9 April 2024

Company Update | Sector: Financials

MCX

BSE SENSEX	S&P CNX
74,684	22,643

MCX METAL & ENERGY Trade with Trust

Stock Info

Bloomberg	MCX IN
Equity Shares (m)	51
M.Cap.(INRb)/(USDb)	190.3 / 2.3
52-Week Range (INR)	3990 / 1285
1, 6, 12 Rel. Per (%)	3/63/121
12M Avg Val (INR M)	2086
Free float (%)	100.0

Financials Snapshot (INR b)

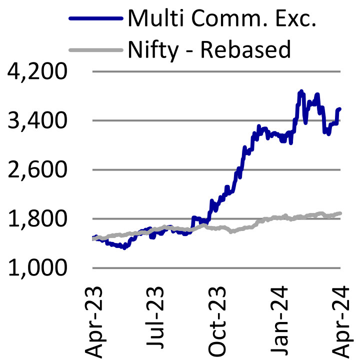
Year End	2024E	2025E	2026E
Sales	7.1	9.6	11.6
EBIT margin (%)	5.8	55.7	58.6
PAT	0.9	4.8	6.0
EPS (INR)	17.8	95.0	117.9
EPS Gr. (%)	-38.9	432.6	24.1
BV/Sh. (INR)	293.6	312.6	336.2
Ratio			
RoE (%)	6.1	31.3	36.3
Valuations			
P/E (x)	209.1	39.3	31.6
P/BV (x)	12.7	11.9	11.1
Div Yld (%)	0.9	0.9	0.9

Shareholding pattern (%)

As On	Dec-23	Sep-23	Dec-22
Promoter	0.0	0.0	0.0
DII	53.0	56.4	52.8
FII	26.8	25.5	26.0
Others	20.2	19.9	21.2

FII Includes depository receipts

Stock performance (one-year)



CMP: INR3,732 TP: INR4,300 (+15%) Upgrade to BUY

New products to be the key growth drivers

- **MCX will be looking to grow volumes driven by new products, such as Steel Bar (launched), Gold Serial contracts, and Power contracts. Once the future volumes on these products exceed the threshold of INR8-10b (one-year average ADTO) options, contracts will also be launched.**
- **Retail participation in the Indian commodities market (1.4m UCCs) is low when compared to equity market participation (40m NSE active clients). Strong technology-based offerings from discount brokers, along with lower ticket-size contracts from MCX, can improve the participation significantly.**
- **FPIs, last year, received approval from the regulator to invest in cash-settled commodities. In a follow-up to the same, MCX has launched its direct market access (DMA) facility for Category-I FPIs. Once the same is available to Category –II FPIs, we believe, the volume momentum will pick up notably.**
- **Regulatory measures, such as interoperability of margins between stock exchanges and commodity exchanges, allowing partial withdrawal of SGF or determining clients' margin requirements on net positions, if implemented, have the potential to further boost volumes.**
- **With all the aforementioned factors and high volatility persisting in the energy basket, we expect ADTV in the options segment to increase to INR1.5t in FY25 from ~INR940b in FY24 (4QFY24 ADTV was at INR1.2t). Our sensitivity analysis yields ~7% rise in EPS for every INR100b additional ADTV in the options segment.**
- **Upon completing the successful software transition to TCS software, cost savings will be realized. This will lead to a marked improvement in profitability.**
- **MCX was embroiled in a software transition from 63moons to TCS over the past couple of years. With the completion of this transition, the management's primary focus is now directed towards scaling up the business.**
- **We expect MCX to deliver an FY24-26 revenue/EBITDA/PAT CAGR of 28%/ 205%/157%, fueled by a 47% CAGR in options volumes. We upgrade the stock to BUY from Neutral with a TP of INR4,300 (premised on 36x FY26E EPS).**

New products and variations to existing ones to be the key drivers

- Currently, about 90% of the volumes in the options segment are from crude oil and natural gas. Going forward, MCX plans to launch smaller contracts and weekly expiry products (serial contracts – monthly contracts with expiry every week) in the bullion segment, which could provide a significant improvement in volumes.
- The company has recently launched Steel TMT bar contracts. This can be a large volume originator for MCX over the medium term, as the participation will be from SMEs. Further, the product has the widest participation among all steel products in India.
- MCX has applied for power future contracts, which are unavailable in the market at present. The approval for these contracts rests with the SEBI and CERC. These will be cash-settled contracts, and considering the interest from private companies looking to sell their surplus captive power generation, there is substantial potential for these contracts.

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- Additionally, MCX has plans to launch mini contracts on other metal products, such as copper and nickel, which can boost 'futures' volumes.

Regulatory measures to provide further stimulus

- Equity markets have interoperability of margins between the exchanges. However, the same margins cannot be utilized to trade or invest on MCX. If the regulator approves the same, brokers can help customers trade in commodities without the requirement of moving margins.
- In the equity segment, clients' margins are computed based on net positions. However, in the commodities market, margins are computed on a gross basis. Rectifying this difference is crucial for scaling up volumes in the commodities market.
- Faster approvals for new products and variants of existing products can reduce the lead time for MCX.

Retail participation has significant headroom for growth

- MCX currently has ~1.4m UCCs vs. 40m active clients and a unique PAN count of 90m. This leaves a significant room for penetration of commodities in the retail segment.
- While a few of the enablers for equity participation, such as discount broker platforms and reasonable trading costs, exist for the commodities segment as well, the aforementioned regulatory moves will further pave the way.
- Additionally, new product launches that will have lower ticket sizes, such as the crude oil and natural gas mini options or serial contracts in the bullion segment, will enhance the segment's attractiveness.

FPI participation to improve with the DMA launch

- During FY23, FPIs obtained regulatory approval to participate in cash-settled commodities. However, the business has not scaled up materially, owing to the software transition issue and the absence of DMA.
- With the software transition now behind for MCX, FPIs have started investing in building software tools for them to trade on the new trading platform. Additionally, MCX has successfully tested and launched its DMA offering in the markets.
- The launch was initially for category-I FPIs. The offering for category-II FPIs is expected in the near term.
- The key target audience for FPIs would be high-frequency traders and FPIs with exposure to commodities in Indian currency.

Software transition: Better late than never

- Over the past couple of years, MCX has been embroiled in transitioning its core operating software from 63Moons to TCS. This transition impeded the launch of new products and demanded extensive management attention. Additionally, due to the necessity of extending the contract with 63moons thrice, MCX's costs escalated significantly.
- As of Oct'23, the company successfully completed its transition and the software has been operating smoothly. This is evidenced by the significant increase in volumes to pre-transition levels.

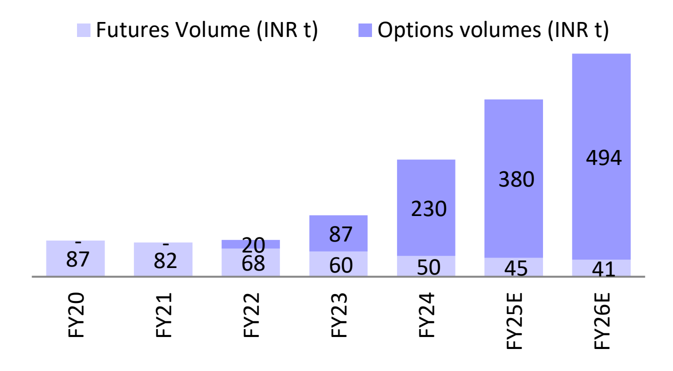
- At current volumes, we expect the costs (AMC + depreciation) to be lower than the normalized run-rate in the pre-transition phase. Further, there would be no AMC costs until 2QFY25.

Valuation and view – Upgrade to BUY

- We expect MCX to deliver a revenue/EBITDA/PAT CAGR of 28%/205%/157% over FY24-26, led by a 47% CAGR in options volumes. We highlight several near- to medium-term drivers of volume growth: 1) new product launches – futures & options (shorter duration contracts); 2) continued volatility in key commodity prices (gold, crude oil & natural gas) amid global uncertainties; and 3) a rise in retail participation in the options market. We expect no impact from competition on MCX's volumes, as similar products are currently available on other exchanges. With the technology overhang behind MCX, and near-term potential drivers in place, we see meaningful re-rating potential. **We upgrade the stock to BUY (from Neutral) with a TP of INR4,300 (based on 36x FY26E EPS).**

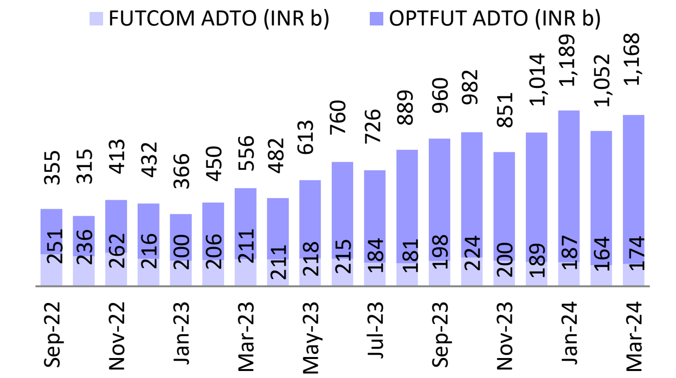
Key exhibits

Exhibit 1: Options volume will continue to increase…



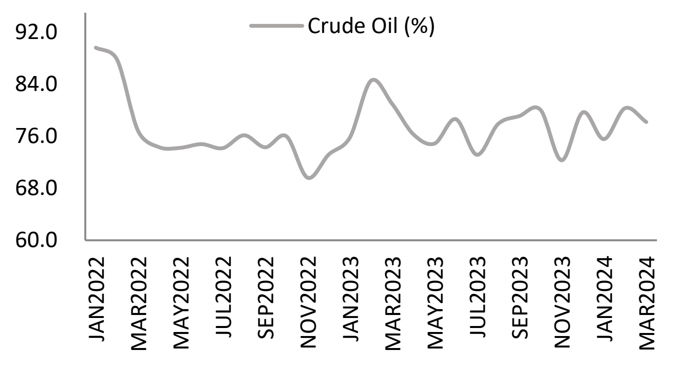
Source: MOFSL, Company

Exhibit 2: …as suggested by the recent monthly trends



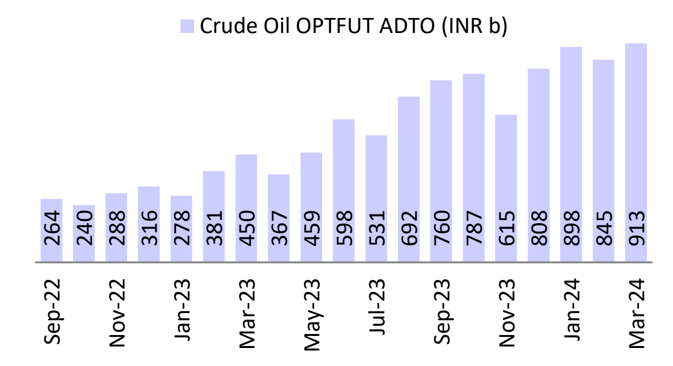
Source: MOFSL, Company

Exhibit 3: Crude oil forms the highest share as a % of option volumes…



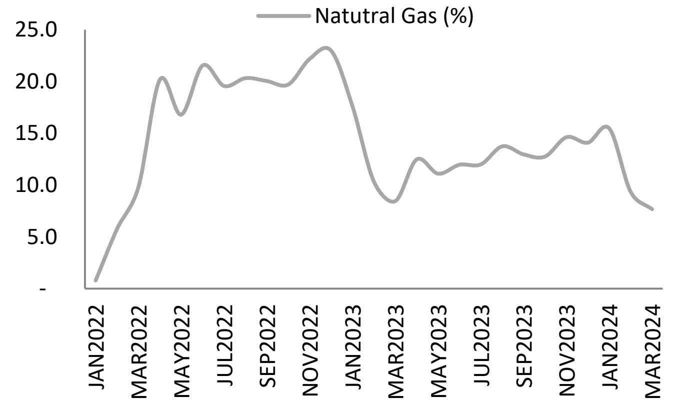
Source: MOFSL, Company

Exhibit 4: …as crude ADTO continues to surge



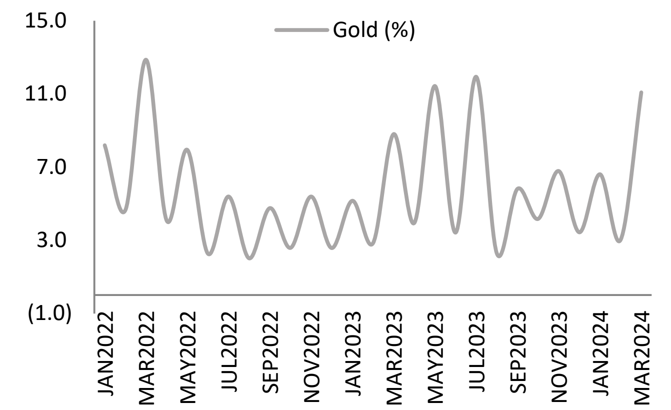
Source: MOFSL, Company

Exhibit 5: Share of natural gas as a % of options volumes



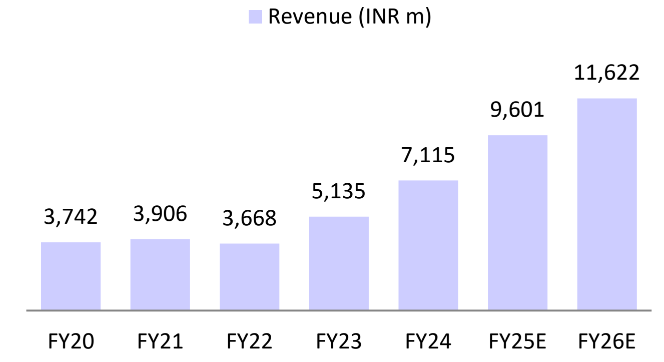
Source: MOFSL, Company

Exhibit 6: Share of gold as a % of options volumes



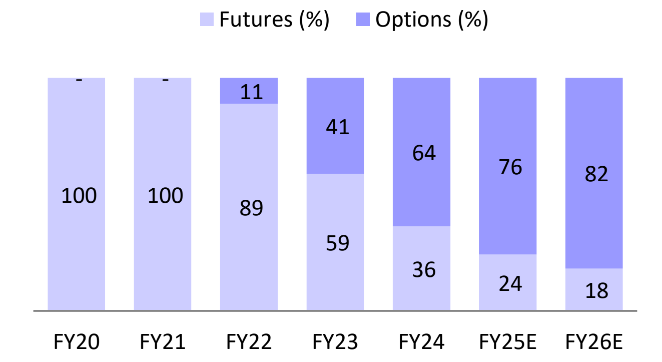
Source: MOFSL, Company

Exhibit 7: Overall revenue is expected to post 28% CAGR over FY24-26



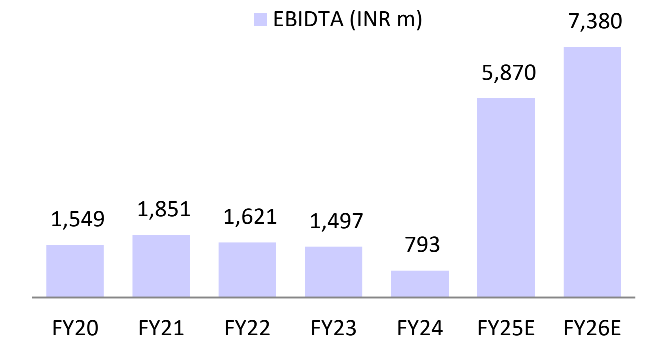
Source: MOFSL, Company

Exhibit 8: Options revenue mix continues to rise



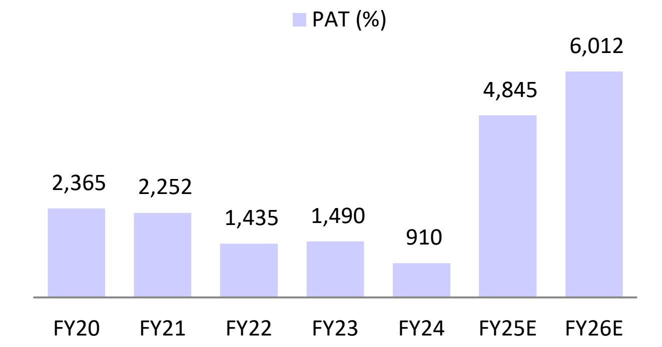
Source: MOFSL, Company

Exhibit 9: EBITDA to increase in the coming years



Source: MOFSL, Company

Exhibit 10: Overall profitability to improve



Source: MOFSL, Company

Financials and valuations

Income statement							(INR m)
Y/E March	**FY20**	**FY21**	**FY22**	**FY23**	**FY24E**	**FY25E**	**FY26E**
Sales	**3,742**	**3,906**	**3,668**	**5,135**	**7,115**	**9,601**	**11,622**
Change (%)	25	4	(6)	40	39	35	21
Cost of Services	1,463	1,388	1,440	2,880	5,042	2,270	2,561
SG&A Expenses	730	667	607	759	1,280	1,462	1,681
Provisions							
EBITDA	**1,549**	**1,851**	**1,621**	**1,497**	**793**	**5,870**	**7,380**
% of Net Sales	41	47	44	29	11	61	64
Depreciation	182	221	227	216	383	520	568
EBIT	**1,367.1**	**1,630.7**	**1,394.5**	**1,281.0**	**410**	**5,349**	**6,812**
Interest	2	2	3	2	2	2	2
Other Income	1,289	1,038	665	677	759	865	897
EO Item (net)	-	-	204	-	-	-	-
PBT	**2,654**	**2,667**	**1,853**	**1,956**	**1,166**	**6,212**	**7,707**
Tax	389	415	406	416	257	1,367	1,696
Rate (%)	15	16	22	21	22	22	22
PAT before MI	2,266	2,251	1,447	1,540	910	4,845	6,012
Minority Interest	(99)	(1)	12	50	-	-	-
PAT	**2,365**	**2,252**	**1,435**	**1,490**	**910**	**4,845**	**6,012**
Extraordinary							
Net Income	**2,365**	**2,252**	**1,435**	**1,490**	**910**	**4,845**	**6,012**
Change (%)	62	(5)	(36)	4	(39)	433	24

Balance Sheet							(INR m)
Y/E March	**FY20**	**FY21**	**FY22**	**FY23**	**FY24E**	**FY25E**	**FY26E**
Share Capital	510	510	510	510	510	510	510
Reserves	13,084	13,672	13,671	14,283	14,465	15,434	16,636
Net Worth	**13,594**	**14,182**	**14,181**	**14,793**	**14,975**	**15,944**	**17,146**
SGF	4,098	4,692	5,256	5,898	5,898	5,898	5,898
Loan & other long term liab.	546	576	658	561	572	584	595
Capital Employed	**18,237**	**19,451**	**20,095**	**21,252**	**21,445**	**22,425**	**23,639**
Net Block	**1,820**	**1,857**	**2,513**	**3,172**	**4,506**	**4,956**	**5,406**
CWIP	5	12	434	519	519	519	519
Other LT Assets	149	185	3,018	2,543	4,576	4,610	4,645
Investments	10,508	11,885	4,440	8,441	8,610	8,782	8,958
Curr. Assets	**15,028**	**11,283**	**18,225**	**16,259**	**15,096**	**15,603**	**16,344**
Current Investments	6,618	5,985	7,135	2,024	2,226	2,449	2,694
Debtors	65	90	115	146	149	152	155
Cash & Bank Balance	7,593	4,261	9,755	11,779	10,364	10,598	11,043
Loans & Advances	2	1	222	1,328	1,354	1,381	1,409
Other Current Assets	751	948	998	983	1,003	1,023	1,043
Current Liab. & Prov	**9,109**	**5,575**	**7,911**	**8,976**	**9,156**	**9,339**	**9,525**
Net Current Assets	**5,919**	**5,709**	**10,314**	**7,283**	**5,941**	**6,265**	**6,818**
Application of Funds	**18,401**	**19,647**	**20,719**	**21,958**	**24,151**	**25,132**	**26,346**

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY25E
Basic (INR)							
EPS	**46.4**	**44.2**	**28.1**	**29.2**	**17.8**	**95.0**	**117.9**
Cash EPS	50.4	49.2	33.6	34.3	27.0	107.5	131.5
Book Value	266.6	278.1	278.1	290.1	293.6	312.6	336.2
DPS	30.0	27.7	30.0	19.1	35.0	35.0	35.0
Payout %	83.0	77.1	129.6	63.2	80.0	80.0	80.0
Valuation (x)							
P/E	80.4	84.5	132.5	127.7	209.1	39.3	31.6
Cash P/E	73.9	75.9	111.1	108.6	138.1	34.7	28.4
Price/Book Value	14.0	13.4	13.4	12.9	12.7	11.9	11.1
Dividend Yield (%)	0.8	0.7	0.8	0.5	0.9	0.9	0.9
Profitability Ratios (%)							
RoE	18.1	16.2	10.1	10.3	6.1	31.3	36.3

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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