January 19, 2023

JM Financial Institutional Securities Limited: Rating assigned and reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial paper programme	0.0	100.0	[ICRA]A1+; assigned
Fund-based/non-fund based bank lines – Others	200.0	200.0	[ICRA]AA (Stable); reaffirmed
Total	**200.0**	**300.0**	

**Instrument details are provided in Annexure I*

Rationale

While arriving at the ratings, ICRA has considered the consolidated financials of JM Financial Limited (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 common promoters and senior management team, shared brand name, and financial and operational linkages. ICRA expects financial, managerial and operational support from the JM Financial Group to continue to be available to all key Group companies.

The ratings continue to be supported by the established track record and franchise of the Group in the domestic financial services industry, its diversified revenue stream, comfortable capitalisation and adequate profitability. The ratings also factor in the healthy fee income arising from the agency-based business, which supports the earnings profile. The strengths are, however, 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 business segments (real estate and bespoke funding[1] accounted for ~76% of the total book as on September 30, 2022).

The slowdown in the real estate segment, post FY2019, resulted in a moderation in the Group's asset quality in recent years. As of September 30, 2022, the gross non-performing assets (GNPAs) stood at 3.9% (net NPAs (NNPAs): 2.4%) of the loan book. Further, ICRA notes that these headline asset quality numbers are supported by the regulatory forbearance given by way of the extension of the date of commencement of commercial operations (DCCO) to ~13% of the total loan book as on September 30, 2022 and the sale of stressed assets in FY2022. The repayment schedule for a considerable portion of the loans, for which the DCCO extension was given, started in FY2023, and the performance of these accounts will be a key monitorable. Nonetheless, the presence of adequate collateral and the overall capitalisation profile provide cushion to absorb losses, if any.

The ratings also factor in the risks arising from the nature of the asset reconstruction business, with high portfolio concentration driven by the focus on large-ticket exposures. The protracted resolution process and associated uncertainties in this business can lead to variability in earnings and cashflows. In this regard, the Group's ability to ensure steady collections (including recoveries) and maintain healthy asset quality will remain a driver of its profitability and capital position.

While assigning/reaffirming the ratings, 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. Given the tightening liquidity environment, resource mobilisation and asset quality will remain monitorable. ICRA has taken note of the uptick in fund-raising by JMFL in the recent past, with an attempt to diversify its resource profile in terms of investors and instruments. However, the quantum remains below the pre-September 2018 level.

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

Key rating drivers and their description

Credit strengths

JM Financial Group's established track record and franchise with diversified presence in financial services industry – The JM Financial Group is a diversified financial services player with an established track record and franchise and a presence in investment banking, broking, wealth management, investment advisory services, asset management, private equity, lending and asset reconstruction. It is one of the leading players in capital markets and related businesses with a key focus on investment banking and merchant banking operations.

The Group was traditionally involved in capital markets and related activities and gradually forayed into the lending business in 2008 to diversify its portfolio. JMFL commenced the lending business with wholesale financing (bespoke and mortgage-backed wholesale lending), leveraging its experience in investment banking, and subsequently added retail lending (mortgage-backed retail lending) to its portfolio. The cautious growth approach adopted amid the challenging operating environment between FY2019 and FY2021 resulted in a degrowth in the consolidated loan book during this period. Nevertheless, the consolidated loan book grew 20% year-on-year (YoY) in FY2022 and 32% YoY in H1 FY2023. It stood at Rs. 14,670 crore as on September 30, 2022, comprising wholesale mortgage-backed lending (50%), bespoke lending (26%), capital market lending (8%), retail mortgage (9%) and financial institution financing (7%).

JMFL also has a presence in the asset reconstruction business with assets under management (AUM) of Rs. 11,349 crore as of September 30, 2022. On a consolidated basis, the Group's revenue stream remains adequately diversified with the investment banking, mortgage lending, alternative and distressed credit, and asset management, wealth management and securities businesses (Platform AWS) contributing 36%, 36%, 10% and 17%, respectively, in H1 FY2023. Fees and advisory income from businesses like securities broking, investment banking, wealth management and asset management help support the earnings profile.

Comfortable capitalisation – The Group's capitalisation remains comfortable with a consolidated net worth (including non-controlling interest of the Group and net of goodwill on consolidation) of Rs. 10,781 crore and a capital to risk weighted assets ratio (CRAR)[2] of 40.1% as on September 30, 2022. The capitalisation profile has been supported by regular capital raising and healthy accruals. The last round of capital raising (Rs. 770 crore) was in FY2021. The consolidated gearing[3] has remained low with the Group reporting peak year-end gearing of 2.5 times in March 2018. As on September 30, 2022, the Group's consolidated gearing was 1.2 times.

The current capitalisation level and the pace of internal capital generation remain comfortable for scaling up the operations, provided the Group controls fresh slippages, especially in the wholesale lending segment. ICRA also notes that the Group's leverage has remained low compared to peers and the management intends to maintain the gearing under 4 times for the mortgage lending business and 2 times for the distressed credit business.

Track record of adequate profitability – The JMFL Group has a track record of adequate profitability as reflected by the 6-year average return on assets[4] (RoA) of 3.9% and return on equity[5] (RoE) of 12.2% {i.e. after the Group acquired a controlling stake in JM Financial Asset Reconstruction Company Limited (JMFARCL)}. Supported by the healthy performance of the bespoke lending business, capital market related activities and the asset reconstruction business, the Group reported its highest-ever total income and net profit (in absolute terms) of Rs. 3,763 crore and Rs. 992[6] crore, respectively, in FY2022. The RoA and RoE were 3.9% and 9.9%, respectively, in FY2022 before moderating marginally to 3.4%[7] and 8.2%, respectively, in H1 FY2023.

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[2] *Consolidated CRAR for NBFCs and HFC in the Group*
[3] *Excluding funds borrowed for IPO finance loan book*
[4] *As per ICRA's calculations, RoA based on gross assets*
[5] *As per ICRA's calculation*
[6] *Before adjusting non-controlling interest*
[7] *As per ICRA's calculation, based on net assets*

Credit challenges

High concentration and inherent credit risk in wholesale lending segment – The Group's loan portfolio largely comprises the wholesale real estate segment and bespoke finance (~76% of the total book as on September 30, 2022). The concentration in the wholesale segment (top 10 exposures comprise ~34% of the loan book) could result in a sharp deterioration in the asset quality in case of slippages. The slowdown in the real estate segment, post FY2019, coupled with the Covid-19 pandemic-induced stress, resulted in the moderation in the Group's asset quality in recent years. In the last two fiscals (FY2021 and FY2022), the Group also faced delays in the resolution of some wholesale mortgage-backed stressed assets, thus keeping the asset quality indicators under pressure during this period. As on September 30, 2022, the GNPA stood at 3.9% (NNPA: 2.4%) and special mention accounts-2 (SMA-2) was 1.3% of the gross advances. The headline asset quality was also supported by the regulatory forbearance of the extension of the DCCO to ~13% of the total loan book. Further, the Group's non-banking financial companies (NBFCs) held security receipts of Rs. 405.8 crore against the assets sold to the asset reconstruction company (ARC) as on September 30, 2022.

The repayment schedule for a considerable portion of the loans, for which the DCCO extension was given, started in FY2023 and the performance of these accounts will be a key monitorable. However, the presence of adequate collateral and the overall capitalisation profile provide cushion to absorb losses, if any.

Risks arising from the nature of the distressed assets business – The Group, through JMFARCL, is one of the prominent players in the asset reconstruction business, with distressed credit AUM of Rs. 11,349 crore as on September 30, 2022. JMFARCL primarily focusses on the large single borrower corporate segment, which is 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, given the nature of the underlying asset class, can result in a protracted process and uncertain cashflows. However, the company's presence in the corporate and small and medium-sized enterprise (SME) portfolios, consisting of multiple borrowers, provides some diversification to the AUM (~22% of the AUM as on June 30, 2022). The impact of the commencement of National Asset Reconstruction Company Limited on the distressed asset management sector and private players in the industry remains to be seen. ICRA also notes that the industry's prospects remain susceptible to regulatory changes.

Fund-raising challenges for wholesale-oriented non-bank financiers – The operating environment for NBFCs and housing finance companies (HFCs), especially entities with sizeable wholesale/real estate exposure, has remained challenging since September 2018. Nevertheless, ICRA notes the uptick in fund mobilisation by the JMFL Group in the last two years (Rs. 7,245 crore in FY2021 and Rs. 8,029 crore in FY2022). ICRA also notes the Group's attempt to diversify its investor base to banks, mutual fund companies, insurance companies, corporates and trusts. However, resource mobilisation and asset quality will remain monitorable, given the tightening liquidity environment. As on September 30, 2022, the company's borrowing profile comprised non-convertible debentures (50%), term loans (30%), commercial papers (13%), short term loans (2%) and other (5%). Further, despite the improvement in the borrowing cost in recent years, the same remains higher than peers due to the predominantly wholesale-oriented nature of the Group.

ICRA notes that there has been a change in JMFL's debt maturity profile, following the onset of the liquidity crisis for NBFCs. As on September 30, 2022, the share of short-term debt in the total borrowings was ~20% compared to ~34% as on March 31, 2018. Further, the short-term liabilities, in the form of CP and short-term loans, are largely matched by assets with similar maturity such as capital market and trading assets.

Environmental and social risks

Given the service-oriented business of JMFL, its direct exposure to environmental risks/physical climate risks is not material. Further, the Group's operations remain diversified. While lending institutions can be exposed to environmental risks indirectly through their portfolio of assets, JMFL's exposure to environmentally sensitive segments remains low. Hence, indirect transition risks arising from changes in regulations or policies concerning the underlying assets are not material.

With regard to social risks, data security and customer privacy are among the key sources of vulnerability for lending and investment banking institutions as any material lapses could be detrimental to their reputation and could invite regulatory censure. JMFL has not faced such lapses over the years and its disclosures outline the key policies, processes, and investments made by it to mitigate the occurrence of such instances. JMFL also promotes financial inclusion by lending to the affordable housing segments.

Liquidity position: Adequate

As on September 30, 2022, the Group had unencumbered on-balance sheet liquidity of Rs. 1,388 crore, equivalent to ~11% of the total borrowings of the Group. The available liquidity adequately covers the debt repayment obligation (including interest) of ~Rs. 1,266 crore due over the next three months. The liquidity position is further supported by the availability of unutilised bank lines of Rs. 482 crore as on September 30, 2022, thereby providing a buffer to meet contingencies, if any. The asset-liability maturity (ALM) statement of the key lending entities of the Group, as on September 30, 2022, showed positive cumulative mismatches in the up to 1-year buckets.

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 and robust growth in fee-based income, while maintaining strong profitability.

Negative factors – The ratings or the outlook could be revised if the Group's consolidated asset quality deteriorates significantly with the reported GNPAs increasing above 5% (for the Group's NBFCs and HFC) 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 sustained 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 operations. A significant deterioration in the profitability, a reduction in fee-based income and/or significant weakening of the capitalisation would also be credit negatives.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Non-Banking Finance Companies Rating Methodology for Broking Companies Rating Approach – Consolidation
Parent/Group support	Not applicable; while arriving at the ratings, ICRA has considered the consolidated financials of JMFL and has taken a consolidated view of the credit profiles of JMFL and its subsidiaries engaged in merchant banking, mortgage lending (retail and wholesale), bespoke finance, institutional and retail broking, asset management, wealth management and securities business, due to the close linkages between the entities, common promoters and senior management team, shared brand name, and strong financial and operational synergies.
Consolidation/Standalone	ICRA has considered the consolidated financials 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 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 H1 FY2023, JMFISL reported a net profit of Rs. 2 crore on total operating income of Rs. 39 crore. It reported a profit after tax (PAT) of Rs. 33 crore on total operating income[8] of Rs. 131 crore in FY2022 compared to a PAT of Rs. 25 crore on total operating income[9] 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 (audited)

JMFISL	FY2021	FY2022	H1 FY2023^
Brokerage income	101	111	42
Fee income (other than broking)	28	37	4
Net interest income	-2	-1	0
Other non-interest income	2	3	1
Net operating income (NOI)	105	126	37
Total operating expenses	72	82	34
Profit before tax	33	45	3
Profit after tax (PAT)	25	33	2
Net worth	103	136	138
Borrowings	0	0	0
Gearing (times)	0.0	0.0	0.0
Cost-to-income ratio	68.8%	64.7%	91.9%
Return on net worth	27.1%	27.7%	3.2%
PAT/NOI	23.4%	26.2%	6.0%

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

About JM Financial Group

JM Financial is an integrated and diversified financial services group, engaged in various capital market related lending activities. The Group's primary businesses are (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)[10].

JMFL is the holding company of the operating companies in the Group and is also engaged in investment banking and the management of private equity funds. As on September 30, 2022, the consolidated loan book stood at Rs. 14,670 crore (Rs. 13,017 crore as on March 31, 2022), distressed credit business AUM at Rs. 11,349 crore (Rs. 10,936 crore as on March 31, 2022), private wealth management AUM at Rs. 57,679 crore (Rs. 61,211 crore as on March 31, 2022) and mutual fund quarterly average AUM (QAAUM) at Rs. 3,030 crore (Rs. 2,318 crore as on March 31, 2022). The Group is headquartered in Mumbai and has a presence in 682 locations spread across 197 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 FY2023, the Group's consolidated net profit (net of non-controlling interest) was Rs. 350 crore on total income of Rs. 1,683 crore. In FY2022, it reported a 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).

[8] *Net of sub-brokerage commission*

[9] *Net of sub-brokerage commission*

[10] *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*

Key financial indicators (audited)

JMFL - Consolidated	FY2021	FY2022	H1 FY2023^
Total income	3,227	3,763	1,683
Profit after tax	590	773	350
Net worth	9,552	10,453	10,781
Gross loan book*	10,854	13,017	14,670
Total assets	23,462	25,762	25,703
Return on assets#	3.7%	4.0%	3.4%
Return on net worth	9.2%	9.9%	8.2%
Gross gearing (times)!	1.3	1.2	1.2
Gross NPA@	3.50%	4.27%	3.9%
Net NPA@	1.95%	2.67%	2.4%
CRAR@	40.2%	39.4%	40.1%

*Source: JMFL, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; ^Limited review; *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; #Based on net total assets; !Excludes borrowing for initial public offering (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 Dec 31, 2022 (Rs. crore)	Current Rating	Previous Rating		Date & Rating in FY2022		Date & Rating in FY2021		Date & Rating in FY2020
					Jan 19, 2023	Oct 20, 2022	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	CP programme	Short term	100	0	[ICRA]A1+	-	-	-	-	-	-	-
3	Fund-based/non-fund based bank lines – Others	Long term	200	0	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	-	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based/non-fund based bank lines – Others	Simple
Commercial paper 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: 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

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%	

Source: JMFL

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

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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.

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