

Multi Commodity Exchange (MCX)

CMP: ₹ 4114

Target: ₹ 3900 (-5%)

Target Period: 12 months

HOLD

April 30, 2024

Turnover traction continued; New product launch crucial

About the stock: MCX is the leader in commodity derivatives exchanges in India with ~95.9% 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 with focus on option volume

Q4FY24 performance: MCX continued to report increase in option volume which have increased from ₹95989 crore in Q3FY24 to ₹113672 crore, though futures witnessed a decline in volume from ₹20796 crore to ₹17558 crore. Resultantly, revenue from operation have declined marginally from ₹191 crore to ₹181 crore. Bottom-line have recovered from loss in previous quarters to ₹87.9 crore in Q4FY24, led by anticipated decline in software expense.

Investment Rationale

- Implementation of new software supports earnings: Options reported record high volume (₹113672 crore in Q4FY24) though decline in futures turnover and drop in treasury income on margins (~₹10 crore) impacted top-line on sequential basis. Implementation of new software has led to a substantial decline in opex thereby witnessing recovery in earnings. Going ahead, management expects software related expense to be stable at ₹60 crore which will result in operating leverage, thereby leading to incremental top-line percolating in bottom-line.
- New product launch remains crucial factor to drive revenue: Since introduction of options, MCX has witnessed continued increase in revenue driven by volumes. Going ahead, expect traction in options to continue, however, new product launch is seen to act as trigger to aid further growth. Currently, 10gms gold monthly futures and agri commodity contracts are in testing phase. However, application for shorter duration contract has not been applied as the company needs to ensure readiness of the system.

Rating and Target Price

- Continued healthy turnover coupled with streamlining of software cost bodes well for sustained growth in earnings. Launch of new products holds key for further growth and thus any delay in the same could impact valuations (as there is a lag between product launch and traction in volumes). Uncertainty on appointment of MD also remains an overhang. Valuing the stock at ~38x FY26 PAT and adding cash, assign a target of ₹3900 with a Hold rating.



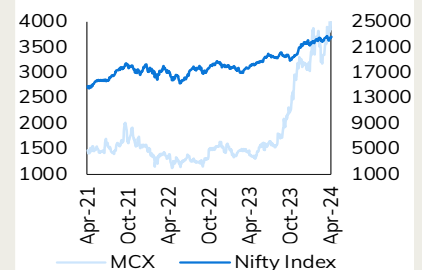
Particulars

Particulars	Amount
Market Capitalisation	₹ 20950 crore
Networth	₹ 1378 crore
Face Value	10
52 week high/low	4270/ 1285
DII Holding (%)	56.9
FII Holding (%)	23.2

Shareholding pattern

in %	Mar 23	Jun 23	Sept 23	Dec 23	Mar 24
DII	52.7	55.1	56.4	53.0	56.9
FII	27.0	24.8	25.3	26.6	23.2
Public	20.2	19.9	18.1	20.2	19.7
Others	0.2	0.2	0.2	0.2	0.2

Price Chart



Key risks

- Delay in new product launch to impact growth
- Delay in appointment of new MD

Research Analyst

Vishal Narnolia
vishal.narnolia@icicisecurities.com

Gaurav Singh
gaurav.si@icicisecurities.com

Krishna Vyas
krishna.vyas@icicisecurities.com

Key Financial Summary

(₹ crore)	FY21	FY22	FY23	FY24	3 year CAGR (FY21-FY24)	FY25E	FY26E	2 year CAGR (FY24-26E)
Net Sales	390.6	366.8	513.5	683.6	20.5%	918.4	1,085.1	26.0%
EBITDA	185.1	162.2	149.7	64.3	-29.7%	566.5	696.5	229.1%
Net Profit	225.3	143.7	149.2	84.9	-27.8%	450.8	546.4	153.7%
EPS (₹)	44.2	28.2	29.3	16.6		88.4	107.1	
P/E(x)	93.7	146.9	141.5	248.6		46.8	38.6	
Annual Volume Traded (in lakh crore)	82.6	87.8	146.9	276.6		409.6	532.5	
RoE (%)	15.9	10.1	10.1	6.2		24.6	23.0	
RoA (%)	9.0	5.1	4.9	2.5		11.1	11.3	

Source: Company, ICICI Direct Research

Concall highlights and outlook

- Average realization in options (premium) - 40.83 per lakh
- Revenue from operations at ₹684 crore for FY24, of which ₹560 crore was transactional revenue and ₹84 crore was pertaining to interest on margins. Transactional revenue is divided as ₹208 crore from futures and ₹351 crore from options.
- For Q4FY24, transaction revenue is reported at ₹103 crore and treasury income stood at ₹21 crore
- Decline in futures volume and lower treasury income led to decline in revenue in Q4FY24
- In case of higher volatility, large proportion of contracts traded are long dated wherein premium is lower, thus resulting in decline in premium to notional turnover ratio.
- Post implementation of new software, tech related expense is expected at ₹60 crore. Overall software cost will also include licensing fees paid to CME (₹10.3 crore in Q4FY24) as 10% of energy contract revenue.
- Approval on derivative contract on electricity is awaited (application made 2 years back)
- MCX has not made any application for monthly contract expiring on weekly basis to ensure readiness of the system before launching new product. Timelines from application to approval is expected at 5-8 months.
- MCX got approval for 10 gms gold futures monthly contract and currently it is testing phase

Exhibit 1: Variance Analysis

	Q4FY24	Q4FY23	YoY	Q3FY24	QoQ	Comments
Revenue	181.1	133.8	35.4%	191.5	-5.4%	Options volume continue to drive top-line though yield pressure seen in Q4FY24
Other Income	18.3	20.1	-8.8%	17.7	3.3%	
Total Income	199.5	153.8	29.7%	209.3	-4.7%	
Operating Expenses	48.4	108.3	-55.3%	182.2	-73.4%	Opex lower due to implementation of new software
Other Expenses	30.7	23.4	31.1%	29.0	5.9%	
Total Expenses	79.1	131.7	-39.9%	211.2	-62.5%	
EBITDA	102.0	2.1	4828.5%	-19.7	NA	
EBITDA %	56.3%	1.5%	5,477 bps	-10.3%	NA	
Depreciation	13.8	5.8	138.0%	11.3	22.5%	
Finance Costs	0.1	0.1	-25.0%	0.1	-	
Exceptional Items	1.9	-2.3	-	-1.1	-	
PBT	108.4	14.0	673.7%	-14.4	-852.2%	
Tax	20.5	8.6	139.7%	-9.1	-326.5%	
PAT	87.9	5.4	1512.3%	-5.3	NA	Stream lining of software expense led to recovery in PAT

Financial Summary

Exhibit 2: Profit and loss statement ₹ crore

(₹ crore)	FY22	FY23	FY24	FY25E	FY26E
Net Sales	366.8	513.5	683.6	918.4	1,085.1
Operating Exp	124.6	271.9	506.9	228.3	252.6
Software	64.0	196.1	392.9	110.2	130.2
Employee Cost	80.0	91.9	112.3	123.6	135.9
Total Expenses	204.6	363.8	619.2	351.9	388.5
EBIDTA	162.2	149.7	64.3	566.5	696.5
Depreciation	22.7	21.6	35.9	56.0	56.0
Other Income	66.5	67.7	75.4	74.3	68.6
Interest	0.2	0.2	0.3	0.3	0.3
Exceptional Items	(21.7)	(5.0)	(1.5)	(1.5)	(1.5)
PBT	184.3	190.8	103.8	584.9	709.1
Tax	40.6	41.6	18.9	134.1	162.7
PAT	143.7	149.2	84.9	450.8	546.4

Source: Company, ICICI Direct Research

Exhibit 4: Balance sheet ₹ crore

(Year-end March)	FY22	FY23	FY24	FY25E	FY26E
Sources of Funds					
Share Capital	51.0	51.0	51.0	51.0	51.0
Reserves and Surplus	1367.1	1428.3	1327.5	1778.2	2324.7
Total Shareholder's Fund	1418.1	1479.3	1378.5	1829.2	2375.7
Non Current Liabilities	65.8	56.1	65.6	68.9	72.3
Current Liabilities	791.1	897.6	1184.2	1302.6	1432.8
Settlement Gurantee Fund	525.6	589.8	780.6	858.6	944.5
Total	2800.5	3022.8	3408.8	4059.3	4825.3
Application of funds					
Fixed Assets	136.7	129.9	184.0	198.7	214.6
Investments	1198.9	1176.8	1078.8	1143.5	1212.1
Loans & Advances	0.0	0.0	0.0	0.0	0.0
Cash and equivalents	975.5	1177.9	965.6	1172.9	1424.1
Other Assets	489.5	538.2	1180.4	1251.3	1326.3
Total	2800.5	3022.8	3408.8	4059.3	4825.3

Source: Company, ICICI Direct Research

Exhibit 3: Key ratios

	FY22	FY23	FY24	FY25E	FY26E
No. of Equity shares	5.1	5.1	5.1	5.1	5.1
EPS (₹)	28.2	29.3	16.6	88.4	107.1
BV (₹)	278.1	290.1	270.3	358.7	465.8
P/E (x)	146.9	141.5	248.6	46.8	38.6
P/BV (x)	14.9	14.3	15.3	11.5	8.9
OPM %	44.2	29.2	9.4	61.7	64.2
PAT %	39.2	29.1	12.4	49.1	50.4
RoE %	10.1	10.1	6.2	24.6	23.0
RoA %	5.1	4.9	2.5	11.1	11.3
Annual Volume Traded (in lakh crore)	87.8	146.9	276.6	409.6	532.5
ADTO	33776	56514	106367	157536	204796

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavors to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according -to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
Third Floor, Brillanto House,
Road No 13, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

ANALYST CERTIFICATION

I/We, Vishal Narnolia, MBA, Gaurav Singh, PGDM, Krishna Vyas, MMS, Research Analysts Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products.

ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. Registered Office Address: ICICI Venture House, Appasaheb Marathe Marg, Prabhadevi, Mumbai - 400 025. CIN: L67120MH1995PLC086241, Tel: (91 22) 6807 7100. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

Investments in securities market are subject to market risks. Read all the related documents carefully before investing.

Registration granted by Sebi and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors. None of the research recommendations promise or guarantee any assured, minimum or risk-free return to the investors.

Name of the Compliance officer (Research Analyst): Mr. Atul Agrawal

Contact number: 022-40701000 E-mail Address: complianceofficer@icicisecurities.com

For any queries or grievances: Mr. Prabodh Avadhoot Email address: headservicequality@icicidirect.com Contact Number: 18601231122

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or actual/beneficial ownership of one percent or more or other material conflict of interest various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.