

Multi Commodity Exchange (MCX)

CMP: ₹ 1561

Target: ₹ 1800 (15%)

Target Period: 12 months

July 27, 2020

Steady pick-up in turnover to drive earnings...

MCX reported healthy Q1FY21 earnings wherein healthy other income and lower opex offset a blip in revenue led by decline in average daily turnover (ADTO). Reduction in trading hours amid Covid in April 2020, impacted ADTO by 16% YoY to ₹ 23,129 crore in Q1FY21 vs. ₹ 27,473 crore in Q1FY20 and ₹ 36,626 crore in Q4FY20. Consequently, revenues fell 8.1% YoY to ₹ 73 crore. MCX reported a sharp increase in its market share by ~511 bps YoY, ~270 bps QoQ to 96.71%. Robust other income at ₹ 49.7 crore and lower opex supported EBITDA, reported at ₹ 26.5 crore with EBITDA margin (excluding other income) up ~150 bps YoY to 36.3%. However, higher tax rate limited traction in PAT at ₹ 56.4 crore, up 29.2% YoY. The PAT margin was at 77.3% in June 2020 vs. 55% in June 2019.

Reduction in trading hours in April led ADTO to plunge 15.8% YoY to ₹ 23,129 crore with total volume for contracts (in lots) at ~4.2 crore. Average realisation remained broadly steady at ₹ 2.13/lakh. In terms of commodity wise market share, MCX reported an increase in market share of precious metals and agriculture by 132 bps & 604 bps QoQ to 99.89% and 23.38%, respectively, while market share of energy and base metals remained broadly flattish. The recent uptick in gold prices led it to account for 31.75% of turnover in June 2020, from 21% in March 2020. MCX introduced options with gold mini (100 grams) as underlying.

Price volatility to drive turnover; index products big boost

We expect higher volumes in the gold segment to continue amid prevailing uncertainty while the impact of a decline in crude prices is expected to be offset by heightened volatility. Approval to **launch cash settled index products – ICOMDEX Bullion and ICOMDEX Base Metal indices is seen providing a boost to turnover**. We expect ADTO to decline ~3-5% in FY21E to ₹ 83.5 lakh crore, as emergence of Covid acted as a near term deterrent. However, a gradual revival in the economy, continued volatility in commodity prices and addition of new clients, including hedgers, is seen resulting in ~20% YoY growth in ADTO in FY22E to ₹ 100 lakh crore. Hence, revenues are expected to grow at 8.2% CAGR from FY20-22E to ₹ 438 crore, while earnings is seen at ₹ 244 crore, as operating leverage kicks in.

Valuation & Outlook

Increased volume driven by volatility in commodity prices, strong operational efficiency is seen driving performance. We stay positive on earnings visibility owing to 1) market leadership, 2) strong recovery in ADTO amid volatility in commodity prices, 3) launch of index-based products and 4) participation by institutional clients. We expect ~15.4% CAGR in EBITDA in FY21-22E, driven by ~8% CAGR in revenue coupled with improvement in efficiency. RoE is expected at 16.3% in FY22E, post a dip in FY21E amid Covid. Currently, MCX trades at ~33x FY22E EPS. Given leadership in commodity space, strong efficiency, we remain positive on the stock. Hence, we revise target price to ₹ 1800/share, valuing the stock at 44.1x FY22E core earnings and adding net cash after deducting SGF. Maintain **BUY**.

Key Financial Summary

(₹ crore)	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY20-22E)
Net Sales	258.0	300.0	374.2	374.8	437.8	8.2%
EBITDA	69.9	94.9	154.7	157.8	205.9	15.4%
EPS (₹)	20.9	33.0	46.4	39.7	47.8	
Annual Volume Traded (in lakh crore)	53.9	67.7	86.9	83.5	101.7	
RoE (%)	7.7	13.5	17.4	14.3	16.3	
RoA (%)	5.4	8.1	8.7	7.0	7.8	

Source: Company, ICICI Direct Research

BUY



Particulars

Particulars	Amount
Market Capitalisation	₹7961 crore
Equity Capital	₹51 crore
Networth	₹1359 crore
Face Value	₹10
52 week high/low	2.11
FII	36.06%
DII	41.45%

Key Highlights

- Volatility in prices, regulatory focus and introduction of index-based products to favour turnover
- Growth in revenue and operating leverage to lead to improvement in margins and earnings
- Value stock at 44.1x core earnings. Maintain BUY with target price of ₹ 1,800

Research Analyst

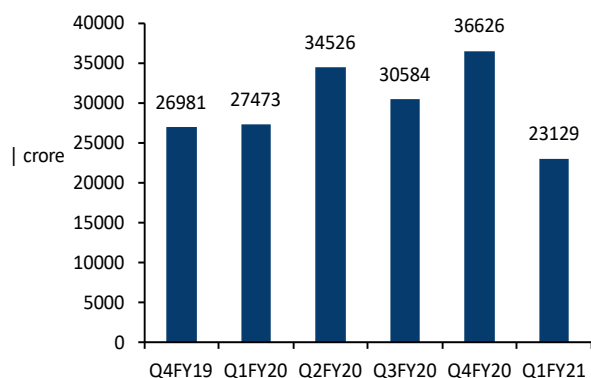
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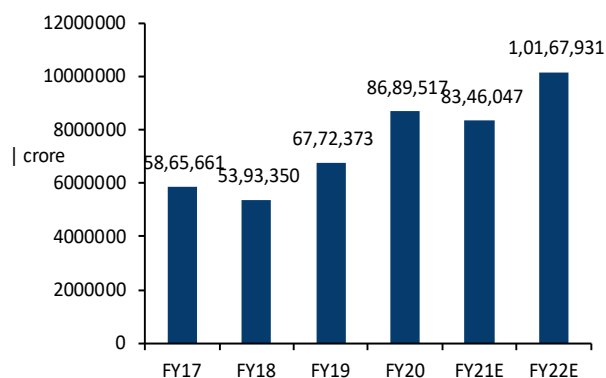
Story in Charts

Exhibit 1: ADTO witnessed marginal dip



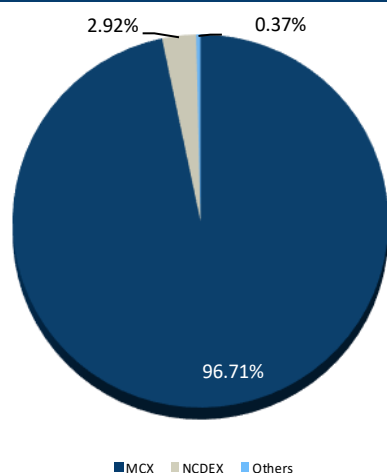
Source: Company, ICICI Direct Research

Exhibit 2: Average daily turnover estimates



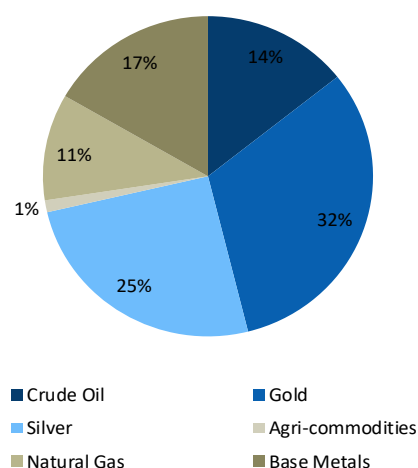
Source: Company, ICICI Direct Research

Exhibit 3: MCX market share



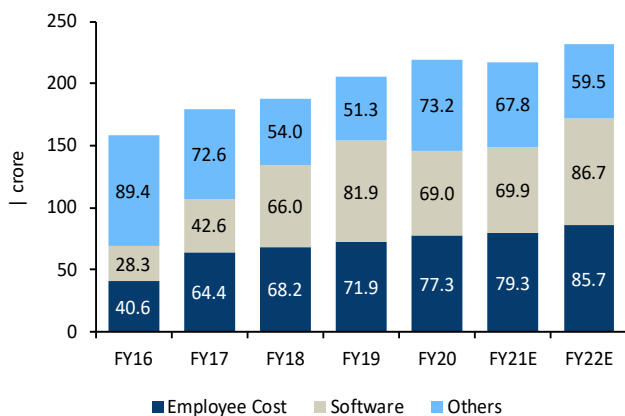
Source: Company, ICICI Direct Research

Exhibit 4: Major commodities turnover in Q1FY21



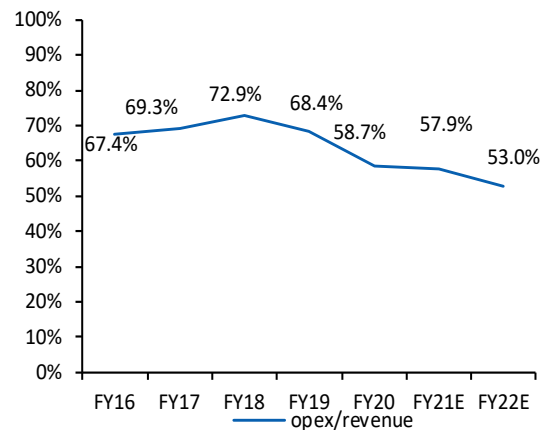
Source: Company, ICICI Direct Research

Exhibit 5: Breakup of opex



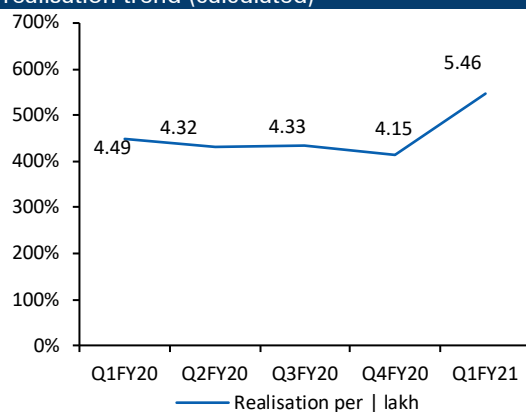
Source: Company, ICICI Direct Research

Exhibit 6: Operating efficiency to improve ahead



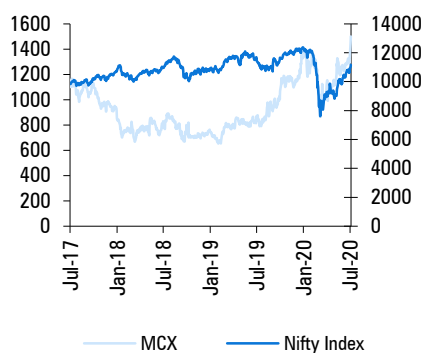
Source: Company, ICICI Direct Research

Exhibit 7: Quarterly realisation trend (calculated)



Source: Company, ICICI Direct Research

Exhibit 8: Price Chart



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 23: Profit & Loss Statement

(₹ crore)	FY17	FY18	FY19	FY20	FY21E	FY22E
Net Sales	259.4	258.0	300.0	374.2	374.8	437.8
Operating Exp	115.3	119.9	133.2	142.2	137.7	146.2
Software	42.6	66.0	81.9	69.0	69.9	86.7
Employee Cost	64.4	68.2	71.9	77.3	79.3	85.7
Total Expenses	179.7	188.2	205.1	219.5	217.0	231.9
EBIDTA	79.7	69.9	94.9	154.7	157.8	205.9
Depreciation	18.6	16.7	15.4	18.1	19.2	19.4
Other Income	116.4	88.6	96.0	129.0	128.0	132.7
Interest	0.1	-	-	0.2	0.1	-
PBT	177.6	141.8	175.5	265.5	266.6	319.2
Tax	51.2	35.0	7.1	28.9	64.0	75.2
PAT	126.5	106.8	168.4	236.6	202.6	244.0

Source: Company, ICICI Direct Research

Exhibit 24: 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	1369.2	1442.3
Total Shareholder's Fund	1362.4	1380.5	1250.9	1359.4	1420.2	1493.3
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	2912.0	3111.8
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	1701.6	1774.8
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	2912.0	3111.8

Source: Company, ICICI Direct Research

Exhibit 25: 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	39.7	47.8
BV (₹)	267.1	270.7	245.3	266.5	278.5	292.8
P/E (x)	62.9	74.5	47.3	33.6	39.3	32.6
P/BV (x)	5.8	5.8	6.4	5.9	5.6	5.3
OPM %	30.7	27.1	31.6	41.3	42.1	47.0
PAT %	48.7	41.4	56.1	63.2	54.1	55.7
RoE %	9.3	7.7	13.5	17.4	14.3	16.3
RoA %	6.8	5.4	8.1	8.7	7.0	7.8
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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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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