JM Financial Products Limited

November 30, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Commercial Paper (IPO Financing)	4500.00	**CARE A1+ [A One Plus]**	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.NimeshKampani, 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. The Management of JMFPL is led by Mr. Vishal Kampani who is the Managing Director and Mr.HemantKotak (CFO) who has vast experience in the financial industry.

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.

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

On a standalone basis the gearing of JMFPL was 3.39 times as on March 31, 2017 as compared to 2.49 times as on March 31, 2016 because of rise in borrowings levels. The gearing as on September 30, 2017 was 4.95 times.

Strong profitability at the group level: In FY17,(refers to a period of April- March) 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 H1FY18, on a consolidated basis the group earned 71% of its revenue from fund based activities (FY17 – 69%) and 26% from investment banking and security business (FY17– 27%). 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, JMFPL reported PAT of Rs.197 crore on total income of Rs.706 crore in FY17 as compared to PAT of Rs.167 crore on total income of Rs.559 crore in FY16. In H1FY17 the PAT was Rs. 108 crore on total income of Rs. 446 crore.

Comfortable asset quality: The lending business of the group is primarily housed 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. 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.

Industry Prospects

Over the last few years, the NBFC sector has gained systemic importance with increase in share of NBFC total assets to bank total assets. The same has resulted in the Reserve Bank of India (RBI) taking various policy actions resulting in NBFCs attracting higher support and regulatory scrutiny. The RBI has revised the regulatory framework for NBFCs which broadly focuses on strengthening the structural profile of NBFC sector, wherein focus is more on safeguarding depositors' money and regulating NBFCs which have increased their asset-size over time and gained systemic importance. On the asset quality front, gradual change in the NPA recognition norms would lead to deterioration in asset quality parameters during the transition phase. Overall the revised regulations are positive for the NBFC sector making it structurally stronger, increase transparency and improve their ability to withstand asset quality shocks in the long run. Due to subdued economic environment, last three years have been challenging period for the NBFCs with moderation in growth and rising delinquencies resulting in higher provisioning thereby impacting profitability. However, comfortable capitalization levels and liquidity management continue to provide comfort to the credit profile of NBFCs in spite of impact on profitability. Also with the improvement in economic environment, asset quality pressures should ease which will partially offset the impact of migration towards 90 day NPA recognition norm.

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

CARE's policy on default recognition
Financial Ratios- Financial Sector
CARE's Criteria for NBFC
Factor 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.

About JM Financial Products Ltd

JMFPL is the Non-Banking Finance Company (NBFC) of the JM Financial Group. It is a non-deposit accepting non-banking finance company registered with the Reserve Bank of India. The Company is into the financing activities which include loan against shares and loan against commercial real estate /properties. Loan against shares include margin funding, ESOP financing, loan against commodities/bonds/mutual funds and promoter financing. Whereas, loan against commercial real estate includes project financing, land acquisition financing and property financing. The Group has also applied for HFC license to be housed as a subsidiary of JM Financial Products Limited.

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 *Total assets and Networth is net off deferred tax assets and intangible assets*

JM Financial Products Limited

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total Income	559	706
PAT	167	197
Overall Gearing (times)*	2.49	3.39
Total Assets*	4295	5944
Net NPA (%)	0.37	0.00
ROTA (%)	3.79	3.85

*A: Audited *Total assets and Networth is net off deferred tax assets 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.*

Analyst Contact:
Name: Abhishek Gupta
Tel: 022-67543 558
Email: abhishek.gupta@careratings.com

**For detailed Rationale Report and subscription information, please contact us at www.careratings.com

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.

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)	-	-	7 days-1 month	4500	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	4500.00	CARE A1+	1)CARE A1+ (4-Oct-17)	-	-	-
2.	Commercial Paper-Commercial Paper (IPO Financing)	ST	4500.00	CARE A1+	1)Withdrawn (24-Nov-17) 2)CARE A1+ (04-Oct-17)	-	-	-
3.	Debentures-Non Convertible Debentures	LT	2500.00	CARE AA; Stable	CARE AA; Stable (28-Nov-2017)	-	-	-

CONTACT

Head Office Mumbai

Ms. MeenalSikchi
Cell: + 9198190 09839
E-mail: meenal.sikchi@careratings.com

Mr. AnkurSachdeva
Cell: + 9198196 98985
E-mail: ankur.sachdeva@careratings.com

Ms.RashmiNarvankar
Cell: + 9199675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
Cell: + 9198209 98779
E-mail: 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

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

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

CHANDIGARH
Mr. AnandJha
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

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

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

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

JAIPUR
Mr. Nikhil Soni
304, PashupatiAkshatHeights, Plot No. D-91,
Madho Singh Road, NearCollectorateCircle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: 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

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

PUNE
Mr.Pratim Banerjee
9th Floor, Pride KumarSenate,
Plot No. 970, Bhamburda, SenapatiBapat Road,
ShivajiNagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail:pratim.banerjee@careratings.com

CIN - L67190MH1993PLC071691