Equity Research

September 1, 2020

BSE Sensex: 38901

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Initiating coverage

Financials

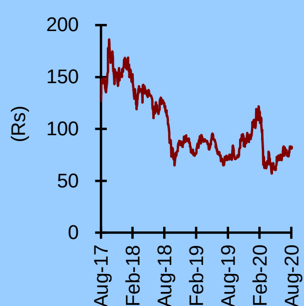
Target price: Rs114

Shareholding pattern

	Dec '19	Mar '20	Jun '20
Promoters	62.1	54.9	54.8
Institutional investors	24.4	33.9	33.9
MFs and others	3.6	7.9	7.7
FIs/Banks	0.0	0.0	0.0
Insurance	0.0	0.3	0.4
FIIs	20.8	25.7	25.8
Others	13.5	11.2	11.3

Source: CMIE

Price chart



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INDIA

JM Financial

BUY

Mastering the relationship-return-risk riddle

Rs80

JM Financial (JMF), over the past decade, has effectively transitioned to a comprehensive corporate finance advisor-cum-provider and is now actively pursuing scaling up the retail pie as well. What distinguishes JMF from other financiers: 1) leveraging sticky relationships with institutional, wealth and corporate clients through diversified albeit niche offerings; 2) differentiated business approach in operating segments; 3) graded and calibrated growth (not chasing size) with low risk tolerance and superior risk-adjusted returns (>3.5%); 4) focus on building optimal blend of principal and flow business, and linear and non-linear revenue streams; and 5) high capitalisation (<4x leverage) all through its existence. Weak real estate sentiment and delayed resolution of distressed credit may weigh on earnings in the immediate term (flat in FY21E), partially offset by sustained momentum in IWS (Investment banking, Wealth management & Securities) business. Valuing operating businesses separately, we arrive at an SoTP-based target price of Rs114. Initiate coverage with BUY.

- **Relationship-led synergistic business model:** JMF's approach has been to deepen relationship with its institutional / corporates / wealth clients developed as a reputed and experienced capital market advisor, by navigating into corporate finance provider. It has leveraged the entire business ecosystem through customised offerings ensuring repeat business. In the process, it has created a perfect blend of fee and fund based model (~35-40% fee-based and 45% fund-based revenues). Also, building businesses across a broad spectrum enables it to navigate through short-term volatility in business cycles with minimal impact on profitability *(refer chart 1,2,3)*.
- **Measured growth, low risk tolerance, superior RoA – threads binding business ideology:** JMF's business ideology is focused on client-centric approach and gradually building a profitable, sustainable and resilient business model. It has not chased scale or size over risk or return. Also, it follows a more differentiated approach in operating segments than peers. For example, in real estate lending, JMF positions itself as a senior secured lender and avoids lumpy exposure (largest exposure is <5% and top-10 exposures are one-third of the book). In retail lending, underwriting and credit is centralised. Distressed credit business approach comprises a blend of fee as well as fund income with optimal pricing and decision-making control while acquiring the stressed assets *(refer chart 4,7,8,9).*
- **Road ahead:** i) The IWS business is expected to support earnings and lending/ARC to be volatile given weak real estate sentiment and non-conducive resolution environment (earnings growth of >15% over FY20-FY23E); ii) consolidation of real-estate exposures (<10% CAGR over 24 months) till dust settles, but position itself favourably to tap any emerging opportunities; iii) restructuring is imminent but manageable (15-20% of wholesale lending is a fair assumption); iv) renegotiations / lower IRR is likely for some distressed assets; company may build a retail stressed asset book; v) significantly scale up retail lending, continue investment in IWS business (especially wealth management, AMC); vi) strategically evaluate synergistic inorganic opportunities, particularly in retail lending, broking or wealth management.

Market Cap	Rs76bn/US$1bn
Reuters/Bloomberg	JMSH.BO/ JM IN
Shares Outstanding (mn)	951.9
52-week Range (Rs)	122/57
Free Float (%)	35.0
FII (%)	25.8
Daily Volume (US$'000)	1,622
Absolute Return 3m (%)	21.6
Absolute Return 12m (%)	8.8
Sensex Return 3m (%)	17.5
Sensex Return 12m (%)	5.3

Year to Mar	FY20	FY21E	FY22E	FY23E
Revenues (Rs mn)	20,681	21,932	25,002	28,584
PAT (post MI) (Rs mn)	5,450	5,277	6,707	8,128
EPS (Rs)	6.5	5.5	7.1	8.5
% Chg YoY	-5	-14	27	21
P/E (x)	12.3	14.6	11.5	9.5
P/BV (x)	1.2	1.1	1.0	0.9
Net NPA (%)	1.1	1.0	1.4	1.1
Dividend Yield (%)	0.3	0.3	0.6	1.2
RoA (%)	3.7	3.6	4.5	4.9
RoE (pre MI) (%)	10.4	8.4	9.8	10.9

TABLE OF CONTENT

Story in charts

Chart 1: Optimal blend of fee/fund based and liner/non-linear revenues (gross)

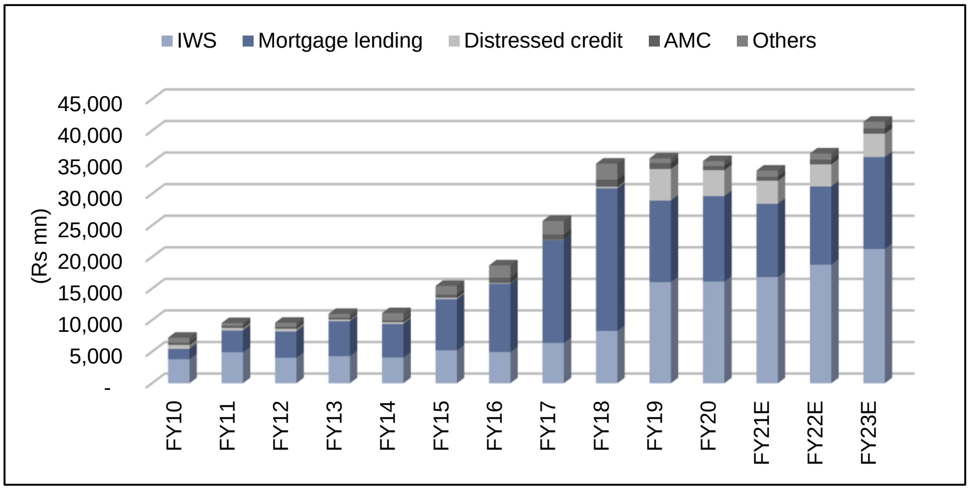
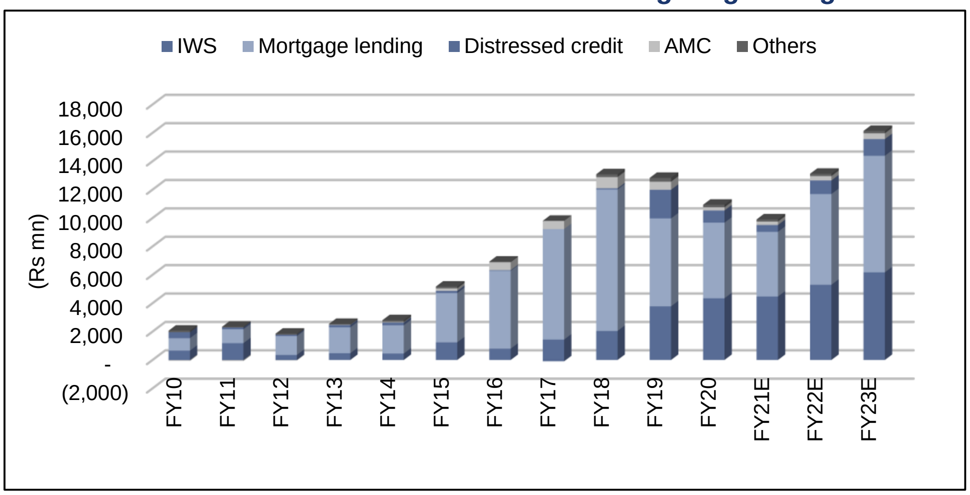
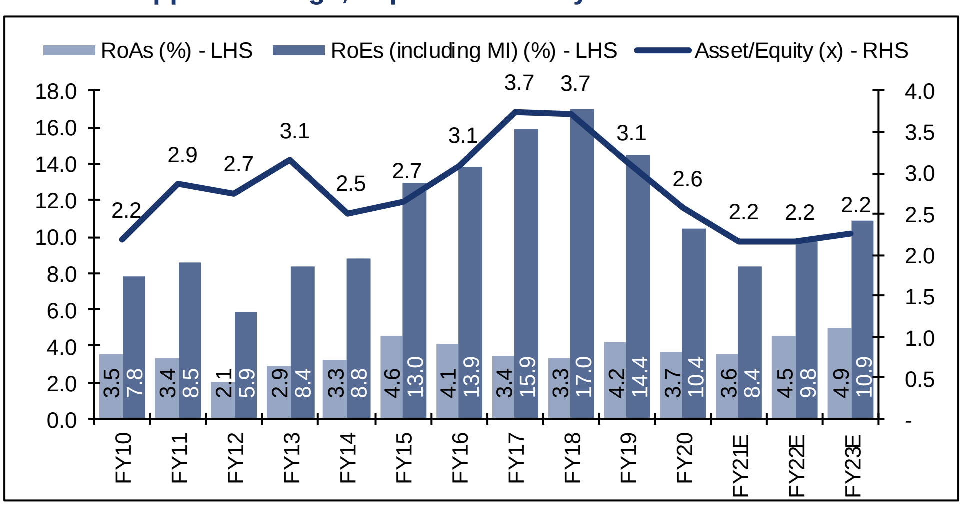


Chart 2: Diversified business model enables navigating through business cycles



Source: Company data, I-Sec research

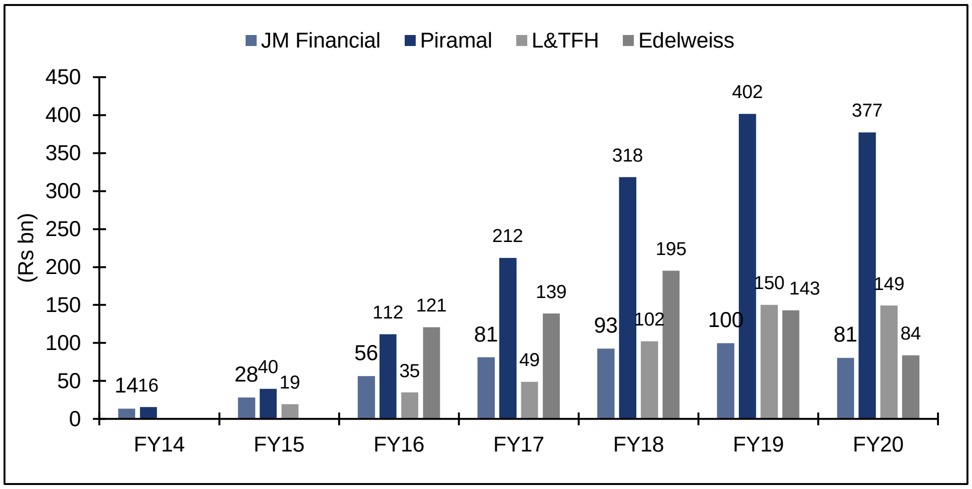
Chart 3: Capped leverage, superior RoA key to sustainable & resilient model



Source: Company data, I-Sec research

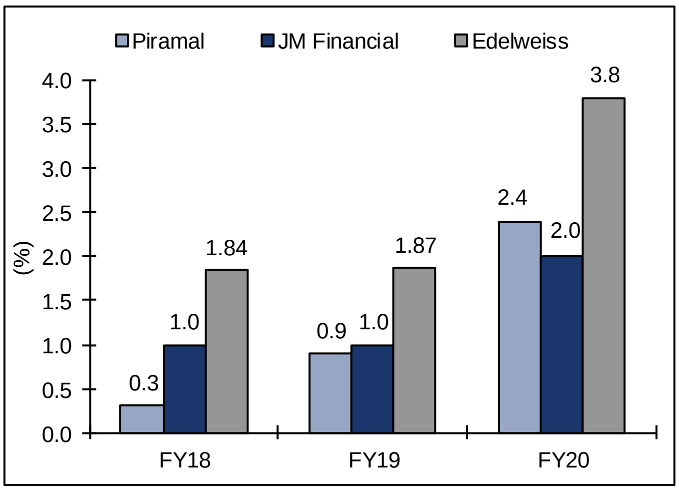
Note: *Through FY10-18 segments were classified differently under I-GAAP; data for FY19-23E is as per Ind-AS*

Chart 4: Graded and calibrated growth approach (RE lending AUM)…



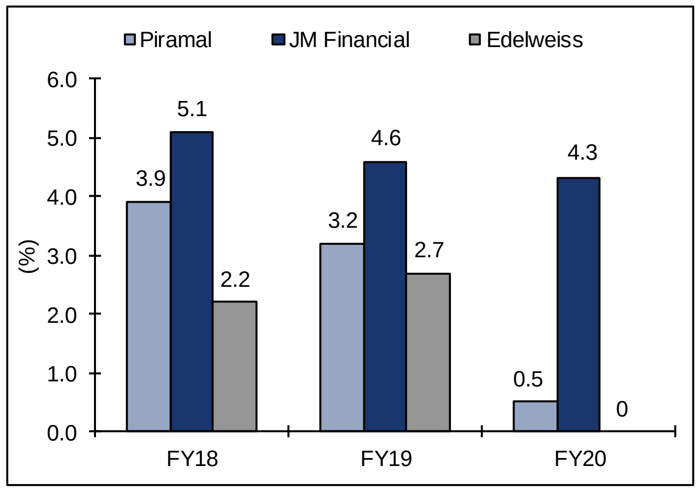
Source: Company data, I-Sec research

Chart 5: …with low risk tolerance (visible in NPLS)



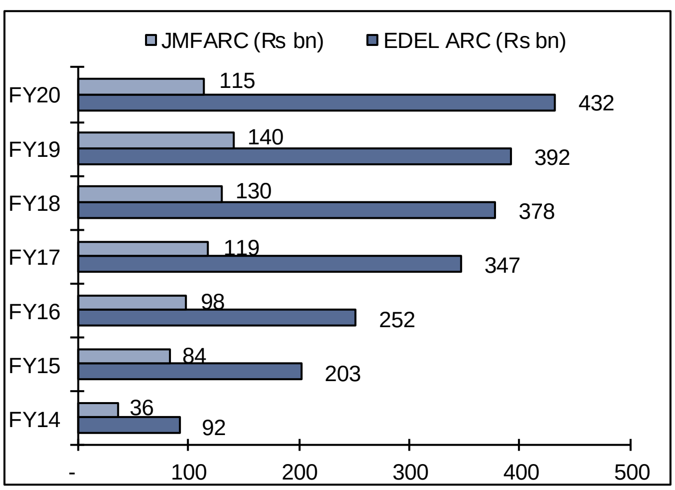
Source: Company data, I-Sec research

Chart 6: …superior risk adjusted returns (RoAs)



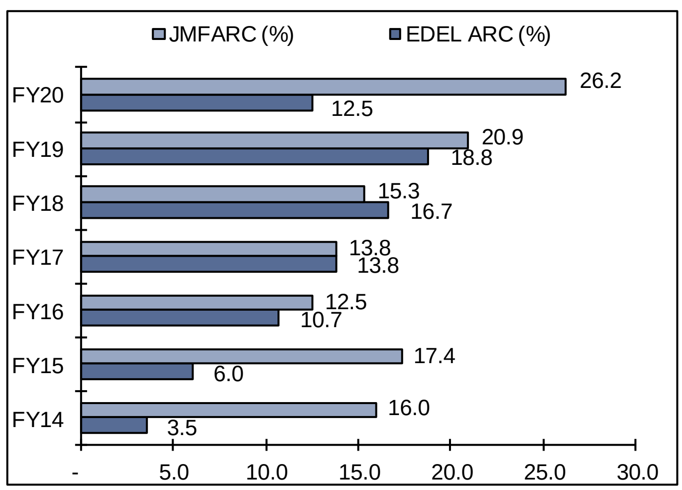
Source: Company data, I-Sec research

Chart 7: Measured scale-up in distressed credit…



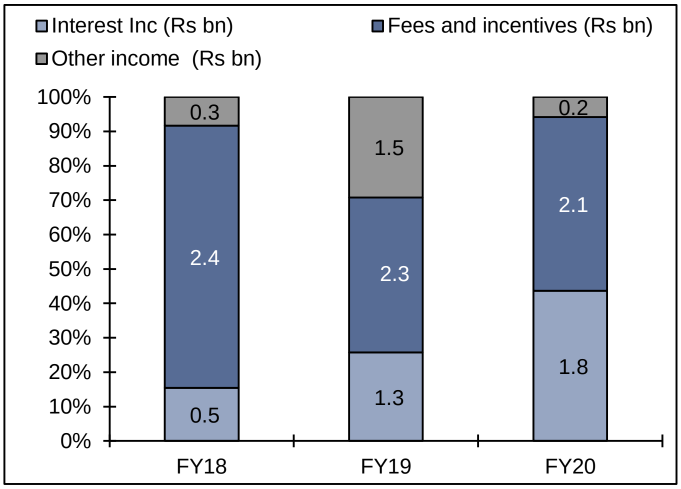
Source: Company data, I-Sec research

Chart 8: …with higher share & decision control



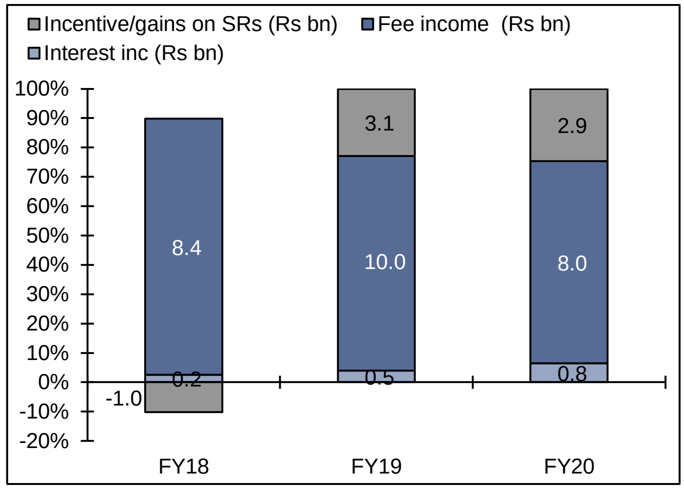
Source: Company data, I-Sec research

Chart 9: JMFARC model is blend of fee as well as fund based revenues…



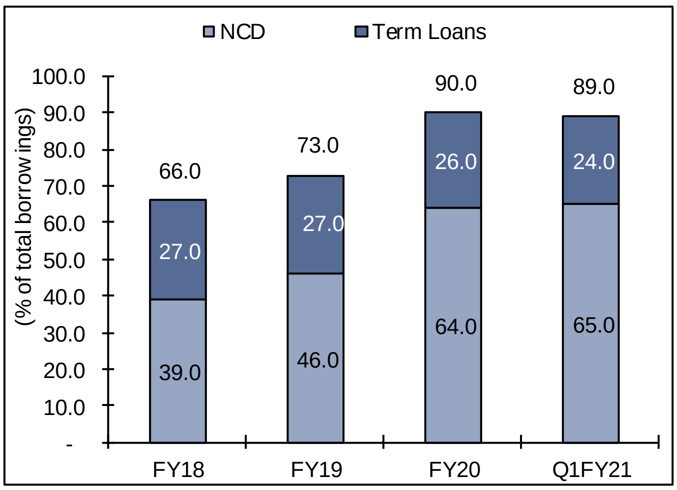
Source: Company data, I-Sec research

Chart 10:..compared to Edel that is primarily fee-based



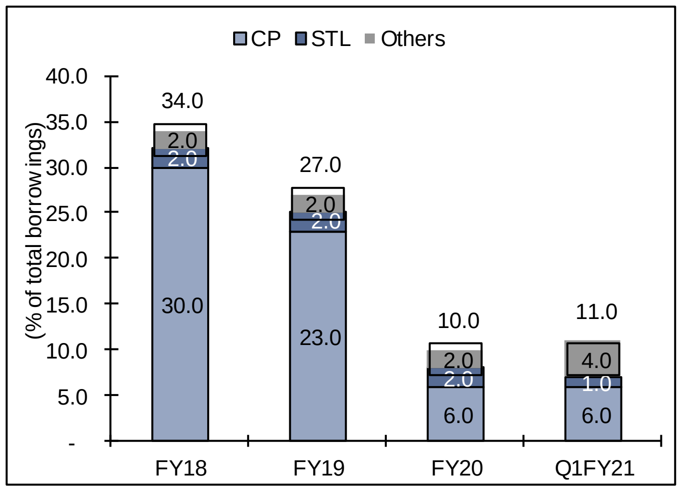
Source: Company data, I-Sec research

Chart 11: Borrowings tilting towards longer tenure



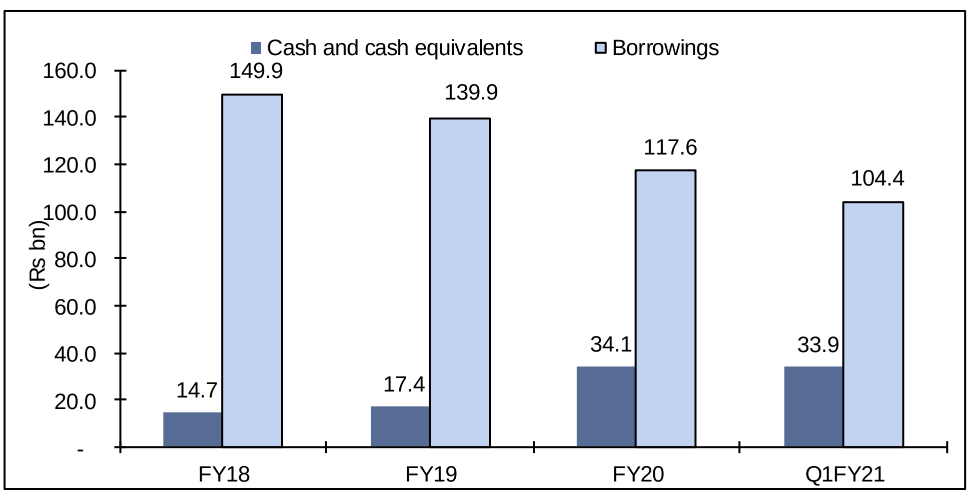
Source: Company data, I-Sec research

Chart 12: Reliance on CP/STL lowered drastically



Source: Company data, I-Sec research

Chart 13: Focused on deleveraging and maintaining liquid balance sheet



Source: Company data, I-Sec research

Investment thesis

JM Financial (JMF), over the past decade, has effectively transitioned to a comprehensive corporate finance advisor-cum-provider and is now actively pursuing scaling up the retail pie as well. What distinguishes JMF from other financiers: 1) leveraging sticky relationships with institutional, wealth and corporate clients through diversified albeit niche offerings; 2) differentiated business approach in operating segments; 3) graded and calibrated growth (not chasing size) with low risk tolerance and superior risk-adjusted returns (>3.5%); 4) focus on building optimal blend of principal and flow business, and linear and non-linear revenue streams; and 5) high capitalisation (<4x leverage) all through its existence. Weak real estate sentiment and delayed resolution of distressed credit may weigh on earnings in the immediate term (flat in FY21E), partially offset by sustained momentum in IWS (Investment banking, Wealth management & Securities) business. Valuing operating businesses separately, we arrive at an SoTP-based target price of Rs114. Initiate coverage with BUY.

- **Relationship-led synergistic business model:** Being a well-established, reputed, experienced capital market advisor, JMF has developed sticky relationships with its institutional / wealth clients and corporates. Ability to execute complex transactions, help India Inc. with innovative structuring and servicing them with same intensity and rigour has earned it considerable market respect. Further, it has deepened its relationships by navigating into corporate finance over last 13 years and has leveraged its entire business ecosystem through customised offerings ensuring repeat business. IB expertise in debt restructuring and asset resolution and capital market footprint has been utilised for distressed credit business; promoters and HNIs associated with IB are cross-sold wealth management; capital market funding, syndication products and wealth management clients are pitched IB, syndication, IS products.

- **Optimal blend of principal/flow business and liner/non-linear revenues:** In the process of deepening relationships and enhancing client wallet share and recall, JMF has created a perfect mix of fee/flow and principal/fund based business model (≃35-40% fee-based and 45% fund-based revenues). Also, it has strategically built businesses across the broad spectrum that not only provides multiple growth opportunities but also enables JMF to navigate through short-term volatility in business cycles with minimal impact on profitability (when mortgage lending and ARC are under profitability pressure, IWS supports the momentum). Over the past decade, JMF has opportunistically penetrated both institutional / corporate as well as retail clientele. In 2008, it floated ARC and real estate & corporate lending, partnered with Vikram Pandit (ex-Citi CEO) in 2014 to expand its developer financing vertical, entered retail lending business with rollout of HFC in 2017, and invested into further scaling up IWS franchise during liquidity crisis.

- **Graded and calibrated approach to growth with low risk tolerance:** Business segments that JMF operates in have always provided ample opportunity to grow. However, the company's philosophy has been to adopt client-centric approach and gradually and consistently build a more profitable, sustainable and resilient business model capitalising on emerging market trends. In none of its businesses, has it chased scale or size over risk or return – be it wholesale lending, ARC, wealth management or alternate assets.

- **Prudent business practices with focus on risk-adjusted profitability:** Strong corporate relationships, underwriting practices, single-headed focus on collections / resolution has ensured stable recovery run rate and controlled delinquencies (<2% GNPLs). In real estate lending, besides the usual rhetoric of lending to developers with minimum delivery track record, commercial presence and adequate collateral, JMF ensures that it positions itself as a senior secured lender and avoids lumpy exposures (largest exposure <5% and top-10 exposures being one-third of the book). Even in retail home loan lending, the underwriting and credit appraisal process is centralised (rather than giving flexibility to branches). These practices have controlled credit cost at <1.5% over the past few years and even in challenging market conditions will be contained between 1.5-2.5% in FY21E/FY22E.
- **High capitalisation and liquidity buffer positions JMF well to sail through current crisis**: Post IL&FS crisis, JMF has strategically focused on deleveraging and maintaining highly liquid balance sheet (cash and cash equivalents jumped 2x in FY20). Functioning in the pandemic environment with ~2.5x leverage, 1.5% plus contingency provisioning pool, higher capitalisation (tier-1 at >35%) and relatively superior RoAs (3.5% plus) would help JMF navigate the current cycle relatively better. In fact, it has positioned itself appropriately to tap the emerging opportunities that adversity might throw up, especially when it believes real estate cycle is very close to the bottom.
- **Post liquidity crisis as well, JMF continued to invest in developing business franchise:** 1) JMF launched *Elite Wealth Management* division (for HNIs within the range of Rs10mn to Rs500mn) in Oct'19, 2) strengthened private wealth management business by recruiting additional RMs (74 RMs by FY20), 3) set up institutional fixed income' division (for debt capital markets and syndication capabilities), 4) focused on better integration among various verticals in IWS to ensure seamless delivery to clients, 5) scaled up retail mortgage lending (27 branches by FY20), 6) raised PE (US$75mn) and distressed opportunity fund (Rs1.6bn), and 7) focused on alternative investment funds (AIFs). The way JMF has strengthened its franchise by continuous investments even post liquidity crisis vindicates the stance that it will continue to tap opportunities amidst adversities.
- **Management depth and experience – a significant competitive advantage:** Mr. Vishal Kampani, managing director, has garnered considerable experience as a senior investment banker and has continued to shape businesses focused on improving profitability while strengthening diversified businesses. Senior management team (of business heads as well as managers) is highly professional and extensively experienced that enables JMF to develop strong relationships with major clients and the financial industry network.

The road ahead

- **IWS to support earnings while lending/ARC would tend to be volatile:** Given the challenging macro, weak real estate sentiments and a non-conducive resolution environment, we expect earnings of mortgage lending and ARC to be volatile over next couple of years. However, given conducive capital market environment, rising opportunities, and strategic investments, IWS business would support the earnings momentum. Dominant market position in investment banking, advisory, securities and capital market lending would ensure strong traction in IWS earnings in FY21E/FY22E. We are overall building-in earnings growth of 15% over FY20-FY23E (flat in FY21E and rebound in FY22/23E).

- **Consolidating wholesale mortgage in the interim; staying prepared for opportunity as the dust settles:** JMF would look to consolidate its wholesale real estate exposures further (<10% CAGR anticipated over 24 months) till the dust around Covid-induced disruptions settles down. In fact, post that, competition would be low as many financiers are exiting the space and, with high liquidity and low leverage (<2x), JMF would be favourably positioned to tap the maximum emerging opportunities in a risk-calibrated way. We expect scale-up to be visible towards the end of FY21 and in FY22.

- **Some restructuring imminent, but manageable:** Some exposure in wholesale mortgage towards projects that are at the fag-end of completion would need restructuring as sales momentum has been disrupted. Besides, in construction financing, the portion of the book that would not qualify under DCCO will be evaluated on project by project progress and judgemental call will be taken on restructuring between Sept-Nov'20. However, looking the current circumstances, it would be fair to assume that 15-20% of JMF's wholesale mortgage portfolio can be restructured, which would call for 1.5-2.0% additional provisioning.

- **Distressed credit business to see delayed resolutions:** With disruptions posing challenges to resolution, in some cases, renegotiations might happen and assets revalued at lower than estimated IRR. Also, a few assets would call for higher provisioning. In the immediate term, bandwidth and focus would be on recovery and resolutions while new acquisitions would probably start in FY22. That too, JMF is not likely to leverage its balance sheet, but do it under the fund structure/investors. As Covid crisis might increase the distressed assets acquisition opportunity, we expect JMF to leverage its expertise in retail and build retail stressed assets as well.

- **Significant scale-up in retail lending to further strengthen asset mix.** To further diversify assets as well as customer base, JMF has ambitious plans to scale up its retail lending franchise – quadruple the reach from 27 locations. Besides, in retail lending it would leverage its strengths in distribution/syndication and would actively look to securitise its asset pool. Company is positively evaluating co-lending to penetrate deeper into the home loan market and build >Rs20bn retail mortgage book by FY23E.

- **Investment mode ON in IWS business:** JMF has been in an active investment mode in IWS business segment for the past 12-18 months. It recruited the most during the downcycle post IL&FS crisis into wealth management, AMC, etc. Besides deepening presence with HNIs, corporate promoters, institutional clients, JMF would now want to spread its wings actively in retail segment through the franchise model and improve its contribution (from 15-20% now, that too restricted more to distribution). To attract the flow and client base, venturing into discount broking can be a strategic option to evaluate. In the asset management business, coupled with new CIO hire, JMF is tying up actively for distribution and upgrading technology. It is also evaluating if ETF and passive fund management can throw up opportunities that can be leveraged through market making.

- **Confidence and risk capital depresses RoEs, but strengthens balance sheet:** Company recently buffered capital of Rs7.7bn through QIP as confidence and risk capital for unforeseen risks in real estate and distressed credit business. The amount would primarily be infused into lending businesses.
- **Actively pursuit of inorganic growth opportunities** that the Covid pandemic might create. JMF will strategically evaluate any attractive and synergistic opportunity, particularly in retail lending, broking or wealth management.

Valuations

JM Financial (JMF), over the past decade, has effectively transitioned from being a comprehensive corporate finance **advisor** to corporate finance **provider** and is now actively pursuing scaling up its retail businesses as well. However, the core business philosophy tying across the company has been leveraging sticky relationships, graded and measured growth (rather than merely chasing scale and size), with low risk tolerance level and superior risk-adjusted returns. Building businesses across the broad spectrum has enabled JMF to navigate through short-term volatility in business cycles with minimal impact on profitability. Company has consistently delivered more than 3% RoA over the past decade.

At the same time, JMF has been prudent enough in the lending business to not go overboard and chase size by over-leveraging the balance sheet (debt-equity has always been capped below 3x). Efforts at deleveraging were very visible when it further raised equity and bought down debt-equity to as low as 1.2x currently. This not only helps sail through the crisis, but also prepares the company to pick up opportunities (organic or inorganic) that come in its way amidst market adversities.

While the businesses are well integrated and complementary, we value each of them separately to arrive the fair value. Based on SoTP methodology, we arrive at a target price of Rs114 (upside of ~40%). Initiative coverage with **BUY.**

IWS: We look at this business segment holistically as an integrated-cum-complementary ecosystem wherein the individual entities within the group leverage the strengths and relationships of its franchise for client stickiness and repeat business. Undoubtedly, the nature of this business is dependent on capital market sentiment and tend to be volatile across cycles. However, for JMF, IWS as a business segment has only gone from strength to strength and even in the past 12-18 months it is in an active investment mode; the company recruited the most during the downcycle into wealth management, advisory, alternate funds, etc. This segment constitutes almost half of the group’s revenues and has the potential to generate earnings of Rs4bn. We value this business at Rs68bn (Rs72 per share) assigning a P/E multiple of 17.5x FY22E earnings.

Wholesale mortgages: Calibrated scale-up, senior secured lending (avoiding consortium), not lumpy (concentrated) exposures, focus on mid-segment buyer segment where demand is inelastic coupled with controlled leverage, huge capitalization levels (>40% CAR) and cashflow-backed (85% of the book) lending will help JMF navigate the testing times that real estate industry will present over the next 12-18 months. Currently, ~5% of the book is already recognised as stressed (1.8% GNPA and 3% SMA-2). However, looking at the current circumstances, it would be fair to assume that 15-20% of the wholesale mortgage portfolio can be restructured, which would call for 1.5-2.0% additional provisioning over next 18-24 months. That said, RoAs can still sustain at >3.5% and we are valuing this business at 1.25x FY22E book, translating to Rs59bn of business value (Rs29 per share for JMF’s share).

Distressed credit: As blend of fund as well as fee based income coupled with optimal pricing (looking at IRR at >25% while bidding), decision-making control (mid-sized accounts) and advisory / restructuring / execution expertise, will help JMF generate sufficient IRRs despite challenging macros and delayed resolutions. Incrementally, it will look at more of retail stressed asset opportunities that Covid pandemic might throw open, but would prefer doing it through alternate fund structure/investor rather than leveraging the balance sheet. We value this business at Rs19.7bn (Rs13 per share for JMF's share) for managing distressed assets AUM of Rs115bn and net worth deployed of ~Rs16bn.

AMC – focus on profitability: In the asset management business, coupled with new CIO hire, the company is tying up actively for distribution and upgrading technology. Also, the focus would be on equity, alternate assets and fund performance. It is also evaluating if ETF and passive fund management can throw up opportunities that it can leverage through market making. We value this business at Rs4.9bn assuming AUMs scale up to Rs70bn, translating into its contribution at Rs3 per share.

Retail mortgage – still at a nascent stage, but promising: JMF has ambitious plans to scale up its retail lending franchise – quadruple reach from 27 locations – and will actively pursue some attractive and synergistic opportunities in retail lending. The segment is competitive and will generate high NIMs, but the company would leverage its strengths in distribution/syndication and would actively look to securitise its asset pool. This segment is not a significant contributor to valuation at this juncture.

Table 1: JMF valuations primarily led by IWS and lending businesses (SoTP based on FY22 estimates)

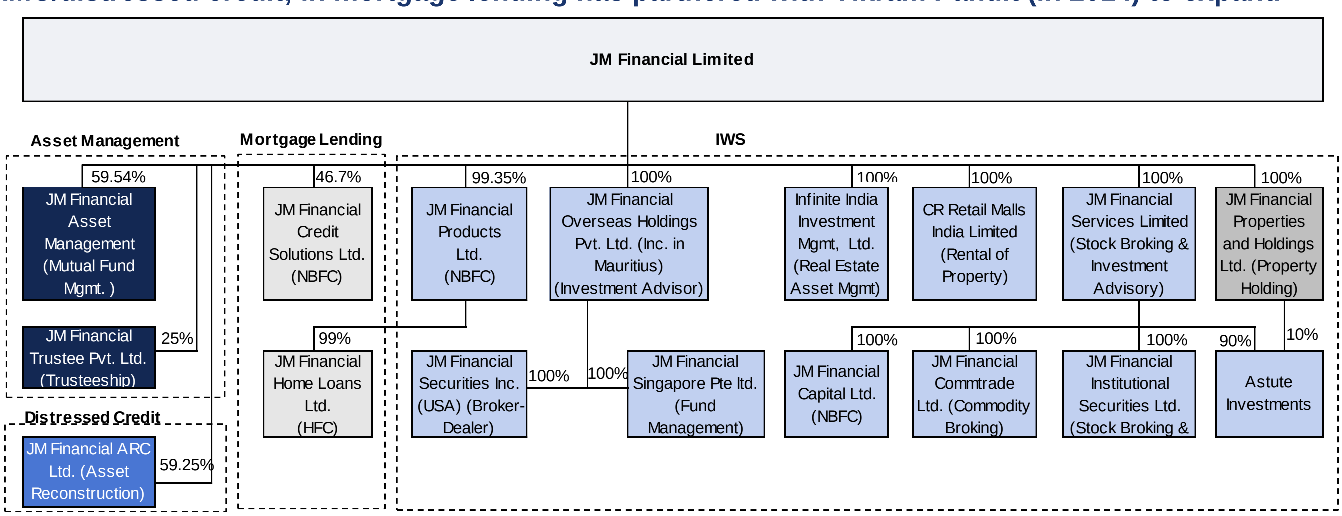
Businesses	Parameter	Rs mn	Multiple	Valuation	Stake	Value to JM	Per share
IWS (Includes part of NBFC)	Earnings	3,926	17.5	68,702	100.0%	68,702	72
Mortgage lending	Net worth	50,008		63,177		31,559	33
- Wholesale mortgage	*Net worth*	*47,339*	*1.25*	*59,174*	*46.7%*	*27,622*	*29*
- Retail mortgage	*Net worth*	*2,669*	*1.50*	*4,003*	*98.4%*	*3,937*	*4*
Distressed credit	Net worth	16,420	1.2	19,704	63.6%	12,532	13
AMC	AUM	70,559	7.0%	4,939	59.5%	2,941	3
Excess capital, investments	Net worth	4,600	1.0	4,600	100.0%	4,600	5
Total				**1,61,122**		**1,20,334**	**127**
Holdco discount (10%)				16,112		12,033	13
Total				**1,45,010**		**1,08,301**	**114**

Source: Company data, I-Sec research

Key risks

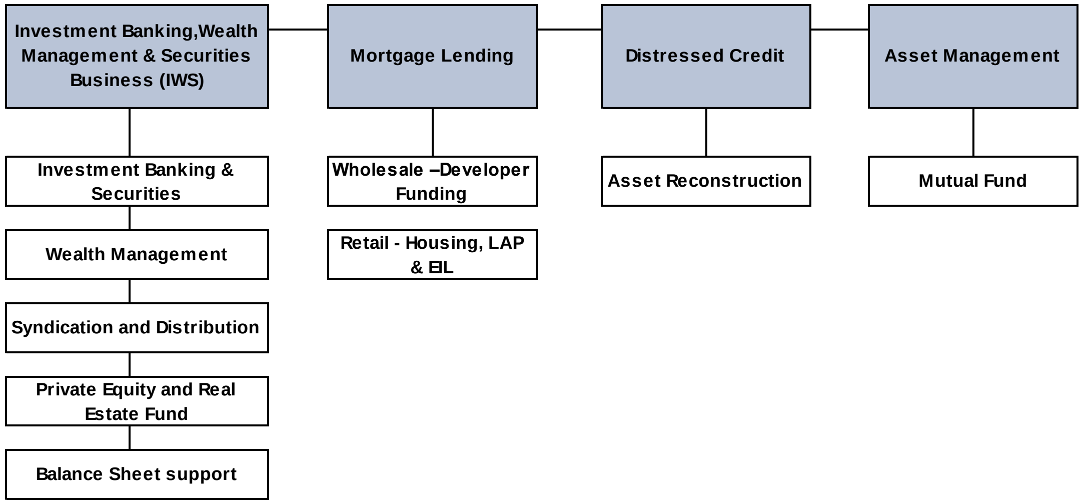
- **Delay in resolution of distressed assets:** There was visibility on many stressed assets getting resolved prior to Covid, but the crisis has deferred the resolution or disrupted existing restructuring plans. In a few cases, renegotiation might happen as there have been unit closures, cancellation of existing obligations, reduced demand – and, consequently, assets will be revalued lower. This might call for higher provisioning in the coming quarters or in a few assets; JMF might have to settle the negotiations at lower than the initially anticipated IRR.
- **Wholesale mortgage lending might call for higher restructuring and provisioning:** Some of JMF's exposure in wholesale mortgage is towards projects that are at the fag-end of completion (here the risk is low on construction, but high on sales). Sales momentum was disrupted adversely due to Covid and principal repayment is high in this segment, hence restructuring becomes inevitable. Due to low risk appetite, refinancing or takeout financing is also getting difficult in current circumstances. Besides, in construction financing, a significant portion of the book would qualify under DCCO, but those that don't qualify will be evaluated on project by project progress and judgemental call on restructuring will be taken between Sep-Nov'20. However, looking the current circumstances, it would be fair to assume that 15-20% of JMF's wholesale mortgage portfolio can be restructured, which would call for 1.5-2.0% addition provisioning.
- **Venturing into retail but segments are competitive and needs consistent investments:** Currently, JMF's business model is more tilted towards wholesale segment while contribution of retail in overall revenues is 15-20%. However, it is strategically pursuing scaling up retail lending as well as spreading its wings in broking business through the franchise model. These segments are hugely competitive (with lower spreads/margins) and also need investment in the franchise that might keep the cost structure elevated.

Chart 14: IWS/retail lending is through wholly-owned subsidiaries; JMF owns around 59% stake in AMC/distressed credit; in mortgage lending has partnered with Vikram Pandit (in 2014) to expand



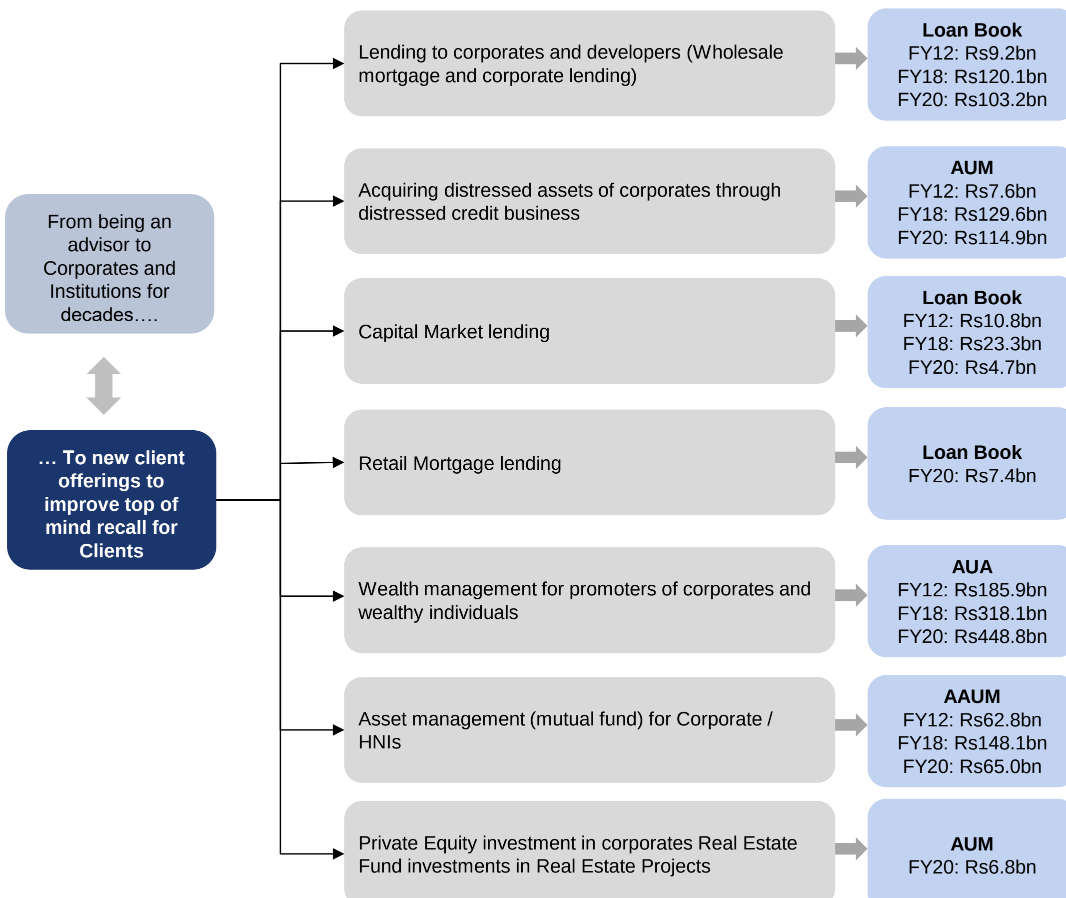
Source: Company data, I-Sec research

Chart 15: Relationship-led synergistic business model across segments



Source: Company data, I-Sec research

Chart 16: Effectively transitioned from corporate finance *advisor* to *provider*



Source: Company data, I-Sec research

Mortgage lending – Relationship and return override risks

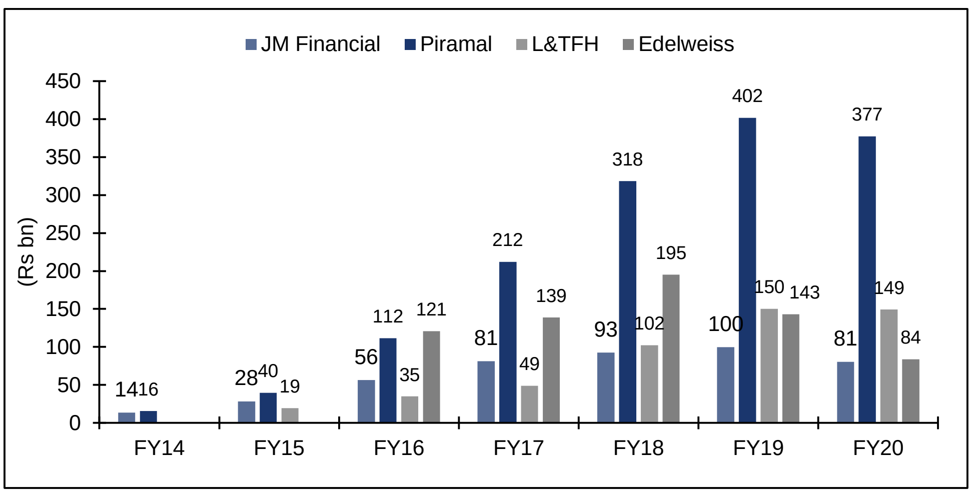
Table 2: Mortgage lending – Financials

(Rs mn)	**FY19**	**FY20**	**FY21E**	**FY22E**	**FY23E**
Net worth+ NCI	30,210	34,320	35,939	38,237	41,218
Loan Book	83,240	76,510	75,919	88,746	1,06,794
Gross Revenue	12,909	13,603	11,589	12,375	14,544
Finance Cost	5,821	5,624	4,372	3,977	4,882
Employee cost	394	475	490	556	633
Depreciation	10	44	49	55	62
Other expenses	314	571	342	369	403
Total operating expenses	**717**	**1,091**	**881**	**980**	**1,099**
PPoP	**6,370**	**6,889**	**6,335**	**7,418**	**8,564**
Impairment on Financial Instruments	173	1,474	1,775	1,025	349
PBT	**6,198**	**5,415**	**4,561**	**6,393**	**8,214**
Tax	2,200	1,518	1,149	1,611	2,070
PAT before NCI	**3,998**	**3,897**	**3,411**	**4,782**	**6,144**
NCI	2,030	2,040	1,792	2,485	3,163
PAT after NCI	**1,968**	**1,857**	**1,619**	**2,297**	**2,981**
RoE (%)		12.1	9.7	12.9	15.5

Source: Company data, I-Sec research

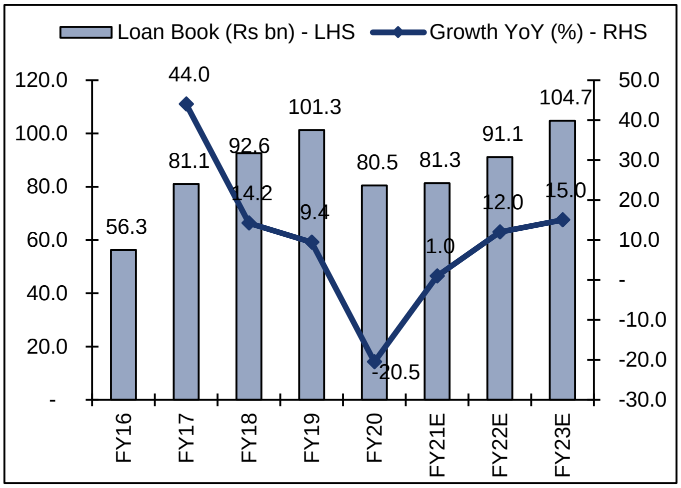
Wholesale mortgages – Calibrated scale-up, senior lender, mid-sized projects

Chart 17: Graded and calibrated scale-up (RE lending AUM)



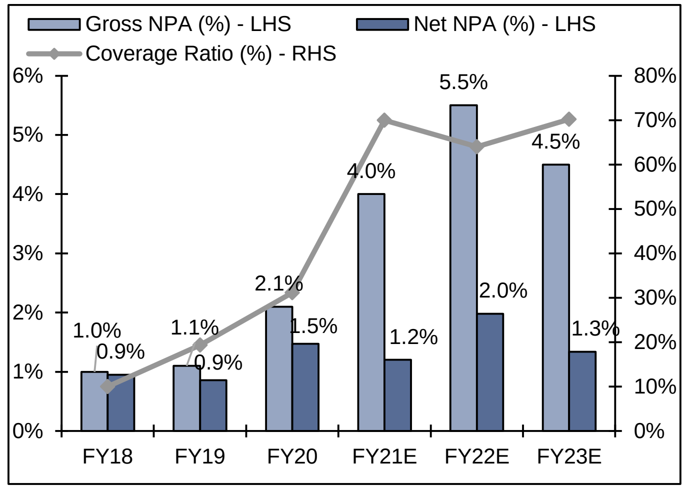
Source: Company data, I-Sec research

Chart 18: Consolidating RE AUM in the interim, but prepared for any emerging opportunity



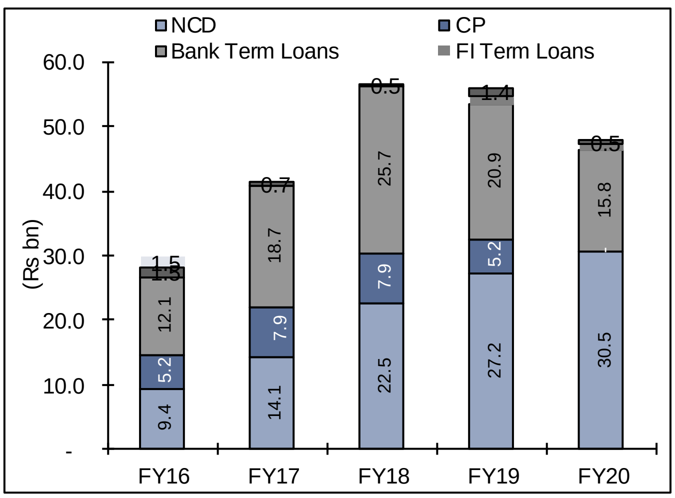
Source: Company data, I-Sec research

Chart 19: Stress and credit costs to be elevated in FY21E/FY22E



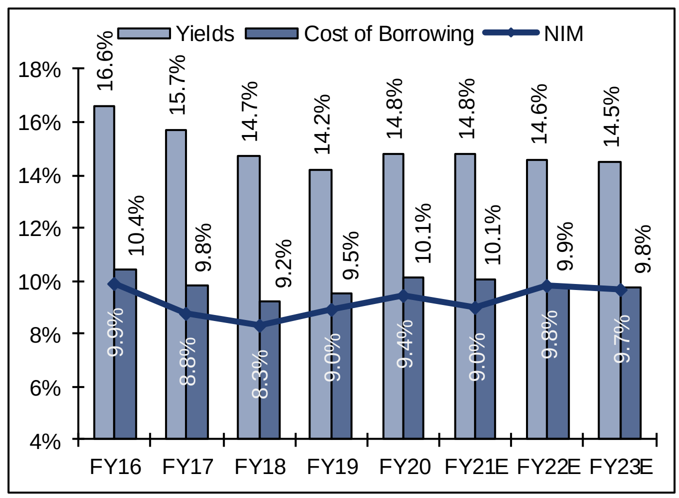
Source: Company data, I-Sec research

Chart 20: Mix tilting towards long-term borrowing



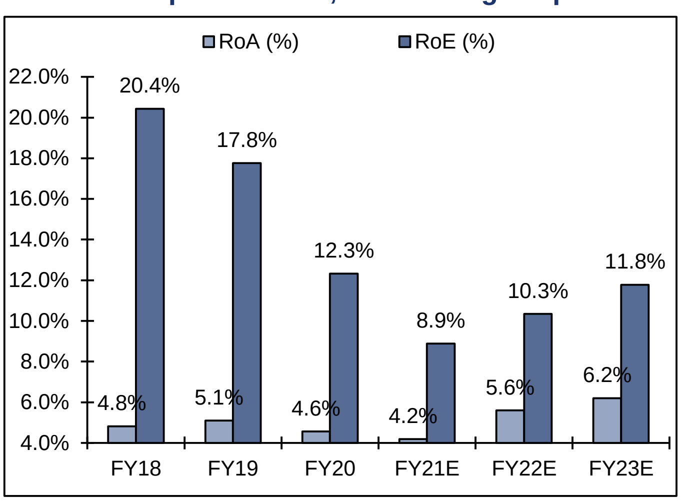
Source: Company data, I-Sec research

Chart 21: Stable NIMs despite tight liquidity



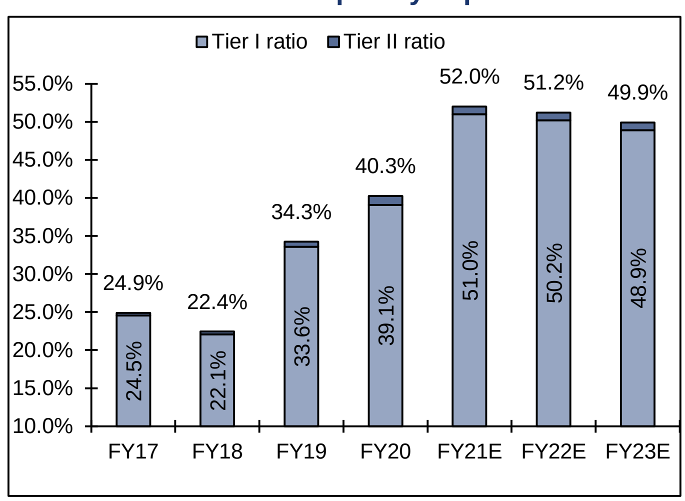
Source: Company data, I-Sec research

Chart 22: Superior RoAs; low leverage caps RoEs



Source: Company data, I-Sec research

Chart 23: More than adequately capitalised



Source: Company data, I-Sec research

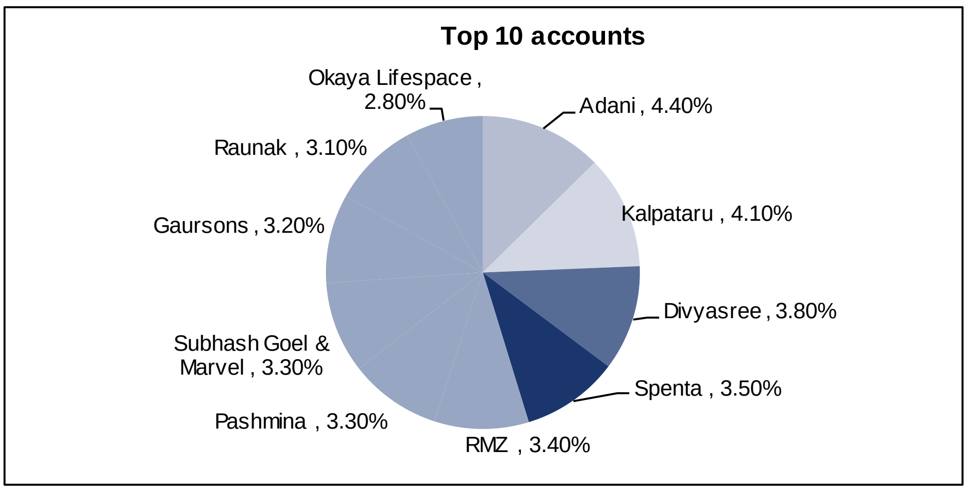
Given the weak real estate sentiment, JMF has been deleveraging its wholesale mortgage lending business to a portfolio size of Rs83bn with huge capitalisation levels (>40% CAR). The business is primarily cashflow-backed (85% of the book) lending to residential projects (70%) in tier-1 cities. Significant chunk of equity raised recently will be infused into this business. With ~5% of the book being already recognised as stressed (1.8% GNPA and 3% SMA-2), we believe the wholesale mortgage lending franchise [in particular JM Credit Solutions (JMCS)] has all the necessary ingredients (or wherewithal) to navigate the testing times likely over the next 12-18 months.

What gives us this confidence

We highlight a few pointers below (which are over and above the usual rhetoric of lending to marque developers with minimum delivery track record, adequate security cover/collateral, escrow mechanism and timely interventions through monitoring of the early warning signals).

- **Prefer to be senior secured lender and avoid lending under consortiums:** In developer financing business, JMF prefers to position itself as a senior secured lender at all times, avoiding entering consortium arrangements. While lending under a consortium facility helps mitigate risks to an extent, it also acts a deterrent of sorts when it comes to effectively pursuing resolutions or taking decisive actions in stressed accounts.
- **No lumpy and concentrated exposure:** Top-10 borrower group exposures are in the band of Rs2bn-3.3bn (as at Mar’20). A concentration analysis of the loanbook shows that its largest borrower group is at <5% and the top-10 group exposures are ~35% of the loanbook. JMF leverages subsidiary JM Financial Products’ balance sheet to extend large-sized loans to developers.

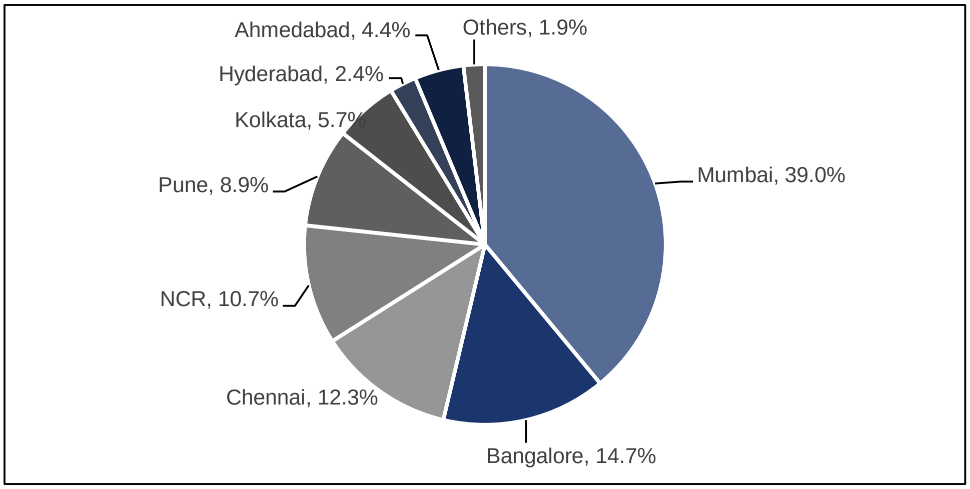
Chart 24: Top-10 group exposures at ~35% of loanbook (not concentrated)



Source: Company data, I-Sec research

- **Geographically as well, the loanbook is fairly diversified.** However, as with a few of its peers, even JMF has a high concentration (~40% of the book) in the city of Mumbai.

Chart 25: Geographically, fairly diversified (some concentration in Mumbai)



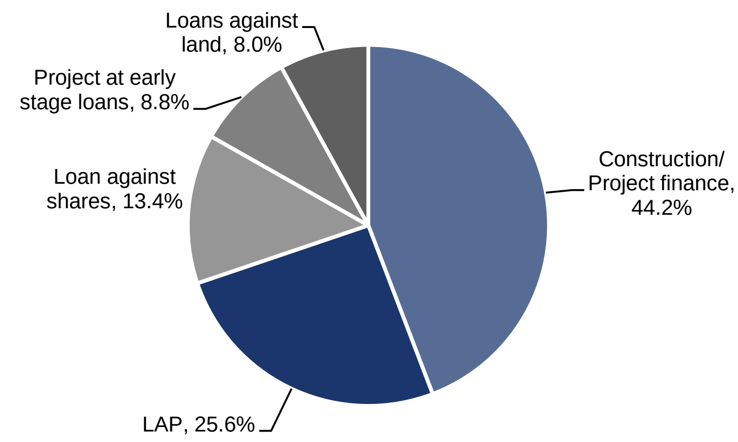
Source: Company data, I-Sec research

- **Focus on mid-income affordable investor where demand is inelastic:** Even in tier-1 cities, JMF prefers to fund the middle-income affordable inventory (Rs4k-18k per-sqft). When we look at its top-10 group exposures, it becomes obvious that it has not lent to luxury projects (except for a couple of projects in Breach Candy and Worli) or low-income affordable segment (where there is enough competition). However, the names in the list are respectable developers/groups with a proven execution/delivery track record with projects focussed on the mid-income segment, where demand is quite inelastic and inventory moves quicker.
- **~97% of borrowing mix is long-tenured** (as at Mar'20). Also, effective Apr'19, the company has capped commercial paper (CP) at ~10% of total borrowings (except for opportunistic lending towards short-term assets, in which case there is a maximum limit of ~20%).
- JMF has been **prudent in managing the maximum leverage** on its balance sheet. It now also has a policy in place for maximum gearing of ~3x, which will trigger the next round of equity infusion in JM Credit Solutions (JMCS). Of course, the expectation here is that whenever JMF (the parent) infuses equity in JMCS, the minority shareholders (INH Mauritius and others) will also participate to maintain their shareholding in the entity.

Lifecycle approach towards RE lending has helped their cause

JMCS has a lifecycle-based approach towards developer financing. While there is still a lot of science that goes behind selecting the micro-markets, screening the developers / projects and further structuring the transactions, JMF's ability to offer funding across the entire project lifecycle is what has enabled it to build strong relationships within its 74-strong developer groups.

Chart 26: Adopts a lifecycle approach in RE lending across stages



Source: Company data, I-Sec research

We list below the different wholesale mortgage lending products of JMF:

Construction finance loans (45%): This constitutes ~45% of the loanbook in JMCS. These are typical project-specific funding against residential or commercial projects with key regulatory approvals. Also, all lending institutions, viz. banks, HFCs and NBFCs are active in construction financing and, depending on the quality of the developer/project, the yields in this segment can also have wide variations.

Loans against property (25%): These loans are given out against collateral where the project (commercial or residential) is complete and the occupation certificate (OC) has been received. Essentially, when there are sales in such projects, JMF gets paid towards its outstanding loans.

Loans against land (11%): These loans are primarily for acquisition of land, or against land parcels where a project is not expected to be launched in the near future. The loan repayment assessment is based on borrower group's cashflows. Importantly, cases where JMF does a pure loan against land, it does the funding only when the land parcel is very attractive and, for such super-prime land parcels, it knows it would be able to sell the land to someone at a price adequate to cover the loan outstanding.

Loans for projects at early stage (8%): Here too, there are projects at approval stage and expected to be launched in the near future, but funding is needed for development or seeking approval.

Loans against shares (11%): These are loans against listed or unlisted shares of **large** commercial or residential developers to bridge funding gap in the event inventory is not being sold, or developer needs cashflow till completion. Importantly, such loans are given out only to select developers with whom JMF has considerable comfort based on their credit history.

Chose to scale-up at a measured pace (FY14-FY18) though environment was too growth conducive

There is a perception that some of the HFCs/leading real estate financiers grew too fast between FY14-FY18 with access to easy liquidity and banks going slow in lending to this sector due to their higher risk aversion. Also, banks are prohibited from doing land financing (while NBFCs are allowed) and risk weights on exposure to wholesale mortgage has remained at 150%.

Risk aversion of banks to the real estate sector opened up a big window of opportunity for the wholesale lending NBFCs/HFCs. What gives us comfort here is that, unlike a few of its peer HFCs/NBFCs which aggressively grew their AUM in the heyday (FY14-FY18), the growth delivered by JMF has been more measured and calibrated. Of course, JMF could have been opportunistic in lending to a particular promoter / developer when there was indeed a business rationale to it. But at an aggregate level, it gives the impression that the company has run a tight ship in its wholesale mortgage lending segment.

How JMF has navigated Covid and are the provisions adequate?

JMF too, like peers, has witnessed some stress in wholesale mortgage lending with GNPLs rising to 1.8% over past 12-18 months (though at a superior level to peers). During the Covid phase, while collection efficiencies were slow to start with (~15%-20% in Q1FY21), it has gradually been picking up and we expect it to have reached around ~35-40% levels in Aug'20. Moreover, most real estate lenders including JMF have suggested that sales volumes have picked up in Q2 of the current fiscal. This could well mean that, even during such lockdowns, people took out time to conclude booking of properties that they had identified earlier.

Also, developers are now more receptive to deploying external agencies (like of Xanadu and Anarock) who help them with the sales. These sales agencies have helped clock sales during such times and will likely play a good role in the entire ecosystem going ahead as well. Even in their real estate consulting arm (Dwello), they have witnessed that site visits are back to 70% of pre-Covid levels (not enquiries, but site visits suggest seriousness) and closures were at 40-50%. The company has made Rs870mn of Covid provisions in Q4FY20 and we believe current circumstances of weak real estate sentiments would call for additional provisioning going forward.

Restructuring: Imminent but manageable

Even before Covid happened, there was a clamour from most HFCs/NBFCs who did wholesale real estate lending, that RBI should introduce a one-time restructuring window for developers given the stress in the real estate sector. Now, even as RBI has introduced the restructuring scheme, there would be lenders in general who would want to restructure their developer exposures (and make corresponding provisions on the balance sheet).

Some of JMF's exposure in wholesale mortgage is towards projects at the fag-end of the completion; here the risk is low on construction, but high on sales. Sales momentum was adversely disrupted due to Covid and, since principal repayment is high in this segment, restructuring becomes inevitable. Due to low risk appetite, refinancing or takeout financing is also getting difficult in current circumstances. Besides, in construction financing, a significant portion of the book would qualify under DCCO but in the balance book, the company will evaluate project by project progress and take a judgemental call on restructuring between Sep-Nov’20.

However, looking at the current circumstances, it would be fair to assume that 15-20% of its wholesale mortgage portfolio can be restructured, which would call for 1.5-2.0% addition provisioning. Hassles would particularly be in restructuring at entity level (getting all lenders on board, signing ICA, having credit rating agency to rate a plan) while funding happens at project-specific level and cashflows from projects are earmarked to lenders in an escrow.

Will commercial real estate still provide the hedge against exposure to residential projects?

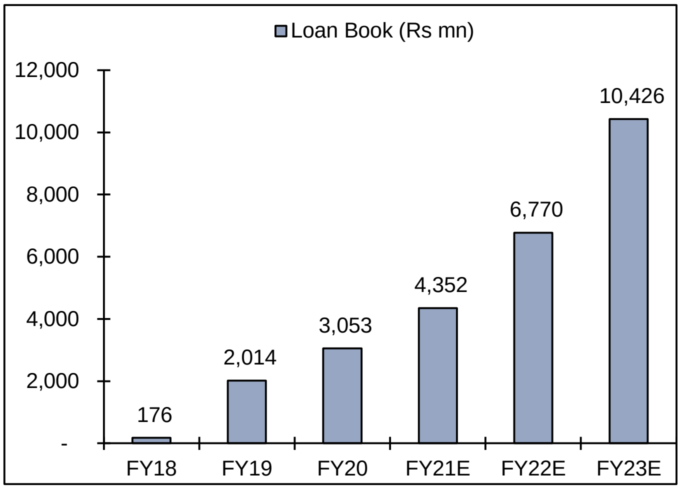
JMF has ~30% of its mortgage lending book towards commercial real estate projects. Essentially, this was never really too big a hedge for its mortgage lending business. Also, unlike peers, it never entertained lease rental discounting as a key business segment. For the past 3-5 years, commercial real estate in India has done very well. Rather, a wholesale mortgage lender was construed as having a relatively lower risk loanbook if it had a higher proportion of exposure to commercial real estate (CRE). With office spaces selling well and occupancies from MNCs, lease rental discounting on some of these CRE projects were supposedly ‘the safest of the lot’. However, this could very well change in the backdrop of the Covid outbreak. The amount of office space that some of the large organisations take on lease will see a decline as they look to move a portion of its workforce to a permanent work-from-home (WFH) set-up. This could entail pain for the CRE segment over the next 1-2 years before organisations adapt to the new normal (in terms of their office space requirements).

The road ahead…

- Covid has truly accentuated the bottoming of the real estate cycle where sentiment has been weak for past many years.
- Many financiers are suggesting that demand is rebounding as genuine customers in environment of such a low interest rate and price correction are inking the deals. However, one certain thing is demand is skewed for the completed inventory. While risk aversion of end-buyers to under-construction properties was already high even before Covid, the current set of events that have unfolded (insecurity, fear of job losses and pay cuts, fear of intermittent localised lockdowns) will further accentuate customer aversion towards under-construction properties.
- Many of JMF’s peer NBFCs/HFCs now have made their intent clear that they will be looking to run down their wholesale real estate exposures and would instead be focusing more on retail home loans, or LAP. Nonetheless, JMF has guided on a couple of occasions that managing credit cost at current levels, it will now be looking to grow its wholesale mortgage lending business once all the dust around Covid-induced disruptions settle down. In fact, competition would be low as many financiers are exiting the space and, with high liquidity and low leverage (<2x), JMF would be favourably positioned to tap the maximum emerging opportunities in a risk-calibrated way.

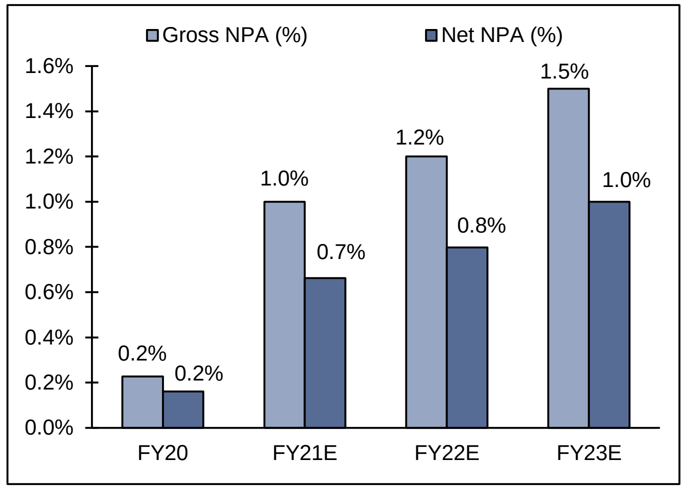
Retail mortgage – Promising potential; accelerating diversification

Chart 27: Growing home loans considerably



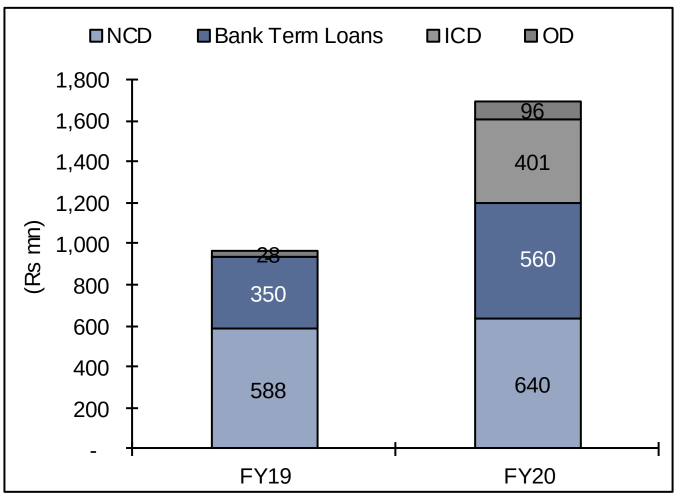
Source: Company data, I-Sec research

Chart 28: NPLs to normalise on seasoning



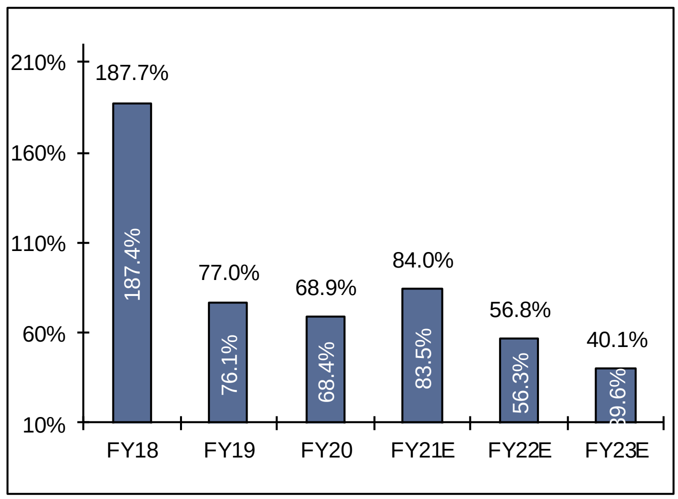
Source: Company data, I-Sec research

Chart 29: Diversified borrowing to aid scale-up



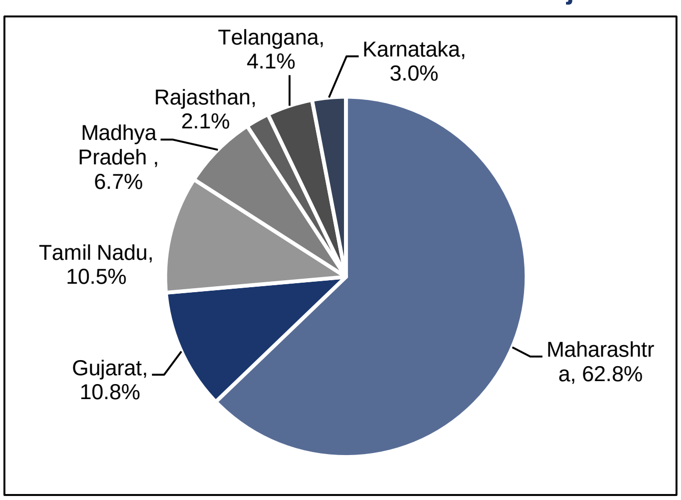
Source: Company data, I-Sec research

Chart 30: Sufficient growth capital available



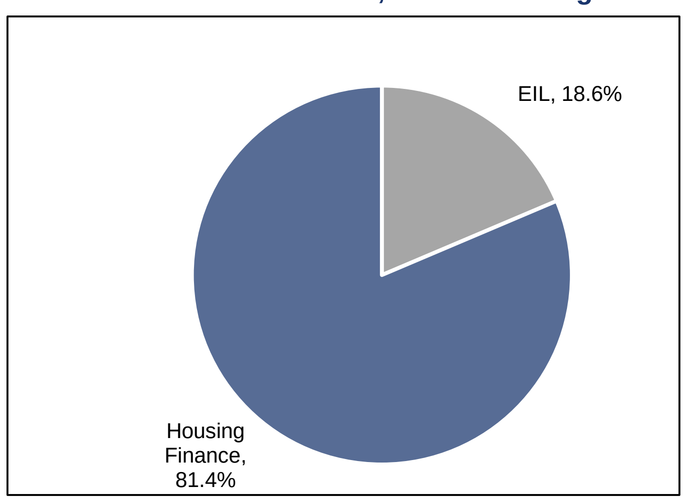
Source: Company data, I-Sec research

Chart 31: Concentrated in Maharashtra/Gujarat



Source: Company data, I-Sec research

Chart 32: EIL to consolidate; home loan to grow



Source: Company data, I-Sec research

Ventured into retail lending to further strengthen asset mix. To further diversify assets as well as customer base, JMF ventured into retail mortgage lending in Nov'17 and the business is the youngest (in terms of vintage). Being at a nascent stage, it currently constitutes a mere 6% of total loans as of FY20. However, the company is investing into personnel, processes and systems for sustainable growth – up 28% YoY and the only growing segment in FY20. In this business, the focus is predominantly on affordable home loans, small-ticket LAP and Educational Institution Loans (EIL).

Affordable home loans (Rs5bn of advances)

The average ticket size (ATS) is Rs1mn. JMF follows a micro-market based approach in identifying the regions where it wants to be present and grow its business. This is supplemented by a hub and spoke model of branches. Most of the sourcing is done by its direct sales team (DST). It is focused on tier-2 to tier-4 cities and typically targets the unserved and underserved segments.

This business operated with a collection efficiency of 99.5% in the pre-Covid days. It did deteriorate during Apr'20 and May'20, but has since recovered to levels of ~80% in July and is expected to rise to ~95% by Sep/Oct'20.

Educational Institutions Loans (EIL) – Rs2bn in size

Within this segment, JMF finances formal K-12 private schools in tier-2 cities through an in-house team and external DSAs. While most schools operate under a trust format, they also take personal guarantees/properties from the promoter of the school. As a measure of its conservatism, the company does not plan any new disbursements in this segment in FY21. However, it would still look to support its EIL borrowers under the Emergency Credit Line Guarantee Scheme (ECLGS) with incremental lending Rs200mn-300mn.

What are the pitfalls it avoids in lending to this segment?

- Schools having connections with a local politician are not very uncommon, but JMF avoids lending to such schools to mitigate any local political risk.
- It identifies and lends to such schools where the primary occupation of the promoter is to run schools (or educational institutions). It tries not to lend to promoters where the educational institution is also one of the many businesses that the promotor has. This ensures that the promotor remains focussed on his educational institution and would not need to divert money to his other businesses.
- Typically, the LTVs are in the range of ~50%, which provides comfort on the collateral.
- Also, the company does not lend to any greenfield projects. It typically lends only to brownfield projects where the loans are backed by cashflows based on internal scoring assessment. Idea here is to lend to schools that have typically been operational for at least 10 years.

Focused to deliver on 3Cs framework – Credit, Collateral and Collections

- **Credit - centralised**

  JMF has a centralised underwriting and credit appraisal process (rather than giving flexibility to branches) whereby the deviations in sanctions are minimal.

- **Collateral – conservative LTV**

  Company is very conservative on the LTV. It carries out both its technical and legal due diligence on the collateral before any loan is sanctioned.

- **Collection – topmost priority**

  Despite a small loanbook in the retail mortgage segment, the company has invested in building up its collection infrastructure and positioning itself as an HFC with a long-term vision of sustainable growth in this segment. To this end, almost all its branches now have a separate collections manager who reports into a head of collections.

The road ahead…

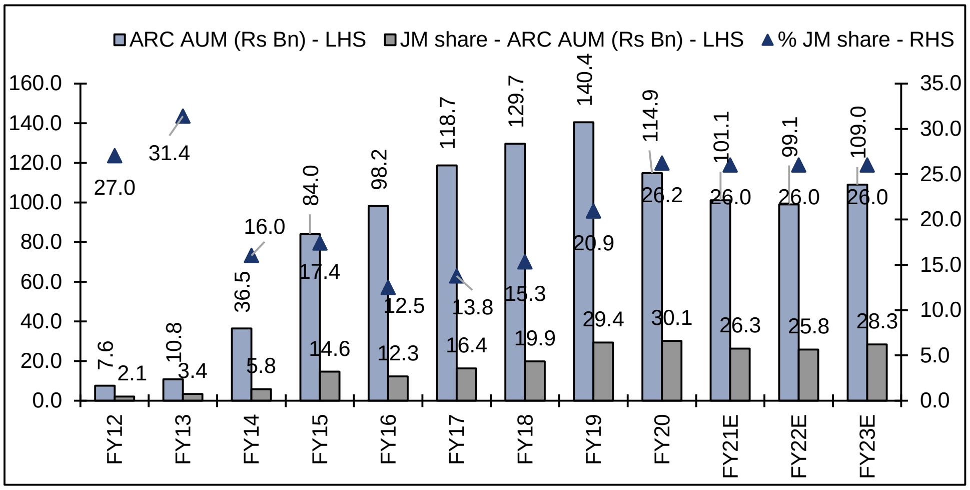
- JMF has ambitious plans to scale up its retail lending franchise – quadruple the reach from 27 locations. The adversity amidst Covid pandemic might throw up opportunities for inorganic growth and the company will actively pursue some attractive and synergistic opportunities in retail lending,

- Also, in retail lending, JMF would leverage its strength of distribution/syndication and would actively look to securitise its asset pool. It is positively evaluating co-lending to penetrate deeper into the home loan markers and build Rs30bn retail mortgage book by FY23E.

- Even though we do not anticipate any growth in the EIL segment in FY21, the retail home loans and LAP segments together can easily grow at a 30-40% CAGR over the next four years. In retail lending, the company does not want to venture into unsecured lending.

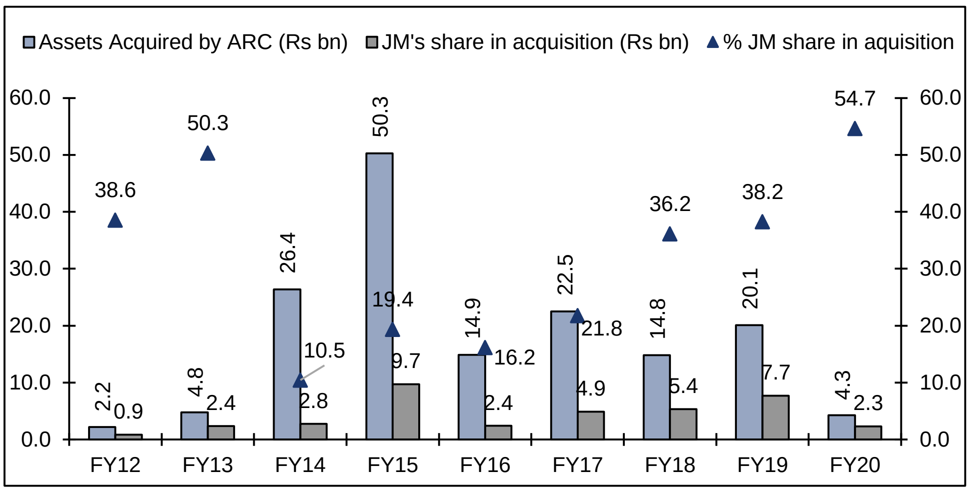
Distressed credit: Fund-cum-fee based model

Chart 33: Measured scale-up in distressed credit with higher share



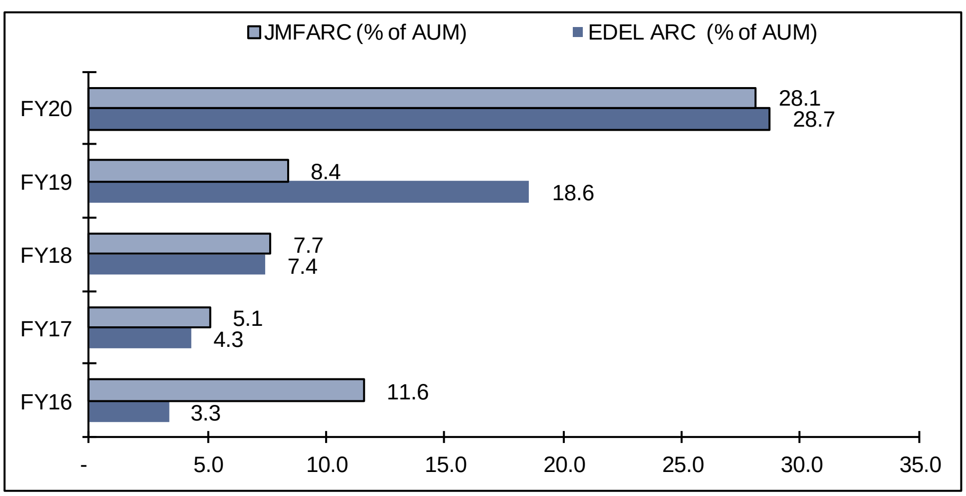
Source: Company data, I-Sec research

Chart 34: Optimal pricing, decision-making control key to acquisition



Source: Company data, I-Sec research

Chart 32: Cumulative recoveries of >70% till date



Source: Company data, I-Sec research

Chart 35: Measured scale-up in distressed credit…

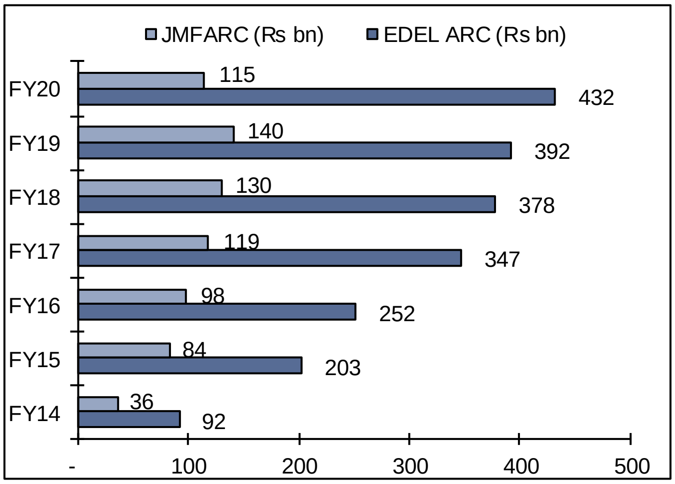
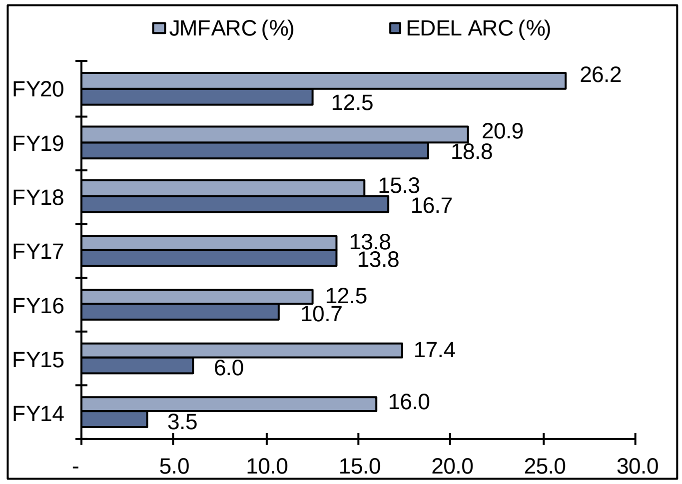


Chart 36: …with higher share and decision control



Source: Company data, I-Sec research

Chart 37: Management fees at 50% of revenues…

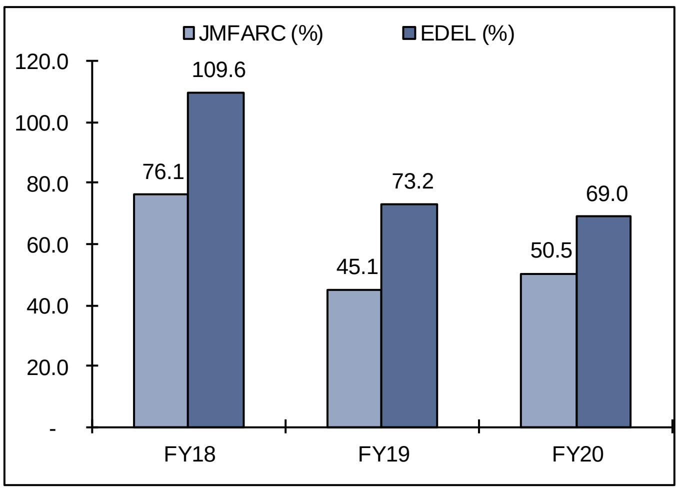
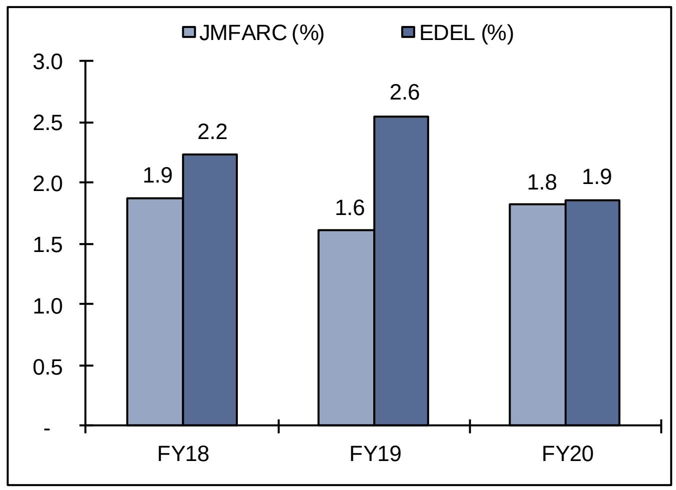


Chart 38: …is relatively more stable (as % of AUM)



Source: Company data, I-Sec research

Chart 39: Blend of fee-cum-fund based ARC model

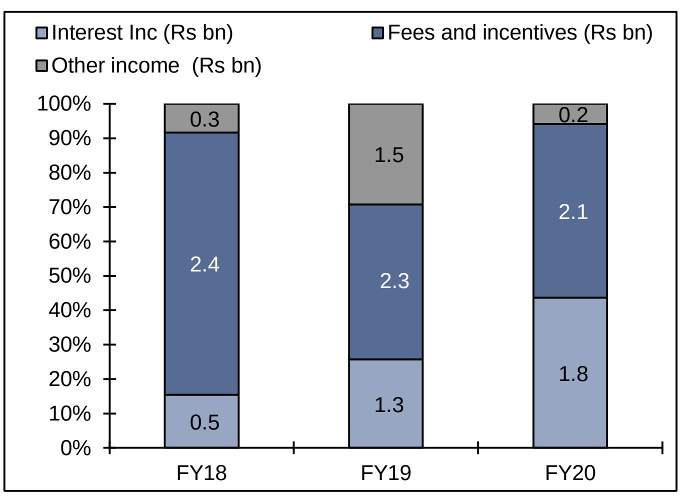
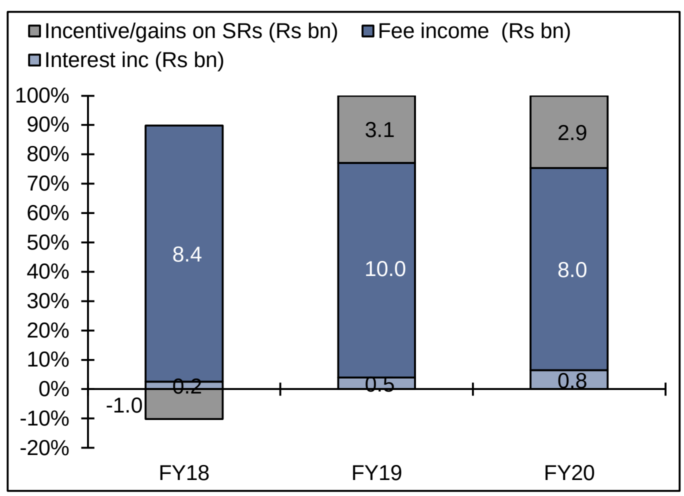


Chart 40: Edel's ARC model is more fee-based



Source: Company data, I-Sec research

Table 3: Distressed credit – Financials

	FY19	FY20	FY21E	FY22E	FY23E
Gross Revenue	5,006	4,135	3,667	3,515	3,707
Finance Cost	2,158	2,660	2,340	1,926	1,813
Employee cost	359	197	217	243	272
Depreciation	9	32	35	38	41
Other expenses	243	236	253	268	284
Operating expenses	**612**	**466**	**505**	**549**	**597**
Net Loss on Fair value changes	-	-	-	-	-
Total operating expenses	**612**	**466**	**505**	**549**	**597**
Impairment on financial instruments	222	168	343	86	124
PBT	**2,015**	**842**	**479**	**954**	**1,174**
Tax	699	331	134	267	329
PAT before NCI	**1,316**	**511**	**345**	**687**	**845**
NCI (SR holders)	-343	44	-	-	-
PAT after NCI of Company	**1,659**	**467**	**345**	**687**	**845**
NCI	710	170	141	280	308
PAT after NCI	**949**	**297**	**204**	**407**	**537**
RoE (%)	10.4	3.7	2.2	4.3	5.0

Source: Company data, I-Sec research

Structure of business entity

Distressed credit business in JM Financial Group is carried out through its subsidiary JM Financial Asset Reconstruction Company (JMFARC). JM Financial (JMF) is the primary sponsor with a current shareholding of 59.3% with balance equity held by a few PSU banks, HNIs and FIIs. JMF participated in the Rs2bn issuance of Compulsory Convertible Debentures (CCD – convertible in three years) of JMFARC in FY20; on a diluted basis, JMF's shareholding in JMFARC would rise to 63.6%.

Acquisition strategy – optimal price, decision-making control, sector-agnostic

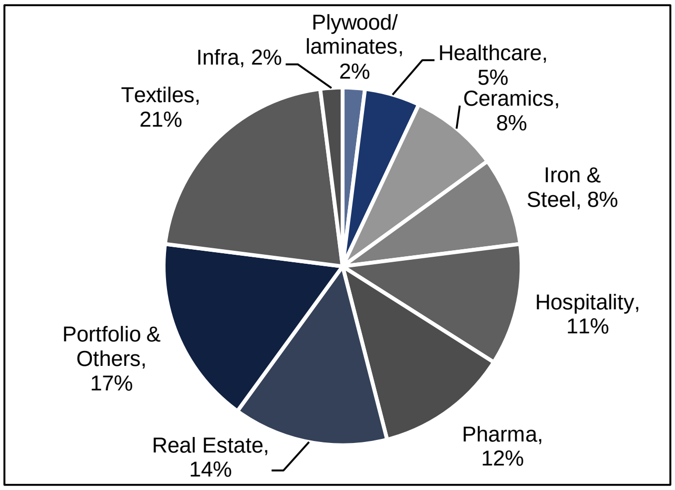
As at FY20, JMFARC had acquired aggregate stressed assets of Rs603.6bn at an acquisition cost of Rs170.7bn – a blended average acquisition cost of ~28% (~34% of stressed assets acquired at 100% dues and balance ~66% at 21%). Following the fund-based model, contribution by JMFARC in acquired assets stood at Rs46.3bn (28%). Total security receipts (SRs) outstanding as at FY20 stood at Rs114.9bn – ~10% market share in industry-wide SR pool of Rs1.26trn.

The underlying philosophy adopted for acquiring an asset

- JMFARC looks at the distressed credit business as a blend of fund as well as fee based business. When it evaluates assets for acquisition, its strategy is to acquire as close to 100% of the distressed asset to ensure that the decision-making control vests with JMF. As it is not a purely fee-based business, the focus is not on achieving scale or size, but resolution potential merit of the case.
- The criteria for selecting distressed assets is that the entity should be over-leveraged with strong (and quality) underlying asset base and likely to have a viable cash generating model and potential to grow once balance sheet issues are resolved.
- The most important consideration is optimal price as that finally determines IRR of the business; JMF works with IRR potential of >20% while pricing the assets.

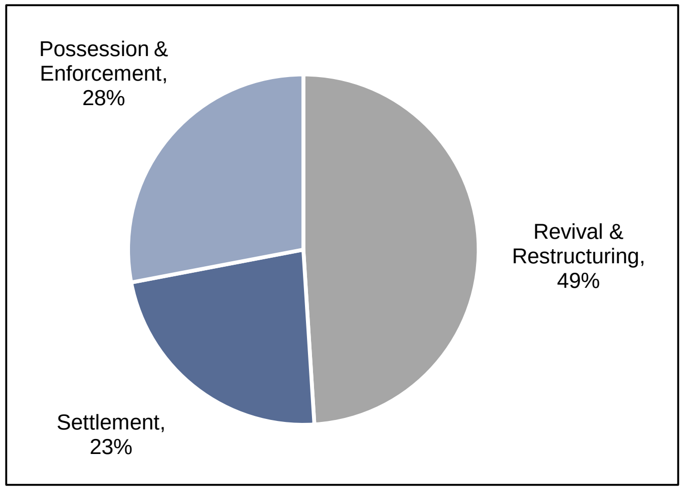
- Prefers a mid-sized to small-sized account where it investments can be restricted at US$100mn.
- Further, on selected deals, to facilitate optimal resolution the company prefers a co-investment model and partners with strategic as well as financial investors.
- Given that JM Financial group has considerable expertise in corporate advisory and real estate/corporate lending, its distressed credit exposure is broadly sector-agnostic. As an internal policy, it has a negative sectoral list, namely infra (power, roads), mining, government interference possibility, etc. The AUM is fairly well diversified across industries with exposure in textiles, real estate, pharmaceuticals and hospitality contributing ~60% of the outstanding SRs.

Chart 41: Sector-agnostic : infrastructure, mining in negative list



Source: Company data, I-Sec research

Chart 42: Bandwidth and focus channelised on recovery and resolution



Source: Company data, I-Sec research

Focused on resolutions through restructuring or turnaround

JMFARC has had 37 successful exits spread across sectors and has achieved recovery of Rs854bn till date. The core strategy at JMFARC remains on the capital/business restructuring. This could be achieved by right-sizing of the debt, conversion of debt to equity and/or by providing additional financing for working capital/growth capital. Revival and restructuring strategies also include the sale of non-core assets and, if need be, a change in the management as well (wherein the company appoint a CEO/CFO where appropriate).

Revival of acquired assets also entails working with sector-specific professionals and sector-specialised firms. However, all legal and financial due diligence (acquisition / pre-acquisition) is done in-house with support from specialised third-party agencies.

Funded interest a significant component of revenues

There is inherent lumpiness in an ARC business and it would not be fair to judge this business on its YoY performance as earnings are non-linear. Unlike a few peer ARCs, where management fee is the primary source of revenue, JMFARC focuses on three items, viz. **management fee**, **interest on loans** given out to portfolio companies, and **upside/profit** from the successful exit in acquired assets. Of course, a fair bit of the upside is recognised in the fair value gains/losses in the P&L statement, yet the company follows a conservative revenue recognition policy.

The road ahead…

- Delay in resolution of distressed assets – there was visibility on many stressed assets getting resolved prior to Covid, but current circumstances throw open the challenge of processing resolution on the existing assets. In a few cases, renegotiations might happen due to unit closures, cancellation of existing obligations and reduced demand; consequently, assets will be revalued lower.

- In a few assets, it might have to settle the negotiations at lower than anticipated IRR. JMFARC made voluntary Covid provisions of Rs700mn in Q4FY20 after undertaking a holistic analysis of its portfolio. We believe provisions will continue to be higher in this business.

- JMFARC is unlikely to make any new acquisitions in the immediate term and all bandwidth and focus would be channelised on recovery and resolutions. New acquisitions would probably start in FY22.

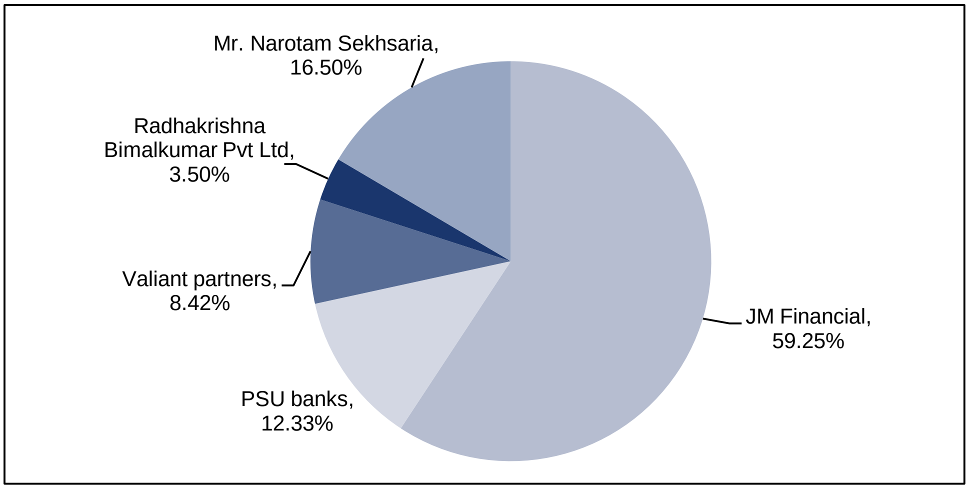
- As the environment is not conducive, JMF would defer the plan of diluting its stake in ARC and will now evaluate it only in H2FY21 at the earliest.

- We feel that once we are past Covid, there will be more distressed assets acquisition opportunities available. JMFARC will leverage its expertise in retail and build retail stressed assets as well. On corporate, there might not be much influx of assets as restructuring will defer their referral to ARC.

Regulatory risks

- Presently, ARCs are required to invest a minimum of 15% in SRs issued by them. There is a possibility of ARCs requiring to shell out a higher component.
- SRs issued by ARCs are valued at NAV based on recovery rating assigned by an independent credit rating agency – this may lead to mark-down in a challenging environment. RBI may also increase the provisioning requirement for ARCs.
- If an investment by a selling bank in SRs backed by stressed assets sold by it is more than 10% of SRs, the bank is required to create provisions assuming that the loans notionally continued in the books of the bank. Banks would therefore be reluctant to sell many assets due to increased provisioning requirement.

Chart 43: JMFARC's shareholding structure



Source: Company data, I-Sec research

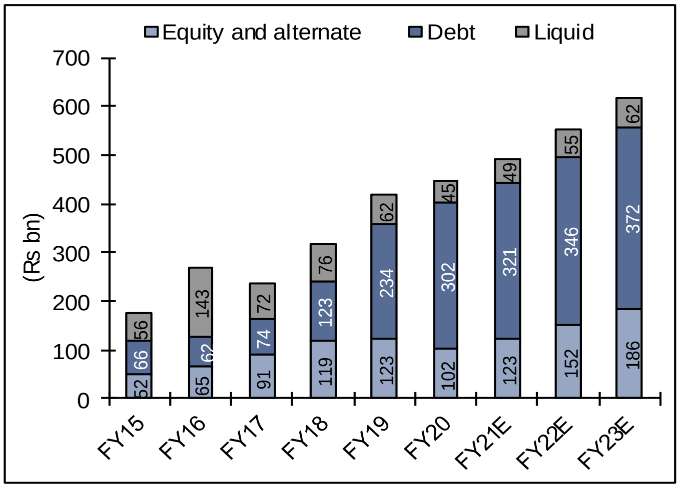
Table 4: Status of key distressed assets acquired

Acquired Asset	Latest status
Project Textiles	• Conducted extensive diligence • Aggregated debt from 12 lenders with a total share of 85% • Right to acquire 21% equity as part of debt conversion on restructuring • Additional mortgage created in favour of JMFARC beefing up security cover by Rs1.25bn • Recovered Rs2.1bn through sale of non-core assets • Additional working capital facilities granted of Rs1.9bn • Set up manufacturing lines for production of masks & PPE suits at Bangalore unit • Exploring tie up with strategic/ financial investors in yarn-dyeing & fabric process unit
Project Ceramics	• Acquired 98% debt • Ownership of ~24% equity stake • Cost controls and improvement of working capital cycle to arrest downside in revenues & margins • Focusing on retail tiles business - network expanded to >5,000 outlets • Trying to grow export business (order received from prestigious US retailer) • Identified non-core assets to be liquidated • Discussions on for developing surplus land parcel at Mumbai (development potential of upto 1.5 mn sq ft for commercial and retail use)
Project Pharma	• Acquired ~98% of total secured debt • 26% equity stake through conversion of debt • Additional fund infusion to restart units. • Cessation/suspension of legal cases against the company. • Sales of non-core assets to reduce debt. • EBIDTA positive now on a sustained basis and is on a growth path.

Source: Company documents, I-Sec research

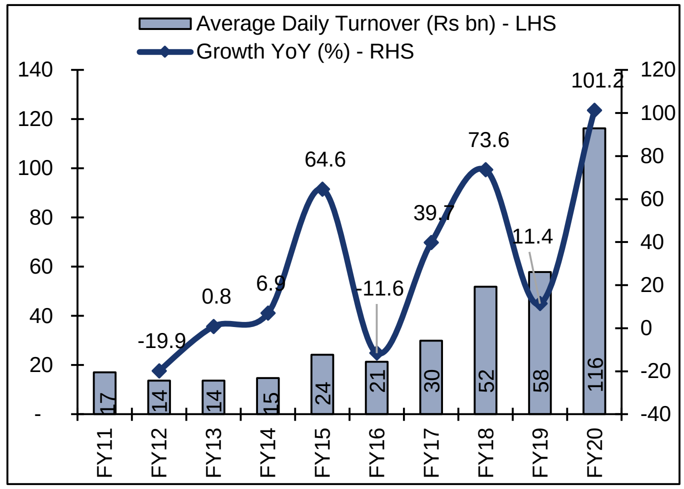
IWS – Integrated-cum-complementary ecosystem

Chart 44: Wealth management – investing in people and improving mix



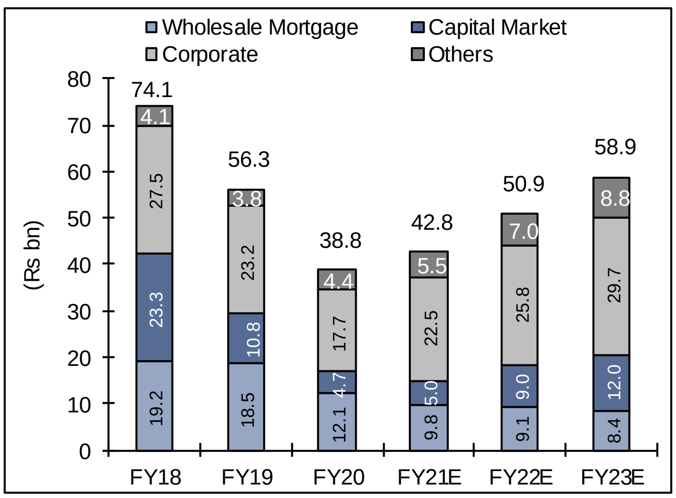
Source: Company data, I-Sec research

Chart 45: Steady foothold in securities business



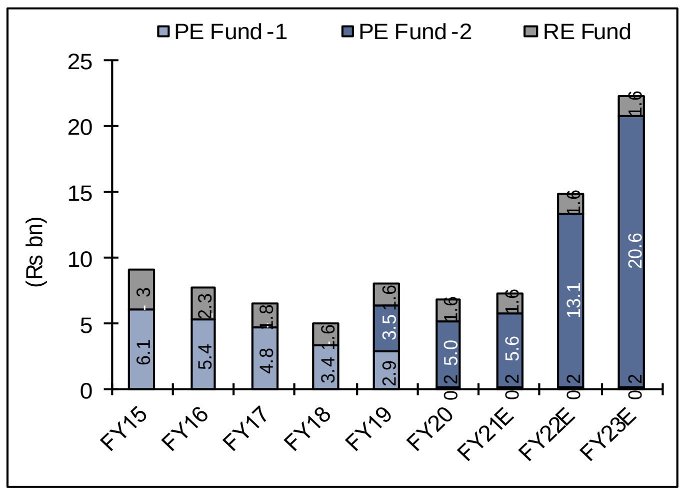
Source: Company data, I-Sec research

Chart 46: Capital market lending to ensure stickiness and repeat business



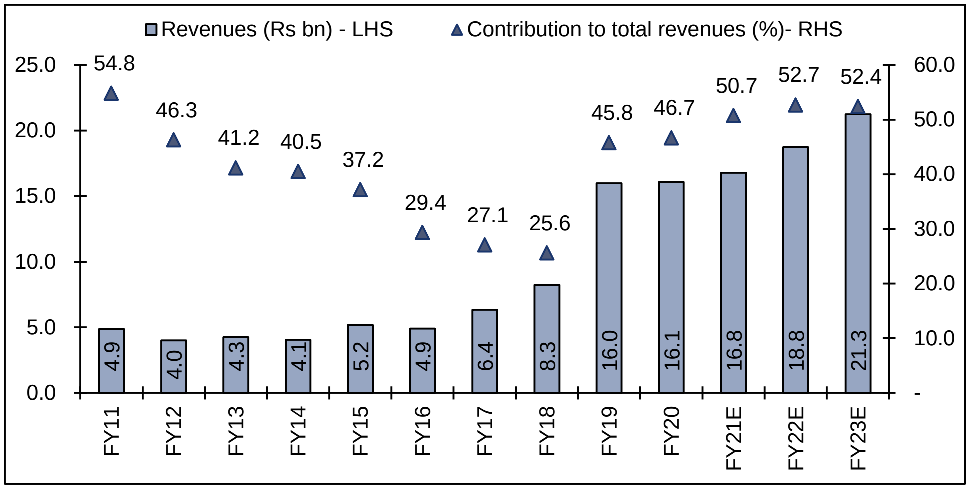
Source: Company data, I-Sec research

Chart 47: Focus on alternate assets within AMC business



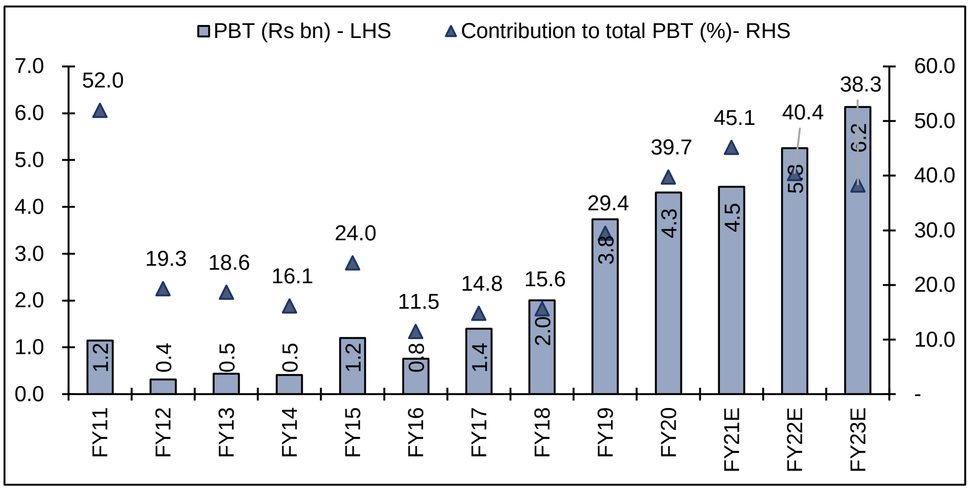
Source: Company data, I-Sec research

Chart 48: IWS business to constitute half of the revenues & provides stability



Source: Company data, I-Sec research

Chart 49: IWS to aid sustain earnings momentum



Source: Company data, I-Sec research

Chart 50: Entities within IWS leverage group's franchise strength and relations

Holistically integrated-cum-complementary ecosystem
Entities within the group leverage franchise strength and relationships for client stickiness and repeat business
More targeted towards HNIs, corporate promoters, institutional clients
Retail segment contribution is 15-20%, particularly concentrated in distribution business

Source: Company data, I-Sec research

Table 5: IWS – peer comparison

Revenue (Rs mn)	JMF		MOSL		EDEL		Kotak	
	FY19	FY20	FY19	FY20	FY19	FY20	FY19	FY20
Broking	1,902	2,027	11,334	12,249			15,820	16,900
Distribution & Advisory	1,556	1,692			10,670	11,940		
Wealth Management			1,088	1,007				
Investment Banking	1,204	2,195	381	121			1,760	2,290
Total IWS	**4,662**	**5,913**	**12,803**	**13,377**	**10,670**	**11,940**	**17,580**	**19,190**

Source: Company data, I-Sec research

Table 6: IWS – Financials

	FY19	FY20	FY21E	FY22E	FY23E
Net worth+ NCI	25,330	26,940	30,268	34,182	38,748
Loan Book (excludes episodic financing book)	56,270	38,800	42,752	50,943	58,881
Gross Revenue	17,334	16,621	16,823	18,777	21,270
Finance Cost	6,368	5,552	4,535	4,739	5,328
Employee cost	3,030	2,836	2,995	3,202	3,428
Depreciation	121	487	509	527	547
Other expenses	2,903	2,605	3,177	3,803	4,564
Operating Expenses	**6,053**	**5,929**	**6,681**	**7,533**	**8,538**
PPoP	**4,912**	**5,141**	**5,607**	**6,505**	**7,403**
Impairment on Financial Instruments	-69	702	638	458	430
Inter segmental adjustment					
PBT	**4,981**	**4,439**	**4,969**	**6,047**	**6,973**
Tax	1,322	1,148	1,130	1,371	1,593
PAT before NCI	**3,659**	**3,291**	**3,840**	**4,676**	**5,380**
NCI	13	10	11	12	14
PAT after NCI	**3,646**	**3,280**	**3,828**	**4,664**	**5,366**
Dividend to JM Financial Ltd	1,104	355	500	750	800
RoE (%)		12.6	13.4	14.5	14.8

Source: Company data, I-Sec research

The investment banking, wealth management and securities (IWS) business segment of JMF is the oldest business of the group and JMF, through its advisory services and execution, has earned respect and built a strong brand and relationships with its clientele. Rather than looking at this business within different cohorts, it would be appropriate to look at this business segment holistically as an integrated-cum-complementary ecosystem wherein the individual entities within the group leverage the strength and relationships of their respective franchises for client stickiness and repeat business.

Undoubtedly, the nature of IWS business is dependent on capital market sentiment and tends to be volatile across cycles. However, for JMF, IWS as a business segment has only gone from strength to strength and constitutes almost half of the group's revenues. JMF is today one among the most revered franchises in the merchant banking and securities business. It has effectively leveraged various cross-sell opportunities to its wealth management, institutional clients and even corporates. Through cross-selling, the idea to maximise the wallet share of clients.

Broadly, IWS comprises the functions of 1) **investment banking** (primary markets, M&A, advisory and private equity syndication), 2) **securities business** (comprising of institutional equities and the equity brokerage group), 3) **wealth management business** (both elite and private wealth segments), 4) **distribution of financial products** (recently introduced platforms like FD Online, Online IPO bidding and Online platform for 54 EC capital gain bonds), 5) **leverage products,** 6) **PE fund**

management, and 7) the more recent niches in **real estate consultancy services** and **debt trading and syndication**.

We present below descriptive details of the different sub-segments. We have tried to set the industry context and also presented the share of JMF within it.

The road ahead…

- Company has been in an active investment mode in the IWS business segment for past 12-18 months; it recruited the most during the downcycle post IL&FS crisis into wealth management, AMC, etc.

- IWS business is also more targeted towards HNIs, corporate promoters, institutional clients (retail segment contribution would be 15-20%, that too particularly in distribution). However, the company now would spread its wings through the franchise model and further improve the contribution of retail segment.

- To attract the flow and client base, venturing into discount broking can be a strategic option to evaluate – though slightly delayed given scale-up from players like Zerodha, etc., but still not a missed opportunity.

Investment banking – most revered franchise

- **Equity capital markets –** Services include advising corporates on fund raising, debts and related offerings. In FY20, JMF executed 17 deals (four IPOs, six OFS, three buybacks and four QIPs).

Table 7: ECM deals done in recent past

Year	IPO	Qualified Institutional Placement (QIP)	(REIts) and (InvITs)	Offer for sale
FY19	Indostar Capital Finance Ltd.Rs18.4bn Fine Organic Industries Ltd. Rs6bn HDFC AMC Ltd.: Rs28bn Chalet Hotels Ltd.: Rs16.4bn	Oberoi Realty Ltd.: Rs12bn HDFC Bank Ltd.: Rs27.7bn	India Infrastructure Trust (InvIT): Rs9.5bn Embassy Office Parks (REITs) Rs38.7bn	
FY20	Metropolis Healthcare Limited Rs12bn Spandana Sphoorty Rs11.9bn Ujjivan Small Finance Bank Rs10bn Prince Pipes & Fittings Ltd. Rs6.6bn	Bajaj Finance Ltd. Rs85bn Avenue Supermarts: Rs41bn Shree Cement Rs24bn Yes Bank Rs19.3bn		L&T Technology Services Rs6.4bn Xchanging Solutions Ltd Rs 790mn GTPL Hathway Rs270mn

Source: Company data, I-Sec research

Table 8: Glance at Indian equity capital markets

	FY19			FY20		
	# deals	Value (Rs bn)	Avg. deal size (Rs bn)	# deals	Value (Rs bn)	Avg. deal size (Rs bn)
IPO	14	147	10	13	204	16
IPO on the SME platform	106	16	0	41	4.21	0
InvIT	3	80	27	1	23	23
Rights issue	8	20	2	13	560	43
QIP	13	105	8	13	512	39
OFS	28	217	8	26	173	7
Total equity raised	**172**	**584**	**3**	**107**	**1,477**	**14**
Total debt raised through public issue	**26**	**367**	**14**	**33**	**147**	**4**
Total amount raised	**198**	**952**	**5**	**140**	**1,625**	**12**

Source: Company data, I-Sec research

- **Mergers & Acquisitions and private equity:** During FY20, 542 deals were announced in India as compared to 575 deals in FY19. Excluding 133 deals for which deal values were not available, the total value of the deals announced was Rs4.4trn for FY20 *vs* Rs8.6trn for FY19.

Table 9: Deals done in the recent past

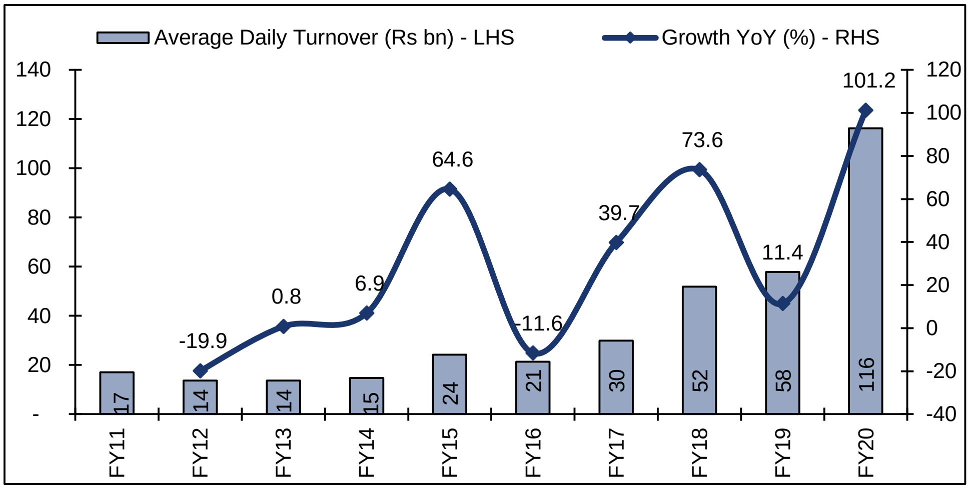
Advisor for sale of four hotels, property in Agra and management contracts by Hotel Leela Venture Limited to Brookfield Asset Management in a deal of Rs39.5bn	Transaction advisor to Reliance Group on its acquisition of Hathway Cable and Datacom Limited and Den Networks Limited	Advisor to Sundaram Finance Ltd. and Royal Sundaram General Insurance Ltd. on the sale of 40% stake in Royal Sundaram General Insurance Company Ltd. to Ageas Insurance International
Financial advisor to Heineken in connection with the acquisition of 2.80% of United Breweries Limited	Lead manager to private placement of units by India Infrastructure Trust (an Invit by Brookfield Group) for acquisition of the pipeline business owned by Pipeline Infrastructure Pvt. Ltd.	Financial advisor to JSW Steel limited (JSW Steel) on Aion-JSW Steel's acquisition of Monnet Ispat Energy Limited under IBC
Exclusive financial advisor to Scootsy Logistics Pvt. Ltd. on the sale of its 100% equity shares to Swiggy	Advisor to Sona BLW Precision Forgings and JM Financial PE for private placement from Blackstone	Advisor to Reliance Capital on sale stake in Reliance Nippon Life Asset Management Limited to Nippon Life Insurance Corporation
Financial and Transaction Advisor to IL&FS on sale of stake in seven wind energy units to ORIX Corporation of Japan	Exclusive financial advisor to Baring Private Equity Asia and Exclusive Manager to the open offer for acquisition of stake in NIIT Technologies	Exclusive manager to the open offer made by Epsilon Bidco Pte. Ltd. (part of the Blackstone group) to the public shareholders of Essel Propack
Exclusive financial advisor and manager to the open offer by Adani Logistics Limited to equity shareholders of Snowman Logistics Limited	Financial advisor to Diageo Plc for acquisition of further stake in United Spirits Limited	Exclusive financial advisor to TVS Supply Chain Solutions and DRSR Logistics on investment from Gateway Partners

Source: Company data, I-Sec research

- **Securities business – steady foothold:** This is institutional equities business offering brokerage services to domestic and international institutional clients. Company's equity brokerage group offers research-based equity advisory and trading services to high net worth individuals (HNIs), corporates and retail clients. The business has 38,000 active clients with a sales team of 392 personnel across the country. The business caters to 144 cities in India through a network of branches and franchisees.

  However, the company would now spread its wings in retail broking as well through the franchise model. Also, to attract flow and client base, venturing into discount broking can be an strategic option to evaluate – though slightly delayed given scale-up from players like Zerodha, etc., but still not a missed opportunity.

Chart 51: Sustaining market share in securities business



Source: Company data, I-Sec research

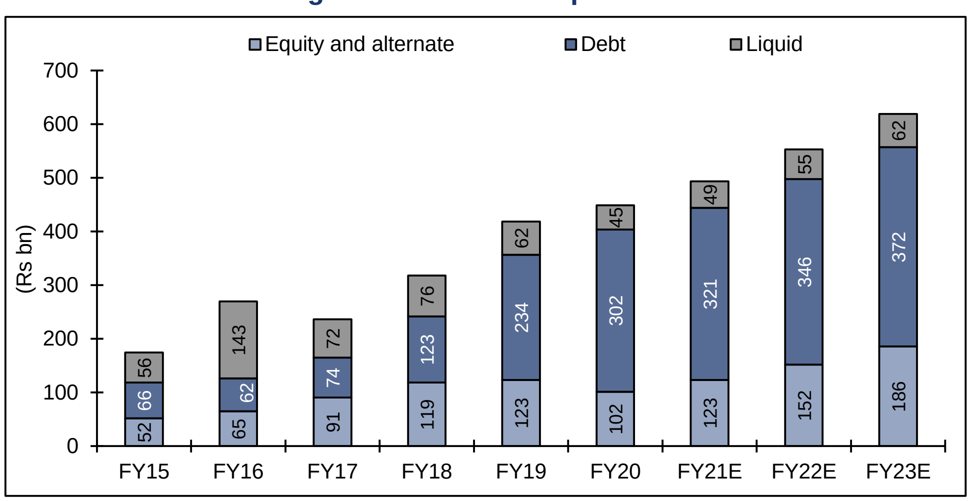
- **Wealth management – investing in people and improving mix:** Through its wealth management business, JMF caters to millennials (young entrepreneurs, corporates senior executive, professionals, etc.) as well as ultra HNIs and HNIs following open product architecture.

  Private wealth management: This segment caters to ultra-high net-worth and high net-worth investors, corporates, banks and institutions. The customers are catered through a team of 74 advisors. Assets under advice (AuA), grew by 7.2% YoY from Rs418.9bn in FY19 to Rs448.8bn in FY20.

  Elite wealth management: This segment was introduced in FY20 and focuses on clients with net worth in the range of Rs10mn to Rs500mn having presence in the top six cities. This business already has a team of 32 wealth relationship managers (RMs).

  To strengthen the wealth management business, the company would continue to invest in specialised personnel and improve the mix of assets under advice more in favour of equity.

Chart 52: Wealth management AuA – to improve mix



Source: Company data, I-Sec research

- **Capital markets lending – ensures customer stickiness & repeat business:** In FY20, IPO funding stood at Rs325bn across 19 issuances — including seven NCDs issues and one ETF *vs* Rs114bn during FY19. The capital market loanbook as at Mar'20 stood at Rs4.65bn vis-à-vis Rs10.8bn in Mar'19.

- **Independent Financial Distribution Group (IFDG):** This segment has ~7,000 active Independent Financial Distributors (IFDs), who distribute various financial products to retail clients and HNIs. Given the momentum seen in online transactions, IFDG made strides in enabling digital transactions and launched new platforms like FD Online and IPO Online.

- **Real estate consulting services:** *Dwello* is an algorithm-based service that offers bespoke home-buying service to home seekers. The value proposition of Dwello is backed by technology, data analytics and use of online and social media marketing. The service is largely in Mumbai while operations commenced in Pune in FY19. The platform added 2,085 new projects on the portal and closed >250 transactions valued up to Rs2.7bn in FY19.

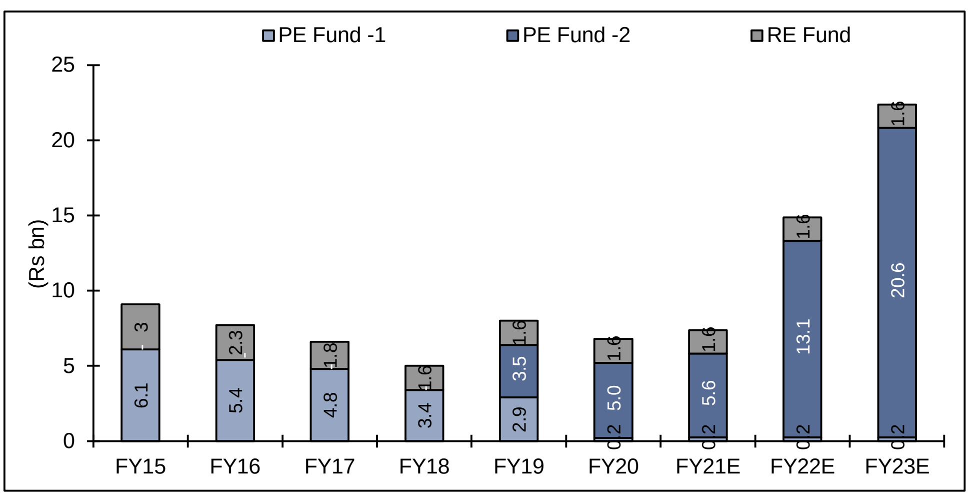
- **Structured finance (corporate):** This segment provides customised financing solutions to companies and promoters to meet business growth or capital structure refinancing requirements.

- **Private equity fund:** The fund raised capital of Rs9.5bn through its domestic and offshore schemes and invested the corpus in 13 companies across various sectors.

  JM Financial India Fund (Fund-1) is a 2006 vintage India-focused PE fund that concentrated on providing growth capital to dynamic, fast-growing companies in India. Fund-1 has successfully exited all its portfolio companies (including one partial exit), as at Mar'20.

  JM Financial India Fund (Fund-2) is a 2019 vintage PE fund. It is India-focused and sector-agnostic with the primary objective to achieve superior risk-adjusted returns by investing growth capital.

Chart 53: Focus on alternate assets

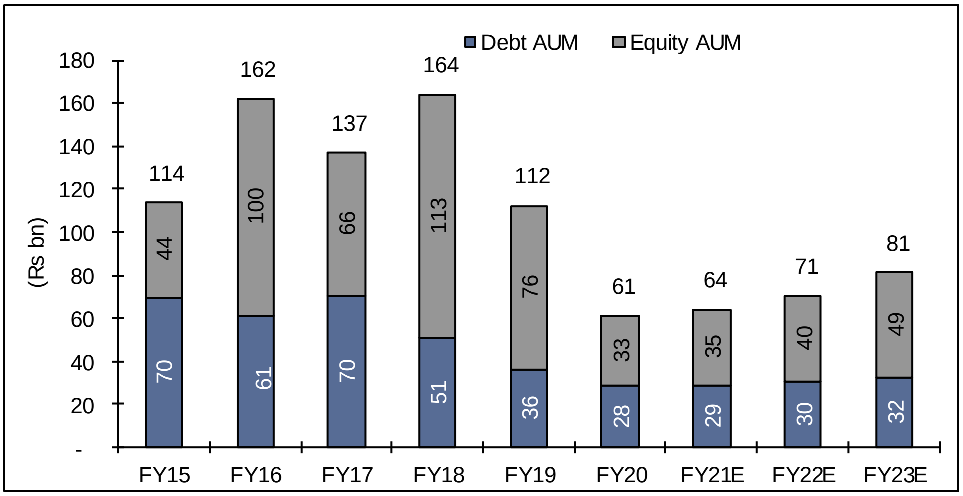


Source: Company data, I-Sec research

- **Real estate fund:** JM Financial Property Fund (the Property Fund) through its domestic and offshore schemes has raised total capital contribution of Rs4bn, which is fully invested in residential, hospitality and 'mixed-use' development assets (at individual project or holding level) in development companies.

JM Financial Asset Management – focus on profitability

Chart 54: Focus on instituional/HNI/corporate clients



Source: Company data, I-Sec research

AUM for AMC business has compounded at a measured pace as the focus has been more on profitability and institutional/HNI/corporate clientele.

Coupled with new CIO hire, the company is tying up actively for distribution and upgrading technology. The focus would be on equity, alternate assets and fund performance. It is also evaluating opportunities in niche asset management with demonstrated capabilities outside India. Company is also evaluating if ETF and passive fund management can throw up an opportunity that it can leverage through market making.

Table 10: Asset Management – financials

	FY19	FY20	FY21E	FY22E	FY23E
Net worth+ NCI	2,150	2,310	2,494	2,728	3,033
Revenue	940	630	641	720	828
Employee cost	260	260	265	278	292
Other expenses	110	150	135	128	128
Total operating expenses	**370**	**410**	**400**	**407**	**421**
PBT	570	220	241	313	407
Tax expenses	160	50	61	79	103
PAT	410	170	180	234	304
NCI	166	67	73	95	123
Share of Profit /(Loss) from Associate	6	4	10	10	10
PAT after NCI	**250**	**107**	**117**	**149**	**191**
RoE [%]		7.6	7.5	9.0	10.6
Asset management AAUM (Rs mn)	**87,120**	**61,090**	**64,145**	**70,559**	**81,143**

Source: Company data, I-Sec research

Table 11: Evolution of JMF into comprehensive corporate finance advisor/provider

Timeline	Event
1986	Incorporation of JM Financial and Investment Consultancy Services Pvt Limited
1986	JM Financial Limited incorporated to engage in stock broking and securities
1994	Set up mutual fund
1998	JV with Morgan Stanley
2004	Capital market lending
2005	Preferential issue to Tiger Global, Blueridge and Azim Premji
2006	Launched alternative assets management (PE fund and RE fund)
2007	Terminated the JV with Morgan Stanley
2007	Acquired ASK Securities for institutional equities and research
2008	Distressed lending through Asset Reconstruction business
2009	Real estate and corporate lending
2014	Capital investment in JM Financial Credit Solutions by Mr. Vikram Pandit
2017	Received license for Housing Finance from NHB / Commenced SME Lending Business
2018	QIP fund raising of Rs.6.5bn in JM Financial Limited / Issue of NCDs of Rs.10.1bn in JMFCSL
2019	Acquisition of 2.18% stake in JMFARC and rights issue of Rs2.0bn
2020	QIP of Rs7.7bn

Source: Company data, I-Sec research

Table 12: Management depth & experience – a significant competitive advantage

Name	Designation
Mr. Nimesh Kampani	Founder & Chairman, JM Financial Group, served as member on several important committees like MoF, GoI, RBI, SEBI, FICCI, CII, ICAI
Mr. Vishal Kampani	Managing Director – launched ARC in 2008 and RE financing in 2009 and also a global profile for the group
Mr. E. A. Kshirsagar	Independent Director – Specialist in corporate strategy, structure, disinvestments, feasibility studies etc
Dr. Vijay Kelkar	Independent Director – Former Finance Secretary to GoI
Mr. Darius E. Udwadia	Independent Director – Founder partner of M/s Udwadia & Udeshi, Solictors and advocates
Mr. Keki Dadiseth	Independent Director – Worked with HUL for 27 years, member of advisory board of several groups
Mr. Paul Zuckerman	Independent Director – Associated with World Bank and former Chairman, SG Warburg & Co.
Ms. Jagi Panda	Independent Director – MD of Ortel Communications & Odisha Television and more than two decades experience in media & broadcasting industry
Mr. P.S. Jayakumar	Independent Director – Ex-MD & CEO of Bank of Baroda; more than 30 years of experience in banking
Mr. Shaswat Belapurkar	MD & CEO, Credit Solutions
Mr. Anil Bhatia	MD & CEO, Asset Reconstruction
Mr. Subodh Shinkar	MD & CEO, Investment Advisory and Distribution
Mr. Atul Mehra	MD & Co CEO, Investment Banking
Mr. Adi Patel	MD & Co CEO, Investment Banking
Mr. Bhanu Katoch	MD & CEO, Mutual Fund
Mr. Darius Pandole	MD & CEO, Private Equity & Equity AIFs
Mr. Prashant Choksi	Group Head, Compliance, Legal & Company Secretary
Mr. Manish Sheth	Group CFO and Managing Director & CEO, Home Loans
Mr. Anil Salvi	MD & Group Head, Human Resources & CEO, Real Estate Consulting
Ms. Sonia Dasgupta	MD & Group Head, Financial Institutions Group and Borrowing
Ms. Gitanjali Mirchandani	MD & Country Head Origination, Real Estate
Mr. Ajay Mishra	MD & Head, Wealth Group
Mr. Dimplekumar Shah	MD & Co Head, Equity Brokerage Group
Mr. Krishna Rao	MD & Co Head, Equity Brokerage Group
Mr. Ashu Madan	MD & Co Head, Business Affiliates Group
Mr. Sanjay Bhatia	MD & Co Head, Business Affiliates Group
Mr. Anil Mavinkurve	MD & Head, Arbitrage, ESOP & Broker Funding
Mr. Richard Liu	MD, Research, Institutional Equities

Source: Company data, I-Sec research

Financial summary

Table 13: Profit and loss statement (consolidated)

(Rs mn, year ending Mar 31)

	FY18	FY19	FY20	FY21E	FY22E	FY23E
Interest Income	18,989	23,649	22,813	20,177	21,201	24,182
Interest Expenses	11,190	14,462	13,859	11,247	10,642	12,023
Net Interest Income	**8,060**	**9,205**	**9,134**	**9,084**	**10,773**	**12,467**
Fees and Commission Income	6,986	5,768	6,463	7,019	7,755	8,695
Brokerage Income	2,188	1,902	2,027	2,233	2,382	2,588
Net gain on fair value changes	-	2,448	1,760	969	823	860
Other Operating Income	2,079	1,221	1,083	992	1,120	1,268
Other Income	463	203	215	1,634	2,149	2,705
Non-interest Income	**11,716**	**11,543**	**11,547**	**12,848**	**14,229**	**16,117**
Employee benefits expense	3,910	4,216	3,954	3,967	4,279	4,626
Depreciation expense	262	271	410	593	621	650
Other expenses	3,420	3,082	3,044	4,715	5,417	6,270
Total operating expenses	**7,592**	**7,569**	**7,409**	**9,275**	**10,316**	**11,545**
PPoP	**12,184**	**13,179**	**13,272**	**12,658**	**14,686**	**17,039**
Provisions & contingencies	336	351	2,337	2,756	1,568	904
PBT	**11,848**	**12,828**	**10,935**	**9,902**	**13,117**	**16,135**
Total tax expenses	3,818	4,463	3,160	2,568	3,427	4,198
PAT	**8,031**	**8,365**	**7,775**	**7,334**	**9,690**	**11,937**
Share in profit / (loss) of associate	18	6	4	10	10	10
Net Profit after tax & profit / (loss) of Associate	**8,049**	**8,370**	**7,780**	**7,344**	**9,700**	**11,947**
Minority Interest	1,840	2,649	2,330	2,067	2,994	3,819
PAT after minority interest	**6,209**	**5,722**	**5,450**	**5,277**	**6,707**	**8,128**

Source: Company data, I-Sec research

Table 14: Balance sheet (consolidated)

(Rs mn, year ending Mar 31)

	FY18	FY19	FY20	FY21E	FY22E	FY23E
Loan book - Steady state Financing	1,47,680	1,39,990	1,13,070	1,18,470	1,39,469	1,65,425
Distressed asset book	30,260	41,940	36,860	30,543	29,835	32,761
Cash and cash equivalents (CCE)	14,690	17,370	34,120	30,740	26,938	25,844
Other Investments	10,040	8,420	7,510	7,358	8,665	12,441
Arbitrage and trading book	1,980	3,120	2,190	2,300	2,414	2,535
Property, Plant and Equipment	3,770	3,720	3,980	4,179	4,388	4,607
Trade Receivables	8,550	6,850	3,240	3,718	4,210	4,903
Other assets	4,570	4,420	5,960	7,625	8,560	9,923
Total Assets	**2,21,540**	**2,25,830**	**2,06,930**	**2,04,933**	**2,24,480**	**2,58,440**
Shareholders' Funds	45,020	50,790	55,860	68,617	74,839	82,012
Non-Controlling Interest	**13,950**	21,500	24,070	26,137	29,131	32,950
Share of security receipt holders	5,230	4,840	890	890	890	890
Borrowings	1,49,880	1,39,910	1,17,560	1,00,750	1,10,182	1,31,947
Trade Payables	3,450	4,170	4,400	3,858	4,646	5,591
Other Liabilities and Provisions	4,010	4,620	4,150	4,680	4,792	5,049
Total Equity and Liabilities	**2,21,540**	**2,25,830**	**2,06,930**	**2,04,933**	**2,24,480**	**2,58,440**

Source: Company data, I-Sec research

Table 15: Key metrics (consolidated)

(Rs mn, Year ending Mar 31)

	FY18	FY19	FY20	FY21E	FY22E	FY23E
Wholesale Mortgage	92,590	1,01,310	80,520	81,325	91,084	1,04,747
Retail Mortgage	4,320	5,810	7,440	9,672	13,541	18,957
Capital Market	23,340	10,780	4,650	5,000	9,000	12,000
Corporate	27,460	23,170	22,700	22,473	25,844	29,721
Gross Loan Book	**1,47,710**	**1,41,070**	**1,15,310**	**1,18,470**	**1,39,469**	**1,65,425**
Yields (%)	13.1	13.3	14.1	13.7	13.4	13.5
COF (%)	8.7	9.2	10.0	10.3	10.1	9.9
Spreads (%)	4.4	4.1	4.1	3.4	3.3	3.6
NIM (%)	6.2	6.0	6.6	6.2	6.8	7.0
GNPL (%)	0.6	0.7	1.7	3.1	4.0	3.4
NNPL (%)	0.6	0.6	1.1	1.0	1.4	1.1
Return ratios						
RoA	3.6	4.2	3.7	3.6	4.5	4.9
RoE (pre MI)	13.6	14.4	10.4	8.4	9.8	10.9
RoE (post MI)	27.6	11.9	10.2	8.5	9.4	10.4
Leverage (Asset/equity)	3.8	3.1	2.6	2.2	2.2	2.2
Revenues	19,776	20,748	20,681	21,932	25,002	28,584
PAT (post MI)	6,209	5,722	5,450	5,277	6,707	8,128
Per share data (Rs)						
No. of shares (#)	838	840	841	951	951	951
EPS (pre MI)	9.6	11.3	9.4	7.7	10.2	12.5
EPS (post MI)	7.4	6.8	6.5	5.5	7.1	8.5
BVPS (pre MI)	70.4	86.1	95.0	99.6	109.3	120.9
BVPS (post MI)	53.7	60.5	66.4	72.1	78.7	86.2
DPS	1.8	1.0	0.2	0.2	0.5	1.0
P/E (x)	10.8	11.7	12.3	14.6	11.5	9.5
P/B (x)	1.5	1.3	1.2	1.1	1.0	0.9

Source: Company data, I-Sec research

Table 16: JM Credit Solutions – financials

(Rs mn, year ending Mar 31)

	FY18	FY19	FY20	FY21E	FY22E	FY23E
Ownership	50.0%	50.0%	46.7%	46.7%	46.7%	46.7%
Loan book	71,916	80,160	71,760	71,566	81,976	96,367
Net worth	16,685	29,093	32,913	42,688	47,339	53,259
NII	5,352	6,811	7,178	6,424	7,538	8,609
PPoP	5,028	6,423	6,800	6,220	7,204	8,225
PBT	4,836	6,264	5,350	4,491	6,225	7,922
PAT	3,149	4,064	3,823	3,359	4,657	5,926
PAT (post MI)	1,575	2,032	1,785	1,568	2,174	2,766
Key Ratios (Calculated)						
Yield (%)	14.7%	14.2%	14.8%	14.8%	14.6%	14.5%
Cost of borrowing (%)	9.2%	9.5%	10.1%	10.1%	9.9%	9.8%
NIM (%)	8.3%	9.0%	9.4%	9.0%	9.8%	9.7%
GNPA (%)	1.0%	1.1%	2.1%	4.0%	5.5%	4.5%
NNPA (%)	0.9%	0.9%	1.5%	1.2%	2.0%	1.3%
Prov cov(%)	9.3%	18.6%	29.2%	70.0%	64.0%	70.2%
Credit cost (%)	0.3%	0.2%	1.9%	2.4%	1.3%	0.3%
Cost to Income	8.6%	8.3%	10.7%	8.3%	7.7%	7.3%
RoA (%)	4.8%	5.1%	4.6%	4.2%	5.6%	6.2%
RoE (%)	20.4%	17.8%	12.3%	8.9%	10.3%	11.8%
Tier I Capital	22.1%	33.6%	39.1%	51.0%	50.2%	48.9%

Source: Company data, I-Sec research

Table 17: JM Financial Home Loan – financials

(Rs mn, year ending Mar 31)

	FY19	FY20	FY21E	FY22E	FY23E
Ownership	98.4%	98.4%	98.4%	98.4%	98.4%
Loan book	2,014	3,053	4,243	5,495	6,855
Net worth	1,118	1,491	2,543	2,669	2,887
NII	56	312	342	471	610
PPoP	-53	90	116	214	338
PBT	-66	66	70	168	292
PAT	-66	74	52	126	219
PAT (post MI)	-65	73	51	124	215
Key Ratios (Calculated)					
Yield (%)	8.2%	14.0%	13.3%	13.1%	12.9%
Cost of borrowing (%)	7.0%	10.4%	9.3%	9.1%	8.9%
NIM (%)	5.1%	12.3%	9.2%	8.5%	7.1%
GNPA (%)		0.2%	1.0%	1.2%	1.5%
NNPA (%)		0.2%	0.7%	0.8%	1.0%
Prov cov(%)		29.2%	33.7%	33.5%	33.3%
Credit cost (%)		0.9%	1.3%	0.8%	0.5%
Cost to Income	162.8%	75.6%	73.3%	64.2%	57.2%
RoA (%)	-5.4%	2.7%	1.3%	2.1%	2.4%
RoE (%)	-9.2%	5.7%	2.6%	4.8%	7.9%
Tier I Capital	76.1%	68.4%	83.5%	56.3%	39.6%

Source: Company data, I-Sec research

Table 18: JM Financial Products – financials

(Rs mn, year ending Mar 31)

	FY18	FY19	FY20	FY21E	FY22E	FY23E
Ownership	99.4%	99.4%	99.4%	99.4%	99.4%	99.4%
Loan book	65,852	52,553	37,349	41,789	50,384	58,683
Net worth	14,675	15,603	17,073	18,276	19,420	20,797
NII	2,813	3,317	2,623	2,912	2,935	3,197
PPoP	3,316	3,089	2,916	2,837	2,984	3,333
PBT	3,277	3,158	2,307	2,301	2,560	2,943
PAT	2,129	2,043	1,601	1,703	1,894	2,178
PAT (after MI)	2,115	2,030	1,591	1,692	1,882	2,163
Key Ratios (Calculated)						
Yield (%)	12.5%	13.8%	13.1%	13.0%	12.8%	12.6%
Cost of borrowing (%)	9.6%	10.2%	11.2%	10.3%	10.1%	9.9%
NIM (%)	4.6%	5.6%	5.9%	7.6%	6.6%	6.1%
GNPA (%)	0.3%	0.1%	0.1%	0.8%	1.2%	1.5%
NNPA (%)	0.2%	0.1%	0.1%	-0.1%	0.2%	0.5%
Prov cov(%)	24.7%	9.4%	36.8%	107.5%	80.3%	67.0%
Credit cost (%)	0.1%	-0.1%	1.4%	1.4%	1.0%	0.7%
Cost to Income	20.9%	24.9%	24.8%	26.1%	26.3%	25.5%
RoA (%)	3.2%	3.1%	2.8%	3.2%	3.3%	3.4%
RoE (%)	15.2%	13.5%	9.8%	9.6%	10.1%	10.8%
Tier I Capital	21.3%	24.9%	31.3%	30.2%	27.6%	26.3%

Source: Company data, I-Sec research

Table 19: Distressed credit – financials

(Rs mn, year ending Mar 31)

	FY18	FY19	FY20	FY21E	FY22E	FY23E
Ownership	57.1%	59.3%	59.3%	59.3%	59.3%	63.6%
Net worth	16,291	17,493	15,388	15,733	16,420	17,265
AUM	1,29,650	1,40,440	1,14,890	1,01,103	99,081	1,08,989
Capital Employed	31,530	45,001	41,895	37,218	34,501	36,514
JMC's Share	15.3%	20.9%	26.2%	26.0%	26.0%	26.0%
Revenues	3,194	5,006	4,135	3,667	3,515	3,707
PAT	22	1,659	467	345	687	845
PAT (after MI)	12	949	297	204	407	537
Key Ratios (Calculated)						
Yield (%)	32.3%	27.0%	25.1%	24.0%	23.0%	23.0%
Cost of borrowing (%)	9.0%	10.4%	10.0%	10.0%	10.0%	10.0%
Management fees as % of AUM	2.0%	1.7%	1.6%	1.7%	1.7%	1.7%
GNPA (%)	3.6%	2.8%	32.9%	50.0%	50.0%	40.0%
NNPA (%)	0.0%	0.0%	31.0%	44.3%	43.1%	30.7%
RoA (%)	0.1%	4.3%	1.1%	0.9%	1.9%	2.4%
RoE (%)	0.3%	9.8%	2.8%	2.2%	4.3%	5.0%

Source: Company data, I-Sec research

Table 20: AMC – financials

(Rs mn, year ending Mar 31)

	FY18	FY19	FY20	FY21E	FY22E	FY23E
Ownership	59.5%	59.5%	59.5%	59.5%	59.5%	59.5%
Capital employed	1,960	2,150	2,314	2,494	2,728	3,033
Average AUM	1,63,646	87,120	61,090	64,145	70,559	81,143
- Equity AUM	69%	65%	54%	55%	57%	60%
Revenues	1,123	940	630	641	720	828
PAT	590	416	174	190	244	314
PAT (after MI)	349	250	107	117	149	191
Management fees (%)	0.60%	0.67%	0.74%	0.70%	0.68%	0.65%
PAT/AUM (%)	0.35%	0.37%	0.28%	0.28%	0.33%	0.38%
Cost/income (%)	29.3%	39.4%	65.1%	62.4%	56.5%	50.8%
RoE (%)	26.9	20.0	7.6	7.5	9.0	10.6

Source: Company data, I-Sec research

Annexure: Index of Tables and Charts

Tables

Charts

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