

# Investment Products in Commodities: A New Paradigm



## THE NEW FACE OF COMMODITY MARKET

GOLD 16700 SILVER 25900 ZINC 105 PLATINUM 2250 GOLD 16700 SILVER 25900 ZINC 105 PLATINUM 2250 GOLD 16700 SILVER 25900 ZINC 105 PLATINUM 2250

# Commodity Market: In perspective

- ❑ Growth has been phenomenal, but instruments are limited
- ❑ Current structure provides instruments for :
  - Trading
  - Hedging/ Price Risk Management
  - Jobbing
  - Speculation
  - Cash Future Arbitrage
  - No investment product available for retail and long term investors like equity( Free from daily MTM and roll over at the time of maturity)
- ❑ Mass participation of retail investors in commodities is still absent, because of :
  - Futures contracts: High Risk, Leveraged Product
  - Investment in Physical Commodities: Complexity, absence of smooth exit, VAT compliance, Good for commodity traders only
  - ETF: High cost of trade and holding due to AMC charges
- ❑ ***Therefore, investment products in commodities are required, which can address all these issues***

# National Spot Exchange: Launched E-Series

- ❑ Realizing its need, NSEL has designed the product for trade and investment in commodity in the electronic form called e-Series.
- ❑ e-Series is available for trading with all features and convenience of equity market scrip and operation.
- ❑ Only non perishable commodities will be made available for trading in demat form.
- ❑ NSDL and CDSL act as the Depository for holding such commodity in the electronic form. While the commodity in physical form is kept in the designated vault/storage/warehouse.
- ❑ Currently NSEL has launched 5 commodities with their trading unit as under:
  - e-Gold : 1 gram
  - e-Silver : 100 grams
  - e-Copper, e-Zinc, e-Lead: 1 Kg

# What are E-series products ?

- E-series is an unique investment products launched by National Spot Exchange for enabling the small and retail investors to park their funds in commodities in smaller denominations.
- The investors hold the commodity units such as Gold, Silver, Copper Zinc and Lead in smaller denominations in the demat account.
- Demat of commodity implies storage of commodities in Exchange designated vaults/ warehouses and keeping record of its ownership in electronic form.

# E-series Contract Information

- ☐ **Duration of contract** : Single day.
- ☐ **Settlement cycle**: T + 2
- ☐ **Trading timing**: 10:00 AM to 11:30 PM (Mondays through Fridays)
- ☐ **Commodity pay in, commodity pay out, Funds pay in, Funds Pay out** : T + 2
- ✓ Settlement of demat Gold/Silver/copper/ Zinc/ Lead ICIN through the CM-Pool account of members as done in stock exchanges.
- ✓ Settlement in demat only, no physical delivery in the contract
- ✓ Clients must open beneficiary account before trading in these instruments
- ✓ Clients can accumulate commodities demat by buying in smaller denominations periodically and exchange it with physical commodity whenever required.
- ✓ No custodial charges for storing commodities in demat form.

# Essentials of e-Series Product

- ❑ **Designated vault for Bullion:** Brinks Arya
- ❑ **Registrar and Transfer Agent (RTA):** Karvy
- ❑ **Currently empanelled Depository participants (DP):**
  - 133 DPs are empanelled: Religare Securities, Globe Capital, Goldmine, Karvy, SHCIL, SMC and IL&FS.
  - A number of other DPs are in process
- ❑ Demat Contracts function just like cash segment in equities.
- ❑ Retail investors can trade and invest in the instrument.
- ❑ Intra day trading is allowed, but net position at end of day must result into delivery on T + 2 in demat form
- ❑ For holding beneficiary / pool account or buying / selling demat units, investors/ brokers do not need VAT number;
- ❑ Authorized Dealers appointed by NSEL take care of all such compliance
- ❑ At the time of dematerialization and rematerialization of units, Authorized dealer comply with all legal requirements and give delivery of gold bars/ coins with sale invoice in the case of rematerialization. .

# Opportunities and Road ahead

- ❑ 20 commodities under e-series during calendar year 2011, creating a vibrant cash segment in commodities
  - Platinum, steel, nickel, aluminum, etc.
  - Some non perishable agri-commodities : Black pepper, castor, etc.
- ❑ ODIN, ODIN diet, net.net., etc. ( all products of FTIL) available free of cost for NSEL members
- ❑ SIP ( systematic investment plan): software available free of cost
- ❑ E trader: software available free of cost
- ❑ Fungibility of e-gold with jewellery in pipeline
- ❑ Empowering members by organizing awareness programs for their clients
- ❑ There is a pull factor asking for e gold and e silver, so it is easy to promote business

# Product offering by NSEL

**E-Series (e-Gold, e-Silver, e-Copper, e-Zinc & e-Lead) is an innovative product-line for those who look at commodities as an asset class**

Agricultural	Non Agricultural	E-Series
<b>Cereals:</b> Paddy, Wheat, Bajra	<b>Bullion:</b> Gold & Silver ( Bars & Coins)	e- Gold
<b>Pulses:</b> Bengal Gram, Green Gram, Black Gram, Pigeon Peas, Yellow Peas etc.		e-Silver
		e-Copper
<b>Edible Oils &amp; Oilseeds:</b> Soybean, Castor Seed, Mustard Seed etc.	<b>Steel:</b> Ingots and Billets, Pig iron, Zinc Ingots	e-Zinc
Cotton, Sugar and Black Pepper		e-Lead

# Scope of business

- ❑ A huge market is in making, be a part of it and participate in this growth story.
- ❑ Scope of business as DP:
  - You can open 1 lac beneficiary accounts over a period of next 1 year generating a recurring income of at least Rs. 5-10 crores a year.
- ❑ Scope of business as Broking House:
  - You can enroll at least 1 lakh clients over a period of next 1 year and generate brokerage income of at least Rs. 10-20 crores a year.

# Size of the Industry: Present Size

- ❑ NSEL e series: Daily turnover Rs. 1000 crores
- ❑ Double side turnover : Rs. 2000 crores
- ❑ Brokerage : 0.2 % on the average
- ❑ Daily brokerage income of the industry : Rs. 4 crore
- ❑ Yearly brokerage income of the industry: Rs. 800 crores
- ❑ Moreover, there is DP related income and other incidental incomes
- ❑ Retail broking houses can make capture good business income out of this growing market

# Size of the Industry: Future Potential

- ❑ In equity, cash segment is around 15 % of F & O
- ❑ By this logic, NSEL e series should do Rs. 7-8 thousand crores per day within next 2-3 years( 15 % of Commodity futures turnover)
- ❑ In stock market, there are around 1 crore unique demat accounts
- ❑ In India, 20-25 crore people hold gold and silver in one form or the other
- ❑ Hence, scope for demat account for holding e-gold and e silver can be 25 times of stock market
- ❑ This business potential can be captured by leading DPs
- ❑ The total market cap of stock market is Rs 58 lakh crores.
- ❑ Investors should diversify 20-25 % of their portfolio into commodities
- ❑ By this logic, Rs. 14.5 lakh crores investment can come into commodities.

# Why should the general mass prefer demat holding instead of physical holding ?

- ❑ It's like comparing keeping cash at home Vs. maintaining a savings bank account.
- ❑ Invest in e-Series gives the comfort of easy liquidity, reach, safety, and low cost.
- ❑ Provides transparent pricing and seamless entry and exit to investors during the trading hours i.e. 10 am to 11.30 pm.
- ❑ There is no purity issue and storage risk, if invested through E-series.
- ❑ E-series products have standardized selling and buying prices across the country.
- ❑ No storage charge for investors for accumulating gold, silver and copper in the demat account .

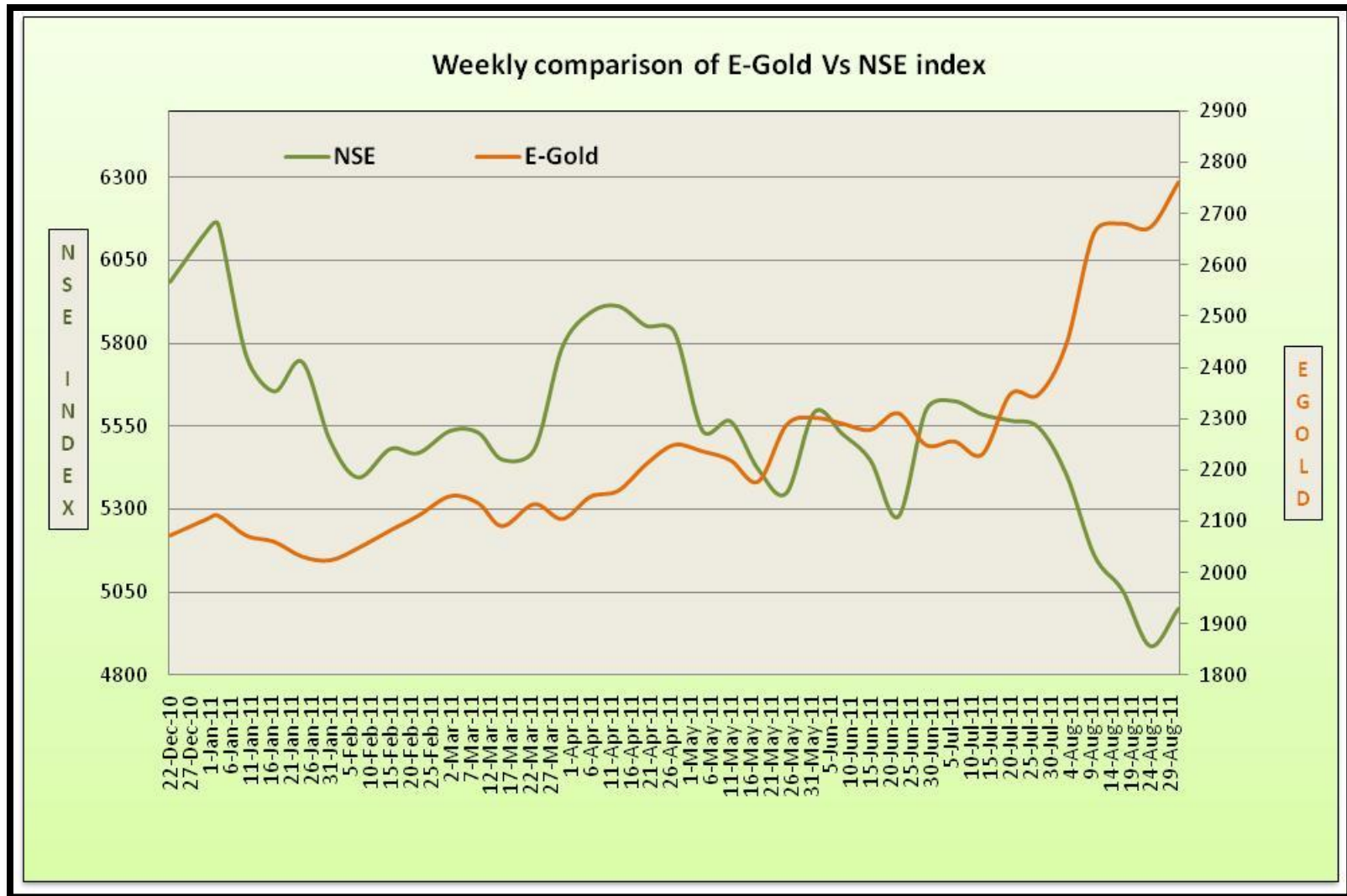
# How to open account to invest in E-series?

**Retail Investors** who intend to trade / invest in E Series products have to register with any of the members of NSEL. The process is exactly similar to client registration process for trading in the equity market.

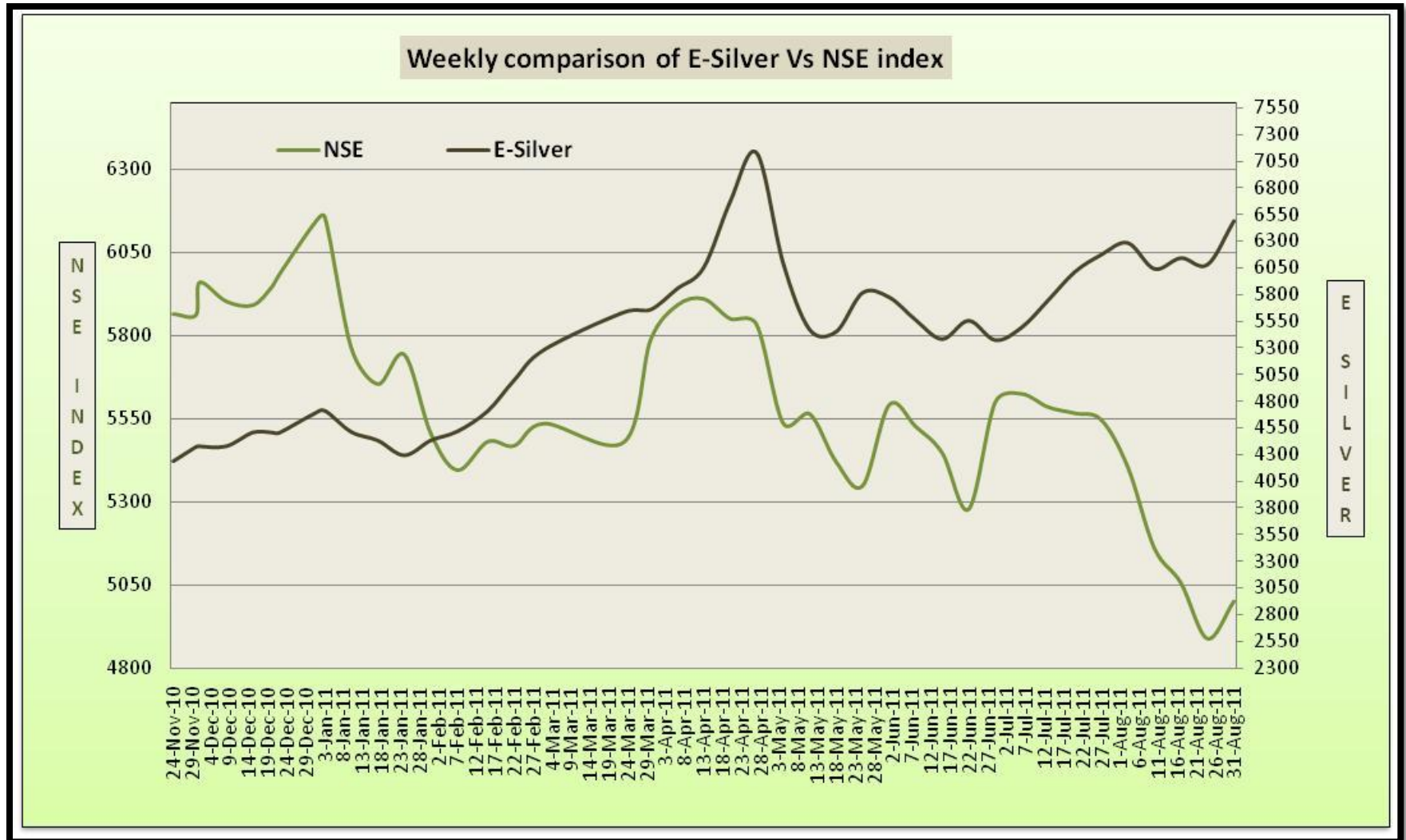
Investment can be initiated in two simple steps:

- 1. Opening trading account** - Retail investors required to register with one of the members of NSEL. Lists of the members who are entitled for e-series trading are available on the Exchange website.
- 2. Opening of demat account-** Retail investors are required to open their beneficiary account with NSEL empanelled DPs to hold the e-Series units.

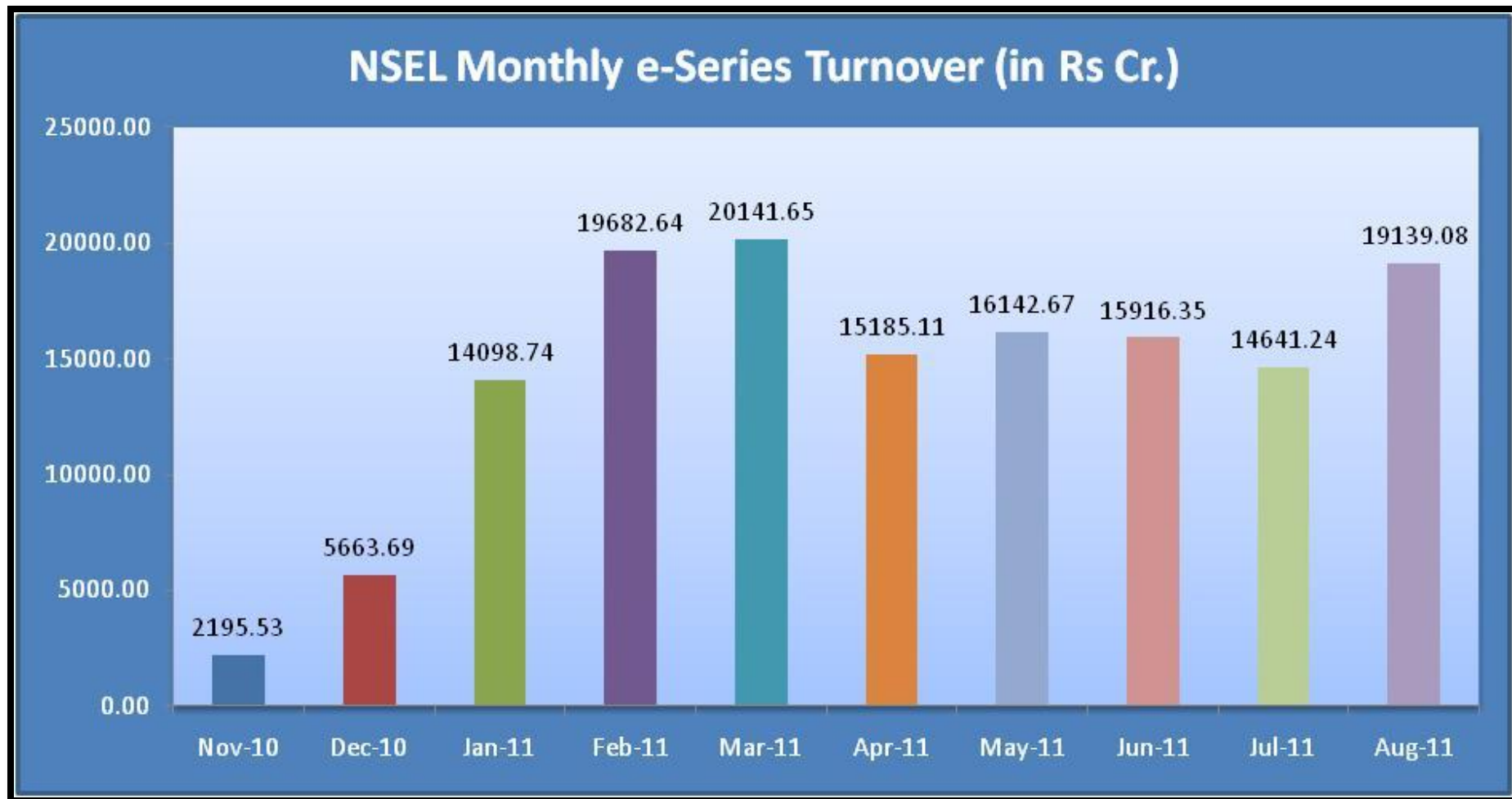
# e-Gold Performance – A Comparison of Benchmark E-Gold Price vs. NSE Index



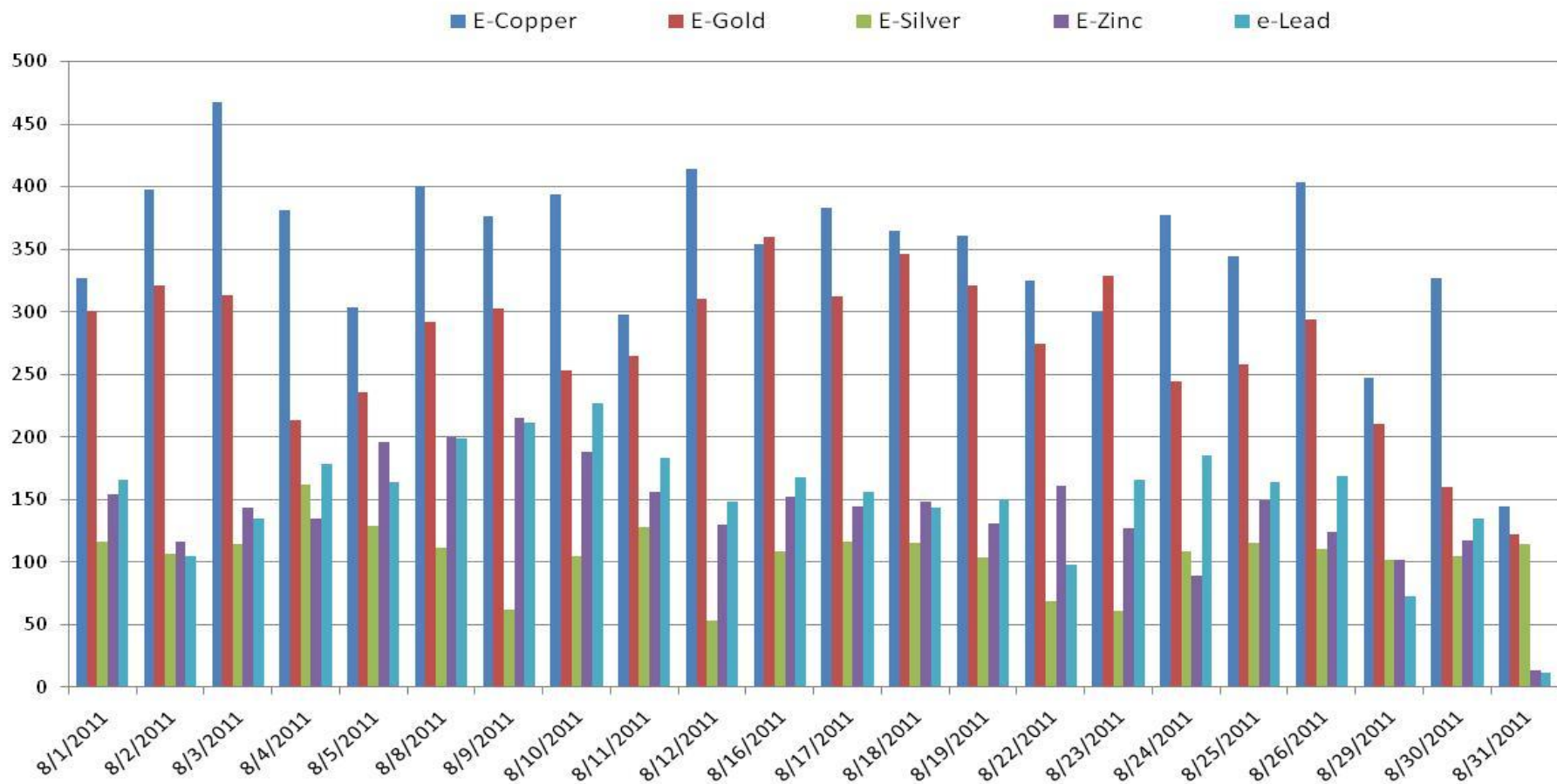
# e-Silver Performance – A Comparison of Benchmark E-Silver vs. NSE Index



# Monthly Turnover (Rs Cr.) : e-Series



# Daily turnover (Rs Cr.) in Aug 2011: e-Series



# e-Series investment return and ETF comparison

Data as on 31<sup>st</sup> Aug, 2011

E-Series	Return since launch* (%)	One year return (%)
e-Gold	62.51	43.24
e-Silver	132.95	107.95
e-Copper	13.35	-

Launch Date:\* e-gold: 17<sup>th</sup> March, 2010 ; e-Silver: 21<sup>st</sup> April, 2010, e-Copper: 16<sup>th</sup> Nov, 2010 ,

## Returns since launch E-Gold vs. Gold ETFs

	NSEL E-GOLD*	GOLDBEES ETF	SBIGETS ETF
Mar 17, 2010 (Launch Date*) (₹/Unit)	1700.80	1648.40	1680.00
Aug 30, 2011 (Previous Close) (₹/Unit)	2768.00	2591.65	2649.75
Profit in ₹/Unit	1067.20	943.25	969.75
Return %	62.75	57.22	57.72

# How to participate

- ☐ Membership/ client registration
- ☐ Opening of CM Pool Account by NSEL members.
- ☐ Clients are entitled to sell and deliver the demat commodity by issuing delivery instruction slip (DIS) to transfer their holding into respective member's pool account in the respective settlement number.
- ☐ Similarly, pay-out is credited in respective members' pool account and the member in turn transfers the same to the clients/ beneficiary account.
- ☐ Clients are required to open only one demat account, either with CDSL or with NSDL
- ☐ Members are required to have two pool accounts, both with CDSL and NSDL

# Fee & Deposit Structure for Membership

Categories →	TCM (In Rs.)	ITCM (In Rs.)	PCM (In Rs.)	TM (In Rs.)
<b>Membership Admission Fee</b> (Payable at the time of submission of application form)	10 lac	15 Lac	15 Lac	5.0 lac
<b>Application Processing fee</b> (Payable at the time of submission of application form)	5,000/-	5,000/-	5,000/-	5,000/-
<b>Interest free Security Deposit</b> (50% amount by way of demand draft* and 50% by way of fixed deposit receipt or bank guarantee.)	10 lac	30 Lac	30 Lac	PCM/ITCM shall suitably collect deposits from TM
<b>Annual Subscription Fee*</b> (Payable within 15 days of admission as a member)	25,000/-	50,000/-	50,000/-	10,000/-

\* The security deposit and annual subscription fee may be remitted by way of issuing demand draft favoring 'National Spot Exchange Ltd' payable at Mumbai.

# Comparison of Investment in Gold through different modes

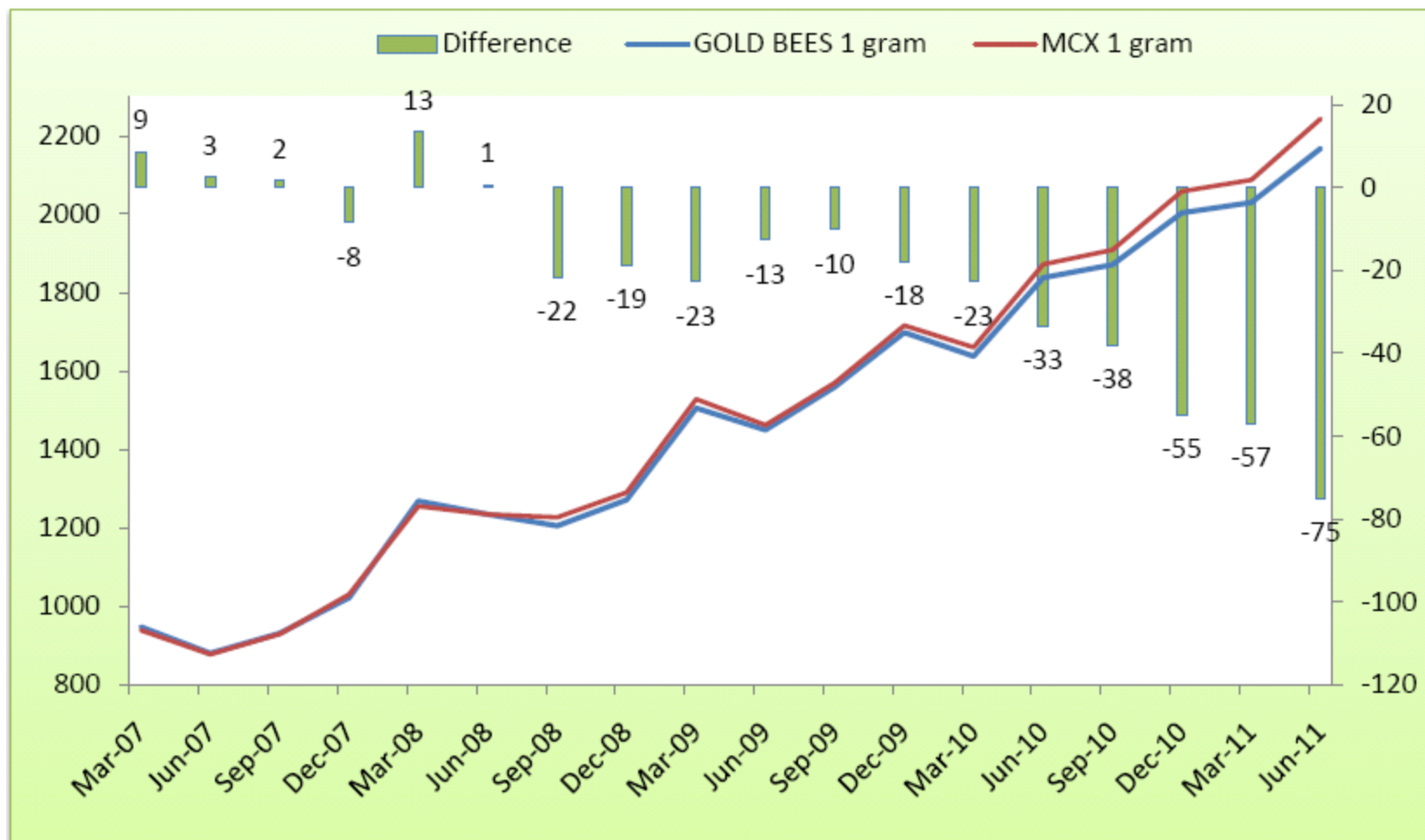
Parameter	Jeweler	Bank (bars / coins)	Gold ETF	NSEL e - gold
<b>Purchase &amp; Sale</b>	Physical Form	Physical Form	Dematerialized Form	Dematerialized Form
<b>Pricing</b>	May differ from jeweler to jeweler	May differ from bank to bank	Linked to international gold prices	Linked to Indian Gold Prices
<b>Buying premium above gold price</b>	Likely to be High	Likely to be very High	Likely to be Low	Likely to be Low
<b>Making Charges</b>	Are involved	Are Involved	Not involved	Not involved
<b>Impurity Risk</b>	May exist	May exist	Cannot exist	Does Not exist
<b>Annual Recurring Expenses (Storage, Insurance and AMC)</b>	High	High	1 -2.25%	<b>NIL</b>

Cont..

# Comparison of Investment in Gold through different modes

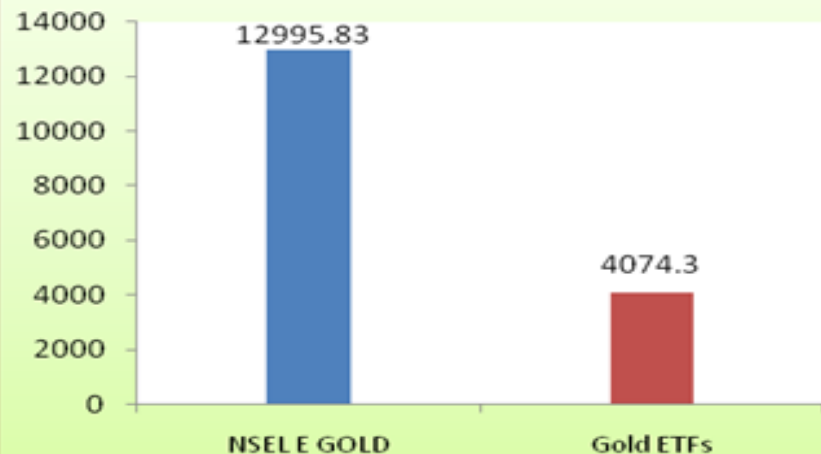
Parameter	Jeweler	Bank (bars / coins)	Gold ETF	NSEL e - gold
<b>Market Timing</b>	10 AM - 7 PM	10 AM - 5 PM	9 AM - 3.30 PM	10 AM - 11.30 PM
<b>Security of Asset</b>	Investor Responsible	Investor Responsible	Taken care of by Fund house	Taken care of by Exchange
<b>Resale</b>	At substantial Discount	Banks do not buy,	At Transparent secondary market prices	At Transparent secondary market prices
<b>Convenience of buying, storage and selling</b>	Low-As physical movement & transfer involved	Low-As physical movement & transfer involved	High - Totally Demat	High - Totally Demat
<b>Delivery Center</b>	Single	Single	Single	Multiple

# Price diversion of Benchmark MCX gold Price vs. Gold BEES ETF price:

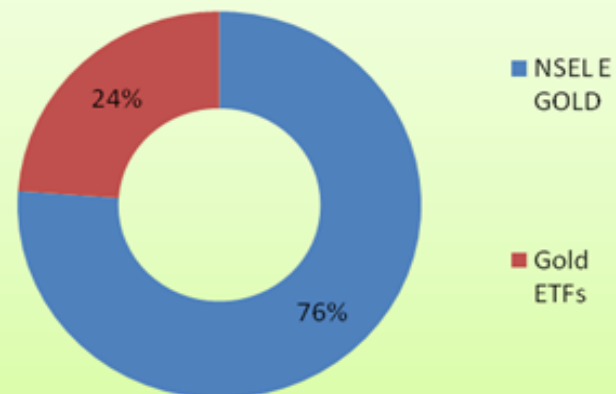


# e-Gold and All Gold ETFs Turnover Comparison in the financial year 2010-11

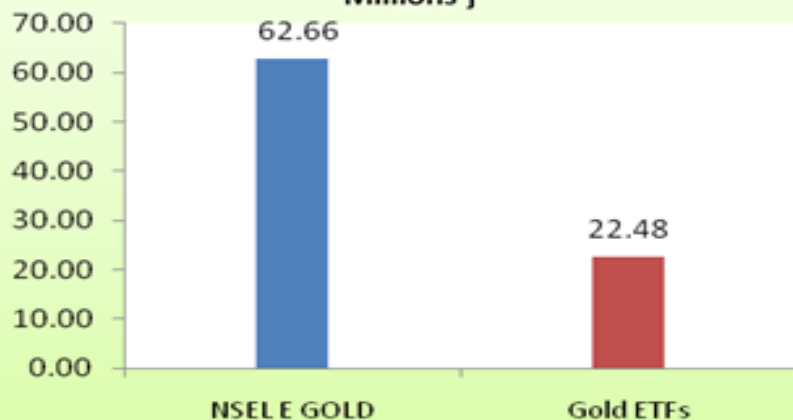
Turnover in Rs Cr.



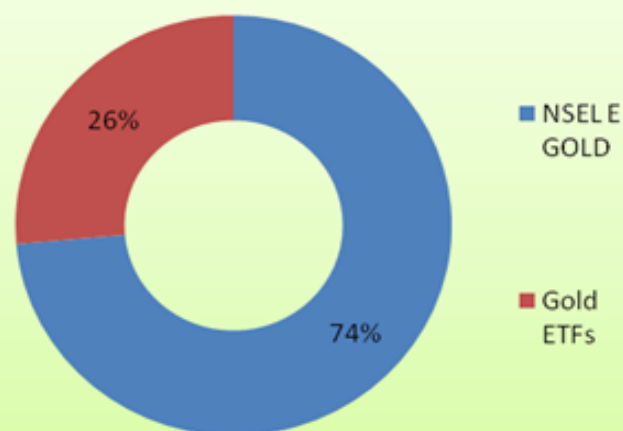
Turnover Percentage Share



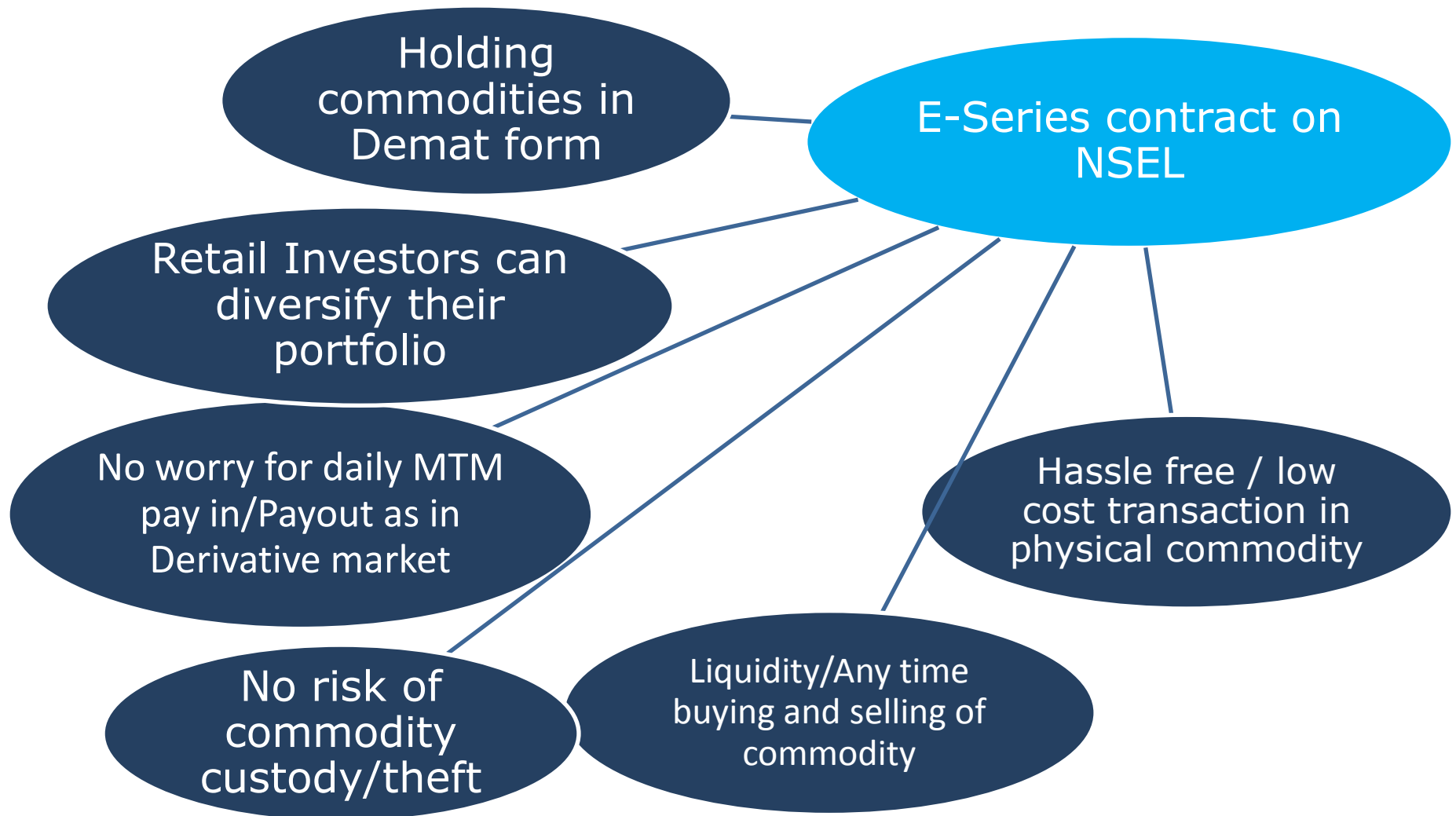
Total Traded Quantity {Grams/units in Millions }



Total Traded Quantity Percentage Share



# Advantages of Investment in commodities through e series



# e-Series products are ethical instruments confirming to the standards of Islamic finance & Shariah Compliance



**TAQWAA ADVISORY AND SHARIAH INVESTMENT SOLUTIONS (P) LTD**  
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## Shariah Certificate

### **REGARDING SHARIAH COMPLIANCE OF TRADING IN E-GOLD, E-SILVER AND E-COPPER ON NATIONAL SPOT EXCHANGE LIMITED**

Pursuant to agreement dated 30<sup>th</sup> OCTOBER, 2010, between National Spot Exchange Limited (henceforth NSEL) and Taqwaa Advisory and Shariah investment Solutions (P) Ltd. (henceforth TASIS), relating to shariah certification and ongoing monitoring of products, E-gold, E-silver and E-copper that NSEL is offering its potential clients, TASIS has studied NSEL's system of operation and regulation of its relationship with its members as well as that between its members and their clients and has scrutinized the relevant documents relating to the same, and specifically NSEL's circulars Nos.

- NSEL/TRD/2010/041 dated March 11, 2010,
- NSEL/TRD/2010/067 dated April 19, 2010,
- NSEL/TRD/2010/177 dated November 9, 2010

pertaining to the commencement of Spot Trading in units of E-gold, E-silver and E-copper respectively,

its circular No. NSEL/MEM/2008/016 October 14, 2008 pertaining to "Know Your Client" procedure for dealing with clients, including Annexures I, II and III thereto relating to formats for

- Registration Form for Individual Client,
- Registration Form for Non-Individual Client, and
- Member-Client Agreement,

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(MUFTI) KHALID SAIFULLAH REHMANI  
DIRECTOR AL - MAHAD UL AALI AL ISLAMI  
HYDERABAD - INDIA



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prescribed format of Contract Note issued by Member acting for Client as Agent (including therein Terms and Conditions relating to the Transactions executed on the Trading System of National Spot Exchange Limited and forming part of the Contract Note), and prescribed format of Membership Application Form for seeking Trading-cum-Clearing Membership of NSEL (including therein Terms and Conditions governing the relations of Members with the Exchange).

On the basis of the said study and scrutiny, we certify that as of date of this Certificate, persons trading on NSEL whether on their own account as Clients/Members or as Members acting on behalf of Clients, shall be Shariah compliant so long as they adhere to the following:

- 1 They shall not enter into sale transactions for E-gold, E-silver or E-copper units which they have not already bought earlier;
- 2 They shall not at any time consciously enter into transactions for purchase of E-gold, E-silver or E-copper units for which at the point of entering into the transaction they do not have the means and intention to pay; and
- 3 They shall endeavour to ensure that they do not default in payment of storage charges for demat units purchased by them, thereby avoiding the need to pay interest on their defaulted amounts.

In accordance with the above referred agreement between TASIS and NSEL, TASIS shall monitor the operational methodology of NSEL on a quarterly basis and shall advise NSEL in further updates of this Certificate from time to time about the Shariah non-compliance impact, if any, of future changes in NSEL's operational methodology.

**For Taqwaa Advisory and Shariah Investments Solutions Pvt. Ltd**

Mufti Khalid Saifullah Rehmani

(Shariah Advisor)

  
Page 2 of 2  
(MUFTI) KHALID SAIFULLAH REHMANI  
DIRECTOR AL - MAHAD UL AALI AL ISLAMI  
HYDERABAD - INDIA

Regd. Office : Khatau Bldg., 1st Floor, 44 Bank Street, Fort, Mumbai - 400 001. Fax : 91-22-22663021

# Empanelled Depository Participants (133)

Sr. No.	Depository Participant				
1	A.G. Shares & Securities Limited	41	Gigantic Securities Limited	81	Master Capital Services Ltd.
2	Abhipra Capital Limited	42	Globe Capital Market Limited	82	Matalia Stock Brokers Pvt. Ltd.
3	Acumen Capital Market (India) Ltd.	43	Gogia Capital Services Ltd.	83	Microsec Capital Limited
4	Aditya Birla Money Limited	44	Goldmine Stocks Pvt. Ltd.	84	MLB Capital Pvt. Ltd.
5	Adroit Financial Services Pvt. Ltd.	45	GRD Securities Limited	85	Modex International Securities Limited
6	Ahmedabad Stock Exchange Ltd.	46	Greenbucks Securities Pvt. Ltd.	86	Monarch Project and Finmarkets Limited
7	Alankit Assignments Limited	47	Guiness Securities Ltd.	87	Motisons Shares Private Limited
8	Amrapali Aadya Trading & Investment Pvt. Ltd.	48	Hardik Fintrade Pvt. Ltd.	88	Multigain Securities Services Private Limited
9	Anagram Stockbroking Limited	49	Hedge Equities Ltd.	89	Networth Stock Broking Limited
10	Anand Rathi Shares & Stock Brokers Ltd.	50	Hem Securities Limited	90	Nirmal Bang Securities Pvt. Ltd.
11	Arihant Capital Markets Ltd.	51	Hindustan Tradecom Pvt. Ltd.	91	PCS Securities Limited
12	ASE Capital Markets Ltd.	52	HTS Securities (P) Ltd.	92	Pee Aar Securities Ltd.
13	Ashika Stock Broking Limited	53	I Ventures Capital Pvt. Ltd.	93	Prithvi Finmart Pvt. Ltd.
14	Ashlar Securities Pvt. Ltd.	54	Ideal Stock Broking Pvt. Ltd.	94	Progressive Share Brokers Pvt. Ltd.
15	Asit C. Mehta Investment Intermediates Limited	55	IFCI Financial Services Limited	95	Prudent Broking Services Private Limited
16	Axis Bank Ltd.	56	IL&FS Securities Services Limited	96	Quest Securities Limited
17	Balaji Equities Limited	57	India Infoline Ltd.	97	R K Global Shares And Securities Ltd.
18	BCB Brokerage Private Limited	58	IndiaNivesh Securities Pvt. Ltd.	98	R.K. Stockholding (P) Ltd.
19	BgSE Financials Ltd.	59	Indovision Securities Private Limited	99	Raghunandan Capital Private Limited
20	Bharat Bhushan Equity Traders Ltd.	60	IndusInd Bank Limited	100	Ratnakar Securities Pvt. Ltd.
21	Bonanza Portfolio Ltd.	61	ITI Financial Services Limited	101	RBC Financial Services Pvt. Ltd.
22	Capstocks And Securities (India) Private Limited	62	Jhaveri Securities Limited	102	Religare Securities Limited
23	CD Equisearch Private Limited	63	Joindre Capital Services Ltd.	103	RR Equity Brokers Pvt. Ltd.
24	Chona Financial Services Limited	64	Jyoti Portfolio Ltd.	104	Saaketa Consultants Limited
25	Consortium Securities Pvt. Ltd.	65	Karvy Stock Broking Limited	105	Satguru Capital & Finance Pvt. Ltd.
26	Dalmia Securities Private Limited	66	Kisan Ratilal Choksey Shares And Securities Pvt. Ltd.	106	Seema Securities Pvt. Ltd.
27	Dayco Securities Private Limited	67	KK Securities Ltd.	107	Shah Investor's Home Ltd.
28	DB (International) Stock Brokers Ltd.	68	Kotak Securities Limited	108	Share India Securities Limited
29	DBFS Securities Ltd.	69	Kumar Share Brokers Limited	109	Sharekhan Limited
30	Dynamic Equities Pvt. Ltd.	70	Kunvarji Finstock Private Limited	110	Sharewealth Securities Limited
31	Eastern Financiers Limited	71	L.F.C. Securities Pvt. Ltd.	111	Shree Bahubali International Limited
32	Emkay Global Financial Services Ltd.	72	Lalkar Securities Pvt. Ltd.	112	SIC Stocks & Services Pvt. Ltd.
33	Escorts Securities Limited	73	Latin Manharlal Securities Pvt. Ltd.	113	SKI Capital Services Limited
34	Eureka Stock & Share Broking Services Ltd.	74	LKP Securities Limited	114	SKP Securities Limited
35	Fair Intermediate Investment Pvt. Ltd.	75	Lohia Securities Limited	115	SMC Global Securities Ltd.
36	Fairwealth Securities Limited	76	LSE Securities Limited	116	Sosha Credit Private Limited
37	Farsight Securities Limited	77	Madras Stock Exchange Ltd.	117	South Gujarat Shares & Sharebrokers Limited
38	Fort Share Broking Pvt. Ltd.	78	Mansukh Securities & Finance Ltd.	118	SPFL Securities Limited
39	Fortune Wealth Management Company India Pvt. Ltd.	79	Mansukh Stock Brokers Ltd.	119	SSD Securities Private Limited
40	Geojit BNP Paribas Financial Services Ltd.	80	Marwadi Shares And Finance Limited	120	Steel City Securities Limited
				121	Stock Holding Corporation of India Limited
				122	Sunidhi Securities & Finance Ltd.
				123	Suresh Rathi Securities Pvt. Ltd.
				124	Sykes & Ray Equities (India) Ltd.
				125	Systematix Shares & Stocks (I) Limited
				126	Techno Shares & Stocks Ltd.
				127	Time Capital Limited
				128	Trustline Securities Limited
				129	U.P. Stock Exchange Limited
				130	Unicon Securities Private Limited
				131	Vogue Commercial Co. Ltd.
				132	Wellindia Securities Limited
				133	Zuari Investments Limited



# Thank You

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