

# Multi Commodity Exchange (MCX)

CMP: ₹ 1537

Target: ₹ 2000 (30%)

Target Period: 12 months

January 31, 2022

## Pick-up in options, new product 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

**Q3FY22 Results:** Decline in futures turnover offset by options.

- Average daily futures turnover (ADTO) declined ~5% YoY to ₹ 24556 crore, led by decline in bullion volume
- Option ADTO continued to gain traction to ₹ 8610 crore; up 43% QoQ
- Operational revenue up 7.6% QoQ; other income down 9.7% QoQ
- Earnings at ₹ 34.5 crore; down 52% YoY and up 5.5% QoQ

**What should investors do?** MCX' share price has grown by ~30% over the past five years (from ~₹ 1200 in February 2017 to ~₹ 1560 levels in January 2022).

- 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 ~42x core FY24E EPS and net cash and maintain our target price at ₹ 2000.

### Key triggers for future price performance:

- Market leadership makes MCX a primary beneficiary of rise in volume
- Diversified product mix aids topline amid volatility in prices
- Non-linear growth in option volume to aid business & earnings growth
- New product launch - electricity contracts, higher commodity based delivery to act as growth catalyst
- 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

### Key Financial Summary

(₹ crore)	FY20	FY21	2 year CAGR (FY19-FY21)	FY22E	FY23E	FY23E	3 year CAGR (FY21-24E)
Net Sales	374.2	390.6	14.8%	354.4	411.1	460.5	5.6%
EBITDA	154.7	185.1	38.4%	148.6	188.5	231.5	7.7%
Net Profit	236.6	225.3	28.3%	147.2	222.2	263.4	5.3%
EPS (₹)	46.4	44.2	28.3%	28.9	43.6	51.6	5.3%
P/E(x)	33.1	34.8		53.3	35.3	29.8	
Annual Volume Traded (in lakh crore)	86.9	82.6		84.4	96.6	108.2	
RoE (%)	17.4	15.9		10.0	14.4	14.5	
RoA (%)	8.7	9.0		5.5	7.8	8.1	

Source: Company, ICICI Direct Research

BUY



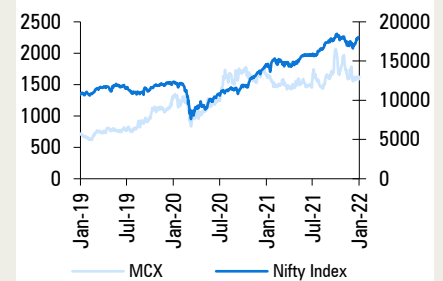
### Particulars

Particulars	Amount
Market Capitalisation	₹ 7836 crore
Networth	₹ 1392 crore
Face Value	₹ 10
52 week high/low	2135/1434

### Shareholding Pattern

in %	Dec 20	Mar 21	Jun 21	Sep 21	Dec 21
Promoter	0.00	0.00	0.00	0.00	0.00
DII	39.22	41.20	39.69	41.09	45.41
FII	37.06	36.20	35.27	32.49	32.49
Others	23.7	22.6	25.0	26.4	22.1

### Price Chart



### Recent Event & Key Risks

- Futures ADTO declined 5% QoQ; option ADTO increased ~43% QoQ
- **Key Risk:** (i) Decline in bullion prices (ii) slower pick in option volume

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## Key takeaways of recent quarter & conference call highlights

### Q3FY22 Results: Mixed performance led by decline in futures turnover

- ADTO in commodity futures declined to ₹ 24556 crore compared to ₹ 32684 crore in Q3FY21, led by sharp moderation in bullion volume. Options continued to witness improvement in ADTO reported at ₹ 8610 crore in Q2FY22 vs. ₹ 808 crore in Q3FY21 and ₹ 6023 crore in Q2FY22
- MCX has started charges on options from Q3FY22 onwards. Consequently, decline in futures volume was offset by options leading to 7.6% QoQ increase in revenue to ₹ 89.6 crore
- Other income came in at ₹ 14.5 crore, down 41% YoY and 9.7% QoQ. PAT came in at ₹ 34.5 crore, down 52% YoY and up 5.5% QoQ.

### Q3FY22 Earnings Conference Call highlights

- Joint committee set up by CERC and SEBI. Decision on specification of electricity derivative contract awaited
- Peak margin applicability has been increased from up-to 5 PM to 11.30 PM. Accordingly, peak margin has to be given 8 snapshots instead of 5 snapshots. Impact on volume uncertain. ~50% trading volume from 5 PM to 11.30 PM
- SEBI has come out with guidelines for spot exchange. Plan to set up bullion spot exchange as separate segment. TO be launched mostly by September'21. However, volume could be lower in initial phase as clarity wait on GST charged
- Options realisation is ₹45 per one lakh of premium
- Options contribute 20% in ADTO and rest is futures, expect in few years to reach 50-50%
- Shift to TCS software to happen from September and thus result in savings of cost
- 48% Algo volume in derivative rest 52% is non-Algo
- Premium turnover in options is ₹184 crore
- Plan to introduce monthly options on bimonthly contracts in bullion so that premium gets reduced and participation increases
- Major portion of MAT credit have been exhausted with some tax implication expected in Q4FY22. Effective tax rate will be slightly more than earlier guided 18% as they have exited from tax free bonds this quarter

## 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	98	115	Hold	2835	7.3	9.3	10.2	13.5	10.5	9.6	3.1	2.4	1.9	23.9	25.5	21.9
5 paisa	375	530	Buy	1176	6.8	4.4	10.4	55.2	84.8	36.0	6.0	2.7	2.5	11.7	4.6	7.3
MCX	1537	2000	Buy	8803	44.2	28.9	43.6	34.8	53.3	35.3	6.3	5.8	5.5	15.9	10.0	14.4

Source: Company, ICICI Direct Research

**Exhibit 2: Variance Analysis**

	<b>Q3FY22</b>	<b>Q3FY21E</b>	<b>Q3FY21</b>	<b>YoY</b>	<b>Q2FY22</b>	<b>QoQ</b>	<b>Comments</b>
Revenue	89.6	88.6	100.9	-11.2%	83.2	7.6%	Decline in futures offset by options volume
Other Income	14.5	22.3	24.8	-41.4%	16.1	-9.7%	
Total Income	104.1	111.0	125.7	-17.2%	99.3	4.8%	
Operating Expenses	30.9	30.8	32.7	-5.7%	28.8	7.4%	
Other Expenses	20.4	21.0	19.5	4.7%	20.6	-1.2%	
Total Expenses	51.3	51.9	52.2	-1.8%	49.4	3.8%	Focus on efficiency kept opex controlled
<b>EBITDA</b>	<b>38.3</b>	<b>36.7</b>	<b>48.68</b>	<b>-21.4%</b>	<b>33.8</b>	<b>13.2%</b>	
<b>EBITDA %</b>	<b>42.7%</b>	<b>41.5%</b>	<b>48.2%</b>	<b>-551 bps</b>	<b>40.6%</b>	<b>211 bps</b>	
Depreciation	6.7	5.9	5.9	13.8%	6.6	1.5%	
Finance Costs	0.1	0.1	0.1	60.0%	0.1	60.0%	
PBT	46.0	53.1	67.5	-31.9%	43.2	6.4%	
Tax	11.0	12.5	-4.2	-361.5%	10.0	9.7%	
<b>PAT</b>	<b>35.0</b>	<b>40.6</b>	<b>71.7</b>	<b>-51.2%</b>	<b>33.2</b>	5.5%	Sequential uptick in earnings led by options
<b>Turnover</b>	<b>2,155,770</b>	<b>2,155,770</b>	<b>2,143,503</b>	<b>0.6%</b>	<b>2,100,063</b>	<b>2.7%</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)	FY20	FY21	FY22E	FY23E	FY24E
Net Sales	374.2	390.6	354.4	411.1	460.5
Operating Exp	142.2	130.3	124.6	139.8	144.5
Software	69.0	63.6	61.0	75.0	78.3
Employee Cost	77.3	75.2	81.2	82.9	84.5
Total Expenses	219.5	205.4	205.8	222.6	229.0
EBIDTA	154.7	185.1	148.6	188.5	231.5
Depreciation	18.1	22.1	26.1	26.4	26.4
Other Income	129.0	103.8	69.3	125.6	133.2
Interest	0.2	0.2	0.2	0.2	0.2
PBT	265.5	266.9	191.8	287.7	338.2
Tax	28.9	41.5	44.6	65.4	74.8
PAT	236.6	225.3	147.2	222.2	263.4

Source: Company, ICICI Direct Research

### Exhibit 24: Balance Sheet

(Year-end March)	FY20	FY21	FY22E	FY23E	FY24E
<b>Sources of Funds</b>					
Share Capital	51.0	51.0	51.0	51.0	51.0
Reserves and Surplus	1308.4	1367.2	1418.7	1496.5	1759.9
Total Shareholder's Fund	1359.4	1418.2	1469.7	1547.5	1810.9
Non Current Liabilities	54.6	57.6	60.5	63.5	66.7
Current Liabilities	910.9	557.5	613.2	674.5	742.0
Settlement Guarantee Fund	409.8	469.2	516.2	567.8	624.5
Total	2734.6	2502.5	2659.6	2853.3	3244.1
<b>Application of funds</b>					
Fixed Assets	141.3	139.5	150.7	162.7	175.8
Investments	1640.9	1720.2	1823.4	1932.8	2048.8
Loans & Advances	0.2	0.1	0.1	0.1	0.1
Cash and equivalents	759.3	426.1	455.8	514.3	590.3
Other Assets	193.0	216.7	229.7	243.4	258.0
Total	2734.6	2502.5	2659.6	2853.3	3244.1

Source: Company, ICICI Direct Research

### Exhibit 25: Key Ratios

	FY20	FY21	FY22E	FY23E	FY24E
No. of Equity shares	5.1	5.1	5.1	5.1	5.1
EPS (₹)	46.4	44.2	28.9	43.6	51.6
BV (₹)	266.5	278.1	288.2	303.4	355.1
P/E (x)	33.1	34.8	53.3	35.3	29.8
P/BV (x)	5.8	5.5	5.3	5.1	4.3
OPM %	41.3	47.4	41.9	45.8	50.3
PAT %	63.2	57.7	41.5	54.1	57.2
RoE %	17.4	15.9	10.0	14.4	14.5
RoA %	8.7	9.0	5.5	7.8	8.1
Annual Volume Traded (in lakh crore)	86.9	82.6	84.4	96.6	108.2
ADTO	32424	31757	32443	37171	41632

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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