

March 14, 2024

## J.M. Financial & Investment Consultancy Services Private Limited: Update on Material Event

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial paper programme	200.0	200.0	[ICRA]A1+; outstanding
<b>Total</b>	<b>200.0</b>	<b>200.0</b>	

\*Instrument details are provided in Annexure I

### Rationale

#### Material Event

The Reserve Bank of India (RBI), vide its press release dated [March 05, 2024](#), directed JM Financial Products Limited (JMFPL; a material subsidiary of JM Financial Limited or JMFL) to cease and desist, with immediate effect, from any form of financing against shares and debentures, including the sanction and disbursal of loans against the initial public offering (IPO) of shares as well as against subscription to debentures. JMFPL can, however, continue to service its existing loan accounts through the usual collection and recovery process. This move came after the RBI carried out a limited review of JMFPL's books based on information shared by the Securities and Exchange Board of India (SEBI). The RBI has expressed concerns regarding the loans sanctioned by JMFPL for IPO financing as well as the non-convertible debenture (NCD) subscriptions. The above-mentioned business restrictions will be reviewed upon the completion of a special audit to be instituted by the RBI and after the rectification of the deficiencies to the satisfaction of the central bank.

Additionally, SEBI has issued an interim ex parte order in the matter of JMFL on [March 07, 2024](#). The regulator has issued interim directions, whereby JMFL is barred from taking any new mandate for acting as a lead manager for the public issuance of debt securities. It can, however, continue to act as a lead manager for the public issuance of debt securities for a period of 60 days from the date of the order, in respect of any existing mandates. JMFL may, within 21 days from the date of the receipt of the order, file its reply / objections, if any, to this interim ex-parte order and may also seek to avail an opportunity of personal hearing. SEBI will undertake an investigation into the issues covered under the aforesaid order and the same shall be completed within a period of six months.

#### Impact of material event

While arriving at the rating for J. M. Financial & Investment Consultancy Services Private Limited (JMFIC), ICRA factors in the close linkage between JMFIC and JMFL, the company's status of being the principal promoter of JMFL, and the strong cover emanating from the market value of its stake in JMFL in relation to the quantum of the debt (including the rated debt programme). Considering the prohibition on JMFL from accepting a new mandate for acting as a lead manager for the public issuance of debt securities and the restriction on JMFPL from doing any form of financing against shares and debentures, the Group's incremental business in these segments would be impacted. In this regard, it is noted that the net total income from the IPO financing business was around Rs. 7 crore in 9M FY2024, constituting 1.5% of JMFPL's net total income and 0.3% of the Group's consolidated net total income. Additionally, revenue contribution for being the lead manager of the public issuance of debt securities was ~Rs. 9 crore, constituting 1.4% of JMFL's standalone total income and ~0.3% of Group's total income (0.4% of the Group's consolidated net total income) in 9M FY2024.

ICRA notes that both regulators are yet to commence the special audit/investigation and the management has expressed their intent to fully cooperate and explain their position. Moreover, the key businesses of the group, viz equity capital markets, advisory (mergers and acquisitions, private equity syndication), mortgage lending (retail and wholesale), institutional and retail

broking, asset management, and distressed assets are not directly impacted by these orders. Having said that, while the direct contribution of the segments covered under these orders is not substantial for the Group, pending the outcomes, the impact on its business and borrowing franchise in the near term will remain monitorable. The company's overall loan book may decline, given the short to medium tenor of the loans backed by securities, though, these funds can be deployed across other segments. Further, any sustained impact on the Group's financial flexibility and ability to raise funds at competitive rates could have a bearing on the growth in the other segments. Hence, ICRA will continue to monitor the impact of these orders on the Group's operational and financial performance, besides developments related to concerns raised by the regulators on compliance and processes. Also, while the cover emanating from the market value of its stake in JMFL in relation to the quantum of the debt remains strong for JMFL despite the recent developments, it will remain a monitorable. As of March 7, 2024, JMFL (at a consolidated level) had on-balance sheet liquidity of 4,764 crore, comprising bank balance and unliened fixed deposits of Rs. 444 crore, investment in liquid and overnight mutual funds of Rs. 2,773 crore and investment-cum-trading book, comprising Government securities, Treasury bills, state development bills, corporate bonds, debt mutual funds and listed securities, of Rs. 1,547 crore. The aforesaid on-balance sheet liquidity is equivalent to 28% of consolidated debt outstanding and stands comfortable vis-à-vis scheduled debt repayments (including interest) of Rs. 2,874 crore falling due till June 30, 2024.

JMFL's consolidated revenue stream remains adequately diversified with the investment bank, mortgage lending, alternative and distressed credit, and asset management, wealth management and securities businesses (Platform AWS) and others contributing 39%, 32%, 10%, 19% and sub-1%, respectively, in 9M FY2024. JMFL reported a consolidated net profit (including share of non-controlling interest; NCI and share in profit of associate) of Rs. 705 crore in 9M FY2024 on total income of Rs. 3,556 crore compared to Rs. 676 crore and Rs. 2,629 crore, respectively, in 9M FY2023. It reported a consolidated net profit (including share of NCI and share in profit of associate) of Rs. 709 crore in FY2023 (Rs. 992 crore in FY2022) on total income of Rs. 3,343 crore (Rs. 3,763 crore in FY2022).

JMFL's consolidated net worth (including NCI, NCI of security receipt holders and net of goodwill on consolidation) stood at Rs. 11,673 crore as on December 31, 2023 while the capital-to-risk weighted assets ratio (CRAR)<sup>1</sup> was 37.2%. The consolidated gearing was lower at 1.5 times as on December 31, 2023 vis-à-vis the peak gearing of 2.5 times as of March 2018.

Please refer to the following link for the previous detailed rationale that captures the key rating drivers and their description, liquidity position and rating sensitivities : [Click here](#).

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Rating Methodology for Investment Company</a>
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

## About the company

J.M. Financial & Investment Consultancy Services Private Limited (JMFL) is an investment company of Mr. Nimesh Kampani and family. It is the largest shareholder of JM Financial Limited (JMFL; rated [ICRA]AA (Stable)/A1+) with a 24% stake as of September 30, 2023. The Kampani family, through Mr. Vishal Kampani (son of Mr. Nimesh Kampani), is actively involved in the management of JMFL and its Group entities. The company also has a sizeable investment book (excluding its stake in JMFL) with the market value of its listed holdings (excluding JMFL) aggregating Rs. 734 crore as of December 4, 2023.

<sup>1</sup> Consolidated CRAR of the NBFCs and the housing finance company (HFC) in the Group

JMFIC reported a profit after tax (PAT) of Rs. 34 crore on total income of Rs. 56 crore in FY2023 compared to Rs. 14 crore and Rs. 37 crore, respectively, in FY2022.

#### Key financial indicators (audited)

JMFIC	FY2021	FY2022	FY2023
Total income	13	37	56
Profit after tax	1	14	34
Other comprehensive income (OCI)	170	188	-62
Net worth	715	916	887
Investments	724	895	864
Total assets	793	970	941
Return on assets (excluding OCI)	0.1%	1.6%	3.6%
Return on net worth	0.2%	1.8%	3.8%
Gross gearing (times)	0.0	0.0	0.0
CRAR	97.2%	97.8%	100.9%

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

#### Status of non-cooperation with previous CRA: Not applicable

Any other information: None

#### Rating history for past three years

Sl. No.	Instrument	Type	Current Rating (FY2024)				Chronology of Rating History for the Past 3 Years		
			Amount Rated (Rs. crore)	Amount Outstanding as on Feb 26, 2024 (Rs. crore)	Date & Rating in FY2024		Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					Mar 14, 2024	Dec 18, 2023			
1	CP programme	Short term	200	0	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

\*As of December 8, 2023

#### Complexity level of the rated instruments

Instrument	Complexity Indicator
Commercial paper programme	Very Simple*

\*Subject to change based on terms of issuance

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: [Click Here](#)

#### Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	CP programme	-^	-	7-365 days	200.0	[ICRA]A1+

Source: Company; ^Yet to be placed

#### Annexure II: List of entities considered for consolidated analysis

Not applicable

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