

# Multi Commodity Exchange

BUY

INDUSTRY	EXCHANGES
CMP (as on 30 Apr 2018)	Rs 779
Target Price	Rs 1,040
Nifty	10,739
Sensex	35,160
KEY STOCK DATA	
Bloomberg	MCX IN
No. of Shares (mn)	51
MCap (Rs bn) / (\$ mn)	40/595
6m avg traded value (Rs mn)	463
STOCK PERFORMANCE (%)	
52 Week high / low	Rs 1,220/665
	3M 6M 12M
Absolute (%)	0.4 (26.1) (35.9)
Relative (%)	2.7 (31.9) (53.4)
SHAREHOLDING PATTERN (%)	
Promoters	-
FIs & Local MFs	38.65
FPIs	26.44
Public & Others	34.91
Source : BSE	

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## Strong comeback

MCX delivered robust set of numbers in 4QFY18, revenue was up 12.4% QoQ to Rs 706mn (in-line with our est. of Rs 716mn), led by 17.8% rise in volume to Rs 15TN. Total ADTV was up 17.8% QoQ and 22.6% YoY to Rs 238.2 bn led by rise in commodity prices and volatility. Encouraging part is that volume traction is even stronger in April-18, ADTV is up 26% QoQ to Rs 299.3bn led by 13/27% rise in bullion and metals volume. Options pick-up is very slow vs. expectation (ADTV stood at Rs 0.46bn vs Rs 1.40 in 3Q). MCX will launch four to five additional options contract in 2HFY19 and has already started LES in April-18 to boost gold options volume. Regulatory tailwinds like institutional participation (Banks, MFs, PMS) and partnership with retail banks subsidiaries can boost trading volumes.

Universal exchange concept (effective Oct-18) is a risk and can lead to rise in competitive intensity, pricing pressure and some market share loss to BSE & NSE (if they turn aggressive). However, management doesn't see significant erosion in market share and expects the overall market size to increase with regulatory boost. We see value in MCX based on (1) Embedded Financial Summary (Consolidated)

YE March (Rs mn)	4QFY18	4QFY17	YoY (%)	3QFY18	QoQ (%)	FY16	FY17	FY18E	FY19E	FY20E
Net Revenues	706	626	12.7	628	12.4	2,349	2,594	2,598	3,387	3,946
EBITDA	230	130	77.1	154	49.5	753	796	719	1,275	1,621
APAT	342	218	56.5	188	81.9	1,203	1,266	1,084	1,555	1,829
Diluted EPS (Rs)	6.7	4.3	56.5	3.7	81.9	23.7	24.9	21.3	30.6	36.0
P/B (x)						3.1	3.0	2.9	2.8	2.8
P/E (x)						33.5	31.9	37.3	26.0	22.1
EV / EBITDA (x)						39.0	38.8	42.6	23.8	18.6
RoE (%)						9.3	9.5	7.9	11.1	12.7

Source: Company, HDFC sec Inst Research

non-linearity, (2) Strong recovery in ADTV, and (3) Net cash of Rs 14bn (~35% of Mcap). We estimate revenue/PAT CAGR of 23/30% over FY18-20E. Maintain BUY with a TP of Rs 1,040 implying a P/E of 30x FY20E EPS (earlier 35x).

## Highlights of the quarter

- Bullion/Energy ADTV recovered strongly in the quarter, +16.2/31.2% QoQ to Rs 52.2/84.9bn. Metals/Agri ADTV also grew 9.3/6.2% QoQ to 96.0/5.1bn. Launched Brass futures contract and is trading ~240 contracts daily with ADTV of Rs 87mn.
- EBITDA margin stood 32.5% up 809bps QoQ (in-line with our expectation of 33.0%) due to revenue growth and lower employee cost (-6.6% QoQ).
- Near-term outlook:** The stock has corrected ~25% in the last six months related to concerns regarding universal exchanges. Recovery in trading volumes should continue and 1QFY19, which will result in growth and margin expansion. Downside is limited as the stock is not expensive at 22x FY20E.

**Total traded volume increased 17.8% QoQ to Rs 15.0TN, while blended realisation declined 3.7% to Rs 21.9/mn**

**Software services expense growth is linked to volume growth**

**PAT stood at Rs 0.34bn up 82.2% QoQ (higher than our estimate of Rs 0.31bn) due to higher other income (Rs 0.26bn +89.6% QoQ) and lower tax rate (24.6%, down 207 bps QoQ).**

**Other income was recovered strongly in the quarter due to stable yields and no M2M losses**

**In FY18 total cost has grown by only 5.5% YoY as a result of tight cost control.**

### Quarterly Financials Snapshot

Rs mn	4QFY18	4QFY17	YoY (%)	3QFY18	QoQ (%)
<b>Operating income</b>	<b>706</b>	<b>626</b>	<b>12.7</b>	<b>628</b>	<b>12.4</b>
Software service expenses	134	122	10.1	120	11.2
Employee Expenses	158	160	(1.3)	169	(6.6)
Other Operating Expenses	185	215	(14.1)	186	(0.4)
<b>EBITDA</b>	<b>230</b>	<b>130</b>	<b>77.1</b>	<b>154</b>	<b>49.5</b>
Interest Cost	0	0	NM	0	NM
Depreciation	36	49	(26.6)	35	4.0
Other Income	260	244	6.6	137	89.6
<b>PBT</b>	<b>453</b>	<b>324</b>	<b>39.9</b>	<b>256</b>	<b>77.0</b>
Tax	112	106	5.6	68	63.5
<b>APAT</b>	<b>342</b>	<b>218</b>	<b>56.5</b>	<b>188</b>	<b>81.9</b>
E/o gains (adj for tax)	0	0	NM	0	NM
<b>RPAT</b>	<b>342</b>	<b>218</b>	<b>56.5</b>	<b>188</b>	<b>81.9</b>

Source: Company, HDFC Sec Inst Research

### Margin Analysis

MARGIN ANALYSIS	4QFY18	4QFY17	YoY (bps)	3QFY18	QoQ (bps)
Software service expenses % of Net Sales	19.0	19.4	(45)	19.2	(20)
Employee Expenses % of Net Sales	22.3	25.5	(318)	26.9	(454)
Other Operating Expenses % of Net Sales	26.2	34.4	(819)	29.5	(335)
<b>EBITDA Margin (%)</b>	<b>32.5</b>	<b>20.7</b>	<b>1,182</b>	<b>24.5</b>	<b>809</b>
Tax Rate (%)	24.7	32.7	(800)	26.7	(204)
<b>APAT Margin (%)</b>	<b>48.4</b>	<b>34.8</b>	<b>1,354</b>	<b>29.9</b>	<b>1,850</b>

Source: Company, HDFC Sec Inst Research

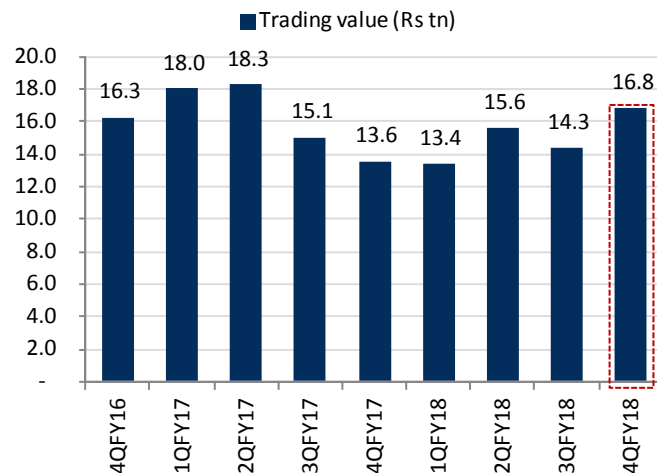
**The value of India's exchange traded commodity derivatives (ETCD) was up 17.2% QoQ, and 23.8% YoY to Rs 16.8tn**

**Total traded volume for FY18 was down 8% YoY, but ex-bullion volume was up 5% YoY**

**Market share stands at 89.2% (up 13 bps QoQ).**

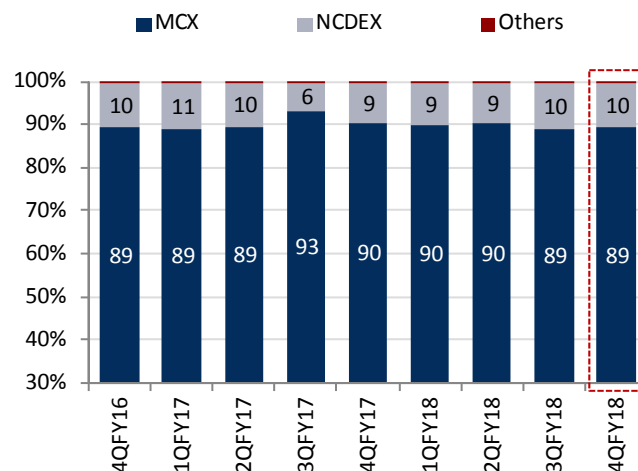
**Bullion as a % of total trading volume is down to 22% of the total volume**

## India's Exchange Traded Commodity Derivatives (ETCD)



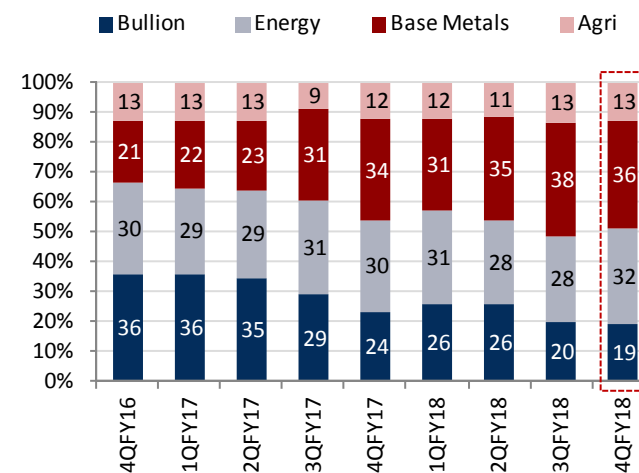
Source: Company, Industry, HDFC sec Inst Research

## Market Share Of Key Commodity Exchanges



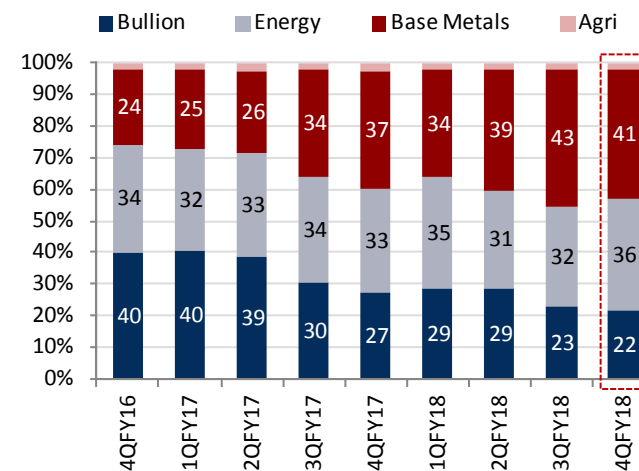
Source: Company, Industry, HDFC sec Inst Research

## Composition Of India's ETCD



Source: Company, Industry, HDFC sec Inst Research

## MCX's Traded Value: Sectoral Composition

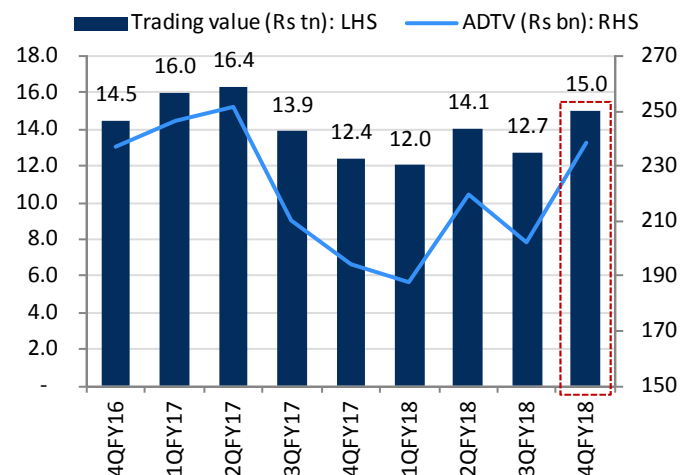


Source: Company, Industry, HDFC sec Inst Research

**MCX has started Liquidity Enhancement Scheme to boost options volumes in April-18. The quantum will be Rs 6mn monthly**

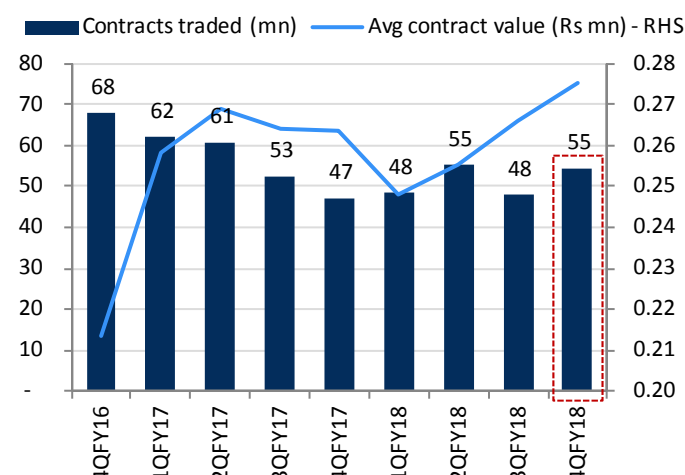
**Total no of contracts traded was also up 13.8% QoQ and average contract value stood at Rs 0.28mn**

### MCX: Quarterly Trading Value Analysis



Source: Company, Industry, HDFC sec Inst Research

### MCX: Detailed KPIs Of Contracts Traded



Source: Company, Industry, HDFC sec Inst Research

### Split Of Total ADTV

ADTV (Rs bn)	4QFY18	4QFY17	YoY %	3QFY18	QoQ %
Bullion	52.2	52.9	(1.3)	44.9	16.2
Energy	84.9	64.3	32.1	64.7	31.2
Metals	96.0	71.6	34.0	87.8	9.3
Agri & others	5.1	5.5	(7.7)	4.8	6.2
<b>Total</b>	<b>238.2</b>	<b>194.4</b>	<b>22.6</b>	<b>202.3</b>	<b>17.8</b>

Source: Company, Industry, HDFC sec Inst Research

### ADTV Composition

% ADTV Contribution	4QFY18	4QFY17	YoY (bps)	3QFY18	QoQ (bps)
Bullion	21.9	27.2	(531)	22.2	(30)
Energy	35.6	33.1	256	32.0	364
Metals	40.3	36.9	345	43.4	(311)
Agri & others	2.1	2.8	(70)	2.4	(23)
<b>Total</b>	<b>100.0</b>	<b>100.0</b>		<b>100.0</b>	

Source: Company, Industry, HDFC sec Inst Research

## Valuation

- We expect MCX to post 50% EBITDA CAGR, driven by revenue CAGR of 23% and EBITDA margin expansion (41.1% in FY20E vs 27.7% in FY18) for FY18-20E. Considering the asset-light nature of the business, we expect RoE to expand to 12.7% in FY20E vs 7.9% in FY18. MCX currently trades at 26.0x FY19E and 22.1x FY20E EPS (implying PEG 0.7x).
- The stock has corrected ~25% in the last six months related to concerns regarding increase in competition after implementation of universal exchange in Oct-18. However positive developments in the last two months have been (1) Strong recovery in ADTV 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 six more options contracts. We maintain our BUY rating with a TP of Rs 1,040, implying a P/E of 30x FY20 EPS (reduced from 35x earlier due to uncertainties regarding increased competition).

### 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)	226	641	801	961	1,121	1,282	44.9%
	212	629	787	944	1,102	1,259	42.2%
	287	692	866	1,040	1,212	1,385	57.0%
	341	739	923	1,108	1,293	1,477	67.8%
	409	796	996	1,195	1,394	1,593	81.4%

Source: Company, HDFC sec Inst Research

### Change In Estimates

Particulars	Earlier estimates	Revised estimates	% change
<b>FY19E</b>			
Revenue (Rs mn)	3,109	3,387	8.9
EBITDA (Rs mn)	1,026	1,275	24.3
EBITDA margin (%)	33.0%	37.7%	465bps
APAT (Rs mn)	1,357	1,555	14.6
<b>FY20E</b>			
Revenue (Rs mn)	3,889	3,946	1.5
EBITDA (Rs mn)	1,593	1,621	1.7
EBITDA margin (%)	41.0%	41.1%	11bps
APAT (Rs mn)	1,807	1,829	1.2

Source: Company, HDFC sec Inst Research

### ADTV And Realisation Assumptions

Rs bn	FY15	FY16	FY17	FY18	FY19E	FY20E
Futures ADTV	203	219	226	211	282	329
YoY %		7.9%	2.9%	-6.5%	33.7%	16.5%
Options ADTV				0	4	12
YoY %					931.4%	185.6%
Total ADTV	203	219	226	212	286	341
YoY %		7.9%	2.9%	-6.3%	35.5%	19.0%
Realization Of Futures (Rs/mn)	19.6	19.1	20.3	22.3	21.9	21.9
YoY %		-2.8%	6.5%	9.7%	-1.8%	0.0%
Realization Of Options (Rs/mn)				0.0	0.0	4.4
YoY %					NM	NM
Blended Realization (Rs/mn)	18.4	18.1	20.3	22.2	21.6	21.3
YoY %		-1.6%	12.0%	9.4%	-3.1%	-1.4%

Source: Company, HDFC sec Inst Research

## Valuation: Exchanges

Company	M-Cap (Rs bn)	Rating	TP (Rs)	P/E (x)			EPS growth FY18- 20E (%)	PEG (x)	P/B (x)			EV/EBITDA (x)			RoE (%)		
				FY18	FY19E	FY20E			FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E
MCX	40.4	BUY	1,039	37.3	26.0	22.1	29.9	0.7	2.9	2.8	2.8	42.6	23.8	18.6	7.9	11.1	12.7
BSE	43.7	BUY	1,178	18.1	17.8	16.3	5.6	2.9	1.4	1.4	1.4	11.3	10.2	8.2	7.9	7.9	8.5
CDSL	30.7	BUY	415	29.8	25.1	21.1	18.8	1.1	5.1	4.6	4.1	22.1	17.9	14.2	17.2	18.3	19.5

Source:HDFC sec Inst Research

## Key risks

- Competition from other exchanges (universal exchange concept applicable from Oct-18)
- Regulatory delays

### Income Statement (Standalone)

YE March (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
<b>Net Revenues (Rs mn)</b>	<b>2,349</b>	<b>2,594</b>	<b>2,598</b>	<b>3,387</b>	<b>3,946</b>
<b>Growth (%)</b>	<b>5.6</b>	<b>10.4</b>	<b>0.2</b>	<b>30.3</b>	<b>16.5</b>
Software support charges	374	426	418	507	564
Employee Expenses	419	644	682	751	827
SG&A Expenses	371	234	252	273	297
Other Operating Expenses	433	493	527	580	638
<b>EBITDA</b>	<b>753</b>	<b>796</b>	<b>719</b>	<b>1,275</b>	<b>1,621</b>
<b>EBITDA Margin (%)</b>	<b>32.0</b>	<b>30.7</b>	<b>27.7</b>	<b>37.7</b>	<b>41.1</b>
<b>EBITDA Growth (%)</b>	<b>(14.1)</b>	<b>5.8</b>	<b>(9.8)</b>	<b>77.4</b>	<b>27.1</b>
Depreciation	246	186	167	175	190
<b>EBIT</b>	<b>507</b>	<b>611</b>	<b>552</b>	<b>1,100</b>	<b>1,431</b>
Other Income (Including EO Items)	1,113	1,169	920	1,030	1,075
Interest	3	2	0	0	0
<b>PBT</b>	<b>1,617</b>	<b>1,778</b>	<b>1,472</b>	<b>2,130</b>	<b>2,505</b>
Tax (Incl Deferred)	469	512	388	575	676
Minority Interest	0	0	0	0	0
<b>RPAT</b>	<b>1,147</b>	<b>1,266</b>	<b>1,084</b>	<b>1,555</b>	<b>1,829</b>
EO (Loss) / Profit (Net Of Tax)	(56)	0	0	0	0
<b>APAT</b>	<b>1,203</b>	<b>1,266</b>	<b>1,084</b>	<b>1,555</b>	<b>1,829</b>
<b>APAT Growth (%)</b>	<b>(3.8)</b>	<b>5.2</b>	<b>(14.4)</b>	<b>43.5</b>	<b>17.6</b>
<b>Adjusted EPS (Rs)</b>	<b>23.7</b>	<b>24.9</b>	<b>21.3</b>	<b>30.6</b>	<b>36.0</b>
<b>EPS Growth (%)</b>	<b>(3.8)</b>	<b>5.2</b>	<b>(14.4)</b>	<b>43.5</b>	<b>17.6</b>

Source: Company, HDFC sec Inst Research

### Balance Sheet (Standalone)

YE March (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
<b>SOURCES OF FUNDS</b>					
Share Capital - Equity	510	510	510	510	510
Reserves	12,424	13,114	13,295	13,668	14,118
<b>Total Shareholders' Funds</b>	<b>12,934</b>	<b>13,624</b>	<b>13,805</b>	<b>14,178</b>	<b>14,628</b>
Settlement guarantee fund	1,882	1,705	1,806	1,896	1,991
<b>Total Debt</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Net Deferred Taxes (Net)	-	76	172	172	172
Long Term Provisions & Others	216	345	238	238	238
<b>TOTAL SOURCES OF FUNDS</b>	<b>15,033</b>	<b>15,750</b>	<b>16,021</b>	<b>16,484</b>	<b>17,029</b>
<b>APPLICATION OF FUNDS</b>					
Net Block	1,397	1,519	1,594	1,759	1,966
CWIP	4	2	23	23	23
Investments	-	-	-	-	-
LT Loans & Advances	328	256	307	322	338
<b>Total Non-current Assets</b>	<b>1,729</b>	<b>1,777</b>	<b>1,925</b>	<b>2,105</b>	<b>2,328</b>
Debtors	42	28	63	46	54
Other Current Assets	672	878	862	1,021	1,189
Cash & Equivalents	16,176	16,011	16,814	17,365	18,146
<b>Total Current Assets</b>	<b>16,890</b>	<b>16,918</b>	<b>17,738</b>	<b>18,432</b>	<b>19,389</b>
Trading margin from members	2,597	2,149	2,789	3,115	3,656
Other Current Liabilities & Provns	990	796	853	938	1,032
<b>Total Current Liabilities</b>	<b>3,586</b>	<b>2,945</b>	<b>3,642</b>	<b>4,052</b>	<b>4,688</b>
<b>Net Current Assets</b>	<b>13,303</b>	<b>13,973</b>	<b>14,096</b>	<b>14,379</b>	<b>14,701</b>
<b>TOTAL APPLICATION OF FUNDS</b>	<b>15,033</b>	<b>15,750</b>	<b>16,021</b>	<b>16,484</b>	<b>17,029</b>

Source: Company, HDFC sec Inst Research



### Cash Flow (Standalone)

YE March (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
Reported PBT	1,617	1,778	1,472	2,130	2,505
Non-operating & EO items	(1,169)	(1,169)	(920)	(1,030)	(1,075)
Interest expenses	3	2	0	0	0
Depreciation	246	186	167	175	190
Working Capital Change	84	(557)	617	253	443
Tax Paid	(469)	(512)	(388)	(575)	(676)
<b>OPERATING CASH FLOW ( a )</b>	<b>311</b>	<b>(272)</b>	<b>947</b>	<b>953</b>	<b>1,387</b>
Capex	(196)	(306)	(263)	(340)	(397)
<i>Free cash flow (FCF)</i>	<i>115</i>	<i>(578)</i>	<i>684</i>	<i>613</i>	<i>990</i>
Investments	0	0	0	0	0
Non-operating Income	1,169	1,169	920	1,030	1,075
<b>INVESTING CASH FLOW ( b )</b>	<b>973</b>	<b>863</b>	<b>657</b>	<b>690</b>	<b>678</b>
Debt Issuance/(Repaid)	0	0	0	0	0
Interest Expenses	(3)	(2)	(0)	(0)	(0)
<i>FCFE</i>	<i>112</i>	<i>(580)</i>	<i>684</i>	<i>612</i>	<i>990</i>
Share Capital Issuance	0	0	0	0	0
Dividend	(387)	(892)	(1,014)	(1,091)	(1,284)
<b>FINANCING CASH FLOW ( c )</b>	<b>(390)</b>	<b>(894)</b>	<b>(1,015)</b>	<b>(1,092)</b>	<b>(1,284)</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>894</b>	<b>(303)</b>	<b>590</b>	<b>551</b>	<b>781</b>
EO Items, Others	(676)	139	213	0	0
<b>Closing Cash &amp; Equivalents</b>	<b>16,176</b>	<b>16,011</b>	<b>16,814</b>	<b>17,365</b>	<b>18,146</b>

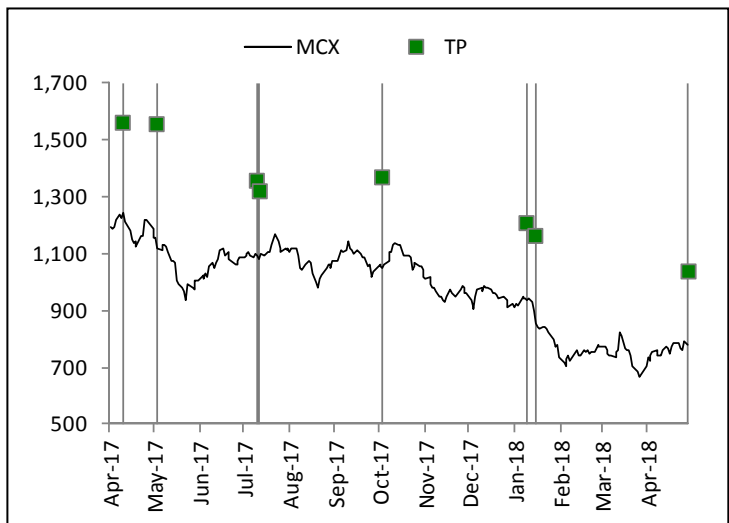
Source: Company, HDFC sec Inst Research

### Key Ratios (Standalone)

	FY16	FY17	FY18	FY19E	FY20E
<b>PROFITABILITY (%)</b>					
GPM	84.1	83.6	83.9	85.0	85.7
EBITDA Margin	32.0	30.7	27.7	37.7	41.1
APAT Margin	51.2	48.8	41.7	45.9	46.3
RoE	9.3	9.5	7.9	11.1	12.7
RoIC (or Core RoCE)	21.1	21.9	19.8	42.1	54.1
RoCE	6.5	6.8	5.7	7.7	8.7
<b>EFFICIENCY</b>					
Tax Rate (%)	28.1	28.8	26.4	27.0	27.0
Fixed Asset Turnover (x)	0.1	0.1	0.1	0.2	0.2
<i>Debtors (days)</i>	<i>7</i>	<i>4</i>	<i>9</i>	<i>5</i>	<i>5</i>
<i>Other Current Assets (days)</i>	<i>104</i>	<i>124</i>	<i>121</i>	<i>110</i>	<i>110</i>
<i>Other Current Liab &amp; Provns (days)</i>	<i>307</i>	<i>252</i>	<i>260</i>	<i>252</i>	<i>251</i>
<i>Cash Conversion Cycle (days)</i>	<i>(196)</i>	<i>(124)</i>	<i>(130)</i>	<i>(137)</i>	<i>(136)</i>
Debt/EBITDA (x)	(15)	(12)	(14)	(8)	(6)
Net D/E (x)	(1)	(1)	(1)	(1)	(1)
Interest Coverage (x)	557	NM	NM	NM	NM
<b>PER SHARE DATA (Rs)</b>					
EPS	23.7	24.9	21.3	30.6	36.0
CEPS	28.5	28.5	24.6	34.0	39.7
Dividend	6.5	15.0	17.0	18.3	21.6
Book Value	254.4	267.9	271.5	278.8	287.7
<b>VALUATION</b>					
P/E (x)	33.5	31.9	37.3	26.0	22.1
P/BV (x)	3.1	3.0	2.9	2.8	2.8
EV/EBITDA (x)	39.0	38.8	42.6	23.8	18.6
OCF/EV (%)	1.3	(0.9)	3.1	3.1	4.6
FCF/EV (%)	0.6	(1.9)	2.2	2.0	3.3
FCFE/Mkt Cap (%)	0.3	0.1	0.4	0.4	0.5
Dividend Yield (%)	0.8	1.9	2.1	2.3	2.7

Source: Company, HDFC sec Inst Research

## RECOMMENDATION HISTORY



Date	CMP	Reco	Target
11-Apr-17	1,238	BUY	1,563
5-May-17	1,155	BUY	1,558
11-Jul-17	1,098	BUY	1,359
14-Jul-17	1,079	BUY	1,322
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

### 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

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