

JM Financial Limited

October 08, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Commercial Paper	2,000.00 (Rs. Two Thousand crore only)	CARE A1+ [A One Plus]	Reaffirmed

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

The rating assigned to the commercial paper issue of JM Financial Limited (JMFL) factors in strong presence and expertise of the JM Financial Group in capital market related business and diversified product profile with entry in the retail lending space, experienced management team, financial flexibility of the group and low gearing levels with capital infusion in FY18 (refers to the period from April 01, 2017 to March 31, 2018), 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 given its exposure to capital markets lending, high concentration risk in the group's lending portfolio on account of real estate exposure and high borrower concentration. The group's ability to scale up the businesses at the same time maintaining profitability, asset quality and further 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 and 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 has also entered into SME financing along with Education Institutional Lending (EIL) and housing finance business through one of its step down subsidiary JM Financial Products Limited (JMFPL – rated CARE AA; Stable).

Experienced management team: The management of the group is led by Mr. Vishal Kampani who has nearly two decades of experience. Mr. Nimesh Kampani, the founder of the JM Financial group, is currently 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 of the group and low gearing levels with capital infusion in FY18: The holding company of the group i.e. JMFL, raised equity capital of Rs.650 crore through qualified institutional placements (QIP) along with amalgamation of its investment banking business during FY18 resulting into increase in its consolidated tangible net-worth (including minority interest, excluding intangibles and goodwill on consolidation) to Rs.5,709 crore as on March 31, 2018 vis-à-vis Rs.4,327 crore as on March 31, 2018. Further, the consolidated tangible net-worth stood at Rs.5,852 crore and correspondingly the gearing levels stood at 2.83 times for the same period (2.57 times as on March 31, 2018), which is relatively lower than its peer set. Going forward, the group aims to maintain a gearing ratio below 4 times on a steady state basis for its regular businesses.

Strong profitability at the group level: In FY18, at a consolidated level, the profit after tax (PAT) [before minority interest and including profits from associates] of the group was Rs.871 crore on total income of Rs.3,235 crore as compared to PAT of Rs.649 crore on total income of Rs.2,359 crore for FY17. The group profitability remains healthy with Return on Total Assets (ROTA) of 4.6% in FY18 (FY17: 4.7%). For Q1FY19 (refers to the period of April 01, 2018 to June 30, 2018), on a consolidated basis, the group reported a PAT of Rs.199 crore on a total income of Rs.855 crore.

In FY18, on a consolidated basis the group earned 70% of its revenue from fund based activities (FY17 – 69%) and 26% from investment banking and security business (FY17 – 27%). Further in Q1FY19, with the adoption of Ind AS, the group has reclassified its business segments into: a. Investment banking, wealth management and securities business [IWS-53% of the total revenue]; b. mortgage lending which comprises of wholesale and retail mortgage lending [34% of the total revenue]; c. distressed credit comprising asset reconstruction business [12% of the total revenue] and d. asset management business comprising mutual fund business [3% of the total revenue]. This reclassification is based on the management's evaluation of financial information for allocating resources and assessing performance going ahead.

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

On a standalone basis, JMFL reported PAT of Rs.136 crore on total income of Rs.244 crore in FY18 as compared to PAT of Rs.107 crore on total income of Rs.163 crore in FY17.

Comfortable asset quality: The lending business of the group is housed primarily under three entities viz. JM Financial Products Limited, JM Financial Credit Solutions Limited and JM Financial Capital Limited. The entities exhibit healthy asset quality, with JM Financial Products Limited having a Gross NPA and Net NPA of 0.26% and 0.23% respectively in FY18 (0.08% and 0.00% in FY17); JM Financial Credit Solutions Limited having Gross NPA and Net NPA of 1.02% and 0.93% respectively in FY18 (Nil in FY17) and JM Financial Capital limited having Nil NPAs for FY17 and FY18. The consolidated Gross NPA and Net NPA for JMFL in Q1FY19 stood at 0.6% and 0.5% 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 resulting into high concentration risk on account of large ticket size loans. As on June 30, 2018, the real estate exposure accounted for 67% of the total loan book of the NBFC arms and 189% of the consolidated tangible net-worth of JMFL (March 31, 2018 – 63% and 162%). However, the group has adequate origination, underwriting and credit monitoring systems to maintain healthy asset quality which provides comfort. The group's lending business additionally includes margin funding, promoter funding, loan against shares and recent building up of SME, Home loan and EIL book leading to further product diversification.

High reliance on short term debt instruments: On a consolidated basis, short term borrowings comprised 37% of total borrowings as on June 30, 2018 (March 31, 2018 – 34%); however, the share has declined significantly from 88% as on March 31, 2015. The short term borrowings were largely in form of commercial Paper (CP) which accounted for 33% of the group's outstanding borrowings as on June 30, 2018 (March 31, 2018 – 30%).

The group meticulously monitors the asset liability maturity profile and maintains sufficient undrawn bank lines and investments in liquid assets (liquid mutual funds, cash and bank balances) which are readily available for group companies. Further, the group's approach towards conservative leverage policy provides comfort.

High borrower concentration: The top 20 group exposures (includes loan book of JM Financial Products Limited [JMFL]) accounted for 24% of the consolidated loan portfolio and 62% of consolidated tangible net-worth as on March 31, 2018.

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](#)
[CARE's criteria for rating of Short term instruments](#)
[Financial Ratios- Financial Sector](#)
[Factoring Linkages in Ratings](#)
[CARE's criteria for rating of NBFC](#)

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.

JMFL was registered as a core investment company (CIC) with RBI and is the only listed company of the group. The Mumbai Bench of the Hon'ble National Company Law Tribunal, vide its order dated December 14, 2017, sanctioned the scheme of amalgamation between JM Financial Institutional Securities Limited and JM Financial Investment Managers Limited and JM Financial Limited. The aforesaid scheme has been filed with the Registrar of Companies, Mumbai, Maharashtra and the same has become effective from January 18, 2018. Consequent to the Scheme becoming effective, JMFL has ceased to be a CIC. While continuing to hold same equity ownership and control as prior to the amalgamation over its operating subsidiary companies, the Company is engaged in operating businesses as a SEBI registered Category I Merchant Banker and as the Investment Manager for their private equity funds.

JM Financial Limited (Consolidated)

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total Income	2,359	3,235
PAT	649	870
Overall Gearing (times)*	2.50	2.70
Total Assets*	16,444	21,473
Net NPA (%)	0.1	0.6
ROTA (%)	4.7	4.6

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

JM Financial Limited (Standalone)

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total Income	163	244
PAT	107	136
Overall Gearing (times)*	0.12	0.00
Total Assets*	2,053	2,551
Net NPA (%)	-	-
ROTA (%)	4.94	5.91

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

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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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	-	-	Upto 1 year	2,000.00	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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Commercial Paper	ST	2,000.00	CARE A1+	-	1)CARE A1+ (30-Jan-18) 2)CARE A1+ (29-Sep-17)	-	-

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