

Multi Commodity Exchange (MCX)

CMP: ₹ 1475

Target: ₹ 1700 (15%)

Target Period: 12 months

October 27, 2022

Strong traction in option; new launches remain trigger

About the stock: MCX is the leader in commodity derivatives exchanges in India with ~96.8% market share in terms of commodity futures turnover.

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

Q2FY23 Results: MCX reported a strong quarter with options gaining strength.

- Average daily futures turnover (ADTO) declined ~7% YoY to ₹ 23918 crore due to a decline in base metals volume
- Option ADTO continued to gain traction to ₹ 31381 crore; up 60% QoQ
- Operational revenue up 17.1% QoQ; other income regained to normal level
- Earnings at ₹ 63.3 crore; up 52.6%, led by strong options turnover

What should investors do? MCX' share price has grown by ~30% over the past three years. Continued anticipated traction in options and regulatory approval for new launches remain key. We upgrade our estimates for FY23E and FY24E.

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

Target Price and Valuation: We value MCX at ~33x core FY24E EPS and net cash and maintain our target price at ₹ 1700.

Key triggers for future price performance:

- Continued non-linear growth in option volume to aid revenue & earnings
- Well diversified product mix, continued improvement in participants to aid volume growth
- New product launch/initiatives - electricity contracts, option gold contract to drive next leg of re-rating

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 ₹ 375

BUY



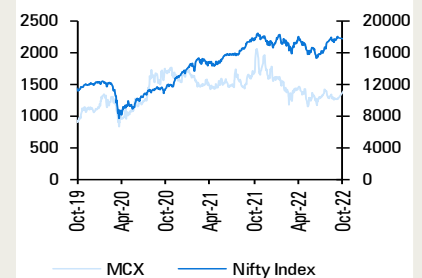
Particulars

| Particulars | Amount |
|-----------------------|--------------|
| Market Capitalisation | ₹ 7621 crore |
| Networth | ₹ 1431 crore |
| Face Value | ₹ 10 |
| 52 week high/low | 2021/1142 |

Shareholding Pattern

| in % | Sep 21 | Dec 21 | Mar 22 | Jun 22 | Sept 22 |
|----------|--------|--------|--------|--------|---------|
| Promoter | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| DII | 41.09 | 45.41 | 48.33 | 47.60 | 50.61 |
| FII | 32.49 | 32.49 | 26.52 | 26.84 | 23.45 |
| Others | 26.4 | 22.1 | 25.2 | 25.6 | 25.9 |

Price Chart



Recent Event & Key Risks

- Options volume increased 60% QoQ
- **Key Risk:** (i) Delay in approval for new launches (ii) Moderation in pace of option volume

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Key Financial Summary

| (₹ crore) | FY19 | FY20 | FY21 | FY22 | 3 year CAGR (FY19-FY22) | FY23E | FY24E | 2 year CAGR (FY22-24E) |
|--------------------------------------|-------|-------|-------|-------|-------------------------|-------|-------|------------------------|
| Net Sales | 300.0 | 374.2 | 390.6 | 366.8 | 6.9% | 501.5 | 546.3 | 22.0% |
| EBITDA | 94.9 | 154.7 | 185.1 | 162.2 | 19.6% | 249.1 | 290.4 | 33.8% |
| Net Profit | 168.4 | 236.6 | 225.3 | 143.7 | -5.2% | 216.9 | 260.7 | 34.7% |
| EPS (₹) | 33.0 | 46.4 | 44.2 | 28.2 | | 42.5 | 51.1 | |
| P/E(x) | 44.7 | 31.8 | 33.4 | 52.4 | | 34.7 | 28.9 | |
| Annual Volume Traded (in lakh crore) | 67.7 | 86.9 | 82.6 | 87.8 | | 136.2 | 186.3 | |
| RoE (%) | 13.5 | 17.4 | 15.9 | 10.1 | | 14.5 | 14.9 | |
| RoA (%) | 8.1 | 8.7 | 9.0 | 5.1 | | 7.2 | 7.6 | |

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

Q2FY23 Results: Steady futures, continued uptick in options boost earnings

- Turnover in futures segment continued to remain steady. Options turnover continued to see a healthy uptick surpassing turnover in futures segment
- ADTO in commodity futures declined to ₹ 23918 crore vs to ₹ 25797 crore in Q2FY22 (declined ~7% YoY) and ₹ 25234 crore in Q1FY23, mainly due to a decline in base metals volume
- Options continued to witness an improvement in ADTO reported at ₹ 31381 crore in Q2FY23 vs. ₹ 19539 crore in Q1FY23 and ₹ 6023 crore in Q2FY22
- Operating revenue grew 53.1% YoY and 17.1% QoQ at ₹ 127.4 crore. Other income also increased 13.5% YoY and 97% QoQ at ₹ 18.2 crore
- Opex was up 25.1% YoY and 3.8% QoQ at ₹ 62.8 crore. PAT came in at ₹ 63.3 crore, up 93.8% YoY, 52.6% QoQ, ahead of our estimates aided by healthy topline growth and other income during the quarter
- EBITDA margin inched up at 51.5% (40.6% in Q1FY23 and 45.3% in Q2FY22)

Q2FY23 Earnings Conference Call highlights

- Options did well during the quarter. Volumes in futures saw a marginal decline. Introduction of contracts should help meet targets
- Transition to new TCS platform – UAT has already started. Planning to be launched in November 2022 (mock and parallel run) and expected to go live by December 2022
- Operating revenue breakup – Futures - ₹ 62 crore, options - ₹ 43 crore. Balance ₹ 20 crore from membership fees, other fees, etc
- On the SGF side, there were no further developments. SEBI response is awaited
- Domestic spot exchanges (gold) will start doing well only if there is a GST consideration for first depositors
- By December 2022 UCC participated clients will be 374000 vs. 314000 last year and 219000 in Q2FY22 to 291000 in Q2FY23
- Gradually introducing more products and options will also start picking up
- On book cash, excluding margin money, was ₹ 900 crore (5% in ETF, 45% in SDLs, Bharat bonds maturing in April 2023) as of September 2022
- Planning to launch gold monthly option contracts by Q1FY24
- Other income was mainly from treasury. During the quarter, the company invested a substantial amount in SDLs and perpetual bonds in primary and secondary market. All these instruments are under HTM
- Top 10 traders concentration has gone up to 66% vs. 62% in FY22
- Fees slab – Up to ₹ 5 crore - ₹ 50 per lakh and beyond ₹ 5 crore of premium - ₹ 40 per lakh. Tax rate to be at 23%

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 | FY24E | FY21 | FY22E | FY23E | FY24E | FY21 | FY22E | FY23E | FY24E | FY21 | FY22 | FY23E | FY24E |
| IIFL Sec | 68 | 98 | Hold | 2072 | 7.3 | 10.1 | 10.3 | 10.2 | 9.4 | 6.8 | 6.6 | 6.7 | 2.1 | 1.8 | 1.4 | 1.1 | 23.9 | 28.5 | 23.3 | 18.8 |
| 5 paisa | 333 | 375 | Buy | 1020 | 5.8 | 4.7 | 10.8 | 15.5 | 57.4 | 70.9 | 30.8 | 21.5 | 5.4 | 2.6 | 2.4 | 2.2 | 10.0 | 5.2 | 8.2 | 10.6 |
| MCX | 1475 | 1700 | Buy | 7621 | 44.2 | 28.2 | 42.5 | 51.1 | 33.4 | 52.4 | 34.7 | 28.9 | 5.3 | 5.3 | 5.0 | 4.3 | 15.9 | 10.1 | 14.5 | 14.9 |

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

| | Q2FY23 | Q2FY23E | Q2FY22 | YoY | Q1FY23 | QoQ | Comments |
|--------------------|------------------|--------------|------------------|------------------|------------------|----------------|--|
| Revenue | 127.4 | 119.3 | 83.2 | 53.1% | 108.8 | 17.1% | Healthy growth driven by options |
| Other Income | 18.2 | 9.5 | 16.1 | 13.5% | 9.3 | 97.0% | Uptick in other income led by steady yields |
| Total Income | 145.6 | 128.8 | 99.3 | 46.7% | 118.1 | 23.4% | |
| Operating Expenses | 38.9 | 36.9 | 28.8 | 35.4% | 36.8 | 5.8% | |
| Other Expenses | 22.9 | 22.7 | 20.6 | 10.7% | 22.7 | 0.5% | Opex to elevate in upcoming quarter |
| Total Expenses | 61.8 | 59.7 | 49.4 | 25.1% | 59.5 | 3.8% | |
| EBITDA | 65.6 | 59.6 | 33.80 | 94.1% | 49.3 | 33.2% | |
| EBITDA % | 51.5% | 50.0% | 40.6% | 1,087 bps | 45.3% | 622 bps | |
| Depreciation | 5.8 | 6.6 | 6.6 | -12.4% | 5.8 | 0.0% | |
| Finance Costs | 0.0 | 0.1 | 0.1 | -100.0% | 0.1 | -100.0% | |
| Exceptional Items | -1.4 | 0.0 | -0.5 | - | -0.6 | - | |
| PBT | 76.7 | 62.5 | 42.7 | 79.7% | 52.1 | 47.4% | |
| Tax | 13.5 | 12.7 | 10.0 | 34.0% | 10.6 | 26.9% | |
| PAT | 63.3 | 49.8 | 32.7 | 93.8% | 41.5 | 52.6% | PAT came in higher than estimates |
| Turnover | 34,91,972 | | 21,00,063 | 66.3% | 27,78,672 | 25.7% | Strong traction witnessed in options turnover |

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 23: Profit & Loss Statement

| (₹ crore) | FY20 | FY21 | FY22 | FY23E | FY24E |
|-------------------|-------|-------|--------|-------|-------|
| Net Sales | 374.2 | 390.6 | 366.8 | 501.5 | 546.3 |
| Operating Exp | 142.2 | 130.3 | 124.6 | 164.4 | 161.7 |
| Software | 69.0 | 63.6 | 64.0 | 96.9 | 92.9 |
| Employee Cost | 77.3 | 75.2 | 80.0 | 88.1 | 94.2 |
| Total Expenses | 219.5 | 205.4 | 204.6 | 252.5 | 255.9 |
| EBIDTA | 154.7 | 185.1 | 162.2 | 249.1 | 290.4 |
| Depreciation | 18.1 | 22.1 | 22.7 | 23.0 | 23.0 |
| Other Income | 129.0 | 103.8 | 66.5 | 50.8 | 67.4 |
| Interest | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| Exceptional Items | 0.0 | - | (21.7) | - | - |
| PBT | 265.5 | 266.9 | 184.3 | 276.9 | 334.8 |
| Tax | 28.9 | 41.5 | 40.6 | 60.0 | 74.1 |
| PAT | 236.6 | 225.3 | 143.7 | 216.9 | 260.7 |

Source: Company, ICICI Direct Research

Exhibit 24: Balance Sheet

| (Year-end March) | FY20 | FY21 | FY22 | FY23E | FY24E |
|-----------------------------|--------|--------|--------|--------|--------|
| Sources of Funds | | | | | |
| Share Capital | 51.0 | 51.0 | 51.0 | 51.0 | 51.0 |
| Reserves and Surplus | 1308.4 | 1367.2 | 1367.1 | 1443.0 | 1703.7 |
| Total Shareholder's Fund | 1359.4 | 1418.2 | 1418.1 | 1494.0 | 1754.7 |
| Non Current Liabilities | 54.6 | 57.6 | 65.8 | 69.1 | 72.5 |
| Current Liabilities | 910.9 | 557.5 | 791.1 | 870.2 | 957.2 |
| Settlement Guarantee Fund | 409.8 | 469.2 | 525.6 | 578.1 | 636.0 |
| Total | 2734.6 | 2502.5 | 2800.5 | 3011.4 | 3420.4 |
| Application of funds | | | | | |
| Fixed Assets | 141.3 | 139.5 | 136.7 | 150.4 | 162.4 |
| Investments | 1640.9 | 1230.2 | 1198.9 | 1270.8 | 1347.1 |
| Loans & Advances | 0.2 | 0.1 | 0.0 | 0.0 | 0.0 |
| Cash and equivalents | 759.3 | 426.1 | 975.5 | 1071.4 | 1191.5 |
| Other Assets | 193.0 | 706.6 | 489.5 | 518.8 | 550.0 |
| Total | 2734.6 | 2502.5 | 2800.5 | 3011.4 | 3420.4 |

Source: Company, ICICI Direct Research

Exhibit 25: Key Ratios

| | FY20 | FY21 | FY22 | FY23E | FY24E |
|--------------------------------------|-------|-------|-------|-------|-------|
| No. of Equity shares | 5.1 | 5.1 | 5.1 | 5.1 | 5.1 |
| EPS (₹) | 46.4 | 44.2 | 28.2 | 42.5 | 51.1 |
| BV (₹) | 266.5 | 278.1 | 278.1 | 292.9 | 344.1 |
| P/E (x) | 31.8 | 33.4 | 52.4 | 34.7 | 28.9 |
| P/BV (x) | 5.5 | 5.3 | 5.3 | 5.0 | 4.3 |
| OPM % | 41.3 | 47.4 | 44.2 | 49.7 | 53.2 |
| PAT % | 63.2 | 57.7 | 39.2 | 43.2 | 47.7 |
| RoE % | 17.4 | 15.9 | 10.1 | 14.5 | 14.9 |
| RoA % | 8.7 | 9.0 | 5.1 | 7.2 | 7.6 |
| Annual Volume Traded (in lakh crore) | 86.9 | 82.6 | 87.8 | 136.2 | 186.3 |
| ADTO | 32424 | 31757 | 33776 | 52390 | 71651 |

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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