

July 15, 2024^(Revised)

JM Financial Asset Reconstruction Company Limited: Update on Material Event

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Outstanding
Non-convertible debenture (NCD) programme	2,000.0	2,000.0	[ICRA]AA- (Stable)
Market linked debenture (principal protected) (MLD-PP) programme	405.0	405.0	PP-MLD[ICRA]AA- (Stable)
Long-term fund-based bank lines – Others	500.0	500.0	[ICRA]AA- (Stable)
Commercial paper programme	1,000.0	1,000.0	[ICRA]A1+
Total	3,905.0	3,905.0	

*Instrument details are provided in Annexure I

Rationale

Material event

Through a disclosure on the stock exchanges on July 6, 2024, JM Financial Limited [JMFL; the holding company of JM Financial Group (the Group)] announced that it will be consolidating its holding in wholesale debt syndication and the distressed credit business under one platform. At a meeting held on July 6, 2024, the board of directors approved the acquisition of a 42.99% stake in JM Financial Credit Solutions Limited (JMFCSL) by JMFL. Following the transaction, the Group's stake in JMFCSL shall increase to 89.67% from 46.68%. JMFL's board also approved the sale of its 71.79% stake in JM Financial Asset Reconstruction Company Limited (JMFARCL) to JMFCSL. Post this transaction, JMFCSL's stake in JMFARCL shall increase to 81.77% from 9.98%, and the effective stake of the Group in JMFARCL will decrease to 73.32% from 76.45%. The proposed transactions are subject to regulatory, shareholder and other approvals and the management expects the same to be completed in 3-6 months.

Impact of material event

While arriving at the ratings, ICRA has considered the consolidated financials of JMFL and has taken a consolidated view of the credit profiles of the company and its subsidiaries engaged in merchant banking, mortgage lending, bespoke finance, financial institution financing, capital market financing, securities broking, financial product distribution, wealth and asset management, due to the common promoters and senior management team, shared brand name, and financial and operational linkages. ICRA also factors in the support extended to the subsidiaries and associates engaged in distressed asset management and other businesses.

JMFL's acquisition of a 42.99% stake in JMFCSL entails a consideration of about Rs. 1,282 crore, which shall be paid to an external investor, i.e. INH Mauritius 1 Fund (managed by Mr. Vikram Pandit; hereafter referred to as investor). At the same time, JMFCSL's acquisition of a 71.79% stake in JMFARCL for a consideration of about Rs. 856 crore shall involve a payment to JMFL, which will be cash neutral for the Group at the consolidated level. Thus, the net cash outgo at the standalone level will be Rs. 426 crore for JMFL and Rs. 856 crore for JMFCSL, totalling Rs. 1,282 crore for the Group at the consolidated level. The Group's consolidated net worth (including non-controlling interest) will also decline by Rs. 1,282 crore. As per ICRA's assessment, the transaction is not expected to materially alter the Group's capitalisation and liquidity position.

ICRA notes that the Group's consolidated liquidity was augmented in recent quarters, given the strong cash accruals in the preceding quarters, the rundown in the capital market lending book following the regulatory action, and recoveries in the wholesale mortgage lending business. As of March 31, 2024, the Group carried unencumbered on-balance sheet liquidity comprising cash & bank balances, Government securities, Treasury bills and liquid mutual funds of Rs. 4,769 crore (~30% of

the consolidated borrowing) and unutilised bank lines of Rs. 29 crore compared to debt obligations (principal and interest) of Rs. 3,280 crore due in the ensuing six months (April 2024 to September 2024). The expected inflows from operations, aggregating Rs. 5,527 crore in the next six months (April 2024 to September 2024), also support the liquidity profile. Besides, the Group’s listed equity shares, investment in real estate investment trusts (REITs) and corporate bond portfolio, aggregating Rs. 1,087 crore as of March 31, 2024, can be liquidated to generate liquidity in case of contingency. The consolidated liquidity profile is expected to remain adequate to support the near-term debt obligations despite the expected cash outflow.

The Group’s consolidated capitalisation is also expected to remain comfortable. As of March 31, 2024, the consolidated capitalisation was characterised by a gearing of 1.5 times. The financial leverage, after adjusting the decline in the non-controlling interest portion of the net worth, is expected to remain range-bound and well below the peak of 2.5 times reported in March 2018. Further, the financial leverage is expected to decline over the medium term as the Group moves to an asset-light model.

INH Mauritius 1 Fund held a 48.96% stake in JMFCSL as of March 31, 2024. JMFL’s acquisition of a share of 42.99% will increase its stake in JMFCSL to 89.67% from 46.68%. In this context, the management has stated that the proposed transaction will lead to even better control on capital and liquidity allocation within the Group. This will also facilitate a smooth transition to the distribution, syndication and alternatives model from the current on-balance sheet lending model. Further, JMFCSL’s acquisition of a controlling stake in JMFARCL will help in the alignment of the wholesale credit businesses under one entity.

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

Liquidity position: Adequate

As of March 31, 2024, JMFARCL had on-balance sheet liquidity of Rs. 46 crore (excluding unutilised bank lines of Rs. 11 crore and inter-corporate loan facilities) vis-à-vis a debt obligation of Rs. 415 crore due in the next six months. Even though the on-balance sheet liquidity remains low, ICRA draws comfort from the available inter-corporate loan facilities from the Group. JMFL’s shareholders have passed an enabling resolution for transactions with JMFARCL (including providing loans/inter-corporate deposits (ICDs)/investments) up to Rs. 750 crore in a financial year from the parent company, which can be drawn if required. The aforesaid transactions, involving increase in JMFL’s stake in JMFCSL and JMFCSL’s acquisition of JMFL’s stake in JMFARCL, are neutral for the company’s liquidity position. Further, JMFARCL has arrangements with Group companies for availing inter-corporate loans. In FY2024, the cumulative ICDs utilised from the parent and Group companies stood at Rs. 798 crore. ICRA also notes that JMFARCL’s liquidity profile was augmented in Q1 FY2025, following the capital infusion of Rs. 596 crore by the Group.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology – Non-banking Finance Companies (NBFCs)
Parent/Group support	JM Financial Group (i.e. JMFL, the parent company)
Consolidation/Standalone	JMFARCL (standalone)

About the company

Incorporated in September 2007, JM Financial Asset Reconstruction Company Limited (JMFARCL) is registered with the Reserve Bank of India (RBI) under the SARFAESI Act, 2002 as a securitisation and asset reconstruction company. It acquires non-performing financial assets from banks/financial institutions and provides resolution for the same. The company is a subsidiary of JM Financial Limited (JMFL), which held a 72% stake as on May 31, 2024. The balance is held by JM Financial Credit Solutions Limited (10%), Mr. Narotam Sekhsaria (7%), Valiant Mauritius Partners FDI Ltd. (4%) and others (including three public sector banks; 7%). As on March 31, 2024, JMFARCL operated through four branches (including the head office) – two in Mumbai and one each in Bengaluru and Delhi.

Key financial indicators (audited)

JMFARCL – Standalone	FY2022	FY2023	FY2024
Reported total income	511	235	359
Profit after tax	172	(155)	(942)**
Assets under management	10,936	13,558	14,500
Reported total assets*	4,100	4,711	3,528
Return on assets	4.1%	-3.5%	-22.7%
Gross gearing (times)	1.4	2.0	4.7^

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

^ Limited review; ** Extraordinary item/loss of Rs. 847 crore; ^ 2.0 times in the absence of extraordinary item – the gearing is estimated to have improved to 2.0 times with the capital infusion of Rs. 596 crore in Q1 FY2025

* Based on net loan book and investments

JM Financial Group

JM Financial Limited (JMFL) is the holding company of the operating entities in the JM Financial Group, which is an integrated and diversified financial services group. While JMFL is engaged in investment banking, portfolio management, wealth management and the management of private equity fund(s) at the standalone level, the consolidated operations encompass (a) investment bank, which includes investment banking, institutional equities and research, private equity, fixed income, syndication and corporate/promoter finance, capital market related lending, private wealth management services for high-net-worth individual (HNI)/ultra HNI clients, and portfolio management services; (b) mortgage lending, which includes wholesale and retail mortgage lending (affordable housing loans); c) distressed credit, which includes the asset reconstruction business and (d) Platform AWS (asset management, retail wealth management and retail securities business), which includes mutual funds, wealth management for retail and elite clients, investment advisory, distribution and equity broking.

As on March 31, 2024, the consolidated loan book stood at Rs. 12,917 crore (Rs. 15,653 crore as on March 31, 2023), distressed credit business assets under management (AUM) at Rs. 14,500 crore (Rs. 13,558 crore as on March 31, 2023), private wealth management AUM at Rs. 68,105 crore (Rs. 56,515 crore as on March 31, 2023), retail and elite wealth AUM at Rs. 30,696 crore (Rs. 29,514 crore as of December 31, 2023) and mutual fund quarterly average AUM (QAAUM) at Rs. 5,819 crore (Rs. 2,969 crore as on March 31, 2023). The Group is headquartered in Mumbai and has a presence in ~814 locations spread across ~215 cities in India. JMFL's equity shares are listed in India on the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE).

In May 2024, the management announced that while the focus on investment bank and platform AWS will continue, the wholesale credit business (real estate financing, bespoke, financial Institutions loans and distressed credit) will be pivoted to the distribution, syndication and alternatives model from the on-balance sheet lending model. The shift to the asset-light model is expected to take 3-4 years. The retail capital market led business and retail mortgage lending business will continue to be expanded through the Group's balance sheet. Focus in the distressed credit business will be on acquiring retail assets while resolving the existing AUM, which is dominated by wholesale assets.

JMFL reported a consolidated net profit (including share of non-controlling interest) of Rs. 31 crore on total income of Rs. 4,832 crore in FY2024 compared to Rs. 709 crore and Rs. 3,343 crore, respectively, in FY2023.

Key financial indicators (audited)

JMFL – Consolidated	FY2022	FY2023	FY2024
Total income	3,763	3,343	4,832
Profit after tax (including the share of non-controlling interest and share in profit of associate)	992	709	31^^
Profit after tax (adjusted for the share of non-controlling interest)	773	597	410
Net total assets**	25,762	29,318	29,711
Return on net worth	9.8%	6.5%	0.3%
Return on net worth (adjusted for the share of non-controlling interest)	10.6%	7.6%	5.0%
Gross gearing (times) ¹	1.2	1.4	1.5
Gross NPA	4.3%	3.4%	4.7%
CRAR [@]	39.4%	38.6%	37.0%

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

^^ Exceptional loss of Rs. 847 crore booked in JMFARCL pertaining to higher provision/fair value losses in certain trusts of one large account in FY2024

** Excluding goodwill on consolidation; ¹ Excludes borrowing for initial public offering (IPO) financing segment and includes accrued interest

[@] For JM Financial Credit Solutions Limited (JMFCSL), JM Financial Capital Limited (JMFCL), JM Financial Products Limited (JMFPL) and JM Financial Home Loans Limited (JMFHL)

Status of non-cooperation with previous CRA: Not applicable
Any other information:

Certain entities in the Group also face prepayment risk, given the possibility of debt acceleration upon the breach of covenants, including financial covenants, operating covenants and rating-linked covenants. Upon failure to meet the covenants, if the company is unable to get waivers from the lenders/investors or the lenders/investors do not provide it with adequate time to arrange for alternative funding to pay off the accelerated loans, the ratings would face pressure.

Rating history for past three years

Instrument	Type	Amount Rated (Rs. crore)	Current Rating (FY2025)				Chronology of Rating History for the Past 3 Years									
			Date & Rating in FY2025				Date & Rating in FY2024			Date & Rating in FY2023				Date & Rating in FY2022		
			Jul 15, 2024	Jul 05, 2024	May 23, 2024	May 10, 2024	Mar 14, 2024	Oct 20, 2023	Mar 31, 2023	Feb 1, 2023	Oct 20, 2022	Sep 29, 2022	Jan 31, 2022	Oct 6, 2021	Jul 9, 2021	
1	NCD programme	2,000.0	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	
2	MLD (PP) programme	405.0	PP-MLD[ICRA]A A-(Stable)	PP-MLD[ICRA]A A-(Stable)	PP-MLD[ICRA]A A-(Stable)	PP-MLD[ICRA]A A-(Stable)	PP-MLD[ICRA]AA-(Stable)	PP-MLD[ICRA]A A-(Stable)	PP-MLD[ICRA]A A-(Stable)	PP-MLD[ICRA]A A-(Stable)	PP-MLD[ICRA]A A-(Stable)	PP-MLD[ICRA]A A-(Stable)	PP-MLD[ICRA]A A-(Stable)	PP-MLD[ICRA]A A-(Stable)	PP-MLD[ICRA]AA-(Stable)	
3	Fund-based bank lines – Others	500.0	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	-	-	-	
4	CP programme	1,000.0	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	
5	Long-term bank lines (cash credit)^	-	-	-	-	-	-	-	-	-	-	-	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	
6	Long-term bank lines (term loan)^	-	-	-	-	-	-	-	-	-	-	-	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	
7	Long-term bank lines (unallocated) ^	-	-	-	-	-	-	-	-	-	-	-	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	

^ Clubbed with long-term fund-based bank lines

Complexity level of the rated instruments

Instrument	Complexity Indicator
NCD programme	Simple*
Fund-based bank lines – Others	Simple
MLD-PP programme	Complex^
Commercial paper	Very Simple

* For the utilised portion of Rs. 925 crore and subject to change based on the terms of issuance for the balance amount

^ For the utilised portion of Rs. 475 crore and subject to change based on the terms of issuance for the balance amount

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	Coupon Rate (%)	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
INE265J07431	MLD (PP)	May 26, 2022	G-Sec linked	Jul 26, 2024	100.00	PP-MLD[ICRA]AA- (Stable)
INE265J07449	MLD (PP)	Aug 30, 2022	G-Sec linked	Nov 26, 2024	150.00	PP-MLD[ICRA]AA- (Stable)
INE265J07449	MLD (PP)	Sep 27, 2022	G-Sec linked	Nov 26, 2024	30.00	PP-MLD[ICRA]AA- (Stable)
INE265J07456	MLD (PP)	Nov 18, 2022	G-Sec linked	Feb 28, 2025	125.00	PP-MLD[ICRA]AA- (Stable)
INE265J07472	NCD	Dec 21, 2022	9.60%	Dec 20, 2024	50.00	[ICRA]AA- (Stable)
INE265J07480	NCD	Dec 21, 2022	9.60%	Jun 20, 2025	75.00	[ICRA]AA- (Stable)
INE265J07498	NCD	Dec 21, 2022	9.60%	Dec 19, 2025	50.00	[ICRA]AA- (Stable)
INE265J07506	NCD	Feb 2, 2023	10.21%	Feb 2, 2026	400.00	[ICRA]AA- (Stable)
INE265J07514	NCD	Feb 7, 2023	10.20%	Aug 7, 2025	175.00	[ICRA]AA- (Stable)
INE265J07522	NCD	Feb 7, 2023	10.20%	May 7, 2025	175.00	[ICRA]AA- (Stable)
NA	NCD (yet to be placed)	-	-	-	1,075.00	[ICRA]AA- (Stable)
NA	Fund-based bank lines – Others	-	-	-	500.00	[ICRA]AA- (Stable)
NA	CP (yet to be placed)	-	-	7-365 days	1,000.00	[ICRA]A1+

Source: Company; As on Jun 28, 2024

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis

Not applicable

Corrigendum

Rationale dated July 15, 2024, has been revised with changes as below:

The utilised amount in the NCD programme, mentioned below the complexity table (Page 6), stands corrected

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