

July 15, 2024^(Revised)

JM Financial Home Loans Limited: Update on Material Event

Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Outstanding |
|--|--------------------------------------|-------------------------------------|--------------------|
| Non-convertible debentures (NCD) programme | 520.0 | 520.0 | [ICRA]AA (Stable) |
| Long-term fund-based bank lines – Others | 2,500.0 | 2,500.0 | [ICRA]AA (Stable) |
| Commercial paper (CP) programme | 150.0 | 150.0 | [ICRA]A1+ |
| Total | 3,170.0 | 3,170.0 | |

*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. |

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

About the company

Incorporated in December 2016, JM Financial Home Loans Limited (JMFHL) is the housing finance arm of the Group. Registered with National Housing Bank (NHB), it offers affordable housing loans and loan against property (LAP). It is in a growing stage with assets under management (AUM) of Rs. 2,256 crore as on March 31, 2024.

Until FY2020, JM Financial Products Limited (JMFPL) had held a 99% stake in JMFHL. In FY2021, JM Financial Credit Solutions Limited acquired a ~9% stake in the company. As on March 31, 2024, JMFHL had a network of 112 branches spread across 9 states. It reported a net profit of Rs. 40 crore on total income of Rs. 257 crore in FY2024 compared to a net profit of Rs. 29 crore on total income of Rs. 171 crore in FY2023. As on March 31, 2024, JMFHL's capitalisation was characterised by a net worth of Rs. 623 crore and a gearing of 2.4 times.

Key financial indicators (audited)

| JMFHL – Standalone | FY2022 | FY2023 | FY2024 |
|------------------------------|--------|--------|--------|
| Total income | 92 | 171 | 257 |
| Profit after tax | 4 | 29 | 40 |
| Net total assets | 830 | 1,410 | 2,159 |
| Return on net worth | 1.7% | 9.0% | 8.2% |
| Gross gearing (times) | 1.7 | 3 | 2.4 |
| Gross NPA | 0.7% | 0.8% | 0.7% |
| CRAR | 58.2% | 36.1% | 39.3% |

Source: JMFHL, 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.

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 (JMFL), JM Financial Products Limited (JMFP) and JM Financial Home Loans Limited (JMFLH)

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 FY2022 Feb 11, 2022 |
|---------------------------------------|------------|--------------------------|-------------------------|----------------------|----------------------|----------------------|---|----------------------|-------------------------|----------------------|----------------------|----------------------|---|
| | | | Date & Rating in FY2025 | | | | Date & Rating in FY2024 | | Date & Rating in FY2023 | | | | |
| | | | Jul 15, 2024 | Jul 05, 2024 | May 10, 2024 | Mar 14, 2024 | Oct 20, 2023 | May 05, 2023 | Oct 20, 2022 | Sep 29, 2022 | Jun 30, 2022 | | |
| 1 NCD programme | Long term | 520.0 | [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 Fund-based bank lines – Others | Long term | 2,500.00 | [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) |
| 3 CP programme | Short Term | 150.00 | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1+ | - | - | - | - | - | - |
| 4 Long-term bank lines (cash credit)^ | Long term | - | - | - | - | - | - | - | - | - | - | - | [ICRA]AA (Stable) |
| 5 Long-term bank lines (term loan)^ | Long term | - | - | - | - | - | - | - | - | - | - | - | [ICRA]AA (Stable) |
| 6 Long-term bank lines (unallocated)^ | Long term | - | - | - | - | - | - | - | - | - | - | - | [ICRA]AA (Stable) |

^ Clubbed with fund-based bank lines – Others

Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|--------------------------------|----------------------|
| NCD programme | Simple* |
| Fund-based bank lines – Others | Simple |
| CP programme | Very simple^ |

* For the utilised portion of Rs. 260.0 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 / Sanction | Coupon Rate | Maturity Date | Amount Rated (Rs. crore) | Current Rating and Outlook |
|--------------|-----------------------|-----------------------------|---------------------|---------------|--------------------------|----------------------------|
| INE01A207013 | NCD | Aug 30, 2018 | 9.51% | Aug 30, 2028 | 25.00 | [ICRA]AA (Stable) |
| INE01A207062 | NCD | Oct 21, 2020 | 8.00% | Oct 20, 2025 | 10.00 | [ICRA]AA (Stable) |
| INE01A207104 | NCD | May 31, 2022 | MCLR linked | May 31, 2026 | 50.00 | [ICRA]AA (Stable) |
| INE01A207112 | NCD | Mar 28, 2023 | 8.75% | Jun 28, 2026 | 10.00 | [ICRA]AA (Stable) |
| INE01A207120 | NCD | May 15, 2023 | 8.80% | May 15, 2027 | 15.00 | [ICRA]AA (Stable) |
| INE01A207138 | NCD | Sep 23, 2023 | Linked to repo rate | Sep 28, 2027 | 34.00 | [ICRA]AA (Stable) |
| INE01A207146 | NCD | Nov 01, 2023 | 8.86% | Oct 26, 2026 | 100.00 | [ICRA]AA (Stable) |
| INE01A207153 | NCD | Dec 29, 2023 | Linked to repo rate | Dec 29, 2027 | 16.00 | [ICRA]AA (Stable) |
| NA | NCD programme* | | - | | 260.00 | [ICRA]AA (Stable) |
| NA | Fund-based bank lines | NA | NA | NA | 2,500.0 | [ICRA]AA (Stable) |
| NA | CP programme* | - | - | 7-365 days | 150.0 | [ICRA]A1+ |

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

[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

Corrigendum

Rationale dated July 15, 2024, has been revised with changes as below:

The utilised amount in the NCD programme, mentioned below the complexity table (Page 6), stands corrected

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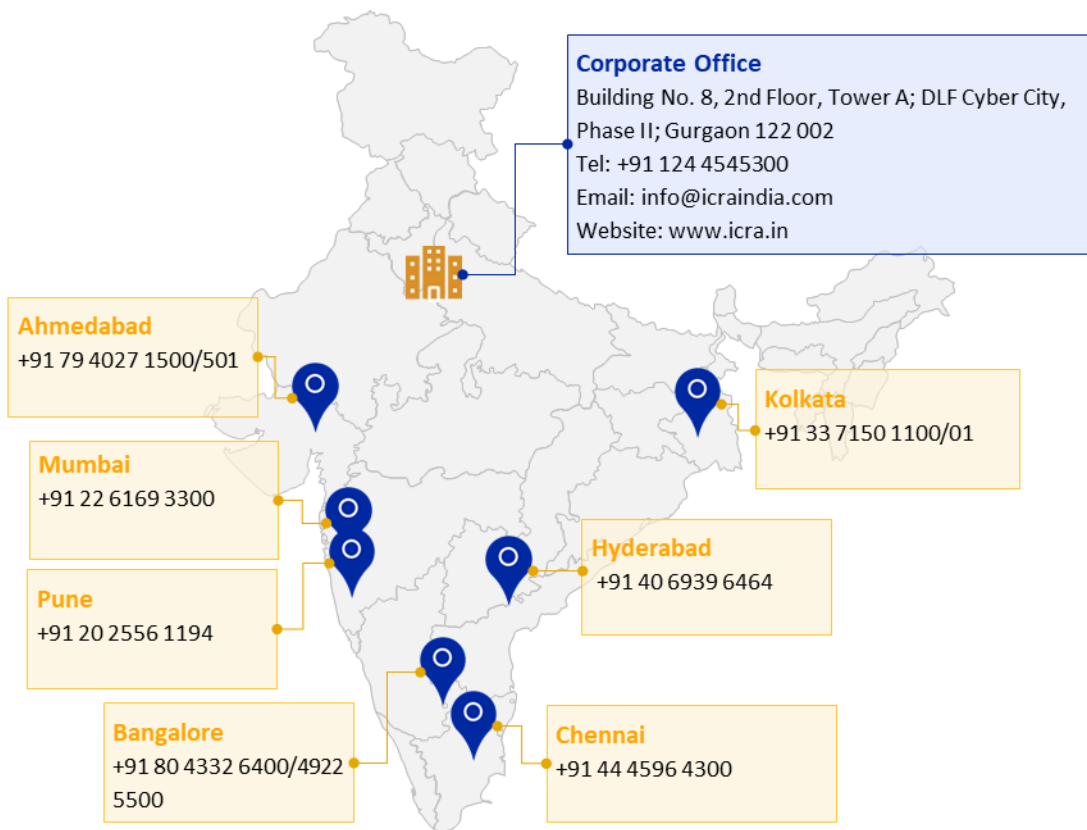
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