

## Issue Date

Issue	Book Building Public Issue
Opening Date	22 February 2012
Closing Date	24 February 2012
Price Band	Rs 860 – Rs 1032
Shares Offered	64,27,378
Issue Size	Rs 5,528 mn-Rs 6,633 mn
Lead Managers	Edelweiss Financial Services, Citigroup Global Markets and Morgan Stanley India Company
IPO Grading	CARE IPO Grading 5 ( Strong Fundamental)

Source: RHP, HISL Advisory

## Promoters

- Financial Technology India Ltd
- La-Fin Financial Services Private Ltd

Source: RHP

## Shareholding pattern (%)

Particulars	Pre Issue	Post Issue
Promoters	31.2	26.0
Financial Institutions/Banks	24.2	-
Foreign Institutions	5.0	-
Others	39.6	-

Source: RHP, HISL Advisory

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## Multi Commodity Exchange of India Ltd **Subscribe**

Mumbai-based Multi Commodity Exchange of India Ltd (MCX) is an electronic commodity futures exchange. Set up by Financial Technologies (India) Ltd (FTIL) as a demutualised exchange, it has permanent recognition from the Government of India to facilitate online trading, clearing and settlement operations for commodity futures across the country. Having started operations in November 2003, MCX currently holds a market share of 82% of the Indian commodity futures market, and has more than 2,100 registered members operating through over 247,000 terminals (including computer-to-computer link), across India. MCX is also the fifth largest commodity futures exchange globally, in terms of the number of contracts traded during the six months ended June 30, 2011 (Source: Futures Industry Association, FIA). MCX offers more than 40 commodities across various classes such as bullion, ferrous and non-ferrous metals, and a number of agri-commodities on its platform.

## Strategy

### ► Expand market presence and increase participants

MCX has 2153 members as of December 31, 2011, in India it has more than 296,000 terminals including CTCL spread over 1,572 cities and towns. The company intends to continue to increase its number of participants by introducing new products on its exchange, expanding to more geographical areas and by continuing its efforts to disseminate knowledge and information about the commodity futures industry. Along with its alliance partners, the company plans to establish and grow its presence in additional regions across India.

### ► Introduce new products and services on its exchange

MCX, since its inception, has introduced a variety of new commodity futures contracts on its exchange. The number of products it offers on its Exchange has grown from 15 as of March 31, 2004 to 49 as of December 31, 2011. The company plans to continue to focus on offering futures trading in commodities, which is significant in the Indian and global contexts. It will continue to offer trading in commodities through contracts that will be customised to meet the needs of the Indian markets, such as Gold Mini and Gold Petal contracts, which are aimed at local retail investors. MCX plans to increase its product portfolio through research and development and through alliances with other exchanges. The company aims to offer more customised products and services to attract a broader base of participants. It also intends to capitalise on changes proposed in regulations governing the Indian commodities derivatives industry permitting trading in options and intangibles, including indices. For example, MCX has already developed the software technology infrastructure and other in-house expertise to launch trading in commodities options if and when such trading is permitted. Similarly, if and when trading in commodity indices is permitted, investors will be able to trade in its composite commodity index, MCX-COMDEX and other indices that have been developed by the company.

### ► Continue to pursue strategic initiatives to open up new revenue streams

The company plans to supplement its organic growth by continuing to pursue strategic alliances and joint ventures. It will look for opportunities to invest in companies or assets in related industries, primarily in India and the pan-Asian region that will enhance its growth, operations and profitability. MCX also intends to invest in businesses that would enable greater access to its markets or offer those services which it does not offer currently. MCX, in the past, has entered into a joint venture with Dubai Multi Commodities Centre to establish the Dubai Gold and Commodities Exchange DMCC (DGCX), a demutualised, fully electronic commodities and currencies exchange. The company intends to continue to look for such strategic alliances and joint ventures to develop new markets, enhance its services and increase market presence.

▶ **Generate new revenue sources from existing products**

MCX intends to develop new revenue sources that are not transaction-driven. The market data products and information offerings have the potential to become a source of revenue for the company. MCX 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 its exchange and on the spot market. It currently has arrangements with Bloomberg Finance L.P., NewsWire 18 Private Limited, IQN Data Solutions Private Limited, Reuters India Private Limited, Interactive Data (Europe) Limited and TickerPlant Limited.

## Strengths

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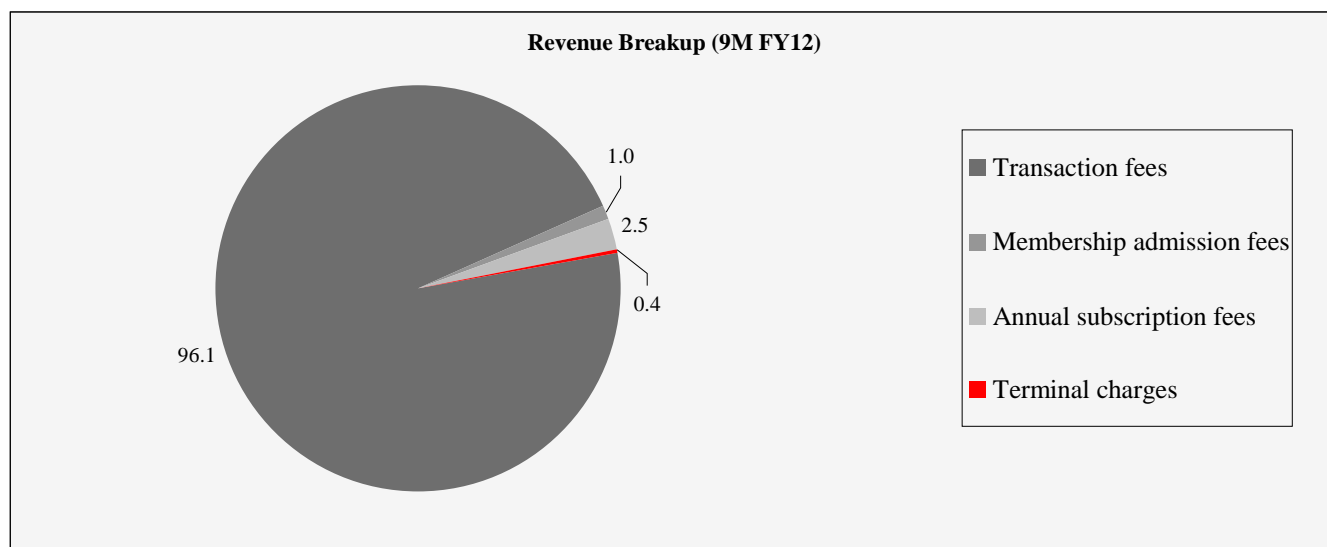
- ▶ **Leadership position in the commodity futures industry:** MCX is the leading commodity futures exchange in India in terms of value of commodity futures contracts traded in metals, energy and certain agricultural commodities. According to data maintained by FMC, the total value of commodity futures contracts traded on MCX's exchange for the nine months ended December 31, 2011, FY11 and FY10 constituted 87.3%, 82.4% and 82.3%, respectively, of the Indian commodity futures industry. Among the national commodities exchanges in India, MCX's market share based on the total value of commodities traded in 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, (Source: Information derived from FMC April – December 2011 data). MCX is the fifth largest commodity futures exchange globally, among all the commodity exchanges considered in the FIA survey, in terms of the number of contracts traded and was among the leading commodity exchanges in the world in terms of trading volumes of certain commodities. Based on the comparison of the trading volumes of MCX with the leading global commodity futures exchanges in the world, for the CY10 and the six months ended June 30, 2011, MCX was the largest silver exchange, the second largest gold, copper and natural gas exchange and the third largest crude oil exchange for this period.
- ▶ **Product and service innovation:** MCX's strength lies in its ability to introduce new and innovative products, i.e. commodity futures contracts and services on its exchange. It is 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 its exchange. The company has introduced several other indices, including MCXAgri (agricultural commodities index), MCXEnergy (energy commodities index) and MCXMetal (metal commodities index). It also has three rain indices, namely RAINDEXMUM (Mumbai), RAINDEXIDR (Indore), and RAINDEXJAI (Jaipur), which track the progress of monsoon rains in their respective geographic locations.
- ▶ **Technology infrastructure backbone of MCX:** MCX's technology infrastructure is the foundation of its business and a key factor in development. The online trading platform is accessible to its members through its trader workstation or computer-to-computer link (CTCL) using multiple media of connectivity including VSATs, VPN, leased lines, and the internet. Its 52 electronic platforms are supported by its infrastructure and advanced technology, allowing faster trade execution, anonymity, price transparency, prompt and reliable order routing, trade reporting, market data dissemination and market surveillance. The electronic trading platform is supplied by its promoter Financial Technology India Ltd (FTIL) — one of the leading technology companies in the development and deployment of exchange related software and technology in India. This technology for the exchange industry is difficult to replicate, thus providing it with a competitive advantage. MCX operates in an environment which requires constant technology upgrades or variations and support due to changes required by the regulatory regime and market forces. The technical expertise and experience of FTIL enables it to obtain speedy and efficient technology solutions, such as customisation and development of new software for new products and services.
- ▶ **Scalable technology platform and business model:** MCX has technology platform and business model which is scalable and has the potential to generate better margins at higher volumes. It has made significant investments in developing its fixed operating infrastructure, including technology systems, to support anticipated growth and increase in the demand for its products. MCX's current technology infrastructure is sufficient to handle daily trading volumes of up to 10,000,000 trades a day and has handled a high of 1,867,612 trades in a day. The management has indicated that the overall business model is scalable and offers potential for economic growth of the business with limited incremental costs.
- ▶ **Integrated infrastructure and network of alliances:** The company's business operations are supported by the exchange related infrastructure which it has developed through its network of strategic alliances, which enables it to grow business and expand its market presence. MCX has international alliances with the London Metal Exchange, the New York Mercantile Exchange, the LIFFE Administration and Management (under renewal), the Baltic Exchange Limited, Shanghai Futures Exchange and Taiwan Futures Exchange. These alliances facilitate the sharing of information across regional and global exchanges, enabling it to penetrate new markets, enhance its product offerings and increase market presence.

## Key Risks

- ▶ The trading volume on MCX is dependent on volatility in commodity prices. Any reduction in the volatility of the prices of the commodities traded on its exchange may result in a decrease in the trading volume on its exchange, which could have an adverse effect on its business and operations.
- ▶ It may face competition from existing players and new entrants in the industry, which could adversely affect its business, financial condition and operations.
- ▶ MCX is subject to certain risks relating to the operations of electronic trading platform and it may be unable to keep up with rapid technological changes. Any failure to keep up with industry standards in technology and respond to participant preferences could cause its market share to decline, which could have an adverse effect on the company.
- ▶ The company has made investments in the form of equity share capital and warrants in MCX-SX. In the event of an adverse outcome in the outstanding litigation between MCX-SX and SEBI in relation to the application for diversification of trading operations, it may not be able to benefit from the investments as anticipated.
- ▶ The commodities trading industry has been and continues to be subject to strict regulatory requirements and scrutiny. MCX faces the risk of changes in laws, regulations or governmental policies that may diminish trading volumes or have an adverse effect on the way the commodity futures exchanges conduct their business.

## Financials

- ▶ MCX's sources of operating income are a) transaction fees, b) membership admission fees, c) annual subscription fees and d) terminal charges. Transaction fee is the largest contributor to the operating revenue and its share has grown from 87.6% in FY09 to 96.1% in 9MonthsFY12. MCX's operating revenue has grown at a CAGR of 32% over FY09-FY11, with much of the growth coming through transaction fees, which grew at a CAGR of 37% over the same period. EBITDA margin improved to 52.0% in FY11 from 36.0% in FY09, on account of operating leverage – most of MCX's operating costs are fixed and semi-fixed in nature. In our opinion, MCX is likely to be able to sustain its profitability going forward due to slower growth in operating costs vs. revenue growth. MCX holds long-term investments in other operational exchanges – MCX Stock Exchange Ltd (5% equity stake as permissible under MIMPS Regulations) and Dubai Gold and Commodities Exchange Ltd (5% equity stake). It also holds 634 mn warrants in MCX-SX, which carry no voting or dividend rights. The company may generate more cash as and when it decides to liquidate these investments.



Source: RHP, HISL Advisory

## Outlook and Valuation

India is one of the fastest growing economies in the world. The growth of the overall economy in India is likely to drive the underlying demand for commodities. The increase in physical market volumes may increase the hedging requirements of industry players, which influences derivative trading volumes. In developed markets, commodity derivatives volumes are generally a multiple of the underlying physical commodity volumes. Therefore, as the consumption of physical commodities increases in India, the volumes of commodity derivatives being traded may also increase going ahead. MCX holds a leadership position in the Indian commodity futures market, with a share of 87.3% of the overall traded turnover in 9 months FY12. MCX will derive from amendments to the Forward Contracts (Regulation) Act, if it is passed by the government, which will allow trading of options and indices, and participation by institutional investors, leading to increase in the traded turnover on commodity exchanges.

MCX is the first exchange tapping the capital market in India. With descent financial performance and good industry prospects, the company looks to be a good investment to bet upon for long-term. MCX is valued at a P/E of 15.1x-18.1x on its annualized FY12 EPS of Rs 57.0 on a price band of Rs 860-Rs1032, respectively. There are no listed companies in India that are engaged in a business similar to MCX. However, on comparing with global players, the valuation looks attractive. We recommend our investors to **Subscribe** to the issue with a long-term view.

### Comparative Valuations

Particulars (CY11)	CBOE	CME Group	NYSE Euronext	Nasdaq OMX Group	*MCX (Rs mn)
Revenue (\$ mn)	23,710	153072.3	212,396	160416.6	<b>5,364</b>
Net Income (\$ mn)	6,505	84561.7	28,882	18057.4	<b>2,942</b>
Diluted EPS (\$)	71	1266.8	110	100.3	<b>57</b>
EBITDA Margin (%)	54	65.5	28	21.3	<b>65</b>
Net Profit margin (%)	27.4	55.2	13.6	11.3	<b>54.8</b>
ROE(%)	66.5	8.7	9.2	7.9	<b>22.8</b>
ROCE(%)	67.9	8.3	6.5	6.5	<b>31.8</b>
P/E(x)	39	23.3	27	26.7	<b>18.1</b>

Source: Bloomberg, RHP, HISL Advisory, \*Annualised Financials for FY12 for valuation with global players

### Indian Competitors

Exchange	9M FY12		FY11		FY10	
	Turnover (Rs mn)	Market Share (%)	Turnover (Rs mn)	Market Share(%)	Turnover (Rs mn)	Market Share(%)
<b>MCX</b>	<b>119,806,891</b>	<b>87.3</b>	<b>98,415,030</b>	<b>82.4</b>	<b>63,933,025</b>	<b>82.3</b>
NCDEX	12,875,536	9.4	14,106,022	11.8	9,175,847	11.8
NMCE	1,206,330	0.9	2,184,109	1.8	2,279,015	2.9
ICEX	1,977,409	1.4	3,777,299	3.2	1,364,254	1.8
ACE	991,282	0.7	300,596	0.3	59,794	0.1
Others	371,099	0.3	706,368	0.6	835,610	1.1
<b>TOTAL</b>	<b>137,228,547</b>	<b>100.0</b>	<b>119,489,425</b>	<b>100.0</b>	<b>77,647,545</b>	<b>100.0</b>

Source: RHP, HISL Advisory

### Summary of Financials

March Year Ending (Rs Mn)	FY09	FY10	FY11	9M FY12
<b>Income</b>	<b>2124.4</b>	<b>2873.8</b>	<b>3688.9</b>	<b>4023.3</b>
Transaction Fees	1860.9	2640.8	3495.4	3868.1
Membership Admission Fees	105.2	69.6	35.1	41.36
Annual subscription Fees	135.94	136.2	134.7	98.8
Terminal charges	22.37	27.18	23.64	14.97
EBITDA	764.0	1415.5	1917.6	2605.1
<b>EBITDA margin (%)</b>	<b>36.0</b>	<b>49.3</b>	<b>52.0</b>	<b>64.8</b>
Other Income	1533.9	2063.1	786.6	721.6
Depreciation	199.5	247.4	246.5	204.3
Interest expense	1.7	0.4	0.2	0.0
PBT	2096.6	3230.9	2457.5	3122.4
<b>PAT</b>	<b>1574.1</b>	<b>2210.2</b>	<b>1733.5</b>	<b>2206.7</b>
Net worth (Pre-Issue)	4942.2	6969.8	8484.8	10730.8
RONW (%)	32.2	31.6	20.7	20.2
EPS	31.5	43.2	34.4	42.6

Source: RHP, HISL Advisory

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