

# Multi Commodity Exchange (MCX)

CMP: ₹ 1400

Target: ₹ 1700 (21%)

Target Period: 12 months

February 7, 2023

## High opex mars two quarters; revenue surge better...

**About the stock:** MCX is the leader in commodity derivatives exchanges in India with ~96.8% 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

**Q3FY23 Results:** MCX reported continued growth in options.

- Average daily futures turnover (ADTO) declined ~1% YoY to ₹ 24266 crore due to a decline in base metals volume
- Option ADTO continued to gain traction to ₹ 39402 crore, up 26% QoQ
- Operational revenue up 12.7% QoQ; other income up 12.4% QoQ
- Earnings at ₹ 38.8 crore; up 12.6%, led by strong options turnover

**What should investors do?** MCX' share price has grown by ~14% over the past three years. Steady volume in futures and continued robust traction in option segment to aid topline growth. Delay in launch of new platform and associated elevated cost remains a near term overhang.

- Being a market leader in commodities exchange and a beneficiary of increase in option volume, we maintain our **BUY** rating on the stock

**Target Price and Valuation:** We value MCX at ~29x core FY25E EPS and net cash and maintain our target price at ₹ 1700.

### Key triggers for future price performance:

- Continued robust growth in option volume to aid revenue & earnings
- New product launch/initiatives - electricity contracts, option gold contract to drive the next leg of re-rating
- Delay in launch of new platform impacts cost saving anticipated earlier. The management seems confident of launching new platform by Q1FY23. Elevated software related opex remains a near term overhang

**Alternate Stock Idea:** Apart from MCX, in our coverage we also like HDFC AMC.

- HDFC AMC is among the largest and profitable mutual funds with an QAAUM of ~₹ 4.4 lakh crore
- BUY with a target price of ₹ 2250

### Key Financial Summary

(₹ crore)	FY20	FY21	FY22	3 year CAGR (FY19-FY22)	FY23E	FY24E	FY25E	3 year CAGR (FY22-25E)
Net Sales	374.2	390.6	366.8	6.9%	518.6	581.7	599.2	17.8%
EBITDA	154.7	185.1	162.2	19.6%	150.0	255.0	336.8	27.6%
Net Profit	236.6	225.3	143.7	-5.2%	155.4	233.2	297.5	27.5%
EPS (₹)	46.4	44.2	28.2		30.5	45.7	58.3	
P/E(x)	30.2	31.7	49.7		45.9	30.6	24.0	
Annual Volume Traded (in lakh crore)	86.9	82.6	87.8		146.4	186.9	205.6	
RoE (%)	17.4	15.9	10.1		10.6	13.7	14.9	
RoA (%)	8.7	9.0	5.1		5.2	6.9	7.8	

Source: Company, ICICI Direct Research

BUY



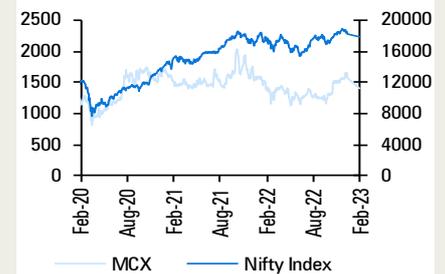
### Particulars

Particulars	Amount
Market Capitalisation	₹ 7193 crore
Networth	₹ 1431 crore
Face Value	₹ 10
52 week high/low	1697/1142

### Shareholding Pattern

in %	Dec 21	Mar 22	Jun 22	Sept 22	Dec 22
Promoter	0.00	0.00	0.00	0.00	0.00
DII	46.42	48.33	46.86	50.61	52.82
FII	31.35	26.52	26.84	23.45	25.77
Others	22.2	25.2	26.3	25.9	21.4

### Price Chart



### Recent Event & Key Risks

- Options ADTO increased 26% QoQ
- Key Risk:** (i) Higher opex to dent earnings (ii) Moderation in pace of option volumes

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## Key takeaways of recent quarter & conference call highlights

### Q3FY23 Results: Elevated software expense impacts earnings

- Operating revenue grew 60.3% YoY and 12.7% QoQ at ₹ 143.6 crore. Other income registered growth of 38.4% YoY and 10.1% QoQ at ₹ 20.1 crore
- Opex more than doubled YoY and increased 79.4% QoQ at ₹ 110.8 crore. Software related expenses jumped 4.3x YoY and 3.1x QoQ to ₹ 67.6 crore
- EBITDA margin dropped significantly to ~32% vs. 51% in Q3FY22 (~58% in Q2FY23). PAT came in at ₹ 38.8 crore, up 12.6% YoY (de grew 38.7% QoQ) mainly due to higher opex during the quarter
- ADTO in commodity futures declined marginally (~1% YoY) to ₹ 24266 crore vs. ₹ 24556 crore in Q3FY22 (₹ 23918 crore in Q2FY23), primarily due to a decline in volumes
- Options continued to witness robust growth (~4.5x YoY / 26% QoQ) with ADTO reported at ₹ 39402 crore in Q3FY23 vs. ₹ 8610 crore in Q3FY22 and ₹ 31381 crore in Q2FY23

### Q3FY23 Earnings Conference Call highlights

- Extended contract with previous vendor for two quarters (Q4FY23 and Q1FY24) wherein payment was ascertained at ₹ 81 crore per quarter. Of this, ₹ 15 crore is regular payment while remaining ₹ 65 crore is additional expense
- MCX is planning to launch new platform before June 2023. More mock sessions are planned in the near term
- Liability clause with TCS has kicked in as platform delivery was due in July 2022 but could not deliver till September 2022. Hence, there is penalty on delay
- Launch of mini contract in three segments (two related to crude and one metal) are slated in the near term. They are awaiting regulatory approval
- After shifting to new platform, software expense should be at level seen till Q2FY23 while depreciation is seen inching up a bit higher
- Income from options at ₹ 53 crore, other operating income higher at ₹ 26 crore
- No fortnightly contracts as of now. They could be launched ahead subject to regulatory approval
- As of December 31, 2023, cash balance was at ₹ 918 crore
- The new platform will have some superior functionality; though initially basic functionality is to be implemented followed by additional features introduced later
- Higher margin money (in relation to increasing volume) invested in short term instruments has led to improvement in other income in Q2FY23 and Q3FY23

## Peer comparison

Exhibit 1: Peer Comparison

Sector / Company	CMP			M Cap	EPS (₹)				P/E (x)				P/ABV (x)			RoE (%)				
	(₹)	TP(₹)	Rating		FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E
IIFL Sec	63	75	Hold	1925	7.3	10.1	10.3	10.2	8.7	6.3	6.2	6.2	2.0	1.6	1.3	1.1	23.9	28.5	23.3	18.8
5 paisa	294	375	Hold	901	5.8	4.7	10.8	15.5	50.7	62.6	27.2	19.0	4.7	2.3	2.1	1.9	10.0	5.2	8.2	10.6
MCX	1400	1700	Buy	7193	44.2	28.2	30.5	45.7	31.7	49.7	45.9	30.6	5.0	5.0	4.8	4.2	15.9	10.1	10.6	13.7
HDFC AMC (HDFAMC)	1905	2250	Buy	406	63.2	66.4	68.1	74.8	30.1	28.7	28.0	25.5	8.4	7.2	6.6	6.0	28.1	25.2	23.6	23.6

Source: Company, ICICI Direct Research

**Exhibit 2: Variance Analysis**

	<b>Q3FY23</b>	<b>Q3FY23E</b>	<b>Q3FY22</b>	<b>YoY</b>	<b>Q2FY23</b>	<b>QoQ</b>	<b>Comments</b>
Revenue	143.6	151.4	89.6	60.3%	127.4	12.7%	Healthy growth driven by options and other operating income
Other Income	20.1	12.7	14.5	38.4%	18.2	10.1%	Uptick in other income led by steady yields
Total Income	163.7	164.1	104.1	57.3%	145.6	12.4%	
Operating Expense:	87.9	44.2	30.9	184.7%	38.9	125.8%	Uptick in software expenses impacted overall opex
Other Expenses	22.9	22.4	20.4	12.3%	22.9	0.2%	
Total Expenses	110.8	66.7	51.3	116.1%	61.8	79.4%	
<b>EBITDA</b>	<b>32.7</b>	<b>84.7</b>	<b>38.27</b>	<b>-14.4%</b>	<b>65.6</b>	<b>-50.1%</b>	
<b>EBITDA %</b>	<b>22.8%</b>	<b>56.0%</b>	<b>42.7%</b>	<b>-1,993 bps</b>	<b>51.5%</b>	<b>-2,870 bps</b>	
Depreciation	4.3	6.0	6.7	-36.5%	5.8	-26.3%	
Finance Costs	0.1	0.1	0.1	12.5%	0.0	-	
Exceptional Items	-0.7	0.0	-0.5	-	-1.4	-	
PBT	47.8	91.3	45.5	5.1%	76.7	-37.7%	
Tax	9.0	21.0	11.0	-18.3%	13.5	-33.2%	
<b>PAT</b>	<b>38.8</b>	<b>70.3</b>	<b>34.5</b>	<b>12.6%</b>	<b>63.3</b>	<b>-38.7%</b>	Top-line healthy; elevated software expense marred earnings
<b>Turnover</b>	<b>40,74,762</b>		<b>21,55,770</b>	<b>89.0%</b>	<b>35,94,392</b>	<b>13.4%</b>	Strong traction continued in options turnover

Source: Company, ICICI Direct Research

## Financial Summary

### Exhibit 3: Profit & Loss Statement

(₹ crore)	FY20	FY21	FY22	FY23E	FY24E	FY25E
Net Sales	374.2	390.6	366.8	518.6	581.7	599.2
Operating Exp	142.2	130.3	124.6	278.2	227.3	153.1
Software	69.0	63.6	64.0	205.9	153.5	77.9
Employee Cost	77.3	75.2	80.0	90.4	99.4	109.3
Total Expenses	219.5	205.4	204.6	368.6	326.7	262.4
EBIDTA	154.7	185.1	162.2	150.0	255.0	336.8
Depreciation	18.1	22.1	22.7	22.5	36.9	41.5
Other Income	129.0	103.8	66.5	63.5	80.8	85.7
Interest	0.2	0.2	0.2	0.2	0.2	0.2
Exceptional Items	0.0	-	(21.7)	-	-	-
PBT	265.5	266.9	184.3	191.1	298.9	381.0
Tax	28.9	41.5	40.6	35.7	65.7	83.5
PAT	236.6	225.3	143.7	155.4	233.2	297.5

Source: Company, ICICI Direct Research

### Exhibit 4: Balance Sheet

(Year-end March)	FY20	FY21	FY22	FY23E	FY24E	FY25E
Sources of Funds						
Share Capital	51.0	51.0	51.0	51.0	51.0	51.0
Reserves and Surplus	1308.4	1367.2	1367.1	1421.5	1654.7	1952.2
Total Shareholder's Fund	1359.4	1418.2	1418.1	1472.5	1705.7	2003.2
Non Current Liabilities	54.6	57.6	65.8	69.1	72.5	76.1
Current Liabilities	910.9	557.5	791.1	870.2	957.2	1052.9
Settlement Gurantee Fund	409.8	469.2	525.6	578.1	636.0	699.6
Total	2734.6	2502.5	2800.5	2989.9	3371.4	3831.8
Application of funds						
Fixed Assets	141.3	139.5	136.7	150.4	162.4	175.4
Investments	1640.9	1230.2	1198.9	1270.8	1347.1	1427.9
Loans & Advances	0.2	0.1	0.0	0.0	0.0	0.0
Cash and equivalents	759.3	426.1	975.5	1049.8	1160.3	1493.9
Other Assets	193.0	706.6	489.5	518.8	550.0	583.0
Total	2734.6	2502.5	2800.5	2989.9	3371.4	3831.8

Source: Company, ICICI Direct Research

### Exhibit 5: Key Ratios

	FY20	FY21	FY22	FY23E	FY24E	FY25E
No. of Equity shares	5.1	5.1	5.1	5.1	5.1	5.1
EPS (₹)	46.4	44.2	28.2	30.5	45.7	58.3
BV (₹)	266.5	278.1	278.1	288.7	334.4	392.8
P/E (x)	30.2	31.7	49.7	45.9	30.6	24.0
P/BV (x)	5.3	5.0	5.0	4.8	4.2	3.6
OPM %	41.3	47.4	44.2	28.9	43.8	56.2
PAT %	63.2	57.7	39.2	30.0	40.1	49.6
RoE %	17.4	15.9	10.1	10.6	13.7	14.9
RoA %	8.7	9.0	5.1	5.2	6.9	7.8
Annual Volume Traded (in lakh crore)	86.9	82.6	87.8	146.4	186.9	205.6
ADTO	32424	31757	33776	56289	71893	79082

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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