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Mumbai

CRISIL Research assigns IPO grade '5/5' to Multi Commodity Exchange of India Ltd

CRISIL Research has reaffirmed CRISIL IPO grade of '5/5' (pronounced 'five on five') to the proposed initial public offer (IPO) of Multi Commodity Exchange of India Ltd (MCX). (CRISIL Research has undertaken a fresh grading exercise for MCX as the grade assigned to the company on June 15, 2011 had expired.) This grade indicates that the fundamentals of the IPO are 'strong' relative to other listed equity securities in India. However, this grade is not an opinion on whether the issue price is appropriate in relation to the issue fundamentals. The grade is not a recommendation to buy, sell or hold the graded instrument, or a comment on the graded instrument's future market price or its suitability for a particular investor.

The grade reflects MCX's leadership position in the Indian commodity futures market over the past four years, with ~82% share of the overall traded turnover in FY11. It is a leader in the trading of bullion, crude oil, copper and natural gas (accounting for ~85% of MCX's traded turnover in FY11). Historically, metals and energy commodities have also witnessed lower regulatory intervention. With a strong technology-backed trading platform and infrastructure (supplied by its promoter Financial Technologies India Ltd, or FTIL), MCX has been able to provide high liquidity and low impact cost of transactions – key criteria for the success of any exchange. The grade also draws support from MCX's strong management team and its ability to attract talented and experienced personnel. Further, while new commodity exchanges have been set up over the past few years, they have not been able to nudge MCX from the top. However, given the high profitability and cash-churning nature of the business, we expect competition to intensify in the future.

MCX's financial performance in the past three years indicates healthy revenue growth and profitability. Operating revenue has grown at 32% CAGR over FY09-11 with EBITDA margin and adjusted PAT margin averaging ~58% and ~37%, respectively. In the medium term, MCX's strong market position and continuous focus on product innovation will act as growth drivers. In the long term, the introduction of new instruments (like options) and participation by institutional players, once the necessary regulatory reforms take place, are likely to spur growth.

About the company and the issue

MCX was incorporated on April 19, 2002. It is promoted by FTIL with a pre-IPO stake of 31.18%. FTIL is a software developer and a technical service provider of automated electronic solutions for foreign exchange, commodities and equities. The proposed IPO is in the form of an offer for sale of 6.4 mn shares by the promoters and some of the investors. Subsequent to the IPO, the promoters' stake in the company will reduce to 26%.

Around 85% of MCX's traded turnover comprises metal and energy commodities, which are benchmarked to international prices. 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). It is also the sixth largest commodity exchange globally in CY10 and fifth largest during the six months ended June 30, 2011, in terms of the total number of contracts traded (Source: Futures Industry Association, websites of relevant exchanges).

About CRISIL IPO Grading

CRISIL IPO (Initial Public Offering) Grading is an opinion on the fundamentals of the graded issue that reflects CRISIL's independence and expertise. This opinion is expressed as a relative assessment in relation to other listed equity securities in India. The assessment is based on a grading exercise carried out by industry specialists from CRISIL Research. A CRISIL IPO Grade 5/5 indicates strong fundamentals and a CRISIL IPO Grade 1/5 indicates poor fundamentals. CRISIL IPO Grading reflects its assessment of the graded company's equity fundamentals as distinct from an assessment of debt fundamentals. A CRISIL IPO Grade should not be construed to mean a comment on the price of the graded security nor is it a recommendation to invest or not to invest in the graded security.

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