

Estimate change	↔
TP change	↔
Rating change	↔

CMP: INR1,675 TP: INR2,000 (+19%) Buy

Bullion volumes drive revenue growth

Strong performance; Optimistic outlook! Reiterate Buy

Bloomberg	MCX IN
Equity Shares (m)	51
M.Cap.(INRb)/(USDb)	85.4 / 1.2
52-Week Range (INR)	1875 / 805
1, 6, 12 Rel. Per (%)	-11/39/44
12M Avg Val (INR M)	591

- 2QFY21 saw sharp increase in bullion volumes, largely driven by 174% YoY increase in volumes of silver contracts. The current quarter has seen a sharp dip in crude volumes (-80% YoY), led by increased margins on SEBI's directive. However, the expected positive decision by SEBI in Nov'20 should stabilize crude volumes.
- We remain confident on higher institutional participation and MCX's ability to add new clients through various organic means. We have positive stand on increasing volumes of underlying commodities and strong execution from MCX.
- We downgrade our EPS estimate for FY21 by 2.2% on account of higher expected ETR for the rest of the year. We continue to like MCX for its near-monopoly in the Commodity Exchanges' segment in India. Reiterate **Buy**.

Financials & Valuations (INR b)

Y/E Mar	2020	2021E	2022E
Sales	3.7	4.5	5.7
EBIT Margin (%)	1.5	2.2	2.7
PAT	2.4	2.5	3.0
EPS (INR)	46.4	49.7	58.0
EPS Gr. (%)	61.9	7.1	16.8
BV/Sh. (INR)	266.6	259.2	288.8

Ratios

RoE (%)	18.1	18.9	21.2
RoCE (%)	17.5	18.2	20.4
Payout (%)	78.2	60.9	52.1

Valuations

P/E (x)	36.2	33.8	28.9
P/BV (x)	6.3	6.5	5.8
EV/EBITDA (x)	46.5	33.5	26.3
Div Yield (%)	2.2	1.8	1.8

Revenue in line; PAT miss due to higher staff cost/ETR

- 2QFY21 revenue was up 20% YoY to INR1.2b (in line with est.).
- EBIT margin at 50.5% missed est. of 52.5% and was led by higher staff expense (INR201m v/s est. INR187m).
- PAT stood at INR586m (-19% YoY, a 20% miss to est.), owing to higher tax rate (25% v/s est. 19%) and lower other income (INR178m v/s est. INR265m).
- Total volumes for the quarter stood at INR25.5t, up 76% QoQ and 12% YoY.
- Increase in volumes was largely dominated by Silver (+174% YoY) and Gold (+29% YoY), partially offset by crude volumes (-80% YoY)
- Led by the recent rally in gold and silver, bullion's contribution to volumes increased to 65% (v/s 58% in 1QFY21). Contribution from crude declined from 15% in 1QFY21 to 7% in 2QFY21.

Shareholding pattern (%)

As On	Sep-20	Jun-20	Sep-19
Promoter	0.0	0.0	0.0
DII	77.7	41.1	36.9
FII	0.5	36.6	32.0
Others	21.8	22.3	31.0

FII Includes depository receipts

Key highlights from management commentary

- Crude volumes remained under pressure on increased margins by MCX on SEBI's directive. SEBI has done a thorough margin analysis and is expected to give a revised directive in Nov'20; post this, crude volumes should see some normalization.
- MCX has launched iComdex Bullion and MCX iComdex base metal index futures with both being at a nascent stage. The board has decided not to levy any charges on index products till Mar'21.
- MCX's existing contract with 63moons is expected to end in Sep'22. The company has already rolled out a RFP for new proposals.
- MCX has taken a provision of INR40m for variable pay-out to its employees in 1HFY21 (similar amount was paid in FY20). This led to higher staff cost for the quarter.
- ETR is expected at ~23-25% going ahead.

Valuation and view – Positive long-term aspects

- We remain positive on the increase in ADT for 2HFY21 on account of normalization of margin requirements in the Crude segment.
- Progress on other growth initiatives, such as Bullion/Metal index futures, Gold spot exchange, and institutional participation are also encouraging.
- We continue to like the company for its near-monopoly in the Commodity Exchanges' (97% market share) segment in India. We value the company at 10-year average multiple of 32x one-year forward EPS. Our TP of INR2,000 implies 18% upside. Reiterate **Buy**.

MCX Quarterly Performance

											(INR m)	
	FY20				FY21E				FY20	FY21E	Est.	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2Q	(%/bp)
Sales	795	1,002	893	1,053	730	1,197	1,228	1,301	3,742	4,456	1,209	(1.0)
Q-o-Q Gr. (%)	0.4	26.1	-10.9	17.9	-30.7	63.9	2.6	6.0	24.7	19.1	65.6	-164bp
Staff Costs	188	195	178	213	178	202	217	233	773	830	187	7.6
Other expenses	330	334	323	433	287	338	403	440	1,420	1,468	339	(0.3)
Depreciation	40	42	43	56	48	52	48	49	182	197	48	9.1
EBIT	237	430	349	351	217	605	561	579	1,367	1,962	634	(4.6)
Margins (%)	29.8	43.0	39.1	33.4	29.7	50.5	45.6	44.5	36.5	44.0	52.5	-194bp
Interest Costs	0	0	0	2	1	1	1	1	2	2	1	
Other Income	314	444	235	297	497	178	311	348	1,289	1,334	265	(32.7)
PBT bef. Exceptional items	551	874	584	646	714	783	871	927	2,654	3,293	899	(12.9)
Tax	114	154	31	-9	150	197	200	213	289	761	167	18.0
Rate (%)	20.7	17.6	5.2	-1.4	21.1	25.2	23.0	23.0	10.9	23.1	18.6	659bp
PAT	437	720	553	655	563	586	670	713	2,366	2,533	732	(20.0)
Q-o-Q Gr. (%)	-28.1	64.9	-23.2	18.5	-14.1	4.0	14.5	6.4	61.8	7.0	29.9	
EPS (INR)	8.6	14.1	10.9	12.8	11.1	11.5	13.1	14.0	46.4	49.7	14.4	(20.0)
Total volumes (INR t)	17.7	23.2	20.6	25.4	14.5	25.5	27.3	29.2	86.9	96.5	25.7	
Q-o-Q Gr. (%)	0.7	31.0	-11.2	23.2	-42.9	76.0	6.9	7.0			77.0	
Y-o-Y Gr. (%)	9.4	40.2	18.5	44.3	-18.1	10.0	32.4	15.0	28.3	11.0	10.7	

E: MOSL Estimates

Key Perfor. Indicators

Y/E March	FY20				FY21				FY20	FY21E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
ADT (INR b)	281	357	322	397	227	381	420	449	348	386
Volumes (INR t)										
Gold	2.3	5.7	4.0	6.5	4.7	7.4			18.4	
Silver	1.7	3.3	2.9	3.6	3.6	9.1			11.5	
Crude Oil	6.2	8.8	8.5	10.1	2.1	1.7			33.7	
Volumes (YoY %)										
Gold	18%	131%	71%	121%	107%	29%			91%	
Silver	5%	102%	74%	134%	109%	174%			78%	
Crude Oil	32%	88%	52%	60%	-66%	-80%			58%	

Key highlights from management commentary**Volumes**

- Despite volume dip in 1QFY21, 1HFY21 did a good catch-up on account of 30% YoY increase in gold volumes and 170% YoY increase in silver volumes.
- Crude volumes remained under pressure on increased margins by MCX due to SEBI's directive. SEBI has done a thorough margin analysis and is expected to give a revised directive in Nov'20; post this, crude volumes should see some normalization.

Index Products

- MCX has launched iComdex Bullion and MCX iComdex base metal index futures. Both are at a nascent stage currently. The board has decided not to levy any charges on index products till Mar'21.
- MCX will focus on building the market for these products. In the near-to-medium term, index options will have higher potential to contribute to consolidated revenues.

Institutional Participation

- After SEBI allowed participation of institutional investors such as mutual funds and portfolio managers (PMS), two mutual funds have started dealing in commodities. Combined open interest of these MFs stand at INR800m.
- Among brokers, ICICI Securities has started operations and is ramping up in the segment. Brokers are also making changes in their platforms by introducing negative pricing-related changes. Once it is completed, other brokers will also start their operations.
- MCX anticipates good amount of AIFs to start dealing in commodities, however, it will create more open interest than volumes. PMS has still not seen much participation.

Technology Platform

- MCX's existing contract with 63moons is expected to end in Sep'22. The company has already rolled out RFP for new proposals.
- MCX will look out for source code only and will then develop the platform in-house. It is looking for a source code that is already being used by other commodity brokers globally.
- 63moons is also eligible to apply for the RFP.

Operational Expenses

- MCX has taken a provision of INR40m for variable pay-out to its employees in 1HFY21 (similar amount was paid in FY20). This has led to higher staff cost for the quarter.
- MCX has also incurred some additional cost in launch of Bulldex- Bullion index product.

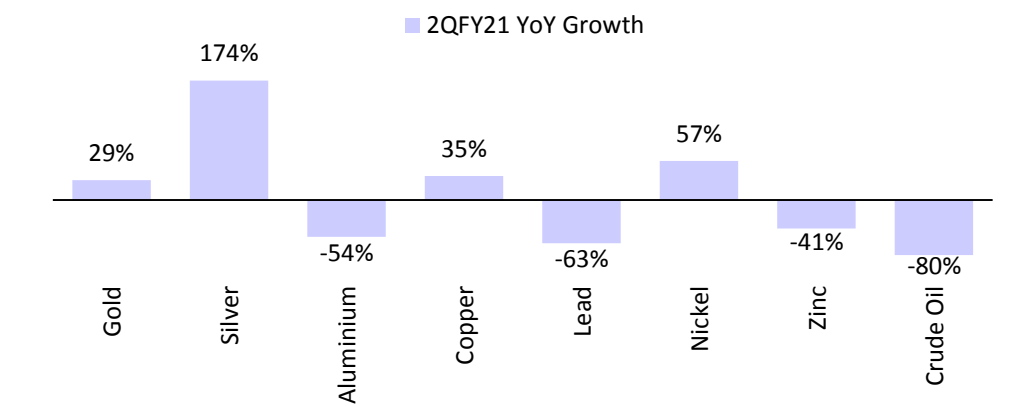
Tax

- 2QFY21 saw an increased ETR on higher provisions. Further, some of the tax impact of Jun'20 has also come into this quarter.
- Going ahead, ETR will be in the range of 23-25%. The company will keep using its MAT credit. Once exhausted, it will shift toward the new tax regime.

Future aspirations

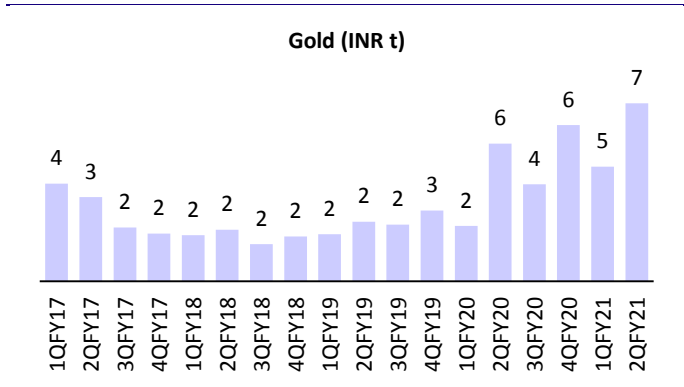
- MCX and IEX signed licensing agreement for launch of electricity derivatives in India. MCX is exploring to launch gas exchange. Further, the company expects Gold spot exchange to be operational from next year.

Exhibit 1: Growth in Silver and Gold was partially offset by weakness in crude



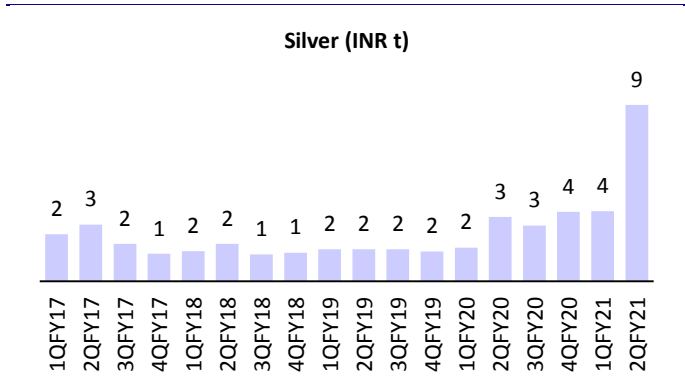
Source: Company, MOFSL

Exhibit 2: Gold Volumes



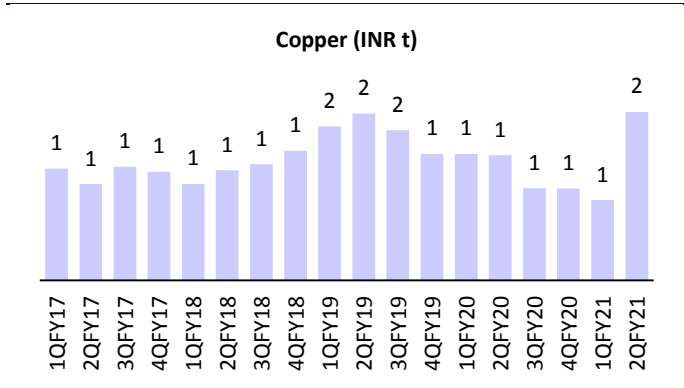
Source: Company, MOSL

Exhibit 3: Silver Volumes



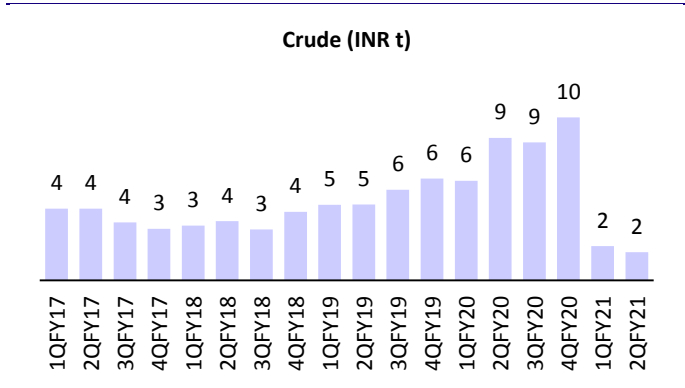
Source: Company, MOSL

Exhibit 4: Copper volumes



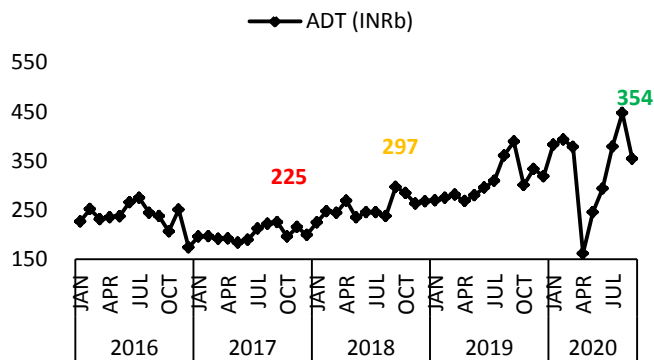
Source: Company, MOSL

Exhibit 5: Crude Volumes



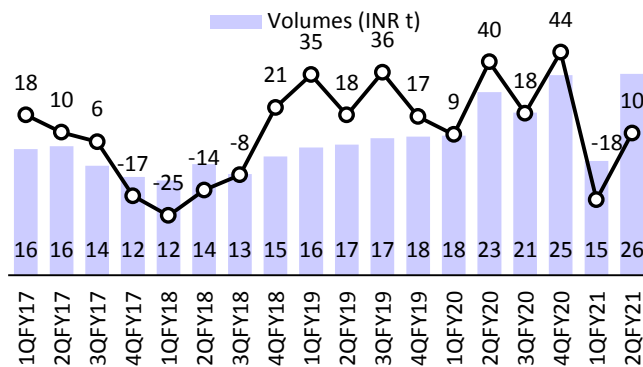
Source: Company, MOSL

Exhibit 6: Sharp increase in ADT recently...



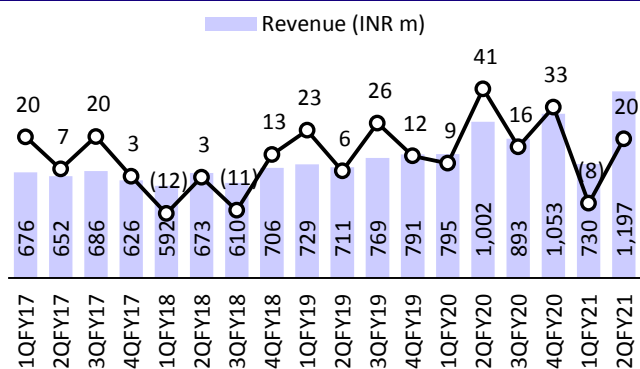
Source: MOSL, Company

Exhibit 7: ...with volumes at all-time high



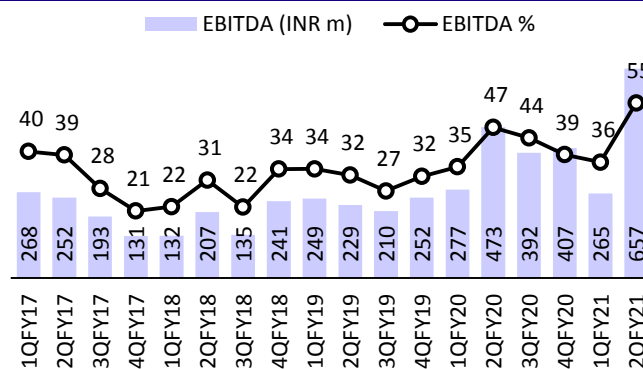
Source: MOSL, Company

Exhibit 8: Sharp recovery in revenue...



Source: MOSL, Company

Exhibit 9: ...reflects margins are led by operating leverage



Source: MOSL, Company

Valuation and view – Positive long term aspects

- We remain positive on increase in ADT for 2HFY21 on account of normalization of margin requirements in the Crude segment.
- Progress on other growth initiatives, such as Bullion/ Metal index futures, Gold spot exchange, and institutional participation are also encouraging.
- We continue to like the company for its near-monopoly in the Commodity Exchanges' (97% market share) segment in India. We value the company at 10-year average multiple of 32x one-year forward EPS. Our TP of INR2,000 implies 18% upside. **Reiterate Buy.**

Change in Estimates	Revised		Earlier		Change (%)	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Volumes (INR t)	96	126	92	121	4.7	4.3
Volume growth (%)	11.0	30.3	6.1	30.8	5.0	(0.5)
Revenue (INR m)	4,456	5,674	4,269	5,443	4.4	4.3
EBITDA margin (%)	48.4	47.5	48.4	48.5	0bp	-90bp
EPS (INR)	49.7	58.0	50.8	56.9	(2.2)	2.1

Financials and valuations

Income statement

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Sales	2,225	2,349	2,641	2,580	3,000	3,742	4,456	5,674
Change (%)	(35)	6	12	(2)	16	25	19	27
Cost of Services	733	779	1,071	1,174	1,338	1,463	1,565	1,916
SG&A Expenses	616	804	726	691	723	730	733	1,060
Provisions								
EBITDA	876	766	844	715	940	1,549	2,159	2,698
% of Net Sales	39	33	32	28	31	41	48	48
Depreciation	259	246	186	167	154	182	197	212
Interest	14	0	2	-	-	2	2	2
Other Income	1,098	977	1,164	917	986	1,289	1,334	1,359
EO Item (net)	-	667	-	-	238	-	-	-
PBT	1,701	831	1,821	1,465	1,533	2,654	3,293	3,844
Tax	450	413	512	383	75	289	761	885
Rate (%)	26	50	28	26	5	11	23	23
PAT	1,251	418	1,309	1,081	1,458	2,366	2,533	2,959
Extraordinary								
Net Income	1,251	418	1,309	1,081	1,458	2,366	2,533	2,959
Change (%)	(18)	(67)	213	(17)	35	62	7	17

Balance Sheet

Y/E March	FY15	FY16E	FY17E	FY18E	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	12,709	14,215
Net Worth	12,022	12,039	13,588	13,763	12,509	13,594	13,219	14,725
SGF	1,871	1,879	1,705	1,806	3,298	4,098	4,482	4,482
Loan & other long term liab.	343	282	420	408	414	546	567	567
Capital Employed	14,236	14,201	15,713	15,977	16,221	18,237	18,267	19,774
Net Block	1,553	1,430	1,633	3,624	3,451	6,094	6,581	6,769
Other LT Assets	281	281	281	281	281	281	281	281
Investments	132	2,230	4,404	5,316	4,839	5,943	5,941	5,941
Curr. Assets	16,278	14,227	12,340	10,393	12,175	15,028	15,265	17,038
Current Investments	12,795	8,511	7,544	8,878	5,824	6,618	5,384	5,384
Debtors	107	42	28	63	60	65	143	164
Cash & Bank Balance	2,655	5,003	3,890	596	5,346	7,593	8,416	9,967
Loans & Advances	456	268	3	3	2	2	14	16
Other Current Assets	265	404	875	854	943	751	1,309	1,507
Current Liab. & Prov	4,007	3,967	2,945	3,636	4,524	9,109	9,800	10,255
Net Current Assets	12,271	10,260	9,395	6,757	7,651	5,919	5,465	6,783
Application of Funds	14,236	14,201	15,713	15,977	16,221	18,237	18,267	19,774

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY15E	FY16	FY17	FY18E	FY19	FY20	FY21E	FY22E
Basic (INR)								
EPS	24.6	23.4	24.8	21.2	28.7	46.4	49.7	58.0
Cash EPS	29.6	13.0	29.3	24.5	31.6	50.0	53.5	62.2
Book Value	235.8	236.1	266.4	269.9	245.3	266.6	259.2	288.8
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	60.9	52.1
Valuation (x)								
P/E	68.3	71.9	67.7	79.2	58.6	36.2	33.8	28.9
Cash P/E	56.7	129.0	57.3	68.7	53.1	33.6	31.4	27.0
EV/EBITDA	80.4	94.4	88.4	107.2	79.7	46.5	33.5	26.3
EV/Sales	31.7	30.8	28.2	29.6	25.0	19.2	16.2	12.5
Price/Book Value	7.1	7.1	6.3	6.2	6.8	6.3	6.5	5.8
Dividend Yield (%)	0.7	-	1.1	1.2	1.4	2.2	1.8	1.8
Profitability Ratios (%)								
RoE	10.7	3.5	10.2	7.9	11.1	18.1	18.9	21.2
RoCE	10.4	8.8	10.0	7.7	12.5	17.5	18.2	20.4
RoIC	(50.7)	(99.5)	19.1	7.5	12.9	26.8	35.5	43.1
Turnover Ratios								
Debtors (Days)	17	7	4	9	7	6	12	11
Fixed Asset Turnover (x)	12	13	14	13	15	16	16	20

Cash Flow Statement

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
CF from Operations	849	508	659	572	901	1,400	1,706	2,126
Cash for Working Capital	503	22	(1,251)	767	2,300	5,704	448	233
Net Operating CF	1,352	530	(592)	1,338	3,201	7,104	2,153	2,359
Free Cash Flow	102	334	(898)	1,076	3,084	6,936	1,830	1,959
Net Purchase of Invest.	(257)	2,014	713	(3,319)	2,900	(2,839)	533	1,133
Net Cash from Invest.	(1,507)	1,818	407	(3,582)	2,783	(3,006)	210	733
Proc. from equity issues	-	-	-	-	-	-	-	-
Proceeds from LTB/STB	-	-	-	-	-	-	-	-
Dividend Payments	(606)	-	(925)	(1,048)	(1,233)	(1,850)	(1,541)	(1,541)
Cash Flow from Fin.	(606)	-	(925)	(1,048)	(1,233)	(1,850)	(1,541)	(1,541)
Others	-	-	-	-	-	-	-	-
Net Cash Flow	(762)	2,348	(1,110)	(3,292)	4,751	2,248	822	1,551
Opening Cash Bal.	3,417	2,655	5,003	3,890	596	5,346	7,593	8,416
Add: Net Cash	(762)	2,348	(1,110)	(3,292)	4,751	2,248	822	1,551
Closing Cash Bal.	2,656	5,003	3,892	598	5,347	7,594	8,415	9,967

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

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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