JM Financial Limited

January 30, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Commercial Paper	2,000.00 (Enhanced from Rs.1,000 crore) (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 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 received HFC license to be housed as a subsidiary of JM Financial Products Limited.

***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: JM Financial Ltd. (JMFL), the holding company of the group, is well capitalized with a net-worth of Rs.1,725 crore as on March 31, 2017 and a gearing level of 0.12 times. The promoter holding of 65.1% as on June 30, 2017 in JMFL gives the company flexibility to raise capital to support business growth. 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 December 31, 2017, the consolidated tangible net worth (including minority interest excluding intangible and goodwill on consolidation) was Rs.4,805 crore with a gearing of 3 times, 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 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%). In 9MFY18, on a consolidated basis, the group reported a PAT of Rs.610 crore on a total income of Rs.2,302 crore.

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

On a standalone basis, JMFL reported PAT of Rs.107 crore on total income of Rs.163 crore in FY17 as compared to PAT of Rs.112 crore on total income of Rs.158 crore in FY16. As the holding company of the group, JMFL derives dividend income from investments in subsidiaries and interest income from ICDs.

***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 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 and JM Financial Capital limited having Nil NPAs for FY17 and FY16. The consolidated GNPA and NNPA for JMFL in 9MFY18 was 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. 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 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 December 31, 2017, Real Estate Lending accounted for 58% of the total loan book of and 175% 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 40% of the group's outstanding borrowings as on December 31, 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 December 30, 2017 were at Rs.791 crore. The group's conservative leverage policy 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 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 net-worth are net off deferred tax asset and intangible assets*

JM Financial Limited (Standalone)

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total Income	158	163
PAT	112	107
Overall Gearing (times)*	0.26	0.12
Total Assets*	2,272	2,053
Net NPA (%)	-	-
ROTA (%)	5.32	4.94

*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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****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.

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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	-	-	7 days – 1 year	2000.00	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 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	2000.00	CARE A1+	1)CARE A1+ (29-Sep-17)	-	-	-

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