MCX/SEC/2260 August 09, 2023

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

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

Dear Sir/Madam,

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

Sr. No	**Investor/Analysts**	**Date**	**Time**	**Annexure**
1.	Group Investor Call hosted by IIFL Group	August 03, 2023	04:00 PM	***Annexure - A***

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

Further, we hereby confirm that no unpublished price sensitive information was shared/discussed during the said meeting.

Kindly take the same on record and acknowledge receipt.

Thanking you,

Yours faithfully,
For Multi Commodity Exchange of India Limited

MANISHA HARSHAD THAKUR
Digitally signed by MANISHA HARSHAD THAKUR
Date: 2023.08.09 19:52:48 +05'30'

Manisha Thakur
Company Secretary

Encl: As above

Multi Commodity Exchange of India Limited

Meeting with

Group Investor Call hosted by IIFL Securities

August 03, 2023

MANAGEMENT: **MR. P.S. REDDY – MD & CEO**
MR. SATYAJEET BOLAR – CFO
MR. DG PRAVEEN – CRIO

PS Reddy: Welcome to the Call with the Investors. I think we have ASK Investments, Ocean Dial and White Oak, is that correct? And yes, go ahead and raise the questions and but let me -- as I mentioned in the analyst call, I'm personally very disappointed for not being able to migrate to a new platform.

A large disappointment for me because we have galvanized the entire industry and then whatever stakeholders to go. Every day, in out, day and night we spent here in the office to make sure that things work. But still, there were certain issues which we couldn't address. Obviously, for which reason, we couldn't go.

And I think we should be able to galvanize the same bring in as much force as we have brought in and then fix whatever the issues that were there and then propose to go live this time around. Let's see.

Bhavesh Kanani: Wonderful. Thank you for the time and we wish you the best in…

PS Reddy: I think we should record the names. Your good name, please?

Bhavesh Kanani: Yes. Bhavesh Kanani from ASK Investments.

PS Reddy: ASK Investments. Yes. Please introduce.

Darshak Lodhiya: Darshak Lodhiya from White Oak Capital.

PS Reddy: Yes.

Sadeev Singh: Sadeev Singh White Oak Capital.

PS Reddy: Sadeev?

Sadeev Singh: Yes.

PS Reddy: Okay. Yes, madam.

Ritika Dua: Ritika Dua from Ocean Dial Asset Management.

PS Reddy: Thank you. Yes.

Bhavesh Kanani: So thank you for your time, sir. Now, we'll actually we'll take up from what you were mentioning about the transition itself. In the last call, you gave a little bit of additional clarity as to the activity where the transition seems to be facing challenges which has to do with the end of day activity. Is that the right understanding that the transaction matching and order management system that is in place, that is functioning well, it's only the transaction posting part which happens at end of every day and has to be done before next day's trading starts. That is the only portion where we are facing challenges or that is an incomplete understanding?

PS Reddy: No, you see, we have two modules. One is T7, which talks about the trading, which is the Deutsche Bourse engine, which is customized for us. The other one is the Bancs, which is the clearing and settlement. The Bancs has also a component called risk management system. These are the broadly speaking.

So, the T7 part, I think it is by and large stable and it is the Banks again it is processing it but sometimes the maybe the component DB2, database may be crashing or you know it requires some fixing or sometimes EOD, BOD is taking more time because certain processes are delayed, slow in processing, files are getting late, okay, or some kind of corrections were required to be made to the files etcetera. So that's why they by the time you complete all of them and make sure that the next day system is available that's why it was taking time. And so obviously you have to be up and running by 9 o'clock and usually what happens is by 3 o'clock or so in the morning, we give the files to the member brokers for their backup system to consume. By 6 o'clock or so, the system is ready and released to the members and they will start logging in, whoever wants to log in, maybe 7 o'clock, 8 o'clock, whatever it is.

So obviously, we have to be there at that and at times, it didn't happen. So that has weakened our confidence of going live. Also on three, four occasions we had cancelled the mock sessions. Sometimes some data migration has taken place wrongly or sometimes maybe the system has crashed and then to bring it up it took time, this kind of things we did face that's why it is.

Bhavesh Kanani: And sir, has it to do anything with like, let's say in case of equity, the market closes at 3.30. Typically we as individual investors get messages of the effect of those transactions from exchanges at 9, 10 in the evening. But in our case, the trading itself ends at 11.30 and we have a smaller window to do the EOD activities. Is that one of the challenges, in terms of time?

PS Reddy: So, understanding by what you are saying, that if you had a bigger window for next day to start the session, or from the last trading session till the next day morning opening, probably we could have had luxury of time to fix some of them in the overnight and then give the system but that luxury is not there that's -- yes, that's one important…

Bhavesh Kanani: And compared to earlier time or let's say, when we are using 63 moons that has both these modules in one system, is it right?

PS Reddy: That's a monolithic system.

Bhavesh Kanani: Monolithic system. And now that we have a separate module for clearing and settlement naturally that bit of module is interacting with external entities, custodian, banks and all. Is the delay caused even partly by delays from external entities who have to be part of this exercise or it is mostly at our end?

PS Reddy: I'm sorry, I didn't get your question.

Bhavesh Kanani: So like, for clearing and settlement, we need to post whatever transactions have happened in members account, whatever quantities they have bought, amount to be taken. So that settlement bit involves…

PS Reddy: Like this, the T7 does the trading and passes it on directly to the bancs. And the bancs process it and then uploads the files to the members, put it in an SFTP folder, members download it and whenever whatever member wanted to submit there is another window to submit it. All that happens.

Bhavesh Kanani: Okay.

PS Reddy: So it's not that there is a member intervention for which reason it is got delayed, nothing of that.

Bhavesh Kanani: No, I was meaning the entities, not necessarily the members. Entities, let's say, banks or custodian, whoever are involved, external entities other than MCX. Are there delays from their end?

PS Reddy: No, they just participate in the mock session and it is for us to give them the back to the files and then for them to test it and all that. Whether they have tested it or not, we keep asking randomly some members to please give the your inputs but not all of them were testing. Some were testing definitely. You have got something to ask?

Darshak Lodhiya: So on the similar lines, is this delay more because of the new vendor that we have? Is it delay from their end or…

PS Reddy: Their end means?

Darshak Lodhiya: Like, in terms of developing this new platform, are they, if the delay is coming from the new vendor that is developing this platform, or maybe the existing vendor is not able to like, the system integration is not happening with the existing system or is it like, where is this delay coming from? There are three parties in here right, one is the existing vendor that we have…

PS Reddy: But existing vendor has nothing to do with this system. Okay, existing vendor that is a separate system, existing system and they are supporting and ensure that the things are have to happen as per the agreed terms whatever it is. And whatever is happening in the existing system, there is no impact on the new system.

Darshak Lodhiya: Like when, let's say, TCS is developing this new system, are there some integrations that needs to be taken?

PS Reddy: There are integration between the bancs and T7. That is where the challenges they did face. That is no doubt one of the important reasons for more time taken. Because the banks is of the TCS system, T7 is the Deutsche Bourse. These two put together have not been deployed anywhere. That's what we have said in some previous calls also. So that integration they have done now.

Darshak Lodhiya: Okay. And the contract that we have with TCS, are there some clauses, let us say if the delay is beyond certain level, there will be some penalty or something like that?

PS Reddy: Yes, I did clarify that in my one of the calls also. There are clauses, all such penalty clauses and other things. I mean, they are all such penalty clauses and other things. I mean, they are all definitely standard clauses. And yes, there are clauses.

Darshak Lodhiya: So we will be invoking those clauses?

PS Reddy: Yes, I mean, it is too premature for me to say today, because our focus is to make this system go live. And then the board will take a call on it. Provisions are there. That is all I can confirm to you.

Darshak Lodhiya: Also like the renewal that we have done, in the press release it mentioned that this minimum for two quarters was asked by the vendor. Is there a chance that before this two quarter ends, we are able to transition to the new platform?

PS Reddy: That's what we should? We should. That's why I just said I feel disappointed because last time itself I had said that I mean, we do not want any more extension, we wanted to go live with this and since that didn't happen I was very much disappointed. There is no reason why we shouldn't go live this time. That's the way I look at it.

Darshak Lodhiya: What kind of extension did you ask for? Like, two quarters they said it is minimum that we will have to go for.

PS Reddy: So as we said, we asked for one quarter. So we asked for one quarter and then if you want to give me any more quarters, that's up to you. But we ask for one quarter.

Darshak Lodhiya: Okay.

Bhavesh Kanani: They forced two quarters minimum in this situation. You know, given that there was ambiguity on the transition bid, there were a lot of different talks of speculation. One of it was that any IT vendor serving any client, first they clear-cut requirements of the software has to come from client and only then the tech service provider will work on it and build the software. There are just rumors, I just want to check.

The final requirement submission from our end and itself got significantly delayed and hence, so far we have not seen TCS getting penalized for the delay. It was probably, I mean this is a speculation so I just wanted to put it the way.

PS Reddy: As you rightly worded it is a speculation, and I will endorse to be a speculation.

Bhavesh Kanani: Okay.

PS Reddy : And we have worked out ever since we have given the contract from day 1. The teams have been working hard with jointly with the TCS team making presentations, starts with preparing a functional specifications requirements and the specific exactly the flow, how it happens and all that.

So -- there are several of those documents, several, not one or two or 10, 20, no, there are many. Okay? And for Phase 1, this is what it is Phase 2, Phase 3, it was prepared.

Bhavesh Kanani : Okay.

PS Reddy : Why? With an intention that while Phase 2, Phase 3 is happening for is, they can start work based on the documentation that is given. So that's how we had structured, and it happened. Yes, there are delays, no doubt about it. But not that requirements have not given. No, that's not the case.

Ritika Dua: Sir, if I may request you, where you just ended to what Bhavesh had asked you earlier. On the question that you know earlier. So you were saying that T7 is operating fine there are some integration issues with the other software. And then you made a comment that now that the integration has resolved or the integration has happened. So firstly, did I get that correct? And what is the flow after this? Do you have to conduct more-and-more mocks to get some understanding that this is happening, or so what is the way forward from here?

PS Reddy : Well, see, more-and-more -- I mean, mocks have to be conducted, no doubt about it. And fine-tuning is also happening. As we said that EOD, BOD is taking more time that has been brought under control, but still some more fixes are being given. So that we are sure that every day by 3 o’clock, the brokers get the files at 4 o’clock at best. And by 6 o’clock, we will get the system up and running for the next day trading. So that's what is happening at this point in time.

And in the mocks, basically, we get, obviously, there are any issues from the member brokers, they will raise it. And then if there are any specific team member, obviously, there will be addressed specific to the member. And members will also test the files that we have generated.

As we said, it's not the first time we are giving the mocks. We have already done about 30, 30-plus mocks in the last three months, four months, we have done that. And we did get a lot of feedback, so many issues got ironed out. And at this time also, we should have a smooth run, that's the way it is.

Ritika Dua: Sorry, I'm -- just one last on this. So sir, by the way you put it, and obviously, just my apologies for lack of the technical expertise here, it seems that you are actually very confident because this is from where you started in the first quarter call, the concerns were to now what you're explaining to us? And then somewhere in the call when you know somebody said that, would we be ready by October, you said we could be ready by September as well. And we are already there in August. So then, sir, why aren't we saying it is September? I mean, what is so crucial in these two months is what I just want to understand to maybe I know we can't track these things because these are internal to you, but whatever best we can understand from you is where I just want to maybe end this question.

PS Reddy : See, as I said, we want to make sure that all systems are in place and we would like to run internally maybe for some days mock. We are running even now as I'm speaking also, mock is being run. It's just not exposed to the member focus. We are also using a trade generators so that the volumes are as much as in the daily life of the exchange. So we are testing with full volumes and, but it's only exposed to only to the internal -- testing teams are doing that.

So once that is completed, and then we get the EOD, BOD clean runs, okay? Then we will expose it to the member brokers. That's we will start the -- we will issue a circular to the market saying that from certain such date the mock run will start.

Bhavesh Kanani: So in this simulated environment where orders are generated by machine, there EOD, BOD are not an issue.

PS Reddy : No, no, no. They are also issue. That's what I'm taking. That is the reason why we are fixing it.

Bhavesh Kanani: Okay. It has not been rolled out.

PS Reddy : If it is address here, then it will be added for everybody else anyway.

Bhavesh Kanani: Okay. And this EOD activity running slow. And again, just like with Ritika, we are not technical people. So I just want to check whether it is about server capacity which is not able to process so many transactions or the system itself is not able to handle those volumes and its crashing?

PS Reddy : No, no. I think EOD processes not just one job step. There are several jobs steps that have to be done. Those job steps also have to happen in sequential manner. So there is a scheduler for it. So you run this file first and then you are have certain numbers, you run this number, this file, then obligations will be arrived. Then you do this, then market statistic data will be updated. So there are various job steps. These step past see whether all results are coming correct or not, and then move to the next step. So that's how the EOD, BOD processes will start.

Similarly, a new member, a new UCCs are uploaded during the trading day, which are activated next day morning. So in the start of the day processors are, beginning of the day processes, we need to make sure that all the ones which you have uploaded, which have been PAN verified another thing should be available for trading next day morning. So there is something and files will be there, which says in the records of the exchange for the day, we are the UCCs, which are eligible for trading.

So if the incremental 1,000 are uploaded out of 1,000 only 700 are qualified. Because PAN verification, they failed or whatever it is from the sites then all 700 should be there. So this is what the consistency verifications that process is taking. We have put a lot of pre-EOD checks in the system. So that the systems don't go wrong. So for all this, as we go along once we attain a greater degree of confidence, obviously, the first time system is being implemented. So it is important that we implement so many steps. Then the EOD, BOD period will come down as we go along.

Bhavesh Kanani: Okay well, we wish the best, but let's say, we are in October or let's say, we are in November, and we have still not rolled out this system. January contracts, SEBI has not allowed us to come up with Jan contracts. I as a trader, when I want to, let's say, go for next month's contract, I want to buy or sell. If the system is not ready, if the contract is not available, how do you see that scenario panning out? Do you see people moving to other exchanges with the volume since Jan contract is not available?

PS Reddy : I think, you're essentially asking that whether we will allow such a situation to crop up. Okay.

Bhavesh Kanani: No, sir, unfortunately, if that is the case?

PS Reddy : No, no. That's what I'm saying it. I think that is the worst-case scenario that you are looking at -- but I don't -- for me, it is a hypothetical question, and I would not like to -- I mean, we are all committed to make it happen. That's why you said that somebody asked the question that whether it will happen October, I said we should do it prior to end of September. So that is what our target is. So we are -- that's where we are. That's what it is.

Ritika Dua: Sir, just one last and my apologies to again press on that question. So what I understand that sir, obviously, because it's a -- you're running such a big exchange, so you obviously need to be very confident when you really roll it out. So -- and when I hear you out on the last bit on that you're trying to increase more-and-more volumes, trying to do more-and-more processes, and then you mentioned one example where 1,000 files are updated 700. And so it's coming out to be that you want a particular accuracy level. So am I getting it right and where are we today? Is that kind of a question is right to ask you. And so -- and when and -- getting back to the previous discussion, whether you were saying that T7 is running fine, but the issue was in the bancs bid, whether MCX fall in this, what is the role of MCX here, when it comes to your sending member files, etcetera. What is our back-end role in this whole integration process?

PS Reddy : Well, as far as MCX is concerned, we have been monitoring the systems, okay, that the systems should not go down. The infrastructure uptime is our responsibility, application uptime is the -- is the TCS, which is looking into it. But monitoring is what we are doing it.

And in terms of the accuracy and other thing is what we are verifying it even INR 1 cannot go wrong is obviously that there's a financial integrated part of it, we can't afford any kind of such kind of deviations. Similarly, any kind, no loss of transactions also in transit, okay.

At times, the data packets may be lost. So we have to ensure that nothing is lost. And whatever the members pump in, it reaches the T7, it reaches the bancs and it reaches the data warehouse. It reaches the surveillance system, okay, every data packets has to reach trades and orders with all its characteristics, whatever the type of order, the other things. So yes, it is a -- jointly we are working on this, madam. And as I said, the application ensuring the uptime and making sure that, all these computations come right is the responsibility of the TCS.

We verify it, we ensure that adequate testing has to be done and monitor all the services are running.

Darshak Lodhiya: Sir, recently there was an RFQ floated regarding the Span calculation application. So like is it a separate application which is TCS cannot do or is it the part of the main tele system that we have?

PS Reddy : Well, when we had given the request for them, then obviously the risk management system is part of it. And it continues to be part of it. And we are going ahead with the TCS module only. It's not that we are doing that. But as the latency numbers, okay, the latency numbers are very important for us. The lower the latency, the better it is from the risk management point of view.

It is somewhere, in some microseconds out there, but some other exchanges are having even still lower microseconds kind of response. So no not micro, I'm sorry, milliseconds. And so they wanted to, as a developmental activity, they have done this. So maybe six months down the line, they may implement it. Okay.

The primary purpose of it is, once the trade is done, it will go to RM, risk management system, it margins it and then sends the trade back to bancs. That's it. Nothing else. And then informs the member out of your INR 10 crores, INR 1 crore, whatever is the collateral, so much is directed, and then this is what the outstanding collateral is your margin.

So how fast you do that margining is what the risk management is all about. So that's where they wanted to improve that response time, to more a development like activity.

Bhavesh Kanani: Compared to other exchanges, I don't know, how you'll express this, but how many times is our latency worse off, compared to let's say, what other exchanges are reporting?

PS Reddy : See, we don't have the number directly from them, but some vendors whom we spoke to, they have said so and so has got, because they work with them, so and so has got that number, kind of thing. So, we wanted to achieve that. I mean, it's not, okay, today, even today, we have the margins, okay. You will not do anything if it is, there is what you call an alert mechanism, 60%, 70%, 80%, 90% and after 90%, they go into the risk reduction mode and then after 100%, they will go into the square off mode. So all those mechanisms are there. It is just that, whether that risk reduction mode or a square off mode will trigger at 1 o'clock or at 12:55 is what the difference, it will make, nothing this one.

For me incrementally, it's good to have but maybe internationally, I don't think, so much of risk management online is being done elsewhere. To the best of my knowledge. Good to have. Maybe they will do it batch mode, but not online. Every transaction you send it, to get back.

Bhavesh Kanani: Taking a step back from the technical bit, one question has been bugging me and since you have background of other exchanges as well. Lot of data proves that, very few option traders tends to make money, very small fraction of total base. Whether it is equity, commodities, but still people are glued to this. If you look at the volumes, we are generating, what keeps them going? I'm baffled, honestly.

So, if you can help us understand this bit. From where I'm looking at it, if less than 1% of them are able to make positive returns practically for 99 of them, it is like coming, doing loss, everyday, in and out, monthly basis they lost consistently. At some point, one would assume, it's not making, leave it. This has not happened in equity till now.

PS Reddy : No. The results are substantially about the equity markets, what I mean is that the research is blowing from that. So I think, these macro perspectives come from research only. Probably individually we keep thinking that, everybody is making money, that's why they are still blowing to the screens. But obviously, it's a zero sum game. If one is gaining, the other one loses. That's the way it is. Not that, that everybody can make money.

And so, why they are still doing it? Some of them, the difference between the equity exchanges and then commodities is there is some bit of hedging that is taking place on the exchange platform. In the risk management, they are doing it. So they are not interested, they neither make money nor they lose it.

Because the contraposition is what they take it, if they take the physical book as well as the financial book, for them it is a nil situation and that is the reason, why they continue to participate. Maybe some speculators are needed definitely in every market, who provide liquidity for these hedges. If you only say only hedges should come to the market then there will not be any match of preferences all the time.

Today you want to hedge it but there may be no opposite side to hedge it. So your requirements are not met. So these are the ones, who are filling that gap. And I'm sure, there must be some way to make money for which reason they are sticking onto it. Maybe there is also a churning that people keep thinking that they will be make money, whosoever has done it, he may be moving out, the new guy is coming thinking that it is an El Dorado. So, I know that's the way it is.

Bhavesh Kanani: Okay.

Darshak Lodhiya: One reason why equity options are like, the volumes are the way they are currently, it may be because the retail traders know about this company, they know what let's say, Reliance or like, all the companies do. So there is quite a bit of education that they currently have. So why don't we go all out on this retail traders educating them about this options contract that we also have.

Maybe introduce various new contracts on weekly or all those expiries, smaller contracts and there are these platforms like, all the brokers do educate the customers about options trading and all. Why don't we push them to educate the customers about commodity options as well, just like they do for equity.

That will create a lot of volume. And once the volumes come into options market, of course, there'll be some institutional desks, which will be hedging it in the futures market as well on the opposite side. That will increase the volume on futures as well. So, is there any thought process behind that?

PS Reddy : Well, investor education has been continuously taking place. There is no doubt about it. Almost all, maybe 1,000-plus or 1,500 are investor education programs we have conducted across the country with various stakeholders. It's not just put up a shop and then say that, come on, here is investor education. No. The specified education institutions we go, and we also go with the industry associations, so industry bodies. Some of the like, lead association or aluminum. So those stakeholders also will get educated as to what happened. Or MSME Associations were having the programs.

Now, while this is all fine, but there is an inherent, I would say, barrier, entry barrier into the commodities vis-a-vis the equities. That is, the contract size itself is bigger for people to get in as easily as into equities, okay. Now for example, you want to trade in cotton, now, the cotton is 100 bales. Now, 100 bales is almost all, how much, INR30 lakhs on which you pay 10 % of margin, which is about INR3 lakhs, okay.

Now, is the INR3 lakhs of investment is there on the other side, no. That is precisely the reason why our number of investors, UCCs is all near to 6 lakh UCC that have traded during the entire year as against UCC how much is the file -- futures and options is 6,21,000 UCCs.

Bhavesh Kanani: Correct.

PS Reddy : Just 6,21,000 UCCs, that's all, in the entire year. So, as against few crores, which trade in equities. So, because there is a barrier to enter in the form of higher contract size, greater margin requirements, etcetera.

Bhavesh Kanani: But sir, then all this smaller value contracts, they are still failing to attract volume, if that was indeed the impediment?

PS Reddy : No, the smaller contract size still not as small as the equities.

Bhavesh Kanani: Let us say, in bullion and energy, what is the minimum one would have to come with, in terms of value?

PS Reddy : 100 gram is the mini contract gold mini, okay, 100 grams is INR5 lakhs or INR6 lakhs contract size. And INR6 lakhs is about almost, how much, 12% or 10% is the margin.

Darshak Lodhiya: Can we go lower than that as well? Less than a milligram?

PS Reddy : Yes, ma’am.

Ritika Dua: No, no, sir, I was saying gold petal is there, I was saying, yes.

PS Reddy : Options are not there in that.

Bhavesh Kanani: What stops us from launching that?

PS Reddy : Let these contracts deepen because it gets fragmented also. The more you keep the slicing the same product into so many things the liquidity will get fragmented that’s another thing. We should also have some kind of a bandwidth we can wish how we should be playing it. Yes, ma’am, you are saying something?

Ritika Dua: One question on the premium to notional turnovers, if we are done with this one.

PS Reddy : Yes.

Ritika Dua: So, sir, obviously you always shared with us that how it is depending on how the options are, whether they are like obviously, in the money, out of the money, closer, and then, that's one of the factors. But if I just historically see, I mean as per the history we have available, the premium to notional turnover for bullion has always been Sub 1, whereas obviously the one the same for energy has been varying from maybe a high of 2.9 to now a 2.1.

Sir, what that explains the differential? Is it largely volatility? Is it the size or so that's what the question I have. And is there a way we can -- because what has happened for this particular quarter, the share of your bullion improves from, I think, 5% to some 11% on a quarter-on-quarter basis in terms of the share. And that probably is also a reason that your premium to notional turnover came off. So I just want to understand that then is it a good thing to actually have an increasing share of bullion in the options or and also is there a way to even maybe increase the premium to notional turnover and earn more out of bullions?

PS Reddy : See, we have been explaining all along that revenue from options will not go below the INR40 that we are charging because we have only two slabs. But what is important is, it is the premium to the turnover usually the premiums happen to be 2% of the turnover, option premium, if it goes down, yes. It will be -- it may be about 1.5 is what we have seen it, can't be more less than that is what we have noticed, is that correct?

Bhavesh Kanani: Yes, when you begin it was 1.5 then 2.2 and then closer to 2 now.

PS Reddy : It remained in that.

Praveen DG: Several factors in…

Ritika Dua What I meant was more not the blended numbers, but the breakup which you give in your PPT of you the notional and the premium number for the various segments. So, when I try to calculate exactly what is the premium to notional turnover for bullion it comes less than 1. So, maybe I can check that. Blended I am sure, I know it's available 1.5 to 2 and everything but maybe I saw maybe bullion was less than 1. So I check my number if that's wrong.

Bhavesh Kanani: Yes but this relation has got more to do with volatility and in the money and out of the money then which commodity is the underlying?

Praveen DG: Like, what I'm saying is several factors impact this premium to notional turnover. One could be volatility, other is like what participants are looking, whether they are looking for in the money or out of the money kind of contracts.

Third is even if the markets are growing bigger-and-bigger like, that means certain amount of maturity is coming in, automatically people find even out of the money also more liquid. That means they find the force coming there. Start participating there also. As the market go bigger-and-bigger, certain kind deeper and other thing, you can find certain amount of like, people like -- now today it is like you are looking at only near the money.

Secondly it is like suppose even a far month started building up the liquidity, automatically the premium to notional turnover again can go for a change. It's all depends upon several factors, but I feel that as the premium turnover itself is growing, you can look at it in a positive manner because it is how you can look at it. That means even the deep out of the money is getting relatively liquid enough that an amount of liquidity is building up in these contract. That is how you have to look at it.

Bhavesh Kanani: So is it safe to go with a middle number of something like 1.9 or something?

Praveen DG : There is nothing called safe or something it is like, it's all about like for example, if you take currency derivatives, the number is different. If you take equity market, again it is different. Index derivatives, equity again it is different. Each market has a different number to it. So, we cannot attach with any fixed number to it. But like I said, there are factors, different factors that can have a barring on this percentage.

Darshak Lodhiya: Sir if we increase the number of out of money contracts that can…

Praveen DG : So, other things keeping constant, if you look are the only out of the money contracts are building the liquidity and other thing, naturally, the percentage should come down. Because the premium amount that you get it from the out of the money contracts is going to be lesser compared to the in the money contract.

Darshak Lodhiya: The differential number of contract is there one at the money maybe 10 in money and…

PS Reddy : Strikes are issued -- strike prices are based on that only.

Praveen DG: Strikes are issued, but it all depends upon what people are looking at it, whether I would like to trade in the money contract, generally, as the contract is coming to a nearer to their expiry. Automatically people equally trade in the money and because out of the chances of out of the money coming into the money is relatively difficult. That is how, so there are various factors that is how we have to look at it. And I think our markets are still maturing. I can say that just two years, three years, that is when actually our markets and our market options started picking up. I think we should wait and watch.

Bhavesh Kanani: In terms of strikes, let's say, the commodity is at 100. How many strikes on each side would you start the month with?

Praveen DG : We have depending upon like crude, I think we have maybe a little bit more, 15 number may not be right, but we are giving for different commodity, different one depending upon the market interest.

PS Reddy: Volatility also we look at it. In a day, how much can you go up, accordingly you provide for greater number of strikes.

Bhavesh Kanani: So we haven't had a situation where we had to, I mean if let's say, you have a band of 120 and 80 in terms of strike price for a commodity trading at 100. And let's say, price moves to 120.

Praveen DG : That’s what I’m saying. See, irrespective of the price movement, you have a contract to trade in. That means even if it is deep in the money or at the money also, people can continue to trade that one. But the only thing is you cannot be able to introduce a contract in the middle of the day.

Bhavesh Kanani: Mid-way, correct. That's what I was inquiring.

Praveen DG : You won't be able to do. At the same time, if I come out with too many strikes, then automatically liquidity also will get diluted.

Bhavesh Kanani: True, true.

PS Reddy: And there is also risk. At times, illiquid option contracts are used for some transactions which are not strictly for the purpose of trading on the exchange. So, that becomes a surveillance headache for us also. So, we have to be careful about where they trade, what they trade.

Bhavesh Kanani: Sir, on oil imports, which are now happening in INR terms, does it have any spin-off benefits for us? Let's say, corporates who were earlier would probably be hedging their oil exposure, energy exposure, externally out of India and other exchanges. But now since those transactions are happening in INR, is there a possibility of us getting more volumes because of that particular development?

PS Reddy: Well, from the consumer point of view, we have been getting good amount of -- we are seeing traction of hedges participating, consumer side. But in terms of supplier side, refineries, they don't come on to the exchange. So yes, definitely consumers are participating. But more important is that I must say is that ours is a WTI, it all depends on how much is the WTI imported into the country and how much is the price that the government determines within the domestic market based on the component of the WTI at what price they got it etcetera, etcetera.

So, in that in that sense is not a free market, it's a regulated market. And I think, these prices are definitely a benchmark and these prices are definitely a representative price for somebody to look at how the other products are moving in the market and then hedge it, some ratio of it, they will always. In terms of correlation, yes, high correlation is there, but in terms of our oil pricing, I do not think the domestic oils are liberally priced in that sense.

There is all the controlled pricing is in place and we cannot compare a free market price with the controlled price, whether they are moving together or in tandem or there's a high correlation or not. There will be definitely correlation will be there because nobody can subsidize forever. If the prices are moving up or going down, you need to adjust those prices as well.

Bhavesh Kanani: And you made a statement such that consumers are using the derivatives to hedge.

PS Reddy : Some of them, yes.

Bhavesh Kanani: So how do we -- at aggregate level, do we get a sense that out of total participation with confidence that these volumes you do a disclose the table, but what is the logic behind that because…

PS Reddy : But disclosures are based on the declarations made by the investors at the time of trading whatever that is, whether they call -- they would like to call themselves as a hedger or there is some value chain participants on that, how they would like to be defined, accordingly we will aggregate it and then verify it.

Now, so there are certain, what should I say, some the market related issues are there in terms for their participation and I think we need to address it. And, for example, we had approached in the past one private sector refiner. They said that, look, I do not want to participate and then take daily mark-to-market, loss, profit and all that. I don't want to deal with it or you go ask, call me, give me margin, all that.

I don't mind giving you a bank guarantee. It means to the maybe exchange or to the member broker, arrange the credit lines and let them deal with it. And at the end of the month, I know that I have this any lakhs of barrels inventory on a daily basis, I will hedge it, maybe a part of it I will hedge it, but you please iron out these participation related issues. But we couldn't solve them that there are much bigger issues in the regulatory jurisdiction. So it's a challenge for us.

Bhavesh Kanani: Anyways, there could be more member brokers kind of prerogative to take care of this kind of needs of a customers?

PS Reddy : No. But members also can't fund no, as per the regulatory -- the members can’t fund.

Bhavesh Kanani: Peak margin and all…

PS Reddy : No, they don't mind giving you bank guarantee, but arrange for the funds on a day-to-day basis, there's a M2M loss, let the bank give it, my -- whatever guarantees that I give it. So it is a third party will come in. And the bank will say that I need a tri-party agreement with the broker. If there's a default, then I need to seize the account and then adjust and all that. But tri-party agreement relationships may not be permitted.

Ritika Dua: Sir, on the opex, if I may check one -- two things, actually. So when we first heard from you on the TCS contract, after, so there was a maintenance, which was to maybe happen once you transition. Could you just reiterate where does that stand today? And we were to, I think, disclose the more about like, the cost of the software and everything. Maybe I think we have said that we would do it maybe -- if I'm wrong, not wrong, maybe April or May, so when are we looking to maybe share more details around that?

And just related to it, I understand, I heard the call and why the depreciation was lower this quarter because of, you know, it was higher last quarter for some aggressive depreciation that you did accelerated, sorry. But how does depreciation maybe look like going maybe -- from here, maybe. That's the three-part question. One is, what is the maintenance bit on TCS is the same, which you have first mentioned? Second, when are we looking to disclose the cost on the software and thirdly, on the depreciation.

PS Reddy : First two, I will answer, yes, it remains the same. There is no change in that. The second part of it is the cost of software and other things. I don't think we can disclose it because it's a commercial transaction. Imagine, if I disclose it and then they want to sell the software elsewhere, then it becomes a benchmark for them and then it's not proper.

But in our accounts, we will keep depreciating it whatever is the hardware. Once we go live, obviously, everything will move from capital work-in-progress to the book in the depreciation assets and everything -- I mean, you may not get exact number, but then definitely, you will have the aggregate number. And on the...

Satyajeet Bolar: On the depreciation, ma'am, once we go live, so I mean it would be as per the useful life of the asset, so the hardware part would have a useful life as well as intangibles. That is the platform would also have a useful life. And according -- as per the Indian -- Ind-AS will depreciate as per the useful life, which would range from six years to eight years.

Ritika Dua: So far, sir, if I see this FY '23 cash flow statement, I think some -- the number that we have disclosed in terms of like, purchase. So that would be the hardware bit is what you're referring to. So that's a good way to understand?

Satyajeet Bolar: Yes. Mainly, I mean, most of the hardware has been acquired -- has been purchased and its stay in the books and a small part of the TCS.

Bhavesh Kanani: From a long-term perspective, sir, how would you size the opportunity of a commodity exchange, in the sense that user base is one angle, relevance for corporate clients is another, speculators is another, UCC, you mentioned barely a little about 6 lakhs, whereas the total base is far higher for us, active traders are less. So if you were to look at a five-year kind of scenario, how would you pin the scenario in terms of the volumes, revenues?

PS Reddy: Well, I would not like to what you call, give any projections or any kind of estimates or how it looks like? But there is a huge scope for the growth of this market, no doubt about, okay. Now one is that -- I mean, we just -- just suppose, with the international markets, be that China, be that LME for metals and ICE and CME, some of the products, they are far ahead of us, no doubt about it, okay?

Now we have an ambition to grow. But there are certain constraints that have to be overcome. And we are working on it. As we said, the important thing is one, GST is one issue. And because the members are -- the whosoever is trading on the exchange, they end up taking deliveries, they have to have multiple registration across all states where we have warehouses, etcetera, that will be a challenge, okay.

Now today, FPIs are permitted. They have just started trading, and it's a very small percentage, but they have to grow, and they should be allowed to -- they are allowed to trade in other commodities. Then again, GST challenges will come. So we need to address this major, what you call, a road block and we are not seeking any concessions. No, we don't want any concession in terms of reaction of GST rate. Facilitate in terms of clean-up of a process, in this process of navigating through this is what we are looking for. And so this is one major thing that we want.

The second part of it is, will it be as big as equities? My answer maybe no, in terms of number of participants, okay? As I said, the contract size is going to be -- continue to be high. And -- but has the Indian industry has fully hedged? My answer is, miniscule is hedged and mini -- a lot have not hedged.

Still, they have preferred to speculate in the commodity markets, in a sense, not in the organized market, but otherwise on commodity prices, they are speculating, and they are not focusing on the core business or core competency. So that is something which we have to be mindful of it. If they also start hedging, there's nothing like it.

And yes, we are focusing more on MSMEs because our liquidity provides support definitely for their participation because all the time, its an egg chicken situation for me, when we go and approach big large corporate, they say, your volumes are not enough to support my requirement and other things.

Of course, we plead with them at least 1%, 2%, 10% of your business can be diverted and they may are done on the exchange platform. They say, yes, but there is nothing happened. But MSMEs are showing interest. I'm sure we should be able to -- with a greater penetration and then handholding, we should be able to bring in. So that's a road way forward for us. And introduction of a lot of more number of commodities is another what you call, another way that we need to progress and more-and-more products, which are required for the catering to various industries out of the industry. This is…

Bhavesh Kanani: Pardon my ignorance, but if you can help me understand the GST impediment, how is that coming in a way?

PS Reddy: Look, let's just see, that kind of participant that we have on the exchange platform, are one some of them, as I said, hedges, there are some of them are financial players. What is the financial player does it? They takes delivery in this month, next month, he delivers, he is not interested in metal. He will keep it in the same warehouse. But that financial player has taken a delivery construct to deliver. So he has to register with the government and pay GST and get that GST back when he sells that metal.

Now, you happen to be a Bombay, you are a financial player, wholly registered in Bombay, but my warehouse is in Delhi. And you may get delivery in Delhi. So you have to necessarily register in Delhi also because you may get likely to get delivery in Delhi also. So these kind of issues are the ones which are bothering us.

And our PMS, for example, now PMS, if the rule says that every investor should be having holding that asset in -- but investors don't have GST registrations to hold those assets. And they are not interested, obviously. They are interested in the return of near month and spread benefit only, they are interested, not in taking delivery of the contract. But then that's the way it is.

Bhavesh Kanani: So this matter is already on table with…

PS Reddy: You can flag up with the regulators and the government, they are looking into particularly. And I don't think, but it's taking time, obviously, these are required a long discussions and deliberations and concerns of various stakeholders.

Bhavesh Kanani: Just last one. You said that the large corporates always complain about lack of volumes. So they are hedging, but they are doing it in international exchanges?

PS Reddy: Some of them definitely doing in international exchanges, or OTC platforms. But yes, they do cite as exchange trading. I mean, it's not sufficient. The liquidity is not sufficiency is what they are complaining. Yes, ma'am, anything? Otherwise, we are done.

Ritika Dua: No, sir. I'm good. Thank you so much.

PS Reddy : What about you?

Bhavesh Kanani: Satisfied.

PS Reddy: Good.