

Date: November 12, 2020

To,
Listing Department
National Stock Exchange of India Limited
Exchange Plaza, 5th Floor, Plot No. C/1
G Block, Bandra-Kurla Complex, Bandra (E)
Mumbai - 400 051

Symbol: BSE

ISIN: INE118H01025

Ref: Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

Sub: Transcript of the Conference Call held on November 07, 2020

Dear Sir/ Madam,

With reference to our letter dated November 6, 2020 intimating you about the conference call with Analysts/Investors held on November 07, 2020, please find attached the transcript of the aforesaid conference call.

The above information will also be available on the website of the Company: www.bseindia.com.

This is for your information & record.

For BSE Limited

Sd/-
Prajakta Powle
Company Secretary and Compliance Officer

Encl.: a/a



BSE LIMITED

Q2 FY 20-21 Earnings Conference Call



November 7, 2020

BSE LIMITED

25th Floor, P.J. Tower, Dalal Street, Fort, Mumbai 400 001

Moderator

Ladies and gentlemen, good day. And welcome to BSE's Q2 FY 2021 Earnings Conference Call. My name is Steven, and I will be the moderator for today's conference. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Yogesh Joshi – Head, Investor Relations, BSE Limited. Thank you and over to you, sir.

Yogesh Joshi

Thank you. Hello, everyone. And welcome to BSE's Earnings Call to discuss Q2 FY 2021 Results. This is Yogesh, Head Investor Relations. Joining us today on this earnings call is BSE's leadership team consisting of–

- Mr. Ashishkumar Chauhan – Managing Director and Chief Executive Officer,
- Mr. Nayan Mehta – Chief Financial Officer,
- Mr. Sameer Patil – Chief Business Officer,
- Mr. Girish Joshi – Chief Trading, Operations and Listing Sales,
- Mr. Neeraj Kulshrestha – Chief Regulatory Officer,
- Mr. Kersi Tavadia – Chief Information Officer.

Do note that the conference is being recorded and a transcript of the same will be available on our website. The Financial Results and Investor Presentations are also available on our website.

I would now request Mr. Ashishkumar Chauhan to give a brief overview of the company's financial performance, followed by a question-and-answer session. Please note that BSE does not provide any specific revenue or earnings guidance. Anything said on this call will reflect BSE's outlook for the future, or which could be construed as a forward-looking statement must be reviewed in conjunction with the risks that company faces. With that, I would like to turn the call over to Mr. Ashishkumar Chauhan.

Ashishkumar Chauhan

Thank you, Yogesh. Good Morning, Good Afternoon and Good Evening to all of you, wherever you are.

It is seven and a half months since India went into a lockdown due to COVID-19 pandemic, the second wave of the pandemic is threatening to derail many economies again, which have been trying to economically recover from the loss suffered due to the same. I am happy to say that BSE remains one organization in India that has continued uninterrupted services throughout the pandemic and has even been able to innovate and improve its operational performance during this period.

Let me start by providing you with certain updates on our businesses and operations:

BSE has been at the forefront of new innovative products and exceptional user experience, in all its platforms and especially its StAR Mutual Fund platform. BSE StAR Mutual Fund platform continues to be the electronic mutual fund investment platform of choice for investors across India. Investment through this platform has been growing steadily over years. It may be noted that the StAR MF platform witnessed a net equity inflow of Rs. 1,488 crores as against the total net equity outflow in mutual fund industry of Rs. 734 crores in September 2020. Again, even in other months during the financial year, the StAR MF platform witnessed positive net equity inflow when the industry inflow was negative. The total value of orders processed in the mutual fund segment by BSE increased by 38% to Rs. 1,43,062 crores for the half year ended September 30, 2020; from Rs. 1,03,865 crores for the half year ended September 30, 2019. The total number of orders processed rose by 60% to 400 lakhs or 4 crores, during the half year ended September 30, 2020, as compared to 250 lakhs during the half year ended September 30, 2019. And as you know, we charge on a per transaction basis and not on the value transacted in the StAR Mutual Fund platform.

In spite of COVID-19, the platform has processed a record 12.88 lakh transactions on a single day on October 12, 2020, surpassing the previous best record of 11.58 lakh transactions on April 13, 2020. The total number of SIPs registered under this segment increased by 195% to 6.19 lakhs for the half year ended September 30, 2020, from 2.10 lakh for the half year ended September 30, 2019. The total number of XSIPs registered under this segment increased by 9% to 11.33 lakhs for the half year ended September 30, 2020, from 10.42 lakhs for the year ended September 30, 2019.

BSE has launched BSE StAR MF app in May 2019 to enable mutual fund distribution process, transactions on the go. The app has been well received by the investment community and it has processed over 10.5 lakh transactions till October 31, 2020. BSE has continued with the relentless expansion of mutual fund distributors and IFAs network through COVID-19 period-till-date, BSE has appointed 11,918 IFAs or members over the last seven months, taking their total to 68,587 as on October 31, 2020. This network is over and above BSE's 1,400 plus members, backed by over 2 lakh authorized

representatives covering length and breadth of our country. BSE's market share in this segment for half year ended September 30, 2020, stands at 79%.

It may be recalled that BSE and mutual funds, through AMFI, were in negotiation with respect to the rates chargeable by BSE to them for processing of transactions through BSE's StAR MF platform. After protracted negotiations, the rates have been finalized for all the activities and cost reimbursements, and taken into account while finalizing the results for the quarter ended September 30, 2020. It is expected that settlement of rates would now drive further cooperation with the mutual funds to explore and implement further avenues for providing value added services to the investors and intermediaries.

With growing acceptance of digital financial and non-financial transactions in India, big opportunities are emerging for extending various differentiated and value added services to investors of financial products. While BSE has already introduced value added services such as e-KYC and looks to commence commission distribution services in the short term, various other services such as handling non-financial transactions and distribution of various other financial products look imminent in near future. It is estimated that the transactions on this platform can grow at a compound annual growth rate of above 50%, with similar growth in gross revenues in this business over the next five to ten years. As applicable to any financial services, including transactions and revenues from value added services in this business is expected to increase the profit and net margin potential more than proportionally to the growth in business.

Therefore, as informed earlier, in order to unlock the value and realize the full potential of this business, the company has appointed ICICI Securities Limited to advice on various options to unlock the value in BSE's StAR MF platform. ICICI Securities has approached potential investors in this regard.

BSE Ebix Insurance Broking Private Limited, a joint venture of BSE with Ebix Fincorp Exchange Private Limited is growing steadily over the last few months. After launching insurance broking services for motor insurance products on February 7, 2020, insurance booking service for health insurance product, life insurance products have also been launched on June 3, 2020, and July 13, 2020, respectively. As on November 5, 2020, the company has 3,762 registered point-of-sales across the country. Further, till November 5, 2020, the company has intermediated issue of 6,597 policies, with premium amounting to Rs. 1.83 crores. It is expected that the network of insurance broking business and mutual fund distribution platform shall complement and leverage each other for strong growth over time. BSE holds equity stake of 40% through its subsidiary BSE Investment Limited.

The average daily turnover in the half year ended September 30, 2020, increased in equity segment by 44% to Rs. 3,703 crores as compared to Rs. 2,563 crores per day during the half year ended September 30, 2019, in equity segment of BSE. The same is also reflected in the company's strong operational performance in the current financial year.

In equities derivative segment, BSE changed the weekly expiry of contracts to Monday from Thursday in its equity derivatives from June 29, 2020. Since the change in weekly expiry of equity derivatives contract from Thursday to Monday, the average daily turnover in Equity Derivatives segment has grown from Rs. 7 crores for the month of June 2020 to Rs. 1,61,548 crores for the month of October 2020. It's increasing even rapidly after that also. Growth in turnover of equity derivatives contracts can complement growth in turnover in equity segment to improve BSE's turnover and market share in this red ocean business of BSE.

It is over a year since introduction of interoperability, it is felt that the investors can take advantage of clearing through single clearing corporation, through insisting on best price execution all their investment orders. Considering sufficient liquidity on the trading platform of the company, it is felt that the best price execution of all trading and investment orders may significantly help in improvement of turnover across trading platforms of the exchange.

In international exchange, at GIFT City and Clearing Corporation, India International Exchange or India INX, India's first international exchange based in the GIFT city, at Gujarat International FinTech City, introduced Rupee-Dollar derivatives On May 8th, 2020. The said contracts have seen strong interest by the market participants, with its average daily turnover of USD 413 million in September 2020 quarter and number of contracts traded to 1,39,693 in September 2020 quarter. Average daily turnover on India INX trading platform for the half year ended September 30 was USD 2,514 million, including significant contribution from equity derivatives segment. The equity derivatives segment contributed 90% of average daily turnover and other segments has contributed to 10% of average daily turnover for the half year ended September 30, 2020.

India INX is the dominant IFSC exchange in GIFT City, with the market share of more than 80% in derivatives trading, and more than 99% in bond listing for the half year ended September 30, 2020. During the half year ended September 30, 2020, almost all of Indian issuers of debt securities in the international markets have listed on India INX's Global Securities Market.

As on date, India INX's cumulative turnover since inception has crossed USD 1 trillion. It also witnessed an all-time high turnover of more than USD 9 trillion this month, that is in

November 2020. The previous all-time high turnover was USD 5.47 billion on September 23, 2020. The Constitution of the IFSC Authority at GIFT City Gandhinagar is a big step towards the development of the IFSC as a major international finance hub and growth of exchange therein.

In currency derivative segment, BSE provides a very liquid platform for trading in currencies. The average daily turnover of the currency futures segment, for the half year ended September 30, 2020, was Rs. 8,129 crores and average daily turnover in the option segment for the half year ended September 30, 2020 was Rs. 11,082 crores. BSE's market share for the same period was around 30%.

In commodities derivatives segment, BSE launched options contract on Gold and Silver on June 1, 2020. And launched world's only almond futures contract on June 22, 2020. On January 27, 2020, BSE signed a licensing agreement with ICE, Intercontinental Exchange, listed in NYSE, a leading operator of global exchanges and clearing houses, and provider of data and listing services for the use of ICE Brent Index as a final settlement price for BSE's Rupee-denominated Brent futures contract. BSE facilitates trading in derivatives of Gold, Silver, Oman crude oil, Brent crude oil, Aluminium, Zinc, Copper, Guar seed, Guar gum, Cotton, Turmeric, Castor seed, Chana, Soybean and Almond.

BSE created history on November 3, 2020, by becoming India's first exchange to complete deliveries of gold under BSE-BIS India Good Delivery Standard on its commodity platform, supporting the Prime Minister's vision of "Make in India" and "Aatmanirbhar Bharat". The exchange executed delivery of gold to the tune of Rs. 1.5 crores in the 'Options in Goods' framework, marking the fifth consecutive month of deliveries at the exchange designated vault in Ahmedabad, Gujarat.

BSE's seamless trading platform, integrated with robust delivery framework for options in goods has proved extremely beneficial and cost efficient for jewellers, bullion dealers and other physical market participants. It empowers them to not only hedge their prices, but also avail delivery on expiry of the contracts. BSE has received extremely positive response from all stakeholders, for these contracts, with commodity derivatives segment registering a high of Rs. 5,010 crores on July 29, 2020. The total number of members admitted in commodity derivatives segment is 285. The turnover in commodity segment for the half year ended September 30, 2020, was Rs. 2,33,158 crores and highest turnover of Rs. 5,118 crores was recorded on August 11, 2020. BSE has become the second largest commodity derivative exchange in India during this period. And the nearest exchange is one-fifth the size of BSE now.

BSE along with PTC India Limited, and along with ICICI, had earlier filed a petition with the Power Market Regulator for Power Exchange on September 7, 2018, for grant of

license for setting up a new power exchange. BSE has a stake of 25% as of September 30, 2020, in the proposed power exchange through its wholly owned subsidiary, BSE Investment Limited. The receipt of approval from CERC is still awaited.

On BSE's SME platform, the number of companies listed has grown by 6% as on 30th September, 2020, to 326 companies, as compared to 309 companies as on 30th September, 2019. Of the total number of companies listed in BSE's SME platform, 85 companies have migrated to the BSE Mainboard as on 30th September, 2020. The total market capitalization of companies listed on the BSE SME platform was Rs. 20,334 crores and total funds raised at this company was Rs. 3,340 crores. The companies listed on BSE SME segment have shown outstanding growth over the last seven years. SME IPO Index of BSE, which was launched on December 14, 2012, with 100 as base has increased to 1427 as on 30th September, 2020. BSE's market share in listing of companies and SME segment stood strong at 61% as on 30 September, 2020.

BSE launched bond platform for electronic book mechanism "BSE BOND" on July 1, 2016. This platform facilitates issuance of debt securities on private placement basis. Issuers in this segment include renowned corporates from public as well as private sectors in India. During the half year ended September 30, 2020, 251 issues have successfully raised over Rs. 1.28 lakh crores through this platform. BSE's market share for the said period stands at 56%. BSE continues to be an institution for capital formation in India. The total debt, including commercial paper raised under this platform has crossed Rs. 12.43 lakh crores as on 30 September, 2020. And this year alone, including equities, bonds, commercial paper and other things, in the first seven months BSE has raised more than 12 lakh crores from BSE's fundraising platforms.

With respect to listing of securities, the number of companies listed with direct equity capital on our exchange, which are available for trade, are 3,947 as on 3rd November, 2020. The number of listed companies is more than 4,700. BSE has the highest number of companies listed on any exchange around the globe. Market capitalization of companies listed on BSE is above 164 lakh crores and the total number of investors registered on BSE exceeds 5.63 crores. Further, under BSE's framework for listing of commercial paper for commercial papers after 27th November, 161 issuers have raised 2,331 issuances of commercial papers and have successfully listed CPs of Rs. 9.58 lakh crores on BSE.

Now, I will update you on another positive development. The company received an order from CFTC, granting an exemptive relief under CFTC Regulation 30.10 to designated members of BSE from the Commodity Futures Trading Commission ("CFTC"). Under CFTC Regulation 30.10, persons located outside the U.S. who are subject to comparable regulatory framework in the country in which they are located should seek an exemption from application of certain CFTC regulations, including the requirement of registration.

Relief is based on the finding by the CFTC that the local laws and regulations in India applicable to members of BSE to provide a comparable level of customer protection, including licensing standards, minimum financial requirements and compliance procedures. The members of BSE will now be permitted to solicit and accept futures and options orders and related funds from customers located in the U.S. for futures and options transactions on BSE, without registering as a futures commission merchant. BSE had applied for a exemptive relief in a representative capacity on behalf of its members. This would benefit the BSE members and provide the U.S. customers increased access to Indian futures and options market.

On a consolidated basis, the profit attributable to shareholders of the company for the quarter ended 30 September, 2020, has increased to Rs. 46.81 crores as against Rs. 36.69 crores for the corresponding quarter previous year. The total revenue for the quarter ended 30 September, 2020, has increased by 1% to Rs. 160.37 crores as against Rs. 159.58 crores for the corresponding quarter of the previous year. Operating expenses has decreased by 12% to Rs. 103.04 crores. The operating EBITDA has increased by Rs. 30.73 crores to Rs. 22.34 crores from a negative EBITDA of Rs. 8.39 crores for the corresponding quarter of the previous year. The operating EBITDA margin stands at 18% for the quarter ended 30th September, 2020, as against negative EBITDA margin of 8% for the corresponding quarter of the previous year.

It may be recalled that S&P Dow Jones indices, and SPDJ Singapore Pte Ltd (hereinafter collectively called as “Claimants”) had filed a arbitration proceeding against BSE under Singapore International Arbitration Center’s rules, inter alia, challenging the termination of index licensing arrangement with BSE Limited. The Final Award passed by the tribunal, dated 17 September, 2020, inter alia, holds the termination of the agreements by BSE as invalid. The agreements will continue to remain in force, and that the cost of arbitration, legal and other costs borne by the Claimants be paid by the BSE to the claimants, along with 5.33% per annum from the date of final award till the payment is made in the full. Accordingly, an amount of Rs. 14.53 crores has been provided as an exceptional items and interest thereon of Rs. 3 lakhs has been provided as a finance cost for the quarter ended September 30, 2020.

Section 80 M has been reinstated in the Income Tax Act 1961 vide Finance Act 2020. The section allows the company to take the credit of dividend received from domestic company. Prior to this amendment, the company had created deferred tax liability on undistributed profit at 34.944% from share of profits of associates. In order to give effect to the amendment in the Income Tax Act, deferred tax liability created on undistributed share of profit of associates till March 31, 2020, amounting to Rs. 18.12 crores has been written back in the quarter and period ended September 30, 2020.

Interoperability among Clearing Corporation was implemented from June 2019. After implementation of interoperability, the members have the option to choose the Clearing Corporation to clear their trades. Based on their selection, the trades of BSE are cleared by respective Clearing Corporation. As per the regulatory requirements, BSE needs to contribute core SGF of all the clearing cooperation through which its trades are cleared. BSE has already contributed Rs. 155.40 crores to Indian Clearing Corporation Ltd. Which is in excess by Rs. 126.94 crores as compared to the requirement as of 30th September, 2020, of the above mentioned circular relating to Core SGF. Based on the transactions executed on BSE and which are cleared by other clearing corporation, BSE's requirement to contribute to Core SGF of other cleaning corporations is Rs. 12.67 crores as on 30th September, 2020.

The Board of the company has represented SEBI to allow the utilization of excess contribution by BSE lying with ICCL to the requirement of the Core SGF contribution to other clearing corporation. Company has also represented to SEBI that the contribution by exchanges towards Core SGF of Clearing Corporation may be allowed to be contributed in the form of bank fixed deposits or government securities. Company is awaiting approval from SEBI in this regard. In view of the above, no contribution has been made to other clearing corporations and the company has not taken any charge for the contribution to Core SGF in the current quarter's statement of profit and loss.

As on October 31, 2020, the total balance lying in Settlement Guarantee Fund maintained by the Indian Clearing Corporation Limited is Rs. 449 crores of which, as mentioned above, Rs. 155 crores has been contributed by BSE. BSE's consolidated net worth as of 30th September, 2020, stands at Rs. 2,427 crores and standalone net worth stands at Rs. 2,150 crores.

Before I conclude, I wish everyone in this call to stay safe with their near and dear ones and please accept my greetings for the forthcoming festival seasons, including Diwali, Gujarati New Year, and the Calendar New Year.

With this overview, let me welcome all of you once again and invite all of you for question and answer session. Thank you.

Moderator

Thank you very much. (Moderator Instructions) The first question is from the line of Pankaj, an individual investor. Please go ahead.

Pankaj

Good Evening Sir, Thank you for giving me the opportunity, My question is on equity derivative segment. So, as I understand, there is a liquidity enhancement scheme also and BSE is putting up lot of efforts to grow this business. So my question is, what are the steps company is taking to reach out to retail investors to educate them and start business on BSE? And second part to this is, is BSE trying to reach out to the broker community also so that the brokers who are currently not enabled on BSE F&O platform that they get enabled and the business starts coming to the BSE Stock Exchange?

Ashishkumar Chauhan

No, it is a very important question. Thank you. Basically, BSE has taken several steps. You might have also read that Zerodha I think has launched or is in the process of launching a trading on the BSE's BSE50 Index. So many other brokers are also in the process. It takes time for the technology to be connected and all. But currently, on many days BSE's derivatives volumes in equities have now reached even above 20% of the total market. And BSE has provided two separate platforms, one is called BEST and other is called BOW to connect brokers on all exchanges, including BSE, NSE, NCDEX, MCX, for all their trading in all their segments. And I have been informed that NSE has given final notice of closure of their similar platform called NOW which is to connect the retail small brokers who could not afford the technology, BSE will continue to provide this technology free of cost to all its members, so many of those retail brokers who were members of BSE but not trading on BSE's derivatives now will start looking at BSE's technology, superiority, it's platform, even for placing their orders or their clients' orders on NSE. And hopefully, some of them will also be willing to trade.

You might have also heard that the SENSEX30 is now being invested for by EPFO almost 50%, earlier it was 25% and the rest was on NIFTY. Now 50% is on Sensex. So that even at government level also they recognized the superiority of returns of BSE INDEX, including BSE50. If you see BSE50 and NSE50, they are almost same somewhere around when probably a few years back. But today, BSE50 is almost 400 or 500 points larger than NSE50 because of the superior selection and other things. And you know that S&P is also running that index. And that's where I think a lot of people are looking at the BSE50 as a much better index for trading. And that's why a lot of trading is happening in the India International Exchange also, as well as in BSE also. And we continue to conduct a lot of seminars and webinars with brokers across India, on this specific BSE50 Index futures. You might have also seen that there is offset in the weekly contracts. At NSE is basically Friday to Thursday, while as in BSE it is Tuesday to Monday. And because of that, the volumes have increased. That's what I have been told by many market participants, that their ask for this offset.

When NSE started in 1994, the BSE's transaction cycle used to be Monday to Friday, and then NSE did the off-setting and that's how the NSE's volumes increased. And that was the hope of many brokers, and they were asking us to do is offset in the trading cycles. And that's what we did and we have seen good results. So I hope many more people will see the reason, because they are paying large sums to trade on NSE well as on the BSE they are actually getting some money in terms of the liquidity enhancement scheme. So I think there are many, many benefits. Hopefully, many of these people will learn, Of course, the algorithm trades also need to come on BSE. And for that also we are working hard with many of the algorithm players, some of the best in the world, to start their algorithms on BSE's platform going forward, some of them are working with us. Let's see how fast we are able to get them also on our board.

Pankaj

Thank you for the detailed reply, sir. And I agree with your viewpoints what you mentioned, as I closely watch the updates from the BSE. I just have one more follow-up question. So my question is, there is liquidity enhancement scheme, and today BSE in the currency option segment has substantial business. So is there any plan to charge some exchange transaction fees, may not be 100%, but it could be like 10%, 20% to begin with, so that some profitability and the revenue also starts coming in? Thank you.

Ashishkumar Chauhan

In equity derivatives we do not have any plan to charge. In currency derivatives we have been charging for a long time. And so, first, we think market share is more important. It's like e-commerce companies, they continue to give discount for some time, once they become powerful in the market then they start charging some profits, right? So that is the same framework here, that currently in equity derivatives it is an investment time, we have come into some luck because of whatever brokers told us and we implemented in terms of the BSE50 Index, and then these offset trading cycles vis-à-vis NSE. But its early days, I would say it's only a few months since we have seen the liquidity. We have, of course, got makers who are given two-way quotes very nice, but we need many more players, as you rightly asked in the first question. And once a lot of people come, they see our technical superiority, they see our services, and when we become much larger, then we may have the ability to start charging. Currently, I don't think we have the ability to charge.

Pankaj

Thank you sir and I wish BSE management team all the very best for future endeavors.

Moderator

Thank you. (Moderator's instructions) The next question is from the line of Varun Patni from Prospero Tree. Please go ahead.

Varun Patni

Thank you for the opportunity and Congratulations on a good set of numbers Sir. My question was with regards to the mutual fund StAR scheme. So, in that what is the rate per transaction that we are charging currently?

Ashishkumar Chauhan

There are many different charges that happen actually, for XSIP and for the SIP and for lump sum, there are like 8, 10 different types of charges that happen, which are applicable to different types of transactions. And then we recently started the payment gateway services also, they are almost all mutual fund, I think barring one, have agree to not pay directly to the payment gateway providers but through us, because we have got them substantial discounts due to the volumes we provide. And some of that discount we have passed on to the mutual fund, so everyone has agreed to us. And that also was agreed with AMFI. So overall, I mean, there are multiple ways and multiple areas in which we charge. So, I wouldn't be able to give you a specific answer to that question on exactly what we charge.

Varun Patni

Okay, sir. Just to follow-up on that, in the investor presentation, you have mentioned that the figures consider the effects of change in rates. And also we see that in the current quarter, the revenue has been quite low, only around 37 million. So is there a substantial change in rates or, I am not able to estimate it correctly.

Ashishkumar Chauhan

Nayan, you want to take up what provisioning has been made?

Nayan Mehta

Right. So it's like this that obviously our volume went up and our revenues went up. But because of the final settlement of a lot of transactions rate with mutual funds, the effect had to be given in this quarter itself.

Ashishkumar Chauhan

Nayan, which was and provided, we had taken as revenue in earlier quarters which in a way we had to reverse and that's why you see slightly lower.

Nayan Mehta

Right, that's the reason.

Varun Patni

Okay, Okay Thank you.

Moderator

Thank you. The next question is from Saurabh, an individual investor. Please go ahead.

Saurabh

Hello hi, am I audible? I just wanted to mention an observation with respect to the equity derivatives liquidity enhancement. If I look at the option change for your SX50, it seems that most of the liquidity is being provided very far away from the spot prices, it's almost like 10%, 15% away. Now, given that we are spending a lot of money to provide this liquidity, I think the management should probably try and speak to the market makers to provide liquidity near the spot prices. If we want this liquidity enhancement scheme to work over the long term and once we take away the liquidity, if you want genuine participation and volume, it has to be near the spot prices. But right now it's almost 10%, 15% away. So my concern is, as an investor, that the day we take away this liquidity enhancement, the volumes will drop again substantially. So any comments by the management as to why are the market makers providing liquidity so far away from spot that this LES will not work if it's not near spot prices, at least within the 2%, 3% range?

Ashishkumar Chauhan

BSE has actually announced the market making framework, based on which people are basically placing orders in different, different. And that's available, in a way, we have invited market makers to do it. So people give their offers and we select it. And for each in-the-money, at-the-money, out-of-money, there are basically frameworks through which within a particular band they have to give two-way quotes through the day. Contrary to popular perception, and what we have been made to believe, most of the times the transactions in the world markets actually happen away from the spot price. If

you have to do trade on the spot price, then you would be better off in the futures, because there you don't even pay the cost, the premium you don't pay, right. So what is called delta close to 1, if you are a good options trader, you might understand this, delta equals to 1 where futures where you don't actually end up paying premium is a much better framework than paying premium for options. Because once you pay the premium it goes away from your pocket, right? So all over the world, most investors who are smart, actually trade options for out of the money, deep out of the money kind of areas and not at-the-money. Some how in India we have been made to think that options are equivalent to futures, right. And that's why many of us ask these questions. But the traders who are smart are used to trading in out of the money options. And even in NSE you can see huge amount of trade even deep out of the money for two, three years ranges earlier for a variety of reasons. So there are reasons for that.

Second part is, the money being paid is not very large. Although sort of you might have perceptions, but you can also check it in our website, we provide all the numbers of how much money we pay per month for market making in the BSE's options segment. So again, the statement is what I call value judgement, about huge money being spent. But basically the money being spent is only for the compliance of those two way quotes to be made in particular bands. At that's what the people, are selecting to trading out of the money options, for whatever reasons they have, and probably internationally they do that way. And Sameer, my colleague who runs the markets, I mean, the business for us, he might have some comments on this. Sameer, you have any comments?

Sameer Patil

Yes sir, definitely. In fact, these strikes are also not being chosen by the exchange, it is dynamic in nature. And when the market maker selected is supposed to quote in all these strikes. But whether the trader or the member trades in particular strikes, is beyond our lookout. And nevertheless, they trade wherever the premiums are lower, so they can churn. This is what we understand from the market participants. There's more churning as far as day traders are also very active.

Saurabh

I mean, just is the management tracking in some manners how many trades are genuine and not purely being made by market makers? Because see, I have understood all the points that you are mentioning, being an options trader myself I can tell you, those far out of the money options, the brokerage cost should be more than the amount of the option, be it writing or buying side. So, it's very, very far away, the probability of profit there is extremely low. Hence my concern that perhaps a discussion needs to be made with respect to the strike prices at which the liquidity is being provided. Else, I think it is not,

I mean, it might be my opinion and we can beg to differ, but it will not provide us the sort of liquidity that we are really aiming for.

Ashishkumar Chauhan

In terms of the market makers themselves trading, that is not possible, because their trades have no relevance to the commission's they actually, I mean, the incentives we provide to them. So that's a perception you have in mind. The second part is, even if somebody is trading with their friend in the morning and reversing in the afternoon, those reversal trades are now automatically cancelled in BSE. In addition to self trades, this cancellation reversal trades also cancels automatically, BSE is the only exchange in the country, probably in the world, which does it. And that's where I think in other exchange there this reversal of trades are still going on. And I don't know, whenever the investigation is over, over last 10, 15 years, people will have a tough time basically answering to that, the way it happened on BSE's e-liquid options earlier, right. So effectively, BSE does not allow self-trade or reversal in that sense. And incentives are pretty much not for that.

Saurabh

Just one final question with respect to INX. Any visibility on when we can start charging in INX, would FY 2021 be a possible year?

Ashishkumar Chauhan

See, I will tell you, possibilities are immense, but NSE has been consistently acting as anti-competitive force and subsidizes all their activities where they are not successful. For example, in mutual fund, in bond distribution, in listing. Similarly, in the GIFT city also they are not charging, instead they are providing the liquidity support. We have no choice but to provide. And so it is basically NSE's anti-competitive practices which is forcing us to do this. And not only in areas which we compete with them, but where we are hugely successful, and still they do it. And that's where it's more dependent on NSE's inability or ability to stop doing that. Once they list, I hope investors will pressurize them to not act so difficult for everyone. And BSE has pointed out these anti-competitive activities of NSE in writing to SEBI, and we hope some actions are taken to ensure that the playing field becomes level.

Moderator

Thank you. The next question is from the line of Shri Vallabh Kulkarni, an individual investor. Please go ahead.

Vallabh Kulkarni

Hello can you hear me ? So, I guess, the thing which I was about to ask related to INX, I can see daily trades around like 1.5 lakhs to 2 lakhs on a daily basis. So, I understood your point that due to NSE we can't charge, but at least we can give the liquidity enhancement with very tight spread so that it will be market maker, they have to quote very tight spreads and then we have to give them money? So right now what happens is that if I can see this quarter's standalone or consolidate profit, around Rs. 8 crores to Rs. 10 crores we are going to lose in liquidity enhancement scheme, out of which Rs. 4 crores to Rs. 5 crores in India INX. I understood that we already captured lots of market share, but due to NSE we can't charge. But at least we can reduce that spending. I can see that we have changed liquidity enhancement scheme from last month or this month, where the spread has changed. But I am requesting if we can reduce that spread more to give the incentive, so that we can control that cost. And if we can do another practice that we can use that cost and enhance like the equity futures and equity options, then it will be easier for us. And we can do another practice that removes liquidity enhancement from index futures and index options, and provide that liquidity enhancement scheme to equity futures and equity options so that they will have to do this one. So I am just trying to say that we can control that cost, use it somewhere and we can see what kind of result it comes in. I think we are in a very better shape in India INX. This is my first question.

And another is that, are we looking for any strategic investor as Deutsche Börse has left from this quarter, are we looking for any strategic investor? Because I don't know whether we are in the bullion exchange which India INX in GIFT City we are going to launch. We are the entity for that one or any other? But are we trying something strategic investing in that area or not? So these are the two questions. That's it.

Ashishkumar Chauhan

I agree with you, we should continue to try to get maximum bang for our buck, and I will convey your message to our CEO in India INX, Balasubramaniam, to again figure out what better quotes can be provided within the given cost and all, and discuss with few market makers and things like that. In terms of the divestment part, already you might be aware, ICICI Bank has taken 9.9% in India INX already. There are a few other people who are also being discussed with. So, as and when those deals happen, that will be announced to the market. But India INX is its own entity. And we are of course promoters and providers of the technology and things like that. But effectively now, it has its own organization and it has its own board, and it has now its own regulator, which is different from SEBI. So we will continue to support them, of course, to the extent we can. But they are also trying to figure out various new avenues and new investors and things like that.

Similarly, you talk about the Bullion exchange. India INX has written to us about the new regulation that the INX, I mean, GIFT City regulator has announced, IFSC Authority. And so we are going to take up with our Board with further details. And they are also trying to search for consortium partners who can be sort of participating in that consortium. Of course, this entire idea of GIFT City, Bullion exchange is of India INX, so they are more prepared, well prepared compared to anyone else. And there was a newspaper item also, not newspaper but a website item, that the authority this time wants to give approval to only one exchange, so that this cutthroat competition, negative competition doesn't happen in at least Bullion spot. So in a way, the consortium might be the best way to go. And INX has approached the many participants and they have seen huge response from market participants and market infrastructure institutions. So let's see how it works out. But clearly, BSE being the promoter and the largest shareholder of INX, will continue to provide whatever support that INX requires in even gold bullion, setting up of that exchange.

Vallabh Kulkarni

Thank you, thanks for the answer. I wish you a great success.

Moderator

Thank you. The next question is from the line of Raja Shekhar Suresh, an individual investor. Please go ahead.

Raja Shekhar Suresh

Thank you, thank you for the explanation of results and everything. My question is very straightforward. So, as a retail trader/investor, I would like to know the volume for a stock that is listed in both exchanges. For any stock that I pick, it is very less compared to whatever that is there in industry. So, I would like to know what are the steps that the management is taking to boost or to change the perception. Because for any retail investor, it is more like a generic one, right, it doesn't matter whether it is executed on BSE or NSE, all that he cares about is whether it is executed or not. So I find that BSE has an equally good record of the executions and everything, the settlements and everything. So I would like to know what are the steps that the management is taking to boost the volumes in main equity. Not about derivatives, it's mainly about the equity. Thank you.

Ashishkumar Chauhan

This is a very, very good question. I think over the last 10 years you might have seen that BSE does not allow scandals to happen. While other exchanges are in some ways mired

in scandals, right. Somewhere, someday, retail investors will start going towards non-scandal exchange, right. So that is one way by behaving nicely. Second is our technology. But our larger issue is that we are not able to directly have investors trading on us. They have to go through the brokers; and brokers, many of them have NSE as the default, or the only exchange available for even equities trading. And so it takes time for them to change. Of course, SEBI has come out with new regulation of providing best price execution. Till the time SEBI actually insists and start fining the brokers. It's good to have a regulation, but if it is not actually followed up in enforcement, then that regulation is as good as not having it, right. And that's what we believe that somewhere down the line basically, of course, the investors who are more alert, they may still want to trade on BSE because it offers larger number of shares and larger number of companies and all, and better technology, no scandals and other things. And of course, no settlement defaults. I mean, if you have seen over the last two, three, five years, we did not have any broker defaults or the thousands of crores which get lost of sort of investors on BSE. And hopefully, investors will be more interested in also doing good risk management for their own money. And that training will have to be given by brokers. But if brokers are not able to give, probably investors will learn by losing a lot of money on Anugrah and Karvy and all those things when they trade on other exchange, right. That's how I see. It's a bit of a B2B issue with us, whereas the trader is a C, right, so B2B2C. And our middle B is not able to provide our services or not offering or not making it the first available, then the investors will have to ask and insist. And for that we do a lot of investor awareness seminars across India, we do almost 8,000 investor awareness seminars in a year, which is largest in terms of the investor awareness seminars. But in a size of India, it's again, very small. We have started now doing a lot of webinars because they are more effective. And hopefully, as you rightly said, the small investor doesn't matter to him, whether he trades on NSE or BSE, because liquidity is sufficient on BSE for most times. But we continue to be hopeful that somewhere good behavior, good technology, good service, less scandal, less money loss for customers will convert into business someday. But sometimes irrational, or irrationality in the markets can run much longer than you think.

Raja Shekhar Suresh

Yes sir, I totally understand. Thanks for your reply. Just a follow-up question, sir. So more like, you said that you are going to give webinars and things like that, right. So I find that when I started out in the market, like few years back, five to ten years back, it was like only the index that I am hearing always in the news channels, in the blogs, and everything is like only NIFTY50. And to be very frank, just few months back only I came to know about this Sensex50 Index. So I find that if more and more information is passed on or decimated to the news channels and to the media and everyone that there is an index, Sensex50 that tracks the market moments very better, much better than NIFTY50 and things like that would actually benefit new investors of new traders to see that, okay, I

could see that it is there and maybe I could do an execution in BSE. So that's what is a thought I would share with you. Thank you.

Ashishkumar Chauhan

Thank you. That's why I took this opportunity of your question to market BSE50 and all. Wherever an opportunity arises, we try to market. But you know, modern media is about money, it is not about news. So, person who can spend more money gets talked about more, and people who don't spend more money or do not have more money, which is true with BSE, our profits and our transactions are not as well as what NSE has, so they get talked about because they have more money and they also spend probably, and that's how of course that is a tradition also, where BSE lost out, in terms when derivatives were launched in 2000 BSE was not there for almost 15, 20 years, right. So, those are very issues we are grappling with. But hopefully, given the superior performance of BSE50 and also SENSEX30, and now sufficient liquidity, many of you will decide to come in, at least test and stay with BSE which basically protects your money much better than any other exchanges in India.

Raja Shekhar Suresh

Thank you very much for your answers. And just your final word on the dividend? That's it from my side. Thank you.

Ashishkumar Chauhan

Dividend policy will continue to remain that we provide almost the entire operating profit as dividend, in last 10 years we have done that and we will continue to go forward. That's the policy.

Raja Shekhar Suresh

Thank you very much have a good day.

Moderator

Thank you. The next question is from the line of Utkarsh Ritesh Kumar from Damos Capital. Please go ahead.

Utkarsh Ritesh Kumar

Have you found any negative impacts between new margin rules applicable on 1st September, 2020?

Ashishkumar Chauhan

Till now we are not seen anything. It remains to be seen. Most of the time there are any reforms everyone shouts from rooftops that reforms should never happen, from 1992 onwards that is how India is, nobody wants any change at all. And when change happens, they kind of get used to it and actually volumes increase. So, this negative, negative part is basically pre-change. Once the change happens, you see everyone is gets adjusted immediately.

Utkarsh Ritesh Kumar

Okay. And second question on the proposed power exchange, why is the CERC not giving permission to the exchange that you are proposing?

Ashishkumar Chauhan

What happens is basically they asked for comments or appeal from other people, anyone in the country can apply against our license. So our current competition, IEX and NSE promoted PXIL, both went to CERC against us, and there were a lot of to and fro. Then last hearing, CERC, after two years of hearing them, they said, enough is enough now let's go ahead. But in the meantime, we were told to comply with the shareholders guidelines, I mean, shareholding guidelines, so we took a lot of new shareholders, and now our issued capital has become larger and more shareholders have come in, and we are fully compliant with the regulations of CERC. But now CERC doesn't have the judicial member or something like that, so they are waiting for that member to come in. And after that only they will be able to pass that order, because the Supreme Court doesn't accept now the orders of regulators who do not have some minimum quorum or something. So that's where it is stuck as of now.

Utkarsh Ritesh Kumar

Okay. Thank you sir.

Moderator

Thank you. The next question is from the line of Ravin Kurwa from ICICI Securities. Please go ahead.

Ravin Kurwa

Hello am I audible enough? My question was regarding this assessment of one of the permissions which BSE has received to accept F&O orders from U.S. clients. So what will be the revenue guidance against this? How big can it be for BSE?

Ashishkumar Chauhan

Come again, what? Because there is no revenue impact at all.

Ravin Kurwa

Okay. So, if we can accept F&O orders from U.S. clients.

Ashishkumar Chauhan

So, there as of now immediately there is nothing that happens, but our brokers will be able to trade, basically take client orders from the U.S. customers, which they were earlier able to do only for the NSE derivatives, now they will be able to for BSE derivatives. So, hopefully, when we start charging, they become large and those orders come from them, in some ways, it's like giving you a level playing field vis-à-vis NSE. Earlier on the NSE brokers had the right to take, so all the foreign investors were going there. Now, if some foreigner wants to come here, I mean a U.S. customer, if he wants to come here and BSE they can also trade, and as and when we charge then there will be revenue impact.

Ravin Kurwa

Okay. And sir, my second question was, what would be our average realization from the StAR MF platform?

Ashishkumar Chauhan

Per transaction, Nayan will have some answers

Nayan Mehta

Sure. The average realization basically in this half year has been around Rs. 5.3, and obviously we told you the reason because of the reversals.

Ravin Kurwa

And sir, if I can just pitch in one question. So, what would be the distributable cash as on 30th September?

Nayan Mehta

So, distributable cash, it is like this that you have net worth Rs. 2,100 crores, of which Rs. 800 crores is capital reserves. So, the remaining Rs. 1,400 crores is the distributable as per the buyback norms also.

Ravin Kurwa

Rs. 1,400 right? And sir, we lost some turnover in the currency segment. And as per the presentation, I was seeing that one of the reasons stated over there was third-party trading software issues. So, if you can just give some colors on it, that what actually happened over here?

Ashishkumar Chauhan

Sameer?

Sameer Patil

So, whenever you start a new segment also, there are third-party terminals or third-party software vendors, front-end vendors where they have to see to it that this segment is live on their exchange. So many a times it happens that some of them are live and some of them are not. So that really hampers the cause.

Ravin Kurwa

So, exactly what happens is that we were unable to do something as a result of which we lost market share or...?

Sameer Patil

No, because of the COVID as well they were also on leave, so they also had some limited staff to attend. So that is the case. But now it will be taken on priority and hope to see that.

Ravin Kurwa

So, we can see more currency derivative markets going up going forward?

Sameer Patil:

Hope to see, because one it is active then we can see some traction.

Ravin Kurwa

That's it. Thank you.

Moderator

Thank you. Next question is from the line of Shivam Gupta from CWC Advisors. Please go ahead.

Shivam Gupta

Hi, thanks for the opportunity. I just had two questions. First one for StAR MF, in this quarter do you have any contribution from these value added services like payment reconciliation, etc.?

Ashishkumar Chauhan

It has just started from October 1, payment part.

Shivam Gupta

Okay. And sir, like since October you start, so this will be like monetized on both sides from the AMCs and the distributors or only the AMCs will pay it?

Ashishkumar Chauhan

Currently AMCs are paying, distributors are not paying. But when we start charging and when we start collecting the commission and then hand over to the distributors, at that time we might charge some portion of that to the distributor.

Shivam Gupta

Okay. And the last question, you did touch upon the CFTC regulation relief coming for us. I understand the revenue side, but how big can this be from the volume side for your derivative segment?

Ashishkumar Chauhan

Volume could be large if some of them decide to basically come on the BSE platform. Because what happens is, each guy, I mean, there is one party which accounts for probably 10%, 20% of all the volumes in U.S. If one or two of them come then sky's the limit, right. So if you look at NSE's volumes also, you might think there are 2 crores investors trading. No, it's 25 brokers and probably a few hundred clients that are actually trading most of it. That's how this business works. It's very, very concentrated business everywhere. So if some of them decide to shift here, that could be a very large opportunity.

Shivam Gupta

So just a read through, through this. And please correct me if I am wrong. So since you made a representation on behalf of your member brokers, so can I read that as they themselves see that there is a potential demand from their clients to do it on BSE derivatives and hence they approach you to make the representation?

Ashishkumar Chauhan

Correct. That's how this works.

Shivam Gupta

Thank you for the time. Wish you a great season,

Ashishkumar Chauhan

You too. Have a nice year and Happy Diwali.

Moderator

Thank you. The next question is from the line Vinod Datar from VT Datar & Co. Please go ahead.

Vinod Datar

Thanks for giving me an opportunity, Am I Audible? While placing the orders on BSE platform, I always found that there is a vast difference between bid price and ask price, then on NSE. Any specific reasons for the difference? And is this a reason for more orders getting executed on NSE than on BSE?

Ashishkumar Chauhan

Basically it is a function of how many people are placing orders on buy side and sell side. And that's why you may see some differences somewhere in bid and ask prices.

Vinod Datar

So that is not how it happens on NSE, there is no vast difference in bid and ask price.

Ashishkumar Chauhan

You might be surprised, it's a perception you have created. But go into the e-liquid part of it and you will see similar situations there too. It's a perception which all of us create and then we try to generalize saying in all stocks in all contracts they must be having infinite liquidity, it doesn't happen that way, right.

Vinod Datar

Thank you.

Moderator

Thank you. Ladies and gentlemen, due to time constraints, that was the last question. I now hand the conference over to the management for closing comments.

Yogesh Joshi

Thank you, all, for attending BSE's Earnings Call. Stay safe and take care. Thank you.

Ashishkumar Chauhan

Thank you, everyone.

Moderator

Thank you. Ladies and gentlemen, on behalf of BSE Limited, that concludes this conference. Thank you all for joining us. And you may now disconnect your lines.