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Sub: Transcript of "Earning Con-call" - Q3-FY 2021-22

Dear Sir(s),

In compliance with sub-regulation (1) & (2) of regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (Hereinafter referred as "SEBI LODR, 2015") as amended from time to time read with Para 15(b) of Part A pertaining to Schedule III of the SEBI LODR, 2015, the transcript of the "Earning Con-call" event over a Conference Call for discussion about the Earnings of Third Quarter (Q3) of financial year 2021-22, held on Wednesday, 02nd day of February, 2022 at 04:00 p.m., is enclosed herewith.

You are requested to acknowledge the same.

Thanking you,

For SMC Global Securities Limited



Suman Kumar

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“SMC Global Securities Limited Q3 FY22 Earnings Conference Call”

February 2, 2022



**MANAGEMENT: MR. SUBHASH C. AGGARWAL – CHAIRMAN &
MANAGING DIRECTOR
MR. MAHESH C. GUPTA – VICE CHAIRMAN &
MANAGING DIRECTOR
MR. AJAY GARG – DIRECTOR & CEO
MR. HIMANSHU GUPTA – DIRECTOR (SMC GLOBAL
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MR. D. K. AGGARWAL – CHAIRMAN & MD (SMC
INVESTMENTS & ADVISORS AND SMC CAPITAL)
MR. ANURAG BANSAL – DIRECTOR (SMC GLOBAL
SECURITIES AND SMC CAPITAL)
MR. PRANAY AGGARWAL – DIRECTOR AND CEO
(MONEYWISE FINVEST LIMITED)
MR. VINOD K. JAMAR – PRESIDENT & GROUP CHIEF
FINANCIAL OFFICER**

Moderator: Ladies and gentlemen, good day and welcome to the SMC Global Securities Limited Q3 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 "*" then "0" on your touch-tone phone. 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 evening 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 call for the 3rd quarter of financial year 2022. Before we begin, let me mention a short cautionary statement. Some of the statements made in today's earnings con-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 beliefs as well as assumptions made by and information currently available to management. Audiences are 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.

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. Firstly, 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, SMC Global Securities and Director and CEO of Moneywise Financial Services; Mr. D. K. Aggarwal, Chairman and Managing Director of SMC Investments & Advisors and SMC Capital; Mr. Anurag Bansal, Director of SMC Global Securities and SMC Capital; Mr. Pranay Aggarwal, Director and CEO of Moneywise Finvest; and finally, Mr. Vinod Jamar, President and Group Chief Financial Officer. Now I request Mr. Subhash Aggarwal to give his opening remarks. Thank you and over to you, sir.

Subhash Aggarwal: Good evening, everyone. It is a pleasure to welcome you all to the earnings conference call for the 3rd quarter of financial year 2022. Firstly, let me wish you all a happy new year and 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 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 products, financing, insurance broking, clearing and depository

services, fixed income securities, and financial advisory services to corporate institutions, high net worth individuals, & other retail clients.

On the broking side, the company operates on all major stock and commodity exchanges in the country including those in GIFT City Gujarat. The company has taken membership of the International Bullion Exchange at IFSC GIFT City on 12th January 2022 and has also registered as an alternate investment fund there on 28th December 2021. We have a strong network of more than 2680 sub-brokers and authorized persons spread across more than 550 cities in India, thereby servicing approximately 19 lakh unique clients. Also, as a clearing member, we are serving over 300 trading members of different stock and commodity exchanges. 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 booking 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 their profitable transactions. With this, we are present in both business models for broking that is relationship-based broking as well as maximizing our presence in the discount and online broking space. Lastly, the company is being governed by a strong board including 6 independent directors of high standing and is run by a highly qualified and experienced management team. We have a consistent growth track record and are well positioned for continued growth in the coming years with our established presence, track record, and by embracing the latest technology. I now hand over to Mr. Vinod Jamar, our Group CFO to take you through the financial and operational performance for the 3rd quarter of financial year 2022.

Vinod Jamar:

Thank you Subhash Sir Good evening, everyone.

Talking about the financial performance for Q3 FY22 of our company on a consolidated basis, the operating income for the quarter was INR 287 crores, an increase of approximately 21% year on year. Operating EBITDA was reported at INR 65.11 crores, an increase of approximately 44% year on year, and the EBITDA margin stood at 22.72%. Net profit after tax reported was INR 50.41 crores while the PAT margin was 17.59%. For the 9 months of FY22, the operating income was INR 782 crores, an increase of 24% year on year; operating EBITDA reported was approximately INR 178 crores, an increase of approximately 36% year on year; and the EBITDA margin stood at 22.72%; net profit after tax was reported at approximately INR 117 crores, an increase of 73% year on year, while the PAT margin percentage was 14.98%.

Let me now take you through quarterly segmental performance on a consolidated basis for the 3rd quarter. In the broking distribution and trading segment, the revenue for the quarter was INR 203 crores, an increase of 47% compared to the same period last year. The EBIT for this segment was INR 62.5 crores, which doubled from INR 31 crores on a year-on-year basis. Overall, the market conditions continued to remain buoyant. It is important to note that the number of clients have consistently increased over the last many years.

Coming to the insurance broking division, the revenue of the quarter recorded was INR 82.5 crores, which increased by 2.2% on a year-on-year basis. The EBIT was approximately INR 3.7 crores, which increased by 270% year on year. Revenue and EBIT on Q-on-Q basis increased due to uptick in vehicle sales in festive season resulting in higher motor insurance premium.

In the financing division segment, the revenue for the quarter was INR 23.5 crores, an increase of about 5% on a year-on-year basis. The EBIT for the quarter was approximately INR 12 crores, an increase of about 21% on a year-on-year basis. Revenue has decreased on a Q-on-Q basis with decrease in average loan book size to INR 518 crores from 529 crores in the previous quarter. However, EBIT has increased due to improvement in asset quality, requiring lower impairment provisions. GNPA and NNPA have reduced to 2.55% and 1.61% respectively, from 2.9% and 2.2% in the previous quarter.

With this, we can now open the floor for the question & answer session.

Moderator: Ladies and gentlemen, we will now begin the question & answer session. We will wait for a moment while the question queue assembles. We have the first question from the line of Varun Shivaram, an individual investor. Kindly proceed.

Varun Shivaram: First of all, congratulations on a very healthy set of numbers. My first question would be for Mr. Himanshu on the NBFC business. Can you explain why the loan book size has de-grown? Also, could you talk about what the management is doing to strategically revive this business?

Himanshu Gupta: Basically, as we know, during the COVID period, we had increased our focus more on the collection side and we have been continuously seeing better portfolio quality over the period. Let me give you some figures. In the last quarter, our collection efficiency was close to 100% as compared to about 98.5% in the previous quarter, and which was about 95% in quarter 1. So, there has been a steady improvement in the collection efficiency, which is also visible in our gross NPA numbers which have come down to 2.5% as against 2.9% in the previous quarter. That is due to the more focus on the collection as compared to the disbursements. However, even on the disbursement front, we did a disbursement of about 95 crores in this quarter. A good thing is that we are able to do higher disbursement, particularly on the retail front which was about 73 crores in this quarter as compared to 63 crores in previous quarter and 54 crores in the quarter 1. As per the trend, we see there would be a growth in the loan book.

And just to add, we are also going to add some additional product line which is gold loan which we expect to take off during this particular quarter. We are also planning to enter into some co-lending partnerships. That will also give a boost to the loan book in coming times.

Varun Shivaram: Sir, I have a few follow-up questions. Your provisions have come down. What is the outlook on NPAs? When will they come down to normalized levels going forward?

- Himanshu Gupta:** NPAs are pretty much under control now. We have seen some slippages during the lockdown period, particularly in the first lockdown and a little bit in the second lockdown. Now, though we have seen a sharp recovery post the economy opening up, we expect the portfolio quality to remain healthy going forward as well.
- Varun Shivaram:** Sir, my last question would be, could you elaborate on loan book bifurcation as to what kind of products we have there and what is our strategy here? Are we more focused on the MSME or is there any other differentiation strategy compared to other NBFCs? We are just dependent on our relations from other businesses to cross sell and grow this. What is the strategy going here?
- Himanshu Gupta:** Strategy would be, we fundamentally believe to keep the book diversified. As of now, we have close to 25,000 customers. So, primarily we want to focus on retail. Within the retail also, we are diversifying through our product mix. As of now, we have about 69% of our book which is catering to SME segment and about 28% of the book which is catering to other NBFCs for onward lending. and balance is capital market book. And even in these products, we are further diversifying. For example, in SME, we have multiple product lines like loan against property, equipment loans, and unsecured loans. In line with further diversification strategy, we are opening up some new geographies. As of now, in retail portfolio we are concentrated in Delhi NCR and Mumbai regions. Over the last few quarters, we have added additional geographies which are now starting to give additional business, like Rajasthan and Punjab geographies and few more we are planning to add. That is the primary strategy as far as the asset side is concerned. Also, as I told you earlier, we are adding a few product lines like gold loan which we plan to start during this quarter.
- Moderator:** The next question is from the line of Tejas Shah from Unique Stock Group. Kindly proceed.
- Tejas Shah:** Are we looking at growing in the broking business? Because I think the revenues are not growing that great as the market is doing or as the competition is doing.
- Ajay Garg:** As far as broking is concerned, as the market is growing, even the broking business is also growing. If you talk about the turnover, we are in line with the turnover as compared to the market. We are maintaining around 2% turnover in equity and F&O and around 3% turnover market share into our commodities and currencies. So, it is in line with the market, and even if you talk about the number of clients, in 9 months, we have added more than 95,000 accounts in the 9 months. Almost 10,000 to 11,000 new accounts we are adding month-on-month basis. if you talk about the revenues of the trading and distribution business, almost 73% of the revenue is coming from the booking segment.
- Tejas Shah:** How do we plan to grow insurance business? Because that is looking good in terms of broking, commissioning, or what we do.

- Subhash Aggarwal:** In insurance business, we are doing well. We are selling motor insurance and all other products in insurance business – life, non-life. So, our figures are good. In this quarter, in insurance, 82.55 crores are the revenue and we are doing better. We are mostly present in retail side.
- Tejas Shah:** Will we be able to continue with the same performance what we are doing this and this quarter or every quarter that seasonality changes?
- Vinod Jamar:** Insurance, yes, I agree there is some seasonality, but usually 3rd and 4th quarters are always better. So, we see, the 3rd quarter was also very good this year. Only this seasonality factor affects in Q1 and Q2. In Q3, there is a festive season. So, on the occasion of Diwali, vehicle sales are usually more. And in the last quarter, the insurance and tax benefit factor emerge. So, quarter 3 and quarter 4 are always good. So, if you see our performance from last quarter, we secured a revenue of 61.4 crores, and this quarter, we have secured 82.55 crores which is again higher than the corresponding figure last year that was 80.78 crores.
- Tejas Shah:** One little off question. Our share market price normally does not give us good P/E, means all our industry peers are working at 11, 15, or 20 P/E. We are still at 6-7 P/E. Is there any particular reason?
- Subhash Aggarwal:** We are a well-diversified company and transparent. Corporate governance is very very good, excellent board, and we are focusing on our business, our profitability, our all-other parameters, not share market. So, the same I want to understand from you why our share is not up to the mark. That is a question to us also.
- Tejas Shah:** Aren't the promoters trying to buy from the open market or do a placement just because we see value in that?
- Subhash Aggarwal:** Yeah, legally we can do, but I think we cannot comment on this due to legality.... It is very difficult to comment on this.
- Tejas Shah:** Agreed, because I think some few percentages or very small thing was added in the last quarter in the promoters....
- Subhash Aggarwal:** A very small percentage, 2%, I think that is legally allowed. But so far, we are not working on these lines. We thought that investors should take the benefit if low price is there.
- Moderator:** The next question is from the line of Suren Joy, an individual investor. Kindly proceed.
- Suren Joy:** First of all, happy to see the good numbers. My questions are already asked by my fellow members. So, just want to know that can an investor expect the same kind of numbers in the coming quarter as well as can we expect new products from SMC?

Subhash Aggarwal: We are doing good. Quarter on quarter, we are showing better performance. And, we are quite positive, we will continue to show good performance. But I cannot talk about numbers. Definitely we are very positive for the coming quarters.

Suren Joy: Also, we can expect new products from SMC, right?

Subhash Aggarwal: Definitely. During this quarter also, we became an international gold stock exchange member in IFSC – a very few members, it's a new exchange. And we have also opened an alternate investment fund in category III in GIFT City only.

Moderator: The next question is from the line of Siddharth Soni, an individual investor. Kindly proceed.

Siddharth Soni: Congratulations on the set of excellent numbers. I would like to ask that, is there a growth visible in the insurance broking business? Because I feel that the margins must be low in that.

Subhash Aggarwal: Yeah, it's a very challenging business in insurance. As you know, certain broking houses are selling policies even at loss. So, we are not in that business, but we are keeping our margin, we are keeping our market share, and we are growing that I can say. Our technology is good and we have shown our presence. this year, we have sold about 5,80,000 insurance policies in nine months.

Moderator: The next question is from the line of Santosh Kondapuram, an individual investor. Kindly proceed.

Santosh Kondapuram: Congratulations on your great numbers quarter over quarter. 1) A quick question regarding the revenue or profits you are generating from Stoxkart. I think in the last quarter, you mentioned that it will break even soon. 2) What is the advertising or promotional activities that we are doing to publicize these products? Because I do not see a lot of advertisements on social media or anywhere compared to competitors even though we have such good products. If you can give us insights on this, that would be helpful.

Pranay Aggarwal: The second question I would like to answer first because I need some clarification in the first question. The second question you asked about the promotional activities we are taking up. We have the strategy of digital first. You wouldn't see much in the traditional print media, but if you see on YouTube, Instagram, we are present there heavily. We have tied up with many influencers who are promoting us through their videos, through their different market strategies, because we are into the business in digital age. We are tracking millennials. The average age of a Stoxkart customer is less. It's lesser than you would have in a traditional broking house. That is our marketing strategy and basically digital first, as we always say. I think we can particularly expand this marketing strategy going forward because I think this is something I can see growth in.

I need some clarification in your first question, sorry. Can you ask it again?

Santosh Kondapuram: What I meant was from Stoxkart, is it possible for you to tell us what is the revenue you're generating from Stoxkart compared to the other....

Pranay Aggarwal: Basically, I'll give you an idea for the quarter. We have made around 4.5 crores of revenue. And we are on a trajectory to achieve breakeven in some time, and the revenue growth forecast looks good. We are launching a new mobile application and trading platform in the coming quarters. And we see a good growth shaping around the technological advancements. So, we are confident going forward.

Santosh Kondapuram: Also, one last question. Will you be able to give us a breakup between the advertising costs quarter on quarter? These are industry practices we have been hitting those numbers, if you can share that, that would be helpful.

Pranay Aggarwal: Breakup for advertisement cost, I think I will have to get back to you because it's something I need to check. But you can say that it's in the line of the industry. I think it's at par with the industry advertisement cost, but we have a different strategy for the spending.

Moderator: The next question is from the line of Tanush Kanakia, an individual investor. Kindly proceed.

Tanush Kanakia: Congratulations on this excellent result. Firstly, we have seen a healthy growth on your broking business on a year-on-year basis, but we understand that the markets are very buoyant right now. So, could you quantify how much of this is euphoria driven and how much of these revenues can be sustainable in the long run?

Ajay Garg: We agree. The past 9 months or 1-1/2 years were excellent for the capital markets, but we also firmly believe that this should remain continue because as our economic survey said that 2.5 crore demat accounts were added. Still, it is very very less because our capital market is still 4% penetrated and we are having very high potential for capital markets. In US market, there is a penetration around more than 30% to 40% and India still is 4% to 5%, it is very very less. So, great potential for India. And our economy is doing very well, our GDP is very good, future GDP is going to be very good. And SMC is also very good, our processes are very good, our independent directors, management directors, our entire board is doing very good. So, we understand we will be able to make it better in forthcoming quarters.

We are expecting LIC IPO in the very near future. More than 2 crore accounts can be opened because of that. And all disinvestments, PSU disinvestment is in pipeline. And more companies new-age, Unicorn, and all traditional companies they are coming with their IPOs. So, very great future in capital market. And we are poised, we are very much excited to see the future, and we are very hopeful that we will do much much better in the times to come.

Tanush Kanakia: So, these 2.5 crore accounts were opened this quarter, right?

Subhash Aggarwal: Last 2 years, 2.5 crore accounts. This is a figure which our economic survey has said. It must be 2 years during the COVID period. Total demat account For NSDL & CDSL combined is 8 crores.

Tanush Kanakia: Can you let us know how is our market share today in the broking segment versus our peers like Angel or Motilal?

Ajay Garg: Our market share is around 2% to 3% in equity, commodity, and currency various segments, and we are maintaining that kind of market share. And I think Motilal and Angel, they have better market share, we can't comment on that.

Tanush Kanakia: I just wanted to ask you, this quarter what was our net addition, the customers added to our Stoxkart business in Q3? Also, can you tell us about what was the quarter-on-quarter growth in percentage terms?

Pranay Aggarwal: Quarter-to-quarter growth, we did about 10% quarter on quarter growth in terms of revenue. In terms of bottom line, you can say that we are on trajectory to achieve breakeven. Currently, we are in red, but that is because we are focusing on growth. Basically, for the clients added, we have seen a good growth in the December and January months, but I'll comment about the quarter. Quarterly, we have opened around 16,000 accounts, particularly in Stoxkart for the 3rd quarter. In comparison to the previous quarter, you can say that the above figure is same but because we are concentrating on high-value clients currently and we will have a high cost of acquisition. We will increase our marketing budget when we will launch a new app and we can have that strategy of growing our client base going forward. But currently, we are focusing on high-value clients. Our average revenue per client I can say must be higher than the industry. That is our focus currently.

Tanush Kanakia: Sir, you just mentioned 10% growth. The 10% growth in revenue I would think that for online broking, it would be much higher since you are focusing on high-value client too.

Pranay Aggarwal: Right. Basically, I cannot comment about the industry, but since Stoxkart is a new company comparatively, we have grown tremendously year on year. On quarterly basis, you can say that 10% is not a big number but we are about to launch a new app and then we can have that kind of strategy to grow. Currently, we are just focusing on high-value clients to get a new market proposition. We want to launch a new market proposition with a new app which will be path-breaking. So, currently we are focusing on that.

Tanush Kanakia: When do you expect this business to breakeven and start contributing to the profits?

Pranay Aggarwal: I cannot comment particularly about the time period, but the trajectory shows that basically we are reducing our losses month on month and the trajectory is good, the growth is good, and we will be able to breakeven and we will be able to in fact earn profits shortly but cannot comment about the time period because that depends on the kind of growth we want to generate. We will

need some capital, need some funds, costs on client acquisition, and it can also increase our losses some times, but I can say that the growth trajectory is very good.

Tanush Kanakia: What are the kind of investments you are planning in this venture for FY23?

Pranay Aggarwal: The kind of investment we are planning; particularly in Stoxkart, we are starting the margin trading facility business (MTF business) and it will need some investment. We recently passed a resolution to infuse Rs. 3 crores in our business. Resolution was passed in the last board meeting. Going forward, with the introduction of MTF, we will have to increase the capital base. In FY23, you can expect around 20 crores investment because of introduction of MTF business

Moderator: We have a followup question from the line of Tejas Shah from Unique Stock Group. Kindly proceed.

Tejas Shah: On the building of investors' attention towards your stock, is the management looking to do some branding activity or some awareness activity?

Ajay Garg: It is always an ongoing process. We always do conferences. Branding is a regular exercise. Our ads on TV and social media are always there.

Tejas Shah: I am saying that let us say our results were great but the market doesn't seem to look at it or otherwise it gets ignored.

Subhash Aggarwal: We believe in doing the right thing and growing our business. We believe that with the passage of time, investors would automatically notice it. As we are declaring good results and we are doing good performance, automatically it will translate into fair valuation of the company. Right now, our focus is not on the share price because that is ultimately the function of your performance in the business. If we are performing better, by the passage of time, automatically it will get reflected. Of course, as a visibility, we are doing a lot of branding in digital media and in social media. And to increase our business, we are holding a number of webinars and seminars. So, I am sure that all these activities also gives a lot of visibility to the company and more people become aware of it.

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

Mahesh Gupta: Thank you all for participating in this earnings con-call. 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. Stay safe and healthy. Thank you very much to all.



*SMC Global Securities Limited
February 2, 2022*

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