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Sub: Transcript of earnings con-call Q1 -FY-22

Dear Sir(s),

In compliance with sub-regulation (1) & (2) of regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 read with Schedule III Part A (15), enclosed is a copy of the transcript of earning con-call held on 13th August, 2021.

You are requested to kindly take note of the same.

Thanking you,

For SMC Global Securities Limited


Suman Kumar
E.V.P. (Corporate Affairs), Company Secretary & Compliance Officer
(Membership No. F5824)



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SMC Global Securities Limited
Q1 FY22 Earnings Conference Call
August 13, 2021

Moderator: Ladies and gentlemen, good day and welcome to the SMC Global Securities Limited Q1 FY22 Earnings Conference Call. As a reminder, all participants' 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 '1' on your touchtone telephone. I now hand the conference over to Mr. Anuj Sonpal from Valorem Advisors. Thank you and over to you, Mr. Sonpal.

Anuj Sonpal: Thank you. Good morning everybody 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 first quarter of financial year 2022.

Before we begin, I would like to mention a short cautionary statement. Some of the statements made in today's earnings conference call may be 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 information currently available to management. Audience is cautioned not to place any undue reliance on these forward looking statements and 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.

Let me introduce to the management participating with us in today's earnings conference call and give it over to them for opening remarks. Firstly, we have with us, Mr. Subhash C. Aggarwal - Chairman and Managing Director; Mr. Mahesh Gupta - Vice-Chairman and Managing Director; Mr. Ajay Garg - Director and CEO of the Broking Division; Mr. Himanshu Gupta - Director and CEO of the NBFC Division; Mr. D. K. Aggarwal - CMD of Wealth Management and Investment Banking Division; Mr. Anurag Bansal - Director of Distribution and Investment Banking and Mr. Pranay Aggarwal - Director and CEO of Stoxkart, SMC's Discount Brokerage Platform and lastly, we also have with us, Mr. Vinod Kumar Jamar - President and Group CFO. 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:

Good morning everyone. It is a pleasure to welcome you all to the earnings conference call of SMC Global Securities Limited for the first quarter of the financial year 2022. Firstly, I hope you are all keeping safe and well. Before we get into the earning highlights, since this is our first earnings conference call after listing, let me start by giving some background about our company to bring everybody on the same page.

SMC Global Securities Limited was commenced in 1994 by myself and Mr. Mahesh Chand Gupta who is the current Vice-Chairman and Managing Director. Over the years, the company had gone into a diversified financial services company offering a wide spectrum of services like brokerage, investment banking, wealth management, distribution of financial products, financing, insurance broking, trading and depository services; in fixed income securities, financial advisory services to corporates, institutions, high network individuals and other retail clients. We have a strong network of more than 2,500 of brokers and authorized persons spreading across 550 cities in India thereby servicing approximately 19 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 the first of its kind placed on in the broking industry where customers are charged for the profitable transaction and I am happy to say that this platform has been seeing a very encouraging response. The company is governed by strong board including 6 Independent Directors of high standings and is run by a highly qualified and experienced management team. We have had a consistent growth track record and are well positioned for continued growth in the coming years with our esteemed present track record and by embracing the latest technologies. I now hand over to Mr. Vinod Kumar, our Group CFO to take you through the financial and operational performance for the first quarter. Mr. Vinod Jamar!

Vinod Kumar Jamar:

Thank you Subhash sir. Good morning everyone. Let me take you through financial performance of the first quarter of FY22 of our company on a consolidated basis. The operating income for the quarter was Rs. 231 crores which increased by approximately 25% on year-on-year basis and decreased by 11% on quarter-on-quarter basis. The operating EBITDA reported was Rs. 51 crores which increased by approximately 90% year-on-year and decreased by approximately 8% quarter-on-quarter. The EBITDA margin for the quarter was reported at 22.2% and net profit after tax reported was Rs. 26 crores which increased by 7% year-on-year and decreased by 19% quarter-on-quarter. The PAT margin for the quarter was 11.4%.

Moving onto our key business segments, the broking distribution and trading business reported revenue of Rs. 164 crores in Q1 FY22 which grew by 22% year-on-year while there was a Q-on-Q decline of 8% which are due to a certain amount of seasonality where there is generally higher revenue in the fourth quarter. The EBIT for the segment declined on Q-o-Q

basis due to lower proprietary trading gains in current quarter as compared to the previous one. Further, we entered into a new banking tie-up with Dhanlaxmi Bank as an execution partner of our broking services. The insurance broking arm reported revenue of Rs. 50 crores in Q1 FY22 which grew by 30% year-on-year and de-grew 31% quarter-on-quarter which was primarily on account of the impact of lockdown restrictions imposed on second wave of COVID-19 pandemic and some degree of seasonality effect. Furthermore, the division had an EBIT loss due to onetime exceptional loss of Rs. 3.7 crores booked on investment.

Lastly, the financing business had a strong growth of 24% year-on-year and a marginal decline of 5% quarter-on-quarter due to lesser disbursements during lockdown period in Q1 FY22. Resulting in a lower loan book, however, there was a significant improvement in EBIT for the segment on Q-o-Q and Y-o-Y basis due to our focused effort in improving the asset quality of the book resulting in higher recovery and lower GNPA. We also added two new branches in Jaipur and Ludhiana during this quarter for our NBFC business.

With that we can now open the floor for the question and answer session. Thank you.

Moderator: Thank you very much. Sir, we will now begin the question and answer session. The first question is from the line of Aditya Shah, an Individual Investor. Please go ahead.

Aditya Shah: Sir, I would like to ask, what are your active client base for the month of July, if I can get a number or something?

Ajay Garg: This is a call regarding the Q1, so we cannot comment on the July numbers.

Moderator: Thank you. The next question is from the line of Rahul Jain, an individual Investor. Please go ahead.

Rahul Jain: Some questions on the NBFC business, so I wanted to understand what is the lending mix in terms of sectors and how much of our exposure is to SME companies and what is our strategy going forward on the lending mix? Will it change or will be the same going forward?

Himanshu Gupta: This is Himanshu Gupta, I will answer this question. So basically, as of now our current lending mix is more particularly focused on SME customers, so we have various product offerings for SMEs like loan against property, medical equipment loans and unsecured loans, so as of now these three would constitute around 70% of our loan book and another about 18% of the loan book is lending to other NBFCs and rest is capital market and consumer durable loan book. Going forward also, we would like to focus on SME lending and we are also open to add new product offerings as and when it comes, so the strategy would be to focus more on the retail client base acquiring the retail customer bases seeking strategy. Yes, we would be expanding our distribution reach also to achieve that. As Mr. Jamar told that this

quarter we made operational two additional branches in NBFC, so our focus is on retail acquisition.

Rahul Jain: And also, we saw good recovery in the NBFC segment, but however, the total asset and the management has come down, so what is driving the performance and what is the strategy for this?

Himanshu Gupta: So as we know that this quarter, particularly during the second COVID wave, two months, which was April and May were tactically nonoperational from the disbursement point of view, so we lost both two months for getting new business, however, we picked up quickly during the June month, so that is the key reason why the loan book de-grew during the quarter against March 2021. However, we had witnessed good recoveries in couple of accounts during the quarter, so if you look at our GNPA numbers, those have also gone down against March 2021 and I think now the situation is pretty normalized, so we are picking up on the new business development.

Rahul Jain: And lastly, our secured portfolio is around, I think 55%, but most NBFCs are conservative and have around 60% to 70% of secured portfolio, so is there a strategy around secured and unsecured mix?

Himanshu Gupta: So, I think it is going to remain within that range only. For the unsecured, we balance it to the correct sizing that we charge to the customer that takes care of the potential credit loss that we have over the life of the loan.

Rahul Jain: I had some more questions like, we have been able to bring down our gross NPAs this quarter, so could you talk about why these NPAs have raised a lot over the last few years? And may be also talk about our current collection efficiencies and what levels do you think you will be able to bring down the gross NPAs by end of this year?

Himanshu Gupta: So basically we saw spikes in the gross NPAs during the last financial year which is March 2021, the reason was the pandemic because lot of our customers had witnessed cash flow crunch which was seen across the industry, so I think across all the lenders we saw this kind of trends. RBI gave moratorium till August 2020. After that there was Supreme Court ruling which, I could say on declaration of fresh NPA accounts and that was listed in February 2021. So on account of that event and the Supreme Court ruling that came at that point of time, we saw spike in NPA numbers during March 2021 quarter, however, as the economy is recovering from the pandemic, we are seeing again the cash flows are coming back to the businesses and in turn, we are witnessing better collection numbers. For this current collection efficiency for the standard bucket is at about 95% and what was your last question?

Rahul Jain: Just a follow-up on that, so is there a change in strategy to ensure that GNPA's don't rise further from these levels?

Himanshu Gupta: We have strengthened our collection mechanism and also we are cautious on new lending, so we have customized or reframed our credit policy to take care of the recent pandemic, so we have filtered out certain sectors which we are not lending to.

Rahul Jain: So is it right to assume like due to the current strategy, the disbursements were so low in the current quarter or is there some other reason for the low disbursement?

Himanshu Gupta: No, it was not due to this strategy, I think it was primarily due to the lockdown situation during the first two months of the quarter.

Moderator: Thank you. The next question is from the line of Meera Nair, an Individual Investor. Please go ahead.

Meera Nair: Sir, my first question is, could you talk a little bit about your discount broking platform, Stoxkart and how is this different from other platforms like Zerodha?

Pranay Aggarwal: Hello, everybody, I am Pranay Aggarwal, CEO of Stoxkart, so I will take up this question. I think basically what we observed in the market last year when we started this discount broking was that many new investors were coming up in the market, new investor participation was there, but they were basically no one to actually take them, to guide them in their journey and most of them were waiting a lot. So we have started this discount broking platform with the customer centric approach and we have integrated our research which our parent company provides in our platform and we have started this pricing model also which charges you only when you are on profit. So I think on majority our USP is research based platform and also we have launched many first-in-class features like we have provided this robo advisory features where you can invest based on your risk appetite and it will recommend you a stock basket, so I think many new things are also coming up and we have created our new niche in the market and that is something we aim to carry on.

Meera Nair: And if I may ask, how much have we invested in this Stoxkart so far and is the business breaking even or even contributing to the profits or is it burning cash right now?

Pranay Aggarwal: So as I comment on the first quarter of financial year, so in the first quarter, we have left on, maybe a breakeven situation, we are a little positive side only, but you can say it is a breakeven and I think that we have observed that now month on month, in the first quarter, month on month we are currently showing a positive trend in earnings.

Meera Nair: And can you tell me how much have we spent on it since the starting, since 2019, I mean what is the total investment in this?

Pranay Aggarwal: You can say around 4 crores, you can put that number, around 4 crores which we have spent right now, but also we have taken capital from our parent company of around 10 crores.

Meera Nair: Sir, the next question I would like to ask that we can see there has been very much good growth in your overall broking business in terms of client additions and daily turnover, but the same is not reflected in your revenues, so can you please explain what happened as to why revenue growth has declined?

Vinod Kumar Jamar: I am. Vinod Jamar. Actually, our turnover has increased, it has got two parts, one is broking and another is arbitrage part. In the stable market, in arbitrage there could be lesser opportunities of profitability, but still there could be higher volume, so the growth is attributed to more arbitrage transactions, but same is not reflected in the bottom line.

Moderator: Thank you. The next question is from the line of Mayank Gupta, an Individual Investor. Please go ahead.

Mayank Gupta: So I am new to the company, can you explain why we decided to go for listing directly and not raise money through IPO process since the IPO market is so hot right now?

Subhash Aggarwal: Yes, actually 2-3 years back, we were planning to list in New York Stock Exchange and our paper was almost clear through SEC and we did road shows but due to some regulatory from the Ministry of Finance, at that time some guidelines were under preparation, so that finance ministry has stopped us not to go for ADR, then we thought, we should go direct listing because we were listed in Regional Stock Exchange and at that time when market was not so good and still we are open to go for ADR and IPO and share in domestic market, so that is why we thought not to go for an IPO and go for direct listing.

Mayank Gupta: Sir, also I wanted to know the broking and NBFC business seems to be very overcrowded right now and highly competitive, so can you explain us our strategy across our businesses and what kind of growth and topline or bottom-line can we see in the coming years?

Subhash Aggarwal: We always would like to face challenges and our whole verticals are in good standing you can see and we have all young team and experienced team also, so we don't find that there won't be a challenge in industry, everyone has to survive and we are better poised for taking all challenges and we are doing well. So in the time to come, we are positioned to take challenges and we will do better. That I can say.

Mayank Gupta: Sir, any guidelines with regard to topline or bottom-line, can you suggest?

Subhash Aggarwal: Our regulation doesn't permit us to tell guidelines, I can only say we are doing better, we will do better.

Moderator: Thank you. The next question is from the line of Aditya Shah, an Individual Investor. Please go ahead.

Aditya Shah: I would like to know what about the dividend policy, what is the kind of payout you would expect give every year?

Subhash Aggarwal: You are asking about dividend payout?

Aditya Shah: Yes sir, what can we expect every year, sir?

Subhash Aggarwal: Yes, we have a dividend policy. As per policy, our 30% we distribute as a dividend, minimum, so we can give more, but minimum we have to give at 30% of our profits, so we are proceeding as per that policy. Last year, we declared 60% interim & 40% final dividend, so it means total 100%.

Moderator: Thank you. Ladies and gentlemen, 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: Myself, Mahesh Gupta, Thank you all for participating in this earning concall. I hope we have been able to answer your questions satisfactorily. If you have any further questions or 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.

Subhash Aggarwal: Thank you everyone.

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.