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Sub: Transcript of earnings con-call Q2-FY22

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 Tuesday, 9th day of November, 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
Earnings Conference Call
November 09, 2021

Moderator: SMC Global Securities Limited Q2 FY22 Earnings Conference Call. As a reminder, all participant line 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 telephone . Please note that this conference is being recorded. I now hand the conference over to Mr. Anuj Sonpal from Valorem Advisors. Thank you and over to you, sir.

Anuj Sonpal: Good afternoon 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 first half and second 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 call maybe forward looking in nature. Such forward looking statements are subject to risk and uncertainties which could cause actual results to different from those anticipated. Such statements are based on management belief as well as assumptions made by an information currently available to management. Audiences are cautioned not to place any undue reliance on these forward-looking statements in making any investment decisions.

The purpose of today’s earning 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 give it over to them for opening remarks. We have with us Mr. Subhash Aggarwal – Chairman and Managing Director, SMC Group, Mr. Mahesh Gupta – Vice Chairman and Managing Director, SMC Group, Mr. Ajay Garg – Director and CEO of SMC Global Securities Limited, Mr. Himanshu Gupta – Director, SMC Global Securities Limited and Director and CEO of Moneywise Financial Services Pvt. Limited, Mr. DK Aggarwal – CMD of SMC Investments and Advisors Limited and CMD of SMC Capitals Limited, Mr. Anurag Bansal – Director of SMC Global Securities Limited and Director SMC Capitals Limited, Mr. Pranay Aggarwal – Director and CEO of Moneywise Finvest Limited and Mr. Vinod Kumar Jamar – President and CFO of SMC Group. Now without any further delay, I request Mr. Subhash Aggarwal to give his opening remarks. Thank you and over to you, Sir.

Subhash Aggarwal:

Thank you Anuj. Good evening everyone. It is a pleasure to welcome you to the earnings conference call for the first half and second quarter of financial year 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 as to bring everybody on the same page. SMC Global Securities Limited was established in 1994 by myself and Mr. Mahesh Gupta who is the current vice chairman and managing director. Over the years the company has grown in a diversified financial services company offering a wide spectrum of services like brokerages, investment banking, wealth management, distribution of financial products, financing, insurance broking, clearing and depository services, fixed income securities, 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 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 platform in 2019 under the brand name of Stoxkart which is a first of its kind platform in the broking industry where customers are charged for the profitable transactions and I am happy to say that this platform has been seeing a very encouraging response. The company is governed by strong board including six independent directors 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 which have established presence, track record and by embracing the latest technology. I now hand it over to Mr. Vinod Jamar, our Group CFO to take you through the financial and operational performance for the second quarter of financial year 2022. Over to you Vinod Jamar.

Vinod Jamar:

Thank you Subhash sir. Good evening everyone. Talking about the financial performance of Q2 FY22 of our company on a consolidated basis, The operating income for the quarter was INR 265 crores, an increase of 25% over year-on-year. Operating EBITDA was reported at approximately INR 62 crores, an increase of approximately 44% year-on-year and EBITDA margin stood at 23.24%. Net profit after tax reported was INR 41 crores, an increase of approximately 84% year-on-year while the PAT margins stood at 15.31%. For the first half of FY22 the operating income for the 6 months was INR 496 crores, an increase of 25% year-on-year.

Operating EBITDA reported was approximately INR 113 crores, an increase of approximately 31% year-on-year and the EBITDA margin stood at 22.73%. Net profit after tax was reported at approximately INR 67 crores, an increase of 43% year-on-year while the PAT margin percentage was 13.47%. Let me now take you through quarterly segmental performance on a consolidated basis for the second quarter. In the broking, distribution and trading segment, the revenue for the quarter was INR 199 crores, an increase of approximately 21.37% compared to the same period last year. The EBIT for the segment was INR 54 crores which

was increased by about 86% year-on-year. Brokerage income increase Q-on-Q due to increase in delivery volumes in equity segment and also due to increase in income from delay payment charges. Overall the market conditions continued to remain buoyant

Coming to the insurance broking division, the revenue for the quarter recorded was INR 61 crores which increase by 16% on year-on-year basis. The EBITDA was approximately INR 28 crores which also increase by 145% year-on-year. Revenue and EBIT on Q-on-Q basis increased due to easing out of lockdown restrictions.

Lastly in the financing division segment the revenue for the quarter was INR 25 crores, an increase of about 33% on year-on-year basis. The EBIT for the quarter was approximately INR 9 crores, revenue increased YoY and Q-on-Q with an increase in average loan book to INR 553 crores from INR 489 crores in Q2 FY21. However, EBIT decrease due to high impairment provisions, GNPA and NNPA reduced Q-on-Q to 2.9% and 2.2% respectively from 4.75% and 3.15% in Q1 FY21.

Lastly, I am happy to inform that company has declared an interim dividend of 60% on the face value of equity share.

With this, we can now open the floor for questions and answers 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 Aditya Shah from Individual Investor. Please go ahead.

Aditya Shah: Sir, only one question the dividend seems to be the same as last time we had lesser profits and still we gave dividend, this time although we have a higher profit but dividend is still the same, is there any reason for that?

Subhash Aggarwal: We have declared 60% dividend interim and still we have to declare final dividend when the year will be over and I think it is commensurate with the profits it is better in comparison to the last year so I think it is justified and we have a dividend policy. Accordingly we are declaring our dividend.

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

Mansi Shah: My question is for Mr. Himanshu Gupta so there has been like a good improvement in the NBFC business financial performance so can you talk a little bit more on the strategy on the collection efficiency and if you could also mention the mix of the loan book and what would be the average borrowing rate and the loan ticket size?

Himanshu Gupta: So, I will answer your question in the reverse order. First of all on the product mix just to give you a background, our majority of the loan book is concentrated on SME lending. So, out of

550 crores of loan book our exposure to SME is about 400 crores and apart from that about 100 crores is lending to other NBFCs and rest is our capital market finance and consumer durable loans. We have about 25,000 customers on our loan book so that is like a diversified book. Coming to the ticket size on the unsecured SME book, the average ticket size at time of disbursement is about 18 lakh and on the secured loan in LAP the average ticket size is about 2 crores and on the medical equipment about 1.5 crores at the time of origination. Consumer durable it is about Rs. 10,000 and capital market is about 10 lakhs so that is broadly the ticket size that we operate in.

Now coming to your second question which is of the borrowing cost so our weighted borrowing cost is at the range of 9.3%. About 45% of our borrowing comes from NCD and about 50% comes in the form of bank loans and rest about 5% is inter corporate deposits. We are rated A- from ICRA and CARE. So, we enjoy competitive rate on the borrowing profile. Now coming to the third question which is about the collection efficiency, our collection efficiency stood at over 98% during Quarter 2 against 97% during Quarter 1. So, this improvement is largely on account of easing of lockdown restrictions because the SME customers have now started generating cash flows which were at pre COVID level and also our collection team has been able to physically touch base more number of customer after easing of the lockdown restrictions. We have also increased our headcount on the field collection side considering the situation and also, we have seen activity on the legal front because last year the court was almost shut all the cases were pending for longer time. So, now the legal activity has also been more active right now. So overall, the collection efficiency has improved and we see similar trend in the coming times also provided that the third wave does not come which still seems to be seen.

Mansi Shah: Just two more questions so if you could just explain like why this NIMS have decreased during the quarter and also by the end of FY22 what would be the estimate of the gross NPA at that time?

Himanshu Gupta: Actually, NIM would have remain same quarter-on-quarter, but as we would leverage further, we expect NIM to go down because this is without leverage ratio. So, if you will see across the other lenders, It is typically in the range of about 5% whereas we have our NIM of about 11%. So, this is expected to go down as we leverage and what was your other question.

Mansi Shah: What would be the gross NPA by the end of FY22?

Himanshu Gupta: Our gross NPA has substantially improved in Quarter 2 which is at about 2.9% as against I think 4.5% in quarter at the end of Quarter 1, Likewise net NPA has also gone down. We have seen recoveries from the delinquent cases during the quarter and we expect the portfolio to hold strong during the coming quarters for the year end. Though, it is very difficult to put out the numbers, but we expect the ratios to remain strong.

Moderator: Thank you. The next question is from the line of SK Damani from SKD consultants. Please go ahead.

SK Damani: Sir two things, first I want to congratulate for extraordinary very good numbers. I am not only investment advisor not registered with SEBI, but I do analyze balance sheet and discuss with my friends and circle and I am SMC client as well and I am a shareholder of your company as well. With this, I want to begin. Sir, my question is that, do you have any such data that during this quarter how many new members have been added on SMC platform and on StoxKart that you have created in which I think without brokerage people operate ?

Ajay Garg: Member you mean to say number of clients or what?

SK Damani: Number of clients on both the platform?

Ajay Garg: So, in last 6 months we have added almost 65,000 to 70,000 new clients on those and the ratio is almost you can say around similar like around 35,000 clients in SMC Global and similar number to StoxKart.

SK Damani: Have you analyzed the revenues of brokerages that we, as company make per head of the customers, do we ever analyze that way also like ARPU being calculated in case of telecom companies. In our case, as you know, we may be having lot of clients, few trading very big volumes and few trading very less volumes, but average is being calculated that we have this much of clients and during this quarter our per customer revenue in terms of brokerage?

Ajay Garg: We do have 1,70,000 active clients in a year and revenue per clients have increased as compared to the last quarter and even as compared to last year.

SK Damani: But quantifying is difficult all the industry, is quantifying this way and giving disclosure to the investors?

Ajay Garg: In terms of brokerage I cannot comment, but overall because the revenue includes lot of factors. So, our revenue per client, you can say ranging between 9,000 to 10,000 for a quarter.

SK Damani: Sir, one more question is that can it be possible that sometime you may launch mutual fund or you will not be allowed to do that as SMC group?

Ajay Garg: We are very well allowed and SMC is growing day by day. It might come that even SMC would be having its own mutual fund, but it is a management decision, I cannot comment much on that.

SK Damani: What are our growth plans? Because many people say that brokerage is at dying industry. This, of course for last one year, things have been very, very different, but now onwards can I

have your view how you will see this activity growing of allied activity you have been doing very, very well along with brokerage, but because of this various platform giving free brokerage services for transactions, so how you view this and what are some other growth plans that management has for growth of the company if you can kindly highlight?

Ajay Garg:

You see if you talk of capital market, India is still at a very nascent stage. The penetration is less than 5% as compared to other developed countries where penetration is more than 20% to 50%. So, I would say it is still a beginning and it has long way to go. So, discount broking houses are popping up in a way it is good that even the awareness is increasing and you can think of getting into stock market because earlier stock market used to be considered as a speculative element, but now after the AMFI campaign "Mutual Fund Sahi Hai" and after popping up the discount brokerage houses, the awareness is increasing multifold and even the young population is catching up and in long run I would say that SMC is well poised and catch all this kind of opportunity and growth is there for next I would say 15 to 20 years into the financial markets.

SK Damani:

In addition to brokerage business, you are foreseeing growth in all sort of other activity as well sir?

Ajay Garg:

There is a huge potential for even wealth management.. I would say and even the discount brokerage houses are growing and the spillover would come to the full broking houses as well for full broking houses provide better services they charge higher brokerages, but we have seen that even clients have opened accounts with discount brokerage houses and they have burnt their hands and they have shifted to the full broking houses. So, this kind of cannibalization would keep on happening as the industry would grow.

SK Damani:

Sir, myself also continuing with though I have a StoxKart account, but I have never operated it. I am also continuing with SMC only on a regular basis. Sir, last question is that regarding any foreign alliances with our company as such; I know you are a very sound company you may not need funds for growth because you are generating enough, but any such thing and somebody told me you are listed on some NYSE also is it correct I do not know I overheard it from somebody?

Subhash Aggarwal:

Earlier we were going for listing in any NYSE so we have tried and we have got the clearance from the regulator SEC, but at that time our government finance ministry were not having the straightforward policy. So, they told us to wait for some time and by that time our approval was late. So, we could not come for that. We had cleared all our proposals at that time.

SK Damani:

Is it likely to happen or not to happen?

Subhash Aggarwal:

Now it is a dropped case. We have listed in NSE, BSE and if we have to go listing than we will try again, but not now.

Ajay Garg: We are also a member of DGCX. We are already present in Dubai as far as international markets are concerned and we are also trading member of new exchanges at IFSC GIFT city. So, even the US stocks are going to get listed as you keep leveraging trading into US stocks for Indian client so that would open up a new venture for us and even we are focused to add NRI and FPI clients as well. We are well equipped if it is even our retail trading or it is a algorithm based trading or high frequency trading we are currently serving many NRI and FPI clients. So, if any opportunity comes that we are open for even international tie up and we are looking for it.

Moderator: Thank you. The next question is from the line of Varun Sivaram Individual Investor. Please go ahead.

Varun Sivaram: My first question would be what kind of strategy is the company looking towards for building our huge customer base for its brokerage business and my second question would be that what could be an expected revenue by coming in the future like one or two years from now?

Ajay Garg: SMC has got a strong base of more than 2,500 franchises all across India in more than 550 cities. So, we would keep on increasing the number of franchises and keep on increasing our network and to cater to the discount broking clients we have opened a separate arm by the name of stoxkart and we are also in last 6 months were able to breakeven and keep on increasing adding more on its line to that discount brokerage arms and we do have multiple banking tie up last quarter only we added one more bank Dhanlaxmi so around 5 to 6 banking tie up we do have where we open three in one accounts bank account and demat account and trading account is there also. We are planning to add a greater number of accounts. As I told earlier that the penetration is very, very less into the capital market and scope is humungous. We are going to revamp our trading portals and we are planning to have the better digital strategy and things remain same or better like SMC is well poised to encash the opportunity.

Subhash Aggarwal: And your second question since we are restricted by the regulator cannot comment on future projects, but we are doing well and we will do well.

Moderator: Thank you. The next question is from the line of Ishwar Khatri from Omkara Capital. Please go ahead.

Ishwar Khatri: So, I wanted to ask regarding Stoxkart you mentioned that we have added about 35,000 odd subscribers in the last 6 months on the platform so I wanted to know what kind of turnover have we achieved in Q2 plus an add on question would be what will be our marketing strategy this platform in order to compete with larger players like Zerodha?

Pranay Aggarwal: Actually, in Stoxkart we have focused on quality as you can see, we have opened 35,000 odd accounts in the last 6 months and we are able to achieve revenue of around you can say 3.5

Cr, but ARPU if you speak about that average revenue per user is much more than industry and that is what we are focusing on and even going forward we are planning to introduce a new mobile application and increase our tech team substantially. We are spending heavily on tech and you can expect a new application out of Stoxkart in next two, three months and so that is a strategy and I think I have answered both your questions.

Ishwar Khatri: Just a follow up on the same question what is your average daily turnover as of today and what is the total subscriber base you have added about 35,000 in the last 6 months, but what is the total subscriber base overall?

Pranay Aggarwal: Total subscriber base you can say is around 80,000 odd clients

Ishwar Khatri: Sir average turnover?

Pranay Aggarwal: Turnover I am not sure of daily turnover really depends on the market activity which is on Thursday market expiry the turnover is really leverage, but on an average you can say it is around I can give you a tentative figure 33 crores on an average.

Ishwar Khatri: Also, if I could squeeze in another question on the insurance business?

Management: It's 33,000 crores.

Ishwar Khatri: Yeah, I heard 33,000 crore is the average daily turnover. The question regarding the insurance segment so I see the numbers that this quarter a business the insurance segment has revived well, so what has been the reason for this growth that we have seen and what are your expectation in the second half of the year?

Management: Can you repeat your question please?

Ishwar Khatri: Sir I was talking about the insurance business of the company I see that it has done well in the current quarter so how do we see this business going ahead in the second half of the year and what was the reason for the improved performance of this segment?

Subhash Aggarwal: We did well in second quarter actually we are very good in vehicle insurance. So certainly, we have a special tie up with Honda and Kia where the new cars 80% to 90% are generally done insurance through SMC Insurance, but their new car turnover is low during this period due to constant semiconductor shortages, chip shortage where the new arrivals of the car is very less. So, we have been affected by that, but that has been compensated with the old car renewal cases. So, we have improved in that front. So, overall, we keep our revenue and the number of policies almost same and even little bit better than the comparison with the corresponding quarter or sequential previous quarter. StoxKart turnover I was asking about, it is 3,300 crores not 33,000 crore daily turnover.

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

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 investors relations manager at Valorem Advisors. Thank you, stay safe and healthy. Thank you very much.

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