



Multi Commodity Exchange Of India Ltd Exchange and Data Platform

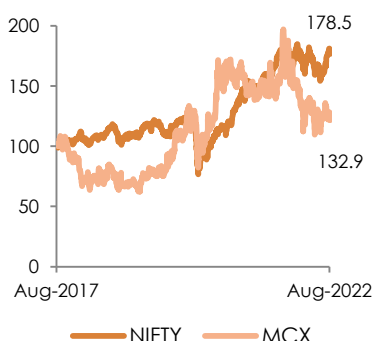
STOCK IDEA
Rating: BUY

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

Nifty vs MCX Returns



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.**

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 Metldex 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

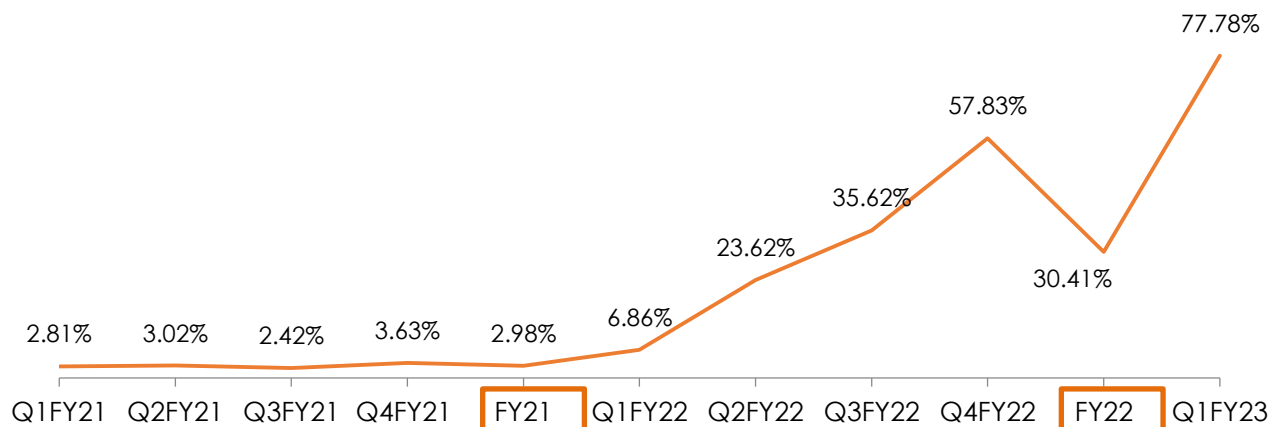
- As the Exchange's transaction fee is calculated on the basis of the value of commodity futures contracts traded on the Exchange, it has a direct impact on MCX's revenues. Falling prices of base metals and bullion could impact its revenues adversely.
- Any adverse change in regulations could hurt the 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%

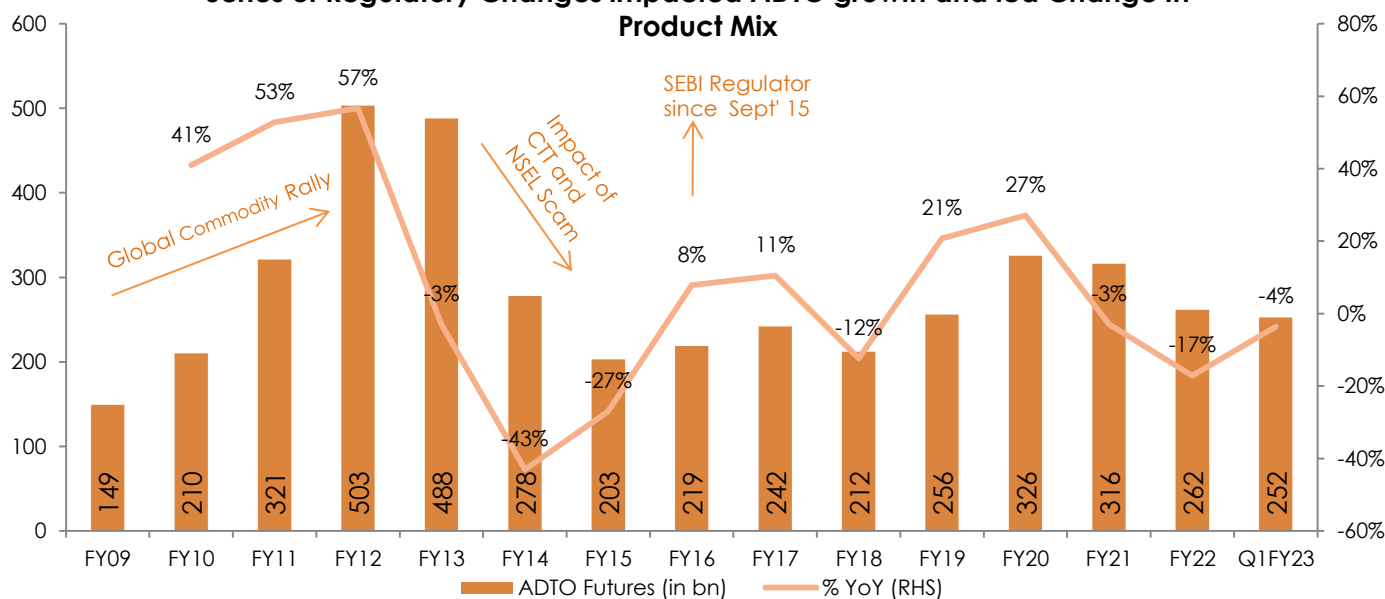
Source: Bloomberg Estimates

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

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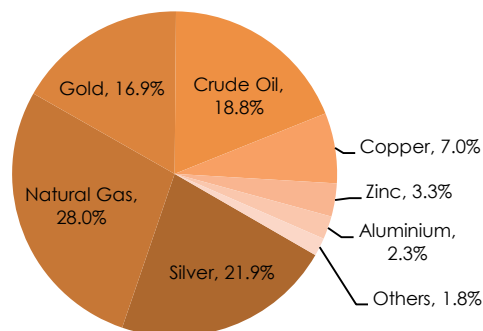
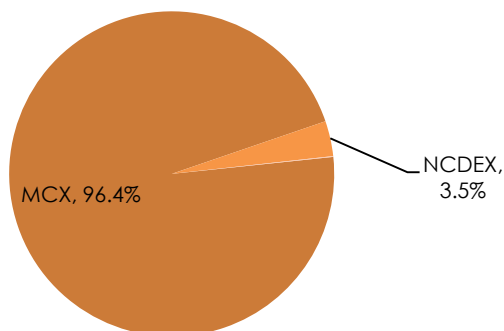


Impact on MCX Turnover by flux of regulatory changes since FY20

- | | |
|---|--|
| <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%		

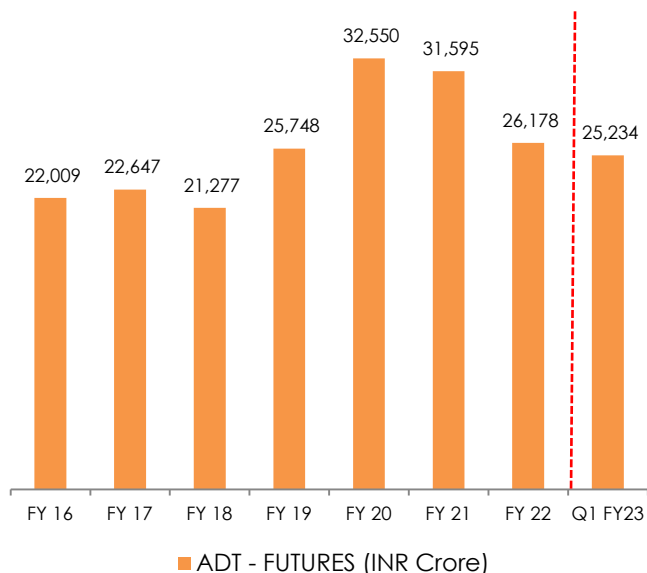
Participation: Share of algo trading is rising due to addition of 2 international players

Options Average Daily Turnover is showing encouraging signs of volume traction

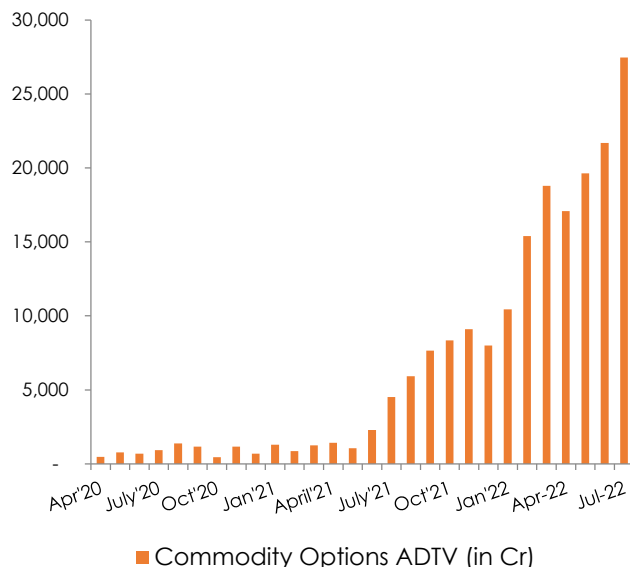
Futures	Q1 FY 23	Q1 FY 22
Algo%	56	46
Non Algo %	44	54
Client %	50	31
Proprietary %	50	69
Mobile Trading %	20	25

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

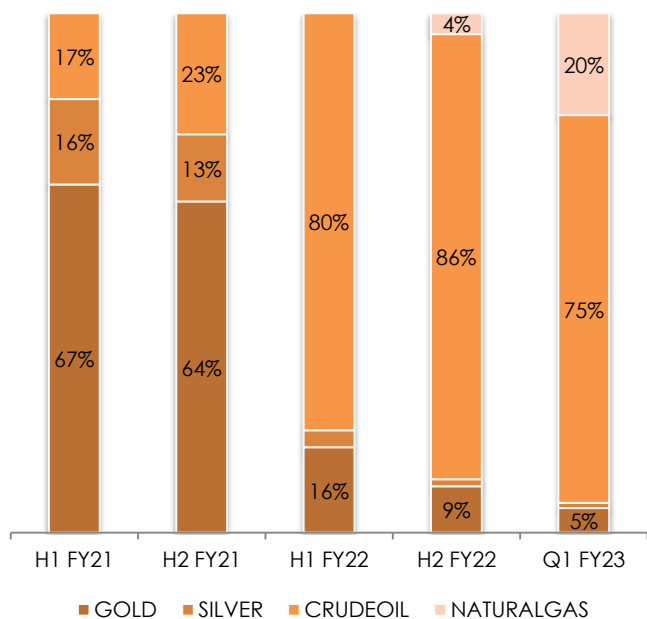
Avg. Daily Turnover of Futures has started stabilizing after sharp decline in FY22



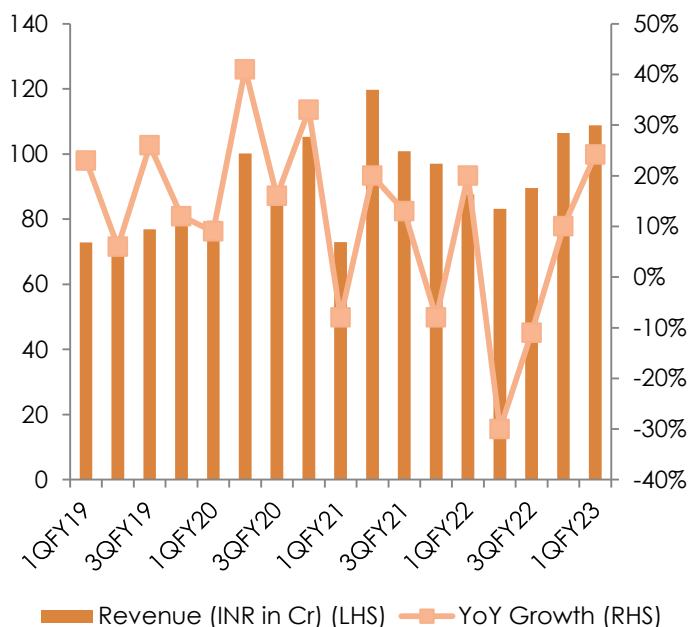
Options on Futures contracts: Q1FY23 ADT of Rs. 200bn, +26% QoQ, +929% YoY



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

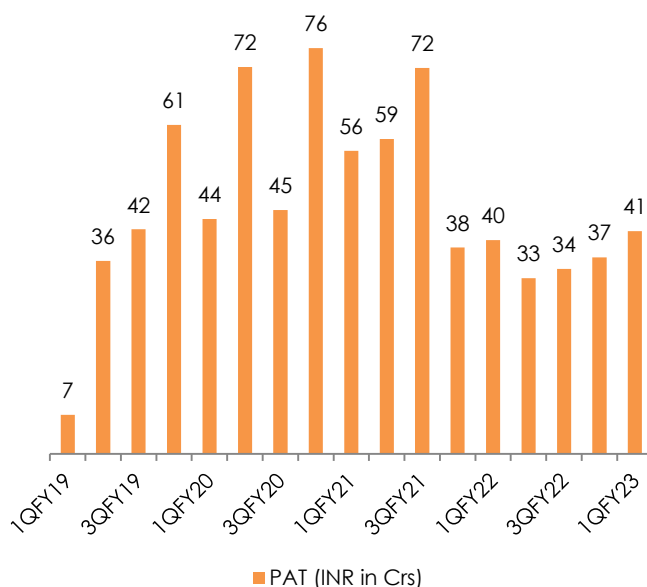
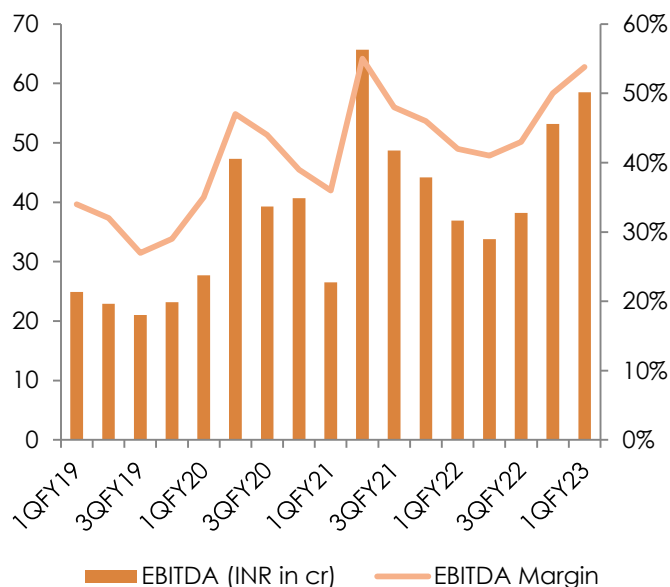


..translating into strong revenue growth..



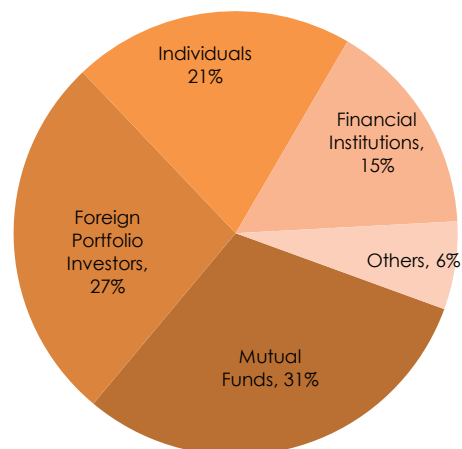
..driving EBITDA margin to trend upwards

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

Source: Company Data

Key Managerial Personnel

Name & Designation	Brief Profile of Management
Mr. P. S. Reddy (Managing Director and CEO)	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 (Chief Financial Officer)	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 (Chief Operating Officer)	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 (Chief Digital Officer)	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
<u>FUTURES</u>					
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%
<u>OPTIONS</u>					
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

Source: Systematix Research

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

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Analyst holding in the stock (%)	None
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EXPLANATION TO RATINGS: BUY: TP>15%; ACCUMULATE: 5%<TP<15%; HOLD: -5%<TP<5%; REDUCE: -15%<TP<-5%; SELL: TP<-15%

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