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OPPORTUNITY IN AN EMERGING SPACE

MCX will offer investors a unique chance to participate in the growth of exchanges in the commodity and forex segments

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Multi Commodity Exchange of India (MCX) last weekend filed a draft prospectus with the Securities and Exchange Bureau of India (Sebi) for its IPO. If it sails through, the company would be the first exchange in India to be listed; offering investors an opportunity to participate in the growth of exchanges, particularly in the commodity and foreign exchange (forex) trading space, still in its nascent stage.

In terms of valuations, globally, there are many exchanges listed and currently their stocks trade at an average of 24 times their trailing earnings (*see table*). If one applies a similar multiple, the valuations of MCX works out to be Rs 5,300 crore based on 2009-10 profits, not significantly different from the company's earlier estimated valuation of Rs 4,500-5,000 crore. Analysts say MCX could manage to attract a premium despite its smaller size, as growth is expected to be higher in the case of MCX and some of its businesses are in the developing stages. Meanwhile, its track record — volumes have doubled over the last two years and the market share is inching up, provide some confidence.

The IPO will be an offer for sale, wherein existing promoters (Financial Technologies) and other investors plan to sell a part of their existing holding in MCX. At the above assumed valuations, MCX's per share value works out to be ₹1,040 and issue size could be over ₹670 crore.

The news of listing of MCX has also propped up the share price of Financial Technologies (FT), which holds 31.18 per cent stake in the company. FT's stock has gained 16 per cent in the last one month. Assuming the above valuations and applying a 20 per cent holding company discount, the value of Financial Technologies' stake in MCX works out to be ₹290 a share, almost one-third of its current trading prices at ₹919.



Lamon Rutten, managing director and chief executive officer of Multi Commodity Exchange of India. PHOTO: BLOOMBERG

PEER VALUATIONS

	Country	Mkt Cap ($ bln)	P/B (x)	P/E (x)
BM & FBOVESPA SA	Brazil	15.6	1.3	21.6
Deutsche Boerse AG	German	14.4	3.3	23.5
NYSE Euronext	US	10.3	1.5	18.9
Intercontinental Exchange Inc	US	8.8	3.2	21.2
ASX ltd	Australia	6.3	2.0	18.2
Singapore Exchange Ltd	Singapore	8.6	11.6	27.7
Hong Kong Exchanges & Clear	Hong Kong	195	22.1	38.1
Average			6.4	24.2

Source: Bloomberg

MCX: KEY NUMBERS

In ₹ crore	FY08	FY09	FY10	FY11 *
Total income	173.7	365.8	493.7	202.2
Net profit	105.3	158.8	221.0	74.9
Value of future contracts traded (₹ billion)	31,260	45,881	63,933	43,343
Markets share (%)	76.9	87.4	82.3	83.3

* Till September 2010 *Source: Capitaline, Company*

LEADING THE INDUSTRY

MCX, which was incorporated in 2002, got the approval from the government for a nationwide online trading, clearing and settlement operations of commodities futures transactions in the following year. With the advantages of access to technology from group company (FT) and being a first mover, the company has been able to grow fast and sustain its leadership with a market share of about 83 per cent.

The total value of commodity futures contracts traded on its exchange has more than doubled from ₹31,25,959 crore in 2008-09 to ₹68,89,318 crore in 2009-10. This could also be attributed to growing awareness and trading of commodities in India. By the end of December, the company had 2,107 members nationwide with more than 180,000 terminals. The company offers trading in about 43 commodity futures of different contract specifications, from a diverse range of asset classes including bullion, ferrous and non-ferrous metals, energy, weather and agriculture. The top traded commodities are crude oil, silver, gold and copper.

GROWTH DRIVERS

Apart from the core commodity trading business, the company also holds stake in other group companies, which are operating in equally high-potential market segments. For instance, MCX SX, where the company holds five per cent stake and 63.42 crore (634.2 million) warrants, is a stock exchange recognised by Sebi and has approval for currency derivatives trading, a fast growing segment . MCX SX reported a four-fold jump in revenues in 2009-10 at ₹29.52 crore compared to ₹7.58 crore in the year ago period. Likewise, MCX has formed joint ventures and has interest in several other companies in the domestic and international markets in the exchange business. In the long run, these could add to its overall value and performance. To promote its core business, the company is now looking to increase the number of participants by introducing new products on its exchanges and expanding into new geographies.