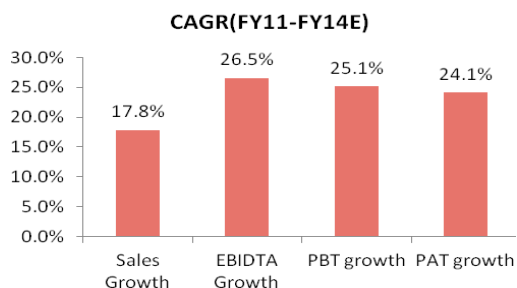


May 8, 2012

Initiating Coverage

Indian Exchanges



Stock Recommendation	Buy
CMP (₹)	1030
Price Target (₹)	1320
Upside (%)	28%
52 Week H / L ₹	1426/986
BSE 30	16913

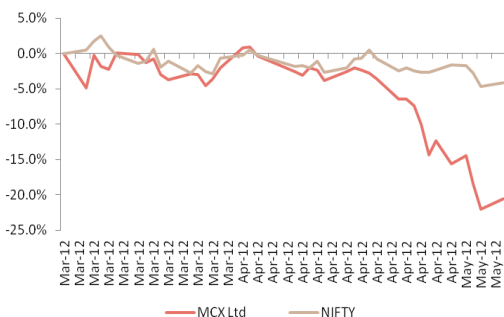
Key Data

No. of Shares, Mn.	50.9
Mcap, ₹ bn	52.5
Mcap, USD bn @ ₹50	1.1
2 W Avg Qty (BSE+NSE) Mn	0.2

Share holding, Mar'12

Promoters	26.0
FII	33.3
DII	22.4
Others	18.3

Performance	1 M	3 M	6 M	12 M
Stock Return %	-20.3	0.0	0.0	0.0
Relative Return %	-16.4	0.0	0.0	0.0



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Exchanges globally have been businesses with strong monopoly status, robust EBIDTA margins, low capex requirements, negative working capital cycle which enable high free cash flow generation and robust dividend payout ratios. MCX, India's first listed exchange is the largest commodity exchange with 87% market share appears to have multiple triggers for its business growth predominantly driven by regulatory outcomes. Though the exchange is the largest commodity exchange in India and the third largest in the world in terms of volumes of contracts traded, its breadth has been shallow with four commodities (gold, silver, crude, copper) together accounting to 90% of the total turnover value. MCX has benefited from the appreciation of commodity prices during (FY09-FY12) as its revenue model is depended on the value of the contracts traded. We believe that going forward there are multiple triggers on the volume growth front depending on the regulatory outcomes which include Introduction of options and indices trading in commodities, allowing banks, mutual funds and foreign institutional investors to trade in commodity exchanges etc. Global exchanges have been trading at wide P/E bands (15x-23x on forward earnings) depending on the exchange portfolio mix, revenues, margins and profits trends. Considering growth triggers we value MCX at P/E of 20x on FY14E EPS which yields a TP of ₹1320/Share. Initiate with Buy.

Options and commodity indices introduction could boost volumes

FCRA bill which allows introduction of commodity options, commodity indices and Institutional participation in commodity exchanges is awaiting the parliament approval. We believe that MCX's strong parentage in technology (MCX is promoted by FT) would enable quicker launch of new product portfolio post the regulatory outcomes which could act as growth driver for volumes. Globally options account 17%-25% of the total transaction volumes in commodities and introduction of options and indices at MCX could act as substantial volume booster for the exchange. Further MCX is likely to introduce new products like Real estate indices, Rain indices etc which could act as growth drivers. FCRA bill clearance would also allow banks, institutions and FIIs to participate in commodity trading which could boost the exchange turnover.

Non linearity enables sustaining the robust EBIDTA margins

MCX has seen solid EBIDTA margin expansion with current EBIDTA margin at over 65% for nine months ended Dec 2011 driven by non linearity in the model up from 36% registered in FY09. MCX pays software & support charges (₹one hundred and Twenty million + 12.5% of its gross transaction revenues) to Financial Technologies Ltd (which provides platforms), which is the only variable cost. The remaining cost structure includes salary and other administrative costs and hence inducing non linearity to the margin structure.

Multiple catalysts to drive the stock performance going ahead

MCX has 5% stake in MCX-SX as well as 634mn warrants and holding structure is under litigation with SEBI. FCRA bill approval, outcome of MCX-SX litigation could be the key catalysts which should drive stock performance going ahead.

Financials	Revenues ₹ mn	EBIDTA ₹ mn	Net Profit ₹ mn	EPS	P/E x	EV/EBIDTA x	ROE %
FY11	3,689	1918	1,763	34.6	29.8	22.1	22.8
FY12E	5,243	3367	2,834	55.6	18.5	11.8	30.1
FY13E	5453	3470	3,008	59.0	17.5	10.8	26.8
FY14E	6038	3883	3,369	66.1	15.6	9.0	25.6

Source: Company, Sunidhi Research

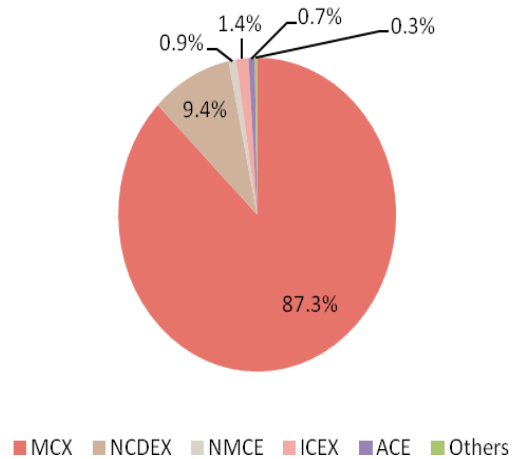


Brief profile of the company

Multi Commodity Exchange of India Ltd (MCX) is a India’s leading commodity futures exchange to facilitate online trading, clearing and settlement operations for commodity futures across the country. Having started operations in November 2003, MCX holds a market share of over 87.3% of the Indian commodity futures market, and has more than 2,153 registered members operating through over 2,96,896 terminals spread over 1,572 cities and towns across India. The Exchange was the third largest commodity exchange, among all the commodity exchanges in terms of the number of contracts traded. MCX offers 49 commodities across various segments such as bullion, ferrous and non-ferrous metals, energy, and a number of agri-commodities on its platform. The exchange introduces standardized commodity futures contracts on its platform. These contracts in futures exchanges provide an anonymous trading environment for ideal price discovery. The Exchange is the world's largest exchange in Silver, the second largest in Gold, Copper, Natural Gas and the third largest in Crude Oil futures, based on the comparison of the trading volumes as for six months ended June 30, 2011.

Exhibit 1: Market Share of major commodity exchanges in India (9m Dec11)

Turnover Market share in Indian Commodity futures market



Source: Company, Sunidhi Research

- MCX is the largest commodity exchange in India with 87% of market share leaving its competitor at a way distance from it. The second largest player is NCDEX which is predominantly stronger in Agri commodities. The other exchanges like NMCE, ICEX, ACE have a miniscule share of the Indian commodity future markets.
- There are currently 5 national multi commodity exchanges (MCX, NCDEX, NMCE, ICEX, ACE) and 16 regional exchanges for commodities. The regional exchanges are localized exchanges and trade in few commodities and follow open outcry model.



Management Profile

Exhibit 2: Management profile

Venkat Chary	Chairman	A former Chairman of the FMC, Government of India. Formerly an officer in the Indian Administrative Services, he was also a member of the Maharashtra Electricity Regulatory Commission and held the positions of Additional Chief Secretary, Principal Secretary and Secretary, in various departments of the Central and State Government. His academic qualifications include a Bachelor's degree in Law, Master's degree in Commerce, and a Post Graduate Diploma in Economics and Finance from the Institute International d'Administration Publique, Paris, France. Venkat Chary practices law at the Bombay High Court and was the legal consultant for one of the companies in the Shriram Group. He has been a Director of the Company since September 2003.
Jignesh P. Shah	Vice Chairman, Non-Executive Non-Independent Director	A first-generation entrepreneur and the founder/promoter of the Financial Technologies group of companies. Jignesh P. Shah has been a Director of the Company since May 2003. Prior to establishing FTIL, he was with the BSE, where he was responsible for designing and implementing the technology platform of the exchange. He holds a Bachelor's degree in Engineering from Mumbai University He has over 20 years of experience in creating and operating technology-centric financial exchanges for, inter alia, stocks, commodities, currencies and bonds
Lambertus Rutten	Managing Director and CEO	Director of MCX since June 2006, he was previously the chief of finance, risk management and information in the commodities branch of the United Nations Conference on Trade and Development, Geneva. He holds a Master's degree with Honors in International Economic Management from Tilburg University, Netherlands. He is a member of the board of advisors of the International Investment Group LLC, a hedge fund specializing in trade finance. He has more than 20 years of experience in commodity risk management and structured finance as well as on commodity price risk management.
P. P. Kaladharan	Chief Technology Officer	He heads the technology function which includes technology and technical support. He joined MCX in February 2006 and was previously working with BSE for over 15 years. He holds a Post Graduate Diploma in computer science and also a master's degree in commerce from Agra University and a bachelor's degree in commerce from Delhi University.

Source: Company, Sunidhi Research

**MCX fares big in the Global Picture as well**

MCX offers over 49 commodities for trading which include precious metals (Gold, silver), Non precious metals (Copper, Zinc), Energy Products (Crude Oil, Natural Gas), Agri commodities (Soya been seed, Mustard seed etc). This represents one of the strongest portfolios of products from an Exchange even on the global scene. It can be observed that Chicago Mercantile Exchange Group is the largest commodity exchange in the world in terms of commodities traded.

Exhibit 3: Number of commodities traded in various exchanges

Commodity future exchange	Country of Location	Number of commodities traded
Multi-Commodity Exchange of India Limited	India	49
Dalian Commodity Exchange (DCE)	China	9
ICE Group (includes U.S., U.K. and Canadian Markets)	US, UK and Canada	19
Chicago Mercantile Exchange Group	USA	74
Zhengzhou Commodity Exchange (ZCE)	China	7
London Metal Exchange (LME)	UK	16
Shanghai Futures Exchange	China	9
Tokyo Commodity Exchange	Japan	15

Source: Company, Sunidhi Research

Exhibit 4: Rating of exchanges based on Volume of contracts traded

Commodity futures ranking	volume (mn contracts)(Jan - June 2011)
CME group	353
Zhengzhou commodity exchange	218
ICE group	159
Shanghai Futures exchange	128
Multi commodity exchange	127

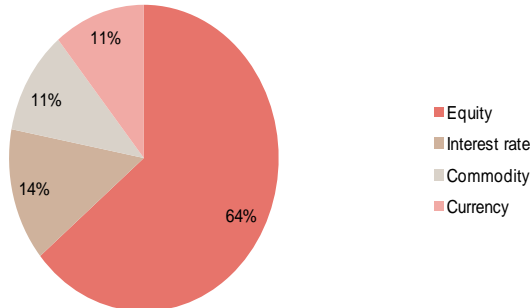
Source: Company, Sunidhi Research

- MCX is the third largest global exchange in terms of volume of contracts as on date and is the fifth largest exchange as for the half year ending CY11. Liquidity and strong volumes are the major drivers for the exchange business as it enables efficient price discovery and lower impact cost in execution of trades.
- China which has seen strong GDP growth trends and been one of the largest consumers of commodities also has two major exchanges in terms of number of contracts traded (Zhengzhou commodity exchange, Shanghai Futures exchange)
- Some of the contracts like MCX silver, MCX copper, MCX Gold are among the most actively traded commodity future contracts in the world in terms of number of contracts traded.

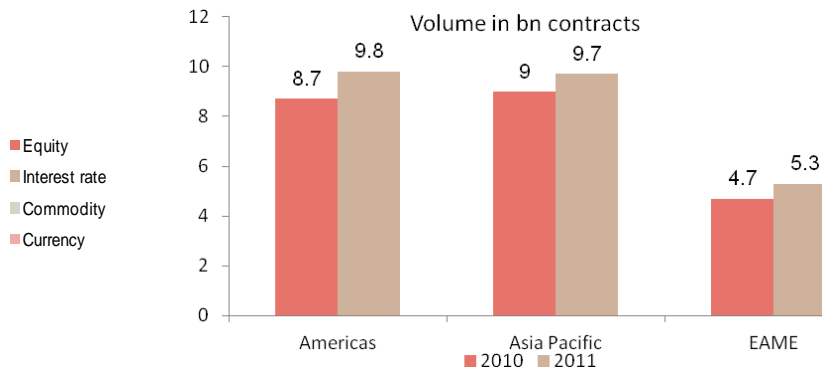
Exhibit 5: Most active MCX products and their ranking on a global perspective

Commodity futures contract	Rank
MCX Silver Mini Futures	7 th
MCX Copper Futures	9 th
MCX Silver Futures	10 th
MCX Silver Micro Futures	11 th
MCX Nickel Futures	15 th
MCX Gold Mini Futures	16 th

Source: Company, Sunidhi Research

**Industry Structure: Global derivatives Market****Commodity gaining acceptance in the global derivatives market****Exhibit 6: % of Derivative volume in asset class**

Source: World Federation Exchanges, Company, Sunidhi Research

Exhibit 7: Number of derivative contracts in bn as per geography

Source: Company, Sunidhi Research

- Exchange Traded Derivatives worldwide increased to more than 24 billion derivative contracts in 2011 (11.9 billion futures and 12.9 billion options) as compared to 22 billion traded in 2010 which represents a growth of over 11%. The growth in worldwide derivatives volumes as per number of contracts traded has more than doubled between 2006 and 2011. Equity accounted to lion's share of worldwide derivatives contracts while commodities accounted to 11% of the total volume of contracts traded.

Exhibit 8: Break up of Derivatives contracts as per asset class

Worldwide Derivative contracts in bn	2011	2010
Single stock options	4.1	3.9
Single stock futures	1.4	1.3
Stock Index options	5.7	5
Stock index futures	2.6	2.3
ETF options	1.9	1.2
Total Equity	15.7	13.7
STIR options	0.5	0.5
STIR futures	1.4	1.3
LTIR options	0.2	0.2
LTIR futures	1.4	1.2
Total Interest rate	3.5	3.2
Commodity options	0.2	0.1
Commodity futures	2.6	2.8
Total commodity	2.8	2.9
Currency options	0.3	0.1
Currency futures	2.5	2.3
Total currency	2.8	2.4
Other derivatives	0.1	0.1
Grand Total	24.9	22.3

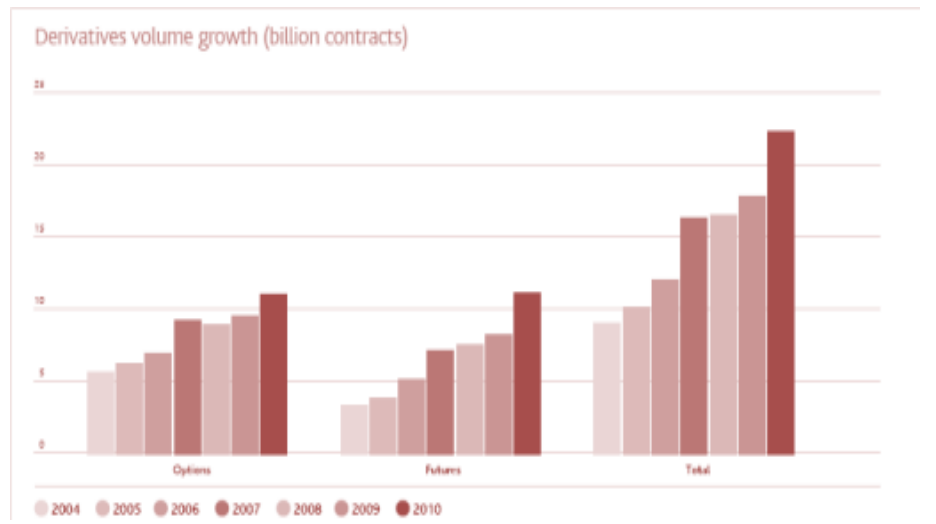
Source: World Federation of exchanges, Company, Sunidhi Research

- While the global derivatives market is still dominated by equities with stock options and index options accounting to a lion's share of total volume. Other asset classes like currency and commodities continue to gain scale.



Growth in Derivatives volumes over the years

Exhibit 9: Growth in derivatives market

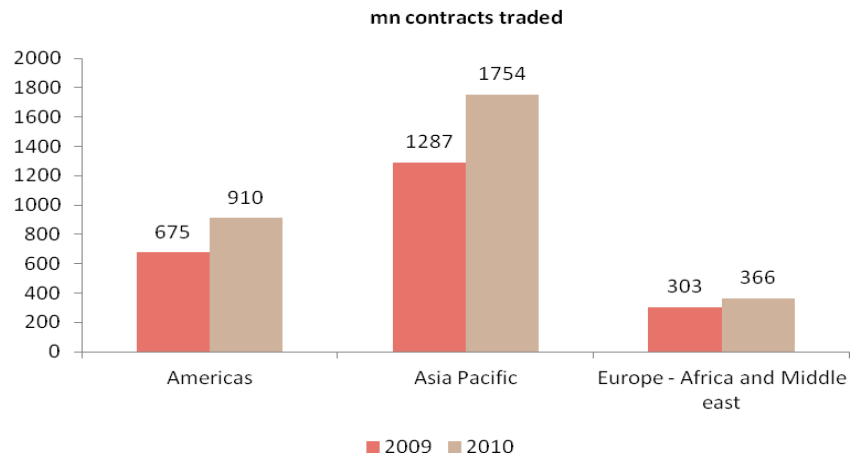


Source: World federation of exchanges Company, Sunidhi Research

- The growth in volume of derivative contracts has seen a gradual surge over the years. Asia pacific has seen a strong surge in number of derivative contracts traded in the exchanges and hence contributing to the growth.

Commodity’s seeing strong surge in Asian exchanges

Exhibit 10: Break up of Derivatives contracts



Source: World federation of exchanges, Company, Sunidhi Research

- Asian exchanges have been showing strong surge in number of contracts traded in the exchanges. APAC also accounts to a lion’s share of the global commodity contracts traded.



The major commodity exchanges by number of contracts

Exhibit 11: Break up of Derivatives contracts

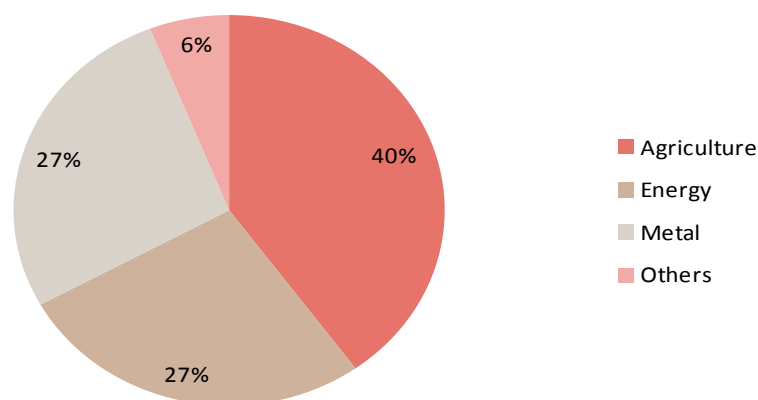
	mn contracts			Notional value (USD bn)		
	2010	2009	% Growth	2010	2009	% Growth
CME group	843	619	36.2%			
Shanghai futures exchange	622	435	43.0%			
Zhengzhou commodity exchange	496	227	118.5%			
Dalian commodity exchange	403	417	-3.4%			
ICE future exchange Europe	211	161	31.1%			
Multi commodity exchange	197	161	22.4%			
London metal exchange	111	112	-0.9%			
ICE future US	59	50	18.0%			
Tokyo commodity exchange	28	29	-3.4%			
RTS	18	11	63.6%			
Others	35	40	-12.5%			
	3023	2262	33.6%	57551	40456	42.3%

Source: World federation of Exchange, Company, Sunidhi Research

- CME (Chicago mercantile exchange) is the largest commodity exchange in the world in terms of number of contracts traded as on CY2010.
- Within the Asian exchanges Chinese exchanges like Shanghai futures exchange, Zhengzhou commodity exchange and Dalian commodity exchange have seen strong surge in volumes over the years.
- As for CY12 MCX is the third largest commodity exchange in the world in terms of number of contracts traded.

Break up of Commodities by nature

Exhibit 12: Break up of Derivatives contracts



Source: Company, Sunidhi Research

- Agricultural commodities account to a lion's share of total volumes traded in commodity exchanges accounting to over 40% of the derivatives contracts traded. Energy and metals account to 27% each of the total contracts traded in CY2011.

**Exhibit 13: Break up of Derivatives contracts**

Mn contracts traded	Agri	Metals	Energy	Total
CME Group	230	82	532	844
Shanghai Futures exchange	167	444	11	622
Zhengzhou commodity exchange	496	0	0	496
Dalian Commodity exchange	403	0	0	403
ICE Futures Europe	0	0	211	211
MCX	0	144	53	197
London metal exchange	0	111	0	111
ICE Futures US	59	0	0	59
Tokyo Commodity exchange	3	20	5	28
RTS	0.1	7	11	18.1
NYSE	17	0	0	17
ICE futures	4	0	0	4
Bursa Malaysia	4	0	0	4
others	0	0	0	9
Total	1383	808	823	3023

Source: Company, Sunidhi Research

- The Chinese exchanges are specialized in few commodities based on the exchange. Shanghai exchange derives a lion's share of volumes from metals and Rubber. Dalian exchange is specialized in soybean products while Zhengzhou derives a predominant portion of volume from white sugar and cotton.
- CME Group has platforms for each type of product: CBOT for agricultural products, COMEX for metal derivatives and NYMEX for energy.



Revenue Model of MCX

- MCX Revenue model is based on transaction charges which are based on the turnover value of the contract. **The current average transaction charge of MCX is ₹1.6 for every Rs one lakh of Turnover for one side of the trade.** MCX transaction charges vary for its members depending on the turnover generated by the member. The various slabs applicable currently are shown below:

Exhibit 14: Transaction charge is based on member's turnover.

Transaction charges	Total Daily Turnover of member
₹2.5 for Rs one lakh of traded value	< ₹250 crores
₹ 1.25 for Rs one lakh of traded value	Greater than ₹250 crores and less than ₹1000 crores
₹1 for one lakh traded value	Over ₹1000 crores of turnover of member

Source: Company, Sunidhi Research

- MCX average transaction charges have declined gradually over the past couple of years as the contribution of members with a higher turnover increased in the exchange. As the exchange has reached a substantial scale we have modeled for stable transaction charges in our revenue model over the coming period.

NCDEX Transaction charges

Exhibit 15: Transaction charges at NCDEX

Transaction charges	Total Daily Turnover of the member
₹ 2 per lakh	< ₹100 crores
₹ 1 per lakh	₹100 crores to ₹200 crores
₹ 0.50 per lakh	Greater than ₹200 crores

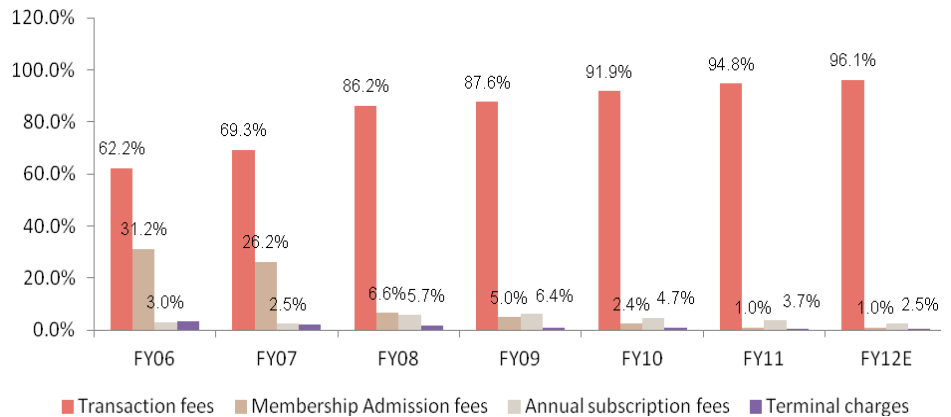
Source: Company, Sunidhi Research

- NCDEX which is the nearest competitor to MCX has a lower transaction charges which almost half that of MCX for members whose turnover is above ₹200 crores.
- Albeit MCX continues to enjoys lion's share in metals and energy related commodities due to the higher liquidity in the MCX exchange which leads to lower impact cost in execution.



Major Components of MCX Operating Revenue Model

Exhibit 16: Transaction charges account to Lion's share of MCX revenue model



Source: Company, Sunidhi Research

MCX derives revenues from four major revenue streams

- Transaction fees** - These are charges paid by the members based on the turnover generated by the members in the exchange and the current average transaction charges is ₹1.6 for ₹1 Lakh of turnover. Transaction fees account to a lion's share of MCX Revenues contributing to 96% of the total revenues for FY12E.
- Membership fees** – Membership fees forms a higher contribution during the initial years of setting up the exchange. MCX has over five kinds of members; Trading members, trading cum clearing members, Institutional trading cum clearing members and Professional clearing members. The current admission fees of the members vary between ₹7.5 Lakh – ₹25 Lakh based on the category of the member. Membership fees are charged to the new members on admission and hence contributed substantially to revenues in FY05-FY07. However membership fees account to just 1% of the total revenues for FY12E.
- Annual subscription fees** - Annual subscription is a recurring yearly fees to be paid by the members and currently account to 2.5% of the total revenues.
- Terminal charges** – Terminal charges account to a miniscule portion of MCX revenues.

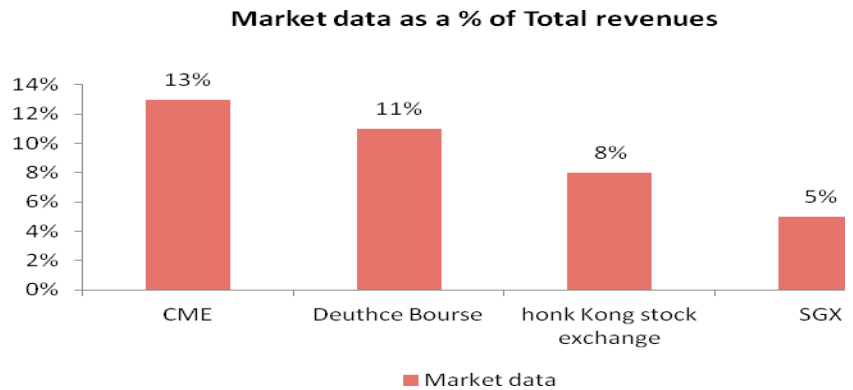
Yield earned on Margin Money and Stake sales drive other income

MCX earns Interest income from the Margin money of the clients which is recurring revenue stream. MCX currently has over ₹4500mn of margin money of the clients which earns interest income. Assuming 8% yield on margin money the average revenues from yields on margin money account to over ₹360mn for FY12E. MCX has earlier derived Income from stake sale in its subsidiaries like Dubai Gold Exchange, MCX-SX etc. The components of other income include ₹1369mn in FY10 and ₹728mn in FY09 pertaining to stake sale in MCX-SX and Dubai Gold and commodities exchange.



Market data could be a potential revenue stream in the coming period

Exhibit 17: Market data as a % of Exchange revenues



Source: Company, Sunidhi Research

- Market data accounts to 5%-10% of the revenues for global exchanges as major participants seek quotes at rapid speeds and are ready to pay a premium for the same. We believe that this could be a new revenue opportunity for MCX over the coming period.

Major players in MCX

MCX has five major kind of players, Hedgers, (Corporate hedging their raw materials or finished good), Arbitrageurs, Speculators, Jobbers and Retail participants

- Select corporate hedge their raw material requirements in MCX. Some of the major corporate taking positions in MCX include Pepsi, Hindalco etc. Potato and Mentha have been taken for Delivery by select FMCG companies from MCX. However major corporates in India hedge a lion's share of raw materials and output in Global exchanges due to exchange risk in India (Rupee volatility) and lack of depth in far term contracts (Due to lack of institutional participation)
- We believe that a substantial portion of trading happens through Speculators and arbitrageurs (who play on arbitrage opportunities between various global commodity exchanges). Speculative volume is higher in MCX on account of low open interest as a percentage of total traded volume as compared to other global exchanges.
- The low open interest is also on account of lack of institutional participation in the commodity markets in India. If the FCRA is passed, we believe that quality of participation will improve at MCX. FCRA bill was introduced in the parliament on 6th December 2010 and standing committee filed its report on 22 December 2011. It is currently awaiting clearance from the parliament which, if happens could be a positive trigger for the turnover of MCX.



Execution charges in India

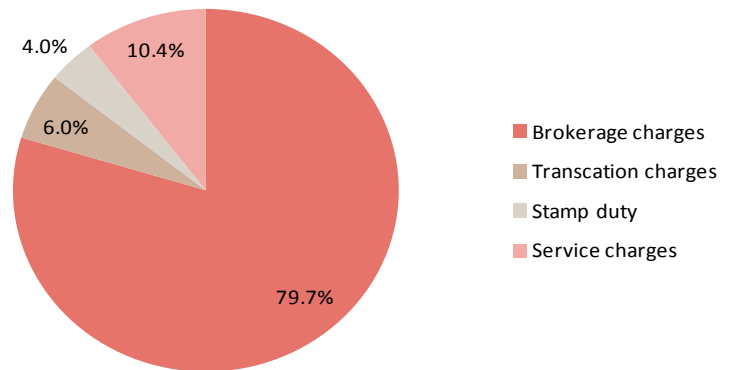
The various charges in execution of contract in India are brokerage charges, Transaction fees to exchange, Stamp duty (Levied at state level). The typical break up charges for execution of contract in percentage terms is represented below.

Exhibit 18: Various charges for execution of contracts in India

Execution expenses in India	Charges	
Brokerage charges	0.02%	₹ 20 on ₹ 1 lakh Turnover
Transaction charges		₹ 1.6 for ₹ 1 lakh Turnover
Stamp duty (Depends on state)	0.001%	₹ 1-₹ 5 on ₹ 1 lakh of Turnover depending on state
Service charge on brokerage fees (12.36%)		₹ 2.42 on ₹ 1 lakh Turnover
Service tax on Transaction fees (12.36%)		₹ 0.18 on ₹ 1 lakh Turnover

Source: Company, Sunidhi Research

- It can be observed that brokerage charges and service tax on brokerage fees account to a lion share of execution charges In India. The brokerage charges levied also depends on the turnover of the client and varies from 0.02% on the lower side to 0.05% on the higher side.

Exhibit 19: Percentage break up of various execution charges in India

Source: Company, Sunidhi Research



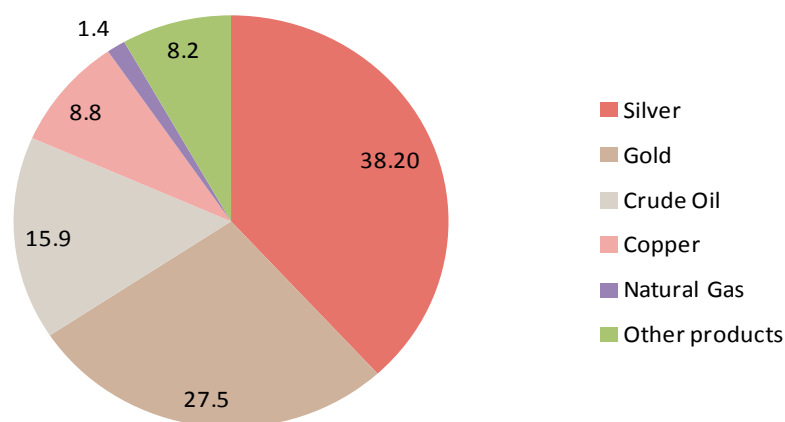
Major Commodities which drove revenues at MCX

Exhibit 22: Turnover value of various commodities at MCX

₹ bn	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12
Gold	556	3654	9075	10061	21110	19222	24692	42247
% Growth	2470.1%	556.7%	148.4%	10.9%	109.8%	-8.9%	28.5%	71.0%
Silver	829	2601	6119	6396	8272	11417	27000	57388
% Growth	29691%	213.6%	135.3%	4.5%	29.3%	38.0%	136.5%	112.5%
Energy	19	1754	2265	4968	10123			
% Growth	0	9132.8%	29.1%	119.3%	103.8%			
Crude oil						12190	17643	24649
						25.5%	44.7%	40%
Natural Gas						3222	2849	2609
						729.5%	-11.6%	-8.4%
Metals	4.8	115	3970	8879	6056	9034	11450	18356
% Growth		2303%	3327%	123.6%	-31.8%	49.2%	26.8%	60.3%
Agri and Others	256	1491	1506	955	320	8847	14780	10718
% Growth		482.9%	1.0%	-36.6%	-66.5%	2667.8%	67.1%	-27%
Traded Value	1665	9616	22937	31260	45881	63933	98415	155971
% Growth	0.0%	477.4%	138%	36.3%	46.8%	39.3%	53.9%	58.5%
As a % of Total Turnover								
Gold	33.4%	38.0%	39.6%	32.2%	46.0%	30.1%	25.1%	27.1%
Silver	49.8%	27.0%	26.7%	20.5%	18.0%	17.9%	27.4%	36.8%
Energy	1.1%	18.2%	9.9%	15.9%	22.1%	0.0%	0.0%	0.0%
Crude oil	0.0%	0.0%	0.0%	0.0%	0.0%	19.1%	17.9%	15.8%
Natural gas	0.0%	0.0%	0.0%	0.0%	0.0%	5.0%	2.9%	1.7%
Metals	0.3%	1.2%	17.3%	28.4%	13.2%	14.1%	11.6%	11.8%
Agri and Others	15.4%	15.5%	6.6%	3.1%	0.7%	13.8%	15.0%	6.9%

Source: Company, Sunidhi Research

- MCX turnover cloaked over ₹155.9 trillion in FY12 which represents a growth of 49.5% CAGR (FY08-FY12) driven by strong surge in volumes traded on the exchange as well as surge in commodity prices over the period.
- The exchange which predominantly had Gold and silver account to lions share in FY2005 has seen expansion in other commodities like Crude Oil and Copper. Albeit even as for 9 months ended FY12 Gold, Silver, Copper, Crude and Nickel accounted to 90% of the total traded value.
- Albeit MCX has a diverse basket of commodities traded on its exchange (over 49 commodities) across the basket like precious metals, base metals, tea, coffee, rubber, Agricultural products like Mentha etc.

**Turnover (based on value traded) of various commodities on MCX****Exhibit 23: % break up based on Transaction value (9Months ended Dec 2011)**

Source: Company, Sunidhi Research

- Silver and Gold were the major contributors to the total value of the turnover in the exchange for the 9 months ended December 2011. Higher concentration of revenues being derived from precious metals appears to be a near term concern.
- A variety of agri products also feature in MCX portfolio which include Rubber, cotton, crude palm oil, Wheat, maize, Soya bean, Refined Soya oil etc albeit a majority of them still remain illiquid counters.

Inverse correlation of Precious metals and Energy and base metals**Exhibit 24: Price co-relation of various commodities traded**

10 Year Price co-relation				
	Gold	Silver	Crude	Copper
Gold	100%	75%	25%	32%
Silver	75%	100%	31%	44%
Crude	25%	31%	100%	34%
Copper	32%	44%	34%	100%

Source: Company, Sunidhi Research

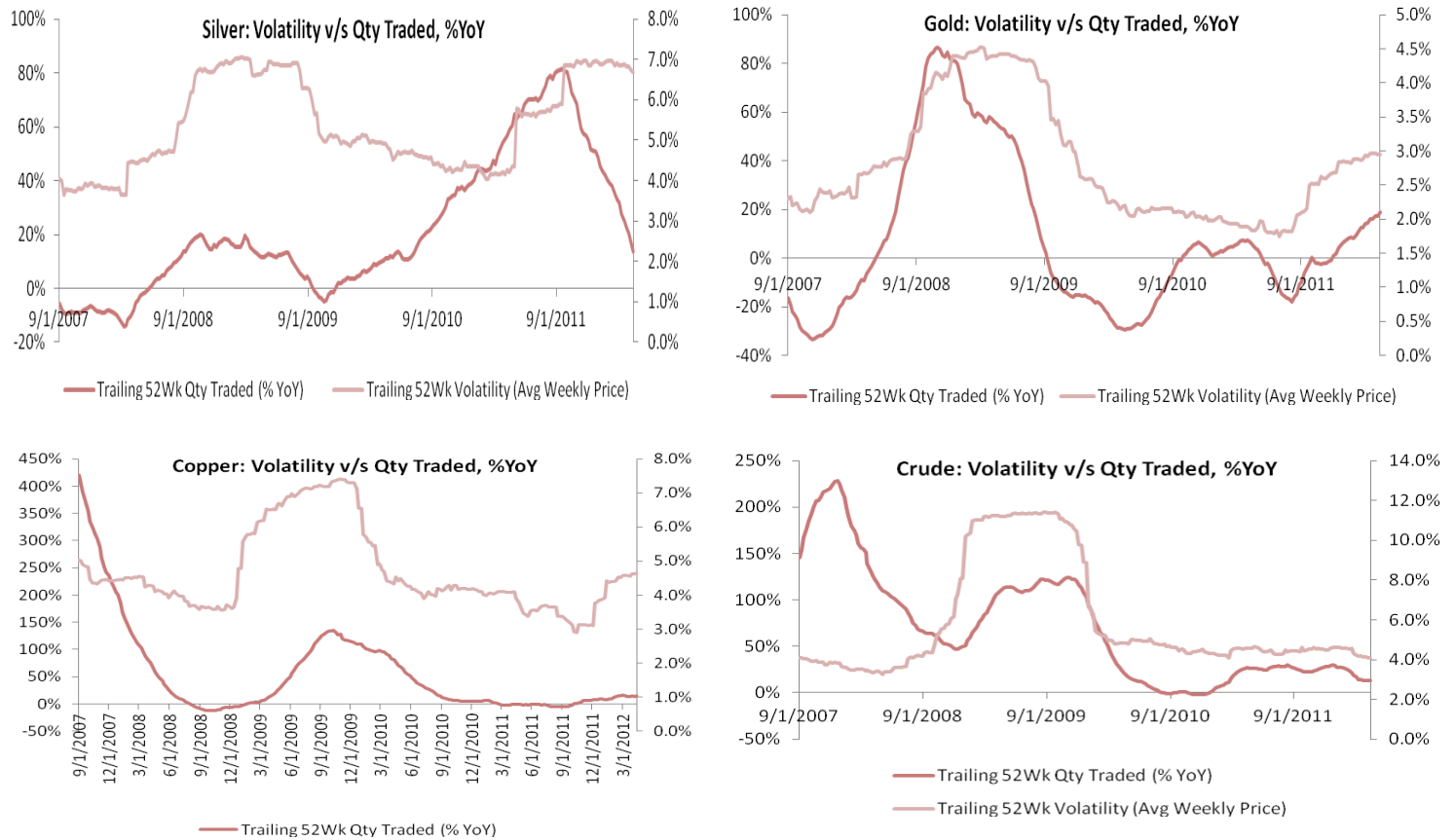
5 Year Price Co-relation				
	Gold	Silver	Crude	Copper
Gold	100%	79%	34%	35%
Silver	79%	100%	42%	46%
Crude	34%	42%	100%	46%
Copper	35%	46%	46%	100%

- Precious metals and Energy commodities have inverse co-relation and hence protecting MCX revenue model in various economic scenarios. In weaker economic environment Gold and Silver are a typical outperforming asset class while Energy and base metals drop. The situation reverses in a robust macro environment when precious metals underperform while Crude and base metals outperform. The inverse co-relation in the asset class is depicted above and this provides hedge to MCX Business model as the four commodities Gold, Silver, Crude Oil and Copper account to a lion's share of the total exchange Turnover.



Volatility is the major driver for traded quantity

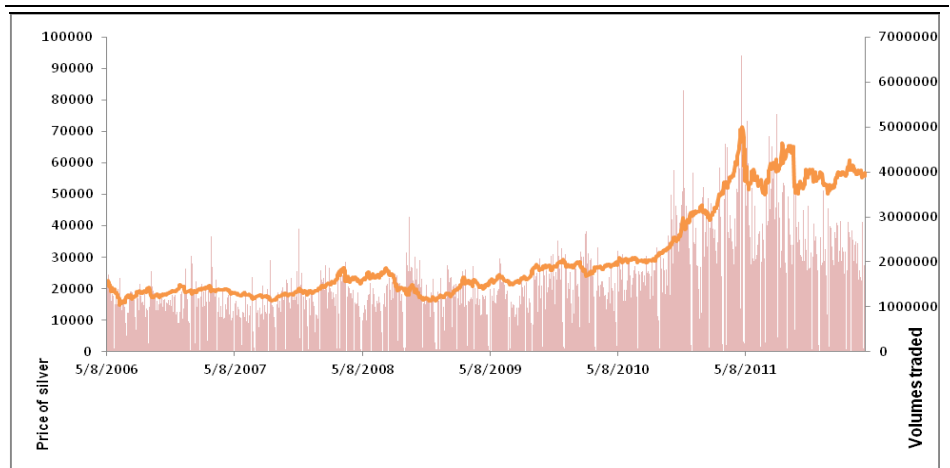
Exhibit 25: Volatility vs Traded Quantity in various commodities



Source: Company, Sunidhi Research

- It can be observed that volatility has induced growth in traded volume in the contracts at MCX. All the commodities like Gold, Silver, Copper and Crude have shown similar trends with volumes picking up with volatility in the commodity.
- Also appreciation in commodity prices has also led to increased trading in those respective commodities. It can be seen that as the price of silver appreciated volumes of contracts traded surged.

Exhibit 26: Price of Silver vs Volume of contracts traded in Silver



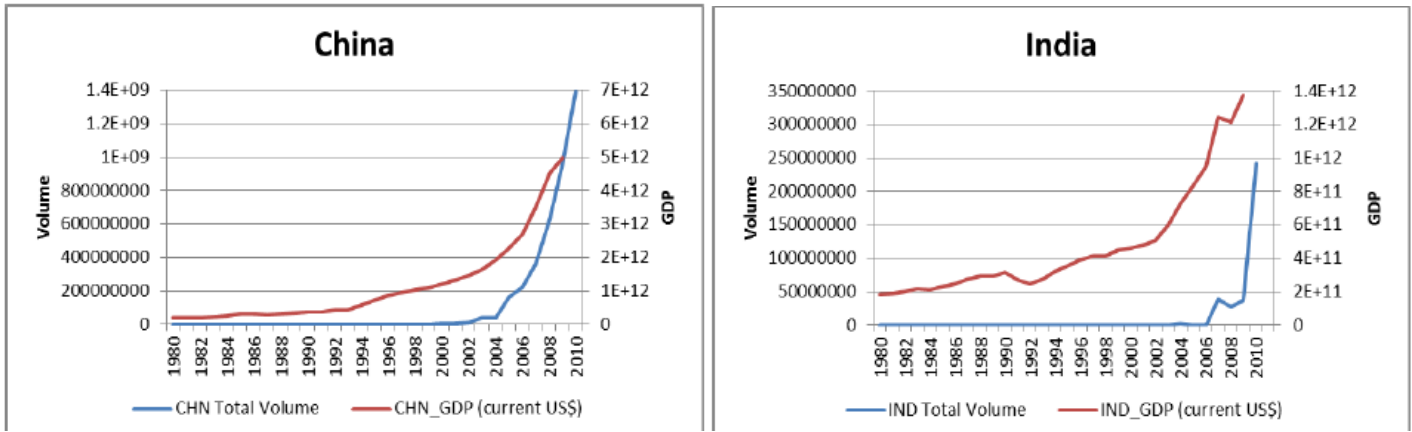
Source: Company, Sunidhi Research



Investment Thesis

Commodity volumes picking up APAC nations driven by higher growth

Exhibit 27: Total volumes in China and India vs GDP of both the countries in USD



Source: Company, Sunidhi Research

- MCX has benefited from strong surge in commodity volumes during (CY2006-CY2011) driven by robust growth in emerging markets. It can be observed that APAC nations increased their share in the total global commodity markets driven by higher growth in these regions. APAC accounted to 39% of the total global derivative traded volume as on H1CY2011 as compared to 22% of the global total derivative traded volume driven by strong growth in emerging market economies.
- APAC exchanges like Dalian (China), Zhengzhou (China), and MCX (India) have been the key beneficiaries of the surge in commodity transactions in Asian exchanges.
- Globally, commodity derivatives volumes are 30x-35x of the physical market but in India it is just 6-8x. As the number of participants is increasing by the day and the overall interest in commodity futures market among traders and investors is increasing rapidly, the growth potential of this market is immense.

Major Exchanges in Asia Pacific

Exhibit 28: Major exchanges in APAC

Country and region	APAC exchanges that trade commodity contracts
Australia	ASX Ltd
China	Dalian commodity exchange , Shanghai future exchange, Zhengzhou commodity exchange
Hong Kong	Hong Kong Exchanges & Clearing limited
India	MCX, NCDEX
Indonesia	Jakarta Future exchange
Japan	Kansai commodity exchange , Tokyo Grain exchange , Tokyo commodity exchange
Malaysian exchange	Bursa Malaysia Derivatives Berhad
Singapore	Singapore exchange derivatives trading , Singapore commodity exchange, Singapore mercantile exchange
Taiwan	Taiwan future exchange
Thailand	Thailand future exchange

Source: Company, Sunidhi Research



Albeit MCX concentration is higher in precious metals

Exhibit 29: Nature of commodities traded in various exchanges

Exchange	Major commodities traded	Country
MCX	Silver , Gold	India
NCDEX	Soya oil, R/M seed, Chana , Soya bean , Peeper Soya bean , Soya meal	India
Dalian Commodity exchange	Palm oil , corn	China
Zhengzhou Commodity exchange	Hard white wheat, sugar, cotton, rapeseed oil	China
Shanghai Future Exchange	Copper, aluminum, zinc, steel wire rods, rebars, natural rubber, fuel oils, and gold.	China
Singapore Commodity Exchange	Agricultural, Rubber	Singapore

Source: Company, Sunidhi Research

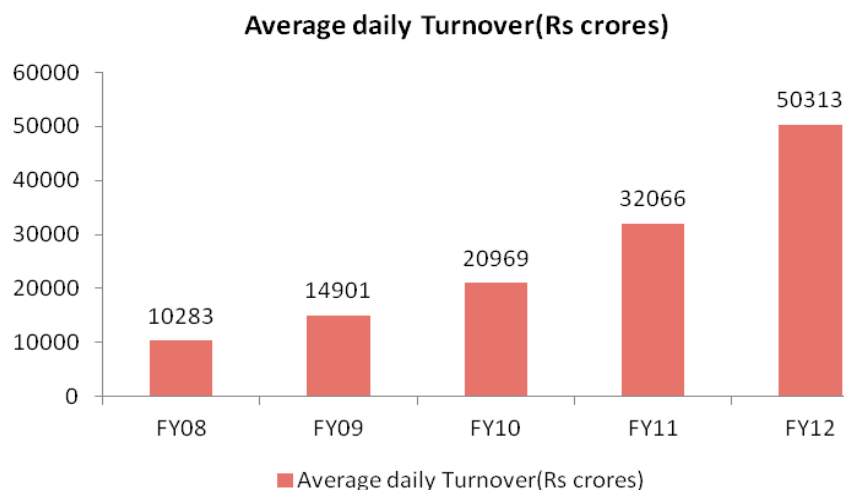
- Chinese major commodity exchanges have higher concentration of agri commodities and Oil whose consumption is related to growth in the direct economy.
- However MCX currently has a higher concentration of trading value derived from precious metals (Gold, Silver). The higher interest in Gold could also be ascribed Indian inherent culture and demand of jewellery among households.
- We believe that as commodities trading witness further penetration liquidity and trading could improve in other agri commodity products as well.

MCX Product Portfolio

Exhibit 30: MCX product Portfolio

Bullion	Metals	Energy	Oil and Oil seeds	Other agri commodities
Gold	Aluminum	Crude oil	Palm oil	Barley
Silver	Copper	ATF	Soya oil	Wheat
	Lead	Gasoline	Soya bean	Maize seed
	Iron ore	Electricity		Cotton
	Nickel	Heating oil	Plantations	Almond
	Tin	Imported thermal coal		Potato
	Zinc	Natural gas	Rubber	Mentha
				Mentha oil
				Chana
				Sugar M

- A majority of agri commodities in MCX are still illiquid and pick up in volumes in this segment could act as additional growth drivers.
- As off date NCDEX has a higher share in agri commodities trading in India as compared to MCX.

**Average daily Turnover seeing strong Surge****Exhibit 31: Average daily turnover in MCX (In ₹ crores)**

Source: Company, Sunidhi Research

- The average daily turnover in the exchange has increased by almost five times in the past five years driven by surge in volumes traded on the exchange as well as strong appreciation of commodity prices.

Expansion in Volumes in the exchange remain strong**Exhibit 32: Volumes of major contracts traded in MCX**

Mn contracts	FY2009	FY2010	FY2011	FY2012
Gold	14.7	10.8	11.4	13.01
% Growth		-26.4%	4.9%	14.1%
Silver	10.8	12.2	19.0	23.05
% Growth		12.3%	56.2%	21.3%
Crude	28.4	36.8	46.3	53.51
% Growth		29.7%	25.8%	15.5%
Copper	16.81	31.35	30.98	40.4
% Growth		86.5%	-1.2%	30%
Nickel	2.38	13.08	17.42	17.29
% Growth		449.6%	33.2%	-0.3%

Source: Company, Sunidhi Research

- MCX continues to see strong surge in volume of contracts traded in its exchanges driven by both under penetration in commodity trading in India, expansion of members and Terminals and increased market share of the exchange. We present the five major contracts by values which are traded in the exchange and trends hint that FY12 volume traded remained strong across the board with substantially higher growth in Copper and Silver.

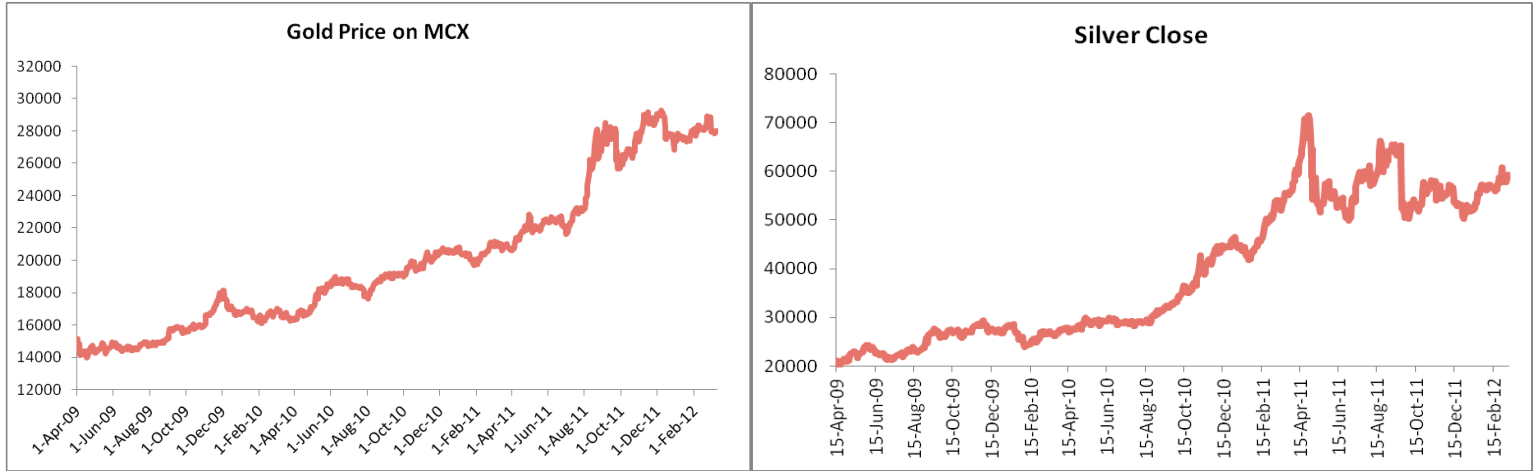


Albeit surge in commodity prices have also led to surge in Turnover value

Prices of Precious commodities on MCX

Exhibit 33: Prices of Gold contract (10gms of Gold)

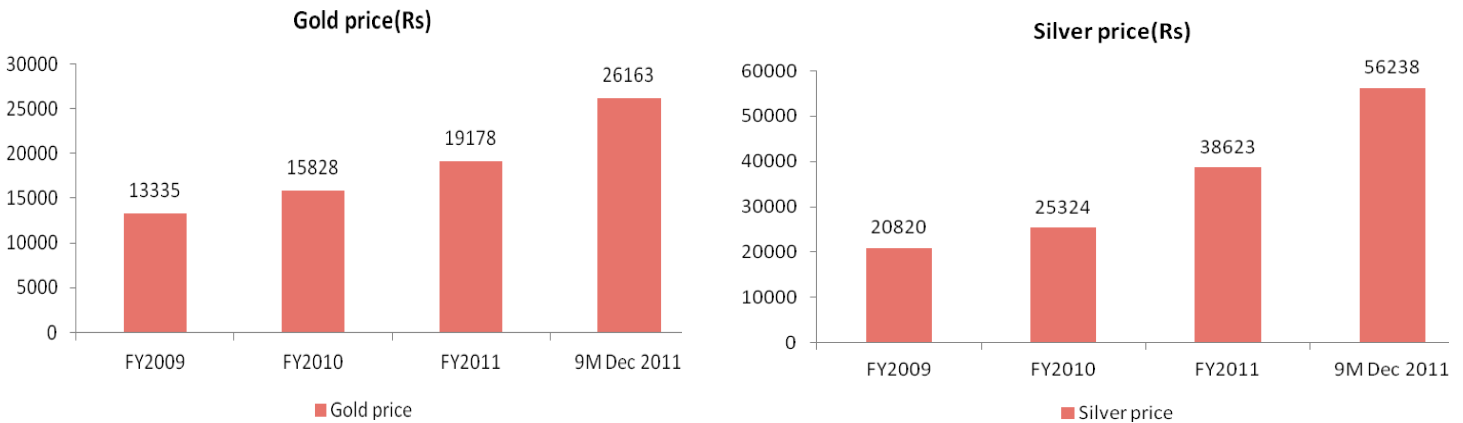
Price of Silver (One Kg Contract)



Source: Company, Sunidhi Research

Exhibit 34: Average price of Gold during the year

Average Price of silver during the year



Source: Company, Sunidhi Research

Revenue model driven around value of the contracts traded

MCX revenue model is based on the value of the contracts traded on its exchange and hence benefited substantially from the surge in the commodity prices over the past three quarters. While the total turnover on the exchange is determined by the number of contracts traded and the average prices of the contracts the exchange has benefited from both the uptick in trading volumes and a surge in commodity prices.



Options trading if Introduced could boost volumes

Exhibit 35: Half year break up of futures and Options contracts

In mn contracts	Jan - June 2010	Jan - June 2011
Futures	5699	6098
Options	5554	6303
Total Volumes	11253	12401
% Share of futures	50.6%	49.2%
% Share of options	49.4%	50.8%

Source: Company, Sunidhi Research

Exhibit 36: Break up in various asset classes

	Jan - June 2010	Jan - June 2011
Equity Index	3652	4165
Individual equity	3321	3525
Interest rates	1659	1853
Currency	1239	1513
Commodities	1379	1345
Total	11252	12401
Equity Index	32.5%	33.6%
Individual equity	29.5%	28.4%
Interest rates	14.8%	14.9%
Currency	11.0%	12.2%
Commodities	12.3%	10.8%

Source: Company, Sunidhi Research

- Option trading is currently not allowed in India and FMC has approved introduction of Options in commodities and the bill is awaiting parliament approval over the past four years. Global options account to around 15%-25% of the total traded volume in commodity derivatives and MCX is likely to benefit if the parliament approves option trading in commodities in India.
- MCX could head start in option trading if the bill is passed in the parliament as it has the requisite products and technology ready which would lead to a low gestation period for launch post the regulatory approval.

Exhibit 37: Options as a Total contracts traded in various commodity exchanges

Contracts in mn	Exchange	Options contracts	Total Contracts	Options as a % Total contracts
Americas	CME Group	121	730	16.7%
Americas	ICE Futures U.S.	14.4	59.4	24.3%
Europe, Africa, Middle East	ICE Futures Europe	0.6	211	0.3%
Europe, Africa, Middle East	London Metal Exchange	7.02	111.1	6.3%

Source: Company, Sunidhi Research



New Product portfolio to add to revenue momentum

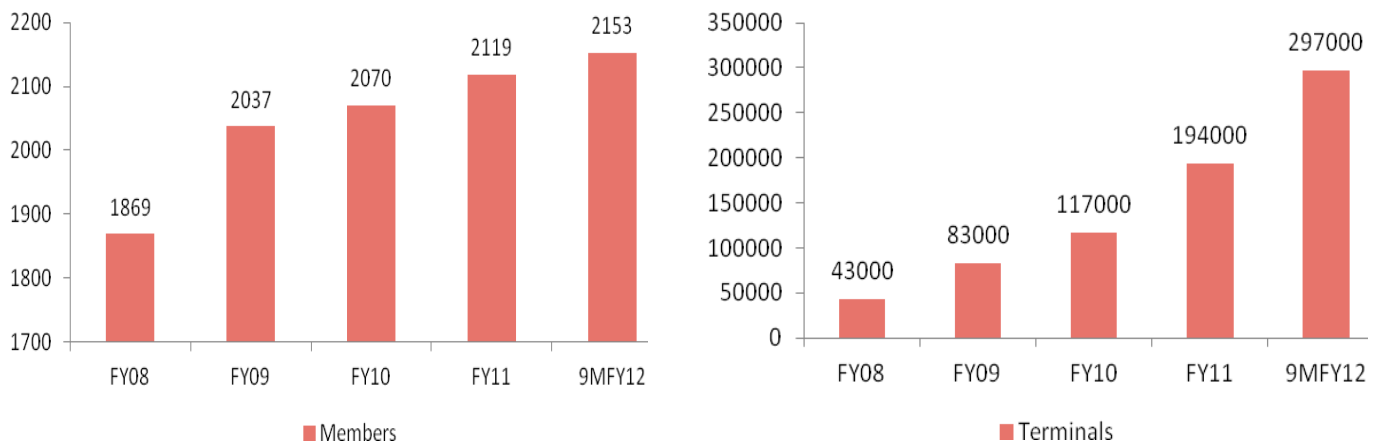
- MCX has launched MCXCOMDEX, India’s first real time composite commodity futures index, which provides information regarding market movements in the key commodities. MCX has also introduced several other indices, including MCX Agri (agricultural commodities index), MCX Energy (energy Commodities index) and MCX Metal (metal commodities index).
- The exchange also have three rain indices, namely RAINDEXMUM (Mumbai), RAINDEXIDR (Indore), and RAINDEXJAI (Jaipur) which track the progress of monsoon rains in their respective geographic locations.
- If the parliament approves trading in commodity indices this could as well act as additional revenue stream for the exchange.

FCRA bill approval could increase corporate participations

- Currently the major corporates hedge in global exchanges due to the lack of depth in far month contracts in MCX. However if FCRA bill is approved it would bring in institutional participation in MCX which could increase liquidity in far month contracts as well and reduce impact cost in the exchange. Hence FCRA bill approval could act as a substantial boost to the liquidity of the exchange.

Strong Expansion in membership base and terminals

Exhibit 38: Members and Terminals of MCX



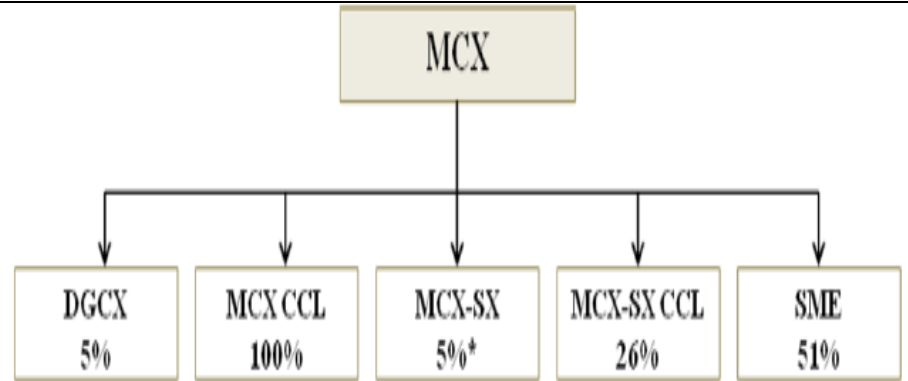
Source: Company, Sunidhi Research

- MCX has seen strong growth in members registered with the exchange as well as Number of Terminals.
- The Exchange added over one lakh terminals in the past one year itself which could gain traction in volume over the coming period and drive the overall volumes on the exchange.



Subsidiaries have potential for strong value Unlocking

Exhibit 39: MCX corporate structure

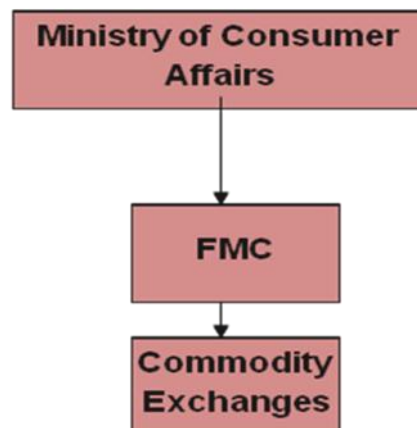


*MCX holds 634,170,000 warrants issued by MCX-SX pursuant to the Scheme.

- MCX holds 5% in MCX-SX which is currently awaiting regulatory approval to launch its equity exchange in India. MCX- SX is in Litigation with SEBI regarding the launch of equity exchange in India on account of ownership structure issues. Though MCX-SX has only 5% stake in MCX-SX, it has warrants to the tune of 33% of the current equity capital which could be sold at a future date at a premium to another entity (MCX cannot convert warrants in its own name). MCX-SX case is currently being heard in Supreme court which has directed SEBI to make necessary amendments to the MIMPS guidelines within three months.
- We believe that if an amicable settlement is reached with SEBI and MCX-SX launches equity trading exchange this could be a substantial boost to the overall valuation of MCX-SX.
- MCX-SX currently offers currency futures in which it competes with NSE and has a market share of over 35% of volume in currency derivatives.

Regulatory actions could impact exchange business in India

Exhibit 40: Regulatory framework of Commodity Exchanges



Source: Company, Sunidhi Research



- Commodity exchanges in India are regulated by Forward market commission (FMC) which is further supervised by Ministry of Consumer affairs. The five major national exchanges are Multi Commodity Exchange of India Ltd., Mumbai, National Commodity & Derivatives Exchange Ltd., Mumbai, National Multi Commodity Exchange of India Limited., Ahmedabad, Indian Commodity Exchange Limited, New Delhi, Ace Derivatives and Commodity Exchange Limited, Mumbai.
- There are sixteen regional exchanges which include Bikaner Commodity Exchange Ltd., Bikaner Bombay Commodity Exchange Ltd., Vashi Chamber Of Commerce, Hapur Central India Commercial Exchange Ltd., Gwalior Cotton Association of India, Mumbai, East India Jute & Hessian Exchange Ltd., Kolkata, First Commodities Exchange of India Ltd., Kochi, Haryana Commodities Ltd., Sirsa, India Pepper & Spice Trade Association., Kochi, Meerut Agro Commodities Exchange Co. Ltd., Meerut, National Board of Trade, Indore, Rajkot Commodity Exchange Ltd., Rajkot, Rajdhani Oils and Oilseeds Exchange Ltd., Delhi, Surendranagar Cotton oil & Oilseeds Association Ltd., Surendranagar, Spices and Oilseeds Exchange Ltd. Sangli, Vijay Beopar Chamber Ltd., Muzaffarnagar
- The ministry has in earlier instances banned trading in certain agri commodities like Gaur, Guar seed, okra , Sugar citing speculation.

Cyclical nature of business leads to volatility in revenue trends

- Exchange business globally is a highly cyclical business with volumes traded getting impacted in cyclical downturns. Commodity prices fluctuation also plays a major contributor to turnover based on value in the exchange business.
- Hence revenue growth tends to be volatile albeit global exchanges tend to sustain their high EBIDTA margin due to the non linear nature of the business.
- We present case studies of some major exchanges across the globe.



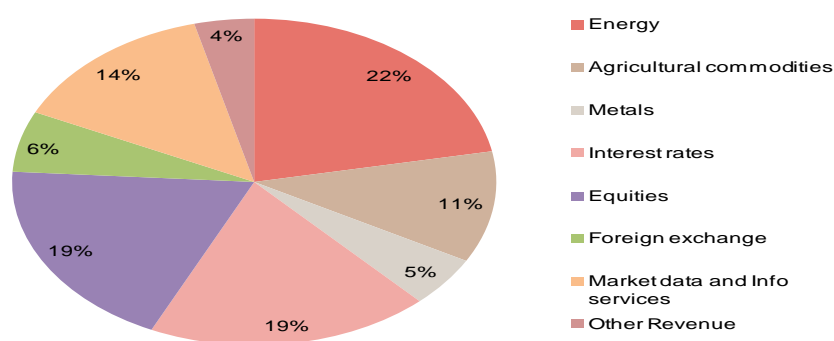
Global Players trends

CME Group – world's largest commodity exchange

As the world's leading and most diverse derivatives marketplace, CME Group is where the world comes to manage risk. CME Group exchanges offer the widest range of global benchmark products across all major asset classes, including futures and options based on interest rates, equity indexes, foreign exchange, energy, agricultural commodities, metals, weather and real estate. CME Group brings buyers and sellers together through its CME Globex electronic trading platform and its trading facilities in New York and Chicago.

Revenue mix of CME based on portfolio

Exhibit 41: Portfolio mix of CME



Source: Company, Sunidhi Research

Exhibit 42: Operating Metrics of CME

	CY2006	CY2007	CY2008	CY2009	CY2010	CY2011
Total Notional Value(in USD Trillions)	824	1134	1227	813	994	1068
% Growth		37.6%	8.2%	-33.7%	22.3%	7.4%
Total Trading Volume (In thousands)	1341111	2249632	2978459	2584891	3078149	3386716
% Growth		67.7%	32.4%	-13.2%	19.1%	10.0%
Total Average Daily Volume(In thousands)	5343	11134	12775	10258	12167	13439
% Growth		108.4%	14.7%	-19.7%	18.6%	10.5%

Source: Company, Sunidhi Research

Exhibit 43: Profit statement of CME

Fig in USD mn	CY2006	CY2007	CY2008	CY2009	CY2010	CY2011
Total revenues	1089	1756.1	2561	2612	3003	3280
% Growth		61.1%	45.8%	2.0%	15.0%	9.2%
Operating income	622	1051.9	1582.2	1589.1	1831.1	2021.1
EBIT margin (%)	57.1%	59.9%	61.8%	60.8%	61.0%	61.6%

Source: Company, Sunidhi Research

- It can be observed that trading volumes shrank in CY2009 due to the recession as well as weakness in financial markets. This has also led to lower revenue growth for CME group in CY2009.

**Singapore Exchange: SGX (One of largest Asian equities exchange)**

Singapore Exchange (SGX) is the Asian major exchange connecting investors to Asian growth to corporate issuers in search of global capital. SGX represents the premier access point for managing Asian capital and investment exposure and is Asia's most internationalized exchange with more than 40% of companies listed on SGX originating outside of Singapore. SGX offers its clients Asia's broadest span of equity index derivatives, uniquely centered on Asia's three largest economies – China, India and Japan.

In addition to offering a fully integrated value chain from trading and clearing, to settlement and depository services, SGX is also Asia's pioneering central clearing house.

Revenue model of SGX**Exhibit 44: Profit statement of SGX**

Consolidated Statement of Income (USD mn)	2007	2008	2009	2010	2011
Revenues	460.8	615.2	476	512	528
% Growth		33.5%	-22.6%	7.6%	3.3%
EBIDTA	304.8	432	307.2	324	328
EBIDTA margin	66.1%	70.2%	64.5%	63.3%	62.2%
As a % of Total revenues					
Securities	49.7%	51.0%	40.4%	46.5%	43.9%
Derivatives	20.4%	20.4%	26.4%	20.6%	21.5%
Market data	4.7%	4.0%	5.6%	4.9%	4.9%
Member services and connectivity	3.8%	4.0%	4.9%	5.0%	5.9%
Depository servicers	9.4%	9.7%	12.4%	12.9%	13.8%
Issuer services	11.9%	10.8%	10.3%	10.1%	10.0%

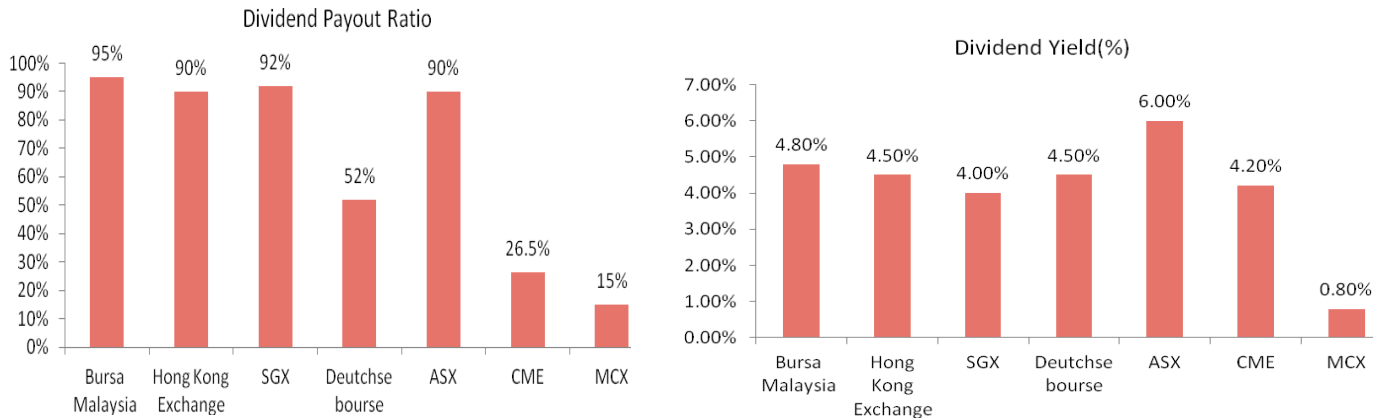
Source: Company, Sunidhi Research

- It can be observed that SGX has a diversified revenue stream which includes Securities, derivatives, Market Data, Depository services and Issuer services.
- The CY2009 slump in equities volumes has hit SGX revenues which posted a substantial decline due to drop in average traded value. The fall in revenues has also impacted the EBIDTA margins in the exchange negatively.
- One study of global exchanges hint that Revenues and Earning do have cyclicalities in the exchange business leading to steep P/E contraction (In downturns) and expansion in upturns.



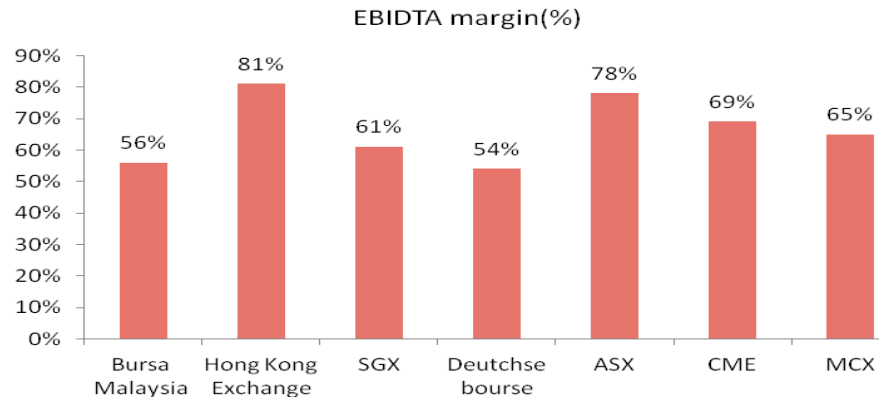
Global exchanges have high Dividend Payout ratios and EBIDTA margins

Exhibit 45: Dividend Payout ratio and Dividend Yield (%) of major global exchanges



Source: Company, Sunidhi Research

Exhibit 46: EBIDTA margins of Global exchanges



Source: Company, Sunidhi Research

- Exchanges tend to have low capital expenditure and negative working capital cycle enabling solid free cash flow generation. The major global exchanges pay a substantially higher dividend payout ratio with some exchanges like Bursa Malaysia, Hong Kong Exchange, SGX paying over 90% of the profits as dividends. Most of the exchanges are currently trading at a dividend yield of 4%-5%.
- Exchanges also have a non linear model and hence scale drives the EBIDTA margins higher. It can be observed that a majority of global exchanges have an EBIDTA margin of over 60%.



Comparative valuation

Exhibit 47: Comparative valuation of various exchanges

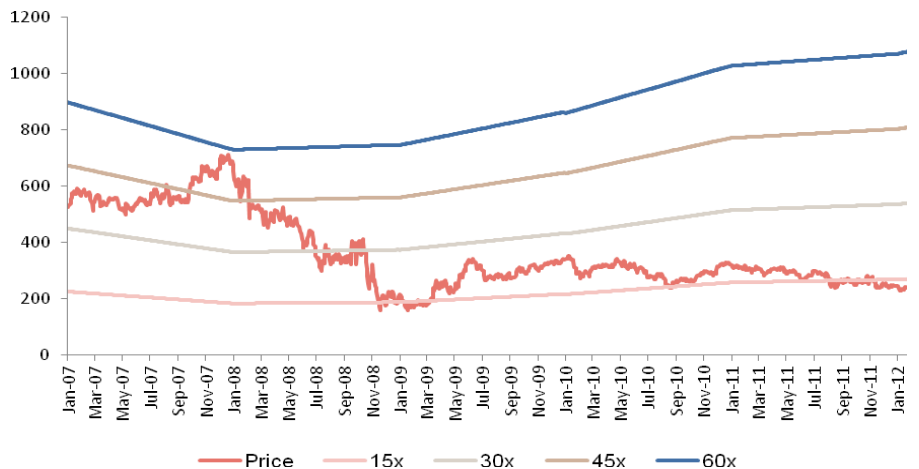
	P/E ratio		EV/EBIDTA ratio		ROE	
	FY13/CY12	FY14/CY13	FY13/CY12	FY14/CY13	FY13/CY12	FY14/CY13
MCX	17.0	16.0	11.0	9.0	26.8	25.6
HK Exchange	25.1	22.7	14.2	12.5	54.6	55.7
Singapore Exchange	22.5	20.4	15.5	14.1	36.5	41.06
ASX LTD	15.3	14.2	10.1	9.4	11.5	12.2
CME Group	15.6	13.1	8.5	7.6	6.0	5.9
ICE	16.2	14.4	9.2	8.3	17.1	17.1
NYSE EuroNext	11.5	9.1	7.8	6.8	8.4	9.6
Deutsche Boerse	9.7	8.7	7.0	6.6	24	23.8

Source: Company, Sunidhi Research

- Exchanges globally command rich valuations on account of strong free cash flow generation, robust EBIDTA margins and strong dividend payout ratios. The other factors determining the valuations of the exchange include portfolio of asset class traded on the exchange, growth in volume contracts etc.
- Exchange stocks also trade at a wide P/E band considering the volatility on the revenue front due to fluctuation in traded value in the exchanges. It can be observed that CME (One of the world’s largest exchange) traded at a wide P/E band of 14x -30x on Forward earnings depending on the health of the financial markets.

CME Group P/E chart

Exhibit 48: CME one year forward P/E Chart

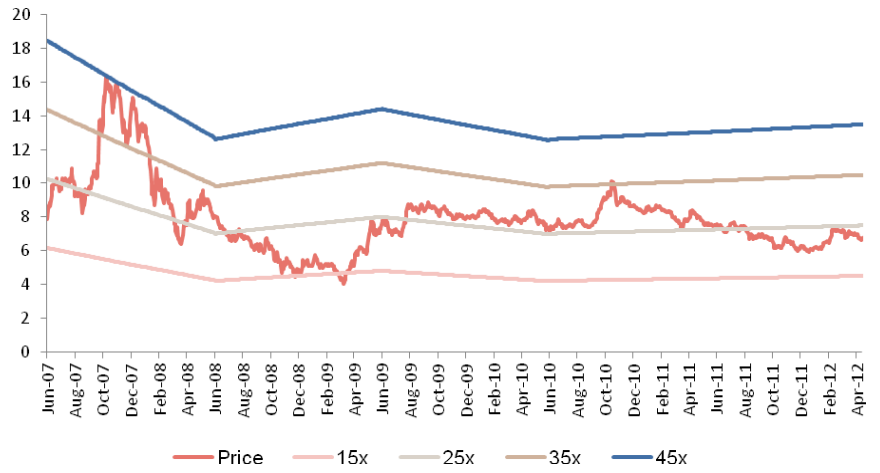


Source: Company, Sunidhi Research



SGX group P/E chart

Exhibit 49: SGX P/E chart



Source: Company, Sunidhi Research

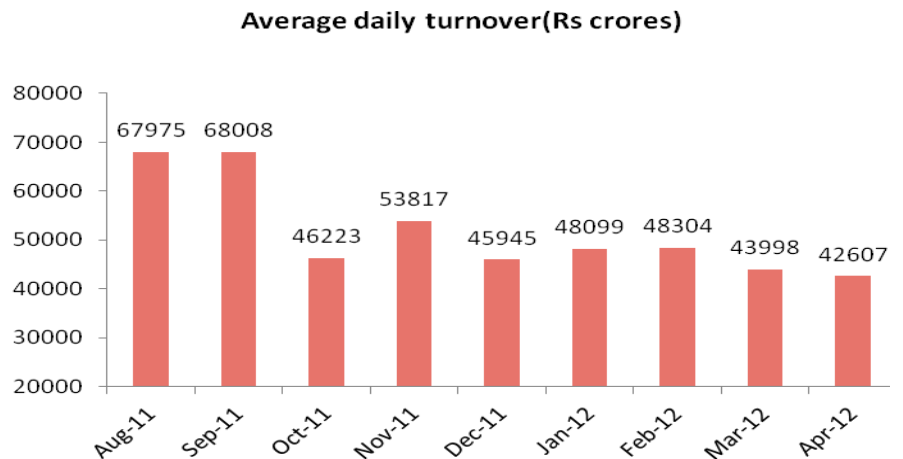
- It can be observed from the above charts that both the exchanges (CME and SGX) have seen a steep correction in the stock prices from January 2008 to December 2008 driven by the turmoil of financial markets. This has led to steep shrinkage in the P/E multiples of the stock due to the lower transaction value in the exchange.

**Valuation and Price Target Derivation****Sensitivity of EPS to Turnover and Transaction charges****Exhibit 50: Sensitivity of MCX FY13E EPS to growth in average daily Turnover and average transaction charge**

		% change in average transaction fees											
		59.0	-5%	-4%	-3%	-2%	-1%	0%	1%	2%	3%	4%	5%
% growth/(decline) in average daily turnover	-15%	44.9	45.3	45.8	46.3	46.8	47.3	47.8	48.3	48.8	49.3	49.8	49.8
	-10%	47.6	48.1	48.7	49.2	49.7	50.2	50.8	51.3	51.8	52.3	52.9	52.9
	-5%	50.4	50.9	51.5	52.1	52.6	53.2	53.7	54.3	54.8	55.4	55.9	55.9
	0%	53.2	53.7	54.3	54.9	55.5	56.1	56.7	57.2	57.8	58.4	59.0	59.0
	5%	55.9	56.5	57.2	57.8	58.4	59.0	59.6	60.2	60.8	61.4	62.0	62.0
	10%	58.7	59.3	60.0	60.6	61.3	61.9	62.5	63.2	63.8	64.5	65.1	65.1
	15%	61.5	62.1	62.8	63.5	64.1	64.8	65.5	66.2	66.8	67.5	68.2	68.2
	20%	64.2	64.9	65.6	66.3	67.0	67.7	68.4	69.1	69.8	70.5	71.2	71.2

Source: Company, Sunidhi Research

- MCX Earnings are very much sensitive to the average daily turnover in the exchanges. Our base case assumptions include a 5% Growth in average daily turnover and stable transaction fees charges by the exchange which yields an EPS of ₹59/share.
- However if the turnover remains stable (with no growth) our FY13E earnings could be downgraded by 5% as compared to our current estimates.

Exhibit 51: Average daily Turnover

Source: Company, Sunidhi Research

- Our Average daily turnover assumption for FY13E is ₹52828Crores which is a growth of 5% on a YoY basis. However this is 24% higher than the turnover generated by the exchange in the month of April 2012 and 15% higher than the average turnover over the past five months.
- Hence if turnover remains at the past five month average (Rs45772crores per day) our FY13E EPS would be downgraded by as much as 14%.This hints that earnings are very much sensitive to the trend in the Turnover in the exchange.



Price Target Derivation

We expect MCX to report a revenue growth of 7.3% CAGR (FY12-FY14E) and EPS growth of 9% CAGR (FY12-FY14E). However considering the multiple growth triggers ahead like FCRA bill approval, comparatively nascent stage of commodity exchanges in India (vs equity markets) and possible outcome of MCX-SX litigation with SEBI, we value MCX at a higher P/E multiple of 20x on FY14E EPS of ₹66.1/Share which yields a target price of ₹1320/Share. Initiate coverage with Buy.

Exhibit 52: MCX Valuation

EPS for FY14E	66.1
Target P/E Multiple	20
Target Price	1320

Source: Sunidhi Research

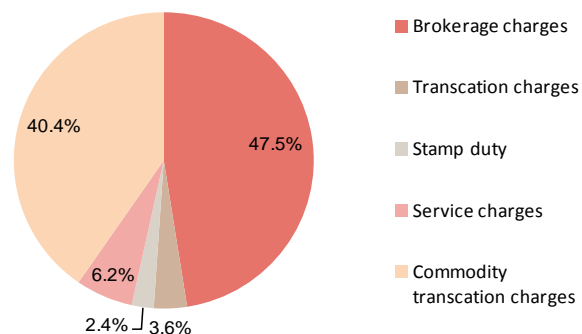
Risk Factors

a) Execution charges could go up steeply if CTT is implemented

If Commodity transaction tax is imposed the cost of executing an order could go up and hence impact volumes traded on the exchange negatively. However we believe that the commodity exchanges are still in evolution phase and imposition of CTT might drive volumes to other global exchanges outside India. As CTT has not been mentioned in the recent budget we do not consider this as a concern at least in the near term. Albeit we study the cost of execution of an order post CTT implementation.

Exhibit 53: Impact on execution charges if CTT is implemented in India

Execution expenses in India	Charges
Brokerage charges	0.02% ₹ 20 on ₹ 1 Lakh Turnover
Transaction charges	₹ 1.5 for ₹ 1 Lakh Turnover
Stamp duty	0.00% ₹ 1 on ₹ 1 Lakh of Turnover
Commodity transaction charges	0.017% ₹ 17 on ₹ 1 Lakh of Turnover
Service charge on Brokerage fees (12.36%)	₹ 2.42 on ₹ 1 Lakh Turnover
Service tax on Transaction fees (12.36%)	₹ 0.18 on ₹ 1 Lakh Turnover



Source: Company, Sunidhi Research



b) Government Intervention in select Agri commodities

MCX derives a miniscule 4%-5% of its total turnover from Agri related commodities. The government has earlier banned trading in select commodities like Gaur seed, Guar gum for a certain period of time citing speculation in the same. In selective instances, the FMC has put client wise open interest limits on select agri commodities to curb excessive speculation. However we believe that the impact on MCX would be minimal considering its low exposure to agri commodities. However a more drastic impact on account of Government intervention would be felt on NCDEX which derives a lion's share of turnover from Agri commodities.

**Valuations Summary**

Year End-March	FY10	FY11	FY12E	FY13E	FY14E
Per share (₹)					
EPS	54.1	34.6	55.6	59.0	66.1
CEPS	60.2	38.8	61.4	64.5	71.9
BVPS	170.8	166.4	202.4	237.9	277.7
DPS	5.0	5.0	17.2	20.1	22.5
Payout (%)	9%	15%	31%	34%	34%
Valuation (x)					
P/E	19.0	29.8	18.5	17.5	15.6
P/BV	6.0	6.2	5.1	4.3	3.7
EV/EBITDA	31.8	22.1	11.8	10.8	9.0
Dividend Yield (%)	0.5%	0.5%	2%	2%	2%
Return ratio (%)					
EBITDA Margin	49.3	52.0	64.2	63.6	64.3
PAT Margin	76.8	47.8	54.1	53.7	54.1
ROAE	37.1	22.8	30.1	26.8	25.6
ROACE	37.1	22.8	30.1	26.8	25.6
Growth Ratios (%)					
Income growth	35.3	28.4	42.1	4.0	10.7
EBITDA growth	85.3	35.5	75.6	3.1	11.9
PAT growth	41.5	-20.2	60.8	6.2	12.0

Income Statement(₹ mn)

Year End-March	FY10	FY11	FY12E	FY13E	FY14E
Revenues	2874	3689	5243	5453	6038
Op. Expenses	1458	1771	1875	1983	2154
EBITDA	1416	1918	3367	3470	3883
Other Income	2063	787	962	1109	1229
Depreciation	247	247	273	282	299
EBIT	3231	2458	4057	4297	4814
Interest	0	0	0	0	0
PBT	3231	2458	4057	4297	4814
Tax	1023	726	1197	1289	1444
PAT	2208	1731	2860	3008	3369
Minority	3	3	1	0	0
Ex. ordinary	-2	29	-27	0	0
Adj Pat	2208	1763	2834	3008	3369

Source: Company, Sunidhi Research

Balance Sheet (₹ mn)

Year End-March	FY10	FY11	FY12E	FY13E	FY14E
Sources of Funds					
Equity Share Capital	408	510	510	510	510
Reserves & Surplus	6560	7979	9810	11622	13651
Net Worth	6968	8488	10320	12132	14161
Loan Funds	0	0	0	0	0
Deferred Tax Liability	106	127	157	157	157
Capital Employed	7074	8616	10477	12289	14318
Application of Funds					
Gross Block	2679	2917	3117	3317	3517
Less: Depreciation	754	964	1236	1509	1791
Net Block	1925	1953	1880	1808	1726
WIP	3	0	0	0	0
Net Fixed Assets	1928	1953	1880	1808	1726
Investments	6170	8237	10958	10958	10958
Current Assets					
Debtors	304	489	575	657	695
Cash	2701	3,312	3,159	5,457	8,197
Others	1186	1,010	1,162	1,095	1,200
Current Liabilities					
Creditors and provisions	5214	6385	7257	7687	8458
Net Current Asset	-1024	-1575	-2361	-477	1634
Total	7074	8616	10477	12289	14318

Cash flow Statement

Year End-March	FY10	FY11	FY12E	FY13E	FY14E
PBT	3231	2458	4057	4297	4814
Depreciation	247	247	273	282	299
Others	-1824	-539	-962	-1109	-1229
CF before W.cap	1654	2165	3367	3470	3883
Inc/dec in W.cap	-2019	1080	664	414	629
Op CF after W.cap	-365	3245	4031	3884	4512
Less Taxes	-553	-546	-1197	-1289	-1444
Net CF From Operations	-919	2700	2833	2595	3068
Inc/(dec) in F.A + CWIP	-96	-312	-200	-200	-200
(Pur)/sale of Investments	463	-1996	-1758	1109	1229
CF from Invst Activities	366	-2309	-1958	909	1029
Loan Raised/(repaid)	0	0	0	0	0
Equity Raised	0	0	0	0	0
Dividend	-239	-238	-1028	-1197	-1340
CF from Fin Activities	-239	-238	-1028	-1197	-1340
Net inc/(dec) in cash	-791	153	-153	2307	2757
Op. bal of cash	1765	485	3312	3159	5466
Cl. balance of cash	974	638	3159	5466	8223

Source: closing cash does not match as per balance sheet as some cash is considered in investments



Sunidhi's Rating Rationale

The price target for a **large cap stock** represents the value the analyst expects the stock to reach over next 12 months. For a stock to be classified as **Outperform**, the expected return must exceed the local risk free return by at least 5 over the next 12 months. For a stock to be classified as **Underperform**, the stock return must be below the local risk free return by at least 5 over the next 12 months. Stocks between these bands are classified as **Neutral**.

(For Mid & Small cap stocks from 12 months perspective)

BUY	Absolute Return >20
ACCUMULATE	Absolute Return Between 10-20
HOLD	Absolute Return Between 0-10
REDUCE	Absolute Return 0 To Negative 10
SELL	Absolute Return > Negative 10

Apart from Absolute returns our rating for a stock would also include subjective factors like macro environment, outlook of the industry in which the company is operating, growth expectations from the company vis a vis its peers, scope for P/E re-rating/de-rating for the broader market and the company in specific.

SUNIDHI SECURITIES & FINANCE LTD

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