

ACCELERATING
THE PACE OF CHANGE

ANNUAL REPORT 2014-15

Accelerating the pace of change

"Change will not come if we wait for some other person or some other time. We are the ones we've been waiting for. We are the change that we seek."

- Barack Obama, U. S. President

Creating change by challenging the status quo has always been the bedrock of human civilization and its advancement. It is in creating, adopting, and propagating change that individuals and societies have crossed one milestone after another. The evolution of market as an institution, for instance, has witnessed epoch-making changes from the time of the barter system to modern algorithm-based trading. Each wave of change has brought with it irreversible shifts that have had a deep impact on the economic and social lives of individuals.

Multi Commodity Exchange of India (MCX) is the result of such a change. When the Union government in 2002 allowed the setting up of national multi commodity derivative exchanges, MCX was one of the first to be created. Leveraging on innovative product design, sound knowledge, and cutting-edge technology, MCX grew at a pace unprecedented in any other industry. The exchange soon became an undisputed leader in India and ranked among top 10 commodity exchanges in the world. In being so, MCX has been able to bring about perceptible change in India's commodity economy as also helped in creating and building an efficient and modern commodity ecosystem.

With the evolution of the market, MCX too evolved and yet continued to be the agent of change for its stakeholders. Whether in meeting the price risks of hedgers, or in raising its own corporate governance standards, the exchange has been at the forefront of change in the industry. Some external factors did stymie its persistent growth in recent years, but the institution's resilience weathered the storm, and it continues to be the exemplar of change that it has always been.

Today, new opportunities beckon MCX. The opportunities would arise primarily from the recent legislative changes that would lead to the merger of the Forward Markets Commission (FMC) and the Securities and Exchange Board of India (SEBI), and the exchange is well poised to make the most of these opportunities. In the new dispensation, MCX can meet the risk management needs of a much larger section of stakeholders by being able to offer different types of derivative products under a strong regulatory structure, and thereby remain entrenched in its unassailable leadership position. Given the enabling environment that the forthcoming legal reorganization is sure to create, the trajectory of change in India's commodity market can be distinctly fast-paced.

MCX shall be a competent enabler in accelerating the pace of such change. By bringing many more stakeholders under its ambit, providing appropriate risk management solutions, and expanding and strengthening the ecosystem which supports the commodity derivatives market, the exchange shall continue to be an influential agent in effecting this change. In doing so, it shall be able to not just traverse a higher and faster growth path, but also emerge as a powerful catalyst in bringing about socio-economic changes in India's commodity economy, and thereby facilitate further rise of India in the global commodity market.

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CORPORATE INFORMATION

Board of Directors (as on August 26, 2015)

Mr. Satyananda Mishra, IAS (Retd.)	Chairman, Independent Director, FMC Approved
Mr. G. Anantharaman, IRS (Retd.)	Independent Director, FMC Approved
Mr. Dinesh Kumar Mehrotra	Independent Director, FMC Nominated
Ms. Pravin Tripathi	Independent Director, FMC Nominated
Mr. Arun Kumar Nanda	Independent Director, FMC Nominated
Mr. Subrata Kumar Mitra	Independent Director, FMC Nominated
Dr. Govinda Rao Marapalli	Independent Director, FMC Approved
Mr. R. Amalorpavanathan	Shareholder Director
Mr. Ajai Kumar	Shareholder Director
Mr. M. A. K. Prabhu	Shareholder Director
Mr. Parveen Kumar Singhal	Joint Managing Director

Company Secretary & Chief Compliance Officer - Mr. Ajay Puri

Statutory Auditors - M/s. Shah Gupta & Co., Chartered Accountants

Bankers (including clearing banks)

Axis Bank	Bank of India	Canara Bank
Citi Bank	Corporation Bank	Development Credit Bank
HDFC Bank	ICICI Bank	IndusInd Bank
Kotak Mahindra Bank	Punjab National Bank	State Bank of India
Tamilnad Mercantile Bank	Union Bank of India	Yes Bank

Registrar and Transfer Agent -

Karvy Computershare Private Limited
Karvy Selenium Tower B,
Plot 31-32, Gachibowli,
Financial District, Nanakramguda,
Serilingampally,
Hyderabad,
Telangana - 500 032, India.
Ph: 040-67162222,
Fax: 040-23001153
Toll Free no.: 1800-345-4001
Email: einward.ris@karvy.com

Registered Office -

Multi Commodity Exchange of India Limited
CIN: L51909MH2002PLC135594
Exchange Square, Chakala,
Suren Road, Andheri (East),
Mumbai-400 093, India.
Tel: +91 22 6731 8888
Fax: +91 22 6649 4151
Website: www.mcxindia.com
Email id: info@mcxindia.com

PROFILES OF THE BOARD OF DIRECTORS



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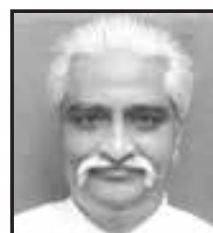
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01 **MR. SATYANANDA MISHRA, IAS (Retd.), Chairman, Independent Director, FMC Approved**

- Former Chief Information Commissioner, Government of India
- Handled various assignments in different capacities in Government of India viz. Secretary, Department of Personnel & Training, Establishment Officer, Principal Secretary, Public Works Department, etc.

02 **MR. G. ANANTHARAMAN, IRS (Retd.), Independent Director, FMC Approved**

- Presently, Special Advisor to the Chairman, Tata Realty & Infrastructure Limited
- Former Chief Commissioner of Income Tax, Mumbai
- Former Whole-time Member of SEBI

03 **MR. DINESH KUMAR MEHROTRA, Independent Director, FMC Nominated**

- Former Chairman, Life Insurance Corporation
- Former Convener & Member Secretary of Expert Group Committee formed by the Ministry of Finance, Government of India

04 MS. PRAVIN TRIPATHI, *Independent Director, FMC Nominated*

- Former Deputy Comptroller & Auditor General of India & Chairperson Audit Board
- Former Member of Competition Appellate Tribunal and Airport Economic Regulatory Authority Appellate Tribunal

05 MR. ARUN KUMAR NANDA, *Independent Director, FMC Nominated*

- Presently, Chairman of Mahindra Holidays & Resorts (I) Ltd. and Mahindra Lifespace Developers Ltd. and Director of Holiday Club Resorts Oy, Finland
- Over 40 years of extensive experience with Mahindra Group

06 MR. SUBRATA K. MITRA, *Independent Director, FMC Nominated*

- Currently on the Board of several reputed companies as an Independent Director & Advisor
- Previously associated with Aditya Birla Group, GIC Mutual Fund, Standard Chartered & AMEX in various capacities
- Over 39 years of extensive management experience in Financial Sector

07 DR. GOVINDA RAO MARAPALLI, *Independent Director, FMC Approved*

- Presently, Emeritus Professor at National Institute of Public Finance and policy (NIPFP)
- Former Member - 14th Finance Commission & Director of NIPFP
- Former Member - Economic Advisory Council to the Prime Minister

08 MR. R. AMALORPAVANATHAN, *Shareholder Director*

- Presently, Deputy Managing Director, the National Bank for Agriculture and Rural Development (NABARD)
- Experience in Strategic Business Planning, Business Process Reengineering, Treasury and Fund Management, etc.

09 MR. AJAI KUMAR, *Shareholder Director*

- Presently, Senior Strategic Advisor - Retail and Business Banking, Yes Bank Ltd.
- Former Chairman & Managing Director, Corporation Bank
- 40 years of experience in Public Sector Banking Industry holding eminent leadership positions in India and overseas

10 MR. M. A. K. PRABHU, *Shareholder Director*

- Presently, Director (Integrated Treasury Wing), Canara Bank Securities Ltd.
- Working with Canara Bank since 2001 in various senior capacities

11 MR. PARVEEN KUMAR SINGHAL, *Joint Managing Director, MCX*

- Former Division chief- SEBI
- Former Director- FMC
- Former Executive Director & CEO - Delhi Stock Exchange Limited

LETTER FROM THE CHAIRMAN



Dear Shareholders,

The year 2014-15 was a year of rejuvenation and regeneration for your Company, Multi Commodity Exchange of India (MCX). The Company spent much of the year in resolving many regulatory issues, which were the fallouts of some not-so-happy developments of the previous year, streamlining some important agreements and strengthening its governance structure. It proactively strove to retain its pre-eminence not only in volumetric and financial terms, but also in maintaining the mindshare and trust of all its stakeholders.

First, a few words about the educational efforts. 411 awareness programmes were conducted to educate current and potential hedgers on the need and benefits of using the commodity futures market for price risk management. In doing so, emphasis was placed on educating the smaller stakeholders, such as the Small and Medium Enterprises (SME) sector, exposed to risks in bullion, metal, and energy prices. Your Company also tied up with various universities and educational institutions, besides undertaking capacity building programmes, for promoting financial literacy and spreading awareness about the commodity ecosystem as well as about futures trades on regulated exchanges. Seminars on compliance requirements in the commodity derivatives markets were also conducted by your Company, which were attended by representatives of the Exchange's members. To make its efforts at knowledge dissemination more effective, your Company launched its flagship 'Multi Commodity Exchange Certified Commodity Professional' (MCCP) certification exam in Hindi, and thus attempted to remove the language barrier in awareness creation.

It is a testimony to such efforts that your Company was honoured with the 'Exchange of the Year for Investors Education and Awareness Award' by the Commodity Participants Association of India (CPAI) on May 30, 2015.

During the year, your Company also commenced futures trading in Crude Oil Mini contract, thus meeting the growing demand from the industry, especially the SME segment, and enabling them to hedge their energy price risk.

The year gone by: MCX's performance

The continued trust bestowed upon the Company by all stakeholders helped your Company to successfully tide over the rough seas of 2013-14 and emerge on a stronger footing. The end results were quite tangible and encouraging. MCX's average daily turnover that stood at ₹ 18,616 crore (₹ 186.16 billion) in March 2014 jumped to ₹ 21,123 crore (₹ 211.23 billion) in March 2015. For 2014-15, your Company's average daily turnover was ₹ 20,328 crore (₹ 203.28 billion). The ever-growing trust of the market participants saw an increasing market share of MCX—it stood at 77.1 per cent in March 2014 and jumped to 88.8 per cent in March 2015. For the full year 2014-15, your Company's market share was 84.04 per cent. MCX also remained India's leading bullion, base metal, and energy futures player during 2014-15 with almost 100% market share in each of these segments.

All this shows that your Company has weathered the 2013-14 storm, marked by waning trading interests, dwindling trading volumes, and adverse market sentiments. This was caused by the dual effects of the Commodity Transaction Tax (CTT) and the payment crisis at a spot exchange.

During the fiscal 2014-15, your Company's total income from operations was ₹ 2,224.86 million and other income ₹ 1,097.85 million on a stand-alone basis, while the net profit after tax was ₹ 1,250.53 million. Your Company's balance sheet with zero debt and a healthy net worth (including SGF) of ₹ 13,892.93 million continues to point to its strong fundamentals.

A promising future

The times ahead appear to hold a lot of promise for your Company. The promise arises primarily from the soon-to-be-effected structural changes in the regulation of India's commodity futures market, which your Company has been

advocating for a long time. Following the enactment of the Finance Act, 2015, the Forward Markets Commission (FMC) would merge with the Securities and Exchange Board of India (SEBI). Similarly, the Securities Contract (Regulation) Act, 1956, would stand amended to include commodity derivatives too under this Act while the Forward Contract (Regulation) Act, 1952, stands repealed. Placing the commodity derivatives market under the powerful regulatory oversight of the SEBI is a very positive step, which could prove to be a game-changer for the commodity derivatives market. The SEBI has penal powers to raid, search, and impose punitive action against wrong-doers, which would increase integrity of this market and the trust of current and potential participants. Besides, faster market development could be anticipated when unregulated or dabba market gets effectively curbed with the exercise of stronger regulatory powers of the SEBI. The size of the illegal dabba commodity market currently is multiple times that of the regulated commodity derivatives market, and once such illegal markets are curbed, some of the volumes of these markets could surely flow to regulated platforms, such as MCX.

Besides, when the commodity derivatives market comes under the purview of a strong regulator, many institutional entities in Indian financial markets, such as banks, mutual funds, and insurers, would hopefully be allowed to participate in this market by their respective sectoral regulators. Recently, the Reserve Bank of India has advised all scheduled commercial banks to encourage their agri-borrowers to hedge their commodity price risks. This advisory will surely popularize the use of exchange-traded derivatives. For the same rationale and to make the commodity derivatives market more inclusive, your Company believes that banks in India need to be permitted to directly participate in this market.

Wider institutional participation would not only enhance the depth and liquidity of the market, but also support the inclusion of several hitherto-excluded-sections in this market.

Another significant outcome of the legislative changes is the possibility of introduction of new derivative products. Derivative products like options and indices in commodities, which have long been in demand in India but were not permitted under the existing statutes, could now be introduced subject to regulatory approval. Your Company has long been advocating for legislative changes which would allow it to offer several types of derivative products to meet the specific risk-management needs of its stakeholders. This appears possible now and your Company is committed to expanding its product basket at the opportune time, subject to regulatory approval.

Thus, the merger of the FMC with the SEBI and removal of legal hurdles on offering different types of derivative products could open new vistas for your Company and take it on a higher growth trajectory in the times to come. At the same time, there are some threats that might arise from these legislative changes. For instance, once all exchange platforms in India are brought under a uniform statute, it could be possible that other exchange platforms, which were not able to offer commodity derivatives till now, would start offering commodity derivatives too, subject to regulatory approval. Other roadblocks that could arise in the future, include the imposition or increase in Central or State Government taxes on commodity derivative transactions. Your Company is fully committed to meet such challenges to its growth, if and when they occur.

Accelerating the pace of change

As the theme of this Annual Report suggests, 2014-15 and thereafter would be one in which a slew of opportunities could open up. These opportunities would enable your Company to leverage on its past achievements and current favourable circumstances to experience sustainable and inclusive growth, thereby accelerating the pace of its change. Your Company believes that a liberalized market created by the emerging regulatory framework could not only fulfil the requirements of price discovery and risk management effectively, but also help develop a robust ecosystem supporting this market. As the benefits percolate to a wider base of stakeholders, the institution of commodity derivatives market would help all economic entities, particularly the small and medium enterprises, become competitive in a globalizing economy. In being an enabler in bringing about this change, your Company could not only promote market inclusion of small stakeholders, but also be an effective channel in fulfilling the government's 'Make in India' initiative.

Your Company believes that risk management is only another name for insurance, an economic activity the Government of India is placing considerable importance upon. Just as insurance schemes, such as the Pradhan Mantri Jeevan Jyoti Bima Yojana and Pradhan Mantri Suraksha Bima Yojana, enable citizens to manage their life risks, exchange-traded

commodity derivatives too serve a similar function by helping various entities manage their commodity price risks. By facilitating to do so, your Company is complementing the efforts of the government in propagating and educating citizens on the benefits of economic insurance through hedging. Similarly, by enabling market inclusion of small stakeholders, your Company would be complementing financial inclusion initiatives, such as the Government of India's Jan Dhan Yojana and similar efforts of the Reserve Bank of India.

The way forward

India is one of the largest consumers and producers in several commodities and therefore has the potential of emerging as the regional, if not global, centre for commodity derivatives trade. As the largest exchange with an undisputed leadership position, your Company would be uniquely placed to reap the aforementioned opportunities of growth and expansion as and when the environment permitted. Further, as the Indian economy accelerates its growth cycle, it would place a lot of demand on commodities, and by extension, for risk management solutions, another source of opportunity for your Company. With the strengthening of the regulatory framework and availability of a wide array of products, the Indian commodity derivatives market could become much more accessible and inclusive than it presently is. As the commodity derivatives market becomes more accessible, availability of market information would increase and awareness on the benefits of hedging become more widespread. Besides, a stronger regulatory structure would encourage India's corporate sector to hedge their risks on domestic commodity exchanges instead of using the foreign ones. This, together with the participation of financial institutions, such as banks (when allowed) and small enterprises, would increase liquidity and depth in the market, and thereby improve the price discovery and hedging effectiveness of this market. In such a scenario, your Company could play a critical role in the inclusion of all stakeholders and strengthening of the commodity value chain itself.

I take this opportunity to record your Company's gratitude to the FMC for guiding it throughout to tide over its many problems. But for the FMC's steadfast supervision, it might not have been possible to overcome the problems your Company confronted. The officers and employees of your Company have worked hard and with a lot of optimism, and I thank them on this occasion and call upon them to work harder in future in the interest of everyone.

The members, participants, brokers, authorised persons and all those who trade on your Exchange are our valuable partners and we owe them a lot of gratitude. In the year gone by, they remained with the Exchange and helped it to occupy the leading position throughout.

Last, but not the least, you, the shareholders have stood like a rock with your Company, and I express the gratitude of the Board of Directors and the management to you for this support and hope that you will continue to support the Company in the times to come.

Thank you all for your patience.

Satyananda Mishra, IAS (Retd.)

Chairman