

MCX/SEC/1261

January 17, 2017

The Dy. General Manager,
Corporate Relations & Services Dept,
BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street, Mumbai - 400 001

Ref.: Scrip code: 534091 Scrip ID: MCX

Sub. : Transcript of the conference call with investors/analysts

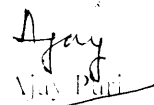
Dear Sir,

Please find enclosed herewith transcript of the conference call with investors/analysts held on January 13, 2017 at 6:00 p.m. IST. Kindly take the same on record and acknowledge.

Thanking you,

Yours faithfully,

For Multi Commodity Exchange of India Limited


Ajay Parit

Company Secretary



“MCX India Q3 FY17 Results Conference Call”

January 13, 2017



MANAGEMENT: **MR. MRUGANK PARANJAPE - MANAGING DIRECTOR AND CEO,
MCX INDIA LTD.**

**MR. AJAY PURI, COMPANY SECRETARY AND CHIEF COMPLIANCE
OFFICER AND HEAD IR**

MR. VIKAS PHADKE, VP FINANCE AND ACCOUNTS

MODERATOR: **MR. NIMIT SHAH - ICICI SECURITIES**

Moderator: Ladies and Gentlemen, good day and welcome to MCX Q3 FY17 Results Conference Call hosted by ICICI Securities Ltd. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. In case you need assistance during the conference call, please signal an operator by pressing “*” and then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nimit Shah. Thank you and over to you, Sir.

Nimit Shah: Good evening everyone. We would like to thank the management of MCX for giving us the opportunity to host this call. We have Mr. Mrugank Paranjape - Managing Director and CEO, Mr. Ajay Puri, Company Secretary and Chief Compliance Officer, and Mr. Vikas Phadke, VP Finance and Accounts on the call. We would like to hand over the call to the management for their opening remarks followed by Q&A. Thank you and over to you, Sir.

Mrugank Paranjape: Thank you Nimit and thank you everybody on the call. This is Mrugank here and wish all of you a very warm welcome and a Happy New Year to you, and I hope this year brings good news to all of us and all of you as we participate together in an exciting journey. With that quick note, just to give you some highlights of how business has been over the last quarter, some of the trends, what has happened, and what do we see going forward and then some points especially around the quarterly results that we just put out.

From a business perspective, we started off the last quarter having made an increase to our fees and that was something which we were watching. We had communicated well with all our participants. We were in dialogue with them and in terms of the response to that, happy to note that we did not see any big adverse reaction and through the month of October, turnover sort of continued with the trend that we see generally on a year-on-year basis as well. In terms of Diwali and thereafter the big sort of announcement that happened on demonetization in India that week of course was a week of hectic turnover and activity because of the large volatility in the commodity segment, but over the last four or five weeks’ post-demonetization, there has been some impact to some segments of our volume and there has been some changes in terms of how business has looked. In terms of the business volumes, given that the Bullion segment which has been our stellar segment all this while continues to be our best and most widely participated product.

With the sort of underlying markets in Bullion being impacted in this period, the turnover in that segment took some downturn, and therefore, if I look at our quarterly numbers our numbers in terms of our turnover for the previous quarter was 25,165 crores for the quarter ended September 2016, but if you look at the quarter ended December 2016, our turnover the ADT which is the single sided daily turnover was 21,023 crores roughly a drop of 16% in terms of volumes. Now in terms of the composition of our business as well pre-demonetization date and also earlier, the general composition of our business has been approximately 35% Bullion, 35% Energy, 25% Base Metals and about 5% Agriculture.

Post-demonetization, Bullion and Base Metals did a swap and basically in the post-demonetization period till the end of the quarter, Base Metals clogged approximately 35%, and Bullion went down 25%. The reason I sort wanted to explain this was also to give you a flavor of the fact that with the diversity of business portfolio that we have, the net impact was not as much as one would have felt otherwise in terms of the business volumes. This coupled with the increment that we had done to our pricing ensured that from a revenue perspective, our revenue from operations for this quarter has a 5% increment from the sequential basis and on a year-on-year basis, a 20% change, so for the quarter our revenue from operations is 68.6 crores. Other income which for us comprises of income coming from treasury operations has been 31.16 crores as well, but before I delve more into the other aspects of numbers some of the developments that we saw from the regulatory perspective and what we expect going forward is that SEBI which had just around that time completed the one year of the merger of FMC with SEBI, in the last quarter has sort of changed pace and is increasingly looking at giving more approvals, so as we speak of course there is lot of expectation when options will be introduced in the markets, but more importantly just as the year began, we saw SEBI starting to give approvals specifically on products where they had been with SEBI for a couple of months. Our expectation now is that as a regulator SEBI will pick up pace in terms of giving more approvals and that should be something which we should look forward to in terms of introducing new products in the future segment as well as getting that much eagerly awaited launch of the options happening. Last but not the least, we had as of the end of last quarter mentioned and we had filed our application with SEBI for creation of the clearing corporation, we have had several meetings with SEBI and dialogue and we expect SEBI to give us an in-principle approval somewhere in the next four to six weeks. Thereafter, we will go

ahead with actually creating our clearing corporation in terms of operationalizing it and then making it live somewhere in the first quarter of the new financial year.

Coming to a little more detail than on our revenue and our expenses for this year, in terms of the revenue line as I said, revenue from operations is up 5%, other income on the treasury side is up 3% to 31.16 crores, so by and large the yield on treasury operation has still been similar. We continuously keep a watch on this because it is a significant part of our revenues and in the ever changing interest environment, this is something which we keep a watch on and make sure that we get a healthy return on this as well. Total revenue for this quarter is at 99.76 crores for the quarter ended December 2016. I would like to spend a little bit more time in detail on our cost numbers this time, and this is because there are a couple of items there which are one-off costs which we took in this quarter and that is why I wanted to go through that a little bit more detail before we take questions.

If you look at our cost numbers in terms of the quarterly cost numbers for the quarter ended, our total cost of 53.83 crores as compared to 44.31 crores, but in this increment of approximately 9.5 crores, there is a fairly big element of one of costs and there is some element of what we believe will be cost that will be going up on a regular basis. First coming to the employee benefit expense, to all those people who we have been talking to, we have said that in the competitive environment that we are and looking to making sure that we can ensure that we retain our talent, we are trying to make sure that our compensation levels are in line and in some cases better than what the market has. In line with that, we have also got the approval of the board in the previous board meeting to introduce a variable compensation plan for senior management and the junior staff of the organization, but basis that we have also started to accrue that expense in terms of making sure that in line what we believe would be the final payout, we are accruing that expense within the year itself. That has resulted in an incremental cost of 1.75 crores per quarter, but in terms of a one-off effect there is an incremental 3.5 coming in just for the third quarter because we have taken the first two quarters impact as well in this quarter.

The other place where there is a one-off effect is in items pertaining to other expenses where we have had three big events. We moved our offices in Delhi because of certain issues with our existing office. We had do it overnight and

take up new premises, which led to dual costs being booked for three months that went by, which was an incremental cost of about 13 lakhs. We also had the shifting of our servers and this is something which we had announced where we had said that we would move our DCP and DR from Delhi to Ahmedabad, that entire shift cost us about 25 lakh of rupees. In addition to that again SEBI has asked exchanges to complete a one-time audit on conformance to PFMI guidelines, which resulted in incremental expenses of 31 lakhs and last but not the least was that we had done a complete revamp of our website which had a one-off cost of about 55 lakhs. If you look at our other expenses line, there is a roughly 1.5 crores which we believe is a one-off impact. From a cost perspective, while the quarter number is 53.83, this clearly has 5 crores which is absolutely one off, non-recurring, which will not happen again from next quarter onwards.

The other numbers beyond this, we have finance cost very small, 4.5 lakhs, we have explained this before in the previous call as well. This is more an IndAS impact because if you take interest-free deposits, you need to sort of show the opportunity cost on that as finance cost. It is a very small cost, but it shows up as a finance cost for us, which then leads to a profit from ordinary activities before tax at 45.88 crores compared to last quarter's 51.06, which again if you just see the 5 crores of one-off expense is absolutely in line with how it was last quarter. Therefore, again, net profit after tax at 33.93, so that is really the quarterly numbers. If you look at the nine-month period, basically revenue has moved from last year's nine months' numbers of 174 crores to 196.8 crores on revenue from operation and total revenue has moved from 243 crores to 289 crores. In terms of the EBITDA, our EBITDA has moved from 126 to 158.77 crores and the profit before tax has moved from 106 to 144.96 crores, and profit after tax from 69.33 to 104.39 crores. Those are the highlight numbers, from really giving you a view, I wanted to explain why in spite of turnover going down we have actually had still a good addition to the revenue numbers and on the expense side the details on this one-off expense which is what sort of explains a jump in this quarter expense. Those are really the key highlights from our side. Nimit, very happy to take questions from here on.

Moderator:

Thank you very much. Ladies and Gentlemen, we will now begin with the question and answer session. The first question is from the line of Harsh Shah from Dimensional Securities. Please go ahead.

- Harsh Shah:** Yeah, good evening Sir, two questions. First is relating to employee expenses, so I wanted to know the variable pay which you introduced, is it only from this year or it will be recurring event?
- Mrugank Paranjape:** The variable pay is a recurring event. Like I explained, the estimated full-year cost is 7 crores which is why we took a 5.25 crores in this quarter pertaining to first nine months and the quarterly recurring number there is 1.75 that we expect going forward.
- Harsh Shah:** Going ahead into FY18, this has become the base, correct, the incremental will be from here?
- Mrugank Paranjape:** Again to explain, we are very clear, the base would be the 19.76 minus 3.5 and then that would be the base.
- Harsh Shah:** An incremental employee expense would be on that at base. Another question, if you would have done any internal working, I just wanted to ask about Chicago Exchange and other global exchanges what is the revenue from the options they generate as a person total overall income, you would have any number on that?
- Mrugank Paranjape:** Afraid not, I do not have the numbers for Chicago Exchange on their breakdown by options and futures.
- Harsh Shah:** Or any other exchange?
- Mrugank Paranjape:** No.
- Moderator:** Thank you. We have the next question from the line of Atul Mehra from Motilal Oswal. Please go ahead.
- Atul Mehra:** Thanks for the opportunity. Sir, just one question in terms of the volumes, so post-demonetization we have seen a certain trend in terms of decline in volumes, if you could perhaps brief on that and what according to you is really driving this decline?
- Mrugank Paranjape:** Like I mentioned, there are different segments in our business and the decline that we have seen has predominantly come from Bullion. There is some decline in Agri, but Agri as you all know is not a very significant part of our overall pool just now. The decline in Bullion as would be expected is we

all know, we read-heard, etc., that in the post-demonetization phase, the Bullion industry has had some impact because of people not transacting via cash and overall participants which are the jewelers and all other participants are currently sort of not really doing a lot of the underlying trade, so the underlying spot as long as it is not being treated and moved, the natural impact is that they do not trade derivatives as well, which is why for this period we did see this impact. Our view is that as business comes to the new normal as all of us have been talking about, we do expect those volumes to come back. Just in the first couple of days of January, we have seen turnover touch the sort of numbers that we had in end of September. Secondly, there is a very big expectation. Of course, we will know it more I believe somewhere in the first quarter of the next financial year, but the fact that post CTT and post that period, a lot of business has migrated to the curb trading or Dabba or the parallel market. There is an expectation that with that whole activity now not being viable or not being sort of possible to do, volumes will shift from those markets back on to the organized sector. As an exchange, we do expect to benefit of that somewhere as the new normal sets in may be in the first quarter of the new financial year.

Moderator: Thank you. We have the next question from the line of Rajesh Kothari from AlfAccurate Advisors. Please go ahead.

Rajesh Kothari: Sir. My question is if you can just give us some highlight on what is the next two-three years, what is the plan in terms of improving yield per transaction as well as improving the loan transactional, non-turnover link kind of a fees or other operational link, if you can give me some color on that?

Mrugank Paranjape: First and foremost, you know this very well that in India exchanges charge earned revenues and charge fees on an ad valorem basis and not on a per transaction basis. This is unique to India, this is not something which happens globally, but given that situation I do not see a big change in business models and people starting to look at transaction-based revenues, so we do not really focus on per transactional revenue number, and therefore, I really cannot share much with you on how we see that panning out. To your next question, there are opportunities that we are aware of and this would be in two segments. One is education, the second is data services. This is something which again we need to beware all of us that globally there are models where people have definitely made much more revenues of this two segments especially in terms of data pricing and data feed services, but if

you look at the traditional models in India and I think NSE and BSE are two exchanges which have been here for a very long time, revenues from non-transactional, non-core activity is coming either from data services or from education have really not been very large, however, that is an opportunity. We will continue to explore that opportunity and see how we can add some revenue streams both in data and in education.

Rajesh Kothari: Is it possible to give some in terms of three-year business plan perspective, how much that can contribute, in terms of at least target as a percentage of revenue given the business dynamics prevailing in India?

Mrugank Paranjape: Absolutely no. We will not be able to give you a three-year number on that unfortunately.

Moderator: Thank you. We have the next question from the line of Manish Goyal from Enam Holdings. Please go ahead.

Manish Goyal: Sir. Just couple of questions, on the option side, just wanted to get a sense as to what is the situation in terms of C-DAC as to when can we expect the approvals and in what form and what is preferable?

Mrugank Paranjape: Manish, couple of things. One, C-DAC is a subcommittee of SEBI deliberations that C-DAC are meant to be and are treated as confidential deliberations. I will not even tell you what C-DAC is deliberating upon. C-DAC has given this recommendation to SEBI, but something which is very well known, written in probably every part of media, but I could again reiterate what people are looking at. In terms of the contract design itself very widely spoken that it will be an option on the future and not an option on the commodity itself, which means that on any in-the-money contract would basically devolve in to the future. Again, between European and American style, European style is much more preferred in India and that is why that is likely to be style but this is again a question open SEBI is aware of this and this is one of the few things which they have to still come up with the final guideline. Last but not the least, how do you price the settlement price on the day of expiry of the options. Again two choices that SEBI has, one is to do it based on the cash market price or the actual price of the future and again that is a decision which SEBI will take, so three considerations, which are still to be finalized. There would be some more but broadly I think there is agreement on how SEBI is going to look at the position limits and how SEBI is going to look at

position limits at a commodity level as well as between the segments, but that is the last part of the design, but this four or five aspects is what SEBI is currently deliberating on and that is what we expect SEBI to now notify in the next couple of weeks.

Manish Goyal: Once they announce, how fast can we think to launch the product at our end and how many products do you think we should be able to start with?

Mrugank Paranjape: I will address the second one first and that is in terms of commodity, SEBI has already mentioned that their intention is to do one Agri and one non-Agri commodity, but we will have to wait to see what the final guidelines are. From our perspective, we believe there are at least three or four non-Agri commodities which have excellent liquidity, very wide spread participation, great interest from hedgers and traders in the non-Agri segment in our exchange so that is both gold and silver in the Bullion, copper as well as crude oil. In the Agri segment, we believe that are cotton contract as well as our CPO contract have again extremely widespread participation and depth, so we would be keen to see what finally comes as the number of contracts that we allow, but we are working in parallel on all this six commodities.

Manish Goyal: Sir, on the software side in terms of the testing with the brokers and at our end on terms of the peak volumes, how has it been the response and how many brokers have been involved in doing mock trading and stuff like that?

Mrugank Paranjape: I will answer this second part in terms of mock trading, etc., what we do not want to do is start doing mock trading on a contract whose design is not fully finalized by the regulator, so we have not started mock trading directly with members for that reason. In terms of our preparedness, two or three parts; one, we believe the software that we have, we are using technology which is proven in this segment. It is already running options in another asset class, so it is not something which needs to be tested in terms of its ability to do options. Of course, if there are very peculiar things which come up in the contract design, finally we will have to see whether those are available as features or not, but in terms of all what we have been speaking about American, European style evolving into futures, the margining systems all of that, the software is completely capable of. In terms of our assessment on volumes as to the peak loads that we have handled in the past and the SLAs that we have in place, our estimate is that we are currently in a position to handle the expected volumes on options trading.

Manish Goyal: You said that technology is already kind of tested on the options, are you referring to MCX-SX or basically where it was used or?

Mrugank Paranjape: As you would know MCX-SX uses the same technology for options and that is where it is a tested platform already.

Manish Goyal: On the permission from RBI for banks to start allow basically trading, is there any progress on that front because I believe one of the product which they were looking was options, now with options being permitted, are we seeing any approval from RBI side?

Mrugank Paranjape: Couple of things to note here. One, RBI and SEBI as regulators they are in continuous dialogue. RBI is sort of aware of and SEBI debates and discusses issues pertaining to participation of banks at the C-DAC. Specific to some of the key asks, they are three or four keys asks, there is obviously no point in saying is there approval expected or not because these are discussions which have probably just started, but the three or four things that we believe are the upside for us in the dialogue with RBI is a lot, first the fact that if banks themselves are allowed to hedge on the commodity markets, it will add a great depth into the market. Second, if banks subsidiaries are allowed to distribute commodities, it will add a great reach in terms of the distribution reach that we will have for commodity markets, and last but not the least, today none of the banks participate as clearing members for commodity exchanges but that is again an opportunity which is a big opportunity for both banks and for us to expand the markets. There are three or four key opportunities in the future for us, but no timeline, I do not think anybody would be able to give in terms of when that might happen.

Manish Goyal: BSE is now setting up international exchange at GIFT City which has lot of tax advantage and the big one being there is no CTT over there, so is it that exchange is subject to that SEBI allowing foreigners to trade on commodity exchange, only then they can start or they are open to start because it is a part of the SEZ and does it have a different policy from the securities contract?

Mrugank Paranjape: I think in general the understanding is that the regulators in both domestic market and GIFT will be the same which is SEBI for securities and RBI for banks and IRDA. The ground rules for each of those markets, I do not think there is 100% clarity on whether they will follow the same ground rules or

not. For example, in terms of what we have seen and read from BSE announcements, is that the initial products that will be allowed will include all the asset classes. Now beyond that on a participant basis, there has been some indication from SEBI on how they will allow FIIs to trade in the GIFT City, but has SEBI taken a view on that being across asset classes or not, I do not think there is much clarity, but as things progress clarity will emerge and we will also keep a very close track of these events.

Manish Goyal: Are we also looking to set up an exchange at GIFT city, Sir?

Mrugank Paranjape: As you would all be aware, we entered into an MOU with CME to explore the opportunities regarding setting up of an exchange in GIFT IFSC. We continue to be exploring that. We will be mindful and watch how the regulatory and business landscape in GIFT city develops, but at this point of time there is no immediate or concrete plan which has been either discussed at the board or authorized for creating an exchange at GIFT.

Manish Goyal: Last question on post the announcement of giving permission for options trading, have we seen any interest especially on membership side that we have seen interest from corporate or brokers and memberships going up?

Mrugank Paranjape: I think definitely there are some members who had in the aftermath of introduction of CTT, sort of seen decline in volumes, and therefore, may be even deactivated terminals. There are been enquiries from those segments in terms of reactivating their terminals. From a direct participation, I think we are seeing in terms of the interest definitely more participants now wanting to come and participate especially given that option has seem to be a risk management instrument where you can like an insurance premium and then get your risk covered. I think we are seeing definitely more enquires from the participant side, but also some from member side.

Moderator: Thank you. We have the next question from the line of Ashish Chopra from Motilal Oswal Securities. Please go ahead.

Ashish Chopra: Mrugank, I firstly had just a follow up on the question that was asked by Atul around the impact from demonetization, just wanted to know your thoughts on, while you expect the parallel OTC market the volumes from there to kind of gradually move to MCX, just wondering why the time lag between demonetization and the volumes from moving there may be in four-six months' time, and why not now, any particular reason for that?

Mrugank Paranjape: Ashish, hi and we all have been sort of looking at what is happening, not just to our business but to every part of the economy and people are talking of as they are seeing the new normal. I think it is that new normal that everybody is getting adjusted to and that is the reason why we believe it is taking some sort of a lag in terms of the immediate upside being seen on our business.

Ashish Chopra: Secondly on the GIFT city, would it be fair to infer basis the guidelines of SEBI, that the participant set in GIFT city and that currently on MCX would be mutually exclusive given the kind of participants allowed on IFSC?

Mrugank Paranjape: It would be greatly different, I do not know whether we can use the perfect mathematical term of being mutually exclusive because to the extent FIIs would be allowed to trade in GIFT city and therefore, they might want to trade commodities that would be something which does not happen here and same in terms of Retail participation currently since LRS money cannot be used for trading in derivatives, you will not see any Retail participation, but members or Prop traders are going to be common on both side, so there will be a big difference, but may not be 100% mutually exclusive.

Ashish Chopra: Just also wanted to get some more clarity because of the confusion I mean, while there is one exchange which is set to go live with volumes in GIFT city with a certain set of asset classes and while there are others, like even you mentioned that there are a few guidelines that probably may need to be clarified, you would also be waiting and watching in terms of probably what makes the case for various product segments etc., but just wanted to understand as to how clear are we in terms of firstly what products can be offered and secondly what are the guidelines around settlement etc., on those products and how ready are we were we to get that clarity let us say may be today for example to be able to launch that product if we see the market for that in GIFT city?

Mrugank Paranjape: First the products, I think while at a technical level all products are allowed, we all know that currently derivatives can be traded in GIFT city. You cannot trade either spot commodity because when it comes to commodities, it is an IFSC, so commodity-related warehousing, storage, etc., is not allowed in GIFT city. To that extent, even your cash segment as we call it is not something which is possible in GIFT city because you do not have any depositories there. From a product perspective, I think there is enough clarity that what will begin with is derivatives. Derivatives will be across

asset classes. If you just step back and see why all of us have been part of this great idea and the dream that we have of creating an international financial center in India, I think the whole idea was to get back businesses that have moved away from the shores of India, but to that extent, there will be businesses which have an inherent Indianess to them, so what I mean is if you like have, for example, an index contract in equities, NIFTY or sensex-based index which is trading outside of India today makes perfect sense for it to be traded on GIFT city or if you have a rupee-dollar contract which is essentially the rupee being traded outside of India then it has perfect sense for it to be traded in GIFT city. I think from a currency and equities perspective, the derivatives which will probably find attractiveness in GIFT very obvious. From a commodities perspective, first Agri commodities are not allowed in GIFT which means it is only non-Agri commodities we are talking about, and therefore, within the non-Agri commodities really which are those very, very Indian non-Agri commodities which have a natural home in India but has gone out and therefore, can move back to GIFT is something which all of us need to think about before saying that there is an opportunity for commodity. To that question, I think there is probably greater clarity in the asset classes around currency or equity on what can definitely work in GIFT, but not so much on commodities.

Ashish Chopra:

Just wanted to get your sense on Agricultural commodities and MCX's whole strategy around it, I mean now with SEBI being the regulator and SEBI also actively making a case for even options in the couple of Agri commodities like you highlighted, do you think the time is right for you to probably focus on that part of the segment as well which may be crucial once options are launched on MCX?

Mrugank Paranjape:

I think we have consistently maintained a couple of things. One, Agri is an important segment; A, from the fact that we do not have a big presence there, so it is an opportunity for us; B, it gives us an opportunity to engage with the wider cross-section of society where people also believe is a social obligation that a lot of us have to fulfill. Clearly, we see the opportunity in the Agri segment. At the same time, there are some bits which have to fall in place. There has always been a little bit of uncertainty around the essential commodities, and therefore, wanting to stay away from essential commodities and also the fact that it is only now that with WDRA coming in and SEBI also tightening all the norms around warehousing, that the warehousing infrastructure is really falling into place. We will still remain

cautious in terms of wanting to expand, but it is something which we will keep looking to. We did launch a contract on castor as soon as we got an opportunity. We are sure we will get similar such opportunities in the near future and we will continue to exploit those, so Agri we will be cautious in terms of what we do, but it is not a segment that we are ignoring at all.

Ashish Chopra: Lastly one clarification from my side, if I understood you correctly do you expect options to start trading on MCX starting the first quarter of fiscal 18?

Mrugank Paranjape: I have answered this question quite a few times at various places. I think it is all going to depend on when SEBI comes up with the final guidelines because my guess is that once we see the final guidelines in terms of really getting prepared doing mock trading with our clients, doing the final approval application to SEBI all of that is a month away, so I would just put it saying SEBI final guidelines plus four weeks is when we will trade, but to the extent we do not know when SEBI final guidelines are coming, we just have to wait for that.

Moderator: Thank you. We have the next question from the line of Amey Sathe from Tata Mutual Fund. Please go ahead.

Amey Sathe: Sir, two questions. One question is on the international exchange. Will the contract deal in a dollar denominator currency for the commodity exchange?

Mrugank Paranjape: All trading in GIFT has to be in dollar denominated.

Amey Sathe: What is the incentive for FIIs to come and trade on for commodity exchange in GIFT city?

Mrugank Paranjape: I am not too sure and that is something which we have to explore, and again unless the FII itself have commodities as an underlying asset class which they actively trade in, I am not sure they will look at trading in commodities because it is available in GIFT city.

Amey Sathe: I think they will have a better market in terms of liquidity or probably available products in a way?

Mrugank Paranjape: If it is an FII which does trade commodities in general then I would expect that they are already trading it in some international market like a CME, LME, etc., so do not what would be the incentive to come to GIFT city.

Amey Sathe: Second question, the regulatory side, I think we have been benefited with SEBI coming in to the picture, but what are the things you think that SEBI come with that with respect to aligning some of the policies which will be in line with equity exchanges, some of the risk management practices that probably you can foresee that SEBI might tighten it going ahead?

Mrugank Paranjape: I think we have already seen that. SEBI has really made a lot of progress in aligning the risk management practices across the exchanges so, whether it is in terms of the var practice in terms of one-day var versus two-day var, whether it is in terms of introduction of consultation margins, looking at the waterfall you have for clearing corporations, I think in all those respects SEBI has made sure that best practices from both commodities and securities are in place now and we have the benefit of those in the commodities market. I think what we will see is SEBI coming out more in terms of making sure that we get equally good products here, so we are hoping that once options are in then SEBI will start looking at index and then more complex derivatives. We are hopeful that they will ensure that SEBI-governed institutions come in first and then we can look at other institutions coming on to this market as well. I think from our perspective, the risk management is the sort of foundation and they have laid that in the last one year and going forward, they will look at expanding the market in the products.

Amey Sathe: Actually we spoke to few brokers. They had opinion that because of the concentration margins and initial margin requirement going up, volumes have impacted little bit. What is your take on that because the volumes have come off significantly from December 1st onwards?

Mrugank Paranjape: Lot of you do more statistical analysis then I probably have ever done, it is like when you have multiple factors, you cannot isolate which one impacted where, but from our understanding and discussions with most of the market participants, we do not think the margining was such a big thing because all that has happened essentially was moving from one day to two-day var. None of the other margins related sort of moves were really big impact to the margin requirements of brokers. December has anyway in traditionally been a month where we see volumes drop over November, so it is not the first time it has happened, every year it happens. It is not as steep, but this year we had demonetization, we had changes in margin, we had couple of effects of what happens as you keep saying on the Bullion market, so you had multiple impact and that is why we probably saw a slightly bigger drop in volumes in

December, but again like I mentioned come January, we have seen volumes coming back to a great extent not fully there.

Moderator: Thank you. We have the next question from the line of Kunal Shah from Edelweiss Securities. Please go ahead.

Kunal Shah: Most of the questions have been answered. Just lastly in terms of what is the status on the MCX-SX may be there are deposits which were there, so what is happening out there?

Mrugank Paranjape: There is no further update to what we have updated in our last quarter results as well because to the extent we had outstanding warrants, they have been converted into shares and to the extent there was any outstanding balance that has been refunded to us, so now we do not have any deposits with MSEI, we only hold some shares of MSEI and the balance money has been refunded back to us as per our court settlement with them.

Kunal Shah: In terms of deposits now, there will not be any kind of a hit in P&L going forward as well?

Mrugank Paranjape: There is no deposit with them at all.

Kunal Shah: The only thing is may be in terms of the mark down of the shares, which could be there, that is only thing?

Mrugank Paranjape: Absolutely.

Moderator: Thank you. We have the next question from the line of Sameer Chheda from Wama International. Please go ahead.

Sameer Chheda: I have joined the call later, so I may be repeating the question. Just wanted to know why the employee benefit expense has been rising, if you can throw some light?

Mrugank Paranjape: You are right, we did cover it in the initial part of the call, let me just reiterate that, but for the benefit of may be even others who might have joined late, there are two ways that you need to look at the cost rising. First if you are comparing on a pure quarter-on-quarter basis, the cost has gone up from 14.36 crores to 19.76 crores which is an incremental of 5.4 crores. Out of this 5.4 crores, 5.25 is the impact that is coming through because we

introduced a variable pay plan for senior and junior population across the board and that is part of the numbers, so the nine ones impact of the full year is come in this quarter. To that extent there is a big 3.5 crores of one-off impact as well. If you look at the 14.36 as a going forward number, you should look at that as 14.36 plus 1.75, so that is the real way to look at that number, 3.5 crores is one off because we are just taking care of the full nine months in this quarter.

Moderator: Thank you. We have the next question from the line of Pathik Gandotra from Dron Capital. Please go ahead.

Pathik Gandotra: I had just a question, maybe I do not know whether that is the case. Funds are still not allowed to trade on MCX right?

Mrugank Paranjape: Correct.

Pathik Gandotra: Which is what under consideration by SEBI, right?

Mrugank Paranjape: Yes, hopefully.

Pathik Gandotra: If that happens, I am assuming, you mean they will raise commodity funds is that what will happen, why will they trade on MCX, why will they trade commodities?

Mrugank Paranjape: Good question, one, we could probably ask some fund managers who are already on the call, but from our perspective, the very simple one that we have said is it is so much more efficient both in terms of the costs as well as in terms of the returns and in terms of tracking the returns to your benchmark if you were trying to do a gold ETF instead of taking physical gold and putting it inside a vault, you should be using the gold futures contract. There is enough empirical data to suggest how you could use the gold futures contract, we have shared it with a couple of fund managers, so that is just one idea. Obviously, there could be multiple such ideas where either people look at creating a product which allows an investor to take a one way or may be a two way view on a particular commodity, so that is really why we would expect fund managers to create products which enhances their portfolio basket as they look to tap more customers.

Pathik Gandotra: Basically get Retail investors to invest in commodities through funds, that is what you are trying to say?

Mrugank Paranjape: Absolutely.

Pathik Gandotra: On the options, we have heard that once the option trading starts the revenue actually shrinks because volume moves on futures through options, so the revenue pool shrinks, is that correct?

Mrugank Paranjape: There is always what is generally referred to as a hockey-stick effect when you introduce options, which is that in a very initial period till volumes pick up, there is a possibility that because you do not get a multiple of the volumes in options, but you only get similar volumes to begin with but when you are charging the fees, you are charging it on the premium portion and not the full value of the contract, there is a little contraction in revenue for that particular commodity, so yes there is always a hockey-stick effect, it is something known, but options because they offer a very easy tool to participate the amount of money required to participate in options is way, way below. The volumes generally go up and pick up pretty quickly. General experience has been that there could be hockey-stick effect, but as you see the hockey stick other side rising, you should hopefully see no difference to your revenues.

Pathik Gandotra: Finally, how many unique entities trade on MCX?

Mrugank Paranjape: Are you talking about the unique client count? we do track that number, but I do not have that number offhand. You could get in touch with Ajay later on and we will just get back to you.

Moderator: Thank you. We have the next question from the line of Nilanjan Karfa from Jefferies. Please go ahead.

Nilanjan Karfa: You have answered a lot of questions on the international exchange, what is a little perplexing to me is when asked the question why we never thought about this, you said that you are not sure, which participant will go there, so are you raising concerns that the volumes will not be there because as I am thinking, you are the largest exchange at least in India in terms of trading commodities and as you may know that our opportunities that arises in the international exchange may be it is derivatives, but why would you rather not capture even that opportunity and leave it to someone else?

Mrugank Paranjape: Like I mentioned, I do not think it is 100% clear on what opportunities are there, absolutely to happy to engage you even separately to may be

understand that, but if you do an analysis of saying what would trade in an International Financial Services Center, what has succeeded in other markets, and therefore, as a corollary what is likely to succeed in GIFT city, I do not think there are some concrete answers to the commodity space. There are very concrete answers to equity derivatives that are concrete answers to currency derivatives, but not in terms of commodity derivatives.

Nilanjan Karfa: This is an offshoot of this, is it possible from the Indian companies let us say right, for example, Reliance or the oil marketing companies, can they use this exchange to hedge their products?

Mrugank Paranjape: Can you just come back again?

Nilanjan Karfa: You know Indian based companies, Reliance, the oil marketing companies can they be the first players to start hedging this commodity products which they are probably doing in some other offshore exchange?

Mrugank Paranjape: I think so, again my understanding is that there is one set of rules which governs corporate when it comes to their ability to hedge overseas and that permits them to hedge on any exchange outside of the country, and therefore, GIFT for that purpose is an exchange outside of this country and they could hedge their exposures there.

I am sorry, but I think the previous person had asked me a question on the UCC, and we have started putting out that numbers, so the number of active UCCs which is a Unique Client Code that we have is 27,28,342, and this is a number which we will make sure we put out now every quarter when we update our investor presentation as well.

Moderator: Thank you. We have the next question from the line of Rajiv Anand from Narnolia Securities Limited. Please go ahead.

Rajiv Anand: I have only one question, what type of EBITDA margin, company is targeting in the medium-to-longer term?

Mrugank Paranjape: I do not think we have a target EBITDA margin, but something which we have always explained is that in terms of a very marginal cost and revenue concept if we work at, if I look at some mandatory costs which has revenue link, they are probably about 15% of my costs, which is what we pay to our software vendors as percentage of our trading revenues, what we pay for

licensing fee etc., but in addition to that, there is not more than 5%, so on a marginal basis EBITDA is close to 80% for us, therefore, if you look at our EBITDA margin where it is on a nine-month basis today, it is not a margin number that we work at but if you look at our EBITDA margin, we have been sort of in the range of 55%-58% as we said because of one-off costs of this quarter, it was slightly down but I think a 60% number is definitely something which is part of our normal and on a very marginal basis, it is probably 80% number.

Rajiv Anand: It means 60% can be a longer-term goal?

Mrugank Paranjape: Yeah.

Rajiv Anand: I just want to know something about dividend policy of the company?

Mrugank Paranjape: Dividend policy is uploaded on our website, please have a look at it. Clearly it enumerates what is our view and how we would go about both, what is our view in terms of distribution of earnings and if at all we make deviations, why and when we would do it.

Moderator: Thank you. We have the next question from the line of Nimit Shah from ICICI Securities. Please go ahead.

Nimit Shah: Sir, one question from my side what are the timelines are you looking for setting up this GIFT city, the exchange in the GIFT city?

Mrugank Paranjape: Nimit, from our perspective no, we are still in evaluative stage, too early first to commit a timeline there at all.

Nimit Shah: What risk do you see on MCX from this GIFT city, I understand that even as you mentioned the body corporate also can set up offices over there and trade, so do you foresee large day traders or arbitrage desk who does trading in the Indian markets either on the equity or on the commodity getting shifted to those platforms in order to have the CTT, STT benefits and other cost advantages?

Mrugank Paranjape: Again, it is really to be seen how the market itself will develop and what commodities will really be attractive there, so of course lack of tax cost is something which is really attractive, but if we just take similar views, I do not think there are some phenomenally successful commodity contracts

running in Dubai or Singapore, which have had all these tax advantages all these while and which are today considered as some of the best examples of International Financial Service Center, so local exchanges which work in International Financial Service Center, it is still not very clear on what really succeeds there. People who trade in Dubai or Singapore probably trade markets all over the world and that is why they are having very vibrant business there, but do they really trade a local exchange in that jurisdiction, I do not know the answer and I would think it is very clear as to whether that is very successful. From that perspective, no we do not think it is a big threat to our business.

Moderator: Thank you. Ladies and Gentlemen as there are no further questions from the participants, I would now like to hand the conference over to Mr. Nimit Shah for closing comments. Thank you and over to you, Nimit.

Nimit Shah: Thank you. We would like to thank the management of MCX for giving us the opportunity to host this call. Any closing comments you would like to make, Sir on the call.

Mrugank Paranjape: I wish everybody a very happy and successful 2017. Like we said, we started this investor call just from the last quarter, we will continue this tradition, absolutely happy to have any questions. Ajay is with me, so if you need to reach out to anyone of us, please let us know what questions you might have, but thank you for all your support and talk to you in a quarter definitely, but whenever we have the opportunity again later.

Moderator: Ladies and Gentleman, on behalf of ICICI Securities Ltd. that concludes this conference. Thank you for joining us and you may now disconnect your line.