

Multi Commodity Exchange of India

31st Oct 2022

Non-linear Options growth not priced in

The Multi Commodity Exchange of India Limited (MCX) is India's largest commodity derivatives exchange that facilitates online trading of commodity derivative transactions, thereby providing a platform for price discovery and risk management, with a market share of 96.8%. MCX offers trading in commodity derivative contracts across various segments, including bullion, industrial metals, energy, and agricultural commodities. The exchange has an extensive network of 587 Registered Members and 51,489 Authorized Persons with a presence in 872 cities and towns across India as on Sept'22.

The company recently introduced Options Contracts on commodities traded on its platform, and the Average Daily Turnover (ADT) of Options has already surpassed the ADT of the Futures contract.

Expansion of product offering

MCX launched Options in 2017, and since then, it has gained significant traction to surpass the volume generated by future contracts. SEBI has recently allowed the introduction of Options in Commodity Indices. Given investors' strong interest in index options like Nifty, Bank Nifty, etc., in the Equity F&O market, Options on Commodity Indices can become a crucial new product when launched. Also, subject to certain regulatory approval, other products, such as domestic spot gold, electricity derivative products, etc., are in the pipeline.

Investment in technology is expected to be margin accretive

MCX is currently developing its own Commodity Derivative Platform (CDP). The Company's existing platform is developed and supported by 63 Moons, where MCX is paying a fixed cost plus a certain percentage share of the revenue. The contract with 63 Moons expired in Sept'22. It is expected that total Annual Maintenance Charges (AMC) and amortization charges will be less than the annual payment made to 63 Moons. This will result in operating margin expansion for MCX. Also, since the contract with 63 Moons involves revenue sharing, it limits the operating leverage, which might not be the case once CDP goes live.

Entry of new market participants

In the last 5-7 years, SEBI has expanded the list of participants who can trade on the commodity exchange. SEBI has already allowed institutional investors like Mutual Funds, Portfolio Management Services (PMS), and CAT III AIFs. In 2022, SEBI has also allowed Foreign Portfolio Investors (FPI) to trade in non-agricultural commodities.

View & Valuation

We initiate our coverage on Multi Commodity Exchange of India with a BUY rating and a target of Rs. 1,786 (45x FY24 Core EPS). MCX is at a pivot point where it has gained massive traction in Options Contract, rapidly expanding product offering, regulatory tailwind, and margin expansion expected from developing its CDP. The commodity market in India is still at a nascent stage and with more than 90% market share, MCX is likely to be key beneficiary of the same.

BUY

CMP Rs. 1,535

TARGET Rs. 1786 (+16.4%)

Company Data

MCAP (Rs. Mn)	78,308
O/S Shares (Mn)	51
52w High/Low	2022 / 1142
Face Value (in Rs.)	10
Liquidity (3M) (Rs. Mn)	462

Shareholding Pattern %

	Sep 22	Jun 22	Mar 22
Promoters	0.0	0.0	0.0
FIIs	23.5	26.8	26.5
DIIIs	50.6	48.6	48.3
Non-Institutional	25.9	24.6	25.2

MCX vs Nifty



Source: Company, Keynote Capitals Ltd.

Key Financial Data

(Rs Mn)	FY22	FY23E	FY24E
Revenue	3,668	4,976	5,351
EBITDA	1,622	2,480	2,712
Net Profit	1,447	2,230	2,445
Total Assets	35,637	36,278	37,627
ROCE (%)	8%	11%	12%
ROE (%)	8%	11%	12%

Source: Company, Keynote Capitals Ltd.

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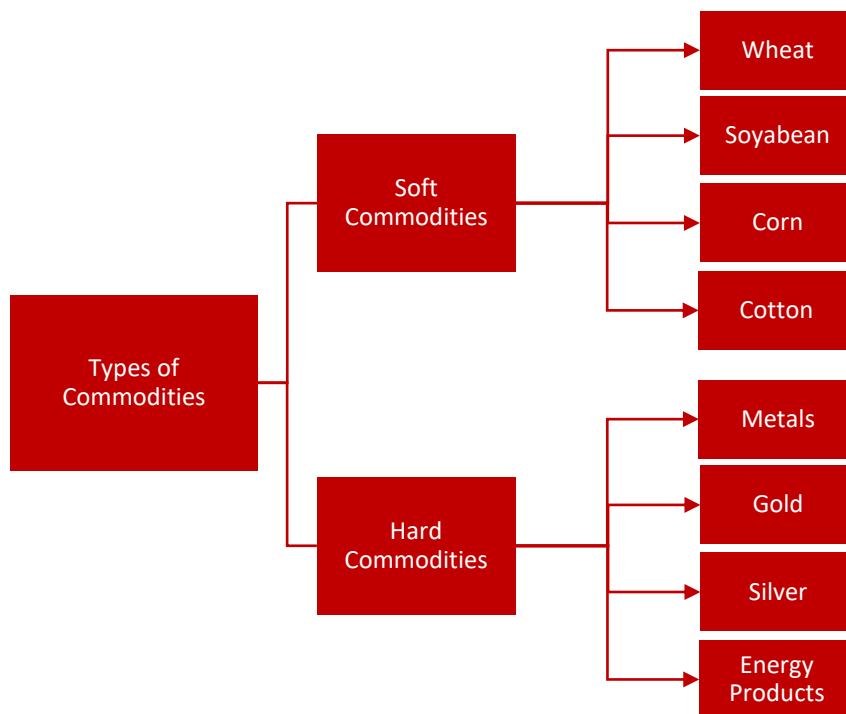
Industry Overview

A commodity exchange is an organized physical or virtual marketplace where tradable commodities and derivatives are bought and sold. The commodity derivative market has been functioning in India since the 19th century with organized trading in cotton through the establishment of the Cotton Trade Association in 1875. Commodity exchange came into existence in India in 2002.

The National Multi-Commodity Exchange (NMCE) of Ahmedabad started in 2002, followed by MCX India in 2003.

Classification of Commodities

Commodities are broadly classified as soft and hard commodities. Soft commodities are grown (Agri products), while hard commodities are mined (Non-Agri Products).



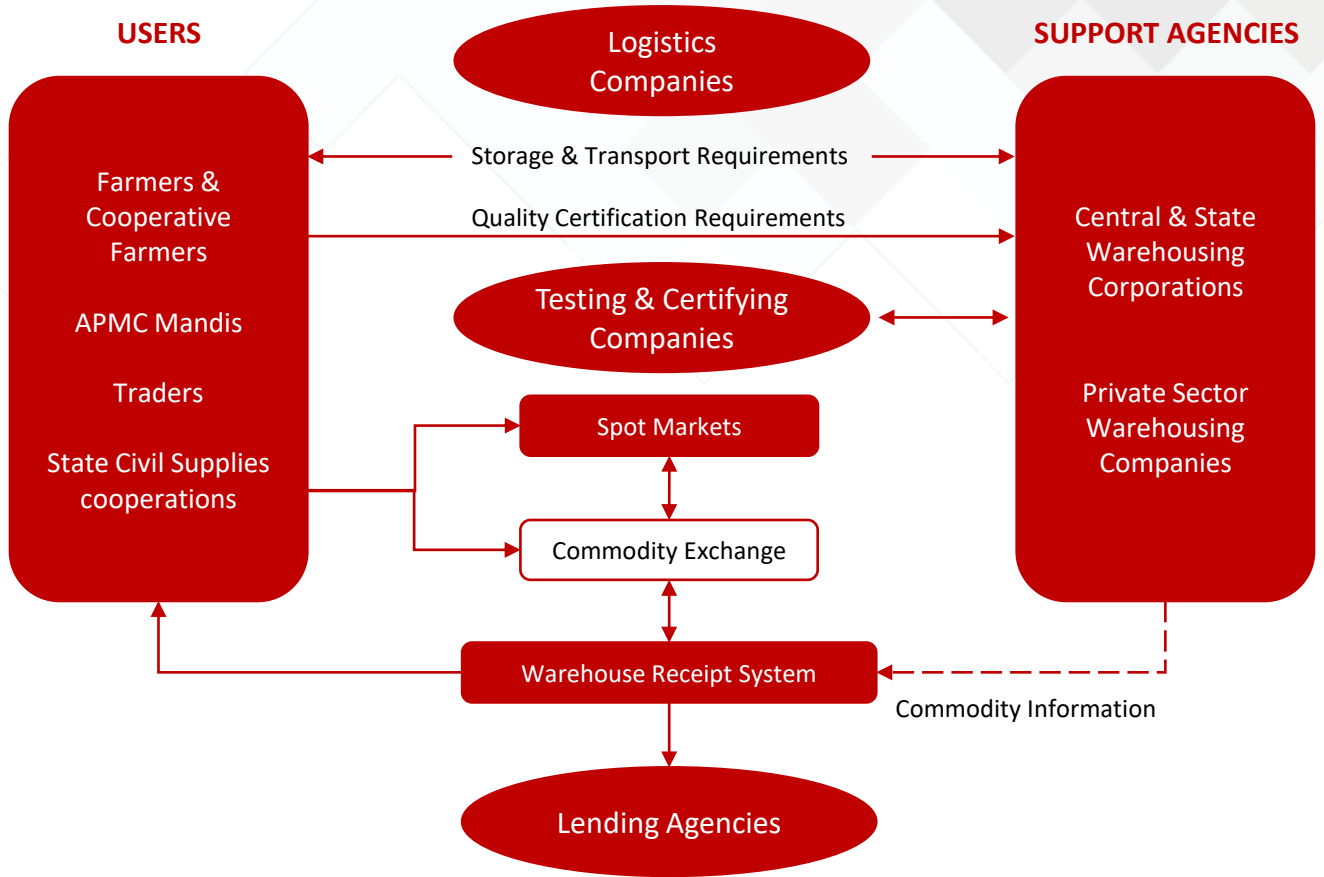
Source: NCDEX DRHP, Keynote Capitals Ltd.

Commodity Trading Process

Participants use the commodity exchange trading platform to transact. In contrast, value chain participants use the platform to hedge their business risk, and other participants, such as scalpers or arbitrageurs, may use the same for financial gains.

Before making a trade, participants (traders, farmers, etc.) get their commodities tested & certified so that it can be easily traded on a commodity exchange or spot markets. This helps the buyer of a commodity to build trust on exchange. Logistics companies help transport physical goods from sellers to registered warehouses or registered warehouses to buyers. Registered warehouses deliver or store (for a small monthly fee) goods as per the requirements of buyers and sellers on the exchange.

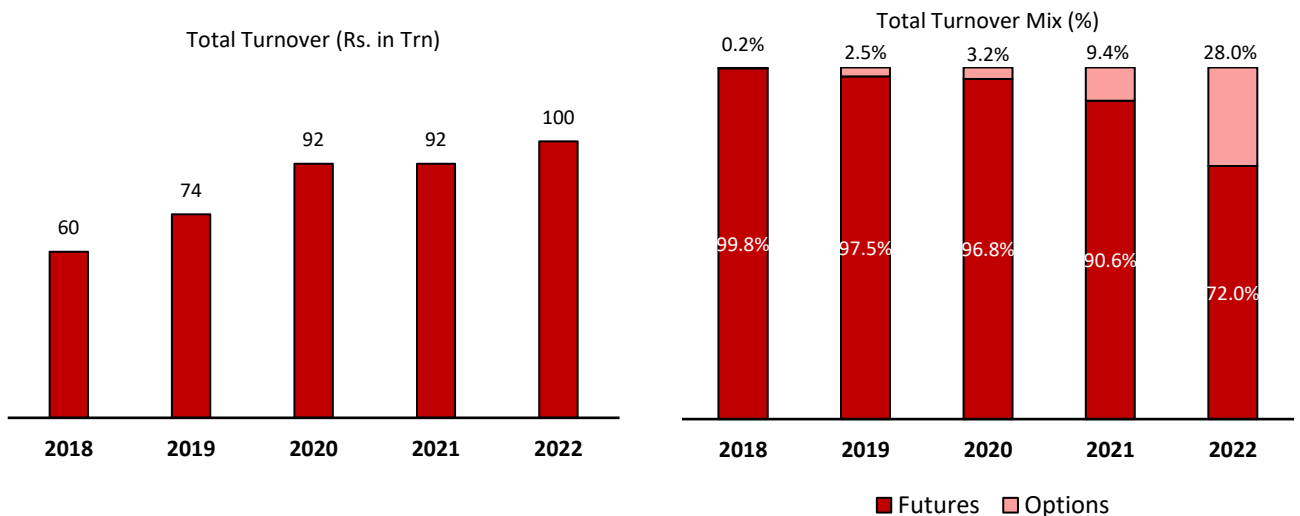
Commodity Trading Process



Source: NCDEX DRHP, Keynote Capitals Ltd.

Industry Size

In the last four years, the Total Turnover in the industry has grown at 13.6% CAGR. Options have gained a considerable share of the total turnover's pie from merely 0.2% in 2018 to 28% in 2022, growing at 300% CAGR, whereas Futures have grown at 4.7%.



Source: SEBI's Annual Report, Keynote Capitals Ltd.

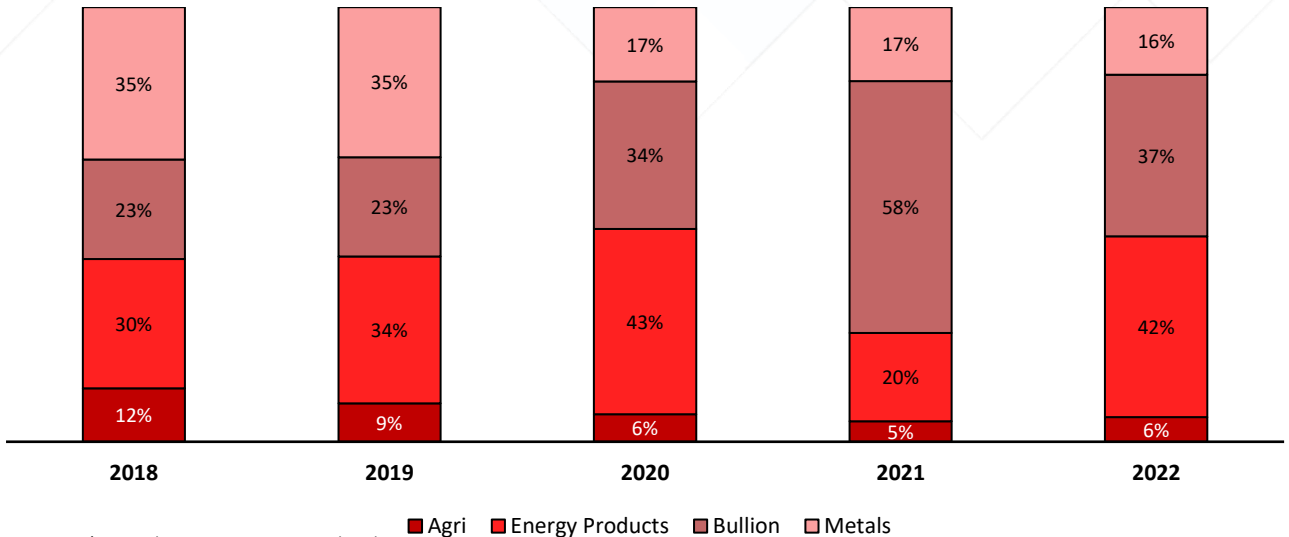
■ Futures □ Options

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Product-wise Volume Mix

Over the years, the product-wise volume mix has remained erratic. The introduction or suspension of particular contracts and volatility in the price of the products are the major reasons for the change in mix. For example, Options contracts on Bullion were approved in 2021 on BSE & NSE, led to a surge in volume & in 2022, volatility in energy prices impacted volumes in energy products

Product-wise Volume Mix (%) in Total Turnover

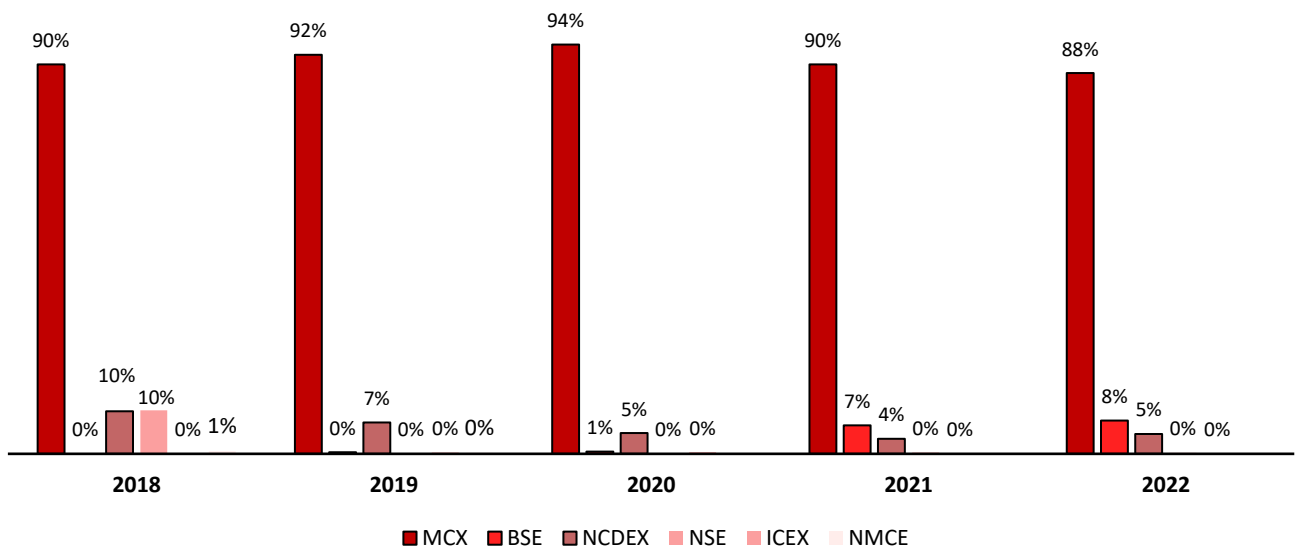


Source: SEBI's Annual Report, Keynote Capitals Ltd.

List of commodity exchange players in India & their Market Share

Currently, there are five commodity exchanges in India, namely, MCX India, National Commodity & Derivative Exchange Limited (NCDEX), Bombay Stock Exchange (BSE), National Stock Exchange (NSE) & Indian Commodity Exchange (ICEX). NMCE got merged with ICEX in 2018. Over the years, MCX India has shown dominance with the lion's share of >85% in the industry.

Market Share (%) based on Total Turnover

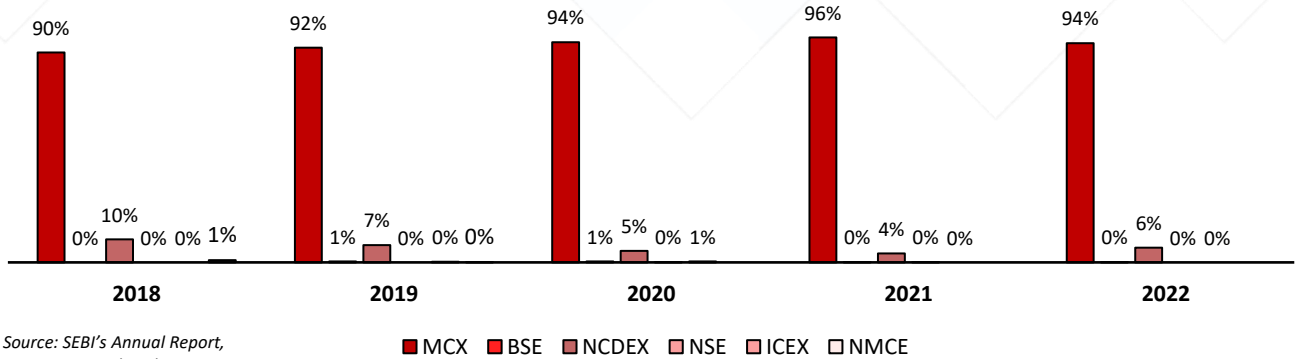


Source: SEBI's Annual Report, Keynote Capitals Ltd.

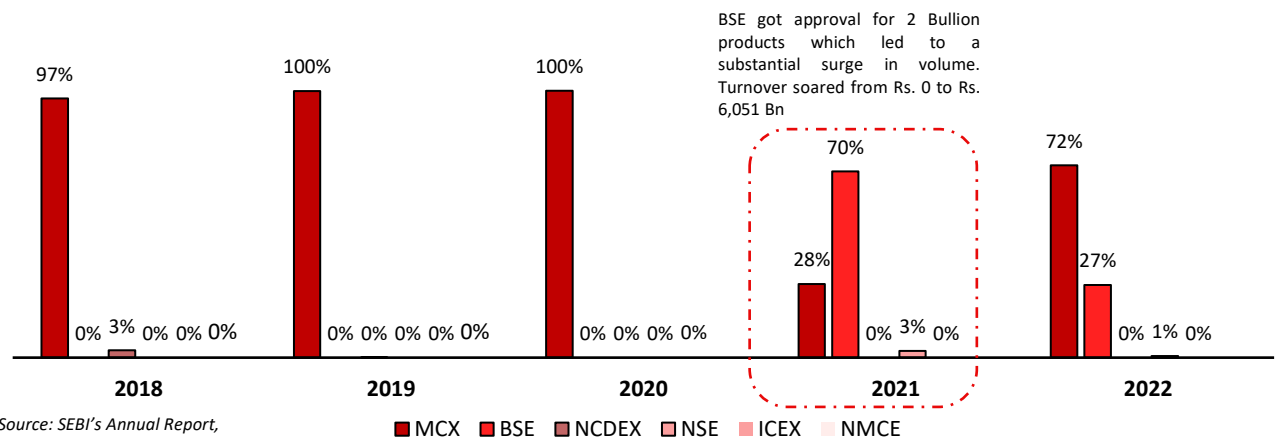
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In the last four years, Total Turnover in Futures has grown at 4.7% CAGR (Turnover grew from Rs. 60,092 Bn to Rs. 72,171 Bn), whereas Options have grown at 300% CAGR (Turnover grew from Rs. 106 Bn to Rs. 28,109 Bn). To some extent, it is seen that Options are cannibalizing turnover growth for Futures. Currently, an Option on a particular product only gets approval when there is a liquid market for Futures on the same product, which means growth in Options contracts in some measure dependent on Futures.

Market Share (%) based on Total Futures Turnover



Market Share (%) based on Total Options Turnover

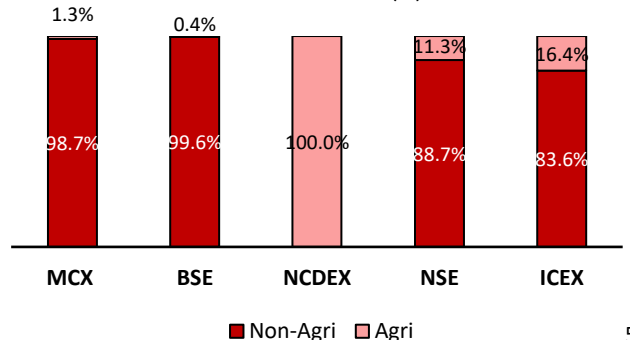


Exchanges are required to take approval/permission from SEBI to trade commodities. Based on commodities permitted to trade & volume mix on individual exchange, it clearly depicts that other than NCDEX, every player is Non-Agri oriented.

Exchanges	List of commodities permitted to trade in 2022	
	Non-Agri	Agri
MCX India	12	6
NCDEX	1	28
BSE	8	5
NSE	4	1
ICEX	1	9

Source: SEBI's Annual Report, Keynote Capitals Ltd.

Product-wise Volume Mix (%) in 2022



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New Product Approvals

Under section 2(BC) of the Securities Contracts (Regulation) Act, 1956, 91 goods, including activities, services, rights, interests, and events, are notified for the purpose of commodity derivatives contracts.

Details of new contracts approved by SEBI during 2021-22

Contract Name	Applicant Exchange
Commodity Future Contracts	
Coffee	NCDEX
Refined Casto Oil	NCDEX
Gold 1 gram	NSE
Futures on Commodity indices	
MCX iCOMDEX Energy Index	MCX
NCDEX Guar Index	NCDEX
NCDEX Soy Index	NCDEX
Options on Futures	
Nickel	MCX
Silver Mini (5kg)	MCX
Natural Gas	MCX
Gold Mini (100 gm)	MCX
Crude Palm Oil	MCX
Options on Goods	
Steel	BSE

Source: SEBI's Annual Report, Keynote Capitals Ltd.

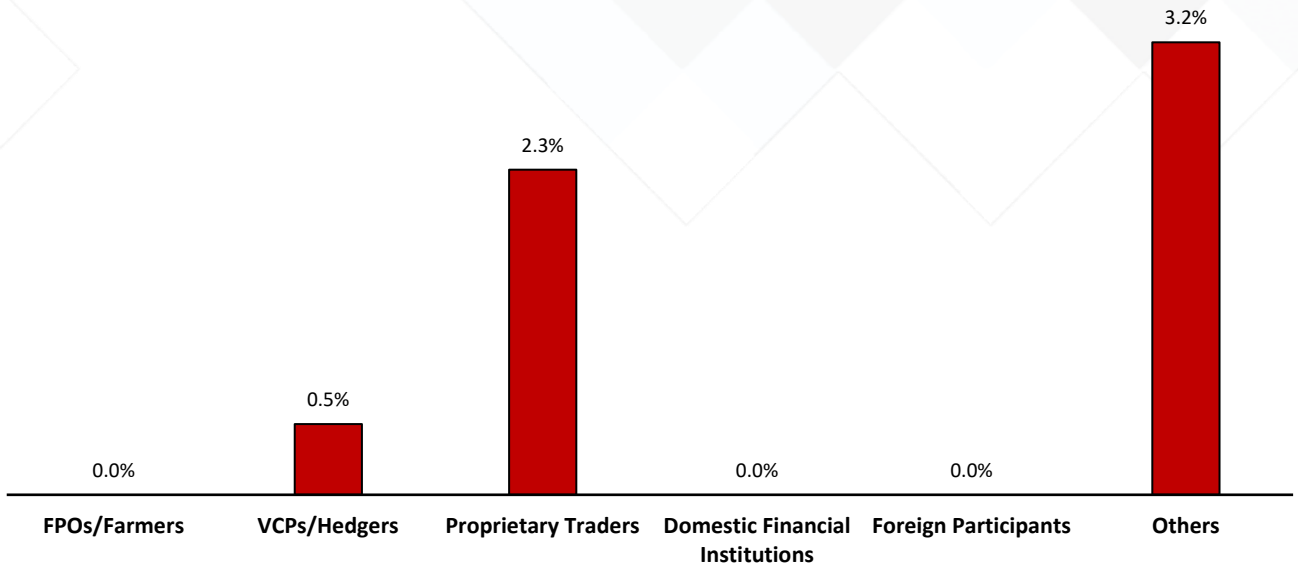
Options as a product have emerged as a substantial revenue source for all the exchanges. Exchanges are focusing on getting approvals from SEBI to introduce newer options contracts. In 2022, MCX India got 5 approvals in Non-Agri contracts, whereas BSE got 1 approval.

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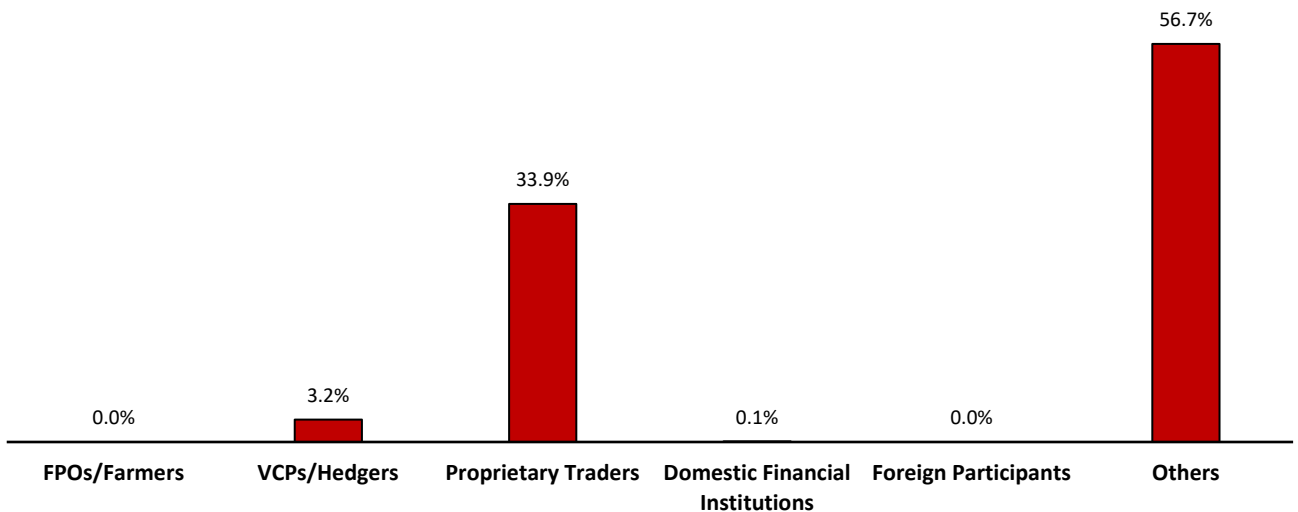
Participant-wise Share in Turnover of Commodity Derivatives Market

In 2022, 94% of total turnover was derived from Non-Agri segment, whereas 6% was derived from Agri segment. The share of proprietary traders & others in turnover was the highest for all exchanges

Participant-wise Share (%) in Agri segment



Participant-wise Share (%) in Non-Agri segment



Source: SEBI's Annual Report, Keynote Capitals Ltd.

Note:

FPO: Farmer Producer Organizations

VCP: Value Chain Participants

Domestic Financial Institutions include Category -3 AIF, PMS, and Mutual Funds

Others: HUF, Individual Proprietorship Firms, Partnership Firms/Limited Liability Partnership, Public & Private Companies or Corporate Bodies

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Regulations

As a Regulator, SEBI took over the regulations of the commodity derivatives market in September 2015 as a result of a merger of the Forward Market Commission (FMC) with SEBI. The merger of two regulators was a unique and rare event across the world. Since then, SEBI has taken a series of steps to strengthen and deepen the commodity derivative market. A few important regulatory updates are listed below:

FY23

Issued changes to the Framework to **enable Verification of Upfront Collection of Margins from Clients in Cash and Derivatives segments**. It has been decided that the margin requirements to be considered for the intra-day snapshots in derivatives segments (including commodity derivatives), **shall be calculated based on the fixed Beginning of Day (BOD) margin parameters**.

Foreign portfolio investors (FPIs) will be allowed only in cash-settled non-agricultural commodity derivative contracts and indices.

FY22

Devised a framework to mitigate the risk of misuse of client's funds. As specified, the actual **settlement of funds and securities** shall be done by the member depending on **the mandate of the client with a maximum gap of 90/30 days** (as per the choice of client viz. Quarterly/Monthly) between two settlements of running account.

FY21

Mutual fund schemes cannot invest in physical goods in commodity derivatives except in 'Gold' that too through Gold ETFs.

Members to **review the client shortfall from two perspectives** based on (a) EOD margin obligation and (b) Peak margin obligation during the day. Further, higher of (a) and (b) to be considered for levying of penalty as per the extant framework.

The peak margin obligation of client shall be adopted in a phased manner, as given below:

- Phase I- 25% (for 3 months from the date of implementation i.e up to 28.02.2021),
- Phase II- 50% (for subsequent 3 months i.e up to 30.05.2021),
- Phase III- 75% (for subsequent 3 months i.e up to 31.08.2021)

- Phase IV 100% (w.e.f 01.09.2021) to compare the shortfall with peak margin for respective client and differential shortfall as allowed for respective phase can be funded by their own funds.

Members to ensure changes in trading, risk management, and surveillance systems to integrate peak margin related reporting. Provisions of this circular are effective from December 01, 2020

FY20

To promote institutional participation, SEBI had amended the SEBI (Mutual Funds) Regulations, 1996 and the (Portfolio Managers) Regulations, 1993 enabling Mutual Funds and Portfolio Managers to participate in commodity derivatives segments

SEBI permitted Recognized Stock Exchanges with the commodity derivatives segment to introduce futures on commodity indices. Construction of commodity indices shall conform to the guidelines prescribed by SEBI

To bring uniformity in depositing of penalties levied on clients for short collection or non-collection of margins in the commodity derivatives segment, **SEBI directed clearing corporations and exchanges to deposit such penalties in Core Settlement Guarantee Fund (SGF)**

SEBI has **disallowed multiple contracts on the same commodity** after December 2019 except for Gold, Silver and Precious metals contracts

SEBI in addition to options on commodity futures has **allowed stock exchanges to launch 'option in goods' in their commodity derivatives segment**

FY19

To enhance the participation of stakeholders, **SEBI extended trade timings for commodity derivatives** segment by an hour i.e. for non-agri commodities from 9 am to 11.30/ 11.55 pm, and for agricultural/ agri-processed commodities from 9 am to 5 pm (up to 9 pm for internationally referenced agri-commodities)

Pursuant to the amendments in the Finance Act w.e.f. April 01, 2018, **Commodity Transaction Tax ('CTT') was made applicable on options on commodity derivatives in lieu of Securities Transaction Charges (STT)**

Increase in order per second limit for algorithmic trading in commodity derivatives

FY18

Guidelines issued for participation of Category III Alternative Investment Funds (AIFs) in Commodity Derivatives market

Company Background

The Multi Commodity Exchange of India Limited (MCX) is India's largest commodity derivatives exchange that facilitates online trading of commodity derivatives transactions, thereby providing a platform for price discovery and risk management, with a market share of 96.8%. MCX started its operations in Nov'03 and operates under the regulatory framework of the SEBI.

MCX offers trading in commodity derivative contracts across various segments, including bullion, industrial metals, energy, and agricultural commodities. The exchange has an extensive network of 587 Registered Members and 51,489 Authorised Persons with a presence in 872 cities and towns across India as on Sept'22.

MCX has one wholly owned subsidiary and two associate companies, namely, Multi Commodity Exchange Clearing Corporation Ltd (MCXCCL), CDSL Commodity Repository Ltd (CCRL), and India International Bullion Holdings IFSC Ltd (IIBH), respectively.

Multi Commodity Exchange Clearing Corporation Ltd (MCXCCL)

MCXCCL has been set up as a separate clearing house for providing clearing and settlement services. MCXCCL performs risk management of the trades executed, collects margin from the members, effects pay-in and pay-out, and oversees the delivery and settlement process.

For the purpose of physical deliveries of the commodities traded on the exchange, MCXCCL has a vast network of warehouses and facilitates doorstep delivery of bullion across the country.

To initiate the physical deliveries of the commodities traded on MCX, MCXCCL entered into necessary warehousing arrangements with Warehouse Service Providers (WSP)/ Vault Service Providers (VSP) to cater to the storage requirements of various members of the exchange, who are willing to store goods and give delivery on the exchange platform.

CDSL Commodity Repository Ltd (CCRL)

MCX has a 24% stake in CCRL, which is involved in the business of repository for electronic warehousing negotiable receipts or any other instrument related to the commodities warehouse repository.

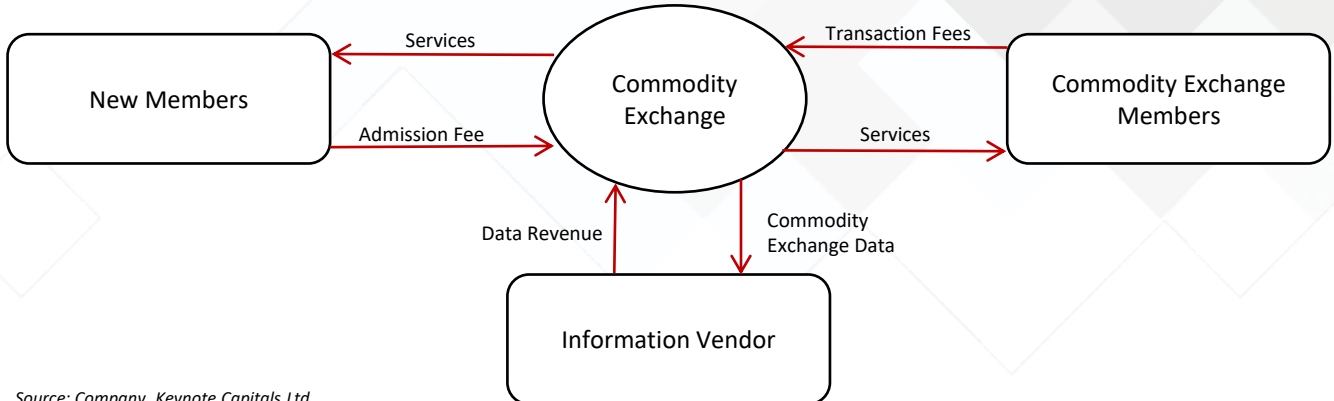
India International Bullion Holdings IFSC Ltd (IIBH)

MCX, NSE, NDSL, CDSL, and BSE's subsidiaries have joined hands to set up Market Infrastructure Institutions (MIIs) comprising International Bullion Exchange, Clearing Corporation, and Depository Company at Gujarat International Finance Tec-City (GIFT). MCX owns a 14.43% stake in IIBH. It is a gold spot exchange with dollar-denominated contracts and does not have any CTT, STT, GST, etc., and gets gold in Demat form, which can be physically delivered post-paying custom duty. This exchange will allow jewelry companies to import gold via this exchange directly instead of going through the catalyzing agencies.

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Revenue Model of MCX

MCX generates revenue on multiple fronts, with transaction fees being the major revenue contributor.



Source: Company, Keynote Capitals Ltd.

Major revenue segments for MCX are as follows:

Transaction Fees [~85% of Revenue]: It is calculated as a percentage of the total value of contracts traded on the exchange. Transaction fees are a function of volume (no. of contracts traded) and commodity price. Hence, transaction fees is subject to volatility in commodity prices.

Transaction fees include revenue generated from trading futures and options. Since MCX started charging for Option contracts from Oct'21, they have minuscule contributions in FY22.

Pricing for Future's Contract with MCX is as follows:

Commodity	Avg Daily Turnover (Rs. Mn)	Transaction Charge (Rs/Mn)
Non Agri Commodities	3,500	26
	>3,500	17.5
Agri Commodities		17.5

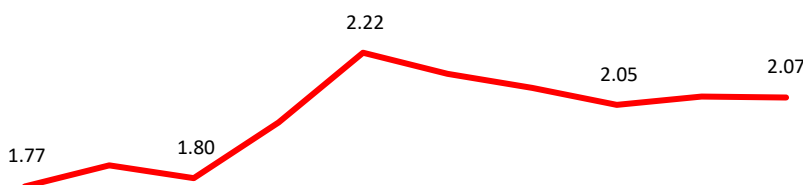
Source: Company, Keynote Capitals Ltd.

We expect Options to start contributing significantly to revenue in FY23, and Options realizations are ~40-50% of realization from Futures Contracts for same notional turnover.

Data Revenue [~1.5% of Revenue]: MCX sells its commodity data information to information vendor.

Warehouse Income [~2% of Revenue]: MCX has tied up with various warehouse service providers across India to cater to storage requirement of various members.

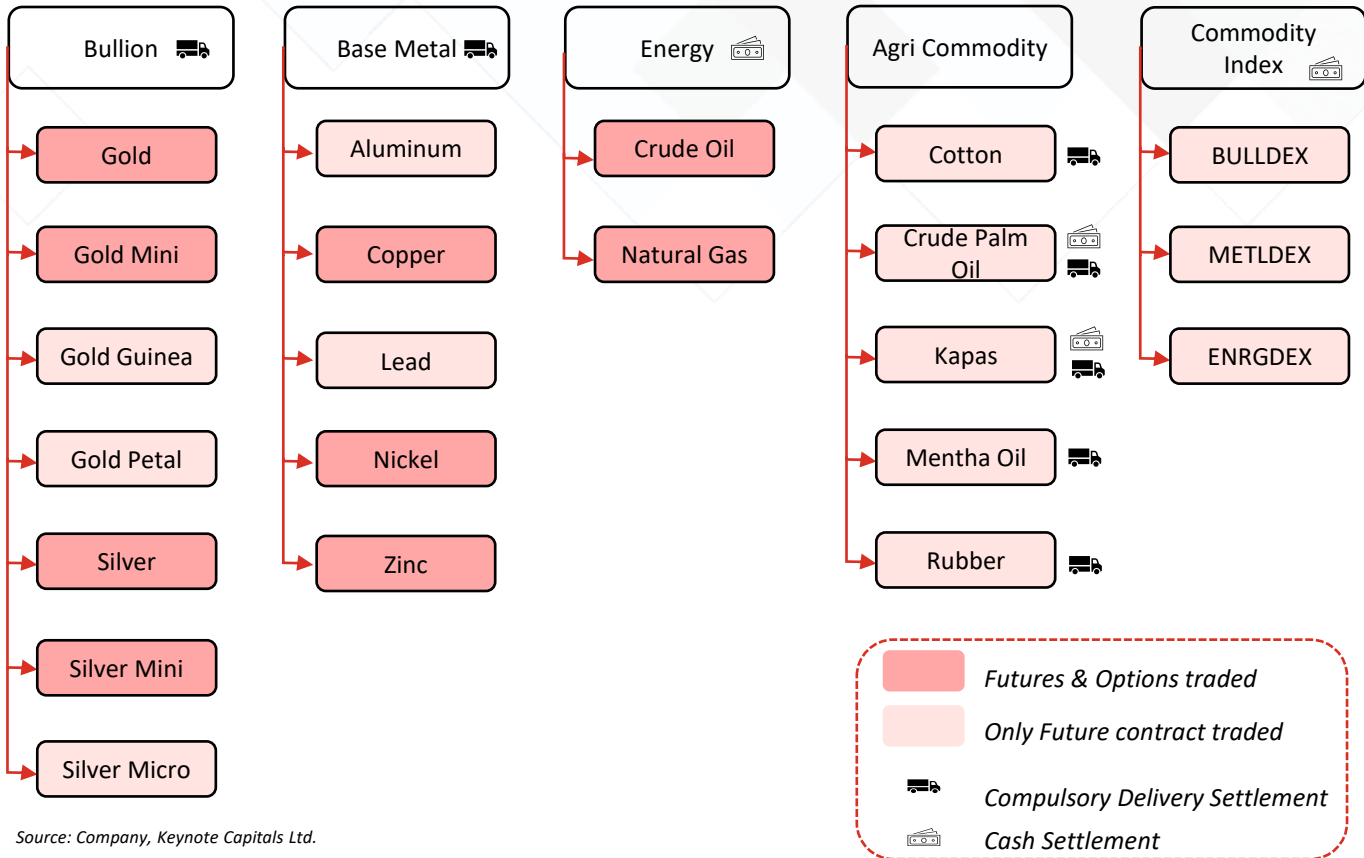
Average Realization Rate (ARR) For Futures (per Lakh - one Side)



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Income from Margin Money [~7.5% of Revenue]: MCX has margin money deposit from various members and brokers, which is parked into money market funds. The income earned on this float is income from margin money.

Product Offering



Source: Company, Keynote Capitals Ltd.

Cost Structure of MCX

Major Expenses by MCX	FY17	FY18	FY19	FY20	FY21	FY22
Total Cost	100%	100%	100%	100%	100%	100%
Software Support Charges	22%	21%	21%	24%	20%	21%
Product License Fees	4%	5%	8%	8%	6%	7%
Computer Technology & Communication Expenses	14%	12%	10%	9%	9%	9%
Employee cost	36%	36%	34%	35%	31%	35%

Source: Company, Keynote Capitals Ltd.

Total Cost includes all expenses other than Depreciation, Finance Cost, and Taxes

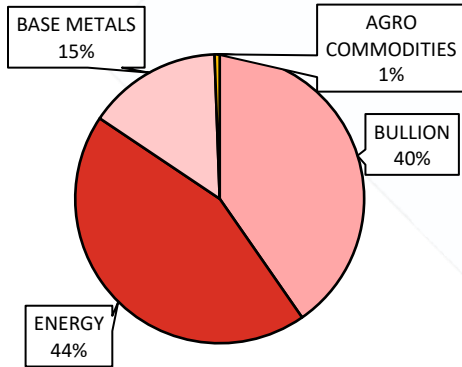
Software Support Charges, Product License fees, and Computer Technology costs represent ~35-40% of the total cost. This includes a payment to 63 Moons for support and management of the existing platform. With MCX developing its own Commodity Derivative platform (CDP), the cost of 63 Moons will be nullified from FY24 onwards.

The Company also pays licensing fees of \$2 Mn plus variable to the Chicago Mercantile Exchange (CME) for WTI crude and Henry Hub Gas.

Employee cost is expected to be elevated in FY23 due to senior-level hiring done for developing CDP, but once the platform goes live, employee cost will be rationalised.

Segment Data

Future Turnover is majorly contributed by Energy & Bullion



Source: Company, Keynote Capitals Ltd.
Data is from the Apr-Sep'22 period

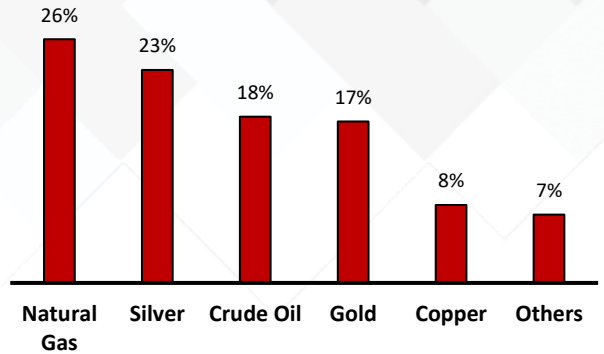
Futures contracts turnover is highly concentrated in five commodities, namely, Natural Gas, Silver, Crude Oil, Gold, and Copper. Option contract turnover is further concentrated in the Energy basket (Crude Oil and Natural Gas).

Since the launch of the Options contracts in 2017, turnover has accelerated tremendously, with notional turnover surpassing that of the Futures contracts.

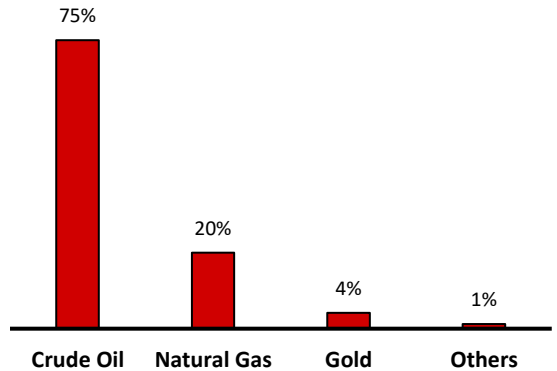
Index Futures turnover contributes a minuscule percentage (<1.5%) of overall MCX Futures turnover.

MCX recently received approval to launch Options Contracts on Indices, and we expect it to gain traction and be amongst their leading products

Five commodities account for more than 90% of Futures Turnover

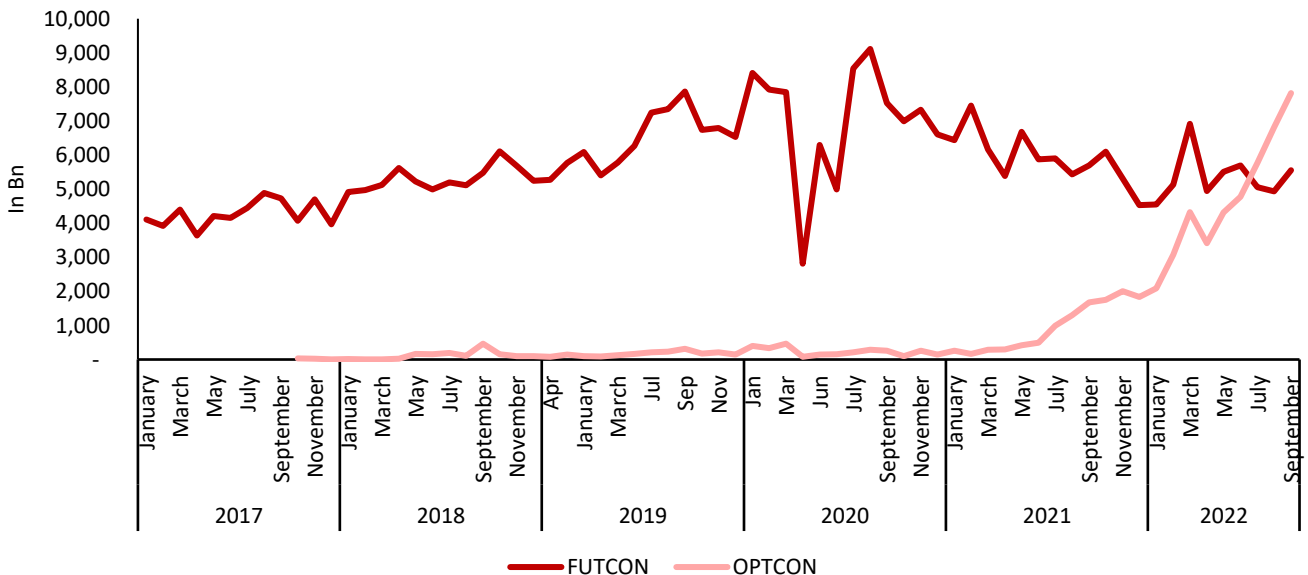


Crude Oil & Natural Gas contribute ~95% to Options Turnover



Source: Company, Keynote Capitals Ltd.
Data is from the Apr-Sep'22 period

Options Contract Turnover surpasses Futures Contract Turnover

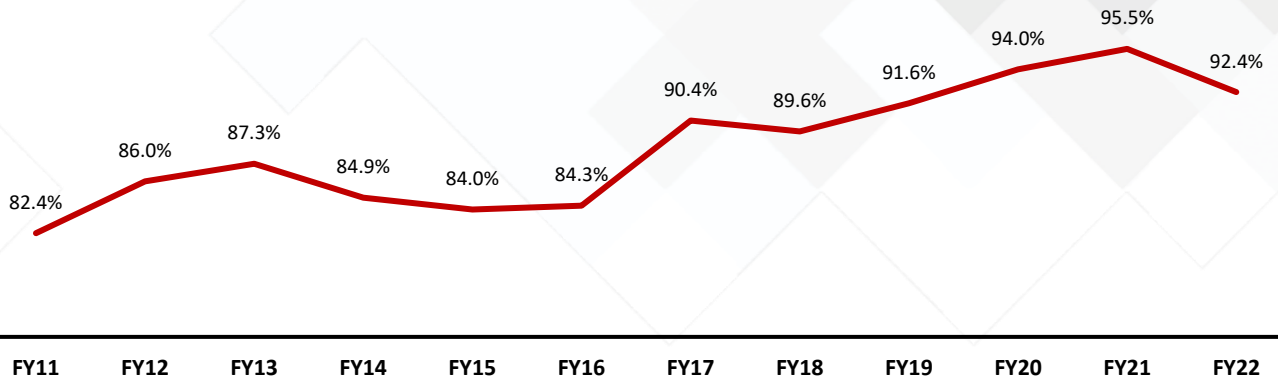


Source: Company, Keynote Capitals Ltd.

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Market Share

MCX Market Share (FUT)



Source: Company, Keynote Capitals Ltd.

MCX has managed to gain market share in the last 11 years consistently. Since it's a platform business, the network effect further fortifies its position. Other than Agri Commodity basket, MCX has almost an entire market in all the other commodity baskets.

Commodity Basket	Market Share in Future Contract	Market Share in Option Contract
Agri Commodity	19.5%	0.0%
Base Metal	97.4%	100.0%
Bullion	98.4%	24.8%
Energy	99.8%	100.0%
Overall	92.4%	72.1%

Source: Company, Keynote Capitals Ltd.
Market Share in FY22

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Board of Directors and Top Management

MCX is an institutionally owned company, currently managed by PS Reddy (MD & CEO since May'19).

Name	Position Held at MCX	Total Relevant Experience	Education Qualification	Other Comments
Mr. P. S. Reddy	MD & CEO	35 Years	Master's Degree in Economics	Has worked with CDSL for 12 years and BSE for 18 years
Mr. Manoj Jain	Chief Operating Officer	24 Years	MBA, Btech	
Mr. Satyajeet Bolar	Chief Financial Officer	29 Years	CA, B.com	
Mr. Praveen D G	Chief Risk Officer	22 Years	MBA, CFA, MA	

Source: Company, Keynote Capitals Ltd.

The top management of MCX is highly experienced, with almost everyone having more than 20 years of relevant experience. Most of the team has been associated with MCX since last 5-7 years.

Board of Directors composition of MCX consist of 10 directors, five Public Interest Directors, four Shareholder Director and one MD.

Promoter Holding & Top Shareholders

MCX was incorporated in 2002 and listed on NSE/BSE in 2012. Post the crisis at NSEL (a subsidiary of FTIL), MCX's erstwhile promoter, Financial Technologies (FTIL), was declared not 'Fit and Proper.' FTIL sold its entire stake (26%) in the open market and to Kotak Mahindra Bank (15%). Post-FTIL exit, MCX has been an institutionally owned company with no identifiable promoter.

Top Shareholders %

Particulars	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22	Sept-22
Kotak Mahindra Bank	15.00	15.00	15.00	15.00	15.00	15.00
Parag Parikh Flexi Cap	-	-	-	-	4.98	4.98
WF Asian Smaller Companies Fund Limited	-	-	-	4.95	4.95	4.95
Nippon Life India Trustee	-	-	-	-	3.25	4.84
Franklin India Flexi Cap Fund	-	-	-	-	3.13	3.50
ICICI Prudential S&P BSE 500 ETF	-	-	-	-	-	2.91
SBI Arbitrage Opportunities Fund	-	-	-	-	-	1.98
HDFC Large And Mid Cap Fund	-	-	-	-	1.96	1.96
Abu Dhabi Investment Authority	-	-	-	-	1.31	1.31

Source: Company, Keynote Capitals Ltd.

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Opportunities

Expansion of product offering

MCX launched Options in 2017, and since then, it has gained significant traction to surpass the volume generated by future contracts. SEBI has recently allowed the introduction of Options in Commodity Indices. Given investors' strong interest in index options like Nifty, Bank Nifty, etc., in the Equity F&O market, Options on Commodity Indices can become a crucial new product when launched. Also, subject to certain regulatory approval, other products, such as domestic spot gold, electricity derivative products, etc., on its platform which can additionally fuel the revenue

Recent product launches by MCX

Commodity	Product Type	Launch FY
Gold Mini	Options	FY22-23
Natural Gas	Options	FY21-22
Energy Index	Index	
Silver Mini	Options	
Nickel	Options	
Bullion Index	Index	FY20-21
Base Metal Index	Index	
Rubber	Futures	
Gold Petal	Futures	
Kapas	Futures	FY18-19
Silver	Options	
Zinc	Options	
Copper	Options	
Crude Oil	Options	FY17-18
Gold	Options	

Potentially become a leading product and revenue generator for MCX.

Source: Company, Keynote Capitals Ltd.

Investment in technology is expected to be margin accretive

MCX is currently developing its own Commodity Derivative Platform (CDP). The company's existing platform is developed and supported by 63 Moons, where MCX pays a fixed cost of Rs. 12-13 Mn every month, plus a certain percentage share of the revenue. The total annual payment to 63 Moons is ~Rs. 500-550 Mn in FY22. The contract with 63 Moons expired in Sep'22. MCX awarded the contract for developing a CDP to Tata Consultancy Services (TCS) in Feb 2021, where Capex will be amortized over a fixed period, and MCX will not bear any annual obligation charges other than nominal AMC charges. It is expected that total AMC charges and amortization costs will be less than the annual payment to 63 Moons. This will result in operating margin expansion for MCX. Also, since the contract with 63 Moons involves revenue sharing, it limits the operating leverage.

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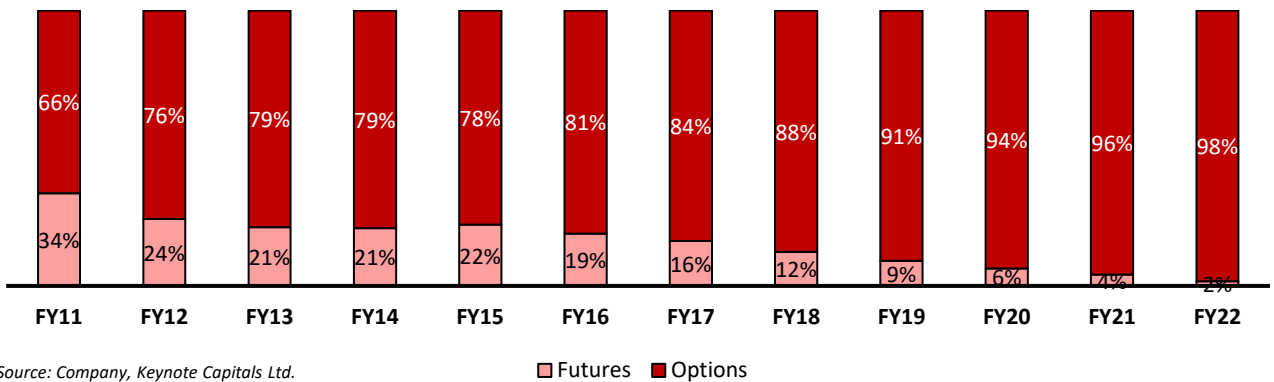
Opportunities

Index and Commodity Options could contribute significantly to total turnover

SEBI has allowed options trading on commodity futures and indices. We believe option turnover could be a game changer for the overall turnover of MCX, as in India, the options market is far more lucrative than the futures market due to higher taxes (CTT) on futures vs. options and lower capital requirements for option contracts for the same exposure.

In the case of NSE, 98% of turnover is currently contributed by Options (Stock & Index) and 2% by the Futures market. Within the Options market, 97% of Options turnover comes from Index Options. Options turnover is ~57x of futures turnover in the equity market.

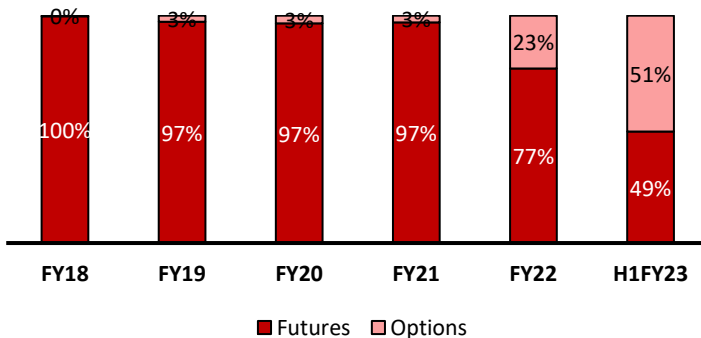
NSE F&O Mix, Options market is major turnover contributor



Source: Company, Keynote Capitals Ltd.

We expect MCX to follow a similar trajectory. In H1FY23, Options Turnover contributes ~51% to overall turnover. MCX is yet to launch Options trading on Indices.

MCX F&O Mix



Source: Company, Keynote Capitals Ltd.

New Market Participants

In the last 5-7 years, SEBI has expanded the list of participants who can trade on the commodity exchange. SEBI has already allowed institutional investors like Mutual Funds, Portfolio Management Services (PMS), and CAT III AIFs. Pursuant to SEBI approval, few mutual funds have launched Silver ETF fund. In 2022, SEBI has also allowed foreign portfolio investors (FPI) in non-agricultural commodities. Their participation will enhance liquidity and market depth as well as promote efficient price discovery.

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Challenges

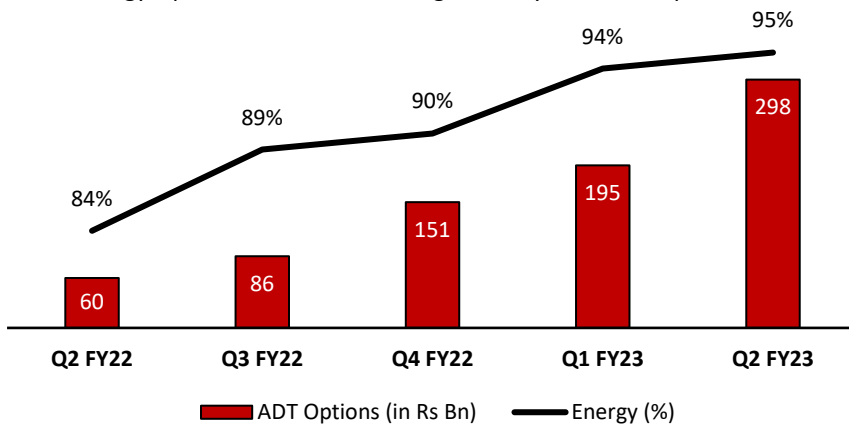
Volatility in commodity prices to impact revenue

MCX's transaction fee is calculated as a percent of the value of commodity futures contracts traded. Hence volume and value of contracts traded on it have a direct impact on MCX's revenue. Commodity prices can be very volatile at times, resulting in volatility in transaction fee income.

Total turnover is highly concentrated on few commodities

MCX has 15 commodities and 3 indices trading on its platform, but 4 commodities, namely, Gold, Silver, Natural Gas, and Crude Oil, contribute more than 90% of future turnover. Even in Options, Crude Oil and Natural Gas alone contribute more than 90% of Options turnover.

Energy Options ADT contribute significantly to overall options ADT

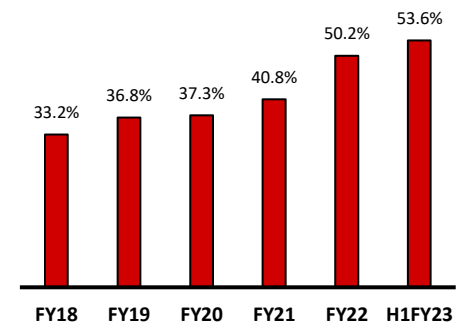


Source: Company, Keynote Capitals Ltd

ARR to be impacted due to Options & Algo traders limiting upside in ARR

Realizations from Options Contracts are 40-50% of the Futures Contracts realization on similar notional turnover. To a certain extent, the Options Contracts are cannibalizing the volume growth of future contracts. As the volume turnover of Options Contracts increases as a percentage of total turnover, blended realization for MCX will decline. In H1FY23, 53.6% of Total Turnover was driven by algo-traders who are a price-sensitive participant. A mere difference of 5% of exchange transaction charges between 2 products can lead to them shifting between products.

% of Turnover contributed by Algo Traders



Source: Company, Keynote Capitals Ltd

Suspension/ban of trading in certain commodities

In the past, SEBI has suspended the trading of derivatives contracts in some commodities, including those traded on MCX. Such suspension or ban on trading has direct and indirect consequences for the Company's revenue. Directly, it leads to an abrupt and unplanned loss of transaction revenue. Indirectly, it erodes the confidence of market participants in the continuity of other derivative contracts too. Recently, SEBI suspended trading of CPO futures to curb inflation and is applicable for a period of 1 year (till Dec 2022).

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Income Statement

Y/E Mar, Rs. Mn	FY21	FY22	FY23E	FY24E	FY25E
Net Sales	3,906	3,668	4,976	5,351	5,791
Growth %		-6%	36%	8%	8%
Raw Material Expenses	0	0	0	0	0
Employee Expenses	752	800	896	959	1,026
Other Expenses	1,303	1,246	1,600	1,680	1,764
EBITDA	1,851	1,622	2,480	2,712	3,001
Growth %		-12%	53%	9%	11%
Margin%	47%	44%	50%	51%	52%
Depreciation	221	227	272	331	375
EBIT	1,631	1,395	2,208	2,382	2,626
Growth %		-14%	58%	8%	10%
Margin%	42%	38%	44%	45%	45%
Interest Paid	2	2	2	2	2
Other Income & exceptional	1,038	461	691	796	909
PBT	2,667	1,853	2,897	3,175	3,533
Tax	415	406	666	730	812
PAT	2,251	1,447	2,230	2,445	2,720
Others (Minorities, Associates)	0	0	0	0	0
Net Profit	2,251	1,447	2,230	2,445	2,720
Growth %		-36%	54%	10%	11%
Shares (Mn)	51.0	51.0	51.0	51.0	51.0
EPS	44.16	28.13	43.73	47.94	53.34

Balance Sheet

Y/E Mar, Rs. Mn	FY21	FY22	FY23E	FY24E	FY25E
Cash, Cash equivalents & Bank	4,261	9,755	10,136	10,558	11,051
Current Investments	5,985	7,135	7,135	7,135	7,135
Debtors	90	115	149	161	174
Inventory	0	0	0	0	0
Short Term Loans & Advances	677	792	792	792	792
Other Current Assets	563	703	703	703	703
Total Current Assets	11,575	18,499	18,915	19,348	19,855
Net Block & CWIP	1,606	1,998	2,224	2,429	2,633
Long Term Investments	6,066	4,440	4,440	4,440	4,440
Other Non-current Assets	13,591	10,700	10,700	10,700	10,700
Total Assets	32,838	35,637	36,278	36,916	37,627
Creditors	203	264	348	375	405
Provision	402	309	309	309	309
Short Term Borrowings	0	0	0	0	0
Other Current Liabilities	5,264	7,611	7,611	7,611	7,611
Total Current Liabilities	5,869	8,185	8,269	8,295	8,326
Long Term Debt	0	0	0	0	0
Deferred Tax Liabilities	-48	98	98	98	98
Other Long Term Liabilities	8,141	7,917	7,917	7,917	7,917
Total Non Current Liabilities	8,094	8,015	8,015	8,015	8,015
Paid-up Capital	510	510	510	510	510
Reserves & Surplus	18,365	18,927	19,485	20,096	20,776
Shareholders' Equity	18,875	19,437	19,995	20,606	21,286
Non Controlling Interest	0	0	0	0	0
Total Equity & Liabilities	32,838	35,637	36,278	36,916	37,627

Source: Company, Keynote Capitals Ltd.

Cash Flow

Y/E Mar, Rs. Mn	FY21	FY22	FY23E	FY24E	FY25E
Pre-tax profit	2,667	2,058	2,897	3,175	3,533
Adjustments	-763	-177	-417	-463	-532
Change in Working Capital	-3,694	2,065	50	15	18
Total Tax Paid	-478	-323	-666	-730	-812
Cash flow from operating Activities	-2,269	3,623	1,863	1,997	2,206
Net Capital Expenditure	-211	-818	-498	-535	-579
Change in investments	1,179	774	0	0	0
Other investing activities	-1,356	-1,378	691	796	909
Cash flow from investing activities	-388	-1,422	193	261	330
Equity raised / (repaid)	0	0	0	0	0
Debt raised / (repaid)	0	0	0	0	0
Dividend (incl. tax)	-1,530	-1,408	-1,673	-1,834	-2,040
Other financing activities	-9	-9	-2	-2	-2
Cash flow from financing activities	-1,539	-1,417	-1,675	-1,836	-2,042
Net Change in cash	-4,195	784	381	422	494

Valuation Ratios

	FY21	FY22	FY23E	FY24E	FY25E
Per Share Data					
EPS	44	28	44	48	53
Growth %		-36%	55%	10%	11%
Book Value Per Share	370	381	392	404	417
Return Ratios					
Return on Assets (%)	7%	4%	6%	7%	7%
Return on Equity (%)	12%	8%	11%	12%	13%
Return on Capital Employed (%)	12%	8%	11%	12%	13%
Liquidity Ratios					
Current Ratio (x)	2.0	2.3	2.3	2.3	2.4
Interest Coverage Ratio (x)	1,404	858	1,208	1,324	1,473
Total Debt to Equity	0.0	0.0	0.0	0.0	0.0
Net Debt to Equity	-0.2	-0.5	-0.5	-0.5	-0.5
Valuation					
PE (x)	34.3	50.3	34.6	31.6	28.4
Earnings Yield (%)	3%	2%	3%	3%	4%
Price to Sales (x)	19.8	19.7	15.5	14.4	13.3
Price to Book (x)	4.1	3.7	3.9	3.7	3.6
EV/EBITDA (x)	39.4	38.5	27.2	24.8	22.5
EV/Sales (x)	18.7	17.0	13.5	12.6	11.6

Valuation (Exit Multiple)

Particulars	Estimates
Estimate Period	FY24E
Revenue (Rs. Mn)	5,294
PAT (Rs. Mn)	1,824
Core PE	45
Value of Business (Rs. Mn)	82,080
Cash Attributable to MCX (Rs. Mn)	9,000
Market Capitalization	91,080
Fair Value per Share	1,786

Source: Company, Keynote Capitals Ltd.

We have assumed Total Turnover growth of ~64%/11.4% in FY23E/FY24E, with Futures Turnover growing at a marginal rate of 2%. We have maintained ARR at FY22 levels for the Futures Contracts and Options realization at 50% of the ARR of the Futures Contracts.

We have assigned an exit multiple of 45 on core EPS (excluding other income) given the asset-light business model with high ROCE business.

In our assumption, we are yet to model any cost savings to MCX by developing its own Commodity Derivative Platform due to the unavailability of data on estimated development costs by the management.

Rating Methodology

Rating	Criteria
BUY	Expected positive return of > 10% over 1-year horizon
NEUTRAL	Expected positive return of > 0% to < 10% over 1-year horizon
REDUCE	Expected return of < 0% to -10% over 1-year horizon
SELL	Expected to fall by >10% over 1-year horizon
NOT RATED (NR)/UNDER REVIEW (UR)/COVERAGE SUSPENDED (CS)	Not covered by Keynote Capitals Ltd./Rating & Fair value under Review/Keynote Capitals Ltd. has suspended coverage

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