

25 April 2024

India | Equity Research | Q4FY24 results review

MCX India

Exchanges

Current volume tailwinds notwithstanding, better execution on new products needed

MCX's Q4FY24 results had two main takeaways – 1) slightly higher software cost profile than expected; and 2) the company taking more time before launching new products to gain confidence on new software. Going ahead, upside risk to earnings may arise from volume surges basis commodity volatility. This can be seen through (1) overall revenue growth of 33% in FY24 driven by rising volumes, (2) April futures/options volumes are 44%/24% higher compared to Q4 average. However, downside risk may stem from prolonged delays in new product launches and any policy delay from resignation of MD (last day is 10th May, [link](#)). Maintain **HOLD**. Basis our Target price of INR 3,634, MCX is trading at 34.7x FY26E PE and 35.9x FY26E core PE (ex-other income)

Q4FY24 revenue lower-than-expected, but largely driven by nature of volumes; FY24 revenue growth of 33% underlines the option surge

Options volumes for MCX reached record highs in Q4FY24, breaching the INR 1trn ADTV mark for its first time. Options ADTV for the quarter grew 20.3% QoQ and stood at INR 1.14trn. Despite the increase in volumes, transaction revenues from options remained flat at INR 1bn in Q4FY24 as premium turnover slipped. Ratio of premium turnover to notional turnover ratio dropped from 2.04% in Q3FY24 to 1.82% in Q4FY24. Futures witnessed a 14% QoQ decline in volumes in Q4FY24 to INR 175bn ADTV in Q4FY24. Transaction revenue in futures for MCX stood at INR 460mn in Q4FY24 vs. INR 550mn in Q3FY24. Treasury income on margin witnessed an INR 100mn decline to INR 21mn in Q4FY24. Overall, revenues for MCX declined 5.4% QoQ to INR 1.8bn vs. INR 1.9bn in Q3FY24. On an annual-basis, overall revenues for MCX grew by 33% to INR 6.8bn in FY24 vs. INR 5.1bn in FY23. Options revenue increased 84% in FY24 to INR 3.5b, whereas futures revenue dipped 16% to INR 2.1bn.

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Market Data

Market Cap (INR)	196bn
Market Cap (USD)	2,352mn
Bloomberg Code	MCX IN
Reuters Code	MCEIqf.BO
52-week Range (INR)	4,073 /1,285
Free Float (%)	85.0
ADTV-3M (mn) (USD)	33.0

Price Performance (%)	3m	6m	12m
Absolute	21.3	73.5	162.5
Relative to Sensex	17.4	59.1	139.6

Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	5,135	6,836	9,477	10,946
EBITDA	1,497	643	5,965	7,073
EBITDA Margin (%)	29.2	9.4	62.9	64.6
Net Profit	1,490	831	4,721	5,628
EPS (Rs)	29.2	16.3	92.6	110.4
EPS % Chg YoY	(6.8)	(45.0)	457.9	19.2
P/E (x)	131.3	235.3	41.4	34.8
P/BV (x)	13.2	14.2	12.5	10.9
Dividend Yield (%)	0.5	0.2	1.4	1.7
RoE (%)	10.3	5.8	32.1	33.5

Previous Reports

01-03-2024: [Company Update](#)

04-12-2023: [Company Update](#)

Software cost declines in Q4FY24, as contract with 63 moons ends; outlook stronger-than-anticipated

Software charges declined substantially for MCX from INR 1.5bn in Q3FY24 to INR 233mn in Q4FY24 as contract with 63 moons ended in Q3FY24. Currently, the new software is under warranty from TCS until Sep'24 and no payment on software front is being made to TCS as of now. From Sep'24, MCX's management expects total software cost, including depreciation, to be ~ INR 600mn annually – similar to what was being paid to 63 moons before Sep'22.

But the major difference now for MCX will be that software cost will not increase with growing volumes, as there will not be any software payments linked volumes. Management expects software cost to remain stable because of this and incremental revenues from growing volumes to directly flow into the bottom line. However, going ahead, software cost will also include license fees of 10% on energy contract revenue to CME. MCX paid INR 103mn to CME as license fee vs. INR 119mn paid in Q3FY24.

Competition has negligible volumes, but shows signs of increase

NSE started trading in WTI crude and natural gas futures derivative contracts from May'23. NSE introduced 13 new commodity derivatives contracts on Oct '23, bringing the total to 28 products in the commodity derivatives segment. The 13 new derivatives contracts are 'option on futures' on gold 1kg futures, gold mini futures, silver mini futures, copper futures, zinc futures, etc. Mini futures and options on futures contracts for WTI crude oil, natural gas, and silver are also available on NSE. Since Dec'23 commodity derivatives on NSE have witnessed exponential increase. NSE commodity options ADTV increased from 0.4bn in Nov'23 to INR 37bn in Mar'24. Despite this increase, volumes are negligible compared to MCX (3% of MCX's notional turnover in Mar'24).

Visibility on product pipeline depends on successful testing on new software

MCX has a few agri commodity futures contracts like cotton wash oil and sunflower wash oil contracts in testing phase. MCX has also received approval for 10-gram Gold monthly futures contracts; it is in the testing phase. The company wants to thoroughly test the new software before launching its new products. Apart from this MCX has still not applied to SEBI for approval of index options contracts and shorter durations contracts as they believe the new software is still not ready for these contracts. Management does not want to have protracted delay between approval and launch; hence, the filing for approval has been delayed by MCX. Approval for electricity futures contract, which was applied by MCX two years ago has still not been received. In terms of futures contracts on composite index for commodities, MCX is not keen on this as it believes that in composite indices, volatility is reduced because different commodities nullify each other's price movements. However, the company is keen on reviving metal/energy index contracts including mini contracts.

We estimate PAT of INR 4.7bn/5.6bn in FY25/26E

- MCX's futures volume declined 16% in FY24 and ADTV stood at INR 196bn. Apr'24 has seen strong volumes in futures with ADTV at INR 253bn till date. This increase in volumes is mainly because of increase in gold and crude oil prices; and volumes are expected to moderate going ahead We expect futures ADTV to be INR 205bn in FY25E and INR 240bn in FY26E.
- MCX's options volume grew exponentially in FY24, touching monthly ADTV of INR 1trn in Dec'23. Options ADTV for FY24 grew more than 150% YoY and stood at INR 892bn. Apr'24 has seen strong volumes in options as well with ADTV at INR 1.41trn till date We expect options ADTV to be INR 1.5trn in FY25E and INR 1.8trn in FY26E.
- We envisage option premium to be 1.8% of notional turnover in FY25E and FY26E, which is at similar levels to Q4FY24
- We expect revenue from futures to be INR 2.3/2.6bn in FY25/26E.
- We expect revenue from options to be INR 5.7/6.7bn in FY25/26E.
- We expect total revenue from operations to be INR 9.5/10.9bn in FY25/26E.
- Software costs will likely be lower in FY25E/26E, as contract with 63 moons has ended. As per management guidance we factor in INR 900mn/1bn of software cost including the license fee paid to CME.
- Likely higher depreciation in FY25E/26E as the new software has been capitalized on balance sheet by MCX. We factor depreciation of INR 532/560mn basis run rate seen in Q4FY24 (INR 138mn in Q4FY24) compared to depreciation of INR 216/359mn in FY23/24
- This leads to our PAT estimates of INR 4.7bn in FY25E and INR 5.4bn in FY26E.

Maintain HOLD

Our valuation is based on 35x multiple (unchanged) on FY26E adjusted EPS of INR 100 per share (ex-software amortisation cost and income from investments, both net of taxes) while adding free cash and investments of INR 135/share (ex-SGF, ex-margin money, ex-mandatory reserves). Our target price remains unchanged at INR 3,634

Key concerns for the company include any possible issues with the new software and possible delay in finding new MD, post the exit of current MD on ~10th May ([link](#)). There could also be an upside risk from increase in volumes with the introduction of new products with lower contract size/multiple expiries within a month. We deduct software amortisation cost (annual run-rate estimated at INR 500mn) for arriving at an adjusted PAT, considering additional non-cash amortisation is only during a limited time frame and the investment outgo is already factored into capex (our estimate of INR 2.5bn).

Exhibit 1: Q4FY24 Result Review

Particulars INR mn	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)
Futures Turnover (INR mn)	1,10,52,164	1,31,65,455	-16.1%	1,30,87,316	-15.6%
Options Turnover (INR mn)	7,16,13,265	2,92,54,652	144.8%	6,04,73,162	18.4%
Total	8,26,65,428	4,24,20,107	94.9%	7,35,60,478	12.4%
Premium as a % of options turnover	1.8%	2.2%		2.0%	
Revenue yields Rs per million	21.9	31.5	-31%	26.0	-16%
Net revenues	1,811	1,338	35.4%	1,915	-5.4%
Employees expenses	307	234	31.2%	290	5.9%
Software support charges	233	874	-73.4%	1,463	-84.1%
Other operating expenses	251	209	20.6%	359	-30.0%
Total expenses	791	1,316	-39.9%	2,112	-62.5%
EBITDA	1,020	21	4712.3%	(197)	-618%
EBITDA margin (%)	56.3%	1.6%	5474 bps	-10.3%	6661 bps
Depreciation and amortization	138	58	138.0%	113	22.5%
EBIT	882	(37)	-2504.4%	(310)	-385.1%
EBIT Margin (%)	48.7%	-2.7%	5146 bps	-16.2%	6487 bps
Net Interest expenses	1	1	-25.0%	1	20.0%
Other NO income (expense), net	183	201	-8.8%	177	3.3%
Earnings before tax	1,065	163	552.1%	(133)	-902.5%
Income taxes	205	86	139.7%	(91)	-326.5%
Income tax as % of PBT	19.3%	52.4%	-3315 bps	68.3%	-4900 bps
Extraordinary income / (exp)	-	-			
Share of profit of associate	19	(23)		(11)	-266.7%
Earnings after tax	879	55	1497.6%	(53)	-1742.4%
Non-recurring items	-	-	n.m.	-	n.m.
Net income (loss), adjusted	879	55	1497.6%	(53)	-1742.4%
Net Margin (%)	44.1%	3.6%	4048 bps	-2.6%	4661 bps
Shares outstanding	51	51		51	
EPS	17	1	1497.6%	(1)	-1742.4%
Core Income	731	(41)	-1903%	(110)	-766%
EBITDA adjusted for additional software cost	1,020	715		1,217	-16.2%

Source: I-Sec research, Company data

Note: Adjusted EBITDA has been derived by adding back reported software cost and deducting 180mn cost (which was normal cost before extension with 63 moons started). IN Q3FY24 contribution to SGF of INR 131mn is also added back

Exhibit 2: FY24 Review

INR (mn)	FY23	FY24	Growth
Total Revenue	5,135	6,836	33.1%
Total Expenses	3,638	6,192	70.2%
Software Expense	1,961	3,929	100.4%
EBITDA	1,497	643	-57.0%
EBITDA margins	29.2%	9.4%	-67.7%
Depreciation and amortisation expense	216	359	66.4%
Other Income	677	754	11.4%
Finance Costs	2	3	28.6%
Profit before tax	1,956	1,035	-47.1%
Total Tax Expenses	416	189	
Share of Profit / (Loss) of Associate (Net)	(50)	(15)	
Profit after Tax	1,490	831	-44.2%

Source: I-Sec research, Company data

Exhibit 3: MCX options monthly ADTV trend

INR mn	Gold	Silver	Crude Oil	Natural Gas	Copper	Zinc	Total options
Apr-20	2,600	538	1,582	0	1	0	4,721
May-20	5,843	472	1,321	0	7	0	7,643
Jun-20	3,719	1,118	2,043	0	1	0	6,881
Jul-20	6,144	1,544	1,458	0	9	0	9,155
Aug-20	8,188	4,189	1,425	0	3	2	13,807
Sep-20	9,594	1,000	1,058	0	2	0	11,654
Oct-20	2,550	1,064	9,405	0	1	0	13,019
Nov-20	9,037	1,645	976	0	0	0	11,659
Dec-20	4,826	721	1,223	0	5	0	6,776
Jan-21	10,397	1,205	1,369	0	2	0	12,973
Feb-21	4,142	2,099	2,331	0	4	0	8,576
Mar-21	5,455	653	6,474	0	4	0	12,587
Apr-21	3,708	1,094	10,069	0	2	0	14,873
May-21	7,886	849	11,620	0	4	0	20,360
Jun-21	3,721	1,893	17,146	0	11	0	22,772
Jul-21	8,326	848	36,986	0	12	0	46,172
Aug-21	4,926	2,237	53,334	0	17	0	60,515
Sep-21	11,322	1,043	65,809	0	18	0	78,192
Oct-21	6,422	1,697	77,395	0	22	0	85,536
Nov-21	13,017	2,522	82,163	0	18	1	97,721
Dec-21	4,185	628	75,111	0	12	0	79,982
Jan-22	8,552	1,387	93,605	825	12	0	1,04,426
Feb-22	7,153	2,685	1,35,189	8,891	27	0	1,53,953
Mar-22	24,180	931	1,44,372	18,475	20	2	1,87,986
Apr-22	7,344	2,286	1,30,112	35,333	10	2	1,75,087
May-22	16,881	1,108	1,49,127	33,763	8	1	2,00,887
Jun-22	5,355	2,538	1,62,235	46,760	12	1	2,16,901
Jul-22	15,313	1,802	2,03,706	53,746	24	2	2,74,593
Aug-22	6,720	4,135	2,35,935	62,986	16	2	3,09,794
Sep-22	17,886	2,116	2,64,000	71,234	19	1	3,55,255
Oct-22	9,547	3,911	2,39,590	62,149	16	0	3,15,213
Nov-22	24,471	9,335	2,87,906	91,740	23	2	4,13,476
Dec-22	13,176	3,298	3,16,120	99,257	39	1	4,31,890
Jan-23	19,472	3,441	2,65,127	61,577	44	1	3,49,662
Feb-23	14,231	8,699	3,80,549	46,546	12	1	4,50,039
Mar-23	49,920	7,261	4,42,551	46,378	30	4	5,46,143
Apr-23	24,222	29,778	3,67,412	60,093	9	1	4,81,517
May-23	78,096	11,555	4,79,562	71,116	54	1	6,40,383
Jun-23	32,823	37,425	5,85,477	89,482	92	1	7,45,300
Jul-23	92,046	15,457	5,30,828	87,100	114	5	7,25,550
Aug-23	24,469	49,641	6,92,485	1,22,223	153	9	8,88,979
Sep-23	59,908	15,897	7,59,683	1,24,475	259	5	9,60,228
Oct-23	48,992	20,912	7,86,511	1,25,352	349	4	9,82,119
Nov-23	63,253	47,613	6,15,169	1,24,449	218	5	8,50,707
Dec-23	47,630	15,071	8,08,152	1,42,988	273	6	10,14,120
Jan-24	85,712	20,550	8,98,318	1,83,897	222	3	11,88,702
Feb-24	39,271	69,267	8,45,475	98,334	107	6	10,52,460
Mar-24	1,39,649	24,969	9,13,416	89,649	316	7	11,68,007

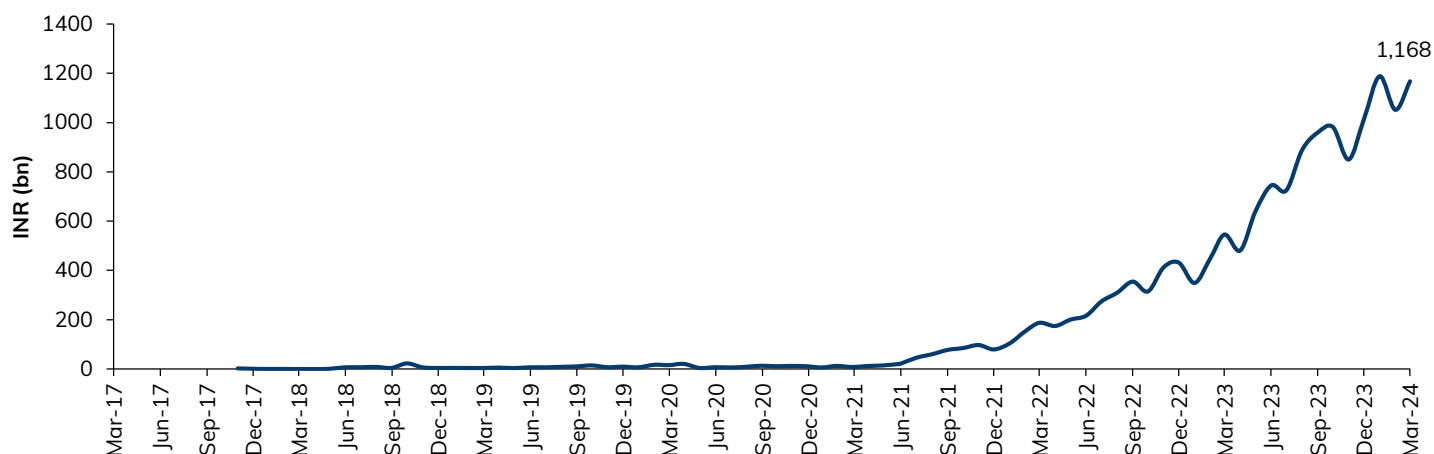
Source: I-Sec research, Company data

Exhibit 4: Commodity futures

Futures ADTV (INR mn)	Gold	Silver	Crude Oil	Natural Gas	Copper	ALNZ	All commodities
Aug-21	42,830	50,801	33,926	64,271	26,215	27,947	2,49,958
Sep-21	48,006	48,439	28,945	76,791	23,397	32,620	2,61,478
Oct-21	45,779	57,544	43,255	71,383	29,806	39,798	2,93,184
Nov-21	51,970	59,416	45,127	38,908	26,504	28,520	2,55,057
Dec-21	32,455	40,600	43,001	32,071	19,484	23,434	1,94,373
Jan-22	38,917	49,911	38,405	38,345	19,792	35,249	2,24,290
Feb-22	45,170	52,963	55,148	37,344	20,237	39,485	2,52,963
Mar-22	62,595	55,012	95,360	36,189	19,163	27,738	2,98,553
Apr-22	41,484	51,546	53,872	71,396	16,093	15,520	2,52,510
May-22	46,258	50,346	48,058	75,906	17,682	15,029	2,55,051
Jun-22	42,281	65,612	43,458	68,247	20,152	16,694	2,57,758
Jul-22	47,112	55,527	38,779	52,220	27,983	17,250	2,39,722
Aug-22	37,478	57,139	36,388	54,240	20,544	17,215	2,23,606
Sep-22	51,511	66,124	37,055	57,096	22,495	16,652	2,51,406
Oct-22	47,132	66,970	27,390	48,859	23,891	20,896	2,35,645
Nov-22	47,577	80,009	31,893	57,889	23,554	20,487	2,62,280
Dec-22	34,484	70,077	30,522	47,544	18,470	14,627	2,16,233
Jan-23	46,228	61,753	21,501	28,673	18,507	14,601	1,91,381
Feb-23	49,579	70,657	25,304	27,263	18,187	14,990	2,06,176
Mar-23	57,721	65,064	31,034	25,501	17,841	12,503	2,10,067
Apr-23	51,887	82,274	22,470	30,379	12,192	10,260	2,10,653
May-23	62,369	77,547	27,173	37,568	12,877	9,818	2,27,531
Jun-23	45,202	74,831	31,016	37,893	13,052	9,551	2,11,837
Jul-23	47,521	65,405	22,080	27,953	11,904	9,040	1,84,076
Aug-23	33,767	72,107	19,627	34,233	11,015	9,512	1,80,556
Sep-23	39,406	76,930	20,387	39,720	11,038	9,888	1,97,583
Oct-23	50,299	87,542	25,516	41,416	12,221	7,352	2,24,492
Nov-23	44,219	86,958	19,145	33,427	8,470	7,331	1,99,716
Dec-23	46,310	75,996	19,402	30,821	8,028	8,272	1,88,976
Jan-24	50,780	63,110	20,037	37,792	7,501	8,093	1,87,482
Feb-24	35,447	75,937	15,466	21,780	7,010	8,269	1,64,175
Mar-24	67,292	57,663	14,838	19,646	7,160	7,104	67,292

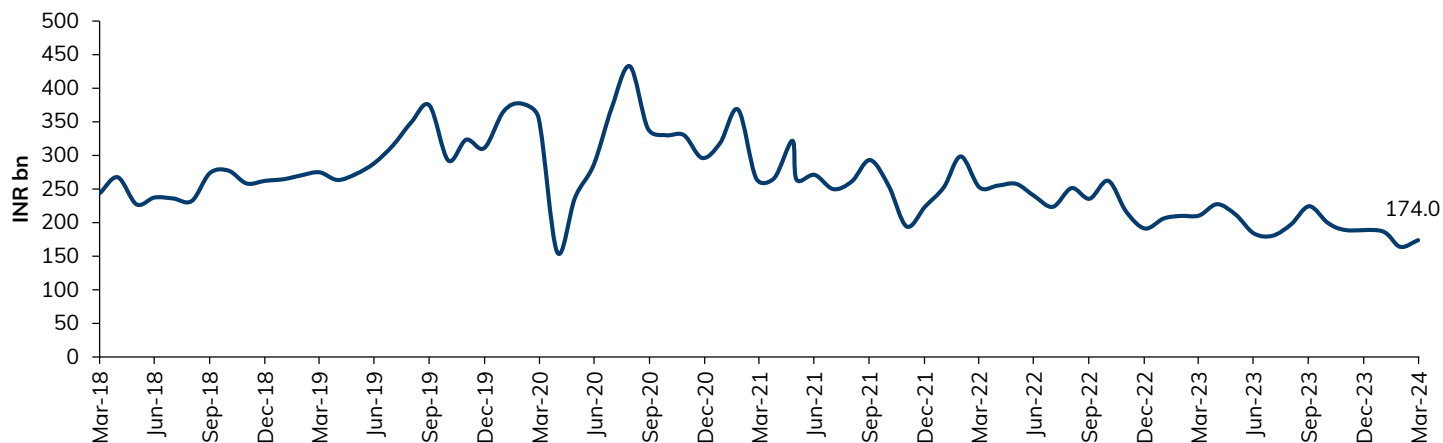
Source: I-Sec research, Company data

Exhibit 5: Options ADTV has surged since 2020



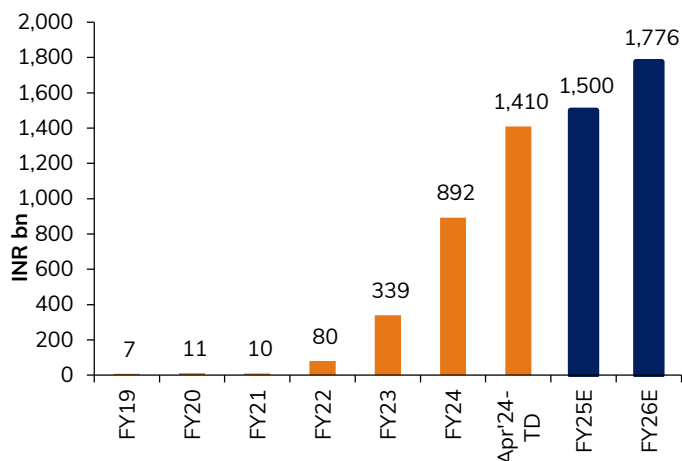
Source: I-Sec research, Company data

Exhibit 6: Futures ADTV has remained flat



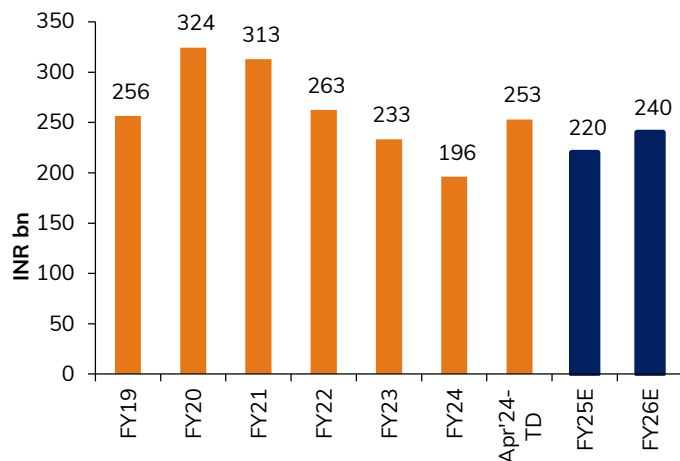
Source: I-Sec research, Company data

Exhibit 7: Historical options ADTV trend and estimates



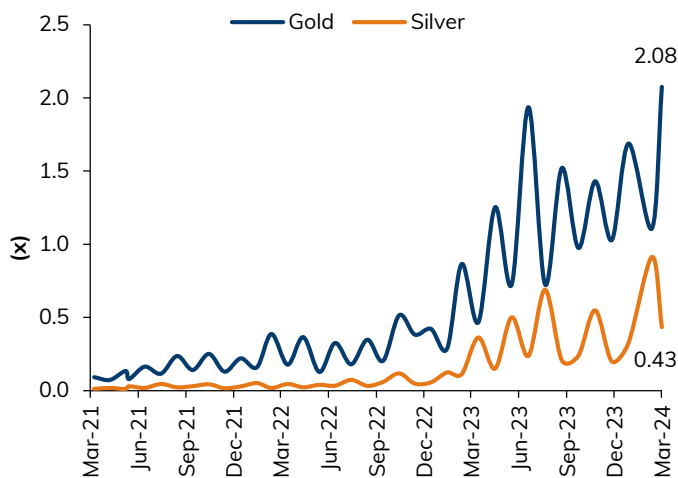
Source: I-Sec research, Company data

Exhibit 8: Historical futures ADTV trend and estimates



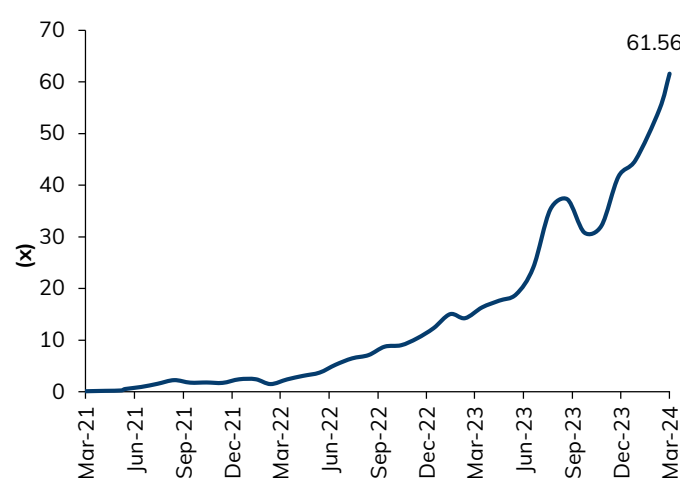
Source: I-Sec research, Company data

Exhibit 9: Ratio of gold and silver options ADTV to futures ADTV

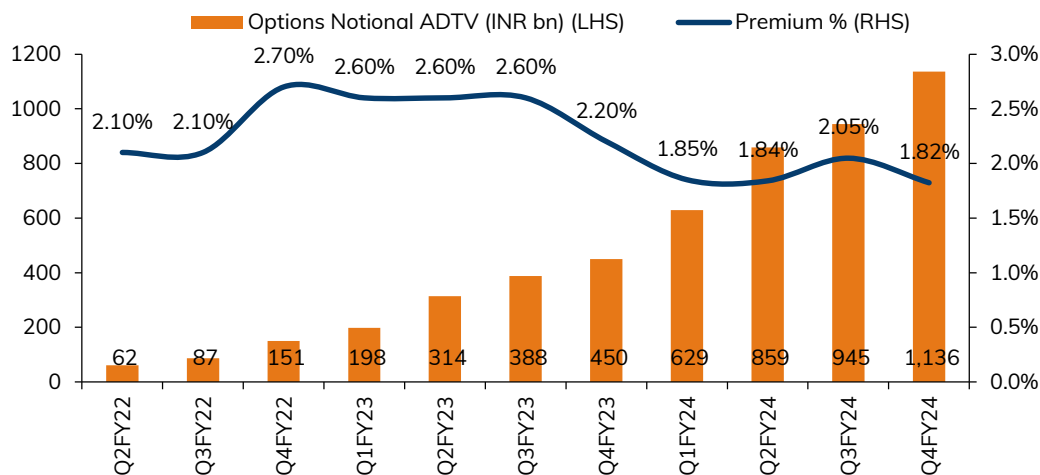


Source: I-Sec research, Company data

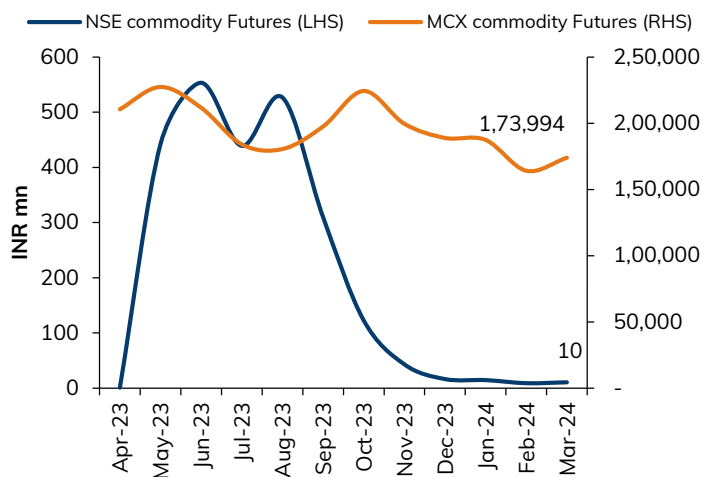
Exhibit 10: Ratio of crude options ADTV to futures ADTV



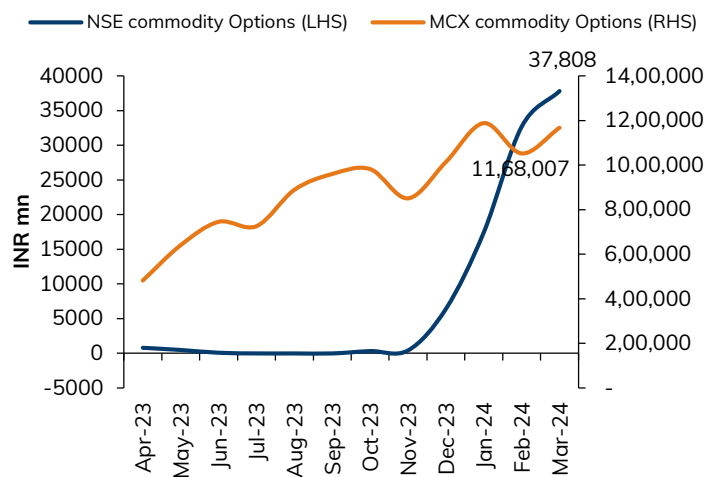
Source: I-Sec research, Company data

Exhibit 11: Premium Turnover as a % of notional turnover declined in Q4FY24

Source: I-Sec research, Company data

Exhibit 12: NSE and MCX commodity futures ADTV comparison (INR mn)

Source: I-Sec research, Company data

Exhibit 13: NSE and MCX commodity options ADTV comparison (INR mn)

Source: I-Sec research, Company data

Exhibit 14: Shareholding pattern

%	Sep '23	Dec'23	Mar'24
Promoters	0.0	0.0	0.0
Institutional investors	79.9	81.7	80.1
MFs and others	34.4	35.1	34.7
FIs/Banks	19.1	19.8	20.2
FIIIs	26.4	26.8	25.2
Others	20.1	18.3	19.9

Source: Bloomberg

Exhibit 15: Price chart

Source: Bloomberg

Financial Summary

Exhibit 16: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Net Sales	5,135	6,836	9,477	10,946
Operating Expenses	3,638	6,192	3,512	3,873
EBITDA	1,497	643	5,965	7,073
EBITDA Margin (%)	29.2	9.4	62.9	64.6
Depreciation & Amortization	216	359	532	560
EBIT	1,281	284	5,433	6,513
Interest expenditure	2	3	-	-
Other Non-operating Income	-	-	-	-
Recurring PBT	1,956	1,035	6,312	7,524
Profit / (Loss) from Associates	(50)	(15)	-	-
Less: Taxes	416	189	1,591	1,896
PAT	1,540	846	4,721	5,628
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	1,490	831	4,721	5,628
Net Income (Adjusted)	1,490	831	4,721	5,628

Source Company data, I-Sec research

Exhibit 17: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	14,255	11,390	12,413	16,038
of which cash & cash eqv.	11,779	9,656	9,934	13,514
Total Current Liabilities & Provisions	14,874	19,647	20,679	22,069
Net Current Assets	(618)	(8,258)	(8,266)	(6,030)
Investments	10,465	17,388	17,506	17,635
Net Fixed Assets	1,299	1,840	1,405	1,058
ROU Assets	-	-	-	-
Capital Work-in-Progress	1,685	544	544	544
Total Intangible Assets	188	1,940	2,090	2,240
Other assets	1,727	971	2,462	2,462
Deferred Tax assests	-	-	-	-
Total Assets	15,355	14,441	16,377	18,628
Liabilities				
Borrowings	-	-	-	-
Deferred Tax Liability	-	82	-	-
Provisions	25	28	28	28
Other Liabilities	536	546	567	567
Equity Share Capital	510	510	510	510
Reserves & Surplus	14,283	13,275	15,163	17,414
Total Net Worth	14,793	13,785	15,673	17,924
Minority Interest	-	-	-	-
Total Liabilities	15,354	14,441	16,268	18,519

Source Company data, I-Sec research

Exhibit 18: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Operating Cashflow	1,414	7,321	2,570	6,437
Working Capital Changes	1,060	6,879	(1,804)	1,260
Capital Commitments	(875)	(1,519)	(305)	(305)
Free Cashflow	539	5,802	2,265	6,132
Other investing cashflow	795	(7,450)	761	825
Cashflow from Investing Activities	(81)	(8,969)	456	520
Issue of Share Capital	-	-	-	-
Interest Cost	(7)	-	-	-
Inc (Dec) in Borrowings	-	-	-	-
Dividend paid	(887)	(390)	(2,833)	(3,377)
Others	-	-	-	-
Cash flow from Financing Activities	(895)	(390)	(2,833)	(3,377)
Chg. in Cash & Bank balance	438	(2,038)	194	3,580
Closing cash & balance	438	(2,038)	194	3,580

Source Company data, I-Sec research

Exhibit 19: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
Per Share Data (INR)				
EPS(Basic Recurring)	29.2	16.3	92.6	110.4
Diluted Recurring EPS	29.2	16.3	92.6	110.4
Core EPS	26.8	12.7	90.0	106.7
Recurring Cash EPS	33.4	23.3	103.0	121.3
Dividend per share (DPS)	19.1	7.6	55.5	66.2
Book Value per share (BV)	290.1	270.3	307.3	351.5
Growth Ratios (%)				
Operating income	40.0	33.1	38.6	15.5
EBITDA	(7.7)	(57.0)	827.5	18.6
Recurring Net Income	(9.1)	(44.2)	468.1	19.2
Diluted Recurring EPS	(9.1)	(44.2)	468.1	19.2
Diluted Recurring CEPS	(8.6)	(30.2)	341.3	17.8
Valuation Ratios				
P/E	131.3	235.3	41.4	34.8
P/CEPS	114.7	164.3	37.2	31.6
P/BV	13.2	14.2	12.5	10.9
EV / EBITDA	86.8	142.2	28.1	23.6
Operating Ratios				
Software support charge / Revenue	46.9	67.9	11.2	10.8
Employee charge / Revenue	21.4	19.7	15.3	14.5
Effective Tax Rate (%)	20.0	20.0	25.2	25.2
Current ratio	0.3	0.2	0.3	0.3
Return/Profitability Ratio (%)				
EBITDA Margins	29.2	9.4	62.9	64.6
Recurring Net Income Margins	25.6	11.0	45.6	47.1
RoCE	6.8	1.5	26.5	28.0
Dividend Payout Ratio	65.4	46.9	60.0	60.0
Dividend Yield	0.5	0.2	1.4	1.7
RoE	10.3	5.8	32.1	33.5

Source Company data, I-Sec research

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