

Estimate change	↑
TP change	↑
Rating change	↔

Bloomberg	MCX IN
Equity Shares (m)	51
M.Cap.(INRb)/(USDb)	84.8 / 1
52-Week Range (INR)	1720 / 1156
1, 6, 12 Rel. Per (%)	8/-2/4
12M Avg Val (INR M)	636

Financials & Valuations (INR b)

Y/E Mar	2023	2024E	2025E
Sales	5.1	5.9	6.4
EBIT Margin (%)	24.9	2.3	49.4
PAT	1.5	0.7	3.1
EPS (INR)	29.2	14.6	61.5
EPS Gr. (%)	3.8	-50.0	321.4
BV/Sh. (INR)	290.1	293.0	305.3

Ratios

RoE (%)	10.3	5.0	20.6
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Valuations

P/E (x)	55.8	111.7	26.5
P/BV (x)	5.6	5.6	5.3
Div Yield (%)	1.2	2.1	2.1

Shareholding pattern (%)

As On	Jun-23	Mar-23	Jun-22
Promoter (%)	0.0	0.0	0.0
DII (%)	55.1	52.7	48.6
FII (%)	25.0	27.1	27.0
Others (%)	19.9	20.2	24.4

FII Includes depository receipts

CMP: INR1,662 TP: INR1,480 (-11%) Neutral

Surge in options volumes; overall performance in line

- MCX's total volumes jumped 79% YoY to INR41t in 1QFY24. Total revenue grew 34% YoY to INR1.45b (in line with our expectations).
- Futures volumes declined 17% YoY (+2% QoQ) to INR13.3t, while options volumes surged 207% YoY (+33% QoQ) to INR38.4t during the quarter.
- Staff costs at INR253m increased 11% YoY. Software expenses surged 362% YoY to INR888m (in line), due to higher payout for extending the contract with 63moons. The contract has been extended for six months from 1st Jul'23 at a consideration of INR1.25b (plus applicable taxes) per quarter.
- Total EBIT stood at INR64m vs. our estimate of INR59m as depreciation was below our estimate. EBIT margin was at 4% vs. 40% in 1QFY23/-2.8% in 4QFY23.
- Other income jumped 121% YoY to INR204m (in line with our expectation).
- PAT (before loss from associate) stood at INR209m, down 50% YoY (in line).
- Adj. PAT dipped 53% YoY to INR197m (4.5% miss due to losses from associate).
- We raise our FY24E/FY25E EPS by 8%/4% to factor in higher volumes in options, higher other income and lower depreciation. The transition to TCS software will be keenly monitored over the next couple of quarters. We reiterate our **Neutral** rating with a one-year TP of INR1,480 (premised on 24x FY25E EPS).

Energy and bullion drive overall volume growth

- Volumes in the Energy segment jumped 96% YoY, fueled by a 151% YoY surge in crude oil volumes in 1QFY24.
- Bullion volumes rose 78% YoY due to 81%/75% YoY rise in gold/silver volumes.
- Overall base metal volumes dropped 39% YoY, due to 61%/31% YoY decline in Aluminum/Copper volumes in 1QFY24.

Key takeaways from the management commentary

- Some EOD and BOD issues cropped up and fixing of these issues has been done by the company. Now, MCX has kept pre-EOD checks as a preventive measure.
- Though the mocks were not conducted with members in the last month, internal mocks had been conducted (though not exposed to the member brokers). In Aug'23, MCX plans to conduct mock runs for member brokers.
- Peak margin regulations were one of the reasons for the decline in futures volumes. Additional margins are imposed on futures contracts and hence there is a shift to the options contracts.

Reiterate Neutral

- The tech transition continues to loom for MCX, with the 63 moons contract further extended until Dec'23 at a higher cost of INR1.25b per quarter. In the meanwhile, Options volumes continue to surprise. We raise our FY24E/FY25E EPS by 8%/4% to factor in higher volumes in options, higher other income and lower depreciation. The transition over the next couple of quarters will be keenly monitored. We reiterate our Neutral rating with a one-year TP of INR1,480 (premised on 24x FY25E EPS).

Quarterly Performance**(INR m)**

	FY23				FY24E				FY23	FY24E	Est.	Var.
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1Q	(%/bp)
Sales	1,088	1,274	1,436	1,338	1,458	1,458	1,494	1,450	5,135	5,859	1,440	1.2
YoY Growth (%)	24.2	53.1	60.3	25.6	34.0	14.4	4.0	8.4	40.0	14.1	32.4	162bp
Staff Costs	227	229	229	234	253	251	252	255	919	1,011	250	1.0
Other Expenses	368	389	879	1,083	1,098	1,508	1,532	381	2,719	4,519	1,069	2.7
EBITDA	493	656	327	21	107	-302	-290	814	1,497	329	121	(11.3)
Depreciation	58	58	43	58	43	43	43	151	216	280	61	(29.2)
EBIT	435	598	285	-37	64	-345	-333	663	1,281	49	59	7.2
Margins (%)	40.0	47.0	19.8	-2.8	4.4	-23.7	-22.3	45.7	24.9	0.8	4.1	24bp
Interest Costs	1	0	1	1	1	0	0	0	2	1	0	
Other Income	93	182	201	201	204	204	204	209	677	822	205	(0.2)
PBT bef. Exceptional items	527	781	485	163	267	-141	-129	872	1,955	870	264	1.1
Tax	106	135	90	86	58	-31	-28	211	416	210	58	(0.5)
Rate (%)	20.1	17.2	18.5	52.6	21.6	22.0	22.0	24.3	21.3	24.1	22.0	-35bp
Profit from associate	-6	-5	-7	-23	-13	0	0	0	-50	-13	0.0	
PAT	415	641	388	55	197	-110	-100	661	1,490	647	206	(4.6)
Y-o-Y Gr. (%)	4	96	13	-85	-53	-117	-126	1,112	4	-57	-50	
EPS (INR)	8.2	12.6	7.6	1.1	3.9	-2.2	-2.0	13.0	29.2	12.7	4.1	(4.6)
Total volumes (INR t)	28.7	35.9	40.7	42.0	51.8	54.1	56.5	59.0	147.3	221.4	51.3	1.0
Q-o-Q Gr. (%)	9.8	25.4	13.4	3.0	23.4	4.5	4.5	4.4			22.2	
Y-o-Y Gr. (%)	49.6	71.2	89.0	60.7	80.7	50.5	38.7	40.6	67.7	50.3	79.0	

Key takeaways from the management commentary

Software transition

- The non-completion of necessary audits and other compliances delayed the software transition.
- EOD and BOD calculate several obligations, margins, and some file processing obligations to members. Some EOD and BOD issues cropped up and fixing of these issues has been done by the company. Now, MCX has kept pre-EOD checks as a preventive measure.
- Though the mocks were not conducted with members in the last month, internal mocks had been conducted (though not exposed to the member brokers). In Aug'23, MCX plans to conduct mock runs for member brokers.
- Earlier the audits were done as a parallel activity but now the systems are audited sequentially. The target is to Go Live early. The audit process is expected to take three weeks to complete.
- MCX plans to introduce more options contract once the software transition is completed.
- Going ahead for any additional feature that the new software or Clearing Corporation would require, the company would propose the same to TCS to add or will float an RFP for each of the new features or any addition to be done to the existing feature.

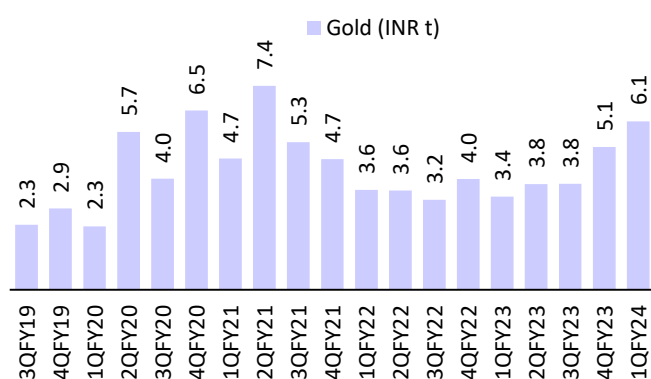
Business

- The total transaction charges for the quarter were INR1.2b, of which 50% was constituted by options.
- FPI has already started trading on the platform and the volumes have been increasing MoM (though not material compared to total volumes).
- The total number of UCCs (in the retail segment) was 0.39m in Jun'23 vs. 0.35m in Mar'23.
- Peak margin regulations were one of the reasons for the decline in futures volumes. Additional margins are imposed on futures contracts and hence there is a shift to the options contracts. This resulted in more contribution to SGF.
- MCX has two slab rate charges for options volumes: a) INR50 for a turnover upto 50m and b) INR40 for a turnover above 50m.
- Because of the delays, the licensing cost of the third-party will go up. This cost will be capitalized until MCX goes live with new software.
- In order to get tax benefits, the equipment was depreciated fully in 4QFY23 and hence, there was a sequential decline in depreciation.
- There are no approvals for electricity derivatives contracts; new contracts would only be launched in the new system.
- Mini contracts have not contributed much to the overall volumes. Nickle contract lost liquidity on account of LME. MCX is promoting mini contracts to different stakeholders including MSME's for the purpose of hedging.
- MCX had ~INR9b in cash & investments on the books. ~INR7b has been invested for a longer term instrument (amortized cost method) with yields at ~7.7%.
- Once the necessary approvals are taken, the new CTO is expected to join the company. MCX has decided to have two senior positions at tech level – the CTO (Chief Tech. Officer) and the CDO (Chief Digital Officer).

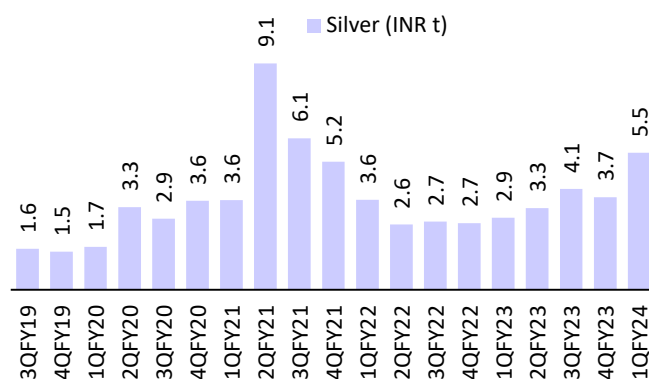
Exhibit 1: Volume-wise performance

	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24
Volumes (INR b)										
Agro Commodities	389	383	269	286	183	118	42	41	11	16
Base Metals	4,467	4,427	3,743	3,544	3,376	2,131	2,643	2,639	2,067	1,400
Bullion	10,228	8,099	6,844	6,677	7,417	7,013	7,863	8,892	9,752	12,477
Energy	5,479	6,040	9,944	10,798	14,926	19,322	25,334	29,121	30,086	37,856
Index	207	206	200	252	201	72	62	54	39	35
Total	20,769	19,155	21,001	21,558	26,104	28,655	35,944	40,748	41,954	51,783
Mix (%)										
Agro Commodities	2	2	1	1	1	0	0	0	0	0
Base Metals	22	23	18	16	13	7	7	6	5	3
Bullion	49	42	33	31	28	24	22	22	23	24
Energy	26	32	47	50	57	67	70	71	72	73
Index	1	1	1	1	1	0	0	0	0	0
YoY Growth (%)										
Agro Commodities	18	171	35	2	(53)	-69	(85)	(86)	(94)	-86
Base Metals	36	86	(17)	(18)	(24)	-52	(29)	(26)	(39)	-34
Bullion	2	-3	(59)	(42)	(27)	-13	15	33	31	78
Energy	(53)	66	126	108	172	220	155	170	102	96
Index	-	0	173	23	(3)	-65	(69)	(78)	(81)	-51
Total	(18)	32	(19)	1	26	50	71	89	61	81
QoQ Growth (%)										
Agro Commodities	39	-1	(30)	6	(36)	-36	(65)	(1)	(74)	52
Base Metals	3	-1	(15)	(5)	(5)	-37	24	(0)	(22)	-32
Bullion	(10)	-21	(15)	(2)	11	-5	12	13	10	28
Energy	5	10	65	9	38	29	31	15	3	26
Index	1	0	(3)	26	(20)	-64	(14)	(12)	(29)	-9
Total	(3)	-8	10	3	21	10	25	13	3	23
FUTCOM	19,841	17,733	16,826	15,710	16,412	16,078	15,484	15,476	12,986	13,313
FUTIDX	207	206	200	252	201	72	62	54	39	35
OPTFUT	720	1,216	3,975	5,596	9,491	12,505	20,398	25,218	28,930	38,435
Total	20,769	19,155	21,001	21,558	26,104	28,655	35,944	40,748	41,954	51,783
Mix (%)										
FUTCOM	96	93	80	73	63	56	43	38	31	26
FUTIDX	1	1	1	1	1	0	0	0	0	0
OPTFUT	3	6	19	26	36	44	57	62	69	74
YoY Growth (%)										
FUTCOM	(18)	26	(33)	(24)	(17)	-9	(8)	(1)	(21)	-17
FUTIDX	N.A	N.A	173	23	(3)	-65	(69)	(78)	(81)	-51
OPTFUT	(41)	206	425	1,017	1,217	929	413	351	205	207
Total	(18)	32	(19)	1	26	50	71	89	61	81
QoQ Growth (%)										
FUTCOM	(4)	-11	(5)	(7)	4	-2	(4)	(0)	(16)	3
FUTIDX	1	0	(3)	26	(20)	-64	(14)	(12)	(29)	-9
OPTFUT	44	69	227	41	70	32	63	24	15	33
Total	(3)	-8	10	3	21	10	25	13	3	23

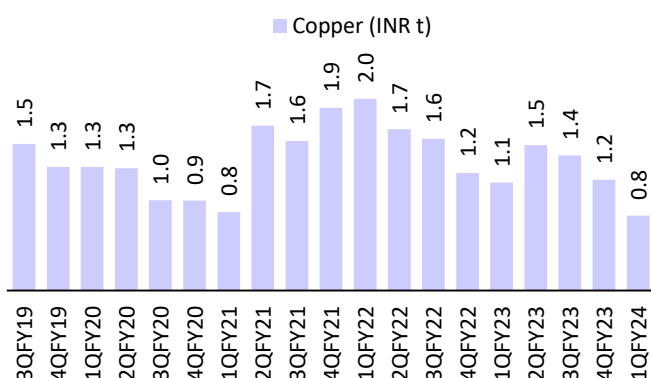
Source: Company, MOFSL

Exhibit 2: Gold volumes improved (INR t)

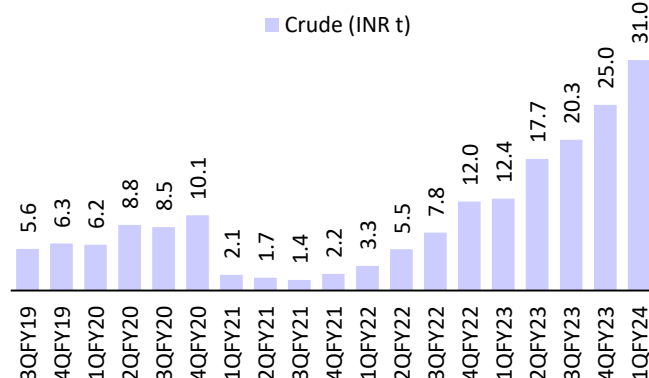
Source: Company, MOFSL

Exhibit 3: Silver volumes declined (INR t)

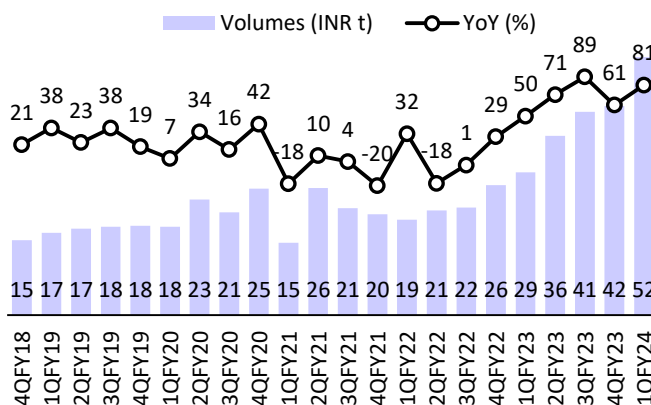
Source: Company, MOFSL

Exhibit 4: Copper volumes declined (INR t)

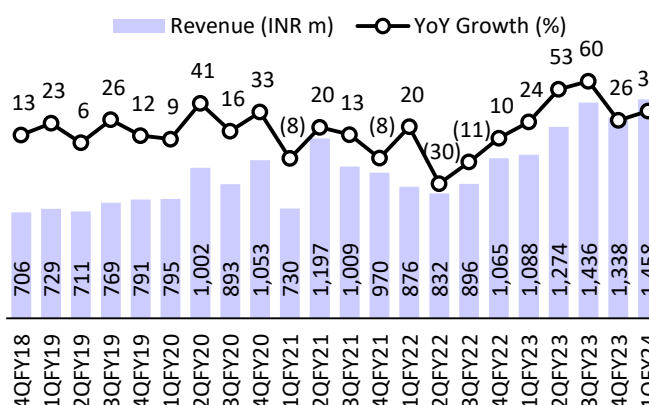
Source: Company, MOFSL

Exhibit 5: Crude oil volumes strong (INR t)

Source: Company, MOFSL

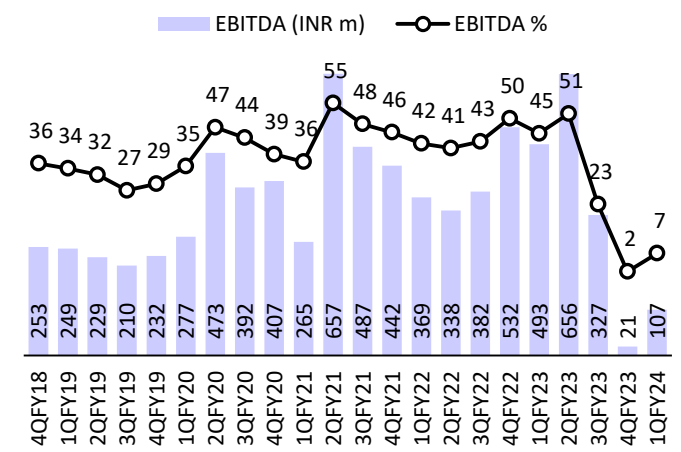
Exhibit 6: Volumes sustained led by the options segment...

Source: MOFSL, Company

Exhibit 7: ...translating into revenue growth of 34% YoY

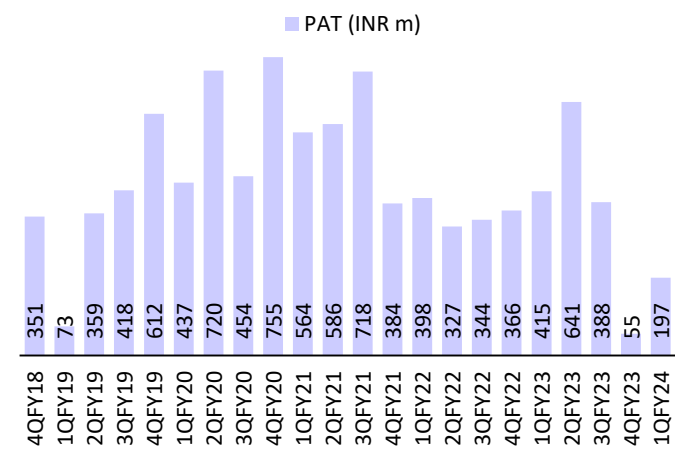
Source: MOFSL, Company

Exhibit 8: Significant margin contraction



Source: MOFSL, Company

Exhibit 9: Trend in PAT (INR m)



Source: MOFSL, Company

Exhibit 10: Revisions to our estimates

Change in Estimates	Revised		Earlier		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Volumes (INR t)	221	241	172	188	28.9	28.1
Volume growth (%)	50.3	9.0	16.3	9.6	34.0	(0.7)
Revenue (INR m)	5,945	6,449	5,878	6,411	1.1	0.6
EBITDA margin (%)	7.0	56.5	47.2	57.0	-4020bp	-50bp
EPS (INR)	14.6	61.5	49.3	62.3	(70.4)	(1.3)

Source: MOFSL

Financials and valuations

Income statement

(INR m)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Sales	2,594	2,598	3,001	3,742	3,906	3,668	5,135	5,945	6,449
Change (%)	10	0	15	25	4	(6)	40	16	8
Cost of Services	1,071	1,174	1,338	1,463	1,388	1,440	2,880	4,658	1,805
SG&A Expenses	723	679	743	730	667	607	759	872	1,003
Provisions									
EBITDA	801	745	920	1,549	1,851	1,621	1,497	415	3,641
% of Net Sales	31	29	31	41	47	44	29	7	56
Depreciation	186	167	154	182	221	227	216	280	455
EBIT	614.9	578.3	765.5	1,367.1	1,630.7	1,394.4	1,281.0	135	3,186
Interest	2	-	-	2	2	3	2	2	2
Other Income	1,164	884	986	1,289	1,038	665	677	822	838
EO Item (net)	-	-	238	-	-	204	-	-	-
PBT	1,777	1,462	1,513	2,654	2,667	1,853	1,956	955	4,022
Tax	512	377	75	389	415	407	416	210	885
Rate (%)	29	26	5	15	16	22	21	22	22
PAT before MI	1,266	1,085	1,439	2,266	2,251	1,446	1,540	745	3,137
Minority Interest	-	-	(24)	(99)	(1)	12	50	-	-
PAT	1,266	1,085	1,462	2,365	2,252	1,435	1,490	745	3,137
Extraordinary									
Net Income	1,266	1,085	1,462	2,365	2,252	1,435	1,490	745	3,137
Change (%)	198	(14)	35	62	(5)	(36)	4	(50)	321

Balance Sheet

(INR m)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Share Capital	510	510	510	510	510	510	510	510	510
Reserves	13,078	13,253	11,999	13,084	13,672	13,671	14,283	14,432	15,059
Net Worth	13,588	13,763	12,509	13,594	14,182	14,181	14,793	14,942	15,569
SGF	1,705	1,806	3,298	4,098	4,692	5,256	5,898	5,898	5,898
Loan & other long term liab.	420	408	414	546	576	658	561	572	584
Capital Employed	15,713	15,977	16,221	18,237	19,451	20,095	21,252	21,412	22,051
Net Block	1,521	1,618	1,770	1,820	1,857	2,513	3,172	3,506	3,956
CWIP	2	23	0	5	12	434	519	519	519
Other LT Assets	117	96	166	149	185	3,018	2,543	2,576	2,610
Investments	8,448	7,527	6,811	10,508	11,885	4,440	8,441	8,610	8,782
Curr. Assets	8,725	10,518	12,175	15,028	11,283	18,225	16,259	16,063	16,229
Current Investments	7,626	8,997	5,824	6,618	5,985	7,135	2,024	2,064	2,106
Debtors	28	63	60	65	90	115	146	149	152
Cash & Bank Balance	193	597	5,346	7,593	4,261	9,755	11,779	11,493	11,567
Loans & Advances	4	3	2	2	1	222	1,328	1,354	1,381
Other Current Assets	875	859	943	751	948	998	983	1,003	1,023
Current Liab. & Prov	2,945	3,636	4,524	9,109	5,575	7,911	8,976	9,156	9,339
Net Current Assets	5,780	6,882	7,651	5,919	5,709	10,314	7,283	6,908	6,890
Application of Funds	15,869	16,146	16,397	18,401	19,647	20,719	21,958	22,118	22,757

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Basic (INR)									
EPS	24.8	21.3	28.7	46.4	44.2	28.1	29.2	14.6	61.5
Cash EPS	29.5	25.4	31.9	50.4	49.2	33.6	34.3	21.3	72.4
Book Value	266.4	269.9	245.3	266.6	278.1	278.1	290.1	293.0	305.3
DPS	15.0	17.0	20.0	30.0	27.7	30.0	19.1	35.0	35.0
Payout %	74.3	98.2	87.1	83.0	77.1	129.7	63.2	80.0	80.0
Valuation (x)									
P/E	65.7	76.6	56.9	35.2	36.9	58.0	55.8	111.7	26.5
Cash P/E	55.3	64.2	51.2	32.3	33.2	48.6	47.5	76.5	22.5
Price/Book Value	6.1	6.0	6.6	6.1	5.9	5.9	5.6	5.6	5.3
Dividend Yield (%)	0.9	1.0	1.2	1.8	1.7	1.8	1.2	2.1	2.1
Profitability Ratios (%)									
RoE	9.9	7.9	11.1	18.1	16.2	10.1	10.3	5.0	20.6

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Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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