COMPANY UPDATE

MULTI COMMODITY EXCHANGE OF INDIA

Fortifying pole position

Edelweiss
Ideas create, values protect

India Equity Research| Banking and Financial Services

Multi commodity exchange (MCX) has been fraught with challenges since past few years with its promoter, Financial Technologies (FTIL), being declared 'not fit' to run the exchange post the NSEL fallout leading to rejig of entire top management. Moreover, imposition of CTT impacted trading volumes, coupled with a sharp fall in commodity prices. Despite such turmoil, the company emerged unscathed and maintained leadership position (with >80% market share), bearing testimony to its underlying business strengths. In fact, the model has evolved much stronger with an experienced management at the helm backed by a strong financial partner (Kotak). Benefits of the same, supported by structural and potential growth levers are yet to reflect in company's operational and financial performance. We estimate trading volumes to report 24% CAGR over FY15-17 and operating leverage benefits to result in higher EPS CAGR of 32%, aiding higher dividend payout. We recommend 'BUY' with TP of INR 1,100, based on 30x FY17E EPS.

Reins in strong hands

A key concern was the fall out of top management and key shareholder (this hampered focus on operational performance). Now with a new management team is at the helm along with strong shareholders (Kotak has replaced FTIL), we expect stability to return and concomitant focus on operational aspects, which will drive growth.

Triggers in place to spur growth

MCX during challenging times has been hit hard in terms of sentiments and volumes dwindled. Commendably, the company still maintained >80% market share. We foresee host of favorable factors enabling MCX capitalise on emerging opportunities (a glimpse visible in Q3FY15). Also, potential regulatory changes like clearing of FCRA will provide new growth avenues by way of option trading and institution participation.

Outlook and valuations: Back in reckoning; maintain 'BUY'

While we have been staunch supporters of the exchange model's inherent strengths, the NSEL imbroglio and its impact on group entities, including top management rejig, rendered limited visibility. However, now with major impediments eliminated and structural growth levers in place, we recommend **'BUY/SO'**.

Financials

Year to March	FY13	FY14	FY15E	FY16E
Revenues (INR mn)	6,447	4,399	3,241	3,723
PAT (INR mn)	2,986	1,527	1,080	1,412
EPS (INR)	58.6	29.9	21.2	27.7
EPS growth (%)	0.3	(48.9)	(29.3)	30.7
PE (x)	16.6	32.5	46.0	35.2
Price to book (x)	4.3	3.8	3.6	3.4
RoE (%)	27.8	13.3	9.2	11.3

EDELWEISS 4D RATINGS

Absolute Rating	**BUY**
Rating Relative to Sector	Outperformer
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Overweight

MARKET DATA *(R: MCX.BO, B: MCX IN)*

CMP	: INR 973
Target Price	: INR 1,100
52-week range (INR)	: 1,010 / 425
Share in issue (mn)	: 51.0
M cap (INR bn/USD mn)	: 50 / 798
Avg. Daily Vol.BSE/NSE('000)	: 1,437.8

SHARE HOLDING PATTERN (%)

	Current	Q2FY15	Q1FY15
Promoters *	-	-	26.0
MF's, FI's & BK's	41.0	40.5	19.2
FII's	15.3	15.9	17.7
Others	43.7	43.6	37.1

** Promoters pledged shares (% of share in issue) : NIL*

RELATIVE PERFORMANCE (%)

	Sensex	Stock	Stock over Sensex
1 month	2.4	12.1	9.7
3 months	5.1	9.1	4.0
12 months	43.5	80.0	36.5

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February 20, 2015

Emerged unscathed maintaining market leadership

Imposition of commodity transaction tax (CTT) in July 2013 had an adverse impact on average daily trading volume (ADTV), which fell drastically from ~INR500bn to INR250-300bn. Later, the NSEL fallout in September 2013 further dented volumes with ADTV slipping below INR200bn. However, what was impressive was the fact that even amidst such mayhem, the company maintained its leadership position (>80% market share), with competition unable to make any significant dent, bearing testimony to its underlying business strengths. Going forward, with this overhang lifting and as confidence returns, we expect the company to retrace to higher volume levels (a glimpse of which was seen in recent performance — ADTV has been improving gradually).

Chart 1: Volumes crashed due to CTT imposition & NSEL fallout

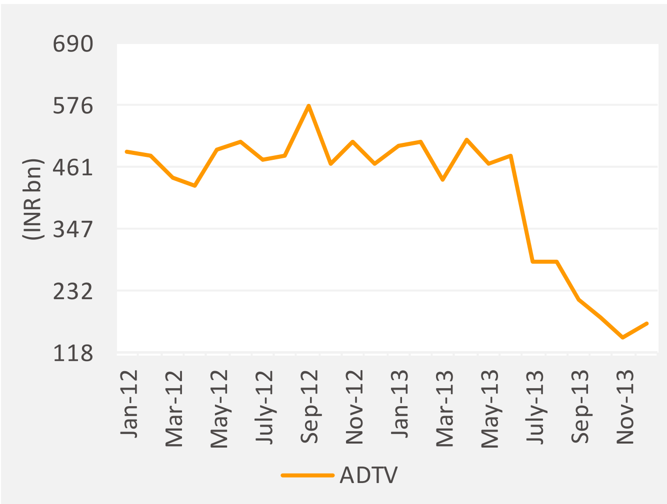


Chart 2: Volumes stabilised; green shoots emerging for recovery

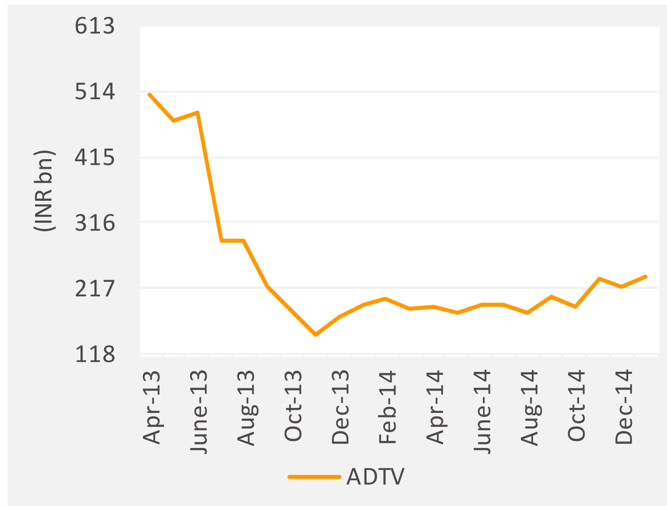
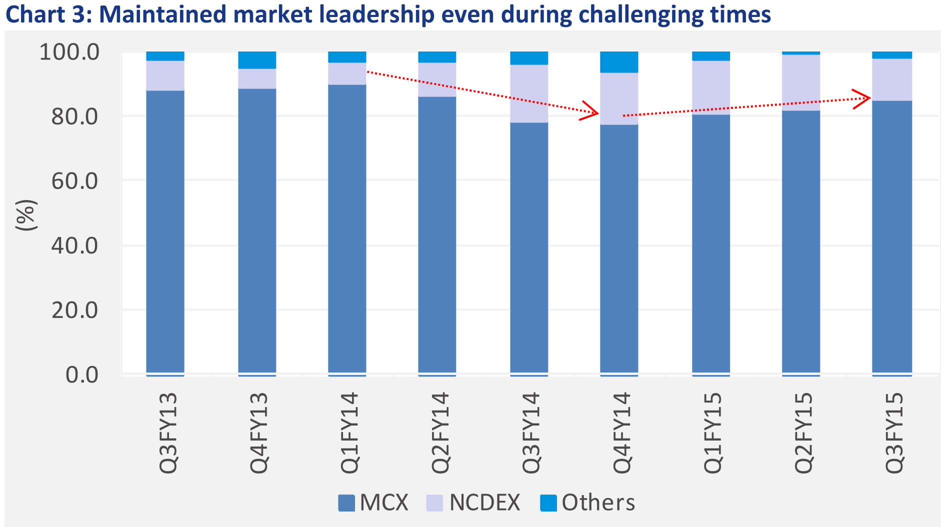


Chart 3: Maintained market leadership even during challenging times



Source: Company

Stable management at helm along with strong shareholders

The NSEL fallout had seen credibility loss in MCX's platform, essentially as FTIL was its promoter then. Regulator of commodity exchanges, the Forward Market Commission (FMC) had deemed FITL as 'not fit' to run any exchange. As a result, FITL sold its entire 26% stake in MCX in tranches with Kotak Mahindra Bank (KMB) buying in 15% stake for consideration of INR4.6bn (INR600/share). This had seen disintegration of top management and key shareholders in turn impacting operational performance. Now, with a new management at the helm along with a strong shareholder (KMB), we expect stability to return and renewed focus on operational aspects will drive growth.

Mr. V. Balasubramaniam appointed MD and CEO

MCX has announced appointment of Mr. V. Balasubramaniam as MD and CEO. He has rich 22 years of experience in technology and exchange business, and is currently Chief Business Officer at the BSE. As part of the core team that set up the National Stock Exchange (NSE), Mr Balasubramaniam was involved in establishing trading systems for the equity segment, creation of indices and introduction of the equity derivative segment. He was also co-founder of Marketplace Technologies, a front-end technology platform, which was later bought over by BSE.

Table 1: Management profile

Name	Designation	Experience
Satyananda Mishra, IAS (Retd.)	Chairman, Independent Director, FMC Approved	Former Information Commissioner
V. Balasubramaniam *	MD & CEO	Chief Business Officer of the BSE
Ravi Kamal Bhargava, IAS (Retd.)	Independent Director, FMC Nominated	Former Secretary General, National Human Rights Commission Former Additional Secretary, Dept. of Justice, Ministry of Home Affairs Former Additional Secretary, Ministry of Mines, Government of India, etc
Dinesh Kumar Mehrotra	Independent Director, FMC Nominated	Former Chairman, Life Insurance Corporation Former Convener & Member Secretary of Expert Group Committee formed by the Ministry of Finance, Government of India
Santosh Kumar Mohanty	Independent Director, FMC Nominated	Officer in the Indian Revenue Services Director of Forward Markets Commission FMC)
Pravin Tripathi	Independent Director, FMC Nominated	Former Deputy Comptroller and Auditor General of India Former Member of Competition Appellate Tribunal (COMPAT)
G. Anantharaman, IRS (Retd.)	Independent Director, FMC Approved	Presently, Special Advisor to the Chairman, Tata Realty & Infrastructure Former Chief Commissioner of Income Tax, Mumbai Former whole time member of SEBI
M.A.K. Prabhu	Shareholder Director, Canara Bank	Presently, Managing Director (Integrated Treasury Wing) , Canara Bank Securities Working with Canara Bank since 2001 in various senior capacities
R. Amalorpavanathan	Shareholder Director, NABARD	Presently, Deputy Managing Director, NABARD
Ajai Kumar	Shareholder Director	Presently, Senior Strategic Advisor - Retail and Business Banking, Yes Bank Former Chairman & Managing Director, Corporation Bank
Parveen Kumar Singhal	Joint Managing Director, MCX	Former Division chief- SEBI Former Director- FMC Former Executive Director & CEO - Delhi Stock Exchange

Source: Company

New technological agreement in place

Erstwhile promoter of MCX, Financial Technologies (FTIL) forward integrated and ventured into the exchange space leveraging its technological expertise. FTIL's highly efficient, cost-effective and difficult to replicate proprietary exchange solution software provided MCX key competitive edge. With MCX being solely dependent on FTIL for technology support, which ceased to be a promoter after FMC declared it "not fit", there were concerns regarding the fate of various technology agreements and concerns were relevant as the success of an exchange is underpinned by technology that creates, integrates, drives and makes markets more accessible. However, post the management rejig, the terms of the agreement has been re-negotiated in favour of MCX. Key changes and the contract terms include:

- Software charges were reduced to INR13mn/month from INR20mn earlier.
- Transaction based charges were lowered to 10.3% (versus 12.5% earlier).
- Agreement duration has been curtailed to 10 years from 33 years; the agreement will now expire in October 2022.

Structural volume growth levers in place

Exchanges, in general, have a unique and resilient business model due to inherent characteristics such as: (1) sticky liquidity; (2) annuity income by way of transaction/membership fees; (3) high operating leverage (40-70% EBITDA margin) with strong cash generation capabilities; and (4) upward trajectory in volumes over medium to long term (though volumes in interim tend to be volatile across business cycles).

Active spot market implies humungous potential

India's active spot commodities market provides humungous growth potential for commodity futures trading. Also, the country is the world's leading producer of several agriculture commodities and the largest consumer of gold and silver.

At nascent stage when compared to global exchange

Volumes in futures markets for any specific commodity tend to be in multiples of the physical production/consumption of that commodity due to hedging/arbitrage/speculative purposes. In India, the volumes traded on commodity futures exchanges are very low as compared to the size of the physical market for the commodity. Thus, the potential for commodity derivatives is huge.

Table 2: Futures multiplier on global exchanges indicates huge growth potential

Commodity	Futures Multiplier Year 2014 (Global Benchmark Exchanges)	Futures Multiplier Year 2014 (MCX)
Gold	67.0	5.0
Silver	136.0	45.9
Copper	100.0	12.4
CPO	12.0	1.1
Cotton	34.0	0.6

Source: Company

**Note: Futures Multiplier refers to number of times future market volume is to physical market size.*

Opportunities abound subject to regulatory changes

We believe the following regulatory changes can act as key triggers to boost volume growth in commodity exchanges:

- Currently, regulations do not permit MFs, FIIs and banks to trade on commodity exchanges. If allowed, this may drive overall participation in the segment.
- Commodity options were banned in 1952. Opening up of options trading can significantly boost volumes and overall growth for Indian commodity futures exchanges (in general) and MCX (in particular). Globally, options contribute ~48% of derivatives volume traded on exchanges. MCX has already developed the software technology infrastructure and other in-house expertise to launch trading in commodities' options, when such trading is permitted.
- Similarly, intangibles like weather derivatives and freight rates are not currently permitted by the government. Speculators tend to use proxy contracts like guar for weather/rainfall. Introduction of intangibles could enhance participation in commodity exchanges.

Financial outlook

Over past couple of years, MCX has been marred by various issues (viz., imposition of commodity transaction tax and NSEL fallout leading to management rejig, among others), which along with lower volatility contributed to the falling volumes. The above factors resulted in ADTV declining from ~INR500bn in FY12 to ~INR200bn in 9mFY15. This, in turn, impacted revenues, and with large part of expenses being fixed in nature, EBIDTA margins fell to sub-55% in FY14 from steady state average of 65-70%.

Chart 4: Volumes marred by various challenges

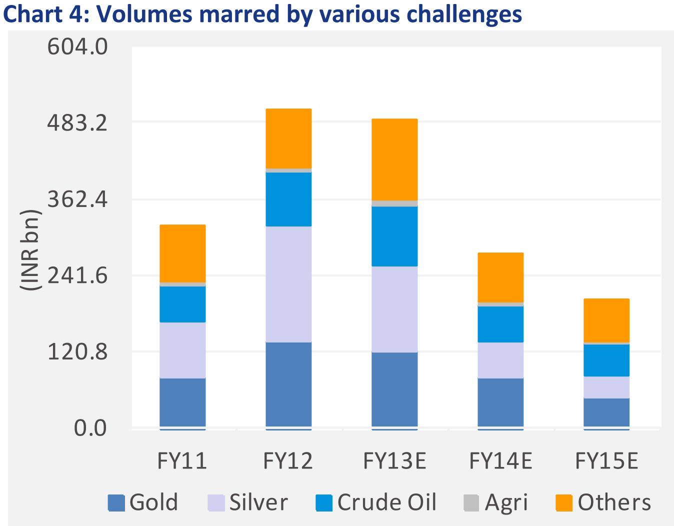
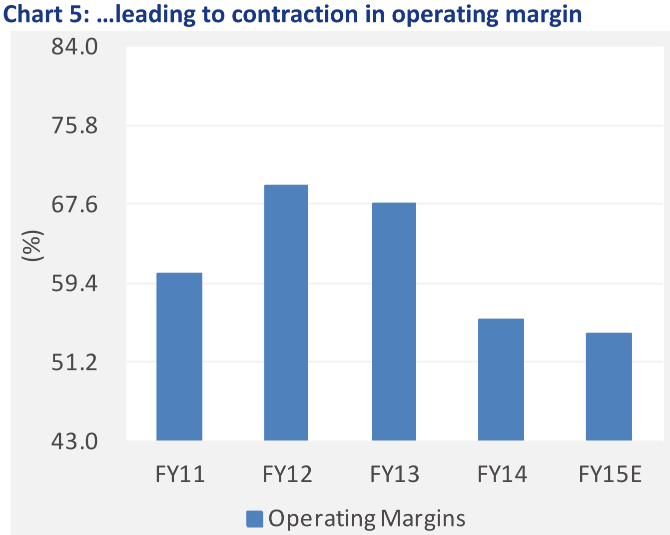


Chart 5: …leading to contraction in operating margin



Source: Company, Edelweiss research

Volumes to recover with structural growth drivers in place

Over a period of time, most of the issues seem to have settled down and the company has been making some progress — green-shoots were visible in Q3FY15 performance - ADTV up 12%. We expect further recovery in ADTV with increased participation (as it would leverage on customer franchise of some of its financial investors) and rise in prices of some commodities. We estimate volumes to touch INR311bn by FY17 (albeit lower than FY12 given impact of CTT), leading to 24% CAGR over FY15-17E (post 27% decline in FY14). However, our volume assumption doesn't factor in any upsides arising from regulatory changes (passage of FCRA bill, etc), which poses upside risk.

Table 3: ADTV growth - Commodity-wise assumptions for FY16 and FY17

	FY14	FY 15E	FY 16E	FY 17E
SILVER				
Avg daily volume (INR bn)	57	37	44	56
Vol (kgs)	1,266	944	1,105	1,348
Avg price (INR)	45,373	39,094	39,876	41,870
Proportion of total volume (%)	*20.7*	*18.2*	*18.1*	*18.2*
GOLD				
Avg daily volume (INR bn)	80	48	59	75
Vol (gms)	28,513	17,901	21,481	26,207
Avg price (INR)	28,085	26,783	27,318	28,684
Proportion of total volume (%)	*28.8*	*23.7*	*24.1*	*24.2*
COPPER				
Avg daily volume (INR bn)	25	14	16	21
Vol (kgs)	60	36	42	51
Avg price (INR)	4.2	3.9	3.9	4.1
Proportion of total volume (%)	*9.0*	*7.1*	*6.7*	*6.6*
CRUDE OIL				
Avg daily volume (INR bn)	58	48	62	81
Vol ('000 bbls)	10	10.7	13	16
Avg price (INR)	58.1	45.0	46.4	49.6
Proportion of total volume (%)	*20.8*	*23.7*	*25.4*	*26.0*
ZINC				
Avg daily volume (INR bn)	7	10	12	15
Vol (kgs)	65,991	78,144	89,865	109,636
Avg price (INR)	1.1	1.3	1.3	1.4
Proportion of total volume (%)	*2.7*	*5.1*	*5.0*	*5.0*
LEAD				
Avg daily volume (INR bn)	13	8	9	12
Vol (kgs)	103,496	67,296	77,390	92,869
Avg price (INR)	1.2	1.2	1.2	1.3
Proportion of total volume (%)	*4.6*	*4.1*	*3.7*	*3.8*
NICKEL				
Avg daily volume (INR bn)	6	11	12	15
Vol (kgs)	7,011	10,117	11,635	13,962
Avg price (INR)	8.6	10.4	9.9	10.4
Proportion of total volume (%)	*2.2*	*5.2*	*4.7*	*4.7*
AGRI	5.7	4.5	5.1	6.2
Proportion of total volume (%)	*2.1*	*2.2*	*2.1*	*2.0*
OTHERS	25.3	21.4	24.7	30.1
Proportion of total volume (%)	*9.1*	*10.6*	*10.1*	*9.7*
TOTAL	**278**	**202**	**243**	**311**

Source: Company, Edelweiss research

Reduction in transaction charges and no trading in non-agri commodities on Saturdays

Transaction fee has been one of the key revenue drivers for the company, which is correlated to trading volumes, trading days and average realisation. The company has tweaked its fee structure recently now charging INR2.1 for every INR0.1mn of trades for customers with average daily turnover of up to INR3.5bn, and INR1.4 for average daily turnover more than INR3.5bn. This has resulted in average current realisation of ~INR1.85 per INR0.1mn of volumes traded. Besides, the number of trading days has come off from 305-310 in a fiscal to 250-255 as the FMC has directed MCX to stop trading on Saturdays in non-agri commodities w.e.f., September 23, 2013. However, since volumes in non-agri commodities on Saturdays were not significant, it had negligible effect on exchange revenues. Improving ADTV is expected to drive revenues, as we expect pricing (transaction fees) to remain steady. We are building in 24% CAGR in volumes over FY15-17, leading to similar growth in transaction charges.

Table 4: Revised fee structure

Avg daily turnover	Transaction fee (per INR0.1mn of turnover)
Non agri commodities	
Upto INR3.5bn	INR2.1
On incremental turnover > INR3.5bn	INR1.4
Agri commodities	
Upto INR0.2bn	INR0.75
On incremental turnover > INR0.2bn	INR0.5

Table 5: Average realisation of INR1.85

Financial Year	Avg value realisation (per INR0.1mn traded)
FY14	1.8
9mFY15	1.9

Source: Company

Chart 6: Volumes appear to have bottomed out

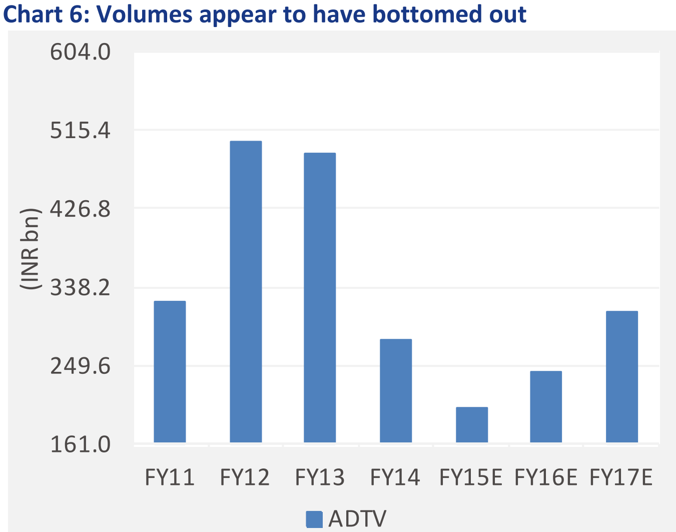
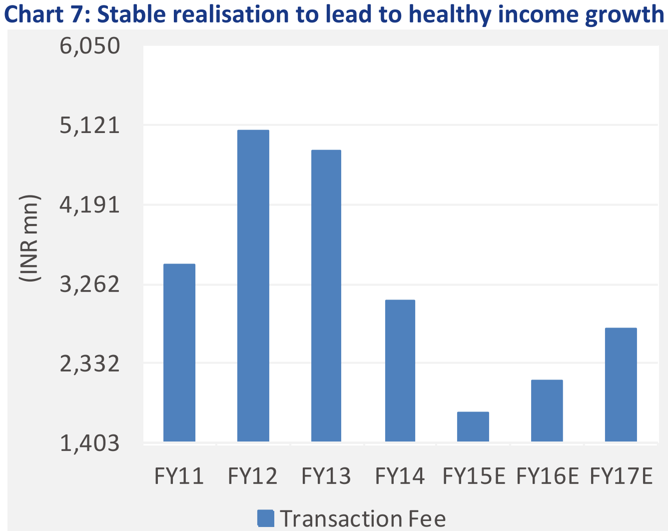


Chart 7: Stable realisation to lead to healthy income growth



Source: Company, Edelweiss research

Operating leverage to kick in

A large part of MCX's operating cost is fixed in nature (including software support charges, license fee, employee cost, promotional and other operating expenses). We foresee dual benefits on this front: 1) MCX has re-negotiated terms with FTIL in its favour (thus, we expect only 5.6% increase in opex over FY15-17E); and 2) rise in revenues will outpace costs as operating leverage starts playing out. Thereon, we expect operating margin to improve to 63% by FY17 from 55.7% in FY14 (69.5% in FY12).

Chart 8: Operating leverage benefit to kick in

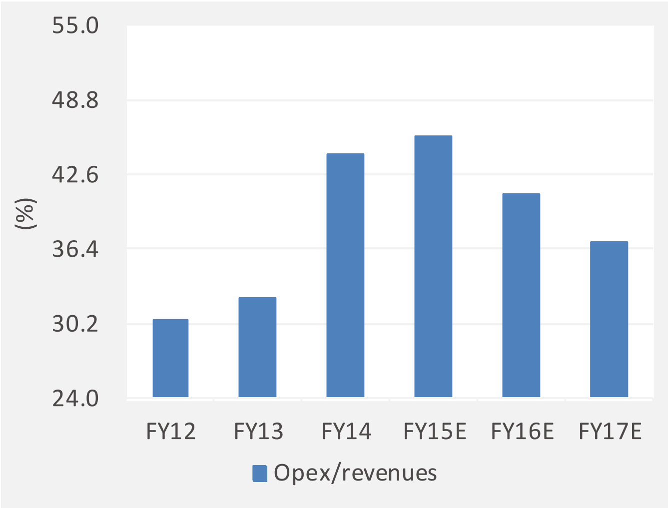
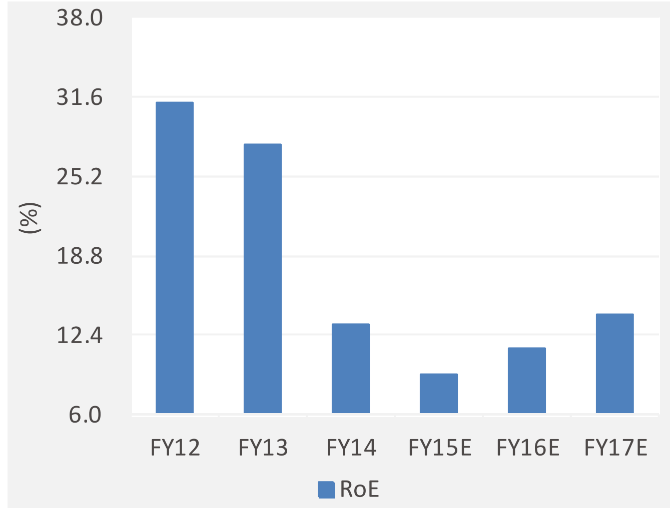


Chart 9: …and return profile will improve gradually



Source: Company, Edelweiss research

Impending regulatory requirements

- SEBI has directed MCX to divest its holding in MCS-SX (holds 27.1mn shares and 634mn warrants with investment value of INR1.3bn) and MCX-SX-CCL (6.5mn shares of INR65mn). However, MCX vide its letter of October '14 has represented to SEBI that FTIL and MCX no longer act in concert, with FTIL ceasing to be a promoter and therefore the company should not be required to divest holdings. MCX, in its financial statements, has considered cost of its acquisition as fair value of these investments as of date, and is in the process of evaluating these investments.
- MCX has conducted a stress test in accordance with the FMC circular of March'14 to determine adequacy of the Settlement Guarantee Fund (SGF) and corpus of INR2.7bn (including INR1.8bn of cash component) being adequate, the company has not made any contribution to SGF from 9mFY15 profits.

Valuation

While we have been staunch supporters of the exchange model's inherent strengths, the NSEL imbroglio and its impact on group entities, including drastic top management rejig, rendered limited visibility in MCX's operating and financial parameters and kept us vigilant.

Despite being fraught with challenges MCX emerged unscathed bearing testimony to its underlying business strength. We like MCX for its market leadership, edge in innovation, and sticky liquidity. In fact, the model has evolved much stronger with experienced management team backed by strong financial partner (Kotak). MCX is in growth phase of its life cycle with structural levers in place for upward trajectory in volumes over the long term: increased participation, ramp up in customer base, continued volatility, rise in some commodity prices Potential regulatory changes (FCRA Act clearance) will provide further leg-up. Trading volumes appear to have bottomed out and are estimated to report 24% CAGR over FY15-17. Operating leverage benefit will provide higher EPS CAGR of 32%. With excess liquidity on balance sheet, we also anticipate dividend payout to improve going forward.
The stock is trading at a premium to its global peers (26.6x FY17E EPS). We expect the valuation gap to sustain given MCX's high growth potential and value it at INR1,100 (on 30x FY17E EPS versus historical average/peak multiples of 24x/40x). Our estimates/valuation do

not take into consideration the possibility of opening of option trading or participation of FIIs, MFs, banks etc with clearance of FCRA Act. Now with major impediments eliminated and structural growth levers in place, we recommend **'BUY/Sector Outperformer'**.

Table 6: Valuation snapshot of global commodity exchanges

	M.Cap	PE (x)		PB (x)		Revenue	PAT	EBITDA	PAT	EPS
	(USD mn)	FY16	FY17	FY16	FY17	(USD mn)	(USD mn)	margin (%)	margin (%)	CAGR (%)
MCX	802	35.2	26.6	3.4	3.2	55	25	43.8	45.0	31.5
London Stock Exchange	13,065	18.1	14.4	3.5	3.2	1,851	263	58.7	14.2	17.0
NASDAQ OMX Group	8,426	13.4	12.4	1.4	1.2	3,500	414	25.5	11.8	13.7
ICE group	26,296	16.6	14.6	2.0	1.6	3,092	981	44.8	31.7	21.3
CME Group	31,582	21.7	19.8	1.5	1.5	3,113	1,127	56.8	36.2	13.0
BM&FBOVESPA	6,172	10.5	9.1	0.9	0.9	716	344	66.3	48.1	6.7
JSE South Africa	920	14.8	12.9	NA	NA	136	44	38.2	32.1	13.3
OSAKA Securities Exchange	7,139	23.2	22.1	3.9	3.3	978	251	44.0	25.7	8.9
Hong Kong Exch. & Clearing	26,672	29.9	26.5	9.5	8.4	970	587	71.7	60.5	22.4

Source: Edelweiss research

Company Description

MCX is a leading electronic commodity futures exchange in India promoted by FTIL (though has not ceased to be a promoter with NSEL fallout) facilitating online trading, clearing & settlement operations for futures market across the country. The exchange started operations in November 2003 and within eight years it has emerged the market leader in commodities future industry with 85% plus market share, leveraging on product and service innovations and effective use of technology. Well designed technology platform that ensures security, reliability, flexibility and scalable architecture with handling capacity of 40mn transactions in a day. In terms of innovation, it is the first exchange in India to launch mini contracts to cater to needs of small traders and SMEs and has initiated evening sessions to synchronise with trading hours of exchanges in London, New York and other major international markets.

Investment Theme

Multi commodity exchange (MCX) was fraught with challenges since past couple of years with its promoter, FTIL, being declared not "fit and proper" to run the exchange post NSEL fallout leading to entire top management rejig. Moreover, imposition of CTT had an adverse impact on trading volumes, coupled with sharp fall in commodity prices. Despite such turmoils, the company emerged unscathed maintaining market leadership (with >80% market share) bearing testimony to its underlying business strength. Infact, the model has evolved much stronger with experienced management backed by strong financial partner (Kotak). This further supported with structural growth levers and potential regulatory changes (FCRA Act clearance) place MCX in a favorable position to capitalise on emerging opportunities. Trading volumes appear to have bottomed out and are estimated to report 24% CAGR over FY15-17. Operating leverage benefit will provide higher EPS CAGR of 32%.

Key Risks

- Higher regulatory risks due to speculative nature of trades: i) Delay in implementation of proposed policy measures; ii) Ban on trading in certain commodities; iii) Revision in open position limits, higher margin requirement, CTT imposition etc
- Significant dependence on a few commodities: Top four commodities—gold, silver, crude oil and copper—accounted for more than 85% of total volumes on MCX
- Long-term pricing pressure likely in commodities futures
- Revenues tied to transaction fee and market volatility
- Credit risk of members

Financial Statements

Assumptions

Year to March	FY14	FY15E	FY16E	FY17E
GDP(Y-o-Y %)	4.7	5.4	6.3	7.3
Inflation (Avg)	9.5	6.8	5.5	5.5
Repo rate (exit rate)	8.0	7.8	6.8	6.3
USD/INR (Avg)	60.5	61.0	62.0	62.0
Credit growth (%)	14.0	16.0	18.0	18.0
Deposit growth (%)	15.0	16.0	18.0	18.0
CRR (%)	4.0	4.0	4.0	4.0
SLR (%)	23.0	23.0	23.0	23.0
G-sec yield (%)	8.5	7.8	7.0	7.0
Operating metric assumptions (%)				
Operating margin	55.7	54.2	59.1	63.0
Employee cost/revenues	7.1	10.9	10.8	10.3
Technology cost/revenues	15.0	13.3	11.0	10.5
Penalties as % of fee	0.0	0.0	0.0	0.0
Dividend payout	33.4	25.0	35.0	45.0
Dividend tax	17.0	17.0	17.0	17.0
Tax rate	27.1	28.0	28.0	28.0
Balance sheet assumption (%)				
Average Daily Trading Volumes	278	202	243	311
- Gold	80	48	59	75
- Silver	57	37	44	56
- Crude Oil	58	48	62	81
- Agri	6	4	5	6
- Others	77	65	74	92
Commission yields (INR/lakh)	1.8	1.7	1.7	1.7
# of members	2083	2067	2074	2101
# of employees	277	285	295	310
# of terminals	467,000	499,690	549,659	604,625
Tax rate	27	28	28	28

Income statement (INR mn)

Year to March	FY14	FY15E	FY16E	FY17E
Revenues	4,399	3,241	3,723	4,476
- Transaction Fee	3,053	1,754	2,135	2,726
- Membership Fee/Terminal charges	144	161	173	185
- VSAT Connectivity Inc	92	82	82	83
- Int. & Div. & Invest Income	941	1,071	1,149	1,286
- Other Income	169	173	183	195
Operating expenses	1,950	1,485	1,524	1,656
- Employee Cost	313	354	402	461
- Technololgy Costs	660	431	408	471
- Advt. & Business Development	96	76	80	84
- Admin & Other Expenses	880	624	634	640
Operating margin	2,450	1,757	2,199	2,820
Depreciation & Amortization	343	257	238	226
EBIT	2,107	1,500	1,961	2,594
PBT	2,096	1,500	1,961	2,594
PBT including extraordinary income	2,096	1,500	1,961	2,594
Tax	569	420	549	726
PAT	1,527	1,080	1,412	1,868
Net profit (reported)	1,527	1,080	1,412	1,868
Diluted EPS (INR)	29.9	21.2	27.7	36.6
DPS (INR)	10	5	10	16
Dividend payout	33	25	35	45

Growth ratios (%)

Year to March	FY14E	FY15E	FY16E	FY17E
Revenue growth	(31.8)	(26.3)	14.9	20.2
- Transaction fee growth	(36.6)	(42.6)	21.7	27.7
Opex growth	(6.6)	(23.8)	7.3	6.9
Operating margin growth	(43.8)	(28.3)	0.3	1.3
PBT growth	(48.3)	(28.4)	7.3	11.9
PAT growth	(48.9)	(29.3)	30.7	32.3

Operating ratios (%)

Year to March	FY14E	FY15E	FY16E	FY17E
Operating margin	55.7	54.2	59.1	63.0
PAT margin	34.7	33.3	37.9	41.7
Employee cost/revenues	7.1	10.9	10.8	10.3
Technology cost/revenues	15.0	13.3	11.0	10.5
Opex/revenues	44.3	45.8	40.9	37.0
Tax rate	27.1	28.0	28.0	28.0

Balance sheet				(INR mn)
As on 31st March	FY14E	FY15E	FY16E	FY17E
Liabilities				
Equity Capital	510	510	510	510
Reserves (excl. revaluation reserves)	12,651	13,415	14,249	15,133
Net Worth	**13,161**	**13,925**	**14,759**	**15,643**
Deferred Tax Liability (Asset)	152	160	171	186
Total	**13,313**	**14,085**	**14,930**	**15,829**
- Gross Block	3,541	3,641	3,766	3,916
- Depreciation	1,808	2,065	2,303	2,529
- Net Block	**1,735**	**1,576**	**1,463**	**1,387**
Investment	**10,898**	**11,098**	**11,898**	**12,648**
Current Assets	4,782	4,805	5,463	6,458
- Cash and Bank Balance	530	670	785	847
- Fixed Deposits	2,888	3,088	3,438	4,138
- Sundry debtors	90	69	97	144
- Loan & advances	956	596	685	779
- other current assets	319	382	459	551
Current Liabilities	3,660	2,907	3,359	4,076
- Security Deposits	105	108	110	112
- Networking Equipment Deposits	3	3	3	3
- Trading Margin from Members	2,585	2,023	2,434	3,108
- Other Current liabilities	967	774	812	853
Net Current Assets	**1,122**	**1,898**	**2,104**	**2,383**
Provisions	443	487	536	589
Total	**13,313**	**14,085**	**14,930**	**15,829**

Key operating metrics

Year to March	FY14E	FY15E	FY16E	FY17E
Average Daily Trading Volumes	**277.8**	**202.3**	**243.4**	**310.8**
- Gold	80.1	47.9	58.7	75.2
- Silver	57.4	36.9	44.0	56.4
- Crude Oil	57.9	48.0	61.8	80.7
- Agri	5.7	4.5	5.1	6.2
- Others	76.7	65.0	73.7	92.4
Commission yields	**1.8**	**1.7**	**1.7**	**1.7**
# of members	2,083	2,067	2,074	2,101
# of employees	277	285	295	310
# of terminals ('000)	467	500	550	605

Valuation metrics

Year to March	FY14E	FY15E	FY16E	FY17E
Diluted EPS (INR)	29.9	21.2	27.7	36.6
EPS growth (%)	*(48.9)*	*(29.3)*	*30.7*	*32.3*
Book value per share (INR)	258.1	273.0	289.4	306.7
RoE (%)	13.3	9.2	11.3	14.1
Diluted P/E (x)	32.5	46.0	35.2	26.6
Price/ BV (x)	3.8	3.6	3.4	3.2
Dividend yield (%)	1.0	0.5	1.0	1.7

Peer comparison valuation

	Market cap	Diluted PE (X)		Price/BV (X)		ROAE (%)	
Name	(USD mn)	FY15E	FY16E	FY15E	FY16E	FY15E	FY16E
Multi Commodity Exchange of India	798	46.0	35.2	3.6	3.4	9.2	11.3
HDFC	33,708	35.5	30.5	7.3	6.6	21.7	22.8
Infrastructure Development Finance Co	4,342	14.7	12.0	1.6	1.4	11.3	12.6
LIC Housing Finance	3,774	16.7	14.1	3.0	2.6	19.3	19.5
Mahindra & Mahindra Financial Services	2,335	18.3	11.5	2.5	2.2	14.7	20.4
Manappuram General Finance	466	10.9	9.1	1.1	1.0	10.2	11.4
Muthoot Finance	1,405	12.8	10.6	1.7	1.6	14.5	15.4
Power Finance Corp	5,906	5.8	5.2	1.1	1.0	21.0	20.1
Reliance Capital	1,808	13.2	11.8	0.8	0.8	-	-
Rural Electrification Corporation	5,047	5.6	4.9	-	-	24.2	22.9
Shriram City Union Finance	2,128	23.1	18.0	3.2	2.8	16.2	16.4
Median	-	14.7	11.8	1.6	1.4	14.7	16.4
AVERAGE	-	18.9	15.3	2.0	1.8	13.9	14.7

Source: Edelweiss research

Additional Data

Directors Data

Ravi Kamal Bhargava	Nominee	Satyananda Mishra	Chairman
Dinesh Kumar Mehrotra	Director	Santosh Kumar Mohanty	Director
Pravin Tripathi	Director	G. Anantharaman	Director
M A K Prabhu	Director	R Amalorpavanathan	Director
Ajai Kumar	Director	Parveen Kumar Singhal	Director

Auditors - Shah Gupta & Co.

**as per last annual report*

Holding - Top10

	Perc. Holding		Perc. Holding
Kotak Mahindra	15.00	Blackstone GPV Capital	4.79
IFCI	4.79	Jhunjhunwala Rakesh	3.94
IDFC MF	3.73	NABARD	3.06
Aginyx Enterprises	2.33	Birla Sun Life Asset Management	2.31
Axis Asset Management	1.95	Inter Capital	1.62

**as per last available data*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
27 Aug 2014	Sbi Life Insurance Company Ltd	Buy	343400	830.00
27 Aug 2014	Financial Technologies India Ltd	Sell	1370000	827.59
16 Jul 2014	Financial Technologies India Ltd	Sell	2040901	752.83
15 Jul 2014	Rakesh Radheyshyam Jhunjhunwala	Buy	490000	734.49
15 Jul 2014	Rare Enterprises	Sell	490000	734.48
09 Apr 2014	Barca Global Master Fund Lp	Buy	638863	519.05
09 Apr 2014	Clsa (Mauritius) Ltd	Sell	638863	519.05

**in last one year*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
03 Jul 2014	Corporation Bank	Sell	115968.00
30 Jun 2014	Corporation Bank	Sell	69950.00
25 Jun 2014	Corporation Bank	Sell	75000.00
20 Jun 2014	Corporation Bank	Sell	60000.00

**in last one year*

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Allahabad Bank	BUY	SP	M	Axis Bank	BUY	SO	M
Bajaj Finserv	BUY	SO	L	Bank of Baroda	HOLD	SP	M
Development Credit Bank	BUY	SO	M	Dewan Housing Finance	BUY	SO	M
Federal Bank	BUY	SO	L	HDFC	HOLD	SU	L
HDFC Bank	BUY	SO	L	ICICI Bank	BUY	SO	L
Indiabulls Housing Finance	BUY	SO	M	IndusInd Bank	BUY	SO	L
IDFC	BUY	SO	L	ING Vysya	BUY	SO	L
Karnataka Bank	BUY	SP	M	Kotak Mahindra Bank	HOLD	SU	M
LIC Housing Finance	BUY	SO	M	Magma Fincorp	BUY	SO	M
Mahindra & Mahindra Financial Services	HOLD	SU	M	Manappuram General Finance	BUY	SP	H
Max India	BUY	SO	L	Multi Commodity Exchange of India	BUY	SO	M
Muthoot Finance	BUY	SO	M	Oriental Bank Of Commerce	BUY	SP	L
Power Finance Corp	BUY	SO	M	Punjab National Bank	HOLD	SP	M
Reliance Capital	BUY	SP	M	Repco Home Finance	BUY	SO	M
Rural Electrification Corporation	BUY	SO	M	Shriram City Union Finance	BUY	SP	M
Shriram Transport Finance	BUY	SO	L	South Indian Bank	BUY	SP	M
State Bank of India	BUY	SO	L	Union Bank Of India	BUY	SP	M
Yes Bank	BUY	SO	M				

ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

Edelweiss
Ideas create, values protect

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Coverage group(s) of stocks by primary analyst(s): Banking and Financial Services

Allahabad Bank, Axis Bank, Bajaj Finserv, Bank of Baroda, Development Credit Bank, Dewan Housing Finance, Federal Bank, HDFC, HDFC Bank, ICICI Bank, Infrastructure Development Finance Co Ltd, Indiabulls Housing Finance, IndusInd Bank, Karnataka Bank, Kotak Mahindra Bank, LIC Housing Finance, Max India, Multi Commodity Exchange of India, Manappuram General Finance, Magma Fincorp, Mahindra & Mahindra Financial Services, Muthoot Finance, Oriental Bank Of Commerce, Punjab National Bank, Power Finance Corp, Reliance Capital, Rural Electrification Corporation, Repco Home Finance, State Bank of India, Shriram City Union Finance, Shriram Transport Finance, South Indian Bank, Union Bank Of India, ING Vysya, Yes Bank

Recent Research

Date	Company	Title	Price (INR)	Recos
18-Feb-15	**Max India**	A mixed bag; *Result Update*	469	Buy
14-Feb-15	**Reliance Capital**	Core business performance to drive valuation; *Result Update*	463	Buy
14-Feb-15	**HDFC Bank**	On right track; *Result Update*	1,066	Buy

Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	150	46	10	207

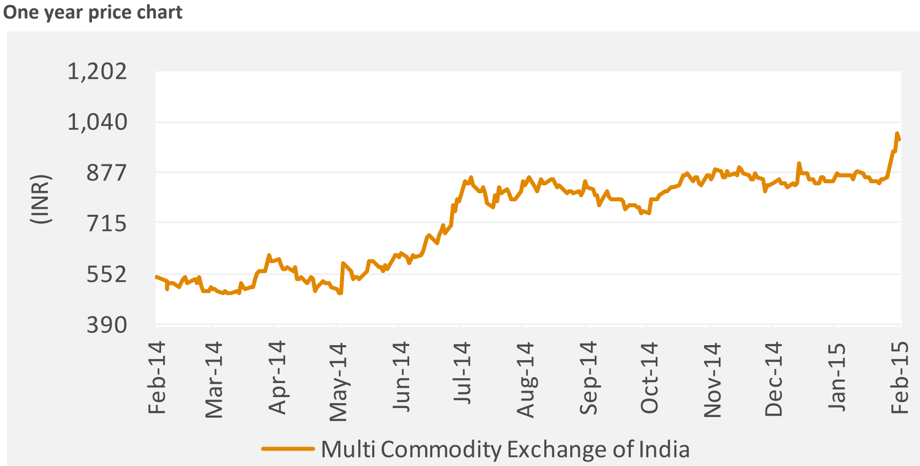
* 1 stocks under review

	> 50bn	Between 10bn and 50 bn	< 10bn
Market Cap (INR)	143	58	6

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

One year price chart



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