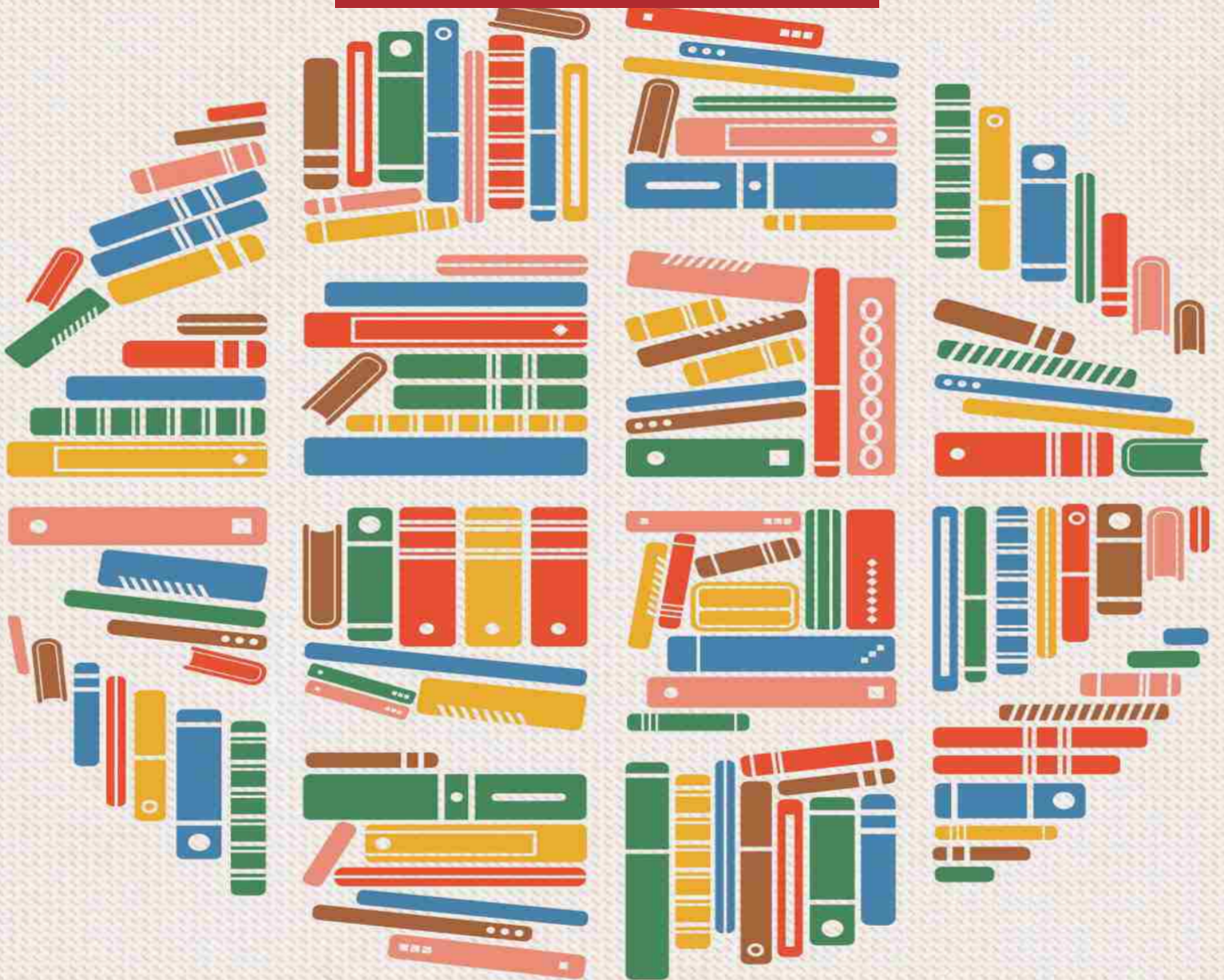


Stock TALES



Stock Tales are concise, holistic stock reports across wider spectrum of sectors. Updates will not be periodical but based on significant events or change in price.

Pick up in lending business; non-lending to act as catalyst driving valuation...

About the stock: JM Financial (JM) 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 (AWS) and AMC. On a consolidated basis, JM reported revenue at ₹ 3343 crore and PAT at ₹ 597 crore. The outstanding advance book was at ₹ 15653 crore while ARC AUM was at ₹ 13558 crore.

Key triggers

- With a pick-up in retail sales coupled with a gradual increase in property prices, a recovery is seen in the wholesale book with 6% QoQ reported in Q4FY23. Going ahead, a strong sales cycle could impact the growth momentum but an uptick in construction activity is expected to result in a healthy uptick of 15-20% YoY growth in the wholesale book
- Focus on building the retail segment (affordable home loans, LAP) with technology driven service and delivery coupled with investment in building physical distribution capabilities is expected to enable robust momentum ahead (93% QoQ, 55% YoY)
- JM's ARC strategy is expected to continue focusing on acquisition and resolution of stressed assets with higher proportion of incremental business based on fee income. With one time provision and anticipated recovery of ~₹ 1200-1300 crore in FY24E, the probability of elevated provisioning seems bleak. In addition, JM ARC is also focused on diversification with the acquisition of a substantial proportion of retail asset with IRR of 16-18%
- The investment banking business has been a focus area for JM and engages in catering to institutional, corporate, government and ultra high networth clients. A slowdown in IPOs and corporate activity has resulted in de-growth in topline in FY23. However, the equity and debt pipeline remains strong and is, thus, expected to pick up in FY24E. The strategy to expand the breadth of the client base to is seen aiding traction in revenue thereby delivering RoE in mid-teens. Plans to integrate the IB business with the PMS and wealth business is seen lowering the cyclical in the business
- With continued investment undertaken through hiring, improvement in digital and technology capabilities, focus is increasing in AWS (MF, wealth management). Thus, cost to income is expected to remain higher. However, the same is expected to normalise with topline traction kicking in. Thus, we expect faster growth in topline of AWS while traction in earnings is expected to follow with a lag as operating efficiency kicks in

Valuation & Outlook

Despite challenges during Covid, JM delivered a gradual recovery in performance with improvement in both business growth and asset quality. Though some business segments continue to remain cyclical, the performance excluding one-offs (provision in ARC business, investment in AWS business) remains encouraging. Further, we believe the overall performance will improve given 1) pick-up in lending business with AUM growth expected in the 15-18% range; 2) improvement in recoveries in ARC business with minimum probability of substantial provisioning ahead; 3) recovery in investment banking revenue with focus continuing on wealth and asset management pie. Thus, we expect revenue to grow at ~14% CAGR in FY24-25E to ₹ 4327 crore while the earnings trajectory is seen staying healthy at 18.3% CAGR to ₹ 837 crore in the same period. Demerger of the business after it attains adequate scale stays a catalyst for unlocking value. However, we have not factored this in our valuation.

Given the diversified business segment, we value JM using SOTP valuation and valuing business segments individually, we arrive at a target price of ₹ 95 (10.7x FY25E consolidated EPS) and assign **BUY** rating to the stock. We expect a gradual pick-up in business momentum and earnings trajectory with the same getting reflected in valuation.



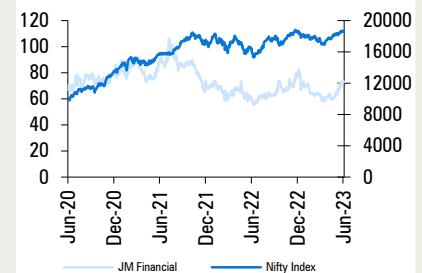
Particulars

Particulars	Amount
Market Capitalisation	₹ 6951 crore
Networth	₹ 8084 crore
52 week H/L	85/57
Face Value	₹ 1
DII Holding (%)	7.5
FII Holding (%)	21.2

Risks to our call

- 1) Delay and volatility in resolution and recovery could keep consolidated earnings volatile
- 2) Delay and volatility in resolution and recovery could keep consolidated earnings volatile

Price performance



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Company Background

JM Financial (JM) is a diversified financial group engaged in various businesses providing a host of services including mortgage lending (wholesale and retail), distressed asset management (ARC), investment banking, wealth management & securities (AWS) and AMC.

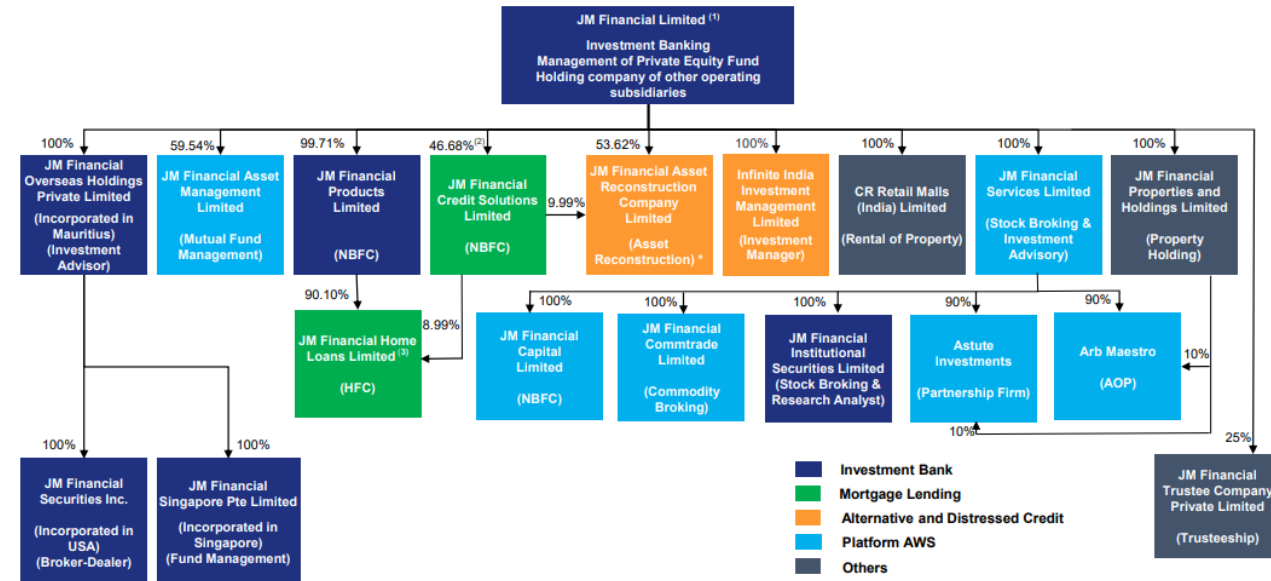
Mortgage lending – Engaged in both wholesale and retail lending catering to the housing sector. In wholesale lending, JM caters to well rated developers diversified geographically across the country. Within the retail lending segment, focus is towards the affordable housing finance, small ticket loan against property and education institutions lending (with ticket size of ₹12-15 lakh) and LAP.

Distressed asset management – Alternative and distressed asset management includes acquisition and resolution of stressed assets with AUM of ₹ 13558 crore as of March 2023). JM's shareholding in the ARC business was at 58.28%

Investment Banking – Caters to institutional, corporate, government, ultra-high networth clients with over five decades of vintage.

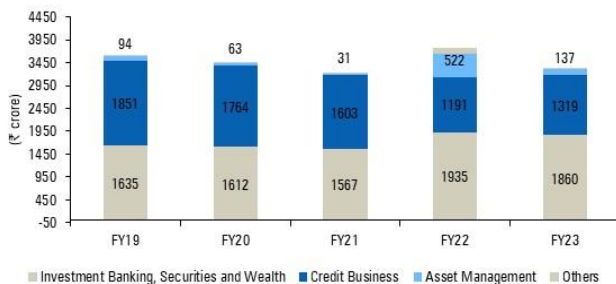
AWS - Asset management, wealth management and securities business provide an integrated investment platform to individual clients including wealth management business, broking, PMS and mutual fund business. With a presence in over 744 locations and ~2.15 lakh clients, the wealth AUM is at ₹ 81571 crore while PMS AUM was at ₹ 1094 crore.

Exhibit 1: JM Financial – Group structure



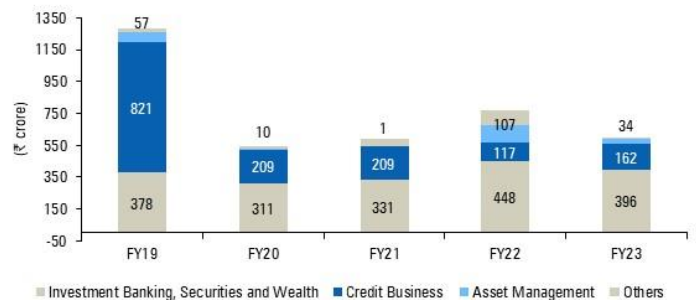
Source: Company, ICICI Direct Research

Exhibit 2: Segmental revenue break-up (₹ crore)



Source: Company, ICICI Direct Research

Exhibit 3: Segmental PAT break-up (₹ crore)



Source: Company, ICICI Direct Research

On a consolidated basis, JM reported revenue at ₹ 3343 crore and PAT at ₹ 597 crore. Individual business remains profitable in FY22-23. Outstanding advance book was at ₹ 9371 crore while ARC AUM was at ₹ 13558 crore.

Investment Rationale

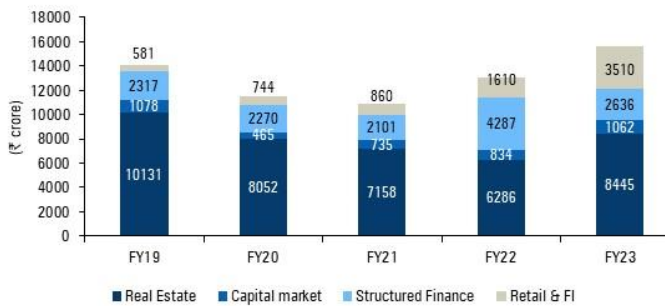
Lending book to pick up – wholesale segment to revive, retail traction to remain robust

JM has been engaged in wholesale lending with focus on developers diversified across geography. Further, the company has entered the retail category with individual loans in the affordable category and LAP. Average ticket size in retail category is at ₹ 12-15 lakh. In the last few years amid Covid, the wholesale lending business has been impacted both in terms of growth as well as asset quality. In Q3FY22, GNPA touched 4.4% and SMA2 assets reached 0.91%.

With a pick-up in retail sales coupled with a gradual increase in property prices, a recovery is seen in the wholesale book with 6% QoQ reported in Q4FY23. Going ahead, the strong sales cycle could impact growth momentum but an uptick in construction activity is expected to result in healthy uptick of 15-20% YoY growth in the wholesale book. Asset quality also witnessed a recovery with GNPA at 3.4% and restructured book at 0.33%. Exposure under date of commencement of commercial operations (DCCO) was at ~₹ 1300 crore of which payment on ₹ 800-900 crore book is regular while bidders are available for the remaining ₹ 400 crore asset. Resultantly, the management remains confident regarding adequacy of provision cover with no substantial credit cost expected ahead.

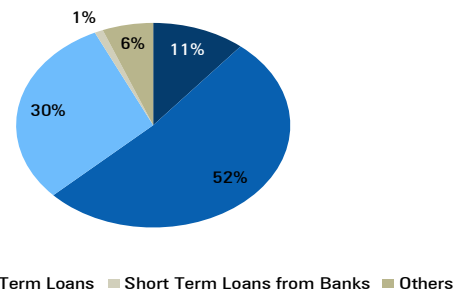
Focus on building retail segment (affordable home loans, LAP) with focus on technology driven service and delivery is expected to enable robust momentum ahead (93% QoQ, 55% YoY). Continued strong demand in retail housing despite hardening of rates, focus on branch addition (currently at 93) is expected to support business growth. Margins are expected to remain steady with 60-70% of floating rate book (wherein pass through is undertaken) and 30-40% of fixed rate book with lower tenure.

Exhibit 4: Loan mix (₹ crore)



Source: Company, ICICI Direct Research

Exhibit 5: Borrowing mix



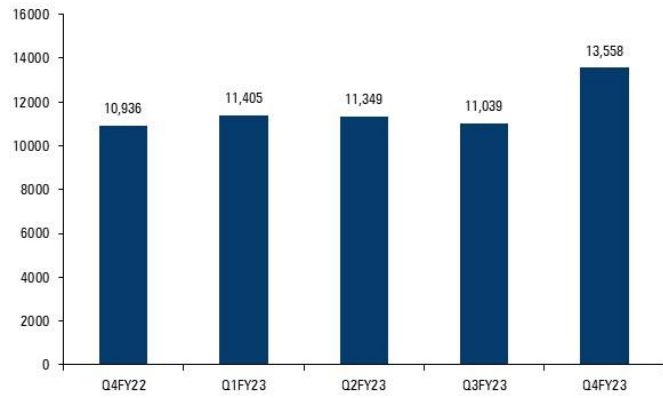
Source: Company, ICICI Direct Research

Continued focus on ARC business coupled with diversification bodes well

The ARC business engages in acquisition and resolution of stressed asset. JM holds 58.3% stake in the ARC business with IoB, Uco Bank, Union Bank of India, Valiant Mauritius Partners as other shareholders. JM ARC has a team of 45 professional members providing financial and legal due diligence in acquisitions. JM ARC has acquired aggregate dues of ₹ 73508 crore at a valuation of ₹ 21680 crore. Currently, AUM is at ₹ 13558 crore. The business remains volatile in terms of recovery and, thus, earnings trajectory. In Q4FY23, ARC recognised one-time provision of ₹ 240 crore owing to slower resolution of stress book. JM ARC has acquired retail stress pool of ₹ 10000 crore pertaining to vehicle, personal and home loans at valuation of ~35% i.e. ~₹ 3500 crore.

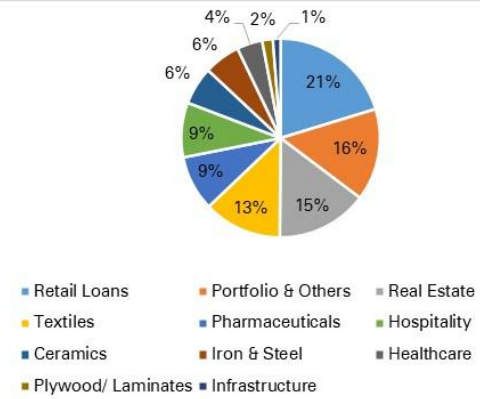
Going ahead, JM’s ARC strategy is to continue focus on acquisition and resolution of stressed assets with higher proportion of incremental business based on fee income (without need for capital deployment). With one-time provision, further provisioning is not seen. Expect a recovery of ~₹ 1200-1300 crore in FY24E. In addition to wholesale, JM ARC is also focused on diversification with acquisition of substantial proportion of retail asset with IRR of 16-18%.

Exhibit 6: ARC AUM (₹ crore)



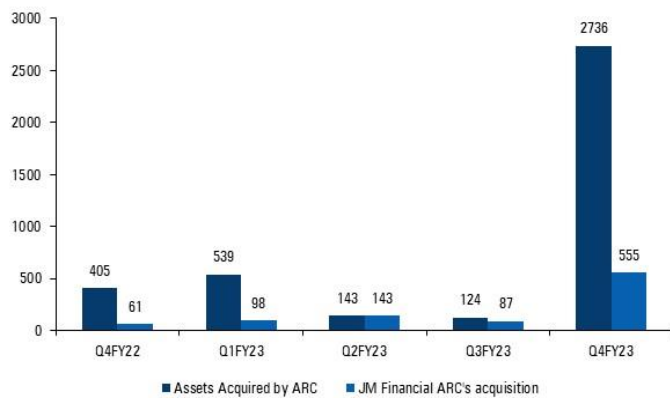
Source: Company, ICICI Direct Research

Exhibit 7: AUM break-up as of March 31, 2023



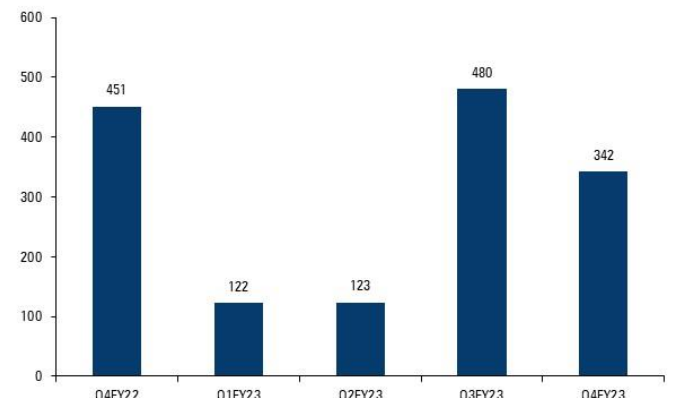
Source: Company, ICICI Direct Research

Exhibit 8: Asset acquisitions (₹ crore)



Source: Company, ICICI Direct Research

Exhibit 9: Recoveries (₹ crore)



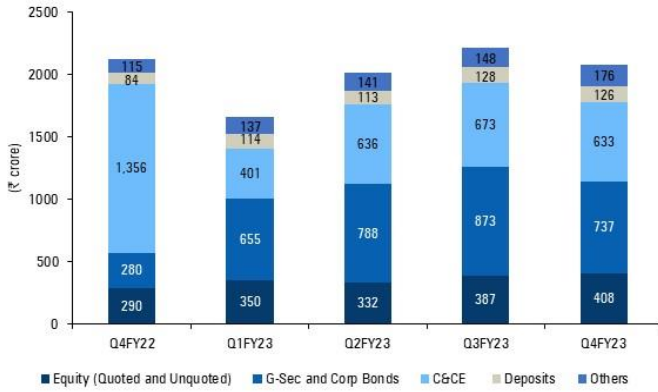
Source: Company, ICICI Direct Research

Integration of IB business, investment in AWS to enable expansion

The investment banking business has been a focus area for JM and engages in catering to institutional, corporate, government, ultra high networth clients. Slowdown in IPOs and corporate activity has resulted in de-growth in topline for FY23. However, the equity and debt pipeline remains strong and is, thus, expected to pick up in FY24E. Further, strategy to expand breadth of the client base to enable improved traction in revenue, thereby delivering RoE in mid-teens. Plans to integrate IB business with PMS and wealth business is seen lowering cyclicity in business.

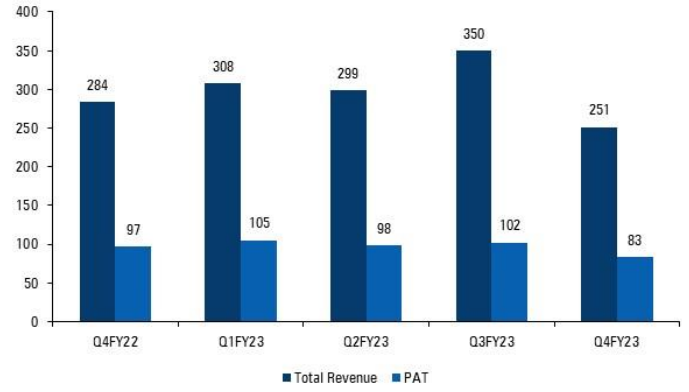
AWS (MF, wealth management) remains a focus area with continued investment through hiring, improvement in digital and technology capabilities. Thus, cost to income remains higher but the same is expected to normalise with topline traction kicking in. Thus, expect faster growth in topline of AWS while traction in earnings is expected to follow with a lag.

Exhibit 10: Investment portfolio - IB (₹ crore)



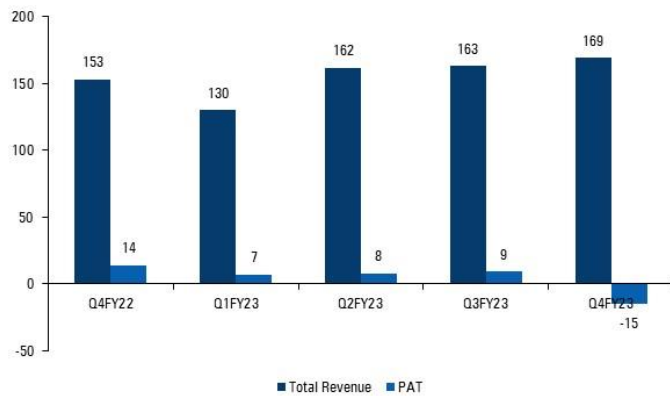
Source: Company, ICICI Direct Research

Exhibit 11: Revenue and PAT (IB) (₹ crore)



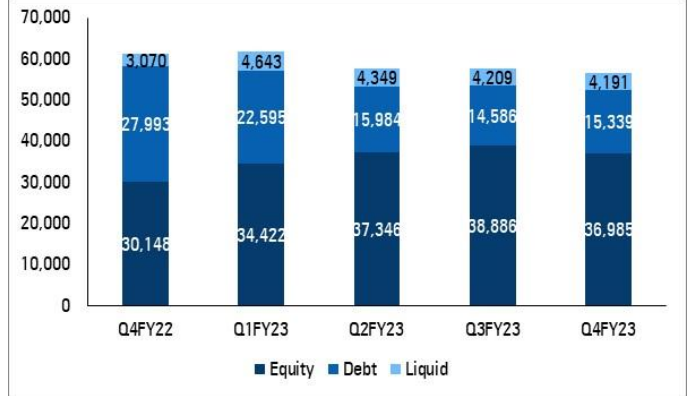
Source: Company, ICICI Direct Research

Exhibit 12: Revenue and PAT (AWS business) (₹ crore)



Source: Company, ICICI Direct Research

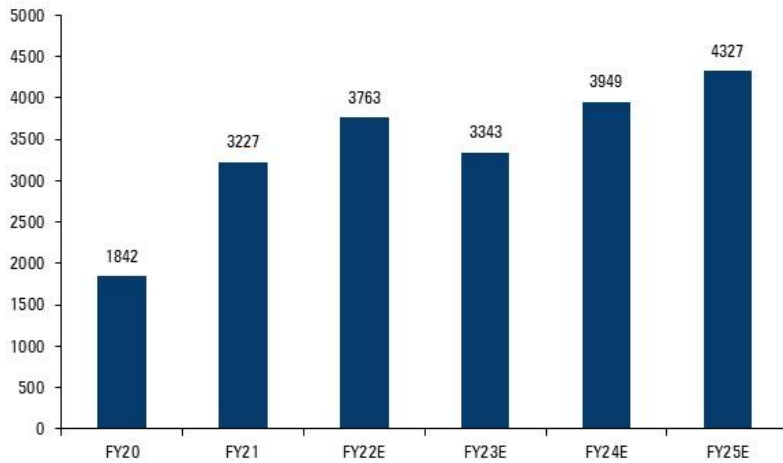
Exhibit 13: Private wealth AUM (₹ crore)



Source: Ministry of commerce, ICICI Direct Research

Financial story in charts

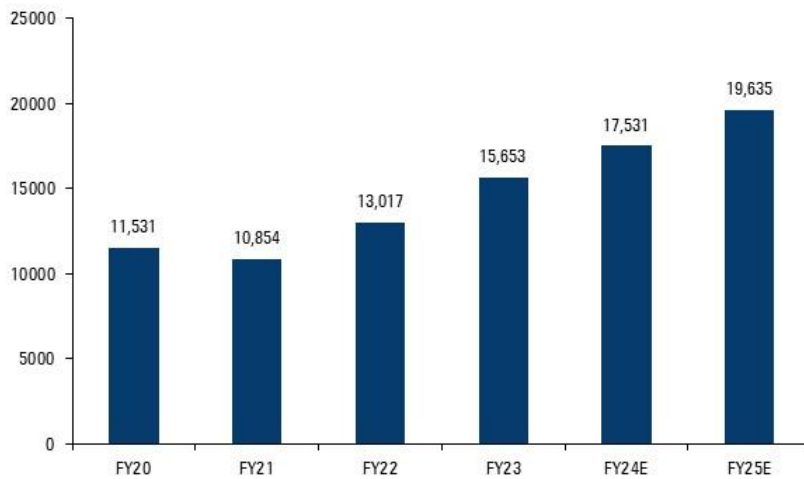
Exhibit 14: Revenues trend (₹ crore)



Expect revenue growth at 13.8% CAGR in FY24-25E

Source: Company, ICICI Direct Research

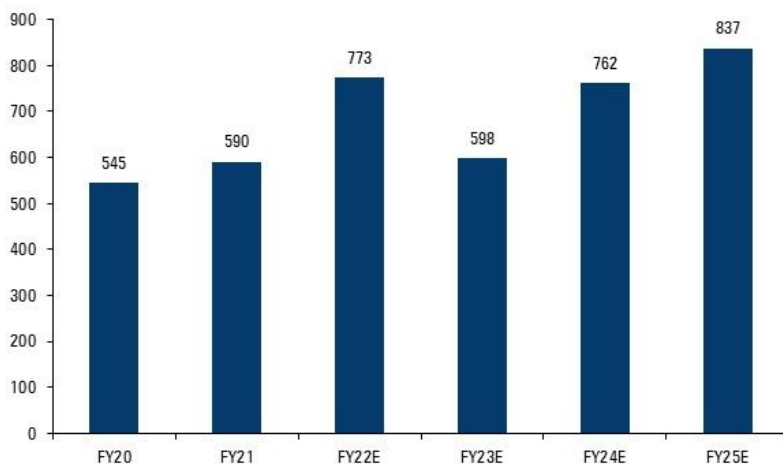
Exhibit 15: Loan book trend over the years...



Loan book growth to be driven by recovery in wholesale segment and continued robust traction in retail home loan business

Source: Company, ICICI Direct Research

Exhibit 16: PAT trend over the years...



PAT is expected to grow at ~18.3% CAGR in FY24-25E

Source: Company, ICICI Direct Research

Valuation and outlook

Despite challenges during Covid, JM delivered a gradual recovery in performance with improvement in both business growth as well as asset quality. Though some of the business segments continue to remain cyclical, the performance excluding one-offs (provision in ARC business and investment in AWS business) remains encouraging. Further, we believe the overall performance will improve given 1) pick up in lending business with AUM growth expected in 15-18% range; 2) improvement in recoveries in ARC business with minimum probability of substantial provisioning ahead; 3) recovery in investment banking revenue with focus continuing on wealth and asset management pie. Thus, we expect revenues to grow at ~14% CAGR in FY24-25E to ₹ 4327 crore while the earnings trajectory is seen remaining healthy at 18.3% CAGR to ₹ 837 crore during same period. Demerger of the business after it attains adequate scale remains catalyst for unlocking value but we have not factored this in our valuation.

Given the diversified business segment, we value JM using SOTP valuation and valuing business segments individually, we arrive at a price target of ₹ 95 (10.7x FY25E consolidated EPS) and assign a **BUY** rating to the stock. We expect a gradual pick-up in business momentum and earnings trajectory with the same to get reflected in valuation.

Exhibit 17: SOTP valuation

Business Segment	JM's stake (%)	₹/share
IB	100.0	43
Lending business	99.3	27
JM Financial ARC	58.3	8
Wealth Management	100.0	13
AMC	59.5	1
Additional Capital	1270.0	13
Value per share of JM		95

Source: Company, ICICI Direct Research

Exhibit 18: Peer comparison

Sector / Company	CMP		EPS (₹)				P/E (x)				P/BV (x)			RoE (%)				
	(₹)	(₹ Cr)	FY22	FY23	FY24E	FY25E	FY22	FY23	FY24E	FY25E	FY22	FY23	FY24E	FY25E	FY22	FY23	FY24E	FY25E
JM Financial Limited	72	6908	8.1	6.3	8.0	8.8	8.9	11.5	9.0	8.2	0.9	0.8	0.6	0.5	10.5	7.6	9.9	10.0
Motilal Oswal Financial	668	9905	89.1	63.0	74.8	84.0	7.5	10.6	8.9	8.0	1.8	1.6	2.1	1.4	25.8	15.6	16.6	17.3
Piramal Enterprises Limited	799	19074	80.7	417.3	61.0	65.6	9.9	1.9	13.1	12.2	0.5	0.6	0.6	0.6	5.5	30.0	5.9	5.4

Source: Company, Bloomberg, ICICI Direct Research

Key risks and concerns

Complicated holding structure

JM Financial group includes various businesses with partnerships across major segments. Such a complicated structure with various levers playing a role across different businesses weighs on valuations.

ARC business remains volatile

ARC business includes acquisition and resolution of stressed assets with AUM of ₹ 13558 crore as of March 2023. With deferrals and delays in resolution of stressed asset, performance of the segment remains volatile. Such volatility is further percolated in consolidated performance. Further, moderation in resolution and recovery could impact consolidated earnings.

Investment in AWS amid intensifying competition

Strategy to integrate investment banking with PMS and wealth business to minimise cyclicalities is being undertaken. Further, continuous investment is undertaken in AWS segment through additional hiring, digital marketing and building of physical and digital capabilities (invested ₹ 90 crore in AWS business). However, given increasing competitive intensity in the segment, revenue accretion trajectory needs to be watched.

Financial Summary

Exhibit 19: Profit & Loss statement (₹ crore)				
	FY22	FY23	FY24E	FY25E
Intrest Income & other rev	3,763	3,343	3,949	4,327
Interest Expense	1,082	1,179	1,249	1,360
NII & other rev	2,681	2,164	2,700	2,967
Operating Expences	986	977	1,115	1,221
Employee Exp	548	622	725	794
Other Exp	438	355	390	427
Operating Profit	1,695	1,187	1,585	1,746
Provisioning	348	95	175	196
PBT	1,347	1,092	1,410	1,549
Tax	356	306	395	434
PAT (ex-minority int)	991	786	1,015	1,115
Minority Interest	219	188	253	278
Adjusted PAT	772	598	762	837

Source: Company, ICICI Direct Research

Exhibit 20: Key ratios				
	FY22	FY23	FY24E	FY25E
Valuation				
No of equity Shares	95.1	95.1	95.1	95.1
EPS (₹)	8.1	6.3	8.0	8.8
BV (₹)	109.9	115.4	123.8	133.2
ABV (₹)	108.7	114.0	122.3	131.5
P/E (x)	8.9	11.5	9.0	8.2
P/BV (x)	0.7	0.6	0.6	0.5
P/ABV (x)	0.7	0.6	0.6	0.5
Margin				
Yield (%)	16.5	13.0	13.9	13.8
Cost of Fund (%)	8.0	7.4	7.2	7.0
Spread (%)	8.5	5.5	6.7	6.7
Quality & Efficiency				
GNPA (%)	1.1	1.0	1.0	1.1
NNPA (%)	0.9	0.8	0.8	0.9
ROA (%)	4.0	2.9	3.4	3.4
ROE (%)	9.9	7.3	8.9	9.1

Source: Company, ICICI Direct Research

Exhibit 21: Balance Sheet Statement (₹ crore)				
	FY22	FY23	FY24E	FY25E
Shareholders' Equity	7,634	8,084	8,656	9,303
Minority interest	2820	2888	3119	3369
Total Equity	10,454	10,972	11,775	12,672
Share of security receipt ho	120	245	245	245
Borrowings	13,458	15,875	17,286	19,361
Other liabilities	1731	2226	1781	1425
Total liabilities	25,763	29,318	31,087	33,702
Loan Book	13,017	15,653	17,531	19,635
Distressed Asset book	3,825	4,488	4,712	4,948
Cash	3,637	2,207	2,185	2,163
Other Investment	1629	2540	3048	3658
Arbitrage & Trading	636	875	963	1059
Fixed Asset	364	459	505	555
Other Asset	2,654	3,096	2,143	1,684
Total Asset	25,762	29,318	31,087	33,702

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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ANALYST CERTIFICATION

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