

MCX/SEC/2039

May 20, 2022

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

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Subject: Transcript of the “Earnings Conference Call” with investor(s)/analyst(s) on Q4 FY-2022 results.

Dear Sir,

Please find enclosed herewith transcript of the “Earnings Conference Call” with investor(s)/analyst(s) held on Tuesday, May 17, 2022 at 4.00 p.m. (IST) on Q4 FY-2022 results.

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 Q4 FY22 Earnings Conference Call”

May 17, 2022

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

Moderator: Ladies and gentlemen, good day and welcome to the Multi Commodity Exchange of India Limited Q4 FY22 Earnings Conference Call.

We have with us on the call Mr. P.S. Reddy – Managing Director and Chief Executive Officer; Mr. Manoj Jain – Chief Operating Officer; Mr. Satyajeeet Bolar – Chief Financial Officer; Mr. Praveen D.G. – Head, Investor Relations.

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.

I now hand the conference over to Mr. P. S. Reddy – Managing Director and Chief Executive Officer. Thank you, and over to you, sir.

P. S. Reddy: Good evening all the analysts and investors participating through this analyst call. Welcome to the FY22 Results. I'm happy to present and you've seen the results, thanks to the options contracts, which have picked up substantially and we have been able to recover substantially in terms of operating income. While the futures continued to do about Rs. 25,000 crore and I can tell you this about FY21-22, we have 26,178 crores ADT and options average for the entire year is Rs. 7860 crores. But for the Q4, it is Rs. 15,065 crores. So, that is the kind of difference that is a pickup for that we have done. In any case, we started charging from the third quarter onwards.

So, the third quarter, we had options turnover of Rs. 8,600 crores and in Q4, we had Rs. 15,000 crores. That's how we have got good mileage in these contracts. And we have also launched probably you're aware that option on NG futures. So, that is also doing fairly well. And that has done very good volume. For example, it has done a volume of Rs. 1,168 crores. So, it's still doing well. And as we are speaking, in fact, in the month of April, it has done an average daily turnover on options notional turnover of Rs. 3,445 crores. So, it's increasing and we have got some more contracts approval, especially gold options.

Monthly options expire on a bi-monthly underlying futures so that the premium value can be brought down because the tenure of the options contract is brought down. So, we will be introducing such contract also. This is by and large about the turnover. When it comes to the total clients, we have marginally improved. Last year, we had 4,66,577 UCCs. This year, we had 4,71,000 UCCs. That is the kind of a marginal improvement, I'm not saying it's a major improvement. So, that is something which we have achieved this year, both options and futures together. But then many have moved to the options contract. There's a huge jump in the sense earlier it was 42,500 in options UCCs last year, and the year '21-'22, we had 1,72,924 UCCs that we've done. That is a very good traction that we have seen. Consequently, even the volumes also have improved.

Another important thing is that we used to tell that the option potential, revenue potential is equivalent to 1/3rd of the options value, 1/3rd of the options notional value is equivalent to the futures contract or futures volume. So, in fact, it is now in terms of based on the past data, whatever revenues we have done, it's about 40%, not 33%. So, it has improved also our revenues to that extent, far better than what we anticipated.

In terms of concentration of members, I think it remained by and large the same, top 10 accounts for about 62.65%. And in terms of algo, we have about 48% algo. Of course, last year it was 41%, now it is 48%, some international players, two members have joined, but one has been very active, last year somewhere in the middle of last year they joined. That is one good development. These are the trends in our business. And we have mobile trading, of course, it got reduced because COVID has subsided. And as I said last year 2021, it was 27% mobile trading and whereas in '21-'22, it is 21%. So, that is the development.

So, with these numbers, I will leave the floor open for question and answers.

Moderator: Thank you very much. We will now begin the question and answer session. Anyone who wishes to ask a question, may press "*" and "1" on their touchtone telephone. If you wish to remove yourself from the question queue, you may press "*" and "2". Participants are requested to use handsets while asking the question. Ladies and Gentleman, we will wait for a moment while the question queue assembles. A reminder to the participants, anyone who wishes to ask a question, may press "*" and "1" at this time. The first question is from the line of Mohit Kumar from DAM Capital. Please go ahead.

Mohit Kumar: Yes, good afternoon Sir and congratulations on a good set of numbers. Especially sir, can you just give us a breakup between the transaction charges for options and futures and also the annual subscription fees for the quarter and for the year?

P. S. Reddy: Mr. Bolar.

Satyajeet Bolar: See for the Annual, we have earned around Rs. 32 crore as transactions from options and around Rs. 3 crores as membership fees on an annual basis. The rest is transaction charges on futures. So, our operational income consists of mainly transaction charges which is at Rs. 32 crores was from options, around Rs. 3 crores has come from membership fees. Also we have data fees, this year we have earned around Rs. 5 crores on data fees for the whole year.

Mohit Kumar: Is it possible to give the breakup for the quarter, sir.

Satyajeet Bolar: For the quarter, the options was at Rs. 20 crores, Rs. 22 crores to be precise, and then we also have membership which is a bit less than Rs. 1 crore and data fees also which is more than Rs. 1 crore.

Mohit Kumar: Secondly, sir, what is the timeline for introducing gold spot exchange and electricity derivatives in your opinion?

P. S. Reddy: Yes, I think coming back to the electricity derivatives, I think we have been doing lot of rounds of what to call discussions, and etc. Now that there is a cap imposed in the spot market on the electricity prices, Rs. 12 has been imposed for every kilowatt hour and that is a big challenge at this point in time. But nonetheless, we are seeking the government, especially the regulators, both the regulators, CERC and SEBI to approve at the earliest. So, they have to approve the contract, then only we can launch it. But as I said, we have submitted more than a year ago our contract specifications for approval. Now, this is one part of it. On the Gold spot exchange, probably the GST issues have to be resolved, so that's why even other exchanges have not moved forward. But as far as MCX is concerned, this Gold spot exchange contract will be delivered maybe a little later, in terms of technology platform, a little later than our CDP project goes live sometime in late August or early September. So, that is the status at this point in time. But without GST issue being resolved, I don't think it will take off at this point in time.

Mohit Kumar: Sir, one bookkeeping question. Sir, why depreciation is low in the quarter?

Satyajeet Bolar: As I mentioned earlier, there were certain assets that when we started the year, we thought that we would not be able to use it post September '22. So, we had a relook at this, because there are a lot of high-end servers that we had procured over a period of time which still have a useful life. So, we re-examined it and we realized that usage we could still use it post September '22 for other purposes, for other activities. Therefore, we reworked the useful life and accordingly the depreciation for the quarter has reduced marginally.

Mohit Kumar: Understood Sir, thank you and best of luck Sir, thank you!

Moderator: The next question is from the line of Devansh Nigotia from SIMPL.

Devansh Nigotia: My question has been answered.

Moderator: The next question is from the line of Saket Kapoor from Kapoor & Company. Please go ahead.

Saket Kapoor: Namaskar sir and thank You for this opportunity. Sir, if you could throw some more color on the software support charges and the product license fees, what is the fixed part and how much is the variable part in this, sir?

P. S. Reddy: Which one you're talking about?

Saket Kapoor: Line item 4B, software support charges and product license fees of Rs. 18 crores. We have seen an incremental Rs. 3 crore increase quarter-on-quarter and also year-on-year. So, if you could explain the breakup of the same. And what is the fixed part on a quarterly basis and how much is variable?

- Satyajeet Bolar:** There are two components to this. One is what we pay to 63 Moons, right? So, there's a fixed component as well as a variable component, right? So, the fixed component is Rs. 1.2 crores, right? And the variable is Rs. 1.2 crores per month. And the variable is based on our turnover. So, during the quarter which includes transaction charges on futures and options, right? So, obviously since we had good volumes in options, as per the agreement, we share a part of it with 63 Moons. Also in the product license, we have an agreement with CME which is a calendar year agreement. And for the quarter ended March in there, we had good volumes in energy products. So, we had to make a provision of around Rs. 90 lakhs for the quarter which would be payable. There's only a provision. So, as we go along for the entire calendar year, we will get an idea in December whether there's anything that we have to pay in addition to the minimum commitment charges to CME.
- Saket Kapoor:** So, Rs. 1.25 crores is the monthly figure which is to be paid. Rs. 15 crores annually is the fixed part and others are variable.
- P. S. Reddy:** This Rs. 15 crores maybe for the 63 Moons software and there is another with CME, that is also up to a certain amount it is fixed and beyond that based on the revenue we earn on these contracts, you have to pay. Now the third component is the variable pay to 63 Moons. So, because the last quarter was good, so we had to pay extra. That's it.
- Saket Kapoor:** Ok Sir. And sir, if you look at the other expense items, what constitute this Rs. 11.5 crores? What are the key components to it?
- Satyajeet Bolar:** Just hold on, I'll tell you. One is we have administrative expenses, right? We also have traveling, advertisement, all professional fees, all that.
- Saket Kapoor:** Sir, now coming to this income part of the statement, sir. Sir, currently, sir, what are the current growth triggers for our line of business that we are pursuing and that may fructify going forward? And sir, you mentioned about this UCC part. Is it the unique client code I think so that stands for UCC?
- P. S. Reddy:** That's right.
- Saket Kapoor:** But what quantum are active UCC, sir? If you could give some more color.
- P. S. Reddy:** What I said is active only who have traded in this year.
- Saket Kapoor:** Ok Sir. And about the growth trigger part, sir, what are the steps the organization is taking to improve the business volume and therefore the profitability? And I have 2 more questions and then I'll join the queue.
- P. S. Reddy:** One is that the option contracts, we are aggressively pursuing it and that is one thing we would like the market to support us, which they have been doing it. Especially the margins are reduced

in the case of options. It impacts less as you can see futures contract where there is a peak margin, etc, are there. This is one. The new products that we proposed to introduce is another growth driver that we are looking at it. As I said, we have received approval for gold options on 1-kilo bar where the underlying futures is a bimonthly contract. In fact, as I'm speaking today, gold on 100 grams, in fact, the options has hit the highest ever turnover, which was launched recently, not long ago. So, the contracts are doing well. And we hope we will be able to get good traction on the new contracts as well as we go forward and launch.

Saket Kapoor: Sir, just for an understanding coking coal prices have been haywire for the last couple of quarters. So, do we have any products related to the coking coal futures? Or are we contemplating anything to replicate the same in terms of actual buyers also hedging and also for the speculator community?

P. S. Reddy: See, we have no products on coal at this point in time. We have a coal spot exchange proposal. And we are actively considering that at this point in time. No further steps have been taken. But we are engaging with the industry, government, etc. You must have seen recently, government has given license on PPP, public-private partnership basis about 20 coal mines, which are closed or abandoned with the condition that they can exploit the coal and then sell it in the open market and a part of the revenue sharing, based on the revenue sharing.

So, there are opportunities coming up. And about 110 coal mines are still lying, that's what recently the government has announced, which I was participating. So, we are keen that that is one space we should attend. But as far as SEBI is concerned, they are not keen to introduce any cash settled contracts. So, coal being coal, we cannot introduce the delivery based contract because there are some challenges here. If it is a spot then that's a different ballgame altogether, so that's why we are not looking at cash settled contract, although that is the ideal.

Saket Kapoor: Sir, a small point. What portion of the total turnover that had executed over the exchange are actually used by the hedging community? Do we have any breakup of what portion of the entire delivery settled is done for the hedging mechanism by the producers?

P. S. Reddy: In fact, we display on the website for different products, different percentages are there kind of thing, okay? So, you will have for example, base metals, cotton and mentha oil, and gold, these are the products where maximum participation is there. Even in NG and crude, crude is a proxy for some of the glass manufacturing companies for furnace oil or some of the airline industries. In fact, they were using it airline industry. So, it all varies from product-to-product, that's the way it is.

Saket Kapoor: A small one more point, sir. Currently, sir, the offset of income and losses from commodity trading, I think that the offset is not allowed for other investments. So, do we have any presentation to the Department of Income Tax to get this anomaly also improved so that uniform participation can happen because people having income from the commodity, I think so are not

to be set off against the business losses or vice versa. Has this anomaly still prevailing? Or has that just been corrected?

P. S. Reddy: See, CPAI, that is Commodity Participants Association of India has been taking up this issue with the government. Under the different sections they wanted the benefit to be given. And I'm not too sure exactly, I will not be able to comment on that part of it.

Saket Kapoor: So, as such status quo only, there is no update on that.

P. S. Reddy: That's right.

Saket Kapoor: And a small point. Sir, the retail community, the HNI part are always looking for the annuity type of income that is in the form of interest where they pursue the same through the bond market and other mutual funds. So, sir, how could be a structured product be created so that the industries can directly benefit from the retail money and the cost of fund goes down significantly? Earlier there used to be this cash carry forward system, the CFS, wherein people used to invest in contracts wherein the scam appeared for the National Stock Exchange, NSE sorry I get corrected. So, are we contemplating any kind of product wherein the retail savings can be channelized through the electronic medium in creating interest income in the form of the total contract business?

P. S. Reddy: Currently also there is a cash and carry arbitrage opportunities are happening. But the problem is here, most of these products being delivery-based contracts and the moment you participate you must have a GST, okay? Because when you offload the stock at the next settlement, because there is an arbitrage opportunity, so maybe 12%-13% return.

There are mutual funds participating by the way in the cash and carry arbitrage opportunities. But the problem is for individuals, GST registration is a cumbersome thing. So, that is the reason why we have been taking up with the SEBI and government, that there should be an alternative mechanism through which these people are not required to go to GST, but then we collect it and then pay and then adjust it, both ways. We collect it, at the same time we will also give them the credit through what you call a designated entity kind of model. So, when they are trusting us to collect the stamp duty, STT, CTT, whatnot, exchanges are doing all that. So, they should trust us with this model also. Let us see what will happen. It is before the government.

Saket Kapoor: And on the exceptional item part, could you explain the nature of the same? And now on cash flow side, if you could explain this Rs. 20 crore exceptional line item?

P. S. Reddy: That's right. There is a dispute going on with a London-based firm on the software development for the spot project, okay? Probably you're all aware because it is there in the notes to accounts all along, okay? And the party has been very weak financially, okay? Pursuing arbitration is like throwing good money after a bad cost kind of thing. So, we have to weigh both costs and effects of it. So, the code, whatever that has been developed, we have taken some pending what to call

invoices or we have withheld few invoices, only so much has been paid and then we have got out of that. Singapore arbitration tribunal is pending before that and so we are out of that.

Now this code has been analyzed by our specialist technical team. Now they realize that for any even for this code to be reassessed in it, some used case should be there. So, okay, you want to launch a gold spot exchange, okay, then what are the requirements versus what is developed we can assess. Or you want a coal spot exchange, what are the requirements versus that we can analyze whether this application. But at this point in time, I don't have any project against which it can be assessed. So, the most conservative approach is to write it off or treat this as an impaired asset. So, we treated that as impaired asset. Now maybe I don't know when it will be in future when there is any usage, then we will see what is the relevant technology, what technology this particular platform has developed and the cost benefit analysis we will do it. Then accordingly, if it is to be brought back, then we will use the code and then bring it back on records. So, it's a conservative approach rather than keep showing on the records that so much is there.

And another important thing is, the Rs. 20.4 crores or whatever that we have spent, it's not the entire amount is paid to PESB. That's how some others are constructing. Actually, all put together is about Rs. 17.25 crores. And the rest of them is the expenses incurred on the project by MCX itself by hiring in testers at the time of project implementation. So, that's the way it is. Is that clear?

Saket Kapoor: So, this was all clubbed under the property, plant and equipment, and it has been reduced from the line item?

P. S. Reddy: It was capital work under progress.

Satyajeet Bolar: It was under intangible, under development, so it has moved from there.

Moderator: Thank you Mr. Kapoor. May we request you that you return to the question queue for the follow-up question. The next question is from the line of Sanketh Godha from Spark Capital Advisors. Please go ahead.

Sanketh Godha: Thank You for the opportunity. Sir, nickel as a contract has seen a significant fall in the current year. It's almost like a 100% fall, and it contributed almost 6 to 7 percentage of the total futures ADTO. Sir, just wondering any specific reason why nickel's futures contracts have seen a significant fall? That's the first question I have.

P. S. Reddy: You are aware on March 7 and 8, there was a turmoil in the nickel market and the London Metal Exchange there too, okay? There were some trades, etc. You're all aware of it. So, that had impacted many member brokers on our exchange also. Not that they have a position there, but the price hit, and then it went up maybe 1 lakh plus and then it came down subsequently. So, a lot of M2M has been collected, some clients have paid and not paid. But as far as MCX is concerned, these are delivery-based contracts. We are not settling our contracts on the LME

prices you know since 2019. So, we have not attempted any such kind of arbitrary actions or taken any arbitrary action. So, again, we are recouping the member brokers again, trying to bring them back to the counter. So, it will take some time. You know these are all financial matters in that sense. And I think we need some more time to bring back the participants to the counter.

Sanketh Godha: Ok Sir. So, sir, it will take at least a couple of quarters for some revival in this particular product, sir?

P. S. Reddy: I think that's the way I look at it, unless some other miracle happens to come back with a discount there.

Sanketh Godha: Got it Sir. Sir, the second question was when I look at the options volumes, though they have picked up sharply and also contributed to the top line, we see that large part of the traction has been only in energy contracts, closer to 90% of the total ADTO is coming from energy and especially from crude. So, sir, just wondering if volatility in the crude subsides hypothetically, you see the options volumes to struggle or do you think you have counterbalancing effects, maybe gold or something can pick up and therefore options sustainability will be there?

P. S. Reddy: You see, I have not seen the counterbalancing effect even when the futures were active in crude oil, okay? And we didn't find so much of what you call correlation, okay? It's come down gradually, it's not that as strong as it used to be maybe once upon a time, that's the way I look at it. But while the people have moved to the crude oil, there is a natural interest in that product crude oil. Even earlier also, we had in the futures, we had a great interest. Thanks to the negative pricing and the increase in margins in the futures contract, the people have moved away from the counter. Now having introduced options where you pay onetime premium and then keep playing that, so that's the way it is. So, that's why the traction is seen.

Sanketh Godha: So, sir, in simple words, it's a structural shift from futures to options, especially with respect to energy contracts, that is the way should we think, and therefore, there should not be a reason to be worried?

P. S. Reddy: That's right. Of course, we can always contribute, no doubt about it. But it's not that the moment volatility disappears, the contract will come to a naught. My answer is no.

Sanketh Godha: Got it Sir. And second, sir, you said bimonthly expiries will be introduced. It could improve the ADTOs in the options market. But honestly, sir, given the time period will be reduced, so the premium amount what you will collect will also come off, and therefore the option turnover might not increase even if the notional turnover doubles because premium will almost closer to get halved because of that figure. So, do you think this introduction of bimonthly expiries will improve volumes, especially in gold, which has not picked up, and therefore, revenue can accrete? Or it is more not a revenue accretion exercise? I just wanted to understand your thoughts.

P. S. Reddy: Understand in fact, the more the number of expiries in options, the more the liquidity gets created. That's why weekly options are better than monthly options, monthly options are better than bimonthly options. At this point in time, you have bimonthly options, okay? And so, we are moving over to monthly options so that the volumes will increase. Although option premium will come down, but the volume will see a big rise. That's the way it is. And we are not discontinuing bimonthly options anyway. That will continue parallelly. But we are introducing this new product. Since the premium is relatively less and people will not be able to take a view of bimonthly, probably they prefer this monthly.

Moderator: Thank you. Mr. Godha may we request that you return to the question queue for the follow-up questions. Ladies and gentlemen, in order to ensure that management is able to address question from all participants in the conference, please limit your question to one per participant. Should you have a follow-up question, we would request you to rejoin the question queue. The next question is from the line of Ravin Kurwa from ICICI Securities. Please go ahead.

Ravin Kurwa: Hi, Congratulations on a very good set of numbers. Sir, I had a question related to implied costs. Why it dipped quarter-on-quarter and then increased in the capital work in progress. And apart from that, if you can just guide us for the tax rate, which will be applicable for FY23 and '24 and the time line on TCS.

Satyajeet Bolar: I mean, on the employee cost, if you see the financials, there's a slight increase because one is we have had senior-level recruitments from November onwards, so they have come in. So, that and if you recollect in April, when you compare it with last financial year, in 2021, we did not give increments to senior of employees, while we did give increments to senior employees in '21-'22. So, that is the impact. One is the increment as well as the senior recruits in '21-'22. And the second one was on the tax rate or –

Ravin Kurwa: Capital work in progress.

Satyajeet Bolar: Capital work in progress, as you are aware, we have started the CDP project, so we have invested substantially in both intangible and tangibles, so that's why there's been an increase in capital work in progress.

P. S. Reddy: So, as we keep spending it on the project and keep releasing it, it goes under the capital work in progress.

Satyajeet Bolar: So, we will capitalize it once it goes live in October. The third thing is, is on the tax rate. I'm glad to tell you that we have fully utilized our MAT credit. We have also fully utilized all the long-term brought forward losses that we had which were registered under long-term capital gains. So, the balance gains that we had after utilizing the total capital losses, we had to pay at the nominal rate. And going forward, we'll be able to use earlier rate, the lower rate of 22%. So, going forward, I think we'll be able to use 22% corporate rate.

Ravin Kurwa: And the guideline on TCS implementation, the new software. Are we on the timeline to implement it from the H2 of FY23?

P. S. Reddy: Yes. That's what we are targeting. And in fact, as I'm speaking, yesterday, a part of the application has been released for mock. And the circular is in the public domain. So, as we complete some more modules, we will be adding to the mock and doing the needful. We are hopeful that we'll be able to make it.

Moderator: The next question is from the line of Prem Patel from DAM Capital Advisors. Please go ahead.

Prem Patel: Thank You for the opportunity. So, my question to you is, why is the crude margin still hovering at around 20% to 25%? And do you think that it will come down to the previous levels of like around 5% to 6%?

P. S. Reddy: Well, 5% to 6%, no way, because the initial margin, minimum prescribed by SEBI itself is 10%, okay? So, can it come down to from 21% to 10%? It can come down. And as I said in the past, in the previous quarter also I have mentioned, SGFs has become a constraint because we have already about Rs. 525 crores SGF we have. And if we want to lower the margins based on the stress test results, we need to have a higher SGF cover, which we don't have at this point. Otherwise, we have to contribute from our corpus. So, some discussions are going on with SEBI with regard to the modalities of putting in money, taking out from the SGF fund. If those things are approved, probably we will be able to contribute to SGF. And once the requirement comes down, we'll be able to withdraw also. So, that in and out the freedom is what we are looking for. Then we will be able to do that.

Moderator: The next question is from the line of Aditya Chheda from InCred AMC.

Aditya Chheda: Yes, hi. Ten days ago.....

Moderator: The line for the current participant has got disconnected. We'll move on to the next question from the line of Amit Chandra from HDFC Securities. Please go ahead.

Amit Chandra: Hi Sir, thanks for the opportunity. Sir, my question is on the option side. So, as you see 90% is still crude, and we have introduced like newer contracts in gold. So, introduction of newer contracts can actually boost the volumes? And can we see similar volumes in gold that we have seen in crude? So, that is one. And also what is the timeline for the introduction of the index option contract, because the index has been a big hurdle in terms of in terms of approvals from the SEBI that we have got. So, like what is the time line for the index options launch? And in terms of contract specification as it will be like cash settled, can we see higher volumes in the index option contract? What's your view on that?

P. S. Reddy: Sure. In fact, we have introduced the energy options sometime in the middle of January, okay? Energy options we introduced just this year, this calendar year January. And now as I'm speaking

in the month of April, it clocked options turnover of Rs 3,400 crores and crude oil, Rs 12,686 crores in the month of April, so which is almost 17%-18%. And once we introduce the other option contracts also, gradually, it will reduce the, what we call, the preponderance of crude oil contract options in this. So, we expect this to grow only, and we have no problem on that. And let us see how the other contracts will do when we introduce it. Coming back to the --

Amit Chandra:

Index options, timelines.

P. S. Reddy:

Index options. You know with the debacle in nickel contract, our metal index is not doing at all well, because it is -- it carries almost 26 percentage weightage. So, it is disrupted that contract. Of course, now BULLDEX is only doing well. And in the case of ENRGDEX, obviously the margins and the other issues are affecting it. But once we revive it, we will be looking at it because, first, you need a strong underlying contract. If the underlying contract is good, then the rest will fly. So, we are not going to launch in a hurry the options on index futures.

Amit Chandra:

And sir, on the shift of technology that we're planning by September. So, what kind of risks that you are seeing, because still, we are very close to the time line now. So, if the transfer doesn't happen or if some more time is required, so is the existing vendor ready to extend, say, for 3 months, 6 months? Or it's a hard stop in September and we have to shift to TCS. So, how it is structured?

P. S. Reddy:

As I said, just yesterday, we have issued a circular and then people have started testing mock, okay, including your company. And I think we should be able to do well. And we will take a view what to do maybe sometime maybe in the month of June or something like that. But immediately, I'm not going to guess or hazard a guess in this case. That's the way it is. We are moving towards making it live. That's the way our all energies are focused on.

Moderator:

Thank you. May we request Mr. Chandra that you return to the question queue for follow-up questions. The next question is from the line of Prayesh Jain from Motilal Oswal Financial Services. Please go ahead.

Prayesh Jain:

Good evening Sir, Congratulations on a good set of numbers. Firstly, on the balance sheet side, if I look at other current financial liabilities, they have gone up 50%. What would be the reason for that?

Satyajeet Bolar:

If you recollect that we have parked all our funds. There are two reasons for this. One is the schedule III coming in, so accordingly the aging is more. Also we had last year around Rs 250 crores of our funds in tax-free bonds, which we have liquidated and we have put it in ultra short-term as well as arbitrage funds, which are in the classification. So, that's why there is some movement in the classification. That's why the ratio has gone up.

Prayesh Jain:

Ok. I will take that off-line. But the second question would be on the futures or options which the oil companies are trading today with you guys, what extent are they hedging their

requirements? The question is more whether is there any regulation that is expecting them to increase their hedging mechanism? Is there any scope to improve that? And extending that point, is there any plans to launch futures or products on product spreads on gasoline or diesel spreads?

P. S. Reddy: See, at this point in time, the oil marketing companies don't participate, but most of them on the consumer side, they look at this contract. That's the way it is, okay? Now when it comes to the spread contracts, at this point in time, we are not looking at it because some of them are not permitted in the SEBI list of permitted contracts, I mean products. And again, these are all cash settled contracts. As I said, SEBI is not keen, regulatory is not keen to permit cash settled contract.

Prayesh Jain: Okay, got that. Thank You so much Sir.

Moderator: Thank You. The next question is from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.

Pritesh Chheda: Sir, I have 3 questions. One, what is the extent of institutional participation in the total volume? Second, in the cash that we have, cash and investments, ex of broker deposits, what's the clear cash balance that we have? And my third question is the tech cost on the replacement of the tech, what will be the P&L impact? And when will it reflect?

P. S. Reddy: Institutional numbers, I will not be able to completely inform who is doing what.

Pritesh Chheda: I want just the institutional participation as a percentage of total volumes?

P. S. Reddy: That's what. You see, institutions do not contribute to the daily trading. They will contribute to the open interest. They take a position, maintain it and then liquidate it later. So, it is an open interest, which is important. And they are actually participating in gold, silver and crude and some agri products, okay? This is what it is. And this is one part of it.

Satyajeet Bolar: I just mentioned that the margins that we collect from our members, as on March we have around Rs 540 crores. Our own funds, I mean, our own net worth is and what we have deployed in cash is around Rs. 1,040 crores to be precise. So, that is how it is. Also, you had one more on the technology. So, as we said, we have mentioned in an earlier call that once we go live, for the first year we'll be under warranty. So, there won't be any charge for our P&L from October '22 till September '23. That is the first thing, okay? But post that, we'd be paying AMCs on an annual basis to TCS. There would also be AMCs that we'll be paying on the hardware, which will start kicking in. There may also be some operating software that we take. I mean in the system, either you purchase a perpetual license or a subscription-based license. So, those costs will start kicking in if you're going in for a subscription-based license. So, post go-live, those costs will kick in.

Moderator: Thank You. We'll take the next question from the line of Ravin Kurwa from ICICI Securities.

- Ravin Kurwa:** Hi Sir. I had one more question. So, this was regarding the BSE part. So, BSE is going to launch its gold spot exchange. So, why are we getting some difficulty on that?
- P. S. Reddy:** See, on the spot exchange, the settlements are done using the electronic gold receipts, okay, EGRs and deposits receipts essentially or gold GDR, gold deposit receipts. Now, so far, it's okay, because it's a security. So, there's no problem. But somebody has to take the gold and then convert into EDR and then the trading will kick in. But the guy who is the first one who is depositing it, he has to get his credit back. And if gold EDRs are treated as what we call securities and no GST is applicable, when will the first guy get his refund? Maybe when the last guy when he takes out the gold EDR converting them into gold and then takes out the metal, at that time he will pay the GST. Till then, the first guy cannot wait. Have I made myself clear?
- Moderator:** Thank You. Mr. Kurwa, may we request that you return to the question queue.
- P. S. Reddy:** No, I think, he should continue, let him.
- Ravin Kurwa:** So, sir, even BSE might see the problem of lower participation in this case?
- P. S. Reddy:** Yes, that's why they have not launched it. They were to launch in maybe last year itself at the time of Akshaya Tritiya. So, one more Akshaya Tritiya has gone. So, we will not be able to launch unless that problem continues.
- Moderator:** Thank You. We'll take the next question from the line of Abhijeet Vohra from Sundaram Mutual Fund. Please go ahead.
- Abhijeet Vohra:** Thanks for taking my question. Sir I have only one question. The employee cost in Q4 versus Q3 has come off. I could not catch the full response. It was hovering around Rs. 21 crores. In Q4, it is Rs. 18 crores. What is the reason?
- Satyajeet Bolar:** Which one, which cost?
- Abhijeet Vohra:** Employee cost.
- Satyajeet Bolar:** The employee cost, as I said, during Q3, we have recruited senior officials, part of them have joined during Q3, right? So, the main impact has come in Q4, right? So, the senior people.
- Abhijeet Vohra:** But it has come off, sir? Q4, the number is lower compared to Q3, employee costs.
- Satyajeet Bolar:** Ok, while I said that in Q4, senior people have joined, also there has been some attrition in the company. So, numbers have also dropped.
- Abhijeet Vohra:** So, this Rs. 18 crores is the number we should look at, right?
- Satyajeet Bolar:** Yes.

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

Sameer Dalal: So, partially, you answered the question for the new software from September onwards you'll start and for the first year of course there is no fee and then after that you'll start. If you can just give us a breakup, how much will be the savings that will come from what we are doing FT versus what will be the future payments? I want to get that differential. If there's some sort of indication on savings of cost on the software side you can give us?

P. S. Reddy: See, as I have been saying, we will not be able to disclose as to what is the AMC cost. As I said, it will be a single-digit figure is something which I have been saying it.

Sameer Dalal: No that I agree. We've discussed that, sir. Sir, what I'm trying to say is, so you said there are 3, 4 variable costs in the software support charges and all of that, which include certain fees to even different exchanges and things like that.

P. S. Reddy: No, that is different. Please understand. Only the software is different. Product license is different. What we told you is that we have an agreement with Chicago Mercantile Exchange for the purpose of crude oil and the NG. So, that is linked to the volume subject to fixed pay. Now in the case of TCS contract, there is no variable pay, variable component. So, the only fixed pay, fixed component, no variable company.

Satyajeet Bolar: I'll just clarify it. From October 23, we pay a fixed AMC to TCS, and that has been fixed, the amount has been frozen for the next 5 years, right?

Sameer Dalal: Correct. Sir, I'm just asking what will be the differential? What will be the savings to the company? I'm not asking you how much you would pay TCS.

Satyajeet Bolar: No, I understand. But see, presently, we pay, as I said, Rs. 1.3 crores, monthly to the present vendor, also a variable. So, on an annual basis, we pay around Rs. 50 crores to Rs. 55 crores to the present vendor, okay, around Rs. 50 crores. But going forward while we may not be paying this, after October 23, we'll be paying a single digit to TCS. There may also be other expenses that we'll incur. As I was mentioning, if depreciation would be substantial, because once we start capitalizing it and if it is around 8 to 10 years, there would be a substantial amount of depreciation. There'd also be some subscription costs on for operating systems that we'll incur, right? So, those will start kicking in.

Sameer Dalal: So, again, I'm asking if there's any way you can quantify if there's any savings at all that is coming from this activity or exercise?

P. S. Reddy: There will be some savings, no doubt about it.

Sameer Dalal: And you cannot quantify that at this point of time?

- P. S. Reddy:** Yes, that's right. Maybe once we go live, then probably there will have better visibility.
- Satyajeet Bolar:** Better visibility.
- Sameer Dalal:** Now you said there was a software development cost upfront fee that you'll had paid TCS. Has that full amount been paid to TCS yet?
- P. S. Reddy:** No. It's still going on. There are some milestones and accordingly we will pay.
- Sameer Dalal:** Sure, and this will be amortized over a period of time? Or this will be run through the P&L once the development is done?
- Satyajeet Bolar:** This is going to be part of the intangible software, the platform that is being developed. So, it will be amortized over a period of time.
- Sameer Dalal:** It will be amortized. So, that is what you were saying, it will be the higher cost also that will come up.
- Satyajeet Bolar:** That's right. So, we'll have a higher depreciation.
- Sameer Dalal:** Correct. But the cash flow will be affected once you go live?
- Satyajeet Bolar:** That's right.
- Moderator:** Thank You. The next question is from the line of Siddharth S. Individual Investor. Please go ahead.
- Siddharth S.:** Sir, my question is about the impairment of the software that we've taken of about Rs. 20 crores. I heard that you said that currently, while you have the quote available with you, but you don't have any used case to compare the same with it. Can you throw some light on it because I would assume that a used case would be developed before developing the software in the first place? That is the first one. And I also wanted to understand what was the basis of selecting the software vendor, given that you said that there was not much scope in pursuing the arbitration? Thanks.
- P. S. Reddy:** You see when in 2017 and end of '17 and 2018, when it was short listed, yes, RFP was floated, international competition was invited, and there were bids from Sinovac, PESB, and NASDAQ, etc. Many, many have done that. So, it is done through the RFP process. And in the RFP, various criteria's are there for your financial, what we call stability or a kind of track record and every product or rather technical competency, so different weights are given accordingly.
- So, based on that it was shortlisted. Now coming back to the first part of your question, the digital used case, at that time, when the gold spot exchange was announced, at that time, that was the reason why this entire process was initiated in 2017-'18. But then the gold spot exchange

was not launched and the government didn't do it until now, until recently until last year. But then that was hanging that proposal, so they went on developing it based on that. So, somewhere down the line in the process of execution. Maybe it was a poor execution and so it didn't happen as we expected. So, today, although gold spot exchange regulations are in place, at the time of TCS RFP when we floated, we said we want additional products, spot and currency kind of things we have asked the vendors to submit also.

So, TCS has also been given the gold spot exchange contract, okay? So, because we are developing in the CDP project and the substantial piece can be used, so the other project will be in good shape. Of course, we did not have the visibility of this PESB issue because, obviously, they were disputing and all that. So, we do not know what will happen. Of course, we did reassess it. At that point in time, we checked it and it was coming out to be substantially higher. But this is the way the committee has assessed at that point in time.

At this point in time, other than gold spot exchange, I don't have any other exchange to launch. So, that is the reason why we have taken it. That doesn't mean it cannot be used in future. No, I'm not saying that. For the present time, we are not able to do anything about it.

Siddharth S.: Sir, just one follow-up on this. So, are you saying that some portion of this code will be used by TCS to develop the spot exchange? Or that will be developed completely separately, and therefore, there will be no used case at least currently for any gold spot exchange?

P. S. Reddy: No, gold spot exchange will be based on the CDP code that they have already developed or they are developing it. So, there's no link between the two, let's be very clear. But currently, I don't have any more visibility about any other project, that's the reason which we have. So, it's a very conservative approach that we have taken, that's it

Siddharth S.: Ok Sir, lastly, on the CDP project, you said you will evaluate the project in June. Sir, any context in terms of it?

P. S. Reddy: Not evaluate. What we were saying, whether to take up for any negotiation for any extra AMC, that kind of thing. Somebody was asking the question. So, in that context is what I said. But at this point in time, we have already launched what you call mock trading yesterday. And we keep adding some more modules once we stabilize in UAT. So, the work is in full swing. And our ideal and desired position is to go ahead with TCS platform and launch the product. That's the way it is.

Moderator: Thank You. Ladies and gentlemen, due to time constraint, we will take that as the last question. I would now like to hand the conference over to Mr. P.S. Reddy for closing comments.

P. S. Reddy: Thank you. Thanks to all of you. We will continue to work hard to meet all the expectations of all stakeholders as much as we can. And we sincerely hope that you will continue to encourage and support us in this endeavor. Thank you so much.

Moderator: Thank you. Ladies and gentlemen, on behalf of Multi Commodity Exchange of India Limited, that concludes this conference for Q4 FY22. Thank you for joining us. And you may now disconnect your lines.