

MCX/SEC/2268

August 18, 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.	Ward Ferry (WF Asian Smaller Companies Fund Ltd.)	August 11, 2023	12:00 PM	<i>Annexure - A</i>

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Further, we hereby confirm that no unpublished price sensitive information was shared/discussed during the said meeting.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

Encl: As above



Multi Commodity Exchange of India Limited
Meeting with
Ward Ferry (WF Asian Smaller Companies Fund Ltd.)
August 11, 2023

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

P. S. Reddy: Welcome Mr. Aman and Mr. Nicholas, for this Investor Call. Since you have been familiar with the topography of the business, so please go ahead and start firing the questions.

Aman: Thank you so much, Mr. Reddy, Mr. Praveen, Mr. Bolar, for taking time to speak with us. We have been, as you guys know long-term shareholders of the business, and we hope to be long-term shareholders. We had a few questions on operational front, on financial front and a bit on software, which will run through. I think even software has generally been discussed in the historical calls a lot. We will keep that in the end, but maybe, we can just talk a bit about the effects of software implementation on business. I think, the first that I want to maybe ask is, are there series of futures or options that we are not able to offer to our customers, post January options, that basically could, because of the software implementation that is part one of the question. And if that is the case, will it start reflecting in revenues of our business in let us say, quarter two or quarter three? Or does it reflect only in that quarter, which is quarter four in January when the options series kind of becomes live. Maybe that will be very helpful for us to understand.

P. S. Reddy: Ok. Look, I mean, we have so far wherever there are approvals are required, we have issued contracts till December. You are aware that only the first two months contracts are active and then third one maybe some way inactive. And anyway fourth month onwards, they are all inactive contracts in that sense. So, once we finish our implementation, maybe by September end, we should be able to launch other contracts as well. But then there were also contracts launched as per the requirement, maybe for one year or so also. So, there are some contracts till July, till April. I think it is falling under that contract specification requirement. In some contracts, we said we will launch for only three contracts, some contracts we launch six contracts like that. So, they are all in place at this point in time. So, there is no additional contracts we can launch unless the one contract expires. So, in the month of August, some contracts will expire. Then we have to launch the new contracts. These are all

illiquid contracts anyway. Even the existing contracts are illiquid. If you see some of that. so, they are all illiquid, so it does not impact the revenue anyway.

Aman: So, Mr. Reddy just for my clarification, at what point of time, in let us say, August till December, and for the sake of assumption, I am making an assumption, the software gets implemented in December. That is the assumption, just for the conversation. When does that start showing up in revenue or ADTO of futures or options? Are you saying that three months in advance? So let us say, if we do not have new software till September, then October volumes may have an impact or that is not the right understanding.

P. S. Reddy: No. See the active contracts will continue to be active. New contracts are what we are talking about. New contracts are of January, February. They will, anyway, will remain illiquid anyway. That is what the point I am making it. So, October will not be illiquid, they will be active.

Aman: Sir, one last clarification. Even if on 31st December, if just switch the software to the TCS software, in January 1st you can start having the same ADTO that the market required. There is no ramp up required because those contracts were not being offered a month in advance. I am just sorry, I do not understand this very well and also trying to understand that if it goes to the fag end, then what happens to revenue kind of thought process?

P. S. Reddy: See, in my personal view that we have to offer contracts at least two months before, the third month contract we have to offer at least two months before. So, January contract has to be offered necessarily maybe by end of October, so that we will be able to create liquidity. Because in the month of November itself in some contract, the third month contract, that is January contract liquidity comes. In the month of December anyway, January contract has to be there for them to roll over. So, the question does not arise in that kind, we can afford to so delay. And again, it is the SEBI, who is regulator, we will be applying, anyway well in time to get their approvals to continue offering the contracts.

Aman: Got it, very helpful. Mr. Reddy, second question is around growth. You guys have been doing an amazing job in underlying volumes both in terms of option volumes and that is compensating more than sufficiently for future volumes. Anything else from a new contract type and we had started certain contracts last year and early this year. Anything more that we are doing to deepen the market for both futures and options or any new contract type that we are looking at which can help these things, and which can be seen in this year or next year from a financial year perspective?

P. S. Reddy: See, once we launch our new platform only, we would like to launch all the new contracts. So, one such thing is the steel TMT bar is one and also the shorter duration contracts we would like to launch. We had a Gold options contract of a monthly. Again, we have not launched it and of course this kind of tech transition delay also has delayed that kind of new launches. In that sense, it is impacting, but we would like to overcome that. That is why we are keen to move over to the new platform at the earliest. So, once we launch it, we will be able to apply also for new type of contracts after successful transition.

Aman: Any of these that you feel could be large in terms of potential, like potential, no one knows how will they finally turn up, but when you see today, basis the history of similar commodity either in MCX history or in the history of other Exchanges or versus the demand that you have got, which one are most high potential?

P. S. Reddy: See, the liquid contracts will continue to be liquid even if the variant is issued. So, if a short period contract is issued in Gold and in what you call, Crude, NG, obviously it will be successful, I mean, the trajectory will be on the success side. So that is the way I look at it.

Aman: I think we also spoke about competition last time, at that point of time, I think NSE was about to re-launch crude at that time. Anything that you have seen change in competition, in the last 3-4-5 months or any steps that you have seen that will change, anything in the future?

P. S. Reddy: My colleague will give. You please mention month wise, ADT, OI and what else you have, I do not know, you please mention.

DG Praveen: Currently, the statistics that we have is in the month of July. For example, in case of WTI Crude oil, around Rs. 37 crores have been traded and there are about 138 lots are for open interest is there.

Aman: This is for NSE, you are saying?

DG Praveen: Yes, talking about NSE. Then, Natural Gas, it is about Rs. 7 crores for the month of July and open interest is around 127 lots. This is what we could able to find on their website.

Aman: That is pretty low, as compared to what you guys do daily. That is very interesting, good. I think on business, we do not have any specific other questions given we have been generally well-entrenched in the workings of the business so far with you. I think, we had certain finance... maybe Nicholas can start with the first option that he has for Mr. Bolar, and then maybe, we can come back towards the end on the software side.

Nicholas: Sure, I mean then we can start with options. I think you have touched on a similar question before, but on options premium, we know that it is hard to say or how hard to determine how much options premium to notional value we can expect, but maybe looking at a long term, in long term basis when options market has reserved relative stage of maturity for us? I mean, is there perhaps a certain way of gauging, what our options premium to notional turnover would look like? Is there a certain band or range we can see we settle towards?

DG Praveen: So generally, what happens means, the options premium to notional turnover depends upon several factors like volatility and the growth of the market and how the markets are deepening, okay. The way we can look at it is, as the market is growing faster and going bigger, we can say that liquidity is building up in the out-of-the-money contracts also. So that is a very healthy sign, and we can say that as they are getting deepening, the liquidity is building up, people are even able to trade in the out-of-the-money contracts. So, because of

that one overall the option premium to turnover ratio may come down. But as long as the growth is happening in the premium turnover that is a very healthy sign. That is how we can look at it. Even if you take other markets, that is how they have grown over the period of time, but each market has a different phenomenon. Like you cannot fix any particular ratio or a particular percentage that it can be for a, that means it is going to be there for option to notional turnover, depends on several factors and we have a different ratio. We were somewhere around 3% earlier. Now it is around 1.9%. It is very tricky to say right now what could be the percentage, but as long as like I said, it is premium turnover is going up, it is good, healthy sign for the market.

P. S. Reddy:

See, we expect the ramp up in our futures, subject to two conditions or the pre-conditions to be met. One is that margins in the futures contract have to be substantially reduced. Because of our SGF constraints, we are imposing the additional margin. And the healthy sign of these contracts, open interest is growing. So that means people are staying put in these contracts. They are not just day traders and fly-by-night operators' kind of. As a result, the SGF cover is increasing because SGF cover is based on primarily the overnight risk and then risk to liquidator position over a period of three days, four days kind of thing. And so that is the reason why this is not growing, the underlying futures. The second is, even for options to grow is, there is something called a short option minimum margin, where if somebody is taking a position in options and as well as futures, a contra-position especially in the short, in options it is just short and then in futures it is long, obviously, they need to cover their hedge, then the margin requirement has to be substantially lower. But that is not the case. Whosoever are taking exposure in futures to cover their risk in the options, they are being charged fully, whatever that is required. And I think that is the ask which we have represented to the regulators and the brokers associations also represented. There is CPAI, and if we able to get a favorable dispensation, probably the whole scenario is expected to change. How much it will change, I cannot say but then there is a ask chorus, I would say among broker community please have this one resolved, is what they are asking. Thank you.

Aman: And Mr. Reddy, is there a timeline on which the regulator has to decide on these two requests that, or representation that you have made?

P. S. Reddy: No timeline, they have again they go through a kind of a standing committee on the risk management systems, they have a committee on that. They have to take their consent and then only it will come. I do not know when it will meet, that committee, and that committee includes representatives from the market participants as well. I think this is something which they are asking for, thank you.

Aman: But from a stage perspective, would you say it is in the early stages of discussion or in the more advanced stages?

P. S. Reddy: While we keep representing after time and again sending reminder - kindly help us to get this resolved, and it is a plain Ask, there is nothing much to be discussed or debated, they know that. Because it is there in equity markets and so that is what we are asking for. Maybe, these are commodity markets, they are less receptive to major changes in this and because put it in equity markets is much higher than what it is here. But then definitely it is not an agricultural commodity where it is locally determined and, Crude and things are International products, Gold, etc.

Nicholas: Maybe just to close off the options part. In terms of the slabs we charge, I am just curious, from my understanding, how those, like Rs. 40 and Rs. 50 were determined and is there any possibility for these to change overtime?

P. S. Reddy: Well, there is a possibility of change overtime. But is it in the near future? My answer is no, because it was just introduced a year ago, if I am not mistaken. So, I think it is too early and at least for three years we should see that we do not change it. Otherwise, somebody will go and complain to the regulators and here and there and then, you are changing frequently. Or somebody can accuse us misusing the... position. So, we need to benchmark it, maybe against the inflation that is happening, or something of that kind we should do it. Cannot we just increase it to 40 to 50 or 50 to 60, something like that.

Aman: Go ahead, Nicholas. You had more questions there on financials, right?

Nicholas: Sure. Okay, so maybe just on, some financials if you can touch on the product license fee line. Would you be able to tell us what that number was for Q1?

Aman: What also is this, Mr. Bolar, what exactly does this product license fee go to?

Satyajeet Bolar: We pay to CME.

Aman: To CME? Ok.

Nicholas: Only CME? It is a percent of transaction, right?

Satyajeet Bolar: It is in the transaction. In energy, in our energy.

Aman: It is in the energy side, a percentage of transaction, revenue?

Satyajeet Bolar: That is right.

Aman: And how much was it in quarter one? Could you disclose? Is it possible?

Satyajeet Bolar: One we have mentioned it, I mean, you are talking of the June quarter?

Aman: Yes.

Satyajeet Bolar: Yes, around 7 crores. In our presentation, it has been merged. It is around 7.77 to be precise.

Aman: 7.77. Ok, got it. Thank you.

Nicholas: And just quickly on that, is it the same fee is charged for options and futures, that license fee to CME, is charged both on options and futures. Ok. And in terms of computer technology expenses, I just have two questions on this line. One is, it has been relatively flat for the past couple of years leading up to 2023. So, and then I think in 2023, it increased to almost 40%, what's the reason for that jump and also secondly, on this expense, will it be impacted by the new software change or is there any link to 63 Moons?

Satyajeet Bolar: I think we are looking at line software and the product license which include the payment that we made to 63 Moons. So, the increase is mainly on account of the payments that we are making to 63 Moons.

Nicholas: Got it. Right, ok.

Satyajeet Bolar: I have been able to explain because the payments in June '22, we did not have any extraordinary payments to 63 Moons. We were paying as per the earlier term, even in September '22. But from October onwards, we have been paying that extra amount which is reflected in that account. Our normal technology expenses, other one for a backend and all, it is about 2% to 3% increase. So, there is no major increase in our normal technology expense, the major increases on account of what we paid, we have been paying to 63 Moons in the past few quarters and in this particular quarter as compared even in March quarter, we have been paying Rs. 81 crores on a consolidated basis. In December, we paid Rs. 60 crores on consolidated basis to 63 Moons. And going forward, as we mentioned in the previous calls, earlier call, that for the first year once we go live, we will not be paying any AMC to TCS, it will be under warranty. The first year is under warranty and from second year onwards we will be paying them AMC. But we will be incurring some expenses like we will be renewing certain operating and licenses which presently is under CWIP, but once we go live, those would be, we will have to charge it to our P&L. So, it will become revenue expenses.

Aman: Mr. Bolar, have you ever disclosed how much will be the quantum? You talked about single digit number in terms of AMC cost and single digit number in terms of other expenses which includes, even the infrastructure that you guys are hiring. Is there a more firmer view that you guys are presenting or not yet, on the cost?

Satyajeet Bolar: We have not disclosed it so far.

Aman: Ok, got it. Not even the CAPEX part? Because I think, in the last quarter call there is a request, I am assuming that you are not disclosed it so far.

- Satyajeet Bolar:** I mean, September we will give those figures.
- Aman:** Ok, got it. If I may, so, Nicholas, do you have any other question on financials? Otherwise, I have a slightly conceptual question on SGF that I want to ask Mr. Reddy. Mr. Reddy, how does the SGF work? And how does it grow with the business growth. So, when we look at the way we project the business, how should we think about SGF as an item in the balance sheet?
- P. S. Reddy:** See SGF contribution goes to Clearing Corporation and Clearing Corporation keeps it as a separate fund, and it is only a one-way street. You can contribute and then you cannot claim any benefit out of it. And it grows based even interest income that it gets. Otherwise, there is no requirement of permanent contribution from the Exchanges. But all penalties that are being levied by the Clearing Corporation go to the SGF. So that is to put together, about our contribution is about Rs. 460 crores is our own contribution. That is our means 75% is from CCL and Exchange is 25% and the balance that is about Rs. 140 crores is the penalties, maybe since inception, and all that. That is the way it is.
- Aman:** So, is it related to volumes or not at all? You are saying that from now on, if the exchange grows at X percent, does this SGF need to grow? Or unless there is no penalty / interest of course accrues to this account. But if your volumes go up 20% does this grow in anyway?
- P. S. Reddy:** If the volumes go up and then say volumes, it is the open interest. I would like to insist specifically open interest but not the turnover, okay. If the open interest keeps going up, average open interest, then the contribution has to be made by the exchanges on a month-on-month basis, okay. And so, you take the average of the open interest of this month and then arrive at whatever that is, and then next month you calculate it and a month after from the first of the subsequent month, you have to make sure that so much is available whatever has been arrived at as per the month of July. So, month of July will be reflected from 1st of September, put it that way.
- Aman:** So, this is linked to volumes. Is it linked to futures or options or both?

- P. S. Reddy:** It is, open interest is of everything, across options and futures.
- Aman:** And this interest that comes here, Mr. Reddy, it does not come to us in our P&L account, right? It is simply gets accrued and compounded in that same account.
- P. S. Reddy:** That is right.
- Aman:** So, Nicholas, do you have any other questions on the financials, or should we move to software implementation?
- Nicholas:** Nothing on financials.
- Aman:** Mr. Reddy, I think, you talked about software implementation in the quarterly analyst call. If you could just give us a sense of where the comfort is right now and I think the mocks which have been happening, any color that you can provide since the quarterly call, will be very helpful for our understanding and building our thoughts?
- P. S. Reddy:** I mean, while we were very enthusiastic to go live in the end, quarter ending June, we could not make it for a variety of reasons including the EOD-BOD is taking long time and some stakeholders have some reservations on that kind of situation. So, we said let us fix all of them and I think now they are falling in place. EOD-BOD is coming under control and the code freeze has already happened. Regression testing is started and now we will be able to open up for members mock sometime, I mean, this month itself. And anyway, we have been given a target to complete it and go live before end of September. I think we are pursuing that target assiduously and we should be able to make it. That is what our commitment is.
- Aman:** And Mr. Reddy, the new, for the two quarters fee that we are paying to 63 Moons, is it purely a negotiation between them and you, is there an arrival process on why this number should be, the number that will now reflects into P&L?

P. S. Reddy: Unfortunately, the negotiation is something you give and take and there is nothing called give. There is only one thing, take whatever I have given it that is what it is, that is it. It is an options choice that is on situation we were in and that is how it happened.

Aman: In terms of regulator, what is their stance? Because I think they have dual responsibility. They oversee you, but they also have to ensure the exchange keeps running. So, is their insistence on to make sure that there is always 100% perfection on your TCS software and then only you can move out or how are they kind of thinking about this?

P. S. Reddy: See, the larger concern that the regulator has, and we too have on the board has is that you are a dominant market infrastructure institution. Several investors, stakeholders have their stakes in your sustainability and system going just as usual kind of thing. So, you are also a nationally important project in that sense. And so, they are very closely monitoring and helping us whenever we ask for any help, and they have been very supportive, and I do not think they could have done anything more to make. I think that is something. Having said that, yes, they have to ensure that none of the stakeholders are impacted due to the system going down and other things. So, if at all there is a high degree of precision, if they are looking for, they are looking only in the interest of the markets and stakeholders and not otherwise. So, that is the way it is at this point in time.

Aman: I am assuming Mr. Reddy, I think there is no, this entire process of delays which have happened, there is no regulatory penalty that can come on to you guys because of this. I am assuming this is purely a third-party implementation process and there is no voice of regulatory on that part that there is penalty required because you guys delayed it. I am just wondering; I hope there is no new charge coming from the regulatory side on this?

P. S. Reddy: Well, regulator is definitely concerned whether they will, whether there is a charge on the exchange or not, but individually obviously we are all accountable for the good and bad project implementation.

Aman: Last thing, TCS. How have they been, supportive, given they have been involved very deeply on this and this is getting a bit pushed out. Have they been generally supportive to you guys?

P. S. Reddy: At the highest level, yes, it is being monitored, this project. Again, for them is also it is a high reputational risk. They too want to make it a success and neither we would like to take no for an answer, nor they would like to take no for an answer in this case. We want to make it a success. That is it, nothing else.

Aman: This is heartening to hear. Mr. Reddy, I think both Nicholas and I wish you all our very best for the implementation of this software. And we hope to see you guys soon and hopefully by the time we see the software will be implemented so that will be a reason to celebrate. So, I really, best wishes to all of you.

P. S. Reddy: Thank you, thank you so much. Thank you, Mr. Aman. As ever, you have been a well-wisher and supportive, so is Mr. Nicholas and stay invested and we will do our best to enhance the stakeholder value in this company. Thank you so much.