

Estimate change



TP change

Rating change



Bloomberg	MCX IN
Equity Shares (m)	51
M.Cap.(INRb)/(USDb)	66.4 / 0.9
52-Week Range (INR)	1442 / 779
1, 6, 12 Rel. Per (%)	23/29/77
12M Avg Val (INR M)	703

Financials & Valuations (INR b)

Y/E Mar	2020	2021E	2022E
Sales	3.7	4.4	5.4
EBIT Margin (%)	36.5	40.1	45.1
PAT	2.4	2.3	3.0
EPS (INR)	46.4	45.4	59.7
EPS Gr. (%)	61.9	-2.1	31.4
BV/Sh. (INR)	266.6	289.8	320.2

Ratios

RoE (%)	18.1	16.3	19.6
RoCE (%)	17.5	15.8	18.9
Payout (%)	78.2	66.6	50.7

Valuations

P/E (x)	28.1	28.7	21.8
P/BV (x)	4.9	4.5	4.1
EV/EBITDA (x)	34.1	29.5	21.0
Div Yield (%)	2.8	2.3	2.3

Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	0.0	0.0	0.0
DII	39.3	35.6	40.0
FII	32.8	34.1	30.5
Others	27.9	30.3	29.5

FII Includes depository receipts

CMP: INR1,302
TP: INR1,510 (+16%)
Buy

Precious metals to drive volumes

Largely in-line results; Stable outlook

- Despite weak volumes over the last week of 4QFY20, MCX has reported strong revenue growth (+33% YoY). Adjusted for one-off expenses, EBIT margin was largely in line with our estimates. Normalization of market hours translated into incipient signs of recovery in traded value for May'20, largely led by gold (+69% YoY) and silver (+121% YoY).
- Cues from the GFC period hint at increased interest in precious metals over a 2-3 year period following any crisis or market volatility. The COVID-19 led slowdown in global growth, soft interest rates and liquidity injections should be the key factors driving interest in gold/silver this time. Normalization of margin requirements in the crude segment is likely to drive continued volume growth.
- We upgrade our EPS estimates over FY21-22E by 3-6% as we adjust our EBITDA margin trajectory. We continue to like MCX for its near monopoly in the commodity exchanges' segment in India. Over the course of its listed history, one-year forward P/E multiples averaged ~25x. Our target price implies 25x FY22E EPS. Reiterate **Buy**.

Margin miss largely led by one-off expenses

- In 4QFY20, MCX's revenue/EBIT/PAT grew 33%/66%/8% YoY (v/s est. 44%/142%/11% YoY).
- Revenue growth (33% YoY) was strong despite the fizzling out of volumes over the last week of Mar'20 on news of reduction in the number of trading hours. This was led by 121%/134%/60% YoY growth in traded value of gold/silver/crude. Note that despite the sharp volatility in crude prices and increase in margin requirements, crude reported a sharp increase in traded value for the full quarter. Total traded value of all commodities for the quarter was up 44% YoY.
- Barring Nickel (118% YoY), base metals continued to drag the overall increase in traded value. Aluminum (-79% YoY), Zinc (-78% YoY), Lead (-82% YoY) and Copper (-27% YoY) reported sharp decline in traded value due to change in the nature of delivery contract.
- EBIT margin for the quarter (33% v/s est. 45%) was lower than expectations. This was partly driven by one-off expenses – (a) variable pay-outs to employees, (b) contribution to SGF, (c) PM Cares fund donation, and (d) advertisement expenses.
- Despite lower-than-expected EBIT margins, PAT was largely in line due to the MAT adjustment and resultant lower-than-expected ETR.

Key highlights from management commentary

- Management indicated that crude volumes remain dented as the sentiment of participants was impacted due to (a) negative price settlement issue, and (b) increase in margin requirement. As volatility reverts to manageable level, company is optimistic about the reduction in margin requirement and improvement in market participation.

- Company has hinted at lockdown impact on its warehouse operations. As the lockdowns eased, it is indicated that operations/delivery are now reverting to normal. Even as the change in contract specifications continued to impact volumes, management sees huge potential in base metals.
- While the visibility of revenue growth in FY21 is not very strong, management has indicated that tight control on costs had already begun. The company has decided not to give salary increments beyond a certain level. It is negotiating with vendors also on different cost rationalization initiatives.

Valuation and view – To be a key beneficiary of global market volatility

- Shortening of market hours during Apr'20 and negative sentiment due to issues related to crude futures' settlement impacted Apr'20 volumes significantly. Barring gold (+26% YoY), traded value across commodities witnessed sharp declines resulting in ~46% reduction in overall traded value. During May, while traded value across Gold (+69% YoY), Silver (+121% YoY) and Nickel (+62% YoY) recovered, Crude (-78% YoY) and base metals continued to drag the overall traded value (-20% YoY).
- We upgrade our EPS estimates over FY21-22E by 3-6% as we adjust our EBITDA margin trajectory. We continue to like the company for its near monopoly in the commodity exchanges' segment in India. Over the course of its listed history, one-year forward P/E multiples averaged ~25x. Our target price implies 25x FY22E EPS. Reiterate **Buy**.

MCX Quarterly Performance

	FY19				FY20				FY19		FY20		
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				Est. 4Q	Var. (%/bp)
Sales	729	711	769	791	795	1,002	893	1,053	3,000	3,742		1,140	(7.7)
Q-o-Q Gr. (%)	3.2	-2.4	8.2	2.9	0.4	26.1	-10.9	17.9	16.3	24.7		27.7	-978bp
Staff Costs	186	174	177	188	188	195	178	213	725	773		194	9.9
Other expenses	294	312	383	352	330	334	323	433	1,336	1,420		393	10.2
Depreciation	37	38	38	41	40	42	43	56	154	182		43	30.7
EBIT	213	187	171	211	237	430	349	351	785	1,367		511	(31.2)
Margins (%)	29.2	26.3	22.2	26.6	29.8	43.0	39.1	33.4	26.2	36.5		44.8	-1144bp
Interest Costs	0	0	0	0	0	0	0	2	0	2		0	
Other Income	126	222	322	317	314	444	235	297	986	1,289		290	2.2
PBT bef. Exceptional items	338	408	493	527	551	874	584	646	1,771	2,654		801	(19.3)
Tax	27	53	75	-80	114	154	31	-9	75	289		128	(107.2)
Rate (%)	7.9	13.1	15.3	-15.2	20.7	17.6	5.2	-1.4	4.2	10.9		16.0	-1742bp
PAT	73	359	418	607	437	720	553	655	1,458	2,366		673	(2.6)
Q-o-Q Gr. (%)	-78.4	390.2	16.3	45.4	-28.1	64.9	-23.2	18.5	34.8	61.8		21.6	
EPS (INR)	1.4	7.0	8.2	12.0	8.6	14.1	10.9	12.8	28.6	46.4		13.2	(2.6)
Total volumes (INR t)	16.2	16.6	17.4	17.6	17.7	23.2	20.6	25.4	67.7	86.9		24.8	
Q-o-Q Gr. (%)	7.6	2.2	5.1	1.2	0.7	31.0	-11.2	23.2				20.3	
Y-o-Y Gr. (%)	34.7	17.7	35.7	17.0	9.4	40.2	18.5	44.3	25.6	28.3		40.9	

Key Perfor. Indicators

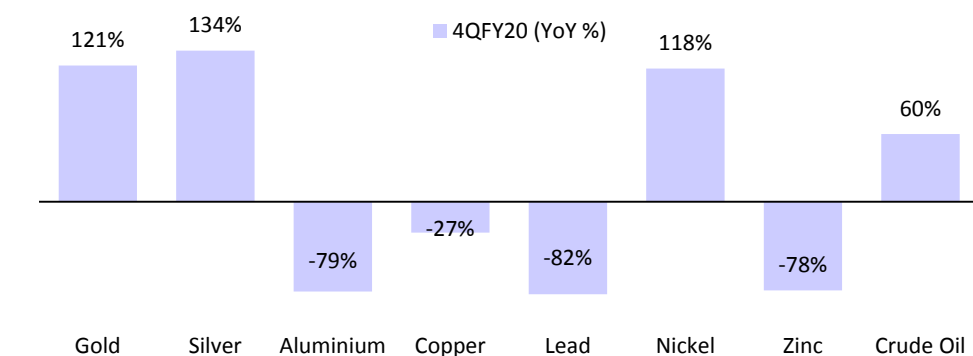
Y/E March	FY19				FY20				FY19	FY20
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
ADT (INR b)	259	259	272	275	281	357	322	397	271	348
Volumes (INR t)										
Gold	1.9	2.5	2.3	2.9	2.3	5.7	4.0	6.5	9.7	18.4
Silver	1.6	1.6	1.6	1.5	1.7	3.3	2.9	3.6	6.5	11.5
Crude Oil	4.7	4.7	5.6	6.3	6.2	8.8	8.5	10.1	21.3	33.7
Volumes (YoY %)										
Gold	2%	15%	53%	59%	18%	131%	71%	121%	31%	91%
Silver	6%	-15%	20%	4%	5%	102%	74%	134%	2%	78%
Crude Oil	38%	28%	78%	49%	32%	88%	52%	60%	47%	58%

Management commentary highlights

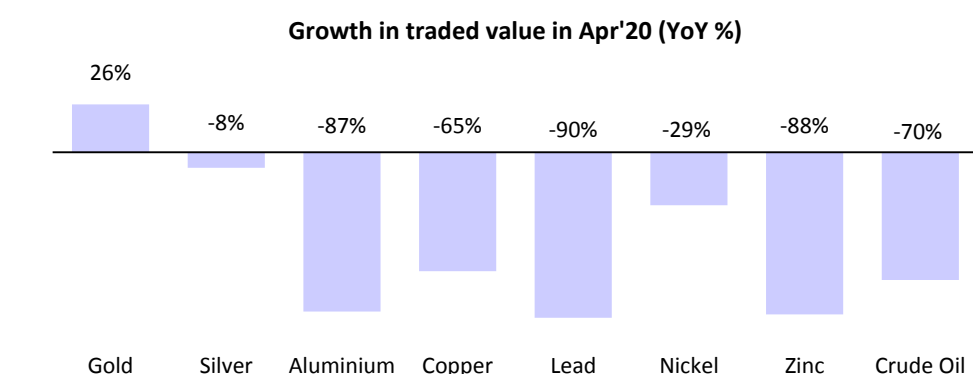
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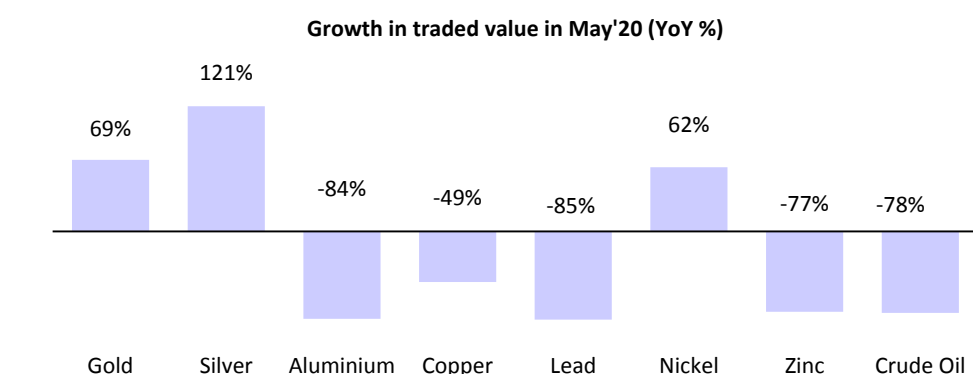
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- Despite lower-than-expected EBIT margins, PAT was largely in line due to the MAT adjustment and resultant lower-than-expected ETR.

Exhibit 1: Increase in Traded value driven by Silver, Gold, Nickel and Crude

Source: Company, MOFSL

Exhibit 2: Barring Gold, other commodities witnessed declines in Apr'20

Source: Company, MOFSL

Exhibit 3: Silver and Nickel witnessed acceleration in traded values in the past month

Source: Company, MOFSL

Valuation view

- Shortening of market hours during Apr'20 and negative sentiment due to issues related to crude futures' settlement impacted Apr'20 volumes significantly. Barring gold (+26% YoY), traded value across commodities witnessed sharp declines resulting in ~46% reduction in overall traded value. During May, while traded value across Gold (+69% YoY), Silver (+121% YoY) and Nickel (+62% YoY) recovered, Crude (-78% YoY) and base metals continued to drag the overall traded value (-20% YoY).

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Exhibit 4: Revision to our estimates

Change in Estimates	Revised		Earlier		Change (%)	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Volumes (INR t)	98	120	98	119	-	1.2
Volume growth (%)	12.8	22.9	13.5	21.4	(0.8)	1.5
Revenue (INR m)	4,352	5,390	4,352	5,142	-	4.8
EBITDA margin (%)	43.5	48.3	42.2	43.8	130bp	440bp
EPS (INR)	45.4	59.7	44.0	56.0	3.1	6.6

Source: MOFSL

Financials and valuations

Income statement								(INR m)
Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Sales	2,225	2,349	2,641	2,580	3,000	3,742	4,352	5,390
Change (%)	(35)	6	12	(2)	16	25	16	24
Cost of Services	733	779	1,071	1,174	1,338	1,463	1,562	1,526
SG&A Expenses	616	804	726	691	723	730	897	1,262
Provisions								
EBITDA	876	766	844	715	940	1,549	1,893	2,602
% of Net Sales	39	33	32	28	31	41	44	48
Depreciation	259	246	186	167	154	182	150	172
Interest	14	0	2	-	-	2	6	6
Other Income	1,098	977	1,164	917	986	1,289	1,022	1,200
EO Item (net)	-	667	-	-	238	-	-	-
PBT	1,701	831	1,821	1,465	1,533	2,654	2,758	3,624
Tax	450	413	512	383	75	289	442	581
Rate (%)	26	50	28	26	5	11	16	16
PAT	1,251	418	1,309	1,081	1,458	2,366	2,316	3,043
Extraordinary								
Net Income	1,251	418	1,309	1,081	1,458	2,366	2,316	3,043
Change (%)	(18)	(67)	213	(17)	35	62	(2)	31

Balance Sheet								(INR m)
Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Share Capital	510	510	510	510	510	510	510	510
Reserves	11,512	11,529	13,078	13,253	11,999	13,084	14,265	15,816
Net Worth	12,022	12,039	13,588	13,763	12,509	13,594	14,775	16,326
SGF	1,871	1,879	1,705	1,806	3,298	4,098	4,098	4,098
Loan & other long term liab.	343	282	420	408	414	546	546	546
Capital Employed	14,236	14,201	15,713	15,977	16,221	18,237	19,418	20,969
Net Block	1,553	1,430	1,633	3,624	3,451	6,094	6,344	6,572
Other LT Assets	281	281	281	281	281	281	281	281
Investments	132	2,230	4,404	5,316	4,839	5,943	5,943	5,943
Curr. Assets	16,278	14,227	12,340	10,393	12,175	15,028	12,167	13,718
Current Investments	12,795	8,511	7,544	8,878	5,824	6,618	6,618	6,618
Debtors	107	42	28	63	60	65	145	182
Cash & Bank Balance	2,655	5,003	3,890	596	5,346	7,593	4,447	5,719
Loans & Advances	456	268	3	3	2	2	14	18
Other Current Assets	265	404	875	854	943	751	942	1,181
Current Liab. & Prov	4,007	3,967	2,945	3,636	4,524	9,109	5,316	5,545
Net Current Assets	12,271	10,260	9,395	6,757	7,651	5,919	6,850	8,173
Application of Funds	14,236	14,201	15,713	15,977	16,221	18,237	19,418	20,969

Financials and valuations

Ratios

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Basic (INR)								
EPS	24.6	23.4	24.8	21.2	28.7	46.4	45.4	59.7
Cash EPS	29.6	13.0	29.3	24.5	31.6	50.0	48.4	63.0
Book Value	235.8	236.1	266.4	269.9	245.3	266.6	289.8	320.2
DPS	10.2	-	15.3	17.3	20.4	30.6	25.5	25.5
Payout %	48.5	-	70.7	97.0	84.6	78.2	66.6	50.7
Valuation (x)								
P/E	53.0	55.8	52.5	61.5	45.4	28.1	28.7	21.8
Cash P/E	44.0	100.1	44.4	53.3	41.2	26.1	26.9	20.7
EV/EBITDA	58.5	69.4	65.6	80.2	59.3	34.1	29.5	21.0
EV/Sales	23.0	22.6	21.0	22.2	18.6	14.1	12.8	10.1
Price/Book Value	5.5	5.5	4.9	4.8	5.3	4.9	4.5	4.1
Dividend Yield (%)	0.9	-	1.4	1.6	1.9	2.8	2.3	2.3
Profitability Ratios (%)								
RoE	10.7	3.5	10.2	7.9	11.1	18.1	16.3	19.6
RoCE	10.4	8.8	10.0	7.7	12.5	17.5	15.8	18.9
RoIC	(50.7)	(99.5)	19.1	7.5	12.9	26.8	23.6	24.0
Turnover Ratios								
Debtors (Days)	17	7	4	9	7	6	12	12
Fixed Asset Turnover (x)	12	13	14	13	15	16	17	21

Cash Flow Statement

(INR m)

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
CF from Operations	849	793	804	837	1,624	2,130	2,510	3,475
Cash for Working Capital	503	22	(1,251)	767	2,300	5,704	(4,076)	(51)
Net Operating CF	1,352	815	(447)	1,604	3,924	7,834	(1,566)	3,424
Free Cash Flow	102	(435)	(1,697)	354	2,674	6,584	(2,816)	2,174
Net Purchase of Invest.	(850)	2,783	586	(3,647)	2,075	446	984	1,134
Net Cash from Invest.	(2,100)	1,533	(664)	(4,897)	825	(804)	(266)	(116)
Proc. from equity issues	-	-	-	-	-	-	-	-
Proceeds from LTB/STB	-	-	-	-	-	-	-	-
Dividend Payments	(606)	-	(925)	(1,048)	(1,233)	(925)	(1,141)	(1,498)
Cash Flow from Fin.	(606)	-	(925)	(1,048)	(1,233)	(925)	(1,141)	(1,498)
Others	-	-	-	-	-	-	-	-
Net Cash Flow	(1,355)	2,348	(2,036)	(4,341)	3,516	6,105	(2,973)	1,810
Opening Cash Bal.	3,417	2,655	5,003	3,890	596	5,346	7,593	4,447
Add: Net Cash	(1,355)	2,348	(2,036)	(4,341)	3,516	6,105	(2,973)	1,810
Closing Cash Bal.	2,063	5,003	2,967	(451)	4,112	11,451	4,619	6,257

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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