

JM Financial's Sonia Dasgupta on a stellar FY24 and the ambition for a better FY25

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Premium



Sonia Dasgupta, MD & CEO - investment banking, JM Financial

In over five decades of existence, JM Financial has emerged as one of the few standalone entities in investment banking, competing with bank-owned dealmakers including Axis, ICICI Securities and Kotak across the M&A, equity, private equity, debt, and advisory landscapes.

The firm, floated in 1973 by Nimesh Kampani, recorded FY24 as the busiest year since its inception. The financial services firm claimed they topped equity league tables last fiscal and are seeing a similar run rate in the current fiscal.

Sonia Dasgupta, the managing director and CEO of the investment banking vertical of the group, spoke to VCCircle about the company's active pipeline, shared her thoughts on valuation multiples in various sectors and highlighted increased efforts to close more deals across M&A and PE, among other topics. *Edited excerpts:*

How are the team and resources spread between M&A and PE transaction advisories? Where do you think JM Financial needs to do more to retain the reputation of one of the most active investment banking houses in the country?

The volume and pace of transactions – be it capital market, private equity or M&A – have gone up significantly over the last year.

We closed 54 capital market transactions (IPOs, QIPs, block deals) and 18 private equity and M&A deals in FY24, our highest point in 50 years. We believe the deal momentum is here to stay.

We will continue to hire sector-specific talents especially in domains like digital and technology and financial sponsors coverage teams. We also onboard junior-level talents to fill up positions created due to internal career progression. Our aim is to hire/retain talent that is well suited for the role.

The equity capital markets (ECM) are witnessing a bull run currently. But how does JM Financial manage resources during a downturn, since it gets tough for equity folks to operate in the debt capital market (DCM)?

At JM Financial, our equity and debt teams function separately and their KRAs don't overlap. We plan our resource deployment judiciously so that we don't have to realign our human capital in relation to market cyclicality.

The economy has gained sustained momentum and India is set to become the third largest economy. We strategise and plan resource allocation with a long-term perspective based on the demands of the market and follow a prudent hiring policy.

Given the current market and the pipeline, which side of the business seems overbooked for the next 1-3 years?

Equity market transactions such as fundraises are usually planned in advance. So, there is always an active pipeline in that section.

On the other hand, M&As and private equity transactions are at times more opportunistic in nature both on the buy side and sell side. Such transactions take at least 9-12 months to close, as negotiations and regulatory approvals are involved.

So, things are dynamic. Having said that, our deal and transaction pipeline remains strong with over 50 capital market transactions and more than 20 M&A and PE transactions.

How are the rich public market comparables affecting valuations in the private market? What does history imply during deal making in such situations?

Private market valuations are an important input for private trades in the same sector and so are multiples paid in prior deals in the same space.

We don't believe valuations are expensive across every sector in the market. For instance, in the financial services sector, the valuation multiples have corrected a lot over the last year.

Over the last three-four months, the valuation multiples across the board have come down significantly, especially in small and mid-cap stocks.

Also, in private deals, one can do more diligence vs public market investors and in control deals there is also a chance to make value accretive changes to team, strategy etc, which allows them to be priced basis longer term outlook vs public market deals.

What is your thought and experience in terms of valuation multiples across different sectors. Which sectors have seen a positive rerating and which ones have seen a derating?

Public sector units including banks and the real estate sector have re-rated massively in FY24. Real estate was the clear outperformer. The auto sector has also seen positive re-rating across segments such as PVs, CVs etc. Select pockets of renewable and infra sector as well has seen slight rerating. Media, financial services including private banks have seen pressure during FY24.

The five best-performing sectors for the last fiscal were: realty with 130% returns, auto (72%), energy (71%), infra (63%) and pharma (57%).

What's happening in cases where PE and strategic buyers are on opposite sides of bidding? Are sell-side clients more inclined for a strategic sale or a PE buyout in case of similar terms?

In India, the distinction between private equity and strategic investors winning a bid/committing to a higher valuation, depends on characteristics like availability of talent, synergies with portfolio companies/existing business, gestation period and ease of exit.

Take the IT services sector for instance. PE funds are more willing to take larger bets and bid higher than strategics given the availability of talent and ability of PE funds to open their portfolio companies for business. Some examples include Blackstone-Mphasis, Carlyle-Hexaware and BPEA-Coforge.

Similarly in financial services, PE funds have been willing to compete with strategic players like in the case of BPEA and ChrysCapital acquiring HDFC Credila, WestBridge consortium buying Star Health and Kedaara and Partners Group buying Aavas Financiers.

However, in sectors like pharma and consumer, given the longer gestation period of growing the distribution channel and synergies with existing business, strategic investors are likely to out-bid private equity funds – examples being Tata Consumer Products acquiring Capital Foods and Organic India; Aditya Birla Fashion acquiring TCNS, among others.

Coming to client preference between private equity and strategic buyout, it would depend on the respective clients as well as the sector. In niche sectors, where the client is enjoying a significant moat, there would be concerns/apprehensions regarding sharing of

data with strategic investors.

Over five decades, JM Financial has evolved from a capital market player to an integrated investment bank. How are you planning to scale the business in M&A, private equity advisory and ECM, going forward?

Our focus will be to further strengthen our position as a full-service investment bank. There will be equal focus on M&A advisory, private equity as well as ECM.

Almost 60- 70% of the deals will be equity market deals, as the closure is time-bound.

On the other hand, M&A deal closure will remain time-consuming due to market volatility. Having said that, on a regular basis, M&A advisory will take up at least 30-40% of the deals.

Our goal is to increase the number of deal closures in M&A and PE and boost revenue.