

MCX/SEC/1938

June 2, 2021

BSE Limited  
Department of Corporate Services  
PJ Towers  
Dalal Street  
Mumbai - 400 001.

**Ref: Scrip code: 534091 Scrip ID: MCX**

**Subject: Transcript of the conference call with investor/analysts.**

Dear Sir/Madam,

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 read with the SEBI (Listing Obligations and Disclosure Requirements) (Second Amendment) Regulations, 2021, please find enclosed herewith the following transcript(s) of the conference call with investors/analysts.

<b>Sr. No.</b>	<b>Investors/Analysts</b>	<b>Date of Call</b>	<b>Time</b>	<b>Annexure</b>
1.	Mr. Doug Turnbull, Invesco & with UBS India Mid-Cap	May 26, 2021	4.30 pm to 7.30 pm	<i>Annexure - A</i>
2.	IIFL	May 27, 2021	4.00 pm to 5.00 pm	<i>Annexure - B</i>
3.	UBS India Mid-Cap	May 28, 2021	11.00 am to 12.00 pm	<i>Annexure - C</i>

Note: The audio/video recording(s) of the above meeting(s) are uploaded on the website of the Company at <https://www.mcxindia.com/investor-relations/ir-meetings>

Kindly take the same on record and acknowledge receipt.

Thanking you,

Yours faithfully,

**For Mufti Commodity Exchange of India Limited**

**Ajay Puri**  
**Company Secretary**



**“Multi Commodity Exchange of India Limited Conference  
Call with Mr. Doug Turnbull, Invesco & with UBS India Mid-  
Cap”**

**May 26, 2021**

**Disclaimer:**

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This document may contain “forward-looking statements” – that is, statements related to future, not past, events. In this context, forward looking statements often address our expected future business and financial performance, often contain words such as “expects”, “anticipates”, “intends”, “plans”, “believes”, “seeks”, “should” or “will”. Forward-looking statements by their nature address matters that are, to different degrees, uncertain. These uncertainties may cause our actual results to be materially different that those expressed in our forward-looking statements. We do not undertake to update our forward-looking statements.



**MANAGEMENT: MR. P.S. REDDY – MD AND CEO, MULTI COMMODITY EXCHANGE OF INDIA LIMITED**  
**MR. SATYAJEET BOLAR – CFO, MULTI COMMODITY EXCHANGE OF INDIA LIMITED**  
**MR. PRAVEEN DG – HEAD OF INVESTOR RELATIONS**  
**MR. VIJAY IYER -- INVESTOR RELATIONS TEAM, MULTI COMMODITY EXCHANGE OF INDIA LIMITED**

**Vijay Iyer:** Hi, this is Vijay Iyer.

**PS. Reddy:** Yes, Vijay, I am Reddy here.

**Praveen D G** Myself I am there.

**Vijay Iyer:** Hi, Doug Turnbull from Invesco. This is Vijay Iyer from MCX Investor Relations Team. Doug, we have our senior management, Mr. P.S. Reddy -- our M.D. and CEO; Mr. Satyajeet Bolar -- CFO and Mr. Praveen D G -- Head of Investor Relations. As you know this is a one-on-one meeting with management and before they start, I would just say that as you have been briefed, as per the new SEBI guidelines, the audio of this call will be put out in the web site, this is a new compliance which is being followed, I thought I will just inform you. So, Yes, Doug, our M.D. and CEO will take it forward.

**Doug Turnbull:** Sorry, do you say, a recording of this conversation will be made public?

**Vijay Iyer:** Yes, sir.

**Doug Turnbull:** That's quite strange. So, anyone can listen to our conversation on your website.

**Vijay Iyer:** Yes. This is the new compliance, regulation which is brought in by Indian market regulator, SEBI. So, we have just started implementing this and as per the requirement, we will have to put the investor meeting that we have, the audio of it and the transcript of it in the website.

**P.S. Reddy:** But find out whether Invesco desires such a thing to happen or not happen, we need to find out their privacy concerns also.

**Doug Turnbull:** Okay, fine, well, I never heard about before that. That's okay. In anyway, I am pretty new to your business. So, I haven't spoken to you or really looked at the company before. So, I like to just get a good introduction and overview. I do have some questions. But perhaps if you want to just start by introducing the history and also business that will be really great, specifically helps draw out for me what is cyclical versus what is structural here as opposed to?

**P.S. Reddy:** Thank you, Mr. Doug and welcome for this conference. With me, our CFO Mr. Satyajeet Bolar and Mr. Praveen D G looks after investor relationship and so is Mr. Iyer who also takes care of the investor relations.

MCX has by and large about Four Business Verticals; one is Energy, where we have our Crude Oil and the Natural Gas.

We have five Base Metals that are getting traded at this point in time; Aluminum, Zinc, Copper, Lead and Nickel.

And we have also Bullion which is again a flagship contract.

Both Silver and Gold trades and with various lots in terms of quantum also; we have a 1 gm gold, 8 gm and 100 gm, etc., So, in silver, we have 5 Kgs, 1 Kg and 30 Kgs, all that stuff is there.

The third vertical is Bullion.

The fourth one is Agri-Commodities where we have Cotton, Mentha Oil, we have a CPO, that is Crude Palm Oil and, of course, there is a cash settled contract and we have other minor contracts but then these are the three major ones, which are being traded.

When it comes to the crude contracts or energy contracts, they are all cash settled contracts, so they are settled on the CME prices and especially in the index where the contract is. When it comes to gold and the reference rate for the contract is the domestic prices, so is for the base metal contracts. In fact, until 2019, these base metal contracts were also cash settled contracts and thanks to SEBI, they asked us to take a relook at the way that these contracts have been traded, settled and they found that these contracts are not so much relevant serving the market unless you make the prices relevant. So, they made us to take this route. So, now they are all delivery settled contracts. So, domestic prices are relevant for our settlement.

Nonetheless, we have an agreement with LME for using their brands so that those brands can be delivered on the exchange platform when the deliveries take place.

And on our own also, we have started empaneling some domestic brands so that they too will be able to deliver on the exchange platform and has not started as yet but we started with gold and silver already two refiners have been admitted, but in the case of metals, we are yet to make the start, we have started with a lag and there is some discussion going on with SEBI and once the approval is received, we will be starting that also. So, this is all in all our product range.

Until the negative pricing in crude oil took place, the energy contracts were contributing 35%-40% and gold in another 35%-40%, then it's always back and forth happening, but together almost 80% was contributing.

The metals were contributing almost 17, 18% and remaining were the agriculture; agriculture forms a very small contribution to the average daily turnover.

Even in the base metal contract, there were some structural changes. As I said, SEBI told us to make it as delivery-based contract. Not only delivery-based contract, we had mini contracts and standard contracts. The mini contracts also have been done away with because of SEBI directive.

The third which is equally important is they said you make delivery unit and trading unit equal. So, that earlier we had a smaller trading unit so the greater participation will be there, but delivery unit will be bigger. So, unless somebody who wants to take delivery, accumulates a few smaller lots of let us say 5 tons, 1 tons each of trading lot of 5 tons, then he cannot take a delivery of 5 tons aluminum or 2.5 tons of copper or 1.5 tons of nickel, etc., something of that kind we

had. But then SEBI said that no, you must make even the trading unit equivalent to the delivery unit. So, the trading unit once it is made especially in copper and nickel, the cost of 1 lot has gone up substantially and then many smaller players have moved out of these contracts.

Similarly, when we had negative pricing in crude oil in last year April, the margins have been substantially increased because in India, we take a price range of 15-years volatility to arrive at the margins. So, as a result of which this negative pricing has impacted the whole calculation of margins and this contract for almost eight, nine months was very dormant... hardly any trading has taken place because the margins were almost 100% and 120%. Subsequently, because of substantial appeal to SEBI, they have lowered the margins in this crude oil contract. Now it is 20% which is still higher than many international contracts but still we don't have a choice, so we are moving with that. Some participants who could move over to (NG) Natural Gas have moved over, but some have just shut the shop and then moved away. So, that is something which has impacted substantially our volumes. At this point in time, these two account for less than 30% maybe, both crude and NG accounts. So, this is in brief my discussion about these contracts. Anything more you want, I will clarify as you go along and fire questions.

**Doug Turnbull:**

Okay, that was great, thank you, just a good introduction. A couple of quick clarifications. You said there were three agricultural commodities; cotton, mentha oil and crude palm oil. You also said there have been three structural changes to the base metal contracts that SEBI wanted them physically delivered, wanted the delivery and trading units to be equal size, I think it was a third thing you mentioned, I didn't quite catch.

**P.S. Reddy:**

The third one is, one is delivery-based and the second one is trading unit and delivery unit should be uniform... and there should be only one contract, there cannot be a mini contract. Mini contracts were contributing about 27% to 30% of the total volume. Between mini and standard contracts there was also a lot of arbitrage opportunities are there and so that's gone...

**Doug Turnbull:**

Okay, great. Say to the sort of a second introductory question which is, help me understand the exposure you have cyclically versus structural drivers for earnings growth, in fact, you spoke about some on the cyclical nature of the business how volatile your volumes and pricing tend to be, are we reliant on volatile commodities in terms of price level of commodities, what's the cyclical aspects to this, where a strong commodity inflationary environment at the moment?

**P.S. Reddy:**

What gives us volume is nothing but volatility. In all our products, there is nothing much cyclical, maybe in the case of agri commodities which contributes about 2% to 3% at the end of the season, there may be some lower volumes and again when the new season comes, greater degree of flow of commodities come in but in other commodities, it is the volatility which plays much, much bigger role than anything else.

**Doug Turnbull:**

I guess the point you make in agriculture, if you talk about seasonality when I refer to cyclical, I am thinking more exposure to commodity cycles, to commodity prices ultimate.

- P.S. Reddy:** Understand, that's part of it. I think it is not the level of the prices that have affected our volumes, again, irrespective of the cyclicity of the commodity prices, the more the volatile, the more the transaction that take place, it is not so much of the level of the prices and cyclicity of the prices but it is the volatility, cyclicity maybe in the medium term, maybe two years, three years, etc., But as it travels through the site it should explain you volatility, then we get business, that's the way it is.
- Doug Turnbull:** Understood. Talk to me about how revenue model works on a contract?
- P.S. Reddy:** We have ADT-based slabs and somebody who gives me more volume than I think Rs.350 crores ADT, up to Rs.350 crores they pay me around...
- Praveen D G:** Higher side, it is 260 and lower side it is 175.
- P.S. Reddy:** And the moment they cross the slab, then we charge as per Rs.175 per crore much like income tax slabs, put it that way.
- Doug Turnbull:** So, the point I am trying to understand is that if the gold price goes up by 40% and volumes of contracts stay exactly the same, do you see your revenues go up or do you...?
- P.S. Reddy:** That's right, revenues go up.
- Doug Turnbull:** Okay. You just said that you charge a certain amount for the number of contracts traded?
- P.S. Reddy:** Not the number of contracts, (ADT) Average Daily Turnover. Turnover is the volume multiplied by the prices, that is the way it is.
- Doug Turnbull:** Sorry, that's what I was asking, it is a value.
- P.S. Reddy:** Yes, that's right.
- Doug Turnbull:** Yes, if prices turn on value. There is definitely a lot of exposure to the level of price that the individual commodities as the prices go higher if we presume those volumes just stay the same, your revenues will go quite a lot higher?
- P.S. Reddy:** That's right.
- Doug Turnbull:** Understood. It sounds essentially cyclical part of earnings. I guess the more interesting part of the story is it's a structural size. Perhaps you could size by going through the user base today, the nature of that and how you will expect that to expand, what else you are doing yourself, try to expand the user base?
- P.S. Reddy:** Yes, currently, the users have to trade through the member brokers and we have about 500-odd members, almost flat kind of thing. They register the clients. In fact, last year is one year where

the maximum registrations have taken place I would say, especially there is the change and SEBI has permitted what is called a “Unified Broking Entity Concept.” So, the commodity exchanges are in the jurisdiction of SEBI. They came in 2016. Now, brokers earlier open to do trading, one for commodities and one for equities because they are under two different variations. The moment they came in here under the same jurisdiction, they have shut that particular entity and then transferred all their clients to the equity. So, even the equity market clients can get access to the commodity terminals or the trading in some of these without any extra compliance requirements, that is the most important. Clients do not like, “every time they are just saying” and all that kind of thing. So, all that requirements have gone. So, that is the reason why a good number of new client base we are seeing. But notwithstanding that, we had unique clients for what we call “UCC” who have traded. Last year we had about 4 lakh clients have traded and this year about 4,56,931 traded. This is the number that I have. So, many have traded additionally. So, it's a 14% growth who have traded but there is a great potential to increase this number. And a lot of new hedgers also participated, that is one. Our focus is to bring in more and more hedgers. Now, what are they doing to bring more people to this participation, first of all, many hedgers do not have what is the advantage or what is the benefit that they get by participating on the exchange platform, how they can mitigate their risk. Most of the times, they are confused between the contracts entered on the exchange platform and the physical book that they are maintaining. Hedging is always between the two books; it's physical as well as this exchange position which is a contra-position. So, one goes down, the other goes up. That is the way hedging work. But some of the CFOs did not understand it, then their management has questioned them, “Why do we do this, we lost on the exchange platform?” But they lost on the exchange platform, but then they must have gained on the physical bit which they don't appreciate, that is the whole issue. So, we conducted a lot of one day training workshops to make them understand the advantages of this particular activity of hedges, this is one important step we took. Second is that some hedgers were hesitant to participate in last year and even before last year because their names were getting displayed on the website. If after the contract expiry maybe 15-days later, if they happen to be major buyers or sellers. So, SEBI mandated top buyers and sellers to be displayed on the site. And they are all resisting, said “No, if this is the case, I will not participate in this” because their confidentiality is breached, they do not want that to happen. So, we have pleaded with the SEBI and requested them to make it anonymous. We will still display the top-10 clients who have traded or who have delivered the stocks on the exchange platform or who have taken delivery on the exchange platform. But it's all one, two, three, four, but nothing else, no names, anonymous. That is another thing that encouraged players to come back into these products. The other one is the bank broking houses is one thing which we are looking at because they have a wide reach, they can bring in a lot of players to participate in the exchange platform. So, ICICI Securities has even started their mobile broking also. So, especially when our markets are open till 12 mid night or 11:30, this mobile broking helps many clients to take a look at it and place orders. And ICICI has a huge reach in terms of securing this market. So, that's something which we have done it. One issue that is coming in the way of expanding the reach of all the players is the GST. GST laws mandated that let us say you take deliver settlement and then deliver it in the next settlement, still you need to have a GST because you need to pass on the benefit to the opposite side who receives that metal may be in the next



settlement. Otherwise, the GST credit will be lost. So, this challenge is something which we are not able to address it. The another challenge that we are facing from some of the hedgers is that it is an anonymous trading platform, nobody knows who is the buyer, seller and we have maybe four, five states where we have warehouses. As per the GST law, both the buyer and seller should have GST registration in the state where that warehouse is located. So, this is a big challenge that we are facing and we have been telling them that this needs to be amended. There is another concept called IGST, the integrated GST it is. So, we would like the players not to register in multiple states, but wherever state they are, they should register there and will be able to issue a IGST invoice so that the hassles of registering in multiple locations will be avoided. So, these are all works in progress for us to bring in more participation and we look forward to yielding some results of these steps.

**Doug Turnbull:** If I'm just make sure understand some of these members correctly that you currently have 600 members and the members themselves break off, but you had something like 400,000 clients traded last year and about 456,000 underlying clients trading this year.

**P.S. Reddy:** That's right.

**Doug Turnbull:** Okay. I see. How should I think about this sort of potential growth rate further. Majority of these clients today people who are hedging exposure to something underlying. Is that fact?

**P.S. Reddy:** Not all of them will be hedged, there would be some speculators, there will be arbitrators and there will be financial arbitrators between the two contracts like the near month and forward month, they buy the stock and then deliver it immediately in the next month. So, this 456,000 includes everybody. Some mutual funds are participating, where we have about four mutual funds who are active in the exchange platform and yes, speculators also will be there, obviously, without that they will not find liquidity and yes, it's like that.

**Doug Turnbull:** Okay, fine. The story is really about getting more hedging demand or meeting the demands that should exist for hedging on an underlying basis. Help me to understand how long this expansion of user base can go? Do you have a feel for how penetrated you are into your target markets that sort of thing?

**P.S. Reddy:** The penetration I would say at this point in time is on the surface. When it comes to especially gold, RBI, our Reserve Bank of India or Central Bank has banned hedging in overseas markets. So, the domestic players are all hedging on the exchange platform whosoever understands hedging. But still that number is also small because many do not hedge and our efforts are directed towards bringing in more and more players on to the exchange platform. One such measure that we took to integrate the physical market onto the exchange platform is that even the domestic refiners who are selling in the physical market currently, we have empaneled them after following the process, we have done the technical audits, financial audits of all this for people, all those requirements and then allow them to deliver on the exchange platform. So, the more and more integration with the physical market is taking place and it is done in the case of

gold. And one is the regulatory ban, second is this kind of measures. Similar thing we are doing it in the other commodities. So, lead is one commodity where the secondary that is almost 80% is used by the battery and the inverter manufacturers. So, we are empaneling domestic refiners to deliver their metals on the exchange platform. So, via this route also, some of the people market players are their customers, the customers are those refiners who are empaneled on the exchange platform are looking towards exchange as a good place to buy if there is any remunerative price on this. But yes, major players in India are looking at the LME and other international markets for their hedging needs.

**Doug Turnbull:** I'm not sure I understood that right, but does that suggest you are essentially in direct competition with the LME for some of the existing hedging requirements?

**Praveen D G:** Ours is 100 barrels and CME is about 1,000 barrels in case of crude oil.

**P.S. Reddy:** So, it is 10x essentially. Okay? And ours is much smaller. So, we are looking at the medium and the small players within the country who cannot go to LME or CME to participate and take exposure. So, we have a niche place within the country and that's where we are catering to.

**Doug Turnbull:** Okay. Understood. Again in terms of structural growth drivers, could you tell me what could be done in terms of expanding the product mix or is it more a case of just driving more volumes organically through the existing products?

**P.S. Reddy:** Yes, one is that we are planning to introduce more and more products. Second some new type of players have to come in, like for example, (FIIs) foreign institutional investors, currently are not permitted to trade in this commodity markets. Even the mutual funds they could take only exposure in the bullion because they are allowed to hold a commodity for about 180-days but in the case of metal, they say that there's a limit of 30-days they can hold otherwise they should offload it. Obviously, my contract itself is a one month contract. So, how can they offload within 30-days or even 30-days because if there is a next month contract, where they are supposed to be delivering, they need anyway more than 30-days for spend of exposure to sustain. So, similarly, FIIs are not permitted. We have said that in the case of currency markets within country, they don't need to have an exposure, they can simply participate up to maybe \$100,000 dollars or even more, something of that kind. Praveen, correct me. But there is a limit what I wanted to say without any exposure to the underlying. So, we have asked the similar benefit to be given to us for FIIs to participate in the domestic commodity market. Similarly, SEBI coined eligible foreign entity. Those entities can participate in commodity markets provided they have an underlying exposure in India, that means that the play is restricted to India only if the foreign entities have exposure to domestic market than they are allowed to. So, these shackle-free what we're asking them to relax and SEBI is also seriously looking at it because they want to grow the commodity markets and unless the shackles are removed, probably growth will not come and I'm sure SEBI is keen to considering to remove this. We have been telling them, if Indian big companies are going and taking exposure in LME and US markets, do they have in the local market exposure, they have in Indian market or some of the markets exposure. This is the

question we asked them. So, any other company to have exposure in Indian markets, as long as they will have exposure, how does it matter, whether the exposure is in Bangladesh or Sri Lanka or maybe in Australia or somewhere else.

**Doug Turnbull:** Help me understand what SEBI are trying to achieve here because it sounds like they just keep causing problems for you rather than necessarily making the market better.

**P.S. Reddy:** This particular function of commodity markets came under regulation of SEBI only in 2016. They are also learning, they want to go cautious, that is the way I looked at it. But now that they got the grip of the markets and understand the nuances of it, I'm sure they will be a little more relaxed and progressive in doing it. Another problem is once you make a rule, they've to take a call on it. Once they make a rule for non-agri commodities, similar for us to build for the agri commodities and agri commodities in India is a very sensitive and political subject if things go wrong. So, obviously they need to find via -media where non-agri commodities can have a separate part of development and agri commodities may have a different part of development.

**Doug Turnbull:** Which at the moment is not the case because the roof of non-agri commodities is a place to agriculture. What you're saying is the regulator kind of has to protect the agricultural market more, but that doesn't mean they have to apply that same level of structure to non-agriculture commodities.

**P.S. Reddy:** Yes. Not that they are applying, they do understand that but they are a bit conservative, that's the way I look at it.

**Doug Turnbull:** What have been the major changes that they have put in place -- is it mostly around margin requirements?

**P.S. Reddy:** Yes, there is another thing that has come up... of course, apart from risk management which they are fighting for the commodity markets, across the jurisdiction of SEBI, they have tightened the margin collection by the member brokers, I mean, if they don't collect that margin from the clients, they are penalized. Similarly, they are not allowed to fund the clients also via even the third party also they're not allowed to fund it, they are not allowed to arrange such facilities I would say that. So, brokers are safe to that extent.

**Doug Turnbull:** Okay. And I mean obviously these margin requirements are highly important. I'm just looking back at some of the research which say that if we get back to the start of 2020, the margin requirements on crude oil was somewhere in the 20s and it's now a little bit high but nothing like what it was. Yes, we haven't really seen much bounce back in volumes setting up to months. Is there something else going on in crude oil beyond just the margin requirements, have they put other...?

- P.S. Reddy:** No, margins have been brought down, okay, that's the only thing and as I said earlier, almost from 100% it has been brought down to 20%, that's the reason why crude oil contract is so, from the month of December onwards if I'm not mistaken these margins have been brought down.
- Doug Turnbull:** How these volumes in crude oil doing now compared...?
- P.S. Reddy:** Currently, crude oil is about 4,000 crores ADT.
- Doug Turnbull:** But whereas the beginning of last year per month was...
- P.S. Reddy:** If we see the entire last year, that is '19-20, our crude oil was Rs.13,000 crores and in the current year, of course, for a long time it's not traded, Rs.2,800 crores is the '20-21 ADT.
- Doug Turnbull:** Yes, so I guess the question is why if margins have been brought back to where they were in '19-20, why have ADT is not?
- P.S. Reddy:** See, it's not brought back, it's almost 20% now. They're not supposed to be 10%, that's one part of it. Second, if the (OI) Open Interest increases, then the margins are going to go up, that is what the new dispensation is. Obviously they are under constant threat. Okay. The moment OI goes up by more than x-percentage, then the margins will improve. That was not the case last year.
- Doug Turnbull:** Sorry and that's different. So, the margin requirement is now linked to the crude oil, so that means that people are less willing to trade it because they have to pay more margin. Fine. So, that's a structural change in the volumes in the crude oil market as a result of this regulation. So, I guess I'm asking your assessment on whether these regulations are kind of good and sensible and just help the market get stronger or it's certainly not particularly interested in the size of the market, they just want to make sure that it's super, super safe or something like that. I'm trying to work out with their agendas.
- P.S. Reddy:** See, SEBI is more concerned about the security of the market because we are in a nascent stage of development. If trust is lost, then we will have a big problem. And we do not want any accidents to take place, that is what the SEBI's view is. In fact, the negative pricing is as crude oil linked to is a very big dampener to us. And many brokers have lost and then they've gone to the court and then they have filed suits against MCX also, probably you must have seen in our annual report on the negative pricing. That is the way it is. And they don't want anything of that sort to happen.
- Doug Turnbull:** Okay, understood. Could you talk me through the cost side of the business and what investment is required to support your growth and where you can find operating leverage?
- P.S. Reddy:** Currently, we have excess cash on our books, no doubt about it and our investment requirements majorly comes from what do you call the CDP, that is commodity derivatives platform that we are developing in association with the TCS. I will not be able to give that number because I've

not been doing it and that's a contractual confidentiality that I need to abide by and that is something that we will not be. The second thing that we may expect SEBI to permit, I don't know when they will do it as we go along the co-location for servers that currently co-location is not permitted and that's a big thing for a lot of algo players and that is something which is not permitted, so we have not invested on that as yet. SEBI did say that if we want you to develop it, then we'll give you a six month lead time for developing your own center, etc., The third one would be the spot exchange that we need to invest in. Fourth one is equally important is international bullion exchange where all exchanges have come together including MCX to set up in the GIFT City. Again here in direct competition with some of the international spot exchanges. These are the things for which we need funds, but otherwise year-on-year, of course, there is always a surplus where that is getting added to the reserves.

**Satyajeet Bolar:** Also, Doug, M.D. would like to tell you that our existing agreement with a service provider that is 63 moons is coming to an end in September '22. Presently, we pay fixed plus variable fees, which is linked, to our transaction charges and as M.D. said, going forward from October '22, we have an arrangement with TCS who is developing a new platform. Then we'll be just paying them an annual AMC. So, there would be a deduction in computer technology cost going from October '22.

**Doug Turnbull:** I see. Have you quantified what that might be?

**Satyajeet Bolar:** It would not be appropriate to quantify, but it would be a substantial fall in our computer technologist cost.

**P.S. Reddy:** There will be depreciation on the expenditure that we incur on the main contract, but in terms of AMC, it will be substantially low.

**Doug Turnbull:** Sorry, what is it that these guys are going to provide?

**P.S. Reddy:** Trading software. This is in tie up with German Deutsche Borse, their T7 trading platform is going to be deployed in India with modifications.

**Doug Turnbull:** So, in terms of these areas you need to make investments into if I got that right one is the commodity derivatives platform, so I guess a platform to trade options or what have you on, one of which in time co-location of services that comes allowed, then the other two I didn't quite catch...

**P.S. Reddy:** There are two spot exchanges; one is international bullion exchange in the GIFT City for gold and there is another domestic spot exchange for trading bullion on the spot exchange within the domestic market.

**Doug Turnbull:** I see. The difference between those, one is only for the domestic market whereas another is a market in India where global gold exchanges can come together?

- P.S. Reddy:** No, the other one is the international bullion exchange. We have a GIFT City in Ahmedabad, you know that probably BSE and NSE invested, you probably know that, Singapore NIFTY what is getting traded are also getting relocated to GIFT City, international trading zone has been set up by the government where transactions are in USD only and there are no taxes, no customs or thing. And registration is also very minimal registration.
- Doug Turnbull:** Okay, understood, fine. These are essentially CAPEX and then on the OPEX side the main cost is the main software platform and the cost of that should be falling but the depreciation cost should be rising.
- P.S. Reddy:** Yes, that's right. The employee cost is the only thing. But if you see the CAGR, over the last three years, our fixed costs have gone up by only 1%.
- Satyajeet Bolar:** Revenue has gone up by 7% while the costs have gone up only by 1%. Our profit has gone up by 20% and that is before tax, and after tax it has gone up by 17% and our ADT, that is Mr. Reddy kept mentioning the average daily turnover over the past three years, has gone up by 8% CAGR.
- Doug Turnbull:** Understood. That is very helpful. For an introduction, that's been very helpful meeting. So, thank you very much indeed. If and when I've got some follow up questions, I will definitely get back to you.
- P.S. Reddy:** Yes, sure, Mr. Doug.
- Doug Turnbull:** Bye.

**Second Call**

**Lavanya:** Hi, Lavanya here from UBS. Hi, everyone;. Thanks for joining UBS India Mid-Cap Conference. So, we have MCX management with us; we have Mr. P.S. Reddy – Managing Director and Chief Executive Officer of MCX with us.

**Ankur Agarwal:** Hi, sir, this is Ankur Agarwal from HSBC. One quick question on the margin which has moved to 75% probably in a week or so. So, margins have increased from 25% and then to 50%, we saw sharp fall in the trading volume. And probably after a couple of months, the margin backed up again. In general, just to make a sense of it, of course, 75% also we see, some latest fall happening. Is the trend similar across commodity or we are seeing a different turn across different commodity? Secondly, what is the current margin typically going on? 50%, 70%, what is the numbers like currently?

**P.S. Reddy:** The margin for a specific product has got whatever is the margin. When I say 50%, you need to collect whatever is the margin that is applicable, it's a 10% for a commodity or 20% for a commodity, out of that entire 10%, you need to collect 25%, 50%, 75% and 100%, that is the way it is. 100%, it is not that the entire value of the commodity will be collected. The rule says that whatever is the margin, that is applicable. And brokers have to collect from the client, get that material point in time, that is 5x in a day, the snapshots will be taken and at this point in time they must maintain from open position that the client is having so much margin should be kept, that's what it is. So, let us say for copper it is 15%, I am just giving an example. So, if it is on Rs.100, Rs.15, then from 1<sup>st</sup> December onwards 25% of Rs.15 is to be kept and going forward like 50% and etc., As per the exchange clearing corporation is concerned, we are fully covering it because we are concerned about the clearing members and trading members. Brokers themselves are now taking it, maybe extending undue services, maybe not warranted or they are not covering themselves is the dispute that triggered.

**Ankur Agarwal:** I understand that sir. So, given the fact that it is going to move to 75% now, eventually move to 100%, how much volume do you foresee?

**P.S. Reddy:** As I said, there is a kneejerk reaction from the clients and then again they will come back when there is volatility and then getting adjust to it. Whatever are the impact that has happened, I don't think it will further deteriorate is my view.

**Ankur Agarwal:** But sir, if somebody liquidate, even it gets more tightened up to that extent, he was probably putting only 7.5% earlier now eventually it is 15%, how trade will reduce to that extent?

**P.S. Reddy:** For some of the speculators, yes, I do understand that. But that's where the appeal is currently pending before SEBI, both of the commodity participants association as well as MCX requesting them to freeze somewhere there this number. The way that brokers are operating is whatever is the margin that is currently given to the client, if the crystallize losses on intraday trading are less than maybe 90% of that margin amount, they are not making any margin call. So, with this

kind of rules and obviously the brokers have to collect much more margin than what they are currently doing it. So, that is the reason why this has triggered.

**Ankur Agarwal:** That's why my questions. I am not going to ask about what MCX margins are. But in your opinion, understanding of recovery...

**P.S. Reddy:** Yes, the cost of trading will increase, no doubt about it. There is also SEBI trying up the idea of clients giving bank guarantees or clients putting fixed deposits, etc., directly with the exchange to increase the level of clients confidence as well as to reduce the cost of trading for those clients. So, that will help, that will go a long way.

**Ankur Agarwal:** Any sense when we can get something for SEBI to come out with this plan?

**P.S. Reddy:** We have been following up for the last three months or so and SEBI has come out with a discussion paper or some public comments and I think in the next three months' time should be in place. Many are looking forward to do.

**Harish Kapoor:** This is Harish Kapoor from IIFL Asset Management. A couple of things. Sir, this margin part that you just spoke about right now, that you were kind of talking to SEBI or SEBI is also kind of talking to them to help them in terms of margins, I think you spoke about on the call to that intraday the delivery could possibly be different, trying to work that out. Now by when do you hear something on this from them?

**P.S. Reddy:** There is a committee of risk management in SEBI there, that has to get into this. Then only it will happen. I may not be able to give any time period for that. I think what is there in the jurisdiction of regulators, I may not be able to say that. I do not want to give any number, I think it is not fair.

**Harish Kapoor:** Second thing is broadly around options. When we look at the options data, though you are not kind of charging for that, if we compare your data with BSE, what we understand is that at least turnover number seems to be higher than yours. You are getting traction in gold advantage product or some of the products and yes, they are impacted in a Gold Mini product. What I understood is that they are also doing LES there. But can you comment, why we are not able to get traction in the Gold Mini product and BSE is doing it, why our focus is not there? And are we waiting for something on a technology side?

**P.S. Reddy:** I would like to understand this way that BSE is only volume creative. The number of participants are low. In fact, I ask my colleague to tell me, how much is the OI yesterday, Praveen, you told me.

**Praveen D G:** I will just give in a second.



**P.S. Reddy:** So, OI is hardly anything. OI which will really give confidence that volume is Rs.3,000 crores and a few changes. That is something which is unheard. But look at the MCX gold contract and our OI is about 3 tons, 4 tons.

**Praveen D G:** In case of Gold Mini, it is like on 25<sup>th</sup> May OI was 3.7 Kg versus a volume of 6,747 Kg. Instead of getting into the decimals, I will give you, roughly it is about 4 Kgs versus 6.7 tons. I am talking about only the BSE. In our case, Gold Mini we don't have much volume and in case of gold Kg, we are doing something around 3.7 MT versus 2.8 MT, OI versus volume. I am talking about only the gold Kg product which is option on futures.

**Harish Kapoor:** I just want to clarify this. I think this kind of came up during the call also and Mr. Reddy has kind of mentioned that maybe there is another way to look at it. Now, just to kind of understand this better, I think 3.7 Kg and 6.7 tons that you are talking about is basically the higher gold product, this is not the Gold Mini...

**P.S. Reddy:** Gold Mini we have discontinued the liquidity enhancement scheme. We bought three years ago by spending about 1.2 crores or something. So, we have realized it. BSE is also doing the same thing and that is options on gold, that is what they have introduced. NSE is also there. Even NSE volume is less but their OI is better than BSE and both have a liquidity enhancement scheme. We don't think this product will be successful.

**Harish Kapoor:** So, what is the reason that their OI is so lower? Just to get the numbers right because you have all the numbers, if I take Gold Mini and I take that 1 Kg product that is there, both of them combined, what is basically the difference in open interest because I think talking about the higher Kg product for BSE, they are lower in volume, I do understand they are doing LES maybe in the Gold Mini but both the products put together sir can you just tell me what is the open interest if you have done any analysis and whatever....?

**Praveen D G:** MCX we are active only in the gold Kg contract, not in the 100 gms contract, so you can forget that Gold Mini contract on MCX. Talking about only gold Kg contract, we are doing something like I said it is like a turnover wise we have done something around 1,300 crore, I am talking about the one-day figure business and in case of OI it is 3.7 versus 2.8 MT volume, that is what we are doing in gold Kg contract. Okay? That is the number.

**Harish Kapoor:** Why is the difference sir in terms of focus that you all are focusing on mini, just to understand that?

**Praveen D G:** Mini, say, whatever we have launched is a gold options in spot contract, Gold Kg is options on futures contract. And we were the first to launch the gold contract because the gold futures contract has been launched very long time back. This is the first options contract to be launched on the exchange and it is well received by the market participants. Maybe people are looking more into the option on futures contract, maybe than option in goods contract, that is the way we can look at it, giving our volume and open interest on our exchange.

- Harish Kapoor:** Because option on good actually has higher CTT also, right, sir, multiple times than option on futures contract?
- Praveen D G :** There are multiple combinations, it's not like the CTT is more or less on one thing, because there are multiple combination. Because when you enter it, it is going to be more or less same, but when you exit, because in this case of option and future, your positions will be devolved into the futures. When the positions are going to get devolved into the futures, once you get the futures contract again the CTT will be levied. So, in case of option in goods, initially it is going to be the one, like initially as a seller you will have to pay the CTT. But after that one, if you are going to be able to take delivery of that one, at least to my knowledge, there is no CTT for it. But if you exercise something you will have to pay some CTT. or STT, I am not clear on that one, but you have to pay something. So, these are two different products altogether.
- P.S. Reddy:** I think I will give you another one which is a cotton, our turnover was almost Rs. 35 crores, Rs. 40 crores, BSE turnover was about Rs. 70 crores, Rs. 80 crores. And they had 500 bales in their warehouses and open interest is 1,000 and odd bales. And our open interest was about 225,500 bales. And the material that is available in our warehouses is 1 lakh and odd bales. So, we did take it up with SEBI, it is distorting the market and then people, the same way that you got misunderstood, people will think that there's so much liquidity. No, absolutely not. It is only a few players that are creating it, in good old days I was BSE, how the market volumes are created I know, anyway, let's not get into that.
- Harish Kapoor:** Sir, and this TCS thing, I think there seems to be some lack of clarity on that one in terms of how much the cost saving, etc. could be. You actually spoke marginally on the software benefits that would come through on the call. But what we understand is that TCS software has to go live from July 2022, next year, and basically you launch products after that on that platform. And the existing products will continue on existing platform. Is that understanding right, sir?
- P.S. Reddy:** No, no, no. Everything in this, like stock and barrel, all products will be moved over to the new platforms. And we will be sometime in February or so, the parallel will run will also start with this, I mean, with the member brokers, sometime in February, March, we will do the parallel runs. And the system will be examined. I mean, everybody is on the same page, maybe the same products will put them on that platform and then run it. So, once we migrate, this will be completely different to use, that's all.
- Harish Kapoor:** Sir, what I meant was, till July next year, you will continue to have the existing software, that's what I meant.
- P.S. Reddy:** Yes, yes.
- Harish Kapoor:** Okay. So, you will start migrating from February, March next year, slowly for some of the existing products and try to scale it up till September next year, till where the contract will of the ... contract is right now. Is that understanding right, sir?

**P.S. Reddy:** Yes, correct. But then we will not trade on two platforms. Please understand, at any point of time only one platform will work and only one platform will be on.

**Harish Kapoor:** Sir, and second thing is in terms of new products. How are you thinking about that? You spoke about something aluminum alloy and steel long bars, is it going to be like index product, what is this going to be? And what are the other things lined up? Because the way we think about it is that one is the new product understanding. Second is that last year if we just look at how things have shifted for MCX, we obviously had some challenges around crude. But then obviously gold silver kind of bailed us out in terms of volume. Then again from January, February we started seeing some pressure there, though things have started picking up. But it seems that the product concentration is large for us in terms of few products. And maybe we don't have something like iron, we don't have other things that we can actually have benefited a lot from. So, how are we thinking about these? And are there any challenges around these products that we have not introduced it till now?

**P.S. Reddy:** The way that we are looking at it, for example, if you take a look at the steel product chain, you have ingot, you have longs, you have rebars and you have many other flats, all those products out there. We are looking at it. For the good success of any contract, the large number of buyers and sellers makes it more vibrant. If I confine myself to very few people then we will be cornered in that sense, okay, the trading may not get adequate attention or will not attract enough players. That's why we are choosing steel rebars. Now, it's not that we have not seen that product, but then if you launch one you cannot make the other one also successful. The problem is that. Only one contract is good enough to work as a proxy for everybody else.

And unless people really say that, no, because of these the value addition over the value chain has been reduced, the initial contribution of let us say the iron ore fines. What is the iron ore fines contribution to the main one and how the people, iron ore fine importers can use this steel bars, rebars, I can understand that there is something. But the steel ingots are something which everybody wanted us to launch. But then when we have launched, way back, I think sometimes ago, about seven, eight years ago also MCX has launched and we did not get good response. So, we are also going by our learnings in the past, not necessarily they will be repeated, if you launch today it maybe successful, who knows. But we would like to try some other product, which we are reasonably confident it will be successful. And that is the way it is.

**Harish Kapoor:** And that is going to be on futures platform or which platform?

**P.S. Reddy:** On futures only.

**Harish Kapoor:** Steel rebar and aluminum alloy both will be on futures platform?

**P.S. Reddy:** Electricity futures, and we are eagerly waiting for SEBI's approval for that. And in fact, we have moved in the Supreme Court also an application, requesting the court to dispose of this application. Because we are very keen that these products be launched, that is the reason.

- Harish Kapoor:** And any other things lined up in terms of product or these are the key ones?
- P.S. Reddy:** These are the key ones.
- Harish Kapoor:** Sure. And the last thing is, basically sir as per your term, if you can say till when is your term, sir?
- P.S. Reddy:** My term is for five years. And in this May I have completed two years, and then other three years is there.
- Moderator:** Thank you so much.
- Ratish Varier:** Sir, this is Ratish from Sundaram Mutual Fund. Sir, quickly just two questions, follow-up from earlier questions. The first participant asked you about certain margin requirements going up by September, etc. And we have put a request with SEBI along with the Commodity Association. I just wanted to ask, if SEBI doesn't accept it, and they have to fulfill the entire margin requirement is there, is there any possible where the broker can fund the margin, any such methodologies are there around? Any workout for whatever speculator volumes might remain low for a certain period of time?
- P.S. Reddy:** That is the problem. And SEBI is very clear, brokers cannot fund it. But even if brokers bring NBFCs, the NBFC needs a tripartite agreement kind of thing, so that in the event of a non-collection of their dues, the broker should be able to stop payments to the client. But even that kind of tripartite agreement is not being allowed at this point in time, as I understand. Because NSE has also come out with some circular. So, that is where the whole talk is at this point in time.
- Ratish Varier:** So, till any clarification doesn't come through, that volume will get impacted because based on whatever the cost of trading goes up, right?
- P.S. Reddy:** Yes, it gets impacted until they get used to it, because it is across all exchanges, the same rule, not just for commodities.
- Ratish Varier:** Yes, I understand that. Second, regarding the software change. So, the full cost efficiency or cost benefit, we will see in terms of the efficiency coming through in a full year FY 2023 perspective, right? As we are moving next July to that software, how should we look at it?
- P.S. Reddy:** Should be.
- Ratish Varier:** And just can you clarify that, what is the benefit we are looking at from the change?
- P.S. Reddy:** I will tell you the. Currently the contract is based on, no, there is a fixed cost so yearly you need to pay, and you need to pay volume based also. So, even if it keeps on increasing, if you do well, still you have to pay that additional incremental ad valorem you need to pay to the software

vendor. But going forward, if TCS thing is there, whatever is the capital expenditure that we are incurring, that is one-time, that's all. AMCs, there's no variable pay, and the AMC, I don't mind since it is a one-digit figure. And there is an annual increase on the AMC, which is nominal. And as long as you pay AMC, there is no fees to be paid.

**Ratish Varier:** Single digit is less than Rs. 10 crores, right?

**P.S. Reddy:** Single digit, yes, that's right.

**Ratish Varier:** That's per annum, right?

**P.S. Reddy:** That's right.

**Ratish Varier:** Sir, just one last point from my side. Can you comment on the institutional activity, that is one where we are hoping volumes will go up.....

**P.S. Reddy:** You are right, that is also my urge. And one is that, these FIIs, EFEs participation is what we are looking for. That has not come through, and recently we had organized meeting with the SEBI where a large number of FIIs have participated in that. And what is their ask and what are their limits that they have, that has been compiled, and why they are not able to participate, EFEs also. So, all that has been compiled and then SEBI is keen to work on that, because they want these participants to come into this forum, into this platform. And this is one part of it. We will also take in NRIs also into this group, and then all of them have spoken.

There is another ask also, FIIs also suggest, like currency market you have up to some limit, there's no need to have an exposure in the dollar or in any currency where you are trading. And a similar benefit be given for FIIs to take exposure in commodity markets. So, that's one part of it. EFEs also said that even if I don't have exposure in the domestic market, I should be allowed to participate in these commodity markets. Currently they need to have an exposure to Indian market then only eligible foreign entities are allowed to, otherwise they are not allowed. This is one major thing.

And then the mutual fund part, three or four of them are participating. And some of them are looking for, silver ETFs is one of their asks, we are also actively engaged with SEBI to facilitate silver ETFs so that we will be able to take extra silver contracts and then hold them even if they have ETF positions. Third is that in metals also they cannot hold the metal for more than 30 days, unlike in gold where SEBI has permitted 180 days. So, we have asked them that they should permit these regulations, relax for other non-perishable commodities. So, as and when the relaxation comes, I am sure it will help greater participation of these institutions.

And third set of participants, is not institutional participation, but institutional backed broking houses, that is like your ICICI and others. I think there are only three precise who are very aggressively doing it, but they are ramping up gradually and others are still to do it. And that's

where the growth is not as expected, not to my satisfaction, honestly speaking, these institutional broking houses.

**Ratish Varier:** Okay. Sir, this FIIs requirements, when do you think SEBI can come out with a reasonable assessment for us or a reasonable feedback?

**P.S. Reddy:** Maybe in the next two days we will be sending this one, because it happened last week, this meeting, and I can expect by July end we can have some kind of movement in this. They may frame regulation; they may put up for discussion some kind of action on it.

**Moderator:** Thank you.

**Ankur:** Sir, one quick question. On the TCS project, you mentioned in the call also that you will be writing off the project cost what you are having. How many years do you intend to write this cost in?

**P.S. Reddy:** On the platform?

**Ankur:** Yes, Yes.

**P.S. Reddy:** Typically between six to eight years is how we write it off, we amortize it over a period of six to eight years.

**Ankur:** The life of it might be even longer than that, or...?

**P.S. Reddy:** It's just perpetual license they are giving us. And the beauty here is, we don't need to even take services from TCS also. And mostly, 99% is API driven, unless some architecture change is needed, and you can deploy your own team and then keep on doing the changes.

**Ankur:** So, there are no transaction led revenue, which was the case in the previous contract?

**P.S. Reddy:** No, absolutely not.

**Ankur:** Only AMC and then the project cost, whatever it is?

**P.S. Reddy:** Yes.

**Ankur:** You are not guiding for the project cost as yet, right?

**P.S. Reddy:** No. Because there is a contractual agreement.

**Lavanya:** Lavanya from UBS. If I may ask one question, it might be very basic. Sir, I am trying to understand, and in continuation to previous question, our goal was options on good while other exchanges it was options on futures.

- P.S. Reddy:** No, there is also Gold Mini in all three, NSE, BSE, MCX has started with Gold Mini options contract on goods for 100-gram gold. And they continued with LES, we realized there's not much benefit in it, so we discontinued, because why to throw down the drain the good money, so we discontinued it. And that's it, others are also not doing any great is what's our assessment.
- Lavanya:** So, one more question here. Any specific reason why options as a whole, the traction wasn't as we had expected? So, any reasons or any challenges that you see here that the option volumes are still hovering around a particular level?
- P.S. Reddy:** That is a very good question, and we are not able to crack that conundrum as yet. And we have been ideating, interacting, and everybody asked for liquidity. And liquidity is there, no doubt about it, but then it is not sustaining it. Not enough interest has come from many retail participants. In options contract, for me, the retail investors essentially mean the hedgers, who really use that contract for their benefit at the end of the cycle, they can choose to exercise. So, hedgers have not as yet stepped into these option contracts. So, that is something which we are trying to build. It will take some time for us to bring in structural changes in terms of composition of who can benefit from what and then when they will participate.
- Lavanya:** So, again, a basic question, might be wrong also. So, here, because of this margin, or the new margin requirement thing, the impact that you might see in futures, is there any possibility that the fraction would go to options, or the volumes might shift to options, any sense there?
- P.S. Reddy:** That is the way we have seen; option volumes have increased. But not as significantly as we thought. Of course, Rs. 1,000 crores has become Rs. 2,000 crores, that doesn't mean that you have got 100% rise. It has to sustain, and people should, by choice, moving all the time towards the option contracts. That's not happened as yet, I would say. And we have seen, for example, crude oil contract went down because of the negative pricing, a lot of people have moved in to the natural gas. But here, because of these margins, margins being the high than futures, people have not shifted so much to the options contract. But that is one of our selling points also, we have been telling the broker members that this is one good venue where you can really diversify and do something more.
- Vijay Iyer:** If no questions anyone, so can we...
- Moderator:** Sir, I am not sure. That's the reason I am asking. I am not sure who are all there, I couldn't see the question queue, that's the reason I am waiting for a minute.
- Vijay Iyer:** Whatever was the list that we have covered, or everyone participated.
- Moderator:** Okay. So, in that case, maybe we can close our session here. Thank you so much. Thank you so much for joining UBS India Mid-Cap Conference. Thank you so much MCX management and thank you Reddy sir.

**P.S. Reddy:** Thank you, Ms. Lavanya, for organizing. Thanks to the participants also. Thank you so much.

**Third Call**

**Abhinav Rathee:** Hi, this is Abhinav here from C Worldwide. Abhinav Rathee.

**Vijay Iyer:** Hi, good evening. This is Vijay Iyer from MCX Investor Relations team.

**Abhinav Rathee:** Is there anyone else joining the call? I may have a couple of my other colleagues as well joining.

**Vijay Iyer:** Yes. So, anytime our MD & CEO, Mr. P.S. Reddy; CFO, Mr. Satyajeet Bolar and also Investor Relation head, Mr. Praveen D. G., all the three would be joining. And just to reiterate, I believe UBS must have told, because of the new SEBI regulations of disclosures, whatever calls we do going forward will be put out in our website.

**Abhinav Rathee:** You mean the recording of this entire conversation?

**Vijay Iyer:** And the transcript, yes. We have started implementing that after our results this time. So, I thought I will just reiterate once, because of this new regulation. Anybody from your side will also be joining?

**Abhinav Rathee:** Yes, I may have a couple of my colleagues, Allan Christensen and .... joining. I am not sure if they have already joined in, because on the dial-in you can't see.

**P.S. Reddy:** I am P. S. Reddy, MD of MCX.

**Abhinav Rathee:** I have with me two of my other colleagues, .... and Allan Christensen on the call with me. But we are all sitting separately.

**P.S. Reddy:** Okay, no problem. And go ahead and you fire questions. You know, you are a valuable investor for us, please go ahead and fire your questions, Abhinav.

**Abhinav Rathee:** Thank you for making time to do this call with us, really appreciate that. I am not sure how much do you know about us already, about C Worldwide, but I will be happy to maybe give a quick introduction about ourselves. Or we can just start with a more interesting story, which is MCX one right away.

**P.S. Reddy:** Our investors are as much interesting as MCX is. Go ahead.

**Abhinav Rathee:** So, we are an independent asset management firm based out of Copenhagen, Denmark. We invest in public equities, pretty much globally. We have multiple strategies through which we invest in India. And we would like to think of ourselves as sort of long-term investors, we have been investing in India for I think over 15 years now and have exposure across the spectrum across various sectors. We like the kind of business model that MCX has, and that's what sort of excites



us, interests us. And that's really the reason why we have been very keen on sort of speaking to you.

Since this is our first interaction, while we are small investors, but since this is our first interaction, we would like to understand from you how you see the business for yourself, how do you see the opportunity for yourself over the next four or five years? What makes you unique, what gives you the right to win in the marketplace, in the context of competition or threat of substitutes, for example? Perhaps we can start with that and then build on that.

**P.S. Reddy:**

Sure. Thank you for showing interest in MCX and its affiliates in terms of business. Yes, we are already 94%, 95% of the market share we are commanding in this commodity space. And in essence, in many commodities there is no number two, so it's as good as 100%. But it is for the public gaze. And as far as MCX and our management is concerned, we don't take any pride in it, honestly. Because there is a huge scope for development of this commodity markets in India. You name any product or most of the major products, either you are a major consumer or a producer. But still, you are nowhere on the world map as a price setter for many of the commodities.

Now, partly because the regulatory framework does not allow many participants to come onto our platform, like FIIs and others. Similarly, our regulators are also very cautious because any kind of price rise or anything you see, is not all that correct, not in the interest of the market players or consumers. So, there may be some kind of interference in the fair play of market forces. But having said that, gradually, we are moving away from that kind of mindset. It maybe there still in some of the agricultural commodities, but no longer in the non-agricultural commodities. This is one part of it.

So, my view is that in the coming three to four years or five years, there's a huge scope for the development of this market. Now, how do we do that, that's the main question. Now, currently, again, players are important, no doubt about it. We need to physically enmesh ourselves with the physical market, put it that way. And how does that enmeshing takes place, obviously, by bringing players, I mean, the top of the mind recall value should be there. If you need any metal, look to MCX. If you want to sell any metal, look to MCX. That is the kind of participation that we are looking at from these players.

When I say sell it on the exchange, of course, exchange is only a commodity futures actually, it is mostly for hedgers, and the spot markets are anyway there. But unfortunately, our spot markets are also not well developed, we don't have a spot market to begin with and organize the spot market. You have organized spot market for electricity, so there there is no problem in that sense. But otherwise, many other products, there's no organized spot market. We would like to grow this platform into something, which is going to be useful for the financial hedgers, as well as the physical market players who should consider this marketplace as a last resort to dispose of their product on the exchange platform. Does that answer?

**Abhinav Rathee:** Absolutely, it does. So, speaking of that huge opportunity, what are the sort of categories or commodities that you are most excited about as we look four, five years into the future?

**P.S. Reddy:** Yes. We have some flagship products like your gold, the bullion rather. The whole canvas of bullion is something which we wanted to cover. So, it covers the spot platform which now SEBI has come out with the domestic spot exchanges, we want to play a bigger role in it. And our futures market will continue to grow to the extent that we increase the participation in this. The second one, of course, is in gold only. The government is also proposing to have one single exchange in the GIFT City, which is an international financial center. And there they said that we will permit only one exchange. So, all of us come together and sign an MoU. So, that process is in place, is happening, where we will be competing with the international spot exchanges, put it that way, international spot exchanges. And we will be able to create India-centric pricing for the imports that are coming via international exchange. This is on the gold front or the bullion front.

Then energy is the second area. Of course, here we have a WTI contract and agreement with CME, probably that will continue. But in the case of natural gas, currently this natural gas contract is settled again on CME prices. Once the natural gas market develops, which at this point in time is taking baby steps, probably you have an India price for natural gas. Because I was told that natural gas is not uniformly priced across the world, because the original source is also by and large localized in that sense, localized could be region-wise or country-specific. So, that is something which we wanted to grow there in a large scale. Currently, only the imported LNG is something, which has been sold, maybe little freely, but otherwise it's all regulated market. I think government is looking at natural gas as a component of energy to grow rather than too much dependence on crude oil or the other sources of energy.

Then the third one which we are looking at, and we already filed our contract specifications with SEBI, electricity. And there's a new great opportunity out there in the end for electricity. And the power purchase agreements, PPAs, I am sure currently they are 25 years, whether the produce is borrowed or not, or the supplier is borrowed or the coal supplier or whosoever it is. Because everybody is guaranteed and there's only the consumer who doesn't have any option but to go to them. That will change and it should be changing I would say. And government is also looking at each leg of this value chain, paid pricing to take place. That's where we are looking at a coal exchange, spot coal exchange so that everybody knows what is the value of the product that they should charge, unless you price the coal which is the raw material for them, appropriately. And accordingly, the resources will be assessed. And whether it is commercially viable or not viable. These long-term agreements are distorting all those proper pricing for the natural resources. So, that is one area which we look at it.

And the other one is the metal basket. Currently, we have five base metals, and some of them are imported. But then again here, domestic production are there but there are only few players that are very big. You know they are all industrial conglomerates, you know them, I don't need to mention them. And they have built a brand building, they have done a brand building image

around them and then they are a monopoly in the market, domestic players. And small players have no room to play, either they sell their product at a discount or they have to accept whatever the price they are getting or become a supplier to the major player. I think that is something which we are going to break, that monopoly, monopoly built using the brand building such kind of exercises.

So, for example, aluminum alloy, we are planning to launch a new contract. Now, obviously, some of the big players are there and they say that this is so on so product, and so it is guaranteed. So, the buyer thinks, okay, I am buying from this so it is guaranteed. But if it is bought on the MCX platform, whether he is a small player or a big player, as well as the quality specifications are met, it is fine. So, our platform is going to change that and we started empanelment of these producers, so it no longer matters who produces the material, as long as you buy it on MCX and you are guaranteed of your quality. So, that is something which we are getting into it now. Some of the promoters, producers are resisting, they are there in our product advisory committees, "no, no, why are you opening a new delivery center up north?" It's my business decision, I would like to do that. "No, no, anyway, imports come via the east coast or west coast, you don't need to open one up north". I mean, because it is going to dent their business. So, that is a way the people are looking, MCX platform as a competition to establish the players of these metal suppliers. I think that's a healthy development. I am very happy about it. We are going to change the way this market works.

**Abhinav Rathee:**

That's quite interesting. And anything on the agri side? I know it's a small business for you, but...

**P.S. Reddy:**

The risks that we run and the returns are not outweighed, the risks are far outweighing the return in that sense. And we continue to grow the cotton contract. And mentha contract is lost business because of SEBI making both the trading unit and delivery unit, they made it the same. So, if the delivery unit is made 6 drums, then the same costs have gone up substantially and earlier 12 drums, now it is 6 drums, that means double. If somebody sells two lots of 6 drums, then their costs are going to double. We very recently have changed that; we have arrived at a new smart way of doing the things. What we did is we have provided a mixing facility. So, if somebody brings 12 drums, all 12 drums are mixed and made a homogeneous sample, then again refilled and sealed in the presence of the seller, the warehouse service provider and the airfare. Then one single exchange certificate, the same cost is generated and any two drums can be sold using the same certificate, because already homogeneity in the material of all the 12 drums is achieved. So, there is some extra cost, but that gets subsumed by assaying more drums than what it was happening earlier. So, that's a way we worked out. So, we expect some volumes to come back in the mentha contract.

**Abhinav Rathee:**

Just out of curiosity, we have seen globally that there are some commodity exchanges which are champions of one or two specific commodities, right? Like for rubber you have that Malaysian, similarly for lumber and wool you have the Australian exchange. So, you have specific these exchanges. And the reason why they are like that is because of the dominant position of that country in that commodity, like India is dominant in like dairy, for example, I mean, India is the

largest consumer of dairy and it's a very fragmented market where an exchange can add a lot of value. Do you think those kinds of things are possible?

**P.S. Reddy:** It is possible, but then as you rightly said, there is a lot of too many small players are there. I don't think it is easy to bring them all, small producers, it is difficult to bring them all together. And many of them are cooperatives and they will be interested in bringing their produce to further do some value addition and sell it. But I don't think we will be able to do it. I have not studied in depth into it, at this point in time. We did flag off in our decisions but it is a challenge.

**Abhinav Rathee:** Right, great. That was just a curious question I had in my mind, there are certain commodities where India has a distinct edge in terms of either being a large consumer or a large producer or both, at a global scale.

**P.S. Reddy:** My view is that SEBI or the government has to relax the regulations, very important for us. The whole world goes and hedges in LME, why do this. Unlike an anachronic regulation life that the participant must have an exposure in the domestic market will never work, then you will never be able to grow. So, all those who are trading in LME, they don't have an exposure in that country, they may have anywhere in the world, but still they go there. So, unless you relax that kind of conditions, probably developments of this market is a challenge, but we have expressed this to SEBI also. SEBI is very receptive to these ideas. But since the commodities have come under SEBI's jurisdiction very recently, they are hesitate to take such bold steps. But I am sure they will do it in non-agri definitely.

**Abhinav Rathee:** The only thing in non-agri is that India is not a price setter. So, an exchange can essentially just be a platform for transaction but not really a platform for price discovery.

**P.S. Reddy:** That's what we want it to happen, isn't it? Because India is a major producer in many products.

**Abhinav Rathee:** Yes, it is quite interesting that many companies do take an exposure on LME and add an additional currency risk. If they could do the same thing locally. So, starting with the gold exchange, it was quite interesting that now the regulator is looking at a separate exchange altogether, brand new entity. How different will that be? I mean, I know it will be in GIFT City so you can have foreign...

**P.S. Reddy:** It is only a spot exchange, it will be dollar denominated and spot exchange. And unless they make some regulatory changes and mandate anybody to import via the exchange, it will not happen again. There are channelizing agencies are there and they should be told that you buy it online, I believe.

**Abhinav Rathee:** Yes. So, you will have that spot exchange running in GIFT City, but you will also have your existing contracts running on MCX, these two things will run in parallel?

- P.S. Reddy:** That is a sort of exchange. But SEBI is permitting a domestic spot exchange for gold also, that's the third one. That will be much like the e-warehouse receipts kind of thing, where the gold will be deposited in vaults, then representing the denomination of the deposit, there will be a e-receipt will be created that will be kept in depositories. And then that is traded on a daily basis and settled on T+2 or T+1, whatever, SEBI is looking at it. That's only a spot exchange that will be.
- Abhinav Rathee:** So, does it also mean that retail individuals in India can participate and buy these certificates?
- P.S. Reddy:** Can buy. But GST is a challenge for many, that's something which government has to seriously look at.
- Abhinav Rathee:** But maybe for gold they may not do it. I mean, they have been trying to demonetize gold in India for a long time, at least this government has been trying to do it. They did it with that gold deposit scheme and e-certificate and all of that did take off, it's a big burden also on India's current account.
- P.S. Reddy:** It will reduce the imports if they are really able to do this, allow the people to convert their gold in to the e-receipts and allow them to trade. There's nothing like that.
- Abhinav Rathee:** I would think it would be a brilliant idea if they can make it succeed. I mean, if Indians can buy these certificates on Dhanteras instead of buying gold, nothing like it. But this exchange, who are the other participants in this along with you?
- P.S. Reddy:** In the domestic exchange?
- Abhinav Rathee:** In the spot exchange at GIFT City.
- P.S. Reddy:** At GIFT City all exchanges are there, BSE, NSE and MCX and two depositories.
- Abhinav Rathee:** So, you will be one of the shareholders in that exchange?
- P.S. Reddy:** That's right. It will be run professionally.
- Abhinav Rathee:** So, what happens to then the institutional volumes that you currently manage which is using you for hedging, that will remain intact? That doesn't get distracted?
- P.S. Reddy:** No, it doesn't. That's how the futures works, that's what I am saying, they have to take delivery, anyway. Maybe somebody wants to take a delivery there, then they will buy it and bring it in India, and then again they can participate in our market.
- Abhinav Rathee:** And similarly, Indian gold can also go into that vault, I mean, it need not be just an imported gold, it can also be the other way, like, if I sell my gold it can also go into that vault?

- P.S. Reddy:** That they have not permitted as yet, the domestic refiners to deposit and then sell that gold in the international bullion exchange, they have not as yet permitted.
- Abhinav Rathee:** Okay. Because unless that happens, then there is very little chance of this whole current account side of the situation for the government to get balanced.
- P.S. Reddy:** No, the domestic gold anyway comes on to the domestic platform, and there are a lot of black market or whatever it is, that will vanish once it comes on to the exchange platform. And the transactions will be very transparent. Our intention is not to export gold, that's the way that government is looking at it. And whatever the imports are there, they want to mitigate them to begin with, unless our passion for gold is reduced, that will not happen immediately.
- Abhinav Rathee:** I am unable to understand, how will the imports then reduce? I mean, if I have to import gold, I will still imported through that entity, and that entity needs to keep that gold in the vault.
- P.S. Reddy:** No, the way that they are looking at it, the domestic refiners will be able to import maybe doré, not the refined gold. And then they will refine it domestically and then cater to the domestic audience.
- Abhinav Rathee:** Okay. So, once you have refined it, then it goes into the vault at GIFT City?
- P.S. Reddy:** That they may be permitting, refinement process they may permit. To that extent your requirement of foreign exchange gets reduced.
- Abhinav Rathee:** So, will it have any sort of an implication on the margin money that the government keeps or the regulator keeps changing for you?
- P.S. Reddy:** In the domestic market?
- Abhinav Rathee:** Yes.
- P.S. Reddy:** I don't think so. There won't be anything. But essentially we want to build India-centric price, at least for the entire region it should be. You are almost 25% consumption you have in the domestic market, India as a country. So, why it should be traded in the LBMA platform, I think even LME is trying to have traded on their another platform, I think they have built another platform for this.
- Abhinav Rathee:** Like palm oil is traded in Malaysian ringgit, I mean they are producer and they are the price setter and it's their currency.
- P.S. Reddy:** Yes, but then that's number one, world's largest palm oil platform, Malaysia, Maybe CME has got an agreement with them and then doing it. We must have some commodities where we have a dominance, be that in consumption or that, we should be able to determine pricing in India.

- Abhinav Rathee:** Exactly. Okay. So, you are quite excited, I mean, next four, five years you are quite excited about this whole gold opportunity, both for yourself as well as for this new exchange that will probably come up?
- P.S. Reddy:** Yes.
- Abhinav Rathee:** Okay. And on the energy part, you said natural gas, that could be an interesting opportunity for you.
- P.S. Reddy:** Natural gas, coal spot exchange, we were looking at it, that's another area that we are looking at. We have signed last year an MoU with MJunction, so that's one area which we are seeing to make some progress.
- Abhinav Rathee:** So, will this natural gas volumes, will it get a positive boost? We are also hearing about this gas exchange coming up by IEX.
- P.S. Reddy:** IGX is already there.
- Abhinav Rathee:** It's operational now?
- P.S. Reddy:** Yes, it is operational, but it is a spot exchange.
- Abhinav Rathee:** And it's also mostly for the pipeline part of the things right?
- P.S. Reddy:** There's no separation like that, but currently only LNG, whatever is coming through the imports, only that is getting settled using that. Otherwise, we cannot move into the pipelines. They have tied up with some tankers and other things and then catering to that, something of that kind.
- Abhinav Rathee:** But in financial contracts, typically when the underlying or the spot or the cash volumes improve, you also have the forwards in the future volumes also improve, I mean, it sort of goes hand in hand?
- P.S. Reddy:** Yes. Yes, you are right.
- Abhinav Rathee:** Coming to the base metals part, I mean, how difficult is it for you to set up these certified warehouses to ensure that the quality of the aluminum alloy, alloy can have very different quality, different alloys.
- P.S. Reddy:** The way that we wanted to do is we empanel, like much of the same way LME is doing it, we empanel the producers. So, we already started for lead, two of them are in the process of getting empaneled, two producers. So, from time to time, anybody can buy the metal from them and then deliver it, or they themselves can deliver it, in addition to LME empanelled producer. Similarly, even for aluminum alloy also, we will go through the process and then empanel them. The empanelment process is quite stringent, much the same way what LME is doing we have adopted.

There would be a technical auditor, like Alex Stuart or SK Mishra, in India, we have a very good firm, engage them and then see their processes and other things. They certify, and the metal is sent to testers, two testers we send it to them. And the testers are essentially the one who use in application that metal produced by these producers. So, after they use they certify it, okay, I received maybe 50 tonnes of metal, and I used it in my application and it's doing well, it's good. And once the certificates come, then we will permit them to empanel them, so that their metal will be eligible to be delivered on the exchange. It's not that every bar that delivers on the warehouse we go for spectrometer testing or anything of that kind, no, that's not like that.

**Abhinav Rathee:** But I am sure it is very time intensive and effort intensive to setup a network.

**P.S. Reddy:** Yes, they pay for it, they are paying for it. We don't need to do anything, we have framed the guidelines, it is already there on our website for our lead. People are sending in applications and we simply send the information, appoint an auditor and then we do. All it takes about four months' time to complete, four to six months you can say, maximum.

**Abhinav Rathee:** I was trying to understand from a competitive landscape point of view, if tomorrow because of the exciting opportunity if somebody else decides to get into this space to build and layout a kind of network that you have, how expensive will that be in terms of replacement value of this network from your point of view? And how difficult is it to get the kind of manpower and other resources?

**P.S. Reddy:** To begin with, others have tried to snatch away our business. So, liquidity is first, before you build the ecosystem, liquidity is first, liquidity has not gone. Then to further beef up the liquidity, we are doing all this so that we get integrated with the physical market. That's what in the beginning I was saying. The moment that integration takes place, we can say that now we are done it. That's the way it is.

**Abhinav Rathee:** Okay. And within the base metals, I mean, you spoke about aluminum alloy, but are there other opportunities for yourself?

**P.S. Reddy:** Lead is another one where we will be doing this. And we will also be starting another this one, I mean, it is a different dimension. What we are planning to do is we plan to start, what we call, intention matching system. LME has got straps, somebody gets metal in Chennai and then he wants it in Delhi, and Delhi wants it in Calcutta, whichever it is. So, the current stipulation or specifications of the contract is it is a seller side, so seller has got a choice to deposit wherever he wants it. Now, that seller is deposits, but his buyer is randomly allocated, this particular thing, as per SEBI's direction. So, some of them get entangled in this kind of unwanted place of choice. So, we are arranging for a swaps kind of model where people will get rid of at least where they don't want. And if they are able to get it somewhere else, they will get it also. And it will be sold at maybe a premium or discount, depending on the regional supply and demand.



**Abhinav Rathee:** Very interesting. And do you think, as the volumes also pick up, we can have the larger corporates also coming in and hedging on MCX?

**P.S. Reddy:** You are absolutely right. In fact, in a call before somebody was asking me, are you competing with LME. I said no, we are not competing. Our contract size is 1/10 of LME or CME. So, we have a niche market here, we have players who are not able to hedge their risk, we have players who would not have access to the foreign exchange. Big corporates they go on and do it anyway, but what about the smaller players? Our intention is build this industry or build this ecosystem from the bottom, not from the top. If you ask Hindustan Zinc or if you ask Hindustan Aluminium or Hindalco or BALCO, anybody, to please come and trade, they will say I am sorry, I am already meeting my requirements on LME. They will not, and they will give 101 reasons, your forward contracts are not secured and that mine is about three months horizon, four year horizon, all that they will say. So, there are many others who are willing to support if you reach out to them. So, that is the way we approach this subject. So, that's why we are going for MSMEs. And they are very happy to understand this model of business and they are coming forward. And bigger ones, whenever there is an opportunity they are delivering anyway. So, they are like, as fish takes to water they know how to take advantage of this platform, they are doing it anyway.

**Abhinav Rathee:** But do you think from a regulatory point of view, like the regulator has banned gold hedging outside India, can something similar in a phased manner perhaps come up for other commodities?

**P.S. Reddy:** That is our ask. But yes, people also say that that's not the right way of developing it, probably we can look at a competitive platform to be developed. So, some of the restrictions which are there, even if they are removed, then we will be able to do as much, I mean, using whatever the reach that we have, we will be able to do better. But regulatory restrictions are not same as on LME or CME vis-à-vis MCX. That is the way the problem is. For example, when we approached the big refiners, he says, I am willing to do it, but I don't want to managing the day to day MTM on the exchange platform. And you give me a line of credit, I will give a bank guarantee and then forget it and let the broker manage the trade. But then SEBI says that brokers are not allowed to extend their many line of credit or arrange for it. For all these days they were doing it, some of the NBFC and others were extending it. A broker should stay away from it, it is between the client and the financier. But that's the challenge, unless broker steps in the financiers will not have a confidence. He doesn't have any control on the account, the trading account of the client.

**Abhinav Rathee:** So, I mean, unless it's regulatory, the only way out is a slow and steady approach?

**P.S. Reddy:** Yes. We want that's where the regulators to relax those rules, that is also good enough for us.

**Abhinav Rathee:** Yes, but what is their inhibition to allow FIIs, for example, who can bring in a lot of liquidity, the likes of Aramcor and Trafigura to come in, why are they waiting?

**P.S. Reddy:** Absolutely right. That is where we have organized a meeting and then all of them were present, including your, sorry, I forgot. They were all presented, we arranged the meeting with SEBI

Executive Director, along with the FII group head also, division head and custodians and all that, mutual funds. And they have expressed everybody their views. The thing he said, now we are sympathetic, now we understand, we will go forward. They will do something about it. That's what my strong feeling is, because on a one to one meeting they have said that they will do something about it.

**Abhinav Rathee:** Right. I mean, it's also natural that the regulator also has a learning curve, like a business has a learning curve. So, this is this is quite promising. I mean, if we can get some of these big guys, I mean, I know trading companies which cater to Indian market are based in Singapore and Dubai, because they can use those markets, but they should ideally be here and GIFT City or in Mumbai to be able to do that.

**P.S. Reddy:** Absolutely right. What is wrong in permitting OTC contracts, they should permit. And people go to Dubai or Singapore and then do the OTC contracts, why not in India? Some of these hedging contracts are exhibited in those markets. And some of those players come and then say that why don't you settle it via a clearing corporation, even that we are willing to. But they should permit both sides to have a clearing corporation should talk to each other and then allow mutual recognition process should happen, then all these things will happen, isn't it?

**Abhinav Rathee:** Right. And right now, I think the world is very euphoric about this whole commodity businesses, right, commodities are on fire. How much of that is translating for you in volumes? Are you able to see that translation?

**P.S. Reddy:** Yes, we have seen very good volumes in metal. Metal contracts are doing very, very well. How much is the monthly volume? Praveen, can you just give a figure of yesterday?

**Praveen D.G.:** May we have done around Rs. 8,400 crores, that is for the first 15 days of May.

**P.S. Reddy:** But then still it is euphoric, as against last year we have about 6,000.

**Praveen D.G.:** Last year we have done around Rs. 6,100 crores. And this month a good volume, Rs. 8,400 crores.

**P.S. Reddy:** That is up to 15th May, but then I think if you take further, then probably we would have done even better. But yes, that is the way, 33% growth we could see.

**Abhinav Rathee:** And essentially a lot of it is essentially volume-led and not as much value-led, or it's a mix really for you?

**P.S. Reddy:** Both will have. I will tell you that also. Aluminium, for the entire year 2021, we had 11,000 metric tonnes average daily, and now we have 17,000 metric tonnes, apart from this one. And we have copper, hardly any change, except for the prices of course, copper hardly any change. And led is also the same. The price is also there, no doubt about it.

- Abhinav Rathee:** One of the other things that I thought was particularly impressive was the way you have managed your cost, you brought it down quite well. And going ahead, your technology cost is likely to fall further with, I suppose, the new TCS contract. With regard to this whole technology platform with TCS, how much of the IP is with you? Will you own the entire IP and TCS will likely do the AMC part of it or how will that work?
- P.S. Reddy:** I just don't own any IP, just don't own, zero IP. That is all TCS and Deutsche trading system. And they have only given the user rights, and then it's a perpetual license. As long as you pay the AMC, you can use it. And unless there is a need to change the core and some architectural design or something, you don't need TCS services also, we can write the API's and then fire them and then take out the output and then do the needful. That's the way it is.
- Abhinav Rathee:** Okay. And the fees for this, the subscription fee for this is based on every commodity that you have on the platform or every product that you have on the platform?
- P.S. Reddy:** The licenses for all commodities at this point in time, SEBI has permitted. Before we go like, whatever commodities SEBI has permitted, we are allowed to do that.
- Abhinav Rathee:** So, tomorrow if you decide to introduce a new permitted commodity, you don't have to pay additional on the technology?
- P.S. Reddy:** Nothing.
- Abhinav Rathee:** So, that ways it works like pure operating leverage?
- P.S. Reddy:** Yes.
- Abhinav Rathee:** Okay. And how different is this from what you had earlier?
- P.S. Reddy:** End game is currently we are running through. You have some fixed costs for the platform annual, then over and above you need to pay turnover-based variable.
- Abhinav Rathee:** Okay. So, in the new system, you just have to pay a one-time fixed fee. And there's no variable attached to it.
- P.S. Reddy:** There's no variable, but annual AMC is there, that's all. AMC, as I said, it is one-digit figure. And there is an incremental which is a very marginal incremental, that's the way it is.
- Abhinav Rathee:** So, again, over there its not that TCS can whimsically cannibalize?
- P.S. Reddy:** No, we have locked it.
- Abhinav Rathee:** Okay. And there is no way for you to change the vendor. I mean, tomorrow, if you are not happy with TCS, for some reason?

- P.S. Reddy:** Don't pay the AMC, then automatically it gets terminated.
- Abhinav Rathee:** And you can still use the system then?
- P.S. Reddy:** No, no, that's a perpetual license, as long as you pay AMC, that's the way it is.
- Abhinav Rathee:** Okay. Then what system will you have to use in that case?
- P.S. Reddy:** Then I have to developed it, I am free to develop it. There is no restriction. Currently, under 63 months' dispensation, until September last year, we could not even think of development also, we can't engage any vendor, that is another restriction was there. That's where we had to start this late, this particular new platform development. Otherwise, we would have gone ahead and then issued an RFP three years ago.
- Abhinav Rathee:** Okay. This is interesting, because from what I understand, IEX has their own IP and then they are on their own sort of technology system, but you are not permitted to do that.
- P.S. Reddy:** No, at that time, whatever, 2013-2014, that separation took place. Maybe there was an offer at the time also to MCX, it must not have exercised. But then this is the agreement that they signed. That is, till September 2020, we are not allowed to develop any new platform for replacing them. And if you don't renew that agreement, then it is automatically going to expire at the end of September 2020, that's the way it serves.
- Abhinav Rathee:** Okay. And I am sure you must be thinking about it strategically. But now are you thinking about maybe three, four years, five years later, you would like to have your own system and own that entire technology?
- P.S. Reddy:** Yes. You have enough time to build your one system. Thing TCS thing is done within this two years' time, that's all, that window is two years only. That kind of restrictions are not there with TCS. You can develop anything with TCS, you don't need to go with TCS alone.
- Abhinav Rathee:** Right. Okay. So, so you are seeing some savings there on the technology costs, which I suppose is your biggest cost?
- P.S. Reddy:** Yes.
- Abhinav Rathee:** Speaking of the other sort of important revenue item for you, which is your large float and treasury income that you carry, that you have.
- P.S. Reddy:** Yes, you know how the present markets have behaved and how these bond markets have behaved, and then it has caused a huge dent in the last quarter. That's the reason why you see that big drop. Otherwise, we have done well, reasonably well, in that sense, last quarter also. If you see the operating income, Rs. 2 crores is the difference, that's the way it is.

**Abhinav Rathee:** And one of the key drivers for that is your membership portfolio, how big your membership portfolio is. How's that behaving? I didn't see that there are some, I think, oil traders or oil members who surrendered their membership. Is that like an ongoing thing or is there something that we need to look at?

**P.S. Reddy:** See, currently we have about 600 plus members, but then about 500 are active, on and off. But I don't think that is the reason. The reason is, the SEBI has come up with a unified membership, because we have come under their jurisdiction. Earlier for commodities you had a commodities firm, for this you have an equity arm is there, two different companies. Now, SEBI said unified broking outfits are permitted. So, many are surrendering and integrating with the equity arms, so that the compliance cost gets reduced further, the number of inspections and all, submissions, etc. So, they are surrendering the other applications, other memberships and taking it in equity.

**Abhinav Rathee:** Okay. But that doesn't impact your membership fee, I mean, even though it's sort of unified?

**P.S. Reddy:** It doesn't impact. And our membership is not something that is greatly adding it, majorly it is transaction income only.

**Abhinav Rathee:** Right. Okay, I am also cognizant of the time, we are perhaps at about the close, I just have one final question, perhaps we can continue this conversation at a later date as well. But in this one, I have one final question regarding ESG. Now, as you may be aware, that many investors such as ourselves are unable to invest in companies which are not ESG compliant. So, the same thing for you, I mean, when you have these producers who you look at, do you also look at their ESG criteria, how sustainably they are producing these commodities and if they are compliant?

**P.S. Reddy:** See, those producers who are delivering the metal on the exchange, we are not at this point in time going for this ESG concept. Because we are by and large accepting the metals delivered by the producer empanelled by LME. And within the domestic market, we have just started this process, and we need to have some more freedom to develop this ecosystem. Yes, you are right, that is the best thing to happen. We are not able to do it. But if you don't do it, anyway, they are selling their produce elsewhere, it's not that they are stopped by regulation or any kind of a law. And since they are selling anyway, and we are interested in bringing them into our fold and gradually improve the standards. And on day one if I put it, probably people may not come. We need to balance it, that's the way I see it. And the big brother is LME, and they themselves are not doing it as yet. But we check all their pollution control, they should be complying with all the statutory laws that are there, there is no doubt about it on that.

**Abhinav Rathee:** Right. All that gets captured in the technical audit?

**P.S. Reddy:** Yes.

**Abhinav Rathee:** Okay, interesting. Well, thank you, Mr. Reddy. This was very interesting first conversation for us. I really appreciate your time. I know it's pretty late in the evening in India for you, but I hope

things continue mean, the business does well, and I hope all your friends, family, your colleagues are all safe and continue to stay safe.

**P.S. Reddy:**

Thank you, Mr. Abhinav, you and your team. Thank you. All the best. Stay healthy. Thank you.



## “Multi Commodity Exchange of India Limited IIFL Conference Call”

**May 27, 2021**

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**MR. VIJAY GANESAN IYER -- MULTI COMMODITY EXCHANGE OF INDIA LIMITED**



**Vijay Ganesan Iyer:** Good evening, everyone. This is Vijay Ganesan Iyer from MCX Investor Relations team, thanks for joining this call. From our senior management side, we have with us our MD and CEO Mr. P.S. Reddy and also Mr. Satyajeet Bolar -- CFO and Praveen DG -- Investor Relations (Head). So, I would just like to before we start the call, as you all know, as per the new SEBI guidelines, the call that we are doing for Investor Relations is being recorded and subsequently will also be put out in our website as the new compliance given to us. So, I hand it over to Devesh, you can just introduce the guest once and then we can start the call. Thank you.

**Devesh Agarwal:** Sure, sir. Good afternoon, everyone industry participants for today's call, we have Sanket Gaidhani who is from ICICI Prudential Mutual Fund; Preethi RS from UTI AMC; Harshit Toshniwal from Premji Investment; Gaurav Narain, Saurabh Chugh and Ritika Behera from Ocean Dial Asset Management. I would request everyone that call in talk mode, I would request you to keep yourself on mute and when you have a question you unmute yourself and ask the question.

With that, I'll open the floor for the Q&A, and I am sure that everyone is well versed with the company. We can directly go ahead with the Q&A.

**P. S. Reddy:** Let me at the outset welcome ICICI Pru, UTI, Premji Investment, Ocean Dial and the participants from these companies. And I am very happy that you are all interested in knowing the MCX progress and go ahead and ask as many question that you think which I can answer, please go ahead.

**Devesh Agarwal:** Let me just start first, while others give their thought, obviously one big thing that is there on everyone's mind is basically the impact of this new margin rules that we have seen. So, clearly, in the month of March, we have seen almost 30% decline in volumes month-on-month, wanted to understand your views on the same, which were segments that got impacted. And basically, now the volumes have recovered in May. So, which are the segments which has seen the recovery in volumes?

**P.S. Reddy:** Hello, I could not hear you a part of it. Please repeat the question.

**Devesh Agarwal:** Sure, sir. So, my question is on the impact of the new margin rules, the second phase of which got implemented on first of March and that had an impact on the volumes and nearly volumes went down by 30%. So, wanted to know your views on the segments which got impacted because of this? And in May, we see that the volumes have recovered. So, which segments have recovered in the month of May? And also in the earnings call, you mentioned about some recommendation made to the SEBI about lower margins on the intraday volumes, so if you could explain that as well.

**P.S. Reddy:** Yeah. Sure. See, the peak margin as impacted all round, there is no product that is left out. The reason being is other things being equal. You want me to separate it, how much is on account of volatility? How much is on account of peak margin, probably, I will not be able to do that, but

other things being equal. In the last year, when the volatility is x percentage, we had a y relationship with the volume and with the same x percentage, we are not getting y this time, that is the way we are able to assess it.

So, did it impact? Yes, the cost of capital, trading has increased that is why it has impacted all-round. But at times, the volatility in these products is so high, it may look as if there is no impact. But had there been no peak margin, whatever the turnover that we have achieved probably it would have been much more had there been no peak margin that is the way I put it. What is the remedy? One is that we have asked to SEBI at least put a full stop here and do not increase any more margin. In fact, we asked for 25% that is good enough. But if the SEBI says no 50% is implemented then 50% is the past here that is also a good development, at least people know what it costs to trade on the exchange platform.

We also suggested that while we have a VaR margin is in place, we also impose additional margins like concentration margin or just an additional margin over and above the initial margin. At times we impose it because that is important for the risk management point of view. What we have suggested to SEBI is, we will keep only the VaR margin during the intraday for take care of the intraday volatility.

But at the end of the period or the end of the day on the open positions, we will impose additional margin such that the overnight risk that the international prices may be volatile. So, overnight, when we open the market, it may be 2% down, 3% down at least that risk is taken care of by the additional margin.

But once trading is allowed and once the prices are established then all that extra margin will be removed. And then the normal trading will be permitted using VaR margin. So, that is going, & discussion being done in SEBI and I am sure they will take it to risk management committee of SEBI before they frame final guidelines on that.

**Devesh Agarwal:**

Very clear, sir. Just basically in the same context, I was trying to understand the different segments that you have four volumes like retail, algo, corporates, HNIs or large brokers. So, has there been any change post the implementation of this new margin rules and now, phase that the phase four will also be implemented in coming months, so what is the impact that you see of that on the volumes, so expectations if you have?

**P.S. Reddy:**

See, my view is algo players and other proprietary traders are there because these are retail investors and there is some kind of arbitrage opportunities. Whether there is a ... study there or between two contracts there is some kind of a margin available. That is why they are stepping in and talking. If retail investors go away because of this decrease in margin, even it will impact their business also, their participation also. So, how it pans out? Yes. My view is, it will definitely impact algo players trading, if this peak margin keeps happening till 100%.

But at the same time, there are players who will accept it as a generic rule and it is impacting equally everybody then let us participate there may be some who will take that view and then participate, continue to participate. So, each time they need to absorb the impact of it and understand and then move forward. That is the way it happens.

Just because of this peak margin, the whole commodity market will wipe off. The answer is no, I do not think that kind of fear is, is felt out. In fact, you may recall, since you have been there, the stamp duty was seen as a major driver which may impact volumes. It did happen, the Stamp Duty Act came into us triggered and then all contracts are getting stamp duty as per the new law that came in, but did it impact? My answer is no. At least we do not see that.

**Devesh Agarwal:** Right, sir. Right. And one last one from my side on this and then, moving on the floor again for the questions. The impact on the equity side of this business and new margins will be probably lesser than commodities, your thoughts on that, sir.

**P.S. Reddy:** See the base in the equity markets is huge. Huge means huge. On any given day, the number of players those who trade on a daily basis is few lakhs. When it comes to commodity market, we have 50,000 - 55,000 - 60,000 on a daily basis kind of thing. So, obviously, we cannot draw a parallel between the two.

**Devesh Agarwal:** It makes sense. I request participants if anyone have a question? You may unmute themselves and ask question.

**Saurabh Chugh:** Hi, this is Saurabh from Ocean Dial. Just wanted to know your views on gold spot exchange, how mean how large that opportunity can be for MCX?

**P.S. Reddy:** See, so there are two gold spot exchanges, I think we need to differentiate that. One is the international bullion exchange, where the GIFT City, IFSC authorities are promoting only one exchange. So, they told very clearly to all of us. So, we have all come together and that is BSE, NSE, MCX and two depositories, NSDL and CDSL and setting up one exchange, because that is a place where we want India being a major importer of gold, at least price determination to the extent that it can happen should happen that trade also should happen on our shores.

So, we are competing with maybe China or maybe with London or Dubai, hardly anything takes place. But then, this is the thought process. So, we do not want multiple entities fighting or competing with each other. Let us just have one, focusing all our energies through competing with other international exchanges. So, that is one part of it. And we have signed an MoU and then the work is in progress maybe at various stages. That one part of it. The other one is that domestic part it seems which was long overdue, it was announced long time ago, and that is something which recently they announced it and how they are looking at to operatives that gold will be kept in vaults, then the depository receipts, taking deposit of gold will be shown, which will be in the denomination which is the gold is deposited, if one has deposited 100-gram gold

and that many 100-gram gold receipts will be issued. And they will be freely traded, and they will be divided in the deposit and they will be freely traded.

So, SEBI has to set up a regulatory framework for that, one is to regulate vaults, second is to regulate refiners, whose gold should be allowed to be delivered on the exchange platform and at the time of deposit, if there are these checks and balances have to be there, vaulting norms have to be prescribed and accountabilities have to be fixed.

And then, rest of the trading is not discussed as yet, whether it will be a part of the existing setup, can future exchange also trade in a spot gold, which is on a daily basis settlement takes place on T+2 basis or should it be a separate segment within the same exchange, much of the same way equities, you have equity cash, equity futures, currency, etc. they are all different segments. But then they are water tight, while trading is on, no margins are set of ....or should it be completely a new exchange, just one spot exchange and all exchanges should come together much the same way that is proposed in the international bullion exchange.

So, these are all in a drawing board and I think SEBI has floated a concept for discussion paper for that and so that is the status. Would it cannibalize our existing business? My answer is No. Absolutely not. They should reinforce each other; I would say, and I do not see any threat to the existing exchange.

**Saurabh Chugh:**

Okay. And then, assuming the reforming takes place, in terms of software setup, in terms of the technology, for TCS vendor doing the setup for spot exchange as well or we will be floating a different vendor for it? I mean what is the thought process there.

**P.S. Reddy:**

I know there is some controversy also, raised by on this issue also. I will tell you what to do, In 2018, we signed an agreement with PESB for previously providing a gold spot exchange platform. And that platform, we wanted to use it for NG also, which will be an auction platform, please understand gold spot exchange is a continuous trading platform, much like your equity Stock Exchange platform, I mean, from 9 to 3:30 or whatever it is, the time period and the auction platform will take place twice a day, thrice a day, once a day, whatever it is at the predetermined auction period, that is for NG.

So, at this point in time, we are handicapped as an exchange. Unfortunately, we do not have a trading platform of our own. After so many years also. again, historic reasons you all know, I do not need to repeat them. Now, now we are getting into a new relationship and the TCS wanted to modify the existing software which they are doing it. Obviously, the futures platform is nothing but the e-selling platform, which is also there with GST, which is also being used for the spot transaction. So, they want to customize it and then they give a license code for it. As a part of the overall RFP when we floated last year. So, they said for futures there will be charges for us and for spot if you want then extra incremental fee like a streaming charge, but customization will be there also.

But our focus at this point in time is CDP that is commodity derivatives project and come what we need to make it grant success when we launch it, next year, June, July, whatever is the time period that they should be for delivery and launch.

Now, TCS also said that I will not be able to take it as parallel and then do another software delivery. So, obviously, they want to do it along with a part of it and then post CDP project they would like to deliver. But then, we do not have so much of a room to discuss and debate. Maybe at best, we can wait for 12 months, it will be pretty. Not that we lose out, if we do not launch also because the customers have a stickiness and futures volumes are always far greater than the underlying spot volumes. So, we are not worried about that part of it.

But one day, we need to have our own platform, somewhere we need to begin. Now, having thought this issues meanwhile we see as we stopped payments whatever extra some payments are there, we saw a stop because they were not delivering the product as we asked for it and they are asking for more money. Then we did not pay, so they went to arbitration. Then arbitration is again, is an expensive one, at that time, it was agreed for a Singapore arbitration. So, when we consulted our lawyers and all but, look it is a tough call to take on that. At the same time with the PESB is also not a financially a big player or anything like that, so it is in the then we lose. But then if we win still we lose because we only spent on the arbitration, they do not have access to have our claim to execute for them.

Keeping all this in view, it was thought that it is prudent to go for closure of this in the arbitration, which is pursuing it rather than throwing a good money after a bad this one. And once we get the code and then we will evaluate, then only we will get the rights to work on that code. And our people have seen that code, it is code is written well, there is no problem of vetting it. But it is not complete, we need to spend some more money. And then develop that, that may take another maybe 12 months' time, put it that way. So, these are all options we are trying. But then we do bear also, our bandwidth is also constraint, is a constraint we cannot have too many projects monitoring and try to execute simultaneously so many things.

So, that is the reason why our committee suggested SCT why do not float an RFP as part of platform, if it comes cheaper and other things. but we have done it, not so successful in our responses that what we get for expression of interest. So, let us see, we are going before the SCT once again to take a view on the matter. But personally, I am inclined to have our own application, world over you take any exchange nobody takes software as a service or anything like that all of them big players are having their own platform that is called as an armor and with that only they are able to fight any kind of competition. So, we must have our own IT application. Is that clear, Mr Saurabh?

**Saurabh Chugh:** Yes, absolutely.

**P.S. Reddy:** Anybody else, next question please.

- Participant:** Sir, I will just take an opportunity here, because you just mentioned that all the exchanges generally prefer to have their own platform. So, for our contract with TCS again, I believe that is what it is that we would own the technology and they will...
- P.S. Reddy:** Sir, they have perpetual license. We keep paying AMC. The charges are not related to our volume or anything. We keep paying AMC, except unless you touch the core, we do not need to really call them to service you. And you keep on using API and as many APIs as you can design, file it and then take the data out and then do whatever you want.
- Participant:** So, we build a team to build to make improvements to the technology
- P.S. Reddy:** Yes, we have already build, just now for this entire CDP project internal team also has been built and good amount of team has been built now with technology.
- Participant:** Okay. And there will be a one-time pay, right?
- P.S. Reddy:** Come again.
- Participant:** There will be a one-time to TCS, right? Upfront payment?
- P.S. Reddy:** That is right.
- Participant:** Any indication sir, what would be that?
- P.S. Reddy:** I have been saying no because it is a contractual obligation, it should not get disclosed. One is the software expense; other one is hardware and both we need to take together. And it is substantially lower than what we thought we will be end up paying. And in the AMCs all the more cheaper in that sense from what we are paying today.
- Participant:** Understood. And so, one thing we have additional amount of cash on our books and my assumption was that we are giving cash probably invest in technology. But now we have visibility or clarity in terms of how much we would be spending. So, are there any plans that have been firmed up for balance cash that you carry on the balance sheet?
- P.S. Reddy:** See, one is definitely the CDP platform is something for which we have said if we need money, we will also be requiring money for example, International Bullion Exchange, if you have to invest, you know that they had found Rs. 500 or so crores the net worth requirements, out of which 51% has to be put up can be held by this consortium, then each one offers again, need to share that that much this one. So, these are all the requirements which will come, the money may not be spent, but there is only net worth requirements, you have to park it somewhere else and similarly, you have what you call your colocation facility, you will know when SEBI will allow. And when they decide to allow, they said we will give you six months' time then we need to develop our own data center to host that out. Like that, these are all the issues that we have at this point in time. And that is why we are retaining it.

- Participant:** Right, sir.
- P.S. Reddy:** In fact, the treasury income did not do well, the treasury did not do well in the last quarter that is why you saw a big dip otherwise in terms of operation, in terms being really good. And so, I understand, keeping so much money also is not dragging our earnings per share and all that stuff, but then still.
- Participant:** Okay.
- Participant:** Sir, just more clarity on the TCS project or the software cost of it. So, right now, if we are paying roughly Rs. 50 crores to Rs. 52 crores on an annual basis to two to three months of the existing vendor, so as you are saying basically, this cost once we move to the TCS platform, this cost will go up significantly. And this will be replaced by the depreciation or amortization costs for the hardware and software part. Am I correct in assuming that?
- P.S. Reddy:** That is right. But okay, put it this way. Let us say, after six years, assuming that our CFO amortize it for six years, after six years, our volumes will be substantially high. You need to compare vis-à-vis the volumes also, at that point in time, what is the volume and what kind of expenditure you will be incurring? Had there been the .... infrastructure in place or the license, you would have paid not just Rs. 50 crores, you would have paid maybe Rs. 100 crores I am just giving you a number. But it would not be that way at the end of six years that is the way it is. Your amortization costs are also fixed because the license costs and all that is amortized over a period of six years.
- Participant:** Right.
- P.S. Reddy:** But it is not linked to the upside. That is the way I am saying.
- Participant:** I got it. So, basically, there is no variable costs on an annual basis to be paid to TCS, apart from that AMC.
- P.S. Reddy:** AMC, which is a single digit in terms of crores.
- Participant:** Okay, great, thank you.
- P.S. Reddy:** The annual increment that we need to give on AMC is also maybe you can say it is linked to inflation put it that way I am very blanking putting it, but that is not the way it is. But there is such kind of figure, that is it.
- Management:** Anyone else has any questions, please go ahead.
- Devesh Agarwal:** Sir, I have a question from Harshit's line. Yeah, please go ahead.
- P.S. Reddy:** Who is speaking now? Hello?

**Devesh Agarwal:** Ritika, were asking a question.

**Ritika Dua:** Yeah, I was but maybe you can let Harshit take the turn and I will come back.

**Devesh Agarwal:** No, Harshit is not able to unmute, so he has send me an email, but you can go ahead with your question please.

**Ritika Dua:** Okay, sure. Sir, hi, this is Ritika Dua from Ocean Dial. Sir, wanted to understand the larger opportunity I mean, irrespective of whether it is combined or will be restricted to you in terms of the spot exchange? Can you give us some sense on maybe how is this maybe globally and once you implemented here? I mean, what is the opportunity that we are looking at?

**P.S. Reddy:** You are talking about what, spot exchange?

**Ritika Dua:** Yes, sir.

**P.S. Reddy:** No, is it a domestic spot exchange, international spot exchange? What is that you are looking into?

**Ritika Dua:** Sir, I am trying to understand the opportunity of the spot exchange for us. What I was just suggesting is that if you want to give some examples of how it is done globally and that is how you want to share the answer or whichever way you want to put, the simple question is what is the opportunity for all the exchanges combined because of the spot exchange?

**P.S. Reddy:** Okay. See, so, essentially, you are asking me about international spot exchange GIFT City, okay. Now, in the GIFT City exchange, what we were saying is that the government should mandate that the entire gold that is coming into the market should come via this International Bullion Exchange. Now, India is a major consumer almost 25% of the world's gold production is consumed in India. Now, if that is the kind of number that we are looking at and I am sure we should be able to get a decent return on the investments that you are making.

Now second that international players, who are sticking themselves to maybe London or CME they will start coming down to Mumbai, down to India, and then they will open up shops and then they will also start selling the products, International Bullion Banks are there, are so many refiners there, they are all currently used to selling on those platforms, but not in this platform. We still say that everything should happen via this platform, then they will be coming over to India and then setting up shops, that will also bring in some networks effects will be there, where the relationships with them will help us to deepen the markets. This is on the International front.

And GIFT City, IFSC Chairman himself is chairing this meeting and he is all for it, whether he will be able to do it or not is a different matter. But given the government's commitment to make India GIFT City, an international hub for all these activities, probably our expectation is that it will happen. Coming to the domestic market, unfortunately, except for maybe electricity you have IEX, there is hardly any spot exchange in the country where the spot commodities in the



spot are organized and traded. Now, this is a great opportunity for us, not only gold, but not only transparency, not only brings in a lot of participants to confidently to trade on the exchange platform and then, they showed up quality etc. but it will also bring integrates the commodity physical markets with the exchange market and there will be one price across the country and anybody who has a doubt, they can always go and then buy all these products.

And in fact, I said in the previous calls also, that we are keen that we expand into other spot markets also, coal is one which we look at it with the Mjunction we have already finalized our feasibility report etc. So, still, because this COVID and others, government is moving slow, but otherwise, we are keen to go with Mjunction on this. And similarly, many other metals, they know, spot market and something which we need to move towards that

**Ritika Dua:** Yes, sir. Sir, just extending the question, I do not know how to put it best, but could there be a number to this?

**P.S. Reddy:** I do not want to give out in numbers, but we have our own workings of the drawing board room. And we have placed it before our board and the management committee also. And we have apply to the Pahle India Foundation, we have worked with NITI Aayog and other thing on this gold policy etc. etc. And they prepared a feasibility report and we have placed it. As I said, it is important for us to ensure that the gold is reduced with this that kind of mandate to be given. And I am confident that mandate will come and the network requirements also, the IFSCA has reduced it, they made it on par with the requirements of the equity exchanges of GIFT city and with the condition that as and when the businesses improve, you need to bring in the cap and that is perfectly alright, when the business is doing well, while we will block our capital there. So, we will not be requiring Rs. 56 crores but, you may be requiring Rs. 5 crores - Rs. 10 crores

**Ritika Dua:** Sure, sir. Sir, if I may ask another question?

**P.S. Reddy:** Yes, please.

**Ritika Dua:** Sir, just wanted to understand where are we on the option journey?

**P.S. Reddy:** Options is a waiting list; I would say option business development. We have been approaching many players and basically options are meant for retail investors. And we are not able to track this as yet. Yes, increase in margins has made some people to move towards options. But then, it will not circulated to one and all yes options is a good product. And they should be able to do what they are doing with futures using the options. But then, we are not able to get full traction as yet on this. But this year, we will be focusing on that, definitely we will try to do something more than what we have done so far.

**Ritika Dua:** Is there any regulatory hurdle which is left which is also we are awaiting, or it is largely not regulatory driven?

**P.S. Reddy:** Recently so there is a regulatory in the sense that they did not permit more than five commodities to launch, in respect of the volume that we are dealing with an underlying futures contract. So, it is not so much of regulatory, that has also been done. But the market is not as it is taken, the way they have taken to in into the options.

**Ritika Dua:** Thank you so much, sir. Thank you.

**P.S. Reddy:** But our products, both index futures that is Bulldex and metal index they are really doing well. They have seen a good traction, good participation on the volumes have also gone up substantially. And in fact, it has gone up so much that we have gone to SEBI and asked them please relax the individual open interest limits that they have kept that is about Rs. 70 crores or so that is for Bulldex and metal index some other number they have. We asked them to relax it. So, SEBI is also considering that part.

**Ritika Dua:** That is helpful, sir. Thank you. I will come back, sir.

**Devesh Agarwal:** I have one question from Harshit, for some reason he is not able to unmute himself. Sir, his question is basically on the regulatory development that happened in the last two years or likely to hold on board over the next whatever six months? What is the update on those? So, what he is trying to ask is, with the opportunities that we had in terms of banks subsidiaries ruling for commodities, institutional participation and new product like power derivatives. So, where do you see the update on each of them and the likely potential? And whichever do you think would be the first one, so what will be the volume and by when?

**P.S. Reddy:** Yeah. See, one important hurdle that we are seeing it and it is impacting while we want to expand is the GST issue, okay, unless GST, obviously we open warehouses where there is a consumer need and then supplier need and when we go the financial players find it difficult to say that oh, I have to list with more states. Now, we have been pleading with the government to go for the IGST law where all these transactions can be under IGST unless both buyer and seller are in the same state. So, that is something which we have been speaking to the government to do it and we are knocking the doors.

But this is a very important development that we are looking forward to unless this happens, some of the issues will not grow or will not get eliminated some of the problems. Like multiple delivery centers, we want to have with multiple delivery centers. So, that across the country people will be able to participate, if you keep one center at Chennai and delivery comes from the Chennai, but then the buyer wants delivery in North, when obviously the transport costs for the metal will benefits that he has in the price. So, all this can be addressed if we have this kind of facilities, only open additional delivery centers in four corners of the country.

Coming back to the FII and participation EFE others just last week, we have organized the week before last week maybe I would say, to be precise on 17th. We organized a group meeting with FIIs, and NRI and portfolio investment managers with SEBI senior officials, director level all

of them, essentially to spell out what are the problems they are facing? So, they listed one, two, three, four and counting. And because earlier SEBI wanted to relax but nobody asked for anything.

Now without anybody's asked, if they relax any of the things then people will question, what was the need for you to relax it. Now, this relaxation having this offer comes now from all of them. And they also said that FIIs in currency markets, I think they have USD 100,000 maybe even still higher or USD 110 million or USD 1 million, they can hedge without any exposure to the underlying. So, a similar kind of thought was asked by these people that you do not expect us to have an exposure to the underlying commodity and deal with it. And least within the non-agri commodities you should do the relaxation with concession and that is the case, which is best solves, sir, you please do not ask us to have exposure in Indian market.

One important thing which we have also brought up is whosoever hedging in U. S. market in LME or CME anyway, they need not have exposure in that respective market, they may have anywhere in the world, how does it matter and so within that first requirement is onerous requirements and if you want Indian commodity markets to grow then this kind of requirement should be done. This is number. Second, the registration also we said should be done away with this. Additional registration. Anyone who will register with SEBI just allow them to trade the commodity that is the way that us has come. And some tax related issues are there, I think TDS deduction or model some of the differently triggered commodity exchanges it seems, commodity business, so they wanted those issues also to be addressed. SEBI has heard them, and they said we will on a priority will take up these issues as much as we can resolve we will resolve. This is on the institutional front.

On the mutual fund front, again, mutual funds are still only confining themselves to most of these mutual funds that are three, four or trading or their exposure mostly into bullion and they are also asked why do not you speak SEBI to allow us to launch silver ETFs so that we will be able to hedge in the market and without buying the gold or silver on the stock, we will take a contract on MCX and then hold it, that is a wonderful way of doing a deal, really able to earn and extra buck on the money that we have to invest in fiscally buying the silver and keep it story. But the problem other than this SEBI does not permit as of now the silver ETFs. So, that is one thing which we have asked them. Another thing is, in the case of custodian they said that SEBI asks us to validate the quality of the metal or anything that is lying, we are not equipped to do all that. They should not keep, put that all on us so, we will not take up that kind of responsibility, what custodian are saying.

SEBI also does not permit more than 30 days other than gold where they have permitted 180 days. In the case of other metals, they did not permit for more than 30 days to hold them. I think our contracts themselves; they do a cash and carry kind of thing between two contracts that is the near month contract and a far month contract, they have to necessitate delivery of leases it may be more than 30 days to deliver in the per month of contract when the per month becomes

near month. So, they need to be given the leeway to hold the assets beyond procedures. So, these are the some of the challenges that they are facing.

Again, as yesterday, we had product advisory committee, day before yesterday, another product advisory comes to us two more were there and one mutual fund is also part of the member in this. They said the same thing. Earlier we were participating in this metal, the moment you open in Raipur or aluminum they stopped participating because we have to go for GST registration. Now he is doing it, it will take some time for them to go for registration. So, had there been an IGST this kind of problems have not taken place. But notwithstanding their absence of participation, the stock has done well because some other people have joined it. So, net, net it is more participation than what has caused by not opening a warehouse at Raipur. So, we are looking at more places to be added, especially up to north for Lead zinc in east probably eastern belt.

GST is one major points and that is something which we have to address it. What else? Yes, the institutional bank broking houses, again, they are very slow. It does not satisfy me honestly speaking. At this point in time, there is only one who is actively that is ICICI they are being very aggressively pursuing this line of business, they have even launched the mobile app on Monday, if I am not mistaken. So, that their investors can participate seamlessly to the commodities market. But others are very slow, very slow.. And in the meeting also we may when they say, look, when we get the delivery or clients may not have a GST registration there will be a huge hit for that, if the client refuses to take delivery, we will have a problem. That is the way they are explaining it. We have also sent another proposal to GST, where CCL can be an agent, there is an agency invoicing facility was there earlier in the VAT region, they are saying for limited purpose the transactions on the exchanges, the clearing corporations may be treated as limited agency for invoicing, apart from asking for IGST wherever the participants held GST registration. So, this is the information on institutional policies.

**Devesh Agarwal:** Right, sir. Just one thing, sir assuming all the problems and regulatory and taxation, assuming they are resolved over the next 12 months, which particular piece of the business you think will be contributing meaningfully to our top line in three years' time?

**P.S. Reddy:** Gold and crude oil, natural gas they are proven as good as they are practical. So, there is no problem. No GST issues come. Gold and silver and other things, GST issues are there but then they are very limited because mostly the aimed of it in only one delivery center. And when it comes to other commodities, especially your base metals it is going to do very well. It is going to do very well, base metal segment.

**Devesh Agarwal:** Okay.

**Participant:** Hi, sir. I have a couple of questions as well. Just on the index future, so what I understand is that index futures will not have these issues in terms of delivery and all for institutional investors.

So, why they have not picked up even more? I mean, probably if you can tell us in terms of what is a participation in index which has come?

**P.S. Reddy:** Yeah. So, it is just a six-month-old product index futures, and it is gaining traction and mutual funds are participating, two mutual funds are already doing it.

**Participant:** Okay. And in terms of transaction charge, they will be at a similar level at what we charge for commodity futures?

**P.S. Reddy:** Yeah, there is no product wise transaction fee for it, this is all part of the ADT and which slab one is falling they get charged accordingly.

**Participant:** Okay, got it. Thank you.

**Participant:** Sir, one question we have always we say this that commodities market in India is still very small and let anything. Just wanted to understand how can we do the sizing of the market? Do we compare the commodity volumes to say equity futures volume or what would be the right metrics to say that some of the developed markets are at this ratio and thus there is a huge potential for commodity volume to grow for multiple years?

**P.S. Reddy:** Yeah. See, you look at many of the products where India is a major producer or consumer, okay. Now, you are not anywhere close to those numbers. But the ones which are already maybe barring U. S. again I say metals, you take Britain, they are not anywhere in the top 10 metal consuming countries, okay, China is. Now China is able to develop it because they are they are hungry for metals; at the same time, they have developed these markets and they are also producers of many of those metals. So, they are able to develop it. Otherwise, this business would have gone to those markets. And now the basis is obviously not the equity markets. But then the market elsewhere that is LME, CME, ICE these are the markets.

Our contract size is one-tenth you can look at that just one-tenth of the development markets in some of the metals is not even one-tenth, maybe even still smaller. So, we wanted to develop from the base and smaller MSME kind of level and then gradually pull the liquidity, then we can have ambition to compete with international markets.

**Participant:** Right. And the way would be the future contracts, or you think somewhere on the path will pick up the options and ultimately, they will become the growth drivers.

**P.S. Reddy:** The options as well as integration of spot markets. Currently, we do not have vibrant spot markets, if the spot market need can be met via futures markets, there is nothing like it, in LME, you are so many contracts available and every day one, one contract expires, okay. And if somebody wants to take delivery, they can step into that contract and then ask for delivery, okay, and if somebody wants to take 30 days down the line, we can always wait till then. And we had it seems in the FMC era, we had the exchange for physical, there is one segment where people

who have entered into the power contract, this futures contract, they can express an interest to get out and then take delivery. And that delivery used to take place. But that has been discontinued. So, those are the futures that we should introduce. So, that even the physical market players can come. And take deliveries on this platform. Options is definitely one need to grow this.

- Participant:** Okay. sir. Are there any more questions or suggestions?
- Ritika Dua:** Yeah, just one Devesh actually. Sir, any help on the tax rate, how should one see that and what was the reason for...
- P.S. Reddy:** our CFO has been saying it has remained about 17%- 18% or 20%.
- Satyajeet Bolar:** 19%.
- P.S. Reddy:** 18% it remains it will continue to remain for some more time. Is that correct Mr. Bolar?
- Satyajeet Bolar:** Yeah, that is it.
- P.S. Reddy:** Mr. Bolar?
- Satyajeet Bolar:** Yes, sir. That is right. It will remain at that rate till we utilize our MAT credit. It will remain at that rate around 19%.
- Ritika Dua:** Okay, fine. Sure.
- Participant:** Any more questions?
- Management:** If there are no questions, then we can wrap up this meeting. So, once again, thanks everyone. And thank you, sir, for sparing your time and attending the meeting. Devesh, thanks for arranging this. Have a good day.
- Management:** Absolutely. Thank you so much sir for spending time and answering all the questions of the participants. Thank you so much and have a very good evening.
- P.S. Reddy:** Thanks to all of you.
- Management:** Thank you very much.
- P.S. Reddy:** Bye.
- Ritika Dua:** Thank you, sir.
- P.S. Reddy:** Bye..

**Management:** Thank you.



## “Multi Commodity Exchange of India Limited UBS Conference Call”

**May 28, 2021**

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**MANAGEMENT: MR. P.S. REDDY -- MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER, MULTI COMMODITY EXCHANGE OF INDIA LIMITED**  
**MR. SATYAJEET BOLAR -- CHIEF FINANCIAL OFFICER, MULTI COMMODITY EXCHANGE OF INDIA LIMITED**  
**MR. PRAVEEN DG -- INVESTOR RELATIONS (HEAD), MULTI COMMODITY EXCHANGE OF INDIA LIMITED**  
**MR. VIJAY GANESAN IYER -- MULTI COMMODITY EXCHANGE OF INDIA LIMITED**

**Shaleen:** So, thank you for joining, it's a very, very small group call right and that is the reason ... everyone, so let's make it an interactive session right and make it free flow. So, we have Mr. P. S. Reddy – CEO, we have Vijay – MCX Investor Relations.

**Vijay Ganesan Iyer:** Hi, this is Vijay here from MCX Investor Relations team so as Shaleen was mentioning. Firstly, good morning to everyone participating we have our MD and CEO – Mr. P. S. Reddy and also, Mr. Satyajeet Bolar – our CFO, and Praveen DG – he is Head Investor Relation. So, we have the senior management. And just as Shaleen have already said, due to some regulatory compliance changes the calls that we are doing with the investors are getting recorded, and subsequently it will be put in our website, I thought I will just mention it. Over to you Shaleen to take it forward. Thanks.

**Shaleen:** Participants just a request let's make it very much interactive and let's make it a very much Q&A driven. So, to start with I can ask the question and then, I do have certain question, I also have few questions. And follow up, we can take up the question. So, if Management can talk about what's happening on the crude margin front and index cost margin which we're talking about, any update on that sir?

**P. S. Reddy:** Okay, thank you first of all for preparing this gathering and showing interest in our company. And it has been the, all along the investors I've been showing interest in our company grateful to all of you and we are also making every effort to make this company move from strength-to-strength. On the crude oil, yes these are the dampeners that happened. Post last year, April we had a negative pricing. And then for almost eight months we lost the contract because the margins were kept about 100%, with an additional margin and that additional margin in the form of minimum margin. And over and above we had 70% margin as a result of which, the margins were more than 100%. That got lowered only in the month of November, December, and then little by little, the contract has seen some traction. It is about 4000, so the crude oil contract saw a revival, as a result of which we lost a lot of participants who were trading especially the clients have moved away. Some may have completely exited the market in that sense, but some have moved to NG. So, that's why you see a lot of traction in NG contracts. Few have gone to maybe options, but again the crude oil contract was a flagship contract. In fact, last year we had as much as 13,000, 14,000 crore ADT, in this contract but then last year 19-20, but 2021 we had a very poor show.

Having said this, the margins may not, now it is 20% maybe it's far better than what it was and there is no minimum margin also that is prescribed except for the initial margin which is driven by regulator and VaR margin which that is applicable whichever is higher. So, we have also represented to SEBI that, during the daytime when the markets are open. It should be only the volatility margin, VaR margin which should only kick in and that should take care of it because the wire margin is calculated as many times as the exchange wants it and currently we are calculating eight, nine times in a day, and the risk management is pretty much in place, it's done well. If within two hours also if there is a huge volatility, then we are allowed to run one more, replace the whole position and then benchmark and then collect additional margins. So, that is

doing well. So, since that kind of system is doing well, we have requested SEBI the margins need not be, additional margins that we impose on the concentration, on the additional positions that anybody is building, need not be there during the day, but on the open positions at the end of the day, we will be imposing those margins so that the overnight risk is taken care of it. So, that is under debate and discussion in SEBI and probably they will take it to the risk management committee of SEBI and then they will do the needful in this regard. But if that comes through again, intraday margins will be substantially lower.

The third element of margin which has come is the peak margin. As an exchange we have been collecting from the members from the margin traders all that, but back-to-back some of the member brokers are not collecting. The way that they do is, they take margin and that they, during the intraday they take the margin but that margin is kept for MTM crystallize losses, they keep a headroom of maybe 80% or so. And if 80% is exhausted because of this MTM margins, then they call for extra margins, but otherwise there is no margin that is collected as much as the exchange is imposing on the members. So, that is where this collection peak margin reporting has come, when five times during the day there is a time slot survey and that cutoff time what is the position of the client and what is the applicable margin, seen margin calculations whether the member is collecting so much margin is the whole peak margin circular essence is all about.

Now, that circular has said that, this particular rule will be enforced strictly, but 25% at least you should collect it from 1st of December, 50% of the margins is from the 1st of March and from 1st of June 75% and 1st of September 100%. Whatever exchange is imposing you should collect back-to-back from the client that is the essence of it. And brokers having got used to another way of trading there is a huge leverage that's the way SEBI says. So, this margin did impact our volumes, other things being equal let me tell you, we've given the same volatility had there been no peak margin rule the volume should have been far higher, that's the way and when I say given the other things being equal, what I mean is that.

And hope that markets will get adjusted. And we do see that kind of thing, wherever there is certain regulatory changes that happened in this country. There is an impact initially, but people will get used to doing this. The classic example is the stamp duty which has come in last year sometime in July or something like that. And everybody thought that there will be some dampening effect. It did happen not that it didn't happen, but markets do get used to the new rules of the game. This is all for margins, anything more you are expecting Mr. Shaleen?

**Participant:** This is good sir

**P. S. Reddy:** Anybody else please.

**Participant:** So, can you just describe what you expect for this year, you've mentioned that things will eventually normalize but apart from crude, the upfront collection of margins from client is that for all products or is it just for crude?

- P. S. Reddy:** It's for all products and it is the member who collect. As far as exchanges is concerned, there's no letting we are collecting from the brokers and brokers deposits bank guarantees, fixed deposits, etcetera and during the call also I mentioned we almost fell about 5500 to 6000 approximately the margins. So, there's no reduction in that. Mr. Bolar correct?
- Satyajeet Bolar:** 5500.
- Participant:** Okay. So, the margin itself of course, it doesn't impact you per se, but of course trading volumes of volatility will get impacted because some people will be put off by this temporarily right?
- P. S. Reddy:** Yes. That's what my expectation and my reading of it.
- Participant:** Okay. I know it's a wild guess for now but, how long did it take for stamp duty to become sort of, that's just the way it is with clients. You'll take a year plus?
- P. S. Reddy:** No, it doesn't take so much time maybe a quarter it may take, that's the way it is. But the problem is, in this additional margin requirements are coming in tranches, first quarter 25%, next quarter 50% like that. So, that is the reason why it is a bit disturbing. Probably from day one if paid at 100% then see what happens then probably could have been a different, the events would have unfolded at the trading volume would have been reacted in a different way. That's the way I'm looking at it. And we have made representation to SEBI. CPAI, ANMI, all these, all the broking bodies have done this, and we too have represented. If SEBI ....at this 50%, there's nothing like it. That's what one hope that we have, I do not know whether that will materialize or not. But we should expect nothing will happen and then move on.
- Participant:** Are there any other sort of regulatory headwinds or tailwinds that we should look out for apart from this?
- P. S. Reddy:** I would not say it is regulatory headwinds, but the favorable tailwinds, I would say where you can expect in the form of allowing some relaxations in the FII participation, EFE participation, et cetera because we organize a big call with the SEBI with big team of FIIs, EFE and they all have participated and then whatever the relaxation that they want, they're not seeking any service mind you, they are only saying that make it on par with the equity markets or currency market. And, currently about 100 million USD is permitted for FII to create without there being any underlying exposure in the market. But similar thing they are asking, if you insist on exposure probably they will not have exposure to the underlying asset or the commodity they may not have but if you want these markets to develop and liquidity has to come and greater financial players have to come and they will bring in the growth that is anticipated from this market and SEBI is seriously considering that and the Minister of Finance also wanted it so we have compiled all the sessions and then sent to SEBI and I can expect some good news from that front, that's one looking at it.

**Participant:** So, if they want to make things on par with the equity market are they also considering lowering CTT?

**P. S. Reddy:** No, nothing to do with CTT, I am talking about, and I don't think that will come because considering the pandemic and then expenditure that is before the government needed to be done then I don't think that will come through, but other relaxations in the form of participation will help.

**Piyush:** Hi, Mr. Reddy this is Piyush. I wanted to discuss two topics the first is around the banking channel. So, when this banking channel started we were quite excited about how it can add volumes to it, but uptake has been considerably slower than what we had initially envisaged. Could you share what has been the holdup and what are the updated expectations that you might have from it now?

**P. S. Reddy:** Okay, you're absolutely right the bank broking houses we expected them to actively participate and at this point in time, the ray of hope and the way, the kind of contribution that is coming is only from expected lines from ICICI Securities. And there are others like Kotak Securities and Axis, they are also doing pretty reasonably well. But we are not able to see much traction from SBI and HDFC securities. Even Axis is also maybe third in the entire participation change, but the top two are the ICICI in this, the Kotak Securities that doing reasonably good and they are also making every effort to ramp it up, as I said last meeting in the investor call I said that, ICICI just launched a mobile app also. They are expecting that is going to really help their investor class, because our markets are open till 11:30, 12 and their branch network may not be feasible to attend to that kind of investors, this mobile app will help. So, it's also disappointing for me as I said that it is very slow. One important issue that is all the time cropping up is the GST, because if these people are stuck with some commodity taking delivery and the client doesn't have a GST registration, then they have to take it in their books or that's a different nuisance altogether, that's the way they are afraid of unlike in equities you straightaway take it in DEMAT and then forget it. That's the way it is, that kind of seamless processes are not established, because the regulators are different, warehousing is different and your GST taxation issues another piece that is coming in the way.

But yes, it disappointed me honestly speaking. But let me also tell you another way of hope. SEBI, because they have permitted unified broking outfits, they don't need to do extra that is the broking outfits don't need to do extra if they want to convert the equity clients into the commodity clients, because many of them shut down their commodity broking arms, and then transfer the business to the equity arm. So, now there's only one outfit kind of thing. And the KYC is already done, everything is in place. The turnaround time for onboarding the clients is hardly anything. It's zero, I would say and so that is one thing that is we have seen happening. And some of these retail broking outfits have done that and we are able to see that kind of magic happening because of this conversion of commodity outfit into an equity outfit also but it's under one regulatory.

**Piyush:** Got it, thank you. The other thing I wanted to discuss was on the new trading software. So, you shared on the earnings call that you expect it to be live by July 22 and the current licenses ongoing till September 22. So, there'll be ample time for you to iron out any issues and be ready for this new launch. There was some lack of clarity on what kind of investment would this take, and in terms of OPEX, what kind of savings would it generate?

**P. S. Reddy:** See, imagine what would be the exchange after five years, what will be the turnover. Have you continued with the 63 months; the variable associated with the turnover would have gone up substantially. At least that kind of risk is not for this TCS thing, you have one time payment that is also substantially lower than what anybody would expected. Now, this investment will be, what you call, it will be amortized over a period of five to six years. Now, what is the AMC that we have it, AMC is in a single digit, you can never imagine that it will be a single digit, of course single digit. Now, that is also, tech two kind of, I am saying that with inspect to inflation, but the AMC rises is such a marginal kind of thing that we have negotiated. So, after six years you can imagine that only this AMC will continue, today you are paying 50 crores, let us imagine a situation where you are, in five years down the line your turnover doubles, then you will be end up paying 50 plus another 50. But when it comes to TCS, you will not be paying so much. But that's the kind of price negotiation we have done. And it's a perpetual license, as long as you pay the AMC, you can use it.

Second, you don't need to use their services that is another thing, we are only taking it for only first one year, thereafter we will manage ourselves. Now, this is all as many API's as needed so that is all part of this agreement, so that most of the work is done using this API. And any additional changes needed all that, we can build peripheral systems around and through that API, you get this data and then reprocess the way that you want. Okay, so the services of TCS also will be at a minimum.

**Piyush:** Okay. So, we currently spend about 50 crores on our current ADTV. The upfront cost that we would be paying would be how much more than that like it will be a few multiples of that?

**P. S. Reddy:** Yes, few multiples again single digit multiples.

**Piyush:** Okay. And would there also be any other associated OPEX like would our tech cost increase because now we are bringing this in-house?

**P. S. Reddy:** Yes, it will be marginally it is not a very big jump. It will be a single digit in crore put it that way.

**Piyush:** Ok. So, things like this 50 crore will be replaced by at the most of like a 20 crores expense?

**P. S. Reddy:** That's what I'm saying. I do not want to give that maybe number, but amortization is there you please understand that is for about five to six years. And thereafter, it will be really, really

smooth, substantially gets interest to the cost. And you may not remain the same way as you are today. So, you need to look at the upside also from the exchange point of view.

**Piyush:** Absolutely. We already have sizable amount of cash on the balance sheet. So, I am certainly with you that this is a great use of capital. And amongst all the exchanges in India, we're probably the only ones who currently has an outsourced technology supplier. So, bringing this in-house is also certainly a very positive step.

**P. S. Reddy:** Yes, but still you need to pay a license fee.

**Participant:** Again going back to the margin on the index product, I remember that, last result call you mentioned that. You're talking to SEBI for cross margin approval for index product. Any updates on that sir?

**P. S. Reddy:** I don't know what to say on this. But every day we get a message when we are chasing it. It will happen tomorrow, that is the way we are on. So, it is that we are not cross margining and then coming out the circular from SEBI that's the only thing. But it is done, maybe in about a week's time we should be able to expect it that's the way it is.

**Participant:** So, more of a clarity, I am just asking if you can give little bit more granularity?

**P. S. Reddy:** No, what it is, let us say BULLDEX it's about 70% is gold and 30% for silver. Now, you bought lot of silver and gold. And you sell the underlying assets. And you don't need to pay any margin there is some 90% waiver or something like that is there, since there is a countervailing positions. So, these two are countervailing positions, isn't it. So, contra position contract trades, so one gets the benefit of the margin on that.

**Participant:** Understood.

**P. S. Reddy:** Then the liquidity will increase. If there are any arbitrage opportunities between the two that is on the index futures as well as the underlying assets then that will bridge that gap using this.

**Participant:** Okay, sure. And sir checking on this peak margins, just to check if my understanding is correct. So, right now the brokers must be aggregating the fund and then at the end of the day, the kind of going back, so in between during the day they're using this aggregate fund of the clients to match the peak margin requirement?

**P. S. Reddy:** No, not that way. They take for each fund, each client has to pay that is Rs.10,000. Now as per the SEBI circular, we are collecting Rs.10,000 from broker for a position of 1 lakh because 10% is the margin. Now, brokers are paying the Rs.10,000 using the bank guarantee whatever thing, so for me it is an aggregation there is no problem on that, client level aggregation, if there a client has got two positions one is buying and selling and they get netted. But across the client segregated by the net obligation for each client and then for a broker what it amounts to and then

I retained that money. But what the broker in return is doing, he is not collecting Rs.10,000 from the client, he is collecting let us say Rs.5000, from the Rs.5000 on this 1 lakh exposure that he has given let us say some trades he does and back and forth happens, the crystallized losses, crystallized MTM losses, because he lost some money let us say, that happens up to Rs.4000 let us say. Now, up to 4000 or 4500 he will not make any margin call to the client, because it's the intraday position and he is given the exposure to the extent that the client has incurred losses, if profit is there that also gets added no doubt about it, but net loss is put it that way, that is a better way of putting it net losses for the client. But what SEBI is saying is, no on the position of 1 lakh you must have Rs.10,000, now intraday five times, let us say the position of 1 lakh goes to 2 lakhs then you should have collected at that point in time when I take the snapshot, you should have collected 20,000. So, the cost of intra day trading has been increased to the client. Is that clear I don't know whether?

**Participant:** Yes. But it's very difficult to envisage, like what kind impact it will have on our volume if SEBI goes ahead and implement 100% of what you're talking about?

**P. S. Reddy:** That's what I'm saying it, currently if there is no volatility our turnover used to be about 30,000 or so. Again, now that kind of situation is no volatility kind of situation is brought down our turnover to 25,000.

**Participant:** With 50% implementation?

**P. S. Reddy:** Yes 50% that's right.

**Participant:** say that 75% and then 100% after that?

**P. S. Reddy:** Yes.

**Participant:** So, there is more downside to our volume at least is very, very near term?

**P. S. Reddy:** Yes, in very near term, that's the way I look at it.

**Lavanya:** Lavanya from UBS here. So, if my understanding is right this peak margin is applied across the markets even for the equity market?

**P. S. Reddy:** Yes, you are right.

**Lavanya:** So, any sense why the impact is much more evident in commodity as compared to equity, any specific here?

**P. S. Reddy:** The commodity markets are not as popular among investors as the equity markets, let's look at the facts of the reality. We have daily about 50,000, 55,000 clients of trading, you can in equity few lakhs of trade, on a daily basis a few lakhs you can understand them and compare. Now,



whenever Sensex goes up or NIFTY goes up or down and other thing, there are investors who will be playing on that. Now, that is not the case in the commodities, because we have not reached as much as we ought to have reached, that's where I'm saying that unified what to call membership is going to do that as we maybe in the medium term I can say in the next two years or so, but that client base will also gradually looking at the commodity market. So, why this has happened, this is one reason.

Second, there is a tendency move towards the option, but options are very popular in equity market and we have not been able to do any groundbreaking what we call move or groundbreaking progress on this front exit okay. So, otherwise options is a retail product. And it will take some time for us.

**Lavanya:**

Got it, thank you sir. So, one more thing just confirming, that now the crude margins are almost normal. We are back to normal margin levels right? I am just confirming that on crude the margins are back to near normal now, we don't have additional now, right?

**P. S. Reddy:**

Yes, we don't have. But the way it is, currently we are holding it that if the open interest increases, I repeat if the open interest increase then we will increase the margins. Now, the open interest has not increased as yet. It is slightly up, but then it is not impacting our SGF also please understand, we're supposed to be contributing to SGF that is Settlement Guarantee Fund, if the OI increases and if any of the top two commodities move in terms of prices more than its historical value, up or down whichever way it is and what are the losses hypothetically losses that happen on account of such movement should be taken into consideration when we are calculating SGF. If such kind of number happens to be more than the margin cover that is available, then under SGF cover that is available, then we need to contribute extra money from the exchange and clearing corporation to make the SGF cover adequate enough to take care of that movement in prices.

So, what we did is, in order to prevent that kind of situation, if the open interest in crude oil increases by more than say 200 crores or 300 crores whatever it is, then extra margin will be imposed such that, that margin will take care of that additional cover that is needed to take care of that SGF effect. Have I made clear, otherwise exchange will end up paying contributing to SGF which we don't want to do it, because it is a one way street you can't take it back from SGF once you contribute, and currently we have about 470, 475 crores in SGF.

**Lavanya:**

So, if my understanding is right, there will be an additional margin if the interest increases up or down any direction the additional margin will be imposed, as of now we have only the initial margin right?

**P. S. Reddy:**

Yes, initial margin and plus 10% so 20% margin is there, initial margin maybe or VaR margin is maybe coming to about 14% or so, we have 20% margin. And here, this is where in the beginning I said when I was explaining margins, we are looking at intraday margins should be based on the volatility, the end of day positions can have a higher margin, so that the SGF can

be linked to the open positions at the end of the day, rather than intraday. Have I made myself clear, that proposal will help us to remove this to get out of this fear, fear of SGF contribution, because if the open interest increases at the end of the day anyway, I will put more margin and then I don't need to contribute the SGF because that additional margin will take care of the requirement of SGF. And it's pretty technical, but I understand I don't expect everybody to follow the way that I'm explaining, but yes it's like that.

**Piyush:** Hi, Mr. Reddy this is Piyush again. If I could ask you, just wanted to get an update on the new products specifically on the electricity futures that has been pending with the Supreme Court for a while.

**P. S. Reddy:** I know, moved a petition also, but still it is not heard because it is not urgent, that is what they say, what do we do.

**Piyush:** Right. On that I just wanted to understand, what is our expectation in terms of how huge could this be in Western markets where such futures are available, the electricity futures is tend to be spot volumes. Towards our expectation and I understand that the prices at which these would be settled would be coming from IEX, what would be the MoU between you and them for this?

**P. S. Reddy:** Much like our CME contract without any minimum, we have it with IEX. So, it's not a big number in that sense. But IEX volume is 500 crore, 50 crores currently if I'm not mistaken approximately, is that correct, correct me if I'm wrong, but I was told it's around 70 million. So, even if 10x it will be 700 Crore, but then we will not be satisfied with that in that sense. But yes, we will be looking at that contract to be a good contract, but then it will take time for us to take it to that maturity level. So, I will not be able to give any number on that honestly. But, there's no minimum fee in that sense with IEX, unlike your CME you have a minimum. There's nothing minimum.

**Piyush:** Right, there is no minimum fee, it's basically entirely on what the volume?

**P. S. Reddy:** Yes.

**Piyush:** Right, okay. And would you be able to say whether these the split would be more favorable to you versus IEX or roughly equal or?

**P. S. Reddy:** its not right to say that, but if I make money there's nothing wrong if I pay extra 5% 10% more that's okay that the way I look at it.

**Participant:** So, just wanted to get your thoughts on recent paper by SEBI on gold spot exchange and also the international bullion exchange talking about in the market. So, how are you seeing that MCX participating in both?

**P. S. Reddy:**

Okay. The second one first the international bullion exchange, in fact we thought we should put our flag there first, but the point is IFSC has said look, the experience that we had with the existing way of working is only domestic exchanges are competing between themselves and we're not getting anything out of it. So, all of you should come together and make one exchange and in the international arena you please compete with other exchanges and maybe the Turkey or LME, or the LBMA platform or maybe China whatever wherever that is there, but we want substantially, we have explained very clearly look there are 25 or so odd channelizing agencies, gold is coming through them and you should gradually thought at one time, mandate them to import the gold via that route that is a very key ask for us.

Second key ask was, you please reduce the net worth requirement currently it is how much 210 crores or something like that, 30 million for each market infrastructure institution for exchange, 30 million, heading corporation 30 million, that's not the case with equity exchanges in GIFT city. So, they are considerate about this, we will let you bring in capital in phases depending on the requirement. So, you all come together and do that. So, we have signed an MOU and all of us will be moving in that direction and the consortium that is three exchanges, MCX, NSE, BSE and two depositories will be driving this initiative. So, the work is on in that direction. That is one part of it.

Second part of it is the domestic spot exchange. In fact, that has been the reason why we went into agreement with .... long term in 2018 at that time government announced that we will have one domestic fixing, but that was only in this 21 budget it was announced. So, the model is, that the precious metal will be deposited with the vaults, vaults will be regulated by SEBI and vaults will also be identifying some ... and whole metal is allowed, gold should be permitted all that they will do and after doing all that regulatory framework will be put in place, then they are all DEMAT receipts are generated whosoever deposits that metal and it is also, we are also set we must be a refiner-to-refiner, refiner-to-vault or vault-to-vault transfer only should be permitted. Not that any individual will go telling give a biscuit and say that I want it to be in DEMAT nothing of that kind. And then those e-receipts eNWR will be traded on the exchange platform.

Now, here again there was initial discussion, should all exchanges come together and have only one platform, or each exchange should have one more segment called a spot gold exchange platform or should it be in the future or commodities market that is already there. Commodity segments, so did we allowed to be a one more product to be launched. So, this is at this point in time in a drawing board space I would say, SEBI has come up with the concept paper I believe you are all aware of it. So, nothing is fine as of now but for anything that you want to do it technology is the backbone, and something that we have to work on in this area. And every time I shouldn't be looking around for somebody to give me the platform and then initiate the .. process, call for float an RFP and expression of interest, whatnot all that. Before we have our own platform we should be able to throw the hat in the ring. That's the way I look at it. Does that answer?

**Participant:**

Yes. And sir how big this opportunity any sense on that?

**P. S. Reddy:** How big is this, India is almost importing over 25% of the gold imports. Our gold production is consumed by India, and if you want us to give, there's a lot of domestic recycling is also taking place gold is getting recycled. And we do not know whether gold is also a proxy for maybe some of the unethical transactions that are taking place, tax evasion, all that kind of thing. So, it is difficult for me to assess how much will come onto the platform. But definitely it will add value to our existing gold business. That's the way I look at it, and organized market is always better than unorganized market. And, I'm sure going forward maybe government also will come with some regulations regulating the domestic gold trade. Currently, nobody regulates them, and they don't want them to be regulated. It's a different matter, but it's like that.

**Madhu:** Shaleen can I ask one question; this is Madhu here. So, sir, I wanted to check with you the people who trade on MCX, do they also trade on the equity market. So, I'm just trying to see a comparative situation over here are people finding it very easy to make money on the equity markets and therefore losing interest in other exchanges?

**P. S. Reddy:** I don't know how we can draw that comparison, because at the end of the day they have to make money and the opportunities are more in equity markets, the number of scrips are more, number of contracts in our commodity markets are less and volatility something which triggers so much volume here. And yes, the liquidity and depth is.

**Madhu:** Because the ingredients that were required for sort of volumes to increase on MCX, higher prices, both in gold and crude oil that's happening. And one would have thought that MCX would be the best place to kind of tag along on that. But this time around, somehow the interest needs to be low, that's why my question came.

**P. S. Reddy:** Yes, see, I don't know because that is a very amorphous understanding of it, the whole I'm not able to decipher in terms of which dimension of it is what in the investors draw their attention to. But as such, there's a great scope for development of this market let's accept that, and we may say that we are 95% of the market, but I'm not at all happy, neither you should be happy about it, I would say. And market share is not a big thing here and when the cake itself is very small. And our efforts are to educating more-and-more hedgers. We are looking at, we have started a one-day workshop to all hedgers and we've reached over, free of cost mind you and we will be giving at the end certificate also. So, how you can benefit from the exchange platform, all that we are doing it. And we need some regulatory push or rather in the form of tailwinds that's what we're looking at. And if they joined as their asks are fulfilled, and I'm sure this market will attract more participants.

**Participant:** I think we are good, sir, that's it from our side.

**P. S. Reddy:** Okay.

**Participant:** All right. Thank you so much sir for participating in this call. And thank you everyone for joining us.

**P. S. Reddy:** Thanks so much.

**Vijay Ganesan Iyer:** Thank you for your interest, all the best.