



“Multi Commodity Exchange of India Limited Q4 FY-17 Earnings Conference Call”

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Moderator: Good day, ladies and gentlemen, and a very warm welcome to the Q4 FY17 Earnings call of Multi Commodity Exchange of India hosted by UBS Securities. As a reminder, all participants' 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. Gautam Chhaochharia from UBS Securities. Thank you and over to you, sir.

Gautam Chhaochharia: Good evening everyone. We are pleased to host Multi Commodity Exchange of India for their fourth quarter fiscal year 17 results. We have with us Mr. Mrugank Paranjape - Managing Director and Chief Executive Officer; Mr. Sanjay Wadhwa - Chief Financial Officer; and Mr. Ajay Puri - Company Secretary and Chief Compliance Officer as well as Head of IR.

I will hand over to the management for opening remarks and then we can take Q&A from there.

Mrugank Paranjape: Thank you, Gautam. And good evening everyone. Ajay and Sanjay with me, I am Mrugank here. So let me begin with some headline details and we have just released our results on BSE as well. So first on the total income for the year and I am starting with the coverage of the full year numbers and then we will talk of the quarter 4 number as well.

So for the full year FY16-17 our total income increased by 7% to Rs. 375.87 crores. The net profit of the standalone group entity increased by 11% to Rs. 126.28 crores and the PAT margin went up to 34% for the financial year 2016-17. The EBITDA margin stands at 52% for the financial year 16-17 and the company's board has recommended a dividend of Rs. 15 per share or 150% dividend in terms of the percentage numbers.

So that is really in terms of the headline numbers for the full year. For the quarter the total income is Rs. 86.9 crores. This is a decrease of 19%. There are two components as you all know to our income. One is the turnover related income and the other is income from treasury operations. Of course the quarter 4 has been challenged in terms of the impact of the demonetization period in which as far as MCX is concerned predominantly

the bullion contract has seen a drop in the volumes which has contributed to a drop in the turnover related numbers at the same time we have also seen a drop in the yields and therefore there is an impact on our treasury income as well.

With that EBITDA has decreased from Rs. 65.7 crores for the corresponding quarter in 2016 to Rs. 37.42 crores and the net profit for this quarter is Rs. 21.88 crores as compared to Rs. 44.45 crores for the quarter ended March 2016. The EBITDA margin is 43% and the PAT margin is at 25% for this quarter. Again I think when we talk of the results and the numbers we need to look at this in terms of the full year totality and second we also need to see what happened post demonetization what we really looking forward to.

So I will take a couple of minutes to talk about like I said some of the key impact that we saw the post demonetization period. With the portfolio of products that we have which consists of Bullion base metal, energy and agri we actually saw a very good balancing factor with base metals, agriculture and energy doing pretty well in spite of the other challenges within the economy.

So the only real segment which got impacted for us was Bullion where the underlying market, the underlying participants have had an issue because overall business volumes have dried up there in the post demonetization phase and while with the start of the New Year we are seeing that activity come back there are still some uncertainty there in terms of the whole GST rate and therefore that has been another driver which has kept the volumes subdued in the Bullion segment.

Notwithstanding that, that is being the headwind that we have seen in our entire business and talking to all our participants and members and hedgers we are very confident that this number will come back pretty soon. In terms of what we see from here and going forward and I will just give you some idea on some of the numbers that you are seeing as well as the business looking forward. So first the year started and it is now with the new financial year we already seen SEBI move into a fairly fast pace in terms of their way of approving products or approving activities relating to the commodity segment.

options have now been absolutely approved. It should be coming through in the next two to three months. As SEBI has categorically said it does not need any going to the Parliament for any change of law. The change of law is within the preview of SEBI. SEBI has also permitted the broker segments across commodities and equities to come together which will be a big saving for the members and which will also allow more velocity of capital and therefore we believe it will have a positive impact in the long run for the business.

On product side, we have just have entered into an agreement with Thompson Reuters for working with them on index products going forward because that is something which we all expect after options to come in. In terms of participants SEBI has already made the next steps which we think will immediately now result in formalization of institutions coming in. The SEBI whitepaper for AIFs come on to the market is in the public domain with comments expected by 20 May and as per what was the sort of roadmap with it will be AIFs and then mutual funds and then other institutional segments.

And from our perspective we have consistently said that the third pillar which we need for this market is the distribution where we worked with SEBI and with RBI to see how we can get bank sponsored distributors to be enabled to distribute the commodity products.

So those are the developments we see. Our clearing corporation is in the process of getting formed. We have at this point of time given our application to SEBI there has been some queries which they had especially around innovation in this market which will be a new concept and we have come to a conclusion with SEBI and with the other market participants on how that should move. So we expect the clearing corporation to move pretty quickly forward as well.

In terms of the other numbers for the last year and while we did give an idea of the headline numbers I just want to go into a little bit detail on some of the individual lines. So in terms of income from operations that has moved from Rs. 213 crores to Rs. 238 crores which is a healthy growth of about 15% year-on-year. The other operating income of course remained flat and slightly below last year's number. And as all of you know we have made changes to some of our fee structures where some of the very small

fees that we were charging which were inconveniencing members earlier have all been done away with which is made it very easy to transact with the exchange as well.

So that is had a very small impact to the other operating income but at the same time we have been able to sustain a 15% growth in the income from operations in the full year. If you look at our expense line, I am happy to say that we are consistent with what we have been saying for the last two quarters when we have had our calls that the growth that you see in the expense days on employee benefits expense is within the number that we have generally been speaking about till now at Rs. 64.41 crores and going forward we think this number will be growing at not more than 10% at all.

Depreciation and amortization expense has gone down and the new number is what the level we expect it to be. As all of you know software charges are completely related to the turnover the number this year is absolutely in same line with the growth in the turnover related income and that is an expense there which we loved to continue to grow as we move into this financial year.

On advertisement expense we have had consciously reduced our advertisement spent. We have brought it down to Rs. 3.6 crores this year. Next year it may not stay as low but we believe the golden mean is somewhere in between what we spent in the previous financial year and this financial year. Last but not the least, other operating expenses have gone up marginally just about 10% between last year to this year. Very specifically there are costs which have gone up in terms of regulatory fees that we have paid higher than previous year.

There is the investments we made in the Gift City and then there are some specific technology related expenses as well as some of our licensing cost which has gone up. So that really is the expenditure but again on other expenses I think as a management we are absolutely confident that the FY17 number is where we will be able to hold our other expenses for the coming year as well.

So that is from my perspective a snapshot of the last year's numbers and what we see going forward. Gautam, we will be very happy to take questions.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session.

We will take the first question from the line of Ashish Chopra from Motilal Oswal Securities. Please go ahead.

Ashish Chopra: Mrugank, just wanted to get your thoughts so you mentioned some of the developments and also the approvals coming on board from SEBI. Just also on the universal exchange licenses that was I think mentioned that is something that could be going live this year itself. So just wanted to know what does that mean in terms of for competition entry, would that still be somewhat away or do you expect that to come soon enough. Any thoughts on that would be useful?

Mrugank Paranjape: So I think SEBI has and there was a very nice informative call by the SEBI Chairman very recently after the SEBI Board meeting where he mentioned that in terms of the universal exchange license they expect this to happen this year. To your specific question, what it means of course is that from our perspective competition will come in somewhere at the end of this financial year or maybe the beginning of the next financial year, because as you know the process is twofold, SEBI will notify the changes in rules, regulations etcetera whatever is necessary like they have done for the unification of the brokers and thereafter there will be a process for people to get into new businesses as and when they want.

So will competition come in, definitely we will be knowing it we have been preparing for it, so it will come in when we think maybe fourth quarter this year or first quarter next year is a likely timeline and this is a discussion which we very, very openly and seriously have at our Board. It was discussed even today where we look at what do we do in terms of preparing for competition and what do we do when this opportunity presents itself before us.

So I will talk about the opportunity I think we have discussed this in the past. As much as there is possibility of competition there is also the opportunity for us to get into segments which we believe are very closely linked with the commodities markets. Amongst others I think currency and interest rate derivatives globally and even in terms of our user base are two segments which are very, very closely linked to what business we do today.

So we will definitely have an interest and we will prepare ourselves and see how this regulatory development comes through.

In terms of the commodities business, there are two or three things which we are continuing to do and which we will continue to do. I think the first will be that this will be probably the first time there will be a true comparison and benchmarking between the commodities exchanges and the securities exchanges of the country, so we are well prepared for that in terms of how our technology benchmarks to it.

Second as we have said in the past as well we believe that we have taken adequate measures to keep and retain our talent so that as and when competition comes we do not have that as a concern. And last but not the least we have some significant engagement with members which will be happening one of the first ones is that this year we are starting what is an MCX awards, it is an award for our members. We have our first awards tomorrow and these are awards to both brokers as well as to active hedgers. To recognize their contribution to this eco system and that is just the first step but we believe that in building a very, very closely-knit family, and across the entire ecosystem will give us the necessary ring fencing that we need from competition. So I hope Ashish that answers some of your questions.

Ashish Chopra: Yes, that is very helpful. And secondly just wanted to know so with respect to your tie up with Thompson Reuters on the index products so once the options actually go live on the system, then do index products also come in immediately or is that something that needs another set of approvals from SEBI?

Mrugank Paranjape: So very clearly index is a different product, it needs an approval from SEBI, it is not part of the options approval. At the same time in terms of the road map which the entire industry as we are speaking about, we have always said that the roadmap is options first, index next and complex derivatives later on. So our view is that it is absolutely the right time for us to invest and make sure that we are completely ready as and when our index is allowed which is what this will enable us to do. So no options does not mean that index will start the same day, but it means that we can definitely look forward to when index will come in.

Ashish Chopra: Understood and just lastly from my side. On the other expenses just for the purpose of book keeping it has been a volatile spend between I guess Rs. 14 crores to Rs. 22 crores, Rs. 23 crores in the last three quarters itself. And you mentioned there are these kind of one off cost. So on an average on a full year basis, what should be a median cost to go with on that front?

Mrugank Paranjape: So Ashish, you are right, especially because in the way we report a lot of costs are put into the other expenses and some of these become one off because of the timing. But we are absolutely confident that the full year number is going to remain at the levels that we are. So the Rs. 68.98 crores what you see is absolutely fair estimate for a full year number and you could take it evenly spread.

Moderator: Thank you. The next question is from Manjeet Buaria from Solidarity Advisors. Please go ahead.

Manjeet Buaria: You know a follow up on the universal license which SEBI has given, I wanted to understand whether the margins given by brokers are fungible across equities, commodities and different segments?

Mrugank Paranjape: Sir thanks for that question. I would like to just address this in the way some of us talk about margin and margin fungibility. First of all let us be very clear there is no fungibility of margin even today, so even within the space of the equities exchanges which have the other segment, you cannot say that I have x money with you and please use it for either equities or interest rate derivatives etcetera. So there is no real fungibility.

What it really means is that you have a margin requirement which is stipulated either by an exchange or as clearing corporation, and yes if that ability is there that you can move the margin money that you have, between various segments that is really the fungibility that we will talk about. So I call it more velocity of capital and not really fungibility and from our perspective therefore, when brokers will be allowed to do the same business in the same legal entity, a lot of this will happen even before the exchanges get a universal exchange license. So let me take a very simple example let us take you have an account with broker x y z who has both equities and commodities. Today you have to keep your margins separately in both these legal entities and if you want, if you wake up in the morning you want to trade more gold than Nifty or you want to trade

Nifty than gold, it takes you a day to move your margin between the entity one and entity two of the same broker.

Once the broker is doing the same business in the same legal entity this process itself will get streamlined and we will work with the entire member community to make sure that this velocity of capital can be increased even without having the universal exchange license. So from a market participation and market benefit we believe that cost reduction will come with the unification of broker licenses and even capital velocity will come almost initially with that. Yes, with the universal exchange license there is a possibility of greater capital velocity.

Manjeet Buaria: Okay so again you know on this how does one think about it, with the greater velocity as you mentioned essentially I mean just thinking from the competition the obvious exchanges would like to come into this, like do you see them as advantage in any sense because they also have access to the same member community you are targeting and probably they are working with them on a deeper level today?

Mrugank Paranjape: So I think to your second point I think member engagement is absolutely great at our end, I cannot comment on the member engagement of the other exchanges because I would not have direct firsthand information on that. And to your first part obviously there is a possibility that somebody may claim that there is better velocity in terms of moving when you have both products being traded on the same exchange but if you are able to like I said and we have full intent of making sure that that happens. If we are able to give that same ease or ease of movement of capital between segments irrespective of the exchange on which you are trading then that benefit will be negated to a great extent.

Manjeet Buaria: Okay fair enough. My second question was on the settlement guarantee fund, my understanding here is quite basic, so if you could help me understand how does the movement happen from the PAT at the end of every year and what is the nature of that balance which is transferred basically?

Mrugank Paranjape: So there is so first let us understand that the settlement guarantee fund is arrived at based on a compilation prescribed by SEBI which is checked by us on an absolute periodic basis certified by our auditors. What this does is to

make sure that as per the SEBI norms are you having an adequate settlement guarantee fund. If there is a shortfall ever found then at the end of the quarter you need to move money. So like we have been saying consistently we have a very healthy settlement guarantee fund and we do not need to make any further contributions to it. Therefore you will not see any real impact of that in the balance sheet at all this quarter because we have not moved any extra money to the settlement guarantee fund. The settlement guarantee fund itself is shown as a completely ring fenced separate item because of the fact that it has to be ring fenced the earnings on the settlement guarantee fund go back into the settlement guarantee fund and do not become a part of our P&L.

So for the period this year our settlement guarantee fund stands at Rs. 170.49 crores. The reduction in the settlement guarantee fund is mainly on account of the facts that if and when members cease to be members their contributions to the settlement guarantee fund have to be moved out. So that is really the whole thing, and by the way this is the cash position of the settlement guarantee fund. There is a non-cash position of the settlement guarantee fund also. So the total settlement guarantee fund is in excess of about Rs. 220 crores.

Manjeet Buaria: Fair enough, two more questions if I may. So one question was the balances which brokers have to maintain with the exchanges, if there is any interest income on those balances, is that accruing to the exchange or to the brokers?

Mrugank Paranjape: It is accruing to the exchange.

Manjeet Buaria: So basically the float to which the exchange gets earnings out of it?

Mrugank Paranjape: Yes.

Manjeet Buaria: Got it. And what is this number at the end of this quarter or at the end of FY17?

Mrugank Paranjape: So I mean I cannot pinpoint a number because as you know the cash balance of members moves quite dramatically but to give you a rough number and I am just talking of somewhere where we look at it in terms of around the Rs. 100 crores as the sort of number to cut off at, so our own funds is

approximately Rs. 1,200 crores, whereas the cash component of brokers money is roughly around Rs. 200 crores. So to that extent you can assume that from the treasury income that we report about one seventh of that is accruing from broker money that is parked with us.

Manjeet Buaria: Fair enough. And my last question is on these options which you look to enter into over the next two three months, so is there any kind of internal estimate you guys have or as to what volumes they could do with your interactions from members or anything like that from the interest level they have shown. So I just wanted to get a sense directionally how do you guys think about it? That is my last question.

Mrugank Paranjape: Sure, so I think we have been consistent in saying that we do not want to hazard a guess on the numbers in terms of options volumes in the first year and the reason is very simple. it is extremely difficult to hazard a guess on the numbers. What we do know and what we do plan to is a long term number and in the long term as we all know there is international experience in the equities market, there is international experience in the commodities market on the amount of contribution that options have had to the overall revenue pie as compared to the futures.

So that is the number that longer term yes, we know the directional numbers so that number has been in the commodity space in the range of 20% to 30%, in the equity space 30% to 40% but we also know that in India the number which accrues to the other exchanges in equity is much larger in terms of what they get from options as a ratio to futures. So with all this we believe that in the long run and which is like a three to five year range maybe a 40% increment to the base number is something which we believe is possible and what we plan towards.

Moderator: Thank you. We will take the next question from the line of Gautam Chhaochharia from UBS Securities.

Gautam Chhaochharia: Hi Mrugank, so I had one question. In terms of the other operating parameters for the fourth quarter in terms of members, terminals etcetera, can you throw some light on progress on that?

Mrugank Paranjape: Sure. So I think in terms of the fourth quarter number on the particulars that we have been publishing the number of members is 689 which is down

2.82% as compared to the same number for the last quarter of the previous financial year. The number of authorized persons has remained roughly constant at 49,719 including CTCL terminals number of terminals is 6,31,270 which is up 7.87% and in terms of the number of active unique client cords across all the products it is at 26,77,335 which is up 12.4%.

So the only number as you can see Gautam which has gone down a little bit is that over the period after the integration with SEBI, and SEBI's higher requirement both in terms of capital as well as in terms of compliance there has been some smaller members who have wanted to opt out which is why you see a very marginal decrease in this number and that is the reason but other than that all the numbers have been growing at a healthy pace.

Moderator: Thank you. We will take the next question from the line of Ankit Shah from Vallum Capital Advisors. Please go ahead.

Ankit Shah: My question was you did mention that you had been launching the index with us so other than that are there any new product launches in the pipeline that you have been considering?

Mrugank Paranjape: So let me just clarify. We are not launching an index product. As I said for the creation of index we believe it is important to have a very strong partner with international experience and we have tied up with Thompson Reuters for this purpose. Launching of an index product will depend on the regulators allowing index product which we believe next in line after options. So I think that is one clarification I thought I will give. In terms of the commodities there are multiple commodities where we believe there is a potential in terms of the existing business which is our bread and butter commodity futures business.

As you all know we launched a contract on RBD Palmolin. We already have a contract on crude palm oil but we launched an incremental contract which is on the refined palm oil which is a great complementary product and sort of covers the entire value chain in terms of that space. We are looking at incremental contracts both in the agri and non agri space at this point of time we have about seven or eight contracts for which we have applied to SEBI for approval. We are in dialogue with them, there are clarifications which they need and which we keep providing and that is what we will be

looking at. So that is really what we are planning to do in terms of incremental product launches in the commodity future space.

Ankit Shah: Secondly if I am not wrong I believe you have lost a bit of market share in the currency segment?

Mrugank Paranjape: So we are not in the currency segment so I do not think that the question is correct so I leave it at that.

Moderator: Thank you. We will take the next question from the line of Manjeet Buaria from Solidarity Advisors. Please go ahead.

Manjeet Buaria: You know one question was some time back on one of the calls you had guided the Rs. 1,200 crores of cash balance would be utilized between technology platform and your clearing facility or something which SEBI has mandated. So I just wanted an update on that, so how does one look at this free cash balance today about its utilization?

Mrugank Paranjape: Sure. So I think what we had said was and to that question that that number around the Rs. 1,200 crores and what we see it being utilized. So as you know the whole purpose of a clearing corporation is to create a ring fenced mechanism which will give safety to investors. so it is not an expense but it ring fences that money away from the exchange into a separate legal entity but you will have to put that money away. The requirement from SEBI is that you start with Rs. 100 crores but you need to ramp it up to Rs. 300 crores within three years. So that Rs. 300 crores straight off which will go into the clearing corporation.

The second piece we had said was that there are technology expenses which at some point of time can unfold for us and there are three big ones on that. As we all know there has been a paper in the public domain on the future of high frequency trading or algo trading as we all know and along with that co-location. Co-location facilities are not allowed in commodity exchanges today, however if the regulatory view on this comes to some view finally and we know whether they will allow co-location in commodity exchanges we will need to invest in that, that is an investment of anywhere between Rs. 30 crores to Rs. 50 crores that we will have to make in terms of the infrastructure.

The other one to I think maybe your question earlier that what does universal exchange license mean. If we have to enter new segments we will need to invest in new technology and when we had made a rough estimate last year any new segment could cost us anywhere between Rs. 75 crores to Rs. 100 crores for new technology.

So those are the three big expenses that I can see which are absolutely crystal clear in the near future. Last but not the least, we have seen in the past not necessarily in our domain but sometime in our domain as well, that some irrational pricing is used as a tool for competition for some period which can actually be a drain on your overall P&L. And therefore we believe that it is important for us to have a healthy cash reserve just to see how competition acts or reacts when they get a chance to get into the commodity segment and that is one more reason to hold good cash on our balance sheet.

Manjeet Buaria: And you know if we say this is to be utilized by the company. One question on the technology expenses are they capitalized or expense as and when they happen?

Mrugank Paranjape: So we have a policy it depends on the quantum of expense and there is a standard policy which we adhere to.

Manjeet Buaria: Okay. And finally on the dividend policy whatever profits you make, is there any policy on the payout ratios you look at on your earnings?

Mrugank Paranjape: So as you might be aware it is a SEBI mandate for all listed companies to have a dividend policy in place. We have had one for more than a year actually even before the SEBI policy came in. Our policy is for a payout ratio of 30% to 50% however looking at the feedback received a from lot of investors like you, given that we do not have any immediate need for incremental cash at this point of time, the payout that we are making this time is approximately equal to 75% of our PAT.

So as we mentioned at the beginning of the call we have proposed a dividend of Rs. 15 per share which is 150% dividend which roughly translates to close to 75% of the PAT for this year.

- Moderator:** Thank you. We will take the next question from the line of Rahul Ranade from Goldman Sachs. Please go ahead.
- Rahul Ranade:** So one of the positive fall outs if I may of demonetization was the expected shift of volume from the unorganized or the dabba market to the organized exchanges. just wanted to know if you are seeing any early signs of that happening?
- Mrugank Paranjape:** So I would say just looking at the numbers it is difficult to say yes to your question, however informal surface do tell us that that market is drying up but we are not seeing any positive response yet in terms of the volumes on our exchange.
- Rahul Ranade:** Alright. And just for clarification purpose so the options would it be fair to say that it will take another three months or so to begin actual trading of options?
- Mrugank Paranjape:** So I think three months is a fair estimate because SEBI Board meeting happened as you know I think on the 26th of April. We understand that there will be some final notifications to the market in the next two, three weeks. There might be one or two other clarifications needed in terms of the contract design, but once that is done SEBI will ask us to apply to them for the contracts we want to launch which is the normal process in any segment and then it will have the standard lead time for the first approvals to come through. So you are probably pretty close in terms of the estimate on that number.
- Rahul Ranade:** Sure, and just another clarification about these unified licenses. So are there any regulatory formalities to be done on this or is it you know kind of?
- Mrugank Paranjape:** So there are two parts to the unified licenses that you are talking of. First is a unified license to a member to a brokerage entity. So broker XYZ who has two entities one doing commodities and one doing equity we understand from the detailed reading of the SEBI release as well as the Chairman's interview that that is now approved by the SEBI board in terms of it being operational. I think it was also clarified that time that it does need maybe a couple of notifications in the Gazette both state and central. Once those two notifications happen, that will become something which is completely done. Now in terms of the exchange side, there is no decision

yet from SEBI but if you heard the Chairman's speech he just mentioned that he expects it to happen in this financial year.

Rahul Ranade: Sure. And just wanted to know about our efforts just on this unified license of brokers on our efforts of you know maybe trying to reach more brokers because of this?

Mrugank Paranjape: So there are two or three parts to how we would reach out to more brokers. One we by the process of the registration and the information that we have, we already know the members who are with us and who have equity arm so that is the first set of very obvious people to reach out to make sure that we handover them to this process and make sure that they are absolutely comfortable in moving to whichever chosen entity they have in terms of migrating their businesses to.

The second is that there is a public information data available in terms of brokers who are not with us and yet are in the equity segment and that is a second part of the KRAs for our business development team. And the third is that over the years as we mentioned as I was talking in the earlier question to Gautam as well that there are participants who have been on this exchange but have moved out over time and that is the third sort of segment which we look at. So yes, there are three distinct segments which we are engaging with to see and make sure that as this unification process happens, they see more value and being in business and they see more value in engaging with us and the commodity space.

Rahul Ranade: Sure sir. Any internal targets on all these three?

Mrugank Paranjape: We are in the process and again we are very formal performance management systems like most of you would have. Our KRA setting is just about getting completed for this financial year but these are some of the targets which we are anyways not disclosing publicly as well.

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

Ashish Chopra: Mrugank, just I had a couple of questions. Firstly, sir you mentioned about a lot of moves by SEBI in terms of the reforms for the commodity exchanges, commodity derivative. Just wanted to also understand from you on the

hedges side of the equation because I guess that would be a little bit more long drawn in terms of some of these measures that are being put in. But if you could share any progress and any state today in terms of the representation of hedges on the exchange and what are some of the key measures that you see over the near to medium term that could really drive that metric further higher?

Mrugank Paranjape: Thanks. Nice and very important question very dear to everybody's heart both within the exchange management team but as well as at our Board. So let me just start with also trying to address this thing because I genuinely believe that there is a need to get information across on the perception of do we have enough hedges or not on our platform. So there is publicly available data, we publish ours there is data available from CME, LME which are generally considered the benchmarks internationally and if you look at two parameters one parameter being the open interest to volume ratio and the second parameter being the percentage of deliveries happening and while all of us know that futures is not meant to be used for taking deliveries, it gives you an indication of how integrated you are with the underlying markets and then the hedges community.

So on both these ratios Ashish, we do extremely well and in fact better than some of the international exchanges. So that is first in terms of where we are as a picture today. Notwithstanding that, we also believe that we just need to increase this number drastically. From a regulatory perspective one other thing which has been a demand is that the current markets are not so deep in the far months and far month liquidity comes only when you have some sustainable demand which we believe will come from institutional participants. So as SEBI and regulators including RBI work to introducing more institutional participants I believe that is the right regulatory push to getting more participants who have a long-term view and a long term requirement.

Second as you know the LODR which is the SEBI's listing requirements have made it mandatory for all listed companies to disclose (a) their exposure to commodities and (b) how much hedging they do. After the first year of the experience on this regulation what we found is that while the process is not great in terms of people either hedging or being able to disclose. What we are working with is the CA institute to come out with some very detailed

guidelines just like it happened when FX exposure was supposed to be reported. We are working on the same way to come out with detailed guidelines on the CA institute and again like all of us know once you start reporting a number and once you start telling how much you hedge or do not hedge, we believe it will start inculcating a better discipline of hedging within the corporate segment.

So those are I think the regulatory measures which we believe will help us. Last but not the least, what we do as an exchange so clearly the best indicator especially again going back to the thing of what you want to get done, you should measure is the amount of training hours that you do. Again we have set very, very specific KRAs for our entire research, training and education teams to the amount of user end user training that we want to impart while again as I said some of these KRAs we are not disclosing numbers but it will suffice to say that in the immediate short term we have set ourselves a fairly decent goal of saying that we will double the man hours training that we did last year in this year and the objective is very simple.

If we do that much more significant training for the end users, that will deepen the market. Now this is a long-term result so if we double our training man hour this year, hopefully we will get impacted next year but like you said, longer term those are the measures we believe will deliver results.

Ashish Chopra:

Got it. That is helpful. And just the other question was on as a follow up to the previous one on SGF, so you mentioned that the settlement guarantee fund balance right now appears to be adequately funded and we understand there are a lot of parameter that go into calculation of the same. But just to get some more understanding and perspective on that, would it be a fair assumption that this number or the requirement metric as per the formulae would lead to a higher number as the volumes go up and just to get a sense so given where the volumes are today, probably what would be that volume number round about which you would see the need to start maybe expensing of some incremental SGF as per the requirement?

Mrugank Paranjape:

So good question. One, it is difficult to estimate that number because the way that that formula is arrived at is not really related to the exchanges volume, it is more related and if you see the SEBI guidelines, it is more

related to the concentration that you have in the top few members that really determines. So as long as your concentration does not really go up even if your volumes go up, that number may not shoot up in the same proportion. So that is my first response. The second is that as we create a clearing corporation there are certain new norms in terms of how this entire settlement guarantee fund is to be funded.

Again let us be clear that this is the first time we are creating a clearing corporation from scratch in this country what has happened in the past as you know is that there were clearing corporations already in place which were functioning, which were doing all the things that was expected of a clearing corporation and they just had to be moved from the exchange to a separate legal entity in the case of other exchanges. This is the first time we are going through this whole process so there is some of those norms are how the SGF has to be funded are yet to be crystallized for especially a new clearing corporation coming into place. Based on both these our expectation is that we may not need to make any incremental contributions to the SGF.

Ashish Chopra: Got it and when you see the minimum net worth requirement over a period of time of 300 CR in the clearing corporation so is that excluding the SGF also which gets transferred there or is SGF already a part of that number?

Mrugank Paranjape: SGF is completely independent. SGF is so if you look at the waterfall prescribed by SEBI for any default, SGF is the first port of call your net worth is the sort of the second port of call. So those are very distinct monies. SGF does not figure in any of that.

Ashish Chopra: So a minimum of Rs. 470 crores worth of amount as it stands today should eventually over a period of time move to the subsidiary CC?

Mrugank Paranjape: Absolutely. And again just thanks for bringing this out but for clarity for everybody like we have been saying going forward as the clearing corporation is coming into place, we will more look at the consolidated results because while it is 100% owned subsidiary and therefore it will not have any impact because all the revenues will remain with us and all the expenses are the same, to make sure that all of you as well understand that it has really not impacted the overall numbers, we will report consolidated numbers and speak about those going forward. But to your question, yes of

the 1200 plus 200 that I spoke of out of that 1400 at some point of time roughly 500 will probably sit in the clinic operation and 900 in the parent company.

Moderator: Thank you. We will take the next question from the line of Tejas Sheth from Reliance Mutual Fund. Please go ahead.

Tejas Sheth: I just wanted to understand a little granularly what has led to not coming back of the volumes in the bullion market I mean considering that the cash market in for the physical purchases seems to be back, and is it any particular member or hedger or speculators who are not trading again or have they shifted to other exchanges globally?

Mrugank Paranjape: So I think to your second question I can answer you that if we look at the trends and we have made very clear and distinct and this is on is it specific to members or hedges etcetera, I would be very honest in saying that there is no specific sort of places where something has completely popped off. Now to the extent there is reduction are they heading somewhere else internationally, very difficult to gauge but most of the people we speak to are not telling us that. To your question as to while we see a recovery in the overall underlying physical market, people reported a grand Akshaya Tritiya a couple of days back. Why do we not see that and in our constant engagement with the market we understand that the biggest reason that the revival has not yet happened in the new financial year is the fact that there is still uncertainty around GST for this segment and people are really wanting to remain low on stocks till there is complete clarity on what happens with GST.

And as you know for while people may buy and sell jewelry and gold etcetera as long as stocking remains very low the volumes in our exchange will take some time to come back. So all the people that we are in touch with and we are in touch with the complete spectrum in both the refiners, the market participants, the jewelers, large manufacturers all of them assure us that it is just uncertainty around the GST rate which has led to lower stocking levels and that is why we see still lower volumes on the bullion segment for us. Because if you take the bullion segment away I think we are almost back at the pre-demonetization levels across the three other products together.

- Tejas Sheth:** Okay, so would it be a fair assumption that bullion product would have more hedges than the speculators in comparison to other products?
- Mrugank Paranjape:** So I think we have always maintained that bullion is our richest complex in terms of its diversity and you are therefore right. If you take any part of the bullion value chain starting from an importer to a refiner to a small or a big jewelry manufacturer, and of course the traders, everybody is present on our exchange across the segment, and you are right that is our richest segment in terms of the industry and hedger class. But that is why we are also seeing a slightly bigger impact in this particular period.
- Tejas Sheth:** Okay my second question is on the option side. Once it has been allowed and let us say three months which you gave timeline and will we be introducing options across the products or it will be first starting with bullion and then?
- Mrugank Paranjape:** So one, we believe there are at least six contracts which have very healthy participation, which are necessary business volumes which will pass some of the tests with SEBI had earlier been talking about and that is gold, silver, copper, crude in the non agri segment and there is cotton and CPO in the agri segment all six of these contracts we believe have the depth of the participation the interest of the market and the necessary business for us to be in that segment. Now we have to watch and wait for that final SEBI guidelines to see whether they will state how many products are allowed and within that then we will decide what sequencing we take amongst these. Clearly if SEBI takes a view of only one or only one by buy type of product then from our perspective yes, with the richness of the participants that I spoke, gold is still a predominantly leading sort of contender to be the first one but we would not be able to confirm that so soon. That is my only comment.
- Tejas Sheth:** Okay and what could be the period between allowing the options and then allowing more let us say participants and then allowing more competition, so any?
- Mrugank Paranjape:** So as you can see I think SEBI is and I think in the right spirit moving in these three parallelly so within each of these fields they are moving sequentially. So on products they said options first, and that has come in so we believe there is now talk of index at some point of time. But they have

not said that we will do options first and then institution next. Institution is moving in parallel, where as per the expected movement AIF is already notified where the white paper as I mentioned earlier in the call is in the public domain. We believe the next will be mutual funds and we believe that thereafter some time FII's will come in. And then you talk about participants and the universal exchange SEBI has always I think maintained that they will start with broker integration and then look at exchange integration and that is what they have done. So I think they are treating these three streams in parallel, and within each stream they are sequencing and that is what we are seeing now

Tejas Sheth: Okay so we would have about six to nine months' exclusive period as in only exchange?

Mrugank Paranjape: So based on what we have been speaking yes, that is the sort of timeline I assume your question is that is the period when we do not expect other exchanges to come in while options have been started.

Tejas Sheth: Options and even new participants, so that first more advantage would not get much diluted?

Mrugank Paranjape: Yes.

Moderator: Thank you. We have the next question from the line of Atul Mehta from Motilal Oswal Securities. Please go ahead.

Atul Mehta: Sir just one clarification on the Gift City investment. So have we taken any in terms of call on whether we would want to invest there or any update on that?

Mrugank Paranjape: No, parts we have mentioned this in our previous two calls we are already invested in Gift City just for that all of us were aware and some of the expenses as we have been mentioning in the call as well are related to Gift City. We have our own office, we have a full floor in the Gift City. It is on the domestic side of Gift City where we have our BCB DR infrastructure and we are building out our capability in terms of technology and education. If your question is regarding the international side of Gift City. yes. we are still evaluating a) the feasibility of a commodities only or a universal exchange and the second and the third one because as we understand BSE

subsidiary is already operational and NSE has already made its application to become operational. So we are looking at the feasibility of a third exchange there and whether commodity has a role to play there and finally in all this whether there is a business case given the investments that have to be made and we have not reached a conclusion in that.

Atul Mehta: And in that scenario what is the in terms of amount that will be say earmarked for this if in case you want to go ahead with this plan?

Mrugank Paranjape: So the standard number in terms of an exchange creation in standalone is you need Rs. 100 crores of net worth for the exchange and Rs. 300 crores net worth for the clearing corporation to be built over a period of three years which means Rs. 400 crores to be invested over a period of three years. Initial investment has to be Rs. 75 crores in the Gift City as per the stipulated regulations.

Moderator: Thank you. As there are no further questions from the participants, I now hand the conference over to Mr. Gautam Chhaochharia for closing comments.

Gautam Chhaochharia: Thanks Mrugank, thanks Mr. Ajay, thanks Sanjay.

Mrugank Paranjape: Thank you Gautam. And thanks everybody for patient listening for all your questions. As you know we are available for any further clarifications if whoever wants to reach out, please feel free to do so. The details have been put out on the website as well. But if there is anything more that you need let us know. Thanks a lot and thanks Gautam for organizing this.

Moderator: Thanks. Ladies and gentlemen, on behalf of UBS Securities, that concludes this conference call for today. Thank you for joining us and you may now disconnect your lines.