

# Multi Commodity Exchange (MCX)

CMP: ₹ 1676

Target: ₹ 2000 (19%)

Target Period: 12 months

October 26, 2021

## Market leadership, options volume to aid earnings...

**About the stock:** MCX is the leader in commodity derivatives exchanges in India with ~93% market share in terms of commodity futures turnover.

- It has ~100% market share in precious & base metals and energy
- Presence in various commodities offers healthy diversification

**Q2FY22 Results:** MCX' dip in ADTO impacted revenue & earnings.

- Average daily futures turnover (ADTO) declined ~32% YoY to ₹ 25797 crore due to increase in margin requirement
- Option ADTO gained traction from ₹ 1900 crore to ₹ 6023 crore QoQ
- Operational revenue down ~30% YoY; other income down 10% YoY
- Earnings at ₹ 33.2 crore; down 16.8% QoQ & 43% YoY

**What should investors do?** MCX's share price has grown by ~1.7x over the past five years (from ~₹ 1054 in July 2016 to ~₹ 1,798 levels in October 2021).

- Being a market leader in commodities exchange and a beneficiary of increase in option volume, we retain our BUY rating on the stock

**Target Price and Valuation:** We value MCX at ~46x core FY23E EPS and net cash and maintain our target price at ₹ 2000.

**Key triggers for future price performance:**

- Charging options from Q3FY22 & non-linear growth in volume to aid growth
- Recent court ruling allowing long term electricity contracts to trade on exchange provides optionality though timeline for launch is to be watched
- Market leadership makes MCX a primary beneficiary of rise in volume
- Diversified product mix aids top-line amid volatility in prices
- Continued addition of participants to aid volume growth

**Alternate Stock Idea:** Apart from MCX, in our coverage we also like 5Paisa.

- It is a leading discount broker and offers a play on new age fintech financial intermediary with robust client addition
- BUY with a target price of ₹ 530

BUY



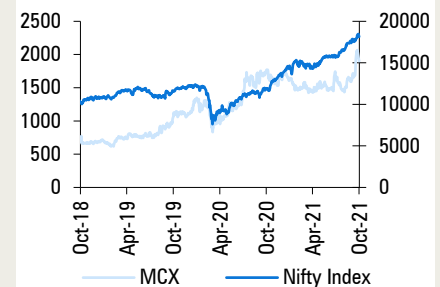
### Particulars

Particulars	Amount
Market Capitalisation	₹ 8547 crore
Equity Capital	₹ 51 crore
Networth	₹ 1418 crore
Face Value	₹ 10
52 week high/low	2135/1434
FII	32.5%
DII	41.1%

### Shareholding Pattern

in %	Sep 20	Dec 20	Mar 21	Jun 21	Sep 21
Promoter	0.00	0.00	0.00	0.00	0.00
DII	41.35	39.22	41.20	39.69	41.09
FII	36.63	37.06	36.20	35.27	32.49
Others	22.0	23.7	22.6	25.0	26.4

### Price Chart



### Recent Event & Key Risks

- Futures ADTO declined 5% QoQ; option ADTO increased ~3x QoQ
- **Key Risk:** (i) Decline in bullion prices (ii) slower pick in option volume

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### Key Financial Summary

(₹ crore)	FY19	FY20	FY21	3 year CAGR (FY19-FY21)	FY22E	FY23E	2 year CAGR (FY22-23)
Net Sales	300.0	374.2	390.6	14.8%	365.6	445.1	6.8%
EBITDA	94.9	154.7	185.1	38.4%	155.5	214.2	7.6%
Net Profit	168.4	236.6	225.3	28.3%	177.0	243.4	3.9%
EPS (₹)	33.0	46.4	44.2	28.3%	34.7	47.7	3.9%
P/E(x)	54.1	54.1	54.1		54.1	54.1	
Annual Volume Traded (in lakh crore)	67.7	86.9	82.6		86.2	98.7	
RoE (%)	13.5	17.4	15.9		12.0	15.5	
RoA (%)	8.1	8.7	9.0		6.6	8.5	

## Key takeaways of recent quarter & conference call highlights

### Q2FY22 Results: Weak performance led by decline in futures ADTO

- Overall turnover increased ~10% QoQ to ₹ 21 lakh crore in Q2FY22. Notional options volume increased from ₹ 1.21 lakh crore in Q1FY22 to ₹ 3.97 lakh crore in Q2FY22. However, future volumes have shown a 5% QoQ decline to ₹ 17.02 lakh crore
- Moderation in futures volume led to 5% QoQ decline in revenue from operation to ~₹ 83.2 crore. This was partially offset by ~3% QoQ decline in opex. Other income came at ₹ 16.1 crore, down 25% QoQ
- Moderation in revenue & other income led 44% YoY and 21% QoQ decline in earnings to ₹ 32.7 crore

### Q2FY22 Earnings Conference Call highlights

- Loss in ADTO in Q2FY22 was primarily led by higher margin requirement effective from September 2021. Revival in ADTO visible in October 2021
- Option volume has increased 422% YoY to ₹ 6023 crore. 100% turnover in option contribute to one third revenue when compared to futures. Charges on options remain in-line with slab wise turnover
- Substantial proportion of options is contributed by crude oil; this may be attributable to higher margin in futures and creation of new market
- MCX is working on launching electricity derivative contract post judgement from Supreme Court clearing uncertainty. Timelines on product launch have not been provided. IEX prices will be used for settlement wherein 10% revenue is to be shared with IEX as per agreement valid for 2 years
- Volume from algo channel has been gradually rising to 51% led by addition of new participants
- Turnover in index is increasing and is currently at ₹ 500 crore
- The management plans to charge electricity derivative based on ADTO. Size of derivative market internationally is at 7-8x of spot volume
- Discussion and analysis on spot gold exchange is under way with nothing still finalised
- Preliminary work undertaken on gold exchange. Partnerships are being entered into. Some more relaxations are expected from Gol

## Peer comparison

Exhibit 1: Peer Comparison

Sector / Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			P/ABV (x)			RoE (%)		
	(₹)	TP(₹)	Rating		FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
IIFL Sec	105	115	Hold	3179	7.3	9.3	10.2	14.4	11.2	10.3	3.3	2.5	2.0	23.9	25.5	21.9
5 paisa	450	530	Buy	1323	6.8	7.0	13.8	66.3	64.0	32.6	7.2	3.2	2.9	11.7	7.3	9.3
Geojit	87	110	Buy	2069	5.2	6.1	6.5	16.8	14.2	13.3	3.1	2.6	2.2	20.1	19.9	17.6
MCX	1676	2000	Buy	9474	44.2	34.7	47.7	37.9	48.3	35.1	6.0	5.8	5.5	15.9	12.0	15.5

Source: Company, ICICI Direct Research

We believe MCX will continue to deserve premium valuation given market leadership in commodities segment coupled with focus on new product launch.

**Exhibit 2: Variance Analysis**

	Q2FY22	Q2FY21E	Q2FY21	YoY	Q1FY22	QoQ	Comments
Revenue	83.2	115.6	119.7	-30.5%	87.6	-5.0%	Decline in Futures volume impacted revenue
Other Income	16.1	30.9	17.8	-9.9%	21.3	-24.7%	
Total Income	99.3	146.4	137.5	-27.8%	108.9	-8.9%	
Operating Expenses	28.8	35.3	33.8	-15.0%	30.0	-4.2%	
Other Expenses	20.6	21.8	20.2	2.4%	20.8	-0.5%	
Total Expenses	49.4	57.0	54.0	-8.5%	50.8	-2.7%	Focus on efficiency kept opex controlled
<b>EBITDA</b>	<b>33.8</b>	<b>58.5</b>	<b>65.69</b>	<b>-48.5%</b>	<b>36.9</b>	<b>-8.3%</b>	
<b>EBITDA %</b>	<b>40.6%</b>	<b>50.6%</b>	<b>54.9%</b>	<b>-1,426 bps</b>	<b>42.1%</b>	<b>-144 bps</b>	
Depreciation	6.6	5.2	5.2	26.0%	6.7	-1.2%	
Finance Costs	0.1	0.1	0.1	0.0%	0.1	0.0%	
PBT	43.2	84.1	78.3	-44.8%	51.5	-16.0%	
Tax	10.0	13.1	19.7	-49.0%	11.6	-13.4%	
<b>PAT</b>	<b>33.2</b>	<b>71.0</b>	<b>58.6</b>	<b>-43.3%</b>	<b>39.9</b>	<b>-16.8%</b>	Moderation in core revenue led to lower earnings
<b>Turnover</b>	<b>21,00,063</b>	<b>25,27,105</b>	<b>25,85,933</b>	<b>-18.8%</b>	<b>19,15,538</b>	<b>9.6%</b>	Future volume decline led by bullion; traction picking up in options

Source: Company, ICICI Direct Research

## Financial Summary

### Exhibit 23: Profit & Loss Statement

(₹ crore)	FY19	FY20	FY21	FY22E	FY23E
Net Sales	300.0	374.2	390.6	365.6	445.1
Operating Exp	133.2	142.2	130.3	128.2	147.4
Software	81.9	69.0	63.6	63.4	81.2
Employee Cost	71.9	77.3	75.2	81.9	83.5
Total Expenses	205.1	219.5	205.4	210.1	230.9
EBIDTA	94.9	154.7	185.1	155.5	214.2
Depreciation	15.4	18.1	22.1	25.3	24.8
Other Income	96.0	129.0	103.8	100.3	125.6
Interest	-	0.2	0.2	0.2	0.2
PBT	175.5	265.5	266.9	230.5	315.1
Tax	7.1	28.9	41.5	53.5	71.7
PAT	168.4	236.6	225.3	177.0	243.4

Source: Company, ICICI Direct Research

### Exhibit 24: Balance Sheet

(Year-end March)	FY19	FY20	FY21	FY22E	FY23E
<b>Sources of Funds</b>					
Share Capital	51.0	51.0	51.0	51.0	51.0
Reserves and Surplus	1199.9	1308.4	1367.2	1429.2	1514.4
Total Shareholder's Fund	1250.9	1359.4	1418.2	1480.2	1565.4
Non Current Liabilities	41.4	54.6	57.6	60.5	63.5
Current Liabilities	453.3	910.9	557.5	613.2	674.5
Settlement Guarantee Fund	329.8	409.8	469.2	516.2	567.8
Total	2075.5	2734.6	2502.5	2670.0	2871.2
<b>Application of funds</b>					
Fixed Assets	141.4	141.3	139.5	150.7	162.7
Investments	1202.0	1640.9	1720.2	1823.4	1932.8
Loans & Advances	0.2	0.2	0.1	0.1	0.1
Cash and equivalents	534.6	759.3	426.1	466.2	532.1
Other Assets	197.3	193.0	216.7	229.7	243.4
Total	2075.5	2734.6	2502.5	2670.0	2871.2

Source: Company, ICICI Direct Research

### Exhibit 25: Key Ratios

	FY19	FY20	FY21	FY22E	FY23E
No. of Equity shares	5.1	5.1	5.1	5.1	5.1
EPS (₹)	33.0	46.4	44.2	34.7	47.7
BV (₹)	245.3	266.5	278.1	290.2	306.9
P/E (x)	50.8	36.1	37.9	48.3	35.1
P/BV (x)	6.8	6.3	6.0	5.8	5.5
OPM %	31.6	41.3	47.4	42.5	48.1
PAT %	56.1	63.2	57.7	48.4	54.7
RoE %	13.5	17.4	15.9	12.0	15.5
RoA %	8.1	8.7	9.0	6.6	8.5
Annual Volume Traded (in lakh crore)	67.7	86.9	82.6	86.2	98.7
ADTO	25648	32424	31757	33138	37950

Source: Company, ICICI Direct Research

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Buy: >15%

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Reduce: -15% to -5%;

Sell: <-15%



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