



Geojit Financial Services 2QFY22 Earnings Conference Call

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MANAGEMENT: **MR. C J GEORGE - MANAGING DIRECTOR, GEOJIT FINANCIAL SERVICES**
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MR. LIJU JOHNSON - COMPANY SECRETARY, GEOJIT FINANCIAL SERVICES.

MODERATOR: **MR. MITESH GOHIL- AMBIT CAPITAL.**

Moderator: Ladies and gentlemen, good day and welcome to the Geojit Financial Services 2QFY22 Post Results Analyst Conference Call hosted by Ambit Capital. 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, please signal an operator by pressing ‘*’, then ‘0’ on your touchtone telephone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Mitesh Gohil from Ambit capital. Thank you and over to you, sir.

Mitesh Gohil: Good afternoon everyone, I welcome you all for the call. We have with us Mr. C J George - Managing Director, Mr. Satish Menon - Executive Director, Mr. A. Balakrishnan - Executive Director, Ms. Mini Nair - Chief Financial Officer and Mr. Liju Johnson - Company Secretary. I welcome the management team on this call and without further ado over to you sir.

Satish Menon: Thank you Mitesh. Good afternoon to everybody. This is Satish Menon from Geojit and thank you for joining this investor call for the second quarter earnings. I hope everybody would have got the time to go through our investor presentation. But for the benefit of people who have not been able to, I will just run through the broad figures and give the key highlights of the second quarter, and then we can get into Q&A.

In terms of operating income for the second quarter ended September, we had Rs. 127 crores, which is up 17% year-on-year. In terms of expenses we were 14% up to Rs. 74.06 crores. PBT was at Rs. 53.18 crores, which is up 22% year-on-year, and PAT at Rs. 40.47 crores, which is up 22%. In terms of split off income, brokerage related was Rs. 90.3 crores, which is up 8% year-on-year and if you split that into different areas, Rs. 74.63 crores from pure brokerage, which is up 4% year-on-year. Though there is a dip of 14% in the cash market volumes ADTO, but the yields have been better for us. The second component of the brokerage income was depository services, Rs. 6.95 crores for the September 21 ended which is (-) 2% year-on-year. And the third component is interest income from clients Rs. 8.72 crores, which is about 88% year-on-year.

We added 20,000 new clients in last quarter. In terms of Smartfolios, i.e. curated portfolio which we offer to the clients, We have around Rs. 200 crores of AUM now, compared to Rs. 50 crores in March. We offer 10 portfolios and we have close to 6,200 clients who have taken such curated portfolios. In terms of active clients, growth compared to Sep.20, we have 2, 25, 000 clients active as per NSE data, which is 26% up from last year.

The second main income was from financial products, that is distribution of Insurance and Mutual Funds, Rs. 19.71 crores for the last quarter, which is 45% up from the September 20 quarter. It is split into two portions one is Mutual Funds. Mutual Fund is Rs. 15.25 crores of revenue for September quarter, up 47% from last year, and up by 18% from the June quarter. Geojit Mutual Fund AUM is Rs. 7, 472 crores compared to Rs. 4, 946 crores a year back, 53%

growth in AUM. Mutual Fund holding clients have also gone up. It is 2, 19, 000 clients. Gross inflow has been good for us in the last quarter, Rs. 535 crores of gross inflow and Rs.144 crores of Net inflow in equities. Insurance also did well last year, Rs. 3.52 crores of income compared to Rs. 2.99 crores a year back and compared to Rs. 1.31 crores in the June quarter. Software income has also seen growth compared to last year and compared to the June quarter 3% growth. So, overall operational income Rs. 127crores and PAT at Rs. 40.47 crores, which is 22% up from last year and 5% from the previous quarter.

I hope these figures people have known. I have nothing more to say in terms of the opening remarks. We will open it for Q&A and then we can answer questions.

Moderator: Ladies and gentlemen, we will now begin the question and answer session. We have the first question from the line of Chander Bhatia from Seers Fund Management Limited. Please go ahead.

Chander Bhatia: I have a couple of questions. First question is regarding there is one other distribution income of Rs. 94 lakhs in this quarter. So, can you give some color on that? What is it?

Satish Menon: Mr. Bhatia we have given three main products, one is Mutual Fund, other is Insurance and third is other distribution income. This is coming from the income received from bonds, AIF and all those things, which is not coming under the first two categories.

Chander Bhatia: How do you see it panning out in coming quarters in the coming years?

C J George: We are seeing a growth in terms of the number of clients, particularly for this bonds and AIF, if that what your question is. The other side is, it also depends on the market activity. Today we are seeing a lot of interest from our clients particularly from our natural markets. So, we are seeing growth in that number, there is no doubt about it. And it is basically long term investors who are coming and investing today, not the short term flippers. So, that is one good thing we are seeing in terms of the quality of the business that is happening today.

Chander Bhatia: There is one income of Rs. 2.99 crore which is a dividend income. So, what is all this income?

C J George: Standalone books if you will see, this income this is the dividend received from our joint venture in Dubai, Barjeel Geojit.

Chander Bhatia: One question is about the total overall volume, in terms of delivery volume has increased tremendously from if I see from last year it was 35%, last quarter it is 40%, now it is 49%. How do you see it is panning out? Because I think it is getting higher yield, therefore yield is also going up. If you can comment about the percentage which is likely to be gained or it is likely to remain same in terms of delivery volume and yield.

C J George : I must tell you this is also because of the deeper relationships that we have with our clients in the natural market, where largely investors are our clients, that is why the delivery business is high. So, the kind of clients that we get, although the number is relatively small compared to the market, these are basically long term investors coming and investing. Of course the market has also attracted them, and the alternate investments are today limited. So, people are attracted to long term investments in mutual funds as well as stocks. So, this is why you are seeing some part of this increase in the delivery business. Satish you could add.

Satish Menon: That is absolutely true. It is also a function of the market. The market was quite active in the last quarter, and of course it was little bit similar when you look at this September quarter of last year. The September quarter of last year also had a slightly higher delivery absolute volumes compared to other quarters. But what we have seen in this financial year or post September quarter, the delivery volumes have continuously grown. I think it is more of a function of the market where many investors who are coming new to the market are doing delivery business and other clientele where people have started getting noticed in the market movement trying to be active in the market. This is also a function of the Smartfolio product we have, where we have like I said in my opening remarks, the curated portfolio where people can buy any of those 10 portfolios and we give suggestions on what is to be bought and sold, it is also a function of that. But it is primarily a market function when the market is active clients taking delivery also become active.

Moderator: We have the next question from the line of Mitesh Gohil from Ambit Capital. Please go ahead.

Mitesh Gohil: I have one data keeping question. What percent of brokerage revenues coming from speculation and what percentage is coming from delivery business?

Satish Menon: Out of Rs. 100 of brokerage revenue, Rs. 72 comes from delivery, Rs. 8 comes from day-trading and Rs. 20 comes from Futures and Options.

Mitesh Goel: What is the percentage of delivery in the cash market?

Satish Menon: Percentage delivery in the cash market to the total volume in the last quarter was 49.

C J George: In terms of the brokerage revenue he is asking, that is roughly 80% of the brokerage.

Satish Menon: Rs. 72 delivery brokerage and Rs. 8 is day-trading brokerage in cash market and Rs. 20 is F&O.

Mitesh Gohil: What percentage of brokerage is coming from the partnership which we have done with partners?

Satish Menon: You are asking the B2B partners or franchise business?

Mitesh Gohil: B2B partners.

- C J George:** Your question is in terms of the total brokerage?
- Mitesh Gohil:** Yes, totally brokerage.
- C J George Management:** It is roughly coming to around 7% to 8%.
- Satish Menon:** 5 to 6% should be.
- Moderator:** We have the next question from the line of Vijay Karpe from Braynston Investments. Please go ahead.
- Vijay Karpe:** My question is, if you see in Geojit over the past 5 years it has evolved from a pure broker to distribution of Mutual Funds and Insurance. So, how do you see Geojit 5 years down the line?
- C J george:** Let me tell you, we are not calling ourselves as a brokerage company today. We are calling ourselves an investment services company. So, in terms of investor as a client if you look at, we will be there for all the products where an investor is investing in terms of our distribution as well as advisory services. This is how we are positioning ourselves. Say for example, Mutual Funds when we started the distribution, our objective was very clear. Although there is one customer from a household who is having trading account with us, the other members of the family are potential candidates for Mutual Funds, SIPs etc. So, all members of the family are potential candidates for Insurance, both life and general. So, the idea is basically to give all the life cycle products to our customers. So, that is what is our positioning.
- Vijay Karpe:** Got that, my next question is actually based on MF flows numbers, am I right? The gross flows were Rs. 535 crores, and the net flows were Rs. 144 crores?
- Satish Menon:** You are right Vijay. The gross flows of the quarter was Rs.535 crores and the net inflow was Rs. 144 crores.
- Vijay Karpe:** And what were the insurance premium for the first quarter and the second quarter?
- Satish Menon:** Insurance premium for the second quarter was close to Rs. 11 crores and first quarter there is hardly anything because insurance business doesn't happen mostly in the first quarter. The first quarter if I remember right, I don't have the exact figures, it should be around Rs. 1.5 to Rs. 2 crores.
- Vijay Karpe:** My next question is on the STEPS business, which you have started. So, the Kochi STEPS branch which we have started currently is profitable. So, I just wanted to understand the unit economics over here, how is the cost structure is and how many clients we have presently over here?

- C J George :** It is still very small Vijay to talk about that. Basically our plans got impacted also because of the COVID situation and the lockdown, so we couldn't scale it up. But this quarter we will see more branches coming up for the financial planning business, that is the advisory business called the STEPS. So, end of this quarter we will be able to give you some numbers. But the first branch that we have opened is breaking even. It is actually making marginal profits at the moment. So, we are very positive about it. This is a business where we also interact with the customer in detail, and there is an interview process, and that is why we thought of going slow during the COVID situation. The COVID situation is improving and initial branches that we are planning are in Kerala, and Kerala COVID numbers are still relatively high. So, I must tell you, we are ready with the people and we are ready with the resources, we are now organizing offices. I am of the view that by the end of the quarter we will see half a dozen more branches.
- Vijay Karpe:** Can you just take me through how the unit economy works over here? What is the fixed cost and what is the variable cost? How many clients do we require to break even?
- C J George :** The final numbers are not with us at the moment, because since the business is relatively small, we did not prepare ourselves for this question. We could take this question offline.
- Vijay Karpe:** You are planning to open half a dozen branches by the end of the quarter.
- C J George :** End of the quarter, yes.
- Vijay Karpe:** Any update on loan distribution business? Have we started loan distribution now?
- Satish Menon:** So, we have a small loan distribution business which comes in the other product distribution income which is too small as of now Vijay to talk about any numbers.
- Moderator:** We have the next question from the line of Ajan Koppan an individual investor. Please go ahead.
- Ajan Koppan:** My question is whether any split up on the IPO income. When IPO market was so active for the last 3 months, do we have any split up for the IPO income?
- Satish Menon:** So, IPO income is not a major sum, so it a part of the other distribution income which comes in this Rs. 94 lakhs. And I don't have the exact figure, but it is not so material in terms of the total financial products income.
- Ajan Koppan:** The second question is about going through our GIFT City development, the membership and the developments over there.
- C J George:** So, this is progressing after our plan and possibly in this quarter we will set up an office over there. This is again a new venture and new business model. As you are aware, we have large number of NRI clients. We plan to connect the NRIs into the GIFT City venture, is the whole plan through the brokerage business as well as the AIF business. So, this is going as per the plan.

- Ajan Koppan:** Do we have any plans to own any premises over there or renting?
- C j George :** There is some regulatory requirements, and we will go by the regulatory requirements, and we will go for the minimum possible fixed cost.
- Moderator:** We have the next question from the line of Chander Bhatia from Seers Fund Management. Please go ahead.
- Chander Bhatia:** I have observed after many quarters, the company has increased the manpower by around 100. So, there are two question on this. What is the plan for this current year? How many more manpower is to be recruited and on which vertical this manpower is being utilized?
- C J George :** Basically, we are hiring these people largely in the sales area and basically the customer interfacing area. We are also opening some small branches, around 25 of small branches will be manned by just a couple of people. And again, these branches initially will be in our natural markets for further deepening of the penetration. So, it will happen in Kerala as well as Tamil Nadu in the semi urban areas. So, altogether we will look at another 300 more people during this year.
- Moderator:** Thank you. Sir, would you like to make any closing comments?
- Satish Menon:** No. I have none.
- C J George:** So, even after the call if somebody wants to contact us, feel free to contact us. We would be very happy to interact with any of these investors, analysts who are present in the call. Thank you very much.
- Moderator:** Thank you members of the management. Ladies and gentlemen on behalf Ambit Capital that concludes this conference. Thank you for joining us and you may now disconnect your lines.