Multi Commodity Exchange | MCX IN

Price: ₹836

UR

JM FINANCIAL

ADV stabilizes while EBITDA margin improves sequentially

Multi Commodity Exchange (MCX) reported 2Q15 net profit of ₹294mn (up 9% YoY/26% QoQ) while volume for 2Q15 declined 39% YoY. Volumes have started to stabilize (up 6% QoQ) due to increase in volatility of commodity prices. During the quarter, renegotiated technology supply contract with Financial Technologies was made applicable which resulted in reduction in software charges (as well as reduced duration of 10 years vs 33 years earlier). Market share remained stable at 82% while EBITDA margin stood at 26% in 2Q15 vs 15% in 1Q15 and 31% in 2Q14. Realization on volumes declined to 0.0033% vs 0.0045% in 1Q15. Currently our TP and recommendation is UR.

- **Volumes declined 39% YoY to ₹12.5tn; market share remained stable at 82% in 2Q15:** Volumes for 2Q15 declined 39% YoY however was up 6% QoQ to ₹12.5tn. ADV stood at ₹192bn in 2Q15 vs ₹265bn in 2Q14 and ₹187bn in 1Q15. Volumes have started to stabilize on the back of low base as well as increase in volatility of commodity prices and the trend has continued in 3Q15. MCX reported market share of 82% in 2Q15 (vs 81% in 1Q15 and 86% in 2Q14). Volumes at NCDEX (second largest commodity exchange) stood at ₹2.5tn in 2Q15 (down 7% YoY/flat sequentially). MCX is trying to reduce reliance on 3 key commodities gold, silver and crude oil which now constitute 24% of CY14 YTD volume (vs 28% in CY13), 19% (22%), 20% (20%) respectively. Natural gas contributed 10% of CY14YTD volumes (vs 6% in CY13).

- **Renegotiated technology supply contract with FTIL resulted in decline in software support charges:** MCX renegotiated technology supply contract with Financial Technologies (India) Limited (FTIL) applicable from 1st July 2014 onwards. As per new contract software charges were reduced to ₹15mn per month (vs ₹20mn earlier) and transaction-based charges were lowered to 10.3% (vs 12.5% earlier). The agreement period was lowered from 33 years to 10 years and will expire in October 2022. Consequently software support charges for 2Q15 declined 24% QoQ to ₹87mn.

- **EBITDA margin stood at 26% in 2Q15 (vs 15% in 1Q15 and 31% in 2Q14):** Realization on volumes declined to 0.0033% (₹3.27 per ₹0.1mn of turnover) vs 0.0045% (vs ₹4.55 per ₹0.1mn of turnover in 1Q15). Transaction charges (calculated) declined 56% YoY/24% QoQ while total income was down 27% YoY to ₹815mn. Other income stood at ₹267mn in 2Q15 vs ₹240mn in 2Q14 and ₹243mn in 1Q15. EBITDA margin stood at 26% in 2Q15 vs 15% in 1Q15 and 31% in 2Q14. Tax rate was at 20% for 2Q15 vs effective tax rate of 27% in FY14.

- **Investment of ₹1.4bn in MCX-SX and MCX-SX CCL is valued at cost:** The company has investment of 27.1mn equity shares and 634mn of warrants in MCX Stock Exchange Limited and 6.5mn equity shares in MCX-SX Clearing Corporation Limited amounting to ₹1.4bn (currently valued at cost).

- **TP and recommendation is Under Review:** Our target price as well as recommendation for MCX is under review. We will release detailed note post interaction with the management.

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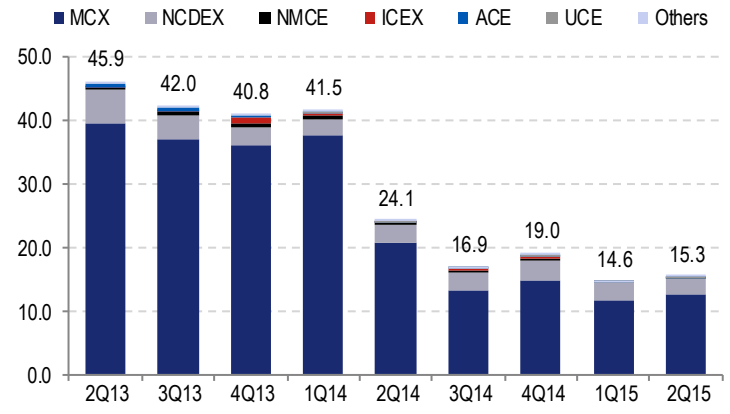
MCX – 2Q15 trends

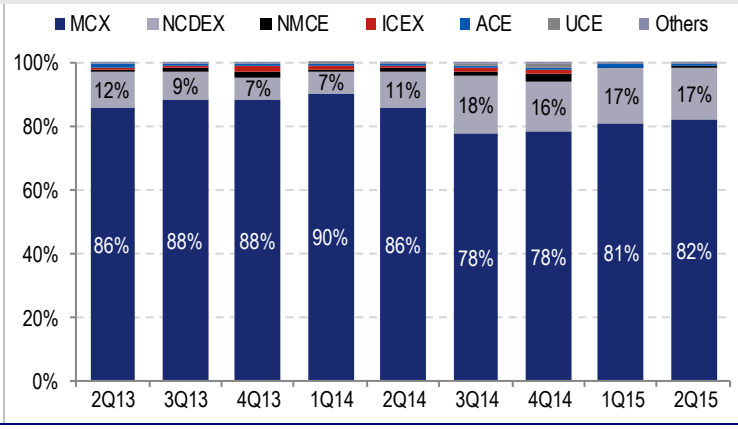
Exhibit 1. MCX – Results summary

Earnings Table (₹ mn)	Q2FY14	Q1FY15	Q2FY15	YoY (%)	QoQ (%)
Income from Operations	**812**	**474**	**498**	**-38.7%**	**5.1%**
Other Operating Income	68	42	50	-26.1%	19.3%
Other Income	240	243	267	11.3%	9.8%
Total Income	**1,120**	**759**	**815**	**-27.2%**	**7.4%**
Employee Cost	78	83	92	**17.4%**	**10.3%**
Other Admin Exps.	537	270	267	-50.3%	-1.4%
Software support charges	157	115	87	-44.5%	-24.3%
Total Operating Expenses	**772**	**469**	**446**	**-42.2%**	**-4.9%**
Operating Profit (PPP)	**348**	**290**	**369**	**6.0%**	**27.4%**
Provisions & Write Offs	0	0	0	NM	NM
PBT	348	290	369	6.0%	27.4%
Tax	78	56	75	-2.9%	35.3%
PAT (Pre-Extraordinaries)	**270**	**234**	**294**	**8.6%**	**25.5%**
Extraordinaries (Net of Tax)	0	0	0	NA	NA
Reported Profit	**270**	**234**	**294**	**8.6%**	**25.5%**
EBITDA (₹ mn)	**251**	**72**	**130**	**-48.1%**	**79.9%**
EBITDA Margin (%)	**30.9%**	**15.3%**	**26.1%**	**-4.8%**	**10.9%**
ADV (₹ bn)	**265**	**187**	**192**	**-27.4%**	**3.0%**
Total Volume (₹ bn)	**20,677**	**11,768**	**12,512**	**-39.5%**	**6.3%**
Ratios Analysis (%)					
Cost to Income (%)	0.0%	0.0%	0.0%	0.00%	0.00%
Effecitve Tax Rate (%)	22%	19%	20%	-2%	1%

Source: Company, JM Financial.

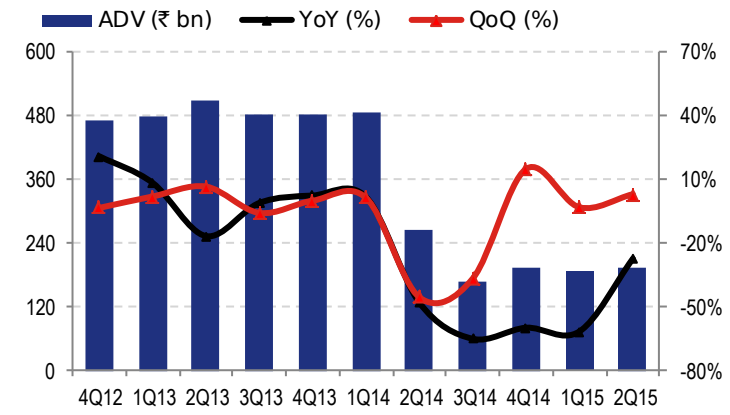
Exhibit 2. MCX: Trend in turnover on commodity exchanges and market share trends

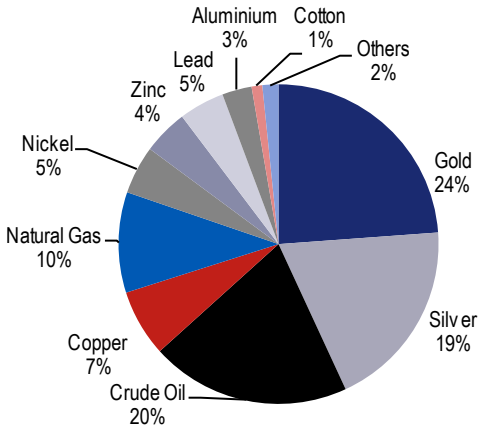




Source: Company, JM Financial.

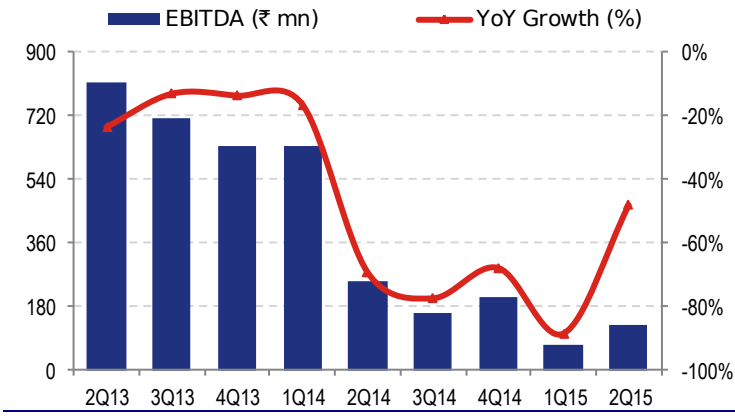
Exhibit 3. MCX: Trend in ADV (₹ bn) and volume composition

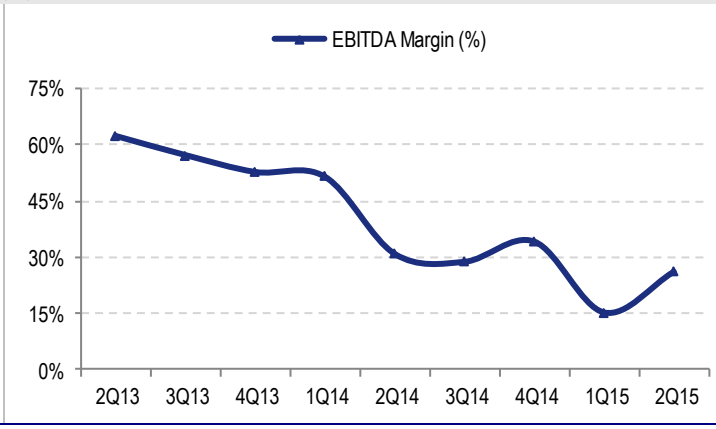




Source: Company, JM Financial.

Exhibit 4. MCX: Trends in EBITDA (₹ mn) and EBITDA margin (%)





Source: Company, JM Financial.

APPENDIX I

JM Financial Institutional Securities Limited

(Formerly known as JM Financial Institutional Securities Private Limited)

Corporate Identity Number: U65192MH1995PLC092522
Member of BSE Ltd. and National Stock Exchange of India Ltd. and MCX Stock Exchange Ltd.
SEBI Registration Nos.: BSE - INZ010012532, NSE - INZ230012536 and MCX-SX - INZ260012539
Registered Office: 7th Floor, Cnergy, Appasaheb Marathe Marg, Prabhadevi, Mumbai 400 025, India.
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