

LETTER FROM THE CHAIRMAN



Dear Shareholders,

Since January 2020 in the wake of COVID-19 pandemic, uncertainty has been the underlying feature of the global market. The growth rate of the Indian economy which had moderated during the year 2019-20 was expected to improve in the succeeding financial year. However, any expectation/s of a recovery in the current financial year, has been stymied by the global spread of the COVID-19 pandemic and the measures taken to control it. The stellar performance of MCX during the year 2019-20 should be assessed in this background. The average daily turnover (single-side) of futures trading on MCX grew by about 26% annually to touch ₹32,424 crore in FY 2019-20. Importantly, in the options segment, the average daily notional turnover increased by about 60% to reach a level of ₹1,126 crore during this period. This performance was reflected in the increased market share of the Company which went up to 94.01% in futures trading and nearly 100% in case of options trading during the year 2019-20, in spite of increased competition from domestic exchanges.

The financial results of your Company mirrored its operational performance. During FY 2019-20, your Company's total income was ₹481.77 crore, up by 25 % when compared to ₹384.72 crore during the previous year. As a result, profit after tax increased by 53% over the previous year to reach a level of ₹208.52 crore in FY 2019-20. You would be happy to note that the net profit margin stood at 43%.

Sustaining this performance in near term is a challenging task, given the economic slowdown, which followed the steps taken both domestically and internationally to control the spread of COVID-19 pandemic. Restrictions in trading hours to 5 PM (during March 30 to April 22, 2020), constraints in warehousing and logistics operations, inability of brokers to operate with full staff, demand compression as industries were subjected to lockdown and erosion of positive sentiment presented and continue to pose a real threat to the Company's operational performance. To address these difficulties, your Company has introduced following measures to facilitate uninterrupted trading by members and clients. A dedicated team of employees has been stationed in the Exchange premises, and at the Disaster Recovery site, respectively to ensure that there is no disruption in trading or clearing. Besides, the Exchange has allowed members to operate Trader Work Station (TWS) from anywhere, waived TWS User ID charges for upto 5 User IDs, developed an online system for generating e-passes and relaxed compliance-related timelines. This has in practice materially reduced the inconvenience faced by stakeholders. We are optimistic that these measures will help the Company address the current challenge, meet the expectations of its stakeholders and maintain its exceptional performance in the future also.

Notwithstanding the uncertainty associated with such a tumultuous period, we see several opportunities that can enable your Company to maintain its growth trajectory. During the year 2019-20, MCX launched the MCX India Commodity (MCX iCOMDEX) Indices, adhering to SEBI guidelines and global best practices set by the International Organization of Securities Commissions (IOSCO). Permission has been received to launch futures contracts on two indices, namely the MCX iCOMDEX Bullion and Base Metal Indices. These are going to be launched shortly. After options with 'commodities' as underlying was permitted, your Company has also launched options on gold and silver, thereby expanding its bullion portfolio.

The year 2019-20 witnessed participation of mutual funds in commodity derivatives trade. A large Asset Management Company (AMC) launched India's first mutual fund scheme which includes exchange-traded commodity derivatives. Other AMCs are expected to launch schemes containing commodity derivatives. We are looking forward to trading by Eligible Foreign Entities (EFEs) on your Exchange, especially after the European Securities and Markets Authority (ESMA) granted recognition to MCXCCL as a third country Central Counter Party in December 2019. This will enable European participants to apply lower risk weightage towards their exposures to MCXCCL. EFEs among the European importers of Indian commodities can thus hedge their exposures in Indian commodity markets on MCX in a cost effective manner.

The year 2019-20 also marked completion of the successful conversion of the settlement type of the base metal futures contracts from 'Both Options' to 'Compulsory Delivery'. The Exchange and its clearing arm facilitated the delivery of 74,196 metric tonnes of base metals during the year. With the launch of deliverable contracts, your Company is now offering the benefit of a fair price discovery which reflects domestic fundamentals. This could lead to the emergence of a well-accepted reference price in the Indian metals market. In the bullion segment, your Company is exploring the possibility of expanding the MCX Good Delivery list to include Indian refineries that meet the criteria set by the Exchange. Thus, by setting standards, facilitating delivery and developing an ecosystem around commodities, the Exchange is making endeavours to set India price benchmarks for such commodities, in the bullion, base metals and agri-commodities segments.

Your Company intends to avail the opportunities that are unfolding, while simultaneously strengthening its capabilities to withstand and address the unique and difficult adaptive challenges posed by a wicked problem, like the COVID- 19 pandemic. I would like to assure the shareholders that the Board and the management is fully committed to take your Company on a sustained growth path to benefit all its stakeholders. As in the past, I seek your continued support to enable us convert the opportunities and capabilities into tangible outcomes to enable MCX retain its pole position in the commodity derivatives space and for taking your Company to greater heights of achievement.

Saurabh Chandra
Chairman
(DIN: 02726077)

July 25, 2020