



# JM Financial Limited Q4 FY24 Earnings Conference Call

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**Moderator:** Ladies and gentlemen, good day, and welcome to the Earnings Conference Call of JM Financial Limited.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Vishal Kampani. Thank you, and over to you, sir.

**Vishal Kampani:** Thank you. On behalf of JM Financial, we extend a very warm welcome to all of you to our Earnings Conference Call to discuss our financial results both for the fourth quarter as well as the year ended March 2024. We have uploaded our results, presentation, press release and financial results on our website and stock exchanges. I hope all of you have had a chance to go through the same.

I will now take you through the brief highlights and then Nishit, our CFO, can take you through the numbers. I am very pleased to report that we reported our highest ever operating revenue for the year ended 2024 and this is largely on the back of strong momentum in our investment banking and our platform AWS and retail mortgage businesses.

We have been the number one franchise in IPO and QIP for FY24, and we have also seen the highest ever profitability in our integrated investment bank segment. The ROE for the investment bank for FY24 stood at 25%.

Our Platform AWS business has gained strong traction. Our mutual fund AUM has crossed INR 8,000 crores and equity AUM has crossed an important milestone of INR 5,000 crores in May 2024. The brokerage business has done very well with average daily turnover upwards of INR 55,300 crores, which is up 70% Y-o-Y and our SEBI MTF book is up by 122% YoY to INR 1,410 crores. We have made further investments in digital as well as our asset management businesses and we will continue to do so over the next two to three years.

During the quarter ended March 31, 2024, we have recognized a loss amounting to INR 985 crores on account of fair valuation of investments and loans in our distressed credit business. This was primarily related to one large account, which is approximately INR 847 crores, and this large recognition was due to a change in resolution strategy/ plan which we adopted and events subsequent to the balance sheet date. Adjusted for this provision, we reported our highest ever operating PAT in the history of the firm for FY24 at INR 984 crores.

**Strategic update:**

I would like to take you through the strategic direction for the various businesses as discussed and approved by the Board of Directors. The wholesale credit businesses, in which we combine our real estate lending and our bespoke/corporate lending, our distressed credit, which we do

through our ARC, as well as our financial institutions financing have seen a significant shift in the risk adjusted return, especially for wholesale focused financiers.

In light of the same, it is thought prudent to refocus our expertise in the wholesale credit businesses by pivoting them from its on balance sheet-business model to more of a distribution-led syndication driven business model.

We are seeing a lot of opportunities in the entire syndication and distribution space in the private credit side, and we feel that over the next two to three years, the opportunity will expand significantly in the Indian markets and will become as large as our equity franchise, which completely runs on a distribution and syndication platform. So, we are very excited. We have some great people, some great teams. And over the next one year, we will pivot these teams on a syndication and distribution-led model.

We are also seeing an opportunity in the alternative investment fund space for some of these businesses and are closely planning on the same.

The group shall sharpen its focus to further scale its fee and commission generating high growth, high ROE businesses, which are investment banking, institutional equities, retail/ high net worth investors facing businesses of asset management, mutual fund, wealth, broking, and investment advisory businesses. These have an adjusted profit after tax of approximately INR 500 crores. And this INR 500 crores is absolutely purely based on fees and commission. And it does not rely on any leverage to generate this profit.

The affordable housing focused retail mortgage business continues to be an integral part of the group and has demonstrated strong performance over the last few years. And we are targeting an AUM of over INR 6,000 crores in our retail mortgage business by FY27.

As the gradual pivot from on-balance sheet lending to a distribution and alternative structure takes place over the next three to four years, we expect an incremental cash release of approximately INR 2,000 crores. Also, almost INR 3,000 crores of current cash we are holding in both of our NBFCs.

With this, I will now hand it over to Nishit to take you through the numbers and then we can focus on Q&A.

**Nishit Shah:**

Thank you, Vishal. We reported our highest ever consolidated revenue in the year ended March 31, 2024 at INR 4,832 crores, an increase of 45% year-on-year. The adjusted pre-provision operating profits stood at INR 1,915 crores, an increase of 48% year-on-year.

During the year, we have taken a total impairment loss of INR 562 crores in the wholesale mortgage business. Our profit after tax adjusted for the loss on account of the distressed credit business stood at INR 984 crores compared to INR 705 crores in FY23. It represents an increase of 40% year-on-year.

For quarter ended March 31, 2024, our revenue stood at INR 1,276 crores which is a year-on-year increase of 46%. The increase is across fees, commission and brokerage income. Our adjusted pre-provisioning profit for quarter ended March 31, 2024 stood at INR 669 crores, an increase of 129% year-on-year. We have taken provisions of INR 257 crores in the wholesale mortgage business for the quarter.

Profit after tax adjusted for the distressed credit business loss stood at INR 345 crores compared to INR 165 crores, an increase of 110% year-on-year. As on March 31, 2024, the consolidated net worth, excluding minority interest, stood at INR 8,438 crores, which translates to a book value per share of INR 88.3 per share.

The consolidated loan book stood at INR 12,917 crores, which is down 17% year-on-year, on the back of strong repayments during the end of the financial year.

The breakup of the loan book, as on March 31, 2024, is as follows:

**Wholesale mortgage:**

Wholesale mortgage constitutes 38% of our loan book, which is approximately INR 4,917 crores. The loan book has seen a decline of 42% year-on-year.

**Bespoke financing:**

Bespoke financing loan book, which includes corporate and promoter financing book, constitutes almost 23% of the total consolidated loan book. The loan book stood at INR 2,936 crores, an increase of 11% year-on-year.

**Financial Institutions Financing:**

The financial institution financing loan book constitutes 11% of our total loan book at INR 1,477 crores, a decline of 7% year-on-year.

**Direct lending - Retail / HNI lending:**

Capital markets loan book comprises 3% of the overall loan book, which is approximately INR 348 crores, a decline of 67% year-on-year.

The retail mortgage loan book constitutes 25% of the total loan book at INR 3,239 crores, a year-on-year increase of 69%.

We are happy to state that we achieved the highest ever quarterly disbursement of INR 449 crores in JM Financial Home Loans during the quarter-ended March 31, 2024.

The split of loan book breakup provided above does not include the SEBI MTF loan book, which is a part of our brokerage entity under the Platform AWS segment at INR 1,410 crores.

Coming to asset quality, the gross NPA ratio of the lending businesses stood at 4.7%, net NPA at 2.2% and SMA-2 stood at 1.6% as of March 31, 2024. The pre-COVID loan book stood at INR 306 crores, which is 2.4% of the total loan book as of March 31, 2024. The comparative numbers for March 31, 2023 stood at INR 1,571 crores.

On a consolidated basis, our debt-to-equity stood at 1.5x as of March 31, 2024. Our cash and cash equivalents stood at INR 4,769 crores as of March 31, 2024.

During the year ended March 2024, we raised long term borrowing of INR 3,585 crores. Our borrowing mix comprises 86% from long-term sources and 14% from short-term sources.

Moving to segment results, the first segment is our integrated investment bank. The integrated investment bank focuses on all our institutional, corporate, government and ultra-high networth clients. The business includes investment banking, institutional equities, private wealth, PMS, fixed income, private equity funds, balance sheet as well as our international operations. Within investment banking, it includes equity capital markets, private equity, debt capital markets as well as advisory business.

We are happy to state that JM Financial has been ranked number one in league tables for IPO and QIP issuances for the financial year 2023-24. The pipeline of transactions is extremely robust.

For the year ended March 31, 2024, the segment reported revenue of almost INR 1,978 crores, which is an increase of 52% year-on-year. The profit before tax stood at INR 911 crores, which is an increase of 87% year-on-year and profit after tax stood at INR 706 crores, which is an increase of 90% year-on-year. The ROE and ROE from these segments stood at 24.6% and 9.0% respectively.

For Q4FY24, the segment reported revenue of INR 605 crores, which is 2.25x increase compared to last year, profit before tax of INR 395 crores, which is 3.8x increase compared to last year and the profit after tax of almost INR 298 crores, which is an increase of 4.0x Y-o-Y.

Our private wealth segment caters to high networth individuals and has assets of almost INR 68,000 crores, which is an increase of 21% year-on-year. PMS assets have increased by 61% year-on-year to INR 1,759 crores as of March 31, 2024.

The second segment is mortgage lending, which is again subdivided into wholesale mortgage and retail mortgage. Wholesale mortgage includes construction finance, project loans, loan against securities, as well as structured financing solutions for real estate. Retail mortgage includes affordable home loans, small ticket loan against property, as well as education institution loans.

For the year ended March 31, 2024, the mortgage lending segment reported net revenues of INR 842 crores, with a pre-provisioning profit of INR 657 crores. The impairment provisions in our wholesale mortgage business for FY24 stood at INR 562 crores compared to INR 137 crores in FY23. Profit before tax for this segment stood at INR 88 crores and profit after tax post non-controlling interest stood at INR 31 crores.

For the quarter ended March 31, 2024 the net revenue and pre-provisioning profits stood at INR 229 crores and INR 173 crores respectively. Impairment provisions for the wholesale mortgage business for the quarter stood at INR 257 crores compared to INR 48 crores in Q3FY24. The loss before tax for the quarter stood at INR 86 crores and loss after tax and non-controlling interest stood at INR 33 crores.

On the retail mortgage business, we have built a very granular retail mortgage book of INR 2,104 crores across ~17,500 customers with an average ticket size of INR 11 lakhs carrying an average yield of 13.2% and loan-to-value of 58%. Our book is well spread across 9 states and 112 branches.

The third segment is a combination of distressed credit and alternative credit businesses. It largely includes our asset reconstruction business. On the distressed credit business, our AUM stood at INR 14,500 crores.

For the full year ended March 31, 2024, the segment reported adjusted net revenues of INR 162 crores and adjusted profit before tax of INR 80 crores. Profit after tax adjusted for the loss on account of fair valuation of investments and impairment of loans, post non-controlling interest stood at INR 47 crores and reported loss after tax and non-controlling interests stood at INR 527 crores.

For quarter ended March 31, 2024 the adjusted net revenue stood at INR 27 crores and adjusted profit before tax stood at INR 11 crores. The adjusted PAT post non-controlling interest stood at INR 7 crores. The reported loss after tax and non-controlling interests for Q4FY24 stood at INR 567 crores.

The fourth segment is platform AWS. The business is completely focused on providing an integrated investment platform for all individual clients of the company. It comprises of asset management, wealth management and securities. This platform is internet enabled and digitally focused. We are in an investment phase for both asset management and digital businesses. The financials reflect the investments made in these areas.

For the year ended March 31, 2024, the platform AWS business segment reported revenues of INR 978 crores, which is an increase of 75% year-on-year, a profit before tax of INR 117 crores, which has increased five times as compared to last year. Profit after tax post non-controlling interest stood at INR 90 crores, which is an increase of 3.6 times year-on-year.

For quarter ended March 31, 2024, the revenue from this segment stood at INR 300 crores, an increase of 99% year-on-year. Profit before tax stood at INR 58 crores compared to a loss of INR 13 crores for Q4FY23. Profit after tax and non-controlling interest stood at INR 46 crores versus a loss of INR 6 crores for the same quarter last year.

Our network has expanded to 814 locations across 215 cities through our own branches as well as a network of franchisees. Our elite wealth business caters to affluent clients and we have about 53 advisors across 8 locations. The AUM for elite wealth business stood at INR 1,901 crores, demonstrating over 55% increase year-on-year.

Our retail wealth business assets, which predominantly deals with retail customers through a network of 13,500+ active independent financial distributors, stood at INR 28,795 crores, recording an increase of 21% year-on-year.

We are happy to report that the closing AUM of JM Financial Mutual Fund has increased to INR 6,189 crores as of March 31, 2024, an increase of two times over last year. Within this, the closing AUM of equity schemes almost grew four times to INR 3,857 crores as of March 31, 2024. Our current AUM has crossed INR 8,000 crores, while equity AUM has crossed INR 5,000 crores.

With this, I would like to conclude and we are happy to take further questions. Over to the moderator.

**Moderator:** Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Heramb Hajarnavis from SeaLink Capital Partners. Please go ahead.

**Heramb R. Hajarnavis:** My question relates to the strategic announcement that the company has made and I was wondering if you can comment on the factors leading to this decision, what metrics you think would allow investors to track progress on the strategic shift? And finally, do you believe that such a change of focus on what sounds like more fee-paying segments should also lead to a change in the valuation framework for the company to more of a PE-based multiple rather than a price-to-book multiple? So, if you could just comment on that, I would appreciate it.

**Vishal Kampani:** Thank you, Heramb. That's a very interesting question. So, let me just give some background. As you would have observed in the last year, year-and-a-half, we have been discussing with our investors on calls as well as in meetings on strategic direction of the wholesale credit business.

And at the same time, I just point out some significant sort of changes that have happened over the last 12 to 18 months. One which I have been consistently speaking about is the competitive intensity is sort of back in the business, especially from a lot of AAA rated NBFCs, number one, and from number two, a lot of banks, which is pushing down yields in some of the segments of clients that we lend to.



Number three is there is a big gray area around land financing and approval financing. What we understand is that banks have stopped doing land and approval financing and it is not very clear from a regulatory perspective whether NBFCs are allowed, not allowed or will be allowed to engage in land and approval finance.

Land finance has been close to almost 15% to 20% of our book and if we extend that to approval and initial sort of pre-construction finance, that's another 15% to 20% of book. So, largely 30% -40% of our book which is the higher yielding part of the business that we do which will have to pivot out of balance sheets of both banks as well as NBFCs.

Fourth, some interesting new draft sort of regulatory papers which substantially increase provisioning requirements on real estate and infrastructure sectors and if you specifically see real estate, the paper talks about 40 basis points provisioning cover expanding to almost 500 basis points, which is an increase of 12.5 times. Assuming that there is some relaxation on that, it is still a pretty significant number.

I think on average our provisioning will be close to between 1% to 1.5% or slightly higher. So, even if there is a relaxation from 500 basis points on standard assets to maybe 300, 350, still means there is a doubling of provision on standard assets that we already have on balance sheet as well as the same provisioning would apply to all standard assets that we put on balance sheet. This kind of shaves off close to almost 1% plus of ROA effective immediately on new loans and existing loans.

And fifth, we are seeing a lot of AIFs and a lot of private capital that are being able to do the land finance and the approval finance. And real estate developers have realized that when they are taking early-stage financing, it is just easier to do that from an AIF platform than doing it from an NBFC platform for reasons not just related to pricing and the regulatory forbearance at least with banks in terms of doing land financing, but also it is more longer-term capital with a lot of relaxation on interest servicing.

And the last and the most important challenge is that for the long-term success of any good wholesale credit business in a country, I think the recovery timelines on these assets need to be very tight. And our experience specifically after the IL&FS crisis followed by the COVID waves as well as all of the geopolitical tensions where we had a lot of issues in the commodity cycle, we realized that whatever we modeled in terms of our model that we can recover NPA in 18 months, we realized that the recovery of these NPAs take almost three years to three-and-a-half years.

And this becomes kind of a pretty heavy burden on the NBFC balance sheets because it's like deadweight capital sitting on your balance sheet, which is not utilized, and you are not recovering that deadweight capital back into cash flow. So, that again puts almost 1% of pressure on incremental ROAs that you may generate on the business over three to four years.

And another challenge we face on the NBFC side is that many of these assets which don't do well are either early stage or in the middle of construction where there is an external event that has hurt the asset. And as an NBFC, you have to provide capital to resurrect the asset, working capital or construction finance to resurrect the asset. That working capital is classified as NPA.

So, that again becomes a challenge because you are trying to put more capital behind an asset which is already struggling and then you have to provide that as NPA which creates an issue on your liability side because your NPA is rising and then your cost of liabilities goes up.

So, all in all, we figured that this is a business that needs to pivot. Our investors, both on the equity side and the credit side, need a clear message and therefore, we had a lot of deliberations in the last six months. Many of these questions were actually pointed out by investors to us whether on our earnings calls or in our private meetings.

And finally, we have taken a decision both at our NBFC board level as well as our listed company board level that we will pivot these businesses. We have great teams, great expertise. We have learned a lot in the last 10 years, 12 years in the up cycle and the down cycle. And I think we will be able to make a fabulous sort of investment banking-led distribution and syndication business.

And we will have a strategic AIF in the group specifically for land financing and approval financing where we have a ton of client relationships and we will be able to use those relationships to give them money from an AIF vehicle perspective. So, that is sort of the strategic shift from the real estate book.

And while we were primarily discussing real estate, we also figured in the last six months that similar things apply to many of the other businesses. Look at the distressed credit, for example. We are probably the only ARC in India which took turnarounds and reconstruction pretty seriously. And RBI allowed these licenses in ARCs from a perspective that ARCs would actually turn around assets, provide them reconstruction capital and bring sick units back to a working condition. And I think we had kind of taken that very seriously, and we invested a ton of money to restructure and reconstruct many of these assets.

And again, we realized that from a balance sheet perspective, the liabilities in a distressed credit business can be very fragile. And a lot of people who lend on a distressed credit platform, lend on group strength, they lend because of JM Financial Group backing an ARC. And we realized that again, the timelines to sort out these assets and the outcomes on what we consider the right valuation, the outcomes are actually pretty lower compared to what we modeled in the last few years.

So, again, the turnaround and the reconstruction sort of assets, we will pivot to an AIF model as well as a syndication and distribution-led model. The RBI has allowed us to do 2.5%, 97.5% structures. And that again morphs many of these assets onto a fee-based model.

So, again, we will go completely leverage light on the ARC. We will use our balance sheet to acquire only opportunistic retail MSME assets, which portfolios have done very well. And most of our turnarounds and strategic sort of initiatives with partners for distressed assets will morph into an AIF platform.

We built an FIFG business again, that can scale nicely from INR 1,500 crores book to around INR 3,000 to INR 4,000 crores. But again, we are lending to NBFCs. A lot of the NBFCs who want to borrow from us are MFIs, FinTechs and unsecured players. And again, we are seeing a big shift in the terms of risk perception, especially for FinTechs and unsecured players from a regulatory perspective and generally what we are hearing in the markets.

And the idea there again is that, can this be a large business? Can we make a INR 10,000 or a INR 15,000-crore business over here? And the answer is no. And therefore, this will morph again into a syndication distribution business, as well as we will create a specific AIF, which is a hybrid kind of AIF, where we will take 80% exposure in credit and 20% exposure in good, fast-growing sort of NBFCs in specialist areas.

Our bespoke business, which is our corporate, as well as our promoter finance business, which works with our investment bank and wealth, has already morphed very successfully into both a successful sort of distribution and syndication-led initiative. And second, it's already built up extremely good AIF. They are expecting to close at over \$100 million in commitment very soon. And that actually has nicely sort of integrated both, as I said, on the investment bank side in terms of origination and the distribution and AIF side. So, a similar model will be adopted for all of the wholesale finance business.

So, if you fast forward, say, three years from now, we will be extremely balance sheet light in terms of literally our net debt-to-equity will be zero in the next three years in both our NBFCs. We will hold cash. We won't hold leverage. And therefore, our incremental borrowing requirements will be very closely linked to transactions, which will be sold down, which will be distributed.

We don't see the need to be in the project finance and the long-term financing space. We are hoping that we will be allowed to do the LAS business again from RBI very shortly and that is a business we will continue doing which supports our capital markets and our wealth business.

And as I said that in both these NBFCs, we are currently holding around INR 3,000 crores of surplus cash and over the next three to four years, we will generate more than INR 2,000 crores of surplus cash purely from the rundown of the book as well as other initiatives which will grow profit.

So, this is kind of the whole strategic shift. I am glad you asked that question so I could take the opportunity upfront in the call and explain how we are looking at the business. And it's a very interesting thought on price to book versus PE and I kind of agree with that. I mean, when we

see our valuation, when we see the way people view us, there are a lot of investors who would be very keen to see leverage light in a fast-growing sort of company which is focused on more granular businesses and that would morph us into a PE model.

So, in a sense, yes, your observation is correct. That would be the idea to move away from a price to book-led sort of valuation over the next few years and be driven more by a PE and a PE adjusted to growth-led valuation.

**Moderator:** Thank you. The next question is from the line of Himanshu Upadhyay from BugleRock PMS. Please go ahead.

**Himanshu Upadhyay:** The first question was, in the last quarter, you had hinted that INR 5 to INR 5.5 can be hit from the ARC side on book value of JMFL. After this write-off, is the majority of write-off done or this was unexpected and the INR 5 write-off remains? Secondly, we will be infusing INR 600 crore into JM ARC. Will the partners also be putting capital in JM ARC in proportion to their stakes or we are raising our stakes also?

**Vishal Kampani:** So, we have done a rights issue of INR 1,000 crores. We are going to be putting almost INR 600 crores from our group into the rights issue. Our partners have an option if they want to participate or not in the rights issue. Our rights issue will close tomorrow. So, we will have that answer tomorrow if they are participating or not.

If you were to ask me, I do not think they will participate. A few of them have end-of-fund life issues as in their fund life has been completed and that means that with our contribution, our stake in the ARC as a group will significantly go up. If none of the others participate, then our stake will go upwards of 80% in the ARC.

On the question of provisions, no, we do not expect any exceptional provision like the one we have had for Bombay Rayon. We will have normalized provisions, which will be part of the business, and much more granular and smaller in nature.

Second point, there is only one significant asset which we still need to resolve in our ARC. Rest of them are almost in final resolution stages. Many of the turnaround assets have been sold last year. I mean, if you notice that we have also had almost INR 890 crores of recoveries last quarter that we have done. We expect a similar number, in fact, maybe even higher number of recoveries.

So, it is just that the cash flow is coming in, but what values have been recorded at higher levels before have to be adjusted for where the transactions are closing. So, the only significant asset which we need to resolve is actually Unitech. I think our exposure in Unitech is somewhere between INR 350 and INR 400 crores. And we are hoping that some action will happen. The case is in Supreme Court.

The only sort of positive I would alert in Unitech's case is that unlike some of the manufacturing assets, whether it is Bombay Rayon or whether it is NITCO Tiles or Bheema Cements, where

we have attempted a turnaround and not been as successful and therefore we are selling these assets and taking a write down.

The only case in the real estate assets, specifically in Unitech and some of the others, the valuation of the underlying land and the mortgaged assets has substantially gone up. So, we expect that any resolution that is done because of the valuation of the land parcels having gone up, we would expect that the resolution should be pretty sort of positive. The only challenge over there is going to be timelines, right.

Also, happy to report that NITCO, which is one of the assets which we had attempted turnaround has been fully resolved and it is completed from our end. And similar to that, we expect at least 3-4 other assets to be fully resolved and completed over the next 12 to 18 months. To your pointed question, yes, if no one participates, which is what we expect, our ownership in the ARC will be upwards of 80%.

**Himanshu Upadhyay:** And the first question that INR 5.0 to INR 5.5 is concluded or do you think that remains?

**Vishal Kampani:** That is concluded. That is completely concluded. So, both of the sort of guidance that I gave in my November 6 call last year, which was roughly INR 5.5 for the ARC and another INR 1.0 for Credit Solutions, both are completed. We do not see any abnormal provisions in any of these companies going forward. And you will just see normalized provisions, which would be part of ordinary business over the next 2 to 3 years.

**Himanshu Upadhyay:** And a last thing, then I will join back in the queue. We want to focus more on asset management business, where growing assets is easy, but making profits is difficult, because more than the manufacturer, the distributor has a share in fees or expenses. What is your strategy? And what do you think who your customer segment will be? And what will be your distribution setup so that you can have a better market share or let's say the profitability part on the fee side for the customer? And what can be the breakeven levels? Because for both the business we have been continuously investing in the mutual fund and PMS or alternate side. So, some thoughts on that.

**Vishal Kampani:** So, just to report that our private equity alternative business is already broken even. In fact, it was profitable this year. So, that's a very good sign. Our mutual fund business, if you just go back in history, 2 years or 3 years ago, we did not even have INR 500 crores of equity assets and that number today has gone to INR 5,000 crores.

The rebuilding of our mutual fund is a 5 to 6-year play, but I must tell you I am very encouraged by what we have been able to do in the last 2 years. The fact that we are able to grow our AUM 10x, even though the base is small, it is a pretty significant number. Also, the number of distribution partnerships that we have had is significantly expanded in the last two years.

To a pointed question on where do we think we will break even, I think we should be able to break even once we achieve close to a INR 15,000 crores equity AUM. Today we are at INR

5,000 crores. We expect that we should be able to generate that kind of AUM assuming market stay in the pink of health in the next two years.

Coming to your PMS, again our PMS losses have significantly narrowed this year. I think last year we made a loss building the PMS business of almost INR 20 crores and this year the number is down to INR 2 crores. So, hopefully that if the markets continue with their strength, we have a great outcome in terms of the elections, which we will know next week. Then I am hoping, fingers crossed, that the PMS business actually makes money this year. So, I think we are seeing good outcomes.

Also, we had a big discussion in our Board as well as a strategic meet that we had of our entire leadership which was earlier in February of this year and really discussing what JM Financial's brand stands for. We realized that JM Financial's brand is extremely strong in broad capital markets and it is not a strong brand for project finance businesses.

And therefore, all of our attention over the next three to four years will be very clearly focused on really building and deepening our business on investment banking, wealth management, asset management, private equity, alternatives, the broad equity space, and the private credit space, and much larger focus on building AUM on the wealth side, much larger focus on building AUM on the asset management side and significant amount of focus on being even a bigger investment banking business.

And I have been saying it for the last three years that this entire decade is going to be extremely profitable for investment bankers. It is very similar to the business built by large investment banks in the late 80s all the way till 2007-08 and I see a very strong 10 to 20-year bull market where strong investment banks will make substantial amount of money. And so, we will focus on that, expand the market, bring innovative products and be very good at what we do.

In addition to that, we are very excited about our retail mortgage business that's granular, growing very well, has access to low-cost liabilities and we want to bring our cost of funding even lower in that business. It's another reason why strategic shift from doing more retail mortgages and less wholesale mortgages, the cost of liabilities for wholesale mortgages is almost 150 basis points above retail mortgages and as we pivot from on-balance sheet to off-balance sheet, it will bring down our cost of funds even further for our home finance business. So, very excited about that and very confident that we will double our book in less than three years in that business.

**Himanshu Upadhyay:**

No, see coming back to the question on the asset management, what would be the yields what you are targeting? And how is your distribution going to be different than what others are or you want to go the same channel where 60% would go to the distribution channel and you may get 20 or 30%, 40% as a product manufacturer?

**Vishal Kampani:** Yes, so I don't think there is any big significant shift in the way distribution is done. There are obviously digital distributors which have become very large in the last five years. Product by product, the yields are very different. If you look at alternative products, they sort of earn yields of between 1.75% to 1.80% gross yields.

If you look at mutual fund products, you already have a slab-based ratio based on AUM with SEBI, which you are very well aware of. Distribution costs eat into you when you are growing at the earlier stages, and they break even by the time one is almost \$1.5, \$2.0 billion in AUM is our guess. If you want to grow faster and you are not very disciplined about costs, then you can add more AUM at the cost of distribution, which we are not planning to do. And on the PMS side, again, the yields are 1.5% to 2.0%.

Also, there is a significant portion of carry income that we will generate on the alternative and the PMS side over the years as the markets continue to do well, which we have not factored into the yield calculations that we have given you. And also, don't forget that we are also a large distributor.

So, in a sense, if distribution profits are to go up, it will take us longer to build asset management, but then our distribution business will make more money. So, in a way, it's kind of hedged. Today, own products share of distribution in terms of what we distribute, JM products, is still significantly low compared to competition.

Not that I am alluding that we are going to increase it substantially. I think we will still be open architecture and very merit-based in terms of our distribution business. But yes, we are hedged on both sides because we are building distribution and building product.

**Moderator:** Thank you. The next question is from the line of Vijay Shah from Insightful Investments. Please go ahead.

**Vijay Shah:** I was just wondering, given the fact that we already have a significant cash pile on the balance sheet, and as we pivot over the next few years from more fund-based to AIF-led model, and as you mentioned that we will release even further cash as things go by, I was just wondering if any clarity on how we propose to deploy this capital, whether it will be used towards investing in some of the businesses or higher payouts. Just wanted to get your thoughts.

**Vishal Kampani:** Yes, good question, very good question. So, I think, it will be a combination of both. I think we will have higher payouts, and we will also reinvest some of this capital back into, as our contribution into AIFs. We have very strong teams in place. So, I don't think recruitment of incremental people is required. It's just about a pivot. These guys, the team that we have are very well experienced in terms of handling credit, and they can do that in the AIF space as well.

But it's about our contribution into the AIFs. We will be, as I said, investing more in digital, investing more in asset management, investing more in wealth management. We will continue

to do that. We will invest more capital into our brokerage business because we want to be a larger player in loan against shares and margin trade financing. And yes, net of that, the surplus capital, we look to distribute that back to our shareholders.

**Vijay Shah:** So, is it fair to think that over the next few years the payout will go up gradually?

**Vishal Kampani:** Absolutely correct. That is a very, very fair assumption.

**Moderator:** Thank you. The next question is from the line of Chintan Shah from ICICI Securities. Please go ahead.

**Chintan Shah:** So, just a broad question from my end. So, considering that we have kind of shifted a little on our strategy on the mortgage lending to going off-book versus on-book, so would it be fair to say that probably now, from the four business segments which we operate, our focus over the next two, three years would be more on the AWS and investment banking and from the retail and from the lending only the retail lending wherein wholesale mortgage and ARC would be a less of a focus? Is that a fair thing to say?

**Vishal Kampani:** Yes, so let me tell you yes. In a way, that would be the correct assumption to make, that our focus will be more on the investment bank and the asset management, wealth management securities platform as well as our retail HFC. These three would be the growing segments, but the pivot means that we are pivoting to build a larger private credit distribution and private credit AIF business.

It doesn't mean that we are going to focus less on it. In fact, we will focus on it with even more vigor frankly, because we want to make sure that our brand and expertise, which we built over the years, is significantly used in building those two businesses. But yes, the shift really is from on-balance sheet. The risk will not sit on balance sheet. The risk will sit in funds and the risk will move in terms of distribution to other players who want access to these opportunities. So, that is how I would put it.

So, simply said, you can simply say that the capital which we have, we will release specifically in JM Financial Credit Solutions, will be used more to build AIF and to build more distribution-led businesses and that would generally be overall as part of an asset management kind of business and the capital that we have in JM Financial Products will be used largely to support our investment bank where they will continue to do LAS business for promoters as well as LAS business for many of our ultra HNI clients and we will use that strategic capital even to underwrite trades and hold those trades from a shorter-term perspective on our book.

So, in the pivot for the two NBFCs, JM Financial Products is more to align itself only to wealth and investment banking, LAS and LAS for promoters and JM Credit Solutions will pivot completely to an asset management, alternatives platform, if that helps the kind of understanding and you can fit those boxes into your mind.



**Chintan Shah:** That was quite helpful. And so, sir, secondly on the retail lending piece, so we have seen an exceptionally strong growth in the retail lending and that is over the last one or two years that the book has been built from scratch to a very sizable size now. So, sir, what is the kind of sourcing mix? Is it completely in-house or are we doing it with the help of the DSAs and also are we leveraging or doing cross-sell to our existing customers from the retail brokerage? So, how does the sourcing work? Any thoughts on that would be helpful.

**Vishal Kampani:** Yes, I have Manish Sheth with me present on this call. He is the CEO of our HFC and he's built the entire business from scratch in the last seven years and he will just give you a good perspective in the next five, seven minutes on how we are looking at this business overall as well as to your specific question on the sourcing of customers. Manish, over to you.

**Manish:** Thanks, Vishal. So, basically this business has been built brick-by-brick over the last seven years. As of now, we are present in 112 cities and we have had the highest ever disbursement in the last quarter.

So, to give you an answer, our sourcing is done majorly by our own people. We use DSAs on the ground as well. For some specific markets like Gujarat we have to use DSA because that is more of a DSA-led market.

Having said that, the business is very, very granular. We have got 1,300 employees. Our yield on the businesses is around 13.5%. Our cost of funds is around 8.5%, and incrementally we are getting funds from everywhere. As we speak, around 27% of our liabilities is funded by NHB which is specifically meant towards economically weaker sections and LIG group and that is the focus what we are building.

Second question is, there is no cross-sell. So, these are the customers originated by JM Financial Home Loans on the ground. They are the first-time customers of JM Financial Group. There is absolutely no common thread between any of the group companies and JM Financial Home Loans.

**Moderator:** Thank you. The next question is from the line of Dhruvesh Sanghvi from ProsperoTree. Please go ahead.

**Dhruvesh Sanghvi:** Just one slightly on the critical side here and pardon me for that. You know, this entire episode reminds me that anything that can go wrong, will go wrong, and has gone wrong with us in the company. Of course, the future looks better because now the focus is there, but I am just trying to understand, considering the RBI action, is there any chance now that affects the IB activities and the license there on the harshest possible thing coming and biting us on the main business?

**Vishal Kampani:** That is a very good question. So, let me first clarify that there has been a lot of unnecessary rumor around that and I have clarified this myself at the highest levels in both SEBI and RBI that there is absolutely no impact on our merchant banking license or any of our licenses except

for the public issue of debt license and we have given figures in the past in terms of what is the impact on public issue of debt in terms of revenues.

So, there is absolutely zero impact on any of our licenses from SEBI. We have six licenses and even the matter on public issue of debt, I think our RBI investigation is, the special audit is almost completed, and I think we should be able to have a discussion with Reserve Bank on the same. And we are also in progress of our audits with SEBI and hopefully, it should even complete in the next three months. As per the timeline, six months which complete in September first week, this year.

And you would have seen that we have completed a lot of transactions in the last three months in any case and all of those transactions have either been with SEBI or RBI being regulators who have approved these transactions.

**Dhruvesh Sanghvi:** Second piece, out of the IB profits of INR 706 crores, I think around INR 500 crores is mainly transaction and commission income. So, the remaining INR 200 crores will be broadly some sort of lending income in that entity, right?

**Vishal Kampani:** Yes, that is largely capital markets and LAS business and the bespoke business that is the interest income we keep on our books for the transient period before we sell down the loans and also some returns from our treasury business which is captured in the INR 706 crores.

**Dhruvesh Sanghvi:** Will we not plateau, therefore, automatically, because these incomes will be going away and it will only scale down? So, this, I mean, we have to rebuild only from INR 500 crores and not, I mean, INR 700 crores is not the base.

**Vishal Kampani:** No, that is correct. Yes, from a fee and commission perspective, INR 500 crores is the base, but that's not the way we should look at it. I mean, we are challenging ourselves to build from INR 700 crores. Can we do more distribution, right? Can we ultimately do more transactions? Our market share in private credit syndication, for example, is very low compared to what it is in equities. It will not even be 5% of the market. So, can we take that to 10%, 15% over time?

Third, don't forget that, not on investment bank, on the wholesale market space, there have been a lot of sort of provisions. And as I said that we have seen delayed activity on resolutions, but there is activity on resolutions, right? One fine day, we are supposed to recover all of that cash. So, that also will come back and hopefully help in terms of the profits here.

And third also you have to factor on the AWS side. There is a lot of investment that has happened in mutual fund as well as digital and we will continue doing that over the next 18 months to two years. We don't want to stop that.

**Dhruvesh Sanghvi:** Sorry, one question on the recovery side, you used a right word that there is a lot of deadweight capital that gets built. Over the next five years or three years, what kind of capital which is not today being guided or counted, like if you can give us a rough sense on if even 50% of things

get back or we are able to resolve it, what kind of money will come back in the next three years additionally over and above what you said?

**Vishal Kampani:**

Yes, so if you just look at our provisioning, if you just take the net NPA numbers that we are holding today on balance sheets, the net NPA number is roughly INR 286 crores, and I am fairly confident that we should recover over and above our net NPA number. We have very healthy provisioning and we don't need to actually provide at these levels because net of provisioning our security covers are very healthy.

But the idea is the delay that we have seen in the last two to three years on attempting to make recoveries, we feel it's prudent that we keep higher provisioning and work based on almost 50% to 55% provisioning instead of a 30% to 35% provisioning. So, the pointed answer to your question is approximately INR 300 crores.

**Moderator:**

Thank you. The next question is from the line of Chirag Sureka from UTI Mutual Fund. Please go ahead.

**Chirag Sureka:**

In terms of JM Financial ARC where we have an exceptional item, so on that if you can just elaborate in terms of how many accounts are there? And have we taken the exposure or markdown to the full extent, or have we just written-down the value to the recovery rating SRs and if there is a split between loans and if you can provide more details on the particular transaction?

**Vishal Kampani:**

Yes, we can provide it to you separately. It's basically the exceptional item is one account. We have all the details. Separately you can reach out to Nishit because it will just take 15-20 minutes if I have to explain the history of the whole account, but this is the only large account that we have had across the group. We don't have any exposure of this size anywhere. This was taken pre-IL&FS.

It's a textile company called Bombay Rayon and we were supposed to sell down this exposure. We had interested parties in place almost at term sheet stage and IL&FS happened and because of IL&FS, lot of the exposure got stuck in our books and then we gave it working capital to revive the asset.

We worked extremely hard in the last five years to try and revive the asset, sell few of the assets, but I think the COVID waves as well as the commodity cycle completely increased the working capital requirements for this asset dramatically and then last year somewhere in July, August, we took a call that we do not want to invest more money behind many of these turnaround assets.

This is a large one. It's very similar story is there for NITCO and many of the other accounts. And we rather sell these assets because we know that the sale of these assets will completely take care of our liabilities and it will be prudent to take a decision to sell assets and pay down liabilities than to invest more into them in the hope of turning them around.

So, this is the large account and as I said, there are no more accounts of any significant size across our ARC or our wholesale credit business. It's much more granular portfolio and we are also in a very sweet spot where we will be able to completely de-lever in the next two to three years. But if you need more details, you can please reach out to Nishit and he will connect you with our ARC CFO who will be able to give you absolute details.

**Chirag Sureka:** So, just a follow-up in terms of the credit business, so there we have had to take some additional provisions and the provision on the book has increased, but have we taken some write-offs as well for the accounts which we were not able to resolve? Or has there been incremental slippages?

**Vishal Kampani:** Yes, so we have taken some technical write-offs specifically because we don't want the NPA numbers increasing. And in many of those write-offs, we will still be able to recover, but we had to take those technical write-offs because we don't want higher NPAs.

**Moderator:** Thank you. The next question is from the line of Rishikesh from RoboCapital. Please go ahead.

**Rishikesh:** For FY25 and FY26, what sort of provisions as well as ROEs do we see for lending and the ARC business? I understand you have already mentioned normalized provisions. So, can you please quantify them too?

**Vishal Kampani:** Yes, so it is hard to quantify because if we have some part of a book which is going to be coming back, we will also have a write-back on many of those standard asset provisions that we have on our book. So, it's very difficult to give a number because even if we have incremental provisions to the tune of say INR 10 /15/20 crores, I think we will have enough of write-back coming in, but there is no significant provision that we need to make, number one. What is the second question?

**Rishikesh:** Second, about ROEs for both the business, lending as well as the ARC.

**Vishal Kampani:** Yes, so the ROEs obviously will be kind of capped. We will have some recovery that will happen in from the NPA portfolio over the next 18 months. The ROAs will still be very healthy because we will generate enough of fee-based revenue as we pivot our model. But because leverage will go down, there will be cash generation and therefore the ROEs will not be significant.

But I think that's the incorrect way to look at it because when we are pivoting the business model, you just have to look at cash. You don't have to look at what the ROA or ROE from that business will be because we won't be growing on-balance sheet lending as much.

So, the way I see the business, as the first person, I think Heramb asked that question. It was a very pertinent question, that there is a large fee-based income, which is growing and doing very well. There is an asset management business, which is being invested in.

The fee-based income is valued largely on a PE basis and the asset management on an AUM basis. And most of these two NBFCs that we have will hold cash. So, you just add that as cash plus treasury which partly we will use to invest in AIFs and partly we will distribute back to our shareholders.

**Rishikesh:** Just one more question. If you could please share what sort of PAT and ROEs we do for investment banking, wealth and broking as an individual business. I understand we include private wealth and PMS business into investment banking and we club elite and retail wealth into broking and AMC.

**Vishal Kampani:** Yes, so I think what we are going to do is we are also going to make that more granular in terms of our results coming from June. So, what we really make in investment banking and equities and fixed income and private credit versus what we are making in pure wealth management, broking and distribution and what we are making in asset management. But you can reach out to Nishit if you need some more granular details on how the split between investment banking and wealth is within the investment bank.

**Moderator:** Thank you. The next question is from the line of Pallav Garg from Star Health. Please go ahead.

**Pallav Garg:** Just one question on the provision taken in the JM Financial Credit Solutions Limited. So, you can elaborate on that. And the second one on the levels of the SMA2. So, it has decreased a little bit but not quite enough. So, this SMA2 account which we are kind of looking at.

**Vishal Kampani:** So, the first question was on the SMA 2 for Credit Solutions, right? We already have that I think in our presentation. It's 2.6%. And you must appreciate that these numbers are on a much lower book because our wholesale mortgage book is now almost close to less than INR 5,000 crores. It's INR 4,917 crores and this book used to be around INR 7,000 crores. So, in a sense the asset quality has done very well relatively because in a declining book, if you are able to maintain similar ratios of NPA and SMA, it's actually very positive.

**Moderator:** Thank you. The next question is from the line of Manoj from Geometric. Please go ahead.

**Manoj:** So, with one suggestion first, like we do conference call in every six months, and we read press release and the results of all the division it takes however 20-25 minutes of the time. I would request management to do call regularly and not to read all the results which we already can read on the PDF on the stock exchange.

And now I want to congratulate the management on taking a pivot. I know it's very difficult to change something which we have put blood and sweat into it. My question is now for the investment banking. So, you have told that the opportunity size is huge in this thing. I don't have any benchmarks in India. How big can an investment banking company can be? So, can you give me a roadmap for three to five years if you assume that the market is not so bad or market

taken at a normalized level or something. How much profit we can generate from investment banking? A roadmap for three to five years. Thank you. That's my first question.

**Vishal Kampani:**

So, I think let me say, let me give you a few macro points, I think, which will help you understand how large the opportunity is. I think you would have seen the size of our market cap. The size of India's market cap is almost \$5 trillion and the last \$1 trillion got added in the last six months and the earlier trillion before that took almost 18 months to two years to add.

And with GDP growth being around 7%, 7.5%, 8%, you are looking at almost a market cap in the next five to seven years of \$10 trillion quite comfortably. The market will double. It should grow at 12% to 14% compounded over the next five to seven years. Obviously, I am assuming there is no major economic shock or assuming no sort of election result which can shock us all.

So, the point is that in this kind of expanding market, the opportunities for all kinds of capital markets and advisory business grows multi-fold. A simple example, just private equity, global and local private equity have invested almost \$250 billion to \$300 billion across equity and private credit in the last five to seven years in India.

If this smart money has to grow at even 10% to 12% over the next five to seven years, that means the value of their \$300 billion in assets will be close to \$600 billion to \$700 billion. All of these assets will be either sold or they will go for IPOs, or they will be refinanced or they will be merged with strategic players.

Just the private equity universe offers us almost \$700 billion of deal volume over the next seven years which is almost \$100 billion of deal volume every year. This is not the classic client that we used to have who would do business every two years or three years or do a deal every two or three years. These houses are doing deals, multiple deals every year. That's a big dramatic change. The whole investments by private equity, sovereigns, pensions are a big dramatic change and they are really the growth drivers of India Inc., in the next six, seven years.

Second, even corporates, large corporates, the top 100 corporates of the country are aggressively growing, putting in a lot of efforts to build businesses, new sectors whether it's EVs, whether it is renewables and there are so many other segments where we are seeing dramatic amount of growth.

Look at credit, just purely credit in banks, financials, retail NBFCs growing dramatically will need tons of capital. As we just progress from \$1 trillion to \$5 trillion, which has taken us the last 17 years to achieve, the \$5 trillion to \$10 trillion is going to be achieved in market cap in the next six years. So, if we had an investment banking opportunity to drive \$5 trillion of market cap in 17 years, the same \$5 trillion is going to be driven in the next five to seven years. You can imagine that we will have doubled the volume of business to execute.

And we are seeing this in every space. M&A, we have closed two transactions in the financial space last month. One was a fintech company and the second is an affordable housing finance business. One was sold to a strategic group. The second was sold to private equity. So, wherever I just lay my hands in our offices, there is massive deal activity, and we are very excited by it.

**Manoj:** Can you want to put some number and how much this can be in any stage of period, 3, 5, 10, whatever?

**Vishal Kampani:** So, I would think, I would maintain that there could be an odd year of cyclical, but keeping that odd year aside, I think the business should easily multiply in the high-teens.

**Manoj:** So, our group was known to be very conservative in terms of process, lending, and all these things. And I am not able to understand where we have gone wrong in terms of processes, like the RBI has scolded us, in terms of ARC provisions, in terms of mortgage provisions. It is just reminding of my early days of driving when a friend recommended me for driving slow and risky. So, what has gone wrong in that? We were considered to be very conservative. We have higher provisions. We have got RBI thing. Can you describe what has happened in that whole period?

**Vishal Kampani:** So, I think the RBI thing is completely de-linked to what we do in provisions, right? Provisions come from delay in recoveries as well as delay in estimated valuations of assets specifically on the ARC side.

If you have been following us, then you would have seen that right in October, November, we had guided that there will be higher provisioning over the next two to three years and we will make a decision whether we upfront all of that or we don't and we were very clear on that.

So, there was no noise around RBI when we gave that guidance to investors on November 6th. So, first things first is there is no linkage between what the regulator wants to check and correct in our processes versus what we want to do in terms of provisioning.

Third, there has been a shift in the way regulator is observing these project finance and real estate and infrastructure lending. They have come with a circular, which I don't know if you followed or not, you have read or not, but I would advise you to read that circular in detail line by line. It will help you. And there is a clear shift in the way regulator wants higher capital requirements in businesses which are going to be taking wholesale exposures to real estate and infrastructure.

And we understand that the regulator will have a much better perspective than you and me on this call, in terms of how they want to protect a fast-expanding economy where a lot of credit can go to risky sectors. And I think we will follow the line in terms of how the regulator is thinking about it and therefore, you have to adjust and pivot your business model. And there is nothing wrong in doing that.

And as I said that we have tons of expertise that we have built. We have some fabulous people who understand these businesses very well and I am very confident that they will be able to pivot to an asset management-led model, a market-led model, a distribution-led model from an on-balance sheet-led model.

And coming to your RBI question, already answered it in my earlier sort of question that the special audit is, I think, almost completed and we look forward to hearing from them. And I think it is better that you hear once the regulator is clear and they form their views at that point in time than me making any comments today.

**Manoj:**

My last question is we guide people for creation of wealth. We have the worst possible structure, I believe, in the terms of that, we have so many subsidiaries and all the things. And most of them you also pointed that it is very difficult to peel it, valuation and any plan to simplify the structure so that when the wealth creation for shareholder has to be, because I believe investment banking business itself is not justifying the valuation in the trading, but now we have to act also believing we are not working much?

**Vishal Kampani:**

Yes, so I think our guidance at least on all of the investment banking and asset management and brokerage business have been bang on. Two years back when I was on a call with investors and lot of people asked me that will you ever be able to get AUM in your asset management or PMS business? And I think those AUMs have grown tenfold.

So, that clearly tells me that our brand is strong. As long as we have good people, good processes and we are giving good returns, our shareholders will be happy, I mean, our unit holders will be happy, and they will keep participating in many of those funds. Our investment banking profits, we have guided that we could almost double our profits into 2, 2.5 years and that's actually happened.

The guidance has been wrong specifically on wholesale credit and it's been a tough environment. I think we were wrong in terms of estimating in what timeframe we will be able to recover many of our assets. And yes, we took a sort of calculated risk that we will be able to turnaround assets, but we could not do so. And a large part of that was COVID. I mean, COVID comes once in a 100 years history, but as a balance sheet, we don't want to take those risks going forward.

We also feel that the structure of the liabilities that we have in India is very fragile and we don't want any sort of fragile liability exposure sitting on our balance sheet. In terms of structure, you can just ignore. You can just convert both our NBFCs, JM Financial Products and JM Financial Credit Solutions as cash holding machines. They will just generate cash and keep cash and distribute that cash or invest that cash in AIFs over the next two, three years.

So, from a structure perspective, ignore them. Once we ignore that as a business unit, you morph into very clearly a PE-based valuation for the company and plus cash which is being generated



from investments and will be used for distribution to shareholders or asset management investments.

We discussed a demerger. See, if we have to demerge our wholesale credit business, we should be only doing so if we are going to grow that business substantially. It's no use going through a whole demerger structure giving the wholesale credit business out to investors and then not having a strategy whether you want to grow that business.

We have some private equity investors who are sitting in that business and the idea is that if you are pivoting the model, then there is no use. It's no use to try and demerge that and give a share which is not going to be very attractive. We rather just pivot the model completely to IB and AWS and retail mortgages which we are anyway, as discussed on this call, on the journey of doing here.

**Manoj:** Are you open to buyback if the valuations are not improving? As a part, you are giving buyback to the shareholder in terms of dividend. Instead of it, are you open to the buyback?

**Vishal Kampani:** See, we have already given a dividend this year of INR 2.0 per share and we are happy increasing our dividend. And yes, at the right time, we will discuss with our Board and we can consider a buyback but I cannot be committed to any sort of buyback strategy. All I can say is that as we generate more profit and as leverage is going down, distribution of profit will go up.

**Manoj:** And what is the right to win or right to grow in retail mortgage? Because it's very competitive area and again, we keep on what is our right to win or right to grow in that area?

**Vishal Kampani:** Yes, I have Manish on the call. He will take that question.

**Manish:** So, on retail mortgage, I agree with you. It is a competitive business environment, but to be very honest, the market size is so large. The only thing what you have to do is focus, focus and focus only on four things, which I always keep telling my team. So, you have to focus on people, product, processes and policies. I think anybody who is trying to deviate and grow faster than the market will end up making mistakes.

The idea is to be more and more granular, be more and more near to the customer. Reach is important thing and diversification. So, I think we are presently in 7 to 8 states and roughly 112 cities, as I was saying earlier on this call. None of the branches are doing business of more than INR1.0 - 1.5 crore a month and which is giving me more comfort because I am not building any risk in any of these branches so to say.

So, to answer your question, again, it is not something which we have to do differently. Only thing what we have to do is do it consistently in terms of policies and processes and do not deviate.

**Vishal Kampani:** And I know the last thing I like to add is that in India every single business is very competitive. I think if you can show me a business where there is less competition, I think it is hard to find.

**Manoj:** I think I used to believe for last few years that in our wholesale credit business we have extremely right to win. I don't know.

**Vishal Kampani:** No, no. See, you have a right to win, but you cannot go against the changing market dynamic, right? See, even today we can grow, if you want. We can grow, but the risk adjusted returns don't add up, right? The fact is when we are seeing how much time it is taking to recover money and what it adds up in terms of your leverage costs going up, right? And if you have higher provisioning requirements which are coming from the regulator which actually hits your ROA directly by over 100 basis points, I think one has to be very practical, right?

Ultimately, every single dollar invested here, one is about growing capital, second is also about protecting capital. And I think at JM Financial, whatever we have done considering all of the circumstances over the last four or five years, we have tried to do a fantastic job at protecting your capital.

I mean, despite taking such a large amount of provisions, we have kept the balance sheet very, very strong. We have kept profitability going very strong. And I think we have realized very clearly what our brand stands for and ultimately where in a competition intensive market will our brand win? And we clearly feel that the JM Financial brand will win in the investment bank, in wealth management, in asset management over some of the other businesses. Those are our legacy businesses, and we are very strong.

And we are also encouraged by the response we have got in the last two years in wealth and asset management both. And we also feel that last seven years when we evaluated what we have done in the retail home finance business, our affordable housing business, I think we have built a very, very good business.

And as Manish rightly said, the market is very large. There is low cost funding available. Even though it is competitive, I think we have a niche and we will be able to do very well and make it much more profitable over the next three to four years.

**Moderator:** Thank you. The next question is from the line of Vivek Kumar from Bestpals Research and Advisory LLP. Please go ahead.

**Vivek Kumar:** So, just mortgage that you are pivoted, so don't you think this is more competitive and if you see Piramal Enterprises, in their investor call, they are very positive on this mortgage lending as a lending business, but I am not asking you to compare yourself with them, but if you can throw light why some people are not pivoting and why some are pivoting? Is it just regulatory or is there any other cost advantages that they have? Just to understand if you can, if you are already aware of something like that.

**Vishal Kampani:**

No, I would not like to comment on anybody else's strategy. I am commenting on what we are seeing every day in the market. We are seeing for many of our clients, construction finance rates have come down dramatically. We are seeing that we are not as a NBFC being able to do or will not be able to land an approval finance.

For example, if the regulator has told banks not to do land and approval finance, I think we as a significantly large NBFC in the space should understand that there is a reason why they don't want land and approval finance to be done on NBFC balance sheet. So, it is right to pivot that business onto an AIF model.

If provisioning requirements are going to go up, it takes away 1% of sort of hit on ROA and the way we have seen delayed resolutions and we were expecting a lot of resolutions in the last two years which have been pushed out by a year to 18 months. That again takes another 50 basis points to 1% hit on ROA.

So, from our understanding and looking at, you know, we started building this business in 2011-12. We have come almost to a dozen years of being in the business. We just think that a lot of it is better done in a distribution-led format and some of it is done better in an AIF format. That is our decision. If anybody else wants to participate in that risk, that depends on how they are looking at the risk and what their cost of funding advantage is and how they want to build a book.

So, I just think retail granular assets like affordable housing finance are much better in terms of long-term credit quality. Their financing costs are lower. Their ROAs are more defensible. Their NPAs are lower and eventually the valuations for such businesses will be higher.

And for us, our JM Financial brand is a capital markets brand and not a project finance brand. Yes, we could have been a little late in arriving in that conclusion, but I am glad we have arrived.

**Vivek Kumar:**

So, what parts of our balance sheet will be in lending, or we will completely exit, except the retail mortgage and there will be no lending?

**Vishal Kampani:**

No, we will continue lending against shares. We will continue doing loan against shares and promoter finance. We are not stopping that business at all. So, that will continue in SEBI MTF format in our financial services brokerage business and the loan against shares and promoter finance will continue on NBFCs. But that is not project finance, right.

See, that is financing against liquid collateral. You are really in the liquidity financing business. You are not in the project financing business. You are not giving out corporate or real estate loans which have maturities of 4 to 5 years. The bulk of the maturities which will sit in our books will be not more than 12 to 18 months or maximum 24 months.

We are really very risk light and with a fabulous ALM because we have long-term equity and we have a substantial amount of long-term borrowing going out to FY34 and you build a nice distribution business and grow much more in private credit. That is the strategy.

So, for all practical purposes you can assume that within the next 2 to 3 years, both our NBFCs will be net debt zero. Our retail mortgages business will continue to grow and that will kind of double AUM in the next 3 years. And the LAS business and the margin trade finance business will continue the way it has been growing. That will continue.

**Moderator:** Thank you. Ladies and gentlemen, due to time constraint that was the last question of the Q&A session. I would now like to hand the conference over to Mr. Vishal Kampani for closing comments.

**Vishal Kampani:** So, thank you once again all of you. I think we have had a good one-and-a-half-hour session. And I am glad that there were lots of interesting questions around our strategy as well as our results. More important, our strategy, and I am hoping that we as a management team could answer most of those queries and if there are any further questions, please do reach out to Nishit and we can answer them offline. Thank you everyone for participating on this call.

**Moderator:** Thank you. On behalf of JM Financial Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.