

MCX/SEC/2102

September 01, 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. | DAM Capital Advisors Ltd. | August 25, 2022 | 04:00 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Further, we hereby confirm that no unpublished price sensitive information was shared/discussed during the said meeting.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 DAM Capital Advisors Ltd.

August 25, 2022

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Management: Mr. Satyajeeet Bolar – Chief Financial Officer
Mr. DG Praveen – Head Investor Relations

Analyst: Thank you for giving us the opportunity to come here and ask questions. The primary objective of this meeting is that we are starting a coverage and we wanted to have some questions answered, which are quite macro, some micro. We're trying to figure out for us. We have been tracking exchanges for last couple of years. And we have been present in every con-call. But pardon me, some my questions will be slightly typical. So I have the list of questions. I'll just start.

DG Praveen: Yes, please.

Analyst: The first question is on the growth. One of the key reasons between FY '18 to FY'20 or let's say FY '15 to FY '20, we had a huge volume in crude and natural gas, right? The volumes have declined and one of the reason is -- one of the key reason is the margins -- crude margins. So are the crude margins to come down in the next 2 years or do you think this is going to sustain and the volumes in crude and natural gas will be on the lower side compared to the industry?

DG Praveen: See, peak margin reporting, it is, in fact, SEBI has made it mandatory across, that is not only to the commodities market, it is applicable for all the asset classes. So basically, what it means is, sufficient margin has to be collected from the clients whenever they would like to talk front margins. That means before it trades, that margins have to be collected by the member.

So that will be looked at by the Clearing Corporation. If the margins are not being collected by them, automatically, penalty will be struck. So given that one, it is like earlier some numbers, they use to support their clients in between. That means, because they use it to get particular -- till the end of the day, they would have that opportunity to help their clients to provide that kind of margin support so that they can be able to meet the requirement. From the Clearing Corporation's point of view, always sufficient margins were there. That means whether it is on behalf of the client or on behalf of the member -- because from the Clearing Corporation point of view, you will look at the clearing member, not at the client.

So when you look at -- okay, this is an amount of open interest is there, and against that one, whether you have sufficient margins from the member or not, that is what you look at.

So you use it to look at it. Even today, you are looking at it. But the only difference now what is being brought in is like client level. That means, they are supposed to report to the clearing corporation that whether they have collected some margins from their clients or not. So they have to do that report. That, too, how do they have to do it means, they will look at what was their peak position.

So at that time, whether that's sufficient amount related to that peak position, whether that margin was with the member or not. If any deficiency is there, it means that you have not collected sufficient margin from the client. So that made some of the members really difficult to fund any clients, at least intraday.

At the end of the day, anyway that used to happen. Even prior to that one, it used to happen. Intraday, they used to support that one. But with the implementation of this peak margin reporting, they no more could be able to provide this kind of facility to their clients.

So what happened now means many clients are not really comfortable to have sufficient margin throughout the day. For example, because commodities have traded round the clock. So the volatility can come, but maybe very late evening, in fact, for commodities, given they are global in nature, most of the activity will come in the second half rather than the first half.

This has put some clients in a fix. Because for them, I brought the money and everything, I kept it. But suddenly, that became insufficient. So they need to bring that one. So what they started doing is, even though I'm interested in commodities, rather than doing in futures, I want to trade it in options.

So it's not like every client is looking in that direction. It is certain category of clients who are really very averse to this kind of changing margin and other things. They are preferring options over futures. Why? In options, upfront premiums have had to be paid. Once premium amount is made, and after that

I mean how to look into that? That means there is no more incremental margin that is going to come.

That means, he will not be bothered about any margin, so you can maintain it. So given that kind of scenario, what is happening is, now, there is slight drop, that is what we have witnessed in the futures. But there is a substantial exponential growth, that is what we witnessed in the options. So a slight drop in here.

If you look at overall clientele participation, both futures and options are put together. In fact, there is very -- amount what I call last quarter, if you put it, it is higher than the previous corresponding quarter, okay? That is how the number is.

Now, to your question, whether the margins will continue to impact means, those -- like crude oil, there was a drop in the futures turnover. But a substantial amount of turnover is now being witnessed in the crude oil options as well as, natural gas options.

Analyst: So my question is that has the margin for crude which get up to 20% -- or were to 100%, right, for some time...

DG Praveen: For some time, it was strong.

Analyst: Now it is at 15% to 20%. Is this going down in the future? Or do you think this is a level which is -- is covered by the formulae or is this something temporary, ad hoc?

DG Praveen: See, there are two elements that will come into that when you want to decide the margin. One is your volatility-based margins. Volatility-based means we use EWMA methodology. And based on that one, we will see that if at all, there is an incremental volatility happens, automatically, your margin numbers also will go for a change.

Second thing, it is SGF-related margins. So here what will happen, because in the stress test, you have to see that sufficient SGF should be there with the Clearing Corporation to ensure that you can be able to -- because the moment

you have not collected sufficient margins from the client, then it means that you need to have a higher SGF.

But the problem here is, today, it is a one-way problem. Like the moment you can fund the SGF, but you cannot take it back. So given that kind of thing, even we are not ready to put that money in the SGF. Any incremental requirements, suppose if anything comes from SGF, we are not ready to keep that. I think we are rather waiting for SEBI to come out with a revised mechanism, wherein actually their – there is a committee called RMRC, it's there in SEBI, which looks after all these kind of risk-related matters. They are going to meet. And all the exchanges earlier they came together and they have recommended to SEBI also, saying that, you at least don't keep any one-way kind of restriction. Let, as and when needed, exchanges clearing corporations, they will be ready to ensure that particular thing. But at the same time, allow them to take the funds also out.

The moment that is allowed -- but today it is not allowed, but we are expecting that they are going to meet sometime in the end of August or maybe early September. If they meet and they take a decision, which, in fact, all the exchanges and clearing corporations have endorsed that kind of mechanism, and report also has been given to the SEBI on that one.

So if it is accepted, then it is like we can infuse and we can be able to take it. If that is the case, then any margin other than volatility-based margin, can be able to bring down. Like whatever additional margins we are imposing today, just to accommodate that kind of SGF requirement to keep the SGF under control, that kind of margins can be immediately removed. So that it is like more participants can take benefit out of lower margins.

Analyst: So one of my question still is, whether this 20% will go down...

DG Praveen: If that is accepted, that kind of SGF, everything is accepted, there is some room is there for lowering the margins, bringing it down. Margins can come down.

Analyst: So, it means that the SGF component will go up or...

Satyajeet Bolar: What Praveen says is that at first, there's a stress test. And in the stress test, if the figure had increased. There's a minimum required corpus, MRC, which is a subset of the SGF, so that goes up. Who has to give it presently - the exchange as well as a clearing corporation. So they'll fund it.

But next time, there is another stress test done maybe 3 months down, it's done monthly, it is another stress test done and the figure reduces, the MRC reduces, then we should get it back. That money should be refunded back, right? So it's a two-way. Presently, it's only one-way. I hope you get the context.

DG Praveen: What will happen means, if that is the case, if volatility comes down in crude oil, substantially we'll be in a position to bring down the margins if this is going to come in place. At the same time, stability also will come. For example, now for any reason, I will not be able to infuse the capital in the SGF and I need to end-up hiking the margins towards additional margin and other things. But those things will stop happening. As and when this is going to -- we are going to put this on increase.

Analyst: Sir, on the metals, we see lost nickel volumes. I think it was Rs. 21 billion in the month of January. ADT was Rs. 21 billion.

DG Praveen: ADT is around Rs. 21 billion you are saying. Yes, it is around Rs. 2,000 crores, I can say, Rs. 2,000 crores. Yes. We all know that it's all that debacle happened at LME. And unfortunately, it is like we had impacted the most because that time the margins also has to be -- substantially has been increased during that particular time. And after those things have settled down in global market also, here, it took a lot of time to get stability to come into this market.

So what happened means, by the time the margins and everything has come down, by the time the volumes, whatever volumes were there, it got evaporated. Now the way we are looking at this contract is, we wanted to come out with some mini-sized versions of the contract rather than bigger versions.

Because today, the nickel contract is about Rs. 30 lakhs to Rs. 40 lakhs, given the size, whatever it is, 1.5 metric ton contract. It is quite significant, and that will not attract any retail participants to come and trade in this contract.

Earlier, we used to have both main contract and mini contract to use it on that. But subsequent to the SEBI regulation, wherein the regulation was such that we cannot have 2 variants. We need to have only 1 variant. And given that one either, you go for bigger one or smaller one. Besides this one, there is another regulation that says that your trading unit also should be equal to your delivering unit.

But when nickel gets imported to Indian market, you get it only in, around that 1.5 metric ton. You cannot cut into bits. Because the moment I say that cut into pieces, then quality and another things -- it is like you are breaking that whatever is the seal kind of thing. So wherein then automatically, you will not be able to do it.

So we are looking for a mechanism which we used earlier, wherein we wanted to have a slightly different trading and delivery unit kind of thing and come out with a smaller version, the nickel contract. That is going to be the one which we wanted to push it and we have been making the representation to SEBI. So that -- and they are also comfortable. I think as soon they may accept that kind of thing -- because it is not like any other equity market, where you can easily be able to cut down the trading loss. Because there it is more about the value. And it is nothing to do -- and in Demat, you can do it in 1 unit also. But here, it is not. There is actually physical market there. I mean, it is integration between derivative market and the physical market. So certain concessions are required in this case. And then globally also, many of the exchanges, like if you take the Shanghai and other thing, they also come out with this kind of different versions. And they also have a differential trading units, delivery units and all those things. It gives some amount of flexibility to the exchanges to design the contract. So that is what we are asking for and we wanted because at this big size, we cannot expect immediately that again, the contract will become so vibrant and back to its original level. We wanted to make some tweaks in the contract, and we wait for the opportunity. Like, even if you look at the options, it was lull for almost from 3, 4 years. Now today, even after imposition of trading charges and other things, you are substantially... So we cannot say what really you think. But from our side, we are pushing hard, saying that to accommodate these kind of changes in our contract certification,

as and when it is there, we wanted it to refurbish and we wanted to launch it again.

Analyst: When can we expect to relaunch this nickel contracts?

DG Praveen: All in these cases, what will happen is, we are actually dependent on the regulatory thing.

Analyst: I mean, for you to get the regulatory approval of any new --

DG Praveen: If at all there is a normal-thing course, it won't take much time. If it is a very basic contract and other things, then it may take some 6 months or something roughly. But if at all they have any doubts about that particular contract and other thing, it may take longer -- for example, the electricity is one thing, which we have -- from our side, we have filed it. But Supreme Court also has said that the committee has to be formed, a joint committee between CERC and this one. There, actually things are getting delayed. But other contracts, the normal course what we have seen, and there we used to get in 6 to 12 months, whatever is there. But any changes which is a slight deviation to the normal one, which might take some time, which is very, very difficult to predict when it will happen.

Analyst: So why don't you continue with the normal till the time --

DG Praveen: Normal is continuing. It is there, but we are not able to get the liquidity in that one. Because see, once that cycle is broken, you need to do something to again back up and do it, so that, again, you start turning the wheel.

Analyst: So LME is stable, right, LME Nickel is stable now?

DG Praveen: That is what -- and the advantage that they have it is -- it is like they are back after that particular incident and other things-- margins are back to normal and everything is there. But for us to come back because of all these challenges, it is taking time. But we are, anyway, pursuing the matter vigorously, from our side with the regulator. And they are also now looking at it because all -- unfortunately, what happened is, all this kind of black swan events, all

happened in a very short time, within these last 1 or 2 years. So that's what is destabilizing certain things.

Analyst: So, on the new categories of products, especially the metals, there's a wide area of products which are not there, which have not been traded on any of the exchanges. Do you think that some of them are very promising, especially the steel, which is a very large commodity? And if I am not wrong, I think one of the competitor had a very, very large volume in there. Steel, it has gone back up?

DG Praveen: No, NCDEX was having steel contract long time back.

Analyst: Reliance has? Reliance Commodity Derivatives?

DG Praveen: ICEX, I think that one, but that is not considered as actually a competitor. In fact, their membership also was limited to only --

Analyst: It was a large -- a very large steel volume.

DG Praveen: No, no. Actually, only for some limited period, were there and -- but if at all you wanted to take it, maybe NCDEX, but it was very long time back. Even we used to have it very -- from almost, I can say, some 10 years -- more than 10 years back like that. But that time, the challenge was related to the BIS standards, because the industry has not actually fully adopted the BIS standard. Wherein when you are specifying certain qualities and other things, they are not able to meet the particular thing. Today, the industry is fully prepared, that way it is. And we wanted to come out with steel TMT and other things. So there is a big market there for steel TMT. And we definitely wanted to look for that steel product.

Analyst: Is there any other market, international market for steel at this point of time --

DG Praveen: Yes it is...

Analyst: Is this something only European or --

DG Praveen: Yes. LME tried multiple times, but liquidity is not that much.

Analyst: Because Steel is widely used --

DG Praveen: Widely used. Okay. Reasons you are looking for -- the reasons why it is not -- it is not that much standardized as well as metals. If you take it, metals, you are having cathodes, you have certain finer things. But here, you'll have multiple -- I think you have flat, you have long, you have -- then, again, within that one, hot, cold, all those things are there.

And besides that one, the quality also was a certain thing. And there is certain very popular brands there, which is enjoying certain premium. Wherein there are some local industries, the domestic industry, which is into that one. A lot of scrap also get into this thing.

So this is, I think, it is very diversified market. It was not that -- because generally, what will happen is, you have taken from a mine and a little bit process, then it is very easy for you to develop a product out of it. But once it is multiple, like in this case, steel, it is you have stainless, you have multiple variants, multiple grades are there. So when you are going to the process, which process unit you are looking at? Then you are limiting to only particular category of participants. So earlier even iron was tried. Like the iron was one thing, another product, can it be tried and other things. But there also, it is like mining restrictions and other things came and it could not be able to fly, okay?

But steel, the only thing is given that kind of multiple product categories and other things, it is one thing which steel TMT, after deliberating multiple rounds of discussions, we thought that, okay, this is one product we have been using. Once, one is successful we can really can look for 1 or 2 products. I think globally, also if I'm not wrong, seriously that 1 or 2 products of steel only is getting traded on their exchanges.

Analyst: The question comes... because steel is the one of most widely used commodities in the economy right now. The obvious question --

DG Praveen: But I feel that there is there is a case reserved for really now, has come back to the earlier thing. Because earlier our contracts were all cash-settled, metal contracts especially. So at that time, really market participants were not

prepared for any GST or this kind of taxation structure. And delivery also, not every investor is interested in that.

But today, metals all have been converted into delivery basis. Today, delivery means it no more is really a big matter. Everybody really knows that what a delivery means, how it happens, how they have to handle it. So now, the things are in place as compared to that one. And also, standards have been adopted in the industry.

Now one thing the regulator also -- he's asking us is -- they wanted to have multiple delivery locations at one time. What we are looking at is, we want to start with a single location and go for multiple location at a later stage. Steel is one thing which still is under discussion happening, because we thought that the moment you add multiple delivery in one time, again, all those issues will come.

Let one product get adjusted, market participants get adjusted to this particular thing, then we go on expanding that one. And slightly, the locations are also - - it may be near to our existing delivery locations, but it's precisely not that way. So we need to look at all these things before really identifying. So we wanted to start with one rather than with multiple delivery locations.

Analyst: So I think you started with TMTs and going to HRC --

Management: All those things we will, wherever possible and we wanted to start with one where lot of standardization is there, already which is in place.

Analyst: And given everything, the timeline which looks like at this point of time is 12 months for steel?

DG Praveen: We already have ... long time back. So it's not like --

Analyst: It's not the metal side, which we are missing, which is traded widely in the global markets.

DG Praveen: All the major ones have already been -- I can say that some chemicals maybe we have to look at and others -- there are many exotic products that are getting

traded. But metals-wise, it is very limited because the base metals are very limited.

Analyst: Is there any chance that a lot of exotic products will come in near term or do you think they are very far away--

DG Praveen: See, one thing we see, all these markets have evolved over a period of time. It didn't happen in 1 day. You have the same number of market participants. So whoever are our active, suppose, 500 to 600 members, they will remain our... I cannot go on sell 1 day this product you trade, the other day I say that you trade on the other one. Even they have to take it to their customers, and all those things are there.

And it takes marathon effort to really make 1 product really successful. And even after the launch, continuous effort, continuous education, taking the stakeholders along, because in many cases, we don't even have the price history for the people.

So when they wanted to make trade somebody. Somebody will have to do a comparison between the spot and futures, but spot prices are rarely available in this case, and which quality. Exchange quality can be different. And whatever available spot prices can be different.

So these are all multiple things. The only thing is, it is a very long-drawn process, at least to identify. The one suggestion what is there is, don't come out with too many products in one go and try to sell it. First, make a sincere effort in that one and make it profitable wherever you feel that good business is going to come.

And trading cost is anyway higher in India. It's not like in case of like -- in their case, you can come out with any product and people are not interested, you can drop it. Here, if you come out with a product and somebody makes a trading, then there is a cost for them, it is getting involved. But even they wanted to trade, if you accommodate trading, they will think twice before trading in a particular product because there is a cost -- trading cost and everything.

So, our plan or what I can say is our strategy behind this one is, what can we try towards the integration of physical and futures market, wherein that is the reason what we have been doing is, on that count, we are empaneling all the brands, and all the metals, lead already we have started. I think soon we will be empaneling some more brands. And gold, we already have done it. And we'll be doing with more metals and other things, this kind of empanelment.

So, don't expect that these hedgers will come and trade on a day-to-day basis. But it makes the markets-to-markets really closely integrated. That is what we are looking at. Everybody has a different objective. A hedger has a different objective. Either go for a price-switch or use the platform as a delivery, make a last resort, because if he's getting a better customer, for them, that is more easier, convenient way to dispose off any metal.

So why somebody will come for delivery means, it is a delivery of last resort. This is a universal phenomenon. Derivative markets are not meant for delivery. Because there could be many reasons. Delivery locations can be different, quality can be different and everything, but you can use it in case if at all you intend it for your own purpose.

Today, aluminum and other things we are seeing very good progress in this. A lot of deliveries are happening in that aluminum contract. So while we wanted to make a mechanism in place -- efficient delivery mechanism in place so that whenever somebody wanted to deliver, let it happen, easily and in a more convenient way.

So by keeping that one, we are empanelling all these things. More people means more domestically, our industry also will come into this one. So that is how we wanted to -- we are working towards that one.

Analyst:

So on the options, you've introduced natural gas, you have introduced bullion. Do you think you ought to introduce more option products? And does it matter if you reduce the volume while you say, the grammage in the options, that can increase the volume substantially, maybe the options?

DG Praveen:

See, options-wise, we wanted to come out with options in multiple products. There are certain regulations. Like if it is an option on futures, you would -- the product is supposed to meet -- the underlying futures is supposed to meet a particular amount of turnover, like Rs. 1,000 crores in case of non-agricultural commodity. That means essentially, you need to have liquid futures before coming out with any option contract.

So, now the immediate thought that what we can -- what we are really looking at is, while crude oil and natural gas has really picked up very well, even though the duration, one reason is both are -- futures are cash-settled contracts in a way. And whereas, the gold and other contracts, they are not delivery-based contract.

One more aspect is, gold and silver contracts are bi-monthly contracts. So longer the duration, tenure is there, premium -- extra premium, somebody will have to begin to make it. So even if you look at our gold premium turnover, one month, it will be very high; another month it will be low. This is happening because as you come closer to the expiry, premiums will come down. More people can look at it because it will be more convenient. Otherwise, the entire premium will go up.

So even if you look at the equity market, people are more interested in shorter-duration contract. Weekly are most popular as compared to this. So we are thinking like -- so one thing is, we are looking for definitely options in our indices, which we can look for weekly and -- everything you can look at it. But Metaldex that used to be very popular, unfortunately, the nickel impact also has felt on our metal thing, which used to do somewhere around 200 to 300 crore, which was considered very -- in fact, market was -- why can't we remove the nickel right now and do it.

But anyway, this is going to happen. Because there are certain criteria that are embedded in this indices, that it has to meet any product to be a part of the index, it has to meet this much of turnover and other things.

So every rebalancing automatically, that kind of change will automatically will take place. But while -- Bulldex continued to do well. But because of this

Metaldex we are looking at only Bulldex currently to have some weekly options and weekly futures in this one.

And later, I think, once nickel is removed and we just again get back some amount of liquidity in our metal index also, then definitely, we will look there also for introduction of weekly options.

Analyst: So for clarification, the margins option writer in the crude volumes, are they similar to crude futures?

DG Praveen: See, generally, if you understand the PAT, it is like -- depends upon whether it is at-the-money or whether it is out-of-the-money. There are certain things there. Roughly, if you are at-the-money and in-the-money -- because in the money means your delta will be closer to your futures and it will be very much closer to your margins. But if you go out-of-the-money and other thing, provided that minimum margin, they call it SOMM, that means minimum margin will be -- some amount will be there. If that is the case, that is not triggered, it will be slightly different as compared to your deep-in-the-money contract...

Analyst: My question is that the option writer, does the nature of the underlying, not the commodity, the different commodities, which is the crude, once we had negative prices, the margins spike up. Does it have any impact on the options writer margins or this has no correlation?

DG Praveen: You will have. It will be margins if you are in the deep in the money and other thing, closer to delta. Whatever future is there; it will have the same implications on options. But what you have to look at is who are the participants who are trading, who are happy to trade as option writers.

If you take in futures, you have both on the long and short, both parties are -- all participants are equally interested to trading these. But here, generally, specialized people who really can write it. Because generally, a lot of algos runs here. But then really, the margin is not a concern.

I take a position in futures. I take a position in options. It's a balanced equation. When I take a balanced equation, my overall margin also will come down

because I'm having a spread position here. I enjoy that spread margin benefit and everything I will -- because, in fact, in span, both are going to be based on the delta. Automatically it calculates, automatically it negates your margin if you are having a spread position in futures as well as options, you'll enjoy the benefit.

Analyst: Do you think the electronic spot changes with the government is trying to create for various metal, does we have any role to play?

DG Praveen: One, I think you would be knowing, I think, in the GIFT City already, we have started our thing. I think it started already, operations. In domestic market, it is like they have started, it's only with gold. There, while SEBI has come out with regulations, still that GST -- there is a GST element is there which is putting certain challenges. While even we are not fully prepared from the technology point of view, because we are also waiting for our CDP project is going on, where we are awaiting for that thing. Once this gets stability, definitely, we can take this one from there. We can be able to develop that particular platform. Okay?

So, while GST is one thing which really is playing against that, and SEBI also definitely took up the matter with the government, and all those things are going on, it will take some time. We don't know how long it will take. But it is a blessing in disguise while we are anyway, working on the other side also.

Analyst: My question was slightly on the longer-term perspective. Do you think the exchanges like MCX will have a larger role to play to create electronic spot exchanges --

DG Praveen: Yes, we are, like spot like coal, already, we are very eager, in fact, we wanted to do it for coal.

Analyst: Because we don't have these spot exchange for so many like copper, lead.

DG Praveen: There are -- the aspects that really we have to look at it here is, strangely in India, you have first developed derivative market, then I think you have to start up with spot market. But what we are doing is, we also tried -- like one way of how we are doing is, the existing futures only, we have multiplied our delivery

locations, and you already have a 5-day tender period. In a way, it is during 5-day, mimicking our spot market. But definitely here, like when you want to look for more product -- because more variance can be traded in the spot market as compared to a derivative market. That is absolutely -- so we wanted to first select certain 2, 3 products like I said, coal is one thing that really we are looking at first. Then gold is another one. Another -- gold anyway, we have already started and doing it. One by one, we wanted to come out. And once we get the platform also ready and all these things, then we can freely -- we can really explore all these things.

Analyst: So where is the work on this coal right now? I think the Government of India...

DG Praveen: Government has not yet but they have -- already, they have commissioned some study, and that report has already has been submitted to the ministry. So it is in the early stages of discussion, but we wanted things before that comes in. We wanted to be well established or we wanted to be well placed, so that we can able to do the things.

Analyst: This is one of the, I think, delivery or, let's say, one of the major delivery for the coal, particularly year is establishment of coal trading platform. I don't know if that is bilateral. What they're speaking about?

DG Praveen: Yes, they are talking about the same platform. They are taking about the same thing, exchanges, they wanted to talk about.

Analyst: Because given the fact that they are for the commercial, coal mining is huge...

DG Praveen: That's not, they have to -- currently, production is majorly dominated by CII and also -- those things -- that's right. But whomever we have also tied up with, Metal Junction, M Junction, who are already facilitating these kind of auctions, coal auction, and they're having good hold in the physical market and other thing. So we wanted to, like a joint venture we were looking --

Analyst: Are you looking -- would you be open to the idea of opening up any SPV or you'll be trying to get everything as of this particular platform?

Satyajeet Bolar: This platform will be used only for...

- DG Praveen:** See, one thing what you have to understand is, SEBI is not overseeing the spot market.
- Satyajeet Bolar:** This will be used only for SEBI regulators.
- Analyst:** So the gold will become...
- Management:** Gold can be there, but not the coal.
- Analyst:** Of course, there is no clarity this point in time. But SEBI, of course, are likely to play large on gold. Because the electronic spot exchanges you talk about, is this gold spot comes in SEBI, right?
- DG Praveen:** Because they are regulating even vault managers, and they are -- in fact, they are not calling it as a physical gold. They calling the EGRs security, converted into that.
- Analyst:** What do you think of starting the gas exchange? I think we were interested and then--
- DG Praveen:** Currently, that is still under -- even I think IGX already have made their inroads. But even that regulations are not placed and GAIL is having the complete control over the pipeline distribution channel, these are all some of the things that have to --
- Analyst:** The idea or you think it's closed --
- DG Praveen:** It's not like we have not closed it or open. It is -- keep monitoring what is happening in the things. If really opportunity arises, why should we look back and --
- Analyst:** Just trying to figure out what is the cost of opening of a new company, is too high for you to invest or ...new platform.
- DG Praveen:** See, there is like -- for any new exchange, if at all anything, there will be some initial costs. You require technology. Apart from technology also require a lot of other investment.

- Satyajeet Bolar:** Settlement guarantee fund, so that's why you have to fund also. And it will take time, there will be gestation period.
- DG Praveen:** But you will be like -- put the investment right away, and will you wait for that very long? We don't know how many days; how many years it will take really. This is one thing really you have to look at it.
- Analyst:** Are the opportunities available for exchanges or they are barred right now, hypothetically who want to buy another exchange. So let's say --
- DG Praveen:** See, currently, it's not that easy technically. It is like regulatory challenges are there. If you want to be in exchange, you want to take it as a stake, you want to take it, you cannot take more than 15%.
- Analyst:** This is the only country, I think, where the exchanges are not allowed to buy another exchanges. There take only upto 15%, right?
- DG Praveen:** 15%, otherwise, you have to -- totally it has to get merged with this entity. That is kind of --
- Analyst:** Look at the other markets ... the exchanges are allowed to hold upto 100%.
- DG Praveen:** Regulations have been there. After that Bimal Jalan Committee, I think there has been either...
- Analyst:** Bimal Jalan Committee, the report has come out... on the products and new categories, like spot exchanges, this takes us to a new category of investors and middlemen or say brokers, new category of investors, SEBI has allowed FPIs, foreign investors to --
- DG Praveen:** They have not allowed so far. In principle, their Board has agreed to that one. So they are yet to come out with the regulations -- final regulations that -- but there -- definitely that one thing really that is -- because for them, it's not like an equity market. One thing we have to look at is, in the equity market, the same company has not traded anywhere else, but same commodity is getting traded everywhere.

So what are the opportunities that you see for Indian market is, one, there could be a lot of cost of carrying arbitrage kind of things happens within the spot market. That means once they come in, they can really can look at price differential that is there between the spot and futures markets, and between the markets also. Globally, they are already operating in a global market. They can look there and here. And their point of view, their strategies, their thinking, definitely they can hear. And they may price the products in a different view considering all their research and all those things. So there are certain elements like, inter-market arbitrage, then you can look at cash and carry arbitrage. Then if they wanted to have to trade in products which is nowhere available in other countries, there also, they can come in.

Analyst: What are the things you can do from our side to increase the FPI trading once the regulation is in place?

DG Praveen: We wanted to make our options. We are driving, in fact, a lot because options is one thing, we have seen good traction and people opted maybe because of various other support regulatory thing, options have picked up. Really, we wanted to pick up this one, so that even when they come up, they can look for a lot of combinations between the futures, options and all those things. Because they have seen all these products for quite a long time compared to the Indian market. So I think once they come in, I think we'll see that this will get ready.

Analyst: Is there any idea about what kind proportion trading volume they have in other emerging markets, something like Malaysia, you know, in crude palm oil...

DG Praveen: Commodities are all together a different – CPO is all together -- like Malaysian market is different. But in Indian market, definitely, they can look for some of our non-agricultural commodities, but what is the share is very difficult to say that. Whatever happens, we cannot expect that everything will happen in one go. Whatever it will be a progressive approach, gradually it will happen. Because we cannot expect all the participants to come under trade immediately. One after one, they'll come and trade.

Analyst: Sir, the mutual funds, are you're seeing some traction out there?

DG Praveen: Currently, their share is very limited, current mutual funds and other things. We, from our side, we are making efforts what we have recently recommended, AMFI also come out with a separate committee for -- within AMFI for commodities, which is not there. Because, we want somebody from AMFI to pick up some issues related to the commodity markets. Like for example, the institutions can hold only for 30 days in case of metals.

Physical -- any physical commodity comes to them. They cannot hold, like in case of gold, they can keep it for 180 days, but not metals. They can keep it. So when you say 30 days only they can hold, virtually if they end up getting a delivery, they cannot even wait, so I think that is certain. There are certain aspects really, that is the bothering the mutual funds. Even the limits, like they cannot go beyond 10% in one single commodity. I think catches are there, which is really preventing them not to come in a very big way. But we have been asking the regulator to accommodate certain aspects, so that they can start coming in.

Analyst: The new brokerage -- the new broker site they can, in like banking, are they --

DG Praveen: In banking, they are doing -- that means we have seen good progress from ICICI and Kotak. They're all, they are doing it. But when you look at this as a percentage to the overall turnover, it may not be roughly around 1,000 crore compared to out of a total turnover of 25,000. So it percentage-wise, it is not a thing. But, it takes some time like, what we have seen is whomever they are getting registered as clients across, now they are becoming the client across the asset class. So that is making the investors open to any asset class, which they would like to trade. And again, this market is a derivatives market. It is not ready because somebody is interested in an IPO, that kind of business won't come here. So it is that--

Analyst: So do you think -- so you're saying only 2 names, ICICI and Kotak.

DG Praveen: Then another like SBI is there and HDFC. And HDFC also is working on some -- their app or something they are working on that one. And there are also some brokers are having some -- especially this bank brokering, they are having some issues related to back office software. So that I think some brokers are

working on that. But all -- if you take all the bank broking firms, I think almost everyone is -- they've made an entry into this.

Analyst: Do you think there has been volume... essential for these changes? And the related question is that does SEBI and RBI are taking some measures or to take some measures to improve in the domestic markets?

DG Praveen: RBI already has done for gold, I can say -- not both, but other things, but for various reasons, they have done for gold. Now it is like today, you would take any entity who is associated with gold, big entities are trading on MCX. Whether same thing will happen in other metals and other things, I think we have earlier also made representations to RBI and also for -- we do not see immediately thing, but we are going and meeting the banks, encouraging there. Because many clients or corporates are their clients, in that way it is like we are saying whenever you are lending and other things because even recent RBI, they come out with a report. In that report also clearly, they have pointed out that commodity risk is a major element to the corporates.

While we can able to create awareness and another thing. And that kind of culture is still long way to happen. That means it can happen over the period of time because they have to look at the book -- both derivatives book as well as the physical books together -- put together and then they have to look at it. That kind of thing is still -- when they see a loss, they feel that it is a big loss, but they have to parallelly have to look at the physical market also. They would have been there. It is a balance between these 2 markets. That is what is hedging is all about.

Analyst: How about the cost side. You are right on the cost side, the order income is really volatile, it is absolutely on quarter-to-quarter.

Satyajeet Bolar: Actually, this quarter, but that is because we had invested a large amount of funds in the mutual fund and they accounted under mark-to-mark. What we have done is, we have started moving a substantial amount of investments into state development loans and other bonds, which we could account under amortized, basically the interest rate goes up further, it will entail that we don't have, and I'm sure you'll be tracking other exchanges also. I've seen other

exchanges. And it is my job to. So I mean, it is -- I realize that I am not as bad as I thought I was. I mean all of sudden it is --

Analyst: Sir, how much is surplus cash?

Satyajeet Bolar: So we have around 1,100 of our own.

Analyst: So what do you intend to do with it. Do we need this so much surplus?

Satyajeet Bolar: One is we are using it for a technology platform. Second is, as you said, you also have, once SEBI comes with approval regulation for co-location, we need some money for providing the infrastructure for co-location. And we have to start investing in special vehicles for the coal project or for any other spot projects, obviously, we need some cash. And the dividend policy say that we pay out 75%. So presently, we pay out 75% of what we earn. And I'm sure if the year is good, it will be increased to beyond 75%.

Analyst: Even that ...large cash dividend cash payout can go up.

Satyajeet Bolar: Yes. We don't intend to hold on to cash.

Analyst: Exactly. So on the cost items, software fees and there is a... which is going to some kind of fixed fees, right?

Satyajeet Bolar: Yes. So the present arrangement with the existing vendor is that we have fixed component as well as a variable which is linked to our transactional charges. Going forward, once we go live with the TCS platform, then the first year will be under warranty, both at first year, then we pay them a fixed AMC. But there'll also be certain other expenses that we did, for example, the software -- the other software that we -- operating software. So we'll have to. And as you know, that many of the software companies have moved from perpetual licensing plan to subscription based. So that will be an annual fee. Plus, there would be an amount of amortization that we'll have to pay. One is for the software itself, which has been delivered, as well as, for the hardware and servers and other hardware equipment, which would be depreciated over a period of time. So, those 2 components will also come.

- Analyst:** On a yearly basis, you don't see--
- Satyajeet Bolar:** Immediately this turnover, I don't think there will be a major material risk. But if our turnover increases, then you don't get any fee... that we'll have to give. So there would be -- it will be EBITDA positive.
- Analyst:** This also brings us to fact that the -- I think TCS was supposed to be available from 1st of September, right? It has got delayed, right?
- Satyajeet Bolar:** Yes. The agreement with present vendor is till 30th September.
- Analyst:** Okay. So if this gets delayed, then what happens then?
- Satyajeet Bolar:** So we have plan A and plan -- I mean, there's various plans. So obviously, we are also speaking to the present vendors, whether we can extend it.
- DG Praveen:** What we have to keep it in mind is -- see platform will be available for 30th September, whether they will be supporting it after September or not is one thing that we are speaking about to 63 Moons. But actually, we look also equally look for support kind of thing and that support kind of thing we're looking for multiple alternatives whatever is there, before we get these TCS.
- Analyst:** Are the TCS already... working on this for a long time, why there was a delay?
- DG Praveen:** See, this is big platform. It's not like -- so many things, all the platforms have developed over a period of time technically, right? Using massive technology.
- Analyst:** So the worst case, we don't expect the delay to be more than 6 months. By April 1, 2023, we should have this new vendor ready with the complete platform, is that a right understanding?
- DG Praveen:** They have given already certain things and obviously we are getting that ... and other things. So it's very hard to fix a particular date to it, like really --
- Satyajeet Bolar:** Obviously, we want to do it before that. But I mean, we know that we have to get a clean release, and then we give it to the -- we do the testing ourselves and then, we give it to the market for the members to test. So that will take

sometimes. But we should get a clean release. Then do our testing and then the market members will also do the test.

Analyst: So how will ... pay for loan, the underlying indices, that were very large or very small to LME...

Satyajeet Bolar: No, we – LME...

DG Praveen: We are not paying.

Analyst: Or CME?

DG Praveen: CME, we pay.

Analyst: Small amount or --?

Satyajeet Bolar: Not a small amount. So I mean if you see, it's a reasonable amount. So there's a threshold. If we cross the threshold, then there's an incremental that you pay. So far in the past 2 years, for various reasons in energy, we have not crossed the threshold, we are within the threshold.

Analyst: On the electricity, what is the timeline you expect given everything happening. Has the committee started working as a committee?

Satyajeet Bolar: I think as mentioned earlier in the call that we are hopeful that it will be sooner because we were expecting it right now the committee, but it's not happened. The earlier it happens, the better it is for even the regulator. And they would be trading on under their jurisdiction and not on CRE.

Analyst: So, just to summarize, initially, out of the total spot exchange coal, gold and TMT, we are not really expecting these come in the next 1 year and only we are expecting an electricity contracts, right? Am I right?

DG Praveen: TMT, we don't know, at any time depending upon the regulatory function it will come.

Analyst: It can come within next 6 months?

- DG Praveen:** Depending on regulatory, but it's not--
- Satyajeet Bolar:** Even the gold spot exchange should start immediately after we go, and this platform is really -- started in maybe 6 months from then.
- Analyst:** So, we just look at certain global exchanges. And for them, the data feed income has been around 10% to 15% of the operating revenues. Currently, it is very less for us.
- Satyajeet Bolar:** If you see, from last year there has been a slight improvement and we hope that we'll be doing better.
- Analyst:** Okay. So entry of FIIs and more algo-traders, do you think that will contribute to--
- Satyajeet Bolar:** Yes. And also probably, we have become a bit smarter in terms of our negotiations...
- Analyst:** Similarly, for warehousing income, it had shot up to Rs. 12 crores in FY '21 from -- it was around Rs. 2 crores. So what was the exact reason for it? And do you think there is any--
- Satyajeet Bolar:** I see that the underlying plays an important role. Because it was very volatile -- yes, silver was very volatile. So it made sense to keep it in the vault. If we keep it in the vault, clients, the members then have to pay the charge, right? So it depends.
- DG Praveen:** Not only the volatility, they see the divergence between the spot and futures. Whenever they see that kind of difference, they feel there is an opportunity that is going to come, and they keep it.
- Satyajeet Bolar:** And they keep it rather than lift it. When they keep it--
- Analyst:** Understood. For the electricity platform on the exchanges, I think you can retain up to 75% on the IEX.
- DG Praveen:** May be there but--

- Satyajeet Bolar:** But their regulator may be allowing that.
- Analyst:** Earlier they are allowed to keep around 100%, which was changed to, which was under new regulation... 2020, its been brought down to 75%.
- DG Praveen:** So 25%, they can?
- Analyst:** They used to keep 100% for SGF, after they've brought down to 75%.
- DG Praveen:** So 75%, they have to keep it with SGF...
- Analyst:** No, to themselves...
- DG Praveen:** Earlier 100%, they can keep. Now it is like only 75%, they can keep it...
- Analyst:** So sir, going back to IIBX. So you mentioned earlier in the calls as well in the first year they'll be having 100 tons then 120 tons and 150 tons for second, third year.
- DG Praveen:** I don't think we would have given any projections.
- Analyst:** So what do you think is there? How much amount of gold will be imported?
- DG Praveen:** What I remember what MD was telling is, there are some agreements that happened between Dubai and India. Wherein if they route it through this exchange, they get a concession. So under that one, I'm telling -- you may be telling that, okay, they may prefer to trade under this one and all those things, so that there could be. So it's not limiting to any like Dubai and other thing. It is like certain opportunities are coming. Already some qualified jewelers have already registered themselves as a qualified jeweler. As and when they wanted to import, they may avoid using the channelized agents and they may start.
- Analyst:** And as a hedging purpose, you believe that they'll come to MCX, too?
- DG Praveen:** Yes, that means when they -- suppose they wanted to have a gap between when they wanted to bring it to the domestic side of it and they feel certain opportunities, then definitely, they can use MCX. So we see that these 2 platforms will complement each other rather than compete.

Analyst: And so earlier you have also mentioned that you're not really focused on the agri turnover. But--

Satyajeet Bolar: But where we are, I think we're leading, isn't it?

DG Praveen: See the agri, the way it happens is wherever we are there, we are leading. Like I can say that because commodities like cotton... which used to be very well, unfortunately, even though it is not of any reason, it was suspended. And that was one thing. So currently, like cotton, mentha oil and we have -- we can limit mainly to mentha oil.

Analyst: But do you believe any kind of farm reforms, which will help you focus on this business going forward?

DG Praveen: See, agriculture is always politically sensitive thing. So whatever is there, we cannot expect that it will happen in a big way.

Analyst: Sir, recently, that farm bill was taken back. Do you think there are certain provisions which would have helped us?

DG Praveen: Whatever it comes, it won't. Because this -- slowly it will impact.

Analyst: And sir, earlier, you also mentioned that option turnover for August and July - - August as well, that it has surpassed the futures turnover and cumulatively for the month.

DG Praveen: Not all. Some days. Cumulatively, number I don't have. But at least I remember that there are days where -- in many days it has surpassed and we expect, going forward, it may happen also because trend is, a lot of people are looking at options.

Satyajeet Bolar: And even the equity market--

Analyst: ... monthly? I think there is some development going on. Monthly will be standard.

DG Praveen: But daily if you're doing...

- Analyst:** Depending on the volatility and the things the option premium changes and so total turnover and--
- DG Praveen:** No, no. When you take daily premium turnover--
- Analyst:** It is not available, trading the statistic side -- I could take a snapshot at the end of the day. Take a snapshot of at the end of the day. Currently it is only the month end statistics--
- DG Praveen:** So that is called market statistics. In the market statistics, you get it... no, it is premium turnover, we give it. Daily market turnover. I will show you...
- Analyst:** They were tracking because--
- DG Praveen:** No, no. Market, we give it. Market turnover, I remember. I will tell you. We are giving almost everything available, whatever is market statistics.
- Analyst:** Trade statistics, you'll get it. For the month, you won't have -- for the day. So if I go to the historical data and collect it for the last 10 days, you won't get it for which...
- DG Praveen:** Because we are putting Bhav copy on a daily basis, I'm not sure, because -- I thought it is available, but maybe I need to look at it. Bhav copy anyway is made available. Historical Bhav copies are also available, right?
- Analyst:** Bhav copy is there.
- DG Praveen:** You can. Commodity wise also, you can look at what is the amount which has been--
- Analyst:** So on the transaction charges, of course, we haven't raised it for...
- DG Praveen:** We don't want to tinker about at this hour **(Inaudible)**.
- Analyst:** But 2, 3 years down the line, how do you decide?
- DG Praveen:** Currently, the rates are very much comparable to the equity markets...

- Analyst:** The rates are almost similar for the options.
- DG Praveen:** So you have to see the trend. Now it is too early to say whether -- because if you take equity market--
- Analyst:** But why did you lead to the turnover compared to the other bourses in the other developed market related to side of the...
- DG Praveen:** Internationally, they charge based on the lots.
- Satyajeet Bolar:** The equity as well as the market ecosystem used too --
- Analyst:** Last one from my side. The cost of trading and auditing is a big cost of...
- DG Praveen:** We are significantly different. We are very expensive compared to global markets. Because there is commodity transaction tax, which itself is quite significant – Rs.10 per... on sell side. Then you have stamp duty, another Rs. 2 on either side. Then GST, the exchange fee as well as again, your brokerage...
- Analyst:** Anything you are looking forward to on the regulatory side, to improve the volumes at the commodity exchange and in general, for the industry. So looking forward to it, which can happen, which may happen, which the government is working on, they are not happy about something, possibly.
- DG Praveen:** Some of the things we are looking at, certain relief on SGF they give, that is a big thing that really we can get it on the margin side, we can able to really help market participate.
- DG Praveen:** GST side is another thing.
- Satyajeet Bolar:** That will be a price setter. And then we should encourage our domestic players to take, so I mean, those pains that you don't need to have registration in each state because GST is destination-based standard. So those issues if this resolved looks very frankly... its political, with different states, having their own rules. So it looks difficult, but that would help a lot.
- Analyst:** Sir, we are done with our questions.