

# Multi Commodity Exchange (MCX)

CMP: ₹ 6610

Target: ₹ 6700 (1%)

Target Period: 12 months

HOLD

October 24, 2024

## Continued surge in turnover boost performance

About the stock: MCX is the leader in commodity derivatives exchanges in India with ~97.8% market share in terms of commodity futures turnover

- It has ~100% market share in precious metals, base metals and energy
- Presence in various commodities offers healthy diversification with focus on option volume

**Q2FY25 performance:** MCX has reported robust performance in Q2FY25, led by continued strong traction seen in option volume and streamlining of software related expense. Option ADTO have witnessed continued strong growth of 125% YoY and 31.7% QoQ at ₹ 193,309 crore. Post a decline in Q4FY24, volume in futures continued to gather strength for second consecutive quarter at ₹26,941 crore (up 43.6% YoY & 3.7% QoQ). Thus, revenue from operations rose 73% YoY and 21.9% QoQ at ₹ 285.6 crore, though premium turnover has been lagging. With stabilization in opex, robust top-line growth led to surge in PAT at ₹ 153.6 crore, up 38.5% QoQ.

## Investment Rationale

- Continued surge in volumes boost top-line: Options continued to report record high volume (₹193309 crore in Q2FY25) coupled with traction in futures turnover (₹26941 crore) aided robust growth in top-line. This growth is backed by increased participation (traded clients rose 19.9% at 6.8 lakhs) and rise in volume (primarily crude & natural gas) which is expected to continue ahead. Products recently launched and in pipe-line is seen to act as a catalyst to aid further momentum. Introduction of shorter duration index option could take some time to ensure system readiness, however, post clarity from regulator, remains a substantial trigger.
- Implementation of new software is seen to normalize margins: Implementation of new software has led to a substantial decline in opex thereby witnessing recovery in earnings. Going ahead, AMC charges for the software are to be included (as first free year is over in Sep'24), faster and stable product launches on the new system along with increase in volume is expected to aid profitability.

## Rating and Target Price

- Continued healthy turnover coupled with streamlining of software cost bodes well for sustained growth in earnings. Launch of new products remains catalyst for sustained growth. Given difficulty in ascertaining potential of growth in volume, we roll over to FY27E and assign a multiple of ~40x FY27E PAT and add cash to arrive at a revised target price of ₹6700. However, recent run up in stock price warrants a Hold rating.



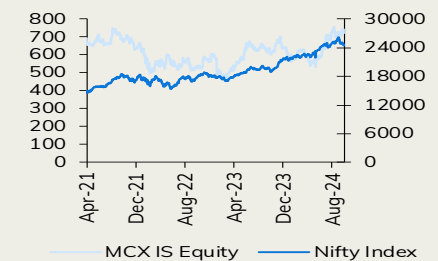
### Particulars

Particulars	Amount
Market Capitalisation	33925 crore
Networth	1584.8 crore
Face Value	10
52 week high/low	6,809/ 2162
DII Holding (%)	57.50
FII Holding (%)	22.10

### Shareholding pattern

in %	Dec 23	Mar 24	June 24	Sep 24
DII	53.0	56.9	57.2	57.5
FII	26.6	23.2	20.7	22.1
Public	20.2	19.7	21.9	20.3
Others	0.2	0.2	0.2	0.2

### Price Chart



### Key risks

- Delay in new product launch to impact growth
- Higher than expected surge in volume pose upside risk

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## Key Financial Summary

(₹ crore)	FY22	FY23	FY24	3 year CAGR (FY21-FY24)	FY25E	FY26E	FY27E	3 year CAGR (FY24-27E)
Net Sales	366.8	513.5	683.6	20.5%	1,136.4	1,422.6	1,674.8	34.8%
EBITDA	162.2	149.7	64.3	-29.7%	707.7	923.8	1,126.1	159.7%
Net Profit	143.7	149.2	84.9	-27.8%	589.8	744.3	907.6	120.3%
EPS (₹)	28.2	29.3	16.6		115.6	145.9	178.0	
P/E(x)	234.6	226.0	397.1		57.2	45.3	37.1	
RoE (%)	10.1	10.1	6.2		37.2	32.0	28.0	
RoA (%)	5.1	4.9	2.5		15.5	15.6	15.3	

Source: Company, ICICI Direct Research

## Concall highlights and outlook

- In Q2FY25, options revenue constitutes 70% of total revenue, while futures revenue accounts for 30%. Float income stood at ₹20 crore compared to ₹18 crore in Q1FY25
- Effective tax rate is expected to remain steady at 21-22% level
- AMC costs for TCS platform will start from Q3FY25, indicating upcoming expenses in IT infrastructure.
- Post approval for FPI, 117 clients have been registered in las 2 months
- Currently, colocation facilities are not allowed in commodities segment. implementation of the same will be dependent on changes in regulations.
- SEBI has revised the minimum duration of staggered delivery period of commodity derivative contracts to three working days from five working days.
- MCX introduced two new options contracts in April 2024: crude oil mini options, natural gas mini options
- Delay in launching Gold 10 gm options is owing to system testing and soon is expected to launch.
- Regulatory guidelines for index options have already come into place, allowing a commodity exchange to come up with options. MCX will look into launching index options once its systems are tested and regulatory approvals are obtained.
- Approval on derivative contract on electricity is awaited

### Exhibit 1: Variance Analysis

	Q2FY25	Q2FY24	YoY	Q1FY25	QoQ	Comments
Revenue	285.6	165.1	73.0%	234.4	21.9%	Options volume continue to drive top-line
Other Income	25.2	18.9	33.5%	18.8	34.1%	
Total Income	310.8	184.0	68.9%	253.2	22.8%	
Operating Expenses	73.5	166.4	-55.9%	69.7	5.4%	Opex lower due to implementation of new software
Other Expenses	32.7	27.4	19.3%	32.1	1.8%	
Total Expenses	106.1	193.8	-45.2%	101.8	4.3%	
<b>EBITDA</b>	<b>179.4</b>	<b>-28.7</b>	<b>NA</b>	<b>132.6</b>	<b>35.4%</b>	
<b>EBITDA %</b>	<b>62.8%</b>	<b>-17.4%</b>	<b>NA</b>	<b>56.6%</b>	<b>0 bps</b>	
Depreciation	14.0	6.6	113.5%	13.4	4.5%	
Finance Costs	0.1	0.1	66.7%	0.1	NA	
Exceptional Items	0.4	-1.0	NA	0.4	25.7%	
PBT	191.0	-17.4	NA	138.3	38.1%	
Tax	37.4	1.6	2192.6%	27.3	36.7%	
PAT	153.6	-19.1	NA	110.9	38.5%	Robust traction in option volumes & streamlining of software expense led to strong recovery in PAT

## Financial Summary

### Exhibit 2: Profit and loss statement ₹ crore

(₹ crore)	FY23	FY24	FY25E	FY26E	FY27E
Net Sales	513.5	683.6	1,136.4	1,422.6	1,674.8
Operating Exp	271.9	506.9	292.3	348.8	383.6
Software	196.1	392.9	98.9	142.3	167.5
Employee Cost	91.9	112.3	136.4	150.0	165.0
Total Expenses	363.8	619.2	428.7	498.8	548.6
EBIDTA	149.7	64.3	707.7	923.8	1,126.1
Depreciation	21.6	35.9	55.5	56.0	56.0
Other Income	67.7	75.4	82.3	86.4	93.4
Interest	0.2	0.3	0.3	0.3	0.3
Exceptional Items	(5.0)	(1.5)	0.8	-	-
PBT	190.8	103.8	734.5	954.2	1,163.5
Tax	41.6	18.9	144.7	209.9	255.9
PAT	149.2	84.9	589.8	744.3	907.6

Source: Company, ICICI Direct Research

### Exhibit 4: Balance sheet ₹ crore

(Year-end March)	FY23	FY24	FY25E	FY26E	FY27E
Sources of Funds					
Share Capital	51.0	51.0	51.0	51.0	51.0
Reserves and Surplus	1428.3	1327.5	1533.9	2278.2	3185.8
Total Shareholder's Fund	1479.3	1378.5	1584.9	2329.2	3236.8
Current Liabilities	897.6	1184.2	1302.6	1432.8	1576.1
Settlement Guarantee Fund	589.8	780.6	858.6	944.5	1038.9
Total	3022.8	3408.8	3815.0	4778.9	5927.8
Application of funds					
Fixed Assets	129.9	184.0	198.7	214.6	231.7
Investments	1176.8	1078.8	1143.5	1235.0	1333.8
Loans & Advances	0.0	0.0	0.0	0.0	0.0
Cash and equivalents	1177.9	965.6	1221.5	1519.2	1882.6
Other Assets	538.2	1180.4	1251.3	1326.3	1405.9
Total	3022.8	3408.8	3815.0	4778.9	5927.8

Source: Company, ICICI Direct Research

### Exhibit 3: Key ratios

	FY22	FY23	FY24	FY25E	FY26E	FY27E
No. of Equity shares	5.1	5.1	5.1	5.1	5.1	5.1
EPS (₹)	28.2	29.3	16.6	115.6	145.9	178.0
BV (₹)	278.1	290.1	270.3	310.8	456.7	634.7
P/E (x)	234.6	226.0	397.1	57.2	45.3	37.1
P/BV (x)	23.8	22.8	24.5	21.3	14.5	10.4
OPM %	44.2	29.2	9.4	62.3	64.9	67.2
PAT %	39.2	29.1	12.4	51.9	52.3	54.2
RoE %	10.1	10.1	6.2	37.2	32.0	28.0
RoA %	5.1	4.9	2.5	15.5	15.6	15.3

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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