



### Issue at a Glance

<b>Issue Summary</b>	
<b>Total Issue of Shares (Lk)</b>	<b>64,27,378</b>
<b>Employee Reservation (Lk)</b>	<b>250,000</b>
<b>QIB Investors (Lk)</b>	<b>3,088,689</b>
<b>Non -Institutional Investors (Lk)</b>	<b>926,606</b>
<b>Retail Investors (Lk)</b>	<b>2,162,083</b>
<b>Issue opens on</b>	<b>Feb 22, 2012</b>
<b>Issue closes on</b>	<b>Feb 24,2012</b>
<b>Price Band (Rs.)</b>	<b>860-1032</b>
<b>Lot size (No. of shares) and multiple</b>	<b>6</b>
<b>Face Value (Rs)</b>	<b>10</b>
<b>Issue Size (Rs in Cr.)</b>	<b>552.7-663.3 Cr</b>
<b>Equity Shares outstanding prior to the Issue</b>	<b>50,998,369</b>
<b>Equity Shares outstanding after the Issue</b>	<b>50,998,369</b>

### Shareholding Pattern

	<b>Pre-Issue (%)</b>	<b>Post- Issue (%)</b>
<b>Promoters and Promoter Group Holdings</b>	<b>31.18</b>	<b>26.00</b>
<b>Public</b>	<b>68.82</b>	<b>74</b>
<b>Total Share Capital</b>	<b>100</b>	<b>100</b>

CRISIL has assigned an IPO Grade 5 to MCX'S IPO indicating company has '**Strong Fundamentals**'.



## MCX IPO HIGHLIGHTS

- Multi Commodity Exchange of India Limited (MCX) has emerged as the market leader in India's commodities future industry with 87% market share. MCX will be the **FIRST OF ITS KIND IPO** to hit the markets and will act as a **BENCHMARK** for other exchanges planning for IPO's
  
- MCX is the 5th largest commodity futures exchange globally, among all the commodity exchanges considered in the Futures Industry Association (FIA) survey, in terms of the number of contracts traded for 1H CY 2011.
  
- Globally, MCX is the largest silver exchange; the second largest gold, copper and natural gas exchange; and the third largest crude oil exchange in terms of the number of contracts traded in each of these commodities (in CY10 and 6 months ended June 30, 2011).
  
- As of Dec 2011, MCX had 2,153 members nationwide with more than 296,000 terminals including CTCL spread over 1,572 cities and towns in India. Company will continue to pursue geographic expansion, product diversification and enhance marketing and awareness in order to drive its volume growth going forward.
  
- The number of products MCX offers on its Exchange has grown from 15 as of Mar 04 to 49 as of Dec 11. MCX continues to pursue introduction of variety of new commodity futures contracts on exchange which will open up new avenues of business growth for the company.
  
- Regulatory reforms in form of granting permission for trading in options & indices and approval to foreign as well as domestic institutions & banks to participate in commodity futures trading (which is currently prohibited) can be the next big trigger for growth in exchange volumes and consequently on profitability of exchanges like MCX.
  
- Despite the global headwinds, MCX's has reported stellar results over past 3 years. Operating income has grown at a CAGR of 32%, EBITDA at 31.2% and adjusted PAT at 30.1%, over FY09-11.



## Investment Rationale

### ➤ Leadership position in the commodity futures industry

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. Based on the comparison of the trading volumes of MCX with the leading global commodity futures exchanges in the world, for the calendar year 2010 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. We believe that the leadership position in these products gives MCX a competitive advantage.

Among the national commodities exchanges in India, the market share based on the total value of commodities traded in futures markets for 9MFY12 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).

### ➤ Product and Service Innovation

Since inception, MCX has introduced a variety of new commodity futures contracts on the exchange. The number of products offered has grown from 15 as of March 31, 2004 to 49 as of December 31, 2011. We believe that MCX will continue to focus on offering futures trading in commodities which are significant in the Indian and global contexts. Moreover, it plans to increase product portfolio through research and development efforts and through alliances with other exchanges. MCX claim to offer more customized products and services to attract a broader base of 54 participants.

### ➤ Scalable technology platforms

The technology platform and business model of MCX is highly scalable and have the potential to generate better margins at greater volumes. It has made significant investments in developing fixed operating infrastructure, including technology systems, to support anticipated growth and increase in the demand for products. The current technology infrastructure is sufficient to handle daily trading volumes of up to 10,000,000 trades a day, and have handled a high of 1,867,612 trades in a day. We believe that the overall business model is highly scalable and that it offers potential for economic growth of MCX's business with limited incremental costs.

### ➤ Technology infrastructure- Backbone of MCX

The technology infrastructure is the foundation of MCX and is a key factor in the development of MCX. The electronic platform is supported by strong 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.



➤ **Expand Market Presence and Increase Participants**

As of December 31, 2011, the company had 2,153 members nationwide with more than 296,000 terminals including CTCL spread over 1,572 cities and towns in India. Management intends to continue to increase the number of participants by introducing new products on the Exchange, by expanding to more geographical areas and by efforts to disseminate knowledge and information about the commodity futures industry. Going forward, Management plans to establish and grow presence in additional regions across India.

➤ **Unique business model**

Global exchange models are high annuity, low capex and high dividend yielding companies. Global exchanges pay as high as 70-80% dividend. MCX on average has a dividend history of 25%. We believe that going forward the company will have a higher dividend payout ratio.

➤ **Strong earnings growth**

MCX's sources of operating income are transaction fees, membership admission fees, annual subscription fees and terminal charges. MCX's operating revenue has grown at a CAGR of 32% over FY09-11, with major growth coming through transaction fees, which grew at a CAGR of 37% over the same period. EBITDA margin improved to 70.1% in 9MFY12 from 53.6% in FY09, on account of operating leverage – most of MCX's operating costs are fixed and semi-fixed in nature. Return on equity decreased marginally from 24.4% in FY09 to 22.8% in FY11. We expect MCX to be able to sustain its profitability going forward due to slower growth in operating costs vs revenue growth.

➤ **Entry barrier**

MCX is a leading commodity futures exchange in India in terms of value of commodity futures contracts traded in metals, energy and certain agricultural commodities. Over the years, MCX has established itself as a number one player in the India with a market share of more than 80%. Particularly in gold, crude oil, silver, copper and natural gas futures contracts MCX garners a market share of more than 95% over last 4-5 years. Thus, it has a strong competitive edge over its peers. This strong position of MCX also acts as an entry barrier for newer players. Further, the stringent regulatory rules and framework makes it very difficult for new players to enter this market.

**Financials...****Consolidated Summary Statement of MCX INDIA LTD**

	<b>FY 2009</b>	<b>FY 2010</b>	<b>FY2011</b>	<b>9M FY2012</b>
Income				
<b>Income from operations</b>	212.40	287.4	368.9	402.3
<b>Other Income</b>	80.6	69.4	78.7	72.2
<b>TOTAL</b>	<b>293.0</b>	<b>356.8</b>	<b>447.6</b>	<b>474.5</b>
Expenditure				
<b>Employee cost</b>	25	22	26	20.1
<b>Administration &amp; other exp</b>	111	124	151	121.7
<b>TOTAL EXPENDITURE</b>	136	146	177	141.8
<b>EBITDA</b>	<b>157.00</b>	<b>210.8</b>	<b>270.6</b>	<b>332.7</b>
<b>Depreciation</b>	20	25	25	20.4
<b>Interest and Finance charges</b>	0.2	0	0	0
Exceptional Income	<b>72.8</b>	<b>136.9</b>	-	-
<b>Profit before tax</b>	<b>209.7</b>	<b>322.7</b>	<b>245.6</b>	<b>312.3</b>
Provision for Taxation (net)	46.7	100	71	88.3
<b>Deferred Tax (net)</b>	6	2	2	3
Net profit after tax	<b>157</b>	<b>221</b>	<b>173</b>	<b>221</b>
Prior period	<b>1</b>	<b>0</b>	<b>3</b>	<b>3</b>
Adjusted Profit After Extra-ordinary Items	<b>83.2</b>	<b>84</b>	<b>170</b>	<b>218</b>

(Source RHP)

**Consolidated Summary Statement of Balance Sheet MCX INDIA LTD**

	FY 2009	FY 2010	FY 2011	9M FY 2012
<b>Sources of funds</b>				
Equity capital	41	41	51	51
Reserves & surplus	473	671	807	1025
Amount Recoverable from MCX ESOP Trust	(22)	(17)	(11)	(4)
Settlement Guarantee Fund	2	2	2	2
<b>Total shareholders' funds</b>	<b>494</b>	<b>697</b>	<b>849</b>	<b>1074</b>
Deferred Tax Liabilities	9	11	13	16
<b>Total liabilities</b>	<b>503</b>	<b>708</b>	<b>862</b>	<b>1090</b>
<b>Application of funds</b>				
Gross block	259	268	291	310
Less: Accumulated depreciation	51	75	96	117
<b>Net block</b>	<b>208</b>	<b>193</b>	<b>195</b>	<b>193</b>
Capital work in progress (At Cost)	1	0	0	0
<b>Total Assets</b>	<b>209</b>	<b>193</b>	<b>195</b>	<b>193</b>
<b>Investments</b>				
<b>Current assets, loans &amp; advances</b>				
Sundry Debtors	27	30	49	49
Cash & bank balances	406	270	331	229
Other Current Assets	9	8	11	10
Loans & Advances	45	111	90	96
<b>Total current assets</b>	<b>487</b>	<b>419</b>	<b>481</b>	<b>384</b>
<b>Less: Current liabilities and provisions</b>				
Current liabilities	663	521	638	583
<b>Total assets</b>	<b>503</b>	<b>708</b>	<b>862</b>	<b>1090</b>

(Source RHP)



## ➤ RATIOS

PARTICULARS	FY 2009	FY 2010	FY 2011	9M FY12
Earnings per share	31.44	43.29	34.56	42.74
Net Asset value	96.8	136.63	166.45	210.58
Return on Net Worth	32.18%	31.69%	20.77%	20.29%

	Pre Dilution	Post Dilution
EPS – 31 <sup>ST</sup> DEC 11	56.98	56.98
P/E RATIO		
At Rs .860	15.09	15.09
At Rs .1032	18.11	18.11

## ➤ Peer Comparison:

The number of commodity exchanges in India has increased in recent years however they have not been able to make significant impact on MCX's market position. MCX continues to enjoy its leadership position

**Market Share based on turnover**

	MCX	NCDEX	NMCE	ICEX	ACE	OTHERS
FY09	87.4	10.2	1.2	0	0.2	1
FY10	82.3	11.8	2.9	1.8	0.1	1.1
FY11	82.4	11.8	1.8	3.2	0.3	0.5
9M FY12	87.3	9.4	0.9	1.4	0.7	0.3



➤ **Recommendation :**

MCX's Leadership position in the Indian Commodity Futures Market over past four years, with a share of ~82% of the overall traded turnover in FY11. The operating Income has grown at an CAGR of 32% from FY09-10 with Healthy Profitability.

We recommend the Investors to **“Subscribe”** to the issue. Short term investors can book profits on listing .While long term investors can continue to hold the stock for next 2-3 years.

We **“Recommend Long Term Investors”** to Invest and reap the benefits of Wealth Creation.



arm research

outperform

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