

Gold rush to continue

CMP: Rs 1,699

Rating: Hold

Target Price: Rs 1,873

Stock Info

BSE	534091
NSE	MCX
Bloomberg	MCX IN
Reuters	MCX.BO
Sector	Investment Company
Face Value (Rs)	10
Equity Capital (Rs mn)	510
Mkt Cap (Rs mn)	86,623
52w H/L (Rs)	1,730/ 779
Avg Yearly Vol (in 000')	622

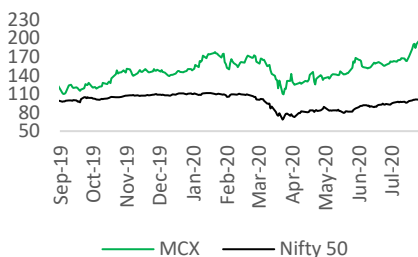
Shareholding Pattern %

(As on June, 2020)

Promoters	Nil
FII	36.06
DII	41.45
Public & Others	22.49

Stock Performance (%)	3m	6m	12m
MCX	57.9	42.6	111.5
Nifty	21.6	-3.1	1.0

MCX Vs Nifty



MCX revenue for the quarter declined by 14% YoY to Rs 730 mn, largely due to reduction in exchange timings in Apr'20. However, the recovery was stronger in May-June 20. EBITDA for the quarter declined by 20% YoY to Rs 265 mn, while EBITDA margin contracted by 267bps YoY to 36.3%. Despite a fall in topline company has reported 29% profit growth, which was supported by other income growth of 92% YoY. PAT for the quarter came in at Rs 563 mn.

Q1FY21 Result Highlights

- Average daily turnover (ADTV) of the company fell by 16% YoY/ 37% QoQ to Rs 23,129 cr. Bullion index ADTV was higher at 78% YoY.
- During Q1FY21, MCX's market share in commodity derivative space has increased to 96.71% as against 91.60% in the corresponding Q1FY20.
- Gold and Silver commodity turnover were higher at 31.75%/25.30% in Q1FY21 vs. 21%/14% in Q4FY20. Crude oil turnover declined to 14.34% in Q1FY21 vs. 40% in Q4FY20 largely due to negative price settlement, less trading hours and higher margin requirement.

Key Concall Highlights

- Company has released updated software which includes the feature of negative price settlement.
- MCX has signed an MoU with MJunction to jointly explore the viability of setting up a JV to run a Coal Exchange (subject to approvals).
- Company has received SEBI's approval to launch Bullion and Metal index futures which is scheduled to be launched soon (14th Aug 20).
- Other levers for future growth include spot exchanges for Bullion, Natural Gas, etc.
- Currently, overall crude oil margin is at 100%, plus additional margin of Rs 50-95K. Company has requested SEBI to reduce this margin requirement.

Valuations

Despite a truncated trading hours in Apr'20, MCX largely reported stable performance during the quarter. A sharp rally in gold prices should drive the trading volumes in the near term. Company's other initiatives such as launch of bullion and metal index futures, participation of institutional players are key positives. We have a positive outlook on the Company, considering its monopoly in Commodity Exchange segment, steady earnings visibility and healthy operating margins. At CMP of Rs 1699, MCX currently trades at a FY20 P/E of 36.6x. We value the stock at 30x (28x earlier) to its FY22 EPS of Rs 62 and have arrived at a target price of Rs 1,873. We increase our target price to Rs 1,873 from our initiation level target price of Rs 1,405. Due to sharp run up in the stock price at 58% in 3 months, we change our rating to Hold from Accumulate.

(Rs Mn)	Net Sales	EBITDA	PAT	EPS (Rs)	EBITDA Margin %	RoE (%)	P/E (x)
FY19	3,000	940	1,256	25	31.3%	9.5%	69.0
FY20	3,742	1,547	2,365	46	41.3%	18.1%	36.6
FY21E	4,129	1,762	2,603	51	42.7%	18.1%	33.3
FY22E	5,048	2,367	3,184	62	46.9%	19.6%	27.2

Q1FY21 Financial Performance

(Rs. Mn)	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Net Sales	730	850	-14%	1053	-31%
Staff cost	178	188	-5%	213	-16%
Software support charges	139	158	-13%	188	-26%
Computer technology expenses	49	51	-4%	49	1%
Other Expenses	99	121	-19%	197	-50%
EBITDA	265	331	-20%	407	-35%
Depreciation	48	40	19%	56	-14%
EBIT	217	291	-25%	351	-38%
Interest	1	0	-	2	-
Other Income	497	259	92%	297	68%
PBT	714	550	30%	646	10%
Tax	150	114	32%	-9	NA
PAT	563	436	29%	655	-14%
Share of Profit / (loss) of associates	1	1	0%	0	-375%
Reported PAT	564	437	29%	655	-14%
EPS	11	9	29%	13	-14%

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Margin Analysis

Particulars (as a % of revenue)	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Staff cost	24.4	22.1	233bps	20.2	421bps
Software support charges	19.0	18.6	34bps	17.8	116bps
Computer technology expenses	6.7	6.0	74bps	4.6	213bps
Other Expenses	13.5	14.3	-74bps	18.7	-516bps
EBITDA Margin	36.3	39.0	-267bps	38.7	-235bps
EBIT Margin	29.7	34.2	-450bps	33.4	-362bps
PAT Margin*	77.3	51.4	2586bps	62.2	1508bps

* PAT margin was higher in Q1FY21, largely due to higher other income

Break-up of Average daily turnover

ADTV (in cr.)	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
- Bullion	13193	7414	78%	14125	-7%
- Energy	5806	12014	-52%	17035	-66%
- Base Metals	3898	7573	-49%	4969	-22%
- Agri Commodities	232	472	-51%	498	-53%
Total	23129	27473	-16%	36627	-37%

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Income Statement

in mn.	FY18	FY19	FY20	FY21E	FY22E
Sales	2,598	3,000	3,742	4,129	5,048
Employee cost	682	725	773	768	845
Software support charges	494	613	690	767	904
Computer Technology expenses	229	206	206	205	225
Other expenses	474	517	526	628	707
EBITDA	718	940	1,547	1,762	2,367
Depreciation	167	155	181	219	270
EBIT	552	785	1,365	1,543	2,097
Interest & finance charges	0	0	2	2	2
Other income	920	986	1,290	1,380	1,476
Exceptional inc/ (loss)	0	-238	0	0	0
Share of Profit of Associates	0	4	0	0	0
PBT	1,472	1,537	2,653	2,921	3,572
Tax	388	281	289	318	389
PAT	1,084	1,256	2,365	2,603	3,184

Balance Sheet

in mn.	FY18	FY19	FY20	FY21E	FY22E
Equity capital	510	510	510	510	510
Reserves	13,295	11,999	13,084	14,667	16,831
Net worth	13,805	12,509	13,594	15,177	17,341
Settlement Guarantee Fund	1,806	3,298	4,098	4,139	4,180
Loans	0	0	0	0	0
Sources of Funds	15,611	15,807	17,692	19,316	21,521
Net Fixed Assets	1,618	1,770	1,820	2,369	3,199
Non current Investments	7,498	6,801	10,498	10,498	10,498
Curr.Assets, L & adv.	10,547	12,175	15,028	18,668	22,951
Sundry Debtors	63	60	65	75	92
Cash & Bank Balances	597	5,346	7,593	10,338	13,365
Loans & advances	3	2	2	3	3
Other current financial assets	9,884	6,767	7,369	8,253	9,491
Current Liab. & Prov.	4,052	4,939	9,655	12,220	15,127
Current liabilities	4,027	4,907	9,619	12,179	15,077
- Sundry Creditors	416	332	310	542	532
- Other Liabilities	3,611	4,575	9,309	11,636	14,545
Provisions	25	32	35	41	50
Net Current Assets	6,495	7,236	5,373	6,449	7,824
Application of Funds	15,611	15,807	17,692	19,316	21,521

Ratio Analysis

in %	FY18	FY19	FY20	FY21E	FY22E
Profitability Ratios					
EBITDA Margin (%)	27.7	31.3	41.3	42.7	46.9
EBIT Margin (%)	21.2	26.2	36.5	37.4	41.5
PAT Margin (%)	41.7	41.9	63.2	63.0	63.1
ROE (%)	7.9	9.5	18.1	18.1	19.6
ROCE (%)	3.0	4.9	9.3	9.6	11.5
Turnover ratios					
Debtors (days)	9	8	7	7	7
Creditors (days)	62	42	33	50	40
Working capital (days)	-53	-35	-26	-43	-33
Leverage Ratio					
Debt/Equity Ratio (x)	0	0	0	0	0
Per Share Ratio					
EPS	21	25	46	51	62
BV	271	245	267	298	340
DPS	17	20	20	20	20
Valuation					
P/E	80.0	69.0	36.6	33.3	27.2
P/BV	6.3	6.9	6.4	5.7	5.0

Cash Flow Statement

in mn.	FY18	FY19	FY20	FY21E	FY22E
OP/(loss) before tax	552	785	1,365	1,543	2,097
Other income	-920	-986	-1,290	-1,380	-1,476
Depreciation & amort.	-167	-155	-181	-219	-270
Direct taxes paid	-388	-281	-289	-318	-389
(Inc)/dec in wkg. capital	-732	4,008	4,110	1,670	1,652
CF from op. activity	-1,655	3,372	3,715	1,296	1,615
Extra-ordinary items	0	-234	0	0	0
CF after EO Items	-1,655	3,138	3,715	1,296	1,615
(Inc)/dec in FA+CWIP	-522	-609	-1,094	-1,096	-2,200
(Pur)/sale of invest.	950	697	-3,697	0	0
CF from inv. activity	428	88	-4,791	-1,096	-2,200
Inc./(dec) in networkth	2,366	2,717	4,517	3,740	4,808
Inc./(dec) in debt	0	0	0	0	0
Interest paid	0	0	-2	-2	-2
Dividends paid	-734	-1,193	-1,193	-1,193	-1,193
CF from fin. activity	1,631	1,523	3,322	2,545	3,613
Inc./(dec) in cash	404	4,750	2,246	2,745	3,028
Add: beginning balance	193	597	5,346	7,593	10,338
Closing balance	597	5,346	7,593	10,338	13,366

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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