MCX
METAL & ENERGY
Trade with Trust

MCX/SEC/2316 November 24, 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 Kotak Securities with the participants including Sundaram MF, Invesco MF, Motilal Oswal AMC, 360 One (IIFL AMC)	August 17, 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Further, we hereby confirm that no unpublished price sensitive information was shared/discussed during the said meeting.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: 2023.11.24 19:45:45 +05'30'

Manisha Thakur
Company Secretary

Encl: As above

Multi Commodity Exchange of India Limited
Investor Group meeting facilitated by Kotak Securities

November 17, 2023

P.S. REDDY: **MR. P.S. REDDY – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – MULTI COMMODITY EXCHANGE OF INDIA LIMITED**
MR. SATYAJEET BOLAR – CHIEF FINANCIAL OFFICER – MULTI COMMODITY EXCHANGE OF INDIA LIMITED

Moderator: Okay. Let me welcome you all from Sundaram Mutual Fund, Invesco Mutual Fund, Motilal Oswal Asset Management and 360 ONE Asset and Max Life Insurance. Anybody else? Yes, that's done. Kotak Equities, of course, who has organized this meeting. Thank you. Thanks to all of you for reposing faith in the company. I think now it's behind us. We need to focus more on the growth of the company and it's new products, new set of investors or, I mean, new types of contracts, okay, is something that we are looking at.

I'll open the discussion, I mean you can raise any question, that I will answer, please go ahead. Anyone of you, start from there.

Participant: So on the new products, like you said, if you can give some layerings where we are in each products. How long will it take for us to launch the product? What is the market size of [inaudible 0:01:36]?

P.S. Reddy: Okay. See -- one is that there's a new set of products, the products which are existing and then deepening those products. These are two types we are looking at it. The new set of products, yes, steel re-bars, we already got an approval and because of this transition, we kept it on hold.

So probably the permission may be about to expire or whatever it is, but it gets renewed. That is only a matter of time. And so, we have also written to the regulators, expressing them that we will now go ahead and launch it. This steel re-bars is why we have chosen. There is a steel ingots also earlier you had, maybe it is in the other exchanges. And there are -- if you look at the steel industry, there are so many value chain products, okay? But we have chosen only steel re-bars because there is a wider participation.

The more you go up the value chain there may be very few and few participants, maybe liquidity is difficult to build that kind of products. And as you go downstream, probably more and more participants will be there. That's one approach that we have had for this. So, keeping that in view, the steel re-bars is what we've chosen. And again, steel re-bars what is that we are choosing is the one, which is being used for the construction industry, be that infrastructure or other buildings, a big builder, they will choose it. This is one part of it.

Second, there are also many small- and medium-scale industries are there. So, from the supply side also, there will be a good number of players just not SAIL or maybe the SAIL Group of Companies or some Jindal Steel, not only those companies, there are many other medium and small-scale industries who produce this, subject to the compliance with the ISO standard. The re-bar is supposed to be compliant with the ISO standard, which is -- I mean, I don't exactly know the number, but then ISO standard.

Why we chose this, because when we want to admit them, we should be sure of the quality that they are manufacturing and the kind of material, because we are giving a platform, we are assuring the buyer that this is the quality it gets generated. So, we propose to go with what you call the military engineering or railways. They have an empaneled list of producers from whom they buy it.

So to that extent, our credibility of the platform will increase. Gradually, we will start the empanelment process as we did in the case of lead, okay. So, we want to support these small-scale industries as small and medium, but at the same time, we need to have a phased approach. That is the reason why we have chosen this, and this is how we will be penetrating into the market.

Second most important or rather third most important, the spot markets are very -- I mean, I would say opaque, and they are not organized. Maybe I would say they are organizing a different sense of the term that they don't permit any new entrants to come in and maybe break that monopoly or lobbying that is happening, etcetera, etcetera. I remember when some other exchange launched this steel re-bar, not re-bar -- the steel, what you call -- yes, I'm sorry, ingots contract, okay? And there is a resistance and some of these local associations written to the regulator and the other thing complaining that there's no price discovery, whatnot, all kinds of allegations.

For me, as an exchange, probably we may be playing a spoilsport, where we are destroying monopolies or we are restabilizing, what we call, people who control the prices. Why I'm saying this is it happened in other metals where people want to charge brand premium, because they are so and so. Why brand premium has become important, because everybody don't trust whoever is manufacturing.

Because of this brand, because of that name, reputation, they're buying. By doing it on the empanelment on the exchange platform, if -- even if he is a small vendor, if he is able to deliver the quality of the product that we are guaranteeing it, then he should command the same price as anybody bigger ones of commanding it, okay? That is the purpose with which this entire exercise we are doing it.

So, my personal view is it's a great growth potential for the steel rebar contract. In addition to that, we're looking at again elective future contract, although it is tantalizing in the sense we get every day, okay, we should get this quarter, we should get this in this year, but it's not happening. And hopefully, this time we expect it to happen. Let us see, because as the climate -- I mean, climate change is very uncertain, and it's happening rapidly. I'm sure demand for more and more electricity will come, okay.

Participant: But we already have an IEX...

P.S. Reddy: IEX is for a spot, not for futures, okay. So, you can't lock your price on IEX. And that is day ahead market mostly. month ahead, 15 days or something, nothing more.

Participant: So, you will be doing 1 month, 2 months, 3 contract?

P.S. Reddy: That's right. That's right.

Participant: Why was it getting delayed because of your tech transition or something else?

P.S. Reddy: No. There are other exchanges also may have applied it, but as such decision has to be taken jointly by SEBI and CERC and that has not come as yet and nothing else. So, this is another area of new products that we are looking at it.

Participant: Sorry to interrupt, but on the steel bar side, can we be as large as copper or...

P.S. Reddy: See, I can't give any numbers and other things. But the point is we are making an effort. Our intention, our effort will be to sensitize the ecosystem, build the ecosystem so that they will take an opportunity to trade on the exchange platform. Volatility has to come in the prices, then only the things will start moving -- picking up, okay?

And even if I keep everything ready, but if there is no volatility or if there are some, what you call, long-term contracts kind of things, so things may not go, okay? Like in electricity, some of them are PPE. Purchase agreement, long term agreements, sir.

But how much is the long-term agreement? Can they also notwithstanding the long-term agreement still they can hedge their costs, because that long-term agreements are also pegged to some pricing, okay? So that is not hedged, that pricing. They can still hedge on the exchange platform and then secure -- their -- this one, interest. So this is...

Participant: But on electricity, typically, if you see a 3 month, 6 months that market is bilateral for you, if you see today. We have PTC India, who have a lot of those bilateral contracts for the DISCOM. And essentially, the demand is very short-term oriented. And your vagaries of the climate also make the market short-term, which is why IEX is very, very active in today, tomorrow, and 11-day contracts.

Are you -- so the visibility on how much business that you can get in 1 month, 2 month, 3 months is something it is very uncertain there. So, while you may launch the contract, but I'm not sure how much business momentum we will be able to get over there. That practically difficulties of operating as a market simple...

P.S. Reddy: We are not -- it's not going to be a delivery-based contract. It's a cash-settled contract. Now -- if you look at the -- how the prices have moved over the months, then somebody who has -- even if he -- they have a, what to call, an agreement with somebody, but that agreement is also linked to the spot prices or maybe 6 months spot prices or something of the kind.

And we have seen that some of them are linked with the coal prices. Some of them are linked with the, what you call, I'm not able to recall that term, okay.

Now what I want to tell you is there are many private parties, who want to sell their coal -- I mean, the power also on the exchange, okay? They are also not able to sell it. So, keeping these things in view, my personal view is it should work. It should work.

Participant: Sir, on your call you talked about the existing products which you have. There are issues in terms of margin being more than for the -- or you take offsetting contracts, then also the margin is full. When you have smaller basically duration contracts, which are not there.

You talked about in your call that we will talk about that also. You basically would try to talk with the regulator about that also in terms of after the transition. What is the status over therein, sir? Because that's -- suppose you take off-setting contract 80% margin is there.

So, is there a levy over there or something of that sort on the existing contracts, I'm talking about crude oil or gold or natural gas whatever?

P.S. Reddy: Okay. Currently, in crude oil, about 40-plus percentage is the margin. You have it on natural gas about 30% plus. Internationally, it's much less, okay, less than 10% or 10%

or so. Now the problem is, if we reduce the margin, okay, to increase this one – stress test results will show that minimum required capital, which is called SGF, goes up. So that deficit in that SGF has to be funded by me, CCL and MCX. Now that means we have to dip into our reserves and put that money.

Participant: I'm not talking about that actually. I'm talking about suppose...

P.S. Reddy: SOM, you are talking about. That is a Short Option...

Participant: I take two opposite side contracts on the same side -- then also the margin is full.

P.S. Reddy: So that is with regard to the SOM. That is in the options contract, it is happening. They are asking for that part of it. So we have already represented to SEBI. In equities, given, I think, 25% is the margin they charge whereas in the case of here, 75% is charged. That is the...

Participant: Here we are charging full, I suppose.

P.S. Reddy: 75% is what I understand, not full. How much? We want to bring it on par with the equities. Appreciate one point. The approach that SEBI is taking here, you don't pick up on and choose what is less, what you call -- I mean, less premium in equities and then same you implement here. There is our margin. There is another measure, which is about six -- as against three here, okay.

What was that? The Z score or some other score, I don't exactly remember that. It is more there and less here. Then let us make that equal also. Then is that okay with you, then our people say, no, it's not. But we represented to them.

If you go by the risk that is brought by the members to the exchange, or the product is bringing it to the exchange. These -- you're talking about the SOM, but other than that, we have many other suggestions which you have given.

For example, for calculating the stress test results, you take a 10-year window in equities, whereas in commodities, we take 15 years, okay? That means, I mean, the high and low prices are also impacting that. So that we wanted it to be less. And the other part of it is members don't contribute anything here.

The SEBI regulation says, you may collect 25% more also from members, who are bringing risk to the exchange. Currently, we are not doing it because SEBI said, you may. That means there will be a regulatory arbitrage, we take it and others don't take it, we will have a problem. If they make it mandatory, every member has to contribute, I know 25% of the SGF requirement. So whoever has got a higher open interest on the exchange, they will bring it more and they will take it back also when it is reduced.

So that is not dispensation which we are asking, definitely not happening. So that is another one. So -- but this SOM alone is not the reason for doing it. My view is if you have a short tenure options contract, okay, or serial contract, then it will also address -- I mean volume will...

Participant: Is that short option also is -- short tenure also is in regulatory purview, right?

P.S. Reddy: It is the regulators have to approve it. When I say weekly or fortnightly, it is not a contract itself is for a week. It will be for a month. It will be serial. That is 5th of the previous month to 5th of this month and 15th of previous month to -- like that. But if you have four contracts overlapping each other, then every contract will expire once in a week, then you will have a lot of sense.

Participant: It's basically more number of contracts actually that also is not approved, right?

P.S. Reddy: No, no. But now we have to -- now we will approve -- we'll approach them.

Participant: But this is slightly innovative, what you're trying to do, having more number of expiry days by not having weekly, but monthly.

P.S. Reddy: Serial contracts are there in other markets.

Participant: No, in India.

P.S. Reddy: In India, we don't have that. Yes.

Participant: So sir, have you consulted the regulator like -- and do you think it is possible.

P.S. Reddy: No, we have already discussed internally and with the product advisory companies also. This is something which they have been recommending, we must do this, I'm sure it will help us.

Participant: One of question was on this gold. So now crude, we have a playbook, where the options have done well and perhaps the reason has been that the margin went up in the future, which has been a placing in disguise. It help your options and options is where the large part of the liquidity is there. And the other advantage that you have is cash settle in crude.

When it comes to gold, do you think can you replicate this playbook there? Is there a possibility for you to increase margin in futures or it's a set rule an increased margin. So I'm just trying to understand the playbook is...

P.S. Reddy: You were saying to push the people to go to the options because it is more. I don't think it will happen that way. The play -- we can't play the same conversion ruling here. The reason being is the contract of gold, 1 kg contract is costing you about INR60 lakhs, okay? On INR60 lakhs, the bimonthly contract, the premium on options will be wide.

Participant: You also have mini or launching petals also...

P.S. Reddy: No. We have it. But then on that for us to launch the option contract, you need underlying futures turnover to be certain limit, I mean, certain level, then all you can launch options, okay? So we will be launching -- we will be applying for this. That's what I said, deepening in the existing product line also.

Participant: You don't have options on Gold Mini.

P.S. Reddy: We don't have, no. We have options to...

Participant: Options on Gold Mini.

P.S. Reddy: Mini is 100 grams.

Participant: Yes. So there also -- and now we are launching petal also.

P.S. Reddy: No, no, that is 10 grams is what we propose. So that will be further lower. So the market size can be kind of reduced.

Participant: Option on Gold Mini, I'm not aware, is it there?

P.S. Reddy: I'm not sure what -- I have -- by the way, you can download our app is their MCX, a mobile app where you will get...

Participant: This is a Gold Mini product, sir.

P.S. Reddy: Futures is there, but he's is asking about options.

Participant: Sir, what you are saying is that the Gold Mini futures volume is less, and that's why you're not...

P.S. Reddy: You need INR500 crores or INR1,000 crores, something of that kind in the rule, then you can introduce only this -- just recently, I mean, recently means last year. But not fully. Yes, it is increasing. Gold Mini, the turnover for -- in the month of options is INR800 crores. So INR400 crores is the -- INR4,000 crores is in the main one in October.

Participant: In October, what was the total volume in the Gold Mini, sir, options?

P.S. Reddy: INR808 crores, average.

Participant: Average INR800 crores?

P.S. Reddy: INR808 crores. Daily. ADT. This is ADT. So last month, it is INR412 crores, okay? And in fact, it is INR419 crores in August. September, it is INR412 crores, but October, it is doubled.

Participant: That is fine, the number it may be improving or whatever it exists. So the bigger point is that your ticket size gets...

P.S. Reddy: Ticket size as well as tenure.

Participant: So it's a bimonthly as of now.

P.S. Reddy: No, no. Mini is monthly. That's what.

Participant: So sir, then, can you have that playbook in terms of making futures less attractive, making options more attractive…

P.S. Reddy: No. Our turnover fee -- our -- I mean, margins cannot be -- it's for a product -- it's for the underlying product, not for contract-by-contract.

Participant: Underlying gold itself…

P.S. Reddy: Underlying is gold, but then in Gold Mini, you can't impose also. If you impose Gold Mini, just to have that kind of crude oil effect on this gold, but in Gold Mini will -- gold main contract will also die.

Participant: No, but that itself is not moving much. So for that -- crude impact is not doing well.

P.S. Reddy: No, no, no, gold -- futures will die. We'll have a problem.

Participant: But even your crude futures is not doing great. It's only your crude options, which is the largest part of – largest driver...

P.S. Reddy: What I'm saying, in gold main, you're saying futures is not doing or options are not doing. But I'm seeing futures is doing better. In fact, most of the OI comes from the gold and the internationally, I mean, our Indian domestic jewellers are not allowed to hedge in international market. As a result, the substantial part of our hedging is from the industry, okay, substantial, more than 75% or something like that. Now, to start increasing the margin, then complaints will go, because we're supposed to link it to something.

Participant: So the point is that a set formula in...

P.S. Reddy: It's not a formula, but rational should be there.

Participant: Sir, so that's what -- so while it is doing whatever it is doing, but I'm sure the potential is very big. And while in world and India is different, here the options is the main driver. That is not the case. Even if you let go some of your futures. It can be technically a...

P.S. Reddy: It's like bird in hand is worth two in the bush. I will try that and then I lose here and then I lose there, then I will have a problem, because there is a competition also out waiting.

Participant: With this logic, you would not have got crude options?

P.S. Reddy: No, crude options the way we -- because it's not the others were not there anyway when the crude options came in. Others were not there…

Participant: Different margin for options and the future, because suppose I'm selling an option contract.

P.S. Reddy: Option on futures is okay. But I'm saying Gold Mini will have a different price and Gold Main will have a different futures contract, because you cannot do that. That will not, because if going by the thought that is propagated, then Gold Main will have only 10%. Gold Mini can have a 20% margin so that the people will move, but that cannot.

Participant: Sir, hedgers are mostly in the futures market anyway?

P.S. Reddy: Hedgers are mostly in futures. That's right.

Participant: So introducing an option, does that really cannibalize the hedgers? I mean that part of the industry.

P.S. Reddy: It will impact if I raise the margins in the futures.

Participant: So you're saying that demand will shift to options even from the hedgers?

P.S. Reddy: No, no. I don't think that -- I don't say that, but it's not correct. I don't think we have to balance everybody's interest. But to balance everybody's interest.

Participant: And the second thing, what the possibility of cash settlement contracts in gold?

P.S. Reddy: That may not come, that may not come. Wherever it is feasible, the regulator would like to have contracts in this what we call, delivery based.

Participant: What are you mean as per your own opinion, this means after this, you have said in the call that you're going to focus on business more from after this transition. So, whatever your existing contracts are, which is the product you are most bullish on, means most positive on that this will do well, you want to tinker most or want to introduce movements, which are the things on the existing ones. I'm not talking about the new ones because nobody...

P.S. Reddy: I know, see, copper, we have applied copper for Mini -- and that is something which we are looking at it, Copper Mini. And nickel also is completely died down. We were doing about INR4,000 crores ADT. And now we have asked them Nickel Mini, okay, almost INR40 lakhs is the contract size.

Participant: What is the current pool size of copper?

P.S. Reddy: 2.5 tons. One lot. That is the way it comes delivery. So it can't be lower than that.

Participant: That you're applying for Mini. Mini will be what size, sir?

P.S. Reddy: Mini will be earlier with 500 grams -- no, 500 kgs, 0.5 ton.

Participant: So that you are -- basically, you are saying that will do well?

P.S. Reddy: That is one and then nickel is another one. Nickel also smaller one, not -- we had every 250 kgs.

Participant: And no amount of innovation in say, gold is possible apart from the serial contracts?

P.S. Reddy: We are also planning to introduce our -- I mean, we have applied also to 10 grams also. We have a Gold Guinea 8 grams. 10 grams…

Participant: Petal?

P.S. Reddy: Petal is 1 gram. Gold Guinea 8 grams.

Participant: Petal also you're launching, right?

P.S. Reddy: Petal is already there. Petal, we have…

Participant: But I think on the call you said Petal also. Some new launches ready to Petal...

P.S. Reddy: No, no. Petal is already there. 10 grams is what -- Gold 10 grams.

Participant: That you call Guinea.

P.S. Reddy: Gold Guinea is 8 grams.

Participant: 10 grams is Mini, that is also there.

P.S. Reddy: No, no. Mini is 100 grams. Gold Mini is 100 grams.

Participant: So there will be again suppose volumes take off in that 10-gram option, then there will be option contract on that also because you will require...

P.S. Reddy: If underlying futures increase, then we will launch. We'll launch our everywhere. Wherever there is a feasibility, wherever we are meeting a regulatory compliance requirement, we will launch.

Participant: And sir, where are the journey of spot exchange and index products?

P.S. Reddy: Spot exchange for gold? You are talking about what for?

Participant: Yes. Gold.

P.S. Reddy: Gold spot exchange that is again stuck in the GST, okay, those issues until they are sorted out, it will not take up because the first guy who is depositing gold, he needs credit back. And he will not get it until -- once it is converted into EDR, and EDRs are not subject to GST. So nobody will pay. The last guy who is converting the EDR will only pay.

Participant: So 3% will become the cost for the person, first person?

P.S. Reddy: For the first person, but if it is paid back, then there is no problem.

Participant: It would never be paid back because...

P.S. Reddy: No, no. Only at the end, when it is taken out, it will be paid. But he cannot wait till then. It may take two years, one year, how will it be? So we have to address it.

Participant: Possibility of some relaxation there?

P.S. Reddy: Some discussions have taken place. Nothing happened. That's why both exchanges have launched the big brothers, but then nothing happened.

Participant: We have launched...

P.S. Reddy: Spot exchange.

Participant: Spot exchange is launched because GST is a problem.

P.S. Reddy: Because of GST is a problem, nothing happened.

Participant: But if all of them try to kind of lobby for this requirement should not be that MCX is...

P.S. Reddy: No, no. They are trying, but then we have tried for a different model also. We do have a problem. It's not just there. But we have a different problem, GST issues. So we have been approaching the government and requesting them to reconsider the way that it is charged. We are not asking for any concession, not even a single rupee concession. The way it is administered is important.

Participant: And sir, in terms of an index, any index that you're thinking of?

P.S. Reddy: Index products has become a big challenge for us. The reason is, again, the disruption has caused this nickel. Earlier, we were talking about INR300 crores ADT in the metal contracts almost all metal indices or METLDEX. And thanks to nickel, then everything went haywire, and we had to reconstitute the nickel index and -- no, metal index, METLDEX rather. And we removed the nickel from that and then only four metals are now there. And that is to be relaunched. So that is not done as yet. We will do that.

And basically, in the unlike your equity markets, this index is just return index, because already price embedded in the -- this one when derivatives -- I mean, traded price is embedded, what you get is the return from near month to next month and third month, that is the only thing that is reflecting, okay?

Nothing else. So that is the challenge we are facing at this point in time. That is why index products is difficult to get them unless there is an arbitrage opportunity between the index and the underlying contracts.

Participant: We are also looking at having a DMA option, right? We are working on that, right?

P.S. Reddy: DMA, we should be able to do that. That is one thing we are planning to launch. And in fact, it is there in the existing system. We tested and everything is there in place, we will announce to the market.

Participant: But how does it help in deepening the market, because there are some FIIs who are looking at it?

P.S. Reddy: FIIs want to come through via DMA. So that is why we launch them, they will join.

Participant: But any idea how -- what would be the impact of DMA in terms of volume, etcetera? You would have done that study, right?

P.S. Reddy: No. You see DMA is one of the tools that are needed for them to participate. So, we have built it from day one, because they're in equity markets. Okay. So, we have not done any cost benefit analysis, what is that extra will cost me if I provide the service and then learning of it.

Participant: But FIIs got better commodity exchanges outside India. So, we should not expect much out of it, right?

P.S. Reddy: I don't see that view to be holding good all the time, okay? The reason being is that prices all the time need not move the way that internationally it is moving. There is always an arbitrage opportunity, so point number one, okay? Number two, that your prices are rupee-denominated whereas the international is dollar denominated.

Participant: It would be like dollar-denominated...

P.S. Reddy: No. But then those who are trading in India, they can take advantage of that, okay? Third, there is a calendar spread contracts -- there will be a calendar spread also.

Although, I mean, some of the contracts may be listed in other markets, but the calendar spread may be different here. And they can take advantage of it.

Participant: So, sir, then why AIF CAT III funds that was also allowed a few years back, it did not take off? This all benefits even they would have got it, right? What do you think in your assessment, why that segment did not take off?

P.S. Reddy: No, you're absolutely right. We have been approaching them. There are so many limits on that, okay? Much like mutual fund. Now mutual funds cannot hold other than gold. Even gold also earlier, they had only 30 days, they can hold it, that will be relaxed to 180 days, if I am not mistaken. Now what about other metals, metals is 30 days, your contract itself will take more than 30 days for that metal to go out of your books.

And if somebody is holding a calendar spread contract, you will buy it this month, you will sell it only in the far month then he has to hold necessarily for two months, three months, four months whatever it is. So, will that work for them? So, the design of the regulation itself is prohibiting them to participate. That's true for the others also.

Participant: Sir, and just over the serial contract that you're talking about, what is the timeline that you're expecting that can go live?

P.S. Reddy: It will take time, okay? Because one is that, he has to first approve it, regulators have to approve it. And then thereafter, we will work on it. But we have to build that in the system also, we have to make some changes, okay? Actually, we will keep it ready in the next six months' time in the system.

Participant: Take at least one year till...

P.S. Reddy: We can predict, but then I don't want to...

Participant: You already had some kind of experience in the past?

P.S. Reddy: That is the reason.

Participant: Steel re-bar means what will be the -- there also will be some timeline?

P.S. Reddy: Steel re-bars, no. We -- see the day we get a permission, we will take about three months to actually activate that contract, because you need to tie up with the warehouses, you need to do -- make you more...

Participant: There you will require certification also, that will be a footwork you'll be certifying the vendors, right?

P.S. Reddy: No, we will not be doing that. As I said, that's why those, who are empanelled by so and so will be first, they will be permitted. And thereafter, we will start this empanelment process. To begin with, we'll go by that.

Participant: To begin with, which we will go with the approved vendors of railways and all...

P.S. Reddy: Our railways and MES, Military Engineering Service, and national building construction. They all have some panels.

Participant: Sir, in your assessment, what has led to this increase in crude options volume as your hindsight, what do you think has worked?

P.S. Reddy: See, what I'm thinking is, definitely, the margins in that underlying has pushed them to go for this, no doubt about it. The second important thing is that the volatility in the last -- this whatever, one year or two years, it's been higher than what it was in the past, okay? It was in the past. That is the reason why it is...

Participant: Even cash settlement helps?

P.S. Reddy: Of course, it does. For that matter, for any product, cash settlement is an incentive, no doubt about it. Look at this GST, whether I mean, you end up getting a registration means, then you may get delivery in Delhi, delivery in Kolkata, then you need to have registrations at all four places, why at all as a financial player, why at all, you would take all these registrations and then end up filing returns and all that, if you are not interested.

Participant: This rapid rise in these digital brokers, discount brokers that has also made the ecosystem favourable for you. Do you think, that is also helping?

P.S. Reddy: Well, it did help, no doubt about it. But the point is the number of active investors, who are participating not represented by the number that they upload on the exchange, okay? So, when you register with the ABC member, he will say that is for equities, currency, commodity, whatnot, and you may be signing it like them.

And maybe our number may be 1.5 crores or something like that. But then the number is about 6.25 lakhs or something of the time, that is what it is. The number of unique investors, who are trading it. And Mini's will definitely help us more.

Participant: Sorry, what Mini's are you talking about?

P.S. Reddy: Mini contracts will help to bring in more and more investors.

Participant: They're already there?

P.S. Reddy: Only in some, not...

Participant: I thought gold is biggest?

P.S. Reddy: Metals also, we are looking at…

Participant: Historically, the potential that gold has like no other metal can match.

P.S. Reddy: But that is -- I know that. But corresponding with this. I know, that's what it is.

Participant: So, the point is that historically, the potential that gold has, what we saw in '12, '13, no other metal can match with that kind of potential. So, the point is that if gold has not moving up meaningfully, then we expect other metals to contribute, wouldn't that be a little far-fetched?

P.S. Reddy: In fact, I mean, gold for retail participation is fine. But basic distinction that we have to make equity versus this market, this is a hedging, this is primarily for hedging that is for investment, okay? There are so many investors and why are not here. I will have no answer because it's not for us to define or convert this market into a smaller place, and that's smaller lots and then say that everybody should come and trade. No, that's not at all in the interest.

But in the case of metals and other things, I'm looking forward to have more and more SMEs to play a greater role in this. That is what our focus is going to be. If you see in metals, our open interest has increased. I don't know whether you noticed it or not. Open interest is very critical for other players to provide liquidity, okay?

We have been engaging with some of the organizations, which are working with SMEs, so that they need a structure where they can participate without fully knowing the nuances of the hedging. Many may not be knowing it. During the COVID period, many units have been shut down only because of the price for it, okay? That's what the interactions with other industry associations and other things because of this.

So, we are also trying to figure out how do we help them to come through some kind of a structure, which will help them to hedge simultaneously, they in turn hedge on the exchange platform on their behalf and not to worry about on a daily margin and all that kind of things.

And when we interacted with one big hedger, in fact they said, I'm not interested in a daily basis, take payout, pay-in deal. I will give you INR100 crores, INR50 crores, whatever it is bank guarantee, the broker manage all my issues, but then that doesn't work here.

So there is a representation also we have made to the government I mean SEBI on this point of view where the investors will be able to big players will be able to give a kind of a, margin in the form of bank guarantee and other thing. And then they should be able to not to worry about on a day-to-day basis, payment of what you call M2M and etcetera. Maybe broker can arrange with the help of some financer or with the bank where that bridge loan or whatever you call it. They will give it and then accommodate them.

Participant: Sir, internally have you done any classification between what percentage are hedgers, speculators or corporates retail any internet?

P.S. Reddy: If it is not in the public domain, I will not be but then we have already done it. We know that. But it varies from product to product. Varies from product-to-product. How many? But this is in the public domain only.

Participant: Yes.

P.S. Reddy: This is different. This is on the website we have to displaying it how many hedgers are participating whether we supposed to be displaying that. But only that information we have it. But then percentage wise we are not bifurcating.

Participant: Sir, what is the single profitability assuming that the margins if you can….

P.S. Reddy: See currently brokers have to physically take out that margin from that exchange and then deposit here. Then only we will give a credit. But there is a, what you call a discussion where the members association, brokers association is asking that they should be able to without be shifting physically the margin from whichever action that it is deposited. If the other exchange requirements are met they should be able to trade on the MCX also or any other exchange for them or vice versa. If the other exchange confirms yes, I am blocking so much money for this exchange and then they can trade on the other exchange and confirmation.

Participant: How practical is that?

P.S. Reddy: It is practical. But it has to be implemented because after 3:30 (pm) equity markets are closed, and brokers would like to use that surplus that they have in the other exchange. And I think that is something, that idea should work.

Participant: Is regulator receptive about that? Because we are talking about that for a long-time, isn't it?

P.S. Reddy: Industry association is taking up actively with that. It should work.

Participant: Have they been receptive, the regulators?

P.S. Reddy: Of course, they are. They are looking at pros and cons of it. Yes….

Participant: Sir, just continuing on that you mentioned about that INR500 to INR1000 crore kind of a number, when the turnover reaches where you can -- you typically regulators. So, how does that work if you can just elaborate?

P.S. Reddy: Come again.

Participant: When the futures turnover crosses a particular monthly threshold of INR500, INR1000 crore in terms of liquid volumes, right. That's when you launch options, right. So, just wanted to understand that?

P.S. Reddy: INR1000 crores is the requirement for non-agri commodities and add needed the average daily turnover over a year has to be INR1000 crores. It's not a particular day, okay. For agri commodities it is INR100 crores. INR200 agri commodities.

Participant: Okay. Sir, second like you know continuing the question on that crude oil options -- the rise in crude oil options. So, if you are coinciding with a lot of algo trading happening and like bulk participation comes from there. How sustainable do you think this would be in your opinion?

P.S. Reddy: It is sustainable but some more players are waiting to join because they didn't join because our technology platform is in transition. Some of the big players have taken membership. Okay. And they are trading through some member or something like that.

And then full-fledged they have not started. They will be starting. It is… interest is growing, not decreasing.

Participant: Ultimately it depends on the volatility, right? I mean volatility…

P.S. Reddy: Of course. That is true for Sensex or Nifty and everything.

Participant: But there is a volatility history in Sensex and Nifty for a long time. When crude it started like two, three years back this kind of volatility. This kind of volatility was not there in crude. So, means ultimately it depends on that?

P.S. Reddy: That's why I said that I acknowledge that volatility is important.

Participant: Just on the cost side that you are cutting down. So, what can be this... you said we'll going to our earlier operating cost?

P.S. Reddy: See there is no link. It is not linked to the turnover.

Participant: Right.

P.S. Reddy: So, as far as the technology cost are concerned that's what the point we have made. And because of this depreciation and other, okay, there will be for the next two, three years, three, four years it will be of the existing order. That's what we've mentioned also. Thereafter it should taper off.

Participant: For the sales, 63 Moons you'll be paying till this quarter right sir?

P.S. Reddy: Come again?

Participant: For 63 Moons you'll be paying till this quarter, right? That is the contractual, right.

P.S. Reddy: Yes.

Participant: March quarter is the first quarter when you will be, on the financially you will be on the new software right?

Satyajeet Bolar: Yes. This quarter also partially, there will be some charge in this quarter because we have gone live from 16th... So, there is some opex should come.

Participant: Opex or means depreciation charges?

Satyajeet Bolar: Opex plus depreciation charges.

Participant: You have actually, in this quarter also, for that one-line-item computer or something there you have taken some expense right.

P.S. Reddy: That is about the laptops and other things.

Participant: Yes.

P.S. Reddy: That is the one time. Anything INR1 lakh and below we write it off the same quarter.

Satyajeet Bolar: Onetime.

Participant: That is the onetime thing, right?

Satyajeet Bolar: For onetime.

Participant: So, in a steady state basis whatever number you have capitalized for the TCS software. So, depreciation on that will be the expense item from FY'25 onwards?

Satyajeet Bolar: From this quarter onwards.

Participant: From this quarter itself, right? because you have now…?

Satyajeet Bolar: Gone live from 16th….

Participant: Okay. So, that will – so in this quarter you will have the depreciation amount on that plus whatever you are going to pay for 63 Moons, both these things will be there?

Satyajeet Bolar: Plus, the operating expenses for the new collection.

Participant: For the new collection? So, in a steady…

Satyajeet Bolar: Next year, October '24 then the AMC to TCS and… one year warranty.

Participant: We are just -- I am just trying to understand in the steady state FY'25 what are the expense items which will be there for the new software. One is depreciation other is the opex for that software, right? In the middle of the year.

Satyajeet Bolar: From October 24…

P.S. Reddy: Second Half.

Satyajeet Bolar: The AMC.

Participant: So, the AMC…. AMC there will be three-line items for the software right which will be -- which will be the cost for MCX. What is the -- what will be the largest cost option -- cost portion means the opex or the depreciation?

Satyajeet Bolar: Depreciation

Participant: Pardon me.

Satyajeet Bolar: Depreciation will be the largest.

Participant: Depreciation will be the largest. Okay.

P.S. Reddy: Anything else?

Participant: I have one.

P.S. Reddy: Yes.

Participant: What are the operational challenges with like the gold hedging being maximized because I understand it is supposed to happen, but the numbers do not reflect that the hedging is at I mean there is too many entities for that number to not be a higher number. So, what are those hiding, I mean, gold hedging has to be on our exchanges right. So, that number does not reflect the gold tonnage in India. So, like why is that open interest so low for gold?

P.S. Reddy: Okay. Look in a year if you consume 800 metric tons of gold, 800 metric tons will not be reflected. What is in trade is what I mean if it is consumer then it moves out of their books.

Participant: But do you think the number is like genuinely...

P.S. Reddy: So, about 15 metric tons is there and at times we see 30 metric tons on the exchange platform. When everybody does hedging or not, that is a challenge. That is what I am saying 15.97 metric tons, it is as of now that is there on the website also. So, it's 16 metric tons is hedged, and all big players hedge and we have impressed upon the RBI and many others also wrote that the banks should insist whenever they are extending loans on commodities etcetera there, they should insist and that they should hedge their commodity risk otherwise it will backfire on them also when things go wrong. I mean that is something which is very important. We have been engaging with IBA and banks to enforce this. Because they had given advisory in the case of agricultural commodities, but not for this.

Participant: But sir it's also true that all those 800 metric tons of gold is imported?

P.S. Reddy: No.

Participant: So, do you guys would be basically hedging it on global exchanges?

P.S. Reddy: No, they are not allowed. They are not allowed. What I am saying if it is once it is consumed, as a consumer I buy it out then it will not be there.

Participant: No, that is true. That is true. But anyway, that gold does not trade anywhere?

P.S. Reddy: No, no.

Participant: I am a consumer; I consume 800 tons of gold?

P.S. Reddy: I will tell you… Let us say there is 10 metric tons from Titan, okay. What is there in the inventory in the shops? Now, the moment it is taken out then 10 metric tons will be a constantly. Some of these are coming in something. So, they have to hedge only 10 metric tons. But in a year, they must be selling 100 metric tons. That is the point I am making.

Participant: No, no. I agree… But with 10 metric tons they would not be hedging it on global exchanges?

P.S. Reddy: No, no. None of them are allowed to hedge. All are-- none of them are allowed to hedge. They are doing it. Let me tell you. Repeat major, major players in the country are hedging on MCX. There is no doubt about it.

P.S. Reddy: Done?

Participant: Yes, please.

P.S. Reddy: Okay. Thank you. Thanks to all of you.

Paticipant: Thank you so much.