JM Financial Limited

January 31, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible debenture programme	100.00	100.00	[ICRA]AA (stable); Reaffirmed
Short term bank lines	100.00	100.00	[ICRA]A1+; Reaffirmed
Commercial paper programme	1,000.00	2,000.00	[ICRA]A1+; Reaffirmed
Total	**1,200.00**	**2,200.00**	

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long term rating of [ICRA]AA (pronounced ICRA double A) for the Rs. 100 crore Non-convertible debenture (NCD) programme of JM Financial Limited (JMFL, or 'the company'). ICRA has also reaffirmed the short term rating of [ICRA]A1+ (pronounced ICRA A one plus) for the Rs. 100 crore short term bank lines and Rs. 2,000 crore (enhanced from Rs. 1,000 crore) commercial paper programme of JMFL. The outlook on the long term rating is Stable.

Rationale

The rating factors in the company's demonstrated track record, its strong franchise and established market position in capital market businesses viz. investment banking, broking and securities based lending. The rating also factors the successful diversification of the group into lending and stressed asset management businesses as demonstrated by the scaling up of operations in the new verticals and increase in share in revenues of these new verticals in the past three years. While assigning the ratings ICRA has taken note of the inherent risk profile of the key segments like real estate and promoter funding. The portfolio concentration remains high given the focus on wholesale lending, which attributes to 78% of the total book as of December 31, 2017. There could be sharp deterioration in asset quality in case of any slippages. The group had reported a healthy asset quality till FY2017, witnessed deterioration in asset quality in the current fiscal owing to a lumpy slippage in the real estate segment. On aggregate basis, the gross non-performing assets to advances increased from 0.1% as of March 2017 to 0.6% as of December 2017, though it continues to remain at a comfortable level. ICRA also draws comfort from the group's proactive monitoring and resolution process, its conservative underwriting norms and adequate risk management systems. The ratings continue to take into account the healthy performance of the JM Financial group at a consolidated level with robust profitability indicators, comfortable capitalisation and healthy financial flexibility given the comfortable gearing even while ramping up its lending operations. ICRA has taken note of the elongation in the group's debt maturity profile over the past three years, with the share of long term debt in the total borrowings increasing from 12% as of March 2015 to 58% as of December 31, 2017. Given the rising prominence of the lending business, the group's ability to manage its asset and liability profile would remain critical. ICRA takes comfort from the group's adequate liquid assets of JM Financial group and ability of the group to raise funds from the market when required as demonstrated in the past. The rating also factors in the group's dependence on the cyclical capital markets. Going forward, the group's ability to scale up its operations while maintaining profitability, capitalisation and asset quality would remain critical from a credit perspective.

Outlook: Stable

ICRA believes that JM Financial Group will continue to benefit from its diversified business profile, its demonstrated track record and established position in capital markets related businesses and its robust risk management systems.

The outlook may be revised to 'Positive' if there is a substantial and sustained improvement in the group's profitability, leading to an improvement in its financial risk profile. The outlook may be revised to 'Negative' if there is significant deterioration in the asset quality of the credit book and profitability indicators, thereby adversely affecting its financial risk profile.

Key rating drivers

Credit strengths

Strong brand name of the group with diversified revenue stream - The JM Financial group is a diversified financial services entity 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, real estate lending, private equity, and asset reconstruction. The group is one of the leading entities in capital markets and related businesses with prime focus on investment banking and merchant banking operations and has been engaged in many marquee deals. At a consolidated basis, the group's revenue stream remains well diversified with fund based businesses, investment banking and related businesses and the asset management and related businesses attributing to 70%, 25% and 5% of total revenues respectively during 9M FY2018 as compared to 69%, 27% and 4% respectively during FY2017.

Ramp-up in lending business in the past three years - JM Financial group made a foray into non-capital market lending business in 2008, and since then, this business has emerged as a key contributor to the group's revenues. The group conducts its lending business through three NBFCs, namely, JM Financial Products Limited (JMFPL), JM Financial Credit Solutions Limited (JMFCSL) and JM Financial Capital Limited (JMFCL). While JMFCSL caters to the real estate segment, JMFPL (a subsidiary of JMFL) houses the non-real estate wholesale lending and capital market lending segments. Going forward, capital market lending will primarily be housed under JMFCL. The real estate portfolio, which was the key driver for loan-book growth in FY2017, reported subdued growth during 9MFY2018 given the slowdown in the industry coupled with competitive pressures. The ramp-up in corporate and structured lending and capital market lending segments, however, more than offset the impact, with the overall loan book increasing from Rs. 11,343 crore as of March 31, 2017 to Rs. 14,359 crore as of December 31, 2017. As on December 31, 2017, real estate financing, corporate funding, and capital markets accounted for 58%, 20% and 22% of the loan book respectively. JM Financial group has recently made a foray into lending to the small and medium enterprises (SME) segment and is in process of starting its housing finance business through JM Financial Home Loans Limited, a step down subsidiary of JM Financial Limited which received approval from National Housing Bank (NHB) for carrying out housing finance activities in November 2017.

Improved profitability of the group with an increase in revenues and stable expenses - During FY2017, the group's total income[1] increased by 38% to Rs. 2,211 crore from Rs. 1,602 crore in FY2016 driven by the expanding lending business and improved profitability in capital market related business. With the group adequately managing the operating expenses, the net profit (after minority interest) increased to Rs. 470 crore (return on equity, RoE[2] of ~16%) during FY2017 from Rs. 400 crore in FY2016 (RoE[2] of ~15%). During 9M FY2018, JMFL reported a consolidated net profit of Rs. 442 crore on a total income[1] of Rs. 2,147 crore.

Adequate capitalisation at the group level commensurate with the current scale of operations - The group's capitalisation remains adequate with capital adequacy ratio (CRAR) of ~24% as on March 31, 2017, as against ~29% as of March 31, 2016. As on December 31, 2017, CRAR stood at ~21.3%. JM Financial Limited is in the process to raise capital to the tune of Rs. 650 crore in the near term.

Healthy financial flexibility given the comfortable leverage - The total borrowings at the consolidated level increased from Rs. 6,671 crore as on March 31, 2016 to Rs. 10,802 crore as on March 31, 2017. Accordingly, consolidated leverage increased to 2.5 times as on March 31, 2017 from 1.9 times as on March 31, 2016, though it continues to remain healthy. ICRA takes comfort from the relatively lower consolidated gearing when compared to its peers and the group's stated plans to maintain a leverage of under 4.0 times, at all points in time. As on December 31, 2017, borrowings stood at Rs. 14,347 crore with a gearing of ~3 times.

Comfortable asset quality of the funding portfolio - The group's overall loan book is sufficiently collateralised and its asset quality has also remained stable over the last few years. During Q2FY2018, due to a lumpy slippage in real estate lending segment, the gross and net NPA increased to ~0.6% each as on September 30, 2017. As on December 31, 2017, gross and net NPA remained stable at 0.6% and 0.5% respectively. However, in ICRA's view, the asset quality indicators still remain at a comfortable level. ICRA draws comfort from the robust risk management systems and conservative underwriting norms which have supported the asset quality. Going forward, the group's ability to control its asset quality with further scale up in loan book would remain a key rating monitorable.

Credit weaknesses

Given the increasing prominence of the credit business particularly wholesale lending, ability to maintain ALM remains critical - ICRA has taken note of the elongation in the group's debt maturity profile over the past three years, with the share of long term debt in the total borrowings increasing from 12% as of March 2015 to 58% as of December 31, 2017. Given the rising prominence of the lending business, the group's ability to manage its asset and liability profile would remain critical. ICRA takes comfort from the group's adequate liquid assets of JM Financial group and ability of the group to raise funds from the market when required as demonstrated in the past.

High concentration risk on account of the high exposure to inherently riskier segments - As on December 31, 2017, real estate financing, corporate funding, and capital markets accounted for 58%, 20% and 22% of the loan book respectively. JM Financial group has recently made a foray into lending to the small and medium enterprises (SME) segment and is in process of starting its housing finance business; which on achievement of a sizeable scale should help in diversifying the loan mix. The group's exposure to risky segments viz. real estate lending and promoter funding account for sizable

[1] Excluding profit on sale of assets/investments and net of sub-brokerage commission; group financials refer to the consolidated financials of JM Financial Limited, which is the holding company of the JM financial group

[2] Return on average net worth

portion of the lending book. ICRA also takes note of the inherent riskiness of real estate lending and promoter funding segments. However, the group's conservative credit underwriting norms, coupled with comfortable asset quality indicators, provide comfort.

Analytical approach: While assigning the ratings, ICRA has taken a consolidated view of the JM Financial group given the high operational and managerial linkages between the group companies and the shared brand name.

Links to applicable criteria:
[ICRA's Credit Rating Methodology for Non-Banking Finance Companies]

About the company

JM Financial Group
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 Limited (JMFL) is the holding company for the operating companies in the JM Financial group. The institutional equities division of JM Financial Institutional Securities Limited (JMFISL) got demerged into a subsidiary of JM Financial Services Limited (which in turn is a subsidiary of JM Financial Limited) by way of a scheme of arrangement. The residual business of JMFISL (which includes investment banking business) and JM Financial Investment Managers Limited (wholly owned subsidiary of JMFL engaged in the business of private equity fund management) got merged into JMFL by way of a scheme of amalgamation.

During FY2017, JMFL reported a consolidated net profit of Rs. 470 crore on a total income1 of Rs. 2,211 crore as compared with a consolidated net profit of Rs. 400 crore on a total income1 of Rs. 1,602 crore during FY2016. During 9M FY2018, JMFL reported a consolidated net profit of Rs. 442 crore on a total income[1] of Rs. 2,147 crore.

Key Financial Indicators (Audited) of JMFL (consolidated)

	FY2016	FY2017
Net Interest Income	630	909
Non Interest Income	425	490
Operating Income	1,054	1,399
Operating Expenses	392	473
Profit after tax (PAT[3])	400	470
Tangible Net worth	2,804	3,227
Minority Interest	669	1,109
Total Loan Book	7,215	11,343
Total Tangible Assets[4]	10,956	16,453
Return on average assets	5.4%	4.7%
PAT/ Average (Net worth + Minority Interest) (ROE)	15.3%	15.6%
Gearing	1.9	2.5

Source: JM Financial Limited and ICRA Research; Amounts in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2018)			Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Jan-18	FY2017 Dec-16	FY2016 Sep-15	FY2015 Jan-15	Jul-14
1	Non-Convertible Debentures	Long Term	100.00	[ICRA]AA (stable)	[ICRA]AA (stable)	[ICRA]AA (stable)	[ICRA]AA (stable)	[ICRA]AA (stable)
2	Bank Lines	Short Term	100.00	[ICRA]AA (stable)	[ICRA]AA (stable)	[ICRA]AA (stable)	[ICRA]AA (stable)	[ICRA]AA (stable)
3	Commercial Paper	Short Term	2,000.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

[3] Including share in profit of associates and net of minority interest

[4] Excluding goodwill on consolidation

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Bank Lines*	-	-	-	100	[ICRA]AA (stable)
NA	Commercial Paper Programme	-	-	7-365 days	2,000	[ICRA]A1+
NA	Non Convertible Debenture*	-	-	7-30 days	100	[ICRA]AA (stable)

*Proposed

Source: JM Financial Limited

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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