Indbank Merchant Banking Services Ltd (A Subsidiary of Indian Bank)

Multi Commodity Exchange of India Ltd.

EQUITY REPORT

November 8, 2013

BSE Code:	534091	NSE Code:	MCX	Reuters Code:	MCEI.NS	Bloomberg Code:	MCX:IN

Multi Commodity Exchange of India Ltd (MCX), founded on 10 November 2003, is an independent commodity exchange. MCX is a de-mutualized exchange and facilitates nationwide online trading, clearing and settlement operations of commodities futures transactions. The exchange offers trading in more than 30 commodity futures contracts across segments including bullion, ferrous and non-ferrous metals, energy, and agricultural commodities. With a market share of 87.3% in terms of the value of commodity futures contracts traded in FY'13, MCX is the country's leading commodity futures exchange.

Investor's Rationale

- We expect MCX to post ~6.4% and 12.2% growth in consolidated earnings in FY'14E and FY'15E respectively on the back of rising exchange income and increased investors' participation and product innovation. Further, with an improvement in volume growth, we expect EBITDA margin to be in the range of 83.5%-83.9% over FY'14-15E.

- During FY'13, the declining commodity prices in India were partially offset by a weakening rupee, which softened the hard landing for the domestic commodities market. But, as price volatility is a function of growth in trading volumes of any commodity on the exchanges, therefore, we believe that due to on-going volatility in commodity prices, MCX enjoys an advantage, given the variety of commodities that are traded on the exchange. As long as there is volatility in the prices of a particular commodity, it will act as a volume growth driver for the exchange.

- MCX has held on to its market leadership position, with a share of 82-87% over FY'09-13. The efficient technology platform focused on developing, implementing and maintaining enhanced functionalities required by its members, gives MCX a competitive edge that is difficult to replicate. If commodity exchanges in India receive regulatory approval to trade in new products like options, MCX will be able to quickly reap the opportunity in a good way.

- Recently, the share price of the company has come down due to falling volume due to Commodity Transaction Tax (CTT) levied in July this year and unfortunate NSEL scam. However, we believe that the recent reconstitution of the MCX board and an implementation of FCRA Amendment Bill, 2010, to bring significant growth opportunities in the form of introduction of options, new commodities and participation by FIs. As the industry settles into the new regime, we believe MCX with zero debt and strong fundamentals will be the major beneficiary to lead its peers in the long term growth story of India's commodity derivatives.

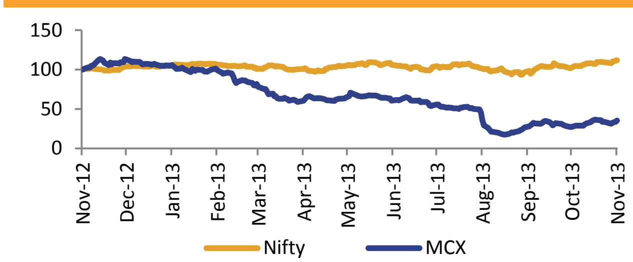
Market Data

Rating	**BUY**
CMP (₹)	481.0
Target (₹)	**540**
Potential Upside	~12.3%
Duration	Long Term
Face Value (₹)	10
52 week H/L (₹)	1,617.9/238.2
Adj. all time High (₹)	1,600.0
Decline from 52WH (%)	70.3
Rise from 52WL (%)	102.0
Beta	0.1
Mkt. Cap (₹bn)	24.5
Enterprise Value	21.1

Fiscal Year Ended

Y/E	FY12A	FY13A	FY14E	FY15E
Revenue (₹)	5.5	5.2	5.5	6.0
Net Profit (₹)	2.9	3.0	3.2	3.6
Share Capital (₹)	0.5	0.5	0.5	0.5
EBITDAmargin(%)	80.3	83.3	83.6	83.9
Adj.EPS (₹)	56.5	58.7	62.4	70.0
P/E (x)	8.5	8.2	7.7	6.9
P/AdjBV (x)	2.4	2.1	1.8	1.5
ROCE (%)	40.0	33.9	30.0	27.2
RoE (%)	28.7	25.8	23.1	21.3

One year Price Chart



Shareholding Pattern	Sep'13	Jun'13	Diff.
Promoters	26.0	26.0	-
FII	36.8	38.4	(1.6)
DII	15.2	20.0	(4.8)
Others	22.0	15.6	6.4

MCX: the world's sixth largest commodity exchange

Multi Commodity Exchange of India Limited (MCX), India's largest commodity futures exchange with products predominantly in bullion, energy and metals, was established in 2003. On March 2012, MCX became India's first listed exchange, facilitating online trading, and clearing and settlement of commodity futures transactions, thereby providing a platform for risk management. The Exchange, which started operations in November 2003, operates within the regulatory framework of the Forward Contracts Regulation Act, 1952 (FCRA, 1952) and regulations thereunder. The company offers trading in more than 30 commodity futures contracts across segments including bullion, ferrous and non-ferrous metals, energy, and agricultural commodities. The exchange focuses on providing commodity ecosystem participants with neutral, secure and transparent trade mechanisms, and formulating quality parameters and trade regulations, in conformity with the regulatory framework. The Exchange has an extensive national reach, with over 2100 members, operations through more than 400,000 trading terminals (including CTCL), spanning over 1770 cities and towns across India.

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MCX is India's leading commodity futures exchange with a market share of 87.3% in terms of the value of commodity futures contracts traded in FY'13. The Exchange was the third largest commodity futures exchange in the world, in terms of the number of contracts traded in CY'12, based on the Futures Industry Association's annual volume survey released in March 2013.

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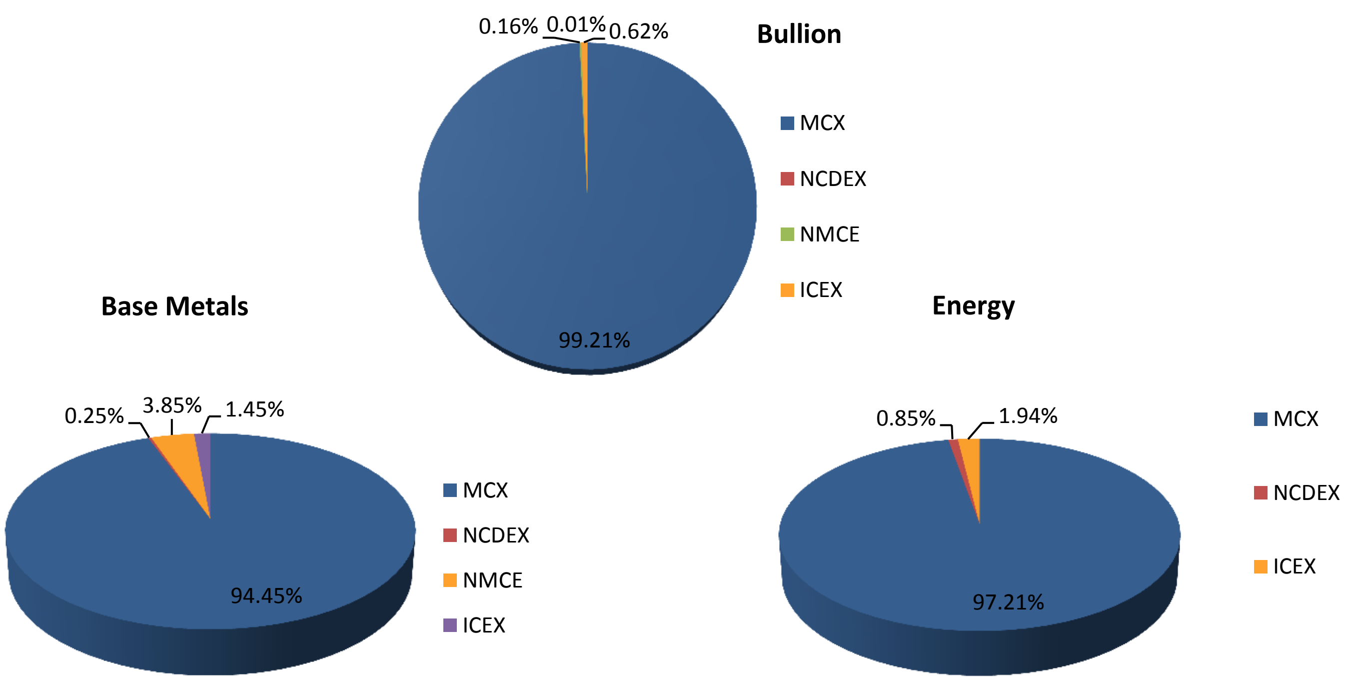
With an aim to seamlessly integrate with the global commodity ecosystem, MCX has forged strategic alliances with leading international exchanges such as CME Group, London Metal Exchange (LME), Shanghai Futures Exchange (SHFE) and Taiwan Futures Exchange (TAIFEX). The Exchange has also tied-up with various trade bodies, corporate, educational institutions and R&D centers across the country. These alliances enable the Exchange in improving trade practices, increasing awareness, and facilitating overall improvement of the commodity futures market.

Market share based on total value of key commodities traded in FY'13

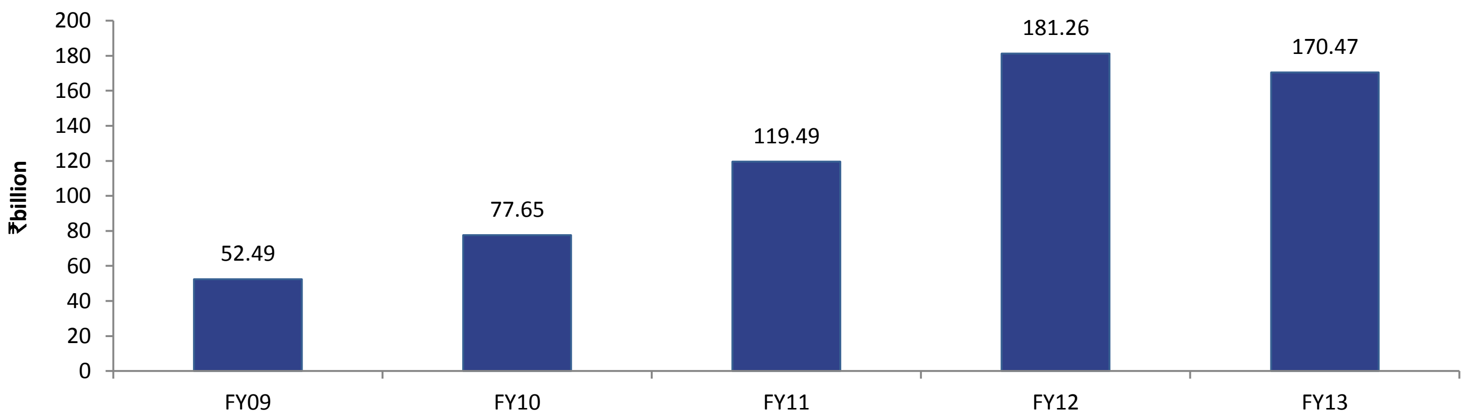


Untapped opportunities in India's commodity market

During CY'12, MCX witnessed a moderate growth rate of 12% and retained its position as the world's third largest commodity futures exchange.

During FY'13, the country's commodity futures market has witnessed a growth (CAGR) of 33% to the total value of commodity futures traded to ₹170.47 tn from ₹52.49 tn in FY'09. The Indian commodity future landscape has been evolving and the national level multi-commodity futures exchanges have made a big headway since their inception. During CY'12, MCX witnessed a moderate growth rate of 12% and retained its position as the world's third largest commodity futures exchange. India's commodity derivatives market still operates under the Forward Contracts (Regulation) Act (FC(R)A), 1952. The Forward Markets Commission (FMC), the commodity futures market Regulator, is a statutory body set up in 1953 under the provisions of the FC(R) Act. Within the existing act, FMC has been regulating the futures market and controlling operation with dynamism using the available market regulation tools. In FY'13, some of the key activities of FMC involved using regulatory instruments such as special margins and decreasing the open position limits of Agri commodities to reduce volatility in prices; strengthening the investor protection fund; introducing spread out delivery in some commodities; initiating SMS and email alerts to individual traders; disallowing algorithmic/high frequency trade in mini and micro contracts; and making audit of exchanges mandatory to help curb speculation and enhance investors' confidence.

Turnover of Indian Commodity Exchanges



The FC(R)A Amendment Bill 2010 (Amendment Bill) has already been recommended by the Parliamentary Standing Committee of the Ministry of Consumer Affairs, Food and Public Distribution, on 19 December 2011 and is awaiting to be passed by the Parliament.

The existing provisions of the FC(R) Act need changes to strengthen and reinforce legal provisions to meet the requirements of the changing environment. In order to amend further, the FC(R)A Amendment Bill 2010 (Amendment Bill) has already been recommended by the Parliamentary Standing Committee of the Ministry of Consumer Affairs, Food and Public Distribution, on 19 December 2011 and is awaiting to be passed by the Parliament. We believe that once the Bill comes into force, it will bring economic benefits to all stakeholders of the market and empower the regulator by providing it with operational autonomy to enforce regulations; regulatory autonomy to enforce decisions in a pro-active and quick manner; and financial autonomy to recruit and retain talent with a market-based compensation structure, as also to adopt modern technological tools to meet new regulatory challenges.

Performance of the top 10 global exchanges in terms of commodity futures contracts traded during CY12

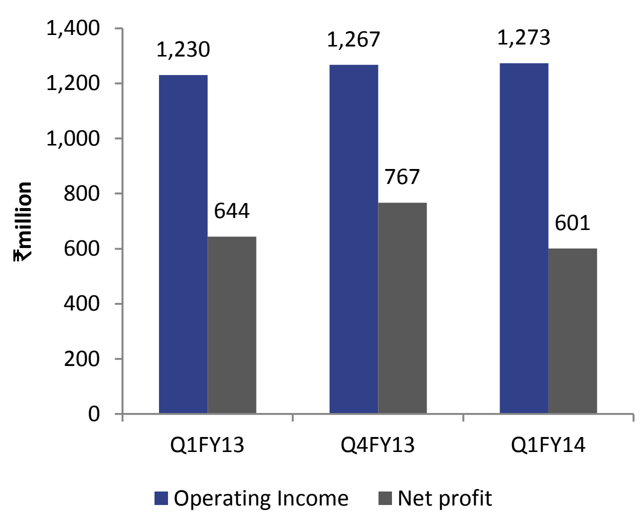
Rank	Exchanges	Contracts (in mn)		% Change
		CY12	CY11	
1	CME Group (includes CME, CBOT & NYMEX)	664.78	677.16	-2%
2	Dalian Commodity Exchange (DCE)	633.04	289.05	119%
3	***Multi Commodity Exchange of India (MCX)***	***388.75***	***346.19***	***12%***
4	Shanghai Futures Exchange (SHFE)	365.33	308.24	19%
5	Zhengzhou Commodity Exchange (CZCE)	347.09	406.39	-15%
6	ICE Group (includes ICE US, UK and Canada)	320.05	309.98	3%
7	London Metal Exchange (LME)	153.19	138.49	11%
8	National Commodity & Derivatives Exchange (NCDEX)	44.89	47.41	-5%
9	Tokyo Commodity Exchange (TOCOM)	25.48	31.67	-20%
10	Moscow Exchange (includes FORTS, MICEX)	22.35	38.22	-42%

EBITDA margins to improve to 83.9% by FY'15E

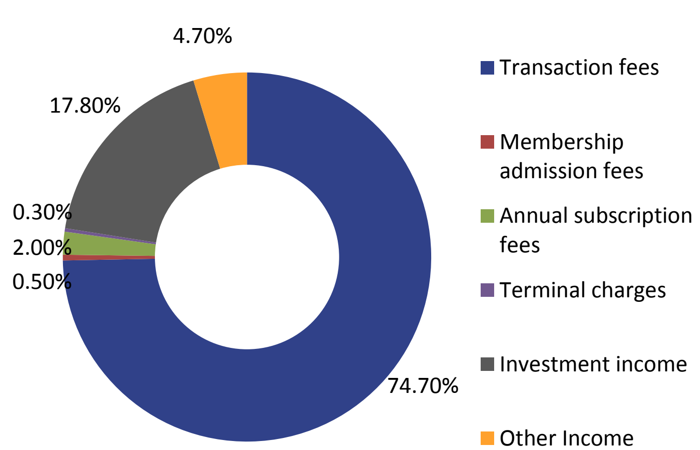
During Q1FY'14, Gold and crude oil prices increased by 15% and 20% YoY in rupee terms respectively. Silver and copper, on the other hand, de-grew 25% and 22% YoY in rupee terms.

The company registered a growth of 3.5% YoY at ₹ 1,273 mn in Q1FY'14 helped by a largely stable realisation. The average daily turnover (ADT) for Q1FY'14 showed a marginal uptick of 1.7% YoY to ₹48.7 bn. Among the main commodities, Gold and crude oil prices increased by 15% and 20% YoY in rupee terms respectively. Silver and copper, on the other hand, de-grew 25% and 22% YoY in rupee terms. The rest of the commodities (18% of total turnover) grew 44% YoY in rupee terms. While on margin front, operating profit margin came lower at 61%. Net profit came at ₹601 mn on account of higher operating expenses and increase in effective tax rates. It was reported that the performance of MCX was better, despite of a slowdown in macroeconomic environment, with consolidated total income rising by ~ 2% YoY to ₹6,446.9 mn during FY'13 and its net profit increased by ~4% over the last fiscal to ₹2,991.5 mn. The company's EBITDA for the year ended March 31, 2013 stood at ₹3,152 mn. While its EBITDA margin during the fiscal was 83.3%, while standing on its operating efficiency, its PAT margin stood at 46.4%. MCX has significant scalable opportunities in terms of exchange turnover. With 3-5x of current volume supporting from existing infrastructure,

Muted Q1FY'14 performance



MCX's revenue composition in FY'13



we expect MCX's EBITDA margins to improve to 83.9% by FY'15E. Total income expanded by ~45% CAGR over FY'07-13, with a 74.4% contribution from transaction fee income in FY'13, we expect same trends to continue with transaction income accounting for the bulk of total revenues. There is an opportunity to increase the proportion of market data related fees which is negligible currently (as compared to 6-12% for the global players).

Rising demand for commodities will drive volumes in the coming years

The Indian commodities market is ~4x the physical market, compared to 35-40x being the average range globally. Future volumes are 70-80x that of physical trade in Gold, v/s 17-18x in India, 20x in crude v/s ~7x in India, 100x in Aluminium v/s 8-9x in India.

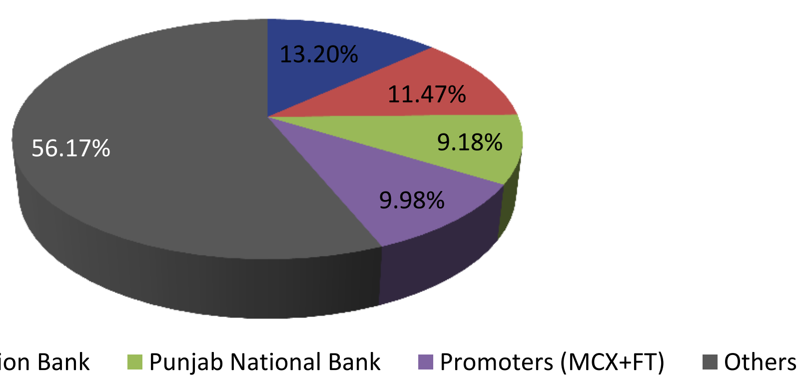
Growth potential in the economy like India remains huge over the next decade, which is expected to drive the demand for commodities. The increase in physical market volumes consequently increases the hedging requirements for industry players, influencing derivative trading volumes. We expect the industry to continue to register high growth rates. In developed markets, commodity derivatives volumes are at a much higher multiple of the underlying physical commodity volumes. The Indian commodities market is ~4x the physical market, compared to 35-40x being the average range globally. Future volumes are 70-80x that of physical trade in Gold, v/s 17-18x in India, 20x in crude v/s ~7x in India, 100x in Aluminium v/s 8-9x in India. The total number of clients trading on commodities platform are less than 2mn, as compared to that in equities is estimated at ~18-20mn. Globally, number of clients trading in commodities is higher than those on equities.

MCX-SX – India's new stock exchange to provide a competitive edge to NSE and BSE

MCX-SX's entry into equities would provide tough competition to other established exchanges in India.

MCX Stock Exchange Ltd (MCX-SX) commenced operations in the Currency Derivatives segment on October 7, 2008 under the regulatory framework of Securities & Exchange Board of India and Reserve Bank of India. With MCX-SX start offering trading in equity products, NSE perceives threat from MCX and start resorting by taking protective measures. At present, NSE (75-80% market share) and BSE dominated the equity markets. NSE has cut its deposit and net worth criteria by up to 50%, offset the annual membership fee of ₹1 lakh for brokers with transaction charges and lowered connectivity cost by 50%. Further, it was observed that BSE also starts operating at significantly lower prices. This indicates that MCX-SX's entry into equities would provide tough competition to other established exchanges in India. We expect MCX–SX will gain market share at the expense of existing players. We expect MCX–SX to add value to MCX through warrants and equity holdings. However, it is difficult for a new player to gain significant market share as existing players have advantage of high liquidity (lower impact cost) in their exchanges. Further, as soon as the NSEL scam settles, low volumes to start picking up, providing un-lock opportunities.

Key shareholders of MCX-SX

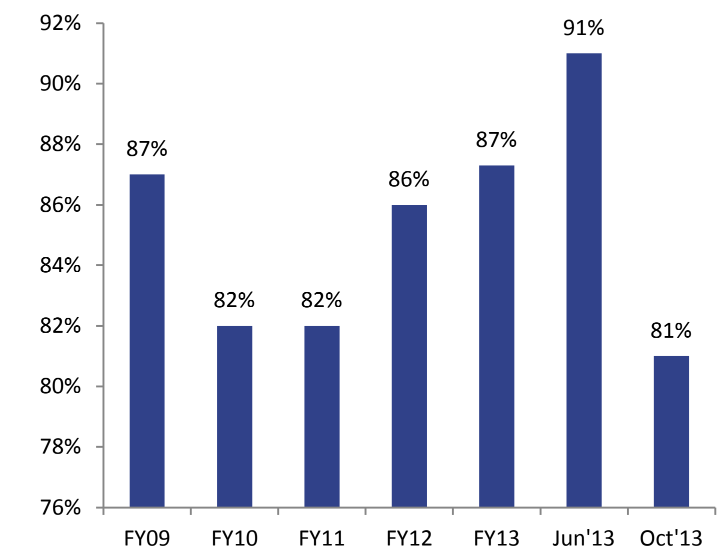


The market share of MCX has fallen from 91.7% in June to ~81% during October 2013.

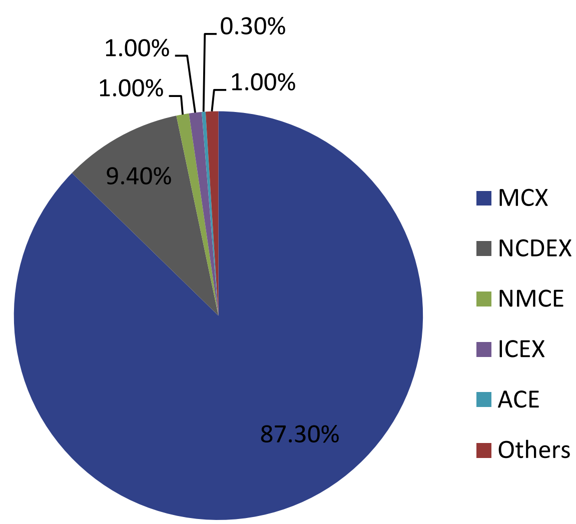
NSEL scam to hit its market share – a concern for the company

MCX has maintained its leadership position with a further increase in market share from 86% in FY12 to 87.3% in FY13. Inspite of the turmoil witnessed in the global markets coupled with the lack of volatility in the commodities market, in CY12, the company was able to maintain its position as the world's third largest commodity futures exchange. But, in the fallout of the ₹56.0 bn settlement crisis at one of its group companies, National Spot Exchange Ltd (NSEL), promoted by Jignesh Shah-led Financial Technologies India Ltd (FTIL) group, MCX has lost ~ 10% of market share in the past four months, mainly due to fear in the commodity futures market. The market share of MCX has fallen from 91.7% in June to ~81% during October 2013. With the implementation of commodities transaction tax (CTT) of 0.01% on non-agricultural commodities since July 01, 2013 has resulted in the turnover across commodity derivative exchanges to deteriorate by 40-50%. With a large proportion of the turnover at MCX coming from non-agricultural commodities, its turnover too has taken a hit with average daily turnover (ADT) down to ₹279 bn in July 2013.

NSEL scam resulting in to decline in market share



Market share of MCX in FY'13



New products and services to widen the base of market participants

On the back of extensive research, MCX continued to introduce new products and services on a regular basis. The company follows a structured mechanism for reviewing products, and based on these interactions, brings about innovations in the product design of existing and new products. In FY'13, the company launched three new contracts—Silver 1000, cotton seed oil cake or KapasiaKhalli, and mild steel ingot/billet. Moreover, with an aim to provide quick data access to its users, in FY'13, the company adopted the Bloomberg Global Identifiers across all MCX traded contracts on its web. Thus, with the introduction of new product and services, MCX will facilitate participants with wider investment and hedging tools and thus retaining its leadership position.

Balance Sheet (Consolidated)

Y/E (₹mn)	FY12A	FY13A	FY14E	FY15E
Share Capital	508	510	510	510
Reserve and surplus	9,470	11,072	13,301	16,226
Net Worth	**9,978**	**11,582**	**13,811**	**16,736**
Minority Interest	0	0	0	0
Other long term liabilities	273	364	400	440
Deferred Tax Liability	151	196	196	196
Long Term Provisions	11	9	9	9
Total Equities and Liabilities	**10,413**	**12,151**	**14,416**	**17,381**
Fixed asset	1,877	2,044	2,555	3,194
Investment	2,155	1,428	1,714	2,057
Loan & advances	623	420	462	508
Other asset	779	111	315	378
Net current Assets	4,978	8,147	9,369	11,243
Total Assets	**10,413**	**12,151**	**14,416**	**17,381**

Profit & Loss Account (Consolidated)

Y/E (₹mn)	FY12A	FY13A	FY14E	FY15E
Operating income	**5,451**	**5,240**	**5,502**	**5,997**
Expenses	1,937	2,088	2,297	2,641
EBITDA	**3,514**	**3,152**	**3,205**	**3,356**
Other Income	863	1,212	1,394	1,673
Depreciation	272	307	329	349
EBIT	**4,106**	**4,057**	**4,270**	**4,680**
Interest	0	0	0	0
Exp Item	142	0	0	0
Profit Before Tax	**3,963**	**4,057**	**4,270**	**4,680**
Tax	1,098	1,065	1,086	1,108
Share of associate profit	2	0	0	0
Minority Interest	0.1	0	0	0
Net profit	**2,867**	**2,992**	**3,184**	**3,572**

Key Ratios (Consolidated)

Y/E	FY12A	FY13A	FY14E	FY15E
EBITDA Margin (%)	80.3	83.3	83.6	83.9
EBIT Margin (%)	75.3	77.4	77.6	78.0
NPM (%)	45.4	46.4	46.2	46.6
ROCE (%)	40.0	33.9	30.0	27.2
ROE (%)	28.7	25.8	23.1	21.3
EPS (₹)	56.5	58.7	62.4	70.0
P/E (x)	8.5	8.2	7.7	6.9
BVPS(₹)	196.5	227.1	270.8	328.2
P/BVPS (x)	2.4	2.1	1.8	1.5
EV/Operating Income (x)	3.9	4.0	3.8	3.4
EV/EBITDA (x)	4.9	4.8	4.5	4.0

Valuation and view

Given the untapped potential of Indian commodity market, MCX is well positioned to benefit from the industry's long-term growth. Further, the regulatory approval of FCRA Amendment Bill and increased participation by banks and FIIs will provide new growth avenues in the stock. However, the NSEL scam remains near term concern for the company. But, we believe the volume to pick up and enhance higher revenue visibility in next two years, as soon as NSEL charges are proved and settled.

At a current market price (CMP) of ₹481.0, the stock trades at 7.7x FY14E and of 6.9x FY15E, PE. We recommend 'BUY' with a target price of ₹540, which implies potential upside of ~12.3% to the CMP from long term (1 year) perspective.

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