

Multi Commodity Exchange

Options drive, tech drags

MCX growth has been driven by a surge in options volume but uncertainty around the technology shift timeline remains the key overhang. Options ADTV has increased ~2.7x YoY and is currently >INR 500bn (~2.4x of futures). The first phase of growth in options was led by a surge in traded UCCs and higher volatility in energy contracts (~85% of volume), while the next phase will be driven by bullion and the launch of new contracts (mini and index options). The uncertainty around the technology transition is increasing as we are nearing the deadline (June 23). MCX has been conducting mock trading sessions over the past six months (higher frequency in April/May) and the initial feedback is positive, but given the complexity involved, the complete shift (go-live) may not happen in June-23 and can get extended by one quarter. We have reduced our EPS estimate by 22/3% for FY24/25E and cut the multiple to 25x (vs 28x earlier) to factor in the uncertainty. We maintain BUY, with a TP of INR 1,720, based on 25x FY25E core EPS + net cash ex SGF.

- Commodity options driving growth:** Options ADTV stood at INR 490bn in Q4FY23 (+18/200% QoQ/YoY) but the premium collection growth was +1/140% QoQ/YoY. The exchange earns on premium and the premium to notional ratio is gradually coming down; we have assumed 2.1/2.0% for FY24/25E vs 2.4% in FY23. As per our estimates, a ~10bps decline in premium-to-notional ratio impacts the EPS by ~3%. We expect commodity options volume/premium volume to grow at a CAGR of 44/31% over FY23-25E and options will account for ~55% of total revenue in FY25E.
- Technology shift:** TCS has developed a new trading workstation—**MCX Trade Station (MTS)**—and a new member admin terminal—**Member Control Station (MCS)**—which will be installed and tested at the member's end. MCX has ~500 members and the top 300 members who constitute ~90% of MCX's volume have participated in the mock trading and the initial feedback is positive. The members are participating in mock trading using the existing CTCL software with the new trading interface – MCX Enhanced Trading Interface (ETI). MCX has conducted ~140 hours of mock trading and the intensity is increasing. The progress is satisfactory but the June-23 timeline looks unachievable.
- Valuation scenarios:** We have assumed three valuation scenarios: (1) Base case assumes that the shift will happen in September-23 and MCX will have to pay an additional amount of INR 80mn to 63 moons in Q2FY24E. It factors revenue/EPS CAGR of 14/51% over FY23-25% and a core multiple of 25x. (2) Bear case assumes further extension in the technology timeline, slower revenue growth (11% CAGR), and a multiple of 20x, resulting in a downside of ~8% from CMP. (3) Bull case assumes the shift will happen in Q1FY24E, a 19% revenue CAGR, and 30x multiple, indicating ~62% upside from CMP.

Financial Summary

YE March (INR bn)	FY20	FY21	FY22	FY23E	FY24E	FY25E
Net Revenues	3.98	3.91	3.67	5.14	5.94	6.73
EBITDA	1.78	1.85	1.62	1.60	2.18	4.08
APAT	2.37	2.25	1.84	1.66	2.24	3.79
Diluted EPS (INR)	46.5	44.3	36.2	32.6	43.9	74.4
P/E (x)	29.3	30.7	42.2	41.7	30.9	18.3
EV / EBITDA (x)	32.9	31.4	34.9	34.8	25.3	13.3
RoE (%)	18.1	16.2	11.6	11.6	15.2	24.6

Source: Company, HSIE research

BUY

CMP (as on 10 May 2023)	INR 1,360
Target Price	INR 1,720
NIFTY	18,315

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 1,820	INR 1,720
	FY24E	FY25E
EPS %	-21.8	-2.6

KEY STOCK DATA

Bloomberg code	MCX IN
No. of Shares (mn)	51
MCap (INR bn) / (\$ mn)	69/848
6m avg traded value (INR mn)	475
52 Week high / low	INR 1,697/1,142

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(4.7)	(9.0)	13.2
Relative (%)	(6.7)	(11.1)	(0.7)

SHAREHOLDING PATTERN (%)

	Dec-22	Mar-23
Promoters	0.00	0.00
FIs & Local MFs	52.82	52.71
FPIs	25.77	26.95
Public & Others	21.22	20.15
Pledged Shares	0.00	0.00

Source : BSE

Amit Chandra

amit.chandra@hdfcsec.com
+91-22-6171-7345

Vivek Sethia

vivek.sethia@hdfcsec.com
+91-22-6171-7339

Exhibit 1: Valuation scenarios

MCX valuation scenarios	Bear	Base	Bull
Futures ADTV FY25E (INR bn)	234.23	241.07	264.78
Futures ADTV CAGR FY23E-25E	0.2%	1.6%	6.5%
Options ADTV FY25E (INR bn)	699.62	699.62	780.75
Options ADTV CAGR FY23E-25E	44%	44%	52%
Options Premium ADTV FY25E (INR bn)	10.60	11.71	11.71
Options Premium CAGR FY23E-25E	24%	31%	38%
Revenue Futures (FY25E) INR bn	2.51	2.58	2.84
Revenue Options (FY25E) INR bn	2.69	2.99	3.34
Total Revenue (FY25E) INR bn	6.35	6.73	7.33
Revenue CAGR % (FY23E-25E)	11%	14%	19%
Tech transition timeline (estimate)	Q3FY24E	Q2FY24E	Q1FY24E
Total EBIT (FY25E) INR bn	3.24	3.74	4.14
EBIT % FY25E	50.9%	55.5%	56.5%
EBIT CAGR % (FY23E-25E)	52%	63%	72%
Total PAT (FY25E) INR bn	3.37	3.77	4.09
PAT CAGR % (FY23E-25E)	42%	51%	57%
Core PAT FY25E (INR bn)	2.59	2.99	3.31
Core PAT multiple (x)	20	25	30
MCX Core Value (INR bn)	51.65	74.76	99.22
Add: Net Cash (INR bn) ex SGF	11.98	12.78	12.78
Mcap (INR bn)	63.64	87.54	112.00
TP (INR)	1,250	1,720	2,200
<i>Upside (%)</i>	-8%	26%	62%

Source: HSIE research

Exhibit 2: Change in estimates (consolidated)

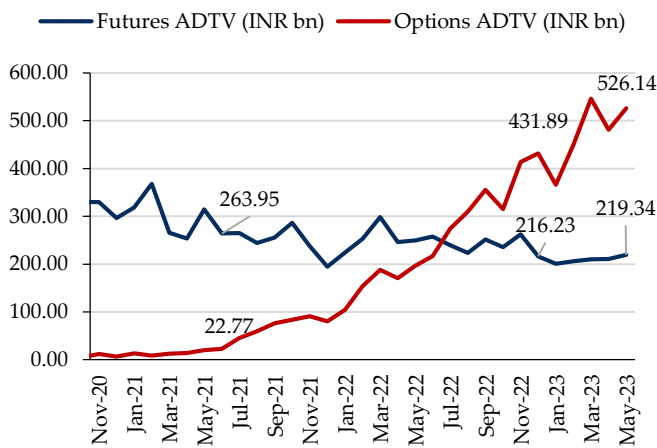
INR mn	FY24E Old	FY24E Revised	Change %	FY25E Old	FY25E Revised	Change %
Revenue	6,060	5,940	-2.0	6,839	6,726	-1.6
EBITDA	2,965	2,184	-26.3	4,190	4,078	-2.7
<i>EBITDA Margin (%)</i>	48.9	36.8	-1215bps	61.3	60.6	-65bps
APAT	2,861	2,237	-21.8	3,887	3,786	-2.6
EPS (INR)	56.2	43.9	-21.8	76.4	74.4	-2.6

Source: HSIE research

Commodity options: powering growth

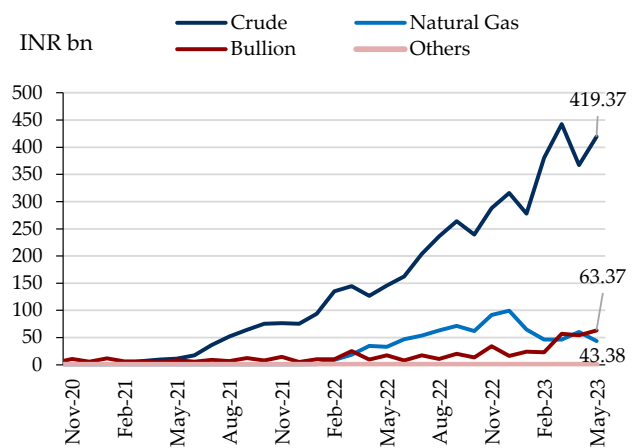
MCX has registered strong growth in options volume in the last two years; total options ADTV has increased from INR 19bn in Q1FY22 to ~INR 490bn in Q1FY24. Options volume is now ~70% of the total derivatives volume and accounts for ~41% of MCX revenue in FY23E. The growth in MCX options volume is triggered by (1) the higher margin in crude futures contracts which made options trading attractive, (2) the steep rise in commodity options traders, up ~173% YoY, and (3) the launch of new options contracts and increase in volatility. Crude and natural gas contracts account for ~85% of the options volume because they are cash-settled and have decent liquidity. We believe that the next phase of options volume growth will be led by the launch of mini contracts and the launch of index options contracts (approval received from SEBI). NSE index option is ~95% of the total options volume and a very popular product category in India. We expect the options volume/premium to grow at a CAGR of 44/31% over FY23-25E and account for ~55% of total MCX revenue. Options revenue is generated on the premium collected and the premium growth is lower than notional volume as the premium-to-notional ratio comes down gradually with increase in volume.

Exhibit 3: Commodity options volume up ~2.7x YoY



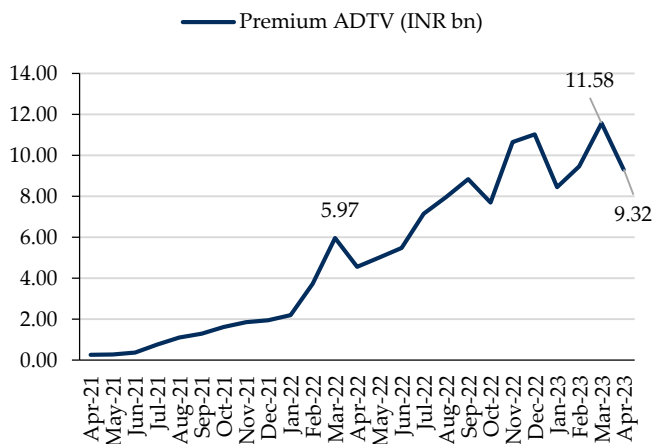
Source: Company, HSIE Research

Exhibit 4: Crude accounts for ~75% of options volume



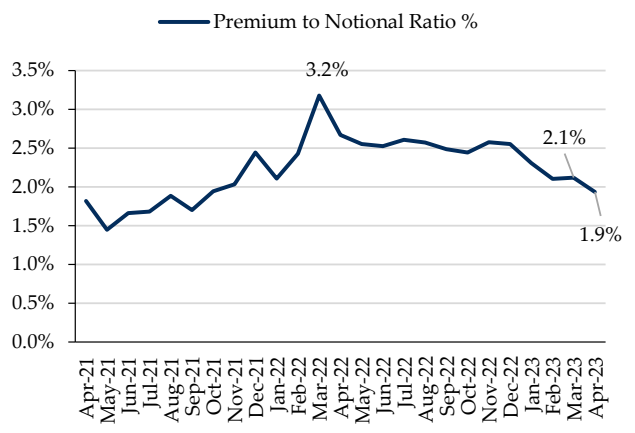
Source: Company, HSIE Research

Exhibit 5: Options revenue is linked to the total premium collected



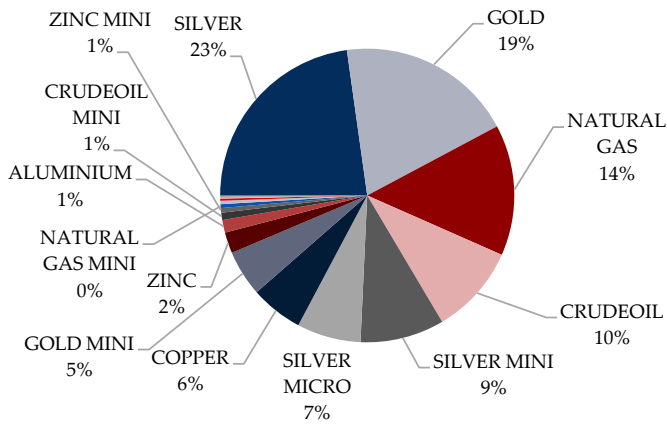
Source: Company, HSIE Research

Exhibit 6: Options premium-to-notional ratio is coming down; options realisation at ~40% of futures



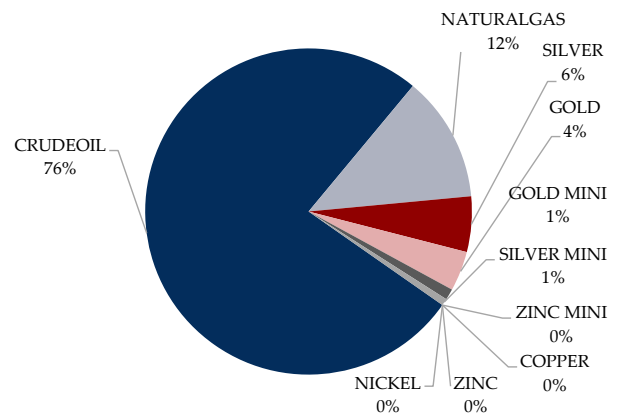
Source: Company, HSIE Research

Exhibit 7: Commodity futures top traded contracts—launch of mini contracts will drive futures volume



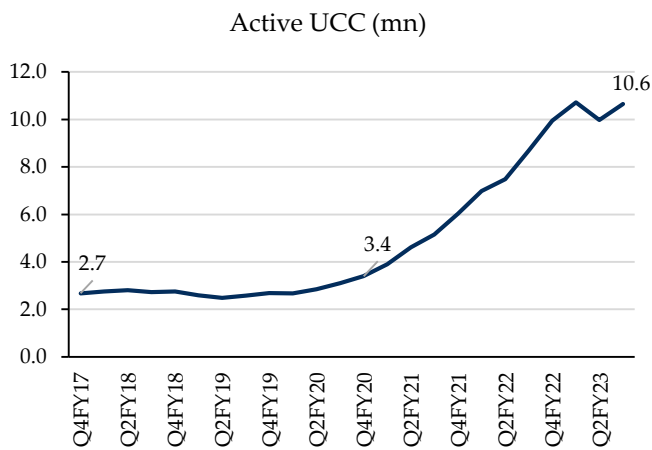
Source: Company, HSIE Research, volume mix for April-23

Exhibit 8: Options volume is dominated by crude and natural gas contracts



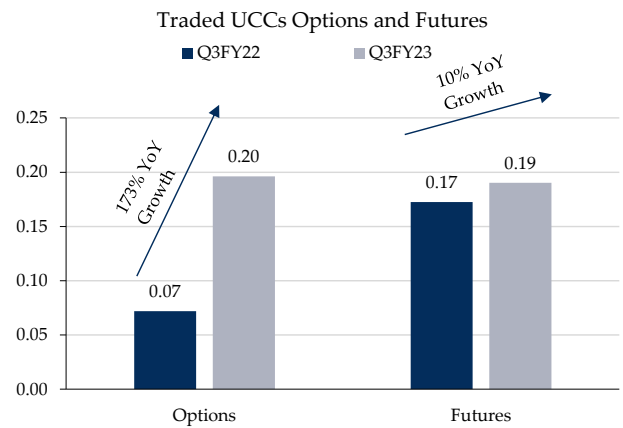
Source: Company, HSIE Research, volume mix for April-23

Exhibit 9: Total active unique client codes (UCC) has increased 3x post-pandemic



Source: Company, HSIE Research

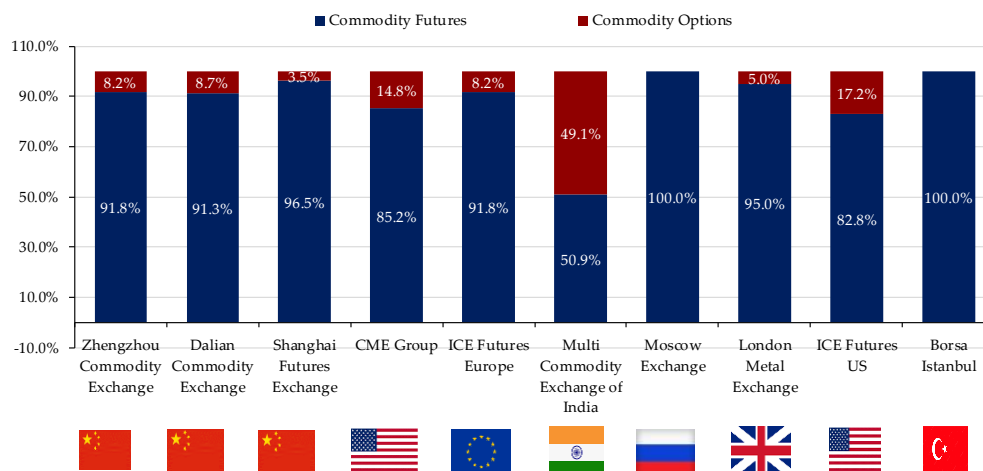
Exhibit 10: Options traded UCCs have registered 3x growth but its only 2% of total active UCCs



Source: Company, HSIE Research

Global commodity exchanges snapshot

Exhibit 11: Derivative mix of major commodity exchanges worldwide (no. of trades): MCX is an outlier, similar to NSE for equity derivatives



Source: WFE, Company, HSIE Research

Technology shift: near-term uncertainty; gains in the long run

The ongoing technology shift in MCX is taking longer than expected. The timeline has shifted from December-22 to June-23 and MCX has to pay an additional amount of ~INR 1.8bn (~12% of net worth) over three quarters to 63 Moons for the extension. MCX is actively conducting mock trading sessions on the new platform- most of the members have actively participated in the mock trading and have provided feedback to MCX. The new platform has been tested for ~138 hours (~3 hours/day) and as per the last communication from MCX, the shift will happen in June-23. We reckon that the current timeline (June-23 end) is difficult to achieve as the mock trading is still happening in simulation mode (as of May-23). More clarity will emerge when the mock trading starts in live mode (parallel trading). We estimate that the timeline can get extended by at least one quarter and the shift will happen in September-23. Once the shift happens, the cost structure will change and the incremental revenue generated will flow to EBITDA and lead to margin expansion. We expect the EBIT margin will expand to ~56% in FY25E vs ~27% in FY23E due to lower technology cost and options volume growth leading to non-linearity.

TCS has developed a new trading workstation—**MCX Trade Station (MTS)**—and a new member admin terminal—**Member Control Station (MCS)**—which will be installed and tested at the member's end. MCX has around 500 members and all members will have to upgrade their CTCL link and install TCS's MCX member admin terminal. The members have either an in-house CTCL or have outsourced it to exchange empanelled vendors. The main challenge is to change the existing setup (CTCL, TWS) for all MCX members. The top 300 members which constitute ~90% of MCX's volume have participated in the mock trading and the initial feedback is positive. The challenge is with the bottom 200 members. The participation and the upgrade process are slow with the bottom 200 members because they don't have a dedicated technology team.

There are nine empanelled CTCL—Computer to Computer link—vendors and Refinitiv is the largest apart from 63 Moons Technologies. Refinitiv has linked its API with MCX new and members using Refinitiv are participating in mock trading smoothly. Refinitiv also provides the Trade Workstation (TWS) and the client front end for members using Refinitiv will not change.

Exhibit 12: MCX registered CTCL vendors

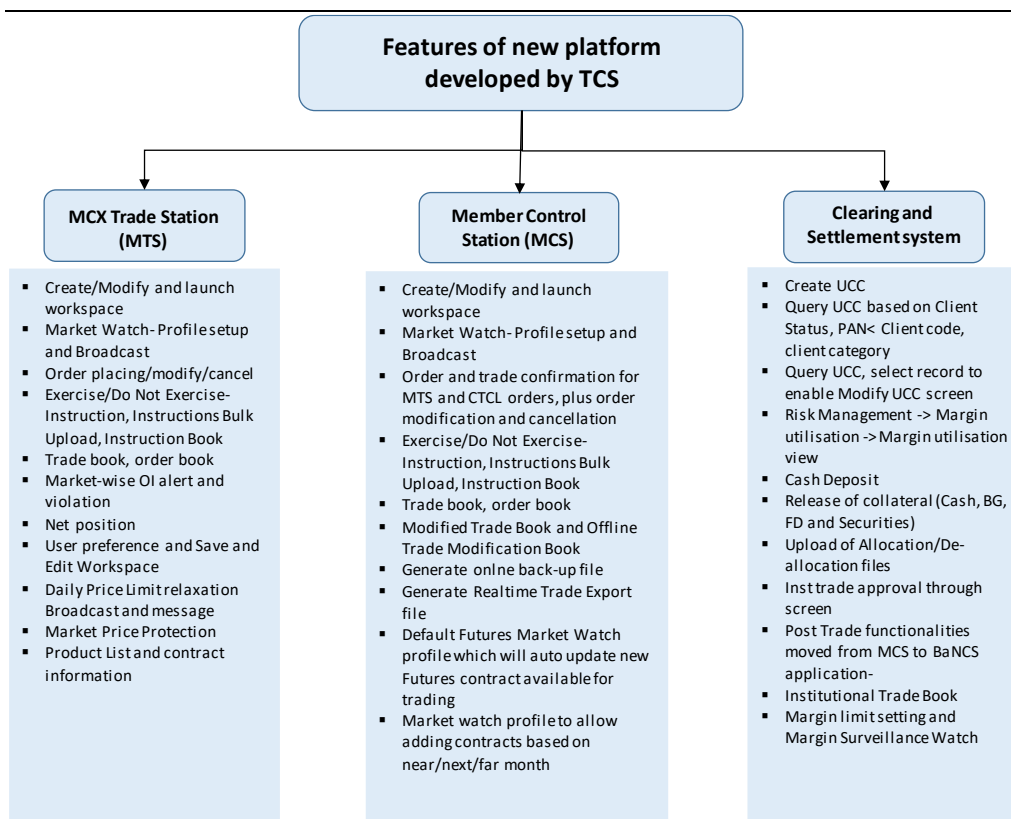
Name Vendor	CTCL	IBT	WT	ATF
Automated Trading Softech Pvt. Ltd.	Yes	Yes	Yes	Yes
Dion Global Solutions Ltd.	Yes	Yes	Yes	No
63 Moons Technologies Ltd.	Yes	Yes	Yes	Yes
Geojit Technologies Pvt. Ltd.	Yes	Yes	Yes	No
Refinitiv India Pvt. Ltd.	Yes	Yes	Yes	Yes
Saral Information Technologies Pvt. Ltd.	Yes	Yes	Yes	Yes
BSE Tech Infra Services Pvt. Ltd.(ASP Vendor)	Yes	Yes	Yes	No
Greeksoft Technologies Pvt. Ltd.	Yes	Yes	Yes	Yes
Symphony Fintech Solutions Pvt. Ltd.	Yes	Yes	Yes	Yes

Source: Company, HSIE research, CTCL – Computer to Computer link software, IBT – Internet-based trading, WT – Wireless trading facility, ATF – Algo trading facility

Exhibit 13: Mock trading sessions are gradually picking up – June-23 is the deadline

Mock Trading sessions	No of Hours	No of Days	No of hours/day
Oct-22	6	2	3
Nov-22	45	14	3
Dec-22	36	12	3
Jan-23	4	3	1
Feb-23	4	1	4
Mar-23	5	2	3
Apr-23	27	9	3
May-23	11	3	4
Total	138	46	3

Source: Company, HSIE research



Source: Company, HSIE research

Exhibit 14: Key Metrics and Assumptions

MCX (INR mn)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E	CAGR % FY18-23E	CAGR % FY23-25E
Futures ADTV (INR bn)	211.93	256.48	324.24	312.81	257.45	233.35	223.08	241.07	1.9%	1.6%
<i>Growth %</i>			26.4%	-3.5%	-17.7%	-9.4%	-4.4%	8.1%		
Options ADTV (INR bn)	0.41	7.04	11.26	8.98	78.29	338.66	557.68	699.62	283.9%	43.7%
<i>Growth %</i>		1634.6%	59.9%	-20.3%	771.7%	332.5%	64.7%	25.5%		
Options Premium (INR bn)						8.20	11.71	13.99		30.7%
<i>Growth %</i>							42.9%	19.5%		
Premium/Notional %						2.4%	2.1%	2.0%		-9.1%
Futures Revenue	2,415	2,863	3,535	3,383	2,801	2,504	2,390	2,584	0.7%	1.6%
<i>Growth %</i>			23.5%	-4.3%	-17.2%	-10.6%	-4.5%	8.1%		
Option Revenue	0	0	0	0	323	1,762	2,506	2,994		30.4%
<i>Growth %</i>						444.7%	42.2%	19.5%		
Total Transaction Revenue	2,415	2,863	3,535	3,383	3,124	4,265	4,896	5,578	12.0%	14.4%
<i>Growth %</i>			23.5%	-4.3%	-7.7%	36.5%	14.8%	13.9%		

MCX (INR mn)	FY19	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E		
Transaction Revenue	2,415	2,863	3,535	3,383	3,124	4,265	4,896	5,578	12.0%	14.4%
Other Operating Revenue	183	137	444	522	544	870	1,044	1,149	36.6%	14.9%
Total Revenue	2,598	3,000	3,978	3,906	3,668	5,136	5,940	6,726	14.6%	14.4%
<i>Growth YoY %</i>		15.5%	32.6%	-1.8%	-6.1%	40.0%	15.7%	13.2%		

Cost Structure	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E		
SSC (Software Support)	494	614	689	636	640	1,882	1,757	333	30.7%	-57.9%
SSC Fixed	180	180	180	180	180	180	357	333	0.0%	36.1%
SSC Variable	314	434	509	456	460	1,702	1,400		40.2%	NM
Computer & Tech	229	205	206	211	205	277	318	366	3.9%	15.0%
Other Overheads	474	517	526	456	402	462	540	594	-0.5%	13.4%
Employee Cost	682	725	773	751	800	914	1,041	1,155	6.0%	12.4%
Total Cost	1,880	2,061	2,195	2,053	2,046	3,535	3,656	2,448	13.5%	-16.8%
<i>Growth YoY %</i>		9.6%	6.5%	-6.4%	-0.3%	72.7%	3.4%	-33.0%		

Cost Break-up	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E		
Fixed Cost	1,091	1,110	1,159	1,142	1,185	1,371	1,716	1,854	4.7%	16.3%
Variable Cost	789	951	1,036	912	861	2,164	1,940	594	22.4%	-47.6%
Fixed Cost %	58%	54%	53%	56%	58%	39%	47%	76%		
Variable Cost %	42%	46%	47%	44%	42%	61%	53%	24%		

EBITDA mn	719	940	1,784	1,852	1,622	1,601	2,284	4,278	17.4%	63.5%
EBITDA margin %	27.7%	31.3%	44.8%	47.4%	44.2%	31.2%	38.5%	63.6%		

Depreciation	167	154	182	221	227	201	388	520	3.8%	60.9%
<i>Growth YoY %</i>		-7.3%	17.6%	21.5%	2.9%	-11.5%	93.0%	34.1%		

EBIT	552	785	1,602	1,632	1,395	1,400	1,896	3,758	20.5%	63.8%
EBIT margin %	21.2%	26.2%	40.3%	41.8%	38.0%	27.3%	31.9%	55.9%		

Other Income (including extraordinary)	920	748	1,053	1,038	461	725	950	1,025	-4.6%	18.9%
PBT	1,472	1,533	2,653	2,667	1,853	2,123	2,844	4,781		
PAT	1,084	1,462	2,365	2,252	1,434	1,661	2,237	3,786	8.9%	51.0%
APAT	1,084	1,700	2,365	2,252	1,639	1,661	2,237	3,786	8.9%	51.0%
Core PAT	406	747	1,428	1,377	1,089	1,120	1,517	3,006	22.5%	63.8%

Source: Company, HSIE research

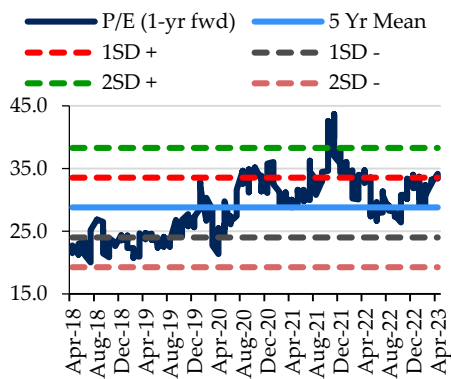
Exhibit 15: Exchanges valuation metrics

Company	Mcap (INR bn)	CMP (INR)	TP (INR)	RECO	EPS (INR)				P/E (x)				RoE (%)				INR Rev CAGR% FY23-25E	EPS CAGR% FY23-25E
					FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E		
Exchanges																		
MCX	69	1,360	1,720	BUY	32.2	32.6	43.9	74.4	42.2	41.7	30.9	18.3	11.6	11.6	15.2	24.6	14.4	51.0
BSE	72	529	560	ADD	21.4	20.9	23.9	26.3	24.7	25.3	22.1	20.1	10.9	10.8	12.4	13.8	9.9	12.3
CDSL Ltd^	103	984	985	ADD	29.8	26.4	30.4	35.3	33.1	37.3	32.4	27.9	56.4	49.7	51.3	51.4	13.7	15.6
Median									33.1	37.3	30.9	20.1	11.6	11.6	15.2	24.6	13.7	15.6

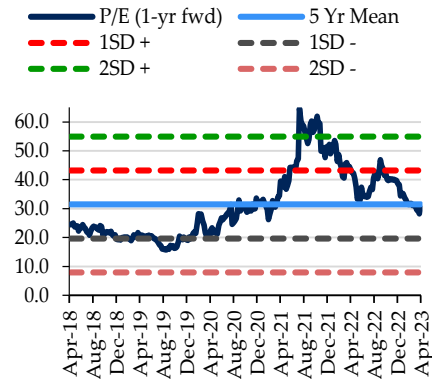
Source: HSIE Research, CMP as on 10th May, 2023, ^CDSL FY23 depicts actual numbers

Valuation charts

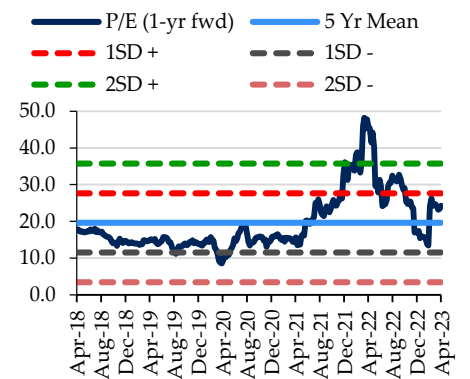
MCX P/E (1-yr fwd) trend



CDSL P/E (1-yr fwd) trend



BSE P/E (1-yr fwd) trend



Source: Bloomberg, HSIE Research

Financials

INCOME STATEMENT

YE March (INR mn)	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Net Revenues	2,349	2,594	2,598	3,000	3,978	3,906	3,668	5,136	5,940	6,726
<i>Growth (%)</i>	5.6	10.4	0.2	15.5	32.6	(1.8)	(6.1)	40.0	15.7	13.2
Software support charges	374	471	494	614	689	636	640	1,882	1,857	533
Employee Expenses	419	644	682	725	773	751	800	914	1,041	1,155
Tech & SG&A Expenses	371	201	229	205	206	211	205	277	318	366
Other Operating Expenses	433	483	474	517	526	456	402	462	540	594
EBITDA	753	796	719	940	1,784	1,852	1,622	1,601	2,184	4,078
<i>EBITDA Margin (%)</i>	32.0	30.7	27.7	31.3	44.8	47.4	44.2	31.2	36.8	60.6
<i>EBITDA Growth (%)</i>	(14.1)	5.7	(9.7)	30.7	89.9	3.8	(12.4)	(1.3)	36.4	86.7
Depreciation	246	186	167	154	182	221	227	201	288	320
EBIT	507	610	552	785	1,602	1,632	1,395	1,400	1,896	3,758
Other Income (Including EO Items)	1,169	1,169	920	748	1,053	1,038	461	725	950	1,025
Interest	3	2	0	0	2	3	2	2	2	2
PBT	1,673	1,777	1,472	1,533	2,653	2,667	1,853	2,123	2,844	4,781
Tax (Incl Deferred)	469	512	388	75	289	415	406	425	569	956
Minority Interest & Associate profit	0	0	0	4.3	0.4	0.9	-12.7	-38.1	-38.1	-38.1
RPAT	1,203	1,265	1,084	1,462	2,365	2,252	1,434	1,661	2,237	3,786
EO (Loss) / Profit (Net Of Tax)	(56)	0	0	(238)	0	0	(204)	0	0	0
APAT	1,260	1,265	1,084	1,700	2,365	2,252	1,639	1,661	2,237	3,786
<i>APAT Growth (%)</i>	0.7	0.5	(14.4)	56.9	39.1	(4.8)	(27.2)	1.3	34.7	69.3
Core PAT (ex other income)	365	434	406	747	1,428	1,377	1,089	1,120	1,517	3,006
<i>Core PAT Growth (%)</i>		19.1	(6.4)	83.7	91.2	(3.5)	(20.9)	2.9	35.4	98.2
Adjusted EPS (INR)	24.8	24.9	21.3	33.4	46.5	44.3	32.2	32.6	43.9	74.4
<i>EPS Growth (%)</i>	0.7	0.5	(14.4)	56.9	39.1	(4.8)	(27.3)	1.3	34.7	69.3

Source: Company, HSIE Research

BALANCE SHEET

YE March (INR mn)	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
SOURCES OF FUNDS										
Share Capital - Equity	510	510	510	510	510	510	510	510	510	510
Reserves	12,424	13,114	13,295	11,999	13,084	13,672	13,671	13,981	14,433	15,270
Total Shareholders Funds	12,934	13,624	13,805	12,509	13,594	14,182	14,181	14,491	14,943	15,780
Settlement guarantee fund	1,882	1,705	1,806	3,298	4,098	4,692	5,256	5,361	5,468	5,578
Total Debt	0	0	0	0	0	0	0	0	0	0
Net Deferred Taxes (Net)	0	76	172	14	18	0	98	98	98	98
Long-Term Provisions & Others	216	345	48	401	528	573	559	559	559	559
TOTAL SOURCES OF FUNDS	15,033	15,750	15,831	16,221	18,237	19,447	20,095	20,510	21,069	22,016
APPLICATION OF FUNDS										
Net Block	1,370	1,518	1,562	1,580	1,583	1,594	1,565	1,672	1,741	1,824
CWIP	31	4	55	190	237	263	948	948	948	948
Investments	0	0	0	123	123	124	124	124	124	124
LT Loans & Advances	242	277	392	614	708	667	631	663	696	730
Total Non-current Assets	1,643	1,799	2,009	2,506	2,651	2,649	3,268	3,406	3,508	3,627
Debtors	42	28	63	60	65	90	115	84	98	111
Other Current Assets	672	878	890	945	753	948	1,221	985	1,139	1,290
Cash & Equivalents	16,262	15,990	16,700	17,243	23,878	21,339	23,403	25,416	27,096	29,282
Total Current Assets	16,976	16,896	17,654	18,248	24,695	22,377	24,738	26,485	28,333	30,682
Trading margin from members	2,597	2,149	3,018	3,518	7,599	4,296	6,429	7,678	8,812	10,040
Other Current Liabilities & Provns	990	796	814	1,016	1,510	1,282	1,482	1,704	1,959	2,253
Total Current Liabilities	3,586	2,945	3,832	4,533	9,109	5,578	7,911	9,382	10,772	12,293
Net Current Assets	13,389	13,951	13,822	13,715	15,586	16,799	16,827	17,104	17,561	18,389
TOTAL APPLICATION OF FUNDS	15,033	15,750	15,831	16,221	18,237	19,447	20,095	20,510	21,069	22,016

Source: Company, HSIE Research

CASH FLOW STATEMENT

YE March (INR mn)	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Reported PBT	1,673	1,777	1,472	1,533	2,653	2,667	1,853	2,123	2,844	4,781
Non-operating & EO items	(1,101)	(1,081)	(910)	(954)	(1,224)	(981)	(419)	(725)	(950)	(1,025)
Interest expenses	3	2	0	0	2	2	2	2	2	2
Depreciation	246	186	167	155	181	221	227	201	288	320
Working Capital Change	513	(696)	561	2,153	3,402	(3,274)	2,572	1,667	1,151	1,285
Tax Paid	(558)	(509)	(296)	(295)	(523)	(479)	(323)	(425)	(569)	(956)
OPERATING CASH FLOW (a)	775	(321)	993	2,591	4,492	(1,844)	3,913	2,844	2,767	4,406
Capex	(202)	(269)	(266)	(271)	(277)	(211)	(820)	(308)	(356)	(404)
Free cash flow (FCF)	573	(590)	727	2,320	4,215	(2,055)	3,093	2,536	2,410	4,003
Investments	0	0	0	0	0	0	0	0	0	0
Non-operating Income	363	462	525	445	407	302	220	725	950	1,025
INVESTING CASH FLOW (b)	160	193	259	174	130	91	(600)	417	593	622
Debt Issuance/(Repaid)	0	0	0	0	0	0	0	0	0	0
Interest Expenses	(0)	0	(0)	(0)	0	(0)	(1)	(2)	(2)	(2)
FCFE	573	(590)	727	2,320	4,215	(2,055)	3,092	2,534	2,408	4,000
Share Capital Issuance	0	0	0	0	0	0	0	0	0	0
Dividend	(614)	(399)	(921)	(1,045)	(1,230)	(1,530)	(1,408)	(1,245)	(1,678)	(2,840)
FINANCING CASH FLOW (c)	(614)	(399)	(921)	(1,045)	(1,230)	(1,530)	(1,409)	(1,248)	(1,680)	(2,842)
NET CASH FLOW (a+b+c)	321	(527)	332	1,719	3,392	(3,284)	1,904	2,013	1,680	2,186
EO Items, Others	(150)	255	379	(1,176)	3,243	744	159	0	0	0
Closing Cash & Equivalents	16,262	15,990	16,700	17,243	23,878	21,339	23,403	25,416	27,096	29,282

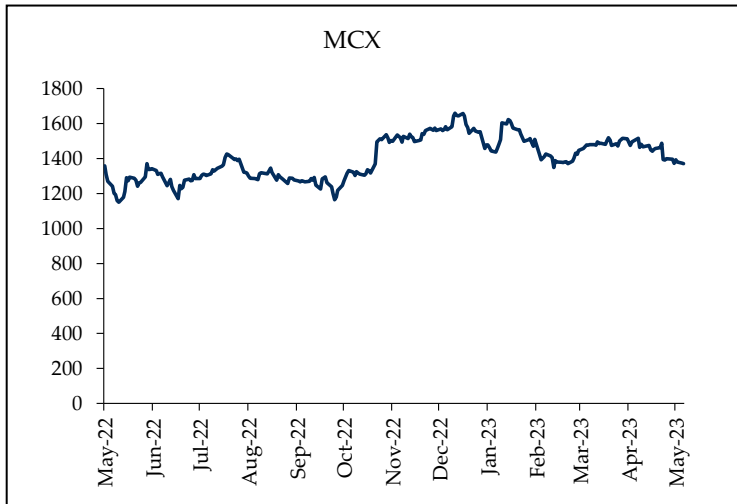
Source: Company, HSIE Research

KEY RATIOS

	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
PROFITABILITY (%)										
GPM	84.1	81.9	81.0	79.6	82.7	83.7	82.6	63.4	68.7	92.1
EBITDA Margin	32.0	30.7	27.7	31.3	44.8	47.4	44.2	31.2	36.8	60.6
APAT Margin	53.6	48.8	41.7	56.7	59.4	57.7	44.7	32.3	37.7	56.3
RoE	9.8	9.5	7.9	12.9	18.1	16.2	11.6	11.6	15.2	24.6
RoIC (or Core RoCE)	24.7	17.9	15.1	17.7	25.4	23.4	16.2	19.3	25.1	40.9
RoCE	8.4	8.2	6.9	10.6	13.7	12.0	8.3	7.8	10.3	17.2
EFFICIENCY										
Tax Rate (%)	28.1	28.8	26.4	4.9	10.9	15.6	21.9	20.0	20.0	20.0
Fixed Asset Turnover (x)	0.1	0.1	0.1	0.1	0.1	0.2	0.1	0.2	0.2	0.2
Debtors (days)	7	4	9	7	6	8	11	6	6	6
Other Current Assets (days)	104	124	125	115	69	89	121	70	70	70
Other Current Liab & Provsns (days)	307	252	248	277	388	359	434	237	263	551
Cash Conversion Cycle (days)	(196)	(124)	(114)	(155)	(313)	(262)	(301)	(161)	(187)	(475)
Debt/EBITDA (x)	(15)	(12)	(13)	(10)	(6)	(6)	(8)	(8)	(6)	(4)
Net D/E (x)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
Interest Coverage (x)	557	NM	NM	NM	NM	NM	NM	NM	NM	NM
PER SHARE DATA (INR)										
EPS	24.8	24.9	21.3	33.4	46.5	44.3	32.2	32.6	43.9	74.4
CEPS	29.6	28.5	24.6	36.4	50.0	48.6	36.7	36.6	49.6	80.7
Dividend	6.5	15.0	17.0	20.0	30.0	33.2	24.1	24.5	33.0	55.8
Book Value	254.1	267.7	271.2	245.8	267.1	278.6	278.6	284.7	293.5	310.0
VALUATION										
P/E (x)	54.9	54.7	63.9	40.7	29.3	30.7	42.2	41.7	30.9	18.3
P/BV (x)	5.4	5.1	5.0	5.5	5.1	4.9	4.9	4.8	4.6	4.4
EV/EBITDA (x)	77.1	75.0	83.1	64.1	32.9	31.4	34.9	34.8	25.3	13.3
OCF/EV (%)	1.3	(0.5)	1.7	4.3	7.6	(3.2)	6.9	5.1	5.0	8.1
FCF/EV (%)	1.0	(1.0)	1.2	3.9	7.2	(3.5)	5.5	4.5	4.4	7.4
FCFE/Mkt Cap (%)	0.1	(0.0)	0.2	0.4	0.7	(0.3)	0.5	0.5	0.5	0.7
Dividend Yield (%)	0.5	1.1	1.3	1.5	2.2	2.4	1.8	1.8	2.4	4.1

Source: Company, HSIE Research

1 Yr Price movement



Rating Criteria

- BUY: >+15% return potential
- ADD: +5% to +15% return potential
- REDUCE: -10% to +5% return potential
- SELL: > 10% Downside return potential

Disclosure:

We, **Amit Chandra, MBA & Vivek Sethia, CA** authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. SEBI conducted the inspection and based on their observations have issued advise/warning. The said observations have been complied with. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Research Analyst or his/her relative or HDFC Securities Ltd. does not have any financial interest in the subject company. Also Research Analyst or his relative or HDFC Securities Ltd. or its Associate may have beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of the Research Report. Further Research Analyst or his relative or HDFC Securities Ltd. or its associate does have/does not have any material conflict of interest.

Any holding in stock – NO

HDFC Securities Limited (HSL) is a SEBI Registered Research Analyst having registration no. INH000002475.

Disclaimer:

This report has been prepared by HDFC Securities Ltd and is solely for information of the recipient only. The report must not be used as a singular basis of any investment decision. The views herein are of a general nature and do not consider the risk appetite or the particular circumstances of an individual investor; readers are requested to take professional advice before investing. Nothing in this document should be construed as investment advice. Each recipient of this document should make such investigations as they deem necessary to arrive at an independent evaluation of an investment in securities of the companies referred to in this document (including merits and risks) and should consult their own advisors to determine merits and risks of such investment. The information and opinions contained herein have been compiled or arrived at, based upon information obtained in good faith from sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. Descriptions of any company or companies or their securities mentioned herein are not intended to be complete. HSL is not obliged to update this report for such changes. HSL has the right to make changes and modifications at any time.

This report is not directed to, or intended for display, downloading, printing, reproducing or for distribution to or use by, any person or entity who is a citizen or resident or located in any locality, state, country or other jurisdiction where such distribution, publication, reproduction, availability or use would be contrary to law or regulation or what would subject HSL or its affiliates to any registration or licensing requirement within such jurisdiction.

If this report is inadvertently sent or has reached any person in such country, especially, United States of America, the same should be ignored and brought to the attention of the sender. This document may not be reproduced, distributed or published in whole or in part, directly or indirectly, for any purposes or in any manner.

Foreign currencies denominated securities, wherever mentioned, are subject to exchange rate fluctuations, which could have an adverse effect on their value or price, or the income derived from them. In addition, investors in securities such as ADRs, the values of which are influenced by foreign currencies effectively assume currency risk. It should not be considered to be taken as an offer to sell or a solicitation to buy any security.

This document is not, and should not, be construed as an offer or solicitation of an offer, to buy or sell any securities or other financial instruments. This report should not be construed as an invitation or solicitation to do business with HSL. HSL may from time to time solicit from, or perform broking, or other services for, any company mentioned in this mail and/or its attachments.

HSL and its affiliated company(ies), their directors and employees may; (a) from time to time, have a long or short position in, and buy or sell the securities of the company(ies) 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 company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.

HSL, its directors, analysts or employees do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of shares and bonds, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc.

HSL and other group companies, its directors, associates, employees may have various positions in any of the stocks, securities and financial instruments dealt in the report, or may make sell or purchase or other deals in these securities from time to time or may deal in other securities of the companies / organizations described in this report. As regards the associates of HSL please refer the website.

HSL or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

HSL or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction in the normal course of business.

HSL or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither HSL nor Research Analysts have any material conflict of interest at the time of publication of this report. Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. HSL may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Research entity has not been engaged in market making activity for the subject company. Research analyst has not served as an officer, director or employee of the subject company. We have not received any compensation/benefits from the subject company or third party in connection with the Research Report.

HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066

Compliance Officer: Murlvi V Karkera Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

HDFC Securities Limited, SEBI Reg. No.: NSE, BSE, MSEI, MCX: INZ000186937; AMFI Reg. No. ARN: 13549; PFRDA Reg. No. POP: 11092018; IRDA Corporate Agent License No.: CA0062; SEBI Research Analyst Reg. No.: INH000002475; SEBI Investment Adviser Reg. No.: INA000011538; CIN - U67120MH2000PLC152193

Investment in securities market are subject to market risks. Read all the related documents carefully before investing.

Mutual Funds Investments are subject to market risk. Please read the offer and scheme related documents carefully before investing.

Registration granted by SEBI, membership of BASL (in case of IAs) and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

HDFC securities

Institutional Equities

Unit No. 1602, 16th Floor, Tower A, Peninsula Business Park,

Senapati Bapat Marg, Lower Parel, Mumbai - 400 013

Board: +91-22-6171 7330 www.hdfcsec.com