

May 23, 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	475.0	475.0	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
<b>Total</b>	<b>3,975.0</b>	<b>3,975.0</b>	

\*Instrument details are provided in Annexure I

### Rationale

#### Material event

On May 16, 2024, JM Financial Asset Reconstruction Company Limited (JMFARCL) published its results for Q4 FY2024/FY2024, wherein it reported an exceptional loss item<sup>1</sup> of Rs. 847 crore on account of the downward fair valuation of security receipts (SRs). Consequently, the company recorded a large loss for the period. At the standalone level, JMFARCL reported a net loss of Rs. 942 crore in FY2024 compared to a net loss of Rs. 155 crore in FY2023 and cumulative profit of Rs. 457 crore during FY2019 to FY2022.

#### Impact of material event

Given the large loss reported in Q4 FY2024, the company's net worth eroded materially to Rs. 592 crore as of March 31, 2024 from Rs. 1,533 crore as of March 31, 2023. Its capital adequacy ratio has fallen below the regulatory threshold and the increase in the financial leverage ratio has resulted in a breach of the borrowing covenants<sup>2</sup>. ICRA, however, notes that JM Financial Group entities are ready to extend financial support to JMFARCL in case of exigencies. Moreover, JMFARCL's board has approved a plan to raise Rs. 525 crore or a higher amount of capital from its holding company, existing shareholders, Group entities and/or new investors, subject to regulatory approvals, to remedy the breaches at the earliest. In this regard, it is noted that JM Financial Limited (JMFL) and JM Financial Credit Solutions Limited {JMFCSL; rated [ICRA]AA (Stable)} are in the process of taking necessary approvals for infusing the required equity in JMFARCL through a rights issue.

ICRA draws comfort from the JM Financial Group's ability to meet JMFARCL's incremental capital requirement, evident from its liquidity position. As of March 7, 2024, the Group had liquid assets (comprising cash and equivalents, investments in mutual funds and listed shares, Government securities, Treasury bills, state development loans and corporate bonds) of Rs. 4,764 crore. Herein, ICRA takes cognisance of the recent directive of the Securities and Exchange Board of India (SEBI) regarding action to be taken by debenture trustees in case of breach of borrowing covenant(s) and/or event of default, wherein the debenture trustee has 30 days to call a meeting of the non-convertible debenture investors to decide the next course of action. ICRA will continue to monitor the progress of the company's capital-raising plan and the course of action to be taken by the debenture trustees/investors, if any.

<sup>1</sup> After balance sheet event

<sup>2</sup> Most of JMFARCL's capital market borrowings have a covenant related to the company's financial leverage not crossing 2.25 times and the consolidated leverage of the group not crossing 3 times

The large impairment/fair value loss booked by JMFARCL in Q4 FY2024 is in line with the potential medium-term impact indicated by the management. Moreover, the same was upfronted, given the recent unfolding of the resolution process, resulting in the large loss in Q4 FY2024/FY2024.

Despite the weak performance of the asset reconstruction business, ICAR expects JM Financial Group’s consolidated performance in FY2024 to be buttressed by the performance of the capital market related businesses. Earlier in 9M FY2024, JMFL reported a consolidated net profit (including share of non-controlling interest; NCI) of Rs. 705 crore on total income of Rs. 3,556 crore compared to a net profit of Rs. 676 crore on total income of Rs. 2,629 crore in 9M FY2023. It had reported a consolidated net profit (including share of NCI) of Rs. 709 crore in FY2023 (Rs. 992 crore in FY2022) on total income of Rs. 3,343 crore (Rs. 3,763 crore in FY2023) and a consolidated net worth (including NCI, NCI of SR holders and net of goodwill on consolidation) of Rs. 11,672 crore as of December 2023. The consolidated gearing stood at 1.5 times as of December 31, 2023.

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	<a href="#">Rating Methodology – Non-banking Finance Companies (NBFCs)</a>
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 53.6% stake as on March 31, 2024. 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 March 31, 2024 JMFARCL 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, private 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, private 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 assets under management (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 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 with a presence in ~878 locations 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) 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) of Rs. 705 crore on total income of Rs. 3,556 crore in 9M FY2024 compared to a net profit of Rs. 677 crore on total income of Rs. 2,629 crore in 9M FY2023.

#### 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	NA
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 expected to improve to 2.0 times with the capital infusion of Rs. 525 crore

\*Based on net loan book and investments

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 assets	3.9%	2.5%	3.1%
Gross gearing (times) <sup>1</sup>	1.2	1.4	1.5
Gross NPA	4.3%	3.4%	4.5%
CRAR <sup>®</sup>	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; <sup>1</sup>Excludes borrowing for initial public offering (IPO) financing segment and includes accrued interest

<sup>®</sup>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: None**

### Rating history for past three years

Instrument	Type	Current Rating (FY2025)		Chronology of Rating History for the Past 3 Years										
		Amount Rated (Rs. crore)	Amount Outstanding as of May 2, 2024 (Rs. crore)	Date & Rating in FY2025		Date & Rating in FY2024		Date & Rating in FY2023			Date & Rating in FY2022			
				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	Long term	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	Long term	475.0	475.0	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	Long term	500.0	471.0	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	-	-	-
4 CP programme	Short term	1,000.0	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)^	Long term	-	-				-	-	-	-	-	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)
6 Long-term bank lines (term loan)^	Long term	-	-				-	-	-	-	-	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)
7 Long-term bank lines (unallocated) ^	Long term	-	-				-	-	-	-	-	[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
<b>NCD programme</b>	Simple*
<b>Fund-based bank lines – Others</b>	Simple
<b>MLD-PP programme</b>	Complex^
<b>Commercial paper</b>	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. 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
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)
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 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)	-	-	-	1,000.00	[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 May 2, 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

## ANALYST CONTACTS

**Karthik Srinivasan**  
+91 22 6114 3444  
[karthiks@icraindia.com](mailto:karthiks@icraindia.com)

**Anil Gupta**  
+91 124 4545 314  
[anilg@icraindia.com](mailto:anilg@icraindia.com)

**Deep Inder Singh**  
+91 124 4545 830  
[deep.singh@icraindia.com](mailto:deep.singh@icraindia.com)

**Kruti Jagad**  
+91 22 6114 3447  
[kruti.jagad@icraindia.com](mailto:kruti.jagad@icraindia.com)

**Komal Mody**  
+91 22 6114 3424  
[komal.mody@icraindia.com](mailto:komal.mody@icraindia.com)

## RELATIONSHIP CONTACT

**L. Shivakumar**  
+91 22 6114 3406  
[shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**  
Tel: +91 124 4545 860  
[communications@icraindia.com](mailto:communications@icraindia.com)

## Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

[info@icraindia.com](mailto:info@icraindia.com)

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## ICRA Limited



### Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



### Branches



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