

Investment idea

September 28, 2012

MCX Ltd

Financial Technologies promoted **Multi Commodity Exchange** is a **market leader** in India's burgeoning commodity derivatives market. Its journey of becoming a dominant commodity exchange with **86% market share** has been fascinating. Interestingly, the next largest player has only 10% market share.

The domestic commodity derivatives market after being opened up in 2003 has witnessed **robust 85% CAGR** in turnover. This was driven by widening commodity portfolio and rising interest in hedging and speculation due to increasing price volatility. In the aforesaid time, **MCX registered a much stronger 200% CAGR in its turnover**.

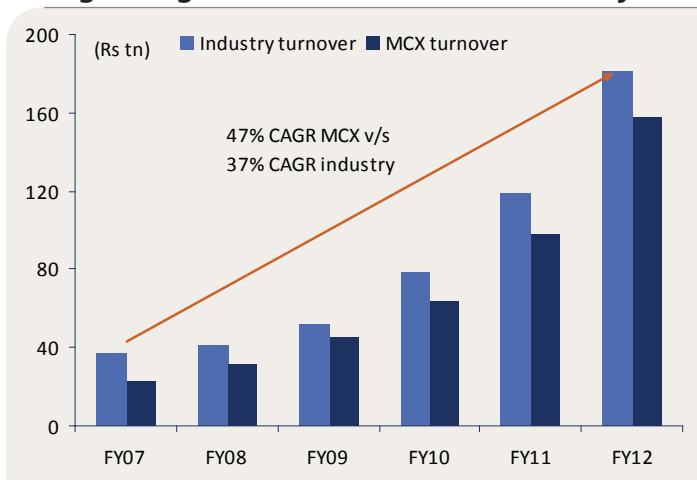
MCX's **strategic initiatives** of building a globally referable commodity portfolio, product innovation, global strategic alliances and cutting edge trading technology helped it garner a dominant market share. More importantly, **trading depth/liquidity has substantially improved** and remains a cornerstone of its dominance.

Aided by increasing turnover and fixed cost leverage, MCX's **OPM has seen tremendous expansion**; doubling to 63% over FY08-12. With further room for capacity utilization improvement, **margin will most likely be sustained at elevated levels**. Lower capital requirements suggest stable to improving cash flows in future, possibly translating in higher dividend payouts.

The **opportunity for growth** remains huge given a much lower derivative turnover/total physical flow multiple of India versus the developed markets. For instance, gold turnover on MCX is just ~15x of the total physical flow in the economy versus 75-85x in the developed economies. Similar is the case for crude, aluminium, copper among others. Additionally, **positive regulatory announcements (passage of FCRA bill)** could open host of growth avenues.

We conservatively estimate revenue/earnings to witness 14%/15% CAGR over FY12-14 considering recent moderation in revenue growth. Current **valuation of 17.1x FY14E P/E** is inexpensive for

MCX growing faster than the overall industry



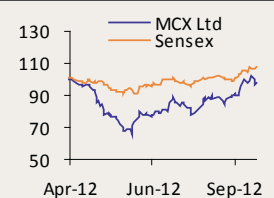
Source: Company, India Infoline Research

BUY
CMP ₹1,282

Sector: Financial Services

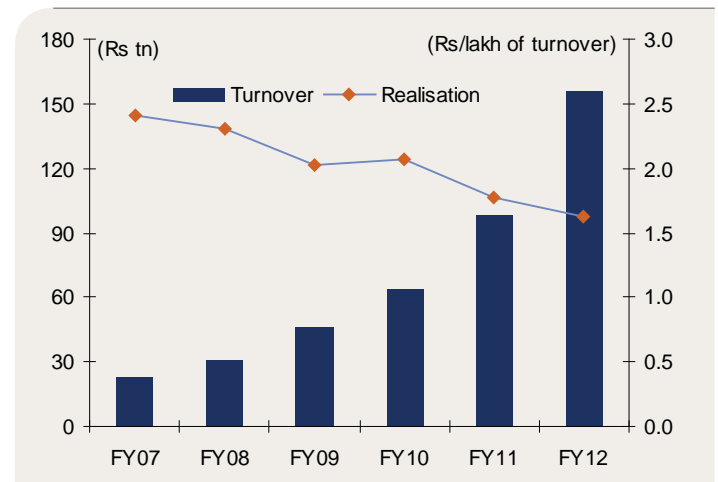
BSE code:	534091
NSE code:	MCX
52 Week h/l (₹):	1,426 / 838
Market cap (₹cr):	6,722
FV (₹):	10

Share price chart



a **secular growth story like MCX**; also attractive in comparison with emerging market peers. **Initiate with BUY and 9-month TP of ₹1,510**. Company's investment in MCX-SX can provide further upside to our price objective.

Turnover remained strong on the back of reduced transaction fees



Source: Company, India Infoline Research

Financial summary

Y/e 31 Mar (₹ m)	FY11	FY12	FY13E	FY14E
Revenues	3,689	5,262	5,791	6,833
yoy growth (%)	28.4	42.6	10.1	18.0
Operating profit	1,918	3,347	3,717	4,503
OPM (%)	52.0	63.6	64.2	65.9
Reported PAT	1,734	2,867	3,242	3,833
yoy growth (%)	(21.5)	65.4	13.1	18.2
EPS (₹)	34.0	56.2	63.6	75.2
P/E (x)	37.7	22.8	20.2	17.1
Price/Book (x)	7.7	6.6	5.6	4.8
EV/EBITDA (x)	32.4	18.6	16.6	13.2
RoE (%)	22.5	32.6	29.9	30.1
RoCE (%)	31.4	43.9	41.0	41.3

Source: Company, India Infoline Research

India Infoline Weekly Wrap

Market Outlook

Indian equity indices managed to extend the current winning streak, belying expectations of some softening, as FII inflows continued unabated. The Government too carried forward its reforms agenda by announcing relief package for the debt-ridden power sector. Also, the Centre said it will stick to its borrowing plan for FY13 and ruled out extra debt sales. India's benchmark 10-year bonds advanced the most in three weeks. The rupee rose versus the US dollar to touch a five-month high, while the stock indices hit 16-month highs. The broader market too joined the party.

However, the prospects for economic growth remain far from bright as inflation is sticky, borrowing costs remain high and capex cycle is yet to revive. The global backdrop also remains fragile despite repeated attempts by policymakers to rein in growth slowdown. From next week, short-term focus will be on latest corporate earnings even as markets await further policy action from the governments. Management guidance will be closely followed. One must exercise some caution at higher levels as there is every chance of a small correction after the recent spike.

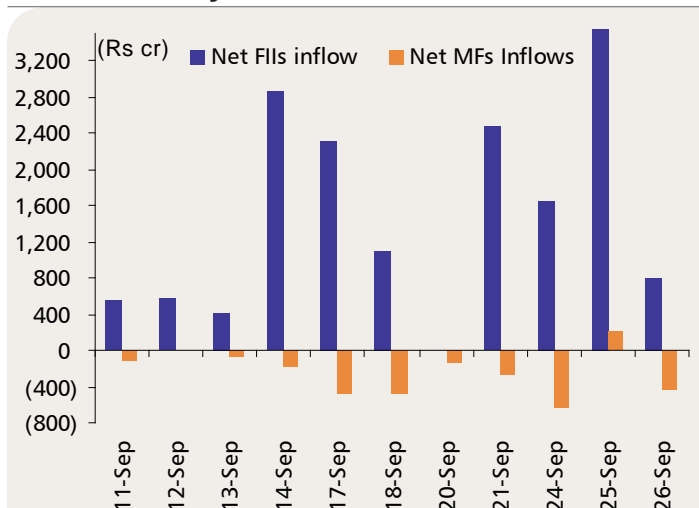
Technical View

Markets ended in green for fourth consecutive trading session and managed to close convincingly above 5650 levels despite jitters in the global markets. A 'doji star' like formation on the weekly charts at higher levels explains indecisiveness and move beyond 5650-5750 should be determining the directional move for markets. The market sentiments in past few days has turned extremely bullish with significant appreciation in rupee and from trading perspective the positive bias is likely to remain upbeat as long it sustains above 5650 levels.

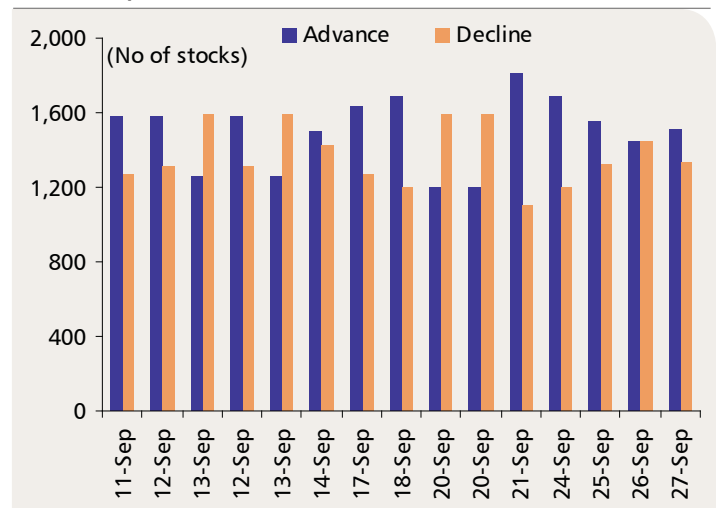
F&O View

Rollover in Nifty future stood at 64% which was in line with previous month rollover, while Bank Nifty rollover stood at 55% which was way beyond its previous expiry rollover. Highest open interest in Nifty options stood at 6000 Strike call and 5300 Strike put. Put writing was seen at 5600 strike which we fell may act as support for next week, while call writing was visible at 5900 strike. Range for nifty for the next week might be 5580-5820.

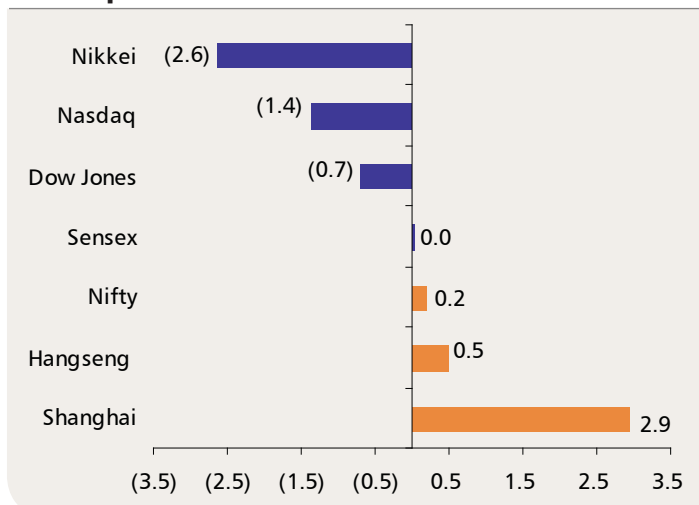
FII/MFs activity



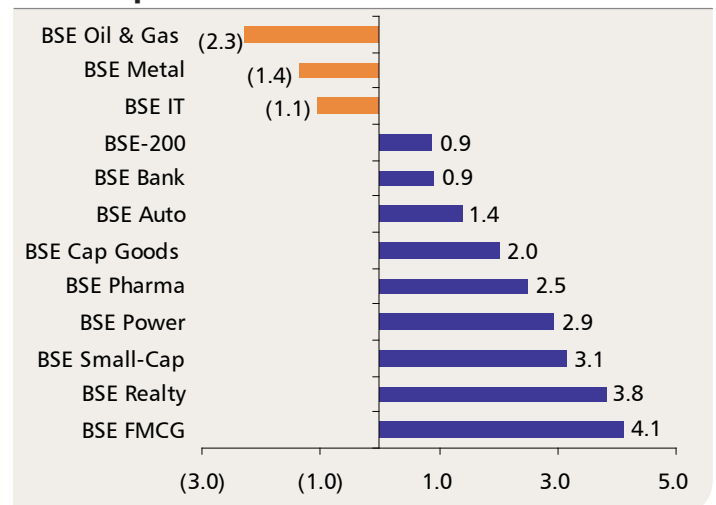
Advance/Decline



Global performance



Sectoral performance



India Infoline Weekly Wrap

Technical Check

Nifty 50 & CNX 500 top 10 gainers

NSE Nifty			CNX 500		
Company	CMP (₹)	% Chg	Company	CMP (₹)	% Chg
Reliance Cap	431	7.8	Arss Infra	60	33.2
M&M	863	6.7	EKC	36	26.0
ACC	1,470	6.6	NDTV	71	21.0
BHEL	247	6.2	Karuturi Global	5	20.0
Cipla	380	5.3	Reliance Media	80	17.2
RCOM	65	4.8	Pantaloon	214	17.2
Tata Power	107	4.2	Gujarat Gas	342	17.0
Kotak Mahindra	648	4.2	Ipca Lab	493	15.6
ITC	272	4.1	Oberoi Realty	266	15.1
Sun Pharma	696	4.0	Hikal	436	14.8

Nifty 50 & CNX 500 top 10 Losers

NSE Nifty			CNX 500		
Company	CMP (₹)	% Chg	Company	CMP (₹)	% Chg
SAIL	86	(7.7)	MTNL	32	(15.4)
Sesa Goa	171	(5.5)	Tulip Telecom	46	(14.4)
Cairn India	331	(5.3)	Kemrock Ind	87	(10.8)
ONGC	280	(4.9)	Polaris Fin	130	(7.7)
Bharti Airtel	266	(4.8)	SAIL	86	(7.6)
Sterlite Ind	100	(4.6)	Jet Airways	344	(6.5)
Tata Motors	267	(3.0)	Cairn India	331	(5.3)
Hero Motocorp	1,877	(2.4)	Graphite India	81	(4.9)
Tata Steel	400	(2.2)	Bharti Airtel	266	(4.8)
Infosys	2,539	(2.1)	IFCI	31	(4.5)

Technically strong

Company	CMP (₹)	10 days Moving Average (₹)	Total Traded Qty (lacs)	10 days Average Traded Qty (lacs)
Godrej Ind	287	279	1.5	0.8
United Phos	131	127	1.3	0.9
Ambuja Cement	202	195	2.1	2.0
Cipla	381	366	3.5	2.7
GSPL	81	77	4.6	1.8

Technically weak

Company	CMP (₹)	10 days Moving Average (₹)	Total Traded Qty (lacs)	10 days Average Traded Qty (lacs)
SAIL	85	87	5.5	3.8
Glaxosmithkline	1977	2012	0.0	0.0
Dr Reddy	1647	1675	1.2	0.2
Sterlite Ind	99	100	11.6	8.2
Opto Circuits	130	131	3.1	3.0

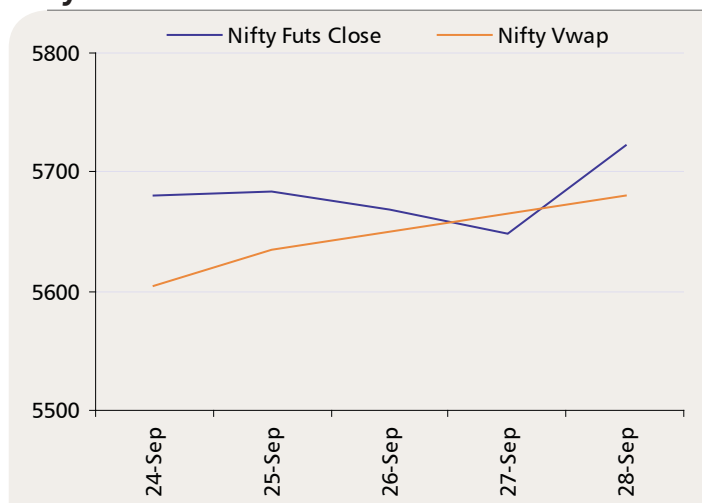
Bulk deals

Date	Institution	Scrip name	B/S	Qty (lacs)	Price (₹)
25-Sep	Merrill Lynch	EKC	B	6.5	34.0
25-Sep	Union Invst Luxe	IVRCL Infra	B	23.8	48.2
26-Sep	Tata Sons	Indian Hotels	B	46.3	62.3
27-Sep	Barclays Maur	Balrampur Chini	S	48.4	66.1
27-Sep	Franklin Templ	Gujarat Pipavav	B	45.6	50.3

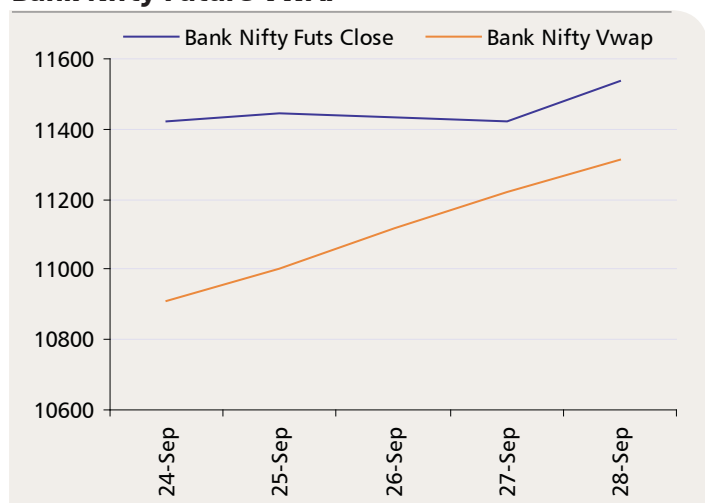
Book closure and record date

Company	Date	Purpose
Colgate Palmolive	01 Oct 2012	Interim Dividend
Patel Engr	01 Oct 2012	Final Dividend
Motherson Sumi	03 Oct 2012	BONUS 1:2
Bilpower	03 Oct 2012	Bonus 1:1
Reliance Cap	04 Oct 2012	Dividend
-	-	-

Nifty Future VWAP



Bank Nifty Future VWAP



India Infoline Weekly Wrap

Commodity Corner

Base metals

Base metals traded subdued this week, as persistent slowdown concerns across the globe dissuaded bulls from venturing into aggressive positions. In addition, concerns over debt woes in Europe led to profit taking in the complex. However, various initiatives by the central banks are providing some kind of support to the non-ferrous metals. In this regard, Spain has announced a comprehensive schedule for economic reforms, which has effectively strengthened Euro and the sovereign bond yields in the region have also moved lower. In addition, speculation regarding Chinese massive monetary expansion is also giving teeth to the bulls. In physical markets, China's spot treatment and refining charges were up 30% in the past month, as the supply of concentrate has increased.

Prevalence of countervailing forces has made it difficult for the market participants to bet on a one particular direction. In this regard, we have gloomy economic backdrop on one side and the impetus of monetary stimulus on the other. Such tug-of-war between the opposing forces gives rise to the food for thought "Who will prevail"? In the broader term, we infer that the intrinsic variables will overplay the exogenous factors and effectively expect softening of prices. On price action, LME Copper prices are struggling to sustain above US\$8,300/ton on a closing basis and the recent upside seems to be saturating.

Note: This market commentary is written at 12:30 PM IST

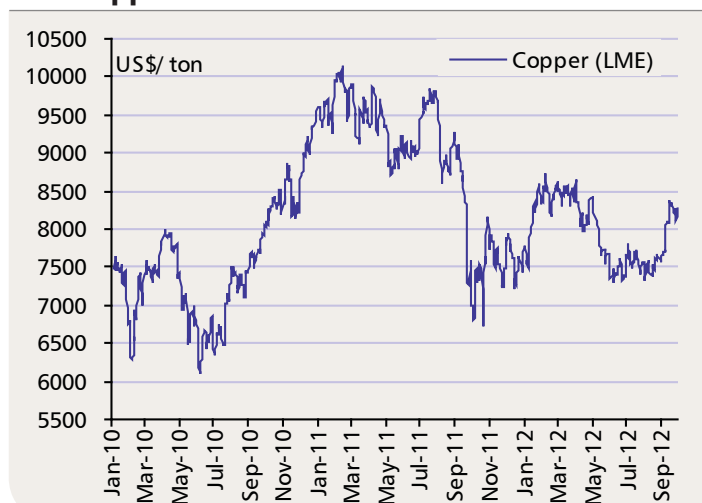
LME prices

Base Metals (US\$/ton)	High	Low	LTP*	Chg(%)
Copper	8,355	8,082	8,253	(0.3)
Nickel	18,675	17,800	18,619	2.4
Zinc	2,142	2,067	2,118	0.1
Aluminium	2,136	2,063	2,131	0.7
Lead	2,325	2,246	2,298	0.4

Precious Metals (US\$/ounce)	High	Low	LTP*	Chg(%)
Spot Gold	1,788	1,737	1,781	0.4
Spot Silver	35	33	35	0.6

* Last Traded Price

LME Copper



Precious metals

Precious metals traded on a mixed note this week, as multitude of factors left the traders indecisive in terms of price direction. The complex was under pressure after a U.S Federal Reserve Bank governor expressed suspicions regarding the efficacy of the monetary easing program. In Europe, uncertainty loomed over European debt markets as pressure is mounting on Spanish PM to resort for bailout due to deteriorating economic conditions. Colossal protests in Spain have reignited doubts regarding the resoluteness of the European officials to tackle the lingering woes. However at the end of the week, gold bugs garnered strength from the economic reforms announced by Spain. The nation has announced a budget for 2013, which focuses more on spending cuts and less on tax hikes. In the meantime, an audit of Spanish banks this week will reveal the amount which the nation will need to capitalise its beleaguered banks.

In the broader term, we expect the prevalent macro-environment to compel more monetary stimulus from various central banks across the globe, which implies having a buy side exposure to the yellow metal. Imperatively, if gold prices breach the US\$1,793/ounce level on a closing basis and sustains above it, this could translate in to an extension of the uptrend.

Weekly inventory update

	Tons	Abs Chg.	Chg (%)
Copper (LME)	219,400	(75)	(0.0)
Nickel (LME)	122,580	1,728	1.4
Zinc (LME)	991,375	11,325	1.2
Aluminium (LME)	5,055,850	(30,000)	(0.6)
Lead (LME)	267,700	(15,925)	(5.6)
Tin (LME)	12,255	265	2.2
Shanghai Copper	162,547	(4,282)	(2.6)
Shanghai Zinc	301,686	(639)	(0.2)
Shanghai Aluminium	402,005	5,530	1.4

COMEX Gold



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Mutual Fund Round-up

India Infoline picks

Mutual Funds	Assets (₹ Cr)	NAV (₹)	Absolute return (%) as on Sep 28, 2012							
			1wk	1mth	3mth	6mth	1yr	2yr	3yr	5yr
HDFC Top 200(G)	10,692	211.9	7.6	8.7	6.6	11.6	(6.3)	26.1	52.3	11.6
ICICI Pru Dynamic(G)	4,130	110.4	4.4	6.9	5.4	13.9	1.3	34.4	43.7	13.8
IDFC Sterling Equity(G)	1,061	20.2	4.5	10.7	13.2	13.6	2.7	52.4	-	13.5
Fidelity Tax Advt(G)	1,203	22.3	4.7	9.6	7.0	10.0	(5.1)	33.3	40.5	9.9
HDFC Prudence(G)	6,356	226.2	7.1	7.2	6.4	10.3	2.6	42.6	67.7	10.3
Reliance Equity Oppor-Ret(G)	3,193	41.0	7.4	12.4	14.3	22.3	5.5	60.7	64.1	22.2
IDFC Premier Equity-A(G)	2,345	36.1	6.8	10.6	11.6	12.8	2.7	54.0	86.6	12.8

Funds this week: HDFC Top 200 Fund

Fund snapshot		Asset allocation (%)	
Fund Manager	Prashant Jain	Equity	99.2
Latest NAV	₹211.9	Debt	0.0
NAV 52 high/low	₹212.3/168.1	Cash/call	0.8
Latest AUM (cr)	₹11,190	Top 5 holdings (%)	
Type	Open-ended	State Bank of India	8.2
Class	Equity - Diversified	ICICI Bank Ltd.	6.7
Options	Growth & dividend	ITC Ltd.	6.2
Min investment	₹5,000	Infosys	5.2
Benchmark	BSE 200	Larsen & Toubro	4.0
No. of stocks	66	Top 3 sectors (%)	
No. of sectors	30	Banks	26.7
Expense ratio	1.8%	Energy	13.9
Exit load	1% before 1 year	FMCG	8.5

Reliance equity opportunity fund

Fund snapshot		Asset allocation (%)	
Fund Manager	Shailesh Raj Bhan	Equity	97.4
Latest NAV	₹41.0	Debt	0.0
NAV 52 high/low	₹41.0/29.3	Cash/call	2.6
Latest AUM (cr)	₹3,473	Top 5 holdings (%)	
Type	Open-ended	Divi's Labs	7.8
Class	Equity - Diversified	HDFC	6.8
Options	Growth, Dividend & Bonus	SBI	4.9
Min investment	₹5,000	ICICI Bank	4.6
Benchmark	BSE 100	Infosys	3.9
No. of stocks	34	Top 3 sectors (%)	
No. of sectors	21	Healthcare	14.7
Expense ratio	1.85%	IT	11.8
Exit load	1% before 1 year	Banks - Private	7.3

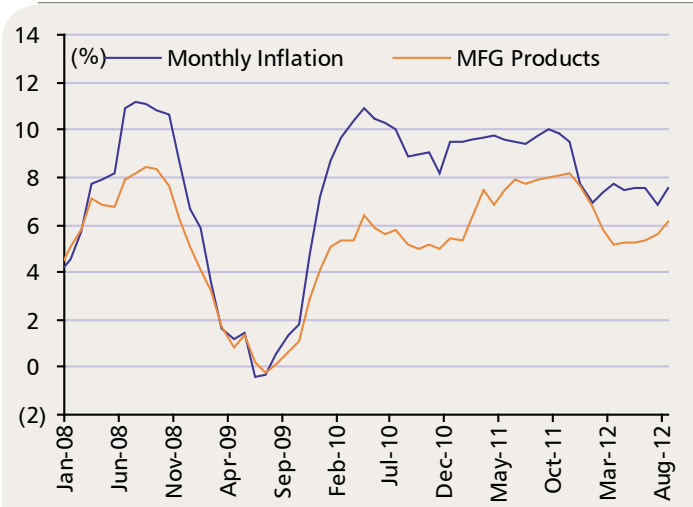
NFO update

Fund Name	Close	Type	Class
Birla SL CPOF Sr-11 (36M) (G)	10-Oct	CE	Debt

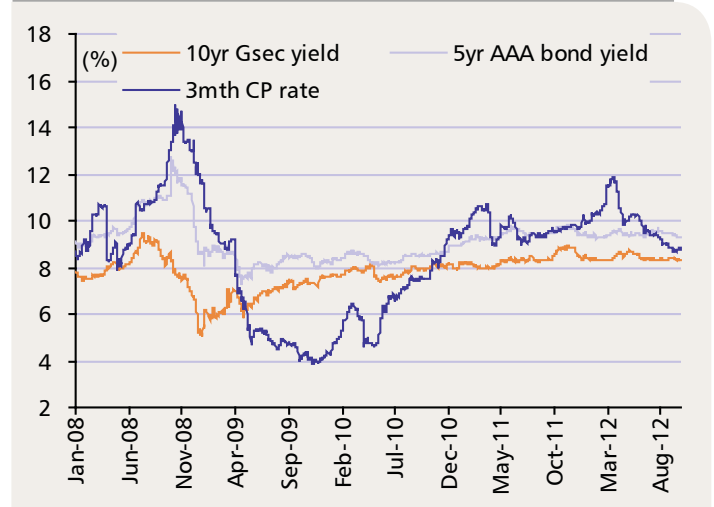
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Chartbook

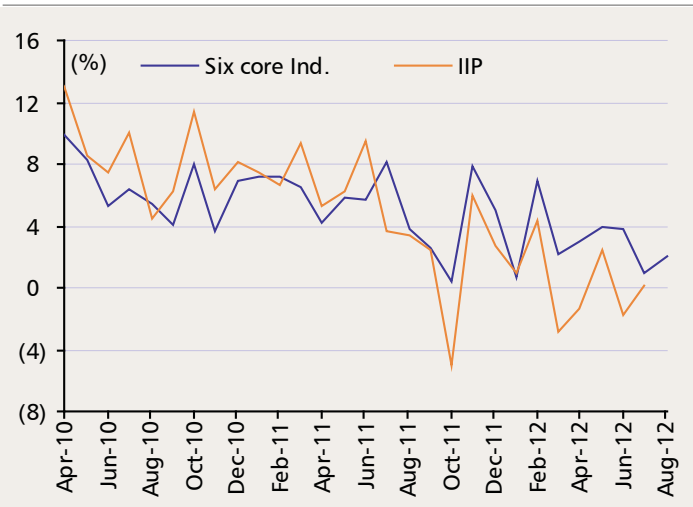
Inflation



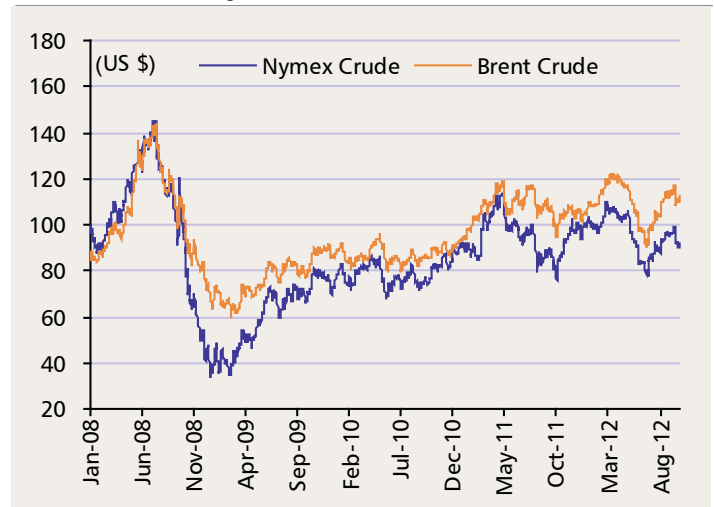
Interest Rate



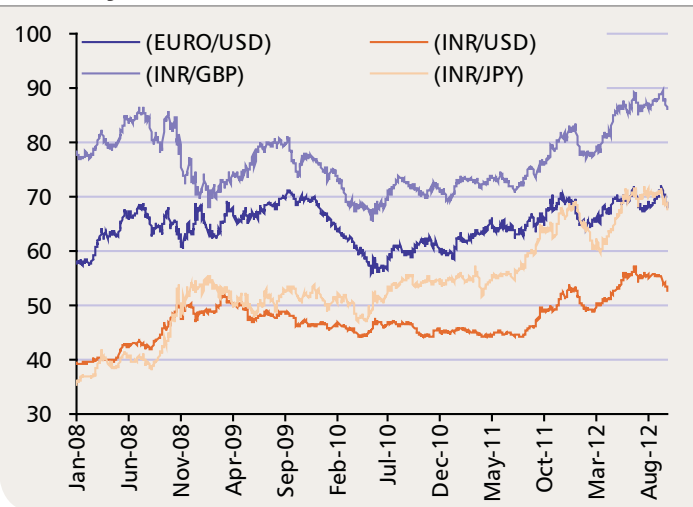
IIP and Six core Industries



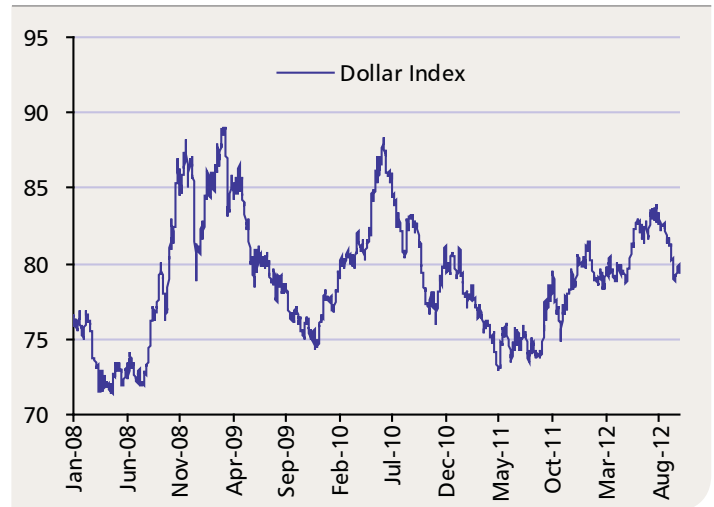
Crude (Brent/ Nymex)



Currency Movements



Dollar Index

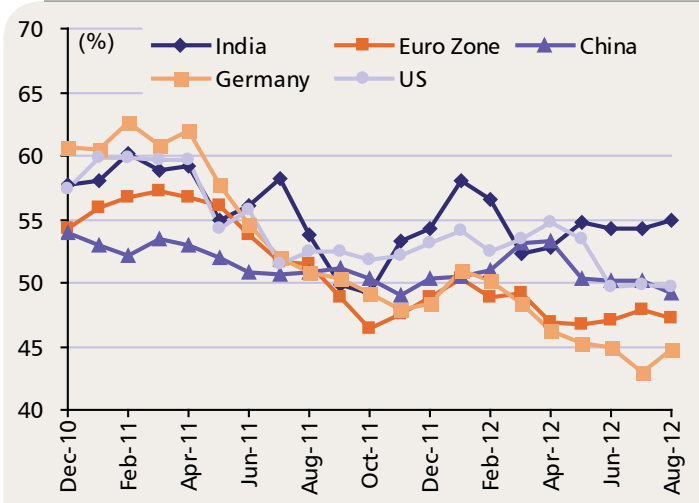


Source: Bloomberg

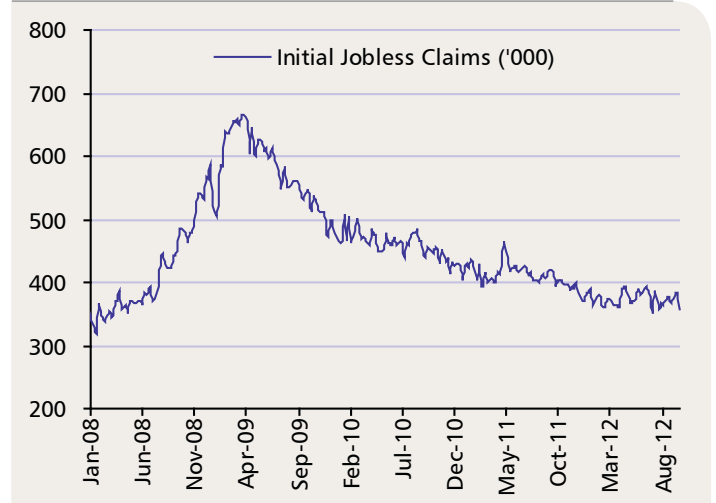
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Chartbook...

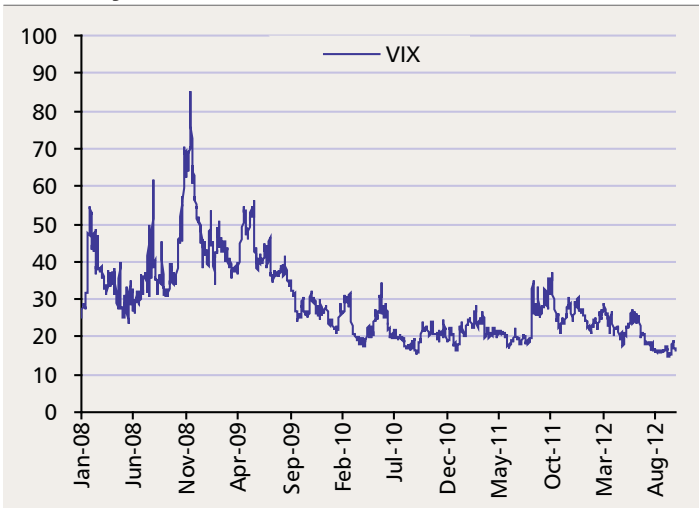
PMI



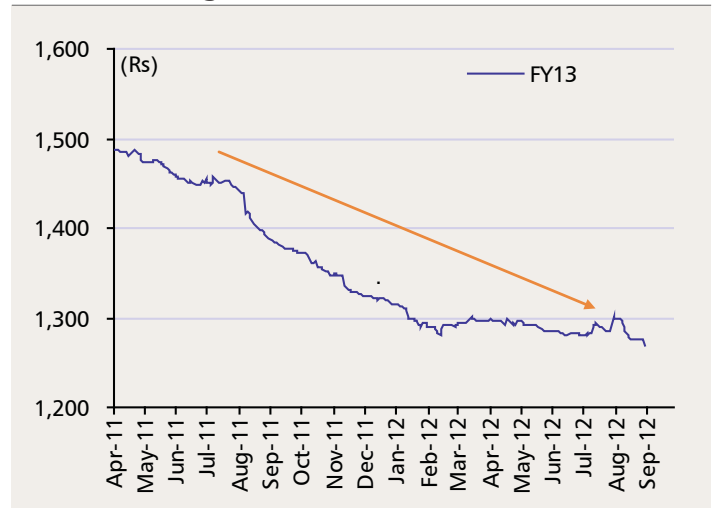
US Initial Jobless Claims



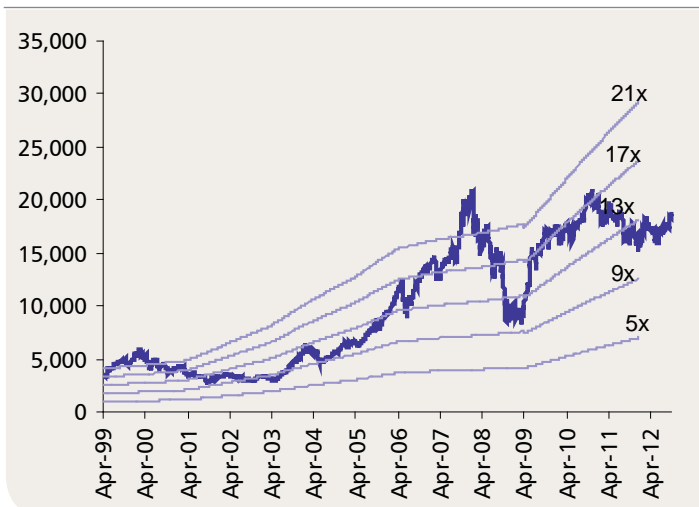
Volatility Index



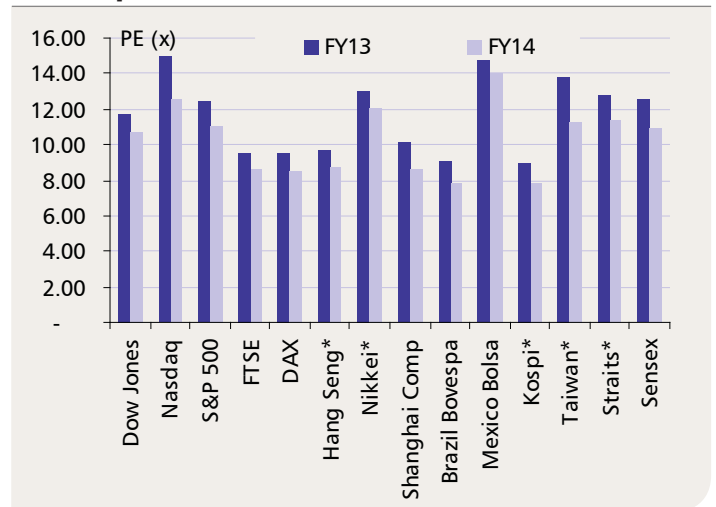
Sensex Earning Estimates



Sensex PE Band



PE Comparison



Source: Bloomberg

India Infoline Weekly Wrap

News Recap

The Supreme Court (SC) said that public auction is not the only permissible option for allocation of natural resources and that its Feb. 2 verdict is limited to the allocation of mobile-phone permits. The Government announced financial restructuring for debt-stricken power distributors but experts cautioned saying that implementation is going to be key. A GoM finalised the new pharmaceutical pricing policy, extending the coverage of price control from current 74 APIs to 348 APIs. The Govt stuck to its FY13 market borrowing programme for H2 FY13 and ruled out additional borrowings the remainder of FY13.

The rupee rose to a five-month high on the back of healthy global risk appetite. S&P cut India's GDP growth forecast to 5.5% while Moody's retained its 'stable' outlook on India's ratings. Congress Working Committee (CWC) supported the Government on its resolve to push ahead with unpopular reforms. But, rate cuts will have to wait after the RBI Governor said that inflation is still at unacceptable level. The Government also announced a small hike in AC train fares and freight services from Oct. 1. Govt said it sees 117.18 MT foodgrain production in Kharif season and told States to go for early sowing to cash in on soil moisture.

India's GDP will grow by 5.5-6.5% in FY13, says Raghuram Rajan. The Prime Minister wants steps to curb rupee volatility, according to P. Chidambaram. Rainfall in August and September will be higher than earlier forecast, IMD said. Infrastructure

sector growth improved a tad in August from July. Kapil Sibal said no roaming charges will be levied on subscribers from 2013.

IFCI shares tumbled after SEBI exempted Govt from an open offer. Kingfisher Airlines is in talks with foreign carriers, Vijay Mallya said, but the company still defaults on tax payments. United Spirits and Diageo confirmed stake sale talks but cautioned a deal might yet not happen. RIL plans to bid for mobile telephone spectrum, reports said. SBI reduced its BPLR by 25 bps to 14.50% p.a. HDFC Bank said it might cut lending rates. Axis Bank shares slipped on worries of loan exposure to Indonesia's Bumi Resources, which has got entangled into a regulatory spat. Yes Bank received RBI approval to launch retail equity broking. Cairn India shares fell after its UK parent pared its stake further. Starbucks will open its first store in India by end-October. Spicejet and IndiGo said they are not in talks with any airline for FDI.

Spain has released its budget with more spending cuts and no tax increases, besides also introducing a new package of reforms. Greece too has proposed new budget cuts. The IMF is set to cut its forecast for global growth next month, IMF MD Christine Lagarde said. German business confidence dipped to a 2 1/2 year low. S&P lowered GDP growth forecasts for most of Asia while Fitch cut China and India growth forecasts. Apple said it sold over 5mn iPhone 5 in the first weekend while Google launched Nexus 7 tablet in Japan.

Event Calendar

Period : 1st – 5th October

US

- Sep ISM Manufacturing (1 Oct)
- Minutes of FOMC Meeting (3 Oct)
- Sep Change in Nonfarm Payrolls (5 Oct)
- Sep Unemployment Rate (5 Oct)

India

- Aug Exports & Imports YoY% (1 Oct)
- Aug CPI YoY (18 Sep)
- India September Markit Services PMI (4-5 Oct)

China

- Sep Manufacturing PMI (1 Oct)
- Sep HSBC Manufacturing PMI (1 Oct)

Eurozone

- Aug Euro-Zone Unemployment Rate (1 Oct)
- Aug Euro-Zone PPI YoY (2 Oct)

Period : 8th – 12th October

US

- Aug Wholesale Inventories (10 Oct)
- Aug Trade Balance (11 Oct)
- Sep PPI Ex Food & Energy YoY (12 Oct)

India

- Aug Industrial Production YoY (12 Oct)
- Sep Monthly Wholesale Prices YoY% (12 Oct)

China

- Q3 Business Climate Index (6-10 Oct)
- Sep Foreign Exchange Reserves (11-15 Oct)

Eurozone

- Aug Trade Balance (12 Oct)
- Aug Euro-Zone Ind. Prod. YoY (12 Oct)

IIFL, IIFL Centre, Kamala City, Senapati Bapat Marg, Lower Parel (W), Mumbai 400 013

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