

MCX/SEC/2081

August 10, 2022

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

**Scrip code: 534091, Scrip ID: MCX**

**Subject: Transcript of calls with Investor/Analysts**

Dear Sir/Madam,

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

<b>Sr. No</b>	<b>Investor/Analysts</b>	<b>Date</b>	<b>Time</b>	<b>Annexure</b>
1.	Franklin MF, Abakkus Asset Management, Envision Capital, PPFAS Mutual Fund, Deep Finance	August 03, 2022	06:30 p.m.	<i>Annexure - A</i>

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

Further, we hereby confirm that no unpublished price sensitive information was shared/discussed during the said meeting.

Kindly take the same on record and acknowledge receipt.

Thanking you,

Yours faithfully,

**For Multi Commodity Exchange of India Limited**

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

*Encl: As above*



## “Multi Commodity Exchange of India Limited”

Meeting with Investors / Analysts

**August 03, 2022**

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



**MANAGEMENT: MR. P.S. REDDY – MANAGING DIRECTOR AND CHIEF  
EXECUTIVE OFFICER  
MR. SATYAJEET BOLAR – CHIEF FINANCIAL OFFICER  
MR. D.G. PRAVEEN – HEAD (INVESTOR RELATIONS)**

**Moderator:** Good evening everyone and thank you for joining in. I will just take a quick introduction. We have with us our MD and CEO – Mr. P. S. Reddy, we have Satyajeet Bolar sir who is our CFO and we have Mr. DG Praveen who is our Head of Investor Relations. You can take this forward.

**Moderator:** Thanks Rovina and good evening everyone. Thank you sir for giving us this opportunity to host the call. And we can start with a few opening comments from your side on how do you see the outlook for MCX with regards to various parameters on the business front and then possibly we will open the floor for questions. Over to you, Sir.

**P. S. Reddy:** Welcome to this investor call arranged by Motilal Oswal and I think specific to a group of 5 analyst, 6 analyst. You please go ahead and ask questions I think none of you are new to the business industry. So, instead of taking time and explaining what is happening, I think I request all of them to fire questions if it is appropriate.

**Moderator:** So, participants we would request you to raise your hand and possibly in that order you can ask the questions. Before the queue starts asking the questions a couple of participants who could not join in had emailed few questions to me. I will throw in a few of them and before the others start pitching in. One of the questions that has come in as the expectations on the outlook for futures volumes, post the margin on they have been declining, so what are the regulatory changes that would be added or what do you think would be the next trigger for improvement in futures volumes that can be seen going ahead.

**P. S. Reddy:** The futures volume I think post increase in these margins, more or less remained at 25,000, 26,000 crores ADT and this is mostly confined to Crude oil, but otherwise in NG and other things there is no such effect of negative pricing. So, that is depending on the volatility in the market then that is also rising. Having said this, I think Crude oil futures is expected to be pushed forward once we get some relief on the SGF related actions, and we have said that SEBI should give us option to contribute and withdraw to the SGF fund whenever we wanted to, whenever there is a requirement of SGF cover.

Today, SGF if we reduce the margins on Crude oil, being a larger contributor our SGF requirement increases which we will do it, but once we contribute, today we are not allowed to withdraw if the Crude oil contributions comes down. So, that means it is a permanent loss, hit on our balance sheet. By the end of this month, we expect SEBI or RMRC to meet and then take a decision on it. So, once that decision is taken we will be able to increase our contribution to SGF and reduce the margins on Crude oil, then you will see some kind of upward traction in this. But all other products I think are doing well, but that is a permanent damage in the form of peak margin circular. So, that will stay, but I think the Crude oil is not doing as much as it is ought to have done. I think that will again pick up.

**Moderator:** Ritwik unmute yourself and ask questions.

**Ritwik:** Sir, thank you for arranging this and doing this for us. Sir, I have few questions, firstly sir starting with one fundamental question I have. So, comparing MCX with equity market, in equity market participants come to invest in immediate sectors, across commodities to FMCG and so on. So in commodity market, according to you what is the fundamental reason for a participant to enter the market, apart from speculation what is the fundamental reason to enter the commodity market - if you can throw some light on what are your thoughts, I would like to understand?

**P. S. Reddy:** See, if somebody does a fundamental research analysis, then each product is different and their numbers will be different in terms of understanding, but if you pick up Reliance and ACC and everything converted into numbers, they are all financial numbers which makes one single sense, but that is how at least with the commodities. There are so many geopolitical factors, many production related issues and different industries which are consumers of this metals or these products, they may be experiencing different cycles. All those things have to be studied; each commodity is different in that sense; this is one important factor for people to understand this. Second important is that the GST is a major concern for anybody to keep a product - buy and keep it on hold and then sell it back, they cannot do it unless they have a GST registration and I doubt retail investors will ever have GST registrations.

- Ritwik:** You are talking about the physical part of it right?
- P. S. Reddy:** Yes, physical part of it, almost all are delivery-based contract, but if somebody want to take delivery of the gold and then take it home then it is fine, but if he wants to deliver it back then they will have a problem again, GST is an issue, but that is not the case with equities you buy something and then maybe after 6 months down the line you can sell it off. These are the challenges at this point.
- Ritwik:** So, who would be the drivers in terms of new participants coming into the commodity market apart from the existing ones, over that medium to long term, in your opinion?
- P. S. Reddy:** There are two types I would say, of course speculators are speculators, they are everywhere and they take the price difference irrespective of the commodity. So, they understand. That is one part of it and that is happening. The second set is hedgers and the physical market players, they have these numbers and they are the ones who are actually being targeted by us. It is also equally important to understand our products; the trading unit is very high. It requires a big capital also in that sense, in margins, in the form of margins etcetera, because ever since SEBI made trading unit and the delivery unit the same, in the case of Nickel for example, it is almost for 40 lakhs even if you have to have a 10% margin of say 4 lakhs, just one lot. Trading is not so easy to do it in that sense. So, it is another challenge. So, our target is to have more and more physical market players.
- Ritwik:** Sir, few questions on Algo trading, you mentioned in the last call that we are looking to increase the turnover from this segment. So, I believe we are currently close to 50%, so what percentage of revenue would you like to reach and then we would say that this is a fair percentage of the total turnover for Algo trading?
- P. S. Reddy:** I did not understand what your question is.
- Ritwik:** We have about close to 50% of total turnover in Algo trading?

- P. S. Reddy:** More than that.
- DG Praveen:** This quarter we are 56%.
- Ritwik:** You mentioned in the last call that you are looking to the increase percentage of Algo trading, so what will be an ideal percent?
- P. S. Reddy:** I will clarify it what I mean. What I am saying is concentration is increasing, is the concern that was expressed. So, what I am saying it is bound to increase because more and more Algo players are coming. The HFT players are coming and so it is bound to be there like that, and it can increase to 70% also, but we are not worried about that, because they are more like what should I say, day traders, essentially they do not keep any open interest.
- Ritwik:** And what is the difference of pricing in Algo versus non-Algo customers?
- P. S. Reddy:** There is no difference pricing between Algo and non-Algo. We have only two slabs and based on the turnover they fall in the first slab or second slab, so up to 350 crores it is about Rs. 260 for 1 crore and on 350, Rs.175 per crore they pay.
- Ritwik:** So, this is per day right, 350 crores per day?
- DG Praveen:** In a month we calculate the average daily turnover, then based on that one, we will see that..., but again it is like incremental slab.
- P. S. Reddy:** It is like income tax slab... So everybody will pay up to 350 crores whatever is the number, and beyond that...
- DG Praveen:** Similar slab is there for options, but is clean but not on the notional turnover.
- Ritwik:** What can be the new product that we can introduce on our platform?
- P. S. Reddy:** One is Electricity futures contract, that is one, we are looking at it and, Gold options, on one kg monthly options, on 1 kg futures contract. And we are also waiting for approval of Aluminum alloy, which is meant for essentially the

automobile industry. The other one is the steel TMT bars and we were looking at options on Gold index futures also, but let us see, we will apply for it.

**Ritwik:** Sir, just one last question from my end Sir, what is the net cash as of June 2020?

**Satyajeet Bolar:** Around 1,100 crores.

**Moderator:** Thank you Ritwik. Ojasvi you can unmute yourself and ask your questions. Please go ahead Ojasvi.

**Ojasvi:** So, my first question is what is the management organization is basically doing to address the issue of liquidity in far month contracts, so if you can elaborate what steps are you taking, are you interacting, whom are you interacting, anything on that?

**P. S. Reddy:** You see, I mean the board was dead against introducing any LES – ‘Liquidity Enhancement Scheme’ and price we had introduced in the past I think, where it didn’t yield expected results, but spent was done, whatever was to be spent, we spent it. The second thing is, for far-month contracts we have halved the transaction fees, then we have evaluated after three months whether it has yielded any results or not. We did not find that it has yielded any results. So, keeping that in view, I think as the number of players increase in the market, especially the hedgers and physical market players, I think the far-month contracts will start getting themselves liquid.

**Ojasvi:** Can you talk about any activity in those physical entities increasing, any traction of hedgers or as an organization are you interacting with any of them to engage in future?

**P. S. Reddy:** Of course, we have been on a one-to-one basis as well as along with the industry associations, we have been actively engaging and in fact we have conducted educational series for CFOs of some of the companies. We have engaged with SIDBI which is giving loans to the small and medium enterprises. They have organized meeting with their customer base, essentially to tell them that how they can hedge their price risk and because if they don’t hedge it and



they go under the belly then they will go default on the loan also. So, we have shown them the way forward. I think it is happening, but then these efforts really take time to fructify and I am sure as we go along, more such engagements will be done. It's a continuous process of course, and more will join.

**Ojasvi:** Would you like to offer any qualitative comment, I mean how has been the traction or any increase in last couple of years, in terms of hedgers or in quantities joining and participating in the Exchange?

**P. S. Reddy:** Almost 10% to 15% hedgers participation has gone up in the Exchange, so that is the way it is.

**Ojasvi:** Secondly, like recently there have been few adverse regulatory changes, that led to discontinuation of mini contracts, base metals and compulsory delivery in base metals and peak margins and all, so there have been quite a few headwinds, do you expect any reversal or any positive kind of a regulatory development impacting business?

**P. S. Reddy:** We expect some mini contracts, at least in some metals contracts to be, I mean SEBI is re-looking at it and especially when the value of contracts have gone up as I was explaining earlier, Nickel has become almost 30 lakh and 40 lakhs, Copper is around 30 lakhs or 25 to 30 lakhs and that is too expensive for any small players to participate. So, they also seized up this matter, I think we will bring back those many contracts, that is what our hope is.

**Moderator:** Thank you Ojasvi. Nikhil you can unmute yourself and ask the question. Please go ahead.

**Nikhil:** Sir I have a question on the employee expense, so going ahead how should I look at the employee expense, is it more variable in nature or is it fixed in nature?

**P. S. Reddy:** In this, our commodity derivatives platform, we have engaged lot of people for executing the project, monitoring the project and testing etcetera, maybe going forward, again not immediately, I must say that for the year 22-23 it may

remain the same, but maybe 23-24 some of these platforms are stable and all that, some may leave also, some people leave, then we may not recruit in their place. So, I think you can look forward for a tapering down of this expense.

**Nikhil:** Sir, I want to understand whether fixed in nature or how much is the variable part in the employee expense?

**Satyajeet Bolar:** Major component is fixed, so there is this variable component which we have a budget which is approved by the board, in which variable component is approved.

**P. S. Reddy:** So, variable component is about Rs. 7-8 crores and maybe next year it could be Rs. 10 crores that is the way it is?

**DG Praveen:** Again it is based on the performance.

**Nikhil:** Understood. And secondly, why steel not traded in the exchange currently, what are the challenges faced in that?

**P. S. Reddy:** Come again please.

**Nikhil:** Why steel contracts not traded on the exchanges, what are the key challenges why steel is not traded?

**P. S. Reddy:** When you say steel, I think you can be specific, but we have applied to SEBI steel ingots, not steel TMT bars, so SEBI is not approved as yet, that is the only thing.

**Nikhil:** So, I mean, as of now it is never traded on the exchange, so what is the reason for that, is this the contract size or the storage issue?

**P. S. Reddy:** It was introduced a long time ago and this was discontinued because there was no steel standard.

**DG Praveen:** No standard was there, BIS standards were not there, that means industry had not then adopted, but later they have adopted. So, our contracts was launched very long almost 10 years back or something, so that time we could not able to

get much traction from the market, but now with revised standards in place, we are looking for the contracts like steel TMT bars, other contracts.

**Nikhil:** My next question Sir, technology-side, given that our current contract with 63 Moons is expiring on September, and you have said that because of some issues in the new platform, that you are evaluating, you may continue with 63 Moons. I have a question whether they would be okay to continue for few more months or whether they would be looking for the longer duration contract?

**P. S. Reddy:** You see we want it to be for maximum 3 months to 6 months' time, that is the way we have requested them to extend the contract and, TCS platform has been deployed for UAT and others, lot of bugs are coming. So, it may take some time to stabilize. So, we asked for 3 to 6 months and as an Exchange, we have a right to use the platform but being a market infrastructure institution without the support of the vendor, whether it is advisable to go and then use it is the question. So, we do not want to take that risk, that is why we have asked them, but our licenses are perpetual, most of them.

**Nikhil:** Is it possible that 63 Moons may ask for the longer duration of contracts and you may have no choice, but to go ahead with them, like if they ask?

**P. S. Reddy:** Not necessary, we are looking at 2 -3 alternatives also, it is not just 63 Moons only.

**Nikhil:** And the other alternatives, are the cost benefit equally similar to TCS or it would be slightly expensive?

**P. S. Reddy:** No, there is no question of replacing the TCS thing, we are only looking at alternatives vis-à-vis the transition phase, how do we manage it. That is what the alternative plans are all about. So, I think we should not be foretelling anything about 63 Moons - will accept, does not accept...

**Nikhil:** No, the reason I am asking because since the current contract is ending in September, we are already in August, we might have already started the testing of the other platform?

**P. S. Reddy:** Yes. We have already asked them; they are yet to come back with a response.

**Nikhil:** And just one more question, so now the future volume I think, when you have introduced the option contract for Nickel, that time I think the requirement was that the minimum underlying futures should be more than Rs. 1,000 crore. Now, that is reduced to almost negligible, so will you still be able to continue with the options contracts in Nickel, what is the regulations say on that, can we cancel the contract?

**P. S. Reddy:** See, we can keep it for about three years. So, there is no bar on it, but then if the future itself is nil and these are options on futures. So, the futures contract is not liquid, options contract will not be liquid anyway. We need to activate it and that is where we have asked SEBI to give us a smaller contracts, which they are looking at.

**Moderator:** Thanks Nikhil. Participants who wish to ask questions can take on the raise hand icon. Sir, just extending one of Nikhil's point on technology, and on the call you had mentioned that the savings together on the EBITDA front, while there will be some saving when depreciation will be higher, so is it that together both of them, savings on the operational cost front and the increase in depreciation will not lead to any material saving overall, from a profitability perspective once the TCS platform is taken?

**P. S. Reddy:** There will be a break-even depending on the volume, because now the technology cost are fixed. Now, there is nothing called a variable cost. Now, whether the cost will be lower or not depends on how much more ADT we will clock. So, the higher the ADT being fixed one, the cost on now technology are fixed, probably we will be able to see a better PAT. That is what we were saying, but today, even if you do well in ADT, a part of it goes towards technology, that cost also increases.

**Moderator:** At current levels of volumes, do you see significant benefit if the TCS was implemented today?

**P. S. Reddy:** Yes of course it is.

**Moderator:** And one more question which I was given by one of the participant, who could not participate, was, the thoughts on option volumes – options volumes have

actually gone through the roof and we have seen that on the equity side as well, globally what are the phenomena in terms of equity volumes or in terms of option volumes in other commodity exchanges, and do you see that their option volumes today are closing in the futures volumes, do you think that they can be like 2x or 3x futures volumes, say, in the next three to five years?

**DG Praveen:** Our markets are definitely not comparable with global market. In fact, options are quite popular in Indian markets. Even if you can see in equity markets, most of the turnover is coming from options only. Globally, just to give a perspective, it is roughly about 15% to 20% comparable to that of the futures turnover, that means, it is dominated by futures turnover. But Indian markets have been different and also supplemented by Commodity transactions tax and other things, definitely now with peak margin reporting definitely, it is favoring the option contracts.

**Moderator:** And, another question was, in terms of pricing, do you see the potential to increase pricing in both - futures and options, what are your thoughts there?

**P. S. Reddy:** As I had explained, in the case of options, just last year, first October we started. I think it is too early at this point to increase it or tinker with it. And, even the realization rate also is very good. We did not expect it to be so much, earlier we thought it will be only 33%. We realized now it is 48% as the top of futures. I think that is a good development. It also indicates that most of the options trading is taking place at the money or in the money or near the money kind of contract, that is why the premiums are high. I think we should allow that to not touch it. When it comes to the futures, many of the major players who are Algo players, they desire it to be further reduced. If we reduce it to the one set of players and do not do it for the others, then probably we will face maybe, regulatory scrutiny. I do not want that to be done and at this point in time we should retain as-is, where-is basis.

**Moderator:** We have a question from Rukun. Rukun, please go ahead.

**Rukun:** Can you talk a bit on the participants in the options market, are they largely the same participants that are there in the futures market, or is this a new set of

participants, and are you seeing the same set of participants shifting from futures to options, because of the margin rules and so on...?

**P. S. Reddy:** We have seen such shift, you know that currently options are primarily the Crude and NG. And a part of the Crude crowd, which was earlier trading futures, they have deserted the market post negative pricing and they have come back substantially. So, they are participating in both NG as well as in Crude oil, and new participants are anyway joining that growth rate is also a good one, that is the way it is.

**DG Praveen:** I will give the numbers; you will get some good idea. Like this quarter, Q1, futures and options put together, around 2.38 lakh clients have traded compared to corresponding quarter of last year, it is about 2.23 lakh clients who have traded. So, that is the picture, but even if we look at maybe the drop that you would like to see in the future is lower compared to the gain that the Exchange has seen in terms of clients participated in the options. So, that way there is an overall growth rate, but there is a marginal drop that happened in the futures, but there is a significant growth witnessed in the options contracts.

**Rukun:** Another question that had come across was on whenever these gold EGR or the power electricity future are launched, do you think that these have huge potential of revenue and profitability, what kind of potential you see on this?

**P. S. Reddy:** See electricity futures is something which I am betting very big, but of course gold EGR is essentially the spot market gold spot exchange and it is not going to be too big a market but it helps us to hedge on the exchange platform, for those who are trading the spot if somebody has taken a delivery and they can definitely hedge on the exchange platform, that is the way we look at it. So, it collaborates or compliments each other. So, to that extent there will be some marginal impact, but electricity futures is completely new and the consumers are also a very big consumers going to be and be that consumers are the producers who are going to trade on the electricity futures, they are going to be big ones. So, it makes a big difference.

**Moderator:** It is similar to something what IEX has or how would you compete against IEX?

**P. S. Reddy:** IEX is a spot exchange.

**Moderator:** There is no competition?

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

**Moderator:** Participants, if you have any further please click on the raise hand icon. I think Sir we do not have any further questions from the participants, so we can end the call here. Thank you everyone for your time and thank you the entire team at MCX for giving us this opportunity to host the call, looking forward to more interactions with you guys. Thank you so much. Have a great evening, bye.

**P. S. Reddy:** Thanks to all, bye.