

February 26, 2021

JM Financial Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible Debenture (NCD) Programme	100.00	100.00	[ICRA]AA (Stable); reaffirmed
Long-term Bank Lines – Unallocated	100.00	100.00	[ICRA]AA (Stable); reaffirmed
Commercial Paper (CP) Programme	300.00	300.00	[ICRA]A1+; reaffirmed
Total	500.00	500.00	

*Instrument details are provided in Annexure-1

Rationale

The reaffirmation of the ratings factors in the demonstrated track record and established franchise of the JM Financial Group (the Group) in the domestic financial services industry, its diversified revenue stream and healthy financial profile with steady profitability and an adequate capitalisation level. While assigning the ratings, ICRA has taken a consolidated view of the Group (i.e. JM Financial Limited (JMFL) on a consolidated basis) 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 the volatility in capital markets, the inherent risk profile of 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, 2020). The real estate sector has been facing a prolonged slowdown due to subdued sales and lack of funding access. The spread of the Covid-19 pandemic and the resulting nationwide lockdown further impacted the sector. While the pressure on the developers during the lockdown was mitigated due to the moratorium offered for their loan instalments under the Covid-19-related regulatory package announced by the Reserve Bank of India (RBI), a sustained pickup in sales across geographies is key for the developers over the medium term. JMFL's asset quality, though healthy, moderated in recent quarters with the gross non-performing assets (GNPAs) increasing to 1.79%¹ of the loan book as on December 31, 2020 from 1.56% as on December 31, 2019 and 1.65% as on March 31, 2020 (partly due to the base effect of a declining loan book). The special mention accounts-2 (SMA 2) also increased to 6.19%¹ of the loan book as on December 31, 2020 from 1.18% as on December 31, 2019 and 2.64% as on March 31, 2020. While the asset quality remains a key monitorable, the presence of adequate collateral and the Group's conservative underwriting norms, adequate risk management systems and proactive monitoring and resolution process provide comfort.

The Group's capitalisation profile is healthy, with the leverage being lower than that of its peers, which provides it with financial flexibility as well as the ability to absorb losses, if needed. JMFL's consolidated net worth was Rs. 9,314 crore as on December 31, 2020, with a capital adequacy ratio of 41.4%. The company raised equity capital of Rs. 770 crore in June 2020 to shield itself from the uncertainties surrounding the Covid-19 pandemic and its impact on the economy. Supported by the capital raise, the Group's net gearing improved to 0.72 times as on December 31, 2020 from 1.04 times as on March 31, 2020. The Group made additional provisions (including a fair value loss) of Rs. 175.21 crore in Q4 FY2020 and Rs. 185.12 crore in 9M FY2021 (1.7% of average total assets on a cumulative basis) towards the potential impact of the pandemic, as assessed by the management, on the Group's business. Going forward, the Group's ability to manage its asset quality over the near-to-

¹ GNPAs would have been 3.57% of the loan book and SMA 2 would have been 4.41% of the loan book as on December 31, 2020 without considering the Supreme Court's stay order on the NPA classification of assets post the end of the moratorium on August 31, 2020

medium-term would remain critical. The ratings also take into account the risks associated with the distressed assets business, given the nature of the underlying assets, the focus on large ticket exposures, the protracted resolution process and the uncertainty associated with the same.

While assigning the ratings, ICRA has noted the continued challenges in resource mobilisation stemming from the current operating environment and the risk-averse sentiment of investors towards non-banks, particularly wholesale-oriented entities. The Group's elevated cost of funds, despite a ~30 bps decline in 9M FY2021 to 9.9% (it had increased by ~80 bps in FY2020), could have a bearing on the Group's profitability and growth potential. However, ICRA notes that the Group raised ~Rs. 370 crore of term loans and Rs. 1,392 crore of non-convertible debentures (NCDs) in 9M FY2021, and that the cost of incremental borrowings has been declining. Following the onset of the liquidity crisis for non-banking financial companies (NBFCs), there has been a change in the Group's debt maturity profile with the share of short-term debt declining to ~9% as on March 31, 2020 from ~27% as on March 31, 2019. The share of short-term debt has since increased to ~14% as on December 31, 2020, largely in line with the increase in the short-term assets.

Given the prominence of the lending business in the Group's revenue profile, its 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. As on December 31, 2020, the Group had cash and cash equivalents of Rs. 3,716 crore (~36% of gross debt) and unutilised credit lines of Rs. 800 crore, covering the short-term debt repayments. Going forward, the Group's ability to generate adequate fee income and scale up its lending operations, while keeping the asset quality under check and maintaining a healthy profitability, capitalisation and asset liability profile, would remain critical from a credit perspective.

Key rating drivers and their description

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 a key focus on investment banking and merchant banking operations and has been a part of many marquee deals. On a consolidated basis, the Group's revenue stream remains well diversified with the investment banking, wealth management & securities (IWS) business, mortgage lending, distressed credit and asset management businesses contributing 47%, 39%, 12% and 2%, respectively, in FY2020.

Diversification in business profile – 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 contracted by ~18% YoY to Rs. 10,407 crore as on December 31, 2020 from Rs. 12,662 crore as on December 31, 2019 (peak level of Rs. 17,108 crore as on September 30, 2018) due to the liquidity issues prevailing in the industry over the past nine quarters. With the decline in the granular capital markets loan book exceeding the decline in the portfolio, the share of wholesale loans in the total portfolio increased further. As on December 31, 2020, wholesale mortgage, corporate lending, capital markets lending, and retail mortgage accounted for 73%, 14%, 5% and 8%, respectively, of the loan book. The retail mortgage book, one of the focus areas for the Group, grew by ~24% YoY to Rs. 674 crore as on December 31, 2020. While lending has emerged as the largest business activity for the Group, the fee-based businesses continue to account for a sizeable share of the net operating income² (~43% in FY2020).

Adequate capitalisation and low leverage at Group level – The Group's capitalisation remains adequate with a consolidated net worth (including non-controlling interest of the Group and net of goodwill on consolidation) of Rs. 9,314 crore and a capital adequacy ratio (CRAR) of 41.4% as on December 31, 2020 (Rs. 7,993 crore and 38.7%, respectively, as of March 31, 2020). The

² Net operating income = Revenue from operations (excludes net gain on derecognition of financial assets and investments carried at fair value) less finance cost and sub-brokerage, fee and commission expense

total borrowings at the consolidated level declined to Rs. 10,384 crore as on December 31, 2020 from Rs. 13,410 crore as on December 31, 2019 (peak debt of Rs. 17,794 crore as on September 30, 2018).

The Group had raised equity capital of Rs. 1,380 crore from external investors during FY2018-FY2019, thereby supporting the overall capitalisation levels and helping it maintain a low leverage. JMFL raised Rs. 770-crore equity through the qualified institutional placement (QIP) route in Q1 FY2021, which further enhanced the Group's capitalisation profile. The consolidated gearing was low at 1.11 times as on December 31, 2020 (1.47 times as on March 31, 2020) compared to 1.71 times as on December 31, 2019. The Group's capitalisation profile remains healthy, with lower leverage compared to peers, and provides adequate cushion against losses, if required. With the Group adopting a conservative approach towards wholesale lending and planning to increase its focus on retail lending, the leverage is expected to remain low over the near term. Over the medium term, the management intends to maintain the gearing under 3 times for the real estate lending business and 2 times for the distressed credit business.

Adequate profitability indicators – The Group's total income declined marginally to Rs. 3,454 crore in FY2020 from Rs. 3,499 crore in FY2019 owing to a moderation in the performance of the asset management business and the distressed assets business. JMFL reported a consolidated net profit (net of non-controlling interest) of Rs. 545 crore in FY2020 with adequate return on assets (RoA)³ of 3.6% (3.7% in FY2019). The return on equity (RoE)³ moderated to 10.2% in FY2020 from 12.8% in FY2019. In 9M FY2021, the Group's total income declined by 8.7% YoY primarily because of the decline in the loan book. The net interest margins (NIMs), which remained stable at 6.6% in FY2020 with the transmission of the increase in the cost of funds to the borrowers, improved to 7.6% in 9M FY2021 as the average cost of borrowings moderated to 9.9% in Q3 FY2021 from 10.2% in Q4 FY2020. While the declining loan book and higher provision expenses (including the provisions for the estimated Covid-19 impact on the business) constrained the profitability of the lending business, robust fee income and higher gains from fair value changes supported the Group's profitability in 9M FY2021. JMFL reported a consolidated net profit of Rs. 413 crore in 9M FY2021 (Rs. 414 crore in 9M FY2020) with RoA³ of 3.6% and RoE³ of 8.9%.

Credit challenges

Fund-raising challenges for non-bank financiers impacting business; ability to maintain asset and liability profile remains critical – The operating environment for NBFCs and housing finance companies (HFCs), especially entities with sizeable real estate exposure, has remained challenging since September 2018. The risk-averse sentiment of lenders/investors towards real estate lenders has constrained the ability of NBFCs and HFCs, including JMFL, to mobilise long-term resources from diversified sources. The cost of funds increased by ~80 bps YoY in FY2020 (moderated by ~30 bps in 9M FY2021). This, coupled with the subdued macro-economic and operating environment, has impacted JMFL's ability to grow the lending business and the margins (even for the non-real estate lending businesses). While the Group raised long-term funds of ~Rs. 3,700 crore in FY2020, the same was largely used for meeting debt repayment obligations and reducing commercial paper (CP) borrowings. The Group raised ~Rs. 370 crore of term loans and Rs. 1,392 crore of NCDs in 9M FY2021. ICRA notes that the Group has tied up sizeable 10-year money during the current quarter and has also raised term money from a mutual fund.

Following the onset of the liquidity crisis for NBFCs, there has been a change in JMFL's debt maturity profile. As on March 31, 2020, the share of short-term debt in the total borrowings was ~9% compared to ~27% as on March 31, 2019. The same, however, increased to ~14% as on December 31, 2020. ICRA notes that these short-term liabilities, predominantly in the form of CP and short-term loans, are largely matched by assets with similar maturity such as capital market and trading assets. 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 (cash and liquid investments) of Rs. 3,716 crore and undrawn bank lines of Rs. 800 crore as on December 31, 2020, 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; moderation in asset quality in current fiscal – The Group's loan portfolio largely comprises wholesale lending (~87% of the total book as on December 31, 2020), which includes real estate, promoter funding and corporate loans. The concentration in the wholesale segment could result in a sharp deterioration in the asset quality in case of slippages. The risks are further aggravated by the pandemic-induced stress on the

³ RoA and RoE are as per ICRA's calculations

operating environment, which was already facing challenges due to the continued slowdown in the real estate sector and the liquidity squeeze faced by developers and financiers. While the residential real estate sales have picked up since Q3 FY2021, a sustained pickup in sales across geographies is key for the sector over the medium term.

The Group's asset quality, though healthy, moderated in recent quarters with the GNPA's increasing to 1.79%⁴ of the loan book as on December 31, 2020 from 1.56% as on December 31, 2019 and 1.65% as on March 31, 2020 (partly due to the base effect of a declining loan book). SMA 2 also increased to 6.19%⁴ of the loan book as on December 31, 2020 from 1.18% as on December 31, 2019 and 2.64% as on March 31, 2020.

In ICRA's view, despite the moderation in recent quarters, the Group's asset quality indicators remain comfortable. The Group's ability to maintain a healthy asset quality in the near term, with the pandemic-linked regulatory forbearance having ended, will be critical from a credit perspective. The presence of adequate collateral and the Group'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.

Risks associated with distressed assets business given the nature of underlying assets, uncertainty associated with resolution process and large ticket exposures – The Group, through JM Financial Asset Reconstruction Company Limited (JMFARC), is one of the prominent players in the asset reconstruction business, with distressed credit assets under management (AUM) of Rs. 10,915 crore as on December 31, 2020. JMFARC focusses on the large single borrower corporate segment, which is riskier than the retail segment on account of the larger ticket size, higher complexity involved in the transactions and the resolution process, and the high degree of engagement required with promoters. This, along with the inherent risks in the industry given the nature of the underlying asset class and the company's strategy of focussing on resolution through the revival of operations and debt restrictions, can result in a protracted process. The presence in the corporate and SME portfolios consisting of multiple borrowers provides some diversification to the AUM.

Liquidity position: Adequate

As on December 31, 2020, JMFL had cash and cash equivalents of Rs. 3,716 crore and unutilised bank lines of Rs. 800 crore. The Group's liquidity profile is adequate in comparison to its near-term maturities. The Group used the liquidity buffer to buy back its bonds from the secondary market. JMFL had raised equity funds of Rs. 770 crore in June 2020, which strengthened its liquidity profile. While the Group had offered moratorium benefits to its customers as per the RBI's Covid-19 relief package, it did not avail a moratorium for any of its borrowings. As per the asset-liability statements for the key lending entities in the Group as on December 31, 2020, the cumulative cashflow position remains comfortable for the near term.

Rating sensitivities

Positive factors – ICRA could upgrade the rating if the Group posts a substantial and sustained improvement in its business performance, characterised by well-diversified growth in the lending portfolio with an increase in granularity, healthy growth in fee-based income and improvement in profitability while maintaining the current capital structure and asset quality.

Negative factors – The ratings or the outlook could be revised if the asset quality deteriorates significantly with the reported GNPA's increasing above 5% on a sustained basis or if there is an increase in the vulnerability of the wholesale loan book/asset reconstruction business. Pressure on the ratings could also emerge if the challenges in funding access for NBFCs continue for a prolonged period with the Group not being able to maintain its current scale of lending operations. A significant deterioration in the profitability, a reduction in the fee-based income and weakening of the capitalisation profile would also be credit negatives.

⁴ GNPA's would have been 3.57% of the loan book and SMA 2 would have been 4.41% of the loan book as on December 31, 2020 without considering the Supreme Court's stay order on the NPA classification of assets post the end of the moratorium on August 31, 2020

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA's Credit Rating Methodology for Non-Banking Finance Companies 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, 2020, JMFL had nine subsidiaries, six stepdown subsidiaries, one partnership firm (with two of JMFL's subsidiaries as partners) and one associate company. Details of these companies are provided in Annexure-2.

About the company

JM Financial is an integrated and diversified financial services group. Its primary businesses include (a) IWS, including fee and fund-based activities for its clients, (b) mortgage lending, which includes both wholesale mortgage lending and retail mortgage lending (home loans, educational institution lending and loan against property), (c) distressed credit, which includes the asset reconstruction business, and (d) asset management, which includes the mutual fund business.

JMFL is the holding company for the operating companies in the Group and is also engaged in investment banking and the management of private equity funds. As on December 31, 2020, the consolidated loan book stood at Rs. 10,407 crore (Rs. 11,531 crore as on March 31, 2020), distressed credit business assets under management (AUM) at Rs. 10,915 crore (Rs. 11,489 crore as on March 31, 2020), wealth management assets under advice (AUA) at Rs. 56,757 crore (Rs. 44,883 crore as on March 31, 2020) and mutual fund quarterly average AUM (QAAUM) at Rs. 3,700 crore (Rs. 6,109 crore as on March 31, 2020). The Group is headquartered in Mumbai and has a presence in 518 locations spread across 166 cities in India. The equity shares of JMFL are listed in India on the BSE and the NSE.

In FY2020, JMFL reported a consolidated net profit (net of non-controlling interest) of Rs. 545 crore on a total income of Rs. 3,454 crore compared with a consolidated net profit of Rs. 572 crore on a total income of Rs. 3,499 crore in FY2019.

Key financial indicators

JMFL (Consolidated)	FY2019	FY2020	9M FY2021*
Total income (Rs. crore)	3,499	3,454	2,386
Profit after tax ⁵ (Rs. crore)	572	545	413
Net worth (including non-controlling interest ⁶ ; Rs. crore)	7,229	7,993	9,314
Loan book (Rs. crore)	14,107	11,531	10,407
Total assets ⁶ (Rs. crore)	22,588	20,693	21,348
Return on assets (%)	3.7%	3.6%	3.6%
Return on net worth (%)	12.8%	10.2%	8.9%
Gross gearing (times)	1.94	1.47	1.11
Gross NPA (%)	0.68%	1.65%	1.79%
Net NPA (%)	0.55%	1.13%	1.16%
CRAR (%)	31.90%	38.70%	41.40%

Source: Company, ICRA research; * Provisional numbers; All ratios as per ICRA calculations

⁵ Including share in profit of associates and net of non-controlling interest

⁶ Net of goodwill on consolidation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Rating (FY2021)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on Dec 31, 2020 (Rs. crore)	Current Rating	Earlier Rating	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
					Feb 26, 2021	Aug 20, 2020 Apr 13, 2020	Jan 20, 2020 Apr 01, 2019	-	Jan 31, 2018
1	NCD Programme	Long Term	100	0	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	-	[ICRA]AA (Stable)
2	Bank Lines	Long Term	100	0	[ICRA]AA (Stable)	[ICRA]AA (Stable)	-	-	-
3	CP Programme	Short Term	300	0	[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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Bank Lines (Unallocated)*	-	-	-	100	[ICRA]AA (Stable)
NA	NCD Programme*	-	-	-	100	[ICRA]AA (Stable)
NA	CP Programme	-	-	7-365 days	300	[ICRA]A1+

* Proposed; Source: Company

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership as on March 31, 2020	Consolidation Approach
JM Financial Limited	Holding Company	ICRA has taken a consolidated view of the parent and its subsidiaries and an associate
JM Financial Asset Management Limited	59.54%	
JM Financial Products Limited	99.35%	
JM Financial Capital Limited	100%	
JM Financial Services Limited	100%	
JM Financial Credit Solutions Limited	46.68%	
JM Financial Asset Reconstruction Company Limited	59.25%	
JM Financial Home Loans Limited	98.36%	
JM Financial Institutional Securities 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%	
Astute Investments	100%	
CR Retail Malls (India) Limited	100%	
Infinite India Investment Management Limited	100%	
J.M. Financial & Investment Consultancy Private Limited	Related Party *	

Source: JMFL annual report FY2020

Note: ICRA has taken a consolidated view of the parent (JMFL), its subsidiaries and associates while assigning the ratings

* Owned by the promoters of JMFL

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