

MCX/SEC/2098

August 26, 2022

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

Scrip code: 534091, Scrip ID: MCX

Subject: Transcript of calls with Investor/Analysts

Dear Sir/Madam,

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

Sr. No	Investor/Analysts	Date	Time	Annexure
1.	JP Morgan Asset Management	August 19, 2022	12:00 Noon	<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Further, we hereby confirm that no unpublished price sensitive information was shared/discussed during the said meeting.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 JP Morgan Asset Management

August 19, 2022

Disclaimer:

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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 than 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**

P S Reddy: Good morning, Mr. Mark and Mr. Neil. I think first time you are facing the MCX. Is that correct?

Analyst: Yes, look forward to.

P S Reddy: I have visited your office in Hong Kong and I think I was heading CDSL, we were doing ICO, and at that time, I think a few Indian colleagues were there. I think one Parsi gentleman was also there.

Analyst: Yes. Ruksha When?

P S Reddy: In 2018. That's right. They were all there. Good experience I had. Of course subsequently also, Ms Ruksha came in one or two calls also. And since you're physically traveling, maybe you thought that we should meet, but you're welcome, I'm very happy that you have come down. Now, please go ahead and ask your questions.

Analyst: Yes, maybe I'll start with business update. Give me a sense of what kind of difference products are performing.

P S Reddy: As a matter of policy in our projecting numbers and... but what we are hopeful and which are the companies, which are the product lines that we would like to focus more on is something which we will share with you. Yes, at this point in time, as we are speaking, the crude oil contract or the energy contracts are going well, both NG and crude oil. And thanks to our options contract, thanks to the peak margin in crude oil futures. I think a lot of shift has come and a lot of vibrancy has come in options for that. And there is no peak margin especially when somebody pays premium, it's done, end of things and thing beyond that. So that helps, that's something which investors are looking forward to. That's why our volumes are really, really good. And in this current financial year you see, we have even touched highest options turnover of Rs.62,000 crores two days before. Yes, whenever there is toward the expiry, will go up, after expiry, little it draw off for a particular peak, and again, it will start building the volumes. So, our crude oil contract expires tomorrow on 20th., Today is 19th., So, volumes go down. Again, in the fresh contract move, then again volumes will start building. But on an average, currently, we are about Rs.20,000 crores ADT of the options. But these figures are all there on the website on a day-to-day basis, you can see that. Something which we would like to replicate and we wish to have a similar options vibrancy in bullion contracts. Currently, our bullion is not showing so much of vibrancy. We have options contract for Rs.1,000 crores, Rs.1,200 crores ADT is what is clocking. And so what we proposed and we have got an approval also from SEBI for a monthly options contract and bi-monthly like, there are futures contract which is a bi-monthly contract. So options contract will be monthly, it will devolve into the underlying futures. And the futures would continue. Somebody closes, it's okay. And another monthly options contract will come. So tenor will be reduced and premium will be reduced, maybe we can expect more participation. In a gold contract, if you look at gold, almost all, 50 lakhs, 1 Kg. On 50 lakhs and bi-monthly contract means the premium will be very high, 70,000, 80,000. If you make it off, then we expect good amount of liquidity building to that. We plan to launch sometime in September. So, let's

see how this pans out. The third thing that we are looking at is to launch new products especially, of course, options bullion is also a new one, but the electricity derivatives contract is something which we are looking forward to, and we are keen that SEBI gives its approval at the earliest. Currently, it is taking a lot of time. And pending our contract, we launch the derivatives contract. If spot exchange are allowed to launch, the forward contracts, monthly, quarterly, yearly, we have been permitted. So, we don't want to lose that potential client base to the forward contracts. We would like the futures to be ruling the roost in that space. So, that is something which we have been telling SEBI. And spot is fine, we are not interested, whatever DAM or TAM, they are doing it is fine, but we don't let this go out of our hand. Supreme Court order says that both CERC and SEBI should constitute a joint committee and then they in turn take a decision. And that decision is not forthcoming. That is the reason why we are concerned about it. And now SEBI is in the driver seat. Hopefully, they will steer it clear. This is one contract we are looking forward to. In terms of distribution, especially the bank broking again continue to be our focus. But generally, the tendency is to compare the commodity markets with equity markets. Now, obviously, people say that you should compare with somebody who is successful, not the one unsuccessful, so that you can keep the bar high. But the success of equities is too high a bar that we cannot compare it. Because structurally they are different, I mean, that's something is there to understand this. For me, you buy one share of Reliance for Rs.1,200 or something like that or some other share, you are allowed to buy one share, but here, one lot you have to take it, one lot is something which is a delivery unit. If it is a vehicle contract, it is almost Rs.40 lakhs, 1.5 MT, on which the margin is about 7, 8 lakhs. So, it's not the same thing as equities. So, the retail investors to that extent would like to see smaller denominated contract should be permitted in the space. This is something which we are looking forward to SEBI. So, we have introduced first products which are smaller denominations are affordable by the retail investors, then you can look at distribution side in the form of bank broking, the things, etc., bank broking companies which are used to come. Currently, it's about a very small percentage contributed. I think ICICI and Kotak are the ones major at this point in time, and I expect HDFC to start by the end of this year. Because they have to also build their infrastructure and there is a cost to it. Now, unless they see what you call some kind of a minimum guaranteed potential in this market, they would not like to make those investments. So, that is something which is happening and hopefully we will be able to crack that issue also.

Analyst: On the retail side, is there any reason where retail participation is trying to looking high, I would have thought that part, so, do we see the rationale in retail investors investing in one of these?

P S Reddy: I think Indian experience of retail investor participation is something unique. I think maybe even in equities, you have South Korea which is maximum retail investors directly participate, not via mutual funds, this is one, so is China, retail investors directly participate in equities. So, that is the reason why we are replicating it because they are attuned to that kind of system, they are attuned to participate directly. So, there is no risk for them. And again if they want to be a day-trader, they are welcome to do that. And I think that is where smaller contracts help the retail investors and DAM bigger contracts. So bigger contracts are primarily for the hedgers. Now, if

we compare our market only for hedgers, then obviously, there won't be any liquid. Hedgers just don't do a day trading. And hedgers give away their risk and it is speculators who pick up that risk. So, you need all of them in the marketplace.

Analyst: I know you are not comparing the equities market, but in the last two days we saw volumes increasing in financial investors generally. Do you see the similar trends in commodity markets as well.

P S Reddy: No, I have not seen as much exuberance as it happened during the COVID. But yes, given the size that we have, that kind of multiplicity I have seen, for example, in 2019-20 or even 2018-19, we had about 3,31,000 unique investors who have traded. And I think in the last three years, now it has gone up to 4,70,000 investors something like that. So, something on that hand-roll numbers. So, that is something which happened in the recent past. But earlier, that was not the trend.

Analyst: Can you give us an idea how it's picking up in this, can you give us an idea of or there maybe what is hedging their positions and -?

P S Reddy: Of course, we do get.

Analyst: The new accounts in the last two years, where we have mentioned is participants coming, was that back off?

P S Reddy: Obviously, hedgers will not be in lakhs, especially the corporates and others. Now, the open interest that is kept, is maximum by the hedgers. Just to give an example, in cotton, one of our flagship agri commodities, in cotton, 60%, 70% is open interest is maintained by hedgers. But those hedgers are about 500 as against 5,000 to go up trading. So, hedgers happen to be big ones, corporates, clients, there is high networth individuals and others, but they are small in numbers. And they are the ones who maintain the positions. But day trading and liquidity is provided by some of the traders and the retailers.

Analyst: I was just trying to ask the number of accounts increase. Is that another metric where your company is monitoring, you go and call big players accounts and they increase the volumes.

P S Reddy: Sorry, I didn't get this.

Analyst: I was asking about the number accounts signed up, do you track, something.

P S Reddy: We have the target and we track that. Now, I tell you, the last year what happened was, because of this peak margin requirements circular and also the very high margins in the crude oil, many retail investors were dejected. If I give you some numbers, they have gone away from those counters, actually number has come down. In the case of crude oil, in 2021, 1,75,000 unique clients were trading. In 2021-22, it has come down to 1,05,000. But, they shifted to options. If

you see the crude oil options, in '20-21, we had 37,000, in '21-22 1,59,000. So, that's a huge shift because the margins are less, you just pay the premium and then trade. Unique clients traded, sorry, in '18-19, I had 3,08,000 and now we have 4,70,000. That's kind of growth we have.

Analyst: That is across options and futures?

P S Reddy: Options and futures, that's right.

Analyst: Just to understand this, lot of the participation switch to options -

P S Reddy: In the case of crude oil.

Analyst: Not other?

P S Reddy: Not other one.

Analyst: That's because peak margin is specific to crude oil.

P S Reddy: No, not specific for crude oil. There is approval for other contracts also. But in the crude oil, the margin itself is very high, 35%. Internationally, it's about 7%, 8%. Because of the negative pricing that happened in March 2020, we had what is called as stress test requirement for keeping the SGF, which is Settlement Guaranteed Fund. When you are doing this **stress test** results, it takes into account a 15-year high-low of the prices every month on that thing. There was 100-odd or 200-odd scenarios with this. So, because of this negative pricing, if the question comes, if top two brokers were to defer and it is because of negative pricing, they go down, what will be the requirement of a settlement guarantee fund. Settlement guarantee fund is calculated after taking into account the margins. If margins are reduced, settlement guarantee fund has to be increased. Now, settlement guarantee fund is something where we are contributing. We don't get it back in the settlement guarantee fund. Currently, we have Rs.550 crores. Now, if I reduce margins in crude oil futures, then I have to increase it by another Rs.500 crores or something like that. So, that's why we are not reducing it. We are still continuing that same margin, and we have gone to SEBI, requesting them, either you consider removing this negative pricing, because the CME and others are not considering the one-off kind of thing or you allow us to withdraw contribution from SGF as and when the requirement comes. We will give it back whenever that's permitted.

Analyst: As people switch from futures to options, that had any impact on your revenue?

P S Reddy: As I have explained, definitely, it will impact, but it is compensated by growth in the volumes. In the case of futures, today, we are in the last financial year, we had about Rs.26,000 crores in ADT average in the turnover. Our fee is based on the average realization of Rs.207 per 1 crore. That's a transaction. fee. Now, we had last financial year clocked about 7,000 crores ADT of the options. Now, which means it has a revenue potential of almost a one-third of the futures

turnover. So, options turnover is equivalent to one-third of the futures turnover in terms of revenue potential. That is what we roll off some kind of thing, we have assessed it. Instantly, in the current quarter... current means the quarter which we closed as well as the current quarter, we are clocking almost 48%, one-third. Now, currently, we are having 20,000 crores of average daily turnover of options which is equivalent to 10,000 crores of futures turnover.

Analyst: That is a negative impact?

P S Reddy: It's not a negative impact. Currently, my ADT is Rs.25,000 crores in futures, then additional Rs.10,000 crores is added to the futures. So, if I convert into futures equivalent turnover in terms of revenue potential, currently, my ADT is talking in terms of futures is Rs.35,000 crores.

Analyst: That is added to it. It's not cannibalized.

P S Reddy: No, it is not cannibalized, and we are not saying the cannibalization. Post peak margin, ADT is settled at Rs.25,000, 26,000 crores. Having settled it, other verticals are growing in the form of options. That options is contributing if I convert into an equivalent to futures, at this point in time as we are speaking, it is Rs.10,000 crores additional.

Analyst: What's the potential for the options business in the other commodities apart from crude oil in precious metals and base metals

P S Reddy: In fact, our crude palm oil contract got suspended, but otherwise, we were to launch in the month of January, that crude palm oil options also. We got the approval, but contract got suspended, so we couldn't launch it. But in cotton, there is a potential. But we have not gone to SEBI as yet, because it is again coming under the clamoring for suspension of the contract. There is a worldwide cotton shortage, but our prices is only going up kind of thing is projected, which is not the case. On ICE also, there is a huge rise. So, we are not looking into it at this point in time, but cotton is another potential commodity. Coming back to the base metals, Nickel debacle in LME has completely eroded our liquidity in the contract. We have asked SEBI to reduce the contracts. As I said it's 1.5 MT which is almost 40 lakhs, the margins are about 20%, it's very high, but people can't afford to it, is reducing. So, that is being looked at by SEBI. We have also asked SEBI to allow mini-contracts in other commodities. Once those minis come, I think we will be again able to do better in the commodity space.

Analyst: So, do you say that the liquidity has moved to LME Nickel?

P S Reddy: LME also did not get any liquidity because of the problem in Nickel.

Analyst: Something has changed as the liquidity has gone somewhere else.

P S Reddy: No-no, people have deserted the counter, because they are not able to take that risk, because it is frozen, every 15-minutes when the circuit filter is hit and no trading is taking place and their

mark-to-market margins are increasing and margin calls are issue. Brokers say, "I am sorry, how can I get margins from the client?" Almost 16 times in a day on that one day, I think 7th of March, the prices have gone up on LME. And LME could tear off those contracts. But we couldn't do that. We have settled it.

Analyst: Does LME offers smaller lot sizes. You were saying that you had talked to SEBI about bring smaller lot sizes. Does LME offer that?

P S Reddy: Yes, it does, but for them smaller is our bigger contract. Their contracts is 25 MT and 5 MT is smaller. Ours is other way. People ask me We can go on and hedge on LME, we can go hedge on ICE, wherever, because bigger liquidity is there, and currently except in gold, all Indians can go and then hedge, any of the corporates in any other market. So, what is the rationale for anybody to come to you? That's a fair question. So the way that we explain to them is a), our contracts are rupee-denominated. So foreign exchange volatility is already there in it, in that sense. The second important thing is so you don't need to hedge one for the commodity, other for the rupee-dollar for exchange. So, 2 legs you have to hedge sitting in India. The second is most of your exposure maybe domestic exposure. We have so many medium and small industries where exposure is within the country, not overseas. Further, international hedge doesn't make sense. Third, the contract size is smaller as against those international ones. So I am able to cater to these local players. That's good enough for me. Then if all local players join, problem is my liquidity could also increase, then others will start looking at our platform for trading. And at this point in time, it's an exchange situation, you don't have liquidity, so I can't trade. But unless you come and trade, I can't have liquidity. This is the situation we are facing.

Analyst: Do you have any tie-ups or alliances with LME and CME for any products. How does that relationship work?

P S Reddy: CME we have for this worth of crude oil and all energy products except electricity of course. Electricity is going to be with IEX, our domestic contract will be settled on IEX DAM prices. But otherwise, both for crude oil and natural gas, we have with CME. Minimum threshold we have to pay. Over and above, it is a turnover linked. Then this is one. With LME, we used to have LME settle contacts prior to 2019, and SEBI said, "No, you must make it as delivery-based contracts." So, no longer use their prices. But still we have an agreement to use their brands to be delivered on the exchange front. So that is what we are doing. See, currently, what you say, all LME approved brands in the case of base metals are allowed to be delivered on the exchange. So, we don't do separate brand empanelment. So, what we started is in order to provide our platform, being used by our domestic players also, who are not LME registered, we have also started an empanel process for those ones who are not with LME. So, we have done with a Lead. There are four of them. We have done with gold, again, four of the big players including Titan Refineries, and that's an increase. So, our platform also, we wanted to bring into our fold the domestic refineries also.

Analyst: On the costs side, you see increase in volumes and develop new products. How do you think rate of growth of costs on yearly basis?

P S Reddy: you must have seen also over the years. Our costs have remained around average CAGR of 5% and revenues are growing at 7%. But 7% because of these last two years have built on, but otherwise we don't see cost going up and up. And I keep telling also and I am a strong believer in it, whether it's in personal life or public life, you can't earn a rupee but then at least you can save a rupee in terms of reducing expenses. So, that is something which we strongly advocate. We don't spend unless. And make sure that every rupee has some impact which we get back in the form of revenue.

Analyst: What's your relationship with NSE and BSE Exchanges. How much do you collaborate or work with? How much is the competition or collaboration?

P S Reddy: First of all, I think when unified exchanges came in 2018 sometime back, regulations came and then everybody can trade in a good theme. And there was a fear in MCX, whether the giants like NSE and BSE take over. But if liquidity is such a sticky product, it doesn't go ahead. So, now that fear is, I would say, warded off. But we keep trying still and they have deep pockets, so liquidity enhancement schemes and other things they have given. They did it in cotton, artificially ramped up. we complained to SEBI. We have no problem about it. Then, showing volume is something which is doing it between four, five of them and then morning 10 o'clock to 11 o'clock trade, then no trade thereafter. That's not the way. You are falsifying the data, you are falsifying the ecosystem. So, that is something which misleads the public to believe that there is something they convey. I think that stopped. So, the point I am making is behind us. Coming back to the energy contract, BSE, invested in Hindustan Power trading, that's in electricity, that is spot exchange and they throw their hat in everything and anything. And efficacy of it, I am sure you must have seen over the years what happened and what has not happened. Persistency, consistency, these are all not there with them.

Analyst: Is there any room for you to cooperate with exchanges may be on technology.

P S Reddy: Maybe on regulations we collaborate, because SEBI says that all of you have uniform circulars, uniform penalties, uniform processes. So, on the regulatory issues, yes, there is a collaboration. But otherwise, we don't do in fact much. That is international bullion exchange we have set up. So that is where we have come together because the IFSC has said that only one exchange will be permitted and all of you come together. So, to that extent, it is good for me, in that sense, it is not taking away my time also completely.

Analyst: what's the actual method used at exchange is it software people rely on or are there any collabs or changes in methods.

P S Reddy: See, there is so many methods in which they impact. One is that we have APIs given out. We have also trader work station which exchange gives. The trader work station cannot be

multiplied. You want **10 trader work station** you have to take them. But through API, they develop a CTCL, what is called, computer-to-computer link something like that. But there front-end is provided by vendors. So they integrate it and multiply to any number of places, any number of terminals which they do. That is what it is. And all orders get integrated with the broker server and then they come to the exchange. We do directly. The third method is the mobile apps, every broker has developed mobile apps, which also they come. And the fourth one is internet. Now, brokers also have given like Zerodha and other kind of things. There are discount brokers houses. And somebody who wants to play algos and other things, they need to have this kind of CTCL and other things so that latency issues will not be there. But if it is on internet, you want to buy 100 shares of Reliance, and another 100 shares you want to sell, you sell. So that is through internet which also come.

- Analyst:** It is quite similar to equity exchanges
- P S Reddy:** Of course, of course.
- Analyst:** What portion of people goes to brokers to trade in exchange compared to trading directly themselves.
- P S Reddy:** I'm sorry, I didn't get it.
- Analyst:** Do people/companies trade directly in exchange or they have to go to broker.
- P S Reddy:** Everyone has to go through broker, be that equities, be that commodities. Anyway, broker is a must. It's a different matter, somebody may take a membership and then trade their own. Such people are also there, for example, Titan has become a member at industries which is into jewellery and other. So they trade for themselves.
- Analyst:** What's the foreign participation. Are there any foreign participation?
- P S Reddy:** There is no foreign participation as yet, but SEBI has permitted, rules are yet to be notified, so SEBI board has cleared that. So, FPI participation will come through.
- Analyst:** And you think your exchange will have advantage on this
- P S Reddy:** Whatever decision is taken for our commodity exchanges. For all these years, FPIs are not allowed to participate in commodities, only they are permitted in equities. Now, they are permitted in the commodities. So, there are two clear advantages at this point in time. There is cash-and-carry arbitrage opportunities generally exist. So, they earn an extra 12%, 20%, 30%, I don't know depending on the near month and far month contract expense. So they can invest, take delivery and they can deliver back in the next one or two settlements later. So, that is something which will happen. It's a fund-based activity thing. The second thing is some of the people who want to do international arbitrage, Like Nickel and Lead they are not able to do

unless there is one book. So, now in the form of FII, they institute an FII, they can merge both the books, Indian book as well as the foreign book and then consolidate. Today, they are not able to do it from the tax law point.

Analyst: On your fees per contract. Say trading and clearing fees. How are they amended over time on general direction?

P S Reddy: So, we have only two slabs especially for transaction Fees for equities. It's like income tax law. Up to Rs.350 crores, it's about Rs.260 per crore and beyond that they have to pay Rs.175. So, only just two slabs. Now, we started charging for options from October onwards last year and there also we have two slabs. I think one is Rs.40 and Rs.50 depending on the premium value.

Analyst: what's the talking on the first slab?

P S Reddy: About equity for the futures?

Analyst: Yes.

P S Reddy: Rs.175 beyond Rs.350 crores turnover.

Analyst: How do you determine those fees is there any regulatory thing. Can you change them.

P S Reddy: We can change them, but we have to be very transparent and charge the same to everybody. So, the principles have to be notified to everybody. No, I can't say, that you are an algo player, I give you discount, but he is a retailer he will not get discount, that this issue will not be there.

Analyst: You are charging Rs.260 crores now, what will be that in five years?

P S Reddy: It will by and large remain the same. The other way, now with the increase in the business from algo players, in fact, currently, Tower Capital trades on, Jump trades substantially. And then Hutson ... has come. Isn't it? Another one is Citadel taken membership. As they are increasing They are saying that you must reduce the fee because algo players want lower fees so that one more tick they can go down. There is a lot of pressure. So that's why we are saying, okay. And would like to have it to be a volume-based business than tariff-based.

Analyst: is Algo contribution to volumes is about 40%?

P S Reddy: I think it is 65%. In equities it is much higher.

Analyst: **(Inaudible)**

P S Reddy: Yes, because jump has started only last year. It's not volatile. More the liquidity, more their participation.

- Analyst:** Your market share number, they are basically 100%. But on agri commodities they are about 17%
- P S Reddy:** Agri?
- Analyst:** Yes, which other exchange
- P S Reddy:** NCDEX is about Rs. 2,000 crores ADT, that's all, nothing else. So, far less. That's how the overall market share of MCX is 93-94%.
- Analyst:** Inaudible...
- P S Reddy:** See, I think the capital that we have currently is mostly kept, keeping in view some of the future requirements that may come. One is that SEBI may likely to permit we don't know when co-location. So you need to provide a much bigger data centre space to host lot of servers of this thing. So, that will be a big expense. We are also planning to get into various spot market, spot trading's subject to SEBI's approval of course. So, that requires again a lot of capital, isn't it? And for a rainy day also we need to keep something because almost as per our dividend distribution policy, almost 75% of earnings are being distributed every year, in fact, last year before last year, almost 90% we distributed. So, we are not keeping anything more. Whatever we had in the past, that is the only thing which is being accumulated in terms of return on those investments. Whatever in the recent past we have earned, almost all distributed.
- Analyst:** So if you need Cash on Spot markets?
- P S Reddy:** Spot markets. Come again?
- Analyst:** Will you reduce dividend
- P S Reddy:** No-no, dividend, we will not, we will continue to pay whatever. But whatever cash lying in the account, that will give ...(inaudible)
- Analyst:** Thank you very much for your time. Appreciate it.
- P S Reddy:** You are welcome. You are our most valued investor. Stay invested. We will do our best to ensure that company is run well.