



“Geojit Financial Services Limited  
2QFY2020 Earnings Conference Call”

November 15, 2019



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**Moderator:** Ladies and gentlemen good day and welcome to Geojit Financial Services 2QFY2020 Post Results 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 call, 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. Aadesh Mehta from Ambit Capital. Thank you and over to you Sir!

**Aadesh Mehta:** Good afternoon everyone. Welcome to the 2QFY2020 earnings call of Geojit Financial Services. We have with us the entire senior management team of Geojit represented by Mr. C.J. George. I would like to hand over the phone to Mr. George for his initial comments and then later on for any Q&A. Over to you Sir!

**Satish Menon:** Good afternoon everybody, thank you for joining this call. Satish Menon this side. I would like to take you through the main figures of this last quarter post which we can open for Q&A.

To start with the operational income is Rs71.25 Crores which is down 11% YoY and 4% down from the previous quarter. Total income also is down 11% YoY and 4% previous quarter.

On the expenses side, the expenses amounted to Rs56.94 Crores which is 8% down from the previous year and 3% down from the previous quarter. EBITDA we had posted is Rs. 20.34 Crores which is 9% down year-on-year and 1% down from the previous quarter.

Profit after tax after minority interest is Rs 9.18 Crores compared to Rs3.1 Crores in the previous quarter and a loss of Rs 3.43 Crores in the previous year same quarter, which was primarily due to writing off our investments in Aloula at that time.

In terms of split of income, equity and equity related part, we have clocked Rs. 54.4 Crores in the July, August, and September quarter which is 12% down from the previous year and 9% down from the previous quarter.

Financial products income there is a growth of 4% from the previous year to Rs11.91 Crores and a growth of 27% from the April, May, June quarter. In the financial product distribution two major components, mutual fund distribution, the income for July, August, September is Rs9.23 Crores, which is 17% down from last year and 7% up from the previous quarter. The 17% reduction is coming from the upfront B30 incentive which we used to receive last year which was stopped from October 2018 onwards.

The main highlight of the distribution income is insurance distribution income in July, August, September, this year we have clocked Rs2.62 Crores of revenue on the insurance which compared to Rs76 lakhs in the April, May, June quarter and compared to a negligible 16 lakhs previous year. Software income has shown 33% dip YoY to Rs2.13 Crores. Total operational income I have already mentioned.

This is what I wanted to say in the opening remarks. Aadesh, we can now open for Q&A so that we can answer specific queries.

**Moderator:** Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Digant Haria from Antique Stock Broking. Please go ahead.

**Digant Haria:** Sir, my first question is slightly general question on broking and second will be a company specific question. Sir, everybody have been very, very fearful of discount broking and what Zerodha can do or a PayTM can do but if we read the kind of comments which come out of founder of Zerodha it just seems like from discount broking they are also trying to transform themselves into broker which can offer much more than just a lower cost platform so do you yourself feel like this in your interaction with your sales team that this threat from discount broking is actually narrowing and now it is more offering more and more things to the customer?

**C J George:** Digant, I will answer this question. What we are seeing is by now is, those who were active traders in the market they have moved to one discount broker or the other so when there is pricing pressure among discount brokers these traders they go to the brokers who offers the lowest and if you remember a month ago, there were developments from the US, apparently started with leading players and they started offering zero brokerage but we must remember that they all get revenues because they are all banks also unlike in India. So in my view discount brokers there will be competition among discount brokers that is now very aggressive but other brokers to survive they have to increase their product features, increase the number of products, also increase the level of service standards enhance the service standards, etc. So that is the way I think the industry will move that is what we get the impression from the field.

**Digant Haria:** Thanks for that. Second question is that you know our tech platform, the broking platform which is there if we compare ourselves to say an ICICI Securities or a Zerodha where would you probably rate ourselves in terms of availability of products or ease of use rather I will put this question another way is that a factor attract or dissuade a customer have we received any such feedback, complaints from clients or something like that anything on this particular piece the tech platform and availability of products and ease of the platform, these

three things how important are they for us and what kind of feedbacks do you get from your customers or your sales team?

**A. Balakrishnan:** Good afternoon this is Balakrishnan. This is question by and large related to the technology implementation of the platform so I am taking the opportunity to answer. Basically we always compare with the competitor and also consistently working on improvement of the platform so for example last two years we have integrated so many features with third party products giving proper info for taking informed decision for investors and traders and also mobile actually what we have seen is actually there is in fact even though overall there is a dip in the AUM, our user base in the mobile space is slowly also but increasing. So what we have seen is actually this hybrid model is working and we also have partnership with other Fintech firms to provide us services so that is how we are actually improving the platform.

**C J George:** Digant, at the same time I must confess that for an active trader there could be possibly something more that we have to do which we will continue to do but we must remember that ours is a strong offline platform for delivery of advisors with a very good technology platform so that is a hybrid format with large number of branches to be very near to the customers and then to have the choice to them if they want to come online, they come online it is mostly investor oriented technology platform that we have is, but having said this our intentions to build further features and products into platform make it as competitive as possible so that is a continuous job work in progress.

**Digant Haria:** Right. Thank you for those responses. Now just one data question is that the mutual fund income it is bottomed out now because I think the four quarters are over all those three regulation impact so quarter-on-quarter we should see this income improving or at least remaining steady?

**Satish Menon:** So the B30 impact will get over on October 22nd.

**Digant Haria:** That is one month left.

**Satish Menon:** It is 22 days.

**Digant Haria:** Right.

**Satish Menon:** This quarter it should evened out best for 22 days. So otherwise from January, February, March quarter Y-O-Y will be exactly comparable.

**Digant Haria:** So probably whatever yields we see this quarter or may be the next those yields the revenue should now move in line with the portfolio right.

- Satish Menon:** January, February, March quarter should move in line with the new collections. Probably will see a small increase because the October 22 date, we still have some days left. Today we cannot compare so the B30%, as it has been increasing over the last October which will continue to increase till this October post which it would stable out.
- Digant Haria:** Perfect. Thank you for this detailed explanation. Thanks and all the best.
- Moderator:** Thank you. The next question is from the line of Vijay Karpe from Brandsten Investment. Please go ahead.
- Vijay Karpe:** Thank you for giving me this opportunity. Satish can you just share the inflow details, lump sum inflows and lump sum outflows and the actual asset inflows for this quarter and last year's quarter?
- Satish Menon:** We will share you the total inflow and outflow detail like we did last year. The total inflow for Q2 FY2020 was 389 Crores.
- Vijay Karpe:** This is lump sum inflow?
- Satish Menon:** All put together.
- Vijay Karpe:** Okay.
- Satish Menon:** Total outflow was 183 Crores so net inflow was 206 Crores.
- Vijay Karpe:** So what was the lumpsum inflow, just the lumpsum inflow?
- Satish Menon:** We do not have the split as of now. It should be close to 80 plus Crores.
- Vijay Karpe:** 80 plus Crores and the lumpsum outflow?
- Satish Menon:** It is difficult to split that way Vijay, because there is nothing called lumpsum outflow or SIP outflow.
- Vijay Karpe:** Okay and what was the actual SIP inflow?
- Satish Menon:** It was close to bit less than 300 Crores.
- Vijay Karpe:** 300 Crores, okay and what was the B30 contribution this time for us and what was it last year?

- Satish Menon:** As per CAMS it is 35%.
- Vijay Karpe:** 35% and last year how much it was?
- Satish Menon:** Same percentage?
- Vijay Karpe:** 35%.
- Satish Menon:** Yes.
- Vijay Karpe:** Okay, so it means there has been no improvement in the B30 contribution you mean to say?
- Satish Menon:** It means the overall contribution was also up in terms of B30.
- Vijay Karpe:** Okay and what was the life insurance premium this quarter?
- Satish Menon:** We have reported an income of 2.62 Crores.
- Vijay Karpe:** So can you share the premiums which we have written?
- Satish Menon:** Around 10.5 Crores.
- Vijay Karpe:** Okay, and if you could also share the delivery as a percentage of the total cash volumes, how much was it?
- Satish Menon:** This is already there in the presentation, total cash volume ADTO was 3.97 billion and 18.58 billion for derivatives.
- Vijay Karpe:** Alright. As you mentioned in your early remarks to survive we will have to offer new products and provide better services what we have done to do this, have we launched any product during the quarter or during the H1?
- Satish Menon:** Insurance is something which we have restarted.
- C.J. George:** We are also working on few products on which it is too premature to say at this time. So this is something during the current quarter we will be able to launch .
- Vijay Karpe:** Are you talking about the loan product?
- C.J. George:** Yes that is one of the products we are looking at.

- Vijay Karpe:** My next question is how do you see the branch network going forward in the employee count for the rest of the year?
- Satish Menon:** If you compare the employee count over the last one year the employee count is year-on-year has gone down by close to 500 people and if you compare the employee count to the previous quarter also it is down by 200 people. In terms of branch, if you see the presentation there is a reduction of close to 7 branches over the last quarter. Going ahead we will looking at opening branches in the cities where we are not present that will be our prime focus and at the same time particularly in metros if you see there is a chance of consolidating branches we are also looking at that also. In terms of employee we have reached a bare minimum employee as of now with the present level of business and we will be looking at increasing the employee strength as and when the market gives a signal of improvement.
- Vijay Karpe:** Okay, so net-net our branches will be flat you mean to say?
- Satish Menon:** Yes more or less flat.
- Vijay Karpe:** I had just done my calculations on our market shares please tell me if I am right over here. According to my calculations of cash market share has fallen from 1.23 to 1.09, are our calculation correct and if they are what has been the reason for the fall in market share/?
- Satish Menon:** I do not think your calculation is that is correct, we have lost certain market shares, our calculation is coming to 1.19 which is a small dip
- C.J. George:** If you remember we have been taking a position that in new client, many of those new clients whom we are getting are also coming to the mutual fund route so that also some impact for us the market share is concerned. So we continue our focus on mutual fund distribution particularly SIP distribution so in a market like this lot of new clients are coming through the mutual fund route.
- Vijay Karpe:** Alright. So what is the PMS business update? What are the number of PMS clients and AUM there?
- Satish Menon:** 216 is the PMS AUM
- Vijay Karpe:** 216 Crores and what are the number of clients there?
- Satish Menon:** I will answer that question later on Vijay I will get that ready.

- Vijay Karpe:** Sure Sir, no problem. My next question is has the BNP contribution to Geojit Technologies numbers stopped or has there been any contribution this time from BNP in Geojit Technologies?
- A Balakrishnan:** There was a small amount which is around 26 lakhs which was actually spilled over from the last quarter. All those contracts are over.
- Vijay Karpe:** So was the Geojit Technologies EBITDA positive this quarter?
- A Balakrishnan:** Yes.
- Vijay Karpe:** Okay. Sir any update on the cash usage for Geojit this quarter, any acquisition or deployment of excess cash in to high yield margin funding or dividend buybacks any update?
- C.J. George:** We have nothing to say at this moment. We are looking at opportunities where the valuation has gone down if there are right candidates we will look at acquisition so that is why we have not done anything other than that for us the cash in hand is concerned.
- Vijay Karpe:** Alright. Thank you so much for answering all my questions.
- A. Balakrishnan:** Vijay, the number of PMS clients in September is 783.
- Vijay Karpe:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Madhukar Ladha from HDFC Securities. Please go ahead.
- Madhukar Ladha:** Thank you for taking my question. Sir can you give me a split of your broking revenues I calculated that pure broking is about 40 Crores of the 54 odd Crores number and can you give me the balance split?
- C.J. George:** 40 Crores is brokerage, depository is 3.52 Crores. Next comes from interest income.
- Madhukar Ladha:** No BTST.
- Satish Menon:** BTST & margin funding.
- Madhukar Ladha:** Margin funding. How big is that book right now?
- Satish Menon:** On an average around 100 Crores both put together.

- Madhukar Ladha:** That remains fairly constant.
- Satish Menon:** That has remained constant over the past couple of quarters.
- Madhukar Ladha:** Where are insurance partners?
- Satish Menon:** We are agents for two life insurances, one is ICICI Pru, other is MetLife. In the last quarter most of the business is done for ICICI Pru.
- Madhukar Ladha:** Okay are we doing any health insurance or general insurances in this well?
- Satish Menon:** We are doing both but the numbers are negligible as of now.
- Madhukar Ladha:** And partners are there?
- Satish Menon:** We have Bajaj, we have Cigna, we have Star Health, ICICI Lombard.
- Madhukar Ladha:** You gave the split for the life insurance premium can you also split in new premium and renewal premium?
- Satish Menon:** These are primarily new premium, Madhu. We started our life insurance business somewhere last year in September, October only. These are primarily new premium business. We had a small book of MetLife which was done in the earlier years of Geojit which is too small in terms of income collection as of now.
- Madhukar Ladha:** Understood. That is it from my side. Thank you.
- Moderator:** Thank you. The next question is from the line of Aadesh Mehta from Ambit Capital. Please go ahead.
- Aadesh Mehta:** Sir if you can help us think on how your distribution revenue mix would evolve going forward? How much could come from mutual funds versus insurance over the next three to five years or any other products which you are planning to incubate?
- Satish Menon:** Aadesh, it will be very difficult for us to give any guidance as such. Ideally we would like the income from annuity product like mutual fund and insurance if not more at least equal to the brokerage. Unfortunately we cannot give a timeframe.
- Aadesh Mehta:** Any estimation on what could your addressable market be in insurance versus say in SIP. So in SIP what we understand is basically you have stagnated at around 150, 160 odd Crores of book what could that number where should we see this insurance premium

collection being settled and what could be your insurance penetration among your customers, like how do I model this growth?

**C.J. George:** I can answer the second question right now Aadesh in terms of penetration of insurance, penetration is as of now less than 0.1% of our total clients,

**Aadesh Mehta:** Okay Sir. That is it from my side.

**Moderator:** Thank you. The next question is from the line of Vijay Karpe from Brandsten Investment. Please go ahead.

**Vijay Karpe:** Thank you for giving me the opportunity again. Sir how do you see life insurance distribution business doing as I think ICICI Pru has done very well in the month of October?

**C.J. George:** As of now for us also the month of October has been better.

**Vijay Karpe:** Sir then I could not reconcile the inflow numbers for mutual fund you said gross inflows were 389 Crores and outflows were 183 Crores, the inflows which I see are quarter-on-quarter improvement of 30 Crores and year-on-year we are somewhere close to 950 Crores for the equity so can you just reconcile the numbers?

**Satish Menon:** I will give you the six month numbers maybe that will help you?

**Vijay Karpe:** The quarterly numbers will do Sir.

**Satish Menon:** Okay quarterly numbers I just gave to you also I would like to mention one thing what we understand from couple of AMCs is Geojit is ranked number 3 in terms of net inflows for Equities and Hybrid, absolute amount in the industry in the first six months as the financial year. so net inflow was 206 Crores for the last quarter and 177 Crores for the Q1 so total of 383 Crores for the first six months of this financial year.

**Vijay Karpe:** For the Q2 FY2020 what were the inflows?

**Satish Menon:** Q2 FY2020 total equity inflow was 389 Crores, outflow was 183 Crores.

**Vijay Karpe:** But quarter-on-quarter inflows on the net increase in equity AUM has been only 30 Crores if I see over here?

**Satish Menon:** Fund asset NAV related effect.

- Vijay Karpe:** Okay, got it. Thank you.
- Moderator:** Thank you. The next question is from the line of Madhukar Ladha from HDFC Securities. Please go ahead.
- Madhukar Ladha:** I just took a look at your annual report. When I look at your annual report you have commissioned to business associates for the distribution business now that has a percentage of your distribution income has actually risen in FY2019. Can you explain why that would have happened given that FY2019 was a tougher year for mutual funds and also our insurance as a percentage of total sales would be very minimal so that number should not have risen that much, just want to get a sense of the drivers of the business?
- Satish Menon:** That number is risen because our sub brokers started doing insurance business only the last financial year.
- Madhukar Ladha:** But it is not that large component right of your entire sales mix insurance was still very small?
- Satish Menon:** Our distribution income payout in the balance sheet is, what was the number there Madhu?
- Madhukar Ladha:** 4.7 Crores in FY2019. It is coming about 11.5% of your distribution income versus 10% for FY2018.
- Satish Menon:** I have not correlated your figures.
- Madhukar Ladha:** Maybe we can take this offline Sir.
- Satish Menon:** In terms of subbrokers people who do mutual funds it could be around less than 10% of our total income of which 75% pay out will go.
- Madhukar Ladha:** I am comparing it with financial product distribution income. I am not comparing it to the total income.
- Satish Menon:** We will take it offline. I cannot correlate your figures.
- Madhukar Ladha:** The same net inflow number can we get that for FY2019 as a whole?
- Satish Menon:** FY2019 for the whole last year total equity inflow was 1805 Crores, outflow was 743 Crores, a net inflow of 1062 Crores.
- Madhukar Ladha:** Okay. Thank you Sir. That is it from my side. All the Best.

- Moderator:** Thank you. As there are no further questions, I no hand the conference over to Mr. Aadesh Mehta for his closing comments.
- Satish Menon:** Aadesh, I would just like to mention one portion if you compare the last quarter updated presentation and this quarter updated presentation there is a change in the component due to the new ruling of how you account interest income. As per NBFC guidelines what has happened is other income, is that, ,treasury income, which was previously shown in other income has this time moved to the operational income due to the guidelines effect.
- Aadesh Mehta:** Okay so that part of income would be showing as your brokerage income or it could be separate from the operating income itself?
- Satish Menon:** Thank you Aadesh, so I did not answer Madhu's question properly. When we look at the, it is not shown in the brokerage income. If you look at our presentation it is clearly shown there, equity and equity-related is 54.4 Crores, financial product distribution is 11.91, software is 2.13 and others that 2.76 is the treasury income. Non operational income is only 9 lakhs in the earlier presentation which was uploaded for the last quarter, where 4.4 cr shown as other income. Now due to the change in guidelines, we come under NBFC. For NBFC everything has to be shown as operational income.
- Aadesh Mehta:** Sir thanks a lot for our time. On behalf Ambit we would like thank the entire Geojit Management for giving us this opportunity to host the call. Thank you to all the participants for taking your time and be on the call. We wish everyone all the best.
- Satish Menon:** Thank you Sir. Thank you very much.
- Moderator:** Thank you very much. Ladies and gentlemen, on behalf of Ambit Capital Limited that concludes this conference call. Thank you for joining us. You may now disconnect your lines.