



Multi Commodity Exchange of India Pvt Ltd

IPO Fact Sheet

Issue details

Issue opens	: February 22, 2012
Issue closes	: February 24, 2012
Issue size	: 6,427,378 shares
Face value	: Rs10 each

Break-up of public offer

QIB's portion	: 50%
Retail portion	: 35%
Non-institutional portion	: 15%
Price band	: Rs860-1,032 a share
Issue size	: Rs553-663 crore

Multi Commodity Exchange of India Pvt Ltd (MCX) is a leading commodities exchange in India (it enjoyed a market share of 87% in M9FY2012, based on the value of the commodity futures contracts traded on the exchange). The company is coming up with an offer for sale of 64.3 lakh equity shares of Rs10 each. This includes a reservation of 2.5 lakh equity shares for its employees. The offering would constitute 12.6% of the paid-up capital of the company. The promoters' holding will reduce to 26% post-issue from the current 31.2% holding.

Shareholding pattern

Particulars	Pre-issue		Post-issue	
	No. of shares	%	No. of shares	%
Promoter and promoter group				
FTIL	15,903,491	31.2	13,259,575	26.0
Public/Institutions				
Pre-IPO investors	35,094,878	68.8	31,311,416	61.4*
Public and others	-	-	6,177,378	12.1*
Employees	-	-	250,000	0.5
Total	50,998,369	100.0	50,998,369	100.0

*This is based on the assumption that the existing shareholders shall not subscribe to the equity shares in the offer. Its promoter, Financial Technologies of India Ltd (FTIL), and the other shareholders participating in the offer as selling shareholders will not participate, subscribe to or purchase equity shares in the offer.

Object of the issue

The object of the offer is to carry out the sale of 6,427,378 equity shares by the selling shareholder. MCX will not receive any of the proceeds from the offer for sale.

Selling stakeholders and the stake offered

Selling shareholder	No. of shares offered for sale	As a % of total
FTIL	2,643,916	5.2
SBI (equity)	2,112,025	4.1
GLG	781,508	1.5
Alexandra	390,754	0.8
Corporation Bank	246,175	0.5
ICICI Lombard	148,000	0.3
Bank of Baroda	105,000	0.2
Total	6,427,378	12.6

Company background

Incorporated in 2003, MCX is the largest commodities exchange in the country with the total value of the contracts traded in M9FY2012 being 119,806.9 billion, representing 87.3% of the Indian commodity futures industry. Also, it is the largest silver exchange, the second largest gold, copper and natural gas exchange and the third largest crude oil exchange globally. As of December 2011, it had 2,153 members on the exchange's platform, with over 296,000 terminals (including computer-to-computer link [CTCL]) spread over 1,572 cities and towns across India. MCX derives its income primarily from transaction fees with respect to the trades executed on it, annual subscription fees, member admission fees, terminal charges, proceeds of sale, dividends from investments and interest from bank deposits.

Commodities futures turnover

Rs (cr)

Particulars	FY2009		FY2010		FY2011		M9FY2012	
	Turnover	Market share (%)	Turnover	Market share (%)	Turnover	Market share (%)	Turnover	Market share (%)
MCX	4,588,095	87.4	6,393,303	82.3	9,841,503	82.4	11,980,689	87.3
NCDEX	535,707	10.2	917,585	11.8	1,410,602	11.8	1,287,554	9.4
NMCE	61,457	1.2	227,902	2.9	218,411	1.8	120,633	0.9
ICEX	-	-	136,425	1.8	377,730	3.2	197,741	1.4
ACE*	8,781	0.2	5,979	0.1	30,060	0.3	99,128	0.7
Others	54,918	1.0	83,561	1.1	70,637	0.6	37,110	0.3
Total	5,248,957	100	7,764,755	100	11,948,942	100	13,722,855	100

Source: Red herring prospectus (RHP)

Investment positives

Leadership in the commodity futures industry

- ♦ The company is the leading commodity futures exchange in India in terms of value of commodity futures contracts traded in metals, energy and certain agricultural commodities.
- ♦ According to data maintained by the Forward Market Commission, the total value of the commodity futures contracts traded on the exchange for M9FY2012, FY2011 and FY2010 constituted 87.3%, 82.4% and 82.3% respectively of the Indian commodity futures industry during those periods.
- ♦ Among the national commodities exchanges in India, MCX' market share based on the total value of the commodities traded in the futures markets for the nine months ended December 31, 2011 for gold, crude oil, silver, copper and natural gas futures contracts was approximately 97.1%, 94.8%, 98.5%, 94.9% and 99.9% respectively.

MCX ranks 9th among global exchanges

Top 10 exchanges ranked by number of contracts traded and/or cleared

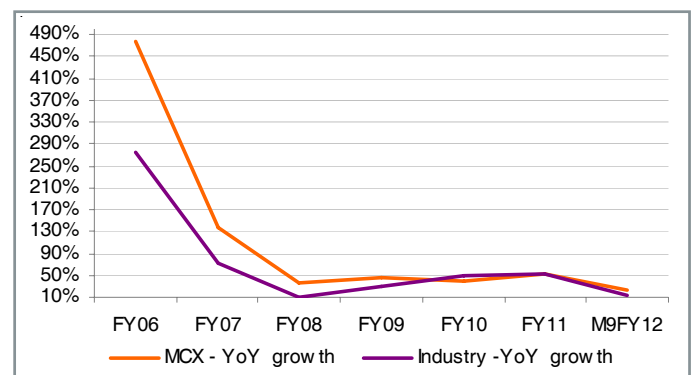
Rank	(in million)	Jan-Jun 2010	Jan-Jun 2011	% Chg
1	Korea Exchange	1782	2124	19
2	CME Group	1571	1708	9
3	Eurex	1486	1421	-4
4	NYSE Euronext	1211	1169	-3
5	National Stock Exchange	784	1048	34
6	BM&Fbovespa	728	734	1
7	NASDAQ OMX Group	508	653	28
8	CBOE Group	612	595	-3
9	MCX	555	568	2
10	Russian Trading Systems Stock Exchange	281	444	58
	Total	9,518	10,463	14

Source: Futures Industry Association (FIA), trading statistics

Product and service innovation: Many first to its credits

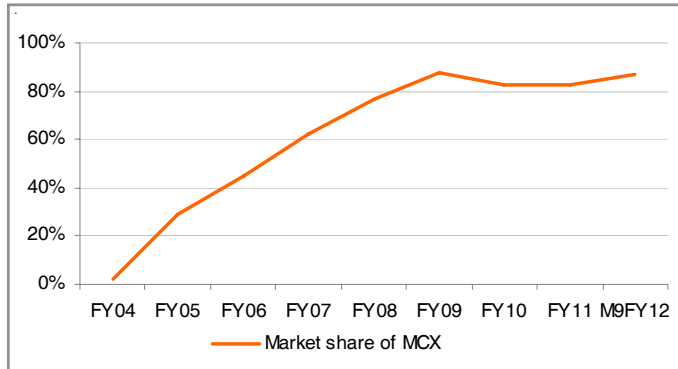
- ♦ Over the years, the company has demonstrated superior ability to introduce new and innovative products, ie commodity futures contracts, and services on its exchange. It was the first exchange in India to offer futures trading in steel, crude oil, and almond.
- ♦ In June 2005, it launched MCXCOMDEX, India's first real-time composite commodity futures index, which provides its members with valuable information regarding market movements in the key commodities, as determined by physical market size in India, which are actively traded on it. The company also introduced several other indices, including MCXAgri (agricultural commodities index), MCXEnergy (energy commodities index) and MCXMetal (metal commodities index). It also has three rain indices that track the progress of the monsoon rains in their respective geographic locations.
- ♦ It was the first exchange in India to initiate evening sessions to synchronise with the trading hours of the global exchanges in London, New York and the other major international markets.

MCX registered faster growth in volume over the years than industry



Source:RHP

Faster than industry growth helped in capturing market share



Source:RHP

Sound technology infrastructure and parentage

- ◆ Its online trading platform is accessible to members through trader workstation or CTCL using multiple media of connectivity including VSATs, VPN, leased lines and the Internet.
- ◆ Its electronic trading platform is supplied by its promoter, FTIL, which is one of the leading technology companies in the development and deployment of exchange related software and technology in India. The technology for the exchange industry is difficult to replicate and provides the company an edge over its peers.
- ◆ The technical expertise and experience of FTIL enable MCX to obtain speedy and efficient technology solutions, such as customisation and development of new software for new products and services.

Scaleable technology platform and business model

- ◆ The technology platform and business model of the company are highly scaleable and have the potential to generate better margins at greater volumes. It is believed that its current technology infrastructure is sufficient to handle daily trading volumes of up to 10,000,000 trades a day. MCX has handled a high of 1,867,612 trades in a day!
- ◆ Further, the company intends to increase the use of data generated from the commodity futures contracts traded on its exchange to capitalise on the opportunities in market data products and information dissemination.

Key concerns

- ◆ The trading volume on the exchange is dependent on volatility in commodity prices. Any reduction in the volatility of the prices of the commodities traded on

the exchange may result in a decrease in the trading volume on the exchange. This could have an adverse effect on its financials.

- ◆ Further, the company operates in a dynamic business environment, which requires constant technology upgrades or variations and support due to changes required by the regulatory regime and market forces. Any failure to keep up with the industry standards in technology and respond to the participants' preferences could cause its market share to decline.
- ◆ Increase in competition from global and Indian commodity exchanges.

Outlook and valuations

- ◆ **First mover's advantage in commodity market:** In the commodity exchange market, there is stickiness in volumes and the first mover in this space reaps rich dividend over a long period. MCX enjoys this first mover's advantage distinctively which is reflected in its past strong financial performance. Propelled by a robust growth in the trade volumes (at over 46% compounded annual growth rate [CAGR] in the past two years) and high operating leverage, its operating profit margin has been continuously expanding (it touched 65% in M9FY2012; up from 36% in FY2009) as the commodity exchange business mainly requires heavy capital expenditure initially. However, the other income has fallen drastically in recent times as the profit from the sale of investments has fallen since FY2010. In future, its growth would be driven by the growth in the volumes, the maintenance of its market share, the introduction of new products, profitable exits from various investments and the sustenance of the favourable regulatory regime.
- ◆ **Premium to global peers justified by better return ratios and scarcity premium:** MCX does not have any direct competitors (of comparable size and business exposure) in the Indian listed space. Thus, we have compared it with global listed players in this space. At the lower and the upper end of the price band, the stock is offered at 15x and 18x its FY2012 annualised earnings respectively, that is around 10% to 30% premium to the average of its global peer valuation. The premium can be justified due to its higher growth prospects, relatively better return ratios and scarcity premium (lack of listed peers in the Indian market).

Comparison with global peers

Particulars	Price	Revenues	PAT margin %	EPS	Mkt. cap	PE (x)	PB (x)	RoE (%)
NYSE Euronext (\$ mn)	29	4,552	13	2.4	7,670	12.4	1.2	9.2
CME Group Inc (\$ mn)	296	3,281	55	27.2	19,630	10.9	0.9	8.7
NASDAQ OMX Group (\$ mn)	27	3,438	11	2.2	4,740	12.5	0.9	7.9
Intercontinental Exchange (\$ mn)	134	1,327	39	6.9	9,710	19.4	3.1	17.3
Average						13.8	1.5	10.8
MCX in \$ mn#	-	96	47	8.7	1,068	18.1*	4.9	20.5
MCX- Rs cr (upper band)	1,032	475	47	42.7	5,264	18.1*	4.9	20.5
MCX- Rs cr (lower band)	860	475	47	42.7	4,387	15.1*	4.1	20.5

* EPS annualised, # at the upper band, exchange rate - Rs49.29/\$,

Source: Bloomberg

Financial statement

Rs (cr)

Particulars	FY09	FY10	FY11	M9FY12
Income from operations	212.5	287.4	368.9	402.3
Y-o-Y increase (%)		35	28	9
Total other income	153.0	206.0	79.0	72.0
As a % of total income	42	42	18	15
Total income	365.8	493.7	447.6	474.5
Y-o-Y increase (%)		35	-9	6
Total expenditure	136.0	145.8	177.1	141.8
As a % of total income	64	51	48	35
Operating profit	76.4	141.6	191.8	260.5
Operating margin(%)	36	49	52	65
Depreciation/Amortisation	19.9	24.7	24.7	20.4
Interest	0.2	0.04	0.02	0
Net profit before tax	209.7	323.1	245.8	312.2
Provision for tax	52.3	102.4	72.7	91.7
PAT before share of profit of associate	157.4	220.7	173.1	220.53
Share of profit of associate	0.0	0.3	0.3	0.1
PAT as reported in statements	157.5	221.0	173.4	220.7
Impact of prior-period adjustments	1.4	0	3	-3
Net profit, as restated	158.8	220.8	176.3	217.9
PAT margin (%)	43	45	39	46
No. of shares	5	5	5	5
EPS	31.2	43.3	34.6	42.8
Upper end of price band	1,032	1,032	1,032	1,032
Lower end of price band	860	860	860	860
P/E at the upper band	33.1	23.8	29.9	18.1*
P/E at the lower band	27.6	19.9	24.9	15.1*
Net worth	493.7	696.8	848.8	1,073.9
P/B at the upper band	10.7	7.6	6.2	4.9

* EPS annualised

Source:RHP

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