

## Indian Exchanges

Company update and  
reco change

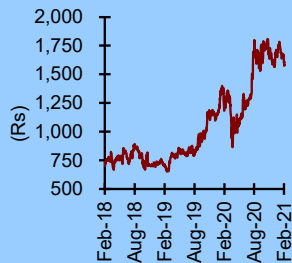
Target price: Rs1,746

## Shareholding pattern

	Jun '20	Sep '20	Dec '20
Promoters	0.0	0.0	0.0
Institutional			
Investors	77.5	78.0	76.2
MFs and others	21.8	22.0	20.4
FIs/Banks	16.9	18.5	17.0
FIIIs	38.8	37.5	38.8
Others	22.5	22.0	23.8

Source: BSE, NSE

## Price chart

Multi Commodity Exchange of India **BUY**

Upgrade from HOLD

## ADTV garnering tailwinds

**Rs1,497**

Our estimate of Rs400bn ADTV for MCX in FY23E remains realistic on the back of recent tailwinds in the form of reduction in crude margin to pre-Covid levels, which has now finally been implemented, and continued volatility in commodity prices. While incremental higher upfront margin requirement in intraday trading is a headwind, the trend has been quite heartening with ADTV bouncing back to Rs368bn in the first week of February compared to Rs296bn/318bn in December/January). We upgrade MCX to BUY (from Hold) with a target price of Rs1,746 (unchanged).

- **Strong surge in Feb'21 ADTV:** MCX's Feb'21 ADTV came in at Rs368bn in the first week of Feb'21 as crude average daily volumes jumped 118% from Jan'21 post margin relaxation. With effect from 27th Jan'21, MCX reduced the initial margin / short option minimum margin requirement to 10% and introduced staggered margins based on turnover. In Dec'20, the exchange had reduced the margin to 50% with no requirement for additional margins. Recovery in crude ADTV to Rs40bn in Feb'21 appears encouraging on MoM basis, but is still 70% below the FY20 ADTV of Rs130. Factoring-in the Rs360bn and Rs370bn ADTV in Feb'21E and Mar'21E, we expect MCX to clock a total turnover of Rs81.2trn (down 3% over FY20). We expect ADTV of Rs360bn/408bn in FY22E/FY23E with revenue/EBITDA/PAT CAGRs of 11%/21%/10% between FY20-FY23E and EBITDA margin improving from 51.3% in FY21E to 54.3% in FY23E. PAT CAGR is lower due to low tax base of FY20 (effective tax rate for MCX was 11% in FY20 due to MAT credit entitlement and write-off of previous years' provisions).
- **Feb'21 ADTV is up 16% MoM and down 2% YoY:** MCX reported strong MoM growth in ADTV led by robust volume growth in crude (up 118% MoM), silver (up 14% MoM) and natural gas (up 14% MoM). Gold's contribution to overall ADTV growth was marginal as the rise in its volumes was offset by drop in prices. Base metals' contribution too remained weak.
- **Our sensitivity analysis suggests base / bull / bear case earning CAGRs of 14% / 17% / 10% assuming ADTV CAGRs of 13% / 16% / 10% between FY21E-FY23E.** Materiality of new products (indices, which are getting priced w.e.f. 1st Apr'21) and options, remain additional optionalities.
- **ADTV walk between Jan'21 (Rs318bn) and Feb'21 (Rs368bn)** is more driven by volumes (+Rs42bn) than price (+Rs8bn). The leading volume drivers were crude, silver and natural gas.
- **Change in technology:** MCX has awarded the contract for implementation of commodity derivatives platform to TCS with a letter of intent to the latter to commence the project immediately. The technology-related costs for MCX were comparable to NSE and lower than BSE in absolute terms. Hence, an increase in that overhead is not out of place. A reduction in the cost can be a positive surprise considering technology expense as % of revenues for MCX is 18-20% vs 1.5% for NSE.

Market Cap	Rs76bn/US\$1.0bn	Year to Mar (Cons)	FY20	FY21E	FY22E	FY23E
Reuters/Bloomberg	MCEIQF.BO/ MCX IN	Revenue (Rs mn)	3,742	4,125	4,382	5,069
Shares Outstanding (mn)	51.0	Rec. Net Income (Rs mn)	2,365	2,407	2,696	3,114
52-week Range (Rs)	1875/805	Rec. EPS (Rs)	46.4	47.2	52.9	61.1
Free Float (%)	100.0	% Chg YoY	61.7	1.8	12.0	15.5
FII (%)	38.8	P/E (x)	36.2	35.6	31.8	27.5
Daily Volume (US\$'000)	7,723	CEPS (Rs)	49.9	51.0	57.0	65.5
Absolute Return 3m (%)	(9.9)	EV/E (x)	37.5	29.7	27.6	22.9
Absolute Return 12m (%)	21.3	Dividend Yield (%)	1.8	1.8	2.0	2.4
Sensex Return 3m (%)	18.6	RoCE (%)	8.7	11.0	9.9	11.1
Sensex Return 12m (%)	26.7	RoE (%)	18.1	17.2	17.9	19.1

Please refer to important disclosures at the end of this report

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Table 1: MCX ADTV walk

	Qty units	Price units	ADTV (Rs bn)		ADTVOL % change	Avg monthly price % Change	Abs change in ADTV (Rs bn)	Change due to qty (Rs bn)	Change due to price (Rs bn)
			Jan'21	Feb'21					
Gold	kg	per 10gm	78	79	5%	-3.7%	0.6	3.6	(3.1)
Silver	Metric tons	per kg	99	118	14%	3.9%	18.6	14.3	4.4
Crude Oil	mn barrels	per bbl	13	40	180%	7.5%	26.6	23.8	2.8
Natural Gas	BBTU	per bbtu	52	64	14%	8.2%	12.3	7.4	4.9
Copper	Metric tons	per kg	27	25	-6%	-1.0%	(1.9)	(1.6)	(0.2)
Aluminium	Metric tons	per kg	2	2	-14%	-0.4%	(0)	(0)	(0)
Lead	Metric tons	per kg	3	3	-6%	1.3%	(0)	(0)	0
Nickel	Metric tons	per kg	26	21	-19%	-0.1%	(5)	(5)	(0)
Zinc	Metric tons	per kg	11	11	-3%	-3.3%	(1)	(0)	(0)
<b>All commodities</b>			<b>318</b>	<b>368</b>			<b>50</b>	<b>42</b>	<b>8</b>

Source: Company data, I-Sec research

Table 2: Sensitivity analysis

	Base	Bull case	Bear Case
ADTV (FY23) Rs mn	4,08,005	4,30,313	3,83,695
FY23 growth	14%	20%	7%
FY21-FY23 CAGR	13%	16%	10%
			-
Revenue from operations (Rs mn)	5,069	5,320	4,795
EBITDA (Rs mn)	2,752	3,003	2,478
EBITDA margin	54.3	56.4	52
Recurring Net Income (Rs mn)	3,114	3,302	2,908
Core EPS (Rs)	43	47	39
Target core P/E (x)	35	35	35
Core price (Rs per share)	1,517	1,658	1,363
Number of shares (mn)	51	51	51
Core value (Rs mn)	77,369	84,572	69,520
Cash and investments (Rs mn)	11,677	11,837	11,501
Total value (Rs mn)	89,046	96,410	81,021
<b>Target price (Rs per share)</b>	<b>1,746</b>	<b>1,890</b>	<b>1,589</b>

Source: Company data, I-Sec research

Chart 1: Gold average daily volume traded (ADVOL)

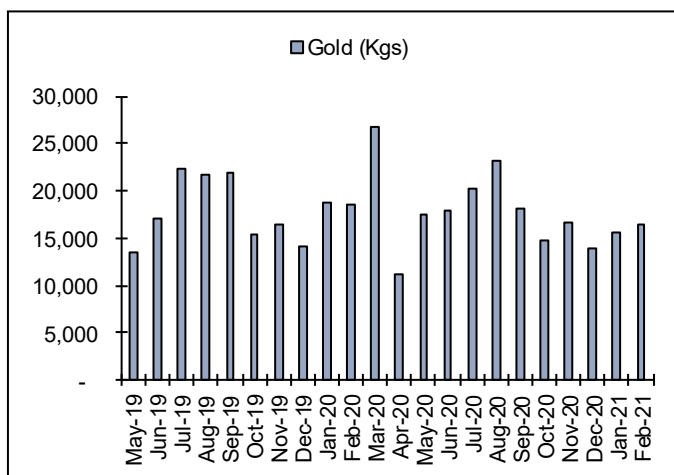
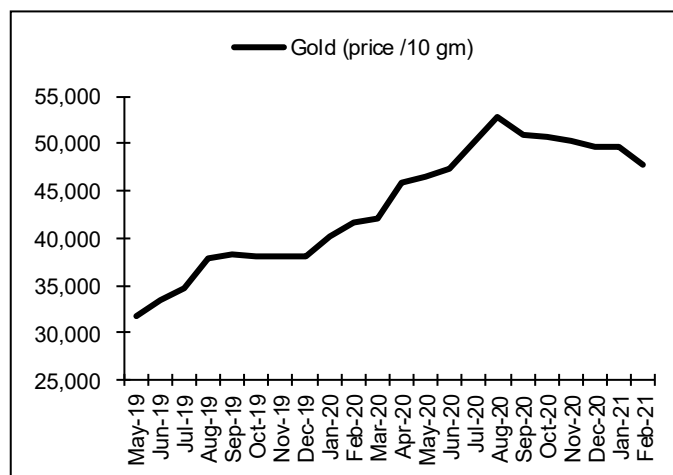
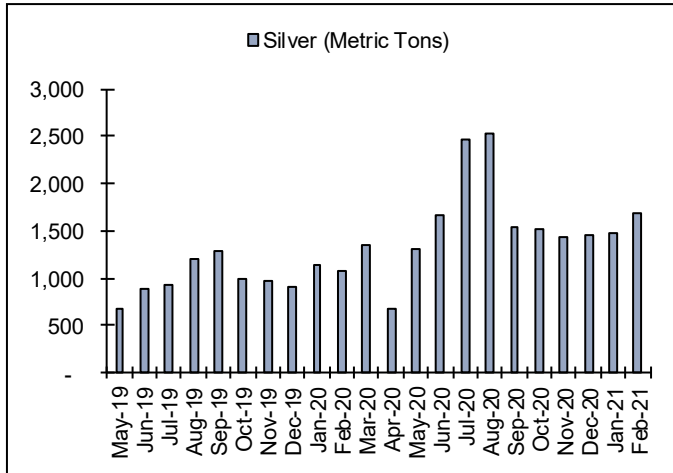


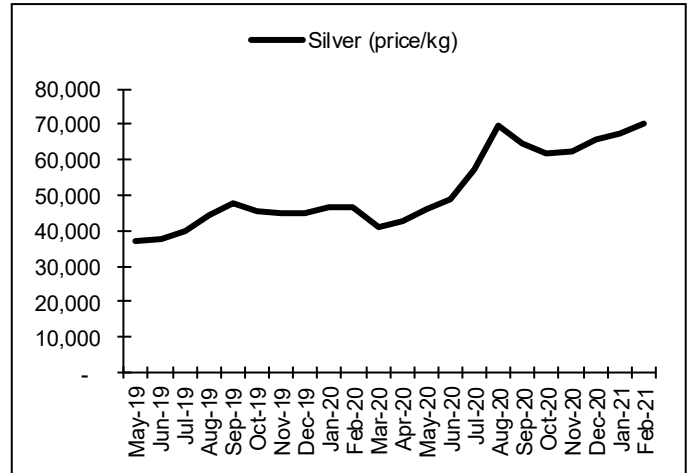
Chart 2: Gold price (monthly average)



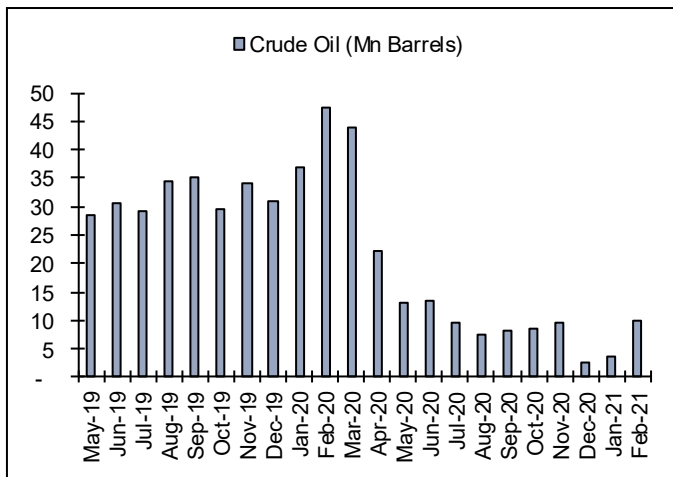
**Chart 3: Silver ADVOL**



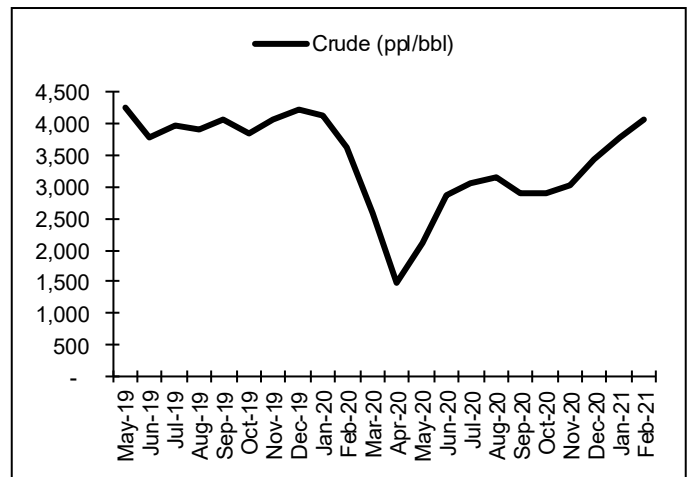
**Chart 4: Silver price (monthly average)**



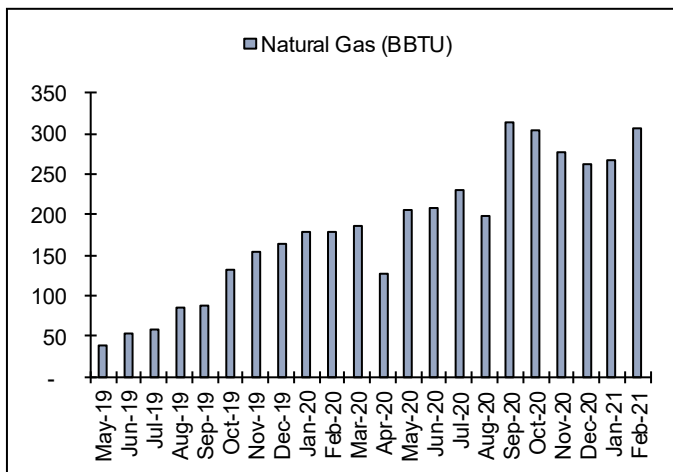
**Chart 5: Crude ADVOL**



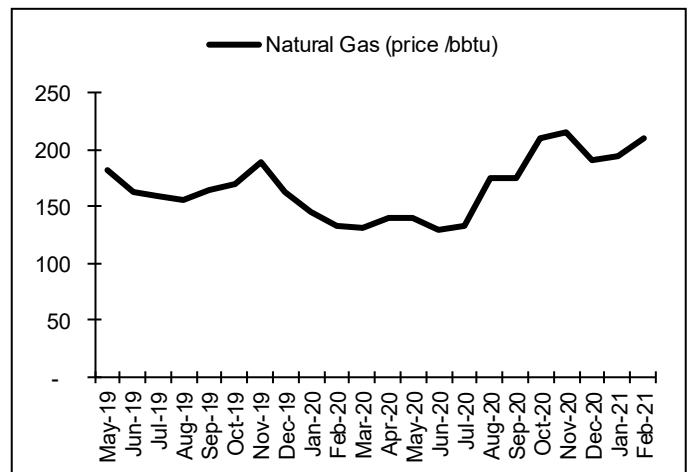
**Chart 6: Crude price (monthly average)**



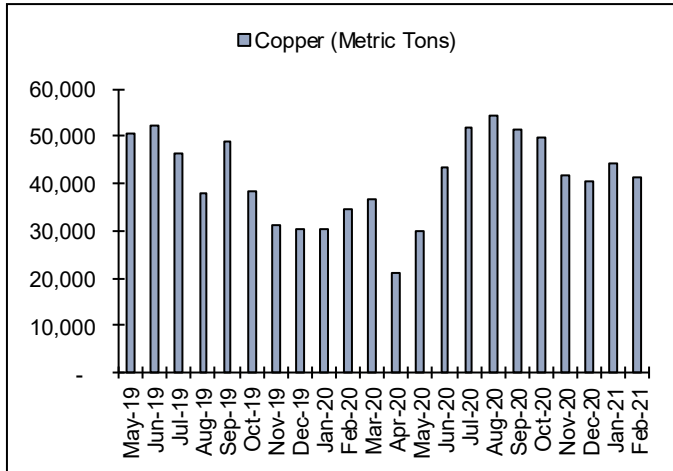
**Chart 7: Natural gas ADVOL**



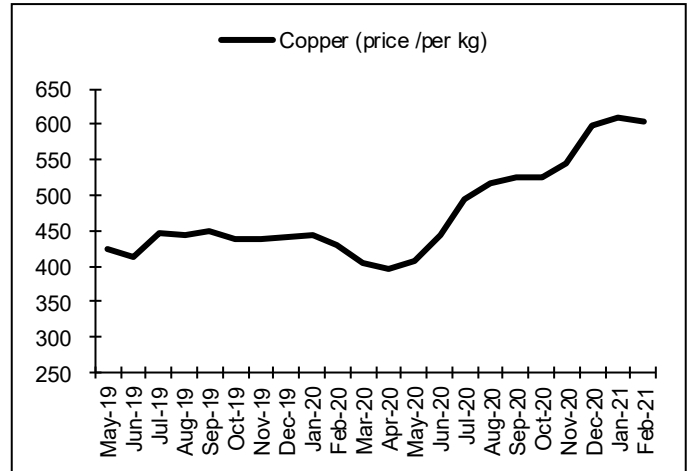
**Chart 8: Natural gas price (monthly average)**



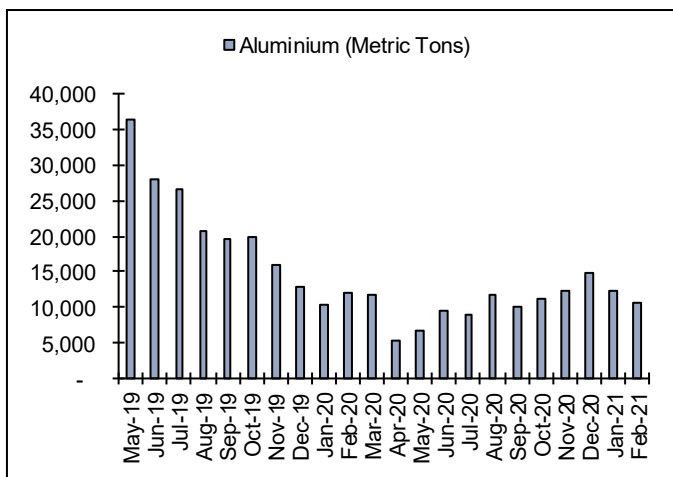
**Chart 9: Copper ADVOL**



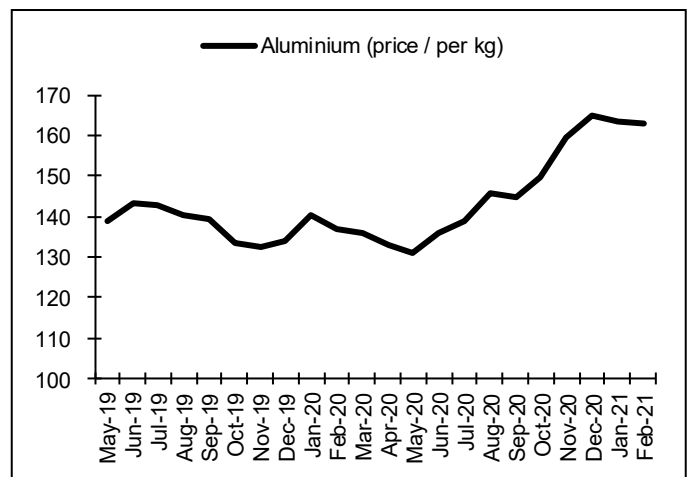
**Chart 10: Copper price (monthly average)**



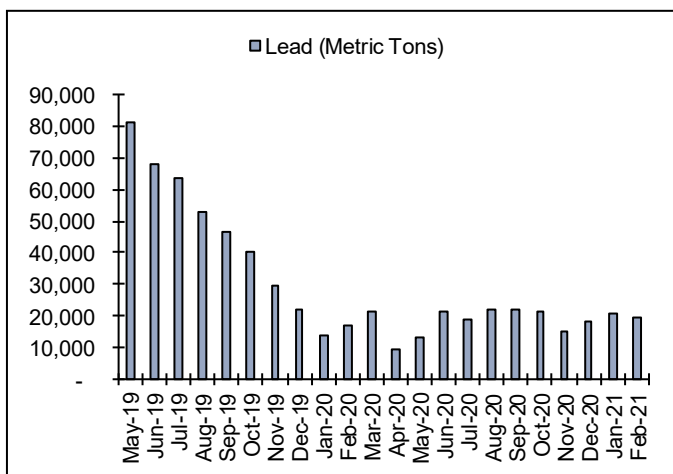
**Chart 11: Aluminium ADVOL**



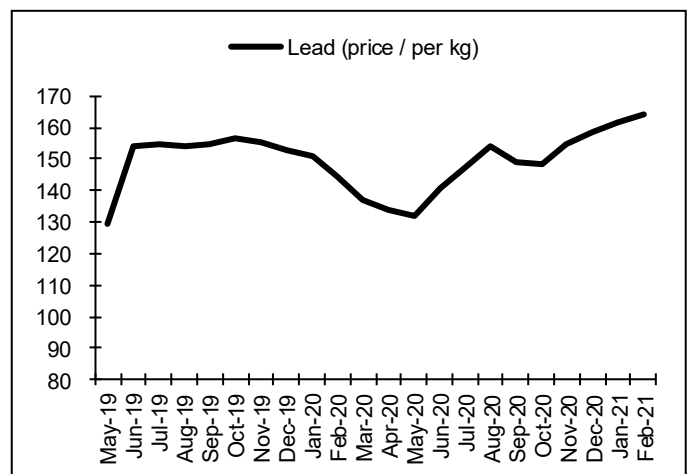
**Chart 12: Aluminium price (monthly average)**



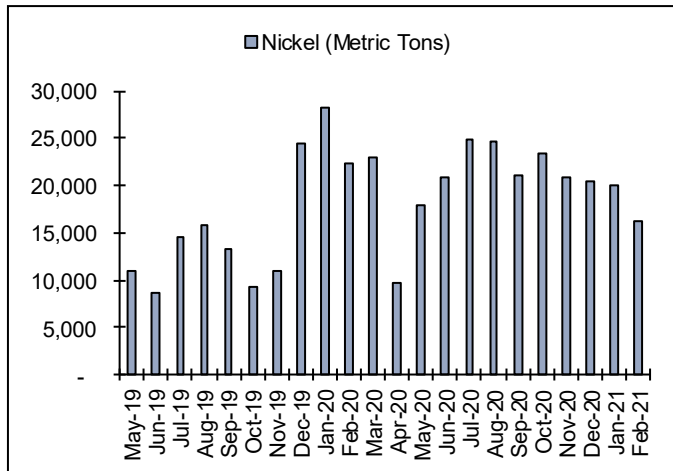
**Chart 13: Lead ADVOL**



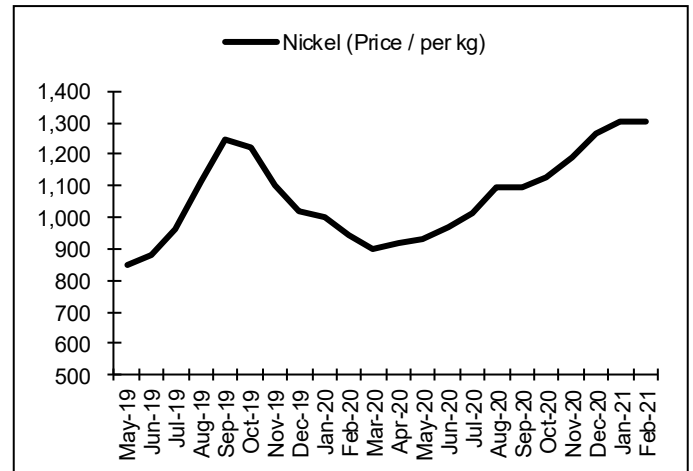
**Chart 14: Lead price (monthly average)**



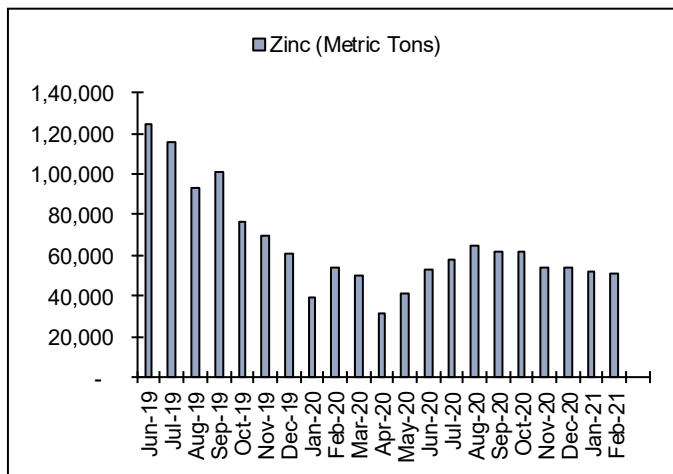
**Chart 15: Nickel ADVOL**



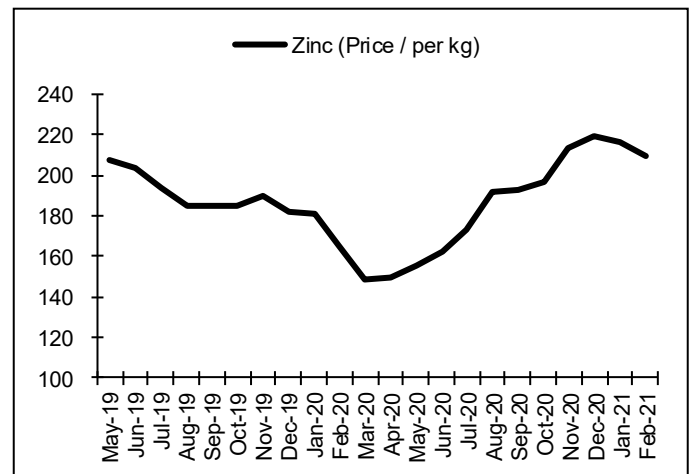
**Chart 16: Nickel price (monthly average)**



**Chart 17: Zinc ADVOL**



**Chart 18: Zinc price (monthly average)**



Source: Company data, I-Sec research

## Financial summary (consolidated)

**Table 3: Profit & Loss statement**
*(Rs mn, year ending March 31)*

	FY20	FY21E	FY22E	FY23E
<b>Total Income</b>	<b>3,742</b>	<b>4,125</b>	<b>4,382</b>	<b>5,069</b>
<b>Operating Expenses</b>	<b>2,194</b>	<b>2,011</b>	<b>2,086</b>	<b>2,317</b>
<b>EBITDA</b>	<b>1,548</b>	<b>2,114</b>	<b>2,296</b>	<b>2,752</b>
% margins	41.4	51.3	52.4	54.3
Depreciation & Amortisation	181	195	211	227
Net Interest	1.6	-	-	-
Other Income	1,289	1,097	1,510	1,627
<b>Recurring PBT</b>	<b>2,654</b>	<b>3,016</b>	<b>3,595</b>	<b>4,152</b>
Add: Extraordinaries	-	(126)	-	-
Less: Taxes				
- Current tax	317	482	899	1,038
- Deferred tax	(28)	-	-	-
Less: Minority Interest & Share in associates	-	-	-	-
<b>Net Income (Reported)</b>	<b>2,365</b>	<b>2,533</b>	<b>2,696</b>	<b>3,114</b>
<b>Recurring Net Income</b>	<b>2,365</b>	<b>2,407</b>	<b>2,696</b>	<b>3,114</b>

Source: Company data, I-Sec research

**Table 4: Balance sheet**
*(Rs mn, year ending March 31)*

	FY20	FY21E	FY22E	FY23E
<b>Assets</b>				
Total Current Assets	12,987	13,394	13,983	15,621
of which cash & cash eqv.	8,835	8,838	9,356	10,892
Total Current Liabilities & Provisions	13,752	13,285	12,935	13,417
<b>Net Current Assets</b>	<b>(766)</b>	<b>109</b>	<b>1,048</b>	<b>2,204</b>
<b>Investments</b>				
of which	<b>12,561</b>	<b>12,736</b>	<b>12,938</b>	<b>13,168</b>
Strategic/Group	5,943	5,943	5,943	5,943
Others	6,618	6,793	6,995	7,224
<b>Net Fixed Assets</b>	<b>1,798</b>	<b>1,626</b>	<b>1,625</b>	<b>1,608</b>
of which				
intangibles	149	204	259	314
Capital Work-in-Progress	237	50	50	50
<b>Goodwill</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Assets</b>	<b>13,594</b>	<b>14,471</b>	<b>15,610</b>	<b>16,980</b>
<b>Liabilities</b>				
<b>Borrowings</b>				
<b>Deferred Tax Liability</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Minority Interest	-	-	-	-
Equity Share Capital	510	510	510	510
Face Value per share (Rs)	10	10	10	10
Reserves & Surplus	13,084	13,961	15,100	16,470
<b>Net Worth</b>	<b>13,594</b>	<b>14,471</b>	<b>15,610</b>	<b>16,980</b>
<b>Total Liabilities</b>	<b>13,594</b>	<b>14,471</b>	<b>15,610</b>	<b>16,980</b>

Source: Company data, I-Sec research

**Table 5: Quarterly trends**
*(Rs mn, year ending March 31)*

Consolidated	Mar'20	Jun'20	Sep'20	Dec'20
Total Income	1,122	730	1,197	1,009
% growth (YoY)	41.8	-14.1	12.3	7.2
EBITDA	476	265	657	487
Margin (%)	42.4	36.3	54.9	48.2
Other income	228	497	178	248
Add: Extraordinaries	-	-	-	-
Net profit	655	563	586	718

Source: Company data, I-Sec research

**Table 6: Cashflow statement**
*(Rs mn, year ending March 31)*

	FY20	FY21E	FY22E	FY23E
<b>Op. Cashflow post tax</b>	<b>1,089</b>	<b>1,506</b>	<b>1,398</b>	<b>1,714</b>
Working Capital Changes	3,403	(872)	(420)	379
Capital Commitments	(277)	(23)	(210)	(210)
<b>Free Cashflow</b>	<b>4,214</b>	<b>611</b>	<b>767</b>	<b>1,882</b>
<b>Cashflow from Investing Activities</b>	<b>5</b>	<b>923</b>	<b>1,308</b>	<b>1,397</b>
Issue of Share Capital	-	-	-	-
Buyback of shares	-	-	-	-
Inc (Dec) in Borrowings	-	-	-	-
Dividend paid	(1,230)	(1,530)	(1,557)	(1,744)
<b>Interest paid</b>	<b>(5)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Chg. in Cash &amp; Bank balance</b>	<b>2,985</b>	<b>3</b>	<b>518</b>	<b>1,535</b>

Source: Company data, I-Sec research

**Table 7: Key ratios**
*(Year ending March 31)*

	FY20	FY21E	FY22E	FY23E
<b>Per Share Data (Rs)</b>				
EPS(Basic Recurring)	46.4	47.2	52.9	61.1
Diluted Recurring EPS	46.4	47.2	52.9	61.1
Core EPS	33.9	37.2	36.4	43.3
Recurring Cash EPS	49.9	51.0	57.0	65.5
Dividend per share (DPS)	30.0	30.5	34.2	39.5
Book Value per share (BV)	267	284	306	333
<b>Growth Ratios (%)</b>				
Operating Income	24.7	10.2	6.3	15.7
EBITDA	64.6	36.6	8.6	19.8
Recurring Net Income	61.7	1.8	12.0	15.5
Diluted Recurring EPS	61.7	1.8	12.0	15.5
Diluted Recurring CEPS	57.4	2.2	11.7	14.9
<b>Valuation Ratios</b>				
P/E	32.3	31.7	28.3	24.5
P/CEPS	30.0	29.4	26.3	22.9
P/BV	5.6	5.3	4.9	4.5
EV / EBITDA	33.0	26.1	24.2	20.0
EV / EBIT	49.1	34.4	31.1	25.2
EV / Op. FCF (pre -Capex)	15.1	108.1	84.6	33.8
<b>Operating Ratios</b>				
Software support charge / Revenue	19.0	16.9	16.0	15.4
Employee charge / Revenue	21.5	20.9	18.8	18.3
Effective Tax Rate (%)	14.1	16.0	25.0	25.0
Current ratio	0.6	0.6	0.7	0.7

**Profitability Ratios (%)**

EBITDA Margins	41.4	51.3	52.4	54.3
Rec. Net Income Margins	47.0	46.1	45.8	46.5
RoCE	8.7	11.0	9.9	11.1
RoNW	18.1	17.2	17.9	19.1
Dividend Payout Ratio	65	65	65	65
Dividend Yield	2.0	2.0	2.3	2.6

Source: Company data, I-Sec research

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