



Multi Commodity Exchange Of India Ltd Exchange and Data Platform

STOCK IDEA
Rating: BUY

Date	Aug 24 2022
CMP (as on 23 Aug'22)	INR 1308
52 Wk H/L	INR 2314/1142
Target Price	INR 1767
Potential Upside	35%

Market Data	
O/S Shares (Cr)	5.1
Mkt Cap (In Cr)	INR 6,670
Face Value	INR 10

Particulars (%)	Jun 22	Mar 22
Promoters	-	-
FII	26.84	26.52
DII	48.60	48.33
Others	24.56	25.15

Multi Commodity Exchange of India (MCX) is a leading commodities exchange in India, having near monopoly in commodity futures derivatives with ~96.4% market share as on Q1FY23. It is a de-mutualised exchange and received permanent recognition from the Government of India in 2003, to facilitate nationwide online trading, clearing and settlement operations of commodities futures transactions. MCX offers trading in varied commodity futures contracts across segments including bullion, industrial metals, energy and agricultural commodities. It is pioneer of commodity options in India. MCX offers the benefits of fair price discovery and price risk management to the Indian commodity market ecosystem. The Company has a national reach with 592 members, having 50,254 Authorized Persons, operating through 43.49 lakh terminals, catering to 1.07cr UCC's.

INVESTMENT RATIONALE

Options on Commodity Futures contracts showcasing strong traction in turnover

- The options segment delivered a strong growth of 30%/928% QoQ/YoY growth in its Average Daily Turnover (ADT) in Q1FY23, resulting in a revenue of INR 27 crore (+23% QoQ). The derivative segment started generating revenue w.e.f. October 1st, 2021. The charges are competitive vis-à-vis their peers with INR 50 per lakh upto INR 5 crore, and INR 40 above INR 5 crore. Despite the charges, the volumes have been inching from INR 8,479 crs in Q3FY22 to INR 19,539 crs in Q1FY23. Another catalyst for this drastic shift has been the levy of peak margins, which has shifted some trading volumes from futures to options. Nearly 75% of option volumes are contributed by Crude Oil while Natural Gas contributes ~20%. **We expect Options Transaction Fees to contribute INR 197 crores (~40% of total revenue) in FY24e vs. INR 32 crores (<10% of total revenue) in FY22 (25% revenue contribution in Q1FY23).**

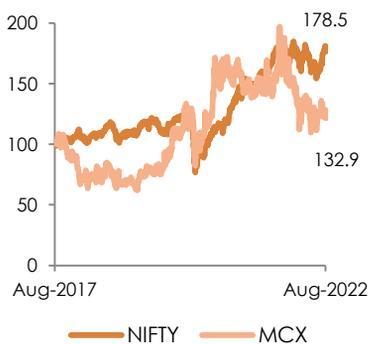
Commodity futures ADT has started stabilizing

- Depth, liquidity and impact cost are key factors for any exchange and MCX is a market behemoth having ~100% market share in Energy, Precious & Base Metals contracts. In the past few quarters, MCX has been facing headwinds due to subdued trend in gold prices & SEBI's stringent margin rules leading to cannibalization in the futures volume. The futures segment has a superior revenue generating model, vis-à-vis options. With commodity prices stabilizing, peak margins requirement may soften, assisting recovery in volumes. **While the Q1FY23 Futures ADT volumes dipped ~4%/ 10% QoQ/YoY, we have estimated a minuscule growth in trading volumes.**

Shift to the new trading platform will drive higher operating margin

- MCX has partnered with TCS to build a new technology platform to facilitate trading as well as post-trade functions, for which it has incurred ~INR 150 crores. It is expected to go live in Nov-Dec'22 & will replace the present vendor, 63 Moon Technologies. Post implementation, the company will only bear AMC charges of less than INR 10 crores p.a, kicking in one year after implementation. It presently incurs INR 15.6 crores annually as fixed expense, and 10.3% of the transaction charges as variable expense. Benefits of the absence of any variable pay will directly benefit the bottom line, due to high trading volumes. **We expect Software charges & Product fees line item to reduce substantially in FY24E leading to EBITDA margin of 57% in FY24E, a 1300bps expansion compared to FY22 margins.**

Nifty vs MCX Returns



Aayush Adukia
Research Analyst – Equities
aayushadukia@systematixgroup.in

Valuation and Outlook

- We expect MCX to post Revenue CAGR of 17% and 36% EBITDA CAGR over FY22-24e. EBITDA margin is estimated to reach to 60% in FY24e vs 44% in FY22. Net profit is envisaged to grow by 33% CAGR over same time horizon.
- MCX has an asset light business model along with minimal capex requirement, consistent FCF generation and cash-rich balance sheet (ex-Settlement guarantee fund, cash is INR 1,100 crores, ~16% of Mcap). A high quality monopoly exchange with strong structural growth, cyclical resilience, ~60% dividend payout ratio deserves a higher multiple.
- We recommend BUY rating on Multi Commodity Exchange Of India Ltd, valuing FY24E core EPS (excluding other income) at 40x to arrive at a target price of INR 1,767, implying an upside potential 35%.**

Additional Catalysts to strengthen our thesis

- MCX is awaiting approval from regulators (SEBI & CERC) to launch Electricity derivatives. While the recently introduced cap of INR12/unit is challenge, the management is confident to launch by Q3FY23.
- The management expects the Gold spot exchange to go live by March'23. However, the GST levy issue needs to be resolved before its launch.
- Plans to launch gold options with monthly expiries, in addition to bi-monthly expiry options existing today. It is also looking for some of the newer products like aluminum alloy, steel TMT, index options etc:
- Launched Bulldex in August and MetIdx in October last year. (These are bullion & metal indices just like Nifty or Bank nifty index). Product additions and allowance to pass on cross margin benefit can proliferate market participation.
- In June'22, SEBI allowed FPI participation in cash-settled contracts in all non-agricultural commodity derivatives and select non-agricultural benchmark indices (regulatory framework is pending).
- The participation of FPI's in Exchange Traded Commodity Derivatives (ETCDs) is expected to reap liquidity and market depth as well as stimulate efficient price discovery.
- Bounce back of Nickel contracts arising from favorable SEBI decision relating to margins.

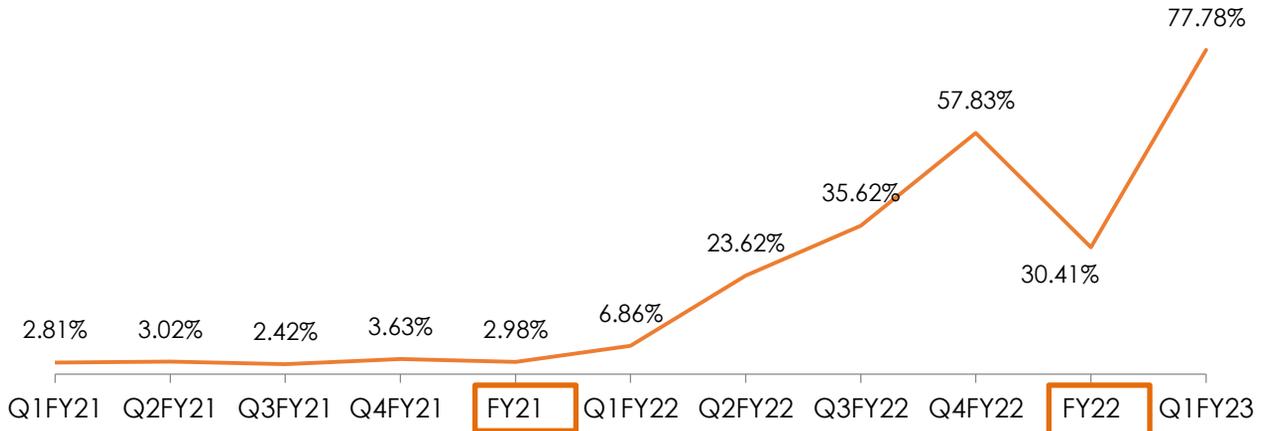
Risk

- As the Exchange's transaction fee is calculated on the basis of the value of commodity futures contracts traded on the Exchange, it has a direct impact on MCX's revenues. Falling prices of base metals and bullion could impact its revenues adversely.
- Any adverse change in regulations could hurt the business
- High dependence on few commodities: bullion, energy account for maximum volumes.
- Any weakness in volumes of Options on Commodity future contracts will be detrimental to our thesis.

Peer Valuation

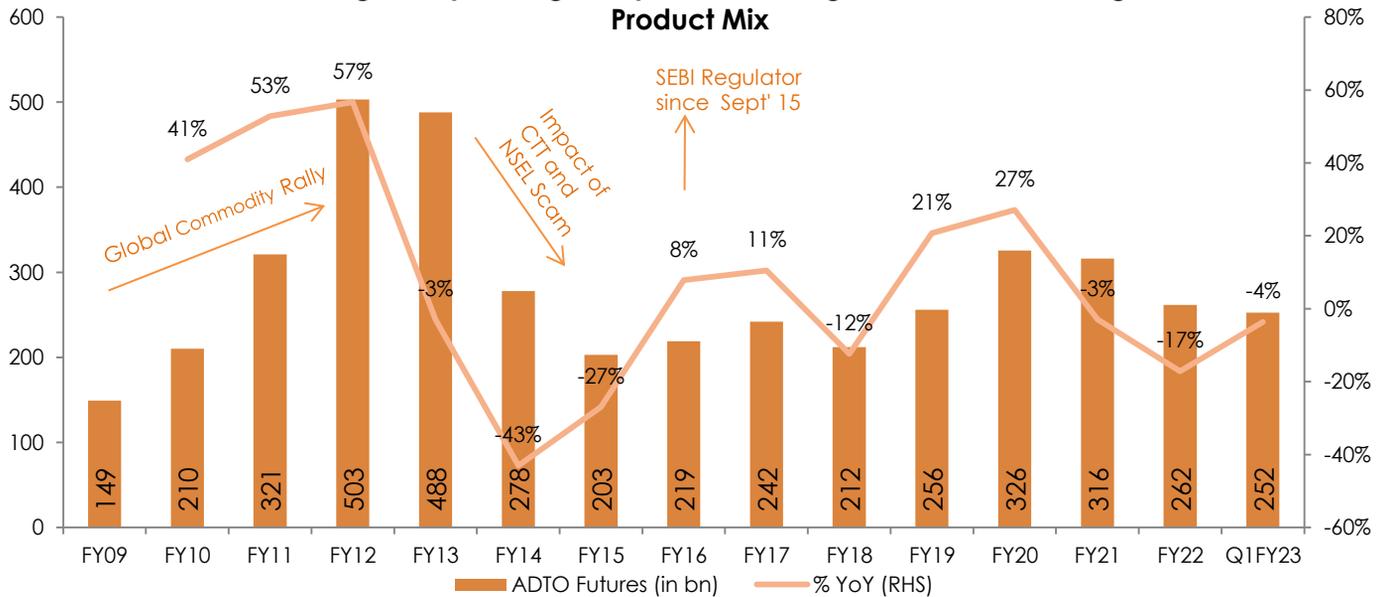
Company	CMP	M Cap. (Rs Cr)	EPS				P/E				ROE (%)				CAGR EPS FY22-FY24
			FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	
Multi Commodity Exch India	1,308	6,670	44.2	28.1	42.4	52.1	31.5	49.5	31.1	25.3	14	11	15	17	36%
BSE Ltd	640	8,670	10.7	18.8	19.1	23.3	61.9	35.3	34.3	28.0	7	11	10	12	11%
Central Depository Services	1,206	12,615	19.2	29.8	26.6	31.9	58.1	37.4	45.7	38.1	25	32	24	25	3%
Indian Energy Exchange Ltd	158	14,226	2.4	3.4	4.0	4.6	65.1	46.0	40.8	35.9	46	49	45	42	16%

Burgeoning acceptance of Options witnessed by surging Options ADTO as a % of Futures ADTO



Series of Regulatory Changes impacted ADTO growth and led Change In Product Mix

Series of Regulatory Changes impacted ADTO growth and led Change In Product Mix

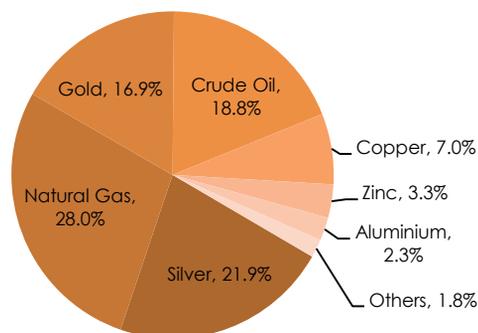
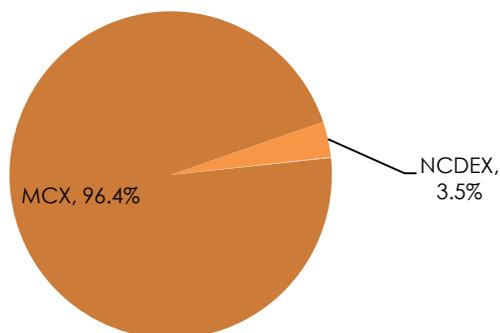


Impact on MCX Turnover by flux of regulatory changes since FY20

- | | |
|---|--|
| <ul style="list-style-type: none"> Compulsory delivery of base metals (FY20) | <ul style="list-style-type: none"> Discontinuation of Mini Contracts (FY19/FY20) in base metals and crude |
| <ul style="list-style-type: none"> Peak Margin rules (FY21/22) | <ul style="list-style-type: none"> Negative Pricing and High Margin requirement in crude (FY21/FY22) |

MCX has near monopoly in commodities derivatives trading, >90% market share

75% of commodities turnover is contributed by Bullion, Crude & Gas



MCX's dominant position in commodity derivatives for Energy, Precious & Base Metals

Commodity Segment	MCX Share in Indian Commodity Futures			Proportion of MCX's turnover		
	FY 22	FY 21	FY 20	FY 22	FY 21	FY 20
Precious Metals	99.99%	99.97%	98.57%	39%	56%	35%
Energy	100%	100%	99.95%	36%	23%	45%
Base Metals	100%	100%	100%	22%	20%	19%
Agri- Commodities	19.54%	23.49%	17.24%	2%	1%	1%
Index Futures	99.30%			1%		

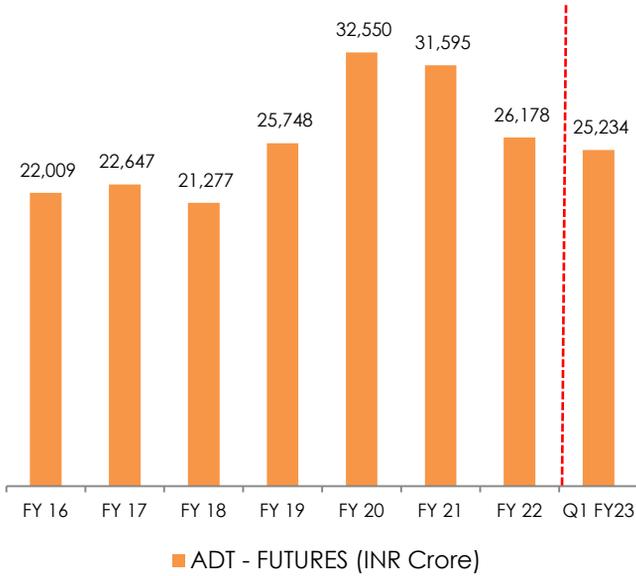
Participation: Share of algo trading is rising due to addition of 2 international players

Options Average Daily Turnover is showing encouraging signs of volume traction

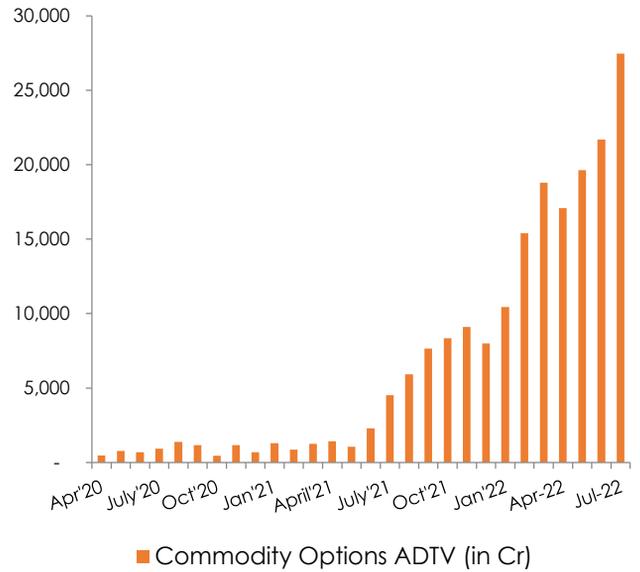
Futures	Q1 FY 23	Q1 FY 22
Algo%	56	46
Non Algo %	44	54
Client %	50	31
Proprietary %	50	69
Mobile Trading %	20	25

Options (in Cr)	Q1 FY 23		Q4 FY 22	
	Notional	Premium	Notional	Premium
Bullion	1,169	8	1,545	10
Energy	18,369	495	13,517	396
Base Metals	1	0.02	4	0.1
Total	19,539	503	15,065	407

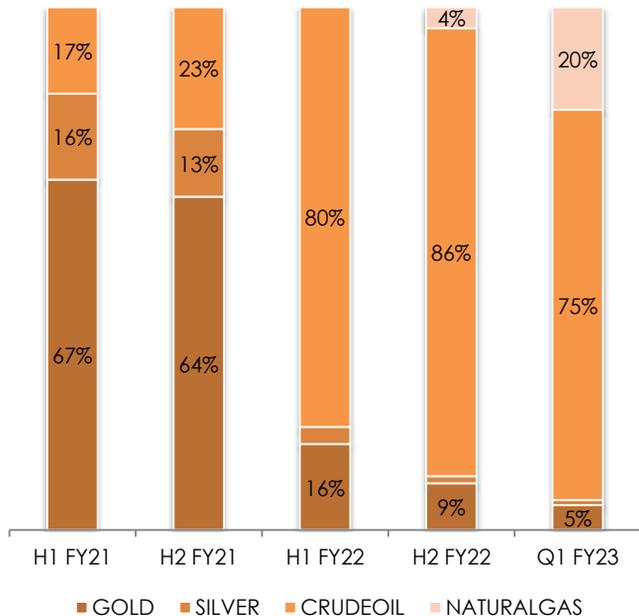
Avg. Daily Turnover of Futures has started stabilizing after sharp decline in FY22



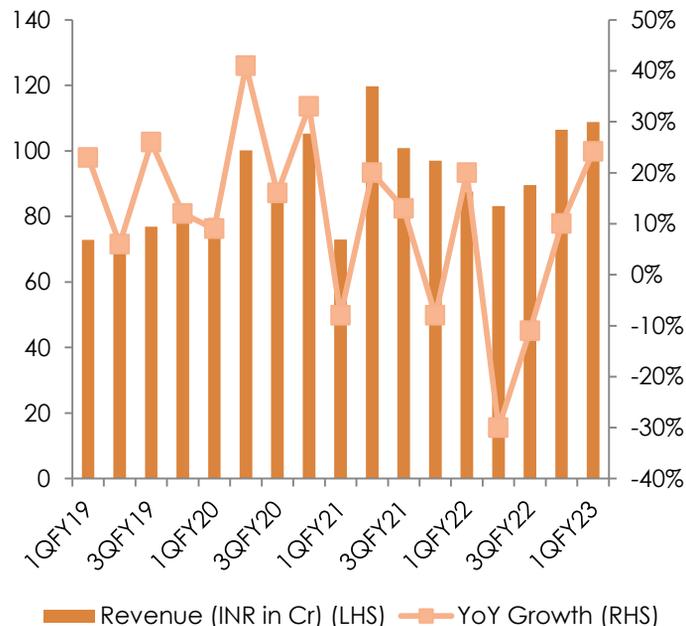
Options on Futures contracts: Q1FY23 ADT of Rs. 200bn, +26% QoQ, +929% YoY



Options ADT: Crude Volatility drove higher volumes in FY22, Gas is 20% in Q1 FY23

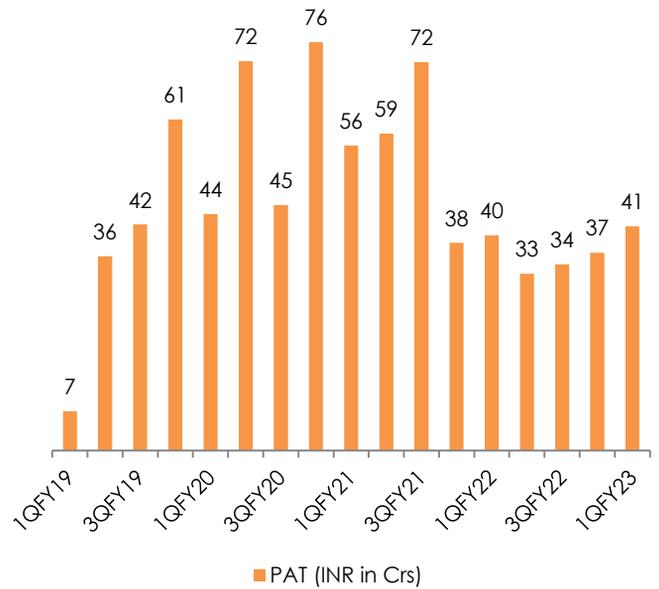
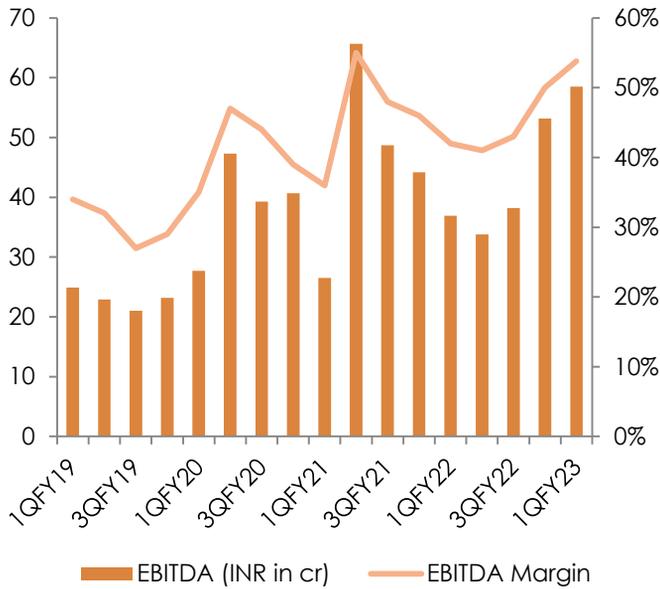


..translating into strong revenue growth..



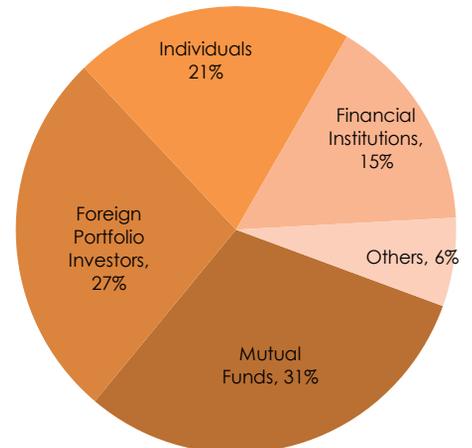
..driving EBITDA margin to trend upwards

Growth in PAT registering 13%/4.17%
QoQ/YoY in Q1FY23



Top 15 Shareholders

Sr. No.	Name of Shareholders	% holding
1	Kotak Mahindra Bank Ltd.	15%
2	PPFAS Mutual Fund*	5%
3	WF Asian Smaller Companies Fund Limited	5%
4	Nippon India Mutual Fund*	4%
5	Kontiki Master Fund	3%
6	Franklin Templeton Mutual Fund*	3%
7	ICICI Prudential Mutual Fund*	3%
8	SBI Mutual Fund*	2%
9	HDFC Mutual Fund*	2%
10	Sundaram Mutual Fund	2%
11	L and T Mutual Fund*	2%
12	JP Morgan Funds	2%
13	Aditya Birla Mutual Fund*	2%
14	ICICI Prudential Life Insurance Company Ltd	1%
15	Abu Dhabi Investment Authority-Way	1%



*Holding under different schemes/portfolios

Key Managerial Personnel

Name & Designation	Brief Profile of Management
Mr. P. S. Reddy <i>(Managing Director and CEO)</i>	Mr. Reddy has served as the Managing Director of Central Depository Services India Ltd for ~ 7 years from April 2012 to March 2019 before joining MCX Ltd. in May, 2019. He has a diverse experience spanning over 31 years in Indian Capital Market, especially in Stock Exchange, Clearing Corporation and its ecosystem businesses
Mr. Satyajeeet Bolar <i>(Chief Financial Officer)</i>	Mr. Bolar is a Chartered Accountant by qualification, with 28 years of experience in Capital Markets. He has served as Chief Operating Officer of a group company of BSE Limited.
Mr. Manoj Jain <i>(Chief Operating Officer)</i>	Mr. Jain has previously been associated with Axis Bank, IL&FS Securities Services Ltd., NTT Data (formerly Perot systems), Wipro, ICRA and SEBI. He bags a rich experience of over 25 years of domestic and global experience in Business Development, Product, Operations, IT Support and Relationship Management.
Dr. Rajendran Narayanan <i>(Chief Digital Officer)</i>	Dr. Narayanan was previously with Indian Financial Technology and Allied Services, National Payment Corporation of India, Tata Communications Banking Infra –Solutions Ltd., Institute For Development and Research in Banking Technology.

Stock Performance Change (%)

Particulars	1 W	1M	3M	6M	1Yr	3Yr	5Yr
Multi Commodity Exch India	-3%	-7%	5%	4%	-11%	47%	25%
BSE Ltd	-2%	-3%	-6%	-1%	80%	275%	97%
Central Depository Services	-2%	7%	15%	-10%	4%	527%	263%
IEX	-5%	0%	-15%	-23%	10%	251%	NA
BSE 200	-2%	6%	11%	7%	7%	67%	78%

Note:

Green indicates out-performance to Nifty 50 during the respective period

Red indicates under-performance to Nifty 50 during the respective period

* As per closing price of August 23, 2022

Revenue Model					
Particulars	FY20	FY21	FY22	FY23e	FY24e
FUTURES					
Total Traded Value (in Cr)	83,98,976	79,76,543	66,68,069	67,48,909	69,85,121
% growth	27%	-5%	-16%	1%	3%
ADT (in Cr)	32,550	31,595	26,178	26,260	27,179
Transaction charges (per lakh traded)	2.10	2.07	2.07	2.03	2.03
Revenue from Futures (in Cr)	353	328	314	274	283
YoY Growth (%)	25%	-7%	-4%	-13%	3%
OPTIONS					
Average Daily Notional TO (in Cr)	1,131	943	7,860	30,000	45,000
Revenue from Options (in Cr)			32	132	197
% growth				311%	50%

Income Statement					All figures in crores	
Particulars	FY19	FY20	FY21	FY22	FY23e	FY24e
Revenue	301	374	391	367	426	502
Growth %	15%	25%	4%	-6%	16%	18%
EBITDA	94	155	185	162	215	286
EBITDA Margin %	31%	41%	47%	44%	51%	57%
EBIT	79	137	163	139	187	246
PAT	146	237	225	144	206	245
Growth %	34%	62%	-5%	-36%	43%	19%
EPS	29	46	44	28	40	48

Balance Sheet					All figures in crores	
Particulars	FY19	FY20	FY21	FY22	FY23e	FY24e
Fixed Assets	158	158	158	156	274	254
Total Non-Current Assets Including Fixed Assets	1,598	1,992	1,374	978	1,085	1,145
Total Current Assets	1,220	1,531	1,128	1,822	1,766	1,920
TOTAL ASSETS	2,818	3,523	2,502	2,801	2,852	3,066
Equity	1,581	1,769	1,418	1,418	1,501	1,598
Total Non-current Liabilities	782	814	527	591	591	591
Total Current Liabilities	455	939	557	791	760	877
TOTAL LIABILITIES	2,818	3,523	2,502	2,801	2,852	3,066

Cash Flow Statement					All figures in crores	
Particulars	FY19	FY20	FY21	FY22	FY23e	FY24e
CFO	256	449	(185)	392	86	245
CFI	(91)	(27)	(39)	(142)	(15)	55
CFF	(105)	(123)	(153)	(142)	(124)	(147)
Net Capex	(27)	(28)	(21)	(82)	(85)	(20)
Debt raised (paid)	-	-	-	-	-	-
Equity raised (buyback)	-	-	-	-	-	-
Dividend Paid	(105)	(123)	(153)	(141)	(124)	(147)
Interest paid	(0)	(0)	(0)	(0)	-	-

Source: Systematix Research

DISCLOSURES/APPENDIX**ANALYST CERTIFICATION**

I/We, **Aayush Adukia**, hereby certify that (1) views expressed in this research report accurately reflect my/our personal views about any or all of the subject securities or issuers referred to in this research report, (2) no part of my/our compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed in this research report by Systematix Shares and Stocks (India) Limited (SSSIL) or its group/associate companies, (3) reasonable care is taken to achieve and maintain independence and objectivity in making any recommendations.

Disclosure of Interest Statement	Update
Analyst holding in the stock (%)	None
Served as an officer, director or employee	No

ISSUER SPECIFIC REGULATORY DISCLOSURES, unless specifically mentioned in point no. 9 below:

- The research analyst(s), SSSIL, associates or relatives do not have any financial interest in the company(ies) covered in this report.
- The research analyst(s), SSSIL, associates or relatives collectively do not hold more than 1% of the securities of the company(ies) covered in this report as of the end of the month immediately preceding the distribution of the research report.
- The research analyst(s), SSSIL, associates or relatives did not have any other material conflict of interest at the time of publication of this research report.
- The research analyst, SSSIL and its associates have not received compensation for investment banking or merchant banking or brokerage services or any other products or services from the company(ies) covered in this report in the past twelve months.
- The research analyst, SSSIL or its associates have not managed or co-managed a private or public offering of securities for the company(ies) covered in this report in the previous twelve months.
- SSSIL or its associates have not received compensation or other benefits from the company(ies) covered in this report or from any third party in connection with this research report.
- The research analyst has not served as an officer, director or employee of the company(ies) covered in this research report.
- The research analyst and SSSIL have not been engaged in market making activity for the company(ies) covered in this research report.
- There is no material disciplinary action taken by any regulatory authority that impacts the equity research analysis activities.
- Details of SSSIL, research analyst and its associates pertaining to the companies covered in this research report:

S. No.	Particulars	Y/N
1	Whether compensation was received from the company(ies) covered in the research report in the past 12 months for investment banking transaction by SSSIL.	N
2	Whether research analyst, SSSIL or its associates and relatives collectively hold more than 1% of the company(ies) covered in the research report.	N
3	Whether compensation has been received by SSSIL or its associates from the company(ies) covered in the research report.	N
4	Whether SSSIL or its affiliates have managed or co-managed a private or public offering of securities for the company(ies) covered in the research report in the previous twelve months.	N
5	Whether research analyst, SSSIL or associates have received compensation for investment banking or merchant banking or brokerage services or any other products or services from the company(ies) covered in the research report in the last twelve months.	N

EXPLANATION TO RATINGS: BUY: TP>15%; ACCUMULATE: 5%<TP<15%; HOLD: -5%<TP<5%; REDUCE: -15%<TP<-5%; SELL: TP<-15%

DISCLAIMER

The information and opinions contained herein have been compiled or arrived at based on the 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.

This document is for information purposes only. This report is based on information that we consider reliable; we do not represent that it is accurate or complete and one should exercise due caution while acting on it. Description of any company(ies) or its/their securities mentioned herein are not complete and 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. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. All opinions, projections and estimates constitute the judgment of the author as on the date of the report and these, plus any other information contained in the report, are subject to change without notice. Prices and availability of financial instruments are also subject to change without notice. This report is intended for distribution to institutional investors.

This report is not directed to or intended for display, downloading, printing, reproducing or for distribution to or use by, any person or entity that 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 to SSSIL or its affiliates to any registration or licensing requirement within such jurisdiction. If this report is inadvertently sent or has reached any individual in such country, especially USA, the same may be ignored and brought to the attention of the sender. Neither this document nor any copy of it may be taken or transmitted into the United States (to U.S. persons), Canada, or Japan or distributed, directly or indirectly, in the United States or Canada or distributed or redistributed in Japan or to any resident thereof. Any unauthorized use, duplication, redistribution or disclosure of this report including, but not limited to, redistribution by electronic mail, posting of the report on a website or page, and/or providing to a third party a link, is prohibited by law and will result in prosecution. The information contained in the report is intended solely for the recipient and may not be further distributed by the recipient to any third party.

SSSIL generally prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, SSSIL generally prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that they cover. Our salespeople, traders, and other professionals or affiliates may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein. Our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. The views expressed in this research report reflect the personal views of the analyst(s) about the subject securities or issues and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report. The compensation of the analyst who prepared this document is determined exclusively by SSSIL; however, compensation may relate to the revenues of the Systematix Group as a whole, of which investment banking, sales and trading are a part. Research analysts and sales persons of SSSIL may provide important inputs to its affiliated company(ies).

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. SSSIL, 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 the 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.

SSSIL and its affiliates, officers, directors, and employees subject to the information given in the disclosures may: (a) from time to time, have long or short positions in, and buy or sell, the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation (financial interest) or act as a market maker in the financial instruments of the 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. The views expressed are those of the analyst and the company may or may not subscribe to the views expressed therein.

SSSIL, its affiliates and any third party involved in, or related to, computing or compiling the information hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to any of this information. Without limiting any of the foregoing, in no event shall SSSIL, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind. The company accepts no liability whatsoever for the actions of third parties. The report may provide the addresses of, or contain hyperlinks to, websites. Except to the extent to which the report refers to website material of the company, the company has not reviewed the linked site. Accessing such website or following such link through the report or the website of the company shall be at your own risk and the company shall have no liability arising out of, or in connection with, any such referenced website.

SSSIL will not be liable for any delay or any other interruption which may occur in presenting the data due to any technical glitch to present the data. In no event shall SSSIL 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 SSSIL through this presentation.

SSSIL or any of its other group companies or associates will not be responsible for any decisions taken on the basis of this report. Investors are advised to consult their investment and tax consultants before taking any investment decisions based on this report.



Systematix Shares and Stocks (India) Limited

Registered and Corporate address: The Capital, A-wing, No. 603 – 606, 6th Floor, Plot No. C-70, G Block, Bandra Kurla Complex, Bandra (East), Mumbai – 400 051

CIN : U65993MH1995PLC268414 | BSE SEBI Reg. No.: INZ000171134 (Member Code: 182) | NSE SEBI Reg. No.: INZ000171134 (Member Code: 11327) | MCX SEBI Reg. No.: INZ000171134 (Member Code: 56625) | NCDEX SEBI Reg. No.: INZ000171134 (Member Code: 1281) | Depository Participant SEBI Reg. No.: IN-DP-CDSL-246-2004 (DP Id: 34600) | PMS SEBI Reg. No.: INP000002692 | Research Analyst SEBI Reg. No.: INH200000840 | Investment Advisor SEBI Reg. No. INA000010414 | AMFI : ARN – 64917