

February 23, 2012

Shashi Bhusan  
shashibhusan@plindia.com  
+91-22-66322300

Pratik Shah  
pratikshah@plindia.com  
+91-22-66322256

Rating	<b>Subscribe</b>
Price Band	Rs860-1,032
IPO Grading	5/5

**(Grade 5/5 indicates strong fundamentals and grade 1/5 indicates poor fundamentals)**

### IPO Fact Sheet

Opening Date	February 22, 2012
Closing Date	February 24, 2012
BRLMs	Edelweiss, Citi, Morgan Stanley
Issue Size	Rs5.3-6.3bn

### Objects of the Issue

Offer for sale

### Issue Details

Pre-issue equity (m shares)	50.998
Post-issue equity (m shares)	50.998
Post-issue Market Cap (Rs bn)	43.9-52.6

### Share Holding

(%)	Pre-Issue	Post-Issue
Promoters	31.18	26.00
Public & Others	68.82	74.00

- **Largest commodity exchange in India:** MCX is the leading commodities exchange in India based on the value of commodity futures contracts traded & the fifth largest commodity futures exchange globally (FIA Survey), in terms of the number of contracts traded.
- **Global recovery and Asia Pacific dominance:** As a premier Indian Commodity Exchange, with product suites across major commodity assets, MCX is well positioned to benefit from the growing popularity of the commodity market and the ongoing global economic recovery. A broadening importance of Asia Pacific as a global commodity market also should support the volume growth.
- **Strong revenue growth with better return ratios:** MCX has grown at a CAGR of ~35%, with EBITDA CAGR of 68% in the last four years and now ranked fifth in terms of traded volumes. Moreover, MCX RoE for FY12 is 27% (annualized 9MFY12), much higher compared to peers like CME (5.5%), ICE (17.5%), and NASDAQ OMX (9.4%).
- **Valuation and Recommendation - Growth not priced in:** MCX is offering 6.4m equity shares at a price band of Rs860-1,032 through an offer for sale, valuing the business at US\$877m to US\$1,052m (Rs44bn to Rs53bn). In the current price band, the company is valued at 15-18x FY12 earnings (pro-forma). The company valuation is largely in-line with global commodity exchanges' (CME, ICE, CBOE, NASDAQ OMX) average of 16-17x FY12 earnings estimate (Bloomberg). However, the growth and return ratios of MCX is ahead of global peers. *We recommend "Subscribe" to the IPO, but urge encashing 20-30% gain on listing.*
- **Risk to the business model: Upside Risk:** 1) Deregulation and inclusion of more agricultural commodities for exchange trading 2) Strong GDP growth 3) Allowing commodity stocks' option and futures at MCX. **Downside Risk** 1) Imposition of a Commodity Transaction Tax 2) The concentration risk is high - four commodities form nearly 70-80% of MCX trading volume 3) Likely competition from global commodity exchange.

Key financials (Y/e March)	2009	2010	2011	2012*
Revenues (Rs m)	2,124	2,874	3,689	5,364
Growth (%)	—	35.3	28.4	45.4
EBITDA (Rs m)	764	1,416	1,918	3,474
PAT (Rs m)	1,588	2,208	1,763	2,906
EPS (Rs)	31.6	43.3	34.6	57.0
Growth (%)	—	37.0	(20.2)	64.9

Profitability & Valuation	2009	2010	2011	2012*
EBITDA margin (%)	36.0	49.3	52.0	64.8
RoE (%)	32.2	31.7	20.8	27.1
RoCE (%)	—	54.3	31.8	32.5
PE (x)	32.7	23.8	29.9	18.1
P / BV (x)	10.7	7.6	6.2	4.9

Source: Company Data; PL Research \*Annualised Valuation calculated on higher band

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## About the Company

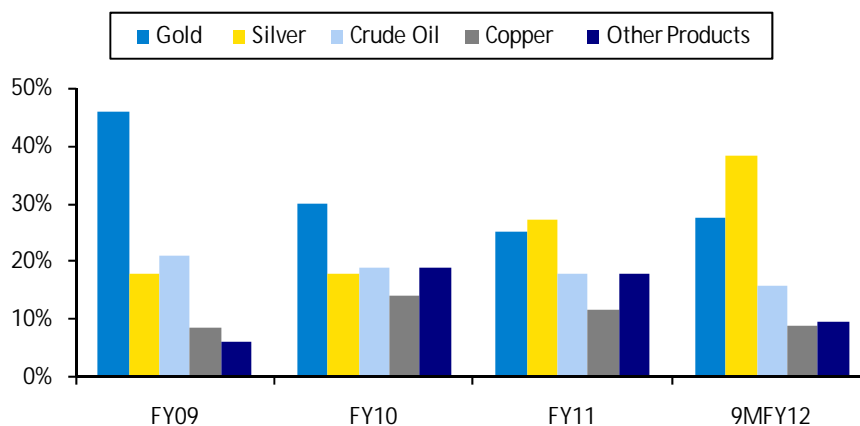
MCX is the leading commodities exchange in India based on the value of commodity futures contracts traded & the fifth largest commodity futures exchange globally (FIA Survey), in terms of number of contracts traded.

According to FMC, the total value of commodity futures contracts traded on MCX for 9MFY12, FY11, FY10 constituted 87.3%, 82.4% & 82.3%, respectively, of the India commodity futures industry. Their operations are sustained by the exchange related support infrastructure and software that is sourced from their Promoter (FTIL). As of December 31, 2011, they have 2,153 members with ~296,000 terminals, including CTCL spread over 1,572 cities in India.

They derive their income primarily from,

- Transaction fees with respect to the trades executed on the exchange
- Annual Subscription fees
- Member admission fees
- Terminal charges
- Proceeds of sale & dividends from investments, &
- Interest from Bank Deposits

**Exhibit 1: Information on the value of contracts traded on MCX**

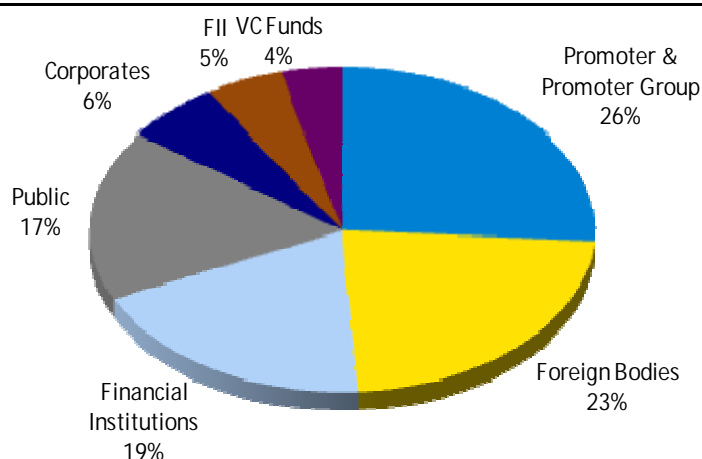


Source: RHP, PL Research

## About the Offer

The objects of the offer are to achieve the benefits of listing on the BSE & provide liquidity to the existing shareholders. It is a pure offer for sale & the company would not receive any proceeds from the offer. MCX is offering 6.4m equity shares at a price band of Rs860-1,032 through an offer for sale, valuing the business at US\$877m to US\$1,052m (Rs44bn to Rs53bn). The key shareholders who are tendering their shares are Financial Technologies, promoter of MCX, with 2.6m shares, State Bank of India with 2.1m shares and GLG Financials Fund with 0.8m shares. The remaining 0.9m shares are being offered by Alexandra, Bank of Baroda, ICICI Lombard and Corporation Bank. Shareholding Pattern Post IPO:

**Exhibit 2: Shareholding Pattern**



Source: RHP, Company Data

**Exhibit 3: Offer for Sale – 12.6% of total equity outstanding**

<b>Offer</b>	<b>6,427,378 Equity Shares (12.6% of total)</b>
Employee Reservation Portion	250,000 Equity Shares
Net Offer	6,177,378 Equity Shares
QIB Portion	At Least 3,088,689 Equity Shares
Anchor Investor Portion	Not more than 926,606 Equity Shares
Balance available for allocation to QIB's other than the Anchor	2,162,083 Equity Shares
Investors (assuming the Anchor Investor Portion is fully subscribed) of which:	
Available for allocation to Mutual Funds only (5% of the QIB excluding the Anchor Investor)	108,104 Equity Shares
Balance of QIB Portion (available for QIBs including Mutual Funds)	2,053,979 Equity Shares
Non-Institutional Portion	Not less than 926,607 Equity Shares
Retail Portion	Not less than 2,162,082 Equity Shares
Pre and Post offer Equity Shares	
<b>Equity Shares outstanding prior to the Offer</b>	<b>50,998,369 Equity Shares</b>
<b>Equity Shares outstanding after the Offer</b>	<b>50,998,369 Equity Shares</b>

Source: Company Data, PL Research

## Indian Commodities Market

There are currently 21 commodity exchanges recognized by FMC in India offering trading in over 60 commodity futures with the approval of FMC. In FY09, FY10, FY11, the total value of commodities traded on commodity futures exchanges in India was Rs52,489.57bn, Rs77,647.54bn & Rs119,489.42bn, respectively. There are currently five electronic multi-commodity national exchanges which are recognized by the Govt. of India, namely:

- Multi Commodity Exchange of India Limited ("MCX") (Mumbai)
- National Commodity & Derivatives Exchange Limited ("NCDEX") (Mumbai)
- National Multi Commodity Exchange Limited ("NMCE") (Ahmedabad)
- Indian Commodity Exchange Limited ("ICEX") (Gurgaon)
- Ace Derivatives & Commodity Exchange ("ACE") (Ahmedabad)

**Exhibit 4: MCX – Holds lion's share in Indian Commodities Market**

Exchange	9MFY12		FY 2011		FY 2010	
	Turnover (Rs bn)	Market Share (%)	Turnover (Rs bn)	Market Share (%)	Turnover (Rs bn)	Market Share (%)
MCX	119,807	87.3	98,415	82.4	63,933	82.3
NCDEX	12,876	9.4	14,106	11.8	9,176	11.8
NMCE	1,206	0.9	2,184	1.8	2,279	2.9
ICEX	1,977	1.4	3,777	3.2	1,364	1.8
ACE	991	0.7	301	0.3	60	0.1
Others	371	0.3	706	0.6	836	1.1
<b>Total</b>	<b>137,229</b>	<b>100</b>	<b>119,489</b>	<b>100</b>	<b>77,648</b>	<b>100</b>

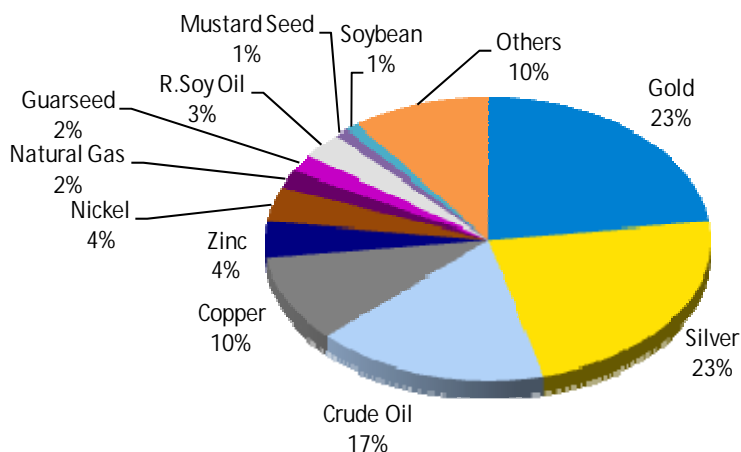
Source: RHP, PL Research

## 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. Commodity futures trading volumes have risen at a CAGR of 90.9% between FY04 & FY11.

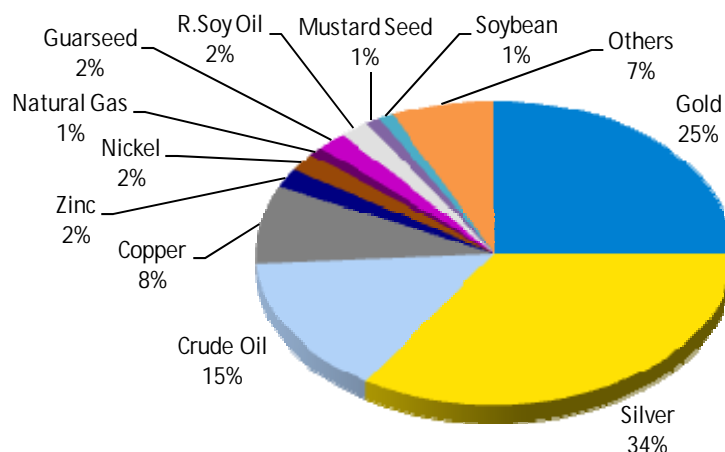
There are currently over 60 commodities futures that have been approved by FMC for trading during the calendar year 2011 with gold, silver, crude oil, copper, zinc, nickel & natural gas comprising the majority of the trading turnover for FY11 and 9MFY12, as depicted in the graph below:

**Exhibit 5: Major Commodities Turnover (FY11)**



Source: RHP, PL Research

**Exhibit 6: Major Commodities Turnover (April – December 2011)**



Source: RHP, PL Research

## Global Derivatives Market – Snapshot

In 1984, total trading volume for futures & options contracts traded globally was 188m contracts (Source: FIA, FIA Report). In 2010, total contract volume had grown to 22.3bn, representing a CAGR of ~20% for the past 26 years. Moreover, futures and options contracts grew by 25.6% YoY in 2010.

For the first time ever in 2010, Asia-Pacific accounted for the largest share of global volume traded. Total volume on the derivatives exchanges in the region reached 8.86bn contracts in 2010, an increase of 42.8% YoY. North America (leader in 2009) ranked second with 7.17bn contracts traded in 2010, a growth of 12.8 % YoY.

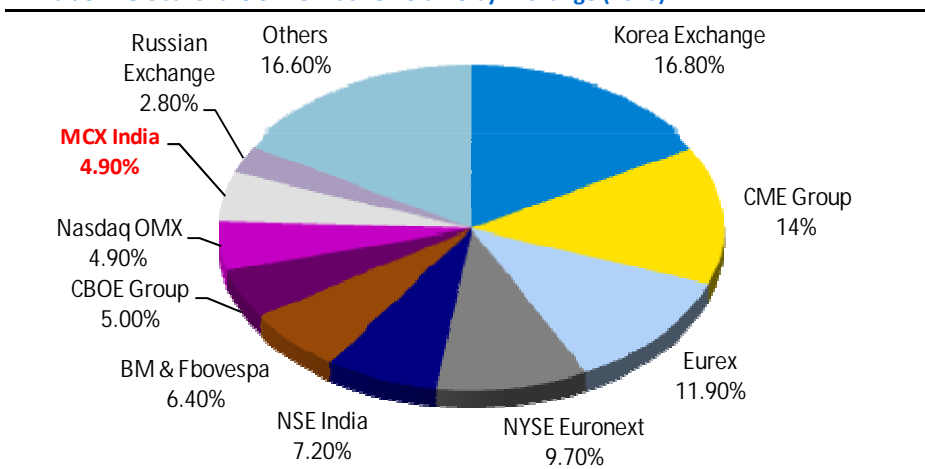
The market witnessed public listing of the Chicago Mercantile Exchange (“CME”), the Chicago Board of Trade, the International Securities Exchange, the New York Stock Exchange (“NYSE”) & the New York Mercantile Exchange (“NYMEX”) in the last decade. Deregulation has enabled exchanges to consolidate, which improved the exchanges’ cross-border trading capabilities as well as broadened their range of products and enhanced liquidity to gain operating efficiencies.

**Exhibit 7: Commodity Future Rankings – MCX ranked fifth globally**

Commodity Futures Rankings (Jan – June 2011)	Commodity Futures Exchange	2010 Volume (in m contracts)	2010 (Jan-June) Volume (in m contracts)	2011 (Jan-June) Volume (in m contracts)	2011 (Jan-June) v/s 2010 (Jan-June) Change (%)
1	CME Group (includes CBOT & Nymex)	609.07	298.83	352.96	18.1
2	Zhengzhou Commodity Exchange	495.90	226.68	217.58	(0.4)
3	ICE Group (includes U.S., U.K. & Canadian markets)	264.67	134.34	159.09	18.4
4	Shanghai Futures Exchange	621.9	300.42	128.54	(57.2)
5	Multi Commodity Exchange	197.21	90.32	127.77	41.5

Source: RHP, PL Research

**Exhibit 8: Global Share of Derivative Volume by Exchange (2010)**



Source: FIA, PL Research

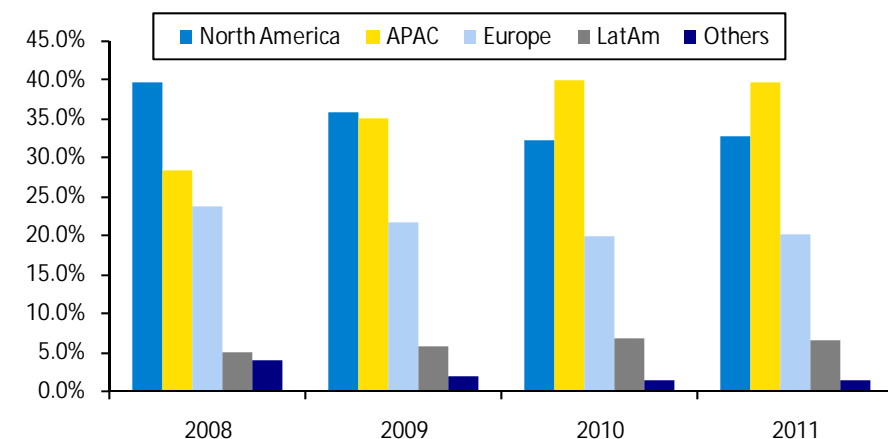
## Investment Argument

The turmoil in the Western Economies yielded weak derivatives volume growth in 2009 due to widespread corporate deleveraging and a decreased need to hedge. However, in developing countries, particularly in Asia, derivatives usage continues to exhibit robust growth as emerging economies attract global trade flow and drive demand for risk management. We expect this trend to continue, driven by continued strong GDP growth in Asia Pacific market markets. ***MCX's strong presence in India positions it uniquely to capture these opportunities.***

## Global recovery and Asia Pacific dominance

As a premier Indian Commodity, with wide-range of product suites across all major commodity assets, MCX is well positioned to benefit from the growing popularity of commodity market and the ongoing global economic recovery. A broadening importance of Asia Pacific as a global commodity market also should support volume growth. Despite volatile commodity volume, Asia Pacific witnessed strong growth.

**Exhibit 9: Market Share of Asia Pacific in Global Commodities Trading gained prominence**

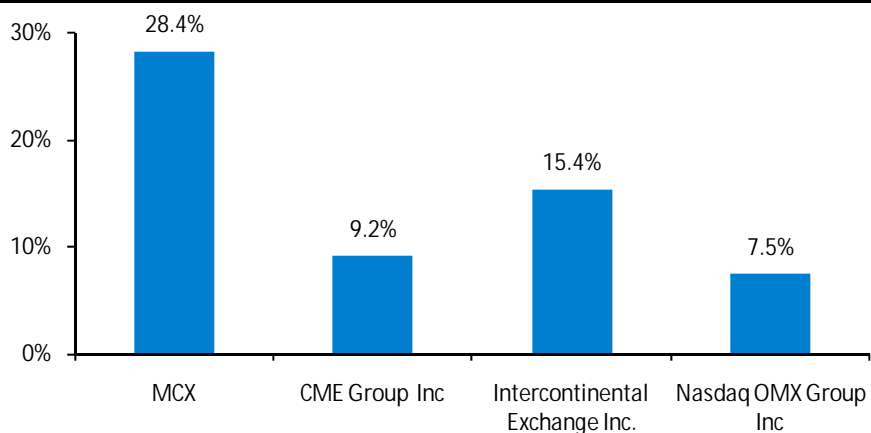


Source: FIA, PL Research

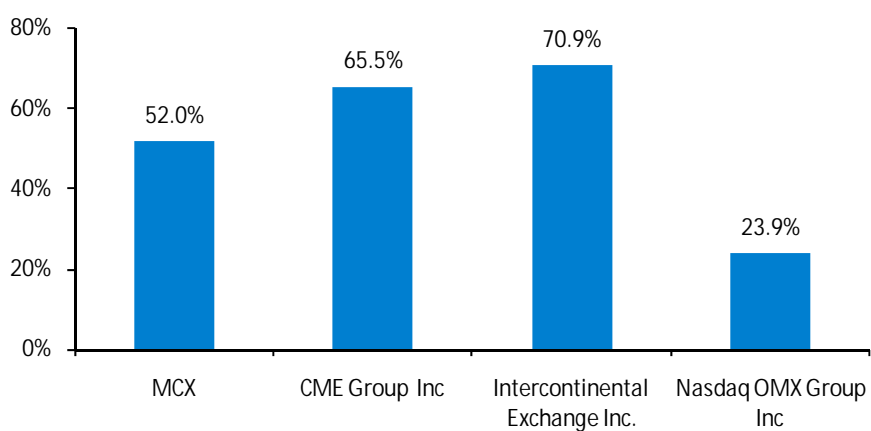
## Strong growth & better returns ratios: Rev. CAGR~35%, RoE-27%

MCX has delivered strong growth over the last four years compared to its peers, growing at CAGR of ~35% (in terms of revenue) and now ranked 5th in terms of traded volume. EBITDA has shown a CAGR of ~65% over the last four years. The company has stronger return ratios when compared to other commodities exchange in the world.

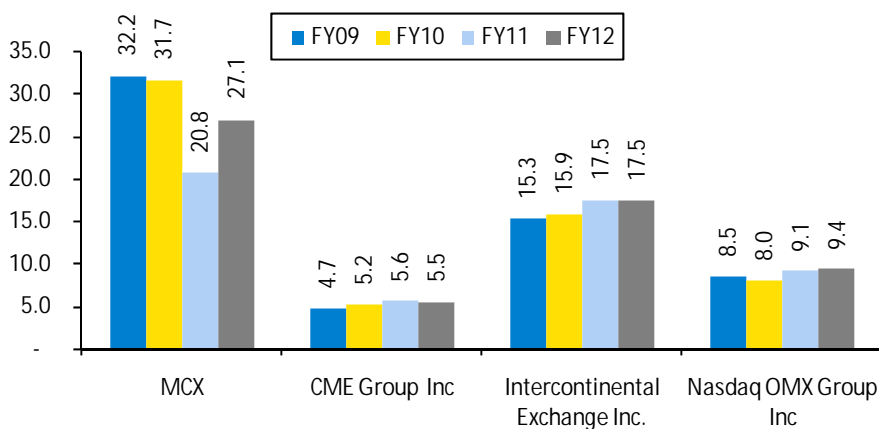
We believe that stronger growth profile along with expanding margin (due to scalable technology platform) would help MCX command premium valuations compared to global commodities' exchange.

**Exhibit 10: Revenue Growth (FY11) – Much stronger than peers to justify the valuation**


Source: Bloomberg, PL Research

**Exhibit 11: EBITDA Margin (FY11) – Margin for FY12 expanded to 68% in-line with leaders**


Source: Bloomberg, PL Research

**Exhibit 12: RoE – Much stronger than peers**


Source: Company Data, Bloomberg, PL Research



## Risk to recommendation

### Upside Risk

- **Deregulation and inclusion of more agricultural commodities and participants for commodity exchange trading:** Indian regulations currently do not permit options trading in commodities, which when permitted may result in increased trading activity on MCX. FMC also regulates the type of participants who can trade on the commodity futures exchanges. FIIs, Banks & Mutual funds cannot trade in commodity exchanges. If allowed, may result in increased trading activity.
- **Strong GDP growth:** Global GDP growth forecast continues to remain under downward pressure. A steady recovery in the global economy would boost the sentiment for commodity trading.
- **Allowing commodity stocks' futures and options trading:** Average daily commodity turnover of MCX is Rs600-700bn. If we exclude the turnover of indices (NIFTY) and options (call/put) from NSE turnover, MCX's turnover is 2-3 times more than NSE. Currently, options and indices trading are not available in the Indian commodity exchange. Allowing such trades could boost volumes at MCX.

### Downside Risk

- **Imposition of a Commodity Transaction Tax:** Imposition of a Commodity Transaction Tax (CTT) will have a retrograde effect on the commodity futures market. The business could migrate to unconventional means.
- **High concentration risk is high:** Four commodities form nearly 70-80% of MCX trading volume 3) Likely competition from the global commodity exchange, so if the commodity cycle turns, you could see revenues dip, going ahead.
- **Competition from the global commodity exchange:** Currently, MCX commands 87% of the market share in the business. However, entry of global commodity exchange in India, with competitive technologies, could change the trading landscape.

## Valuations in-line with the commodity exchanges, but discount to emerging market exchanges valuation

MCX is planning to raise Rs6.63bn through offer for sale, with a price band of Rs860-1,032. At the price band of MCX, the company is asking for valuation of 15-18.1x FY12 earnings estimate (annualized 9MFY12). The valuation is in line with the currently trading commodity exchanges. However, compared to emerging market exchanges, the valuation is at a discount.

Strong revenue growth, along with margin expansion, gives room for P/E in-line with other Emerging Market Exchanges. We rate IPO as “**Subscribe**”.

**Exhibit 13: IPO price band premium to Commodity Exchanges, but discount to Emerging Market Exchanges valuation**

	FY12		
	EV/Sales	EV/EBITDA	P/E
Commodity Exchanges			
CME Group Inc	6.00	8.50	16.30
Intercontinental Exchange Inc	6.51	9.10	16.60
CBOE Holdings Inc	4.33	7.83	16.44
NASDAQ OMX Group Inc/The	1.72	6.56	9.76
Emerging Market Exchanges			
BM&FBovespa	10.42	15.52	15.17
Singapore Exchange Ltd	10.54	17.22	25.00
CIMB Group Holdings Bhd	4.28	11.70	13.66
Hong Kong Exchanges and Clearing Ltd	20.04	24.53	30.57
Bolsa Mexicana de Valores SAB de CV	5.53	11.93	19.42
Developed Market Exchanges			
Deutsche Boerse AG	4.33	7.64	10.69
NYSE Euronext	2.44	7.63	11.21
ASX Ltd	5.95	7.69	15.41
London Stock Exchange Group PLC	3.80	6.39	10.43
TMX Group Inc	4.40	7.56	11.10
NZX Ltd	5.23	10.80	19.16
MCX (Lower Band)	7.75	11.97	15.09
MCX (Upper Band)	9.38	14.49	18.11
MCX (Avg.)	8.57	13.23	16.60

Source: Bloomberg, PL Research

## Financials

**Exhibit 14: Income Statement (Rs m)**

Y/e March	FY09	FY10	FY11	9MFY12
<b>Income</b>				
Transaction Fees	1,861	2,641	3,495	3,868
Membership Admission Fees	105	70	35	41
Annual Subscription Fees	136	136	135	99
Terminal Charges	22	27	24	15
Income From Operations	2,124	2,874	3,689	4,023
Other Income	1,534	2,063	787	722
<b>Total Income</b>	<b>3,658</b>	<b>4,937</b>	<b>4,476</b>	<b>4,745</b>
<b>Expenditure</b>				
Staff Costs	254	218	264	201
Administration & other Op. Exp	1,106	1,241	1,507	1,217
<b>EBITDA</b>	<b>764</b>	<b>1,416</b>	<b>1,918</b>	<b>2,605</b>
<i>(% of Income from operations)</i>	<i>36.0</i>	<i>49.3</i>	<i>52.0</i>	<i>64.8</i>
Depreciation	200	247	247	204
<b>EBIT</b>	<b>2,098</b>	<b>3,231</b>	<b>2,458</b>	<b>3,122</b>
<i>(% of Income)</i>	<i>57.4</i>	<i>65.5</i>	<i>54.9</i>	<i>65.8</i>
Interest	1.8	0.4	0.2	0.0
<b>PBT</b>	<b>2,097</b>	<b>3,231</b>	<b>2,458</b>	<b>3,122</b>
Tax	522	1,024	727	917
<b>Net Profit After Tax</b>	<b>1,574</b>	<b>2,207</b>	<b>1,731</b>	<b>2,205</b>
Share of profit of Associate	0.4	3.0	2.6	1.4
<b>Net Profit</b>	<b>1,575</b>	<b>2,210</b>	<b>1,734</b>	<b>2,207</b>
<b>Reported PAT</b>	<b>1,588</b>	<b>2,208</b>	<b>1,763</b>	<b>2,180</b>

Source: RHP, PL Research

**Exhibit 15: Balance Sheet (Rs m)**

Y/e March	FY09	FY10	FY11	9MFY12
<b><u>Sources of Funds</u></b>				
Share Capital	408	408	510	510
ESOP Outstanding	0.24			
Reserves & Surplus	4,528	6,560	7,979	10,229
Minority Interest				0.45
Networth	4,937	6,968	8,488	10,739
<b><u>Application of Funds</u></b>				
<b>Fixed Assets:</b>				
Gross Block	2,595	2,679	2,917	3,095
Less: Depreciation/ Amortisation	(509)	(754)	(964)	(1,165)
Net Block	2,086	1,925	1,953	1,930
Add: Capital W-I-P	3	3	0	0
<b>Total</b>	<b>2,089</b>	<b>1,928</b>	<b>1,953</b>	<b>1,930</b>
Investments	4,698	6,170	8,237	10,958
<b>Current Assets, Loans &amp; Advances</b>				
Sundry Debtors	269	304	489	494
Cash & Bank Balances	4,059	2,701	3,312	2,286
Other Current Assets	92	78	113	97
Loans & Advances	452	1,108	897	961
<b>Liabilities &amp; Provisions</b>				
Current Liabilities & Provisions	6,635	5,214	6,385	5,830
Deferred Tax Liability (net)	87	106	127	157
<b>Total Assets</b>	<b>4,937</b>	<b>6,968</b>	<b>8,488</b>	<b>10,739</b>

Source: RHP, PL Research

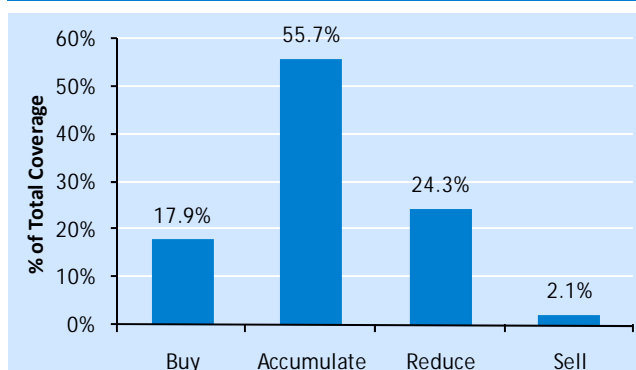


Prabhudas Lilladher Pvt. Ltd.

3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India

Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

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#### PL's Recommendation Nomenclature

<b>BUY</b>	: Over 15% Outperformance to Sensex over 12-months	<b>Accumulate</b>	: Outperformance to Sensex over 12-months
<b>Reduce</b>	: Underperformance to Sensex over 12-months	<b>Sell</b>	: Over 15% underperformance to Sensex over 12-months
<b>Trading Buy</b>	: Over 10% absolute upside in 1-month	<b>Trading Sell</b>	: Over 10% absolute decline in 1-month
<b>Not Rated (NR)</b>	: No specific call on the stock	<b>Under Review (UR)</b>	: Rating likely to change shortly

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