

SMC Global Securities Limited
Earnings Conference Call
May 10 , 2022

Moderator: Ladies and gentlemen, Good day and welcome to the SMC Global Securities Limited Q4 and FY22 Earnings Conference Call. 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. I now hand the conference over to Mr. Mr. Anuj Sonpal from Valorem Advisors. Thank you and over to you, Mr. Anuj Sonpal.

Anuj Sonpal: Thank you. Good morning everyone and a very warm welcome to you all. My name is Anuj Sonpal from Valorem Advisors. We represent the investor relations of SMC Global Securities Limited. On behalf of the company, I would like to thank you all for participating in the company’s earnings conference call for the fourth quarter and financial year ended 2022.

Before we begin, I would like to mention a short cautionary statement. Some of the statements made in today’s earnings call maybe forward looking in nature. Such forward looking statements are subject to risks and uncertainties which could cause actual results to differ from those anticipated. Such statements are based on management’s belief as well as assumptions made by and information currently available to management. Audience are cautioned not to place any undue reliance on these forward-looking statements in making any investment decisions.

The purpose of today’s earnings conference call is purely to educate and bring awareness about the company’s fundamental business and financial quarter under review. Now, let me introduce you to the management participating with us in today’s earnings call and hand it over to them for opening remarks. We have with us Mr. Subhash Aggarwal – Chairman and Managing Director, Mr. Mahesh Gupta – Vice Chairman and Managing Director, Mr. Ajay Garg – Director and CEO, Mr. Himanshu Gupta – Director and CEO Moneywise Financial Services Private Limited and Director of SMC Global Securities Limited and SMC **Comtrade Ltd** Limited, Mr. DK Aggarwal – Chairman and Managing Director of SMC Investments and Advisors Limited, Mr. Anurag Bansal – Director of SMC Global Securities Limited and Director of SMC Capitals Limited, Mr. Pranay Aggarwal – Director and CEO Moneywise Finvest Limited and Mr. Vinod Kumar Jamar – President and Group Chief Financial Officer. Now without any further delay I request Mr. Subhash Aggarwal to start with his opening remarks. Thank you and over to you, Sir.

Subhash Aggarwal:

Thank you Anuj and good morning everyone. It is a pleasure to welcome you to the earnings conference call for the fourth quarter and financial year ending 2022. Firstly, I hope that everyone is keeping safe and well. Let me start by giving some background about our company for the sake of those who are joining this call for the first time so to bring everybody on the same page. SMC Global Securities Limited was established in 1994 by myself and Mr. Mahesh Chand Gupta who is the current Vice Chairman and Managing Director. Over the years the company has grown into a diversified financial services company offering a wide spectrum of services like brokerage, investment banking, wealth management, distribution of financial product, financing, insurance broking, clearing and depository services, fixed income security, financial advisory services to corporate, institutions, high network individuals and other retail clients.

We have a strong network of more than 2,500 sub brokers and authorized person spreading across 455 cities in India thereby servicing approximately 20 lakh unique clients. Over the years we have also launched various innovative digital technology enabled capabilities to offer best in class products and services. We launched our discount broking arm in 2019 under the brand name of Stoxkart which is a first of its kind platform in the broking industry where customers are charged only for the profitable transactions and I am happy to see that this platform has been seeing a very encouraging response. The company is governed by strong board including 6 independent directors of high standing and is run by highly qualified and experienced management team. We have a consistent growth record and are well positioned for continued growth in the coming years with our established projects, track record and by embracing the latest technology. I now hand over to Mr. Vinod Jamar our Group CFO to take you through the fourth quarter and full financial year 2022. Over to you, Vinod Kumar Jamar.

Vinod Kumar Jamar:

Thank you Subhash sir. Good morning everyone. Talking about the financial performance of Q4 FY22 of our company on a consolidated basis the operating income for the quarter was INR 286 crores and increase of 9% year-on-year. EBITDA was reported at approximately INR 69 crores an increase of approximately 20% year-on-year and the EBITDA margin stood at 24.08%, net profit after tax reported was INR 41 crores while the PAT margins were 14.3%. For the financial year ended 2022 the operating income was INR 1,106 crores an increase of approximately 23% year-on-year. Operating EBITDA reported was approximately INR 285 crores an increase of approximately 46% year-on-year and the EBITDA margins stood at 25.72%, net profit after tax was reported at approximately INR 175 crores an increase of 66% year-on-year while the PAT margin percentage was 15.78%.

Let me now take you the quarterly segmental performance on a consolidated basis for the fourth quarter. In the broking distribution and trading segment the revenue for the quarter was INR 189 crores an increase of approximately 6% compared to the same period last year. The EBIT for the segment was INR 47 crores which has increased from

INR 45 crores on year-on-year basis. Revenue and EBIT have increased consistently on quarter-on-quarter basis. Coming to the insurance division the revenue for the quarter recorded was INR 78 crores which increased by 5.82% on a year-on-year basis. The EBIT was INR 3.6 crores which increased by approximately 64% year-on-year. Revenue and EBIT have decreased slightly QoQ due to seasonal impact as in the last quarter there was an uptake in vehicle sales in the festive season resulting in higher total insurance commission.

Lastly in the financing division the revenue for the quarter was INR 29 crores an increase of about 24% on year-on-year basis. The EBIT for the quarter was approximately INR 17.4 crores an increase of 135% on year-on-year basis. Revenue and EBIT have increase QoQ due to increase in loan book size to approximately INR 686 crores as of March 22 from about 541 crores as of December 21. GNPA and NNPA stood at 2.84% and 1.99% respectively which is comparable to the industry standards and the significant improvement over last two years. Lastly the company has proposed a final dividend at 60% apart from interim dividend of 60% making it to 120% overall dividend. The board has also approved a buyback of shares was INR 75 crores through open market purchase to revise our shareholders even further with which we can now open the floor for the question-and-answer session. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Saket Kapoor from Kapoor and Company. Please go ahead.

Saket Kapoor: Sir firstly if you could explain further on the nature of this fee and commission income and how should one look forward on an annualized basis what factors will contribute to the continuity of these numbers?

Vinod Kumar Jamar: The fee and commission income consists of mainly brokerage on equity, commodity and currency markets, distribution of financial product these are two major plus we have our own proprietary trading, which is shown as separate line item.

Saket Kapoor: So that is totally market dependent as the equity market and the commodity market behaves it is at least proportionate to the volume of business there?

Vinod Kumar Jamar: Market fluctuations affect it, but since the cake size is increasing even when the market is down our trading volumes are not affected disproportionately. There could be slight difference, Which is always there.

Subhash Aggarwal: Cake size is increasing and you have seen recently many new accounts have opened which has never opened so much in numbers. So, this awareness in general is increasing in India. Therefore, we cannot foresee whether market go up and down I think investors will increase. So, our brokerage and fees income will also increase.

Saket Kapoor: Sir if we consider the line item interest income and then we come to the finance cost if you could explain the nature of these two items how are these two derived and on what basis?

Vinod Kumar Jamar: Our interest income consists of fixed deposit income placed with the banks for taking bank guarantees to be placed with exchanges this is number one. Number two we allow the certain of our customers to delay the payment obligation and we charge them interest which we call delay payment charges and margin trading funding. So, our interest income has increased substantially and NBFC Loans are main factors which are contributing to the interest income.

Saket Kapoor: Sorry I missed the last point sir?

Vinod Kumar Jamar: We have our NBFC arm which has a loan book of around 686 crores so interest income is coming from that also.

Saket Kapoor: What is the coupon rate the blended coupon rate the NBFC charges?

Himanshu Gupta: So we have multiple products lines and our blended yield on the book is close to 15% and product wise it ranges 12% to 17% and it can go up to about 19% on an average we fetched around 15%.

Saket Kapoor: For the finance cost part sir?

Himanshu Gupta: If we talk about NBFC particularly our average borrowing cost is about 9.25%. We are A-rated entity from CARE and ICRA and we believe our borrowing cost is I think much lower if we compare it to the other NBFC of similar size and similar rating.

Saket Kapoor: Sir out of this loan business how much is the net self-owned fund of the company and how much is the arbitrage if I may use correctly that is borrowed from the market and then lend at a higher rate?

Himanshu Gupta: Our closing loan book is about 686 crore and that is funded by about 360 crores of equity and about 355 crores of the external borrowings and in borrowing we have a diversified borrowing profile consisting of 15 lenders and 4 tranches of NCDs.

Saket Kapoor: For this buyback part in this buyback do the promoters have an inclination to participate?

Himanshu Gupta: No, actually promoters are not participating in the buyback. We do not intend to and also in open market route promoters are not permitted to participate.

Saket Kapoor: Just slight a minute I will take if we took the tender route methodology then your investors would not have been taxed and only 20% which would have been paid by the

company would have suffice the taxation part and given an opportunity for your investors an arbitrage also to participate in the buyback part. Herein you are buying from the market you are paying 20% buyback tax, but the person who are selling on the other side are also paying taxes.

Himanshu Gupta: I understood your question so basically as far as taxation is concerned we are still evaluating the taxability on the shareholders front, but we are going through the circular dated March 21 and April 21 of NSE and BSE wherein we have come to know exchanges have setup a mechanism to inform to the respective shareholders whose shares are matched with the company buyback transaction. So, there is a circular to that effect and once the shareholder receives that intimation from exchange he can keep that as a record and use it to claim the exemption under the income tax act. So, even in the public announcement made today in the newspaper we have referred to that circular. We are still evaluating the practical procedure how the communication would go to the investors. Once we have more clarification we can get back to you.

Saket Kapoor: Things can be worked out that the investors as per the circular would not be having any tax incidence while participating in the buyback?

Himanshu Gupta: That is the intention of circular as per procedure laid down by NSE & BSE, but we need to further check it how the exchanges are sending their communication.

Saket Kapoor: And secondly sir the investors would not know when are you buying from the market it is a continuous trading process so how come I know that the buyer on the side is whether the company itself or somebody else?

Himanshu Gupta: Basically the issue would open from May 20th and if we continue for a period of 6 months you rightly said that the company has discretion to buy any particular day or not to buy, but again what we have got to know there is a mechanism in the order book that there is a star which appears in the order book when company places the order still again we are evaluating and after checking it further with the stock exchanges, we can get back to you. Further at the end of the day the merchant banker would report to the stock exchange about the transactions done by the company under buyback programs.

Saket Kapoor: And lastly sir on the employee benefit expenses how should one look at this line item in proportionate to your income profile it has grown from 30 crore to 35 crore on year-on-year basis and also for a quarter-on-quarter basis that has gone wrong, how much is the fixed cost, what is the variable part of this line item?

Vinod Kumar Jamar: The employee cost is largely fixed cost and when the volume increases employee cost also increases, but our revenue grows at a faster rate while this cost are not growing at that rate. So, if revenue grows to 23% expense grows at say 17%, 18% so that adds to our bottom line.

Saket Kapoor: And anything in particular for the other expense line item sir that has also being at 11 crores, 12 crore now earlier it was 7 crores, 8 crores anything in particular about it or will this line item remains in this vicinity only?

Vinod Kumar Jamar: Are you talking of standalone numbers or consolidated?

Saket Kapoor: Yes I am referring to the standalone numbers only I must go to these consolidated ones.

Vinod Kumar Jamar: So other expense also tend to increase when the volume increases and you see last year there was COVID due to COVID there were offices were closed. So, there were certain savings in administrative cost, but now we have come to the regular full office working. So, slightly these expenses have increased.

Saket Kapoor: And we also made one real estate investment of Land, if you could dwell more what was the purpose of this and how is the company going to benefit out of this investment?

Subhash Aggarwal: Yes SMC has taken a land in Mohan Cooperative area for its head office. Basically we want to build it SMC house as we have been scattered in many offices over the years. As, we were taking places wherever it was available and hence, we have many offices in Delhi. So, we want to consolidate these offices in order to increase in our working efficiency. So, therefore we have taken that piece of land it is a big land and we are going to construct the office there.

Saket Kapoor: And what would be the further investment that will go into through and when it will get commercialize the offices and the saving which you are working out currently if any?

Subhash Aggarwal: Moreover we will save in rent and we have approved in our board meeting total expenditure around 75 crore for construction and furnishing and for all these activities and definitely we are paying huge rent in Delhi taking various offices so that will be great saving.

Saket Kapoor: Sir do you have the rent number readily with you sir on an annual basis what is the rent paid by us?

Subhash Aggarwal: It is around 12 crores rent which we are paying on the company behalf, but for saving we have to understand how much offices we have to keep in future and rest is our saving on account of rent. Over the period we have also expanded so, maybe Rs. 5 to Rs. 8 crore can be the saving of annual rental value.

Saket Kapoor: And where is the location I missed the point when you were explaining?

Subhash Aggarwal: In Delhi itself have you seen Apollo hospital Sarita Vihar. So, it is in South Delhi towards Faridabad.

Moderator: Thank you. The next question is from the line of Manas Kapasi an Individual Investor. Please go ahead.

Manas Kapasi: So my first question is on your NBFC business and there is an encouraging turnaround, so what is the outlook for FY23 where do you see the AUM and loan growth book and what do you think would be able to cross the 1,000 crore AUM level when do you think we will be able to cross and also what is the outlook on the GNPA level by the end of this year?

Himanshu Gupta: We would definitely wish to achieve the number that you just talked about having the closing loan book of 1,000 crores. We have closed at about 686 crores. Given the current run rate in the last quarter we made a disbursement of close to 215 crores. So, we would definitely be exceeding the run rate that we achieved in the last quarter, but we have a fast amortising book also wherein we have a collection of close to 350 to 400 crores on annualized basis on the existing book. We are not sure whether we would close on 1,000 crore or not. Secondly given the outlook of the quality of the loan book we have witnessed like fast recovery in the delinquent portfolio post the COVID. So, as you can also see in the numbers the closing GNPA for the year ended is about 2.84% as against 6.17% at the end of last year and our collection efficiency are also close to 99%. We have seen strong recoveries in our delinquent portfolio so we see that the GNPA numbers to be somewhere they are today and we have expanded in additional geographies over last two quarters so that geographies have started yielding business now so that is the plan going forward to diversify loan book through the geographical expansion and we have made adequate provisions on our book so we do not see any major credit cost going forward.

Manas Kapasi: And just a follow up on that what was the NIM for Q4?

Himanshu Gupta: So, as I told earlier our gross yield on the book is about 14.75% and our borrowing is at about 9.25% so we are making a gross margin of about 5.5% before operational expenses and credit cost.

Manas Kapasi: And coming to Stoxkart what would be the contribution of revenue in FY22 and also has it reached breakeven level or what were the losses on it in FY22?

Pranay Aggarwal: So, basically in terms of revenue we have increased the revenue 70% year-on-year and I am very happy to inform that in the last quarter we have reached a breakeven figure and we hope to continue on this trend going forward. We hope to increase our revenue substantially and keep the breakeven trend going on and that is I think good trend we are seeing in the market of growing number of clients and StoxKart is poised to gain with that.

Manas Kapasi: Can you quantify the revenues for FY22 what exactly was the amount?

Pranay Aggarwal: 14.85 crores. In terms of revenues, we have reached in FY21-22.

Manas Kapasi: On the losses end?

Pranay Aggarwal: In terms of losses, loss of Rs. 50 lakh which was majorly in the first 9 months.

Moderator: Thank you. The next question is from the line of Santosh Kumar an Individual Investor. Please go ahead.

Santosh Kumar: A few question on the pledging of shares it looks like you have pledged of 40 lakhs shares last month so can you let us know the details of the purpose of pledging the funds?

Subhash Aggarwal: One of the promoter companies they have pledged shares for trading purposes and partly they have given as a collateral for taking borrowing for SMC group so that is why we have pledged.

Santosh Kumar: Borrowing operating cash flow?

Subhash Aggarwal: It is a normal working capital loan borrowing for SMC Global Securities Limited so they have provided additional collateral.

Moderator: Thank you. The next question is from the line of Pratik Rathi from Choice Equity. Please go ahead.

Pratik Rathi: I just wanted to know so there was an entry of say 50 crores to 52 crores of land purchase in Delhi area, so I just wanted to know some more details about this like what was the purpose of this acquisition of land?

Subhash Aggarwal: Just now I have explained that we have purchased this land for our head office and since we are scattered in various offices in Delhi and we are paying rent. So, to save rent and we buy the piece of land so we can have big office there.

Moderator: Thank you. The next question is from the line of Devarsh Mehta an Individual Investor. Please go ahead.

Devarsh Mehta: So I had a question on insurance sales part so insurance sales seems to be at a plateau for a long period of time so growth here is flat so what is the strategy to grow it?

Marut Dhar: Regarding the growth of the insurance business, yes there is a slight plateau which you are right, but over here what we are looking at complete revamp IT business sourcing platform and we are confident to develop the insurance business and we are focusing on two teams basically to penetrate into Tie 1 & 2 and Tier 3 and Tier 4 cities and towns and focusing on high margin insurance products. So, besides strengthening our IT capabilities and IT platforms with a complete revamp we are focusing on our sales channel and also on the insurance high margin product mediation and confident of growing the insurance business volumes.

Devarsh Mehta: Could you brief us on what is the growth outlook on the top line and the bottom line for FY23 and do we expect 15% to 20% growth or more considering that the markets are now in barrier zone and you also have a large proprietary?

Subhash Aggarwal: Actually our revenue as we told in 21-22 our revenue increased by 22.8% on year-to-year basis consolidated basis. Our EBITDA margin has increased from 21.67% to 25.72%. PAT margin has increased to 15.8% from 11.7% EPS has increased from 9.28% to 15.43% and in the same way our book value has increased from 68.30% to 81.86% and so we are expecting good growth should remain continue. Time-to-time we have improved our IT infrastructure we are still hiring. Recently we have hired a chief Technical Officer and we are increasing our IT team. So, we are improving our IT infrastructure in back office, front office everywhere and we are very confident that growth will continue in time to come when we will put good number.

Devarsh Mehta: Just to come back but considering bearish market, do you think you can continue to grow this, so how will this be possible going ahead?

Subhash Aggarwal: Market is always volatile sometime it is bullish, sometimes it is bearish. It varies all time this is good and I think this is basically when market is very sensitive ,there is opportunity for long term investors to invest in the market or moreover the number of investor is increasing on day by day basis and we have seen very good number increasing in last two years COVID time still our cake size of investors is small in comparison to developed countries still we are at 5%, 6% of the population and it can grow up to 25% of the population. So, we are having a great future for capital market as well as for our economy.

Devarsh Mehta: And what has caused the other income to more than double from FY21 to FY22?

Subhash Aggarwal: It is basically due to NBFC Mr. Himanshu will tell.

Himanshu Gupta: So, basically in NBFC we have been time-to-time investing in certain fixed income securities and certain short term opportunities as part of our regular fund management because our majority of the borrowing is in the form of term loans and to have better planning with the inflows and outflows of the fund. So if we are having surplus fund we keep on investing and that is the basically treasury income primarily and there are certain other income which are not material.

Moderator: Thank you. The next question is from the line of Saket Kapoor from Kapoor and Company. Please go ahead.

Saket Kapoor: Sir for the net interest margin of say 500 basis point sir how sustainable are these numbers when you book size grow I mean these are extra ordinary high margins 5%, what is your understanding on the same today on a relatively smaller book if I may use the term it is already 600 crore is a high, but still you are maintaining 5% margins if we

take the averages of the other NBFC are they all aligned to these margins only your take on the same?

Himanshu Gupta: Basically all NBFC operate at that kind of gross margins, I think to compare the banks and NBFC, banks are lending at a relatively lower rate and have lower cost of capital and their gross margin is also lower, but NBFC typically operate at the higher margins given the customer segment we operate in the products that they offer to their customers and because NBFC has a much deeper the delivery each. So, their OPEX cost is higher as compared to the bank, that is why the NBFC enjoy higher gross margins. So, that is I think is standard and I think it will continue even on a larger loan book and in fact as the loan book could grow we would have a lower OPEX on the larger loan base.

Saket Kapoor: And on the NPA and delinquency front what is our business plan, how do we control those delinquency and the NPA going higher since the margins are higher, so what is the security coverage generally we go through the different segment loan against property and commercial vehicle loan and other assets?

Himanshu Gupta: Basically first of all the security coverage depends on the product that we offer and it is pretty much in line with the industry and the other lenders are offering for example in loan against property the loan to value ratio ranges from 40% to 60% depending on the occupation and the nature of the property and we are not into commercial vehicle that you were just asking We do provide equipment finance for medical equipment and where the LTV ranges from 80% to 85% and when it comes to loan against shares it is regulated and allowed upto 50% and on an average this is close to 40%, 45% LTV and that is in line with the industry and it is not only about the security cover we are having a strong underwriting mechanism, very detailed credit policy and procedures that mitigate risk in the entire lending process and on the top of it the collection team and the litigation mechanism is also strong to have better collection to delinquency. So, I think it is the overall check and balances at every point of the business that we have.

Saket Kapoor: Sir going forward this will form a core part of our business model we would like to grow this aspect of the business along with the other fee-based income?

Subhash Aggarwal: Because our major income is coming from fees income, broking and all that. So, over to Mr. Ajay.

Saket Kapoor: Sir, I have asked that will this part of the NBFC business will form a core or will continue to be core business or what is our outlook going forward since this contribution currently is lower, but what is the thought process it will form a core part of the business will be a core to the business or will be ancillary the way it is continuing today?

Subhash Aggarwal: Saket you are asking from NBFC point of view or consolidated point of view.

Himanshu Gupta: So, basically we operate in primarily three segment as a group which is broking, trading and distribution the financing business and insurance business. As of now the NBFC business constitutes about close to 10% of the top line of the book. Going forward as we grow our book size, you will notice our equity in the NBFC close to 360 crores and we are just sitting on debt-to-equity of 1 is to 1 whereas the other NBFC typically operate at a leverage of 3.5 to 4 times on average. So, we see there is a great potential to grow on our existing equity base as well and we are little conservative over the last few years and we actually grew very slow over the years and now we are seeing that the business will contribute maybe higher share in the overall book. It is very difficult to put in any numbers, but it will form a considerable part of the group.

Saket Kapoor: We will wait for the clarification on the buyback part as and when the same you kindly inform to the stock exchanges so that investor at large do the benefitted from the same?

Himanshu Gupta: I am not sure whether we have to report that to the stock exchange.

Saket Kapoor: I was just trying to make sense how these investor will benefit out of it, it is just feasible for the management it is brought to our notice it would be really grateful.

Himanshu Gupta: We will get back to you after getting the information.

Moderator: Thank you. The next question is from the line of Vaibhav Kacholia from VK Capital. Please go ahead.

Vaibhav Kacholia: I wanted to know sir long term what are the plans of the company can we ever reach a ROE of like 20% and all and if yes what is the game plan for that?

Subhash Aggarwal: ROE already we are having 18% plus.

Vaibhav Kacholia: Our networth is around 1,000 crores and 100 crores of profit right?

Subhash Aggarwal: 175 crore profit on consolidated basis. We have ROE more than 18%.

Vaibhav Kacholia: And sir this NBFC part of the business what is the kind of model we are trying to emulate very few people have been very successful, do you see any benchmark what are the success story which you think you can emulate?

Himanshu Gupta: Our strategy is to focus on the retail lending front and we are very conservative as far as the credit policies and practices are concerned. So, I do not know what you are comparing to, but overall I think NBFC have a good market share and a good reach as far as the retail lending is concerned. We are currently operating primarily in the SME lending wherein we lend to SME against property for purchase of medical equipment and unsecured loans also and right now we have close to 30,000 customer base which is a very well diversified and we are also diversified in terms of geographies like as of now

we operate in about 5 states and within those states also we have reach in multiple cities. So, we focus very well diversified, the process are well defined and the underwriting is completely centralized. We are not into the fintech and loans which are application based loans so there we see that little issue in terms of the delinquency or the operational cost being too high and not the business being not viable. So, we tend to operate only in the profitable segments.

Vaibhav Kacholia: My question is there any NBFC of our scale or where we aspire to reach which we have seen which has had great success in general NBFC have not created too much wealth for investors as yet?

Himanshu Gupta: So, it is very difficult to name any NBFC, but yeah we have a good business plan and we see multifold growth in times to come.

Vaibhav Kacholia: And sir with interest rates rising do not think people who are borrowing money at 15%, 16% there is inherent risk?

Himanshu Gupta: So, basically we have a interest rate policy wherein we are trying to mitigate this with risk, for example, our longer term loans are priced at a variable rate basis so there as the interest rate will go up which is expected so our rates on the existing loan will also reset on periodic basis and as far as short term loans are concerned there the interest rate is fixed since the tenure is short so we do not have much risk on the short term.

Moderator: Thank you. The next question is from the line of Santosh Kumar an Individual Investor. Please go ahead.

Santosh Kumar: Sir we come to our broking business here how do you position a broking business compared to your peers or competitors let us say Angelone how do you differentiate from them?

Ajay Garg: So, ideally like we are a full broking house and growing year-on-year basis last year like our revenue grew more than 24.5% and the PBT grew more than 54% and in 2019 like we started in competition with Zerodha and Angel One all the discount brokerage houses we have started our separate discount brokerage house by the name of StoxKart. So, we have already crossed more than 1 lakh account out there and we do have a very big plan so we are improving our technologies and the very soon we would be coming out with various social media campaigns and marketing activities so try to capture the market in the same line.

Moderator: Thank you. The next question is from the line of Saket Kapoor from Kapoor and Company. Please go ahead.

Saket Kapoor: In our last conversation also you did spoke about the proprietary debt and if you could give some more color what are the components of your proprietary debt how are you

positioned in the market in terms of as a hedged and un-hedged position and then if you could give us some more color what is your outlook on the volatility that is there in the market, what is your take currently?

Subhash Aggarwal: Proprietary trading here we do arbitrage and high frequency trade and we are doing for last so many years. So, we have a dedicated team of around 400 traders and we are doing well.

Saket Kapoor: Can you tell us the size of the book do we have un-hedged position also in the proprietary trading or everything is closed?

Subhash Aggarwal: Our trading strategy is almost hedged. We trade on different strategies and these are all hedged. So, we do not keep un-hedged position.

Saket Kapoor: At any point of time what is the size of the book?

Subhash Aggarwal: Size of the book you can say we have deployed around 200 to 300 crore in this business.

Saket Kapoor: Any point of time we have total hedge position of around 300 crore?

Subhash Aggarwal: You see this proprietary business is working as you can see whenever we need fund for operations we can reduce our book size and when we have idle fund we increase our book size. So, it is just like a treasury also keeping 100 to 200 crore on permanent basis and rest you can say is fluctuating money at times we introduced and at times we withdraw.

Saket Kapoor: To earn 45 crores on a quarterly basis I think our quantum of money and the position involve could be significantly higher you are earning about Rs. 15 crore a month if it is not linear I know that in the stock market earning are not linear, but only income of 45 crore do envisage a lot of capital deployment or depending upon how are creating this that was my question?

Aay Garg: I think it was 45 crore including broking and distribution.

Saket Kapoor: But that is in the fee and commission business I think?

Ajay Garg: It includes the commission business.

Saket Kapoor: Fee and commission is a separate line item and I thought?

Subhash Aggarwal: Let me explain this is a gross income and then there are certain expenses associated with it. So, 45 crores a quarter is gross revenue then there are expenses associated with it. It is revenue it includes HFT etc.. So, there are certain expenses which are to be deducted now. Moreover, so many expenses that is the revenue you are talking.

Moderator: Thank you. The next question is from the line of Vaibhav Kacholia from VK Capital. Please go ahead.

Vaibhav Kacholia: Sir in the online business part I wanted to understand what is our customer acquisition cost per customer or something and what would be the revenue we would generate from this customer?

Ajay Garg: The customer acquisition cost is ranging between 3,000 to 4,000 and our ARPU who is around 10,000 to 12,000 per annum.

Vaibhav Kacholia: Right now we have shown 15 crores of revenue for 1 lakh customer so that is around Rs. 1,500 this would be for part of the period is it?

Pranay Aggarwal: Yeah I think basically your question is about Stoxkart. So, that figure is slightly different you can say in ARPU terms we are on around Rs. 5,000 per annum and the client acquisition cost would be around 1,000 to 1,500. So, basically we are maintaining a healthy ARPU. Our strategy in the market has been a little different it is the bottom-line approach and so you can see it in our ARPU which is I think higher than the industry.

Vaibhav Kacholia: So how many customers are we looking to acquire over the next one- or two-years sir?

Pranay Aggarwal: In terms of number of customers I think this year of 22-23 is our transformation year. As already spoken by some of my colleague about IT transformation. We are heavily investing in the technology and we are going for end-to-end IT infrastructure revamp. So, this year we are planning to make double the number of clients and may be in next two to three years we can even grow it multifold it can be around 5 to 6 times in next 2 to 3 years.

Vaibhav Kacholia: So this will be basically by online marketing?

Pranay Aggarwal: Yes, basically by online marketing, we have tied up with lot of influencers in the market and we plan to grow through them and also we are heavily investing in the digital marketing infrastructure.

Vaibhav Kacholia: If we have to acquire 1 lakh customer this year and Rs. 1,000 per customer so our budget will be 10 crores, 15 crores for that digital marketing costing is it?

Pranay Aggarwal: Yeah you are right.

Vaibhav Kacholia: In this proprietary trading desk what is our net income pretax or post tax on this revenue of 50 crores per quarter whatever?

Subhash Aggarwal: So, in past we have generated around 15% profit on the capital investment.

Vaibhav Kacholia: So like after all expenses it would be this is after tax so after all expenses it would be 40 crores, 50 crores net profit is it?

Subhash Aggarwal: Yeah it depends to 15 gross I am talking about after meeting all expenses, but before tax 15% to 21% before tax.

Vaibhav Kacholia: And longer term what is the vision of our company like what level of scale of operations, customer turnover profit would be 5 to 10 years may be?

Subhash Aggarwal: You see in longer term what is needed we will do. What is needed in IT we will do we will keep our market share intact, we will keep our positioning, our network you know is very good Pan India, our clients are increasing, our business is such models whether market go down or whether it is up we are ready for every situation.

Moderator: Thank you. We have Dr. DK Aggarwal from SMC Global Securities. Please go ahead.

DK Aggarwal: I am from the management side. First of all I would like to tell that we have number of strategies, we are doing HFT, we are doing algo trading, we are doing many searches where very low latency is required and some strategies where latency does not match up. Secondly our arbitrage it like hedged positioned. We do lot of vanilla arbitrage and then very limited risk arbitrage where risk is very minimum and returns are reasonably good. Thirdly somebody asked what kind of margin you are making so we are making margin of around 20% on the fund invested. So, if there is any other question I am happy to answer those questions.

Moderator: Thank you. As there are no further questions from the participants I now hand the conference over to Mr. Mahesh Gupta from SMC Global Securities Limited for closing comments.

Mahesh Gupta: Thank you all for participating in this earnings concall. I hope we have been able to answer your questions satisfactory. If you have any other further questions I would like to know more about the company please reach out to our investor relations manager at Valorem Advisors. Thank you stay safe and healthy. Thank you very much to all.

Moderator: Thank you. On behalf of SMC Global Securities Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.