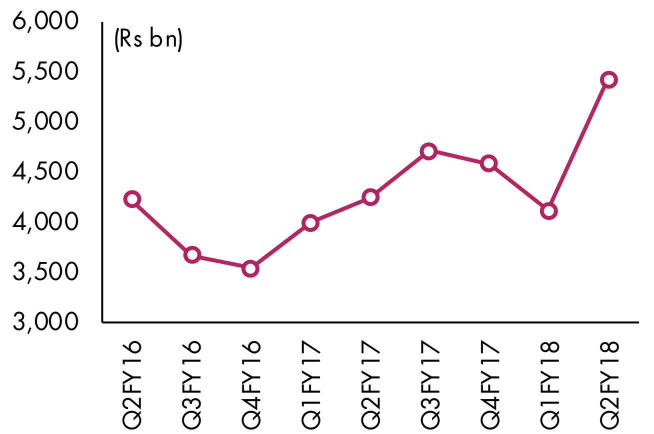
Source: MCX

Exhibit 6: Crude Oil



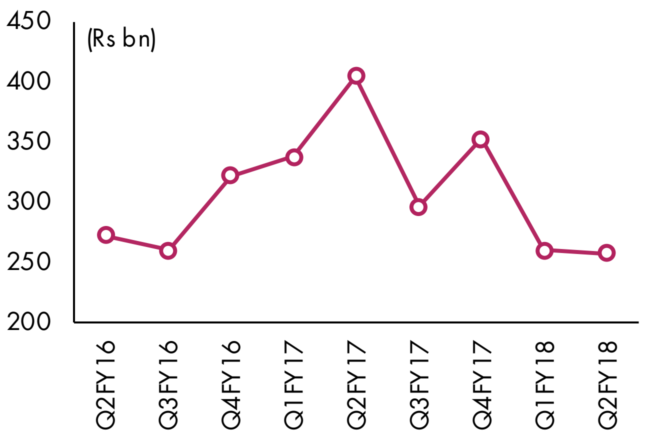
Source: MCX

Exhibit 7: Base metals



Source: MCX

Exhibit 8: Agri trading



Source: MCX

Exhibit 9: Table of International Valuations

	North America				Europe			Asia/Australia				Others				
(USD mn)	NASDAQ	CME	ICE	TMX	DB	LSE	BOLSAS	BURSA	OSAKA	SGX	HKEX	JSE	BOLSA	BOVESPA	Mean	Median
Price (USD)	*75*	*138*	*70*	*54*	*113*	*52*	*34*	*2*	*18*	*6*	*28*	*10*	*2*	*8*		
Mcap (USDm)	*12,495*	*46,809*	*41,142*	*3,010*	*21,868*	*18,087*	*2,857*	*1,274*	*10,088*	*6,043*	*34,997*	*843*	*969*	*15,607*		
CMP (USD)	75	138	70	54	113	52	34	2	18	6	28	10	2	8		
Mcap (USDm)	12,495	46,809	41,142	3,010	21,868	18,087	2,857	1,274	10,088	6,043	34,997	843	969	15,607		
EV (USDm)	15,391	47,595	46,659	3,432	22,340	18,961	2,490	854	9,459	5,464	23,008	698	885	15,360		
EV/Sales (x)																
CY15/FY16	7.4	14.3	14.0	6.1	9.2	8.8	6.7	6.8	9.9	9.3	14.6	4.2	5.4	22.7	9.9	9.0
CY16/FY17e	6.8	13.2	10.4	6.1	8.6	8.5	7.0	7.5	9.5	9.5	17.2	4.4	5.8	22.9	9.8	8.5
CY17/FY18e	6.4	12.9	10.0	5.7	7.6	7.7	6.5	6.5	9.5	8.6	14.2	4.2	5.4	12.3	8.4	7.6
CY18/FY19e	6.1	12.2	9.5	5.6	7.0	7.0	6.4	6.3	9.3	8.2	12.9	3.8	5.0	11.0	7.9	7.0
Adj PAT																
CY15/FY16	581	1305	1359	134	739	653	193	51	374	251	1026	70	51	554		
CY16/FY17e	621	1536	1665	171	897	613	177	47	390	244	743	62	52	692		
CY17/FY18e	704	1633	1746	211	1047	687	187	52	384	272	900	59	58	598		
CY18/FY19e	763	1821	1947	225	1183	796	189	54	386	290	1016	67	63	693		
P/E (X)																
CY15/FY16	22.1	35.7	28.8	19.1	28.4	26.4	14.8	24.8	27.0	24.0	32.7	12.0	19.1	24.5	24.2	24.6
CY16/FY17e	20.4	30.4	25.1	16.0	23.6	29.7	16.2	27.1	25.8	24.8	46.0	13.5	18.6	19.6	24.1	24.2
CY17/FY18e	18.0	28.6	23.7	14.3	20.3	26.5	15.3	24.4	25.8	22.1	38.2	14.8	16.8	24.8	22.4	22.9
CY18/FY19e	16.5	25.7	20.6	13.6	17.8	22.5	15.1	23.7	25.6	20.7	34.1	13.1	15.4	22.3	20.5	20.7
P/FCF (x)																
CY15/FY16	22.8	33.4	39.8	19.9	(611.8)	28.7	14.2	22.6	20.4	23.3	35.9	12.6	13.7	52.4	(19.4)	22.7
CY16/FY17e	18.6	28.8	23.1	14.7	12.6	71.0	20.5	24.2	23.5	25.9	97.4	13.1	16.2	*(7.7)*	27.3	21.8
CY17/FY18e	16.5	27.0	22.6	14.2	20.3	30.6	14.7	27.8	32.0	22.0	31.4	14.6	15.2	103.4	28.0	22.3
CY18/FY19e	15.5	25.1	20.2	12.8	18.2	23.3	14.8	20.0	30.6	19.2	32.8	12.3	13.7	22.9	20.1	19.6

continued…

	North America				Europe			Asia/Australia				Others				
(USD mn)	NASDAQ	CME	ICE	TMX	DB	LSE	BOLSAS	BURSA	OSAKA	SGX	HKEX	JSE	BOLSA	BOVESPA	Mean	Median
P/B (x)																
CY15/FY16	2.2	2.3	2.8	1.5	5.5	4.5	6.1	6.8	4.4	8.2	8.8	4.4	3.1	2.9	4.5	4.4
CY16/FY17e	2.3	2.3	2.6	1.4	4.5	4.8	6.4	6.6	4.4	8.0	8.3	3.5	3.5	2.3	4.3	3.9
CY17/FY18e	2.2	2.2	2.6	1.2	3.8	4.4	5.6	6.4	4.0	7.5	8.0	3.6	2.9	2.0	4.0	3.7
CY18/FY19e	2.1	2.2	2.5	1.2	3.4	3.9	5.5	6.3	3.9	7.0	7.7	3.2	2.8	2.0	3.8	3.3
EV/EBITDA (x)																
CY15/FY16	17.9	21.5	22.0	14.0	18.6	20.0	9.2	11.9	14.9	16.2	17.8	8.0	11.8	22.2	16.1	17.0
CY16/FY17e	15.3	19.6	16.8	12.6	16.8	21.0	10.4	13.0	14.7	16.6	23.3	9.7	10.9	44.6	17.5	15.9
CY17/FY18e	12.1	18.2	15.7	10.6	13.0	15.3	9.7	11.0	15.4	15.0	19.7	10.3	9.8	19.6	14.0	14.0
CY18/FY19e	11.2	16.7	14.3	10.1	11.8	13.4	9.6	10.6	15.2	14.2	17.6	9.1	9.2	15.9	12.8	12.6
RoE (%)																
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	33.6	18.6	29.5	17.4	7.7	17.6	16.9
CY17/FY18e	12.7	7.9	11.0	8.8	19.6	15.4	36.2	26.1	16.7	34.3	21.2	24.5	27.7	8.9	18.6	16.7
CY18/FY19e	13.4	8.7	12.1	9.0	20.0	16.8	36.6	27.2	15.8	34.3	23.1	25.0	31.0	8.2	19.5	16.8
CAGR FY17-19E (%)																
Sales	5.5	4.2	4.7	4.9	10.4	10.4	4.8	9.3	1.1	7.5	15.5	7.6	7.8	44.4	9.9	7.5
EBITDA	16.5	8.5	8.3	12.0	19.2	25.1	4.0	10.4	(1.8)	8.0	15.1	3.0	9.1	67.4	14.6	9.7
PAT	10.8	8.9	8.1	14.7	14.8	13.9	3.2	7.8	(0.4)	9.0	16.9	3.9	10.2	0.0	8.7	9.0
EPS	11.2	8.8	10.4	8.7	15.0	14.8	3.3	6.9	0.3	9.3	16.3	1.8	10.0	(6.3)	7.9	9.0

Source: Bloomberg; Note: NYMEX Acquired by CME

Financial summary (Consol) before options/ regulatory reforms

Profit & loss (Rs mn)

Y/E March	FY16	FY17	FY18E	FY19E
Net sales	2,349	2,594	2,758	3,324
Other operating income	-	-	-	-
Total operating income	**2,349**	**2,594**	**2,758**	**3,324**
Cost of goods sold	(793)	(1,071)	(1,171)	(1,410)
Gross profit	1,556	1,524	1,587	1,914
Gross margin (%)	*66.3*	*58.7*	*57.5*	*57.6*
Total operating expenses	(804)	(728)	(766)	(903)
EBITDA	**753**	**796**	**821**	**1,010**
EBITDA margin (%)	*32.0*	*30.7*	*29.8*	*30.4*
Depreciation	(246)	(186)	(218)	(300)
EBIT	**507**	**611**	**603**	**710**
Net interest	(3)	(2)	-	-
Other income	1,169	1,169	1,345	1,459
Profit before tax	**1,673**	**1,778**	**1,948**	**2,169**
Total taxation	(470)	(512)	(584)	(651)
Tax rate (%)	*28.1*	*28.8*	*30.0*	*30.0*
Profit after tax	1,203	1,266	1,364	1,518
Minorities	-	-	-	-
Profit/ Loss associate co(s)	-	-	-	-
Adjusted net profit	1,203	1,266	1,364	1,518
Adj. PAT margin (%)	*51.2*	*48.8*	*49.4*	*45.7*
Net non-recurring items	(56)	-	-	-
Reported net profit	1,146	1,266	1,364	1,518

Balance sheet (Rs mn)

Y/E March	FY16	FY17	FY18E	FY19E
Paid-up capital	510	510	510	510
Reserves & surplus	12,424	13,114	14,269	15,787
Net worth	12,934	13,624	14,779	16,297
Borrowing	-	-	-	-
Other non-current liabilities	2,098	2,126	2,056	2,083
Total liabilities	**15,033**	**15,750**	**16,836**	**18,381**
Gross fixed assets	1,489	1,698	2,313	2,841
Less: Depreciation	(92)	(178)	(397)	(697)
Net fixed assets	1,398	1,519	1,916	2,144
Total fixed assets	1,402	1,522	1,921	2,149
Total Investment	2,529	4,380	4,380	4,380
Debtors	42	28	50	65
Cash & bank	5,003	3,890	5,811	6,941
Loans & advances	3	3	3	3
Current liabilities	3,586	2,945	3,363	3,935
Net current assets	2,130	1,851	3,548	4,323
Other non-current assets	8,972	7,998	6,987	7,529
Total assets	**15,033**	**15,750**	**16,836**	**18,381**

Source: Company, Axis Capital

Cash flow (Rs mn)

Y/E March	FY16	FY17	FY18E	FY19E
Profit before tax	1,673	1,778	1,948	2,169
Depreciation & Amortisation	246	186	218	300
Chg in working capital	*(306)*	*(834)*	*225*	*354*
Cash flow from operations	1,139	616	1,807	2,173
Capital expenditure	*2,102*	*(207)*	*(618)*	*(528)*
Cash flow from investing	3,822	(1,053)	323	(1,043)
Equity raised/ (repaid)	-	-	-	-
Dividend paid	*(399)*	*(918)*	*(982)*	*(1,093)*
Cash flow from financing	(396)	(916)	(982)	(1,093)
Net chg in cash	4,565	(1,354)	1,148	36

Key ratios

Y/E March	FY16	FY17	FY18E	FY19E
OPERATIONAL				
FDEPS (Rs)	23.6	24.8	26.7	29.8
CEPS (Rs)	27.3	28.5	31.0	35.7
DPS (Rs)	6.5	15.0	16.0	17.9
Dividend payout ratio (%)	35	73	72	72
GROWTH				
Net sales (%)	5.6	10.4	6.3	20.5
EBITDA (%)	(14.0)	5.8	3.2	23.0
Adj net profit (%)	(4.4)	5.3	7.7	11.3
FDEPS (%)	(4.4)	5.3	7.7	11.3
PERFORMANCE				
RoE (%)	9.6	9.5	9.6	9.8
RoCE (%)	11.4	11.6	12.0	12.3
EFFICIENCY				
Asset turnover (x)	0.3	0.4	0.5	0.7
Sales/ total assets (x)	0.1	0.1	0.1	0.2
Working capital/ sales (x)	(1.3)	(0.9)	(0.8)	(0.7)
Receivable days	7	4	7	7
Payable days	43	61	45	45
VALUATION				
PE (x)	**48.0**	**45.6**	**42.4**	**38.0**
EV/ EBITDA (x)	67.5	62.5	58.3	46.3
EV/ Net sales (x)	21.6	19.2	17.4	14.1
PB (x)	4.5	4.2	3.9	3.5
Dividend yield (%)	0.6	1.3	1.4	1.6
Free cash flow yield (%)	5.6	0.7	2.1	2.8
	-	-	-	-

Source: Company, Axis Capital

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SELL	Less than -10%

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