

Financial Technologies



Incubating success

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Investors are advised to refer through disclosures made at the end of the Research Report.

Financial Technologies: Incubating success

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Financial Technologies

BSE SENSEX
19,751S&P CNX
5,987

CMP: INR1,077

TP: INR1,370

Buy



Bloomberg	FTECH IN
Equity Shares (m)	46.1
M.Cap. (INR b)/(USD b)	49.6/0.9
52-Week Range (INR)	1,224/552
1,6,12 Rel. Perf. (%)	-8/22/27

Financial summary (INR b)

Y/E March	2013E	2014E	2015E
Sales	3.9	4.8	5.3
EBITDA	1.8	2.5	2.8
Adj. PAT	2.1	2.2	2.5
Adj. EPS (INR)	45.9	47.1	54.3
EPS Gr. (%)	-56.9	2.5	15.4
BV/Sh.(INR)	569.3	607.0	651.9
RoE (%)	8.3	8.0	8.6
RoCE (%)	5.3	5.4	7.3
Payout (%)	17.4	17.0	14.7

Valuation

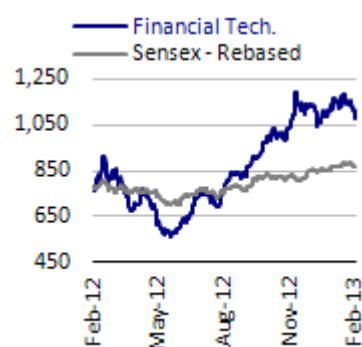
P/E (x)	23.5	22.9	19.8
P/BV (x)	1.9	1.8	1.7
EV/EBITDA (x)	22.3	15.5	13.4
Div. Yield (%)	0.7	0.7	0.7

Prices as on 4th February 2013

Shareholding pattern %

As on	Sep-12	Jun-12	Sep-11
Promoter	45.7	45.7	45.7
Dom. Inst	8.4	8.9	8.8
Foreign	24.1	23.4	23.1
Others	21.8	22.0	22.4

Stock performance (1 year)



Incubating success

Potential to create multiple MCXs; Buy

- FTECH is a unique play on end-to-end presence in the ecosystem of stock exchanges. Its presence across the chain enables it to offer a distinctive value proposition.
- Leading market shares of multiple FTECH's exchanges and its proven technology credence substantiate its capability of long-term sustenance across multiple exchanges.
- Every FTECH exchange bears the potential of replicating MCX's success.
- We recommend Buy, with SOTP-based target price of INR1,370 (27% upside). Three upside triggers in near-term: [1] FCRA bill, [2] IEX stake sale, and [3] MCX-SX volumes.

Unique play on end-to-end ecosystem of stock exchanges

FTECH is a unique play on end-to-end presence in the ecosystem of stock exchanges. The company was incorporated as a provider of technology solutions for the financial markets. It has forward integrated from being a trading technology solutions provider to a creator and operator of financial markets (nine exchanges) as well as complementary ecosystem ventures supporting these markets (Warehousing, Clearing, Info vending, Payment solutions etc.).

Strong economic moat - right business, right capabilities, right strategies

An Economic Moat protects a company's profits from being attacked by a combination of multiple business forces. Exchanges globally have been winner-takes-all businesses, with minimal competition. Leading market share of multiple FTECH's exchanges and proven technology credence substantiate its capability of long term sustenance of its ventures. Forward integration from trading platform to exchanges to complementary ecosystem ventures facilitates a distinctive value proposition to customers, non-replicated in the market.

Potential to create multiple MCX's over a sustained period

MCX has cornered a monopolistic market share in commodity exchanges. Supply of technology platform by its parent, FTECH gives MCX a competitive edge. FTECH has been setting / scaling up multiple other exchanges that span across asset classes and geographies, which can map MCX's success. Potential opportunities at MCX-SX and SMX are even higher than that at MCX.

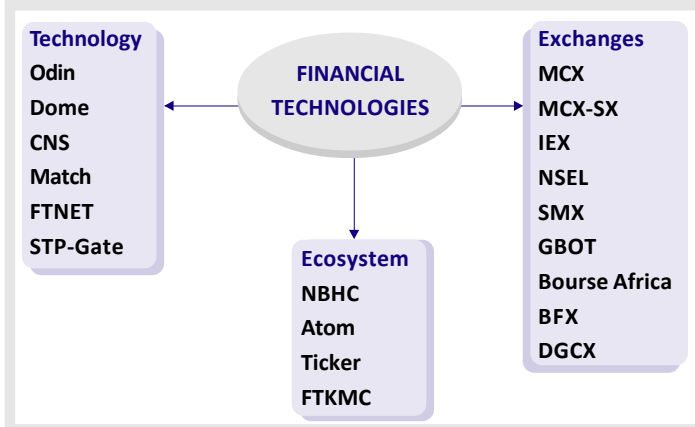
Resolving the value enigma; Buy with an SOTP target of INR1,370

We value FTECH's businesses by dividing them into: [1] Base value, coming from sizably scaled Technology business (INR543/share) and MCX (INR500/share including value of warrants in MCX-SX held by MCX), and [2] Option value - from other ventures such as MCX-SX, IEX, NSEL and SMX (applying a multiple to nascent base of current financials). We see three potential upside triggers to the stock in the near term: [1] Passage of FCRA bill, [2] stake sale in IEX (to bring holding down from 33% to 26%) and [3] Volumes performance at MCX-SX post launch on February 9th. We recommend **Buy**, with SOTP based target price of INR1,370.

Story in charts Possesses characteristics of an Economic Moat

- 1 From technology... to exchanges... to ecosystem
- 2 Businesses Regulated / Licensed by multiple Regulators
- 3 Market leader across ventures in winner-takes all business...
- 4 ...with MCX's continued dominance a proof of sustenance...
- 5 MCX-SX - canvas even bigger than MCX...
- 6 ...if NSE's example is anything to go by

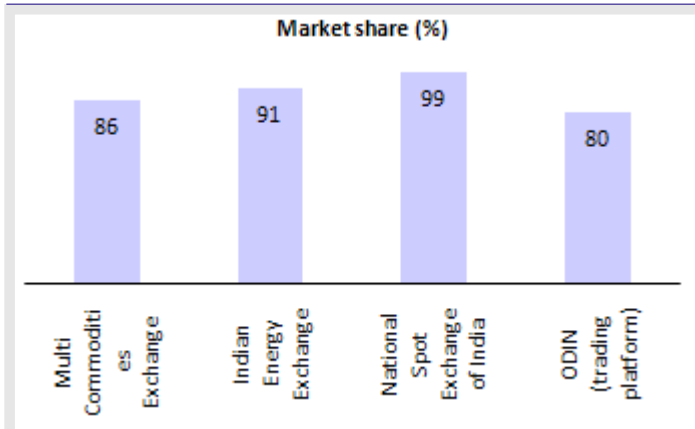
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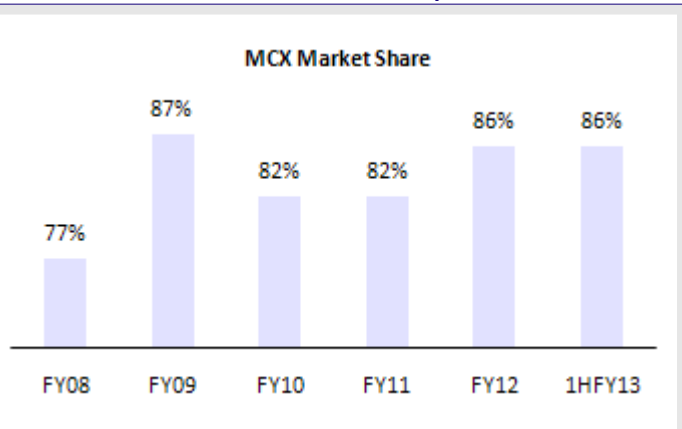
2 Businesses Regulated / Licensed by multiple Regulators

Exchange	Country	Regulated / Licensed by
MCX	India	Forward Markets Commission (FMC)
MCX-SX	India	SEBI and RBI for forex
NSEL	India	State APMC acts
IEX	India	Central Electricity Regulatory Commission (CERC)
SMX	Singapore	Monetary Authority of Singapore (MAS)
GBOT	Mauritius	Financial Services Commission (FSC)
BFX	Bahrain	Central Bank of Bahrain (CBB)
BA	Botswana	International Financial Services Centre (IFSC)
DGXC	UAE	Emirates Securities and Commodities Authority (ESMC)

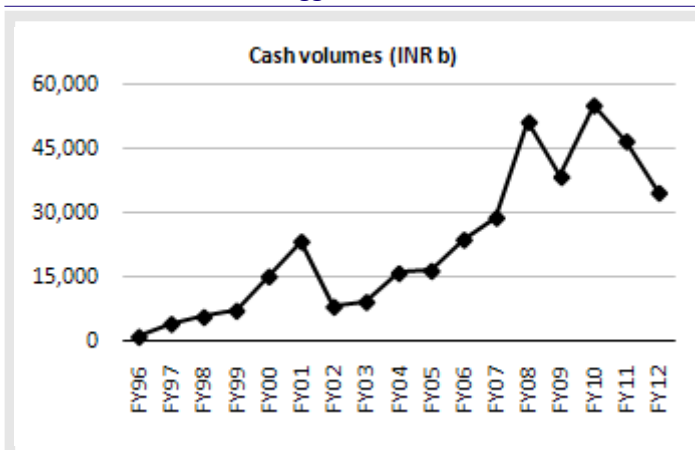
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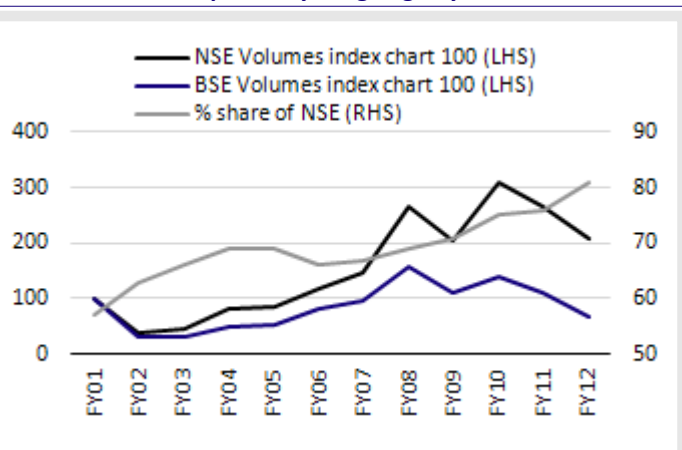
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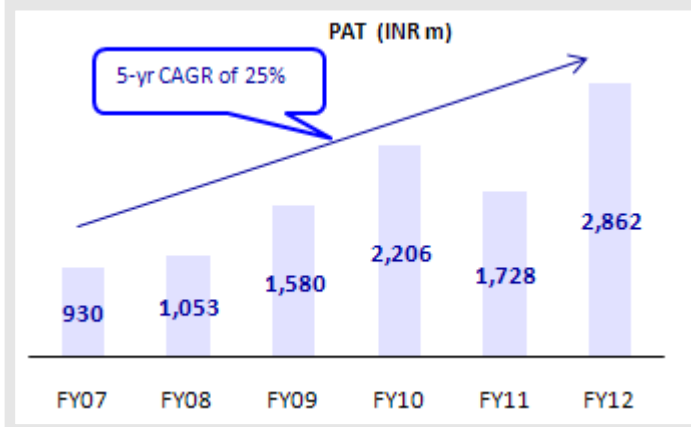


Source: Company, MOSL

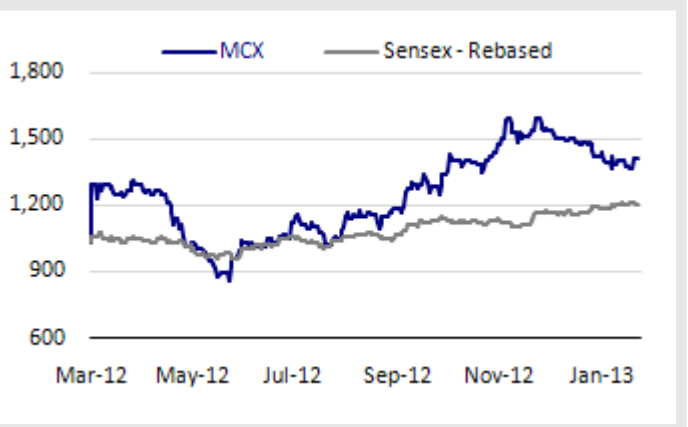
Story in charts Potential to create multiple MCX's, unlock value

- 1 MCX - a huge success story...
- 2 ... cheered by the markets
- 3 IEX - growth and dominance
- 4 ... could help map MCX's success
- 5 Multiple other candidates (NSEL, SMX etc)...
- 6 ...imply upside to even base case valuations

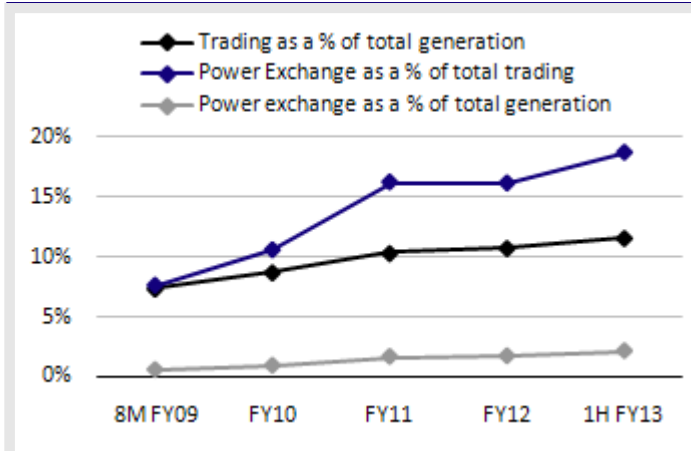
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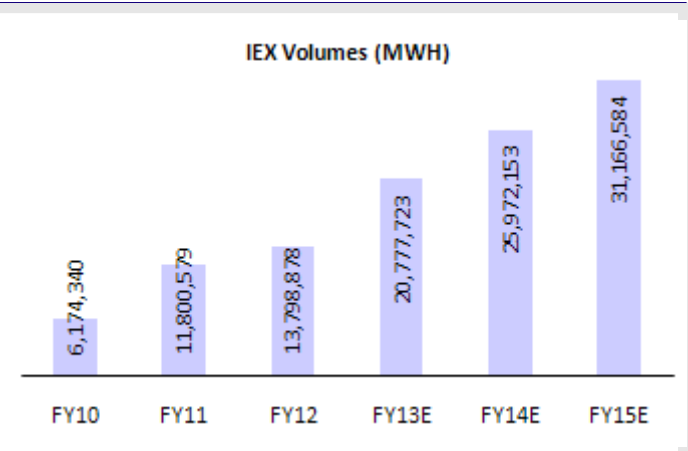
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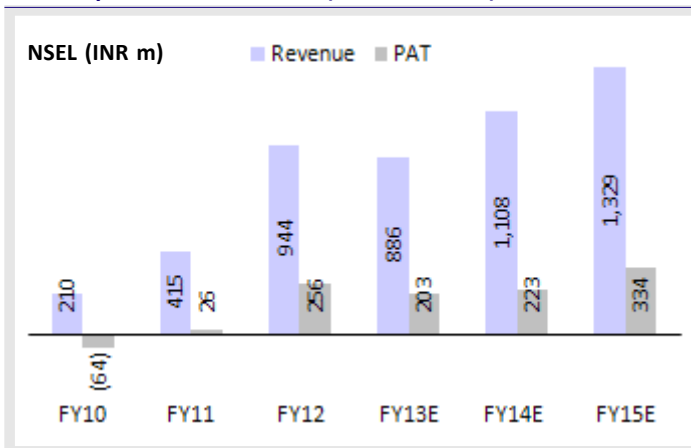
3 IEX - growth and dominance



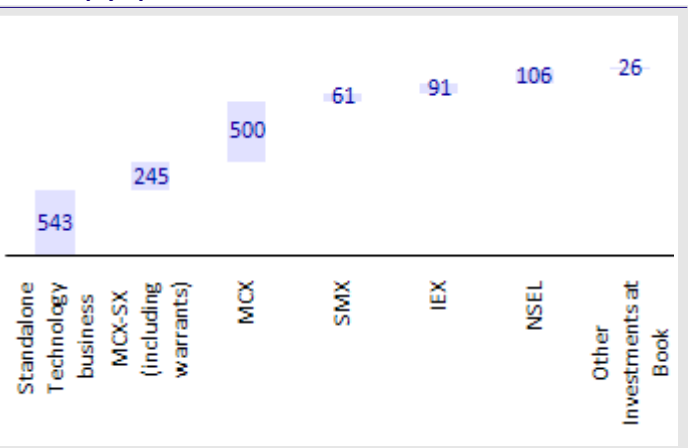
4 ... could help map MCX's success



5 Multiple other candidates (NSEL, SMX etc)...



6 ...imply upside to even base case valuations



Source: Company, MOSL

Valuation summary

Entity	Valuation methodology	Valuation	Contribution to FTECH valuation (INR b)	Contribution to FTECH per sh.	Description
FTECH SA	10x FY15E PAT	25.0	25.0	543	Expect revenue and profits to increase with more exchanges paying Fixed and variable AMCs going forward Also, multiple drivers exist to grow license sales of ODIN, which already enjoys 80% market share
MCX	20x FY15E PAT	88.6	23.0	500	Volume CAGR of 47% over FY07-12. FCRA bill passage in the parliament will provide the next spurt in volumes growth. RoE's should sustain 20%+ levels. MCX-SX contributes an additional INR3b
MCX-SX	20x FY15E PAT	30.1	11.3	245	Currently operational only with currency futures. Grant of permission to launch currency options, and launch of equity cash & F&O segment from February 9th will boost volumes on the exchange. We expect product innovation and strategies like lower pricing in cost sensitive segments to help grab 25% share in equities by 2015. Has already achieved membership base of 700+
IEX	15x FY15E PAT	12.5	4.2	91	Doubling of transaction fees alongwith healthy volume growth will drive PAT surge in FY13. The proportion of exchange traded contracts as a % of overall generation has been steadily increasing. Also, Listing may be an option in bringing down the promoters' stake down to 26% from 33% - potential unlocking value
NSEL	15x FY15E PAT	4.9	4.9	106	Volumes surged from INR807b in FY11 to INR3,041b in FY12 Going forward, we expect PAT to come down once additional transaction-linked variable fee sets in, and also conservatively build 12.5% volume CAGR over FY13-15 (and 6% decline in FY13 based on 9 months of data)
SMX	6x FY15E Sales	2.8	2.8	61	Current volumes on the exchange are USD100-150m daily. We 25% revenue CAGR over FY13-15. Our MCX target price implies Price/Sales ratio of 12x. We value SMX on a low base at 50% of this multiple.
Other Investments	1x Book	1.2	1.2	26	
Total				1,572	
Holding co discount				20%	
Target Price				1,370	27% upside to CMP. Buy

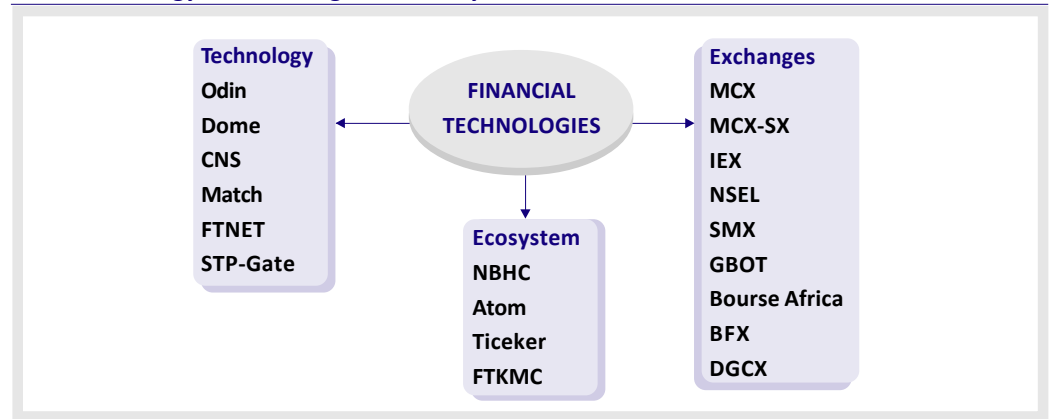
Source: Company, MOSL

Unique play on end-to-end presence in exchange services

Present across the chain enables distinctive value proposition

- FTECH is the only company of its kind with an end-to-end presence in the ecosystem of stock exchanges.
- FTECH was incorporated as a provider of technology solutions for financial markets. Having started as a trading technology solutions provider, it has forward integrated to creating/operating financial markets.
- It has also forayed into complementary ecosystem ventures supporting these markets - Warehousing, Clearing, Info Vending, Payment Solutions, etc.

From technology... to exchanges... to ecosystem



Source: Company, MOSL

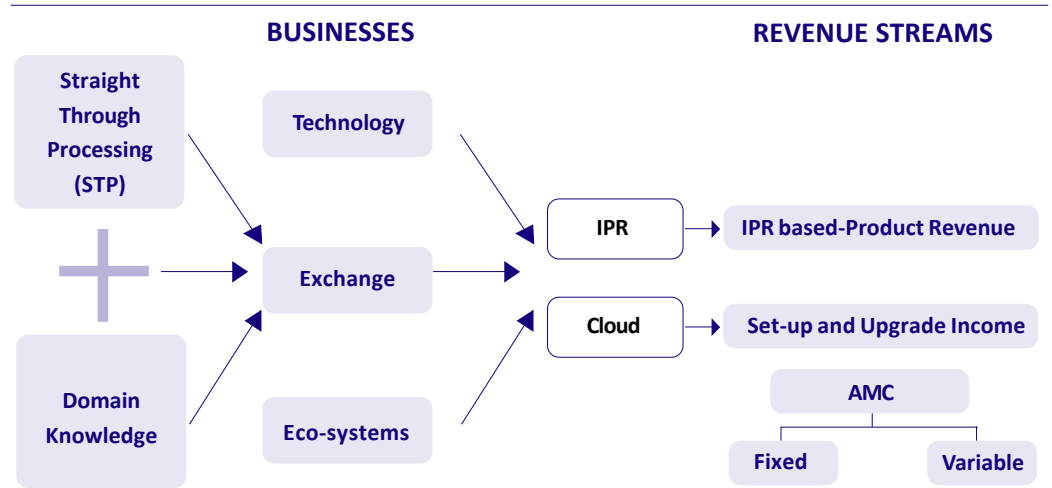
From trading platform...

Introduced ODIN, the country's first derivatives trading platform in 1995

Financial Technologies (India) Limited (FTECH) is the flagship company of the Financial Technologies Group. It set out by introducing India's first derivatives trading platform, with the launch of ODIN, which enjoys ~80% market share. It powers the Group's exchanges with its technology, and has demonstrated ample expertise in creating robust solutions for exchanges across asset classes and geographies.

FTECH is one of the leading software and technology providers to institutional investors and their related counterparts. Its technology vertical is sub-divided into four solution suites: (1) Exchange Solutions, (2) Brokerage Solutions, (3) Messaging Solutions, and (4) Consulting Solutions.

Present across the chain; multiple revenue streams



Source: Company

...to exchanges...

From providing technology solutions to exchanges and brokerages, FTECH forward integrated by setting up its own exchange, MCX. Multi Commodity Exchange (MCX) is a state-of-the-art electronic commodity futures exchange, offering futures trading in 47 commodities. FTECH operates a network of 9 exchanges, connecting fast growing economies of Africa, Middle East and South East Asia, as well as India, which have gained significant prominence in asset classes such as commodities futures and spot, energy and currency derivatives. It is now poised to commence trading in equities, interest rate futures and wholesale debt markets.

Its international exchange ventures - Singapore Mercantile Exchange (SMX), Global Board of Trade (GBOT) and Bahrain Financial Exchange (BFX) - are relatively new and still in investment mode, growing on a low base in their respective regions. Its newest exchange venture, Bourse Africa, based on a hub-and-spoke model, is set to commence operations. It will be Africa's first commodities spot and multi-asset derivatives exchange, equipped with a central counterparty (CCP) clearing house and depository platform.

FTECH - unique company operating a network of 9 exchanges

Operates a network of 9 exchanges connecting fast growing economies of Africa, Middle East and South-East Asia as well as India

	 MCX METAL & ENERGY Trade with Trust	India's leading commodity futures Exchange and 3 rd largest globally in terms of futures contracts traded
	 National Spot Exchange Electronic Spot Market	India's No. 1 Commodity Spot Exchange with a commanding 99% market share in the electronic spot market segment
	 IEX INDIAN ENERGY EXCHANGE India's No. 1 Power Exchange	India's first & No. 1 power Exchange with 92% market share in electricity & REC volumes
	 SMX Singapore Mercantile Exchange Where the world trades	Trans-Asian multi-commodity and multi-currency derivatives Exchange in Singapore catering multiple time zones
	 BFX Bahrain Financial Exchange	Based in Bahrain, the Exchange offers trading in cash, derivatives and Shariah-compliant financial instruments
	 GBOT Global Board of Trade	1 st International multi-asset and multi-currency Exchange from Mauritius, also providing trading in African currency pairs
	 BOURSE AFRICA Africa's Hub & Spoke Exchange	Spot and derivatives Exchange based on the hub and spoke model hosted in Botswana
	 DGCK DUBAI GLOBAL & COMMODITIES EXCHANGE	1 st International commodity and currency derivatives Exchange in the Middle-East
	 IBSFOREX	Provider of 'FXDirect' a digital trading platform for the inter-bank foreign exchange market in India

Source: Company

Operates ecosystem ventures focused on addressing opportunities in areas such as clearing and depository, information dissemination, warehousing and education

...to ecosystem

FTECH has also ventured into complementary ecosystem set-ups, supporting the running of various exchanges. It has four ecosystem ventures, which together address upstream and downstream opportunities in the financial market.

- **National Bulk Handling Corporation (NBHC)** is a national-level warehousing company and a leading integrated services enterprise for warehousing & bulk handling, collateral management, testing & certification, commodity care & pest management, procurement and allied services. It has pan-India presence across 900+ locations in 19 states and 35+ quality assurance laboratories
- **Atom** is one of India's leading e-Commerce and m-Commerce payment service provider, offering payment collection facilities over the internet, interactive voice response system (IVRS) and mobile applications, using credit/debit/cash cards and net banking. It provides services to an array of clients spanning sectors such as government, utilities, financial services, education, travel & tourism, retail and telecom.
- **TickerPlant** is a global content provider in the financial information and market data services industry, integrating and disseminating ultra-low latency data feeds, news and information to support investment decisions of professionals and investors. Information services coverage includes real-time commodities, forex, money markets and fixed income.
- **Financial Technologies Knowledge Management Company (FTKMC)** is a leading provider of solutions and services in the realm of financial sector knowledge. It offers numerous products and services in the areas of executive education, financial literacy, financial certification, research, consultancy and advisory.

Characteristics of strong economic moat

Right business, right capabilities, right strategies

- Exchanges globally have been winner-takes-all businesses, with minimal competition in any segment.
- Leading market shares of multiple FTECH's exchanges and its proven technology credence substantiate its capability of long-term sustenance across multiple exchange ventures.
- Its presence across the chain - from trading platform to exchanges to complementary ecosystem ventures - enables it to offer a distinctive value proposition.
- We believe FTECH has been able to effectively create a strong economic moat around itself.

Backdrop: What is an Economic Moat?

A moat is a deep, wide trench, usually filled with water that surrounds the rampart of a castle or fortified place. Akin to a moat, an Economic Moat protects a company's profits from being attacked by a combination of multiple business forces. It is a Sustainable Competitive Advantage that helps a business to sustain superior long-term profitability amidst various pulls and pressures. A company's profitability and the strength of its Economic Moat are both determined by the same set of factors: [1] industry structure, and [2] company's own strategy.

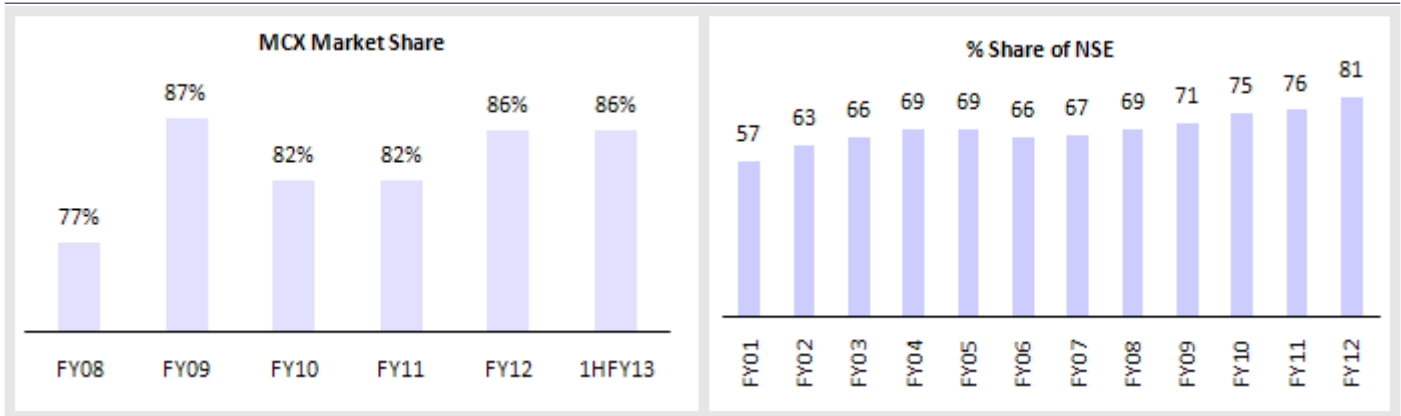
Right business

Exchanges are winner-takes-all businesses, a strong footing invariably implies sustained period of healthy profits

Some of the characteristics of FTECH's businesses¹, which lend healthy competitive advantage and sustainable profitability, are:

1. In the winner-takes-all exchange business, there are hardly any examples of more than three industry participants within a region. **Bargaining power** vis-à-vis customers is, therefore, high.
2. **Technology** is the key requirement for an exchange. FTECH is the technology supplier for all its exchanges, barring DGCX.
3. Exchanges are largely a network business. The network effect lends sustainability to the business model and acts as an **entry barrier**. The first mover clearly holds the edge in such a scenario.
4. Changes in environment do not necessarily impact the business, which in essence is **'truly perpetual'**.
5. Government policies could act as a deterrent from time to time, but as far as exchanges outside India are concerned, FTECH has enjoyed a more liberal policy environment to operate in.

Share of MCX, and if possible NSE over years substantiates the moat-like business characteristic



Businesses Regulated / Licensed by multiple Regulators

Exchange	Country	Regulated / Licensed by
MCX	India	Forward Markets Commission (FMC)
MCX-SX	India	SEBI and RBI for forex
NSEL	India	State APMC acts
IEX	India	Central Electricity Regulatory Commission (CERC)
SMX	Singapore	Monetary Authority of Singapore (MAS)
GBOT	Mauritius	Financial Services Commission (FSC)
BFX	Bahrain	Central Bank of Bahrain (CBB)
BA	Botswana	International Financial Services Centre (IFSC)
DGCX	UAE	Emirates Securities and Commodities Authority (ESMC)

Source: Company, MOSL

Technology and the network effect - two imperatives for any exchange are counted among FTECH's strongest points

Right capabilities

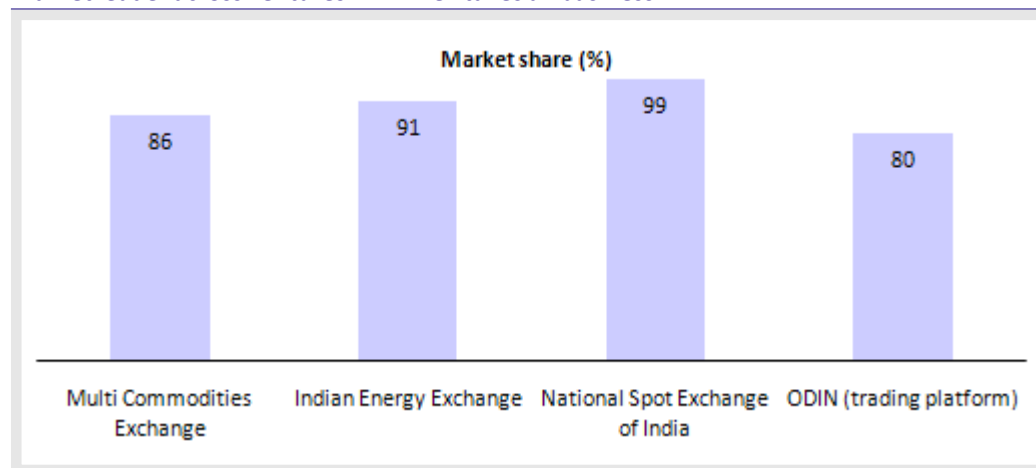
FTECH was one of the earliest to enter the trading technology domain and is far ahead on the learning curve. The rich experience of providing trading technology solutions and also creating multi-asset exchanges holds the company in good stead with respect to competition. Its ventures enjoy high market shares and dedicated revenue streams.

- **Technological edge - parent's expertise a significant advantage:** Exchange markets are characterized by rapid changes in technology, usage patterns and client preferences, frequent product/service introductions, and emergence of new industry standards/practices. FTECH is a leading developer of exchange related software and technology. Technology for the exchange industry is difficult to replicate, thus providing FTECH's exchanges with a competitive advantage. Exchanges require constant technology upgrades and support, necessitated by regulatory regime and market forces. Exchanges floated by FTECH are able to obtain speedy and efficient technology solutions from the parent.
- **Future ready - proactively investing to take advantage of anticipated changes:** FTECH has been proactive towards investing significant resources to develop strategies and ideas for new products in anticipation of proposed policy initiatives or regulatory measures. This is evident in two instances in particular - MCX and MCX-SX. In the former, the company has invested towards trading of options and indices at the exchange which are subject to passage of the Forward Contract Regulation Act (FCRA) bill. Even at MCX-SX, the strategy to gain share is oriented towards offering innovative products than competing merely on pricing.

FTECH's ventures enjoy leading market shares in their respective segments

Right strategies

FTECH is the only company of its kind with an end-to-end presence in the ecosystem of stock exchanges. Starting off as a trading technology solutions provider, it has forward integrated into creating/operating financial markets and complementary ecosystem ventures supporting these markets. Its presence across the chain - from trading platform to exchanges to complementary ecosystem ventures - enables it to offer a distinctive value proposition. Its business model is difficult to replicate. FTECH's strategies towards expansion of exchanges and other ventures are substantiated by leading market share enjoyed by its ventures in their respective segments.

Market leader across ventures in winner-takes all business

Source: Company, MOSL

Innovating at all times

Given that FTECH will be required to steal share amid stiff competition in cases like MCX-SX, and also keep competition at bay in cases like MCX, innovation has received its due focus. MCX has been the only notable exchange which has been introducing new products in the market based on continuous assessment of market needs. Innovation will also be a key factor in determining how far MCX-SX can succeed in its quest to gain share from BSE and NSE, and grow volumes in the debt market on the same exchange. We are sanguine on the prospects of MCX-SX on this front. To substantiate the same, MCX has many first to its credit:

- Initiate evening sessions to synchronize with the trading hours of global exchanges in London, New York and other major international markets.
- Offer futures trading in steel, crude oil, and almond.
- Launched MCXCOMDEX, India's first real time composite commodity futures index, which provides our members with valuable information regarding market movements in the key commodities, as determined by physical market size in India, which are actively traded on our Exchange.
- Introduced several other indices, including MCXAgri (agricultural commodities index), MCXEnergy (energy commodities index) and MCXMetal (metal commodities index).
- Three rain indices, namely RAINDEXMUM (Mumbai), RAINDEXIDR (Indore), and RAINDEXJAI (Jaipur) which track the progress of monsoon rains in their respective geographic locations. In Launched EFP transactions for the first time in India, which enables parties with futures positions to swap their positions in the physical markets and vice versa.



Chairman and Group CEO, Mr Jignesh Shah's thought bytes

A long way to go for Indian markets: The number of exchanges is not something to be extremely concerned about. Even in developed markets such as US and UK, several exchanges

were functioning in the early stages of their growth and India has a lot to achieve with regards to its financial deepening.

Competition thus far hasn't been a deterrent: The essence of competition is about how you bring value to the business that benefits its numerous stakeholders. Efficient market design and market development strategies have made it possible for us to accomplish remarkable growth and success in commodities, currencies and electricity despite competition from pedigreed institutions.

New innovative products will differentiate: We plan to come up with products that investors will find it easy to understand, gauge downside risk on and know when to exit. We have plans to penetrate all the district centers in India with more bond market products. The countryside of India is generating huge wealth that is unfortunately going into assets such as real estate, whereas it should actually be the major source of financing India's economy.

For MCX-SX, professional category and rural entrepreneur members (10% of total) are first time members, and a pre-condition for this membership is that they should not be members of any exchange.

Need to increase product comprehension among investors: To strengthen investor interest and participation, it is important that they comprehend more and more products, and these be made available through product innovation and development. From our experience in the market development, we are keen to focus on the need and requirements of investors

with products that are easy to understand and trade, impart sufficient knowledge on downside risk, provide access to trade in a larger number of towns and cities, understanding about the balance of risk and rewards along with information, education and awareness of market dynamics. This will surely bring in required changes in investors.

Bond markets - a space ripe with potential: The exchanges in India have overly focused in delta trading and cash-settled products. We have a unique strategy in place for the bond markets. The whole market for bonds has been designed only for AAA rated companies that may have avenues to raise capital, including banks. But a market has to be created for companies below AAA. There is a huge scope for retail participation in bond segment.

Technology will provide cost advantage: As a new entrant, MCX-SX will bring in the latest technology with less legacy costs, the benefits of which will be passed on to the market participants

Retail investors' participation could be the key: There were more retail investors in the Indian stock markets before derivative trading became big. Investors had clarity of downside risk, as they knew they can hold on and sell their shares at a later date when prices go up. But in derivatives, the contract expires at the end of the month and 90% of the people often lose money. This is the reason they do not want to come to the market.

Imperative to provide products and services relevant today: When NSE began in 1994, its ticket size was different than that of BSE, which it has managed quite ably. But what was relevant then may not be useful now. We will adhere to what is applicable now and we are very committed to the compliance of the highest order in this regard.

Potential to map MCX's success across ventures...

...MCX-SX, IEX, NSEL and SMX to name a few

- FTECH's subsidiary, MCX has cornered a dominating market share in the business of commodity exchanges. It accounts for over 85% of total exchange-traded commodity volumes in India.
- To a large extent, MCX owes its competitive edge to the technology platform from FTECH, which has been setting / scaling up multiple other exchanges that span across asset classes and geographies. These could be potential MCXs at various points in the future, given FTECH's proven capabilities.
- The opportunity landscape at MCX-SX and SMX is even higher than at MCX.

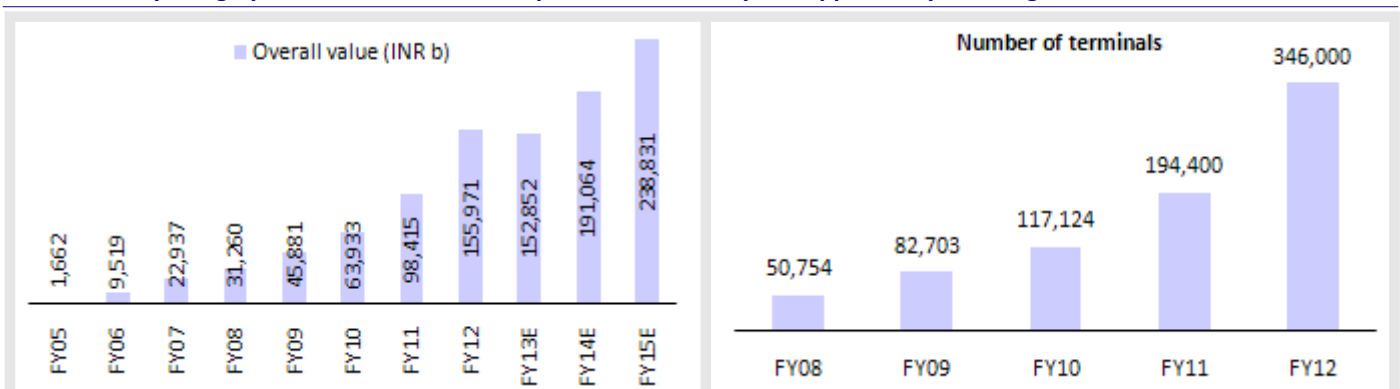
MCX - a mega success story

Despite a long way to go, MCX is already reckoned to be hugely successful - other FTECH exchanges could potentially follow suit

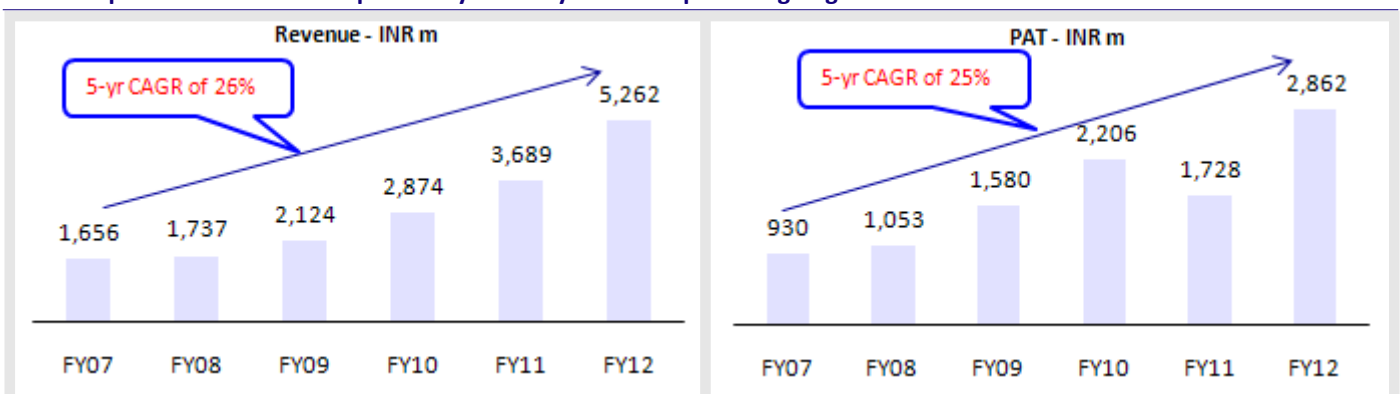
Multi Commodity Exchange of India Limited (MCX) is a state-of-the-art electronic commodity futures exchange, offering futures trading in 47 commodities, mainly including Gold, Silver, Copper and Crude Oil. It began operations in November 2003, and has over 86% share (as at 31 March 2012) of the Indian commodity futures market. In terms of contracts traded in CY11, it is the third-largest globally, second-largest in Gold, largest in Silver, second-largest in Natural Gas, and third-largest in Crude Oil.

Volumes continue to grow at a healthy rate in a less-than-a-decade old and highly regulated industry (CAGR of 51% over FY09-12). MCX has held on to its market leadership position, with a share of 82-87% over FY09-9MFY13. Supply of technology platform by its parent, FTECH, gives MCX a competitive edge that is difficult to replicate. If and when commodity exchanges in India receive regulatory approval to trade in new products like options, MCX will be able to quickly latch on to the opportunity, having invested significant resources to ensure readiness for the same.

MCX is already a hugely success venture, but the potential scalability and opportunity is still significant



Financial performance over the past few years may well be replicated going forward too



Potential to incubate multiple MCXs - currently at various stages of evolution

MCX is far ahead of the evolution curve as compared to FTECH's other exchanges in India. However, early indicators from the performance of entities like IEX, NSEL and currency futures segment at MCX-SX suggest definitive likelihood of many of these growing to become MCX-like cash cows. We discuss two of these ventures, where likelihood of realizing such success could be earlier than the others: [1] MCX-SX - where the canvas is even higher than MCX, and [2] IEX - where growth and share continue to be robust.

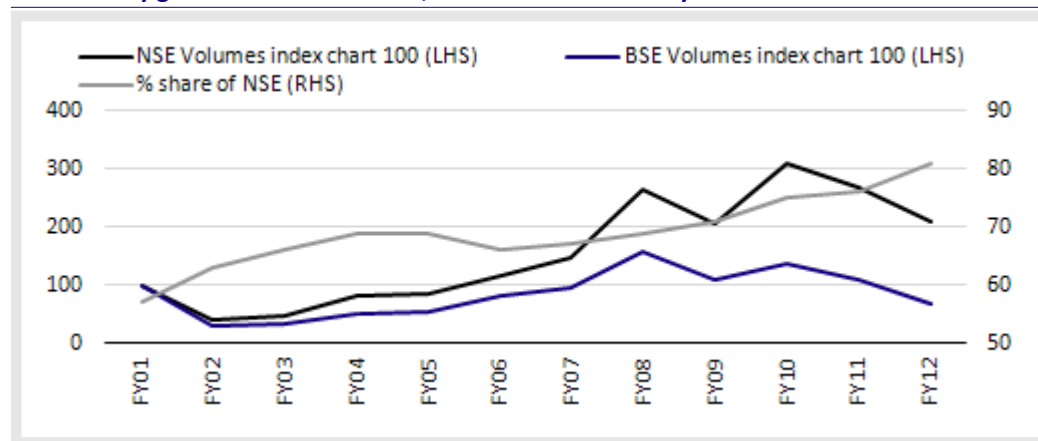
■ **MCX-SX - An even bigger canvas than MCX**

MCX-SX, promoted by MCX and FTECH, was recently cleared to become a full-fledged stock exchange. Like BSE and NSE, it can now start offering trading in equities, equity derivatives and other asset classes. Currently, MCX-SX only offers trading in currency futures contracts.

Will MCX-SX be able to gain share in the equities segment? - Precedent not too far:

The BSE had a legacy of 132 years in India, almost synonymous with investing in the country. However, all this was till NSE came onto the scene in 1992. Being a relatively new entity, NSE was nimbler and more receptive to innovation. While it was difficult for NSE to carve a niche initially, it quickly realized the importance of IT and innovative products to meet the growing sophistication of the financial markets. NSE has raced ahead to rule market share charts. How NSE's share has continued to improve even after the shift of balance in power is reflected in the turnover metrics of the two exchanges since FY01.

NSE not only grabbed share from BSE, but went on to steadily increase it



Source: Company, MOSL

Not only did NSE grab the market of BSE, it has continued to improve upon it over the years

Threat to NSE from MCX-SX's entry is indicated by the former's various freebies off-late to its members

NSE's reactive measures are an indicator of the threat it perceives from MCX-SX: In the countdown to MCX-SX's launch of equity products, NSE has [1] cut its deposit and net worth criteria by up to 50%, [2] offset the annual membership fee of INR100k for brokers with transaction charges, and [3] cut connectivity cost by 50%. We note that with BSE operating at significantly lower prices, NSE did not have to resort to such measures in the past. Even MCX did not react to lower pricing strategies adopted by peers. This indicates the threat that NSE perceives to its market share, with the launch of MCX-SX's equity operations.

MCX has progressively introduced new products on the exchange, something that is expected from MCX-SX too

Product innovations within equities to help increase market share: MCX has cited huge scope to introduce innovative products in the equities segment, which will help to increase market share. Exchanges in India have been dormant on this front and MCX-SX is gearing up to capitalize on the opportunity. MCX's proactive launch of new products on the commodities front makes us believe that MCX-SX will pursue a similar strategy.

Other avenues (outside equities) equally attractive for MCX-SX, if not more: While achieving the switch in liquidity in the equities segment will be an uphill task, this is only a portion of the gamut of products on offer by the exchange. Globally, equities constitute only 13% of the volumes traded in various segments combined, while the rest comes from segments like currency and bond markets.

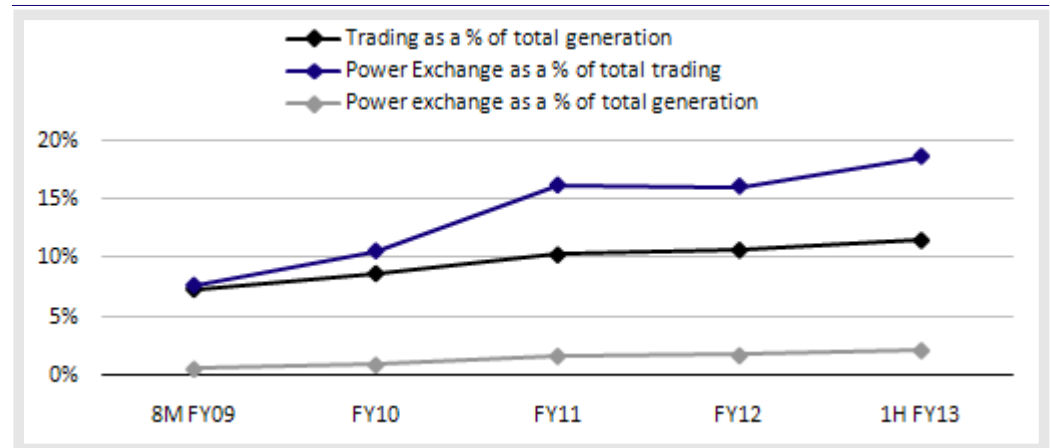
Trading of interest rate derivatives, wholesale debt, corporate bonds is absent on Indian exchanges, and MCX-SX will seek to capitalize on these hugely underpenetrated segments. Also, the company's share is comparable to NSE in the currency derivatives segment. With approval to launch currency options, MCX-SX should take the battle to NSE on that front too. Thus, the canvas is vast for MCX-SX and the promoters' knowhow of the exchange business bodes well for its long-term growth.

■ **IEX - India's leading power exchange**

India's leading power exchange, with 92% market share for electricity and REC volumes, Indian Energy Exchange Limited (IEX) was established with the objective of developing a marketplace for power trading in India. Over the last three years, average daily turnover at IEX has more than doubled. While growth in volumes on the exchange is a function of spot trades requirement, increasing share of trading on the exchange has been a bigger reason for the spurt in volumes. Additionally, IEX has increased its transaction charges from INR0.01 per unit per side to INR0.02, implying healthy surge in profits in FY13. The volume growth expected in FY13 is ~50%.

Apart from power units, the other contributor towards revenues on the exchange is Renewable Energy Certificates. As on 9MFY13, IEX had a market share of 80% in RECs. RECs have typically been bought by State utility boards, but lack of availability of funds at their end have cramped growth in the same.

Share of trading as a % of total generation has been continuously increasing



Source: Company, MOSL

Continued increase in IEX volumes despite doubling of transaction charges bodes well for the profits on the exchange

Resolving the value enigma

Gradual unlocking as multiple entities evolve into scalable, profitable units

- We attempt to value FTECH's businesses by dividing them into: [1] established and sizably scaled Technology business and MCX, contributing to 'base value', and [2] other ventures such as MCX-SX, IEX, SMX-SX and NSEL contributing to 'option value'.
- We value FTECH's standalone business at INR408/share and 26% stake in MCX at INR452/share. Our base option value for MCX-SX, IEX, SMX-SX and NSEL works out to INRxx/share.

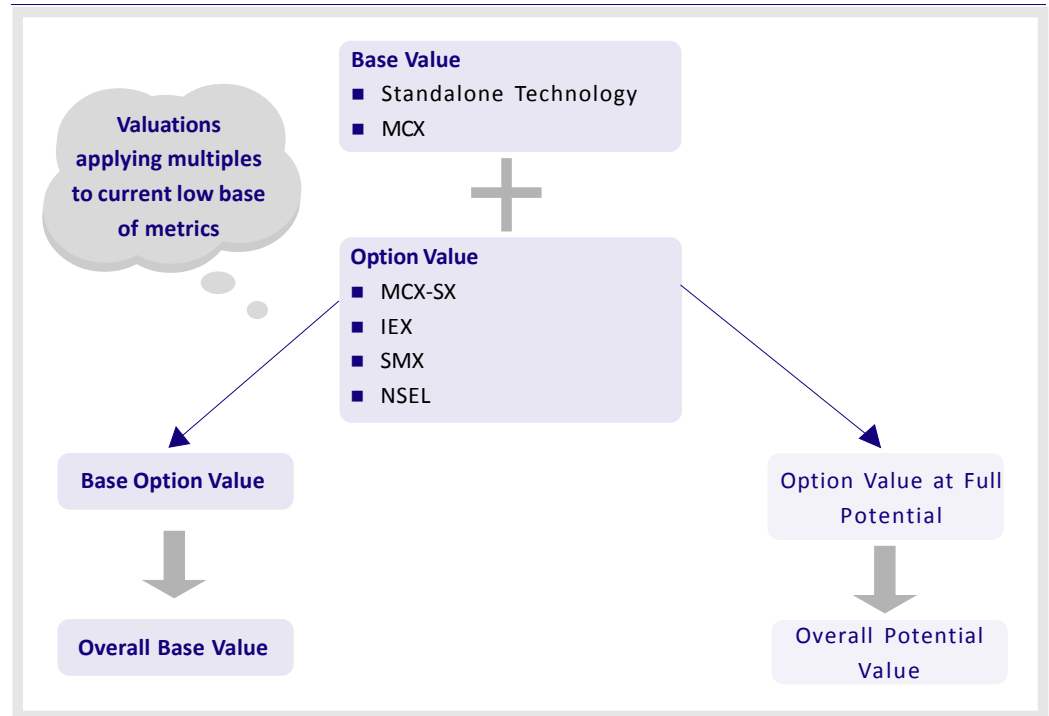
Resolving the value enigma

Outside of Technology and MCX, most businesses currently operate on a low base with huge potential to scale

Two of FTECH's multiple businesses - its standalone technology business and MCX - are relatively mature, have attained significant size and account for most of its overall profits. We term our valuation of these two key value generators as '**base valuation**' of the company. On this base, we build the valuation of other key entities (MCX-SX, IEX, SMX and NSEL). We term the contribution from these as '**option valuation**'. These entities are at early stages of their evolution, posing challenges in arriving at a specific value. We attempt to value these entities using comparable relative valuation multiples on their current low base (base option value).

Our target price for FTECH is the summation of 'base valuation' (standalone Technology and MCX), 'base option value' of other key entities (MCX-SX, IEX, SMX and NSEL), and book value of other investments.

We value FTECH's businesses by applying comparable multiples at current low base



Source: Company, MOSL

FTECH standalone business (INR543/share)

Increasing number of operational exchanges to drive growth

FTECH's standalone business derives revenues mainly from four sources: [1] technology license sales, [2] share of transaction fees from exchanges, [3] fixed annual maintenance charges from operational exchanges, and [4] upgradation fees and exchange set-up fees. While set-up fees are non-recurring, with the number of operational exchanges increasing to 9 by the end of FY14, upgradation fees will likely become a recurring revenue stream. This is because every exchange undertakes an upgrade once in about three years.

Profits in the Standalone business should grow on the back of transaction-linked fees from more exchanges than just MCX

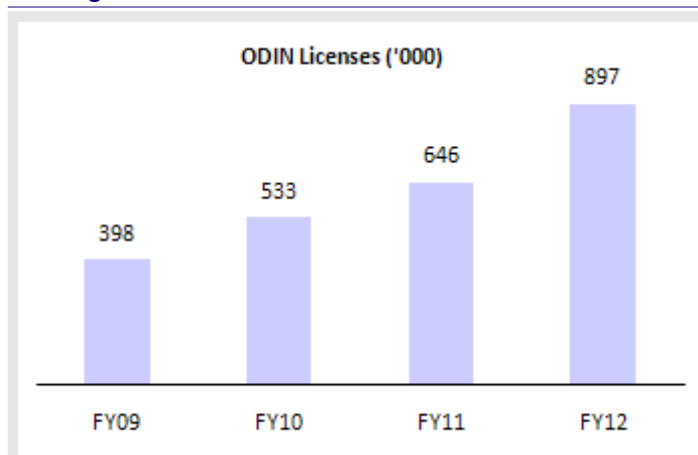
In FY12, FTECH's operating revenues were INR4,255m, of which sale of technology products contributed INR808m, while the remaining were split between (a) fixed and variable fees from exchanges, and (b) set-up and upgradation fees. We expect healthy growth in FTECH's revenues and profits due to the following:

1. Going forward, the fixed and variable fees from exchanges are likely to increase significantly. Fixed fees from MCX has been increased to INR240m per annum from INR120m. We believe that other exchanges would be paying fixed fees in a similar range.
2. Additionally, variable fees (as a % of transaction fees) is charged to an exchange only after it reaches stipulated volume threshold. MCX was the only exchange paying this fees till now; MCX-SX and IEX are expected to start contributing variable fees from FY14. Also, these exchanges would be charged a higher proportion of their transaction revenues and not 12.5%, which is applicable only to MCX.

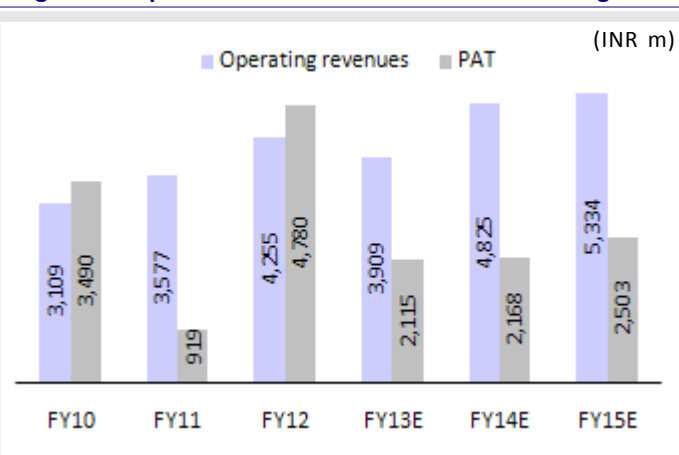
We model revenue CAGR of 17% over FY13-15, conservatively building in lower set-up and technology upgrade fees and flattish revenues from license sales, going forward. Our FY15E PAT estimates stands at INR2.5b.

Valuation: We value FTECH standalone business at 10x FY15E EPS, a multiple similar to mid-tier technology companies, on: [1] visibility of revenue growth from the channels mentioned above, [2] healthy annuity revenue streams over large number of years, and [3] impressive profitability (22-28% EBITDA margin during FY13-15). Our valuation of INR25b contributes INR543/share to FTECH.

Growing ODIN licenses



Higher FY12 profit on account of stake sale in exchanges



Source: Company, MOSL

MCX (INR500/share of FTECH)

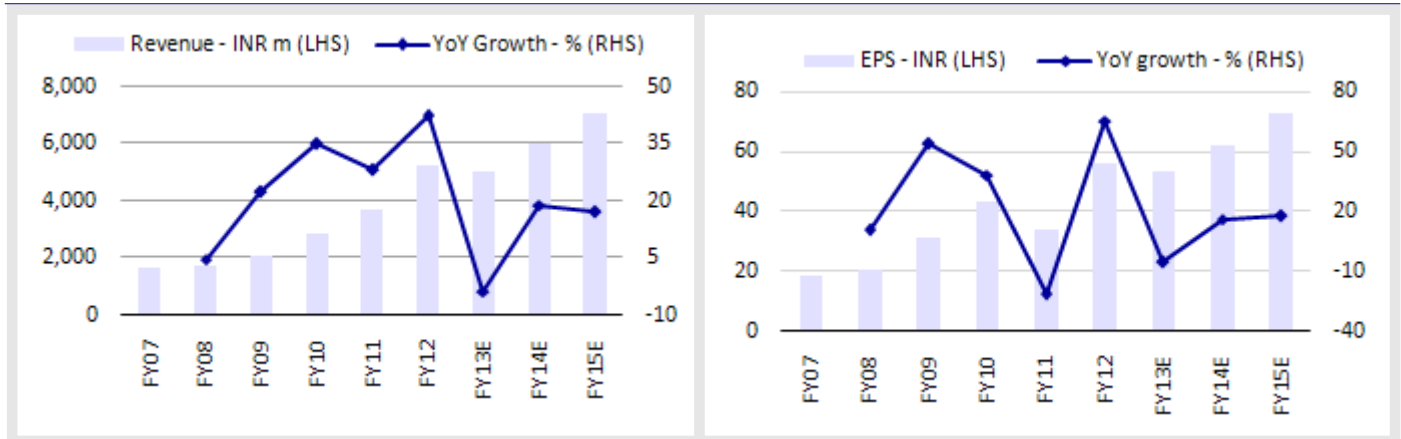
Expect healthy profit generation to continue; FCRA trigger could compound performance

Healthy volume growth trajectory at MCX could return with the passage of FCRA bill

MCX's volumes have grown at a CAGR of 47% over FY07-12. With the industry being nascent and significant growth potential from multiple triggers, we expect sustained double-digit volume growth over the medium-to-long term, notwithstanding the impact from phases of low volatility. We expect volume CAGR of 15% and PAT CAGR of 10% over FY12-15. Also, RoE should sustain at high 20's. The company's decision to maintain its payout ratio at ~50% too is a key valuation positive, and will support high multiples.

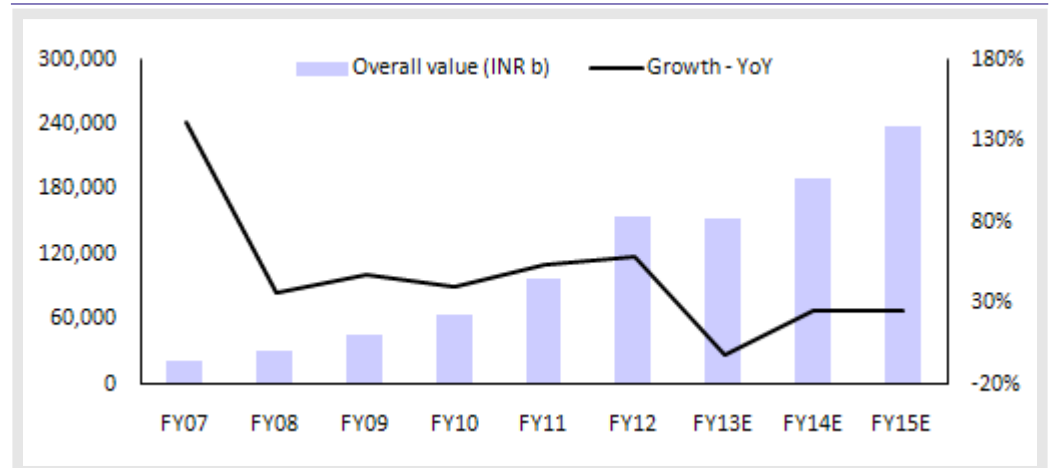
We value the standalone commodity exchange business at 20x FY14E earnings, in line with the average multiple for global peers in emerging markets, despite MCX's better competitive positioning and higher growth potential. This translates into a value of INR77b for the standalone commodity exchange business. We value MCX-SX at INR30b, which discounts our FY15E PAT by 20x (transactions in FY10 had valued MCX-SX at INR45b). MCX's share in MCX-SX (including warrants) contributes an additional INR11.3b to its valuation. MCX contributes INR500/share to FTECH's valuation.

Expect triggers like FCRA Bill and a nascent industry to help sustain revenue and profit growth at MCX



Source: Company, MOSL

Volume growth should pick up again after a low-volatility FY13



Source: Company, MOSL

MCX-SX (INR245/share of FTECH)

Even bigger canvas than MCX suggests attractive scalability potential

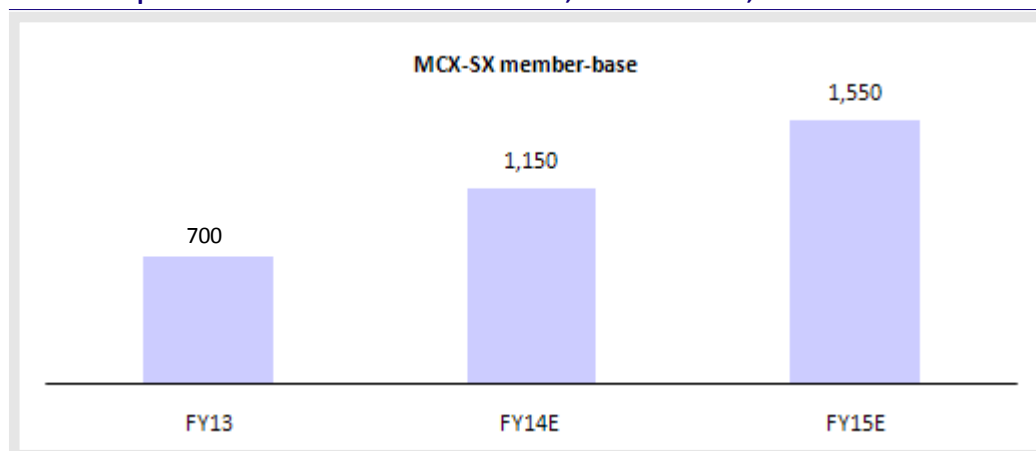
We assume 25% market share for MCX-SX by FY15, and membership base to exceed 1,500

MCX-SX is currently live with currency futures, and is expected to go live soon in the following segments: (1) equity cash, (2) equity derivatives, (3) bond derivatives, and (4) currency options.

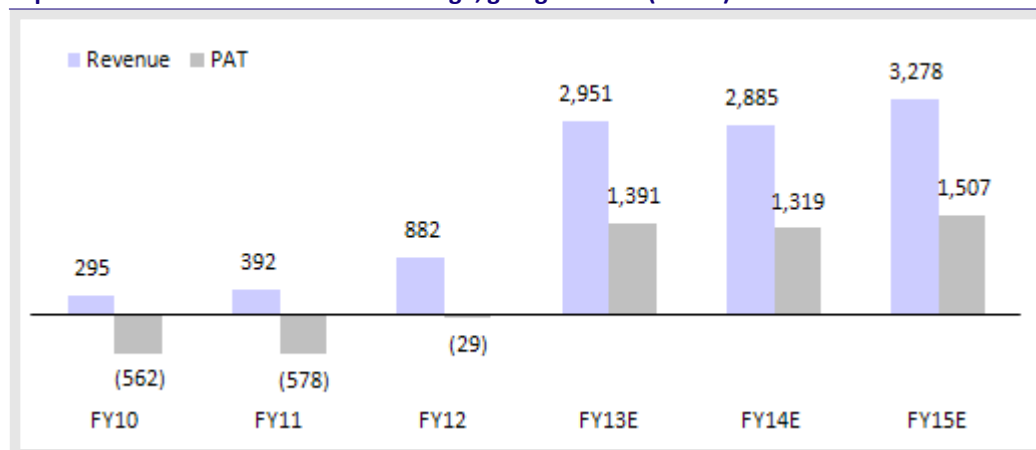
Given the membership base of 700+ members already and the parent's prowess in product innovation, we build increase in market share to ~25% through FY15. Also, lower costing in the price-sensitive options segment should help the company generate some volumes on the exchange. MCX has over 2,200 members, and MCX-SX too should increase its membership base over time. We expect MCX-SX's membership base to exceed 1,500 by FY15.

We expect revenue to exceed INR3b by FY15, without building any numbers in the bond derivatives segment, and PAT to reach INR1b. We value MCX-SX at 20x FY15E earnings - a contribution of INR11.3b to FTECH's valuation based on its holding through direct equity and warrants (INR245/share). We note that the transactions that happened in MCX-SX before it was even granted the permission to run the exchange, valued it ~50% higher at INR45b, lending reasonable confidence to our estimates.

Membership additions should continue at MCX-SX; MCX has over 2,200 members



Expect MCX-SX's revenue and PAT to surge, going forward (INR m)



Source: Company, MOSL

IEX (INR91/share of FTECH)

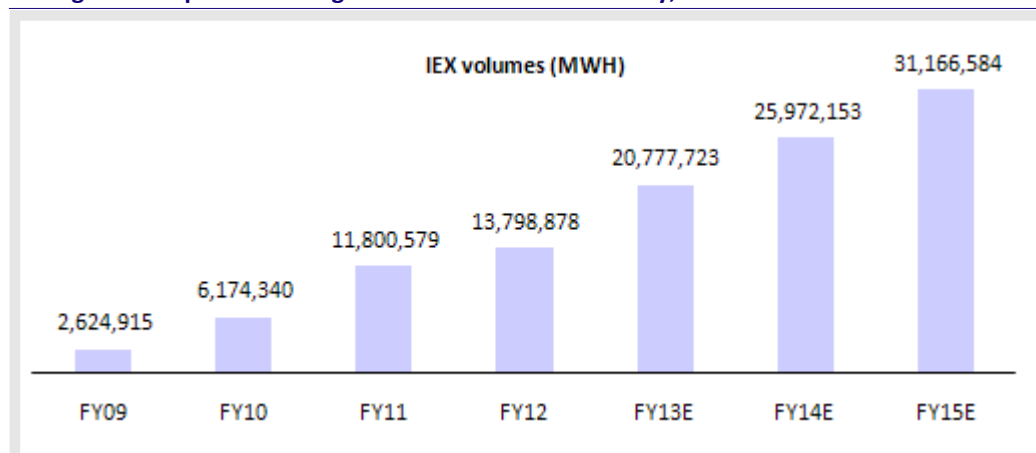
Expect profitability to zoom on transaction price increase

Stake reduction to comply with regulations could drive value unlocking from IEX

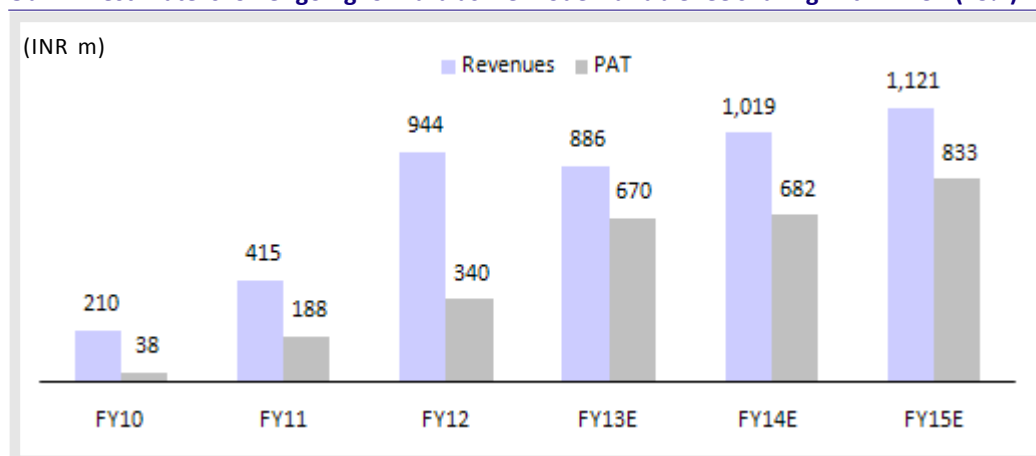
IEX increased its transaction charges from INR0.01/unit per side to INR0.02/unit per side. Volume growth too, is likely to grow at ~50% in FY13, implying healthy surge in profits this year. Both FTECH and PFS will be required to bring their stake down from 33% to 26%. One of the options to achieve this could be through a listing of IEX. This should help potential unlocking of value from the entity.

EBITDA margin shot up from 39% in FY10 to 73% in FY12. While doubling of transaction charges will further boost margins, sharing of variable fees expected to kick in from FY14 will keep expansion under check. We model PAT of INR833m in FY15, and value IEX at 15x FY15E PAT, given: [1] the outlook of volume growth, [2] healthy margins even after transaction fee-linked variable pay, and [3] dominating market share. 33% stake in IEX contributes INR4.2b to FTECH's valuation (INR91/share).

Management expects volume growth at IEX to remain healthy; we model 15% CAGR over FY13-15



Our PAT estimate is lower going forward as we model variable fee sharing with FTECH (15%)



Source: Company, MOSL

SMX (INR61/share of FTECH)

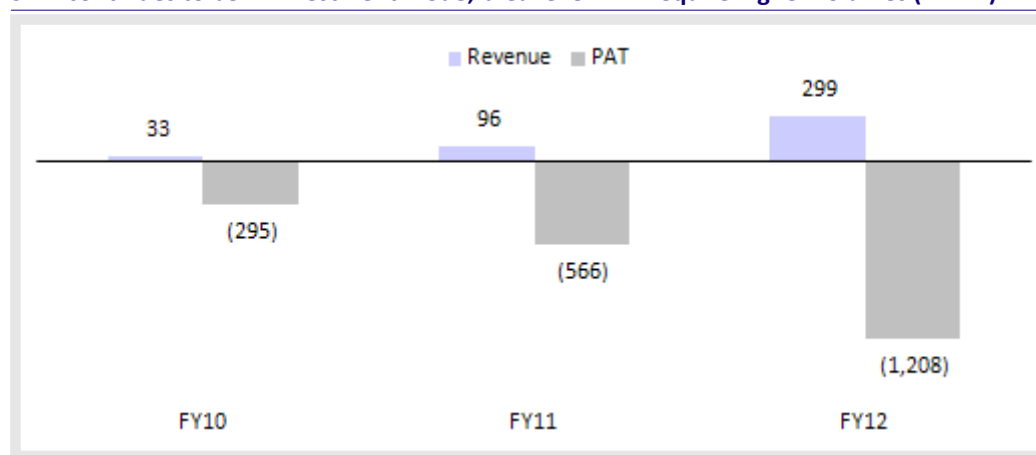
Continues to be in investment mode

SMX continues to be in investment mode. Breakeven will be a function of further pick up in volumes

Off-take in volumes at SMX was slow to start with, however the same has picked up gradually over time. Current volumes on the exchange are USD100-200m daily. The company generated revenues worth INR299m in FY12 (including SMX Clearing Corporation PTE Ltd), and had a loss rate of ~INR1.2b, implying that the exchange still remains in investment mode. However, as volumes ramp up going forward, expect the loss rate to come down. We reckon that for the exchange to breakeven, it would require a daily average volume rate of USD1b+.

We factor in 25% revenue CAGR over FY13-15, and expect revenue at INR400m in FY15E. Median Price/Sales for the industry is ~5x, while that in developing markets is ~9x. We value SMX at 6x FY15E revenues (50% discount to Price/Sales multiple implies in our target valuation for MCX) to arrive at a value of INR2.4b, all of which is attributed to FTECH, given 100% ownership of the exchange. SMX contributes INR61/share to FTECH.

SMX continues to be in investment mode; breakeven will require higher volumes (INR m)



Source: Company, MOSL

NSEL (INR106/share of FTECH)

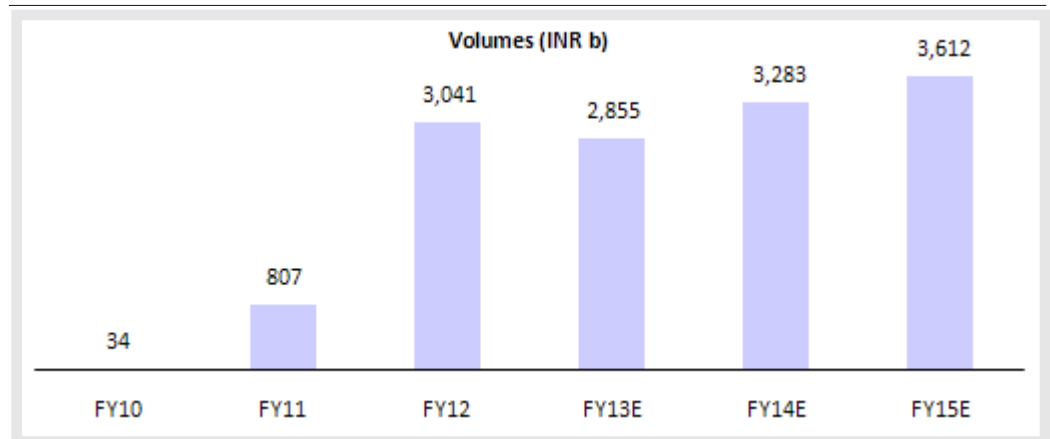
Yet another growing, profitable, monopolistic market

Launch of e-contracts are driving healthy volumes at the exchange

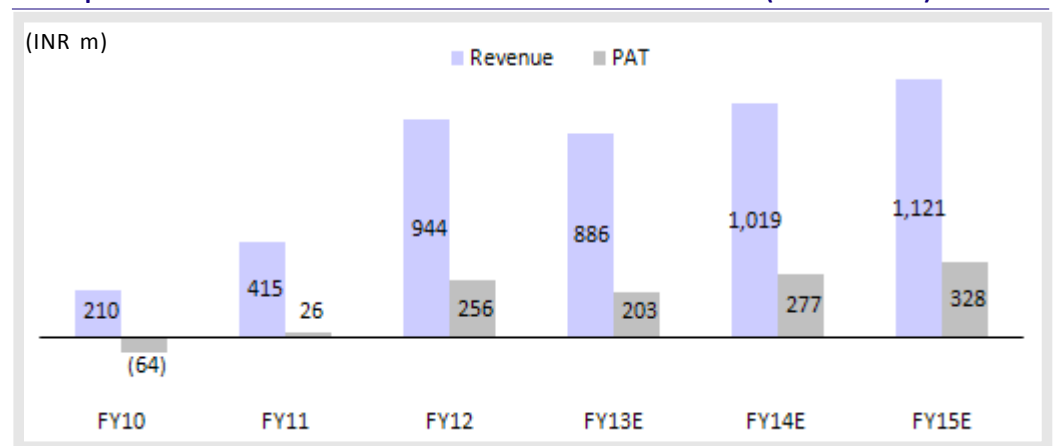
National Spot Exchange (NSEL) has seen its volumes surging from INR807b in FY11 to INR3,041b in FY12. The company reported a PAT of INR256m in FY12, ~10x its FY11 PAT. We model volume growth CAGR of 12.5% over FY13-15E. We arrive at a PAT of INR328m for FY15. We value NSEL at a 25% discount to MCX, as variable transaction fees in the future years curb the profitability at the exchange (41% EBITDA margin in FY12). The resulting valuation of NSEL is INR4.9b, contributing INR106/share to FTECH.

We believe that scope for growth at NSEL is significantly higher given that: [1] the exchange is still relatively nascent and volumes are continuing to ramp up, and [2] the introduction of e-contracts have avoided the hassle of physical delivery, which has been a significant volume driver. 35-40% volumes on the exchange are currently from e-contracts.

For NSEL, we model volume CAGR of 12.5% over FY13-15, lower than that at MCX



Our expectation of lower PAT is on account of variable fees to FTECH (15% assumed)



Source: Company, MOSL

Other investments (INR26/share of FTECH)

Valued at book

FTECH has invested in a number of other ventures, which are still very small currently. We apply to them a blanket valuation of 1x the investments made in these ventures. These investments add up to INR1.2b, contributing INR26/share to FTECH's valuation. Other investments include:

- National Bulk Handling Corporation (NBHC)
- Atom
- Bahrain Financial Exchange (BFX)
- Bourse Africa (BA)
- Dubai Gold Commodities Exchange (DGCX)
- Ticker Plant.

Buy with an SOTP based target price of INR1,370

Target price based on 'Base option value'; holding company discount of 27%

- Our target price for FTECH is the summation of the 'base value' (standalone Technology and MCX), 'base option value' of other key entities (MCX-SX, IEX, SMX and NSEL), and book value of other investments.
- We apply a holding company discount of 20%. Our target price of INR1,370 implies an upside of 27%. Buy.
- Three upside triggers in near-term: [1] FCRA bill, [2] IEX stake sale, and [3] MCX-SX volumes.

The valuation multiples we apply to FTECH's 'option value' bearing entities is on a low base of profit, with huge opportunity to scale. Therefore, our current target price for the company is 'Base option value'. We see a significant upside potential to this number as each of the entities considered (and those left to be valued at investment cost for now) scale up to become larger profit generating units. Base on the summation of individual units, we arrive at a value of INR1,572 per share.

We initiate coverage on FTECH with a **Buy** rating

We apply a holding company discount of 20% to the entities where FTECH is holding a majority stake and /or will go ahead and unlock value through sale of stake in the future. After factoring in holding company discount, our target price for FTECH is INR1,370, which implies 27% upside to our valuation. We initiate coverage on FTECH with a **Buy** rating.

SOTP valuation

Entity	FTECH holding (%)	Valuation methodology	Valuation (INR b)	Valuation contribution to FTECH (INR b)	Contribution to FTECH per share
FTECH SA	100	10x FY15E PAT	25.0	25.0	543
MCX (including share of MCX-SX)	26	20x FY15E PAT	88.6	23.0	500
FTECH's share in MCX SX including warrants	37	20x FY15E PAT	30.1	11.3	245
IEX	33	15x FY15E PAT	12.5	4.2	91
NSEL	99	15x FY15E PAT	4.9	4.9	106
SMX	100	6x FY15E Sales	2.8	2.8	61
Other investments	-	1x Book value	1.2	1.2	26
Total				72.4	1,572
Holding company discount (ex-FTECH SA, %)					20
Target Price (INR)					1,370
Upside (%)					27

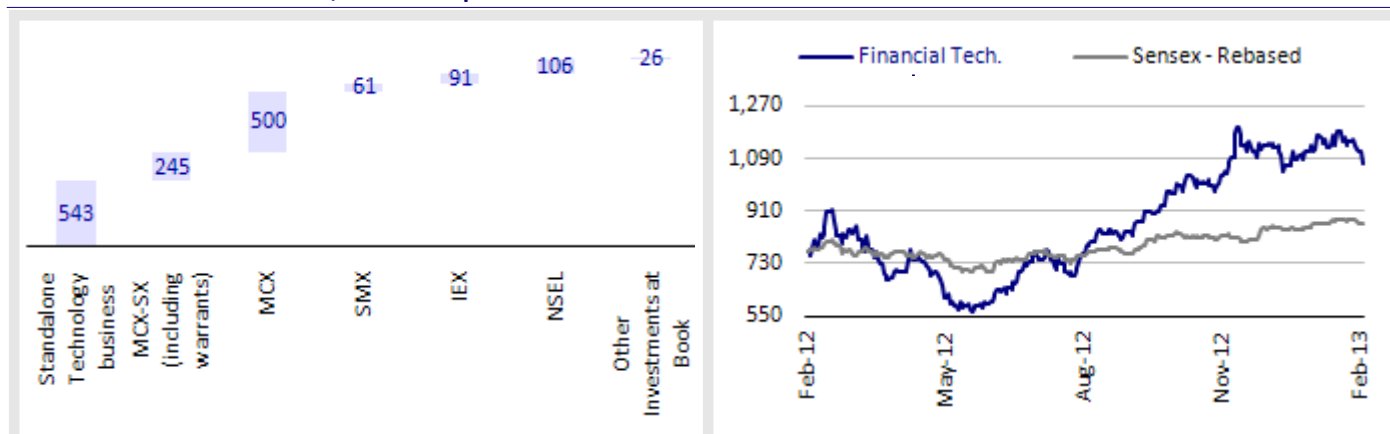
Source: Company, MOSL

We see three potential triggers in the near term that could driver higher valuations in the stock:

- Passage of FCRA bill - which allows trading of new products like options, indices on MCX, driving volumes and valuation for MCX, and consequently, FTECH,
- Stake sale in IEX (from 33% to 26%) - which would help value unlocking in the same and
- Volumes performance at MCX-SX post launch on February 9th, the valuation of which will get embedded in FTECH's price

SOTP based valuation of INR1,370 - 27% upside

Stock Performance



Source: Company, MOSL

Key risks

Regulatory paralysis could impact growth

In the current regulatory environment, foreign institutional investors, banks and mutual funds cannot trade on commodity exchanges. Also, trading in options on commodity futures is prohibited in India. While the passage of the FCRA Bill could boost MCX's volumes and provide a sentimental fillip to the stock, there is a risk that the amendments may not be enforced in a timely manner.

Longer than expected time for ramp-up in volumes at MCX-SX

We model ~25% share for MCX-SX in the equities segment by FY15. Also, both MCX and FTECH need to sell their warrants in MCX-SX, for which they have a three year window. If the volumes in MCX-SX ramp up slower than expected, it will have a bearing on both FTECH's and MCX's valuations.

End of lock-in period of MCX shares could impact the price

MCX completes one year since listing in a month's time, and the promoters would be allowed to pare with some more of their stake if they wish to. In the event that happens, it could create some selling pressure on the stock, also impacting FTECH in the process.

Financial summary: Key ventures

	FY11	FY12	FY13E	FY14E	FY15E
MCX					
Volume (INR t)	98.4	156.0	152.9	191.1	238.8
Growth (%)	53.9	58.5	-2.0	25.0	25.0
Revenue	3,689	5,262	5,069	6,029	7,350
Growth (%)	28.4	42.6	-3.7	19.0	21.9
EBITDA	1,918	3,347	3,003	3,624	4,546
Growth (%)	35.4	74.5	-10.3	20.7	25.5
EBITDA %	52.0	63.6	59.3	60.1	61.9
PAT	1,728	2,862	2,714	3,159	3,864
Growth (%)	-21.7	65.6	-5.2	16.4	22.3
PAT %	46.8	54.4	53.5	52.4	52.6
MCX SX (INR m)					
Revenue			2,951	2,885	3,278
Growth (%)				-2.2	13.6
EBIT			1,652	1,440	1,708
Growth (%)				-12.8	18.6
EBITDA %			56.0	49.9	52.1
PAT			1,391	1,319	1,507
Growth (%)				-5.2	14.3
PAT %			47.1	45.7	46.0
IEX (INR m)					
Volume (million MWh)	11.8	13.8	20.8	26.0	31.2
Growth (%)	91.1	16.9	50.6	25.0	20.0
Revenue	411	709	1,247	1,558	1,870
Growth (%)	86.0	72.5	75.8	25.0	20.0
EBITDA	263	517	997	1,258	1,520
Growth (%)	202.3	96.6	92.8	26.3	20.8
EBITDA %	64.0	72.9	79.9	80.7	81.3
PAT	188	340	670	682	833
Growth (%)	394.7	80.9	97.0	1.9	22.1
PAT %	45.7	48.0	53.7	43.8	44.5
NSEL (INR m)					
Volume (INR b)	807	3,041	2,855	3,283	3,612
Growth (%)	2,269.0	277.0	-6.1	15.0	10.0
Revenue	415	944	886	1,019	1,121
Growth (%)	97.6	127.5	-6.1	15.0	10.0
EBITDA	113	388	330	435	508
Growth (%)		243.4	-14.9	31.8	16.7
EBITDA %	27.2	41.1	37.3	42.7	45.3
PAT	26	256	203	277	328
Growth (%)		884.6	-20.6	36.2	18.4
PAT %	6.3	27.1	22.9	27.2	29.2

Source: Company, MOSL

Annexure: Progress within the end-to-end value chain

FTECH has several firsts to its credit

MCX - India's first listed exchange

Multi Commodity Exchange of India (MCX) is a state-of-the-art electronic commodity futures exchange. The demutualized exchange set up by FTECH has permanent recognition from the Government of India to facilitate nationwide online trading, clearing and settlement of commodities futures transactions. It operates within the regulatory framework of the Forward Contracts Regulation Act, 1952 (FCRA, 1952). MCX had 86% market share in FY12. Its average daily turnover in FY12 was INR503b, up 57%.

MCX offers trading in over 40 futures contracts from various market segments such as bullion, energy, ferrous and non-ferrous metals, oils and oil seeds, cereals, pulses, plantations, spices and fibers.

On 9 March 2012, MCX became India's first listed exchange post its initial public offering (IPO).

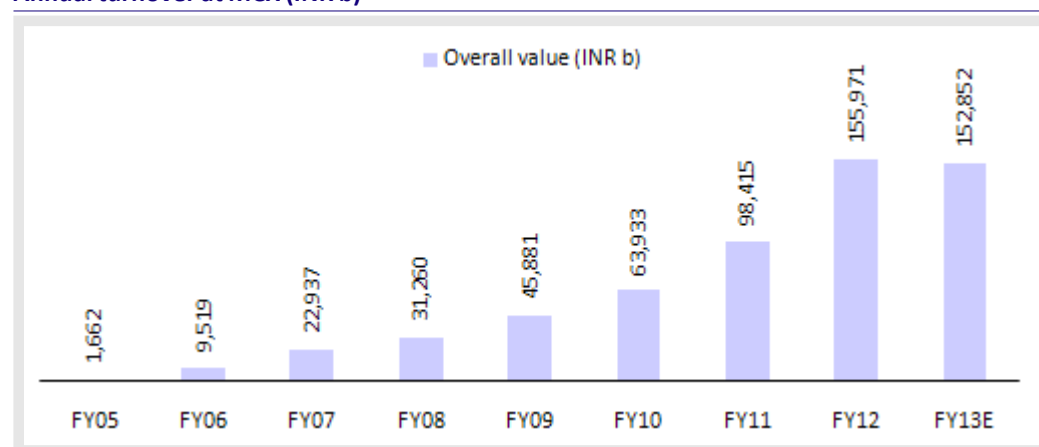
MCX: Operational Matrix

	FY09	FY10	FY11	FY12
Number of members (end of year)	2,037	2,070	2,119	2,170
Number of TWS* and TWS under CTCL	82,703	117,124	194,400	346,610

*: Trader Workstation

Source: Company, MOSL

Annual turnover at MCX (INR b)



Source: Company, MOSL

NSEL - India's number-1 commodity spot exchange

National Spot Exchange (NSEL) is India's number-1 commodity spot exchange, commanding over 99% share in the electronic spot market segment. It falls under the regulatory purview of the Forward Markets Commission (FMC). NSEL had over 787 registered members as at 31 December 2012.

Products and services

- Operational in 50 commodities with 127 delivery centers.
- Added zinc, red chilly, cardamom, crude soybean oil, raw wool, soybean de-oiled cake (DOC), wool top, mustard oil, refined soybean oil, and refined sunflower oil in FY12.
- Introduced India's first commodity investment product in dematerialized form called e-Series. These can be bought, sold and held in dematerialized form with the option of taking physical delivery at various locations across the country. In e-Series, e-Nickel was introduced in FY12. Other products in this category are e-Gold, e-Silver, e-Copper, e-Zinc, e-Lead, e-Nickel and e-Platinum.

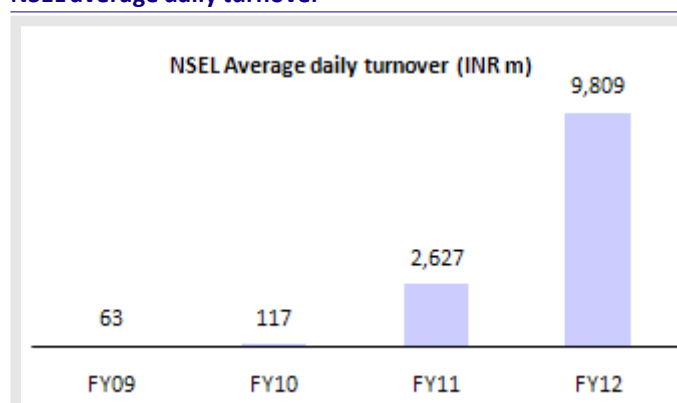
Key milestones in FY12

- Recorded 277% increase in turnover, which touched INR3,040b in FY12.
- Empanelled 174 depository participants (DPs) to provide pan-India demat services to retail investors for e-Series products.
Launched 'e-Nickel' under 'e-Series'.

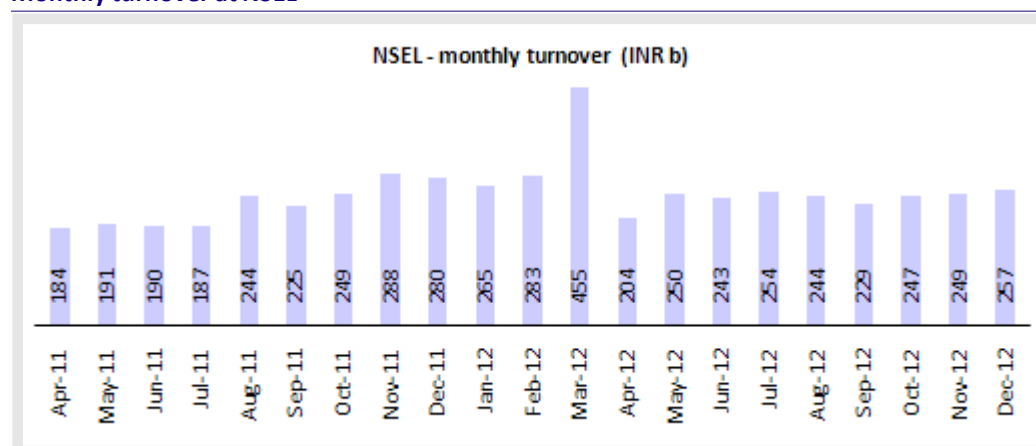
NSEL: Operational Matrix

	FY10	FY11	FY12
Highest Turnover (INR b)	4.5	18.4	27.0
Number of members (end of year)	320	516	711
Products / commodities offered	24	36	50

NSEL average daily turnover



Monthly turnover at NSEL



Source: Company, MOSL

IEX - India's leading power exchange

India Energy Exchange (IEX) is India's leading power exchange, with 92% market share for electricity and REC volumes. IEX was established with the objective of developing a marketplace for power trading in India. As a transparent and efficient platform for trading in Electricity and Renewable Energy Certificates, it brings down the demand-supply gap between buyers and sellers of power. IEX emerged as India's preferred trading platform, with nationwide reach, covering 90+ members and over 1,650+ clients (136 private power generators and over 1,450 direct consumers) registered as at 31 December 2012.

Products and services

Electricity

- Spot market
 - Intra-day / For the same day (last 6 hours) / Continuous trading
 - Day-ahead market / Hourly for next day / Double-sided closed auction
 - Day-ahead contingency market / Hourly for next day / Continuous trading
- Forward market
 - Daily / For rolling seven days (starting after four days) / Continuous trading
 - Weekly / For next two weeks / Double-sided open auction

Renewable energy certificates (REC)

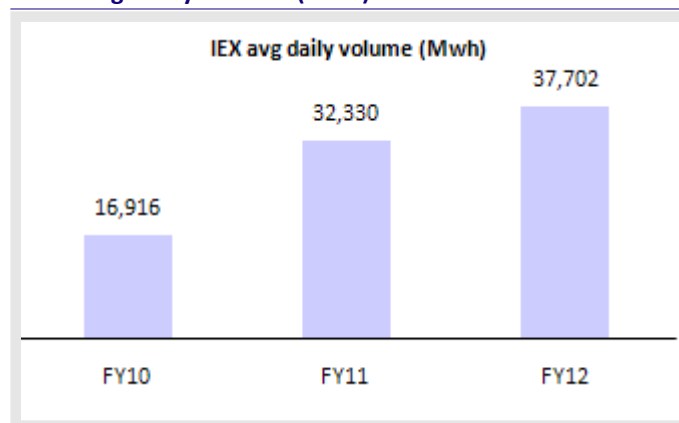
- Solar REC
- Non-solar REC

Energy efficiency certificates

IEX: Operational Matrix

	FY10	FY11	FY12
Highest Turnover (Mwh)	31,249	59,976	58,324
Number of members (end of year)	78	78	90
No of products offered	5	7	7

IEX average daily volumes (Mwh)



Source: Company, MOSL

SMX - first pan-Asian multi-product exchange

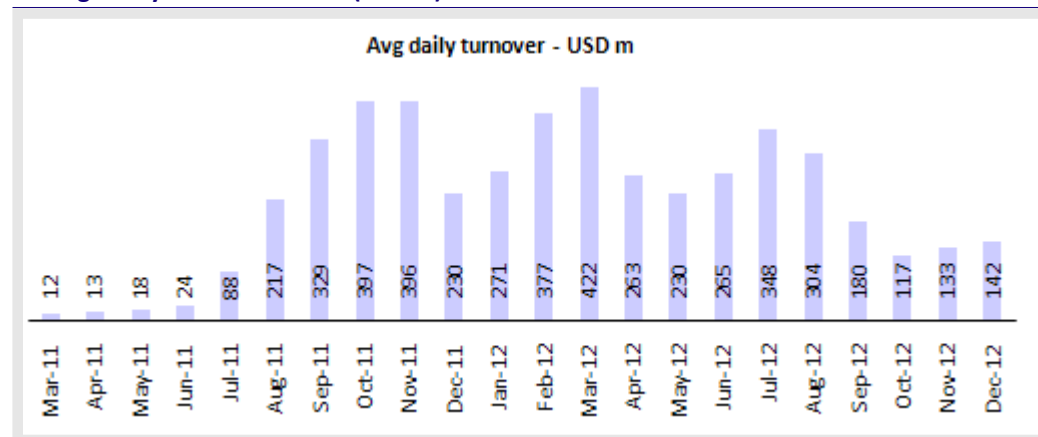
Singapore Mercantile Exchange (SMX) is the first pan-Asian multi-product commodity and currency derivatives exchange. SMX offers a comprehensive platform for trading a diversified basket of commodities including futures and options contracts on precious metals, base metals, agricultural commodities, energy, currencies and commodity indices. SMX has launched a single and reliable platform for both international and regional entities to trade a diverse range of multi-asset class products. Through cutting-edge electronic systems for trading futures and options, SMX is synchronizing derivatives and physical trading in commodities within the Asian time zone while continuously listing new products for more effective risk management during Asian trading hours.

Products and services

SMX offers a diversified basket of products including futures and options contracts on the following:

- **Precious metals:** Gold, silver
- **Base metals:** Copper
- **Energy:** WTI, Brent crude
- **Currency pairs:** EUR/USD, USD/JPY, AUD/USD, GBP/USD, EUR/USD
- **Indices:** Iron ore (MBO) index futures
- **Agri products:** Black pepper

Average daily turnover at SMX (USD m)



Source: Company, MOSL

BFX - a pioneering international financial exchange

Bahrain Financial Exchange (BFX) is an international financial exchange based in the Kingdom of Bahrain and internationally accessible to trade cash, derivatives, structured products and Shariah-compliant financial instruments. BFX provides clearing, settlement, depository and risk management activities through its clearing corporation, the BFX Clearing & Depository Corporation (BCDC), which provides settlement guarantees for all transactions executed on the exchange platform, eliminating counterparty risk and providing a high degree of security and confidence to market participants.

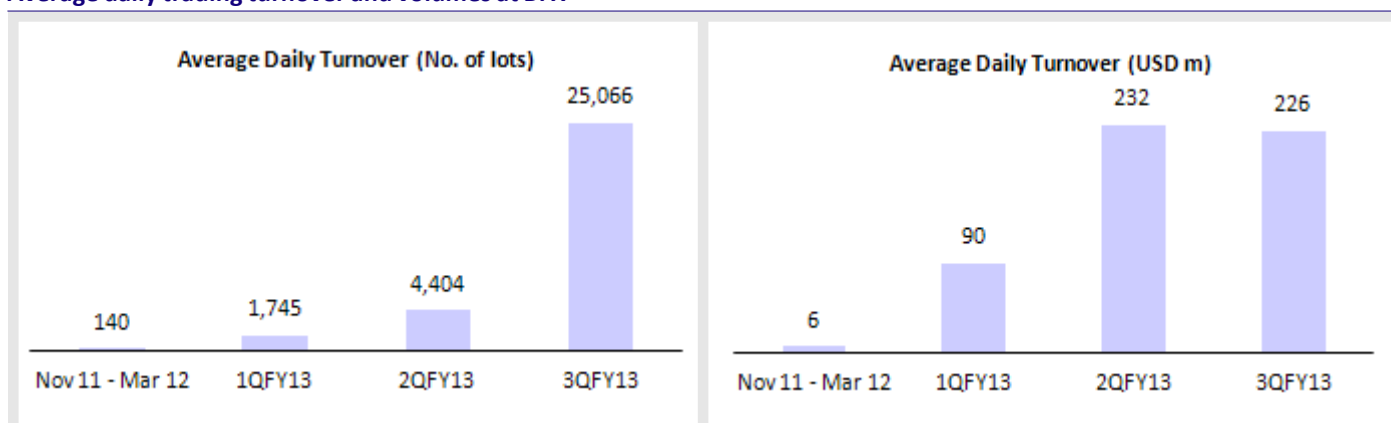
BFX launched its conventional trading segment in November 2011, comprising of derivatives products across asset classes such as commodities, energy, as well as currency. It will be introducing cash and derivatives products across other asset classes including equities, fixed income, exchange-traded funds, and structured products. BFX launched its Islamic finance division with the establishment of Bait Al Bursa in February 2011, marking the creation of the region's first exchange-operated platform dedicated to Islamic finance products. e-Tayseer is the first Islamic product to be offered by Bait Al Bursa dedicated to Murabaha liquidity management transactions.

BFX completed the first full year of trading in derivatives, with a cumulative volume of USD35b+. The average daily trading turnover increased from USD1.38m in November 2011 to USD226m in 3QFY13. The average daily trading volume increased to 25,066 contracts in 3QFY13.

Products and services

- The exchange offers two separate platforms (conventional and Shariah compliant) to meet participants' needs to trade on one or both of these markets.
- The trading platform gives market participants the ability to trade in multiple asset classes on one market. They will be able to trade in cash, derivatives or Shariah-compliant financial instruments.
- BFX futures on USD v/s INR (USD-INR), gold, EUR v/s USD (EUR-USD) and natural gas are available for trading, with other products including options contracts in the pipeline.

Average daily trading turnover and volumes at BFX



Source: Company, MOSL

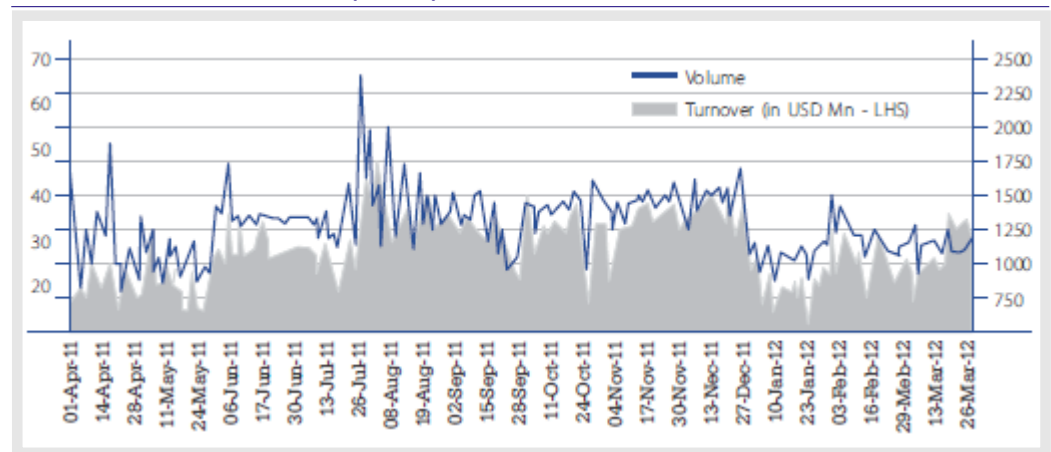
GBOT - global multi-asset class exchange

Global Board of Trade (GBOT) is a global multi-asset class exchange based in Mauritius, licensed and regulated by the Financial Services Commission, Mauritius. GBOT is attracting the international trading and investing community into the African markets through the development of 'Africa-centric' multi-asset products and creation of a trading and risk mitigation avenue. GBOT will provide content and substance for global firms operating in investment banking, broking, capital market research, etc, to set up their business in Mauritius and Africa.

Products and services

- Commodity futures: Gold, silver and WTI
- Currency futures: EUR/USD, GBP/USD, JPY/USD, ZAR/USD, USD/MUR
- Equities, equity derivatives, CFDs in single stocks, indices, commodities and currencies

Transaction volumes and value (USD m)



Source: Company, MOSL

Bourse Africa

Bourse Africa is a licensed spot and derivatives demutualised exchange, which will offer multi-asset class trading to serve markets worldwide from Africa. It will provide price discovery, and facilitate trade, financing, risk management and investment transactions between participants from across African markets, and between African and international participants.

Bourse Africa will operate on a hub and spoke model, a network of linked exchanges with Botswana as the technology and regulatory hub. The hub exchange in Botswana is licensed as a self-regulatory organization by the country's Non Bank Financial Institutions Regulatory Authority and accredited under the Botswana International Financial Services Center.

Products and services

Bourse Africa will offer both derivative and spot contracts, and introduce options and index trading later. Segments will include agriculture, metals, minerals, energy and currencies. It will diversify into other asset classes over time. The suite of derivative products will cover pan-African commodities, with an established international profile

(including cocoa, cotton, crude oil, gold and maize), as well as futures on currency pairs between African currencies, and between African and hard currencies. The spot platform will focus on the unique commodities produced and traded in different African countries to support the domestic trade and the export/import trade.

Value proposition

- An emerging geography almost completely untapped at present:
 - 53 countries, annual growth of 4-5%, emerging middle class, USD320b annual commodity base, rapidly integrating with global markets
 - No organized commodity futures exchange and no central counterparty clearing house (CCP) outside South Africa - a significantly underdeveloped exchange, brokerage and investment space
- Combined spot and derivative platforms
- Optimal hedging location
- Sound legal jurisdiction and regulatory framework of Botswana
- A CCP backed by Settlement Guarantee Fund to guarantee trades and fulfill all obligations arising there-from
- Integrated ecosystem elements (for example, warehouse receipts system (WRS), market information system (MIS), broker technology solutions, capacity management building academy)

Ecosystem Ventures

FTECH operates ecosystem ventures that complement its exchanges by addressing upstream and downstream opportunities in the areas of clearing and depository, information dissemination, warehousing and collateral management, payments processing and financial market education.



NBHC

National Bulk Handling Corporation (NBHC) is a national-level ISO 22000:2005 certified warehousing company and a leading integrated services enterprise for warehousing & bulk handling, collateral management, testing & certification, commodity care & pest management, procurement and allied services. It has pan-India presence across 900+ locations in 19 states and 35+ quality assurance laboratories.

It has expertise in over 160 commodities and is associated with 37 banks and financial institutions. It facilitated procurement of food grains under the government's minimum support price (MSP) program, functioning on behalf of Food Corporation of India (FCI).

Products and services

- Storage and bulk handling services
- Collateral management services (NBHC Cecure)
- Commercial and commodity pest management services (NBHC CommGuard)
- Quality testing, grading, inspection, and certification services (NBHC ProComm)
- Trade facilitation services
- Warehouse audit and accreditation & commodity valuation services (NBHC Mandate)
- Procurement services
- Information services

NBHC: Operational matrix

	FY11	FY12
Warehousing		
Storage capacity (mn MT)	2.2	2.24
Storage space (mn sq ft)	14	14.33
Storage Facilities	578	586
Quality Assurance and Pest Management		
Functional QA Laboratories	36	35+
Commodities Tested	150+	160+
Certificates issued	75,000+	60,000+
Collateral management		
Banks Associated	35	37
Commodities funded	150+	160+
Cumulative funding facilitated (INR b)	184+	248+

Source: Company, MOSL



Atom Technologies

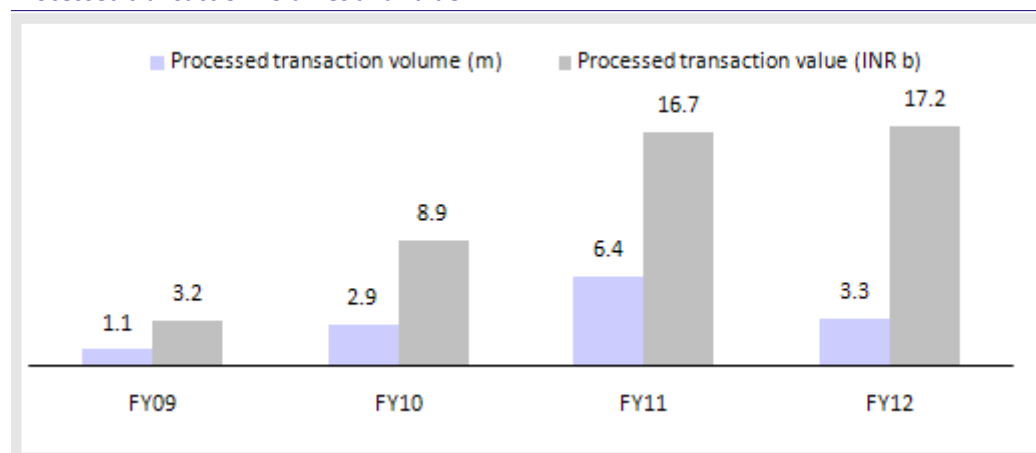
Atom is one of India's leading e-Commerce and m-Commerce payment service provider, offering payment collection facilities over the internet, interactive voice response system (IVRS) and mobile applications, using credit/debit/cash cards and net banking. It provides services to an array of clients spanning sectors such as government, utilities, financial services, education, travel & tourism, retail and telecom. Atom has designed an internet-based payment processing platform for brokers and intermediaries in financial markets, as well as for merchants enabling them to accept payments over the Internet.

Its processes are in compliance with Reserve Bank of India (RBI) guidelines as well as with card associations such as Visa, MasterCard and Amex. It has tie-ups with over 1,000 merchants, more than 31 banks and three major telecom companies for all-India operations.

Products and services

- **m-Commerce:** Mobile/telephone-based services providing payment solutions through IVR, mobile banking and mobile applications.
- **e-Commerce:** Web-based payment services providing payment solutions through internet payment gateways or net banking.
- **Mobile banking:** Provides mobile banking solutions for banks.

Processed transaction volumes and value



Source: Company, MOSL



TickerPlant

TickerPlant is a leading global content provider in the financial information and market data services industry, integrating and disseminating ultra-low latency data feeds, news and information to support investment decisions of professionals and investors. Information services coverage includes real-time commodities, forex, money markets and fixed income. It disseminates information through a variety of delivery channels, including desktop-based applications, browser-based applications and mobile applications.

Products and services

- MarketView Terminal is an integrated cross asset, market data, news and analytics platform that offers real-time streaming information on domestic and international exchanges and extensive coverage of equities, derivatives, commodities, currencies, debt, money markets and mutual funds.
- MarketView Terminal offers fast, reliable and comprehensive market data and news updates. Its real-time market data platform delivers ultra low latency, tick-by-tick data and features completely customizable screens, advanced charting, comprehensive and advanced technical analysis, and economic data.
- MarketView Mobile provides real-time streaming quotes of equities and commodities derivatives and forex on mobile phone and enables real-time connectivity to equities, commodity and currency markets to market participants and investors.
- TickerPlant's content solution for web module delivers information including market statistics, corporate filings, initial public offerings, mutual funds, financial tools, etc, on a single platform.



FTKMC

Financial Technologies Knowledge Management Company (FTKMC) is a provider of solutions and services in the realm of financial sector knowledge. It offers numerous products and services in the areas of executive education, financial literacy, financial certification, research, consultancy and advisory. FTKMC has successfully conducted nationwide training programmes as also extensive content development for financial markets. It caters to the following, domestically as well as internationally:

- Policy makers and regulatory authorities on subjects such as growing importance of financial markets in the economy, and aspects of governance and management.
- Financial institutions on market development strategies, resource mobilization and risk management.
- Corporates and other business entities on the scope of harnessing and accessing financial markets and issuing securities and other instruments.
- Intermediaries on the skill-sets and expertise required to operate in multi-asset-class markets, including trading and settlement.
- Students to prepare them with knowledge and know-how for successful careers in financial markets.
- Investors to empower them with proper understanding and appreciation of the opportunities in the financial markets and risk and rewards associated with financial investments.

Financials and Valuation

Income Statement				(INR Million)		
Y/E March	2010	2011	2012	2013E	2014E	2015E
Sales	3,070	3,577	4,255	3,909	4,825	5,334
Change (%)	-8.2	16.5	19.0	-8.1	23.4	10.6
Operating expenses	1,905	2,271	2,172	2,103	2,306	2,534
EBITDA	1,165	1,306	2,083	1,806	2,519	2,800
% of Net Sales	38.0	36.5	49.0	46.2	52.2	52.5
Depreciation	59	111	173	208	228	251
Interest	0	7	304	658	591	506
Other Income	3,412	1,421	3,689	1,517	1,191	1,295
PBT	4,518	2,609	5,295	2,457	2,891	3,337
Tax	1,107	229	386	342	723	834
Rate (%)	24.5	8.8	7.3	13.9	25.0	25.0
Adjusted PAT	3,411	2,380	4,909	2,115	2,168	2,503
Change (%)	-10.5	-30.2	106.3	-56.9	2.5	15.4

Balance Sheet				(INR Million)		
Y/E March	2010	2011	2012	2013E	2014E	2015E
Share Capital	92	92	92	92	92	92
Reserves	20,325	20,512	24,456	26,139	27,876	29,948
Net Worth	20,417	20,605	24,548	26,232	27,968	30,040
Deferred Tax Liabilities	88	120	137	137	137	137
Other LT Liabilities	0	71	147	147	147	147
Loans	4,137	0	5,627	5,627	5,627	5,627
Capital Employed	24,642	20,796	30,460	32,143	33,880	35,952
Gross Block	744	4,425	4,978	5,729	6,457	7,208
Less : Depreciation	205	152	266	473	702	953
Net Block	539	4,273	4,712	5,255	5,755	6,255
CWIP	2,200	202	7	50	50	50
Net Fixed Assets	2,739	4,071	4,705	5,205	5,705	6,205
Non-current investments	20,019	10,971	8,220	8,220	8,220	8,220
Other non-current assets	0	1,879	2,664	2,664	2,664	2,664
Curr. Assets	4,356	10,690	16,979	17,661	19,274	21,055
Debtors	821	319	363	353	436	482
Cash & Bank Balance	1,528	687	3,990	5,732	7,025	8,508
Loans & Advances/others	1,444	1,362	3,465	2,416	2,653	2,904
Current investments	563	8,323	9,161	9,161	9,161	9,161
Current Liab. & Prov	2,472	6,815	2,107	1,607	1,983	2,192
Current Liabilities	1,307	4,887	1,953	1,489	1,838	2,032
Provisions	1,165	1,928	154	118	145	160
Net Current Assets	1,884	3,875	14,871	16,055	17,292	18,863
Application of Funds	24,642	20,796	30,460	32,143	33,880	35,952

E: MOSL Estimates

Financials and Valuation

Ratios

Y/E March	2010	2011	2012	2013E	2014E	2015E
Basic (INR)						
EPS	74.0	51.6	106.5	45.9	47.1	54.3
Cash EPS	75	54	110	50	52	60
Book Value	443	447	533	569	607	652
DPS	8.0	8.0	8.0	8.0	8.0	8.0
Payout % (excl.div.taxes)	10.8	15.5	7.5	17.4	17.0	14.7
Valuation (x)						
P/E			10.1	23.5	22.9	19.8
Cash P/E			9.8	21.4	20.7	18.0
EV/EBITDA			20.2	22.3	15.5	13.4
EV/Sales			9.9	10.3	8.1	7.0
Price/Book Value			2.0	1.9	1.8	1.7
Dividend Yield (%)			0.7	0.7	0.7	0.7
Profitability Ratios (%)						
RoE	18.2	11.6	21.7	8.3	8.0	8.6
RoCE	7.0	6.7	6.0	5.3	5.4	7.3
Turnover Ratios						
Debtors (Days)	99	58	29	33	30	31
Fixed Asset Turnover (x)	9.1	1.9	1.7	1.0	1.0	1.0
Leverage Ratio (x)						
Debt/Equity Ratio(x)	0.2	0.1	0.1	0.2	0.2	0.2

Cash Flow Statement

(INR Million)

Y/E March	2010	2011	2012	2013E	2014E	2015E
CF from Operations	3,424	2,057	2,973	2,115	2,168	2,503
Cash for Working Capital	-127	-418	1,014	558	56	-88
Net Operating CF	3,297	1,639	3,987	2,673	2,224	2,415
Net Purchase of FA	396	-2,127	-390	-500	-500	-500
Net Purchase of Invest.	-5,574	75	2,546	0	0	0
Net Cash from Invest.	-5,179	-2,051	2,156	-500	-500	-500
Proceeds from Equity	-94	0	0	0	0	0
Proceeds from LTB/STB	-474	0	-2,412	0	0	0
Dividend Payments	-430	-429	-428	-431	-431	-431
Cash Flow from Fin.	-998	-429	-2,840	-431	-431	-431
Net Cash Flow	-2,880	-841	3,303	1,741	1,293	1,483
Opening Cash Bal.	4,408	1,528	687	3,990	5,732	7,025
Add: Net Cash	-2,880	-841	3,303	1,741	1,293	1,483
Closing Cash Bal.	1,528	687	3,990	5,732	7,025	8,508

E: MOSL Estimates

N O T E S

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