MCX/SEC/2193 February 21, 2023

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.	Spark Capital Annual Financial Sector- Focused Investor Conference	February 14, 2023	02:00 PM	***Annexure - A & Annexure - B***

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Further, we hereby confirm that no unpublished price sensitive information was shared/discussed during the said meeting.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

MANISHA HARSHAD THAKUR
Digitally signed by MANISHA HARSHAD THAKUR
Date: 2023.02.21 22:46:41 +05'30'

Manisha Thakur
Company Secretary

Encl: As above

"Multi Commodity Exchange of India Limited" Meeting with Spark Capital Advisors - 1

February 14, 2023

MANAGEMENT: MR. D. G. PRAVEEN – HEAD, INVESTOR RELATIONS, MCX
MR. SATYAJEET BOLAR – CHIEF FINANCIAL OFFICER, MCX

D. G. Praveen: Good afternoon everyone. Myself Praveen from MCX. I head the Investor Relationship at MCX.

Satyajeet Bolar: This is Bolar. I am the Chief Financial Officer in MCX. I have been with the MCX for the past 8 years.

D. G. Praveen: How do you want it? Do you want us to give a brief or you want us to directly… you have the questions and we can go directly to the question & answers? Fine, than we can leave it to you. You can ask us, wherein we can deliberate whenever we are answering. I think we can, from there on, pick up and again elaborate on that particular item. You can go ahead with your questions.

Participant: Can you just give an overview of how the technology transition will happen over the next 6 months and what will be the milestones that we require to achieve that transition within that June '23 period?

D. G. Praveen: Last time, already a mock trading has been done, where it was primarily on the T7 platform. Again we will be starting another mock this month, where it will be for the entire setup like, both front-end as well as for the back-end support. It will be done on T7 as well as for the banks, because that is going to happen now this month. Along with it, there will be a parallel run. That is not meant for the members. It is more for the exchange at the back end to see how the current system is performing as well as the new system, how it is going to be. That means, the data will be pushed into that and we will see whether the new system is performing as per the expectations and all those things. Depending upon that one, what kind of feedback…. Because, initial feedback, already we got some feedback during our first mock and now it is an improved version, more of an integrated version now. We will see how things are going to come up. Accordingly, next steps will be taken. That means, once it is there, it is more about the time to decide that when to go live.

Participant: What are the likelihoods that it will happen before June quarter end?

D. G. Praveen: Our expectation is always there is a way that we want to do it well before June 30th because our idea is not to go to the last date. We want to do it well in advance. But the arrangement that we have made with the 63 Moons is such that it is like till that point, we will be getting their support.

Participant: But given how things stand today and we are asking this question even 20 days before December and quarter revenue calls were happening, even then, there were talks about this going live before December quarter. Now that 60 days of…. What is the confidence level now that this will 100% happen before the June quarter? There is a chance that this could trickle over to the next quarter or beyond that?

D. G. Praveen: It always turns out to be a hypothetical question of what if not working. That really nobody can say what will happen if something happens. But here, our priority today is technology, nothing else. Because, once this happens, the rest of them are all behind. So, the complete focus is on that one, and for that very reason only, now again this time on a full scale we will be running it and we will be seeing that. We are pretty confident, but we have to see what kind of response we are going to get from the brokers. Last time also when we had done the mock, more than 380 members had participated in the mock and that constitutes more than 90% to 95% of our turnover. That way, they are also forthcoming. They also required some time. At that time, the brokers also wanted some time. But today, now with this set arrangement, I think sufficient time has been given to them. Now it is more about what kind of feedback we get during this month. So, we have time.

Participant: But tell me, the core of your business is the tech line, right?

D. G. Praveen: Yes.

Participant: And you actually believe that even if you get it right for 2 months everything runs normally, is it advisable to even run it with 2 months of functioning data? And I am just asking you hypothetically, what is the thinking of the Board?

This is the core of your business. I mean if you look at the investors for the last 1.5 years, look at every conference call. Everyone is just talking about tech, tech, tech. And you have been saying no, it's not in order, it's not in order. If you read the situation, you are actually getting blackmailed by your suppliers. And even today, if you ask me, it's the whole platform which I don't know whether you can even risk it that you have 2 months say the whole thing runs well in March itself. Is 3 months sufficient time of a parallel run to say that it's all in order? That's what I am really asking you. What is the thinking of the Board on this? Because, frankly, I am an investor and am just frustrated. The frustration is because for a year and a half, everyone has been questioning you on this and you are just brushing it aside that yes, it's happening, it's happening. And it's a very unfortunate situation that you said Rs. 220 crores. You look at the turnover of FT, it is Rs. 160 crores. That's that situation you are in. I am actually wondering whether even if it runs today, is 6 months sufficient? What is the thinking?

D. G. Praveen: It is not always like the system is ready, whether you are running this, you are using this system for 2 months and then you are going live or not. It's more about like you can run the data like you have the historical data with you already. So, at the back end, always you can do the testing much more than what on live you are running. That means, historical data you have taken for 1 year or 2 years whatever is there, depending upon that until you get that confidence to go live, you can back run all that data in the system and you can see how the results are coming out. Based on that one, you can take a decision because it will not be taken as today, it has gone up well today and I have done a parallel run and I am doing it. It is not like immediately once I am confident for a day or two I am going live. Generally, it will be tested. Once we get the full confidence on that one that the system is going to perform as per expectations, then only we will go live.

Satyajeet Bolar: I'll just add to what Praveen is saying. One is, what he has said. And one is the mock where the members will participate in this month onwards. Otherwise, a parallel. Parallel is basically the data. If you will run…. Because as we've all mentioned, we have the T7 as well as the bancs which have been developed by TCS. T7 is, we have licenses from Deutsche Borse which I believe is being used daily by BSE, that platform, that's a trading…. Other one is the bancs which is a clearing and settlement funds. Basically, we were having integration issues between the two systems, which hopefully is being resolved. And when we are going for the mock, the members will be able to test it at their ends, and in addition to that, we will be testing it parallelly with the dated data. And also, we will go ahead with that. Of course, as you said, it is in our interest to ensure that it works well, isn't it? That's why this got deferred by another 2 quarters, but it is in our interest to ensure that it goes live and functions. Otherwise, it is our own credibility, isn't it?

Participant: What kind of data right now or what kind of updation SEBI is demanding from you?

Satyajeet Bolar: SEBI says that the system should be up and running.

Participant: Are they taking a daily report from you or weekly report from you on the data?

Satyajeet Bolar: They take regular updates.

Participant: And is it only from you or also they are taking it from TCS whether their software…

Satyajeet Bolar: Because we are an MII, we report directly to SEBI, obviously it will be... But this has been escalated, as MD had mentioned in the call, at the highest level in TCS also. It's not that we have been assessing and escalated at the highest level so they are also aware of the challenges that we are facing and they themselves have…. At the highest level, that has been discussed and their Chief Operating Officer had come, visited the exchange, and has taken stock of it. So, I am sure he must be taking periodical reviews of the performance.

Participant: I am sorry if you have repeated this earlier on the call, but if there is a contract, there will be a clause also that….

Satyajeet Bolar: Yes, there is as any other contract would have it.

D. G. Praveen: It is, do you want to trigger it or you want to….

Satyajeet Bolar: We need the platform which is working….

D. G. Praveen: Our priority is to have the platform running.

Participant: And you don't want to start now.

D. G. Praveen: Then, after that one, it will like whatever they go to at least...

Participant: But versus the issues that you faced in the first mock, what are the problems that you still have?

D. G. Praveen: Mainly the issues are related to the integration of the front end of the T7 and the bancs, which is a clearing and settlement kind of platform. This is where we face the problem, integration of these two. But today, whatever mock we are doing like this month, we had to do, that is for the integrated system only.

Participant: That issue has been resolved, you are saying, as of now?

D. G. Praveen: As of now, we are watching but we have to see what kind of results we are getting.

Participant: So, next month, you are saying mock will happen?

D. G. Praveen: This month only it will be done.

Participant: This month mock will happen. And the parallel run that you said?

D. G. Praveen: Parallel run is for, like I said, it is for the exchange. Parallel run means it is like I will be running the same amount of same data whatever it is getting from and put to the current system. I will take a copy of it and then that data will be pushed into the new system and we will see how it is performing in respect of each and every aspect. That way, it is meant only for internal consumption to see how things are. It's like before taking a decision like I want to go live in the new system. I want to look at it whether it is meeting my requirements or not.

Participant: But in how much time will that happen?

D. G. Praveen: Parallelly, it is going to happen. It has no time to it. Like mocks which are not like running this one during this particular time, parallel runs will continue to do that one. In the past also, we have done.

Participant: How long does it take - mock and parallel?

D. G. Praveen: Mock is like there is a certain amount of subjectivity like while we will be doing that one, depending upon suppose certain particular issue comes up, then it may take some time more to take it resolve and then again do a particular. But no issues are coming up, then I think immediately we are able to do it. There is no fixed time actually specified to it. It is more about what kind of response we are getting and what kind of feedback we are getting.

Participant: And parallel running will be done for how long?

D. G. Praveen: Parallel run ideally we will be doing till we go live. Because, we continue to do that one how the new system is performing.

Participant: Sir, but minimum how much parallelly we need to do to be sure that it is working fine?

D. G. Praveen: That is what I am saying. There is nothing like you have to do only for 2 months or 1 month. That is what I am saying. Earlier also I told the same thing. The historical data also you can take it and you can run it. Suppose you want it for

1 year, you can run on it and you can see how the system is performing. You need not have to wait for another 1 year to really….

Participant: That is fair, but would you want 1 month's data, earlier data, 2 years' data, you would still have a defined number, right? At least you would need the data should go to and should give the exact same result as the current system is giving. And only when the results are exactly matching with no errors, is when we can say that the system is bugs proof. That is what is the design capabilities, that was the question.

D. G. Praveen: I am not a technology person. But I am saying that it should be a sufficient amount of data. I can say that till our technology team gets satisfied as well as the committee which has been set up, they also look into this one before taking a decision.

Participant: Exactly, which is the biggest in the system 12 parties that are talking to the system or that you cannot verify with, which only a mock will help you. For example, the bank connect, current one to have.

D. G. Praveen: To me, it maybe running well, but I am saying even for those brokers and other people who are having their back offices, we need to see that at their end whether it is working fine or not. That is the reason the mock is getting done.

Participant: Once this mock is done, and if there are any issues, how much timeline that is really taking to sort it or….?

D. G. Praveen: It depends upon what kind of issue you are having, like it can be a minor or it is a major. But, we will not roll a mock unless we are not confident about it. So, we are going ahead with that one. But unless something comes out, because it is very difficult to say what kind of issue will come up, we are pretty confident. That is why we wanted to push it and we wanted to see how it is going to perform.

Participant: What has been the difference between the last mock and this mock? Like how much time we just took to….

D. G. Praveen: Last mock was not a complete mock per se, we worked more on T7. This is going to be integrated. That means it is a complete system mock which is both T7 and we have banks. Banks is meant for clearing and settlement and T7 is more of a matching engine. T7 is actually taken like it is a licensed product from Deutsche Borse. That is T7, which I think others are also using. I think T6 or something others are also using like T7. But the bancs, they are also used in some other markets like even in physical market. I think some banks are using and other things. The integration of these 2 things is the major challenge that we have faced initially. Now today, we are doing it but then a complete system.

Participant: Till the time mock will get better?

D. G. Praveen: That will continue to happen because these two are 2 independent things; they have got nothing to do with the mock. I will continue to see to me how is it performing.

Participant: So, it is the API that is causing these problems?

D. G. Praveen: APIs have been already given to the….

Participant: So that each bank will refer with some of the API which will need to be…. Interbank also, one is a buyer, one is a seller. You will need to be settle everything. Is that causing the problem? Because T7 is already a proven platform.

D. G. Praveen: It is a proven platform. Bancs in its own area, it is a proven platform that way. But only thing is how are they talking to each other. These were the structure and other things….

Participant: Sir, you have closed mini contract approvals. Once we get it, we intend to run it on 63 Moons or we will wait for TCS to come?

D. G. Praveen: In this case, we wanted to launch any contract provided we are sure or tested that we can run in the new platform. SEBI now has allowed multiple contracts. That means same commodity you can have multiple contracts. So, our intent is first we wanted to go for mini contracts. In the mini, especially we are looking at first the metal contracts. Metal if you take, we have copper, we have aluminum, lead, and zinc. These are the contracts where we can immediately launch even a smaller version also, which has been earlier also tested prior to the discontinuation of these contracts. That means, it already has performed. It is having some history. Whether do we require any testing for it, because there is no structure and the product is not different, it is exactly the same and it has run in the past also. So, there won't be any issue in running this contract in the old as well as the new platform. So, we can go. We have already applied to the regulator. As and when we get the approval, we will be going ahead and we will be rolling it.

Certain issues like for example, we earlier planned to come out with monthly gold options contract which is a shorter duration contract. But here, you have bimonthly futures but you have monthly options. So, it is slightly structurally different from your regular contracts where options and your futures have more or less the same expiry. Here, options has a different expiry, futures has a different expiry. This is what we are testing it. Until we are confident about it, we don't want to do it. Because, once open interest is built up in any contract, we cannot then roll back the contract. That is the intent. But meanwhile, as and when we get the approval, we will go ahead and we will launch the contracts. And so that is no problem.

Participant: This will be more like an add-on because your options anyways does not have significant interim exposure to contracts.

D. G. Praveen: So, immediately we will be going for it.

Participant: So on this last week, we must have done a mock or we must have done parallel thing and all, but after a certain point, we got to know that, okay, the system is not immediately ready. And maybe you are having the same thing right now. So, the point is that we have seen in the last 2 quarters or so that at a very time or moment we are running and saying that the contract is getting extended. So, the question is now you are running both the things, but whether it would be finalized or not, when you will get to know? Or rather by the end of March, you will be very sure that okay we are extending this contract. That kind of confidence we will have...

D. G. Praveen: Like I said, without confidence level, we would not really go for these kind of mocks which is a complete mock. We are going for it and we wanted to see how it is going to perform in this model. While in the past, like I said, it was partial like only we have done it for T7. But now with the integrated thing, I think we are expecting that whatever the way it is going to perform, we will get a very good idea about it. So, I think internally it has been already…..

Participant: What are the changes which we have made on the last mock or this mock so that we can be very confident about it?

D. G. Praveen: Mock-wise, it is a complete mock, I can say that, compared to the last mock. So, you will get a complete picture about how your system is performing in this model.

Participant: But I don't recall you mentioning the last time that it was a partial system you were running. You mentioned that you are running the mock. Are you saying we have not even run the whole system, we are only running one part of the system? This is huge communication…..

Participant: I think a simple question is, by the end of March, is it on or it is likely to be extended? What is the realistic assessment, so that picture is clear rather than running around this….?

Participant: And why we don't run on a parallel basis for 3 to 6 months? I can't understand that.

D. G. Praveen: Parallel runs are happening.

Participant: Both on the old system and the new system and then we are very much fine that the new system is….

D. G. Praveen: I didn't get you. You are telling that you run both. It cannot be possible. Broker cannot have 2 systems running at his end because he can put only orders.

Participant: But the problem is the integration from the T7 to this thing, right? The problem is not the brokers software, correct? If I get you correctly.

D. G. Praveen: Yes.

Participant: Problem is integration. Integration is a back-end job. That can be run on the parallel side if I am correct.

D. G. Praveen: Integration means it is like first one trade happens; you need to get whatever trade has performed, it has gone through the clearing and settlement process when you need to get certain reports. That reports also will be going back to the mock base that has to be tested, okay? This is the complete cycle. So, first trading match, you will get particular reports going to the members. Then, subsequently, the clearing and settlement happens wherein your margins will be tested or your right amount of collaterals are getting to stay or not. As and when your margins are getting changed, whether it is getting reflected in this one. First, it has to happen in your exchange system. Then, it should also get reflected in the broker's end also because they also will have to take**….** This complete cycle will be different. Like you are saying, can't I run both the things together. Practically, it is not possible because either you have to run on one place and you have to see it because if you ask a member you install this as well as another trading with a workstation to punch in some trade, it is practically not possible. He will be preferring to put only 1 trade in the system.

So, current system he will be using specifically. But once earlier we had a thought process. What means, can we do 1 or 2 products on the new platform and leave some of the major products on the existing platform only. Once we feel confident, we can also migrate. There also the time gap cannot be long run even if you do in that manner also like partially we do it here and there. That is much more complicated because we need to ask our members who maintain 2 separate files – one for this and one for the other one. And within a week, because we cannot continue this for a very long period. We have to close it. That has anyway we have not gone ahead and we have done anything related to that one. But today, our thought process is to do it in one go rather than any partial way, i.e., search engine process I think what we have at…..

Participant: Is it on or it is likely to be deferred? Can we get a simple answer to that question?

Satyajeet Bolar: I think when we come towards April, we will be able to. Because the intention is not to go…. There are arrangements with TCS and with 63 Moons till 30th June. Obviously, we are not going to wait till 30th June. We intend to go live if everything goes well in April or May. Sometime in that time in April is when we will inform the market that, when we are going live sometime in May end. I think sometime in April, we will inform everyone, because that is our plan as of date. In April-May is when we intend to go live with the new system. So, your question is taken care of in that.

Participant: Because when another extension will come, more than Rs. 100 crores cost this time?

Satyajeet Bolar: Yes, I think so. Isn't it? The way it is, this would be I think a multiple of 9. So, maybe Rs. 81 crores or maybe Rs. 108 crores or something like that.

Participant: On an ordinary course of business, that was almost Rs. 15 crores per quarter cost.

Satyajeet Bolar: That's what I said. It is not in our interest to delay. But at the same time, when we come to March end or April is when we will inform.

Participant: I think everyone is asking the same thing. You have not even started your first integrated run. You are actually now saying that maybe in April we will launch it...

Satyajeet Bolar: The intent is not to wait till 30th June and to go live on 30th June. That is not the intent; obviously, we would like to go before that. And we will have to inform everyone before that. And the results will be known once the members get their comfort from mock, we will have the comfort they would also come back with their queries with whatever issues, how soon TCS has been able to resolve it and plug it. Isn't it? Although we should be taking care of….

D. G. Praveen: Yes, I understand there are issues but we went with the best team.

Participant: What is the case filed in Madras High Court? The traders had come together and filed a case?

D. G. Praveen: I think an association they have…

Participant: And it went up to SEBI to step in?

D. G. Praveen: They wanted just like once you are sure about your system, then only you might trade. These kind of questions they are asking, like abruptly don't do it and these kind of questions they are asking. But anyway, we are also of the same intent. We wanted to do it; once we were fully confident about we are able to do it, then only we wanted to migrate. Because we are MII, we have to be responsible to the investors as well as we are responsible for regulator also. So, once we are confident, then only we will move on to that platform.

Participant: I think you've rightly taken what Deutsche Borse has and what TCS runs and modifying it to Indian conditions. It has nothing to do with that you've taken the old FT system and replicated it.

Satyajeet Bolar: No, this has been done by TCS. TCS has a back-to-back done with Deutsche Borse. That was their proposal that they are offering us a trading engine of Deutsche Borse.

Participant: Whatever your experience with TCS, they use the Indian entities as their trial run platforms to build and have a…. Because volumes in India are among the highest, right? Whether they have implemented the SGI platform or…. So, there what we have used is, it is effectively the client is paying for you to develop your technology, and then once you got a running platform, then you start running it everywhere… They have done it with SBI, there were a lot of challenges they had, and after they did that, they are getting business all over China and stuff like that. So, don't you feel we have actually been used as a trial run for TCS to get their own act together? Where is accountability coming in?

Participant: Parallel runs one can do, right?

Participant: TCS practically, you got all between TCS on its own agenda and FT on its own agenda, so where is the accountability? Because, the Management does seem to be, it's like yes, next month we will know, next month we will know. But what you are effectively saying is my concern is obviously I have to run the whole system parallelly for a year to ensure that there is no mess up. You have seen what happened with the GST in the implementation process. There is a natural level thing and it's such a hotch-podge of it, right? So, why you feel that 1 month or 2 months of parallelly running will….my first question was that. What is the thinking that…. There must be some…. You are speaking with the best of technology people. Someone would be telling you that look, you'll have to…. It's a 6 months or a 1 year run of the whole system before you get that comfort to do it. Any layman would say just 2 months of running it is not sufficient because finally you are a tech company, right? You can't afford a real-time system that no one can log on, right? And in your case, you have 1 or 2 months of problems, then you have lost…

D. G. Praveen: That's what. Like you rightly said, it is… That is the reason. Two months is one thing – 2 months or 3 months – but we wanted to do enough testing well before we migrate because we wanted to ensure that continuity of trading is very important for us. We wanted to ensure that.

Participant: Talking about the overall options growth that has happened, I think that this growth is much higher than even probably you would have imagined, say, a year or 2 years back. Do you have any sense of what's fueling this growth in options? And it's happening even in NSE also and equities also. Particularly maybe for MCX, what's driving this growth and how do you see that over the next 1 to 2 years? Do you have any view on options growth?

D. G. Praveen: It all started like if you look at it, options were launched much earlier. At that time, we came out with only gold options. But it all picked up when the peak margin reporting has come. As and when the implementation phases were there, people started looking at it. But we all know that liquidity drives liquidity. Earlier, the problem was no liquidity in the options. That is why people were not able to start, but today, you have liquidity in at least most of the contracts that we have launched except the base metal. If you have a gold mini which was recently launched, that also has picked up. Initially we tried 1 attempt for option in goods but it didn't work well. And other exchanges were having that kind of option in goods with liquidity enhancements, but our product was not having. But now today with the migration of that product into option on futures, even that started doing well, and silver also started picking up. We are seeing sufficient liquidity that is pouring into the options contract. And I feel that because once you have the liquidity which is well diversified, people have a wider basket. When they have a wider basket, volatility may not stick to only 1 product. What all exchanges can do means, it is like you are able to provide the best product and other things, but the important key element is always having volatility which plays an important role. So, we asked certain regulatory changes also like we recommended to the regulator and the regulator also accepted certain things like close to the money which earlier was there. That concept is called close to the money apart from ITM and ATM and other things which were not there in equity. But we recommended for its removal and automatic conversion of that in-the-money into without any explicit instruction by the buyers, so these all made things very convenient for the market participants to trade into the options now. So, we are doing, why? I will not be able to give any growth figure to it, but definitely we can say that today it is like there have been which you also would have seen it. There is a big jump that we have seen not only in the ADT, that means your average daily turnover, but also in the number of participants. That means, it's the diversity that the participation has been well diversified as compared to earlier. But now a certain thing still we are looking for some dispensations from the related in the form of like earlier also we said some of the margins are now associated with settlement guarantee fund, which is because once I pump in, I will not be able to take it out where we asked the regulator to look into that particular thing. While the matter is under consideration, as and when we can get it, that could sufficiently act as a further booster to the both underlying as well as the options because today what is helping options means the buyer need not have to be worried about the incremental margins. It can be intraday or daily or something. But once these actual margins also comes down, then your writer also will be more conveniently positioned as well as your futures also will get a new kick. Because, today the options we are getting liquidity for is mainly for crude oil as well as natural gas. These are the commodities which also are faced by very high amount of margins. The margins are sometimes even reaching 40% to 50%. Even today, it's about more than 30%. Imagine the way it is…. In the international market, it is 10%, but in our market, it is about…. So, once I think some rationalization happens in the margining part, we can see that it can add to that. We are working towards shorter duration contracts because in this technology migration, we had to encounter this one. Otherwise, we can roll out the monthly contracts of gold, but more than that, I think a shorter-duration contract can be more beneficial for contracts like indices which is similar to your Nifty because in the current contract, you have a devolvement which devolves into underlying futures and then it finally settles in the cash even if you take a crude oil contract. So, devolvement again requires some additional margins from the buyer side also because it requires margin from seller as well as from the buyer, both sides. These are a certain amount of complications that are there. I think once we are able to float that kind of shorter duration index contract or something else, I think it will add to the advantage to the market.

Participant: And in terms of the view of the regulations that that allow FPIs to participate, on that front, now has there been any new progress?

D. G. Praveen: Today we have not come out with any particular regulations or guidelines with respect to the FPI participation. SEBI already has come out with direct indication. It is more from the exchange point of view that they have to roll out the guidelines. It is also pending because of the same technology migration. The reason is, if you look at the FPI, there is a clause there. If you fall under a particular category of FPI, then the position limit should be around 20% of your client level position. So, there is a system level change required to do it. If I want to do it right now, then I need to get it changed in the 63 Moons rather it is easier for me to implement in the new system.

Participant: So, we are also losing business. I think...

D. G. Praveen: Certain areas, yes, like in the products, shorter duration we were not able to launch and like FPI now we have to wait for a little bit longer period of time. These are all really, we are also sensitized about, we know it, but because of….

Participant: Once we go live… before it would further**…**

D. G. Praveen: I will not be able to give a number to it but there are many things which really can help as we can move on to the new system. I think many things can be, really, we will be able to take it up.

Participant: Within June, we will not be able to do any of this?

D. G. Praveen: If we are able to migrate prior to June as and when it happens, then I think it is easier for you to do that one. Till that time…. That is the very reason I said our complete focus is on technology. That is the only thing that is standing as a bottleneck for us. That we have to get it cleared.

Participant: One thing which you mentioned earlier, a few quarters back was that at an overall level, there will be some savings on the migration to this software. But of lately, the commentary has been that it will be completely new unit. Earlier, you used to say that there will be some savings, there will be some savings, but now….

Satyajeet Bolar: There are 2-3 things here. One will be the EBITDA it will be neutral. I will just give you a small background, so you will appreciate the context is that presently for 63 Moons, we pay them a fixed and a variable component based on our turnover till September. And now, as you are aware, it's a lump sum of Rs. 60 crores for December and Rs. 81 crores for this March quarter. And in addition to that, we are taking care of our own IT expenses for the hardware, a few pieces of software and all; that is an addition. Going forward, once the new system goes live, we will have our own infrastructure. So, we are spending money on the CAPEX. Also, once it goes live, we will have to maintain that. Because we maintain that. They have also procured operating system for the platform. Again, as you are aware, many of the IT companies have moved from perpetual license to subscription business. Those expenses which net our P&L operating once we go live. Third major component would be the amortization and depreciation once we go live. Generally, because it would be component-based accounting, there will be some bit of hardware, some of the operating, some of the intangible. So, there will be different rates of depreciation and amortization. That will be another impact. Once we look at it, the impact on depreciation and amortization if you take 6 to 8 years, that would be quite expensive per year. But if you look at the other expenses, it would be almost flat to what we were earlier paying to 63 Moons. Also, the AMC part with TCS is that the first year once we go live is under warranty. Then from the year 2, the AMC will start.

Participant: And you earlier mentioned that AMC would be in single digit. Even with single-digit annual, but you have these other costs. There are operating system costs and all that. That is as much as the AMC cost or maybe even slightly more than that. That number would still be less than Rs. 20 crores to Rs. 25 crores. And if you are depreciating the software costs over 6-7 years, that still may be Rs. 30 crores of depreciation annually, not more than that.

Satyajeet Bolar: Yes, mota-moti, you have the figures with you.

Participant: You now mentioned that EBITDA will be neutral.

Satyajeet Bolar: Yes, because these expenses – I guess where you are coming from. The depreciation and amortization will come after that, isn't it?

Participant: Yes, the EBITDA should be significantly positive.

Satyajeet Bolar: Yes, you could say that but also what I am trying to say is that many of the companies when they are coming up with these licenses which were earlier perpetuals, have now become operating. So, basically, you are going in for subscription base and these….

Participant: Again, let me ask. Is it going to be EBITDA neutral or is it going to be PBT neutral? PBT includes the depreciation and amortization costs and the operating costs, the AMC….. EBITDA does not include depreciation….

Satyajeet Bolar: Doesn't include depreciation and amortization, yes.

Participant: So, if it's going to be EBITDA neutral, that means it is going to be significantly negative on PBT basis.

Satyajeet Bolar: No, maybe I didn't articulate it well. I think it would be PBT neutral.

D. G. Praveen: More than that, you also have to factor in the turnover growth. Because this is assuming constant kind of turnover and other things. Also, the turnover factor is significant because going forward, it will not be linked to any turnover. It is going to be a fixed kind of….

Participant: So, the only reason you guys shifted is because currently it does not make any difference between what you are saying because when we had actually….

D. G. Praveen: As it goes, suppose if you are making a big jump in your turnover and other things, then I am telling you it is like definitely will have a material impact.

Participant: Because, 1.5 years back when you tied up with TCS, at that time, option-1 was zero. Option-1 is now 40% of revenues. Despite that, you are saying that this is at PBT neutral. If these options had not come in, then we would have been completely off….

Participant: But depreciation and amortization are only for 7-8 year period...

Participant: Yes, but that is what you have not been clarifying that after 7 years even the technology costs come down significantly after it has been completely….

Satyajeet Bolar: There are 2 ways to look at this. The software, after 6 years also, as long as we pay the AMC to TCS, we can continue to use it. But the hardware and all, there would be a refresh.

Participant: When will be the refresh?

Satyajeet Bolar: Generally after 6 to 7 years, the hardware would get refreshed.

Participant: So, the cost would still be the same? How much of the project cost has to do with software development and with the hardware cost?

Satyajeet Bolar: Roughly, you could say 60% for the hardware and 40% for the software.

Participant: So, even after 7 years, the cost will still be….

Satyajeet Bolar: Because we will have to have a refresh of the hardware. The software, you are not going to incur any additional expenses.

Participant: If our volumes continue at the current level or it will increase by inflationary level, then there is no benefit of shifting to this system.

Satyajeet Bolar: What I am trying to say is that after 6 years, you will continue to get the support of TCS for the maintenance and that has been linked to CPI. So, there won't be any material increase in the AMC charge. But the other expenses for your operating, AMC for the hardware, for the CISCO systems, all that will continue to stay. And you will have to refresh it. That is something that we should keep in mind.

Participant: Are we planning to do any internal technology team so that once we have our**….**

D. G. Praveen: It is too early to say what will happen.

Satyajeet Bolar: Yes, I agree with you.

Participant: We call ourselves a technology company, but the technology is outsourced. Is there a thought process and… or is the company working towards that?

Satyajeet Bolar: That is a long-term plan, but the immediate plan at the cost of reputation is this. But that is definitely in the mind of the Management and the Board that eventually we should have our own technology team.

Participant: When we should start seeing work towards that?

Satyajeet Bolar: I think once things stabilize on this front, maybe in a year, then probably it would be in our bandwidth to look into that.

Participant: What was your tech cost really in FY22? Was it somewhere around Rs. 55 odd crores?

Satyajeet Bolar: If you include everything, it will be more than that. If you include what we pay to TCS also, it would be more than that is around Rs. 80 crores.

Participant: And when you are saying it is neutral, you are talking about Rs. 80 crores to Rs. 90 crores or… excluding the TCS?

Satyajeet Bolar: That's what I am saying. According to me, while we paid around Rs. 80 crores to Rs. 90 crores in 2021-22 including what we pay to 63 Moons, I think it will not be in that range. It will be less than that.

Participant: Because our AMC will not be that much?

Satyajeet Bolar: Not that our AMC is not there, where we have been hit badly is because we have procured a lot of operating licenses which are pretty expensive. And they were earlier under the perpetual model. We would capitalize and the AMC part was less. But most of them have now changed to subscription base. So, you basically have to pay a substantial amount every year.

Participant: But that is not linked to turnover, right?

Satyajeet Bolar: No, this is all for the hardware. For that, we need some operating licenses.

Participant: That's why you need to put in front of investors… because credibility of the Management is diffusing very rapidly… speak with anyone on anything else, we would see that the first thought comes to like the quality of Board and Management is in question and you got to do something on the credibility side of why and what is happening because this constant setting of goal....

Participant: And this is all back to back. First, the London contract. Now these extensions. This all…

Participant: You may actually end up with a lot if… if the activism may happen, because at some point people will say that this Board doesn't know what they are doing. And this may happen if you push it back once more and give very vague reasons for the same. It may backfire because people are actually getting frustrated because when you said December, we thought….

Satyajeet Bolar: I understand where you are coming from. I totally appreciate it that you have been frank, but it is something that we do not want. It is not in our interest to continue in this setting. At the same time, we have to ensure that the system works.

Participant: What is in your control is clarity in communication. We understand that these things will have….

Participant: 15-20 days before December and on some of the investors' call which we had and you put the recordings on some line on your website, on that, earlier CMD had said that….

Participant: We are now confident, yes.

Participant: That is scary because that is just 15 days before the quarter and then suddenly not 1 quarter but 2 quarter extension.

Participant: Here I just mentioned that the mock run that was being done was only a partial, not completely integrated system, and not having done…. Started with the integrated system mock and communicating we are confident of going live by December. That did not happen. If that's the kind of communication that will be coming in, that will not be great…

Participant: 63 Moons also outmaneuvered you. They put out a statement in the stock exchange saying that they are continuing the arrangement. I think only after that, you guys woke up. This is not very healthy….

Satyajeet Bolar: Probably, this is not the right forum to tell, but it's not like we woke up at the last moment. But I do understand and I appreciate what you are telling is very frankly. I do appreciate that and we will definitely convey your….

Participant: Thank you.

"Multi Commodity Exchange India Limited" Meeting with Spark Capital Advisors - 2

February 14, 2023

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MANAGEMENT: **MR. SATYAJEET BOLAR – CHIEF FINANCIAL OFFICER, MULTI COMMODITY EXCHANGE OF INDIA LIMITED**
MR. PRAVEEN D G – CHIEF RISK OFFICER, MULTI COMMODITY EXCHANGE OF INDIA LIMITED

D G Praveen: Good evening, everyone. So I don't think any brief is required. I think we can directly go to the question and answer or you want some brief. Or you can just add perception. I think while answering you will get all of it.

Moderator: Sir, would you want us to have a quick introduction and then you want to begin?

D G Praveen: Okay. So, just to give some intro so that I think you can break the ice and we can get into the thing. So, we have done very good in the options part. There has been a quarter-on-quarter we were able to witness very good volumes, both in terms of turnover as well as in the participation. That means we could be able to not only see growth in the turnover, but also in the participation. So, it is now well diversified and now more products are there in the bouquet like we have liquid gold contract, gold option, silver options and energy we have again 2 options. So that way it is like now more diversified. And we also wanted to come out with a shorter duration contract. We are also waiting for the tech migration. I think there's some questions anyway will come on and we may expect, but definitely we are looking for that one. Once migration happens, definitely, we can roll out more shorter duration contracts. And also, we can facilitate the foreign participation. SEBI, in a recent development, has allowed multiple contracts, the same underlying, that is another positive development that is for the company, wherein we can look for some mini contracts, which earlier were there where we were having the products in aluminium, lead, zinc, which were doing better, but we unfortunately had to discontinue. But with this regulation, we again can start looking at this new products and there we already have applied to the SEBI. So as and when we get the approval, we definitely can roll up because this is a very conventional kind of product. Structurally, the product is more or less the same like any other main contract. So don't require any changes in the technology or something. So we are going ahead and we'll be launching as soon as we get the approval. That is another development.

In case of margins, we are still awaiting the regulatory guidance with regard to the settlement guarantee fund. As and when we get some dispensation, like, if they allow 2-way movement in the settlement guarantee fund, we can be able to bring down certain margins in some of our main products like the crude oil and the gold. So that is one thing that we are looking for. So, some meeting has happened, but we are yet to get the minutes and we are yet to see the final print of it, what the committee has decided on that particular thing. If that comes out, I think some development will happen on that side.

So with that rationalization of some margins, I think we can also see some good attraction to the futures contract because today now, the volume in options started doing better than your futures contract, but once that also gets rationalized, we can be able to see some push even from the future side also. So there I'll leave it.

Participant: How much you think margin can come according to this?

D G Praveen: See, for example, in some contracts like crude oil, we have called pre-expiry margin, which means during the last 5 days, incrementally, we have to charge some 5%, which will go up to 25%. Besides that, you will have volatility-based margin. So together, sometimes it will go to 40% - 50% kind of margins. But today, even without the pre-expiry margin, it is about 30% That means roughly you can say that your actually volatility-based margins could have been somewhere around 10% rough numbers I am giving you. Now, around 15% of thing is coming out because of your SGF-related kind of a margin. Again, in gold, it is about 2% we are living on the gold contracts. So, all these things we can get some relief, if this kind of 2-way movement is allowed.

Participant: Sir, you told some run up on…. and how can it benefit us in the future?...

Satyajeet Bolar: So as we had mentioned earlier that till September 2002, we were paying to 63 Moons fee base, which was fixed as well as variable. Variable was linked to our turnover. In addition to that, there are other software expenses that we incurred, sand we will continue incurring because for the backend we would be incurring certain software. Going forward, once we go live with TCS, so for the first year, we won't be paying them any AMC, it will be under warranty. But we'd be incurring AMCs for the hardware that we'll have procured, and also for the operating software that we'll have procured. Some of them are under subscription-based model where we keep paying annually. So all of that will come under like the operating expenses under software. In addition, when from second year onwards, we'll be paying an AMC to TCS, which is a single digit, it's again, already negotiated paying to the CCS, right? The expenses that we're going to incur going forward would be purely as per the contractual agreements with the vendor, either from where we procure the hardware or from TCS the software and operating system. So if our volumes increase, we don't have to pay anything additional to the software vendor, right? so the expenses would be whether our volume is X amount or X x 3, the expenses remain….

So initially, we don't expect any material benefit, but only in addition, the amortization because once we put it to use, then there would be an amortization cost for it.

Participant: Sir, what's the upgrade for that higher volumes that came and you had to kind of expand your capacity to move a platform to handle that kind of volume? Or is it get new products. What is the reason here?

Satyajeet Bolar: See, the agreement with 63 Moons because it was mainly, I mean the technology was a bit dated. Also, the AMC or the fee was linked to the turnover, say we grew then we had to pay more.

Participant: How much will be the savings at current volumes?

Satyajeet Bolar: Current, if you say December, December was an exceptional quarter, right? But if you take last year's volume, then I think we wouldn't be saving so much on operating expenses. For if you take only December quarter and we're expecting it to continue for the entire year next year and there would be some savings in it because in December, volumes are good.

Participant: And now the new deadline is when for TCS?

Satyajeet Bolar: See, when we re-negotiated with 63 Moons, they gave us an offer for 6 months or 1 year or 2 years also, right? The minimum period was 6 months, so we took that offer. And we expect that sometime in March end or April, we will inform the market when we will be doing that, most likely.

Participant: Do we have any delayed kind of penalty on TCS products also?

Satyajeet Bolar: Yes, there is a timeline. We've anyway delayed it. So there is a penalty clause, but that will kick in probably once we get the product and it worked to our satisfaction.

Participant: So they haven't delivered it yet? Because they do some testing, right?

Satyajeet Bolar: Yes. We are doing the mock in February.

D G Praveen: And a call has to be taken whether you wanted to again, already, we are having some issue. Another vendor also, at the system has to put in place. I think then appropriate decision will be taken. Right now, triggering the penalty may not be a right idea. So we'll have to wait once and let the migration be completed. And then depending upon the situation, the Board will take an appropriate action on that.

Participant: If it doesn't happen on 1st April, does it automatically then go back by another 6 months.

Satyajeet Bolar: No. So our arrangement is till 30th June. The first arrangement was till 31st of December, subsequent arrangement is till 30th of June. So they gave us 3 options. Either we extend it for 6 months?

Participant: You have till September '22.

Participant: I think September?

Satyajeet Bolar: September was when it lapsed, right? So we were to go live in September.

D G Praveen: See, at that time, we went with RFP, we floated RFP, all those things happened.

Satyajeet Bolar: In '20.

D G Praveen: At that time, yes, '20, we have floated RFP. But finally, 63 Moons have not participated in that RFP process. We wanted to do it in a very transparent way and they have not participated. So, we were having only 2 vendors. I think out of them we had to select TCS, who otherwise there also we deployed the platform in other locations, including Deutsche.

Participant: I know they have but then why are this –

D G Praveen: That's unfortunate thing that even we had to fail that one but I think once September happened, now it is like it was extended for 3 months. Now again, 63 Moons wanted to have some 6 months period. So before that also, while you have a 6-month, at any time before 6 months, if you are ready, you can migrate to that new system.

Participant: You spoke about amortization. Is there any upfront payment to TCS?

Satyajeet Bolar: TCS, we have paid some marginal amount, the large amount of it is not even paid.

Participant: So for 1 year, you're not paying anything for AMC, right?

Satyajeet Bolar: That is AMC. So that would kick in once we go live. If we go live assuming in sometime in May, and so 1 year we won't have to pay anything.

Participant: So after 1 year, you'll actually save money, right?

Satyajeet Bolar: But that was anyway built in with this. It was part of the agreement itself.

Participant: Still not getting clear, if there is any PBT impact, after amortization and everything?

Satyajeet Bolar: I think it would be neutral for some time and once the volume start increasing, then we will gain.

Participant: And you said penalty…

Satyajeet Bolar: That will be prudent from our side, isn't it? That we should get the product, it should be working.

D G Praveen: Still the penalty, don't think that penalty will be to that extent we can be able to make away, that is not possible because what do you say, the AMC considering the product cost itself, it's not that big for that. So we cannot expect that kind of penalty, but whether really still do we have to go and penalize someone is one thing that really we can be able to take that kind of decision only when we migrate to the new platform. Once we are ready and migrate to the new system, that should be the right time to take a decision on that.

Participant: Sir… software for last year…

Satyajeet Bolar: Yes. But that is only what we pay to 63 Moons. In addition to that, we also have other expenses.

Participant: So what is that quantitatively the way --

Satyajeet Bolar: That will be around Rs. 25 crores.

Participant: So will be plus 25. And this one is 60 + 80 + 80, right, 3 quarters.

Satyajeet Bolar: So that 55 what we paid for the whole year will now be replaced by 60 plus 81.

Participant: This is much higher.

Satyajeet Bolar: Yes, obviously.

Participant: So why, sir….they will not have a very good number.

Satyajeet Bolar: Because that is how they negotiated. We had to go with them only. We didn't have an alternate.

D G Praveen: We don't have an alternate.

Satyajeet Bolar: So they took advantage of that.

Participant: Sir, broadly on the futures and options volumes, could you talk about why the futures volume in the last 5-6 years has not grown and options has taken off?

D G Praveen: See, in '19, '20, I think there is a substantial increase in the futures volume, okay? Subsequently, the peak margin reporting has come. So, after that one, like a lot of changes because the leverage earlier what some of the brokers used it to claim that has been completely gone. And you have your margins on a higher side in the future. So, given that kind of scenario, people, some of them, especially the people, they find it comfortable in trading on the buy side of the options and while some brokers still can continue to just they can park some collateral and they can be able to write it, but some people prefer not to get into kind of volatile margin kind of thing, they prefer to opt as option buyer wherein you have to pay upfront margin and then I think it you are done with because you will be paying the premium for it. They were done. So that has resulted in definitely people started looking at options as a very convenient product, and those people earlier who were looking for leverage and kind of things, they started looking for the option. And as and when the liquidity started building up that means in the options, liquidity will drive the liquidity. So, once they find it attractive, they find enough liquidity in these contracts, more and more people started coming into these contracts. That is the reason if you look at, at the exchange level, overall participation has gone up.

Participant: So the new users that you are attracting are more like retail?

D G Praveen: Just wondering what we would like to say is in comparison with equity, it may not be appropriate because there suppose one IPO comes, I think many people they come and they open a Demat account and they start trading with that one. But here, our products are pretty high on the higher side and these are all derivatives compared to cash market. So you have derivatives, leveraged products. So given that one, we cannot expect that those 1 crore people or whoever were there as active clients will end up trading in this contract, while that number can show bigger like it is close to 1 crore, which shows that okay, you have this many active clients. But the numbers that really you have to look at is the number of traders you see because that is more important. Today, the brokers are integrated, that means intermediary integration happened after the SEBI has rolled that kind of regulations. After that one happened, when a client is getting registered, an application will be there with him, he can tick up in the segments where he would like to trade. So, he would have ticked off all the things, so he naturally would become an active client. But whether he would trade or not is a different thing because a very small marginal retail person, you cannot expect them to come and trade in commodities market.

Participant: Yet you will be capturing the data on active clients somewhere in your system?

D G Praveen: Yes, we are publishing, active is close to 1 crore, right? That is what we have given. It's very high, pretty high, that number. But for the convenience, we have also started giving the traded UCC numbers also which has been given in the presentation, which is clearly evident like how the …. has grown up, that how the markets have grown up.

Participant: Coming to your point, when you compare with equity market participation, so there, we have clear growth trends that people want to participate in the India growth story or there is financialization of savings. So, similarly, what is that, underlying growth driver for say a derivative products in commodities, since a large part of it is speculative, right? So, not from a near term, but from a 5 - to 10 year point of view, how do you kind of define that growth driver and what could be the growth rates for -

D G Praveen: So technically, if you look at it, for commodities market, again, the participants are more or less the same, the people who are trading in the equity market. But besides those people, like you have speculators, you have arbitrators, arbitrages, they do the cash and carry arbitrage kind of thing, they take their delivery of it and they again offload it or if they find an opportunity between the 2 contracts, that also they're doing. The third category is the hedgers. Hedgers, they won't contribute to the volume, that means in a big way they won't contribute. Then what is that role they play in this market is they are the one actually they actively participate in a price discovery process is one thing. And overall the market is meant for them to do the price risk management for them. While speculators will come and they provide the necessary liquidity, that means they take the opposite position when a hedger really wanted to transfer his price risk to somebody else.

Participant: How much is the hedgers participation on the exchange.

D G Praveen: So, when hedgers we are looking at like, not only we, nowhere in the globe, they really will look at what is the percentage of hedgers to the total volume, rather they look at what is their percentage to the overall open interest. Because, like a speculator, you will not trade on a daily basis. Most of your trading comes like for example, Algo for example, is more than 50% on the exchange, it very normal. And if you take lean market, liquid market also, it is more than 50%. So algos and other thing, they generally tend to trade intraday and those kind of thing and they will take it. So these people, primarily only hedgers, they take a position and they try to hold on their position for a longer period of time, that is how your open interest keeps building up.

Participant: We have only that percentage.

D G Praveen: Yes, percentage. That it ranges from 20% to 30%, 40%, depending upon the contract to contract. That also we are publishing on the website what is the quantum. But from whether they will contribute to the volume or directly to your revenue, that percentage is going to be naturally it will be lower, but definitely their contribution is in a different way. Like for example, we recently have come out with Atmanirbhar Bharat initiative. Under that one, we have empanelled some of the gold refineries. So, we have seen significant gold delivery coming from those people and to the platform, okay. So, in the lead, we have done it. So here, I think in gold more than 4.5 ton of delivery has happened in this market. So, that way, the hedgers not only looking at this platform as a price risk management platform, but they also started looking at it from a delivery, that means alternative delivery place wherein they can if at all they are not able to meet their requirements, sales target they could not be able to meet that kind of thing, they started looking this platform for offloading. So, it is not only acting as a delivery of last resort, it is also facilitating as an alternative platform to deliver.

Participant: But for a hedger, won't an international exchange be more beneficial given there would be better price discovery as well as they won't have a foreign currency risk because a lot of these gold companies or metal mining companies would have contracts denominated in dollars.

D G Praveen: In fact, the currency risk is there when you're going to go outside and trade, okay, because not only you have to trade, when you're bringing it to the country and other thing, you also have to hedge yourself against the currency also. So in fact, they have the currency as well as this one. To your question whether everybody will go and trade in the overseas market, the question is no. Why? Look at the contract size, our contract size is about 5 metric ton contract if you take the aluminum contract. But LME is about 25 metric ton contract. Similarly, if you take zinc, that again, it is 25 metric ton contract. That contract size is pretty big. And equally, we are not also looking at those people who are trading in the overseas market where numbers, it can be handpicked, and it is very few in numbers. We are more interested in the people like SMEs and other people whose requirement is relatively less, who are not intent to go overseas and trade, who are going to be in the domestic market. Earlier, they were not having any mechanism to hedge themselves, those people only we are targeting. Once liquidity built up, even other people also can come and trade as well.

Participant: All these, I mean the mini contracts, all will come into play once the migration is over.

D G Praveen: Mini has nothing to do with the migration, because like I said, when we are launching a different product, then you require to look at even the technology aspect. Otherwise, if it is the same structure, like mini, structurally the product is similar, it is not different. And in fact, it was launched earlier also. Only we had to discontinue because of regulatory reason. So as and when we get the approval, we are going to go and roll out the products. Only certain products, like I said monthly gold options, which is to some extent dependent on technology thing, there also testing is going on. Once we are confident that once it is launched in the current system, we can do it, but I'll also be sure that it is going to be launched in the new platform. Once that testing is done, I'm confident that I can be able to do it, such product also will be rolled out. Because I cannot launch a product, built up open interest, then I cannot go back on it. That is the process.

Participant: And if you can also talk about like you said mock trading, all those are on. So what are the milestones that you're tracking internally?

D G Praveen: So mock, again a complete mock we'll be doing this month with all the back offices and all the thing, integrated system where you'll be doing the mock and that will be starting this month, that mock while parallel runs will be going on, continue to take place because that is more for the consumption internally to see that to build the confidence on how the system is performing. So once we do it, we will get a fair idea. As and when we get a fair idea, we'll take a decision on when to migrate depending upon what kind of –

Participant: Results you get from there. So you'll start with a daily kind of contract first and then we'll add --

D G Praveen: That is one thought that earlier also we were having, like whether do we have to run 2 platforms at the same time or do we have to run the same thing. But the feedback that we got from the market is it is painful for a broker to operate on 2 systems because you need to have 2 types of settlements. See, even for the banks, it is a bit complicated. So suggestion that we got it is if you want to do it, go ahead and do it in one rather than splitting it…

Participant: Will the frontend customer interface also change?

D G Praveen: It depends upon, if somebody is a CTCL user, then there won't be any change because it's more about he getting integrated with our systems. So currently, whatever they are using, there won't be any change in that kind of thing. Technically, T7 is a product I think already BSE, they are using it, it is not something which is totally a new product to the market, that way it is a front end especially working over the frontend. So, for those people, it is not really a big change or something. Suppose

I am giving a terminal, but percentage of volume that comes from this kind of thing is hardly anything because people are all having their own systems who are developing their platform. Internationally, if you look at, that is where exchanges almost stopped giving this kind of frontends to the market participants because they have their own system capability, development capability, wherein they can do, they integrate themselves to the exchange systems.

Participant: In terms of brokers, which are the major brokers?

D G Praveen: Or you can name whoever is most of them, who are very active on the equity markets, they are also --

Participant: Is the same.

Management: More or less.

Participant: And sir, globally, if you see the volumes are much higher on the commodity segment. So in India, is it because of lower institutional participation that --?

D G Praveen: See, there are many reasons like earnings, CTT or tax, the trading cost is substantially higher compared to the international market. That is one thing that really you have to look at it. Rest I think, this is pretty new compared to your equity market as they are coming out and again, sometimes even though agree, but some negative sentiments will go on when you are suspending a particular product even though it will not have any bearing on the non-agriculture commodity. Sentiment wise, it will have people little bit think before trading.

Participant: Sir, in the past, any non-agri product have also been suspended?

D G Praveen: No.

Participant: So only agri product.

D G Praveen: It is politically sensitive.

Participant: Sir, what are main things to increase institutional participation in commodity, I mean would that be only in --

D G Praveen: … So we have already made for mutual funds, which we have taken up with regulator also. Those are under consideration but we are seeing that like silver ETFs have come up. But still there are certain regulations which will not encourage them to come and trade on the exchange. So, we asked for it, like they said exactly it should be 30 kgs, but what's was delivered on an exchange will not be 30 kgs exactly, that it will be in certain range. Similarly, we asked the holding period should be for 180 days, like, if somebody gets a delivery of it, he should be able to hold the physical delivery because opportunity immediately you will not find in the next contract. You will have to wait for the right opportunity to offload it. So, for any reason if it gets sold off, you will have to take care of. So, there we asked for the metals, 180 days in metals, they are positive, but we have to look at it. But in case of gold and silver already, they have made it to 180 days, but metals still it has continued to be 30 days, which is very, very short.

Other GST-related things continue to bother us on that one because you have multiple locations. When you have multiple locations and here they are supposed to get themselves registered in all those locations. That is one challenge they continue to face GST. So that we have made our request to the GST Council, but we have to see that when really can things will come.

Participant: Sir, how do we handle the warehouse. Sir, to trade in a commodity market, we need to have underlying deliverable one. So, the…

D G Praveen: We have designated warehouses in 4-5 locations for metals.

Participant: And will you be increasing that?

D G Praveen: The more you increase, you have a greater challenge, okay, because of the GST. Our idea is we don't want to have too many delivery locations. We wanted to ourselves restricted to some locations so that it can cater to the people across the country because it is like if I'm not increasing the location, then the market will become narrow for me. Like, suppose earlier, we used to have only Thane as the delivery center. With that, rest of the country participant used to say that it is catering to West, we are not able to participate in that one because of that, you increase that one. But if I go on increasing it, then the problem is that more GST-related challenges will come into the picture. So, what we thought is we wanted to restrict ourselves to these 4 or 5 locations only. That will remain constant across the base metal. Today, if you look at it, all the delivery centers are more or less same, and it is located at 4 corners of the country. Henceforth, we are not interested really to go ahead and add more and more delivery centres. Rather we are interested in promoting these locations.

Participant: Sir, what value of your open interest or like notional…

D G Praveen: Always it is assumed that general rule is less than 1% will translate into delivery, rest of them are all going to be intraday trading and overnight positions. Only a marginal portion or very residual portion will result in a delivery.

Participant: Sir, in options, we make about 2.5% premium on notional. So on that 750, 7 is the premium you made between April to December on a notional or some higher, that translates to 2.5%...

D G Praveen: So you are telling premium as percentage to the --

Participant: To the notional EDC.

D G Praveen: See, that keeps changing and also depends upon market to market. Like I said, if you take equity market or if you take a currency market or equity also, within equity, index options and stock options, in all these cases, the ratio between premium to notional volume keep changing.

Participant: Sir, I just wanted to understand globally.

D G Praveen: It's a tricky situation, I also understand, but maybe you can try to guess like who are the type of market participants who are trading. Generally, today, I can say that the more premium you're getting means, essentially people are looking at in-the-money contracts rather than out-of-the money contracts, especially in the index options and your weekly options. In those cases, they look at out-of-the money in the equity market because it is weekly, your expiry is not very far. It is very near. So, I can comfortably can take an out of the money and I can expect that something happens, it is like a thing in the lottery, I can be able to get something here. But here our contracts are all monthly contracts today, and if you take gold, it is a bimonthly contract. So we are working on that, that is the thing. I think once this migration happens, we can be able to come out with that kind of shorter duration contract. Then we need to see that either any premium to let's say, is there any change? But it is too early to say anything to that one. Today, given the type of contract, people look like they're comfortable in doing this kind of ratio at 2.5, and realization till we started charging it is around that range only.

Participant: **….**but how much is the premium --

D G Praveen: 40%, globally you are saying?

Participant: If we compare ourselves to global commodity exchanges?

D G Praveen: See, technically, we have not done much comparison because today options, we are much ahead of many other exchanges because globally options are not that widespread as compared to the Indian markets, whether it is say equity market or you take this one. So, there, it is roughly around 10% to 20% of the volume of futures.

Participant: Sir, is this notional?

D G Praveen: Notional only I am saying. So that too it is we never thought in that direction. So we really haven't looked at because Indian markets tend to act differently from the global market.

Participant: It is difficult to forecast, sir, how --

D G Praveen: So, currently, most of the things are happening. What you can do or we is just you can look at your commodity level premiums rather than looking at the overall level. It can give you some answers to you. Like for example, if you take gold premium to the notional turnover, crude oil premium to turnover, then you can be able to see the behavioral pattern of some cash-settled products to a delivery-based contract. Again, I'm saying see, it is pretty new even just we started only a year to 1.5 years back we started charging this. Now we have to see that how the things are going to translate. But you can be able to build up some maybe using some tools you can able to decide what could be there.

Participant: Sir, what are our transaction charges in futures and options? Like, how often are you revising them?

D G Praveen: See, currently, we don't want to get into that one at this hour. We are completely focused on our technology aspect. So today it is about, average realization rate is 207 per crore, right, in futures.

Satyajeet Bolar: 207.

D G Praveen: In options, it ranges between 42 to 43 per lakh of premium.

Participant: That translates into a much higher notional value, right, versus the futures?

D G Praveen: Roughly when we had estimated, it is like thumb rule method, it is roughly 40% of it, your net realization if it is 100 in options, technically, that is comparable with 40% of futures turnover. And given the current realization I mean to say that. We were expecting it to be 1/3 realization, but it is fairly good around 40% is realization.

Participant: Are you seeing any shift like people switching from futures to options and so your futures volumes getting impacted now and going forward maybe? Because in options people are getting same exposure at a much lower premium versus say a higher margin.

D G Praveen: Some benefit definitely is there. Definitely, you can see the numbers only, but the drop that we have seen in futures is marginal compared to the growth that we have seen in the options contract. Like the numbers last quarter also you can see, a marginal drop has happened in terms of futures turnover, so substantial jump in option. But once your margins get rationalized another thing, we can also see that some trigger points you can get it even for the futures also.

Participant: So I'm just clarifying that 207 is per 1 core of F&O turnover?

D G Praveen: Yes, futures.

Participant: And 40 to 43 is per lakh.

D G Praveen: Per lakh premium, on the premium turnover you have to look at it. So roughly it is Rs. 4,200 to Rs. 4,300 per crore.

Participant: Sir, broadly, as our volumes keep increasing more on the option side, this is beneficial for our margin generation?

D G Praveen: Technically, we are happy with wherever the volumes are coming from whether it is futures or options. As long as we are getting volumes, we are happy. And futures in a way are options to futures.

Participant: Understand. Sir, broadly for the company on its EBITDA margins, it will be beneficial, but our cost we will not have at the same level.

Satyajeet Bolar: Cost has nothing to do with that one. So there is no incremental cost.

D G Praveen: It is beneficial and definitely both should complement each other. Earlier, we were dependent only futures. Now, it is like at least we have 2-3 products, basket has been really good now to really people can start looking at different products.

Satyajeet Bolar: Two years back we were asked why they are not charging. Now it's gathered its own momentum.

Participant: The price, when we have last revised it, sir, for futures and options? Once the tech migration happens, you will probably look for this.

D G Praveen: Too early for us to really think of it because first is our focus is on technology.

Participant: Sir, once this tech migration is completed, so which are the 1 or 2 products on --

D G Praveen: Shorter duration contracts immediately we can look at.

Participant: But that will be existing, but outside of that, any new products that are on the anvil that are on your mind? I am saying could it be like electricity?

D G Praveen: Yes, that thing is independent. I don't think electricity require any system changes, it is very conventional.

Participant: So are you ready with all the modalities around that product?

D G Praveen: Electricity you are saying?

Participant: Yes.

D G Praveen: Electricity is ok, we mean the contract design is similar to what your existing products are there. Here, shorter duration, like I said, you have bimonthly futures and you have monthly options. This is where there is a slightly different product as compared to your regular product. That is the reason we wanted to be doubly sure to really increase.

Participant: Sir, when does that start electricity contract?

D G Praveen: Approval, we have been waiting for it and they have not come out. They have formed a committee, CERC and SEBI.

Participant: Sir, what all products are waiting for the approval?

D G Praveen: Mini, we have applied to the SEBI.

Participant: Mini is one. Then electricity you said is another one.

D G Praveen: Yes.

Participant: And outside of that?

D G Praveen: And other products like aluminium alloy and the steel we are also waiting for steel.

Participant: What is the reason these approvals are getting delayed from which end? Is it from CERC or --

D G Praveen: You are telling electricity?

Participant: Electricity.

D G Praveen: Electricity, first they have to allow trading in electricity derivatives first. So that committee has to really have to come and say that now you can apply. From our side, we have applied already to our regulator. We are awaiting. Otherwise from ourselves we are prepared.

Participant: Which regulator…

D G Praveen: See, it is being arranged. Arrangement are such that it is like SEBI will look into the derivative side and CERC will look into spot side. That way it is now looking the bar that --

Participant: Is there a competition with derivative aggregator?

D G Praveen: If you take, currency is there. Currency, RBI also is reaching into that. SEBI is the one which is managing the currency derivatives. But once things rolls out, I think that decision will have to be taken. Once I think it comes out, we can clear.

Participant: These new products will all have the same kind of realizations?

D G Praveen: Very difficult to say. You're telling if it is futures, then it totally depends upon your thing. But options, a rule is there like unless you're underlying is more than Rs. 1,000 crores, you will not be able to launch any options contract. So if the question, if somebody asked like, mini options and mini futures have come out, can't you launch an option on mini. So immediately I may not be able to launch it because the regulation is there, my underlying should have Rs. 1,000 crore daily turnover for at least a year’s time. So till I meet that requirement, I will not be able to launch any options. But wherever it reaches already it is Rs. 1000 crore, I really can look at it, mini versions or anything.

Participant: Do you give any guidance on the revenue and margin front?

D G Praveen: No, we don't give guidance.

Participant: On the volumes flow?

D G Praveen: No. I think like I can give you the factors which can drive it but I will not be able to give you the precise number.

Satyajeet Bolar: This is on our website, daily volumes..

Participant: Sir, anything on the ……

D G Praveen: We are looking at the currency derivatives only. See, definitely it is in our radar, but only thing is first we are through it, we definitely can look all.

Participant: But where is it such?

D G Praveen: No, first we focus on this and once we do it, our mind can get shifted on to some other things because primarily this is the first step we have to cross.

Participant: Sir, currency derivatives are what active on NSE?

D G Praveen: In fact, currencies is highly interlinked with the commodity market. So it definitely can complement it better. So we have it in mind. Definitely, we will think of it.

Participant: Thanks, sir.

D G Praveen: Thank you.