



**MCX**

**BSE SENSEX** 31,103  
**S&P CNX** 9,607

**CMP: INR1,047 TP: INR1,300 (+24%)**

**Buy**



## Much-awaited SEBI guidelines on options finally out

**Expect trading to commence – in gold to start with – from Aug/Sep 2017**

### Stock Info

	MCX IN
Bloomberg	51
Equity Shares (m)	51
52-Week Range (INR)	1,420/919
1, 6, 12 Rel. Per (%)	-8/-36/-10
M.Cap. (INR b)	53.4
M.Cap. (USD b)	0.8
Avg Val, INRm	485.0
Free float (%)	100.0

### Financials Snapshot (INR b)

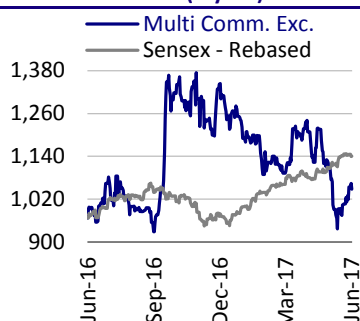
Y/E Mar	2017	2018E	2019E
Net Sales	2.4	2.7	3.5
EBITDA	0.6	0.8	1.5
PAT	1.3	1.6	2.2
EPS (INR)	24.8	30.5	42.9
Gr. (%)	6.2	23.1	40.3
BV/Sh (INR)	266.4	282.0	303.8
RoE (%)	9.9	11.1	14.6
RoCE (%)	9.6	10.8	14.2
P/E (x)	50.1	40.7	29.0
P/BV (x)	4.7	4.4	4.1

### Shareholding pattern (%)

As On	Mar-17	Dec-16	Mar-16
Promoter	0.0	0.0	0.0
DII	36.5	37.5	41.6
FII	22.6	24.0	15.7
Others	40.9	38.5	42.8

FII Includes depository receipts

### Stock Performance (1-year)



- The Securities and Exchange Board of India (SEBI) on 13 June 2017 released a circular to stipulate the necessary guidelines with respect to the product design and risk management framework for trading in options on commodity futures.
- MCX had cited that once the guidelines are out, options should start to get traded within a span of a month. We expect trading in commodity options (gold to start with) to commence from August/September 2017.
- We believe this welcome move amid tepid volumes on MCX in recent months should be sentimentally positive for the stock. We were building in contribution from options in our MCX volumes estimates from 2QFY18, which does not see any change post the announcement.

SEBI circular link: [http://www.sebi.gov.in/legal/circulars/jun-2017/options-on-commodity-futures-product-design-and-risk-management-framework\\_35096.html](http://www.sebi.gov.in/legal/circulars/jun-2017/options-on-commodity-futures-product-design-and-risk-management-framework_35096.html)

**Eligibility criteria for selection of commodities:** Options would be permitted on those commodities that are among the top five futures contracts in terms of total trading turnover value over the previous 12 months, and their ADT would need to be at least INR2b for agricultural commodities and INR10b for others. Initially, on a pilot basis, each exchange shall be allowed to launch options only on one commodity post the approval of the SEBI.

**Contract design specifications:** The underlying asset for the option would be commodity futures contract of a specified month in which the option will devolve into. Options would be European style, and the expiry day shall be decided by the exchange. Position limits are at the same levels as prescribed in earlier circulars.

**For MCX, gold likely to be the first:** The top five commodities for MCX in order of ADT are crude oil, gold, silver, zinc and copper. All of these have ADT of over INR10b, and hence, would be eligible for the launch of options. For MCX, options on gold are likely to be launched to begin with.

**2HFY18 launch likely to be on track:** MCX had earlier alluded to its readiness for the launch of options in terms of technology and back-end. It maintained that it should be able to go live within ~4 weeks once the guidelines are out. We believe options will commence on MCX by August (latest by September). We model volumes in options from 2QFY18 – similar to what we had assumed earlier.

**Expect impact to be akin to a hockey-stick:** The introduction of options has been one of the critical reforms awaited to trigger growth of the commodity derivatives market. While this circular brings the launch a step closer and is sentimentally positive, the financial impact would be better assessable post launch. A hockey-stick impact is expected, with cannibalization impact for a brief early

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period, followed by significant market growth driving earnings. A written guideline on the mechanics of CTT levied on options is yet awaited.

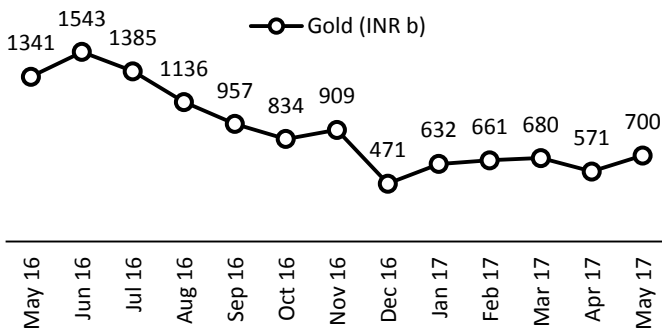
**Volumes recovery not too far**

We have retained our volumes ramp-up estimates for MCX, and factor in the commencement of options from 2QFY18 – building ~6% volumes from the same this year, growing gradually thereafter. This should kick-start the recovery in volumes, which should continue with the entry of new participants such as FIs and new products such as indices. This drives our expectation of healthier revenue growth in FY19 (31%), consequently driving earnings growth (~40%). Our price target of INR1,300 discounts FY19E earnings by 30x. Maintain **Buy**. Current futures volume for 2.5 months into 1QFY18 remains below our estimate (ADT of INR189b v/s estimate of INR205b), which may put our FY18 earnings estimate at risk.

**State of volumes**

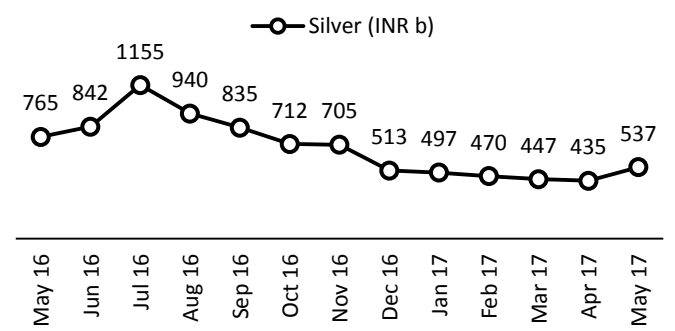
- Overall volumes have picked up slightly, from ADT of 183b in May to 201b. This was 191b in both March and April.
- This is being contributed by crude and silver. Crude was at ADT of 53b in March, 50b in April, increased to 56b in May, and now is at 62b in June so far.
- Silver has seen some recovery. It was 19b in March, improved to 23b in April, remained there in May and is thus far up to 27b in June.
- Gold has not seen a pick-up – it was 30b in March, April and May, and has remained at 30b thus far in June.

**Exhibit 1: Gold not manifesting significant recovery...**



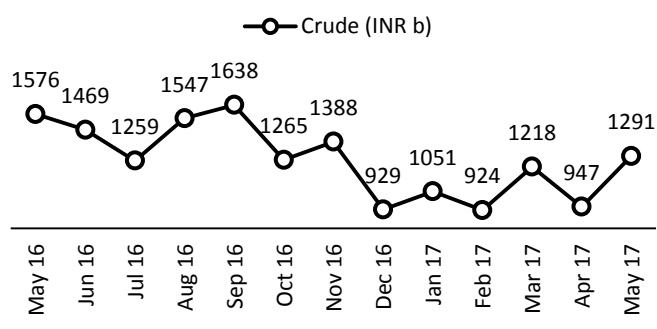
Source: Company, MOSL

**Exhibit 2: ...neither is silver, though June thus far is better**



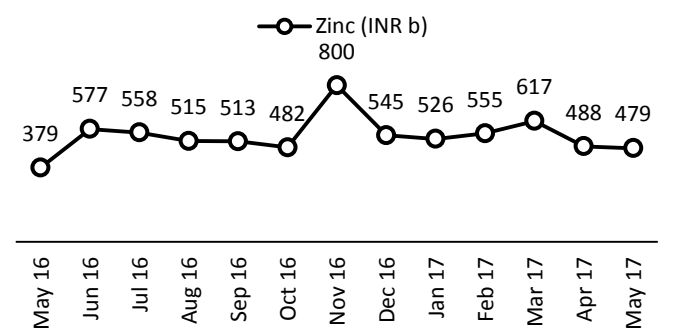
Source: Company, MOSL

**Exhibit 3: Crude volumes have not decimated like gold**



Source: Company, MOSL

**Exhibit 4: Zinc has grown to become a significant contributor**



Source: Company, MOSL

### Valuation and view

- **Market leadership in winner-takes-all business:** MCX has retained its market leadership position, with a share of 80-90% over FY09-16. Even in the most turbulent of months during FY13-14, when the parent's existence was in deep waters on issues of fraud around National Spot Exchange (NSE), the exchange managed to retain its share. Additionally, it has remained without a full-time 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.
- **All eyes on reforms as SEBI-FMC merger is complete:** SEBI's merger with FMC is now complete, paving the way for much-awaited reforms in the ecosystem. The upside for MCX may yet be partly a function of reports around approvals to competition and entry of a credible global exchange materializing. We do not expect these at one-go or immediately, but rather in a gradual, phased manner over the course of the next calendar year. The SEBI already has the ball rolling in terms of reforms, and expects universal licenses to be active through the course of the year. MCX could in the meanwhile: [1] get a head start and [2] strengthen itself with investment from CME.
- **Volume reversal to pre-CTT levels is our base case:** Our base case assumes a gradual recovery in volumes to INR350-400b in FY19E, closer toward pre-commodities transaction tax (CTT) average daily turnover of INR450-500b. This compares with current ADT of INR200-250b.
- **Volumes have taken a temporary hit:** Volumes suffered in 2HFY17 on account of the demonetization 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 the GST. That said, MCX expects volumes to recover going forward, and options to commence in the next 2-3 months.
- **Multiplier effect on operational earnings from operating leverage, Buy:** From 2QFY18, options will also be launched, a key trigger for volumes. This should kick-start the recovery in volumes, which should continue with the entry of new participants such as FIs and new products such as indices. This drives our expectation of healthier revenue growth in FY19 (31%) and consequently driving earnings growth (~40%). Our price target of INR1,300 discounts FY19E earnings by 30x, implying 24% upside. **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 that stock exchanges will be able to become universal exchanges, where equities, debt instruments and currencies are traded under the same roof as commodity derivatives. Stock exchanges already have depositories and clearing corporations that will cater to the needs of commodity traders as well. If the NSE enters the commodities segment, MCX could see stiff competition, which may impair both market share and profit margins.

## Financials and Valuations

Income Statement							(INR Million)	
Y/E Mar	2012	2013	2014	2015	2016	2017	2018E	2019E
<b>Net Sales</b>	<b>5,262</b>	<b>4,992</b>	<b>3,197</b>	<b>2,038</b>	<b>2,135</b>	<b>2,386</b>	<b>2,678</b>	<b>3,514</b>
Change (%)	42.6	-5.1	-35.9	-36.3	4.8	11.7	12.3	31.2
<b>EBITDA</b>	<b>3,347</b>	<b>2,932</b>	<b>1,248</b>	<b>689</b>	<b>553</b>	<b>589</b>	<b>782</b>	<b>1,512</b>
EBITDA Margin (%)	63.6	58.7	39.0	33.8	25.9	24.7	29.2	43.0
Depreciation	272	307	343	259	246	186	215	214
<b>EBIT</b>	<b>3,075</b>	<b>2,625</b>	<b>905</b>	<b>430</b>	<b>307</b>	<b>403</b>	<b>567</b>	<b>1,298</b>
Interest	0	0	11	14	0	2	2	2
Other Income	1,027	1,427	1,202	1,285	1,191	1,373	1,512	1,618
Extraordinary items	-142	0	0	0	-667	0	0	0
<b>PBT</b>	<b>3,960</b>	<b>4,051</b>	<b>2,097</b>	<b>1,701</b>	<b>831</b>	<b>1,774</b>	<b>2,077</b>	<b>2,915</b>
Tax	1,098	1,065	569	450	413	512	519	729
Tax Rate (%)	27.7	26.3	27.1	26.5	49.7	28.8	25.0	25.0
Min. Int. & Assoc. Share	0	0	0	0	0	0	0	0
<b>Reported PAT</b>	<b>2,862</b>	<b>2,986</b>	<b>1,528</b>	<b>1,251</b>	<b>418</b>	<b>1,263</b>	<b>1,558</b>	<b>2,186</b>
<b>Adjusted PAT</b>	<b>2,862</b>	<b>2,986</b>	<b>1,528</b>	<b>1,251</b>	<b>418</b>	<b>1,263</b>	<b>1,558</b>	<b>2,186</b>
Change (%)	65.6	4.4	-48.8	-18.1	-66.6	201.9	23.4	40.3

Balance Sheet							(INR Million)	
Y/E Mar	2012	2013	2014	2015	2016	2017	2018E	2019E
Share Capital	508	510	510	510	510	510	510	510
Reserves	9,461	11,058	10,931	11,512	11,529	13,078	13,870	14,982
<b>Net Worth</b>	<b>9,969</b>	<b>11,567</b>	<b>11,441</b>	<b>12,022</b>	<b>12,039</b>	<b>13,588</b>	<b>14,380</b>	<b>15,492</b>
Debt	432	569	2,169	2,214	2,162	2,125	2,125	2,125
SGF	0	0	1,720	1,871	1,879	1,705	1,705	1,705
<b>Total Capital Employed</b>	<b>10,401</b>	<b>12,136</b>	<b>13,610</b>	<b>14,236</b>	<b>14,201</b>	<b>15,713</b>	<b>16,505</b>	<b>17,617</b>
<b>Net Fixed Assets</b>	<b>1,369</b>	<b>2,044</b>	<b>1,735</b>	<b>1,552</b>	<b>3,528</b>	<b>5,905</b>	<b>5,932</b>	<b>5,985</b>
Capital WIP	1	0	0	0	0	0	0	0
Investments	11,502	10,682	10,898	12,927	8,643	7,676	7,676	7,676
<b>Current Assets</b>	<b>5,887</b>	<b>5,131</b>	<b>4,782</b>	<b>3,764</b>	<b>5,997</b>	<b>5,077</b>	<b>7,430</b>	<b>8,617</b>
Debtors	514	69	90	107	42	28	81	104
Cash & Bank	3,124	3,475	3,417	2,655	5,003	3,890	5,932	6,777
Loans & Adv, Others	2,249	1,587	1,275	1,002	952	1,159	1,417	1,736
<b>Curr Liabs &amp; Provns</b>	<b>8,358</b>	<b>5,721</b>	<b>3,805</b>	<b>4,007</b>	<b>3,967</b>	<b>2,945</b>	<b>4,533</b>	<b>4,660</b>
<b>Net Current Assets</b>	<b>-2,471</b>	<b>-590</b>	<b>977</b>	<b>-243</b>	<b>2,030</b>	<b>2,132</b>	<b>2,897</b>	<b>3,957</b>
<b>Total Assets</b>	<b>10,401</b>	<b>12,136</b>	<b>13,610</b>	<b>14,236</b>	<b>14,201</b>	<b>15,713</b>	<b>16,505</b>	<b>17,617</b>

## Financials and Valuations

### Ratios

Y/E Mar	2012	2013	2014	2015	2016	2017	2018E	2019E
<b>Basic (INR)</b>								
EPS	56.1	58.6	30.0	24.6	23.4	24.8	30.5	42.9
Cash EPS	61.4	64.6	36.9	29.6	13.0	28.4	34.8	47.1
Book Value	195.5	226.8	225.4	235.8	236.1	266.4	282.0	303.8
DPS	24.0	0.5	10.2	10.2	0.0	15.3	20.4	20.4
Payout (incl. Div. Tax.)	50.0	0.9	39.0	48.5	0.0	73.3	79.2	56.4
<b>Valuation(x)</b>								
P/E	22.1	21.2	41.4	50.6	53.2	50.1	40.7	29.0
Cash P/E	20.2	19.2	33.7	42.0	95.5	43.8	35.8	26.4
Price / Book Value	6.4	5.5	5.5	5.3	5.3	4.7	4.4	4.1
EV/Sales	9.7	10.2	15.4	23.6	23.5	21.9	18.8	14.1
EV/EBITDA	15.3	17.4	39.4	69.9	90.7	88.8	64.2	32.7
Dividend Yield (%)	2.3	0.0	0.9	1.0	0.0	1.5	1.9	1.9
<b>Profitability Ratios (%)</b>								
RoE	31.0	27.7	13.3	10.7	3.5	9.9	11.1	14.6
RoCE	24.8	26.5	12.8	10.4	8.8	9.6	10.8	14.2
RoIC	0	0	0	0	0	0	0	0
<b>Turnover Ratios (%)</b>								
Fixed Asset Turnover (x)	31.2	27.3	18.1	11.4	11.7	13.0	13.5	16.2
Debtors (No. of Days)	36	5	10	19	7	4	11	11
<b>Leverage Ratios (%)</b>								
Net Debt/Equity (x)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

### Cash Flow Statement

(INR Million)

Y/E Mar	2012	2013	2014	2015	2016	2017	2018E	2019E
Adjusted EBITDA	3,347	2,932	1,248	689	553	589	782	1,512
Non cash opr. exp (inc)	-650	319	1,085	0	0	0	0	0
(Inc)/Dec in Wkg. Cap.	1,160	-1,941	-1,565	503	22	-1,251	1,277	-214
Tax Paid	-1,097	-782	-384	-220	-41	-129	-112	-300
Other operating activities	0	0	0	0	0	0	0	0
<b>CF from Op. Activity</b>	<b>2,760</b>	<b>529</b>	<b>385</b>	<b>972</b>	<b>533</b>	<b>-791</b>	<b>1,948</b>	<b>998</b>
(Inc)/Dec in FA & CWIP	-200	-462	-59	-9	-200	-345	-242	-266
<b>Free cash flows</b>	<b>2,561</b>	<b>68</b>	<b>325</b>	<b>963</b>	<b>333</b>	<b>-1,137</b>	<b>1,706</b>	<b>732</b>
(Pur)/Sale of Invt	-2,723	1,910	586	-1,080	5,367	1,950	1,104	1,189
Others	0	0	0	0	0	0	0	0
<b>CF from Inv. Activity</b>	<b>-2,923</b>	<b>1,448</b>	<b>527</b>	<b>-1,089</b>	<b>5,167</b>	<b>1,605</b>	<b>862</b>	<b>923</b>
Inc/(Dec) in Net Worth	0	0	0	0	0	0	0	0
Inc / (Dec) in Debt	0	0	0	0	0	0	0	0
Interest Paid	0	0	0	0	-14	0	-2	-2
Divd Paid (incl Tax) & Others	-23	-2,134	-1,133	0	0	-925	-765	-1,074
<b>CF from Fin. Activity</b>	<b>-24</b>	<b>-2,134</b>	<b>-1,133</b>	<b>0</b>	<b>-14</b>	<b>-925</b>	<b>-767</b>	<b>-1,076</b>
<b>Inc/(Dec) in Cash</b>	<b>-186</b>	<b>-156</b>	<b>-221</b>	<b>-117</b>	<b>5,687</b>	<b>-112</b>	<b>2,042</b>	<b>845</b>
Add: Opening Balance	3,310	3,124	3,475	3,417	2,655	5,003	3,890	5,932
<b>Closing Balance</b>	<b>3,124</b>	<b>2,968</b>	<b>3,254</b>	<b>3,300</b>	<b>8,342</b>	<b>4,891</b>	<b>5,932</b>	<b>6,777</b>

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SEBI pursuant to a complaint from client Shri C.R. Mohanraj alleging unauthorized trading, issued a letter dated 29th April 2014 to MOSL notifying appointment of an Adjudicating Officer as per SEBI regulations to hold inquiry and adjudge violation of SEBI Regulations; MOSL replied to the Show Cause Notice whereby SEBI granted us an opportunity of Inspection of Documents. Since all the documents requested by us were not covered we have requested to SEBI vide our letter dated June 23, 2015 to provide pending list of documents for inspection.

List of associate companies of Motilal Oswal Securities Limited - [Click here to access detailed report](#)

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### MULTI COMMODITY EXCH IN

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|--|----|
| ▪ Analyst ownership of the stock               | No |
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