MCX/SEC/2155 November 17, 2022

The Dy. General Manager
Corporate Relations & Service Dept.
BSE Limited,
P.J. Towers, Dalal Street,
Mumbai - 400001

Scrip code: 534091, Scrip ID: MCX
Subject: Transcript of calls with Investor/Analysts

Dear Sir/Madam,

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 read with the SEBI (Listing Obligations and Disclosure Requirements) (Second Amendment) Regulations, 2021, please find enclosed herewith the following transcript of the call with investor/analysts:

Sr. No	**Investor/Analysts**	**Date**	**Time**	**Annexure**
1.	Ashmore Group Plc, Balyasny Asset Management, Capital International Research Inc, Kontiki Capital Management (HK) Ltd, L&T Investment Management Ltd, Schroder Investment Management Ltd, UTI Asset Management	November 09, 2022	03:00 p.m.	***Annexure - A***
2.	Invesco AMC	November 09, 2022	04:30 p.m.	***Annexure - B***

The said transcript is also uploaded on the website of the Company at https://www.mcxindia.com/investor-relations/ir-meetings

Further, we hereby confirm that no unpublished price sensitive information was shared/discussed during the said meeting.

Kindly take the same on record and acknowledge receipt.

Thanking you,

Yours faithfully,
For Multi Commodity Exchange of India Limited

AJAY PURI Digitally signed by AJAY PURI Date: 2022.11.17 08:30:10 +05'30'

Ajay Puri
Company Secretary

Encl: As above

"Multi Commodity Exchange of India Limited"

Meeting with Ashmore Group Plc, Balyasny Asset Management, Capital International Research Inc, Kontiki Capital Management (HK) Ltd, L&T Investment Management Ltd, Schroder Investment Management Ltd, UTI Asset Management

November 9, 2022

Disclaimer:

This transcript is provided without express or implied warranties of any kind, and should be read in conjunction with the accompanying materials published by the company. The information contained in the transcript is a textual representation of the company's event and while efforts are made to provide an accurate transcription, there may be material errors, omissions, or inaccuracies in the reporting of the substance of the event. The transcript has been edited wherever required for clarity, correctness of data or transcription error.

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.

MANAGEMENT	**MR. P. S. REDDY -- MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER, MULTI COMMODITY EXCHANGED LIMITED** **MR. SATYAJEET BOLAR – CHIEF FINANCIAL OFFICER, MULTI COMMODITY EXCHANGE LIMITED** **MR. MANOJ JAIN – CHIEF OPERATING OFFICER, MULTI COMMODITY EXCHANGE LIMITED** **MR. D. G. PRAVEEN -- CHIEF RISK OFFICER; MULTI COMMODITY EXCHANG LIMITED**

Moderator: Hi, Lavanya, good afternoon

Participant: Good afternoon. Should we start? Should we start Rovina? Could you hear me?

Moderator: Sure. I just want to know if you can hear me and the thing is clear. You just did sound clear.

Participant: Yes, everything is clear.

P. S. Reddy: Okay. Go ahead. Good evening, everybody.

Participant: Yes. Good evening, everybody, and thanks for joining. So we have MCX management with us.

P. S. Reddy: I request others to keep their mics on mute please.

Participant: So we have MCX management with us. And we have Mr. P. S. Reddy, MD, CEO; and Mr. Satyajeet Bolar, CFO; and Manoj Jain, COO; and Praveen D. G., Chief Risk Officer; and also Ms. Rovina from Investor Relations team. So I would request all the participants to keep it interactive and please raise hand in case if you have any questions, I can moderate on your behalf or please unmute yourself and go ahead with your question. So maybe sir, we can start with. So there was a notification with the mock trading on the new platform has been started. So can you just help us on how the progress on the new platform is going on? And as the deadline you have planned by end of December the transition. So how do you see that and how's the transition or the new platform coming up?

Moderator: Lavanya, sorry to interrupt. But before we proceed, I'll request there is a disturbance at your end, somewhere from your mic. I request, if you could just place that on mute that would be really great.

Participant: So I'll be on mute. Please go ahead.

Moderator: You can repeat your question, Lavanya, please.

P. S. Reddy: I think she's asking about our technology platform progress, is that correct?

Participant: Yes, sir.

P. S. Reddy: Well, we have been doing the user acceptance tests, and the fixing of the bugs has been happening. Meanwhile, we have also decided that the stable parts of the platform must be released for the mock testing. So, we started on 7th and the notice has been given for 2 days for the people to set up and login issues will be addressed. So it's already done. Today, I think first time we had testing of the users. I am yet to get the report. And we had from 11 to 2, if I'm not mistaken. And so that's the way it is at this point in time. As we go along. I think we'll get more and more what you call participation. Definitely, Saturday, we're looking forward to because many members will be free and that will be the period when the maximum participation comes. So, that's the way it is at this point in time and we want to go ahead. Once it is proved to be stable and in terms of latency, etc, all other issues are found to be in order, then we would like to go ahead with this platform before December end.

Participant: Got it, sir. So, maybe you can just help us understand how the transition happens, like when the transition happens with existing orders flow or any break or so do we need to do it during the holidays or during the transition? Will there be any disturbance in terms of how the trade happens?

P. S. Reddy: The transition will be lock, stock and barrel. There's nothing called off year or off the error, some modules of this one will be continued to be run, et cetera, anything of that kind will not happen. So, we will be doing parallel runs also as we are doing the mock and maybe sometime this month itself it will start. So whatever the orders and trades that are generated from the existing system, we will pump in into the current system, the TCS system and then see outputs are all accurate and as per the expectations. So once that is also stable, then obviously we will take these masters, that is the existing masters of the production. And currently, we have already deployed and incrementally, we will keep deploying it, whatever the daily, whatever changes that are happening in the production will deploy there also. So at any point of time, the masters are all ready for the people to migrate. So that's the way we are working. And, obviously, we look forward to maybe a Friday evening or maybe Thursday evening or so something like that so that we will be able to have a seamless migration.

Participant: So I would request participants to use raise hand function if they have any questions. I can moderate on your behalf. So there's a question… please go ahead.

Participant: Thanks for taking the call today. I just wanted to ask about the costs of a new system. I know you haven't disclosed this previously, but is this something you're going to talk about at the next set of results once the system is live? And any guidance you can provide on the cost savings would be helpful.

P. S. Reddy: You're saying cost of the new system?

Participant: Yes, exactly, the system.

P. S. Reddy: I think there is a confidentiality around it and that and that is what in the agreement is binding on us. Probably as we go along, numbers will start to reveal in terms of whatever amortization that takes place. And so, obviously, you will know those numbers as we go along. That would take place in the next maybe 4 to 5 years of time.

Participant: And in addition to the amortization, is there an annual cash cost to TCS?

P. S. Reddy: Maybe after the first year, once the warranty period ends, there is a very small percentage of the AMC that we have to pay. Beyond that, it's not. Of course, there will be some costs, in terms of licenses, be that licensing costs for let's say, Red Hat or some something of that kind, Linux, et cetera. Those are all there for any technology. That's the way I look at it.

Participant: And did you say the amortization would be over five years?

P. S. Reddy: Yes, that's right, approximately. It's 6 years.

Participant: And then in terms of when you'll be able to start launching new products again? Will this be as soon as the new trading system is live or other issues you're waiting for in order to launch new and gold options and other products?

P. S. Reddy: We will be launching once the new platform is stable, which we are expecting after launch maybe in about 3 months' time, we should be able to launch other products also, we will start doing that. It will be behind us, that's all. The technology no longer worries us then once it is up and running.

Participant: And in terms of the internal capacity, you've had to build to manage the system going forward. How many new employees have you had needed to add in order to run this in the future?

P. S. Reddy: Well, The TCS is supposed to be running it for the first 1 year and thereafter they will be giving the DMC some whatever the L1 support. I think we have built enough of them even during this period of development. We have built good amount of technology maybe in 2030. But it's fine, that's okay because there will be lot of attrition also once the platform is up and running and maybe if some people leave, we may not go for replacements, some are more to do with the development. Testing needs will come down.

Participant: I request participants to raise hand if they have any questions, please. Sir, going with a question which we got here. So on the new products, other than this gold options which are almost ready with approval and all, what are your other new products that you're looking to launch maybe once we shift to the new platform, right, maybe in steel or coal? What are the other products and where are we largely?

P. S. Reddy: Subject to the SEBI, shorter tenure of the contract is what we are looking at it. We had 2 months futures contract. We've reduced some of them to a lower one or the futures contract also 2 months we have it, now we're looking at 1 month. Some are expecting it could be fortnightly contracts also option contracts. So that will increase the play of the market participants. But subject to approval of regulators, we have to look at various options, the alternatives that are available for the market participant. Apart from increasing the variety of the contract, we would like to increase the basket of the products also in the sense the underlying product, underlying material. So we are looking at more into metals and there are 91 products are there. And electricity derivatives is another one which we are looking forward to. So yes, I think if we launch in the next 1 or 2 years all these products, I think that's good development. Of course, we expect more and more institutional players to join the participant list subsequently.

Participant: Sir, a small clarification here so that the new gold short duration like 1-month option which we are planning, for that the underlying would be a new 1 month futures or the underlying would be the existing 2-month, 5-month contract?

P. S. Reddy: Five months will be gold contract.

Participant: And for all these shorter duration products of the existing commodities also, we need approvals… So do we have approvals existing for any of those products already from regulator?

P. S. Reddy: Some of them, we have it, but again we don't to launch all of it at one time. We will not be able to disclose too much to the market and whatever we have publicly put in place. That's what we can discuss. But yes, we would like to launch these contracts sequentially so that the members attention is at any point of time given and focused on the new contract that we are launching…

Participant: So I request participants to use raise hand function if you have any questions or please unmute yourself with your question.

P. S. Reddy: Madam, there is a lot of disturbance. We are not able to hear to please. Appreciate.

Participant: Thank you for taking the time. Sir, is there any way of quantifying the benefits of transition to this new platform? That's my first question. And my second question to you is that how are you seeing given the volatility in commodities and the margin reactions correspondingly on the exchange, are you seeing a structural shift to options trading, given the volume is ramping up? How do you see this options segment of ours moving? And is there a risk on the margin requirements and options as well?

P. S. Reddy: On the first question, whether the technology transition will give you some or are is there any yardstick to measure the benefits and other thing, all that I can see is given the volumes or given the costs being fixed in that sense, there is no volume link to the transactions, I mean, the revenues or what you call payments for technology linked to the volumes is not there. So, anything that comes over and above what we are currently having is all kind of, goes into the bottom line, that's the way I look at it. Number two, and also our costs are by and large, fixed, other costs also. So, you will only see upside but there is no downside from that point of view.

The second question is whether the futures players are moving to options, I think here you need to look at it what are the products that we're talking about. Definitely, in the case of crude oil, some did move, no doubt, the investors who were earlier paying higher margins in futures have moved. Especially when the peak margin requirements came into being, there's no intraday leverage, et cetera. But the option writers also need to hedge their positions, so options volume is going up, no doubt. But then simultaneously, there are option writers who suppose hedging it, and they have to hedge their risk only in futures, there is no other product. And so that is one part of it is happening. Maybe in terms of number of participants in futures maybe decreasing, but otherwise, their focus should not be withdrawn from the futures, that's what my view is.

Now, coming back to the other way of looking at it, maybe other products, my view is the options, especially option, buyer, be that as put option or a call option, he just pays to the premium, that's all. Then there is no other margin requirements for them. It's only the option seller, again who is an option writer, we call them, needs to have to pay the existing margins, which are there in the underlying commodities. So I think in other products, there is no margin issue, because they are all by and large the same margins, our initial margins, what was described by SEBI. Still, there is a scope for those products to grow in terms of options. I think we are looking at it. Just a shift has started now, shift in the sense shift in terms of understanding these products better by the retail investors or by the other marketplace, hopefully that this particular trend will spread to other contracts also, but it doesn't cannibalize, that is the way I look at it.

Participant: Sir, just one more thing. Now, given the volume activity has gone up in options, do you think that there is a business case of increasing given the margin requirement on the buy side of options is much lower than buying a future naked? Do you think that there is a way for us to make money in the way like increase our per option brokerage or whatever money that we charge? Do you see that as an option? Or, as the scale goes up, we will go the other way by cutting our price on per option trade?

P. S. Reddy: Well, neither side I am at this point in time because option pricing was introduced just last year, September, I think we should not be too frequent and killing the golden goose. That is the way I look at it. And I think we should wait for some more time. Let it be stable, that's the way I look at it. One year is too early to decide whether it is stable, a stream of volumes or otherwise.

Participant: Sir, just one last question from my end. As you said that we are moving from a variable cost model to a fixed cost model from what I understand for us, will it be safe to say that the kind of volumes that we are creating today and the cost that we are incurring for that, what I'm trying to understand is what is the breakeven kind of level. The fixed cost level of the TCS model is right now more or less covers the volumes that we have, I mean, any incremental volume from the current levels will start generating money for us in terms of cost saving?

P. S. Reddy: That’s what I have been saying in most of the meetings assuming that the cost that we're paying to the existing vendor is replaced by way of a higher amortization or higher other license fees, you could consider that. But there is no incremental costs of the increase in volumes, then I think, yes, it is more or less a fixed in that sense for us. Yes.

Participant: So the current activity level will cover the cost of the fixed model.

P. S. Reddy: It should be.

Participant: There's a question from Harsh Shah from L&T. Please go ahead.

Harsh Shah: So sir, just a few questions. Firstly, now options revenue is almost 40% of your total revenue. Do you think the trend that is seen in options will continue and just intensify going forward or you think there will be a time when it will stabilize?

P. S. Reddy: What drives these markets is the volatility by and large, be very clear on that, okay. And we are expecting this kind of what should I say, this kind of behavior or this kind of pattern to be created in other products also. So it's just picking up. Maybe in gold you will be seeing it. So once it is witnessed in other products, one product or the other will all the time under volatility anyway. So we're looking at as a more stable pattern rather than a one-time phenomenon.

Harsh Shah: Means are we are taking any active decisions in terms of increasing participation, because still it is quite skewed towards our top 10-15 players. So, like, I guess one of the questions from earlier participant was, are we trying to reduce our premium or reduce our margin requirements so as to induce more participation? Is that something that we would be focusing on?

P. S. Reddy: I don't think, I mean there is any, what should I say, there is a direct elasticity in terms of reduction of tariff will definitely increase by more than that percentage in terms of business getting business, and there is bound to be concentration, let's accept it, because a lot of algo players who create this volume, I think they attract that kind of concentration. And it's not just 1 or 2, there are many other algo players, I think that is a fair way of looking at not just this market, in equity markets also, there are a lot of algo players who garner the maximum market share. So I think that sort of worry for me in that sense.

Harsh Shah: And in options, if you see like, for example, in futures, we are still quite diversified between bullion, energy, bit of base metal also, but in options it is driven, like more or less by energy only. Is it volatility again? What is driving that options shot up only coming from energy? Or is there a possibility that other segments will also start considering, like you said about billions?

P. S. Reddy: Yes, that's what we are expecting, even other products also to follow the same path, and it is happening. If you see average which we are displaying it on the website also, it's been increasing. You must seen that.

Harsh Shah: Sorry, again, I'm coming back to that question. But at least for near term, we are not expecting any changes in tariffs, price, premiums materially in the options part of the business, right?

P. S. Reddy: We are not planning to make an increase nor reduce, yes.

Harsh Shah: And what's the outlook on futures because we have seen that quite an arbitrage playing after the peak margin rules where options volumes have shot up, but at the same time, slowly, slowly, your futures volume has started to degrow a little bit.

P. S. Reddy: As I've already explained, especially in terms of energy contracts, some participants did move towards the options because of the higher margins. But for every option contract, there is an option writer who needs to hedge their exposure. So they are hedging it in the underlying futures. So I think we should look at that also.

Participant: So I request participants to raise hand if there are any questions. So in the meanwhile sir, if I may ask, so on the institutional participation, so domestic Institutional participation didn't pick up much after it was allowed a few years back. But now, FIIs are allowed. So how do you see this and what's the opportunity in this and which kind of institutional players would be interested in looking at commodity trading? How do you look at that?

P. S. Reddy: Well, those FIIs who operate in both the markets while maintaining one single book, they are the ones who are more interested and that's one part of it. Second, the arbitrage opportunities between near month and far month contract, I mean, it's not something which is available elsewhere also. And maybe that is something which they may like to, I mean that opportunity they would like to exploit. These are the 2 which I can immediately look at it. But no, I am also, what you call, equally aware that GST issues are a concern for them to work on the second kind of model, where they're supposed to be taking delivery in one settlement, holding it till the next settlement when they sell that contract. I think that is something which they may prefer, may not prefer at this point in time. They register it which is fine. If they don't register under GST, they may not go for it. That's the way I look at it.

Participant: And going back to our futures and options, so if our margin for futures come down or like if I take for crude, if the margins come back to the normal levels, so how do you see this would impact future and option volumes on same margins from peak margin, which impacts the intraday this thing is not there. But still, once it comes back, how would it impact option and future volumes?

P. S. Reddy: Peak margins continue to be there, that's not withdrawn. It's only that the 30%, 35% margin that is there in the crude oil contract, it may be reduced to 20% or 15%. But peak margin rule will continue and that is going to stay, that's the way it is. So my hunch is that anyway, we'll continue to be there and that may be the driving force for these people to stay continued in the options contract.

Participant: So it's the peak margin, which was striving more than just the initial margin. Is it the right way to look at option volumes?

P. S. Reddy: Yes. But I would say that those who have completely stayed away in participating in futures because of higher margins, they will come back once these margins are withdrawn. That's the way I look at it.

Participant: So there's a question from Participant: again. Please go ahead.

Participant: I had a question about the participation by domestic institutions. What's prevented to kind of broader participation by them? And what can you do to encourage this in the future?

P. S. Reddy: Well, the domestic institutions basically, the mutual fund industry is what we are looking forward to. About, 3-4 are participating at this point in time, but that's not adequate enough. There are certain limits also on how much they can take or participate…That is another concern. And those who would like to take the physical delivery, here again, they have a constraint because excepting gold, in all other commodities, the delivery has to be offloaded within 30 days, okay. Our contracts themselves are 30-day contract. So maybe it's not feasible for them to do that. And if they can't participate beyond what you call it, if they buy it in this month and they take a delivery at the end of the month, they have to necessarily deliver it in the next month. If the far month contract is offering better arbitrage opportunities, they can't participate in that, while buying it in this contract maybe 2 months down the line, they can't sell it because they should not hold it for more than 30 days. That's the rule. So we have represented to SEBI all these issues. So that is one part of it. For example, in the case of silver, they said that you can participate, but then you to take exactly 30 kg kind of thing. And there is always a tolerance limit on the exchange platform which is about 2.5% or 5%. So one can give 30 kg or less or more within that band. Now SEBI says, not, nothing doing it. I think now an industry representation is going from the AMFI, which is the body representing mutual funds. And I think SEBI is progressively looking at those changes that are needed. Probably with that, some kind of depth will increase.

Participant: And sir, how long will that take? Is there anything else that you need to do your side to make it easier for mutual funds?

P. S. Reddy: I'm sorry. I mean there is nothing that we can do about it unless SEBI permits them to hold whatever the regulatory requirements are needed unless they bring in those changes, we will not be able to make them participate. That's the way I look at it.

Participant: And sir, you say 3 or 4 are participating at the moment. How many in theory could participate? How many commodities mutual funds are there?

P. S. Reddy: About 7 to 10 are there at this point in time. We have exposure to gold and other commodities like silver. Silver ETFs are also permitted recently by SEBI. So that's the kind of number we're looking at. And that includes all top mutual funds.

Participant: And then in terms of the foreign institutional participation, I mean, are you in discussions with any of these kind of FPI players? And, again, how big is the opportunity set here?

P. S. Reddy: We are keen to participate. In fact, we are focusing at this point in on the migration technology platform. And once this is done then our focus will be, the first priority is FPI participation in commodity markets. So that's the way it is, but many members are bringing their FPI clients to come and trade. Whatever engagements we have to do it, whatever clarification they are asking, our team is giving it. But beyond that, we are not engaging. But we will do that.

Participant: And then you've seen some very strong growth in the number of unique client codes over the last 2, 3 years? How do you better increase the percentage of these who are actually active on the exchange? And what's the strategy for kind of increasing that?

P. S. Reddy: Well, one is that with the requirement of having a separate membership for commodity exchange is gone because the members have taken and all members are under SEBI and there's really only one unified member. Those members who had earlier only exclusive equity members or equity clients, they have also started uploading on the exchange for trading in commodities, of course with the consent of the clients. That's one part of it, that's how we are all increasing. But the active clients is about you know 4.7 lakh is what we have seen, 4.7 lakhs is the number and that is for the last financial year and the number we are expecting it to increase in the current financial year also.

Participant: And sir, how do you increase that? What's the strategy for better activating the kind of 10 million UCCs you have?

P. S. Reddy: One is that I don't expect all equity clients will directly participate into commodities. We must distinguish here why we can't expect. In the case of equities, you can buy 1 share, 1 share could be as low as Rs. 10 to Rs. 2,000, Rs. 10,000, et cetera, it varies. But when it comes to commodities, the number are less, such kind of divergent this one is less. And more important, you have what is called a trading lot. The trading lot itself costs you about Rs. 5 lakh to Rs. 10 lakh. Come to copper, it's about 1.5 metric ton is the contract size. It is almost Rs. 30 lakh. So, gold is Rs. 50 lakh because that's a one kilo bar. So, it's not just we expect all in retail investors that are there in equity will come dabbling in this market because to that extent margin requirements also will be very high. Even 10% on Rs. 50 lakh of gold contract is almost Rs. 5 lakh. So, I am not having that kind of ambition, how to make all of them become active on the exchange platform. But definitely there are many HNIs in the equity markets, they can definitely look at participating in our market. This is one important thing. So, even for the retail investor, although we call it retail investor, he has to be substantially rich for them to put enough margin to trade on the exchange platform. So, it is the contract size by definition will come in the way of anybody losing their shirt on the commodity exchanges. And that's the way I look at it. They must be reasonably good.

Participant: So the UCC number isn't really that relevant, and it's not something we should track then. And it's better to focus on that active client number.

P. S. Reddy: Yes, we should be looking at active clients.

Participant: Yes. I think you should change that in your presentation perhaps because it maybe a little bit misleading, the big increase we see in UCC.

Management: Currently, we are not giving that one. But we received some suggestions, we are looking into that. We will see that. But we are giving the numbers in all our investor calls.

Participant: Yes, I've heard on the on the calls. Okay.

P. S. Reddy: It's a good suggestion, Mr. Patrick. We will do that next time.

Participant: And then on the electricity derivatives and futures, what's the timeline for getting this in place? Are approvals already there? And what do we need to do to launch the product?

P. S. Reddy: Well, I think the hope has been moving from 1 quarter to another quarter. I mean it was to happen maybe 3 quarters ago, it didn't happen. We are still hoping to get it this quarter. That's all I can say. But any timeframe that I can fix may go wrong. That's the way I look at it. But we are all ready to launch that.

Participant: So all the approvals are in place, it's just waiting to actually launch the product?

P. S. Reddy: Yes. And what happened sometime in June-July is the government has put a cap of Rs. 12 per kilowatt hour on the spot exchanges. And so, I don't know whether that will come in the way of for traders or not, but then let us see how it will work. In the spot exchanges, that kind of rule is there.

Participant: And then, for the potential of a coal spot exchange, what's the timeframe on this and I think there's other exchanges which are looking to be involved here, including IEX. What's your kind of advantage in bidding for a coal spot exchange?

P. S. Reddy: See, there are 2 things. One is that international bullion exchange which is there in Gift City, that is meant for only making India a gold hub and price to be discovered in India and we are expecting money of the international players and sellers or bullion banks to come and set up shops in Gift City and then make this as a regional hub for gold trade. And India being one of the largest in the world consuming gold. So that's one part of it. And whatever, the government has entered into a free trade agreement with UAE, even that entire gold will be routed through the International Bullion Exchange. So, that is another concession that we have got. So that is meant for that particular participation and then Indian jewelers can directly import it from that. Now, those who import gold are r those who are in the possession of gold, they need to hedge the price risk, isn't it? So, having bought it one is to source their supplies via IIBX, another is to hedge, that is only a spot exchange, that's not a derivative exchange, that is International Bullion Exchange, is just a spot exchange. Now, they have to do the hedging. So, once the gold comes into India, they will hedge on MCX, this is one part of it.

Now, the second part of it is the domestic gold spot exchange. Now, that is where we thought we too should play a greater role in bringing greater degree of transparency in pricing. Today, each jeweler, some of them have their own rates, their own displays, and nobody says that this is the rate at the all India level, although MCX rate is used, but ours is a futures rate, ours is not a spot rate, okay. So, we would like to be there in that space as well. So that the smaller denomination contracts can be, I mean, those investors who are keen to buy and then store the gold for any other purpose from jewelry and other things, they will be able to immediately acquire it rather than acquiring it from a jeweler. This is one part of it. We also have launched another model or suggesting the member brokers that they can give out scheme in the sense they can offer them to keep buying the 1-gram gold or 5 grams, 10 gram, whatever, 8 gram gold, and then store it in the demat form and transfer it seamlessly to a jeweler as and when they take delivery of the jewelry, and then pay the difference such as the making charges. So that is another way that we have been propagating it. All these things will find a greater degree of what to call acceptance once we do that. But pending this, we have also launched, what you call countrywide delivery system where the people get a delivery in Ahmedabad, but then the sequel of the vendor that is the vault manager has agreed to transfer the metal to the doorstep delivery there to any location that investors wanted with some logistic charges, including insurance, of course, I think that's a wonderful model that's finding some traction at this point in time. Let's see.

Participant: And that was on gold. What about for coal?

P. S. Reddy: Well, coal spot exchange, I think still the government is framing the policy guidelines. I think once that is done and we will take it up with SEBI for participation in that.

Participant: And is that something you do on your own? Or could you participate with someone like IEX, who also seem to be trying to build a product there?

P. S. Reddy: Sorry, I didn't get you.

Participant: I'm asking if you would do the coal spot exchange independently or if you participate with another exchange, I think for example, IEX who have said they want to do that and build a coal spot exchange?

P. S. Reddy: Coal spot exchange you're talking. But then we have signed in a joint venture or Memorandum of Understanding with mJunction to start a coal spot exchange. So we will not do that.

Participant: So I request participants to raise hands if there are any questions, we have 10 more minutes in this call. If you have any questions, please use the raise hand option or unmute yourself and go ahead with your question.

Participant: Lavanya, I wanted to ask a question.

Participant: Please go ahead.

Participant: Sir, so we feel like the kind of options largely driven by crude has led to quite a bit of a change as far as MCX overall profitability and top line growth momentum is concerned. When you add new products and new commodities to this business, what sort of opportunity are you kind of thinking you will eventually cater to? Because I'm finding it difficult to size the opportunity myself?

P. S. Reddy: At this point in time, yes, the energy sector is hogging the limelight. It is, I mean taking a major share in terms of driving our revenues. But then, when we move out to the bullion, that's another big revenue, this one we can expect it because in the year '19-'20, it was the bullion which was contributing almost 40%, 45%, okay. Energy was about 35% or so. So it keeps changing. That doesn't mean that other products don't add much on this one. But it all depends on the volatility and the other demand-supply situations which makes the difference.

Participant: I'm trying to try to understand, like you're doing mostly energy right now, you get gold in over there, I don't know, I'm sure you'll get more products after that as well. Can this business be like 3x 4x from where you're right now trading, like the total volume of options that's trading on the exchange?

P. S. Reddy: Well, I would not be able to give any such forecasting and I think it will not be fair for me to talk about it.

Participant: I'm not asking you to forecast actually. What I'm asking you is the opportunity size, that's what I'm trying. Like, if someone is putting up a cement plant, right, he will say that, we assess that, in India, cement market can be XYZ, I'm just trying to ask you the potential size of this market.

P. S. Reddy: I think this is a great potential. Why I'm saying is look at the number of participants who are hedging on the exchange platform. And there's a huge, huge scope for industry, the entire industry to participate and hedge their price risk, and some of them are going to the international markets only because we don't have as much depth as they are expecting. So is there any great, what you call, great business opportunity as we go along? I think there is. The size is huge, no doubt about it because people are not hedging. You look at annual reports. LODR requirement says that people should disclose whether they are hedging on the exchange or not. And many say that we are not hedging at all. And if that is the kind of situation that they are in, I think hedging provides a great opportunity for these exchanges to grow.

Participant: And the second thing, I know, I heard you at a conference call which you did at the results time, that assumption of 1/3 of the options, taking that as the sort of revenue this thing, what should be a better number? Is it 35% or is it 40%?

P. S. Reddy: We have said that currently it is 40%, we've said that.

Participant: So that's the base assumption that we can continue with, right?

P. S. Reddy: No, I would like to continue to be only 33%, I don't want to go to the 40%, just it is 40%. That is the positive side of it. We have only set 1/3.

Participant: So you think there is some kind of aberration in the current quarter which went by which is leading that number to be higher like, you had explained that, people are doing probably closer to the option expiry or whatever and which why the numbers are higher. Do you think that will normalize back to 33%.

P. S. Reddy: What I said was that the trading is taking place at-the-money, near-the-money or in-the-money. That's why option premiums are high. And if they do it far away, then they may not be able to pay so much premium, they will not play obviously. So currently, our regulatory framework also doesn't allow people to participate or activate in the illiquid trades, illiquid options contract. So obviously, people will continue to trade at-the-money, near-the-money, maybe 3, 4 strikes away from the touchline price. That's the way it is. I don't think they will move away from that at this point in time.

Participant: So I get the answer to my question. Sir, last question now is I don't know if you've already discussed this, at what stage is the TCS package testing now? Are you like kind of now regularly testing on a daily basis? What's going on?

P. S. Reddy: I think of I've answered that some time ago. I don't know you may have joined late.

Participant: I may have missed it. I joined late. Actually, you can leave it, sir, I'll get the update from Lavanya. Let me not waste time. Thanks. My questions have been answered.

Participant: Thank you… So maybe we can ask one more question if there are any questions from investors. So maybe I'll take his last question, sir. So our option premiums which we expected to be somewhere around 33% or were higher in Q2 and both Q1. So when the new product launches which are coming up which are like shorter duration for gold, so how do you see this impact the overall margins and thereby revenue from options?

P. S. Reddy: That doesn't impact. There is no correlation... I think if the regulatory framework is right and then people say that you've to trade at-the-money or near-the-money or something of that kind. And I think SEBI doesn't want anybody, why SEBI, I mean as regulators also, where the front-end regulators who don't want people to trade in illiquid options contract as illiquid contracts are known to be or used to be siphoning off some trades which are not healthy for the market development. So… desist from trading such kind of contracts.

Participant: So, I just wanted to check if the duration of the contract would impact the premiums collected. Okay. Thank you, sir. Thanks, everyone for joining the meeting. Thank you so much.

P. S. Reddy: Thanks to all of you.

"Multi Commodity Exchange of India Limited"

Meeting with Invesco AMC

November 09, 2022

Disclaimer:

This transcript is provided without express or implied warranties of any kind, and should be read in conjunction with the accompanying materials published by the company. The information contained in the transcript is a textual representation of the company's event and while efforts are made to provide an accurate transcription, there may be material errors, omissions, or inaccuracies in the reporting of the substance of the event. The transcript has been edited wherever required for clarity, correctness of data or transcription error.

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.

MANAGEMENT: **MR. SATYAJEET BOLAR – CHIEF FINANCIAL OFFICER, MULTI COMMODITY EXCHANGE**
MR. MANOJ JAIN – CHIEF OPERATING OFFICER, MULTI COMMODITY EXCHANGE
MR. DG. PRAVEEN – CHIEF RISK OFFICER, MULTI COMMODITY EXCHANGE

Praveen DG: I think**,** anyway, most of the questions are already answered.

Speaker: And I mean, they have been holding the stock for a while. So, obviously, his questions are always a lot more in-depth he is following the company for very long.

Speaker: We have certain questions which are not yet answered… So we've been holding MCX since long….

Praveen DG: Yes, Yes.

Speaker: And somewhere in COVID and all, the meetings weren't happening that frequently. Obviously, a lot of us, and we have been holding stock…But what we realized is that over the last few months, a lot has happened, and we are thinking that we still don't know very well and the developments that maybe happened…

So obviously, the first thing is this options. When you look at this monthly data, the options has done really good. I think before it's largely for focused on…. if we look at this thing, and some of it is also matching the asset in last two, three months. And if I obviously, historically, the volume would be in those, in the underlying commodities which you have volumes, and energy or crude has been behaving in that fashion. If you observe the last 3 months, crude has somewhere stabilized, crude price. But despite that the volume has stayed elevated, and when I am saying volumes, we are combining futures plus options. The volume has stayed elevated. So then perhaps it is because of natural gas, the new contract that we have lost. That is somewhere offsetting that. Or is it that now options obviously move to the extreme? Or is it that options will behave differently as compared to futures?

And so there's a question arising on them. Could you give some more clarity to what is going with the options, what is the clientele customers are doing whether it is retail in nature, whether has it changed, or it's largely similar what you see in futures, same thing you see in options? Those are the initial questions.

Praveen DG: I think natural gas we have launched in the month of January. So, subsequently, it is like it is one more product which is a capacity product, which is added in the options, and peak margin reporting. Anyway, after that one, this all transition, whatever it happened, okay, there is a greater shift or greater performance. That is what we could experience in the options. Number one. That is what was happened after this introduction…

Secondly, in the case of energy contract, even today, crude oil attracts a very high margins. It is close to 30 to 35% because you would be knowing that SGF related issue. So whenever it is like if you are not sufficient margins are not collected, then you need to have sufficient funds at least in the SGF whether you ought to charge a higher margin or you need to have sufficient quantum of money in the SGF.

Otherwise, what if you are charging a lower margin, then risk is going to be on a higher side. Based on a risk calculation, if you do a stress test analysis, automatically, your SGF requirement will go on. So either you have to increase the margins or you have to increase your SGF, but the problem with the SGF is today, as per the current regulations, once you infuse a capital into the SGF, it is only one way. You will not be able to take it back. So once induced, it is gone. That means it will remain in the SGF, but you will not be able to get it back. So exchanges, not only MCX, but other exchanges also made representation to the SEBI for considering that one that okay, as and when it is required, we will Infuse it. Subsequently, we will take it.

So after that one, maybe I think the series of discussion happened and some working paper recommendation, everything was given to the SEBI. SEBI also was put up the matter before the, their risk management, and they are supposed to meet again, and they will be discussing that particular thing. But in a way, they are also considerate, and they are looking into that particular matter because we are open, and we are saying that okay, when our really requirement goes up, we are free to put that one as long as the money can be taken it back. Otherwise, it is, there is a bigger risk is there for us also.

So given that one, I think, definitely, the higher margins in futures is attracting some market participants towards the options. Whether the question is whether the margins happen to be same or different means for the option writer, it is going to be the same. That means same it means it is not exactly the same. Depending upon various parameter Delta or some other thing it is like it looks up in a span mechanism based on portfolio, you will look at what could be the margin, but in roughly I am saying more or less it will be around the margins level of the futures. Okay.

But there are option buyers who definitely can take a benefit out, like they pay only once as a premium. After that one, they need not have to worry about that. So even in if you look at them parallely the peak margin reporting, there the requirement is that the members are supposed to take up front the margins from the clients. So when you have intraday margins getting changed because of the volatility and everything, a buyer some of the set of buyers feel comfort in buying the options where they can just deposit that amount towards the premium, and they need not have to worry.

So some people definitely have seen some greater merit in options for it, and they started trading in that. So you can see that some of the people who earlier used to trading futures definitely has gone to the options, but always what we have to look at it here in commodities markets, whatever option products are getting traded today are all options on futures. It is not option on spot.

That means whenever somebody is trading and somebody writers are there, especially, writer, they look for protective measures, like they wanted to take the parallel positions in futures before writing any options because that is where they get the protection. So because I am giving an option. It is like it is only for a small premium amount. I am giving him the right, and I am taking the obligation, but I need to protect myself from that. So those people, they trade in future because underlying happened to be the futures. Okay.

So there could be a drop, but what we see is it will not be that steep as compared to the raise that we could see in the options contract. Okay. So the corresponding raise is significant in option. And earlier some of the people who are sitting on the fence, when we came out with options and everything, they were not very free to come because they look for liquidity across multiple strike, strikes. Okay, but in futures, you will have only one or two contracts, while here it is like in option, you will have multiple strikes. People have to trade. They require the liquidity at least that means you require market to be market books should be at least decent enough so that they can able to come and trade in those option contract also.

So thanks whatever in this peak margin reporting in a way has pushed some of the market participants to start looking at the options, and liquidity book and everything became decent enough, and we started seeing people participating in the options also. So it's a good thing. It is a win-win. In fact, it's a regulatory move, but it has come to our favour, and it has pushed liquidity into that one. So given the increased liquidity or performance the option, we wanted to now widen the basket, product basket in the options also. That is why we came out with the natural gas, which is also a cash settled product, which, I mean, the underlying product happened to be a cash settled product.

Speaker: Underlying --

Praveen DG: Underlying means natural gas, because the product happens to be option on futures. But underlying contract happened to be a cash settled contract. So the risk of delivery won't be there. Okay. But we are looking for other thing also, like, okay, why --

Speaker: Futures are all cash settled?

Praveen DG: No.

Speaker: Okay.

Praveen DG: If you take, currently, I can say that only energy products are cash settled. Rest of them are all delivery-based contracts.

Speaker: So I am sorry. I didn't understand. How does it benefit whether it is cash settled?

Praveen DG: See, for a buyer, for example, if you hold on your position, it is like then you have to end up paying the entire amount. Suppose I am a call buyer. You have to pay the entire amount when delivery is marked. Then you have to pick up the delivery, and you have all the GST related matters. All will come into the picture. That means as a client I want to enjoy that kind of credit back into my GST account and other thing. Then I need to myself get registered for the GST and all those things, and all delivery related challenges will come into the picture when you get into the delivery.

Speaker: So I think you don't want to deal in cash settled because it's painful.

Praveen DG: So people prefer to, what they do is, it's a general trend that people tend to roll their position prior to the delivery. So derivatives are meant for actually risk management, not for deliveries. Then what is the need of delivery means the need is there should be a threat of delivery. That ensures that spot and futures will converge at the time of expiry. Internationally, even if you look at it, it is less than 1% that really, less than 1% of the volume that result in the delivery.

Speaker: Is it required to make sure that the prices don't go…

Praveen DG: People…because of that threat is required or the benchmark which you link it whenever you are doing a cash settle should be very acceptable to the market. These are the general conditions that you have to look at it so that the prices cannot be manipulated.

Speaker: On the same logic, so if we have this index options on the contract coming into picture, that can be a big opportunity.

Praveen DG: Yes. It is a big opportunity. You have a cash settled product.

Speaker: And index anyways is a much bigger category in other exchanges.

Praveen DG: See, unfortunately, what happened means in our case, the METLDEX was doing very good, but the nickel which was otherwise was drawing some close to 2,000 crores after the LME debacle that suddenly the nickel prices were shot up and everything, then liquidity has dried up in our nickel contract. But even today the METLDEX continue to have the nickel as the underlying constituent of that particular metal, METLDEX index. So during this January rollover, we are, it is going to get rolled over, and the nickel won't be part of the METLDEX after the January rollover. Rollover or you call it rebalancing, rebalancing of the index. So after that one, we wanted to, again, wanted to reintroduce the index METLDEX. And then we wanted to, again, wanted to push the product METLDEX index after nickel goes.

Speaker: Okay. The growth we are seeing in index…

Speaker: Yes. The METLDEX earlier, it used to contribute close to 150 to 200 crores. In fact, prior to this nickel episode, it has even hit close to 400 crores turnover. But after this one, because of that one, because if you don't have the underlying, you cannot expect that somebody will trade in the index futures. So that is not important but BULLDEX is still doing good. And I think after this technology migration, we wanted to go for some weekly contracts.

Speaker: Sir, also what you gave even gold and alternate bullion should also be cash settled, right?

Praveen DG: No, I think you need clarity what do we mean by cash settled and what do we mean? I will just explain that.

Speaker: No, I think if you want a future, and if it's coming to an expiry, I have to pay and buy that. That's cash settled, right?

Praveen DG: No, no, you won't pay. It is like the differences will be settled. It will not be like entire amount will be paid.

Speaker: Price differences.

Praveen DG: So in case of compulsory delivery, it is like whatever is a contract value, you have to pay the entire amount. Then you have to buy that commodity. That is how the physically settled commodity like a compulsory delivery contract is.

Speaker: This is cash settled.

Speaker: Cash settled means only the difference will be get settled, like, okay, suppose every day M-to-M is, technically, in a way, end of the day also, you will have another M-to-M kind of thing based on that underlying price. Okay. And then it will, the contract will get settled. So there is no threat of delivery there.

Speaker: In cash settled,

Praveen DG: In cash settled products.

Speaker: Coming back for the delivery, five days prior to the expiry you have to inform that we are going to give the delivery.

Praveen DG: So five days before we call it as a tender period. The tender period margin what will happen means there is incremental tender period margin that becomes applicable, like, for example, take the case of metals or even now they made in case of crude oil also, they made pre-expiry margin applicable. So in this case what happens means five days before the expiry, one, first day you will be imposed 5% pre-expiry margin. That means your margins are there. Suppose 30% is your current margin. On that day it becomes 35%. 30

plus 5%. Then you have extreme loss margin is there. A very subsequent day, another 5% will get added.

So that way it is like on the day of expiry, it will be 25% additional margins will be there towards that pre-expiry margin plus you will have initial margin. So somewhere this, these margins put your actual margin requirement close to 55% like that. This is, they made it applicable not only for delivery-based contract, but the contracts where there is a possibility of prices going to negative, there also they made it applicable. Okay. So crude and natural gas as there could be a possibility that can see the negative prices, there also it is being made applicable. So the point that we are making was for the energy that was cash settled, the next all is physically settled. So that threat is there in both cases threat is not the margins getting higher during the as we come closer to the expiry, it is equally applicable in all the contracts.

Speaker: Cash settled or physical.

Speaker: Or physical given the current products. Okay. Then what do you say? Like, but delivery threat is not there in case of cash settled contracts.

Praveen DG: Correct. You may have to pay a higher margin, but you don't have the delivery threat.

Speaker: So that is what is making energy --

Praveen DG: So energy means like when you are taking 55% margin, which is a very substantially, on a higher side. I prefer to go for an option buying, right, so that I will have to pay only the premium amount.

Speaker: You know, there also I have to pay high….

Praveen DG: No, you have to pay only the premium, see in case of option buyer --

Speaker: In gold where the margin requirement is less because it is physically settled.

Praveen DG: No.

Speaker: Or the volatility.

Praveen DG: No. The reason is like that's what, you understand. The margin requirement can go for, go up because of various reasons. One is based on the volitality. We have higher the volatility. Every day, every, on a real time basis, we look at how the, how volatile the commodity happened to be in Indian market and overseas market. Depending upon that one, there is volatility-based margins are going to become applicable. Beyond that one, there is something called extreme loss margin. This is to cover the, the tail ends of the curve. So we charge that. Something around 1.5%, we charge towards that extreme loss margin. Besides this one, like just now I explained, the tender period margin is going to be applicable, but this is going to be applicable only during the last five days of the contract.

Now coming to another aspect where we are, suppose we are charging the margin beyond the volatility is SGF related margins wherein either I need to increase my SGF, or I need to increase my margins. So in these cases, what we have done means we have increased the margins of some of the commodities. Like gold we have increased by 2%, something around 15, 10 to 15% we have done in case of crude oil. Okay. So many factors will decide that one.

Crude versus gold, gold is around because it is volatility-based margin is around 6% roughly. Okay. Then you have ELM 1.5 which is equivalent to making it to 7.5 plus 2% towards SGF, I have opted to go for 2% higher margins in the gold. So all putting together it is coming to 9.5%, around 9.5% compared to crude which is around 30%, which can go to 55%.

Speaker: SGF related margins are also very high in crude oil.

Speaker: It's also linked to volatility.

Praveen DG: No, no. It is not related to volatility.

Speaker: Besides SGF.

Praveen DG: SGF is historical 15 years we look at it, and we will see that the top two members failing. Okay. Two members, top two members are there is another condition. I think top some 50% of the members, if they fail, what will happen? What should be the ideal SGF that you as an exchange or a clearing corporation should have. That can also include extreme tail event, see, that depends more on the tail events, more than intraday volatility.

Current volitality, it won't hit the SGF much. It is the past which will haunt you. That's why people always have a higher margin because past 15 years' data is considered.

Speaker: That's what.

Speaker: Negativeness just happened to be the fact.

Speaker: Yes. That is the, that is the thing.

Speaker: Have you represented the regulator.

Praveen DG: Yes. We have made it already. That is what we have been looking for, matter will be taken up to that Risk Management Committee. If they consider it, I think, then we can start, we can reduce that one. But the good thing is by that time, the margins options also have picked up and doing well. Now there is a very good spread between options and futures. So I think we feel that continue to options should continue to contribute.

Speaker: So tell me one thing with futures, can you give a split? I think earlier you used to give that, speculators, institutionally.

Praveen DG: We give it on a daily basis.

Speaker: Yes. So, how is that mixed in options versus futures only in energy?

Praveen DG: Split?

Speaker: What I am trying to assess is that how many people have shifted just because of this requirement? And how many are new entrants?

Praveen DG: Yes. I will give you the number of how many people have traded in options, but the number whatever it has fallen in futures is not significant as compared to the raise that you could see in the options. So that way you can say that some people could have shifted, but there is a big jump that we could be able to witness in the options contracts.

Speaker: You are saying there are many new entrants.

Praveen DG: Many new entrants.

Speaker: And that would be morely, mainly retail side or not necessary?

Praveen DG: See, in commodities, the retail definition is altogether different. Because here the product size itself is very big, and I will not be constantly changing the trading lot also. It remains more or less fixed. The prices goes up and the size goes up. Like, for example, gold contract, today, it is a 50 lakh contract, which is substantially big compared to any NIFTY. NIFTY, what will happen? They keep changing the trading lot depending upon the what is the value of the Nifty, and they wanted to see that the value of the overall contract can be anywhere near 5 lakh. But here it is not the case.

Speaker: Is it proved that the contracts remain same?

Praveen DG: It is remain, because our lot size remains 100, 100 barrels. So depending upon the price and other thing, always it will be like whatever it is.

Speaker: For a retail who does a Nifty, and Nifty for him, and so it is like difficult, right, because the sizing are so large?

Praveen DG: It is, but it is, but you also if you look at equity cash markets, I can buy even one share, two shares and everything. That is not possible in this case. This is a derivatives market platform.

Speaker: Only derivatives.

Praveen DG: For derivatives no cash is there. So in a way, it is like those people who can able to accommodate or able to trade in this kind of contract, they only will come and trade.

Speaker: But we are launching 100 gram gold.

Praveen DG: No, we have done already. Options 100 grams gold, we have done it, and that also is seeing good liquidity now. Just very recently we have --

Speaker: Another question could be, so what is your definition of retail?

Praveen DG: Retail here means reasonably bigger. That means we can --

Speaker: HNI.

Speaker: HNI kind of thing who are having good money. That means who can able to take a decision based on that one.

Speaker: So speculators, in general, should be less in your?

Praveen DG: Yes, see, for example, I will give you, in our case, the registered or active UCCs are 1 crore.

Speaker: Okay.

Praveen DG: But the traded UCCs, traded if you see only around 4 lakh, 4.7 lakh.

Speaker: So only 4% of people, 4.7% people are trading, active trade.

Praveen DG: Because it is like active means after the integration of this intermediaries, whenever anybody is taking a client, getting any client to get registered in their brokering account. Based on the client's request, they will make every asset class a tick mark so that they can, the client can able to trade in any of the asset classes. So some of them are technically like asset neutral.

Speaker: So can you give some more color on this 4.7 lakh traded UCCs in trade? Can you give me some color who are those? And how many of them are business, are business, are business owners?

Praveen DG: See, okay. There is a, while we come out with one report, which we show it on a daily basis, like we will say that open positions, not the volume, because volume is not a right representation for commercials. We call it like commercials or you can to it…. who have an exposure to the commodities in a way the hedges, who could be the possible hedgers. Depending upon the commodity to commodity, it varies, like whatever is like, roughly, you can say that it is anywhere between 20 to 35%. In some of the commodities, it is even higher also.

Speaker: The hedges.

Praveen DG: Hedgers.

Speaker: Which are mostly, correct.

Praveen DG: But they are not interested in trading. Rather than they will be more interested in holding on their position, because ultimately, I have to protect myself the risk of price movement. So like that it ranges anywhere between 20 to 30. This data readily is available on our website. You can download and you can look at it.

Speaker: Take a look for open positions.

Praveen DG: It is open position based data, because we don't want to look at the volume. Because Algos preferably trade on intraday, because they wanted to hold, and they wanted to exit depending upon the opportunity. But a hedger wanted to continue to hold his position for a long period.

Speaker: So we look for open position divided by our total volumes.

Praveen DG: No, no.

Speaker: That will be 25%.

Praveen DG: It is out of the total volume, total open interest, what is the share of this kind of the people or entities who are having exposure to the physical market.

Speaker: Physical market?

Praveen DG: Physical market.

Speaker: But you give data only open positions.

Praveen DG: No, no, no. We give volume data, we give it. There we give the, like, how many Algos, what is the percentage of Algos we give it.

Speaker: So what percentage Algo you give?

Praveen DG: Algo we give it. We give it number. It is there in our presentation also, investor presentation we have given.

Speaker: Yes. I missed that.

Praveen DG: Okay. And we also give what is the client trading. We give proprietary, how much client.

Speaker: How much we give that one.

Praveen DG: How much is the mobile trading, that also we give it. Okay. Then we give hedges or you can say the entities who are having exposure to the physical market based on their disclosures, because I cannot say that what is their intentions. It depends upon their intention and other thing, but based on their disclosures, we make that. Out of the total open interest on the exchange, what is their share? That we publish on a daily basis.

Speaker: You are saying 25 to 30% are hedgers.

Praveen DG: Roughly.

Praveen DG: Depending upon commodity it is. In some commodities, it is even higher also.

Speaker: And how much would be Algo?

Praveen DG: Algo, don't link these two things because one, I am speaking about the volume. Other one I am speaking about the open interest. So don't, don't say that it is still, these all will reach to 100%.

Speaker: In volume, hedges will be less.

Praveen DG: Lesser. It will be lesser.

Speaker: Because they trade less.

Praveen DG: They trade less, but they hold on their position for a longer.

Speaker: What could be volume mix?

Praveen DG: Volume, you, we have given like see, Algo percentage in case of futures is about 55, 54%. Okay. Client trading is about 51%. Mobile trading is about 21%.

Speaker: This is volume.

Speaker: Which is also not adding to 100.

Praveen DG: It won't add because, for example, a client can also be trading through your mobile trading.

Speaker: But again, so maybe --

Praveen DG: But nowhere we give that particular entire pie what you are looking for, because we don't have that data. We don't know that one. That's why.

Speaker: So whatever you have an idea, you are trying to give.

Speaker: Yes. We are giving that color.

Speaker: So this Algo and client trading, who will as in will it be HNI is for sure, but is it corporate? Is it brokers?

Praveen DG: Algos, you find prop as well as some clients are also doing. Client as well as prop, both they do the Algo.

Speaker: But they look for mostly arbitrage opportunity.

Praveen DG: Yes. Algos are generally look for more of arbitrage or unless they feel that okay, maybe I want to trigger this particular thing based on a particular event or something, they can speculation also they do it.

Speaker: There are different types of --

Speaker: And client trading would be HNIs.

Speaker: Yes. Yes. All category. All category.

Praveen DG: All category.

Speaker: And this mobile would relatively be a HNI.

Praveen DG: It has come down after the COVID. Earlier it is during the COVID time it was gone higher, and subsequently, it later has come down. Maybe people that time preferred to use more of mobile.

Speaker: And whenever internal analysis just mix the options, it's same as futures or it's different?

Praveen DG: We have given more or less it is the options, it is Algo is 52%.

Speaker: Same.

Praveen DG: And mobile trading it is 31%, but again, it has to compared with again your volume and other thing, but more or less looks like the trend is more or less the same.

Speaker: So it's very, so there's nothing for us to suggest that the options is different.

Praveen DG: Yes.

Speaker: Maybe new entrants have definitely come, but the color is largely the same. Out of this 4.7 lakhs, how many…?

Praveen DG: We have given, it is about year-to-date if you look at, okay, that is of the last year. So I think that may not be a right picture. Year-to-date it is about 2.13, okay, till September I am saying, it is like they have traded in options compared to 2.36 in futures. It's a balanced, you can see that very good balance.

Speaker: This new entrants who would have come in options, would they be lower, would they be retail in nature as a typical retail or no?

Praveen DG: See, we, frankly, it's very difficult to say that we will come to know also, because what are their levels or income. We may not be knowing this.

Speaker: No, but is it, is it a new set of customers coming in over and above what you had already?

Speaker: That is new customers, but --

Speaker: Is the profile different?

Praveen DG: We don't have that particular data to just make out, right, profile why they are different. Very difficult to say, but India, in India, options happen to be very popular.

Speaker: But at the same time, options are popular because it's driven by retail. There are these discount brokers who have pushed it. There has been this medium. So, are we in that direction or we are --

Praveen DG: See, many of these discount brokers are very much active on our platform also.

Speaker: Is your product doesn't appeal to a retail who does --

Praveen DG: Very small retail definitely, if you look for that kind of category, very small retail definitely that these best products can be bigger or similar.

Speaker: Hopefully, a buyer may come…buyer --

Praveen DG: Writing is very difficult for him to --

Speaker: Sorry.

Praveen DG: Writing, option writing could be difficult for a small retailer.

Speaker: No, but he can be on the buyer side, you can have a smaller retailer.

Praveen DG: Buyer side he can take in, but again, depending upon the ticket lot, depending upon the ticket size and other things.

Speaker: Ticket premium.

Praveen DG: These contracts may be in the range of 10-15. So that range is the range in which there has been… That is not a very I would say like 2.5 lakh, 1.5 lakh margin.

Speaker: Correct. So this is what I was trying to understand that --

Praveen DG: Margin that you have to pay in futures. That is the --

Speaker: As your profile change because your ticket size is 50,000 kind of profiling will not…

Praveen DG: That's what. We don't have that.

Speaker: And he wouldn't even know which, how has the brokers had changed…

Speaker: Angel will be what market share? I think, they have --

Praveen DG: That particular data we are not announcing, like we are not making any disclosure. But they all have been active.

Speaker: So is the mix of brokers different?

Praveen DG: Yes. It is, you can say that in the top 10, there is all mixture. You find Algos. You will find retailers. You will find prop. All categories are there in the top 10.

Speaker: In options.

Praveen DG: No.

Speaker: Yes, in general, I said.

Speaker: I am saying it's a different futures versus options.

Praveen DG: We don't have at present, I don't have that number.

Speaker: But have you done internal prices in terms of even giving the kind of brokers options and all that?

Speaker: That is what. So how do you understand options? Is it same or is it how the brokers are different?

Speaker: That gives us some color back. This is while you can say that this is what you say, but then how do we kind of take comfort? I mean, how different it is from the futures have been volatile that we have seen over so many years. What makes us think that options can here to stay?

Praveen DG: I don't have the numbers, but should be the more or less should be the same. And since you specifically ask, we can look at it.

Speaker: Yes. What we are trying to look out is maybe the contribution of Zerodha or has increased significantly, or now in last one year, and that --

Speaker: Through them you wanted to analyze what could be the impact.

Praveen DG: That's changing because of options volume.

Speaker: Okay. That way you --

Speaker: How different is the options basically from more from the client side, you know, customers? So is it a shift you said there are new people coming in? Who are those new people?

Praveen DG: Are the brokers not giving any such data? Angel is listed.

Speaker: Yes.

Speaker: Angel gives….

Speaker: And we use that in the…. They don't give that data. They don't give. They just give their commodity share.

Speaker: They give their commodity share.

Praveen DG: Commodity share.

Speaker: They just give volumes, market.

Praveen DG: But see, look at the Algos, for example, I am just going by whatever we have. Algos happen to be at the same level. That means more or less the Algos maybe the broker specialized in options could have been doing a better Algos and other thing, but rest of them all to be from the way you are looking for performance. They should have been from other category of brokers.

Speaker: So just shifting to the new topic, so this natural gas, you said you launched in January. Is the pricing has been significant last two, three months because of the volatility in natural gas?

Praveen DG: It will be as we come out with the roll the products and other things, slowly it will be in the traction.

Speaker: So over time it's a natural evolution of energy. So do you think this product can be really big? Like can it be --

Praveen DG: You can immediately compare it with the futures, like the way it is doing in the futures. For example, crude oil, and crude oil has done, it is year-to-date it has done something around the 4,200. Compared to natural gas, it is around 6,200. One advantage in crude oil which could be supporting its options is very high margins, very high margins compared to the natural gas. Natural gas option margins are not that significantly high as compared to the crude oil.

Speaker: Despite their options is doing fine in natural gas, because relatively the ticket size is less. So naturally also, you have to pay lower margin compared to futures.

Praveen DG: Lower margins. And it is….. And it is also more or less it is having more or less the same futures, which the crude oil is having like cash settled contract and other thing. All are really fell….

Speaker: Sorry. I forgot. So cash settled you said leads to higher, higher traction in options.

Praveen DG: Yes, one of the advantage for trading in options.

Speaker: Because that it leads to a higher.

Praveen DG: Because I don't have to get into the delivery aspects, right? So that way it is like, like index, you take the index options or index which is compared to the stock futures. Now most of the stock futures are also made delivery-based contracts. So that way it is like people feel comfort in trading in a basket product where it is a cash settled product.

Speaker: So which is that the underlying is cash settled, so I can be better off with doing options. So gold I will be uncomfortable relatively.

Praveen DG: Because once you get them, your marked delivery, then it is like you have to pick up that anyway.

Speaker: By chance if we forget squaring off, then you have to pay that.

Praveen DG: So here what will happen means I'll tell you in case of option on futures, at the time of expiry, if he is in-the-money, automatically it will get exercised and his positions will be converted into underlying futures.

Speaker: Derivatives, stock future, futures.

Praveen DG: Derivative futures.

Speaker: Delivery side.

Praveen DG: Futures will either go for delivery, or it would go for cash settled. Okay.

Speaker: Gold, it is compulsory.

Praveen DG: It is. So the movement if it is there, immediately you will be given a big margin once you enter into that one. Then ultimately, there is, and you are entering at the time of tender period. Tender period is why it is. That time even some days are there, at any time you can be marked the delivery. That means depending upon the sellers, you give the…

Speaker: He gives further…

Praveen DG: Yes. That means all the delivery-related aspects will come.

Speaker: Usually, trader is always better off doing cash settled options.

Praveen DG: He has to prefer to, he prefers, many of them prefer to square off before they get into the delivery.

Praveen DG: So either you be alert and you do, you square off, or if you don't want to take that risk of remembering, do the other two cash settlement.

Speaker: Do the things means meaning --

Praveen DG: Which is what, which is what is happening.

Praveen DG: So that that is what is the trend even we see in the Futures. Like before they enter into the tender period, they square off their position, and they take the subsequent in the position in the subsequent one. Because ultimately, you are interested in whatever is the price movement, up or down. So your idea is you wanted to just trade that movement, price movement. So once it is coming to the expiry, you will take a position in the subsequent contract, and you continue to hold your position either long or short.

Speaker: Sir, this is very clear. Energy, you are getting traction in options, because obviously, the margin is high, and you save, your investment is lower, and it's easy for you to do. Even gold can be done in that fashion, right? Gold, while I understand the margin is not as high as crude, but gold options relative to gold futures is definitely an economic advantage for a trader to do gold options. So why are we seeing while gold meaning is a new option that you are giving. So where 100 barrels a person can do, then why can't you do 1 Kg gold in options?

Praveen DG: No. See, again, I said it is like the premium in options or gold options is very high. One, because of trading unit itself is very high. It is 50 lakh.

Speaker: 50 lakh.

Praveen DG: 50 lakh contract here. Second, it is a bi-monthly contract. It is not even a monthly contract. That means your expiry comes after two months, every two months. That means the time value of money for gold is very high, gold options, as compared to the crude oil, because there you have monthly contract. Here you have only bi-monthly contract.

Speaker: And it is monthly doesn't matter.

Praveen DG: It is a bi-monthly. So that increases your premium cost.

Speaker: So here you said 50,000 per energy contract. How much will it be for gold?

Praveen DG: Roughly take if it is a 50 lakh, I am just giving the estimates.

Speaker: Okay. Yes. Rough estimate.

Praveen DG: 50 lakhs is the contract means generally, your value will be 1%, 1.5% will be your premium size. Okay.

Speaker: So it's 50,000 to 1 lakh.

Speaker: 50,000 to 1 lakh.

Praveen DG: Okay. Then if your time value is getting added, automatically, it will add up to another 0.5 to 1% of the --

Speaker: So why you couldn't do it monthly then?

Praveen DG: That is what we have, we also received the permission, but we wanted to wait till the migration happens. Then we wanted to roll out the products.

Speaker: Okay. And we have this thing, weekly contract in this. Can we have that?

Praveen DG: See, what we are looking at is currently, we wanted to start with the monthly contract rather than directly getting into the weekly contract.

Speaker: Weekly, you know, weekly can we have in crude and natural gas? So is it allowed or?

Praveen DG: Currently, see, for everything, we have to go to the regulator. We don't have permission per se to go and launch it. But we wanted to start with monthly contracts in gold, and if at all anything is there, we wanted to plot and look in index weekly or….

Speaker: So how will we, so when you are talking of this physical settle, so once a spot exchange comes in, and does away with this, then you can be cash settled for gold and silver?

Praveen DG: No, actually, no, because…

Speaker: Separate segment.

Praveen DG: …it is unless I launch a product linked to say, for example, EGR unit, unless I do that it is not fungible between these two model types, because the product that is the EGR, again, what are the products that are converted into EGRs gold, whether the same bars are accepted, or have different quality? Or what is the unit? So there are many parameters that will decide how your EGRs is being made. And my product is having altogether a different, what do you say, different underlying, because I have defined LBMA Gold, and I have specified that apart from LBMA GOLD in some of the gold contracts, it is like my empaneled gold refineries. So unless they are strictly equal in all the cases, I cannot say that it is --

Speaker: What do the spot exchange help you then? It doesn't help you at all?

Praveen DG: It depends upon as a future exchange, liquid exchange is there. If I decided to come out with this one, I can come out with EGRs, which can be similar, or it can be made fungible to my futures market. That is one thing, but current --

Speaker: You can do that.

Praveen DG: That we can do it, but currently, it is apart from that one, there are certain GST related challenges are there in case of spot.

Speaker: In spot, but have you seen stock futures is stock settlement?

Praveen DG: It is now recently they have made it delivery-based contracts, stock futures.

Speaker: Stock options also.

Praveen DG: Stock options and this one both are, but they are not option on futures. They are all both are option on spot.

Speaker: Both.

Speaker: So some are cash --

Praveen DG: Both are cash. That means they are linked to the cash market both.

Speaker: That is why even on NSE you see index options having a higher volume.

Praveen DG: Yes, because they are both are cash settled, but earlier if you look at, even if you look sometime back, it was index option which was driving the market.

Speaker: Correct.

Praveen DG: Your stocks are generally, stock options are generally, they are in the ratio of 1:1. If you see the futures and options around 1:1, but it is the index option which was gone.

Speaker: 1:100.

Praveen DG: That's what. Multiple times higher than the --

Speaker: This cash settled is very, very important for options together.

Praveen DG: One of the best for the, see, for the people who don't want to trade in, don't want to get into the delivery, definitely for him we see it.

Speaker: But in exchange they want people who don't want to get into trade.

Speaker: See --

Speaker: Because they will only be, they will only add volumes.

Praveen DG: No, no, see, I will tell you. I require products of multiple category. I should be diversified.

Speaker: I should be diversified.

Praveen DG: Unless if, for example, because not only this one. Volatility decide which product somebody want to trade. Suppose cash settled products you have it, but no volatility. Who will trade in that one? So depending upon that one, I need to have a wider basket such that if something, some other factors are not bringing the volumes in this particular category, I can bring the volumes in that one.

Speaker: On the offering. NSE is a classic example because there you have index option is the 90% of its volumes of index which tells us that if you, your volume has to go back to the old higher was the old height, then is this the prime requirement?

Speaker: Will this be a big enabler?

Praveen DG: It is one, one of the biggest enabler. I can say it. Not necessarily be the only one.

Speaker: I mean, it looks like it's not a big thing for a person to remember that I need to square off.

Praveen DG: Yes. That's what. That is what I said. So it gives the comfort.

Speaker: It's the example, I --

Speaker: It gives the, it gives the comfort definitely.

Speaker: No, for a retail, they actually forget and square off.

Praveen DG: So for a hedger if you ask delivery-based like for him, it doesn't matter.

Speaker: That is there, but still --

Speaker: Yes. That's what it definitely.

Speaker: Because gold belief, you know, loss will be also delivery settled I mean….

Praveen DG: That means option will devolve into the futures, but futures will be the delivery-based contract.

Speaker: The challenge will be there in gold as of now.

Praveen DG: Yes. You, you have it.

Speaker: Can you change that? Is it in your hand or it's the reg?

Praveen DG: No. Regulator have said it clearly that all the products have necessarily have to be compulsory delivery contract unless delivery is not a viable solution in a commodity.

Speaker: Then only you have to do it.

Speaker: So if you have indices on gold, so then it can be cash settled.

Speaker: Yes.

Praveen DG: Sorry. What?

Speaker: Indices on gold.

Praveen DG: Indices on gold.

Speaker: Index option.

Speaker: See, not index options. I said you have --

Praveen DG: Technically, currently, what they have said a single commodity index cannot be launched. Single commodity index cannot be launched, but we can have like, for example, we have a BULLDEX, which is a combination of gold and silver. And metals, it is a combination of five metals.

Speaker: Yes.

Praveen DG: That is how it is.

Speaker: So how, how far are we from launching this gold and silver index?

Praveen DG: BULLDEX is already doing good. It is already having the volume.

Speaker: Options we have not done.

Praveen DG: Options we have not done that one. We are again waiting for the things to happen. After that one, we wanted to --

Speaker: After technology comes by, proper technology should be there, because they now approval from the regulator has already come.

Praveen DG: Option is this one we have not even applied, but other like monthly contracts are already received for gold.

Speaker: The options, can it go up from here or you said that --

Praveen DG: See, potential is huge for options given the trend whatever we have seen or given the interest that is there in the Indian markets, especially for option. Definitely, it has a very, very good potential, because today, it is almost, options are almost catching up with the volumes of the futures. But potentially, if you see in the equity market, you see a big potential and other thing. So did we see very good potential in the options? And there could be possibility that options can also lead the futures also. That also is there.

Speaker: Like because this has everything in it, it exercises 15,000, which is, which is a suitable amount. At the same time, it is cash settled. So, so, I mean everything is perfect for it is mixed.

Praveen DG: Yes, it is, that is, Yes, it is.

Speaker: But then I think --

Praveen DG: On many occasions recently also, there are many days where we have options volumes higher than our futures volume.

Speaker: But, but still so far it's just compensating the loss in futures. If I was just --

Praveen DG: That's what I said. The loss that whatever we made in the futures is small compared to the gain that we have made it in the options.

Speaker: No, so what I did was that I just did options volume divided by 3 because it's the revenue had contributes one.

Praveen DG: Okay, that way, okay.

Speaker: One and plus futures volume, and I saw what is the number today.

Praveen DG: Actually, one-third --

Speaker: When I try to compare the peak, the past decade, so because, because ultimately, we have to cross that number for us to --

Praveen DG: Prior to CTT is something.

Speaker: But, no, but during that CTT, prior to CTT of gold was quite strong. Your energy was not as strong. So the energy became --

Praveen DG: The one advantage I can say that even CTT happened to be lower in options compared to the futures. Significantly, that is the reason even in equity market options are doing better than your underlying, this one, futures.

Speaker: Correct. So which is where what I saw was that there were few operations I think even in February '20 somewhere in COVID also, your volume shot up in two, three months, energy.

Praveen DG: It was prior to that. Maybe January, January of '20.

Speaker: Correct. Correct. Correct. So that was the time, and today, it's largely the same time, that number if I do in this fashion.

Speaker: '20 - '21, sorry, when the COVID, first year of COVID, we was only Bullion which is --

Praveen DG: Generally, even the volume has been shifted from one segment to other segment depending upon the volatility…

Speaker: Volatility, absolutely.

Praveen DG: …wherever it comes, and depending upon economy, suppose it is booming, one set of commodities will roar. Otherwise, other commodities whenever during recession and other thing. Global, you have in global uncertainty, the gold – Bullion will do better.