JM Financial Limited

Instrument	Amount (in Rs. Crore)	Rating Action (December 2016)
Non Convertible Debenture Programme	100	[ICRA]AA (stable) reaffirmed
Short term bank lines	100	[ICRA]A1+ reaffirmed
Commercial Paper Programme	1000	[ICRA]A1+ reaffirmed

ICRA has reaffirmed the rating of [ICRA]AA (pronounced ICRA double A) with stable outlook on the Rs. 100 crore Non Convertible Debenture programme and the rating of [ICRA]A1+ (pronounced ICRA A One plus) on the Rs. 100 crore short term bank lines and Rs. 1,000 crore Commercial Paper programme of JM Financial Limited. *Refer Annexure 1 for details of rating for the group companies*.

The ratings factor in the established market position of JM Financial Group in capital market businesses viz. Investment Banking, Broking and Securities based lending. The ratings also factor the successful diversification of the group into real estate lending, ability of the group to maintain comfortable capitalization and conservative gearing despite aggressive scale up of its lending business, consolidated group performance of JM Financial Limited, robust profitability indicators of the group which have further improved with increase in scale of its lending business, strong risk management systems and processes which can be underscored by the ability of the group to maintain its asset quality indicators despite the cyclicality in equity markets and challenges faced by the real estate industry in the past few years and long experience of the group in Capital Market businesses and more recently in alternate asset management, stressed asset management and wholesale lending. ICRA takes note of the fact that JM Financial Asset Reconstruction Company Private Limited, the stressed asset management company of the group, became a subsidiary of JM Financial Limited on 30th September, 2016. The ratings however factor in the group's relatively higher dependence on the cyclical capital markets and higher lending exposure to the real estate and promoter funding segment which are perceptibly riskier. ICRA takes into consideration that despite of increase in share of long term borrowings in the form of bank borrowings and debentures during FY2016 and YTDFY2017, the group's dependence on short tenor commercial paper borrowings continue to remain high.

JM Financial Group conducts its lending business from two NBFCs mainly – JM Financial Products Limited (JMFPL) and JM Financial Credit Solutions Limited (JMFCSL). JMFCSL is the joint venture of JM Financial Limited (JMFL) with INH Mauritius 1 (the fund), a global fund led by Mr. Vikram Pandit, ex-CEO of Citigroup and will focus on real estate lending. JMFCSL is a subsidiary of JMFL and post conversion of Compulsorily Convertible Preference shares held by the fund, JMFL's holding in the entity will be 50.01%. JM Financial Products Limited (subsidiary of JMFL) will focus on non-real estate lending segments – primarily Margin Funding, Promoter Funding and Loan against Securities. During FY2016, the lending book of JM Financial Group increased sharply by ~34% to Rs. 7,214 crore from Rs. 5,388 crore as on March 31, 2015 driven by sharp growth in real estate lending. As on September 30, 2016, loan book stood at Rs. 8,479 crore of which real estate financing comprised of ~73%, Promoter and Corporate Funding comprised of ~12% and retail LAS / margin/ IPO funding constituting the remaining 15% of the book. Going ahead, the management plans to enter the SME financing segment in the next 3-6 months. Also, share of real estate lending is likely to remain at current levels in the medium term.

The overall loan book for the group is sufficiently collateralised and asset quality has also remained stable over the last few years. With limited slippages and good recoveries, the asset quality of the company improved in the past few quarters. Gross NPA stood at ~0.2% as on September 30, 2016 whereas Net NPAs were negligible. Going forward, the ability of the company to control its asset quality with further scale up in loan book remains to be seen. Also, with the recent demonetisation exercise likely to adversely affect the real estate industry especially the builders, the asset quality of the group will remain a key rating monitorable.

During FY2016, the asset liability maturity profile of JM Financial Group has improved as the company has increased the share of long term borrowings in its total borrowings to ~37% as on March 31, 2016 as compared to ~6% as on March 31, 2015. With the average tenor of assets being in the 2-3 year range, asset liability profile has improved. However, there is still a higher reliance of the group on commercial paper borrowings (~46% as on March 31, 2016). As per the management, in YTDFY2017, the share of long term borrowings has further increased which further improves the asset liability maturity profile of JM Financial Group. Total borrowings at the consolidated level increased from Rs. 4,721 crore as on March 31, 2015 to Rs. 6,671 crore as on March 31, 2016. Accordingly, at consolidated group level, overall leverage levels increased to ~1.92 times as on March 31, 2016 as compared to ~1.53 times as on March 31, 2015. ICRA takes comfort from the relatively lower gearing at consolidated level when compared to its peers and the plans to keep leverage levels under 3 at all points in time.

The securities business constitutes of equity broking (institutional, HNI and retail), asset management and investment banking. JM Financial's positioning specifically in the investment banking and merchant banking businesses is strong with the group involved in many marquee deals in the market. During FY2016, the revenues from broking business and investment banking have remained stable. Fee income from investment banking stood at Rs. 103 crore in FY2016 (Rs. 115 crore in FY2015) and net broking income[1] stood at Rs. 118 crore in FY2016 (Rs. 120 crore in FY2015).

JM Financial Asset Reconstruction Company Private Limited (JMFARC) is one of the larger players in the asset reconstruction business with AUM at Rs. 10,351 crore as on September 30, 2016. The company largely operates in the large single borrower segment, perceived to be risky on account of its complexity, higher ticket size as well as levels of high degree of engagement with promoters. The AUM also includes a sizeable investment in Corporate/SME portfolios consisting of multiple borrowers thereby diversifying the risk profile. After witnessing sharp growth in AUM during FY2015, the growth in AUM moderated to ~17% during FY2016 due to limited acquisitions and challenging operating environment. Growth in AUM remained muted during H1 FY2017; however, with change in provisioning guidelines for banks for their investments in Security Receipts (SRs) and changes in regulations of foreign investment in SRs, ICRA expects the operating environment for ARCs to improve in the near term.

During FY2016, the group's total income[2] increased by ~27% to Rs. 1,602 crore from Rs. 1,263 crore in FY2015 driven by an increase in interest income from its lending business with robust growth in loan book. Cost income ratio of the group declined during FY2016 to ~37% from ~44% in FY2015 due to expenses remaining at a comfortable level. Consequently, the group reported a net profit of ~Rs. 400 crore in FY2016 (RoE[3] of ~16%) as compared to ~Rs. 331 crore in FY2015 (RoE[3] of ~14%). The group's capitalization remains adequate with capital adequacy ratio being reported at ~27% as on September 30, 2016, much above the regulatory requirements.

JM Financial Group

The JM Financial group has 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 Ltd is the holding company for the operating companies in the JM Financial group.

During FY2016, the JM Financial Limited reported a consolidated profit after tax (PAT) of Rs. 400 crore on a total income2 of Rs. 1,602 crore as compared to a net profit of Rs. 331 crore on a total income2 of Rs. 1,262 crore during FY2015.

Recent Results

During H1 FY2017, JM Financial Limited reported a consolidated PAT of Rs. 201 crore on a total income of Rs. 1,040 crore.

December 2016

1 Net of sub-brokerage commission

2 Excluding profit on sale of assets/investments and net of sub-brokerage, fees and commission

3 Return on average net worth (including minority interest)

Annexure 1:

JM Financial Limited

Instrument	Amount (in Rs. Crore)	Rating Action (December 2016)
Non Convertible Debenture Programme	100	[ICRA]AA (stable) reaffirmed
Short term bank lines	100	[ICRA]A1+ reaffirmed
Commercial Paper Programme	1000	[ICRA]A1+ reaffirmed

JM Financial Products Limited

Instrument	Amount (in Rs. Crore)	Rating Action (December 2016)
Non Convertible Debenture Programme	700	[ICRA]AA (stable) reaffirmed
Long term bank lines	500	[ICRA]AA (stable) reaffirmed
Long Term Equity Linked Debentures (Principal Protected)	225	PP-MLD[ICRA]AA (stable) reaffirmed
Commercial Paper programme	3,500	[ICRA]A1+ reaffirmed

JM Financial Credit Solutions Limited

Instrument	Amount (in Rs. Crore)	Rating Action (December 2016)
Non Convertible Debenture Programme	500	[ICRA]AA (stable) assigned
Non Convertible Debenture Programme	1,500	[ICRA]AA (stable) reaffirmed
Lines of Credit	2,500 (enhanced from 2,000)	[ICRA]AA (stable) reaffirmed
Commercial Paper programme	1,500	[ICRA]A1+ reaffirmed

JM Financial Institutional Securities Limited

Instrument	Amount (in Rs. Crore)	Rating Action (December 2016)
Short term bank lines	100	[ICRA]A1+ reaffirmed
Commercial Paper programme	400	[ICRA]A1+ reaffirmed

JM Financial Services Limited

Instrument	Amount (in Rs. Crore)	Rating Action (December 2016)
Short term bank lines	500	[ICRA]A1+ reaffirmed
Commercial Paper programme	1,100	[ICRA]A1+ reaffirmed

JM Financial & Investment Consultancy Services Private Limited

Instrument	Amount (in Rs. Crore)	Rating Action (December 2016)
Commercial Paper Programme	200	[ICRA]A1+ reaffirmed

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