

Multi Commodity Exchange (MCX)

CMP: ₹ 1673

Target: ₹ 2000 (20%)

Target Period: 12 months

January 24, 2021

Traction in new products to drive business growth

MCX reported slight moderation in ADTO (Average Daily Turnover) attributable to upfront margin requirement impacting volume. Operational performance remained healthy led by steady revenue and controlled opex. Decent growth in other income and utilization of MAT credit resulted in strong earnings growth.

ADTO in commodity futures on the exchange increased by 4% to ₹32,181 crore in Q3FY21, however, a 15% moderation was witnessed sequentially attributable to decline in gold price and kicking in regulatory requirement of upfront margin. Option ADTO remained steady at ₹ 860 crore in 9MFY21. Newly launched bullion index futures ADTO has been at ₹ 270 crore, while metal index ADTO was reported at ~₹ 50 crore (data pertaining till 20 Jan 2021). Markets share in commodity futures space has remained strong at 96.48% in Q3FY21. Number of unique customers continued to remain steady at 51.5 lakh and authorised person count stood at 56193.

Steady ADTO and realisation kept revenue growth at 13% YoY to ₹ 100.9 crore. However, sequentially, revenue declined 15% attributable to moderation in ADTO. Other income continued to remain resilient at ₹ 24.8 crore, led by rise in bond prices. EBIDTA for the quarter came in at ₹ 48.7 crore, up 24% YoY, though sequential declined 25.8%. Subsequently, EBITDA margin increased ~430 bps YoY to 48.2%. Healthy EBITDA coupled with utilization of MAT credit led earnings growth at 29.8% YoY to ₹ 71.8 crore. PAT margin stood at 71.2% in Q3FY21 vs 62% in Q3FY20.

ADTO to show gradual rise post initial hiccup

Moderation in bullion prices coupled with regulatory requirement of upfront margin is seen to have impacted volumes. Scaling up of margin requirement is expected to keep ADTO volatile in near term, post which the same is expected to stabilize. Gradual improvement in crude price coupled with reduction in margin requirement from 130% (levied post crude prices got negative) to 50% is seen to boost volumes, though further reduction is required to bring in substantial flows. Pick up in options (currently ADTO at ₹ 860 crore) and recently launched futures (ICOMDEX Bullion and ICOMDEX Base Metal indices) are expected to add up to volumes growth.

Valuation & Outlook

Continued volatility in commodities amid fast changing scenario is seen to drive volumes and thereby earnings, though regulatory regime could lead to near term hiccups. We remain positive on the stock owing to 1) continued market leadership, 2) gradual pick up of newly launched index-based products and 3) continued addition in participants. We expect ADTO to remain flat at ₹ 87.4 lakh crore in FY21E and accelerate thereafter to ₹ 110 lakh crore by FY23E. Consequently, revenue & earnings is expected to grow at ~10% CAGR in FY21-23E to ₹ 506 crore & 310 crore. We maintain our target at ₹ 2000, valuing the stock at ~37x FY23E core earnings and adding net cash after deducting SGF. Maintain BUY.

Key Financial Summary

(₹ crore)	FY18	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-22E)
Net Sales	258.0	300.0	374.2	411.7	454.4	506.4	10.6%
EBITDA	69.9	94.9	154.7	203.5	225.5	255.3	18.2%
EPS (₹)	20.9	33.0	46.4	48.9	53.7	60.7	
Annual Volume Traded (in lakh crore)	53.9	67.7	86.9	87.4	98.6	28.3	
RoE (%)	7.7	13.5	17.4	17.4	18.0	19.2	
RoA (%)	5.4	8.1	8.7	8.5	8.7	9.2	

Source: Company, ICICI Direct Research

BUY



Particulars

Particulars	Amount
Market Capitalisation	₹ 8534 crore
Equity Capital	₹ 51 crore
Networth	₹ 1359 crore
Face Value	₹ 10
52 week high/low	1875/805
FII	37.06%
DII	39.22%

Key Highlights

- Growth in ADTO moderated at 4.3% YoY to ₹ 32181 crore in Q3FY21
- Operational performance continued to remain steady
- Value stock at ~37x core earnings. Maintain BUY with target price unchanged of ₹ 2000

Key Highlights

- Scaling up of upfront margin requirement could impact turnover
- Slower pick up in recently launched options could remain a drag on incremental growth

Research Analyst

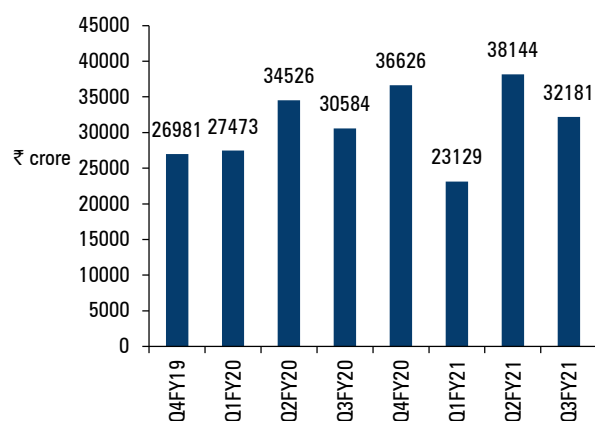
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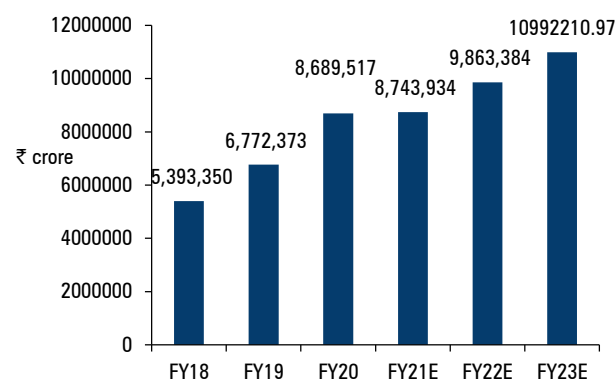
Story in Charts

Exhibit 1: ADTO levels healthy



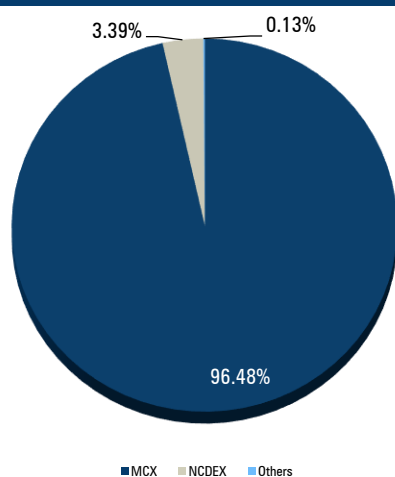
Source: Company, ICICI Direct Research

Exhibit 2: Increasing turnover



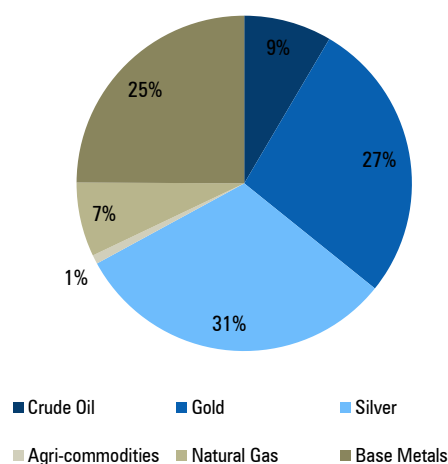
Source: Company, ICICI Direct Research

Exhibit 3: MCX market share



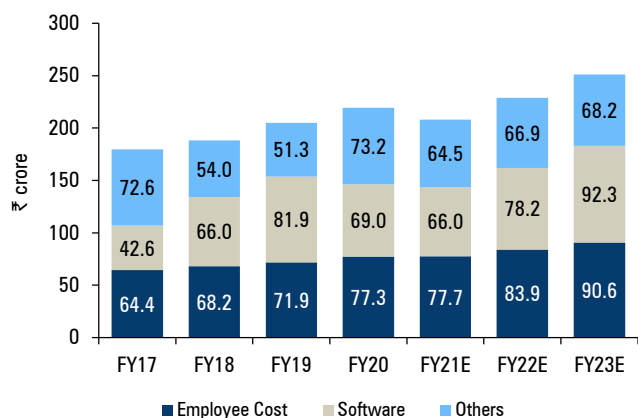
Source: Company, ICICI Direct Research

Exhibit 4: Major commodities turnover in Q3FY21



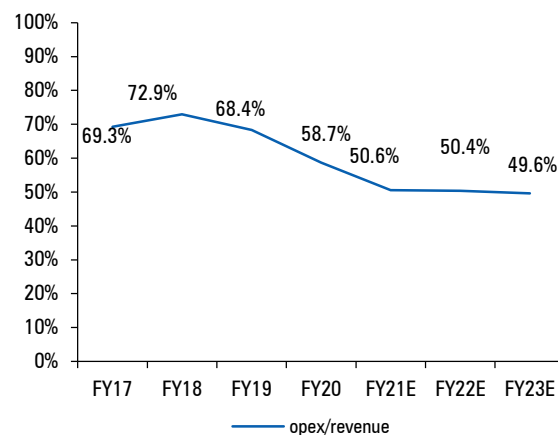
Source: Company, ICICI Direct Research

Exhibit 5: Opex Break-up



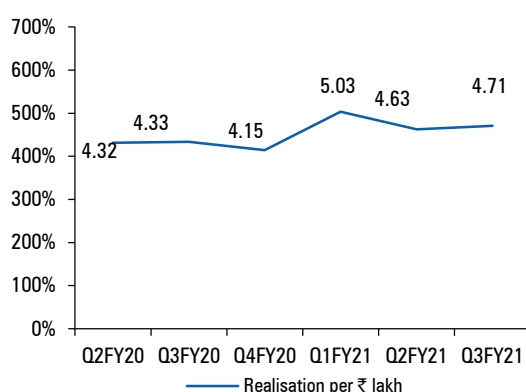
Source: Company, ICICI Direct Research

Exhibit 6: Operating efficiency to remain steady



Source: Company, ICICI Direct Research

Exhibit 7: Quarterly realisation trend (calculated)



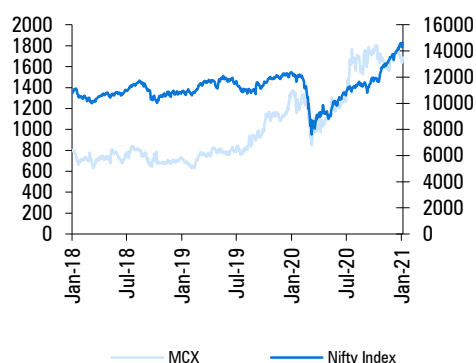
Source: Company, ICICI Direct Research

Exhibit 8: Shareholding Pattern

in %	Dec 19	Mar 20	Jun 20	Sep 20	Dec 20
Promoter	0.00	0.00	0.00	0.00	0.00
DII	35.98	39.71	41.45	41.35	39.22
FII	33.56	32.18	36.06	36.63	37.06
Others	30.5	28.1	22.5	22.0	23.7

Source: Company, ICICI Direct Research

Exhibit 8: Price Chart



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 23: Profit & Loss Statement

(₹ crore)	FY18	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	258.0	300.0	374.2	411.7	454.4	506.4
Operating Exp	119.9	133.2	142.2	130.5	145.0	160.5
Software	66.0	81.9	69.0	66.0	78.2	92.3
Employee Cost	68.2	71.9	77.3	77.7	83.9	90.6
Total Expenses	188.2	205.1	219.5	208.2	228.9	251.1
EBIDTA	69.9	94.9	154.7	203.5	225.5	255.3
Depreciation	16.7	15.4	18.1	21.8	23.2	23.2
Other Income	88.6	96.0	129.0	120.1	143.8	151.3
Interest	-	-	0.2	0.2	-	-
PBT	141.8	175.5	265.5	301.8	346.2	383.4
Tax	35.0	7.1	28.9	52.3	72.5	73.7
PAT	106.8	168.4	236.6	249.5	273.6	309.7

Source: Company, ICICI Direct Research

Exhibit 24: Balance Sheet

(Year-end March)	FY18	FY19	FY20	FY21E	FY22E	FY23E
Sources of Funds						
Share Capital	51.0	51.0	51.0	51.0	51.0	51.0
Reserves and Surplus	1329.5	1199.9	1308.4	1383.2	1465.3	1558.2
Total Shareholder's Fund	1380.5	1250.9	1359.4	1434.2	1516.3	1609.2
Non Current Liabilities	41.0	41.4	54.6	57.3	60.2	63.2
Current Liabilities	364.2	453.3	910.9	983.8	1062.5	1147.5
Settlement Gurantee Fund	180.6	329.8	409.8	450.7	495.8	545.4
Total	1966.3	2075.5	2734.6	2926.0	3134.8	3365.3

Application of funds

Fixed Assets	146.7	141.4	141.3	155.4	167.8	181.3
Investments	1325.2	1202.0	1640.9	1715.7	1797.8	1890.7
Loans & Advances	0.3	0.2	0.2	0.2	0.2	0.2
Cash and equivalents	59.7	534.6	759.3	850.1	952.1	1063.2
Other Assets	434.4	197.3	193.0	204.6	216.8	229.9
Total	1966.3	2075.5	2734.6	2926.0	3134.8	3365.3

Source: Company, ICICI Direct Research

Exhibit 25: Key Ratios

	FY18	FY19	FY20	FY21E	FY22E	FY23E
No. of Equity shares	5.1	5.1	5.1	5.1	5.1	5.1
EPS (₹)	20.9	33.0	46.4	48.9	53.7	60.7
BV (₹)	270.7	245.3	266.5	281.2	297.3	315.5
P/E (x)	79.9	50.7	36.1	34.2	31.2	27.5
P/BV (x)	6.2	6.8	6.3	5.9	5.6	5.3
OPM %	27.1	31.6	41.3	49.4	49.6	50.4
PAT %	41.4	56.1	63.2	60.6	60.2	61.2
RoE %	7.7	13.5	17.4	17.4	18.0	19.2
RoA %	5.4	8.1	8.7	8.5	8.7	9.2
Annual Volume Traded (in lakh crore)	53.9	67.7	86.9	87.4	98.6	28.3
ADTO	21193	25648	32424	33631	37936	42278

Source: Company, ICICI Direct Research

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Buy: >15%

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Reduce: -15% to -5%;

Sell: <-15%



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