



## “Ambit Investor Connect Call with Geojit Financial Services”

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

**Moderator:** Ladies and Gentlemen, Good Day. And welcome to the Ambit Investor Connect Call with Geojit Financial Services. 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. Please note that this conference is being recorded. I now hand the conference over to Mr. Aadesh Mehta from Ambit Capital. Thank you and over to you, sir.

**Aadesh Mehta:** Thanks, Vikram. Good morning, everyone. We have the entire senior management team of Geojit Financial Services with us to discuss the impact of SEBI’s recent cut in TER on the industry as well as on the company. So thank you Mr. George for being on the call with us. Sir, if you can just start with highlighting how this impacts the industry and how this also impacts you? And then we can throw the call open for Q&A session.

**C. J. George:** Good morning to all of you. It will definitely have an impact on the distribution industry, there is no doubt, because when the TER goes down there will be a reduction in the yield to distributors. But what we understand is some of the AMCs will share this reduction in the ratio at which they were sharing this TER in the past. Except for one large AMC we have not got other AMCs saying that they will pass on the entire reduction to the distributors. Whereas we are also seeing small AMCs becoming very aggressive in contacting IFAs and distributors, basically requesting and canvassing for shift in AUM to those AMCs.

What we have seen is that bulk of AUM in the industry today is already an AUM for which upfront commission is paid. So for that the trail commission could be in the region of something like 50 basis point today, most of the distributors are getting. When the industry is moving to all trail model this will definitely double at least. So it will make a lot of sense for all the people to shift from existing AMC or existing scheme to another scheme which is equally performing or better performing, they will get a higher yield whereas there will be zero impact on the clients. The clients impact is same because the TER commission is only on the basis of trail fee. So, without the customer getting impacted the distributor will try to, by and large, increase his earnings. So this is what we are seeing particularly from discussions with some of IFAs as well as some of the distributors and banks. So this is generally the kind of impact what we could see.

With regards to the industry probably the impact could be in the region of something like, in our view, 10% or so. I would just briefly make one comment about an analysis that we have made roughly for the last three months. What we have seen is for the top 25% of the schemes we will see a reduction of around 20%, and next 50% of the schemes we will see a reduction of around 10%, and next 25% no reduction at all. This assuming the full TER reduction is passed on to us. So, on the average for the last three months incremental business if you look at the impact will be something like 10% on our AUM.

I must also tell you that out of 350 equity schemes in the market there are only 25 – 26 schemes with more than Rs. 10,000 crores AUM. So, balance there are 325 schemes with less than Rs. 10,000 crores AUM and some of them are performing very well. So this is slightly to create some kind of shift of reshuffle in the portfolios of people between schemes and the AMCs.

This is what I would like to add at this moment. I request Satish Menon to talk to you on the impact on Geojit and then you can ask questions and we can answer.

**Satish Menon:**

Just to continue from what Mr. George was saying, as an industry of course there has been a reduction in the overall TER. And what we understand from most of the AMC players is that the reduction in TER would be shared by all the stake holders. Apart from one of the large AMCs we have not received any such dictates saying that it will not be shared. So our understanding is, that this is for the betterment of this industry. Most of the other AMCs will go according to the larger concept of the stakeholders interest keeping in mind. So we expect rather a proportionate reduction in terms of commission. Mr. George has already touched base on probable reduction in the income which we assume to be in the tune of 10% for this effect if apportionate pass-on is done to all the distributors.

One silver lining of this circular may be for national distributors like Geojit, since everybody has to move to trail model, whereas Geojit had moved to full trail model 2.5 years back. Now since everybody else has to move to full trail model it becomes difficult for IFAs specifically and some other distributors to make money out of this in the immediate future. You would have seen most of these new IFAs who have come to this market, all the older IFAs they primarily thrive on the upfront commission, upfront commission was in the range of 2% plus and for close-ended scheme 6% plus. This was basically a driver for them to get into this business. Now since SEBI has made it a full trail model there is an entry barrier created for those kind of people. So we presume that this in a way is good for national distributors like Geojit and maybe a little bit negative for IFAs.

There is one more point on the SEBI thing, we do not know the date of implementation. We are receiving various dates, some people say it might be October, some people say it might be extend by six months. We do not know when it is to be implemented. Whenever it is implemented, I am sure we will have a discussion with AMCs on the reduction in the TER.

Also, there is one more aspect. The B 30 commissions have also become trail commission, earlier which was paid up front. It is a cash flow issue. There is no reduction in the yield.

**C. J. George:**

I also wanted to add one point. Shifting to all trail model has been a very good development for our industry. Our investors in mutual fund, the potential investors, everybody will benefit out of it. So it is the best thing that has happened to this industry when we shifted from upfront to all trail model. We are of the view that more than the reduction in the TER, the compensatory benefits arising from investors not getting impacted because of upfront is

something, and not only in the short term but in the long term also.

**Satish Menon:** This is what we say as our opening remark. Aadesh, you can open for Q&A.

**Moderator:** Thank you very much, sir. Ladies & gentlemen, we will now begin the question-and-answer session. Our first question is from the line of Parag Jariwala from White Oak Capital. Please go ahead.

**Parag Jariwala:** I have two questions. One is that the arithmetic view which you have just elaborated that first product of 25% of the fund, then 20% and 10% and then there is no impact. Can you elaborate slightly more in detail I mean what are your assumptions, how you have done it? That is the first question. Secondly, you said that one of the large AMCs have said that basically the entire burden will be passed on. So, is it about the AUM already in place or is it also for the fresh money which you are going to receive?

**Satish Menon:** Geojit's AUM what you have to take is 25% of the AUM which will have a reduction of 20% in the commission, 50% of our AUM will have a reduction of 10% in the commission and another 25% there will be zero impact. And the average impact on our total AUM will be around 10.16%. So this is what is the comment I made about our own AUM. And this question about the one large AMC going on record to say that they will pass on the entire reduction to the distributors, I must say that it will apply to all the AUMs, including the old ones.

**Parag Jariwala:** Even the future flow which you probably take for that AMC?

**Satish Menon:** Absolutely. I would like to make a clarification, we still have not received any official communication from any of the AMC, so it can be said only in black and white only when we receive a written communication from AMC. There are a lot of grey areas in terms of how much will be the net impact. So we have just calculated on the ballpark figure that if a proportionate reduction is there it will be a 10% reduction. We will still need to wait to receive individual writing from AMCs from the actual trails going ahead as and when the date is announced.

**Parag Jariwala:** And when you say the average impact is around 10.2% on your overall AUM in terms of revenue, you have taken a proportionate pass-on from the AMCs, right?

**Satish Menon:** Yes, proportionate pass-on.

**Parag Jariwala:** So both AMC and you will share the burden?

**Satish Menon:** Yes.

**Moderator:** Thank you. We have the next question from the line of Narottam Garg from Chanakya. Please go ahead.

**Narottam Garg:** Sir, one question I have. Now that we have moved to an all-trail commission model, how do you see this impacting the churn rate in the industry, how do you see this impacting the persistency? Because I would assume earlier there would be churn to get more upfront commission done by the distributor, so how do you see that impact going forward?

**Satish Menon:** That is what Mr. George was trying to address. In today's model most of these IFAs and some other big distributors are on upfront plus trail model. And what we had seen is for these IFAs to survive in this market they used to do at least two churns in a year. So that used to take care of their cost and profit. Geojit has moved to full-trail model in May 2016 itself. So for now, the industry is compulsorily forced to shift to full trail model. What might happen, I do not know in the next six months before this is implemented, maybe there will be huge churning happening to get the upfront flow. But going ahead when this is implemented, whether it is in three months or six months time it will definitely reduce the churn rate in the industry. What will happen is there is no added incentive to the distributor to churn the client's portfolio. In today's scenario when you churn a client's portfolio you used to get upfront. Tomorrow when you move to full trail model, even if you churn the portfolio your commission for the year does not increase. So our belief is it is good for the clients in the long run, it will reduce the churn ratio for individual investors.

**Narottam Garg:** You mentioned two times churning per year, is it?

**Satish Menon:** Yes, that is what our understanding is.

**Narottam Garg:** So that will hugely impact at least at the IFA side the persistency of the flows?

**Satish Menon:** Absolutely. Like I said, it creates an entry barrier for this industry. Today anybody can become an IFA, do a deal of Rs. 10 lakhs and get whatever upfront. You churn it two times, three times a year it takes care of your cost. But after becoming a full-trail model they will have to seriously invest in this business to make money in the long term which actually creates an entry barrier and only serious people who believe in this business would come as an IFA henceforth.

**Moderator:** Thank you. We have the next question from the line of Ankit Agarwal from Centrum Alternatives. Please go ahead.

**Ankit Agarwal:** Sir, just wanted to understand how do you see the shift of AUM happening in the industry? If you look at the larger AUMs who have a lower TER will they sort of from a retail customer point of view since cost of owning that fund is lower, will the AUM shift over there or will the distributors sort of shift the AUM from some of the larger ones to smaller ones where the possibility of commission would be higher?

**Satish Menon:** See, I had mentioned earlier out of 350 schemes 325 equity schemes are less than Rs. 10,000 crores in size. So, we were just talking about some of the talks we had among IFAs particularly that the best way for them at least for next couple of years is to shift the existing AUM for which they already received upfront commission to this all-trail model, because already their upfront commission is received, their trail is low, now going forward the trail will be high because it is all-trail model. So it makes commercial sense for somebody to go and tell the client you will not lose anything, there is no impact on your NAV because the impact will be same and then why don't you shift. Most of the time retail distributors, the advisor, they are the people who are prompting the investor to take the decision. And particularly if that decision is not harming the investor's interest there is a possibility that this will happen. What we are seeing is a lot of talk in the markets.

**Ankit Agarwal:** So, broadly if I assume that the investor is being sort of guided by the distributor and it is in the distributor's interest to shift some of the AUM to the lower smaller funds that shift could happen in the industry from larger to smaller.

**Satish Menon:** Yes.

**Moderator:** Thank you. We have the next question from the line of Aditya Kumar from Unify Capital. Please go ahead.

**Aditya Kumar:** Sir, I missed some of the opening comments. So you are saying even for distributors who have moved to all-trail model long back they would see a decrease in the trail commission, right?

**Satish Menon:** Yes. That is for those schemes which will have a cut in the TER.

**Aditya Kumar:** But on an overall basis, the trail commission should also increase, right, because the AMCs now would not be paying upfront commission, they would want to show the top-up in the trail commission. So how does one look at it?

**Satish Menon:** See, this is what Mr. George was trying to address in the earlier question, those people who are today in an upfront model they would have got close to 1% upfront and they would be getting 0.5% as trail. For them when they do a new business their upfront will go and they might get 1% as trail, so trail increases. But when we are talking specifically about Geojit, Geojit was already on trail model for last 2.5 years. So because of the reduction in the TER, the trail income can reduce. We had already moved to full-trail model voluntarily in May 2016.

**Aditya Kumar:** Sir and coming to B30 incentive, the SEBI notification was a bit vague. Should one read it as a reduction from the current 125bps to the 30bps which the notification was referring to?

**Satish Menon:** No, in this latest SEBI board meeting minutes the only reference to B30 is that it should be paid on trail. There will be a definition made on what is the retail investor and B30 incentive was paid only to the retail investors.

- Aditya Kumar:** So, it can remain 125bps going forward also?
- Satish Menon:** It is 150 and above actually. So that 30 basis point is charged to the total fund.
- Aditya Kumar:** Sir and what will be the impact of this regulation that no expenses can be charged to the fund, only the scheme has to pay whatever be the expense. So, who are the players who will get affected by this particular regulation?
- Satish Menon:** I think this question should go to the AMC, not to the Geojit distributor. But I presume that it creates transparency in this industry. But without commenting on ifs and buts and why, I think it is better to be answered by AMCs.
- Moderator:** Thank you.
- Aadesh Mehta:** Sir, in terms of our longer-term narrative how should we see your company now from a five-year perspective?
- C. J. George:** Aadesh, we do not want to address other questions in this conference call because of the quarterly board meeting coming up later, we can take it up at event-based investor call. But with regards to this event, how people like us or how Geojit is planning to address these, we are also focusing on insurance distribution, general insurance distribution as well as increasing our distribution power and online sales. We have a product that is already in the market called the Funds Genie, where our margins will be much higher compared to the other distribution channel. So online distribution channel will get strengthened further by us as well as new distribution products like insurance, etc, will be added. That is what I can add with regards to this particular point. But this is probably same with regards to the industry of distributor also because they will also look at equally paying and remunerative products like, or better remunerative products like insurance, etc.
- Aadesh Mehta:** So basically what I surmise is you can actually see some shift happening from mutual fund to insurance?
- C. J. George:** We do not think so. As far as Geojit is concerned, we do not think so. Insurance is something every fund investor should be having and should be taking. So we are basically going to the same customers, doing a cross selling and asking them to buy insurance from us and buy auto insurance, etc, from us. In that process, we are not shifting our mutual fund investment into insurance product, we are basically adding one or two more products which will help us to make more income from the same client. Whereas the client will be already buying otherwise from some other distributor or agent.
- Aadesh Mehta:** And sir other question is, how easy or difficult it is to sell a scheme of a smaller mutual fund?

**C. J. George:** See, Aadesh, what matters in retail is number one, performance. Number two, definitely the distributor or the IFAs advise to the client. That is very-very important in the distribution space, they mostly consider an IFA or a distributor as an expert. So an expert advise is taken by a client and he goes with that investment. But most of the cases I must tell you, 99% of the cases the distributor shows the performance and he will have an advise on the basis of the performance. So, I am of the view that the name may not be that important, what is likely to be most important will be the performance. And it does not mean that names are necessarily small people, there are big names like for example maybe HDFC or Reliance and these also will have schemes which are less than Rs. 10,000 crores or less than Rs. 5,000 crores. So it is not necessary that smaller schemes belong to only smaller AMCs.

**Moderator:** Thank you very much, sir. There are no further questions. I would like to hand the conference over to Mr. Aadesh Mehta from Ambit Capital for closing comments. Over to you.

**Aadesh Mehta:** On behalf of everyone, I would like to thank the management of Geojit for sparing time with us to be on the call. Sir, thank you very much for your time and insight. It has been a great value add to us. And thank you to all the participants for being on the call.

**Moderator:** Thank you very much, sir. Ladies & gentlemen, on behalf of Ambit Capital that concludes this conference call. Thank you for joining with us and you may now disconnect your lines.