Equity Research

May 7, 2021

BSE Sensex: 48950

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Q4FY21 results review

Financials

Target price: Rs117

Earnings revision

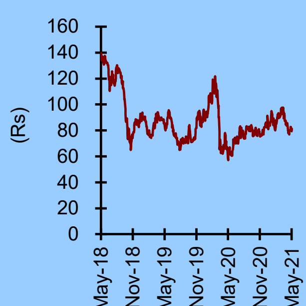
(%)	FY22E	FY23E
PAT	↓ 1	-

Shareholding pattern

	Sep '20	Dec '20	Mar '21
Promoters	54.8	54.8	54.8
Institutional investors	34.4	33.3	33.6
MFs and others	7.1	9.0	9.8
FIs/Banks	0.0	0.1	0.1
Insurance	0.0	0.0	0.0
FIIs	27.3	24.2	23.7
Others	10.8	11.9	11.6

Source: BSE

Price chart



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INDIA

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JM Financial

BUY

Maintain

Exits FY21 with well contained stress pool; sequential AUM uptick encouraging

Rs82

JM Financial (JMF) reported Q4FY21 PAT of Rs1.77bn, up 35% YoY. *What encouraged*: 1) GNPAs (at 3.5%) settled near Q3FY21 proforma levels and SMA-2 pool sharply shrunk QoQ from 4.4% to 2.94%; 2) Company exited FY21 with 2.5% credit cost – mere Rs395mn provisioning in Q4FY21; 3) Mortgage lending AUM witnessed sequential uptick; home loan scale-up continued; 4) Investment banking pipeline, cash equity market share retracement and wealth AUA ramp-up bodes well for IWS business. *Key monitorables*: 1) 19.7% of loan portfolio has sought DCCO extension; and 2) timely resolution of stressed assets key to drive ARC RoE from 4% in FY21. High capitalisation, calibrated growth approach with low risk tolerance and superior RoA will help JMF navigate the current challenging phase relatively well. Maintain BUY with target price of Rs117.

- **GNPAs + SMA-2 down QoQ to 6.5% (from 8%); company exited FY21 with 2.5% credit cost:** GNPAs settled near Q3FY21 proforma levels at 3.5% and SMA-2 pool (ex-proforma) was down sharply QoQ from 4.4% to 2.94%. A couple of Mumbai developers with exposure of Rs800mn moved out of GNPAs which, in absolute terms reduced from Rs5.3bn to Rs4.7bn. Only three developer accounts now continue in SMA-2 compared to seven earlier. This was possible due to healthy collection trajectory – escrow collections were at 120% in March, and even in April it continued at 118%. Under-construction projects as well as LAP are witnessing healthy collections.

  With improvement in asset quality, JMF created much lower provisions at Rs395mn at the consolidated level (Rs370mn towards mortgage lending); of this, Rs230mn was additional buffer. It now carries provision of Rs3.8bn (vs Rs3.6bn in Q3FY21). However, management is reasonably certain that NPA and SMA2 numbers peaked in Dec'20 and existing provisions are adequate for now. Management expects some delays in under-construction projects, and the company is monitoring the environment closely.

- **Restructured <1% of AUM though 19.7% of portfolio is under DCCO extension:** As was guided, the company offered resolution plan (restructuring) to less than 1% of advances; however, DCCO extension was sought for 19.7% of the overall lending book. Entire DCCO book was towards real estate projects in mid to final stages of construction and there are hardly any projects in the nascent stage. 75% of the DCCO portfolio has witnessed healthy sales and recoveries. None of the DCCO projects are in SMA or NPA. Further increase in DCCO is unlikely despite covid; however, we will watch the situation closely.

Market Cap	Rs79bn/US$1.1bn
Reuters/Bloomberg	JMSH.BO/ JM IN
Shares Outstanding (mn)	952.7
52-week Range (Rs)	98/57
Free Float (%)	45.2
FII (%)	23.7
Daily Volume (US$'000)	2,768
Absolute Return 3m (%)	(3.0)
Absolute Return 12m (%)	31.5
Sensex Return 3m (%)	(3.4)
Sensex Return 12m (%)	56.2

Year to Mar	FY20	FY21P	FY22E	FY23E
Revenues (Rs mn)	20,681	21,158	24,525	28,697
PAT (post MI) (Rs mn)	5,450	5,900	6,750	8,242
EPS (Rs)	6.5	6.2	7.1	8.7
% Chg YoY	-5	-4	14	22
P/E (x)	12.5	13.1	11.4	9.3
P/BV (x)	1.2	1.1	1.0	0.9
Net NPA (%)	1.1	2.0	1.4	1.0
Dividend Yield (%)	0.2	0.3	0.6	1.3
RoA (%)	3.7	3.7	4.1	5.1
RoE (pre MI) (%)	10.4	9.2	9.5	11.0

- **Wholesale mortgages witnessed sequential uptick; growth looking up for FY22E:** Management last quarter indicated that it is cautiously evaluating opportunities across geographies and will look at gradually increasing the lending book. Gross loans improved 4% QoQ to Rs109bn; of this, mortgage lending was up 4% QoQ to Rs76.5bn. Within mortgage lending, the company is more focused on construction financing compared to structured financing or land financing.

  Interestingly, JMF has stepped up its borrowing programme since January for growth. Management expects some disruption due to covid second wave (sales momentum is likely to get hampered) and remains cautious given the uncertainty. Consequently, the target for growth in wholesale mortgages can be 10-12% lower than earlier envisaged, but still comfortable in growing the portfolio by >15%.

- **Equity infused in home financing business to drive retail growth:** Besides wholesale mortgages, home loan AUM grew 20% QoQ to Rs4.3bn with focus on affordable housing. Collection efficiency is holding up well at 99%. It is looking to cross the milestone of Rs10bn of retail AUM in FY22. JM Credit Solutions has infused Rs4.9bn of capital into the home finance business for growth.

- **IWS – Complementary ecosystem aiding growth:** Investment banking, wealth and securities businesses did well QoQ - revenues (net of interest expense) of IWS business were up 6% QoQ and earnings 13% QoQ to Rs1.04bn. Average daily turnover regained traction and cash market share was back to 1.6%. JM maintains its brand equity and share in research-led trading, block trading and margin trading. AUA of wealth management business stood at Rs590bn (excluding custody assets) – up 4% QoQ / 24% YoY. Wealth management and investment banking businesses collaborate for servicing the prime ultra HNI segment. Looking at turning around the mutual fund business by strengthening the leadership team, JM AMC has hired a CEO, who is expected to come on board by May-end.

- **Timely resolution key to drive ARC RoEs up:** Higher focus on recoveries yielded results and recoveries during the quarter were about Rs2.4bn while security receipts (SRs) of Rs1.4bn were redeemed. The ARC acquired loans of two companies during the quarter. Outstanding security receipts stood at Rs111bn as of FY21 vs Rs109bn in Q3FY21. The contribution of ARC towards the SRs stood at Rs32bn. It achieved total recovery of Rs11.9bn in FY21 through the CIRP process. For full year FY21, due to delayed resolution, RoE was capped at mere 4%. However, encouragingly, there was not much provisioning needed on the stressed pool; in fact, there was write-back in Q4FY21 as well as full year FY21.

- **Other highlights:**
  - ‘Interest on interest’ reversal was at Rs180mn, of which Rs160mn was not booked while Rs20mn was reversed in March.

Table 1: JMF valuations primarily led by IWS and lending businesses

(Rs mn, year ending March 31)

Businesses	Parameter	Rs mn	Multiple	Valuation	Stake	Value to JMF	Per share
IWS (Includes part of NBFC)	Earnings	4,644	15.0	69,665	100.0%	69,665	73
Mortgage lending	**Net worth**	**56,413**	**1.21**	**68,420**	**49.9%**	**34,108**	**36**
- Wholesale mortgage	*Net worth*	*53,518*	*1.20*	*64,221*	*46.7%*	*29,979*	*32*
- Retail mortgage	*Net worth*	*2,896*	*1.45*	*4,199*	*98.4%*	*4,130*	*4*
Distressed credit	*Net worth*	17,588	1.2	20,227	63.6%	12,864	14
AMC	AUM	66,892	6.5%	4,348	59.5%	2,589	3
Excess capital, investments	*Net worth*	4,600	1.0	4,600	100.0%	4,600	5
Total				**1,67,260**		**1,23,826**	**130**
Holdco discount (10%)				16,726		12,383	13
Total				**1,50,534**		**1,11,443**	**117**

Source: Company data, I-Sec research

JM Financial Q4FY21 earnings call takeaways

2nd covid wave impact

- ***Sales momentum likely to get hampered, site visit have slowed, delays anticipated in under construction projects, monitoring the environment closely and remain cautious given the uncertainty.***
- It's not only Maharashtra covid, but spread across the nation
- ***Target for wholesale mortgage book was Rs 100bn initially, but due to covid 2nd wave, this could reduce by 10-12% to Rs 90bn by March 2022***
- Businesses are more confident to tackle covid this time as compared to 1st wave. It has stepped up borrowing programme since January for growth.
- Management is of the view that GNPA has peaked in Dec'20 and it is unlikely to surpass those numbers even during covid 2nd wave

Group performance

- Consolidated revenue for FY21 at Rs 32.27bn, decline of 6.6% YoY
- PAT at Rs 5.9bn, up 8.3% YoY for FY21
- ***Covid provisions - Rs 2.08bn across group***
- Rs 6.89bn – Adjusted PAT before NCI for FY21

Asset quality

- GNPA lending business at 3.5% and NNPA at 2% and SMA 2% at 2.9% as of FY21-end
- ***It is of the view that GNPA, SMA 2 has peaked out in Q3FY21***
- 1.79% adjustment in NPA is due to SC order
- Seen dramatic improvement in SMA 2 during the quarter
- ***Monthly escrow collections at real estate clients at 120% and for April also, it was at 118%.***
- It is collecting Rs3.03.5bn per month. For the past 6 months, all under construction projects and LAP have seen healthy collections
- ***One time restructuring*** is very low – less than 1%
- ***ECLGS*** - portfolio of 100 schools/education institutions worth Rs 2bn, on which company has disbursed Rs 0.2bn under ECLGS- 100% collection efficiency with nil SMA1 & SMA2 accounts

DCCO

- ***DCCO is 19.7% of the book (given for the principal). DCCO is similar to restructuring and all DCCO cases are post covid.***
- Entire DCCO book is for real estate projects, all of which are in mid to final stage of construction and hardly there are nay projects in nascent stage
- None of DCCO is in SMA or NPA. Further DCCO is unlikely despite Covid

- ***75% of the 19.7% DCCO book has seen healthy sales, good recoveries***
- Further addition to DCCO pool was highly unlikely before DCCO. But now due to the ongoing covid 2nd wave, company would be watching the situation very closely.

Lending business

- ***Wholesale mortgage book at 65% of loan book. Corporate Lending including promoter finance at 19.4% of loan book and Rs 21bn, down 7.4%***
- Gross Debt to Equity at 1.3x and 0.7x on net basis
- Borrowing mix includes 78% from long term sources and rest 22% is short term sources
- Lending at 14-14.5% and hence company could see some fresh repayments which could impact growth.
- Incrementally will do lesser of land and structured finance and more of construction finance.
- JM has a lot of expertise in corporate lending & promoter lending. But JM is conservative and hence it will not lend to riskier segments
- Real estate lending happens around 14-14.5%, while corporate lending happens around 12%

Retail Lending

- ***Retail mortgage at Rs 7.4bn, up 29% YoY***
- On retail lending, collection efficiency was 96% for April and 99% for April. Targeting 30% growth in FY22 as well.
- ***Started business 3 years ago and by next year, AUM should cross important milestone of Rs 10bn***
- Will see a significant scale up in affordable housing.
- ATS is below Rs 2mn, which is very retail focused and granular in nature

HFC business

- Invested so far Rs 1.5bn in HFC. ***Option given to JM Financial Credit Solutions to infuse Rs 4.9bn in HFC business, taking total capital of HFC business to Rs 6.5bn from Rs 1.5bn. This will help raise more borrowings from lenders.***

IWS

- ***PBT - Rs 4.45bn, constituted 46% of group PBT. Pipeline is strong and getting more stronger.***
- AUM of Wealth Management at Rs 590bn including custody assets
- AUM of Elite Wealth business (newly commenced) at Rs 5.49bn
- Investment Banking - in a pole position wherein business has done exceeding well – clearly would be in the top 2-4 banks which most capital issuers would think of on the equity side, while already in top 10 of the fixed income side, M&A top 2 in terms of recall, private equity also top 5.

- JM’s market share and brand equity is strong in in research based trading, margin based trading and block trading
- In non-discount broking business, mkt share is likely to consolidate among the top players. It is now 100 players which could become only 10 players a decage ago
- Wealth management business – extremely strong and powerful proposition – IB and wealth collaborate and integrate for servicing ultra HNIs – mainstay of business is ultra HNI who have surplus of Rs10bn.

Discount broking

- ***Discount broking has 4-5 players which are already established. One needs to chose the model, it is not ignoring and is closely watching the space.***
- It is very happy that the top 3-4 discount broking players are expanding market. This is because they are bringing new players in the market. This expands the customer pool for the entire industry.

MF

- Hired new CEO for AMC business, announcement likely by May-end or first week of June. Looking for turnaround in the business in the near term.

Interest on Interest reversal

- ***Interest on interest reversal at Rs 180mn, of which Rs 160mn was not booked while Rs 20mn has been reversed in the month of March***

JM Financial Q2FY21 earnings call takeaways

On business performance

- Consolidated revenues for H1FY21 at Rs14.95bn – down 12.5%, PAT at Rs2.3bn (down 9.4% YoY)
- Has prudently taken additional provision of Rs1.23bn for H1FY21.
- Nothing has changed dramatically in terms of strategy – the business model will remain capital markets and real estate heavy

On wholesale lending business

- ***Including standstill NPLs, proforma GNPLs would have been 2.13% for H1FY21 (compared to reported 1.69%).*** Seems to have peaked out and even SMA-2 will peak out at 2.5%
- Collection efficiency in developer loan portfolio is 81%. Of the book which was under moratorium – 80% have been able to meet their payment obligation. In balance 20%, many have sought DCCO and some may seek additional funding support for construction/completion/repayment.
- Escrow collections are already at 88% of pre-covid level.
- ***Not even a single account will go through restructuring – however 18-22% of overall loan portfolio of to go through DCCO. 10% has already been done till today. It gives these accounts 18-month time period. The projects are mostly based out of Mumbai and Pune.*** Asset cover is >1.6x on restructured portfolio.
- 50.7% of real estate is in Western region – of which Mumbai is 31%. Earlier, the biggest worry was Mumbai, but it doesn't seem so now. Current state government and regulator have been very supportive. Mumbai based developers have realized they cannot keep prices elevated and are exercising flexibility
- ***In terms of provisioning, it seems to have peaked out as it is carrying adequate buffer – another Rs500-550mn of estimated provisioning over next couple of months in the worst case.***

On incremental lending in mortgage lending

- Mortgage lending business is a growth business and just waiting for right time and right opportunity. Over the last 2-3 months, there has been an exceptional demand for real estate properties on the residential front. Expect festival season to be very strong for real estate
- Balance sheet is adequately capitalized and healthy – start looking at growth from Q1CY21
- ***In past 4-5 months, have disbursed Rs1bn in construction finance on existing projects and will pick up further. Bangalore and Hyderabad seeing good demand. Increase in loan book due to interest capitalization and additional funding to existing projects – no new accounts added this quarter.***

On distressed assets (ARC business)

- ***Will evaluate the portfolio in February to take a call in provisioning – it is expecting some write back in provisions made. Will not be a meaningful even it provides something.***
- Concerned about Unitech case in SC but can't discuss much about it. This is the only case where the company may see certain amount of restructuring. It won't be significant number, but in terms of total provisions, the proportion could seem high.
- ***Concluded major resolution where company was acquired by JSW and it has received Rs5bn of cash – Average IRR on resolved case would be near the average on assets it expects at 28-30%***
- Seeing good momentum and hence hoping for some more resolution over the next six months - One pharma asset and one textile asset are in advanced stage of resolution and expected to come through March 2020.
- Activities in courts have improved dramatically. It will be focusing on only resolutions.
- ***Difficult to find out what is best acquisition price for stressed asset at this juncture – want to see substitution effect.***
- JM increased contribution in existing assets have gone up it has bought SRs from one of the existing investors as was available at a good price.

Securities business

- ***Securities franchise caters mainly to HNI and retail (through franchise). On retail, aims to double retail franchise network over the next two years.***
- Wealth management has performed very well – doubled the headcount but still profitability is strong
- Wealth management AUA QoQ trends - equity assets grew 25%, direct debt/MF 6% and liquid assets 10% resulting in 14.5% of overall growth. Among the AUM addition in AUM, company added Rs39bn-40bn in equity, added Rs22bn in debt and rest is alternate assets. Overall integration within the group IWS has also aided better growth in wealth management AUM
- ***Have not resorted to much of episodic funding or bridge financing in past 6 months and still has seen strong momentum in IWS business. Interest income is one-third and two-third would be fee/advisory income.***
- ***Has always aimed at 50% of revenues and profits to come from IWS segment and this quarter actually witnessed it.***

Status of equity deployment

- No deployment of cash as yet; it is now in treasury
- Was raised as a covid buffer for unforeseen circumstances
- 50% was to be utilised for real estate and 50% for ARC – looking at current circumstances

On inorganic opportunity

- Broking space – had made an offer but buyer was not comfortable with price
- In retail lending – should finalise something before 31st March – housing and small ticket LAP that will help double the portfolio.

Other highlights

- Retail mortgage growth was at 25% YoY and growth would have been around 35-40%, if April, May, June lockdown would not have been there
- Education loans to schools of >Rs2bn – currently performing very well and no delays – however, hoping for schools to restart and will re-evaluate in Dec/Mar.
- Net debt to equity is currently very low at 1.0x
- Balance sheet would be very envious and strong by end of Q3
- For June & September, there is a huge decline in cash and cash equivalent. This is because of higher utilization levels. Moreover, company has repaid external debt and replaced it with group funding. Hit due to negative carry is Rs1.8bn, which is huge and hence over the next 12 months, company will reduce cash levels significantly and will try to buyback debt

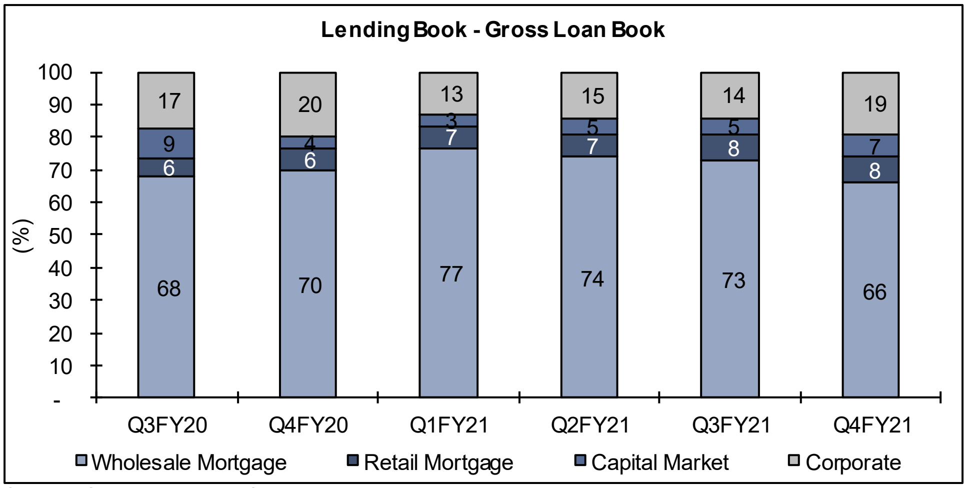
Table 2: Q4FY21 result review

(Rs mn, year ending March 31)

	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	YoY (%)	QoQ (%)
Consolidated P&L								
Interest Income	5,602	5,301	4,392	4,674	5,239	4,781	-10	-9
Net gain on derecognition of financial instruments	19	2	65	-	-	1	-56	NA
Total Interest Income	**5,620**	**5,303**	**4,457**	**4,674**	**5,239**	**4,782**	**-10**	**-9**
Interest Expenses	3,536	3,333	2,727	2,889	2,783	2,711	-19	-3
Net Interest Income	**2,084**	**1,969**	**1,730**	**1,785**	**2,457**	**2,071**	**5**	**-16**
Fees and Commission Income	2,101	1,591	789	1,637	1,726	2,133	34	24
Brokerage Income	480	606	504	742	599	722	19	21
Net gain on fair value changes	542	593	948	739	1,077	356	-40	-67
Other Operating Income	266	267	170	217	208	259	-3	25
Other Income	47	47	43	26	62	160	242	160
Non-interest Income	**3,434**	**3,103**	**2,454**	**3,361**	**3,671**	**3,630**	**17**	**-1**
Total Income (net of interest expenses)	**5,519**	**5,073**	**4,185**	**5,145**	**6,127**	**5,700**	**12**	**-7**
							NA	
Employee benefits expense	1,191	650	913	1,166	1,175	1,154	78	-2
Depreciation expense	103	109	101	100	99	97	-11	-2
Net loss on fair value changes	-	-	-				NA	NA
Other expenses	752	986	640	691	854	930	-6	9
Total operating expenses	**2,046**	**1,746**	**1,653**	**1,958**	**2,129**	**2,181**	**25**	**2**
							NA	
PPoP	**3,473**	**3,327**	**2,531**	**3,187**	**3,998**	**3,519**	**6**	**-12**
Impairment on financial instruments	426	1,177	690	792	691	395	-66	-43
PBT	**3,047**	**2,150**	**1,842**	**2,395**	**3,308**	**3,124**	**45**	**-6**
							NA	
Current tax	860	738	615	754	1,097	671	-9	-39
Deferred tax	-64	-232	-169	-194	-285	121	-152	-142
Tax adjustment of earlier years (net)	30	4	6	-	-6	-1	-118	-88
Total tax expenses	**825**	**510**	**452**	**560**	**806**	**791**	**55**	**-2**
							NA	
PAT	**2,222**	**1,641**	**1,390**	**1,836**	**2,502**	**2,333**	**42**	**-7**
Share in profit / (loss) of associate	7	-11	7	3	8	3	-128	-62
Net Profit after tax & profit / (loss) of Associate	**2,228**	**1,630**	**1,396**	**1,839**	**2,510**	**2,337**	**43**	**-7**
Minority Interest	653	324	460	449	703	571	76	-19
PAT after minority interest	**1,575**	**1,306**	**936**	**1,390**	**1,807**	**1,766**	**35**	**-2**
Lending Business								
Gross Loan Book(Rs mn)								
Wholesale Mortgage	85,990	80,520	83,160	84,100	75,900	71,580	-11	-6
Retail Mortgage	7,190	7,440	7,360	7,900	7,970	8,600	16	8
Capital Market	11,560	4,650	3,690	5,330	5,600	7,350	58	31
Corporate	21,880	22,700	14,130	16,540	14,590	21,010	-7	44
Total	**1,26,620**	**1,15,310**	**1,08,340**	**1,13,870**	**1,04,060**	**1,08,540**	**-6**	**4**
Yields (%)	14.0	14.3	14.5	14.1	14.3	14.3	30	-
COF (%)	9.9	10.3	10.1	9.9	9.9	10.0	40	10
Spreads (%)	4.1	4.0	4.4	4.2	4.4	4.3	-10	-10
NIM (%) (RHS)	6.6	6.6	7.6	7.5	7.7	7.3	-	-40
Asset quality							**YoY (bps)**	**QoQ (bps)**
GNPA (%)	1.6	1.7	1.8	1.7	1.8	3.5	9	171
NNPA (%)	1.4	1.1	1.2	1.1	1.2	2.0	-22	79
PCR (%) (RHS)	15.6	46.0	47.5	49.6	54.3	44.3	3,046	-1,002
SMA2 (%)	1.2	2.6	3.0	2.9	6.2	2.9	146	-325
Return Ratios							**YoY (bps)**	**QoQ (bps)**
RoA (%) [annualised]	4.2	2.0	3.2	3.1	4.9	3.5	-220	-140
RoE (%) [annualised]	12.6	5.8	8.4	7.8	11.9	8.9	-680	-300
CRAR (%)	35.0	38.7	40.9	42.5	41.4	40.2	370	-120

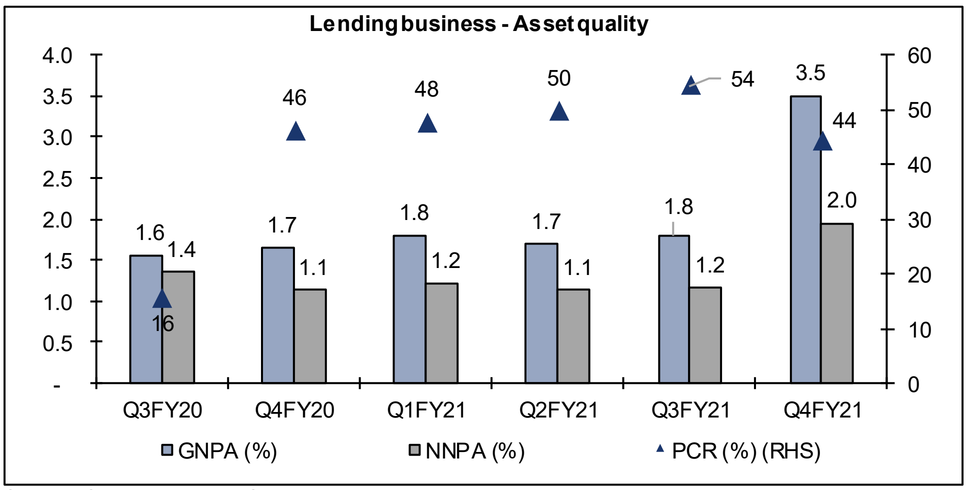
Source: Company data, I-Sec research

Chart 1: Consolidating the wholesale mortgage lending business



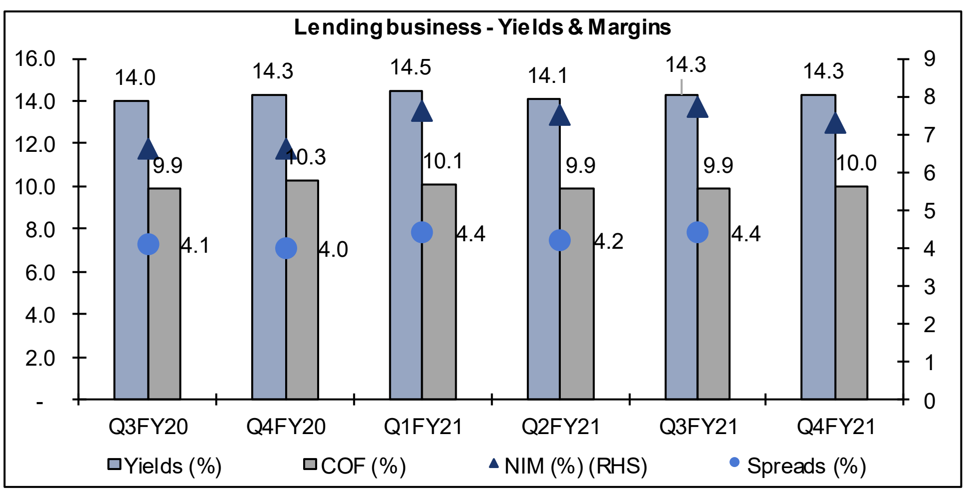
Source: Company data, I-Sec research

Chart 2: GNPA settled near Q3FY21 proforma level



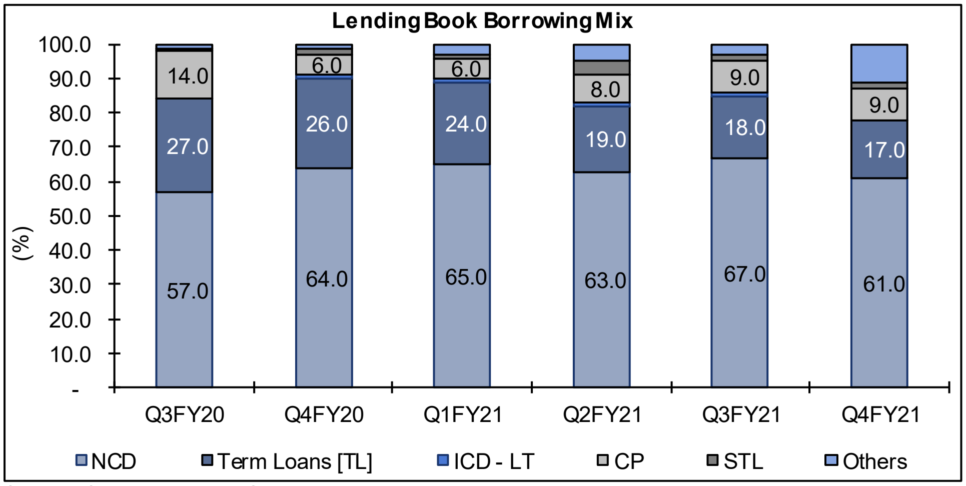
Source: Company data, I-Sec research

Chart 3: Yields sustain, negative carry on excess liquidity weigh on NIMs



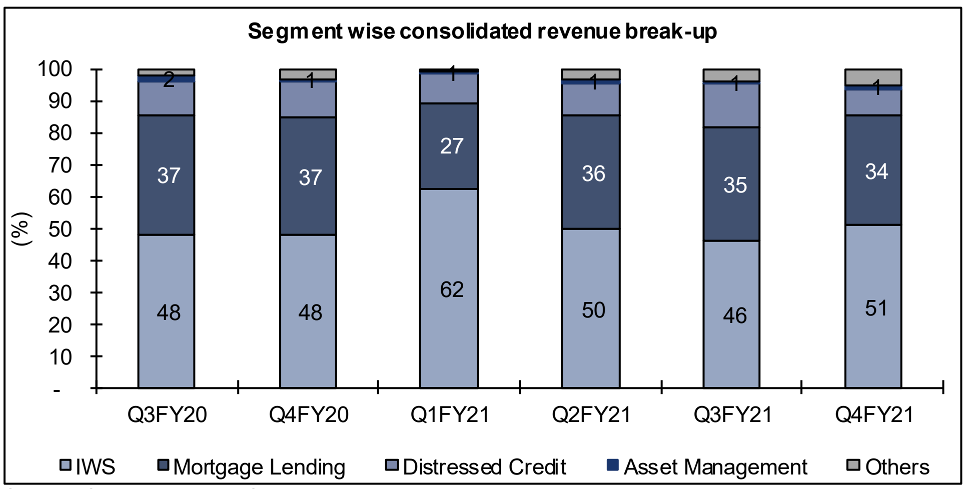
Source: Company data, I-Sec research

Chart 4: Repaid high-cost borrowings as it is carrying adequate liquidity



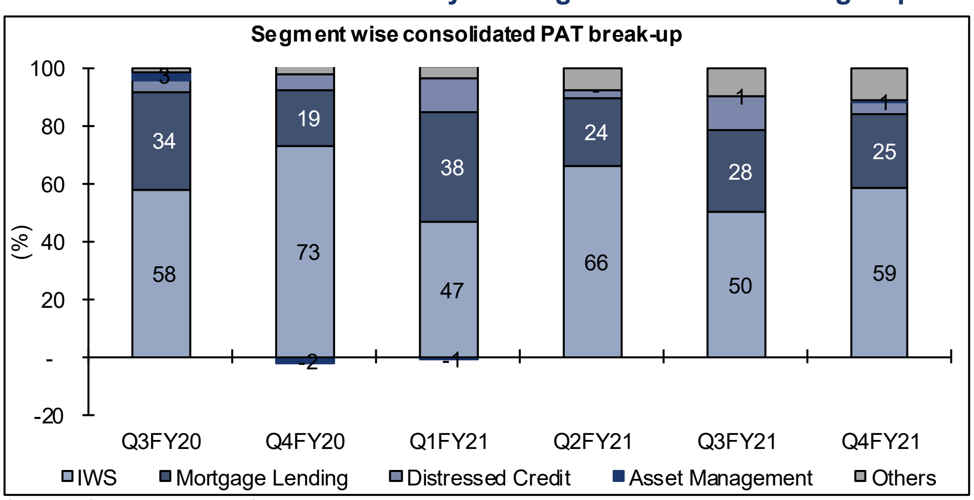
Source: Company data, I-Sec research

Chart 5: IWS share in revenue stable around 50%



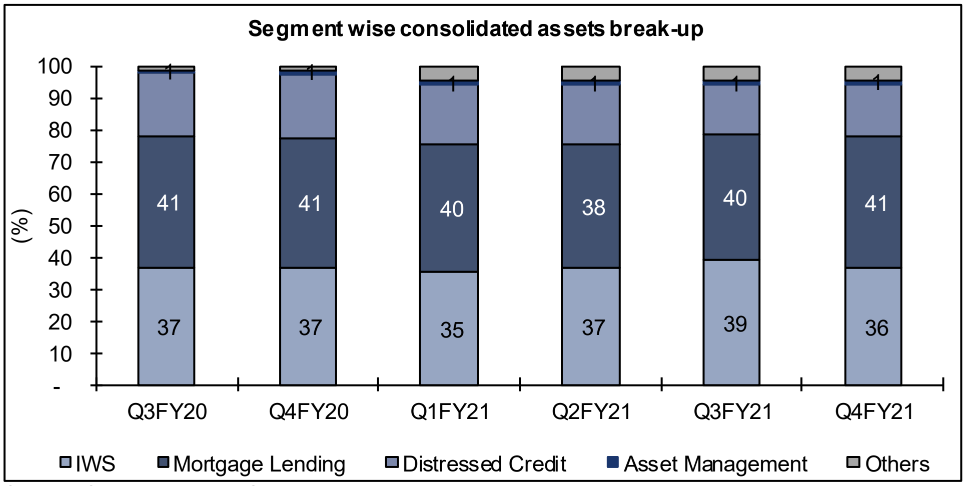
Source: Company data, I-Sec research

Chart 6: IWS – continues to be key earnings contributor at the group level



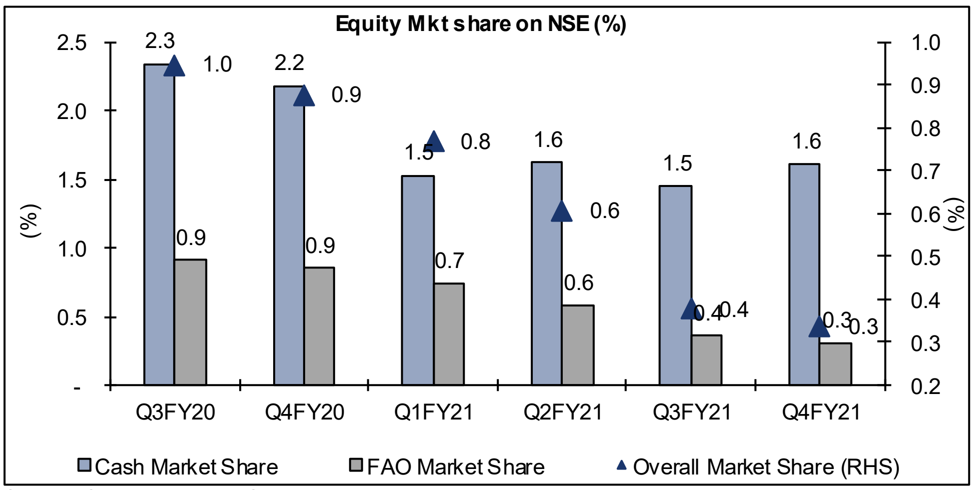
Source: Company data, I-Sec research

Chart 7: Segment-wise asset mix remained broadly steady over the past year



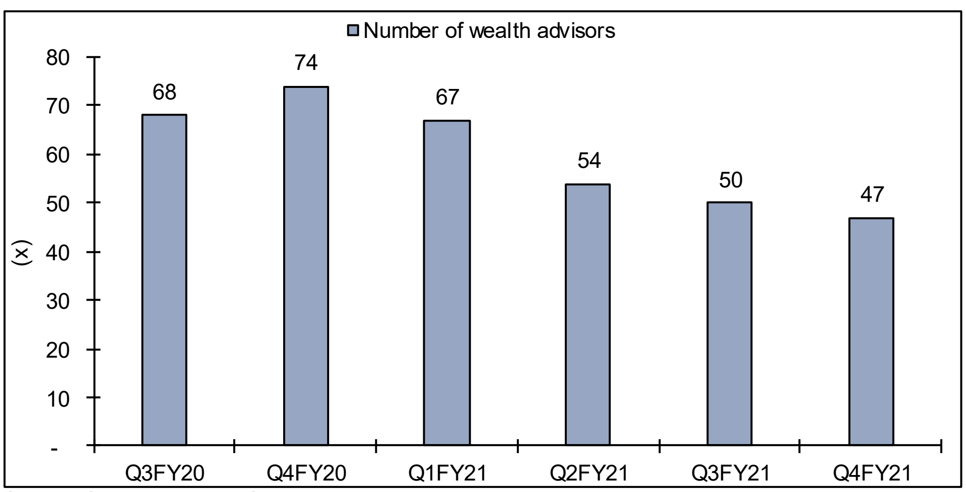
Source: Company data, I-Sec research

Chart 8: Cash equity market share retraces back to 1.6%



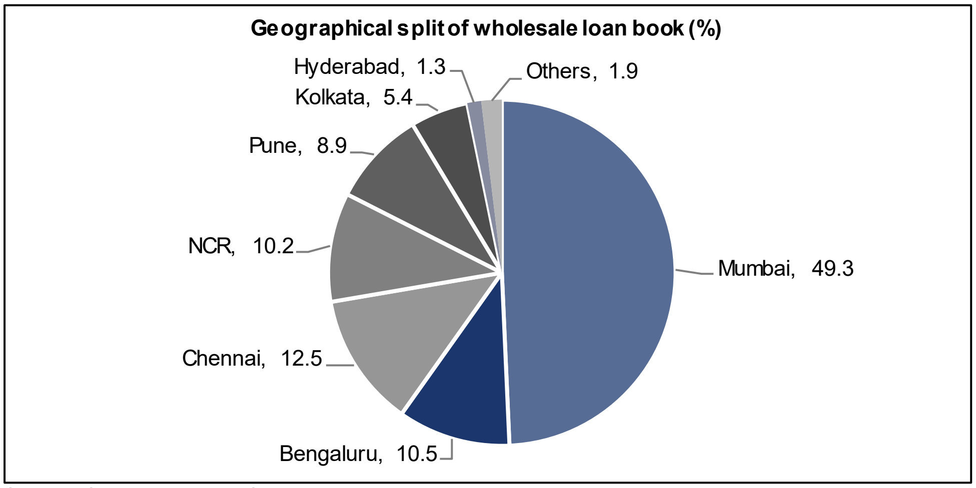
Source: Company data, I-Sec research

Chart 9: Number of wealth advisors are at a 8-quarter low



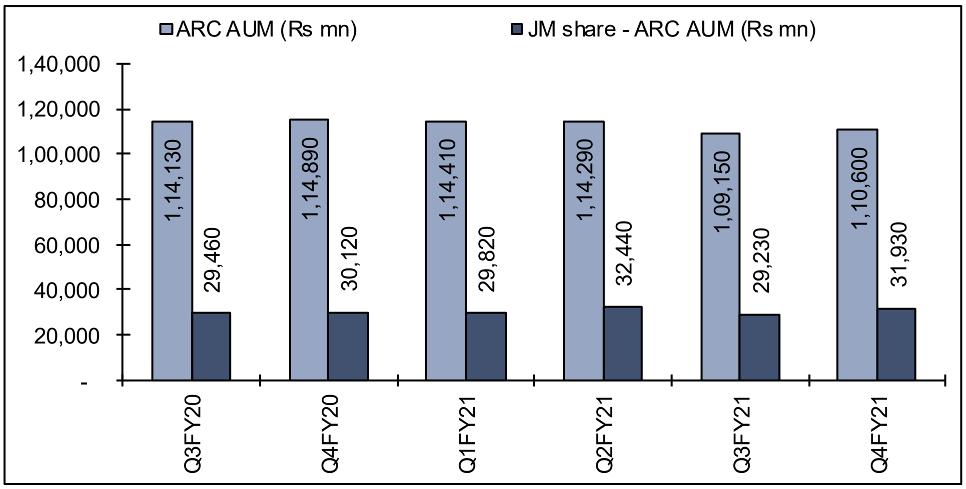
Source: Company data, I-Sec research

Chart 10: Mumbai continues to dominate wholesale lending book



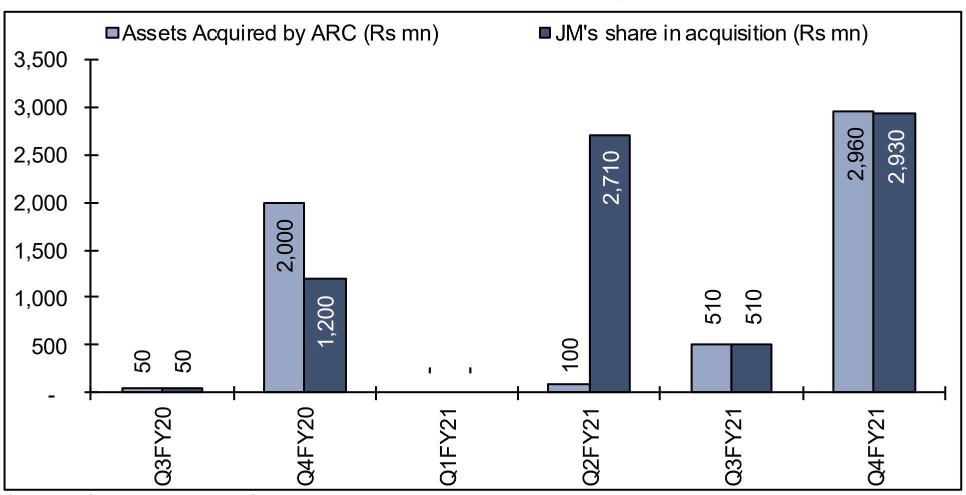
Source: Company data, I-Sec research

Chart 11: Distressed assets remained steady; focus on resolutions



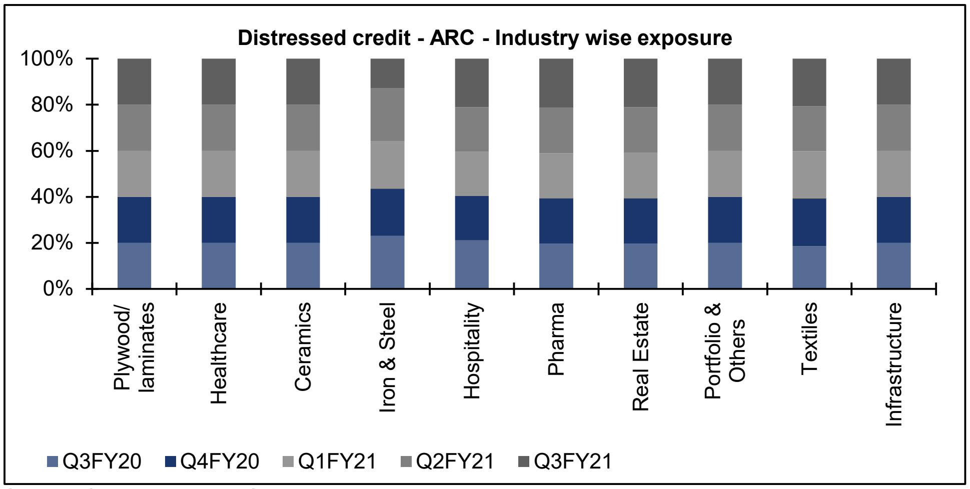
Source: Company data, I-Sec research

Chart 12: JMF's proportion in ARC AUM steady QoQ



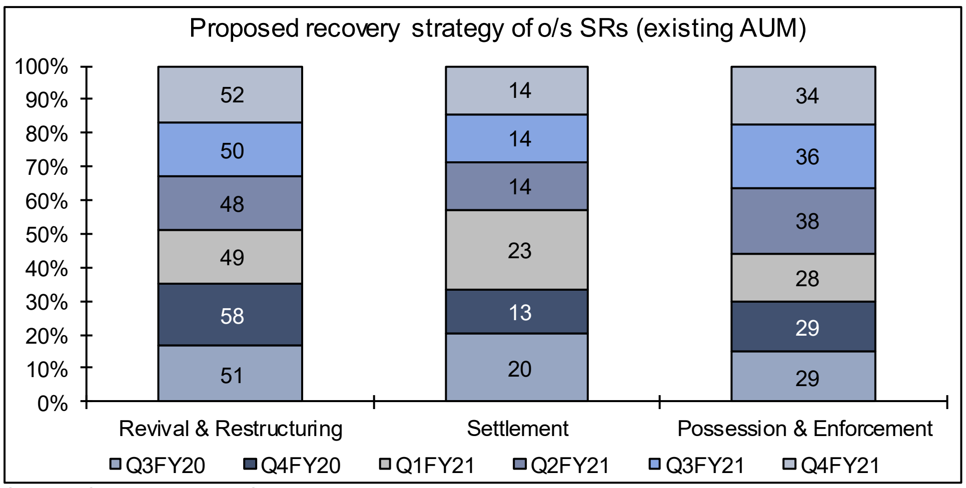
Source: Company data, I-Sec research

Chart 13: Industry-wise mix largely stable over the past few quarters



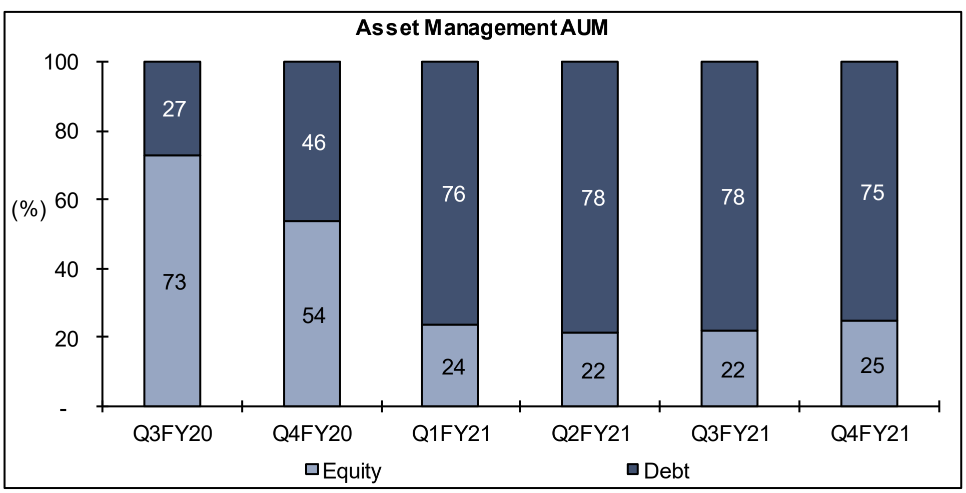
Source: Company data, I-Sec research

Chart 14: Couple of resolutions in advanced stages



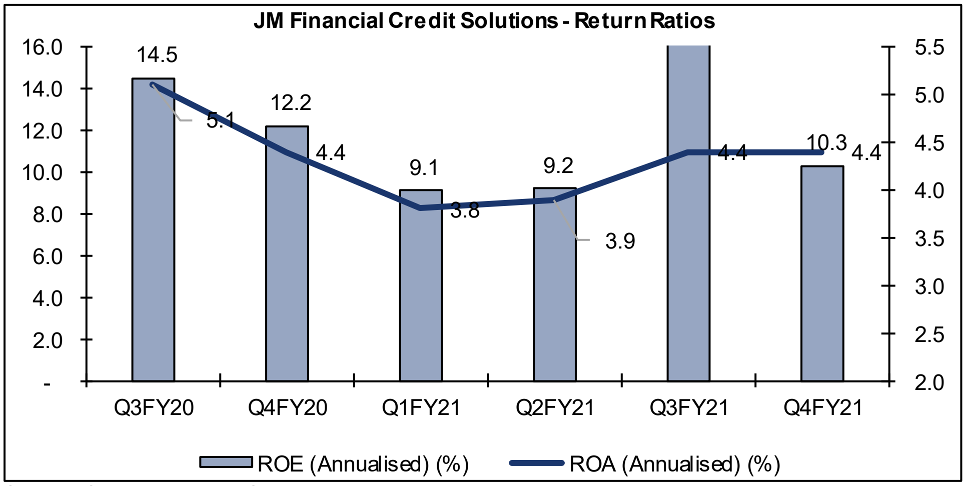
Source: Company data, I-Sec research

Chart 15: JM AMC witnessed decline in AUM in Q4FY21



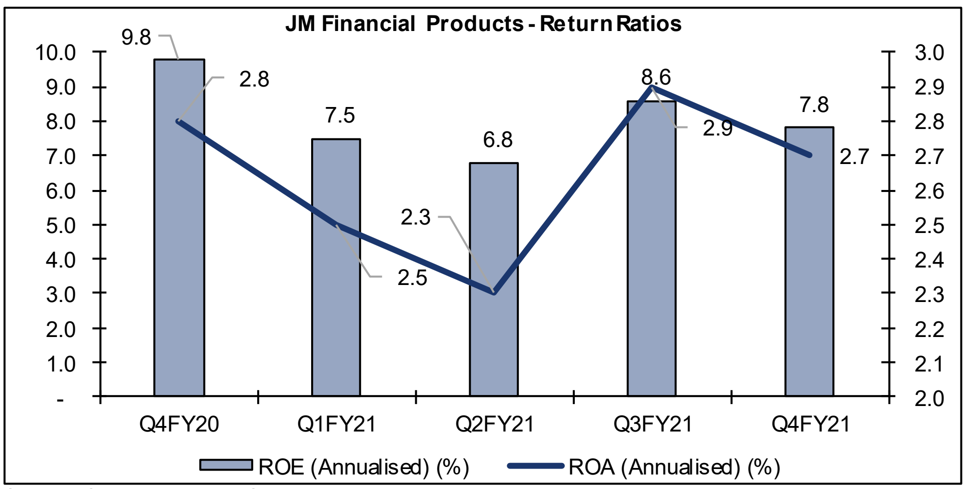
Source: Company data, I-Sec research

Chart 16: Lending entities' return ratios moderate QoQ



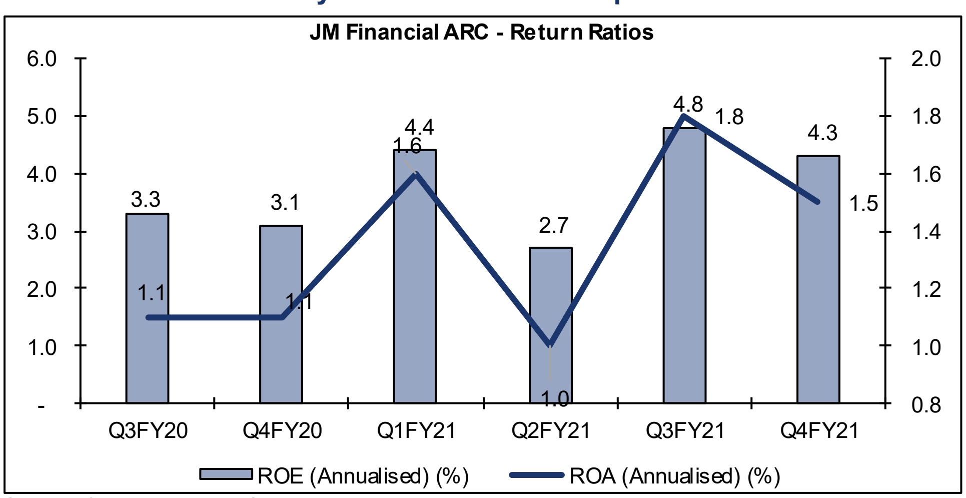
Source: Company data, I-Sec research

Chart 17: JM Financial Products saw mild downtick in return ratios



Source: Company data, I-Sec research

Chart 18: Resolution key to drive ARC RoEs up



Source: Company data, I-Sec research

Financial summary

Table 3: Profit and Loss statement (consolidated)

(Rs mn, year ending Mar 31)

	FY18	FY19	FY20	FY21P	FY22E	FY23E
Interest Income	18,989	23,649	22,813	19,085	20,705	22,956
Interest Expenses	11,190	14,462	13,859	11,109	11,009	10,972
Net Interest Income	**8,060**	**9,205**	**9,134**	**8,043**	**9,940**	**12,271**
Fees and Commission Income	6,986	5,768	6,463	6,285	7,741	8,600
Brokerage Income	2,188	1,902	2,027	2,566	2,637	2,840
Net gain on fair value changes	-	2,448	1,760	3,119	937	1,013
Other Operating Income	2,079	1,221	1,083	853	1,120	1,268
Other Income	463	203	215	292	2,149	2,705
Non-interest Income	**11,716**	**11,543**	**11,547**	**13,115**	**14,585**	**16,426**
Employee benefits expense	3,910	4,216	3,954	4,408	4,232	4,602
Depreciation expense	262	271	410	398	616	644
Other expenses	3,420	3,082	3,044	3,116	5,370	6,209
Total operating expenses	**7,592**	**7,569**	**7,409**	**7,922**	**10,218**	**11,455**
PPoP	**12,184**	**13,179**	**13,272**	**13,236**	**14,306**	**17,242**
Provisions & contingencies	336	351	2,337	2,568	1,495	867
PBT	**11,848**	**12,828**	**10,935**	**10,668**	**12,811**	**16,375**
Total tax expenses	3,818	4,463	3,160	2,608	3,328	4,244
PAT	**8,031**	**8,365**	**7,775**	**8,061**	**9,483**	**12,131**
Share in profit / (loss) of associate	18	6	4	21	20	20
Net Profit after tax & profit / (loss) of Associate	**8,049**	**8,370**	**7,780**	**8,082**	**9,503**	**12,151**
Minority Interest	1,840	2,649	2,330	2,182	2,752	3,909
PAT after minority interest	**6,209**	**5,722**	**5,450**	**5,900**	**6,750**	**8,242**

Source: Company data, I-Sec research

Table 4: Balance sheet (consolidated)

(Rs mn, year ending Mar 31)

	FY18	FY19	FY20	FY21P	FY22E	FY23E
Loan book - Steady state Financing	1,47,680	1,39,990	1,13,070	1,03,580	1,26,863	1,48,346
Distressed asset book	30,260	41,940	36,860	39,150	37,033	43,038
Cash and cash equivalents (CCE)	14,690	17,370	34,120	53,510	26,970	24,838
Other Investments	10,040	8,420	7,510	14,590	9,349	5,044
Arbitrage and trading book	1,980	3,120	2,190	6,920	7,266	7,629
Property, Plant and Equipment	3,770	3,720	3,980	3,710	3,896	4,090
Trade Receivables	8,550	6,850	3,240	4,990	4,458	5,111
Other assets	4,570	4,420	5,960	6,770	8,916	10,286
Total Assets	**2,21,540**	**2,25,830**	**2,06,930**	**2,33,220**	**2,24,752**	**2,48,383**
Shareholders' Funds	45,020	50,790	55,860	69,470	75,746	83,018
Non-Controlling Interest	**13,950**	21,500	24,070	26,050	28,802	32,712
Share of security receipt holders	5,230	4,840	890	710	710	710
Borrowings	1,49,880	1,39,910	1,17,560	1,23,690	1,09,784	1,21,049
Trade Payables	3,450	4,170	4,400	7,650	4,877	5,819
Other Liabilities and Provisions	4,010	4,620	4,150	5,650	4,832	5,075
Total Equity and Liabilities	**2,21,540**	**2,25,830**	**2,06,930**	**2,33,220**	**2,24,752**	**2,48,383**

Source: Company data, I-Sec research

Table 5: Key metrics (consolidated)

(Rs mn, Year ending Mar 31)

	FY18	FY19	FY20	FY21P	FY22E	FY23E
Wholesale Mortgage	92,590	1,01,310	80,520	71,582	83,751	96,314
Retail Mortgage	4,320	5,810	7,440	8,601	12,041	16,857
Capital Market	23,340	10,780	4,650	7,350	9,000	12,000
Corporate	27,460	23,170	22,700	21,020	22,071	23,175
Gross Loan Book	**1,47,710**	**1,41,070**	**1,15,310**	**1,08,553**	**1,26,863**	**1,48,346**
Yields (%)	13.1	13.3	14.1	14.3	14.0	14.0
COF (%)	8.7	9.2	10.0	10.0	10.1	9.5
Spreads (%)	4.4	4.1	4.1	4.3	3.9	4.5
NIM (%)	6.2	6.0	6.6	5.3	6.4	7.5
GNPL (%)	0.6	0.7	1.7	3.5	4.0	3.4
NNPL (%)	0.6	0.6	1.1	2.0	1.4	1.0
Return ratios	**FY18**	**FY19**	**FY20**	**FY21P**	**FY22E**	**FY23E**
RoA	3.6	4.2	3.7	3.7	4.1	5.1
RoE (pre MI)	13.6	14.4	10.4	9.2	9.5	11.0
RoE (post MI)	27.6	11.9	10.2	9.4	9.3	10.4
Leverage (Asset/equity)	3.8	3.1	2.6	2.4	2.1	2.1
Revenues	19,776	20,748	20,681	21,158	24,525	28,697
PAT (post MI)	6,209	5,722	5,450	5,900	6,750	8,242
Per share data (Rs)						
No. of shares (#)	838	840	841	951	951	951
EPS (pre MI)	9.6	11.3	9.4	8.5	10.0	12.8
EPS (post MI)	7.4	6.8	6.5	6.2	7.1	8.7
BVPS (pre MI)	70.4	86.1	95.0	100.4	109.9	121.7
BVPS (post MI)	53.7	60.5	66.4	73.0	79.6	87.3
DPS	1.8	1.0	0.2	0.3	0.5	1.0
P/E (x)	10.9	11.9	12.5	13.1	11.4	9.3
P/B (x)	1.5	1.3	1.2	1.1	1.0	0.9

Source: Company data, I-Sec research

Table 6: JM Credit Solutions – financials

(Rs mn, year ending Mar 31)

	FY18	FY19	FY20	FY21P	FY22E	FY23E
Ownership	50.0%	50.0%	46.7%	46.7%	46.7%	46.7%
Loan book	71,916	80,160	71,760	68,307	80,904	93,039
Net worth	16,685	29,093	32,913	36,499	47,285	53,518
NII	5,352	6,811	7,178	6,821	7,032	8,763
PPoP	5,028	6,423	6,800	6,639	6,889	8,644
PBT	4,836	6,264	5,350	4,789	5,844	8,341
PAT	3,149	4,064	3,823	3,591	4,371	6,239
PAT (post MI)	1,575	2,032	1,785	1,676	2,041	2,912
Key ratios (calculated)						
Yield (%)	14.7%	14.2%	14.8%	13.4%	15.2%	14.8%
Cost of borrowing (%)	9.2%	9.5%	10.1%	8.7%	8.5%	8.7%
NIM (%)	8.3%	9.0%	9.4%	9.7%	9.4%	10.1%
GNPA (%)	1.0%	1.1%	2.1%	3.9%	5.5%	4.5%
NNPA (%)	0.9%	0.9%	1.5%	1.2%	1.9%	1.3%
Prov cov(%)	9.3%	18.6%	29.2%	68.9%	66.0%	72.2%
Credit cost (%)	0.3%	0.2%	1.9%	2.6%	1.4%	0.3%
Cost to Income	8.6%	8.3%	10.7%	7.6%	7.8%	6.8%
RoA (%)	4.8%	5.1%	4.6%	4.1%	4.7%	6.3%
RoE (%)	20.4%	17.8%	12.3%	10.3%	10.4%	12.4%
Tier I Capital	22.1%	33.6%	39.1%	45.7%	50.8%	50.9%

Source: Company data, I-Sec research

Table 7: JM Financial Home Loans – financials

(Rs mn, year ending Mar 31)

	FY19	FY20	FY21P	FY22E	FY23E
Ownership	98.4%	98.4%	98.4%	98.4%	98.4%
Loan book	2,014	3,053	4,243	5,495	6,855
Net worth	1,118	1,491	2,548	2,679	2,896
NII	56	312	333	449	575
PPoP	-53	90	123	221	335
PBT	-66	66	76	176	289
PAT	-66	74	57	131	216
PAT (post MI)	-65	73	56	129	213
Key ratios (calculated)					
Yield (%)	8.2%	14.0%	13.3%	13.1%	12.9%
Cost of borrowing (%)	7.0%	10.4%	9.3%	9.1%	8.9%
NIM (%)	5.1%	12.3%	9.6%	9.1%	7.5%
GNPA (%)		0.2%	1.0%	1.2%	1.5%
NNPA (%)		0.2%	0.7%	0.8%	1.0%
Prov cov(%)		29.2%	33.7%	33.5%	33.3%
Credit cost (%)		0.9%	1.3%	0.9%	0.6%
Cost to Income	162.8%	75.6%	70.8%	60.7%	54.6%
RoA (%)	-5.4%	2.7%	1.5%	2.5%	2.7%
RoE (%)	-9.2%	5.7%	2.8%	5.0%	7.8%
Tier I Capital	76.1%	68.4%	94.0%	63.6%	44.6%

Source: Company data, I-Sec research

Table 8: JM Financial Products – financials

(Rs mn, year ending Mar 31)

	FY18	FY19	FY20	FY21P	FY22E	FY23E
Ownership	99.4%	99.4%	99.4%	99.4%	99.4%	99.4%
Loan book	65,852	52,553	37,349	38,766	43,095	50,097
Net worth	14,675	15,603	17,073	17,960	19,067	20,251
NII	2,813	3,317	2,623	2,446	2,705	2,937
PPoP	3,316	3,089	2,916	2,256	2,731	3,008
PBT	3,277	3,158	2,307	1,875	2,510	2,681
PAT	2,129	2,043	1,601	1,387	1,857	1,984
PAT (after MI)	2,115	2,030	1,591	1,378	1,845	1,971
Key ratios (calculated)						
Yield (%)	12.5%	13.8%	13.1%	12.3%	12.7%	12.5%
Cost of borrowing (%)	9.6%	10.2%	11.2%	10.2%	10.1%	9.8%
NIM (%)	4.6%	5.6%	5.9%	6.6%	6.9%	6.5%
GNPA (%)	0.3%	0.1%	0.1%	0.5%	0.8%	1.1%
NNPA (%)	0.2%	0.1%	0.1%	-0.2%	0.0%	0.3%
Prov cov(%)	24.7%	9.4%	36.8%	145.0%	100.3%	74.3%
Credit cost (%)	0.1%	-0.1%	1.4%	1.0%	0.6%	0.7%
Cost to Income	20.9%	24.9%	24.8%	28.6%	26.1%	25.5%
RoA (%)	3.2%	3.1%	2.8%	2.7%	3.7%	3.7%
RoE (%)	15.2%	13.5%	9.8%	7.9%	10.0%	10.1%
Tier I Capital	21.3%	24.9%	31.3%	32.0%	31.7%	30.0%

Source: Company data, I-Sec research

Table 9: Distressed credit – financials

(Rs mn, year ending Mar 31)

	FY18	FY19	FY20	FY21P	FY22E	FY23E
Ownership	57.1%	59.3%	59.3%	59.3%	59.3%	63.6%
Net worth	16,291	17,493	15,388	16,091	16,738	17,588
AUM	1,29,650	1,40,440	1,14,890	1,10,600	1,08,388	1,19,227
Capital Employed	31,530	45,001	41,895	42,955	37,408	39,242
JMC's Share	15.3%	20.9%	26.2%	28.9%	30.0%	32.0%
Revenues	3,194	5,006	4,135	3,875	3,832	3,896
PAT	22	1,659	467	703	646	851
PAT (after MI)	12	949	297	417	383	541
Key ratios (calculated)						
Yield (%)	32.3%	27.0%	25.1%	25.0%	25.0%	25.0%
Cost of borrowing (%)	9.0%	10.4%	10.0%	10.0%	10.0%	10.0%
Management fees as % of AUM	2.0%	1.7%	1.6%	1.5%	1.5%	1.5%
GNPA (%)	3.6%	2.8%	32.9%	50.0%	50.0%	40.0%
NNPA (%)	0.0%	0.0%	31.0%	45.5%	43.7%	31.3%
RoA (%)	0.1%	4.3%	1.1%	1.7%	1.6%	2.2%
RoE (%)	0.3%	9.8%	2.8%	4.5%	3.9%	5.0%

Source: Company data, I-Sec research

Table 10: AMC – financials

(Rs mn, year ending Mar 31)

	FY18	FY19	FY20	FY21P	FY22E	FY23E
Ownership	59.5%	59.5%	59.5%	59.5%	59.5%	59.5%
Capital employed	1,960	2,150	2,314	2,321	2,366	2,455
Average AUM	1,63,646	1,12,250	61,090	23,890	47,780	66,892
- Equity AUM	69%	68%	54%	25%	30%	35%
Revenues	1,123	940	630	311	478	635
PAT	590	416	174	-2	62	137
PAT (after MI)	349	250	107	7	45	90
Management fees (%)	0.60%	0.67%	0.74%	0.70%	0.68%	0.65%
PAT/AUM (%)	0.35%	0.37%	0.28%	-0.09%	0.09%	0.18%
Cost/income (%)	29.3%	39.4%	65.1%	114.2%	88.3%	75.3%
RoE (%)	26.9	20.0	7.6	-1.0	1.8	4.9

Source: Company data, I-Sec research

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