

MCX/SEC/1737

September 13, 2019

BSE Limited
Department of Corporate Services
Phiroze Jeejeebhoy Towers
Dalal Street
Mumbai - 400 001.

Ref: Scrip code: 534091 Scrip ID: MCX

Subject: Transcript of the conference call with investors on "MCX Investor Update"

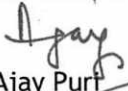
Dear Sir,

Please find enclosed herewith transcript of the conference call with investors held on September 05, 2019 at 4.30 p.m. IST, on "MCX investor update".

Kindly take the same on record and acknowledge receipt.

Thanking you,

Yours faithfully,
For Multi Commodity Exchange of India Limited


Ajay Puri
Company Secretary



Multi Commodity Exchange of India Limited Investor Update Call

September 5, 2019



MANAGEMENT: **MR. P. S. REDDY - MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER,
MULTI COMMODITY EXCHANGE OF INDIA LIMITED**

**MR. SANJAY WADHWA - CHIEF FINANCIAL OFFICER, MULTI COMMODITY
EXCHANGE OF INDIA LIMITED**

**MR. NARENDRA AHLAWAT - CHIEF EXECUTIVE OFFICER, MULTI
COMMODITY EXCHANGE CLEARING CORPORATION LIMITED**

Moderator: Good day, ladies and gentlemen, and a very warm welcome to the Multi Commodity Exchange of India Limited Investor Update Call. We have with us today on the call Mr. P S Reddy - Managing Director and Chief Executive Officer and Mr. Sanjay Wadhwa - Chief Financial Officer of the company. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I am now glad to hand the conference over to Mr. P.S. Reddy. Thank you and over to you, sir.

P S Reddy: Thank you. Good Afternoon, everybody. Welcome to this conference call which I have decided to have it primarily to address the recent social media attack, some mischievous what you call, so-called whistleblower complaint that was filed with SEBI and then that was further given leg up or prominence in social media network. I thought I should put to rest all speculation and have a concall with you all to clarify and reassure that MCX in safe hands, you do not need to worry about anything and if there is any problem, I myself will come and tell you there is a problem. Okay? That is a kind of my forth righteousness that I want to present to.

With me, Mr. Narendra Ahlawat who is the CEO of the MCXCCL and who will be primarily looking after the warehousing part of these.

But I will tell you what essentially the complaint is all about. Somebody by name Charul Singh who himself is a fictitious name, a pseudo name or a pen name you can call it even for writing anonymous complaints, nowadays pen names were being used and he is not an employee of the company and he sends to SEBI, telling that there is a lot of malpractices going on in the company. There are four issues that they have raised. This complaint was forwarded by SEBI to us on 27th and then they asked us to respond. So, meanwhile, I think he had also shared his complaint via social media network and that is how it got further circulated and created what to call media trial I would like to call it a media trial or social media trial of MCX. Now, if we look at the items, serious malpractices in cotton trade during the period November 2018 to June 2019. In that, he has alleged two of our valuable customers who have been international traders have delivered the

stock and that stock was not of good quality but then we have passed it off to the investors who have bought on the exchange platform. Here, I would like to clarify that those two participants have been participating on the exchange platform and from say November till maybe May-June they were net buyers on the exchange platform, they took delivery and the same delivery quantity which is kept in the warehouse was sold back in the market by them. So, there is no new stock that was delivered by them against their obligation. So, whatever they received as delivery, they sold it off because they are big trading firms. Nothing amiss out here. This is one part of it. They have taken some names also of one person who received that delivery.

One thing I want you all to appreciate is that we have a mechanism of dealing with any complaints. If anyone has a complaint, he has an opportunity to retest the material. So, we always give that opportunity.

Now, in one instance, sometime in June maybe, when we received a complaint about a small quantity, I repeat it is a small quantity, we ourselves at our end got it tested and found that the quality and parameters are as per the contract specifications and the delivery is lifted. There is absolutely no problem about anything, and the deliveries are being lifted, it is not that overnight these will happen. In any case, people tend to keep the stock because there is an opportunity on the trading platform that they can deliver it back on the exchange platform. That is the reason why they do not move in and move out unless they want to take it and then do further processing of cotton. That is the way it has happened.

Then the second thing that they have raised is siphoning money abroad by altering the contract to higher value. This is absolutely... I do not use very bad word, but then it is nothing but a scandalous allegation that they have made. We did enter into an agreement last year sometime in July-August with PESB, it is a UK company which was shortlisted after following the due process. There were three other vendors for that software. That software is essentially for a gold spot exchange and (NG) natural gas spot exchange also because the thought was there in the government to have a gold spot exchange and NG spot exchange and we want to be there in that space as well. So, we wanted that platform to be done by them. That contract value for software alone is not more than Rs.20 crores. Now that contract even as I am speaking with you, it has not been increased. The contract

specifications have been as agreed upon in the agreement. And if there are any enhancements required, the enhancements will be taken care of by our internal team. So, we will be strengthening our internal technology team to take over that software and then do the needful. There were about 22, 23... I do not know the number of sprints, that is what they are delivering, but 18th or 19th sprints is going on. And once that software is ready, we will be taking over that. This is what the plan of action at this point in time. But be assured that we have not increased the scope, we have not given out any extra money. And even the allegations that our chairman and Mr. Paranjape were to travel together, all is a figment of imagination of the Charul Singh, the so-called anonymous pseudo employee.

The third element of it is unable to handle delivery of gold for MMTC-PAMP India. In this, what happened was you all know that we have three vaults where deliveries are given. These three vaults are major vaults which are base vaults which are at Ahmedabad. Ahmedabad has been our delivery center since inception and before the GST regime has come, Ahmedabad was chosen as a delivery center, now the GST anywhere it could be but then we did not change the Ahmedabad base. Now, we had about Rs.500 crores of insurance cover with Brink's Arya, Rs.1,000 crores with Malca, another Rs.500 crores with Sequel. These are the three vaults. All are based in Ahmedabad by the way. Okay? Now, one of our major customers wanted to deliver... whatever the amount. So, why they wanted to deliver there? Because they already have a relationship with Brink's Arya. So, it is just changing the accounting from that client's name to our name without physically moving the gold.

Now, if you understand the process, probably you will appreciate how easy or difficult to attend to this request overnight. Whenever the delivery settlement takes place, intent is given by 7 p.m. in the night on the last day of the trading or the first day of the staggered delivery period. 7 o'clock in the evening is given. And next day morning 11 o'clock is a pay-in. So, this particular thing has come on that day evening and the next day morning the pay-in is 11 o'clock and probably this was not realized the gravity of the situation. But then now we have addressed it, we have requested them to increase the insurance cover and they could not do it overnight. So, the gold was moved from this vault to other two vaults where we have a higher insurance cover. But all in all, at that point in

time, we had Rs. 2,000 crores cover, now we have increased it to Rs. 3,000 crores. Now, including sequel has become Rs. 1,000 crores, so is the Brink's Arya cover. So, currently, we have Rs. 3,000 crores cover. We also decided to take what you call a floating cover where we will be able to extend it to any of the vaults wherever that thing gets devolved. So, this is what we have decided post that. There is a statement that we are unable to handle the delivery of the gold. I think we have handled it much more than this and we reassure you that we can handle even the double the amount also, not at all an issue, we are geared up, understanding the needs of the markets, understanding the requirements of the participants.

The fourth one is the rampant support to algo trading without visible retail participation. Now, he claimed the top-15 members anyway generating 90% of the volume. Most of the volume today comes from algo trading. This is the way there is no retail participation, is the complainant says. As I told you in my previous interaction on the con-call that algos contribute about 35% of our total turnover. Of course, they are equally important; they are very valuable because they provide the liquidity for our platform. Without liquidity we will be nowhere. So, we should appreciate their participation, their contribution as well. That does not mean that we have ignored all others and we have not focused bringing more and more participants or other types of participants on to our platform. That is the work-in progress and I think it is all the time happening at MCX. We have been engaging with a lot of hedgers and we are engaging with a lot of direct consumers who consume these say for example metals, gold and we also engage with the producers of these products and it is a continuous development process and I reassure you that it will continue to be there and as long as we are here at the senior management reassure you that we will do our best to maintain our market share. It is not just the market share. We will ensure that the development of the market is taken forward and all aspects of the development will be taken care by us. And at no point in time, you will be feeling that we have let you down. This is my reassuring to you. Thank you. Mr. Narendra, would you like to some...?

Narendra Ahlawat: From the clearing corporation perspective, I would like to reassure you that whatever allegations have been raised here, there is no truth in that and we are assuring with respect to the quality that are there in the warehouses and we do not see any issues with respect to delivery and with

respect to gold also we are totally geared and as already mentioned we have already increased our insurance and that has already taken care and this month's delivery for gold has already happened without any issues. So, that is where we are.

P S Reddy: Let me also tell you there are a lot of robust inspections that takes place from the clearing corporation side and they keep constantly verifying the stocks, quality and quantity. It is not only by the internal team but also the external auditors. So, no one has pointed out. And out of the blue, somebody sends a letter and then led to the crashing of our stock prices. Of course, we have also appealed to SEBI to have the entire stock crash investigated to ensure that the culprits are brought to book. We do not want to leave it at this stage, we have already consulted our lawyers and various options have been given, probably a multi-pronged approach is needed to nail the culprits and we will be doing it, and as I said earlier also, we will go down to the bottom of the pit to bring the culprits to book. Thank you so much.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. The question is from the line of Sun Tianyuan from Prusik Investment Management. Please go ahead.

Sun Tianyuan: I just have a question. Could you explain a little bit about your gold delivery process because you mentioned the delivery for gold this month has already occurred and not an issue that will be very useful?

Narendra Ahlawat: We have different contracts of gold. The main gold contract is 1 Kg which is bi-monthly which means that it will come for settlement in October first week and we also have a mini contract which is 100 gms contract which settles every month. So, this 100 grams contract has already settled and that is what I was mentioning that this month we have already settled the gold contract successfully.

Sun Tianyuan: A follow-up question. I am just wondering with the delivery schedule obviously for gold either bi-monthly or settles every month, is it the similar schedule for the different contracts you have or the settlement frequency vary whether it is base metal or other commodities?

P S Reddy: For gold it is a staggered delivery, so, the delivery takes place over a period of five days. For base metals, at this point in time it is at the end of the month and the SEBI has mandated for all products they wanted us to move over to staggered delivery from October onwards. So, we will be scheduling staggered delivery. Staggered delivery essentially happens over a period of five days, whatever the time that we choose first day of the delivery period, then over the next five days the delivery takes place. Now the delivery also takes place at the seller's choice. So, seller commits that I want to deliver so and so stock. Then that stock gets randomly allotted to the outstanding contracts. The outstanding contract whosoever got allotted, they have to provide for funds the very next day by 11 o'clock.

Sun Tianyuan: Do you mind go into a little bit of more details regarding the second point that you mentioned that you had entered into an agreement with a UK company PESB and they were in the process of developing a software for your gold spot exchange?

P S Reddy: I really do not know what you are looking for more details in the sense but the development is in progress as I said and testing has been happening. As I said almost 80% of the work has been done. 18th sprint is what is pending at this point in time. And once that is fixed, maybe the next major will come in the 19th and each sprints takes about two weeks. So, there are 22, 23 sprints. So, that is what the PESB contract is all about. Yes, they do come here once in a month, interact with our team and then they have discussion one-to-one, understand the niceties of the product and then fix them if there are any bugs, etc.,

Moderator: Thank you. The next question is from the line of Kunal Thanvi from Banyan Tree Capital. Please go ahead.

Kunal Thanvi: Just wanted to understand again on the spot exchange where in the middle of buying. So, can you help us understand at what point of time we would be buying this software as such, when it will flow to our financials as the CAPEX -- is this year or next year?

P S Reddy: It will be this year only but then partly it has already been capitalized.

Sanjay Wadhwa: So, it will continue to remain in CWIP till the time the delivery happens and in all likelihood this will eventually get capitalized in the subsidiaries or

rather the entities which will get incorporated for the spot exchange purposes.

P S Reddy: We do not know the regulatory framework as yet. We have no clarity. If it comes within SEBI, probably it will be within this company, but then if the regulator himself is different and then we end up floating a new company and then taking this product into that new company, it is that way.

Kunal Thanvi: It would depend upon the approval that we get from the regulatory authority?

P S Reddy: As yet gold spot exchange regulatory framework is not in place. Primarily we are looking for India gold standard which is getting what you call published by the government standards bureau. And once that is published, then there should be a regulator who will be monitoring that part of standard. That is the Indian refineries which are producing. That we need to be marketing aggressively and that is what the regulation is all about. Looking at how do we encourage the domestic spot trading is what it is.

Kunal Thanvi: These 20 crores would have both, right - natural gas and gold?

P S Reddy: That is what the old contract is all about, but yes, there is what is called a minimum viable product what was agreed upon in the contract. So, it will not have all features but then it is a minimum viable product, ready to launch kind of thing. As we go along, depending on the requirements, the add-ons will be built in-house by taking additional people on our roles and then we will be developing in-house. But the IPR rests with us for this and the matching engine is for which we need to pay them, the AMC. In the contract it has been provided that we can even buy it out also that matching engine if we pay whatever is the terms that has been agreed upon.

Kunal Thanvi: That is an ongoing process for all that you would buy, you have to build on them as you go along, right?

P S Reddy: That is right.

Kunal Thanvi: Out of this Rs.20 crores, how much has already been capitalized?

Sanjay Wadhwa: It is all lying in CWIP at the moment. So, it is not capitalized as yet.

- Moderator:** Thank you. The next question is from the line of Hiten Jain from Invesco. Please go ahead.
- Hiten Jain:** If I understood correctly on point #3 where the complainant is saying that we were unable to handle delivery of gold. So, this was basically because we did not have sufficient insurance cover. Was that the only reason why we were not able to handle the delivery?
- P S Reddy:** That is the way we understand. There is nothing that we need to worry. When big deliveries come on the exchange platform, maybe we need to arrange for the funds also. Currently, what is happening is the post the intention is given after 12 in the midnight, the allotment happens to the outstanding contracts. Then that broker has to provide for the funds overnight and by 11 o'clock the pay-in. There is hardly any time for arranging for the funds. As a clearing corporation, they are responsible to ensure that smooth handling of funds as well as the delivery. From the seller point of view, what was said in that letter is unable to handle the delivery of gold for... the investor name, I do not want to say, but then this is what they have said it.
- Hiten Jain:** I missed your response to point #1 on cotton trades. Could you please help me understanding that?
- P S Reddy:** We are saying essentially at this point in time we have nothing to worry about the cotton deliveries which is happening and wherever anybody has asked us to have it tested, they got tested and then delivered. There is absolutely no problem. The test results are as per the contract specification. This is all we can say.
- Sanjay Wadhwa:** Hiten, we will be anyway uploading the transcript. So, you can go through.
- Hiten Jain:** Any future course of action that you are planning to take against the complainant or anything?
- P S Reddy:** That also I have already said that we have consulted our lawyers. They have given half a dozen options. We may not go with only one option but two, three options we will be considering and then going ahead. And as I said already, we have lodged the complaint with SEBI. Probably somebody wanted to play in the market against the stock price. That is how the stock

got crashed. We want them to examine who are all the beneficiaries and if there are any culprits, they should be brought to book for floating this kind of rumors.

Moderator: Thank you. The next question is from the line of Ashish Chopra from Motilal Oswal Securities Limited. Please go ahead.

Ashish Chopra: Thanks for the clarification, Mr. Reddy, I wanted to know if you could also take the opportunity to address one of the earlier whistleblower complaints which was relating to the data access and data theft by IGIDR and if there is any status on the same because there was a lot of media coverage on maybe SEBI looking into that matter as well?

P S Reddy: It is unfortunate that the media is giving more importance to this kind of frivolous complaints than to the substantive issues and rumors questions. And obviously, if somebody floats some rumor, then 10 more people ask questions, then that becomes a big news out of it. Even in the earlier complaint also, we have furnished all the information to SEBI. We have not found at least at our end anything theft or anything of that kind the word that you have used 'theft' and the data that was shared is the data that was beginning of the day it was given. But yes, whatever the deliveries that we expected from the IGIDR some have come, some did not come. So, the action has been taken concerned people as guided by SEBI, that is it.

Ashish Chopra: Will it be fair to assume that matter has been put to rest or is there something that is still ongoing?

P S Reddy: I understand at this point in time that it is more or less put to rest from my side. Whatever action has to be taken at this point, that has been taken. That is an internal process action against the employee.

Moderator: Thank you. The next question is from the line of Mudit Minocha from M3 Investments. Please go ahead.

Mudit Minocha: Thanks for the clarification session, I just had two questions: One is can you quantify what is the client concentration with respect to revenue, say top-20 or top-30 contributors?

P S Reddy: I am not talking about the financials here in this conference call. I have come to talk about with respect to some of these allegations that they have made.

Mudit Minocha: I understand but this creates an issue in investors mind that this algo traders which are about 35% of the entire revenue pool, so we would like to know what exactly is the downside per se if any of these particular accounts that disturbed?

P S Reddy: As I said, they continue to have that. There is no problem I noted. And they are the brokers.

Mudit Minocha: The second question was what is the role of board for the appraisal mechanism of the decision making in the material needs, so for example, if say this particular software that we are talking about? Is there any board appraisal mechanism?

P S Reddy: Substantially, the requirements are gathered by the operations teams concerned, and what the product required and how the product to be configured is the responsibility of the management and the teams down the line. So, it is nothing to do with the board. Having given the requirements, there is a process of floating an RFP and then inviting vendors and PESB allotted against three other vendors who have competed for that project. So, there is a process involved in all these cases and that is happening. That is we have called (SCT) the Standing Committee on Technology and we go final approval to them and which approves and thereafter the board approves it. The Standing Committee on Technology involves two, three professors from IITs in addition to board member.

Moderator: Thank you. The next question is from the line of Harsh Saraswat from Girik Capital. Please go ahead.

Harsh Saraswat: Just wanted a clarification on the resignation of Mr. Prithvi Haldia today in the morning.

P S Reddy: Mr. Haldia has requested him to be relieved even in the last meeting itself that was held in July. I do not know whether you have seen the full clarification that we have uploaded. He has heavy commitments in Ibaadat Foundation and Rekhta Foundation, two are there and he has been

organizing these cultural programs; Ibaadat Show is coming up on 4th October in Mumbai it seems, starting and events in Jaipur, Dubai, Kolkata, Delhi and his both time and mind commitments are more on that and he said that look, I will not be able to spare because he thought of organizing it maybe little later but then it transpired that they are coming earlier than anticipated, that is why he has put in his paper. It is nothing to do with any of the rumors floated about the MCX. And he has clarified it, in fact, we have uploaded that already on this one.

Harsh Saraswat: So, we should take this as a mere coincidence that the resignation is just coming one day after the allegations have been put?

P S Reddy: Trust me it is a mere coincidence. That is it.

Moderator: Thank you. We will take the last question from the line of Aksh Vora from Praj Financial. Please go ahead.

Aksh Vora: Just wanted to know what is the cash and (SGF) Settlement Guarantee Fund?

P S Reddy: SGF is about Rs.360 crores...but that is an SGF. But the entire margin pool is more than Rs.3,000 crores, that is what Narendra is confirming.

Aksh Vora: Is there any significant change in the balance sheet what we have updated in the last March?

P S Reddy: It has not changed, only accruals are happening because we are making money because the markets are good, and everything is going on well.

Moderator: Thank you. That was the last question. I now hand the conference over to the management for their closing comments.

P S Reddy: Thank you so much and I hope all of you got the true picture about the rumors that are being floated in the market. Please do not believe any of these rumors. Anytime you are in doubt, please call me/send me an e-mail. We are all available to give you ample clarification and you can also meet me personally if you have any issues. Again, I repeat that the board will not let anything go wrong and the management will not let anything go wrong, all of us here to see that all stakeholders confidence and their expectations

are met, that is the way it is, we never let you down, that is my assurance to you. Thank you so much.

Moderator:

Thank you. Ladies and gentlemen, on behalf of Multi Commodity Exchange of India Limited that concludes this conference call for today and you may now disconnect your lines.