

MCX/SEC/2164

November 28, 2022

The Dy. General Manager
Corporate Relations & Service Dept.
BSE Limited,
P.J. Towers, Dalal Street,
Mumbai - 400001

Scrip code: 534091, Scrip ID: MCX
Subject: Transcript of calls 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 of the call with investor/analysts:

Sr. No	Investor/Analysts	Date	Time	Annexure
1.	Allard Partners	November 21, 2022	03:30 p.m.	<i>Annexure - A</i>

The said transcript is also uploaded on the website of the Company at <https://www.mcxindia.com/investor-relations/ir-meetings>

Further, we hereby confirm that no unpublished price sensitive information was shared/discussed during the said meeting.

Kindly take the same on record and acknowledge receipt.

Thanking you,

Yours faithfully,

For Multi Commodity Exchange of India Limited

Ajay Puri
Company Secretary

Encl: As above



“Multi Commodity Exchange of India Limited”

Meeting with Allard Partners

November 21, 2022

Disclaimer:

This transcript is provided without express or implied warranties of any kind, and should be read in conjunction with the accompanying materials published by the company. The information contained in the transcript is a textual representation of the company’s event and while efforts are made to provide an accurate transcription, there may be material errors, omissions, or inaccuracies in the reporting of the substance of the event. The transcript has been edited wherever required for clarity, correctness of data or transcription error.

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 than those expressed in our forward-looking statements. We do not undertake to update our forward-looking statements.

MANAGEMENT: **MR. SATYAJEET BOLAR – CHIEF FINANCIAL OFFICER, MULTI COMMODITY EXCHANGE**
 MR. DG. PRAVEEN – CHIEF RISK OFFICER, MULTI COMMODITY EXCHANGE

- Participant:** My name is Wayne Peters from Allard Partners. We've been investing in India for around 20 years and very pleased to be back. It's my first visit since COVID so it's good to come and visit the team and find companies like yourself.
- Participant:** Hi, my name is Vishal Shah, I am part of Mosaic Advisors.
- Speaker 3:** My name is Angus Peters...
- Speaker 4:** My name is Bhavesh Shah
- Satyajeet Bolar:** Satyajeet Bolar, the CFO of the company. Welcome to India, to Mumbai.
- Praveen DG:** Praveen, Chief Risk Officer MCX.
- Participant:** Gentlemen, thank you very much for taking the time. Before we ask any questions, we'd be very interested to get a very brief update from yourself. Any key points that you would like to make sure that we take away from the meeting, that would be very helpful.
- Praveen DG:** I will speak about the last quarter and this is the latest developments that happened. This year we have seen very good performance in case of our option contract compared to the futures, ever since the peak margin reporting has been introduced in India. It is a regulatory mechanism which is being stipulated by the regulator. So, after the implementation of that one, we have seen good growth is being witnessed in our options and marginally there is a drop that you could see in our futures contract.
- But all our contracts today are option and futures contract. These essentially mean at the time of expiry, if at all, in the money contracts are going to get exercise, they devolve into the underlying futures. So, there won't be any cash settlement per se. They devolve into the underlying futures and then depending upon the contract, whether it is a physically delivered contract or a cash settled futures contract, then finally it will result according to that one it will get settled. That is how the contracts are all designed.
- Besides that, one recent development happened to be is Foreign Portfolio Investors have been allowed in this market. The exchange is yet to come out with the

regulations. I can say the guidelines of the circular in relation to that one. Otherwise, the framework has been already been set by the regulator.

Participant: Which one?

Praveen DG: Foreign portfolio investors. Earlier they were allowed, but they were allowed in a limited way like they are supposed to show that they were having an exposure in the Indian commodities market, only those people who have that kind of exposure, they are allowed to trade in Indian market. But those all, whatever is the limitations were there, they have been removed now, it is free to all. But they started with cash settled contracts.

So today we have two contracts are there which are cash settled contract, the crude oil and the natural gas. Both are settled based on CME contracts and we take their reference price and that will become the basis for which we finally settle the contract. So, besides these two contracts we have some indices but that fall under a different category of products, but indices are ready to pick up.

And recently the episode that happened at the LME debacle, Nickel debacle that impacted our metal contract because Nickel happened to be one of the major component in metal contract. So that impacted it. Otherwise, the other index contract, which is Bulldex... so that's the overview of the products.

Participant: ...regulatory environment...

Praveen DG: So, regulations have to be like in our market. It is more of a progressive in nature. They don't want to happen everything in one go. Whenever they want to relax the market, it will be done it in a step-by-step manner. So that is what we have witnessed even in case of mutual funds and other institutions, they have allowed in a limited speed. We have already made some representations to our regulator on that particular aspect.

So those challenges, if they get removed, we can see that greater participation is going to happen. So, participation wise, we see that they are allowing more and more participants. That is what we have seen with the recent permission with regard to the foreign investors. Product wise still I think they have certain regulations which says

that, in case of metals, you cannot have multi-variant contracts in metals, like you cannot have multiple contracts. You can have only a five metric ton contract or one metric ton contract, depending upon what market needs. But you cannot have multiple variants.

Before 2020, we were having both main and mini contracts, metals, so both were doing good. We were having 5 metric ton contract, 1 metric ton contract and also we were having something called odd lot treatment. So, with that facility we could be able to have the trading unit different from delivery units, but now as per the current regulation, regulation says that you cannot have a different trading unit and delivery unit, that means both should be same and you cannot have multiple variants. So we had to modify our contracts.

Then in 2019, so those were converted into compulsory delivery contracts and also we had to modify that trading units. So certain challenges we had faced in 2019. That is the reason you could also see some drop during that time. That time even our options were not doing well. Options started doing well only recently, last year, ever since like I said, after the implementation of peak fee margin reporting.

So the way we look at the regulatory is like, they relax anything in a very progressive manner, or you can say that, a very stable manner. We cannot expect that everything will come in one go. We are prepared and we are adjusting to the way they are opening up.

Participant: ...some perspective...

Praveen DG: So we cannot expect them to come in a very big way initially, because even the regulator has allowed them only in cash settled products today, that means today we have only cash settled products, that is crude oil and natural gas, which definitely are also traded in international market. It is not new only to the Indian market.

Second part is their position limits are also being curtailed to existing client level position limits and in case of certain category of foreign participation, it is only 20% of the existing client limits. So that way, the way we look at it is like they are still to allow the participants in the full scale. It may happen in a very gradual manner. So maybe

once they get the comfort, again which... I think after that we can see that the market...

Praveen DG:

The fall that we have witnessed in the futures is very marginal compared to the growth that you witnessed. So, the growth is substantial. I'll give you the number, like I'll give you the last quarter number, which can be year-to-date, in futures this year we have done 24,500 roughly and compared to last year it was 26,800 crores day average daily turnover compared to the options turnover, which is 25,500 this year and last year it was 3993. You can see the phenomenal growth that you see in the options.

So overall if you look at the exchange level turnover, you could see that turnover is significantly higher. Like we have done something around 50,000 plus crores together, both futures and options compared to last year it was about 31,000. So, significant growth. But only thing what you have to look at it is realization in options is not comparable to that of futures contract.

The turnover fee, whatever we charge is based on the premium and not on the actual turnover. That is generally called as notional turnover. So initially the rough numbers what we use to give is about one-third of the turnover. Like suppose if you do 3,000 crores in options it is equivalent to something about 1,000 crore in the futures. That was the comparison. It was about 33% of the contribution, roughly. Even though the turnover happened to be same then the contribution could be somewhere above 33%. But the numbers happened to be good. It was something about we could see the realization could be around 40% of the futures.

Participant:

So it's an exchange looking at your model and areas to start trading?

Praveen DG:

Yeah. So definitely what, now, we have, you can say that definitely we have shifted much focus on options because they're doing well. And only last year onwards we started levying the fee on options. So, for many years it was not there, but given the trend, what we could see and the progress that was made by the options, we have levied that option.

So what we plan to do is currently most of the volumes are coming in the cash settled products, both crude oil and the natural gas. But we wanted to expand it, that means

the spread or the share of this one, we wanted to bring down relatively lesser. So what we wanted to do is, currently in case of bullion contract, contracts are all of bi-monthly contracts. We have a bi-monthly in the sense, we have a February contract, April contract and June. So that means, we don't have a contract each month. Currently we have Bi-monthly gold contract. Gold means basically the main Kg contract. Besides gold, even in silver we have bi-monthly contracts. Again, we don't have monthly contracts.

The current contracts are doing well, that means, they have decent liquidity, but they are definitely not comparable with crude oil and natural gas. But what we wanted to do is, the value of the options currently depends on various aspects like any other market, it depends upon the size of the contract and also depends upon the duration of it.

So what we plan to do is, we wanted to introduce the monthly contract, monthly, which can reduce the value of the option. So with the lesser value, we can expect that greater participation can be there in these Bullion contracts. So, we wanted to push the Bullion contract; gold as well as the silver contract.

Again interestingly, the regulator have allowed multi-variants in the Bullion contract. So, we have even today, we have three variants of silver contract. Like one is of a 30 kg, 5 kg and 1 kg contract. And in case of gold, we have 4 contracts -- 4 variants, where we have gold 1 kg, 100 grams and 8-gram contract and also a 1-gram contract. All are delivery-based contract. All are having very good liquidity, even though the majority of the volume is driven by the kg contract.

Main contracts are the primary volume drivers, but you could see decent liquidity across the contract variants. We have approached even the regulator for coming out with multiple variants in metal contract, but that is yet to be approved upon by the regulator. But we are still making our representations to the regulator.

Participant: All the contracts are deliverable, as you just mentioned all or some early financial set?

Praveen DG: All are deliverable in gold, similarly in... technically leaving apart the crude oil and natural gas and the indices, all other contracts are delivery-based contracts.

Participant: You mentioned the energy space, are you looking at other areas in energy space, natural gas, electricity or...

PRAVEEN DG: Definitely we are looking at electricity. We tied up with Indian Energy Exchange. Again it is a licensing type of agreement with them so that we can able to use their Day-Ahead prices. They trade in Day-Ahead contracts and some term contracts. So we have signed an agreement with them. Now the electricity regulator CERC and our regulator, they are actually discussing upon the terms of the contract, like how the contract can be there. And recently the CERC have come out with some regulation in terms of they have put a cap on the prices of the electricity.

So now they are not immediately wishing to come out and with all the regulations for the electricity contract, they are looking at it. And I think once they come out with that kind of guidelines, how the contract can be designed and all those things, I think we can able to get the approval from SEBI. From our side, we have already applied to our regulator for approving these contracts. But once we get the approval we will be going ahead and launching it.

Participant: And given the income sharing between two exchanges?

Praveen DG: Small fraction, I can say that fee. Whatever fee we get it, we'll give them a share, percentage, we'll give it to them.

Participant: In terms of pricing, generally.... how involved is the SEBI in pricing? How do you think about pricing...?

Praveen DG: Our prices have been constant for a very long time. Currently it is like we have a two slab transaction fee structure wherein the first slab is up to INR 350 crores. It is INR 260 per crore. And anything over and above that INR 350 crores, it is INR 175 per crore. That is our two way slab system in case of futures. And we have a similar slab structure in options also which is between INR 50 and INR 40. That is like an incremental slab system. Like everybody will be charged at INR 260 as long as the turnover is INR 350 crores. Beyond that one, for the incremental turnover, they will be charged at INR 175 per crore turnover.

Participant: Is this based on the per contract basis?

Praveen DG: No. It is, for a member, we look at the member -- and we look all the contracts together. We won't differentiate contract-to-contract, together in the futures contract, how much volume they have done and for all the contracts, technically, in that sense it is same. That means the free structure remains the same.

Participant: And is the pricing a key determinant... on the exchange, do you think or is that relatively inelastic as far as price are?

Praveen DG: Today, definitely it is not giving any benefit to the competitors because we've been charging while the competitors are not charging any fee. But still we have the 96% of market share is with us. So, in a way you can say that it is definitely not going to impact. That means given the transaction fee you have it whether it is options or futures, we are not seeing any volumes going away to any other exchange.

Secondly, whether what is the scope of increase or decrease in this one. And currently we are not looking for any change in our transaction fee. We are focused, more focused on improving our options turnover further because we wanted to capitalize on the growth. That what we have seen in the options turnover. We are more interested in participants to get added to the system and the products added to the system. That is what our primary key focus is.

Participant: ... And you mentioned the... insight, I noticed that the number of active clients have gone from... why has there been that sudden growth? Could you give us a line of sight participants, entire participants 9 million?

Praveen DG: Currently the number that we are giving UCC registration. So you may have a number of registered UCC across the exchange, but what you have to look at is the traded UCC rather than registered UCC, because many people could have registered. So I'll give you the reason for it. Because today, ever since we came under the regulator SEBI, because prior to that one, we were under Forward Market Commission. But now we are under the SEBI regulations, under this one there is like integration has happened between the market intermediaries. That means today there is no need to have two or different entities need to be there for trading in the commodities and equities. One entity can serve the clients in multiple segments.

So once we have migrated from that one to this kind of regulatory framework, we could see that as and when any client gets registered, and that means with any broker, they will ask him, like, what are the segments you are interested and they will reach him across all the segments but it depends upon the client-to-client whether he would like to trade in one segment or not. Some of them are asset neutral, that means wherever they feel, wherever they get the returns, they would like to trade in. Some are maybe the people who are more known to commodity markets, they will just focus on margins.

I'll give the number so that you will get the number. So when you're looking at the active or registered UCC, if you look at the traded UCC, year-to-date in our market is INR 3.74 lakh. Okay. Compared to last year it was INR 3.13 lakh. This is year-to-date number. If you want to have some number for the previous year FY '21, FY '22, it was INR 4.7 lakh. That is how the traded UCC what is mentioned looks like.

Participant: And those individual clients, are they registered in your right or they registered through a clearing broker, also trading their behalf?

Praveen DG: So anybody wanted to trade on the exchange, they have to get routed through the members.

Participant: Must be routed through members which is, how many members are they, sir?

Praveen DG: We have around 580 members out there. Out of them, we can say that 450-500 should be very active members.

Participant: Sir, there is 9 million clients, they must trade through the 580 members. How does that then through to settlement? Is it a member that's responsible for the settlement? And if there's a trade default, a guaranteed system for the plan? Do you have a separate fund set aside, any contingency in that regard? Any asset on the exchange or so?

Praveen DG: ... I think the corpus would be around more than INR 560 crores. But that is only used for in case of any member defaults and that kind of emergency...

Participant: Is the member responsible for do a KYC of client not exchange doesn't do that?

- Praveen DG:** No. It is a member who is responsible.
- Praveen DG:** So, currently we are working on like mocks are happening for our new trading platform. We are also planning to soon start the parallel runs. Like both it happens on both the system, that kind of mechanism that also we want to get it and after that one there will be migration. So what we are planning to do is we wanted to get it migrated by end of December. That is our plan.
- Participant:** ...Is it a fixed fee?
- Praveen DG:** Yes, because it's like terms have already been agreed upon.
- Participant:** Was it the earlier contract?
- Praveen DG:** Earlier was there is a...
- Participant:** ... competitor....
- Praveen DG:** Currently they don't have any market. We cannot expect that the members will immediately get shifted and they will be taking away the market. So that we do not see any competition threat immediately.
- Participant:** Given your dominance of 90% in the market, I suppose I'm asking myself why do these other exchanges exist? Some would seem to be very passive. How do you think about that environment going forward?
- Praveen DG:** Everybody has a strength. Like if you look at our competitors, they are into equity, currency, derivatives market. Some are into some other like mutual trading platform. So everybody specialized in their own area. And once you create a market and you have the liquidity, liquidity will create liquidity, then you cannot expect that liquidity will split between two markets. Whenever you create the liquidity after that one, it is very difficult for somebody else to take away the market.
- Participant:** Let's come back to your collaboration with IEX on electricity... options and futures, that can be both financially settled? Can it also be physically settled for electricity?
- Praveen DG:** Currently they have not come out with the guidelines, but they have created a joint committee. CERC and SEBI, they created a joint committee. They have to come out

with some guidelines in related to the electricity derivatives. How they should be, how can they be settled? I think once they come out with all these regulations, then we can go and we can get it.

Participant: In terms of collaboration, have you liaised with overseas exchanges and how benchmark yourself in terms of expenses, fees, technology, how do you collaborate?

Praveen DG: We have several strategic alliances and besides that, some licensing agreements are there. Earlier we used it to have even licensing agreement with London Metal Exchange. Today, still we have a licensing agreement with Chicago Mercantile Exchange. Besides this licensing agreement, we also have what do you say, knowledge sharing agreements with several exchanges like Dalian, Zhengzhou then you have Thailand Futures Exchange, then London Metal Exchange. So we have several such agreements and we are also a member of IOSCO.

Praveen DG: ... We have signed a consultancy agreement with the Chittagong Stock Exchange wherein we will be providing the consultancy services to the BSE. So they wanted to set up a commodity derivative exchange in Bangladesh, still the project is going on. We are open to that one. We have to see that how many such opportunities do exist. But currently we are not providing any technology services to anyone. We are more interested in providing the consultancy services whatever knowledge we have gained over the years those things we wanted to share with other exchanges, we can happy to sign that kind of consultancy agreement.

Participant: ... overall market...

Praveen DG: If you take the case of gold today, whether large or small they're not allowed to trade in overseas market. They have to necessarily have to trade in domestic market. Because RBI has come up with certain regulations. So today you find name any entity, you will find them on the MCX, they are completely hedging on MCX. In case of metals and other commodities. Our regulator has come out with some LODR regulations on all the listing. So any listed company, if they have any exposure in the commodity, they are supposed to make such a disclosure to the market. Saying what kind of commodity risk they have.

Where are they hedging and obvious quantum of risk, certain things, all those things they are supposed to make in disclosure. But they don't have any mandatory clause that compel them to trade in only domestic exchanges. But even today if you look at it, open interest, our open interest - 20% to 30% are from hedgers. So that way, it is like our hedgers participation in domestic market is far better than the participation in global market.

Participant: ... They trade 24 hours a day?

Praveen DG: So, current regulations allow us to trade till 11:30, 11:55, depending upon the US day light saving. From 9:00 to 11:55, so roughly around 15 hours.

Praveen DG: So today most of the liquidity what we see is in the late evening. And we are present in the late evening, because after 5 o'clock, we see a lot of activity happening in the global exchanges, which coincides with our market hours. So this evening hours between 5 o'clock to 11:55, very much coincides with the US markets. But, if you see the potential, definitely we will approach our regulator for any increase in the trading hours.

Praveen DG: Stable growth we can say, I don't see very big growth that can happen in this space because global market, they can sell any data. But here our regulations are very tight. We will not be able to sell that kind of...

Satyajeet Bolar: ...India is going to be a price setter...

Participant: What are the other major....

Satyajeet Bolar: Yes. so data is part of our operating income...

Participant: Sorry?

Satyajeet Bolar: Collocation

Participant: Collocation.

Satyajeet Bolar: Then we have to invest in them. Now we have not want any clarity on that but we need some money for collocation. So we have been set up some subsidiary company within SEBI's ...

- Participant:** So, what do you mean by collocation?
- Satyajeet Bolar:** Collocation is SEBI has announced that equity market, the members to setup the servers very closely, exchange server. So if you see the NSE model, we are not ... on collocation. And then they charge the members each for that providing the service to them...
- Speaker 4:** Sir, on the technology side....
- Satyajeet Bolar:** We can use the platform as long as...one plus five years.
- Speaker 4:** And what happens after one plus five, I mean...
- Satyajeet Bolar:** Yes, obviously we like to use it...
- Speaker 4:** I'm just trying to understand that the scenario, one plus five or whatever reason, I mean is there a risk of being in a situation where we are today compared to after one plus five years, do you foresee or our contracts ... that should not be the worry?
- Participant:** I suppose the other way to say, why don't we own some, why we rely with ... outside party and developing software on our behalf why we are not earning?
- Satyajeet Bolar:**Its being worked out...
- Participant:** So does that mean TCS is free to sell that software...
- Satyajeet Bolar:** That's our priority, after taking ...
- Participant:** Well, thank you, friends, is there anything else you would like to talk about? Can you just talk about staff a little bit, you have much turnover in seeing ...
- Satyajeet Bolar:** We've had not on the recent ...
- Participant:** Do we have an active staff training program? Do we send our staff overseas at all to other exchanges to learn?
- Praveen DG:** We do.

Participant: And finally, could you confirm that we've not discussed any material non-public information today, please?

Praveen DG: We have not disclosed any.

Participant: Thank you, very much.