

BSE SENSEX

57,635

S&P CNX

16,986



Bloomberg	MCX IN
Equity Shares (m)	51
M.Cap.(INRb)/(USDb)	75.8 / 0.9
52-Week Range (INR)	1697 / 1142
1, 6, 12 Rel. Per (%)	13/22/5
12M Avg Val (INR M)	550

Financials Snapshot (INR b)

Y/E Mar	2023E	2024E	2025E
Sales	5.3	5.8	6.3
EBIT Margin (%)	28.8	40.7	50.3
PAT	1.8	2.5	3.1
EPS (INR)	34.9	48.5	61.3
EPS Gr. (%)	24.1	39.0	26.3
BV/Sh. (INR)	285.1	294.8	307.0

Ratios

RoE (%)	12.4	16.7	20.4
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Valuations

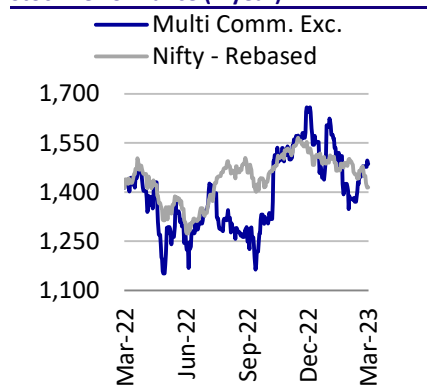
P/E (x)	42.7	30.7	24.3
P/BV (x)	5.2	5.1	4.9
Div Yield (%)	2.3	2.3	2.3

Shareholding pattern (%)

As On	Dec-22	Sep-22	Dec-21
Promoter	0.0	0.0	0.0
DII	52.8	50.6	46.4
FII	26.0	23.6	31.5
Others	21.2	25.8	22.1

FII Includes depository receipts

Stock Performance (1-year)


CMP: INR1,486 TP: INR1,450 (-2%)
Neutral

FPI participation in commodity derivatives to be positive

- SEBI has allowed FPIs to participate in cash-settled non-agricultural commodity derivative contracts through the exchange-traded commodity derivative (ETCD) market.
- MCX contracts eligible for participation are crude oil futures and its variants, natural gas futures and its variants, and crude/natural gas options and Energy Index (ENRGDEX) futures.
- With a 98%/99% correlation of MCX Crude/MCX Natural Gas with NYMEX WTI crude oil/Nymex Henry Hub Gas prices, FPIs will find MCX products as a proxy for global benchmarks in crude oil and natural gas.
- The participation of FPIs in ETCDs is expected to enhance liquidity and market depth and promote efficient price discovery.
- The transition to TCS software will be vital for MCX to scale up FPI activities in commodity derivatives. MCX expects to complete the transition by Jun'23. While we are upbeat on the long-term potential of volumes from FPIs, we do not see a meaningful contribution in the near term. We have a Neutral rating on the stock with a 1-year TP of INR1,450 (24x FY25E EPS).

FPIs to participate in cash-settled non-agri commodity derivatives

- SEBI has allowed FPIs to participate in cash-settled non-agricultural commodity derivatives contracts through the ETCD market.
- Earlier, consultation papers suggested that initially FPIs should be allowed to trade in all non-agricultural commodity derivatives and a few selected broad agricultural commodity derivatives. However, currently only crude oil and natural gas contracts will be traded by FPIs.
- FPI participation is subject to risk management measures in ETCD and applicable position limits by SEBI.
- FPIs can take exposure with or without having actual exposure in Indian physical commodities. The point to note here is that direct market access (DMA) is disallowed to FPIs.
- Channel checks suggest FPIs have started appointing compliance officers for obtaining an FPI license in India. FPI participation in ETCDs is expected to enhance liquidity and market depth and promote efficient price discovery.

MCX to start with Category I FPIs with Crude and NG contracts

- Currently, MCX contracts eligible for FPI participation are 1) crude oil futures and its variants, 2) natural gas futures and its variants, and 3) crude and natural gas options and Energy Index (ENRGDEX) futures.
- Initially, MCX will allow participation from Category-I FPIs (i.e. FPIs other than individuals, family offices and corporate bodies) and will eventually open this segment to Category-II FPIs.
- Commodities tend to have a low correlation with equities. Hence, they can be considered effective diversifiers compared with other asset classes as they provide a natural hedge in a turbulent market.

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Proxy for global benchmarks in crude oil and natural gas.

- MCX crude oil options ATO increased from US\$0.9b in FY22 to US\$2.9b in FY23 (till Feb'23). MCX natural gas options ATO increased from US\$0.15b in FY22 to US\$0.7b in FY23 (till Feb'23).
- MCX crude oil futures ATO declined from US\$0.6b in FY22 to US\$0.45b in FY23 (till Feb'23). MCX natural gas futures ATO remained flat at US\$0.65b over the same period.
- As per Deloitte, under SEBI guidelines, the overall commodity limit for client level position for crude oil is 0.48m contracts and it is 6m for natural gas.
- During Jan'21 to Jan'23, there was a 98% correlation between MCX crude oil and NYMEX WTI crude/ICE Brent crude oil. Similarly, the correlation between MCX natural gas prices and NYMEX Henry Hub natural gas was 99% during Jan'20 to Jan'23.
- Thus, with better pricing, MCX can act as a proxy for global benchmarks in crude oil and natural gas and eventually improve volumes.

Taxation impact for FPIs

- As per Indian tax laws, FPIs are generally liable for a short-term capital gain tax at a base rate of 30% (plus applicable surcharge and cess) arising from the settlement of ETCDs using the first-in-first-out methodology.
- Expenditure incurred wholly and exclusively in connection with the transfer/settlement can be considered, including brokerage charges, stock exchange transaction charges, SEBI turnover fee, stamp duty and other statutory levies.
- A point to note here is that the taxpayer can choose the priority for offsetting the losses, i.e., losses from equity can be first set off against derivative gains to minimize tax outgo.

FPI move is a long-term volume driver; maintain Neutral

The software migration issue is a near-term barrier for MCX. In the long term, we believe volumes for MCX should increase as FPIs participate in Indian commodity derivatives. Volumes have been scaling up, driven by an uptrend in option volumes and recommencement of mini contracts. We believe the software transition issue will be a key overhang in the near term. We have a Neutral rating on the stock with a 1-year TP of INR1,450, based on 24x FY25E EPS.

Exhibit 1: Futures contract specification – MCX Crude Oil

Parameters	Crude Oil	Crude Oil Mini
Trading Unit	100 Barrels	10 Barrels
Price Quotation	Rs./bbl	
Tick Size	Re. 1	
Price Movement per Tick (in Rs.)	100	10
Initial Margin	Minimum 10% or based on SPAN whichever is higher	
Due Date Rate # A market division of Chicago Mercantile Exchange Inc. ("CME Group")	Due date rate shall be the settlement price, in Indian rupees, of the New York Mercantile Exchange's (NYMEX)# Crude Oil (CL) front month contract on the last trading day of Crude Oil contract. The last available RBI USDINR reference rate will be used for the conversion. The price so arrived will be rounded off to the nearest tick.	Due date rate shall be the settlement price, in Indian rupees, of the New York Mercantile Exchange's (NYMEX)# Crude Oil (CL) front month contract on the last trading day of Crude Oil Mini contract. The last available RBI USDINR reference rate will be used for the conversion. The price so arrived will be rounded off to the nearest tick.

Source: MCX

Exhibit 2: Futures contract specification – Natural gas

Parameters	Natural Gas	Natural Gas Mini
Trading Unit	1,250 MMBtu	250 MMBtu
Price Quotation	Rs./MMBtu	
Tick Size	10 paise	
Price Movement per Tick (in Rs.)	125	25
Initial Margin	Minimum 10% or based on SPAN whichever is higher	
Due Date Rate # A market division of Chicago Mercantile Exchange Inc. ("CME Group")	Due date rate shall be the settlement price, in Indian rupees, of the New York Mercantile Exchange's (NYMEX)# Natural Gas (NG) front month contract on the last trading day of the MCX Natural Gas contract. The last available RBI USDINR reference rate will be used for the conversion. The price so arrived will be rounded off to the nearest tick.	Due date rate shall be the settlement price, in Indian rupees, of the New York Mercantile Exchange's (NYMEX)# Natural Gas (NG) front month contract on the last trading day of the MCX Natural Gas Mini contract. The last available RBI USDINR reference rate will be used for the conversion. The price so arrived will be rounded off to the nearest tick.

Source: MCX

Exhibit 3: MCX Crude oil & Natural gas – Options overview

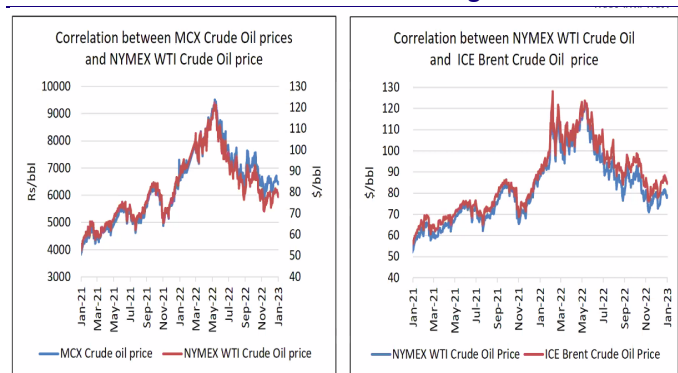
Parameters	Crude Oil - Options	Natural Gas Options
Trading Unit	1 MCX Crude Oil Futures (100 bbl)	1 MCX Natural Gas Futures (1250 MMBtu)
Price Quote	Rs / bbl	Rs. / MMBtu
Strikes	25 ITM*, 25 OTM* & 1 ATM * (51 CE & 51 PE)	15 ITM*, 15 OTM* & 1 ATM * (31 CE & 31 PE)
Strike Price Interval	Rs 50	Rs 5
Price Movement per Tick	Rs 0.10	Rs 0.05
Profit & Loss / Tick	Rs 10	Rs 62.5
Settlement Logic	Devolve into MCX Crude oil Futures contract	Devolve into MCX Natural Gas Futures contract
Settlement date	Two business days prior to the Expiry day of the underlying crude oil futures contract	Two business days prior to the Expiry day of the underlying Natural Gas Futures contract

Source: MCX

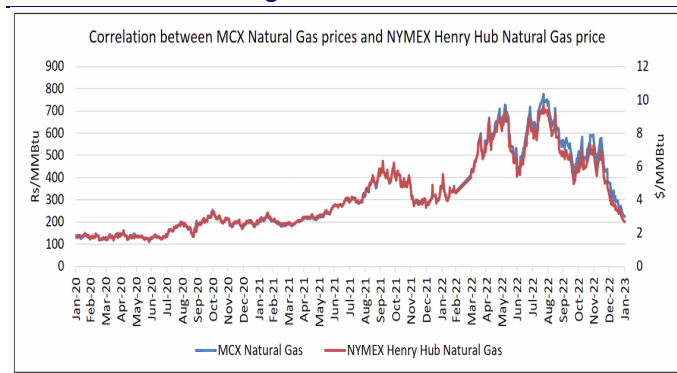
Exhibit 4: Position limit – commodity derivatives

Contract	Position limit For Clients	FPI (Other Than Individuals, Family Offices And Corporate Bodies)
Crude Oil & Crude Oil Mini futures	4,80,000 barrels	4,80,000 barrels Crude oil Futures- 4,800 lots Crude Oil Mini Futures- 48,000 Lots
Crude Oil Options	9,60,000 barrels	9,60,000 barrels (9,600 lots)
Natural Gas & Natural Gas Mini Futures	60,00,000 MMBtu	60,00,000 MMBtu Natural Gas Futures- 4,800 lots Natural Gas Mini Futures- 24,000 lots
Natural Gas Options	120,00,000 MMBtu	120,00,000 MMBtu (9,800 lots)

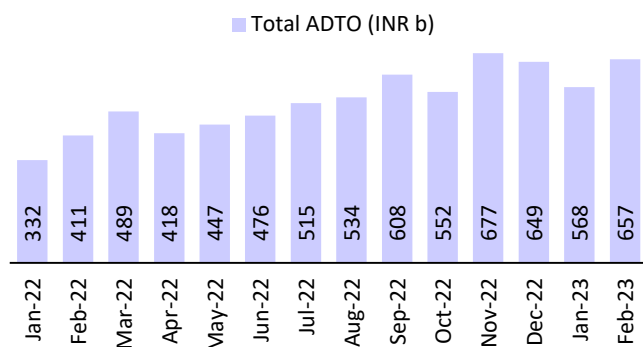
Source: MCX

Exhibit 5: MCX Crude oil correlation with global benchmarks

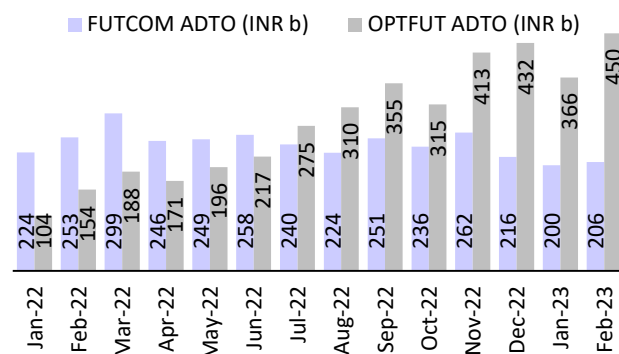
Source: ICE, CME & MCX, MOFSL

Exhibit 6: MCX natural gas correlation with NYMEX

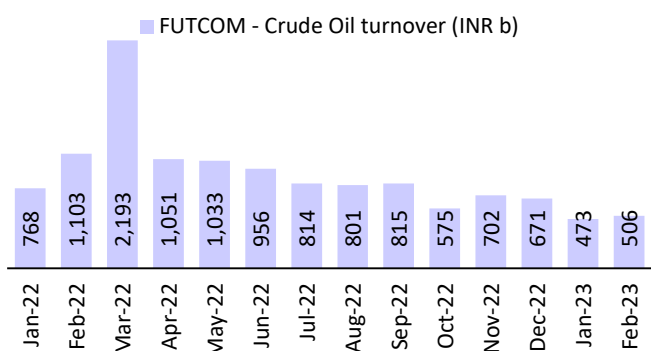
Source: CME & MCX, MOFSL

Exhibit 1: Monthly trends in total ADTO

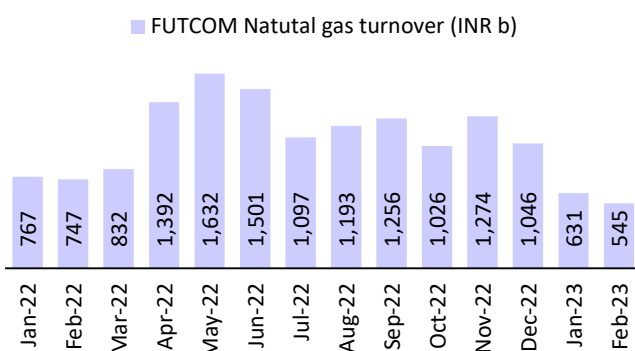
Source: Company, MOFSL

Exhibit 2: Monthly trends in ADTO for FUTCOM & OPTFUT

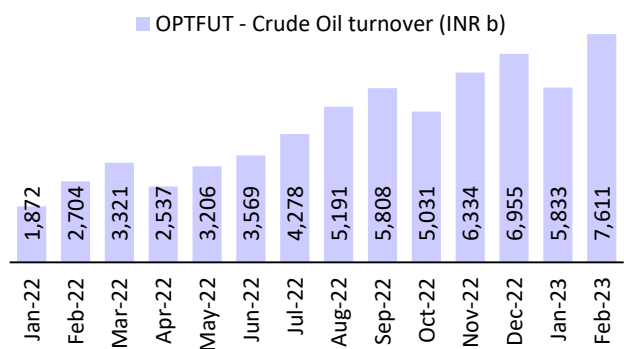
Source: Company, MOFSL

Exhibit 3: Monthly trends in FUTCOM crude oil turnover

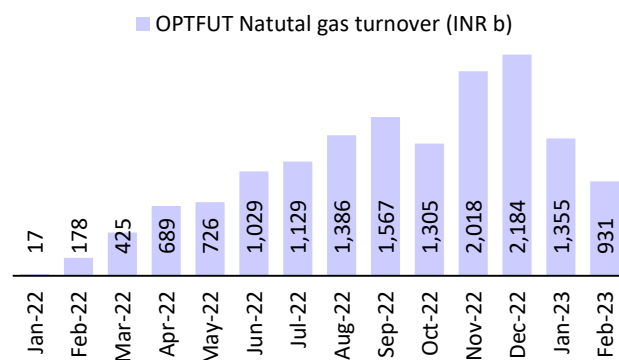
Source: Company, MOFSL

Exhibit 4: Monthly trends in FUTCOM natural gas turnover

Source: Company, MOFSL

Exhibit 5: Monthly trends in OPTFUT crude oil turnover

Source: Company, MOFSL

Exhibit 6: Monthly trends in OPTFUT natural gas turnover

Source: Company, MOFSL

Financials and valuations

Income statement							(INR m)		
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Sales	2,594	2,598	3,001	3,742	3,906	3,668	5,262	5,781	6,291
Change (%)	10	0	15	25	4	(6)	43	10	9
Cost of Services	1,071	1,174	1,338	1,463	1,388	1,440	2,848	2,255	1,782
SG&A Expenses	723	679	743	730	667	607	700	805	926
Provisions									
EBITDA	801	745	920	1,549	1,851	1,621	1,713	2,722	3,583
% of Net Sales	31	29	31	41	47	44	33	47	57
Depreciation	186	167	154	182	221	227	200	371	416
EBIT	614.9	578.3	765.5	1,367.1	1,630.7	1,394.4	1,513	2,350	3,167
Interest	2	-	-	2	2	3	3	3	3
Other Income	1,164	884	986	1,289	1,038	665	705	824	841
EO Item (net)	-	-	238	-	-	204	-	-	-
PBT	1,777	1,462	1,513	2,654	2,667	1,853	2,216	3,172	4,005
Tax	512	377	75	389	415	407	421	698	881
Rate (%)	29	26	5	15	16	22	19	22	22
PAT before MI	1,266	1,085	1,439	2,266	2,251	1,446	1,795	2,474	3,124
Minority Interest	-	-	(24)	(99)	(1)	12	15	-	-
PAT	1,266	1,085	1,462	2,365	2,252	1,435	1,780	2,474	3,124
Net Income	1,266	1,085	1,462	2,365	2,252	1,435	1,780	2,474	3,124
Change (%)	198	(14)	35	62	(5)	(36)	24	39	26

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	14,027	14,522	15,147
Net Worth	13,588	13,763	12,509	13,594	14,182	14,181	14,537	15,032	15,657
SGF	1,705	1,806	3,298	4,098	4,692	5,256	5,256	5,256	5,256
Loan & other long term liab.	420	408	414	546	576	658	669	680	692
Capital Employed	15,713	15,977	16,221	18,237	19,451	20,095	20,462	20,968	21,605
Net Block	1,521	1,618	1,770	1,820	1,857	2,513	2,215	3,715	4,165
CWIP	2	23	0	5	12	434	200	200	200
Other LT Assets	117	96	166	149	185	190	190	190	190
Investments	8,448	7,527	6,811	10,508	11,885	7,268	7,413	7,562	7,713
Curr. Assets	8,725	10,518	12,175	15,028	11,283	18,225	18,903	17,922	18,122
Current Investments	7,626	8,997	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 & Bank Balance	193	597	5,346	7,593	4,261	9,755	10,263	9,110	9,133
Loans & Advances	4	3	2	2	1	222	227	231	236
Other Current Assets	875	859	943	751	948	998	1,018	1,039	1,059
Current Liab. & Prov	2,945	3,636	4,524	9,109	5,575	7,911	8,069	8,230	8,395
Net Current Assets	5,780	6,882	7,651	5,919	5,709	10,314	10,834	9,692	9,727
Application of Funds	15,869	16,146	16,397	18,401	19,647	20,719	20,852	21,358	21,995

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Basic (INR)									
EPS	24.8	21.3	28.7	46.4	44.2	28.1	34.9	48.5	61.3
Cash EPS	29.5	25.4	31.9	50.4	49.2	33.6	39.6	57.4	71.2
Book Value	266.4	269.9	245.3	266.6	278.1	278.1	285.1	294.8	307.0
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
Valuation (x)									
P/E	57.4	67.0	49.7	30.8	32.3	50.7	42.7	30.7	24.3
Cash P/E	48.3	56.2	44.8	28.3	29.0	42.5	37.7	26.0	20.9
Price/Book Value	5.4	5.3	5.8	5.3	5.1	5.1	5.2	5.1	4.9
Dividend Yield (%)	1.1	1.2	1.4	2.1	1.9	2.1	2.3	2.3	2.3
Profitability Ratios (%)									
RoE	9.9	7.9	11.1	18.1	16.2	10.1	12.4	16.7	20.4

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
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