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Indian Exchanges

Q1FY22 result review and earnings revision

Target price: Rs1,930

Earnings revision

(%)	FY22E	FY23E
Sales	↑ 1.0	↑ 2.1
EBITDA	↑ 1.6	↑ 4.8
PAT	↑ 2.7	↑ 3.8

Target price revision

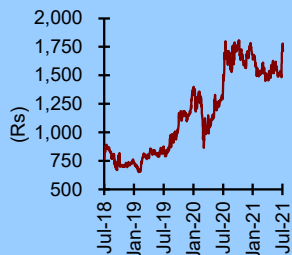
Rs1,930 from Rs1,850

Shareholding pattern

	Dec '20	Mar '21	Jun '21
Promoters	0.0	0.0	0.0
Institutional			
Investors	76.2	77.4	76.0
MFs & others	20.4	21.2	21.0
FIs/Banks	17.0	16.8	15.7
FIIIs	38.8	39.4	39.3
Others	23.8	22.4	24.0

Source: BSE, NSE

Price chart



Multi Commodity Exchange of India

BUY

Maintained

Rs1,674

Awaiting volume recovery; attractive valuations

MCX reported weaker numbers sequentially in line with lower ADTV (down 10% QoQ). Revenues accordingly were also down QoQ by 10%. EBITDA margins also declined 358bps QoQ to 42% due to negative operating leverage. Costs remained under control (4% lower QoQ). The key question on the stock is its ability to recover volumes post the impact of higher margin trading norm. Considering the reported ADTVs of ~Rs324bn in FY20, Rs312bn in FY21, Rs433bn in Aug'20 and Rs368bn in Feb'21, we believe Rs400bn ADTV is achievable by FY23E, which should translate to EPS of Rs63 in the next fiscal, translating to 26.5x FY23E P/E at CMP. Maintain BUY with a revised target price of Rs1,930 (earlier 1,850) based on 35x FY23E core EPS of Rs50.3 and add distributable cash and investments (Rs171/share) to arrive at our target price of Rs1,930. The increase in earnings factor incremental earnings from options.

- **Management hints that the major impact of the upfront trading norms is already behind.** Q1FY22 ADTV was impacted on account of peak margin rules. However, most of the impact was witnessed between Phase 1 and Phase 2. Phase 2 to Phase 3 (started from 1st Jun'21) incremental impact was only 3-4%. Peak margin regulation has seen a shift of trades to options contracts where crude has seen good traction.
- **Movement of unique client codes:** Traded UCC numbers increased from 246,600 in Apr-Jul'21 vs 236,000 in the same period last year with substantial increase in options contracts. While there is increase in the number of UCCs, those that are traded are not rising. This is due to consolidation of membership across exchanges. Therefore, when a client is on boarded, he gets added on all the platforms, but activation on a particular platform may take some time.
- **MCX will now charge for options:** Option contracts for which free tariff period was up to Sep'21 will not be extended further. Options will be charged from 1st Oct'21 onwards. Charges will be based on premium turnover – Rs500/mn up to Rs50mn and Rs400/mn above Rs50mn (applicable rate is based on average daily premium turnover). Premium turnover is 1.5% of notional turnover. Based on Jun'20 options turnover of ~Rs500bn and blended realisation rate of Rs450/mn, option volumes can contribute Rs6.8mn per month (Rs500bn * 1.5% * Rs450/mn *2). This can add directly to profits (Rs80mn-100mn per year).
- **New product initiatives:** MCX has launched silver mini option contracts. Launch of electricity contracts is delayed as Supreme Court judgement is awaited. No final decision has been taken yet on gold spot exchange pending finalization of the regulatory structure.

Market Cap	Rs85bn/US\$1.1bn	Year to Mar (Cons)	FY20	FY21	FY22E	FY23E
Reuters/Bloomberg	MCEIQF.BO/ MCX IN	Revenue (Rs mn)	3,978	3,906	4,567	5,292
Shares Outstanding (mn)	51.0	Rec. Net Income (Rs mn)	2,365	2,128	2,615	3,209
52-week Range (Rs)	1806/1451	Rec. EPS (Rs)	46.4	41.7	51.3	62.9
Free Float (%)	100.0	% Chg YoY	61.6	(10.0)	22.9	22.7
FII (%)	39.3	P/E (x)	36.0	40.0	32.5	26.5
Daily Volume (US\$'000)	7,512	CEPS (Rs)	49.9	46.0	55.6	68.6
Absolute Return 3m (%)	8.9	EV/E (x)	33.9	35.5	27.3	20.1
Absolute Return 12m (%)	9.1	Dividend Yield (%)	1.8	1.7	2.0	2.4
Sensex Return 3m (%)	8.0	RoCE (%)	10.6	9.5	10.7	13.4
Sensex Return 12m (%)	40.1	RoE (%)	18.1	15.3	17.7	19.9

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- ▶ **Measures to boost volumes** Cross-margin benefit has been extended to index futures contracts with effect from 26th Jul'21. Regarding the possibility of SEBI opening up commodity futures for FPI, MCX facilitated meeting with eligible entities to know their requirements on what kind of relaxations were needed. Among new partners, one bank subsidiary is doing aggressively well while other subsidiaries' performance has been flat. Crude oil margins are likely to remain high in the short term.
- ▶ **Measures to improve delivery:** Increased traction in delivery is lacking because delivery is the last resort in futures contracts. However, delivery centres for metal contracts are increasing. Second issue is related to dual GST, which has been flagged off to higher authorities in the finance ministry to resolve. MCX's asking in the matter is to replace SGST with IGST so that multiple registrations are not required. Other models are also being considered at this time to improve the delivery.
- ▶ **Cash book, tax rate and SGF book:** Large parts of investments were lying under the ultra-short-term fund, which has been gradually reduced. Some investments are held into tax-free bonds and perpetual bonds. Tax-free bonds constitute 67% of total investment. MAT credit available is Rs120mn, which will be adjusted in fourth quarter. New effective tax rate of 25.2% is expected to be applicable from next financial year. SGF stands at Rs4.80bn in Q1FY22. Consolidated cash as at Q1FY22 was Rs17bn while net of margin money was at Rs12bn.
- ▶ **New software arrangement:** Annual maintenance charges for the new software are very small. No upfront payment has been made.

Table 1: Q1FY22 result review*(Rs mn, year ending March 31)*

Particulars Rs mn	Q1FY22	Q1FY21	YoY (%)	4QFY21	QoQ (%)
Turnover (Rs mn)	1,77,94,404	1,41,08,394	26.1%	1,98,41,328	-10.3%
ADTV (Rs mn)	2,82,451	2,31,285	22.1%	3,14,942	-10.3%
Net revenues	876	730	20.0%	970	-9.7%
Employees expenses	208	178	16.3%	177	17.5%
Software support charges	152	139	10.0%	153	-0.4%
Other operating expenses	148	148	-0.3%	198	-25.3%
Total expenses	508	465	9.1%	527	-3.7%
EBITDA	369	265	39.0%	443	-16.7%
<i>EBITDA margin (%)</i>	42.1%	36.3%	576 bps	45.6%	-358 bps
Depreciation and amortization	67	48	39.0%	61	8.6%
EBIT	302	217	39.0%	381	-20.8%
<i>EBIT Margin (%)</i>	34.5%	29.7%	472 bps	39.3%	-486 bps
Net Interest expenses	1	1	0.0%	1	-28.6%
Other NO income (expense), net	213	497	-57.1%	115	85.7%
Earnings before tax	515	714	-27.9%	495	3.9%
Income taxes	116	150	-22.8%	110	5.2%
<i>Income tax as % of PBT</i>	22.5%	21.1%	147 bps	22.3%	27 bps
Extraordinary income / (exp)	-	-	-	-	-
Share of profit of associate	(1)	1	-163.6%	(1)	0.0%
Earnings after tax	398	564	-29.5%	384	3.5%
Non-recurring items	-	-	n.m.	-	n.m.
Net income (loss), adjusted	398	564	-29.5%	384	3.5%
<i>Net Margin (%)</i>	36.5%	46.0%	-946 bps	35.4%	109 bps
Shares outstanding	51	51	-	51	-
EPS	8	11	-29.3%	8	3.5%
Core Income	233	172	35%	295	-21%

Source: Company data, I-Sec research

Valuation

We value MCX at 35x FY23E core EPS of Rs50.3 and add distributable cash and investments (Rs171/share) to arrive at our target price of Rs1,930. Our core earnings include operating income and investment returns from restricted cash.

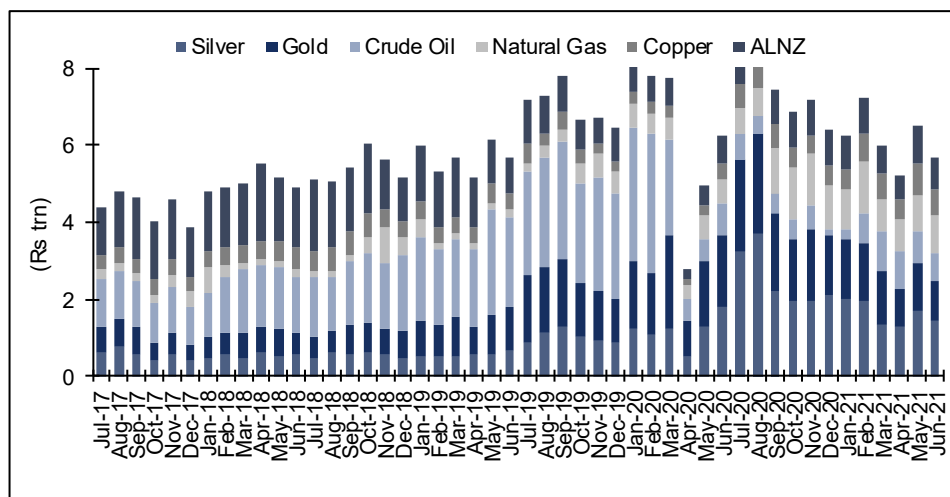
Table 2: Valuation based on core earnings

Particulars	FY23E
Core EPS (Rs)	50.3
Target core P/E (x)	35
Core price (Rs per share)	1,759
Number of shares (mn)	51
Core value (Rs mn)	89,716
Cash and investments (Rs mn)*	8,714
Total value (Rs mn)	98,430
Target price (Rs per share)	1,930

Source: Company data, I-Sec research

*Cash and investments excluding capital deployed for regulatory net worth requirement

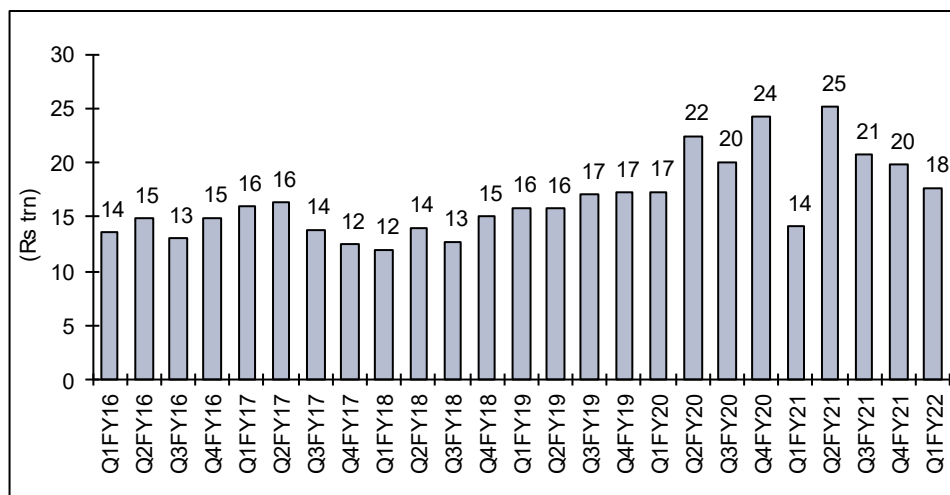
Chart 1: Value share of key commodities traded at MCX



Note: ALNZ – combined volume of aluminium, lead, nickel and zinc

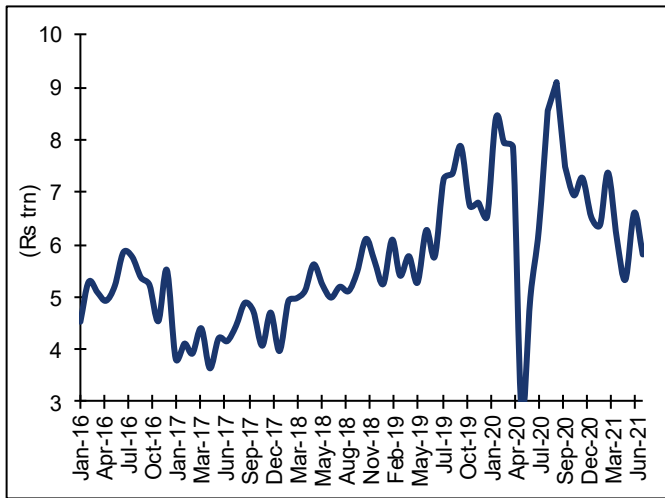
Source: MCX India, I-Sec research

Chart 2: Quarterly turnover trend



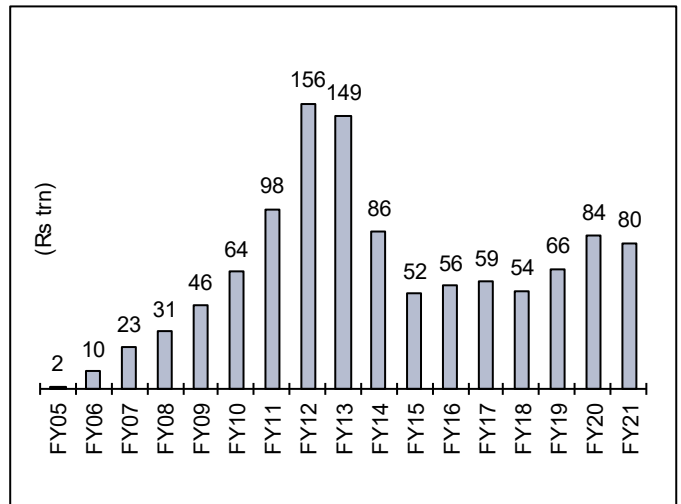
Source: MCX India, I-Sec research

Chart 3: Total monthly turnover



Source: MCX India, I-Sec research

Chart 4: Total annual turnover remains lower than pre-CTT levels



ADTV trends

Chart 5: Gold

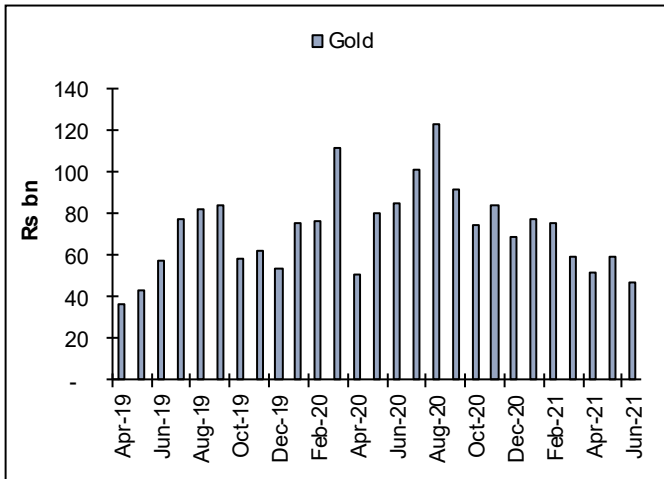


Chart 6: Silver

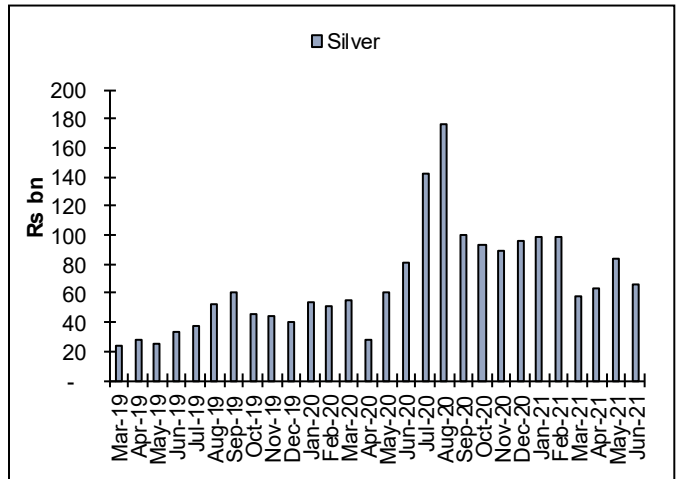


Chart 7: Crude oil

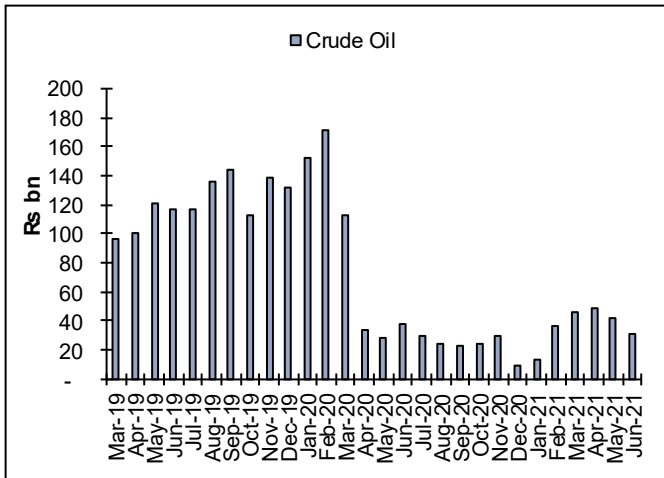


Chart 8: Natural gas

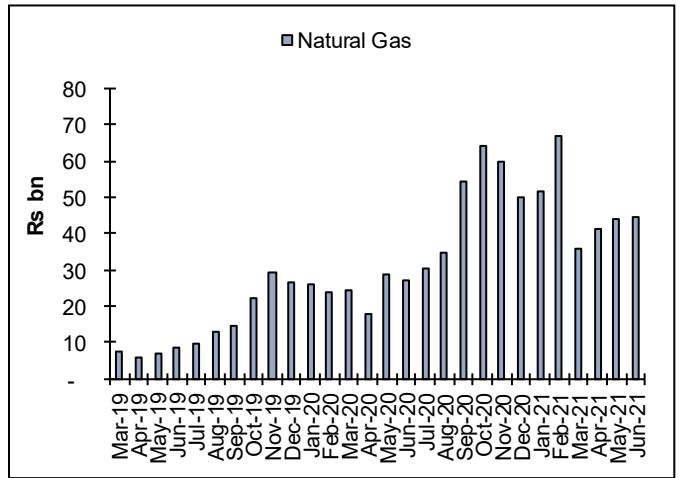


Chart 9: Copper

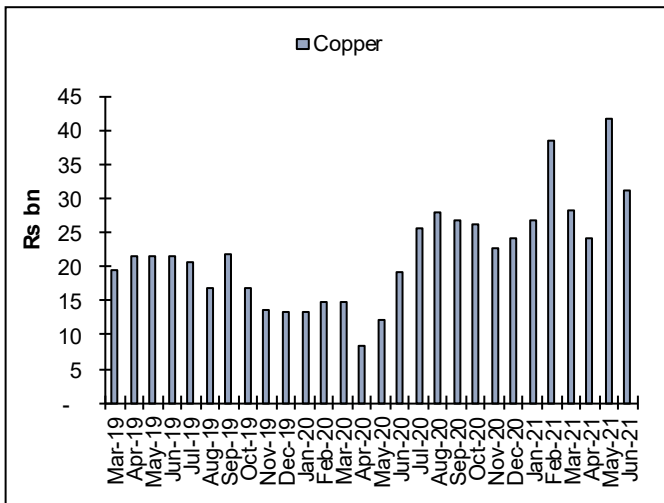
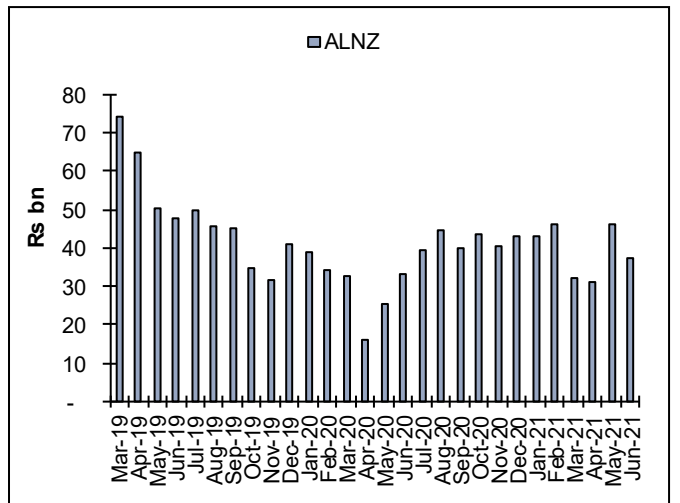


Chart 10: ALNZ



Source: MCX- India, I-Sec research

Key risks to our estimates

Sudden decline in commodity prices may reduce fee income

Transaction charges, which form around 95% of MCX's revenues, are applicable on the traded value of commodity contracts, not volumes. Hence, in the event of continually declining commodity prices, transaction charges (hence revenues) would be correspondingly lower.

Intense commodity price volatility may invite regulatory intervention

Since commodity derivatives market is dominated by individuals/speculators, it is prone to intense volatility. This could attract intervention by the regulator, which could impact volumes at the exchange. However, most commodities traded at MCX have international linkage, hence the threat stands mitigated.

Concentration risk

MCX's turnover has largely been concentrated in base metals, bullion and energy. A sharp decline in volumes in any of these segments, or a sudden decline in market share, can affect the company's revenues in the near term.

Upfront margin norms

MCX turnover has been impacted due to higher upfront margin requirements. Implementation of phase 4 of the peak margin regulation from Sept'21 onwards can further impact the overall exchange turnover.

Financial summary (consolidated)

Table 3: Profit & Loss statement

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Total Income	3,978	3,906	4,567	5,292
Operating Expenses	2,195	2,054	2,156	1,998
EBITDA	1,784	1,851	2,412	3,294
% margins	44.8	47.4	52.8	62.2
Depreciation & Amortisation	181	221	219	289
Net Interest	1.6	-	-	-
Other Income	1,053	1,038	1,142	1,285
Recurring PBT	2,653	2,669	3,335	4,290
Add: Extraordinaries	-	(126)	-	-
Less: Taxes				
- Current tax	317	415	720	1,081
- Deferred tax	(28)	-	-	-
Less: Minority Interest & Share in associates	-	-	-	-
Net Income (Reported)	2,365	2,253	2,615	3,209
Recurring Net Income	2,365	2,128	2,615	3,209

Source: Company data, I-Sec research

Table 4: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Assets				
Total Current Assets	12,965	11,117	12,229	14,086
of which cash & cash eqv.	7,593	4,261	7,521	9,226
Total Current Liabilities & Provisions	13,752	10,843	10,814	11,400
Net Current Assets	(788)	274	1,415	2,686
Investments				
of which	12,561	12,051	12,248	12,479
Strategic/Group	5,943	6,066	6,066	6,066
Others	6,618	5,985	6,182	6,413
Net Fixed Assets	1,820	1,857	1,721	1,737
of which				
Intangibles	149	185	240	390
Capital Work-in-Progress	237	263	50	50
Goodwill	-	-	-	-
Total Assets	13,594	14,182	15,384	16,902
Liabilities				
Borrowings				
Deferred Tax Liability	-	-	-	-
Minority Interest	-	-	-	-
Equity Share Capital	510	510	510	510
Face Value per share (Rs)	10	10	10	10
Reserves & Surplus	13,084	13,672	14,874	16,392
Net Worth	13,594	14,182	15,384	16,902
Total Liabilities	13,594	14,182	15,384	16,902

Source: Company data, I-Sec research

Table 5: Quarterly trends

(Rs mn, year ending March 31)

Consolidated	Sep-20	Dec-20	Mar-21	Jun-21
Total Income	1,197	1,009	970	876
% growth (YoY)	12.3	7.2	-13.6	20.0
EBITDA	657	487	443	369
Margin (%)	54.9	48.2	45.6	42.1
Other income	178	248	115	213
Add: Extraordinaries	-	-	-	-
Net profit	586	592	384	398

Source: Company data, I-Sec research

Table 6: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Op. Cashflow post tax	1,089	100	1,691	2,213
Working Capital Changes	3,403	(4,393)	2,120	434
Capital Commitments	(277)	(285)	(97)	(305)
Free Cashflow	4,214	(4,578)	3,714	2,342
Cashflow from Investing Activities	5	1,548	944	1,055
Issue of Share Capital	-	-	-	-
Buyback of shares	-	-	-	-
Inc (Dec) in Borrowings	-	-	-	-
Dividend paid	(1,230)	(1,530)	(1,413)	(1,692)
Interest paid	(5)	-	-	-
Chg. in Cash & Bank balance	2,985	(4,559)	3,246	1,705

Source: Company data, I-Sec research

Table 7: Key ratios

(Year ending March 31)

	FY20	FY21	FY22E	FY23E
Per Share Data (Rs)				
EPS(Basic Recurring)	46.4	41.7	51.3	62.9
Diluted Recurring EPS	46.4	41.7	51.3	62.9
Core EPS	33.4	32.3	40.1	50.3
Recurring Cash EPS	49.9	46.0	55.6	68.6
Dividend per share (DPS)	30.0	27.7	33.2	40.7
Book Value per share (BV)	267	278	302	331
Growth Ratios (%)				
Operating Income	32.6	(1.8)	16.9	15.9
EBITDA	89.7	3.8	30.3	36.6
Recurring Net Income	61.6	(10.0)	22.9	22.7
Diluted Recurring EPS	61.6	(10.0)	22.9	22.7
Diluted Recurring CEPS	57.4	(7.8)	20.7	23.5
Valuation Ratios				
P/E	36.0	40.0	32.5	26.5
P/CEPS	33.4	36.2	30.0	24.3
P/BV	6.3	6.0	5.5	5.0
EV / EBITDA	33.9	35.5	27.3	20.1
EV / EBIT	48.0	48.9	34.7	24.9
EV / Op. FCF (pre -Capex)	17.3	(17.4)	20.5	31.9
Operating Ratios				
Software support charge / Revenue	19.0	17.3	16.3	9.5
Employee charge / Revenue	21.5	22.5	20.1	18.2
Effective Tax Rate (%)	10.9	15.6	21.6	25.2
Current ratio	0.6	0.7	0.7	0.7
Profitability Ratios (%)				
EBITDA Margins	44.8	47.4	52.8	62.2
Rec. Net Income Margins	47.0	43.0	45.8	48.8
RoCE	10.6	9.5	10.7	13.4
RoNW	18.1	15.3	17.7	19.9
Dividend Payout Ratio	65	66	65	65
Dividend Yield	1.8	1.7	2.0	2.4

Source: Company data, I-Sec research

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