

Multi Commodity Exchange

Tech transition remains the key challenge

MCX reported a strong revenue growth of 9.0% QoQ, led by options, while its profitability was impacted by high technology costs. The technology transition remains the key overhang for the exchange and the extension of the tech contract with the existing vendor (INR 1.25bn/quarter) will impact its profitability in FY24E. As per the management, the tech transition was extended due to (1) delays in audit and regulatory clearances; (2) challenges in EOD/BOD batch file processing; and (3) a lack of complete testing. The management is hopeful of completing the transition before the Dec-23 deadline. The options revenue grew 23% QoQ, supported by growth in options ADTV; however, the premium to notional turnover ratio (1.9% in Q1) is coming down gradually. We remain constructive on the options growth story, supported by increasing retail participation, the launch of new contracts (mini and index options) and a pick-up in bullion volumes. We expect the options revenue to grow +68/27% YoY while futures will decline 5/2% in FY24/25E. We increase our revenue estimates by ~2% for FY24/25E due to options. We maintain our BUY rating with a target price of INR 1,780, based on a P/E of 23x June-25E core PAT + net cash.

- **Q1FY24 highlights:** MCX revenue grew 9.0% QoQ to INR 1.46bn (vs. the estimate of INR 1.48bn). Futures ADTV grew 3.8% QoQ to INR 214bn, led by bullion (+8.7%) and energy (+14.5%), offset by metals (-31.9% QoQ). EBITDA margin was up 579bps QoQ but down 3795bps YoY to 7.3% in Q1. Options notional/premium ADTV stood at INR 619.28/12.16bn and options contributed ~INR 0.65bn to revenue (~53% of transaction revenue). Crude/natural gas/bullion contributed 75/21/5% to options volume. Options realisation stood at INR 8.1/mn, which is ~39% of futures realisation. The additional payout of INR 1.25bn/quarter to 63moons will impact profitability in Q2 and Q3.
- **Outlook:** We estimate a -4/+58% futures/options ADTV CAGR over FY23-26E, resulting in +18/45% revenue/APAT CAGRs over FY23-26E. The core PAT CAGR is at 58% over FY23-26E.

Quarterly financial summary

YE March (INR mn)	Q1 FY24	Q1 FY23	YoY (%)	Q4 FY23	QoQ (%)	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	1,458	1,088	34.0	1,338	9.0	3,668	5,135	6,369	7,224	8,339
EBITDA	107	493	(78.3)	21	416.4	1,622	1,497	792	4,488	5,301
APAT	197	415	(52.6)	55	260.7	1,639	1,490	944	3,923	4,573
EPS (INR)	3.9	8.1	(52.6)	1.1	260.7	32.2	29.3	18.5	77.1	89.8
P/E (x)						51.6	56.8	89.6	21.6	18.5
EV / EBITDA (x)						44.3	51.2	96.7	16.9	14.2
RoE (%)						11.6	10.3	6.4	25.6	28.1

Source: Company, HSIE Research, Consolidated Financials

Change in estimates

INR mn	FY24E Old	FY24E Revised	Change %	FY25E Old	FY25E Revised	Change %	FY26E Old	FY26E Revised	Change %
Revenue	6,250	6,369	1.9	7,097	7,224	1.8	8,175	8,339	2.0
EBITDA	773	792	2.5	4,427	4,488	1.4	5,210	5,301	1.7
EBITDA Margin (%)	12.4	12.4	7bps	62.4	62.1	-26bps	63.7	63.6	-17bps
APAT	929	944	1.6	3,894	3,923	0.7	4,540	4,573	0.7
EPS (INR)	18.3	18.5	1.6	76.5	77.1	0.7	89.2	89.8	0.7

Source: Company, HSIE Research

BUY

CMP (as on 31 July 2023)	INR 1,661
Target Price	INR 1,780
NIFTY	19,754

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 1,765	INR 1,780
	FY24E	FY25E
EPS %	+1.6	+0.7

KEY STOCK DATA

Bloomberg code	MCX IN
No. of Shares (mn)	51
MCap (INR bn) / (\$ mn)	85/1,036
6m avg traded value (INR mn)	648
52 Week high / low	INR 1,721/1,156

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	18.7	9.7	18.9
Relative (%)	9.8	(2.0)	3.4

SHAREHOLDING PATTERN (%)

	Mar-23	Jun-23
Promoters	0.00	0.00
FIs & Local MFs	52.71	55.07
FPIs	26.95	24.84
Public & Others	20.34	19.90
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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Disclosure:

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