Multi Commodity Exchange

BUY

INDUSTRY	EXCHANGES
CMP *(as on 15 Jan 2019)*	Rs 763
Target Price	Rs 957
Nifty	10,887
Sensex	36,318

KEY STOCK DATA	
Bloomberg	MCX IN
No. of Shares (mn)	51
MCap (Rs bn) / ($ mn)	39/548
6m avg traded value (Rs mn)	505

STOCK PERFORMANCE (%)

52 Week high / low	Rs 948/650		
	3M	6M	12M
Absolute (%)	4.6	(6.0)	(18.0)
Relative (%)	0.5	(5.4)	(22.2)

SHAREHOLDING PATTERN (%)	
Promoters	0
FIs & Local MFs	38.05
FPIs	31.01
Public & Others	30.94

Source : BSE

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Steady improvement in volumes

MCX delivered good set of numbers in 3QFY19. Revenue was up 8.2% QoQ to Rs 0.77bn (in-line with our est. of Rs 0.77bn), led by 7.9% QoQ increase in volume (Rs 17.03tn). MCX maintained its market share at 91% and ADTV grew 7.9% QoQ, despite increased competition from NSE & BSE. EBITDA margin was down 496bps QoQ to 27.2% largely due to higher other expenses. Excluding one-off margin was up 89bps QoQ to 33.1% but still below our estimate of 34.9%. Hedging activity in bullions is witnessing increased traction with open interest built up while metals volume is impacted due to shift from cash to physical settlement.

Regulatory tailwinds like institutional participation (MFs, PMS), launch of Indices, partnership with retail banks subsidiaries can boost trading volumes. The major concern related to increased competition, pricing pressure and volume shift appears to be subsiding. Management doesn't see any major risk to the existing volumes and pricing. In fact, the market can expand with launch of more innovative products and entry of newer market participants. We see value in MCX based on (1) Embedded non-linearity, (2) ADTV growth despite rising competition, (3) Market leadership and (4) Net cash of Rs 14bn (~35% of Mcap). We estimate revenue/PAT CAGR of 18/22% over FY18-21E. Maintain BUY with a TP of Rs 957, implying a P/E of 30x to Dec-20E core earnings and adding back net cash.

Highlights of the quarter

- ADTV was up 7.9% QoQ and 31.6% YoY to Rs 266.14bn led by volatility in underlying prices.
- Bullion/Energy/Agri ADTV was up 7.9/42.3/3.8% QoQ to Rs 58.99/113.54/3.92bn offset by 17.2% drop in metals ADTV to Rs 89.69bn.
- Option volume dropped sharply (ADTV of Rs 5.64bn, -53% QoQ, ~2% of futures) led by absence of LES. MCX will start charging for options only when it reaches ~10% of futures volume.
- **Near-term outlook:** Recovery in volumes will continue but 4Q led by bullion and energy. Margins will recover due to absence of one-off and operating leverage. Any consolidation in the industry will ease competition and can result in re-rating.

Financial Summary (Consolidated)

YE March (Rs mn)	3QFY19	3QFY18	*YoY (%)*	2QFY19	*QoQ (%)*	FY17	FY18	FY19E	FY20E	FY21E
Net Revenues	769	628	*22.5*	711	*8.2*	2,539	2,598	3,019	3,655	4,274
EBITDA	210	154	*36.5*	229	*(8.5)*	740	719	961	1,412	1,820
APAT	418	188	*122.5*	359	*16.3*	1,210	1,084	1,503	1,666	1,986
Diluted EPS (Rs)	8.2	3.7	*122.5*	7.1	*16.3*	23.8	21.3	29.6	32.8	39.1
P/B (x)						2.8	2.8	2.8	2.7	2.6
P/E (x)						32.1	35.8	25.8	23.3	19.5
EV / EBITDA (x)						39.6	40.4	30.1	20.4	15.7
RoE (%)						9.1	7.9	10.8	11.8	13.6

Source: Company, HDFC sec Inst Research

Volume was up 7.9% QoQ and realisation was down 1.8% QoQ to Rs 21.5/mn

LES for the quarter was Rs 4.4mn vs 160mn last quarter, ex-LES top line growth was 6.4% QoQ

EBITDA margins excluding one-off stood at 33.1%, +89bps QoQ

EBITDA margin was impacted by one-off of Rs 45mn related to regulatory (Rs 20mn) and legal and professional charges (Rs 20mn)

APAT stood at Rs 0.42bn up 16.3% QoQ (vs our est of Rs 0.38bn) due to higher other income and lower tax rate

Other income was higher due to fall in yields (benefit of Rs 30mn)

ETR will be in the range of 22-25%

Quarterly Financials Snapshot

Rs mn	3QFY19	3QFY18	YoY (%)	2QFY19	QoQ (%)
Operating income	**769**	**628**	***22.5***	**711**	***8.2***
Software service expenses	163	120	*35.5*	145	*12.3*
Employee expenses	177	169	*4.9*	174	*1.5*
Computer & Tech expenses	57	58	*(0.9)*	52	*11.1*
Other operating expenses	163	128	*27.2*	111	*46.4*
EBITDA	**210**	**154**	***36.5***	**229**	***(8.5)***
Interest Cost	0	0	*NM*	0	*NM*
Depreciation	38	35	*11.0*	38	*0.8*
Other Income (including E/O items)	322	137	*134.6*	222	*45.1*
PBT	**493**	**256**	***92.5***	**413**	***19.5***
Tax	75	68	*9.9*	53	*41.1*
RPAT	**418**	**188**	***122.5***	**359**	***16.3***
E/o gains (adj for tax)	0	0	*NM*	0	*NM*
APAT	**418**	**188**	***122.5***	**359**	***16.3***

Source: Company, HDFC Sec Inst Research

Margin Analysis

MARGIN ANALYSIS	3QFY19	3QFY18	YoY (bps)	2QFY19	QoQ (bps)
Software service expenses % of Net Sales	21.2	19.2	*204*	20.4	*78*
Employee Expenses % of Net Sales	23.0	26.9	*(386)*	24.5	*(152)*
Other Operating Expenses % of Net Sales	21.1	20.3	*79*	15.6	*551*
EBITDA Margin (%)	27.2	24.5	*279*	32.2	*(496)*
Tax Rate (%)	15.3	26.7	*(1,145)*	12.9	*234*
APAT Margin (%)	54.3	29.9	*2,441*	50.5	*376*

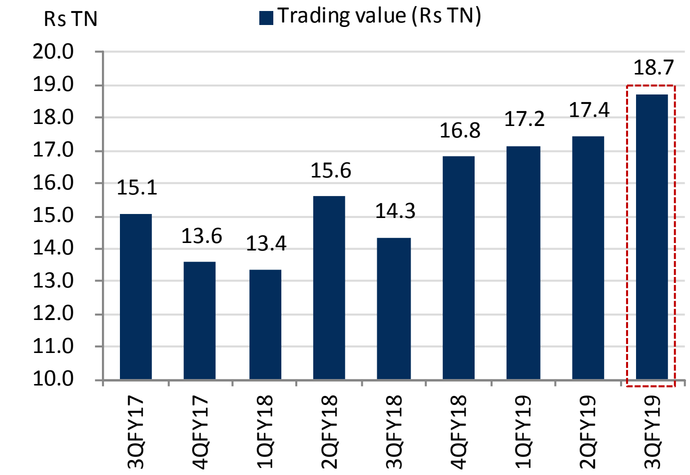
Source: Company, HDFC Sec Inst Research

The value of India's exchange traded commodity derivatives (ETCD) was up 7.5% QoQ, and 30.6% YoY to Rs 18.7tn

Bullion has stabilized (+3.9% in 9MFY19), recovery is expected with strong open interest built up

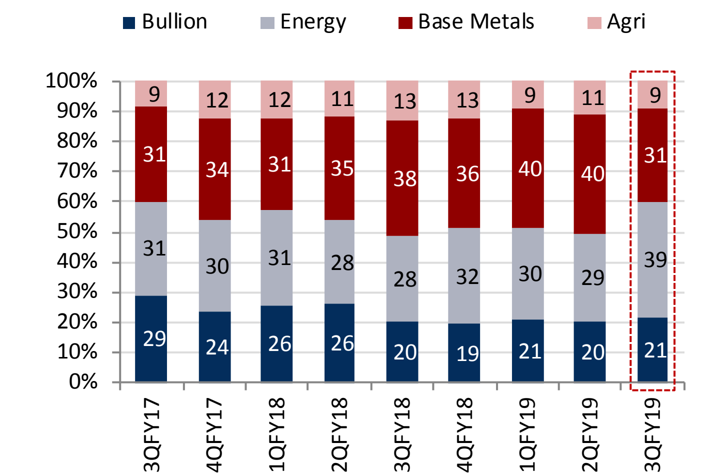
Market share declined remained stable despite increased competition

India's Exchange Traded Commodity Derivatives (ETCD)



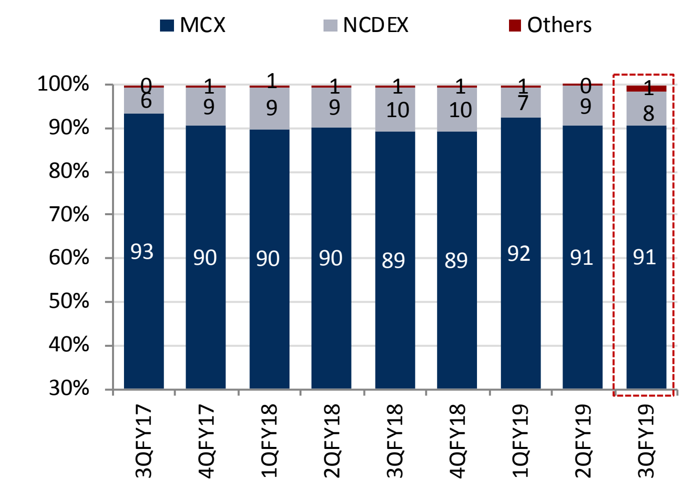
Source: Company, Industry, HDFC sec Inst Research

Composition Of India's ETCD



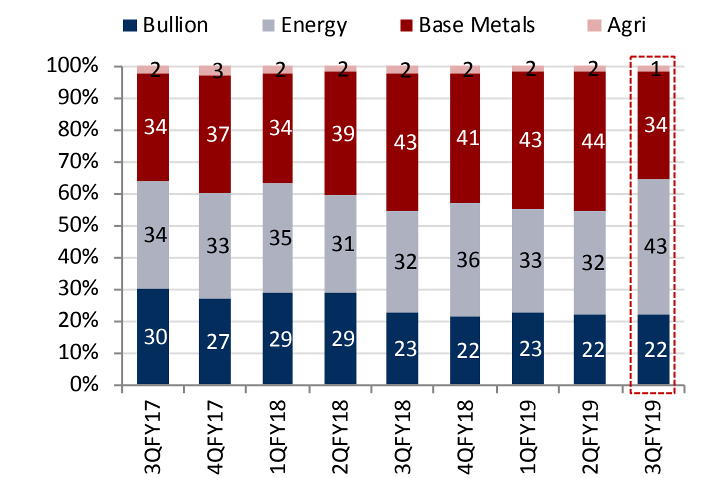
Source: Company, Industry, HDFC sec Inst Research

Market Share (%) Of Key Commodity Exchanges



Source: Company, Industry, HDFC sec Inst Research

MCX's Traded Value: Sectoral Composition



Source: Company, Industry, HDFC sec Inst Research

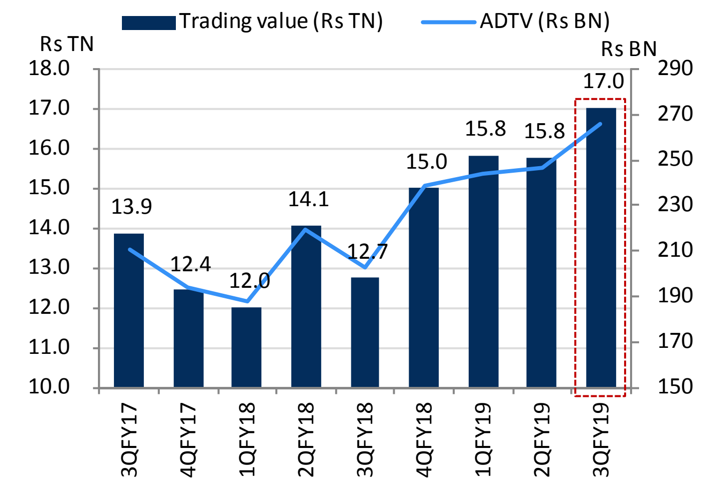
Total no of contracts traded was up 21.1% QoQ while average contract value declined 10.9% QoQ to Rs 0.26mn

In 9MFY19 Energy/Metals ADTV is up 38.2/27.8% YoY offset by fall in Agri (-9.4% YoY)

Base Metal fell 17.2% QoQ due to shift towards physical delivery

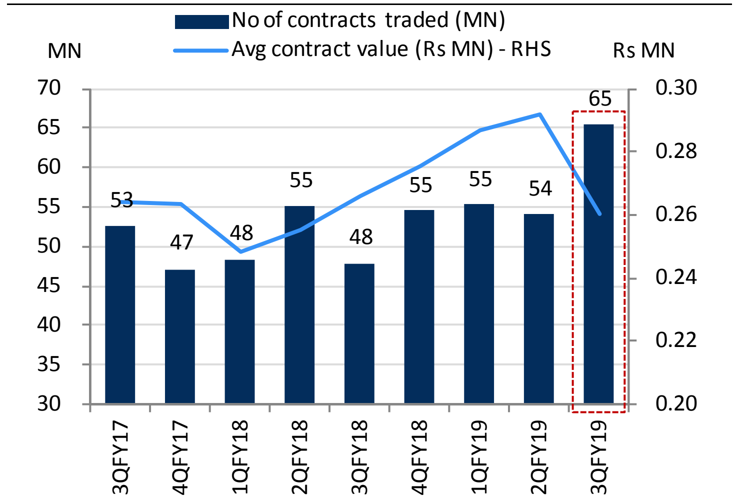
Crude oil, Zinc, Gold, Silver and Copper remain the top five traded commodity on MCX

MCX: Quarterly Trading Value Analysis



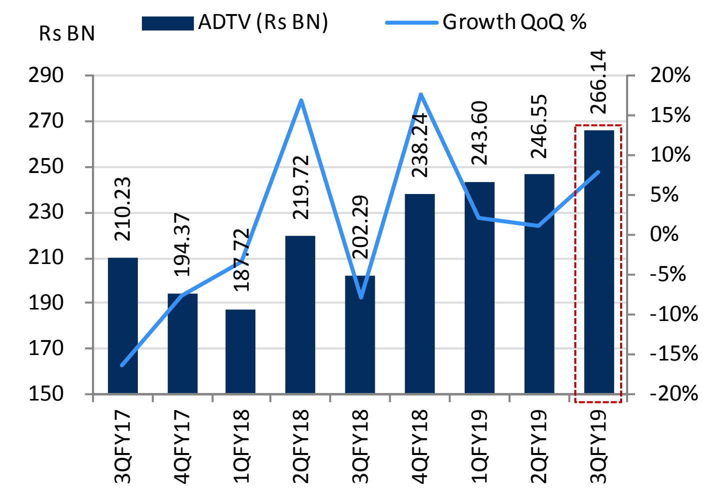
Source: Company, Industry, HDFC sec Inst Research

MCX: Detailed KPIs Of Contracts Traded



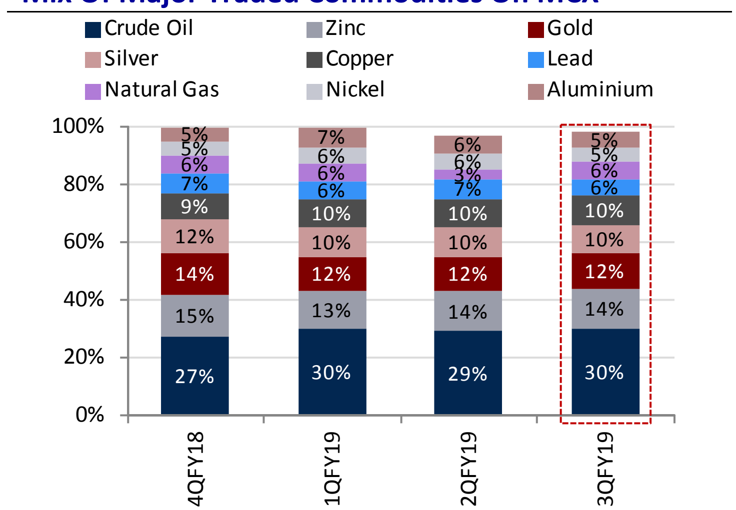
Source: Company, Industry, HDFC sec Inst Research

MCX ADTV Trend



Source: Company, Industry, HDFC sec Inst Research

Mix Of Major Traded Commodities On MCX



Source: Company, Industry, HDFC sec Inst Research

Split Of Total ADTV

ADTV (Rs bn)	3QFY19	3QFY18	YoY %	2QFY19	QoQ %	9MFY19	9MFY18	YoY %
Bullion	58.99	44.92	*31.3*	54.65	*7.9*	56.27	54.18	*3.9*
Energy	113.54	64.75	*75.4*	79.80	*42.3*	90.99	65.85	*38.2*
Metals	89.69	87.82	*2.1*	108.32	*(17.2)*	100.90	78.93	*27.8*
Agri & others	3.92	4.80	*(18.2)*	3.78	*3.8*	3.89	4.29	*(9.4)*
Total	**266.14**	**202.29**	***31.6***	**246.55**	***7.9***	**252.05**	**203.25**	***24.0***

Source: Company, Industry, HDFC sec Inst Research

ADTV Composition

% ADTV Contribution	3QFY19	3QFY18	YoY (bps)	2QFY19	QoQ (bps)	9MFY19	9MFY18	YoY (bps)
Bullion	22.2	22.2	*(4)*	22.2	*(0)*	22.3	26.7	*(433)*
Energy	42.7	32.0	*1,065*	32.4	*1,029*	36.1	32.4	*370*
Metals	33.7	43.4	*(972)*	43.9	*(1,023)*	40.0	38.8	*120*
Agri & others	1.5	2.4	*(90)*	1.5	*(6)*	1.5	2.1	*(57)*
Total	**100.0**	**100.0**		**100.0**		**100.0**	**100.0**	

Source: Company, Industry, HDFC sec Inst Research

Key KPIs

MCX Key KPIs	3QFY19	3QFY18	YoY %	2QFY19	QoQ %	9MFY19	9MFY18	YoY %
Total Turnover (Rs TN)	17.0	12.7	*33.7*	15.8	*7.9*	48.6	38.8	*25.3*
MCX Market share (%)	90.7%	89.1%	*1.9*	90.6%	*0.2*	91.2%	89.7%	*1.6*
ADTV (Rs bn/day)	266.14	202	*31.6*	246.55	*7.9*	252	203	*24.0*
Transaction charges Rs/mn (single side)	21.5	22.7	*(5.4)*	21.9	*(1.8)*	2.18	2.24	*(3.1)*

Source: Company, Industry, HDFC sec Inst Research

Valuation

- We expect MCX to post 36% EBITDA CAGR, driven by revenue CAGR of 18% and EBITDA margin expansion (42.6% in FY21E vs 27.7% in FY18) for FY18-21E. Considering the asset-light nature of the business, we expect RoE to expand to 13.6% in FY21E vs 7.9% in FY18. MCX currently trades at 23.3x FY20E and 19.5x FY21E EPS (implying PEG 1.1x).

- The stock has under performed due to concerns related to increase in competition (NSE & BSE has launched gold & silver commodity derivatives trading). The volume uptick in BSE & NSE is very slow and volume in MCX has risen in 3Q. We believe it's difficult to shift liquidity from one exchange to other. Any merger possibility will trigger upside as the risk of competition will subside significantly.

- Positive developments have been (1) Recovery in ADTV for the last two quarters 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 more options contracts. We maintain our BUY rating with a TP of Rs 957, implying a P/E of 30x Dec-20 earnings and adding cash.

MCX SOTP Valuation

Core PAT Dec 20E (Rs mn)	1,151
30X Dec 20E Core PAT (Rs mn)	34,520
Add: Net Cash (Rs mn)	14,155
Mcap (Rs mn)	48,675
TP (Rs)	**957**
Upside (%)	25%

Change In Estimates

Particulars	Earlier estimates	Revised estimates	% change
FY20E			
Revenue (Rs mn)	3,681	3,655	*(0.7)*
EBITDA (Rs mn)	1,404	1,412	*0.5*
EBITDA margin (%)	*38.2%*	*38.6%*	*48 bps*
APAT (Rs mn)	1,602	1,666	*4.0*
FY21E			
Revenue (Rs mn)	4,224	4,274	*1.2*
EBITDA (Rs mn)	1,781	1,820	*2.2*
EBITDA margin (%)	*42.2%*	*42.6%*	*43 bps*
APAT (Rs mn)	1,906	1,986	*4.2*

Source: Company, HDFC sec Inst Research

ADTV And Realisation Assumptions

Rs bn	FY16	FY17	FY18	FY19E	FY20E	FY21E
Futures ADTV	219.28	225.73	211.10	258.88	313.79	366.08
YoY %	*7.9%*	*2.9%*	*-6.5%*	*22.6%*	*21.2%*	*16.7%*
Options ADTV			0.41	7.63	14.05	34.31
YoY %				*1778.5%*	*84.2%*	*144.1%*
Total ADTV	219.28	225.73	211.50	266.50	327.84	400.39
YoY %	*7.9%*	*2.9%*	*-6.3%*	*26.0%*	*23.0%*	*22.1%*
Realization Of Futures (Rs/mn)	19.1	20.3	22.4	21.7	21.5	21.5
YoY %	*-2.8%*	*6.5%*	*10.4%*	*-3.3%*	*-0.9%*	*0.0%*
Realization Of Options (Rs/mn)			0.0	0.0	4.3	4.3
YoY %				*NM*	*NM*	*0.0%*
Blended Realization (Rs/mn)	18.1	20.3	22.4	21.1	20.8	20.0
YoY %	*-1.6%*	*12.0%*	*10.1%*	*-5.9%*	*-1.5%*	*-3.5%*

Source: Company, HDFC sec Inst Research

Valuation: Exchanges

Company	M-Cap (Rs bn)	Rating	CMP (Rs)	TP (Rs)	P/E (x)				EV/EBITDA (x)				RoE (%)			
					FY18	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E
MCX	**38.8**	**BUY**	**763**	**957**	**35.8**	**25.8**	**23.3**	**19.5**	**40.4**	**30.1**	**20.4**	**15.7**	**7.9**	**10.8**	**11.8**	**13.6**
BSE	30.7	BUY	594	900	12.8	16.4	14.9	13.4	3.4	7.5	5.5	3.7	7.7	5.9	6.4	7.1
CDSL	24.2	BUY	232	365	23.5	21.0	18.8	16.7	16.4	13.9	11.7	9.7	17.2	17.4	17.5	17.8

Source: HDFC sec Inst Research

Key risks

- Increased competition from other exchanges after implementation of Universal exchange licence
- Regulatory delays

Income Statement (Consolidated)

YE March (Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
Net Revenues (Rs mn)	**2,539**	**2,598**	**3,019**	**3,655**	**4,274**
Growth (%)	***8.1***	***2.4***	***16.2***	***21.1***	***16.9***
Software support charges	471	494	618	703	796
Employee Expenses	644	682	715	760	818
SG&A Expenses	201	229	219	234	250
Other Operating Expenses	483	474	506	546	590
EBITDA	**740**	**719**	**961**	**1,412**	**1,820**
EBITDA Margin (%)	***29.2***	***27.7***	***31.8***	***38.6***	***42.6***
EBITDA Growth (%)	***(1.7)***	***(2.9)***	***33.8***	***46.9***	***28.9***
Depreciation	186	167	152	172	187
EBIT	**554**	**552**	**810**	**1,239**	**1,632**
Other Income (Including EO Items)	1,169	920	728	982	1,016
Interest	2	0	0	0	0
PBT	**1,721**	**1,472**	**1,537**	**2,221**	**2,648**
Tax (Incl Deferred)	512	388	272	555	662
Minority Interest	0	0	0	0	0
RPAT	**1,210**	**1,084**	**1,265**	**1,666**	**1,986**
EO (Loss) / Profit (Net Of Tax)	0	0	(238)	0	0
APAT	**1,210**	**1,084**	**1,503**	**1,666**	**1,986**
APAT Growth (%)	***(4.0)***	***(10.4)***	***38.7***	***10.8***	***19.2***
Adjusted EPS (Rs)	**23.8**	**21.3**	**29.6**	**32.8**	**39.1**
EPS Growth (%)	***(4.0)***	***(10.4)***	***38.7***	***10.8***	***19.2***

Source: Company, HDFC sec Inst Research

Balance Sheet (Consolidated)

YE March (Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
SOURCES OF FUNDS					
Share Capital - Equity	510	510	510	510	510
Reserves	13,114	13,295	13,414	13,816	14,308
Total Shareholders' Funds	**13,624**	**13,805**	**13,924**	**14,326**	**14,818**
Settlement guarantee fund	1,705	1,806	1,896	1,991	2,091
Total Debt	**0**	**0**	**0**	**0**	**0**
Net Deferred Taxes (Net)	76	172	172	172	172
Long Term Provisions & Others	345	238	238	238	238
TOTAL SOURCES OF FUNDS	**15,750**	**16,021**	**16,231**	**16,727**	**17,319**
APPLICATION OF FUNDS					
Net Block	1,519	1,594	1,745	1,938	2,178
CWIP	2	23	23	23	23
Investments	-	-	-	-	-
LT Loans & Advances	256	307	322	338	355
Total Non-current Assets	**1,777**	**1,925**	**2,090**	**2,299**	**2,556**
Debtors	28	63	74	90	105
Other Current Assets	878	862	910	1,101	1,288
Cash & Equivalents	16,011	16,814	17,006	17,801	18,683
Total Current Assets	**16,918**	**17,738**	**17,990**	**18,992**	**20,077**
Trading margin from members	2,149	2,789	2,886	3,485	4,105
Other Current Liabilities & Provns	796	853	963	1,079	1,209
Total Current Liabilities	**2,945**	**3,642**	**3,850**	**4,564**	**5,314**
Net Current Assets	13,973	14,096	14,141	14,428	14,763
TOTAL APPLICATION OF FUNDS	**15,750**	**16,021**	**16,231**	**16,727**	**17,319**

Source: Company, HDFC sec Inst Research

Cash Flow (Consolidated)

YE March (Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
Reported PBT	1,721	1,472	1,537	2,221	2,648
Non-operating & EO items	(1,169)	(920)	(728)	(982)	(1,016)
Interest expenses	2	0	0	0	0
Depreciation	186	167	152	172	187
Working Capital Change	(557)	617	133	491	531
Tax Paid	(512)	(388)	(272)	(555)	(662)
OPERATING CASH FLOW (a)	**(328)**	**947**	**822**	**1,348**	**1,689**
Capex	(306)	(263)	(302)	(365)	(427)
Free cash flow (FCF)	*(634)*	*684*	*520*	*983*	*1,261*
Investments	0	0	0	0	0
Non-operating Income	1,169	920	728	982	1,016
INVESTING CASH FLOW (b)	**863**	**657**	**426**	**616**	**589**
Debt Issuance/(Repaid)	0	0	0	0	0
Interest Expenses	(2)	(0)	(0)	(0)	(0)
FCFE	*(636)*	*684*	*519*	*982*	*1,261*
Share Capital Issuance	0	0	0	0	0
Dividend	(892)	(1,014)	(1,055)	(1,169)	(1,394)
FINANCING CASH FLOW (c)	**(894)**	**(1,015)**	**(1,055)**	**(1,170)**	**(1,395)**
NET CASH FLOW (a+b+c)	**(359)**	**590**	**192**	**795**	**883**
EO Items, Others	195	213	0	0	0
Closing Cash & Equivalents	**16,011**	**16,814**	**17,006**	**17,801**	**18,683**

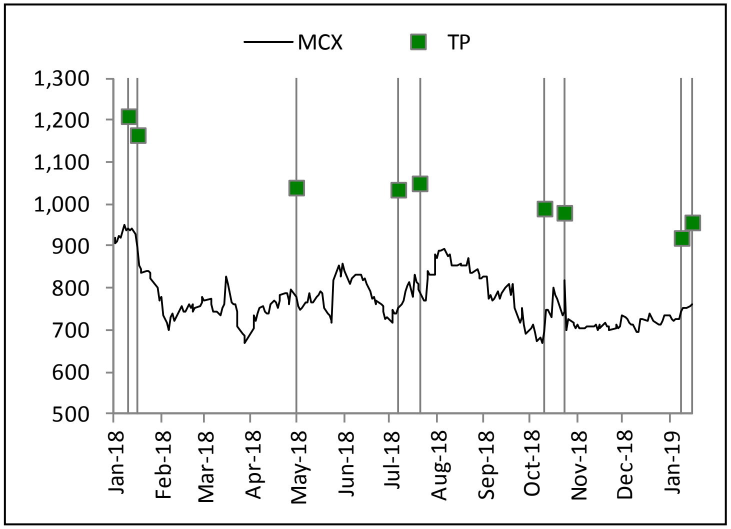
Source: Company, HDFC sec Inst Research

Key Ratios (Consolidated)

	FY17	FY18	FY19E	FY20E	FY21E
PROFITABILITY (%)					
GPM	81.5	81.0	79.5	80.8	81.4
EBITDA Margin	29.2	27.7	31.8	38.6	42.6
APAT Margin	47.7	41.7	49.8	45.6	46.5
RoE	9.1	7.9	10.8	11.8	13.6
RoIC (or Core RoCE)	19.6	19.8	33.7	45.5	62.3
RoCE	6.5	5.7	7.6	8.1	9.0
EFFICIENCY					
Tax Rate (%)	29.7	26.4	17.7	25.0	25.0
Fixed Asset Turnover (x)	0.1	0.1	0.2	0.2	0.2
Debtors (days)	*4*	*9*	*9*	*9*	*9*
Other Current Assets (days)	*126*	*121*	*110*	*110*	*110*
Other Current Liab & Provns (days)	*252*	*260*	*262*	*266*	*270*
Cash Conversion Cycle (days)	*-121*	*-130*	*-143*	*-147*	*-151*
Debt/EBITDA (x)	-13	-14	-10	-7	-6
Net D/E (x)	-1	-1	-1	-1	-1
Interest Coverage (x)	NM	NM	NM	NM	NM
PER SHARE DATA (Rs)					
EPS	23.8	21.3	29.6	32.8	39.1
CEPS	27.4	24.6	32.5	36.1	42.7
Dividend	15.0	17.0	17.7	19.7	23.4
Book Value	267.9	271.5	273.8	281.7	291.4
VALUATION					
P/E (x)	32.1	35.8	25.8	23.3	19.5
P/BV (x)	2.8	2.8	2.8	2.7	2.6
EV/EBITDA (x)	39.6	40.4	30.1	20.4	15.7
OCF/EV (%)	(1.1)	3.3	2.8	4.7	5.9
FCF/EV (%)	(2.2)	2.4	1.8	3.4	4.4
FCFE/Mkt Cap (%)	0.1	0.4	0.3	0.5	0.6
Dividend Yield (%)	2.0	2.2	2.3	2.6	3.1

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
10-Jan-18	939	BUY	1,210
17-Jan-18	896	BUY	1,165
30-Apr-18	779	BUY	1,040
6-Jul-18	754	BUY	1,035
23-Jul-18	798	BUY	1,050
10-Oct-18	697	BUY	990
24-Oct-18	742	BUY	980
8-Jan-19	743	BUY	920
16-Jan-19	763	BUY	957

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

Disclosure:

We, **Amit Chandra, MBA, Apurva Prasad, MBA & Akshay Ramnani, CA**, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. HSL has no material adverse disciplinary history as on the date of publication of this report. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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Any holding in stock –No

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