11 December 2014

India | Banking & Financial Services | Company Update

Multi Commodity Exchange | MCX IN

Price: ₹857
BUY
Target Price: ₹1,050

JM FINANCIAL

Poised for comeback

Despite crisis, MCX retained its dominant market share (c.80%), highlighting the strength of its franchise. During crisis, the regulator strengthened the regulatory mechanism through ownership norms and settlement guarantee fund which bodes well for the sector. Now backed by strong, credible group (Kotak Bank), we believe MCX is well positioned to capitalise on the significant growth opportunities driven by increasing penetration and potential regulatory changes. We forecast 25% CAGR in volumes over FY15-17E (40% lower than peak volumes) and EPS CAGR of 20%. We re-initiate coverage on MCX with a BUY rating and value the company at 30x P/E to arrive at TP of ₹1,050. Key risks: increase in commodity transaction tax (CTT), decline in price / volatility which could impact volumes adversely.

- **Continued market leadership position highlights franchise strength:** Given MCX's leadership position coupled with change in dominant shareholder, we expect company to focus on business development led by new leadership team. Volumes are showing initial signs of stabilization with 3Q15 ADV up 9% over 2Q15. We expect Kotak Mahindra Bank to play important role in shaping up the exchange. We are factoring 25% CAGR in volume over FY15-17E (ADV of ₹290bn in FY17E which is in-line with post CTT volume, 40% below peak volumes).

- **Regulatory changes to open up new growth opportunities:** Potential regulatory changes like clearing of Forward Contract Regulation Act/merger of FMC with SEBI will open new growth opportunities for commodity exchanges in terms of **a)** options trading, **b)** participation of financial institutions, **c)** trading in commodity Indices. Key challenges pertaining to these opportunities: 1) Timing of merger with SEBI or tabling of FCRA Bill is uncertain 2) profitability of options contract is lower than future contract for an exchange 3) RBI approval is required for banks to participate in commodity trading. We have not built any upsides to our volume estimates due to regulatory changes.

- **Expect 20% EPS CAGR over FY15-17E; BUY with TP of ₹1,050:** We are projecting 25% CAGR in volumes over FY15E-17E (40% lower than peak volumes) and EBITDA margin of 41% (vs peak of 64% in FY12) to result in 20% EPS CAGR over FY15-17E. We value MCX at 30x P/E to arrive at TP of ₹1,050. In our view, MCX can enjoy better multiple compared to its peers (15-25x 2 yrs forward P/E band for global exchanges) given better growth potential. Sensitivity to volumes: If volumes were to grow at 40% CAGR over FY15E-17E at CMP, the stock is trading at 19x FY17E EPS.

- **Key risks: a)** Decline in volatility as well as prices in key commodities, **b)** Increase in CTT could impact volumes adversely, **c)** Picking up a right team to lead exchange, **d)** Regulatory risk.

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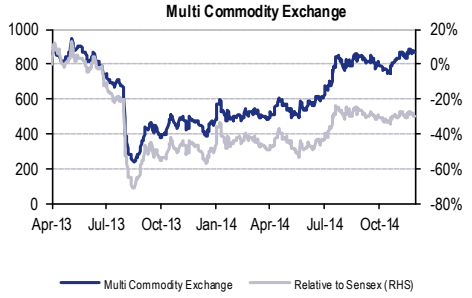
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Key Data

Market cap (bn)	₹ 43.7 / US$ 0.7
Shares in issue (mn)	51.0
Diluted share (mn)	51.0
3-mon avg daily val (mn)	₹ 550.1/US$ 8.9
52-week range	₹ 923.0/378.0
Sensex/Nifty	27,831/8,356
₹/US$	62.0

Daily Performance



%	1M	3M	12M
Absolute	0.8	5.0	99.2
Relative	0.9	2.1	68.3

** To the BSE Sensex*

Shareholding Pattern (%)

	Sep-14	Sep-13
Promoters	0.0	26.0
FII	15.9	21.6
DII	33.0	15.0
Public / Others	51.2	37.4

Exhibit 1. Financial Summary (₹ mn)

Y/E March	FY13	FY14	FY15E	FY16E	FY17E
Net Profit	2,992	1,532	1,256	1,434	1,827
Net Profit (YoY) (%)	4.3%	-48.8%	-18.0%	14.2%	27.4%
Assets (YoY) (%)	-4.8%	-2.5%	-1.1%	7.1%	8.2%
ROA (%)	16.3%	8.7%	7.2%	8.0%	9.5%
ROE (%)	28%	13%	11%	11%	14%
EPS (₹)	58.7	30.0	24.6	28.1	35.8
EPS (YoY) (%)	3.9%	-48.8%	-18.0%	14.2%	27.4%
PE (x)	**14.6**	**28.5**	**34.8**	**30.5**	**23.9**
BV (₹.)	227	225	238	253	268
BV (YoY) (%)	16%	-1%	6%	6%	6%
P/BV (x)	**3.78**	**3.81**	**3.60**	**3.39**	**3.20**

Source: Company data, JM Financial. Note: Valuations as of 11/12/14.

JM Financial Research is also available on: Bloomberg - JMFR <GO>, Thomson Publisher & Reuters.

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

Investment thesis

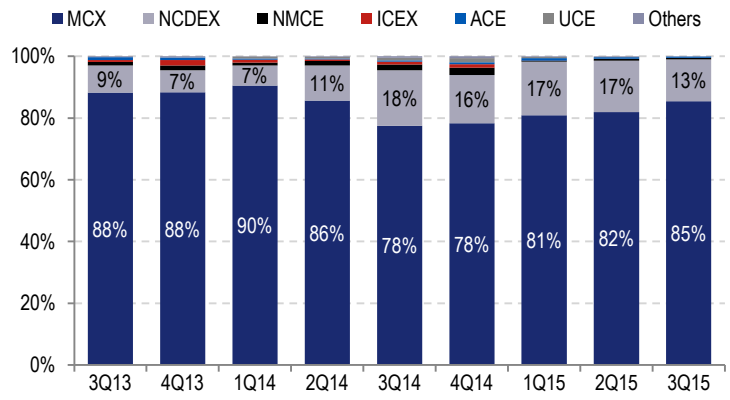
We re-initiate coverage on MCX with a BUY rating and value the stock at 30x FY17E EPS to arrive at TP of ₹1,050. We like MCX due to **a)** Dominant market position (c.80% market share) with virtual monopoly in non-agri commodities. **b)** FMC strengthening the regulatory environment as well as Kotak Mahindra Bank as largest minority shareholder augurs well from investors/market participants' perspective. **c)** Regulatory changes such as FCRA Bill or FMC merger with SEBI offer significant growth opportunities in the form of option trading, participation by financial institutions and launch of indices.

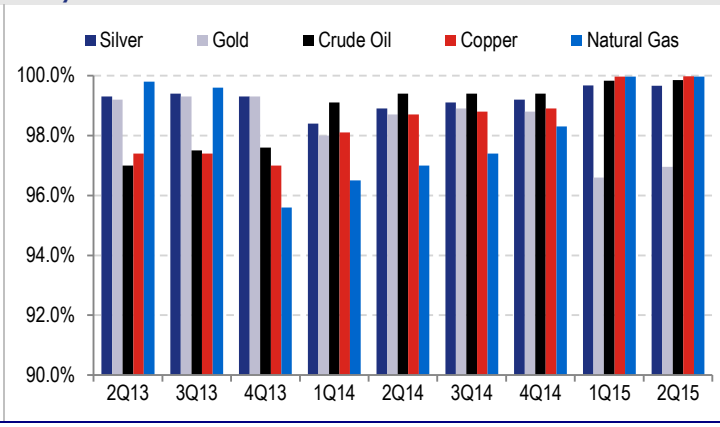
Despite crisis MCX retained its market share

- **Market share remained stable at c.80%**

Due to CTT and NSEL crisis, volumes declined c.60% in last 3 quarters. However MCX managed to retain its market share of c.80% during that time. In Exchange business, liquidity breeds liquidity and it is difficult to take away market share from an incumbent. Further exchange is not people intensive business but a process driven one which helped MCX retain its market share despite losing key people. In key commodities such as gold, silver and crude oil, the company maintained its market share of 97-99% (same as pre CTT period).

Exhibit 2. MCX: Trend in market share in last 6 quarters and in key commodities



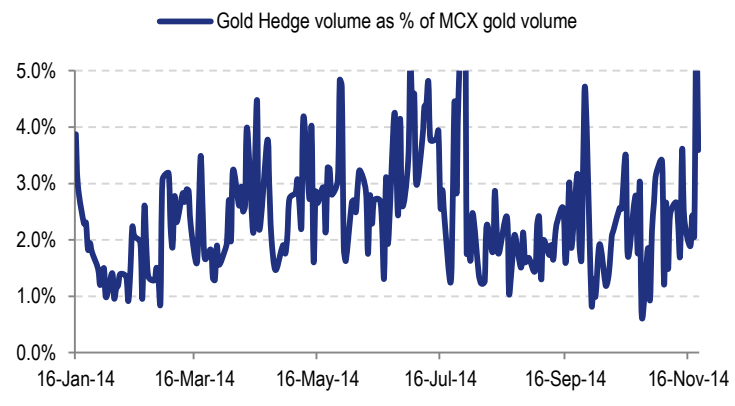


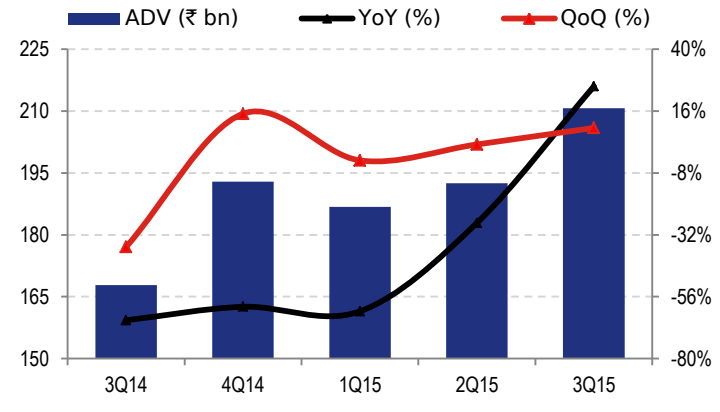
Source: Company, JM Financial.

- **Competitive intensity remains benign**

Even as MCX management was unable to focus on business development in last 12 months, competition (NCDEX) could not penetrate non-agri market. As shown in exhibit 3 (below) (LHS), NCDEX's gold hedge volumes are only c.2.4% of MCX's gold volumes. Further two commodity exchanges ICEX and UCX have shut operations. Third commodity exchange ACE, which is promoted by Kotak, is likely to get merged with MCX. Recently BSE announced its intention to enter the commodities exchange space.

Exhibit 3. Volumes in NCDEX gold hedge product as % of MCX gold volume and MCX ADV for last 4 quarters





Source: Company, JM Financial.

- **MCX volumes are showing early signs of stabilization**

  In 2Q15, MCX volumes were up 3% QoQ (ADV of ₹192bn) while in 3Q15, volumes grew 9% sequentially driven by higher volatility (as shown in Exhibit 3 (RHS). Our interaction with market intermediaries indicates that, with the change in ownership, confidence of participants has increased which is also supporting volumes.

Key developments in last 12 months

- **Key developments over last 12 months: a) Change in ownership: Kotak Bank acquired 15% stake, and b) strengthening of regulatory environment by FMC**

  NSEL crisis resulted in Financial Technologies (FTIL) exiting its 26% stake in MCX of which 15% stake (in MCX) was bought by Kotak Mahindra Bank. MCX also renegotiated technology supply contract with FTIL (KMB stake sale was contingent upon the same). Forward Market Commission (FMC) which is regulator of commodity exchanges was brought under the administrative control of the Finance Ministry from the Consumer Affairs Ministry. FMC also used NSEL crisis as an opportunity to strengthen regulatory environment (see annexure 1) which in our view is an important development.

- **Currently KMB is treating MCX as financial investment**

  In July 2014, Kotak Mahindra Bank (KMB) bought 15% stake in MCX from FTIL for a consideration of ₹4.6bn (₹600 per share). As of now KMB is treating its investment in MCX as a pure financial one though we expect the bank to play active role in development of the exchange in coming months. In 2Q15 result conference call, KMB said that "we have to be very careful about how we look at this from a medium to long term point of view at this stage. It will be appropriate for us to say that we have got in only as a financial investment to start with. We are obviously looking at opportunities down the road, but at this stage, it is a pure financial investment from our point of view".

What did KMB say in 2Q15 result conference call: "…at this stage, it is a pure financial investment from our point of view"

- **FMC strengthened regulatory environment**

  Post NSEL crisis, FMC which is regulator of commodity exchanges was brought under the administrative control of the Finance Ministry from the Consumer Affairs Ministry. Further FMC used NSEL crisis as an opportunity to strengthen regulatory environment by putting norms regarding shareholding, ownership, minimum net worth, creation of settlement guarantee fund and minimum requirements for disclosure of information to the Boards of the Exchange etc. (See Annexure 1). We believe these measures will further enhance confidence of market participants.

- **Renegotiated technology supply contract with FTIL to result in lowering of software support charges**

  MCX renegotiated technology supply contract with FTIL 1st July 2014 onwards. As per new contract, software charges were reduced to ₹13mn per month (vs ₹20mn) and transaction-based charges were lowered to 10.3% (vs 12.5%). The duration of agreement was lowered from 33 years to 10 years and current agreement will expire in October 2022.

Significant opportunities due to regulatory changes; timing uncertain

- While it is difficult to predict short term volume trends on the exchange which can be volatile at times, we believe there are several long term growth triggers available for MCX through **a)** Regulatory changes i.e. introduction of proposed Forward Contract Regulation Act (FCRA) Amendment Bill, 2010 or FMC merging with SEBI, **b)** allowing participation of financial institutions, **c)** trading in options to accelerate overall turnover (globally futures and options constitute 50:50 of total volume). Current FCRA Bill has lapsed hence the government can either introduce the Bill again or merge FMC with SEBI. Merger of FMC with SEBI shall have similar impact as FCRA Bill since all rules applicable to equity exchanges will be made applicable to commodity exchanges.

  Key challenges in capturing these opportunities

  Key challenges with respect to above opportunities are as follows:

- Timing of merger with SEBI or tabling of FCRA Bill is uncertain.
- Pricing of options is still not clear and profitability of options contract is lower than future contract for an exchange.
- RBI approval is required for banks to participate in commodity trading.

Forecast 20% CAGR in EPS over FY15-17E

- **Expect focus to shift to business development**

  In the last one year MCX was involved in complying with regulatory requirements required by FMC, renegotiating software support agreement, and putting up a management team to lead the exchange. With MCX now starting on clean slate, we expect the company to focus on business development which includes introducing new commodity as well as expanding distribution channels for existing commodities for increasing volume. Despite lack of focus on product development, MCX managed to maintain its market share over the year.

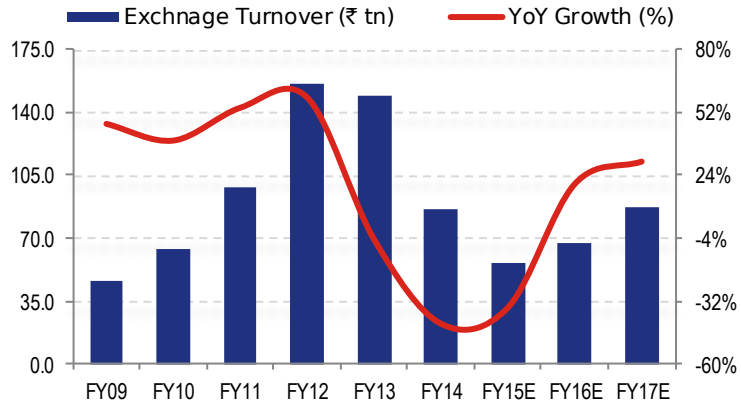
- **Factoring volumes to reach Post CTT but pre-NSEL crisis level over next 3 years**

  Post CTT, volumes declined 40% YoY in July'13 (first month of CTT implementation) however we do not have history of steady state volume base (post CTT decline) as NSEL issue broke in August'14. NSEL problem resulted in further decline in volumes in 3Q14 (peak of problems); volumes were down 65% YoY). Our volume projections factor turnover reaching to post CTT but pre NSEL crisis level. MCX did ₹156tn and ₹149tn of exchange turnover in FY12 and FY13 respectively (partly driven by increase in commodity prices). We believe volumes can reach ₹87tn level by FY17 (40% decline from FY12/13 levels) which can be termed as potential turnover post CTT. We expect c.35% decline in FY15 exchange turnover due to absence of CTT in 1Q14 (base impact). However to reach level of ₹87tn by FY17, volumes need to witness 25% CAGR over FY15-17E which is our base case expectation. Our volume growth assumptions factor increase in quantity traded rather than increase in commodity prices (volume to be a function of penetration than prices).

- **Transactions charges to see 20% CAGR over FY15-17E**

  MCX continues to earn bulk of its revenues from transaction charges. There was change in transaction charges in February 2014 (first time in last 5 years) which was in response to NCDEX's move to cut transaction charges. Current realization on volumes is ₹1.87 per ₹0.1mn of volume on one side (₹3.73 on both sides). We are factoring volume pick up FY16 onwards, which should lead to moderation in realization (due to slab structure of transaction charges). We are modelling 25% CAGR in volumes over FY15-17E leading to 20% CAGR in transaction charges over FY15-17E (to decline by 31% in FY15E).

Exhibit 4. MCX: Trends in exchange turnover and current structure of transaction charges



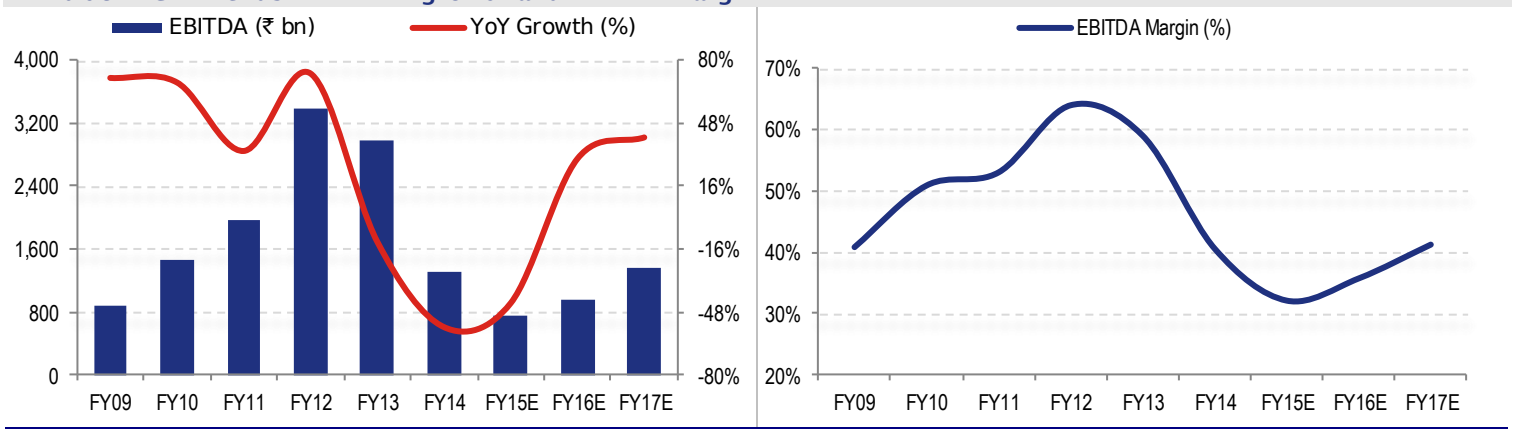
MCX - February 26, 2014	
Average daily turnover	**Transaction fee rates per ₹0.1mn of turnover value**
Group A: Non - Agri Commodities	
Upto ₹3.5bn	Rs. 2.10
On incremental turnover above ₹3.5bn	Rs. 1.40
Group B: Agri Commodities	
Upto ₹200mn	Rs. 0.75
On incremental turnover above ₹200mn	Rs. 0.50

Source: Company, JM Financial.

- **EBITDA margin of 41% by FY17 vs 32% in FY15E**

During the year the company renegotiated technology supply contract with FTIL (applicable 1st July 2014 onwards). As per new contract software charges were reduced to ₹13mn per month (vs ₹20mn earlier) and transaction-based charges were lowered to 10.3% (vs 12.5% earlier). In FY15, EBITDA is expected to decline 44% while we expect EBITDA margin to bottom out at 32%. With volume improvement and control over operating expenses, we expect EBITDA margin to improve to 41% FY17E (vs 64% of peak EBITDA in FY12) leading to 35% CAGR over FY15-17E.

Exhibit 5. MCX: Trends in EBITDA growth and EBITDA margin

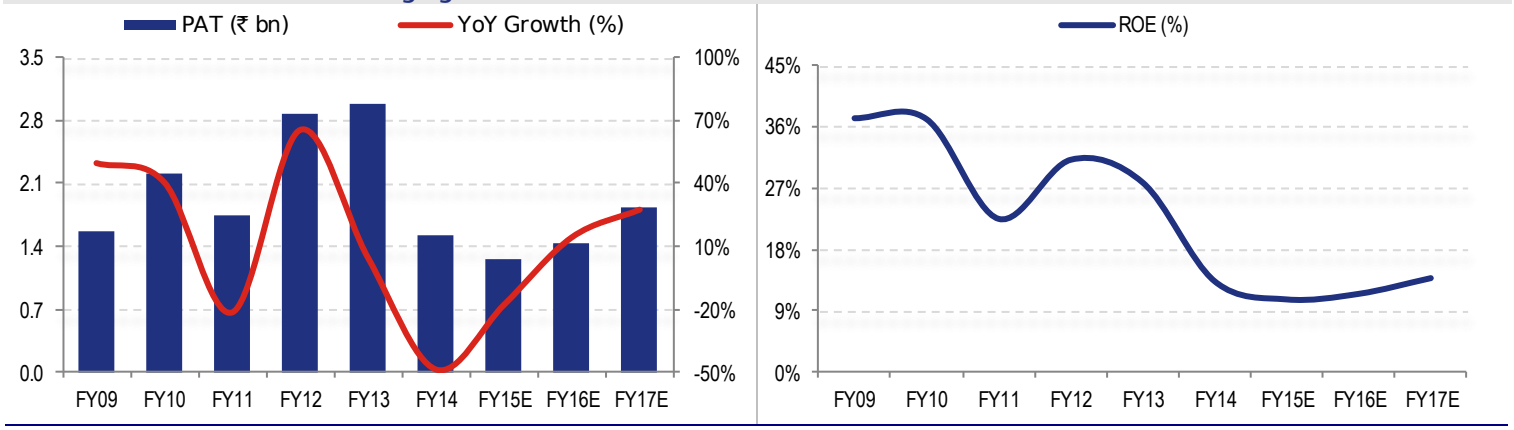


Source: Company, JM Financial.

- **EPS CAGR of 20% in FY15-17E**

We expect EPS to decline 18% in FY15 however we model 20% CAGR in EPS driven by 25% CAGR in volumes over FY15-17E. We expect the exchange to improve its ROE to 14% by FY17E from 11% in FY15E.

Exhibit 6. MCX: Trends in earnings growth and return ratios



Source: Company, JM Financial.

Valuation and sensitivity analysis

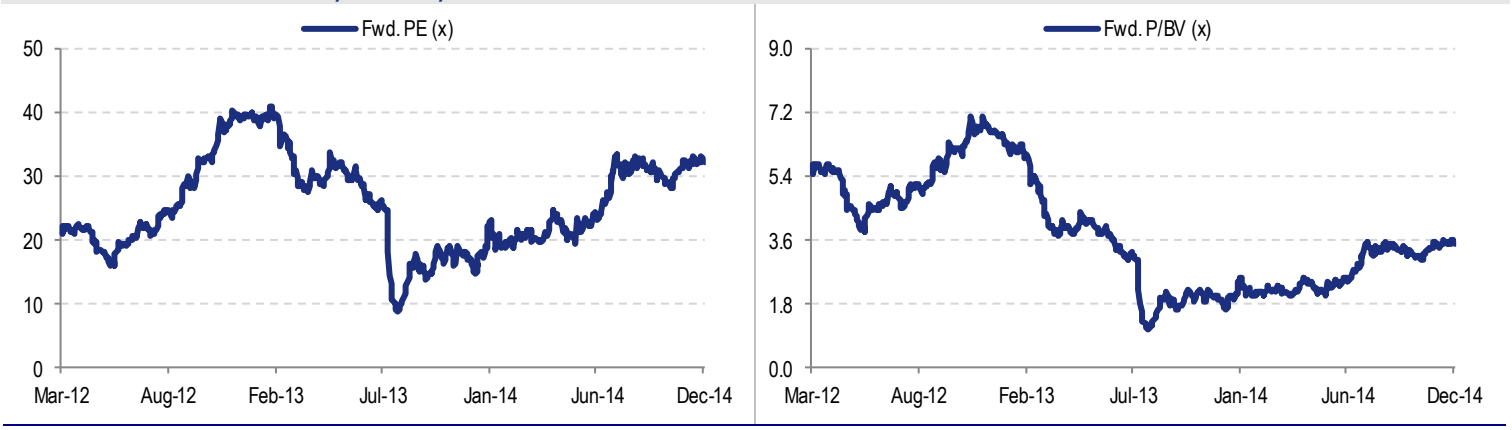
- **Indian commodity exchange market remains underpenetrated**

Study conducted by Deloitte Touche Tohmatsu India Private Limited observes that contribution of the commodity futures market turnover to India's GDP is expected to increase to 0.33% of GDP by FY15 (vs 0.23% in FY11). As per the World Federation of Exchanges, Chicago Mercantile Exchange reported commodity futures' notional turnover of $48tn in CY13 which is 3x of US GDP. Even if like to like comparison of volume between CME and MCX is not correct, numbers indicate that Indian commodity exchange market remains largely underpenetrated and can offer significant growth opportunities (assuming favourable regulatory environment).

- **TP of ₹1,050, upside of 21%**

We re-initiate coverage on MCX with a BUY rating and value the company at 30x P/E to arrive at TP of ₹1,050. Currently global exchanges are trading in the band of 15-25x two years forward EPS. MCX can enjoy higher multiple compared to peers due to a) nascent stage of commodity exchanges, b) growth opportunities to be captured due to regulatory change, c) Backed by Kotak Mahindra Bank (being a largest minority investor).

Exhibit 7. MCX: Trends in P/E and P/B



Source: Company, JM Financial.

- **FCFE method of valuation**

Our FCFE valuation indicates fair value of ₹1,056 for MCX. Our key assumptions are a) cost of equity of 13%, b) terminal growth rate of 7%.

Exhibit 8. MCX: FCFE valuation

MCX	FY12	FY13	FY14	FY15E	FY16E	FY17E	FY18E	FY19E	FY20E	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E (Terminal)
FCFE (Rs mn)	3,546	529	385	189	1,080	1,638	2,047	2,559	3,199	3,839	4,607	5,298	6,093	7,006	124,947
PV				189	956	1,283	1,419	1,570	1,736	1,844	1,958	1,993	2,028	2,064	36,808
TP - Market Cap (Rs mn)	53,848														
No. of Share O/S (Rs mn)	51														
TP	1,056														
Current Price	870														
Upside	21%														

Source: Company, JM Financial.

Exhibit 9. Global exchanges comps

Exchange Comps	P/E		ROE (%)		P/BV		Fwd. EPS 2 yrs
	1 yr fwd.	2 yrs. fwd.	1 yr fwd.	2 yrs. fwd.	1 yr fwd.	2 yrs. fwd.	CAGR (%)
LatAm Exchanges							
BM&FBOVESPA SA	13.3	11.6	12%	13%	1.01	1.00	12%
BOLSA MEXICANA	21.0	18.5	14%	15%	2.93	2.91	12%
CETIP	17.0	15.7	26%	30%	4.44	4.13	9%
Emerging Markets Exchanges							
HKEX	28.4	25.1	31%	33%	8.43	7.93	23%
BURSA MALAYSIA	20.1	18.5	26%	29%	5.41	5.43	9%
SINGAPORE EXCH	23.2	20.4	36%	39%	8.31	7.77	9%
MCX	31.1	24.4	11%	14%	3.46	3.27	21%
Developed countries Exchanges							
CME GROUP INC	22.5	20.2	6%	6%	1.31	1.31	13%
INTERCONTINENTAL	19.1	16.1	9%	10%	1.85	1.72	22%
NASDAQ OMX GROUP	13.9	12.4	9%	9%	1.19	1.14	12%
CBOE HOLDINGS IN	23.4	20.7	80%	80%	18.06	15.88	13%
LONDON STOCK EX	20.2	17.6	18%	19%	3.15	2.81	13%
TMX GROUP LTD	12.2	10.9	8%	8%	0.91	0.86	12%
DEUTSCHE BOERSE	14.7	13.4	20%	20%	2.97	2.69	10%
ASX LTD	17.6	16.7	11%	11%	1.86	1.84	5%
NZX LTD	18.8	16.4	31%	35%	6.49	6.32	10%

Source: Bloomberg, JM Financial.

Valuation sensitivity analysis

It is difficult to project exact volumes in short term thus we represent valuation sensitivity analysis to indicate EPS as well as target price under different growth assumptions/earnings multiple.

Exhibit 10. MCX: Valuation sensitivity analysis

Bear Case - 0% CAGR in volume over FY15-17E	FY14	FY15E	FY16E	FY17E
YoY Volume Growth (%)	-42%	-35%	-10%	10%
EPS (₹)	30.0	24.6	20.4	21.8
PE Multiple		20	25	30
TP on FY17E EPS (₹)		437	546	655
Upside (%)		-50%	-38%	-25%

Base Case - 25% CAGR in volume Growth over FY15-17E	FY14	FY15E	FY16E	FY17E
YoY Volume Growth (%)	-42%	-35%	20%	30%
EPS (₹)	30.0	24.6	28.2	35.7
PE Multiple		20	25	30
TP on FY17E EPS (₹)		713	892	1,070
Upside (%)		-19%	2%	22%

Bull Case - 40% CAGR in volume Growth over FY15-17E	FY14	FY15E	FY16E	FY17E
YoY Volume Growth (%)	-42%	-35%	40%	40%
EPS (₹)	30.0	24.6	33.4	45.4
PE Multiple		20	25	30
TP on FY17E EPS (₹)		908	1,135	1,362
Upside (%)		4%	30%	56%

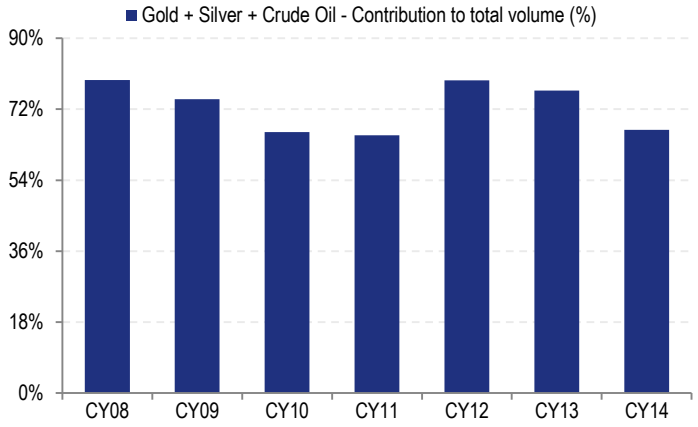
Source: Company, JM Financial.

Key risks

- **Decline in volatility in key commodities**

  Top 3 commodities contribute 63% to overall volume in MCX. Any significant decline in volatility as well as prices of these key commodities will impact volumes negatively.

Exhibit 11. MCX: Trends in volume contributed by gold, silver and crude oil



Source: Company, JM Financial.

- **Increase in CTT could impact volumes adversely**

  Imposition of CTT resulted in 40% decline in volumes (July '13). Any further increase in CTT could impact volumes adversely.

- **Picking up a right team to lead exchange will be a key step**

  MCX needs to fill key positions which have been vacant for some time. These positions include MD & CEO, Chief Technology officer, and EVP – Market Operations. Currently MCX is led by Mr. Parveen Singhal who is a Joint Managing Director (having a term of 3 years till September 2017). Mr. Singhal was responsible for steadying the business during crisis time and his continuity offers comfort for investors. Deadline for recruiting MD & CEO position has expired and MCX has asked for extension from FMC for the same. Search for MD & CEO is likely to complete by 3Q15/4Q15 while other positions will be filled in due course. Strong leadership team at the exchange would be a key monitorable.

Annexure – Rules and regulations announced by FMC

- **21-Nov-14:** Strengthening of warehousing facilities in the commodity futures market Norms Regarding Ownership, Net worth, Corporate Governance etc. for accreditation of Warehouse Service Providers (WSPs) for Agri and Agri -processed commodities traded at National Multi-Commodity Exchanges http://www.fmc.gov.in/show_file.aspx?linkid=Norms%20for%20WSP%2020_11_2014-421250930.pdf

- **07-Nov-14:** Exemption of commodities kept in regulated warehouses http://www.fmc.gov.in/show_file.aspx?linkid=Exemption%20to%20commodities%20kept%20in%20regulated%20warehouses-459555321.pdf

- **11-Jun-14:** Revised Norms for Constitution of the Board of Directors, Committees, Nomination and Role of Independent Directors, Appointment of Managing Director/Chief Executives, etc. at the Nationwide Multi Commodity Exchanges http://www.fmc.gov.in/show_file.aspx?linkid=FORWARDING%20LETTER%20FOR%20CG-686763720.pdf

- **06-May14:** Revised Norms Regarding Shareholding, Ownership, Net Worth, Fit and Proper Criteria of the Nationwide Multi Commodity Exchange http://www.fmc.gov.in/show_file.aspx?linkid=Revised%20Norms-167853811.pdf

- **25-Apr-14:** Refund of interest free deposit to members surrendering membership http://www.fmc.gov.in/show_file.aspx?linkid=surrender%20of%20membership%2025042014(1)-281948736.pdf

- **14-Mar-14:** Guidelines on creation of SGF on the basis of risk assessment http://www.fmc.gov.in/show_file.aspx?linkid=SGF-580045388.pdf

- **18-Feb-14:** Transaction Charges – different transaction charges for different commodities' contracts http://www.fmc.gov.in/show_file.aspx?linkid=Transcation%20charges-163393817-187481435.pdf

- **24-Dec-13:** Broad Guidelines on Algorithmic Trading http://www.fmc.gov.in/show_file.aspx?linkid=Algo%20trade-website-720208111.pdf

- **30-Nov-12:** Not allowing of Algo/High Frequency Trade (HFT) in mini and micro contracts with effect from 1st January 2013 http://fmc.gov.in/show_file.aspx?linkid=algo-HFT%2030_11-992337147.pdf

Financial Tables (Consolidated)

Profit & Loss (₹ Mn)	FY13	FY14	FY15E	FY16E	FY17E
Income From Operations	5,030	3,235	2,308	2,693	3,282
Profit on sale of Investment	484	447	400	450	525
Other Income	938	721	747	811	856
Total Revenue	**6,452**	**4,403**	**3,455**	**3,954**	**4,663**
Employee Cost	289	313	351	374	411
Other Operating Expenses	2,082	1,964	1,477	1,620	1,787
Total Expenses	**2,371**	**2,277**	**1,828**	**1,993**	**2,197**
Operating Profit	**4,081**	**2,126**	**1,627**	**1,961**	**2,465**
Provisions	**25**	**26**	**0**	**0**	**0**
PBT	**4,056**	**2,100**	**1,627**	**1,961**	**2,465**
Tax	1,065	569	374	529	641
PAT (before share of profit of Associate)	**2,991**	**1,531**	**1,253**	**1,431**	**1,824**
Share of profit of Associate	0	0	3	3	3
PAT (Pre-extraordinaries)	2,992	1,532	1,256	1,434	1,827
Extra ordinaries (Net of Tax)	0	0	0	0	0
Reported Profits	**2,992**	**1,532**	**1,256**	**1,434**	**1,827**
Dividend	1,427	597	588	671	1,069
Retained Profits	**1,564**	**935**	**668**	**763**	**758**

Source: Company, JM Financial

Balance Sheet (₹ Mn)	FY13	FY14	FY15E	FY16E	FY17E
Capital	510	510	510	510	510
Reserves and Surplus	11,051	10,949	11,617	12,380	13,139
Share holders equity	**11,561**	**11,459**	**12,127**	**12,890**	**13,649**
Settlement Guarantee Fund	21	1,720	1,720	1,820	1,970
Stock Option Outstanding	0	0	0	0	0
Borrowed Funds	0	0	0	0	0
Trading Margin from Members	4,324	2,585	1,679	2,015	2,620
Deferred tax liabilities	196	152	158	164	171
Current Liabilities and Provisions	1,770	1,518	1,551	1,569	1,557
Total Liabilities	**17,872**	**17,434**	**17,236**	**18,459**	**19,967**
Investments	10,696	10,915	11,680	11,121	11,900
Sundry debtors/Trade receivables	69	90	58	56	59
Cash & Bank Balances	3,586	3,419	2,884	4,399	4,868
Loans & Advances	950	956	517	554	599
Fixed Assets	2,571	2,054	2,097	2,329	2,541
Miscellaneous expenditure	0	0	0	0	0
Deferred Tax Asset	0	0	0	0	0
Total Assets	**17,872**	**17,434**	**17,236**	**18,459**	**19,967**

Source: Company, JM Financial

Key Ratios (%)	FY13	FY14	FY15E	FY16E	FY17E
Growth (YoY) (%)					
Total Assets	-4.8%	-2.5%	-1.1%	7.1%	8.2%
Income from Operations	-5.0%	-35.7%	-28.7%	16.7%	21.8%
Operating Expenses	8.7%	-4.0%	-19.7%	9.1%	10.2%
Operating Profits	-1.2%	-47.9%	-23.5%	20.5%	25.7%
Core Operating Profits	-8.4%	-53.3%	-26.9%	23.1%	28.4%
Provisions	-8.0%	5.9%	-100.0%	NA	NA
Reported PAT	4.3%	-48.8%	-18.0%	14.2%	27.4%
Turnover Value	-5%	-42%	-35%	20%	30%
Members	-2%	-2%	1%	2%	2%
Profitability (%)					
Transaction charges per Rs1 lac (single side)	1.62	1.77	1.87	1.82	1.72
Dividend Payout (%)	41%	33%	40%	40%	50%
ROA (%)	16.33%	8.68%	7.25%	8.04%	9.51%
ROE (%)	27.8%	13.3%	10.7%	11.5%	13.8%
EBITDA Margin (%)	59%	41%	32%	36%	41%

Source: Company, JM Financial

Du-pont Analysis (%)	FY13	FY14	FY15E	FY16E	FY17E
Income from operations / Assets (%)	27.5%	18.3%	13.3%	15.1%	17.1%
Other income / Assets (%)	7.8%	6.6%	6.6%	7.1%	7.2%
Total Income / Assets (%)	35.2%	24.9%	19.9%	22.2%	24.3%
Cost to Assets (%)	12.9%	12.9%	10.5%	11.2%	11.4%
PPP / Assets (%)	22.3%	12.0%	9.4%	11.0%	12.8%
Provisions / Assets (%)	0.1%	0.1%	0.0%	0.0%	0.0%
PBT / Assets (%)	22.1%	11.9%	9.4%	11.0%	12.8%
Tax Rate (%)	26.3%	27.1%	23.0%	27.0%	26.0%
ROA (%)	16.3%	8.7%	7.2%	8.0%	9.5%
ROE (%)	27.8%	13.3%	10.7%	11.5%	13.8%

Source: Company, JM Financial.

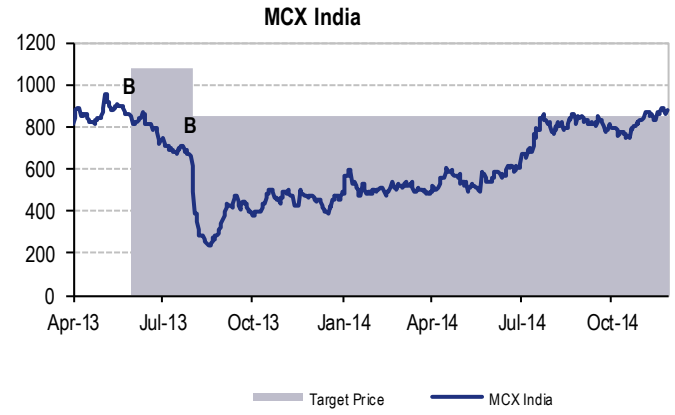
Valuations	FY13	FY14	FY15E	FY16E	FY17E
Shares in issue (mn)	51.0	51.0	51.0	51.0	51.0
EPS (Rs.)	58.7	30.0	24.6	28.1	35.8
EPS (YoY) (%)	3.9%	-48.8%	-18.0%	14.2%	27.4%
PE (x)	14.6	28.5	34.8	30.5	23.9
BV (Rs.)	227	225	238	253	268
BV (YoY) (%)	16%	-1%	6%	6%	6%
P/BV (x)	3.78	3.81	3.60	3.39	3.20
DPS (Rs.)	24.0	10.0	9.9	11.3	17.9
Div. yield (%)	2.8%	1.2%	1.1%	1.3%	2.1%

Source: Company, JM Financial.

History of earnings estimates and target price

Date	FY15E EPS (₹)	% Chg.	FY16E EPS (₹)	% Chg.	Target Price	% Chg.
29-May-13	54.1				1,080	
30-Jul-13	49.9	-7.8			850	-21.3

Recommendation history



APPENDIX I

JM Financial Institutional Securities Limited

(Formerly known as JM Financial Institutional Securities Private Limited)

Corporate Identity Number: U65192MH1995PLC092522
Member of BSE Ltd. and National Stock Exchange of India Ltd. and MCX Stock Exchange Ltd.
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