

Multi Commodity Exchange of India Ltd

Issue Highlights

- **Multi Commodity Exchange of India Limited (MCX)** has emerged as the market leader in India's commodities future industry with **87% market share**. MCX will be **the FIRST OF ITS KIND IPO** to hit the markets and will act as a **BENCHMARK** for other exchanges planning for IPO's.
- **MCX is the 5th largest commodity futures exchange globally**, among all the commodity exchanges considered in the **Futures Industry Association (FIA)** survey, in terms of the number of contracts traded for 1H CY 2011.
- Globally, **MCX is the largest silver exchange; the second largest gold, copper and natural gas exchange; and the third largest crude oil exchange** in terms of the number of contracts traded in each of these commodities (in CY10 and 6 months ended June 30, 2011).
- As of Dec 2011, MCX had **2,153 members nationwide** with more than **296,000 terminals** including CTCL spread over **1,572 cities and towns in India**. Company will continue to pursue geographic expansion, product diversification and enhance marketing and awareness in order to drive its volume growth going forward.
- The number of products MCX offers on its Exchange has grown from **15 as of Mar 04 to 49 as of Dec 11**. MCX continues to pursue introduction of variety of new commodity futures contracts on exchange which will open up new avenues of business growth for the company.
- Regulatory reforms in form of granting permission for **trading in options & indices and approval to foreign as well as domestic institutions & banks to participate in commodity futures trading** (which is currently prohibited) can be the next big trigger for growth in exchange volumes and consequently on profitability of exchanges like MCX.
- Despite the global headwinds, MCX's has reported stellar results over past 3 years. **Operating income has grown at a CAGR of 32%, EBITDA at 31.2% and adjusted PAT at 30.1%, over FY09-11.**
- CRISIL has graded the IPO **5/5** which indicates strong fundamentals. **Issue will be listed only on BSE.**

Financial summary

Period ended	Op. Income (Rs Cr)	Total Income (Rs Cr)	EBITDA (Rs Cr)	EBITDA Margin (%)	Adj. NP [^] (Rs Cr)	Adj. NP Margin [^] (%)	Adj. EPS* (Rs)	EPS growth (%)	RONW (%)
FY 2009	212.4	293	157.0	53.6%	83.2	28.4%	16.31	-	32.18%
FY 2010	287.4	356.8	211.0	59.1%	84	23.5%	16.47	0.98%	31.69%
FY 2011	368.9	447.6	270.4	60.4%	170	37.9%	33.33	102.4%	20.77%
9M FY 12	402.3	474.5	332.7	70.1%	218	45.9%	42.75	28.3%*	20.29%

Source: RHP; [^] adjusted for sale of investments and other non-recurring incomes/expenses; * YTD

Issue highlights

Issue Size: Rs 552.7-663.3 cr

No. of shares: 64,27,378 shares*

Face value: Rs 10

* All shares comprise "offer for sale"

Issue summary

Price band: Rs 860-1,032 per share

Issue opens: 22 February 2012

Issue closes: 24 February 2012

Bid Lot: 6 shares

Lead Managers: Morgan Stanley India, Citigroup Global and Edelweiss Financial Services

Registrar: Karvy Computershare Private Ltd.

Shareholding (%)

	Pre-Issue	Post-Issue
Promoters & Promoter Group	31.18	26.00
Others	68.82	61.4
Public	[●]	12.6%

	Pre issue	Post issue
No. of shares (in cr)	5.099	5.099

Issue break-up

Reservation for	Shares [^] (in lakhs)	% of Issue
QIB*	30.887	50
Non-Institutional	9.266	15
Retail	21.621	35

Company may allocate up to 30% of the QIB Portion, to Anchor Investors on a discretionary basis one day before Bid Opening Date.

[^]excluding 2,50,000 shares reserved for eligible employees

BACKGROUND

Company and promoters

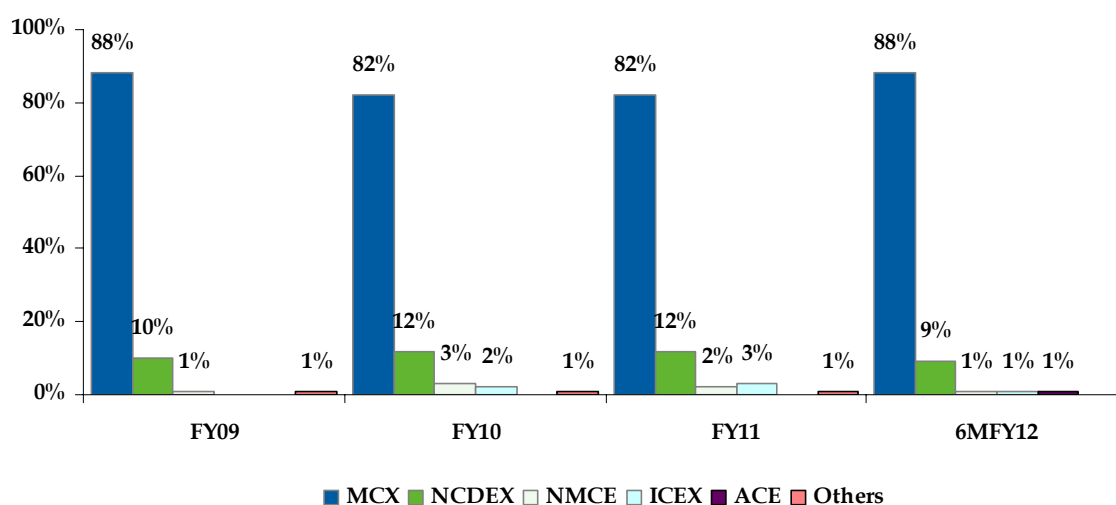
Incorporated in 2002; **Multi Commodity Exchange of India Limited (MCX)** is the leading commodities exchange in India based on value of commodity futures contracts traded. **It is a de-mutualized exchange and has received permanent recognition from the Government of India on Sept 2003**, to facilitate nationwide online trading, clearing and settlement operations of commodities futures transactions. MCX has been certified under **ISO 9001:2008** for quality management standards and **ISO 14001:2004** for environmental management systems. Company has also achieved the **ISO/IEC 27001:2005** certification, which is the global benchmark for information security management systems.

Jignesh P. Shah, Vice Chairman, a Non-Executive Non-Independent Director, is a **first-generation entrepreneur and the founder/promoter of the Financial Technologies group** of companies. Prior to establishing FTIL, he was with the BSE, where he was responsible for designing and implementing the technology platform of the exchange. He holds a BE degree from Mumbai University and has received specialized training in money and capital markets as well as F&O trading at the New York Institute of Finance. He has over **20 years of experience in creating and operating technology-centric financial exchanges for, inter alia, stocks, commodities, currencies and bonds.**

BUSINESS OVERVIEW

Multi Commodity Exchange Of India Limited is the market leader in India's commodities future industry with **87% market share**. It is the 5th largest commodity futures exchange globally, among all the commodity exchanges considered in the Futures Industry Association (FIA) survey, in terms of the number of contracts traded for 1H CY 2011.

Comparative analysis of MCX's market share vis-à-vis its peers



Source: RHP

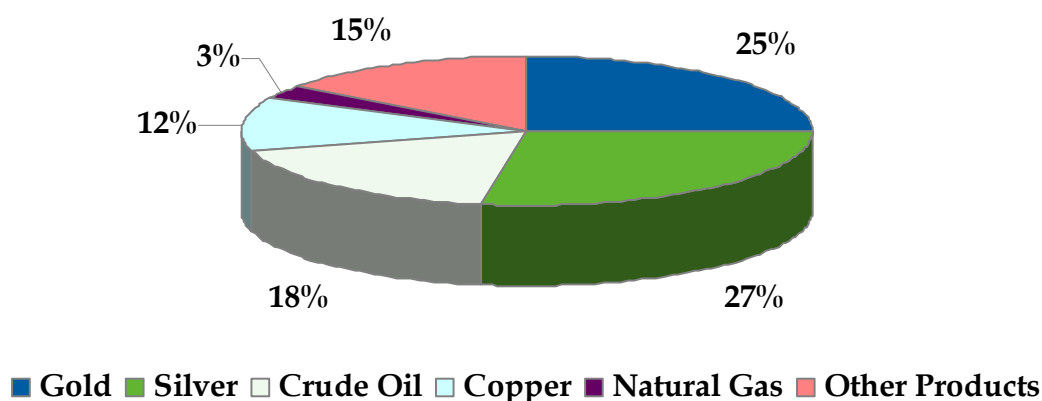
MCX's share in the overall commodities market has skyrocketed from 29% in FY04 to 82% as of FY11 primarily due to its focus on metals and energy commodities benchmarked to international prices.

Product Mix

MCX has rooted itself firmly by continuously offering new and innovative products. **Strong technology infrastructure and trading platform** have helped MCX garner larger volumes, leading to **high liquidity and lower impact cost** – key criteria for the success of any exchange.

Globally, MCX is the **largest silver exchange; the second largest gold, copper and natural gas exchange; and the third largest crude oil exchange** in terms of the number of contracts traded in each of these commodities (in CY10 and 6 months ended June 30, 2011).

Share in turnover of major commodities in FY11



Source: RHP

Revenue Mix

MCX derives its income primarily from transaction fees with respect to the trades executed on their Exchange, annual subscription fees, member admission fees, terminal charges, proceeds of sale and dividends from investments and interest from bank deposits.

Operating Revenue Break-Up

Category	FY09		FY10		FY11		6 Months FY12	
Transaction Fees	1,861	88%	2,641	91%	3,495	95%	2,617	96%
Membership Admission Fees	105	5%	70	2%	35	1%	34	1%
Annual Subscription Fees	136	6%	136	5%	135	4%	67	2%
Terminal Charges	22	1%	70	2%	24	1%	9	0%
Total	2,124	100%	2,917	100%	3,689	100%	2,727	100%

Source: RHP

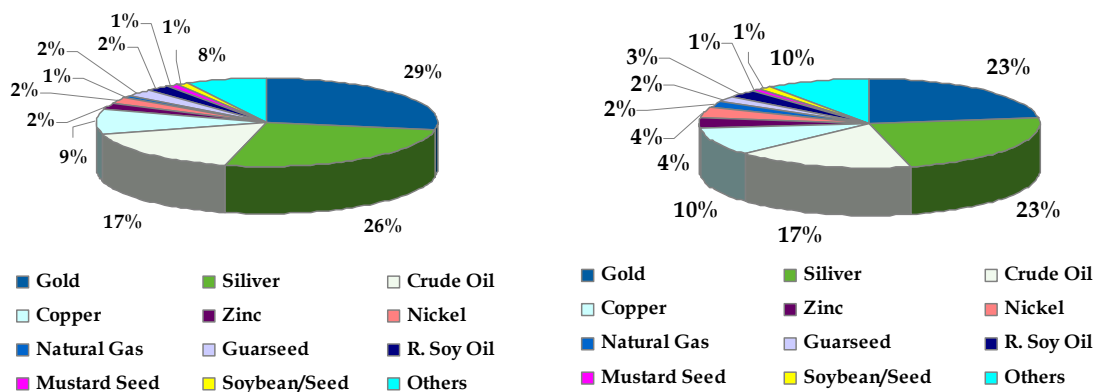
Industry Growth in India

Commodity futures trading in India has grown since the Government of India issued a notification on April 1, 2003 permitting futures trading in commodities.

The total value of commodities futures traded in India in the FY 2011 was Rs. 119,489.42 bn, representing growth of approx. **90-fold** from the value of commodity futures contracts traded in the FY 2004, which was Rs. 1,293.67 bn. **Commodity futures trading volumes have risen at a CAGR of 90.9% between FY 2004 and FY 2011.**

There are currently over **60 commodities futures** that have been approved by the FMC for trading during the CY 2011 with gold, silver, crude oil, copper, zinc, nickel and natural gas comprising the majority of the trading turnover.

Commodity wise trading turnover for the FY 2011 and 9M FY 12



Source: RHP

Strategy

- As of Dec 2011, **MCX had 2,153 members nationwide with more than 296,000 terminals** including CTCL spread over **1,572 cities and towns in India**. Co. intends to continue to increase the number of its participants by introducing new products on Exchange, by expanding to more geographical areas and by continuing efforts to disseminate knowledge and info. about the commodity futures industry.
- **MCX plans to expand participation by initiating more interactions with brokers and other participants within the commodity futures industry.** In addition, they intend to continue to use the print and electronic media to enhance knowledge and promote awareness on the commodity futures industry among participants in related industries. MCX has further installed tickers for market data dissemination at the various local mandis to enable participants in those markets to track the prices of commodity futures traded on its Exchange.
- MCX will continue to **focus on offering futures trading in commodities** which are significant in the Indian and global contexts. Company will continue to offer trading in commodities through contracts that will be customized to meet the needs of the Indian markets. MCX plans to **increase its product portfolio through R&D efforts &** through its alliances with other exchanges will aid in attracting a broader base of participants.
- MCX plans to supplement its organic growth by continuing to **pursue strategic alliances and joint ventures.** Company will continue to look for opportunities to invest in companies or assets in related industries, primarily in India and the pan-Asian region that can enhance its growth, operations and profitability.
- **MCX intends to develop new revenue sources that are not transaction-driven.** Company has entered into agreements with financial information service agencies to provide real time data-feed on trading prices, trading volume and other information on the commodity futures contracts which are traded on Exchange and on the spot market. MCX currently has such arrangements with **Bloomberg Finance L.P., Newswire 18 Pvt Ltd, IQN Data Solutions Pvt Ltd, Reuters India Pvt Ltd, Interactive Data (Europe) Ltd. and TickerPlant Ltd.**

ISSUE PROFILE

Positives

Rich parentage ensures state of art exchange technology solutions

FTIL (promoter of MCX) is one of the leading technology companies in the development and deployment of exchange-related software and technology in India. **Technology for the exchange industry is difficult to replicate, thus providing FTIL with a competitive advantage.** MCX's electronic trading platform is supplied by its promoter, FTIL.

Technology infrastructure is indispensable for any exchange business and pivotal for its development.

Backing of FTIL ensures;

- **Constant and timely technology up gradation** from FTIL ensures hassle free functioning of the exchange.
- **Prompt and regular support services** ensure conformation with the regulatory regime and market forces
- **Technical expertise and experience of FTIL** enables MCX to obtain speedy and efficient technology solutions, such as customization and development of software for new products and services.

Operating leverage will ensures high margin with rising exchange volumes:

MCX has a technology platform and business model that is **highly scalable and has the potential to generate better margins at greater volumes.** The company has made significant investments in developing its fixed operating infrastructure, including their technology systems, to support the anticipated growth and increase in the demand for products.

The current technology infrastructure is sufficient to handle daily trading volumes of up to 10,000,000 trades a day as against a high of just 1,867,612 trades in a day.

Bearing in mind the **high operating leverage that the company enjoys, increased trading activity on the Exchange would result in increased profitability.**

EBITDA margin improved to 60.4% in FY11 from 53.6% in FY09, on account of operating leverage.

Most of MCX's **operating costs are fixed and semi-fixed in nature** which implies that any increase in volumes would result in a substantial increase in the bottom line of the company. MCX can sustain its profitability going forward on account of slower growth in operating costs vs. revenue growth.

Pioneering foray into niche areas; key to growth and leadership:

MCX at regular intervals introduced innovative products in order to tap uncharted areas on the commodity market in India. This has been one of the key reasons for MCX being the leader in this industry and aid for further consolidation. Some of the important and niche introductions by MCX are;

- 1) **First mover advantage:** In June 2005, MCX launched MCXCOMDEX (India's first real time composite commodity futures index). In Dec 2009, MCX launched the exchange of futures for physicals facility for the first time in India.
- 2) **Product expansion:** Introduced several other indices, including MCXAgri (agricultural commodities index), MCXEnergy (energy commodities index) and MCXMetal (metal commodities index).
- 3) **Niche Product introductions:** MCX launched first of its kind RAIN INDICES for Indian Investors, namely RAINDEXMUM (Mumbai), RAINDEXIDR (Indore), and RAINDEXJAI (Jaipur) which track the progress of monsoon rains in their respective geographic locations.
- 4) **Impetus to volumes by broadening investor base:** Over last 2 years, MCX has launched several Mini futures Mini futures contracts, which offer trading in metals (like gold, silver, lead, zinc and others) in smaller lot sizes.
- 5) **In Jan 2011, MCX launched Iron Ore futures contracts,** which are designed to be a benchmark for the Indian iron ore futures export market.
- 6) **Facilitating higher trading hours and synchronizing to global exchanges:** MCX is the first exchange in India to initiate evening sessions to synchronize with the trading hours of global exchanges in London, New York and other major international markets.

All of the above measures have resulted in higher volume growth in its exchanges, opened up newer growth avenues and aided in further consolidating its leadership position in this industry.

Strategic Investments: If monetized can yield substantial cash impetus

MCX holds several long-term investments in other operational exchanges.

- **MCX Stock Exchange Ltd** (5% equity stake as permissible under MIMPS Regulations)
- **Dubai Gold and Commodities Exchange Ltd** (5% equity stake) and
- **MCX also holds 634 mn warrants** in MCX-SX, which carry no voting or dividend rights.

MCX is capable of generating significant cash impetus if and when it plans to monetize its rich strategic investments.

List of marquee investors who have not participated in Offer for Sale and continue to hold their initial stake in MCX

Indian Banks	Indian Financial Institutions	Foreign Investors
Union Bank Of India	IFCI Ltd.	FID Funds (Mauritius) Ltd
HDFC Bank Ltd	NABARD	Passport Capital LLC
Bank Of India Ltd.	ICICI Trusteeship Services Ltd	Euronext N. V.
Canara Bank Ltd.	Kotak Mahindra Trusteeship Services Ltd	Aginyx Enterprises Ltd
State Bank Of Mysore	NSE India Ltd.	Merrill Lynch Holdings (Mauritius)
State Bank Of Bikaner & Jaipur	Bennett, Coleman & Co. Ltd.	Intel Capital (Mauritius) Ltd
State Bank Of Hyderabad	Brand Equity Treaties Ltd.	New Vernon Pvt Equity Ltd.
State Bank Of Patiala	SBI Life Insurance Co. Ltd.	IGSB-STAD I, LLC
State Bank Of Travancore	ICICI Lombard Gen. Insurance	
	HT Media Ltd.	

Source: RHP

INCOME STATEMENT

Y/E March (Rs Cr)	FY2009	FY2010	FY2011	9M FY2012
Income				
Income from Operations	212.4	287.4	368.9	402.3
Other Income	80.6	69.4	78.7	72.2
Total Income	293.0	356.8	447.6	474.5
Expenditure				
Staff Cost	25	22	26	20.1
Administration and Other Expenses	111	124	151	121.7
Total expenditure	136	146	177	141.8
EBITDA	157.0	210.8	270.6	332.7
Depreciation	20	25	25	20.4
Interest and Finance Charges	0.2	0	0	0
Exceptional Income*	72.8	136.9	-	-
Profit before tax	209.7	322.7	245.6	312.3
Provision for Taxation (net)	46.7	100	71	88.3
Deferred Tax (net)	6	2	2	3
Net profit after tax	157	221	173	221
Prior period	1	0	3	3
Adjusted Profit After Extra-ordinary Items	83.2	84	170	218

Source: RHP; * adjusted for profit on sale of long-term investments pertaining to stake sale in MCX Stock Exchange and Dubai Gold and Commodities Exchange.

BALANCE SHEET

Y/E March (Rs Cr)	FY 2009	FY 2010	FY 2011	9M FY2012
Sources of funds				
Equity capital	41	41	51	51
Reserves & surplus	473	671	807	1025
Amount Recoverable from MCX ESOP Trust	(22)	(17)	(11)	(4)
Settlement Guarantee Fund	2	2	2	2
Total shareholders funds	494	697	849	1074
Deferred Tax Liabilities	9	11	13	16
Total liabilities	503	708	862	1090
Application of funds				
Gross block	259	268	291	310
Less: Accumulated depreciation	51	75	96	117
Net block	208	193	195	193
Capital work in progress (At Cost)	1	0	0	0
Total Assets	209	193	195	193
Investments				
Current assets, loans & advances				
Sundry Debtors	27	30	49	49
Cash & bank balances	406	270	331	229
Other Current Assets	9	8	11	10
Loans & Advances	45	111	90	96
Total current assets	487	419	481	384
Less: Current liabilities and provisions				
Current liabilities	663	521	638	583
Total assets	503	708	862	1090

Source: RHP

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