

Estimate change

TP change

Rating change



Bloomberg	MCX IN
Equity Shares (m)	51
M.Cap.(INRb)/(USDb)	67.4 / 0.8
52-Week Range (INR)	1697 / 1154
1, 6, 12 Rel. Per (%)	-13/-13/-10
12M Avg Val (INR M)	521

Financials & Valuations (INR b)

Y/E Mar	2023	2024E	2025E
Sales	5.1	5.6	6.1
EBIT Margin (%)	24.9	39.5	48.5
PAT	1.5	2.2	2.8
EPS (INR)	29.2	43.0	54.7
EPS Gr. (%)	3.8	47.1	27.3
BV/Sh. (INR)	290.1	298.7	309.6

Ratios

RoE (%)	10.3	14.6	18.0
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Valuations

P/E (x)	45.2	30.7	24.1
P/BV (x)	4.6	4.4	4.3
Div Yield (%)	1.4	2.7	2.7

Shareholding pattern (%)

As on	Mar-23	Dec-22	Mar-22
Promoter	0.0	0.0	0.0
DII	52.7	52.8	48.3
FII	27.1	26.0	26.7

FII Includes depository receipts

CMP: INR1,321

TP: INR1,300 (-2%)

Neutral

Software transition remains an overhang

- MCX's net profit declined 85% YoY to INR55m (79% below our estimate) in 4QFY23, due to higher-than-expected costs and tax.
- Total volumes grew 61% YoY to INR42t, in line with expectations. However, total revenue at INR1.34b missed our estimate by 5%.
- Futures volumes declined 22% YoY to INR13t, while option volumes saw strong growth of 15% QoQ to INR28.9t.
- Staff expenses at INR234m jumped 28% YoY. Software expenses were in line with our expectation of INR874m, up 29% sequentially. The cost increase was a result of a higher payout for extending the contract with 63moons.
- The total operating loss came in at INR37m v/s our estimate of EBIT of INR98m. EBIT margin stood at -2.8% v/s 47% in 4QFY22 and 20% in 3QFY23.
- Other income grew 38% YoY to INR201m (est. INR229m). The tax rate stood at 52.6%, much higher than our expectation of 22.1%.
- Net profit plunged 85% YoY to INR55m (79% below our estimate).
- For FY23, revenues/PAT grew 40%/4%, while EBIT declined 8% YoY.
- The board has declared a final dividend of INR19.09 per share for FY23.
- We have cut our FY24E/FY25E EPS by 13%/12% to factor in the impact of technology transition and a lower option premium turnover-to-notional turnover ratio. **We value the stock at 24x FY25E EPS to arrive at a TP of INR1,300 (2% downside at CMP). We reiterate our Neutral rating on the stock.**

Energy and bullion drive overall volume growth

- Volumes in the Energy segment rose 102% YoY due to a 109%/71% YoY jump in crude oil/natural gas volumes.
- Bullion volumes rose 31% YoY due to a 29%/35% YoY rise in gold/silver volumes.
- Total base metal volumes dropped 39% YoY owing to a 42%/6% YoY decline in Aluminum/Copper volumes.

Key takeaways from the management commentary

- Several mock tests have been conducted with members over the past few months. About 96/97% of the check cases have been cleared. There are some complexities in extreme cases. Along with mock tests, cyber audits and system audits have been conducted simultaneously.
- CWIP and intangible assets under development accounted for INR1.7b (as of Mar'23) and the same is for the tech transition. After capitalization, depreciation on these assets would be spread over 6-8 years.
- MCX plans to launch Steel TMT bars after its transition to the tech platform.

Cut in estimates; reiterate Neutral

The software migration issue has been pending for the past several quarters. After conducting several mock tests, the management is now confident of completing the transition by Jun'23-end. We believe that the impact of technological transition and lower option premium turnover would lower the profitability. Thus, the migration will not add meaningfully to profits at the current volume run rate. As a result, we cut our earnings estimates for FY24/FY25 by 13%/12%. However, over the medium term, the launch of new contracts on the TCS software will help MCX scale up volumes. We value the stock at 24x FY25E EPS to arrive at a TP of INR1,300 (2% downside). We reiterate our Neutral rating on the stock.

Quarterly Performance**(INR m)**

	FY22				FY23				FY22	FY23	Est.	Var.	YoY	QoQ
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4Q	(%/bp)	(%)	(%)
Sales	876	832	896	1,065	1,088	1,274	1,436	1,338	3,668	5,135	1,405	(4.8)	25.6	(6.8)
Yo-Y Gr. (%)	20.0	-30.5	-11.2	9.8	24.2	53.1	60.3	25.6	-6.1	40.0	32.0	-638bp	1585bp	-3469bp
Staff Costs	208	206	204	182	227	229	229	234	800	919	211	10.8	28.5	2.3
Other expenses	300	288	309	350	368	389	879	1,083	1,247	2,719	1,054	2.7	209.4	23.1
EBITDA	369	338	382	532	493	656	327	21	1,621	1,497	140	(85.2)	(96.1)	(93.7)
Depreciation	67	66	67	27	58	58	43	58	227	216	42	37.8	112.1	36.2
EBIT	302	272	315	505	435	598	285	-37	1,394	1,281	98	(138.0)	(107.4)	(113.1)
Margins (%)	34.5	32.7	35.2	47.4	40.0	47.0	19.8	-2.8	38.0	24.9	7.0	-975bp	-5023bp	-2263bp
Interest Costs	1	0	1	1	1	0	1	1	3	2	1		0	(11.1)
Other Income	213	161	145	146	93	182	201	201	665	677	229	(12.5)	37.7	-
PBT bef. Exceptional items	515	432	460	650	527	781	485	163	2,057	1,955	326	(50.1)	-75.0	(66.4)
Tax	116	100	111	79	106	135	90	86	407	416	72	18.6	7.8	(4.8)
Rate (%)	22.5	23.2	24.1	12.2	20.1	17.2	18.5	52.6	19.8	21.3	22.1	3045bp	4037bp	3404bp
Profit from associate	-1	-5	-5	0	-6	-5	-7	-23	-12	-50				
PAT	398	327	344	366	415	641	388	55	1,435	1,490	257	(78.8)	(85.1)	(85.9)
Y-o-Y Gr. (%)	-29.5	-44.2	-52.1	-4.7	4.3	96.4	12.9	-85.1	-36.3	3.8	-29.9		-8044bp	-9802bp
EPS (INR)	7.8	6.4	6.8	7.2	8.2	12.6	7.6	1.1	28.1	29.2	5.1	(78.8)	(85.1)	(85.9)
Total volumes (INR t)	19.2	21.0	21.6	26.1	28.7	35.9	40.7	42.0	87.8	147.3	42.3	(0.8)	60.7	3.0
Q-o-Q Gr. (%)	-5.5	9.7	2.7	21.1	9.8	25.4	13.4	3.0			3.8			
Y-o-Y Gr. (%)	32.0	-17.7	0.6	28.9	49.6	71.2	89.0	60.7	7.5	67.7	62.0			



Key takeaways from the management commentary

Technological transition

- Technology migration costs (software charges) have dragged down profits. MCX has incurred an additional INR810m in software charges paid to the existing vendor, 63moons. The technological transformation is expected to be completed before 30th Jun'23.
- Several mock tests have been conducted with members over the past few months, and about 96-97% of the check cases have been cleared. There are some complexities in extreme cases, e.g., a contract with multiple expiries.
- The tech platform has gone through regulatory testing. MCX has been updating SEBI at each and every step.
- About 170-180 unique members have participated in recent mock trails. Along with mock tests, cyber audits and system audits have been conducted simultaneously. These audits are expected to be completed within two weeks.

Business

- In FY23, the UCC count stood at 0.62m, up 32% YoY.
- The CTO's departure has been planned much earlier and has no linkage to the technological transition.
- MCX has a perpetual license contract with TCS. It is a six-year contract. AMC charges on the contract will begin from the 2nd year. Going ahead, AMC costs would be less than INR100m. Additionally, the costs will be incurred for other ancillary software.
- MCX would be watchful on the NSE's launch of NYMEX WTI Crude Oil and Natural Gas futures contracts in its commodity derivatives segment.
- The loss from the associate in 4QFY23 was due to the start of IIBX operations.
- MCX has launched three mini futures contracts, including crude oil and natural gas. Further, in base metals, Nickel and Copper mini contracts were launched. MCX plans to launch Steel TMT bars after the transition to the tech platform. MCX has sought SEBI approval for the launch of mini futures contracts in Zinc and Nickel. It is pertinent to note that the launch of options contracts requires a minimum average volume of INR10b.
- The Coal Ministry has permitted spot exchange and the same is expected to start operations by FY24-end.

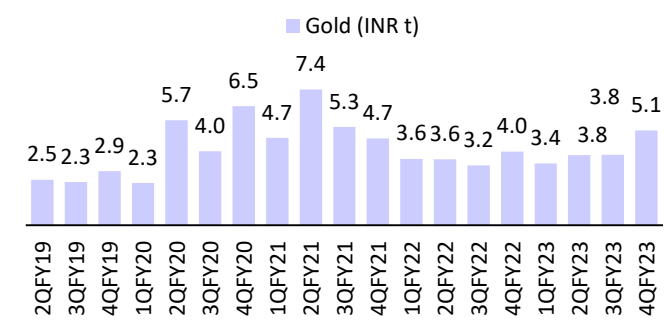
Financials

- 4QFY23 revenue contribution: ~49% from options and ~51% from futures. FY23 revenue contribution: ~41% from options and ~59% from futures. Globally, options contributed ~20% and futures contributed ~80%.
- Other expenses rose as CSR expenses for the year were booked in 4QFY23.
- CWIP and intangible assets under development accounted for INR1700m (as of Mar'23) and the same is for the tech transition. After capitalization, the depreciation on these assets would be spread over 6-8 years.
- Based on budgeted accounting, the tax charges for the quarter were higher than expected. The tax rate for FY24 would be in the same range as in FY23.

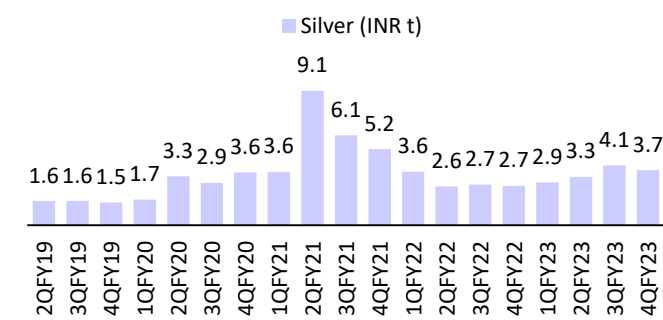
Exhibit 1: Volume-wise performance

	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23
Volumes (INR b)										
Agro Commodities	280	389	383	269	286	183	118	42	41	11
Base Metals	4,332	4,467	4,427	3,743	3,544	3,376	2,131	2,643	2,639	2,067
Bullion	11,421	10,228	8,099	6,844	6,677	7,417	7,013	7,863	8,892	9,752
Energy	5,198	5,479	6,040	9,944	10,798	14,926	19,322	25,334	29,121	30,086
Index	204	207	206	200	252	201	72	62	54	39
Total	21,435	20,769	19,155	21,001	21,558	26,104	28,655	35,944	40,748	41,954
Mix (%)										
Agro Commodities										
Base Metals	1	2	2	1	1	1	0	0	0	0
Bullion	20	22	23	18	16	13	7	7	6	5
Energy	53	49	42	33	31	28	24	22	22	23
Index	24	26	32	47	50	57	67	70	71	72
YoY growth (%)										
Agro Commodities	1	1	1	1	1	1	0	0	0	0
Base Metals										
Bullion	36	18	171	35	2	-53	(69)	(85)	(86)	-94
Energy	32	36	86	(17)	(18)	-24	(52)	(29)	(26)	-39
Index	66	2	(3)	(59)	(42)	-27	(13)	15	33	31
Total	(49)	-53	66	126	108	172	220	155	170	102
QoQ growth (%)										
Agro Commodities	-	0	-	173	23	-3	(65)	(69)	(78)	-81
Base Metals	4	-18	32	(19)	1	26	50	71	89	61
Base Metals	-	0	-	-	-	0	-	-	-	0
Bullion	-	0	-	-	-	0	-	-	-	0
Energy	40	39	(1)	(30)	6	-36	(36)	(65)	(1)	-74
Index	(3)	3	(1)	(15)	(5)	-5	(37)	24	(0)	-22
Total	(32)	-10	(21)	(15)	(2)	11	(5)	12	13	10
FUTCOM	18	5	10	65	9	38	29	31	15	3
FUTIDX	180	1	(0)	(3)	26	-20	(64)	(14)	(12)	-29
OPTFUT	(17)	-3	(8)	10	3	21	10	25	13	3
Total										
Mix (%)										
FUTCOM	20,713	19,841	17,733	16,826	15,710	16,412	16,078	15,484	15,476	12,986
FUTCOM	204	207	206	200	252	201	72	62	54	39
FUTIDX	501	720	1,216	3,975	5,596	9,491	12,505	20,398	25,218	28,930
OPTFUT	21,419	20,769	19,155	21,001	21,558	26,104	28,655	35,944	40,748	41,954
YoY growth (%)										
FUTCOM										
FUTIDX	97	96	93	80	73	63	56	43	38	31
OPTFUT	1	1	1	1	1	1	0	0	0	0
Total	2	3	6	19	26	36	44	57	62	69
QoQ growth (%)										
FUTCOM										
FUTIDX	3	-18	26	(33)	(24)	-17	(9)	(8)	(1)	-21
OPTFUT	-	-	-	173	23	-3	(65)	(69)	(78)	-81
Total	(8)	-41	206	425	1,017	1,217	929	413	351	205

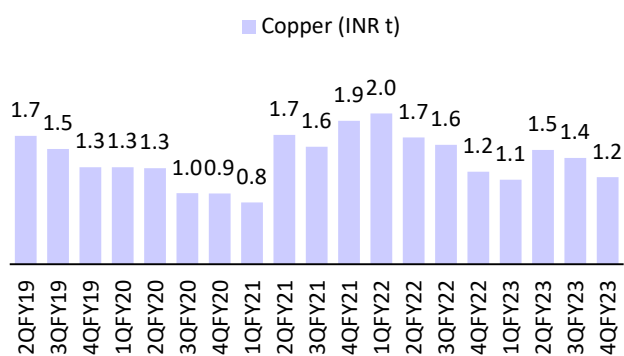
Source: Company, MOFSL

Exhibit 2: Gold volumes improved (INR t)

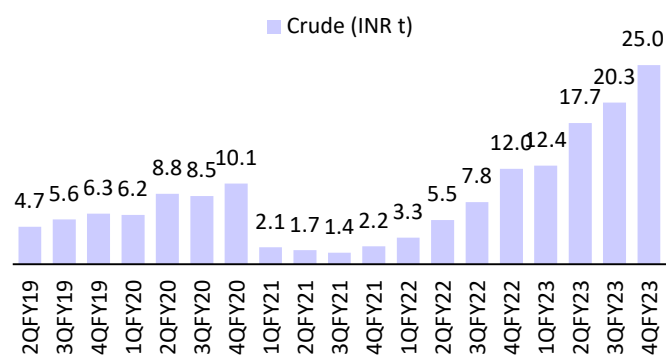
Source: Company, MOFSL

Exhibit 3: Silver volumes declined (INR t)

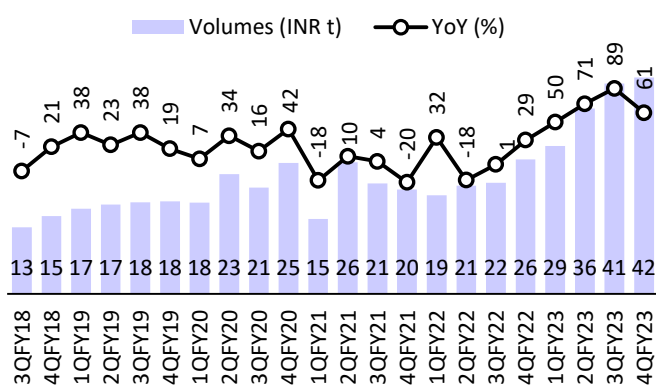
Source: Company, MOFSL

Exhibit 4: Copper volumes (INR t) declined

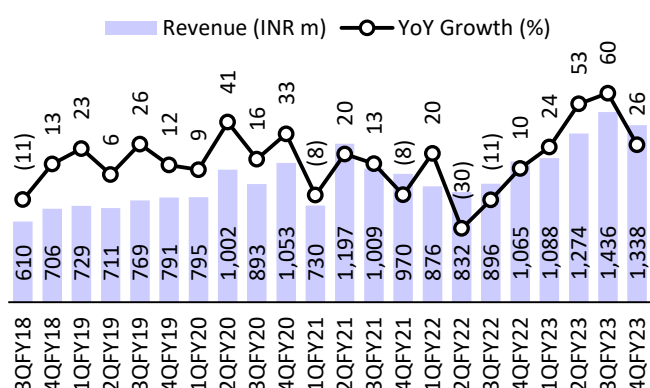
Source: Company, MOFSL

Exhibit 5: Strong crude oil volumes (INR t)

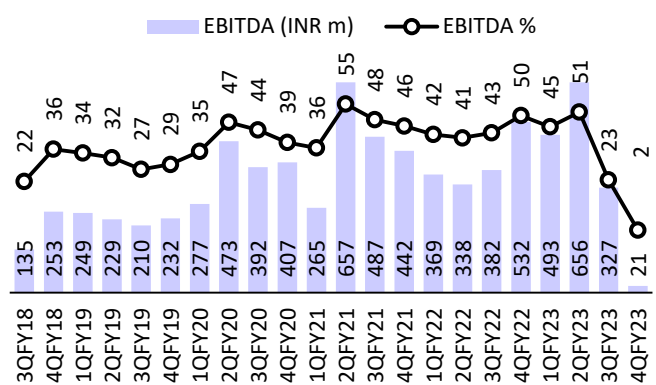
Source: Company, MOFSL

Exhibit 6: Volumes led by the options segment...

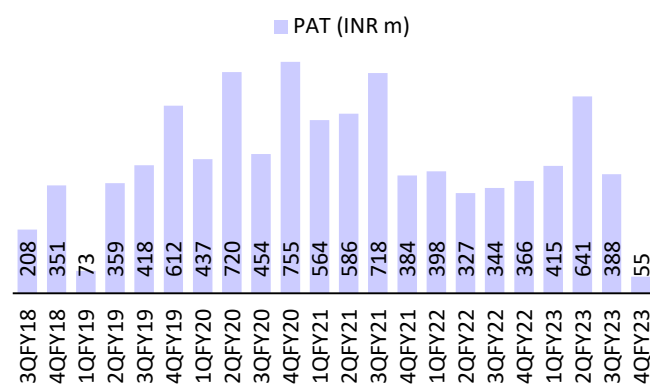
Source: MOFSL, Company

Exhibit 7: Revenue growth of 26% YoY

Source: MOFSL, Company

Exhibit 8: Significant Margin contraction

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 (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Volumes (INR t)	172	188	172	188	(0.1)	0.0
Volume growth (%)	16.5	9.7	16.3	9.6	0.2	0.1
Revenue (INR m)	5,635	6,137	5,878	6,411	(4.1)	(4.3)
EBITDA margin (%)	45.7	55.0	47.2	57.0	-150bp	-200bp
EPS (INR)	43.0	54.7	49.3	62.3	(12.8)	(12.2)

Financials and valuations

Income statement

(INR m)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Sales	2,594	2,598	3,001	3,742	3,906	3,668	5,135	5,635	6,137
Change (%)	10	0	15	25	4	(6)	40	10	9
Cost of Services	1,071	1,174	1,338	1,463	1,388	1,440	2,880	2,187	1,759
SG&A Expenses	723	679	743	730	667	607	759	872	1,003
Provisions									
EBITDA	801	745	920	1,549	1,851	1,621	1,497	2,575	3,374
% of Net Sales	31	29	31	41	47	44	29	46	55
Depreciation	186	167	154	182	221	227	216	351	396
EBIT	614.9	578.3	765.5	1,367.1	1,630.7	1,394.4	1,281.0	2,225	2,979
Interest	2	-	-	2	2	3	2	2	2
Other Income	1,164	884	986	1,289	1,038	665	677	587	599
EO Item (net)	-	-	238	-	-	204	-	-	-
PBT	1,777	1,462	1,513	2,654	2,667	1,853	1,956	2,810	3,576
Tax	512	377	75	389	415	407	416	618	787
Rate (%)	29	26	5	15	16	22	21	22	22
PAT before MI	1,266	1,085	1,439	2,266	2,251	1,446	1,540	2,192	2,789
Minority Interest	-	-	(24)	(99)	(1)	12	50	-	-
PAT	1,266	1,085	1,462	2,365	2,252	1,435	1,490	2,192	2,789
Extraordinary									
Net Income	1,266	1,085	1,462	2,365	2,252	1,435	1,490	2,192	2,789
Change (%)	198	(14)	35	62	(5)	(36)	4	47	27

Balance Sheet

(INR m)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	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	14,283	14,721	15,279
Net Worth	13,588	13,763	12,509	13,594	14,182	14,181	14,793	15,231	15,789
SGF	1,705	1,806	3,298	4,098	4,692	5,256	5,898	5,898	5,898
Loan & other long term liab.	420	408	414	546	576	658	561	572	584
Capital Employed	15,713	15,977	16,221	18,237	19,451	20,095	21,252	21,701	22,270
Net Block	1,521	1,618	1,770	1,820	1,857	2,513	3,172	3,506	3,956
CWIP	2	23	0	5	12	434	519	519	519
Other LT Assets	117	96	166	149	185	3,018	2,543	2,576	2,610
Investments	8,448	7,527	6,811	10,508	11,885	4,440	8,441	8,610	8,782
Curr. Assets	8,725	10,518	12,175	15,028	11,283	18,225	16,259	16,353	16,449
Current Investments	7,626	8,997	5,824	6,618	5,985	7,135	2,024	2,064	2,106
Debtors	28	63	60	65	90	115	146	149	152
Cash & Bank Balance	193	597	5,346	7,593	4,261	9,755	11,779	11,782	11,787
Loans & Advances	4	3	2	2	1	222	1,328	1,354	1,381
Other Current Assets	875	859	943	751	948	998	983	1,003	1,023
Current Liab. & Prov	2,945	3,636	4,524	9,109	5,575	7,911	8,976	9,156	9,339
Net Current Assets	5,780	6,882	7,651	5,919	5,709	10,314	7,283	7,197	7,110
Application of Funds	15,869	16,146	16,397	18,401	19,647	20,719	21,958	22,408	22,977

Financials and valuations

Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Basic (INR)									
EPS	24.8	21.3	28.7	46.4	44.2	28.1	29.2	43.0	54.7
Cash EPS	29.5	25.4	31.9	50.4	49.2	33.6	34.3	51.4	64.2
Book Value	266.4	269.9	245.3	266.6	278.1	278.1	290.1	298.7	309.6
DPS	15.0	17.0	20.0	30.0	27.7	30.0	19.1	35.0	35.0
Payout %	74.3	98.2	87.1	83.0	77.1	129.7	63.2	80.0	80.0
Valuation (x)									
P/E	53.2	62.0	46.0	28.5	29.9	46.9	45.2	30.7	24.1
Cash P/E	44.7	52.0	41.4	26.2	26.9	39.3	38.4	25.7	20.6
Price/Book Value	5.0	4.9	5.4	5.0	4.7	4.7	4.6	4.4	4.3
Dividend Yield (%)	1.1	1.3	1.5	2.3	2.1	2.3	1.4	2.7	2.7
Profitability Ratios (%)									
RoE	9.9	7.9	11.1	18.1	16.2	10.1	10.3	14.6	18.0

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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

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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