

MCX/SEC/2048

May 31, 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(s) of the call with investors/analysts:

<b>Sr. No</b>	<b>Investors/Analysts</b>	<b>Date</b>	<b>Time</b>	<b>Annexure</b>
1.	Invesco AMC PPFAS MF	May 25, 2022	14:00hrs	<i>Annexure - A</i>
2.	Nippon Life AMC	May 25, 2022	15:30hrs	<i>Annexure- B</i>
3.	ICICI Prudential MF	May 25, 2022	17:00hrs	<i>Annexure-C</i>

Kindly take the same on record and acknowledge receipt.

Thanking you,

Yours faithfully,

**For Multi Commodity Exchange of India Limited**

**Ajay Puri**  
**Company Secretary**

*Encl: As above*



## “Multi Commodity Exchange of India Limited”

Meeting with Invesco AMC and PPFAS MF

**May 25, 2022**

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**MANAGEMENT: MR. P.S. REDDY – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER**  
**MR. SATYAJEET BOLAR – CHIEF FINANCIAL OFFICER**  
**MR. D.G. PRAVEEN – HEAD (INVESTOR RELATIONS)**

- Analyst:** Hi good afternoon.
- Moderator:** Good after have here with us on the call Mr. P.S. Reddy – Managing Director and Chief Executive Officer, Mr. Satyajeet Bolar – Chief Financial Officer, Mr. Praveen DG – Head of Investor Relations. Could you introduce yourself please?
- PS Reddy:** Good afternoon Mr. Hitesh.
- Analyst:** Hi, myself Hiten Jain. I am working with Invesco AMC.
- PS Reddy:** Last time .... we have been meeting time and again of course. Yashoda Nerurkar.
- Analyst:** I am working with PPFS. I think we met once in your company itself, there was a small meeting arranged. So, I have been working with this company for the past four Years and looking at BFSI segment.
- PS Reddy:** Could you please put on your camera, so that I will be able to recognize not by name, but by face. Please go ahead. Hiten, start firing questions.
- Analyst:** So, yes, first question that I had in my mind was on options, so if my understanding is correct while there has been a significant traction in options on the exchange, but it is predominantly crude, which is where people are shifting from futures to crude because the margins.. from future to options, people who want to trade on crude because of the margin requirement and that is where option comes handy, but how is the traction in other products? Do you think there is this possibility that even in gold and silver options can be an important driver of growth?
- PS Reddy:** Yes, if you have seen I think it is not just crude oil only even in NG it has done exceedingly well I would say that from April onwards, so almost 3,500 crores ADT, I mean we have seen there and second thing is, we also have, as I am speaking I think yesterday we had that 3,000 - 4,600 crores option ADT, you know just yesterday of course it is time to remain as buoyant as we had seen it. So, we are working across all products let us see how we will be fairing in these products also, but yesterday it was so much, 4,000, 1 kg contract - 4,600 crores. So, it will increase gradually it will take little more time maybe in 6 months you may see the effect of it.
- Praveen DG:** Yes, in fact even the Gold Mini doing very well, it clocked somewhere around more than 200 crores, it has done and it is quite recently, it has been introduced.
- PS Reddy:** Yes, Gold Mini. Yes.

**Analyst:** So you are saying that you are quite optimistic on the traction in options Gold?

**PS Reddy:** Other commodities, mostly it's gold and its variants, because it is doing anyway well. It should pick up further.

**Analyst:** Sure, but for the volumes to go up and for the speculative activities to go up, I think Gold options should be the main driver, is that the right understanding?

**PS Reddy:** That's right, and you see you have also received monthly options on bimonthly futures contract, so that we will launch. Probably that is another contract which may see more traction because the premium will be reduced for the players. So, instead of paying for two months they will pay only for one month and then they see merit in that. That's how it is, cost gets reduced.

**Analyst:** Sir, this options ADTV in April was around 174 billion, so how much is it yesterday you said, I missed that number?

**PS Reddy:** 4,600 crores.

**Praveen DG:** That is only in Gold.

**PS Reddy:** Only in Gold.

**Praveen DG:** Gold Kg contract.

**PS Reddy:** Gold 1 Kg contract.

**Analyst:** Okay so that will still be single digit of the total options volume right?

**Praveen DG:** Otherwise, if you can look at the overall option futures, just yesterday, I am taking the yesterday one, we have done somewhere around 13,800 crores in total. Okay? Out of that, 4,600 is from gold Kg and Gold Mini. And we also have the silver contract, option contracts, crude oil and natural gas - they all have done some amount of trading.

**Analyst:** Okay. So around 30% of the total ADTV came from Gold 1 Kg?

**PS Reddy:** Yes, but don't go by one day, this one I am just giving it, we are able to see traction is what I am saying here. Yes, natural gas is also taking almost about 15% or so, of the total basket and Gold is something which we are looking at it, with its variants - to

occupy another 15% - 20%. I think that is, and silver of course, not much, but then the gold and natural gas is expected to take a bigger share in the pie.

**Analyst:** Sir, over the medium term as per your internal study, where do you think the options volume can settle, what percentage of your futures?

**PS Reddy:** Instead of what percentage of futures probably it is other way. Futures will be a percentage of options, that is the way I look at it, and currently if you look at, we have 20,000 crores ADT in options in the current financial Year. Okay, 20,000 crores and future is about 25,000 crores. So, we are almost all close to that and it may increase also further, it will increase, it will do better that is what it will do.

**Analyst:** Okay. Sir, for so many Years it has kind of struggled, so now what gives you confidence that it can scale up from here on?

**PS Reddy:** One is the peak margin concept has come and that has really disrupted the way that our people are thinking, maybe the participants are thinking, and so that is one part of it, and that has also given a fillip to the crude oil contract in that sense. Then thereafter, other contracts market participants started seriously looking at it and they found merit in moving towards that, that is good for us. In fact, if you see even equities also, options are the ones which are garnering greater, what you call, greater retention.

**Analyst:** Correct, Sir, but even in crude, it's a shift right, people instead of doing on futures they are doing it on options, so somewhere that's cannibalizing your futures ADTV?

**PS Reddy:** I will tell you that maybe a very strong statement of that, in the sense, cannibalizing means actually people are leaving this contract, either all kind of things. In fact, they will complement each other. The option writer also needs protection, so what he does, you know, option writer is exposed to unlimited risk, whereas option buyer, whether it is a put option or call option, he faced premium, he or she, and then risk is limited, but upside is unlimited. For writer, he or she has to have a protection, so they will immediately run to the futures counter and then hedge their risk.

**Analyst:** So, I want to understand in terms of revenues, so it would take at least three times the current volumes and options to sort of equate it to your revenues on futures, is that understanding correct?

**PS Reddy:** That is right.

**Analyst:** So, I think it was 33% now you said I think 40% in the previous calls, so in a way it is okay. I mean obviously you would want the future volumes also to grow, but I mean if I have to look at say four or five Years down the line, then what would be the sort of volumes you will be looking at an options versus futures and what would be the sort of revenue growth you guys are looking at?

**PS Reddy:** I will not be able to give those numbers or anything of that kind, that is not correct for me to project we will grow so much, but yes we are bullish on options in that sense, and futures are needed because all options work only on futures and so liquidity in futures is as much important to have and whenever we launch a new contract it will be launched only in futures because we are not launching an options on goods directly. So, we are launching only options on future so we whatever new contracts that are lined up currently they are all futures contract. So, my view is even the future turnover will also increase and once it attains certain degree of, what to call, volume, then we will be able to go for options.

**Analyst:** And sir now given that there have been several initiatives that have been taken in the past, I remember few of them being, one of them being the bank subsidiaries allowed to do open commodity account, trading accounts. At the same time institutional category III AIF funds allowed to do in commodities, so Sir, all of them have not resulted into any kind of traction on the exchange, so Sir, how do you look, obviously you were not there at the helm that time, but how do you look at various, many of these initiatives, do you think any of them are closer to fruition?

**PS Reddy:** Yes, I think you see the AIFs or some of the mutual funds issue, is one of GST also, but more important for me is the AIF which they have a much freedom as against the mutual funds to invest the way that they want, but GST is a major issue they have not registered across various states, wherever we have warehouses to take receipt delivery, etcetera. So, that challenge is something which is holding them back also. So, very limited, maybe three, four are only doing it so we could not freely tap the potential, that is one point okay? Then the second point is on the banks subsidiaries you are absolutely right bank subsidiaries we could not again with the systems development etcetera, is something which is holding them back. ICICI started a very full-fledged manner including their, what you call, options also they have started recently and until recently they did have an options also with all that. For example, one of the, there are three of them or five of them are active at this point in time - Kotak, Axis, ICICI, Yes Securities and HDFC, and I can see a substantial ramp up in HDFC, you know, that is something which is likely to happen, and that is the way I look at it at this point in time. Yes, it will, it is taking some more time. I think HDFC Securities development

is on, sometime in August they are going to launch, that is what I was told and let us see what will happen.

**Analyst:** Could you explain about the one-time charges which came in Q4 regarding the software which you guys were developing and the status again, with the software with TCS the contracts, could you explain about that?

**PS Reddy:** Bolar...

**Satyajeet Bolar:** The one time is the exceptional which we have impaired, is that what you are mentioning, referring to?

**Analyst:** Yes, I think in Q4 statements there was this one contract, I think which got revoked and there was some write off which you guys had to take. I think 20 crores or something?

**Analyst:** The spot exchange related products.

**Satyajeet Bolar:** You know as we have been mentioning in earlier meetings, sometime in June '20, we had informed the market that we had entered into an agreement with the vendor in UK. This agreement, I mean it went through the normal process, it was then awarded to the vendor and they had certain deliverables that they had to do which, we realized it was not up to the mark. So, we had then put a stop to it while there were also personal meetings, they had flown from UK to India, we had physical meetings with them, but we realized that they were not up to the mark and unfortunately, sometime in end of 2020, they went into arbitration at Singapore. So, we realized that even if we win the award, they were not financially strong. In case we also go in arbitration and we win the award, so unfortunately their financials were not so strong that they would be able to even pay the award. So, we thought it would be prudent to go for out of court settlement, in interest of time and money. So, we entered in to an out of court settlement, I think sometime in November – December, we reached that settlement, they gave us the codes, everything, so we got it tested internally and we also wanted to test it and use it for our Bullion platform, the spot platform, which is going to be launched, which SEBI has given approval, but unfortunately we could not use it for that because settlement took time and we realized that there is no way that we could use it for any, there was no immediate use of it. So, internally we discussed it got a technical evaluation done and we realized it to be prudent to impair it instead of keep carrying it. So, we have impaired it in case we can use it at some future date after



technically getting it evaluated for a future project, then we will take an appropriate call at that point of time.

**Analyst:** So you have the option to write it back, in case you may use it for some other purpose?

**Satyajit Bolar:** That is right.

**Analyst:** Okay got it, and what is the status of this contract with TCS? I think it was supposed to go live in September or something?

**PS Reddy:** That is right. That is, work is on, in fact we have already released one module, especially the P7 trading platform for testing mock testing, so that is currently going on. The next one we release is the BaNCS, which is the back office, not back office, post-trade processing engine and I think, we are very tight scheduled, I understand that, I mean very complex system, and we are, as and when the bugs are coming, they are fixing it fast also. Let us see because, at this, still we have another three to four months to go and we are working on it, that is the status at this point in time. All the drops they have released, but the fixes have to be done.

**Analyst:** So again, I mean in terms of the electricity derivative contracts, I mean, you guys have been asked this question multiple times, about when this contract would be released, so I will keep that aside, thinking that it will be coming in due course. So what my question regarding that is, I mean, are the discussions sort of going on, how are they progressing with all the stakeholders who will be participating in the contracts, what sort of interest do you see from them and how is it proceeding on that aspect?

**PS Reddy:** Interest is very good, I must say this, we had interactions with several stakeholders, not one or two, several of them all discoms and gencos have been covered, and the state regulators have got a forum where the CERC chairperson and the state regulators are also part of it, we have made presentations to them and there are so many traders like, Set Craft and Manikaran who manages the plants and maybe RWE etcetera. And then they are keen to take membership and of course including PTC - Power Trading Corporation - which have again, behind them, lot of client base who would like to trade in this futures. While I am speaking on this, we have also presented to the government a paper, actually the volatility, the current spot market volatility led them to impose a cap of Rs. 12 per one kilowatt kind of thing, they have imposed it. So, we are telling them if you had a derivatives market probably you would not have resorted to this kind of thing, because they would have hedged it, commercially they are all protected and because today there is no room or there is no scope for them to hedge they have to live

on daily price volatility, we will live with daily price volatility, and so it is an advanced stage, that is all I can say that and even SEBI is also...

**PS Reddy:** Yes, please...

**Analyst:** There will be lots of fast track because of this paper implementation of, added advantage?

**PS Reddy:** Not only that, but then even the participants are also getting resistive they are also saying that you please approve it what is that Supreme Court order has come is almost on, more than Year or so and nothing happened.

**Analyst:** Correct makes sense thank you.

**Analyst:** So sir, where is this stuck?

**PS Reddy:** It is the you see there is a joint working group between SEBI and CERC, they have to approve the contract, but I mean I am hopeful of getting it approved you know maybe before August, I mean it is not a hard date, its only my expectation.

**Analyst:** And after that what is the next step, are you free to launch it immediately after that?

**PS Reddy:** Immediately means again you may take a month or two, because we will have to give out, mock trading has to be done and then participants have to step in and then do the mock drills. So, once the system is open for them, then they will work on that.

**Analyst:** Okay, and Sir on that write off of 20 crores, so given that that vendor was not financially strong, so which really means that the way we selected our vendor was not right. Now, is it safe to assume now incrementally, obviously we have signed with TCS, that there are no other contracts as such with smaller vendors on the technology side?

**PS Reddy:** Yes. There is nothing. You see all are, rest of them are whatever it is available it is all in house, so we only take only vendor support in terms of manpower, nothing beyond. Otherwise there is no vendor-specific installation here which is going to impact us.

**Analyst:** So the spot exchange now, so the TCS is going to work?

**PS Reddy:** TCS is going to work on the drop three, once the final drop is stable then they will work on that.

**Analyst:** Okay, and in terms of our expenditure on this the contract that TCS is doing, we saw on the balance sheet, around I think if I am not wrong, around 80 crores of increase in capital, WIP and intangibles, so that is the CAPEX that you have incurred or you will be...

**PS Reddy:** So far...

Yes, so far and so how should we look about the incremental CAPEX required for that and what will be the corresponding OPEX savings given that you are incurring a large CAPEX?

**PS Reddy:** I do not think this is a full impact actually in fact now why I am saying you have not made payments to TCS as yet and there are some milestones are there, those milestones have to be achieved, and second maybe you can substantially say that hardware and other equipment have already come. That is the way I look at it and whereas the development, licensing fee and other things will take some more time and only when so I think you have to wait for another three, four months to really see the impact of it.

**Analyst:** Okay but so net-net it will be will there be I mean I remember you are saying that there will be savings, but how do we model that in our...

**PS Reddy:** You see, when I say savings, these expenses are now, what to call, frozen in that sense so whatever you get into the book is the depreciation etcetera, etcetera. So it has become a fixed cost more or less for me, whereas there is no variable payment link to this. So, if there is a growth that will straightaway get into the bottom line, that is the way it is.

**Analyst:** I am sure it will be, but it will be good if you can also quantify that given that now you have signed the contract, you are close to launching it and you obviously have, would have had a financial plan, so it will be good if you can share with us also, so accordingly we can model that.

**PS Reddy:** We are not sharing it as yet, that is not revealed because it is a confidential, what is the contract value etcetera, etcetera. But going forward, the cost will be their IT cost, essentially the AMC contracts with the vendors and the license fee, means not the TCS. TCS is one as I told you after one Year first one Year is free and then after one Year it is only less than what you call, single digit AMC that is the way it is and when it comes to the other expenses like they use a Linux licenses, Red Hat or some network CISCO licenses, all that kind of thing, they may continue to be there in terms of licensing cost,

but it is not linked to the volumes so much I can tell you, and I think once the September comes you will have a clear view about it what all we have expanded on this.

**Analyst:** Okay.

**Analyst:** So, I have just to make a small observation so over a period and let us say if you look at from 2013 when the Commodity Transaction Tax was introduced, so you guys had already reached like peak volumes and also of ADT. After the impact got sort of moderated, again the volumes started growing and 2017 we all know what happened. Post that, again the volumes started increasing, but there were many regulatory things which came out, in terms of peak margin or the crude oil, the margins went in negative territory and also some things what have happened and the peak volumes have again declined and they have not reached the peak levels again. So, I mean it seems that you know the volumes are heavily dependent upon too many regulatory things. So, with options now you know, the volumes are growing. Do you think the volumes would sort of moderated from this point onwards and you would see like a growing trend?

**PS Reddy:** Okay. See, first of all, after 2013-14 for the first time the volumes have touched 31,000 crores only in the year 19-20 okay? And then, the 2021 is almost all there kind of thing, 30,000 crores or so around that. Then only the last year we have seen because of the peak margin that has really distorted this one and the crude oil contract also, although did not contribute during 2021, the gold has become a savior at that time. Gold and silver that is how we got the, you know good traction, but had we had again a crude oil contract, probably it would have been far higher. Now that crude oil they found a way out, this is helping us in that sense, options. Now another solution which we have sought from SEBI, is the contribution to SGF, a dynamic contribution where currently, let us say we have a 525 crores, so we will freeze it. Now, we will not withdraw that number anyway. Now, anything that I contribute over and above, then I should be allowed to take it back, you know, when the volatility is reduced. Again when the volatility is more, then I should be able to contribute, that is something which we have given them the proposal. Otherwise in the crude oil currently it is 21%, 22% and we would like it to be reduced to 10% which is internationally, it is almost 7%, 8%, but here only it is 10%, we would like to be reduced. Then again you will see volumes in futures also, so that is what our view is. So, coming back to the question, yes the impact of these regulatory changes have been by and large absorbed by the market and at this point in time we don't see a further reduction into it unless there is a huge disruption in the form of some other war and then Russia-Ukraine war continues and spreads to other regions, all that is a different ball game, but yes I mean going forward we will grow that is the way I look at it, and we will introduce more and more contracts.

**Analyst:** Okay, so you are expecting decent volumes to be growing in the future as well as the option segment, and option segment will sort of stabilize it?

**PS Reddy:** Yes, it will grow, it will grow, stabilize in the sense it will keep growing that is the way it is.

**Analyst:** Correct. And we were planning to shift from you know having like a sort of Indian model for pricing the gold and you know having like an Indian Gold Standard, so where are we on the terms and what sort of progress has been made and again on the bullion and the gold exchange.

**PS Reddy:** There are two sets of the, I mean, this question has two questions or two sub questions. One is that we want pricing to be determined in India and India demand should determine it, all that. So, that should take place in international Bullion exchange at GIFT city. That's where we have setup with other exchanges together, and all Indians are now, Indian means the gold jewellery industries allowed to import via the exchange. If somebody has got a 25 crores networth they can straight away go on and import that, that is one part of it and it is yet to be inaugurated whatever maybe the reasons some issues are there, not issues related to the business, but politically they have to take a decision when to inaugurate and all that kind of thing. So that is one part of it, but soft launch has been done very cool, quietly it is happening, but not much volume because we are yet to you know galvanize the all participants to come on board there so that is one part of it where our stake is about 20%. Now that is one part of it. The second part of it is whether the Indian refiners, the India good delivery standard is there, whether we are able to bring them on to the platform or not, so that the MCX pricing is seemed to be a national pricing rather than a regional pricing or LBMA imported gold pricing etcetera. So, we have already admitted three refiners, now fourth one - Titan is shortly coming on board. Everything is done, just some paperwork is pending, signing agreements etcetera, and we are very choosy out here, we are not going to make you know everybody to come on a board and maybe standards are set high, especially the technical standards are very high. So, almost all about 1,100 Kg of gold has been delivered on the exchange platform so far by these new refiners, since their joining about a year ago, sometime in last year April we started. So, more to come and the third element is the domestic gold spot exchange. So that again is not taking up as I said, that TCS will take time to develop that and pending that other exchanges could not go forward because there are GST issues are there that are to be addressed. So, where it is a blessing in disguise for us in this case.

- Analyst:** So currently the prices which have been discovered on the international exchange, so are they uniform across India or it is sort of like regional you know different prices would be established?
- PS Reddy:** No, that is for all gold that is coming into India will come via IIBH where they can be canalizing.
- Analyst:** Okay so it will be other uniform price?
- PS Reddy:** Yes, yes canalizing also may reduce bring it, but canalizing agencies cost will be more than the IIBH because we know for sure the kind of cost structure they have now and now we have is definitely helpful.
- Analyst:** Okay got it. Thank you.
- Analyst:** Sir, as per law, no of the, none of the Indian companies can hedge outside right. gold?
- PS Reddy:** As far as gold, yes gold is concerned, yes you are right.
- Analyst:** So sir have you internally done any exercise in terms of bifurcating your clientele in terms of speculators, hedgers, corporate, retail any that kind of capacity?
- PS Reddy:** There in we display also on the website, no, every day we display on the website.
- Analyst:** In the form of?
- PS Reddy:** In the form of value chain participants, VCP's...
- Analyst:** Okay.
- PS Reddy:** It is a self-declaration basis so at the time of trade or client says that I am so and so accordingly they get and there is a benefit also if treat declares himself or themselves as hedger, they will get higher limits also.
- Analyst:** Okay. so Sir, is it fair to think that on commodities exchange, on MCX there are more number of hedgers and less speculators and that is one of the reasons why volumes are low?
- PS Reddy:** No, that is not the correct assessment. Hedgers will bring open interest more okay. In gold almost 23, 25 metric tons of open interest generally, I have observed. I do not know as of today what it is, but it is almost all so much you will see in gold, okay. Now

like that in different metals and different commodities is there. The less speculation maybe the margins have kicked in, the peak margin requirement, that is why many have exited, that is one part of it. Second thing is, mini contracts have been taken away and mini contracts are very important for us also. So, that is where the smaller players will come. Yes, to that extent, it is correct.

**Analyst:** So, what you are saying essentially is that we have more of open interest is high, we have more hedgers and margin norms have led to reduction in retail participation?

**PS Reddy:** From a retail participation, as a result the liquidity is impacting that is what it is, which SEBI, we have appraised off, because hedgers come only when there is enough liquidity. I will not be trading on a daily basis, it is fine, they need liquidity for them to exit anytime. So, we need speculators as well, that is the point I am making, but because of high margins and peak margin thing where only the value has gone up one-kilogram gold is now 51 lakh on which if you take 10% means it is 5.1 lakh is the premium, in copper contract it is 29 lakhs they are 2.5 tons contract cost to 29 lakhs, 29 lakhs is also again their margins are also high. So, I do not think small players will be able to do much thing in that, that is what the problem is.

**Analyst:** But you have mini right, Gold Mini?

**PS Reddy:** In gold you have variants, but not in other contracts. Metals we do not have, crude oil we do not have, NG we do not have, none of them are permitted, except in gold.

**Analyst:** Sure, but even gold the volumes are not there right, where you do not have this challenge?

**PS Reddy:** I think gold is the maximum participation, if I am, see in the contribution-wise verticals, the Bullion vertical contributed almost about 43% how much you got it here 4,300 is what share and last Year it was 61% and energy 32% and that is current Year and metals about 24% and agri is just 0.68% contributed.

**Analyst:** Sure, so even if I look at absolute volume of ADTV in gold and silver last Year it has been around at least 18 months back or 2 Years back it has gone to as high as 300 billion also and today it is around 100 billion ADTV futures gold and silver. So, which is where I was just thinking that peak norms ideally, while you are right that contracts are high for, at least in gold, that should not have been a problem, but it looks like gold has also slowed down.

**PS Reddy:** See the way that we look at is, the industry standard is 1 kg bar, and in 1 kg is the one which was attracting. When it comes to the Gold Mini, it is 100 gram bar with 100-kilogram bar which is just one-tenth of it, now there is no in between for us to introduce anything of that kind. So, the people have not shifted, the industry has not shifted from 1 kg to 100 grams. Second, 100 grams bars carry what you call a fee, making charges, whereas 1-kilogram bar does not carry any fees about Rs. 100, Rs. 200 when they take delivery.

**Praveen DG:** In mini contracts, we have making charge.

**PS Reddy:** That is what I am saying, gold 100 grams is mini. So, there is a charge, but in 1 kg there is nothing. So, all these things matter for the traders whether they are not to move for delivery.

**Analyst:** Yes, so sir, then what is the way out because SEBI if it has to be universal peak norms, universal margin norms for equity and commodities they cannot have different norms, so then what is the way out here then?

**PS Reddy:** See, what we have asked SEBI, of course they considered and recently they have given of commodity circular, when is that, May 11<sup>th</sup>, okay, there little relief they have given what is that little relief I will tell you. If I am a hedger and even hedger also he pays on a daily basis MTM. Let us say, yesterday he bought or sold some position he keeps mark-to-market at the end of the day and he pays or takes whatever it will be. Now, prior to that 11th May, even if the prices go intraday, the hedger has to also to contribute money, so that is driving mad, crazy. I mean, I am anyway honoring my MTM margins and other thing, why this intraday MTM is a kind of an intraday MTM, a peak margin concept is nothing, but intraday MTM. So, then when we explain to them and then SEBI also understood, it is harming the hedgers, so they have removed it. Now they said, if the position you carry forward, on that position whatever is the opening margin that you are paid, that is good enough for the day you do not need to bring in anything. So, that limited relief they have given it and I think that should be fine for us at this point in time.

**Analyst:** Sir, but still that will not ease the problem for the small traders, the speculators?

**PS Reddy:** Again, there are two kinds of thoughts within SEBI also, again it is a generic. The suitability of the products for the investors. On one hand we would like to have as many investors to come and then take money or lose money whichever way it is we are not so much looking at that part of it, but SEBI is concerned and they feel that



brokers and their relationship managers are not evaluating properly the suitability of the product to investors, that is how investors are losing money and this is one, if the moment you reduce the contract size more and more small players will get in, that is what their concern is and that concern holds good for equities also, not necessarily commodities.

**Analyst:** But there they would have that concern?

**PS Reddy:** They had, I was a member in some other committee and there this issue was discussed, and one of the journalist has come and made a presentation in which some 9-Year-old boy has brought a derivatives contract and showing off, maybe in the press, look I got a.., I invested in such and such. So, the question is, SEBI does not ban anybody, client should understand, and there is no ban on less than 18-Year-old or below, to invest in equity markets or anywhere. So, that is a challenge.

**Analyst:** Sir, one last question sir, again you would have done some study. This has always been a puzzle that India commodity exchange has not been able to grow big whereas, worldwide what we see is, commodity is doing better than equity, but in India it is the other way, we have the best example of equity exchange in the world, and not so good example of a commodity exchange. So in your mind what will be the reason which I mean while I understand it is difficult to find reasons that you said my I thought I will just check with you can you point out to any specific reasons?

**PS Reddy:** See, the commodities exchanges or this trade, has to be nurtured carefully that nurturing is not there, okay. Now, so equity markets equity is equity that is it, but here each product is different. Now, somebody who is investing in gold should understand what the gold is all about and then its dynamics and all metals, each metal is different and how does it behave and what are its geopolitical issues involved in it in production, supply all that kind of thing. May not be in so much in equity markets, that much study is not required, you only look at balance sheet and balance sheet may talk substantially about it, maybe the industry reports that is, but this is a challenge so far. Second, which is really, really holding is, the GST and you know maybe in other markets this issue is not there and most of them are cash settled if they want to introduce cash settled they can introduce cash settled so the GST issue will not come, if somebody wants to take delivery, then maybe when they are taking it out of the warehouse this issues may come, but for financiers like our arbitragers, who will do cash and carry arbitrage they may not be requiring any GST where you do not take out the metal from the warehouse you just keep it there and you buy in this settlement, sell it in the next contract. And so you don't move the metal actually from the warehouses as a financial hedge payer, but

still these are the issues one has to look at it painstakingly and today, they do not have time to focus on commodity markets you know, in fact GST council itself is worried whether they have the authority to supreme order court whether they have any right to make loss or some state government will make loss so that is the kind of situation there.

**Analyst:** So sir, just to understand the GST issues slightly better so what you are saying is that at the end of the contract when you pick delivery you have to compulsorily pay GST so that is an additional burden?

**PS Reddy:** Yes, not you have to register with respect to the state where the warehouses are kept.

**Analyst:** If you do not take the delivery if we just roll on you do not have that option you are saying?

**PS Reddy:** You do not have to take it with GST, you do not have to pay GST, but those who want to do arbitrage, cash and carry, they have to necessarily pick delivery.

**Analyst:** Correct, so arbitragers cannot do it, but speculators any which way can escape GST?

**PS Reddy:** They can.

**Analyst:** Correct. Alright sir, so this is all that I have. Yash if you have any other question.

**Analyst:** Same with me, I mean I asked the question.

**Analyst:** Okay sir, then thank you so much for your time pleasure talking to you.

**Analyst:** Thank you so much for your time.

**PS Reddy:** Bye.

**Analyst:** Thank you, bye.



# “Multi Commodity Exchange of India Limited”

Meeting with Nippon Life AMC

**May 25, 2022**

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**MANAGEMENT: MR. P.S. REDDY – MANAGING DIRECTOR AND CHIEF  
EXECUTIVE OFFICER  
MR. SATYAJEET BOLAR – CHIEF FINANCIAL OFFICER  
MR. D.G. PRAVEEN – HEAD (INVESTOR RELATIONS)**

- Moderator:** Hi, good afternoon, everyone. We have on call with us, Mr. P. S. Reddy, Managing Director and Chief Executive Officer, Mr. Satyajeeet Bolar, Chief Financial Officer, and Mr. Praveen D G, Head of Investor Relations. For your information as a reminder, I think you have been informed before, but just to reiterate, this call is being recorded and will be available on our website shortly. I hand it over to sir.
- PS Reddy:** Good afternoon Mr. Rashit and Amar. Welcome to this call, please you are not new to this industry and new to this company. Please go ahead and ask questions. Kindly put on your camera so that interaction will be better.
- Analyst:** Sure, sure just give me one second.
- PS Reddy:** There are six total.
- Analyst:** Hello, Hi, am I audible?
- PS Reddy:** Yes, you are audible. Who are three others who are. Okay, okay.
- Analyst:** So, so, so, so this is Rashit, I think so I have two of my colleagues who joined the meeting, Mr. Sameer Raj and Mr. Amir, both of them are senior fund managers. Sameer I don't know if you want to introduce?
- Analyst:** Yes, hi Sir my name is Sameer... and we are shareholders long time...
- PS Reddy:** Thank you.
- Analyst:** Thank you.
- PS Reddy:** Yes, go ahead.
- Analyst:** Rashit you go ahead.
- Analyst:** Okay. Sure. So, I think sir first of all thank you for sir giving us time for the meeting. Just a couple of things right we wanted to start with essentially on the business front right, if you could just help us understand the developments over the last three to six months, from a volume and a regulatory standpoint, and how do you see the business shaping in the next let's say, three to six months and then we'll have questions around the newer products and you know, what, what additionally we are doing from a business perspective?
- PS Reddy:** Yes, ah. Yes, in the last quarter, and maybe two quarters, you have seen the peak margin effect has really disturbed us a lot, unsettled it, a lot of representation have gone to SEBI, and I think only on 11th May or so, small dispensation has come where, there is no change

in the open interest during the day, whatever is the margin that is paid at the beginning of the day is good enough, they no need to keep adjusting or charging as per the mark to market during the day intraday. So that is good for hedgers especially, that they don't need to worry about the position being repriced every now and then. And that's what the important development is, only just recently it happened. The second thing is yes, we have been saying that FIIs should be permitted to trade in this also, there are arbitrage opportunities, and they are doing it in equities, why not do it here, and that is something we are very loud and clear. And I think SEBI has come out with a consultation paper and that is also I think the next board meeting, it will be placed before SEBI, that's what our expectation is, may likely to happen. And that is one part of it.

There is another one which SEBI has come out with these the client level margining should be reported to exchange you know, so that the exchange will have a visibility as to which client has paid how much, what he paid, what he did not pay it, et cetera. So, that has already been implemented, it was to be implemented from December sometime and that been pushed to 2nd May, we have implemented it from May this month, early this month. A part of it will come maybe two months down the line in August. So, that is the another development that has taken place. So, this, these are the major, what you call, regulatory changes that have happened as regards to the market volatility point of view that nickel contract debacle in London Metal Exchange has really disturbed us. In fact, it has a weight of 26% in our index, metal index contract. Now, I mean no trading is taking place neither in nickel which is a standalone contract nor in the indices. So, that has really disturbed and we are making an effort to revive it out how best we can do it, we're looking at it, but then that has left a scar at point in time, in those two contracts.

Yes, you have seen probably we have captured the right time. The options movement, I think in the last quarter, not last quarter, the main maybe in the third quarter onwards it started picking up and we also started charging transaction fees. So, those two quarters together have brought out about 32 crores of revenue only in options and hopefully we will do better as we go along. So, these are the major developments that have taken place. As I see options contract is clocking almost 20,000 crores ADT and in the futures is about 25,000 crores. While there is a thought or open view, that maybe options is cannibalizing the futures but my answer is, there will be some shift in it, but it's not a cannibalization. I'm sure even the option writers need to cover their positions, because the losses are unlimited for option writers. So, they will definitely go to the futures counters and then hedge, okay. So, that is something which we are seeing happening. So, because of most of the option writers happen to be crop traders and so also players, these are the ones so, they must be doing between the two counters.

Then, the third one more development, regulatory development is that in, what you call, options on index futures is also permitted. That is the ultimate thing, but because of this option contract and what you call index futures, index futures contracts are not doing well disturbed, because of this. We are not thinking at this point in time, let us first grow the options as such we have and then we will see the rest of new products.

**Analyst:** Just a couple of questions on this right. If you could just, so, on the peak margin piece. So the now they've allowed that whatever is the existing cash which is available they are allowed to sort of use that for, sort of, taking additional positions is that is that what has come on 11th of May?

**PS Reddy:** No, no, what I mean is earlier what happened is, let us say I bought 100 barrels of crude oil yesterday and I paid fully margin, okay. Now the crude oil prices have gone up today, even if there is no additional position that I have taken, even if I have not traded today, that 100 barrels is again priced as per the today's this one, margins are calculated in and margins are called for. Now actually this 100 barrels anyway at the end of the day it will go from MTM calculation, and goes under MTM calculation, and next day morning I have to pay the loss or profit. So, they don't need to do this kind of thing intraday. Let us say intraday prices have gone up, subsequently it goes down, but still it has gone up, so I have to put in the money as per the previous circular, now it is not...

**Analyst:** Okay, so the intraday settlement is not essentially its come back to the regular settlement that we used to look at in the business earlier right?

**PS Reddy:** As I explained, that is the way it is. So if you have not traded during the day, whatever open interest you had at the beginning of the day, that much margin is good enough that's it.

**Analyst:** Thanks, okay perfect. The second on the institutional trading, right. Is there a timeline do you expect when this will get resolved, as in, or SEBI will take it up or you think this this could be a long drawn process?

**PS Reddy:** See there are two, because your question needs to be then bifurcated into two one is institutional brokers participating, that's one part of it. Second, institutions themselves taking position, like mutual funds or category AIF investors taking position, I mean where participating, or FII is participating, okay. So, as regards to this part of it, other mutual funds participation four of them have started participating of course yourself is one and delivery related issues are there because of the GST, et cetera. And we are dealing with that we are discussing with the mutual fund industry, in fact we have requested them that adequate focus is not given on these commodities market. So, we told them to constitute maybe a working committee or you have so many committees there for equities, but you don't have one for commodities, so that commodity markets focused committees

constituted, we will be able to come under and handhold them and then a lot of questions will be addressed, okay. That processes will be addressed, because when we met some of the fund houses, they have a lot of doubts are there all that gets thrashed out. Secondly, we have written to SEBI, for example, the silver contract, silver ETFs are permitted now. Thanks to Mr. Dhawan and others, we all have worked on that. And then, the in the silver contract SEBI said, you must take the standard weight of 30 kg's. But silver bars don't come in like, gold bar, exactly 30 kg's may go from, it has a tolerance limit, you know, a 2.5% up, down or whatever it is. So, that is the way that the stock is delivered on the exchange also. So, we are telling them, if somebody participates on the exchange, the mutual funds, they shouldn't face this problem you know, because they are violating a SEBI regulations circular. So, we have we have addressed a comprehensive letter to SEBI and SEBI has given it to the industry to respond, and then maybe participation can be increased, then this is one part of it.

We have also shown to some of the arbitrage fund houses, some of the big, you know, big mutual funds are there, where the last three years we have generated the data how in certain times, where it's good for them to participate and then take delivery and then maybe next month they can give up delivery, you know that. So, that will help them earn extra buck, may be 12%, 13% interest rate on that cash and carry arbitrage opportunities. So, the arbitrage funds also can take advantage of the commodity exchange market. Coming back to the institutional brokers, there are currently five of them are participating and we expect, I mean, ICICI has grown substantially and so is Kotak is doing very well. And others are at the nascent stage I would say, and we expect HDFC Securities to do better, maybe in the second half of the year, by the time their application will be launched. Okay, whatever that they are working on. And I'm sure you know, they will onboard the clients for online trading. But ICICI Securities has grown very rapidly on the exchange.

**Analyst:** Okay. Okay, okay fair enough.

**Analyst:** Sir one thing, on this changes, margin changes which you have suggested, is my voice clear?

**PS Reddy:** Yes.

**Analyst:** So, do you think we'll go, these changes are enough for us to go back to our older volumes or something more needs to be done?

**PS Reddy:** I see, SEBI is not in a mood to lower some of these margins, okay, peak margins and et cetera because almost all 30, 31 defaults have taken place in the market of over the last two years. So primarily the brokers didn't take enough margin from the clients and clients don't pay, then brokers default or they use somebody else's funds, that whoever credit balance.



That is the reason why this problem has taken place in the market. So SEBI may not, and in our market also now adjusted to it. we have to live with it now that it is done, it's a kind of a done deal now. I don't think our market is expecting any further what you call further modification or lowering of these margins. So, if people find, investors find it's a challenge, probably options is one thing that they can actively look at it. And that's how we are marketing also. That's it.

**Analyst:**

Right. And sir secondly, like still, like if one looks at overall commodity basket the amount of trading which is happening in India vis-à-vis trading which is happening outside India so, Government is focusing on all this Atmanirbhar Bharat, et cetera. So, are any more reforms or any steps are expected which can like increase the trading in India, you expect any more steps from Government to encourage domestic trading?

**PS Reddy:**

See, first I mean it's my personal view, is Government or the SEBI regulator, should have a dedicated plan to grow the commodities markets to the level that they are looking forward to, like abrupt disruption of contracts, as suspension of contracts is daily shaken the faith of some of the participants. We were doing in palm, crude palm oil contract, we were doing very good almost some 300 to 400 crores ADT, and abruptly they have suspended it, although 98.5% of the crude palm oil is imported and, Bursa Malaysia is the, you know, is the price setter for this kind of commodities. But we lost, that's the way it is. Without much understanding, whether MCX price, whether the MCX is the one which is leading for the rise in prices of crude palm oil or not, without understanding it, it has been suspended. So, it's a pain point for us. So we are, you are right, we need to, our volumes are not as big as it ought to have been. That is one area of no reform, that we need to look at. Another one is even the companies themselves are hedging it in international markets because they have the liquidity, big ones actually. And, they don't look at the MCX kind-of platforms. So what we are positioning is our platform should cater to the smaller players, medium players who may not have a foreign currency exposure or any kind of thing, or we don't have any exports, et cetera, at least they can look at domestic market and then hedge on the exchange platform. But the hedging concept itself is not sunk in as yet in their mind. So a lot of education is something which is currently is happening. And they don't consider the physical book as well as the financial book together when they are calculating their hedge position. So if there is a price on MCX, has gone down, and the physical market position may have, oh, you know in profit then they should they don't consider that they incur loss here and then they incur profit there and why did I hedge if I have not done that then I would have benefited is the kind of thing, but hedge itself is a zero sum game in that sense. And so, a lot of education is needed. And we are working with this Institute of Company Secretary, Chartered Accountants, et cetera because that is where the CA professionals and CFOs are sitting. And I think they need to understand how the hedging works.

**Analyst:** Right. So basically still understanding of commodities is in the minds of regulatory and all is much lesser than what it is desired.

**PS Reddy:** Yes.

**Analyst:** Let's continue to do hard work to educate them with the right policies.

**PS Reddy:** Yes, yes, that's right.

**Analyst:** Okay. And sir one last thing. So, you know you mentioned about HDFC, ICICI and all those. So, is there any room for us to like encourage some of this newer online brokerages like Zerodha and all that, like, if they increase their participation will it make significant difference?

**PS Reddy:** The biggest broker at this point for us also is Zerodha. Zerodha, Angel, they all have all their retailers, they kept it open for anybody to come in that's why there's no problem.

**Analyst:** Okay.

**PS Reddy:** They are doing....

**Analyst:** Fine, Rashit over to you.

**Analyst:** Okay. Sir just continuing on Sameer sir's point right, how do you see the overall volumes shaping up let's say over the next let's say three to five years across contracts, if you could just provide us an understanding because some of these regulations will take time to sink in, some of the additional work that you do in will also take time to sort of shape up into the into adding more liquidity on the platform right?

**PS Reddy:** Yes, see with regulations being what they are assuming that it will only be tighter and tighter but not lessened, okay. Given the given the existing regulatory framework, if greater participation come from institutions that is one positive thing that that we can expect it, but these institutions bring in open interest but not liquidity in the sense, when I say this, what you call that turnover not ADT so much okay. So, but then retail participation is a must, but there is also is also a fear that whether the brokers are miss selling the products delivered to products to the broker to that that that is true with not just commodities, but even equities also. So, one is the greater participation, second is greater number of contracts that we propose to introduce so new contracts is what we are looking at it and each one incrementally add some value to the to the basket that we are looking at it and the third set is the reach of the platform, I think that is one thing we are working with member brokers so, that they will expand to some of the sub brokers and other set who may not participating

at this point in time. But our efforts are to make them also come in so greater participation is another thing we are looking at. And a lot of all the players also have come, by the way and last year, I mean, one major international player was there this year another player has joined, or even last year itself toward the last quarter he joined, and this year one more international also player has joined. So, I think it will increase liquidity in that sense.

**Analyst:** Okay, understood. And is there a volume ah expectation that you think this, this can bring in all of this?

**PS Reddy:** I can't give you a number at this time. But definitely, ah when we have our own plans, similar targets are also given to me as for the next financially year so is there for some.

**Analyst:** So we can assume what we've seen in the past let say in a in a over a let say block of period that is something that we can replicate as a routine or slightly higher than that is something that we can do or?

**PS Reddy:** What we have seen, what we have seen the actuals but what targets are given are here pretty high.

**Analyst:** ha okay, okay understood. And just one more thing that I wanted to sort of check, ah on the nickel definitely that sort of cost what would be the size of the volumes that you'll end up sort of losing this water and do you think prices have updated now?

**PS Reddy:** No, but see 2000 we have lost, from March 7th onwards almost our 2000 crores ADT we have lost.

**Analyst:** Okay.

**PS Reddy:** Last financial year we were 1600 odd 1700 crore something of that kind I don't know, I too have it.

**PS Reddy:** 1700 crore but now it is yes.

**PS Reddy:** For the entire year, the average ADT was 1700 crores last year.

**Analyst:** Okay, okay, perfect. And all of that will come essentially in this quarter. I think.

**PS Reddy:** Once the, once the war comes to an end hopefully, probably the supplies also increase, international supplies automatically the uncertainty will be done away with you know, Russia is a major supplier also in this.

**Analyst:** Okay, understood. And any ah steps that you think the regulators have obviously you have touched upon in some of that right, but are they taking any additional steps to sort of improve the liquidity on the platform or essentially, I think regulation keeps getting tighter over time and I will?

**PS Reddy:** See, we are looking at, we are looking to regulators for one dispensation. Now, currently we have a SGF cover of 525 crores okay and of course that is only one way at this point in time, so any contribution that you make, because of first testers outcomes then in it will go into it, even if the testers, tested outcome comes down equipment of SGF still we can't take it back. What we have asked SEBI is, you please give us a dispensation where I will dynamically contribute more to the fund and reduce margins and if there is any, if there is no volatility and I can reduce the margin, I can withdraw my SGF then I will withdraw. So, for example currently in crude oil the margins are 22%. Now, so much margin cover is not required, but the moment I reduce the to 10% or 11%, then to that extent the SGF requirement goes up. Now, if it goes up then it is a permanent going, permanently going out of my books, which I, which we don't want. So what we have requested SEBI is give us that freedom, we will reduce the margins, contribute more to SGF and once the volatility comes down, probably I am allowed to withdraw also. If it is not impacting the SGF, that's the way we suggested, while they are examining it, that will help us in reducing margins further.

**Analyst:** Okay. So during so basically during times of lower volatility it can just help you sort of have a lower margin requirement and that should still not impact us and just help us?

**PS Reddy:** Yes. Because stress test results take into account about a 15 years of volatility. So the negative pricing is substantially impacted those results.

**Analyst:** Stress test results okay. Okay, understood. Ah again any timeline on when this can happen again these things should be pretty ah, quick right; I mean do you think that SEBI would just end up taking a lot more time instead of?

**PS Reddy:** See there is a, all these things go before the risk, risk management committee, RMRC is there, risk management and review committee that meets maybe yearly maybe three, four meetings are held, and maybe in the next three months' time it should be settled put it that way.

**Analyst:** Okay, okay understood. And any additional steps that we can take from outsides to lower margin requirements, or this is pretty much the only survey where we can push it?

**PS Reddy:** Ah, I think the margins at this point in time will remain like this and as I said only if we contribute to SGF we can reduce the margins.

**Analyst:** Okay. And just on the institution participation in the bank distribution while you touched on it right. In when do you expect let say is HDFC or some of the other banks to start growing in terms of volumes materially let say today they are obviously they are very small. But, you know and how do you see them to be a part of your overall volume say about a year or two from now?

**PS Reddy:** They should be the top contributors in terms of bringing the retail investors or I mean, much in a way that they are doing it in equities. So, I think they can, they cannot handle the scale unless they have a technology platform in place. And I understand that they their platform will be there, you know by the end for second quarter. So, I think thereafter we can see a good growth.

**Analyst:** Okay.

**PS Reddy:** As I said, ICICI Securities is already doing a good job. It's growing.

**Analyst:** Okay, understood. Just sort of shifting gears and moving a little more ah to the senior hiring right. You've talked about some of the senior hiring that you've done in the last, let's say six to eight months right. Could you just help us understand what role SEBI added and ah the realignment that we've done to the COO position ah?

**PS Reddy:** Okay. See, we have hired ah one Chief Operating Officer, okay. And ah so, that is very much needed ah substantially I am tied up in the so much of the daily routine and regulatory compliance requirement work. So, that is one hiring that has taken place. The second one is there are two CTOs we have hired in or one is, I mean, whichever way you call it, but Chief Digital Officer, Chief Technology Officer, ah because we have so many systems, one is the CDP, that is commodity derivatives platforms which TCS is working, it requires a full-fledged, full time CTO dedicated to that to happen. So, that is one person, the another one is we have so many critical peripheral systems and daily operations also to be looked after, you know the existing system and we need to focus on these gold spot exchange also that is also ah has to be parallely done. So, we have hired in another person to look after these functionalities. So, that's the way it happened.

**Analyst:** Okay, okay. Okay, understood. Just coming back to the volume piece, right. Ah I think so while you touched upon this, that look options are essentially not cannibalizing right, but if you look at the futures volume, they've remained rates range bound, they've been around 250 billion ADT long time right. Ah anything that you think can be constraining that, ah apart from the couple of issues that you mentioned or it's just more to do with that you know options is another are and people are shifting there a little more.

**PS Reddy:** So, I would say other way, it remained range bound even when options were not there. Okay, when options were not well, this option is a, an additional thing that has come if you see, ever since crude oil went into the negative, the entire crude contract was, you know did not contribute anything in that sense, hardly anything. And NG was also didn't do much well, but, but the gold has picked up and silver has picked up in the 20-21 and it has done better. But options started contributing only in the year 21-22. So if you see our volumes, almost 31,000 in 19-20, another 30, 31,000, 30-31,000 in 20-21, and 21-22 that's where we have taken a dip of about 26,000 or 25 to 26,000 is what we had seen it. And again, it's primarily because of the peak margin circular and effect of it. So, so coming back to the this one, it is not that the options growth, which has led to this kind of reversal.

**Analyst:** Okay. And usually, from a let say revenue perspective, right how lucrative is options, typically is it that two or three options is equivalent to how much we make in one futures contract and that sort of max sort of stays right?

**PS Reddy:** As I've been explaining, it's about ah three times of volume of options is equivalent to one, one time of futures volume, that's the way it is. Okay, but in fact realization rate was better. In fact, it is almost all 40% contributed. Okay.

**Analyst:** Okay, understood. And just within the newer products, right, I think we've talked about power derivatives, we've talked about the domestic spot gold exchange, right. One, what is the opportunity that we see from these products and second is what are the challenges that can come up ah in terms of scaling volumes?

**PS Reddy:** I am sorry; I didn't get it.

**Analyst:** So the newer products, I'm talking about the new products, one is power derivatives, I think that we've talked about in the past, and the second is the domestic spot gold exchange right. So, I mean.

**PS Reddy:** Yes, yes. See, ah it's not just the electricity futures contract that I'm talking about. We have also received the contract approval for option, monthly options on, bimonthly futures contract which is currently existing in gold one kg. So that will reduce what you call the premium, okay and the tenor of the contract to one month. So the greater participation will come into the contract is our view. And that will also help us increasing their volumes. Now, when it comes to the electricity futures, a lot of a lot of work has been done across the sector. And we have on boarded a lot of what you call discoms, gencos, there are many in the private also and traders and they're all waiting when we would be launching it. In fact, the spot market volatility is more because there's no futures market, had there been futures market, they would have hedged their risk ah looking at the kind of volatility that they have seen in the in the spot exchanges IEX, they would have hedged it and this kind

of I mean, they would not have incurred any losses, some of them are incurring, because there's a cap of Rs.12 has been set as a cap in on IEX dam price for one kilowatt hour. I think that is a that's a dampener so everybody's looking forward to MCX launching the contract. Once we get the approval probably I'm looking at by August we should be able to get it. Then thereafter we will about two months, two to three month's time we will launching it. This is one part of it, we are also look at the steel rebar contract I think it's on the verge of getting the approval. Once that ah comes, ah that is that one we will be launching also. And this aluminum alloy is another one. Maybe before I speak in the next, next, what you call next concall, we should be able to get those, those approvals in place. So they will definitely add ah to the volumes. And I can't give you any figure because we have again internal targets have been set and we are working on that.

**Analyst:** But sir on the steel rebar and aluminum alloy, they could be sizable given that we've got a domestic producer market as well right, ah over time let say can these be significantly large ah in size from a volume perspective, what do you think that's essentially not the way to look at it?

**PS Reddy:** No, you are right it's going to be a very big contract I mean provided, again I repeat provided the participants essentially mean the hedgers or the consumers, or producers and other value chain participants consider hedging is essential for them to mitigate the price risk. And as long as they don't think that you know historically who so ever they are managing they will continue to manage ah we will have a problem, probably once this a platform like MCX offers hedging facility, even the government ah will not give in their contracts, that if there is a price range of more than so much percentage we will we will you know, we will compensate for this or that kind of price rise. Then such kind of standard clauses are there all will go away because they will expect these contractors to hedge on the exchange and then secure their prices.

**Analyst:** Yes, sir. And from a let say so you have talked about steel rebar, which and any timeline on when that can happen on what steel and aluminum contracts?

**PS Reddy:** See, I expect the contract to be, I mean approval to come in the next month or so. So, and then there that's the ground for launching.

**Analyst:** So, sir I think we've got a couple of things coming in the next couple of months or quarters, right in the next one or two quarters, essentially which should move volumes to a very different level. Towards a six months two years' period.

**PS Reddy:** Not day one.

**Analyst:** Yes, yes no, no obviously it would six months to a year period right.

- PS Reddy:** Yes.
- Analyst:** I mean typically in your experience how long do you think that some of these things can take time to scale up to a decent sizable volumes for us?
- PS Reddy:** See, ah again volatility contributes a lot in making the contracts a grant success. So now the steel prices are really shooting up or really volatile. Maybe the steel contract will see good volumes, that's what my hope is. And when it comes to the maybe the aluminum alloy, which is used as a wheel base for the automobile industry you know, it will take time maybe for that but yes, steel rebars it should.
- Analyst:** Sir, one question this was, I hope I am audible?
- PS Reddy:** Yes, you are.
- Analyst:** So, you know we have seen unprecedented volatility across commodities this year, in recent times basically. So, is this not a perfect time for us to educate the market and explain them benefits of doing this and maybe the readiness on the part of users to use it as a hedging mechanism. Can be really hedged this, I mean, there cannot be better time than this time.
- PS Reddy:** Absolutely right. Absolutely there parallely activity is on like, we conducted 1200 plus programs.
- Analyst:** Okay.
- PS Reddy:** Events and programs last year. So more are on, in fact on a one to one basis also we are doing it and with the help of SIDBI also to MSMEs also we are conducting it. So it's a constant endeavor that's happening you're right.
- Analyst:** So basically you think the fruits of our hard work will be like visible on volumes because now maybe there is more readiness on the part of users?
- PS Reddy:** That's right, it should be it should be.
- Analyst:** Okay, right. And sir a little long term question. So, you know despite all our hard work, I think overall like commodity market is still perhaps at the nascent stage compared to its potential signed up. So, what all needs to be done for you know really like, set us on a really high growth path because I think it's huge amount of things to be done yet and we are still in a very nascent stage?
- PS Reddy:** You are right, you are right. See, Mr. Rashit has asked earlier you know, what do we do about it as I said, government should have a focus on it, first of all you know, SEBI should



see that, yes, this is the roadmap, and these are the milestones and I will achieve this and that vision document is not there currently today. And we are treating the commodity market on par with the equity markets because the players being the same, applying the same rules of the game, and there's no nurturing or encouragement that's what my view is. And we wanted a different treatment or dispensation for the commodity markets and commodity derivative markets, I think that will take a I mean, will help us in in growing faster.

**Analyst:** So basically government has to maybe within under within SEBI itself maybe create a separate department for commodities, who can understand the requirement of commodities in much better way and not treat it the same way the other entity, okay,

**PS Reddy:** It is there, it is there, but then like member brokers, okay everybody will have same net worth, everybody will be the same regulatory within or the peak margin is a classic example, something has gone wrong in the equity markets, and then you apply it in commodity markets. And we work late into the night till 12, 11:30 and 12 o'clock and we said that after 5 o'clock banks also don't transfer the funds even if this is RTGS they I think beyond 7 o'clock some 10 lakhs or something is what is limit some banks have got put, and how do we manage those things. So they don't appreciate all those.

**Analyst:** Hm, hm, hm. So maybe over a longer term, maybe like this is a constraint that players in the equity market and players in the commodity markets are same, and if we can create an entirely new ecosystem of players, specialized players in commodities, who understands and like give a treatment which is much better that should be the long term answer to this problem.

**PS Reddy:** That's right, that's right, that's right. I mean, for example the banks are allowed to take positions in equity derivatives, but not here. Banks are not allowed to participate and FIIs are not allowed to participate, I mean, why it takes so much time.

**Analyst:** Hmm, hmm. So, sir within the ministry which is the ministry which deals with all this and is there.

**PS Reddy:** See, there is a commodities provision is also there, ministry of finance.

**Analyst:** As a sensitive enough to the requirements of commodity market, or you think?

**PS Reddy:** They are, they are sensitive, I'm not saying that, but then priorities keep changing that is the reason why the focus is not there.

**Analyst:** Okay.

- PS Reddy:** But yes, we will I mean, we have to drive it, I must accept that also and let us see how do we grow this all.
- Analyst:** Rashit over to you.
- Analyst:** Thank you. Just one last question the business.
- Analyst:** Rashit, can I go I have just one or two questions.
- Analyst:** Yes, yes, yes.
- Analyst:** Thank you, sir. Thank you for your time. Just two questions so, one is that you mentioned, no which talked about lower participation by actual user industries or other corporates in the in the domestic commodity exchanges. Ah, ah, and you also mentioned that institutions typically bring in higher open interest, but not necessarily ah the trading volume or a DTO globally ah be it on Chinese exchanges or American exchanges typically what is the role or size of ah non, non-investor kind of participants, those who are not arbitrage or just.
- PS Reddy:** Value chain participants you call them VCPs value chain participants.
- Analyst:** Yes.
- Praveen DG:** Usually they come out with like CFTC come out with a report on a weekly basis, but the pattern remains the same, because hedger generally you don't want to do any intraday trading. So, whether it is say an Indian or whether it is an overseas player, generally hedgers all contribute to the open interest not to the volume, but you require a blend of both speculators as well as the hedgers. So, that is how the price get discovered and that is where risks get transferred from one individual to the other one.
- Analyst:** Okay. And ah secondly, you know again a very 60,000 kind of question, but what we saw in China was you know, Chinese commodity exchanges sort of exploding in their volumes as things started happening more domestically there instead of hedging happening in overseas markets so particularly Western world markets. Ah, I understand that you know, what you've been saying about regulators in India who sort of are probably not yet giving a separate look at commodities that it deserves but, ah without that happening do you think you know, our volumes can scale up as you know sort of manufacturing starts picking up we start doing more PLI and those kinds of things although this requires some kind of regulatory push some, restrictions on overseas hedging only then can our domestic volumes go the way Chinese exchanges have gone?

**PS Reddy:** Yes, for an inorganic growth of that kind loosely wording the inorganic growth, I think regulatory barriers for hedging overseas is needed and we have approached RBI as they did it in the case of gold they should do for other metals and others also, but they are they are reluctant not only they are reluctant, even the some of the domestic major industries are also reluctant simple answer, I mean simple reason. See the domestic industries in our market, they have some degree of monopoly and control, okay there is a brand that they are building around that they are making the price and that made me superior that price although the quality remains on par with other brands, okay now, we are playing a spoilsport in the entire game. Now, on MCX you buy or sell any commodity and if as long as it meets the standards, it is agnostic, you know whether it is delivered by Hindalco, Vedanta, or still a small time player in some corner in Timbuktu or wherever it is. So they don't appreciate this now, so there is a resistance also, for we doing it, and you'd be surprised to know in our metal contracts, we have made additional delivery centers, and some of these guys sit in the product advisory committees, they resist on additional delivery centers. Now, what we did in the case of aluminum I'll give you a classic example. We moved our delivery center to Raipur, I mean we have other Thane and other places for all these years, but Raipur happen to be a very close to the production in the center because the Eastern belt is the major the aluminum producing especially Orissa okay, Raipur is the distribution center. So, as a result what happened is, Nalco has no interest in any of these politics so for them to meet the monthly targets and et cetera. So Nalco started delivering the metal on the exchange platform and now as a result people find if there is an opportunity of buying the metal on the MCX they take the, they buy it and then take delivery from Raipur and it suited them. So, other players started falling in place. Okay. So, even others also started selling at the MCX prices better then why the resists they should immediately sell it and that's happening for Zinc also for us. So, the I mean it they have to, they take time to accept MCX okay, the big players and as I said they have built their own barriers ah to protect them, those barriers are being brought down.

**Analyst:** Thank you, thank you sir.

**Analyst:** Ah, just one thing, while if you could, sorry, I missed the last 10, 20 seconds why would the larger players restricted from you know having MCX essentially?

**PS Reddy:** See, he there they command price okay because they have a brand building okay. I may it may happen for the steel rebars also I can tell you that okay, that's why we are very careful in choosing what grade we will choose and who are all players who can deliver on the exchange platform. Today, I'm just giving an example it may not be true okay. You have maybe Jindal Steel, Tata Steel. So, it become a premium if you go and then ask in the market I want a Tata Steel rebar of 10 mm or 12 mm. As against the price that is quoted by maybe Murugappa Steel or somebody else, I'm just saying, giving you an example, maybe

they may Rs.2, Rs.10 cheaper and, but that kind of thing will go away once the platform is there, because what I guarantee is the quality of metal who made, who delivered is immaterial to you as a buyer, isn't it so, that by that premium will, will be lost, we are agnostic.

**Analyst:** So, they will, so they will, so they could end up losing that premium that they charge and....

**PS Reddy:** Yes, that's right, that's right, that's right.

**Analyst:** Okay, okay, okay understood. And just one last question the business before we move to the, some of the expense bits, right, what are the education efforts that we usually do to sort of ah you know, educate the end users right on how do I know why this is needed, et cetera. I mean, what kind of education efforts and what kind of cost do we incur for certain doing this?

**PS Reddy:** See almost our all the education expenses are incurred from IPF, Investor Protection Fund or Investor Services Fund. So that's a separate fund and it doesn't go reflect in our books so much, okay. And only our travel cost, if there is anything, or expenses of the employees to that extent will be incurred, but otherwise, the other expenses, if we have to book a hall or conduct a program, all that kind of go from that, anything further you want to add.

**Satyajeet Bolar:** When, now we do a blend of both the things, we do the webinar, at the same time we also carry out some physical seminars also. So that way it is like it is sometimes it is going to be very cost effective, and we could able to reach out to many people. And in other cases, it is like, we sometimes take the local, the local what I can say the industry experts or something so that they can also go and can they can also endorse how or how the products are, can be used. So, all these things happens in so we conduct different variants of programs.

**Analyst:** And just the last two questions from my side, right. I think, on the software migration, right, you sort of now switching to TCS, one when is that likely to happen second, is bulk of the cost already booked in FY22 or you think that some other cost will also come in FY23 and then going forward, how will it will it be I would assume it will be earnings accretive for us but if you could just help us understand how, how much cost savings will it that sort of shift bring in?

**PS Reddy:** Yes, bulk of the cost will be booked in current financial year no doubt about it, because before we go live we have to do all that. And already some has been reflected that is maybe by and large the hardware part of it. And the next question is yes, we plan to go live sometime towards the end of August, early September. And I mean, we are really working hard towards that date to be firm. And let us see how we process it and that's it that's where

we are working at this point in time. Keep my fingers crossed, but then we are hopeful that TCS will deliver it. It is being monitored at the highest level in TCS also project implementation.

**Analyst:** And what kind of sort of cost savings is that we would see compared to where from the earlier vendor?

**PS Reddy:** Currently we pay a fixed cost as well as a variable ... charges to our present vendor, going forward post October 22 the first year after we go live will be under warranty so there won't be any AMC that will have to pay to TCS. Also from the year one that is from 23 onwards, we will be paying an AMC to TCS that has already been crystallized it's a single digit amount and they will also be certain AMC that we will be paying to the hardware vendors, right for the servers and hardware. Also there will be certain software expenses that we will keep incurring on the operational part, operating software's for Linux or any other so, on a net-net if we are growing it will only contribute to our EBITDA. Also, I forgot to mention that we will be incurring charging depreciation the on the new platform. So that would come in as an additional charge from October onwards.

**Analyst:** So, maybe in FY23, it would not be a higher amortization, but I think starting FY24 is it sort of safe to assume that it will be earning accretive?

**PS Reddy:** Start from the, the amortization would start once we start putting it to use, isn't it so that would be from October 2022.

**Analyst:** No, no what I am saying is that once we shift to the newer vendor, right will it be earnings accretive in a sense that the current vendor cost versus when you look at TCS cost it would start to be earnings accretive starting FY24 onwards right it will be lower?

**PS Reddy:** Yes, it should be, it should be because we won't be paying any variable cost.

**Analyst:** And it will only be the AMCs that we would be paying right?

**PS Reddy:** That's right.

**Analyst:** What's the amount of savings sir you are looking at?

**PS Reddy:** I won't be able to quantify it at this point of time, but as mentioned we won't be paying any variable costs to the vendor based on our transaction.

**Analyst:** Okay. So, that's why as the volume goes up, this will become fixed cost more or less so then full benefit will come?

**PS Reddy:** Yes.

**Analyst:** Okay, thanks.

**Analyst:** And sir, just one question this. So, you know the fixed cost to develop the software you will probably amortize it in three, four, five years thereafter, there won't be any large CAPEX of this kind, it will be more very small, it will be just I mean amortization will stop and it will be only annual sort of AMC and maybe some modular CAPEX is that right understanding, the real benefit will come in after four, five years is that understanding right?

**Satyajeet Bolar:** To a large extent yes.

**PS Reddy:** So, yes because of the interrupt for in the form of payments, it will go as a depreciation good amount of money. And once that is done, probably you will see accretions thereafter substantially.

**Analyst:** But depreciation would be there maybe for a five years or longer than that?

**PS Reddy:** Seven, eight years.

**Satyajeet Bolar:** At least eight years, at least eight years it should be beneficial to the P&L we can't keep them for four years and all, that should be eight years.

**Analyst:** No, no understood. Understood sir, thank you, thank you.

**Analyst:** Just one last question from my side. What is the use of surplus cash I think today I think what from a payout perspective, it would be roughly about 40% to 50% is what we pay out right or it's slightly, slightly more than that. But, I think given that you know no incremental CAPEX, CAPEX is required and we generate a healthy cash right what will be the incremental use would you look to consider a special dividend or something of that sort or?

**PS Reddy:** See, even we too would like to give it away, because we are not able to earn enough return and it is dragging our ES, et cetera. But the point is, SEBI is yet to decide on permitting co-location. So, some investment will be required if we decide to have co-location. Number two, that we are planning also again it's a, we wanted to have a coal spot exchange, now it may require some amount of investment. Similarly, maybe some other exchange if you wanted to have, we should be able to do that. And apart from these, these requirements the, I mean, we would like to contribute to SGF as I told you dynamically we want to put money and then withdraw, and then reduce margins, all that we want to do it. So we need to have some fair amount of money to do that play. And if businesses keep growing bigger and bigger, even as SGF requirements also grows, and we want business to grow, isn't it

anyway, so that fund is required, we are not able to access it to today as to how much more is needed at this point in time. But even if, yes, I mean, Mr. Bolar should be able to tell if any other near future requirements are there. But as far as dividend payout is concerned, as per the policy we would like to give out the highest currently it is about 75% is what the highest we can pay out. So we're paying at 75%. So that's the way it is. From the accretions, from the yearly accretions we're not retaining anything much.

**Analyst:** Okay, okay fair enough. I think that's all the question from my side. But if any of my colleagues have last final couple of questions they can go ahead.

**Analyst:** One last thing on competition front, is there any, are there any new developments?

**PS Reddy:** Now that competition is behind us in that sense, or what I mean is, that fear of competition is behind us. I don't think anybody can take away the liquidity from an established exchange. But they are still trying to introduce new products, and use their deep pockets to support in the form of market making, et cetera. But so far they are not successful and God willing, we will continue to be successful. That's where it is.

**Analyst:** Yes, let's hope kind of that's all from my side also. Thank you very much for your time sir all of you, thanks to all of you.

**PS Reddy:** Thank you.

**Satyajeet Bolar:** Perfect, thank you.

**Analyst:** Thank you so much for your time here.

**Analyst:** All the best.

**PS Reddy:** Bye.



# “Multi Commodity Exchange of India Limited”

Meeting with ICICI Prudential MF

**May 25, 2022**

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MR. SATYAJEET BOLAR – CHIEF FINANCIAL OFFICER  
MR. D.G. PRAVEEN – HEAD (INVESTOR RELATIONS)**

**Analyst:** So, thanks Sir, thanks for taking out time.

**PS Reddy:** Go ahead. You are recording?

**Praveen DG:** Not yet. Start it.

**PS Reddy:** Please.

**Analyst:** So, what we thought is, we would take this opportunity to understand more about how our market is being giving and I have a couple of specific questions which will come in the end. First, I'll let Ankit start. He is subject expert over here Ankit.

**Analyst:** To start we have seen 2011, 12, 13, phase where in the volumes of the exchange were very higher and post the commodity standards and tax implementation it has come down and it has never picked up maybe 2020 or 2019 was an exception where we saw significant improvement in volumes. Post the margin implementation equity markets have behaved differently and a commodity market has behaved differently. Even after 100% implementation the option volumes on those exchanges is very, very high. We did see an impact for the first six months. How to think about increasing the depth of this market. As in, the players have been there for years and the number of players participating on this exchange are very few compared to the equity market. How do you think, from a five-year perspective, where could be the opportunity, would there be hedgers more, or would it be more of an arbitration game?

**PS Reddy:** Sure, see, the structural changes that have taken place over the last 4 years have to be borne in mind. One is that SEBI have done away with the mini contracts, okay? Which were contributing about 30% of the volume. So that's major change that has taken place. So mini contracts have gone. Now, second, said is cash settle contract should not be there? All of delivery based only except for crude and natural gas where we have a tie-up with the CME. So, the moment you say it has to be a delivery-based contract, some speculators will do more. Third, the moment they say delivery-based, the contract that we had especially for, in metals, where a tie-up with LME and those futures somehow become more relevant. Now in the domestic market you don't have a system, in spot market, so for them, for the speculators, there should be some guidance and that is not there. So they have to understand the physical market and domestic physical market, how the prices are determined. There is some correlation between the LME and our prices, but how much exists, what kind of supply demand that happened, as in the normal course, I don't have to study anything market if the prices have to be settled. So we have the LME prices. Just look at the prices and then if you do some kind of arbitrage kind of...

**Analyst:** If it is only cash settled?

**PS Reddy:** If it is only cash settled. Because it is not cash settled then that particular link is has major disruption I would say that. Now these are the three things that have happened. Then came the crude oil negative, okay? That has destroyed the contract for a year almost. We hardly had any

transactions in the crude oil contract and it was doing very well in fact as you say that. And many investors also who are playing they also moved out of it, crude oil contract. So year after year we've seen some decline in the players who are acknowledged doing it but new players have come and then compensated further, that's why we have seen the numbers being more or less at the same but not any great toll. Notwithstanding that, you've seen ADTs improved. ADT has improved because the prices have firmed. That also you may have noticed it. So the volumes have come down in the metals especially the metal segment, okay? We have also done an analysis for the 2021, 2122, what is that they have contributed when the volumes have contributed or the prices have contributed. We found in 2021 the volumes have contributed differently the prices not much effect, but in 2122 volumes have gone down and prices have gone up and that's the kind of thing that we had. So, why didn't it impact equities, why didn't impacted? Because these are products have totally different people have to understand unlike in equities. Most of them being go to offices and there everybody is working from home and the login to the system and then buy one share of Infosys and then see how it goes up, but then that's a different ball game altogether. Like that they can't do it here because again if anybody for one is that they don't have full understanding of it. We're not grown as much as we've grown. So comparison with equities in a sense, may not be a fair comparison and that much depth is not there, that much regulation is not in place and we're still in a nascent stage all said and done and the GST tax issues have become nowadays much bigger issues than otherwise. Every year when there was a VAT to the state. Each state has a VAT and there is some kind of agencies are there. So you can use those agencies and then they'll do on their books and then give you this one so you don't have to run around, but that kind of system is not there also here. Each one of us have to register it we have deal in commodity in each state wherever the warehouse is there. That is the challenge. So it is constructive, I would say, the growth. This kind of structural changes that are taking place. Notwithstanding that 19-20 done well. 2021 also we have done well, okay? It's not that it was a bad year. It's just that that 21, 22 we have instead of 31000 crores ADT, a settled at 25000 plus crores ADT. So, thankfully in the second half of the last year, financial year the options have started picking up and to ... compensated to some extent, not so much. So if you take the options turnover and then put it there supposing a transposing to the... this one maybe you can say that your ADT has become 28,000 crores or something like that.

**Analyst:**

I think on call you mentioned that if I combine options plus a future, then the volumes would compensate what we have lost in futures, but our core question is how the market depth will increase as it equated it is very easy. If I compared it to the equity then anywhere as you said even then buy from home, but how is this commodity market with debt will increase. Will it be only a speculator's market or are there local players who maybe buying cotton or who are currently buying steel rebar are they coming to our platform?

**PS Reddy:**

Whether you call it this market or the equities speculators, speculators, speculators who are day in day out giving the volumes. There should not be volume per share. Investors they buy it and they keep it okay? They don't trade on a daily basis. So daily basis volume is coming because of speculators, okay? Similarly, in this market also, if there is a price difference arbitrage is settled. They will try to correct it all the time, okay? That's what they do. Speculators are a must

no doubt about it, but anybody to liquidate as provide liquidity. Hedgers only participate and take open interest and I am happy to say our hedger's participation is increasing constantly. You see the open interest on listing. Notwithstanding your volumes, the ADT has come down still you have an open interest which was being taped on average, okay? That means we're bringing in more and more people and they are hedging on it. They don't give you liquidity. Obviously they will take a position till then until they will physical market position gets it finished.

**Analyst:**

Just following up on that in terms of when we think about the business say three years out of the two years out in terms of a certain volume size. How much of that is because of the initiative that we're taking right now it should fructify in the next couple of years to start yielding fruit, and how much of that will be a natural growth which will be volatile but is not in our hand, but how much of that order, how should one think about that sir?

**PS Reddy:**

To be very candid, you need volatility for this market or any market to work, especially the commodities market. Our focus has always been to prepare the situation market to capture that volatility. So keep going meeting the brokers, educate them, training them. They understand the product. They will maybe little, little they are doing it. Then all of us one fine morning we will step into it and in one ... day they capture it. Similarly, even for the hedgers also, they, for them, the more the volatility, the more they will start hedging it, okay? The prices are more or less stable they think that why to hedge because anyway it is fine. So I can't assign a particular number, so the efforts that we've put to the growth in this one, but all the time all the products may not have the volatility. Sometimes someone needs no riding the market and this is that trick.

**Analyst:**

I meant in terms of support in your product that we're thinking of launching our products.

**PS Reddy:**

Your products so ADT is very clearly spelt out. No doubt about it, for example NG options. I think that's today's auction. Currently it is about 3000-3500 crores ADT. So that's a is it that we've launched the product, educated the participants and there, for them to find money and then participate.

**Praveen DG:**

Right, so something similar is what happened. Generally, what we do is, sometimes like options started picking them. Even when in terms of awareness programs and other thing even we have diverted certain attention to wherever the market are also growing because one is for the products which is totally maybe from 0 just you have to help them out and in understanding all this but if somewhere if it is already people are understanding and the wanted to get into that one seeing that also we will try to push up our efforts in that direction. That is the reason volumes have grown up significantly in option some we can say that because of the regulatory action of these peak margins and other things but even to reach out to the next level our efforts are also up. It is like we read it, we reached out to the market participants because the product here what is getting traded in commodity markets are slightly different from that of equity markets. Because ours is option on futures as compared to theirs is many of the things actually they have adopted from out market like devolvement. Those are delivery-based contracts are only new to them as compared to we actually do, already we have from the beginning, we made our contract

devolving into the underlying one and that kind of a result into delivering, of the finally result, of the delivery of that much. So that's why it is like an effort has been put parallel efforts have been put, and wherever we see the opportunity definitely we devote such an amount of attention there also.

**Analyst:** And at this point in time is there any real way to seeing like sir mentioned energy is one area where crores 3000 crores has come in. Are there any other areas where you see higher opportunities coming by?

**PS Reddy:** See, we have launched option on Gold Mini, which is again recently, not long ago. So about 200 crores ADT that's there, okay? Some more new contracts are in the pipeline. We're going to launch monthly options on bimonthly underlying gold. Today's problem because it's a bimonthly option even the premium is very high. We wanted to slash it, have more volume, more people will participate it. So that is we got approval and we are launching it.

**Praveen DG:** Again, you say very good initiative from our side like because no other contract typically the tenure whether for options and for the futures maybe just 2-3 days the difference will be there. Otherwise it is like options in two days before the devolvement into underlying, but in this case there has been a demand from the market that because these are all bimonthly contracts. In futures that is not going to pay a bigger play but in options the premium difference is significant based upon the tenure. So, considering that one these are some of the international best practices also we thought that why can't we come out with some more option contracts, like a lesser tenure but whether same two contract will devolve into the same contract at different times, period, so that we can able to reduce the tenure so that the premium will come down. So people can able to better able to participate in this contract.

**Analyst:** So this will be happening for gold and which other?

**Praveen DG:** Other we have silver ... also is there but we wanted to see that how the things will pan out in case of gold, but even currently in both the silver contract whether main and min contract, both are bimonthly contracts. So, there is an opportunity there but we'll have to see as on how this is going to pan out. Accordingly, then we'll take it up with our Product advisory committee. Then after evaluating then, we'll see that how we can go about it.

**Analyst:** But in principle the approval from SEBI for gold is there but for all others we'll need to go and get the approval and how much time does it typically take, sir?

**PS Reddy:** In two months.

**Analyst:** So it's not a long timeframe I feel, need to keep. To draw parallel line. Globally on the commodity exchanges is the option volume similar to what we're doing it? What is happening in India today or is the option volume significantly low compared to future's volume? Another question to it is, hedgers typically try to hedge for six months or maybe 12 months because they

don't find interest in the near-term contract because they'll have to take delivery or take cash settlements. So how to look at it in that way futures contract would be available for six months and maybe more? Do we have interest over here in India as well?

**PS Reddy:**

We do launch contracts of that duration, but we don't find other than first three contracts management, liquidity from there but beyond that we don't have anything. So that is something which we have to deepen that particular active liquidity should be provided on those contracts. So another thing is again except for gold you can still go on and hedge international market. So there's no restriction as such. So if you see in liquidity in the gold even little middle four months contract also will be active but not in other contracts. So internationally options is not great doing it but futures is there and here again India is a different country altogether. Options is the darling of the market so many people look even in equities we're seeing that and whatever maybe again speculator I must say that and it's not a bad word. We have considered that to be speculation is bad but you are passing on your risk to somebody else. Somebody is taking it. It's fine for you. Otherwise only two types hedges who are having two opposite positions should only come and participate which will never happen trade, okay? And these are the guys who are providing. There's a price you have to pay for that hedge speculator. That's what they are taking.

**Analyst:**

The other question is there a correlation which we can draw from equity market and commodity market from a customer's point of view? Suppose a customer would have a capital of five lakh rupees maybe he would be doing something on commodities exchange and something on equities exchange. Is there pattern or correlation that if the equity markets are down the volume on commodities would be higher maybe because he has made an opportunity to him?

**PS Reddy:**

So I would say *ulta*. Instead of paying as if they are from different baskets of assets and you must deal with it separately. I would say portfolio of all these assets may mitigate the risk and the return may improve. I think we've done some analysis. What is that you can explain that side?

**Praveen DG:**

Our markets are till 11:30/11:55 compared to the equity market it operates only till 3:30. So that way it is like always the client has to, that the individual has an opportunity whether he wanted to do it or he did not to do it. For some people it is like we have seen some occasions on the rare occasions that would be some amount of interest because after all there are many common players are there between the two markets but there are some people who are exclusively trading in the commodities. For them it doesn't matter because I have better understanding on product because even if you see it's not like somebody is... speculation does not mean that he is not having any understanding. He wanted to speculate even if you need to understand the markets very well. So he wanted to understand that industry and other thing. Those people who are very comfortable in knowing how the product will offer it, they will come and trade and our product has generally it is like except some few mini contracts and other thing it is comparatively it is on a higher side. Where in equity they keep changing that one because in our case don't work that way. Because our trading unit and delivery unit have to be at the same as per the regulation. So, for example, even today I continue to have my nickel contract which has gone up to even 30

lakh worth of contract. Where in equity market every six months and now and then depending upon the price and other thing they can able to trim it and they can bring it to that normal level. So that it is like our markets are slightly different some people are exclusively working for commodities market and there are common set of people, but whenever they feel opportunity, because now today if you see the registered clients' codes we have around 90 lakh. Today because of the integration of the intermediate whoever is getting registered as a client. He is getting registered across for all asset classes unified, so you have a great member but out of them how many are getting traded it is ranging somewhere around like 4.5 to 5 lakhs who are trading but the moment people come to know about this market and this one because earlier it is like I need to again go to a different broker and fill in all the forms all those things are gone now. It is now it is... So all the new clients for them it is an opportunity. The moment people keep understanding because even now academic institutions are all speaking about now the commodities market because we are graduating to some... where equity markets have gone along. They have made already a long run but in our markets as people understand it and wherever opportunities is there people just get in and they will try to get in those markets.

**Analyst:** There is a reason for asking you questions, is if the higher margin only constraint or the only reason for lower volumes last year or is there something else which is hurting our market? That was the only reason to ask this.

**PS Reddy:** Understand I agree but then that's not the only reason.

**Praveen DG:** Multiple factors every day.

**PS Reddy:** No doubt at all.

**Analyst:** What else can you analyze?

**PS Reddy:** See the contract value itself has gone up substantially.

**Analyst:** The absolute amount that we get to.....

**PS Reddy:** Yeah today, today just one lakh offer you need 27/29 lakhs. You buy one Infosys share or one MRF share 18,000. No problem but then even that doesn't work. That's the problem. So margin is...

**Analyst:** And the margin requirement?

**PS Reddy:** 10%.. 2.9 lakhs. Is that the requirement in equity? It's not just it's not comparable that way.

**Analyst:** And that is why option is incrementally gaining more prominence?

**Praveen DG:** In option what is the main advantage is the many individuals especially after this peak margin reporting. They don't want to continuously monitor the margins. These markets are operational

till late night. As an individual I don't want to suddenly if my broker will be calling and asking me to bring him more margin. So there are some practical difficulties for them to operate and keep a check on monitoring margining aspect. So they will prefer that less. I think I don't want to get in to this rather I will just buy an option wherein my entire premium I have to pay but once I pay the premium then I am done. Then I need to just look for the time to exit, whenever I want to do it, but I need not have to continuously keep a tab on what is the margins.

**Analyst:** Any broker investment required also this would higher because they will need to check at least I think five times a day or some.

**Satyajeet Bolar:** You're asking not five times?

**PS Reddy:** Five times for other business up to 5 o'clock business? Initially four times after if you run like exchange till 11.30 so much...

**Analyst:** So every time and your trigger happens you go back to the customer and say let's put on more margin?

**PS Reddy:** Now, from 11<sup>th</sup> of May onwards is some dispensation has been given where if you have a position in the morning whatever is rolled over position yesterday's position and you don't do any intraday trading. Then what are the margin you paid in the morning whatever the margin that was there is good enough. So the position will not be re priced every time and then call the additional margins. Even if the prices go up intraday you are not required to which we ask them because many hedgers once done and they go to bed a 5 o'clock office is closed and they go and then you call *raat ko 10 baje*, ask CFO increase I want money from the position who will give? And that is something.

**Analyst:** It's a big hazard, when will be applicable sir?

**PS Reddy:** 11<sup>th</sup> May they have issued a circular I am sure....

**Analyst:** Are there any other such similar things which you have proposed to be regulated that some dispensation is required to improve the overall market?

**PS Reddy:** Oh! There were many such things out there. Many other things are there. Some are getting are getting rejected, some are there... Again you're treating apples and oranges as fruits. So, the moment you call it is a fruit then yes I can't say anything but if you say apple is apple, orange is orange. Then it will need a different dispensation?

**Analyst:** Which one will be the most helpful if it is gets implemented?

**PS Reddy:** No not like that. The way that I look at you those markets are different. These markets have different dispensation. I tell you for example what we recommended here you have the last five



days the free expiry March, okay? That they are apply in cash settled contracts also. Now delivery-based contract it is applied because you need to do delivery and last five days I got delivery is there. So that is one thing so 5 x 5%, 25% plus your 10% additional margin. So 35% in the last 5 days means 5% plus 10%, 15 first day. Next day 25, 30, 35 it goes like that. So we requested them please keep some cap 25%, 20% in the last 5 days so that it will not go beyond this. Anyway, the contract is winding down. So why you need so much....

**Analyst:** Everybody will be forced to wind down before 5 days.

**PS Reddy:** Otherwise, they would take delivery and leave delivery. So that's why so they said because of initial margin is price volatility see this. This is for the delivery risk. Delivery risk we understand but then it is substitute in it. Towards the end of the contract, it is substitute in it, okay? So whole the delivery risk will be bigger if there's more volatility. If there is volatility, we already have a VaR margins which takes care of it. The commodities market. So you don't need this kind of structure but you keep it you will have a margin but you keep it. But what about in cash-settled contract? The only cash-settled and those cash-settled contracts are with income, where CME okay? You put in with CME price settled. Then what use is this delivery, pre-expiry margin in these contracts? No sense. As a result, what happens? Five days of trading is lost and your contract is one month, one month May 20 days in the 22 days is the trading days. Out of 22 trading days five is gone. These are all specific to the commodities market.

**Praveen DG:** For example, Enrgdex, it is an index, which is again based on underlying cash settled energy products. So again, the pre-expiry margin is applicable in there. So we are not finding any traction from the market participants.

**PS Reddy:** Now, okay something negative price happen. So they have again the delivery issues have come that's why you're impose it, I can understand. Then removed from calculation they need to cut. So they are keeping only the pre-expiry margins because they have a delivery no doubt about it so they are keeping it. They are keeping it. Now at least you keep only one and remove that negative price from this calculation. They said we don't remove that. So it's a double whammy. There also as a result of it our margins and crude oil is 20%. In addition to that you have these pre-expiry margins.

**Analyst:** Are we but hoping that slowly and steadily some dispensation occurs?

**PS Reddy:** So we need to work out alternative ways. So yet we have contribution. We are willing to contribute more in SGF provided it make it a two way then I will contribute more to a SGF. Then negative pricing will remain in the success result but I will reduce the margin instead of 20% and keep it 10%, okay? Because it is 10%, the margin cover stress results, require more SGF cover. Then I am saying contribute it, SGF cover. Even though it is not earning money. Might as well put it here, it will earn greater return in the form of transaction cost and other things okay? And so SEBI is yet to take a call on that.

- Participant** Actually it makes sense to use the cash which is there to kind of provide some comfort as of used for the coal business and growing the overall market.
- PS Reddy:** So these are some of the things. They are many other things also we have written to SEBI.
- Analyst:** .... was GST issues?
- PS Reddy:** That is a big conundrum. I don't think SEBI has been trying that way. There they have made presentation to thanks to the supreme court order now GST council is wondering whether they are existing or they are not existing.
- Analyst:** But sir, it will take time though for those issues because good things change once there is spot exchange in gold or..?
- PS Reddy:** Spot exchange is not taking up because of the GST, once that is fixed I am sure the same business will be applicable elsewhere it will also then we'll get a solution.
- Analyst:** Right, but good things significantly change in terms of our volumes once spot exchange will take place, for the future volume would we see a further uptick in future volume as well once spot exchange is taking place?
- Praveen DG:** Deliveries cannot be a challenge so with export coming in holding on there position even delivery marked and other things in the thread but yes in all these cases what delivery in volume is always a fraction of overall volumes. So, who will be beneficiary for kind of.. hedgers. Typically, are the people who are doing some cash and carry arbitrage kind of business. So we can see that it can lead to good participation from physical market participants and also some of people who wanted to get into this kind of arbitrage kind of business, we will also. In a way that it will end up contributing to that one. So how much we may not give able to give you a number but some definitely can add to the people will be more comfortable. Integration with the spot and futures can happen in a better way. All these things.
- Analyst:** And last question on this part in terms of the commodities or the products which we have. Any new products which we see could be a game changer in the second segment. Power is one product which would come maybe...
- PS Reddy:** .... is another one which we are looking at it. See on the one hand if only one commodity contributes 80% you are asking me why this concentration? So instead of doing it I will have more products and I am contributing each one to 3000, 4000 crores ADT that is a better. So it is good to have more products. So we are looking at launching these electricity futures and other one is the steel tmt and aluminum alloy is another one and we prefer to go into non-Agri. Agri is a big no-no at least for me personally I don't ... that they can suspend contract. We don't want to get into it...

**Analyst:** So how do you get a timeline for the electricity products? Because I think earlier guidance maybe from April we would see something?

**PS Reddy:** Something okay, and it is not come through because of this, in fact, because of the coal shortage, power shortage and power prices have gone up to Rs. 20 and then they put a cap at Rs. 12 and DAM day-ahead market as well as the term-ahead market also and now the whole business in IEX is shifted to OTC because nobody can put any cap. So artificial caps don't work and we've also circulated a good published research paper. Have you had a spot derivatives contract spot prices would have been most stable, volatility would have been reduced because forcing the requirement you will go on and hedge on the commodity exchange. So they were succeed so it doesn't matter whether you pay Rs. 20-30 you're already secured your position and somebody else is paying for you that particular risk on that derivative. So, keeping that in view so you even in the physical market also so much volatility would not have been pained and enough wait we have had. I think it is high time that SEBI acted on it then we will succeed. I think something will happen. That's what we are thinking...

**Participant** ..its stuck with regulator

**PS Reddy:** Yes, with regulator only, as soon as supreme court order came out regulator asked us, each one of you to submit, we are the first one to submit detail.

**Analyst:** What else is the kind of pending with the regulator, major?

**PS Reddy:** As I said .... which would come shortly is pending for multiple delivery center our risk is the moment you put a multiple delivery centre GST has become a problem with the players okay. We are proposing, it's a no revenue loss. Consider an IGST against GST so it's a clean one okay. You are in Mahashastra, registered you take an .... and you give IGST bill anyway, dispensation but they are not moving. They should go to the council and the council should say it is not fine. Then we can say that okay at least you made an attempt so you file. If you don't make an attempt you will anyway fail. That's the way it is at this point.

**Analyst:** How does regulator look at improving liquidity of this market? Do they have framework, do they have something in mind?

**PS Reddy:** On commodity market really the focus is not there as much they having for equity and that's what we desired that they should have a vision of the commodity market development and as I said apples and oranges these are different kind of fish. They need to be treated differently and unless we are brought to that sale we cannot really showcase and we have a great potential as commodities, being a major producer or a consumer of many products. You could have a price setter provided there is hand-holding.

**Analyst:** The key question we wanted to have some clarity on or maybe understand from you is, your migration to the new software and in September is the deadline wherein we'll have to move out

and the new person or new player coming. Where are we, what are the challenges initially because I think it has been rolled out to some of the, on pilot basis...

**PS Reddy:** No we have rolled out to all markets participants what is called the mock? Of trading, we have done that. The other part of it that is the clearing and settlement is yet to be done and in fact for 6 o'clock exactly, same meeting I will have it only. So the progress is, I would say happening but then bugs are there, at what pace they will fix it, it depends .... We are at this point in time identified all critical pieces which are required to go live, here I am not asking for bells and whistles and all this kind of things. Whatever bare minimum we needed function, that's what the focus would be we are working on and let us see, we have four months to go...

**Analyst:** So in that context is there a probability the rollout could get delayed for a couple of months for?

**PS Reddy:** We are reducing the sometimes we are doing it whatever parallel we can do it. While UAT is on, some in mock. Simultaneously so you may find some bugs in UAT and some maybe in mock. Parallel also we do simultaneously. Generally, they do it sequentially but if you're not doing that sequential enough.

**Analyst:** And so in September the old contract is getting over so we...

**PS Reddy:** Support will not be there you can still run it but support will not be there but without support. God forbid if something goes wrong what happens? It will be a challenge.

**Analyst:** But let's say you own those additional three months support it's just about the incremental three months.

**PS Reddy:** Extend it. We had approached before signing this agreement itself. We want to extend it but you also apply. They didn't bid for it and nor they are interested in extending for a short term bid.

**Analyst:** You don't charge a risk?

**PS Reddy:** I don't say risk is not there. Risk is there but we're trying to work to mitigate it towards the this one and to make it happen at least with the critical functionality that is needed that's what we're trying this point in time .

**Analyst:** So I was just thinking around it like additional some payment and they will not do anything for three months with some additional payment also.

**PS Reddy:** Payment when willing to do that. I don't think we are asking for free. We have to once again try if at all because we have to try, a call is not taken.

- Analyst:** So, just one last point in terms of because we are getting into multiple commodities. How are we looking at the hiring part because of Q4 call you mentioned something on there have been new hiring.
- PS Reddy:** See, lot of hiring that has happened, not with the commodities, but because technology platforms. So the new hiring happened because of the technology platform, we need to test it, so from our side so, if .... tests are there. Similarly, there are different types of policies are get created for all the years you are dealing with the 63 Moons system, they are taking care of it with no other expense, except running. Now, you have to run that and then you have to conduct background runs and so many other things, so we have recruited a good number of people in the technology itself, so a major thing has come from there. As we go along, if for any reasons people leave, because some of these IT people are interested in doing all good new things in the projects, once the project is complete they want to leave it and then, we may not recruit.
- Analyst:** But incrementally, in such projects there are these vendors which stays for long beyond and some part of internal so.
- PS Reddy:** That is what it is.
- Analyst:** How is that proportion going to be incremental, like say apart from that one year where I thought that they will be providing after one year....
- PS Reddy:** Going forward also, if they take an AMC and L1, L2, L3 services they will give it, but we would like to take over the operations also in then run it, they will standby whenever there is a problem especially, in the core system they will fix it. Otherwise the system should be running on its own, there is no problem.
- Analyst:** And for us investors when we think about this entire transition we should think that this is more from the software which core part which was outsourced something which is now in-house not necessarily in terms of huge cost saving is that the right way to understand or are you also envisaging that the huge cost saving say, after one or one and half or two years.
- PS Reddy:** Huge cost saving I see it still to play out exactly because one is that there will be a capital expenditure that is taking place, the depreciation advances we are providing it. There are new systems we have bought so many software like Redhat or Linux, even windows related so many things so they require annual license payments so that will increase and yes, HR cost is there in that but there is something called if you look at let us say 63 Moons you take it, currently you pay 55 crores, in case of 63 Moons volumes go up, 55 crores can become 65 or 75 but in this case it remains more or less fixed cost and if volumes increase, the revenue will go in a bottom line.
- Analyst:** Gradually, the benefit of this should pass on gradually.

**PS Reddy:** That's right. Okay.

**Analyst:** Last question from my side in terms of, we try and understand in terms of the senior management what are the two or three things that takes most of your time?

**PS Reddy:** Currently the TCS,.

**Analyst:** This is one for sure.

**PS Reddy:** Every day, I like a... or whatever mantra .... and twice a week I am meeting with TCS and internal teams daily and this is core that is the way it is. Nothing else.

**Analyst:** Understood. Thank you so much.

**PS Reddy:** Thank you.