



“Geojit Financial Services Limited
2QFY2019 Post Result Analyst Conference Call”

October 25, 2018



ANALYST: **MR. AADESH MEHTA – ANALYST – AMBIT
CAPITAL**

MANAGEMENT: **MR. C.J. GEORGE - MANAGING DIRECTOR &
CEO - GEOJIT FINANCIAL SERVICES LIMITED
MR. SATISH MENON – WHOLE TIME DIRECTOR
- GEOJIT FINANCIAL SERVICES LIMITED
MR. A BALAKRISHNAN- WHOLE TIME
DIRECTOR - GEOJIT FINANCIAL SERVICES
LIMITED
MR. SANJEEV KUMAR RAJAN –CHIEF
FINANCIAL OFFICER - GEOJIT FINANCIAL
SERVICES LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Geojit Financial Services 2QFY2019 Post Result 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 '*' and 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. Aadesh Mehta from Ambit Capital. Thank you and over to you Sir!

Aadesh Mehta: Thanks Vivian. Good evening everybody and welcome to Geojit Financial Services 2QFY2019 Earnings Call to discuss the results we have the entire senior management team with us led by the MD, Mr. C.J. George. May I request Mr George 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: Good evening to everybody. This is Satish Menon. I will take you initially through the financial highlights. Mr. George is here. If further questions are there of course we all will pitch in to answer.

Let me take you through the highlights first. In terms of 2QFY2019 the operational income is 75.53 Crores which is 5% decline from last year same quarter and 4% plus from the June quarter. The total income is 82.73 Crores which is 5% down from the last year and 2% up from the preceding quarter. Total expenses up by 5% over last year and up by 4% over June quarter.

Profit before tax is at 19.03 Crores, which is 29% less over the last year and 6% less over the June quarter. Profit after tax, I will come to the detail of profit after tax adjustment. Profit after tax for September 2018 is 5.16 Crores which is 69% lower than last year and 59% lower than the June quarter.

To talk about special adjustment one is on the profit after tax, there is a note given in results and note is also uploaded in our shareholder's presentation. We had an income tax claim of 6 Crores, which was on the money received from BNP Paribas in 2008-2009, over the stoppage of commodity business. The total amount received from BNP Paribas in those years was 40 Crores, which we had calculated as capital gains and the income tax authorities had contested as business income.

In the last quarter, the Income Tax Tribunal order went against us. We are of course appealing to the High Court of Kerala but since we have lost the case in the Income Tax

Appellate Tribunal we have provided for 6 Crores in the September quarter, so that is why the profit after tax is adjusted by 6 Crores.

Also you all will be aware about the floods in Kerala in the month of August. Floods in Kerala has affected the business also, the Kerala business largely. We will come to the details later on but since the state had gone through such a wide disaster the company made its contribution of CSR to the Chief Minister Relief Fund. Consolidated company, that is Geojit Financial Services, as well as Geojit Technologies put together have paid Rs1.5 Crores to the Chief Minister Relief Fund in the September quarter. So that increase in expenses has come in other expenses, which has increased other expenses and reduced the profit. Also we have also spent another 30 Lakhs in terms of building houses and exigencies to our employees whose houses etc. were lost in flood. If you remove the CSR portion itself, our profit before tax for the September quarter would have been actually 3% more than the June quarter.

Point No. 3, which I would like to go to the details of the income statement, income is split like this: equity and equity related income is 57.77 Crores which is 7% down from last year and 7% up from the June quarter. Financial products income which is largely mutual fund income is 11.47 Crores for the September quarter, which is 10 % up over the last year and minus 1% from the June quarter.

We need to understand here that over the last year, two things have impacted - one is that B15 has become B30 so there is a reduction in that extra commission we used to get for nearly 11% of our areas and the second effect, which came in the June quarter was a reduction of TER. As SEBI had reduced TER on a particular component from 20 basis point to 5 basis point, most of the AMCs have passed on proportionate impact to the distributors in June, so that effect, which was there only in June last quarter has come for all the three months of this quarter. That is primarily the reason why financial products income was at -1% compared to the June quarter. Software income year-on-year down by 28% and over the June quarter -4%. I have already said regarding the operational income which has decreased 5% over last year and 4% over last quarter.

In this financial year, we have seen the markets going down that has affected in two folds for SIP business, which has been the main objective of the company- one is in terms of the new SIP addition. The new SIP addition for the first quarter as well as the second quarter remains muted, very subdued in terms of fresh collection, compounded with it because of the fluctuation and lack of patience there has been increased stoppage of SIPs also by retail clients. These two factors we have clearly seen in the first two quarters.

Our endeavor is to go back to our clients continuously to educate them to tell them that the benefit of SIPs and these are the times where you should not stop your SIPs or actually increase your SIPs to get benefit of averaging of the cost of your SIPs.

This is what we wanted to say in our opening remark. Aadesh now we are open for Q&A.

Moderator: Thank Sir. 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. Please go ahead.

Digant Haria: I have two questions. Sir one is that in these stoppages of SIPs when you mentioned like do you find any patterns in terms of particular set of clients or you know may be they were our broking high networth broking customers who had done SIPs, they are all across and there is no pattern as such now in the stoppages of this SIPs?

Satish Menon: Good question Digant. You are right. If you know initially we had sold SIPs to most of our broking clients and the broking clients are largely affected by the vagaries of the market. What you said is right. The stock market clients who have been investing in the stock market are maybe more affected than a new client who comes to the market through SIP. I also agree with your second statement where larger clients who have done SIPs have stopped. That is very evident from the stoppage of SIPs compared to the stoppage of STP. Systematic transfer plan, which is currently around 18 Crores, had seen a larger percentage dropping. These are SIPs or STPs with 25,000 or Rs.50,000 value, these higher value SIPs have a larger percentage of stoppage. If you look at our split up, split of SIPs over the last six months there has been STP stoppage largely coming, but our SIPs have increased. Compared to the June quarter, we had 147.53 Crores of SIPs that has become 151.76 Crores in September but when you compare to STP in June we had 20.69 Crores that has become 17.63 Crores, which is correct in your statement Digant that, larger the ticket size, the potential to stop faster.

C J George : Digant, I would like to add one more point. We compared our SIP stoppage to the industry stoppage for six months of this financial year. We have stoppage percentage of 13% whereas the industry stoppage percentage is 15% .Though we are better than the industry, it is definitely a task, which we have looked into and taking necessary action by communicating and educating our clients continuously about the disadvantage of stopping an SIP.

Digant Haria: I think Sir maybe you would have guessed second question that what would be the percentage of high-ticket SIP clients that we would have. Any kind of colour on that? Of this 170 Crores how much of it do you think is still belonging to this slightly older and larger ticket guys?

- Satish Menon:** I will just give you and comparison , in Digant. out of 170 Crores of SIP book 17.63 cr is STP, which has a larger ticket size.
- Digant Haria:** Okay, I got it Sir STP has to be taken as more like some relatively affluent.
- Satish Menon:** These are the larger size SIP's
- Digant Haria:** Second thing you mentioned is that right now the focus of the company is mainly on educating clients and ensuring that the long-term is communicated well so if you can just give us some feedback from your sales force that you get, it will be probably the first time that SIP guys will see negative returns like just what the company is doing. We understand it is a tough situation for everyone but just some color on what we are trying to do with the retail client that we have?
- C.J. George:** With regards to the communication, what we are doing is we have started intensifying our communication and contacts with the client because if they stop SIP at a time when the market is down they will be making a big blunder. In fact it will be questioning the very foundation of SIPs in a theme of investing so we are going back and the idea is to contact each and every customer and explain to them the merits of keeping the SIP going which we are doing and that is why our SIP stoppage is slightly better than the industry.
- Satish Menon:** What basically we are trying to tell the clients is that in the last 15 to 20 years the markets have corrected more than 20% so many times and if you see the returns for the next three years this is a kind of CAGR they have got. So do not panic. This is actually the right time for you to increase your SIP rather than stop your SIP. We are also having concalls with the respective fund managers of AMCs with clients, all those things are happening.
- Digant Haria:** Any support from the mutual fund side because I think almost 60% to 70% of the mutual funds that we were recommending will come from the top 5 AMCs. So any support that we get from them in these times because the regulation has played its own role but is there anything additional than this large mutual fund AMCs are doing to ensure that right communication or right kind of interactions happen with the client?
- Satish Menon:** Mutual funds are always in a helping mood. They provide us the data. They are also bothered about what is happening. They also know that if somebody stops their mutual fund, SIPs, or they redeem their AUM, it is going to affect and it is not their right decision. So they are all full-fledged open to help distributors like us in communicating to people. They are ready to spend money also in terms of holding investor education, awareness program. Like I said they are also ready to come to concalls to speak to clients regarding

what their scheme is and what is their long-term outlook. So we get full support from mutual fund on the investor awareness programs.

Digant Haria: Thanks. I have one or two more questions, but I will come back in the queue.

Moderator: Thank you. The next question is from the line of Saurav Dhole from Trivantage Capital. Please go ahead.

Saurav Dhole: Thanks for taking my question. Basically I have three main queries. Number one is like in the last few quarters you have focused a lot on the ad spends, so I just wanted to understand what is your outlook ad spends going forward for the next say a couple of quarters?

The second is on this Saudi Arabia based JV for which you have provided about 7.5 Crores this particular quarter how much more would you provide for this and what was the underlying reason behind considering a diminish in value of this investment?

The third and last question is what is your outlook on the cash flows or your business outlook on your Middle East based subsidiaries? So those are my three questions.

C.J. George: I will answer these questions. As far as the advertisement side, we are going slowly on the advertisement because since the market is down any amount of advertisement will have only limited impact. This is our experience over a period of time so we may not be going for big ticket advertisements, but we will continue with our digital interaction with the client as well as the prospects that is the ongoing project, but otherwise no big ticket advertisement. The basic reason is this when the market is down there is no point advertising it will have only probably very low returns on investment.

With regard to Saudi Arabia it has been a loss making joint venture so also we have provided in the P&L of the consolidated accounts over a period of time. We had not provided for the impairment in the standalone books. The reason being we were planning to exit that venture and we were negotiating with a buyer so that particular transaction did not happen so that is why we looked at the current book value and decided to completely provide up to mark-to-market and that is what we have done this time. With regard to the other joint ventures in the Middle East, these are low capital joint ventures, which are all doing well in terms of cash flows. There is no other joint venture, which is making heavy loss at the moment, and I must once again say that these are all very small ticket JVs in terms of capital commitment. The UAE joint venture, which is the main one where we are making significantly good profit. Even this year also they are doing well.

Saurav Dhole: Sir, in general the cash flows and the business outlook for Middle East, how does it look?

C.J. George: Except Saudi Arabia, we are not seeing any major challenges if your question is with regard to the Gulf Economies, we are not seeing any kind of challenges. If the market goes down significantly then there will be some, but at the same time I must tell you that because of the rupee depreciation the NRIs' current activity is not negative at all. They continue to be active in the market. Thanks to the rupee depreciation.

Saurav Dhole: Thank you so much.

Moderator: Thank you. We have follow on question from the line of Digant Haria from Antique Stock Broking. Please go ahead.

Digant Haria: Just wanted to know, what is the cash plus investment what we call liquid on the balance sheet at the end of quarter?

Satish Menon: We will give to you Digant. Do you have any other questions?

Digant Haria: Sir, I think I missed the call, which just happened after those new regulations came in. So from your commentary I understand that in this September quarter we had full impact of the TER reduction of 20 BPS and this B15 to B30 classification change. So whatever new happened in the late part of September, that effect will come over the next two quarters right?

Satish Menon: The latest SEBI circular, which has come in, you are talking about that Digant I presume?

Digant Haria: Yes.

Satish Menon: The latest SEBI circular, which talks about the TER reduction, the date has not been announced. It might come in the next few quarters any time. What we understand is the reduction in TER with respect to the size of the fund, it is reducing, our general understanding from the AMCs are that a propionate reduction will be passed on to the distributors. If that comes, in our calculation is if a proportional reduction happen there could be a further dip of 10% in the yields for Geojit as a distributor. There is something else which has also come in which is in terms of B30 commission going trail and stoppage of upfront incentives for SIPs. Those things of course we understand as of now would be only a cash flow issue. Today, which we receive upfront for SIP would now be paid over the months we receive the cash. We still do not have clarity over it, but the major portion of our TER reduction if a propionate piece is passed on to the distributor. We anticipate a further 10% dip in our yields.

- C.J. George:** It is assuming that we continue with our same distribution of mutual fund, AMC's in our portfolio, If we make changes it will have impact accordingly.
- Digant Haria:** This is just one hypothetical question that you know, now we already had like 7 to 8 months of a down market trend and in these 7 to 8 months presumably the regulations have become much more tighter as far as the mutual fund industry is concerned. Do you think that time is right to launch, maybe some other retail products also in our distribution channel because you know the one product where we were focusing the most that has probably seen the highest volatility over may be last 5 or 7 years?
- Satish Menon:** Yes Digant you are right. We are in a small way starting to focus on selling insurance. Insurance is a product, but only term insurance we will not be selling endowment and ULIP. Our idea is to sell one more product to same client so in a small way we have started selling insurance maybe over the next two quarters you might see some small numbers there. Digant to reply on your cash, cash available with the company is 303 Crores.
- Digant Haria:** Thanks and last clarification is this term insurance, by term insurance I understand we mean life insurance would we ever look at general insurance also because that is also will be very...?
- Satish Menon:** I gave an incomplete answer. We have started selling insurance of course the main focus is term insurance but we also sell motor and health.
- Digant Haria:** That is what I wanted to know. Thanks very much and all the best guys.
- Moderator:** Thank you. The next question is from the line of Madhukar Laddha of HDFC Securities. Please go ahead.
- Madhukar Laddha:** I just wanted to know, who are your partners for life insurance and general insurance?
- Satish Menon:** For life, we have a tie-up with ICICI Pru as well as MetLife. For general it is largely with Bajaj Alliance.
- Madhukar Laddha:** Thank you. All the best.
- Aadesh Mehta:** Sir, I have couple of questions. Sir, any update on the asset management piece?
- Satish Menon:** Not yet Aadesh. We have applied to SEBI, now we are waiting for their confirmation to come in. It is a long drawn process. After they scrutinize the application the application is okay, they might come and inspect, and then give an in principal approval, it will take time,

and hence we are not in a position to reply on the timeframe as of now on when we will get our answer back from SEBI.

Aadesh Mehta: Sir, you have disclosed around 3644 Crores retail AUM right?

Satish Menon: Through mutual funds.

Aadesh Mehta: In mutual funds, can I have the break-up between the trail bearing AUM and the debt AUM?

Satish Menon: Debt is 610 Aadesh and rest is equity.

Aadesh Mehta: Okay and in equity how much would be trail bearing?

Satish Menon: Everything is trail barring some which was done prior to May 2016 before we moved to full trail because there the trail fee is less 0.45%, the post May 2016 when we moved to full trail, there trail fee would be close to 0.90%

Aadesh Mehta: So sir what is the post May 2016 AUM?

Satish Menon: I am going to state the numbers. Old AUM where we get lesser trail is close to 830 Crores; new AUM when we moved to full trail model is 2360 Crores.

Aadesh Mehta: Last question Sir you mentioned cash plus liquid investments would be around 303 Crores right, out of that how much would be requirements for putting margins in exchanges and how much would be free cash?

Satish Menon: Aadesh, you know we keep free cash because ultimately we require in the broking sometime or other. As of now close to 150 Crores is used in the stock market operation, which includes margin funding.

Aadesh Mehta: The rest would be free cash?

Satish Menon: It would be FD and mutual fund units of liquid funds.

Aadesh Mehta: Thank you Sir. That is it from my side.

Moderator: Thank you. The next question is from the line of Boris Zhilin from Armor Capital. Please go ahead.

Boris Zhilin: I just had a question regarding hiring terms, do you still plan to significantly increase headcounts in order to continue pushing the distribution of SIPs over the next let us say two to three quarters?

Satish Menon: Boris, we have hired 341 people over the last 12 months, but looking at the present structure of the market we have temporarily stopped hiring new sales people till the time the sentiments improve. Did I answer your question?

Boris Zhilin: Yes, thank you.

Moderator: Thank you. The next question is from the line of Gokul Nathan of Narnolia Financial Advisors. Please go ahead.

Gokul Nathan: You just answered that 321 employees so far you have taken and then no more employees to be employed further right?

C.J. George: As of now we have frozen the sales recruitments.

Gokul Nathan: Yes so you have upcoming insurance revenue scheme in your profile so there are no more employees required over there?

Satish Menon: No it is basically cross selling so the existing people who are selling equity account, derivatives account, commodity accounts or mutual fund, these are the people who will be equipped with one more product so there will be no separate hiring for purely insurance.

Gokul Nathan: Thank you. That was my point.

Moderator: Thank you. Participants if you wish to ask a question, kindly press * and 1.

Aadesh Mehta: Yes we can wrap it up.

Satish Menon: We do not have any further comments on this Aadesh we can close the call.

Aadesh Mehta: Thank you everyone on behalf of Ambit Capital. I would like to thank the entire senior management team of Geojit for being with us today evening and thanks to all the participants for joining us on the call today. Thank you and good-bye.

Satish Menon: Thank you.

Moderator: Thank you. Ladies and gentlemen on behalf of Ambit Capital Private Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.