



**“Multi Commodity Exchange of India Limited
Q1 FY 2018 Earning Conference Call”**

July 13, 2017



Morgan Stanley



MANAGEMENT: **MR. MRUGANK PARANJPE -- MANAGING DIRECTOR &
CHIEF EXECUTIVE OFFICER, MCX
MR. SANJAY WADHWA - CHIEF FINANCIAL OFFICER, MCX**

MODERATOR: **MR. SUBRAMANIAN IYER - MORGAN STANLEY**

Moderator: Ladies and gentlemen, good day and welcome to the Multi Commodity Exchange of India Limited Q1 FY 2018 Earning Conference Call hosted by Morgan Stanley. As a reminder, all participant lines will be in the listen-only mode and 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 telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Subramanian Iyer from Morgan Stanley. Thank you and over to you, Mr. Iyer.

Subramanian Iyer: Hi, Good Evening, everyone. We are pleased to host the Q1 FY’18 Earnings Call of Multi Commodity Exchange of India. We have with us, Mr. Mrugank Paranjape -- Managing Director and CEO of MCX and Mr. Sanjay Wadhwa -- CFO. I now hand over the floor to the management for opening remarks and then we can take Q&A from there. Over to you, sir.

Mrugank Paranjape: Thanks to everybody on the call. This is Mrugank Paranjape here. I have Sanjay Wadhwa with me. I think we have just put out the results, but let me just start with some of the key developments both in the macroeconomic as well as commodity fundamentals in the last quarter. What has happened in terms of some of the key regulatory developments and what we see as the impact of all of this for our full year.

Firstly, in general, commodities had a lackluster first quarter of this financial year I would say both in terms of the signals globally on volatility as well as in terms of overall volumes that people saw. We had a downturn in terms of our volumes; on a sequential basis, we were about 5% lower on revenues which was driven by about 3.5% of lower ADT and also a small decrease in terms of our realization of about half percent.

In terms of the commodities itself, base metals saw again a fairly sharp fall in this period and amongst the other things, there was the market which was adjusting towards the implementation of GST. What we really found encouraging was that when we had been speaking to almost all the members, all the participants, people in the value chain who use us for hedging, the common feedback was that inventory levels especially in businesses like bullion were significantly lower as people were preparing for

there were a lot of GST. Why we are heartened is that in just the ten days after the roll out of GST, we have seen volumes in the exchange go up by more than Rs.1,000 crores to Rs.1,200 crores just in the bullion segment, and more importantly, on the 1st of July, we had the delivery starting for the contract which was maturing on 5th of July, and for that contract, we saw the highest deliveries since the last one and a half years coming through, which just gives us the confidence that the benefits that we thought GST would give in terms of inter-state movement and the benefit that would come to the overall commodity market is something that we are already seeing coming through.

In terms of business development, we have mentioned this earlier as well and we continue to therefore focus what we believe is the manageables for the exchange. The manageables for the Exchange is really in terms of increasing participation across all the segments, increasing participation, and therefore, in terms of that, we are now tracking for each of our products, the increase in the unique UCC as we call them, Unique Client Code, the increase that we will have in terms of corporates that are hedging on the exchange and the increase in terms of members and their authorized participants.

The other thing which we had mentioned in last time's call and which we have mentioned to all of those people who we have met in this last one quarter is the operating leverage that most investors look for in a business like ours. So if we look at our cost numbers, we have split them into two parts, and of course, in the financial that have been just put out, you would see all of them in the same format like earlier, but from a management perspective, we are looking at the software support charges and the product license fees which are completely linked to our revenues. So in some ways, we believe these are good costs, these are costs which we would love if they keep growing because they would grow only if our revenues grow. Ex these costs are other costs are really the manageable costs for the exchange. These include the people cost, these include other software, other maintenance, the entire administration, business development and all the other costs that we would see in an exchange. We are very happy that on that we have actually seen very good reduction from the last quarter and in line with something that we have been seeing. We believe that the costs for this part of our overall business, we will be able

to retain somewhere very close to the number that we had for last year as well on a full year basis.

So given a) that in this quarter, we had of course a little bit of the softening of the interest rates which give us better results in terms of our treasury income as well. Our overall revenues are slightly above last quarter from Rs.86.99 crores, we have gone to Rs.87.24 crores. But in terms of the profit before tax and that is thanks to the reduction of cost that we said, our profit before tax has moved from Rs.32.41 crores to Rs.36.13 crores which is 11% increase.

More importantly, again because there has been a little bit better tax planning as well as on the other income, the incidence of tax is slightly lower, the overall provision for taxation is again slightly lower than last quarter, and therefore, the profit after tax has shown a healthy increase of 20% from last quarter. So for the quarter-ended March'17, we had Rs.21.82 crores of profit versus this quarter we have Rs.26.3 crores of profit.

Coming to more some of the developments in the last quarter and what we see that impact and how we are preparing for it. The most important one for us of course is the options, the roll-out plan for that and our preparedness. The complete guidelines of SEBI came in on 13th of June, we quickly consulted with our members and while there are nine contracts of MCX which qualify in terms of the SEBI underlying rule, we finally decided to apply the SEBI for options on futures on the gold 1kg contract.

In terms of therefore preparing for the market something which we have started since the beginning of June, we have been working with CPAI which is the Members Association and done seminars which connect with members across all the key centers. These have already been done in centers like Kanpur, Jaipur, Ahmedabad, Hyderabad, Kochi and Chennai and the next 45-days, we will complete Kolkata, Indore, Bengaluru, Delhi and Mumbai. In this process, we would have connected to at least 95% of the current registered members of the exchange. But more importantly, we would have also connected to at least 100 plus members who were earlier trading on MCX but are now looking to MCX with the view that once options are launched, they might come back to the exchange.

More importantly, given that the entire options segment is very dependent on the engagement with the underlying physical market, we have been doing very detailed engagement with the bullion segment over the last 45-days and we will continue with that as we prepare for the launch. This includes about 75 programs that we have done with the bullion jewelry industry and this includes probably a similar number that we will do over the next 45-days.

Amongst the other heartening things that we have got in terms of this feedback is what bullion participants were telling us pre-GST rollout and what we have now seen in terms of the results immediately after GST where the general feedback was that post-GST we would see an uptick in the stocking levels and that would lead to better volumes in bullion, and secondly, with deliveries becoming easier on an intra-state basis, we would actually see more people taking deliveries and that would also add in terms of the depth of the product.

All in all, we believe that bodes very well for the impending launch of options. We are preparing and the entire exchange is geared up towards a second fortnight of August launch depending of course on some variables including getting CBDT clarification on the treatment of CTT or STT as well as the roll-out of our new systems platform where we have sent the APIs to the market and we expect the market to be ready by the end of July for this new platform.

In addition to all, SEBI has also allowed Category III alternate investment funds to come in and therefore long pending request of the industry of opening up commodities for institutional participants is now a reality. It is our belief that AIFs will start trading in this exchange by the end of the second quarter definitely and we will be pleasantly surprised I think if you see maybe a couple of them starting even before hand. This we believe will be followed with both the PMS and the Mutual Fund segment being allowed into the Commodity segment as well.

So those are some of the things that we have seen in terms of the developments which we believe is a good indicator of some of the activities that we will be engaged in but as well of the way we believe the exchange business will ramp up and ramp back to the numbers that we all were looking for in terms of the pre-demonetization numbers.

Last but not the least; in terms of our engagement with members and that is something which is extremely important as we prepare to make sure that members who are the biggest part of this business continue to remain with MCX. As we have earlier announced in last time's call, but in the first quarter of this year, we had MCX Award which was geared towards the members as well as towards the hedges, and we will be having some more member engagement activities which we hope will build the entire member fraternity with us. In addition to this, CPAI which is the sort of Apex body of all broking members is working with us so that we can come up with a very attractive and mutually beneficial pricing which will take the options launch and make it very successful.

Last but not the least in terms of the road map that regulators or more importantly policymakers are looking for on the couple of contracts which we have in the agricultural sector. We have worked with organizations such as CSIR as well as the FFDC to really work on how we can impact the farmers and actually make sure that they are the beneficiaries of a market like ours. We believe that is a very important engagement because we need to build the bridges as one would say the policymakers and make sure that they understand the value that we get to the overall society. That sort of what we have been engaged with and what we see ourselves doing in the next couple of quarters.

Very happy to take questions from now on.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the Question and Answer Session. First question is from the line of Ramachandran S from Spark Capital. Please go ahead.

Ramachandran S: Hi, just wanted to get your thoughts with the initial rounds of conversations you have been having with members, how are they looking at options and is there a threat over the next 3-6 months that if CTT is levied the same way as levied in the stock market that some of the jobber/speculators might migrate from the futures market, options market, is that something that members discuss that with the team?

Mrugank Paranjape: First, in terms of the market expectation, I think everybody expects that CTT or STT whichever where we call it because since the integration of our markets with securities from the 2015 September, actually, CTT is a

misnomer in terms of the terminology, but we will still use CTT and STT interchangeably. But for the tax that will get levied, I think the market is expecting it to be on the same lines as it is for options in the equities. Therefore, it is a possibility that we may see more activity as the options come closer to their expiry because as you mentioned, for anybody who wants to exercise options and actually take delivery, there is a 0.125% tax applicable. We have represented through SEBI. SEBI has spoken to CBDT about the fact the construct of this product is slightly different because options do not result in a delivery, they actually result in another contract which is also derivative, which is the futures and therefore, it should not be tagged in a similar manner. If we get that clarification, it will be a great upside. But if we still do not get that, I think from a behavioral perspective, people have already factored in this and are preparing that the market will work on that assumption that there will be the 0.125% and therefore maybe there will be more volumes closer to the expiry but other than that, we do not think there will be anybody moving away because from business as usual in the futures, people have already factored in whatever they had to for the transaction tax.

Ramachandran S: One more follow-up. If we look at globally, options is not a large market like it is in the futures market and it is pretty much similar even for equity as an asset class also. Wanted your thoughts, how do you see, whereas in India, it is typically inverse, could over the next 3-4 years, you would see a similar scenario being playing out in India also vis-à-vis what happens in Indian equity markets or you think it could be more mirroring global markets commodity?

Mrugank Paranjape: I think partly we would think that it will be somewhere in between and the reason I say that is of course as an asset class commodity is an asset class and therefore one would expect the behavior to remain in line with some of the global trends. However, as a participant class, India has shown that options generates much more volumes in India than it does globally irrespective of the segment that we are talking of. So from that perspective, globally, while options result in an additive revenue of anywhere between 20%-30% generally to what the futures numbers are. We think it will be slightly better than that when it comes to India over the next 3-4 years.

- Moderator:** Thank you. Next question is from the line of Kunal Shah from Edelweiss. Please go ahead.
- Kunal Shah:** Again, touching upon the options side. In terms of the rollout, you highlighted that gold will be done, but is there approval for more products in the pipeline or it is already there and we will be launching it over a period of time?
- Mrugank Paranjape:** Kunal, if you see the SEBI circular, it says a couple of criterias and it says what we need to do - One, it mentions that for non-agricultural commodities, you need to have Rs.1,000 crores of turnover and for agricultural commodities Rs.200 crores of turnover in the underlying futures contract. At this point of time, we believe we have 8-9 contracts which qualify. The second SEBI guideline says that you need to pick from your first five to begin with. They then said that initially they will look at one contract for every exchange which is why we decide to go with gold. As to the next one, the SEBI circular is pointing out that SEBI will look at the first launch and after some months' suitable time... we believe that suitable time could be anywhere between 3-6 months, they will allow us to launch more contracts. So from our perspective, while we are ready to launch incremental contracts, we think that is something which will happen somewhere around December where we will be allowed to launch incremental contract, and at that point of time, the only limiting factor will be the underlying turnover in the futures which will determine how many of our contracts are qualifying.
- Kunal Shah:** At that point in time, maybe all the contracts would qualify for that would be allowed to be rolled out?
- Mrugank Paranjape:** Absolutely.
- Kunal Shah:** Secondly, in terms of maybe the behavior where in terms of volumes from the retail and the corporate or say, even in between say the speculators, arbitrators again pure hedging, have we seen any change over last 6-months post this entire demonetization maybe what earlier we used to have in terms of the split between retail and corporate has that undergone any kind of a change or maybe in terms of purpose for which the futures being used on the exchange, any change of that?

Mrugank Paranjape: So I think we have monitored in terms of the turnover and in terms of the sort of mix on various accounts whether it is in terms of larger brokers, smaller brokers like you said, whether it is in terms of people who are using it purely as a hedge or people who are doing both hedging and trading, corporates versus retail. The one thing which we did see and I think that is why we started referring to our numbers on a QoQ basis is that, the entire business did get as one would say rebase after demonetization. But other than that, "Did we see any behavioral change in any one particular segment?" "No." In fact, like I mentioned, with the advent of ease of movement of goods, we are seeing a better response from the physical market and I think that will increase the physical participation on our contract especially in those where there is delivery possible.

Kunal Shah: Lastly, in terms of operating leverage, we see maybe in terms of ex the technology cost, maybe the normalized growth which we have seen in this quarter to continue for period, so that operating leverage would continue to stay in as and when we see the increase in the volume, so what would be the operating margins which we would target over a period?

Mrugank Paranjape: I think in terms of the numbers, it would be difficult to give a specific number but like I said, ex the software and product license fees which is completely variable, we are today at 47% already, but I think we have seen 4% increase versus last quarter, and as long as revenues continue to increase is something where we could deliver incremental numbers straightaway because from a cost perspective, as I mentioned, we expect to deliver a number pretty close to the last year's number for all the costs outside of the variable one that we mentioned on software and product license fees.

Kunal Shah: Lastly on the software, there is no plan to take it but like every three years, we have an option to tweak maybe in terms of the variable component. So any plans or how do we see panning out as a variable proposition?

Mrugank Paranjape: Actually, software support charges is a long-term agreement with financial technologies and there is no change year-on-year on that. We pay them a fixed fee plus 10.3% of our revenues and that does not change. So that will remain as it is. In addition to that, we have product license fees with CME, LME, etc., and these are again long-term contracts. So if you look at it, roughly about 13%-13.5% of our total revenue is directly proportional and as

an expense comes into the software support charge and product license fee line.

Kunal Shah: So this FT charges would continue for how long maybe, in terms of the long-term, in near term definitely will not?

Mrugank Paranjape: Contractually, we are bound with them with for the rest of five years at least.

Kunal Shah: Till five years, there will be no change over there?

Mrugank Paranjape: Absolutely.

Moderator: Thank you. Next question is from the line of Gurpreet Arora from Quest Investment. Please go ahead.

Gurpreet Arora: Is there any one-off operating expenses this quarter?

Mrugank Paranjape: There is no one-off. In fact, we did have some one-offs last quarter which are no longer there and there is no incremental one-offs that we have had this quarter at all.

Gurpreet Arora: Can you spell out the advertisement expenses incurred this quarter?

Mrugank Paranjape: This quarter of course advertisement expenses have been extremely low and we have consistently maintained that we will try and limit advertisement expenses till such time that we think we need the fire power in line with any product launch. So for this quarter our advertisement expense is only Rs.17 lakhs.

Gurpreet Arora: To launch options, what could be the incremental operating expenses just to launch?

Mrugank Paranjape: So when we talk of incremental operating expenses, I do not think there is any direct incremental operating expenses. Most of the expenses that would be entailed for launching of options would come from the business development activities, the seminars that we hold, the client education functions that we have, the trainings that we do. A lot of which is for investor education and therefore may not even directly come into our cost base because that is something where we would use the money available

under the IPF or the ISF. But in terms of really any incremental expenses, we need to do for options we launch? Nothing.

Gurpreet Arora: In terms of the results which are given out, I refer to Notes to Accounts to #4, can you highlight when was the income tax notice given to us, what is the involved amount, and is there any provision which we envisage to move?

Mrugank Paranjape: Thanks for this question. So two things - One, this was received in this quarter; Secondly, it has absolutely no amount given there, but as a prudent measure we just thought we should be informing all investors about it because it is a notice for them to actually reassess our income. So there is absolutely no amount which has been asked for and therefore there is no other provision or contingent liabilities at all that we think we are looking for.

Gurpreet Arora: By when are we expected to respond to this?

Mrugank Paranjape: So within the next 10-to-15 days.

Gurpreet Arora: Why is the tax rate lower this quarter?

Mrugank Paranjape: So like I mentioned, one, in terms of the mix of the revenue, it is slightly more coming from other income, and as you know; in the other income, we have investments made in tax free bonds and mutual funds where the tax rate is slightly lower and some of the deferred tax liability as well is slightly lower this quarter.

Moderator: Thank you. Next question is from the line of Prakash Kapadia from Anived Portfolio Managers Private Limited. Please go ahead.

Prakash Kapadia: The equities continue to do well which continues to be low. So wanted to get a sense from you, what could drive volumes in that scenario in the medium term as you know some of the initiatives which you mentioned of delivery based, I would guess, they would be a long term process and would not be a big driver to revenue?

Mrugank Paranjape: Thanks, Prakash. Again as I have been highlighting while it may be a bit too early to conclude based on 10-days data, we believe that a lot of the change in terms of our volumes came from the lowering of the volumes in the bullion segment. So again, if I go back to the pre-demonetization days

where we had touched about Rs.25,000 crores of volume, and out of that Rs.25,000 crores, about Rs.9,850 crores used to come from the bullion segment and that is post-demonetization came down to as low as Rs.4,880 crores. That number as I mentioned rose very marginally over the last quarter, but just in the 10-days after GST rollout, that number has gone up by about Rs.1,100 crores. So we believe that in the short run, what is really going to help us in terms of volumes coming back is what the market fees has the key benefits of the rollout of GST and that translates into better stock movement as well as better stocking in all the commodities that we trade. Secondly, the launch of options actually getting more participants onto this market. So those are the two things which will clearly bring back the participation and the volumes to us in the medium-term. As you rightly said, once we see volatility coming back, that will really drive the volumes in a much bigger way.

Prakash Kapadia: If I look at the employee cost, they have seen a sequential well as a year-on-year increase. So would that be because of some increment?

Mrugank Paranjape: Again, Prakash. I do not know if you were in our last time's call. But we had mentioned that our last year's full year number was about Rs.64.5 crores. We had said that we would make sure that we hit not more than a 10% increment and that is really what you see here. So at Rs.17.76 crores for this quarter, we believe that for the full year, we will still come in at about Rs.71 crores or so which is exactly the 10% that we had mentioned. So it is taking care of the increments, it is taking care of additional hiring and everything. But that is really what the increment is all about.

Moderator: Thank you. Next question is from the line of Manish Goel from Enam Holdings. Please go ahead.

Manish Goel: Would it be possible to give what was the yield in the current quarter because the sense I get is that with effect from October we had increased the transaction fees by 25% and the volumes actually in this quarter are down by 25% and still the revenues are down 6%, so I believe the yields have technically been lower than the volumes?

Mrugank Paranjape: So I have mentioned it initially, our yield has been closer to about Rs.2.25 and this quarter it dropped by about one paise. So there is about a half percent decrease in terms of the yield that we get which essentially is a

result of the fact that while in general over the demonetization period, there was no big change in the composition of our business. In the last quarter in terms of this fall in volume, the larger portion of the fall seems to have come from smaller brokers than the larger brokers. So therefore, as you know, we have a slab wise system and therefore, the smaller brokers, if they have contributed more to the decrease that will give a slight decrease in our realization numbers.

Manish Goel: Ideally as a benchmark like the total income what we report now, could we take as 92% or 93% as the transaction fee share of the total income, is there any benchmark which we should go about, because earlier we used to have other operational income which is now getting clubbed with the total income, just to calculate the yields on a quarterly basis?

Mrugank Paranjape: I think 92-93% is a fair number.

Manish Goel: On the float income, would it be possible to give us a sense that out of total other income, how much would we say, operational float income and how much would be the treasury income... basically the float what I mean is the margin money which we probably right now which is part of the MCX and once the clearing corporation is set up which will probably move to the clearing corporation but the margin money which is always there with MCX what would be that amount and what is the float income we earn from that which we probably club it with the other income as well?

Mrugank Paranjape: So just to clarify a couple of things - One, yes, the other income which we have which is treasury income comes from income that we generate on our own reserves as well as the margins as you mentioned members keep with us. However, even once we form the clearing corporation, that income will be part of 100% subsidiary. So the numbers as we have mentioned in our previous call as well, starting from this quarter, we had already said that we will be giving out the consolidated financials. So what you are seeing here is already the consolidated financials looking at the financial of the clearing corporation, for example, in the clearing corporation, we have already capitalized it to the extent of Rs.100 crores during this quarter, but that Rs.100 crores is earning us the same amount of yield that our other portfolios earning us and that is what it will do even in future. So just creating the clearing corporation will have no difference to the yield that we generate on our overall treasury portfolio.

- Manish Goel:** I agree, but is still Clearing Corporation operational now or ...?
- Mrugank Paranjape:** We have just upped the capital, we have now fulfilled all the conditions to get an in-principle approval from SEBI and we are expecting an in-principle approval anytime now.
- Manish Goel:** Would it be possible to give some sense as to how is the response on the mock trading what we had started with that... how much participants we are seeing?
- Mrugank Paranjape:** I think mock trading is something where it is not necessary that everybody participates in the same time because essentially it is more for people to tell the technologies and people to tell their interfaces. We will get a much better idea in the second and third runs that we have after the new APIs have stabilized. So like I said, we will also release new APIs to the entire market because we are doing an upgrade of our software and that is something which we believe will sort of kick in by end of July with most of the partners who work with us for the broker CTCL. So we will have a very good idea in terms of the participation levels in mock. But again mock does not give an idea in terms of actual participation.
- Manish Goel:** Just to get a sense that maybe how many members would be participating?
- Mrugank Paranjape:** In terms of feedback, our gut feel is that at least 85-90% of the members have already tested the first stage, a lot of them are now waiting for the upgrades from the CTCL vendor and would then come in into the second round of testing that we do closer to first week of August.
- Moderator:** Thank you. The next question is from the line of Parag Jariwala from White Oak Capital. Please go ahead.
- Parag Jariwala:** Sir, based on your initial interaction with a lot of brokers, etc., when do you think this GST impact because now at least implementation is done around 15-days, by when do you think that the volumes which have been lost due to GST can come back? In your assessment do you think the entire reduction in volume around 20-25%-odd is only because of GST or do you think that basically some of the volumes have lost because a couple of them would have switched over, I know that the person who do equity as well as the commodity trading are very limited, but some of the speculators are in

equity markets or some of them are not finding very interesting because volatility is not present, so do you think this entire reduction in volume is because of GST or if not then what you can advocate to that and by when do you think it can come back to the system?

Mrugank Paranjape: I think Parag, to go back to what I said initially actually we believe that the sort of business got rebased more because of demonetization and not because of GST. So if you see pre-demonetization we used to be close to 25,000 level and we came down to the sort of 18,500-19,000 level post-demonetization. So I think the real rebasing happened because of the change which came because of demonetization. Really GST which is not something which has negatively impacted our business I would say, it is just that people were waiting in the last quarter to build back inventories, to build back volumes because they just wanted to come into the business in terms of growing their volumes or their inventories post-GST. So from that perspective, I mentioned this the call before that, first 10-days of July have been comforting in terms of the volume uptick that we are seeing and we expect this to continue for some time as more and more people stabilize in the post-GST environment and inventories pick up. So to your question, we think August should be a good time by when people would really come back into the market post-GST implementation.

Parag Jariwala: Any sense on the options pricing because generally if you look at exchanges world over also in India, the options pricing is one-tenth of futures pricing, at least at initial time if they cannibalize the volume, then the revenue impact will be there or we will not see any uptick in the revenue?

Mrugank Paranjape: From our internal budgeting perspective...we have mentioned this every time we have spoken in the past as well, we do not see this year as being the year when options will contribute to the revenues of the exchange, we see this year when options will really contribute to creating the buzz, creating the attraction for people to come back into the commodities market. We really see options contributing to our income in a significant way only in the next financial year and that is because a) as I said, it is more for getting people back on to commodities but more importantly, we are launching only with one contract. So till we have at least five or six contracts in, it is really not going to create meaningful revenues. So again from that perspective, we do not see a big uptick in our revenues coming out of options, we definitely do not see that impacting us negatively. To

your question, we are working with the industry as I mentioned, CPAI which is the members association as well as with all the other participants to see how we will price it initially at least for the launch and for the first couple of months before we start the next contract in order to make sure that is a very successful launch.

Moderator: Thank you. The next question is from the line of Rajesh Chaudhary from Zenith Capital. Please go ahead.

Rajesh Chaudhary: As we have read in the newspapers that we would be launching some other products for example diamond as a commodity or tea or coffee as a product, any plans on that?

Mrugank Paranjape: Good question and yes, I did not touch too much on that. But yes, futures, which is our bread-and-butter is something which we continue to work on and concentrate. So at this point of time, we have received a couple of approvals from SEBI in terms of new contracts. We are just sort of internally trying to sequence out the launch because we believe that in the next 45-days we would want to concentrate more on the options launch, but immediately after that we will probably have two or three more products both in the precious metal segment essentially around gold as well as diamond as you mentioned, something in that which we will be able to launch sometime after the options launch. Similarly, we are awaiting eagerly at least two approvals in the agricultural side. So within the next 3-4-months, we will definitely have at least two more futures products launch as well.

Moderator: Thank you. The next question is from the line of Lakshminarayana Ganti from SBI Capital Securities. Please go ahead.

Lakshminarayana Ganti: My only question now is given that there was a major glitch at one large exchange, can you assure us how you are prepared with your IT systems and so on given launch of options and though lot of new products, etc., that you talk about?

Mrugank Paranjape: It is a slightly sensitive topic. One would never want this to happen to any exchange. So I do not think we should be really commenting about what happened to the other exchange, but in terms of doing what we can do and doing that correctly. So in terms of preparedness for volumes, in terms of

preparedness for any big spike, I think that is something which we keep reassessing at every point of time. So do we think any big spike in volumes will cause us an issue? We believe no. Secondly, any changes as minor as they maybe or as minor they may seen could sometimes cause an issue with a trading software. We make sure that there is absolutely rigorous testing which is why like I mentioned we are going to have at least three more rounds of mock trading on our new platform before we look at introducing this for the options segment. SEBI is completely engaged not just with the other exchanges but with ours as well in making sure that they ask the same questions of us and get adequate responses; however, to one part of your question, one really does not know what happened at the other exchange and therefore will be slightly difficult to say why we believe we are so confident that would not happen at our exchange.

Moderator: Thank you. The next question is from the line of Nimit Shah from ICICI Securities. Please go ahead.

Nimit Shah: Sir, just wanted to get your thoughts about when we would be able to launch options on Gold Mini?

Mrugank Paranjape: Nimish, if you see the way the SEBI current circular is, the underlying contract should cross Rs.1,000 crores in daily turnover. So that is something which I think in the Gold Mini will take a little bit more time. Again, with what we have seen very recently especially like I keep repeating, we believe that some of these opportunities coming out of the interstate movement... I was in Ahmedabad just earlier this week which is our delivery center as you would know for the bullion product and met with probably all the large bullion traders, a lot of home take deliveries on our exchange, who were mentioning that with the advent of GST and the ability to move goods freely and much faster, they have actually now got better ways of servicing even the neighboring states for physical deliveries of gold. Now if that were to happen and take off in a very big way, we could see volumes in the Gold Mini as well go up. But I think at this point of time, Gold Mini may not qualify so early. It will definitely I do not think qualify in the first round after gold launch as well.

Nimit Shah: So currently we would be doing how much - Rs.700 crores or like that or it will be less than that?

- Mrugank Paranjape:** I think it is slightly less than that, but I can just check and get back to you.
- Nimit Shah:** So our incremental efforts would be to increase that mini gold contract to Rs.1,000 crores as early as possible because options on mini gold will have a much lower margin, right, than the gold large contract?
- Mrugank Paranjape:** Again, Nimish, you are absolutely spot on and like I said to the previous question as well, futures is our bread-and-butter business, we are not going to take our eyes off at all. As we prepare and work a lot towards launching the options we are not going to take our eyes off the underlying futures. Within that what qualifies for options launch is great and we will work towards using them for the next launch of options. But you absolutely put a right question that we will continue to remain focus on seeing how we can get volumes built in some of the underlying products so that we get more products that qualify and become eligible for options launch. It is not just Gold Mini. As you can see, there will be a couple of other contracts as well which are just slightly there but not yet reaching the Rs.1,000 crores number and we are looking at all of these to see how we can get them eligible for options.
- Nimit Shah:** The condition is Rs.1,000 crores for the preceding 12-months, right?
- Mrugank Paranjape:** Yes, Rs.1,000 crores for the preceding 12-months in the non-agri sector and Rs.200 crores in the agri sector.
- Nimit Shah:** Anything on the options side like what could be the margin?
- Mrugank Paranjape:** I think the margining system is going to be something which the market knows very well. So as you might know, we all use the span margining system, that is going to operate the same way and therefore market is fairly comfortable, it would not be any different from what we are using today.
- Nimit Shah:** Talking about the initial margins, right, what traders would require to deposit?
- Mrugank Paranjape:** If you are buying options, whether put or call, you will only pay the premium, you will not have anything on the margin side.
- Nimit Shah:** But premium on gold 1 Kg contract, because the value of that contract is much higher, right?

Mrugank Paranjape: If you look at the NIFTY and similar contracts and their values, it could be anywhere in the 20,000-to-35,000 range.

Nimit Shah: On the ADTV front, if you see Q1 has been very weak, Q2 last year we have a very high base of roughly 250 billion. So do you still think that it is possible this year with options coming in with some institutions participation like hedge funds contributing to some turnover, do you still feel that we might be able to report a positive ADTV growth for FY'18?

Mrugank Paranjape: I think if I look at it, one, as I kept mentioning, we believe our business got rebased in terms of the competitive numbers. So I look at it more from a quarter-on-quarter movement now rather than a year-on-year movement because this time last year was pre-demonetization. So in that sense, it will be difficult to sort of get to that number immediately. But having said that, if we see the growth that we have already seen in these few days of July and if that continues and if we get the same sort of support, we are expecting in the bullion segment, we believe that by the end of the second quarter, we should be close to the numbers that we saw at the end of second quarter last year as well. So we may not exactly reach there and exactly have the same numbers replicated through the quarter, but at least by the end of the quarter we should see reach somewhere there is what we think is really we are expecting because of the participation going up in options as well as from the institutions.

Moderator: Thank you. We have a follow up question from the line of Rajesh Chaudhary from Zenith Capital. Please go ahead.

Rajesh Chaudhary: I wanted to check if banks and FIIs are allowed in time to come, this is the CTT in the non-agri segment, so why would FIIs and banks would come and participate in the Indian commodity market?

Mrugank Paranjape: I think one we think banks and FIIs is a next year event, we do not think it is going to happen so soon because we are just seeing AIFs being permitted, after that we believe it will be PMS and mutual fund which comes up in that sequence, FIIs therefore not something we look at in this financial year, it is something for the next financial year. A very good question as to why would an FII come and trade here if they are looking at competitive markets overseas or banks. Again, for banks we believe it is much more a question of hedging rather than trading. The FIIs we are talking of trading. So I think as

and when allowed banks will definitely want to look at this market because it allows them to hedge their exposures and banking segment as we know has fairly high exposures on commodities related borrowers. So I do not think CTT is so much of an impact for the banking segment, but yes, when it comes to the FIIs, it will be something which we will have to see.

Rajesh Chaudhary: So is there any chance that CTT might also be removed in times to come?

Mrugank Paranjape: With the experience of the last 5-years, I do not think we should put any bets on any of these going off.

Moderator: Thank you. The next question is from the line of Mayur Parkeria from Wealth Managers. Please go ahead.

Mayur Parkeria: All the listed players along with maybe the large unlisted ones who are dealing in jewellery and gold, are they on our platform in terms of hedging and delivery in trading?

Mrugank Paranjape: I think the unequivocal answer is yes. One of the reasons we chose bullion as the starting point and within that gold as a starting point for options is that we believe we have the richest value chain when it comes to the participation right from refiners to bullion importers to jewelers manufacturers, to large jewelers and small jewelers. So I think we have absolutely no doubt. There will be regional differences. We believe there is still more potential to get more larger jewelers of the south and the east on to a platform. We definitely know that amongst the larger participants of west and north, a lot of them are already there.

Mayur Parkeria: So the likes of Kalyan, PCG and P&G, all those are already there on the platform?

Mrugank Paranjape: Specific names I would not want to take on this call, but like I said, west and north is probably completely covered, but we would like to do more in south and east.

Mayur Parkeria: Second is you indicated that you are looking to launch more APIs on the options side. So just wanted to understand is this development happening in-house or is it happening at the FT level?

Mrugank Paranjape: We are not launching any APIs. The API is basically used by anybody who connects into the exchange software either through a vendor CTCL or through their own self-developed CTCL engines. Now these APIs are necessarily to be changed whenever you do a version change which is making some design changes to your software. From that perspective, all the software that we have fundamental changes to the design and that software is done by FT. So that is the change which FT has done and that is what we have rolled out.

Mayur Parkeria: So there is a little bit of IT team which is in-house currently there?

Mrugank Paranjape: I do not think the two are connected because we use FT for our exchange related trading platforms but there is a whole host of things that you need around it for risk management, settlement, internal technology, etc., for which we have a fairly large team of ours. So I do not think having FT as our vendor means we have a small IT team.

Moderator: Thank you. The next question is from the line of Kunal Shah from Edelweiss. Please go ahead.

Kunal Shah: In terms of volume of the futures, how much would these nine commodities in terms of the overall proposition?

Mrugank Paranjape: I do not have the answer off-hand. Kunal, we will just get back to you on this.

Kunal Shah: But would it be significant, more than 50% or so?

Mrugank Paranjape: Kunal, it would not be more than 50% of our volume, but if I just take the gold numbers we have five underlying contracts, out of which the 1 Kg gold contract is the largest and then we also like in silver we have Silver Mini, in almost all the products we have a main product and a mini. So from that perspective, it is difficult to hazard a guess. So Kunal, we will get back to you with that question.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I would now like to hand over the floor back to Mr. Iyer from Morgan Stanley for his closing comments. Over to you, sir.

Subramanian Iyer: On behalf of Morgan Stanley, I would like to thank Mrugank and Sanjay.
Thank you all and good bye.

Mrugank Paranjape: Thanks, everybody.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of Morgan Stanley, that concludes this conference call. Thank you for joining us today and you may now disconnect your lines.