



“Geojit Financial Services Limited
Q4 FY2019 Earnings Conference Call”

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Moderator: Ladies and gentlemen good day and welcome to Geojit Financial Services Q4 FY2019 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 would now like to hand the conference over to Mr. Dhruv Jain from Ambit Capital. Thank you and over to you Sir!

Dhruv Jain: Thanks Janis. Welcome to the Geojit Financial Services Q4 FY2019 earnings call. To discuss the results we have the entire senior management team of Geojit. May I request Mr. Satish Menon to take us through the financial highlights, subsequent to which we can open the floor for the Q&A session. Over to you Sir!

Satish Menon: Thank you, Dhruv. Good evening and welcome to everybody on this Geojit investor call for Q4 as well as for the full year. I will take you through the highlights of the financials and then certain specific topics, which we wanted to highlight then we can open for Q&A.

In terms of Q4 FY2019 the operational income was 71.17 Crores, which is 18% down from last year, total income was 77.88 Crores which is 19% down from the last year, the profit before tax was 13.47 Crores, which is down 55% from last year and profit after tax 7.41 Crores, which is 62% down from last year and 27% down from the preceding quarter.

One note we have given in the quarterly accounts that the profit after tax of 7.41 Crores is after taking into account 2.51 Crores provision against our Saudi Arabia Company. In terms of split of income, I hope all of you would have seen our investor presentation, which was uploaded yesterday evening, but just for the sake of it let me touch upon the highlights. Equity and equity related income for the quarter ended four was 56.05 Crores, which is 15% lower compared to the last year and 3% higher compared to the preceding quarter. Financial products income was 9.49 Crores, which is 26% lower what we did Y-on-Y and 8% higher than last year, which includes an insurance income of 73 lakhs.

In terms of other income, software income was 3.18 Crores, which is 26% lower Y-on-Y and 23% higher over

the preceding quarter. The total operating income 71.17 Crores, which I have already explained.

In the split of income a specific note on the income from mutual fund, it is 8.71 Crores, which is booked for the last quarter, we need to understand that it is not typically comparable to last year or the preceding quarter, if we compare to the last year same quarter we had received close to Rs.5 Crores, Rs.5.34 Crores upfront income, which post October 22, 2018 it has gone into the trail mode, so the income in case of upfront, which was being received by Geojit upfront has moved to a trail model, so there is 5.34 Crores, which was accounted last year as upfront income has come down to 42 lakhs in the current quarter.

In terms of full year, operational income is 287.67 crores against Rs. 334 Crores in 2017-18, which is split into equity and equity related income of Rs. 222.72 crores against 259.84 Crores in the previous year, financial products income of Rs. 41.34 against Rs. 43.45 Crores last year, software income of 12.21 against 17.28 Crores during 2017-18. The total operational income 287.67 Crores is 14% lower than what was done in FY2018.

In terms of profitability, the profit before tax for this financial year is 68.54 Crores, which is a 41% drop compared to last year, profit after tax is 35.46 Crores, which is a 52% drop from last year.

Just to highlight on the income, again in financial products, the quarter we said it is 5.34 Crores, for the full year the impact of upfront income is close to Rs.12 Crores and you would know that in April 18, 2019 we had a hit on this special upfront of 20 basis points being made to 5 basis points so there was a hit of the income in April 18, 2019 itself. Both this upfront getting into trail as far as this hit would have given us an extra 18 Crores income to just to put the numbers in right perspective if this would not have been received the income from financial product distribution would have been up by 18 Crores.

Net worth on a standalone basis stands at 409 Crores on a consolidated basis stands at 538 Crores. The Board has recommended a dividend of 100% that is Re.1 a share, which is 100% payout. In terms of employees as of March 2019 we have 2562 employees compared to 2715 employees in December 2018.

We continue to build our third party income, our focus is still continuing on building our mutual fund AUM and other third party product like insurance. Our endeavor is to sell more products to the same client. In the last full year financial accounts there was one more special item in terms of the tax, we paid 6 Crores extra tax pertaining to earlier year, which was there in the second quarter of the last financial year. Continuing on the business last year we added 86400 clients compared to 88900 clients as against 2017-2018.

Our SIP book stands at 152 Crores compared to 143 Crores last year. Our STP book is at 21 Crores compared to 15 Crores of last year. Gross SIP added in FY2018-2019 was 67 Crores, but the net addition is hardly 10 Crores primarily because of the cancellation, which has happened on the older SIPs. Just to give you a perspective Geojit cancellation percentage is 28% compared to the average of the top 300 SIP distributor 27%, so more or less in line with the competition. One notable highlights of the mutual fund business is our AUM equity Y-on-Y has grown by 40% whereas the industry equity AUM has grown by 16%, we understand it was a slightly tight market last year because of the mid caps, small caps,

correction all those things. Net sales for Geojit in terms of mutual fund equity was 5% better whereas in industry it was -52%.

Coming to the brokerage business, brokerage and brokerage related income is down by 14%. 19% of our brokerage comes from futures & options, balance comes from the cash market of which delivery contributes 65%.

Blended yield for the last quarter was 0.038% compared to 0.037% the preceding quarter and compared to 0.047% last year this is primarily because of the mix of business. In FY2017-2018 40% of the cash business was delivery business, in FY2018-2019 only 32% is the delivery business which is a higher yield earning sales.

Before we go onto the Q&A one last point I would like to make. This is on mutual fund commissions getting affected because of the TER changes, which is supposed to kick in from April onwards. We have still not got the full data of all the mutual funds in terms of the revision in TER, but on a broad sense we expect a reduction of 15% to 20% on the existing AUM if we are not able to manage our sales in a better way, which we intend to do. We have a recommended list of funds; our endeavor would be to

sell good recommended funds, which has a larger trail commission. This is what I wanted to say in the opening remarks, now it is open for Q&A.

Moderator: Sure. Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. We take the first question from the line of Saurav Dhole from Trivantage Capital. Please go ahead.

Saurav Dhole: Couple of questions. Firstly on the provision that you have made towards litigation regarding the subsidiary that you have the Aloula capital, can you please elaborate what is this regarding and how much additional provision we would have to take in the coming quarters.

C J George: This is George here. Let me tell you this is the part of the full provisioning they have made for a litigation for compensation from one of the customers in Saudi Arabia, so the provisioning was done 100% and this is our share of that particular provision, I must tell you that this is not a subsidiary, we have only 28% stake in that company.

Saurav Dhole: So what was the issue here regarding which you had to make a provision then what was the dispute about with the customer?

C J George: No, this is about an insurance company's investment in a PMS scheme where the insurance company was not supposed to hold certain types of shares, which was accidentally there in the portfolio. So the shares had to be sold and the insurance company petitioned for compensation for the loss. The company has gone for appeal while the full provisioning was made for this quarter.

Saurav Dhole: Okay. So incrementally there is no additional provision that you will have to take?

C J George: No, there will not be.

Saurav Dhole: And Sir, secondly on the number of employees, sequentially there has been a drop of about 150, 160 odd employees what would this be with respect to?

Satish Menon: So, this is primarily sales employees, we had started aggressively hiring sales employees in the first half of the last year. Unfortunately due to the market condition the brokerage business was slightly weak.. So we took a stand that we need to build in employees who are productive and we actually went a little bit slow on recruiting fresh employees. A natural attrition took place in terms of sales employees who were not performing, but we did not add

up these numbers because of the market condition. This is how we managed the cost. Going ahead now, this quarter of this financial year has started well and we would be looking at addition of sales employees that we have.

Saurav Dhole: Okay Sir. Thank you so much.

Moderator: Thank you. We take the next question from the line of Vijay Karpe from Brandsten Investment. Please go ahead.

Vijay Karpe: Hi, thank you for giving me this opportunity. As we know the pure SIP book is at 151 Crores so what has been the actual SIP inflows for Q1 FY2019 and how much does B30 make out of this?

Satish Menon: Q1 of FY2019-2020?

Vijay Karpe: Q4.

Satish Menon: Q4?

Vijay Karpe: Yes.

Satish Menon: Q4 of 2018-2019 the pure SIP was 13 Crores gross collection, which is compared to 11 Crores of the October, November, December period. Is this what you asked?

Vijay Karpe: Yes, the actual SIP inflows, the book I know is 151, but the actual SIP inflows for the fourth quarter.

Satish Menon: It is around 65% of the book.

Vijay Karpe: And what were the gross lump sum inflows and outflows for the fourth quarter?

Satish Menon: For the last quarter?

Vijay Karpe: Yes for the fourth quarter.

Satish Menon: For the fourth quarter the lump sum inflows would be 191 Crores.

Vijay Karpe: And what was the outflow?

Satish Menon: 226.

Vijay Karpe: 226?

Satish Menon: Yes, this is for the quarter. So if you want the full figures for the full year SIP inflow was 1360 Crores, lump sum inflow was 445, and the outflow was 743, so net inflow of 1062 Crores.

Vijay Karpe: And regarding the Aloula Geojit Capital Company we had provided 10 Crores for this in 2017 and in FY2019 we provided 7.5 Crores right?

C J George: That is right.

Vijay Karpe: So are there any more provisions to be made here?

C J George: No. Full provision that was the operating loss and this was a special provisioning for this particular litigation, which is fully provided.

Vijay Karpe: So of the 31 Crores invested there will be no more provisions?

C J George: No, more at the moment it is fully provided at the moment, depending on future if there is any operating loss then it will be provided yes.

Vijay Karpe: And how do you see the cash yields moving forward for the full year?

Satish Menon: On the brokerage business?

Vijay Karpe: Yes.

Satish Menon: On the brokerage business we are pretty confident on the yield, which is coming in, so in the yield we have to split

into the delivery yield and the speculation F&O yield. In terms of yield our yields have remained steady on the trading business, on the delivery business also it has remained more or less steady. The yield difference comes in when the percentage mix of delivery and trading changes, for example I said in 2017-2018 out of Rs.100 of cash market, 40% was in delivery and in 2018-2019 out of Rs.100 of cash market volume, 32% is delivery. So of course when the mix of the business changes the blended yield change otherwise we are pretty confident on the standalone yield, but we see a pressure coming in when more and more volumes will be shifted to online. Today we have close to 48% of our income coming from online business, which we intend to grow, so there could be a normal reduction in the yield when more business shifts to online.

Vijay Karpe: Alright.

C J George: Also I must add a point that in our traditional markets we are not seeing any pressure, in new markets where we have gone and started branches in North of India, etc., that is where we have lower yield, which is having an impact on the total blended yields.

Vijay Karpe: And what will be the yields on a commission that will be expecting on our mutual fund business now will it be close to 0.9%?

Satish Menon: Like I said in my opening remarks we have not got the data from some of the mutual fund companies. Our broad idea is anywhere between 15% to 20% reduction on the existing assets if we are not able to come out with innovative ideas of selling mutual funds.

Vijay Karpe: And last question how you are going to take the insurance business forward from here on, how do you look at it, two, three years down the line?

Satish Menon: So our idea is to be a mass wealth manager to our clients, we were already into brokerage business, two years, three years back we started selling mutual funds and now we have done out some baby steps in insurance. Our idea is to sell one more product to the same client. So insurance is a product, which we think is a natural need for our clients so there will be focus on selling insurance in the coming periods.

Vijay Karpe: Alright. Thank you so much.

Moderator: Thank you. Next question is from the line of Zaharah Sheriff from Fedwinteg Capital. Please go ahead.

Zaharah Sheriff: Thanks for taking my call. Just wanted to know what is the equity AUM in your mutual fund total business?

Satish Menon: As of March 2019 the equity AUM is 3903 Crores of the total of 4391 Crores.

Zaharah Sheriff: If the mix between debt and equity across your client segment sort of steady or do you see some kind of skew in any particular segment that you work with, is there any sort of nuance over there that can be interpreted?

Satish Menon: Actually speaking we are primarily concentrating on equity mutual funds. If you look at over the years our percentage of debt in the total mutual fund assets has only reduced.

Zaharah Sheriff: But if you are hoping to be a mass wealth manager then would not or do your clients not fall or will not fall in the tax bracket where a debt allocation makes them versus their FD they would otherwise be investing in?

Satish Menon: Actually no, I do not think that is how we envisaged it, we would be selling debt also, but right now the focus is on selling equities.

C J George: And also the last year 2018-2019 was slightly stressful as far as the debt market was concerned, so we were taking a view that, that was not the time to sell debt products, but at the same time we fully appreciate your question and then we have definitely that in the asset portfolio for our clients.

Zaharah Sheriff: And also when you are looking at insurance as a marginal expansion of your product offering what kind of insurance products are you selling?

Satish Menon: It is primarily term insurance.

Zaharah Sheriff: Okay, that is all from my end. Thank you.

Moderator: Thank you. We take the next question from the line of Aadesh for Ambit Capital. Please go ahead.

Aadesh Mehta: Any update on your asset management license?

C J George: Aadesh this has been under process at the side of SEBI. Also I must tell you that because of this development in the industry we are looking at probably withdrawing this application for the time being and if that happens we will inform immediately the exchange and investors.

Aadesh Mehta: So our outlook towards this business has changed?

C J George: Not really this is basically because of our focus on distribution at the moment and once we reach a critical mass and then we will certainly go back and get the application processed again. So it is a short time initiative.

Aadesh Mehta: Okay Sir all the best.

Moderator: Thank you. We take the next question from the line of Vijay Karpe from Brandsten Investment. Please go ahead.

Vijay Karpe: Sir thank you for giving me this opportunity again. I did not get the SIP inflow figure for the quarter properly, how much was it for Q4 actual SIP inflows?

Satish Menon: 314.

Vijay Karpe: 314 Crores, alright, thank you.

Satish Menon: Just to add to what Mr. George said on the AMC business, our endeavor right now is to build our PMS book, we have a small PMS AUM, which was close to 155 Crores last year, which has grown to now 194 Crores now. We intend to build that business before we get into another discussion of AMC.

Moderator: Thank you.

Satish Menon: I think there are no further questions.

Moderator: Yes, sir looks like no further questions. So I hand the floor back to you for your closing comments. Thank you.

Satish Menon: So 2018-2019 was a little tight year for the markets though the index have shown some positive against most of the portfolios of our clients of all clients actually, which are invested in the B, and all those B2 scripts did not see much movement so that weakness is what seen in all the businesses, which included equities as well as mutual fund distribution. Going ahead looks like it has the sentiments have turned in terms of what is happening on the government side we hope we expect this year to be much better than what we have seen in 2018-2019. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of Ambit Capital Limited, we conclude today's conference. Thank you all for joining. You may disconnect your lines now. Thank you.