JM Financial Limited (Revised)

October 10, 2019

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 (CP) 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 expansion in the retail lending space in recent times. The rating also factors in experienced management team, low gearing levels, stable profitability and financial flexibility of the group.

The group had sizeable capital infusion during FY18 and FY19 (refers to period from April 01 to March 31) which has helped the group maintain adequate capitalisation levels. In the current challenging funding environment for NBFCs and HFCs, with elevated risk aversion among lenders and investors, the group has been able to maintain adequate liquidity profile.

The rating also takes note of the group's funding profile with high proportion of short-term debt instruments given its exposure to relatively short-term capital markets lending, concentration risk in the group's lending portfolio on account of real estate exposure with borrower concentration. Although, the asset quality of the lending portfolio has seen rise in slippages, the same remains moderate with the company having adequate coverage. The group has been taking steps towards resolution of stressed accounts. Considering the slowdown in the real estate sector and the group's high level of exposure, any slippages would impact the asset quality and would remain a key rating sensitivity.

The group's ability to maintain asset quality, maintaining profitability, liquidity 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 four 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 Housing Finance and Education Institutional Lending (EIL) through one of its step down subsidiary-JM Financial Home Loans Limited (rated CARE AA; Stable-a 99% subsidiary of JMFPL).

***Experienced management team*:** The Board of Directors of the company comprises of industry experts. Mr. Nimesh Kampani (Non-Executive Chairman) has been an industry veteran and has extensive experience in the financial services industry. The management of the group is led by Mr. Vishal Kampani (Managing Director) who has over two decades of experience in the financial services industry. The Board of Directors includes prominent individuals having vast industry experience. The Board is further supported by a professional senior management team with extensive experience in the banking and financial services sector and strong client relationships. Each of the businesses are supported by a team of managers with specialized professional expertise.

Financial flexibility of the group and low gearing levels with capital infusion in FY18 and FY19: The group's consolidated reported net-worth (including minority interest and excluding goodwill on consolidation) stood at Rs.7,427 crore and its overall gearing stood at 2.02 times (Borrowings include Borrowings for IPO Financing and including accrued interest on borrowings) (1.92 times where borrowing excludes IPO Financing) as on June 30, 2019 which remained lower than peer group companies. During FY18, the holding company of the group, JMFL raised equity capital of Rs.650 crore through QIP issue and its subsidiary, JM Financial Asset Reconstruction Company Limited (JMFARC) raised equity capital of Rs. 280 crore (including Rs.80 Crore from external investors) and during FY19, JM Financial Credit Solutions Limited (wholesale mortgage lending NBFC of the group) raised equity capital of Rs.650 crore from external investors (leading to dilution of around 3% shareholding by JMFL).The group reported overall Capital Adequacy Ratio (CAR) of 30.3% as on June 30, 2019. Going forward, the group aims to maintain a gearing ratio below 4 times on a steady state basis for its regular businesses.

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

The gearing on a standalone basis for JMFL was NIL as on March 31, 2019. (March 31, 2018: NIL). The group has been maintaining adequate liquidity and as on June 30, 2019, at a consolidated level, the cash and cash equivalents were of around Rs.1,993 crore and unutilized bank lines of Rs.764 crore. The overall CAR in the three lending NBFCs as on March 31, 2019 was as follows: JM Financial Credit Solutions Limited reported an overall CAR of 34.26%, with Tier I CAR at 33.57%, JM Financial Capital Limited reported an overall CAR of 57.17%, with Tier I CAR at 56.50% and JM Financial Products Limited reported an overall CAR of 25.30%, with Tier I CAR at 24.70%.

Stable profitability at the group level: In FY19, at a consolidated level, profit after tax (PAT) [before non-controlling interest and including profits from associate] of the group was Rs.837 crore on total income of Rs.3,579 crore as compared to PAT of Rs.785 crore on total income of Rs.3,097 crore for FY18 (as per IND AS). The group profitability remains healthy with Return on Total Assets (ROTA) of 3.74% in FY19 (FY18: 4.06%).
Further with the adoption of Ind AS, the group has reclassified its business segments into: a. Investment banking, wealth management and securities business [IWS-46% of the total revenue of FY19]; b. mortgage lending which comprises of wholesale and retail mortgage lending [36% of the total revenue of FY19]; c. distressed credit comprising asset reconstruction business [16% of the total revenue of FY19] and d. asset management business comprising mutual fund business [3% of the total revenue of FY19].
For Q1FY20 (refers to the period of April 01, 2019 to June 30, 2019), on a consolidated basis, the group reported a PAT of Rs.195 crore on a total income of Rs.857 crore. On a standalone basis JMFL reported a PAT of Rs.111 crore on total income of Rs.272 crore in FY19 (as per IND AS) as compared to PAT of Rs.192 crore on total income of Rs.426 crore in FY18 (as per IND AS). As on June 30, 2019 the company reported a loss of Rs.9.71 crore on a Total Income of Rs.31.38 crore, mainly on account of fair value changes in listed and unlisted equity investments which are subject to mark-to-market valuations by third party rating agencies and are subject to the final discretion of the company under Ind AS.

***Moderation in asset quality*:** The lending business of the group is housed primarily under three entities viz. JM Financial Products Limited – which is a diversified lending entity, JM Financial Credit Solutions Limited (not rated by CARE) which has largely real estate related funding and JM Financial Capital Limited – which has largely capital market related lending. The lending portfolio of the group reported Gross NPA ratio of 0.68% and Net NPA of 0.55% as on March 31, 2019.
During Q1FY20 (refers to period from April 01 to June 30), the group has seen slippages resulting in consolidated Gross NPA ratio of 0.90% and Net NPA ratio of 0.80% as on June 30, 2019.
Although the asset quality parameters as on June 30, 2019 remained comfortable, the group has seen increase in its stressed asset portfolio (SMA 2) which increased to 3.61% of total exposure as on June 30, 2019 from 1.25% as on March 31, 2019. Further rise in slippages or stressed considering the overall stress in the real estate market would have deterioration in asset quality and increase credit costs and continue to be a key rating sensitivity. Asset quality showed deterioration in Q1FY20 with GNPA and NNPA levels at 0.90% and 0.80% as compared to 0.68% and 0.55% respectively in Q4FY19 because of additional slippages in the Wholesale Mortgage segment. (in Chennai and Mumbai markets).

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, 2019, it accounted for 67% of the total loan book and 125% of the consolidated tangible net-worth. However, the group has adequate origination, underwriting and credit monitoring systems which has helped in maintaining asset quality.
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. Asset quality showed deterioration in Q1FY20 with GNPA and NNPA levels at 0.90% and 0.80% as compared to 0.68% and 0.55% respectively in Q4FY19 because of additional slippages in the Wholesale Mortgage segment. (in Chennai and Mumbai markets).
The group has gone slow in disbursements with selective disbursements in the real estate segment and corporate lending.

Reliance on short term debt instruments: On a consolidated basis, short term borrowings comprised 27% of total borrowings as on March 31, 2019 (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 23% of the group's outstanding borrowings as on March 31, 2019 (March 31, 2018 – 30%). As on June 30, 2019 the short term borrowings were largely in form of commercial Paper (CP) which accounted for 23% of the group's outstanding borrowings as on June 30, 2019 (June 30, 2018 – 33%). The group has been monitoring its 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. The group has been able to raise resources during H2FY19 through bonds and bank loans worth Rs.1,042 crore and CP worth Rs.6,871 crore. The group has gone slow in disbursements with selective disbursements in the real estate segment and corporate lending. Further, the group's approach towards conservative leverage policy provides comfort.

High borrower concentration**:** The top 20 group exposures accounted (at the consolidated level) for 44% of the consolidated loan portfolio and 87% of consolidated tangible net-worth as on March 31, 2019.

Liquidity-Adeqaute
The asset liability maturity profile of the major lending NBFCs as on June 30, 2019 in the group was comfortable with no negative mismatches up to one year time bucket. The cash inflows from repayments over the next one year from loan portfolio major NBFCs provide sufficient coverage on the debt repayment in one year. Further, the group had cash and cash equivalents were of around Rs.2,757 crore (including unutilized credit lines of Rs.764 crore).

Analytical approach:
CARE has analysed JM Financial group's credit profile by considering the consolidated financial statements of JMFL owing to financial and operational linkages between the parent and its key subsidiaries and common management. The list of the subsidiaries considered for consolidation are as per Annexure 3.

Applicable Criteria
Factoring Linkages in Ratings
Rating of Short term instruments
Rating Methodology- Non Banking Finance Companies
Financial ratios - Financial Sector
Rating Methodology- Housing Finance Companies

About the group
JM Financial is an integrated and diversified financial services group. The Group's primary businesses include (a) Investment banking, wealth management and securities business (IWS) which includes fee and fund based activities for its clients (b) Mortgage Lending which includes both wholesale mortgage lending and retail mortgage lending (home loans, education institutions lending and LAP) (c) Distressed credit which includes the Asset Reconstruction business (d) Asset Management includes the mutual fund business.
As of June 30, 2019, the consolidated loan book stood at ~Rs.13,926 crore (excluding IPO financing book of Rs.742 crore), distressed credit business AUM at ~Rs.14,191 crore, wealth management AUM at ~Rs.43,038 crore, mutual fund AAUM at ~Rs.7,710 crore.
The Group is headquartered in Mumbai and has a presence across 343 locations spread across 120 cities in India. The equity shares of JM Financial Limited are listed in India on the BSE and NSE.
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JM Financial Limited (Consolidated) as per IND AS.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total Income	3,097	3,579
PAT^	783	836
Overall Gearing (times)*	2.49	1.87
Total Assets*	22,143	22,571
Net NPA (%)	0.56	0.55
ROTA (%)	4.06	3.74

*A: Audited; *Total Assets and net-worth are net-off deferred tax asset, intangible assets and Goodwill.*
^ before non-controlling interest and excluding profits from associate.
** excluding accrued interest on borrowings.*

JM Financial Limited (Standalone) as per IND AS.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total Income	426	272
PAT	192	111
Overall Gearing (times)*	Nil	Nil
Total Assets*	2,679	2,652

Net NPA (%)	Nil	Nil
ROTA (%)	8.10	4.17

*A: Audited; *Total Assets and net-worth are net of deferred tax asset and intangible assets.*
All Ratios are as per CARE calculations.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	ISIN No.	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Commercial Paper-	-	-	-	-	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Commercial Paper	ST	2000.00	CARE A1+	-	1)CARE A1+ (08-Oct-18)	1)CARE A1+ (30-Jan-18) 2)CARE A1+ (29-Sep-17)	-

Annexure 3: List of Subsidiaries of JM Financial Limited.

Subsidiary	*% holding*
JM Financial Institutional Securities Limited	*100%*
Infinite India Investment Management Ltd	*100%*
JM Financial Properties and Holdings Ltd	*100%*
CR Retail Malls (India) Limited	*100%*
JM Financial Products Limited	*99.35%*
JM Financial Services Limited	*100%*
JM Financial Commtrade Limited	*100%*
JM Financial Asset Management Limited	*59.54%*
JM Financial Credit Solutions Limited	*47.05%*
JM Financial Capital Limited	*100%*
JM Financial ARC Limited	*59.25%*
JM Financial Home Loans Limited	*98.35%*
JM Financial Overseas Holdings Private Ltd	*100%*
JM Financial Singapore Pte. Ltd.	*100%*
JM Financial Securities, INC	*100%*

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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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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