“Multi Commodity Exchange of India Limited
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Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the MCX Q3 FY2018 Earnings Conference Call, hosted by Motilal Oswal Securities. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sagar Lele from Motilal Oswal Securities. Thank you, and over to you Sir!

Sagar Lele: Good evening everyone. I welcome you all to the Q3 FY2018 earnings call of MCX. From the leadership team at MCX we have got on the call, Mr. Mrugank Paranjape who is the MD and CEO and Mr. Sanjay Wadhwa, the CFO. First I will hand the over to Mrugank to give a brief update on the quarter. We can follow up that later with questions. Over to you Mrugank!

Mrugank M. Paranjape: Thank you Sagar. Good evening to all of you and greetings of the New Year. From an MCX perspective, in the last quarter there were a couple of developments both on the business side as well as on the regulatory side, which have a great significance. On the business side, in the beginning of the quarter, on the October 17 on the auspicious day of Dhanteras we launched the Options Trading Contract.

Now in terms of the volumes and the success of the first contract that we had, very pleased to tell you that in spite of fairly new design of an options contract where the devolvement happens into the futures and therefore there is also margins which we have to collect from members prior to devolvement the entire cycle went through absolutely smoothly.

We had more than 300 members who have participated in the first options contract and from the first day till the end the open interest was a continuous buildup, so a very good response. In terms of scaling this further, there are a couple of things, which we are now looking at. At the subsequent meeting with SEBI and at the CDAC, we have presented what was the experience of the first cycle, basis that we will now be approaching SEBI for an approval for at least four more option contracts that we want to launch given that SEBI's initial guidelines allowed people to look at the top five contracts. So we have taken the internal approvals as well and we will be filing with SEBI for more option contracts.

In addition to that given that options is a very new product from a commodity's perspective, we are pursuing some schemes where we will look to have a liquidity enhancement and retail participation enhancement scheme, both of which we are discussing with the regulators and hopefully we will have that in the next one month or

so, so that we can look at much larger injection of volumes into the options and get that as a full-fledged product for the next financial year.

In terms of the regulatory developments, there were a couple of ones, which are deemed very significance. First and foremost, in continuing with the expansion of the market, SEBI has put up the white paper for the participation of mutual funds as well as for the PMS providers. In addition to that SEBI has done widespread consultation on how custodians can get active in this market to support all its usual members and all the feedback is in with SEBI, now in line with what has happened in the past, we expect that at the next board meeting of SEBI this will get formerly announced and the institutional market will really get opened to commodities in a big way.

The other big development was that at the end of the quarter, SEBI announced the date and timeline for what people otherwise call the Universal Exchange, but essentially what will mean that we as MCX will get the opportunity of looking at a new segment. We have just had a discussion at our board, and we intent to look at definitely one more segment, the current view is to look at the currency definitely but at the same time, we will wait for the next board meeting to really confirm which segment we are getting into, but from our perspective it is something which has been in the offing, which is something, which we had very well prepared for and therefore it gives us now the time and the vision to plan for it and make sure that we take the best use of these nine months.

Some of the other highlights especially in terms of the physical deliverable side of our business very happy to say that in terms of the gold deliveries we have had some of the largest deliveries happening after GST. So for two consecutive quarters now, we have been delivering in excess of 700 to 800 kilos of gold on our contract including some of the largest refineries in India and as well for the month of December, we thought we had the largest deposit in terms of cotton. So in terms of the physical connectivity of our business, which is extremely important both for sustaining the open interest in any contract and also something that is extremely important in terms of developing any new contract, I think, on the physical deliverable side, we have a great story, whether it is cotton, whether it is gold, or whether it is some of the other new contracts we are looking at.

Last but not the least, in the last call, at the end of September RBI had allowed bank's subsidiaries to become members of commodity exchanges. We are very pleased that Axis Securities is already begun and we are in the process by which the top five, six bank subsidiaries will definitely become members of this exchange within this quarter. To us this is a big opportunity to really bump up our distribution and that is something, which we will make sure we pursue in FY2018-2019.

So I think those were the initial comments from my side in terms of the business and regulatory developments, I am very happy to take questions and wherever we have the answers we will make sure we get them to the best of our ability.

Moderator: Thank you very much Sir. Ladies and gentlemen we will now begin the question-and-answer session. We will take the first question from the line of Anand Bhavnani from Sameeksha Capital. Please go ahead.

Anand Bhavnani: Good evening Sir. Sir, with respect to commodity derivatives market as a size of country's GDP in one of the presentation or website you have given examples of various countries, like in UK it is above 6, in case of China it is 1, in case of Australia it is 0.12, so different countries due to structural features have commodity derivative markets which are either very big or miniscule as compared to their GDP. Sir how do you see in the long run, this panning out for India? At what kind of ratio do you think we might see it in the long run?

Mrugank M. Paranjape: Our view is that in the long run, a number that we should be looking at is probably maybe a bit lower than the US, but definitely in the range that you have a Malaysia or China today, which means that if today we are looking at US which is at somewhere in the range of 2.4, China is at 1.98 as you said, Malaysia is something which is very close to Indian number. So to us the aspirational number will be to basically be in that China or US range. We believe that is definitely doable especially with the slew of reforms that we have seen so institutions getting allowed, options being allowed, there is already discussion on how index can be allowed, bank distribution opening up, all of these are things, which were not there for 13 years in this market and all happened in the last nine months. We believe that should be the reason why we should be looking at a size of the Indian market, which is in that range of what the China US is.

Anand Bhavnani: Sir any of these international markets have tax, which is analogous to CTT just wanted to structure we have, are they similar or different?

Mrugank M. Paranjape: Structurally, I think, CTT is unique to India. It is not something, which is prevalent elsewhere and that probably is one of the reasons why when we did not have all the other developments, that became one of the reasons why our turnovers fell, but we believe with a lot of these developments, which have happened over the nine months, the growth will come back to this market.

Anand Bhavnani: Finally one last question, Sir any discussions with the government to incentivizing hedging on Indian exchanges. Currently, a lot of large corporates they find it liquidity wise and transaction tax wise better to hedge it, and RBI has allowed them given they have sufficient underlying businesses? That actually takes away the volume from MCX so any discussions on those lines, what can be expected?

Mrugank M. Paranjape: So I think amongst the things that you mentioned, we have never said that you know you should not allow the underlying clients to make use of the best market where they get what they want and from that perspective, if today, somebody is using an international market that is not something which we are lobbying against. What we really want is to make sure that the Indian market is at par with the international markets and there we believe the long-term is in two parts. One, the institutions coming in and for that it is multiple reforms of which custodian was an integral part, which also is hopefully getting addressed now. Institutions will create the demand and the liquidity that we need in the slightly far end of the contracts. On the other aspects, yes tax is something, which always has played a role. That has been a request that we have always had. This year in our representations to the ministry we have stressed and knowing the history that there has been a reluctance to look at CTT there is also a Section 88E which is something, which all our members have been asking for, so restorations of the benefits under Section 88E itself, would be a big jump and that is something, which we have represented to the ministry.

Anand Bhavnani: Sir, I will come back in the queue, but before I come back, I just would request, if you can elaborate on Section 88E. I am not sure, if I as a participant, an investor and others understand it well. So if you can just elaborate?

Mrugank M. Paranjape: Way back when STT was introduced, what you paid as STT you could claim as advance tax payment, so in a way it was offset against your income tax liability that benefit was taken away somewhere in the year 2008. When CTT was introduced therefore that benefit was anyways not available either for STT or CTT and what we have therefore asked is that what people pay as CTT or STT should be treated as a part of advance tax and help people reduce their tax liability.

Anand Bhavnani: Thank you Sir. I will come back in the queue.

Moderator: Thank you. We will take the next question from the line of Arihant Bardia from Catalyst Global Equities. Please go ahead.

Arihant Bardia: Good evening Mrugank. I would like to understand with respect to the Universal Exchange license it is likely to increase the competitive intensity. Why do you think that it is not going to impact your revenues significantly?

Mrugank M. Paranjape: Yes, competitive intensity will go up. I think there is no doubt. Now the question is that again we already know that some of the exchanges have indicated what is their likely strategy which is more going to be driven by sort of a predatory pricing, but from that perspective we have been through the cycle once where three four years back when there was the crisis at MCX, competition tried by sort

of giving extremely low pricing to move other liquidities so that is not the only way and not the only reason why liquidity moves away, so yes competitive pricing will force us to give some discounts, but it is not as if it is going to completely dry up the revenues, and in the meanwhile, if all the measures that have happened in the last nine months go well, if we are able to capitalise on that and grow the market itself the pie will go much larger and therefore and I think there are so many examples in India where competition has really grown the pie and not really eaten away people's cake, so I think that is the reason why we believe that overall the market will grow and that gives enough opportunity for all of us to play in it.

Arihant Bardia: You are believing that the market will grow in that much size that overall your volumes will not get impacted?

Mrugank M. Paranjape: Yes.

Arihant Bardia: My second question is respect to the options, now I would like to understand what is the kind of revenue you are targeting, say in three years down the line from options and would that by some way impact your futures volume as well?

Mrugank M. Paranjape: There are a couple of things, which we need to understand when we look at how we want to get a feel of options both revenue potential as well as volume potential. One, except for equity index, I do not think there is any other number where options to futures ratio is a very, very high number. Internationally options to futures number is even in mature market at 20%. Our view is that in the long run, especially after index has also been allowed in the commodity spectrum maybe the options to futures revenue volume can be something in the range of 50% to 60% at a healthy ratio. We are targeting to get to at least 20% in the first six months of the contract. Now having said that if you then factor in the pricing that happens and because options you pay on the premium and not on the underlying the overall impact to revenue in the longer term three to five years is probably in the range of 15% to 20%.

Arihant Bardia: I think that is it from my side. Thank you so much.

Moderator: Thank you. We will take the next question from the line of Kunal Shah from Edelweiss Securities. Please go ahead.

Kunal Shah: Particularly with respect to the activity levels, despite the positive movement in the commodity prices or at least the sector being stable all through are still the overall volumes are slightly lower, so maybe when we are saying that may be overall we would look to expand the market, but I think as against the expectation may be Q3 was not that exciting and even as we go into January the activity levels are not that high. So how do we look at this, maybe somewhere around 20000-odd Crores for pretty long despite all the efforts which have been made?

Mrugank M. Paranjape: I think one already the January numbers if I just look at the last 10 days is roughly 10% up it has been close to 22100 in the last 10 days. The second thing, which we would like to point out, is that one of the continued weaknesses in terms of the volumes has been the bullion set of contracts. So in spite of having a very good number on base metals which are up more than 20% on year-on-year basis, energy which is not down too much, but it is really the bullion, which has taken away and there we are again looking at the indicators. We seem to be poised for a sort of clear rally in terms of all the bullion volumes, but in terms of numbers impact, I think the bullion is the reason why you seem subdued numbers in the last quarter as well. Coming back what has happened like I said since January it is already up 10% and just in terms of what we are seeing in terms of the numbers in the last couple of days even on the options contract, on the days when there has been a little volatility itself, the options contract typically tends to do about twice the previous days' volume. So interest is building back and we are absolutely sure that this trend will continue as we progress during January.

Kunal Shah: How do we seen in terms of the rational behind it because I think when we look at the prices be it on year-on-year basis or maybe on a quarter-on-quarter it is almost flat, but still like in volume terms it is almost down like more than 30% odd, so which kind of activity level is actually coming off? Is it speculation, arbitrage, what is happening out there?

Mrugank M. Paranjape: I think since predominantly it is the bullion segment. That segment continues to face issues, which do not seem to go away. We had demonetisation, we had GST, we had PMLA and all of which is continuing to add to the woes of that underlying segment, which is what is sort of creating a downward trend and our belief is that as that segment really stabilises and as more and more people move into the regular and the organised market within that market, we will see the upside. So participation is not going down. The other thing you must appreciate is that in the bullion segment, volatility has been at probably the lowest in the last six to seven years and that is another reason why bullion volumes are really very low. So very low volatility impacts the physical market and that together has created a sort of real low for the bullion segment.

Kunal Shah: Lastly in terms of this bank subsidiaries, Sir now be it in terms of all the securities the way you have highlighted in terms of Axis so maybe in terms of be it HDFC or I-SEC or Kotak Securities everyone could now become the member of COMEX and they can start trading on that, is that way?

Mrugank M. Paranjape: Absolutely correct and that is what we said that if you look at the top six or seven bank subsidiaries, we expect all of them to be our members definitely within this financial year.

Kunal Shah: Good. Thank you.

Moderator: Thank you. We will take the next question from the line of Hiten Jain from Invesco Asset Management Company. Please go ahead.

Hiten Jain: Sir, our QoQ basis your other opex is up 20% and your other income is down 36%. So basically opex has gone up from 10.4 Crores to 12.6 Crores and other income has reduced from 24 Crores to 15 Crores. So what happened in these two line items?

Mrugank M. Paranjape: I will come to the income very quickly, but which line item are you looking at on the opex?

Hiten Jain: Other expenses?

Mrugank M. Paranjape: A few things here, so let me just address the expense part, one we sort of maintained from the beginning of the year and right till now and we are very confident of this going forward that if you take away the variable expenses and variable expenses in this case is the line B that you see in the results that we have put out so the 4B that is the variable expenses. Everything other than the variable expenses we are absolutely confident that the full year number for this year will definitely be lower than the full year number of last year. Having said that within the quarter, we had definitely one of expense all of which was towards member engagement so we had a couple of activities for our member engagement in terms of basically some activities that we do with members, so we have now started and on a full year basis these are four activities that we continue to do. We have an annual awards function. We have an annual meeting, which is conducted where we also include that with some sort of an offsite visit to a location, we also have the India Commodities Day, which we organise, again these are all activities, which we believe deepen our engagement with the market. From a timing perspective two of these happened in the last quarter and that along with options launch is why you see a 2.2 Crores jump there, but rest assured that in terms of the overall expense line we will definitely come at or below what we were for the full year last year, for the full year this year except for software support charge and product license fee, which is completely linked to revenues. On the other income, as you would be aware there has been a steep increase in the bond yields. What this has done is where we have investments in mutual funds and especially where we have investments in mutual funds in debt segment, about 83% of our portfolio is subject to mark-to-market risk. That particular piece is what has given a negative return over this quarter. Also because we have been holding some of these instruments for quite sometime, so if you look at these individual instruments they probably have a from inception till now returns of excess to 9% but we cannot liquidate them because we will end up being short-term capital gains. So it is not something where we could have reshuffled our portfolio and got out of it at the same time that is the reason why the other income is

down. In terms of I think the debt market this is a phenomenon, which everybody in the financial services is going to go through in this quarter because of the divergence in the yield curve and the sharp rise that we saw in the bond yields.

Hiten Jain: Thank you.

Moderator: Thank you. We will take the next question from the line of Anand Iyer from Canara Robeco. Please go ahead.

Anand Iyer: Thanks for taking my question. Sir just based on your past experience in terms to transaction charges, what is the sensitivity of transaction charges to the impact on market share on volumes? I am asking with respect to say commodities between NCDEX and MCX?

Mrugank M. Paranjape: Anand, a few things on this one. There are a very few common commodities. So I think it is very difficult to get that correlation. Second I think if we take the two or three times when people have done this one let us just go back three four years when our competition dropped prices drastically compared to what we had, did it really impact liquidity in any big way? No. What it does however is that it forces you to probably react and respond more in terms of market sentiment and in terms of ensuring that your members do not feel very upset. We went through as all of you would recall a price hike, which we did in October last year and while it is difficult to again segregate events because almost immediately after that there was demonetisation but if you take the 40 to 45 day period between when we did the price hike to the demonetisation date, we believe that we were able to do the hike that we did last time with corresponding drop, so we had a hike of about 20% to 25% on the fees, but the drop in volumes was close to 5%. So yes there is sensitivity both when you raise fees as well as when you drop fees, but we believe that there is no very scientific way of saying that if you drop the X you will get a Y result.

Anand Iyer: Would it be safe to assume that in case of your new competitor enters and it substantially reduces the transaction charges you will be forced to match the price?

Mrugank M. Paranjape: Going back to what I mentioned about the three to four year experience we will have to respond with some definite reductions but I do not think we will have to match.

Anand Iyer: That is all from my side.

Moderator: Thank you. We will take the next question from the line of Sagar Lele from Motilal Oswal Securities. Please go ahead.

Sagar Lele: Mrugank, in the beginning in your initial remarks you suggested pursuing some case for liquidity enhancement on the options front,

could you elaborate a little more on that in terms of what they could be?

Mrugank M. Paranjape: Essentially we are looking at two or three aspects on the liquidity enhancement. One, we want to look at a market making scheme where the focus will be on ensuring that there is liquidity at all points of time on the various active contracts that are there so the scheme is designed looking at that as the aspect and not really turnover, so the focus is on making sure that there is a bid and ask available with a specified spread and nothing more than that at all points of time, and it is the performance that the market maker will have to do. We are also looking at some few things in terms of additional incentives for especially the retail where the incentive is more for activating clients and not really to make them trade as well as some incentive for open interest build up. So those are the three aspects that we are looking to do as we look at the liquidity enhancement scheme.

Sagar Lele: Sure, thanks. That is it from my side.

Moderator: Thank you. The next question is from the line of Ajit M, an Individual Investor. Please go ahead.

Ajit M: Sir, there has been a regular decline in the margin and it has been almost two years and there has been less in terms of profit and once the universal exchange came into being, sir is there going to be a solid difference in price in the company?

Mrugank M. Paranjape: I do not know which margin you are talking about.

Ajit M: No, profit is getting less continuously and we do not see any volume and there is less in profit also and whether there is going to be any change in the BSE exchange or rather universal exchange, will it have any effect on our company?

Mrugank M. Paranjape: Like I said in the beginning that BSE or any other exchanges coming forward I do not think there will be any reduction in our volumes. Any other new competition which comes up, there has only been an increase in the market overall. Market has not reduced. The pricing, which they do, we will have to take some reduction, and because our cost base is very much managed I do not think there will be any impact.

Ajit M: They are not doing it like that. The stock, which is there in BSE, in that also they are going to tell us to invest in BSE. The shares, which we carry, which are profit making the shares that we have to invest in your company we need to give the margin money. As the BSE is commenced, we need to play a very big part.

Mrugank M. Paranjape: As far as I understand your question, you can do it today and you can with the help of the broker and keep a margin and you can trade.

Ajit M: We are in the share market from 1994. For example, if a share is of Rs.40 for x shares now that share is now it is trading at Rs. 500, or Rs.1000 and that has become 10 lakhs and it is with BSE now, so we have to give for the margin that amount. So in MCX it is not going to be, so we have to put new money. What preparations you have done for this?

Mrugank M. Paranjape: Sir, I do not understand your question because if you are trading so you do not pay any money to BSE or you do not give any shares to BSE. Your money and shares will be kept with some broker.

Ajit M: The broker is only trading it only, but the benefit he is going to give us, the impact that is going to be in multicommodity exchange, isn't it?

Mrugank M. Paranjape: If you correctly understand the broker who is with you, he will trade with the gold shares, so please speak to your broker.

Ajit M: Thank you Sir.

Moderator: Thank you. We will take the next question from the line of Ashi Anand from Allegro. Please go ahead.

Ashi Anand: Sir, my question was there was a belief that post demonetisation the fairly sizable trading market could actually move towards the organised exchanges so if you are looking at volumes it does not really seem that it has happened in the case of commodities. Just wanted your thoughts around this?

Mrugank M. Paranjape: Ashi there was an expectation that post demonetisation the white economy or the regular economy would grow much faster as compared to the people who are not paying their taxes, etc., however, that has not actually realised in anyways and that is true probably not just for our market, but for any other part of the economy as well. So, clearly there has not been a significant change. We do not know whether the people who used to be doing what is as you mentioned called, dabba, do not do that anymore or there is a stock trading there, but they do not have come in here, but yes it has not had any impact in terms of people moving in to the organised trade.

Ashi Anand: Secondly, you mentioned institutional participation and the SEBI white paper for MF and PMSs, as I understand AIFs are already allowed. Any sense in terms of what has been the kind of how has the market feedback been on AIFs on current commodities?

Mrugank M. Paranjape: I think while AIFs were allowed one of the things which as you would know for institutional participation is mandatory is the appointment of a custodian and the custodian regulations have unfortunately not been changed in tandem with that change in the AIF regulation. So today while AIFs are allowed to participate, most of the custodians in India especially because a lot of them happen to be bank entities are not in a position to actually support them, so that is one sort of bottleneck which we are all trying to work with SEBI and address and we expect that that will be taken care of in the next round of changes are announced by SEBI. To us that is probably the biggest reason. There are other concerns, which the AIF community had expressed especially in terms of some of the investment norm. I think that SEBI will look at once they see how much trading is really happening.

Ashi Anand: And you are expecting the custodian issue to be taken up say over the next one-quarter or so?

Mrugank M. Paranjape: Yes.

Ashi Anand: Thanks a lot, Mrugank.

Moderator: Thank you. We will take the next question from the line of Prakash Kapadia from Anived Portfolio Managers. Please go ahead.

Prakash Kapadia: Thanks for taking my question. Sir on the bullion side, you were explaining to an earlier participant, so contrary to what larger organised players have reported in terms of sales or the strong outlook in terms of bullion and they benefitting as compared to the unorganised guys so that seems like a bit of contradictory, because you know, if you look at any larger player, who is in the bullion segment, they seem very, very bullish from not only what reported numbers but a strong outlook going forward. So why is it not reflecting at our end and in addition to that if I look at metals, crude, directionally all of them have gone up, so unless and until you know that does not reflect into ADT so I cannot understand this jigsaw?

Mrugank M. Paranjape: I think in terms of directional price directly resulting in volume, it is not always true because the directional flow has to be backed with similar volatility, so it is in the base metals that you see a lot of volatility over the last couple of quarters and that is where you are seeing some increase in the volumes, but you do not see the same volatility in all of the energy segments. So NG for example, clearly during the winter seasons has an upside and always goes up and that is what is reflected this time as well. To your question on bullion, I will be very honest. It is something which we ourselves are trying to understand to the extent and we have met a lot of jewelers in the last couple of months as we are working towards the options launch our understanding is that while the larger participants subsequent to demonetisation and GST have actually sort of reaped the benefit of

being organised and therefore getting the upside of all these reforms. Probably it is the participants who are not in this bracket and who are not really in anyways participating and benefiting from these reforms are probably shying away from even participating in the derivatives market. So that is the hypothesis, but it is just possible that because of the deep linkages that GST has in linking everybody across the value chain maybe some participants are hesitant to come on to the platform just now which they were doing earlier, but as you rightly said, we ourselves see the large participants who use MCX their volumes are growing, but the overall volumes are not coming through and we believe that is because there is still enough in the bullion segment which is not in the organised sector.

Prakash Kapadia: Gold options what is your feedback from some of the participants because post the Dhanteras I think, we were hitting some 3500 in October, so it has been trending down and we are down to I think at the current rate, may be less than 1000 Crores so what will change this? Will it be rupee depreciation, will it be volatility, and how will this spike come? Obviously you will talk about volatilities, so it is just going to be volatility or currency because globally gold seems to be doing okay recently?

Mrugank M. Paranjape: If I just get it correct there are two parts; one if you are talking of the futures volume, definitely it is linked to the low volatilities that has gone down and we believe the volatility is coming back and therefore we will see volumes come through there. If your question is towards the options, I think there, there are two things that will need to happen. One, clearly when we are competing in terms of share of mind from the trader community we have only on options contract whereas they have six or seven or may be eight contracts from the equities and another world to look at so clearly one strategy is to make sure that we are able to launch more options contract. The second is that retail as you all know does not get activated in one single day. So it takes time to build up and we believe that build up will take a three to six months period and that is the one for which we are now going to make sure that we are also able to incentivise the market to get retail conversions happening. So options turnover I think is completely linked to the retail growing to the extent that becomes sustainable and also our ability to provide some sort of a liquidity enhancement initially and third getting more options contracts, but on the futures side yes volatility is what we will have to wait for.

Prakash Kapadia: That is helpful. I will come back if I have more questions. Thank you.

Moderator: Thank you. We will take the next question from the line of Rahil Jasani from ICICI Securities. Please go ahead.

Rahil Jasani: I am sorry. My question was answered. Thanks a lot.

Moderator: Thank you. The next question is from the line of Aksh Vora from Praj Fincorp. Please go ahead.

Aksh Vora: Just wanted to know on margins front is there any delta between options and futures margins? Margins we gain on the profitability side?

Mrugank M. Paranjape: When you say is there a delta are you saying can you use whatever unrealized profit or anything towards the other one, I do not get what you say in terms of margins. Margins have to be paid for every contract and they are distinct and you need to pay the margins both for your options and for your futures. When you are calculating the margins especially in the two days prior to expiry we also levy an additional margin because for the buyers of options we generally do not pay a margin, on the two days prior to the expiry we start levying some margin because if they are in the money and they exercise there will be some sort of a margin shock on the day of conversion, but I do not know whether I got your question right, so I do not think the answer may be right.

Aksh Vora: Sir, if we are earning in terms of earnings, say we are earning say 20% margin on futures revenue, what kind of margins we are earning on options currently? Is there a big difference or probably they are similar margins?

Mrugank M. Paranjape: So you are talking of margins as in our earnings versus, so there we are absolutely same on every rupee that we earn there are a percentage of our fees that we have to pay for software vendors. There are a percentage of our fees, which goes to regulatory fees, and there are some percentage of our fees is going to product license fees. So the product license fee is currently not payable for options. So clearly there is a slight delta there, but in terms of the net revenue from both the contracts and thereafter it is absolutely same profitability on both the contracts therefore is the same.

Aksh Vora: Just a hypothetical question actually. There is a very lack of awareness about commodity exchange or the metal based commodity exchange or the products that we are serving or that is there in India compared to equity, just the thought was that this BSE or NSE they have a barometer say like Sensex and Nifty so for layman, people who do not understand markets very clearly they have an idea about markets from Sensex or Nifty, so there is no clear any such thing barometer in commodity. I do not know if it can be possible or not, but it can give a benchmark to compare between equities or commodities and it can give a little bit of awareness about the commodity, I do not know if it is possible or no, I just wanted your view on that?

Mrugank M. Paranjape: So a couple of things, one you are right, index is an extremely useful instrument when it comes to giving you some sort of a gauge of where the market is and you are spot on that index is

something which people used to track markets. Second we at MCX have had indices which are both sectoral as well as broad based commodity index both of which we have been calculating and publishing for the last seven years. What we announced earlier in this financial year is that we have done a tie up with Thomson Reuters. We have branded our index under the iCOMDEX series where you will see some indices, which are broad based, and some, which are sectoral. We are also working with SEBI to get index based trading in commodities allowed. So absolutely take your point, we are well prepared for the launch of an index. We have the data. We have the ability and we have the distribution capability for that index as well and as when SEBI allows trading in index, we will make sure that we get that message propagated across. So thank you for that suggestion as well.

Aksh Vora: Thanks a lot Sir. That was it.

Moderator: Thank you. We will take the next question from the line of Meet Jagani, and Individual Investor. Please go ahead.

Meet Jagani: I was just trying to understand in the prices with MCX platform today, we saw one of the international exchanges; the price was for international exchange, why is it so and how it helps a local hedger who is having exposure to a local guy?

Mrugank M. Paranjape: I am not too sure which commodity you are talking, but you know the commodities that we refer to international prices are the ones where the exposure itself is very heavily linked to the international price. So if you are talking of something like anyone of the metals, if you are talking of even CPO, which is an agricultural commodity the benchmark price in the world over is something which is determined somewhere we believe where India is predominantly and importer of those goods, the price exposure can be very effectively hedged by the importer irrespective of the fact that you are taking a price from a foreign exchange. The price exposure can be very effectively hedged by the importer irrespective of the fact that you are taking a price from a foreign exchange. So the ability to hedge does not go away. In fact the reason we take some of these prices are because they are the gold standard, if I may use the same word in terms of what the price should be and therefore they give a very effective hedging tool. So many of the base metals they still look at the LME prices, there are like I said CPO still looks at Bursa Malaysia in terms of tracking the price and the same with crude oil it still goes much more in hand with WTI, the Brent, so those are the prices to which you are exposed to as an importer or as a consumer of that commodity and all of our contracts give a very effective hedging

Meet Jagani: One more question, which one of the previous participants also asked, allowing or giving a membership to them will ensure themselves to trade on MCX?

Mrugank M. Paranjape: If you see the RBI notification, it allows bank's subsidiaries, which are currently allowed to do the distribution business of equity and equity derivatives, are now allowed to also do commodity derivatives. So this way we are talking of bank's subsidiaries, banks themselves hedging on commodity exchanges are not yet been permitted by RBI.

Meet Jagani: Thank you.

Moderator: Thank you. The next question is from the line of Shailesh Chatbar, an Individual Investor. Please go ahead.

Shailesh Chatbar: Good evening Sir. I just wanted to ask that the option trading which you have launched in MCX have you started taking the transaction changes or no? And if the answer is yes what is base for that?

Mrugank M. Paranjape: We have not yet started to take the transaction charges. As we had said in the beginning at the time of the launch we will only start taking the transaction charges when the contract gets strength and the volumes, will come to a level where we will also get the comfort that this has a very good volume and liquidity. So at this point in time, we have not started taking any transaction charges.

Shailesh Chatbar: Thank you.

Moderator: Thank you. We will take the next question from the line of Varun Dhanuka an Individual Investor. Please go ahead.

Varun Dhanuka: Thanks for the opportunity. I wanted to see if you could add some more color to the decline in volumes that was witnessed on the crude oil and where you mentioned that volatility was low on the crude front, but you know we started seeing decline in the month of October where our volatility is just declining a lot in December so if you could add some more color to the declining volumes on the crude that we saw this quarter?

Mrugank M. Paranjape: Again, I think, if you just look at the numbers, November was particularly actually again back in terms of the crude oil volumes. It was about 5300 for November. It is only in December that we see a slight decline and again there it did get compensated to some extent from a natural gas perspective, which saw an increase. So one in the energy segment and basket of course there is people who are using these contracts interchangeably from a trader's perspective, but lack of volatility was probably the only reason why we saw a slight decline in December. Nothing further that we think we can add in terms of this particular commodity.

Varun Dhanuka: Thank you.

Moderator: Thank you. We will take the next question from the line of Milind Doshi, an Individual Investor. Please go ahead.

Milind Doshi: Good evening Mrugank. Happy New Year to you. I have two questions; one is if I look at globally the composition of breakup between future and option volumes, it is 90% futures and approximately less than 10% in option segment, so what believes you that you will be able to drive volume in options? Second one, if we are to assume that like NSE we will have a significant volume in options, then would not your future volumes will get affected?

Mrugank M. Paranjape: I think on the second part, the thing is that most trading strategies also look at what is called delta hedging and therefore a lot of options trading strategies do not really eat away into the futures volumes. So to your point as and when we see volumes build we do not believe options will be in anyways a cannibalising effect on our futures numbers. We have not seen that even in the current launch and we do not think that will happen. To your first question, the reason we believe options will do better and you are absolutely spot on that internationally options as a percentage to futures turnover especially when it commodities it is probably at about 20% number. The number goes up in India on two counts. One it is in the equities market that we see that number drastically different and the second is that within the equities market it is the index, which really does phenomenally higher volumes. So our belief as well is that from an Indian trader and investor perspective, index is something, which they understand very well, and index based trading is something which they understand very well and that is where we will probably see better traction in volumes when it comes to options.

Milind Doshi: My final question would be we are saying that because competition coming in, you will be able to retain our market share, but I just want to take a step forward saying BSE will be offering currently commodity and equity segment, and as you know I think it will be a universal exchange you can use the same margins, but MCX will not be offering to equity segment. Is that going to be a disadvantage to us?

Mrugank M. Paranjape: That is something which you raised an important point and I would like to take this opportunity to inform all the people on the call that this is one of the misconceptions we need to work very hard, I know knowing that this question comes up everywhere. The reality is that even today the regulation allows for this to happen and that is because the end investor actually pays margins to a member. The end investor pays the margins to the broker and since brokers are already allowed to have equity, currency, commodity all of that in a single entity license, today itself if a customer walks in and pays some margins to a member who have membership across the segments, he or she can get the benefit of this multiple memberships. So effectively

as the entire market and from our top 150 members who probably constitute 90% of the volumes, we have seen more than 120 of them have as well a membership in the equity currency segment and all of these members are working towards unifying their memberships. So we expect that in FY2018-2019 almost our entire membership base will be a unified membership base and if that is in place, the benefit of this multiple asset classes being available to the end investor with the same margin and across the same screen will be a benefit, which will happen without the need of the exchanges getting into that segment, so you have a valid question, but I think it will get addressed with the members unifying and just BSE coming in with multiple asset classes will not pose a big threat to us because of that.

Milind Doshi: Just want to add one more color to that that you know probably your thesis may prove right in the long term but probably for the next one or two years as BSE wants to capture the market share and offer incentives, probably that may effect negatively to MCX, right because they will give lower prices to us?

Mrugank M. Paranjape: Fair point and I have answered this before as well, we do not think, liquidity just goes away because of pricing but yes a very aggressive pricing by any new exchange will force us to relook at our pricing strategy and could have some impact in terms of what the pricing result is.

Milind Doshi: Thank you.

Moderator: Thank you. We will take the next question from the line of Rahil Jasani from ICICI Securities. Please go ahead.

Rahil Jasani: Just one question in terms of futures contract, you had announced that we launched around seven to eight new contracts and we have already launched, RBD Palmolein and Pepper etc this year till now, so which other contracts are you looking at and futures?

Mrugank M. Paranjape: I think at this point of time, we have just received approval from SEBI for a deliverable contract in brass. We are actively looking at launching that. The reason we are looking at it as well because in the metals family on the precious metals as you all would know in both gold and silver we have the expertise and we have been managing deliveries for a very long time, but with this we will be able to establish the ability to manage deliveries in the base metal segment as well. So that is what we are looking for and after that we will think of more launches again within the metal segment. Specifically to the energy segment, we are evaluating couple of energy contract as well, so both in metals and energy we will see another four or five contracts from the exchange in the next six months.

Rahil Jasani: Thank you. That is it from my side.

Moderator: Thank you. We will take the next question from the line of Rajesh Chaudhary from Zenith. Please go ahead.

Rajesh Chaudhary: Good evening. I just wanted to check on the bank subsidiary risk, as we understand SEBI has given permission to allow bank subsidiaries to be traded on the commodity exchanges, so where are we at the moment?

Mrugank M. Paranjape: I thought I just answered that in the beginning. Axis has already on board. Their membership is done and they should be starting business very soon. As for the other top five or top six bank subsidiaries, which constitute bulk of the market we expect all of them to be on board within this quarter.

Rajesh Chaudhary: How much impact do you see in the volumes if they all come on board?

Mrugank M. Paranjape: So, I think in the longer run, if they have a similar impact that they have in equities that should add about 25% to 30% distribution strength to what we have today.

Rajesh Chaudhary: Secondly in the last call, you had mentioned about new products like diamond and rubber being coming on to your platform, where are we at the moment and the index futures also?

Mrugank M. Paranjape: Sir, as we said, diamond we are still working with SEBI. We do not have an approval. Rubber we did give an approval, but looking at the market conditions, we decided not to launch. Index we continue to work with SEBI to see how index based trading can be allowed in commodities.

Rajesh Chaudhary: Because diamond will not be a logical synergy between the current bullion segment, if we launch the diamond products?

Mrugank M. Paranjape: Absolutely agree, we are therefore pursuing with SEBI and we hope we can get an approval at the earliest.

Rajesh Chaudhary: Lastly by when do you see the mutual funds and the PMS coming on to be allowed in the commodity exchanges?

Mrugank M. Paranjape: Like I mentioned the SEBI white paper closed for commence on December 31, 2017. We expect that in line with what SEBI has done in the past SEBI will now take this feedback, incorporate it and hopefully at the next SEBI board meeting which will happen somewhere in February they will approve mutual funds and PMS participation in commodity markets.

Rajesh Chaudhary: So they are also allowed to do some modifications in their papers also, mutual funds?

Mrugank M. Paranjape: I did not get your question.

Rajesh Chaudhary: Basically they also need to seek permission from the regulator to come on to the commodity exchanges? Are they required to do some modifications?

Mrugank M. Paranjape: I think I would expect that SEBI make the modifications, they will do it across the two divisions one is that commodity markets will allow mutual funds and the mutual funds division will allow them to invest into commodity markets. They will make changes on both sides.

Rajesh Chaudhary: By how much do you see the increase in volumes both of the income, mutual funds and PMS, any ballpart?

Mrugank M. Paranjape: Let us look at the key institutional participations always are slow to pick up. That has been our experience in equities as well for those of us in the markets way back in 1994 and in 1999 when options and derivatives were introduce. Institutions do take a longer time to adopt to new products. At the same time, I think, what it really will do for the market is build the longer term interest and that is really what we are hoping to get in terms of build out of liquidity in the far end contracts, but would be very early to hazard a guess on what volumes we expect that to generate.

Rajesh Chaudhary: Do you foresee any mergers and acquisitions happening in this commodity space?

Mrugank M. Paranjape: Nothing that I am aware of.

Rajesh Chaudhary: Thank you so much.

Moderator: Thank you. Ladies and gentlemen that was the last question. I would now like to hand the conference over to Mr. Sagar Lele from Motilal Oswal Securities for closing comments.

Sagar Lele: On behalf of Motilal Oswal Securities, I would like to thank MCX to have given us the opportunity to host the call and to all the participants for joining in. Have a great evening ahead. Anything from you Mrugank!

Mrugank M. Paranjape: I just like to wish you a very Happy New Year. We take on the next nine months as a key execution challenge because we believe that the regulatory developments of the last nine months have really opened up a lot of opportunities for the commodity markets, so yes to a great and happy executing 2018 and thank you for being on the call.

Moderator: Thank you very much Sir. Ladies and gentlemen on behalf of Motilal Oswal Securities that concludes this conference. Thank you for joining us. You may now disconnect your lines.