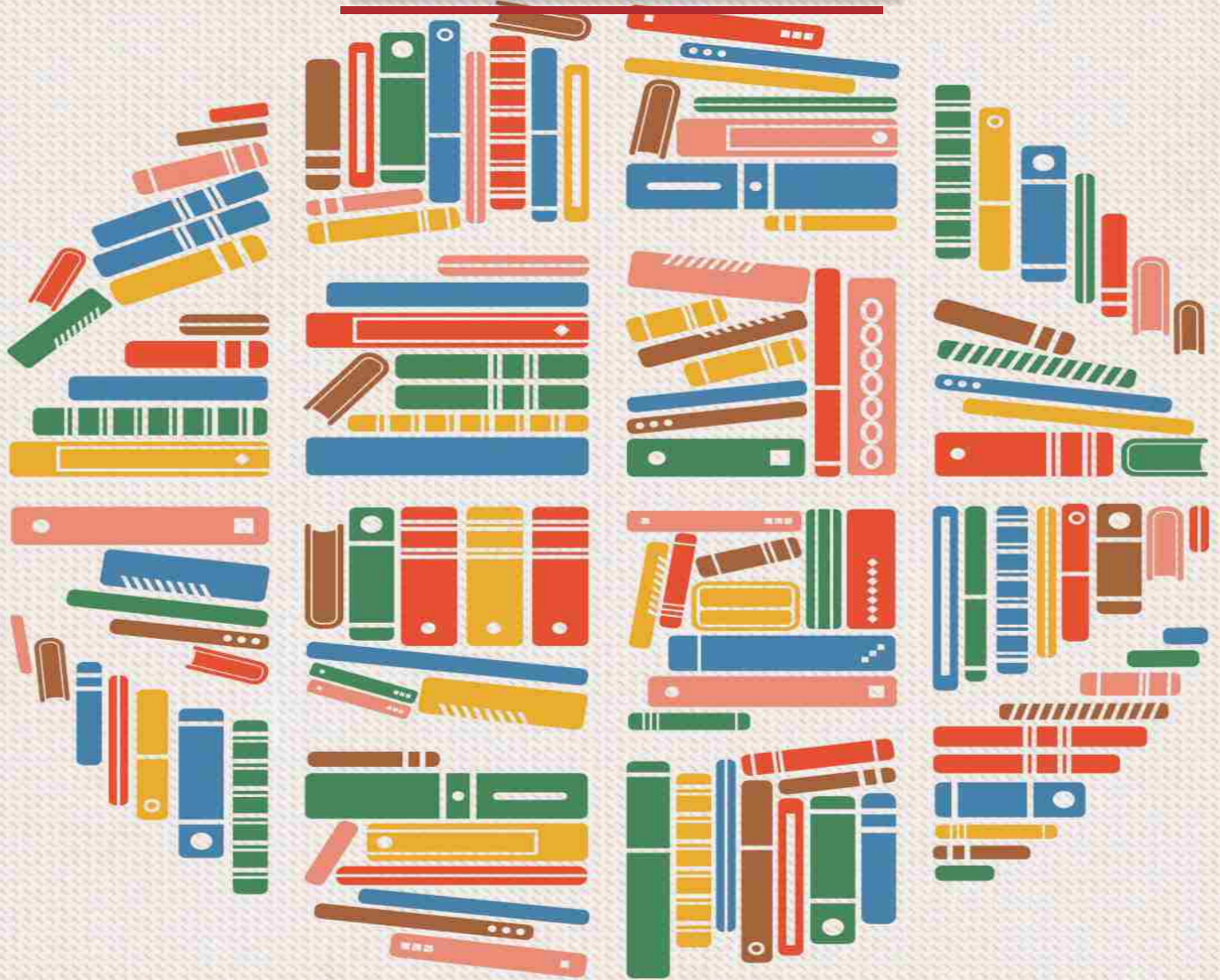


Stock **TALES**



Stock Tales are concise, holistic stock reports across wider spectrum of sectors. Updates will not be periodical but based on significant events or change in price.

Multi Commodity Exchange (MCX)

CMP: ₹ 1235

Target: ₹ 1470 (19%)

Target Period: 12 months

June 26, 2020

BUY

Well positioned model; cash-settled index favourable

MCX is the leader in commodity derivatives exchanges in India with ~94% market share in terms of value of commodity futures contracts traded in FY20. The commodity derivatives exchange facilitates nationwide online trading, clearing and settlement operations of commodities derivatives. MCX is practically sole exchange with 98.57% share in precious metals, ~99.95% share in energy and ~100% share in base metals. Indian commodity market still remains underpenetrated. Hence, it is seeing a steady rise in turnover from ₹ 62 lakh crore in FY15 to ₹ 89 lakh crore in FY20. Sebi has been undertaking measures to increase participation. MCX remains one of the primary beneficiaries given its substantial market share.

Price volatility to drive turnover; index products big boost

For MCX, transaction fees on value traded on exchange (~0.0043%) comprise significant proportion (~75%) of revenue. This transaction income is dependent on two variables – commodity price, volume traded on exchange. We expect crude price fall to be offset by heightened volatility. **Approval to launch cash settled index products – ICOMDEX bullion, ICOMDEX base metal indices are seen giving substantial boost to turnover; zero charge in initial phase will lead to revenue flow later.** We expect ADTO to fall ~3-5% in FY21E to ₹ 83.5 lakh crore, as emergence of Covid acted as near term deterrent. However, a gradual economic revival, continued volatility in commodity prices, addition of new clients including hedgers is seen leading to ~20% YoY growth in ADTO in FY22E to ₹ 100 lakh crore. Hence, revenues are likely to grow at 8.2% CAGR (FY20-22E) to ₹ 438 crore.

Revenue growth, operating leverage to aid margins

Employee & software expense contribute ~90-94% of overall cost; thereby accounting for major proportion. Strong operational efficiency enabled it to deliver improvement in EBIDTA margins from 31.6% in FY19 to 41.3% in FY20. Increase in turnover will lead to improvement in EBITDA margin to 46.4% in FY22E, as operating leverage kicks in. Consequently, earnings is expected revive to ₹ 245 crore in FY22E, post a dip in FY21E.

Valuation & Outlook

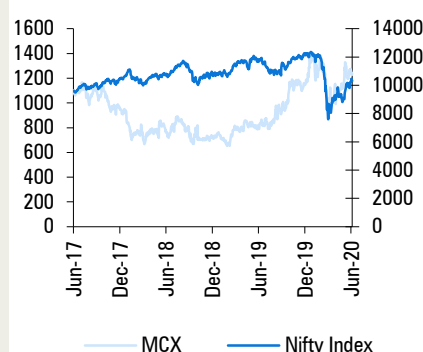
Increased volume driven by volatility in commodity prices led to business growth in FY19-20. Strong operational efficiency enabled improvement in EBIDTA margins from 31.6% in FY19 to 41.3% in FY20. We remain positive on turnover & earnings visibility owing to 1) market leadership with diversified commodity mix, 2) strong recovery in ADTO amid volatility in commodity prices, 3) launch of index based products & 4) participation by institutional clients. Expect ~14.6% CAGR in EBITDA over FY20-22E, driven by ~8% CAGR in revenue coupled with improvement in efficiency. RoE is expected to reduce from ~17.4% in FY20 to 13.9% in FY21E (impact on volume amid Covid) and recover to 16.4% in FY22E. Currently, MCX trades at 26x FY22E EPS. We have a **BUY** recommendation on the stock with a target price of ₹ 1470, valuing the stock at ~33x FY22E core earnings and adding net cash after deducting SGF.



Particulars

Market Capitalisation	6312.00
Equity Capital	₹ 51 crore
Networth	₹ 1359 crore
Face Value	₹ 10
52 week high/low	1442/779
FII	32.18%
DII	39.71%

Price performance



Key Highlights

- Leadership, volatility in prices and introduction of index based products to favour turnover
- Value stock at 33x core earnings. Recommend BUY rating with target price of ₹ 1,470

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Key Financial Summary

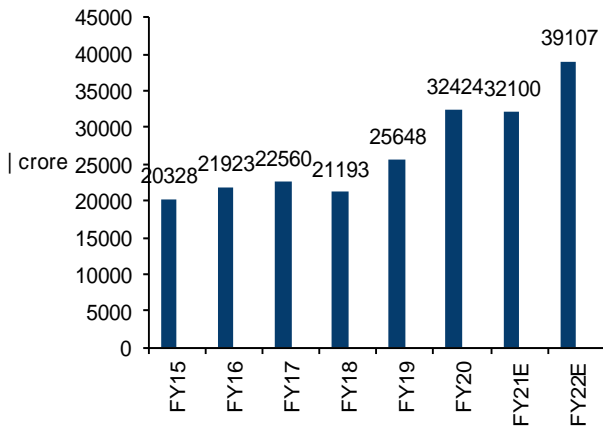
(₹ crore)	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY20-22E)
Net Sales	258.0	300.0	374.2	359.4	437.8	8.2%
EBITDA	69.9	94.9	154.7	146.1	203.2	14.6%
EPS (₹)	20.9	33.0	46.4	38.8	48.0	
Annual Volume Traded (in lakh crore)	53.9	67.7	86.9	83.5	101.7	
RoE (%)	7.7	13.5	17.4	13.9	16.4	
RoA (%)	5.4	8.1	8.7	6.8	7.9	

Source: Company, ICICI Direct Research

Company Background

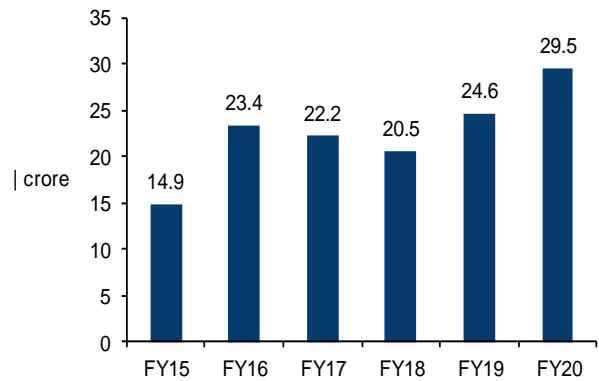
Incorporated in 2003, Multi Commodity Exchange of India (MCX) is a commodity derivatives exchange that facilitates nationwide online trading, clearing & settlement operations of commodities derivatives. MCX is leader in commodity derivatives with ~94% market share in terms of value of commodity futures contracts traded in FY20. MCX offers options trading in gold and futures trading in non-ferrous metals, bullion, energy and agricultural commodities including mentha oil, cardamom and crude palm oil.

Exhibit 1: Average daily turnover



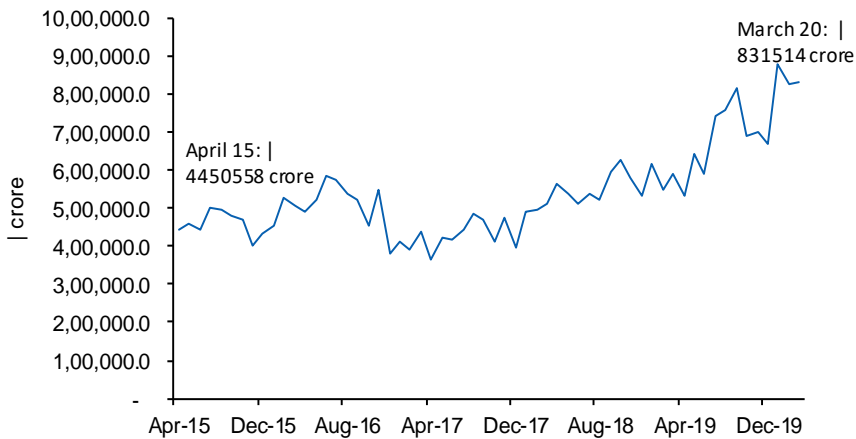
Source: Company, ICICI Direct Research

Exhibit 2: Volume of contracts traded daily



Source: Company, ICICI Direct Research

Exhibit 3: Average monthly turnover trend

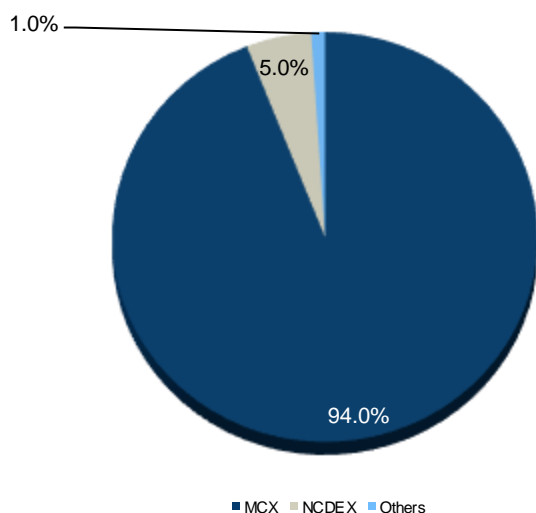


Source: Company, ICICI Direct Research

With 692 registered members and 54,900 authorised persons across 1010 cities and towns in India (as on 31 March 2020), MCX has an extensive national presence.

Multi Commodity Exchange Clearing Corporation (MCXCCL), a wholly owned subsidiary of MCX. The company commenced operations in September 2018 and is the first clearing corporation in the commodity derivatives market. It is engaged in providing collateral and risk management services, along with clearing and settlement of trades executed on the exchange.

Exhibit 4: MCX commands monopoly in Indian commodity market (FY20 turnover)



Source: Company, ICICI Direct Research

Exhibit 5: MCX market share trend

Market share	FY14	FY15	FY16	FY17	FY18	FY19	FY 20
MCX	84.90%	84.04%	84.30%	90.37%	89.59%	91.60%	94.01%
NCDEX	11.30%	14.66%	15.26%	9.19%	9.81%	7.38%	4.95%
Others	3.80%	1.30%	0.44%	0.44%	0.61%	1.03%	1.04%

Source: Company, ICICI Direct Research

Exhibit 6: Key milestones

Year	Key Milestones
2002	Incorporated
2003	Commencing operations on November 10
2005	Licensing agreement with LME
2006	Product Licensing agreement with NY MEX (CME Group)
2008	Became a member of the International Organisation of Securities Commission (IOSCO)
2012	Became India's First listed exchange
2013	Change in top management and board
2015	Sign MoU with CME group
2017	Launched first-ever Gold Options contract on futures in India
2017	Launch iCOMDEX series of commodity indices in partnership with Thomson Reuters.
2018	Launched Options contract in Crude Oil, Silver, Copper & Zinc
2018	MCXCCL has commence operations from September 03, 2018
2018	Became a member of the World Federation of Exchanges (WFE)
2019	Conversion of base metal futures contracts into compulsorily deliverable contracts

Source: Company, ICICI Direct Research

Exhibit 7: Prudent management with varied experience

Name	Designation	Qualifications
Mr Saruabh Chandra	Chairman	Has over 37 years of experience in various assignments, Spent over 17 years in the Secretariat, both with State & Central Govt.; worked in different capacities in the Ministry of Finance, Ministry of Commerce and Industry, Ministry of Chemicals & Fertilizers, in the GoI
Mr P.S Reddy	Managing Director & CEO	Worked with BSE Ltd. for over 18 years, heading various departments such as Listing, Surveillance, Inspection, Investor Service, and HRD among others
Mr Basant Seth	Public Interest Director	Currently on the Board of State Bank of India, Roto Pumps Ltd. and Accountscore India Pvt. Ltd. Over 37 years of experience in finance & banking, management & administrative matters
Dr Bhartendu Kumar Gairola	Public Interest Director	Helping the State Government of Chattisgarh in setting up an International Institute of Information Technology at Naya Raipur (IIITNR), as member of the Board of Governors.
Dr Deepali Pant Joshi	Public Interest Director	Former Executive Director of RBI and Former Chief Appellate Authority under the Right to information Act and head of the RBI Legal Department
Ms Pravin Tripathi	Public Interest Director	Former Deputy Comptroller & Auditor General of India & Chairperson Audit Board. Was the member of Airport Economic Regulatory Authority Appellate and also the member of Competition Appellate Tribunal
Mr Shankar Aggarwal	Public Interest Director	Former Secretary to the Ministry of Urban Development and Labour & Employment, GoI
Mr Amit Goeta	Shareholder Director	Partner at Rare Enterprises. Former AVP (Private Equity) Reliance Capital and CEO at Alchemy Share & Stock Brokers. Has over 21 years of experience in Capital Market.
Mr C Jayaram	Shareholder Director	Currently on the board of Kotak Mahindra Bank Ltd., as a Non-Executive and Non-Independent Director. Over 38 years of diverse experience in Financial Sector & related businesses
Mr Hemang Raja	Shareholder Director	Former, Country Advisor – India to Asia Growth Capital Advisors (AGCA) for managing India Investments. Has over 33 year of experience in Financial Industry
Ms Madhu Vedera Jayakumar	Shareholder Director	An independent investor in Financial Markets. Has over 13 years of experience in Financial Services Industry.
Ms Padma Raghunathan	Shareholder Director	Presently working as Chief General Manager in Finance Department at NABARD.

Source: Company, ICICI Direct Research

Global snapshot

Exhibit 8: Derivatives contracts traded globally on exchanges (million of contracts)

	2017	2018	% change	% total
Equity	11809	15532	31.5%	51.6%
Commodity	5884	5921	0.6%	19.7%
Interest Rates	3994	4579	14.6%	15.2%
Currency	2763	3673	32.9%	12.2%
Others	433	374	-13.6%	1.2%
Total	24883	30079	20.9%	

Source: World Federation of Exchange, ICICI Direct Research

Globally commodity ranks second in numbers of contracts traded at 592.1 crore in 2018

Exhibit 9: Break up of global contracts – commodity-wise (million of contracts)

	2017	2018	% change
Agriculture	1734.3	1906.5	9.9%
Energy	1709.5	1815.8	6.2%
Non precious metals	1742.0	1522.7	-12.6%
Other commodities	438.8	400.7	-8.7%
Precious metals	259.7	271.8	4.7%
Index Commodity Derivatives	0.1	1.4	1176.2%
Total	5884.3	5918.9	0.6%

Source: World Federation of Exchange, ICICI Direct Research

Agriculture commodities forms ~32% of contracts traded, followed by energy and base metals

Exhibit 10 Top 10 exchanges globally (volume in million, value in \$ million)

Exchange	Volume (in mn)	Notional Value (in \$mn)
CME Group	1179.2	65.5
Shanghai Futures Exchange	1175.4	11.9
Dalian Commodity Exchange	981.9	7.6
Zhengzhou Commodity Exchange	817.8	5.6
ICE Futures Europe	496.4	28.3
Moscow Exchange	478.4	0.3
ICE Futures US	287.6	2.1
Multi Commodity Exchange	230.3	0.9
London Metal Exchange	184.8	NA
Borsa Istanbul	22.2	NA
Others	69.3	NA
Total	5923.5	122.2

Source: World Federation of Exchange, ICICI Direct Research

Investment Rationale

Market leader with substantial market share

The Indian commodity market is dominated by two exchanges wherein **MCX continues to maintain its monopoly in market share (~94% in FY20, 95.6% in Q4FY20)** despite increasing competition from other exchanges. The second player – NCDEX is a distant peer with ~4.95% in market share in FY20. Commodity wise, MCX is practically the sole exchange with 98.57% share in precious metals, ~99.95% share in energy and ~100% share in base metals. In agri commodities, MCX has lower market share at ~17.2% as of March 2020.

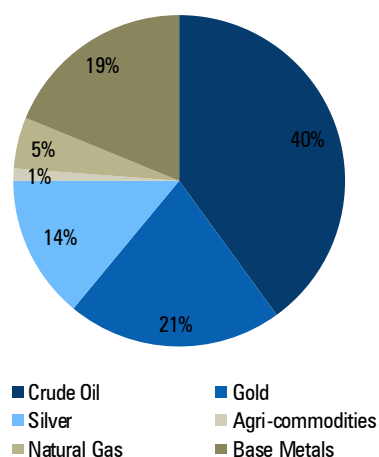
On dissecting volumes on MCX, crude and gold contributes substantial proportion of overall turnover. Proportion of crude remains at ~40%, followed by precious metal at ~35% share in turnover; with gold being a substantial contributor at ~21% of overall turnover.

Exhibit 11: Break up of turnover based on commodity

Commodity Segment	MCX Market share	Proportion of turnover	MCX Market share	Proportion of turnover	MCX Market share	Proportion of turnover	MCX Market share	Proportion of turnover
	FY17		FY18		FY19		FY20	
Precious metals	99.98%	34.78%	99.84%	25.33%	96.77%	22.97%	98.57%	34.72%
Energy	100.00%	32.94%	100.00%	33.30%	100.00%	37.18%	99.95%	45.41%
Base Metals	100.00%	29.90%	1.00%	39.24%	100.00%	38.31%	100.00%	18.68%
Agri commodities	18.23%	2.38%	15.46%	2.12%	15.54%	1.54%	17.24%	1.20%

Source: Company, ICICI Direct Research

Exhibit 12: Major commodity wise turnover in FY20

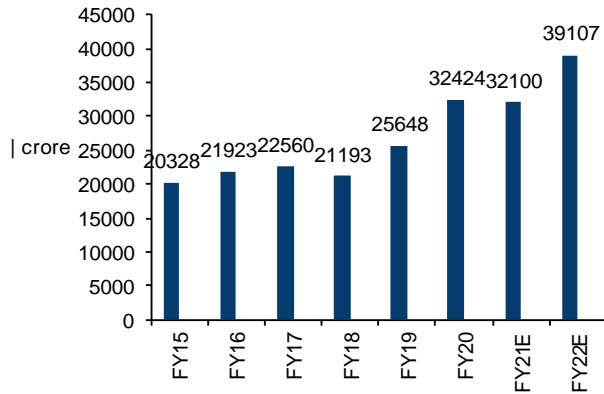


Source: Company, ICICI Direct Research

In exchanges, depth, liquidity and impact cost are most critical factors that are difficult to replace. Therefore, it is difficult to shift volume from an exchange based on pricing. In addition, MCX is focused on increasing number of participants along with introduction of new products (received approval to launch index products), which will enable the exchange to maintain its leadership ahead.

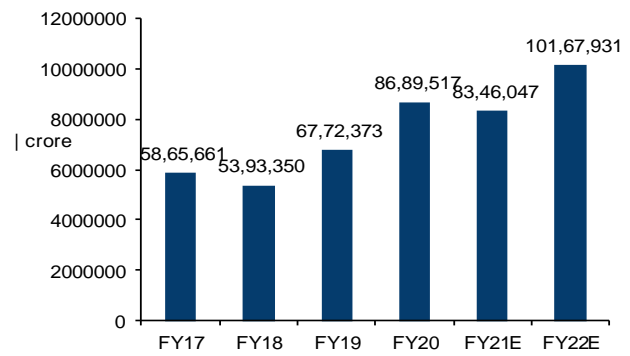
The Indian commodity market still remains underpenetrated. Therefore, it is witnessing a steady rise in turnover from ₹ 62 lakh crore in FY15 to ₹ 89 lakh crore in FY20. Sebi has undertaken measures to increase participation in commodities exchange over the years; MCX is one of the primary beneficiaries given its substantial market share.

Exhibit 13: Steady pick up in ADTO



Source: Company, ICICI Direct Research

Exhibit 14: ...to lead to healthy annual turnover growth



Source: Company, ICICI Direct Research

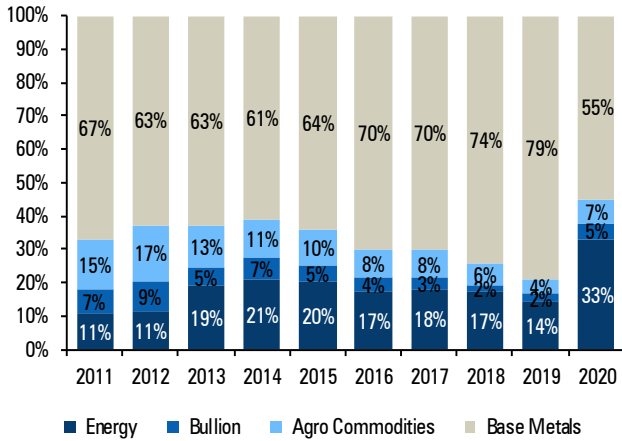
Commodity price volatility & new products to aid turnover

For MCX, transaction fees is earned on value traded on exchange comprises significant proportion of revenue. This transaction income is dependent on two variables – commodity prices and volume traded on exchange. Therefore, volatility in commodity price led to higher volume and, thus, increase in revenue in the last two fiscals.

In the past, factors on the global and domestic front affected turnover for MCX. In FY20, compulsory physical delivery in base metals and discontinuance of mini contract of certain base metals in June 2019 and crude in January 2020 impacted volumes. Increasing inventory in the US, price war and geopolitical uncertainty impacted crude prices. However, risk off sentiments amid US China trade war and pandemic outbreak led to a spike in gold prices as well as volumes. Consequently, MCX witnessed increase of ~28% YoY in turnover to ₹ 86.9 lakh crore in FY20 while ADTV increased 26.4% YoY at ₹ 32424 crore. In Q1FY21E, a standstill in economic activities and leaner space for inventory led crude futures to end negative for the first time. Going ahead, geopolitical uncertainties are expected to keep volatility in crude price elevated and, thus, lead to higher volumes, largely offsetting impact of lower price.

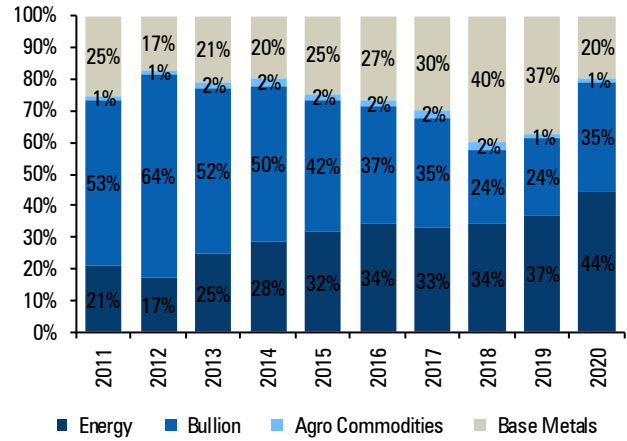
With bullion and energy comprising ~75-80% of revenue, expected elevated volatility in commodities is seen benefiting on revenue generation. We expect ADTO to decline ~3-5% in FY21E to ₹ 83.5 lakh crore, as lower trading hours amid Covid played a near term deterrent. However, a gradual revival in economy, continued volatility in commodity prices and addition of new clients is seen resulting in ~20% YoY growth in ADTO in FY22E to ₹ 100 lakh crore.

Exhibit 15: Annual volume breakup



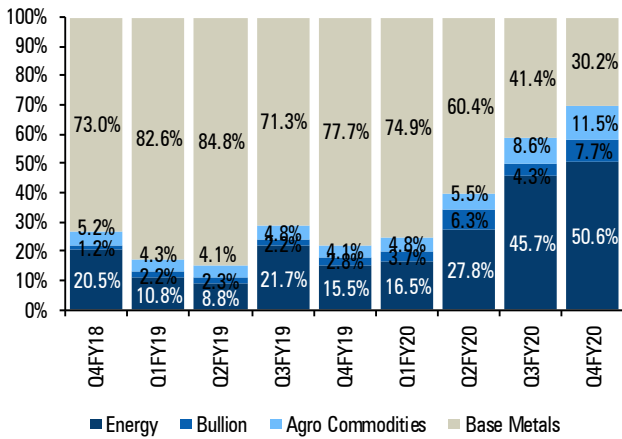
Source: Company, ICICI Direct Research

Exhibit 16: Annual value breakup



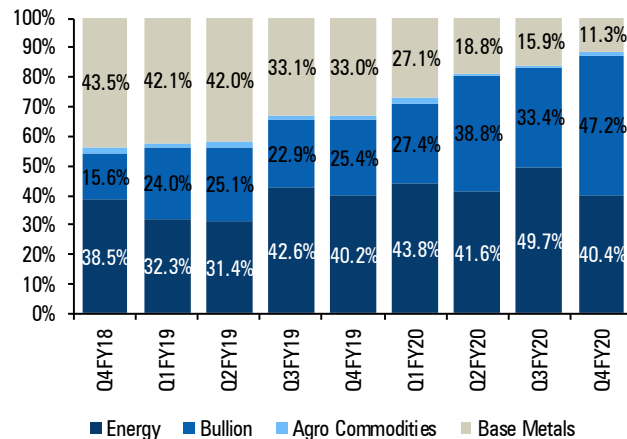
Source: Company, ICICI Direct Research

Exhibit 17: Quarterly volume breakup



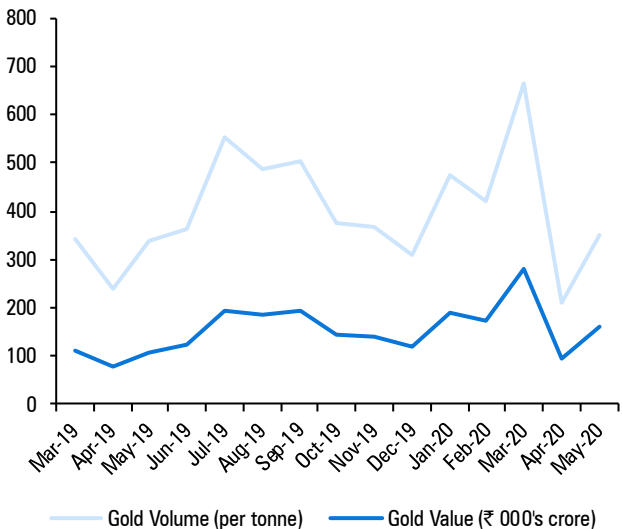
Source: Company, ICICI Direct Research

Exhibit 18: Quarterly value breakup



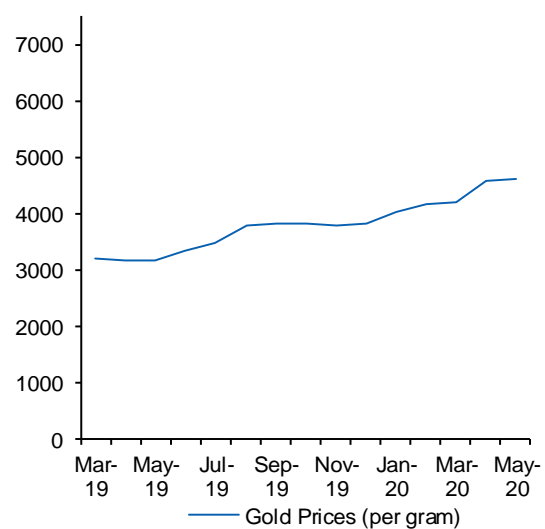
Source: Company, ICICI Direct Research

Exhibit 19: Gold value, volume trend



Source: Company, ICICI Direct Research

Exhibit 20: Gold price trend over the years



Source: Company, ICICI Direct Research

Furthermore, since introduction in 2017, options trading has been gaining momentum in the commodity market. **Currently, MCX does not levy any fee for option trading contributing ~4% of overall turnover.** Though there are

no plans to start levying charges on options in near term, any action taken in this respect ahead (on achieving targeted turnover) would contribute directly to the topline. As charges levied on options and index futures is zero, blended realisation is expected to witness marginal decline in near term.

Exhibit 21: Futures & options turnover with blended realisation

(in ₹ crore)	FY17	FY18	FY19	FY 20	FY21E	FY22E
Futures ADTV	22560.0	21152.0	25648.0	31198.0	30816.2	37152.1
Options ADTV	0.0	41.0	704.0	1226.0	1284.0	1955.4
Total ADTV	22560.0	21193.0	26352.0	32424.0	32100.2	39107.4
Realisations (₹ lakh)-calculated	2.21	2.39	2.22	2.15	2.12	2.10

Source: Company, ICICI Direct Research

In the past couple of years, Sebi has taken significant measures to develop commodity derivatives market in India. Measures include increasing scope of institutions allowed in commodity market - allowed bank subsidiaries to offer commodity derivatives to clients, mutual funds, alternative investment funds (AIF) and portfolio management services (PMS) permitted to trade in commodity derivatives. Institutional participation, though gradual, is a big positive as globally institutional clients contributes ~50% of derivative volume.

The Securities and Exchange Board of India's (Sebi) move to allow a commodity index future has the potential to be a game changer for the Indian commodity derivatives market. As index futures are cash settled, this will attract delivery-wary institutional players to commodity derivatives market thereby adding to participants and turnover. **MCX has got approval to launch future trading in ICOMDEX Bullion (based on gold and silver price) and ICOMDEX Base Metals (based on five metals – copper, aluminium, lead, nickel and zinc) indices.** In the past, Sebi has allowed new products, new segments, and institutional players such as eligible foreign entities, alternate investment funds and mutual funds. However, even after a year, institutional players participation remained modest. Approval for index futures will now make commodities market of interest to institutional participants, which would translate into healthy revenue and PAT growth.

Non-linearity in expense & operating leverage to aid margins

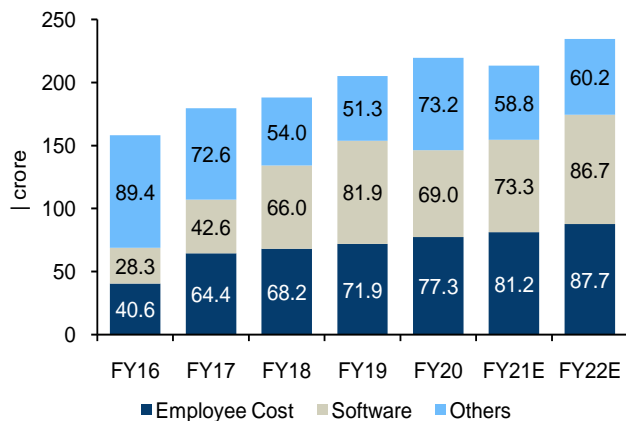
For MCX, **employee and software expense contribute ~90-94% of overall cost; thereby accounting for major proportion. Strong operational efficiency enabled to deliver healthy EBIDTA margins at 41.3% in FY20** with absolute EBITDA at ₹ 155 crore, up ~63% YoY. Continuous focus of management on keeping cost in control with tight regime on variable expenses, which remains major proportion of overall cost. MCX has undertaken cost effective measures including no increment beyond certain level, proposed salary deduction of senior management and reduction of director's fees. Re-negotiation with consultants, advisors and alignment of variable expenses with revenue to aid margins trajectory ahead.

For MCX, revenue is dependent on volume and prices of commodities traded on the exchange. However, correlation between trajectory of revenue and expenses is bleak. Therefore, an increase in traded value flows to EBITDA as operating leverage kicks in.

Creation of indices or any fresh contract is primarily an in-house activity and, hence, does not involve any substantial fixed cost. Consequently, launching new product leads to substantial boost in revenue without corresponding increase in cost thereby improving EBITDA margin.

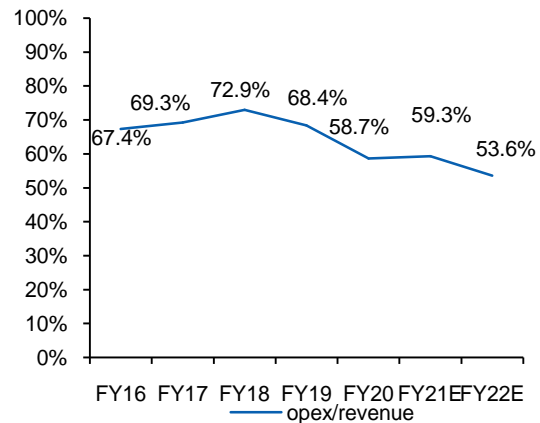
Going forward, the company's focus on increasing volume through enlarging customer base and introducing new products is seen leading to improvement in margins. Covid related lockdown to impact business and margins in FY21E, though **we expect strong operational efficiency to drive EBITDA margins from 41.3% in FY20 to 45.6% in FY22E.**

Exhibit 22: Breakup of opex



Source: Company, ICICI Direct Research

Exhibit 23: Operating efficiency to improve ahead



Source: Company, ICICI Direct Research

Established network & product research to aid business growth

With 692 registered members and 54,900 authorised persons across 1010 cities and towns in India (as on 31 March 2020), MCX has an extensive national presence. Furthermore, MCX has strategic alliances with leading international exchanges like the London Metal Exchange (LME), CME Group, Dalian Commodity Exchange (DCE) and Taiwan Futures Exchange (TAIFEX). MCX has also tied-up with various corporate, trade bodies, educational institutions and research centres across the country. Such a widespread network is expected to help improve trade practices and increase awareness that would upscale business growth. Tie up with global institutions and continuous product research enables to launch new products and services, which is seen aiding business growth and lower risk of concentration.

Substantial proportion of cash, investment on balance sheet

MCX has a large proportion of liquid investment and cash on balance sheet to the tune of ~₹ 1700 crore as of FY19 (₹ 340/share). As of FY19, overall investment were at ₹ 1251 crore of which liquid investment (parked in mutual funds and tax free bonds) were at ~₹ 975 crore. Additionally, cash & equivalent was at ~₹ 759 crore. Though the management does not have any plans ahead, distribution of investments to shareholders can yield material payout and also shore up return ratios ahead. **Till the time the management holds on to such high investment and cash balance, it provides a cushion against any difficult situation though it will keep return ratios lower.**

Valuation

We expect MCX to post ~15% CAGR in FY20-22E in EBITDA driven by ~8% CAGR in revenue. Control on cost is expected to lead to improvement in operating efficiency with EBITDA margin expansion from ~41.3% in FY20 to ~46.4% in FY22E. Consequently, RoE is expected to reduce from ~17.4% in FY20 to 13.9% in FY21E (led by impact on volume amid Covid) and then recover to 16.4% in FY22E.

We remain positive on earnings visibility owing to 1) market leadership, 2) strong recovery in ADTO amid volatility in commodity prices, 3) launch of new products that are cash settled, removing physical delivery risk and 4)

participation by institutional clients. Wide distribution network and strong brand recall adds to the positives, limiting threat of competition. Currently, MCX is trading at 26x FY22E EPS. We have a **BUY** recommendation on the stock with a target price of ₹ 1470 per share, valuing the stock at ~33x FY22E core earnings and adding net cash after deducting SGF.

Exhibit 24: Comparison of broad parameters with competitors (₹ crore)

	MCX	BSE	NSE
Sales	374.2	450.5	3849.3
EBIDTA	154.7	178.3	2800.0
EBIDTA %	41.3%	28.0%	72.7%
PBT	64.6	76.8	2624.0
PAT	236.5	112.6	1965.3
PAT %	63.2%	25.0%	51.1%
EPS (₹)	39.0	24.6	29.8
RoE%	17.4%	4.6%	29.5%
RoA%	8.7%	2.5%	NA
P/E (x)	32.8	16.0	25.4
P/BV (x)	4.8	0.7	NA
ADVT	32424.0	30289.9	1431302.0
Market Cap	6114.7	1817.2	50000.0

* Numbers for NSE have been projected proportionally in-line with results declared for 9MFY20, Mcap is assumed

Source: Company, ICICI Direct Research

Exhibit 25: Comparison with global exchanges

Name	Country	US\$ Mn		P/E (x)		P/BV (x)		EV/EBITDA (x)	
		CMP	Mkt Cap	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
HKEX	HONG KONG	296	48,353	37	33	8	8	7.2	6.5
Singapore Exchange Ltd	SINGAPORE	8	6,383	21	21	7	6	14.6	14.5
MCX	INDIA	1,210	814	40.6	36.1	4.7	4.6	29.9	25.5
BSE Ltd	INDIA	394	234	nm	(2.3)	0.7	0.8	3.4	2.4
CDSL	INDIA	259	357	26.0	27.0	3.8	3.6	24.6	30.4
LSE Group PL	BRITAIN	8,008	35,672	37.8	31.6	6.1	4.8	22.3	15.1
CME Group Inc	US	189	67,666	25.0	25.3	2.5	2.5	19.6	19.6
Nasdaq Inc	US	120	19,690	21.6	21.2	3.5	3.3	15.8	15.4
TMX Group Ltd	CANADA	129	5,405	21.9	20.5	2.0	1.9	16.0	15.1

Source: Bloomberg, ICICI Direct Research

Key Risk

Business remains highly susceptible to regulatory intervention

The regulatory environment is constantly evolving and can be subject to significant change. Various changes have been enacted in the past, which have impacted volume in commodities exchange. Going ahead, regulatory intervention in terms of tightening of rules, relaxing of guidelines for new exchange could adversely impact volumes traded in the exchange.

Sharp drop in commodity price may impact revenue

For MCX, major proportion of revenue is generated in the form of fees based on value of traded volume of commodity contracts. Therefore, any continued fall in commodity prices could impact value of traded contracts and thereby revenue trajectory.

Concentration risk

Major proportion of turnover has been concentrated in bullion, crude and base metals. Therefore, any sharp decline in volumes or price of any of these segments would impact revenues trajectory, thereby impacting earnings performance.

Economic slowdown remains risk for business trajectory

Covid related lockdown coupled with an uncertain macroeconomic environment entail risk for business for MCX in FY21E. We estimate ADTO would dip to ₹ 32100 crore in FY21E vs. ₹ 32424 crore in FY20. Dip in commodity volumes and commodity prices led by slowdown in global economic activity, will put pressure on turnover and thereby earnings.

NSE entering commodity market remains risk

National Stock Exchange of India (NSE) commenced trading in commodity derivatives with the launch of bullion futures on October 12, 2018. There has been a sharp increase in volume of commodities from ₹ 3444 crore in FY19 to ₹ 6362 crore in FY20. NSE is a market leader in equities with a large client base and wide reach across the country. Though MCX has the advantage of depth, liquidity and impact cost, which are the most critical factors, continued market share gain remains a risk.

Legal battle related to negative crude prices near term risk

In April 2020, MCX settled crude oil contract at negative ₹ 2884 a barrel, following a historic crash in prices in the US. With the lack of preparedness for such a situation, brokers suffered a loss on client's exposure and, therefore, filed a legal case against MCX and Sebi. The matter is under adjudication and is being heard on the grounds that commodity exchanges in India, including MCX, "has any provision to trade commodities/stock by assigning a negative value to it". The outcome of this case will lead to farfetched changes in commodities markets and remains a near term risk in terms of any liability arising on the part of MCX.

Financial Summary

Exhibit 26: Profit & Loss Statement

(₹ crore)	FY17	FY18	FY19	FY20	FY21E	FY22E
Net Sales	259.4	258.0	300.0	374.2	359.4	437.8
Software	42.6	66.0	81.9	69.0	73.3	86.7
Employee Cost	64.4	68.2	71.9	77.3	81.2	87.7
Total Expenses	179.7	188.2	205.1	219.5	213.3	234.6
EBIDTA	79.7	69.9	94.9	154.7	146.1	203.2
Depreciation	18.6	16.7	15.4	18.1	18.1	18.3
Other Income	116.4	88.6	96.0	129.0	128.0	132.6
PBT	177.6	141.8	175.5	265.5	256.0	317.5
Tax	51.2	35.0	7.1	28.9	58.2	72.5
PAT	126.5	106.8	168.4	236.6	197.8	245.0

Source: Company, ICICI Direct Research

Exhibit 27: Balance Sheet

(Year-end March)	FY17	FY18	FY19	FY20	FY21E	FY22E
Sources of Funds						
Share Capital	51.0	51.0	51.0	51.0	51.0	51.0
Reserves and Surplus	1311.4	1329.5	1199.9	1308.4	1367.7	1441.2
Total Shareholder's Fund	1362.4	1380.5	1250.9	1359.4	1418.7	1492.2
Non Current Liabilities	42.1	41.0	41.4	54.6	57.3	60.2
Current Liabilities	294.5	364.2	453.3	910.9	983.8	1062.5
Settlement Gurantee Fund	170.5	180.6	329.8	409.8	450.7	495.8
Total	1869.5	1966.3	2075.5	2734.6	2910.5	3110.7
Application of funds						
Fixed Assets	140.1	146.7	141.4	141.3	155.4	167.8
Investments	1200.6	1325.2	1202.0	1640.9	1700.2	1773.7
Loans & Advances	0.4	0.3	0.2	0.2	0.2	0.2
Cash and equivalents	19.3	59.7	534.6	759.3	850.1	952.1
Other Assets	509.2	434.4	197.3	193.0	204.6	216.8
Total	1869.5	1966.3	2075.5	2734.6	2910.5	3110.7

Source: Company, ICICI Direct Research

Exhibit 28: Key Ratios

	FY17	FY18	FY19	FY20	FY21E	FY22E
No. of Equity shares	5.1	5.1	5.1	5.1	5.1	5.1
EPS (₹)	24.8	20.9	33.0	46.4	38.8	48.0
BV (₹)	267.1	270.7	245.3	266.5	278.2	292.6
P/E (x)	49.8	59.0	37.4	26.6	31.8	25.7
P/BV (x)	4.6	4.6	5.0	4.6	4.4	4.2
OPM %	30.7	27.1	31.6	41.3	40.7	46.4
PAT %	48.7	41.4	56.1	63.2	55.0	56.0
RoE %	9.3	7.7	13.5	17.4	13.9	16.4
RoA %	6.8	5.4	8.1	8.7	6.8	7.9
Annual Volume Traded (in lakh crore)	58.7	53.9	67.7	86.9	83.5	101.7
ADTO	22560	21193	25648	32424	32100	39107

Source: Company, ICICI Direct Research

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