NEW ISSUES

Great expectations



SANJAY BORADE

The MCX IPO could herald the revival of primary market

The Multi-commodities Exchange (MCX) will soon make history. The exchange is making its debut in the capital market in the third week of February, where promoters are divesting part of their holdings to the public investors. For one, this offer for sale could herald a signal of revival of the primary market. Though the final size of the issue is yet unknown, the price band is ₹860-₹1,032 per equity share of face value ₹10 for its initial public offering through an offer for sale. Nonetheless, the listing of the MCX means huge windfall for its promoters including state-run banks like the State Bank of India (SBI), Corporation Bank and Bank of Baroda (BoB). In 2004, these PSU banks invested ₹3.94 crore to pick up 9.69 per cent stake in MCX. The banks will partly encash their holdings by selling 4.83 per cent stake in the public issue.

Main promoter Financial Technologies (FT) will also be participating in the offer for sale to scale down its holding stake in the commodity exchange. The Forward Market Commission (FMC), the commodity market regulator, has capped promoter stake of commodity exchange at 26 per cent. Financial Technologies will reduce its stake from 31 per cent to 26 per cent through the issue. A few other investors – GLC Financials, Alexandra Mauritius and ICICI Lombard General Insurance – will also be offering their shares in the public issue. The company is not issuing any fresh shares in the public issue. That could explain the sharp rise in FT stock in the bourses. Over the past one month, the FT stock has gained over 40 per cent to touch a high of ₹730.

"The MCX issue should evoke a good response from both the institutional and retail investors as it has the novelty of being the first IPO of an exchange in India," states an analyst report. "It would also set the benchmark for valuation for future issues by other exchanges, both commodities and securities."

Though MCX's IPO plans had hit roadblocks in the past, the market is expecting it to go through this time. Even though the IPO market is in the doldrums, several exchanges in India including the Bombay Stock Exchange are also planning to go public. Though globally, shares of several stock and commodity exchanges are listed and publicly traded, not a single exchange has managed to be listed in India.

Internationally listed exchanges are traded at an average price to earnings (PE) multiple ranging from 15 to 48 times. Most analysts are valuing MCX at about 20 times its FY12 earning, while some of the international exchanges like Hong Kong and Dubai command higher valuation. While Hong Kong Stock Exchange stock is ruling at 28.3 times its FY12 earnings, Dubai Financial Market is at 48 times and Bursa Malaysia at 22.6. Many analysts are expecting that MCX could fetch a premium because of its growth potential.

Launched in 2003, the turnover on the Indian commodity futures exchanges has grown 120 times. It's now the fifth-largest commodity exchange in the world in terms of number of futures contract traded, according to the Futures Industry Association volume survey. It is also number one exchange in the world for silver and second largest in gold, copper and natural gas.

"But further growth will largely depend on the expansion of markets through new products and more participation. This requires changes in the rules," says a commodity market expert. An amendment to the Forward Contract Regulation Act 1952 is awaiting clearance that would open up trading in weather derivatives, freight and intangible commodities futures and also trading of options contracts on commodities.

Currently, trading is limited to large corporates, trading houses and high networth individuals. There should be more retail and institutional participation if the market has to grow and also more help farmers to hedge in the commodity market through option contracts. MCX has also been investing in new ventures, both in India and abroad, some of which could yield good returns.

Another nagging issue is the group's tussle with the market regulator, the Securities and Exchange Board of India (SEBI) over the MCX-SX licence. If MCX management receives a favourable decree from the Bombay High Court, it would be in a position to introduce equity-linked product on its equity exchange arm, which is a big plus for the company.

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