MCX/SEC/2374 May 07, 2024

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

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

Dear Sir/Madam,

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

Sr. No	**Investor/Analysts**	**Date**	**Time**	**Annexure**
1.	Ward Ferry (WF Asian Smaller Companies Fund Ltd)	April 29, 2024	03:30 PM	***Annexure - A***

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

Further, we hereby confirm that no unpublished price sensitive information was shared/discussed during the said meeting.

Kindly take the same on record and acknowledge receipt.

Thanking you,

Yours faithfully,

For Multi Commodity Exchange of India Limited

MANISHA HARSHAD THAKUR Digitally signed by MANISHA HARSHAD THAKUR Date: 2024.05.07 11:24:56 +05'30'

Manisha Thakur
Company Secretary

Encl: As above

Multi Commodity Exchange of India Limited

Meeting with

Ward Ferry (WF Asian Smaller Companies Fund Ltd.)

April 29, 2024

MANAGEMENT: **MR. P.S. REDDY – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – MCX**
MR. CHANDRESH SHAH – CHIEF FINANCIAL OFFICER – MCX
MR. SATYAJEET BOLAR – CHIEF FINANCIAL OFFICER – MCX (OUTGOING)
MR. PRAVEEN D G – CHIEF RISK OFFICER – MCX
MR. NARESH BHUTA -- DEPUTY CHIEF FINANCIAL OFFICER – MCX

P.S. Reddy: Welcome, Mr. Aman and Nicholas, go ahead. You know the business well. You know what the company is doing or going to do or what it did. And all is in public, and information is available, even as late as what happened day before yesterday, and that's also in the public domain. And go ahead, fire your questions.

Aman: Thanks for making time, Mr. Reddy, Mr. Bolar, Mr. Praveen. I really appreciate you guys being on this, very kind with your time.

P.S. Reddy: Sorry to interrupt you. We have a new CFO joined, Mr. Chandresh Shah, he was with NSDL earlier. He joined us. And of course, Mr. Naresh has been there as the Deputy CFO, you know him, and these two gentlemen will hold the fort. We are handing over the baton to them.

Aman: Very good to meet both of you. I think we'll be in touch as time for business, thank you so much for being part of the journey at MCX. I think first question that we had Mr. Reddy was on just the recurring charges, I think you gave us some clarity on that in the quarterly call recently. It seems that the recurring charges that we had on software side that we -- what we had a quarterly charge in the last quarter seems to be higher than the guide that you have for a full year number starting FY '25, '26.

I'm just wondering, to the extent you can talk about it, are there one-offs in the current quarter numbers, quarter 4 numbers, or is it something that will start playing out more in the couple of quarters as you have mentioned in the call?

P.S. Reddy: Yes, see, because we have just started or rather say, replaced the engine of a flight while flying at 30,000 feet, we have to ensure that there's no glitch at any point in time. So out of abundant caution and care, we have taken a lot of premium services of a lot of vendors. Now call it DB2 or IBM or Red Hat or Confiant or Dell, etcetera, etcetera, etcetera. Those premium services are substantially expensive. I mean higher than what it is. Now do we need it for all quarters. No, not required.

That is the reason why I said the cost structure will be stable, maybe post -- I mean you give us two more quarters, then you will know how it is going to be panning out. And so, this is not a, maybe a true picture of it. Maybe if you allow some more quarters to go by, then you will get some fair idea.

Aman: Okay. That's great. I think just in terms of – again…..you can talk about on depreciation. I think is it safe to assume now the current depreciation number is right and recurring in nature or is there also potentially one-offs on the depreciation side. I know the total numbers you've given as potentially 60 crores annually, including depreciation. But Mr. Bolar, do you think the depreciation currently, for current quarter is broadly run rate?

Satyajeet Bolar: Broadly, it is at 9, I mean we have fully capitalized the CDP project. So, all the depreciation has come in, amortization has come in from 16th October itself. So, this quarter figures going forward, it would be -- unless I mean, there would be some CapEx that would keep coming in.

P.S. Reddy: So, we're planning to do some more CapEx depending on the requirements, some kind of a separation was needed. So, some more CapEx will come, but that will not be as big as this number... There is some amount of CapEx.

Aman: Ok. Got it. And I think one question, which probably is a minor point on TCS side, do you think anything -- do we still are having discussions on any kind of reimbursements that we could have or do you think that chapter is more or less closed with the current arrangement itself, for the stocks where delay, that happened...

P.S. Reddy: I'm sorry, just a very urgent call, I just took it. I'm sorry, please repeat. Don't mind.

Aman: Mr. Reddy, I was saying that on TCS, is the discussion -- is there any still ongoing discussion on any reimbursement or is that a chapter that discussion is closed already, on the potential reimbursement, because of the debate? I know they are ongoing vendors, that's not something that you want to affect the relationship but is there economic outcome that can happen from there?

P.S. Reddy: We have not closed it officially, but the discussions are like -- you just started the journey, would you start with a discordant note, or would you allow the project to be run for another decade on cordial note? That's what the question is. But we have not officially...

Aman: Got it. And sir, in terms of software, is it perfectly working fine. Now we can -- I think you mentioned in the call a few times for new products, you have to make sure that the software is working, it's stable. Is it completely still or do you guys still going through some teething issues in the software that you would want to rectify before launching new products as we go around?

P.S. Reddy: See, there are some teething issues. But then those are not impacting the production as such, okay? So, whenever we introduce a new product, we want to doubly make sure that the system recognizes all kind of scenarios of that new product as well. So that is the reason we are thoroughly testing it.

Maybe some kind of flexibility is taken away when the coding was done with respect to the current products, which are there in the masters may not have been accounted for a new product. So, when a new product is introduced, maybe that particular functionality is not working as expected. That's why we are ensuring that is freed up. So, coming back to the question, are there any problems? I think on a day-to-day basis, we have been doing fine. And we are also handing over the reports filed, et cetera, by 4:00 in the morning, early morning. So, we have enough window for us to start the next day activity. And that was a concern in the beginning for about almost for 2, 3 months. Back-office files were going late, so some members were concerned about it. Now that's all behind us. So, stability of the system in that sense, yes, is achieved.

And -- but yes, some more functionalities require wherever, from manually done, off-market reports kind of thing, not online reports, but offline reports, they are also getting automated. Those activities, we have -- we are doing it. There are some post go-live activities also. Post go-live activities means we have kept certain portion of the functionalities to develop post go-live because that's not very urgent in that sense. So, one important feature is like negative pricing. So, in the case of crude oil. So, we have -- that is now getting implemented. So, some of them are like that.

Aman: Got it. Very helpful. Mr. Reddy, 2 questions from the revenue side, just broadly. First question is on competition, of course, another exchange trying to do a lot more work on option side in the last -- especially since October, I guess, they got permission to start, of September, October. From a customer perspective, are you seeing any aggression from a competitive exchange, either their premium ratio is pretty low, is what we observed so far. But how do you see just broadly competition in the space? Are you seeing anything which is noteworthy -- I mean, there will always be competition in an attractive market. But how are you seeing it play out for you guys?

P.S. Reddy: Well, word competition itself keeps us on our toes. So that is good for us and for our teams to that extent. But then is it getting any traction? Maybe at this point, my answer is no. And we are also equally making an effort to ensure that our customer base remains intact, and they continue to support our system. So, if you see their volumes, it's about INR 5,000 to INR 6,000 crores ADT as of now, I don't think that will change, is my understanding of it.

Aman: Got it. And Mr. Reddy, I think in our customer base, how much is -- I think you guys used to provide the information earlier that maybe 55%, 60% of revenues from arbitrage funds or maybe the top 10 customers, 55%, 60% of revenue in mostly arbitrage, does that number still hold true? Like is arbitrage or...

P.S. Reddy: Algo players is what we were talking about. They are the ones who are....

Praveen DG: We have been giving algo and non-algo separate, in the prop and client.

Aman: How much is the algo?

Praveen DG: Last year, it was 52%, around 52.4% algo.

P.S. Reddy: That is 23-24.

Aman: Got it. And has the ratio been -- Mr. Praveen, similar across quarters or increasing?

Praveen DG: I think in the previous year, it was about 53%.

Aman: Ok. On that note, do you see Mr. Reddy, foreign institutions, the people who have taken up our terminals, are these typically institutions who are again algo players or there are also players who are trying to hedge the real commodity exposure. Like, how does the FPI terminal work in your -- as it evolves at MCX.

P.S. Reddy: Well, they go to a member broker and then take the terminal. And I don't think there are hedgers as such, they are definitely one of the kind of algo players.

Aman: How much will FPI be today? Is it a very small portion of business, Mr. Reddy?

P.S. Reddy: It's about INR 3,000 crores approximately.

Praveen DG: Turnover, total.

P.S. Reddy: ADT, yes, that's right.

Aman: Including options, which is both put together, right?

P.S. Reddy: Yes. Mostly options.

Nicholas: Mr. Reddy, are we seeing -- you launched this Category II, have we seen any notable uplift in volumes?

P.S. Reddy: We've just launched a week ago, and I think they have to register also, the registration process is on. And I'm sure you will see in the next 1-month, the impact of it. That's what my expectation is.

Nicholas: Right. So, the demand is strong.

P.S. Reddy: That's for FPI Category II.

Aman: There is also Category III, right, in that we are launching for FPI?

P.S. Reddy: I mean the requests have come for FPI I and II Category.

Aman: In this FPI Category, Mr. Reddy, where this DMA terminal, this was -- this is the same one, right? Or is this a different facility?

P.S. Reddy: DMA is given to FPI I, and the FPI II also is being given. It is the direct market access and where they're -- I mean, they don't need to go -- they will go through the member broker, but then this is a seamless integration with members.

Aman: Got it. Okay. That's very helpful. Nicholas, anything else on the revenue side or like volumes that you want to check.

Nicholas: Maybe just a quick understanding for me is on the FPI Category II, do we expect like a different type of -- is there like different characteristics, with these new type of institutions or foreign...

P.S. Reddy: FPI Category II are essentially the individual high net worth individual, corporates, maybe family offices, et cetera, they are covered, and many member brokers have been looking forward to that category to be introduced and which we did it just last week, last Monday. And I think it will take some time, as I said, it would take some time.

Aman: All right. Very helpful, last question on just this new development on the regulatory fee that we have been asked to pay. I know the number is probably not as large, but what has been the reason that this clarification came now, and do you think that in the – like, how does that impact our recurring earnings stream so far?

P.S. Reddy: So, as you have seen, like you pay 10% to CME. So, you pay some fraction of it to SEBI on the notional turnover. I think that's the way it is. And in order not to let people to imagine what that impact will be on exchange; we have given very clear numbers in our press -- or rather upload and the BSE. So, I think -- I mean, it's very clear, there's nothing much we can do about it. But, the company, we are placing this before the Board at its meeting, next is scheduled soon. And maybe then they will take a call on it what to do, how do we approach on this. That's why we have said that it is being considered by the exchange.

Aman: Okay. That's very helpful. Mr. Reddy, I think and Mr. Bolar, now software transition is done, how do you think about dividends, any kind of view on that, the fact that it is largely fixed fee in terms of software expenses now. And there's no major CapEx probably going to come. Is there any view on like tight increase in dividend as a dividend payout ratio and so on that you guys are thinking about? Or the Board will take a call?

P.S. Reddy: See, currently, it is 75%. And every time we are fully giving out. I mean, there's nothing is kept with us, which is the policy and going forward, also, my personal view is that I'm sure Board will adhere to the policy, whatever that be, where the 75% will become 90% or 20% is a different matter. But I don't see that is going to be changed going forward, 75% going to be there. That's what my understanding is.

Aman: So, this is very helpful. I guess, Nicholas, is there any other thing that you want to check with the team?

Nicholas: Maybe just quickly on this CME contracts. We pay them 10% of transaction revenues, right? And I was just wondering if there's a possibility that this would change in the future? Like what determines this rate and is there potential that it will change?

P.S. Reddy: It's about CME, -- you're talking about CME rate, isn't it? I don't think that will change. It will remain like that. Its volume driven. That's it.

Aman: And it's also only on crude or natural gas, right?

P.S. Reddy: On energy products, let us say, going forward, some other product which is traded on CME is considered, that also get add and indices are also added.

Praveen DG: It is only for the energy…

P.S. Reddy: Energy. Only for the energy obviously.

Aman: Got it. This is super helpful, Mr. Reddy. I think, Nicholas anything else that you want to check on? Net worth income or net worth balance that you want to check -- or do you have those numbers? How much is net worth cash right now?

Naresh Bhuta: So, it is 1,550 crores...

Aman: Net worth cash. And the remaining cash, like total cash?

Satyajeet Bolar: And if we include the margin funds, that would be another 1,000 crores as on 31st March. So that would be another 1,000 crores. That's a part of CCL.

Aman: Okay. I think one last question I had on the numbers. How do we think about SGF, Mr. Bolar. I think I know for 2 quarters, we had SGF contribution because the open interest went up. Now I think if you look at it in last quarter, despite great growth in option volume, and I'm not able to understand how do I find open interest, but it seems like at least in last quarter, we didn't have any SGF contribution. How do we think about in the future? On a broad basis, do you think as we grow revenue, especially option volumes will keep increasing? And in some quarters, we may have it, in some quarters we may not have it? How should we think about the recurringness of SGF contribution and the rate at which you have to move these contributions?

P.S. Reddy: See, yes, it's all flowing out of these stress tests results for the MRC that is a minimum required capital contribution, that is the SGF. Now there is some tweaking has been done as provided by SEBI in terms of whether future prices to be considered or spot prices to be considered for these calculations. So obvious, futures is more relevant. So that has been considered. So, some kind of headroom we have got it. And that's how we have reduced the margins. If you look at the -- some actual margins imposed in crude, NG, and other things, they have been removed.

As a result of which the margins in the open interest may increase and which is increasing, it's almost 65,000 crores, it was recently. Now with the increase in open interest, obviously, SGF requirements increase. But here, what I want to say is, if you contribute to SGF and the income earned on SGF is anyway, it is tax free. But at the same time, we will be able to reduce the margins so that we can get more volume. So, these 2 may help us or reinforce each other in terms of bringing additional volume to the exchange. At the same time, the interest income will remain in SGF.

Aman: Sir, on the -- you said you will be able to reduce margins. Can you reduce margins further? Like is that an ongoing thing that we'll keep doing...

P.S. Reddy: If we have more headroom or more SGF money, then we can reduce margin. It is coming in the way of this particular reduction in margins.

Aman: Okay. So, this is very helpful. Sir, anything else in terms of either interoperability of exchanges or common margin across the exchange that you think is going to happen sometime in the future.

P.S. Reddy: Interoperability in a limited sense of margins being kept wherever they are, but then transferring to the other exchange is something which we are pursuing it. There is the industry standard forum also is pursuing it. And so, after the equity exchange is shut, maybe I don't need a physical receipt of fixed deposits or bank guarantees and other things, but a lien on the balance amount which is lying out there can be created in CCL, so we can trade commodities, okay? And the next day morning, we can release it if there is any balance. So, this can always happen on a daily basis. That is something which you are looking at.

Aman: Got it. This is very helpful. I think I don't have any other questions. Nicholas, anything last that you want to check.

Nicholas: Maybe just a quick one on -- if you look globally, we see some -- many exchanges have a more diversified revenue base coming from the likes of data and indexing and other technology solutions. So, I was wondering now that the software -- or new software has been implemented? Are we thinking about maybe going that route of introducing more of those type of income streams?

P.S. Reddy: Well, while the data feed vending is one stream of income, but that's not going to be very big in the case of MCX because we have only that many commodities, maybe 15, 20 commodities, unlike equity markets, they may be getting a good amount of money from data feed of vending also. So, we may not get so much like that.

But having said that, introduction of more and more new products is the only way forward for us to diversify our business. And so, diversification in that sense, can happen by product wise, but not outside the exchange trading platform. The way that we are maybe looking at is outside the exchange trading platform, but that may not happen. Limited chances are there.

Aman: This is very helpful. Thank you so much, Mr. Reddy for making time. Thank you, Mr. Bolar. Thank you, Mr. Praveen. We look forward to staying in touch with the team and thank you so much for all that you guys have done for the business. Really, really appreciate it. Thank you so much for making time.

P.S. Reddy: All the best, hope to see you some time. Thank you.

Aman: Thank you.