

MCX/SEC/1487

May 04, 2018

BSE Limited
Department of Corporate Services
Phiroze Jeejeebhoy Towers
Dalal Street
Mumbai - 400 001.

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Subject: Transcript of the conference call with investor/analysts

Dear Sir,

Please find enclosed herewith transcript of the conference call with investors/analysts held on April 30, 2018 at 10.00 a.m. IST.

Kindly take the same on record and acknowledge receipt.

Thanking you,

Yours faithfully,
For Multi Commodity Exchange of India Limited



Ashwin Patel
Company Secretary

Encl: As above



“Multi Commodity Exchange of India Ltd. Q4 FY18 Earnings Conference Call”

April 30, 2018



**MANAGEMENT: MR. MRUGANK PARANJPE- MD & CEO, MULTI
COMMODITY EXCHANGE OF INDIA LTD.
MR. SANJAY WADHWA- CFO, MULTI
COMMODITY EXCHANGE OF INDIA LTD.**

Moderator: Good day ladies and gentlemen and welcome to the Q4 FY18 Earnings Conference Call of Multi Commodity Exchange of India Limited. 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 phone. Please note that this conference is being recorded. I now hand the conference to Mr. Mrugank Paranjape- MD and CEO. Thank you and over to you sir.

Mrugank Paranjape: Thank you and a very good morning to all of you. I think breaking from some traditions this time we are doing this call in the morning but very glad to see a lot of few on the call, so thanks for joining.

Let me quickly come to the highlights of the performance of the last quarter and some of the developments of the last quarter. So as we announced our last quarter's ADT was up at 23,824 crores which was 17.8% above the previous quarter. What was very heartening for us was that this growth came from three segments namely the energy, metal and agri segments being up 31%, 9% and 6% up against the previous quarter which really means that from an MCX perspective the availability of multiple segments offers a good diversification in its business portfolio and promises to be a good factor when we are looking to the year ahead.

In addition to that last quarter saw a couple of refineries who have been in the bullion business coming in a strong way on to the exchange. Hindustan Zinc has become an approved LBMA, good refiner and we are now awaiting them to become an entity which will deliver on the exchange. MMTC-PAMP has significantly ramped up their deliveries on the exchange throughout the year and we will continue to see their business growing as we go ahead.

More importantly in our cotton business we have Vardhaman Textiles and some of the other leading firms in India participating in the contract. As we have always maintained availability and participation of the physical value chain is one of the integral part and most important part of the commodities derivative. Last quarter we launched our brass contract, very happy to report that in the first month of trading the contract has been doing roughly about 300 lots and as we are now entering into the last day of trading we have deliveries coming as well. This marks an important development because deliverable contracts, A. we believe is the way forward and that's been sort of collaborated by the regulator stand even in the equities market. So, we will see more focus on deliverable contracts in this segment and the fact that we will be able to have good experience of developing and delivering deliverable contracts in the metal space should help us going forward as well. So the brass event was unique contract, is the first time there is a composite alloy being

traded, it is the first time brass itself is being traded and it is the first time a non-ferrous metal has been delivered in India.

In terms of the regulatory developments I think there are two which were very important from our perspective. The first and foremost was the fact that SEBI has now allowed the liquidity enhancement scheme or measures for boosting liquidity in the commodities market. This is a big development because FMC which was earlier regulator and in the earlier years with SEBI as well liquidity enhancement was something which was not allowed. We have just launched our liquidity enhancement scheme, it has been three days of trading under that scheme. The initial response has been extremely good. We continue to monitor what's happening in liquidity enhancement and we believe that will really help us make the gold contract very liquid and there is the gold options contract. Most importantly we are in discussions with SEBI and very hopeful that very soon we will have more contracts to trade in options space.

Let me just take therefore a little bit to say what we see our focus to be in the next 3 to 6 months and I am breaking it into two parts because this being the annual results call I would talk about the full-year focus but also about the near-term focus especially because there is a lot of attention to the October event where we will have the universal exchange regime kicking in. For the first six months where is the time we believe we have before other exchanges will come into the commodity space, our focus will be to make sure that options which is the contract which we believe will add significantly to the volumes and in some ways to the revenue as well will be something that we will focus on. So the first step would be to get more contracts launched, we have applied for crude zinc, silver and copper and we are hopeful that at least two of these will come through in the next couple of days. We are also very confident that all the seven contracts of MCX which are eligible under the current SEBI regulations for being offered under the options platform will be up and trading in the first half. Add to this the focus that we have so the liquidity enhancement scheme on make in gold options contract very liquid, we believe in the first six months we will be able to deliver a full suite of options for our investors and that will enable us to create a product that we can then use for adding to our revenues in the second half of this year. In terms of commodities and commodity related launches in the future platform our focus will be twofold, first we will continue to look at some niche areas and see products which are not yet been announced or not yet been offered in the Indian market till date and see if those can be offered in the next 6 to 9 months. The second focus as I mentioned earlier in the call will be to see how some of our contracts can also be made deliverable or some of the deliverable contracts can have better reach, especially given that the GST regime is helping us in terms of making sure the deliveries can now happen pan India. So those would be the two focus areas from a business perspective for the exchange. Last year I had mentioned that internally we had changed some of our KRAs for the organization and for the senior members of the

team, we have introduced three critical numbers and we are in very doing well on at least two of them and pretty good on the third one. So the three numbers that we have introduced internally were first on education and outreach. Very happy to report that for the financial year which is 17-18 the total number of programs and the total number of man-hours of the training that we have done is more than double of what we did in the previous year and we have a similar target for this year as well. Second the number of corporate hedgers that we have in every contract, we had targeted anywhere between a 10% to 50% growth in each of these contracts and again very happy to report that last year we achieved on all of these parameters. Some of the large names I've already mentioned in the call, but we are very happy to share other details if required by any of the investors. The third number where our growth is a little less or what we wanted to do but still extremely encouraging, is in terms of expanding the actual market. So this is in terms of the unique investors or as we call unique the client codes that trade on the exchange, we have registered more than 10% growth in the last year but that's a number that we would like to grow even more this year. So those would be a different sort of ways of expanding the market and that will be the third focus of MCX in the coming year. Last but not the least, Sanjay is with me on the call, our CFO and I'm sure you will have questions, so we can take that more. But last quarter we had mentioned when we had a slightly less than expected other income on account of some blip in the treasury income that as a strategy we are moving away from long dated instruments in our portfolio and we hope to see the full benefit of that coming through by the end of this calendar year.

So those are some of the highlights that we are looking to do in terms of managing MCX better. And I would just conclude by saying that our commitment to giving investors a good return is also reflected in the fact that the board has accepted our recommendation and we're recommending a dividend of Rs. 17 per share which we believe something that the investors should hopefully like. With that I think I will finish my initial comments and very happy to take questions here on over to the moderator again.

Moderator: Thank you very much. We will now begin with the question and answer session. The first question is from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.

Pritesh Chheda: Just referring to your presentation which you have posted on the exchange, slide #6; there are these bubble chart where you have put total commodity derivatives versus GDP of the country. Now do you consider it to be a case where there is an opportunity when you are showing this bubble chart or possibly that when I look at countries like Australia or Malaysia and I look at vis-à-vis India then we are where we are and hence the volume growth factor for which you said there are three drivers, the overall growth in your business will be mirroring the GDP growth so if you could dwell something slightly more on the bigger landscape in this space?

Mrugank Paranjape: I think the way we look at this is for us we are trying to define what the opportunity is and what the growth is. And therefore, if your question is do I look more from the larger bubbles and say that is the opportunity or do I compare myself with the smaller bubbles and say we are already there, our firm belief is, is that the larger bubbles theory represents the opportunity. The reason I say this is because as we have been talking in all our previous quarters as well, India does not still have a lot of factors which are there in some of the other bubbles that you see. We do not have institutional investors, we do not have bank participation, we do not have products such as index and in terms of the culture I think hedging is something which is still to catch up in India. So to us those four pillars of growth we have spoken about them quite a few times but those really represent the reason why we believe that the larger bubbles are something that is an aspirational thing and we think India will go in that direction so that would be my answer to your view on whether the you should look at the larger bubbles or the smaller ones.

Pritesh Chheda: So when you are comparing with other countries even those countries like Malaysia and all do not have hedging and institutional participation or they have a hedging institutional participation despite which they are at this half a time GDP?

Mrugank Paranjape: So, I am not a full country expert would with my limited exposure of Malaysia I can say few things. One, they are a much smaller economy, second in terms of the amount of commodities which they really have, it's much more in terms of Agri commodities that their turnover is today, their big turnover is actually driven by palm-oil and rubber, so I think again that's the reason I would just say India has got a much bigger potential than comparable countries in that bubble size at least.

Pritesh Chheda: On the drivers for growth you said there are three, one is options, one is new folios and what is the third one?

Mrugank Paranjape: I think I will just segregate this. On the drivers of growth as an exchange we believe there are four drivers for growth for this business. The drivers for growth in this business are a new product that is options and later we hope it will be indices. The second driver for growth is participants, we are just seeing some discussions around institutional investors but that we believe is the second pillar of growth for this market. The third driver for growth is distribution that has been enabled by the regulator is by allowing banks subsidiaries to come in and by allowing brokerages to combine their entities across commodities and other asset classes. And last driver for growth will be the increase of hedging as an activity or increase of hedging as a risk mitigation factor. So those are the four drivers of growth. What I mentioned earlier was that for the key result areas of my senior management team in addition to pure turnover or revenue which everybody looks at or cost which also we look at traditionally, we introduced three other factors and those were around investor outreach which was through programs and training numbers, the

second was UCC which is unique client code that trade on the exchange and third was corporate hedgers which is the hedgers who participate and give long-term liquidity to us. So those were the two different ways of what I mentioned earlier.

Pritesh Chheda: On the expense side last year there was a lot of volatility for last couple of years, now when you are reporting FY18, are these kind of the expense lines now we should start looking because there was hardly any inflation at these this year? So some color on the expense line which are variable, how do you see it moving which are fixed, what portion is fixed and how do you see it moving.

Mrugank Paranjape: I think Pritesh we mentioned this on our previous calls and let me just clarify. So if you look at the way we put our results on the stock exchange and if you look at those, we have six lines of expense in that. Last year we had total expenditure of 198.58 crores, this year we are at 204.68. Out of this as you can see line number B and...

Pritesh Chheda: Just a minute sir, I'm looking at your presentation slide #17 which says 188 crores of total expenditure consolidated, employee 68 and other operating expense has 119.77.

Mrugank Paranjape: I think you are showing depreciation that...

Pritesh Chheda: Yes.

Mrugank Paranjape: So now if you look at these two lines, you probably need to look at it with what we've put out on the BSE site as well. But just to give you a flavor, out of this 198 last year 47 crores was coming from coming from what we call purely variable expenses and in addition to that there is regulatory expenses which are not generally too variable but can change if the regulations change. So if you look at that number that number has gone up by about 2.4 crores over this year and that's because in terms of the mix of our products; we have more in terms of energy and metals as compared to bullion and we pay a licensing fees for energy and metals. Secondly during this year regulatory expenses went up so on IPS and ISF, the total contribution has gone up by more than 3 crores in this year and those are the two lines of expense which went up. In spite of those two lines going up, our total expense has otherwise stayed flat for all the other lines. So for you to look at it I think the way to look at this expense would be, look at the expenditure on the software support, product license fees, regulatory fees etc. Last year it was roughly about 51 crores, giving us a total of other expenses which is employee plus everything else that we do in the exchange at about 147.3. This year that expense has remained flat. We are committed to keeping this number within a 3% growth year-on-year, so even though we delivered flat for this year our commitment is that we will remain within 3%. So whatever we have in terms of increase in manpower expenditure which happens because you have inflation, you are paying increments, you

are paying more but all of that we will take care but not letting this grow at more than 3%.

Pritesh Chheda: I will just clarify, you said employee plus expenditure other than variable should grow at 3%.

Mrugank Paranjape: Less than 3%.

Pritesh Chheda: In which for other operating expenses you segregated as a portion which is variable which is at about 47 crores plus some regulatory expense and the portion other than that is what is fixed in nature and which you gave up of 51 crores breakup as products like software etc. charges. Can you just give in that variable, what is the total regulatory spend that you did for FY18 so that it clears everything?

Mrugank Paranjape: Regulatory expenditure for last financial year was 4.17 crores and for the latest financial year FY17-18 its 7.49 crores.

Moderator: The next question is from the line of Gautam Chhaochharia from UBS. Please go ahead.

Gautam Chhaochharia: Couple of questions, one is this liquidity enhancement facility. What is the plan for that in terms of cost, the mechanism, the number of providers?

Mrugank Paranjape: The LES is as approved by SEBI, we can offer it mainly and only for enhancing market making which essentially means that you are improving the liquidity and you are tightening the spread that anybody sees when you are trading on the screen. There is no facility allowed and we're happy with that four really rewarding just pure turnover. So that's the key features of the liquidity enhancement scheme. The initial idea Gautam is to offer this for a period of six months. The reason we are doing it for six months is that two three parts, one, we were hoping to start it in April. We started in April, we wanted to do it initial beginning of April, we started in the last week. But we didn't want to have this expenditure going more than the first half of the year. Second like I said as a strategy we want to use the six months to build options as a platform and we believe having one very-very liquid contract and launching all the others in parallel will be a part of our strategy. And third from overall expense perspective we believe that's the sort of number that we could afford. In terms of what we have I think we are looking to the overall commitment of the market that we will pay a fee of 60 lakhs per month, so it's 3.6 crores we have committed just now. But again this is not going out as the cash payout. This goes as an off-set to the revenue that we get from the same participant in all the other fees that the participant is paying. So it's a rebate of fees that is going out to the market makers and it's not a cash payout to these people.

Gautam Chhaochharia: Given the AIF norms changed your expected to happen along with the mutual fund being allowed or will it happen earlier and any timing on the mutual funds being allowed?

Mrugank Paranjape: On that one I think it's really something which we keep saying, I know it's a little repetitive that we think it's going to happen anytime soon but that's the reality. I think all consultations we think is over, we have had multiple rounds with the regulators in terms of feedback as well from various sections of the market for what should happen for both mutual fund and PMS. You are right, the feedback is that the reason why AIF have really not come into the market is that there are some enabling sort of provisions on the custodial regulations which need to be ironed out. Given that that is necessary for both mutual fund and PMS as well. We think it will happen in tandem and not necessarily before that, so that's something where the opening up of more AIF will probably happen alongside when mutual fund and PMS come in.

Moderator: The next question is from the line of Ashish Sharma from Enam Asset Management. Please go ahead.

Ashish Sharma: Just one question on the average realization for this quarter, seeing that ADT was up 20% but despite that the revenue growth was only 13%, so some color on that. And the big event which we are anticipating in terms of universal exchanges, so during that time do we see the pricing power remain for MCX, do we need to pass on some sort of benefit, so this is first question? Second would be on option pricing, when do we see second half of FY 19 will there be a situation when all the products have launched, and will we be able to price options in second half, so these are the two questions?

Mrugank Paranjape: I think on your question on realization, yes while the ADV movement was in the range of 16%-17%. The realization has gone down by about 4 paisa. So that is because as we have tiered structure in terms of pricing. The growth has been larger with some of the larger players which leads us to a lower realization, so that's the simple answer on why realization is gone down and that's why your sequential change in revenue is not completely reflecting the ADT change. In terms of your question around what would happen post universal exchange coming in. So few things that we are anticipating, we are looking at; first like I said, we believe the pricing in itself has never been the reason why liquidity has moved in India. There have been two examples I think we have had in this market. We have had in the equities where there was a sustained liquidity enhancement for a couple of years. But liquidity did not move from one exchange to the other. In our own case as some of you would recollect just in the aftermath of both CTT being introduced and when we went through a little bit of a crisis in terms of management change in MCX, there was a very-very one plus year of sustained price drop by the rival exchanges, but we didn't lose liquidity. So clearly pricing is not the reason why liquidity moves in this market. We believe liquidity will remain as long as our products remain relevant, as long as we have

the physical participation, most importantly as long as our technology stays at the same level that it is today. With of this do we expect that we will have to drop prices, I think too early to say. Yes, there will be pressure and we will have to see how we respond at that point of time. So we won't be able to commit to anything just now. But yes, we will have to wait and watch and see how we respond when there is too much of pricing pressure from the rival exchanges.

Ashish Sharma: And second would be on option.

Mrugank Paranjape: Can you just repeat you options question, my apologies.

Ashish Sharma: We will be launching all the option products in the first half but do we see some bit of pricing benefit also coming-in in the second half or do we see benefits of option pricing when we start charging the same to the customers, some benefit trickling in second half or is it FY20 event?

Mrugank Paranjape: I think our current plan is to have charging coming-in in the second half of this year. One of the reasons we are pushing so hard to get all the volumes up in this first half is that we want to use that as a leverage to really get people to trade and created liquidity that we want in these contracts. So our communication, our messaging with our members has been along the same lines that we want to make sure that first volumes build up and then only we start looking at charging and that sort of is in line with the six months plan to build the volumes and then look at revenues coming in from the second half of this year.

Moderator: The next question is from the line of Lancelot DCunha from Valuex Advisors. Please go ahead.

Lancelot DCunha: A little bit more on the Universal exchange coming through, do you see that those members of MCX who are also members of BSE, NSE or the other exchanges who introduced commodities begin to look at the option of saying 'look I am getting everything on exchange, why have multiple memberships, can I give up memberships?' Is that the likely scenario and how do you feel that what is your strategy to make the kind of competition that you may expect?

Mrugank Paranjape: If you look at the way trading volumes are in the current market, roughly about 150 members really do maybe about 90%-95% of the volumes in both the equity segment and the commodity segment, I am really going to look at these two segments because those are the critical and the big ones. Out of these 150 members, 112 members already have what I would call a membership within a group company in both equities and commodities and about 37-38 members are really standalone. So these are people who are either pure play commodities or pure play equities. Within these 112 members we of course are in touch all 150 but for these 112 members at this point of time the top 80%-85% of the volume comes from again another 75

members who all have plans and they have already in some way or the other combined their memberships or are in the process of doing so. The reason I thought I will give you this full detail is to give you a flavor that in our opinion more than 60% to 70% of the market of what is the people who contribute to the volumes would already be having their memberships under a single entity. So all the benefits that one was looking for which is to not pay, have two compliance, teams not have, two different companies secretaries not have two infrastructures because you are running two entities etc. all those benefits will already accrue to our members even when they maintain memberships with multiple exchanges Secondly, from an end investor perspective all these exchanges are already offering what people generally refer to as a fungibility of margin or the ease of movement of margin plus the fact that their technologies are all integrated. So if you are an end investor with the company which has memberships across multiple exchanges you can now have passed a movement of capital and you can see everything on one screen. So end investors have no reason to ask for move of liquidity. When you have to broker yourselves, your incremental costs are very-very marginal or if not negligible and against that you are seeing the benefit of having liquidity on exchange. To the last point which somebody may think of essentially if I'm having a membership of one exchange and I want to flip my margin as a broker from A segment on other segment, how much time does it take me? As we have mentioned in our previous calls we have also now implemented that within 30 minutes. So if you are a member of MCX, your trading you believe for some reason today that the volatility in commodity is going to be low and therefore you want to move your margins from MCX to another exchange we have already implemented a process by which you can take your margins back in 30 minutes. So we are now almost real-time. This is what the other exchanges are doing as well. So from a movement of margins perspective which is the only real benefit that you get if you're trading everything on one exchange that stand limit is also now shrunk to 30 minutes. With all of this I don't think there is much of a compulsion for a broker to really start looking at giving up a membership because the costs are actually very negligible as compared to the benefit of liquidity.

Lancelot DCunha: Do you see more members coming on? Are you all taking more members in your commodity exchange?

Mrugank Paranjape: Yes, so I can share with you some numbers. We have been getting new members through the last year. I think in terms of the number of members that we have added I would just put it that every quarter we probably add about 10 new members. We added 40 new members, of course some of them are coming in because they are consolidating memberships and therefore they may sometimes for a small period have memberships in two entities, so they are taking an additional one with us. But absolutely new members who were not in this ecosystem ever, I think we are still adding at the rate of about 5 every quarter.

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

Nimit Shah: This was regarding one RBI circular had come regarding disallowing gold, gems and precious stones on the international exchanges. So just wanted your views about the corporates which are doing international hedging, how do they look at this circular and whether GIFT City is a better option for them after the circular is in place?

Mrugank Paranjape: We will break your question maybe in two parts. First, the RBI circular has a sunset date I think it is 30th June, if I'm not mistaken and therefore we should see the behavioral change only from the next quarter. In terms of the larger corporates which are already hedging with us, yes, we are in discussion with them. The good thing is that we are also making our options contract more liquid and therefore we should be able to attract them to the Indian exchanges a little bit more. Having said that I think we will still take this with a little bit of caution because the reason why a lot of the corporates were hedging overseas was fundamentally due to the longer tenure that they are able to get when they're hedging overseas and not so much the liquidity because liquidity in India is actually very comparable in the short run. So till we get institutional investors and institutional investors plus hedgers together create enough demand in the long tenure and the long tenure becomes more liquid in MCX, I think it will not be prudent to expect too many volumes to shift but yes we do expect a little positive impact. To your next question I still think when it comes to GIFT City it is a fundamental question that we are trying to answer as to what is the real benefit of somebody trading in GIFT City. If you are a trader, if you are a person who has got intraday or such trading requirements, the lack of any transactional cost is maybe a reason but then you need liquidity in GIFT City. If you're a hedger you're really looking to a very-very long-term liquid contract and that really doesn't exist in GIFT City today. So again I won't think that the corporates who are not being allowed to go overseas will start looking at GIFT City just because of that.

Nimit Shah: But any interactions with the corporates in the interim, so I think the circular was out one month back, couple of days back and you rightly pointed out that it has a sunset date of 30th June. But has your business development team tried to reach out to those guys and whether they are looking now at the domestic platform aggressively?

Mrugank Paranjape: I will again give this in two parts Nimit. We have a set of corporates who hedge with us and we believe they are the similar set of corporates who use international exchanges. That said we are absolutely in touch with, we have shared the names in the past as well, the larger players like Titan, Kalyan, etc., are on this exchange. The bigger issue I think in India still is that we still have lot of corporate which just do not yet hedge their exposures and that is a challenge. So if they have not being doing that locally, they are not being doing that internationally as well. So we believe the larger challenge for us is to really get the large corporate jewelers to start

hedging more. In terms of moving their volumes, we are in discussions, but I won't promise it is going to lead to a big upsurge in the July quarter, not at least the current indications on that.

Nimit Shah: Lot of jewelers have been using these gold on lease for their hedging requirements, so how do you see this like because they consider this gold on lease as a better instrument for hedging rather than hedging on the exchange platform?

Mrugank Paranjape: So again Nimit that's a reality that the gold on lease is a better option because essentially somebody has their hedging and taking that cost somewhere. It is still being passed on to the final investors but I think people just prefer to take that because they are not directly doing their hedging themselves. So to the extent the gold on lease is available, a lot of jewelers take that benefit. I think we have heard this but I won't be in a position to comment in a very strong way that there is also a view within the jewelry segment that the gold on lease is a benefit which is available only to a select jewelers, does not comes through to everybody and therefore there is a view to have a relook at that product itself. But yes if you are availing gold on lease, it's something where you don't pay for it or at least you don't think to pay for it and therefore it something which competes with direct hedging.

Moderator: The next question is from the line of Anand Bavnani from Sameeksha Capital. Please go ahead.

Anand Bavnani: In January 2018 there were some draft regulations by RBI on hedging of commodity prices on overseas markets. Now if I have understood correctly there was a proposal to incentivize domestic hedging of commodities but RBI kind of hasn't done anything on that front. So how is the MCX taking this discussion forward, is there any room for us to have a regulatory mechanism whereby certain amount of hedging by bigger player happens in India to incentivize volumes?

Mrugank Paranjape: Our view is that we should not use a regulatory arbitrage to create more volumes for the market because at the end of day if you force an investor to part hedge in India and part hedge overseas which that investor is doing more by force and not really by choice, you are creating an inefficiency for the investor and as MCX, I don't think our objective is to really create an inconvenience for investor. So as much as we would have loved to have regulatory mandate for people to hedge domestically that's not something we are lobbying for. Our view is that in India at this point of time people just don't hedge enough both corporates of small as well as large size corporate and that is something we are moving towards. So if you ask me between asking regulators to create a mandatory cap for hedging in India versus taking the regulatory help and working on the LODR Regulation which came in two years back where SEBI required all listed companies to declare the amount of exposure they have on commodities and how much of that is hedged, we would work with

SEBI, with the CA Institute, with the CS Institute to see that that sort of a regulation is implemented with much more rigor and that sort of regulation is now followed by everybody so that people actually look at hedging as a very serious activity. That itself will lead to longer term growth for MCX, we are not keen on trying to create an artificial sort of cap which will force people because that is inefficient for an investor.

Anand Bavnnani: Secondly, this is a technical question, we have to mandatorily have a subsidiary for clearing, so how does it in general impact our financials and does it in any way affect the way profitability is being reported currently?

Mrugank Paranjape: This quarter result should give you a direct answer to that question because essentially what the CCL does is, it ring-fences capital and it creates a separate entity which does all the activities. We have consistently maintained to the last year that when this becomes operational we will move existing people who will go and to the clearing corporation, we will not be hiring any incremental staff because we don't need any, we do not need any incremental technology because our technology is completely capable and enabled. So cost - there will be no increase, when it comes to capital all that is going to happen is again some part of capital move from the parent to the subsidiary and get utilized for that. As you can see from the consolidated numbers as well as the breakup between standalone and CCL, we have already moved about 150 crores of capital into the CCL and yet as you would have seen it hasn't really resulted in any impact because again whatever is the free capital is used and deployed in the same way under the same norms and therefore it does not lead to any dilution of income as well at a consolidated level.

Anand Bavnnani: If you can help me understand, our other income, income from investment has been quite volatile, so last quarter it was 13.8 crores, this quarter its 24 point some crore. So what's the reason for this fluctuation? I understand bond yields reason for the last quarter itself but this quarter it has bounced back but bond yields have remained probably the same?

Mrugank Paranjape: Sanjay our CFO is here and maybe Sanjay can explain that better than me.

Sanjay Wadhwa: If you look at the bond yields, in the last quarter it actually jumped if you compare it with 1st October to 31st December, there was a very sharp rally. But if you compare 1st January to 31st March it has remained almost flat. So this is our number if the yields remain flat and this is what you will see quarter-on-quarter.

Anand Bavnnani: So there was mark-to-market losses which we didn't see and in the absence of mark-to-market losses that kind of yield....

Mrugank Paranjape: Yes, right.

Moderator: The next question is from the line of Milind Doshi, he's an individual investor. Please go ahead.

Milind Doshi: I have two questions; one is what is the strategy to grow volume because if I see the overall volumes have remained flat since past three years, so what would be our strategy to grow our volumes because otherwise the revenues are trending on the same path?

Mrugank Paranjape: In terms of volumes, there is a three-pronged strategy as far as MCX is concerned. The first is to get more participation and that participation comes through more members, through more active clients, through more members trading, all of this is both distribution and thus linked they have mentioned in multiple points today as well that we will continue to work towards integration of four members across commodities and equities, we will work towards getting the bank subsidiaries to now start distributing and we will work towards expanding the overall pie. The second way of actually getting more volumes is through better products and more products. Options will help us in the first half but we will continue to work with the regulators and make sure that we can get indices introduced hopefully within this financial year so that it adds to our product portfolio. Last but not the least and that is something which is taking time, but we believe will add in the longer term is a new class of investors which is institutional participation and that's the third way of increasing volumes. From an exchange perspective we make sure that the exchange focus remains on core activities such as building and expanding new products, going after more distribution, getting more clients on boarded because all of these will finally end up getting more volumes.

Milind Doshi: Any update on gold volumes I mean where do you see this headed, stabilized here?

Mrugank Paranjape: If you see our quarterly numbers, the gold volumes have contributed probably the least in terms of the growth that we have seen between the last quarter to this quarter. But overall gold itself has actually gone up slightly and I am seeing this trend now continue so between Q3 FY17-18 to Q4 gold volumes went up by about 700 crores, between the last quarter to just what we are seeing as a trend in April, the volumes are up for another 700 to 800 crores. So clearly gold is coming back which is very-very heartening thing for us and again at the cost of being repetitive gold options is something where once people trade, a lot people do have trading strategies which are delta hedging strategies as all of you would know the government has actually reduced the taxes which somebody has to pay when you exercise an option and convert that into the futures at the end of the expiry of the contract. That big reduction in tax will hopefully add to people employing such strategies and that in itself will also add to

the volumes in the underlying future. So to your point we believe there will be better sort of volumes coming in gold as we go forward.

Milind Doshi: Our employee cost has gone down quarter-on-quarter by around 1.1 crores, so any specific reason for that and whether this will be the cost for the next year?

Mrugank Paranjape: The employee cost went down because as we have mentioned in last couple of calls, we have introduced a variable pay-plan and as part of that plan we accrue for the number. On a full-year basis we realized that we are not going to really have the same profitability as last year because of which we reduced the accruals that we do for the variable pay. Having said that I think the number will be back to what it was in the first half of this previous year so we will start accruing again because we do hope to achieve the full numbers for this financial year.

Moderator: The next question is from the line of Abhijeet Das from Kotak Securities. Please go ahead.

Abhijeet Das: First question is on latency numbers, just wanted to check if you publish that number for MCX and how does that compare with other exchanges? And secondly on this, do you think it is a source of competitive advantage and can you link this with your proposition on co-location services, are you allowed to offer it right now and how do you see it shaping up?

Mrugank Paranjape: I think you had multiple parts to your question, let me just see if I get all of them. First and foremost latency numbers, we will be publishing them. Our intention is to do that somewhere by the end of first half. We will try and do it by the end of this quarter as well if possible. But you should see us publishing latency numbers somewhere between July to September this year. We will publish them on similar lines that you see them from the other exchanges so that fully answers your first question. In terms of monitoring, of course we monitor our latencies and I would like to assure you that the numbers that we see today are very-very comparable to what we see in other exchanges. Just to make sure that we all get latency correct, I think the way latency is and should be measured is it is the time taken for a execution to happen and it is measured from the time an order lands on what we generally refer to have the MUX of the exchange and comes back at the MUX of the exchange. Now this is what the latency is, globally we understand that this number is in the range of 150 to 200 microseconds and that's what you see in Indian exchanges as well. MCX will come with its numbers but we are very confident that we are in the same range. To the second question therefore on co-location I think it has 2 or 3 parts, first, the regulation today is very clear. Co-location is not allowed in commodity exchanges and therefore as and when other exchanges are allowed to offer commodity as a class we believe the same regulation will apply. Again what co-location does is not so much of a

difference to this part of the latency, what again I was mentioning as a member you have your servers which then send their orders which land up at the MUX of the exchange. Co-location really helps you to cut down this latency, today in our exchange like MCX when you are coming from outside our building and your orders are coming through in that route, you probably have a latency of 300 to 500 microseconds once you get co-location that number falls to 3 microseconds. But again to us it's a little academic discussion at this point of time given that co-location is not allowed in commodity exchanges just now.

Abhijeet Das: The second question was on institutional participation, you mentioned that there are some regulations around custody rules which needs to be changed for institutional participation to start kicking-in. So just wanted your thoughts on how the regulation changes are shaping up right now and what are the key sort of impediments in that particular regulation which is not allowing institutional participation right now.

Mrugank Paranjape: I think fairly complex question Abhijeet, happy to also take this bilaterally. But for the benefit of everybody I could just clarify it in 2 or 3 parts. From an institutional participation perspective today in the equity markets there is a specific exemption given that you do not need to appoint the custodian for the purpose of derivative participation and that you can use what are called clearing members directly. So if you are an institutional participant while it is mandatory to have a custodian for every other aspect of your asset class that mandatory requirement does not exist for equity derivatives. This specific exemption is not available for commodity derivatives yet, so there are two ways to go about it. I would assume you either change the custodial regulation to say that it is not mandatory to have a custodian for commodity derivatives or you say that you are allowed to do commodity derivatives but appoint the clearing member. So that's my understanding of where the difference exists, and that's what we're looking for from the regulator clarify and then enable institutional participation.

Abhijeet Das: So just to clarify, so a custodian within the whole value chain to what extent does it add to the costs or create the problem for institutional participation?

Mrugank Paranjape: I'm not the expert on custodial costs anymore. But from my past history I can tell you that if you take the gold ETFs which is relevant example because that is where we expect institutional participation come in quickly. If you are engaging a custodian today you probably pay a 20 to 40 basis points to your custodian in terms of your overall fees and that is something which is an incremental cost which you would probably not pay if you were not using a custodian.

Moderator: The next question is a follow up from the line of Anand Bavnani from Sameeksha Capital. Please go ahead.

Anand Bavnnani: You mentioned about this liquidity enhancement scheme for options, if you can just help us understand what is the current credit contracts in options as a percentage of futures contract and at what level post this liquidity enhancement scheme would you consider the scheme a success?

Mrugank Paranjape: I think currently in the first three days of the liquidity enhancement scheme we are already seeing the volumes touch about 500 crores of notional. When you are comparing a notional to notional number, our stated goal is that we want to achieve a notional to notional number of equivalence. So if the 1 kg gold futures if it is clocking 2000 crores, options should reach at least 1500 crores for us to think that it has reached critical mass. So those are the two numbers that I think would be important in terms of seeing how it is. From a timing perspective we are looking to do this for about six months because that's the time we believe it will need for us to make sure that the entire options portfolio is liquid enough.

Anand Bavnnani: On Index derivatives what stage of our planning for the eventual trading of the contract have you reached and how long would it still take for us to have the contract in place?

Mrugank Paranjape: From an exchange perspective we have been ready for quite some time. As you would know MCX has been publishing an index which is a multi-commodity index for more than 8 years. We also have sectoral indices which we have been publishing for 8 years. So if anybody wants to back test any data, etc., all of it is available for 8 years. Secondly, we did a tie up with Thomson Reuters which enables us a) to use their methodology, their governance and their distribution and b) allows us to reach institutional investors probably immediately as soon as the regulators allow index-based trading. The last point of course is when will that happen, we believe in terms of the overall discussions it's a fiscal 18-19 discussion which will fructify definitely within the next 12 months that's our view.

Anand Bavnnani: Any particular reason, it's taking a while for regulators to come back and kind of approve this?

Mrugank Paranjape: I would be the wrong person to answer for the regulator. But I would also say that the regulators have looked at introducing many of the changes in a serial manner and I think options being done in fiscal '17-18, it's logical to look at index in '18-19.

Moderator: We will take a last question from the line of Manav Parmar from Fortress Group. Please go ahead.

Manav Parmar: I'm looking at Slide #4 of your presentation where there is mentioned of gold ADTs, so initially in Q1 FY17 we used to do around 5000-6000 crores for a quarter. Even the percentage share I am seeing at 21% and 25% and gradually after demonetization even the absolute number as well as the share has decreased. So I was thinking maybe

demonetization is almost a year behind us and the organized share should have increased in gold.

Mrugank Paranjape: Couple of things, one) yes, the numbers demonstrate that bullion as a share of our business has reduced. We have said that as well in our call today couple of times. Demonetization was probably not the only event impacting the bullion industry that was followed by a long period of uncertainty on GST. That was followed by a long period of uncertainty on the revision in the PMLA norms, so the way we see it, a huge probably 12 months' period where the bullion industry was going through uncertainty and that's why the volumes remain depressed throughout calendar 2017. As we can see calendar 2018 is already turning out to be more promising. Like we mentioned we have seen roughly 700 crores increase in the first quarter of this year, calendar this year April is looking even slightly better. So both these together gives us the hope but also the confidence that bullion will probably increase more in the quarters to come.

Manav Parmar: Should I assume FY19 the absolute numbers to increase a bit?

Mrugank Paranjape: I'm not an analyst with any expertise on commodities. But yes, you have the numbers for you to make a guess.

Moderator: Thank you. Ladies and gentlemen that was the last question. I would now like to hand the conference over to Mr. Mrugank Paranjape for closing comments.

Mrugank Paranjape: Thanks everyone. from MCX perspective I would like to thank all of you, thank all our investors for their support. From MCX perspective we remain committed to some of the things that we have stated it and these are mainly in terms of making sure that we expand this market on the basis of distribution, on the basis of products and on the basis of participants and we absolutely remain committed and have a good control on our fixed cost so that we can deliver greater operating leverage to all of you. With that thank you again and we will be in touch as always.

Moderator: Thank you. On behalf of Multi Commodity Exchange of India Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.