Techno Funda

Multi Commodity Exchange of India Ltd.

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BY ASIT C. MEHTA INVESTMENT INTERRMEDIATES LTD

MULTI COMMODITY EXCHANGE OF INDIA LTD. (MCX)

Date: 08/12/2020 **Recommended Price: 1560-1580 • Target: 1900 • Stoploss: 1415** **Time Frame: 3 months**

Chart as on 7th December 2020

Technical View

- The stock on a weekly scale has witnessed a breakout of the cup and handle pattern as highlighted in the above chart. Post breakout the stock is consolidating in the band of 1500-1900. Currently, the stock is placed close to the lower band of the short-term consolidation zone. Moreover, the stock has formed a bullish AB=CD harmonic pattern on a weekly scale with Potential Reversal Zone (PRZ) around 1560 levels.
- RSI on a weekly scale is placed close to the lower trend line support of the ascending triangle pattern. A stochastic oscillator on the weekly scale is placed in a highly oversold zone.
- Based on the above technical set up, we recommend buying MCX in the range of 1560-1580 with a stop loss of 1415 for the target of 1900.

Fundamental Rationale

- The Indian commodity market is dominated by two exchanges wherein MCX continues to maintain its monopoly in market share (~94% in FY20, 95.6% in Q4FY20) despite increasing competition from other exchanges. The second player - NCDEX is a distant peer with ~4.95% in market share in FY20. In exchanges, depth, liquidity and impact cost are most critical factors that are difficult to replace. Therefore, it is difficult to shift volume from an exchange based on pricing.
- Commodity wise, MCX is practically the sole exchange with 98.57% share in precious metals, ~99.95% share in energy and ~100% share in base metals. In agri commodities, MCX has market share at ~17.2% as of March 2020.
- The Indian commodity market still remains underpenetrated. Therefore, it is witnessing a steady rise in turnover from 62 lakh crore in FY15 to 89 lakh crore in FY20. SEBI has undertaken measures to increase participation in commodities exchange over the years; MCX is one of the primary beneficiaries given its substantial market share.
- With 692 registered members and 54,900 authorised persons across 1010 cities and towns in India (as on 31 March 2020), MCX has an extensive national presence. Furthermore, MCX has strategic alliances with leading international exchanges like the London Metal Exchange (LME), CME Group, Dalian Commodity Exchange (DCE) and Taiwan Futures Exchange (TAIFEX).
- In the last three years FY18-FY20, MCX's operating revenues and profitability have grown by a CAGR of 13% and 23% respectively. Further, during the same period, company's operating profit grew by a CAGR of 25%. The company's operating margin has improved from 31% in FY18 to 41 % in FY20. MCX being a Platform business works on an asset light model with employee and software expense contribute ~90-94% of overallcost. MCX is a debt free company with cash rich balance sheet. Hence we recommend to "**ACCUMULATE**" the stock .

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KNR CONSTRUCTIONS LIMITED (KNR)

Date: 08/12/2020 **Recommended Price: 297-305** • **Target: 350** • **Stoploss: 265** **Time Frame: 3 months**

Chart as on 7th December 2020

Technical View

- The stock on a weekly scale has witnessed breakout of descending triangle pattern with strong volume as highlighted in the above chart.
- 21 WEMA is currently placed close to 261.5, which will act as strong support for the stock in the short-term support.
- RSI on a weekly scale has witnessed descending triangle pattern breakout suggesting strength.
- Based on the above technical set up, we recommend buying KNRCON in the range of 297-305 with a stop loss of 265 for the target of 350-360.

Fundamental Rationale

- Order pipeline is strong at Rs.8,555 Crore as on September 30, 2020. Outstanding order to revenue ratio is around 3.5 times, providing healthy revenue visibility over the medium term. The orderbook is well diversified with around 55% of the orders are from the road segment while the remaining are from the high margin irrigation segment.
- Labour availability and operational efficiency across project sites have been recovering gradually, currently standing at ~80% pre-covid levels and is expected to reach 100% levels post festive season. Strong execution capabilities are expected to support the timely execution of these projects and result in healthy revenue growth over the medium term.
- Established market position and strong execution capabilities have helped the company successfully execute more than 6,000 lane km of road projects till date.
- In last five years i.e. FY15-FY20, company's revenue has grown at a CAGR of 22%. However, profitability growth during the same period was up 31% CAGR owing to execution of high margin orders & maintaining low debt level. Further, company has improved its operating margin by 1100bps from 14% in FY15 to 25% in FY20 as company executed Irrigation orders which fetches higher margin as compared to other orders. Hence we recommend to "**ACCUMULATE**" the stock.

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