RESULT UPDATE

MULTI COMMODITY EXCHANGE OF INDIA

One-off items mar profitability, volume recovery critical

India Equity Research| Banking and Financial Services

Edelweiss
Ideas create, values protect

MCX reported Q1FY19 PAT of mere INR62mn, much lower than our estimate, largely impacted by: a) exceptional item of INR238mn (change in valuation method of bond portfolio) and lower other income (largely treasury income). While ADTV momentum sustained (up 30% YoY), transactional revenue was softer as average realisation declined, a trend we expect to sustain. Moreover, option roll out has been gradual and institutional participation is awaited. Advent of universal exchange norms challenges MCX's monopoly, posing risk to the premium multiple it commands. While taking away liquidity from MCX will not be easy for new players, predatory pricing could limit its pricing power. Despite the associated risks, the stock trades at 22x FY20E EPS, in turn capping the upside. Hence, we maintain 'HOLD' with target price of INR908.

Volumes stabilising; improvement holds key

In Q1FY19, ADTV recovery momentum sustained at INR240-245bn, growing 30% YoY (flat QoQ), largely led by metals and energy segments. Recovery post demonetisation, especially in bullion, has been modest, denting overall ADTV (bullion volume down >5% YoY). Even options volumes (though too early to draw a trend) have been modest and remain a key monitorable. We expect activity levels to pick up once volatility kicks in, options scale up and institutional participation is permitted. Hence, we estimate 27% volume CAGR over FY18-20.

Profitability impacted by one-off exceptional items

Even as transactional revenue grew >23% YoY, lower other income (lower treasury) negated the impact of operating leverage benefits (opex grew <3% YoY). Moreover, profitability was impacted by one-off item of INR238mn (on portfolio of INR308mn) as MCX valued portfolio of tax-free bonds on security level valuation versus fair valuation on daily basis earlier. The change was initiated due to too much volatility in the earlier valuation methodology.

Outlook and valuations: Limited upside; maintain 'HOLD'

Factoring in slower than anticipated revenue traction and one time exception hit we prune our FY19/FY20 EPS by 26%/10%, consequently leading to TP of INR908 (earlier 975). Furthermore, structural risk of universal exchange will challenge MCX's monopoly and pose a threat to its revenue momentum. Despite associated risks, the stock trades at 22x FY20E EPS, thereby limiting the price upside. We maintain **'HOLD/SU'**.

Financials **(INR mn)**

Year to March	Q1FY19	Q1FY18	*Growth %*	Q4FY18	*Growth %*	FY18	FY19E	FY20E
Net revenue	829	868	*(4.6)*	948	*(12.5)*	3,519	4,267	5,085
Net profit	62	263	*(76.5)*	340	*(81.8)*	1,084	1,205	1,852
Dil. EPS (INR)	1.2	5.2	*(76.6)*	6.7	*(81.9)*	21.2	28.3	36.3
Book Value (INR)						307	320	338
Price/ Book (x)						2.6	2.5	2.4
Price/ Earnings (x)						37.6	28.2	22.0

EDELWEISS 4D RATINGS

Absolute Rating	**HOLD**
Rating Relative to Sector	Underperform
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Overweight

MARKET DATA *(R: MCEIqf.BO, B: MCX IN)*

CMP	: INR 798
Target Price	: INR 908
52-week range (INR)	: 1,182 / 665
Share in issue (mn)	: 51.0
M cap (INR bn/USD mn)	: 41 / 935
Avg. Daily Vol.BSE/NSE('000)	: 500.6

SHARE HOLDING PATTERN (%)

	Current	Q4FY18	Q3FY18
Promoters *	-	-	-
MF's, FI's & BK's	38.6	38.6	35.5
FII's	26.4	26.4	28.8
Others	34.9	34.9	35.7

** Promoters pledged shares (% of share in issue) : NIL*

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Banks and Financial Services Index
1 month	3.9	2.3	0.7
3 months	4.6	3.7	5.2
12 months	(27.2)	10.7	8.1

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Table 1: Key takeaways from Q1FY19 earnings

(INR mn)	Q1FY19	Q1FY18	*YoY (%)*	Q4FY18	*QoQ (%)*	*Comments*
Revenues	829	868	*(4.6)*	948	*(12.5)*	Revenue momentum was lower than expectation due to lower treasury income while core operating income was inline with estimates
Expenses	470	460	*2.3*	465	*1.1*	Expenses at the time were controlled well
- Employee Benefits Expense	180	178	*1.4*	155	*16.2*	
- Software Support Charges	139	114	*22.1*	134	*3.8*	
- Other Expenses	151	168	*(10.2)*	176	*(14.2)*	Target is to limit other expenses at prior year levels
EBIDTA	359	409	*(12.3)*	483	*(25.7)*	
- Finance Costs	-	-	*NA*	-	*NA*	
- D&A Expense	37	48	*(23.6)*	36	*1.7*	
Profit before Tax	322	361	*(10.8)*	447	*(27.9)*	
Tax Expenses	22	98	*(77.3)*	107	*(79.2)*	
PAT	300	263	*14.2*	340	*(11.7)*	
Exceptional items	(238)	-	*NA*	-	*NA*	Valued portfolio of tax free bonds on Security Level Valuation versus fair valuation on daily basis earlier, the change in the method was undertaken given there was too much volatility in earlier valuation methodology. The entire impact of this change is INR302.4mn of which INR64mn is taken from the income statement and the balance is taken as exceptional item
Reported PAT	62	263	*(76.5)*	340	*(81.8)*	
Diluted EPS (INR)	1.2	5.2	*(76.6)*	6.7	*(81.9)*	
Ratios (%)						
EBITDA Margin	43.3	47.1		50.9		
PAT Margin	7.4	30.2		35.8		
Tax Rate	26.5	27.2		24.0		
ADTV (INR bn)						
Total	242	194	*24.3*	201	*20.0*	ADTV panning out steady at INR240-250bn levels
-Gold & Silver	53	53	*(0.0)*	45	*18.6*	
-Crude Oil	68	50	*36.8*	50	*37.4*	Volatility in oil prices led to significant rise in volume in energy segment
-Agri	5	6	*(6.8)*	5	*10.0*	
-Others	115	86	*33.9*	102	*12.5*	

Source: Company, Edelweiss research

Table 2: Volumes witnessed a strong uptick after 6 quarters **(INR bn)**

(INR bn)	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	QoQ	YoY
Average Daily Trading Volumes	210	194	188	220	201	242	244	*0.9*	*29.8*
-Gold	34	31	30	33	23	29	30	*2.2*	*0.3*
-Silver	29	22	24	30	22	24	25	*7.0*	*4.4*
-Crude Oil	54	50	53	57	50	68	72	*5.6*	*36.1*
-Agri	4	6	4	4	5	5	4	*(23.1)*	*(2.6)*
-Others	89	86	77	95	102	115	112	*(2.5)*	*46.5*

Source: Company

Table 3: Gold and crude oil led the volume growth

(INR bn)	Qty Denomination	ADTV Q1FY19 Value (INR bn)	ADTV Q1FY19 Volume	ADTV Q1FY18 Value (INR bn)	ADTV Q1FY18 Volume	Change in ADTV (YoY) Value	Change in ADTV (YoY) Volume	ADTV Q4FY18 Value (INR bn)	ADTV Q4FY18 Volume	Change in ADTV (QoQ) Value	Change in ADTV (QoQ) Volume	ADTV FY18 Value (INR bn)	ADTV FY18 Volume	ADTV FY17 Value (INR bn)	ADTV FY17 Volume	Change in ADTV (YoY) Value	Change in ADTV (YoY) Volume
Gold	000 Kgs	29.8	9,603	29.8	10,339	0.3	(7.1)	28.8	9,545	3.6	0.6	28.4	9,701	45.0	15,028	(36.8)	(35.4)
Silver	000 Kgs	25.4	637	24.3	611	4.4	4.3	23.4	602	8.3	5.8	24.6	630	33.5	782	(26.4)	(19.4)
Crude Oil	000 BBLs	72.1	15,903	52.9	17,038	36.1	(6.7)	67.3	16,647	7.1	(4.5)	56.3	16,372	60.2	19,008	(6.6)	(13.9)
Copper	000 Kgs	24.5	53,137	15.6	42,166	57.3	26.0	21.3	47,258	14.8	12.4	18.2	43,216	17.1	49,101	6.5	(12.0)
Zinc	000 Kgs	31.1	1,49,324	24.0	1,42,936	29.8	4.5	34.5	1,57,877	(9.7)	(5.4)	30.7	1,56,120	24.9	1,56,689	23.6	(0.4)
Lead	000 Kgs	15.6	97,248	13.1	93,791	19.2	3.7	16.7	1,03,104	(6.5)	(5.7)	15.5	1,00,488	12.9	95,585	19.7	5.1
Nickel	000 Kgs	15.5	15,853	6.6	10,975	135.3	44.5	13.8	16,122	12.0	(1.7)	10.3	13,952	7.4	10,980	38.3	27.1

Source: Company

Table 4: Commodity-wise ADTV assumptions

	FY17	FY18	FY19E	FY20E
SILVER				
Avg daily volume (INR bn)	33	25	31	41
Vol (kgs)	782	630	756	945
Avg price (INR)	42,558	39,163	41,121	43,177
Proportion of total volume (%)	*14.8*	*11.7*	*11.6*	*11.9*
GOLD				
Avg daily volume (INR bn)	45	28	34	43
Vol (gms)	15,028	9,701	11,156	13,387
Avg price (INR)	29,694	29,314	30,780	32,319
Proportion of total volume (%)	*19.8*	*13.4*	*12.8*	*12.7*
COPPER				
Avg daily volume (INR bn)	17	18	24	31
Vol (kgs)	49	43	54	68
Avg price (INR)	3.5	4.2	4.4	4.6
Proportion of total volume (%)	*7.6*	*8.6*	*8.9*	*9.1*
CRUDE OIL				
Avg daily volume (INR bn)	61	56	78	102
Vol ('000 bbls)	19	16	20	25
Avg price (INR)	32.2	34.4	37.9	41.7
Proportion of total volume (%)	*27.2*	*26.6*	*28.9*	*29.9*
ZINC				
Avg daily volume (INR bn)	25	31	39	50
Vol (kgs)	1,56,689	1,56,120	1,87,344	2,24,813
Avg price (INR)	1.6	2.0	2.1	2.2
Proportion of total volume (%)	*11.1*	*14.8*	*14.6*	*14.5*
LEAD				
Avg daily volume (INR bn)	13	15	19	25
Vol (kgs)	95,585	1,00,488	1,20,585	1,44,702
Avg price (INR)	1.4	1.5	1.6	1.7
Proportion of total volume (%)	*5.7*	*7.3*	*7.3*	*7.2*
NICKEL				
Avg daily volume (INR bn)	7	10	13	16
Vol (kgs)	10,980	13,952	16,742	20,091
Avg price (INR)	6.8	7.2	7.6	7.9
Proportion of total volume (%)	*3.3*	*4.7*	*4.7*	*4.7*
AGRI	5.3	4.5	5.4	6.4
Proportion of total volume (%)	*2.3*	*2.1*	*2.0*	*1.9*
OTHERS	18.6	22.7	25.0	27.5
Proportion of total volume (%)	*8.2*	*10.7*	*9.3*	*8.0*
TOTAL	**226**	**212**	**269**	**342**

Source: Company, Edelweiss research

Financial snapshot **(INR mn)**

Year to March	Q1FY19	Q1FY18	*% change*	Q4FY18	*% change*	FY18	FY19E	FY20E
Net revenues	829	868	*(4.6)*	948	*(12.5)*	3,519	4,267	5,085
Employee expenses	180	178	*1.4*	155	*16.2*	682	782	923
Software support charges	139	114	*22.1*	134	*3.8*	492	540	612
Other expenses	151	168	*(10.2)*	176	*(14.2)*	707	743	786
Total expenditure	470	460	*2.3*	465	*1.1*	1,880	2,065	2,320
EBITDA	359	409	*(12.3)*	483	*(25.7)*	1,639	2,202	2,765
Depreciation	37	48	*(23.6)*	36	*1.7*	167	199	193
Interest	-	-		-		2	2	2
PBT before exceptionals	322	361	*(10.8)*	447	*(27.9)*	1,472	2,004	2,572
Tax	22	98	*(77.3)*	107	*(79.2)*	388	561	720
PAT	300	263	*14.2*	340	*(11.7)*	1,084	1,443	1,852
Exceptional items	(238)						(238)	
Reported PAT	62	263	*(76.5)*		*(81.8)*		1,205	
Diluted EPS (INR)	6.7	6.5	*3.4*	4.3	*55.7*	21.2	28.3	36.3
Ratios (%)								
EBITDA margin	43.3	47.1		50.9		46.6	51.6	54.4
PAT margin	7.4	30.2		35.8		30.8	33.8	36.4
Employee cost/revenues	21.7	20.5		16.4		19.4	18.3	18.1
Software chg./revenues	16.8	13.1		14.1		14.0	12.6	12.0
Tax rate (%)	26.5	27.2		24.0		26.4	25.0	28.0
Valuation metrics								
Adj book value / share						306.9	320.3	337.5
Price/ Book (x)						2.6	2.5	2.4
Price/ Earnings						37.6	28.2	22.0

Change in estimate

	FY19E			FY20E			
	New	Old	*% change*	New	Old	*% change*	Comments
Revenues	4,267	4,544	*(6.1)*	5,085	5,367	*(5.3)*	Softer revenue traction on lower treasury income and lower than expected ADTV recovery
Operating expenses	2,065	2,072	*(0.3)*	2,320	2,329	*(0.4)*	
Operating margin	2,202	2,472	*(10.9)*	2,765	3,038	*(9.0)*	
PAT	1,443	1,637	*(11.9)*	1,852	2,049	*(9.6)*	
ADTV	*269*	*274*		*342*	*349*		

Q1FY19 earnings concall highlight

- During the quarter the earnings were impacted on ***two counts a) softer other income (lower treasury due to bond movement) and b) exceptional item of INR238mn (valued portfolio of tax free bonds on Security Level Valuation versus fair valuation on daily basis earlier), the change in the method was undertaken given there was too much volatility in earlier valuation methodology. The entire impact of this change is INR302.4mn of which INR64mn is taken from the income statement and the balance is taken as exceptional item.*** The cost base for this portfolio is INR3.08bn.
- Management commentary on three issues
  - **On product side:** Having launched options (in terms of notional value the options is 5-7% of future across the entire spectrum, the management eventually wants to take this to 60% levels), the next step is index based trading on commodities and the communication with regulators is on track. Management is also focusing on building deliverable contracts in derivative segments (regulator is supporting this deliverable contracts).
  - **Distribution:** On boarded 4 of 5 largest bank distributors, this will drive retail participation and distribution
  - **Institutional participation:** is slower than expected, and there is some work to be done
- ***ADTV growth during the quarter grew > 30% YoY, approximately 14% of the growth is driven by volume and balance is through value.*** INR72lakh was spent during the quarter as the liquidity enhancing scheme, excluding this the realisation is broadly steady .
- Overall composition of the investments are a) mutual fund portfolio is INR7.5bn, b) bond portfolio at cost is INR3.08bn and c) INR2bn is in Fixed deposits.
- ***The company maintains the stance of accruing the variable pay that is expected to be paid for the full year over the quarters. Consequent to this the employee expense look higher (INR20mn was booked this quarter on this account), excluding this the growth was < 10% levels. Moreover, management maintained its stance that overall employee cost for FY19 will be in the range of INR750-760mn.***
- Other expenses during the quarter has come down due to lower legal and professional cases (there was some expenses during the last quarter).

  There has been some technical glitches, management has found that this was due to some hardware failure. Consequently, the company has isolated the system and don't anticipate the incidence to resurface.

Q4FY18 result concall takeaways

Overall management commentary:

- Growth in ADTV's this quarter mainly came from metal, energy and agri segments
- While MMTC has significantly ramped up deliveries on the exchange, on the other hand Vardhaman Textile and some other corporates have started actively participating in the cotton contracts
- ***The company launched the brass contract (first composite alloy being traded) during the quarter wherein around 300 lots were traded in the first month of launch***
  - Deliverable contracts would be a key focus as the way forward for the company
- ***Regulatory developments – Liquidity enhancement scheme was approved by SEBI (already touching INR50bn in first 3 days of trading). Initial response has been very good and will also help make gold contracts more liquid. The company is in talks with SEBI to launch more contracts for trading. Initially the liquidity enhancement would be for a period of 6 months keeping in mind our expense structure for the second half of the year***
- As a part of the strategy for the year going forward, the company would focus on the following - First 6 months (No other exchanges in the commodities space) – options to be focused on
  - ***More contracts to be launched which include crude, zinc, oil and copper. Atleast 2 of the 4 will be approved in the next 2 days***
  - Gold options to be made much more liquid – will try to launch a full suite of contracts for investors
  - Continue to look at niche areas where the products are not offered till now
  - Focus on making contracts deliverable and make deliverable contracts more reachable
- Introduction of 3 critical numbers for KRA
  - Education and outreach – for FY18 the total time spent has been double of last year
  - Corporate hedgers – target of 10-15% growth which has been achieved in FY18
  - Expansion of actual markets – registered more than 10% growth next year, however was a little off our targets
- ***Drivers of the business***
  - New products – options and indices (targeting to introduce in FY19)
  - Adding new participants – focus on institutional investors
  - Distribution – enabled by regulators – brokerage houses combination across products and bank subsidiaries
  - Increase in practice of hedging by corporates

With respect to operational performance:

- ***Employee plus variable costs should grow at less than 3% going forward***

- ◦ ***Introduced a variable pay plan and reduced accruals for the pay; This was because of lower profitability in FY18. However this should come back to normalcy in the current FY.***

- ***The company is planning to start charging on options in the second half and thus focusing on increasing volumes in the first half***
- Movement of margins from one exchange to other has been made almost real time with a time lag of just 30 minutes
- ***Number of members – Every quarter adding roughly 10 members including 5 absolutely new ones***
- Latency numbers will be published from July onwards. Numbers are mostly in line with what it is for other exchanges (150-200 micro seconds)
- ***Regulatory cost was INR42mn in FY17 and INR75mn in FY18***

Company Description

MCX is a leading electronic commodity futures exchange in India. The exchange commenced operations in November 2003 and within few years it has emerged the market leader in the commodities future industry with 80% plus market share, leveraging product and service innovations and effective use of technology. It has a well designed technology platform which ensures security, reliability, flexibility and scalable architecture with handling capacity of 40mn transactions per day. In terms of innovation, MCX 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

We believe, structural levers will support >27% volume CAGR over FY18-20E and with operating leverage kicking in, we estimate EPS to grow at >30% CAGR over next two years (albeit on a lower base). But, structural risk of universal exchange will challenge MCX's monopoly and pose a threat to its revenue momentum. Despite the associated risks, the stock trades at 22x FY20E EPS, thereby limiting the price upside..

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; and 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	FY17	FY18	FY19E	FY20E
Macro				
GDP(Y-o-Y %)	7.1	6.5	7.1	7.6
Inflation (Avg)	4.5	3.6	4.5	5.0
Repo rate (exit rate)	6.3	6.0	6.3	6.5
USD/INR (Avg)	67.1	64.5	68.0	69.0
Sector				
Credit growth	9.0	12.0	14.0	17.0
Deposit growth	14.0	12.0	13.0	14.0
CRR	4.0	4.0	4.0	4.0
SLR	20.0	20.0	19.5	19.0
G-sec yield	6.5	6.5	7.0	7.1
Company				
Operating margin	52.2	46.6	51.6	54.4
Employee cost/revenues	17.1	19.4	18.3	18.1
Technology cost/revenues	11.3	14.0	12.6	12.0
Dividend tax	17.0	17.0	17.0	17.0
Tax rate (%)	28.8	26.4	28.0	28.0
Dividend payout	45.0	45.0	45.0	45.0
Avg Daily Trading Vol.	225.6	211.6	268.6	341.7
- Gold	44.6	28.4	34.3	43.3
- Silver	33.3	24.7	31.1	40.8
- Crude Oil	61.3	56.4	77.5	102.3
- Agri	5.3	4.5	5.4	6.4
- Others	81.1	97.6	120.3	148.8
Commission yields	2.0	2.2	2.1	2.1
# of members	2,101	2,138	2,175	2,212
# of employees	395	399	429	459
# of terminals	631	694	764	840

Income statement (INR mn)

Year to March	FY17	FY18	FY19E	FY20E
Net revenue	3,759	3,519	4,267	5,085
Operating expenses	1,797	1,880	2,065	2,320
Operating margin	1,962	1,639	2,202	2,765
Depreciation	186	167	199	193
EBIT	1,776	1,472	2,004	2,572
Profit Before Tax	1,774	1,472	2,004	2,572
PBT incl. extraor. inc.	1,774	1,472	2,004	2,572
Less: Provision for Tax	512	388	561	720
Net profit	1,263	1,084	1,443	1,852
Prior Period(Net of Tax)	-	-	(238)	-
Reported Profit	1,263	1,084	1,205	1,852
Adj. Diluted EPS (INR)	24.8	21.2	28.3	36.3
Dividend per share (DPS)	11.1	9.6	12.7	16.3
Dividend Payout Ratio(%)	45.0	45.0	45.0	45.0

Growth ratios (%)

Year to March	FY17	FY18	FY19E	FY20E
Revenues	7.0	(6.4)	21.3	19.2
- Transaction fee growth	13.7	7.2	22.5	24.2
Opex growth	12.5	4.7	9.8	12.3
Operating margin growth	2.3	(16.5)	34.4	25.6
PBT	6.3	(17.1)	36.2	28.4
Adjusted Profit	5.7	(14.2)	33.1	28.4

Operating ratios

Year to March	FY17	FY18	FY19E	FY20E
Operating margin	52	47	52	54
PAT margin	34	31	34	36
Employee cost/revenues	17	19	18	18
Technology cost/revenues	11	14	13	12
Opex/revenues	48	53	48	46
Tax rate	28.8	26.4	28.0	28.0

Balance sheet				(INR mn)
As on 31st March	**FY17**	**FY18**	**FY19E**	**FY20E**
Share capital	510	510	510	510
Net worth	15,293	15,653	16,336	17,213
Def. Tax Liability (net)	75	83	94	108
Total liabilities	**15,368**	**15,736**	**16,430**	**17,321**
Gross Block	4,021	4,069	4,321	4,471
Depreciation	2,499	2,666	2,865	3,058
Net Block	1,521	1,402	1,456	1,413
Investments	11,948	12,123	12,673	13,373
Cash and Equivalents	40	57	72	166
Sundry Debtors	28	25	57	105
Fixed Deposits	3,849	4,024	4,574	5,324
Loans & Advances	1,219	1,334	1,423	1,574
Other Current Assets	51	41	50	59
Total current assets	5,188	5,481	6,176	7,228
Current liabilities	2,780	2,709	3,258	4,014
Security Deposits	98	100	102	104
Networking Equip. Dep.	4	4	4	4
Trading Margin from Mem.	2,256	2,162	2,686	3,417
Other Current Liab	422	443	465	489
Net current assets	2,408	2,772	2,918	3,214
Provisions	510	561	617	679
Total assets	**15,368**	**15,736**	**16,430**	**17,321**
BVPS (INR)	299.9	306.9	320.3	337.5

Key operating metrics

Year to March	FY17	FY18	FY19E	FY20E
Avg Daily Trading Vol.	226	212	269	342
- Gold	45	28	34	43
- Silver	33	25	31	41
- Crude Oil	61	56	78	102
- Agri	5	4	5	6
Commission yields	2	2	2	2
# of members	2,101	2,138	2,175	2,212
# of terminals	631	694	764	840

Valuation parameters

Year to March	FY17	FY18	FY19E	FY20E
Adj. Diluted EPS (INR)	24.8	21.2	28.3	36.3
Y-o-Y growth (%)	*5.7*	*(14.2)*	*33.1*	*28.4*
BV per share (INR)	299.9	306.9	320.3	337.5
Diluted P/E (x)	32.2	37.6	28.2	22.0
P/B (x)	2.7	2.6	2.5	2.4
Dividend Yield (%)	1.4	1.2	1.6	2.0

Peer comparison valuation

	Market cap	Diluted P/E (X)		P/B (X)		ROAE (%)	
Name	(USD mn)	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Multi Commodity Exchange of India	935	28.2	22.0	2.5	2.4	7.5	11.0
Dewan Housing Finance	2,804	13.4	11.6	2.0	1.8	16.0	16.7
HDFC	48,449	34.0	29.3	5.0	4.7	15.3	16.5
Indiabulls Housing Finance	7,415	11.9	9.8	3.3	2.8	30.5	31.4
LIC Housing Finance	-	12.1	10.3	1.8	1.6	17.8	18.1
Mahindra & Mahindra Financial Services	4,208	22.2	18.9	2.9	2.6	13.4	14.5
Manappuram General Finance	-	10.6	9.1	2.1	1.8	20.7	21.4
Muthoot Finance	2,265	8.8	7.8	1.7	1.5	21.1	20.4
Repco Home Finance	522	14.3	12.2	2.3	2.0	17.4	17.4
Rural Electrification Corporation	2,627	3.7	3.0	0.5	0.4	13.2	14.9
Shriram City Union Finance	1,822	11.0	9.3	1.9	1.6	18.8	19.0
Shriram Transport Finance	3,864	9.9	8.0	1.8	1.5	19.5	20.2
Median	-	12.0	10.0	2.0	1.8	17.6	17.8
AVERAGE	-	15.0	12.6	2.3	2.1	17.6	18.5

Source: Edelweiss research

Additional Data

Directors Data

Saurabh Chandra	Chairman	Mrugank M. Paranjape	Managing Director & Chief Executive Officer
S. K. Mitra	Director	M. Govinda Rao	Director
Prithvi Haldea	Director	Arun Bhargava	Director
Shankar Aggarwal	Director	Amit Goela	Director
Madhu Vadera Jayakumar	Director	Padma Raghunathan	Director
Hemang Raja	Director	C. Jayaram	Director
Arun Nanda	Director		

Auditors - Shah Gupta & Co.

**as per last annual report*

Holding - Top 10

	Perc. Holding		
Kotak Mahindra	15.00	Uti Asset Management Co Ltd	4.56
Axis Asset Management Co Ltd	4.00	Jhunjhunwala Rakesh	3.92
Tiaa-Cref	3.77	Sbi Funds Management Pvt Ltd	3.71
Jpmorgan Chase & Co	2.18	Baron Emerging Mrkts Fund	1.93
Morgan Stanley	1.83	Idfc Mutual Fund/India	1.71

**as per last available data*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
22 Jan 2018	Sbi Mutual Fund	Buy	819048	840.50
22 Jan 2018	Baron International Growth Fund	Sell	1131252	840.50

**in last one year*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
No Data Available			

**in last one year*

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Aditya Birla Capital	BUY	SO	M	Allahabad Bank	HOLD	SU	M
Axis Bank	HOLD	SU	M	Bajaj Finserv	BUY	SP	L
Bank of Baroda	BUY	SP	M	Bharat Financial Inclusion	BUY	SP	M
Capital First	BUY	SO	M	DCB Bank	HOLD	SP	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	BUY	SP	L	Indiabulls Housing Finance	BUY	SO	M
IndusInd Bank	BUY	SP	L	Karnataka Bank	BUY	SP	M
Kotak Mahindra Bank	BUY	SO	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	SP	M	Manappuram General Finance	BUY	SO	H
Max Financial Services	BUY	SO	L	Multi Commodity Exchange of India	HOLD	SU	M
Muthoot Finance	BUY	SO	M	Oriental Bank Of Commerce	HOLD	SP	L
Power Finance Corp	BUY	SO	M	Punjab National Bank	REDUCE	SU	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	M	South Indian Bank	BUY	SO	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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Date: 2018.07.20 21:32:55 +05'30'

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
20-Jul-18	**Bajaj Finserv**	Finance, general insurance strong; life insurance soft; *Result Update*	6,297	Hold
19-Jul-18	**Kotak Mahindra Bank**	Steady start to FY19; *Result Update*	1,347	Buy
17-Jul-18	**Federal Bank**	Growth momentum sustains; stress normalises as guided; *Result Update*	88	Buy

Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

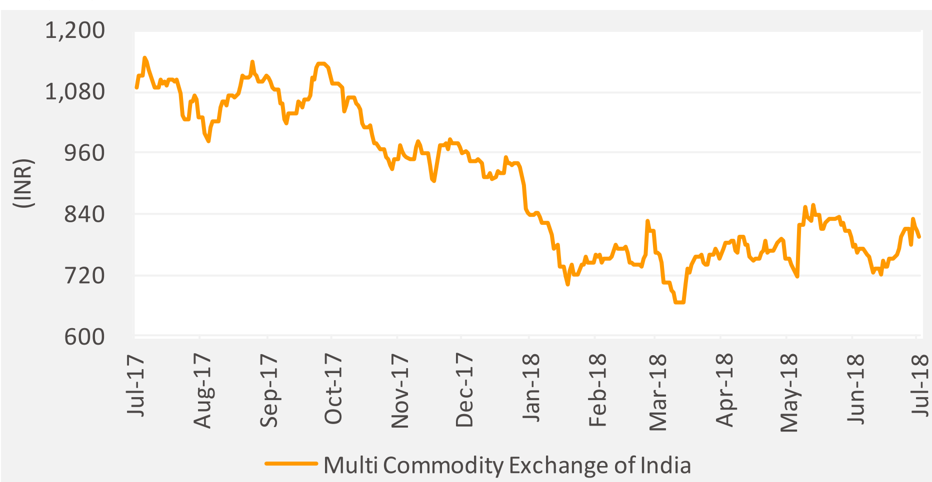
	Buy	Hold	Reduce	Total
Rating Distribution* * 1stocks under review	161	67	11	240

	> 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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