

Estimate change	↑
TP change	↑
Rating change	↔

Bloomberg	MCX IN
Equity Shares (m)	51
M.Cap.(INRb)/(USDb)	76.2 / 0.9
52-Week Range (INR)	2022 / 1142
1, 6, 12 Rel. Per (%)	16/5/-9
12M Avg Val (INR M)	770

#### Financials & Valuations (INR b)

Y/E Mar	2023E	2024E	2025E
Sales	5.2	6.1	7.0
EBIT Margin (%)	49.1	59.5	61.2
PAT	2.5	3.3	3.9
EPS (INR)	49.5	65.3	75.7
EPS Gr. (%)	76.1	31.9	15.9
BV/Sh. (INR)	288.0	301.0	316.2

#### Ratios

RoE (%)	17.5	22.2	24.5
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#### Valuations

P/E (x)	30.2	22.9	19.7
P/BV (x)	5.2	5.0	4.7
Div Yield (%)	2.3	2.3	2.3

#### Shareholding pattern (%)

As On	Sep-22	Jun-22	Sep-21
Promoter	0.0	0.0	0.0
DII	50.6	48.6	45.4
FII	23.6	27.0	32.7
Others	25.8	24.4	21.9

FII Includes depository receipts

**CMP: INR 1,494**

**TP: INR 1,800 (+20%)**

**Buy**

### Healthy business outlook sans the software transition issue

- Net profit grew 96% YoY and 55% QoQ to INR641m. PAT came in 14% above our estimate, led by a beat in revenue, EBIT, other income, and the tax rate.
- Overall volumes improved by 25% QoQ and 71% YoY to INR35.9t. While volumes were in line, realizations in Options have been better than expected.
- Volumes from Futures fell 9% YoY and 6% QoQ to INR15.5t in 2QFY23, while the same for Options grew a strong 63% QoQ at INR20.4t.
- Staff cost was higher by 11% YoY, but flat QoQ at INR229m. Software support charges saw a higher growth of 45% YoY and 16% QoQ, led by an increase in volumes.
- Overall EBIT grew 38% QoQ and 120% YoY to INR598m, better than our forecasts by 7%.
- EBIT margin stood at 47% v/s 32.7%/40% in 2QFY22/1QFY23, led by the incremental revenue from Options.
- Other income grew 14% YoY and 97% QoQ to INR182m (better than our forecast).

### Energy and bullion drive overall volume growth

- Volumes in the Energy segment rose 155% YoY, led by a 299%/73% jump in crude oil/natural gas volumes.
- Bullion volumes rose 15% YoY due to a 24%/6% rise in gold/silver volumes.
- Base metal volumes were lower by 29% YoY as nickel volumes were nil in 2QFY23 v/s INR1.2t in 2QFY22. Copper/lead volumes were also lower by 10%/47%.

### Key takeaways from the management commentary

- The TCS software should go live by the end of 3QFY23. In the intervening period, MCX has extended its contract with 63 moons at an exorbitant rate.
- Option volumes should remain strong. The launch of monthly options on bi-monthly gold Futures will further drive growth.

### Raise our estimates to factor in better realizations, maintain our Buy rating

- We remain positive on a gradual increase in ADT, led by surging Option volumes, amid rising volatility in commodity prices. New avenues (gold spot exchange and electricity Futures) will drive volumes in the longer term.
- We like MCX for its near-monopoly in the Indian Commodity Exchange segment (92% market share). We have upgraded our FY23/FY24 EPS estimate by 11%/12% to factor in a better than expected realization in Option volumes. To build in exorbitant costs of the 63 moons contract for 3QFY23, we have assumed a 38% QoQ jump in software support charges. We value the stock at a multiple of 26x Sep'24 EPS. We maintain our Buy rating with a revised TP of INR1,800/share.

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**Investors are advised to refer through important disclosures made at the last page of the Research Report.**

Motilal Oswal research is available on [www.motilaloswal.com/Institutional-Equities](http://www.motilaloswal.com/Institutional-Equities), Bloomberg, Thomson Reuters, Factset and S&P Capital.

## Quarterly performance

	FY22				FY23				FY22	FY23E	FY23E	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		2QE	(%/bp)	
<b>Sales</b>	<b>876</b>	<b>832</b>	<b>896</b>	<b>1,065</b>	<b>1,088</b>	<b>1,274</b>	<b>1,380</b>	<b>1,464</b>	3,668	5,206	1,210	5.3
YoY growth (%)	20.0	-30.5	-11.2	9.8	24.2	53.1	54.1	37.5	-6.1	41.9	45.5	765bp
Staff costs	208	206	204	182	227	229	229	211	800	896	220	3.9
Other expenses	300	288	309	350	368	389	473	270	1,247	1,500	372	4.6
<b>EBITDA</b>	<b>369</b>	<b>338</b>	<b>382</b>	<b>532</b>	<b>493</b>	<b>656</b>	<b>678</b>	<b>983</b>	<b>1,621</b>	<b>2,810</b>	<b>618</b>	<b>6.2</b>
Depreciation	67	66	67	27	58	58	59	82	227	256	59	(2.0)
<b>EBIT</b>	<b>302</b>	<b>272</b>	<b>315</b>	<b>505</b>	<b>435</b>	<b>598</b>	<b>619</b>	<b>902</b>	<b>1,394</b>	<b>2,554</b>	<b>559</b>	<b>7.0</b>
Margin (%)	34.5	32.7	35.2	47.4	40.0	47.0	44.9	61.6	38.0	49.1	46.2	77bp
Interest costs	1	0	1	1	1	0	0	2	3	3	1	-100
Other income	213	161	145	146	93	182	177	174	665	626	149	22.1
<b>PBT bef. exceptional items</b>	<b>515</b>	<b>432</b>	<b>460</b>	<b>650</b>	<b>527</b>	<b>781</b>	<b>796</b>	<b>1,074</b>	<b>2,057</b>	<b>3,177</b>	<b>708</b>	<b>10.3</b>
Tax	116	100	111	79	106	135	159	236	407	635	142	(5.0)
Rate (%)	22.5	23.2	24.1	12.2	20.1	17.2	20.0	22.0	19.8	20.0	20.0	-277bp
<b>PAT</b>	<b>398</b>	<b>327</b>	<b>344</b>	<b>366</b>	<b>415</b>	<b>641</b>	<b>632</b>	<b>839</b>	<b>1,435</b>	<b>2,527</b>	<b>561</b>	<b>14.2</b>
YoY growth (%)	-29.5	-44.2	-52.1	-4.7	4.3	96.4	83.9	128.9	-36.3	76.1	71.9	
<b>EPS (INR)</b>	<b>7.8</b>	<b>6.4</b>	<b>6.8</b>	<b>7.2</b>	<b>8.2</b>	<b>12.6</b>	<b>12.4</b>	<b>16.5</b>	<b>28.1</b>	<b>49.5</b>	<b>11.0</b>	<b>14.2</b>
<b>Total volumes (INR t)</b>	<b>19.2</b>	<b>21.0</b>	<b>21.6</b>	<b>26.1</b>	<b>28.7</b>	<b>35.9</b>	<b>38.9</b>	<b>41.8</b>	<b>87.9</b>	<b>145.3</b>	<b>35.9</b>	<b>-</b>
QoQ growth (%)	-5.5	9.7	2.7	21.1	9.8	25.4	8.1	7.6			25.4	
YoY growth (%)	32.0	-17.7	0.6	28.9	49.6	71.2	80.3	60.2	7.6	65.3	71.2	

E: MOFSL estimates



## Key takeaways from the management commentary

### Software transition to TCS

- MCX has started user acceptance testing (UAT), and is planning to launch mock and a parallel run in early Nov'22. It is hopeful of going live by the end of 3QFY23 as it is the management's topmost priority. A penalty clause exists in the TCS contract.
- The extension of the 63 moons contract for 3QFY23 has been inked at an exorbitant rate. However, the amount was not disclosed for competitive reasons.
- In 1HFY23, INR280m was paid to 63 moons.

### Business

- Transaction charges: In 2Q/1QFY23, transaction charges on Futures stood at INR640m/INR660m. The same for Options stood at INR430m/INR270m.
- Trading UCCs: In 1HFY23, UCCs stood at 374k v/s 313k YoY. In 2QFY23, UCCs stood at 291k v/s 219k YoY. Around 237k/213k UCCs were traded in Futures/Options.
- Outlook on Option volumes: Options are the future in all markets. Hence, MCX is gradually launching products. The margin on underlying Futures are higher than that in Options. Recent traction in volumes for crude oil Options has been on the back of higher margin. It is similar to natural gas. A monthly Options contract in gold will be introduced, which will halve the premium from current levels and influence volume growth.
- As per FPI regulations, MCX can participate if it chooses the mode of no delivery. However, if it wants to adopt a cash and carry model, GST registration is required, which is a hindrance.
- Gold v/s crude oil Options: While traders are common between crude oil and gold, the volumes of crude oil are higher given the small size of the contract. The margin on crude oil Futures is 30-35%. In the last five days ahead of the

contract's expiry, margin increases by 5% daily. In the case of gold Futures, the underlying margin is 12% and the increase is similar to that in crude oil.

- The company will try to launch products (monthly gold options) within the first month of shifting to the TCS software.
- Up to INR50m of premium turnover, transaction charges are INR50 per INR100k of premium. Above that, it stands at INR40 per INR100k of premium.
- Approvals are not in place for the steel contracts yet, while electricity futures will be launched soon.

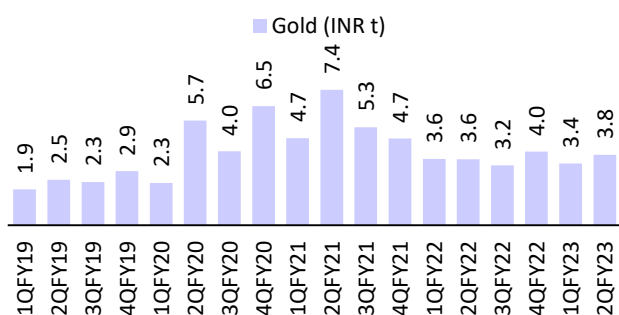
#### **Financials**

- Other income: MCX is moving its INR9b investment book to YTM kind of products, including perpetual and state development bonds, where returns are higher than short-term funds. All these investments can be kept in the HTM category, and there will be no MTM impact on these investments.
- Current mix: Around 45% in these kinds of bonds; 5% in ETFs, which are maturing in Apr'23; and the rest is in short-term investments, which are being evaluated on a regular basis to shift to YTM kind of products.
- The tax rate should sustain at these levels. For FY23, the management expects the tax rate to be 23%.

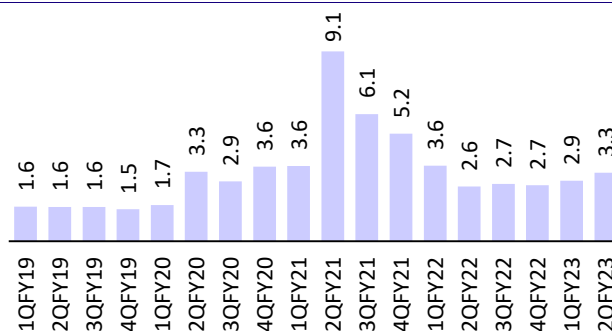
**Exhibit 1: Volume-wise performance**

	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23
<b>Volumes (INR b)</b>										
Agro Commodities	141	199	280	389	383	269	286	183	118	42
Base Metals	2,378	4,488	4,332	4,467	4,427	3,743	3,544	3,376	2,131	2,643
Bullion	8,343	16,767	11,421	10,228	8,099	6,844	6,677	7,417	7,013	7,863
Energy	3,643	4,409	5,198	5,479	6,040	9,944	10,798	14,926	19,322	25,334
Index	-	73	204	207	206	200	252	201	72	62
Total	14,505	25,936	21,435	20,769	19,155	21,001	21,558	26,104	28,655	35,944
<b>Mix (%)</b>										
Agro Commodities	1	1	1	2	2	1	1	1	0	0
Base Metals	16	17	20	22	23	18	16	13	7	7
Bullion	58	65	53	49	42	33	31	28	24	22
Energy	25	17	24	26	32	47	50	57	67	70
Index	-	0	1	1	1	1	1	1	0	0
<b>YoY growth (%)</b>										
Agro Commodities	(52)	12	36	18	171	35	2	(53)	(69)	(85)
Base Metals	(50)	3	32	36	86	(17)	(18)	(24)	(52)	(29)
Bullion	71	86	66	2	(3)	(59)	(42)	(27)	(13)	15
Energy	(53)	(54)	(49)	(53)	66	126	108	172	220	155
Index						173	23	(3)	(65)	(69)
Total	(18)	12	4	(18)	32	(19)	1	26	50	71
<b>QoQ growth (%)</b>										
Agro Commodities	(57)	41	40	39	(1)	(30)	6	(36)	(36)	(65)
Base Metals	(28)	89	(3)	3	(1)	(15)	(5)	(5)	(37)	24
Bullion	(17)	101	(32)	(10)	(21)	(15)	(2)	11	(5)	12
Energy	(69)	21	18	5	10	65	9	38	29	31
Index			180	1	(0)	(3)	26	(20)	(64)	(14)
Total	(43)	79	(17)	(3)	(8)	10	3	21	10	25
FUTCOM	14,108	25,102	20,713	19,841	17,733	16,826	15,710	16,412	16,078	15,484
FUTIDX	-	73	204	207	206	200	252	201	72	62
OPTFUT	397	757	501	720	1,216	3,975	5,596	9,491	12,505	20,398
Total	14,505	25,932	21,419	20,769	19,155	21,001	21,558	26,104	28,655	35,944
<b>Mix (%)</b>										
FUTCOM	97	97	97	96	93	80	73	63	56	43
FUTIDX	-	0	1	1	1	1	1	1	0	0
OPTFUT	3	3	2	3	6	19	26	36	44	57
<b>YoY growth (%)</b>										
FUTCOM	(18)	12	3	(18)	26	(33)	(24)	(17)	(9)	(8)
FUTIDX						173	23	(3)	(65)	(69)
OPTFUT	(1)	(0)	(8)	(41)	206	425	1,017	1,217	929	413
Total	(18)	12	4	(18)	32	(19)	1	26	50	71
<b>QoQ growth (%)</b>										
FUTCOM	(42)	78	(17)	(4)	(11)	(5)	(7)	4	(2)	(4)
FUTIDX			180	1	(0)	(3)	26	(20)	(64)	(14)
OPTFUT	(67)	91	(34)	44	69	227	41	70	32	63
Total	(43)	79	(17)	(3)	(8)	10	3	21	10	25

Source: Company, MOFSL

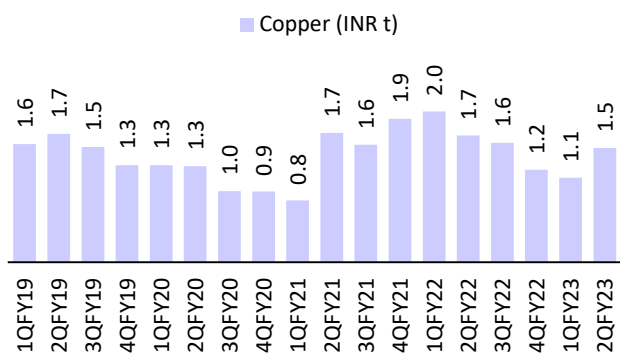
**Exhibit 2: Gold volumes see an uptick (INR t)**

Source: Company, MOFSL

**Exhibit 3: Sustained recovery in silver volumes (INR t)**

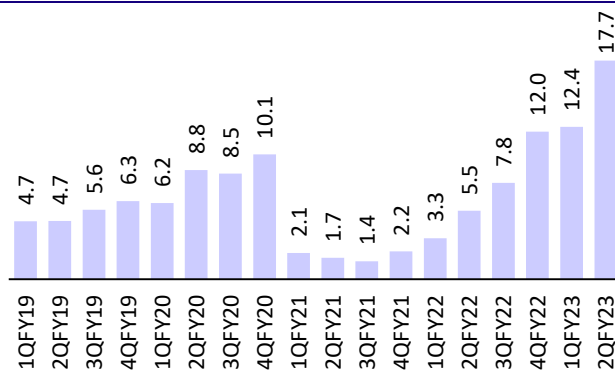
Source: Company, MOFSL

**Exhibit 4: Copper volumes (INR t) remain recover**



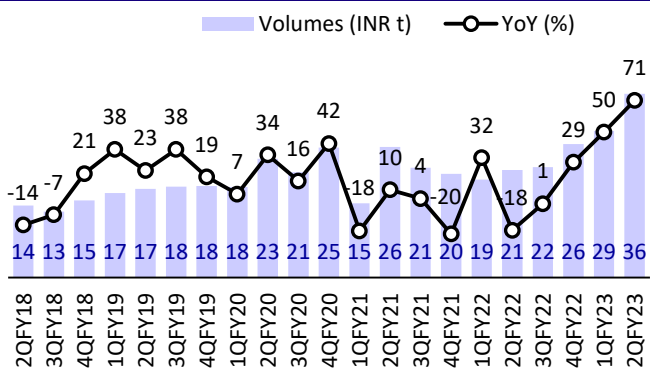
Source: Company, MOFSL

**Exhibit 5: Strong crude oil volumes (INR t)**



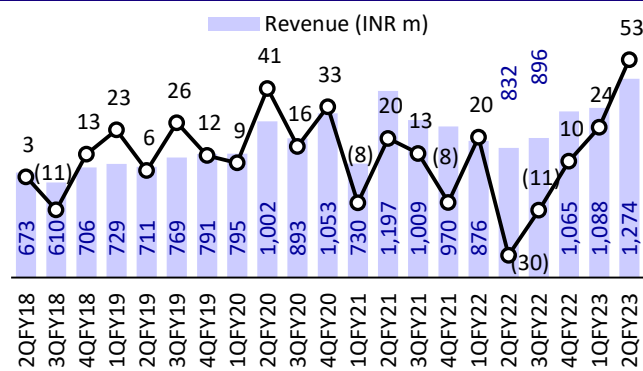
Source: Company, MOFSL

**Exhibit 6: Volumes stays strong, led by the options segment...**



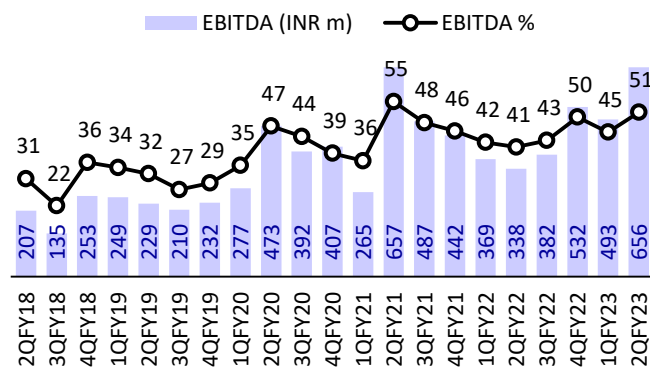
Source: MOFSL, Company

**Exhibit 7: ...translating into strong revenue growth**



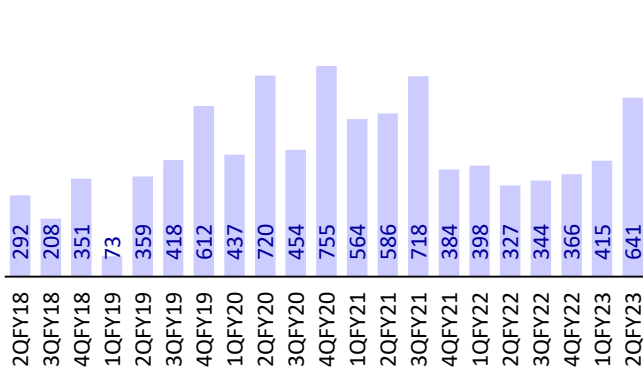
Source: MOFSL, Company

**Exhibit 8: Margin remains strong**



Source: MOFSL, Company

**Exhibit 9: Trend in PAT (INR m)**



Source: MOFSL, Company

**Exhibit 10: Revisions to our estimates**

Change in estimates	Revised		Earlier		Change (%)	
	FY23	FY24	FY23	FY24	FY23	FY24
Volumes (INR t)	145	172	143	171	1.4	0.6
Volume growth (%)	65.3	18.4	62.9	19.4	2.3	(1.0)
Revenue (INR m)	5,206	6,072	4,815	5,649	8.1	7.5
EBITDA margin (%)	54.0	65.0	52.8	62.6	120bp	230bp
EPS (INR)	49.4	65.8	44.7	58.6	10.6	12.2

Source: MOFSL

## Financials and valuations

Income Statement							(INR m)		
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
<b>Sales</b>	<b>2,594</b>	<b>2,598</b>	<b>3,001</b>	<b>3,742</b>	<b>3,906</b>	<b>3,668</b>	<b>5,206</b>	<b>6,072</b>	<b>6,995</b>
Change (%)	10	0	15	25	4	(6)	42	17	15
Cost of Services	1,071	1,174	1,338	1,463	1,388	1,440	1,696	1,322	1,454
SG&A Expenses	723	679	743	730	667	607	700	805	926
Provisions									
<b>EBITDA</b>	<b>801</b>	<b>745</b>	<b>920</b>	<b>1,549</b>	<b>1,851</b>	<b>1,621</b>	<b>2,810</b>	<b>3,946</b>	<b>4,616</b>
As a percentage of Net Sales	31	29	31	41	47	44	54	65	66
Depreciation	186	167	154	182	221	227	256	333	338
<b>EBIT</b>	<b>614.9</b>	<b>578.3</b>	<b>765.5</b>	<b>1,367.1</b>	<b>1,630.7</b>	<b>1,394.4</b>	<b>2,554</b>	<b>3,613</b>	<b>4,278</b>
Interest	2	-	-	2	2	3	3	3	3
Other Income	1,164	884	986	1,289	1,038	665	626	662	676
EO Item (net)	-	-	238	-	-	204	-	-	-
<b>PBT</b>	<b>1,777</b>	<b>1,462</b>	<b>1,513</b>	<b>2,654</b>	<b>2,667</b>	<b>1,853</b>	<b>3,177</b>	<b>4,273</b>	<b>4,951</b>
Tax	512	377	75	389	415	407	635	940	1,089
Rate (%)	29	26	5	15	16	22	20	22	22
PAT before MI	1,266	1,085	1,439	2,266	2,251	1,446	2,542	3,333	3,862
Minority Interest	-	-	(24)	(99)	(1)	12	15	-	-
<b>PAT</b>	<b>1,266</b>	<b>1,085</b>	<b>1,462</b>	<b>2,365</b>	<b>2,252</b>	<b>1,435</b>	<b>2,527</b>	<b>3,333</b>	<b>3,862</b>
Extraordinary									
<b>Net Income</b>	<b>1,266</b>	<b>1,085</b>	<b>1,462</b>	<b>2,365</b>	<b>2,252</b>	<b>1,435</b>	<b>2,527</b>	<b>3,333</b>	<b>3,862</b>
Change (%)	198	(14)	35	62	(5)	(36)	76	32	16

Balance Sheet							(INR m)		
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Share Capital	510	510	510	510	510	510	510	510	510
Reserves	13,078	13,253	11,999	13,084	13,672	13,671	14,176	14,843	15,615
<b>Net Worth</b>	<b>13,588</b>	<b>13,763</b>	<b>12,509</b>	<b>13,594</b>	<b>14,182</b>	<b>14,181</b>	<b>14,686</b>	<b>15,353</b>	<b>16,125</b>
SGF	1,705	1,806	3,298	4,098	4,692	5,256	5,256	5,256	5,256
Loan and other long-term liab.	420	408	414	546	576	658	669	680	692
<b>Capital Employed</b>	<b>15,713</b>	<b>15,977</b>	<b>16,221</b>	<b>18,237</b>	<b>19,451</b>	<b>20,095</b>	<b>20,611</b>	<b>21,289</b>	<b>22,073</b>
<b>Net Block</b>	<b>1,633</b>	<b>3,624</b>	<b>3,451</b>	<b>6,094</b>	<b>7,395</b>	<b>5,060</b>	<b>6,560</b>	<b>6,660</b>	<b>6,760</b>
CWIP	-	-	-	-	-	-	-	-	-
Other LT Assets	281	281	281	281	281	281	286	292	298
Investments	4,404	5,316	4,839	5,943	6,066	4,440	4,529	4,619	4,712
<b>Curr. Assets</b>	<b>12,340</b>	<b>10,393</b>	<b>12,175</b>	<b>15,028</b>	<b>11,283</b>	<b>18,225</b>	<b>17,305</b>	<b>17,948</b>	<b>18,699</b>
Current Investments	7,544	8,878	5,824	6,618	5,985	7,135	7,278	7,423	7,572
Debtors	28	63	60	65	90	115	117	119	122
Cash and Bank Balance	3,890	596	5,346	7,593	4,261	9,755	8,666	9,136	9,710
Loans and Advances	3	3	2	2	1	222	227	231	236
Other Current Assets	875	854	943	751	948	998	1,018	1,039	1,059
<b>Current Liab. and Prov.</b>	<b>2,945</b>	<b>3,636</b>	<b>4,524</b>	<b>9,109</b>	<b>5,575</b>	<b>7,911</b>	<b>8,069</b>	<b>8,230</b>	<b>8,395</b>
<b>Net Current Assets</b>	<b>9,395</b>	<b>6,757</b>	<b>7,651</b>	<b>5,919</b>	<b>5,709</b>	<b>10,314</b>	<b>9,236</b>	<b>9,718</b>	<b>10,304</b>
<b>Application of Funds</b>	<b>15,713</b>	<b>15,977</b>	<b>16,221</b>	<b>18,237</b>	<b>19,451</b>	<b>20,095</b>	<b>20,611</b>	<b>21,289</b>	<b>22,073</b>

E: MOFSL estimates

## Financials and valuations

### Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
<b>Basic (INR)</b>									
EPS	24.8	21.3	28.7	46.4	44.2	28.1	49.5	65.3	75.7
Cash EPS	29.5	25.4	31.9	50.4	49.2	33.6	55.6	73.3	83.8
Book Value	266.4	269.9	245.3	266.6	278.1	278.1	288.0	301.0	316.2
DPS	15.0	17.0	20.0	30.0	27.7	30.0	35.0	35.0	35.0
Payout (%)	74.3	98.2	87.1	83.0	77.1	129.7	80.0	80.0	80.0
<b>Valuation (x)</b>									
P/E ratio	60.2	70.3	52.1	32.2	33.9	53.1	30.2	22.9	19.7
Cash P/E ratio	50.7	58.9	46.9	29.6	30.4	44.6	26.9	20.4	17.8
Price/Book Value ratio	5.6	5.5	6.1	5.6	5.4	5.4	5.2	5.0	4.7
Dividend Yield (%)	1.0	1.1	1.3	2.0	1.9	2.0	2.3	2.3	2.3
<b>Profitability Ratios (%)</b>									
RoE	9.9	7.9	11.1	18.1	16.2	10.1	17.5	22.2	24.5

NOTES



Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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