MCX/SEC/2231 June 08, 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.	Franklin India Mutual Fund	June 01, 2023	12:00 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Further, we hereby confirm that no unpublished price sensitive information was shared/discussed during the said meeting.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: 2023.06.08 18:28:34 +05'30'

Manisha Thakur
Company Secretary

Encl: As above

Multi Commodity Exchange Conference Call
with
Franklin India Mutual Fund

June 1, 2023

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

R Janakiraman: To kick start the conversation, let us straight away take on the main topic of Interest. I think we last spoke to you about six months back and at that point of time, the tentative timeline was about November '22 for implementing the new software, and I think you've had some challenges in meeting that timeline. Generally, we would like to get your view on that, not only the expected timeline, but also what are the key challenges that are holding you back? Just if you ask me this execution on the software has been quite unlike you, so far.

P. S. Reddy: Yes. I think the only thing that we are all engaged at this point in time or for the last maybe one year, is about making the TCS platform work for us, and it didn't happen, so, we had an extension last time in December. And of course, in September, we had one. And in December when we had a take-it-or-leave-it kind of offer of two quarters, so that is coming to an end in the month of June. So, I think now we are determined to make it happen before the end of June. So, we have also spread around, I mean, spreading to the member brokers to actually test the system. If there are severity of bugs, it's okay. We can live with it, but there should not be any severity 1, severity 2 kind of situation. And so let us see. Members are participating. The interest has increased. Although, in the phase two of this kind of mock, it has happened for the last many, many months, maybe the last three months it has been happening, and hopefully this month that intensity will increase among the members, and we should be able to go live is what my desire is. And that's how we are planning to go live.

But the challenges that we face are primarily related to the functionality being developed by the team, because the kind of complexity that we have in our trading engine, you won't find anywhere in the world. Okay? Because I mean the Regulators or the investors or anybody, they expect the trading engine, and being an IT Tech Valley country or we have so many people who can handle everything in the systems, so many, many complexities are built into the system. Many validations, many, what not? I mean, you check online. How many times, once during the day, hit the high, what you call, position has accumulated? They may not be breaching, but still, we need to find out and collect the margin depending on the highest position that a client has.

And similarly, the margining we do maybe 10 times or 8, 7 times a day. So, that's how we are securing the systems also in terms of risk management, but there's so much complexity in the systems. That's why it took a lot of time. I think now we are there to go live. I think we should be able to go live. That's what our desire and our endeavor is. I mean, that's what we are working towards this month end.

R Janakiraman: So, you mentioned last time, sir, that the trading software is from Deutsche and the backend, the settlement software is from TCS. So, from what you are saying, the real problem is in developing the functionalities on the TCS side, is it?

P. S. Reddy: Customization, yes, that's right. That's right. Customization.

R Janakiraman: Right.

P. S. Reddy: But then it's not plug and play, you know, not that just you bring the T7 platform and take the bancs and then just put them together, and then talk to each other. No, they don't, because this kind of thing TCS has not tried. There is a standalone T7, working in many countries, standalone banks is working, but this marriage is not working anywhere as of now. It's the first time that we have, I mean, the TCS is delivering.

R Janakiraman: Okay. Is TCS also involved with the trading software NSE especially on the commodities side?

P. S. Reddy: Not to my knowledge. They have some role. I don't know what is that role they are playing at NSE, but then I'm not too sure. But they had a T7 deployed in BSE and T7 alone is deployed, not the other one, not the clearing settlement part.

R Janakiraman: Right. And in the case of delays in developing that functionalities, to what extent is TCS also responsible, in the sense, are there any performance commitment from them? Like if you are unable to meet those commitments, then what happens?

P. S. Reddy: Yes. I mean, there are penalty clauses. They will kick in obviously, but then, again, every penalty has a cap, you know. Obviously, they will not let go the complete development fee. It is that way. There are penalties, of course, not doubt.

Nikhil Walecha: Sir, in terms of migration to the new software, especially if I look at the basic needs of the trading software which is the order matching, report generation, including the margin calculation, open interest calculation, member limit calculation, how are we on the basic needs? Is there any bugs in these four, five applications or they are running perfectly?

P. S. Reddy: So, that's what we have perfected so far. It's not just merely a plain vanilla, the way that you have explained. There are a variety of clients are there. You have, hedgers are there. Hedgers get a different limit and the traders will get a different limit. And similarly, the margin calculations for somebody who traded today, but he is different from who had an open interest yesterday, and only open interest is there, but they're not traded, and they have to be margined differently. And well, no, a variety of complexities there in the system, and that is where now we have been able to get a complete handle on it.

And similarly, the options are there, and again, options get exercised. And when it is exercised, it goes, devolves into the underlying futures. And again, you know, various types of exercises also happen, and accordingly the margin calculations will also undergo change. If it is exercised, what it is? If it is not exercised, what it is? Option writer will have a different margining. And option buyer will have a different margining system.

Nikhil Walecha So, in terms of the key requirement, are we ready to…

P. S. Reddy: That's what I am saying. We are ready. That's what we are telling the member brokers to please download the reports. I mean, we are downloading it. Let them participate, test the entire spectrum of functionality, and then we are giving the reports also.

Nikhil Walecha: And in terms of the audit and the other approvals, I think you mentioned in the call that they are going parallel.

P. S. Reddy: Yes.

Nikhil Walecha: But are there any guidelines or do we need any regulatory go ahead before going to the new platform?

P. S. Reddy: I mean as long as these reports are okay, then I don't think there will be any problem, but then reports are also, we got reports. I mean, obviously, their remediation measures are taking place, and then, again, they will do once again check post remediations, and then especially VAPT most important is... And so that's being done. That's being addressed.

R Janakiraman: And when you say, you ask the members to download the software and trade, so is it on a real-time basis? I mean, or is it just mock trading that you right now want to experiment with?

P. S. Reddy: Yes. But mock trading is nothing but the live trading, because they have got full data, full client lists. They have full, what you call, what's a hierarchy of responsibility that they have given, who should do what in their offices. With all its, I mean.... as if it is a live system whatever they have the assignments, roles and responsibilities assignments, with all its, you know, maker checkers and all that kind of thing we have deployed it. So, that's how we are asking them to verify it.

Nikhil Walecha: And will the mock still continue? And when are we expected to get the audit and other approvals?

P. S. Reddy: No, see mock is different and then audit thing is different. These two are parallel as I said, and mocks are happening. Mocks will continue before we go live maybe a week before or so. And the mock system that we have currently is going to be the live system. It is just that data will be erased, cleaned up, and all the latest data will be populated. I mean, whatever the live system data will be migrated. That's the only thing.

Nikhil Walecha: So, sir, what is the reluctance or the concerns of the trading members for not downloading this new software?

P. S. Reddy: No, no. There's no download needed. They are all participating in it. As I said, you know, just day before yesterday we had a mock trading. Usually, there were 30, 40 used to do it or maybe 40, 45, and day before yesterday we had 90 plus. And so far, 210 members, unit members have traded. And we assess our members back to our about 400 only, and so that's the way it is going on, and our top 100 are already tested.

R Janakiraman: So, how do we decide that we will shift as Nikhil was asking, is there any regulatory approval required?

P. S. Reddy: No, not required. There is nothing on the court and no stipulation that we have to go to them and ask them, but there are due diligence aspects that SEBI issued for testing etc. We are complying with that.

Nikhil Walecha: So, one day you will just inform all the brokers like we are…

P. S. Reddy: Not one day. We will give it; we will make it by the middle of this June we will communicate.

Nikhil Walecha: Okay. Sir, in case there is still any glitches after we go live to the TCS platform, do you think there will be need to go back to 63 Moons and ask for a renewal?

P. S. Reddy: No. You see, there is, Nikhil, there is no going back we have to make it work. That's the way it is. There's no going back.

Nikhil Walecha: No sir. I understand the optimism, but I am just saying that it's a technology and there could be glitches that can happen.

P. S. Reddy: No, members can't go back. The reason being is, if once it is downloaded and the reports are all there, you work for one week or 10 days, and again, if there is a glitch, then the TCS has to fix it and then move forward, because they can't keep again reverse engineering and then trying to retrofit to the 63 Moons system.

Nikhil Walecha: Sir, what I am asking is if there are any glitches for any chance, if someone say lose money on the trading platform and because there could be some short-term disruption because of this. In that case, is there any Plan B? Because I understand we'll go to TCS and ask them to get the new, but there could be a possibility that there would be a short-term disruption if there is a delay. What are our Plan B in that situation?

P. S. Reddy: As I said, there will be no Plan B, once you launch, go live, these systems cannot be, what to call, retrace.

Nikhil Walecha: And do we expect, I understand you have said 300, 400 members out of 600 have migrated, would be migrated to the new platform. So, do you think there could be the remaining members which will not be migrating, there could be some revenue loss because of that?

P. S. Reddy: There's absolutely zero revenue loss because all those 600 are there, they are called registered members, and some of them have even surrendered also, but they are not canceled because they are pending with SEBI for cancellation or various other reasons for which they are pending, but otherwise, they are not active members. Registration is different. Active members is different. Active, I said, about 400 are the active members.

R Janakiraman: On the basis of the mock trades that you have done so far, you mentioned that glitches you classify on severity 1, 2 and 3. So, what has been the experience, are you confident based on the mock trades data?

P. S. Reddy: Yes. There are hardly any severity 1 and 2, hardly any, this one. There could be some data migration related issues. And that data migration sometimes, you know, a client is, let us say we are, what should I say, we have active, we have uploaded the data, in sometime middle of May or early or end of April, kind of thing, and some contracts may have expired, because the contract master has got a certain, contact they may have expired. So, they try to trade. It may not go through it because we don't, you know, give latest masters on a daily basis obviously, and so that kind of issues are there. So, it's more to do with the data migration, but otherwise, no, we have not found any major severity 1 and severity 2 issues.

R Janakiraman: And while you mentioned that about 90 brokers participated in the last mock trading, how does the mock trading volume compare with your actual volume?

P. S. Reddy: Mock trading, in terms of volume, because it is, I mean, members don't put too many trades in the regular days because they have other work to do in the week. So, on Saturdays they participate maximum. So, we find Saturdays maximum trades coming, but at the same time, on other days also, as well as Saturday, we use a trade generator. So, some dummy numbers or clients are created in the numbers and then using the trade generator, we create the depth in the market so that the Algo players will have enough to react to this, because Algos are automated systems. So, we will get enough of, you know, depth or enough of trading happening. So, that's the way it is.

Nihkil Walecha: Sir, is it fair to say post the migration, the new software, the new trading platform will run on the full functionalities that it was prior to migration or there would be some functionalities which would come over the period of time? I think you had mentioned on the call that there are some issues in the multiple contracts or multiple expiry etc. So, that kind of functionalities will not be there in the initial phase.

P. S. Reddy: Even now also it is not there, okay, that kind of functionality. But some functionalities which are there will be released post go-live. So, for example, negative pricing. What happened in March? Crude oil went negative sometime in, you know, in March 2020 and that functionality is not being released, you know, as of now, and post go live, we will do it.

We will be informing the members also very clearly, these 5, 6 functionalities of 10 functionalities are not available, and many of them are related to while the negative pricing is a part of the trading and related, not even trading clearing and settlement related issue, but the functionalities which we are not releasing are mostly related to TWS (Trader Workstation), and those Trader Workstation, our revenue contribution is less than 1% that is coming from, but then it has been there historically and traditionally. That is why we are giving it. If you see NSE, NSE has stopped giving a trader workstation. Earlier they had what we call, NEAT or whatever is a system. They stopped it, and they say that you take it from vendors. Their front office vendors are there. Please take it from them. That's the way it is.

Nikhil Walecha: I think on the business side…

R Janakiraman: One minute.

Nikhil Walecha: Yes, sir.

R Janakiraman: Sir, so once we shift to this new software and in the first one month because of the operational glitches in this transition, because of these glitches, is there any scope for any liability falling on the exchange from the trading member side?

P. S. Reddy: Yes. See, the way that liability, yes, it can be, but at the same time, the liability part of it also, as legally, in terms of bylaws and other things, we are protected. And if there are any technical glitches, which is a, what you call, under force majeure, and we are not, you know, so much liable legally speaking. But at the same time, we do not want to give any such kind of take easy shelter. So, that's why we have done so much work in this area and we want to make experience from members, I mean, it should be glitch free. But if you, God forbid, if some reason, if the system is down, probably we will, what should I say, we have to make it up-and-running, which happens in many exchanges. You know, if the system is down, then it's down, and the RCA will be there. The Circular is already there in place. Some penalties are there on the exchanges if you are not able to make it run. All that will, there are more penal penalty structures are there. So, yes, there is a framework which we will be subjected to.

R Janakiraman: Right. And the exchanges migrating to the new software, it is a relatively rare phenomenon in India, but I'm sure it must be happening elsewhere in the world on a regular basis. When you look at the track record of these migrations, how smooth are they? In the sense, how long does it require the exchange to actually reach the business-as-usual condition after the migration?

P. S. Reddy: Yes. You know, unfortunately, the kind of situation we were in or the kind of agreement we have with the vendor had led us to this kind of situation where we were under pressure to do deliver. Okay. But otherwise, when migrations takes place, maybe they take place maybe first trade engine, next may be clearing and settlement, or a part of it, you know. So, it will happen, what you call, a module wise or as a few modules are shifted each time and then see that.

But that's not what is happening in this case. Okay. It's a big-bang approach is what we have, and again, because of the kind of agreement that we had. One sided agreement we had.

Nikhil Walecha: Sir, just one more question on this. What do you think has led to such a delay? Is it because we were not having source code of the platform? Or I mean, there was an integration issue, or it was an adaptability or maybe the change in the CTO also happened at the same time? So, what are the main reasons why this delay had happened?

P. S. Reddy: Delay for the…

Nikhil Walecha: Transition.

P. S. Reddy: The current development? Development itself took time for TCS to give us. There is nothing to do with the code. Code is their own code bancs. A T7 code is again, T7 is also managed by them in those countries wherever it is being run because the T7 is also managed by TCS. Okay. And so, they got it immediately. That's not an issue. Customization took time.

R Janakiraman: But I appreciate your approach, sir. Now that you are fully committed, anyway, there is no comfort in a fallback option. So, you have to go ahead.

P. S. Reddy: Yes. You have to go back, you know, I think. Only yesterday I learnt, of course, I am not so good in Hindi. I learnt what is there beyond, darr kea age kya hai? It is jeet. Somebody said that. So, it is that way.

R Janakiraman: I just have a question from TCS perspective. What is their view on this?

P. S. Reddy: I mean, they want it to go live.

R Janakiraman: I know.

P. S. Reddy: Yes.

R Janakiraman: What is their commitment? Are they keen to make it go live?

P. S. Reddy: Yes. That's right. See, I mean at the highest level, highest level in TCS and Tata Sons, it has been engaged, I mean, this issue, and they are constantly monitoring, and that's the way it is happening, highest level.

R Janakiraman: And give us an idea from TCS how many people will be engaged in this project?

P. S. Reddy: See, there is about 200 people at one time maybe. Okay. And maybe 150 maybe there currently. So, a lot of development has already happened, everything, and it's only testing and few bug fixations. That's what it is.

Nikhil Walecha: And this time source code will belong to us or?

P. S. Reddy: No. Nobody gives their… nobody is willing to give a source code. Okay. It's you keep paying AMC and you get a perpetual license. That is the way it is.

Nikhil Walecha: Sir, moving to business side, from this Q4 result perspective, the key observation was the optional premium to notional turnover ratio is used to be around 2.6%. There was a sharp drop in this particular quarter, I think. So, can you highlight what led to the change in behavior of the trader which is leading to such a change and whether that can be worse?

P. S. Reddy: See, when the volatility is more, then people on options also they tend to trade far away from in-the-money or at-the-money. So, the premiums will be lower. Okay. Hoping that whatever contract that they are trading which are far away at that point in time may become, you know, thanks to volatility, it may come in-the-money, and then they may make good money. But then it is our income is dependent on the premium that is getting collected. So, we currently have only two slabs, 40 rupees and 50 rupees. So, the entire trading almost, is now at 40 rupees. It cannot go down. That's the way it is. 40 rupees per lakh. It will not go down.

Nikhil Walecha: So, basically, what you are saying and a 40 rupees realization optional premium to notional turnover which was at 2%, that was at the bottom.

P. S. Reddy: That's it.

Nikhil Walecha: It should not go up.

P. S. Reddy: It should not go down.

Nikhil Walecha: So, at what stage does the realization, average realization, what was the max average trader's realization in the options?

P. S. Reddy: That will be 50 rupees maybe initially when it was…

Nikhil Walecha: No, again, see, lender realization that you are seeing.

P. S. Reddy: See, as the volumes grow now, I don't think, you know, the 50 rupees you will get realized because this 50, 40 is based on the volume, each member does it. So, if members are already getting this kind of benefit of Rs. 40, then it only depends on the amount of premium that is getting collected or traded other than our tariff. Our tariff remains at 40 only.

Nikhil Walecha: Any plans to change that?

P. S. Reddy: No, not in the immediate future.

Nikhil Walecha: And the other observation for me is, if I look at the number of members, the number of terminals, number of UCC, they all are on the declining trend. So, why is this happening? I understand you highlight that we should look at active UCC, but even other things, other variables also like the number of cities reduced from 1200 to 700, number of members reduced from 600 to 550. So, what is happening? So, can you highlight?

P. S. Reddy: As I told you, the members, most of them are inactive members. So, on the list will look 600, but then actually they are only 400 are active. So, once the SEBI gives the permission for closure, they all get closed. Recently SEBI has taken a decision on this NSEL matter, some brokers who are not in the National Spot Exchange issues. So, they kept it on hold. Now they are cleaning all those files. So, as a result we are getting permission to shut them down. So, we have closed many of them. That's why the number has come down, but it will have no impact as I told you. It has no impact.

So, in terms of UCC's, actually the active UCC count has increased, not come down. I do not know where you have got that figure as against last year, and I think the UCC traded is something big. Now, again, I don't want anybody to be let down by what you call, rosy path of number of UCCs being registered. Members have a tendency, especially when the members have become unified members, they tend to admit equity, and they also put a tick mark for commodity and maybe currency, what not. So, they will upload it because it's one time exercise for them. They don't want to repeat that. That itself does not mean that we get so much. They are potential, but they may not trade, so many investors. So, that's why I don't harp on that number at all in any of my calls and I only say how many are actively trading and that matters to me.

Nikhil Walecha: And on the competition, I think it's been a while since NSE has tied up with CMI and they have also launched Crude options. So, just wanted to know, for a trader is there any operational concern that you cannot switch from one exchange to the other? Because I think margin money is fungible in the same exchange. Just wanted to know because in the equities they have been allowed, but in the commodities, margin money, fungibility is still not allowed, but operationally, is there any challenge for the trader to move from one exchange to another?

P. S. Reddy: Operationally there is no challenge except that, you know, he should have adequate margin with us. Okay. And what is important for a trader is the liquidity. Unless there is liquidity, they will not trade and you have, it is 15th May they launched, now 31st, May 15 days or 16 days. Now the average turnover of WTI in NSE was 60 crores and on natural gas it is 19 crores average turnover. The open interest is 80 lots and 87 lots in the case of natural gas.

So, this is the statistics, and they can't introduce a liquidity enhancement scheme or anything of that kind because already a liquid contract is there in some other exchange. So, these are all the constraints. And we have seen it also. I mean, this is, this all the time, maybe since 2017 or this constantly is on the, or '18, when equity exchanges were permitted, there is a fear that they may take away the commodity exchange liquidity. That didn't happen. They started gold or options on gold etc., or options on commodities. So, they tried all the, you know, methods of getting the business. Nothing happened. Liquidity is not easy. It's sticky in nature.

Nikhil Walecha: And is the regulator looking to allow interoperability of the Trading Corporation in the commodity?

P. S. Reddy: I'm not too sure I get. I don't think they will so soon they will permit. I mean, that discussion is not there at least at this point in time. And as I said, it is not just the liquid -- it is the collateral or money which is there. That is, that alone doesn't help. Liquidity is the first requirement. Then only any amount of margin money can help.

R Janakiraman: Looking beyond this software implementation, assuming that this challenge you successfully manage, what next? Do you have a pipeline of new products that are quite ready to be launched given the flexibility that you'll have with the new software?

P. S. Reddy: No. Well, it is not so much of the software as to the products that we have applied, and they are not getting approved by the regulator. That is the important thing. And another important dimension is the GST, which is an issue, which is restraining or participation of major players in this ecosystem. So, I think we are trying to address this GST issue as a different one and we have actively engaged with SEBI and the Ministries concerned. And let us see. If we are able to overcome the GST issue, then I am sure the participation would substantially increase.

Nikhil Walecha: Can you elaborate on this GST issue? What is the issue?

P. S. Reddy: See, you know, when the deliveries are taken, the people should, I mean, we have delivery centers across the country, and the people who have taken delivery are not sure where they will get the delivery. So, they end up registering in all the states where it is not required. And even if there is no delivery, they have to actually file returns, all that kind of thing. That is for the ones who are actually hedgers. Let us say somebody is in right up North and then somebody in down South delivers and then he gets an allotment in North.

He will not be able to take delivery of it, and it makes no commercial sense. This is for hedgers, one part of it.

The other part of it is somebody, kind of financial players. There is arbitrage opportunities between near month contract and far month contract. So, what do they do? They buy it in this near month, and they immediately sell it, and the material comes, it resides in the warehouse, but this is a constructive delivery, is taken in the name of the person who took the delivery whosoever has done that contract. So, they too have to have a registration and, you know, GST registration. And so, it is dissuading a lot of mutual funds, a lot of AIFs and others. This is causing a major concern for them. And we told them, of course, currently, FPIs are allowed only in the cash-settled contracts. Going forward, if they are allowed in this, then they may not come. So, this has to be addressed at one place, at one go.

R Janakiraman: And other solution ensuring that delivery happens at a more predictable location.

P. S. Reddy: No, currently also we have a, what you call, a preference. Okay. The seller has a choice where he wants to deliver. That is what the contract specification says. So, to the extent the buyer gives his preference, and if the seller also is available, then allotment takes place, but once that is ruled out, then the rest is that wherever the seller wants, they will deliver them. The buyer has no choice but to take the delivery. So, we can't always match that part of it. That's the whole issue.

R Janakiraman: Is this what holding back, like you mentioned, institutions like MFs or AIFs or even the FPIs to participate more actively in?

P. S. Reddy: Yes. FPIs just joined recently, you know, maybe a month ago we have started and almost all 25 registrations have come, and a good number of people are already participating. FPIs have started participation, but they are permitted only in cash-settled contracts. So, they are active in maybe the crude and energy contracts but not other contracts, but they will be interested in other contracts as well. But AIFs, PMS etc., they are not able to do that because of this reason. And not only that. Even the high-net-worth individuals, HNIs okay, even why should they take delivery and then go through the GST registration et cetera, et cetera? I don't think they will get any benefit out of it, but that's the law at this point in time. So, we're trying to overcome it. Let us see.

R Janakiraman: Is this a fiscal '24 issue Sir, which can be solved by the end of this year?

P. S. Reddy: Well, it is some regulations have to be, Government has to amend certain regulations under ease of doing business and some kind of revenue department etc., etc. We are actually targeting for the Free Trade Warehousing Zones which are located in SEZs to be the delivery center so that, I mean, some economy we are trying to work out, whether they can be made, facilities can be made available with the necessary regulatory framework in place so that this kind of GST conundrums are addressed.

R Janakiraman: Is the FPI volume, is it meaningful as a percentage of the overall volumes?

P. S. Reddy: Is it meaningful? No. But it is increasing. That's all I can say. It's going on.

Nikhil Walecha: Sir, just wanted to know your views on the mini contracts? At one point of time, it used to be one-fifth of the growth used to come from the mini contracts. And now incrementally how are we seeing the growth in the mini contracts which we have introduced like zinc, crude et cetera? And who are the participants? Is it the Algos or the small-time traders?

P. S. Reddy: See, the huge retail client phase we had earlier, not all of them have come back, okay. Still to come. And in fact, it took almost three years for this contract to revive. So, obviously, all of them have gone away. So, at this point in time, it is a small percentage. I think we are looking at having it back to the 20% kind of contribution. And yes, there may be arbitrage opportunities between small contracts and bigger contracts. Wherever there is an opportunity, obviously, Algo players and others will definitely participate.

I have not seen that, I mean, I have not probed into it as yet, and just recently we have launched these contracts about two, three months ago, but it is not come, it is not firing at all cylinders at this point in time. We also want to introduce again mini, I mean, trading unit, delivery unit differently for the case of copper and the nickel. I think we have requested SEBI to look at that also. In fact, their contribution was more earlier in the total overall volume also. So, those contracts also come, probably we will be able to do better.

Nikhil Walecha: Sir, can you refresh on which product do we have a mini contract and where we don't have a mini contract?

P. S. Reddy: We have in zinc, lead, aluminum, WTI, and NG. These are the ones, and we had earlier nickel and copper also. Those two have gone because the smaller lot, trading unit and delivery unit cannot be made identical there, whereas in the case of other three metal contracts, 1 ton is available. That's why we made it. So, those contacts are 1 ton and 5 ton. Mini is 1 ton and major contract is 5 ton. In this case it is…

Praveen DG: Yes. In all other cases, it is the 5 and 1 metric ton, but in case of nickel, it's, but of course since the main contact itself has been now changed to 1.5 metric ton. Now we have to look for a mini which is smaller, maybe one fourth and one sixth like that, but earlier the main contract of nickel itself was 250 Kg was the contract then, and the mini was 100 Kg.

Nikhil Walecha: So, we don't have for gold, silver group, natural gas?

Praveen DG: We have. Gold they are permitted because SEBI permitted.

P. S. Reddy: They are there from day one. They are not called as mini or anything like that. We have gold 100 grams, 1 Kg, 100 grams. We have 8 grams (Ginni), 1 gram gold (Petal). So, all of them, they are there. From day one they were permitted.

Nikhil Walecha: Sir, in terms of the future volumes which are being sluggish for the last two years, especially after the launch of options, I understand the options is a much, much better proposition for the customer, but what are the other reasons which has impacted the futures volumes? Is it the peak margin norms which are also after 5 PM or just… I wanted to know your views what has impacted futures volumes?

P. S. Reddy: See, the tendency of the investors is to move towards the, what you call, the option contracts because options somehow define what is happening elsewhere in the world, and that's how the people have got fad for it.

Secondly, the margin requirement, after the peak margin circular has come, people have moved towards this because the margins requirements are much smaller as compared to the futures contract. That is the reason why it is attracting.

Praveen DG: The advantage is, in case of option the buyer only pays margins as one time, like he pays a premium. After that one, there is no question of margin. That comes into the picture in options, but in case of futures, it is like depending upon the volatility and other thing, your margins will keep changing. So, the buyers will have to keep track. So, that is what making them to look at the options which is more convenient for them.

Nikhil Walecha: And just wanted to clarify this peak margin rule, is it applicable across the time period or even after 5 PM?

Praveen DG: Yes. It is applicable across time.

Nikhil Walecha: Okay. And how do you see the revenue mix? So, now it's equally divided between the futures and option. How do you see it going ahead?

Praveen DG: Bolar Sir, I think you can give the numbers.

Going forward, see, it is like, currently, the way it is happening, definitely we see very great participation is being witnessed in the options contract. Also, you can look at our equity markets where I think again maybe you have, in fact, options that are more popular in equity market, especially in weekly index products. And again, maybe you can also look at even the stock options. They are also I think quite popular, but still, I think there is a long way to go for us compared to the equity markets that way.

Nikhil Walecha: Sir, how are we trying to address the concentration risk in the options, both from the product side as well as the participation side? Because on the product side, clearly crude and natural gas are dominating, and in the participation side also, Algos I think probably contribute around 50%, 55% to the options. So, how are we trying to address the concentration risk?

P. S. Reddy: See, we cannot call it Algo as a one-person kind of thing. Algo is a classification that is under one bucket, but how many Algos are there, whether there are 10 members or 20 members or one member, that disclosure is not there. So, it's not this Algo means it is necessarily one or two. No. So, there also we have a good number of players there. Point number one.

And point number two, that on the concentration of crude, I think we are promoting others also. Now off late you may have seen the gold is doing better. And in fact, yesterday, I mean, two days ago, 10,000 crores…

Praveen DG: 20,000 crores.

P. S. Reddy: 20,000, options. So, it is picking up. So, as it picks up, obviously, we will get, the distribution gets wider. Yes.

Nikhil Walecha: And on the regulatory side, is there any discussion to, I mean, they have looked at the option trading, and there was one report also on the same that most of the retail participants are making losses, especially, but is there something that regulator is contemplating to bring the norms to even the options trading and any other regulation that they are discussing with you?

P. S. Reddy: We have no knowledge on that whether there is any such, you know, idea on the part of regulator, but yes, investors must be aware of the risks involved in trading in these products. These are not meant for one and all, and they should be aware of, you know, the pitfalls of the risks involved in this, and they may lose the entire money that they have put in this. That's the way it is. So, at the client onboarding itself, a lot of education is planned.

Nikhil Walecha: And in terms of the new launches that we are planning in the option and future, I think gold monthly, coal, steel bars, electricity derivative gold exchange etc. So, how do you think going to the futures, so which of these do you think can be a meaningful contribution to the revenue line and any timelines for the launch and also a reason for the delay in this?

P. S. Reddy: See, the steel contract we got the approval from SEBI only the last month or in the month of April, towards the end of April or early May we got it. So, we will be launching, now that we have to prepare the ground for it and sensitize the member brokers as to… and share with them the data how these, you know, the prices have moved in the last two years, three years and some R&D is happening. So, anyway we will be launching sometime, you know, in July, August, the steel.

The second part of it is electricity. We have not received any approval. So, that is being awaited. And the options, the gold what we got it, I think that will take some time. At times now we introduce too many products also. The members don't pay proper attention to promote them. I think we need to give little time for them to, you know, look at and study how the product behaves. Again, I mean, there is, I have been telling from time to time to various other investors also, it's not like just equity markets, you just put 500 rupees, buy some few shares. It's not an investment market. It is investment-cum-hedging, and we are looking at more important is hedging. And if you buy one lot means, it could be a few lakhs of rupees and to that extent, margin is also so much, and there is nothing called one share of Reliance buying or one share of Infosys buying kind-of-thing. So, investors cannot try in this market as frequently or with as much risk-taking ability as they can do in equities. Okay. That's a big challenge.

Nikhil Walecha: Is there a way to bring down the lot size possibly, I think you are evaluating, the option contract as well? Anything on that front?

P. S. Reddy: No, I don't think we can bring down the lot size because SEBI is also keen that the derivatives contracts are reasonably high. I mean the contract lots are such that not everybody and anybody will come in and then, you know, complain about loss of money. That's what it is. We don't want to hurt retail small investors. It should not be…

Nikhil Walecha: Any plan to introduce fortnightly option contracts for any other products?

Praveen DG: Shorter duration contracts we are looking at post to go live because our priority is again on the CDP go-live, and if you look at even the new introductions, I think this February and March only we have introduced all the mini contracts. So, that way it is like, the six products have been released into the market. So, we have to, again, it is like take a breath and then we have to come out with the new product, especially, we definitely we are looking at shorter duration contract. It is in our mind. We will introduce it at the right time. That is how we are looking at it.

And coming to the contract size, here it is not like equity where one share can get traded. It is like always it should be like a deliverable. Like when I am coming out with any commodity contract, I also have to look from the point of view of delivery, whether that particular unit can be deliverable or not. So, suddenly I cannot have a contract as gold 800 Kg or 800, what do say, grams or 750 grams. Similarly, copper. So, I need to also look at what are the physical market practices, how the deliveries are happening in the physical market. Considering that one, I need to go for an appropriate trading unit. So, I need to look at delivery units as well as trading unit. Then I need to, depending upon the market, I can able to do all the products.

Nikhil Walecha: Is there any way that we can increase retail participation? I think one of them is the smaller contracts. Other than that, how can we increase retail participation?

Praveen DG: See, currently options itself is playing a big role, right now. In fact, shorter duration contracts can also help in a big way because the premium quantity will come down, because the moment you are reducing the time to maturity, automatically the premiums will come down. That can help the market participants.

Nikhil Walecha: Sir, can you tell us the transaction fees in the domestic market, if you compare it with the international Market, how that differs? I understand, I think the other fees component is very high in India, but overall, as a percentage, is the domestic market fees higher than international market?

Praveen DG: Yes. It is, slightly, definitely it is on a higher side, but not significantly I can say, but more importantly, the trading, other trading costs that are in many folds it is the higher. That is what increases the trading cost for the market participants.

P. S. Reddy: Like CTT.

Praveen DG: CTT. We have multiple things. Stamp duty, GST. All put together, the trading cost is substantially getting increased.

Nikhil Walecha: And in the domestic, I think RBI had not allowed hedging in the gold outside India, and the similar thing happened?

P. S. Reddy: Oh, that is all hypothetical questions. I don't think we should be looking at it. And we have been asking for it, but I don't think RBI will do anything like that, and they say that that in domestic exchanges also complete. Maybe gold didn't do it because of maybe the currency or whatever that they have in their mind, but yes, they will not.

Nikhil Walecha: And sir, just can you breakdown your other income into the investment income that has come from the income from the float and the income from the shareholder investment? Can you just give a broader break-up because it's very volatile? So, how should I look it going forward?

Satyajeet Bolar: The money, the income that we earn from our margin money, that is part of our revenue from operations, right? So, because that is collected by our wholly owned subsidiary MCX CCL because the revenue that we earn on that is part of our income from operations, but we have around 900 crores in our, that is a shareholders investments, cash. So, that is invested in these, in government bonds and all. So, we earn around 7%, 7.5% on that. It is mostly locked in long term in SDL and such instruments. I hope I have clarified it.

Nikhil Walecha: No, no, I just wanted to understand the breakup of the other income?

Satyajeet Bolar: Other income would mainly constitute of the treasury income and a small part would be consultancy fees and rental income and all that.

Nikhil Walecha: So, this 900 crore investment shareholders money, that's the largest component.

Satyajeet Bolar: Yes.

Nikhil Walecha: So, why this is volatile then?

Satyajeet Bolar: For the quarter or for the whole year?

Nikhil Walecha: Yes. Quarterly, yes.

Satyajeet Bolar: No, quarter is almost seen. Isn't it? If you see for the quarter on a consolidated basis, it's almost flat because we had a problem in June quarter because that's when the rates, RBI had increased rates in May, and we hardly earned anything in the June quarter, but after that, we have been, as in we moved our investments from mutual funds to debt to SGF. The June quarter we had; it was volatile.

R Janakiraman: Lastly, just one question on this plan to invest some money in the SGF and try to increase the volumes through that route. Has there been any development?

P. S. Reddy: There was a minor development, but that is not substantial for us. So, still the SEBIs RMRC has to decide on this. This is a minor development which they say that the interest income arising out of, can be taken out if you want to take out or you can keep it and then give that, but then that itself is not going to give a substantial leeway for us to reduce the margins. If 1% is reduced on an active contract, it will be few hundred crores of, you know, contribution has to come. So, unless that clarity comes, we can't contribute to SGF.

R Janakiraman: Okay. Nikhil, anything else?

Nikhil Walecha: I think I'm broadly done.

P. S. Reddy: Okay.

Nikhil Walecha: Just, sorry, one thing. On the other expense type, can you also give the breakup of that?

Satyajeet Bolar: The other expense for the quarter, it has gone up a bit because our subsidiary company, they account for CSR expenses only at the end of the quarter. So, that's why the entire jump came in the quarter. Other than that, it's just a normal expense.

Nikhil Walecha: No, going ahead also, it will continue in same manner?

Satyajeet Bolar: Yes. Because that is the practice they follow, the CSR contribution while we account it every quarter, they account it at the end of the year.

Nikhil Walecha: No, other than CSR, what are the major components in the other expense?

Satyajeet Bolar: I mean, the expenses that we need to maintain the building, the administrative cost, the other cost related to the building.

P. S. Reddy: Licenses.

Satyajeet Bolar: And licenses, legal expenses. All those expenses. Okay. Fine.

Nikhil Walecha: Thanks, sir.

P. S. Reddy: Thank you so much. Thank you. All the best.

R Janakiraman: Thank you.

P. S. Reddy: Bye.

R Janakiraman: Best wishes for the next month.

P. S. Reddy: Thank you so much. Very kind of you.