

Jio Financial Services Ltd.



Jio Financial Services Ltd
Risk calibrated approach adopted; execution to be the key trigger post approvals

CMP INR 249	Target INR 290	Potential Upside 16.5%	Market Cap (INR Mn) 15,84,827	Recommendation BUY	Sector NBFC
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Result Highlights Q3FY24:

- Net Interest Income (NII) for Q3FY24 stood at INR 2,691 Mn (a growth of 44.6% QoQ) while for 9MFY24, NII stood at INR 6,467 Mn.
- Pre-Provision Operating Profit (PPOP) was INR 3,156 Mn against INR 5,366 Mn in Q2FY24, a decline of 41.2% QoQ. The non-interest income decreased 65.6% QoQ owing to no-dividend income in Q3FY24. For 9MFY24, PPOP stood at INR 12,126 Mn.
- The cost-to-income ratio stood at 23.8% as against 11.7% in Q2FY24 on account of lower operating income during the quarter. The ratio for 9MFY24 was 15.0%.
- The provisions for the quarter stood at INR 2.4 Mn vs. NIL in Q2FY24.
- Profit after Tax (PAT) for Q3FY24 was INR 2,937 Mn, reporting a de-growth of 56.0% QoQ. Net profit for 9MFY24 stood at INR 12,939 Mn.

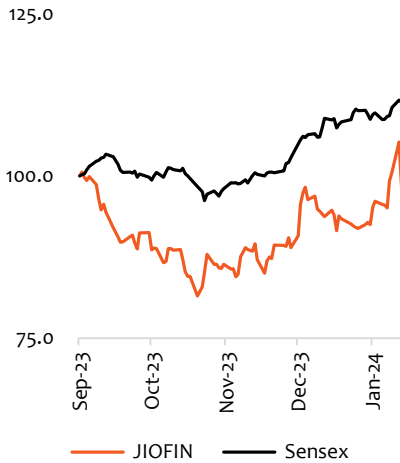
MARKET DATA

Shares outs (Mn)	6,353
Equity Cap (INR Mn)	1,159,248
Mkt Cap (INR Mn)	15,84,827
52 Wk H/L (INR)	270/203
Volume Avg (3m K)	21,153
Face Value (INR)	10
Bloomberg Code	JIOFIN : IN

KEY FINANCIALS

Particulars (INR Mn)	FY21	FY22	FY23	9MFY24
Revenues from operations	2,952	1,486	416	9,957
Pre-Provisioning Operating Profit	2,050	1,771	393	12,126
Net Profit	1,231	1,680	313	12,939
EPS	238.1	325.1	60.5	2.0
Book Value per share	3,981.3	4,310.9	179.6	182.5

Source: Company, KRChoksey Research

SHARE PRICE PERFORMANCE


Sharp decline in profitability owing to lower non-interest income: The NII for Q3FY24 stood at INR 2,691 Mn, a growth of 44.6% QoQ with zero finance costs. The operating income for the quarter declined by 31.9% owing to the absence of dividend income during the quarter. As the Company holds shares of Reliance Industries, it incurred an amount of INR 2,169 Mn in Q2FY24 which was NIL this quarter. On the operating expense side, the Company reported an increase of 38.2% QoQ, led by higher other expenses. The employee cost saw an increase of 8.7% QoQ on the back of an addition to the headcount with scale up in the business. The other expenses were higher owing to increased business-related expenses and one-time costs related to CSR spending. Thus, this resulted in a higher cost-to-income ratio for the quarter. Excluding the dividend income, the cost-to-income ratio stood at 23.8% vs. 18.3% in Q2FY24. Net profit declined by 56.0% QoQ on the back of lower operating income and a fall in the share of profits of associates and joint ventures, reflecting no dividend income during the quarter. The tax rate was also higher, at 27.8% vs. 16.1% in Q2FY24.

Focused on upcoming launches and scaling up of businesses: JIOFIN shifted its focus from an unsecured loan portfolio to secured loans. This decision came after the RBI's changed regulation with respect to the increase in the risk weights on unsecured loans. However, the Company will continue to scale up and offer diverse loans in the unsecured segment as well but will have a more vigilant approach towards this segment. It has successfully completed its sandbox for consumer durables and personal loans, as discussed in the Q2FY24 conference call. The Company aims to foray into supply chain financing by launching it in Q4FY24E to address the working capital requirements of the suppliers. We believe JIOFIN will continue to benefit from the wide customer base of Reliance Industries through its telecom and retail segments. Thus, JIOFIN, as a part of secured loan financing, has planned to launch DaaS (Device-as-a-Service) which includes financing and operating leases of airfibre, phones, and laptops. This model is expected to create a new market for the Company and also portray lower risk due to asset ownership. The DaaS model will operate through its separate, wholly owned subsidiary, Jio Information Aggregator Services Ltd. JIOFIN also mentioned its upcoming pipeline, which includes LAS and home loans. Through these products, the Company will be building capabilities for unsecured and durable consumer durable products. Coming to the other businesses, JIOFIN is in a continuous process of growing other businesses in addition to the lending business. In the insurance broking business, the Company has partnered with three new insurance companies across the general and life segments in Q3FY24, bringing the total to 27 partners as of December 31, 2023. It has also launched embedded, extended warranty, and sachet insurance during the quarter. On the payment bank side, it has made a soft launch of a debit card and has re-platformed to launch a digital savings bank account.

MARKET INFO

SENSEX	73,129
NIFTY	22,032

SHARE HOLDING PATTERN (%)

Particulars	Sep-23	10-Aug-23
Promoters	46.8	45.8
FIIIs	21.6	21.6
DIIIs	13.8	13.7
Others	17.8	38.9
Total	100.0	100.0



Revenue CAGR between FY23 and FY26E



PAT CAGR between FY23 and FY26E

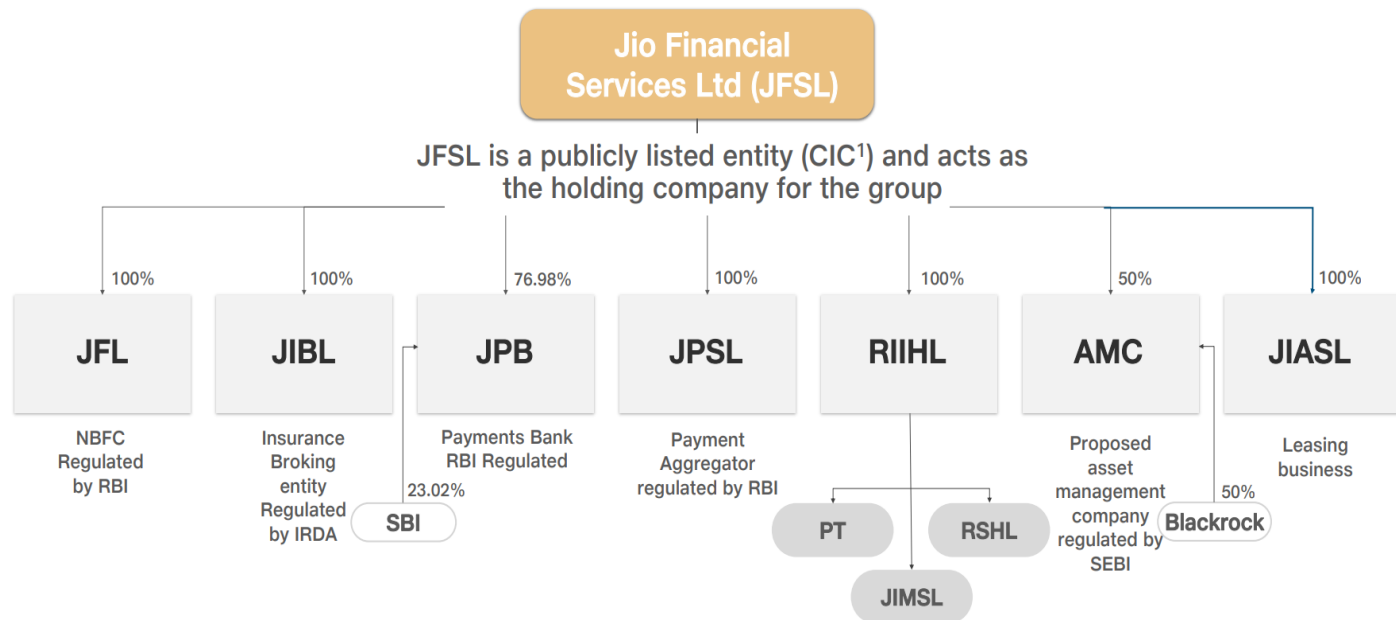
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Concall Highlights:

- The prospects of the Indian economy continued to remain bright, with all macro indicators pointing to robust growth, which in turn presents opportunities for JIOFIN.
- Digital India will continue to play a vital role as its growth unfolds in the coming years.
- While the opportunity spectrum continues to be attractive for JIOFIN, the Company also remains observant of recent market developments, especially in unsecured consumer loan segments.
- In the quarter ended December 2023, the Company has successfully completed the sandbox for its consumer durable loans and personal loans. The entire loan process is digital, with robust systems in place for underwriting and customer service to ensure adequate garnering and a seamless experience for its customers.
- Given the current environmental factors, the Company is tightening the credit frameworks to ensure that the foundation blocks of risk and underwriting for JIOFIN remain strong.
- The Company's focus is predominantly on secured avenues of lending and leasing. As part of its accelerated journey of secured lending, the Company has devised an operating lease model that aims to provide devices as a service to consumers in order to expand into new markets. In this model, JIOFIN will provide equipment such as air-fibre, phones, laptops, and various other equipment on lease to end consumers.
- A separate, wholly owned subsidiary will launch the operating lease segment.
- JIOFIN will also be working towards supply chain financing solutions. The Company aims to create a short-term self-liquidation exposure closely linked to the underlined trades and comps. JIOFIN plans to launch this in the coming quarters. The client's approach here is to first leverage the rich ecosystem of JIOFIN as an opportunity.
- The Company continues to expand its partnerships in the insurance broking business. The Company continues to offer a comprehensive range of products and solutions across life and health insurance to its customers.
- JIOFIN has launched virtual debit cards during the quarter.
- The payment solution company has successfully completed a pilot of Jio Voice Box for the merchants, and the feedback is positive. Furthermore, the company has launched a merchant app in conjunction with the Jio Voice Box. This is the first step of JIOFIN towards digitalizing merchant collections, which, in the long term, will help the Company to capture valuable data to harness cross-sell opportunities. It has further enabled Jio Bharat phones with UPI 123.
- The Board of Directors has been reconstituted, and necessary regulatory approvals are in place for the holding company. The company has embedded the principles of ESG as a foundational step in its business process.
- It also continues to build on its technology and management capabilities across various businesses.
- The company continues to build on its ambition to democratize financial services and provide access to simple, affordable, innovative, and intuitive products and services.
- The Company's key capability is well on track, with key leadership positions filled, and as of December 31, 2023, JIOFIN has a headcount of 516 people.

Valuation and view: JIOFIN Q3FY24 saw a disappointing performance on the back of lower profitability due to lower income and higher business-related expenses. JIOFIN has been working on building a diverse product portfolio across financial services. On the technology front, the Company has the advantage of being a new entrant. We see opportunities for the Company coming from its AI and analytics-driven approach. The Company has filed for conversion to CIC with the regulator, and the AMC licensing process is underway as planned by the Company. JIOFIN sees a large opportunity in the secured lending space and, thus, has decided to accelerate its focus on secured lending. The Company will undertake a calibrated approach towards unsecured products, which will be in line with the industry. JIOFIN is well-positioned to gain higher traction across all its business segments, given its strong parentage and the wide customer base of its parent company. Capital adequacy is expected to remain strong for the NBFC, which will support the growth aspirations of the company and act as a provisional buffer for any contingencies. **We believe we will continue to see volatility in earnings for at least the next six months, until JIOFIN sees all the approvals in place and post the ramp-up of businesses at a faster pace. However, in our view, the long-term strengths of the Company of holding comfortable levels of capital, experienced leadership, brand equity, and proximity to customers through its parent company—remain untouched. We value the NBFC based on its September 2023 book value of INR 182.0 per share. We continue to assign a P/BV multiple of 2.0x with a Holdco discount of 20.0% to the value to arrive at a Target Price of INR 290 per share, an upside of 16.5% over CMP. Accordingly, we maintain our BUY rating on the shares of Jio Financial Services Ltd.**

Business Structure:



¹ Application for CIC has been filed with RBI
 Note: JFL – Jio Finance Ltd., JIBL – Jio Insurance Broking Ltd., JPB – Jio Payments Bank, JPSL – Jio Payment Solutions Ltd., RIIHL – Reliance Industrial Investments and Holdings Ltd., JIASL – Jio Information Aggregator Services Ltd., PT – Petroleum Trust, RSHL – Reliance Strategic Holdings Ltd., JIMSL – Jio Infrastructure Management Services Ltd.

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KEY FINANCIALS

Exhibit 1: Profit & Loss Statement

INR Mn	FY21	FY22	FY23	9MFY24
Interest Income	2,952	1,481	383	6,570
Finance Cost	1,106	0	0	103
Net Interest Income (NII)	1,846	1,481	383	6,467
Dividend Income	0	0	3	2,169
Fees and commission income			0	1,212
Net gain on fair value changes	0	5	30	7
Other income	156	357	32	4,408
Total Operating Income	2,002	1,843	448	14,262
Total Operating Expenses	822	71	56	2,137
Pre-Provisioning Operating Profit (PPOP)	1,181	1,771	393	12,126
Impairment of financial instruments	0	3	-101	3
Profit Before tax & share of profit of Associates and Joint venture	1,181	1,769	493	12,123
Share of profit of Associates and Joint Venture	0	0	0	3,509
Tax Expenses	-50	88	181	2,693
Profit After Tax	1,231	1,680	313	12,939
Reported Basic Earnings Per Share (EPS)	238.1	325.1	60.5	2.0

Source: Company, KRChoksey Research

Jio Financial Services Ltd

Exhibit 2: Balance Sheet

INR Mn	FY21	FY22	FY23
Cash and Cash equivalents	4	5	632
Bank Balances other than cash and cash equivalents	0	0	59,807
Loans	19,511	20,010	411
Investments	575	1,809	1,081,409
Other financial assets	0	0	3,690
Total financial assets	20,090	21,824	1,145,950
Current tax assets	348	404	839
Deferred tax assets	39	53	0
Property, plant and equipment		0	396
Intangible assets		0	179
Other non-financial assets	125	0	1,932
Total non-financial assets	513	457	3,346
Total Assets	20,602	22,281	1,149,296
Liabilities			
Payables	0	0	164
Borrowings	0	0	7,428
Other financial liabilities	1	1	176
Total financial liabilities	1	1	7,767
Deferred tax liability	0	0	66
Provisions	0	0	8
Other non-financial liabilities	2	0	251
Total non-financial liabilities	2	0	325
Total Liabilities	2	1	8,092
Equity share capital	20	20	20
Share capital pending allotment		0	63,533
Instruments entirely equity in nature	3	3	3
Other equity	20,577	22,257	1,077,647
Total Equity	20,600	22,280	1,141,203
Total Liabilities and equity	20,602	22,281	1,149,296

Source: Company, KRChoksey Research

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Jio Financial Services Ltd			
Date	CMP (INR)	TP (INR)	Recommendation
16-Jan-24	249	290	BUY
03-Jan-24	235	290	BUY

Rating Legend (Expected over a 12-month period)	
Our Rating	Upside
Buy	More than 15%
Accumulate	5% – 15%
Hold	0 – 5%
Reduce	-5% – 0
Sell	Less than – 5%

ANALYST CERTIFICATION:

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