

Multi Commodity Exchange of India

13th February 2024

Successful transition to a new platform

In Q3FY24, Multi Commodity Exchange of India (MCX) delivered revenue growth of 33.4% on a YoY basis on the back of improving ADT of Options contracts, which increased by 143.6% 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. 131 Mn during the quarter, resulting in negative operating margins of (-)10.3%. We expect MCX to start reporting positive operating margins from Q4 FY24 onwards.

Options contracts surpass all expectations; Futures volume remains under pressure

In Q3 FY24, ADT of Options contracts has increased from Rs. 394 Bn to Rs. 959 Bn, a growth of 143.6% on a YoY basis. Options contracts' revenue contribution to overall revenue has increased from 8.7% in FY22 to 65% in Q3 FY24, surpassing revenue from Futures contracts. Product concentration in Options contracts has been reducing, with energy contracts contribution at 91% in Q3 FY24 vs 95% in Q3 FY23. Bullion has gained traction, contributing 9% to Options' ADT.

ADT of Future contracts has declined by 15.3% on a YoY basis, with only the Bullion contract showing growth of 11.4%, 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. The transition has been smooth, and the system is running efficiently. MCX has capitalized Rs. 2.37 Bn towards the development of CDP and will be amortized over a period of 5-10 years. MCX does not have to pay any Annual Maintenance charges to TCS (Technology partner) for the next year, i.e., until Oct 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 is 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 REDUCE to SELL with a target price of Rs. 2,796 (35x FY25E EPS). While the positives have largely been factored in, the stock is trading at higher valuation band.

SELL

CMP Rs. 3,414

TARGET Rs. 2,796 (-18.1%)

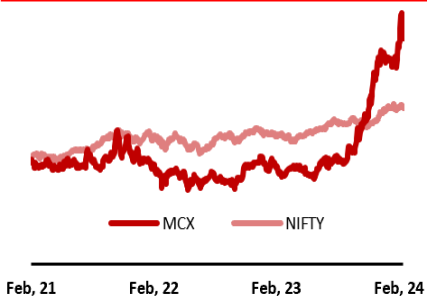
Company Data

Bloomberg Code	MCX IN
MCAP (Rs. Mn)	174,090
O/S Shares (Mn)	51
52w High/Low	3,990/1,285
Face Value (in Rs.)	10
Liquidity (3M) (Rs. Mn)	2,889

Shareholding Pattern %

	Dec 23	Sep 23	Jun 23
Promoters	-	-	-
FII's	26.6	25.3	24.8
DII's	53.0	56.4	55.0
Non-Institutional	20.4	18.3	20.1

MCX vs Nifty



Source: Keynote Capitals Ltd.

Key Financial Data

(Rs. Mn)	FY23	FY24E	FY25E
Revenue	5,135	7,250	9,579
EBITDA	1,494	1,015	5,427
Net Profit	1,490	1,023	4,075
Total Assets	38,549	39,721	41,213
ROCE (%)	7%	5%	18%
ROE (%)	7%	5%	18%

Source: Company, Keynote Capitals Ltd.

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MCX India Limited | Quarterly Update

Q3 FY24 Result Update

Result Highlights (Rs. In Mn)

Particulars	Q3FY24	Q3FY23	Change % (Y-o-Y)	Q2FY24	Change % (Q-o-Q)	9MFY24	9MFY23	Change % (Y-o-Y)	FY23
Revenue	1,915	1,436	33.4%	1,651	16.0%	5,024	3,798	32.3%	5,135
Employee Cost	290	229	26.6%	274	5.9%	816	685	19.2%	919
Other Opex	1,822	879	107.2%	1,664	9.5%	4,585	1,637	180.1%	2,719
EBITDA	-197	327		-287		-377	1,476		1,497
EBITDA %	-10%	23%		-17%		-8%	39%		29%
Depreciation	113	43	164.7%	66	71.2%	222	158	40.3%	216
EBIT	-310	285		-353		-599	1,318		1,281
EBIT %	-16%	20%		-21%		-12%	35%		25%
Finance Cost	1	0.9	-44.4%	1	-16.7%	2	1	50.0%	2
Other Income	177	201	-11.7%	189	-6.2%	571	476	20.0%	677
PBT	-133	485		-164		-30	1,793		1,955
PBT %	-6%	30%		-9%		-1%	42%		34%
Tax	-91	90	-200.8%	16	-655.8%	-17	331		416
Share of Associates	-11	-7		-10		-34	-27		-50
PAT	-54	388		-191		-48	1,435		1,490
EPS	-1.1	7.6		-3.7		-0.9	28.2		29.3

Particulars	Q3FY24	Q3FY23	Change % (Y-o-Y)	Q2FY24	Change % (Q-o-Q)
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ADT Futures Mix (in Mn)

Bullion	130,590	117,240	11%	111,621	17%
Energy	56,550	82,720	-32%	54,654	3%
Metals	17,190	41,210	-58%	20,795	-17%
Agriculture	160	630	-75%	231	-31%
Index	220	850	-74.1%	328	-33%

ADT Options Mix (in Mn)

Bullion	82,370	21,700	280%	85,623	-3.8%
Energy	862,240	372,300	132%	772,928	11.6%
Metals	280	30	833.3%	182	54.2%

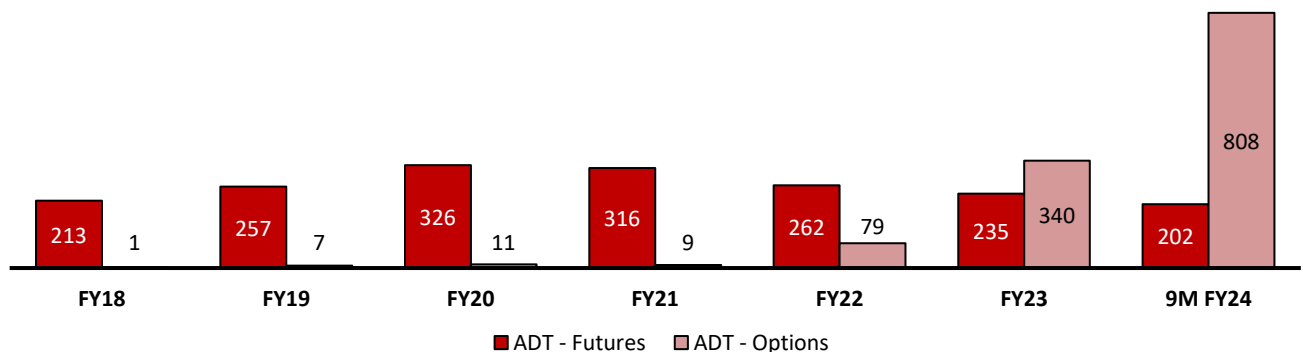
MCX's Network

Unique Client Codes	14,484,585	10,648,199	36%	13,954,498	4%
Members	550	590	-7%	552	0%
Authorised Persons	40,047	51,783	-23%	43,139	-7%

Source: Company, Keynote Capitals Ltd.

Business progression

ADT - Futures & Options (in Rs. Bn)



Source: Company, Keynote Capitals Ltd.

Q3 FY24 Conference Call Takeaways

General Highlights

- During the quarter, MCX launched steel future contracts.
- MCX has got approval for launching mini natural gas and crude oil futures and they will be launching it shortly.
- MCX has signed MoU with Metal Junction for setting up spot coal exchange.
- Direct market access (DMA) has been introduced for foreign portfolio investors (FPIs) category one, with FPI category two in pipeline for testing, which be launched by Q4 FY24.

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.
- Cost of CDP development is Rs. 2.37 Bn, encompassing servers, networking equipment, and operating and application software, which will be amortized over a period of 5-10 years. This will result in additional depreciation cost of Rs. 300-350 Mn annually.
- MCX does not have to pay any Annual Maintenance charges (AMC) to TCS (Technology partner) for the next year, i.e., until Oct 2024.

Option Segment

- During Q3 FY24, Options accounted for 65% of the total transaction charges, amounting to Rs. 1.01 Bn.

Settlement Guarantee Fund (SGF)

- MCX contributed Rs. 131 Mn to SGF during the current quarter, bringing the total SGF to Rs. 75.9 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. During Q3 FY24 as well, the Company has crossed their previous open interest high, leading to SGF contribution in Q3 FY24 as well.

MCX India Limited | Quarterly Update

Financial Statement Analysis

Income Statement

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	3,668	5,135	7,250	9,579	12,379
Growth %	-6%	40%	41%	32%	29%
Raw Material Expenses	0	0	0	0	0
Employee Expenses	800	919	1,112	1,279	1,471
Other Expenses	1,257	2,722	5,122	2,874	3,714
EBITDA	1,611	1,494	1,015	5,427	7,195
Growth %	-13%	-7%	-32%	434%	33%
Margin%	44%	29%	14%	57%	58%
Depreciation	227	216	344	661	793
EBIT	1,384	1,278	671	4,765	6,402
Growth %	-15%	-8%	-47%	610%	34%
Margin%	38%	25%	9%	50%	52%
Interest Paid	2	2	2	2	2
Other Income & exceptional	472	680	762	736	787
PBT	1,853	1,956	1,431	5,499	7,187
Tax	406	416	358	1,375	1,797
PAT	1,447	1,540	1,073	4,124	5,390
Others (Minorities, Associates)	-13	-50	-50	-50	-50
Net Profit	1,435	1,490	1,023	4,075	5,340
Growth %	-36%	4%	-31%	298%	31%
Shares (Mn)	51.0	51.0	51.0	51.0	51.0
EPS	28.13	29.21	20.07	79.90	104.72

Balance Sheet

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
Cash, Cash equivalents & Bank	9,755	11,779	11,824	12,998	14,859
Current Investments	7,135	2,024	2,024	2,024	2,024
Debtors	115	146	217	287	371
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	16,783	18,028	19,972
Net Block & CWIP	1,998	2,021	3,127	3,423	3,868
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	39,721	41,213	43,552
Creditors	264	214	362	575	867
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	9,532	9,745	10,036
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	21,204	22,483	24,531
Shareholders' Equity	19,437	20,691	21,714	22,993	25,041
Non Controlling Interest	0	0	0	0	0
Total Equity & Liabilities	35,637	38,549	39,721	41,213	43,552

Source: Company, Keynote Capitals Ltd. estimates

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%
13 th February 2024	SELL	3,414	-18.1%

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	1,431	5,499	7,187
Adjustments	-177	-322	-416	-73	8
Change in Working Capital	2,065	-252	78	142	208
Total Tax Paid	-323	-495	-358	-1,375	-1,797
Cash flow from operating Activities	3,623	886	736	4,194	5,606
Net Capital Expenditure	-818	-713	-1,450	-958	-1,238
Change in investments	774	1,373	0	0	0
Other investing activities	-1,378	-741	762	736	787
Cash flow from investing activities	-1,422	-81	-688	-222	-451
Equity raised / (repaid)	0	0	0	0	0
Debt raised / (repaid)	0	0	0	0	0
Dividend (incl. tax)	-1,408	-887	0	-3,056	-4,005
Other financing activities	-9	-7	-2	-2	-2
Cash flow from financing activities	-1,417	-895	-2	-3,058	-4,007
Net Change in cash	784	-89	45	914	1,148

Valuation Ratios

	FY22	FY23	FY24E	FY25E	FY26E
Per Share Data					
EPS	28	29	20	80	105
Growth %	-36%	4%	-31%	298%	31%
Book Value Per Share	396	396	426	451	491
Return Ratios					
Return on Assets (%)	4%	4%	3%	10%	13%
Return on Equity (%)	7%	7%	5%	18%	22%
Return on Capital Employed (%)	8%	7%	5%	18%	22%
Liquidity Ratios					
Current Ratio (x)	2.3	1.8	1.8	1.8	1.9
Interest Coverage Ratio (x)	858	932	682	2,620	3,423
Total Debt to Equity	0.0	0.0	0.0	0.0	0.0
Net Debt to Equity	-0.5	-0.6	-0.5	-0.6	-0.5
Valuation					
PE (x)	50.3	48.5	169.4	42.6	32.5
Earnings Yield (%)	2%	2%	1%	2%	3%
Price to Sales (x)	19.7	14.1	24.0	18.2	14.1
Price to Book (x)	3.7	8.4	8.0	7.6	7.0
EV/EBITDA (x)	38.8	108.7	159.9	29.9	22.6
EV/Sales (x)	17.0	31.6	22.4	17.0	13.1

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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