MCX/SEC/1947 June 28, 2021

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

Ref: Scrip code: 534091 Scrip ID: MCX

Subject: Transcript of the conference call 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(s) of the conference call with investors/analysts.

Sr. No.	Investors/Analysts	Date of Call	Time	Annexure
1.	Spark Capital	June 22, 2021	4.00 pm	***Annexure - A***
2.	Pine Bridge Investments	June 23, 2021	4.00 pm	***Annexure - B***

Note: The audio/video recording(s) of the above meeting(s) are uploaded on the website of the Company at https://www.mcxindia.com/investor-relations/ir-meetings

Kindly take the same on record and acknowledge receipt.

Thanking you,

Yours faithfully,

For Mufti Commodity Exchange of India Limited

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Digitally signed by puri ajay
Date: 2021.06.28 17:39:28 +05'30'

Ajay Puri
Company Secretary

Encl: As above

METAL & ENERGY
Trade with Trust

"Multi Commodity Exchange of India Limited Conference Call"

Spark Capital, June 22, 2021

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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 that those expressed in our forward-looking statements. We do not undertake to update our forward-looking statements.

SPEAKERS: **MR. D.G. PRAVEEN – HEAD, INVESTOR RELATIONS, MCX LIMITED**
MR. SATYAJEET BOLAR – CHIEF FINANCIAL OFFICER, MCX LIMITED
MR. VIJAY IYER – INVESTOR RELATIONS, MCX LIMITED

Vijay Iyer: So, today on this call, our CFO and Mr. D.G. Praveen will be there, he is the IR head, both of them will be there in the call today.

Sanketh Godha: Actually, last time in February we spoke actually with Praveen sir and Bolar sir, but since I might initiate by end of the month, I have done a lot of work. So, I had few more questions which I wanted to connect. Sir, if we want to meet, have a word with Reddy sir, it can happen only in next results season, right?

Vijay Iyer: So, basically what happens is, MD is there for the first two weeks and then it is Bolar sir and Praveen sir. So, yes, so I told Srivatsan also, so maybe immediately after the next results, that is Q1 results, because of his other commitments he gives two weeks from his calendar for IR calls. So, accordingly we can post results we can try and do something.

Sanketh Godha: Sir, basically the way I look at the company, in the last two to three years the company was somehow got impacted because of the regulatory changes, whether it is compulsory delivery in the metal contracts or base metal contracts, or discontinuation of mini contracts or in FY 2021-day high margin requirement in crude or on incremental basis the peak margin rules. Sid, do you think the worst with respect to after peak margin rule of 100% application from September onwards, do you think worst with respect to regulation is over? And we would be looking at a new normal from maybe after September hit what we will take and then we will look at it a new normal? Or that will set us a base and then we should see things normalizing from there, how do you see or there any other further headwinds kind of regulatory thing?

Praveen D.G.: See, I was telling, take the case of even peak margin reporting, maybe some time back, maybe we can take six, maybe nine months back or something, nobody had thought that this kind of regulatory thing will come into the picture. It's all about like, how the regulator will react to your particular situation and how the regulations will go for a change. But I see the things differently. Whatever happened in the past, whether it is converting all the commodities into compulsory delivery contracts, or you take the recent case of the peak margin reporting, they are all going to benefit the exchange or the commodities market in the long run. Because if you take the case of compulsory delivery contract, earlier at least it's like you won't be having many value chain participating in those contracts. Because for the hedgers and other people, they feel that if they wanted to have a platform wherein they can also be able to offload their stocks if at all they want to do it, or they want to do the hedging.

And discovery also, there could be some difference between the Indian discovered price as well as the global discovered price, even though there is a very high degree of correlation between these two prices. Essentially like there will be some amount of Indianization whether even in terms of pricing. You take the case of gold also. Gold, most of the cases you see very close correlation, more than 90% of correlation whether in global markets and other things, but India has its own market. So, because of India’s domestic supply and demand factors also have an influence on these things, it is better if you have your pricing based on this Indian totally a domestic market. Not only that you take the case of earlier it is like it was excluding the customs duty, today all the compulsory delivery contracts are inclusive of customs duties. That means a hedger can be able to get effective hedge even for changes in customs duties.

And take the case of other thing, there is an efficient ecosystem that have been built up now and that ensures that there is a spot, and this convergence will take place. By having an efficient ecosystem, the competitive threat is gone now, so not anybody can now be able to set up the ecosystem or can be able to build up that kind of connect with the value chain participants and can mimic what is happening on the MCX. So, that way maybe it can have a bearing in the short run, but today the volumes are very much comparable with what we have witnessed sometime back prior to the LME, that means when we used to take LME prices. So, that way we are at par. Maybe the participation, the number of participation has come down. That reason is again different because the reason is like we had to continue with only one contract not with multiple contracts. Now, we are getting ourselves established with all these contracts, like we have all migrated to basically a standard contract not a mini version now, and we could see you the very good acceptance from the market participant, that is how we even in case of metal we are able to proceeding towards this kind of empanelment of refiners. So, all these things are happening. So, that way I see this one is a very positive development. It happened that time, but now we could see very good recovery from that particular phase. And going forward, I think with more multiple delivery centers getting added we may be able to bring a pan-Indian market rather than a regional market or international market. So, we are happy with that.

Second in case of peak margin reporting, even let's look at it why the peak margin has been introduced.

Sanketh Godha: Sir, before getting into peak margin, on the delivery a small clarification. Sir, previously it was LME prices and LME standard contract in base metal. So, now the contract Indianized to some companies standard delivery or I don't know, Hindalco is in aluminum, kind of it is considered as a standard metal and that will be delivered to the customers, I just wanted to understand that. And second thing what I was asking is that when we tie up with LME, LME prices are used then we probably pay a minimum fee or a revenue sharing with them because we are using their price. So, it's also in compulsory delivery and Indianization happens, then that kind of a savings potentially can happen to us, sir?

Praveen D.G.: Yeah, already we could be able to capitalize on that one. So, as of now we are not paying any particular revenue sharing today the LME because we are no more using their prices for settling purpose. And coming to the brands, how in this case it happens is, today we accept LME approved brands, that means they are good delivery brands, that means those brands and approved brands can get delivered on the exchange and it will be considered as a good delivery. Going forward what will happen is, we are planning that is what it is in the process wherein we are going to empanel some domestic producers also. By doing that one whoever gets approved, like empanelled that particular refinery or particular this one is approved, then even that particular branded goods can also get delivered on the exchange warehouses apart from the LME approved brands.

Sanketh Godha: Sir, LME approved brands and manufactured in India, or you need to import?

Praveen D.G.: No, there are Indian as well as global brands. Not every company of Indian origin is not registered with the LME, but major large producers and those people are already registered with LME, empanelled already. The same case, the way we already have replicated this exercise in our bullion market, we have empanelled two domestic refiners apart from LBMA, because in there, there is a London Bullion Market Association, they have approve these refiners. So, we have approved that particular brands. Apart from LBMA approved brands we also have empanelled two domestic refiners.

Sanketh Godha: And existence of it is where, sir?

Praveen D.G.: Yes, very much, a lot of delivery also has been witnessed in the recent months after this empanelment.

Sanketh Godha: Which means you mean to say that the Indian brands which you have approved, not LBMA brands, those have been taken as delivery by the customer, this is the point you are trying to say?

Praveen D.G.: Yes, they can also deliver, like producers can deliver. See, the buyer will not have any right per se. Whatever seller is going to deposit, once it is marked to a buyer it has to be taken by the buyer. And buyer later himself can became a seller, that is a mechanism it works. In the gold the way it operates is, it is a vault-to-vault transfer is allowed, that means when you import it and it is put in a vault, somebody cannot take the gold outside the vault and again bring it back to the vault and that is not accepted. It should be a vault-to-vault transfer, that means it will not see the outside thing, it has to come to one vault, and it has to go to another vault. As long as it is within the designated walls of the exchange, then it is accepted for delivery. And it is binding on the buyers to take it, it's all about whether people have accepted it or not means this large amount of gold has already been delivered and people have accepted it. So, that means two already two, three cycles already have happened. So, it is well accepted now, and it is like, in the initial phase only we have approved two, going forward we will be empaneling more and more refiners domestically. And similar exercise we will be carrying out in metals market. To start with, we are looking at lead.

Sanketh Godha: Okay. So, lead is manufactured easily in India?

Praveen D.G.: So, lead’s only problem is, most of them are recycled metals. So, once it is taken and out of that one they will make it recycled, lead is like that. And there are many players in this market, in the lead market. For example, in case of nickel it is completely imported market, there are also even we call it base metals, but essentially the structure of the market is slightly different from each other.

Sanketh Godha: Sir, basically you are saying that this from a long-term point of view is positive, and my question was, basically you need not take any SEBI approval to empanel a broker or a brand kind of thing? Or it is MCX discretion which brands you want to have?

Praveen D.G.: We discuss with SEBI, like once it is like what is the empanelment process of ours and then we send it to the SEBI for that we are approving this one, whether they have any objection or not. We have our own empanelment process which has already been shared with SEBI. So, that means they know what's happening in this one and everything, so we take them into confidence then only we do all the things.

Sanketh Godha: Why I am asking this question is that suppose suddenly you get two more refiners, hypothetically, and like you want to empanel them, then it has to be routed through SEBI, but because the process of how it has been designed and SEBI has approved the process of empanelment so you can at any point in time further add two more companies or two more brands for the empanelment?

Praveen D.G.: We share, and we also offer no objection and everything, whether they have any particular observation or not. But then you go through all this, this all happens after due diligence happens at exchange level. We have a separate committee, brand committee we call it, that will look into this one, which brand have to be approved or not, whether audit has happened, financial audit will be there. And apart from the financial audit, you will have technical audit. So, in case of metals, people even test, that means the actual buyers of the metals, they will test, and they will say that yes it, that means for them it is usable material type of thing they give it. Basis of all these kind of audit and other process, once we get the approval from that brand committee and other thing, we approve a particular brand.

Sanketh Godha: Sir, in delivery what would be the mix now, the domestic brands? I think it's limited right now to the gold.

Praveen D.G.: It is gold only; it is limited to only gold. There also to start with we started in gold mini, we straight away not introduced in gold 1 kg contract. But not sure the number, but it should be around more than 200 Kgs of gold have already been delivered.

Sanketh Godha: Since we have started. And since when we have started?

Praveen D.G.: It a very recent development. I don't have the exact idea, but it is very recent development, particular month I may not be able to give.

Sanketh Godha: Sir, why I am asking this, since this has been introduced in 1,000 Kgs of gold, so is it 200 coming from domestic brands, that's the point I am trying to get?

Praveen D.G.: Yes, I am talking about domestic only, I am not talking about others.

Sanketh Godha: No, I got it. What I am trying to ask is that, if you have delivered 1,000 since this has been implemented, then at least 20% or 30% of the delivery is either domestic brands or still LBMA brands are still delivered kind of a thing?

Praveen D.G.: Okay, understood. That I think I will see in case of how the things are I can give you the numbers roughly.

Sanketh Godha: And in metals you are trying to say…?

Praveen D.G.: Metal, it is still in the process. We have come out with the empanelment process. Already some refiners have supplied to us. But as of today, we have a not empanelled anyone because there should be a gap between one technical audit and another technical audit as per the process. It's not like in one lot you pick up and you will see that, okay you pick and drop. You will have multiple audits, first audit, primary audit, after that sometimes you will have another audit, then you will empanel.

Sanketh Godha: So, basically in metals you are not using LME prices, but LME brands are used as a benchmark to deliver.

Praveen D.G.: It is not LME brands, it is LME approved brands, that means brands have already been approved.

Sanketh Godha: Yeah, I got it. But in case of crude, which is still cash settled, we still use CME as a reference price?

Praveen D.G.: Yes, we continue to use CME in case of crude oil contract as well as natural gas contract.

Sanketh Godha: Okay. And there you pay a minimum fee or the revenue fee?

Praveen D.G.: Yes, we do.

Sanketh Godha: And what is the contract there, I mean, how does it work exactly?

Praveen D.G.: It is like we have a revenue share agreement with those people, their particular percentage depending upon how much volumes we do, based on that when we pay them.

Sanketh Godha: So, suppose I do Rs. 1 crore contract, I pay you Rs. 260, then out of the Rs. 260 some portion of Rs. 260, means 10%, 20% would be shared with the CME in crude, that's the way, sir?

Praveen D.G.: Yeah. Bolar, if you are there, can you just put up what is the number we have seen?

Satyajeet Bolar: Yes. So, there is something known as a minimum threshold, as well. So, there's a threshold, if we meet that threshold then we had to pay them an additional amount. If we don't meet that threshold, I mean last year for example, and the threshold is drawn up in a calendar year because it is a calendar year, so based on the calendar year we do not meet the threshold then we are to pay them quarterly an amount, a minimum guaranteed amount. So, that is paid to them at the end of the quarter.

Sanketh Godha: Sir, where do you see this lying in our P&L or on balance sheet?

Satyajeet Bolar: In their P&L I will tell you. See, this you have got it, see there will be software and the product license fees.

Sanketh Godha: Okay, got it. So, last year we paid around Rs. 170 crores in FY 2020, so that's the figure.

Satyajeet Bolar: Yeah, that's right.

Sanketh Godha: Okay, perfect. Got it, sir. Sir, you were saying something on peak margin, Praveen sir, so if you want you can continue.

Praveen D.G.: Coming to the peak margin. The idea behind the introducing this one is that members should not end up giving excessive leverage to their clients. See, even today you look at it, at the Clearing Corporation level we collect upfront margins, that means the money will get blocked from the clearing member account. So, that way, for every trade sufficient margins have been kept. But whether it has been taken from the member, we take it from the member, but whether member has sufficiently collected it from client or not, that is what is all about this peak margin report. So, earlier it used to be end of the day they usually looked at how much is the margin requirement and how much a client has brought in. If there is a difference, if there is a shortfall, then the penalties will be imposed. But today, at four intervals, what is the margin levels for each of the client and they pick up the peak one, whatever is the maximum one. And end of the day, again, they look at whether much sufficient margins are there with the member when whatever is compared with the peak margins. Again, if there is a shortfall, that means it will attract a penalty. By doing that one the members will not be able to give excessive leverage to their clients, so that also they want introduce it in a phased manner. To start with, they started in the month of December, 25%; then March they increased it to 50%; and now June it is 75%; and next September it will be 100%. So, they have introduced this framework, but in a phased manner but not in a sudden it would not be…..

Sanketh Godha: But sir, it had an impact on our volumes at least for immediate two months.

Praveen D.G.: Yeah, definitely yes. So, if you look at even us today, we have done in the month of June we have done something about Rs. 27,000 crores. And even if you look at May, May we have done relatively better, it is Rs. 31,400 crores we have done, something at that level. That was just if you add index also because I am giving you a number without index, but anyway, index if you add, it is close to Rs. 31,800 crores around that level it will come. So, that way the performance has been, that means other things remaining constant, if the factors remain constant like volatility and the other factors that remain constant, then definitely we could see an impact on account of peak margin reporting. But we thought we have to see is how long the market will take to absorb this kind of new, that means adopt this new framework that is what we have to see. Once the people get adjusted to this one, then I think we can see that a normalcy can come forward. But the advantage to the market is automatically there won't be any excessive leverage in the market itself, there a proper discipline will be kept in place. But if people could get up to them, no practice.

Sanketh Godha: But sir, because of the delivery participations are reducing in the metal segment. Similarly, there might be few people who might completely exit the market because they might find 100% compliance is too much for them from a capital bringing point of view. So, do you think it will have a bearing on…

Praveen D.G.: Then you also have to look at whether continuation of that kind of investors is healthy to the market or not.

Sanketh Godha: Right. So, long term point of view you are saying fine, but immediate basis naturally there will be an impact. But sir, one anomaly which I fail to understand is that equity market did not react as much negatively as the commodity market has reacted, volumes have come down there also, but they immediately recovered. But in our case, even in the month of December we had a dent, then in March and April we had a dent, and then now we have dent in June. So, it seems to be a little a little more for us compared to equity market. Is it because our margin requirement per contract is substantially higher than the equity market and therefore people's inability to bring that kind of capital is impacting more compared to equity market? That's the way should I look at it?

Praveen D.G.: See, more than that, I can see that our markets are still in a nascent stage as compared to the equity market which is a matured market wherein you have institutional participation as well as foreign participation, foreign participants are already active in the market. So, it's definitely like we cannot be able to compare these two markets. The clientele base only is very large in the equity market as compared to…..

Sanketh Godha: Right, it is 50:50, 50 institution and 50 retail.

Praveen D.G.: In our market, the only I can say the gates have been opened recently only, one by one I think regulatory enablement are happening and we could see the entry of new and new participants in this market. But off late, we could see that some attraction happening even in our options market, that's what we see. But take it, in equity market it is largely driven by index options. And it is short term index options, that is what is driving the equity markets. But we don't have comparative products here, like still index options are not allowed, only index futures are allowed, but there also we have seen some enablement are required like cross margin benefit is yet to be approved and position limits are very tight, it is only 1,000 lots in case of index futures. So, that way, there are some regulatory enablement's are required. Maybe once the markets opens up more and more, so such kind of regulatory things I think it can enable the market able to observe very easily.

Sanketh Godha: You are trying to say that a person can't take more than 1,000 lots of an index futures, so there is a position limit. So, traction in the volume will be accordingly limited, because he can't take at one time 1,000 lots position, right?

Praveen D.G.: So, the way it is like, 1,000 or 5% of the market whichever is the higher. So, unless the market itself grows bigger, somebody may not be able to take more than 1,000 lots. So, in this market what happens means, if somebody wanted to cross 1,000, then in the current scenario it becomes very difficult. See, we cannot expect everybody to go bigger and start doing larger amount of trading, so we expect at least one to reach and others will follow. So, that is what we are expecting, so in fact we have also requested SEBI to look at it for position limit also, let's see that how the things will pick up.

Sanketh Godha: Sir, in simple words, if the size of the trading increases, then an investor can take more than 1,000 lots?

Praveen D.G.: Yeah, he can take it.

Sanketh Godha: So, it's a teething problem right now, but how confident you are that SEBI will give an approval to go beyond 1,000 lots?

Praveen D.G.: SEBI, is not averse to growth of the market, okay, just to keep it in mind. The only thing is, they want to have market to grow in a very stable manner, one after one. So, they will not give you all in one go, rather they want to relax one after one and they want to keep reviewing the policies. So, by doing that one that ensures that there will be a stable growth in the market without any problems.

Sanketh Godha: Okay. Sir, you spoke about cross margin, just wanted to understand this cross margin, because to the extent I understand because I cover the equity booking space too. Sir, here what I understood is that gross marketing is applicable to any contract, if I go long on one, say I go long on call option and sell on another leg of the call option, then I get a net margin benefit. So, the initial margin requirement from the customer would be lower. And to the extent I understand, it is applicable only to the same contract. If I am taking a Nifty Index short, then I take that net margin benefit. But in case of commodity, whether if I take a position in case say BULLDEX, and to the extent I understand, in the equity market it is not applicable to futures market, it is applicable to only options market. So, the cross-margin benefit, the way you have mentioned in some calls, if I am taking a position in BULLDEX, then I can go 70% short say if I am long on BULLDEX then I can go 70% short on gold contract without giving any additional margins. That's the way you are trying to explain it, right?

Praveen D.G.: No, let me put in a different way. See, in equity market what is happening is, if somebody is having a position in futures and also having a contrary position in the options, so in that case we give a benefit because all the people use the SPAN, CME SPAN software which automatically captures what is the amount of exposure you have it in futures. And seeing the delta, means what is the movement of that option vis-à-vis futures, against taking that delta they calculate what could be the position that can be comparable to the futures in the option also, and they give you a particular benefit in that case. That is even in the commodities market today it is available, like if you take a gold futures and you take a gold options, you have a benefit. That means if you have a contrary position in each of this market, you will get a benefit.

What we are trying to say is, in equity market for example, in cash market NIFTY futures somebody is having, and somebody is having a contrary positions in the underlying stocks, then there the benefit is given if they have it in a particular proportion in which the index is being built. If it is in the same proportion, that means reliance and all these things, they are in a particular ratio, they will be given a particular benefit. So, here also what we are telling is we are talking about index futures versus underlying, like BULLDEX. In BULLDEX you have gold and silver. In gold, they are in the ratio of roughly 66% and 33%, I am giving you a rough numbers only. That means if somebody is having a contrary exposure in the gold and silver in that ratio, and the BULLDEX on the other leg, then I am going to give them cross margin benefit, at least to the extent of up to 75%. So, I calculate the margins in BULLDEX future separately, I calculate margins in gold and silver separately. Then I will see that whatever is the overall margin, out of that under cross margin benefit to the extent of 75% can be given. So, that is still in the proposal stage.

Sanketh Godha: But it is already applicable in equity markets, but we are handicapped of not having the facility in a sense in commodity market. That's the way you are trying to say, right?

Praveen D.G.: Yes, it is not there in the commodities market. But since it is given in one market, I don't see that SEBI will not allow in this market. I think we can see that one.

Sanketh Godha: But sir, right now also you have the benefit of suppose I am going long on gold future in one contract, and I am going short on another far month contract, assuming, then I get to the cross-margin benefit, right?

Praveen D.G.: Yes, that we won't call it as cross margin, it is a calendar spread they call it, and they give it. So, this cross margin is nomenclature wise they use it if it is between two different products.

Sanketh Godha: Okay. And you are saying that in the equity market if I am long on Reliance and I am short on NIFTY, in futures market, and if Reliance is 20% of NIFTY, then I get 20%...

Praveen D.G.: Generally, they want to look at only one Reliance, you need to have all the components of that NIFTY in your basket, in that index proportion then only you will be able to get that benefit.

Sanketh Godha: But sir, that might be very rarely used in equity market because I might find very few investors who might be…

Praveen D.G.: You can say the basket orders is very famous, people do use it for basket orders. But in this market you see that there are only limited this one, and that is how the liquidity can be built up, because algo trading another thing for them it will became very effective way of trading in these contracts because they can have a contrary position in the underlying and they can be able to trade in this index broader some of them they line.

Sanketh Godha: But can I do that same by showing physical gold to you, sir, or no?

Praveen D.G.: No, no, it is unpacking of two derivative products only. See, against the physical gold it can be treated as a collateral, like gold can be given or some other metals can be given and after leaving that particular haircut that can be gathered in your collaterals.

Sanketh Godha: Okay. So, maybe margin money will come down because you are using gold as a collateral?

Praveen D.G.: Yes.

Sanketh Godha: Got it, fair enough. Sir, you are saying that this cross-margin benefit will be actually a big tool or a big advantage for algo wise or basically who uses these kinds of technical tools to trade a lot on the exchanges?

Praveen D.G.: Yeah, yes. See, generally it is going to have repercussions, right? If one is going to get benefited, automatically the bids and the impact costs and other things will come down, right? So, later even the retailer will be the beneficiary of these developments.

Sanketh Godha: Got it. Another thing, I have two quick questions on margins. One question is that I think Reddy sir in one of the calls said that you are going and pitching to the SEBI that intraday margin treatment should be different from over-night trades. So, when intraday trading that will be limited only to this spent plus exposure, so just wanted to understand if it is only spent how much cut will be there in the margin? And to what extent do you think the approval can come so that it can benefit the volume?

Praveen D.G.: See, if you look at the additional margins, additional margins are principally driven by stress testing. Because if you are supposed to look at what is your SGF, that means a payment guarantee fund based on stress testing, the stress testing guidelines are already given by SEBI. Suppose if you are not having enough for SGF, then it is like the exchange or the Clearing Corporation or the members are supposed to fund that SGF. So, to reduce the stress test requirement, that means the requirement of the SGF, then if you increase your margins automatically the results will show reduced the SGF requirement. So, to have it, if you feel that your open interest and everything is getting built up, then either you have to add yourself, you have to it increase the

SGF, gather capital in the SGF or alternatively you can increase your margins. Currently what is happening is we have to increase the margins in order to reduce the requirement of the SGF.

Sanketh Godha: Because SGF is a permanent loss, if it goes then we can't get it back?

Praveen D.G.: Yes, once it goes you cannot be able to take it out. I am telling in general, because additional margins can be levied based on many other factors also, but what you could see in gold and maybe in crude oil and other things they are all related to your SGF related, stress test related margins.

Sanketh Godha: Okay. Got it. Sir, in one of the calls sir again said that with respect to crude there is a participants who used to trade in that counter. So, if it is a permanent loss, do you think even if the margin requirements have come down to now 20% in crude compared to 150% a few months back, then even if the volatility remains, structurally the volumes in crude will not touch to the peak levels which we have seen in the past? Should I read it in that way, or you think participants will come back as the volatility increases?

Praveen D.G.: See, over a period of time there you can see that participants will start trading in the contract of their choice. In the short run what can happen is, definitely you will lose some people. Because see, earlier even we were having crude oil mini contracts was there, now that was discontinued. Even in case of crude oil, our margins are on a higher side. But going forward, let's look at the exchange level if you look at it, it is like number of participants, traded participants were about 4.56 lakh compared to 4 lakh last year. So, overall if you look at participation wise, there is an increase in the participation. And whether they have traded in the energy contracts, no, not because of the higher margins and everything.

Sanketh Godha: So, basically we are choosing different products rather than doing a crude which they were doing in the past, that's the way. Maybe it is not a permanent loss, but they might have switched to some other product.

Praveen D.G.: Maybe one or two maybe permanently we may lose it, but that can be. But how many such people, I don't see that. The number should not be a big number, definitely we would be losing some people.

Sanketh Godha: Got it. Sir, just another thing on hedging was, RBI made it compulsory for gold to be hedged in India. So, that benefited us with respect to maybe to some extent in volumes. So, can you pinpoint and tell us, if it's possible, first of all, when did RBI introduced it? And second, due to this have you seen Titan kind of companies or any other big companies using MCX hedging as a capacity now for contribution and the total volumes have gone up and have contributed to how much increase in the volumes as such? I mean, just wanted to understand how big delta benefit you got it because of this? And then do you think this can be implemented either by RBI or any other company or any other regulator in other commodities, like maybe metals or crude or something of that kind which could act as a benefit to us?

Sanketh Godha: And in case of gold, in 2018 the RBI has come out with this, that means out of the permitted commodities where a company can go and hedge overseas, gold has been removed. And effectively, now those companies who are having exposure in gold, now they have to either go unhedged or they how to do the hedging in the domestic market.

Praveen D.G.: We have seen that, after this implementation of RBI regulation we could see that there's a great increase in the OI, in the gold, especially if you look at the gold there have been good improvement that we could see in the open interest. And you can also see in the light of this Titan, Titan today they have formed a separate subsidiary company to trade in this commodities market, earlier also they were trading but we could definitely see that good improvement that we could witness in the open interest per se.

Sanketh Godha: Sir, that ADT of bullion increasing from say less than Rs. 59 billion in FY 2019 to a sharp jump Rs. 117 billion in FY 2020 and the FY 2021, maybe FY 2021 volatility contributed. But in FY 2020 the jump largely you can ascribe it to the RBI making it compulsory to hedge it in India?

Praveen D.G.: See, that’s what I am telling, hedging percentage is always going to be different from volumes. And out of hedging also only residential portion will come translate into delivery, because many people prefer to hedge on the exchange, but they will not necessarily will deliver or take delivery on the exchange. This is kin the international what is happening, because less than 1% of the trade generally results in delivery of the commodity. Rest of the people will square out depending upon their requirements. So, whenever there is a hedge requirement they will step in, and they will take a position and they will walk out. But coming to the volumes rise, just definitely will add market depth and also like they also will have specific interest for long dated contracts, wherein there are other set of participants are there like you have algo people, you have cash and carry arbitragers, and also you have intraday traders, these people are all interested in more day-to-day volumes. Cash and carry arbitrage also is being done by many of the hedges, because they have a complete understanding of that particular market. So, that ensures that your spot and futures will converge.

So, whenever volatility is there, people start hedging it and the open interest will start building up mainly from the hedgers side. But volume will be driven by other factors, that will be mainly driven by other people. Because a hedger will not trade multiple times like an intra day trader, he will take once, and once his requirement is over he will square off and he will go. So, the risk, whenever the markets are having other speculators another market you will have a market wherein whenever a hedger wanted to offload his risk, will have a counterparty, that is the role of the exchange.

Sanketh Godha: And if you have heard anything on FII participation which Reddy sir speaks multiple times in the call, have you heard anything there, any positive development? And if it is happening, what extra delta can it bring if you have made any internal assessment in the volumes in that sense? And also, have you heard anything on GST related challenges which make mutual funds or AIFs and PMS to trade on, which means it has become a little challenging for them to trade on the commodity market, sir?

Praveen D.G.: Okay. Coming to the foreign participation, I think in the meeting also you noted that one meeting with SEBI has happened wherein several constituents of foreign participants, including NRIs, you take the people who are having exposure to the Indian market, all have participated, banks, the international trading companies. So, they have participated, and they have given their inputs like how this market can be more liberalized compared to any other segment. Like in case of currency if you look at it today, to your particular stint, like a particular threshold, then you not have to get into all the documentation, it is free like anybody domestic investor, they can be able to participate to that extent without obligation to have or to provide the proof of having a FO and all those things. So, what is being sought by even these people, because when you have rules it is very difficult to prove that you have an exposure, and the requirement will be coming and going. So, it makes it practically impractical for these people to come, when you have all this kind of documentary thing. So, what they are asking is, at least to a particular threshold to leave it. And already you had a position, client level position limits are there. When you have client level position limits already existing, allow the foreign participant also to that extent, without any supplementary or supporting. Once, if anybody wanted to take a position beyond that one, let them provide the necessary documents to show that they have made an exposure in the Indian commodity. This is what has been sought, and generally because it's a policy decision, we will be definitely looking at it, we have to see that when SEBI will take a decision on that.

Sanketh Godha: But you are confident that this fiscal year it could be fast to that extent given the level of interaction with SEBI?

Praveen D.G.: Look, regulatory wise it is very difficult to say, that you can understand, right. We cannot give any timelines to that.

Sanketh Godha: On GST have you heard anything?

Sanketh Godha: GST also, till today the proposals have gone and we also have taken up with the GST authorities. But as of now no decision has been made as of now. Another thing, in the past it was so much harped when bank brokers allowed it will be positive for the sector and so on and so forth, but honestly it never played out. But why you use so much important to a bank broker? Because when I see the new generation of brokers like Angel, Zerodha or other companies, they probably bring more active clients or a client who can do more frequent trading rather than a ICICI or Kotak kind of a company will do. So, I really fail to understand why this question has been multiple times asked to you that bank brokers could be a probably to some extent perceived to be a game changing event?

Praveen D.G.: I will tell you, just I am telling you, this all happened when the COVID pandemic expedited role of discount brokers. But if you look at it earlier, earlier bank subsidiaries used to have a very large database. Many conventional investors who otherwise they are not interested in getting into this kind of discount mode of brokering, very difficult to operate through these bank brokers. So, as an exchange, we are not averse to anyone, we always wanted to make the market available for all the market intermediaries. So, that we have enabled it, maybe that is what the trend what you could see the recent trend means, even the mobile trading has started playing a bigger role as compared to earlier trade.

Sanketh Godha: In your case also I see that mobile trading has subsequently gone up. Basically, that's the reason I was checking, because these companies like I-Sec or Kotak or Axis might have significantly lost market share in the equity market to these new generation brokers. Probably what importance they used to get maybe three or four or five years back, that kind of important probably or the kind of clout they don't have in the market right now. So, in that sense, whether they can still be a game changer or it's now a non-event kind of a thing?

Praveen D.G.: See, I still feel that there are certain investors still are associated with these brokers and some traditional brokering methods are still used, even though some people would have gone ahead with the discount type of brokering thing. But still people because if a person wanted to trade on their own intelligence without the help of anyone, he would go for a discount broker. But there are people who feel that in a traditional way people look for reading regular newspaper and not ready to read on a mobile, you require all set of players right, all set of participants.

Sanketh Godha: Sir, how much do bank broker contribute to ADT?

Praveen D.G.: Very less, at the moment it is really less.

Sanketh Godha: So, can I say it is less than 10% or less than 5%?

Praveen D.G.: Yes, it is less than 5%.

Sanketh Godha: Sir, now coming on a couple of more questions. If you have time, right, I can take another 15, 20 minutes or you want to close it by 5?

Praveen D.G.: Maybe you can take 5, after that when we have another meeting, so another 10 minutes.

Sanketh Godha: So, maybe I will take accounting question separately, I have few accounting questions with Bolar sir, I will take it separately. Sir, on TCS thing, just if you can indicate the cost what will be incurred. So, for example, even if amortize, right now we are seeing around Rs. 50 crores, Rs. 55 crores of cost, assuming ADTO remains flat. So, if you are going to amortize over five or six years, so the yearly run rate will be substantially higher than Rs. 50 crores, Rs. 55 crores? Or it will be maybe 20%, 30% higher than Rs. 50 crores, Rs. 55 crores what we are paying to 63 Moons?

Satyajeet Bolar.: Two parts to this, one is, I mean, you know, as MD mentioned in our call and I am sure you must have gone through the transcript, there are two parts to it. One is the AMC part and the other one is amortization cost. So generally industry that it gets amortized over a period of time, over a period of six years to eight years. And one is AMC. So, as he mentioned, the first year once we go live in July 2022, or if we go live in October 2022, in the first year there won't be any AMC to pay. And then it would be a figure which Mr. Reddy mentioned, would be in single digits in crores. And you take the amortization also. The software part I think if we amortize it over a period of eight years, it will be similar to that amount, maybe here and there. But also, we will be incurring some additional hardware. All those costs would come in. But net, net I would think as of now it is for me clear winner that we will be saving substantial amount of money from October 2022.

Sanketh Godha: Sir, I understand that, but maybe after five, six years it will be a big saving for us.

Satyajeet Bolar: No, even now, even from October 2022 it would be a big saving because I won't be paying 63 Moons.

Sanketh Godha: So, basically I can seriously assume that AMC plus amortization cost, whatever period you amortize, maybe six or eight years, will be very similar to what you might be paying to 63 Moons right now, but after six years when amortization cycle is over, then you will have a big benefit because it will be on…

Satyajeet Bolar: I will correct you here and I will say that even from October 2022 my amortization and AMC cost would be much less than what I am paying to 63 Moons now.

Sanketh Godha: I thought amortization cost because it will be higher, but from EBITDA level it will be…

Satyajeet Bolar: I understand but I am making qualifying it here by saying that the software, the trading platform cost. Now, there would be some additional hardware that we will obviously have to purchase and procure.

Sanketh Godha: But what I mean to say that I was under the impression that it will be an EBITDA improvement, but what PAT will have an impact because of the upfronting of amortization cost or hardware amortization cost, in that sense, our PAT will get impacted but EBITDA will definitely improve, that was my thought process. Is my understanding right?

Satyajeet Bolar: That's what I am saying, the PAT should improve. EBITDA as well as PAT, both should improve.

Sanketh Godha: Okay, got it. I understood that. And second thing, one thing is unique, again just wanted to understand, our active user base is 4.57 lakh what you told, but for equity markets it is 1.89 crores. And if I even look at activation level, because we have 16 million customers, out of which 4.57 actually trade, the activation rate is around 7%, 8%, but it is 30%, 33% in equity market. Sir, this different broadly is explained because of what, is it because again the same answer, the equity market is more mature, and the commodity market is really nascent? Or there is something structural behind this reason why the activation level or the number of traders in a commodity markets are lower?

Praveen D.G.: No, like I said, for markets it is after the 2003. The market started getting matured only, and it came under the fold of SEBI very recently. So, all the enablement and other things, all happening post the recent regulatory change whatever happened, and we came in under the fold of SEBI. SEBI have allowed options. Even index was a very recent development, allowing the participations are also very new. Prior to that one, we were all having only few set of participants, very few set of participants and even the products are limited to only futures, there were no options per se. But in equity market, it was much like it all happened much earlier so that's why it was having a very large database, this investor base and other things. But even this market once started going I think today when a person is getting registered for equity, same time the brokers could be able to allow them to get registered in the commodities market. But that was not the case earlier, because there was no integration of intermediaries earlier, there used to be separate subsidiary for commodity and one for equity market. This all have changed now, so anyway all the changes will definitely add growth for the commodities market.

Sanketh Godha: Sir, since you have highlighted on options, just wanted to understand why options really did not pick up? Because after STT was introduced in equity market because of the less impact cost because the STT was charged on premium compared to enter turnover. Similarly, CTP probably starts only on premium rather than the total volume. So, the options with no impact cost should have actually done very well as soon as it got introduced.

Praveen D.G.: I will tell you. Our market have been different as compared to the equity market. They started with the cash settled products. They started with index options as compared to ours. In our market it is like even though we call it by the same animal but the build wise it is different, you have a devolvement margin, and it is used, that means compulsory delivery, which was not the case, in case of equity option. All happened very recently, even stock options have been made delivery based very recently. Otherwise, they were all capital product, and all type of institutional participants were active in that market. But in our market, that's not the case. If you were in that market when options were introduced, it took some time to really mature. So, here also with the more mature set of investors coming into this market, and maybe once we introduce index options, and other kind of products, I think we could see that more and more participants coming into this way. Also, remember, last time in gold also initially we launched only gold options. Because the regulations have not allowed us to launch other products. Subsequently, we could be able to launch options in other commodities also. Till recently there was a restriction was there that allowed us to have options only on top five commodities, only recently that has been removed, that particular threshold has been removed. So, if any underlying could be able to meet that particular turnover criteria, then you can be able to launch options in those products. But I think in our it is relaxed, so I think it should be….

Sanketh Godha: Sir, is it because our options is on futures and not on commodity, and it has to get devolved into future and then get settled. That's one of the reason why the options pick up is lower?

Praveen D.G.: No, what I mean to say is the product itself is not exactly a replica of product what is being traded in the equity market, it's a different product. So, people are taking some time to get adjusted to this kind of new mechanism.

Sanketh Godha: Sir, in index options, how confident you are that it could be launched very soon? And if it is launched, do you think it could really drive the growth significantly?

Praveen D.G.: See, you can take the example of the index futures only, because even though we don't have any numbers, today we are doing something around Rs. 300 crores per day on an average. We have launched BULLDEX in the month of August and METLDEX in the month of October. And we have not completed even one year. And like I said, position limits have to be enhanced and also we require the cross-margin benefits. So, all those things are still there. But given under these conditions also the index futures could do something around the Rs. 300 crores, which is decent and reasonable that's how I look at it.

Sanketh Godha: Sir, when you start charging for options, the same Rs. 5,000 crores threshold you have in your mind, or you can start charging a little early also, sir?

Praveen D.G.: It's all about the board, when board will decide on that one. We will have to see, that accordingly when board takes a call on that particular thing we will be charging them. But in case of index futures already we started charging.

Sanketh Godha: Sir, any chance of me revising transaction charges which is Rs. 260 per Rs. 1 crore and Rs. 175 per Rs. 1 core, depending upon the size I take, given we enjoy 95% market shape. Do you think there is a probability or board will take a call that we can increase it? Because it's been now five years almost and we have not taken any price hike?

Praveen D.G.: See, people got adjusted to this one unless there is a need for revision, we will not be tinkering to that particular thing because people already got used to that kind of thing. But only if there is a need arises and if board feels otherwise, then we have to revise. Otherwise, it is fine, people are adjusted to the current fees.

Sanketh Godha: Okay, I was actually asking from the upwards, if you increase the charges, like five years is a decent time and inflation has come and hit us. So, a probability of going…

Praveen D.G.: It's not about inflation right, in this case if we go on increasing one time it will reach 100%, that should not be the case, right? So, when you are charging a particular percentage base on this one, because we are not charging based on per lot like in global market, we are charging based on the value, in the value terms. So, that way the inflation is already factored in this one.

Sanketh Godha: Sir, a fundamental question. If there is a risk that if India will move where the global guide starts, any risk is there, or it will not happen at all?

Praveen D.G.: See, both have their own merits and demerits. Because we feel that in Indian market, depending upon the market circumstances if the market prices are down and other things, automatically the fees will be lower, and people can be encouraged to trade more. If it is higher, automatically it can go on a negative side. But globally we feel that okay, irrespective of the market conditions we wanted to get the share, we wanted to get it. It is a different approach and Indian markets have been following this model, whether equity market or us.

Sanketh Godha: Yes. But for example, if someone wants to float a new exchange and if he comes with this kind of pricing model…

Praveen D.G.: See, that won't work, somebody is not even charging fees, that's what I can tell you. Liquidity is the key, wherever liquidity is there that is going to attract more liquidity.

Sanketh Godha: Got it. Sir, finally on new products. See, electricity futures and on coal auction or all new products or spot market good, spot market, international billion market, how do you see that coming through sir and by what timelines it can come so that it can become a meaningful contributor?

Praveen D.G.: In electricity we have that you would be knowing, right, that matter is pending with the Supreme Court. So, once there I think the things will become clear I think then I think that anytime we can be able to come out and launch the product and that one. Otherwise, we have already applied to the SEBI that way.

Sanketh Godha: Sir, any visibility on Supreme Court ruling to come?

Praveen D.G.: You are asking a very difficult thing. Otherwise, if you see other products, I think already we are all working on different new products like steel, we are also working on aluminum alloy, some LME products, all these things we are working on these products.

Sanketh Godha: Sir, steel could be a very big, honestly I am just asking you, because steel is the most used commodity in metals, so can it be a really big product?

Praveen D.G.: See, the way you have to look at it is. Steel also in the past we have launched, that time we were not successful, the reasons could be different, and the situation can be different. But today many of the metals have already been converted into compulsory delivery contracts. So, investors and other people are not today are not that much averse to the compulsory delivery contract as compared to what they used to treat them differently in earlier days. So, let's see that how the market will pan out, because now we have a proper ecosystem in place, we have designated warehouses and other things. Maybe the delivery locations could be different because we have to see where there is a market is there for steel, and accordingly that will be decided. But anyway, now no more investors are not averse to that kind of delivery-based contracts now, so we ought to see them differently now.

Sanketh Godha: Great sir, this is useful. Bolar sir, if you have some time, I have few accounting questions, I will take 10 minutes of yours or 5 minutes of yours rather.

Satyajeet Bolar: Sure. Because I have got a meeting at around 5:30, but we have time till then.

Sanketh Godha: Okay, perfect. Thank you. Sir, one thing on revenues, in FY 2020 annual report we disclosed Rs. 374 crores of revenue but now in FY 2021 it is Rs. 391 crores. So, the difference is largely because you started considering the float from margins, inv will come from float as an operational income, that's the difference?

Satyajeet Bolar: Yeah, so when we consolidated our financials, see what we are doing, we are doing line by line consolidation. So, MCX CCL or subsidies, as an industry practice, they are taking the margin money as part of the operational. So, the money that they earn as the margin money is part of operational income, is in line with the industry. So, this industry line.

Sanketh Godha: Okay. So, sir, for FY 2020, if I do the difference of 3978, 3742 in million rupees, so that is my investment income coming from pure trade margin, right, that's the way I need to look at it?

Satyajeet Bolar: Yes, correct.

Sanketh Godha: Okay. Sir, in the past in your trade margins you used to give that break up, in the FY 2016 annual report I saw that the margin is broken down into initial margin, additional margin, bank guarantee, FDR, so and so forth.

Satyajeet Bolar: See, in our call we have mentioned that our cash margin members have reduced the cash margin exposure, which was last year at around Rs. 700 crores, Rs. 730 crores in March 2020, now it has come to around Rs. 375 crores. So, while the margin has been more or less the same, around 5,500, last year was 5,800 now it is 5,400. Last year the cash component was around 12%, now the cash component is around 7%.

Sanketh Godha: So, sir, in the annual report of FY 2020, I can see that trade margin is at Rs. 697 crores. So, you are referring to that number only, right?

Satyajeet Bolar: Yes, mainly that number.

Sanketh Godha: And historically that number used to be around Rs. 270 crores, Rs. 280 crores, so I just wanted to understand why in FY 2020 is suddenly jumped to…

Satyajeet Bolar: Because if you remember, because of crude and all the margins have increased.

Sanketh Godha: I am talking about March 2020, not April 2020 when the crude margin requirement went up. Because FY 2021 annual report is not…..

Satyajeet Bolar: Correct. So, when you see last year, last year the margin requirements had gone up, isn't it, in the industry. So, the cash component, see, finally the member when he is called upon to give margins, he can either give collaterals or he can give cash, at that point of time he preferred to give cash.

Sanketh Godha: Okay. Because I was doing as a percentage of ADTO, in FY 2020 it was 2.2%, historically it used to be 1% of ADTO. So, should I consider 1% as ADTO?

Satyajeet Bolar: Yeah, I think because now it has come back to around Rs. 300 crores, it is around Rs. 375 crores as on March 31.

Sanketh Godha: Okay. Perfect. And second thing, just wanted to check is that, can you view your operating income breakup into transaction income, annual subscription income for FY 2021? Maybe FY 2020 we have it in annual report, 2021 if you can give the breakup, it will be useful, if you have it handy.

Satyajeet Bolar: So, our transaction income I think, this year we had around Rs. 1.9 crores which came from annual subscription. Then we had membership admission fees, another Rs. 1.5 crores. We also have connectivity income, data feed income. And we also charged for authorized persons and RSA token and all that, which adds up. So, transaction income came to around Rs. 320 crores this year, and others totaling it came around Rs. 345 crores. Then we have our CCL income, because probably you are also including and looking at the consolidated. So, in the CCL there's something that this year that we gained was warehousing income, which was around Rs. 12 crores this year as compared to around Rs. 1.7 crores last year. So, that is a big jump in this year and mainly, so we were trying to find out whether it is sustainable, so basically this was because of the volatility in bullion prices, members preferred to keep the bullion in the vaults, and we charge a fee for that. That's why the differential between physical and future price, they found it profitable to keep it in the vault. So, that's how the income was a bit more. But I don't think this will be, it depends on how the markets are in this financial year.

Sanketh Godha: Got it. So, you said transaction income, I lost you there. It's Rs. 328 crores, right?

Satyajeet Bolar: Right. I mean, I am giving the round figure, Rs. 328 crores.

Sanketh Godha: Okay, perfect. One more thing was, in SGF, especially in the FY 2019 suddenly the SGF increased from Rs. 180 crores to Rs. 330 crores. And during the time only Clearing Corporation was formed, and during that time only I can see retained earnings also declined from Rs. 976 crores to Rs. 850 crores. Sir, can you just explain what’s happened exactly here, sir?

Satyajeet Bolar: See, I mean, when Clearing Corporation was formed, as per SEBI regulations the SGF also is a Clearing Corporation. So, there was a component that if you, I don't have the financials with me Of March 2019, but we had to transfer certain amounts to SGF as our contribution. As Praveen mentioned that SGF is made of as per SEBI regulations has three components to it, one is a

Clearing Corporation has to contribute at least 50% of the corporate, exchange has to contribute at least 25%. And we can take the balance from members, but that is voluntary, it depends on the Clearing Corporation. The industry pressure is not fixed on the clearing members, so none, not NSE, not BSE, not NCDEX. And obviously, we are also not going to, I mean, who is going to take it if others are not taking from clearing members. So, then that contribution has to be made from the clearing corporation or from MCX. So, when we transfer, so that's why if you see, because in the first year, that is in March 2019 and even now when you see March 2020 and March 2021 also, you will see that the Clearing Corporation, their funding, their contributions from the SGF is far better than the net worth if you see their balance sheet. If you see the Clearing Corporation balance sheet, when we have contributed around I think we have __ 230 crores as on date, most of the money has gone towards their contribution towards SGF. So, when you do the math, so that is how it is. Now, last year also March 2020 the exchange had made contributions to SGF, but March 2021 we did not make any contribution to SGF.

Sanketh Godha: Okay. So, SGF, when you make a contribution, it is a direct balance sheet moment?

Satyajeet Bolar: No, it was a balance sheet movement because of the demerger, when we formed CCL. So, that time we identified what was a Clearing Corporations part, what was the exchanges part, and then it went through. But after that, after the Clearing Corporation has been formed, whatever contributions we were making is a hit to our P&L.

Sanketh Godha: Okay. So, but in FY 2020, as you said we made some contribution.

Satyajeet Bolar: Yes, around Rs. 4 crores I think.

Sanketh Godha: Okay. That will get reflected only in standalone P&L, right?

Satyajeet Bolar: Yes, So, that will get reflected in the standalone P&L.

Sanketh Godha: Okay, sorry I looked at consol so I could not find it. We have to pay dividend from a standalone.

Sanketh Godha: Got it. And sir, just wondering, you said that margin has come back to normal Rs. 375 crores, but because of the peak margin in last four or five months, maybe margin requirement going up, does it come in the cash format or…

Satyajeet Bolar: No, it will come in collateral, because members also they prefer to give it in collateral form.

Sanketh Godha: No, I was just wondering it can become a source of float for us or not.

Satyajeet Bolar: Yeah, it can. But see, again, the option of investing that money is quite restricted because being a Clearing Corporation, SEBI got very tight guidelines. So, you can only invest in liquid funds or now in overnight funds. Again, there is a cap on how much you can invest in liquid or overnight, and the balance will go into fixed deposits of banks or into government securities.

Sanketh Godha: But if it is a FOREX number, even if you are earning 3%, 4% is it's a decent number, right?

Satyajeet Bolar: Yeah, but it should remain for some time. It just can't come in today and go out tomorrow, then what do you do? It is volatile also, that's what I mean.

Sanketh Godha: Sir, last one. IPF and ISF, where does sit exactly in the balance sheet or they sit outside the balance sheet?

Satyajeet Bolar: See, IPF is outside the balance sheet. IPF is a separate entity and whatever contributions we make as a hit to a P&L, and it sits outside our balance sheet. While IFS, that is part of our balance sheet.

Sanketh Godha: Okay. But I was not able to find it in schedule, so just wondering where exactly I need to see it.

Satyajeet Bolar: So, let me search and let you know. Because it will be a liability.

Sanketh Godha: Yes, it is in other current liabilities, I believe.

Satyajeet Bolar: And that's not so substantial, it will be around Rs. 8 crores to Rs. 9 crores, not so substantial. But IPF, we have a good corpus of around Rs. 215 crows.

Sanketh Godha: Sorry sir, I got dropped off.

Satyajeet Bolar: So, I was saying, the IFS is not a great amount, it is less than Rs. 10 crores, but IPF is a large amount, we have a corpus of around Rs. 225 crores, but that is a separate entity.

Sanketh Godha: Okay. So, for SGF there is no dip, whatever interest income you earn on SGF sits in SGF only, it doesn't go back to shareholders, right?

Satyajeet Bolar: That's right.

Sanketh Godha: And given I think NSE has paid off because of Karvy and Anugrah, something of that kind that we faced in the current year?

Satyajeet Bolar: No, that they have not transferred to SGF, they paid it twice, if you see the annual report, I mean, in the press disclosure, it was IPF, Investor Protection Fund. It is not to SGF, it is IPF. Some investor came, they must have had to pay out, they must have had to fund the IPF for that.

Sanketh Godha: So, basically, you need to mean a minimum IPF, if there is a payout from IPF, then I need to refill it back, that's the way you are trying to say, right?

Satyajeet Bolar: Yes. At the same thing, we feel that our corpus is good enough for our volume and our risk. So, what happened on the other platform was an excessive item which took place, isn’t it?

Sanketh Godha: Okay. Got it. And sir, finally on the tax rate. So, maybe it seems to be a little more volatile for us.

Satyajeet Bolar: Yeah, I know. See, when we chose December, there was an entity that they said that you have to follow the accounting standard rules. And that's why there was a reversal because they have to follow the MAT and the normal TAT, so there was a reduction. And when we closed the year, we realized that there was no need for that reversal. So, that reversal should not have come in December. Otherwise, if it had not come, if it were just blind, it would have been reasonable. But we were advised that you have to pass entry, it will be passed, and that is why it happened. But going forward, the tax rate would be in the range of 19% to 20%. And we have this MAT credit, which hopefully in a couple of years, next two financial years we should be able to utilize fully and move forward.

Sanketh Godha: Sir, so basically you are saying from FY 2024 onwards we will be 25.2%?

Satyajeet Bolar: Yes, that's correct.

Sanketh Godha: And for FY 2022 and 2023, you will be somewhere between 19% and 20%?

Satyajeet Bolar: Correct.

Sanketh Godha: Because last three years, it's been 5, 11, 16, so it's been taking….

Satyajeet Bolar: Yes, I understand. Because also we shouldn't forget that we also have a large amount, because the accounting under this IndAS method so there's a lot of notional gain as we book, as well as in tax free bond. Whilst when we do the income tax working, it's offered under deferred tax and not under the normal. So, all those things hopefully will purely ease out and we will get there.

Sanketh Godha: Sir, one data keeping question. If you can give the data historically, how much is my investment income? Maybe this year you have done line by line addition, but I think till FY 2020 you will never did this.

Satyajeet Bolar: Last year also we had around Rs. 90 crores, Rs. 99 crores, this year also we had closed at around Rs. 99 crores.

Sanketh Godha: Okay. So, pure corporate which is part of operational is around Rs. 90 crores to Rs. 99 crores?

Satyajeet Bolar: No, I am not talking about consolidated I am talking about my standalone. So, the CCL part is anyway taken as a part of the operation, so I am talking about my other income which mainly consists of treasury income.

Sanketh Godha: Okay. So, sir, other income which is around Rs. 104 crores in FY 2020, out of which around Rs. 90 crores, Rs. 99 crores is pure your treasure income, that is shareholders money you have invested and therefore you are earning something there, right?

Satyajeet Bolar: That's right.

Sanketh Godha: Okay. Perfect. Thank you, sir. Thank you very much. I think most of my doubts are cleared. If I have any queries, then I will get in touch.

Satyajeet Bolar: Yes, you can get in touch with Vijay and then we can have a call.

Sanketh Godha: Okay, sir. Thank you very much.

“Multi Commodity Exchange of India Limited Conference Call”

Pine Bridge Investments, June 23, 2021

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SPEAKERS: MR. D.G. PRAVEEN – HEAD, INVESTOR RELATIONS, MCX LIMITED
MR. SATYAJEET BOLAR – CHIEF FINANCIAL OFFICER, MCX LIMITED
MR. VIJAY IYER – INVESTOR RELATIONS, MCX LIMITED

Sanjay: Hi. This is Sanjay here.

Vijay Iyer: Hi, good evening. Vijay Iyer here from MCX. My senior colleagues, Mr. DG Praveen, he is the Investor Relations Head and our CFO, Mr. Satyajeet Bolar are also there in this call. I thought I will just reiterate. As I mentioned to you, we are recording these calls and putting out in our website as per the new SEBI compliance guidelines which we have started following. You can take it forward, Mr. DG Praveen and Mr. Satyajeet Bolar, both are there. So, do you want to have any brief, or you want to do the Q&A directly?

Sanjay: I have gone through the company, so actually the reason for doing the call was two prone. One was just introducing ourselves. I have never met the company and I have never spoken to the company. So, I thought I'll just introduce ourselves and open a line of communication. Secondly, I had a few questions. I went through the details of the company last 10 years annual reports and transcripts and all, so I have somewhat understanding of the company, and I had a few questions. So, that was the reason for the call. Thank you for taking time out, really appreciate this.

DG Praveen: Mr. Sanjay, I think you can go ahead, and you can introduce, then I think we can then go for the question-and-answer session.

Sanjay: Yeah. We are PineBridge, I don't know how much you know but PineBridge earlier in India was known as AIG Investments. So, we are in India, our flagship fund, the PineBridge India Equity Fund has been there since 2005. It has a 16-year-old history, and we manage over $ 1 billion in India. PineBridge globally was earlier AIG third party money of AIG and when post the global financial crisis, it got spun off into a separate company and today it is known as PineBridge. We manage over $ 100 billion in a month $40 billion globally. In India there is a flagship fund called PineBridge India Equity Fund. It's a Long-Only fund and we invest across diversified asset classes, but all secondary market, we don't invest in public, private equity, and stuff like that, in only listed equities. So, that's a very brief introduction.

On the company, sir, I had a few questions. So, the first thing which I wanted to understand was how prevalent commodity trading is there in India in terms of numbers or in terms of whatever picture you want to give me. Let's say if I look at equity, equity around I think if you look at the number of Demat accounts, there are now, if I am not wrong, roughly around 5.5 crores Demat accounts. And I think someplace NSE says number of active clients they have, and which number is around 2 crores. So, if there are 5 crore accounts, 2 crores trade actively and there are 5 crores people who file taxes every year roughly. So, I am just throwing some first to give a sense of, understand from you that then what in this context, you mentioned somewhere I think UCCs which is around 60 lacs, 6 million, UCC the number of people who trade on MCX and out of the 6 million are they all active or are they inactive? So, if you can give some sense of how commodity trading in India, how common or uncommon it is.

DG Praveen: Coming to the number 60 lacs, that is the registered clients. That means whenever they would like to trade, they can trade in the commodity derivatives. So, these are active registered clients with the exchange.

Sanjay: For UCC?

DG Praveen: Yeah. More what you have to maybe the other figure that we have been giving is the number of traded UCC. So, the traded number of UCC means, out of these many registered number of clients, how many people are actually trading, so that number should be around, in futures alone we have about, if we take the financial year 2020-2021, about 4.56 lacs have traded. That's the number.

Sanjay: I didn't get the number.

DG Praveen: 4.56 lac

Sanjay: Out of?

DG Praveen: Out of 60 lacs. This is registered. One is registered that means these people at any time they can come, and they can trade in the commodities market. Like active UCC you can call them as. The other side is like how many people actually have traded. So, the traded is so 4.56 lacs and maybe last year if you look at it in FY19-FY20, the number was traded UCC was around 4 lacs. The way you can look at it is, the number has gone up substantially after this integration of intermediaries, because earlier the clients need to separate if they need to register in a separate subsidiary of a particular intermediary and for the equities they need to approach differently. But now because of the integration, today for many broking companies now there is no separate subsidiaries for commodities. It is like everything is integrated today. Because of that one, it is like those who are getting registered from equity segments, they can also conveniently get registered for commodities also. So, that way it became very convenient for the market participants. That means now it is up to the market participants to decide which segment they would like to trade in.

Sanjay: Yes. Because I also saw, my online broker is ICICI Direct. Earlier ICICI Direct never used to trade in commodities. So, if I wanted something I couldn't do, but now I think I saw that they have introduced, I have never traded myself, but they have put a commodity tab. So, you can go and trade in commodities directly in the same platform in the same screen.

DG Praveen: Right. So, in fact, I think I was told recently they have come out with even mobile trading tool also for commodity derivatives. So, one can trade in ICICI Direct. In their case I think now you can trade using mobile also, that's how I think it is there.

Sanjay: The number of UCCs it was around 3 million in FY19 or FY20 end, and now in FY21 and it is 6.4. So, this almost doubling is because of this merging of intermediaries offering broking, right?

DG Praveen: After integration, we have seen really a great spurt in the registered users. That means the people can, because somebody need not have to again go through all the KYC norms and all kinds of things. It is like one entity wherein they are able to register across the segments and they are able to trade. So that became very convenient. So that is actually leading to this spurt.

Sanjay: Are you trying to do anything to attract go from the 4.5 to 6 million and try to make these active users? Is there anything you could do about it or is there anything you are trying to do about it?

DG Praveen: See, the effort we have put it is, we have encouraged many of our brokers to integrate themselves. Because for them also there are some benefits, because synergies are there when they are going to become one entity under one umbrella, they can be able to provide multiple products. So, all this one or two years, because these are all very recent developments. So, one or two years, we have put our own efforts also to encourage these people to come on board and get integrated themselves and start providing products under single umbrella, that is the way it happened. On other side, you can also see good number in terms of trading participants also, like I said, last year the number was around 4 lacs, but now it has gone up to 4.56 lacs. That means in one year you could see a big jump that had been witnessed in the commodities market. So, it's a good thing. You can say that even despite we all going through this COVID crisis now, pandemic, still we were able to see very good jump that happened in the client participation.

Sanjay: Another thing in this the commodity trading if I understand whatever little I understood, there are two parts to it, right? One is the retail people trying to trade in commodities for whatever reason, they think a particular commodity will go up, they are interested in gold or whatever, so that is one part. Second part is corporates trying to hedge their needs, commodity needs they try to hedge it and hence they come to MCX. Now, from what I understand, the large corporates, let's say a Reliance or a Titan or a L&T, now they because of lack of liquidity or whatever reason, they go out of India to hedge their needs and they get special approval from RBI. So, I just want to get a sense that is there something you can do to tap, I understand you cannot increase volume, volume will only increase organically, but how big is this opportunity, is there any number you can put, how much is the total volume of total turnover or volume whatever you can put which is being traded by Indian companies outside India in global exchanges and what we can do to attract this segment?

DG Praveen: The way we can see it is, currently apart from retail participants, many participants have been allowed. That means all have happened over a period of time. Like initially they allowed alternative investment fund category 3, subsequently they allowed mutual funds then PMS, Portfolio Management Services, then eligible foreign entities, eligible foreign entities means who are having exposure in the Indian commodity market. In that case they can become eligible to participate in this one. One side the regulator has started, that means the regulatory enablement so that the new participation can come into the market. That means earlier it was more restricted to only the retail and the corporate, but now it is like institutional participation also has been opened up. But it is going to be gradual because we cannot expect that everything is going to happen overnight. So here also we already could see that some mutual funds have already made an entry into this market. They are already participating in gold, silver, and other metals. And also, our recent products which have been launched like index products, Bulldex and Metldex, in all these products they started participating in this one. So, this gradually we could see some traction is happening. And in terms of foreign participation, we have not seen any major entry because the bottlenecks happened to be like lot of documentary things. It's not convenient for them to do trading only they can make an entry. That means they can get into the trade but after that when exiting become very complex, like they cannot do buy and sell type of transactions and all those things. Even recently we have organized one meeting with the regulator and banks, financial institutions, NRIs and all those people have participated, and they were all requesting that at least to the extent of client level position limits, allow us without all these hurdles. Because even if you take the case of currency market, it is like up to a particular threshold even the foreign entities allowed to trade freely. But, after that one, it is like they are supposed to fulfill a particular threshold particular criteria, basis on that they will be allowed to trade. So, I think that is one thing even the regulators could look into that. I think they are taking it very seriously on that front. Coming to the hedgers part, what you have been asking, people like Reliance all are going outside and trading, in case of gold in year 2018, RBI have removed gold from the permitted commodities, wherein the corporates can go and hedge in overseas markets. After that one, we have seen that there is significant interest that has been witnessed from the Indian corporates also to come and trade on a domestic front. So, when they started trading, we were able to provide the adequate liquidity what they are looking for and we could see the participation from that side. So, it's all like a chicken and egg problem. Unless those people come, it is like you cannot expect that liquidity will substantially go up. And if they keep waiting for the liquidity to build up then it's very difficult to say, how long that will happen to have enough liquidity. So, unless we get ourselves getting into this circle, it is like once the markets get opened up automatically, we can ensure that enough liquidity will build up so that these participants are able to participate. But coming to the metals and other things so far, no such regulation has come up. Even today the big companies who are having presence in global market, they are able to go and hedge in overseas market. But our contracts are not comparable with the overseas markets, that means these overseas exchanges like LME. For example, you take the lot size of aluminum there in LME it is 25 metric tonnes, and we are trading in a contract which is equivalent to 5 metric tonnes contract. Similarly, if you take copper, it is there, it is 25 metric tonnes, where in our contract it is only 2.5 metric tonnes contract. Take the case of crude oil. It is 1000 barrel there, here it is only 100-barrel contracts. So, we are not actually essentially catering to only that kind of participant. There are many domestic participants who otherwise are not in a position to go overseas and trade. Those people, especially you can say, SMEs and medium size companies, all those people, they can come and trade in Indian exchange only rather than going to go and trade to create a position there or to get themselves established in an overseas market and start trading over there. It adds to the convenience to many of the domestic companies. Take the case of metals market, metals market there are not many big players, there are very handful of producers that are there. Only those people I think some of them may be intend to go and trade in overseas market. But if you take even that dealer, there are dealers, other value chain participants are there, they are coming and trading in the domestic market that way. It is already there but if some regulatory enablement happen that support the cost, then I think we can say that definitely like in case of gold, we could see development at a faster rate.

Sanjay: Thank you for this gold information, I was not aware. I didn't see it any in any place written, so thank you for that information. One more thing is, do you have any data, I couldn't find it, data or at least a soft understanding of let's say how many corporates, do most corporates have an approval from RBI to go and hedge and trade outside India or is it a very cumbersome process or is it something which is on the tap you can really go and take an approval?

DG Praveen: Generally, they all are supposed to make some disclosures in the LODR, as per the SEBI LODR regulations, they are supposed to make certain disclosures. But even if today you look it, not many companies have gone ahead and really have made enough disclosures like whether they are trading in the overseas market. So, the amount of information that is readily available, whatever is available or whatever is being authentic is very limited as of today, because these are all very recent development because SEBI has made some amendments to this LODR agreement after that one, listed companies are supposed to make certain disclosures in a specified format. That is what they have made. We have seen some companies have started really filing it, but not many companies really have made enough disclosures. But if you take the case of some sectors, not many are there, like for example anyway leave the bullion, because in bullion you can say that almost everyone, most of them all the prominent jewelers or the importers all those people are actually already trading on MCX. Coming to the metals we already in 2019 and 2020, we have converted our metal contracts into compulsory delivery contracts. After this conversion, we could see lot of deliveries also happening on the exchange more than a lac tonnes of metal has been delivered on the designated warehouse of the exchange. Already we have kept one delivery mechanism in place, and this is ensuring that there is a better spot and future conversions, and we are also ourselves closely getting integrated with the physical market. That is what we could see.

Sanjay: In your this 4.5 lacs clients and the amount of turnover, how much do you think is…

DG Praveen: I will tell you, coming to the volume side, the numbers that we have readily available, what I can say is, generally we capture the information on a voluntary basis. That means the client have to disclose themselves as a hedger or a speculator or an investor. So, depending upon that particular thing, when we have compiled, in terms of OI roughly the hedgers thing is in the ratio of 30% to 40%, that means their active participation in terms of open interest, but hedgers we cannot take their position in the volume, because volume includes even those people who are interested in the day trading, that means even there are many people who would be more interested in intraday trading. So, the fair comparison would be what we could see is, in the open interest where we could see significant participation.

Sanjay: Now, the data which you disclosed in the quarterly presentation, we discussed UCC, there is something called authorized person, now what is that authorized person and what is a member?

DG Praveen: Earlier I think you would be knowing it, like called sub brokers, so now there are no more sub brokers. They are all called authorized persons today.

Sanjay: Authorized person is the broker?

DG Praveen: Authorized person is like a subbroker, yes.

Sanjay: What is a member then?

DG Praveen: Broker himself is a member. Like he can be trading member, or he can be the clearing member. That means trading cum clearing member because different types of members are there.

Satyajeet Bolar: Authorized persons are subsets of members.

DG Praveen: Yeah, that’s right. They are like a sub broker, like broker and sub broker. Today we won't have anyone called sub broker. So, these people essentially, they are associated with a member, the authorized person.

Sanjay: Now, this number of members in 2015, I think after SEBI became the authority, it declined quite significantly, it was around 2000, it came down to 700. Is it because of some regulation which came across at that point of time in 2015?

DG Praveen: Regulations have been tightening and things been becoming for a broker to manage that kind of thing, regulatory compliances and other things definitely has gone up that way, as compared to what it was earlier days. And the integration also has made people to, instead of having multiple broker membership and other things they prefer to have only one membership. So, all these led to decrease in this one and then today you could also see that lot of discount brokers are also playing a very major role. That way we can say that there is such an amount of some set of brokers have really left off. They would have maybe acting as an authorized person, or they prefer to do as an investor. That is the way we can look at it.

Sanjay: What is the security deposit, has it increased or what is security deposit to become a broker? Has it increased after SEBI has come in or is it same like before?

DG Praveen: I don't think there are any major changes.

Satyajeet Bolar: So, there is a base minimum capital that they have to give and now there is also a base capital. The base minimum capital is not linked to margins, they cannot take any exposure but the base capital you can take an exposure and then it depends on the margins that are given in, that member has to bring in depending upon his exposure. And of course, there is a net worth criteria, so you need to have a net worth and then only you can come in.

Sanjay: The base minimum capital and the net worth…

Satyajeet Bolar: That is a minimum and then it depends on what type of member you are if you are a trading member or a clearing member or a professional. So, it will accordingly increase. But it’s also on the net worth. You should also have a net worth. But in India as you are aware, you have to bring in cash as margin, either cash or as margin.

Sanjay: So, we have covered this. Thank you for the detailed explanations. Now some other points which I had in mind was if you can give me an understanding of what is happening to your technology contract. I understand that your contract with 63 Moons is probably expiring sometime in 2022. I don't know when, and it's a variable contract where if you pay a fixed price, I think some 10% or something, and now I think you are going to the TCS, so if you can just explain me. Also, there was a dispute with some software vendor and there was some 18 crores write-off or something. If you can just extend to me what's happening on the tech front per se.

Satyajeet Bolar: Fair enough. So, we have an agreement with our existing service provider that is 63 Moons which continues till September 2022. So presently they provide the trading solution, trading clearing solution for MCS. And these agreements were negotiated when they were the earlier promoters and then in 2014 it was renegotiated. Presently we pay to 63 Moons to them a fixed component as well as a variable component. So, if you look at it on a global, and that's based on our transaction charges, so we pay around 14% to 15% of our transaction charges to 63 Moons technology cost in addition to the other technology cost. So, this agreement is coming to an end in September 2022. As you would have read in the papers, we have now tied-up with TCS and they are developing the trading and clearing software for us. So, since we have appointed them, and they are already on the job, so they are to use Deutsche Borse T7 platform for the trading part which is used in Deutsche Borse as well as in BANC in India and they could modify to meet our specifications because as a commodity exchange, and also, they are going to bring in their own platform, banks. So, it's going to get integrated, and it is expected to roll out by July 2022, because we want to give three months to the market. I mean, it will be rolled up much earlier, but we intend to go live from July 2022. So, there would be a CAPEX, we would be incurring a CAPEX for the platform, so that will be amortized over a period of time and that would be capitalized and then we will amortize it to repeat of time, six to eight years is a general thing to amortize a software between six to eight years. Then there would also be an agency that we will be paying to TCS, annual maintenance charge that we pay to TCS. And the first year after we go live would be under warranty, so we don't have to pay any AMC. Subsequent year we will have to pay an AMC.

Sanjay: What is the total CAPEX we would see in this?

Satyajeet Bolar: See, there is an agreement with TCS, so we have not disclosed this. But it is a reasonable amount.

Sanjay: So, bottom line it would take depreciation plus the AMC, do you see savings on the…

Satyajeet Bolar: Yeah. According to us it's going to be a net-net, we are going to save substantially.

Sanjay: And you don't see any disruptions? We cannot predict that, but you hope not to see any disruption in your trading.

Satyajeet Bolar: Yes. So, we have beefed up our IT. We are on it.

Sanjay: What about this London based company? What happened exactly?

Satyajeet Bolar: So, what has happened, about two years back we had entered into an agreement with a London-based company to develop a spot platform for us. Unfortunately, the deliverables have not been on expected lines. So, we had then withheld payments and we asked them to improve on the deliverables. So, then they filed to the Singapore International Arbitration council for arbitration sometime in January-end, I think. Subsequent to that we have reached out to them and both of us have realized that we will be spending money on arbitration which would be, for them it would be an expensive proposition, not that it will be less expensive for us, but give their financial stature obviously it would be a big hit for them. So, they have agreed to reach a settlement. Hopefully in a month or so maybe by end of July we would have reached a settlement.

Sanjay: But you don’t have a spot exchange now, right? I mean, there was originally a foreign exchange, but you don't have a spot exchange now.

Satyajeet Bolar: No, we don't have a spot exchange now, but if we read the SEBI guidelines so SEBI is keen on having a gold spot exchange. Because any exchange that is any exchange that we have to launch, technology is going to be the differentiator, isn’t it? So, that was the whole idea of getting this spot exchange trading and clearing platform developed.

Sanjay: That is fine. And lastly this electricity derivatives which were supposed to come in, when do you see it come and how big it is, how big it can be, who will exactly trade because all the discoms or the power generators who actually either buy the electricity or sell electricity are already an IEX. So, in this electricity derivative which you plan to launch who exactly is your customer and how big you think it can be and when are you planning to launch it?

DG Praveen: Currently, we already entered into a licensing agreement with this Indian energy exchange. But the only thing is currently that case is still pending with the Supreme Court, like who would be regulating this electricity derivative between the CERC and SEBI. So, once that gets finalized, I think Supreme Court makes the closure of the case, then immediately we can think of launching this contract. Otherwise, we have already applied to SEBI for introduction of electricity future but till this clarity comes up we will not be able to launch it because we require the relative approvals for this one. After that one we will be able to do it. Who would be the participant? Yes. There are many people because whatever is getting traded today in IEX is more like a spot and forward contract. So, once you have directives in place, we definitely can tap all the value chain participants who are looking for long-term contracts instead of into some…because the most contracts that are active is only overnight day-ahead contracts. So, day-ahead means basically looking for today and tomorrow type of supply of electricity. Wherein in this case, it is going to be the contracts, it can be a weekly contract, it can be a monthly contract, it can be a quarterly contract, depending upon the market participants interests, we can start looking at different variants of the contracts. And so, onset largely we can expect that this value chain participants should be the ones who would be coming onto this platform. And there are people because many traders are also there in this market. So, we should also tap those people to come and start trading. Otherwise, it is like regular investors and other things, if it is say, cash settled contracts, then I think because that thread of delivery and other things won't be there so initially those people also can get added to these contracts to provide the initial liquidity. So, depending upon how the regulators, whether they will allow us to have a compulsory delivery contracts or cash settled contract, or what type of contracts would be allowed initially. All these things will be decided like who would be the participants on this exchange.

Sanjay: So, even today we don't know that it will be a compulsory delivery or not.

DG Praveen: What we are looking for is a cash settled contract because complexities are inward initially, because you cannot expect that immediately to make it into a compulsory delivery contract. So first what we are initially proposing is a cash settled contract, but once market matures that time, I think definitely we can consider having different types of contract. Even you take the case of metals for many years we have traded in cash settled contracts and very recently we have converted them into compulsory delivery contract and people have accepted it.

Sanjay: But there was a volume drop in the base metals, right?

DG Praveen: For any change initially, you know that there will be a resistance for any particular change. Secondly, the mini contracts have been discontinued because the regulators have said that you cannot have multiple variants. You can go for a mini contract, or you can go for a standard contract, but you cannot have multiple variants in metals or energy contracts. Because of that one we had to discontinue mainly the mini contract. Today most of them happen to be the standard contracts and also the trading and delivery unit should be same as per a new regulation. So, that is another thing we had to make certain changes to our metal contracts to see that those are in line with the industry physical market standards. So, all of these have led to dragging that turnovers in metal contract. But today the turnovers are comparable to the previous year today, the volume.

Sanjay: And are you already charging per option or just still not being charged?

DG Praveen: Options we have not started charging, but in case of index features we have started already.

Sanjay: Options has been now quite some time, at least 3-4 years but the volumes still seem to be very small. Any thoughts, why are people not adopting it and is it that it is more expensive or is it that charges seem to be higher, what is it exactly?

DG Praveen: See, that contracts are **s**lightly different from what is being traded with the market? And to start with only these contracts have been delivery-based contract, that means that the delivery happened to be a futures contract because this happened to be options on futures rather than just an option on part type of contracts. If you take the equity market, the index options are the ones which are primarily driving this market. Most of the volumes are from only index option that too the short duration contracts. And the rest is even you look at stock option they are not that significant, turnover-wise they are not that significant. Secondly, only recently they have been converted into compulsory delivery contracts. So, that way our market to start with only we had this kind of delivery-based contracts, and this is an option on futures contract or like in equity market, so I think this is a different animal as compared to what is being getting traded in the equity market. So, people would require some time to understand that once in the trade and then they can start trading. And several other regulations were also there. Initially we were only able to launch only the gold contracts because they said that for one year you cannot have multiple contracts. They gave permission only for one contract. But subsequently they have allowed us to come out with more contracts. They have also removed the threshold. Earlier two criteria were there. It should be among the top 5 commodity. And second is it should be at least having a turnover of something around 1000 crores in last previous 12 months. So, all these things, but recently they have removed the first criteria saying that it should be among the top 5. That they have removed it. So, that way now it is only relevant to whether the unaligned could be able to meet that minimum threshold criteria of 1000 crores or a daily turnover. So, now it is like little bit it's being relaxed. But even once I think index options are allowed and more products come and even the institutional participation comes into this market, definitely we could see that this product could see the growth. But of late what we could see is the crude oil is witnessing a good turnover.

Sanjay: Lastly, your cash number, if I recall correctly, your settlement guarantee fund is down 500 crores, and your total cash is around 2000 crores. Of course, there is a liability from the brokers, etc., around 500 crores. So, what is the regulatory amount of cash which you need to carry in your balance sheet?

Satyajeet Bolar: As per the SEBI guidelines which has been revised, the net worth criteria is now that you need to have a net worth of 100 crores. But the clearing corporation needs to have a net worth of, even now it needs to have a net worth of 100 crores. But they need to maintain the SGF, so they need to have a substantial SGF. But you are right that we are sitting around 1200 crore of our own cash, shareholders' money which there are two reasons why…

Sanjay: 2000 crores, total cash?

Satyajeet Bolar: But that also includes the margin money.

Sanjay: The exact cash you have is 1200 crores, right?

Satyajeet Bolar: Yeah, 1200 crores. So, the two reasons why we are holding on to cash, one is that if SEBI allows us to set up a co-location for the commodities space for our members, then we will have to set up a co-location like how there is one in the equity space. Also, as we go forward, SEBI is encouraging spot exchanges in bullions. There is also a proposal to set up an international bullion exchange in GIFT City under the GIFT City regulator. So, all that we will have to capitalize those entities when we form the company, we will have to capitalize those entities. So, we will need cash for that. But you're right, we are sitting on excess cash and that is why we keep ensuring that almost what we earn we pay out. So, we have no intention of holding on to excess cash. Because it's a drag for our, isn't it? As a Fund Manager, you would know that debt markets are not doing well, presently they are not doing well. And even if they are doing well, how much can you earn on debt market, isn't it?

Sanjay: So, is it fair to assume that I mean you will keep this excess cash is fine, but whatever profits you are going to make in the future years, almost all of it is going to be paid out?

Satyajeet Bolar: As per our investment, as per our dividend policy we presently pay 75%, but again that is left to the discretion of the board. So, the board can in its wisdom decide to pay more.

Sanjay: And in this business there is nothing that you can acquire, acquisition is not really there, right?

Satyajeet Bolar: In India I really don't know, Praveen would be a better judge on this, but in India we almost have around 95% of the market share. So basically, we have to develop the market, try to introduce more products because everyone wants to come in and sign to go in the same products, so it doesn't deepen the market. Everyone is interested in bullion or in crude oil or in energy. So, obviously we are trying to develop the market, introduce more products and all that. So, it's not easy. As you rightly said, when we compare it with the equity market, the maturity of the equity market and securities market with our markets, so it's going to take time. And in India I don't think there is any other exchange in the commodity space that we could think of who has got some significant presence that we look at acquiring.

Sanjay: In your cost structure while your turnover was dipped after 2013 because of various issues, but your cost structure has been pretty much stable. If I recall it may be around 200 crores is really a cost…

Satyajeet Bolar: That's right.

Sanjay: 6-7 years. Do you see an inflation in this or some more investment required in this? Or another way to look at it is let's say, I was looking at the IEX also, now IEX also makes a similar kind of turnover as you, or maybe slightly higher, but their cost is hardly some 70-80 crores or something of that sort. I don't recall exactly, but a very lower number. And your cost is currently around 200 crores. I am not comparing you with IEX, these are different businesses. You have multiple lines, and you have multiple activities, you are able to deal with retail compared to IEX with maybe only institutional. But do you think your current cost structure is enough to…

Satyajeet Bolar: See, there would be some, as I mentioned, we are sensing our IT, so presently whatever, if we are getting in new people and if they are going to be deployed for the commodity derivatives project, so we will be capitalizing those costs. But at some point, of time after the system goes live in July 2022, so then it would be a hit to the P&L, that is one. Secondly, also we are trying to change, because of COVID there are a lot of programs and all which earlier we used to do where there was physical presence but now because of COVID we are changing our modes of communication and meeting with members and all. While they would always be the physical meets, I think in going for the physical meets may reduce, and they would be a larger number of virtual meets. So, the cost also will reduce, traveling also. So, with this COVID I think traveling and hospitality costs will reduce and even meeting, physical meetings while it would always be there, I don't think it would be in the same range as it used to be two years back. This is my take. Unless our vaccination is so great that we are back to normal in a year which at this point of time looks unlikely. Those will have an impact on our cost, on a positive side.

Sanjay: We don't see any major escalation, right?

Satyajeet Bolar: Not now. At this point of time, no. And there would be some cost that we will incur for our new system because I just mentioned about our trading system, that is a software, but then we will also have to scale up on the hardware part, so those costs will be there and accordingly the depreciation cost would come up on those.

Sanjay: You said overall you will save after…

Satyajeet Bolar: Yeah, that's right. Overall, we will be saving. I am just telling that if you are comparing line by line, then there would be some bumps in one or two lines. But overall, I think it will be under control. And this year what has happened is just to maybe, I am not sure whether you are aware that the government has also made some changes in the CSR regulation. Earlier it was CSR role wanted on cash basis, you would spend and account it. This year in March 2021, sometime in January-February they said no you have to make provision for it and then you have to spend it over a period of time. So, that is why in our CSR also, there's a slight bump up because earlier unspent amount we had to make provision in March 2021 and of course once you make a provision you have a plan for the spends.

Sanjay: Thank you very much. If you want to add anything its fine. Thank you very much, this was really helpful.

DG Praveen: Thank you.

Satyajeet Bolar: Thanks.

Sanjay: Have a good day. Thank you.