# 'Post-demonetisation, base metals generated more volume than bullion'

## MCX's Paranjape discusses the impact of the note ban on the bourse and margin pressure

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Commodity exchanges are bouncing back from the impact of demonetisation. Trading volumes on MCX, the country's largest commodity exchange, was down post-demonetisation.

Mrugank Paranjape, Managing Director of MCX, spoke to Business Line on the way ahead. Excerpts:

THE BL INTERVIEW

**What is the impact of demonetisation on MCX?**

It is difficult to judge the impact of one event by analysing a set of data. If you look at our volumes, the ratio of business before demonetisation used to be 35 per cent bullion to 25 per cent of base metals, while energy was equivalent to bullion.

Post-demonetisation, bullion and base metals have sort of switched places. In fact, base metals are generating more volumes than bullion. The bullion industry in general has been impacted, and that has affected us. Volumes are down by about 20 per cent predominantly on account of the gold sector.

**Has your focus on the agriculture delivered results?**

Our core strength is metal and energy. However, from a longer term perspective, we are engaging with the agriculture sector. Of the 91 commodities approved for futures trading, the ones that have failed to attract investors' interest are more in the agriculture sector. There is enough incremental value in existing products. The value chain in each of the agriculture products we have a presence in, is as rich as bullion. We have four agriculture contracts that have done well. Obviously, in these businesses, success comes slow. We are waiting for SEBI's approval for launching two or three new contracts.

**Are exchange business margins under stress? Will a cut in transaction charges help?**

We have done a re-pricing that helped stabilise our overall revenues at the previous year's level. We will not have too much of margin pressure yet. But, if volumes do not pick up in next two or three quarters, we might see pressure.

Just lowering transaction charges alone will not attract liquidity. Of course, We will make it attractive to the extent we can, but that cannot be a determining factor.

**Will cost go up with your own clearing house?**

The clearing corporation will be a wholly-owned subsidiary in place. We have to capitalise on it and seek SEBI's approval. It is a necessary infrastructure for institutional participation. The clearing corporation will not have much impact on our overall earnings because it is just moving capital from one entity to another. The money is available with us. We have all the infrastructure and the people needed for the clearing house. We have to just shift them to the new entity. The incremental expenditure will be very low.



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**MRUGANK PARANJAPE**
Managing Director of MCX

**Will launch of options be delayed?**

It is very difficult to say, because we were expecting it to be approved at the last SEBI board meeting. It is now understood that SEBI needs to address certain legal aspects. It is difficult to predict how much time it will take. But we are absolutely prepared for it. We will file for approval after SEBI finalises the guidelines.

**Is there any progress in your plans to launch spot exchange?**

Given the past history, we have decided not to venture into any business that is not regulated.

The Budget has evinced an interest to arrive at a convergence of spot and futures market. From that perspective, we are keen that spot exchange should take off. We are also keen to send our views once a committee is formed. Our interest is in bullion, base metals and cotton.

**What is the progress in setting up a repository with CDSL?**

CDSL has got in principle approval from WDRA (Warehouse Development and Regulatory Authority) to set up repository. We will have up to 24 per cent stake in the subsidiary to be floated by CDSL to create the repository which will enable issuance of electronic negotiable warehouse receipts.

**Will you launch trading in diamonds in tie-up Singapore Diamond Investment Exchange?**

At present, there is no platform for trading in diamond. Given the large chunk of bullion traders we are catering to, this will be a very good addition to the value chain. If SEBI allows futures trading in diamonds, we will definitely look to tap in to Singapore exchange's expertise.

**SEBI has ordered a special audit on your technology?**

It is an audit related to 2006-13. We have appointed an audit firm and they are working under the terms of reference set by SEBI.

**Will you consider having your own software?**

Towards the end of the agreement with FTIL we will consider having our own software or another vendor to lower cost.