

# MCX India

Rating: ◀▶

Target price: ▲

EPS: ▲

CMP	Target	Rating
Rs.871	Rs.760	Sell

## How does our one year outlook change?

- MCX 2QFY15 numbers were ahead than our estimates with better than expected transactional revenues & cost rationalisation efforts. However with no respite to declining ADTV (Oct and MTD November volumes) we would continue to be sellers with TP of Rs. 760 (20x Sept-16 EPS)
- Though MCX would gain in incremental volumes led by market share gains with change in ownership, volumes would not go back to FY14 levels due to the softness in global commodities prices and increasing shift of interest towards equity markets.
- EBITDA margins were 14% higher than our expectations led by reduction in software charges effective July-2014. Notably, software charges has been revised to Rs.13 mn/ month + 10.3% of total transaction revenues. Post the beat, we have increased our EBITDA margin assumptions to 40.6% and 47.5% for FY15E and FY16E respectively.
- The amendment to the FCRA bill is a crucial factor to change MCX fortunes. With no indications of the bill tabled in the Parliament in the immediate future, volumes would continue to tepid in the medium term.
- At CMP, MCX is trading at 25.9x FY16E EPS - a premium to its international peers. Given the low revenue growth and lack of financial depth, we believe the risk reward at current valuations is unattractive.

## How does our 3 year Outlook change?

- A legislation enabling participation of FIIs, Banks and allowing launch of new products such as options and index trading be a game changer for MCX as it would lead to an increase in volumes.
- Recent media articles suggest, BSE planning to launch a commodity exchange. If the volumes do increase we believe competitive pressure would be high
- With softening of commodity prices since 2014, experts believe that global commodities have entered into a bearish phase. Trigger points like revival of China, political risks could improve volumes in the long term.

2QFY15 Update				18th Nov, 2014	
Promoters	0.0			Bloomberg	MCX IN
Institutions	56.4			Shares o/s	51mn
Public	43.6			Market Cap	Rs. 44bn
%	1m	3m	12m	52-wk High-Low	Rs. 897-378
MCX	15	10	99	3m Avg. Daily Vol	Rs. 665mn
Sensex	8	8	38	Index	BSE Midcap
CNXIT	8	11	31		

## Key estimate revision

	FY15E			FY16E		
	Old	New	Change	Old	New	Change
Revenue	2,555	2,585	1.2%	3,099	3,221	3.9%
EBITDA	950	1,050.9	10.6%	1,364	1,530	12.2%
Margin (%)	37.2%	40.6%		44.0%	47.5%	
PAT	1,190	1,308	9.9%	1,577	1,708	8.3%
EPS	23.4	25.8	10.0%	31.1	33.7	8.4%

All figures in Rs. mn, except EPS, which is in Rs.

## Financial summary

Year	Revenues (Rs. mn)	EBITDA (Rs. mn)	EPS (Rs.)	P/E (x)	EV/EBITDA(x)	ROE (%)
FY14	3,407	1,457	30.1	28.9	24.6	13.3%
FY15E	2,585	1,051	25.8	33.8	34.0	11.0%
FY16E	3,221	1,530	33.7	25.9	22.6	13.3%
FY17E	3,956	2,049	43.9	19.9	16.3	16.0%
FY18E	4,817	2,656	55.6	15.7	12.1	18.5%

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	Year End	EV/EBITDA			P/E			EV/SALES		
		Current Yr	Y+1	Y+2	Current Yr	Y+1	Y+2	Current Yr	Y+1	Y+2
ASX LTD	06/15 Y	11.9	11.4	10.8	18.3	17.8	16.8	9.3	8.8	8.3
NZX LTD	12/14 Y	11.7	11.7	11.3	25.8	20.3	19.2	4.8	4.7	4.5
BURSA MALAYSIA BHD	12/14 Y	12.3	10.5	9.7	24.7	22.1	20.3	7.0	6.2	5.7
SINGAPORE EXCHANGE LTD	06/15 Y	16.9	15.8	13.9	24.3	23.3	20.3	10.2	9.6	8.7
HONG KONG EXCHANGES & CLEAR	12/14 Y	1.1	0.9	0.7	45.7	40.9	30.2	0.8	0.6	0.5
JAPAN EXCHANGE GROUP INC	03/15 Y	11.2	12.8	12.1	27.3	26.4	23.5	6.6	7.4	7.2
DEUTSCHE BOERSE AG	12/14 Y	13.8	10.6	10.0	22.2	15.8	14.6	5.3	5.3	4.9
BOLSAS Y MERCADOS ESPANOL	12/14 Y	11.0	9.7	9.2	18.2	15.9	15.0	7.6	6.8	6.5
LONDON STOCK EXCHANGE GROUP	12/14 Y	11.4	13.1	11.2	41.9	22.8	19.5	6.6	6.3	4.9
BM&FBOVESPA SA	12/14 Y	11.3	12.2	11.1	17.4	14.5	13.0	7.7	8.2	7.6
BOLSA MEXICANA DE VALORES SA	12/14 Y	15.5	14.5	13.0	22.3	23.0	20.7	8.0	6.7	6.2
CBOE HOLDINGS INC	12/14 Y	15.6	14.0	12.6	29.2	26.4	24.0	8.8	8.1	7.5
CETIP SA-MERCADOS ORGANIZADO	12/14 Y	13.3	12.0	10.8	22.8	17.5	15.8	7.8	8.3	7.5
CME GROUP INC	12/14 Y	15.7	15.2	13.4	29.2	25.9	22.5	10.1	9.6	8.9
INTERCONTINENTAL EXCHANGE IN	12/14 Y	28.9	14.7	12.7	38.8	23.2	19.0	16.4	8.9	8.4
NASDAQ OMX GROUP/THE	12/14 Y	11.4	9.5	8.6	19.1	14.7	13.5	2.9	4.4	4.3

\* Current year refers to the previous financial year Eg. FY14

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Financial summary - standalone				
	FY14	FY15E	FY16E	FY17E
<b>Profit &amp; Loss account</b>				
Revenues	3,197	2,365	2,977	3,683
Other Operating Income	209	220	244	273
<b>Total income</b>	<b>3,407</b>	<b>2,585</b>	<b>3,221</b>	<b>3,956</b>
Software support charge	622	417	449	522
Contribution to SGF	171	32	68	117
Others	1,499	1,329	1,367	1,434
<b>EBITDA</b>	<b>1,457</b>	<b>1,051</b>	<b>1,530</b>	<b>2,049</b>
<b>EBIT</b>	<b>1,114</b>	<b>808</b>	<b>1,336</b>	<b>1,882</b>
Interest expense	11	14	-	-
Interest income	993	980	1,104	1,296
<b>PBT</b>	<b>2,096</b>	<b>1,774</b>	<b>2,440</b>	<b>3,179</b>
Taxes	569	465	732	954
<b>PAT</b>	<b>1,528</b>	<b>1,308</b>	<b>1,708</b>	<b>2,225</b>
<b>Diluted EPS</b>	<b>30.1</b>	<b>25.8</b>	<b>33.7</b>	<b>43.9</b>
<b>Balance sheet</b>				
Share capital	510	510	510	510
Reserves & surplus	10,931	11,767	12,858	14,012
SGF	1,720	1,903	2,139	2,447
Other long term liabilities	449	449	449	449
<b>Total</b>	<b>13,610</b>	<b>14,629</b>	<b>15,957</b>	<b>17,418</b>
Net fixed assets	1,735	1,536	1,402	1,296
Other long term assets	413	413	413	413
Cash and equivalents	14,183	16,505	18,904	21,736
<b>Current assets</b>	<b>15,267</b>	<b>17,580</b>	<b>20,152</b>	<b>23,255</b>
Margin deposits	2,585	3,656	4,566	5,788
<b>Current liabilities</b>	<b>3,805</b>	<b>4,896</b>	<b>6,006</b>	<b>7,540</b>
<b>Total</b>	<b>13,610</b>	<b>14,629</b>	<b>15,957</b>	<b>17,418</b>

	FY14	FY15E	FY16E	FY17E
<b>Cash flows</b>				
Cash from operating	385	1,704	1,803	2,476
Cash from investing	527	1,091	1,212	1,427
Cash from financing	-1,133	-472	-617	-1,071
Free cash flow	326	1,664	1,743	2,416
<b>Key metrics</b>				
Turnover (Rs. bn)	107,761	61,056	81,804	106,967
Agg. Charges	1.42	1.83	1.74	1.66
Transaction revenues	3,053	2,234	2,847	3,553
<b>Ratios(%)</b>				
Revenue growth	-35%	-24%	25%	23%
PAT growth	-49%	-14%	31%	30%
EBIT margins (%)	33%	31%	41%	48%
PAT margins (%)	45%	51%	53%	56%
ROE	13%	11%	13%	16%
ROCE	9%	7%	8%	10%
ROIC	27%	21%	36%	63%
<b>Valuation metrics</b>				
O.shares (mn)	51	51	51	51
Diluted shares	51	51	51	51
Market cap	44,144	44,200	44,190	44,190
EV	35,818	35,697	34,619	33,366
P/E (x)	28.9x	33.8x	25.9x	19.9x
EV/EBITDA (x)	24.6x	34.0x	22.6x	16.3x
EV/Sales (x)	10.5x	13.8x	10.7x	8.4x
P/BV (x)	3.9x	3.6x	3.3x	3.0x
DPS	10	8	10	18
Earning yield	3.5%	3.0%	3.9%	5.0%

## Absolute Rating Interpretation

Buy	Stock expected to provide positive returns of >15% over a 1-year horizon
Add	Stock expected to provide positive returns of >5% – <15% over a 1-year horizon
Reduce	Stock expected to provide returns of <5% – -10% over a 1-year horizon
Sell	Stock expected to fall >10% over a 1-year horizon

## Recommendation History

Date	CMP	Target price	Rating
30-Sep-14	816	720	Sell

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