

MULTI COMMODITY EXCHANGE OF INDIA

Structural risks on horizon

India Equity Research | Banking and Financial Services



Multi Commodity Exchange's (MCX) Q3FY18 earnings came below expectations, impacted by softer revenue momentum (transaction as well as investment income). Despite stable-to-rising commodity prices, FY18 YTD volumes have been modest—ADTV down 4% YoY to INR200bn (even on lower base). Also, option roll out has been gradual and institutional participation is awaited. Factoring slackened revenue momentum, we cut FY18E and FY19E EPS >25% and 15%, respectively. Moreover, advent of universal exchange norm challenges MCX's monopoly, posing a risk to the premium multiple it commands. Hence, we cut target multiple to 25x (from 35x). While taking away liquidity from MCX will not be easy for new players, predatory pricing could limit its pricing power. Structural threats, notwithstanding, we forecast 40% EPS CAGR over FY18-20 factoring in the benefits of positive levers and low base. Despite the associated risks, the stock still trades at 23x FY20E EPS, thereby capping the upside. Hence, downgrade to 'HOLD' with revised TP of INR975 (earlier INR1,310).

Volumes soft, but prospects bright

Despite rising commodity prices and stable bullion prices, trading volumes YTD have been modest (around INR200bn of ADTV) due to lower volatility. Recovery post demonetisation, especially in bullions, has been modest, denting overall ADTV (bullion volume down >30% YoY). Even options volumes (though too early to draw a trend) have been modest (ADTV of INR500-700mn) and remain a key monitorable. However, we do expect activity levels to pick up once volatility kicks in, options scale up and institutional participation is permitted. Hence, we estimate >25% volume CAGR over FY18-20.

Outlook and valuations: Limited upside; downgrade to 'HOLD

While FY18 volumes YTD have been soft, we believe structural levers will support >25% EPS growth over FY18-20E. With operating leverage kicking in, we estimate 40% EPS CAGR over FY18-20. However, structural risk of universal exchange will challenge MCX's monopoly and pose a threat to its revenue momentum. Despite the associated risks, the stock trades at 23x FY20E earnings, thereby limiting the upside from current level. We, therefore, downgrade to 'HOLD/SU' from 'BUY/SP' with revised target price of INR975 based on 25x FY20E earnings.

Financials

(INR mn)

Year to March	Q3FY18	Q3FY17	Growth %	Q2FY18	Growth %	FY17	FY18E	FY19E
Net revenue	748	998	(25.0)	898	(16.7)	3,759	3,516	4,512
Net profit	178	339	(47.6)	283	(37.2)	1,263	1,005	1,582
Dil. EPS (INR)	5.2	6.5	(20.1)	4.3	20.3	24.8	19.7	31.0
Book Value (INR)						300	306	321
Price/Book (x)						3.0	2.9	2.8
Price/Earnings (x)						36.2	45.5	28.9

EDELWEISS 4D RATINGS

Absolute Rating	HOLD
Rating Relative to Sector	Underperformer
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Overweight

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

CMP	: INR 896
Target Price	: INR 975
52-week range (INR)	: 1,259 / 870
Share in issue (mn)	: 51.0
M cap (INR bn/USD mn)	: 46 / 713
Avg. Daily Vol.BSE/NSE('000)	: 372.0

SHARE HOLDING PATTERN (%)

	Current	Q2FY18	Q1FY18
Promoters *	-	-	60.4
MF's, FI's & BK's	35.5	33.5	10.2
FII's	28.8	30.6	21.0
Others	35.7	35.8	8.4
* Promoters pledged shares (% of share in issue)	:		NIL

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Banks and Financial Services Index
1 month	(4.9)	4.0	2.5
3 months	(17.9)	5.6	6.2
12 months	(22.6)	27.9	36.0

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Banking and Financial Services

Table 1: Key takeaways from Q3FY18 earnings

(INR mn)	Q3FY18	Q3FY17	YoY (%)	Q2FY18	QoQ (%)	Comments
Revenues	748	998	(25.0)	898	(16.7)	Subdued in nature following softer transaction revenue and lower other income
Expenses	469	493	(4.9)	462	1.6	
- Employee Benefits Expense	169	198	(14.6)	178	(5.4)	
- Software Support Charges and Product License Fees	120	112	7.8	127	(4.9)	
- Other Expenses	180	184	(2.2)	157	14.8	Target is to limit other expenses at prior year levels
EBIDTA	279	504	(44.7)	436	(36.1)	
- Finance Costs	-	0	NA	-	NA	
- D&A Expense	35	45	(23.1)	48	(28.1)	
Profit before Tax	244	459	(46.7)	388	(37.1)	
Tax Expenses	66	119	(44.4)	105	(36.8)	
Net Profit after Tax	178	339	(47.6)	283	(37.2)	Weak revenue momentum lead to lower than expected profitability
Diluted EPS (INR)	5.2	6.5	(20.1)	4.3	20.3	
Ratios (%)						
EBITDA Margin	37.3	50.6		48.6		
PAT Margin	23.8	34.0		31.5		
Tax Rate	27.2	26.0		27.0		
ADTV (INR bn)						
Total	201	210	(4.2)	220	(8.4)	Despite stable-to-rising commodity prices, FY18 YTD volumes have been modest—ADTV down 4% YoY to INR200bn (even on lower base)
-Gold & Silver	45	63	(29.0)	63	(29.7)	Recovery post demonetisation, especially in bullions, has been modest, denting overall ADTV (bullion volume down >30% YoY)
-Crude Oil	50	54	(8.5)	57	(13.5)	
-Agri	5	4	4.0	4	16.1	
-Others	102	89	15.5	95	8.0	

Source: Company, Edelweiss research

Table 2: Volume continues to be under pressure, outlook cautious

(INR bn)	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	QoQ	YoY	FY16	FY17	YoY
Average Daily Trading Volumes	210	194	188	220	201	(8.4)	(4.2)	219	226	2.9
-Gold	34	31	30	33	23	(31.7)	(32.2)	48	45	(7.1)
-Silver	29	22	24	30	22	(27.6)	(25.3)	32	33	4.3
-Crude Oil	54	50	53	57	50	(13.5)	(8.5)	65	60	(7.9)
-Agri	4	6	4	4	5	16.1	4.0	5	5	13.2
-Others	89	86	77	95	102	8.0	15.5	69	82	19.0

Source: Company

Table 3: Pressure largely percolating from lower bullion volumes

(INR bn)	Qty Denomination	ADTV Q3FY18		ADTV Q3FY17		Change in ADTV (YoY)		ADTV Q2FY18		Change in ADTV (QoQ)		ADTV FY17		ADTV FY16		Change in ADTV (YoY)	
		Value	Volume	Value	Volume	Value	Volume	Value	Volume	Value	Volume	Value	Volume	Value	Volume	Value	Volume
		(INR bn)		(INR bn)				(INR bn)				(INR bn)		(INR bn)			
Gold	000 Kgs	22.0	7,520	33.5	11,464	(34.4)	(34.4)	33.3	11,464	(33.9)	(34.4)	45.0	15,028	48.4	18,064	(7.1)	(16.8)
Silver	000 Kgs	20.9	536	29.2	700	(28.6)	(23.5)	30.2	775	(30.8)	(30.9)	33.5	782	32.1	893	4.3	(12.4)
Crude Oil	000 BBLs	47.8	13,358	54.3	16,445	(11.9)	(18.8)	57.4	18,544	(16.7)	(28.0)	60.2	19,008	65.4	23,037	(7.9)	(17.5)
Copper	000 Kgs	18.2	40,721	17.8	48,399	2.4	(15.9)	17.8	42,858	2.2	(5.0)	17.1	49,101	17.0	50,034	0.2	(1.9)
Zinc	000 Kgs	30.8	1,47,527	27.7	1,61,406	11.1	(8.6)	33.7	1,76,438	(8.6)	(16.4)	24.9	1,56,689	15.2	1,28,582	63.2	21.9
Lead	000 Kgs	15.8	97,988	14.4	98,865	10.0	(0.9)	16.2	1,07,186	(2.3)	(8.6)	12.9	95,585	11.4	98,183	13.4	(2.6)
Nickel	000 Kgs	11.4	15,054	6.9	9,436	65.1	59.5	9.4	13,658	21.1	10.2	7.4	10,980	8.9	12,893	(16.0)	(14.8)

Source: Company

Table 4: Commodity-wise ADTV assumptions

	FY17	FY18E	FY19E	FY20E
SILVER				
Avg daily volume (INR bn)	33	25	33	44
Vol (kgs)	782	642	802	1,002
Avg price (INR)	42,558	39,579	41,558	43,636
Proportion of total volume (%)	14.8	11.9	12.3	12.7
GOLD				
Avg daily volume (INR bn)	45	30	38	48
Vol (gms)	15,028	10,520	12,624	15,148
Avg price (INR)	29,694	28,951	30,399	31,919
Proportion of total volume (%)	19.8	14.2	14.1	14.0
COPPER				
Avg daily volume (INR bn)	17	17	23	30
Vol (kgs)	49	42	52	65
Avg price (INR)	3.5	4.2	4.4	4.6
Proportion of total volume (%)	7.6	8.2	8.5	8.7
CRUDE OIL				
Avg daily volume (INR bn)	61	56	75	98
Vol ('000 bbls)	19	17	20	24
Avg price (INR)	32.2	34.2	37.6	41.3
Proportion of total volume (%)	27.2	26.4	27.5	28.5
ZINC				
Avg daily volume (INR bn)	25	31	38	49
Vol (kgs)	1,56,689	1,52,771	1,83,326	2,19,991
Avg price (INR)	1.6	2.0	2.1	2.2
Proportion of total volume (%)	11.1	14.3	14.2	14.1
LEAD				
Avg daily volume (INR bn)	13	15	19	24
Vol (kgs)	95,585	1,00,365	1,20,438	1,44,525
Avg price (INR)	1.4	1.5	1.6	1.7
Proportion of total volume (%)	5.7	7.1	7.0	7.0
NICKEL				
Avg daily volume (INR bn)	7	10	12	16
Vol (kgs)	10,980	13,725	16,470	19,764
Avg price (INR)	6.8	7.1	7.5	7.9
Proportion of total volume (%)	3.3	4.6	4.6	4.5
AGRI				
Avg daily volume (INR bn)	5.3	6.4	7.6	9.1
Proportion of total volume (%)	2.3	3.0	2.8	2.7
OTHERS				
Avg daily volume (INR bn)	18.6	22.3	24.5	26.9
Proportion of total volume (%)	8.2	10.4	9.0	7.8
TOTAL	226	214	271	345

Source: Company, Edelweiss research

Financial snapshot

(INR mn)

Year to March	Q3FY18	Q3FY17	% change	Q2FY18	% change	YTD18	FY18E	FY19E
Net revenues	748	998	(25.0)	898	(16.7)	2,515	3,516	4,512
Employee expenses	169	198	(14.6)	178	(5.4)	525	734	842
Software support charges	120	112	7.8	127	(4.9)	361	445	508
Other expenses	180	184	(2.2)	157	14.8	505	741	771
Total expenditure	469	493	(4.9)	462	1.6	1,391	1,920	2,120
EBITDA	279	504	(44.7)	436	(36.1)	1,124	1,596	2,392
Depreciation	35	45	(23.1)	48	(28.1)	131	201	195
Interest							2	2
PBT before exceptionals	244	459	(46.7)	388	(37.1)	994	1,395	2,198
Tax	66	119	(44.4)	105	(36.8)	270	391	615
PAT	178	339	(47.6)	283	(37.2)	724	1,005	1,582
Diluted EPS (INR)	5.2	6.5	(20.1)	4.3	20.3	20.5	19.7	31.0
EBITDA margin	37.3	50.6		48.6		44.7	45.4	53.0
PAT margin	23.8	34.0		31.5		28.8	28.6	35.1
Employee cost/revenues	22.6	19.8		19.9		20.9	20.9	18.7
Software chg./revenues	25.6	11.2		27.4		14.3	12.7	11.3
Tax rate (%)	27.2	26.0		27.0		27.1	28.0	28.0
Adj book value / share							306.2	320.9
Price/ Book (x)							2.9	2.8
Price/ Adj. book (x)							2.9	2.8
Price/ Earnings							45.5	28.9

Change in Estimates

	FY18E			FY19E			Comments
	New	Old	% change	New	Old	% change	
Net revenue	3,516	4,005	(12.2)	4,512	4,863	(7.2)	
Operating margin	1,596	2,044	(21.9)	2,392	2,696	(11.3)	Factoring in lower than anticipated volumes and lower yields on higher competition
Reported PAT	1,005	1,327	(24.3)	1,582	1,801	(12.2)	
Operating margin (%)	45.4	51.0		53.0	55.4		

Q3FY18 result concall takeaways

Advancements from regulatory perspective :

- SEBI has put up *white paper (closed for comments on December 31st) relating to participation of Institutions including MFs, PMS etc.* Management expects could be taken up for *approval in the next SEBI board meet in February* - Institutional participation is slow to adopt to new products and hence difficult to build in volume growth
- SEBI announced the timeline for Universal Exchange licence, this will help *MCX to foray into few segments (currency will most likely to be launched).*
- Universal Exchange will increase the competitive intensity (few exchange will follow predatory pricing) and management stated that they are well prepared for this. On competition from other exchanges including BSE in commodity segment, the management believes that there shouldn't be any volume affect and infact the market should expand further due to competition. 3-4 years before, some peers resorted to predatory pricing but they were unsuccessful. However, *aggressive pricing by new player could impact pricing strategy of MCX.*
- *SEBI has allowed bank subsidiary to become members of commodity exchange.* Axis Securities has already come onboard and expects at least 6-7 leading bank's subsidiaries to be its member in this financial year – it will provide an opportunity to add 25-30% to its distribution strength.

With respect to average daily trading volumes

- Volumes have been adversely impacted by bullion, despite good traction on energy and base metals.
- Management stated that volume is more driven by volatility than prices. As volatility in bullion was at its low, volumes dropped despite stable prices.
- Also with respect to bullions – management met lot of jewelers before options launch. Larger participants reaped benefit of demon/GST but small-mid sized players are still shying away from the exchange.
- Contrary to belief, there hasn't been any significant change due to demonetization in terms of moving trade towards organized trading
- AIF's, though were allowed to participate, custodian agreements have not yet changed – still most of the custodians are run by banks. Hence AIF participation has not yet picked up.
- There has been lot of volatility in base metals which will lead to increasing volumes going forward
- However, higher volatility, new option contracts and retail segment growth due to incentivisation should aid improvement going forward
- The management will approach SEBI with 4 more contracts to be launched. MCX has tied up with Thomson reuters for creation of some indices which are sectoral. It is in discussion with SEBI for permission on Index based trading for commodities
- New product in Futures – approval from SEBI for deliverable contract in Brass. Rubber contracts, despite getting SEBI approval, it has decided not to start due to non conducive market condition.

With respect to opex & other income

- During the quarter, there were one-off expenses relating to deepening member engagement. Also expenses were incurred for option launch. Having said that on full year bases the management maintained that opex will trend down compared to last year.
- Other income is impacted by steep increase in bond yields (83% of the portfolio invested in debt MF is subjected to MTM).

With respect to option volumes

- Management expects that the option to future ratio should ideally be 50-60% (and should reach 15-20% within 6 months of the launch of contracts). But given the fact that the revenue is charged on premium, the company expects the contribution to be ~15-20% on a stable state basis.
- The company still doesn't have any transaction charge on options and will start only after volumes stabilize and volumes reach a particular scale.
- As delta hedging will pick up increase in options volumes will not cannibalize into the futures volumes
- Company is looking for liquidity enhancement through market making scheme in which a bid and ask would be available with specific spread always.
- Also looking to provide additional incentives for activating client and open interest buildup

Other highlights

- Section 80AT – wherein CTT will be allowed to be offset against advance tax

Q2FY18 Earnings Conference Call

- The Q2FY18 was among better quarters from performance and regulatory perspective also
 - SEBI had cleared options as a product, MCX received as go ahead from SEBI and will be launched in few days.
 - Will need 3-6 months which will be watched by SEBI post which full suite of option products will be launched. The company expects not to charge anything on this contract for initial period. Over the long term (3-4 years) management expects options revenue will contribute 20-25% of revenue and most of this will flow to bottom line.
 - SEBI allowed AIFs and first AIF was seen trading in Q2FY18. Expect SEBI to allow MF next and expect the white paper on the same in couple of months.
 - On diamond contract the SEBI approval is expected very soon post which the company will launch the option.
- ADTV was up 17% QoQ (supported by strong growth in base metal segment, healthy diversified base has allowed company to capture the opportunities), basis that healthy growth revenue from operation was up 14%.
- Second quarter of flat cost basis, while revenue linked cost has gone up by 11% but others have gone down by 2.8%. These suggest that operating leverage will play out.
- Treasury income was soft this quarter (lower QoQ by INR40mn), which has led to lower other income
- Response from industry in AIF was very positive, having said that it takes time for product and participant to come on board. Management expects this to gain traction over next couple of quarters.
- Demonetisation and GST was rebasing of volumes but there onwards growth was good and management expects this growth to sustain.
- There are a lot of things in Universal License (this may happen in anytime this financial year). While this is fluid at this point in time but of every other asset classes the company is more keen on currency segment.
- SEBI has allowed universal members which will reduce cost for members and will allow more flexibility to members to move within various asset classes. Till the time this is satisfied, there shouldn't be a need for
- Agri business management is not going for market share, management believes there are some commodities which are very narrow and any dominance may call for regulatory intervention. As a strategy the company will look into specific areas with agriculture than chase overall market share.
- Blended yield fall is attributed to slight increase in volumes coming from high volume members (ALGO members), but management doesn't think this to be a cause of worry.
- Expect gold volume to go back to pre-demon level over next 2 quarters
- The realised yield is INR2.24/lakhs thus for two legs this will be 4.4/lakhs. The overall cost for the trade is ~INR17.5/lakhs thus balance INR13.1/lakh is regulatory and other cost.

- Have a vibrant GIFT city office it has shaped up very well on domestic side. Currently don't have any plans to launch anything on international side of the business.
- Will conserve the cash over next 2 years at least to a) account of competition and b) any rise in the technology cost.
- No. of members: 670 and active UCCs at 2.812mn

Company Description

MCX is a leading electronic commodity futures exchange in India. The exchange started operations in November 2003 and within eight years it has emerged the market leader in commodities future industry with 80% 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

Despite stable-to-rising commodity prices, FY18 YTD volumes have been modest—ADTV down 4% YoY to INR200bn (even on lower base). Also, option roll out has been gradual and institutional participation is awaited. Moreover, advent of universal exchange norm challenges MCX's monopoly, posing a risk to the premium multiple it commands. While taking away liquidity from MCX will not be easy for new players, predatory pricing could limit its pricing power. Despite the associated risks, the stock still trades at 23x FY20E EPS, thereby capping the upside. Hence, downgrade to 'HOLD'.

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

Financial Statements

Key Assumptions

Year to March	FY17	FY18E	FY19E	FY20E
Macro				
GDP(Y-o-Y %)	6.6	6.5	7.1	7.6
Inflation (Avg)	4.5	3.8	4.5	5.0
Repo rate (exit rate)	6.3	6.0	6.0	6.5
USD/INR (Avg)	67.1	64.5	65.0	66.0
Sector				
Credit growth	9.0	12.0	14.0	17.0
Deposit growth	14.0	12.0	13.0	14.0
CRR	4.0	4.0	4.0	4.0
SLR	20.0	20.0	19.5	19.0
G-sec yield	6.5	6.5	7.0	7.1
Company				
Operating margin	52.2	45.4	53.0	55.2
Employee cost/revenues	17.1	20.9	18.7	18.6
Technology cost/revenues	11.3	12.7	11.3	11.0
Dividend tax	17.0	17.0	17.0	17.0
Tax rate (%)	28.8	28.0	28.0	28.0
Dividend payout	45.0	45.0	45.0	45.0
Avg Daily Trading Vol.	225.6	214.0	271.3	344.9
- Gold	44.6	30.5	38.4	48.4
- Silver	33.3	25.4	33.3	43.7
- Crude Oil	61.3	56.5	74.6	98.4
- Agri	5.3	6.4	7.6	9.1
- Others	81.1	95.3	117.4	145.2
Commission yields	2.0	2.2	2.1	2.1
# of members	2,101	2,138	2,175	2,212
# of employees	395	399	429	459
# of terminals	631	694	764	840

Income statement

(INR mn)

Year to March	FY17	FY18E	FY19E	FY20E
Net revenue	3,759	3,516	4,512	5,325
Operating expenses	1,797	1,920	2,120	2,384
Operating margin	1,962	1,596	2,392	2,940
Depreciation	186	201	195	189
EBIT	1,776	1,395	2,198	2,751
Profit Before Tax	1,774	1,395	2,198	2,751
PBT incl. extraor. inc.	1,774	1,395	2,198	2,751
Less: Provision for Tax	512	391	615	770
Net profit	1,263	1,005	1,582	1,981
Reported Profit	1,263	1,005	1,582	1,981
Adj. Diluted EPS (INR)	24.8	19.7	31.0	38.8
Dividend per share (DPS)	11.1	8.9	14.0	17.5
Dividend Payout Ratio(%)	45.0	45.0	45.0	45.0

Growth ratios (%)

Year to March	FY17	FY18E	FY19E	FY20E
Revenues	7.0	(6.5)	28.4	18.0
- Transaction fee growth	13.7	7.0	23.9	24.2
Opex growth	12.5	6.9	10.4	12.5
Operating margin growth	2.3	(18.7)	49.9	22.9
PBT	6.3	(21.4)	57.5	25.2
Adjusted Profit	5.7	(20.5)	57.5	25.2

Operating ratios

Year to March	FY17	FY18E	FY19E	FY20E
Operating margin	52	45	53	55
PAT margin	34	29	35	37
Employee cost/revenues	17	21	19	19
Technology cost/revenues	11	13	11	11
Opex/revenues	48	55	47	45
Tax rate	28.8	28.0	28.0	28.0

Multi Commodity Exchange of India

Balance sheet		(INR mn)			
As on 31st March	FY17	FY18E	FY19E	FY20E	
Share capital	510	510	510	510	
Net worth	15,293	15,616	16,365	17,303	
Def. Tax Liability (net)	75	83	95	110	
Total liabilities	15,368	15,698	16,460	17,413	
Gross Block	4,021	4,069	4,321	4,471	
Depreciation	2,499	2,700	2,894	3,083	
Net Block	1,521	1,369	1,426	1,387	
Investments	11,948	12,123	12,673	13,373	
Cash and Equivalents	40	57	131	283	
Sundry Debtors	28	24	60	108	
Fixed Deposits	3,849	4,024	4,574	5,324	
Loans & Advances	1,219	1,334	1,423	1,574	
Other Current Assets	51	62	74	89	
Total current assets	5,188	5,501	6,262	7,377	
Current liabilities	2,780	2,733	3,284	4,046	
Security Deposits	98	100	102	104	
Networking Equip. Dep.	4	4	4	4	
Trading Margin from Mem.	2,256	2,186	2,713	3,449	
Other Current Liab	422	443	465	489	
Net current assets	2,408	2,768	2,978	3,332	
Provisions	510	561	617	679	
Total assets	15,368	15,698	16,460	17,413	
BVPS (INR)	299.9	306.2	320.9	339.3	

Key operating metrics		FY17	FY18E	FY19E	FY20E
Year to March					
Avg Daily Trading Vol.		225.6	214.0	271.3	344.9
- Gold		44.6	30.5	38.4	48.4
- Silver		33.3	25.4	33.3	43.7
- Crude Oil		61.3	56.5	74.6	98.4
- Agri		5.3	6.4	7.6	9.1
-Others		81.1	95.3	117.4	145.2
Commission yields		2.0	2.2	2.2	2.1
# of members		2,101	2,138	2,175	2,212
# of terminals		631	694	764	840

Valuation parameters		FY17	FY18E	FY19E	FY20E
Year to March					
Adj. Diluted EPS (INR)		24.8	19.7	31.0	38.8
Y-o-Y growth (%)		5.7	(20.5)	57.5	25.2
BV per share (INR)		299.9	306.2	320.9	339.3
ROAE (%)		8.4	6.5	9.9	11.8
Diluted P/E (x)		36.2	45.5	28.9	23.1
P/B (x)		3.0	2.9	2.8	2.6
Dividend Yield (%)		1.2	1.0	1.6	2.0

Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X)		P/B (X)		ROAE (%)	
		FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
Multi Commodity Exchange of India	713	45.5	28.9	2.9	2.8	6.5	9.9
Dewan Housing Finance	2,949	16.3	14.0	2.2	2.0	14.2	15.1
HDFC	46,119	36.4	31.3	6.7	6.1	19.4	20.5
Indiabulls Housing Finance	8,014	14.9	12.4	3.9	3.4	27.3	29.2
LIC Housing Finance	4,363	14.8	12.6	2.2	1.9	17.4	18.0
Mahindra & Mahindra Financial Services	4,638	45.3	27.5	3.4	3.1	8.5	11.7
Manappuram General Finance	1,551	12.6	11.1	2.8	2.4	23.5	23.4
Muthoot Finance	2,739	11.2	10.5	2.3	2.0	22.1	20.0
Power Finance Corp	4,988	4.7	4.6	0.8	0.7	17.8	16.2
Repco Home Finance	650	18.7	15.7	3.1	2.6	18.0	18.2
Rural Electrification Corporation	4,748	5.6	5.1	0.8	0.7	15.3	15.2
Shriram City Union Finance	2,130	16.8	11.8	2.4	2.1	15.1	18.7
Shriram Transport Finance	5,353	20.3	12.3	2.7	2.3	14.2	20.1
Median	-	16.3	12.4	2.7	2.3	17.4	18.2
AVERAGE	-	20.2	15.2	2.6	2.3	16.9	18.2

Source: Edelweiss research

Additional Data

Directors Data

Saurabh Chandra	Chairman	Mrugank M. Paranjape	Managing Director & Chief Executive Officer
S. K. Mitra	Director	M. Govinda Rao	Director
Prithvi Haldea	Director	Arun Bhargava	Director
Shankar Aggarwal	Director	Amit Goela	Director
Madhu Vadera Jayakumar	Director	Padma Raghunathan	Director
Hemang Raja	Director	C. Jayaram	Director
Arun Nanda	Director		

Auditors - Shah Gupta & Co.

**as per last annual report*

Holding - Top 10

Perc. Holding			
Kotak Mahindra	15.00	Jhunjhunwala Rakesh	3.92
Axis Asset Management	3.03	Tiaa-Cref	2.70
Reliance Capital Trustee	2.41	Goldman Sachs	2.38
Baron Emerging Mkts Fund	2.01	IDFC Mutual Fund	1.96
Baron Capital	1.93	J P Morgan Chase & Co	1.87

**as per last available data*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
No Data Available				

**in last one year*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
No Data Available			

**in last one year*

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

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

Allahabad Bank, Axis Bank, Bharat Financial Inclusion, Bajaj Finserv, Bank of Baroda, Capital First, DCB Bank, Dewan Housing Finance, Equitas Holdings Ltd., Federal Bank, HDFC, HDFC Bank, ICICI Bank, IDFC Bank, Indiabulls Housing Finance, IndusInd Bank, Karnataka Bank, Kotak Mahindra Bank, LIC Housing Finance, L&T FINANCE HOLDINGS LTD, Max Financial Services, 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, Yes Bank

Recent Research

Date	Company	Title	Price (INR)	Recos
15-Jan-17	Federal Bank	Growth sustained; retail slippages singe asset quality; <i>Result Update</i>	114	Buy
15-Jan-17	Karnataka Bank	Growth spurts; asset quality steady; <i>Result Update</i>	167	Buy
13-Jan-18	BFSI	IDFC Bank - Capital First merger: A win-win proposition; <i>Sector Update</i>		

Distribution of Ratings / Market Cap

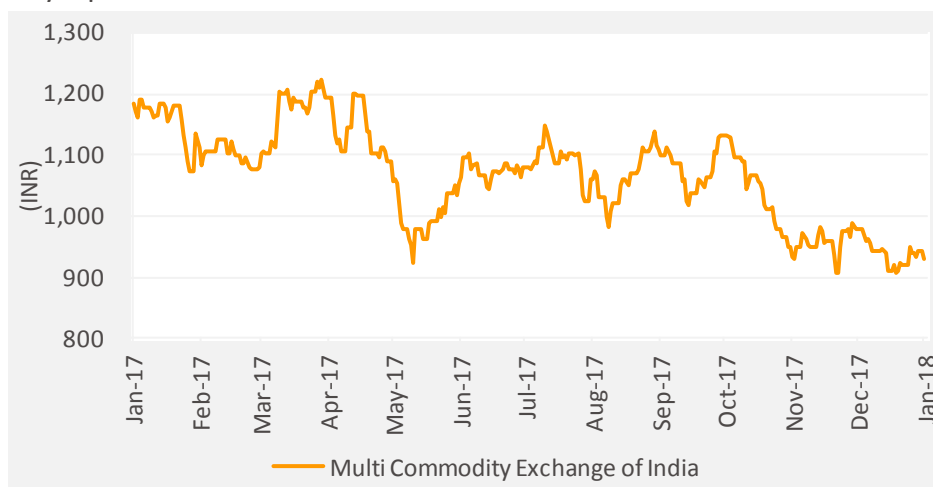
Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240
* 1stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	156	62	11	

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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