July 25, 2022

JM Financial Institutional Securities Limited: Rating reaffirmed; Rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Bank Lines – Unallocated^	150.00	0	-
Long-term Fund-based/Non-fund Based Bank Lines – Others	0	200.00	[ICRA]AA (Stable); assigned and reaffirmed
Total	**150.00**	**200.00**	

**Instrument details are provided in Annexure I; ^Clubbed under the current limit of Rs. 200 crore*

Rationale

While assigning the rating, ICRA has taken a consolidated view of the JM Financial 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 rating continues to factor in the Group's established track record and position in the domestic financial services industry, its diversified revenue stream and healthy financial profile with steady profitability and an adequate capitalisation level. The rating also factors in the healthy fee income arising from the agency-based business, which has helped support the earnings profile.

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 funding[1] accounted for ~81% of the total book as on March 31, 2022). JMFL witnessed a deterioration in the asset quality in recent quarters with its gross non-performing assets (GNPAs) increasing to 4.3% as on March 31, 2022 (net NPAs (NNPAs) – 2.7%) from 2.3% (NNPAs of 1.4%) as on September 30, 2021 and 3.5% (NNPAs of 2.0%) as on March 31, 2021. ICRA notes that the total stressed assets (GNPAs + special mention accounts (SMA) 2) also increased to 7.4% as of March 31, 2022 from 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 date of commencement of commercial operations (DCCO) to ~20% of the total loan book as on March 31, 2022. Nonetheless, 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 rating also factors 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 the distressed assets business) and maintain a healthy asset quality will remain critical.

While reaffirming/assigning the rating, ICRA takes note of the 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 also taken note of the uptick in fund-raising by JMFL in the recent past, with an attempt to diversify the resource profile in terms of investors and instruments, and the moderation in the cost of funds from the FY2020 level. The quantum remains below the pre-September 2018 level, though it is in accordance with the revised growth plans. Given the prominence of the

[1]*Bespoke funding represents the corporate and promotor funding portfolio of the Group*

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.

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 bank, mortgage lending, alternative and distressed credit, and asset management and wealth management and securities businesses (Platform AWS) contributing 34%, 32%, 14% and 18%, respectively, to revenues in 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 and asset management helps support the earnings profile.

JMFL had a loan book of Rs. 13,017 crore on a consolidated basis as on March 31, 2022, comprising wholesale mortgage-backed lending (48%), bespoke lending (33%), capital market lending (6%), retail mortgage (9%) and financial institution financing (3%). The Group forayed into retail lending in FY2017 through products like home loans, loan against property (LAP) and loans to educational institutions. While the scale of the retail operations remains limited at present, the Group is actively looking to ramp up this business and is strengthening its resources/infrastructure for the same. As on March 31, 2022, the Group operated its retail lending business through 55 branches primarily in Tier II and III cities and the retail mortgage-backed loan book stood at Rs. 1,170 crore.

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. 10,453 crore and a capital to risk weighted assets ratio (CRAR) of 39.4% as on March 31, 2022 (Rs. 9,552 crore and 40.2%, respectively, as of March 31, 2021). Total borrowings at the consolidated level (including borrowings for initial public offering (IPO) financing) stood at Rs. 13,458 crore as on March 31, 2022 compared to 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 a qualified institutional placement in Q1 FY2021) and healthy accruals. The consolidated gearing remained comfortable at 1.22 times[2] as on March 31, 2022 (1.29 times as on March 31, 2021 and 1.47 times as on March 31, 2020). The net gearing, as on March 31, 2022, was 0.87[3] times (0.73 times as on March 31, 2021). The Group's capitalisation profile remains healthy, with lower leverage compared to peers, and provides sufficient 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.

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[2]*Excluding borrowings for IPO financing; the gearing as on March 31, 2022 was 1.29 times including borrowings for IPO financing*

[3]*Excluding borrowings for IPO financing; the net gearing as on March 31, 2022 was 0.93 times including borrowings for IPO financing*

Adequate profitability indicators – With the healthy performance in the bespoke lending business, capital market related activities and the asset reconstruction business, JMFL recorded an all-time high total income of Rs. 3,763 crore in FY2022 (Rs. 3,227 crore in FY2021). The profitability remains healthy with a consolidated net profit (net of non-controlling interest) of Rs. 773 crore in FY2022 (return on assets (RoA)[4] of 3.9%) compared to Rs. 590 crore in FY2021 (RoA[3] of 3.7%). The return on equity[5] (RoE) remained moderate at 9.9% in 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 (~81% of the total book as on March 31, 2022), 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 faced a prolonged slowdown, with subdued sales and the consequent inventory overhang resulting in debt build-up. Business disruptions on account of the Covid-19 pandemic further exacerbated the issues. While there has been some recovery in the last few quarters, particularly for larger developers, a sustained pickup in sales across geographies/segments would remain critical for a meaningful recovery in the sector. The Group has also faced delays in the resolution of some wholesale mortgage-backed stressed assets, thus keeping the asset quality indicators moderately high.

JMFL reported GNPAs of 3.5% of advances (NNPAs of 2.0%) as of March 31, 2021, up from 1.7% (NNPAs of 1.1%) as of March 31, 2020. While the GNPAs improved to 2.3% (NNPAs of 1.4%) as on September 30, 2021, the same inched up to 4.3% (NNPAs of 2.7%) as on March 31, 2022. ICRA notes that the total stressed assets (GNPAs + SMA 2) also increased to 7.4% as of March 31, 2022 from 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 ~20% of the total loan book as on March 31, 2022. 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 cover against the loan book was 5.8% as on March 31, 2022.

Risks associated with distressed assets business, given the nature of the 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. 10,936 crore as on March 31, 2022. It focuses on the large single borrower corporate segment and the portfolio concentration remains high with the top 5 assets accounting for ~70% of the Group's share of security receipts (SR) as on March 31, 2022.

ICRA notes that the resolution of the 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 significant 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 the earnings and cashflows. The impact of the pandemic and the consequent disruptions further affected the resolution process in FY2021. However, JMFARCL witnessed an improvement in recoveries in FY2022 at Rs. 2,041 crore compared to Rs. 1,192 crore in FY2021. Cumulative recoveries increased to Rs. 11,780 crore (62% of cumulative acquisitions and loans disbursed) as on March 31, 2022 from Rs. 9,739 crore as on March 31, 2021 (53% of cumulative acquisitions and loans disbursed). 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

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[4] RoA and RoE are as per ICRA's calculations

[5] Including minority interest

sentiment of lenders/investors towards real estate lenders has constrained the ability of wholesale/real estate-oriented financers, to mobilise long-term resources from diversified sources. This, coupled with the subdued macroeconomic and operating environment, further impacted the growth in the lending business in the last two years.

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, NBFCs, retail investors, high-net-worth individuals (HNIs)} and instruments (market linked debentures, public issuance of debts), and the moderation in the cost of funds from the FY2020 level; however, the quantum remains below the pre-September 2018 level. In view of the uncertain operating environment, the Group raised Rs. 770-crore capital through a qualified institutional placement in Q1 FY2021. Further, JMFL raised debt of Rs. 7,245 crore in FY2021 and Rs. 8,029 crore in FY2022.

ICRA notes that the share of short-term borrowing in the total borrowing mix increased to 22% as on March 31, 2022 (unchanged from March 31, 2021) from 9% as on March 31, 2020. These short-term liabilities, predominantly in the form of commercial paper (CP) and short-term loans, are largely matched by assets with similar maturity such as capital market and trading assets, thereby providing comfort. 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 March 31, 2022, JMFL had cash and cash equivalents of Rs. 3,637 crore and unutilised bank lines of Rs. 778 crore. The Group's liquidity profile is adequate for its near-term maturities (debt repayment obligation, including interest, of Rs. 3,239 crore during April 2022 to September 2022). 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 rating or the outlook could be revised if the asset quality deteriorates significantly with the reported GNPAs 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 rating 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	Rating Methodology for Entities in the Brokerage Industry ICRA's Credit Rating Methodology for Non-banking Finance Companies Consolidation and Rating Approach
Parent/Group support	Not applicable; while assigning the rating, 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 rating, ICRA has considered the consolidated financial profile of JMFL. As on March 31, 2022, 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 II.

About the company

Incorporated in 2017, JM Financial Institutional Securities Limited (JMFISL), formerly known as JM Financial Securities Limited, is a wholly-owned subsidiary of JM Financial Services Limited (JMFSL), which, in turn, is a wholly-owned subsidiary of JMFL. JMFISL offers institutional equity broking and research services to the domestic and offshore clients of the Group.

In FY2021, JMFISL reported a profit after tax (PAT) of Rs. 33 crore on total operating income[6] of Rs. 131 crore compared to a PAT of Rs. 25 crore on total operating income[7] of Rs. 109 crore in FY2021.

The Group proposes to demerge JMFSL's portfolio management services and private wealth business along with its investment in JMFISL into JMFL for better synergies. The said proposal is subject to regulatory approvals.

Key financial indicators of JMFISL (audited)

JMFISL	FY2020	FY2021	FY2022
Brokerage income (gross)	79	101	111
Fee income (other than broking)	35	28	37
Net interest income	-2	-2	-1
Other non-interest income	2	2	3
Net operating income (NOI)	93	105	126
Total operating expenses	68	72	82
Profit before tax	26	33	45
Profit after tax (PAT)	19	25	33
Net worth	78	103	136
Borrowings	1	0	0
Gearing (times)	0.0	0.0	0.0
Cost-to-income ratio	72.6%	68.8%	64.7%
Return on net worth	27.5%	27.1%	27.7%
PAT/NOI	20.3%	23.4%	26.2%

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

JM Financial Group

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)[8].

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 March 31, 2022, the consolidated loan book stood at Rs. 13,017 crore (Rs. 10,854 crore as on March 31, 2021), distressed credit business AUM at Rs. 10,936 crore (Rs. 11,060 crore as on March 31, 2021), private wealth management AUM at Rs. 61,211 crore (Rs. 59,052 crore as on March 31, 2021) and mutual fund quarterly average AUM (QAAUM) at Rs. 2,318 crore (Rs. 2,389 crore as on March 31, 2021). The Group is headquartered in Mumbai and has a presence in 634 locations across 185 cities in India. JMFL's equity shares are listed in India on the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE).

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[6] *Net of sub-brokerage commission*

[7] *Net of sub-brokerage commission*

[8] *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*

In FY2022, JMFL reported a consolidated net profit (net of non-controlling interest) of Rs. 773 crore (Rs. 590 crore in FY2021) on total income of Rs. 3,763 crore (Rs. 3,227 crore in FY2021).

Key financial indicators of JMFL (consolidated)

JMFL (consolidated)	FY2020	FY2021	FY2022
Total income	3,454	3,227	3,763
Profit after tax[9]	545	590	773
Net worth (including non-controlling interest)[10]	7,993	9,552	10,453
Loan book*	11,531	10,854	13,017
Total assets^	20,693	23,462	25,762
Return on assets	3.6%	3.7%	3.9%
Return on net worth[11]	10.2%	9.2%	9.9%
Gross gearing (times)[!]	1.47	1.29	1.22
Gross NPA	1.65%	3.50%	4.27%
Net NPA	1.13%	1.95%	2.67%
CRAR[@]	38.70%	40.2%	39.4%

*Source: JMFL, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; *Loan book of JM Financial Credit Solutions Limited (JMFCSL), JM Financial Capital Limited (JMFCL), JM Financial Products Limited (JMFPL) and JM Financial Home Loans Limited (JMFHL), excluding episodic loans; ^Net of impairment loss; [!]Excludes borrowing for IPO financing segment and includes accrued interest; [@]For JMFCSL, JMFCL, JMFPL and JMFHL*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on Jun 30, 2022 (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022		Date & Rating in FY2021		Date & Rating in FY2020
					Jul 25, 2022	Jan 31, 2022	Jul 8, 2021	Feb 26, 2021	Aug 20, 2020	Apr 1, 2019 Jan 20, 2020
1	Bank Lines (Unallocated)^	Long Term	-	-	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
2	Fund-based/Non-fund Based Bank Lines – Others	Long Term	200	0	[ICRA]AA (Stable)	-	-	-	-	-

^Clubbed under fund-based/non-fund based limit of Rs. 200 crore

Complexity level of the rated instrument

Instrument	Complexity Indicator

[9] *Including share in profit of associates and net of non-controlling interest*
[10] *Net of goodwill on consolidation*
[11] *Including share of minority interest*

Fund-based/Non-fund Based Bank Lines – Others	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 instrument are available on ICRA's website: www.icra.in

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 – Others	-	-	-	200	[ICRA]AA (Stable)

Source: JMFISL

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, 2022	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	99.65%	
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	93.98%	
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

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

** One of the promoter entities of JMFL with a 23.35% stake in the company as on March 31, 2022*

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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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