

**JM Financial Capital Limited**

November 30, 2017

**Ratings**

Instruments	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Commercial Paper (IPO Financing)	1,500.00 (Rs. One thousand five hundred crore only)	<b>CARE A1+ [A One Plus]</b>	Assigned

*Details of instruments/facilities in Annexure-1*
**Detailed Rationale & Key Rating Drivers**

The rating factors in strong presence of JM Financial Group in the capital market related business and diversified product profile, experienced management team, financial flexibility with low gearing levels, strong profitability at the group level and comfortable asset quality. The rating also takes note of the group's funding profile with high proportion of short term debt instruments, high concentration risk in the group's lending portfolio on account of real estate exposure and high borrower concentration. Ability to scale up the business while maintaining profitability, asset quality and diversification in its lending portfolio are the key rating sensitivities.

**Detailed description of the key rating drivers****Key Rating Strengths**

**Strong presence in capital market related business and diversified product profile:** JM Financial Group is a three decade old institution. It is one of the leading entities in investment banking, equity broking and capital market lending business in India. The group is also present in wealth management, wholesale lending, asset management, asset reconstruction and alternative asset management businesses. The Group entered into SME financing and has applied for housing finance license.

**Experienced management team:** The management of the group is led by Mr. Vishal Kampani who has nearly two decades of experience. Mr. Nimesh Kampani, Founder of the group and is now the Group's Non-Executive Chairman, having over four decades of experience in the field of finance and capital markets. Most of the firm management personnel are professional and have been with the group for more than 15 years including Mr. Manish Sheth, Group CFO and Ms. Dipti Neelakantan, Group COO.

**Financial flexibility with low gearing levels:** The consolidated tangible net worth (including minority interest, excluding intangible and goodwill on consolidation) was Rs.4,327 crore as on March 31, 2017 with a gearing of 2.5 times. As on Sep 30, 2017, the consolidated tangible net worth (including minority interest excluding intangible and goodwill on consolidation) was Rs.4,701 crore with a gearing of 2.9 times, which is relatively lower than its peer set. Going forward, the group aims to maintain a gearing ratio below 4 times. Going forward, the group aims to maintain a gearing ratio below 4 times.

**Strong profitability at the group level:** In FY17, at a consolidated level, PAT (before minority interest and including profits from associates) of the group was Rs.649 crore on total income of Rs.2,359 crore as compared to PAT of Rs. 526 crore on total income of 1,685 crore for FY16. The group's profitability remains healthy with Return on Total Assets (ROTA) of 4.7% in FY17 (FY16: 5.4%).

In FY17, on a consolidated basis the group earned 69% of its revenue from fund based activities (FY16 – 64%) and 27% from investment banking and security business (FY16 – 29%). The group reported a PAT of Rs.372 crore on a total income of Rs.1,464 crore in H1FY18 on a consolidated basis.

On a standalone basis, JMFCL reported PAT of Rs.0.35 crore on total income of Rs.6.97 crore in FY17 as compared to PAT of Rs.0.01 crore on total income of Rs.0.03 crore in FY16. The company reported a PAT of Rs.5.79 crore on a total income of Rs.26.98 crore in H1FY18 on a standalone basis.

**Comfortable asset quality:** The lending business of the group is housed primarily under two entities viz. JM Financial Products Limited and JM Financial Credit Solutions Limited. Both the entities exhibit healthy asset quality, with JM Financial Products Limited having a GNPA and NNPA of 0.08% and 0.00% respectively in FY17 (0.65% and 0.37% in FY16) and JM Financial Credit Solutions Limited having Nil NPA for FY17 and FY16. The GNPA and NNPA for JMFPL in H1FY18 was 0.06% and 0.00% respectively.

**Key Rating Weaknesses**

**High concentration risk on account of wholesale funding to real estate sector:** Real estate lending accounts for majority of the loan portfolio of the group. These are loans given to builders to finance the construction of real estate projects.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

There is high concentration risk on account of large ticket size loans. As on March 31, 2017, Real Estate Lending accounted for 71% of the total loan book of the NBFC arms and 187% of the net worth of JM Financial (Consolidated). The Company envisages maintaining the share of real estate lending at current levels. The group has adequate origination, underwriting and credit monitoring systems to maintain healthy asset quality. The group's lending portfolio additionally includes margin funding, promoter funding and loan against shares. As on September 30, 2017, Real Estate Lending accounted for 62% of the total loan book of and 163% of the net worth of JM Financial Ltd.

**High reliance on short term debt instruments:** In FY17, on a consolidated basis, short term borrowings comprised 62% of total borrowings as on March 31, 2017; however, the share has declined significantly from 94% as on March 31, 2015. Commercial Paper (CP) accounted for 41% of the group's outstanding borrowings as on September 30, 2017. The company maintains undrawn bank lines and investments in liquid assets (Liquid mutual funds, cash balance and un-lined balance in deposit accounts) which are available for group companies. The liquid assets as on September 30, 2017 were at Rs.644 crore. The group's low gearing provides further comfort.

**High borrower concentration:** The top 10 group exposures accounted for 86% of the JMFL Consolidated Net-worth and 33% of total loan book of the NBFC arms as on March 31, 2017 indicating high concentration.

#### Analytical approach:

CARE has analyzed the consolidated financial statements of JM Financial group owing to financial and operational linkages between the parent and its subsidiaries and common management.

#### Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's policy on default recognition](#)

[Financial Ratios- Financial Sector](#)

[CARE's Criteria for NBFC](#)

[Rating of Short term instruments](#)

[Factoring Linkages in Ratings](#)

#### About the Group

The JM Financial Group is a financial services provider with interests in investment banking, retail and institutional equity broking, wealth management, investment advisory services, portfolio management, asset management, commodity broking, securities-based lending, corporate lending, commercial real estate lending, private equity, and asset reconstruction. The group's clients include corporates, domestic and foreign financial institutions, high-net-worth individuals (HNIs), and retail investors. While each of these businesses is independent in itself, the companies in the group have integrated operations.

JM Financial Limited (JMFL) is the holding Company for JM Financial Group and is registered as a core investment company with RBI.

#### JM Financial Capital Limited

JM Financial Capital Limited (JMFCL) is a wholly owned subsidiary of JM Financial Services Limited. JMFCL is registered with the Reserve Bank of India as an NBFC. JMFCL provides capital market funding and offers products like loan against securities which includes margin funding, ESOP financing, loan against commodities, bonds, and mutual funds and loan against properties. It also provides financing to the clients for applications in select primary issuances in the equity and debt markets (IPO funding).

#### JM Financial Limited (Consolidated)

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total Income	1,685	2,359
PAT	526	649
Overall Gearing (times)*	1.93	2.50
Total Assets*	10,948	16,444
Net NPA (%)	0.2	0.0
ROTA (%)	5.4	4.7

A: Audited

#### JM Financial Capital Limited (Standalone)

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total Income	0.03	6.97
PAT	0.01	0.35
Overall Gearing (times)*	-	0.10
Total Assets*	2.03	220.07

Net NPA (%)	-	-
ROTA (%)	0.67	0.31

A: Audited; \*Total Assets and net-worth are net off deferred tax asset and intangible assets.

**Status of non-cooperation with previous CRA: NA**

**Any other information: NA**

**Rating History for last three years:** Please refer Annexure-2

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

**Analyst Contact:**

Name: Abhishek Gupta

Tel: 022 6754 3558

Email: [Abhishek.gupta@careratings.com](mailto:Abhishek.gupta@careratings.com)

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**About CARE Ratings:**

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

**Annexure-1: Details of Instruments/Facilities**

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Commercial Paper (IPO Financing)	-	-	7days – 1 Month	1,500	CARE A1+

**Annexure-2: Rating History of last three years**

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Commercial Paper	ST	1000.00	CARE A1+	1)CARE A1+ (25-Oct-17)	-	-	-
2.	Commercial Paper-Commercial Paper (IPO Financing)	ST	1500.00	CARE A1+	1)Temp Withdrawn (24-Nov-17) 2)CARE A1+ (26-Oct-17) 3)Temp Withdrawn (25-Oct-17) 4)CARE A1+ (04-Oct-17)	-	-	-

**CONTACT****Head Office Mumbai**

**Ms. Meenal Sikchi**  
Cell: + 91 98190 09839  
E-mail: [meenal.sikchi@careratings.com](mailto:meenal.sikchi@careratings.com)

**Ms. Rashmi Narvankar**  
Cell: + 91 99675 70636  
E-mail: [rashmi.narvankar@careratings.com](mailto:rashmi.narvankar@careratings.com)

**Mr. Ankur Sachdeva**  
Cell: + 91 98196 98985  
E-mail: [ankur.sachdeva@careratings.com](mailto:ankur.sachdeva@careratings.com)

**Mr. Saikat Roy**  
Cell: + 91 98209 98779  
E-mail: [saikat.roy@careratings.com](mailto:saikat.roy@careratings.com)

**CARE Ratings Limited**

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022  
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: [care@careratings.com](mailto:care@careratings.com)

**AHMEDABAD**

**Mr. Deepak Prajapati**  
32, Titanium, Prahaladnagar Corporate Road,  
Satellite, Ahmedabad - 380 015  
Cell: +91-9099028864  
Tel: +91-79-4026 5656  
E-mail: [deepak.prajapati@careratings.com](mailto:deepak.prajapati@careratings.com)

**BENGALURU**

**Mr. V Pradeep Kumar**  
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,  
No. 30, M.G. Road, Bangalore - 560 001.  
Cell: +91 98407 54521  
Tel: +91-80-4115 0445, 4165 4529  
Email: [pradeep.kumar@careratings.com](mailto:pradeep.kumar@careratings.com)

**CHANDIGARH**

**Mr. Anand Jha**  
SCF No. 54-55,  
First Floor, Phase 11,  
Sector 65, Mohali - 160062  
Chandigarh  
Cell: +91 85111-53511/99251-42264  
Tel: +91- 0172-490-4000/01  
Email: [anand.jha@careratings.com](mailto:anand.jha@careratings.com)

**CHENNAI**

**Mr. V Pradeep Kumar**  
Unit No. O-509/C, Spencer Plaza, 5th Floor,  
No. 769, Anna Salai, Chennai - 600 002.  
Cell: +91 98407 54521  
Tel: +91-44-2849 7812 / 0811  
Email: [pradeep.kumar@careratings.com](mailto:pradeep.kumar@careratings.com)

**COIMBATORE**

**Mr. V Pradeep Kumar**  
T-3, 3rd Floor, Manchester Square  
Puliakulam Road, Coimbatore - 641 037.  
Tel: +91-422-4332399 / 4502399  
Email: [pradeep.kumar@careratings.com](mailto:pradeep.kumar@careratings.com)

**HYDERABAD**

**Mr. Ramesh Bob**  
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,  
Hyderabad - 500 029.  
Cell : + 91 90520 00521  
Tel: +91-40-4010 2030  
E-mail: [ramesh.bob@careratings.com](mailto:ramesh.bob@careratings.com)

**JAIPUR****Mr. Nikhil Soni**

304, Pashupati Akshat Heights, Plot No. D-91,  
Madho Singh Road, Near Collectorate Circle,  
Bani Park, Jaipur - 302 016.  
Cell: +91 – 95490 33222  
Tel: +91-141-402 0213 / 14  
E-mail: [nikhil.soni@careratings.com](mailto:nikhil.soni@careratings.com)

**KOLKATA**

**Ms. Priti Agarwal**  
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)  
10A, Shakespeare Sarani, Kolkata - 700 071.  
Cell: +91-98319 67110  
Tel: +91-33- 4018 1600  
E-mail: [priti.agarwal@careratings.com](mailto:priti.agarwal@careratings.com)

**NEW DELHI**

**Ms. Swati Agrawal**  
13th Floor, E-1 Block, Videocon Tower,  
Jhandewalan Extension, New Delhi - 110 055.  
Cell: +91-98117 45677  
Tel: +91-11-4533 3200  
E-mail: [swati.agrawal@careratings.com](mailto:swati.agrawal@careratings.com)

**PUNE**

**Mr. Pratim Banerjee**  
9th Floor, Pride Kumar Senate,  
Plot No. 970, Bhamburda, Senapati Bapat Road,  
Shivaji Nagar, Pune - 411 015.  
Cell: +91-98361 07331  
Tel: +91-20- 4000 9000  
E-mail: [pratim.banerjee@careratings.com](mailto:pratim.banerjee@careratings.com)

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