MCX/SEC/1940 June 7, 2021

BSE Limited
Department of Corporate Services
PJ Towers, Dalal Street,
Mumbai - 400001.

Ref: Scrip code: 534091 Scrip ID: MCX

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

Dear Sir/Madam,

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

Sr. No.	Investors/Analysts	Date of Call	Time	Annexure
1.	Aberdeen Standard Investments	June 1, 2021	4.00 pm	*Annexure - A*

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

Kindly take the same on record and acknowledge receipt.

Thanking you,

Yours faithfully,

For Mufti Commodity Exchange of India Limited

puri ajay

Digitally signed by puri ajay
Date: 2021.06.07 17:07:27 +05'30'

Ajay Puri
Company Secretary

Annexure - A

"Multi Commodity Exchange of India Limited Aberdeen STD Investments Conference Call"

June 01, 2021

Disclaimer:

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

This document may contain "forward-looking statements" – that is, statements related to future, not past, events. In this context, forward looking statements often address our expected future business and financial performance, often contain words such as "expects", "anticipates, "intends", "plans", "believes", "seeks", "should" or "will". Forward-looking statements by their nature address matters that are, to different degrees, uncertain. These uncertainties may cause our actual results to be materially different 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 & CHIEF EXECUTIVE OFFICER, MCX LIMITED**
MR. SATYAJEET BOLAR – CHIEF FINANCIAL OFFICER, MCX LIMITED
MR. VIJAY IYER – INVESTOR RELATIONS, MCX LIMITED
MR. GABRIELLE SACKS – ABERDEEN STANDARD INVESTMENTS
MR. DEVESH AGARWAL – IIFL

Devesh Agarwal: Gabriel, we have Mr. Satyajeet Bolar, who is the CFO of the company with us, and Vijay sir, who is the Head of IR. We are awaiting Reddy sir, who is the CEO. So, as soon as we joins in, we will begin the call.

Gabriel Sacks: Okay, great. Thank you very much for your time, everyone.

Vijay Iyer: Gabriel, hi. This is Vijay here, from the team of investor relations of MCX. As Devesh was mentioning, our MD and CEO, Mr. P.S. Reddy, Mr. Satyajeet Bolar, he is the CFO. And also, Mr. D.G. Praveen, who's Head of Investor Relations will be there in the call. So, I would hand it over to Mr. Reddy – our MD and CEO. So, you can take it forward, sir.

Devesh Agarwal: Thank you. Sir, just before you start, let me also introduce Gabrielle Sacks. And then I will go off the call and you can continue. To introduce Gabriel, he is a portfolio manager at the Aberdeen Standard Investments. He has about 15 years of experience of investing in the emerging markets. So, I will let Gabriel talk more about his fund and the style of investing. And probably thereafter, mutually you can decide how to take ahead the call. So, yeah, thank you, everyone. I think I will drop off at this point in time and call can be taken ahead. Thank you, everyone.

Gabriel Sacks: Hello. Thanks, Devesh.

P.S. Reddy: Good afternoon. Where are you participating from, is it from Hong Kong, Singapore?

Gabriel Sacks: Singapore. Yeah. So, good afternoon. Thank you so much for everyone's time. I will not spend too much time. I am with our Asian equities team, and I look after primarily our small cap equity funds. So, we have been reading at the sidelines about MCX, we have been thinking about meeting with you for quite a while, so it has been great to get the opportunity to do so. And we are a very long-term shareholders, we like to invest in what we think are quality businesses across Asia. So, it is a first meeting, we haven't spoken to you before. So, I do not know, if I can start with Q&A or…

P.S. Reddy: Whichever way you want it. You want any briefing to be given, I will give you a briefing for about 20 minutes of briefing and then thereafter you want to ask questions, you are welcome. If you are familiar with the working and the verticals of the business etc., etc., then you can start firing questions.

Gabriel Sacks: Perhaps an intro would be good. I guess one of the questions I have which is very basic question is, how the structure of the exchanges in India work.

P.S. Reddy: I will give you one brief introduction, then probably many of your questions are answered, then thereafter we can talk about operations and other issues of the financial sector. Okay?

Gabriel Sacks: Okay, that is great.

P.S. Reddy: In India, you have commodity exchanges and the equity exchanges. Until recently, until 2016 commodity, exchanges were under Forward Markets Commission and equity markets were under SEBI. Now, even the commodity markets have come under the jurisdiction of SEBI. So, a lot of regulatory framework is being put in place, more or less, in compliance with the equity requirements or in sync with the equity market requirements.

So, a lot of time we adjust other market participants keep existing the requirements as they exist in the equity markets. And in essence, most of the players are also common, barring very few. And when they had different regulators, they had different companies. And now that all have come under SEBI, so they have started merging their companies into one, and unified broking entities are getting formed. And that is one activity which is happening. And as a result of which, you may see some of the companies are getting closed or some of the members are being surrendered. But then it is essentially the unification of what will for membership.

So, this is primarily the SEBI, we are under the jurisdiction of SEBI. This company has been there since 2003-2004. And we have been doing it because one is there but then we have been doing here a lot of activity. And over the years, it has grown and today, we have 94% market share in commodity markets. But if you do an agri and non-agri kind of thing, probably in non-agri we hardly have any percentages of business except for CPO and cotton, and Mentha oil maybe to some extent. Otherwise, most of the agri commodities are on NCDEX. But in terms of turnover, average daily turnover, we are almost all 95% of the market share.

We have four verticals, one is energy. There we have crude oil and natural gas. And both are linked to the prices of CME. And we have an agreement with them. And the closing prices are always, closing means at the end of the contract period, expiry prices are always taken from the CME, both from energy as well as crude oil. That is one area where we wanted to introduce electricity derivatives also and we have submitted our proposal. In that vertical it is still more time is taking for us to introduce electricity features.

The second vertical is the bullion. We have two major bullion products, one is the gold, other one is the silver. Now in that we have variety of contracts, you have a gold 1 Kg, gold 100 grams, minis, small or big, all the kind of things, 1 gram gold is also there, which is rare anywhere in the world. But then here we have 1 gram gold . Similarly, silver, we have a 30 Kg bar, 5 Kgs, 1 Kg, all that kind of things are there. So, this is the bullion products that we have. And of course, we have options both in energy products as well as in bullion.

Then comes the base metal vertical, where we have five base metals. Those five base metals are nickel, copper, zinc, lead and aluminium. And prior to 2019, again, they are all linked with the LME contracts and these contracts are cash settled. And thereafter SEBI said, no cash settle, you must have them all delivery based contracts. So, we converted them all into delivery based contracts from 2019 onwards. As a result, the volumes have come down in those contracts. But the market is trying to get used to the new norm of regulation. And now it is again picking up.

Gabriel Sacks: Sorry, just repeat what happens, they were not delivered in what form, sorry?

P.S. Reddy: They were earlier cash settled contracts, there was no delivery. At the end of the contract period you just take the LME prices and then settle them. That is the way it used to happen. But then ever since SEBI said that, no, you must have them settled, the outstanding contracts must be settled based on the deliveries and the volumes have substantially come down in those contracts. So, it took some time for the markets to adjust, again now it is picking up gradually. So, even the deliveries are taking place on the exchange platform, and it is a healthy development that has taken place.

Gabriel Sacks: When did that happen, when was the change?

P.S. Reddy: From 2019 January, it started, and for various contracts, maybe till the end of December, we have been doing it. In fact, in the same vertical, we had also mini contracts, that is we have a 5 tonne contract of aluminum; we have 1 tonne contract for aluminum also. So, between the two there used to be arbitrage and they used to contribute almost 30% of the volume. And for all the metals, for that matter, for all the five contracts. We had in crude oil and natural gas also, but SEBI said that, no, you are not allowed to have multiple contracts. So, today we are left with only one, one contract in each of these products, except in gold where variants are permitted, except gold and silver. So, this is the regulatory change which hampered our ADT. This is another vertical, we are reviving it.

And the fourth vertical is agri commodities. And as I said, in agri commodities the cotton is a flagship contract. Nowadays, even the CPO, that is the crude palm oil is also doing very well. The third one is the menthe oil again, because of some regulatory changes, the menthe oil volumes have come down substantially. Now we are revising the contract specifications. Hope now we will be able to do well in this contract.

So, if you look at what is the contribution of these products, I think if you look at 2019 earlier, almost crude oil was contributing about 30%, 35% so is the bullion another 30%, 35%. And then metals were contributing over 23%, 24%, the rest is agri commodities. Now, it has substantially changed. Now, the bullion is contributing almost 50% to 60% and the crude oil energy contracts is contributing about 25%, and the metals is contributing about 15%, 17%, the rest is the agri commodities.

But the point here, important thing is, crude oil was also contributing very well until the last April when negative pricing took place. Otherwise, if you look at 2019-2020 ADT, it almost stood at Rs. 13,000 crores. That was the kind of average daily turnover. And it has come down to about Rs. 4,000 crores, and together it is accounting to, that is NG and crude oil, gradually it is limping back from normalcy. Still, they are they are in the range of Rs. 8,000 crores to Rs. 9,000 crores ADT currently, as I am speaking.

Gabriel Sacks: What was it at peak for the crude oil in terms of the ADT?

P.S. Reddy: Average daily turnover, ADT, it is almost Rs. 13,000 crores. Praveen, correct me if I am mistaken.

Management: That is right, sir. Perfectly right.

P.S. Reddy: So, this is what has happened in this contract. And when it turned negative, we had increased the margins substantially, almost 100% margins were imposed, because volatility driven is about 70%, there is another ad-hoc margins, that is the reason why we could not do this. The contract has not done well, only now in the month of December we have reduced the margins and it started looking up. But a lot of clients were trading in this contract have completely quit the market, especially in this time I would say. Some of them moved over to the option, some have moved over to natural gas. That's the way it is. So, these are the major developments that took place in the recent past. It's how the verticals are. Now you can ask the questions, is that fine with you?

Gabriel Sacks: Okay, great. I guess just in terms of while we are in the vertical split, what's the breakdown between futures contracts? I think you mentioned you have options, is it mainly those two and how has not changed, I guess, it's very dominated by futures still?

P.S. Reddy: Yeah, it is futures market, that’s right. Options is hardly anything. And we are not charging also on options because it is so small to charge. Recently, we have introduced two more productive index, index contracts we have introduced. That is again bull desk, a bullion index-based contract; and metal desk, and all five base metals have a share in that. And that was introduced sometime, one in August another one is in October. And those two contracts are doing very well. And from 1st of April onwards, we started charging them also. And our fees are based on ADT, average daily turnover.

Gabriel Sacks: Okay. I guess, the new index products that you have introduced, could the stock exchanges do that as well? Or is there sort of an agreement or licensing issue where anything that's commodity related comes from you?

P.S. Reddy: Nothing like that. They too can do it, but the problem is, they don't have an commodity index. We have a commodity index, because we have been building it over the years. And they just came into the arena very recently, the other BSE, NSE for that matter to be precise. They just launched recently, maybe two, three years ago, earlier they were not there. And they hardly have any volumes also.

Gabriel Sacks: Sorry, excuse my ignorance. Are both stock exchanges sort of owned by the government still or they privatized?

P.S. Reddy: No, none of the stock exchanges are owned by the government. In NSE there is still some more holding by LIC and SBI, that kind of banks are there. But government doesn't directly own any exchanges for this matter. And we are a listed company, so is BSE a listed company. And all market infrastructure institutions are allowed to go for listing. So, it's like that, government doesn't hold anything directly.

Gabriel Sacks: Okay. And in terms of your earlier comments, it sounds like you might expect sort of more consolidation, longer term, right? And as the market develops, you will probably start stepping on each other's toes with competition. How do you see that evolving? Or is it too early to say and you are just focused on what's your niche at the moment?

P.S. Reddy: Well, I am not worried so much on that because ever since we came under SEBI's jurisdiction, other exchanges have immediately jumped on it and then they too wanted to take over the liquidity, so they introduced identical contracts, but still, they are not successful. Because liquidity is a sticky nature, and they couldn't take away liquidity from the MCX. So, I think they are reconciled to the fact that it is difficult to try. Trying new products that's a different matter, but same identical products if they tried they will fail, for sure.

Gabriel Sacks: Who is this you are talking about? Who tried identical products, sorry?

P.S. Reddy: BSE, NSE.

Gabriel Sacks: Okay. And in terms of the energy exchange, I think you have a smaller partnership in one area, but I think it's quite different also, quite different space, right?

P.S. Reddy: Well, as I told you, India Energy Exchange, in fact, it was in early days, not today, maybe five, six years ago, the promoter is the same, okay, India Energy Exchange was also promoted by the 63 Moons or Financial Technologies, etc., etc. But then, subsequent too, they went into some regulatory hurdles, so they divested all their holdings in these companies. So, MCX doesn't have any 63 Moons or Financial Technologies holding. Similarly, IEX also doesn't have them, because somebody else has bought it from them. So, now we are completely independent of them in that sense, except for the technology that we still continue to take. And the technology contract is ending next year September. So, we have engaged the TCS to develop a new platform for us. And that work is in progress.

Gabriel Sacks: Yes, I was going to ask about that later. So, IEX also used 63 Moons for tech, isn’t it?

P.S. Reddy: Yes, it was promoted at that time.

Gabriel Sacks: Okay. And just on fees, how have those moved over time? And then as you came under the SEBI jurisdiction, was there much discussion around fees or any changes there?

P.S. Reddy: I am sorry, I didn't get it. With regard to?

Gabriel Sacks: With regard to your fees.

P.S. Reddy: No, no, SEBI doesn't dictate on that.

Gabriel Sacks: Have they been pretty fixed over the years, or have you been putting through any changes in pricing as the market evolves?

P.S. Reddy: Considering the current period, we are not looking at putting any changes, but we keep reviewing it, what are all different services that exchange extends, and whether there is any new tariffs can be introduced or any tariffs is not revised that can be revised. All that we keep reviewing it. But the transaction fees, which is the core income, that has not been reviewed in the recent past.

Gabriel Sacks: Okay. All right. So, I guess just in terms of what perhaps you would describe as the key drivers of volumes over the long-term? I guess, for exchanges it tends to be quite straightforward, but it would be interesting to hear how you can try and drive those volumes, I guess. I don't know how much impact you would see from price volatility or the number of participants, are those the two key variables or is there more you can do around developing new products as well?

P.S. Reddy: Yes. See, there are certain things which are given. Volatility is something which is a given factor for us, we have to take it. Sometimes when there is volatility, you will realize very high volumes; when there's no volatility, maybe it's a quiet period for us. But having said that, that alone doesn't drive this business. If you look at the equity markets versus the commodity markets, commodity markets are at a very nascent stage, there's a huge, huge opportunity to develop. And currently even FIIs are not allowed to trade in this market. Similarly, the eligible foreign entities has very high fees and there's a very tight restrictions on their participation. So, if SEBI relaxes all those restrictions, obviously, participation will increase.

And you also need to appreciate that when you take commodities, maybe non-agri commodities there's absolutely no problem. I am sure SEBI will not be having much sensitivity attached to that. But when it comes to agri commodities, they have a lot of sensitivity, government immediately bans if things go, if the prices are detrimental to the consumers interest or whatever it is. And that is the reason why the regulations are calibrated in such a way that takes care of the agri commodities' sensitivities also. Well, one can very well argue that you can have two different approaches, one for agri, one other for non-agri, but that stage has not come as yet in India at least within the SEBI to give a different regulatory framework for non-agri commodities.

So, once they permit these financial institutions etc., I am sure there is there's a lot of liquidity that comes in and many bigger players will also start playing in. For example, many hedges in India, many big companies are there, they go and hedge in international markets, but they don't come here because our volumes are not big enough to attract those companies. But then if liquidity increases, because if the FIIs and others come and join, then automatically the liquidity pool will increase and they will also find interesting to participate. So, one is, obviously, as I said, the types of participation, that is very important. Similarly, banks are not allowed, although they extend loans against commodities, they don't go for hedging of that loan of the underlying commodity, nor do they insist on the borrower to go and hedge on the exchange platform against the commodity. So, these are some of the commercial decisions that these banks have to take, maybe regulator has to force them only they will do that. This is one set of thing.

And another one is the product. New products are to be introduced. As I said, just last year we have introduced index futures and those two are doing well. We are also planning to introduce electricity futures contract and similarly, the energy index futures contract. Similarly, the electricity futures contract also we want to introduce based on the closing prices of IEX, the contracts will be settled based on the IEX prices. And we are also planning to introduce steel rods and aluminium alloys, many products that we are down the line looking to increase. And the third aspect of it is the distribution. Today, many of them are stockbrokers, the stockbrokers have the usual rate, but institutional stockbrokers are able to participate as aggressively as they are doing in equity markets. Like your HDFC Bank Securities, which is a subsidiary of HDFC Bank, ICICI Securities, Axis, SBI, you name it, many banks have their subsidiaries who are participating, but so much participation is not seen here.

And there are two things also. One is that, as I said, the reach of commodity market is not as big as it is equities. And it has a history of so many years, how many, more than 100 years, I think 1875 Bombay Stock Exchange was established, that was for equity markets. So, commodities were traded as a commodity, but not as the future exchange, there were no exchange in the past. So, the awareness is less. Second, certain tax related hindrances are also their barriers. For example, GST, Goods & Services Tax is a major barrier for many people to come and participate. Under that GST Act, people have to register with each state government for payment of taxes. For any reason if I take delivery, then I need to register and then pay the tax. And paying tax is not a problem, but then registration process, filing returns, etc., for a one-off kind of transaction is a pain. So, some of these bank broking houses are also going slow because of this.

And in fact, we have a proposition to many banks telling them, you approach your corporate clients and they may be having exposure to commodities, and let's see how you can help them to mitigate their risk in finding some contracts available on the exchanges to mitigate their risk. It sounds interesting, but then they need to walk that extra mile and then take the database of the bank and find out and reach out to customers. It's not just you give an advertisement and people will come, I think handholding is needed. And a lot of companies also do not know the advantages of hedging or they think if there is any loss on the commodity markets, they think they have really lost money.

That's not correct, they need to look at both the physical book as well as the financial book together, and then see if the prices in the physical market goes off, maybe here they may be losing because they hedged it and then they need to pay the MTM losses. But if it is the other way, where the physical market prices are losing and here they may be gaining it. So, hedging is a no profit no loss kind of situation. They are not appreciating that fact as yet. So, we have conducted also a lot of one day workshops to a lot of hedgers to again expand this market and tell them that how the hedging works in this market and how they will be benefited for a far small fraction of fees that they need to pay. This is the distribution part of it. I think we are looking for more and more institutional participation as well as the bank broking houses to come into this way. That's the way I would point at that.

And the mutual funds are also participating, but then their number is again small. As I said, mutual funds may find arbitrage opportunities between the near month and then next month or far month contracts. So, they will take delivery in this month and then hold it till the next month and then deliver it back next month. Again, the moment they take delivery, you need a GST registration. And then when your next time delivering it, you need to give a GST invoice, because you are delivering back the material. And that is the same problem. So, we are trying to find some ways and means to address this, but let us see how far we will be successful. So, it is not just apple-to-apple comparison between equities and commodities, and it will take time for us to reach that level.

Gabriel Sacks: And am I right in thinking you have about 62,000 participants, but the concentration is quite high, so the top 10 is around 60%?

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

Gabriel Sacks: And I think that's algo traders, but that is institutional, right, or it's more sort of high net worth, I am not sure?

P.S. Reddy: What you are talking about the top 10 members, if I am not mistaken, members or stockbrokers. But then some of them may be retail brokers also, like you have a Zerodha, Angels, some of the broking houses are there. And they also fall in this. And similarly, some algo players, okay. And Tower Capital and other things they are there, and Jump Trading is other one who is a algo player. So, they do account for a good amount of this kind of.

Gabriel Sacks: Understood. Is there a certain player that, when you referenced the institutions hedging internationally, would you be indirectly competing with a Singapore Stock Exchange, for example? Because they have to have a decent commodities business? I think it's mostly iron ore though, but would that be fair? Or is it more of the CME and things like that?

P.S. Reddy: Well, we have not looked at Singapore or China or LME or that kind. It all depends on how you view it. Why I am saying so is, India is a major consumer or producer of many commodities in the world. Now, being one of the largest country in the world, be that population or be natural resources, etc., and it's also one of the rapidly growing emerging economies, except for these two years of pandemic. We would like to develop our customers to meet the requirements of the domestic industry, domestic players. So, if you look at our contract sizes, they are far smaller than what is there in CME or LME or any of those exchanges, or Singapore or Shanghai. But our ambition is also to build from the bottom rather than top down approach.

Now, why I am saying top down approach, when you say top down approach, you need to target very big industrial houses, who have huge capacities and for them the liquidity that exchange is providing may not be good enough, maybe they need a lot of far month contracts to be very liquid one year down the line, two years down the line, we don't have such kind of depth also. So, what is the best thing that we can do? you see what is that MSMEs and the smaller players within India needs, who cannot go overseas and then hedge, and see their requirements and then build from the bottom, so big, . And smaller players will keep coming in, then the liquidity pool will gradually increase. Then you take on the middle level players, then you will have adequate liquidity for the bigger players to come. Unless there's a mandate from the government to force the bigger players to necessarily come onto domestic exchanges, if we have to grow organically, if we have to grow without any government support, then probably this is the way forward.

Gabriel Sacks: Okay. That's very clear. I think that makes a lot of sense. But just looking at the volumes compound on your growth rate of the past four years, I think it's been around 6% or so. Do you think that that's a conservative number that we should extrapolate? I know it's difficult to tell, or can you drive an acceleration in this? Do you think the regulatory changes are going to help accelerate this or not? Do you think 6% volume growth is what we should expect?

P.S. Reddy: CAGR, about 8% is the ADT. Is that right?

Gabriel Sacks: Yes, sort of. I got 6% from broker, so they might be wrong.

P.S. Reddy: It is 8% over the last three years, as well as five years the same figure, 8% CAGR. And in terms of three years, total income is about CAGR of 7%, total Expense is just 1% and PBT is 20% CAGR, and PAT is 17% CAGR. So, these are the four figures that I have readily with me, for the last three years. So, yeah, you can expect this kind of growth. But as I told you, as I was telling, volatility is something which is not in our hands, and we need to capture and keep the platform ready to take any opportunity that comes in our way. At the same time, what is in our control is the cost. So, we are always conscious about cost. And if you see, our costs are almost flat kind of thing. And we will continue to maintain that kind of a structure. I mean, that's our ambition rather. So, this is the way.

Gabriel Sacks: Okay. Understood it. And just in terms of the agri portion, I think you mentioned your market share, where is the agri trade typically? If not with you, I think that's where you are underrepresented, right?

P.S. Reddy: Yes, there is another exchange called NCDEX, that’s where they are traded.

Gabriel Sacks: I guess one other thing I noticed as well, this is going way back, so excuse me, but just for me to understand, I think you had quite a lot higher sort of contract volumes in 2012, 2013, and then there was a big drop to 2015. What caused that big drop then?

P.S. Reddy: I think in 2013, sometime in June, July, the CTT was introduced, that is Commodity Transaction Tax. As you have STT, that is Securities Transaction Tax in equities you have, we have commodity transactions tax that was introduced. And as a result of which, it crashed like anything. So, we have now limping back to that kind of a thing.

Gabriel Sacks: And in terms of, I guess, regulatory developments, I think you have referenced already the margin rules on crude oil. Is there much more to say on that? And in general, in terms of regulatory developments, should I expect sort of more to come as the rules are harmonized a little bit under SEBI?

P.S. Reddy: Yes. See, I have no problem if these regulatory changes do come, like your peak margin rule has come which is uniform across equities as well as commodities, which essentially means that clients are to pay margin as much as the exchanges are charging the broker for their trading. And maybe brokers, they were earlier giving some leverage, then that is taken off, that's the way it is currently. But we don't have a problem if they also permit FIIs to trade in commodities, if they also remove restriction from …participation, okay. If they also remove restriction from fund mutual fund participation, for example, mutual funds can participate and hold the commodity for 180 days when it comes to the bullion, especially the gold. But when it comes to the other commodities, they are to dispose it off within 30 days. Now, why 30 days? I can understand if they are perishable commodities, but then these are non-perishable commodities, at least in non-perishable commodities they should them as long as 180 days or as long as the commodity remains valid for delivery on the exchange platform. So, we are for a fair play, and we do desire that they also permit these regulatory changes while they are applying the restrictions on the commodities participation.

Gabriel Sacks: Okay. And that's something I suppose that you must be lobbying with the government? And eventually you think they will cut that. But you are not hopeful that is a short-term development or are you sort of cautiously optimistic?

P.S. Reddy: Why I should be cautiously optimistic? I should be bullish in it because the government is also keen to develop the domestic markets. So, it's not cautious, there's no caution in being optimistic about it.

Gabriel Sacks: Understood. I guess, I am from Brazil, and the big three exchange there, the commodities derivatives part is huge, so there's a big opportunity here. Okay. And just referencing the tech platform that you have. I think there's an expectation that, that will lead to some cost savings, but over what timeframe, I guess, there's an upfront investment that comes with that, but maybe you could provide some context as to how much you were spending on software and how much you are spending now and how much of the investment and how much ongoing cost experience?

P.S. Reddy: The fundamental difference between the existing contract with 63 Moons and the TCS is that 63 Moons contract has a variable pay associated with the ADT. Whereas in the case of TCS contract, there's no variable pay, it is just fixed, that's all. Now that fixed is also substantially lower than the fixed component of what 63 Moons is charging. I will not be able to share the numbers, but then this is what I have been telling them. Now, in the next five years, what is the upside, I am sure our turnovers will not remain what it is today, they will definitely grow. But our expenditure doesn't grow along with it, because our contract with TCS is a fixed price contract rather than a variable contract. This is one major development. Now even the fixed component also will be amortized over a period of five, six years. And whatever that we are paying upfront, then afterwards it is just the AMC, an AMC which grows at a rate of maybe something of the inflation kind of thing. It's not a big number again. And it's a perpetual license in that sense, we don't need to worry about anything else. Keep paying AMC and keep using it.

Gabriel Sacks: Understood. What do you mean by AMC, sorry?

P.S. Reddy: Annual maintenance charges.

Gabriel Sacks: Okay. And how much were you spending on 63 Moons? I think that is public knowledge, right, I think it was 14% of sales or something like that?

P.S. Reddy: Yes, almost all about Rs. 55 crores or something like that we are paying. It is there I suppose in the balance sheet.

Gabriel Sacks: Okay. And as you said, you think the overall spend in terms of expenses can be kept relatively flat? I think that's what you said.

P.S. Reddy: Yes.

Gabriel Sacks: Okay. Is there any other big CAPEX spend required or you think CAPEX will be quite low going forward?

P.S. Reddy: I would say there are two, three projects which are there in equities but they are not implemented as yet. One is that colocation project. Now, SEBI has not permitted in commodities as yet, but if they permit it, obviously, we need to develop our own site and do the needful of co-location. This is one part of it. And there may be some expenditure needed, we don't know, we have not worked on that model. If I bring in a third party and then provide an infrastructure, then may not be there any expenditure. But if I do it myself, then there will be some expenditure needed. It is one part of it. The second part of it is, the second project is maybe interoperability between the clearing corporations, that's another major project maybe. But again, currently it is not permitted between the exchanges. And third, which we are looking at various new businesses that we are looking at, you have seen the gold spot exchange in the international bullion exchange, and domestic gold spot exchange. We are also having ambition to set up a coal spot exchange, so we signed an MoU with MJunction. So, these are all the projects that are in the pipeline, but I will not be able to give any exact figure for this, what is the investment needed.

Gabriel Sacks: Okay, understood. I think we are cutting short of time soon. Is there anything that you think there is a big topic that we haven't covered so far?

P.S. Reddy: No, I think you have asked whatever you had. But anyway, if you have forgotten anything or anything that you think, you can send me a mail, we will respond, no problem.

Gabriel Sacks: Okay. Actually, yeah, I had a couple of questions just on, I guess, the ownership structure. I think I was reading that there is a limit of 5% stake per institution, but I think that Kotak has 15% stake. So, will they have to divest over time?

P.S. Reddy: No, that is a strategic partner, they have come at. And domestic banks and clearing corporations and other market infrastructures are allowed to have 15%. So, if tomorrow SBI wants to acquire or for that matter HDFC Bank also wants to acquire, which is a private bank, they are allowed to acquire up to 15% or tomorrow LME wants to acquire or Singapore Stock Exchange wants to acquire some stake in MCX, they will be permitted till 15%.

Gabriel Sacks: Okay. So, the limit is 15% rather than 5%.

P.S. Reddy: No, 5% is for others.

Gabriel Sacks: Okay. And is Kotak involved for a long time?

P.S. Reddy: I think they came in 2014-2015, around that time, when they uploaded the stake, when 63 Moons sold off their stake.

Gabriel Sacks: Okay. And the management team, yourself, you have been in the exchange for a long time?

P.S. Reddy: No, I came in only just two years ago. And I was with CDSL depository, Central Depository Services for about 10 years. And I left CDSL in 2019. And prior to that I was in the Bombay Stock Exchange for about 18 years.

Gabriel Sacks: Okay. And how do you sort of compare the opportunity set? And how excited are you about the future of MCX?

P.S. Reddy: Yes, it is very interesting. As I said, I mean, it is a hardly explored business, I would say this way. And this is one market where the spot markets have not developed as yet, except for IEX, which is the spot market for electricity, there are no spot markets in this country for any of these products, organized spot market. When a spot market, organized spot markets. I think there is a lot of scope for exchanges to step in and do something.

Gabriel Sacks: Okay. And the key constraint to that you think is regulatory, right? And I guess, it is a virtuous cycle, so when participation starts increasing it will kind of…..

P.S. Reddy: Well, yes, I am sure regulators will also be forthcoming to develop this market. And in fact, Indian regulators are in that sense very kind to any of these kinds of developments. So, we should be able to get the necessary support for doing what we are doing.

Gabriel Sacks: Okay. I think that was a great introductory call. So, thanks so much for your time. And if there is any follow-ups, I speak to IIFL or maybe reach out by email. But that has been great. Thank you and have a great day ahead.

P.S. Reddy: Thank you so much.