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Issue Details

Issue Size (shares)	64,27,378
Issue Open/Close	Feb.22, 2012 / Feb.24, 2012
Face Value	Rs10
Price Band	Rs860-1,032
Lot Size	6
Pre-Issue Paid up Cap. (Rs cr)	5.1
Post-Issue Paid up Cap. (Rs cr)	5.1
Post-Issue Market Cap. (Rs cr) at upper price band	5,263

BRLMs	Edelweiss Financial Services Ltd., Citigroup Global Markets India Pvt. Ltd., Morgan Stanley India Co. Pvt. Ltd.
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Registrar	Karvy Computershare Pvt. Ltd.
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Pre Issue Patten %

Promoter	31.2
Others	68.8

Public	[●]
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Post Issue Patten %

Promoter	26.0
Others	61.4

Public	12.6
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Offer for different categories %

QIB	50
HNI	15
Retail	35

Corporate Promoter

Financial Technologies India Ltd.

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Company background

Multi Commodity Exchange (MCX) is a de-mutualised exchange and leading commodities exchange in India with an average market share of ~85% since FY2009 through 9MFY2012. It is the 5th largest in the world based on value of commodity futures contracts traded. The total value of commodity futures contracts traded in 9MFY2012 was Rs120 lakh crore. MCX received permanent recognition from Gol in September, 2003 to facilitate nationwide online trading, clearing and settlement operations of commodities futures transactions.

Key investment highlights

- Leadership position in the Commodity Futures Industry
- Strong fundamentals leading to strong growth
- Scalable technology platform and business model
- Integrated infrastructure and network of alliances
- Experienced Board of Directors and management team
- Sound technology infrastructure

Objects of the issue

- To achieve the benefits of listing on the BSE. However, note that the company will not receive any proceeds from the IPO since it is an offer for sale
- To enhance the brand name and provide liquidity to the existing shareholders

Exhibit 1: Key financials (Rs cr)

	FY2009	FY2010	FY2011	FY2012*
Revenues	212	287	369	503
<i>Growth (%)</i>	-	35.3	28.4	36.3
Adj. EBITDA**	112	190	235	367
<i>Margin (%)</i>	52.9	66.2	63.6	73.0
Net Profit	159	221	176	272
<i>Growth (%)</i>	-	39.0	(20.2)	54.6
Diluted EPS	31.4	43.3	34.6	53.4

Source: MCX RHP, RSec Research, *Annualized, ** for Capital Gains,

Risk factors

- MCX may face competition from existing players and new entrants in the industry which could adversely affect its business, financial condition and results of operations
- Certain proposed amendments to regulatory or policy requirements, particularly to amend the Forwards Contracts Regulation Act (FCRA), may not be brought into force in a timely manner or at all, which may adversely affect the ability to implement MCX's growth strategies
- Introduction of Commodity Transaction Tax (CTT) or any other profit capping regulation would affect the business of MCX

Company Overview

Multi Commodity Exchange (MCX) is a de-mutualised exchange and leading commodities exchange in India with an average market share of ~85% since FY2009 through 9MFY2012. It is the 5th largest in the world based on value of commodity futures contracts traded. The total value of commodity futures contracts traded in 9MFY2012 was Rs120 lakh crore. MCX received permanent recognition from Gol in September, 2003 to facilitate nationwide online trading, clearing and settlement operations of commodities futures transactions.

The company derives its income primarily from transaction fees (~96% of revenues) with respect to the trades executed on the Exchange, annual subscription fees, member admission fees, terminal charges, proceeds from sale & dividend from investments and interest from bank deposits.

Growth strategy

There are several global trends which are re-shaping the futures market and driving volume growth in exchange traded commodity futures. Globalisation, deregulation, advances in technology and increasingly sophisticated market participants offer opportunities for expanding the Indian commodity futures markets. MCX intends to capitalise on these factors by implementing the following strategies:

Expand market presence and increase participants

As on December 31, 2011, MCX had 2,153 members nationwide with more than 296,000 terminals including Computer to Computer Link (CTCL) spread over 1,572 cities and towns in India. The company intends to continue to increase the number of participants by introducing new products on their Exchange, by expanding geographically and by continuing its efforts to disseminate knowledge and information about the commodity futures industry. Along with its alliance partners, MCX plans to establish and grow its presence in additional regions across India.

Enhance marketing, educational and awareness efforts

The number of product offerings on the Exchange has increased to 49 (as on December 31, 2011) from 15 (as on March 31, 2004). The company continues to focus on offering futures trading in commodities which is significant in the Indian and global context. Also, the company has customised offerings to meet the needs of the Indian markets, such as Gold Mini and Gold Petal contracts, which are aimed at local retail investors. They further plan to increase their product portfolio through R&D efforts and through its alliances with other exchanges.

Key Investment Highlights

Leadership position in the Commodity Futures Industry

MCX 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 Forward Markets Commission (FMC), the total value of commodity futures contracts traded on MCX for 9MFY2012, 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, the market share based on the total value of commodities traded in futures markets for 9MFY2012 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.

Strong fundamentals leading to strong growth

MCX's leadership position in the commodity futures market provides a competitive edge to take advantage of the growth opportunities available in the segment. This is also reflected in 30%+ CAGR witnessed in revenues over FY2009-12E and 20% CAGR in Net Profit for the same period. Also, MCX has a good dividend payment track-record.

Scalable technology platform and business model

MCX's technology platform and business model are highly scalable and have the potential to generate better margins at greater volumes. The company has made significant investments in developing fixed operating infrastructure, including its technology systems, to support anticipated growth and increase in the demand for their products. The current technology infrastructure is sufficient to handle daily trading volumes of up to 10,000,000 trades a day, and they have handled a high of 1,867,612 trades in a single day. Increased trading activity on MCX would result in increased profitability. Further, the company intends to increase the use of data generated from the commodity futures contracts traded on MCX to capitalise on the opportunities in market data products and information dissemination. Therefore, the overall business model is highly scalable and it offers potential for economic growth of MCX's business with limited incremental costs.

Integrated infrastructure and network of alliances

The operation of MCX's business is supported by the exchange related support infrastructure and the company's network of strategic alliances, which enables MCX to grow its business and expand its market presence. This includes MCX's group company, National Bulk Handling Corporation (NBHC), which is a national warehousing and supply-chain company that provides warehouse and collateral management services and implements quality systems for receipt, storage, fumigation, product classification, weight certification, as well as out-loading services for commodities. We believe that the alliance provides MCX with synergies arising from the physical settlement of commodity futures contracts traded on the exchange.

Experienced Board of Directors and management team

MCX's has experienced Board of Directors and management team:-

- Venkat Chary, Non-Executive Independent Chairman, was formerly the chairman of FMC
- Jignesh P. Shah, Non-Executive Non-Independent Vice Chairman and the promoter of Financial Technologies India Ltd. (FTIL), has more than a decade of experience in the securities exchange industry and has worked as a part of the BSE's automation team that designed and implemented BSE's online trading system known as BOLT
- Lambertus Rutten, MD and CEO, has 16 years of experience working for the United Nations Conference on Trade and Development and the World Bank, where he was responsible for programme on commodity exchanges & risk management
- Joseph Massey, Non-Executive Non-Independent Director, has been in an executive position for over 6 years (including as Deputy MD and MD). He has rich and diversified experience of ~20 years in the financial sector
- Parveen Singhal, Deputy MD (Non-Board) worked for the Delhi Stock Exchange Limited, FMC and SEBI and has extensive experience in the banking, finance, insurance, securities and commodities sectors

The knowledge and experience of MCX's management team and independent directors in the exchange industry would enable the company to respond to market opportunities, adapt to changes in the regulatory environment and bring innovations to the Exchange.

Sound technology infrastructure

The electronic trading platform is supplied by MCX Promoter, FTIL, which is one of the leading technology companies in the development and deployment of exchange related software and technology in India. We believe that technology for the exchange industry is difficult to replicate, thus providing MCX with a competitive advantage. Further, the company operates in an environment which requires constant technology up-gradation or variations and support due to changes required by the regulatory regime and market forces. The technical expertise and experience of FTIL would enable MCX to obtain speedy and efficient technology solutions, such as customization and development of new software for new products and services.

Outlook & Valuation

We believe that MCX has a good blend of experienced management, sound technological infrastructure and a scalable business model. The growth to its current market leadership position in a span of less than 10 years is commendable. With India's growing commodity market, favourable market regulations and MCX's growth strategies, the company is in a sweet spot to remain at the forefront in capitalizing on the available opportunities.

In view of the fact that MCX is the first of its kind to get listed on Indian stock exchanges and there are no domestic listed companies with a similar business model, we have compared the issue with a couple of international players. On doing so and keeping in mind the growth prospects of MCX vis-à-vis its global peers and the available market opportunity, we have arrived at the conclusion that the valuations at which the MCX IPO offer is being made is attractive and would offer reasonable upside to investors over the medium-to-long-term. **Thus, we recommend a SUBSCRIBE to the issue.**

Exhibit 2: Peer comparison

Chicago Mercantile Exchange (CME)	CY2008	CY2009	CY2010	CY2011
Revenues (Rs cr)	12,463	12,696	14,634	15,939
EBITDA (Rs cr)	7,719	8,973	10,435	11,408
Net profit (Rs cr)	3,577	4,129	4,757	5,490
EBITDA margin (%)	61.9	70.7	71.3	71.6
PAT margin (%)	28.7	32.5	32.5	34.4
P/E (x)	24.4	23.8	20.7	18.0
Intercontinental Exchange (ICE)	CY2008	CY2009	CY2010	CY2011
Revenues (Rs cr)	3,981	4,931	5,663	6,507
EBITDA (Rs cr)	2,779	3,120	3,867	4,628
Net profit (Rs cr)	1,505	1,580	1,992	2,548
EBITDA margin (%)	69.8	63.3	68.3	71.1
PAT margin (%)	37.8	32.0	35.2	39.2
P/E (x)	32.1	31.4	25.0	19.4
Multi Commodity Exchange (MCX)	FY2009	FY2010	FY2011	FY2012*
Revenues (Rs cr)	212	287	369	503
Adj. EBITDA (Rs cr)**	112	190	235	367
Net profit (Rs cr)	159	221	176	272
EBITDA margin (%)	52.9	66.2	63.6	73.0
PAT margin (%)	74.8	76.8	47.8	54.2
P/E (x)	32.8	23.8	29.9	19.3

Source: Bloomberg, MCX RHP; Note: Financials for CME and ICE have been converted into INR for comparison purpose, 1US\$ = Rs50; * Annualized; ** for Capital Gains

Profit & Loss Statement				
Y/E March (Rs cr)	FY2009	FY2010	FY2011	9MFY2012
Transaction fees	186	264	350	387
Membership fees	11	7	4	4
Annual fees	14	14	13	10
Terminal charges	2	3	2	1
Total Revenue	212	287	369	402
Other Income	153	206	79	72
Total Income	365	493	448	474
Staff costs	25	21	26	20
Admin. & other exps	111	124	151	122
EBITDA	229	348	271	332
Depreciation	20	25	25	20
PBT (reported)	210	323	246	312
Tax	51	102	69	94
PAT	159	221	176	218

Balance Sheet				
Y/E March (Rs cr)	FY2009	FY2010	FY2011	9MFY2012
SOURCES OF FUNDS				
Equity Share Capital	41	41	51	51
Reserves & Surplus	453	656	798	1,023
Shareholders' Funds	494	697	849	1,074
Liabilities	672	532	651	599
Sh. Funds & liabilities	1,166	1,229	1,500	1,673
APPLICATION OF FUNDS				
Net Block	209	193	195	193
Investments	470	617	824	1,096
Current Assets	487	419	481	384
Cash	406	270	331	229
Debtors	27	30	49	49
Loans & Advances	54	118	101	106
Total Assets	1,166	1,229	1,500	1,673

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