



“Geojit Financial Services Limited
2QFY2021 Earnings Conference Call”

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Moderator: Ladies and gentlemen good day and welcome to Geojit Financial Services 2QFY2021 Earnings 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. Udit Kariwala from Ambit Capital. Thank you and over to you Sir!

Udit Kariwala: Thank you so much for joining us for the second quarter results call for Geojit Financial Services. Today, we have the senior management team with us. We have Mr. C.J. George, the Managing Director, Mr. Satish Menon, Executive Director, Mr. A Balakrishnan, Executive Director, Mr. Sanjeev Rajan, Chief Financial Officer, Mr. Liju K Johnson, Company Secretary. So without further delay, over to you Sir!

Satish Menon: Thank you Udit. Good afternoon to everybody. This is Satish Menon from Geojit and thank you for joining this call.

I will take you through overall performance first and we will open it for Q&A. In terms of total income for the Q2, which ended in September 2020 we have reported a revenue of 108.58, which is 19% more than April, May and June quarter and 52% more than the year before.

In terms of expenses, it is 64.82 Crores, which is 12% more than April, May, June quarter and 14% more year before. In terms of PBT profit before tax, profit for September quarter was 43.76 Crores, the profit before tax, which is 32% more than April, May, June and around 204% more than same quarter last year.

In terms of split of income for the last quarter, equity and equity related income is 83.5 Crores, which is 19% more than the April, May, June quarter and 71% more than the same quarter last year.

Mutual fund 10.36 Crores of income in September quarter which is 14% more than April, May, June quarter and 12% more than the last year. Insurance income was 2.99 Crores, 200% more than April, May, June quarter which is normally a dull period for insurance and mutual fund and 14% more YoY.

Software income is up by 22% compared to the last quarter and 5% compared to year-on-year hence total operational income is 52% up YoY and 19% up compared to the last quarter.

In terms of expenses, employee expenses have gone up by 10% compared to the April, May and June quarter, 7% compared to the year before. Fees and commission expenses which is directly related to the activity in the brokerage market primarily is up by 24 % over April, May, June quarter and by 80% over the last year.

The total expense up by 12%, from April, May, June and 14% compared to year before. Hence the profit after tax attributable to the shareholders is 32.27 Crores for September quarter one of the good quarters for us which is 35% up from the April, May, June quarter and 252% up from the same period last year.

For the full year also the profit after tax and after minority interest was 56.09 Crores for the last 6 months of the financial year which is 357% up from the same period last year. This is what I wanted to say in the opening remarks as well as the results are concerned, we are now ready for Q&A. Udit can you please take over.

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

Vijay Karpe: Thank you for giving me this opportunity. My question pertains to the annual report. Sir, can you talk more about the STEPS, which we had rolled out and you update on that and also any update on the opening of branches in the north and east of India. How many branches are with targeting prior to open over there? That is the first question.

Satish Menon: I will request the first question to be taken by Mr. George?

C. J. George: We have been waiting for the final guidelines from SEBI with regard to the advisory. So while waiting for this, we had a soft launch and as many of your aware, the final guidelines came out only recently. So we are reviewing the working as well as the regulatory framework in order to steer up this business, so it is too early for us, in view of this recent development, to talk more about it. But I can only say that we are continuing with the business.

Satish Menon: I will answer the second question, Vijay on our expansion plans for northeast, east of India. Vijay, in the last six months as you know because of COVID, the mobility has been restricted. So we have opened one office in the last six months in the east of India. We have certain plans, which can be executed post this COVID situation clears and people are able to travel. We have plans. I mean there is no strict number in terms of we need to open 10 branches or 20 branches in the east of India, but there is something in the anvil, which we will let you know as and when it comes.

- Vijay Karpe:** Thank you and my second question pertains to some data point, can you tell me what is the effective AUM, the count and the market share, and also how many offices we had, SIP count as well as the total client that we have. It has not been resourced in the presentation.
- Satish Menon:** Total client is there in the presentation, Vijay and I will again tell you, the first clientele, 10.70 lakhs total clients Vijay. In terms of mutual fund AUM, it is 45% of SIP AUM, so 4946 Crores of AUM of Geojit close to 45% is SIP AUM.
- Vijay Karpe:** What is the count and the market share?
- Satish Menon:** In terms of the total AUM we understand we are the 16th largest distributor in the country, in terms of equity and equity hybrid mutual fund AUM scheme, so total 4900 Crores compared to 9 lakh Crores. In terms of SIP, we have stopped giving SIP book because there has been no relevance of the SIP book compared to the cash flow and hence we are giving the total inflow for Geojit every quarter as well as the net inflows. When you look at the mutual fund inflow for Q2 September ended we had 284 Crores of gross inflow for equity and equity related mutual funds and a net inflow of 44 Crores. Though this is slightly more than what we did in the first quarter. In the second quarter, Geojit also faced redemption in terms of mutual fund though of course in the industry the net figure for the quarter equity and equity related is the negative, Geojit has been able to give a small positive of 42 Crores and we understand from certain mutual fund that we are the fifth largest contributor in terms of absolute amount in equity AUM inflows in this country for the last quarter.
- Vijay Karpe:** In the office and the employee count?
- Satish Menon:** Employee count compared to April, May, June quarter it is more or less are same, we have reduced 15-odd people so more or less are same, office count also remains the same.
- Vijay Karpe:** I will get back in the queue. Thank you.
- Moderator:** Thank you. The next question is from the line of Pranav Tendulkar from Rare Enterprises. Please go ahead.
- Pranav Tendulkar:** Thanks a lot for the opportunity. On the September balance sheet, I have a question that how much of the net cash is attributable to Geojit shareholder?
- Satish Menon:** As on September Pranav, the cash of the company is close to 529 Crores. 529 Crores attributable to the company. We have other cash, which is of the client, which I am not saying in this 529. The 529 is the company's cash.

- Pranav Tendulkar:** Okay so that balance sheet.
- Satish Menon:** Invested in Debt MF and Fixed deposit primarily.
- Pranav Tendulkar:** Sir second question is what is your thought about franchise model for the acquisition of retail broking clients and their profitability throughout the client profitability for the company, is it that those clients are not that profitable in terms of distribution as well to company that is why we are not that much focusing on that or any strategic thought on the expanding through franchise model?
- Satish Menon:** Mr George would like to answer.
- Satish Menon:** I will address this question. Pranav one reason is that the franchises are generally not ready to adapt to technology. So wherever franchises are willing and open to adapt to technology, for example all online account opening, customer acquisition, execution and all these, wherever there is some kind of willingness to do that, we are very, very happy to acquire franchises and happy to develop that business, but what we have seen is that there is a general resistance coming from the franchisee whether their client will go directly to the broker and that is one fear that we see. Generally franchisee clients are relatively ageing clients and they do personalized service and the clients were happy, franchises are happy. This is the kind of current situation, but we are open to acquire franchises. We have done so in the recent past. We have proposals with us from the Northeast also.
- Pranav Tendulkar:** Sir the third question is about insurance income. I think this quarter it is about 2.99 Crores. Am I right?
- Satish Menon:** Yes.
- Pranav Tendulkar:** Yes. So that how much is the premium that you are collecting and what is the general percent to that we get and how much time this weighted average duration of this income is how much? I mean to say that there will be obviously a split between one time and recurring insurance?
- Satish Menon:** Pranav, we started insurance business aggressively only a year back. Most of the income is coming as new income. So our average is 25% of the income, which is 3 Crores is the income showed specifically 12 Crores of premium collected.
- Pranav Tendulkar:** Any thoughts on scaling up health insurance?

- Satish Menon:** So we have started as a product, Pranav and there has been some small traction in the last couple of quarters.
- C.J. George:** For this current period, I want to add the one point that you know because of COVID, our ability to sell distribution products that is insurance both health and life as well as mutual funds on boarding SIP that got impacted. I must tell you much of these are done through meetings, conversations, etc. So this got impacted. So whatever number that you are seeing the second quarter number is better than the first quarter because the second quarter there is improvement in the COVID situation, so this has impacted us significantly in the current year.
- Pranav Tendulkar:** Perfect Sir. I will come back in the queue for any other questions.
- Moderator:** Thank you. The next question is from the line of Chander Bhatia from Seers Fund Management Private Limited. Please go ahead.
- Chander Bhatia:** Sir Good afternoon. Thank you very much for the opportunity. Congratulations for the management team for great set of numbers. Sir, I want to know about these equities, yield including the past quarter, is it sustainable?
- Satish Menon:** Equity yield is split into 2 portions Mr. Bhatia. The delivery yield and the speculation yield so when we look at the yield we need to look at a two separate segments. What we are seeing over the last three to four years in terms of Geojit there has been a small decrease in percentages over the last three to four years, but still our yield has not been much affected by what is happening around in the market as of now. Our yield if you look at the last quarter compared to the same yield the previous year the yield has not gone down on actually if you look at the yield compared to a year back we have actually improved from 0.029 to 0.043, but that is a mix of brokerage from speculative business as well as the delivery business what we have seen in Geojit is our delivery percentage had gone up at the market. There is a speculation percentage has come down primarily because may be our clientele is like that. We cater to more long-term serious investors in the market, which do largely more delivery than the market. So even if we look at the equity yields a year back, which was 0.119%, had gone up to 0.131% in this period of huge fluctuations. This probably says that the clientele part what we are servicing are largely investor base clients and not speculative based clients.
- Chander Bhatia:** Okay Sir. Sir, can you say upon detail about the percentage of delivery in cash market size?
- Satish Menon:** So in cash market, I will tell you. You wanted the delivery percentage right?

- C.J. George:** Roughly 30% of the brokerage comes from speculation, including F&O trading's I can say that 70% of the brokerage income is actually coming from the delivery business.
- Satish Menon:** To add 34% of the total cash market volume is delivery.
- Chander Bhatia:** Okay that to much better than the other market is.
- Satish Menon:** Industry I understand is around 18%.
- Chander Bhatia:** 18% that is the great number. Yes. Sir my next question is the impact of changing of rule done by SEBI from September 2020 in terms of volume income and how do you see it going forward?
- Satish Menon:** Mid of September it actually got implemented. We faced I mean the whole industry faced teething problems for some time. We had to go out and reach out to the clients and tell them the advantages and the mechanism of doing share pledge. Now more or less the issues had been settled and we are back to our normal ways more or less with an increased activity in the last quarter. There have been no major hiccups apart from the first few days of the implementation. Now this is more or less settled. The second SEBI regulation which is going to affect the market, which will come in December and then every three months, that is the reduction of the leverage in trading, for that matter is Geojit would not be impacted because we do not provide those kinds of leverage trading. So two parts of your question, the new margin mechanism on pledge is more or less settled and people have understood and people have accepted it. December part, it should not affect Geojit largely because today also we are not providing that kind of leverage.
- Chander Bhatia:** Some detail about the interest income book or the BTST segment?
- Satish Menon:** So for the last quarter, September quarter 4 Crores was the interest income on delayed payment including margin funding.
- Chander Bhatia:** Okay Sir. Thank you so much that is from my side.
- Moderator:** Thank you. The next question is from the line of Aman Pereira from Bellwether Capital. Please go ahead.
- Aman Pereira:** Thank you for the opportunity. Sir, I just wanted to understand could you provide us with the share of below 30 cities in mutual fund AUM, what percentage share of you have IMA, AUM, I missed on this?
- Satish Menon:** B30 the AUM would be close to 50%.

Aman Pereira: 15.

Satish Menon: 50%

Aman Pereira: 50%. Sir just one more question at you know we seen industry level SIP flows has come down and retail accounts open with brokerage so I just wanted to understand Sir. Overall long-term period, do you think that this is sustainable that people will you know try to go for direct trading and stop SIPs or do you actually think that with people going to back to work really want to open SIPs to continue investing in the markets. Just wanted to understand your thoughts in this trend.

C.J. George: I will take that. It is an interesting question. What we have said the basically two answers to that question. Number one, now globally this lockdown has resulted in some amount of active interest in stock trading/gaining. These are two activities that really grew significantly during the lockdown period. I do not think this is a serious investing. So SIP is used for long-time investing long-time financial planning, goal based financial planning etc. Although there was a kind of an issue in the recent past, our experience I can tell you very clearly. Our ability to touch base of our customer got impacted. So that was on the employee side you know because of the health care concerns we had significant problem. It is not only with us it is for the all industry because SIPs are done with some amount of advice, some amount of interactions with the customer. So this has had more impact rather on the SIP plans going and opening trading accounts, online accounts, etc. So this is what I have seen with our clients.

Aman Pereira: You do not think that in a long-term people may stop SIPs and go to trading, but they will continue with SIPs for their goals?

C.J. George: So, let me also tell you that SIP investing and continuing SIPs, these are also issues with regard to how intermediaries like us educate our clients. So what we have seen in the market that I can tell you that lot of these direct SIPs got discontinued because the handholding part was relatively much less in that case. So I am of the view that it is a question of how we sold SIPs and how we continue our relationship with the customers and how we explain and educate this to clients, so in our case we are quite confident that we are selling this as a long-term wealth creating instrument and we will continue to do that and I do not have any worries about it.

Aman Pereira: That is all from my end. Best wishes for future. Thank you.

Moderator: Thank you. The next question is from the line of Pranav Tendulkar from Rare Enterprises. Please go ahead.

Pranav Tendulkar: Thank you lot sir for giving the opportunity on me. Sir, just about the organization structure and investment resources, how are we mapping the customer crossing, is there any organization because I think we were in process of doing this. I understand that process would have got impacted because of COVID, but what is our plan about how to cross sell to our existing 10 lakhs clients so any colour that you can do on this?

C.J. George: The plan that we had and the plan that we have I must tell you it is basically cross sell among our clients and our client's family members. So SIP for that matter even instruments, life health insurance, life insurance, etc., our advantage is that our ability is not just with one customer account, we are actually looking at the family of the customer and the extended family. So that is in plan, we are not looking at entirely separate vertical. So, our equity relationship employees are the employees who have trained, certified in all these instruments and they are selling mutual funds as well as insurance to same set of plans. So majority of our business is cross-selling only.

Pranav Tendulkar: I am sure that you would do mapping things like what age cohort and what product you hold and what products you hold outside, something like that you keep a track off?

C.J. George: We do. We are in the implementation stage at the CRM and we already implemented so we are doing all that are required basically is going forward to now take that option of when there is new birth in the family, when there is a wedding in the family all this will get recorded and eventually we will be able to sell instruments that are required by these new members in the family. So that is the way we look at it.

Pranav Tendulkar: Second question is that other than mutual fund and insurance there are many products like the AIF and obviously it requires a different kind of sell those products, but everyone that AIF or EMI for other kinds?

Satish Menon: We will do already PMS and at the same time let me tell you with regard to AIF as I agree with you we do not have this skill set at this moment to sell this product extensively and also the customer segment is slightly different. We have lots of mass affluent customers. To them we sell PMS as well as we also sell in a model portfolio. So this is the way we are dealing. If the client is very small and the client needs information advice, we sell model portfolio, suggest model portfolios to them and for relatively large clients PMS at the moment. So AIF is not at the radar at that moment we have not decided about it, possibly we will take a view over a period of time.

Pranav Tendulkar: Thanks a lot.

- Moderator:** Thank you. The next question is from the line of Vijay Karpe from Bryanston Investments. Please go ahead.
- Vijay Karpe:** Sir, thank you for giving me this opportunity again. My question pertains to the equity and equity related segment, so can you give me the breakup of the segment how much is clear broking, how much is depository, how much is NPA, how much is PMS?
- Satish Menon:** Vijay brokerage was 72 Crores, depository was 7 Crores, and interest income was 4 Crores, balance from other activities.
- Vijay Karpe:** How much was the MTF book and end of the quarter how much was the average?
- Satish Menon:** So MTF book at end of the quarter was low because of SEBI regulation change MTF had a big problem, so the MTF book at end of the quarter that is September 30 was close to 12 Crores hovering around that level for the last full quarter.
- Vijay Karpe:** 12 Crores.
- Satish Menon:** In October as of this date it is around 30 Crores. Probably because, I do not know whether you are aware because of the change in SEBI rules you had to take out the shares from particular account, give it back to the client and then we had to replace the shares to MTF the end of September quarter.
- Vijay Karpe:** 30 Crores.
- Satish Menon:** Yes 30 Crores.
- Vijay Karpe:** It used to be at 100 Crores and 20 Crores right?
- Satish Menon:** MTF used to be around 50 Crores and other overdues, that is the BTST HD used to be around 50 Crores. I am talking particularly about MTF and thick of the time it was around 50 Crores a year back.
- Vijay Karpe:** Okay. Sir, can you give me the combined number for MTS and BTST book at the end of September.
- Satish Menon:** We do not have an assessment Vijay. We will try to get it before the call ends.
- Vijay Karpe:** Alright and also in the annual report that has been mentioned that we are launching new products loan intermediation. What was the disbursal amount for the quarter if any?

- C.J. George:** Here again Vijay the problem was because of COVID the unexpected, healthcare issues development some of businesses, that needed personal interaction had got impacted. So at the moment we could not scale up the business. We are now so many months after the lockdown now we are trying to scale up the business. Satisfy by the end of this quarter you will have some numbers.
- Satish Menon:** Loan disbursed, yes.
- Vijay Karpe:** Also in the annual report it has been mentioned that we have incorporated mutual fund reconciliation process and that has brought about reduction in cost and can you qualify how much did we pay?
- C.J. George:** We do not have that number at the moment we could possibly inform them offline.
- Vijay Karpe:** My last question then now we were in the process of launching platform for enabling online process of mutual fund. Is it online now?
- C.J. George:** Due to this regulatory change with regard to advisory service, we had to go slow on that project, but we are planning to again relaunch it. We have started it, but then we had to go slow on that. The way we designed with all projects and the software, etc., was slightly not in agreement with the regulations which came out so we stopped and then we have to roll out again.
- Vijay Karpe:** Thank you.
- C.J. George:** Thank you very much.
- Moderator:** Sir. We have one question from the line of Udit Kariwala.
- Udit Kariwala:** Sir. I had a question. I would like to hear your thoughts over a long-term on the discount broking industry. That is my question. Thank you.
- C.J. George:** I must tell you some of this self-directed transaction execution business will grow in this country, we do not have any doubt about it, but if that is my answer to your question. If your question is connecting with Geojit business, I can say that our focus always has been longtime investor, so that focus we do not want to compromise or dilute that business. Having said this, we are closely watching these developments in the discount broking industry and the trends that are emerging. While saying this we are also trying to discount for the lockdown related global development also.

Udit Kariwala: Is it fair to assume that you know almost everybody in discount broking is short-term because there would be a large part of customers over there, which are actually long-term but are going there because it is much and more efficient?

C.J. George: From my experience I can tell you, I do not agree the observation that these are the long-term serious investors who are going there. Our experience is that the people who are going there are basically people who want to do largely some kind of gaming the market and not necessarily the delivery kind of clients. So that is what we have seen so far whereas I also know for sure that if transaction execution is the only offer a broker is having that business will go to discount broker because if there is nothing else why should the client be with a broker. So all that can make a difference is going to be the kind of value a broker can deliver to an investor, a long term investor in terms of advisory, financial planning, serious relationship and then holistic view of the family selling insurance, mutual funds, SIPs, equities, everything together and then how we develop relationship with them. So that business is from our experience is intact, even today there was a question with regard to the yields that we get. So this is our experience but having said this I do not rule out the possibility even the broker has nothing to offer the price becomes the only offer then discount brokers are the answer for such traders and people will go there.

Udit Kariwala: That is a fair point. Thank you Sir.

Moderator: Thank you. The next question is from the line of Shaleen Seth from Seers fund Management. We take this as a last question.

Shaleen Seth: Sir. Congratulation on the statistics number Sir. I have a quick question on the client base. I was just looking at the full-scale brokers and I was comparing your growth rate in terms of client's addition, I was the little lackluster. I was just hoping if you could share some strategy as to how we do plan increase that. I am not comparing this with obviously the discount brokers. Recent competitor ICICI for that matter our growth rate is about half of I-Sec in terms of client addition?

Satish Menon: When we look at the growth rate compared to the April, May, June quarter when I look at the active number of active clients at I-Sec, I-Sec has grown 7%, Geojit has grown 6%, For that matter even other traditional brokers had grown 6%, 7%, but yes you are right when you look at a year-on-year the growth rate is little less than half. I can only say that in the last quarter, there has been some traction for Geojit in terms of serious brokerage business also. Particularly when you compared the last quarter we are in line with other traditional brokers would like you said we cannot compare ourselves with discount brokers or the increase in client percentage compared to 6%-7% they are at 25% and 50% and all, but last quarter we are in comparison with the other traditional brokers.

- C.J. George:** Satish, can I also step in and supplement your answer. There is one thing we have large number of branches and the primary acquisition of customers used to be through the branches. So as I told already in the beginning for that conventional account opening through relationships, references etc., got impacted because of the COVID situation. Then our digital account opening was basically not ready and smooth at that point in time. Currently it is working well and we are of the view that there will be change in our acquisition as well as on boarding strategy going forward.
- Satish Menon:** Thank you very much Sir.
- Udit Kariwala:** Thank you.
- Moderator:** Thank you that was the last question. I would now like to handover the conference over to the management for closing comment.
- Satish Menon:** We do not have any further comment operator. I will request Udit to close this.
- Udit Kariwala:** Thank you so much everybody for joining us for this call and I also thank the management for the time. Thank you so much. That is it. Thank you.
- Satish Menon:** Thank you very much.
- Moderator:** Thank you on behalf of Ambit Capital that concludes this conference. Thank you all for joining. You may disconnect your lines now. Thank you.