MCX/SEC/2013 February 04, 2022

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

Ref: Scrip code: 534091 Scrip ID: MCX

Subject: Transcript of the "Earnings Conference Call" with investor(s)/analyst(s) on Q3 FY-2022 results.

Dear Sir,

Please find enclosed herewith transcript of the "Earnings Conference Call" with investor(s)/analyst(s) held on Monday, January 31, 2022 at 4.00 p.m. IST on Q3 FY-2022 results.

Kindly take the same on record and acknowledge receipt.

Thanking you,

Yours faithfully,

For Multi Commodity Exchange of India Limited

puri ajay Digitally signed by puri ajay Date: 2022.02.04 11:58:21 +05'30'

Ajay Puri
Company Secretary

Encl.: As above

“Multi Commodity Exchange of India Limited Q3 FY 22 Earnings Conference Call”

January 31, 2022

Disclaimer:

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

This document may contain “forward-looking statements” – that is, statements related to future, not past, events. In this context, forward looking statements often address our expected future business and financial performance, often contain words such as “expects”, “anticipates, “intends”, “plans”, “believes”, “seeks”, “should” or “will”. Forward-looking statements by their nature address matters that are, to different degrees, uncertain. These uncertainties may cause our actual results to be materially different that those expressed in our forward-looking statements. We do not undertake to update our forward-looking statements.

"Multi Commodity Exchange of India Limited Q3 FY-22 Earnings Conference Call"

January 31, 2022

MANAGEMENT: **MR. P. S. REDDY – MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER.**
MR. MANOJ JAIN, CHIEF OPERATING OFFICER.
MR. SATYAJEET BOLAR – CHIEF FINANCIAL OFFICER.
MR. PRAVEEN D G – HEAD, INVESTOR RELATIONS.

Moderator: Ladies and gentlemen, good day and welcome to the Multi Commodity Exchange of India Limited, MCX Q3 FY2022 Earnings Conference Call. As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. On the call we have with us Mr. P. S. Reddy, Managing Director and Chief Executive Officer; Mr. Manoj Jain, Chief Operating Officer; Mr. Satyajeet Bolar, Chief Financial Officer, Mr. Praveen D. G., Head Investor Relations.

I would now like to hand the conference over to Mr. P. S. Reddy. Thank you and over to you sir.

P. S. Reddy: Thank you so much. Good evening, everybody welcome to this investor call for Q3 and as you have noticed it our ADT this quarter is not as much as we thought we should be able to do that. The only silver lining is, that options contracts are doing well. And we also started charging on options contract. As a result, we made about Rs.10 crores in this quarter. And probably the trend will continue and the new contracts are being introduced very recently, we introduced in this month, what you call NG, natural gas options contract that started doing well. And in the initial one week itself, the volume clocked almost 230 crores. And going forward, that is another product that we can look forward to.

And during this quarter, some maybe one or two, three regulatory important changes have taken place. One important thing is our crude palm oil contract has been suspended along with other contracts on NCDEX. And actually, we are almost getting about 350 crores of average daily turnover, and it's doing well. And SEBI also approved an options contract format, which we were to launch in the month of January. And we were expecting good rise there because of volatility in the underlying contract or underlying commodities.

Unfortunately, as you are aware that the price determination is not taking place on MCX, it is in Bursa Malaysia almost 98% of the product is imported, and we have no control on it, yet there was a clamor for it. So, that led to suspension of the contract along with other products, and especially the edible oil contracts. Without much application of mind, I would say this. Unfortunately, it takes time for us to get it restored, it's easy to suspend, but it takes a lot of time to bring in liquidity, restore confidence of the investors in this contracts, that is a big challenge for us even if it is restored. That's one important thing that has taken place.

Other thing of course, it was implemented from 14th or 15th of January, but the peak margin applicable circular which was applicable till 5 o'clock in the evening has been made applicable till 11:30 or 12 midnight, till our contract, till our markets work. As a result, in addition to up to 5 o'clock whatever peak margin calculations that we are doing and submitting to the member brokers for collection, we need to do it beyond 5 o'clock also. So, that has also removed some operational leeway that was some brokers were enjoying maybe after the 5 o'clock. But this is an important development that has taken place.

The third important one is that segregation of collateral among the various segments of the exchange, so we need to segregate it with respect NSE, BSE, MCX, how much collateral a client has given that has to be uploaded on the exchange platform. It adds to a lot of compliance but otherwise, it doesn't in my view issue much of any transparency. Yes, as long as you know how much total money has been given to the client, that's good enough, don't need to earmark, which exchange, what, et cetera. And that takes away some operational leeway or added some work, but then whenever that collateral is shifted from one exchange to another exchange or one segment to another segment.

These are the three important things that have taken place. Apart from it, of course SEBI has come out with the spot bullion exchange, domestic exchange guidelines. And since we do not have a trading platform immediately, our board has decided that we will have it developed, maybe TCS will only develop using the existing platform which they are developing for the CDP, that is Commodity Derivatives Platform. Once the build is given for testing, of course up to drop two they have delivered and the testing is going on. And maybe that stabilization will take some more time. However, post that they will take up the various platform and develop it as a spot platform.

Having said this on the international bullion exchange, the developments are very good. And government has issued a notification probably you're all aware that, any jewelry company who is in the business of jewelry making or jewelry industry, if they have a net worth of 25 crores and 90% of the business is in the bullion, they are directly allowed to import via international bullion exchange. So, many have shown interest and many applications were receiving it and that is in a sense disintermediation, currently there are 20, 25 canalizing agencies. So, now, people don't have to import via those catalyzing agencies they can directly import from these international bullion exchange, you are all aware that we have about 20% stake there on all exchanges, MIS have put up this BSE, NSE, CDSL, NSDL and MCX. So, this is another development that I must share with you.

Then in terms of client participation, et cetera, yes, we are more or less keeping that client participation as last year because many are moving towards, what should I say, towards options contract and there the number is increasing and we are hopeful that we will be able to shift the focus from futures to options. That doesn't mean that, futures is not something that's not worth pursuing it. But considering some of the margins that are there, clients are choosing between the two. And wherever there are high margins are there may be options are better for the investors to pursue. And that's how it is happening at this point in time. So, Mr Bolar you would like to update few on financials and thereafter we'll keep it open for questions and answers.

Satyajeet Bolar: Okay, thank you, sir. Dear, everyone this December quarter as compared to September has been better as MD said, we have started charging on options. The top line has increased by 5% and we have been able to keep our cost under control which you have been able to see from quarter-to-quarter. And thanks to that, we have a profit of around 6%. So, when we compare to September 21, we are marginally better, which is good sign for us. And more importantly, we have kept our cost under control and we have started charging in options. So, going forward, that's a positive trend that we see. Now, we leave it open to question and answers. Thank you.

Moderator: Thank you very much. Ladies and gentlemen we will now begin the question-answer session. The first question is from the line of Mohit Kumar from DAM Capital. Please go ahead.

Mohit Kumar: Sir, three questions. Firstly sir, what is the status of electricity derivative contracts? We have heard that there is a committee which has been set up by SEBI is it right and what is the kind of timeline we are looking at for launching this contract?

P. S. Reddy: Go ahead, all three you can ask me I am noting down and we will answer.

Mohit Kumar: Can you please explain once again the peak circular which you said that it has to work beyond market hours. How does it impact the margins and is there adverse impact of this on this current quarter and when was it applicable, from which date? And thirdly is on the spot bullion exchange, pardon my ignorance but can you launch this in the current form or do we need to set a separate bullion exchange and what is the criteria for setting up this bullion exchange or what is the kind of timeline we are looking at for launching this, these are the three questions. Thank you.

P. S. Reddy: Thank you. See on the electricity derivatives, there is a joint committee or a working group of CERC and SEBI has been set up, under the agreement signed with, filed with the Supreme Court. So, they have set up a joint committee and they are the ones who have to evaluate the contract specifications and accordingly they have to take a decision. Pending that, we are organizing a lot of awareness programs both from European what you call participants some of them who are in the industry. And European exchange also we have already done that and we have also done with just a week before, U.S. Energy Department has conducted a program where we all participated and the state regulators are also there electricity regulators to all of them. And IEX has also participated. So, the ecosystem development is going on, but parallelly our application is still with SEBI and I can't put a timeline, but we have been chasing them constantly to give approval for electricity derivatives, this is one part of it. The peak margin application.

Now, despite peak margins what it does is, daily we take five times snapshot and at that time, what is the open interest of the clients and what is the margin collected by the broker from the client and if there is any shortfall obviously penalty will be levied if the margin is sufficient no problem. Now, instead of giving five snapshot we will be giving eight snapshots, probably you're aware that some of our contracts are international prices stay track like your bullion as well as the energy contracts. So, there mostly had to post 5 o'clock, 6 o'clock trades. So, even if I have, that's only that we will be giving the snapshot for those clients, but not for those clients for everybody at that point in time, that is at 7 o'clock, maybe 9 o'clock and 11 o'clock or something like that, there are some timings up there. And accordingly the margins are to be collected by the brokers. Earlier this was not the case, if they have complied by 5 o'clock that is done, point number one.

Second, the argument that we have also advanced is, if I have entered into a contract at 5 o'clock I have hedged my position and I am done, I paid fully the margin, I go to bed, but then if the prices move up maybe at 8 o'clock, 9 o'clock then the brokers will call me and then ask me to give additional margin because the valuation has gone up, open interest valuation has gone up and I need to bring in additional margin. Although the position may be in profit by the way still I have to pay margin because 10% of the open interest value is what is counted and as accordingly one has to bring in the 10% or whatever is the margin that is applicable for that commodity. So, that is applicable from 14th or 15th of January, Mr. Praveen you can correct me. As of now, we have not seen so much of impact, but I'm not too sure about it at this point in time how much it will impact, but definitely it is a negative characteristic for trading in the exchange and mind you, we are the most active exchange in the post 5 o'clock with other exchanges almost all nil trading they have it and this is one part of it.

Coming back to the bullion spot exchange, that is domestic exchange I'm talking about. SEBI has come out with a option for anyone to go for a separate exchange if you have to go for a separate exchange. Separate exchange will have the same conditionality's like no single entity can take more than 15% and only certain entities are allowed to take 15% rest are all up to 5% et cetera, et cetera. Now, if within the exchange segment, like you have a current sub segment in NSE, BSE or like that if you want to start as a separate segment, probably you need to have a separate by laws or separate membership, but you don't need to have a separate net worth requirement and separate what should I say, the boards and all attending cost associated with it. So, we are planning to have only a separate spot what you call a segment. Now what is the timeline, we are looking around September is a framework that we are looking at, but it is only tentative we are not as yet formed it up, because work has just started and SEBI has come out with it's regulations just about 10, 15 days ago.

Having said this, I must also say that it will be traded in EGRs Electronic Gold Receipts, now there is a what you call, that is treated as a security but once you start taking delivery then it GST is applicable. So, there are certain GST challenges that needs to be addressed and government is not able to address as yet. SEBI is pushing with the GST Council, et cetera and that is something which will take time. So, that is why we are hopeful it will not immediately pick up even if there is some head stop delay, that's what we are looking at. Thank you.

Moderator: Thank you. The next question is from the line of Devesh Agarwal from IIFL Securities. Please go ahead.

Devesh Agarwal: Sir, just wanted to understand there were some talks within the margin requirement also, the different components that are there in terms of BG cash and others, there may be certain limit and the cash component can go up significantly from Feb onwards. Is that correct and if that happens, would that further impact the volume, what is your assessment on the same sir?

P. S. Reddy: There is already a limit is there, the other cash and cash equivalent cannot be less than of certain percentage, the securities component it cannot be 100%. Securities can be with haircut can be only 50% of the total margin given, et cetera. That system is being put in place, that is also there to some extent already in place, but the bifurcation for exchange wise, segment wise is not there. So, what the issue will be, if one client has given them more cash and some other client has given more security although we consider broker, whatever the broker gives me as the collateral for me, because that is not transferred to me the clients' money except securities which are pledged. I have to apportion, brokers have to apportion, how much margin limit has to be given, subject to those ratios that is cash versus non-cash ratio. So, that is adding complexity to the entire operations and the SEBI that is implementable from 28th February. That is something which is work in progress and we have also discussed with SEBI, it's to only complicating the issue. So, let us see what will happen, I am sure broking industry also is represented collectively on this.

Devesh Agarwal: Okay. Just to understand it better, currently the cash component will be under 10% for the total margin requirements and that can increase to say 40%, 50%, is the regulation go through as it is?

P. S. Reddy: That is what I'm saying it, currently we are taking only from the member brokers. We don't take directly, so we don't manage client collaterals at our end. So, it is the broker who has to collect the margins. So, those ratios will alter. We don't' take clarity from the brokers or from the clients.

Devesh Agarwal: Right sir. And in terms of the operating expenses during the quarter, is there a certain element of expense towards TCS in the software charges because the number looks slightly higher than what the formula would have given out to be, any expense for TCS?

P. S. Reddy: No, there are some expenses, no doubt about it. But, what some of the expenses are, what should I say one of expenses in the month of December, November we have incurred Mr. Bolar you can explain whether.

Satyajeet Bolar: I'll explain. We had certain building repairs in the premises so we had one of the expenses, also there were some marketing expenses which we incurred that's why there's a slight increase in our expenses and there's nothing that's extra that we had pay to anyone in connecting software or anything like that.

Devesh Agarwal: Understood. And sir can you quantify this one-time expenses on a overall basis?

Satyajeet Bolar: Around less than a crore.

Devesh Agarwal: Okay. And this migration that we are looking for is from September onwards. So, you said that the testing's are in progress. So, are we on track to migrate to the TCS platform from September onwards?

P. S. Reddy: As of now, yes. That's what the confidence TCS gives it to us.

Devesh Agarwal: Okay. And sir how much have you spend on this contract so far?

P. S. Reddy: I don't think we are giving out those numbers as of now, that's the way. Because it is hardware cum software, we have already acquired the hardware. And, some software has got some phases accordingly, we will be paying and yes, that's the way it is at this point in time.

Devesh Agarwal: And last one sir, the other income looks slightly lower are there any end-to-end losses or anything in the quarter in treasury?

Satyajeet Bolar: Not really. I will take this Mr. Reddy. As we discussed in last meeting, we said that we have some tax-free bonds. So, we have exited fully from tax free bonds and we have packed it temporarily in short term and ultra-short term mutual fund scheme. And in December, the yields had gone up, the tenure yield has gone up. But there is no loss that we have booked.

Devesh Agarwal: Okay and the tax adjustments are likely to be done only in 4Q. So, for the first nine months, we have not done any tax adjustment towards MAT?

Satyajeet Bolar: No. So, as we mentioned in the earlier, whatever adjustments were to do, we will do it in March, but since we're sold.

P. S. Reddy: On MAT credit, and the long-term losses, we have almost all exhausted all that. Maybe we will maybe moving into a different tax rate now.

Devesh Agarwal: Sir, for FY22, the effective tax rate will be as real guidance was around 18%, do we hold that guidance so there will be guidance for effective tax rate for FY22?

P. S. Reddy: In the last quarter there could be some change. That's what I can see. Mr. Bolar, he is asking what will be the effective tax rate, will it change in the fourth quarter or last time you're given a guidance of about 18% is the effective tax rate whether that holds good, that's what he is asking?

Satyajeet Bolar: It will be a bit more than 18%, because we have exited from tax free bond

Moderator: Thank you. The next question is from the line of Sanketh Godha from Spark Capital. Please go ahead.

Sanketh Godha: Sir, just wanted to understand out of the total volumes what happened at the exchange, what percentage of the volumes happen on an average during evening 5 o'clock to 11:30 where now the new peak margin rules are getting implemented. So, were probably it was no impact in the past? So, can we see some margin volume downwards or if we can quantify what percentage of on an average volumes happened during those hours compared to the entire day?

P. S. Reddy: See, we used to have about 50:50 to begin with. Prior to first session is 50% and second session is 51% something like that, 49, 51 like that and subsequently it move to almost all 55, 45 kind of thing, 45 in the morning and 55. And now again coming back to maybe 50:50.

Sanketh Godha: Okay, got it sir. And what will be our average realizations in the options contract in future it is Rs.2.07 per lakh, then in options will it be closer to Rs.450 as per the premium turnover?

P. S. Reddy: As far as the premium turnover will be Rs.45 or Rs.50, Rs.45 is average you can take, Rs.45 rupees per one lakh of premium. Praveen you can correct me.

Praveen D. G.: Yes, sir that's right it is between 40 to 50 at an average you can take it as 45.

Sanketh Godha: Okay. And sir just asking a very fundamental question, whatever growth we are seeing in the options is probably at the expense of futures and in futures the realization for the same ADTO is far superior compared to the options because the way we charge on premium turnover instead of total turnover. So, honestly if that is the trend or that is the new reality then options volume ideally should be growing at multi-x levels compared to what we are seeing now. So, that it becomes revenue neutral. So, just wanted to understand your view on this basically given in options we charge a premium not on the ADTO in that sense?

P. S. Reddy: You are absolutely right in the previous meeting also I said, 1:3 ratio this follows, now three times of turnover in options will be equivalent to one time of futures turnover, that's the way it is. So, currently we have 10,000 crores of ADT last year's turnover. That is equivalent to 3300 crores of futures turnover, whatever the futures turnover of 3300 crores comes out of that is equivalent to 10,000 crores of options turnover. So, we need to ramp up the options, volumes. So, if it is 30,000 options volume then we will get it as good as getting 10,000 crores in futures. And my view is, options are going to pick up. It is happening and we are seeing more and more participants brokers and algo are coming into this.

Sanketh Godha: So, currently the mix is 80, 20. 80 is futures and 20 is options in ADTO terms. So, we can assume that, but in a year or two years period it will be more like 50:50 so that it becomes revenue neutral or you're very confident that 3x growth in the future options is that going to sustain going ahead also.

P. S. Reddy: So, that's the way I look at it. That's what our efforts are all towards to.

Sanketh Godha: Okay, sir. And finally on the spot bullion exchange. So, sir basically we need not apply for a separate thing with SEBI, whenever the spot bullion exchange starts, we will start it as a separate segment. So, only product approval is needed from SEBI, nothing more than that. And it is true for every exchange maybe like NSE, BSE if they want to follow the same approach the way you're trying to say sir?

P. S. Reddy: They too have to apply for a segment approval not just a product approval, segment approval also. But our segment will have its own byelaws, segment will have its own what you call membership.

Sanketh Godha: But sir does it mean that, there will be more than one exchange operating in the spot bullion exchange too?

P. S. Reddy: Could be.

Moderator: Thank you. The next question is from the line of Sameer Dalal from Natverlal & Sons. Please go ahead.

Sameer Dalal: So, my question is regarding this change in software that's happening to the new TCS software from September, wanted to understand we've discussed this in the past of course, but what kind of savings per quarter or can we expect once we do this, once the shift happens?

P. S. Reddy: See, currently there is a what you call a transaction linked revenue sharing that is still in play. So, that is done away with it, point number one structurally speaking in terms of contracts. The second one is, it is a fixed for a period of six years. So, whatever we have entered into agreement that is for a period of six years, one year is warranty and the rest of the five years is the contract. And thereafter, we have to pay an AMC, which is less than it's a single digit figure. That's what I've been saying.

Sameer Dalal: No, this single digit figure is per quarter you're saying?

P. S. Reddy: No, single digit for the entire year, per annum.

Sameer Dalal: And that will be after the sixth year?

Satyajeet Bolar: After the first year.

Sameer Dalal: So, what is the total investment that will be going into this entire hardware plus software which you mentioned, and of course that will be depreciated, but if you can just give us some thought process on this, like I said it will be single digit it could be 6, 7, 8, 9, I don't have a number. So, if you could just give us some particular. So, we can try to decipher what can?

P. S. Reddy: The contractual obligations do not allow us to reveal the numbers, honestly. Probably as we go along when we start depreciating you will see the number coming out.

Sameer Dalal: Okay. Now the other point you were discussing about the turnover criteria that three times the turnover of the options is equal to one time that a futures correct, on the revenue front. This is on the daily notional turnover, not on the premium turnover, if I'm correct?

P. S. Reddy: Yes.

Sameer Dalal: Okay. So, at the moment, if we are doing about 8600 crores of turnover which you did in Q3 on an average basis on the option side, that you're saying is roughly equal to about say 2700 or 2800 crores worth of futures contract correct?

P. S. Reddy: Yes.

Sameer Dalal: Okay, that's one clarity and you said that you are of the view that options contract is expected to grow. But if that grows, do you think that could hamper our futures contract also on the negative side, because like we discussed that debt is cannibalizing to a certain extent the futures contract as well right?

P. S. Reddy: No, there are one set of players who write options, there is another set of players who bought options. Now, the retailers mostly are on the other side, the writers need hedging also instrument. For the writers the hedging instrument is futures. Have I made myself clear, for writers options might also need to hedge themselves and for them, the hedging instrument is the futures contract?

Sameer Dalal: So, you are saying overall you are expecting a growth in both sides if the option contract growth**?**

P. S. Reddy: That's right.

Moderator: Thank you. The next question is from the line of Aman Shah from GB Investment. Please go ahead.

Aman Shah: Sir my question is, we earlier were actually talking of settlement guarantee fund where to and fro of funds is not yet allowed. So, we had to actually when times of high volatility is there we have to increase margins because withdrawal of funds from SGF was not in a way along. What's the situation there sir?

P. S. Reddy: Very good question, I really appreciate this focus of it, you're absolutely right. SGF has become a constraint for us. And we are willing to contribute as long as we are allowed to push in and push out the funds as in pump in pump out the funds as needed. Now, just on 27th December, we had a risk management committee meeting in SEBI where the working group of exchanges has made a presentation and it's report. So, with that report, the SEBI is considering it, the risk management committee wanted SEBI to give its views in the next meeting and thereafter, we will have the final decision on that will be taken. But otherwise currently we have 510 crores of SGF and our contribution is almost all 400 odd crores and 400 crores both

MCX and CCL contribution and the rest is all penalties which have been occurring over the several years, is what it is.

Aman Shah: Okay. And post that effect actually leads to a favorable thing for us, this is positively of volumes because we can get change in margins.

P. S. Reddy: We can reduce the margin in crude oil contract currently, it's about 24% we can bring it down to 10%, whatever is the minimum initial margin required. So, is in gold, we have additional 2% margin extra. But now the natural gas options are increasing and even the option position also require more SGF cover as well.

Aman Shah: Okay. And second is sir on this domestic spot bullion exchange. Basically just want to understand how does it, like the disintermediation that we will be doing here which participants we will be serving first thing. Second is, what will be our advantage compared to the physical spot bullion market right now and mainly the disintermediation benefits that will be there which will be passed on to participants and like just, how big the potential is and how much can be actually captured?

P. S. Reddy: As the domestic spot exchange, there is lot of non-transparency in transactions that are taking place in domestic physical market. Now, with all get eliminated there are many people who prefer transparency, there are many people who want accounting to be done properly and there are many investors who wants a quality stock to be received by them and et cetera, et cetera. For example, a lot of investors want to collect, take the gold in small denominations and then save and at the end of maybe accumulation of 500 grams or a kilo probably they want to take delivery of the jewelry for post making. So, they can transfer it seamlessly those EGRs and make the payment of GST as well as the making charges. So, today, whosoever is going round in the zaveri Bazaar's of the country, they all will be flocking towards to this exchange platform.

Number two, even in many small towns, they go to jewelry shop and they don't have any guarantee of the metal that they are getting, they are not sure of the quality, whether it is 24 karat or it is still lesser, et cetera. So, this will really help in bringing or integrating this non-transparent market into a transparent market. This is a major development.

The third which is equally important is, might is right is the kind of thing is also there in this market and big fish eat the small fish kind of thing, but when they come on to the exchange platform all are equal, transparent pricing and smaller jewelers and small bullion people also can buy it on the exchange, take delivery and be happy about it. Having said this, there are also arbitrage opportunities that will emerge. Currently that arbitrage opportunities are not facilitated through an institutional mechanism, the spot exchange versus the futures exchange that we have will have a lot of synergies between the two platforms.

Aman Shah: Okay. So, basically what we are saying is like, apart from all the qualitative part where the quality is there, transparency is there and arbitration benefit will be there which will be a main quantitative benefit of this disintermediation. Would that be the right assessment of it?

P. S. Reddy: Yes.

Aman Shah: Okay. And what are the regulatory roadblocks in this, one as you said of the EGR when it is delivery is taken the GST is an issue?

P. S. Reddy: What, I am saying is I am the one who imports gold and I convert into EGR, again I sell it in the market. Now this EGR being a security the other party which is buying doesn't pay any GST and right up to the chain. But the guy who first time de-meteralise he needs to get his GST credit, isn't it because he paid GST and then brought it. But now if the end party takes delivery or takes out of the vault after one year, then the payment of GST will happen only after one year. Will the first party wait till then, my answer is no. So, there must be some solution for the first party which is depositing the gold initially to get the benefit of GST, the moment they sell it in the first time on the exchange.

Manoj Jain: Reddy sir I'll add one more point for Aman.

P. S. Reddy: Yes.

Manoj Jain: Aman, see your query on spot exchange and its future potential. This is Manoj Jain this side. So, yes you're right see in India, it is getting launched first time. So, naturally you would want to understand that what are the nuances, what parameters, how it will pan out. So, to give you a very easy and readily available information, you can look at China, China has a very well thriving spot and futures market on gold. And as you know, we are so demographically related amongst the largest consumers, importers of gold. And obviously, in India also government is very keen to grow this market which is again a similar thing which happened in China. You can look at their past history, they are amongst one of the largest exchanges involved on spot trading in gold. And we expect that you will see a lot of similarities in our growth cycles also in India, it will be a huge and it is available on web huge data trends over the last few years. You will get wealth of information there. Thank you.

Moderator: Thank you. The next question is from the line of Sri Karthik from Investec Capital. Please go ahead.

Sri Karthik: Sir, if you could speak a bit about the operational issues that you will have to go through for making the technology transition, and what would happen in the event of any delays with respect to timeline involved here. Thank you.

P. S. Reddy: So, at this point in time, we are not envisaging any delays at this point in time. And, we are confident, the TCS is confident and they are assuring that they will deliver it. So, we have not, debated that hypothetical position and, MCX has the right to use the software. The current software, perpetual license that we have, we may not be getting the support. That's one way of looking at things. But yes, that is the way it is at this point in time. We don't expect to overshoot the timelines.

Sri Karthik: And is the mock testing already taking place?

P. S. Reddy: As, I just said the drop two has been delivered and the testing is going on. And we are engaging with all the vendors. The back-office vendors who provide solutions to the number of brokers, we are actively involved, file formats have been released and the API is based obviously all of them have been released.

Moderator: Thank you. The next question is from the line of Mohit Kumar from DAM Capital. Please go ahead.

Mohit Kumar: So, how is the option trading compared to futures trading for the other international commodity exchanges, if you can comment on that. We see that options volume is picking up only for energy, do you think option volume for bullion or other materials will pick up in the near future?

P. S. Reddy: Yes. See on the options internationally you're absolutely right, they are not great. And peculiar to India, even in equities you're seeing how the option contracts have been doing maybe several times with a multiplier they are trading. So, the same trend is being witnessed in India also. So, that is the reason why we are more in line with what's happening in equity markets. Now, coming back to the gold and silver, why they are not doing well. We are amending these contract specifications, currently the gold contract one kilo tenure is bimonthly, and it's long. So, as a result, the premium is also very large. Now, because these are options on futures, they devolve into futures contract before the underlying is expiring. So, we have just had a product advisory committee meeting, where we are breaking it into two contracts. Of monthly option contracts, which will devolve into the underlying futures contract. So, it's a March, April contract. So, futures contract is a bimonthly, but one options contract will expire in the end of March, another option contract will expire at the end of April.

As a result, the premium may become off then what it is currently, so we are making an application to SEBI after getting the necessary regulatory approvals within the exchange. We just had last week the product advisory committee, which has approved this change. So, similarly, we have also got an approval for introduction of 100-gram gold, option on Gold Mini. So, earlier, we had introduced option on goods on the 100-gram gold, but that didn't take off. Now we are making it option on futures rather on goods. So, these two, we expect to go well and that will pick up the other contracts.

Moderator: Thank you. The next question is from the line of Amit Chandra from HDFC Securities. Please go ahead.

Amit Chandra: So, my question is on the institutional participation. So, we have not seen that actually going up and also on the index on volumes. So, the institution index volumes are somehow linked because the index is actually cash settled. So, what factors you think that it will actually boost the institution participation and also the index options, index futures contract, because if I see index options is a product which is very popular in India.

P. S. Reddy: The institutional participation, yes, it is coming in bits and pieces, that is something which is been on the top of our mind and we have been working with the most of the mutual funds. One is that, not every fund is taking delivery of our participating on the exchange by taking exposure for a part of the gold or gold ETFs that they have. The reason being, there are two three reasons, which we have already addressed to SEBI asking them to understand this. Under the extent whatever regulations or something what all they have; they're supposed to have LBMA approved gold only. Now, we have introduced the India good delivery gold also that's what the government wants us to do it, we have done it. So, the custodians are having reservations of taking delivery on the exchange platform, the reason being, that they may end up getting India good delivery standard but not LBMA. So, that requires a change which we have addressed to SEBI. Similarly, on recently after lot of effort even from outside also silver ETFs were permitted, a lot of mutual funds have already opened NFOs, some are yet to close. So, these funds are looking at this point in time what SEBI circular says is, it must be a 30 kg bar. Now, in the case of silver, it may vary about 2.5% plus, minus there is a tolerance limit. It will not come in 30 kgs exactly, the weight keeps wearing it. So, we have represented to SEBI please amend this regulation don't say that they should get it only in 30 kilo bars, it could be plus or minus what are the tolerances as per our contract specifications filled.

And one more thing is that some of them as I explained, don't have even set up a desk for commodity which they consider it is an expensive thing at this point in time, because they are not into commodities. And that boarding is happening gradually and probably by in the next maybe six months' time, we should be able to see some more greater degree of participation. And probably if the FIIs join as SEBI is decided to permit, probably institutional participation also will pick up is our view.

Amit Chandra: And sir on the index side what factors will boost the index volumes, based on the index option side?

P. S. Reddy: Yes, one is that on the index volumes the open interest limits are just 1000 lots, now 1000 lots versus the underlying contract 17 times, I repeat 17 times for example, gold underlying you can have 17 times more than what you can take in index contract. So, we have represented to SEBI there are times where the people have already exhausted the 1000 lot limit and so, please expand this because they need a minimum what to call, volume size and unless the volume increases, unless these limits are relaxed, we will not be able to grow. So, that is where our representation is. And SEBI said we will consider and come back on that. Second, in some of these contracts especially the Energy contracts are cash settled contracts. SEBI has also introduced what you call pre-expiry margins. Now pre-expiry margins in addition to higher margin that they're doing it five days before the pre-expiry margin starts. So, that people are moved away from the contract to the next contract. Now, as a result the number of trading days are coming down, although assets their monthly contracts in a month you have 22 trading days, over and above you have a five day is killing by way of this kind of rule, the pre- expiry margins. So, the liquidity is impacting because of these regulatory hurdles.

Amit Chandra: And sir on the improved margins. So, we were expecting that to come down, but it has actually gone up. So, what are the factors which we are actually like deciding to increase the crude margins and also on the top 10 concentration of our members. So, is it coming down Y-o-Y or is it going up?

P. S. Reddy: See, top 10 numbers has by and large remained the same and almost 55 to 60%, Mr Praveen can you comment on that you have it concentration of members top 10?

Praveen D. G.: It's around 60% top 10.

P. S. Reddy: Top 10 accounts for 60%, it has been there earlier also. So, that is one part of it. Second this is the crude oil margin, primarily it depends on the open interest how it bring in, how much it will make our SGF requirement increases. So, if it increases our SGF requirement, MCX and then CCL have to contribute in the ratio of 25 to 75. And this is where I pointed out one gentleman asked one question, whether SGF you can contribute pump in, pump out the money, which we have been looking for SEBI's help in that. If that happens, we would like to lower the margin, pump in more funds, allow the liquidity to build and that's the way it is. And we don't need to show that as a permanent loss to SGF that fund can be taken back once the OI comes down or concentration comes down.

Moderator: Thank you. The next question is from the line of the Rikin Shah from Omkara Capital. Please go ahead.

Rikin Shah: So, the way I see it, domestic exchanges have never been a competition for MCX. And volumes are very sticky in a business like this. However, global exchanges where most of the corporates are hedging themselves is the customer segment for MCX, so how does MCX plan to grow, the market share overall?

P. S. Reddy: I'm sorry, I couldn't get your question clearly.

Rikin Shah: So, I'm trying to say that domestic competition has never been a competition for MCX however, global exchanges would be the real competition in a business like this. So, how does the management trying to grow the market share going forward?

P. S. Reddy: Okay. How do we increase our market share globally, okay? See, honestly we don't have an ambition to compete with international exchanges, let's be very clear. And we need to be first grow in the domestic market. There are so many restrictions within the country, which we face, but they don't face it. Be as it maybe now, if you see who all are we catering to, no international player is coming and hedging on Indian exchanges, it is just the domestic SMEs and domestic players who cannot go abroad and then hedge their positions are hedging on domestic exchanges. So, our contract size is small, for example in London Metal Exchange, ours is five tonnes, theirs is 25 tonnes. Now, obviously 25 tonnes is not required for many of the domestic players. So, that serves our contract or our markets, that smaller segment. Now once we are able to effectively cater as of now we are not able to cater to all of them, because of the nascent stage in which these hedging is taking place and many do not fully understand what hedging is, whether it means loss of money or whether it is means no loss no gain or it means gain. So, people are not able to fully assess its impact. So, at this point in time, our interest is to increase the domestic participation in these contracts and serve the purpose for which these hedging products are device. If once the domestic capability base, and more and more open interest increases, then we can look at others coming in. Now, that is where I'm looking for greater participation of institutional investors as well as what you call the FIIs who may bring in more liquidity to these counters and open interests. Then even some of the big players in the domestic market can take a look at the contract for a Hindalco's and Balcos or Vedanta were hedging in international market, be that in ICE or in CME or LME. And they say, your contract is not liquid, formal contracts are not liquid. Obviously, I can't provide liquidity I can only provide platform for them to trade. So, that is something which we are struggling with and it's an egg, chicken situation for us. And hopefully, we'll be able to address with greater participation coming through some of these institutions and FIIs and other players. Let see.

Moderator: Thank you. The next question is from the line of Aksha Vora from Praj Financial. Please go ahead.

Aksha Vora: I wanted to understand the client concentration that we have in our derivatives volume. And, like the top 10 or top 20 clients, how much of volume would they be giving us?

P. S. Reddy: I'm seeing that.

Praveen D. G.: I don't think we have it readily available. In fact, we publish it on a daily basis like whatever is position across the top 10 clients across the commodity and we don't have at the exchange level and it varies depending upon the contract-to-contract.

Aksha Vora: Okay, but like an overall idea?

Praveen D. G.: At least I don't have the numbers right now.

P. S. Reddy: You have the algo versus non-algo?

Praveen D. G.: Yes, algo is about, if we want to give that way, it is roughly 48% algo for the nine months, and 52% is non-algo. That is the structure.

Moderator: Thank you. The next question is from the line of Prayesh Jain from Motilal Oswal. Please go ahead.

Prayesh Jain: Now, this is just one basic question with regards to your existing payment to FT, till what date we have to pay them in terms of the software charges that is currently based on a formula?

P. S. Reddy: I'm sorry, whom do we pay?

Prayesh Jain: So, the software charges that we are paying right now which is going to be transitioned to TCS, that payment, currently that is being paid to the entity, that entity is which date do we have to pay them?

P. S. Reddy: That is the current software vendor, that is 63 moons providing the software how long do we need to pay?

Prayesh Jain: Yes.

P. S. Reddy: We need to pay till September of '22.

Prayesh Jain: Okay. And immediately from afterwards, it goes to TCS?

P. S. Reddy: That's right we want to migrate it much before that.

Prayesh Jain: Okay. And just one very basic question again. What could be the average premium on the options for the quarter?

Praveen DG: That number is already given in the presentation. I can roughly, I'll give you the numbers. It is about 180 crores that is the premium turnover is 184 crores versus the notional turnover of 8610 crore.

Moderator: Thank you. The next question is from the line of Nilesh Jethani from BOI AXA. Please go ahead.

Nilesh Jethani: So, just wanted to understand. So, in case of driving the volumes for the options, you are planning on the position to divide the one kg contract into 100 grams as far as the bullion is concerned, is that already done?

P. S. Reddy: No, that is not correct. We are not changing the contract, these futures contract remain as a one kilo and bimonthly contract. The options on futures, that is the option contract will be a monthly contract. So, before the expiry of the futures contract at the end of two months, there will be two contracts one will expire in the one month and next one will expire in the next month.

Nilesh Jethani: Got it. So, this will help to reduce the premium number also?

P. S. Reddy: Absolutely, then the participation will increase.

Nilesh Jethani: So, this is already done or it could be implemented going forward?

P. S. Reddy: No, we've not done it, just we had a product advisory committee meeting it requires a lot of approvals then we will take it to our regulatory oversight committees and then we have to take it to SEBI.

Nilesh Jethani: So, how long it would take?

P. S. Reddy: It might take about two months' time.

Nilesh Jethani: Okay. And are we planning to do this for other commodities also say for example, crude we have 100 barrels. So, are we planning?

Praveen D. G: Sir, just to add to that it is only in case of bullion because we have bimonthly contracts for example, if you take gold and silver they are all bimonthly contracts, but in case of crude oil already monthly contracts are available whether we wanted to go for a weekly another thing, that is, presently whatever monthly contracts they are already doing extremely good. And bullion are the ones where the participants have asked for monthly contracts, because the bimonthly, because of the duration being higher and the premium is getting higher.

P. S. Reddy: And apart from it, the value of bullion has also gone up, now it is almost 50 lakhs. So, with the 50 lakhs of contract what the premium of two months will be very high?

Praveen D. G: So, one advantage like just to add to that one, like a Gold Mini, which happened to be earlier when it was launched that time it was launched as an option on goods contract. And what we plan to do is, we wanted to come out with a Gold Mini option on futures contract because on our platform, the gold option on futures have been doing extremely good all our active contracts happen to be option on futures.

Nilesh Jethani: Got it. So, one is this time duration where we are taking it down from two to one month. My question was on the crude side, there is optionality where we can reduce this number of barrels for the options contract and again increase the volumes over there?

Praveen D. G.: One of the regulations what they say is, there are two challenges to that one. One is , the regulator says that we cannot have multiple variants, we need to have only one variant. Apart from in bullion contract, if you look for any other contracts we need to have only one variant we cannot have multiple variants. So, the current one.

P. S. Reddy: That is why we have done away with mini contracts. Otherwise, mini contracts were getting us about 30%, 35% of ADT. So, we had aluminum, copper, zinc, lead, all of them had a mini contracts, they were done away with it, we had a crude mini also, that is done away with it.

And apart from it, the options have to result into underlying futures contract. So, we can't bifurcate into a smaller one, because the under line is 100 barrels.

Nilesh Jethani: Got it got. So, what kind of volumes are you guys sensing which would be picking up because of this?

P. S. Reddy: I don't think we will give out any numbers on that.

Moderator: Thank you. The next question is from the line of Aditya Yadav from Transcend Capital. Please go ahead.

Aditya Yadav: Sir, firstly, I wanted to ask regarding the Gold Mini option you were talking about that you had certain disadvantages with the option on goods and you plan to reintroduce it as an option on the future. So, if you could elaborate a bit on that, what kind of disadvantages we had with option on goods?

P. S. Reddy: We had introduced optional goods along with LES liquidity Enhancement Scheme. Notwithstanding the quotes being given two way, the people are not coming forward because the option writers have to deliver necessarily the option, they don't have exit for them except for delivery of the goods. And the buyer also has no option but to take delivery, whereas people got used to it the futures contract.

Aditya Yadav: As a cash settlement.

P. S. Reddy: As a cash settlement and or even if they will get the extra days because the liquidity will be more here in the futures. So, they get more time to liquidate before the option expiry, option expires into futures contract three days or five days before the future expires. So, they have an option to exit. That's why the goods contract did not succeed.

Aditya Yadav: Okay. And sir good discussion we had on the bullion and the energy part. And if you could talk a bit about the base metals part also, that what are the challenges here and what are the efforts were taking to grow this market in any kind of qualitative assessment for near term, let's say 12, 15 months?

P. S. Reddy: Yes, see in the case of bullion contracts one is that we are admitting the domestic. So, in the case of base metals we are taking some of the domestic refiners bringing in so that their participation will also enhance liquidity into these products. So, that's one quick decision that we have taken and it will happen maybe next week or so, some domestic refiners in lead will be admitted. Now, the second thing is, we have introduced the multiple delivery centers in these contracts, if you look at it, some of these metals are imported. So, we need to be proximity, our delivery centers should be close to the ports. So, we have opened additional delivery centers in Calcutta and in Chennai and we have expanded them for other products also. And in the right up North in the Noida area, where there's a lot of consumption of this metal takes place, we have also introduced an additional delivery center. Now, the third dimension is that we are also looking at, we have filed for steel TMT bars approval and also for aluminium alloy, these are the two contracts that we are looking forward to.

Aditya Yadav: Exactly, and this you discussed in the last call as well that these are, you want to introduce these soon. So, any kind of timeline?

P. S. Reddy: We have not received as yet the approval, it looks as if so near but then we miss the bus that's the way it is. We are not getting them as yet. A lot of questions back and forth is raised.

Aditya Yadav: So, let's say in coming quarter or so should we expect these to come on board, these contracts?

P. S. Reddy: Yes, it is one contract, the steel TMT we expect to come in. Aluminium alloy, they're expecting the BIS to notify those specifications. Now BIS takes its own sweet time. And **CDAC** has already approved it, that if the BIS has a standard it's fine, if it doesn't have a standard then whatever MCX or any exchange suggests we should go forward and approve it that's the way it was taken, but still TMT if it comes I'm sure there we will be able to do good business that's what my hunch says.

Aditya Yadav: Okay. So, probably soon. And sir one last question I had. So, with the spot exchange the domestic one you have discussed that. The expected timeline is September?

P. S. Reddy: Yes, that's right.

Aditya Yadav: So, you plan to launch it by then?

P. S. Reddy: That's what our guesstimate is.

Aditya Yadav: Okay. And with the international exchange what are the timelines?

P. S. Reddy: That is already placed and mock runs are taking place is the government has to inaugurate it, they have to put a date and inaugurate it, that's how it is.

Moderator: Thank you. The next question is from the line of Sidharth Shah an Individually Investor. Please go ahead.

Sidharth Shah: My question is on the broader path for the company going forward, if I see the company's profit was at peak level around 2012-13 around 300 crores and we have come back with a slightly higher profits in March 2021 with 225 crore and with current run rate, during current financial year we will do 150 crores. So, sir despite all the initiatives taken by the management, the financials have not really improved, in fact, they are showing a decline in trajectory. So, sir do you see in next two, three years we will be able to achieve the peak profit of 300 crores in next two, three years?

P. S. Reddy: See, I'm not giving any number to it. But this happened to be a very bad year. It's a very bad year in terms of other income that is also hammering us, in terms of regulatory tightening, that is also hampering our growth. So, from all sides, we are cornered in that sense. So, we are hopeful, maybe the New Year holds a promise, the way that we are moving forward and hopefully we'll be able to achieve something in that.

Sidharth Shah: Okay, sir. And my second question sir, any clarity on the 20 crore that we have spent on these gold bullion exchange are we going to amortize it or write it off any amount in next six to 12 months?

P. S. Reddy: We are yet to take a call on it, but in this quarter we will be able to take that call.

Sidharth Shah: You are saying by March 22 quarters you will be able to take a call?

P. S. Reddy: That's right.

Moderator: Thank you very much. Ladies and gentlemen that was the last question for today. I would now like to hand the conference over to the management for closing comments. Over to you sir.

P. S. Reddy: Thank you. Thanks to all of you and being patient with us. And yes, we are making every effort to make best out of the worst situation that we are currently in and in terms of regulatory framework as well as the interest rate structure that is currently, or the yields that are currently giving us. Hopefully, maybe next year we will be able to do better. And thank you, thanks to all of you for your interest in the company.

Moderator: Thank you very much. On behalf of Multi Commodity Exchange of India Limited that concludes this conference. Thank you all for joining, you may now disconnect your lines.