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Indian Exchanges

Q4FY20 Concall takeaways

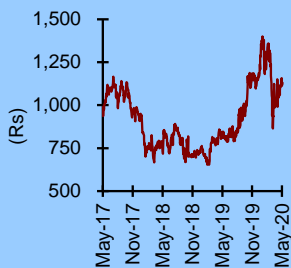
Target price: Rs1,328

Shareholding pattern

| | Sep '19 | Dec '19 | Mar '20 |
|----------------|---------|---------|---------|
| Promoters | 0.0 | 0.0 | 0.0 |
| Institutional | | | |
| Investors | 68.7 | 69.5 | 71.9 |
| MFs and others | 19.0 | 17.6 | 21.4 |
| FIs/Banks | 17.6 | 16.9 | 16.9 |
| FIIIs | 32.1 | 35.0 | 33.6 |
| Others | 31.3 | 30.5 | 27.9 |

Source: BSE, NSE

Price chart



Multi Commodity Exchange of India

HOLD
Maintained
Rs1,312

Concall key takeaways

Multi Commodity Exchange's (MCX) FY20 earnings call highlighted the company's strategy going forward. The exchange aims to focus on agri commodities and index futures while continuing to strive for better participation from institutional channels. Client base remains strong (~30% growth in Active Unique Client Codes in FY20) and MCX is actively pursuing volume recovery in base metals. The current weakness in crude volumes is driven by higher margins. Company's ability to avoid any cash loss during negative crude price situation, underlines robust risk management practices. MCX is working on active cost management to tackle the impact of Covid-19.

Maintain HOLD with a target price of Rs1,328: We factor-in ADTV of Rs375bn in FY22E (Rs324bn/313bn in FY20/FY21E) leading to FY22E EBITDA/PAT of Rs2bn/2.5bn. We expect EBITDA margin to decline to 39% in FY21E and rebound to 46% in FY22E with operating leverage. We value MCX at 35x FY22E core earnings and add distributable cash and investments to arrive at our target price of Rs1,328. Our core earnings include operating income and investment returns from restricted cash.

Key highlights from conference call

► Future growth areas include agri-commodities and index futures.

- Approval for index futures is expected in Jun'20 and MCX is expecting to launch it before Sep'20. Options trading will be kept free for some time.
- For spot exchange of natural gas, regulatory permission is awaited.
- For spot exchange of bullion at IFSC, Gift City, regulatory approval is awaited.
- On institutional participation, management highlighted the following;
 - Key brokers are expected to start operations soon. Deutsche Bank custodian has already been admitted to deal in the commodity market. Category III-A investors and a few PMS have already started participating on the platform; however, their turnover is not satisfactory.
 - SEBI has permitted TATA MF and Nippon India MF to participate in the market; they are currently actively trading on the platform. However, there are some issues wherein clarification is required from SEBI (e.g. as per SEBI, MFs cannot hold position for more than one month, but MCX has gold contracts that are settled bimonthly).

- Active Unique Client Code (UCC) in FY20 rose to >400k from 308k in FY19, of which 55% got added in FY20. In base metals, active UCC reduced only marginally from 221k to 215k despite a substantial reduction in trading volumes. In agri-commodities, Active UCC was 100k in FY20.

| Market Cap | Rs66.9bn/US\$885mn | Year to Mar (Cons) | FY19 | FY20 | FY21E | FY22E |
|-------------------------|--------------------|-------------------------|-------|-------|--------|-------|
| Reuters/Bloomberg | MCEIQF.BO/ MCX IN | Revenue (Rs mn) | 3,000 | 3,742 | 3,721 | 4,435 |
| Shares Outstanding (mn) | 51.0 | Rec. Net Income (Rs mn) | 1,463 | 2,365 | 1,992 | 2,480 |
| 52-week Range (Rs) | 1442/779 | Rec. EPS (Rs) | 28.7 | 46.4 | 39.1 | 48.6 |
| Free Float (%) | 100.0 | % Chg YoY | 35.0 | 61.6 | (15.8) | 24.5 |
| FII (%) | 33.6 | P/E (x) | 46.3 | 28.6 | 34.0 | 27.3 |
| Daily Volume (US\$/000) | 6,767 | CEPS (Rs) | 31.7 | 49.9 | 42.9 | 52.8 |
| Absolute Return 3m (%) | 1.9 | EV/E (x) | 49.7 | 28.7 | 33.0 | 23.9 |
| Absolute Return 12m (%) | 60.6 | Dividend Yield (%) | 1.5 | 2.3 | 1.9 | 2.4 |
| Sensex Return 3m (%) | (12.7) | RoCE (%) | 5.5 | 8.7 | 6.7 | 8.9 |
| Sensex Return 12m (%) | (15.1) | RoE (%) | 11.1 | 18.1 | 14.4 | 16.9 |

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- **Recovery of crude momentum is underway.** A few brokers who had stopped taking trades in crude contracts have now resumed such activity. Crude margins will come down only when volatility comes to manageable levels. SGF remains fully funded (MCX contributed Rs30mn to SGF in FY20). None of the members defaulted in the negative crude episode and no money has gone from the exchange. This underlines the robust risk management principles of MCX. No provisions relating to Court cases pertaining to negative settlement of crude prices has been made as the management believes its case is strong and there is no merit in pleas made by the brokers. MCX has also filed a petition for consolidation of the cases at Bombay High Court, which will save legal expenses.
- **Cost-cutting measures are underway** including salary cuts for AVP and above positions, cut in board-related expenses and stricter negotiations with vendors. Management will review these measures periodically.
- **Higher costs in Q4FY20 were due to one-offs of Rs80mn relating to:** 1) approved variable pay to employees, 2) contribution towards SGF (Rs30mn) on account of high volatility, and 3) contribution towards PM-CARES Fund. Adjusted for the one-offs, Q4FY20 EBITDA margin would have been 46%.
- **Lower turnover in base metals in FY20 was on account of redesigning of contract specifications into delivery and retention of either mini or main contracts in the segment.** Management highlighted that although turnover in base metals has come down substantially, participation (in terms of Unique Client Code) has reduced only marginally. To address the concerns, management has been calling trading members to find out the reasons as to why a particular client has stopped trading in a particular contract, and is working on suggestions. Management has been actively in touch with industrial consumers of base metals, where the response has been better.
- MAT credit of Rs220mn remains unutilised as of FY20.
- Dividend payout was lower in order to maintain a stable dividend policy.

Financial summary (consolidated)

Table 1: Profit & loss statement

(Rs mn, year ending March 31)

| | FY19 | FY20 | FY21E | FY22E |
|---|--------------|--------------|--------------|--------------|
| Total Income | 3,000 | 3,742 | 3,721 | 4,435 |
| Operating Expenses | 2,060 | 2,195 | 2,259 | 2,411 |
| EBITDA | 940 | 1,547 | 1,462 | 2,024 |
| % margins | 31.3 | 41.3 | 39.3 | 45.6 |
| Depreciation & Amortisation | 155 | 181 | 195 | 211 |
| Net Interest | - | 1.6 | - | - |
| Other Income | 986 | 1,290 | 1,354 | 1,450 |
| Recurring PBT | 1,771 | 2,653 | 2,621 | 3,263 |
| Add: Extraordinaries | (238) | - | - | - |
| Less: Taxes | | | | |
| - Current tax | 67 | 317 | 629 | 783 |
| - Deferred tax | 8 | (28) | - | - |
| Less: Minority Interest & Share in associates | 4 | - | - | - |
| Net Income (Reported) | 1,463 | 2,365 | 1,992 | 2,480 |
| Recurring Net Income | 1,463 | 2,365 | 1,992 | 2,480 |

Source: Company data, I-Sec research

Table 2: Balance sheet

(Rs mn, year ending March 31)

| | FY19 | FY20 | FY21E | FY22E |
|--|---------------|---------------|---------------|---------------|
| Assets | | | | |
| Total Current Assets | 8,322 | 12,987 | 11,296 | 13,027 |
| of which cash & cash eqv. | 6,588 | 8,835 | 6,784 | 8,439 |
| Total Current Liabilities & Provisions | 8,246 | 13,752 | 11,606 | 12,358 |
| Net Current Assets | 76 | (766) | (309) | 669 |
| Investments | | | | |
| of which | 10,663 | 12,561 | 12,739 | 12,953 |
| Strategic/Group | 4,839 | 5,943 | 5,943 | 5,943 |
| Others | 5,824 | 6,618 | 6,796 | 7,009 |
| Net Fixed Assets | 1,770 | 1,798 | 1,626 | 1,625 |
| of which | | | | |
| intangibles | 166 | 149 | 204 | 259 |
| Capital Work-in-Progress | 190 | 237 | 50 | 50 |
| Goodwill | - | - | - | - |
| Total Assets | 12,509 | 13,594 | 14,056 | 15,247 |
| Liabilities | | | | |
| Borrowings | | | | |
| Deferred Tax Liability | - | - | - | - |
| Minority Interest | - | - | - | - |
| Equity Share Capital | 510 | 510 | 510 | 510 |
| Face Value per share (Rs) | 10 | 10 | 10 | 10 |
| Reserves & Surplus | 11,999 | 13,084 | 13,546 | 14,737 |
| Net Worth | 12,509 | 13,594 | 14,056 | 15,247 |
| Total Liabilities | 12,509 | 13,594 | 14,056 | 15,247 |

Source: Company data, I-Sec research

Table 3: Quarterly trends

(Rs mn, year ending March 31)

| Consolidated | Jun'19 | Sep'19 | Dec'19 | Mar'20 |
|----------------------|--------|--------|--------|--------|
| Total Income | 795 | 1,002 | 893 | 1,053 |
| % growth (YoY) | 9.0 | 40.9 | 16.0 | 33.0 |
| EBITDA | 277 | 473 | 392 | 407 |
| Margin (%) | 34.9 | 47.2 | 43.9 | 38.7 |
| Other income | 314 | 444 | 235 | 297 |
| Add: Extraordinaries | - | - | - | - |
| Net profit | 437 | 718 | 553 | 655 |

Source: Company data, I-Sec research

Table 4: Cashflow statement

(Rs mn, year ending March 31)

| | FY19 | FY20 | FY21E | FY22E |
|---|--------------|--------------|----------------|--------------|
| Op. Cashflow post tax | 438 | 1,089 | 833 | 1,241 |
| Working Capital Changes | 2,153 | 3,403 | (2,507) | 676 |
| Capital Commitments | (271) | (255) | (23) | (210) |
| Free Cashflow | 2,320 | 4,237 | (1,697) | 1,707 |
| Cashflow from Investing Activities | (664) | 5 | 1,176 | 1,237 |
| Issue of Share Capital | - | - | - | - |
| Buyback of shares | - | - | - | - |
| Inc (Dec) in Borrowings | - | - | - | - |
| Dividend paid | (1,045) | (1,230) | (1,530) | (1,289) |
| Interest paid | (0) | (27) | - | - |
| Chg. in Cash & Bank balance | 610 | 2,985 | (2,051) | 1,655 |

Source: Company data, I-Sec research

Table 5: Key ratios

(Year ending March 31)

| | FY19 | FY20 | FY21E | FY22E |
|-----------------------------------|------|------|--------|-------|
| Per Share Data (Rs) | | | | |
| EPS(Basic Recurring) | 28.7 | 46.4 | 39.1 | 48.6 |
| Diluted Recurring EPS | 28.7 | 46.4 | 39.1 | 48.6 |
| Core EPS | 18.4 | 32.8 | 23.3 | 32.3 |
| Recurring Cash EPS | 31.7 | 49.9 | 42.9 | 52.8 |
| Dividend per share (DPS) | 20.0 | 30.0 | 25.3 | 31.5 |
| Book Value per share (BV) | 245 | 267 | 276 | 299 |
| Growth Ratios (%) | | | | |
| Operating Income | 20.3 | 49.8 | (1.2) | 24.5 |
| EBITDA | 30.8 | 64.5 | (5.5) | 38.4 |
| Recurring Net Income | 35.0 | 61.6 | (15.8) | 24.5 |
| Diluted Recurring EPS | 35.0 | 61.6 | (15.8) | 24.5 |
| Diluted Recurring CEPS | 29.4 | 57.4 | (14.1) | 23.0 |
| Valuation Ratios | | | | |
| P/E | 46.3 | 28.6 | 34.0 | 27.3 |
| P/CEPS | 41.9 | 26.6 | 31.0 | 25.2 |
| P/BV | 5.4 | 5.0 | 4.8 | 4.4 |
| EV / EBITDA | 49.7 | 28.7 | 33.0 | 23.9 |
| EV / EBIT | 74.1 | 42.7 | 45.5 | 31.2 |
| EV / Op. FCF (pre -Capex) | 22.9 | 13.1 | (34.0) | 33.1 |
| Operating Ratios | | | | |
| Software support charge / Revenue | 21.2 | 17.8 | 18.8 | 17.4 |
| Employee charge / Revenue | 25.2 | 20.7 | 20.8 | 18.0 |
| Effective Tax Rate (%) | 4.2 | 14.1 | 24.0 | 24.0 |
| Current ratio | 0.9 | 0.6 | 0.7 | 0.7 |

Profitability Ratios (%)

| | | | | |
|-------------------------|------|------|------|------|
| EBITDA Margins | 31.3 | 41.3 | 39.3 | 45.6 |
| Rec. Net Income Margins | 36.7 | 47.0 | 39.2 | 42.1 |
| RoCE | 5.5 | 8.7 | 6.7 | 8.9 |
| RoNW | 11.1 | 18.1 | 14.4 | 16.9 |
| Dividend Payout Ratio | 84 | 65 | 65 | 65 |
| Dividend Yield | 1.5 | 2.3 | 1.9 | 2.4 |

Source: Company data, I-Sec research

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