

<b>BSE SENSEX</b>	<b>S&amp;P CNX</b>
36,318	10,887
Bloomberg	MCX IN
Equity Shares (m)	51
M.Cap.(INRb)/(USD\$b)	38.9 / 0.5
52-Week Range (INR)	948 / 650
1, 6, 12 Rel. Per (%)	4/-6/-22
12M Avg Val (INR M)	500
Free float (%)	100.0

**Financials & Valuations (INR b)**

Y/E March	2019	2020E	2021E
Net Sales	3.0	3.4	4.0
EBITDA	1.0	1.2	1.7
NP	1.2	1.5	1.9
EPS (INR)	23.1	30.1	38.1
EPS Gr. (%)	8.9	30.2	26.8
BV/Sh. (INR)	241.5	256.8	276.2
RoE (%)	9.0	12.1	14.3
RoCE (%)	10.4	11.4	13.6
Payout (%)	104.9	80.5	63.5
Div. Yield	3.2	3.2	3.2

**Estimate change**

**TP change**

**Rating change**

**CMP: INR764 TP: INR900 (+18%)**
**Buy**
**Steady pick-up in volumes continues**
**Operating profit inline (excluding one-off expenses)**

- Revenue grew 26% YoY to INR769m, in line with our estimate of INR766m.
- Futures volumes grew 34% YoY (+8% QoQ) to INR17t, dominated by crude (+78% YoY) and gold (+53% YoY).
- EBITDA margin of 27.2% (+500bp YoY, -500bp QoQ) was below our estimate of 34% due to higher other expenses (INR45m one-off). Excluding this one-time expense, the margin stood at 33.1% (90bp lower than our estimate).
- PAT growth of 124% YoY (to INR420m) exceeded our estimate of 68.5% YoY owing to higher other income (INR322m v/s our estimate of INR199m) and a lower tax rate (15.3% v/s our estimate of 24%), which emanated from some provisions and deferred tax.
- For 9MFY19, revenue/EBITDA/PAT were up 17.9%/47%/42% YoY.

**Distribution reach supporting volumes:** MCX highlighted that the uptick in volumes in recent past has not just been a function of volatility but also increasing participation. This is a direct outcome of members combining the equity and commodity arms, leading to a larger salesforce. The next leg of distribution-led participation will likely come from banks.

**Valuation view:** We expect volumes/revenue/earnings CAGR (FY18-21) of 20%/16%/22%. BSE, too, launched commodity derivatives in bullion in Oct'18, but the real assessment competitive prowess will be visible once it starts charging for the segment. That said, increased competitive intensity merits caution, not only from the perspective of potential loss of market share, but also in terms of any unexpected cut in pricing in the near future. Management denied any plans to cut prices for now. Our price target of INR900 discounts forward earnings by 25x and implies 18% upside. Maintain **Buy**.

**MCX Quarterly Performance**

	FY18				FY19				FY18 FY19E		(INR Million)	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			Est.	Var.
											2Q	(%/bp)
<b>Sales</b>	<b>592</b>	<b>673</b>	<b>610</b>	<b>706</b>	<b>729</b>	<b>711</b>	<b>769</b>	<b>775</b>	2,580	2,984	766	0.4
Q-o-Q Gr. (%)	-5.5	13.6	-9.4	15.8	3.2	-2.4	8.2	0.7	-2.3	15.6	7.7	48bp
Staff Costs	178	178	169	155	180	174	177	179	680	710	180	(1.5)
Other expenses	282	288	306	310	311	312	383	314	1,186	1,320	313	22.4
Depreciation	48	48	35	36	37	38	38	38	167	152	38	1.9
<b>EBIT</b>	<b>84</b>	<b>158</b>	<b>101</b>	<b>205</b>	<b>201</b>	<b>187</b>	<b>171</b>	<b>244</b>	<b>548</b>	<b>802</b>	236	(27.5)
Margins (%)	14.2	23.6	16.5	29.0	27.6	26.3	22.2	31.5	21.2	26.9	30.8	-855bp
Other Income	277	243	156	242	100	222	322	213	917	857	199	61.4
<b>PBT bef. Exceptional items</b>	<b>361</b>	<b>401</b>	<b>256</b>	<b>447</b>	<b>301</b>	<b>408</b>	<b>493</b>	<b>457</b>	<b>1,465</b>	<b>1,659</b>	<b>435</b>	<b>13.2</b>
Tax	98	110	68	107	22	53	75	95	383	246	105	(28.7)
Rate (%)	27.2	27.3	26.7	24.0	7.4	13.1	15.3	20.8	26.2	14.8	24.2	-897bp
<b>PAT</b>	<b>263</b>	<b>292</b>	<b>188</b>	<b>340</b>	<b>279</b>	<b>355</b>	<b>420</b>	<b>362</b>	<b>1,081</b>	<b>1,175</b>	330	27.3
Q-o-Q Gr. (%)	20.0	11.0	-35.6	80.9	-17.9	27.4	18.2	-13.7	-17.4	8.7	-7.2	
<b>EPS (INR)</b>	<b>5.1</b>	<b>5.7</b>	<b>3.7</b>	<b>6.7</b>	<b>1.2</b>	<b>7.0</b>	<b>8.2</b>	<b>6.6</b>	<b>21.2</b>	<b>23.0</b>	<b>6.2</b>	<b>32.8</b>
<b>Total volumes (INR t)</b>	<b>12.0</b>	<b>14.1</b>	<b>12.8</b>	<b>15.0</b>	<b>16.2</b>	<b>16.6</b>	<b>17.4</b>	<b>17.6</b>	<b>53.9</b>	<b>67.7</b>	<b>17.4</b>	
Q-o-Q Gr. (%)	-3.4	17.0	-8.8	17.3	7.6	2.2	5.1	1.3			5.1	
Y-o-Y Gr. (%)	-24.8	-14.0	-7.6	20.9	34.7	17.7	35.7	17.1	-8.1	25.6	35.7	

E: MOSL Estimates

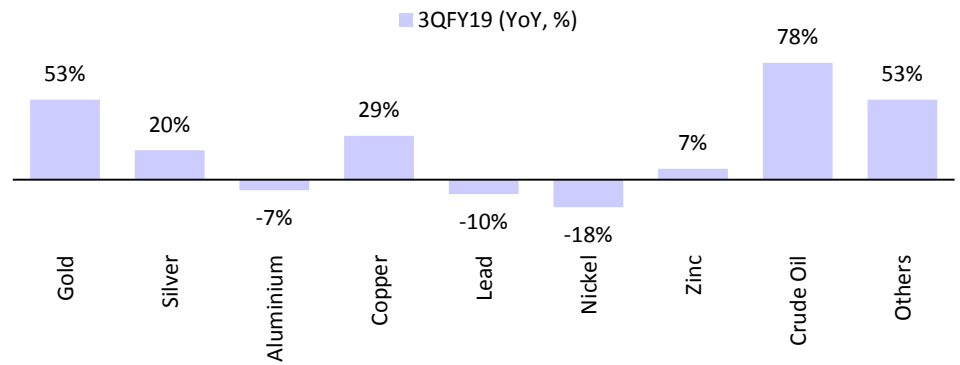
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**Investors are advised to refer through important disclosures made at the last page of the Research Report.**

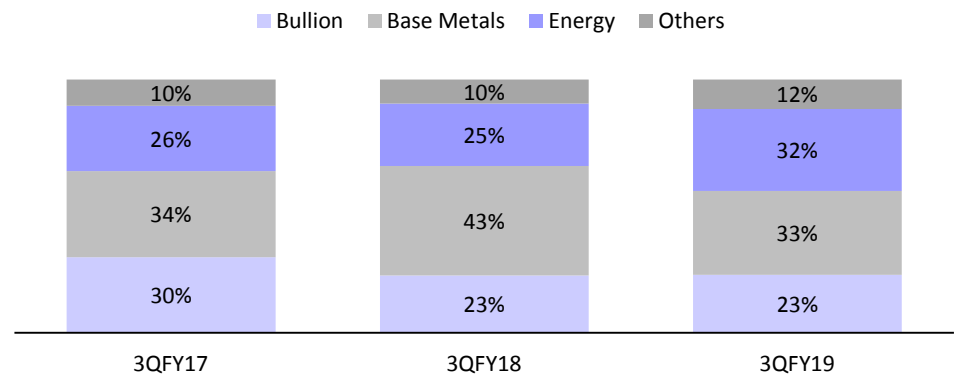
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**Exhibit 1: Increase in overall volume is being driven by crude and gold**



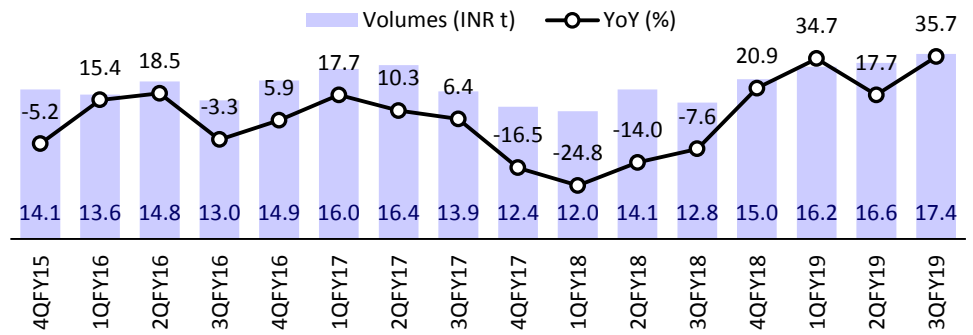
Source: Company, MOSL

**Exhibit 2: Market share of energy has inched up sharply in total value traded**



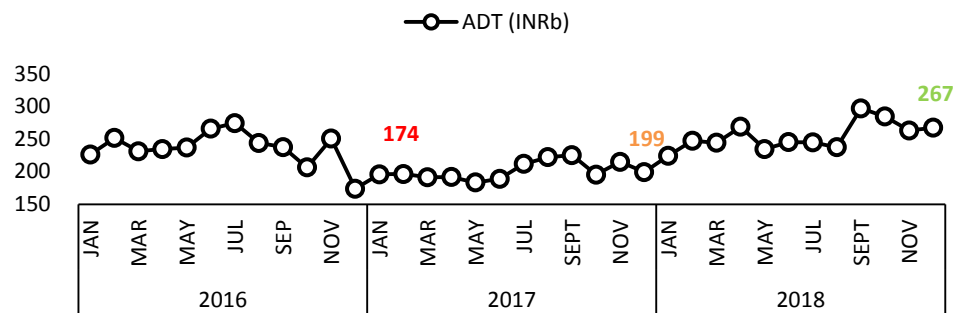
Source: Company, MOSL

**Exhibit 3: Total traded volumes (including options) up 35.7% YoY**



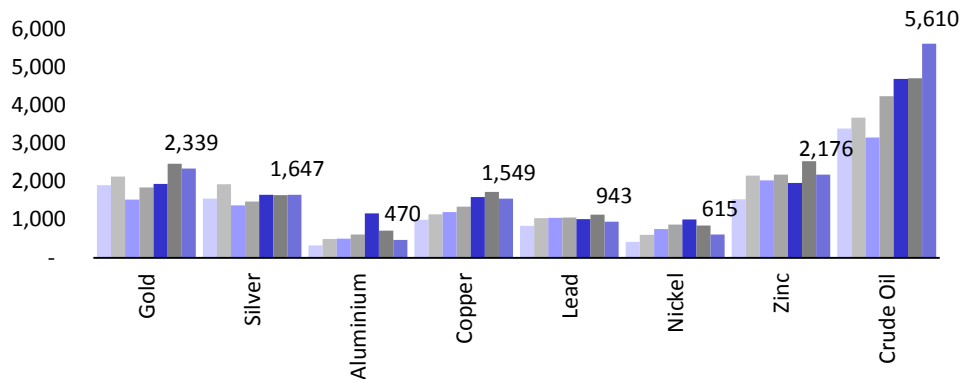
Source: Company, MOSL

**Exhibit 4: Increase in ADT trajectory (including Options)**



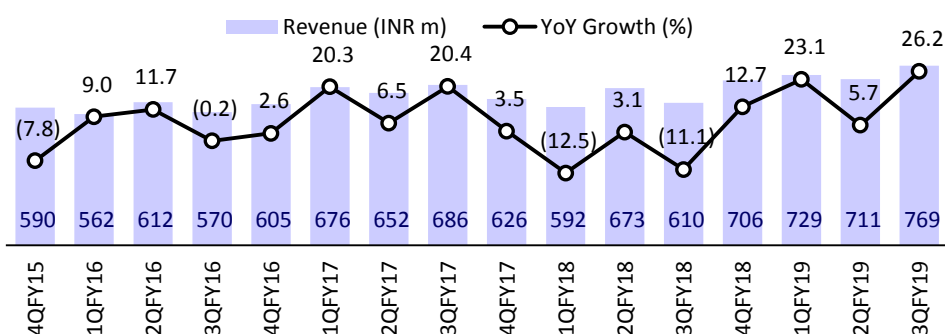
Source: Company, MOSL

**Exhibit 5: ...aided by strength in crude (quarterly data in INRb of value traded)**



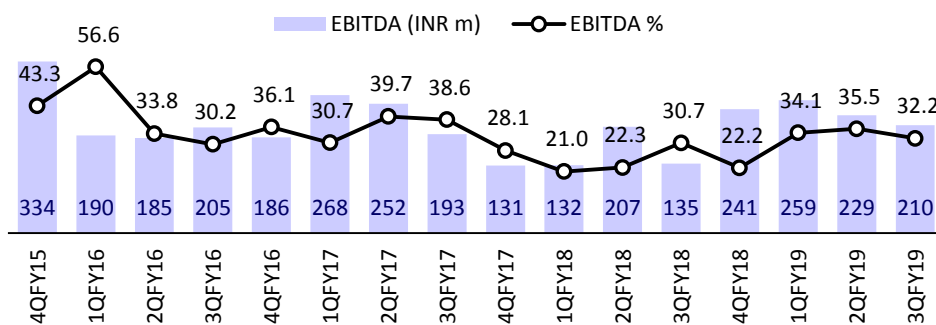
Source: Company, MOSL

**Exhibit 6: Highest revenue growth seen in past seven years**



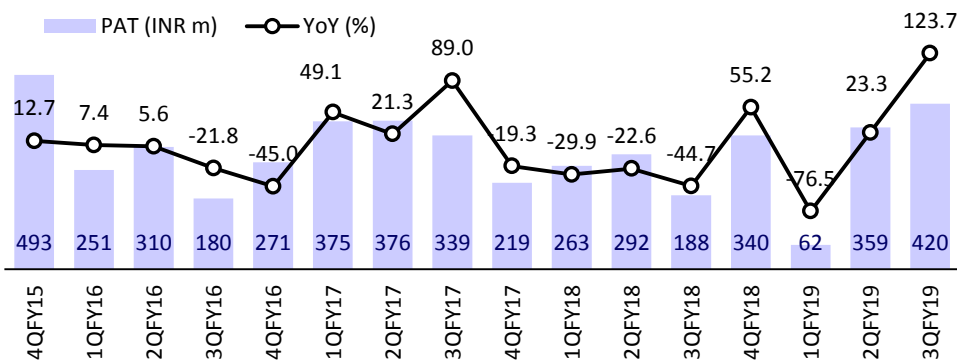
Source: Company, MOSL

**Exhibit 7: Reported margin shrinks due to ~INR45m one-off; largely in line excluding the same**

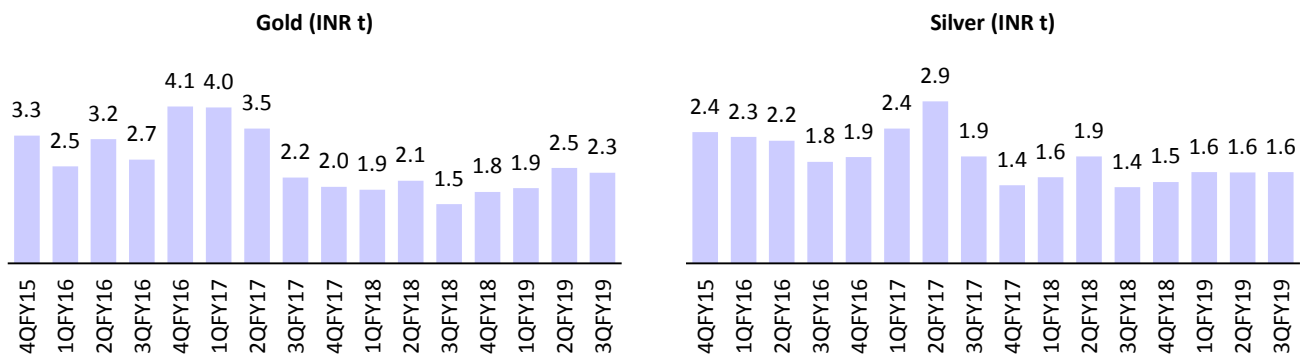


Source: Company, MOSL

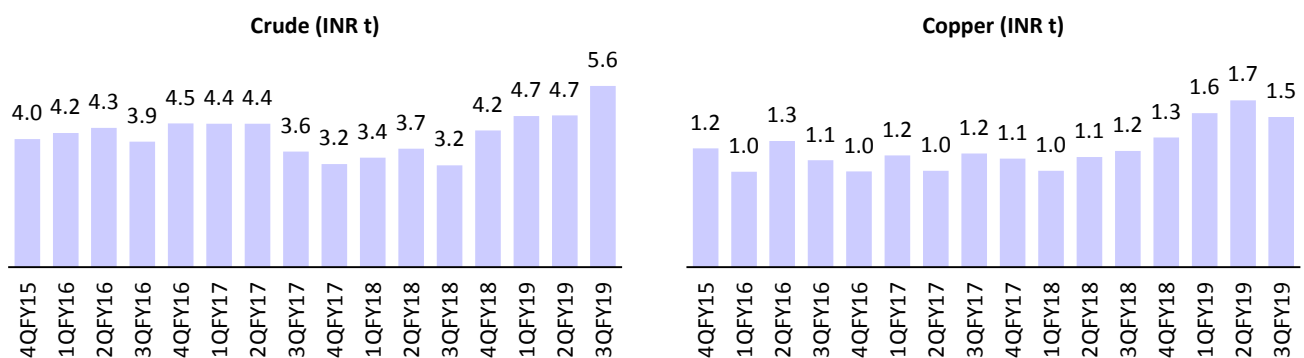
**Exhibit 8: PAT beat led by higher treasury gains and lower ETR**



Source: Company, MOSL

**Exhibit 9: Bullion remains stagnant on a sequential basis**

Source: Company, MOSL

**Exhibit 10: Increase in total value polarized by crude uptick**

Source: Company, MOSL

**Takeaways from Management Commentary**

- **Increasing participation:** Traded clients on MCX's platform have gone up significantly. MCX recorded 271K unique clients in FY18; this number was reached in first three quarters of FY19 itself. This was a direct result from increase in distribution attempts – aided by members combining equity and commodities. Going ahead, distribution will be aided further as more and more bank subsidiaries go live.
- **Charging on Options:** MCX stated that open interest in options is encouraging and it will look to start monetizing options from the fiscal.
- **One-time expense:** Increase in other expense (46% QoQ) incorporated a one-time expense of INR45m, broken down into [1] INR20m legal expense from old cases closing out, [2] INR20m of one-time regulatory expense towards IPF and ISF and [3] ~INR5m to meet CSR commitments.
- **Treasury Income:** MCX has reduced almost all exposure from long-dated debt, which used to be more volatile and less predictable. That combined with mark to market gain during the quarter resulted in higher other income (+107% YoY).
- **Banking channel:** Large bank members are becoming distributors. Activation of large institutions takes time. Axis Securities was added as a member in January and started trading in August. Other banks broking arms such as HDFC Securities, SBICap and Yes Securities among others are expected to start trading shortly. This is in line with the normal gestation and should help drive volumes.
- **Competition:** New products from new exchanges will expand the overall market, while MCX does not see any threat on existing products. It remains

confident on retaining the market share. At least the initial signs looking at volumes on BSE and MCX are reflective of the same. The competitive landscape visible thus far does not make a compelling case to alter pricing.

- **Positive regulatory developments:** Going ahead, there are two major growth drivers [1] institutional investors will be allowed from 4Q and [2] index-based products are also likely to be allowed by SEBI. They are cash-settled products which should appeal more to people trading in commodities.

## Valuation and view

- **Market leadership in winner-takes-all business:** MCX has retained its market leadership position, with a share of 80-90% (91.2% as on 9MFY19). Even in the most turbulent of months during FY13-14, when the parent's existence was jeopardized amid revelations fraud around National Spot Exchange (NSE), the exchange managed to retain its share. Additionally, it has remained without a fulltime MD & CEO since May 2014 when Mr Manoj Vaish resigned after just three months. This is a reflection of the winner-takes-all nature of the business model.
- **Monopoly share in multiple commodities takes care of concentration risk:** MCX's golden run in terms of volumes came at the time of significant run-up in gold and silver prices in FY12 and FY13. That was also perceived to be a risk, given that the share of volumes from these two commodities had exceeded 70%. However, presence in multiple commodities helps avert the concentration risk, and this was evidenced in FY15, when action in oil prices drove energy to exceed gold as the largest traded commodity at MCX by value.
- **Reforms post the SEBI-FMC merger have been gradual:** SEBI's merger with FMC is now complete, paving the way for much awaited reforms in the ecosystem. The progress following the same has been gradual, in a phased manner. SEBI already has the ball rolling in terms of reform with launch of options and also universal licenses. By FY20, institutional participation and index products should also be allowed on the commodity derivative exchanges.
- **New products / participants will keep ticking the ADT:** Our base case assumed gradual recovery in volumes to INR240b-270b in FY19E, which is playing out; and we are building ~INR300b in FY20E, yet lower than pre-commodities transaction tax (CTT) average daily turnover of INR450b-500b.
- **Volumes are coming back after multi-pronged hit:** Volumes suffered 2HFY17 onwards on account of demonetization's impact on gold volumes. Post this, a failure in pick-up has resulted out of tepid activity in the physical market. This time, it is compounded by uncertainty posed by GST. While bullion remains lower than pre-demonetization levels, it is up substantially from the lows, and a good contribution has been made by a rally in base metals and also volatility in Energy.
- **Multiplier effect on operational earnings from operating leverage, Buy:** We expect volumes/revenue/earnings CAGR (FY18-21) of 20%/16%/22%. BSE, too, launched commodity derivatives in Bullion in October 2018, but the real assessment competitive prowess will be visible once it starts charging for the segment. That said, increased intensity merits caution not only from the perspective of potential loss of market share, but also in terms of any unexpected cut in pricing in the near future. Management denied any plans to

cut prices for now. Our price target of INR900 discounts forward earnings by 25x, and implies 18% upside. Maintain **Buy**.

**Key triggers**

- Pick-up in volume led by the introduction of new products like Options / Indices
- Introduction of new participants like Banks / FIs
- High volatility in key commodities like Bullion / Crude

**Key risk – increased competition from equity exchanges**

One of the implications of FMC's merger with the SEBI is the launch of universal exchanges, where equities, debt instruments and currencies are traded under the same roof as commodity derivatives. Competitive intensity by peers may impact MCX's market share and also potentially lead to a cut in pricing.

## Financials and valuations

Income statement							(INR m)		
Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
<b>Sales</b>	<b>5,160</b>	<b>3,407</b>	<b>2,225</b>	<b>2,349</b>	<b>2,641</b>	<b>2,580</b>	<b>2,984</b>	<b>3,358</b>	<b>4,007</b>
Change (%)	(2)	(34)	(35)	6	12	(2)	16	13	19
Cost of Services	1,072	935	733	779	1,071	1,174	1,321	1,428	1,557
SG&A Expenses	812	1,014	616	804	726	691	709	723	758
<b>EBITDA</b>	<b>3,276</b>	<b>1,457</b>	<b>876</b>	<b>766</b>	<b>844</b>	<b>715</b>	<b>954</b>	<b>1,206</b>	<b>1,692</b>
% of Net Sales	63	43	39	33	32	28	32	36	42
Depreciation	307	343	259	246	186	167	152	154	170
Interest	0	11	14	0	2	-	-	-	-
Other Income	1,259	993	1,098	977	1,164	917	857	913	969
EO Item (net)	-	-	-	667	-	-	238	-	-
<b>PBT</b>	<b>4,227</b>	<b>2,097</b>	<b>1,701</b>	<b>831</b>	<b>1,821</b>	<b>1,465</b>	<b>1,421</b>	<b>1,965</b>	<b>2,492</b>
Tax	1,065	569	450	413	512	383	246	432	548
Rate (%)	25	27	26	50	28	26	17	22	22
<b>PAT</b>	<b>3,162</b>	<b>1,528</b>	<b>1,251</b>	<b>418</b>	<b>1,309</b>	<b>1,081</b>	<b>1,175</b>	<b>1,533</b>	<b>1,944</b>
<b>Net Income</b>	<b>3,162</b>	<b>1,528</b>	<b>1,251</b>	<b>418</b>	<b>1,309</b>	<b>1,081</b>	<b>1,175</b>	<b>1,533</b>	<b>1,944</b>
Change (%)	10	(52)	(18)	(67)	213	(17)	9	30	27

Balance Sheet							(INR m)		
Y/E March	FY13	FY14	FY15	FY16E	FY17E	FY18E	FY19E	FY20E	FY21E
Share Capital	510	510	510	510	510	510	510	510	510
Reserves	11,058	10,931	11,512	11,529	13,078	13,253	11,805	12,585	13,573
<b>Net Worth</b>	<b>11,567</b>	<b>11,441</b>	<b>12,022</b>	<b>12,039</b>	<b>13,588</b>	<b>13,763</b>	<b>12,315</b>	<b>13,095</b>	<b>14,083</b>
SGF		1,720	1,871	1,879	1,705	1,806	2,412	2,412	2,412
Loan & other long term liab.	569	449	343	282	420	408	753	753	753
<b>Capital Employed</b>	<b>12,136</b>	<b>13,610</b>	<b>14,236</b>	<b>14,201</b>	<b>15,713</b>	<b>15,977</b>	<b>15,480</b>	<b>16,259</b>	<b>17,248</b>
<b>Net Block</b>	<b>2,044</b>	<b>1,735</b>	<b>1,553</b>	<b>1,430</b>	<b>1,633</b>	<b>3,624</b>	<b>3,280</b>	<b>3,413</b>	<b>3,643</b>
Other LT Assets	531	281	281	281	281	281	281	281	281
Investments	1,481	132	132	2,230	4,404	5,316	4,889	4,889	4,889
<b>Curr. Assets</b>	<b>13,802</b>	<b>15,267</b>	<b>16,278</b>	<b>14,227</b>	<b>12,340</b>	<b>10,393</b>	<b>11,111</b>	<b>11,864</b>	<b>13,076</b>
Current Investments	9,201	10,766	12,795	8,511	7,544	8,878	6,154	6,154	6,154
Debtors	69	90	107	42	28	63	85	96	116
Cash & Bank Balance	3,475	3,417	2,655	5,003	3,890	596	3,910	4,526	5,488
Loans & Advances	530	676	456	268	3	3	8	10	12
Other Current Assets	525	319	265	404	875	854	953	1,078	1,306
<b>Current Liab. &amp; Prov</b>	<b>5,721</b>	<b>3,805</b>	<b>4,007</b>	<b>3,967</b>	<b>2,945</b>	<b>3,636</b>	<b>4,081</b>	<b>4,188</b>	<b>4,641</b>
<b>Net Current Assets</b>	<b>8,080</b>	<b>11,462</b>	<b>12,271</b>	<b>10,260</b>	<b>9,395</b>	<b>6,757</b>	<b>7,030</b>	<b>7,677</b>	<b>8,435</b>
<b>Application of Funds</b>	<b>12,136</b>	<b>13,610</b>	<b>14,236</b>	<b>14,201</b>	<b>15,713</b>	<b>15,977</b>	<b>15,480</b>	<b>16,259</b>	<b>17,248</b>

E: MOSL Estimates

## Financials and valuations

<b>Ratios</b>									
<b>Y/E March</b>	<b>FY13</b>	<b>FY14</b>	<b>FY15E</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18E</b>	<b>FY19E</b>	<b>FY20E</b>	<b>FY21E</b>
<b>Basic (INR)</b>									
<b>EPS</b>	<b>58.6</b>	<b>30.0</b>	<b>24.6</b>	<b>23.4</b>	<b>24.8</b>	<b>21.2</b>	<b>23.1</b>	<b>30.1</b>	<b>38.1</b>
Cash EPS	68.0	36.9	29.6	13.0	29.3	24.5	26.0	33.1	41.4
Book Value	226.8	225.4	235.8	236.1	266.4	269.9	241.5	256.8	276.2
DPS	0.5	10.2	10.2	-	15.3	17.3	20.4	20.4	20.4
Payout %	0.9	39.0	48.5	-	70.7	97.0	104.9	80.5	63.5
<b>Valuation (x)</b>									
P/E	13.0	25.4	31.0	32.7	30.7	36.0	33.0	25.4	20.0
Cash P/E	11.2	20.7	25.8	58.6	26.0	31.2	29.3	23.1	18.4
EV/EBITDA	8.1	17.0	27.0	33.4	33.0	41.6	30.8	23.9	16.5
EV/Sales	5.2	7.3	10.6	10.9	10.5	11.5	9.9	8.6	6.9
Price/Book Value	3.4	3.4	3.2	3.2	2.9	2.8	3.2	3.0	2.8
Dividend Yield (%)	0.1	1.5	1.6	-	2.4	2.7	3.2	3.2	3.2
<b>Profitability Ratios (%)</b>									
RoE	29.4	13.3	10.7	3.5	10.2	7.9	9.0	12.1	14.3
RoCE	28.1	12.8	10.4	8.8	10.0	7.7	10.4	11.4	13.6
RoIC	(173.6)	(145.9)	(50.7)	(99.5)	19.1	7.5	11.1	14.9	21.2
<b>Turnover Ratios</b>									
Debtors (Days)	5	10	17	7	4	9	10	10	11
Fixed Asset Turnover (x)	28	19	12	13	14	13	15	17	19

### Cash Flow Statement

(INR m)

<b>Y/E March</b>	<b>FY13</b>	<b>FY14</b>	<b>FY15E</b>	<b>FY16E</b>	<b>FY17E</b>	<b>FY18E</b>	<b>FY19E</b>	<b>FY20E</b>	<b>FY21E</b>
CF from Operations	2,470	1,949	849	793	804	837	1,524	1,698	2,115
Cash for Working Capital	(1,941)	(1,565)	503	22	(1,251)	767	1,268	(31)	204
<b>Net Operating CF</b>	<b>529</b>	<b>385</b>	<b>1,352</b>	<b>815</b>	<b>(447)</b>	<b>1,604</b>	<b>2,792</b>	<b>1,668</b>	<b>2,319</b>
Net Purchase of FA	(462)	(59)	(1,250)	(1,250)	(1,250)	(1,250)	(1,250)	(1,250)	(1,250)
<b>Free Cash Flow</b>	<b>68</b>	<b>325</b>	<b>102</b>	<b>(435)</b>	<b>(1,697)</b>	<b>354</b>	<b>1,542</b>	<b>418</b>	<b>1,069</b>
Net Purchase of Invest.	1,910	586	(850)	2,783	586	(3,647)	1,773	1,124	848
<b>Net Cash from Invest.</b>	<b>1,448</b>	<b>527</b>	<b>(2,100)</b>	<b>1,533</b>	<b>(664)</b>	<b>(4,897)</b>	<b>523</b>	<b>(126)</b>	<b>(402)</b>
Proc. from equity issues	-	-	-	-	-	-	-	-	-
Proceeds from LTB/STB	-	-	-	-	-	-	-	-	-
Dividend Payments	(2,134)	(1,133)	-	-	-	-	-	(925)	(955)
<b>Cash Flow from Fin.</b>	<b>(2,134)</b>	<b>(1,133)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(925)</b>	<b>(955)</b>
Others	-	-	-	-	-	-	-	-	-
<b>Net Cash Flow</b>	<b>(156)</b>	<b>(221)</b>	<b>(748)</b>	<b>2,348</b>	<b>(1,111)</b>	<b>(3,292)</b>	<b>3,315</b>	<b>616</b>	<b>962</b>
<b>Opening Cash Bal.</b>	<b>3,124</b>	<b>3,475</b>	<b>3,417</b>	<b>2,655</b>	<b>5,003</b>	<b>3,890</b>	<b>596</b>	<b>3,910</b>	<b>4,526</b>
Add: Net Cash	(156)	(221)	(748)	2,348	(1,111)	(3,292)	3,315	616	962
<b>Closing Cash Bal.</b>	<b>2,968</b>	<b>3,255</b>	<b>2,669</b>	<b>5,003</b>	<b>3,892</b>	<b>597</b>	<b>3,911</b>	<b>4,526</b>	<b>5,488</b>



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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