HDFC securities

INSTITUTIONAL RESEARCH

RE-INITIATING COVERAGE | 19 OCT 2016

Multi Commodity Exchange

BUY

INDUSTRY	**EXCHANGES**
CMP *(as on 19 Oct 2016)*	**Rs 1,312**
Target Price	**Rs 1,667**
Nifty	8,659
Sensex	27,984
KEY STOCK DATA	
Bloomberg	MCX IN
No. of Shares (mn)	51
MCap (Rs bn) / ($ mn)	67/1,003
6m avg traded value (Rs mn)	484
STOCK PERFORMANCE (%)	
52 Week high / low	**Rs 1,420/725**

	3M	6M	12M
Absolute (%)	30.8	58.0	40.2
Relative (%)	30.1	49.6	37.9

SHAREHOLDING PATTERN (%)	
Promoters	0.00
FIs & Local MFs	39.82
FIIs	19.24
Public & Others	40.94

Source : BSE

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MCX Ver 2.0

Exchanges are great businesses with embedded non-linearity, negative working capital and low incremental capital needs. MCX is a world class oligopoly and a persistent leader in Indian commodities futures (~88% market share). It has bounced back strongly after weathering a promoter shock in 2013 and several regulatory bottlenecks.

MCX is now led by a painstakingly chosen, experienced and seasoned CEO and well poised to capitalize on regulatory evolution (triggered by the SEBI-FMC merger). Our conviction is driven by the fact that commodity exchange business is at a relative infancy in India and offers scope for non-linear growth with favorable policy evolution (options, Institutional participation and new product launches - index).

In Sep-16, SEBI allowed options trading in commodities (an indication of regulatory easing), a long awaited reform which will boost volumes (ADTV) significantly. On NSE, options turnover is ~4x futures turnover and has grown at a CAGR of 59% over the last 10 years. With only ~20% yield vs futures, options account for ~47% of NSE's revenue from derivatives. We expect MCX's ADTV to grow at a CAGR of ~52% over FY16-19E (futures ADTV CAGR at 13%) and return to pre-CTT imposition levels by FY18E.

The recent hike in transaction charges by ~25% was a bold move and reflects pricing power. We note that the trading cost impact will be only ~6% for an end user and is unlikely to hit volumes. However rise in options volume will put pressure on blended realisations due to lower yields (which we have factored will decline at ~13% CAGR over FY16-19E).

Valuation and Outlook

- We expect 30/29% CAGR in revenue/EPS for FY16-19E. Despite the recent stock outperformance following hike in transaction charges and pending regulatory approvals in Sep'16, we still see significant value in MCX based on (1) Strong business franchise, (2) senior management rejig, (3) Embedded non-linearity, (4) Favorable regulatory environment, and (5) Super-normal growth prospects with valuations at 57% PEG discount to EM average. **We re-initiate coverage on MCX with a BUY rating and TP of Rs 1,667 implying a P/E of 40x Sep-18' EPS.**

Financial Summary (Standalone)

YE March (Rs mn)	FY15	FY16	FY17E	FY18E	FY19E
Net Revenues	2,225	2,349	3,116	4,139	5,105
EBITDA	876	767	1,307	2,049	2,730
APAT	1,251	1,085	1,439	1,899	2,351
Diluted EPS (Rs)	24.6	21.3	28.2	37.2	46.1
P/B (x)	5.6	5.6	5.3	4.9	4.5
P/E (x)	53.3	61.7	46.5	35.2	28.5
EV / EBITDA (x)	61.6	73.0	42.4	27.7	20.4
RoE (%)	10.7	9.0	11.6	14.4	16.6

Source: Company, HDFC sec Inst Research

Commodity Options trading : A long awaited boost

Allowing options in commodity is a revolutionary decision by SEBI; will transform the Indian commodity market

MCX with ~88% market share will be the key beneficiary

Globally options' contribution is low but the scenario is totally different in India

In commodity derivative market this ratio is even lower; options only ~6% of total volume

Low ratio can be explained as China ~50% of the market does not allow options trading

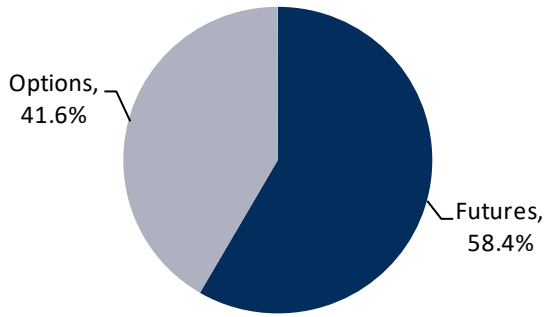
SEBI allowed trading in commodity options which will enhance trading volumes

- SEBI on its 1st anniversary as a regulator, allowed options trading in the commodity derivative segment. It was a keenly discussed, awaited and a critical reform required to drive overall commodity derivative market development. Options will help in attracting more hedgers and retail clients; bring more liquidity and depth in the market.
- The circular states that exchanges that are willing to start options trading could do so but after taking approval from the regulator. However the circular has not mentioned (1) commodities that have been allowed, (2) date for commencement of trading and (3) the pricing mechanism. SEBI said that detailed guidelines will be issued in relation to this, shortly.
- This in our view is a very radical decision which can transform the commodities derivative market in India. MCX will be the biggest beneficiary as it commands ~88% market share with a robust technological infrastructure.
- We expect options to start trading from 4QFY17E and initially option contracts will commence trading in highly liquid commodities like Crude, gold and silver. Currently Bullions and Energy constitute for ~70% of total turnover.

Global Commodity Derivative Market

- Globally, option contracts constitute ~42% of the total contracts traded (both equities and commodities). If we consider only commodities derivative market, options constitute only ~6% of the total traded volume. This low contribution of options to overall volume is primarily because options are not traded in China. Dalian commodity exchange (China), The Shanghai Futures (China) and CME group account for ~70% of the total traded volume globally for commodities.
- Globally, Commodity market has grown at CAGR of 20% for the last 10 years (CY05-15) and 26% in CY15. Total 4.3 bn contracts were traded and rise in volume was fueled by 55% increase in Asia-pacific followed by America (+28%) and EMEA (+16%). MCX stood the 6th largest exchange globally in terms of contracts traded and commands 5% market share globally.
- The growth in Asia-pacific was led by Dalian Commodity Exchange (China) and the Shanghai Futures Exchange (China).

Global Derivative market split

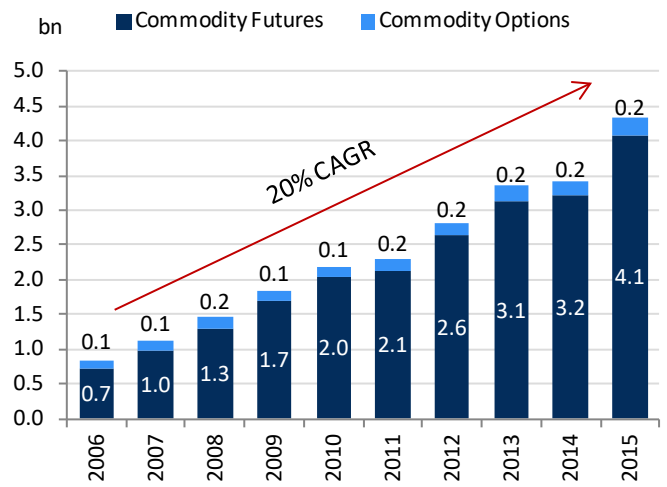


Source: FIA, World federation of Exchanges (WFE), HDFC sec Inst Research

MCX is the 6th largest commodity exchange globally in terms of contracts traded

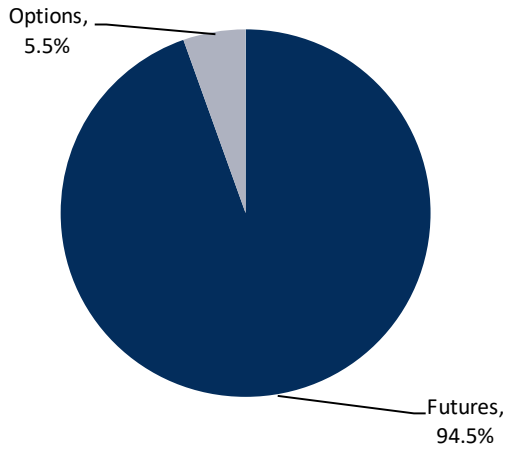
Dalian commodity exchange (China), The Shanghai Futures (China) and CME group account for ~70% of the total derivative market globally

Global Commodity Derivative Market



Source: FIA, WFE, HDFC sec Inst Research

Global Commodity Derivative Market split



Source: FIA, WFE, HDFC sec Inst Research

Global Commodity Exchange Volume and Rankings

Exchange	Volume (mn)	Market Share	Rank
Dalian Commodity Exchange (China)	1,116	25.8%	1
Shanghai Futures Exchange (China)	1,050	24.3%	2
CME Group (America)	906	21.0%	3
ICE Futures Europe (EMEA)	370	8.6%	4
ICE Futures US (America)	304	7.0%	5
Multi Commodity Exchange of India (EMEA)	216	5.0%	6
London Metal Exchange (EMEA)	170	3.9%	7
Moscow Exchange (EMEA)	123	2.9%	8
Others	30	0.7%	9
MEFF (EMEA)	23	0.5%	10
Euronext (EMEA)	13	0.3%	11

Source: FIA, WFE, HDFC sec Inst Research

India's scenerio is totally different: Options dominate the Indian derivative market

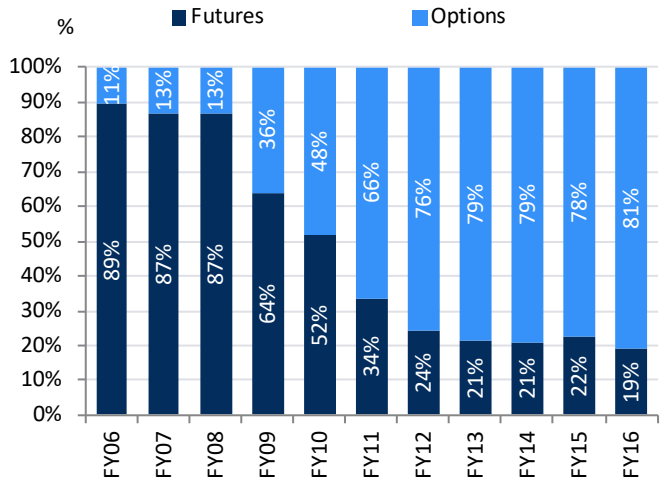
In India options are very popular due to its lower margin requirement and low cost of trading

- In India options market is more attractive vs futures because of the following reasons (1) higher tax structure in India which makes capital more expensive, (2) Value based commission structure, and (3) Capital blocked in options Premium is lower than margin in futures.
- Option trading was not allowed in commodities till Sep 2016 so we have NSE derivative market as comparison, which has evolved over the last 15 years.

Options contract constitute ~82% of the total derivative volume and has grown at a CAGR of 58% in the last 10 years (FY06-16)

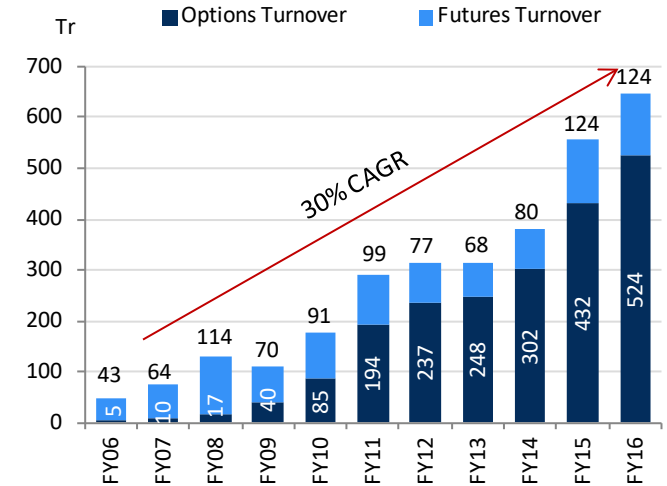
- In NSE, Options contract are ~82% of the total derivative volume and has grown at a CAGR of 58% in the last 10 years (FY06-16). Futures volume has grown at a CAGR of 10% over the same period.
- **We believe Indian commodity market is at very nascent stage and can follow the foot steps of equities markets (NSE).**

NSE Futures and Options split



Source: NSE, HDFC sec Inst Research

NSE Derivative Market Growth FY06-16 (Rs Tr)



Source: NSE, HDFC sec Inst Research

NSE Derivative Market Growth

		FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	10 Year CAGR
Index Futures	No. of contracts (mn)	59	81	157	210	178	165	146	96	105	129	141	9.2%
	Turnover (Rs bn)	15,138	25,396	38,207	35,701	39,344	43,568	35,780	25,271	30,831	41,072	45,571	11.7%
	YoY Growth %	*96.0%*	*67.8%*	*50.4%*	*-6.6%*	*10.2%*	*10.7%*	*-17.9%*	*-29.4%*	*22.0%*	*33.2%*	*11.0%*	
Stock Futures	No. of contracts (mn)	81	105	204	222	146	186	158	148	170	238	234	11.2%
	Turnover (Rs bn)	27,917	38,310	75,486	34,796	51,952	54,958	40,747	42,239	49,493	82,918	78,286	10.9%
	YoY Growth %	*88.1%*	*37.2%*	*97.0%*	*-53.9%*	*49.3%*	*5.8%*	*-25.9%*	*3.7%*	*17.2%*	*67.5%*	*-5.6%*	
Index Options	No. of contracts (mn)	13	25	55	212	341	651	864	821	929	1,379	1,624	62.1%
	Notional Turnover (Rs bn)	3,385	7,919	13,621	37,315	80,280	183,654	227,200	227,816	277,673	399,227	489,519	64.4%
	YoY Growth %	*177.6%*	*134.0%*	*72.0%*	*173.9%*	*115.1%*	*128.8%*	*23.7%*	*0.3%*	*21.9%*	*43.8%*	*22.6%*	
	Premium Turnover (Rs bn)	58	177	293	917	1,244	1,926	2,531	1,844	2,441	2,653	3,531	50.9%
	YoY Growth %	*144.8%*	*205.9%*	*65.9%*	*213.2%*	*35.7%*	*54.8%*	*31.4%*	*-27.1%*	*32.4%*	*8.7%*	*33.1%*	
Stock Options	No. of contracts (mn)	5	5	9	13	14	33	36	67	80	91	100	34.3%
	Notional Turnover (Rs bn)	1,803	1,938	3,591	2,292	5,061	10,303	9,770	20,004	24,095	32,826	34,882	34.5%
	YoY Growth %	*6.8%*	*7.5%*	*85.3%*	*-36.2%*	*120.8%*	*103.6%*	*-5.2%*	*104.7%*	*20.4%*	*36.2%*	*6.3%*	
	Premium Turnover (Rs bn)	49	59	136	83	153	205	196	343	464	617	614	28.8%
	YoY Growth %	*-1.1%*	*20.6%*	*130.0%*	*-39.3%*	*85.1%*	*34.1%*	*-4.2%*	*74.8%*	*35.4%*	*33.0%*	*-0.5%*	
Total	No. of contracts (mn)	158	217	425	657	679	1,034	1,205	1,131	1,284	1,837	2,099	29.5%
	Turnover (Rs bn)	48,242	73,562	130,905	110,105	176,637	292,482	313,497	315,330	382,114	556,065	648,258	29.7%
	YoY Growth %	*89.4%*	*52.5%*	*78.0%*	*-15.9%*	*60.4%*	*65.6%*	*7.2%*	*0.6%*	*21.2%*	*45.5%*	*16.6%*	
	ADTV (Rs bn)	192	295	522	453	724	1,152	1,259	1,266	1,522	2,288	2,625	29.9%
	YoY Growth %	*90.2%*	*53.7%*	*76.5%*	*-13.1%*	*59.8%*	*59.1%*	*9.3%*	*0.6%*	*20.2%*	*50.3%*	*14.7%*	

Source: NSE, HDFC sec Inst Research

Options will provide the thrust

Cost of trading in options is relatively lower as STT is levied on the premium value which is only ~2-3% of total exposure

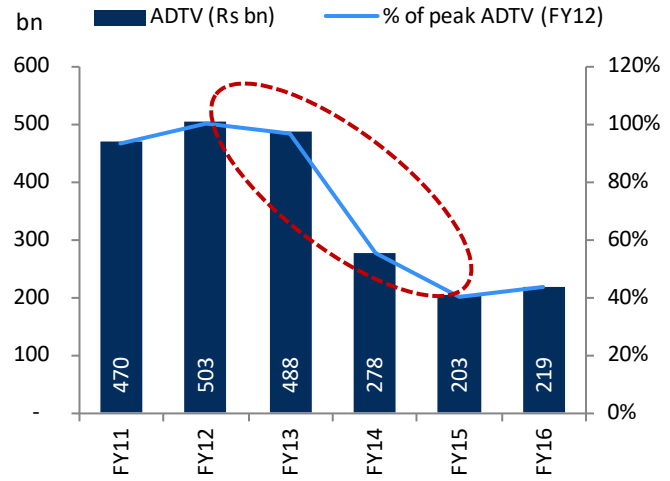
MCX' volumes dipped sharply after imposition of CTT due to ~3x rise in cost of trading (ex-brokerage)

NSE options volumes picked up significantly after imposition of STT in 2005

We believe Indian commodity market is at very nascent stage and can follow the footsteps of equities markets (NSE)

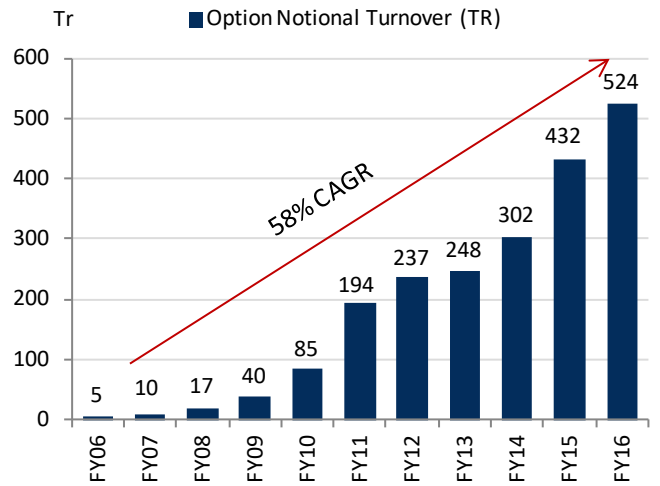
- The securities and transaction tax (STT) was levied on futures and options trading in India in 2005**.** As a result hedgers and speculators lowered positions in futures to manage thin trading margins. However, in options, STT is only applicable on the premium value which is much lower than actual exposure.
- This results in lower effective tax for the same underlying exposure. The tax benefit and low capital requirement provided huge boost to options volume on NSE since 2005 (grew at a healthy CAGR of 58% for FY06-16).
- Similarly, CTT was imposed in 2013 for Commodities trading which resulted in sharp drop in trading volumes as options were not available as an alternative trading tool.
- We believe commodity options volume will increase sharply as cost of CTT in options is negligible vs futures (CTT is charged on Options premium and not on the notional turnover). Also futures and options provide better arbitrage opportunities, futures volume will also go up with rise in option volumes.
- We observe for taking the same exposure, cost of trading in options is less compared to futures. This has led to high popularity of option market and currently options turnover on NSE is ~4x futures.

MCX ADTV declined after imposition of CTT in FY13



Source: Company, HDFC sec Inst Research

NSE option turnover growth in the last 10 years after imposition of STT (Rs Tr)



Source: NSE, HDFC sec Inst Research

MCX Futures transaction charges impact after imposition of CTT

Statutory transaction charges	%	Rs/mn	Rs/mn	Increase %
		After CTT	Before CTT	
CTT (levied on sale)	0.010%	100		
Stamp Duty	0.001%	10	10	
Exchange charge	0.002%	21	21	
Service tax on exchange levies	15% of exchange charges	3	3	
Total cost (ex-brokerage)		134	34	292%
Brokerage (Discretionary)		100	100	
Total cost of trading		234	134	74%

Source: Company, HDFC sec Inst Research

NSE futures transaction charges

Statutory transaction charges	%	Rs/mn Futures
STT (levied on sale)	0.010%	100
Stamp Duty	0.002%	20
Exchange charge	0.002%	19
Service tax on exchange levies	15% of exchange charges	3
Total cost (ex-brokerage)		142
Brokerage (Discretionary)		100
Total cost of trading		242

Source: NSE, HDFC sec Inst Research

NSE Options transaction charges on Premium and Notional Turnover

Statutory transaction charges	%	Rs/mn	Rs/mn
		On Premium	On Notional Turnover
STT (levied on premium amount and only Sell side)	0.050%	500	1.6
State Stamp Duty + Sebi Turnover (On Premium)	0.002%	24	0.1
Exchange charge (levied On Premium)	0.050%	502	1.7
Service tax on exchange levies	15% of exchange charges	78	0.3
Total cost (ex-brokerage)		1,103	3.6
Brokerage (Discretionary)		100	100
Total cost of trading		1,203	104

Source: NSE, HDFC sec Inst Research

Multiple positive triggers to drive revenue

Options trading to start from 4QFY17E (tentative)

- We expect options trading in commodities to start from 4QFY17E and a detailed guidelines from SEBI on pricing and regulations is expected shortly.

We have assumed ADTV to reach the pre CTT level by FY18E and can cross that significantly in subsequent years

- We have incorporated options volumes in our ADTV estimates and have assumed options ADTV to be ~50% of current futures turnover in 4QFY17E and will gradually increase to ~75% by FY18E.
- Total ADTV is expected to increase by 33/71% to Rs292/500bn in FY17/18E respectively. We have assumed ADTV to reach the pre-CTT level by FY18E and can cross that significantly in subsequent years.

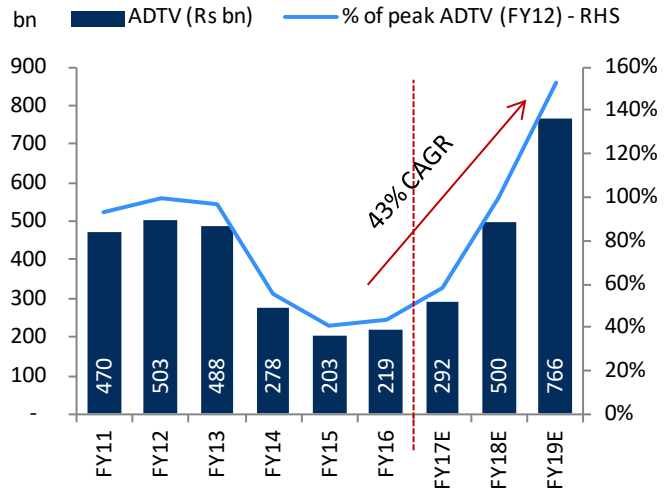
Options realisations are lower than futures if computed on total turnover

- The realisation from options is only ~20% of futures realisation as the transaction charges in options is levied on the premium turnover which is only ~2-3% of notional turnover.

Rise in options volume in MCX will put pressure on blended realisations

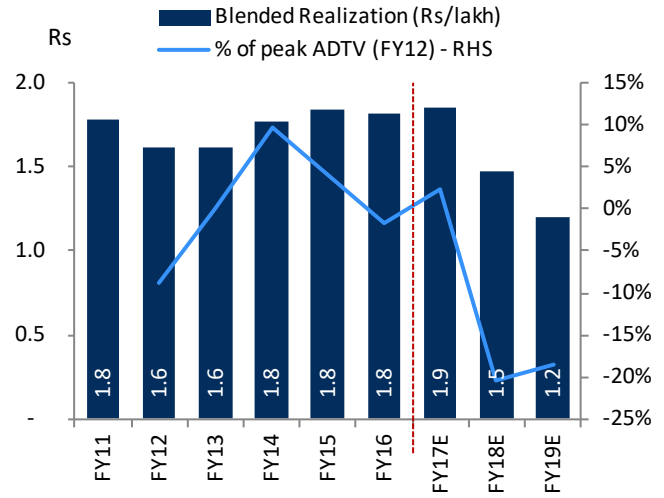
- We assume that options trading will boost ADTV by 11/43% while realisation will be impacted by -9%/-34% in FY17/18E respectively.
- Due to lower options realisation the blended realisation falls 20.5% in FY18E offset by hike in transaction charges.
- This ADTV assumption isn't contingent on successful forays of the company in any new commodity areas, which can pose upside risks to our assumptions.

MCX ADTV to increase from option trading



Source: Company, HDFC sec Inst Research

Realisation is falling due to lower option realisation



Source: Company, HDFC sec Inst Research

Hike in transaction charges : Icing on the cake

Hike in transaction charges by 25% will have negligible impact on volumes as the real impact is only ~6%

- MCX raised its transaction charges on 26th Sep 2016 by 25% for non-Agri commodities which account for ~98% of turnover. Agri commodities transaction charges were also hiked by 250%.
- The company earns Rs18/mn on a blended basis which has increased to Rs 23/mn with effect from 1st October 2016. This action clearly depicts the commanding position MCX holds in the commodities market. This will directly benefit the transaction revenue which will rise by ~20-25% depending upon the volumes impact (only ~1% ADTV impact in Oct vs. FY16 ADTV).

Hike was done to offset rising fixed costs

- Hike in transaction charges was done to offset the rise in manpower cost (related to many senior-levels hiring in the last six months). Investment has also been made in developing several greenfield technologies like currency, reduction of co-locations and High frequency trading Algorithms (HFT) which has led to rise in overall fixed cost.
- We believe the impact on turnover will be minimal as the hike impact ex-brokerage will be only ~6% for a buy and sell transaction as depicted in the table below.

Quantum of hike in Transaction charges

Charge in Rs per mn/- turnover	OLD		NEW		*Change %*
	Avg. daily turnover (Rs mn)	Transaction Charge (Rs/mn)	Avg. daily turnover (Rs mn)	Transaction Charge (Rs/mn)	
Non-agri commodities	3,500	21.0	3,500	26.0	*23.8*
	> 3,500	14.0	> 3,500	17.5	*25.0*
Agri commodities	200	7.5	200	17.5	*133.3*
	> 200	5.0	> 200	17.5	*250.0*

Source: Company, HDFC sec Inst Research

Impact of hike in Transaction charges for a Buy and Sell Trade

Transaction charges for buy and sell	%	Rs/mn Old	Rs/mn New	Increase %
Buy Trade				
CTT (levied on sale)	0.010%	0	0	0%
State Stamp Duty + SEBI Turnover	0.001%	12	12	0%
Exchange charge	0.002%	18	23	25%
Service tax on exchange levies	15% of exchange charges	3	3	25%
Buy side cost (ex-brokerage)		33	38	16%
Sell Trade				
CTT (levied on sale)	0.010%	100	100	0%
State Stamp Duty + SEBI Turnover	0.001%	12	12	0%
Exchange charge	0.002%	18	23	25%
Service tax on exchange levies	15% of exchange charges	3	3	25%
Sell side cost (ex-brokerage)		133	138	4%
Total Cost		**166**	**176**	**6%**

Source: Company, HDFC sec Inst Research

ADTV and Realisation Assumptions

	FY16	FY17E	FY18E	FY19E
Futures ADTV (Rs bn)	219	259	285	321
YoY %	*7.9%*	*18.2%*	*10.0%*	*12.4%*
Options ADTV (Rs bn)	0	33	215	446
YoY %			*544.2%*	*107.4%*
Total ADTV (Rs bn)	219	292	500	766
YoY %	*7.9%*	*33.4%*	*71.0%*	*53.2%*
Realisation Of Futures (Rs/lakh)	1.9	2.0	2.3	2.3
YoY %	*-2.8%*	*6.8%*	*10.4%*	*0.0%*
Realisation Of Options (Rs/lakh)	0.0	0.5	0.5	0.5
YoY %			*0.0%*	*0.0%*
Blended Realisation (Rs/lakh)	1.8	1.9	1.5	1.2
YoY %	*-1.6%*	*2.4%*	*-20.5%*	*-18.5%*

Source: Company, HDFC sec Inst Research

Transaction fees driven by higher ADTV

ADTV to increase by 33/71% to 292/500bn in FY17/18E respectively which coupled with higher realisation will boost transaction fee

- Transaction fee is likely to be the key revenue driver, which is dependent on trading value and realisations. Improving ADTV, as a result of renewed business focus and introduction of options will propel revenue growth.
- Also volumes from existing categories are relatively easy to achieve in an under-penetrated market where there is very limited hedging behavior.
- We expect pricing to grow by 2.4% in FY17E to Rs 19/mn boosted by hike in transaction charges but will decline by 20.5% in FY18E due to lower option realisation.

Transaction fee accounts for ~90% of Total operating Income

MCX revenue

In Rs mn, YE March	FY16	FY17E	FY18E	FY19E
MCX Turnover (Rs Tr)	56	75	128	195
YoY growth (%)	*7.9%*	*33.4%*	*71.0%*	*53.2%*
ADTV (Rs bn/day)	219	292	500	766
YoY growth (%)	*7.9%*	*33.4%*	*71.0%*	*53.2%*
Transaction charges Rs/100k (single side)	1.8	1.9	1.5	1.2
Operating income	**2,349**	**3,116**	**4,139**	**5,105**
YoY growth (%)	*5.6%*	*32.6%*	*32.8%*	*23.4%*
Transaction fees	2,029	2,771	3,766	4,702
YoY growth (%)	*6.2%*	*36.6%*	*35.9%*	*24.9%*
% of operating income	86	89	91	92
Other operating income	320	345	372	403
YoY growth (%)	*2.1%*	*7.7%*	*7.9%*	*8.1%*
% of operating income	13.6%	11.1%	9.0%	7.9%

Source: Company, HDFC sec Inst Research

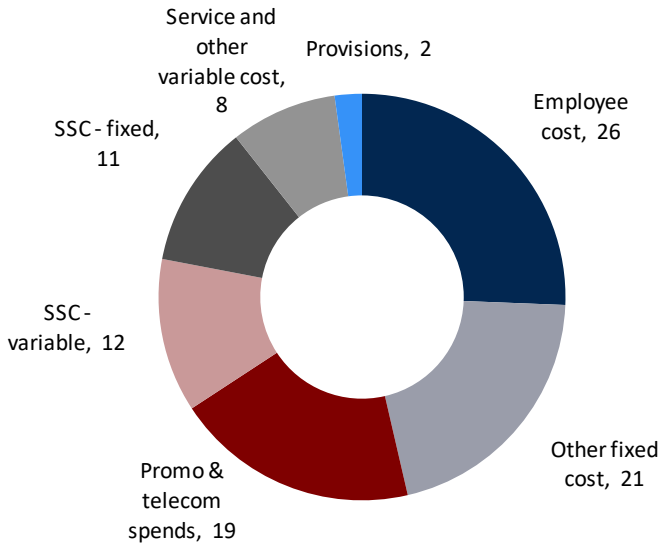
Operating leverage will kick in with growth

A large part of costs are fixed. Hence, exchanges benefit disproportionately from increased revenue

- The exchanges business has significant scope for non-linear growth arising from volume increases due to (1) greater volumes in existing product categories, (2) product launches getting new hedging/trading clientele on the exchange.
- Nearly 2/3rd of MCX's FY16 operating cost was fixed, including fixed software contract charges, employee cost, promotional and telecom spends, provisions and other fixed costs. **This clearly indicates the scope for operating leverage in the business**.
- Global data also indicates that the revenue of exchanges has grown at a much faster pace than operating costs indicating that the business has strong operating leverage potential.

Business development can result in new product launches, which can drive volumes

MCX operating cost profile (%)



Source: Company, HDFC sec Inst Research

MCX cost model

In Rs mn, YE March	FY16	FY17E	FY18E	FY19E
Fixed cost	**1,255**	**1,382**	**1,491**	**1,602**
YoY growth (%)	*21.6*	*10.1*	*7.9*	*7.4*
% of operating income	*53.4*	*44.3*	*36.0*	*31.4*
Employee cost	406	479	535	589
YoY growth (%)	*16.1*	*18.0*	*11.8*	*10.0*
% of operating income	*17.3*	*15.4*	*12.9*	*11.5*
Software service charge - fixed	180	180	180	180
YoY growth (%)	*(7.7)*	*0.0*	*0.0*	*0.0*
% of operating income	*7.7*	*5.8*	*4.3*	*3.5*
Promotion and comm. .spends	307	330	353	377
YoY growth (%)	*34.8*	*7.5*	*6.9*	*6.9*
% of operating income	*13.1*	*10.6*	*8.5*	*7.4*
Provisions	34	38	41	45
YoY growth (%)	*(179.8)*	*10.0*	*10.0*	*10.0*
% of operating income	*1.5*	*1.2*	*1.0*	*0.9*
Other fixed cost	329	356	382	411
YoY growth (%)	*8.4*	*8.2*	*7.4*	*7.4*
% of operating income	*14.0*	*11.4*	*9.2*	*8.0*
Variable cost	**328**	**427**	**599**	**773**
YoY growth (%)	*3.4*	*30.3*	*40.2*	*29.2*
% of operating income	*13.9*	*13.7*	*14.5*	*15.2*
Software service charge - variable	194	263	358	447
YoY growth (%)	*2.5*	*36.0*	*35.9*	*24.9*
% of operating income	*8.2*	*8.4*	*8.6*	*8.8*
Other variable cost	134	164	241	327
YoY growth (%)	*4.7*	*22.1*	*47.2*	*35.6*
% of operating income	*5.7*	*5.3*	*5.8*	*6.4*
Operating EBITDA	**767**	**1,307**	**2,049**	**2,730**
YoY growth (%)	*(12.5)*	*70.5*	*56.7*	*33.2*
EBITDA margin (%)	*32.6*	*42.0*	*49.5*	*53.5*
YoY change (bps)	*(673)*	*933*	*755*	*397*

Source: Company, HDFC sec Inst Research

Regulatory winds blowing in the right direction

We view the change in regulatory environment as an opportunity for growth

- Completion of SEBI and FMC merger has opened the door for much awaited reforms in the sector. This is obvious from the fact that options trading was allowed on the 1st anniversary of the merger. We expect further reforms to follow but in a phased manner.
- The following constraints are in the way of achieving higher ADTV such as (1) absence of financial institutions/foreign investors, which is necessary for adequate liquidity (2) absence of long-term contracts to fulfill needs of large corporate clients.
- We believe that once the regulatory restrictions ease, MCX could potentially create appropriate contracts, invest in business development and achieve a step-jump in volumes. This could be an easy pathway to non-linear growth driven by increased adoption of existing products by a new set of clients.

Greater number of participants and increased market depth, if FIs and FIIs are allowed to participate

New product development will drive volumes

New product launches like indices will further boost volumes

- The longer-term growth driver, where MCX can achieve volume explosion is new product launches. Option has given the platform for creating new products around it to increase participation from traders and hedgers.
- This is harder to achieve, as it involves creation of an ecosystem in a new commodity – standardization of contracts, educating the commodity's producers/consumers about the importance of hedging, regulatory approvals for contracts, price dissemination mechanism etc.
- While it is very difficult to pinpoint the quantum and area of success of new product launches, we believe that a dominant exchange, which already has sticky participation from investors is best positioned to capitalize on new products.
- The upside from new product and commodity launches can be substantial, as new volumes ramp up under a largely fixed cost structure, barring operational spends for research and business development in the new product.

Oligopolistic nature of the business: Volumes beget Volumes

Volume-leadership is hard to compete against and volumes beget volumes

- Exchanges are businesses with strong network effects and there are several characteristics that embody the oligopolistic nature of the business. Volumes beget volumes and are the single most important determinant of business. MCX has an unshakeable market leadership in Bullion, metals and energy with market share of ~98-99.9%.
- Options trading will boost trading volumes which in turn will increase futures volumes as there is pair trading and hedging strategies available which can be supplementary.
- We believe MCX is poised for an exponential jump in trading volumes as regulatory pressure eases and the gap between Equities and commodities narrow down.

Separate and independent Clearing corporation will open roads for Institutional participation

In terms of technology MCX is fully enabled to handle options volume

Setting up of a clearing corporation will improve transparency

- MCX is in the process of setting up a 100% subsidiary MCX Clearing Corporation Limited (MCX CCL) for the clearing and settlement process. This is in-line with the equity exchanges and will improve transparency in the settlement process. Currently all the clearing and settlement is performed in-house.
- The company has already applied for regulatory approval and investment will be ~Rs 2.5-3.0bn (paid up capital will be Rs 60mn).
- This separate clearing house is more of a regulatory requirement. A separate and independent clearing corporation is a mandatory requirement for Institutional participation. The cost of clearing will not decrease but efficiency and transparency will increase. We see this as the first step towards SEBI allowing Institutional participation in commodities market.

Technologically Enabled

- MCX has its technology tie-up with Financial Technology (FT) till FY22 and it covers option contracts as well.

  FT has been an excellent technology partner and there has been no technological glitch ever. There is no need for immediate plan for change in vendor however in the long run the company may look out for other technological vendors (one with better offering in terms of technology and pricing).
- MCX will negotiate with the existing vendor on pricing once they have an alternative. On regular basis investment in technology up gradation will continue as this is mandatory for the business.
- Technology is at the core and is very critical to the business. Additionally, there is huge scope in newer areas like algorithms and HFT but are subject to regulatory approvals. Currently, there are restrictions on number of order/sec executed in commodities vs. no restriction in equities. This becomes a hurdle for HFT algorithms trades which fuels volumes.
- The FT technology platform is option ready and the company will not have to shell any extra amount for enabling options. Currently the company pays Rs 15mn/month to FT as fixed charges which will remain the same.
- According to the management all in-house checks have been done and it can go-live once the detailed guidelines from SEBI are released. The company expects option trading to commence latest by 4QFY17E.

MCX has been able to maintain its dominant position in the commodity market

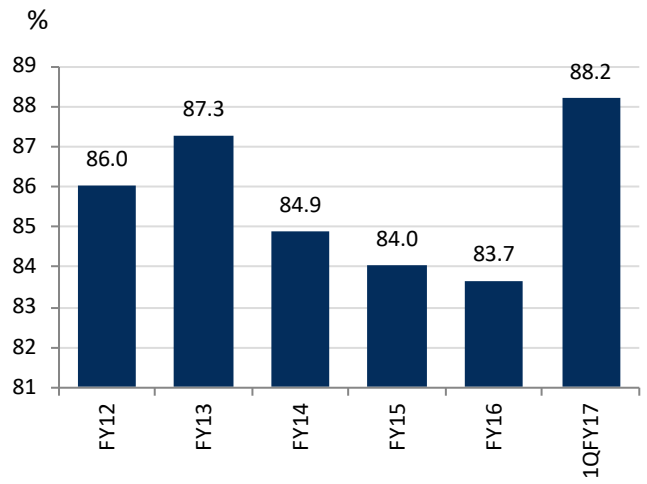
Bullion as a %of total volume has been dropping but still is the highest contributing

SEBI and FMC merger has led to realignment of terms and conditions for existing members

Member rationalization exercise has been completed

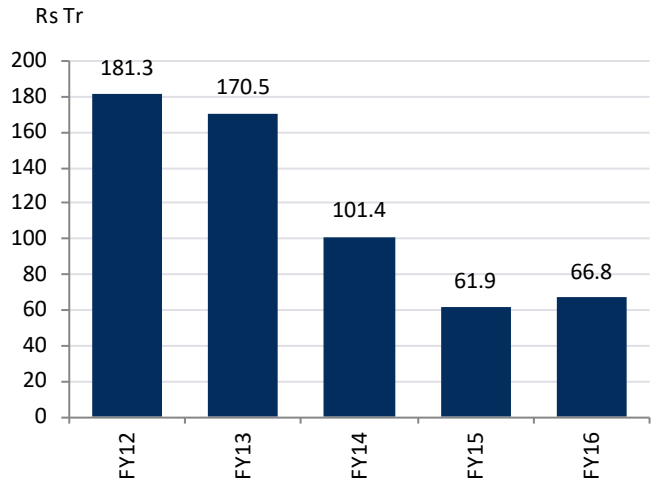
Members who were contributing less than 0.4-0.5% of the volume were dropped. This has resulted in sharp drop in trading members in FY16

MCX Market Share (%)



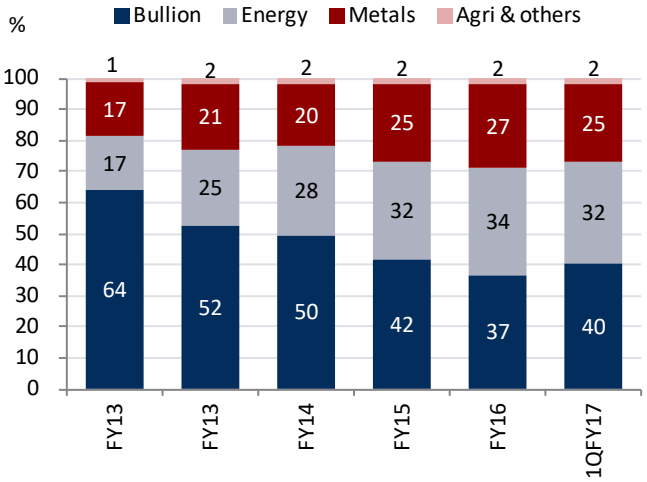
Source: Company, HDFC sec Inst Research

Indian Commodity Market Size (Rs Tr)



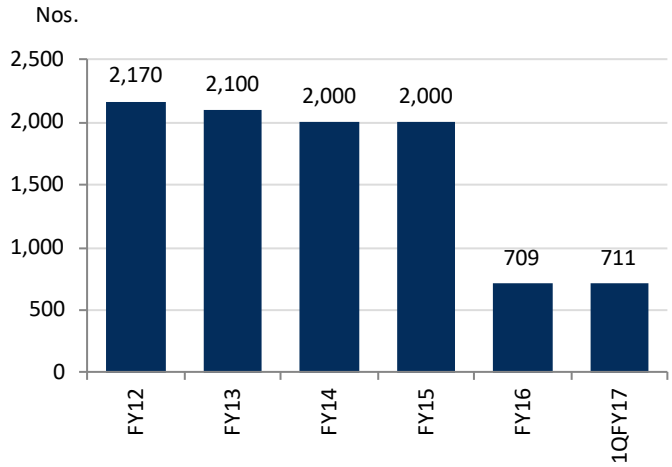
Source: Company, HDFC sec Inst Research

Composition of MCX's traded value



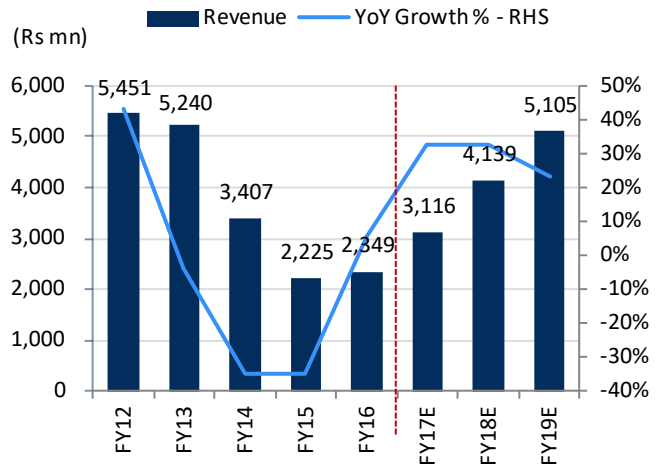
Source: Company, HDFC sec Inst Research

No of Trading Members (Nos.)



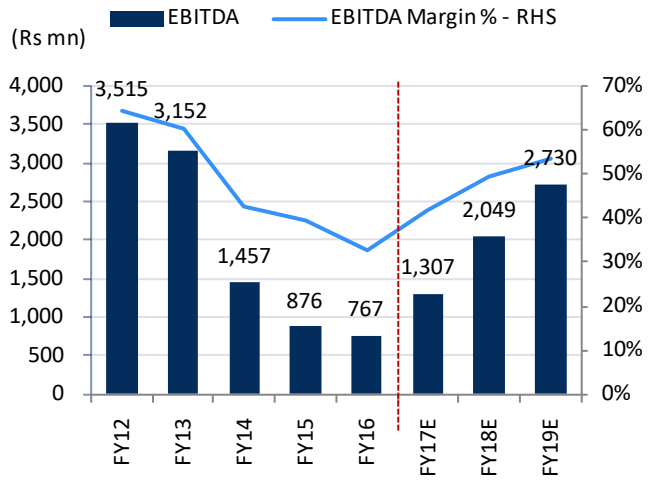
Source: Company, HDFC sec Inst Research

Revenue and revenue growth trend



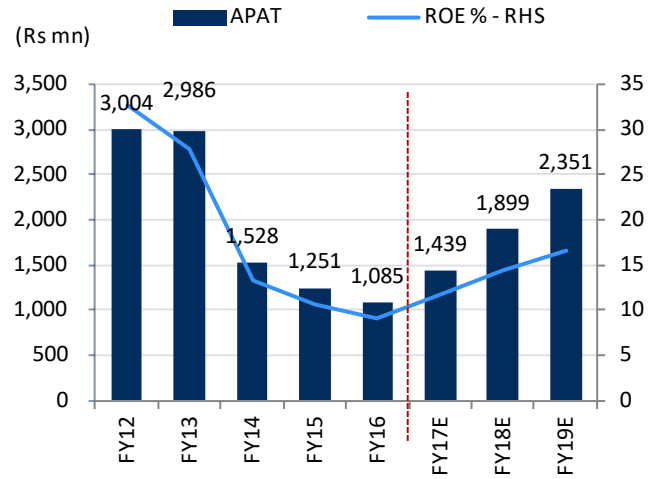
Source: Company, HDFC sec Inst Research

EBITDA margin to expand with revenue growth



Source: Company, HDFC sec Inst Research

RoE to increase with rise in profit



Source: Company, HDFC sec Inst Research

Appointment of CFO is pending and is in process of finalisation.

Management team

Mr. Mrugank M. Paranjape: Managing Director and Chief Executive Officer

- Mr. Paranjape joined MCX in Feb 2016. He has over 25 years of experience in Corporate Banking and Securities Markets. He was the former M.D of Deutsche Bank A.G and has held several leadership positions with Deutsche Bank in India and abroad. He also held senior level positions with ICICI AMC, Reliance Logistics, IndiaInfoline.com and Citibank. He played an important role in setting up BSE's and NSE's operations which was completed in a record time of 3 months. He is an expert in systems and technology and introduced many innovative financial products in securities markets. He is the alumnus of IIT Mumbai (Electrical Engineering) and did PGDM (Specialization in Information Systems) from IIM Ahmedabad.

Parveen Kumar Singhal: President & Whole Time Director

- He has over 40 years of diverse corporate experience in financial services, banking/financial institutions, securities and commodities markets space. He has been associated with MCX since 2009 and was serving as Joint M.D (from May 2014) till Mr. Paranjape joined in Feb 2016. He also served as senior vice-president and head of North (marketing and business development). Prior to joining MCX he was director with the FMC. In the past he has also worked with Delhi Stock Exchange as Executive Director and the Securities and Exchange Board of India (SEBI) as Division Chief.

Ajay Puri: Company Secretary, Head Investor Relations & CSR

- Mr. Ajay Puri has been associated with MCX since the last three year. He is responsible for handling Compliance, Secretarial and Investor Relations functions. He has an extensive experience of +35 years in handling Company Law, Corporate Finance, Legal Secretarial and Taxation functions spanning varied sectors including Investment Banking, Manufacturing, Telecom, Hospitality and Regulatory. He was earlier working as President with Atherstone Capital. He has also held the position of Head (Listing) with Delhi Stock Exchange. He is a qualified company secretary and a law graduate.

Mr. Krishnan Vishwanathan: Chief Regulatory Officer

- Mr Vishwanathan heads the regulatory function in MCX and joined in March 2016. He was previously working with Barclays as Director and Head, India – Risk & Governance. He has over 25 years of experience in the areas of Strategy Formulation, Risk, Operations, Accounting, and Technology. He has worked with Barclays, JP Morgan Chase and ABN AMRO Asset Management India (P) Ltd in earlier stints.

Mr. Rahi Racharla: Senior Vice President – Technology

- Mr Racheria heads the Technology function in MCX and joined in Feb 2016. He was previously working with JP Morgan as Executive Director. He has over 24 years of experience in the areas of IT budgeting & planning, analyzing business needs, building multi-cultural distributed IT teams, and designing underlying architectures for complex IT solutions. He has worked with HCL Technologies (Financial Services), Tullett Prebon Holdings and Liberty Brokerage in earlier stints. He is an Engineer and masters from University of Pennsylvania.

Dr Raghavendra Prasad: Senior Vice President – Legal

- He joined MCX in 2009 and was previously working with RBI and was deputed to SEBI as Deputy Legal Advisor. He has over 23 years of experience in the field of law. He holds a post graduate degree, masters' degree and bachelors' degree in law and a bachelors' degree in commerce. He was also earlier associated with FTIL as a vice president legal.

Ramalingam M: Senior Vice President – Market Operations

- Mr. Ramalingam has been with MCX since 8 years. He has over 25 years of experience in trading, risk management, securities and fund settlement. Prior to joining MCX he was the CEO of ISE Securities & Services Ltd. He has also worked with Investor Services of India Ltd. and TATA Registry Limited. He holds a B.SC. (Mathematics) degree from Mumbai University and a Masters in Financial Management degree from Narsee Monjee Institute of Management Studies, Mumbai University.

Narendra Ahlawat: Senior Vice President – Market Operations

- Mr. Ahlawat has been working with MCX since 2016. He has over 25 years of experience in capital Market, Securities Industry and Project Financing with a focus on operations management, system development and six sigma quality improvements in trading, clearing and settlement, and risk management processes of an exchange.

Rajendra Gogate : Vice President – Human Resources

- Mr. Gogate has been associated with MCX since 9 years. He used to earlier work with TATA Teleservices as General Manager (Facilities). He has over 29 years of experience in the field of General Administration, Facilities Management.

Valuation

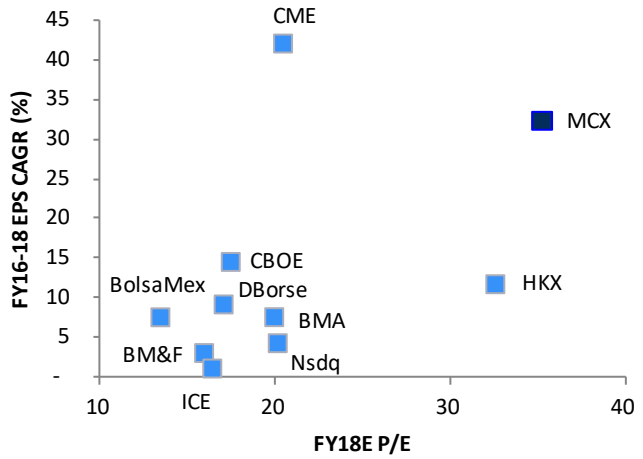
- We expect MCX to post a robust 53% EBITDA CAGR driven by revenue CAGR of 30% and EBITDA margin expansion (53.5% in FY19E vs 32.6% in FY16) for FY16-19E. Considering the asset-light nature of the business, we expect RoE to expand to 16.5% in FY19E vs 9.0% in FY16.
- The stock price had a decent run up after the hike in transaction charges and regulatory approvals (options trading). MCX currently trades at 46.5x FY17E and 35.2x FY18E EPS (implying PEG ~1.1x ~57% discount to EM average).
- We still see significant value in MCX considering its (1) Strong business franchise, (2) Recent top-level management rationalisation, (3) Embedded non linearity in business, (4) Favorable regulatory environment and (5) Long term growth prospects. We re-initiate coverage on MCX with a BUY rating and a target price of Rs 1,667 implying a P/E of 40x Sep-18' EPS.

Valuation – global exchanges

	Country	M-Cap (US$ mn)	Forward P/E (x)		EPS growth (2-yr CAGR)	PEG (x)	Forward P/B (x)		EV/EBITDA (x)		ROE (%)	
			1-yr fwd	2-yr fwd			1-yr fwd	2-yr fwd	1-yr fwd	2-yr fwd	1-yr fwd	2-yr fwd
Emerging markets												
MCX (HDFC Sec estimates)	**India**	**1,004**	**46.5**	**35.2**	**32.3**	**1.1**	**5.3**	**4.9**	**42.4**	**27.7**	**11.6**	**14.4**
Bloomberg Consensus estimates												
BM&FBovespa SA	Brazil	10,150	15.3	15.8	3.2	5.0	1.7	1.7	13.9	12.1	9.5	9.8
Bursa Malaysia Bhd	Malaysia	1,122	21.1	19.8	7.7	2.6	5.8	5.6	9.4	8.7	26.4	27.1
Bolsa Mexicana	Mexico	1,021	18.6	16.9	9.3	1.8	3.6	3.3	11.2	10.4	17.7	18.4
Multi Commodity Exchange	India	1,004	44.2	32.3	37.7	0.9	4.8	4.4	54.6	32.2	11.1	14.2
EM average			**24.8**	**21.2**	**14.5**	**2.5**	**4.0**	**3.7**	**22.3**	**15.9**	**16.2**	**17.4**
Developed markets												
CME Group	USA	35,271	21.8	20.3	42.2	0.5	1.7	1.7	13.7	15.0	7.5	7.9
Hong Kong Exchanges	Hong Kong	32,414	35.9	32.5	11.9	2.7	8.0	7.9	13.3	12.1	23.6	25.0
Intercontinental Exchange	USA	31,892	17.7	16.3	1.2	13.1	2.1	1.9	12.8	11.5	10.3	11.1
Deutsche Boerse	Germany	14,621	15.0	13.3	7.7	1.7	3.1	2.7	10.1	9.1	20.7	20.7
Nasdaq OMX	USA	10,955	15.6	14.6	9.9	1.5	1.9	1.8	10.4	9.9	12.4	12.8
Japan Exchange Group	Japan	8,492	20.7	20.0	4.4	4.5	3.5	3.0	11.9	11.3	15.0	14.5
Singapore Exchange	Singapore	5,578	19.6	18.8	6.4	2.9	7.8	6.9	13.2	12.8	36.4	35.5
ASX	Australia	7,080	20.3	19.2	5.3	3.6	2.4	2.4	13.2	12.5	11.8	12.2
CBOE Holdings	USA	5,284	22.9	20.1	7.7	2.6	19.9	14.0	12.5	11.1	63.4	57.6
Hellenic Exchanges	Greece	320	23.7	17.4	14.7	1.2	1.9	1.9	8.7	6.5	8.3	11.8
NZX Ltd	New Zealand	201	18.6	16.7	26.3	0.6	3.9	3.9	9.4	8.9	21.0	23.2
Developed markets average			**21.1**	**19.0**	**12.5**	**3.2**	**5.1**	**4.4**	**11.7**	**11.0**	**20.9**	**21.1**
Global average			**22.1**	**19.6**	**13.0**	**3.0**	**4.8**	**4.2**	**14.6**	**12.3**	**19.7**	**20.1**

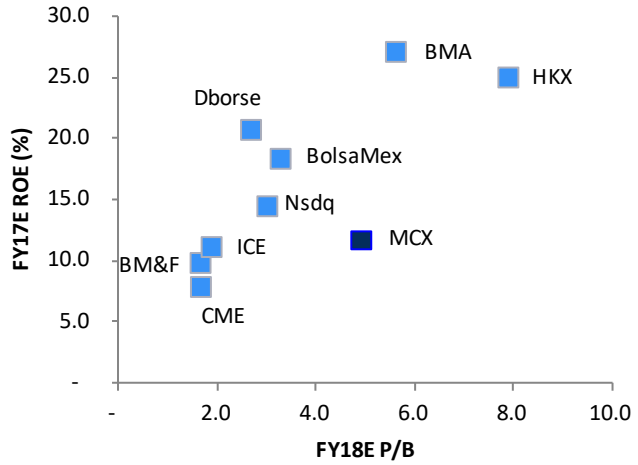
Source: Bloomberg, HDFC sec Inst Research Note: 1-yr refers to FY17/CY16 & 2-yr FY18/CY17

PE (FY18E) versus EPS CAGR (FY16-18E/CY15-17)



Source: Company, Industry, HDFC sec Inst Research

ROE versus Price to book ratio



Source: Company, Industry, HDFC sec Inst Research

Abbreviations represent: BM&F - BM&FBovespa SA, BMA - Bursa Malaysia Bhd, BolsaMex - Bolsa Mexicana, CME – Chicago Mercantile Exchange Group, HKX - Hong Kong Exchanges, ICE - Intercontinental Exchange, Dborse - Deutsche Boerse, Nsdq - Nasdaq OMX, CBOE – Chicago Board Options Exchange

MCX – Sensitivity of target price to ADTV assumptions

Target price (Rs)		Sep-18 PE (x)					% of peak ADTV in FY12
		30.0	35.0	40.0	45.0	50.0	
FY18E ADTV	219	835	974	1,114	1,253	1,392	43.6%
	292	946	1,104	1,261	1,419	1,577	58.2%
	500	1,250	1,458	**1,667**	1,875	2,083	99.4%
	766	1,633	1,906	2,178	2,450	2,722	152.3%
	1,034	2,018	2,354	2,691	3,027	3,363	205.7%

Source: Company, Industry, HDFC sec Inst Research

Key Risks

- Competition from other exchanges (universal exchange)
- Regulatory delays

NSE Derivative Segment Revenue Model	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	10 Year CAGR %
Futures Turnover (Rs Tr)	43.1	63.7	113.7	70.5	91.3	98.5	76.5	67.5	80.3	124.0	123.9	11.1%
YoY Growth %	*90.8%*	*48.0%*	*78.5%*	*-38.0%*	*29.5%*	*7.9%*	*-22.3%*	*-11.8%*	*19.0%*	*54.4%*	*-0.1%*	
ADTV (Rs bn)	171.5	255.8	453.0	290.1	374.2	387.9	307.3	271.1	320.0	510.2	501.4	11.3%
YoY Growth %	*91.6%*	*49.2%*	*77.0%*	*-36.0%*	*29.0%*	*3.7%*	*-20.8%*	*-11.8%*	*18.0%*	*59.4%*	*-1.7%*	
Futures Realisation (Rs/lakh)*	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	
Revenue from Futures (Rs mn)	1,636.1	2,420.8	4,320.3	2,678.9	3,469.3	3,744.0	2,908.0	2,565.4	3,052.3	4,711.6	4,706.6	11.1%
YoY Growth %	*90.8%*	*48.0%*	*78.5%*	*-38.0%*	*29.5%*	*7.9%*	*-22.3%*	*-11.8%*	*19.0%*	*54.4%*	*-0.1%*	
Options Notional Turnover (Rs Tr)	5.2	9.9	17.2	39.6	85.3	194.0	237.0	247.8	301.8	432.1	524.4	58.7%
YoY Growth %	*78.4%*	*90.0%*	*74.6%*	*130.1%*	*115.5%*	*127.3%*	*22.2%*	*4.6%*	*21.8%*	*43.2%*	*21.4%*	
Options Premium Turnover (Rs Tr)	0.1	0.2	0.4	1.0	1.4	2.1	2.7	2.2	2.9	3.3	4.1	44.2%
Notional ADTV (Rs bn)	20.7	39.6	68.6	163.0	349.8	763.6	951.7	995.3	1,202.3	1,778.0	2,123.1	
YoY Growth %	*79.1%*	*91.5%*	*73.2%*	*137.7%*	*114.6%*	*118.3%*	*24.6%*	*4.6%*	*20.8%*	*47.9%*	*19.4%*	
Premium ADTV (Rs bn)	0.4	0.9	1.7	4.1	5.7	8.4	11.0	8.8	11.6	13.5	16.8	44.4%
Options Realisation on Premium (Rs/lakh)*	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	
Revenue from Options (Rs mn)	106.7	235.6	428.7	999.7	1,396.9	2,131.1	2,726.8	2,186.7	2,905.2	3,270.5	4,144.9	44.2%
YoY Growth %	*46.0%*	*120.8%*	*82.0%*	*133.2%*	*39.7%*	*52.6%*	*28.0%*	*-19.8%*	*32.9%*	*12.6%*	*26.7%*	
Options Realisation on Notional Turnover (Rs/lakh)	1.0	1.2	1.2	1.3	0.8	0.5	0.6	0.4	0.5	0.4	0.4	-9.1%
YoY Growth %	*-18.2%*	*16.2%*	*4.2%*	*1.3%*	*-35.1%*	*-32.9%*	*4.7%*	*-23.3%*	*9.1%*	*-21.4%*	*4.4%*	
Option Notional Vol/Futures Vol	0.1	0.2	0.2	0.6	0.9	2.0	3.1	3.7	3.8	3.5	4.2	42.8%
% Options Realisation/Futures	0.5	0.6	0.7	0.7	0.4	0.3	0.3	0.2	0.3	0.2	0.2	
Futures as % of Total F&O revenue	93.9%	91.1%	91.0%	72.8%	71.3%	63.7%	51.6%	54.0%	51.2%	59.0%	53.2%	
Option as % of Total F&O revenue	6.1%	8.9%	9.0%	27.2%	28.7%	36.3%	48.4%	46.0%	48.8%	41.0%	46.8%	
NSE Revenue from F&O (Rs mn)	1,742.7	2,656.4	4,749.0	3,678.6	4,866.2	5,875.1	5,634.8	4,752.1	5,957.5	7,982.1	8,851.5	17.6%
YoY Growth %	*87.3%*	*52.4%*	*78.8%*	*-22.5%*	*32.3%*	*20.7%*	*-4.1%*	*-15.7%*	*25.4%*	*34.0%*	*10.9%*	
Blended Realisation (Rs/lakh)	1.8	1.8	1.8	1.7	1.4	1.0	0.9	0.8	0.8	0.7	0.7	-9.3%
YoY Growth %	*-1.1%*	*0.0%*	*0.5%*	*-7.9%*	*-17.5%*	*-27.1%*	*-10.5%*	*-16.2%*	*3.5%*	*-7.9%*	*-4.9%*	

Source: NSE, HDFC sec Inst Research *Futures and options realization for FY06-15 is based on current rate

Income Statement (Standalone)

YE March (Rs mn)	FY15	FY16	FY17E	FY18E	FY19E
Net Revenues (Rs mn)	**2,225**	**2,349**	**3,116**	**4,139**	**5,105**
Growth (%)	***(34.7)***	***5.6***	***32.6***	***32.8***	***23.4***
Software support charges	384	374	443	538	627
Employee Expenses	349	406	479	535	589
SG&A Expenses	228	307	330	353	377
Other Operating Expenses	388	497	557	664	783
EBITDA	**876**	**767**	**1,307**	**2,049**	**2,730**
EBITDA Margin (%)	***39.4***	***32.6***	***42.0***	***49.5***	***53.5***
EBITDA Growth (%)	***(39.9)***	***(12.5)***	***70.5***	***56.7***	***33.2***
Depreciation	259	246	283	458	486
EBIT	**616**	**521**	**1,024**	**1,591**	**2,244**
Other Income (Including EO Items)	1,098	311	962	1,050	1,042
Interest	14	0	0	0	0
PBT	**1,701**	**831**	**1,986**	**2,641**	**3,285**
Tax (Incl Deferred)	450	413	547	742	935
Minority Interest	0	0	0	0	0
RPAT	**1,251**	**418**	**1,439**	**1,899**	**2,351**
EO (Loss) / Profit (Net Of Tax)	0	(667)	0	0	0
APAT	**1,251**	**1,085**	**1,439**	**1,899**	**2,351**
APAT Growth (%)	***(18.1)***	***(13.2)***	***32.6***	***31.9***	***23.8***
Adjusted EPS (Rs)	**24.5**	**21.3**	**28.2**	**37.2**	**46.1**
EPS Growth (%)	***(18.1)***	***(13.2)***	***32.6***	***31.9***	***23.8***

Source: Company, HDFC sec Inst Research

Balance Sheet (Standalone)

YE March (Rs mn)	FY15	FY16	FY17E	FY18E	FY19E
SOURCES OF FUNDS					
Share Capital - Equity	510	510	510	510	510
Reserves	11,512	11,529	12,201	13,112	14,259
Total Shareholders' Funds	**12,022**	**12,039**	**12,711**	**13,622**	**14,769**
Settlement guarantee fund	1,871	1,879	1,973	2,072	2,175
Total Debt	**-**	**-**	**-**	**-**	**-**
Net Deferred Taxes (Net)	97	49	49	49	49
Long Term Provisions & Others	246	234	234	234	234
TOTAL SOURCES OF FUNDS	**14,236**	**14,201**	**14,966**	**15,976**	**17,227**
APPLICATION OF FUNDS					
Net Block	1,451	1,401	1,418	3,460	3,373
Investments	132	2,230	2,230	2,230	2,230
LT Loans & Advances	382	310	325	341	358
Total Non-current Assets	**1,965**	**3,941**	**3,973**	**6,031**	**5,962**
Debtors	107	42	60	79	98
Other Current Assets	786	737	1,004	1,312	1,603
Cash & Equivalents	15,385	13,448	14,685	14,533	16,702
Total Current Assets	**16,278**	**14,227**	**15,749**	**15,924**	**18,403**
Trading margin from members	2,389	2,473	3,186	4,331	5,408
Other Current Liabilities & Provns	1,617	1,495	1,569	1,648	1,730
Total Current Liabilities	**4,007**	**3,967**	**4,756**	**5,979**	**7,138**
Net Current Assets	**12,271**	**10,260**	**10,993**	**9,945**	**11,265**
TOTAL APPLICATION OF FUNDS	**14,236**	**14,201**	**14,966**	**15,976**	**17,227**

Source: Company, HDFC sec Inst Research

Cash Flow (Standalone)

YE March (Rs mn)	FY15	FY16	FY17E	FY18E	FY19E
Reported PBT	1,701	831	1,986	2,641	3,285
Non-operating & EO items	(1,075)	(927)	(962)	(1,050)	(1,042)
Interest expenses	14	0	0	0	0
Depreciation	259	246	283	458	486
Working Capital Change	207	518	488	879	832
Tax Paid	(409)	(290)	(547)	(742)	(935)
OPERATING CASH FLOW (a)	**696**	**378**	**1,248**	**2,186**	**2,627**
Capex	(84)	(202)	(300)	(2,500)	(400)
Free cash flow (FCF)	*613*	*175*	*948*	*(314)*	*2,227*
Investments	1	(2,098)	0	0	0
Non-operating Income	310	92	962	1,050	1,042
INVESTING CASH FLOW (b)	**227**	**(2,209)**	**662**	**(1,450)**	**642**
Debt Issuance/(Repaid)	0	0	0	0	0
Interest Expenses	(14)	(0)	0	0	0
FCFE	*599*	*175*	*948*	*(314)*	*2,227*
Share Capital Issuance	0	0	0	0	0
Dividend	(179)	(614)	(673)	(889)	(1,100)
FINANCING CASH FLOW (c)	**(193)**	**(614)**	**(673)**	**(889)**	**(1,100)**
NET CASH FLOW (a+b+c)	**731**	**(2,445)**	**1,237**	**(152)**	**2,169**
EO Items, Others	536	509	0	0	0
Closing Cash & Equivalents	**15,385**	**13,448**	**14,685**	**14,533**	**16,702**

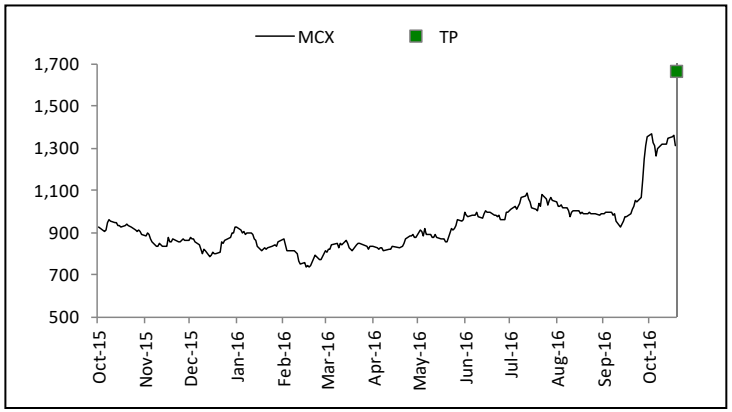
Source: Company, HDFC sec Inst Research

Key Ratios (Standalone)

	FY15	FY16	FY17E	FY18E	FY19E
PROFITABILITY (%)					
GPM	82.7	84.1	85.8	87.0	87.7
EBITDA Margin	39.4	32.6	42.0	49.5	53.5
APAT Margin	56.2	46.2	46.2	45.9	46.1
RoE	10.7	9.0	11.6	14.4	16.6
RoIC (or Core RoCE)	42.5	22.0	27.6	24.9	30.0
RoCE	7.1	6.0	7.6	9.1	10.2
EFFICIENCY					
Tax Rate (%)	28.0	30.8	30.0	30.0	30.0
Fixed Asset Turnover (x)	0.1	0.1	0.2	0.2	0.2
Debtors (days)	*17*	*7*	*7*	*7*	*7*
Other Current Assets (days)	*118*	*104*	*110*	*110*	*110*
Other Current Liab & Provns (days)	*590*	*463*	*431*	*387*	*354*
Cash Conversion Cycle (days)	(455)	(353)	(314)	(270)	(237)
Debt/EBITDA (x)	(15)	(14)	(9)	(5)	(4)
Net D/E (x)	(1)	(1)	(1)	(1)	(1)
Interest Coverage (x)	124	3,941	NM	NM	NM
PER SHARE DATA (Rs)					
EPS	24.6	21.3	28.2	37.2	46.1
CEPS	29.7	26.1	33.8	46.2	55.6
Dividend	10.0	6.5	11.3	14.9	18.4
Book Value	235.7	236.1	249.2	267.1	289.6
VALUATION					
P/E (x)	53.3	61.7	46.5	35.2	28.5
P/BV (x)	5.6	5.6	5.3	4.9	4.5
EV/EBITDA (x)	61.6	73.0	42.4	27.7	20.4
OCF/EV (%)	1.3	1.9	2.3	3.9	4.7
FCF/EV (%)	1.1	1.5	1.7	(0.6)	4.0
FCFE/Mkt Cap (%)	0.1	(0.2)	0.3	0.1	0.5
Dividend Yield (%)	0.8	0.5	0.9	1.1	1.4

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
19-Oct-16	1,312	BUY	1,667

Rating Definitions

BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period
NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

Disclosure:
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