

Multi Commodity Exchange of India

15th November 2023

Successful transition to a new platform

In Q2FY24, Multi Commodity Exchange of India (MCX) delivered revenue growth of 29.6% on a YoY basis on the back of improving ADT of Options contracts, which increased by 173.6% on a YoY basis. MCX has finally transitioned to a new platform from 16th Oct 2023. However, operating margins were adversely affected during the quarter due to two factors. Firstly, MCX extended its software contract with 63 Moons until December 2023 at Rs. 1250 Mn per quarter. Additionally, there was a SGF contribution of Rs. 114 Mn during the quarter, resulting in negative operating margins of (-)17.4%. We expect MCX to report negative operating margins in Q3 FY24 due to contract with 63 Moons is valid till 31st December 2023.

Options contracts surpass all expectations; Futures volume remains under pressure

In Q2 FY24, ADT of Options contracts has increased from Rs. 314 Bn to Rs. 859 Bn, a growth of 173.6% on a YoY basis. Options contracts' revenue contribution to overall revenue has increased from 8.7% in FY22 to 62% in Q2 FY24, surpassing revenue from Futures contracts. Product concentration in Options contracts has been reducing, with energy contracts contribution at 90% in Q2 FY24 vs 95% in Q2 FY23. Bullion has gained traction, contributing 10% to Options' ADT.

ADT of Future contracts has declined by 21.6% on a YoY basis, with only the Energy contract showing growth of 6.0%, whereas all the other contracts ADT reduced. We expect Futures volume growth to remain flat or de-grow at a low single digit.

Successful launch of Commodity Derivative Platform (CDP)

MCX has successfully transitioned to a new platform from 16th Oct 2023. MCX has been working on the new platform for almost 2 Years and 8 Months. The transition has been smooth, and the system is running efficiently. Further, CDP has completed one complete cycle of deliveries, expiries and margin computation. MCX does not have to pay any Annual Maintenance charges to TCS (Technology partner) for the next year, i.e., until Sep 2024, but will have to incur other license costs to run the platform.

View & Valuation

MCX has effectively addressed a significant concern by successfully launching the CDP platform. MCX is now at a pivot point where it gaining massive traction in options contracts, rapidly expanding product offering, regulatory tailwind, and margin expansion expected from CDP platform. Based on our revised estimates, we revise our rating from UNDER REVIEW to REDUCE rating with a target price of Rs. 2,757 (35x FY25E EPS). While the positives have largely been factored in, the stock is reasonably valued at this point.

REDUCE

CMP Rs. 2,894

TARGET Rs. 2,757 (-4.7%)

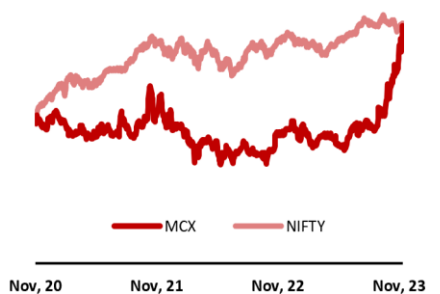
Company Data

Bloomberg Code	MCX IN
MCAP (Rs. Mn)	147,620
O/S Shares (Mn)	51
52w High/Low	2,9848/ 1,285
Face Value (in Rs.)	10
Liquidity (3M) (Rs. Mn)	3,027

Shareholding Pattern %

	Sep 23	Jun 23	Mar 23
Promoters	-	-	-
FII's	25.3	24.8	27.0
DII's	56.4	55.0	52.7
Non-Institutional	18.3	20.1	20.4

MCX vs Nifty



Source: Keynote Capitals Ltd.

Key Financial Data

(Rs. Mn)	FY23	FY24E	FY25E
Revenue	5,135	7,358	9,055
EBITDA	1,494	517	4,935
Net Profit	1,540	675	4,017
Total Assets	38,549	39,378	40,558
ROCE (%)	7%	3%	18%
ROE (%)	8%	3%	18%

Source: Company, Keynote Capitals Ltd.

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MCX India Limited | Quarterly Update

Q2 FY24 Result Update

Result Highlights (Rs. In Mn)

Particulars	Q2FY24	Q2FY23	Change % (Y-o-Y)	Q1FY24	Change % (Q-o-Q)	H1FY24	H1FY23	Change % (Y-o-Y)	FY23
Revenue	1,651	1,274	29.6%	1,458	13.3%	3,109	2,362	31.6%	5,135
Employee Cost	274	229	19.8%	253	8.3%	526	456	15.5%	919
Other Opex	1,664	389	327.4%	1,098	51.6%	2,763	757	264.8%	2,722
EBITDA	-287	656		107		-180	1,149		1,494
EBITDA %	-17%	51%		7%		-6%	49%		29%
Depreciation	66	58	13.9%	43	51.7%	109	115	-5.5%	216
EBIT	-353	598		64		-289	1,033		1,278
EBIT %	-21%	47%		4%		-9%	44%		25%
Finance Cost	1	0.0		1	-40.0%	2	1	220.0%	2
Other Income	189	182	3.7%	204	-7.5%	394	275	43.1%	680
PBT	-164	781		267		103	1,308	-92.1%	1,956
PBT %	-9%	54%		16%		3%	50%	-4666 Bps	34%
Tax	16	135	-87.9%	58	-71.8%	74	241	-69.2%	416
Share of Associates	-10	-14		-13		-23	-20		-50
PAT	-191	633		197		6	1,047	-99.4%	1,490
EPS	3.9	8.1		1.1		0.1	20.6		29.3

Particulars	Q2FY24	Q2FY23	Change % (Y-o-Y)	Q1FY24	Change % (Q-o-Q)
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ADT Futures Mix (in Mn)

Bullion	111,621	105,000	6%	129,187	-14%
Energy	54,654	91,940	-41%	61,893	-12%
Metals	20,795	40,640	-49%	22,237	-6%
Agriculture	231	640	-64%	257	-10%
Index	328	950	-65.5%	562	-42%

ADT Options Mix (in Mn)

Bullion	85,623	15,970	436%	70,997	20.6%
Energy	772,928	297,810	160%	548,228	41.0%
Metals	182	20	808.0%	54	236.3%

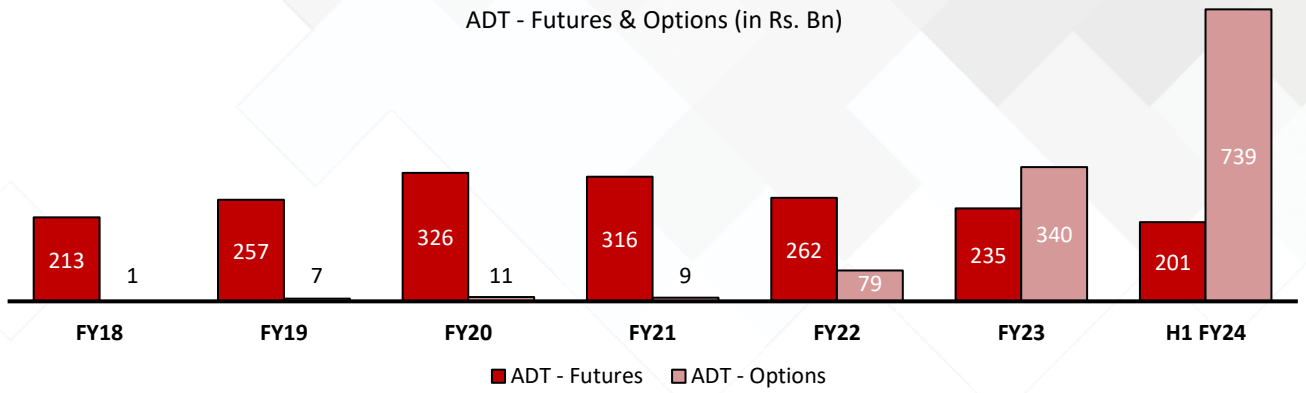
MCX's Network

Unique Client Codes	13,954,498	9,975,263	40%	10,099,457	38%
Members	552	587	-6%	556	-1%
Authorised Persons	43,139	51,489	-16%	47,573	-9%

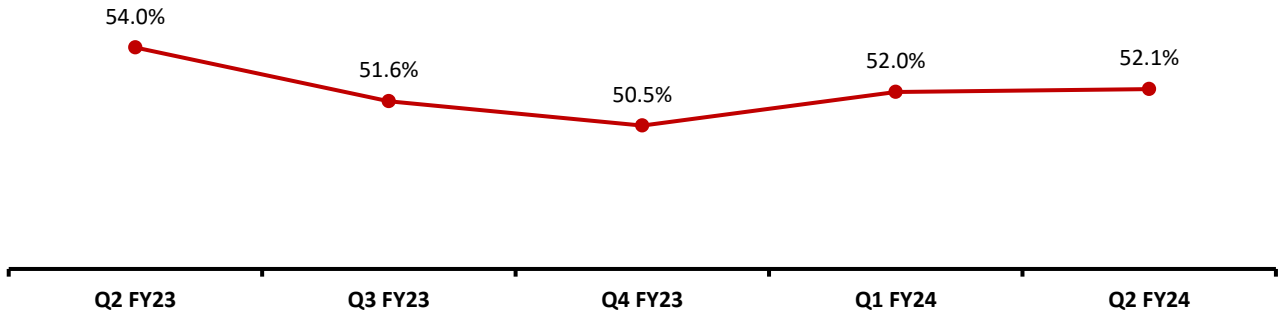
Source: Company, Keynote Capitals Ltd.

Business progression

ADT - Futures & Options (in Rs. Bn)



% of Futures volume contributed by Algos



Source: Company, Keynote Capitals Ltd.

Q2 FY24 Conference Call Takeaways

General Highlights

- Management is actively pursuing launching Steel TMT bar contracts as a lot of construction and infrastructure activity is happening in the country.
- Further, they are also planning to launch monthly gold contracts.

New Platform

- New Commodity Derivative Platform (CDP) has gone live effective 16th Oct 2023. MCX has been working on the new platform for almost 2 Years and 8 Months. The transition has been smooth, and the system is running efficiently.
- Further, CDP has completed one complete cycle of deliveries, expiries and margin computation. All complexities involved in running an exchange have been tested on the new platform.
- Cost of CDP development will be made public with Q3 results. MCX does not have to pay any Annual Maintenance charges to TCS (Technology partner) for the next year, i.e., until Sep 2024.

Option Segment

- During Q2 FY24, Options accounted for 62% of the total transaction charges, amounting to Rs. 0.83 Bn.

Settlement Guarantee Fund (SGF)

- MCX contributed Rs. 114 Mn to SGF during the current quarter, bringing the total SGF to Rs. 68.6 Bn. The requirement of SGF contribution arises when the open interest volume on the exchange crosses a certain threshold. These contributions are treated as an expense in the Profit & Loss statement.
- MCX's previous contribution to the SGF dates back to March 2020. Going forward, the next SGF contribution will be triggered when the open interest exceeds specific pre-established thresholds.

Financial Statement Analysis

Income Statement

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	3,668	5,135	7,358	9,055	10,723
Growth %	-6%	40%	43%	23%	18%
Raw Material Expenses	0	0	0	0	0
Employee Expenses	800	919	1,029	1,132	1,245
Other Expenses	1,257	2,722	5,812	2,988	3,539
EBITDA	1,611	1,494	517	4,935	5,939
Growth %	-13%	-7%	-65%	855%	20%
Margin%	44%	29%	7%	54%	55%
Depreciation	227	216	248	307	379
EBIT	1,384	1,278	269	4,628	5,560
Growth %	-15%	-8%	-79%	1620%	20%
Margin%	38%	25%	4%	51%	52%
Interest Paid	2	2	2	2	2
Other Income & exceptional	472	680	633	730	762
PBT	1,853	1,956	900	5,356	6,320
Tax	406	416	225	1,339	1,580
PAT	1,447	1,540	675	4,017	4,740
Others (Minorities, Associates)	0	-50	-50	-50	-50
Net Profit	1,447	1,490	675	4,017	4,740
Growth %	-36%	3%	-56%	495%	18%
Shares (Mn)	51.0	51.0	51.0	51.0	51.0
EPS	28.13	29.30	13.24	78.76	92.95

Balance Sheet

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
Cash, Cash equivalents & Bank	9,755	11,779	12,046	12,576	13,226
Current Investments	7,135	2,024	2,024	2,024	2,024
Debtors	115	146	221	272	322
Inventory	0	0	0	0	0
Short Term Loans & Advances	792	2,080	2,080	2,080	2,080
Other Current Assets	703	637	637	637	637
Total Current Assets	18,499	16,667	17,008	17,590	18,289
Net Block & CWIP	1,998	2,021	2,508	3,107	3,800
Long Term Investments	4,440	8,441	8,392	8,342	8,292
Other Non-current Assets	10,700	11,420	11,420	11,420	11,420
Total Assets	35,637	38,549	39,378	40,558	41,950
Creditors	264	214	368	543	751
Provision	309	483	483	483	483
Short Term Borrowings	0	0	0	0	0
Other Current Liabilities	7,611	8,687	8,687	8,687	8,687
Total Current Liabilities	8,185	9,383	9,538	9,713	9,921
Long Term Debt	0	0	0	0	0
Deferred Tax Liabilities	98	-4	-4	-4	-4
Other Long Term Liabilities	7,917	8,479	8,479	8,479	8,479
Total Non Current Liabilities	8,015	8,475	8,475	8,475	8,475
Paid-up Capital	510	510	510	510	510
Reserves & Surplus	18,927	20,181	20,856	21,860	23,045
Shareholders' Equity	19,437	20,691	21,366	22,370	23,555
Non Controlling Interest	0	0	0	0	0
Total Equity & Liabilities	35,637	38,549	39,378	40,558	41,950

Source: Company, Keynote Capitals Ltd. estimates

Cash Flow

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
Pre-tax profit	2,058	1,956	900	5,355	6,321
Adjustments	-177	-322	-383	-421	-382
Change in Working Capital	2,065	-252	80	125	157
Total Tax Paid	-323	-495	-225	-1,339	-1,580
Cash flow from operating Activities	3,623	886	372	3,721	4,516
Net Capital Expenditure	-818	-713	-736	-906	-1,072
Change in investments	774	1,373	0	0	0
Other investing activities	-1,378	-741	633	730	762
Cash flow from investing activities	-1,422	-81	-103	-175	-310
Equity raised / (repaid)	0	0	0	0	0
Debt raised / (repaid)	0	0	0	0	0
Dividend (incl. tax)	-1,408	-887	0	-3,013	-3,555
Other financing activities	-9	-7	-2	-2	-2
Cash flow from financing activities	-1,417	-895	-2	-3,015	-3,557
Net Change in cash	784	-89	267	530	649

Valuation Ratios

	FY22	FY23	FY24E	FY25E	FY26E
Per Share Data					
EPS	28	29	13	79	93
Growth %	-36%	4%	-55%	495%	18%
Book Value Per Share	396	396	419	439	462
Return Ratios					
Return on Assets (%)	4%	4%	2%	10%	11%
Return on Equity (%)	7%	8%	3%	18%	21%
Return on Capital Employed (%)	8%	7%	3%	18%	21%
Liquidity Ratios					
Current Ratio (x)	2.3	1.8	1.8	1.8	1.8
Interest Coverage Ratio (x)	858	932	430	2,551	3,010
Total Debt to Equity	0.0	0.0	0.0	0.0	0.0
Net Debt to Equity	-0.5	-0.6	-0.6	-0.6	-0.6
Valuation					
PE (x)	50.3	48.5	125.6	21.1	17.9
Earnings Yield (%)	2%	2%	1%	5%	6%
Price to Sales (x)	19.7	14.1	11.5	9.4	7.9
Price to Book (x)	3.7	4.1	4.0	3.8	3.6
EV/EBITDA (x)	38.8	49.0	141.5	14.8	12.3
EV/Sales (x)	17.0	14.2	9.9	8.1	6.8

Note: Due to unavailability of data on cost of CDP development, the same has not been considered in forecasting.

KEYNOTE Rating History

Date	Rating	Market price at Recommendation	Upside/Downside
31 st October 2022	BUY	1,535	+16.4%
8 th February 2023	UNDER REVIEW	1,400	-
24 th May 2023	UNDER REVIEW	1,361	-
1 st August 2023	UNDER REVIEW	1,633	-
15 th November 2023	REDUCE	2,894	-4.7%

Source: Company, Keynote Capitals Ltd. estimates

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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