Multi Commodity Exchange

BUY

Growing steadily

We maintain BUY on MCX based on in-line 1QFY20. The company has maintained market share despite increasing competition. Embedded non-linearity and cost control is leading to margin expansion. Regulatory tailwinds will boost volumes further. We assign 30x to core FY21E PAT and add net cash to arrive at SoTP of Rs 962 (13% upside).

HIGHLIGHTS OF THE QUARTER

- Revenue was up 0.4/9.0% QoQ/YoY to Rs 0.80bn (in-line with est. of Rs 0.79bn), led by 0.2/9.3% QoQ/YoY increase in volume. Realisations declined 0.5/1.8% QoQ/YoY. Volume recovery was strong in FY19 (+22.5%). We expect growth to continue fueled by regulatory tailwinds and increasing retail participation.
- MCX's market share remained stable at 91%. It's difficult to shift volume from existing exchange only based on pricing, depth and impact cost is an important factor for participants.
- ADTV was up 1.8/12.8% QoQ/YoY to Rs 274.73bn. Recovery in Bullion/Energy is driving growth (+10.9/10.7% QoQ) offset by 16.2% QoQ decline in Metals (impacted by physical delivery). Bullion volume is still ~25% down from pre demonitisation level.
- EBITDA margin was better than expected at 34.9%, +305bps QoQ led by lower royalties to LME, cost control and absence of one-offs. Margin expansion of ~760bps over the past two quarters is encouraging.
- Progress on institutional participation and Indices is slow but the opportunity is big. Options volume is now 2.3% of futures volume and the MCX will start charging for options trading only from FY21.

STANCE: Volume levers on track, regulatory support

Regulatory tailwinds like Institutional participation, Indices and tie-up with Retail bank subsidiaries will boost trading volumes by ~10% and increase depth in the long run. Globally Institutional clients account for ~50% of the total derivatives volumes. We continue to remain constructive on the long-term growth opportunities, concerns on increase in competition and pricing pressure is gradually subsiding. The market is expanding with entry of new market participants and products. We estimate revenue/PAT CAGR of 18/15% over FY19-21E.

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 13bn (~30% of Mcap). Risks include regulatory delays and increase in competition.

Financial Summary

YE March (Rs mn)	1QFY20	1QFY19	*YoY (%)*	4QFY19	*QoQ (%)*	FY17	FY18	FY19	FY20E	FY21E
Net Revenues	795	729	*9.0*	791	*0.4*	2,539	2,598	3,000	3,413	4,178
EBITDA	277	249	*11.2*	252	*10.0*	740	719	940	1,214	1,756
APAT	437	311	*40.4*	412	*6.0*	1,210	1,084	1,502	1,553	1,999
Diluted EPS (Rs)	8.6	6.1	*40.4*	8.1	*6.0*	23.8	21.3	29.5	30.5	39.3
P/E (x)						36.2	40.4	29.1	28.2	21.9
EV / EBITDA (x)						46.3	47.3	37.0	28.4	19.5
RoE (%)						9.1	7.9	11.4	12.3	15.4

Source: Company, HDFC sec Inst Research # Consolidated

INDUSTRY	EXCHANGES
CMP *(as on 17 Jul 2019)*	**Rs 854**
Target Price	**Rs 962**
Nifty	11,688
Sensex	39,216
KEY STOCK DATA	
Bloomberg	MCX IN
No. of Shares (mn)	51
MCap (Rs bn) / ($ mn)	44/632
6m avg traded value (Rs mn)	312
STOCK PERFORMANCE (%)	
52 Week high / low	**Rs 918/644**

	3M	6M	12M
Absolute (%)	5.7	13.8	3.0
Relative (%)	5.8	6.0	(4.4)

SHAREHOLDING PATTERN (%)

	Mar-19	June-19
Promoters	0.00	0.00
FIs & Local MFs	40.02	40.02
FPIs	30.2	30.2
Public & Others	29.78	29.78
Pledged Shares	0.00	0.00

Source : BSE

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Total volume stood at Rs 17.3t, +0.2/9.3% QoQ/YoY. Realisation declined to Rs 21.5/mn due to increase in high volume transaction

EBITDA margins expanded 305bps QoQ led by lower software services cost (absence of royalty paid to LME) and lower other expenses

Cost control remains top priority, fixed cost is expected to increase by only ~4-5% for the full year

APAT stood at Rs 0.44bn down +6.0% QoQ (vs. our est of Rs 0.40bn)

ETR will come down by ~200bps due to the corporate tax rate cut announced in budget

Quarterly Financials Snapshot

Rs mn	1QFY20	1QFY19	YoY (%)	4QFY19	QoQ (%)
Operating income	**795**	**729**	***9.0***	**791**	***0.4***
Software service expenses	158	139	*14.0*	167	*(4.9)*
Employee Expenses	188	186	*1.2*	188	*(0.1)*
Computer & Tech exp	51	51	*0.0*	46	*11.6*
Other Operating Expenses	120	104	*15.5*	140	*(13.7)*
EBITDA	**277**	**249**	***11.2***	**252**	***10.0***
Depreciation	40	37	*10.1*	41	*(2.4)*
EBIT	**237**	**213**	***11.4***	**211**	***12.4***
Interest Cost	1	0	*NM*	0	*NM*
Other Income (including ex-ordinary)	314	-112	*NM*	514	*(38.9)*
PBT	**550**	**100**	***449.1***	**725**	***(24.1)***
Tax	114	27	*324.3*	117	*(2.9)*
Share of profit from Associates	1	0	*NM*	2	*(47.6)*
RPAT	**437**	**73**	***496.2***	**610**	***(28.3)***
E/o gains (adj for tax)	0	-238	*NM*	197	*NM*
APAT	**437**	**311**	***40.4***	**412**	***6.0***

Source: Company, HDFC Sec Inst Research

Margin Analysis

MARGIN ANALYSIS	1QFY20	1QFY19	YoY (bps)	4QFY19	QoQ (bps)
Software service expenses % of Net Sales	19.9	19.1	*86*	21.0	*(111)*
Employee Expenses % of Net Sales	23.6	25.5	*(182)*	23.7	*(11)*
Computer & Tech exp % of Net Sales	6.4	7.0	*(58)*	5.8	*64*
Other Operating Expenses % of Net Sales	15.2	14.3	*85*	17.6	*(247)*
EBITDA Margin (%)	34.9	34.2	*68*	31.8	*305*
EBIT Margin (%)	29.8	29.2	*63*	26.6	*319*
Tax Rate (%)	20.7	26.8	*(609)*	16.2	*452*
APAT Margin (%)	55.0	42.7	*1228*	52.1	*293*

Source: Company, HDFC Sec Inst Research

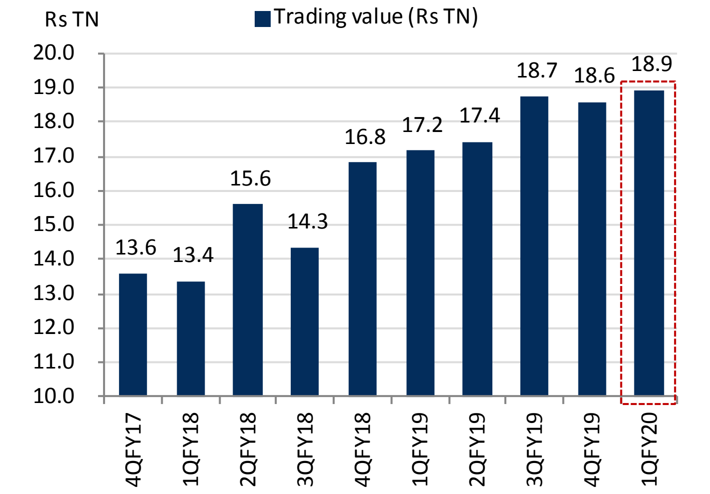
Value of India's exchange traded commodity derivatives (ETCD) was up 1.8/10.3% QoQ/YoY to Rs 18.9tn

Bullion has recovered strongly in the last four quarters (+7.7% 4Qtr CQGR). It's still ~25% lower than the pre-demonetisation level

Bullion OI stood at 26tonns which reflects strong recovery in volumes

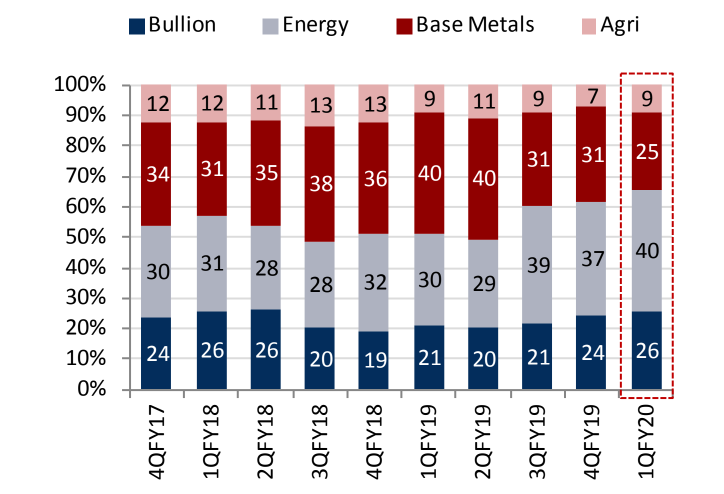
Market share remains above 90% despite increase in competition

India's Exchange Traded Commodity Derivatives (ETCD)



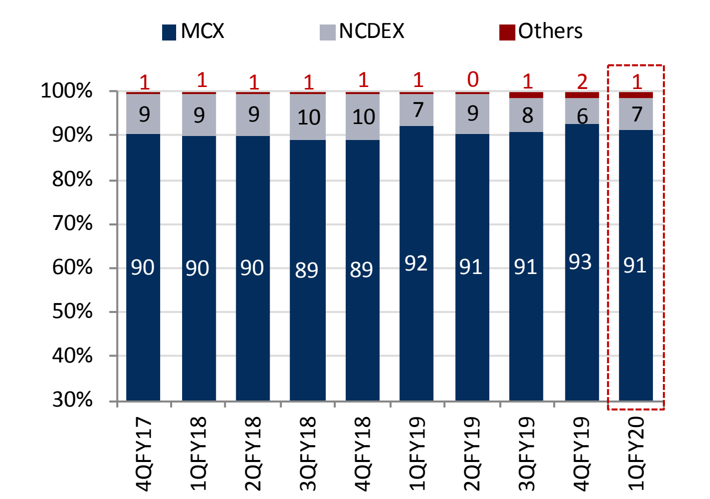
Source: Company, Industry, HDFC sec Inst Research

Composition Of India's ETCD



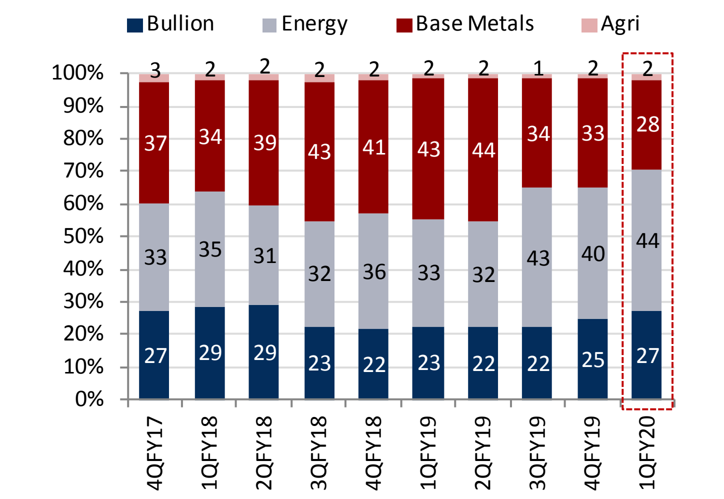
Source: Company, Industry, HDFC sec Inst Research

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

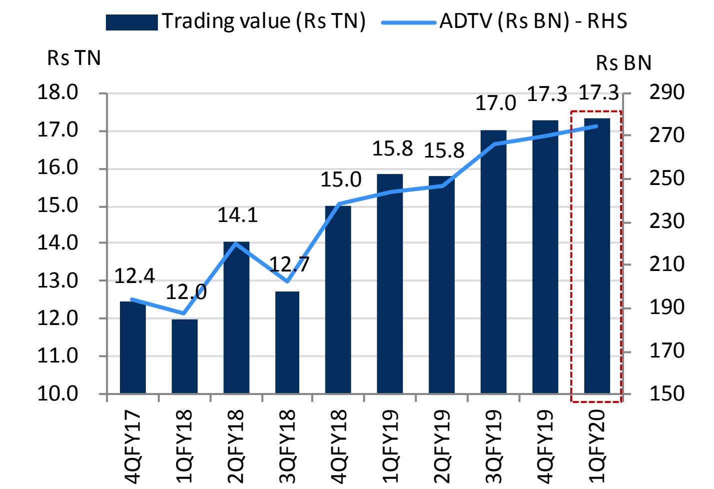
Total no of contracts traded was down 0.5% QoQ while average contract value increased 0.7% QoQ to Rs 0.24mn

Bullion/Energy ADTV was up 30.2/45.9% YoY offset by fall in Metals (-29.9% YoY)

Shift towards physical delivery settlement in metals impacted volumes. Most of the contracts are now physically settled and thus will not impact volumes hearon. The volumes will rise gradually when traders get used to the new system

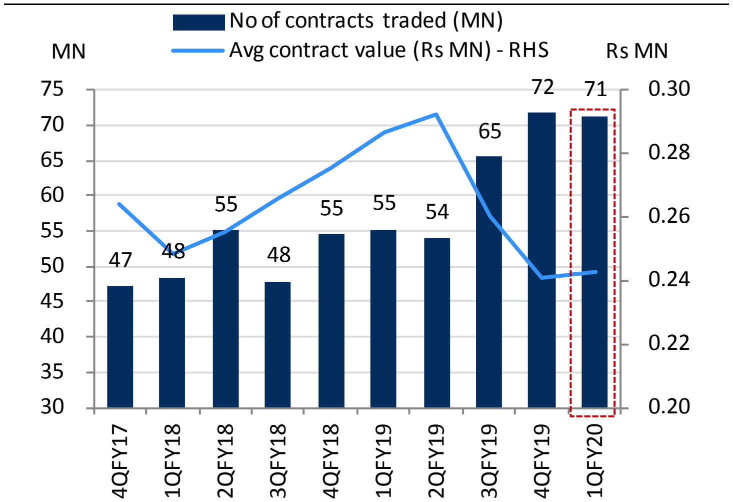
Crude oil, Zinc, Gold, Silver and Copper remain the top five traded commodity on MCX

MCX: Quarterly Trading Value Analysis



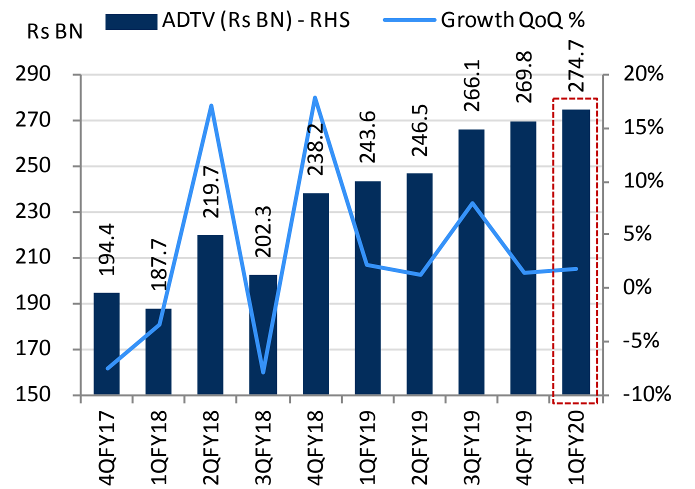
Source: Company, Industry, HDFC sec Inst Research

MCX: Detailed KPIs Of Contracts Traded



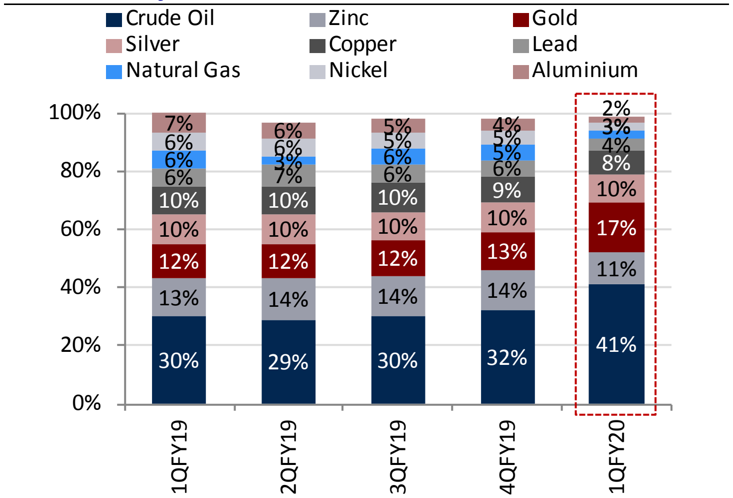
Source: Company, Industry, HDFC sec Inst Research

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)	1QFY20	1QFY19	*YoY %*	4QFY19	*QoQ %*	FY19	FY18	*YoY %*
Bullion	74.14	55.19	*34.3*	66.84	*10.9*	58.90	53.69	*9.7*
Energy	120.14	79.82	*50.5*	108.53	*10.7*	95.36	70.58	*35.1*
Metals	75.73	104.64	*(27.6)*	90.35	*(16.2)*	98.27	83.17	*18.2*
Agri & others	4.72	3.96	*19.2*	4.09	*15.3*	3.94	4.49	*(12.3)*
Total	**274.73**	**243.60**	***12.8***	**269.81**	***1.8***	**256.48**	**211.93**	***21.0***

Source: Company, Industry, HDFC sec Inst Research

ADTV Composition

% ADTV Contribution	1QFY20	1QFY19	*YoY (bps)*	4QFY19	*QoQ (bps)*	FY19	FY18	*YoY (bps)*
Bullion	27.0	22.7	*433*	24.8	*221*	23.0	25.3	*(237)*
Energy	43.7	32.8	*1096*	40.2	*350*	37.2	33.3	*388*
Metals	27.6	43.0	*(1539)*	33.5	*(592)*	38.3	39.2	*(93)*
Agri & others	1.7	1.6	*9*	1.5	*20*	1.5	2.1	*(58)*
Total	**100.0**	**100.0**		**100.0**		**100.0**	**100.0**	

Source: Company, Industry, HDFC sec Inst Research

Key KPIs

MCX Key KPIs	1QFY20	1QFY19	*YoY %*	4QFY19	*QoQ %*	FY19	FY18	*YoY %*
Total Turnover (Rs TN)	17.3	15.8	*9.3*	17.3	*0.2*	65.9	53.8	*22.4*
MCX Market share (%)	91.3%	92.3%	*(1.0)*	92.9%	*(1.7)*	91.6%	89.6%	*2.3*
ADTV (Rs bn/day)	274.73	244	*12.8*	269.81	*1.8*	256	212	*21.0*
Transaction charges Rs/mn (single side)	21.5	21.9	*(1.8)*	21.6	*(0.5)*	2.17	2.24	*(3.2)*

Source: Company, Industry, HDFC sec Inst Research

Valuation

- We expect MCX to post 37% EBITDA CAGR, driven by revenue CAGR of 18% and EBITDA margin expansion (42.0% in FY21E vs 31.3% in FY19) for FY19-21E. Considering the asset-light nature of the business, we expect RoE to expand to 15.4% in FY21E vs 11.4% in FY19. MCX currently trades at 28.2x FY20E and 21.9x FY21E EPS (implying PEG 1.8x).

- The stock has outperformed in the last three months (+15%) due receding concerns related to increase in competition, regulatory approvals. Volume uptick in BSE & NSE is slow and volume in MCX has risen in FY19 (post launch of commodity trading by NSE and BSE). 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 and (2) Return of volatility in commodities globally. Regulatory tailwinds include developments like (1) Approval of institutional participation, (2) Launch of Indices, and (3) Tie-up with retail bank subsidiaries. We maintain our BUY rating with a SoTP of Rs 962, implying a P/E of 30x FY21 core PAT and adding net cash.

MCX SOTP Valuation

Core PAT FY21E (Rs mn)	1,197
30X FY21E Core PAT (Rs mn)	35,924
Add: Net Cash (Rsmn)	12,987
Mcap (Rs mn)	48,911
TP (Rs)	**962**
Upside (%)	11%

Change In Estimates

Particulars	Earlier estimates	Revised estimates	*% change*
FY20E			
Revenue (Rs mn)	3,417	3,413	*(0.1)*
EBITDA (Rs mn)	1,201	1,214	*1.1*
EBITDA margin (%)	*35.2%*	*35.6%*	*42bps*
APAT (Rs mn)	1,533	1,553	*1.3*
FY21E			
Revenue (Rs mn)	4,146	4,178	*0.8*
EBITDA (Rs mn)	1,709	1,756	*2.8*
EBITDA margin (%)	*41.2%*	*42.0%*	*82bps*
APAT (Rs mn)	1,912	1,999	*4.5*

Source: Company, HDFC sec Inst Research

ADTV And Realisation Assumptions

Rs bn	FY16	FY17	FY18	FY19	FY20E	FY21E
Futures ADTV	219.28	225.73	211.10	256.48	298.20	364.63
YoY %	7.9%	2.9%	-6.5%	21.5%	16.3%	22.3%
Options ADTV			0.41	7.04	8.56	17.74
YoY %				1634.6%	21.5%	107.4%
Total ADTV	219.28	225.73	211.50	263.52	306.75	382.37
YoY %	7.9%	2.9%	-6.3%	24.6%	16.4%	24.7%
Realization Of Futures (Rs/mn)	19.1	20.3	22.4	21.7	21.6	21.6
YoY %	-2.8%	6.5%	10.4%	-3.2%	-0.6%	0.1%
Realization Of Options (Rs/mn)			0.0	0.0	0.0	4.3
YoY %				NM	NM	NM
Blended Realization (Rs/mn)	18.1	20.3	22.4	21.1	21.0	20.8
YoY %	-1.6%	12.0%	10.1%	-5.6%	-0.7%	-0.8%

Source: Company, HDFC sec Inst Research

Peer Set Comparison

Company	M-Cap (Rs bn)	Rating	CMP (Rs)	TP (Rs)	P/E (x)				Dividend Yield (%)				RoE (%)			
					FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E
MCX	**43.8**	**BUY**	**854**	**962**	**40.4**	**29.1**	**28.2**	**21.9**	**2.0**	**2.1**	**2.1**	**2.7**	**7.9**	**11.4**	**12.3**	**15.4**
BSE	30.1	BUY	581	765	10.9	12.6	13.2	11.5	6.2	5.2	5.0	5.5	7.8	7.1	8.0	9.0
CDSL	21.6	BUY	207	335	21.0	19.1	17.7	15.9	1.7	2.0	2.1	2.4	17.2	17.0	16.7	16.8

Source: HDFC sec Inst Research

Income Statement (Consolidated)

YE March (Rs mn)	FY17	FY18	FY19	FY20E	FY21E
Net Revenues (Rs mn)	**2,539**	**2,598**	**3,000**	**3,413**	**4,178**
Growth (%)	***8.1***	***2.4***	***15.5***	***13.8***	***22.4***
Software support charges	471	494	614	650	761
Employee Expenses	644	682	725	760	800
Tech & SG&A Expenses	201	229	205	216	231
Other Operating Expenses	483	474	517	573	630
EBITDA	**740**	**719**	**940**	**1,214**	**1,756**
EBITDA Margin (%)	***29.2***	***27.7***	***31.3***	***35.6***	***42.0***
EBITDA Growth (%)	***(1.7)***	***(2.9)***	***30.7***	***29.3***	***44.6***
Depreciation	186	167	154	166	181
EBIT	**554**	**552**	**785**	**1,048**	**1,576**
Other Income (Including EO Items)	1,169	920	945	990	1,049
Interest	2	0	0	0	0
PBT	**1,721**	**1,472**	**1,730**	**2,038**	**2,624**
Tax (Incl Deferred)	512	388	272	489	630
Minority Interest & Associate profit	0	0	4.3	4.3	4.3
RPAT	**1,210**	**1,084**	**1,462**	**1,553**	**1,999**
EO (Loss) / Profit (Net Of Tax)	0	0	-41	0	0
APAT	**1,210**	**1,084**	**1,502**	**1,553**	**1,999**
APAT Growth (%)	***(4.0)***	***(10.4)***	***38.6***	***3.4***	***28.7***
Core PAT (ex other income)	**390**	**406**	**661**	**797**	**1,197**
Core PAT Growth (%)	***6.9***	***4.3***	***62.8***	***20.5***	***50.3***
Adjusted EPS (Rs)	**23.8**	**21.3**	**29.5**	**30.5**	**39.3**
EPS Growth (%)	***(4.0)***	***(10.4)***	***38.6***	***3.4***	***28.7***

Source: Company, HDFC sec Inst Research

Balance Sheet (Consolidated)

YE March (Rs mn)	FY17	FY18	FY19	FY20E	FY21E
SOURCES OF FUNDS					
Share Capital - Equity	510	510	510	510	510
Reserves	13,114	13,295	11,999	12,297	12,719
Total Shareholders' Funds	**13,624**	**13,805**	**12,509**	**12,807**	**13,229**
Settlement guarantee fund	1,705	1806	3,298	3,463	3,636
Total Debt	**0**	**0**	**0**	**0**	**0**
Net Deferred Taxes (Net)	76	172	14	14	14
Long Term Provisions & Others	345	238	401	401	401
TOTAL SOURCES OF FUNDS	**15,750**	**16,021**	**16,221**	**16,684**	**17,280**
APPLICATION OF FUNDS					
Net Block	1,518	1,562	1,580	1,755	1,993
CWIP	4	55	190	190	190
Investments	0	0	123	123	123
LT Loans & Advances	256	307	548	575	604
Total Non-current Assets	**1,777**	**1,925**	**2,440**	**2,643**	**2,909**
Debtors	28	63	60	84	103
Other Current Assets	878	862	945	1,029	1,259
Cash & Equivalents	16,011	16,814	17,300	18,055	19,213
Total Current Assets	**906**	**925**	**1,006**	**1113**	**1,362**
Trading margin from members	2,149	2,789	3,510	3,990	4,932
Other Current Liabilities & Provns	796	853	1,015	1,137	1,273
Total Current Liabilities	**2,945**	**3,642**	**4,524**	**5,126**	**6,205**
Net Current Assets	**(2,039)**	**(2,717)**	**(3,519)**	**(4,014)**	**(4,843)**
TOTAL APPLICATION OF FUNDS	**15,750**	**16,021**	**16,221**	**16,684**	**17,280**

Source: Company, HDFC sec Inst Research

Cash Flow (Consolidated)

YE March (Rs mn)	FY17	FY18	FY19	FY20E	FY21E
Reported PBT	1,721	1,472	1,730	2,038	2,624
Non-operating & EO items	(1,169)	(920)	(945)	(990)	(1,049)
Interest expenses	2	0	0	0	0
Depreciation	186	167	154	166	181
Working Capital Change	(557)	617	565	472	804
Tax Paid	(512)	(388)	(272)	(489)	(630)
OPERATING CASH FLOW (a)	**(328)**	**947**	**1,232**	**1,197**	**1,931**
Capex	(306)	(263)	(306)	(341)	(418)
Free cash flow (FCF)	(634)	684	926	856	1,513
Investments	0	0	0	0	0
Non-operating Income	1,169	920	945	990	1,049
INVESTING CASH FLOW (b)	**863**	**657**	**639**	**648**	**632**
Debt Issuance/(Repaid)	0	0	0	0	0
Interest Expenses	(2)	(0)	(0)	(0)	(0)
FCFE	(636)	684	925	855	1,513
Share Capital Issuance	0	0	0	0	0
Dividend	(892)	(1,014)	(1,055)	(1,090)	(1,403)
FINANCING CASH FLOW (c)	**(894)**	**(1,015)**	**(1,055)**	**(1,090)**	**(1,404)**
NET CASH FLOW (a+b+c)	**(359)**	**590**	**816**	**755**	**1,159**
EO Items, Others	195	213	(330)	0	0
Closing Cash & Equivalents	**16,011**	**16,814**	**17,300**	**18,055**	**19,213**

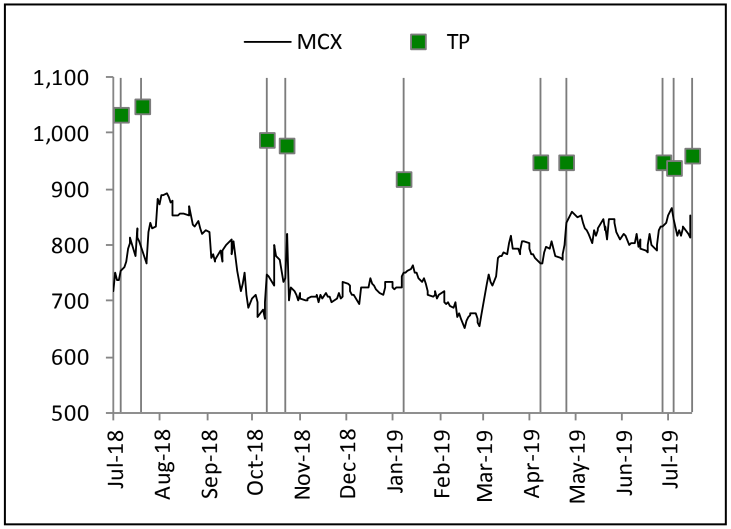
Source: Company, HDFC sec Inst Research

Key Ratios (Consolidated)

	FY17	FY18	FY19E	FY20E	FY21E
PROFITABILITY (%)					
GPM	81.5	81.0	79.6	80.9	81.8
EBITDA Margin	29.2	27.7	31.3	35.6	42.0
APAT Margin	47.7	41.7	50.1	45.5	47.8
RoE	9.1	7.9	11.4	12.3	15.4
RoIC (or Core RoCE)	19.6	19.8	25.9	24.7	38.6
RoCE	6.5	5.7	7.4	7.3	8.8
EFFICIENCY					
Tax Rate (%)	29.7	26.4	15.7	24.0	24.0
Fixed Asset Turnover (x)	0.1	0.1	0.1	0.2	0.2
Debtors (days)	*4*	*9*	*7*	*9*	*9*
Other Current Assets (days)	*126*	*121*	*115*	*110*	*110*
Other Current Liab & Provns (days)	*252*	*260*	*277*	*288*	*286*
Cash Conversion Cycle (days)	*-121*	*-130*	*-155*	*-169*	*-167*
Debt/EBITDA (x)	-13	-14	-10	-8	-5
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	29.5	30.5	39.3
CEPS	27.4	24.6	32.6	33.8	42.9
Dividend	15.0	17.0	17.7	18.3	23.6
Book Value	267.9	271.5	246.0	251.9	260.2
VALUATION					
P/E (x)	36.2	40.4	29.1	28.2	21.9
P/BV (x)	3.2	3.2	3.5	3.4	3.3
EV/EBITDA (x)	46.3	47.3	37.0	28.4	19.5
OCF/EV (%)	(1.0)	2.8	3.5	3.5	5.6
FCF/EV (%)	(1.8)	2.0	2.7	2.5	4.4
FCFE/Mkt Cap (%)	0.1	0.4	0.4	0.4	0.6
Dividend Yield (%)	1.7	2.0	2.1	2.1	2.7

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
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
9-Apr-19	771	BUY	950
26-Apr-19	784	BUY	950
28-Jun-19	833	BUY	950
5-Jul-19	848	BUY	940
18-Jul-19	854	BUY	962

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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Disclosure:

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