

MULTI COMMODITY EXCHANGE OF INDIA LTD-SUBSCRIBE

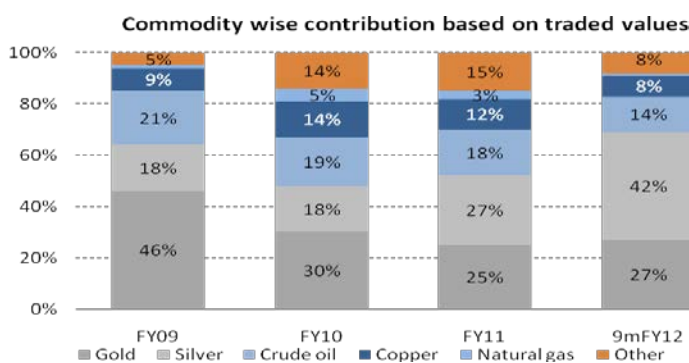
Issue Opens	Issue Closes
22th Feb'12	24th Feb'12

MCX is the leading commodities exchange in India based on value of commodity futures contracts traded. It is a de-mutualised exchange and received permanent recognition from the Government of India on September 26, 2003, to facilitate nationwide online trading, clearing and settlement operations of commodities futures transactions.

An Overview

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MCX is the fifth largest commodity futures exchange globally, among all the commodity exchanges, 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.



Source: RHP, Aриhant Research

As of December 31, 2011, MCX offered trading in 49 commodity futures based on contract specifications, from a diverse range of classes including bullion, ferrous and non-ferrous metals, energy and agriculture. As of December 31, 2011, MCX had 2,153 members on the Exchange platform, with over 296,000 terminals including CTCL spread over 1,572 cities and towns across India.

Grading

CRISIL IPO Grade: 5/5

Issue Summary

Price Band (Rs)	860	1032
Bid Lot	6	
Face Value	Rs.10	
Total no. of shares to be raised*	61.77 lakhs	61.77 lakhs

Pre-issue share capital	Rs 50.99crs	
Post-issue share capital	Rs 50.99 crs	Rs 50.99 crs
Issue Size(Rs cr)*	531	637
Post Issue Mkt Cap (Rs cr)	4385	5263
P/E on FY12#	15.1	18.1

* net of employee share , # annualised for 9mFY12 EPS

Issue Structure

Net Issue	No. of Shares	%
QIB's	3088689	48.1
Non Institutional	926607	14.4
Retail	2162082	33.6
Employees	250000	3.9
Total (lakhs)	64,27,378	100

Objects of the Issue

The main objective of the issue is to part fund SFEL's expansion plan.

To achieve benefits of listing in order to enhance brand name and provide liquidity to existing shareholders.

Investment Positives

- Largest commodity trading exchange – MCX is the largest future Commodities exchange based on value of commodity futures contract traded. MCX has market share of 87% in commodity exchange in India followed by NCDEX with a market share of ~10%. Other commodity exchange that includes NMCE, ICEX and ACE have combined market share of less than 3.5%. Globally also it is one of the leading commodity exchange. It is the largest silver, 2nd largest Gold and 3rd largest metal exchange of the world.
- Product innovation – MCX has been able to maintain its strong footing in Indian commodity market through continuing product and service innovation. Over the years it has increased its product offerings from 15 in FY04 to 49 in FY11. Going forward, the company is planning to broaden product offerings through increased emphasis on R&D and tie ups with global commodity exchanges.
- Strong technology backup: MCX's technological infrastructure is well supported by the parent company; Financial technology of India Ltd (FTIL). FTIL is one of the leading technology companies in the development and deployment of exchange related software and technology in India. This technology of the exchange is difficult to replicate, thus providing it with a competitive advantage.
- Increasing market share through higher participation: 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.

Book Running Lead Managers

- **Edelweiss Financial Services Ltd.**
- **Citigroup India.**
- **Morgan Stanley India.**

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Concerns

- Earnings highly linked to global commodity markets: MCX derives majority of its revenues through transaction fees on futures contract of commodities. As commodities is typically a cyclical business any significant change in global demand supply dynamics of commodities would have an adverse impact on commodity derivatives market thus earnings of MCX.
- Competition from existing players: MCX has virtual monopoly in commodities futures market and this may subject it to competition from existing or new players as the derivative exchange industry is generally highly competitive.

Financials

Profit and Loss Account (Rs in crore)

Particulars	FY 2009	FY 2010	FY 2011	9MFY12
Net Sales	212.4	287.4	368.9	402.3
Operating Expenses	136.0	145.8	177.1	141.8
EBITDA	76.4	141.6	191.8	260.5
EBITDA %	56.2	49.3	52.0	64.8
Other income	153.4	206.3	78.7	72.2
Operating income	229.8	247.9	270.5	332.7
Depreciation	19.96	24.7	24.7	20.4
Interest	0.2	0.04	0.02	0
PBT	209.7	323.0	245.8	312.2
Tax	52.2	102.4	72.7	91.71
PAT before MI	157.4	221.0	173.3	220.7
Share of profit from Associate	0.037	0.3	0.26	0.14
Prior period Adj	1.4	(0.21)	2.9	(2.7)
Reported PAT	158.8	220.8	176.3	217.9
EPS (Pre Issue) (Rs/shr)	31.1	43.3	34.8	42.7
EPS (Post Issue) (Rs/shr)	31.1	43.3	34.8	42.7

Valuations:

MCX is the largest futures based commodity exchange in India. Based on annualised 9mFY12 earnings of Rs 57 per share, the issue is available at PE(x) of 15(x) and 18(x) on lower and upper price band respectively. The comparable commodities exchanges i.e CBOE, CME group, NYSE Euronext are trading at one year forward earnings of 20-25(x). We believe given the strong earnings trajectory of MCX viz-a-viz global peers the IPO looks reasonably priced even at upper price band. We recommend subscribe to IPO.

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Risk Factors:

Sanghvi Forging and Engineering Limited is proposing, subject to market conditions and other considerations, a public issue of its equity shares and has filed the Red Herring Prospectus ("RHP") with the Registrar of the Companies, Gujarat and the Securities and Exchange Board of India ("SEBI"). The RHP is available on the website of SEBI at www.sebi.gov.in and at the websites of the Book Running Lead Managers at www.arihantcapital.com. Investors should note that investment in equity shares involves a high degree of risk and for details relating to the same, see the section titled "Risk Factors" in the RHP. The equity shares have not been and will not be registered under the US Securities Act of 1933, as amended ("the Securities Act"), or any state securities laws in the United States and may not be offered or sold within the United States except pursuant to an exemption from or in a transaction not subject to, registration requirements of the Securities Act. The equity shares are being offered and sold only outside the United States in offshore transactions in compliance with Regulation Sand the applicable laws of each jurisdiction where such offers and sales occur.

RSF-IPO-01

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