



“Geojit Financial Services Limited 4QFY18 Post  
Results Analyst Conference Call”

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LIMITED  
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**MODERATOR: MR. AADESH MEHTA – AMBIT CAPITAL**

**Moderator:** Ladies and gentlemen, good day and welcome to the Geojit Financial Services 4QFY18 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 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. Aadesh Mehta from Ambit Capital. Thank you and over to you, sir.

**Aadesh Mehta:** Thank you, Stanford. Good afternoon everybody and welcome to Geojit’s fourth quarter earnings call. To discuss the results, we have the entire senior management team led by Mr. C. J. George and Mr. Satish Menon. May I request the management to take us through the financial highlights, subsequent to which we can open the floor for a Q&A session. Over to you, sir.

**Satish Menon:** Thank you, Aadesh. Good afternoon everybody. This is Satish Menon here. I will take you to the key points of the fourth quarter and then some performance indicators, post which we can open for Q&A.

In terms of results, the revenue for January, February, March 2017-2018 quarter was Rs95.66 crores which is 20% above the same quarter last year and 5% down from the October to December preceding quarter. In terms of expenses, expenses were Rs65.57 crores which is 19% more than last year and 4% down from the preceding quarter. Profit before tax was 30.08 crores which is 21% up from the last year. Profit after tax is Rs19.27 crores which is up 26% year-on-year and 8% down from last quarter. In terms of split of revenues, we have already uploaded the shareholder presentation to our website. I hope some of you would have been able to see that. Therefore the benefit of others, I will take you through the split of incomes and how it has grown .

Equity and equity related income has grown to Rs66.14 crores which is 16% up YoY and 8% down from the preceding quarter. Financial product income which primarily comes from the income from distribution of mutual fund, for 4Q, it was Rs12.75 crores which is 78% up YoY and 9% up from the preceding quarter. Software income was Rs4.31 crores which is up 10% YoY and same as the preceding quarter. Other income was Rs3.9 crores, 35% up YoY and 7% up from the preceding quarter. So, total operational income is 23% up YoY. That is as far as incomes are concerned.

In terms of SIP, we ended 4Q with total SIP plus STP book of Rs165 crores, of which Rs143 crores is SIP and Rs22 crores is STP. December-end, this number was Rs142 crores total which was spilt into Rs119 crores of SIP and Rs23 crores of STP. Year-on-year, our total book increased from Rs88 crores which was in March 2017 to Rs165 crores in March 2018.

In terms of total SIP numbers, we have 3,26,000 SIPs running as of now. In terms of mutual fund AUM, mutual fund AUM under Geojit ARN code is 3,273 crores as of end-March 2018. This is compared to 2,017 crores end of March 2017 which is a growth of 62%. Compared to December 2017, the growth is nominal. December 2017, the AUM was 3,210 crores, only a growth of 63 odd crores. This is primarily coming from the dip in the stock prices. So, January was a good month. February and March, we had seen the market fluctuating downwards and that effect is seen in the AUM. Though we added 290 crores net inflow in the fourth quarter, the increase in the AUM is showing only 63 crores primarily because loss in value due to the market movement. That is what I have to say in the opening remarks.

Aadesh, we are open for Q&A now.

**Moderator:** Thank you very much, sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Saurabh Dhole from Trivantage Capital. Please go ahead.

**Saurabh Dhole:** My question is with respect to the equity and equity related income which has seen a sequential fall. So, what exactly would this be because of the general markets correcting or are there any other reasons?

**Satish Menon:** Thanks, Saurabh. This is primarily coming from the brokerage revenues. The market for the last quarter that is January, February, March in terms of volumes was lesser than what we saw in October, November, December. January was a fantastic month for the industry. The brokerage in January was the highest for some time for Geojit. But February and March was not so good month. So, the dip compared to October, November quarter is coming primarily from the decline in the market volumes for the industry itself, similar to what happened with Geojit.

**Saurabh Dhole:** And how the yields holding up in the cash and derivatives market? Have they been kind of stable in this particular quarter?

**Satish Menon:** So in terms of yield, yield has remained more or less steady but there is a small change in the mix of business of day trading and delivery. When we talk about the blended yields, blended yields for 4QFY18 is 0.047 which was 0.055 in the December quarter. In terms of equity yields, equity yield is 0.156% compared to 0.168%. So, the yields have remained largely the stable, but in terms of composition change, the overall blended yields have slightly come down. Also, you would have noticed that the percentage of delivery volumes have come down in the market itself. So, lots of non-delivery volumes are happening, which is reflected in the blended yield going down.

**Saurabh Dhole:** And in terms of volume mix, what kind of volume mix are you seeing? Or does Geojit traditionally have between cash and derivatives?

- Satish Menon:** So, it is more or less the same for the financial year 2018. Here 26% was cash market and 74% was F&O. For 4Q ended March 2018, it was 25% and 75%. So, it largely remains at that level, 25% cash and 75% is derivatives.
- Moderator:** Thank you. The next question is from the line of Digant Haria from Antique Stock Broking. Please go ahead.
- Digant Haria:** Sir, what was the stoppage in this entire January, February, March like? Did you see any specific kind of customer who stopped the SIPs or?
- Satish Menon:** So, post the budget we thought that there could be stoppages. So the initial days after the budget when we saw, some stoppages happened, and some redemption in the first four days of February. But when the month ended and then March ended, the redemptions were not so much. If you look at our quarter-wise figure for the whole quarter in terms of net inflow to the total inflow for this 4Q and 3Q it remains steady at 56%. So, we have not seen major percentage change increase in stoppages or redemption.
- Digant Haria:** So, this 56% is more or less what? Can we now say that it is probably our stable run rate, obviously market fluctuations can change this but?
- Satish Menon:** It can be better also.
- Digant Haria:** I understand that last 2-3 months have not been great at all for the market. But what have we done at the marketing level at the client on holding level or how are we seeing traction building over the next 2 years because markets may not be as buoyant as last 12 months? But I think, what are we trying to do at the ground level or at the client level to ensure that we more or less have this financial distribution story it continues to have its traction?
- C. J. George:** George is here. We continue to give lot of importance to financial products distribution. So, if the market is down in our view that should not affect either our strategy or in terms of our business because we will be able to give more focus towards distribution, particularly the SIP distribution. So, there is absolutely no doubt in our mind with regard to the future potential as far as SIP is concerned. Position SIP as an instrument for long-term wealth creation and it should not affect ideally the short-term fluctuations in the market. So, even if the market is down, market is volatile, we educate clients and we continue with our effort to increase our SIP business. And there is absolutely no doubt in our mind with regard to the focus that we give for distribution business.
- Digant Haria:** And just in terms of this entire marketing campaign which we had which was print plus online and sorry not print but mainly online and on the hoardings like have you seen like visible difference in terms of enquiries or ...

- C. J. George:** So, online of course, we also started Funds Genie, which is an app whereby people could directly come, they could do financial plan, they could invest. So, we started seeing traction in that business although it is only baby steps at the moment. But it is really interesting to see around 30,000 downloads of the applications in first couple of months itself. So, in terms of the digital advertisements, of course we are seeing good response. But with regard to the returns on the advertisement spends etc. which is something for the long term. So, we do not think we can measure this accurately with regard to the impact of this advertisement.
- Digant Haria:** And just in terms of this 44,000 new customers that we added like how many of what percentage would probably be completely new to Geojit ecosystem?
- Satish Menon:** Which 44,000?
- Digant Haria:** Sir, the SIP customers, the number of SIP customers that we added for this quarter, I think, if I read that number right, 45,000 yes.
- Satish Menon:** That is the number of SIPs. Let me give you the client statistics. We sold close to 77,000 new clients last year that is 2017-2018, of which 57,000, our clients who did not have SIPs with us earlier. It means 74% of the clients whom we have sold SIPs last year did not have any SIPs with us.
- Digant Haria:** And these 57,000 could be your existing broking customers or outside the Geojit ecosystem both, right?
- Satish Menon:** Correct. Let me give you a split of that also. Out of the 77,000 clients, 60% are the clients whom we have recruited after we started our objective of SIP building. 60% came in the last 2 years.
- C. J. George:** This was new.
- Satish Menon:** New clients to Geojit.
- Moderator:** Thank you. The next question is from the line of Vishal Modi from Maybank. Please go ahead.
- Vishal Modi:** Just one question on your recent announcement to enter the asset management space. So, what is the strategy there and what are our business plans and by when do we see this business scale up plus what will be the kind of investment, etc.?
- C. J. George:** Yes, that is true that we did announce the setting up of an AMC. What we have planned is an AMC only to do passive funds. We wanted to have a direct product, our own product also and that will not be into active asset management. So, one idea of that is we did not want to have the usual conventional journey with regard to the cost, etc. So, this business in our view will

pick up in India also passive funds business. So, currently our plan is very clear, we will only have passive funds, not active funds.

**Vishal Modi:** So, more like ETFs, right?

**C. J. George:** That is right. ETFs, index funds and debt funds, etc. We will also have PMS in that AMC. We will probably build the PMS, we will transfer our existing PMS, but it is small, nothing great at the moment. So, that will be that business and we will not get into active fund management.

**Vishal Modi:** The second question is also what would be the kind of cash that we have around more than 400 crores now on the balance sheet? So, what are the plans for that?

**C. J. George:** Of course, we will need some amounts for setting up of AMC as the minimum capital requirement is 50 crores. So, we will need that capital for the AMC and then you would have noticed that we declare 200% dividend so really continued to be liberal and whenever there are opportunities that are available in the distribution space, wealth management space, good boutique firms at right valuation, possibly we will look at inorganic opportunities.

**Moderator:** Thank you. The next question is from the line of Madhukar Ladha from HDFC Securities. Please go ahead.

**Madhukar Ladha:** Sir, can you please split the broking revenues into the different components of the pure broking revenue plus the BTST charges or the delayed payment charges or the margin funding charges for the quarter and for the previous quarter?

**Satish Menon:** The split of income is like this. Brokerage was for January to March 2017-2018 was 57 crores compared to 47.49 crores a year back compared to 61.98 crores in October, November, December. So, that is the primary item in this segment. Balance is the BTST, overdue fees what we say that was 4.14 crores compared to 3.49 crores a year back and 3.83 crores October, November, December quarter. DP services was 4.26 crores for JFM 2018 compared to 5.3 crores JFM 2017, compared to 5.1 crores October, November, December 2018. These are the primary three components.

**Madhukar Ladha:** And what part of our capital is employed for these activities in terms of margin funding or the BTST book? How large is that book?

**Satish Menon:** So, we have a small book or in average the outstanding position including T day, T+1 day anywhere ranges from 100 to 130 odd crores.

**Madhukar Ladha:** And what will be the strategy around that? And how much do you charge for it approximately?

**Satish Menon:** So, we have different schemes. On an average, we charge 18%.

**Madhukar Ladha:** Sir, on the mutual fund distribution side, how do you see the direct plan affecting your business plans? And there are now I believe several websites also offering aggregate, the kind of aggregators to investing into various mutual funds using the direct route. So, some views on that and how do you think about it?

**C. J. George:** See, what we have seen is a very marginal kind of impact in terms of very negligible impact at the moment with regard to the direct. But at the same time, I must acknowledge the fact that the people who all from the financial services industry or including the banking, the people who are associated with this industry who are literate, they are the people whom we have seen shifting towards direct. Otherwise, most of the people I must tell you that in a retail brokerage environment, our experience is around 97-98% of the people they are still looking for some advice from us, some information from us. So, we are not seeing that kind of an impact as far as the direct is concerned at the moment. But at the same time why should a Geojit employee invest through Geojit, I find no reason. They should be investing directly. So, that number in this country is not very small. So, that is what we are seeing at the moment. Otherwise, we do not see any issue with regard to our clients universe, we are not seeing any significant shift towards direct .

**Satish Menon:** I would like to add, if you see slide number 11 of our presentation, we had given you split of what comes direct. Direct in terms of AUM around 15% overall and in terms of **B15** it is 3% and for T15 it is 12%. This is for the industry, not for Geojit.

**Moderator:** Thank you. The next question is from the line of Atul Mehra from Motilal Oswal Asset Management. Please go ahead.

**Atul Mehra:** Sir, just one question in terms of why we look at the passive funds? So, is there a business plan to substitute mutual funds with passives in a longer term, is that a rational for getting into passive asset management because at this point in time you could pretty much sell any passive product available in the market. So, why set up an AMC to do that?

**C. J. George:** Number one, we want to have our own product in the market but at the same time, your question is right. What is the difference it can create, but we are of the view that we can make a difference and then it is a low cost kind of environment, we are not going to get into this active fund management but in our view, this difference is likely to be much larger. But I must confess one point, we are not looking at Geojit distribution to be large while selling passive funds. So, we are not banking on that.

**Atul Mehra:** And within passives, would we look at pure ETF or would you look at smart beta or is there a thought process on that?

**C. J. George:** I do not think we can at the moment get into minute details of the business plan. We are yet to do that.

**Atul Mehra:** And secondly sir, in terms of the broking business, the environment typically is getting towards hyper competitiveness. So, in terms of we have had recent launches where we have had Kotak come up with free internet trading. So, how do some of these elements impact us in the longer term and so, just may be for book keeping purpose how much would say intraday be percentage of broking income for us?

**C. J. George:** See, as far as we are concerned, traditionally we have been giving low importance to the intraday as well as retail-side derivatives, etc. And we are of the view that these businesses will eventually, significant part probably could shift to online. In the online space particularly on the intraday segment, there is likely to be a pressure. So, we are aggressively building our investment advisory based business and also be distribution strategy that we built around that is basically this is of long term ambition in mind. So, we are not investing big amount of resource into that very highly competitive, commoditized online brokerage space.

**Satish Menon:** To give you a split of income, you wanted the split of income between four assets segment. 17% of the brokerage income comes from F&O, around 10% comes from day trading, balance comes from delivery business.

**C. J. George:** This includes online and offline.

**Satish Menon:** Yes.

**Atul Mehra:** So, bulk part of it is pure delivery trading?

**Satish Menon:** Delivery trading.

**Moderator:** Thank you. The next question is from the line of Digant Haria from Antique Stock Broking. Please go ahead.

**Digant Haria:** Sir for this quarter, whatever new customers we have on-boarded or maybe for the whole FY18, how many of them would be like B30 and how many would be from T30? Or sir, should we use T30 and B30 now or?

**Satish Menon:** Digant, yes from April onwards you have to use the term B30 and T30. We still are yet to get the pincode differentiation from the AMFI. Most of the people are still trying to decipher which pincode comes in B30 or not. But may be in the next 15-20 days, we should get clarity. In terms of number of clients, it is roughly in the same percentage of our offices. Since we are not aware of the pincode, Digant we will not be able to accurately say that it is 65% or 60% but roughly it should be the same.

**Digant Haria:** So, sir roughly 60% should still be from B30, very rough number. I know exact number may be in the next call you can give us but...

**Satish Menon:** Yes.

**Moderator:** Thank you.

**Satish Menon:** I would just like to make one announcement. We will be doing this call only on a half-year basis. The next call we hope will be doing after the six-month results. Thank you very much, Stanford. I leave it up to you to close the meeting.

**Moderator:** Thank you very much, sir. Ladies and gentlemen, on behalf of Ambit Capital that concludes this conference. Thank you for joining us and you may now disconnect your lines.