Market snapshot

Equities - India	Close	Chg .%	CYTD.%
Sensex	82,989	0.1	14.9
Nifty-50	25,384	0.1	16.8
Nifty-M 100	60,260	0.4	30.5
Equities-Global	**Close**	**Chg .%**	**CYTD.%**
S&P 500	5,634	0.1	18.1
Nasdaq	17,592	-0.5	17.2
FTSE 100	8,278	0.1	7.1
DAX	18,633	-0.4	11.2
Hang Seng	6,090	0.3	5.6
Nikkei 225	36,582	0.0	9.3
Commodities	**Close**	**Chg .%**	**CYTD.%**
Brent (US$/Bbl)	74	0.0	-4.6
Gold ($/OZ)	2,581	0.1	25.1
Cu (US$/MT)	9,189	0.0	8.6
Almn (US$/MT)	2,455	0.0	4.7
Currency	**Close**	**Chg .%**	**CYTD.%**
USD/INR	83.9	0.0	0.8
USD/EUR	1.1	0.5	0.8
USD/JPY	140.0	-0.6	-0.7
YIELD (%)	**Close**	**1MChg**	**CYTD chg**
10 Yrs G-Sec	6.8	-0.03	-0.4
10 Yrs AAA Corp	7.3	0.00	-0.4
Flows (USD b)	**16-Sep**	**MTD**	**CYTD**
FIIs	-0.2	1.20	8.2
DIIs	0.09	5.84	38.3
Volumes (INRb)	**16-Sep**	**MTD***	**YTD***
Cash	1,164	1214	1296
F&O	2,53,890	3,81,099	3,78,939

Note: Flows, MTD includes provisional numbers.
*Average

Today's top research idea

Dixon Technologies: Moving on track

- Dixon Technologies' (DIXON) recent tie-ups and MoU with HP and Asus for the production of PCs, notebooks, and laptops under IT hardware PLI 2.0 augur well for scaling up its IT hardware revenues from current levels. With these tie-ups, the company is now catering to 4 out of the top 5 players in laptops.
- The company is also in discussion to enter the industrial EMS sector and manufacture electronic modules for the EV industry. As highlighted in our EMS thematic report (Report link), the company will continue to benefit from increasing market share in its key segments.
- We also expect the company to continue benefiting from the new segments, backward integration, and the ODM mix improvement. We maintain our estimates and roll forward our TP to INR15,500 on Dec'26 estimates. Maintain BUY.

Research covered

Cos/Sector	Key Highlights
Dixon Technologies	Moving on track
Bajaj Auto	Volume growth to moderate in the domestic market
MCX	New products to be key growth drivers

Chart of the Day: Dixon Technologies (Moving on track)

Market share trend of key players in the Indian IT hardware market for the quarter (%)

Company	1Q24 shipments	1Q24 market share	1Q23 shipments	1Q23 market share	YoY units change (1Q24 vs 1Q23)
HP Inc.	923	30.1%	1,012	33.8%	-8.8%
Dell	537	17.5%	417	13.9%	28.8%
Acer	474	15.4%	368	12.3%	28.8%
Lenovo	464	15.1%	470	15.7%	-1.3%
Asus	182	5.9%	198	6.6%	-8.3%
Others	491	16.0%	528	17.6%	-7.0%
Total	**3,070**	**100%**	**2,992**	**100%**	**2.6%**

Source: IDC, MOFSL

Research Team (Gautam.Duggad@MotilalOswal.com)

In the news today

Kindly click on textbox for the detailed news link

1

JK Tyre approves merger of Cavendish Industries into the company

Shareholders will get 92 shares of JK Tyre for every 100 shares of Cavendish held, the said the company. JK Tyre said the amalgamation will result in operational synergies, reduce cost, consolidate sales and distribution network, and enhance shareholder value.

2

Reliance Infra board to meet on September 19 for preferential issue

It had raised Rs 550 cr in July 2021 by issuing shares on preferential basis, wherein promoters infused Rs 400 cr and Varde Capital Partners subscribed to shares aggregating Rs 150 crore

3

EoI floated for Rs 13,000 cr coal gasification project by CIL-Gail JV

The project, valued at an estimated amount of Rs 13,052 crore, considering a debt-equity ratio of 70:30, was approved by the Cabinet, and coal for the plant will be supplied by CIL's subsidiary, Eastern Coalfields Ltd. Coal India will hold a 51 per cent stake in the JV, while Gail will have a 49 per cent share.

4

Strides Pharma Science gets USFDA nod for generic antidepressant tablets

The approval granted by the US Food & Drug Administration (USFDA) to wholly owned subsidiary Strides Pharma Global Pte. Ltd, Singapore, is for Fluoxetine tablets of strength 60 mg

5

Sandur Manganese And Iron Ores To Raise Rs 1,000 Crore Via QIP

Sandur Manganese and Iron Ores Ltd. will raise Rs 1,000 crore through the qualified institutional placement route. The company will raise the funds through one or more tranches at a face value of Rs 10.

6

Carborundum Universal To Acquire US-Based Silicon Carbide Products For Rs 56 crore

Carborundum Universal Ltd. has inked a pact with the US-based Silicon Carbide Products Inc. to acquire 100% stake in the company for $6.7 million, or approximately Rs 56 crore.

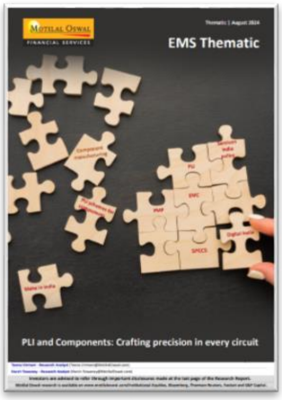
7

Shapoorji Pallonji Group's Infrastructure Unit Afcons Infrastructure Gets SEBI Approval For Rs 7,000 Crore IPO

The IPO includes a fresh issue of Rs 1,250 crore and an offer for sale of Rs 5,750 crore by Goswami Infratech Pvt. Ltd.

Dixon Technology

BSE SENSEX	S&P CNX
82,989	25,384



Bloomberg	DIXON IN
Equity Shares (m)	60
M.Cap.(INRb)/(USDb)	837.1 / 10
52-Week Range (INR)	14056 / 4733
1,6,12 Rel. Per (%)	10/86/151
12M Avg Val (INR M)	4130

Financials & Valuations (INR b)

Y/E MARCH	FY25E	FY26E	FY27E
Sales	333.8	434.8	525.3
EBITDA	13.1	17.5	21.7
EBITDA Margin (%)	3.9	4.0	4.1
PAT	6.6	9.7	12.8
EPS (INR)	111.2	162.8	213.8
EPS Growth (%)	80.8	46.4	31.3
BV/Share (INR)	391.6	551.4	762.2
Ratios			
Net D/E	-0.3	-0.5	-0.6
RoE (%)	32.9	34.5	32.5
RoCE (%)	37.7	38.3	35.8
Payout (%)	2.7	1.8	1.4
Valuations			
P/E (x)	125.8	85.9	65.4
P/BV (x)	35.7	25.4	18.4
EV/EBITDA (x)	63.2	46.9	37.3
Div Yield (%)	0.0	0.0	0.0

Shareholding Pattern (%)

As On	Jun-24	Mar-24	Jun-23
Promoter	33.2	33.4	34.0
DII	26.1	27.0	24.6
FII	19.3	17.8	15.0
Others	21.4	21.7	26.4

FII includes depository receipts

CMP: INR13,990 TP: INR15,500 (+11%) Buy

Moving on track

Dixon Technologies' (DIXON) recent tie-ups and MoU with HP and Asus for the production of PCs, notebooks, and laptops under IT hardware PLI 2.0 augur well for scaling up its IT hardware revenues from current levels. With these tie-ups, the company is now catering to 4 out of the top 5 players in laptops. These players form nearly 67% of the overall IT hardware market share in India. The company is also in discussion to enter the industrial EMS sector and manufacture electronic modules for the EV industry. As highlighted in our EMS thematic report (Report link), the company will continue to benefit from increasing market share in its key segments. We also expect the company to continue benefiting from the new segments, backward integration, and the ODM mix improvement with near-term scale-up in revenues to come from mobile and EMS (including IT hardware, telecom hardware, etc). We maintain our estimates and roll forward our TP to INR15,500 on Dec'26 estimates. Maintain BUY.

IT hardware tie-ups positive for scaling up IT hardware revenues

Dixon Technologies has recently signed two new MoUs with HP India and ASUS to manufacture notebooks, desktops, and all-in-one PCs under PLI 2.0. These MoUs are in line with the company's previous guidance to target a larger market of IT hardware following the PLI 2.0 scheme. The company already has Acer and Lenovo as its anchor clients, with mass production for Lenovo expected to begin in 3QFY25. With these tie-ups, the company now caters to the top 4 out of 5 customers in the country. It is also expected to commence its new facility in 8-10 months. In line with this, the company had guided for a sharp scale-up in IT hardware revenues over FY25-FY27. In our estimates, we have factored in IT hardware revenues to scale up from INR1.4 b in FY24 to INR5b/25b/50b in FY25/26/27.

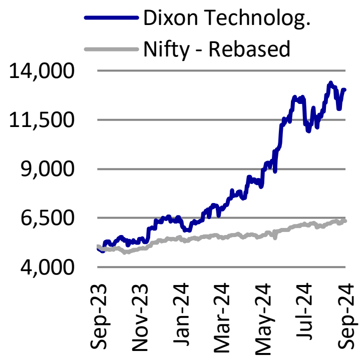
Upcoming new areas targeted by the company

DIXON is exploring opportunities in the EV sector, mainly focusing on manufacturing components such as electronic modules and PCB assembly. Further, the company is exploring opportunities to enter the industrial EMS sector and is in advanced discussions with major semiconductor brands to serve their requirements for PCB assembly.

Industry has made representations to the government for PLI on components

DIXON is already benefiting from PLI schemes in mobile, white goods – (AC and lighting), and IT hardware and is working toward reaching scale and achieving backward integration. The industry has also made representations to the government to incentivize component production in India in order to increase value addition. According to DIXON, the government is currently working on a package for components such as PCB, electro mechanicals, audio and camera modules, etc.

Stock Performance (1-year)



Mobile and EMS to remain high-growth segments for DIXON

DIXON is already working with Motorola, Xiaomi, Samsung, Realme, Nokia, and Itel and also plans to add more brands through its majority stake purchase in Ismartu, which operates three brands in India (Itel, Infinix, and Techno), and its partnership with Longcheer, which manufactures for Oppo, Vivo, Oneplus, and Realme. Out of the 150m mobile smartphones sold in India, the outsourcing opportunity is almost 85m-90m, and DIXON aims to capture 35-40% of this opportunity in a couple of years. We expect revenues from mobile phones to increase INR232b/INR296b in FY25/FY26 from INR92b in FY24 to be driven by sharp improvement in smartphone volumes. For IT hardware, DIXON is eligible for PLI 2.0 and we expect IT hardware revenues to grow to INR5b/INR25b in FY25/FY26 from INR1.4b in FY24.

Financial outlook

We maintain our estimates and expect a CAGR of 44%/46%/51% in revenue/EBITDA/PAT over FY24-FY27. The revenue growth would be mainly driven by EMS (including mobile and IT hardware), consumer electronics, and new emerging segments such as refrigerators, wearables and hearables, and telecom networking products. We expect an EBITDA margin of 3.9%/4.0%/4.1% for FY25-FY27, led by an increased backward integration and the improving share of high-margin segments. This will result in a PAT CAGR of 51% over FY24-FY27. Further, we expect the working capital to remain comfortable at (-1) and a capex of INR5b every year over FY25-FY27. With efficient capital allocation, we expect RoIC to remain strong at 46.4%/55.9%/63.5% for FY25/FY26/FY27 vs. 30% in FY24.

Valuation and recommendation

The stock is currently trading at 85.9x/65.4x P/E on FY26/27E earnings. We roll forward our valuation to Dec'26 and reiterate a BUY rating on Dixon Technologies with a DCF-based TP of INR15,500.

Key risks and concerns

The key risks to our estimates and recommendation would come from the lower-than-expected growth in the market opportunity, loss of relationship with key clients, increased competition, and limited bargaining power with clients.

Bajaj Auto

BSE SENSEX	S&P CNX
82,989	25,384

Stock Info

Bloomberg	BJAUT IN
Equity Shares (m)	279
M.Cap.(INRb)/(USDb)	3264.1 / 38.9
52-Week Range (INR)	11894 / 4903
1, 6, 12 Rel. Per (%)	15/25/102
12M Avg Val (INR M)	3887
Free float (%)	44.9

Financials Snapshot (INR b)

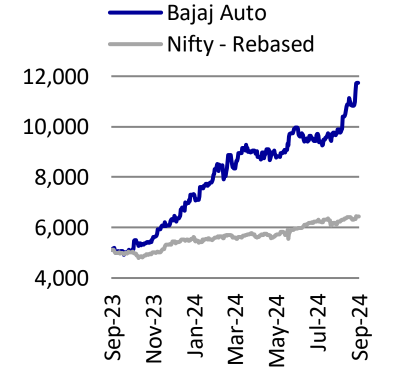
Y/E MARCH	2024	2025E	2026E
Sales	447	503	600
EBITDA	88.2	102.1	125.0
EBITDA (%)	19.7	20.3	20.8
Adj. PAT	77.1	83.2	108.0
EPS (INR)	276	298	387
EPS Gr. (%)	28.9	7.9	29.9
BV/Sh. (INR)	890	996	1,071
Ratios			
RoE (%)	30.7	31.6	37.4
RoCE (%)	28.8	30.6	34.2
Payout (%)	29.9	67.1	77.5
Valuation			
P/E (x)	42.3	39.2	30.2
P/BV (x)	13.1	11.7	10.9
Div. Yield (%)	0.7	1.7	2.6
FCF Yield (%)	2.0	1.9	2.7

Shareholding Pattern (%)

As On	Jun-24	Mar-24	Jun-23
Promoter	55.1	55.1	55.0
DII	8.8	8.6	9.6
FII	14.2	14.5	13.7
Others	21.9	21.9	21.7

FII includes depository receipts

Stock Performance (1-year)



CMP: INR11,688 TP: INR10,705 (-8%) Neutral

Volume growth to moderate in the domestic market

Freedom 125's initial feedback is encouraging

We met with the management of Bajaj Auto (BJAUT) to get an update on the different segments of the business. The management anticipates a 7-8% volume growth in the domestic 2W industry in FY25E as it expects growth to moderate in H2 due to a high base YoY. In exports, the strong demand in Latin America and ASEAN is being offset by the continued slowdown in Africa and Bangladesh, and the management expects exports to post a single-digit growth in FY25E. Amongst the positives are: 1) Freedom 125cc is experiencing strong demand, prompting the management to aim for a production increase to 40k units per month by Jan'25; additionally, the management plans to launch another CNG bike by FY25 end; 2) Chetak is performing well and is now ranking third in the market; the management aims to capture the second spot led by forthcoming new launches; and 3) the 3W EVs segment is experiencing significant growth. Amongst the negatives to be monitored are: 1) weakness in the KTM performance, and 2) likely margin pressure given the adverse mix. Reiterate our Neutral rating on the stock.

Domestic 2Ws: Expect 7-8% YoY volume growth in FY25

- The 125cc+ motorcycle segment accounts for 51% of the domestic market, with BJAUT holding a 25% market share. This is only 200bps short of the leadership position, according to the management.
- The management expects industry volumes to grow 7-8% YoY in FY25, with the 100cc segment experiencing a low single-digit growth.
- This is despite the 13%+ growth posted by motorcycles YTDFY25 so far. The management expects the overall industry growth to moderate in H2, owing to the relatively high base of last year (last year's festive season experienced strong demand in 2Ws).
- However, if the demand during the festive season exceeds expectations, it may be necessary to reassess the above growth assumptions for the sector.

Freedom 125: Aims to cover 80% of the addressable market

- The new CNG bike: Freedom 125 has been well received by customers on account of: 1) almost 50% savings on fuel bill; 2) strong range delivery as a result of the dual fuel capability; and 3) superior styling and comfortable ride offered by the bike.
- For this bike, BJAUT continues to target mileage-conscious entry-level motorcycle customers (from 100-125cc segments) in regions where CNG pumps are available. This bike would also appeal to customers plying on long-distance routes on a daily basis.
- As per management, the 100cc-125cc segment accounts for 75% of the about 1mn motorcycles sold per month in India. Moreover, 60% of these have access to CNG pumps. Hence, the addressable market for this product is 450-500k per month.
- The model is currently available in 33% of the addressable market, with a target to reach 80% in the coming months.

- It has sold 10k units in the last month and expects to sell about 20k units in the current month. Its capacity is expected to further ramp up to 40k units per month by Jan'25, based on the demand conditions.
- There are no concerns about the resale value, given that BJAUT's CNG has been a tried and tested technology in three-wheelers.
- BJAUT is looking to launch another CNG 2W by FY25 end.

400cc and above: Aims for 10k unit monthly volume run-rate

- In India, Triumph, through BJAUT, sells about 3.5-4k units per month.
- It is currently available in 100 stores, up from 40 earlier, and is expected to expand to 150 stores in the coming quarters.
- BJAUT is likely to launch 1/2 models under Triumph in the coming quarters.
- The management aims to focus on building the Triumph brand in rural and interior towns in India.
- In terms of exports, Triumph currently sells in 50+ countries globally and has been well-accepted in markets such as the UK, US, Australia, and Japan.
- Further, Pulsar 400cc is experiencing healthy demand with about 2,400 bookings made for the model.
- Overall, the management has indicated that BJAUT would be able to sell about 10k units in the 400cc+ segment in the coming months, led by: 1) ~4k units of Triumph; 2) 3-4k units of Pulsar 400; and 3) 1-1.5k units of KTM.

EVs: Eyeing market share gains in both 2Ws and 3Ws

Two-wheelers

- Following the launch of the affordable Chetak (2901), the company has observed a significant improvement in demand momentum.
- Chetak has helped the company address the sub INR 100k demand, which is about 50% of the e-2W industry.
- It is now the third largest player in the e-2W segment and aims to capture the second spot.
- The company has set up about 500 Chetak Experience Centers (250 in June) and expects to expand to 1k outlets by September.
- Besides, the company has recently decided to make Chetak available through existing dealerships, thereby rapidly scaling its reach.
- The company plans to introduce a new affordable 2W EV and a premium 2W EV following the festive season.
- It is also working on launching Chetak on a new platform in FY26.

Three-wheelers

- The company has ramped up its e-3W sales to 9,350 units in Q1, which accounts for about 9-10% of its 3W mix.
- It has captured a market share of 26% in Q1, which has further increased to 36% off late.
- It is currently present in 140 towns pan India.
- BJAUT expects to launch an e-rickshaw in FY26.
- In terms of profitability, while the profitability of 3W EVs is equivalent to that of 3W ICEs (post the PLI benefit), 2W EVs are still well away from achieving break-even. However, the management is assessing the segment's profitability at the EV level (2Ws + 3Ws), where it is already showing profits.

Exports: Expect to post a single-digit growth in FY25E

- Nigeria, which contributes to about 50% of volumes for Bajaj in Africa, continues to be under pressure due to rising inflationary conditions in the region.
- One of the key reasons for the market weakness is the fluctuating currency in the last few quarters. In order to instill confidence in dealers, BJAUT is selling bikes at constant currency rates in the market. This approach has helped stabilize prices in the end market for the product. After three months of price stabilization, the market, which typically saw 50k units per month, has recovered to around 20k units per month, up from a low of 5k a few months ago.
- Bangladesh, the second-largest market for BJAUT, is also experiencing weak demand, which is likely to continue in the near term.
- On the other hand, markets such as Latin America and ASEAN continue to experience healthy demand.
- In Latin America, regions such as Colombia and Argentina are experiencing robust demand. In addition, the new plant in Brazil has recently commenced production with a capacity of 20k units pa, which is scalable to 50k units pa. The management expects Brazil to be amongst the top three international markets for BJAUT over the coming years.
- Further, the Philippines market, which faced demand disruption last year due to regulatory changes, is now experiencing a revival in demand.
- Overall, the management anticipates a gradual recovery in exports, with Q2 expected to perform better than Q1. It expects exports to post a single-digit growth in FY25E.

Valuation and view

- After outperforming in FY24, we anticipate that BJAUT's growth rate (similar to other listed mass market peers) will moderate in FY25 as HMSI recovers back its lost share last year. Hence, we expect BJAUT to post a 5% growth in domestic motorcycles in FY25E and a 10% growth in FY26E. Similarly, in exports, we expect BJAUT to post a 7% growth in FY25E and exhibit a strong recovery with 20% growth in FY26E.
- BJAUT has witnessed a significant re-rating in the last 12 months, aided by market share gains in the 125cc+ domestic motorcycles segment, improved margins, and a one-of-a-kind policy to reward its shareholders. We have lowered the FY25 earnings by 6% to reflect weak performance at KTM in FY25E. At 39x/31x FY25/FY26E consolidated EPS, the stock's valuation fairly reflects the positives from here on. We reiterate our Neutral rating with a revised TP of INR10,705 as we roll forward to Sep-26E consolidated EPS (valued at 25x Sept 2026 EPS).

Revised estimates

	FY25E			FY26E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)
Vols ('000 units)	4,748	4,824	-1.6	5,533	5,460	1.3
Net Sales	5,02,802	5,13,276	-2.0	6,00,361	6,01,838	-0.2
EBITDA	1,02,102	1,02,408	-0.3	1,25,034	1,23,414	1.3
EBITDA Margins (%)	20.3	20.0	40bp	20.8	20.5	30bp
Net Profit	83,163	88,337	-5.9	1,08,023	1,06,332	1.6
EPS (INR)	**297.9**	**316.4**	**-5.9**	**386.9**	**380.9**	**1.6**

MCX

BSE SENSEX	S&P CNX
82,989	25,384

Stock Info

Bloomberg	MCX IN
Equity Shares (m)	51
M.Cap.(INRb)/(USDb)	285.2 / 3.4
52-Week Range (INR)	5719 / 1701
1, 6, 12 Rel. Per (%)	17/56/189
12M Avg Val (INR M)	3107
Free float (%)	100.0

Financials Snapshot (INR b)

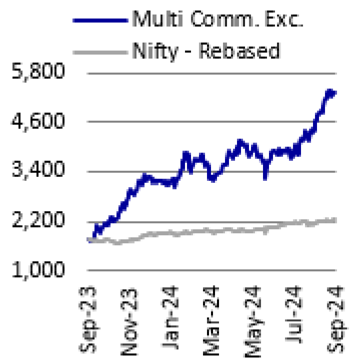
Year End	2025E	2026E	2027E
Sales	10.2	12.9	15.5
EBIT margin (%)	55.5	61.0	63.9
PAT	5.2	7.0	8.7
EPS (INR)	102.2	137.7	170.9
EPS Gr. (%)	527.2	34.7	24.1
BV/Sh. (INR)	290.7	318.3	352.5
Ratio			
RoE (%)	36.4	45.2	50.9
Valuations			
P/E (x)	54.7	40.6	32.7
P/BV (x)	19.2	17.6	15.9
Div Yld (%)	0.6	0.6	0.6

Shareholding pattern (%)

As On	Dec-23	Sep-23	Dec-22
Promoter	0.0	0.0	0.0
DII	53.0	56.4	52.8
FII	26.8	25.5	26.0
Others	20.2	19.9	21.2

FII Includes depository receipts

Stock performance (one-year)



CMP: INR5,593 TP: INR6,500 (+16%) BUY

New products to be key growth drivers

- **MCX plans to grow volumes by launching new products, such as serial contracts, index options, 10g monthly gold futures, cotton seed wash oil, crude sunflower oil contracts and many more in the pipeline. After future volumes on these products exceed the volume threshold of INR10b, MCX will launch options contracts.**
- **For MCX, retail participation has increased to ~0.9m participants. Retail participation can strengthen further with new product launches, a change in the transaction rate structure (under true-to-label charges regulation) to make it favorable to traders, strong technology-based offerings from discount brokers, and lower ticket-size contracts from MCX.**
- **FPIs are showing good traction. MCX currently has around 100 FPIs actively trading on its platform, of which around 90 belong to the CAT I category and 10 to CAT II. With the launch of its direct market access (DMA) facility, along with regulatory support and rising participation, MCX expects strong volume growth.**
- **Regulatory measures, such as true-to-label charges and the pass-on of interest earned on clearing corporation, will not have much impact on the company's profitability. True-to-label charges have to be implemented and all exchanges have to charge flat fee from 1st Oct'24.**
- **With all the aforementioned factors and high volatility in the energy basket, we expect ADTV in the options segment to increase to INR1.5t in FY25 from INR940b in FY24 (4QFY24 ADTV was INR1.2t). Our sensitivity analysis yields a ~9% rise in EPS for every 10% rise in ADTV in the options segment or a 10% rise in the options segment's realizations.**
- **From 1st Oct'24, MCX will start paying the AMC to TCS, which will be fixed in nature, causing no volatility like the previous quarters. This will lead to a marked improvement in profitability. MCX has not charged any penalty to TCS so far. With the completion of this transition, the management's will now focus on scaling up the business.**
- **We expect MCX to deliver a CAGR of 31%/ 154%/119% in revenue/EBITDA/PAT over FY24-27E, fueled by a 56% CAGR in options ADTVO. We reiterate our BUY rating on the stock with a TP of INR6,500 (premised on 42x Sept'26E EPS).**

New products and variations to existing ones to drive volumes

- MCX is preparing to introduce weekly contracts, which are currently undergoing extensive back-testing prior to the submission to SEBI for approval. This rigorous testing process is essential to ensure the new product operates on the new system without any technical issues.
- It is also looking forward to launch 10g monthly gold contract, which was delayed as it was under the testing phase. It is quite similar to the existing 8g monthly gold contract, which MCX does not plan to discontinue. Both the contracts will run simultaneously. The 10g gold contract will be launched in the future segment first and then in the options segment after it meets the INR10b volume threshold.
- Products like crude sunflower and cotton-seed wash oil futures will take at least 5-6 years to mature and contribute good volumes.

- Currently, MCX will focus more on launching the products that are similar to the existing products.
- The mini base-metal contract, which was launched recently, is trading at the same level as the main contract and contributing ~10% of the main contract.
- For the index options contract, it is still in the testing phase and MCX will focus more on other existing product launches in the near term. But this would be a huge contributor as MCX would be the first exchange in the world to launch such a product. Accordingly, demand for such products would boost volumes.

Impact of SEBI regulations

- As per the exchanges circular, the true-to-label charges regulation will have to be implemented from Oct'24. Under this regulation, the current slab-wise structure of transaction charges has to be moved to a flat fee model. MCX will announce new charges before the implementation date and after taking approval from the board of directors and the regulator.
- As per the circular, the charges have to be in sync with the current net realizations of the exchanges; hence, we do not estimate any hit on revenues. Nevertheless, with only few traders getting benefits of lower realizations, volumes could increase.
- SEBI recently released a consultation paper wherein it has recommended the pass-on of interest income earned on funds for clearing and settlement to end customers. The implementation will be challenging given that identifying the true color of money will be a herculean task at every client level.
- Even if it is implemented, the impact on MCX will not be material. In FY24, the exchange earned INR400m of interest income on clearing and settlement funds. Furthermore, as per our understanding of the consultation paper, only income earned on idle funds would be required to be passed on to customers.
- Faster approvals for new products and variants of existing products can reduce the lead time for MCX.

MCX volumes remain strong in Aug'24; both futures and options

- Overall ADTO increased 10.3% MoM to INR2.2t in Aug'24, aided by a 10.4% increase in options ADTO.
- The volumes have started to pick up notably in futures ADTO (up 9.6% MoM in Aug'24 to INR272b) after two consecutive months, mainly driven by 16.3%/32% MoM increase in Silver ADTO/Natural Gas ADTO.
- Options ADTO grew 10.4% MoM in Aug'24 to INR1.9t, led by 10.5%/20.7%/268% MoM increase in Crude Oil ADTO/Natural Gas ADTO/Silver ADTO.
- Over FY24-27E, we expect a CAGR of 50% in overall ADTO, 15% in futures ADTO and 56% in options ADTO.

Good traction in FPI participation

- During the year, MCX has started the process of offering DMA to foreign portfolio investors (FPIs) registered with the market regulator to trade in cash-settled contracts.

- They are currently allowed to trade in only two commodities, Crude Oil and Natural Gas. When the list is expanded, the contribution from FPIs will improve (currently contributes around 1% of the overall trading volume).
- It has been only a few months since FPIs have actively started trading on the MCX platform and there is healthy traction from this segment. MCX expects more and more participation going ahead.
- MCX currently has around 100 FPIs actively trading on the platform, of which around 90 belong to the CAT I category and 10 to CAT II.
- The key target audience for FPIs would be high-frequency traders and FPIs with exposure to commodities in Indian currency.

Software transition: Fixed costs to kick in from Oct'24

- Over the past couple of years, MCX has been embroiled in transitioning its core operating software from 63Moons to TCS. This transition impeded the launch of new products and demanded extensive management attention. Additionally, due to the necessity of extending the contract with 63moons thrice, MCX's costs escalated significantly.
- In Oct'23, the company successfully completed its transition and the software has been operating smoothly. This is evidenced by the significant increase in volumes to pre-transition levels.
- At the current volumes, we expect the costs (AMC + depreciation) to be lower than the normal run rate in the pre-transition phase. While there will be no AMC costs until 2QFY25, a fixed AMC cost will kick in from 3QFY25 with no linkages to volumes.
- Back-testing the new products on the new software is key to a glitch-free implementation. So far, new product launches have not seen any major issues.

Premium to notional turnover improving

- The premium turnover to notional turnover ratio declined from 2.05% in 3QFY24 to 1.44% in Jul'24. However, it recovered to 1.77% in Aug'24, led by a surge in volumes in gold, silver and natural gas.
- In our assumption, we previously built 1.55% for FY25 and 1.47% for FY26. We now increase the ratio to 1.65%/1.6% for FY25/FY26, resulting in an increase in our EPS estimates by 6%/8%.

Valuation and view – Maintain BUY

- We expect MCX to deliver a CAGR of 31%/154%/119% in revenue/EBITDA/PAT over FY24-27E, led by a 56% CAGR in options volumes. We highlight several near- to medium-term drivers of volume growth: 1) new product launches - index options, 10g monthly gold futures, cotton seed wash oil, crude sunflower oil contracts and many more in pipeline; 2) continued volatility in key commodity prices (gold, crude oil & natural gas) amid global uncertainties; and 3) a rise in retail participation in the options market. We expect no impact from competition on MCX's volumes, as similar products are currently available on other exchanges. With the technology overhang behind MCX and near-term potential drivers in place, we see meaningful re-rating potential. **We reiterate our BUY rating on the stock with a TP of INR6,500 (premised on 42x Sept'26E EPS).**

Muthoot Finance: Rising gold prices have enabled customers to borrow more from the same collateral gold; George Muthoot, MD

- Rising gold prices have enabled customers to borrow more from the same collateral gold
- Demand for gold loans picking up across branches
- Unsecured loans have been difficult to come by for customers, augurs well for gold loans
- Maintain 15% AUM growth guidance, will look at guidance only after results
- Cost of borrowing have peaked out, should see rates coming down in days to come

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Kross: Expect past growth CAGR to continue going forward; Kunal Rai, Jt. ED & CFO

- Revenue CAGR growth has been nearly 44% over last 3 years
- Expect exports to increase as a percentage of sales going forward
- Expect double digit contribution to topline from exports in future
- Currently at 70% capacity utilisation
- Export contribution will increase above 10% in 2-3 years
- Expect margins to improve, targeting mid-teens in the next 2 years

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Akzo Nobel: B2B & B2C demand outlook, crude price impact & competitive challenges; Rajiv Rajgopal, MD

- Believe that the stronger brands will survive in markets
- Largely volume is coming from mid-tier economy
- Rural economy has shown some signs of growth but its too early to predict
- With Gwalior plant we will be able to focus more on northern part of country
- Launching new colour by end of this year

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Pokarna: Quartz biz growth will offset the muted performance in granite; Paras Jain, CEO

- Quartz business will grow 30-35% in FY25
- Haven't seen much improvement in granite business
- KREOS will come on stream in Q3FY25
- Freight expense continue to remain challenging
- EBITDA margin might be higher than the projected range of 30-35%
- Haven't got any acceptable offer for apparel business

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Investment Rating	**Expected return (over 12-month)**
BUY	>=15%
SELL	< - 10%
NEUTRAL	> - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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