

MULTI COMMODITY EXCHANGE OF INDIA

Global developments to lead to volume volatility

India Equity Research | Banking and Financial Services



After a strong showing last quarter, Multi Commodity Exchange (MCX) reported moderate growth in Q3FY20 core operating (transaction) revenue of 16% YoY/down 11% QoQ correlating with ADTV growth. Overall revenue growth slipped further to 3% YoY due to lower other income (down 30% YoY) on account of treasury MTM losses. This coupled with a reduced EBITDA margin (down ~8ppt QoQ) caused PAT to undershoot expectations. ADTV sustained above INR300bn (for a second consecutive quarter after 24 quarters) led by crude oil, but declined 11% QoQ. Month-to-date (January 2020) volumes have rebounded to INR350bn; however, developments in commodity and crude oil prices given ongoing global events would determine the direction hereon. Structural levers—options trading, institutional participation, introduction of intangibles—are in a slow lane. Moreover, regulatory risk (universal exchange norms) challenging MCX's market leadership (despite >90% share) and concentration of few commodities in volumes could cap valuation upside. Maintain 'HOLD' with a TP of INR1,180 (25x FY21E P/E).

Volume growth sustained led by increased participation

ADTV—one of MCX's key performance barometers—sustained growth of 16% YoY to INR309bn led by increased participation (25% growth contributed by new UCC). Growth was led by the bullion (driven by volume) and energy segments. That said, agri and base metals posted softer growth, which is likely to be a near-term overhang in our view. Moreover, options volumes have been modest and remain a key variable. Despite a sharp rebound in January, the course of global events would determine the direction hereon.

Lower tax rate offset by weaker EBITDA margin

With softer revenue growth, EBITDA margin witnessed a compression of ~8ppt QoQ to 50% despite cost control, thereby causing PAT to miss expectations. However, a lower tax (of sub-8%) due to the MAT credit and excess tax provisions in FY19 cushioned PAT somewhat. The new tax regime would kick in after the MAT credit is exhausted.

Outlook and valuation: Upside priced in; maintain 'HOLD'

MCX posted strong 9MFY20 earnings led by an ADTV rebound and cost control. However, structural drivers that could lead to a multiple re-rating seem to be decelerating. We believe valuations at 27.5x FY21E EPS capture a fair bit of the volume momentum. Maintain 'HOLD/SP' with a TP of INR1,180 (25x FY21E P/E).

Financials

(INR mn)

Year to March	Q3FY20	Q3FY19	Growth %	Q2FY20	Growth %	FY19	FY20E	FY21E
Net revenue	1,084	1,050	3.2	1,383	(21.6)	3,998	4,981	5,508
Net profit	484	381	27.3	627	(22.8)	1,464	2,229	2,314
Dil. EPS (INR)	9.5	7.5	27.3	12.3	(22.8)	33.4	43.7	45.4
Book Value (INR)						317	338	359
Price/ Book (x)						3.9	3.7	3.5
Price/ Earnings (x)						37.4	28.5	27.5

EDELWEISS 4D RATINGS

Absolute Rating	HOLD
Rating Relative to Sector	Performer
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Overweight

MARKET DATA (R: MCEIqf.BO, B: MCX IN)

CMP	: INR 1,246
Target Price	: INR 1,180
52-week range (INR)	: 1,443 / 644
Share in issue (mn)	: 51.0
M cap (INR bn/USD mn)	: 64 / 935
Avg. Daily Vol.BSE/NSE('000)	: 685.4

SHARE HOLDING PATTERN (%)

	Current	Q2FY20	Q1FY20
Promoters *	-	-	-
MF's, FI's & BK's	35.6	36.9	41.6
FII's	33.9	31.8	30.7
Others	30.5	31.3	27.7
* Promoters pledged shares (% of share in issue)	:		NIL

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Banks and Financial Services Index
1 month	7.8	(1.8)	(4.9)
3 months	10.4	1.6	3.6
12 months	78.1	13.0	16.0

Kunal Shah

+91 22 4040 7579
kunal.shah@edelweissfin.com

Prakhar Agarwal

+91 22 6620 3076
prakhar.agarwal@edelweissfin.com

Prashant Ghuge

+91 22 4063 5517
prashant.ghuge@edelweissfin.com

January 31, 2020

Table 1: Key takeaways from Q2FY20 earnings

(INR mn)	Q3FY20	Q3FY19	YoY (%)	Q2FY20	QoQ (%)	Comments
Revenues	1,084	1,050	3.2	1,383	(21.6)	Transactional revenue growth was inline with ADTV growth. However lower other income (due to MTM losses) dragged overall revenue growth
Expenses	518	563	(8.0)	545	(5.0)	Expenses were broadly under control
- Employee Benefits Expense	152	153	(0.5)	170	(10.5)	
- Software Support Charges	125	125	(0.1)	132	(5.1)	
- Other Expenses	241	285	(15.5)	244	(1.2)	
EBIDTA	566	487	16.2	838	(32.4)	
- Finance Costs	0	-	NA	0	NA	
- D&A Expense	42	38	12.2	42	1.9	
Profit before Tax	524	450	16.5	796	(34.2)	
Tax Expenses	40	69	(42.7)	169	(76.5)	
PAT	484	381	27.3	627	(22.8)	
Exceptional items	-	-	NA	-	NA	
Reported PAT	484	381	27.3	627	(22.8)	
Diluted EPS (INR)	9.5	7.5	27.3	12.3	(22.8)	
Ratios (%)						
EBITDA Margin	52.3	46.4		60.6		Margins took a knock on the back of muted revenues (fixed cost model).
PAT Margin	44.7	36.2		45.4		
Tax Rate	7.6	15.4		21.2		Tax rate came in lower due to benefits of MAT credit and excess tax provisions made during FY19.
ADTV (INR bn)						
Total	309	266	15.9	345	(10.6)	ADTV growth sustained with second consecutive quarter of INR300bn+
-Gold & Silver	102	59	72.4	132	(22.7)	Bullion and energy segments sustained momentum given higher volatility
-Crude Oil	127	86	48.6	131	(3.1)	
-Agri	3	4	(19.2)	3	16.2	Growth in agri and base metals continue to be on soft terrain
-Others	76	118	(35.0)	80	(4.0)	

Source: Company, Edelweiss research

Table 2: Volumes continued the momentum, sustainability holds key

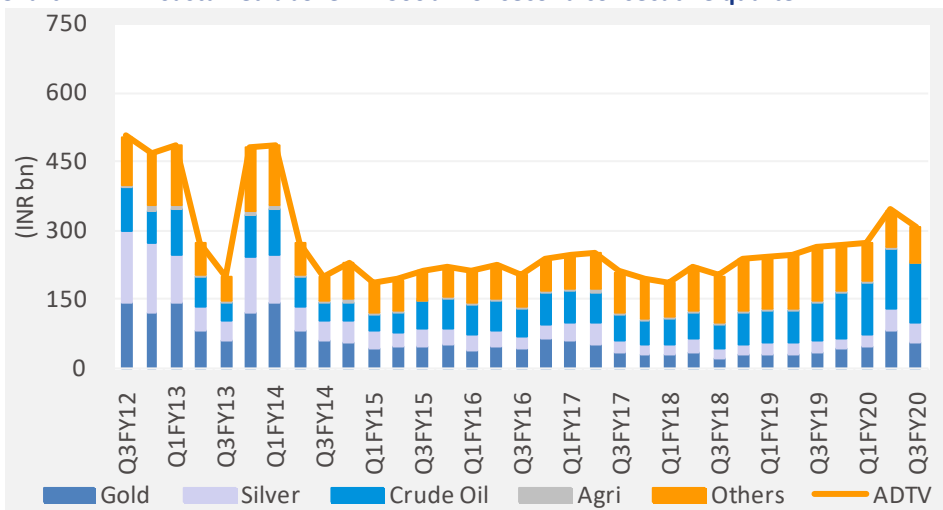
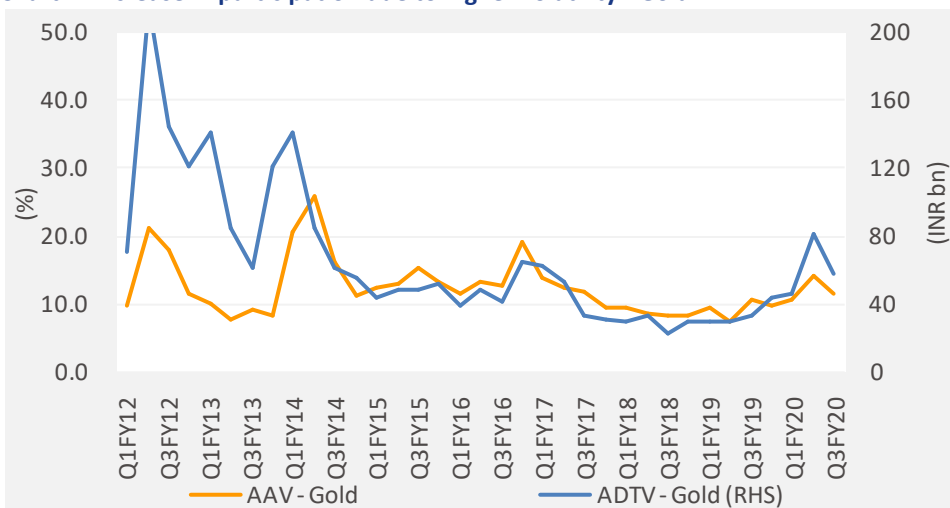
(INR bn)	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	QoQ	YoY
Average Daily Trading Volumes	201	238	244	247	266	270	275	345	309	(10.6)	15.9
-Gold	23	29	30	29	34	43	46	81	58	(28.4)	73.7
-Silver	22	24	25	25	25	24	28	50	43	(13.4)	70.7
-Crude Oil	50	67	72	72	86	97	113	131	127	(3.1)	48.6
-Agri	5	5	4	4	4	4	5	3	3	16.2	(19.2)
-Others	102	114	112	116	118	102	83	80	76	(4.0)	(35.0)

Source: Company

Table 3: Gold, silver and crude oil led the volume growth

(INR bn)	Qty Denomina- tion	ADTV Q3FY20		ADTV Q2FY20		ADTV Q2FY19		Change in ADTV (YoY)		Change in ADTV (QoQ)	
		Value		Value		Value		Value		Value	
		(INR bn)	Volume	(INR bn)	Volume	(INR bn)	Volume	(%)	(%)	(%)	(%)
Gold	000 Kgs	58.3	15,298	81.4	22,051	33.5	10,685	73.7	43.2	(28.4)	(30.6)
Silver	000 Kgs	43.5	961	50.2	1,136	25.5	672	70.7	43.0	(13.4)	(15.5)
Crude Oil	000 BBLs	127.2	31,425	131.3	32,883	85.6	20,790	48.6	51.2	(3.1)	(4.4)
Copper	000 Kgs	14.7	33,352	19.9	44,535	24.0	54,467	(39.0)	(38.8)	(26.2)	(25.1)
Zinc	000 Kgs	12.9	69,167	19.6	103,848	34.0	179,430	(62.1)	(61.5)	(34.3)	(33.4)
Lead	000 Kgs	4.8	30,905	8.4	54,652	14.7	102,902	(67.5)	(70.0)	(43.2)	(43.5)
Nickel	000 Kgs	15.9	14,714	15.9	14,508	9.6	11,444	65.8	28.6	(0.1)	1.4

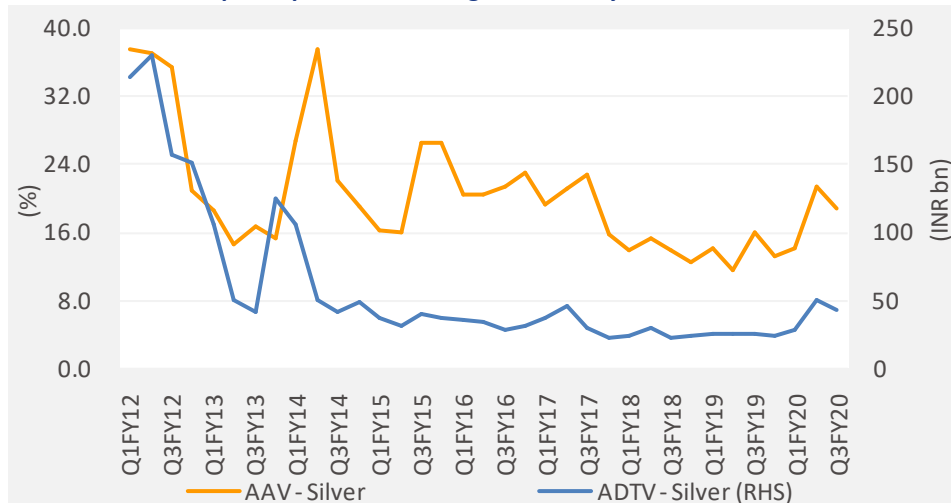
Source: Company

Chart 1: ADTV sustained above INR300bn for second consecutive quarter**Chart 2: Increase in participation due to higher volatility - Gold**

*AAV –Annualised Actual Volatility (20days)

Source: Company

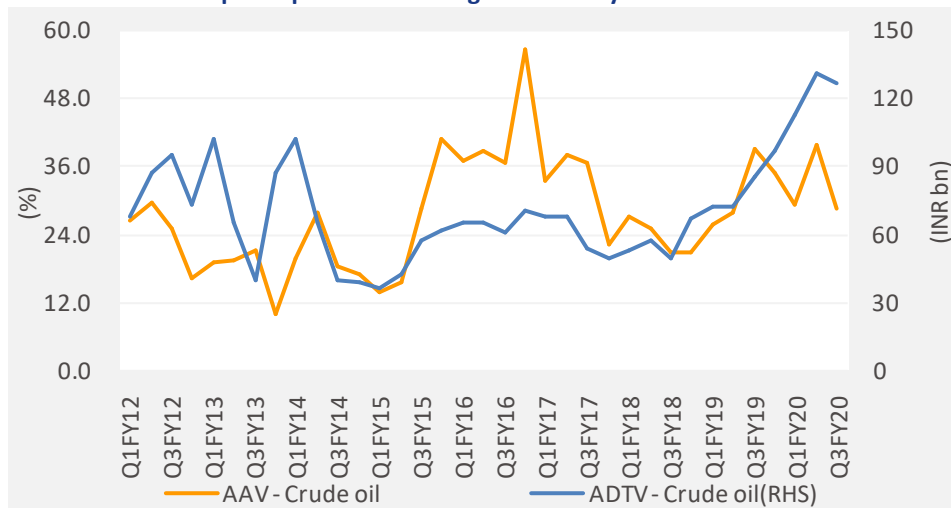
Chart 3: Increase in participation due to higher volatility - Silver



Source: Company

*AAV – Annualised Actual Volatility (20days)

Chart 4: Increase in participation due to higher volatility – Crude Oil



Source: Company

*AAV – Annualised Actual Volatility (20days)

Table 4: Commodity-wise assumptions for ADTV growth

	FY18	FY19	FY20E	FY21E
SILVER				
Avg daily volume (INR bn)	25	25	43	50
Vol (kgs)	630	645	936	1,029
Avg price (INR)	39,101	38,687	46,424	48,281
Proportion of total volume (%)	11.6	9.7	12.7	12.9
GOLD				
Avg daily volume (INR bn)	28	34	65	73
Vol (gms)	9,701	10,813	17,301	19,031
Avg price (INR)	29,297	31,383	37,659	38,412
Proportion of total volume (%)	13.4	13.2	19.1	19.0
COPPER				
Avg daily volume (INR bn)	18	24	23	26
Vol (kgs)	43	54	51	57
Avg price (INR)	4.2	4.4	4.5	4.7
Proportion of total volume (%)	8.6	9.3	6.7	6.9
CRUDE OIL				
Avg daily volume (INR bn)	56	82	129	144
Vol ('000 bbls)	16	19	29	32
Avg price (INR)	34.4	42.6	44.8	45.7
Proportion of total volume (%)	26.5	31.9	37.7	37.5
ZINC				
Avg daily volume (INR bn)	31	35	30	34
Vol (kgs)	1,56,120	1,86,288	1,49,031	1,63,934
Avg price (INR)	2.0	1.9	2.0	2.1
Proportion of total volume (%)	14.5	13.8	8.7	8.9
LEAD				
Avg daily volume (INR bn)	15	15	11	13
Vol (kgs)	1,00,488	1,04,083	72,858	80,144
Avg price (INR)	1.5	1.5	1.6	1.6
Proportion of total volume (%)	7.3	6.0	3.3	3.4
NICKEL				
Avg daily volume (INR bn)	10	12	13	14
Vol (kgs)	13,952	13,516	14,867	16,354
Avg price (INR)	7.4	9.1	8.6	8.6
Proportion of total volume (%)	4.9	4.8	3.8	3.7
AGRI				
Avg daily volume (INR bn)	4.5	3.9	4.7	5.7
Proportion of total volume (%)	2.1	1.5	1.4	1.5
OTHERS				
Avg daily volume (INR bn)	23.5	24.8	22.3	24.5
Proportion of total volume (%)	11.1	9.7	6.5	6.4
TOTAL	212	256	341	385

Source: Company, Edelweiss research

Financial snapshot

(INR mn)

Year to March	Q3FY20	Q3FY19	% change	Q2FY20	% change	YTD20	FY20E	FY21E
Net revenues	1,084	1,050	3.2	1,383	(21.6)	3,528	4,981	5,508
Employee expenses	152	153	(0.5)	170	(10.5)	480	756	797
Software support charges	125	125	(0.1)	132	(5.1)	377	667	753
Other expenses	241	285	(15.5)	244	(1.2)	727	771	829
Total expenditure	518	563	(8.0)	545	(5.0)	1,583	2,194	2,378
EBITDA	566	487	16.2	838	(32.4)	1,944	2,787	3,130
Depreciation	42	38	12.2	42	1.9	123	165	163
Interest	-	-	-	-	0.0	-	0	0
PBT before exceptional	524	450	16.5	796	(34.2)	1,821	2,622	2,967
Tax	40	69	(42.7)	169	(76.5)	307	393	653
PAT	484	381	27.3	627	(22.8)	1,514	2,229	2,314
Diluted EPS (INR)	9.5	7.5	27.3	12.3	(22.8)	29.8	43.7	45.4
Ratios (%)								
EBITDA margin	52.3	46.4		60.6		55.1	55.9	56.8
PAT margin	44.7	36.2		45.4		42.9	44.7	42.0
Employee cost/revenues	14.0	14.5		12.3		13.6	15.2	14.5
Software chg./revenues	11.5	11.9		9.5		10.7	13.4	13.7
Tax rate	7.6	15.4		21.2		16.8	15.0	22.0
Valuation metrics								
Adj book value / share							337.6	359.1
Price/ Book (x)							3.7	3.5
Price/ Earnings (x)							28.5	27.5

Q3FY20 earnings call highlights

- After a strong Q2FY20, the performance of the company was relatively subdued in Q3FY20 – futures ADTV of INR306bn (down 10.6% QoQ, up 16% YoY).
 - In line with this, the operating income grew by 16% to INR893mn (Q3FY19 had an income from insurance to the tune of 4% of total income which inflates the base).
 - The revenues were also impacted by one less working day (64 in Q3FY20) compared to 65 in Q2FY20 – a loss of INR300bn ADTV which causes a revenue loss of ~INR200 per INR10million of ADTV.
 - Moreover, there was a fall in other income (treasury income) due to MTM loss on tax free bonds. Valuations have now improved marginally.
 - Realisation during the quarter were ~INR2.1 average.
- The company is seeing good traction with unique customers – 25% if the ADTV in Q3FY20 was on account of new UCCs (who have not traded in the entire year).
 - The UCCs in 9MFY20 have already surpassed the FY19 figures.
 - The overall growth is due to efforts of the company as well as member brokers (who follow-up with the customers on regular basis) as the banking channel is not yet activated. There are ~480-490 active member brokers (stable YoY).
 - ICICI Securities is in process of putting the infrastructure in place (new product head has been appointed) and hopeful of getting started in this quarter.
- The company would be focusing on building its brand – have started creating awareness among all categories of investors/market participants.
 - In order to do so, it has started the process to add domestic metal brands (currently on LME brands are there) without compromising the chemistry. The process is on for lead and will be done for other metals as well.
- For base metals – there is some dip in volume (~30%) due to compulsory physical settlement (aluminium, zinc, lead are not doing good). The company is looking to make some modification to the contracts to attract participants.
- For gold – currently LBMA approved players can deliver gold on the exchange. The company is planning to add domestic refiners to the list of approved refiners (based on strict criteria of net worth and bank guarantee) without compromising the quality of the product. This would not require regulatory approval.
 - 9MFY20 delivery is ~9 tonnes with average daily OI of 21 tonnes (compared to Q2FY20 of 29.5 tonnes).
- For cotton – the volumes were subdued due to extended monsoon leading to quality issues. However, there has been an uptick in January with 0.15mn bales in warehouses and 0.2mn OI being created.
- For Index futures – the company has filed with SEBI in last month. Also, extensive marketing is being done for creating awareness for both institutional as well as retail clients. This will be launched as soon as SEBI approval is received.

- **For options** – currently all options are converted into futures and then undergo expiry. However, changes are being made to have direct expiry of options. As per SEBI rule, both future and option contract must exist on the underlying for this to happen.
- **For Gas and Electricity** – for Electricity, **the matter is in front of Supreme Court** post which rest of the regulatory work will start. **For Gas spot market, some issues like GST, gas grid segregation, etc. need to be sorted out.**
- **Mutual Funds and Custodians** – the company has **authorised 2 custodians to provide services** (limited as of now) – Deutsche and Orbis – who can participate in index futures, gold, and crude.
 - Once this is streamlined, the company expects a lot of multi-asset funds to come in. Various AIFs and PMSes have started to come on-board, while MF participation is still lagging.
- **Tax rate** – The usual effective tax rate for the company is ~17.5%. During the quarter, the effective tax rate was lower due to benefit of MAT credit and some excess tax provisions made during FY19. Once MAT credit is exhausted, the company will shift to new tax regime.
- **Employee costs** – The costs have decline QoQ due to natural attrition (CFO not yet appointed). All ESOPs costs have already flown through PNL.

Q2FY20 earnings call highlights

- **Q2FY20 was one of the best quarter** since the levy of CTT in 2013, key highlights:
 - **Increased volatility in various commodities, favorable yields, along with cost controls** led to improved performance.
 - Increased volatility has been attracting **new customers as well old customers** are also returning to markets.
 - The **half yearly ADT surpassed INR300bn** mark since FY 13-14.
 - Gold contracts witnessed a **record delivery of 5.2 MT** (valued at ~INR 18.2bn) in August 2019 delivery contracts, surpassing previous record of 5.05 MT in Oct 2009.
 - Turnover in Crude Oil futures contracts made a **lifetime high of INR266.2bn** on September 17, 2019.
 - Cotton contract successfully concluded current crop season (Oct 18 -Aug 19) with **record delivery of 3.98 lakh bales**.
- **Realisations declined during the quarter** as higher turnover leads to higher payouts to brokers (due to slab change).
- **Other income** increased due to treasury income (favorable yields) and MTM gain on tax free bond portfolio – can expect run-rate of INR250-300mn if yields stay at current levels.
- **Cost controls** – the costs for the company remains largely fixed. **It has stopped paying fees to LME** as they no longer use their prices. **The fees to CME continues** as prices are sourced for crude, natural gas, and copper.
- **Increasing participation** - the company continues to focus on **increasing participation (especially from institutional players)** by addressing infrastructure related concerns.
 - It is also **focusing on commodity users** who hedge on international markets, have approached SEBI to ask them to hedge domestically (especially for base metals).
 - The **response from banks (retail participation) remains weak** to due to recent incidents and overall risk aversion towards commodities.
- **Physical delivery** – the company does not intend to increase delivery centers (except for demand from major centers).
- **Tax rate cut** – will not be able to avail benefits of tax rate cut as there is **MAT credit outstanding**, tax rate in Q3FY20 will be 20-22%.
- **New products** – working on launch of index futures (which can be a large contributor since it is cash settled), expected to launch in current FY.
- **Spot exchange** – awaiting for clarity on regulatory framework post which will file for new products.
- **Options** – Have not achieved sufficient traction in option volumes and hence not charging for the same.

Company Description

MCX is a leading electronic commodity futures exchange in India. The exchange commenced operations in November 2003 and within few years it has emerged the market leader in the commodities future industry with 80% plus market share, leveraging product and service innovations and effective use of technology. It has a well designed technology platform which ensures security, reliability, flexibility and scalable architecture with handling capacity of 40mn transactions per day. In terms of innovation, MCX is the first exchange in India to launch mini contracts to cater to needs of small traders and SMEs and has initiated evening sessions to synchronize with trading hours of exchanges in London, New York and other major international markets.

Investment Theme

MCX's performance over the past few quarters has been characterised by softer revenue traction. While ADTV has been stabilising, realisation pressure persists—a trend we expect to sustain. Furthermore, structural risk of universal exchange will challenge MCX's monopoly and threaten revenue momentum. Despite associated risks, the stock trades at >25x FY21E EPS, thereby limiting the price upside. Hence, we maintain 'HOLD/SU'.

Key Risks

Higher regulatory risks due to speculative nature of trades: i) Delay in implementation of proposed policy measures; ii) Ban on trading in certain commodities; iii) Revision in open position limits, higher margin requirement, CTT imposition etc.

Significant dependence on a few commodities: Top four commodities—gold, silver, crude oil and copper—accounted for more than 85% of total volumes on MCX.

Long-term pricing pressure likely in commodities futures.

Financial Statements

Key Assumptions

Year to March	FY19	FY20E	FY21E	FY22E
Macro				
GDP(Y-o-Y %)	6.8	5.0	5.8	6.5
Inflation (Avg)	3.4	4.3	4.8	5.0
Repo rate (exit rate)	6.3	5.2	4.5	5.0
USD/INR (Avg)	70.0	71.5	71.0	70.0
Sector				
Credit growth	14.0	11.0	13.0	15.0
Deposit growth	13.0	12.0	14.0	15.0
CRR	4.0	4.0	4.0	4.0
SLR	19.5	18.5	18.0	18.0
G-sec yield	7.0	7.1	7.1	7.1
Company				
Operating margin	48.3	55.9	56.8	58.1
Employee cost/revenues	18.1	15.2	14.5	13.9
Technology cost/revenues	15.3	13.4	13.7	13.5
Dividend tax	17.0	17.0	17.0	17.0
Tax rate (%)	4.2	15.0	22.0	24.0
Dividend payout	60.0	45.0	45.0	45.0
Avg Daily Trading Vol.	256.5	341.2	385.2	435.0
- Gold	33.9	65.2	73.1	82.0
- Silver	25.0	43.4	49.7	56.9
- Crude Oil	81.7	128.7	144.4	162.0
- Agri	3.9	4.7	5.7	6.8
- Others	111.9	99.2	112.4	127.4
Commission yields	2.1	2.1	2.1	2.1
# of members	2,175	2,212	2,249	2,286
# of employees	409	413	428	443
# of terminals	764	840	924	1,017

Income statement

(INR mn)

Year to March	FY19	FY20E	FY21E	FY22E
Net revenue	3,998	4,981	5,508	6,131
Operating expenses	2,067	2,194	2,378	2,570
Operating margin	1,931	2,787	3,130	3,561
Depreciation	155	165	163	162
EBIT	1,777	2,622	2,967	3,399
Profit Before Tax	1,777	2,622	2,967	3,399
PBT incl. extraor. inc.	1,777	2,622	2,967	3,399
Less: Provision for Tax	75	393	653	816
Net profit	1,702	2,229	2,314	2,583
Reported Profit	1,464	2,229	2,314	2,583
Prior Period(Net of Tax)	(238)	-	-	-
Adj. Diluted EPS (INR)	33.4	43.7	45.4	50.7
Dividend per share (DPS)	20.0	19.7	20.4	22.8
Dividend Payout Ratio(%)	60.0	45.0	45.0	45.0

Growth ratios (%)

Year to March	FY19	FY20E	FY21E	FY22E
Revenues	13.5	24.6	10.6	11.3
- Transaction fee growth	15.5	31.4	12.0	12.9
Opex growth	9.9	6.2	8.4	8.1
Operating margin growth	17.6	44.3	12.3	13.8
PBT	20.4	47.6	13.1	14.6
Adjusted Profit	34.7	52.3	3.8	11.6

Operating ratios

Year to March	FY19	FY20E	FY21E	FY22E
Operating margin	48	56	57	58
PAT margin	43	45	42	42
Employee cost/revenues	18	15	14	14
Technology cost/revenues	15	13	14	13
Opex/revenues	52	44	43	42
Tax rate	4.2	15.0	22.0	24.0

Balance sheet		(INR mn)			
As on 31st March	FY19	FY20E	FY21E	FY22E	
Share capital	510	510	510	510	
Net worth	16,161	17,217	18,312	19,535	
Def. Tax Liability (net)	84	92	105	121	
Total liabilities	16,245	17,309	18,417	19,657	
Gross Block	4,321	4,471	4,621	4,771	
Depreciation	2,821	2,986	3,149	3,312	
Net Block	1,500	1,485	1,471	1,459	
Investments	12,084	12,784	13,484	14,184	
Cash and Equivalents	364	719	747	945	
Sundry Debtors	41	104	122	146	
Fixed Deposits	4,694	5,444	6,194	6,944	
Loans & Advances	1,288	1,423	1,574	1,741	
Other Current Assets	50	59	71	86	
Total current assets	6,437	7,750	8,708	9,862	
Current liabilities	3,158	4,032	4,500	5,027	
Security Deposits	102	104	106	109	
Networking Equip. Dep.	4	4	4	4	
Trading Margin from Mem.	2,565	3,412	3,852	4,350	
Other Current Liab	488	512	538	564	
Net current assets	3,278	3,718	4,208	4,834	
Provisions	617	679	747	821	
Total assets	16,245	17,309	18,417	19,657	
BVPS (INR)	316.9	337.6	359.1	383.1	

Key operating metrics		FY19	FY20E	FY21E	FY22E
Year to March					
Avg Daily Trading Vol.		256	341	385	435
- Gold		34	65	73	82
- Silver		25	43	50	57
- Crude Oil		82	129	144	162
- Agri		4	5	6	7
Commission yields		2.1	2.1	2.1	2.1
# of members		2,175	2,212	2,249	2,286
# of terminals		764	840	924	1,017

RoE decomposition (%)		FY19	FY20E	FY21E	FY22E
Year to March					
ROAE (%)		9.2	13.4	13.0	13.7

Valuation parameters		FY19	FY20E	FY21E	FY22E
Year to March					
Adj. Diluted EPS (INR)		33.4	43.7	45.4	50.7
Y-o-Y growth (%)		56.7	31.0	3.8	11.6
BV per share (INR)		316.9	337.6	359.1	383.1
Diluted P/E (x)		37.4	28.5	27.5	24.6
P/B (x)		3.9	3.7	3.5	3.3
Dividend Yield (%)		1.6	1.6	1.6	1.8

Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X)		P/B (X)		ROAE (%)	
		FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Multi Commodity Exchange of India	935	28.5	27.5	3.7	3.5	13.4	13.0
HDFC	58,418	26.1	20.2	2.9	2.6	16.2	15.4
Indiabulls Housing Finance	1,836	5.5	5.7	0.8	0.8	15.9	14.8
LIC Housing Finance	3,096	8.9	6.8	1.2	1.1	14.4	16.7
Mahindra & Mahindra Financial Services	3,198	17.8	14.1	2.0	1.9	11.6	13.8
Manappuram Finance	2,227	13.6	10.8	3.1	2.7	24.6	26.8
Muthoot Finance	4,286	11.5	10.4	2.7	2.3	26.0	23.8
REC	3,977	5.1	4.4	0.8	0.7	15.4	16.3
Repco Home Finance	292	6.5	6.0	1.1	1.0	19.0	17.5
Shriram City Union Finance	1,250	7.3	6.4	1.2	1.0	17.7	17.4
Shriram Transport Finance	3,245	7.7	6.6	1.3	1.1	18.7	18.6
Median		8.3	6.7	1.3	1.1	16.1	16.5
AVERAGE		12.4	10.9	1.8	1.6	17.1	17.4

Source: Edelweiss research

Additional Data

Directors Data

Saurabh Chandra	Chairman	P. S. Reddy	Managing Director and Chief Executive Officer
Basant Seth	Director	Dr. Deepali Pant Joshi	Director
Ms. Pravin Tripathi	Director	Shankar Aggarwal	Director
Amit Goela	Director	C. Jayaram	Director
Heman Graja	Director	Ms. Madhu Vadera Jayakumar	Director
Ms. Padma Raghunathan	Director	Bhartendu Kumar Gairola	Director

Auditors - Shah Gupta & Co.

**as per last annual report*

Holding - Top 10

Perc. Holding			
Kotak Mahindra Bank	15.00	JPPorgan Chase & Co.	5.80
UTI Asset Management Co.	4.53	Jhunjhunwala Rakesh	3.92
Government Pension Fund - Global	3.41	Axis Asset Management Co.	3.28
SBI Funds Management	3.15	TIAA	2.71
East Bridge Capital	2.15	L&T Mutual Fund	1.84

**as per last available data*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
No Data Available				

**in last one year*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
26 Apr 2019	JPMORGAN FUNDS	BUY	267000.00

**in last one year*

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Aavas Financiers	REDUCE	SU	M	Aditya Birla Capital	BUY	SO	H
Axis Bank	BUY	SO	M	Bajaj Finserv	REDUCE	SU	L
Bank of Baroda	BUY	SO	M	DCB Bank	BUY	SP	M
HDFC	BUY	SO	L	Federal Bank	BUY	SO	L
ICICI Bank	BUY	SO	L	HDFC Bank	BUY	SO	L
Indiabulls Housing Finance	HOLD	SU	M	IDFC FIRST BANK	BUY	SP	L
Kotak Mahindra Bank	BUY	SP	M	IndusInd Bank	BUY	SO	L
LIC Housing Finance	BUY	SO	M	L&T Finance Holdings	HOLD	SP	M
Mahindra & Mahindra Financial Services	BUY	SP	M	Magma Fincorp	BUY	SP	M
Max Financial Services	BUY	SO	L	Manappuram Finance	HOLD	SU	H
Muthoot Finance	BUY	SO	M	Multi Commodity Exchange of India	HOLD	SP	M
Punjab National Bank	REDUCE	SU	M	REC	HOLD	SP	M
Repco Home Finance	BUY	SP	M	Shriram City Union Finance	BUY	SP	M
Shriram Transport Finance	BUY	SO	M	South Indian Bank	BUY	SP	M
State Bank of India	BUY	SO	L	Union Bank Of India	HOLD	SU	M
Yes Bank	BUY	SP	M				

ABSOLUTE RATING

Ratings

Expected absolute returns over 12 months

Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

RELATIVE RETURNS RATING

Ratings

Criteria

Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

RELATIVE RISK RATING

Ratings

Criteria

Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

SECTOR RATING

Ratings

Criteria

Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

Edelweiss Securities Limited, Edelweiss House, off C.S.T. Road, Kalina, Mumbai – 400 098.

Board: (91-22) 4009 4400, Email: research@edelweissfin.com

Aditya Narain

Head of Research

aditya.narain@edelweissfin.com

Coverage group(s) of stocks by primary analyst(s): Banking and Financial Services

Aavas Financiers, Aditya Birla Capital, AU Small Finance Bank Ltd, Axis Bank, Bajaj Finserv, Bank of Baroda, DCB Bank, Equitas Holdings, Federal Bank, HDFC, HDFC Bank, HDFC Life Insurance Company Ltd, ICICI Bank, ICICI Lombard General Insurance Company Ltd, IDFC FIRST BANK, Indiabulls Housing Finance, IndusInd Bank, ICICI Prudential Life Insurance Company Ltd, Kotak Mahindra Bank, LIC Housing Finance, L&T Finance Holdings, Max Financial Services, Multi Commodity Exchange of India, Manappuram Finance, Magma Fincorp, Mahindra & Mahindra Financial Services, Muthoot Finance, Punjab National Bank, Power Finance Corp, REC, Repco Home Finance, SBI Life Insurance Company Ltd, State Bank of India, Shriram City Union Finance, Shriram Transport Finance, South Indian Bank, Union Bank Of India, Yes Bank

Recent Research

Date	Company	Title	Price (INR)	Recos
31-Jan-20	Shriram City Union Finance	Shift to secured lending amid tight liquidity; <i>Result Update</i>	1,353	Buy
30-Jan-20	LIC Housing Finance	Asset quality disappoints; valuation comfort; <i>Result Update</i>	441	Buy
30-Jan-20	Bajaj Finserv	Steady performance; valuations high; <i>Result Update</i>	9,640	Reduce

Distribution of Ratings / Market Cap

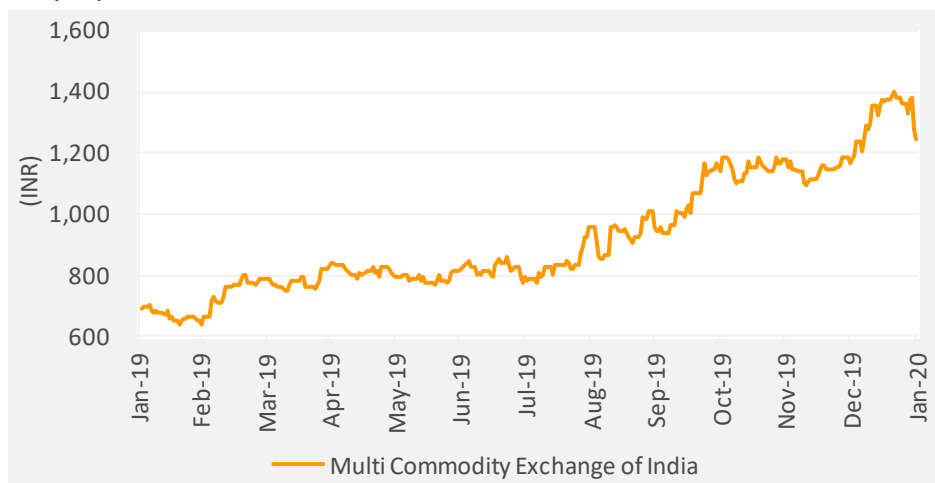
Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240
* 1stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	156	62	11	

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

One year price chart



DISCLAIMER

Edelweiss Securities Limited (“ESL” or “Research Entity”) is regulated by the Securities and Exchange Board of India (“SEBI”) and is licensed to carry on the business of broking, depository services and related activities. The business of ESL and its Associates (list available on www.edelweissfin.com) are organized around five broad business groups – Credit including Housing and SME Finance, Commodities, Financial Markets, Asset Management and Life Insurance.

This Report has been prepared by Edelweiss Securities Limited in the capacity of a Research Analyst having SEBI Registration No. INH200000121 and distributed as per SEBI (Research Analysts) Regulations 2014. This report does not constitute an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Securities as defined in clause (h) of section 2 of the Securities Contracts (Regulation) Act, 1956 includes Financial Instruments and Currency Derivatives. The information contained herein is from publicly available data or other sources believed to be reliable. This report is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Each recipient of this report should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in Securities referred to in this document (including the merits and risks involved), and should consult his own advisors to determine the merits and risks of such investment. The investment discussed or views expressed may not be suitable for all investors.

This information is strictly confidential and is being furnished to you solely for your information. This information should not be reproduced or redistributed or passed on directly or indirectly in any form to any other person or published, copied, in whole or in part, for any purpose. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ESL and associates / group companies to any registration or licensing requirements within such jurisdiction. The distribution of this report in certain jurisdictions may be restricted by law, and persons in whose possession this report comes, should observe, any such restrictions. The information given in this report is as of the date of this report and there can be no assurance that future results or events will be consistent with this information. This information is subject to change without any prior notice. ESL reserves the right to make modifications and alterations to this statement as may be required from time to time. ESL or any of its associates / group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. ESL is committed to providing independent and transparent recommendation to its clients. Neither ESL nor any of its associates, group companies, directors, employees, agents or representatives shall be liable for any damages whether direct, indirect, special or consequential including loss of revenue or lost profits that may arise from or in connection with the use of the information. Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein. Past performance is not necessarily a guide to future performance. The disclosures of interest statements incorporated in this report are provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. The information provided in these reports remains, unless otherwise stated, the copyright of ESL. All layout, design, original artwork, concepts and other Intellectual Properties, remains the property and copyright of ESL and may not be used in any form or for any purpose whatsoever by any party without the express written permission of the copyright holders.

ESL shall not be liable for any delay or any other interruption which may occur in presenting the data due to any reason including network (Internet) reasons or snags in the system, break down of the system or any other equipment, server breakdown, maintenance shutdown, breakdown of communication services or inability of the ESL to present the data. In no event shall ESL be liable for any damages, including without limitation direct or indirect, special, incidental, or consequential damages, losses or expenses arising in connection with the data presented by the ESL through this report.

We offer our research services to clients as well as our prospects. Though this report is disseminated to all the customers simultaneously, not all customers may receive this report at the same time. We will not treat recipients as customers by virtue of their receiving this report.

ESL and its associates, officer, directors, and employees, research analyst (including relatives) worldwide may: (a) from time to time, have long or short positions in, and buy or sell the Securities, mentioned herein or (b) be engaged in any other transaction involving such Securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company/company(ies) discussed herein or act as advisor or lender/borrower to such company(ies) or have other potential/material conflict of interest with respect to any recommendation and related information and opinions at the time of publication of research report or at the time of public appearance. ESL may have proprietary long/short position in the above mentioned scrip(s) and therefore should be considered as interested. The views provided herein are general in nature and do not consider risk appetite or investment objective of any particular investor; readers are requested to take independent professional advice before investing. This should not be construed as invitation or solicitation to do business with ESL.

ESL or its associates may have received compensation from the subject company in the past 12 months. ESL or its associates may have managed or co-managed public offering of securities for the subject company in the past 12 months. ESL or its associates may have received compensation for investment banking or merchant banking or brokerage services from the subject company in the past 12 months. ESL or its associates may have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months. ESL or its associates have not received any compensation or other benefits from the Subject Company or third party in connection with the research report. Research analyst or his/her relative or ESL's associates may have financial interest in the subject company. ESL and/or its Group Companies, their Directors, affiliates and/or employees may have interests/ positions, financial or otherwise in the Securities/Currencies and other investment products mentioned in this report. ESL, its associates, research analyst and his/her relative may have other potential/material conflict of interest with respect to any recommendation and related information and opinions at the time of publication of research report or at the time of public appearance.

Participants in foreign exchange transactions may incur risks arising from several factors, including the following: (i) exchange rates can be volatile and are subject to large fluctuations; (ii) the value of currencies may be affected by numerous market factors, including world and national economic, political and regulatory events, events in equity and debt markets and changes in interest rates; and (iii) currencies may be subject to devaluation or government imposed exchange controls which could affect the value of the currency. Investors in securities such as ADRs and Currency Derivatives, whose values are affected by the currency of an underlying security, effectively assume currency risk.

Research analyst has served as an officer, director or employee of subject Company: No

ESL has financial interest in the subject companies: No

ESL's Associates may have actual / beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of research report.

Research analyst or his/her relative has actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of research report: No

ESL has actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of research report: No

Subject company may have been client during twelve months preceding the date of distribution of the research report.

There were no instances of non-compliance by ESL on any matter related to the capital markets, resulting in significant and material disciplinary action during the last three years except that ESL had submitted an offer of settlement with Securities and Exchange commission, USA (SEC) and the same has been accepted by SEC without admitting or denying the findings in relation to their charges of non registration as a broker dealer.

A graph of daily closing prices of the securities is also available at www.nseindia.com

Analyst Certification:

The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

Additional Disclaimers

Disclaimer for U.S. Persons

This research report is a product of Edelweiss Securities Limited, which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by Edelweiss Securities Limited only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor.

In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, Edelweiss Securities Limited has entered into an agreement with a U.S. registered broker-dealer, Edelweiss Financial Services Inc. ("EFSI"). Transactions in securities discussed in this research report should be effected through Edelweiss Financial Services Inc.

Disclaimer for U.K. Persons

The contents of this research report have not been approved by an authorised person within the meaning of the Financial Services and Markets Act 2000 ("FSMA").

In the United Kingdom, this research report is being distributed only to and is directed only at (a) persons who have professional experience in matters relating to investments falling within Article 19(5) of the FSMA (Financial Promotion) Order 2005 (the "Order"); (b) persons falling within Article 49(2)(a) to (d) of the Order (including high net worth companies and unincorporated associations); and (c) any other persons to whom it may otherwise lawfully be communicated (all such persons together being referred to as "relevant persons").

This research report must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this research report relates is available only to relevant persons and will be engaged in only with relevant persons. Any person who is not a relevant person should not act or rely on this research report or any of its contents. This research report must not be distributed, published, reproduced or disclosed (in whole or in part) by recipients to any other person.

Disclaimer for Canadian Persons

This research report is a product of Edelweiss Securities Limited ("ESL"), which is the employer of the research analysts who have prepared the research report. The research analysts preparing the research report are resident outside the Canada and are not associated persons of any Canadian registered adviser and/or dealer and, therefore, the analysts are not subject to supervision by a Canadian registered adviser and/or dealer, and are not required to satisfy the regulatory licensing requirements of the Ontario Securities Commission, other Canadian provincial securities regulators, the Investment Industry Regulatory Organization of Canada and are not required to otherwise comply with Canadian rules or regulations regarding, among other things, the research analysts' business or relationship with a subject company or trading of securities by a research analyst.

This report is intended for distribution by ESL only to "Permitted Clients" (as defined in National Instrument 31-103 ("NI 31-103")) who are resident in the Province of Ontario, Canada (an "Ontario Permitted Client"). If the recipient of this report is not an Ontario Permitted Client, as specified above, then the recipient should not act upon this report and should return the report to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any Canadian person.

ESL is relying on an exemption from the adviser and/or dealer registration requirements under NI 31-103 available to certain international advisers and/or dealers. Please be advised that (i) ESL is not registered in the Province of Ontario to trade in securities nor is it registered in the Province of Ontario to provide advice with respect to securities; (ii) ESL's head office or principal place of business is located in India; (iii) all or substantially all of ESL's assets may be situated outside of Canada; (iv) there may be difficulty enforcing legal rights against ESL because of the above; and (v) the name and address of the ESL's agent for service of process in the Province of Ontario is: Bamac Services Inc., 181 Bay Street, Suite 2100, Toronto, Ontario M5J 2T3 Canada.

Disclaimer for Singapore Persons

In Singapore, this report is being distributed by Edelweiss Investment Advisors Private Limited ("EIAPL") (Co. Reg. No. 201016306H) which is a holder of a capital markets services license and an exempt financial adviser in Singapore and (ii) solely to persons who qualify as "institutional investors" or "accredited investors" as defined in section 4A(1) of the Securities and Futures Act, Chapter 289 of Singapore ("the SFA"). Pursuant to regulations 33, 34, 35 and 36 of the Financial Advisers Regulations ("FAR"), sections 25, 27 and 36 of the Financial Advisers Act, Chapter 110 of Singapore shall not apply to EIAPL when providing any financial advisory services to an accredited investor (as defined in regulation 36 of the FAR). Persons in Singapore should contact EIAPL in respect of any matter arising from, or in connection with this publication/communication. This report is not suitable for private investors.

Copyright 2009 Edelweiss Research (Edelweiss Securities Ltd). All rights reserved