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January 23, 2019

BSE Limited
Department of Corporate Services
Phiroze Jeejeebhoy Towers
Dalal Street
Mumbai - 400 001.

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Subject: Transcript of the conference call with investor/analysts on Q3 FY2019 results

Dear Sir,

Please find enclosed herewith transcript of the conference call with investors/analysts held on January 15, 2019 at 6.00 p.m. IST, on Q3 FY2019 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

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"Multi Commodity Exchange of India Limited Q3 FY'19 Earnings Conference Call"

January 15, 2019

MANAGEMENT: MR. MRUGANK PARANJAPE - MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER, MULTI COMMODITY EXCHANGE OF INDIA LIMITED

MR. SANJAY WADHWA – CHIEF FINANCIAL OFFICER, MULTI COMMODITY EXCHANGE OF INDIA LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Multi Commodity Exchange of India Q3 FY'19 Earnings Conference Call. This conference call may contain forward-looking statements about the company which are based on the beliefs, opinions and expectations of the company as on the date of this call. These statements are not the guaranties of the future performance and involve risks and uncertainties that are difficult to predict. As a reminder, all participants' 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, 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. Mrugank Paranjape -- Managing Director and CEO. Thank you and over to you sir.

Mrugank Paranjape: Thank you every body for joining us on the call today. Wish you all a very-very happy new year and greetings of the 2019 from our perspective come with what we believe was the best way to conclude the quarter that ended in terms of the turnover. So while we have mentioned this before, we at the exchange are extremely happy and excited by the fact that ADT for the quarter ending December was at 26,614 crores which represents the highest ever turnover in a quarterly basis after the imposition of CTT and as those of you who recollect the imposition of CTT was probably the biggest downside impact in terms of the business that we have seen over the last five, ten years. So really very happy with the way business has shaped up over the last quarter.

I will just run through some of the things that we have noticed some highlights that we have seen, thereafter we will turn it over to questions: First and foremost, within this increase in the sort of turnover that we saw the growth over the previous quarters in terms of number of contracts was driven by bullion and energy and in terms of turnover it was again driven mainly by energy, but we did see a good impact in terms of gold again inching forward. So I think from our perspective, gold moving up by more than 10% over the last quarter was really big positive. In addition to that the open interest in our gold contract really continues in a very big way. So on the 1 Kg contract, we crossed 18 MT, as of 9th we were even ahead of 19.5 and as we speak today I think we have crossed 20 MT. If you see over the last two quarters we have gone from just below 8 to now over 20 MT. That is a huge increase in terms of the open interest that we see. I singled out bullion because it is probably the best example but I think even in terms of our options contract which are still in terms of volume slightly a fledging contract, we do not report that number also in our turnover yet, but we have seen the highest open interest both in silver and in crude in terms of the options contracts as well. So, that is a very positive development for us because the higher the open interest, it just tells you the more depth that is there in the contract and the market.

The second thing which we noted and that is something we were looking at the reason why turnover continues to show the positives that we have seen in this year over the last three quarters was that it is not just volatility which adds to the turnover but the fact that volatility is coupled with increasing participation. When I say that I know in terms of the unique client codes that are registered with the exchange, there is a minor dip, but that dip is more because as we have seen lot of our members are combining their equity and commodity memberships and there are other consolidations happening. And during this process, there is a lot of weeding out of absolutely inactive and this is what has led to probably a small dip. But what we have noticed is that the actual traded clients in the exchange has significantly gone up in the last quarter as well. An indication of that is in the financial year '17-18, we had about 271,000 unique clients were traded on the exchange. As we speak in 9.5-months, we have almost touched that number already. So that is a phenomenal increase of more than 20% in terms of the number of clients who are trading on the exchange. And that widespread participation we believe is a direct result of the one pillar which we have been about speaking about on all our previous calls which is in our opinion now kicking in, in terms of the impact to the ADT. And that is the distribution angle. So, as members are combining their equity and commodity arms, we are seeing those members really have a bigger uptick in their volumes and that is something which was probably expected but also little surprise, because the expectation was that members would save cost base and therefore become more efficient, but what we are also seeing is that by share combination of the sales force, members are now reaching out to a wider audience. And that is really increasing the participation in the commodity space.

Secondly, while there has been slight delay in the onboarding of the bank subsidiaries in terms of going live, we do have two bank subsidiaries who are now live on the exchange and we are very-very certain that two more will go live within this month bringing that number to four. But for the subsidiaries which have been live, their volumes are already showing pretty good number and that is another reason why we think that the overall participation is going up and that is a positive as well.

I will just spend a few minutes on some of the financial numbers because I think they are important in terms of what we have been speaking throughout this year and in terms of your understanding of our numbers going forward. So while revenue is pretty straight forward in our case to understand because it is a direct correlation to the turnover, I think something which we had mentioned before is on the treasury portfolio. As we speak expect for some portion of the tax-free bonds which we still hold, we now have absolutely no exposure to long-dated or long tenor debt in our mutual fund portfolio and that is helping us pretty well in terms of the returns that you are seeing on our treasury portfolio. Combined with good turnover and steady treasury portfolio, I think the other thing which we wanted to reemphasize was that while there may be a minor increase in the cost for this quarter, there is about 4.5 crores of one-off cost which are very-very specific which we had to take this quarter and we are very confident therefore that in terms of the cost base we will absolutely be within those numbers that we have been talking on all our calls till now which is that on an annual basis while the variable cost will remain in line with the revenues, the fixed cost will not go up by more than 2-3% on per annum basis and that is the number which we are absolutely confident of delivering even for this year in spite of the one-off. The one-off that we had this quarter was about 4.5 crores, roughly 2 crores legal expenses for certain specific things where we had either some old cases which we were closing out or certain matters which came up during this quarter but these are very certainly one-off cases and we will not have these expenses going forward. There is Rs.2 crores of regulatory expenses which are one-off. These are because there has been an ongoing discussion on some of the expenses that we book towards the IPF and ISF which SEBI has opined that could not be booked to those funds. So while on an ongoing basis there is going to be no impact, we had to take some reversals to the previous two years as well and that is the Rs.2 crores of one-off expense that we are talking about. In addition to that, we have a commitment to meet our goals under the CSR guideline. In that our expenditure has been slightly lower than what is required as per the guidelines under the Companies Act. So there was about Rs.50 lakhs of increase which was more of increase from CSR perspective. That is probably something which will not be there in the next quarter as well. So, 4, 4.5 crores is one-off expense which would explain why in the expense line you would see under the other expenses the cost line has gone up. But with this and with the way we have been efficiently managing on the tax, again because we have been making movements in our overall treasury portfolio, we are very happy that this quarter's PAT is a healthy Rs.41.99 crores to be precise and that also is the highest PAT on a quarterly basis in the last four financial years. So I think those are some the highlights in terms of the numbers.

I think in terms of key expectation that we have over the three to six months in terms of regulatory and other developments, first, we are now increasingly, I think, in a position to say that we feel confident that institutional investors will be allowed in this market during this quarter. Our confidence from the fact that this regulatory impediment from a custodian services basis which was coming earlier has been removed by SEBI in the last quarter in their board meet and that paves the path for institutional investors to really come into this market. So we remain absolutely confident that that will happen this quarter.

The other development which we expect in terms of expanding our product portfolio is that we believe that SEBI will allow index-based products to be traded on the exchanges. That is a very important development because index-based products as you would be aware if you look at the turnover in the equity markets, probably are the biggest portion of the entire turnover of the equities markets in the derivative space and therefore it is a product where we believe there is good potential in India and also the fact that they are cash settle products will probably appeal more to people who are trading in commodities.

Having said that, I think there is one change which we are undertaking currently on our product mix which is to convert our metal contracts from cash settle contracts, deliverable contracts, this will start in the month of March and continue over a period of four to five months. Again, this is something which has been asked to us. We believe that there is no reason for us to think that turnover will be significantly impacted in anyways. There will be some impact but not too big. The reason to say that is that even if you look at bullion which is a very similar contract it is a physically settle contract, but it does not deter the people from trading in that perspective. So, those are the big changes that we think will happen over the next two or three quarters.

With that, we are done with our initial comments and happy to take questions from now on.

Moderator: Sure, thank you very much. We will now begin with the question-and-answer session. We will take the first question from the line of Gautam Jain from GCJ Financial. Please go ahead.

Gautam Jain: Just wanted to ask you, I just missed the other expenses how much is one-off during this quarter?

Mrugank Paranjape: About 4 plus crores is one-off.

Gautam Jain: That is including the legal and the other one, right?

Mrugank Paranjape: This mainly includes legal, regulatory and some portion of the CSR.

Moderator: Thank you. We will take the next question from the line of Ashish Chopra from Motilal Oswal Securities. Please go ahead.

Ashish Chopra: Mrugank, just wanted to understand from you, so firstly, in terms of the volumes that seem to be looking pretty impressive right now, you did spend some time articulating the impact of distribution and probably even the likely impact coming forward from bank subsidiaries, but would you be able to just peg on a ballpark as to how much of this volumes is actually coming in from the new trading members as a result of the distribution versus the fact that we have seen a lot of action on the prices as well on some of these key commodities traded on the exchange?

Mrugank Paranjape: Ashish, on the second point first of all, what we have seen is that even if the underlying price of the commodity goes up, while positive movement in the commodity price does have an impact in terms of it being generally better for trading volumes, it is not necessarily related to the total value of the contract and this is something which we are seeing because at the end of day if the contract size increases, finally because people are actually trading with their margin money and that is a finite amount of money that they have, volumes will actually just adjust themselves in terms of the lots that are traded. So underlying commodity price does not necessarily have a big impact except from a sentiment perspective of positive movements always being better for turnover. To your other question, as we analyze the data in terms of the members who are doing better in the previous quarter as compared to the second quarter, what we see is that those who have already combined their memberships and are working on a unified license, are definitely doing better than those who continue to have separate membership. So, I think the rate of growth is definitely higher in the second category.

Ashish Chopra: Would you be able to call out if there would have been any impact of the Liquidity Enhancement Scheme on the top line this quarter?

Mrugank Paranjape: For example, the quarter ended September 2018, the LES amount was 1.67 crores versus for this quarter we just took Rs.44 lakhs in the revenue. So, as you know, the LES expense was being netted off from revenues earlier. We already have a positive impact of 1.25 crores this quarter and given that we do not have LES going forward, that is another 40 lakhs that will go up for the next quarter as well.

Ashish Chopra: So going forward what should we assume to be the normalized tax rate after the changes that have happened in the way you have been now investing the excess cash – should we expect it to be slightly lower than the earlier norms?

Sanjay Wadhwa: Yes, Ashish, it will continue to be lower than the earlier norm. At least for the next couple of years I expect it to be in the range of 20-22% as against 26-27% which was the rate last year.

Ashish Chopra: On the options front, would you say that we are seeing enough in terms of a pick up to now finally start charging and I think if I remember correctly you had mentioned that next fiscal we will definitely start monetizing the options as well?

Mrugank Paranjape: I would think so. I think we have reached a stage where we believe that in terms of the time spent and the maturity of the product, maybe the last quarter where we are not charging for options.

Moderator: Thank you. We will take the next question from the line of Dhvanil Desai from Turtle Capital. Please go ahead.

Dhvanil Desai: One is I think when we look at our realization; it is slightly on the lower side. Would you attribute this to the much larger than the distributors coming onboard or is it just a product mix change?

Mrugank Paranjape: Product mix change does not impact us in terms of realization because on our top three products which do more than 95% of our revenues, it is the same charges that we have. So bullion based metals and energy has the same charge sheet. The issue is of course as you rightly pointed out that some of the larger members have grown faster than the other members with the result that the realization has dropped in the last quarter.

Dhvanil Desai: As more and more larger players like banks subsidiaries come onboard, the likely trajectory maybe much higher volume but slightly lower realization, is that a fair way to look at this whole dynamics?

Mrugank Paranjape: I would say yes, there will always be pressure on realization. Would it go down in the same manner? Difficult to predict, but yes, there would be some pressure on the realization as larger members keep coming in.

Dhvanil Desai: My second question is on the options. I think first benchmark that we have in our mind is around 10% of the futures volumes for options all put together and I think we are still some time away from that. Apart from creating awareness about it, is there anything specific that we are doing in that front to reach to the first goal post that we have kind of put ourselves for?

Mrugank Paranjape: In terms of reaching that goal post, you are right in your assessment that we are still a little distance away. Awareness is the biggest thing that we continue to do. There are some minor changes in the product that we are approaching SEBI for but these are not really big changes, but yes, there are changes which we believe will allow more hedgers and especially options writers to come in. But this is something which is the dialogue with

SEBI and may take a couple of months before it is implemented which is in terms of changing some of the ways in which devolvement is done today and some of the rules around in the money and out of the money devolvement. But those are the only specific things that we are trying to change in terms of the contract design. Other than that, at this point of time, the focus will continue to be in terms of increased awareness programs.

Dhvanil Desai: Last a small book-keeping question. So in terms of other income, I think we have had a significant jump. I assume that because of the yield changing, there is some mark-to-market gain. Is that a correct understanding?

Sanjay Wadhwa: Yes, absolutely, on our mutual fund portfolio, we have had a decent mark-to-market gain this quarter.

Dhvanil Desai: To that extent that maybe a one-off element in the other income, right, it may not be repeatable if the yield remains stable at this?

Sanjay Wadhwa: Since we have now consciously come out of long duration products, there would not be much volatility even if the rates were to increase from here on.

Moderator: Thank you. We will take the next question from the line of Sameer Dalal from Natwarlal & Sons. Please go ahead.

Sameer Dalal: My question revolves around the same point which was just discussed about the treasury gain. Can you quantify what was the profit which you got additional because of the yields coming off a bit and can you also tell us what is the total cash that you have or the funds that you have invested in the treasury at the moment?

Sanjay Wadhwa: If I just compare my pre-tax yield on my mutual fund portfolio which was roughly 300 basis points higher than my YTM which is what I would really call it as the one-off purely arising on account of yield movements on Rs.700 crores portfolio, that will be roughly around Rs.2 crores. So that is the only kind of movement which is purely on account of yield changes.

Sameer Dalal: So at the moment Rs.700 crores you are saying invested with the treasury?

Sanjay Wadhwa: In mutual funds.

Sameer Dalal: Even if we can generate say anywhere between 8-9% you are talking of close to 63 crores annualized pre-tax profit for the treasury income. Would that be fair assessment?

Sanjay Wadhwa: That is only on the mutual fund portfolio. Then we have fixed deposit also and actually one portfolio as well and plus we have funds at our clearing corporation. So, all put together we have roughly around Rs.1300 crores in the treasury.

Sameer Dalal: Now, question #2 has to do around the fact that all the other exchanges are also launching commodities on the platforms BSE, NSE and things like that. Still very early days and of course you still are the market leader but do you see any possibility of any volume shifting or any kind of negative impact coming to you cutting off pricing a bit just to retain your current customers, anything on that front, if you can just give what is your view on the fact that the other exchanges are getting into the commodity market?

Mrugank Paranjape: I think we had mentioned this in our last call as well but I will reiterate that we believe that newer exchanges will of course expand the market, no question about that, but will they pull away volumes from existing contracts, we absolutely have our doubts, we do not think existing contracts will yield to any new exchanges. That has been the experience till now in the commodities market or in the exchange space and therefore I would sort of be very certain that that should be the experience going forward as well. Therefore to your question in terms of market share, we have no doubt that we will retain our market share in the product that we already have. To the extent that the newer exchanges come up with new products, absolutely, that is something which can expand the overall market, but that I think in the long run will benefit us. So, in that sense, newer exchanges, if they get new products, if they get something which is different and innovative, obviously the market will expand and the pie will expand but for the existing ones we do not see too much of pressure and therefore we have not done any tinkering to our prices and we do not intend to do anything at least for now.

Moderator: Thank you. We will take the next question from the line of Tejas Sheth from Reliance Mutual Fund. Please go ahead.

Tejas Sheth: Mrugank, I have just one question; in the opening remarks you mentioned that the active members' bidding has increased by 20% in this financial year. Is there any profiling done of this new member – are they speculators or they are genuine hedgers on the SME side? I am just trying to understand that how structural these members will be or they are more of run by mill kind of speculators?

Mrugank Paranjape: I think from exchange perspective, anybody who trades is a valuable customer and from our perspective, as much as hedger adds to the open interest, anybody who trades adds to the turnover in the exchange. From the perspective of analyzing this, currently, the data points available to us are not really very strong but very recently SEBI has issued a guideline where we are now required to differentiate between value chain participants and the others in terms of how we look at their trading. Therefore about a year from now when we put this mechanism in place, you will actually know how many people who are trading from the value chain and how many people are financial traders. I think that is when you will get a better feel of this number. At this point of time, there is no direct profiling done of this client base.

Moderator: Thank you. That was the last question in queue. I would now like to hand the conference back to Mr. Mrugank Paranjape for closing comments.

Mrugank Paranjape: Thank you, again. I think as I said, we could not have started 2019 on a better note with the way the quarter has gone by. I just take the next two minutes to just quickly reiterate what we have been saying as our messages and what continues to be our strategy: So one, in terms of the business we remain focused on commodities, we do not have any intentions of looking at too many other diversions. Yes, we will be focused on getting spot exchange going as and when the regulations allow for it. But within that we will focus in the commodities business. In the specific business that we have, again, we are working hard to make sure that we can expand the market not necessarily only with new products but with existing products but better channels of distribution, more members, and also with more participants coming in. I think in that sense we will also be committed to what we have set till now; one, in terms of our cost base management. So again, reiterating the message that we said, what you saw this time was a one-off impact of about Rs.4 crores plus that we explained. But on the cost base, other than those costs which are revenue related like the license fees and what we pay to our software vendor partner, all the other fixed cost, will remain within the 2-3% per annum increase band that we have committed to all of you and finally as Sanjay also mentioned that on the treasury we have completely come off long-dated instruments in our mutual fund portfolio and at the earliest we should be able to do that even for the rest of the portfolio. So you should get stable treasury portfolio, fairly predictable fixed cost and therefore every effort that we make to getting more revenue and volumes will translate into better profitability.

With that, thank you, ladies and gentlemen for joining on our call and look forward to catching up some of you in person but otherwise with all of you at the next call.

Moderator: Thank you very much. On behalf of Multi Commodity Exchange of India Limited that concludes this conference. Thank you for joining us, ladies and gentlemen.