



# Multi Commodity Exchange of India Ltd. (MCX)

Market dominance, scalable technology, new product opportunity & attractive valuations

## Offer Highlights

Offer for sale (mn)	6.42
No. of shares net (mn)	6.17
FV	10
Price Band	Rs. 860-1,032
Market cap (Rs bn.)	43.86-52.63
Shares o/s (mn.)	51
Registrar	Karvy
Lead Managers	Edelweiss, Citi, Morgan Stanley

Shareholding Pattern (%)	Pre-offer	Post-offer
Promoters	31.2%	26.0%
Institutions	32.8%	34.3%
Non-Institutions	36.0%	39.7%
Total	100.0%	100.0%

## Financials

(Rs.mn)	FY09	FY10	FY11	FY12*
Income from operations	2,124	2,874	3,689	5,364
Expenditure	1,360	1,458	1,771	1,891
EBITDA	2,298	3,479	2,704	4,436
PBT	2,098	3,231	2,458	4,163
Net Profit	1,588	2,208	1,763	2,906
OPM(%)	36%	49%	52%	65%
NPM(%)	75%	77%	48%	54%
ROE(%)	32.2%	31.7%	20.8%	27.1%
D/E	-	-	-	-

Source : ITI Research/Company RHP

Rating **SUBSCRIBE**

MCX is offering 6.4mn equity shares at a price band of Rs. 860-1,032 through an offer for sale, valuing the company at Rs. 43.8-52.6bn. The shareholders selling their shares are Financial Technologies (India) Ltd, State Bank of India, GLG Financials Fund, Alexandra Mauritius Ltd, Corporation Bank, ICICI Lombard General Insurance, and Bank of Baroda.

MCX is India's largest commodity futures exchange with a market share of over 85% (87.3% during 9MFY12) of the Indian commodity futures market, and has more than 2,153 registered members operating through 2,96,896 terminals spread over 1,572 cities and towns across India. The Exchange is the fifth largest commodity exchange (no. of contracts traded for 6MCY11), among all the commodity exchanges in the world as per Futures Industry Association survey.

- We expect MCX to leverage the expertise out of its global tie-ups with entities such as London Metal Exchange, New York Mercantile Exchange and Shanghai Futures Exchange, which will help in the introduction of products to scale-up the business.
- We see increase in terminals per member driving growth in revenues. MCX is also mitigated from revenue concentration risk, with top brokers (members) contributing ~30% of the transaction fees.
- MCX seems adequately placed to generate greater profitability out of increased trading volumes with the help of scalable and globally cost-efficient technological infrastructure.
- Since commodity options trading comprise around 50% of the total commodity trading, its introduction in Indian bourses will boost trading volumes.
- Amendments to FCRA permitting institutions to trade in commodity futures will act as a strong positive trigger to the stock.

At the upper-end of the price band, the stock is available at 17.7x annualized FY12 EPS, as compared to global average of 19x on CY12E earnings (comparable exchanges in terms of margins & growth trade at over 23x CY12 earnings). We recommend **SUBSCRIBE** to the IPO based on market dominance, strong ownership & superior corporate governance, scalable technological edge, new product opportunity and attractive valuations.

**Promoter Background**

MCX is promoted by **FTIL** (Financial Technologies India Ltd.), having a pre-IPO stake of 31.18%. FTIL is mainly engaged in the business of developing software and acting as a technical service provider in respect of automated electronic markets in the areas of finance and technology like foreign exchange, commodities, debts, treasuries, securities, banking and insurance. The promoters of FTIL (45.7% shareholding) are Jignesh P. Shah, Dewang Neralla and La-Fin Financial Services Private Limited.

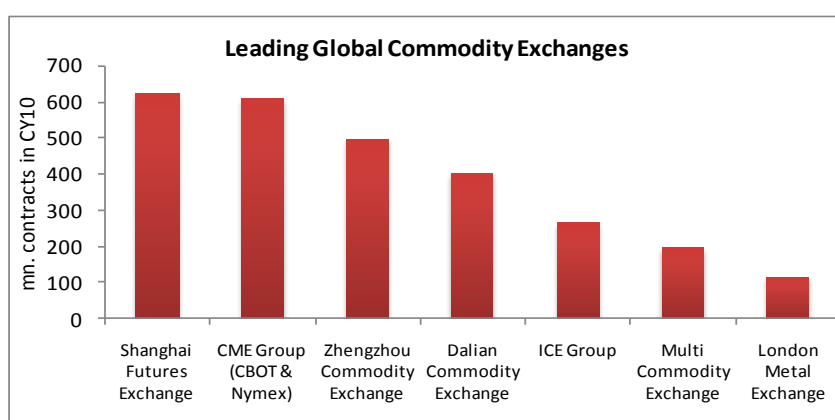
Offer for sale	6.42mn
No. of shares net offer	6.17mn
% of post issue equity	12.6%
Face value	Rs. 10
Price Band	Rs. 860-1,032
Market cap	Rs. 43.86bn - Rs. 52.63bn
Shares o/s (mn.)	51
Object of the issue	To achieve benefits of listing in order to enhance brand name and provide liquidity to existing shareholders

Shareholders	Pre-offer shares	Pre-offer shareholding	Post-offer shares	Post-offer shareholding	Shares offered	% of o/s shares
Promoter	15,903,491	31.2%	13,259,575	26.0%	2,643,916	5.2%
State Bank of India	2,640,031	5.2%	528,006	1.0%	2,112,025	4.1%
Corporation Bank	1,775,000	3.5%	1,528,825	3.0%	246,175	0.5%
Bank of Baroda	525,000	1.0%	420,000	0.8%	105,000	0.2%
GLG Financial	976,885	1.9%	195,377	0.4%	781,508	1.5%
Alexandra Mauritius	488,442	1.0%	97,688	0.2%	390,754	0.8%
ICICI Lombard General	185,000	0.4%	37,000	0.1%	148,000	0.3%
<b>Total</b>					<b>6,427,378</b>	<b>12.6%</b>

## Investment Rationale

### Market leadership and global tie-ups

MCX is India's largest commodity futures exchange in terms of turnover value (87.3% market-share in 9MFY12) in contracts traded in metals, energy and certain agricultural commodities. MCX also has global prominence as it is the 5<sup>th</sup> largest (no. of contracts) commodity futures exchange in the world: largest in silver; 2<sup>nd</sup> largest in gold, copper and natural gas exchange; and 3<sup>rd</sup> largest crude oil during 6MCY11. MCX essays market dominance with a penetration in over 1,572 cities with more than 296,000 terminals within 8 years. We see significant competitive advantage that the company holds versus its peers primarily aided by liquidity on the bourse, which minimize the impact cost for a participant.



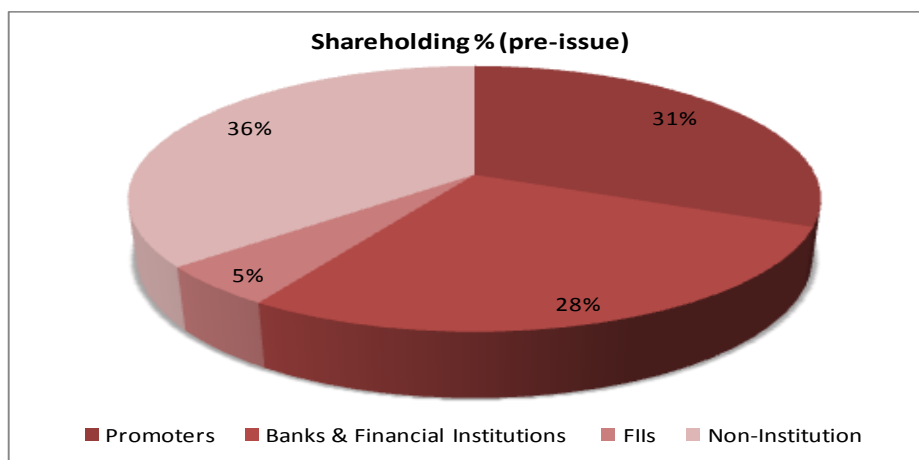
MCX records an average daily turnover of Rs. 510bn and has clocked its highest turnover of Rs. 1,000bn, charting a growth trajectory from Rs. 147bn average daily turnover in FY09 to over Rs.510bn average daily turnover in 9mFY12. MCX grew its trading volumes by 45% in FY08 even when the industry witnessed contraction due to global meltdown, which signifies strong competitive edge over its peers.

We see positive global benchmarking of the company's operations helped by various global tie-ups with entities such as London Metal Exchange, New York Mercantile Exchange and Shanghai Futures Exchange. We expect MCX to leverage the expertise out of these tie-ups, which will come handy in the introduction of products to scale-up the business.

Turnover (Rs.bn)	FY08	FY09	FY10	FY11	9MFY12	9M market-share%
MCX	31,260	45,881	63,933	98,415	119,807	87.3%
NCDEX	7,756	5,357	9,176	14,106	12,876	9.4%
NMCE	254	615	2,279	2,184	1,206	0.9%
ICEX	0	0	1,364	3,777	1,977	1.4%
ACE	106	88	60	301	991	0.7%
Others	1,284	549	836	706	371	0.3%
<b>Total</b>	<b>40,660</b>	<b>52,490</b>	<b>77,648</b>	<b>119,489</b>	<b>137,229</b>	<b>100.0%</b>

### Strong ownership highlights pedigree and superior corporate governance

MCX's board and management comprises of individuals with expertise in regulations, exchanges and financial sector. The board has only 3 representations out of 15 from the promoters and a high institutional structure, which signifies superior corporate governance. Almost one-third of the pre-issue equity is held by banks and financial institutions such as SBI, NABARD, IFCI, Bank of Baroda and HDFC Bank and 25% is held by leading international investors such as NYSE, Passport Capital and Inter Capital which highlights the pedigree of the company.

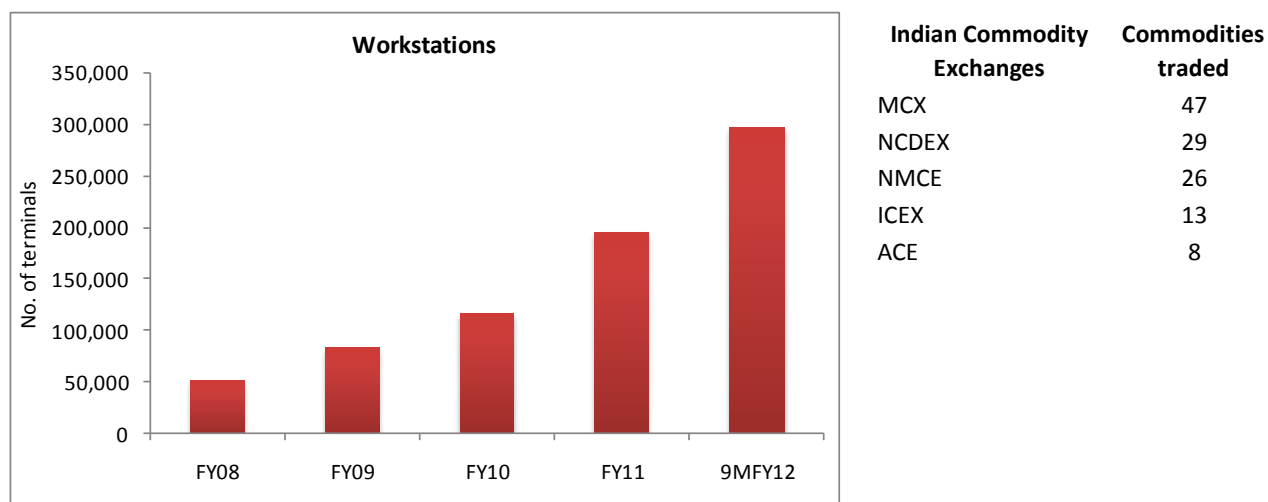


Top 10 Shareholders	No. of Equity shares	% of equity
FTIL	15,903,491	31.2%
State Bank Of India	2,640,031	5.2%
Fidelity	2,549,918	5.0%
Passport Capital LLC	2,500,000	4.9%
NYSE Euronext	2,442,212	4.8%
Aginyx Enterprises Limited	2,442,212	4.8%
Merrill Lynch	2,442,212	4.8%
IFCI Limited	2,442,212	4.8%
Corporation Bank	1,775,000	3.5%
NABARD	1,562,500	3.1%

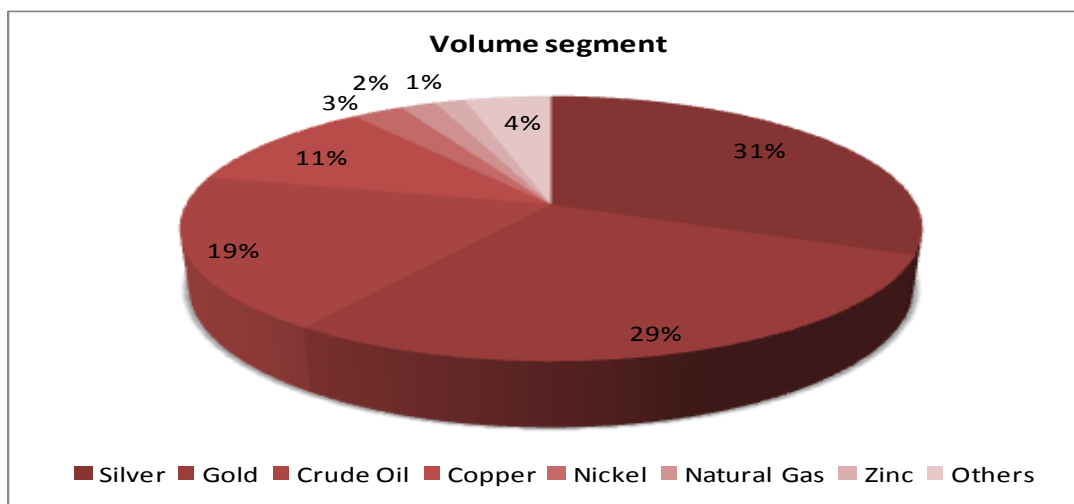
### Commodities in India are at an inflection point

Agricultural commodities trading in MCX plays an important role in price discovery, as India has over 7,000 regulated agricultural markets with agriculture contributing over 14% to the country's GDP.

Commodity trading in India is at an inflection point and is overlooking a sharp growth curve. India's spot to future ratio is distinctly lower than the global ratio (1:15 in India compared to 1:50 globally), which provides a strong growth opportunity. Globally, there has been a shift from OTC trades to exchange trading post the 2008 economic meltdown, arising out of a need for regulated and transparent trading interface.



We see growth to be led by business growth of the members in terms of increased terminals per member. MCX is also mitigated from revenue concentration risk, with top brokers (members) contributing around 30% of the transaction fees.



**Technological fortè**

Technology is key for the exchange business and plays a critical role in providing interface between physical and futures commodity market. The technology framework is supplied by the promoter FTIL (leading exchange-related software provider) and MCX has entered into long-term technology supply agreements with FTIL for the development and licensing of our core business software and related technical services. We see that the company holds a strong technological edge supplied by its promoter, which enables a fully automated nationwide trading.

MCX has a technology platform which provides workstation links to 296,896 terminals (grown at a CAGR of 55% over last 4 years) via VSAT, VPIN, leased lines, internet and mobile phones. The current technology platform handles 1.9mn trades a day and has capacity to handle upto 10mn trades (5.3x from peak trade) which provides scalability to MCX. The company thereby, seems adequately placed to generate greater profitability out of increased trading volumes with the help of scalable and globally cost efficient technological infrastructure.

**Product innovation & New Products opportunity**

MCX has pioneered product innovations in commodity futures; first exchange to launch commodity futures such as steel, crude oil and almond. Gold Petal contracts (1gm gold), launched by MCX in April 2011 has been a strong launch and currently has the largest share in all the gold contracts. MCX's revenue is largely skewed towards bullion and metals and the company has launched several future contracts within this segment, which has contributed to the revenue growth.

The passing of FCRA Amendment Bill (including commodity options trading currently prohibited) by the parliament will usher in new growth opportunity for MCX. Since commodity options trading comprise around 50% of the total commodity trading, its introduction in Indian bourse will boost trading volumes. We feel that passing of the FCRA Amendment Bill along with permission of institutions to trade in commodity futures will act as a strong positive trigger.

- First Indian exchange to launch commodity futures index (MCXCOMDEX) and introduction of several indices
- First Indian exchange to launch min-contracts to increase retail participations such as Gold Petal, Silver Micro, Copper Mini and Aluminium Mini.

## Valuation

MCX is among the leading exchanges in the world; largest in India controlling a lion's share of over 85% market share. The company is growing its revenue at over 40% CAGR due to increase in transactions fees. MCX avails operating leverage benefits with its operating margin expanding from 45% in FY10 to 65% in FY12\*. The company is debt-free with over Rs.7bn cash (Rs.153 cash per share). Absence of any major CAPEX plans and increasing cash buoyed by strong operating flows augurs well for dividend payouts to the shareholders.

Since MCX is the first stock exchange in India to be listed, there're no domestic comparables. Even at the upper end of the IPO price-band, the stock is available at a discount (P/E, P/B & P/S basis) relative to its global peers. At the upper-end of the price band, the stock is available at 17.7x annualized FY12 EPS, as compared to global average of 19x on CY12E earnings (comparable exchanges in terms of margins & growth trade at over 23x CY12 earnings). We recommend **SUBSCRIBE** to the IPO based on market dominance, strong ownership & superior corporate governance, scalable technological edge, new product opportunity and attractive valuations.

Exchanges	P/E	P/B	P/S	EV/EBITDA	Operating margin %	PAT margin %	ROE%
MCX*	17.7	4.9	8.3	10.1	65%	54%	27%
Singapore Exchange Ltd.	22.7	10.4	11.7	8.6	56%	45%	41%
Hong Kong Exchange	29.2	17.5	22.3	14.8	81%	73%	63%
Bursa Malaysia	22.9	4.6	10.4	10.4	46%	38%	17%
Intercontinental Exchange	19.0	3.1	7.4	8.6	60%	38%	17%
London Stock Exchange	10.6	2.4	3.4	6.2	NA	NA	21%
NYSE Euronext	9.5	1.2	1.7	7.1	21%	13%	9%

Profit and loss account (Rs mn)	FY09	FY10	FY11	FY12*	Balance sheet (Rs mn)	FY09	FY10	FY11	FY12*
<b>Income from operations</b>	2,124	2,874	3,689	5,364	Net Fixed Assets	2,089	1,928	1,953	1,930
Other Income	1,534	2,063	787	962	Investments	4,698	6,170	8,237	10,958
Total Income	3,658	4,937	4,476	6,327	Sundry Debtors	269	304	489	494
Employees cost	254	218	264	268	Cash	4,059	2,701	3,312	2,286
Administrative & other cost	1,106	1,241	1,507	1,622	Current Assets	4,872	4,191	4,810	3,837
Total Operating expenses	1,360	1,458	1,771	1,891	Current Liabilities	6,635	5,214	6,385	5,830
<b>EBITDA</b>	2,298	3,479	2,704	4,436	Net Current Assets	(1,763)	(1,024)	(1,575)	(1,992)
Depreciation & Amortisation	200	247	247	273	<b>Total Assets</b>	5,024	7,074	8,616	10,896
EBIT	2,098	3,231	2,458	4,163	Share capital	408	408	510	510
Interest (Net)	2	0	0	0	Reserves	4,529	6,560	7,979	10,229
<b>PBT</b>	2,097	3,231	2,458	4,163	Debt	-	-	-	-
Total Tax	522	1,024	727	1,223	DTL	87	106	127	157
<b>Net Profit</b>	1,588	2,208	1,763	2,906	<b>Total Liability &amp; Shareholder's Equity</b>	5,024	7,074	8,616	10,896
EPS (Rs)	31.1	43.3	34.6	57.0	<b>BVPS (Rs)</b>				
Free Cash Flow per share	41.1	(19.9)	46.8	28.4					

Cash flow statement (Rs mn)	FY09	FY10	FY11	FY12*	Growth & margins (%)	FY09	FY10	FY11	FY12*
PBT	2,109	3,231	2,458	3,122	Sales growth	22%	35%	28%	45%
Depreciation & Amortization	200	247	247	204	EBITDA growth	54%	51%	-22%	64%
Net Change in Working Capital	2,068	(2,019)	1,080	(343)	EBIT growth	53%	54%	-24%	69%
<b>Cash from operations</b>	2,853	(919)	2,700	1,637	Net income growth	53%	39%	-20%	65%
Capital Expenditure	(757)	(96)	(312)	(187)	Operating margin	36%	49%	52%	65%
<b>Cash from investing activities</b>	(1,371)	(123)	(2,326)	(1,473)	PAT margin	75%	77%	48%	54%
Dividends paid	(47)	(239)	(238)	(296)					
<b>Cash from financing activities</b>	116	(239)	(238)	(296)	<b>Ratios</b>	<b>FY09</b>	<b>FY10</b>	<b>FY11</b>	<b>FY12*</b>
<b>Change in cash</b>	1,598	(1,280)	135	(132)	ROCE (%)	31.6%	31.2%	20.5%	26.7%
Free cash flow	2,096	(1,015)	2,387	1,450	RONW (%)	32.2%	31.7%	20.8%	27.1%
<b>Opening Cash</b>	167	1,765	485	620	Receivables days	46	39	48	34
Closing Cash	1,765	485	620	488	Payable days	1,140	662	632	397
<b>Closing Cash adj.</b>	4,059	2,701	3,312	2,286	Debt/equity (x)	-	-	-	-
					Interest cover - EBIT (x)	-	-	-	-

Note: For FY12\* P&L is 9MFY12 annualised; Balance-sheet & Cash Flow is 9MFY12

Source: Company RHP, ITI Research



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