

Asset quality weighs; capital market segment in focus

JM Financial is a diversified financial group engaged in various businesses providing a host of services including mortgage lending (wholesale and retail), distress asset management (ARC), investment banking, wealth management & securities (IWS) and AMC. Moderation in advances, witnessed in last several quarters, continued further with ~18% YoY decline to ₹ 11531 crore. Mortgage book comprised ₹ 7342 crore, ₹ 3880 crore towards capital markets, corporate/promoter funding. In capital markets, volume stayed healthy with market share in overall ADTO at 0.85% & 2.13% share in cash ADTO. Despite decline in equity markets, AUM of AMC increased in Q4FY20 to ₹ 6109 crore, primarily led by accretion in debt schemes, though equity AUM saw a decline of ~42% YoY to ₹ 3285 crore.

2/3 of wholesale book opt for moratorium; NPA remains crucial

JM Financial is engaged in wholesale and retail mortgage lending as well as lending to capital markets. Given the slowdown in the real estate sector, which was further elongated by Covid-19, moderation is expected to continue in advances. On asset quality, GNPA has increased ~100 bps YoY to 2.1% in FY20, while SMA2 book inched up ~40 bps YoY to 2.1%. Further, 2/3rd wholesale borrowers have opted for moratorium. Substantial exposure (86% of real estate advances) in metros and to large developers provides some comfort. However, given the pressure on sale volume and liquidity challenges faced by real estate sector, asset quality trend remains crucial, especially post ending of moratorium.

Capital market business—low credit risk business preferred

Capital markets have been a major contributor in terms of topline and bottomline. While volume in capital market continued to remain healthy, wealth management AUM witnessed a QoQ moderation at ₹ 44883 crore, led by a decline in market. In near term, economic slowdown & volatile market is expected to keep business growth benign. However, as economy returns to normalcy, capital market segment is expected to benefit given minimum credit risk in business. Therefore, we expect focus on capital market business to continue with substantial contribution in future.

Valuation & Outlook

Covid-19 led lockdown is seen impacting real estate sector. Hence, advances may de-grow at ~4% CAGR in FY21-22E to ₹ 105336 crore. Business growth is seen being led by focus on capital market activity ahead. Implementation of pre-packaged resolution of stressed assets to aid ARC but expected rise in stressed asset pool is seen impacting recovery rate of existing stressed book. Adequate liquidity, sans utilisation of moratorium, stays positive. Strong management, extra provision of ₹ 175 crore provide comfort. However, given challenges faced by real estate sector, trend in repayment & thus asset quality stays uncertain. Hence, we stay cautious on business outlook. Thus, earning is expected to stay muted at ~2% CAGR in FY21-22E to ₹ 564 crore. The stock currently trades at 9.5x FY22E EPS, ~0.7 P/BV FY22E. Maintain **HOLD** with TP of ₹ 65 (SOTP valuation).

Key Financial Summary

	FY18	FY19	FY20	FY21E	FY22E
NII (₹crore)	1957.0	2145.0	2068.0	1882.1	1996.4
Net Profit (₹crore) (Ex MI)	600.0	585.0	545.0	502.3	564.3
EPS (₹)	7.2	7.0	6.5	6.0	6.7
P/E (x)	8.9	9.2	9.9	10.7	9.5
P/BV (x)	1	1	1	1	1
P/ABV (x)	0.92	0.75	0.71	0.70	0.68
RoE (%)	17.3	15.6	10.5	9.3	10.2
RoA (%)	3.9	3.7	3.6	3.6	3.9

Source: Company, ICICI Direct Research



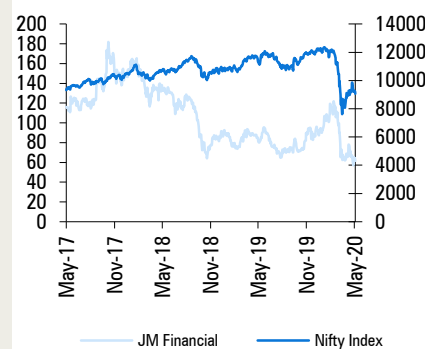
Particulars

Particulars	Amount
Market Capitalisation	₹5169 crore
Networth	₹7620 crore
52 week H/L	126/56
Face Value	₹1
DII Holding (%)	4.2
FII Holding (%)	20.9
Promoter Holding (%)	62.1
Others (%)	12.9

Key Highlights

- Focus on capital markets activities to support performance ahead
- 2/3rd of wholesale book opted for moratorium, thus asset quality remains monitorable
- Maintain **HOLD** rating and target price of ₹ 65

Price movement



Research Analyst

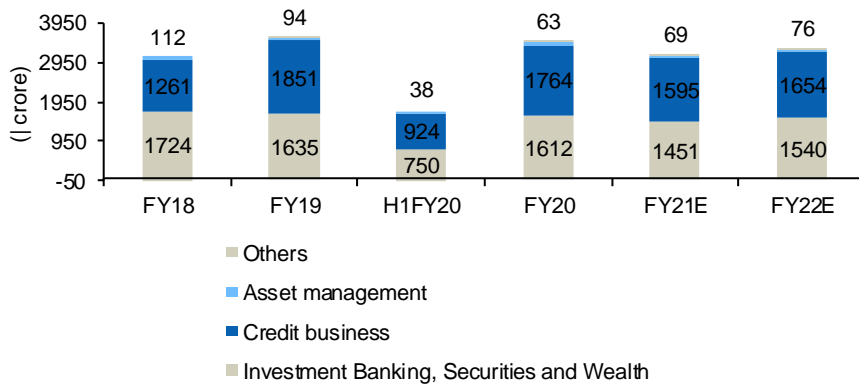
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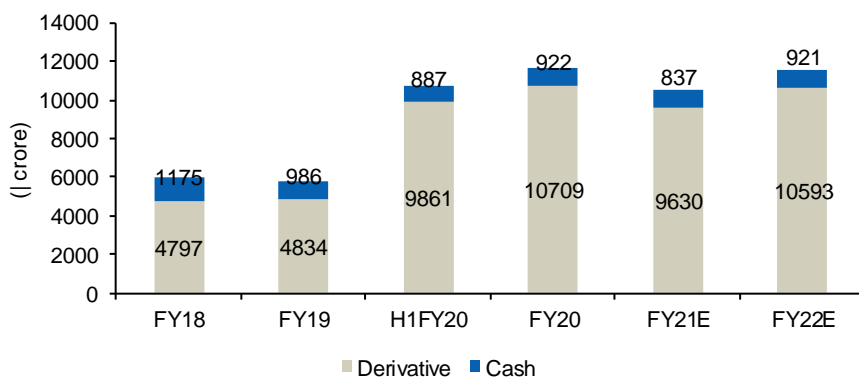
Snapshot of company

Exhibit 1: Credit business & capital market to remain key revenue contributor



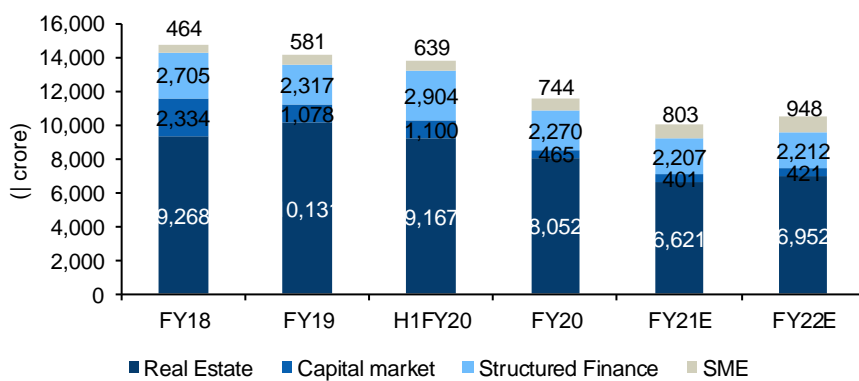
Source: Company, ICICI Direct Research

Exhibit 2: Market share in ADTO to witness gradual uptick



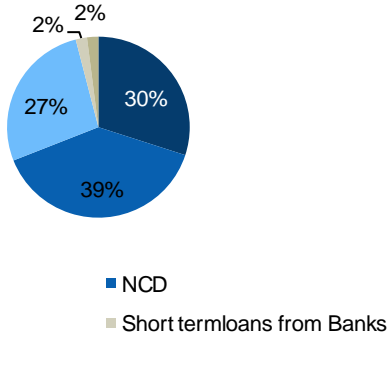
Source: Company, ICICI Direct Research

Exhibit 3: Loan book break-up



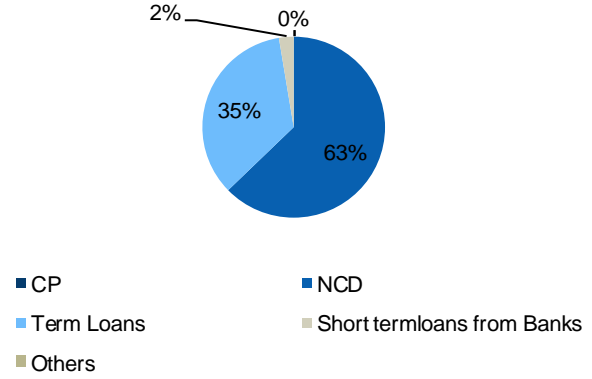
Source: Company, ICICI Direct Research

Exhibit 4: Change in borrowing franchise from FY18



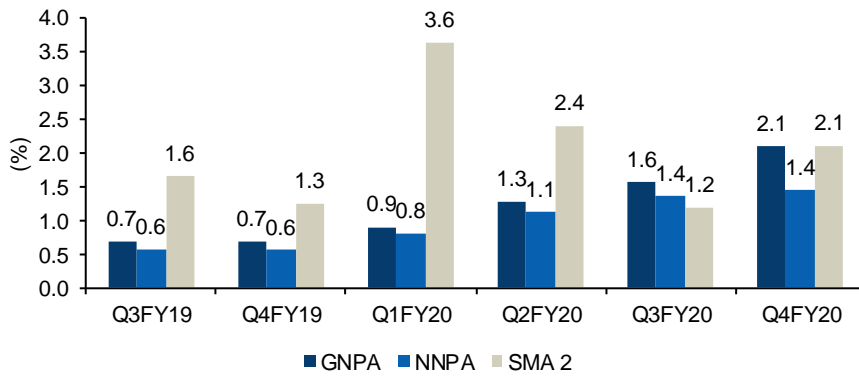
Source: Company, ICICI Direct Research

Exhibit 5: ...to FY20



Source: Company, ICICI Direct Research

Exhibit 6: Asset quality witnesses marginal stress



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 7: Profit & Loss		(₹ crore)				
	FY18	FY19	FY20	FY21E	FY22E	
Interest Income	3,096	3,591	3,454	3,130	3,285	
Interest Expense	1,139	1,446	1,386	1,248	1,289	
Net Interest Income	1,957	2,145	2,068	1,882	1,996	
Operating Expenses	759	815	740	686	720	
Employee Exp	391	422	395	364	382	
Other Exp	368	393	345	323	338	
Operating Profit	1,198	1,330	1,328	1,196	1,276	
Provisioning	34	35	234	201	158	
PBT	1,164	1,295	1,094	995	1,118	
Tax	382	446	316	279	313	
PAT (ex-minority int)	782	849	778	717	805	
Minority Interest	182	264	233	214	241	
Adjusted PAT	600	585	545	502	564	

Source: Company, ICICI Direct Research

Exhibit 8: Balance Sheet		(₹ crore)				
	FY18	FY19	FY20	FY21E	FY22E	
Shareholders' Equity	4,502	5,079	5,298	5,298	5,298	
Minority interest	1,395	2,150	2,322	2,508	2,708	
Total Equity	5,897	7,229	7,620	7,806	8,007	
Share of security receipt	523	484	489	494	499	
Borrowings	14,988	13,991	11,197	10,331	10,848	
Other liabilities	746	879	1,064	1,276	1,531.6	
Total liabilities	22,154	22,583	20,370	19,907	20,885	
Loan Book	14,768	13,999	11,531	10,032	10,534	
Distressed Asset book	3,026	4,194	4,160	4,368	4,587	
Cash	1,469	1,737	2,084	2,064	2,043	
Other Investment	1,004	842	884	928	975	
Arbitrage & Trading	198	312	328	360	396	
Fixed Asset	377	372	417	458	504	
Other Asset	1,312	1,127	966	1,696	1,846	
Total Asset	22,154	22,583	20,370	19,907	20,885	

Source: Company, ICICI Direct Research

Exhibit 9: Key Ratios		(₹ crore)				
	FY18	FY19	FY20	FY21E	FY22E	
Valuation						
No of equity Shares	83.79	83.99	84.11	84.11	84.11	
EPS (₹)	7.2	7.0	6.5	6.0	6.7	
BV (₹)	70.4	86.1	90.6	92.8	95.2	
ABV (₹)	69.4	85.2	89.6	91.7	93.9	
P/E (x)	8.9	9.2	9.9	10.7	9.5	
P/BV (x)	0.91	0.74	0.71	0.69	0.67	
P/ABV (x)	0.92	0.75	0.71	0.70	0.68	
Margin						
Yield (%)	15.1	17.0	18.2	17.6	17.7	
Cost of Fund (%)	7.6	10.3	12.4	12.1	11.9	
Spread (%)	7.5	6.7	5.8	5.6	5.8	
Quality & Efficiency						
GNPA (%)	0.63	0.68	0.91	1.20	1.31	
NNPA (%)	0.56	0.55	0.73	0.97	1.06	
ROA (%)	3.9	3.7	3.6	3.6	3.9	
ROE (%)	17.3	15.6	10.5	9.3	10.2	

Source: Company, ICICI Direct Research

Exhibit 10: Growth		(%)				
	FY18	FY19	FY20	FY21E	FY22E	
Total Asset		2	-10	-2	5	
Advances		-5	-18	-13	5	
Borrowing		-7	-20	-8	5	
Total Income		16	-4	-9	5	
Operating expense		7	-9	-7	5	
Net Profit (ex-MI)		9	-8	-8	12	
Book Value		22	5	2	3	
EPS		-3	-7	-8	12	

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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