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

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**Subject: Transcript of the conference call with investor/analysts on Q2 FY2020 results**

Dear Sir,

Please find enclosed herewith transcript of the conference call with investors held on October 15, 2019 at 6.30 p.m. IST, on Q2 FY2020 results.

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 Commodities Exchange of India Limited Q2 FY20 Earnings Conference Call”

October 15, 2019



**MANAGEMENT:**    **MR. P.S. REDDY - MANAGING DIRECTOR AND CHIEF  
EXECUTIVE OFFICER**  
                          **MR. SANJAY WADHWA - CHIEF FINANCIAL OFFICER**

**Moderator:** Ladies and gentlemen, good day and welcome to MCX Q2 FY20 Earnings Conference Call. This conference call may contain forward-looking statements about the company which are based on the beliefs, opinions, and expectations of the company as on the date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict.

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 telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. P.S. Reddy - Managing Director and Chief Executive Officer. Thank you and over to you, Mr. Reddy.

**P.S. Reddy:** Thank you. Good evening, everybody. Thank you for attending this Q2 conference call. The few highlights of this quarter I must share with you. This quarter is the highest performance we have recorded since levy of CTT in the form of half yearly ADT we surpassed Rs. 30,000 crores mark. Today, for the first half year we have about Rs. 31,054 crores ADT, average daily turnover. Similarly, the exchange's turnover has crossed Rs. 50,000 crores mark, making a six year high on 12<sup>th</sup> September 2019, so it was about Rs. 50,791 crores. Similarly, MCX Gold contract has witnessed a record delivery of 5.2 metric tons valued at Rs. 1,821 crores. And this is the highest ever achieved in MCX. The open interest also recorded a six year high of 34.57 million metric tons on 26 July, 2019. Similarly, we have crude oil, a lifetime high of Rs. 26,622 crores, the turnover we have achieved. And MCX cotton contract, which is our flagship agri contract, has a record delivery of 3.9 lakh bales delivered, which is almost all 119% surge over 1.8 bales delivered during the previous cotton season.

So, with these numbers, obviously I don't have to tell you, our financial results also look very bright. One, it's important to know that these numbers have been achieved despite a lot of competition in the market, of course, and a lot of efforts made by the competition in the form of various discounts offered for trading on the respective exchange.

With these, I will ask Mr. Sanjay Wadhwa to speak about the numbers. And thereafter, we will take over on questions-and-answers.

**Sanjay Wadhwa:** Good evening, everybody. So, due to a very good operating quarter we have got some very good financial numbers. Our total income was up 55% as against corresponding quarter previous year. The operating income was up 41%. Our EBITDA margins have improved significantly by 103%, and our PAT margin stood at 50% for the quarter are at 100% as compared to the corresponding previous year. So, all in all, to sum up, I think good volatility supported by some very favorable yield moments, and some good cost control has resulted in a fantastic set of numbers.

So, now we are open for questions.

**Moderator:** Thank you very much. We will now begin the question and answer session. First question is from the line of Kunal Thanvi from Banyan Tree Advisors. Please go ahead.

**Kunal Thanvi:** So, basically, I had one question regarding our press release today, which mentioned Mr. Sanjay Wadhwa putting down his resignation. Can you throw some light on what would be the reason for the same?

**P.S. Reddy:** Just got better opportunity, nothing else. And he is a young man, and obviously when he is young you should earn more, that's maybe the reason why he is moving on.

**Kunal Thanvi:** And one thing, so I have been talking with some of the creditors to understand how F&O really works in commodities. So, one feedback that we received was, the slippages in crude contracts are very high, can you throw some light on that, in terms of the price at which a trader wants to trade and the order actually gets traded there is a slippage very high there. Can you throw some light on that?

**P.S. Reddy:** Well, I am not able to understand, because no one has ever complained to us. And the market is their touch line is so fast it is changing that's a different matter. But I am not able to understand the question in what sense that a trader is not able to trade at the price that he wants.

**Moderator:** Thank you. The next question is from the line of Haresh Kapoor from IIFL. Please go ahead

**Haresh Kapoor:** Just want to understand in terms of the outlook from the growth side on the volume front. So, obviously for Q2 you had, or the commodity features had average of around Rs. 34,500 crores. Now just looking at the October number, obviously you had a very good Q2, but though it's a very small sample size, just looking at commodity futures for the month of October, it kind of is at Rs. 28,300 crores on daily average. So, just want to understand, do you believe Q2 was just pretty good in terms of gold volumes etc., or basically it's kind of fallen now, so the momentum can be continued or was it more of a one-off kind of quarter or you just want to get from color on the volume front from your end?

**P.S. Reddy:** Well, the two things that we have to remember, one is that the first half of the year, our average ADT rather, is about Rs. 31,000 odd crores, Rs. 31,055 crores. Of course, Q2 has contributed substantially, but Q1 also did reasonably well. Now, this is one point. And we are hopeful that this volatility continues this way then we will be able to manage it, we will be able to maintain it. Now, at this point in time, yes, these two are the major contracts, both gold and crude; but once the cotton season starts even that is expected to contribute. And we are expecting many more commodities to come into the basket of MCX which we are expecting to trade activity. And then of course we are also planning to launch index futures and work is going on in full swing, probably we will be able to file our contract with SEBI for approval soon. And apart from these things, custodian piece is going to be put in place sooner than later. And once that is put in place, maybe some of the mutual funds will start participating into this space. And with all this, and we are bullish about it, but notwithstanding the revenue part we are more interested in controlling the cost which is in our hands. And while the revenues can fluctuate, but then cost can always be controlled, that's what our firm believes. That's why we have been able to achieve this kind of numbers. With the revenues increasing, our costs have not gone up, in fact it has come down, that's the way it is.

**Haresh Kapoor:** The second thing, I think you commented on the initial question too, but regarding the resignation, just want to understand, does it have to do anything with the whistleblower letter as such, that such a decision has

been taken or some color around why this has taken, you know, with some of these events happening in the background?

**P.S. Reddy:** See, rumors thrive on questions, so the more questions we ask the more rumors will thrive. I am of a firm view that there is absolutely nothing of that kind on the part of Mr. Sanjay. And he is going to pursue his other interests. In fact, he got a better offer than what we have been able to offer, that's why it is.

**Haresh Kapoor:** Okay. Sir just one thing from my end, so on the cost front, obviously, you spoke about some initiatives that you have taken in terms of controlling that side. But, at the end of the year how do you kind of look at the cost growth, and what could possibly be the margin targets or any color from the cost side that you could give would be pretty helpful.

**P.S. Reddy:** Well, we will not be able to give any targets as such, okay, what we are going to achieve or what we are going to fix for the cost control. But it is our endeavor to control every bit of the cost that comes in our side and see that our expenses are fully under control.

**Moderator:** The next question is from the line of Hiten Goricha from Joindree Capital. Please go ahead.

**Hiten Goricha:** So, congratulations on very good set of numbers. I wanted to know the other income has gone up from year-over-year also and quarter-on-quarter. So, how do you explain that?

**Sanjay Wadhwa:** So, other income which primarily comprises of our treasury income, that has gone up because of some very good favorable yield movements, as I pointed out earlier. So, we add some investment in some buckets, and yields have moved very favorably for us. Even on our tax free bond portfolio, we have got a very significant mark-to-market gain.

**Hiten Goricha:** Okay. So, is it fair to assume that Rs. 30 crores run rate is the right run rate for the other income? Because the other income has gone up significantly in this quarter, it has gone up by almost Rs. 14 crores, Rs. 15 crores.

**Sanjay Wadhwa:** I mean, see, it all depends on yield movements. So, if the yields stay where they are currently, I think anywhere between Rs. 25 crores to Rs. 30 crores is a reasonable expectation. That's the way I look at it.

**Hiten Goricha:** And sir one more question, your EBITDA margins ex of other income has gone up from 34% to 47%. So, what do you think like 47% can more operating leverage play out as volumes increase?

**Sanjay Wadhwa:** So, what has happened this time is, as you know, our variable element of the cost is pretty small, and fixed cost we have been controlling very well. Which gives us very good operating leverage. But what has happened this quarter is that even on the variable cost front we have some reduced expenses on account of a fee which we earlier used to pay to LME has stopped because the metals contract has become deliverable. So, all these things put together has resulted in a good increase in EBITDA margins.

**Hiten Goricha:** And one more thing, the average daily turnover has been Rs. 34,000 crores, what we have reported. This is many attributable to volume increase in the contract or volume, how do we try to make sense of that?

**P.S. Reddy:** It's both, in some contracts both have gone up.

**Moderator:** Thank you. The next question is from the line of Kunal Shah from Edelweiss. Please go ahead.

**Kunal Shah:** Sir, firstly in terms of the volatility, if we look at the volatility way it's been over last one quarter and compare it when earlier we had this kind of volumes, and purely volumes not looking at the price increase. It seems like this time the moment in the overall trading volume has been much ahead of the volatility. So, what could be the reason for that, is it because of the investments are made and whether this would be much more sustainable because finally volatility is still lower compared to FY12 to FY14. So, just wanted to get the sense on that.

**P.S. Reddy:** Well, volatility alone is not the reason, but volatility is the reason for more participation to come into the market. So, the participants have substantially increased in all these contracts and that has brought in this additional turnover.

**Kunal Shah:** Yes, so let's say in gold contracts if say volatility still continues to be somewhere around say 13% to 15% odd on say a 20 day average, while earlier when we look at it say in 2013, 2014, it moved up say upwards of 25%, 30% odd, so that was quite high and at that time we touched a peak of almost like Rs. 8,000 crores kind of average daily volume in gold. This time actually we are not now seeing that, but obviously the moment in the gold or trading volume is quite huge. So, maybe no doubt the volatility drives the participation, but is there any other aspect which is leading to there, either in terms of the expansion or why more participants coming through?

**P.S. Reddy:** Yes, we do conduct on a one-to-one basis a lot of major users in, for example jewelers, major jewelers are being approached by our teams and marketing teams and one by one participating into this market where they are taking positions in this. So, that is leading to a good growth in this. Similarly, we have also experienced this kind of thing in other contracts also. And I think this kind of awareness programs, it's not just awareness programs means like investment awareness programs, you call them for a meeting and then just gathering a 20, 30 people and then give them bhashan, no, that's not the case. Engaging on one to one basis is helping us to gain this ground.

**Kunal Shah:** Okay. And so one is in terms of this, and secondly, in terms of the variable cost, so say the overall software charges, the major part of software charges were still variable, but this time if we look at the increase which has been there on a quarter-on-quarter basis, it's been harder like 10% compared to 25% growth in revenue. So, can you just give us the split in say the software between the variable and the fixed component?

**Sanjay Wadhwa:** Which item are you looking at, if you can just tell me then I can show. In the results if you are looking at...

**Kunal Shah:** Sir, the software support charges and the product license fee...

**Sanjay Wadhwa:** Sir, it's a combination of two.

**Kunal Shah:** And that's combined and even like computer or both put together cumulative one.



**Sanjay Wadhwa:** So, to be precise, there are four elements in that particular line item, one is the variable cost that we pay to 63 moons then there is a fixed cost which again is fixed, it does not vary with the turnover at all, then there is a license fee that we pay to CME and LME. So, while the variable element of the software support charges has gone up in line with the increase in the transaction charges, the technology expense has remain fixed, CME expense also is variable in nature, but the LME expense, as I told you earlier, has become nil for this quarter, because all of our contracts have now become deliverable.

**Kunal Shah:** If I can just read the quantum, maybe what was LME license fee last time, and what has become nil this time. And even in the variable if you can just let us know in terms of earlier we used to have that when there was an agreement earlier, it was like say 10% of transaction fee plus something of the fixed. So, now maybe if you just want to evaluate as to how it moves along with the volume or the transaction income, how should we maybe correlate that?

**P.S. Reddy:** So, see as far as the CME is concerned, it still holds good, so it has almost all touched the minimum whatever we have committed. When it comes to LME, it has not touched because we have terminated, you know, not terminated, I would not say it is terminated, we are discussing with them that we will not be able to pay any longer this kind of fee. But we shouldn't be disclosing because of the confidentiality clause in the agreement, we will not be able to give out what figure that we are actually paying out to them.

**Kunal Shah:** Okay. But just the variable component in terms of as a proportion of the transaction fee which goes out?

**P.S. Reddy:** That's also a percentage to this one, so we will not be able to disclose that percentage. It's a part of the agreement. The part of the transaction fee that we charge on those commodities for which we are fetching the prices from CME. So, we will not be able to give that out.

**Kunal Shah:** Sure. And thirdly, in terms of the overall text, I think whatever was going on with respect to few of the past assessment years, which is now in the contingent liability, have we heard anything about it? And do we see maybe that will come through and could there be like Rs. 60 crores, Rs. 70 crores

kind of outflow which would have been in debt? So, what is the update on that?

**Sanjay Wadhwa:** So, right now, all the assessments are stayed, because they are at various stages, either in High Court or Supreme Court. So, I mean, at least for the next few years I don't see any movement at all.

**Kunal Shah:** So, in the near-term we are not seeing this liability to come through, it will still take much longer time even if it fructifies?

**Sanjay Wadhwa:** Yes.

**Moderator:** Thank you. The next question is from the line of Tianyuan Sun from Prusik Investment Managers. Please go ahead.

**Tianyuan Sun:** Just two questions. Firstly, your point on momentum, are you seeing more trading from the existing and kind of new members, new participation?

**P.S. Reddy:** It's both, new members are participating, existing members also are active. In fact, some of the members who have done trading in the past, now they are coming back once again, that's also there, revival of the old members are also coming.

**Tianyuan Sun:** Thank you. And are you able to provide a timeline for the index futures that you are looking to launch?

**P.S. Reddy:** Definitely in this financial year, but once we file it with SEBI we do not know how much time they will take. So, we will not be able to give any timeline for that. But then that is where I am seeing in this financial year, whether it will happen in the current quarter or early next quarter, I will not be able to say exactly.

**Tianyuan Sun:** And in terms of the market potential here and how much revenue this could potentially add into your existing business, what are your thoughts on this?

**P.S. Reddy:** We never give out such forecasts.

**Moderator:** Thank you. The next question is from line of Dhwanil Desai from Turtle Capital. Please go ahead

**Dhwanil Desai:** I have three questions. First one is, on the base metal contract volume, I think post that meeting deliverable our volumes have dropped significantly. And we had done similar things in gold and crude some time from years ago. So, what are we doing to kind of get that volume back or is that a permanent loss of volume because of the speculators moving out of the market?

**P.S. Reddy:** Well, on the one hand the loss has been a substantial loss, I do understand more than 35% of the loss that has caused. And secondly, the SEBI has also asked us to discontinue the mini-contracts. So, that has also contributed for this loss, these are the two together that contributed. Now, while that is happening, we are also approaching a lot of base metal users, especially major industries we are approaching them where they can hedge their requirements on our exchange. SEBI has already mandated these listed companies to disclose how much of the risk management they are doing using these hedging tools. And we have already scanned the available balance sheets of the companies and then approaching them as to who is doing, who are not doing, that's the kind of in depth study we are doing it. And already our teams are on the street approaching these people, asking them the advantages of doing hedging on MCX platform. It will take a little more time and we are also trying to push, or rather request the regulators to help us to ask these companies to make our hedge part of their requirements domestically, because some of them are hedging overseas markets. So, we are also requesting them to hedge in domestic markets. So, all these things we are hopeful that will fructify and will store our market share. In fact, not just restore the lost quantities, it will grow further. That's what our belief is.

**Dhwanil Desai:** I mean, from what the efforts that you are getting, maybe it may be a six months or a year from now that we may be able to get back to earlier levels, I mean, I understand you may not be having any concrete timeline in mind, but is that a fair assumption to make?

**P.S. Reddy:** Well, we wanted to happen even earlier, but then I don't know whether it will happen or not, but that's the way it is.

**Dhwanil Desai:** And second question is on the participation, I think on the two sides. So, one is on the bank-based distributors, I think you were running test batches

for some of them and some of them had just on-boarded on the conference call we discussed from last quarter. So, can you give some update on that? And also, this custodian issue, I think you are saying that it's going to be resolved sooner than later. So, I mean, if we can throw some more light as to any timelines around that can be defined, that would be very helpful.

**P.S. Reddy:**

Yes, coming back to the last questions, the custodian part of it. It is something which SEBI has to decide. But what we have thought and then shared with the industry is that, today if a custodian has been given a license, the custodian is supposed to be settling all trades and all commodities. Instead, we are suggesting a custodian may choose what commodities they are comfortable with, and they can start the business with their mutual fund which proposes to only trade in that particular stock. So, we can make a small beginning in that wherever they are comfortable these custodians and wherever the mutual funds are interested in that particular product they will be able to make a beginning. So, they don't need to open up themselves to a big risk of maybe agri commodities or other commodities where they suspect there will be a major risk in getting into it. So, this is one part of it.

The second thing which you asked is about the bank broking houses. They are very slow in responding to our calls, in that sense, and probably they are grappling with the existing equity markets requirements. And some of the events what happened in commodity exchanges also make them rethink as to why we should be venturing into these products, that could be one of their thinking processes also. So, we need to address all these concerns of these bank broking houses. We will be addressing them, and it's slow, steady, and I am sure once they hook on to the platform, they will ramp up for business.

**Dhwanil Desai:**

Sir, is it fair to assume that that contribution to current volume could be miniscule at this moment?

**P.S. Reddy:**

Yes, that's right.

**Moderator:**

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

- Kunal Thanvi:** So, when you say these banks have to reevaluate whether they wanted to enter the commodity products or not, what does that exactly means, can you help us understand?
- P.S. Reddy:** No, what I am saying is the recent incidents in the commodity markets make them, maybe some of them may get scared what happens to our capital or what happens to our margins, whether our investors will be secured, should we offer this kind of product to our investors, this kind of doubts are being raised. And although they are not got any bad experience in the commodity market as yet, because they are not participated, but they are looking at what is happening around and then they are on a weighted watch mode rather than jumping into the commodity markets arena.
- Kunal Thanvi:** Okay. And on index futures I understand that we cannot talk about the kind of contribution that could come in immediately, but on a broader basis how do we look at index futures as a product for us? Like, can it be as big as say a gold or crude contract or maybe bigger than that?
- P.S. Reddy:** Well, I don't draw any comparison, but then all that I can see it can be potentially a big contributor for our revenue growth. For the simple reason, there is going to be cash settle, and some of the institutional participants may be looking at cash settle contracts. So, that is the way it is, it is our thought processes currently.
- Kunal Thanvi:** And when we were talking about increase in participation, you draw a point about educating the jewelers and stuff. I was just wondering, does the banning of international hedging for bullion also help us?
- P.S. Reddy:** Of course, it did.
- Kunal Thanvi:** So, that was one of the biggest contributors in terms of increase in participation, right?
- P.S. Reddy:** Absolutely. But that helped to the extent that who are otherwise doing it in overseas markets, but there are many who are not doing anything, so those people have also started participating in our domestic market, that's important.

- Kunal Thanvi:** Those would be smaller jewelers, right?
- P.S. Reddy:** Oh, no, they are not small, they have a pan-India branch network, so you can understand what kind of people they are.
- Kunal Thanvi:** And so, on the base metal, you said that while get to the labels it may take some time because of the various things that SEBI has asked to do. But on incremental level like are we seeing some traction after the drop that we saw in last quarter? Are there any green shoots within the existing things that we are offering to our customers?
- P.S. Reddy:** My answer is, not so much. But what we plan to offer is not only these, these products, base metals, the variants of it also there are so many variants within each of these products, these base metals. So, that may also be useful for some of the industry participants who are looking for that kind of products for them to hedge. So, base metal alone may not drive, but then aluminium variants will be there or a copper variant will be there. If once we introduce probably these volumes will go up.
- Kunal Thanvi:** And typically, when we launch a contract, what would be the time period to achieve a scale which starts making money for us?
- P.S. Reddy:** You see, if it is already a listed product and a variant is issued, probably it may earn revenues quicker than a brand-new product, that's the way it is. We recently launched kapas and we are expecting, already we are a market leader in cotton. So, there's a great degree of correlation between the two. So, probably some of the players would like to use them. And once the cotton season starts, maybe kapas will pick up in a big way, that's what we are looking at. So, similarly, even other metals also we start doing that kind of thing. The variance are introduced we will be able to see some traction.
- Kunal Thanvi:** And options, so we are still away from pricing them, we have not achieved the volume that we wanted to price them?
- P.S. Reddy:** Yes, you are right, we are not able to achieve as yet the desired volume to price.
- Kunal Thanvi:** Sure. And one more thing on the business overall, on a very, very broad basis. So, the very nature of our business is that we would benefit

maximum and there is a lot of volatility in the commodity, right? So, it is fair to assume that one or two quarters every year would be very volatile if the commodities are volatile and then there would be a linear growth. Just wanted to understand what could be that linear growth for the business if we just shy away from the volatility that this community sees?

**P.S. Reddy:** Well, see, the way that I would like to position this MCX platform is that volatility, the word shows it itself does not lend great support, it is volatile, it is a fair weather friend. So, we don't want to depend on it. That's where we want to introduce more and more products onto our platform. And the growth should come from a variety of product, then volatility in one or two commodities. So, what is the linear growth? I am sure members will be able to, I mean, participants will be able to make out what is the linear trend over or the three, four years, which is around 15%.

**Moderator:** Thank you. The next question is from the line of Prashant Tiwari from SBICAP Securities. Please go ahead.

**Prashant Tiwari:** So, just continuing on Kunal's question. I want to hear your views on trajectory of ADTV from here, like what will be the big triggers and what are big movers? So, one you said there is already that new products will come in? Can you point out two, three more things that can help me or help us picture our growth trajectory for next five to ten years?

**P.S. Reddy:** Well, it's a very long-term, five to ten years for me, and I will not be able to say five to ten years, but what we can look at is, as I said, we have also approached the regulators to ask some of the major producers or the consumer companies to hedge their requirements on the Indian market, domestic exchanges, then overseas. And trade in India should be our mission rather than trade elsewhere. And when we have the robust platform, that's one major driver can be as we go along. The other thing that we are looking at is the institutional participation. Currently they have not participated because of these infrastructure constraints or you call it the custodian piece not being there, etc. Once they join, obviously, there will be a big growth that will happen. And third, and we are also expecting the WDRA to enable ENWRC in this non-agri commodities. So, people can seamlessly light their trading in securities, they can also hold the DEMAT assets and they don't need to worry about the physical asset. So, that that

is something which will give them a substantial degree of confidence and ease of trading also. So, these are some of the things that I am looking for fueling our growth.

**Prashant Tiwari:** And earlier I think on one of the calls you mentioned that starting from October exchanges will be sharing the hedgers percentage in overall trading.

**P.S. Reddy:** As declared by the brokers and the clients. So, we have been doing that it, it's already our website.

**Prashant Tiwari:** So, how will you identify who is a hedger, who is trading on the exchange?

**P.S. Reddy:** That's why I said, it's a self-declaration. The investors will declare to the broker, broker in turn puts it on the website and uploads it.

**Prashant Tiwari:** So, are there numbers that you can say right now, or we can...

**P.S. Reddy:** It's there on the website, I have not taken the printout of that, it is there on the website. But then that's not complete, because still brokers are giving, and as and when the new ones are joining they are giving it, it's like that.

**Prashant Tiwari:** Okay. And on the cash flow statement, there's a cash outflow of Rs. 180 crores and Rs. 20 crores four other financial assets. What is the nature of these, maybe Sanjay can answer?

**Sanjay Wadhwa:** These major moments that you are seeing are primarily on account of the member margins. So, they vary a lot, and depending on the day at the quarter end whatever the balance is, it gets reflected.

**Prashant Tiwari:** So, member margins is going out, okay. So, whatever open positions are there?

**P.S. Reddy:** Yes. So, if it is just ahead of the delivery period, we see substantial margins coming in for the payouts.

**Prashant Tiwari:** So, at the end of the quarter this number should always give a cash outflow?



- P.S. Reddy:** Not necessarily, if it is coinciding with a delivery period then we will see some huge margins at the closing period.
- Moderator:** Thank you. The next question is from line of Pranav Mehta from Value Quest. Please go ahead.
- Pranav Mehta:** Sir, just one bookkeeping questions. Now with the corporate tax rates being cut, how will it change our sustainable tax rate moving forward?
- Sanjay Wadhwa:** So, there are two benefits that came along very recently, one was the cut in the budget itself, wherein those companies in the range of Rs. 250 crores to Rs. 400 crores had a lower tax rate. And on top of it we had another benefit which came in from the new tax regime which got announced. Unfortunately, we have some MAT credit lying with us, so we will not be able to take that second benefit which came along immediately. But once we exhausted that MAT credit, we should be in a position to adopt the new tax rates.
- Pranav Mehta:** Okay. So, I think in the last call you had said that tax rates should be around 20%, 22% so that should continue, right?
- Sanjay Wadhwa:** Yes that should continue, you will see those kinds of rates in this quarter also.
- Moderator:** Thank you. The next question is from the line of Amit Chandra from HDFC Securities. Please go ahead.
- Amit Chandra:** Sir, as you have mentioned that the retail participation from banks is slow. So, last time we were very positive about it, so it has changed in a time of one quarter. But if I see the active UCC growth, it is pretty impressive, 6.2% quarter-on-quarter. And if I see degrowth in number of terminals also, so I was assuming that UCC is linked to the retail participation thing, and if you could explain what has led to the rise in the UCC and what is driving this?
- P.S. Reddy:** As we said, the volatility is bringing back some of the customers that have traded but have now stopped trading, now they are coming back. And it's not the banks which have contributed for this growth. If banks also got activated, bank broking houses, this number would have been far better.

So, it is substantially coming from the stockbrokers DPs, stockbrokers rather commodity broker rather than from institution brokers.

**Amit Chandra:** Okay. And sir also on the physical delivery side, we have seen substantial jump in the physical deliveries, so if you can provide some number, as in how much is physical delivery as a percent of total volume. And in terms of our backend operations, how much we are capable to handle the physical delivery, because now the important contracts which are traded most of them are like physically settled, and we are seeing increase in the physical delivery contract. So, what kind of risk we have in this and at the back end how much we are equipped to handle the physical delivery? And if the physical deliveries rise then what kind of investments, we have to make in improving our backend warehouses and all those things?

**P.S. Reddy:** Well, see we hardly pay anything to the warehouses, because they charge the customers anyway. Of course, the billing process may be via the exchanges of clearing corporation, we simply designated a warehouse and then the payments are made by the people who are depositing and withdrawing their goods, etc. So, we don't need to worry about it. But the most important thing is, the question is are we a financial exchange or are we a commodity exchange. And we are somewhere in between, we are not considering ourselves as a full-fledged commodity exchange where anybody will come and then start taking deliveries for any commodity whenever they want it, that's not the kind of thing. So, we are not going to increase our delivery centers beyond whatever is the demand from the major delivery centers. And that's what our review is, and that is good enough for meeting the requirements of the market.

Now, when it comes to the deliveries, yes, we have delivered about 24,971 base metals on the exchange platform in the first half of the year. And if you look at that, aluminium itself is 11,669, copper 2,308, lead is about 730, nickel is 525, these are metric tons, and zinc is 6,506 metric tons. And as I said already, if variants of these metals are introduced, then automatically the basket will increase, the volumes will come back to these base metals. And we are doing that, we are working on that, it's a work in progress. And we will be able to arrest the fall in these base metal contracts. Not only arrest the fall in the base metal contract, but we will be able to increase the volume credit in base metals, and the variants of it.

**Amit Chandra:** Okay, sir. And do you think that improving the physical delivery mechanism and investing in that can help improve the participation? And like more and more corporates and more and more traders and mandis will start participating and it can increase the depth in the market?

**P.S. Reddy:** See, one needs to aspire that every mandi or every warehouse should be a part of the MCX. Second thing is to see that they comply with the WDRA registration process. For agri commodities that is the requirement, and for this non-agri, even the WDRA is also looking at framing the necessary guidelines. Once those guidelines come in place, then everybody has to necessarily register with WDRA so that there will be some accountability on the part of the warehouse service provider. This is one major thing. Second, we had recommended to SEBI also, and that is our ask that the producer warehouses should also be, I repeat, producer warehouses should also be designated as delivery centers. So, it is not for anybody to go on deposit, if a producer has a futures contract, let us say he sold some 1,000 tons and if that 1,000 tons is allowed to be delivered from his own warehouse, the producers warehouse, to that extent the cost will come down and they get encouraged to participate in this platform. So, that is something which is still our ask which is pending. It will take some more time probably. These kinds of reforms will help in greater participation.

**Moderator:** Thank you. The next question is from the line of Nikhil Upadhyay from Securities Investment Management. Please go ahead.

**Nikhil Upadhyay:** Sir, basically two questions. One is on the spot exchanges, on the gas and the gold exchange, where are we and how much time do you think it would require and where is the regulation and the processes in terms of the product? Secondly sir, in terms of any new product launch, we have to go to the SEBI to get the approvals and launch the product, so is it a thought process in terms of the regulator itself thinking of streamlining the process rather than going for every approval? And connecting to that, how do we measure the efficiency of our sales team once a new product has been launched in terms of... so as an investor if I have to understand, once a product is launched, how do we measure the efficiency of that product in terms of our sales being efficient?

**P.S. Reddy:** In terms of?

**Nikhil Upadhyay:** In terms of how our sales team is efficiently able to increase the breadth of that product or how do we measure their sales efficiency as such?

**P.S. Reddy:** So, see, before we launch any product, we have what is called a Product Advisory Committee, which consists of the participants from the physical market, producers, traders, and they are all from physical markets, by the way, and some of the stock brokers, etc. So, they know what will sell and what will not sell, that's the way it is. So, they guide us how do we go, design the contract, and from there it starts. And then we take a buy-in from those people also, obviously you are recommending means it must be working well, and they guided how to go about marketing it. So, it is at that stage it starts and then we find that post, if necessary, approvals, we file with SEBI. And this is a process which SEBI has to look at it whether there can be any further streamlining can be done. But we have not found any difficulty in getting deliverable contracts cleared by SEBI, that's not an issue at all. So, this is one part of it.

And how do we measure it? Well, the various ways of taking this product to be different stakeholders is in place. And the sales team now is given what we call key result areas in the form of ADT for each commodity, we are supposed to be achieving by this time so much of ADT. So, they know how to go about doing and approaching this, and that's how we are achieving it.

On the gold spot exchange, essentially the gold spot exchange is for the local bullion refiners as gold to be marketed and including the refiners who use the scrap material and then scrap gold, Dore they call it and bring it back into the mainstream. So, that is where India Gold Standard was proposed, and it is with the government. They have to first notify and then identify a regulator who will be enforcing that India Gold Standard. That's what is we are expecting. Post that then there will be a regulation to be framed, identifying a regulator who will be regulating the spot exchanges, currently that's also not in place. Once all these things are in place, then we will be able to file our application for trading on this. But parallelly our development is going so, that's the way it is.

**Nikhil Upadhyay:** Just one thing sir, you also mentioned that some of the bank brokers are relooking at whether they should be like giving the product commodity to their customers, and also basically do they have question with respect to

the platform, is like are they looking at that probably you can do it with NCDEX or anything?

**P.S. Reddy:** Absolutely, whatever recent is, it's all a knee-jerk reaction whatever that has happened in the market recently, that is what is some of them saying that we will wait and watch for some more time, that's the way it is.

**Nikhil Upadhyay:** Sir, how are we addressing these concerns?

**P.S. Reddy:** Well, we can only say that our platform is good and whatever the risk management systems that we have, we can make a presentation, etc., etc. But then still the call has to be taken by them, isn't it?

**Moderator:** Thank you. We take the next question which is from the line of Hiten Jain from Invesco. Please go ahead.

**Hiten Jain:** Sanjay, in the financials we report this line item, software support charges and product license fees. So, this actually has 10% of the revenue and plus the CME and LME license fees, as per as my understanding. So, you said on an earlier question that you no longer have to pay LME fees, so is that the only change? And if yes, then why so, I mean, I didn't understand the rationale behind the LME expense going away?

**Sanjay Wadhwa:** Yes, so your first question, that's the only change. LME has gone away because we are no longer using LME prices for our settlement delivery rates. So, I mean, our contracts have become delivery now wherein now we poll the prices and that's how the deliveries happen. So, we no longer use LME prices.

**Hiten Jain:** So, then what is the CME price used for?

**Sanjay Wadhwa:** Crude oil, natural gas and copper.

**Hiten Jain:** Okay. So, the contracts which are to be delivered you no longer need a product for that license?

**Sanjay Wadhwa:** Correct.

**Hiten Jain:** All right, that's clear. And it's been great interacting with you, Sanjay, over the last few years. And wish you best wishes for your next endeavor.

- Sanjay Wadhwa:** Thanks, Hiten.
- Moderator:** Thank you. We take the next question which is from the line of Hitesh Kumar from AXA Capital. Please go ahead.
- Hitesh Kumar:** I am just trying to look at your operating revenue as a percentage of the total value of contracts traded, and there we see that the fee has declined from 0.45 basis points to 0.43 basis points in this quarter. Could you just help us understand what brings this or what is the variable part in this particular fee and if your pricing is different on different commodities?
- Sanjay Wadhwa:** So, prices across the board, it's the same, except for very few commodities where it is a little lower. If you see my transaction revenue more or less corresponds with the growth in the ADT, except for the drop in realization. So, obviously when the volumes go up the share of these larger brokers also go up a little, and correspondingly there is a little bit of a realization drop which comes in. So, that is the only difference that is because of the slab, we have a two-slab structure. So, if the larger broker who is doing above Rs. 350 crores contribute more to the ADT, then our realization accordingly drops to that extent. So, that's the only difference, otherwise you will see that the operating revenue is very much in sync with the growth in the ADT.
- Hitesh Kumar:** Got it, thanks. And my second question is, what gives you confidence that the institutional participation will increase if the infrastructure issues are addressed? That and also your confidence that the index futures will probably bring in more participation and drive volumes?
- P.S. Reddy:** Well, we are receiving, rather we are closely working with some of the big mutual funds on this custodian piece. And that gives us confidence that they will participate aggressively.
- Hitesh Kumar:** And how about the index futures, in the sense if you can just probably give some color as to what kind of these index futures that you are thinking of in launching in the fiscal?
- P.S. Reddy:** We have an icomdex, which is a composite index, and we have a bullion index and then based metal indices. And the work is on, in fact, a substantial work has been completed, probably we may be able to transmit the indices on our trading system, maybe next week or week after next

week, and online. And the data will also be available for some of the players, for them to build their own strategies and then their own models for trading on these index features. So, let's see, because engagement with most of the players is going on, and one round of sessions has happened in Bombay, Delhi, Calcutta and Madras. And we have incorporated their suggestions. And again, another select set of some players, which are major players is happening this week, and thereafter we will be doing this. We are confident that we will be successful in this.

**Hitesh Kumar:** Sure. And your pricing would be the same, right? I mean, whatever the pricing that you have on your existing commodity products, it will be same, or would it be lower given these would be probably index contracts where the value might be on the higher side?

**P.S. Reddy:** Well, we have not decided as yet. And let's see, because anyway for first three months there will be an introductory offer kind of thing. So, thereafter we will decide what price to be tagged.

**Moderator:** Thank you. Ladies and gentlemen, due to time constraint that was the last question. I now hand the conference over to Mr. Reddy for closing comments.

**P.S. Reddy:** Okay. Thank you, everybody. And hope that next quarter will still be better. All the best.

**Moderator:** Thank you. Ladies and gentlemen, on behalf of Multi Commodity Exchange of India Limited, that concludes this conference. Thank you for joining us. And you may now disconnect your lines.