

MCX/SEC/2085

August 17, 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. | Nippon Life AMC | August 10, 2022 | 04:30 p.m. | <i>Annexure - A</i> |
| 2. | Union Mutual Fund | August 10, 2022 | 05:30 p.m. | <i>Annexure - B</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Further, we hereby confirm that no unpublished price sensitive information was shared/discussed during the said meeting.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 Nippon Life AMC

August 10, 2022

Disclaimer:

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This document may contain “forward-looking statements” – that is, statements related to future, not past, events. In this context, forward looking statements often address our expected future business and financial performance, often contain words such as “expects”, “anticipates”, “intends”, “plans”, “believes”, “seeks”, “should” or “will”. Forward-looking statements by their nature address matters that are, to different degrees, uncertain. These uncertainties may cause our actual results to be materially different than those expressed in our forward-looking statements. We do not undertake to update our forward-looking statements.

**MANAGEMENT: MR. P.S. REDDY – MANAGING DIRECTOR AND CHIEF
EXECUTIVE OFFICER
MR. SATYAJEET BOLAR – CHIEF FINANCIAL OFFICER**

Participant 1: Okay, Rishit. Good afternoon. And just quickly introduce our Managing Director ...

P. S. Reddy: Good afternoon, Mr. Sailesh and other colleagues from Nippon India Mutual Fund.

Rishit Parekh: Hi, sir. Good afternoon, sir, I think Sailesh will be joining in the next 10 minutes from but we can start.

P. S. Reddy: Yeah, please go ahead.

Rishit Parekh: So thank you, first of all, for giving me time and doing this call.

P. S. Reddy: Can you switch on video, so that I will be able to connect better with your faces.

Rishit Parekh: One second, one second. Let me try and do that.

Rishit Parekh: Am I audible now?

P. S. Reddy: Yes Rishit. How are you?

Rishit Parekh: I'm good, sir. How are you?

P. S. Reddy: You're working from home.

Rishit Parekh: Sir, today, because I had like multiple calls. So it is always easier from home. The day is very crazy.

P. S. Reddy: A lot of traffic jams along the western highway, I don't know, which side do you stay?

Rishit Parekh: And so I stay in Kandivali, and it took 3-4 hours. So I took a wise decision that you know to turn out the other way.

P. S. Reddy: Sometimes it happens without going ourselves that we are taking a wise decision. And a fund manager, you must have observed it also.

Rishit Parekh: Obviously, you stick to plan, right? If you take a call, if it works, it works. It doesn't, it doesn't. And that's part of it. Anyway, sir. So again, thanks for doing this call I am Rishit from Nippon. I look at -- I've joined these guys about a year ago now. Prior to this, I was working on the sell side for Goldman and Nomura. I've joined these guys, and I cover a fair bit of space for them, including tech, part of healthcare, part of exchanges, aviation, etc. So that's what I do here. I think shortly I'll have Deputy CIO Mr. Shailesh Bhan, as well joining in. But -- so that's about us, we manage a fairly large fund, Shailesh Sir looks after the large cap fund and as well as the pharma fund. And I think we've been holders for MCX for a fairly long time now. So with that, I would want to, you know, start essentially on the two or three key questions, right, essentially. So one, essentially, let's start with the tech and then I think, then we'll try and address more on the product side, right. Just wanted to understand on the tech side, what is the status with respect to TCS, are they on time to deliver the platform or there will be delay and if there is a delay, what do we essentially plan to do, will we end up doing one-year extension with 63 Moons, how does that sort of contract play out? Can they be

opportunistic, etc. I mean, what's the fallback in case TCS ends up with a delay for the delivery?

P. S. Reddy:

Yes, there is a delay in the TCS in fact in the call also, I said that. Now they're saying that on August end that they will deliver and thereafter we need to give a mock runs and parallel runs, etc. At least I need a clear to two months of a clean run without any problems, then we will be able to go live. So sometime in November is what we are looking at, if the TCS as planned delivers it. Since our contract ends at the end of September, our Board in the last meeting as advised me to get into the negotiation discussion with 63 Moons for an extension for a maximum period of six months, so which I have initiated and I think, we are hopeful that we will get some response from them. And, I mean nothing they lose you know if they extend it, because currently the way that we are paying is also very attractive for them. Having said this, will they turn opportunistic, I do not know, I don't want to cast any accusations. It is not fair. And we expect them to be just as professionals as any one of us are. And I think we should be able to get that. That's the way I look at it. And, I mean, we are also having a plan A, plan B, plan C kind of thing. I'm not able to disclose any of those things, because I may be a jeopardizing, all those plans. So that's why I'm not talking anything, but we are working on all the plans.

Rishit Parekh:

And from the cost perspective, is there a delta, I think obviously we've discussed this in the past as well. But just wanted to still understand this a little more clearly, let's say whenever we switch to TCS, I think last time when we spoke, you talked about that look, the depreciation will eat into the cost savings, and essentially there will not be a lot flowing into and it will be only three, four years out is where we see the benefits from a PAT or from a, let's say, lower perspective, is that something that you would continue to sort of hint on or there's more color that you can provide them?

P. S. Reddy:

See, it's not a more color. But more, you know, a colored scopic view here. What I said is true with the current volumes, okay. But if once we step into TCS platform, if the volumes increase, there won't be any corresponding increase in the either the depreciation or any other costs of it. So whatever that goes beyond, will come into the bottom line only, that's the way I look at it. So we need to look at this contract, fixed versus variable contract kind of situation, if you look at it, then the increase in volume, there won't be an increase in costs. That's the way it is.

Rishit Parekh:

So here I think there will be obviously your purchase the license, and then there will be just an AMC bit that will end up paying on a recurring basis.

P. S. Reddy:

That's all included in the costing that we have done for about five years, for one plus five years already there in it. So it's not an issue, but then probably the AMC costing will be what to call debited to the P&L and the year in which it is being incurred. But currently, it's not much.

Rishit Parekh:

Also other, we will have to – we have already procured hardware, the servers and there will be some operating sensors. So in addition to the TCS costs, these other expenses will also be there.

P. S. Reddy:

And like – there will be Linux or Red Hat plus some of those licenses, that's the way it is.

- Rishit Parekh:** And just if I look at the current quarter, essentially, some of those costs will already be there, which should -- which also results in sort of lower EBITDA, or that's essentially not the case right now.
- P. S. Reddy:** It is not put to use, and the new platform has not yet been put to use. So it's all under a seat.
- Rishit Parekh:** But is there any other OpEx cost or any other costs, which sits in the p&l? Obviously, the way I understand obviously, new platform is not yet in use, right? But there might be some cost that you might start to incur let's say 2, 3, 4 or 5 months prior to just maybe test it.
- P. S. Reddy:** There are some manpower costs, but then that we are capitalizing it those manpower is put to build his platform and test it and all that kind of things. So those expenses are capitalized.
- Rishit Parekh:** Okay. So not a part of P&L as of now. Okay. Understood. Now, coming back to the product bid, right. I mean, there's a phenomenal rise, I think in terms of the option volume, right, bulk of it is obviously crude in natural gas, but still I think -- even I think this -- so are you super surprised by the way the options volumes have picked up. Because I think I remember when we spoke, I think last to last quarter, I think you'd internet volumes of this kind similar to futures somewhere in FY '24. Right? And we at the start of FY '23, we're already at that level right. So, just wanted to understand one, how sustainable is this, second, who are the participants essentially, which is led to this option rise and tired I mean, today's crude and natural gas, but is volatility a large part of this and as in when volatility dries up, is there a reason why this can sort of come off?
- P. S. Reddy:** Okay, for the first part of the question is did it surprise you? My answer is yes, it did. As you have said that, may we may reach about 60,000 kind of levels in 3 years' time is what I said. And yes, it did surprise us and we are almost at 20,000 over the months ADT, but yeah, it does surprise us. Having said this, we have seen, volatility is always that is whether it is in futures or in options, volatility is the driver, but we need to keep ourselves to prepare the ground for participants to step in and then play in the market or trade in the market. That's where our all of our effort go and that's where our systems improvements or margining system at it all that is directed towards that. Yes, volatility does play a major role, but at the same time the new players are coming in, again the retail investors who have deserted these counters and the crude oil went into negative most of them have come back in that sense, I can tell you and even the growth that we have seen in the number of UCCS, it is mostly coming from the participation in options. So, as you can see, I will tell you the in the year FY '21 - '22 in options, we had one 172,000 clients UCC, in '20 - '21 we had 42,500, okay, so, that is the kind of for growth we have seen. And if you see the futures, say FY 2021 457,000 and '21 - '22, 389,000 so, and this substantial reduction was in crude only, the crude and ng. Not so much in others, but, yes, that's the way it is.
- Rishit Parekh:** I think Shailesh Sir is joining as well. But just continue on this piece, right? How sustained, so obviously, volatility is a part of it and in your experience, could you just help us understand? Let's say volatility was to dry up in one, would you see an absolute drop, we've not seen that in the past years because something else picks up is what the understanding has always been, but just in your view?

- P. S. Reddy:** Volatility drops but it doesn't go to zero or anything like that, maybe there are intraday opportunities will operate. So to that extent intraday play will come down, but otherwise there are people, there are hedges, there are people who will look at not only intraday, but interday also, so today, tomorrow and the kind of thing, and they continue to be there in this.
- Rishit Parekh:** Okay, so you wouldn't anticipate this coming off materially in the next, let's say, six months?
- P. S. Reddy:** Yes, that's what my expectation is.
- Rishit Parekh:** And from a contract perspective, so we've looked at let's say gold, gold mini, which is also something that you launched right. But I think the scalability of those contracts have been slightly weakish, right any reason why that should have happened, I mean, gold Mini is like a contract which should have ideally sort of picked up a lot right. Any reason why the volume sticks to crude and natural gas.
- P. S. Reddy:** Options I expected it to pick up especially the value is 1/10 and the tenure is also a monthly as administered by monthly, but somehow the players got used to the one kilo contract rather than the mini contract, even now also the -- even in futures also the volumes of mini, are maybe 15% - 20% then the main contractor, so keeping that in view, it didn't pick up as much as but it didn't disappoint also at the same time I must say this. So what -- now we are planning to launch monthly options on the bimonthly gold, one kilo contract futures contract, probably that may that may definitely help us to grow that's the way I look at it
- Rishit Parekh:** Sorry, which contract are you planning to launch? The bi-monthly contract is it?
- P. S. Reddy:** No, monthly options contract on bi-monthly one kilo. Currently, gold futures is there, on that we have a gold options bi-monthly options. But we will launch a monthly options contract so that tenor is reduced by half.
- Rishit Parekh:** Correct, obviously that I mean, for free you the couple of important things is one settlement, which today doesn't happen right in some of these contracts, which also is a hindrance, right, because large part of the volumes, let's say when I was to look at any other indexes, or other exchanges essentially happens on the expiry day, right. So something that's something as a volume that we tend to miss across some of our larger contracts, right, crude or gold, etc, right. I think this monthly should essentially help us sort of add to volumes, is there any anticipation on how much do you think this can happen, this can sort of expand into from a volume perspective for us?
- P. S. Reddy:** Yeah, no, I'm not able to give any number on it. But our roadmap is we plan to, again SEBI's permission introduced serial contracts, which will expire a monthly contract, but which will expire every week. So, the point you are making, the expiry play is not happening, that will happen if we have a such kind of weekly expiry contracts. Have I made myself clear? So monthly options, so one will be introduced in the first week of the month, which will expire at the last week, second week, it will be another one monthly contract, which will expire the second week of the month. So that every week some contract is expiring.

- Rishit Parekh:** But then the problem of physical delivery, I think that's been a hindrance, why?
- P. S. Reddy:** Since it is a bi-monthly contract, we are not -- we are not expecting at the end of the contract, it will devolve into a futures contract.
- Rishit Parekh:** But I think that's where the problem has been right? Most people don't want to get there and hence they don't I mean, they close their positions way earlier.
- P. S. Reddy:** That's fine. They close the position since you have a monthly contract, I mean, weekly expiry play is there, they will move on to the next week, which is expiring. It is a serial contract, that's the way it is.
- Rishit Parekh:** Okay. And so, serial contract should help you sort of, take some of that expiry that you miss out, okay. So, you can keep staying into options, but you can keep playing it every week to the next week.
- Sailesh Bhan:** One question on this? Yeah. Hi, good afternoon, sorry for joining in late, see one is as an exchange when we see it right in India, whatever scale of work which is happening today in terms of volumes being created and all that though, they have increased substantially and you have achieved two very fast progress in some categories. Generally, if you leave aside the near-term issues three, five year view on what size this whole opportunity can be, with so much of dominance you have in terms of the presence, how different will it be from say any other exchanges which are there and for commodity exchanges, like ours what is the potential size or delta shift can it be 15% - 18% compounding for many years to come in terms of growth in the business there are you think there are some structural hindrances like he talked about delivery in commodities and things like that, which will make it very difficult to execute or other challenges that most of our corporates hedge abroad or things like that, what will make it change in our five year view is what I just wanted to have understanding and then maybe have specific questions.
- P. S. Reddy:** Yeah, see this particular segment, the commodities markets have not received adequate attention at various levels okay. And that is something which is required -- which requests for some reforms forms to take place. Now, I can tell you one of the major reasons at this point in time is the GST issue. And now GST issue is a major reason because all participants those who want to play in the cash and carry kind of arbitrators or who want to take delivery. And I mean, or if there's any opportunity of what to call going short in the current month and the long next month, etc. They're not able to do it because every time you will need a GST registration. All players are not the ones who are physical marketplace in the sense to take delivery and use it for their purposes. In any case, it is a financial exchange, it is only meant for the hedge purposes. Delivery is your last resort, that's what we have been telling also. Delivery If needed, so that the prices will converge and it will behave in a manner that reflects the prices are more or less reflecting the spot, plus cost of carry, this is all theory that other some people say that, but be that, so, that intraday opportunities are between the spot and then futures if there is any opportunities, people should be able to play between the two markets, which they are not able to do everybody because of the GST issues and we have delivery centres at multiple states and multiple delivery registrations are needed. So, this is one major bottleneck that we are currently facing. We second again, people tend to compare with the China

etc. but there is a lot of state support is there and many of the contracts are -- and many of the government entities have been told to do the business via the exchanges, but we don't have any such kind of blessing or privilege. So, we are more like a private kind of thing and you have to survive on your own. Third important thing is, that currently many of our big players in the country, they are going to the international exchanges and they are hedging it. So keeping that in view, what we have been positioning is this exchange is meant for our domestic, medium and small players. Fine if the bigger players want a bigger depth I will not be able to generate it overnight, I can only build bottom up. So, the smaller players is what we are catching them, they may not have an international exposure, domestic exposure is there, ours is rupee denominated contract, so they can come and play on this exchange. Similarly, the prices that they face in the domestic market are the ones reflective of MCX prices. So, many people say that if you want to buy or sell whatever it is, MCX price plus or minus whatever that is, that is the way the physical market transactions are taking place.

So, we are catering to the -- in that sense, by and large to the domestic players. Second, which is equally important is, we are able to break the monopoly of our cartelization of some of the major players, especially in metals and other and other products. So they're building around that product, there's a brand, they are building, they're doing it, they're charging extra premium, our platform is giving an opportunity for the lesser, I mean, children of lesser God...put it that way, who can actually come and sell on the exchange platform. And we are what we call brand agnostic in that sense, as long as the quality parameters are met. And if the -- if the quality is good as per our specifications, then they can sell it any amount of quantity. And that is how we have been able to make a dent in this.

So coming back to your question, how big you can be, I think potentially is very big at this point in time, a lot of education is needed. And we -- it's also a struggle actually, you know, they are also, the domestic players, some of them don't understand the concept of hedging. Hedging means no profit, no loss and they are not able to digest that.

Sailesh Bhan:

They want inventory gains.

P. S. Reddy:

So, they we have been telling them, you have to keep the financial book and a physical book together and then see that if one book is incurring loss, the other book is making money. So you're locking in price, you are locking in your margin, that is precisely what this type of platform is meant for. But they are not able to at times to take it and some of their managements are also questioning the CFOs, Why did you do this? For incurring loss on the exchange, then the guys show there's a profit on the other side. Not that any way you would have got it, had you not also hedged it. That is the unfortunate thing, but it takes some time. And the other area is even the banks are not insisting, although they are lending a lot of money to some of these industries. They are not insisting that they should commodities risk, they should hedge on the exchanges. That is another thing. So it's a culmination of factors, which makes this industry grow. And unless those things happen, I mean, growth will be stunted. I mean we can only go this far, that's the way it is. But we are definitely moving in that direction. And when it comes to agri commodities, there is a lot of political pressure and if the prices are down, the farmers are committing suicide, if the prices go up, the spinners are seeing we are not able to meet the obligation. This kind of issues, keep

coming all the time with challenge, and I think we should be left to ourselves to do the business without any intervention of those are without succumbing to such pressures. That's the way it is. I don't know whether I directly addressed it, but then I did sum up what are the factors which are holding us back or which are going to help us if these are addressed.

Sailesh Bhan:

This is the -- like you rightly said this is the reality of the market today where you're operating in. So, thank you this is helpful. This one piece on this for example, like you rightly said banks are not asking medium or small SMEs to or medium sized SMEs to hedge right, and is there any concerted effective effort on you to reach out to Chairman of all these banks or any of these guys to or the risk committees of banks or such to be able to convert them, because I think, like you said it is more effort of education and support across corporates as well as banks. And like there we also face similar challenges when we meet corporates you know, so, in terms of how they handle their investment books and all that, but the reality is that, the need of this is certainly there right? The need of balancing your costs versus what you're projecting for the or you know, derisking in that context is there. So, are you investing in people to reach out to these directly - indirectly with some association or some this thing to be able to push through your point and solve a problem for these people.

P. S. Reddy:

Yes, yes. Now, apart from writing letters to the governor of RBI and others, we have individually engaged with some banks, the banks -- I mean, the chairman of the bank himself like SBI and others, they in turn call some of their GMs or somebody and then say, you know, this is a concept we should pursue it. And then thereafter, we keep chasing them and then they are not paying attention -- adequate attention subsequently. We even gone to the bank or strenuous colleges, you know, some of these banks have got the training institutes, where we wanted to sensitize this subject. So, we have conducted courses also and made it a part of the curriculum at some of these colleges. And we have also fortunately, got access to the SIDBI Chairman, who happened to be former Executive Director in SEBI and through him, we have organized, reached out to them SIDBI and they have organized some seminars, workshops with their, with their MSME clients base. So to the extent that we are able to reach out we are doing in the industry associations in many states, we have organized a lot of programs and did that, but then it doesn't bear fruit as soon as we conclude the sessions, and also -- we introduce some of the brokers, look, these are the potential candidates, you please go on and start pursuing them. So that's how -- in fact, many of the brokers -- many of these industrialists and industries, they themselves are used to the stock market trading, so they don't need to be introduced to any broker. In fact, they are they -- they already have relationship with somebody or the other. So that's what we realized it. So it's only a matter of making it a habit, what to call, price risk management as a part of their activity. So that is the way it is. Yes, education is the thing that currently we have to do that.

Sailesh Bhan:

And lastly sir, is there a big cost difference in doing a transaction on your exchange price, I meant from point of view the effective price you're able to get for corporates to not prefer you because there is issues of delivery or whatever, but is there a price difference which is there like you said, price it plus or minus 2% of MCX in certain commodities and transactions? So, is that cost pretty large because the volumes are generally low or is it not a deterrent? It is it reasonable liquidity is there across.

- P. S. Reddy:** No, here I must say this, some people compare with LME. LME contract is a dollar denominated ours is rupee denominated. So to the extent effects effect will be there. Second, there are also domestic supply demand management issues are also there. Even if somebody wants to, there is a price difference, somebody wants to dump the material on MCX, okay, it will take some time for them to get that import, maybe it may take 15 days to 1 month, and then by the time the price moves away from what it was. So, I think those challenges are there, so what we did was recently just to bridge this kind of gap there is a free trade warehousing zones are there in the country and Arshia is one in Panvel. So, we have made them as one of the free trade warehousing zone. So if some of the importers who can park their metal here and then see whether there's an opportunity to sell then they sell it and then bring the way the customs duty and then deliver it. Most of the LME warehouses are loosely speaking bonded warehouses, where customs are not paid. So that is the kind of concept we have, adopted now, we have opened recently, maybe 15 days or one month ago. So, probably that will also see some kind of material coming via that route, which will bring in the price disparity narrowed, okay, which brings down the price disparity. This is one aspect of it, of course, there is something called CTT, and all that kind of thing, we can't help it. And that's part of it, I can't do anything on that.
- Sailesh Bhan:** Yeah, but these are, the material from a customer point of view, is the points sir?
- P. S. Reddy:** See for the clients who are currently trading in the rupee denominated contracts and metals, I don't think there is material, that's what it is.
- Sailesh Bhan:** Okay, Sir, one example, which we just do, because this will clarify the point, per se, if I take a name of a company say, Titan, or a name of a company, which is into gold based jewellery, a lot of companies are there. Now, for them, one was, you know, it was supposed that all these guys would be a major part of your customers, I remember even five years back, seven years back, this used to be the opportunity where -- what is the kind of relationship you would have with them and you know, what is their activity levels, if at all, they're in the exchanges.
- P. S. Reddy:** All gold consumers, I would say the gold consumers, okay, I will call it who are traders, including Titan, they have to hedge only in Indian markets, because RBI banned them. So they are actually doing it 100% on MCX. So, there's absolutely no problem. That's why if you see, what to call open interest in gold. It's almost all 18 to 20 metric tons, sometimes even 25 metric tons. So it's not a small number for that reason.
- Shailesh Bhan:** But similar thing can happen for other categories as well in some other categories.
- P. S. Reddy:** It can happen provided RBI bans people to go to and then hedge international markets. And the RBI is not banned, others are still permitted to hedge. So that's why we are competing in that sense, loosely speaking, with LME that kind of.
- Shailesh Bhan:** It is like that Singapore Stock Exchange for us, you know, in the sense, there's a nifty trading happening there, 24 hours, the volume gets shifted there, at least for that period of time.

P. S. Reddy: That's right.

Shailesh Bhan: Thank you so much! Rishit, you would have a few questions.

Rishit Parekh: So just sort of extending on that point, right. What sort of, is there ever a discussion on let's say, some of the metal companies right, because that's essentially where we have some of the producers as well here in India itself. Is there ever a discussion which is started around, pushing them to sort of hedging MCX or India market itself or, I mean too early to sort of call out that and I mean, can't expect that to turn up in terms of volumes.

P. S. Reddy: Now let's go by metal by metal probably. So aluminium. One minute. Yeah, in the case of aluminium I mean, the honest feedback was that they're not happy with MCX spoiling their game, because how many players are there, maybe four or five of them are the primary producers. The only one who is not in the league is Nalco which is in the public sector. Okay for all these years, we had only the delivery center it Thane and thinking that imports will come and then they will -- they have to face our markets, if our prices move away from what is reflected on LME then probably some imports will come and price parity will be established. Now that was also not happening for one reason or the other maybe this it takes time for material to come from Dubai or Singapore and then arrive, it may take some time, maybe one week or 10 days. So what we did was we moved our delivery center to Raipur, now that's changed the entire game, Raipur is a central distribution center, because mostly metal comes from the eastern side and then everybody has got their plans that side only. And they are in Nalco for them it is agnostic, they as long as the material is sold, it is okay they are happy. So they are there they are dumping their material. So others are not able to do anything for that, they couldn't do anything, but to join the hands. So they also start delivering the metal on the exchange. So the point is, as I told you, they were building a brand around, branding around their material, and then charge you some premium. That's all gone. Today we are being able to maintain a platform which is agnostic to the brand. That is one major achievement of us. Of course, not withstanding this, we keep meeting them, their seniors, I mean, recently I met also the MD of the top brand, and explained to them, they said no, no, we are open minded. We take -- if there is an opportunity, we sell it, that's it. We are perfectly alright. That's the way he explained and inspected also, genuinely inspected is other maybe business development players, you must seriously look at it not with a sense that they are offering any competition to us. You should take it as complementing our efforts to get best price. That's the way he has mentioned it. And that's what happened. Now this is in the case of aluminium, copper, mostly it's imported. Almost all. So is nickel, and zinc, a lot of players from what you call -- South Korea, Korea zinc is one major. And there is a free trade agreement or some kind of agreement is there where tariffs are lower. So is from Japan. So we get a lot of material from there and we are -- they are delivering and the only thing is maybe the case of lead. We have empanelled a domestic lead refiner apart from Hindustan Zinc, who also delivers some Zinc and Lead etc. But that's the only thing, that's very small. But yes, the domestic lead producers whom we have recognized, we have empanelled them. They also started delivering on the exchange platform. Not only this, the Russia-Ukraine war has also opened up some more opportunities. Not that I am proud about those things because not under the duress they should be coming to us and then trading it. But thanks to economic sanctions and other things, some of them are looking at MCX as an alternative, as LME, or maybe CME kind of thing. So

these are all I mean, inquiries have started, we have also proactively written to those producers in those countries. And let us see what will happen as we go along.

Rishit Parekh:

Okay, that's helpful. And just one last question. I know we're cognizant of time. And I'm sorry if we have to extend just a bit, but let's say in the next one year right, the two or three contracts that you discussed in the past, which could be more like a game changer, one of them could be an index options. The second one could be a gold mini? Within the gold context right, once you get it to a monthly the other one is the mini contract etc. which are the other opportunities that you would be looking at and how big those opportunities can be for you, let's say in the next one-year period, if you were to look at it, and where are we in terms of launching that particular piece.

P. S. Reddy:

See one is that, aluminum alloy is one we are looking at it and the steel TMT bars, I think that steel TMT bar, SEBI has sent queries asking for us to revise some of these things, which will be revising it and then sending it. I think in also on the electricity futures is something which I'm also very optimistic about. And let us see in these three new contracts we should be launching in the next one year and then see their growth of it will happen. But agri is disappointing because of there's too much of interference and then our entire bandwidth is spent in exchanging the feelings or pacifying one group or the other, I don't think we are here to do that.

Rishit Parekh:

Okay, and will index options be -- okay in terms of the opportunity, do you foresee them, these three opportunities combined to be fairly sizable to your volume that you have today or they will be a smaller part?

P. S. Reddy:

I mean, see in any exchange almost two to three years it takes for contracts to mature and then become grow robust, that's what I have been told when I joined internationally, this is what the experience is and quarter on quarter we are not expecting a galloping growth unless, for some reason or the other it increases.

Rishit Parekh:

Over a two-three-year period do you see any of these contracts to do well?

P. S. Reddy:

We will see these contracts to do well.

Rishit Parekh:

And index options can that solve the delivery issue.

P. S. Reddy:

Options, they are cash settled contracts, obviously, on indices, but then see this nickel contract has spoiled our metal index futures contract, metal index what to call because, because nickel accounts for about 25% weight so, that is the reason why this is become zero now, we are trying to revive the nickel contract in the form of bring us, we made an appeal to SEBI saying that thanks to the price rise now, today it is almost all 30 - 40 lakhs of contract, one lot that is too expensive and on which 15% to 20% margin and how many people can actually trade in it, I don't think this is some thing sustainable. So they are they are listening to us and they have this idea of making, it trading lot and delivery you lot size so once that happens, probably we'll be able to revive that also. Unless the underlying is vibrant. That is the index futures. Launching options in a hurry doesn't work. That's what my view is. So we would like the futures to grow first.

- Rishit Parekh:** Any participants which can sort of add to the volumes, I think FPI etc. We've talked about that in the past, but I mean is there a case for them to even come and participate here because that will bring a lot of liquidity?
- P. S. Reddy:** They should be able to, that's what I said in the call also. Although FPIs have other markets, but certain opportunities only offer only local markets, like cash and carry arbitrage opportunity or the arbitrage between the international markets and this market. Now they can do it under one legal unit. In the name of FPI, they can do the arbitrates between the LME or CME and or domestic market. So, that kind of opportunities are there.
- Rishit Parekh:** Have we seen anything as yet till date?
- P. S. Reddy:** But they are not permitted as yet.
- Rishit Parekh:** But it was in the discussion right, FPI?
- P. S. Reddy:** No, regulatory framework has to be... circular has to come from SEBI.
- Rishit Parekh:** And last year on banks. I think you talked about some of these banks starting to inch in terms of volumes for the customers, right? How's that? Which are the main banks that are leading the cost?
- P. S. Reddy:** Well, as I said, some banks are still to put their systems in place, maybe two of the major banks, one PSU on private banks, but there are two other private banks which have already put in place and they are doing well. That's what it is.
- Rishit Parekh:** Okay. Okay. I think Shailesh anymore last question, if you have.
- Shailesh Bhan:** No, thank, from my side there are no additional questions.
- Rishit Parekh:** Okay. Thank you for spending time. And then obviously, these interactions are useful for us to understand things better.
- P. S. Reddy:** Thank you, thank you so much, and stay invested. We are committed to work better after -- year after year better and better. That's the way. I may not be able to give you assurance on quarter by quarter but then definitely, year after year, we will do better. Okay.
- Rishit Parekh:** Thank you so much. Thank you so much for your detailed explanation for itself. Thank you very much.



“Multi Commodity Exchange of India Limited”

Meeting with Investors / Analysts

August 10, 2022

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**Management: Mr. P.S. Reddy – Managing Director and Chief
Executive Officer
Mr. Satyajeeet Bolar – Chief Financial Officer**

- P. S. Reddy:** Yes, good evening, gentlemen, Mr. Hardik, Gaurav and Mr. Sanjay.
- Moderator:** Good evening everyone. I have here with us, Mr. P. S. Reddy, he's our Managing Director and CEO, and also here with us as Mr. Satyajeet Bolar, he is our CFO. I'll hand it to you Hardik or Gaurav you can take it forward.
- Hardik Bora:** Great. Thank you. So, I'll just give a quick introduction of our firm as well. So, I and Gaurav are from Union Mutual Fund. We are mutual fund sponsored by Union Bank of India, jointly with Dai-ichi Life Holding from Japan. So both of them are century old organizations and we have about INR 10,000 crore of assets under management of which INR 7,500 crore are equity and hybrid in nature. So we are holders in MCX, we like the story, we like the company and the way it has weathered difficult times. So that's a brief from us. I manage portfolios over here in the small and midcap category in more specifically, Gaurav is our specialists in the new edge businesses and IT, Chemical space. He also tracks this company. So this is just a brief from our side.
- Moderator:** Would you like to introduce yourself Sanjay? Would you like to say a few words?
- Sanjay Singh:** Yes. Hi, my name is Sanjay Singh, I'm from PineBridge Investment. PineBridge is a US based financial institution we are a global firm. We have a PineBridge India equity fund, which is India focused fund for FIIS. It's been a fund which has been there for the last 17 years with a pretty impeccable track record and I we manage around, slightly more than a billion dollars in India directly, and of course from the emerging market funds more and I track MCX and among other stocks, technology, consumer, et cetera. And we hold MCX for some time now in the recent past we bought and we like the company of course. And we like to know more from you on what's going on. Thank you very much.
- P. S. Reddy:** Yes. Please go ahead. Please ask questions.
- Hardik Bora:** Sure. Let me start with it first. So thank you Mr. Reddy For giving us this time. So I think the first will be a broader question on where do you see the market currently and I'll tell you what is the context in which we are asking this? I think in the four years ago presentations that MCX used to give, there was this nice chart which showed what is the multiplier of the commodity market versus the GDP in our country, what it is in other developing countries, developed countries, and I think the ratio is less than half times. So the overall commodity volumes, commodity market volumes in our country on derivative side is less than half that of the GDP. Whereas I think in some developing countries also it's three times that much number and in developed world, of course it's even higher. So what has happened as we observe is over the last five years, half a decade, that ratio hasn't

changed. I mean, our growth has broadly been in terms of the industry volume in line with the nominal GDP. So just your thoughts on, what is hindering this growth to be faster. One would assume that the growth would be typically faster than the normal GDP for the exchange market. I understand there have been some regulatory changes, which has also affected this growth trajectory, but can you briefly tell us about what is the current situation? Where do you think the market is headed for the next five years? So slightly longer term call it possible?

P. S. Reddy:

Sure. The context is well set, but if you see the compilation of our GDP, the majority is coming from the services sector and that is something which we are not dealing with. These are all physical commodity that we are dealing with, second even the products that we have is a very small portion of it as compared to what the other brick and mortar companies are dealing with it. So more and more applications are made from newer products to get come in and I think that is something that we are looking forward to and probably those your products will help us to grow beyond what we are seeing this number. Now, having said this let me also say this, that the regulatory changes at times may be good in the medium term to long run, but in the short term, it is definitely impacting the way that it is operating, the markets are operating. So peak margin is something which has come in and whether it is warranted or not, I'm not getting into the discussion, but it did impact in terms of leverage, it has taken away the leverage that otherwise members are giving it to the clients. Now, is there any default on the exchange? My answer is no, yet somewhere it happened in some down the line in other equity markets maybe, and it has its cascading impact on our markets also, especially when the commodity markets are brought under the SEBI's jurisdiction. Now that is something which is -- which required a separate treatment. We have been telling SEBI also they don't equate commodities versus equities. They have a checker career of well-regulated regime for almost all three decades, but when it comes to the commodities is not so great. So you need to nurture it, also, the markets are not grown so much. Having said this, we are also telling SEBI that some of the dispensations that are required, for the growth of this market are something which falls beyond the SEBI jurisdiction. For example, the GST is, is something which has come and where the members, every player who is dealing in physical markets are in the sense, even on the exchange platform, they don't take delivery, delivery in the sense physical delivery, they don't take out of the warehouses yet the commodities will be lying in their name, so they should have paid GST. They paid GST, then when they sell that product back in the marker -- on the exchange, then only they will be able to pass on that credit and all that kind of things will happen. But all payer, especially the financial players and other retail individual investors, they will not have GST registration, their players or speculators they may do cash and carry arbitrariness opportunities, or they may they cash and

carry from near month and far month, at the same time, they may, some of them also deal in the physical market and then deliver it. And we have also introduced multiple delivery centers, so across these states. So if somebody wants to take delivery, then he should be prepared to have registrations across all states where this kind of thing is there. So it's getting little complex. And for which region, we are not able to get as much players as we see in the markets. Another important thing is here. We have a delivery unit concept. Okay. And the trading unit now, in the case of equity it is, just one share is one trading unit. Here, one physical delivery that comes from the manufacturer sees one trading unit. Now in the case of Nickel is 1.5 tons. So it's, it is almost all 35 lacks of rupees on which the margin for 10%, 20% works out to be every INR 3.5 lacks to INR 7 lacks. And now, so it's not a retail place so much as you compare equity markets. That's why the growth in these markets is slower as compared to the equities. So we don't see so many players out here, but yes, our target is to bring in more and more fiscal market players to bring into this fold and bring in the, I mean, build the open interest. And that's what we are looking forward to. And with the open interest increasing, probably we see greater interest from other trading classrooms. Have I answered your question?

Hardik Bora:

Understood. In terms of what we can do. I think there are product launches that can be done. We've made a lot of efforts on this front. I think there was a launch of indices for some of our -- for some of our -- for some of the commodities. We also -- there was this development on bullion spot exchange, gold spot exchange coming through and at the same time, I think even on the power side, trading of relatively longer duration contracts and the derivatives thereof was probably an opportunity for us. So can you just talk about what are the new products that are there in the anvil that maybe five years down the line could be contributing something meaningful to us?

P. S. Reddy:

That's right, so one is the electricity futures is something which we are looking forward to. And again on small action that has been taken by the government, in the form of imposing a cap of INR 12 per kilowatt hours is something which has disturbed some of the market participants. That happened in the case of IEX, the physical market trading now that is getting removed in the month of September, but we don't want such kind of interventions in the healthy development of this market. Now, that is something which we'll look forward to, maybe a dynamic or vibrant futures market may not necessitate such kind of imposition of caps because players should be hedging their risk on the exchange platform. And they will be able to -- still be able to supply, what you call the power to consuming industries, or consumers at reasonable rate. Maybe the guys who are taking the risk are maybe speculators as somebody else, but that's fine. As long as the consumer gets as long as the suppliers are able to make

the supplier set a reasonable rate, consumers are able to hedge their positions on the exchange at a particular rate, I think that should be perfectly good. Currently, we don't have it, that's why they're left high and dry. So electricity is one which we are looking for to, and the steel TMT bar is another one which we are looking forward to, and aluminium alloy is the another contract and some of the products in the form of some more option contracts, we will be introducing it and options on index futures also, but currently index futures only Bulldex is doing well, whereas the metaldex because of the nickel contract debacle that happened in London exchange, the nickel contract is carrying 25% of weightage in the index futures. That's now clocking zero volume. We look forward to revive that contract also in the form of reducing the nickel contract size and introducing a smaller lot, again that is in discussion with SEBI, if SEBI permits that probably we will be able to launch, revive the Nickel contract, and then bring in the nickel index futures, that metal index also back into trading. So these are the, some of the products that we are looking at it, and hopefully we will be better. I mean, yes. And SEBI is also seriously looking at the smaller contracts that is mini contracts also to re-introduce, because each one is getting to different segment of the customers and which SEBI has realized it, there are different segments who are participating and each contract caters to different, so we should permit them. That's what the issue is. Yes. Mr. Sanjay.

- Sanjay Singh:** Yes, sir. On the electricity derivatives what is the -- where is the issue stuck, I'm not able to understand. I thought the product was approved and at what stage is it stuck? Any thoughts?
- P. S. Reddy:** See, there is a joint working committee has been constituted between CERC and SEBI by Supreme Court and that they have to approve the product. So we have been pressuring SEBI also that it is high time that you introduce this contract.
- Sanjay Singh:** That is approved, right, sir, I thought that was approved, right?
- P. S. Reddy:** It's not approved. It's still pending with them only.
- Sanjay Singh:** So pending with CERC and SEBI.
- P. S. Reddy:** It's a joint working group.
- Sanjay Singh:** We don't have timelines per se.
- P. S. Reddy:** Now that it is high time, they're also what they call restive, the SEBI is also. And because while we are -- contract is pending, they have also permitted a forward contract on IEX, and reverse auction is taking place. I think one month, two months contract kind of thing, they have introduced. Of course it is a forward contract, not a futures contract. They couldn't have introduced futures contract. So we told them better permit, otherwise there's no point in waiting and allowing them to take the lead in those

contracts. So SEBI is also now restive, they're going to give us, I suppose, in the next a month or so. That's what I think.

Sanjay Singh: And the settlement price will be the, IEX DAM price, the RTX price.

P. S. Reddy: IEX DAM price.

Sanjay Singh: Now that's the challenge, right? The DAM prices limited to INR 12. So unless until that limit is removed.

P. S. Reddy: That will be removed in the month of September. They have already made an announcement.

Sanjay Singh: I'm not too sure, they have said the removal or they sent a separate window of trading for INR 12 plus.

P. S. Reddy: No. There is an announcement has come. That will be removed in the month of September.

Sanjay Singh: So now if you look at the IEX volumes, IEX is currently around a 100 billion units a year, I mean is the derivative market logically should be bigger than the delivery market. Is it a fair assumption?

P. S. Reddy: It should be.

Sanjay Singh: Okay. So, IEX if you take around INR 5, a 100 billion units is INR 50,000 crore a year, so you think that there's a possibility of a multiple to that?

P. S. Reddy: Yes. Even if it is at that, if it starts with so much also that is good enough for me in that sense. I mean, what is the production. The whole production can be put to the futures market. That is the way I look at it. Even if the entire thing doesn't come, even if 5% of it comes, because many may have been tied up under the power purchase agreements with the long term PPEs. So that the entire may not come. But what we are seeing is even there also they can trade, while the PPE price is fixed the players can still play on the exchange and get a better price, you know?

Sanjay Singh: Yes. Second is little, slightly burning issue in terms of the tech part. Now I know you probably, it's difficult for you to say much, but I mean, what is the -- is there any possibility that we'll be able to go ahead with TCS from 1st of October or you think that delay is inevitable?

P. S. Reddy: No, the delay is inevitable. No doubt about it, because TCS says that now they will be able to give it on August end, the product and then we need a stable run and parallel run et cetera. Meanwhile, we have written a letter to 63 Moons requesting them for a six months extension and you know, and we are yet to get it, 63 Moons we are hopeful, positively respond to our request. Maybe they may charge something extra. I don't know. I mean, currently itself, we are paying a pretty good amount of decent sum,

linked to our turnover. So let us see, for six months only maximum we have asked.

Sanjay Singh: Okay. And because of the delay, do we get any compensation from TCS or it is not possible.

P. S. Reddy: There are some clauses, are there, delay for going live? There are compensation clauses.

Sanjay Singh: Okay. But you think you have to pay maybe a six month fee to 63 Moons?

P. S. Reddy: Maybe, maybe, yes.

Sanjay Singh: Okay. But you don't see a situation where, you know, we are stuck with no technological vendor or no, I mean.

P. S. Reddy: We are working with the two, three options, that is a 63 Moons support is the best thing that can happen. Now, there are other options also because I don't want to disclose, all of them, because jeopardies and there are option two and option three are also there. We're looking at all those options, but yes, we will work out.

Sanjay Singh: Okay. Hardik you can continue with your questions.

Hardik Bora: Yes, I think we also wanted some clarification on the cost front and Gaurav you had this contract.

Gaurav: Yes. I mean -- I just wanted to get some sense around, see this quarterly numbers, when we look at. The software support charges, what we report during the quarter, you did explain it a bit on the call, but I just wanted to clarify that our top 10 growth sequentially was 2% percent. You did mention that it is a percentage of revenue. The software charges what it be paid to 63 Moons. But the growth was sequentially 7%. So just wanted to understand why would that happen in the current quarter. And secondly I know you have mentioned that on the call that it's difficult to sort of quantify at this point, but if you could tell us the differential amount, which we are going to incur about EBITDA and below EBITDA post-exchange with TCS.

P. S. Reddy: See the second one, I will answer in a very, I mean, may not be able to give any numbers. What I can say is given the existing, what we call the ADT kind of numbers, whatever the saving that comes through by discontinuing the 63 Moons platform may go in the form of higher depreciation, if TCS platform is implemented, if the volumes increase beyond this level, there won't be any incremental cost to the company. That will add to the bottom line.

Gaurav: So it is not linked to your revenues, basically.

- P. S. Reddy:** It's not linked today. Today, it is with 63 Moons, it's linked to the revenue part. Portion of it goes through the 63 Moons about 10.3% of it goes, I think that's what the -- that's why every month, every year, if the volumes go up then that also increases. That kind of thing will not be there on the drain. And why there is an increase...
- Satyajeet Bolar:** I'll just explain, see there are two components when we talk of this, the one is what we pay to 63 Moons, there's a fixed component, as well as a variable, also what we pay to CME, so that is also included in under that nomenclature. It must be some slight difference, and this is again, net of what we recover from our clearing cooperation. So the actual outflow would be, you can see the consolidated much more. In our standalone, it'll be never what we recover from the clearing code.
- P. S. Reddy:** Yes.
- Gaurav:** Since we were actually on that cost point, we wanted to ask this question first. We had actually some more questions on the growth front also. So we've seen the options volume surged pretty sharply. And I think we were trying to do some research globally, and we have found that options in a commodity market typically are a very small fraction of the futures volume. So just your opinion on how this whole options market is shaping up. And where do you see it going? And is there some cannibalization probably, which has happened from futures to options for us?
- P. S. Reddy:** Okay. It's other way, first I don't use the word cannibalization in fact, thanks to the negative pricing in crude oil. Some of them are deserted the counters, and these are green shoots in the sense of options have offered as green shoots to these people to come back and then pastor on this. So that's the way it is. And it is helping in that sense in that sense, it is attracted back the investors to these counters. Otherwise there is a lull for some time, when this went negative crude oil and the options were also not picking up. So only when the peak margin thing has come and the option volumes went -- when the futures contracts, I mean what you call, margins on futures have gone up substantially high, then they have started looking at options seriously.
- Gaurav:** That helps too, but just generally your opinion on how big can this be for us? What is it that you are seeing in terms of...
- P. S. Reddy:** It's not only here even in Indian equities also options are the biggest -- much bigger than anything else. And that's not the case in internationally also. So somehow the Indian investors have fired for options and the premium play is something which they greatly engage in, that's what it is happening in India. And they got used to it.
- Sanjay Singh:** Sir in terms of cost, you said that you hired some tech people for the implementation of the TCS software and all, so do we believe I mean, is this

current quarter employee cost and all you done with or it can increase more from here?

P. S. Reddy: No. The ones who are working on the TCS project that gets capitalized. Okay. Because only when that project go live, then it'll go into that in the form of depreciation and other thing.

Sanjay Singh: Okay. No so now what I was trying to understand is, I mean, I'm just getting my maths, you tell me how wrong I am, from my understanding TCS project is around INR 150 crore , INR 160 crore and which is the 8 year depreciation. So it's a INR 20 crore depreciation and your AMC plus your own internal costs around INR 20 crore. So it costs you around INR 40 crore, at current volumes your cost to 63 Moons is INR 60 crore, even plus fixed. So roughly still you get INR 20 crore saving at current volumes is a fair understanding roundabout rough figure.

P. S. Reddy: Hopefully you may be right by and large, maybe some difference can be there.

Sanjay Singh: Okay. No, it doesn't matter actually. I mean to be fair, I think, they the fact that what you said as the volumes increase, the cost will not increase. I think weather it's INR 15 crore or INR 20 crore nobody's bothered. These numbers, I mean, goes to a third party and they paid someone INR 125 crore, INR 130 crore few years back. So adjusting the inflation, I came to the INR 150 crore INR 160 crore number. So it's not rocket science per se. Anyways, I got that point, second points I mean you have made in the past that there is SGM you have around INR 1500 crore of cash currently, if I'm not wrong, I don't remember now, but roughly?

P. S. Reddy: We have about INR 520 crore SGF approx..

Sanjay Singh: And total total cash is around INR 1400 crore, right.

Satyajeet Bolar: INR 700 crore plus we have the margin money of around INR 570 crore. So our own corpus is around INR 1100 crore.

Sanjay Singh: Okay. Now there was some, I don't understand the think properly, that for crude, et cetera, you can increase the margin money and hence the premium them down and something of that sort, am I right on this? I mean, what was exactly the issue? I was not very updated on that.

P. S. Reddy: I'm sorry. Could you please repeat?

Sanjay Singh: No. In the sense you had mentioned once in the call that you can increase the margin which you have and hence the premiums can come down or the margin money, which the investors input can come down. What exactly was that?

P. S. Reddy: What I said is, today when SGF is calculated, they take into consideration what are all the margins that are pulled together and there are some stress

test results are considered where if there is an extreme loss, what will be the loss that will incur top two members, or 50% of the market members will go bust. Then how much is the money needed. So that is accordingly how this SGF is computed. Now here in the competition, we have brought in the deviations with the equity market and commodity markets, ours is stringent point number one, number two, what we told them is that assuming that remains as it is, today members don't contribute. That is the stock brokers don't contribute only the clearing corporation and the exchanges are contributing. You please make 25%, which is the SEBI rule also there, but they left it open, they didn't make it mandatory. So let 25% contribute, the members who are bringing the risk to the exchange. The third dimension is even if they don't contribute, worst case scenario, even if they don't contribute, MCX is willing to contribute, provided you, I mean, provided you allow us to I mean, what do you call, move in and move out the money and when the requirements come down. So if I reduce the margins, the trading volumes will increase. I will learn some extra money, but I will. This is also the -- it's also kind of deposit only at SGF. So I will put whatever the treasury that I'm currently earning, there's hardly any 5%, 6%, probably my return on the -- in terms of what transaction fees will be much higher. So that is better to earn there than log the money in the form of some FDs or some kind of investments.

- Sanjay Singh:** Okay. And on the SGF also you earn income, right?
- P. S. Reddy:** Yes. On the SGF also we have interest. Yes.
- Satyajeet Bolar:** But it goes back to SGF. It's not reflected.
- P. S. Reddy:** SGF is kind of trust kind of thing, although it's not constituted a trust, you can't depend at all.
- Sanjay Singh:** So the interest of SGF is not account in P&L.
- P. S. Reddy:** Interest is not accounted for. In the penalties, which we levy is not accounted for. That also goes into SGF. So actual contribution is about INR 420 crore or INR 415 crore or something like that. The remaining INR 100 crore is the penalties, which are imposed for the last, maybe some five, six years maybe.
- Sanjay Singh:** And cash you said is total is around 1100, right?
- P. S. Reddy:** SGF is managed by MCX's Clearing Corporation.
- Sanjay Singh:** Okay. No, I was trying to understand the total cash balance as of FY '22.
- Satyajeet Bolar:** We are on INR 1100 crore, margin money which is sitting in the CCL's books. Margins that members pay that is around INR 570 crore as on 30th June. And our own surplus is around INR 1100 crore.
- Sanjay Singh:** But SGF is separate. But you say that three components?

- Satyajeet Bolar:** Yes. So, I mean, I'll just, re-clarify so there's no confusion. We have our own money of INR 1100 crore, CCL has margin in the books of INR 570 crore, and addition to that, you also have INR 550 crore of SGF.
- Sanjay Singh:** Okay. So that's what I'm trying to say. If I look at consolidated books, I see a cash of INR 2000 crore, so now it is matching roughly. So, one question, sir is, traditionally given very decent dividend pay outs. It's a request from shareholders from us is, if you look at, I don't know whether you have ever tried to understand a buyback versus a dividend which works better for the company or for the shareholders for the matter just to give an example, IEX has done a buyback in the past. So for many of your shareholders maybe a buyback makes more sense for us, at least it makes more sense than a dividend. Maybe we can explain to you in more detail sometime, or if you can get back to us, if you want to you know, take this call, but you can just see what IEX has done in the past. They have done a buyback in the past or a mix of buyback and dividend to please all your shareholders probably is a better way. Your stock is not very expensive also, it is reasonably priced. So at this valuation probably a buyback is not a very bad idea. But you can probably do a mix of both or consult your Board, it's a request from our side that, probably you can think about that. Because your overall payout is quite healthy, but you might want to mix that between a buyback and a dividend is what I think, have you ever thought about it or it never crossed the Board's mind?
- P. S. Reddy:** No, see all these ideas are always there, but at this point in time, we want to conserve cash because we need to look at entering into new businesses, especially new lines of business, some of this spot exchanges is something which we are looking at it and SEBI is also may going forward permit what you call interoperability. And co-location, these are the two things that they may look at. Then we need to have our own, what you call data center much bigger than what we have currently et cetera. So there are some investments that we need to make for this kind of infrastructures also. And again buyback is perfectly fine, but then what is the base, currently we have our money. I mean, INR 50 crore is the capital about INR 59 crore something like that. It's about 5.9 crore shares. So the floating stock also should not be reduced substantially in that sense in terms of number of shares, not a big base. Unlike for example, in the depositories, they have a INR 100 crore what you call is the networth to begin with. So INR 100 crore itself is the capital that they have issue. So that's a very big number as, as that number, ours is much smaller. But yes, we can look at it maybe little later, you're right we will look at it.
- Sanjay Singh:** We are not asking for more payouts. You currently pay around 30% in dividend payout, that 70% can be broken into 50% buyback, 50% dividend payout.
- P. S. Reddy:** Understand...

- Sanjay Singh:** It's not the intent to release cash. And we can present separately, but, you know buyback when the stock prices at a healthy price makes sense. Even if your networth based or equity basis is small. Anyway, we will not go more into that. Hardik you can go ahead with your questions if you have anything.
- Hardik Bora:** Yes. Hi. So just on the options contract coming to -- wanted to understand from the academic perspective, like what we read about globally options hasn't picked up, as much as futures on the commodities and the -- I think the main reason behind it is options is a derivatives so you tend to make less arbitrage or less money as a speculator or trader. So what is your sense on that? Whether this is right or whether over the long period people will start realizing, and even Indian markets will also sort of follow the same pattern. What globally has been.
- P. S. Reddy:** No, as I already said Indian investors have had for options. So my view is that we will continue to grow in this route. And there are -- there will also be, what do you call a serial options contract is something which the market is looking forward to. That means you introduce a monthly option, but four contracts will expire in a month kind of thing. So every week there will be an expiry. So there is something called an expiry play. That's what the market players call it. And then they would like to be more vibrant. So maybe it'll expire on the underlying futures only, but they prefer that kind of multiple expiries is what they're looking forward to. So let us look at it SEBI has to permit us. We are exploring that option also.
- Hardik Bora:** But since futures also tend to have, you know divergence from this spot price in the intermittent price, derivative on a future, which is basically options will have further divergence does it not sort of hold back investors or speculators, I should say to participate is what my basic very basic questions is.
- P. S. Reddy:** See the option is on futures. There's no further deviation, it's essentially the premium which gets adjusted with the moment in the underlying future prices. Okay. So whether it is in the money and at the money, or out of the money is something which they will always look at it, accordingly, they will price the premium. And in fact, our premium is much more than what is was expected because most of the transactions are taking place near the money, at the money, or in the money. So whereas the premium will be much lower if the bidding takes place far away from the underlying futures price, then even the income also will be low. So you remember I said, our options potentially is one third of the futures in terms of revenue potential. In fact, it has improved substantially. It's almost on 48%, it was as I explained in the last call. So most of the transactions are taking place close to the futures contract. And that's a healthy sign. That's the way it is.

- Hardik Bora:** No, I was more, I think I was trying to sort of connect the dots with the -- whether corporate if they want to hedge their sort of actual exposure it makes sense for them to go into futures or options from the perspective that options will have slightly more diversions with these spot market prices in the intermittent period is what I was basically trying to understand.
- P. S. Reddy:** Okay. See those who, I mean whichever way they take the exposure, it doesn't matter because in the case of first one, they pay the premium and then there's no kind of daily MPM losses or gains, et cetera. They don't need to worry about it and maybe its options will work. But then toward the end of the contract, options will expire even two days before the, what we call the delivery period starts. So we have a five-day delivery period, stack of delivery period, and two days before it starts. So if it's a monthly contract, almost all seven trading days have gone, out of maybe 22 trading days. So just 14 days are only left. So from that point of few, they may not prefer such a such a loss of operating days. But yes, I think it all depends on the trading strategies that the market participants have.
- Gaurav:** So basically wanted to understand more about this bullion spot exchange. What is it, where is that at this stage? I mean, you did mention something on the call that this is gonna benefit MCX because a lot of gold gets imported and which is not being traded on the MCX and after that spot exchange does come in, just if you can expand it bit in terms of how exactly is going to help MCX and what is the increase in the actual physical amount of gold, which becomes uh, the potential market for MCX?
- P. S. Reddy:** See there are 2 bullion exchanges, spot exchanges, one is the international bullion exchange and other one is the domestic spot exchange. What all the three exchanges and depositories together put up an international bullion exchange in the gift city. That is primarily to channel, is a kind of competition to the channelizing agencies. They charge healthy premium for a very import, but here the participants can directly, especially the banks the gold, the banks can then bullion banks can come directly and sell it on the international bullion exchange and the domestic qualified jewellers can buy it. So once they buy it and then they bring it into India, then on that, they have to take a exposure, I mean, risk price they may be taking. So they will, anyway, hedge their risk on the MCX in rupee terms. As long as they keep it in the dollar terms, they will keep it in the international bullion exchange only, they're the lockers that will be dollar denominator contract. Once they come into India, then it'll be rupee denominated. So it does help us in the sense that they will be taking an exposure on the exchange, if they are not taking it so far, if they're already taking it, even if they import it via challenging agencies. And once they get into India, they may be taking it also, I do not know, but anyway, the domestic players, as I said, cannot take an international hedge because RBI doesn't permit, so they have to

necessarily do it in the Indian exchanges. That's one part of it. Now, there is another exchange, is it domestic spot exchange, gold spot exchange, which comes under the SEBI jurisdiction. Now here again, the GST issues are holding it success back, because there are no GST on the transactions that are taking place because the electronic gold deposit receipt is treated as a security. On securities there's no GST, but the question is who will first deposit the gold and then convert into EDR, because the person who is depositing and then converting, he wants to get the GST credit back, how you will get it. So that is the issue at this point in time. And if once it is in the form of EDR and he sells it, he or she, whoever it is, the company sells it, then it may not be taken out of the gold till maybe for one year or so. So till then he will not get the refund. So that is a challenge at this point. Have I made myself clear.

Gaurav:

Yes.

P. S. Reddy:

So there, we don't have a platform yet. Again, we have asked a TCS to develop it. Once the TCS platform is delivered in August, then it will pick up that code and then converting to a spot platform also. So we are not in a hurry in that sense for that domestic spot.

Gaurav:

So just one question from my side again this, we used to talk about the composition of hedger, speculators, traders, specifically in our future sort of segment what has been the trend, because in the past we had talked about bringing in corporates like mining or metal companies, steel companies who will come to the exchange, will create open position, which will basically attract hedgers and speculators. I mean, is that happening? And if it's not happening, why is it not happening some colour on that? Because our future has kind of been languishing for quite some time, specifically, I think base metals which is after post mandatory physical delivery. I think that it never sort of picked up.

P. S. Reddy:

Sorry. I just want you to repeat the question, if you don't mind.

Gaurav:

Yes, sure. Wanted to sort of understand the trend in the hedgers speculators on your platform. Whether the proportion is increasing in favour of hedgers, we also -- you should talk about bringing in corporates who will start hedging their positions on the MCX platform, like steel companies or mining companies, has that happened or it has not happened. Why is that?

P. S. Reddy:

Yes the hedger participation is increasing, there is absolute more data on this. But hedges will not be in terms of number cannot be as big as the retail investors say in lakhs, but few tons are at this point in place. Now we are you know, engaging with the various banks and maybe MSMEs via SIDBI to educate them as to how they can do the price risk management on the exchange platform. So it is an education which will take time for it to convert into the actual, they are participating on the exchange platform.

But this number, I'm very happy to say that number is increasing no doubt about it, this participation number. Even their holding is open interest is also increasing. That is another point.

Sanjay Singh:

Yes, just on the cost side, do we see the cost increasing, this quarter we saw increase in costs per say a little bit? Do you see a significant increase in cost from here on also, or you think more or less increase in costs have been -- will be capped at the current rate.

Satyajeet Bolar:

I mean, in this quarter, when you're comparing it with quarter, there was an increase, in we have explained in the call that in March, when we close March, we make a provision every quarter for variable. We closed March. We had a -- the target was or the budget as well as the realization was known. So there was a plowback of a variable, a component of variable pay in the fourth quarter. So that's why there was a slight there's this increase in the employee costs for this quarter. Also in depreciation, we had taken a conscious call when we went through that we would be phasing out certain assets, but when we revisited this in our technology committee in March, and we said, no, probably we could use this asset further. So there's a plowback again of certain depreciation. So these are the two main reasons for the difference in the cost in this quarter. And I think going forward, it would more or less remain at these levels, unless there's some exceptional spike in which we will be able to explain, first we will have to incur the expense and then explain, but other than that it should be more or less in these levels.

Sanjay Singh:

And sir on the, one of the thing on the indices was the indices don't require any you know, delivery per se. And hence it is a good tool for speculators, but now that with the nickel issue or whatever inventory is completely dead, so what can we done to revive it?

P. S. Reddy:

So one is that we have approach SEBI to change the nickel contract size. Okay. Currently it is almost all 30, 35 lacks on which 20% the -- what you call, margin on nickel works out to be what 7 lacks or even more. So that is something which is holding back other investors. So we suggested we had earlier 500 Kg nickel contract. So if it is brought down to 10 lakhs, then probably it is manageable. And which SEBI is actually seriously looking at it with the many of the contract prices have gone up and the margins are accordingly have gone up also, that is the reason why some kind of resistance to participate by the retail investors.

Sanjay Singh:

But even the bullion index volumes are not too great, I would've thought that because of the -- this delivery issue, it would've have more volume is per se.

P. S. Reddy:

Yes. So I'll tell you what the -- reason is. Again, there is what is called a -- what you call the cross margin benefit is given, but there is what is called a options and versus the index indices, if there are an exposure then SEBI has

said that no, we don't give the benefit. Maybe one is, I mean contra positions between the two that you have, they're not giving it. So that is something which we are now battling for. And hopefully we will get that also, let us see if there is a SEBI or risk management committee meeting?

Sanjay Singh:

You are Trying to say in terms of premium, right?

P. S. Reddy:

No, the margining on options, option have to pay full premium.

Sanjay Singh:

You think if I have a contract position on gold.

P. S. Reddy:

You should be given countervailing benefit of it.

Participant:

Yes. Hi, sir. Thanks for another call. I have one question is on the active UCC. So we have seen substantial increase in the active UCC or the UCC that we report over the last three years, it has gone 4X, out of that, how many are active? And like you mentioned in the call that around, 1.5 lakhs are no retail investors who are trading actively in commodities. So is it fair to assume that these retail guys are most trading into options? And is there any step that we are taking to increase that further, because still there is a lot of under penetration there. So know, can we see substantial increase in that active traders especially in the retail side, because you know, the retail participation across the board has increased substantially the last two years. So first is that, and second is on the, member concentration. So as per the angel that they have reported, they are saying that around 125 know they have, they have been doing a volume of around, like INR 12,500 crore on commodities. So that accounts to around 50% percent of our total volume, right. So is it fair to assume that Angel is 40% - 50% of the total volume? I know it is actually segregated at the client level, but is it a risk to have such high concentration with single member?

P. S. Reddy:

See, the problem is -- answering the second question first? They take both buy and sell positions. What are ADT we're publishing is only single sided. That's one important thing. But we charges the transaction fee on both buy and sell. So we so when I say that we have an ADT of let's say for the this year, 26,000 for the financially area of by '21 - '22, 26,000 means 26,000 multiplied by two multiplied by whatever it is that is the average realization rate to INR 207 per 1 crore. That is the way it happens. So for them, they count both sides. And then they say that we are so big. That's not correct. That's one point. Second, we don't know whether they included futures and options. Now we can't take the notional value of options and then put it in the futures. That's not correct. We never do that. And that's why we always give the futures volume and options volume separately, notional. And what is the potential of it is what we give separately. So, as I said, revenue potentially is about 48% of the futures volume is what I clarified. Now, coming back to the the active UCC, as I said in the call also, member brokers, when they're uploading it because of the unified members they upload at same -- is going to trade in equities, derivatives and commodity

derivatives, gold, silver, et cetera. They tick it and then upload it and the client sign it, but then they're not active. I'm not saying that even if they, we have our own definition, if they are active means they should have traded the current year in the last 12 months, they should have traded. That's the way we are looking at it. Now, in the financial year in '21 – '22 I'll tell you the futures 389,421 now traded in futures, as against last year, that is '20 – '21, 457,000 have traded, but come to the options, 42,575 traded in '20 – '21, as against 172, 924 have traded in '21 – '22. So that's a big jump. The people have moved away from futures to options. Some of them, and some new ones have joined. Many new ones have joined also. So all in all as against last year, 466,577, there's a marginal increase of 471,000 is the number has increased.

Participant:

So obviously options, as you said, is a retail product. So that's why a lot of retail investors are getting in options and that is a positive sign. And in terms of the stickiness, that options, 95% is still crude or natural gas. And that is because of the high volatility. So know how do we see the options in terms of gold contract? Because we have launched a new contract, which is gold mini. So but it's been only two months, I think, two or three months. I know the side of the contract has been reduced and the contract duration also is like has been reduced, but still it's not picking up. So any reasons for that, and also in terms of the options contract getting devolved into futures, what's the take on that, can that be corrected in the near term or maybe the lack of spot market is the only reason why it is happening so structurally, can it be comparable to how we are seeing this inequities? Because if the options contract get actually dissolved in futures, then you know, the last four to five days where the maximum volume happens in terms of expiry that we are missing out.

P. S. Reddy:

That is where I have explained. I think you joined late in the call and some of these questions are already addressed. What I told is we are proposed to, I mean, the market participants has introduce serial contracts. So monthly contract, which expires every week, so weekly play will be very high in that case. So every week there is some expiry that is coming, which is a monthly contract kind of thing. So that we have to yet to get any approvals from SEBI, but then we are looking, working on it. We have not submitted any proposals yet. So this is one proposal that is there. And you know, coming back to whether the devolvement will spoil the play. I don't think that devolvement will spoil the space. If you have multiple contracts, they will roll over to the next contract. There's no problem in doing that, isn't it? So they will roll out to the next contract if they are so keen. And anyway, the bimonthly contract is there. So bimonthly options contract will be there, and we are introducing monthly options also. And in gold, one kg, so probably these two will help us together, will enhance the participation.

- Hardik Bora:** I just have one question, final question from my side. So I'm little less informed on this, so quantity or perspective. So what needs to happen for the peak margin to start reducing? I mean, what would do you think, would the regulator be looking for before taking a call.
- P. S. Reddy:** The regulator has given some concession what they said is, especially we have made a representation. If somebody is not ready at all, and they have an open interest, and then that position is priced against the moving target kind of thing, because if the prices are going up and again, they're calling for additional margin, I said, that is not correct. Okay. That means many of the hedgers they have paid complete margin, why they should be making them to pay more margin. When they have already entered at the time of contract entry they paid the margin. So now that SEBI said has said it, if at the beginning of the day margin is paid on that fully, then that is good enough. You don't need to collect anything additional. That's the way they've said that.
- Hardik Bora:** But in terms of the percentage margin it's that coming down, just trying to understand what will the regulatory be looking for?
- P. S. Reddy:** See it's not a percentage of margin will come down; the intraday play has gone. What used to be is, net obligation is what earlier we used to charge the margin. So you buy - sell, buy – sell kind of thing. So at any given point of time, peak margin means whatever is the net buy, at that point in time, you have to fully pay. Now, probably may not be regaining that position till the end of the day. You may be selling off a part of it, but still end up paying under these two dispensations. So the way that it has worked out is that brokers used to pay for it. Actually brokers give us bank guarantees. We block the exposure from the bank guarantees, but peak margin rules says brokers also in turn have to collect it from the clients. And at the time of inspection, we verify it and then impose 100% penalty. That's the way it has scared away the players. So as far as exchange is concerned, we are completely secure. In that sense we are for every trade it gets debited from the brokers account.
- Hardik Bora:** I think we've asked all our questions so Sanjay, if you have anything.
- Sanjay Singh:** Thank you very much. It was a pleasure hearing you, sir. Thank you for taking time late in the evening. Good interacting with you.
- P. S. Reddy:** Thank you. Pleasure too.
- Sanjay Singh:** Thank you, sir. Thank you.
- Hardik Bora:** Thank you, Thank you.