

January 31, 2022

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 ratings factor in the established track record and position 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 adequate capitalisation level. The ratings also factor in the healthy fee income arising from the agency-based business, which has helped support the earnings profile. While reaffirming 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, common promoters and senior management team, shared brand name, and strong financial and operational synergies. ICRA expects 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, portfolio concentration given the focus on wholesale lending, and the inherent risk profile of the key segments (real estate and bespoke funding¹ accounting for ~84% of the total book as on September 30, 2021). JMFL witnessed a moderation in its asset quality in the recent past with its gross non-performing assets (GNPA) increasing to 3.5% of advances (net non-performing assets; NNPA 2.0%) as of March 31, 2021 from 1.7% as of March 31, 2020 (NNPA of 1.1%). While there has been some improvement in the GNPA's in the current fiscal, the total stressed portfolio² has remained largely stable. Additionally, the Group has provided relief through the extension of the date of commencement of commercial operations (DCCO) to ~22% of the total loan book as on September 30, 2021. The presence of adequate collateral and the Group's underwriting and monitoring processes and systems provide comfort. Also, the Group's healthy capitalisation profile provides it with the ability to absorb losses if required.

The ratings also factor in the risks associated with the distressed assets business, the focus on large-ticket exposures and the high portfolio concentration. The protracted resolution process and associated uncertainties can lead to variability in earnings and cashflows. Going forward, the Group's ability to ensure steady collections (including recoveries in distressed assets business) and maintain a healthy asset quality will remain critical.

While reaffirming the ratings, ICRA has noted the continued challenges in resource mobilisation stemming from the operating environment and the risk-averse sentiment of investors towards non-banks, particularly wholesale-oriented entities. ICRA has taken note of the uptick in fund raising in the recent past, with an attempt to diversify the resource profile in terms of investors and instrument, and moderation in cost of funds from FY2020 level; the quantum remains lower than pre-September 2018 level, however, is in accordance with the revised growth plans. Given the prominence of the lending business in the Group's

¹Bespoke funding represents the corporate and promotor funding portfolio of the Group

²GNPA's along with special mention accounts 2 (SMA 2)

revenue profile, its ability to manage its asset and liability profile, particularly considering the current operating environment, would remain critical.

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, securities equity broking, wealth management, investment advisory services, portfolio management, asset management, wholesale and retail lending, private equity and asset reconstruction. It is one of the leading entities in the 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. The Group forayed into the lending business in 2008 to diversify its portfolio. JMFL commenced the lending business with wholesale financing (real estate and bespoke lending), leveraging its experience in investment banking, and subsequently added retail lending (mortgage-backed retail lending and lending to small and medium enterprises) to its portfolio in FY2017.

Diversification in business profile – On a consolidated basis, the Group's revenue stream remains well diversified with the investment banking, mortgage lending, distressed credit, and asset and wealth management and securities businesses (Platform AWS) contributing 32%, 31%, 18% and 16%, respectively, to revenues in H1 FY2022 (34%, 38%, 12% and 16%, respectively, in FY2021). Steady fee and advisory income from businesses like securities broking, investment banking, institutional fixed income, private equity funds, investment advisory, wealth management and asset management helps support the earnings profile. JMFL had a loan book of Rs. 11,072 crore on a consolidated basis as on September 30, 2021, comprising real estate lending (59%), corporate lending (25%), capital markets lending (7%), retail mortgage (5%) and financial institution financing (4%). The Group forayed in retail lending in FY2017 through products like home loan, LAP and educational institutions. While the scale of retail operations currently remains limited, the group is actively looking ramping up this business and is strengthening the resources / infrastructure for the same. As on September 30, 2021, the Group operated its retail lending business through 51 branches primarily in Tier II and III cities.

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. 10,006 crore and a CRAR of 42.9% as on September 30, 2021 (Rs. 9,552 crore and 40.2%, respectively, as of March 31, 2021). Total borrowings at the consolidated level declined to Rs. 10,808 crore as on September 30, 2021 from Rs. 12,369 crore as on March 31, 2021 (peak debt of Rs. 17,794 crore as on September 30, 2018).

The capitalisation profile has been supported by regular capital infusions (last round of capital infusion of Rs. 770 crore through qualified institutional placement in Q1 FY2021) and healthy accruals. The consolidated gearing remained comfortable at 1.08 times as on September 30, 2021 (1.29 times as on March 31, 2021 and 1.47 times as on March 31, 2020). Net gearing as on September 30, 2021 was 0.68 times (0.73 times as on March 31, 2021). The Group's capitalisation profile remains healthy, with lower leverage compared to peers, and provides adequate cushion against losses if required. Over the medium term, the Group 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. 3,227 crore in FY2021 from Rs. 3,454 crore in FY2020 owing to a moderation in the performance across businesses. While the cautious growth approach in the lending segment and higher provision expenses (including provisions for the estimated impact of the Covid-19 pandemic on the business) continue to constrain the profitability of the lending business, the robust fee income and higher gains from fair value changes³ supported the Group's profitability in H1 FY2022. The Group's total income (based on gross broking income) increased by 31% to Rs. 1,962 crore in H1 FY2022 from Rs. 1,495 crore in H1 FY2021. The profitability remains healthy with a

³ Includes gains from treasury operations and distressed asset business

consolidated net profit (net of non-controlling interest) of Rs. 378 crore in H1 FY2022 (return on assets (RoA)⁴ of 4.4%) compared to Rs. 233 crore in H1 FY2021 (RoA³ of 2.9%) and Rs. 590 crore in FY2021 (RoA³ of 3.7%). The return on equity⁵ (RoE) remained moderate at 10.3% in H1 FY2022 (9.2 % in FY2021), given the lower leverage in the business.

Credit challenges

Moderation in asset quality in recent past; high concentration and inherent credit risk in wholesale segment – The Group's loan portfolio largely comprises wholesale lending (~84% of the total book as on September 30, 2021), which includes real estate and bespoke finance (comprises corporate and promoter funding). The large ticket size exposures and high concentration in the loan book, coupled with the inherent risk profile of these asset classes, could result in a sharp deterioration in the asset quality in case of slippages. The domestic real estate sector had been facing a prolonged slowdown, with subdued sales and consequent inventory overhang resulting in debt build-up. Business disruptions on account of the pandemic further exacerbated the issues. While there has been some recovery in recent quarters, particularly for larger developers, a sustained pickup in sales across geographies/segments would remain critical for a meaningful recovery in the sector.

JMFL reported GNPA of 3.5% of advances (net NPA; NNPA of 2.0%) as of March 31, 2021, up from GNPA of 1.7% (NNPA of 1.1%) as of March 31, 2020. While there has been some improvement in the reported GNPA in the current fiscal (2.3% as on September 30, 2021 and NNPA of 1.4% as on date), the stressed portfolio remained largely stable at 6.8% as on September 30, 2021 (6.4% as on March 31, 2021). Additionally, the Group has provided relief through the extension of the DCCO to ~22% of the total loan book as on September 30, 2021. While the asset quality remains a key monitorable, the presence of adequate collateral, and the Group's underwriting and monitoring processes and systems provide comfort. Total provision to total loan book was ~6%, as on September 30, 2021.

Risks associated with distressed assets business, given the nature of underlying assets, uncertainty associated with resolution process and large-ticket exposures – JM Financial Asset Reconstruction Company Limited (JMFARCL) is one of the prominent players in the asset reconstruction business, with assets under management (AUM) of Rs. 10,687 crore as on September 30, 2021. It focuses on the large single borrower corporate segment and the portfolio concentration remains high with the top 5 assets accounting for ~69% of the Group's share of security receipts (SR).

ICRA notes that the resolution of wholesale/large corporate segment tends to be 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 and the company's strategy of focusing on resolution through the revival of operations can result in a protracted process and variability in earnings and cashflows. The impact of the pandemic and consequent disruptions have further affected the resolution process in the past two fiscals. JMFARCL, however, has witnessed an improvement in recoveries in the current fiscal, Rs. 1,386 crore in H1 FY2022 compared to Rs. 1,192 crore in FY2021. Cumulative recoveries increased to Rs. 11,125 crore (59% of cumulative acquisitions) as of September 30, 2021 from Rs. 9,739 crore as on March 31, 2021 (52% of cumulative acquisitions). JMFARCL's ability to maintain a healthy recovery performance on a sustained basis would remain critical.

Fund-raising challenges for non-bank financiers impacting business; ability to maintain asset and liability profile remains critical – The operating environment for non-banking financial companies (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 wholesale/real estate-oriented financiers, to mobilise long-term resources from diversified sources. This, coupled with the subdued macro-economic and operating environment, has impacted the growth in the lending business.

ICRA has taken note of the uptick in fund raising in the recent past, with an attempt to diversify the resource profile in terms of investors (insurance companies, trusts, corporate treasuries, mutual funds, banks, non-bank finance companies, retail

⁴ RoA and RoE are as per ICRA's calculations

⁵ Including minority interest

investors, high net-worth individuals (HNIs)) and instrument (market linked debentures, public issuances of debts), and moderation in cost of funds from FY2020 level; however, the quantum remains lower than pre-September 2018 level. In view of uncertain operating environment, the Group raised Rs. 770 crore capital through qualified institutional placement in Q1 FY2021. Further, JMFL raised debt of Rs. 7,245 crore in FY2021 and Rs. 3,011 crore in H1 FY2022. Though the Group registered an improvement in the average cost of borrowings in FY2021, it remains high. The cost of funds in FY2021 was 9.2%⁶ compared to 10.8%⁵ in FY2020 and it inched up to 9.5%⁵ in H1 FY2022.

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 ~24% as on September 30, 2021. 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.

Liquidity position: Adequate

As on September 30, 2021, JMFL had cash and cash equivalents of Rs. 3,957 crore and unutilised bank lines of Rs. 236 crore. The Group's current liquidity profile is adequate for its near-term maturities (debt repayment obligation, including interest, of Rs. 1,588 crore over October to December 2021). Further, ICRA notes that the asset-liability mismatch (ALM) statements of the key lending entities of the Group did not show negative cumulative mismatches in the up to 1 year buckets, as on September 30, 2021. The available liquidity remains in line with the liquidity maintained by the Group over the last four quarters.

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 the granularity of the asset base, healthy growth in fee-based income, and healthy profitability.

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 consolidated basis) 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 in case of continued challenges in fund-raising (from diverse sources and at competitive rates) for a prolonged period, thereby impacting the Group's ability to maintain its current scale of lending operations. A significant deterioration in the profitability, a reduction in fee-based income and weakening of the capitalisation profile would also be credit negatives.

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, 2021, JMFL had nine subsidiaries, six stepdown subsidiaries, one partnership firm (with two of JMFL's subsidiaries as partners) and an associate company. Details of these companies are provided in Annexure-2.

⁶ As per ICRA's calculations

About the company

JM Financial is an integrated and diversified financial services group, engaged in various capital markets related lending activities. The Group's primary businesses include (a) investment bank, which includes bespoke finance (comprising corporate and promoter funding), institutional broking and other investment banking services, (b) mortgage lending, which includes wholesale and retail mortgage-backed lending, (c) alternative and distressed credit, and (d) asset management, wealth management and securities business (Platform AWS)⁷.

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 September 30, 2021, the consolidated loan book stood at Rs. 11,072 crore (Rs. 10,854 crore as on March 31, 2021), distressed credit business AUM at Rs. 10,687 crore (Rs. 11,060 crore as on March 31, 2021), private wealth management AUM at Rs. 63,760 crore (Rs. 59,052 crore as on March 31, 2021) and mutual fund quarterly average AUM (QAAUM) at Rs. 2,089 crore (Rs. 2,389 crore as on March 31, 2021). The Group is headquartered in Mumbai and has a presence in 601 locations spread across 181 cities in India. JMFL's equity shares are listed in India on the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE).

In H1 FY2022, JMFL reported a consolidated net profit (net of non-controlling interest) of Rs. 378 crore (Rs. 590 crore in FY2021) on total income of Rs. 1,962 crore (Rs. 3,227 crore in FY2021).

Key financial indicators

JMFL (Consolidated)	FY2019	FY2020	FY2021	H1 FY2022*
Total income (Rs. crore)	3,499	3,454	3,227	1,962
Profit after tax ⁸ (Rs. crore)	572	545	590	378
Net worth (including non-controlling interest ⁹ ; Rs. crore)	7,229	7,993	9,552	10,006
Loan book (Rs. crore)	14,107	11,531	10,854	11,072
Total assets ⁶ (Rs. crore)	22,588	20,693	23,322	22,581
Return on assets (%)	3.7%	3.6%	3.7%	4.4%
Return on net worth (%)	12.8%	10.2%	9.2%	10.3%
Gross gearing (times)	1.94	1.47	1.29	1.08
Gross NPA (%)	0.68%	1.65%	3.50%	2.3%
Net NPA (%)	0.55%	1.13%	1.95%	1.4%
CRAR (%)	31.90%	38.70%	40.2%	42.9%

Source: JMFL, ICRA Research; * Limited review; All ratios as per ICRA's calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

⁷ Till FY2021, the Group's operations comprised the following segments: (a) investment banking, wealth management and securities business, (b) mortgage lending, (c) distressed credit, and (d) asset management

⁸ Including share in profit of associates and net of non-controlling interest

⁹ Net of goodwill on consolidation

Rating history for past three years

	Instrument	Rating (FY2022)			Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on Dec 27, 2021 (Rs. crore)	Current Rating	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Jan 31, 2022	Feb 26, 2021 Aug 20, 2020 Apr 13, 2020	Jan 20, 2020 Apr 01, 2019	-
1	NCD Programme	Long Term	100	0	[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+	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
NCD Programme	Simple
Bank Lines (Unallocated)	Not Applicable
CP Programme	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments are available on ICRA's 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: JMFL

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership as on March 31, 2021	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	99.45%	
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	93.80%	
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 Services Private Limited	Related Party *	

Source: JMFL annual report FY2021

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

* One of the promoter entities of JMFL, holding 22.76% stake in JMFL as on September 30, 2021

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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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Branches



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