



# “Geojit Financial Services Limited Q2 FY23 Earnings Conference Call”

**November 2, 2022**



**MANAGEMENT**    **MR. C.J. GEORGE -- MANAGING DIRECTOR, GEOJIT  
FINANCIAL SERVICES LIMITED**  
**MR. SATISH MENON – EXECUTIVE DIRECTOR, GEOJIT  
FINANCIAL SERVICES LIMITED**  
**MR. JONES GEORGE -- EXECUTIVE DIRECTOR, GEOJIT  
FINANCIAL SERVICES LIMITED**  
**MS. MINI NAIR – CHIEF FINANCIAL OFFICER, GEOJIT  
FINANCIAL SERVICES LIMITED**  
**MR. LIJU JOHNSON -- COMPANY SECRETARY, GEOJIT  
FINANCIAL SERVICES LIMITED**

**Moderator:** Good day, ladies and gentlemen, and welcome to the Q2 FY '23 Earnings Conference Call of Geojit Financial Services. 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 call, please signal an operator by pressing '\*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Satish Menon – Executive Director. Thank you, and over to you, sir.

**Satish Menon:** Thank you, Michelle, and a very warm good evening to everyone, and welcome to this Geojit Financial Services Quarter 2 Investment Call. In this call, we have Mr. C.J. George, Managing Director; myself, Executive Director; Jones George, Executive Director; and Ms. Mini Nair, CFO of the company; and Liju Johnson, Company Secretary. Before we open into Q&A, I'll just take you through the broad numbers of quarter 2, then we can open for Q&A.

In terms of total income for the quarter 2 September ended FY '22-'23, we have done Rs. 112.2 crore, which is 10% higher than the June quarter and 12% lower than the same quarter last year. In terms of total expenses, it is at Rs. 81.08 crore, which is 10% higher than the June quarter and 9% higher from the same quarter last year.

In terms of distribution of revenue, brokerage and brokerage-related activities, the revenue was Rs. 75.42 crore, which is 8% up from the June quarter and 16% down from the previous year. In terms of revenue from the financial product distribution, we have done Rs. 23.22 crore, which is 23% up from the June quarter and 18% up from the previous year.

Financial product distribution is split into 2 portions primarily: Mutual fund, which is Rs. 17.95 crore, up 11% and 18%; and insurance income of Rs. 4.66 crore, which is up 129% from the June quarter and 32% from the previous year. Profit after tax of Rs. 24.23 crore, which is 10% up from the June quarter and a degrowth of 40% from the same period last year.

In terms of new clients, we added 23,871 clients, that is 17% up from the June quarter and 19% up from the same period last year. Over the last 12 months, we have opened 29 new offices, primarily in the state of Kerala and some in Tamil Nadu.

Split of brokerage, cash market brokerage is 76% and the futures and options brokerage is 24% of total brokerage. Yield on the cash side has remained healthily steady at 0.16 percentage. Delivery brokerage, which is the main strength area of Geojit, contributes 70% of the total brokerage.

In terms of mutual fund clients, the holding clients, we have 2,31,694 clients, which is up 6% Y-on-Y. We had a net inflow of Rs. 151 crore in mutual fund last quarter, and an AUM of Rs. 8,171 crore in mutual fund, which is up 8% year-on-year and 13% quarter-on-quarter.

This is the opening remarks. Michelle, now we can open for Q&A.

**Moderator:** Thank you very much. We will now begin the question and answer session. The first question is from the line of Varun Bang from Bryanston Investments. Please go ahead.

**Varun Bang:** Sir, the first question is on Geojit Technologies, where we have 65% stake. Sir, what is the opportunity you see there outside what is there for Geojit Financial? And do you have plans to buy out the entire stake from BNP? And how do you think we are placed there given the business from BNP is almost 0 now?

**C. J. George:** I'm C.J. George here, I will take this question. It is true that most of the business of Geojit Technologies is now coming from Geojit Financial Services. We are on the lookout for expanding this business outside Geojit. It's also true that the BNP Paribas business, that is the business where we used to export software to the European units of BNP Paribas has now stopped.

With regard to your question on whether we are planning to buy back the stake from BNP Paribas, I can only say that as and when BNP Paribas approaches us, we will take a view depending on the valuation and depending on the opportunities. So, we will be open to the idea of acquiring that stake as and when they're ready to offer us.

**Varun Bang:** Meanwhile, how do you think the liquid investment in the company will be utilized?

**C. J. George:** Satish, you could take that question.

**Satish Menon:** I will give it to CFO to say how the liquid investment as of today of Geojit Technologies are invested.

**Varun Bang:** No. I'm saying strategically, how do you look to utilize those investments?

**Mini Nair:** Sorry. The liquid investments of Geojit Technologies, actually, we have invested them in fixed deposits of banks as of now.

**C. J. George:** And we have the capability to access those funds as and when required for even the requirements of GFSL as well. So, as and when there were requirements in the past, we could get access to these funds as we have taken appropriate approvals from the AGM and Board, etcetera.

**Varun Bang:** And sir, from next 3 to 5 years perspective, what is your opinion on condition that we earn on distribution of mutual funds? So, at overall level, is it sustainable at current levels of around 90 basis points or do you think if there is restructuring, it can go down? What is your overall sense based on the discussions that you have with the mutual funds?

**Satish Menon:** As of now, I don't see any discussion which is happening, which will contemplate a reduction in the yield. So, we are not foreseeing any reduction in the yield as of now. So, our yield has been around 0.85 percentage, 0.86 percentage for some years now after the restructuring, which happened in the AMC scenario, when everybody moved to trail income.

**Varun Bang:** Correct. So, this is more or less sustainable from a 3 to 5 years perspective, is what we can say?

**Satish Menon:** As of now, we have no reasons to believe otherwise.

**Moderator:** We have the next question from the line of Saji John, an individual investor. Please go ahead.

**Saji John:** Sir, my question pertains to the initiatives that we have taken on the STEPS. And could you please throw some light in the outlook, what are action plans regarding this? And also, can you please provide the status of Geojit IFSC opened in Gujarat GIFT City?

**C.J. George:** I will take this question. With regard to STEPS, this is a financial planning platform. We have ambitious plans with regard to this business, but we need to be reminded of the fact that this is a long-term business. This is unlikely to grow into a big business in the immediate future because it is a fee-based business where we collect only fee and no brokerages, no commissions, so you know how the industry is.

So, we have currently 5 offices. From 5 offices, qualified financial planners have started giving investment advisory service to clients. We prepare financial plans for them. I can only tell you that all those clients who were with us in the first year, almost 100% of the customers have renewed the service for the second year. Because of the branch opening also, we are seeing growth and traction.

We have not invested. This is largely being developed as an off-line business. Due to 2 consecutive years of COVID lockdown, we were unable to basically do significant marketing activity for this particular vertical. But we are going ahead, we are having ambitious plans, and we are very confident about the growth of this business.

And sorry, you had another question?

**Saji John:** Yes, sir. My question regarding the Geojit IFSC open in Gujarat GIFT City.

**C.J. George:** So, this is a new initiative. We are in the process of getting licenses. We've got 1 license, we are looking for the other licenses. We wanted to basically use this platform for the NRI clients to begin with. And then, of course, wherever it is possible to do business through LRS routes. And subject to the permissions and approvals, we wanted to make use of this opportunity for our customers. This is the first step that we are planning. We have people in place at the moment. And in another 15 days' time, we are hopeful of starting operations there.

**Moderator:** We have the next question from the line of Pranav Tendulkar from Rare Enterprises. Please go ahead.

**Pranav Tendulkar:** Sir, just for comparison sake, Angel One is adding, say, 13 lakh customers per quarter. ICICI Securities is adding 4.5 lakh new customers per quarter, and we are around 20,000. So, what is our plan to take this 20,000 to 1 lakh, 2 lakh, 3 lakh or 5 lakh using technology? And do we have these plans?

**C.J. George:** Pranav, I will answer one part of this question. Number one, we are still not in the space of discount broking. So, we have one limitation with regard to attracting customers using the discount broking model. But at the same time, I can very well say that these customers who we are acquiring currently, these are in the same segment of customers that we have been acquiring in the past also where customer relationship continues for years and years.

And then if you look at the yield from these customers, the yield also is significantly high compared to the industry. I agree with the observation that we are unable to basically acquire customers the way at which some of the discount broker competitors as well as the bank broker competitions are doing. Bank broking space has a different advantage. It's not a level playing ground.

And also, I would like to mention that most of these clients that we acquire are also through our branch network. These are long-term relationships, and there the revenue per customer as well as the relationship longevity, if we consider, these are all much higher compared to the industry standards. This is what I could say at the moment.

**Pranav Tendulkar:** Right. Sir, because our yield, as a result of competition, is coming down only. So, if it is going to go down, we might as well participate in that because that is going to provide a funnel for cross-selling other products. So, I mean how to evaluate the 2 opportunities? Because on one way, there is a large portion of Indian youth which will access all the services, and that you probably will go to discount brokerages and that is also a funnel for further cross-selling.

So, can we afford to miss that opportunity? Like, can technology make those discount brokerages customers also profitable? So, this is my question, how to make that strategic choice?

**C.J. George:** I probably beg to differ with you on 1 thing, that is this space of discount broking is currently occupied by 1 to 3 large players. And the fourth, fifth, et cetera, getting into that space, for example, if you would tried to get into this, it would rather cannibalize our existing business, whereas we have cross-selling based on the relationships. We sell insurance to our same customers. We sell mutual funds to our customers. We sell PMS to our customers. So, our intention is basically to have all the products sold to the families of the customers whom we service.

So, there is an opportunity, I agree with you, but that opportunity is today no longer there for in the sense, any number of players as far as discount broking is concerned. This is our observation on this.

We wanted to be in the business of creating wealth for our customers. For us, a transaction is only a means to an end. Transaction itself is not an end for our strategy. We consider trade and transaction, et cetera, are only means to an end, and the end is finally creating wealth for our customers.

**Moderator:** We have the next question from the line of Anil, an individual investor. Please go ahead.

**Anil:** I have a question regarding is there any possibility that the brokerage rates will eventually raise from the current level for the industry as a whole? If so, how long it will take? If not, what would be our priorities and strategies to counter these new age players?

**C.J. George:** I will take this question. Even today, if we take the yield, particularly the delivery yield, that is the significant part of our business. The delivery yield, even with this competition, continues to be steady. This is the observation that Satish made in the beginning itself. So, we have also seen, for some of our products, brokerage rates going up. I cannot make any observation with regard to industry.

From our experience, what we have seen is, if we have a product or if we have a service that is convincingly in a position to create wealth for the customers, customers are willing to pay for it. So, we have tried 1 or 2 products and we have increased the brokerage rates on these, so people willingly paying the brokerage rate.

So, what is important is, what is the value our intermediary is adding to a customer? If there is no value, then they will go to discount brokerage. If there is a value which is convincing and tangible, they won't mind paying a higher brokerage. This is my observation on this larger question.

**Satish Menon:** Also, our yields are one of the highest in the industry, and primarily because the mix of the clients and the mix of the trading volumes they have. In our case, 76% of our brokerage income comes in the cash market, of which 90%, which means of the total brokerage, 70% of the brokerage comes from the delivery business. So, we are more looking at into the delivery business, which is, like Mr. George said, towards long-term wealth creation.

**Anil:** My next question is in terms of growth through digitization. What are the key initiatives and strategies to compete with a new age firm? And what are the desired outcomes you may hope to achieve in short to medium term?

**Satish Menon:** I will hand over this to Mr. Jones George. He will answer this question.

**Jones George:** What I meant to say is that we have launched Smartfolios, which is a new line of products, again, largely focused on the investor set of clients. We have already built an AUM of around Rs. 265 crore. Alongside, we have also just revamped and relaunched a new mutual fund transaction platform, both on Android and iOS, called FundsGenie.

In the coming months, we will be doing a complete overhaul of our other trading platforms as well as our Customer 360 platform called MyGeojit. So, in the next 1 year, there is a vision that we have set in which there will be a lot of new releases as well as new offerings in terms of Smartfolios.

**Moderator:** We have a follow-up question from the line of Varun Bang from Bryanston Investments. Please go ahead.

**Varun Bang:** Sir, in your perspective, how important this branch addition is going to be from next few years' perspective? And will our growth be linked branch expansion or with digitization we can grow business even without opening new branches?

**C.J. George:** These are 2 different verticals the way we look at it. So, branch capability is basically for building relationships that is enabling us in cross-selling. So, what we have seen is the nearer we are to the customers, the deeper the relationship is. And we are able to sell new products to those customers, of course, if the products are good. And then our yield is also relatively better.

So, these offices, which we opened recently, 29 offices, these are not offices in cities and major towns. These are offices in semi-urban areas, in rural Tamil Nadu and rural Kerala where we are seeing an opportunity in terms of developing new clients, developing and introducing investment platforms to people who have not invested in the past. So, there is a particular opportunity that we are seeing. These are small offices we are using for deep penetration in helping the clients to create long-time wealth. So, this is the whole idea.

So, I'm not saying that branch expansion is the only way to get a new client, but branch expansion, from our experience, has helped us in cross-selling. Even if you look at the numbers that we have, although it is not necessarily very large, these cross-selling numbers that we are showing, these are numbers that come out of opportunities that we received from relationships.

**Varun Bang:** So, again, what is the potential business that our distribution arm can do because of the relationship that we have? So, distribution business, where we have around Rs. 80 crore of run rate, FY '22, can it become Rs. 250 crore to Rs. 300 crore in the next couple of years?

**C.J. George:** I'm not saying 2 years, maybe 3 years, 4 years. We are of the view that we should grow this business aggressively. So, we are aggressively growing our SIP book and the mutual fund distribution book. And this is also, in a way, helping our customers, particularly the new customers.

So, the target that you are talking about, around that figure is what we have internally fixed, but this will not be done in 2 years' time. Maybe 3 to 4 years' time.

**Varun Bang:** And sir, we have a lot of surplus cash on the balance sheet and our share price seems to be highly undervalued. So, are we internally contemplating any buyback opportunity at this point in time?

**C.J. George:** See, I don't know whether you noticed at moment, our margin trading book is also going up. So, we are currently utilizing a significant part of our liquidity for margin trading purpose, number one. Number two, because of this new margining rules, et cetera, there is capital that is needed currently in the business. So, this balance sheet is helping us to grow in terms of protecting the current level of business as well as for the growth in business. We are of the view that this margin trading book can possibly grow decently in the coming years.

**Moderator:** Do you have any further questions, Mr. Bang?

**Varun Bang:** I will come back in the queue.

**Satish Menon:** If there are no further questions, close it?

**C.J. George:** Yes. We can then conclude, Satish, if there are no more questions.

**Moderator:** As there are no further questions from the participants, I would now like to hand the conference over to Mr. Satish Menon for closing comments.

**Satish Menon:** Thank you, everyone, for joining this call. If you have any further questions, you can contact the company secretary, and we'll be happy to answer them. Thank you very much. Have a nice day.

**C.J. George:** Thank you very much. Thank you.

**Moderator:** Thank you. On behalf of Geojit Financial Services, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.