

Gold Rush

CMP: Rs 1183

Rating: ACCUMULATE

Target: Rs 1405

Stock Info

| | |
|--------------------------|----------------------|
| BSE | MCX |
| Bloomberg | MCX:IN |
| Sector | Investment Companies |
| Face Value (Rs) | 10 |
| Equity Capital (Rs Cr) | 51 |
| Market Cap (Rs Cr) | 6035 |
| 52w H/L (Rs) | 1219 /644 |
| Avg Yearly Vol (BSE+NSE) | 421710 |

Shareholding Pattern

| (As on Sept, 2019) | % |
|--------------------|----|
| DII | 37 |
| FII | 31 |
| Others | 31 |

Source: ACE Equity, Arihant Research

| Stock Performance (%) | 3m | 6m | 12m |
|-----------------------|------|------|------|
| MCX | 36.0 | 36.5 | 65.2 |
| BSE 500 | 9.1 | 3.0 | 15.7 |

MCX v/s SENSEX



Source: ACE Equity, Arihant Research

MCX Ltd. is India's first listed Electronic Commodity Exchange Company. It is a state-of-the-art commodity derivatives exchange that offers nationwide online trading, clearing and settlement operations of commodity's futures transactions as well as a platform for risk management services. It also provides commodity derivative contracts across varied segments including Bullion, Industrial Metals, Energy and Agricultural Commodities. MCX has dominant market share of ~93% in terms of the value of commodity futures contracts traded in H1FY20. We expect, the Company's revenue / earnings would grow at ~19% / 27% CAGR respectively over FY19-22E led by 1) Traction in Average Daily Volume Traded (ADVT) driven by volatility in commodity prices, 2) gradual and steady rise in participation (Retail & Institutional), and 3) expected launch of new indices.

- **Dominant player with highest market share in commodity derivatives market:** MCX has maintained its market share in the commodity segment despite increasing competition from other exchanges. The commodity derivatives market in India is still underpenetrated due to limited availability of a commodity, individual lack of resources to buy commodity, and government policies. However, now the Govt. has allowed retail & institutional participation. MCX is the leading player, with >90% market share in FY19 followed by National Commodity & Derivatives Exchange Ltd (NCDEX).
- **Launching of new trading indices to keep the growth momentum:** MCX has plans to launch index trading in three of its flagship indices iComdex Composite Index, iComdex Bullion index and iComdex base Metal Index. These 3 indices will be launched by end of FY20 which will lead to substantial increase in volumes at the exchange. Any addition of indices would directly add to revenue and earnings growth.
- **Flawless balance sheet with solid track record of dividend payout:** MCX is a debt free company with significant free cash flow. This will be able to take care of their organic / inorganic expansion along with working capital requirement in future. The company can easily raise debt to grow its business if required. Also, it has consistent dividend paying track record.

Outlook & Valuation: We believe MCX has the strong brand recall, robust distribution network; steady earnings visibility with 20% EPS CAGR (over FY19-FY22E), healthy operating margins, and strong cash flow, which would provide medium term earnings visibility. Further, we feel there is limited threat of competition in this segment. Currently it is trading at P/E multiple of 29.3x / 23.6x of FY21E / FY22E. We initiate coverage on MCX Ltd. with ACCUMULATE rating. We assign 28x P/E to FY22E and arrive at a target price of Rs 1405 potential upside of 19%.

Financial Performance

| YE March (Rs. Mn) | Net Sales | EBITDA | PAT | EPS (Rs.) | EBITDA Margin (%) | ROE (%) | P/E (x) |
|-------------------|-----------|--------|-------|-----------|-------------------|---------|---------|
| FY18 | 2,436 | 719 | 1,084 | 21.2 | 27.7 | 8% | 55.7 |
| FY19 | 2,871 | 940 | 1,256 | 29.3 | 31.3 | 10% | 40.4 |
| FY20E | 3,421 | 1,327 | 1,755 | 34.4 | 37.2 | 14% | 34.4 |
| FY21E | 3,959 | 1,674 | 2,061 | 40.4 | 40.5 | 15% | 29.3 |
| FY22E | 4,852 | 2,269 | 2,559 | 50.2 | 45.0 | 17% | 23.6 |

Source: Arihant Capital Markets

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Investment Rationale

- **Well established distribution network; a key to market the products and revenue visibility:** MCX provides online services, widespread national reach is an added advantage. It has ~703 registered members and 56,074 Authorised Persons with its presence in around 1052 cities and towns across India and 20,54,425 terminals (including IBT, WT, CTCL) as on 30 September 2019. Based on these variables, MCX is well established to gain more and more market share.

MCX: A dominant player in Industry in Key Segments for H1 FY2020*

| Commodity Segment | In Indian Commodity Futures space (%) | Proportion of MCX's turnover (%) |
|--------------------------|---------------------------------------|----------------------------------|
| Precious Metals & Stones | 98 | 33 |
| Energy | 100 | 43 |
| Base Metals | 100 | 23 |
| Agri-Commodities | 15 | 1 |

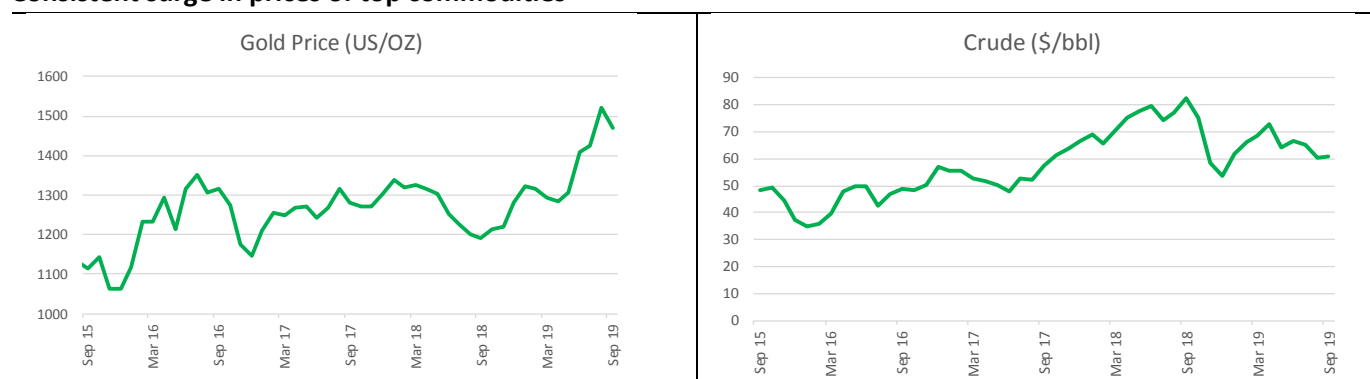
* National Exchanges offering commodity futures only

Source: Company presentation, Arihant Capital Markets

- **Strategic alliances to increase scope:** MCX has strategic alliances with leading international exchanges such as CME Group, London Metal Exchange (LME), Dalian Commodity Exchange (DCE) and Taiwan Futures Exchange (TAIFEX). The Exchange has also tied-up with various trade bodies, corporates, educational institutions and research centres across the country. These alliances enable the Exchange in improving trade practices, increasing awareness, and facilitating overall improvement of the commodity market.
- **Superior technology infrastructure; a key catalyst for operating efficiency:** MCX has superior technology which provides high availability for all critical components and guarantees continuous availability of trading facilities. The robust technology infrastructure of the exchange, along with its with rapid customisation and deployment capabilities enables it to operate efficiently. The current technology is due for renewal in 2022 and the company intends to acquire IP rights from the existing vendor. With the existing technology the company can launch multiple new products without any capital expenditure.
- **Strong research and product development:** MCX is developing new products through its effective research. The management intends to introduce more and more new products to de-risk from the volatility in top commodities like Gold, Crude Oil and Silver.
- **Continued strong traction in trading volumes driven by structural changes and volatility in commodity prices:** MCX has seen significant pick up in volumes led by 1) RBI's permission to bank's subsidiaries to offer commodity products to their clients 2) SEBI has made delivery compulsory across most commodities 3) Volatility in commodity market. This increased the participation from hedgers and traders, thereby driving the higher volumes.

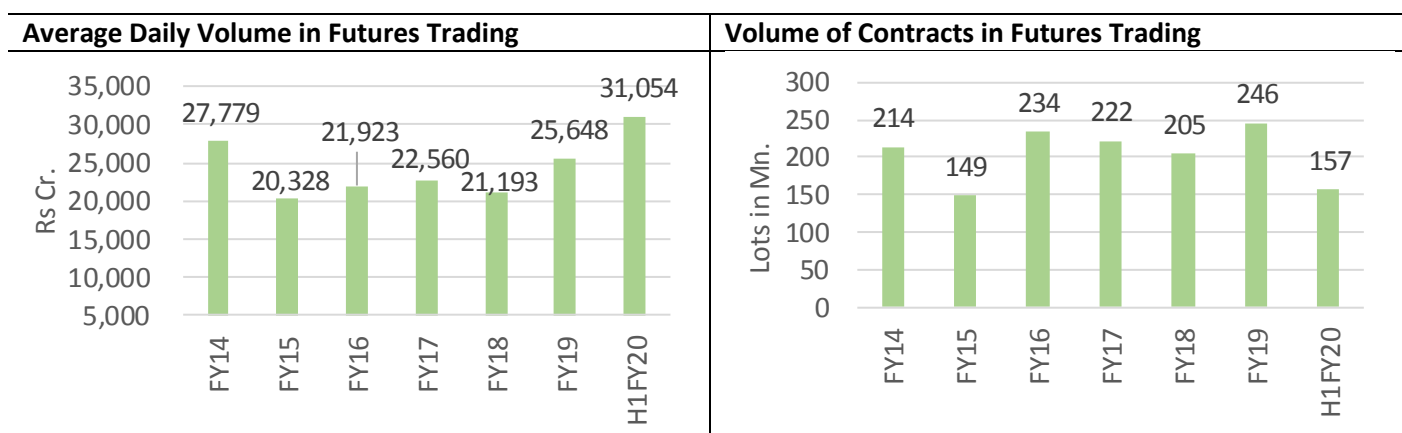
With the uncertain global macro conditions, we feel, the factors like volatility & fluctuation in commodity prices would sustain in the near term. MCX is a major beneficiary of both these factors as these are key drivers of higher ADTV. Bullion, Crude Oil & Silver are the top commodities which contribute ~75-80% of the total trading volumes of the Company. MCX’s major revenue (more than 90%) comes from transaction charges. Any change in prices or volume would be an advantage for the company. Considering this, we expect good earning visibility in future.

Consistent surge in prices of top commodities



Source: Bloomberg, Arihant Capital Markets

- Launching of new trading indices to keep the growth momentum:** MCX has plans to launch index trading in three of its flagship indices iComdex Composit Index, iComdex Bullion index and iComdex base Metal Index. We believe these 3 indices will be launched in FY20 and will lead to substantial increase in volumes at the exchange. As per the management, this product can be potentially a big contributor for revenue growth as it is cash settle product and management expects aggressive participation of institutions in these indices. The exchange is already in talks with some of the big mutual funds regarding custodian fees etc.



Source: Company, Arihant Capital Markets

- **Cost effective measures to pay in long run:**

Creation of indices or any fresh contract is more an in-house activity for MCX as it doesn't involve any substantial fixed cost. We believe, launching of any new product will lead to substantial boost in revenue without much increase in any cost thereby improving EBITDA margin by ~1,363bps over FY19-FY22E. Going forward, company's focus will remain in addition of new products and increasing volume.

- **Bound for high volume growth due to regulatory changes:** Past couple of years SEBI has taken significant measures to develop the commodity derivatives market in India. We believe, these measures like allowing bank subsidiaries to offer commodity derivatives to their clients, allowing Mutual Funds, alternative investment funds and portfolio management services to trade in commodity derivatives, allowing futures on commodity indices would help to improve the penetration level in India with strong volume upsurge going ahead. MCX is present in multiple products in Futures & Options. It is the largest service provider in commodity derivatives market with >90% market share. Currently, reputed institutions like Kotak Mahindra Bank, UTI MF, Axis MF, SBI MF, Reliance MF, ICICI Prudential Life Insurance, HDFC Bank Ltd. have stake in MCX. We expect the under penetration of commodity market in India would create a huge opportunity for MCX to grow manifold in terms of volume going ahead.

Indian Commodities market in terms of value of futures traded



* National Exchanges offering commodity futures only

Source: Company presentation, Arihant Capital Markets

- **Transaction fees remains a major contributor (+90%) of total revenues:** The Company's transaction fees comprise a significant portion (+90% in last eight years) of the total revenue. In FY19, the transaction revenue was ~2833 Mn. vs. ~2389 Mn. (+19% YoY) in FY18. Over last 5 years, MCX has seen growth of ~10.3% CAGR over FY15 to FY19. We project it to further grow at a CAGR of ~19.3% over FY19-FY22E led by expected traction in volume on account of 1) introduction of new indices, 2) volatility in commodity markets, and 3) higher participation from retail and institutions.

In FY19, MCX launched options trading with Crude Oil (100 Barrels), Zinc (5MT), Silver (30 kg) and Copper (1 MT) futures as underlying. In order to encourage

active participation in the market, the Exchange has waived transaction fees on all commodity options contracts till March 31, 2020. It is expected that the company will start charging transaction fees on options from April 2020 onwards which will directly add to the revenues. This will further boost the top line of the company. We have not considered this in our revenue estimates.

- **Merger between NSE-MCX:** The National Stock Exchange (NSE) and Multi Commodity Exchange of India (MCX) were in talks to combine their operations and provide a one-stop shop for trading in all kinds of products post SEBI approval. The merger, if and when it happens, will help create a bigger exchange with ~60% market share spanning everything from equity derivatives to commodity futures. A merger with MCX will also allow shareholders of NSE, which include many private equity funds, to convert their illiquid stock into liquid stock and unlock value after having remained invested for more than 8 years. However, the SEBI was not in favour of a merger till last year because of pending investigation in the co-location matter involving the NSE. But in case if it happens, MCX would see a huge growth potential. We have not considered this in our revenue estimate.

Excellent performance in Q2FY20:

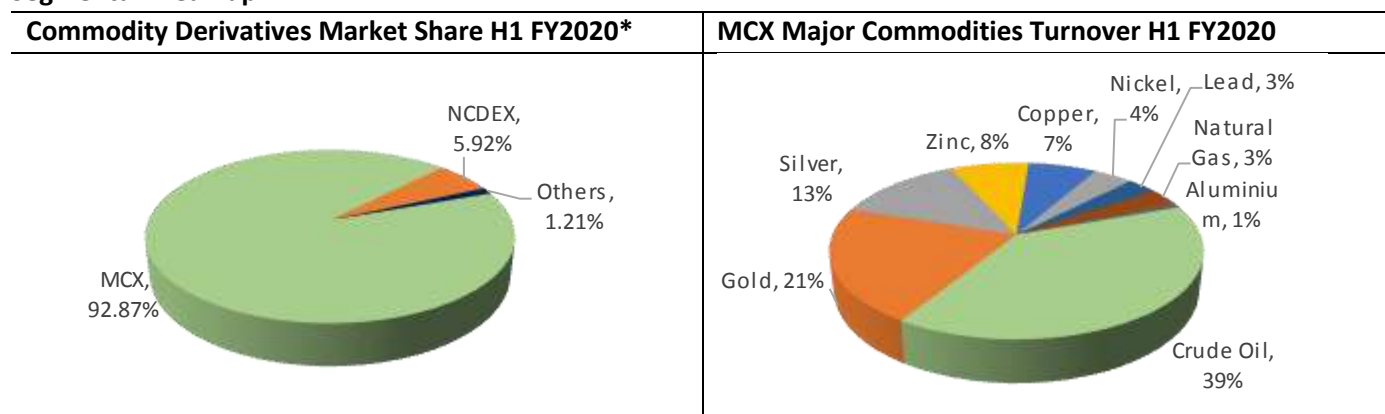
- MCX's consolidated revenue surged to about Rs. 1002mn in Q2FY20 (vs Rs.711 mn last year) due to a rise in trading volumes led by volatility in commodity markets.
- Operating revenues rose 37% / 26% YoY / QoQ respectively in the reporting quarter. This was mainly because of higher trading activity in key commodities such as bullion and crude oil. Further, its lower fixed costs and a significant rise in other income saw net profit more than double YoY.
- Bullion / Crude Oil /Silver contributed 21% / 39% / 13% respectively.
- MCX's EBITDA margin was ~47.2% with YoY expansion of ~1498bps aided by lower fixed costs and the benefits of operating leverage. EBITDA stood at about Rs.473mn in Q2FY20, compared with the Rs 229 in Q2FY19.
- Bullion contracts witnessed a record delivery of 5.2 MT (valued at Rs. 18bn) in August 2019 delivery contracts, surpassing previous record of 5.05 MT in Oct 2009.
- Turnover in Crude Oil futures contracts made a lifetime high of Rs. 266bn on September 17, 2019.
- Cotton contract successfully concluded current crop season (Oct 18 -Aug 19) with record delivery of 3.98 lakh bales, which surged 119% vs 1.82 lakh bales the previous Cotton season.

Q2FY20 Quarterly segmental performance

| Year End (Rs. Mn) | Q2FY20 | Q2FY19 | YoY (%) | Q1FY20 | QoQ (%) |
|---|--------------|------------|------------|------------|-----------|
| Net Sales | 1002 | 711 | 41 | 795 | 26 |
| Software support charges and product license fees | 177 | 145 | 22 | 158 | 12 |
| (%) of net sales | 17.7 | 20.4 | | 19.9 | |
| Computer technology and communication expenses | 54 | 52 | | 51 | |
| (%) of net sales | 5.4 | 7.2 | | 6.4 | |
| Staff cost | 195 | 174 | 12 | 188 | 4 |
| (%) of net sales | 19.5 | 24.5 | | 23.6 | |
| Other Expenses | 103 | 111 | -7 | 120 | -14 |
| (%) of net sales | 10.3 | 15.6 | | 15.2 | |
| EBITDA | 526 | 281 | 88 | 328 | 60 |
| EBITDA Margin | 52.6 | 39.5 | 1310 bps | 41.3 | 1127 bps |
| Depreciation | 42 | 38 | 11 | 40 | 5 |
| EBIT | 484.0 | 242 | 100 | 288 | 68 |
| Interest | 0 | 0 | | 1 | |
| Other Income | 444 | 222 | | 314 | |
| PBT | 928 | 464 | | 601 | 54 |
| Less: Taxation | 154 | 53 | | 114 | |
| Tax / PBT (%) | 17 | 11 | | 19 | |
| Recurring PAT | 774 | 411 | 88 | 487 | 59 |
| Exceptional items | 0 | 0 | | 0 | |
| Share of Profit / (loss) of associates | 3 | 0 | | -1 | |
| Reported PAT | 771 | 411 | 88 | 488 | 58 |
| NPM (%) | 77.0 | 57.8 | 1923 bps | 61.4 | 1558 bps |

Source: Arihant Capital Markets

Segmental Break-up



* National Exchanges offering commodity futures only
Source: Company

Peer Group Comparison:

| Year End FY19 (Rs. Mn) | Multi Commodity Exchange Of India Ltd. | BSE Ltd. | Central Depository Services (India) Ltd. |
|------------------------|--|-------------|--|
| Gross Sales | 2984 | 5756 | 1523 |
| PBIDT | 1790 | 2580 | 1179 |
| PAT | 1365 | 2011 | 844 |
| PBIDTM(%) | 60 | 44.8 | 77.4 |
| PATM(%) | 45.8 | 34.9 | 55.4 |
| ROCE(%) | 9.3 | 8.1 | 21.0 |
| RONW(%) | 9.0 | 7.5 | 16.2 |
| Debt to Equity | 0.0 | 0.0 | 0.0 |
| Market Capitalization | 41144 | 31658 | 25347 |
| Adjusted EPS | 26.8 | 38.8 | 8.1 |
| Price / Book Value(x) | 2.8 | 1.2 | 4.7 |
| Enterprise Value | 40775 | 29263 | 25168 |
| Dividend Yield | 2.5 | 4.9 | 1.7 |

Source: ACE Equity

Company Profile

- Multi Commodity Exchange of India Ltd (MCX) is an independent commodity exchange based in India. It was established in 2003 and is based in Mumbai. The Company is a de-mutualized exchange and facilitates nationwide online trading, clearing and settlement operations of commodities futures transactions. The Company operates in a single segment business. MCX offers options trading in gold and futures trading in non-ferrous metals, bullion, energy, and a number of agricultural commodities (mentha oil, cardamom, crude palm oil, cotton, and others).
- Multi Commodity Exchange Clearing Corporation Limited (MCXCCL), a wholly-owned subsidiary of MCX, is the first clearing corporation in the commodity derivatives market. It provides collateral management and risk management services, along with clearing and settlement of trades executed on the Exchange. It has commenced its operations on September 03, 2018.

Key Milestones

| | |
|------|---|
| 2002 | Incorporated |
| 2003 | Commenced operations on November 10 |
| 2005 | Licensing agreement with LME |
| 2006 | Product licensing agreement with NYMEX (CME Group) |
| 2008 | Became a member of the International Organisation of Securities Commissions (IOSCO) |
| 2012 | Became India's first listed exchange |
| 2013 | Change in Top Management and Board |
| 2015 | Sign MoU with CME Group |
| 2017 | <ul style="list-style-type: none"> • Launched first-ever Gold Options contract on futures in India • Launch iCOMDEX series of commodity indices in partnership with Thomson Reuters. |
| 2018 | <ul style="list-style-type: none"> • Launched Options contract in Crude Oil, Silver, Copper & Zinc • MCXCCL has commence operations from September 03, 2018 • Became a member of the World Federation of Exchanges (WFE) |
| 2019 | Conversion of base metal futures contracts into compulsorily deliverable contracts |

Source: Company, Aриhant Capital Markets

Management details**Board Of Directors**

| Name | Designation | Experience |
|-----------------|-------------|---|
| Saurabh Chandra | Chairman | Former Secretary to the Ministry of Petroleum and Natural Gas, GoI, & in the Department of Industrial Policy and Promotion (DIPP). Has over 39 years of experience in various assignments, with State & Central Govt; in the Ministry of Finance, Ministry of Commerce and Industry, Ministry of Chemicals & Fertilizers, in the Govt. of India |
| P. S. Reddy | MD and CEO | Former MD & CEO of Central Depository Services (India) Ltd (CDSL) Over 30 years of diverse experience in Indian Capital Market, especially in Stock Exchange, Clearing Corporation and its ecosystem businesses |

Management Leadership

| | | |
|-------------------|--|---|
| Ajay Puri | Company Secretary | Ex-President – Atherstone Capital, Over 38 years of experience in the field of Company Law, Legal, Secretarial & taxation functions with organisations such as Bharti Telecom, Weston Electronik, Crowne Plaza Toronto Centre |
| Chittaranjan Rege | Head – Base Metals | Previously with E&Y, Hindalco & Mecklai Financial Over 20 years of experience in financial and commodity risk management |
| Deepak Mehta | Head – Energy & Agri | Previously worked with MGL (A Joint venture of GAIL & British Gas) Over 18 years of experience in Physical and Financial Markets of Oil & Gas Sector |
| Praveen Dg | Head – Corporate Office and Projects, Risk Officer | Previously worked with MCX-SX & ICFAI - (Research Wing) Over 18 years of experience in financial markets |
| Pareshnath Paul | Chief Information Officer | Former Chief Technology Officer at Indian Energy Exchange (IEX) Over 25 years of experience in the Information Technology Sector |
| Rishi Nathany | Head – Business Development & Marketing | Former Chief- Financial Segment at NCDEX and CEO and COO of various broking companies Over 21 years of experience across the Financial Services domain |
| Sanjay Golecha | Chief Regulatory officer | Former Vice President – MCX-SX Over 30 years of experience in the Financial Services domain and Compliance |
| Sanjay Wadhwa | Chief Financial Officer | Previously worked with Reliance Money, Reliance Capital Asset Mngt, HSBC, E&Y & Coco cola Over 21 years of professional experience |
| Shivanshu Mehta | Head - Bullion | Previously worked with Aditya Birla Group (Hindalco and Grasim) Previously worked with NCDEX Over 19 years of experience in physical and financial markets of precious and base metals |
| Dr. V. Shunmugam | Head Research | Former, Chief Business Officer - Nomura Research Institute Over 25 years of experience in the field of market research, policy advocacy and finance |

Source: Company, Arianth Capital Markets

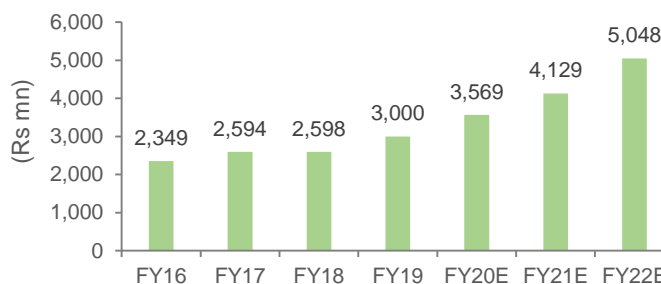
Key risks:

- Sharp drop in top commodity prices (Bullion, crude oil & silver) could impact the company's top line adversely
- Decrease in ADTV could result in declining contract values
- Slow pickup in retail & institutional participation on account of various internal or external conditions
- Any changes in regulation or policy relaxation for new exchanges is a potential risk which might dent the financial performance of the company.
- Any change in macro-economic trends could be a risk to company's operations.

Financial Summary:

Revenue to grow at 19% CAGR over FY19-22E: Along with the new launches (expected 3 new indices), robust participation of Banks and Institutions, widespread distribution network, we expect revenue to grow at a CAGR of 19% for FY19-22E.

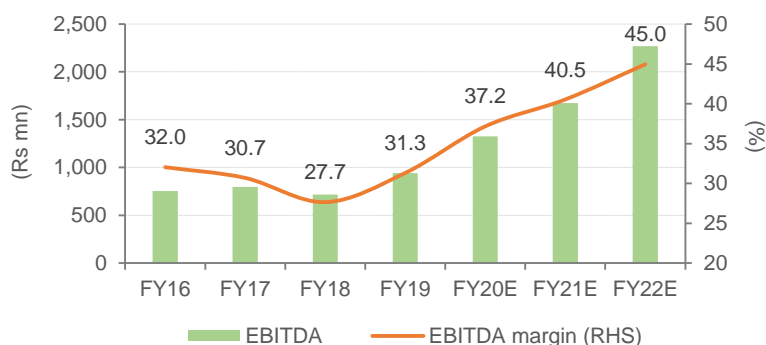
Revenue growth trend (Chart)



Source: Company, Aриhant Capital Markets

EBITDA margins to expand by ~1,363bps: MCX's has maintained its average EBITDA / PAT margin above ~30%/50% respectively for last five years driven by lower fixed cost. The Company's main business is to provide nationwide online trading services, which requires superior technological infrastructure. MCX has state-of-the-art commodity derivatives exchange. With the existing technology, it can make multiple addition of products without any capital expenditure. In future, any addition of product will directly add to the topline and will lead to improve EBITDA margin further. We expect EBITDA margins to improve by ~1,363bps over FY19- 22E.

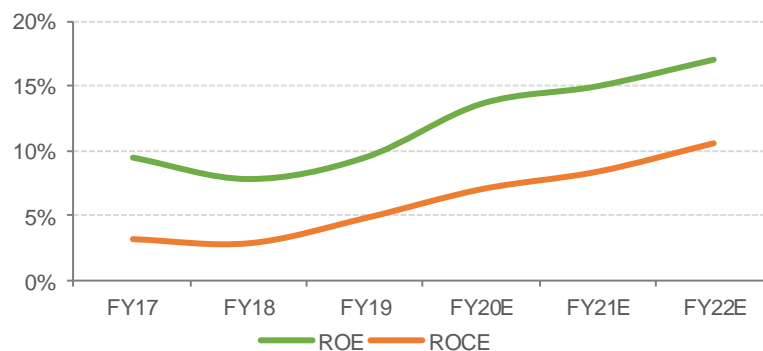
EBITDA margin expansion led by lower fixed cost



Source: Company, Aриhant Capital Markets

Returns ratios to remain healthy: We believe, asset light model of MCX Ltd, steady earnings growth of ~27% CAGR over FY19-22E, expansion in EBITDA margins, zero D/E ratio, will lead MCX to sustain its ROE/ROCE at ~17%/ 10.6% respectively by FY22E.

ROE / ROCE to remain healthy



Source: Company, Arianth Capital Markets

Valuations: We believe MCX has the strong brand recall, robust distribution network; steady earnings visibility with 20% EPS CAGR (over FY19-FY22E), healthy operating margins, and strong cash flow, which would provide medium term earnings visibility. Further, we feel there is limited threat of competition in this segment. Currently it is trading at P/E multiple of 29.3x / 23.6x of FY21E / FY22E. We have ACCOUMULATE rating on the stock. We assign 28x P/E to FY22E and arrive at a target price of Rs 1405 potential upside of 19%.

Profit and Loss Account (Rs. Mn.)

| Particulars | FY18 | FY19 | FY20E | FY21E | FY22E |
|--|--------------|--------------|--------------|--------------|--------------|
| Net sales | 2,436 | 2,871 | 3,421 | 3,959 | 4,852 |
| <i>Growth yoy (%)</i> | 2.1 | 17.9 | 19.1 | 15.7 | 22.6 |
| Operating other income | 162.1 | 129.0 | 148.4 | 170.6 | 196.2 |
| Total income | 2,598 | 3,000 | 3,569 | 4,129 | 5,048 |
| Employee cost | 682 | 725 | 784 | 817 | 899 |
| Software support charges and Product license Fees | 494.4 | 613.4 | 703 | 782 | 921 |
| Computer Technology and Communication expenses | 229.1 | 205.5 | 220 | 229 | 252 |
| Other expenses | 474 | 517 | 535 | 628 | 707 |
| Expenditure | 1,880 | 2,061 | 2,243 | 2,455 | 2,779 |
| EBITDA | 719 | 940 | 1,327 | 1,674 | 2,269 |
| <i>EBITDA margin (R)</i> | 27.7 | 31.3 | 37.2 | 40.5 | 45.0 |
| Depreciation | 167 | 155 | 187 | 226 | 278 |
| EBIT | 552 | 785 | 1,140 | 1,448 | 1,991 |
| Interest & finance charges | 0.4 | 0.1 | 0 | 0 | 0 |
| Other income | 920 | 985.6 | 1,055 | 1,128 | 1,207 |
| Exceptional inc/ (loss) | 0 | -238 | 0 | 0 | 0 |
| Share of Profit of Associate | 0 | 4 | 0 | 0 | 0 |
| PBT | 1,472 | 1,537 | 2,194 | 2,576 | 3,198 |
| Tax | 388 | 281 | 439 | 515 | 640 |
| <i>Effective rate (%)</i> | 26% | 18% | 20.0% | 20.0% | 20.0% |
| PAT | 1,084 | 1,256 | 1,755 | 2,061 | 2,559 |
| <i>PAT margin (R)</i> | 60.4 | 53.5 | 64.1 | 65.1 | 65.9 |
| Adjusted PAT | 1,084 | 1,494 | 1,755 | 2,061 | 2,559 |
| <i>PAT margin (R)</i> | 41.7 | 41.9 | 49.2 | 49.9 | 50.7 |

Source: Company, Aриhant Capital Markets

Balance Sheet (Rs mn)

| Particulars | FY18 | FY19 | FY20E | FY21E | FY22E |
|----------------------------------|---------------|---------------|---------------|---------------|---------------|
| Sources of Funds | | | | | |
| Equity capital | 510 | 510 | 510 | 510 | 510 |
| Reserves | 13,295 | 11,999 | 12,734 | 13,776 | 15,314 |
| Net worth | 13,805 | 12,509 | 13,244 | 14,286 | 15,824 |
| Settlement Guarantee Fund | 1,806 | 3,298 | 3,331 | 3,364 | 3,398 |
| Loans | 0 | 0 | 0 | 0 | 0 |
| Capital Employed | 15,611 | 15,807 | 16,575 | 17,650 | 19,222 |
| Application of Funds | | | | | |
| Gross Fixed Assets | 2,211 | 2,514 | 3,203 | 3,703 | 4,803 |
| Less: Depreciation | 649 | 934 | 1,217 | 1,346 | 1,625 |
| Net block | 1,562 | 1,580 | 1,987 | 2,357 | 3,179 |
| Capital WIP | 55 | 190 | 0 | 0 | 0 |
| Net Fixed Assets | 1,618 | 1,770 | 1,987 | 2,357 | 3,179 |
| Non current Investments | 7,498 | 6,801 | 6,801 | 6,801 | 6,801 |
| Curr.Assets, L & adv. | 10,547 | 12,175 | 14,059 | 16,226 | 18,762 |
| Sundry Debtors | 63 | 60 | 72 | 83 | 102 |
| Cash & Bank Balances | 597 | 5,346 | 6,203 | 7,424 | 8,634 |
| Loans & advances | 3 | 2 | 3 | 3 | 4 |
| Other current financial assets | 9,884 | 6,767 | 7,782 | 8,716 | 10,023 |
| Current Liab. & Prov. | 4,052 | 4,939 | 6,272 | 7,734 | 9,520 |
| Current liabilities | 4,027 | 4,907 | 6,234 | 7,690 | 9,466 |
| Sundry Creditors | 416 | 332 | 516 | 542 | 532 |
| Other Liabilities | 3,611 | 4,575 | 5,718 | 7,148 | 8,935 |
| Provisions | 25 | 32 | 38 | 44 | 54 |
| Net Current Assets | 6,495 | 7,236 | 7,788 | 8,492 | 9,242 |
| Miscellaneous expenditures | 0 | 0 | 0.00 | 0.00 | 0.00 |
| Total Assets | 15,611 | 15,807 | 16,575 | 17,650 | 19,222 |

Source: Company, Arihant Capital Markets

Cash Flow (Rs. Mn)

| Particulars | FY18 | FY19 | FY20E | FY21E | FY22E |
|--|---------------|--------------|---------------|---------------|---------------|
| OP/(loss) before tax | 552 | 785.2 | 1,140 | 1,448 | 1,991 |
| Other income | -920 | -986 | -1,055 | -1,128 | -1,207 |
| Depreciation & amort. | -167 | -155 | -187 | -226 | -278 |
| Direct taxes paid | -388 | -281 | -439 | -515 | -640 |
| (Inc)/dec in wkg. capital Other items | -732 | 4,008 | 306 | 517 | 460 |
| CF from op. activity | -1,655 | 3,372 | -235 | 95 | 325 |
| Extra-ordinary items | 0.0 | -233.7 | 0.0 | 0.0 | 0.0 |
| CF after EO Items | -1,655 | 3,138 | -235 | 95 | 325 |
| (Inc)/dec in FA+CWIP | -522 | -609 | -1,094 | -1,096 | -2,200 |
| (Pur)/sale of invest. | 950 | 697 | 0 | 0 | 0 |
| CF from inv. activity | 428 | 88 | -1,094 | -1,096 | -2,200 |
| Inc./(dec) in networkth | 2,366 | 2,646 | 3,717 | 4,329 | 5,324 |
| Inc/(dec) in debt | 0 | 0 | 0 | 0 | 0 |
| Interest paid | -0.4 | -0.1 | 0 | 0 | 0 |
| Dividends paid | -734 | -1,193 | -1,193 | -1,193 | -1,193 |
| CF from fin. activity | 1,631 | 1,452 | 2,524 | 3,136 | 4,131 |
| Inc/(dec) in cash | 404 | 4,337 | 857 | 1,221 | 1,210 |
| Add: beginning balance | 193 | 597 | 5,346 | 6,203 | 7,424 |
| Closing balance | 597 | 4,933 | 6,203 | 7,424 | 8,635 |

Ratios

| | FY18 | FY19 | FY20E | FY21E | FY22E |
|---------------------------------|-------------|-------------|-------------|-------------|-------------|
| Per Share (Rs) | | | | | |
| EPS | 21.2 | 29.3 | 34.4 | 40.4 | 50.2 |
| EPS growth (%) | -14% | 38% | 17% | 17% | 24% |
| Cash EPS | 24.5 | 27.7 | 38.1 | 44.8 | 55.6 |
| Book Value per share | 270.7 | 245.3 | 259.7 | 280.1 | 310.3 |
| DPS | 17.0 | 20.0 | 20.0 | 20.0 | 20.0 |
| Payout % | 80.0 | 68.3 | 58.1 | 49.5 | 39.9 |
| Valuation (x) | | | | | |
| P/E (diluted) | 55.7 | 40.4 | 34.4 | 29.3 | 23.6 |
| Cash P/E | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| EV/EBITDA | 83.1 | 58.5 | 40.8 | 31.6 | 22.8 |
| EV/sales | -3.3 | -4.2 | -3.8 | -3.6 | -3.2 |
| Price to book value | 4.4 | 4.8 | 4.6 | 4.2 | 3.8 |
| Dividend yield (%) | 1.4 | 1.7 | 1.7 | 1.7 | 1.7 |
| Profitability ratios (%) | | | | | |
| ROE | 7.9% | 9.5% | 13.6% | 15.0% | 17.0% |
| ROCE | 3.0% | 4.9% | 7.1% | 8.4% | 10.6% |
| RoIC | 5% | 7% | 13% | 16% | 22% |
| Turnover ratios | | | | | |
| Debtors (days) | 9 | 8 | 8 | 8 | 8 |
| Creditors (days) | 62 | 42 | 55 | 50 | 40 |
| Working capital (days) | -53 | -35 | -47 | -42 | -32 |
| Asset turnover (x) | 0.2 | 0.2 | 0.2 | 0.2 | 0.3 |
| Leverage ratio | | | | | |
| Debt/equity (x) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

Source: Company, Arianth Capital Markets

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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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