MCX/SEC/2053 June 08, 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.	DSP Investments	June 03, 2022	17:00hrs	***Annexure - A***

Kindly take the same on record and acknowledge receipt.

Thanking you,

Yours faithfully,

For Multi Commodity Exchange of India Limited

AJAY PURI
Digitally signed by AJAY PURI
Date: 2022.06.08 12:51:46 +05'30'

Ajay Puri
Company Secretary

Encl: As above

"Multi Commodity Exchange Conference Call"

Meeting with DSP Investments

June 03, 2022

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MANAGEMENT: MR. SATYAJEET BOLAR, CHIEF FINANCIAL OFFICER.
MR. D G PRAVEEN – HEAD, INVESTOR RELATIONS.

Moderator: Charanjeet good afternoon. Welcome to the call with MCX. I have on the call Mr. Satyajeet Bolar, he is our Chief Financial Officer and Mr. DG Praveen, he is our Head of Investor Relations. I think you have been informed, but I just want to reiterate the call is being recorded and it will be available shortly on our website. We can begin the call now; can you please introduce yourself?

Analyst: Yes, sure hi. So myself, I am Charanjeet Singh from DSP Mutual Funds. So, at DSP we are managing almost one lakh crores of AUM, 50,000, crores is in equity and 50,000 crores is in debt. And we have multiple schemes where we have mid-cap, small-cap, tax saver and opportunities fund, and also we manage some of the international pension money like Norges and Canadian pension funds. So, that's what our DSPs background is and so, the main purpose was to get an update on MCX. I've had earlier also interactions with the management and first of all apologies for the last time, because of the broadband issue, I was not able to connect, I kept trying for 15-20 minutes, but was not able to connect on the call. So, apologies for that. So, I thought let me connect with the management and understand, when we look at MCX, generally we see that MCX is a company which should benefit from all the volatility which is there in the commodity side, but, when we see on the average daily turnover, there has not been major growth and it has been stuck at that 25-26,000 crores level. So, the point is to understand one, these regulatory changes have you know definitely impacted our volumes in terms of what has been the decision taken by the regulator in terms of the margin requirement. So, how we should see now, going forward in terms of the turnover changing going forward in one, is the future and then also if you can you know touch point options you know which has been introduced recently and now we are trying to scale up those volumes. So, that's my first question sir.

D G Praveen: Thank you, Charan. And, so, coming to this question what you have asked related to the turnover. Definitely, even we could able to see some drop that has happened in the futures turnover, that is what is clearly visible, but at the same time, we could really get the volumes to really scale up higher in case of options contract. So, one is really the regulatory framework which has transformed and now we are really seeing a good amount of growth in our options contract. If you compare it with last year, there is a very sharp rise in options turnover, like in FY2021 we have done a volume of about 943 crores compared to FY21-22 where we could scale it up to 7860 crores, but significantly we also started charging options contract. So, which was not the case earlier and from the last year, that means during this financial year from September, if I'm not wrong, we started charging the transaction fee. So, we started getting some revenue, even that means we have started getting revenue from the options also now and off late and during the recent months, we could see that the volumes have further scaled up, like in the month of April, we could able to do something about 17,000 crores and again in May, we witnessed up to something around 19,500 crores in the options. So, clearly we are seeing that a lot of business is coming from options and we really wanted to scale up our initiatives, educational initiatives and also the product innovation in case of options contract. Recently we have applied and also we have received the approval for our monthly contract, gold monthly contract. So, we were also having the gold kg contract, kg options contract earlier also, but the only difference is for the same bi-monthly contract, we have monthly contracts. So, put in a different way, it is like, we have bi-monthly futures contract and when it comes to the options, because these are all optional futures contract, we have at least two series different – expiry series of options contract that will get devolved into the same bi-monthly futures contract. So, that way, we could able to reduce the duration of the options contract because in options, the premium significantly gets impacted by the duration of the option contract. So, higher the duration to the expiry, automatically the premium is going to be higher - that can dissuade some of the market participants who wanted to trade with lower premiums and also generally some set of re-trade in a lower premium contract and some prefer even out-of-the-money contracts, that is the way they look at it. So, considering these factors, we we have applied to SEBI and also we received the approval, but of course, there are certain queries and again, we have approached the SEBI in that matter, but soon we would be coming out with these contracts. So, hopefully, that will also will be well received by the market participants - that is on the gold kg contract.

Besides that, gold kg contract, we also recently had come out with the gold mini options contract. So, earlier whatever we have launched - that was option on goods contract, that was not successful despite our efforts and we came out with a liquidity enhancement scheme in the initial period, but now we have converted that one into option on futures contracts. That again is well received by the market participants. So, it has very recently been launched, but we are hopeful that that also will add to the another bouquet of the products which are liquid in our exchange, in the option side.

So, these are the things we are really looking at on the product side. And you also already would be knowing that apart from our regular contracts, we are also looking for some of the newer products like aluminum alloy, steel TMT, electricity. Since these are the products still in the pipeline and, as and when we get the necessary approvals we are very keen to go ahead and launch these products. So, this is one side of it, this is on the product side, on the participant side still we are expecting that, soon foreign investors will be allowed to trade in this commodities market and the SEBI also has floated a discussion paper on that one. So, we are expecting that soon maybe, the SEBI will take it to the board and accordingly then they may consider allowing this - foreign investors - in the commodity derivatives market. So, we are expecting that it should happen anytime during this new financial year. So, this is on the participants' side and we also see that some issues related to the GST and all those matters get addressed, then we will be able to see the delivery volumes really pick up, that is one thing.

So, significantly in the last quarter, in the month of March, because of the debacle that happened at LME and we also had suffered in terms of nickel volumes, which significantly dropped because of the high margin impact and there were very wide movements that happened in the nickel contract. So, that all have had a greater bearing on nickel futures on our exchange. And we are looking at the ways and means to revive that particular contract again, because that that had been one of our flagship products along with other base metal contracts. So, that's the way I'm looking at it. Another part you already know that last year we also had experienced the suspension of the crude palm oil contract, that also has dented our volumes. Otherwise, it was doing pretty well, crude palm oil was doing pretty well that time, it was clocking around 300 to 400 crores, but this suspension has really has impacted that contract, but we see that we have made several representations to the government, ministry and other people. We assume that once this kind of tight situation gets relieved, I think then we can expect that the government can lift off this kind of ban on these commodities. We all know that crude palm oil is just an imported variety where we don't have any say in terms of pricing. So, despite that, while banning the other edible contracts, even this has been suspended, but we are hopeful that it soon will be the past and we will be able to revive these contracts back on the platform.

Analyst: So, thanks for the detailed input, that was very useful. But sir, my point is, if I have to look at the futures volume, when we look at the bullion and as well as the energy basket, there what is the view in terms of how we can see the overall growth in the turnover and these changes in the gold mini and then bringing in gold kg, how much this can add to the volume overall, you know, from the turnover perspective. So, what could be the incremental growth from here on that we can see in the turnover in FY23 as well as 24, Sir?

D G Praveen: So, while I won't be able to give any particular number to it, but what I can say is, our objective is to enhance the basket, because volatility plays a very significant role in all the commodities, whether it is futures or options, okay. Even if you could see our volumes over the last maybe three, four years, at different point of times, different segments has contributed to the volume, that means significant volumes. So, one point of time the bullion commodities played a bigger role and subsequently the energy, and one point of time the base metals. So, it all depends upon the volatility in different segments, that is where actually we are very well placed, we have a very diversified product portfolio, that means from the metals, precious metals and we have the energy products. So, these are all in a way interlinked, that means whenever there is an economic growth that is going to take place, we have the metal that will kick in and they will play a bigger role. And if we have some kind of political uncertainties and other thing that precious metals play a role. And later you know, that the energy has been playing a bigger role, especially in the both the options and futures. So, that way, our intent is to enlarge the basket, keep the counters liquid, so that whenever any particular product segment is volatile or if there is going to be more interest in that kind of commodity, they should be able to trade in those products, that is how we look at it.

Analyst: Hello, sorry sir my line got disconnected, I got disconnected the point when you were saying that the volatility can increase the overall uncertainty around the economics.

D G Praveen: So, the point I would like to bring here is, the more important thing is how you can able to diversify your portfolio because that is a key element, because we cannot say that this year, which product is going to play a bigger role. Okay, because that again depends upon the volatility and we…. could you able to hear us or is there any interruption?

Analyst: No, sir, I can hear you now. Yes, my line had got clear, I can hear you now. Yes, sir.

D G Praveen: Okay, fine. So, that is what we were trying to say that we are working on enhancing the basket and diversifying the products. So, options now, is one of our priorities. We are working on introducing more and more innovative type of option products, like the way I have said, we have come out with the shorter duration option contracts in case of gold, and even if you look at our silver contract, even it has certain amount of liquidity, decent amount of liquidity is there, in that case also the futures of silver are all the bi-monthly contracts, the moment we come to know or we know how the gold contract will pan out over the next two - three months, definitely we can come out with even monthly contracts for silver. So, the intention is clear, we wanted to have a wider basket, a diversified basket and as and when the volatility hits or anything we should have the products ready in the market so that the hedgers as well as the other market participants can able to enter into this space.

Analyst: Sir, but that is the issue when I talk to the corporates. So, here right now, if I look at MCXs participation, there is no hedging which is happening, it is more of speculation or the retail participants which are there so, because of the lack of liquidity which a lot of corporates have told me, which keeps them away from participating in the in the MCX. So, what are your thought process to attract the corporates to come to the market and hedge, which has not happened till now plus even the financial institutions where you talk about the foreign investors, but mutual funds and other intermediaries who were also expected to participate, they have also not come to the market, what we were also expecting earlier…

D G Praveen: Okay. So, coming to the hedgers, generally the hedgers participation is more visible in the open interest as compared to the volumes, and this open interest, whatever we have been witnessing, in that case there is a significant participation from the hedgers. For example, recently we could see that in the month of March, around, on the long side, in case of gold - 22% is from the hedgers and on the short side again, we have something about 78% that is coming from the hedgers and not only in the bullion contracts, even if you see the metal contracts, significant amount of deliveries are happening. So, I don't see that only a speculator will be well placed to really participate in a physical delivery. So, if you see even the delivery that happened over the years, the last year and this year, we really have witnessed greater delivery in case of base metal contracts, which have been recently been converted into delivery-based contracts. So, that way it is like we, by converting them into the physically deliverable contracts, we have in fact attracted many hedgers into these contracts. So, this is on the base metals, but if you also look at the bullion contract, you know that RBI circular has come in this case and because of that RBI regulation, the Indian market participants or physical market participants, they won't be able to go overseas and hedge in the gold. So, there we are seeing very good participation that is coming from the hedgers, but there is a scope for further improvement, there is a way and there is no denial to that statement, but hedgers, good participation is there and for any market, because whenever hedgers wanted to transfer the risk, we require the speculators. So, again it is like not only the speculators will operate in this market, we have the arbitragers who are into this kind of business called 'cash and carry' arbitrage or between the futures and options. So, we find various category of participants trading in this market. So, that way it is like the volumes come from retail, institutions and also from the arbitragers who are into this business and this all will help the hedgers in getting their risk transferred from one place to other, that way it is like, they will be helpful. So, that is a reason you require all set of market participants in any market.

And, coming to the other part of it which you asked, with respect to the financial institutions and mutual funds. So, one of the major problem that we have been facing is with respect to the GST issue. GST you know that there are multiple delivery centers in the case of base metals and if at all somebody wanted to participate in this contract, he will have to register across the delivery centers, that means across multiple states, at least for some four states, otherwise he won't be able to raise that kind of IGST bills to the buyers. So, this is the challenge and earlier also, we have made representations to the GST council on this one, even the SEBI has taken up the matter with them. And what we are seeing is, if some answers come in relation to the gold spot exchange, which the SEBI has already come out with the guidelines and framework, gold spot exchange, we are expecting that we can also get some kind of answers, so that should really able to help our contracts also, that is how we are looking at it. Whether, in case of bank broking subsidies and other things, they are now starting, they are playing a bigger role and they are also, like ICICI Direct, HDFC they are all now scaling up their operations. We cannot expect that all will happen in one go, it will take some time and it will pan out over a period of time and off-late you have also seen that discount brokers are playing a significant role and we could see that a good amount of trading also comes from these kind of discount broking firms. So, that way it is well-distributed and we are expecting that, if some kind of regulatory support comes, I think we expect that those bottlenecks also will be weeded out and then, we can expect that we will get more triggers for further growth and development of this market.

Analyst: Got it sir, that's very helpful sir. Sir, the other question is - what we have seen in the past while we are ready with the product, we are having a thought process in terms of introducing these new contracts, but SEBI regulations have been one thing which has actually impacted our performance quite a lot. And that becomes a very big regulatory overhang, they want to make this market as strict as what is there in the equity side. So, how we should look at SEBI thought process going forward are there no further regulations which are going to come which can make the commodity markets difficult for the retail participation as they want to institutionalize it further. So, what is the regulator's thought process here, because that is what has been impacting our performance also, to some extent.

D G Praveen: So, the new regulation, what kind of regulations will come is always a question mark for anyone, because even the peak margin reporting, no one has really expected some time back, suddenly it has come and it is has been introduced, but some amount of dispensation has been already given by the SEBI in that case, like the way what they have said is, if already positions are there and no fresh positions have been taken, and irrespective of where the margins will go intraday, that will not be considered and we will look at what kind of margins have been already placed with the member by that client with respect to the previous days position, that will be looked at and based on that one, we will see that whether any violation happened or not, so, that that is a really one good dispensation that has been given by the SEBI, so that the hedgers will not be impacted. Hedgers who generally will not do the intraday trading, those people will not get impacted because we do the margin calculation multiple times a day and because of the price movement, suppose the prices can go up or down and also because of the volatility moment, the requisite or required margins may go up or down. So, if we calculate the peak margins based on that relevant points, whatever is the margin, then it is very difficult for the hedgers to operate. So, with this this kind of dispensation that definitely should be a win-win for the hedgers, so that they can hold their position without worrying about the intraday margin calls. Coming to other regulatory challenges, while we look at it like we have to find a way that is how it happens in case of options contracts, this has been introduced, but after the introduction of this peak margin and other thing, even the market participants also got used to trading in kind of commodity options. While these kind of reservations will keep changing, we expect that always the regulator will have a vision and they will be expecting, they will also have a growth plan in mind as to how this market has to be taken to higher levels. So, given the limitations and given the whatever things we have, we have to find ways and means to take our growth plan.

Analyst: So, sir in terms of this margin requirements, what can we do to lower these margin requirements which can help us push the volumes, anything as a company we can do?

D G Praveen: So, one thing already we have taken up with the SEBI, that is regarding the flexibility in the SGF infusion, because currently, if at all we put some money into the SGF, we won't be able to take it out, okay so, because of that, in certain commodities like crude oil, we had to impose some additional margins, okay. So, maybe around 10% or something, we had in the past we have imposed that kind of margin, but the moment if we can able to overcome this kind of issue, which we have, that is what we have proposed to the SEBI that, if it is made two-way, that means, whenever it is not required if exchanges or clearing corporation is allowed to take it out and whenever need arises, we will be able to deposit, if that is the case, we will be free to contribute to that SGF so, that because whenever it is not required we can take it back. So, that way it will not be impacting as much. So, the moment that kind of dispensation comes to us, SEBI gives us, then I think it is very much possible that we can able to reduce margins of some of these commodities, like crude oil and even in case of gold, where we have currently put some additional margins.

Analyst: Okay. So what is the additional margin right now we have put in and by when we can expect some kind of a positive move from SEBI on this?

D G Praveen: So, SEBI is planning to take it up with their RMRC committee, it is a separate committee which looks into this matter. So, SEBI will place its recommendation and that will be deliberated upon in the next RMRC, so, we need to wait and watch how this is otherwise we are very positive on that count that, it will be reasonable and acceptable to the regulator as well as to the RMRC.

Analyst: But sir, any timelines when will this RMRC happen and….?

D G Praveen: It's very difficult to say when it will happen, but we can say that maybe sometime anywhere in maybe, last quarter of this calendar year or maybe earlier also, but the moment it happens, I think we can expect some positive developments to happen so if that kind of dispensation is given definitely, we immediately look into bringing down the margins so that will really further help our products.

Analyst: Okay. Sir in the option side if you can touch upon, you know, there also we wanted to introduce more of option contracts. So, what is happening on those new, maybe some indices base? If I remember right, we were thinking of introducing, what's the update there and then in the options what is the kind of transaction fees you are charging and can it go up?

D G Praveen: See, currently we are not looking for any changes as of now because we have started charging very recently. So, again we don't want to re-look at it immediately, but unless a Board takes a call on it that is a different thing but currently at least we are not immediately not looking at it. Even the charges are quite comparable to that of what is being charged in the equity markets, okay, whatever we are doing. So, that that way it is, like it's a level playing field. Coming to the index options, currently, because of the debacle of nickel contract, we also had witnessed this kind of short turnaround, that means, turnover has dropped in case of our metaldex, which is which was also was a successful contract till March 8th, when that incident took place. So, it was doing something around 200 to 300 crores of turnover on a daily basis. So, we were at that time, very positive in introducing the index options, in the case of metaldex and maybe also with bulldex, but because of this kind of unforeseen events, we now are waiting for revival of our nickel futures contract. Once I think it comes back, then I think we expect that even our metal index also will start doing well. So, subsequent to that one, immediately we can consider introducing some metal futures, that is metal index options also. In case of bulldex anyway we are keen to come out with some products index, index products, index option products, maybe we are also soon considering the serial weekly options, that is one thing that is quite popular in equity market. So, we are also looking at closely monitoring this one, and we are seeing that if things all goes well we definitely would come out with that serial weekly options contract also in bulldex. In case of other option contracts, already I told you that we are trying to reduce the duration, the time to maturity for a gold contract and also the silver contracts, because the contract size has already has gone up because of the increase of the prices. So, alternatively we are looking at reducing the time, by doing so, we can able to substantially reduce the premiums in the option contract. So, by doing that we can expect that more participation will come into our bullion contracts also.

Analyst: Sir, in terms of the split, how much will be arbitragers, how much will be hedgers and retail. Can you give me some further splits on this sir?

D G Praveen: See, currently we don't have that numbers per se, but we already shared the algo trading numbers in our investor presentation. Also, we have shared the proprietary versus the client turnover details, like in case of algo trading in FY21 and 22, it was about 48% algo trading okay, and non-algo is 51% and prop versus client, it is about 39% from prop and 60% from clients. So you can make out from this one I think, what kind of, because the nature, by looking at the algos generally, would be more involved into the intraday trading. Strictly we cannot say that, but I'm saying there is more possibility that they will be more into intraday trading, and also they look at kind of 'cash and carry' arbitrage also.

Analyst: Okay sir. Sir the other thing is, when we just try to do some checks in terms of how MCX is doing, sir we get to understand one, in terms of the manpower, talent pool, what is happening on that side? Are we hiring senior people because now this is becoming more technology oriented work. So how we are trying to strengthen the team, what kind of profile of people we are getting and how's the attrition level, because if that is there and the team is not that motivated then asset creates an issue in terms of bringing new products and scaling up the platform.

Satyajeet Bolar: So, recently in the past six months we have recruited two senior people in the technology side, we have got a new CTO, Mr. Sathe as well as, we got a new CDO, Dr. Rajendran, we also have appointed a Chief Operating Officer. So we're strengthening the team, we are aware of it. I mean, being a technology-driven company, we do understand the challenges that we face, but we're prepared for it. It is a challenge, but we have recently recruited at the senior level and at mid-levels also.

Analyst: Okay. And sir, on the technology side now, we were also having this software migration which we are doing. If you can touch upon how is that migration going on, how much of the cost which you have already incurred and is our technology cost expected to go up further. And how can the earnings get impacted because of this migration which we are seeing?

Satyajeet Bolar: So, I mean you are aware that, with the present vendor we have a fixed charge as well as a variable component which is linked to our transaction charges. So, going forward under the present, post October 22, we will be paying, once we go live so for the first year we won't be paying it will be under warranty, so there won't be any charge that we'll have to pay to TCS. Going from October 23, we will be paying them a single digit, in crores, single digit amount and that is fixed you know, it is every year, the incremental AMC that we will be paying to them is fixed to the wholesale price index. So it's all fixed, this is you know, it's reasonable. But there'll be additional, we would also be paying you know license fees on operating software, like Red Hat, and Linux and all that. And also there will be an additional amount that will come in as amortization on the platform as well as on the servers, and other equipment that we'll be using on the platform, which should be, you know, we'll get more visibility as we go forward. But that would, you know, we'd amortize it over a period of eight to 10 years to take care of the P&L and generally, trading platforms are amortized over a period of 8 to 10 years. So that is how we plan to take it forward. And there are already mock trading sessions which have started with our members. So it's been released to the member, yeah so there's progress on that. And I think we intend to go live from September, October, timeline is 30th, September with the present vendor. So before that, we intend to go live.

Analyst: But sir like, you know, you would have done your calculations, but from earnings perspective, whether it is going to be an accretive or dilutive, how we should look at that?

Satyajeet Bolar: I think as I said, we won't be paying any additional variable, so it won't be linked, so any additional earnings that we make there's nothing that we are going to pay to the vendor right, which we presently are doing. So anything that we earn now, there's a variable component which is 10.3% which is linked to the transaction charges that we earn, but going forward, we won't have that component.

Analyst: Okay. So, in that way then, you know even if we have this amortization and all those things, so then you're saying it may not be earnings dilutive?

Satyajeet Bolar: That's right.

Analyst: Sir, on the electricity side, we have talked about this, what is the status there and when do we see those contracts getting launched?

D G Praveen: Currently, as you know that we already have filed our application earlier with our regulator. We are awaiting, actually because they have formed a joint committee between the CERC and SEBI. They are also looking at it. So, as and when they approve it differently we will be going ahead and launching that electricity contract. We are very positive, but just I think, let's see when they are going to approve that one otherwise, we are prepared.

Analyst: But sir, any thoughts like what is the outlook on the gas futures, is that the gas futures may go down, oil may come up, any thoughts here?

D G Praveen: Gas, already it is getting traded. So, what exactly are you asking for?

Analyst: Sir, in terms of the volumes on the gas side versus the crude, any thoughts how we see that turnover, you know whether you see gas trading turnover going up or down, any outlook there?

D G Praveen: So, like you said the volumes will be dependent on volatility in the underlying commodity. So, the moment if you get more volatility in that commodity, definitely I think, that will push up the volumes in that particular commodity. Off late we are seeing that a lot of volatility in the natural gas and the volumes, we have got very good volumes from natural gas options as well as futures, but we cannot say that how the things will pan out over the entire years. Because you know that it all depends upon the volatility and many fundamental factors will influence that particular volatility.

Analyst: Okay. And sir is there a possibility of any increase in tariffs in any of the products?

Satyajeet Bolar: No, nothing, nothing at the moment.

D G Praveen: At present, we are not looking at it.

Satyajeet Bolar: And as Praveen said, we have just started charging on options from October, we'd like it to stabilize, and I think we should also remember that because we had launched options sometime in 2017, it took some time for the traction and, in all calls we were asked when are we going to charge, but the fact is that, we had the product and it was new. Members and clients could move from futures to options, because we have that product and we have been able to take care, ensure that our volumes have not been affected badly, transaction charges have not been affected badly, because we had options in place as a product.

Analyst: Got it sir. Sir lastly now in terms of the cash surplus, which will be generating, how do you any specific you know usage in terms of special dividend or how the management thinks about that?

Satyajeet Bolar: I mean, we do not intend to hold more than what we need. So, I mean, the dividend policy is clear it's on our website. So we give out 75% of what we earn every year. And, as we have mentioned in earlier calls, we need to have some cash for co-location, and some cash for new products. Maybe, if you have to launch a new vertical under different regulators, so then we'll have to meet those minimum net worth criteria. So that's why we need some cash, but you know as and when probably once this CDP project stabilizes and you know we are clear, you know I'm sure the management have taken appropriate call with the blessings of the board.

Analyst: Got it sir. So that's all from my side. I think this was very helpful. Thanks a lot for taking time out and apologies again from the last time we could not connect. But thanks for taking your time and sharing the views on the company, thanks sir.

Satyajeet Bolar: Thank you.

D G Praveen: Thank you.

Moderator: Thank you.