

March 14, 2024

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 Action
Non-convertible debenture (NCD) programme	2,000.0	2,000.0	[ICRA]AA- (Stable); outstanding
Market linked debenture (principal protected) (MLD-PP) programme	700.0	700.0	PP-MLD[ICRA]AA- (Stable); outstanding
Long-term fund-based bank lines – Others	500.0	500.0	[ICRA]AA- (Stable); outstanding
Commercial paper programme	1,000.0	1,000.0	[ICRA]A1+; outstanding
Total	4,200.0	4,200.0	

*Instrument details are provided in Annexure I

Rationale

Material event

The Reserve Bank of India (RBI), vide its press release dated [March 05, 2024](#), has directed JM Financial Products Limited (JMFPL; a material subsidiary of JM Financial Limited (JMFL) and a fellow subsidiary of JM Financial Asset Reconstruction Company Limited (JMFARCL)) 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

ICRA takes a consolidated view of the credit profiles of JMFL and its subsidiaries (hereafter referred to as the Group), which are engaged in merchant banking, private wealth, mortgage lending (retail and wholesale), bespoke finance, financial institution financing, capital market financing, institutional and retail broking, financial product distribution 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 it extends to its subsidiaries and associates engaged in distressed asset management and other businesses.

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 JMFL'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. As of March 7, 2024, the Group 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 in till June 30, 2024.

On a consolidated basis, the Group's 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).

The 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)¹ 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	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, JMFARCL is registered with the Reserve Bank of India (RBI) under the SARFAESI Act, 2002 as a securitisation and asset reconstruction company. It is engaged in the business of acquiring non-performing financial assets

¹ Consolidated CRAR of the NBFCs and the housing finance company (HFC) in the Group

from banks/financial institutions and the resolution of the same. The company is a subsidiary of JM Financial Limited (JMFL), which held a 53.6% stake as on June 30, 2023. The balance is held by JM Financial Credit Solutions Limited (10.0%), Mr. Narotam Sekhsaria (14.3%), Valiant Mauritius Partners FDI Ltd. (8.4%), Indian Overseas Bank (5.3%) and others (5.3%). As on June 30, 2023, the company operated through five branches (including the head office) – two in Mumbai and one each in Bengaluru, Delhi and Kolkata.

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 business, fixed income, syndication and corporate/promoter finance, capital market related lending, wealth management services for high-net-worth individual (HNI)/ultra HNI clients, and portfolio management services, (b) mortgage lending, which includes wholesale as well as retail mortgage lending (affordable housing loans), (c) alternative and 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 business and equity broking.

As on December 31, 2023, the consolidated loan book stood at Rs. 15,111 crore (Rs. 15,653 crore as on March 31, 2023), distressed credit business AUM at Rs. 15,059 crore (Rs. 13,558 crore as on March 31, 2023), private wealth management AUM at Rs. 65,009 crore (Rs. 56,515 crore as on March 31, 2023), retail and elite wealth AUM at Rs. 29,514 crore (Rs. 25,056 crore as of March 31, 2023) and mutual fund quarterly average AUM (QAAUM) at Rs. 4,584 crore (Rs. 2,969 crore as on March 31, 2023). The Group is headquartered in Mumbai and has a presence in ~878 locations spread across ~232 cities in India. JMFL's equity shares are listed on the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE).

JMFL reported a consolidated net profit (including share of non-controlling interest and share in profit of associate) of Rs. 709 crore (Rs. 992 crore in FY2022) on total income of Rs. 3,343 crore in FY2023 (Rs. 3,763 crore in FY2022). It reported a consolidated net profit (including share of non-controlling interest 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.

Key financial indicators (audited)

JMFL – Consolidated	FY2022	FY2023	9M FY2024 [^]
Total income	3,763	3,343	3,556
Profit after tax (including the share of non-controlling interest and share in profit of associate)	992	709	705
Profit after tax (adjusted for the share of non-controlling interest)	773	597	639
Net total assets ^{**}	25,762	29,318	31,843
Return on net worth	9.8%	6.5%	8.3%
Return on net worth (adjusted for the share of non-controlling interest)	10.6%	7.6%	10.2%
Gross gearing (times) [!]	1.2	1.4	1.5
Gross NPA	4.3%	3.4%	4.5%
CRAR [@]	39.4%	38.5%	37.2%

Source: JMFL, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; [^]Limited review; ^{**}Excluding goodwill on consolidation; [!]Excludes borrowing for initial public offering (IPO) financing segment and includes accrued interest; [@]For JM Financial Credit Solutions Limited (JMFCSL), JM Financial Capital Limited (JMFCFL), JM Financial Products Limited (JMFPPL) and JM Financial Home Loans Limited (JMFWHL)

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	Current Rating (FY2024)		Chronology of Rating History for the Past 3 Years										
		Amount Rated (Rs. crore)	Amount Outstanding as of Feb 26, 2024 (Rs. crore)	Date & Rating in FY2024			Date & Rating in FY2023				Date & Rating in FY2022			Date & Rating in FY2021
				Mar 14, 2024	Oct 20, 2023	Mar 31, 2023	Feb 01, 2023	Oct 20, 2022	Sep 29, 2022	Jan 31, 2022	Oct 6, 2021	Jul 9, 2021	Mar 18, 2021 Feb 26, 2021 Sep 28, 2020 Jul 10, 2020	
1	NCD programme	2,000.0	1,000.0	[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)
2	MLD (PP) programme	700.0	655.0	PP-MLD[ICRA]AA-(Stable)	PP-MLD[ICRA]AA-(Stable)	PP-MLD[ICRA]AA-(Stable)	PP-MLD[ICRA]AA-(Stable)	PP-MLD[ICRA]AA-(Stable)	PP-MLD[ICRA]AA-(Stable)	PP-MLD[ICRA]AA-(Stable)	PP-MLD[ICRA]AA-(Stable)	PP-MLD[ICRA]AA-(Stable)	PP-MLD[ICRA]AA-(Stable)	PP-MLD[ICRA]AA-(Stable)
3	Fund-based bank lines – Others	500.0	471.0	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	-	-	-	-	-
4	CP programme	1,000.00	0.0	[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)	[ICRA]AA-(Stable)
6	Long-term bank lines (term loan)^	-	-	-	-	-	-	-	-	-	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)
7	Long-term bank lines (unallocated)^	-	-	-	-	-	-	-	-	-	[ICRA]AA-(Stable)	[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. 1,000 crore and subject to change based on the terms of issuance for the balance amount

^ For the utilised portion of Rs. 655 crore and subject to change based on the terms of issuance for the balance amount

**Subject to change based on the 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	Coupon Rate (%)	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
INE265J07407	MLD (PP)	Sep-01-2021	10-year G-Sec linked	Oct-05-2023	75.00	PP-MLD[ICRA]AA- (Stable)
INE265J07407	MLD (PP)	Nov-12-2021	10-year G-Sec linked	Oct-05-2023	55.00	PP-MLD[ICRA]AA- (Stable)
INE265J07415	MLD (PP)	Sep-03-2021	G-Sec linked	Mar-04-2024	50.00	PP-MLD[ICRA]AA- (Stable)
INE265J07423	MLD (PP)	Feb-11-2022	G-Sec linked	Jun-11-2024	70.00	PP-MLD[ICRA]AA- (Stable)
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)
NA	MLD (PP) (yet to be placed)	-	-	-	45.00	PP-MLD[ICRA]AA- (Stable)
INE265J07464	NCD	Dec-21-2022	9.60%	Jun-21-2024	75.00	[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-02-2023	10.21%	Feb-02-2026	400.00	[ICRA]AA- (Stable)
INE265J07514	NCD	Feb-07-2023	10.20%	Aug-07-2025	175.00	[ICRA]AA- (Stable)
INE265J07522	NCD	Feb-07-2023	10.20%	May-07-2025	175.00	[ICRA]AA- (Stable)
NA	NCD (yet to be placed)	-	-	-	1,000.00	[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 February 26, 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

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