

July 15, 2024

JM Financial Institutional Securities Limited: Update on Material Event

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Outstanding
Commercial paper programme	100.0	100.0	[ICRA]A1+
Fund-based/Non-fund based bank lines – Others	200.0	200.0	[ICRA]AA (Stable)
Total	300.0	300.0	

*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, 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)¹ 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, 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 towards the above-mentioned transaction.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Non-banking Finance Companies Rating Methodology for Stockbroking and Allied Companies
Parent/Group support	Not applicable; while arriving at the ratings, ICRA has considered the consolidated financials of JMFL. It has taken a consolidated view of the credit profiles of JMFL and its subsidiaries, which are engaged in merchant banking, mortgage lending (retail and wholesale), bespoke finance, institutional and retail broking, asset management and wealth management, due to the close linkages between the entities, common promoters and senior management team, shared brand name, and strong financial and operational synergies. ICRA has also factored in the support it extends to its subsidiaries and associates engaged in the distressed asset management and other businesses.
Consolidation/Standalone	ICRA has considered the consolidated financials of JMFL. As on March 31, 2024, JMFL had ten subsidiaries, four step-down subsidiaries, one partnership firm (with two of JMFL's subsidiaries as partners), one association of persons (AOP; with two of JMFL's subsidiaries as members) and an associate company. Details of these companies are provided in Annexure II.

About the company

Incorporated in 2017, JM Financial Institutional Securities Limited (JMFI SL; formerly known as JM Financial Securities Limited), provides broking services to the Group's institutional clients (including corporate treasury and private equity funds among

¹The Group carried liquidity equivalent to 12% of the consolidated borrowings, on an average, in the preceding four quarter ends from March 2023 to December 2023

others). As on June 30, 2023, JMFISL had 133 active clients. It also provides advisory services to the Group's domestic and offshore clients and receives fees from JMFL for services related to initial public offering (IPOs), rights issues, and follow-on public offers (FPOs), wherein JMFL is the lead manager/advisor.

In May 2022, the Group announced the demerger of JMFISL from JM Financial Services Limited (JMFSL; wholly-owned subsidiary of JMFL), making it a direct subsidiary of JMFL. The proposed restructuring was completed in Q1 FY2024 and JMFSL became a direct subsidiary of JMFL w.e.f. April 1, 2023.

JMFISL reported a net profit of Rs. 43 crore on total income of Rs. 202 crore in FY2024 compared to a profit after tax (PAT) of Rs. 13 crore on total operating income² of Rs. 132 crore in FY2023.

Key financial indicators (audited)

JMFISL – Standalone	FY2022	FY2023	FY2024
Net operating income (NOI)	126	106	165
Profit after tax (PAT)	33	13	43
Net worth	136	133	176
Reported total assets	218	212	269
Gearing (times)	0.0	0.0	0.0
Return on average net worth	27.7%	9.7%	27.8%

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

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.

² Net of sub-brokerage

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 JM FARCL 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 (JMFCCL), JM Financial Products Limited (JMFPPL) and JM Financial Home Loans Limited (JM FHL)

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 10, 2024	Mar 14, 2024	Oct 20, 2023	Jan 19, 2023	Oct 20, 2022	Jul 25, 2022	Jan 31, 2022	Jul 8, 2021
1 CP programme	Short term	100.0	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A 1+	[ICRA]A 1+	[ICRA]A 1+	-	-	-	-
2 Fund-based/Non-fund based bank lines – Others	Long term	200.0	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	-	-
3 Bank lines (unallocated)^	Long term	-	-	-	-	-	-	-	-	-	[ICRA]A (Stable)	[ICRA]AA (Stable)

^ Clubbed with fund-based/non-fund based bank lines – Others

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based/Non-fund based bank lines – Others	Simple
Commercial paper programme	Very Simple*

* Subject to change as per 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	Fund-based/Non-fund based bank lines	-	-	-	200.0	[ICRA]AA (Stable)
NA	CP programme (yet to be placed)*	-	-	7-365 days	100.0	[ICRA]A1+

Source: Company; As on June 22, 2024; * Proposed

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

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership as on March 31, 2024	Consolidation Approach
JM Financial Limited	Holding Company	ICRA has taken a consolidated view of the parent, its subsidiaries and an associate
JM Financial Asset Management Limited	59.54%	
JM Financial Products Limited	99.71%	
JM Financial Services Limited	100%	
JM Financial Credit Solutions Limited	46.68%	
JM Financial Asset Reconstruction Company Limited*	58.28%	
JM Financial Home Loans Limited	94.02%	
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%	
ARB Maestro	100%	
CR Retail Malls (India) Limited	100%	
Infinite India Investment Management Limited	100%	

Source: Company

ICRA has taken a consolidated view of the parent (JMFL), its subsidiaries and an associate while assigning the ratings

* Effective shareholding in JM Financial Asset Reconstruction Company Limited increased to 76.45% pursuant to subscription to rights issue on May 29, 2024

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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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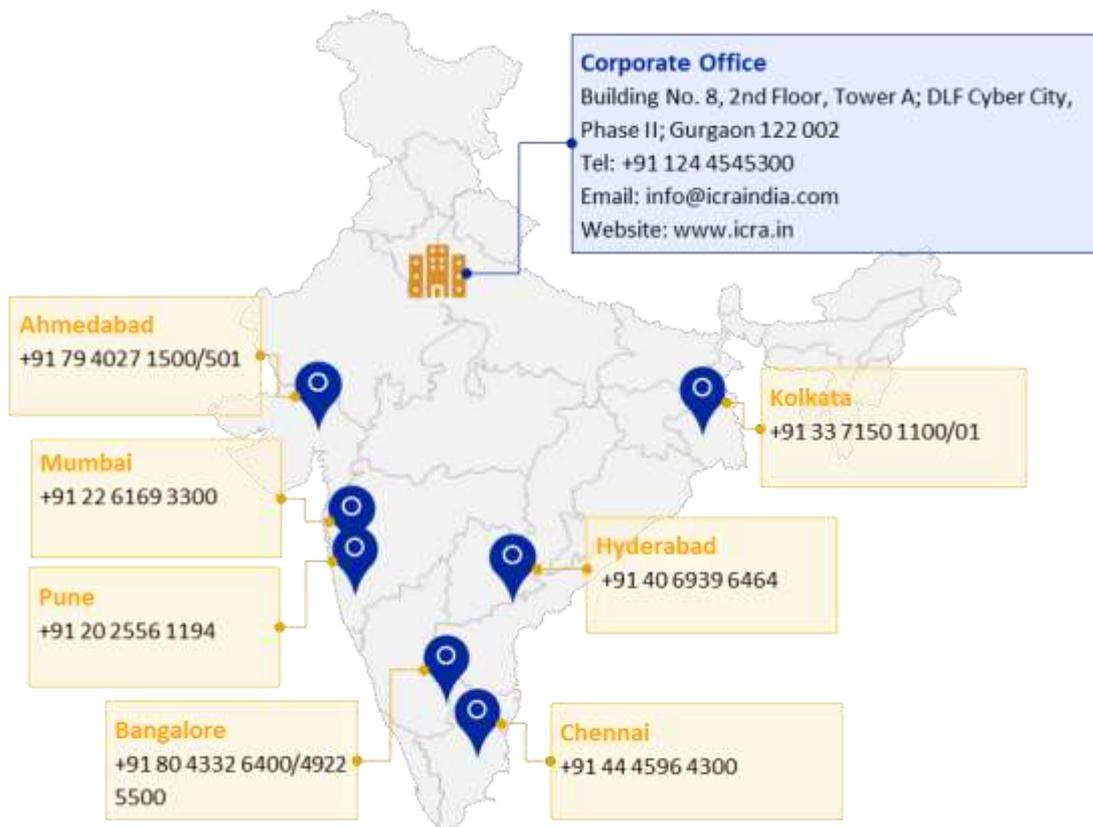
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