

JM Financial Limited

April 01, 2019

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible Debenture Programme	100	100	[ICRA]AA (Stable); reaffirmed
Short term Bank Lines	100	100	[ICRA]A1+; reaffirmed
Commercial Paper (CP) Programme	2,000	2,000	[ICRA]A1+; reaffirmed
Total	2,200	2,200	

*Instrument details are provided in Annexure-1

Rationale

The reaffirmation of the ratings factors in the demonstrated track record, strong franchise and established market position of the JM Financial Group in the domestic financial services industry, its diversified revenue stream and healthy financial profile with steady profitability and adequate capitalisation level. While reaffirming the ratings, ICRA has taken a consolidated view of the JM Financial Group due to the close linkages between the Group entities given the common promoters and senior management team, shared brand name, and strong financial and operational synergies. Moreover, ICRA expects the financial, managerial and operational support from the Group to continue to be available to all key Group companies.

The strengths are partially offset by the exposure to volatility in capital markets, the inherent risk profile of the key segments like real estate and promoter funding, and the portfolio concentration in the wholesale lending segment (~87% of the total book as on December 31, 2018), which could result in a sharp deterioration in the asset quality in case of slippages. The risks are further aggravated by the current environment, given the continued slowdown in the real estate sector coupled with the liquidity squeeze faced by developers and financiers. The presence of adequate collateral along with the company's conservative underwriting norms, adequate risk management systems, and proactive monitoring and resolution process provides comfort. ICRA also draws comfort from the Group's leverage being lower than that of its peers, which provides it the ability to absorb losses, if needed.

JM Financial Limited (JMFL) raised equity capital amounting to Rs. 650 crore in Q4 FY2018, while JM Financial Credit Solutions Limited (JMFCSL), the wholesale mortgage lending arm of the Group, raised equity capital of Rs. 835 crore (including Rs. 650 crore from external investors; an additional Rs. 40 crore to be infused by JMFL by March 2020), thereby supporting the overall capitalisation levels and helping the Group maintain a low leverage. Gearing, as on December 31, 2018, was lower at 2.15 times against 2.83 times as on December 31, 2017 (2.62 times as on March 31, 2018). The ratings also take into account the relatively higher, albeit declining, share of short-term sources of funding in the total debt.

Given the rising prominence of the lending business, the Group's ability to manage its asset and liability profile, particularly considering the current operating environment, would remain critical. ICRA takes comfort from the Group's adequate liquid assets and its ability to raise funds from the market when required, as demonstrated in the past. Going forward, the Group's ability to scale up its operations while keeping the asset quality under check, maintaining healthy profitability and capitalisation and managing its asset liability profile would remain critical from a credit perspective.

Outlook: Stable

ICRA believes that the JM Financial Group will continue to benefit from its diversified business profile, its demonstrated track record and established position in the 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, while maintaining its currently comfortable asset quality levels and capitalisation profile, leading to an improvement in its financial risk profile. The outlook may be revised to Negative if there is a significant deterioration in the asset quality of the loan book and profitability indicators, thereby adversely affecting its financial risk profile.

Key rating drivers

Credit strengths

Established position of the Group in financial services industry – The Group is a diversified financial services entity with a presence 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. It is one of the leading entities in capital markets and related businesses with key focus on investment banking and merchant banking operations and has been engaged in many marquee deals. On a consolidated basis, the Group's revenue stream remains well diversified with investment Banking, wealth management & securities business (IWS), mortgage lending, distressed credit and asset management businesses contributing 45%, 35%, 16% and 3% respectively, in 9M FY2019.

Diversification in business profile supported by growth in credit business – The Group, which forayed into the non-capital market lending business in 2008, subsequently diversified its lending portfolio to wholesale mortgage, retail mortgage, and corporate lending. It forayed into the small and medium enterprises (SME) segment in FY2017 and housing finance in FY2018. Currently, the lending business has emerged as a key contributor to revenues. On an overall basis, the Group's loan book increased to Rs. 16,136 crore as of December 31, 2018 from Rs. 14,359 crore as of December 31, 2017 with wholesale mortgage, corporate lending, capital markets lending, and retail mortgage accounting for 68%, 19%, 10% and 3%, respectively, of the loan book as on December 31, 2018.

Healthy profitability indicators – The Group's total income¹ increased by 38% to Rs. 3,131 crore in FY2018 from Rs. 2,267 crore in FY2017, driven by the expanding lending business. Supported by a stable expense profile and low credit costs, the profitability has remained healthy. JMFL reported a net profit of Rs. 631 crore and return on assets (RoA) of 4.6% in FY2018 (return on equity, RoE² of ~17%). In 9M FY2019 (Ind-AS adopted with effect from April 01, 2018), the Group's total income stood at Rs. 2,652 crore. Though the profitability moderated to an extent on account of a contraction in the net interest margin (NIM) in 9M FY2019, it remained healthy. The Group reported an RoA³ of 3.6% in 9M FY2019 (net profit of Rs. 444 crore and RoE of 12.4%³).

Adequate capitalisation and low leverage at Group level – The Group's capitalisation remains adequate with a tangible net worth of Rs. 5,041 crore (consolidated) and capital adequacy ratio (CRAR) of 26.0% as on December 31, 2018 (tangible net worth of Rs. 4,349 crore and CRAR of 22.4% as of March 31, 2018). Total borrowings at the consolidated level increased to Rs. 15,436 crore as on December 31, 2018 (peak debt of Rs. 17,794 crore as on September 30, 2018) from Rs. 14,674 crore as on March 31, 2018. JMFL raised equity capital amounting to Rs. 650 crore in Q4 FY2018 and

¹ Net of sub-brokerage commission; Group financials refer to the consolidated financials of JMFL, which is the holding company of the JM Financial Group

² Return on average net worth

³ Annualised

JMFCSL raised equity capital of Rs. 650 crore from external investors, thereby supporting the overall capitalisation levels and helping the Group maintain a low leverage. Gearing, as on December 31, 2018, was low at 2.15 times compared to 2.83 times as on December 31, 2017 (2.62 times as on March 31, 2018). The Group's capitalisation profile remains healthy and provides adequate headroom for growth over the near to medium term. ICRA takes comfort from the relatively lower consolidated gearing compared to its peers and the Group's stated plans of maintaining a leverage of under 4 times, at all points in time.

Comfortable asset quality of lending portfolio – The Group's overall loan book is sufficiently collateralised and its asset quality has also remained stable over the last few years. After an increase in gross and net NPA to ~0.6% each in Q2 FY2018 due to a lumpy slippage in the real estate lending segment, the asset quality has remained largely stable in the subsequent five quarters. As on December 31, 2018, gross and net NPA stood at 0.7% and 0.6%, respectively. In ICRA's view, the asset quality indicators remain comfortable. 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 a further scale up in the loan book would remain a key rating monitorable.

Credit challenges

Ability to maintain asset and liability profile remains critical given increasing prominence of the credit business, particularly wholesale lending – JMFL's borrowing profile is characterised by a relatively higher, albeit declining, share of short-term debt. As on December 31, 2018, the share of short-term debt in the total borrowings stood at 32%. However, 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 total borrowings increasing to 68% as on December 31, 2018 (66% as on March 31, 2018) from 12% as on March 31, 2015. 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 and its ability to raise funds from the market when required, as demonstrated in the past.

High concentration and inherent credit risk in wholesale segment – The Group's loan portfolio largely comprises wholesale lending (~87% of the total book as on December 31, 2018), which includes real estate, promoter funding and corporate loans. The concentration in wholesale segment could result in a sharp deterioration in the asset quality in case of slippages. The risks are further aggravated by the current environment, given the continued slowdown in the real estate sector coupled with the liquidity squeeze faced by developers and financiers. The presence of adequate collateral along with the company's conservative underwriting norms, adequate risk management systems, and proactive monitoring and resolution process provide comfort. ICRA also draws comfort from the Group's leverage being lower than that of its peers, which provides it with the ability to absorb losses, if needed.

Liquidity position

On a consolidated basis, JMFL had total liquidity of around Rs. 2,235 crore, comprising Rs. 1,995-crore cash and liquid investments and Rs. 240-crore undrawn bank lines as on December 31, 2018. As per the asset-liability statements for the key lending entities in the Group, the cumulative cashflow position over the near term remained comfortable as on December 31, 2018. The liquidity profile, thus, remains adequate in comparison to the near-term maturities.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA's Credit Rating Methodology for Non-Banking Finance Companies Financial consolidation and rating approach
Parent/Group Support	Not applicable - while assigning the ratings, ICRA has taken a consolidated view of the Group (JMFL - Consolidated) given the high operational and managerial linkages between the Group companies and the shared brand name.
Consolidation / Standalone	To arrive at the ratings, ICRA has considered the consolidated financial profile of JMFL. As on March 31, 2018, JMFL had 10 subsidiaries and seven stepdown subsidiaries. Details of these companies are provided in Annexure 2.

About the company

JM Financial Group

The JM Financial Group has a presence 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 business is independent, the companies in the Group have integrated operations.

JMFL is the holding company of the operating companies in the Group. The institutional equities division of JM Financial Institutional Securities Limited (JMFISL) was demerged into a subsidiary of JM Financial Services Limited (which, in turn, is a subsidiary of JMFL) through a scheme of arrangement. JMFISL's residual business (which includes the investment banking business) and JM Financial Investment Managers Limited (previously a wholly-owned subsidiary of JMFL and engaged in the business of private equity fund management) were merged into JMFL through a scheme of amalgamation.

In FY2018, JMFL reported a consolidated net profit of Rs. 631 crore on a total income of Rs. 3,131 crore compared with a consolidated net profit of Rs. 470 crore on a total income of Rs. 2,267 crore in FY2017. In 9M FY2019, the company reported a consolidated net profit of Rs. 444 crore on a total income of Rs. 2,652 crore.

Key financial indicators of JMFL (consolidated)

	FY2017 I-GAAP	FY2018 I-GAAP	9M FY2019 Ind AS
Total Income ⁴	2,267	3,131	2,652
Profit after Tax (PAT ³)	470	631	444
Tangible Net Worth	3,227	4,349	5,041
Minority Interest	1,109	1,371	2,114
Total Loan Book	11,343	14,772	16,136
Total Assets ⁵	16,453	21,487	24,349
Return on Average Assets	4.7%	4.6%	3.6%
PAT/ Average Net Worth (ROE)	15.6%	16.7%	12.4%
Gearing (times)	2.5	2.6	2.2

Source: JM Financial Limited and ICRA research; Amounts in Rs. crore; All ratios are as per ICRA calculations

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

⁴ Net of sub-brokerage commission

⁵ Net of goodwill on consolidation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

Instrument	Current Rating (FY2019)			Chronology of Rating History for the past 3 years		
	Type	Amount Rated (Rs. crore)	Apr-19	FY2018 Jan-18	FY2017 Dec-16	FY2016 Sep-15
1 Non-convertible Debentures	Long Term	100.00	[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)
3 Commercial Paper	Short Term	2,000.00	[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

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

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership as on March 31, 2018	Consolidation Approach
JM Financial Asset Management Limited	59.54%	ICRA has taken a consolidated view of the parent and its subsidiaries
CR Retail Malls (India) Limited	100%	
JM Financial Products Limited	99.30%	
JM Financial Capital Limited	100%	
JM Financial Services Limited	100%	
JM Financial Credit Solutions Limited	50.01%	
Astute Investments	100%	
JM Financial Asset Reconstruction Company Limited	57.07%	
JM Financial Home Loans Limited	99.30%	
JM Financial Institutional Securities Limited (formerly known as JM Financial Securities Limited)	100%	
Infinite India Investment Management Limited	100%	
JM Financial Trustee Company Private Limited	25%	
JM Financial Overseas Holding Private Limited	100%	
JM Financial Securities Inc.	100%	
JM Financial Singapore Pte Ltd	100%	
JM Financial Commtrade Limited	100%	
JM Financial Properties and Holdings Limited	100%	
J.M. Financial & Investment Consultancy Private Limited	Related Party *	

* A company owned by the promoters of JMFL

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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.

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