MCX/SEC/2267 August 17, 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.	Canara Robeco MF	August 10, 2023	04:00 PM	***Annexure - A***

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

Further, we hereby confirm that no unpublished price sensitive information was shared/discussed during the said meeting.

Kindly take the same on record and acknowledge receipt.

Thanking you,

Yours faithfully,

For Multi Commodity Exchange of India Limited

MANISHA HARSHAD THAKUR
Digitally signed by MANISHA HARSHAD THAKUR
Date: 2023.08.17 19:00:44 +05'30'

Manisha Thakur
Company Secretary

Encl: As above

Multi Commodity Exchange of India Limited

Meeting with

Canara Robeco MF

August 10, 2023

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

P.S. Reddy: Good evening Mr. Ajay and Ms. Jain. Welcome to this investor call. Go ahead.

Ajay Khandelwal: Good evening Sir and team. Thanks for meeting us. So Sir, we will start with the recent challenges that we have faced in terms of implementation. So we understand that these are difficult things and some of these processes are taking more time than what we anticipated, so maybe if you can give more insights where are we in that journey and how confident are we to resolve these kind of issues?

P.S. Reddy: As we explained in the last investor call, we have mobilized the whole ecosystem and good amount of members have participated and those who matter and then in terms of participation and day in and day out we have gone ahead and handheld them, conducted an awareness programme… technology familiarization and almost all 30 plus mocks were conducted in that two months time, but unfortunately because of some EoD BoD taking more time since system crashes that have happened, we could not restore the next day trading by 9 o'clock because in the normal course you supposed to start trading by 9 and your trading ends by 11:30 to 12:00 and unfortunately we do not have as much luxury of equity markets as we have in commodities because they are closed by 3:30, the whole day is there for them to start next day trading and so being, that window being very small, we have to ensure that the transition is very smooth and we should be damn sure about starting the next day by 9 o'clock. To have the trading by 9 o'clock we need to get the system by 6 o'clock, 6:30 in the morning, and that did not happen. On some occasions it happened, and, on some occasions, it did not happen and we had to cancel some mock sessions also. So, it did not go well with some of the stakeholders obviously, so that is how we had to defer in the last minute and while having deferred this now we have been able to get control of the situation, and now the EoD BoD timings have come down. May be there are some blips, but even blips should not be there. In the last two weeks, if we take it, we are reasonable in control and so we need to now conduct the regression testing and then regression testing is processed. Probably once that is also over some of its activities have to be parallelly done some of them sequentially done, so then we will throw it open to the market members for mock once again. Maybe this time mock may not be for months on end and we are determined to go live before the end of September and keeping that in view we would like to complete all the processes before back itself, that includes even audits also and those audits have to be sequentially done and so now that once we start the mocks and then also feedback of the mocks. Anyway, even as I was speaking, also systems on mock is done, but it is not just exposed to the external world, usually that is being done. We are also using, as I said trade generator to pump in as much live data, live kind-of load as we are currently experiencing so that is the way we are handling at this point in time.

Ajay Khandelwal: Volume is not a challenge; the number of trades, because options volumes have increased so much, that is not somewhere impacted the systems?

P.S. Reddy: They are not challenges and once in a while maybe the databases crash, DB2, and then it is supposed to be in a failover mode, so the other system did not pick up because in a sleep mode or whatever the configurations and the configuration IDMU, certain configuration maybe, there are a lot of configurations setup. Some issues of this kind, I am just giving an example and, but they are all done kind of.

Silky Jain: In this particular month we have not done any mocks, like in the month of July?

P.S. Reddy: External mock we have not done but otherwise we have been running the system.

Silky Jain: So there we have seen that progress versus what it was like few months back whatever issues were there?

P.S. Reddy: That is right. They are all getting addressed. Now only we need to get is control of the EoD BoD timelines, that is important.

Silky Jain: Sir what exactly are we doing in terms of managing the EoD BoD timelines, like what changes?

P.S. Reddy: What happens in EoD BoD, let us say we had to ensure that all our numbers come right, obligations and everything. There are some pre-validation checks. Now how does the system work, in T7 trading engine when trades happen, they are pushed to RMS - risk management system. Risk management System margins, so from available collateral some of the margins are blocked then the trade goes into the banks where the obligations are being done. Now, at the end of the day in between some activities also take place in the form of let us say, give-up data, that is, I have done a trade, I transferred to the custodian so the margin will be imposed on the custodian but not on mine, it will not be blocking the number. So that is a give-up take-up it is called, so I communicate the intention, then the moment the opposite side accepts the margin gets reduced here and it is billed there, so all these accounting steps happen, it will happen while online happens, at the end of the day it accounts for all these things… for back office. So, there are pre-validation checks, before you go ahead and generate the brokers' obligations you need to see whether all give-up take up instructions are properly accounted for. All the trades have gone or anything is stuck in some error pocket or something they call it, some of the system issues then you need to move it, why it is stuck in an error for any reason or some configurations, some mapping is there, so all these kind of things are taken into consideration and once the pre-EoD checks are all clear then you take the next step of EoD BoD, that is where you will generate obligations and all. Then thereafter BoD, that is beginning of the day or start of the day… Then some processes can be parallel there, by generations, some processes have to be necessarily sequential. One is that, if there is a BoD check that has failed halt there, check why it has failed, correct that, read on that process then get the process passed, so it takes time for diagnosing that why it has failed and correct it and then put it, so these are the ones which, this EoD BoD process is taking time. As I said, now it is coming under control essentially and on many occasions, we brought the system between 06:30 to 07:00… Backups also take time... Now sometimes it takes more time. Similarly, there is active…is there, and we need to shift in the event of a disaster, you need to shift to the DR side. On the DR side SEBI imposes a restriction that we must do it within 45 minutes, less than that that is fine and we have been achieving it, but in this new system it was taking some time and it was not within 45 minutes, a little more. That we have to again, the quality scripts have to be written to automate this process, so that end-to-end time is 45 minutes, so once the script is done, that will be further reduced. We do not need to build those manual instructions or sequences, so they make a scheduler, and they keep running, job one done, that kind of... So, this is another thing we need to bring it under control.

Ajay Khandelwal: So once these things are up and running, we will not have any challenge in terms of coming up with new products, that also is well calibrated and some of the products which are not seeing any traction or less traction, any ramp up, so in terms of product we will not have any challenge whether increasing the volumes or introducing it?

P.S. Reddy: Well, there is no attempt to restrict the volume growth or anything like that. At this point in time our focus has always been on the CDP going live. Once the tech migration is done, we do not need to look back into this and we can keep on introducing new products. We already got an approval for the Steel bars and maybe the Gold contract also options, monthly options. We will keep on introducing one by one like that, we will do that.

Silky Jain: You had mentioned that we are planning to go live by September right, our contracts is still there by December 31, 2023 as of now, so how will it work, meanwhile when we shift to our own this thing software, so what happens like we will still have that backup in the form of 63 Moons software or how does it work?

Ajay Khandelwal: Sir, parallel systems will be run?

P.S. Reddy: Here you cannot run a parallel system, the problem is that, because the brokers have to work on both systems. I do not think they will work on it. Let us say you are doing trading okay, one can always say that the orders can be routed through this and there is something called a parallel runs which we are doing using the 63 Moons, whatever the data is there we are pumping in and trying to see, but the timing will not synchronize. When you start pumping in then it will just pump it maybe seven to eight hours, whether you are taking morning till night, and it should come in that time span itself to see the real-life situation. Let us say, you are exhausting the margin, but the day you will update all the collaterals, so, there is no question of you going into a risk reduction mode or of that kind of in the parallel run the way we are doing it. Running parallel run of that kind is a challenge, that means you have to pump in orders as if that many members are trading on the Exchange, updating the collaterals of all the people at that relevant point in time, then only you will be able to… because it is a real time system. If it is a banking kind of system, it is a different matter.

Ajay Khandelwal: Sir, moving on to next set of questions, because of this increase in margins for certain products the future volumes are going down and considering our math of almost 40% options price we get vis-à-vis one future, so do you think this margin equation somewhere is restricting the investors to be more efficient in terms of trading?

P.S. Reddy: Yes, as I just said, one is the system driven margins, because of volatility, what you call volatility margins increasing, I have no problem, but we ourselves have to increase the margins because our SGF cover is about Rs.460 Crores and we are not having fortunately a trading which is not substantial with open interest, nowadays open interest is including, we have almost Rs.30000 Crores of open interest, that shows the strength of the market. People are not just day traders. Now the moment your open interest increases, your SGF requirement increases. Now SGF is primarily based on what is the overnight risk that you are taking. The overnight risk you are taking on the open interest only and not the day trading. So, with the increase in open interest, we need to provide more of SGF cover and because we have to contribute from our corpus to the SGF, we thought let the members contribute in the form of higher margins or **…** that is where it is hitting us below the belt. We had asked the dispensation from SEBI, I think in the past also we have requested. We have informed that we may be given a choice to contribute and whenever the SGF requirement goes down, allow us to withdraw. If that kind of dispensation is given, maybe it is worthwhile to invest in SGF rather than invest in any of these treasury, because the return net-net will be better in the volume space, and it will go on, definitely.

Ajay Khandelwal: So this increase in open interest is do you think is a structural phenomena because somewhere the out-of-money options their volumes have also increased our premiums have dropped so putting these two things together do you think that this is something structural or because markets are trending that is why I think this is happening?

P.S. Reddy: When there is volatility and then there is a directional movement, obviously it will tend to go out-of-the-money also because one day it will become in-the-money, so for which reason, these contracts start holding some position then building that, but it is not just that the open interest in Crude, although options are maximum in Crude, the open interest is in Gold, almost Rs.10000 Crores, Rs.10000 - Rs.11000 Crores of open interest we have in Gold and maybe in NG about 7000, 6000.

Ajay Khandelwal: Margin requirements is higher in Crude, that is why 10% higher margin requirement, is that the reason?

P.S. Reddy: Not 10% higher. I think 10% is external margin being imposed, as such it is about 30% to 40% margins currently.

Ajay Khandelwal: That additional is lesser in Gold, only 2% odd?

P.S. Reddy: Only 2% that is all, 12%, but that is not the only reason. The gold could never be at 30% of margin… we do not experience anywhere, but then, internationally Gold prices are going down in that sense, and I think the dynamics suggest that people want to hedge in gold that is why more and more hedging is taking place. Open interest is more majorly from the hedgers.

Ajay Khandelwal: So, in summation Sir, do you think that future volumes will continue to trend down, and options volumes will continue to grow?

P.S. Reddy: Option volumes going up, I would say I can expect that kind of trend, which is going down is something which is not that I expect, that is what my own assessment. I think once we get the margins right, I think futures will also increase, in my view, because if the option writers have to hedge the only way that they can hedge is in cash-settled markets, only the underlying in futures. In the case of others, they may have physical assets. In the case of Gold, they do not need to take position in the underlying futures, but then they still have Gold, they may still do without hedging, not cash-settled.

Silky Jain: Are you also expecting some traction in the mini future volumes?

P.S. Reddy: Yes, we are seeing that, but then it will take time. We just introduced in the month of March, if I am not mistaken. It will take some more time.

Silky Jain: But what could be the reason why there is not that kind of pickup, even though we were quite excited about this product?

P.S. Reddy: Madam, when minis were trading, it took time to gather moss.

DG Praveen: One more point what we have to look at is, then they were all cash-settled contracts, now today, they are all delivery-based contracts, as per the new… trading unit as well as the delivery unit both should be the same.

P.S. Reddy: That is why we could introduce only three mini contracts in the metals, whereas in the case of Copper and Nickel, we could not introduce because the delivery unit is very big, almost Rs. 30 lakhs.

Silky Jain: So, like meanwhile, do we feel that because of this focus on technology obviously we have lost out on certain focus in terms of marketing or something which would have resulted in more volumes in our other category, has this been also a reason why like index derivatives or these mini contracts – all these things have not picked up?

P.S. Reddy: Well, we have a separate team which is concentrating on, focusing on the business development. They continue to do what they suppose to do. Personally, I am not able to spend time in business development, no doubt about it.

Silky Jain: But you do not feel that is a reason why, we could have done little better?

P.S. Reddy: Maybe we could have done a little better. Whatever little incremental built up we can add, but otherwise sitting here and at times I will pick up the phone and then speak to the clients.

Ajay Khandelwal: Coming back to the premium part of it, if this thing continues, again I am just trying to understand because this option premium goes down and then our take rate also comes down, normally is there something like for example**…** for illiquid stocks, they increase their commission, or some of these stocks which are thinly traded, so when your premium is lower can it come down to, because it, I think it is 1.89 now can it further go down or you think that there is a floor at least?

P.S. Reddy: The way the idea goes is that we must not increase more piece in the liquid contract. You should encourage them to get activated. The issue is one of whether it is near-the-money or in-the-money or far away from the money is what we are talking about. If the people trade in far away from the money then obviously surveillance actions will also follow, so people do not trade in those option contracts otherwise also, because there is a fear of misusing such illiquid contracts. Generally, it happens and then people do, conscious of that so, we cannot say that we will charge more for these illiquid contracts or some of them at the far away from the money contracts we will charge higher premium, I do not think that is correct.

Ajay Khandelwal: Sir, just trying to understand then there could be any floor for this premium because it increased also to 2.5% plus?

P.S. Reddy: No, but we have currently, how much it is 1.5% or so?

DG Praveen: 1.9%.

P.S. Reddy: So that is not a small one, in fact in cash markets that is the way it is happening, okay. Delivery-based stocks, the options on goods, that is where the stocks are getting, I have seen that the other day. Whereas index option, it is just how much it is 0.20%. The stock options are high. Index options and it is just that the volume is more so come to the point, to address your concern if this is less at least the volume should increase so that we get compensated, that is a good point, I understand that.

Ajay Khandelwal: Sir, as you said some of these funds are blocked so there is possibility of lower other operating income also, so are there any other changes that we need to pay attention to, because these funds by regulation, our requirements have gone high and some of the float money also that you were getting those regulations again because of certain changes that float is going down, because in terms of our other income also has started coming down, so can you just give some perspective what is happening there?

P.S. Reddy: Obviously that float money is basically taken, or coming in the books of the Clearing Corporation. While float money is important but many of the members and the clients are also becoming prudent and they want to reduce cost, and they give more and more bank guarantees, rather than cash. The cash will come in only if that volatility is of a shorter duration and they want to trade and pending up in the new bank guarantee they give the cash, so nobody would like to deposit permanently the cash. Nowadays the rates have gone up so they would like to earn more interest on that, why they would give away...

Ajay Khandelwal: So, this is kind of becoming a more efficient structure?

P.S. Reddy: That is right.

Ajay Khandelwal: How about Sir, on boarding new members, I think this quarter we have added 556, the number of members?

P.S. Reddy: Please do not go by that number. My suggestion is you see how many are active. That way we have almost 550 to 580 members lined up, but actually almost 400 are active. Now some of them may be having multiple memberships for a variety of other reasons, but whosoever actively trading is what is important for us.

Ajay Khandelwal: So that activation rate is increasing, improving or remains the same only?

P.S. Reddy: The way that I look at is, while number of members is important, number of members are also closing down, because unified membership applications have come down, so we do not need to have one in MCX Commodities and other financial services which is a member, so they are merging it and then making it one single unit. So, the numbers will come down, it is a consolidation process that is happening but otherwise they are all trading, that is the way it is. It is not worrying us.

Ajay Khandelwal: Also, the authorized person there is decline again there so that also are we pruning some of these?

P.S. Reddy: Well, while the number of authorized persons has come down because we introduced a fee, about two years ago, every authorized person Rs.1000 you have to give annually, so there were so many people lying authorized and they all have shutdown, clean up, that is good for me anyway it does not matter but at least whosoever is active, I am getting Rs.1000 more and that is adding a few may be not big, but a few crores to our bottomline.

Ajay Khandelwal: Sir, recently one brokerage had an issue with KYCs, and they are asked not to onboard new distributors, these kinds of exercises also help us to have better checks and balances with our members?

P.S. Reddy: Well, I knew that order what SEBI had passed it, but I do not know the antecedents of it, where all it has happened, but the KRAs have come into prominence ever since they are the ones who are doing it, we do not find any breach in it. There could be some data entry mistakes, etc., like instead of operating from Mumbai you have said that maybe some other Mangaluru or something like that these kinds of things will happen. Linking of Aadhaar has become mandatory now and all the records are Aadhaar number ceded.

Ajay Khandelwal: Right, Sir, there is dip in the trading volumes in July, so anything concerning, or it is a short-term phenomenon?

P.S. Reddy: The problem is your benchmarking us on our own success, which is fairly nothing wrong with what you are doing it, but on a month-on-month basis if you look at it, yes there may be some months which are bad and some months which are good and yes, I would not be able to say why in a particular month it was less, understand that.

Ajay Khandelwal: In terms of electricity contracts?

P.S. Reddy: No further development. We are continuing our engagement with the regulators, with stakeholders, and all that is happening.

Ajay Khandelwal: Also, just one last thing this Clearing Corporation is a separate entity, so we need to prepare that it is not part of the responsibilities given to TCS?

P.S. Reddy: I did not understand.

Ajay Khandelwal: Clearing Corporation, Sir…

P.S. Reddy: The trading platform that is being developed is both – clearing and trading.

Ajay Khandelwal: So, risk management and clearing?

P.S. Reddy: They are all part of the trading region. Probably it is flowing from your question that they floated an RFP for some risk management solution, so that may be the reason why this is coming. Look, currently a certain kind of latency number is... If a trade is executed how fast it is going to the risk management system and coming back margin. So that is a few microseconds, milliseconds and maybe they benchmarked with some of the other exchanges, we should have still lower. Well, my personal view is good to have it, but how much incrementally we want to improve that it all depends on the competition between machines and all that… If some fine tuning can improve that, it is fine, but if not improve also, it is not risk, milliseconds that itself is a great achievement and we are doing online. I do not think in most of the exchanges is not online, it is a batch mode, risk management.

Ajay Khandelwal: Sir, you have answered all our questions. Thanks for your time.

P.S. Reddy: Thank you so much.