JM Financial Limited Q4 & FY22 Earnings Conference Call

May 25, 2022

Moderator: Ladies and gentlemen, good day and welcome to the JM Financial Limited Conference Call, to discuss the company's financial performance for the full year ended March 31st, 2022.

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, please signal an operator by pressing "*" then "0" on your touchtone telephone. Please note that this conference is being recorded.

Kindly note that any forward-looking statements made on this call are based on the Management's current expectations. However, the actual results may vary significantly and therefore, the accuracy and completeness of this expectation cannot be guaranteed.

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

Vishal Kampani: On behalf of JM Financial, we extend a very warm welcome to all of you, to the conference call of JM Financial Limited to discuss our financial results, both for the 4th Quarter and full year ended FY22. We have uploaded our results, presentation, and press release on the website and stock exchanges. I hope all of you have had a chance to go through the same.

Our consolidated revenue for the full year ended FY22 stood at Rs. 3,763 crores which represents an increase of 16.6% year-on-year. For the same period, profit after tax is at Rs. 773 crores, an increase of 31% year-on-year. This represents earnings per share of Rs. 8.11 vis-à-vis 6.34, for the last year.

Given the uncertainties around COVID-19, we have taken additional provisions across the group to the tune of Rs. 194 crores for the full year ended FY22.

Our Q4FY22 revenue is approximately Rs 839 crores. The Q4FY22 PBT is at Rs. 322 crores which is an increase of 3% year-on-year. Q4FY22 PAT increased by approximately 1% year-on-year from Rs. 177 crores to Rs. 179 crores. As of March 31st, 2022, the networth excluding minority interest is at Rs. 7,634 crores which translates into a book value of Rs. 80 per share.

Our consolidated loan book stood at Rs. 13,017 crores, which is up 19.9% year-on-year.

The breakup of the loan book is as follows:

Wholesale mortgage constitutes 48.3% of our loan book, which is approximately Rs. 6,286 crores. The wholesale mortgage book registered a year-on-year decline of approximately 12%.

The capital market loan book constitutes 6.4% which is approximately Rs. 834 crores. The capital markets book has registered a year-on-year degrowth of 2%.

Our bespoke financing loan book which includes our corporate loans as well as a promoter financing book constitutes almost 32.9% of the loan book at Rs. 4,287 crores. This registered a year-on-year growth of 105%.

The retail mortgages loan book constitutes approximately 9% of the loan book, which is at Rs. 1,170 crores. This loan book has registered a year-on-year growth of 57%.

The financial institutions loan book which is the last pie of the loan book constitutes a 3.4% of our loan book at Rs. 440 crores. Almost entire loan book has been disbursed in this year.

Overall, our retail loan book is at approximately 15.4% of the total loan book.

Asset Quality:

Coming to asset quality, the gross NPA ratio of the lending business is at 4.3%. Net NPA is at 2.7% and SMA-2 stood at 3.1% on a consolidated basis as of March 31st, 2022.

The loan book under the Resolution Framework for COVID-19 as announced by RBI stood at 0.81% as of 31st March 2022.

On Leverage and Liabilities:

On a consolidated basis, our group debt equity stood at 1.22 times as of March 31st and on the net basis, it was at 0.87 times. During the full year ended FY22 we raised Rs. 3,818 crores through long term borrowings. We have raised Rs. 2,245 crores through NCDs out of which Rs. 565 crore was in the 10-year bucket and Rs. 500 crores in the public issue of NCDs. We raised Rs. 1,565 crore term loans through banks and others.

We have been able to diversify our initial base to include insurance companies, pension and provident funds. Our borrowing comprises of 78% from long term sources and 22% from short term, which is same as last year.

Segments:

As you would know our segments were realigned to ensure a sharper focus on our clients, as well as channelize the bandwidth to achieve desired client focus, and be able to deliver value to our stakeholders.

The first segment is our Investment Bank segment. The investment bank focuses on all of our institutional, corporate, government and ultra-high networth clients. It includes our investment banking, institutional equities, fixed income, balance sheet as well as international operations. Within investment banking, it includes the equity capital markets, private equity, debt capital markets, as well as advisory business.

For the full year ended March '22, the segment had revenue of Rs. 1,273 crores, PBT of Rs. 473 crores and a profit after tax of Rs. 352 crores, which is an increase of 22.4%, YoY. Full year return on equity from this business is at 15% and return on assets is at approximately 6%.

The second segment in the group is Mortgage Lending, which includes both our wholesale and retail mortgage businesses. Wholesale as you all know includes construction finance, project loans, loan against land, as well as structured financing for real estate. Retail mortgages include affordable home loans, small ticket loans against property, as well as education institution loans.

For the full year ended March '22, the mortgage lending segment reported net revenues of Rs. 708 crores with a pre-provision profit of Rs. 601 crores. Profit before tax for the segment stood at Rs. 376 crores. And profit after tax post non-controlling interest is at Rs. 117 crores. ROA for this business is at 3% and ROE at 7.1%.

In Q4FY22, our net revenue and pre-provision profits stood at Rs. 177 crores and Rs. 147 crores respectively. The PBT at Rs. 112 crores and PAT post non-controlling interest stood at Rs. 30 crores.

On the Retail Mortgage business, we have a very granular retail mortgage book of Rs. 819 crores, across 7,126 customers with an average ticket size of Rs. 11 lakhs, carrying an average yield of 12.6% and LTV of 56%.

Our book is well spread across nine states and 55 branches. On the wholesale mortgages the loan book has reduced from Rs. 6,091 crores as of December '21 to Rs. 5,676 crores as of March '22.

Our third segment is combination of distress credit business as well as the alternative credit business. This includes our ARC. We reported our highest ever full year profit on the distress credit business. Our AUM has been almost flat at Rs. 10,936 crores. The AUM is well diversified into multiple sectors. The segment had net revenues of Rs. 293 crores with a profit before tax of Rs. 236 crores. PAT post non-controlling interest from this segment grew to Rs. 107 crores. The gross debt to equity stood at 1.1 times with a return on equity of 10% and ROA of 4.7%. In Q4FY22, our net revenue stood at Rs. 30 crores and PBT at Rs. 23 crores. PAT post non-controlling interest stood at Rs. 10 crores.

The Board of Directors has approved yesterday the scheme of demerger which undertakes our Private Wealth and PMS business, which is today part of JM Financial Services Ltd, a wholly owned subsidiary along with the investment we have in our institutional equity business which is a wholly owned subsidiary of JM Financial Services into JM Financial Ltd. The scheme shall be subject to regulatory approvals. Accordingly, once demerged, the Private Wealth and PMS divisions, will be classified under the Investment bank segment and will be divisions of the standalone listed company.

Our fourth segment is Platform AWS. The business is completely focused on providing an integrated investment platform for all the individual clients of the company. It comprises of asset management, wealth management and securities business, which we call Platform AWS. This platform will be internet enabled and digitally focused and our endeavor would be to be one of the leading players in each of these sub segments over the next decade.

For the full year March '22, the platform AWS business segment had revenues of Rs. 662 crores with a profit before tax of Rs. 128 crores. Profit after tax for this segment is at Rs. 96 crores. The ROE and ROA for this segment are 12.3% and 3.2%, respectively. In Q4FY22, our revenue stood at Rs. 153 crores, PBT at Rs. 19 crores and PAT post non-controlling interests at Rs. 14 crores.

We operate through our own branches and franchises. We have been growing our franchise network, which now stands at 634 franchises in 185 cities.

Our online trading app Blink Trade is gaining steady traction and we are continuously upgrading it to improve customer experience. We have been able to increase our online transaction percentage to 63% as compared to 52% last year. The majority of our online clients are trading through mobile trading apps and 86% of our account opening is happening through digitize mode. We have demonstrated Rs. 35,500 crore plus peak volume through online platform, demonstrating scalability of the platform. Now we will focus much more on acquiring clients and give them a seamless DIY journey through our online trading platform.

On Wealth Management business, our private wealth segment caters to high networth individuals with an AUM of Rs. 61,211 crores, this includes 49% in equity assets. As you all know, we had started our Elite Wealth business in 2019 catering to affluent clients. We have quickly ramped up to 92 advisors across eight locations and have crossed the milestone of Rs. 1,000 crores in AUM this year demonstrating an 88% growth, YoY. This business is likely to grow much more rapidly.

On our Retail Wealth business, which predominantly deals with retail customers through our network of 7,300+ active independent financial distributors, has recorded a steady growth of 22.3% YoY and its AUM stands at Rs. 20,202 crores.

Over the last year, we have built out a PMS team and have made senior hires in the PMS team. Our total team size in PMS has expanded to 18 people.

In the AMC business, our AUM stands at Rs. 2,318 crores, Rs. 569 crores in equity, Rs. 1,749 crores in debt. We serve 1.35 lakh customers and close to 16,700 distributors. In a bid to grow our AUM and our folio base, the company has onboarded very senior hires across functions such as investment teams, products, sales, risk, operations and technology.

Our engagement efforts are picking pace and we have been rebuilding all our relationship with all our several key distributors. We are very hopeful of a full revival in this business and aiming to touch a scale of Rs. 25,000 crores in AUM in the next two to three years.

With this I would like to conclude and we will be happy to take any questions. Over to the Moderator. Thank you.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. We have the first question from the line of Himanshu Upadhyay from O3 Capital. Please go ahead.

Himanshu Upadhyay: First question is on the credit solutions business. In this quarter, we see number of players in Top 3 are our corporate like TVS, JSW and Shapoorji. Are we changing the nature of book or clients? Can we get similar historic alliances with these groups? Second question is what is the type of collateral we get from them? Third question is can you elaborate on the chunky NPA in Mumbai and Chennai, and the large SMAs in Pune? Fourth question is what are the repayments in FY23?

Vishal Kampani: So, Credit Solutions has always had the option to do promoter financing as well as corporate lending. So, whenever there are larger ticket transactions and we normally do larger ticket transactions with safer and larger corporates that is when they partner with the investment bank segment and lend their balance sheet. So, these are largely loan against shares both the TVS group as well as the JSW group. And Shapoorji Pallonji is a real estate group. So, that doesn't change anything, that is the core business of Credit Solutions.

So, we are not really changing the color of the business, it's just that we have expanded more on the corporate and promoter loan side, in the last six months relative to real estate. On real estate also all the efforts are underway. We are facing a lot of prepayment in real estate. So, we have the construction finance (CF) book, which has seen a slower amount of drawdown because sales have been very strong. At the same time, because of the sales being very strong, many of those accounts have been refinanced and therefore, we are sitting on a huge amount of cash in JM Financial Credit Solutions. The current cash balance is approximately Rs. 1,600 crores. This is all a function of a lot of refinancing and repayments that is happening on the current book.

It's also because we consciously haven't grown the book in the last two and a half, three years. And therefore, you are seeing that most of our CF assets are matured and therefore sales are even stronger and refinance is easier. I do not see this trend continuing. We definitely will be adding to the real estate book over the next year and two years. You will see a trend reversal in terms of once the lending book picks up, you will see a trend reversal in terms of how real estate loan book growth numbers will be over the next few quarters.

You had a question on NPA. Our Chennai NPA numbers have always been high. As I have alerted on all my previous calls that Mumbai has seen excessive risk taking in the last four or five years, and therefore we have seen some sort of gross NPA numbers go up in Mumbai. But as I said that we remain fairly confident that we have a lot of provisions in our book. I would say we have provided very well and we should not be having issues in terms of making sure that LGDs are well contained and maybe even better than what they are provided for.

We don't disclose exactly what accounts are in SMA-2 or are in gross NPA, going forward. We used to do that but we are facing a difficult time with our borrowers not wanting to make those disclosures. Any other questions?

Himanshu Upadhyay: Yes, actually, to add on to my question that it is, what are the repayments in FY23 and pending disbursement in credit positions currently? And the next question is the restructuring in a subsidiary, what is the rationale and impact of that?

Vishal Kampani: Yes, so I think the repayments which are contracted repayments will be in the tune of around Rs. 1,300 crores, Rs. 1,200 crores to Rs. 1,300 crores if I am not mistaken. The disbursements which are sanctioned will be, I think a shade lower than that around Rs. 1,000 crore to Rs. 1,100 crores. But the challenge is that it's not about the contracted repayment, I mean our pre-payment last year and last to last year has been higher than the contracted repayment, because of refinancing as well as because of very strong collections in escrows. I think I mentioned this also in some of my earlier calls that our escrow collection is running at very high levels because of the sales momentum, we have seen across markets and specifically in Mumbai and Bangalore and Pune, which are our biggest markets. So, I think even this year our contracted repayment is at Rs. 1,200 crores to Rs. 1,300 crores. But we could see higher than that, versus what we will disburse.

And this restructuring is fairly simple. So, we have a wholly owned subsidiary called JM Financial Services. It services ultra-high net worth clients through a division called the Private Wealth Management. We see a lot of synergies between that division and the clients it serves with our institutional and corporate and investment banking business. So, we are just transferring that division through a demerger into our holding company.

The second division there is PMS; PMS is more like an alternative investment business. We have seen a lot of synergies of that businesses with what we are planning to do on the equity side in our AIF. Therefore, we are moving that business also into the holding company and it will be part of the AIF plus PMS asset management strategy.

Moderator: Thank you. We have the next question from the line of Akhil Hazari from Robocapital. Please go ahead.

Akhil Hazari: So, my first question was regarding the wholesale mortgage loan book. So, currently, I think it's around 7,300 as mentioned in your press release. I just want to know so what is the growth target for, how to grow the loan book in FY23 or FY24 going forward?

Vishal Kampani: Yes, so we have done some business planning. So, for the mortgage lending vertical, we have a growth target that we want to achieve a book size of Rs. 15,000 crores by FY24. The Rs. 15,000 crore asset book will be split Rs. 12,000 crores in wholesale assets and Rs. 3,000 crores in retail assets.

Our long-term ROE target by FY24 is at 15% plus, and we want to focus on resolution of our stressed accounts and have the net NPA plus SMA-2 numbers well within 5%. So, this is our sort of target for FY24.

Akhil Hazari: The 15% ROE is for mortgage plus retail or only for mortgage?

Vishal Kampani: Combined retail will be lower and wholesale will be higher.

Akhil Hazari: Okay, fine, retail will be lower, okay fine.

Vishal Kampani: Because retail is still building, it is still, investing a lot in infrastructure that's why it will be lower.

Akhil Hazari: And what would be the credit cost going forward for the wholesale book?

Vishal Kampani: So, if you look at our current provisions, I don't think we should have credit costs which are higher than the provisions that we have already made. That's how we should look at it.

Akhil Hazari: And my last question is regarding the, I just want to clarify the profit of FY22 and Q4 FY22 for the Wealth Management and security segment, it's Rs. 96 crores for FY22 and Rs. 14 crores for Q4 FY22, right the PAT?

Vishal Kampani: Yes.

Moderator: Thank you. We have the next question from the line of T.V.K Vivek Kumar from BestPals Research and Advisory. Please go ahead.

Vivek Kumar: So, my question is regarding the overall growth of the company, see last four, five years we are events like demonetization, GST and then RERA and then ILFS crisis and then COVID. So, we had events like this which actually stunted our growth in terms of loan book, and the way we were shaping out our company. I have been investor from the last five years so I am just trying to understand how management is trying to create shareholder wealth in the next four or five years in terms of tackling bottom up opportunities, which will lead to more predictable growth. It's not that there was no growth, but because it could, because there are many NBFCs while in the last five years have faced the same set of events could exploit lots of bottom-up opportunities and grow and create wealth.

So, I am not saying it should be done. But if you can throw more light on what are your thinking because we have done two QIPs and sorry to say this, but we shareholders will only make money over a 5, 10-year period only through capital appreciation and not like at least management as remuneration to back on, but we do not have that.

So, we, for survival, we are very clear, our company will survive for a very long time, but to thrive and create shareholder wealth, what are the areas of growth in a predictable manner that we can bank on what you think and your ideas on shareholder wealth creation for a 5, 10 year I am not saying okay, let's, whatever has happened has happened in the five year, but over the next 5,7, 8 year, what are the your thoughts on shareholder wealth creation, if you don't mind if you can throw light?

Vishal Kampani: Yes, sure, happy to do that. So, it's a very good question. See first thing I want to highlight is that if you just see growth over '21/'22 and you are absolutely right in saying that the company has faced a lot of external headwinds, and not really that much of internal headwind. And, we still come out stronger, our ratings are intact, our reputation is intact, our client sets are intact. And we are doing great business.

But if you just look at our growth, just simple growth in FY21 to '22, our revenues grew at 17%. Our pre-provision profit is actually almost Rs. 1,700 crores, which grew at 28%. And that number is very important to highlight because that is actually sort of the cash flow we have generated, including tax but that's the cash flow, the company has generated. The cash flow we have generated is up 28%. It's very important for you to mark that because we have barely increased leverage. Our leverage is flat. How many companies actually increase their PPOP by 28%, without increasing leverage? If you look at our PBT, our profit before tax is up 26.4%, at Rs. 1,348 crores as a group, right. And our net profit is 31% last year at Rs. 773 crores.

The issue is that because we are a diversified financial services company, we don't have every business performing every quarter. So, our ARC is a little bit of it performs two quarters, it doesn't perform two quarters. In our platform AWS business, we do a lot of IPO distribution, IPO funding so that is not, continuous every quarter. But if you see the year-on-year performance, I think it's a solid performance. Our return on assets is at 4.2%. The reason ROE is at 10.6% is because our leverage is low, otherwise the return on asset, I don't think most financial services which are in lending would have a return on asset of 4.2%.

So, I think the management at JM Financial and all my partners and all of my stakeholders have done a phenomenal job to deliver these results in very challenging times, in a year where we went through Delta as well as Omicron. We have done extremely well.

Now, if you look at the four business verticals, and we did the restructuring last year, we are very clear on our strategy. We are creating one of the best integrated investment banks, which has a very strong reputation and pedigree. Our strategy there is that we want to advise, we want to originate, we want to finance, distribute capital both at an equity, in public and private markets, for corporate institutions and high net worth individuals. And we want to deliver this integrated investment bank experience to all our clients and never compromise on the trust that our clients have placed in us. And so our success is going to be defined by the success our clients achieve working with us and they get value from our capabilities and the more we are able to make our clients succeed, the more value will create for our stakeholders.

If you ask me on financial goals, our financial goal is that this division has generated a close to a 14% to 15% return on equity as an integrated investment bank. So, we want to push this ROE for this division to around 18% to 19%. We want to be in the high teens and we want to establish and maintain a Top 5 lead table position across the services that we offer. So, that in short is the strategy for our investment bank vertical. We want to grow earnings between 15% to 20% and we want to have an ROE in the high teens. We are almost there, we are at 14% to 15% ROE and I think we will get to the 18% to 19% that we want to get to.

When you come to mortgage lending, I answered in the earlier question, we have a target, the target is set FY24 we want to be Rs. 15,000 crores in asset, Rs. 12,000 crores in wholesale, Rs. 3,000 crores in retail. In retail I think we are building a fantastic business, it goes completely unnoticed because we are a large business, but you tell me today a good retail mortgage company with Rs. 3,000 crores in assets with Rs. 11 lakhs of average ticket size generating an excellent ROA. What should the valuation should be? I think the valuation of that business will be more than the market cap of JM. So, that business we have hugely invested, we already have 55 branches, we are adding 20 branches more before Diwali so we will get 75 branches this year. We hope to be at 100 branches by June to July next year, that's a lot of growth and everything that we need to invest in is already underway. Yes, we have faced headwinds in terms of asset quality but if you look at our last 60 quarters, all of our headwinds actually started because of COVID. These were completely external circumstances that have led to us having around 10% sort of stressed account number including both NPA and SMA-2. Yes, there are some other cases in SMA-2 which may slip to NPA but we are very confident of recovery but still our focus is that in the next two years we want to make sure that we focus on the resolution and get the net NPA and SMA-2 numbers, well within 5%.

I have said this on an earlier call historically the wholesale mortgage business always runs high SMA numbers. It is only in COVID that it slipped into NPA. But we are very confident, we think the space is cleaned out, there is less competition and we will finally have a clear 3-to-5-year window to go and rebuild our business.

When we come to platform AWS our strategy is very clear, we will make large scale investments in both internet assets and digital infrastructure. We will be literally best in class and our endeavor is to be the most cost-effective financial services provider for all brokerage capital market and mutual fund products. This entire business has been carved out to focus on individual clients. COVID has shown us a sea change in the number of individual clients across the depth and breadth of the county that want to participate in the capital market growth of India. This is exactly what we are planning to do through an integrated technology lead vertical which will focus on this business.

The long-term return on equity target in this business is 25%. We don't need too much of capital here. We are going to keep cost to income, we are going to bring down cost to income from the 70% levels that we have here to less than 60% and our mutual fund target AUM is between Rs. 25,000 to Rs. 30,000 crores for FY25.

We have made significant hires in the last two years in this vertical and are very excited by the new teams which are working extremely hard to deliver the momentum in this business for us.

Coming to the distress credit business, we have had the highest profit in the history of the ARC, yes, we do understand that we need to start adding new assets that also has started. Last year we have added a few assets. We are already looking at new assets from a strategic basis. Long term we are looking at this business as an asset management, higher return on equity business by raising fund through an AIF platform. So, again growth will kick start in the ARC very shortly. We have brought down the debt equity in the distressed credit segment from a peak of almost 2 times to 1.1 times and we will be very comfortable at the current levels of 1 to 1.2 times. We will start adding assets as I said and we will also look to build out a full scale asset management AIF platform which will leverage not only the capabilities we have in the ARC but also use the strong capabilities of our integrated investment bank to do more transaction in the space.

So, I think our strategy is very clear I mean, we have already seen growth and I am very confident that over the next two years, from what I have outlined you will see even more growth.

Vivek Kumar: So, Vishalji if you don't mind, if you see even 5, 7, 8 year track record, you have actually grown. But I just want, actually I may be wrong, you can leave it. My thinking is especially in finance companies, wealth will be only created for shareholders, only if you create a predictability of that growth and also the risk. Actually, we have seen you deliver numbers on a consistent basis, if you actually see. But the wealth, I know that you are not making wealth because the risks is always, perceived risks are always greater than the perceived returns in terms of and there is no predictability of growth from the structure of the business. Maybe if you can communicate, because you are much better placed than investors like us to make investors understand better, because the predictable growth is what creates vision, because or else every year we are seeing some risk and share price never goes up in the long run. But although the numbers really come, actually you are growing at 10% to 12%, but the share price will never get the 10% to 12%, it will not reflect the 10%, 12%, 15% will not get reflected in the share price because there is no predictability of the business model. So, what happens is actually numbers will come but that will not get created into wealth creation and shareholders have only one way to make money through share price, not --

Vishal Kampani: So, that's a fair point, but only the point is you yourself made a statement that if you look at, take our peak-to-peak profit for the last 15 years, every three years or four years, our profits have increased

Vivek Kumar: Sorry to say this, I am not trying to contest what you are saying people don't look backward, people look forward. So, when the business model is not creating the predictability the wealth creation would be dispelled that my, I may be wrong and you need not take my point, but I just wanted to understand your thinking on shareholder wealth creation. Because we have done QIP two times and unless there is a growth and in a predictable manner I do not see, I just wanted to understand. At the end of the day, it's your company, so I just wanted to understand.

Vishal Kampani: No, end of the day it's our company, all shareholders own the company. But the point is as you began your statement saying that how do you grow predictably when you have been affected as a NBFC sector through ILFS and you are hit straight away with COVID. So, every time when you want to restart growth, you have a big challenge which is ahead of you and despite that we have reported a highest ever profit this year. So, I think the point I am trying to make is getting lost in translation right.

At the end of the day, see we have to look after your long-term interest, not your short term interest. It's very easy for us to pump up the book and borrow Rs. 10,000 crores and lend, but the best NBFC in town is the one which is able to collect and not the one that is able to lend.

Vivek Kumar: No, I just wanted to understand, so that, we invested in the last 6 years actually so it's not that I have just bought last year, I have been there for the last 6 years in the company. I just wanted to understand your thinking about shareholder wealth creation. So, I just thought I would ask this so that I have more clarity.

Vishal Kampani: No worries, thank you.

Moderator: Thank you. We have the next question from the line of Dhruvesh Sanghvi from Prospero Tree. Please go ahead.

Dhruvesh Sanghvi: A couple of small points, in the overall IPO funding stage with this new change, how much are we getting affected, if you can quantify a bit not by exact but the direction sense?

Vishal Kampani: So, yes, I think IPO funding plus IPO distribution would have been roughly Rs. 120 crores of profit for us. So, there will be an impact this year, because of the change in regulation by RBI as well as SEBI.

Dhruvesh Sanghvi: So, does it mean that this entire Rs. 100 crores really goes down to 50% to 60% to 80% levels or no, not that big?

Vishal Kampani: No, the Rs. 120 crores goes down to zero. Yes because of the RBI rules as well as the SEBI rules of allotment which we have seen in the earlier IPOs. So, that actually goes down to zero, because there is no reason to do IPO funding.

Dhruvesh Sanghvi: So, within this space then, I mean of course the same capital and energies will be used somewhere else but are there such enough easy opportunities which were, I mean IPO funding is a far easier opportunity and that is why I am using the word easy. So, if you can share some thoughts on it.

Vishal Kampani: So, I will tell you, one reason, we did not even grow the book very aggressively last year is because we were indirectly deploying leverage for almost 3 times a week for 9 months of the last 12 months in IPO funding. There was no need to take additional long term risk when on a short term product, you could make almost Rs. 100 crores of profit. So, that obviously changes and you have already seen that change when we saw the writing on the wall, you have already seen almost a 20% expansion in loan book year-on-year. So, as I have said in my previous calls also, right, I mean, it's not that we cannot increase the loan book, we will increase loan book at the right time. And if we are able to make money for shareholders, using a diversified business model without taking higher amount of risk, we will do so. IPO funding is an absolutely low risk product compared to giving a loan to a developer from a four to five-year perspective.

But having said that, we understand that there is going to be a Rs. 120 crore plus shortfall in earnings this year, and we will make it up through long term accretion in the loan book.

Dhruvesh Sanghvi: The second is, I think you also spoke somewhere and I missed that exact line, but your provisioning profit, did you say some Rs. 1,500 crore or Rs. 1,700 crores number?

Vishal Kampani: It's Rs. 1696 crores.

Dhruvesh Sanghvi: So, now when do we start seeing right backs because at the end of the day, the real estate prices or the prices of apartments, etc., have all somewhere gone up? And even the most disputed of the properties are coming back in the market in some time, I mean, three years, five years, seven years. So, whatever is recognized as NPA, when does it start getting reversed on the P&L?

Vishal Kampani: You will start seeing it from this quarter.

Dhruvesh Sanghvi: Is this a three-to-four-year thing or no it will all get over really fast?

Vishal Kampani: I will tell you my original estimate before Delta was actually 12 months to 18 months and after Delta, I added almost another six months to 12 months to it. And therefore, I think it is anywhere between two to three years. See the issue is that the properties which slip into NPA, some of them are resolvable, because it is slipped, but you can provide some construction finance completed recover a good percentage of your sales. But the challenge only comes in when there is home buyer litigation. So, if there is any form of litigation that needs to go to RERA or go to the courts, which comes from home buyers and their dissatisfaction, then the timelines get delayed, right. So, to give you an example say there is a residential project, say it's got 100 units to sell Rs. 2 crores a unit, Rs. 200 crores of sales, and you have sold say 40 units. So, we are sitting on earning Rs. 60 crores of inventory, the project needs to be completed. But if any of those Rs. 40 crores of sales goes to court and goes to RERA the timelines get extended. This is an example of one of the challenges we face. Then we have to wait. So, we know, we can fund more, there are lines outstanding, we can complete the project, but nothing happens till all of those issues get settled. This is just one example. Therefore, the timeline for many of these originally estimated at 12 to 18 months, I think will be anywhere between two to three years now.

The pleasant surprise is that in many of the cases, we have seen the product price go up. So, what happens is sometimes, delay works in your favor, but sometimes it doesn't. It depends case to case.

Dhruvesh Sanghvi: So, to a person who doesn't understand a lot of banking, accounting or NBFC accounting, if somebody has to on a ballpark understand that what is already out, provided in the P&L and what can come back, is there a quantifiable number? I am not looking at the time, let's say three becomes four years that's okay, but some broader quantification so that we can --

Vishal Kampani: See this is very hard to do let me tell you what we do right. So, there is a provision we are supposed to make and there is a management overlay and a provision we make because of our assumptions on what we can recover from a COVID perspective. And a large part of our provision, the total provision number is roughly Rs. 756 crores odd and approximately Rs. 400 crores of that is COVID related and large part of that is in real estate. So, what happens is we do a stretched timeline assessment to the recovery. So, when I told you, in the first wave of COVID, we had stretched the timeline to a certain extent and post Delta we realized that we need to stress it a lot more. So, what happens is we do a present value calculation of when we will be able to recover the money because this case is going to go through insolvency. And then we get the present value and we apply sometimes, in certain cases, very high discount rates, we can apply discount rates as high as even 20% to 22% in terms of just simple present value calculations, because we are uncertain, really uncertain about the timeline of the litigation. So, to cover for that sort of delay, even after making a certain conservative estimate, we use high discount rates. And then we come to a number which we think is the present value of the collateral in terms of cash flow, and then we adjust that from the outstanding value of the loan today. And the difference in the two basically goes into a provision that we create. But as I said, it's being discounted at a very high rate. So, if you are able to recover faster, you see write backs, if there is a larger timeline to recover, then you will not see write backs, but the percentage number will keep going down over time.

See also you have to keep in mind that we have not grown the loan book. There are many lenders who will grow the loan book and these percentage numbers look small, we have been very prudent, lot of our origination teams have worked hard in the last two years to make sure the number is contained and the number is not going into a crazy stratosphere. We have created some assets, which we thought are difficult. We have resolved some of the assets which you are not seeing in the book. And also, we have been very lucky that there has been a phenomenal sales cycle through which we have had a very hefty cash balance, which puts us in a pole position because every developer knows that when construction is needed, even for a stressed project JM is going to be around and the construction project will get completed. So, this is sort of all in all the landscape. So, it really depends on timeline, we are very sure of collateral, we are not very sure of timelines.

Dhruvesh Sanghvi: One question related to your retail lending. So, on the channel checks, I came to know that let's say you are redistributing for HDFC Bank as a home loan product. So, that is one part and the other part which you are talking about is the Rs. 10 to Rs. 11 lakh average ticket size. Am I understanding that both are that retail Rs. 3,000 crore or no the other part is the distribution lead income, which is not considered as a loan book.

Vishal Kampani: So, we do we do very less of distribution for anyone. When I talk about a Rs. 3,000 crore, the Rs. 3,000 crore is our loan book on our balance sheet. The number today is roughly Rs. 1,200 crores of retail loans. And the number Rs. 3,000 crore I talk about on balance sheet is retail mortgage assets.

Dhruvesh Sanghvi: So, how do we differentiate here and can you expand a little bit more on this business because your comment about such a wonderful business getting created, if you can expand a little bit more in terms of strategy, how we are different versus what other companies are doing. I mean, one big name that comes to the mind is let's say Aptus so is it a like to like that kind of a business?

Vishal Kampani: So, it is not similar to Aptus, I think Aptus is a little more diversified player. I think we are a more focused affordable home financier, as well as we do some amount of LAP. So, our strategy is fairly simple, right. See there is a segment of housing, which the government wants to grow, which I am sure you are aware of. And we see massive growth not only because of affordability also because of home loan rates and also because of the government push into the affordable housing finance space. And so, this is exactly the kind of opposite business we do in wholesale mortgages. Wholesale mortgages, we are more city centric and retail mortgages we are really outskirts of the cities and we are in smaller towns; in smaller Tier-I towns and larger Tier-II towns. And therefore, the strategy is very similar to say Aavas Finance, which is really focused on granular, affordable home loans to both salaried and non-salaried customers, non-salaried customers being a larger part of the equation. And therefore, your credit assessment becomes very important on the ground credit assessment, understanding the borrower understanding his income, and being able to understand even the development to which you are lending to. Most of the loans that we do almost 90%-95% of loans are completed homes. We don't take too much of construction finance risk in this segment, because many a times the developers are not well-known. So, from that perspective, we keep credit quality in check. The advantage we have is that in this space, we are one of the few lenders who is very well rated and has a good cost of borrowing. And therefore, we are able to make sort of the same spread lending at 12% to 12.5% while some of the other NBFCs have to lend at 13.5% to 14%. Our processes are fully digitized. They are completely tech enabled. And therefore, we will run on extremely tight cost to income as we grow the business.

And at some point, this year, I think we will make a specific presentation, with a lot of details on this business. We will give investors a good idea and a bird's eye view of what we are doing.

Moderator: Thank you. We have the next question from the line of Anuj Sharma from M3 Investments. Please go ahead.

Anuj Sharma: My first question is what is the outlook on the competitive environment in the wholesale book, we are estimating almost a 27% growth in loan book in the next two years. So, what's the key reason, is it the competitive environment or the buoyant real estate outlook?

Vishal Kampani: I think it's a combination of both. We are quite bullish on the prospects of passive real estate over the next two to three years. Also, the competitive intensity is low, because many of the NBFC's are not there in the space. But having said that, I don't think we will be able to get extraordinary yields in the space. The reason is that if you look at Mumbai, for example, the Top 10 developers who had kind of a 20% market share in Mumbai, seven years ago, here will probably have close to a 36% to 37% market share of Mumbai sales. So, even on the developer side, there is a bit of concentration with the better names. We will be moving our book a little more aggressively towards the better names. Therefore, there will be some amount of yield pressure. Earlier we have been lending at around 15% average yield, I think we will be at close to a 10% lower average yield which should also allow this kind of loan book growth to happen. If we were to lend at the current 15% sort of yield, then we will not be able to grow the loan book to Rs. 12,000 crores.

Anuj Sharma: And just one extension to that, so one of your large competitors will undergo a merger and acquisition and will that leave us some space to grow especially because of regulatory constraints, they will not be able to do exactly what they were doing earlier. So, does that also provide us some leeway?

Vishal Kampani: That is correct.

Anuj Sharma: My second question is, despite volatility in the markets, we have managed to have a decent growth or let’s say stability in the investment banking book. So, just two questions on it, how does the pipeline looking like and will we be able to, again, maintain some sort of consistency?

Vishal Kampani: Yes, so I think, as I have said earlier, also, I think our pipeline is very strong, we have, a 100 plus written mandated transactions, and almost another 50 to 60 transactions, which are getting mandated underway it is, I think, one of our strongest pipelines in the history of the firm. And I am actually very bullish on this vertical. And it's sometimes unfortunate that most people don't understand what we are trying to create, but we are trying to create a very effective and strong cross selling machine where we will literally be the port of call for any form of solution that a corporate or ultra-high networth or an institution needs. We will be able to provide equity capital markets, debt capital markets, private placements, M&A financing, all capabilities to all the large B2B customers that we can work with, across India.

So, I will give you a simple example right. Our IPO market share last year is around 20%. But there are 80% clients who have done IPOs but they haven't done them to JM, that doesn't mean those clients are not going to be banking with JM in the future, right. So, I think the consolidation in the investment banking space is sort of done. Clients know who the four or five large domestic names to talk to and who can actually offer solutions to complex problems, as I said, across all of the services and products that we have. So, it's a very powerful proposition. There will be a few quarters of sort of volatility and uncertainty but that's fine. I mean, we can, even for example, last year, we actually delivered these numbers with almost three months to four months of a pretty dull time, which we went through in Delta. So, three quarters is basically enough for us to deliver flat earnings and if you get the full year, we will see decent growth.

Anuj Sharma: And third and last question is, generally, what is the typical duration of a corporate loan? How do you decide whether to allocate capital towards the corporate or the wholesale, or these are independent decisions when you decide?

Vishal Kampani: Good question, but looking at our debt equity today, it's not a problem we can allocate to both, frankly, but the decision to underwrite the credit process behind corporate and the credit process behind real estate is very different. A corporate loan portfolio can be created a lot faster, it's also shorter term in terms of duration, the duration is, on average, 18 months to two years, while real estate is almost three to four years. So, real estate, what happens is that you don't need to re originate as quickly because the loan stays on your book for a while and you keep making that NIM. But on the corporate side, you need to have a strong engine, which is constantly be able to originate and that is where the entire integrated investment bank strategy comes to play. Because we have a huge machine, we also have a private wealth machine, which gets added to our investment bank. So, that would mean we will have almost 60 to 70 origination officers which are able to cross sell many of these products. But yes, corporate is more of an 18 month to two year product while real estate is three to four.

Moderator: Thank you. We have the next question from the line of Akhil Bipin Thakker from Axis Mutual Fund. Please go ahead.

Akhil Bipin Thakker: I have two questions. One is on your interest income, this quarter, your interest income has actually declined while your book has actually grown. Is it more because a large share of the disbursement had happened towards the end of the quarter?

Second question is on terms of your bespoke book, the mix of your overall AUM has changed on a quarter-on-quarter basis, could we see that this, henceforth, this will be the kind of mix that we will see where bespoke or the promoter financing book will continue to have a larger share and the overall pie?

Vishal Kampani: See, we started pushing the book growth sometime around Diwali. It takes us, corporate underwriting is normally say four to six weeks of work. But real estate is around eight to 12 weeks of work before we actually fund because of diligence and lot of things that we need to do. Therefore, a significant part of the loan book booking happened only post mid-Feb around February 15 onwards.

Also, the second significant part is that the 3rd Quarter was one of the best quarters for IPO funding. While the Jan/Feb/March quarter was very muted in terms of IPO funding. So, the IPO funding revenue was not there. So, on IPO funding, we were on average doing a billion dollars of funding Rs. 7,000 to Rs. 8,000 crores of funding for almost three weeks of the month earning almost 200 to 300 basis points spread in Quarter 3 which obviously was missing in Quarter 4. So, that is the second part of delta, why the interest income is down.

On your second question, yes, you will see your more diversified mix. So, what we are trying to do is on the consolidated lending book, if you see our presentation, we have a page, page #50 and that's where you see the split. So, the idea is that over the next two to three years, our book definitely needs to be more diversified. So, if you look at for example FI financing, this is a fantastic business. So, what we do here is you are basically financing smaller NBFCs, we are financing NBFCs who we like, who are doing a good job, but have a lower credit rating today. All of these NBFCs that we finance have very granular assets right they are onward lending into the retail market. So, whether it is secured home loans, whether it is LAP, whether it is auto financing, whether it is micro financing. So, we basically fund these entities and we have the networth of these entities protecting us, right. But the underlying exposure that we are lending to is still very retail very granular, in a sense.

As we expand this business and we add more clients, we will even get into products like securitization with them, we will use our debt capital market and equity capital market services to even raise more innovative finance for these entities and also raise equity capital at the right time. So, it's a very synergistic integrated business. So, our top competitor without taking any names, for example, in this space has a Rs. 6,000 crore book while our book is only Rs. 440 crore, so there is no reason why this book will not be a Rs. 2,000 to Rs. 3,000 crore book in the next two to three years.

So, it's really a retail business lending packed in wholesale finance. So, these all very well thought through strategic moves, where our reliance on real estate if you go back four years, real estate was almost 75% of our portfolio wholesale. So, our reliance on real estate will not be that high, it will still be a big business. It will be profitable for us it will earn very good ROA and ROE for us, but our overall loan book will be a lot more diversified when you see it in FY24 and FY25.

Akhil Bipin Thakker: One follow up question in terms of, if I look at your asset quality even for a JM Financial Credit Solutions, your GNPA numbers have spiked up despite an increase in the overall AUM. So, is there, the new slippages has that happened on more on the residential, your mortgage side book or is it in the corporate finance bespoke book?

Vishal Kampani: No, it is all in the mortgage, everything is in mortgage. Bespoke barely has any slippages. It's all slippages from SMA-2 to the NPA bucket and few form SMA-1 to SMA-2.

Moderator: Thank you. Ladies and gentlemen, due to time constraints, that was the last question. I would like to hand the conference over to Mr. Vishal Kampani for closing comments. Please go ahead.

Vishal Kampani: Well, thank you very much all of you. I hope it was a good session. If there are any further questions, please reach out to us and we will be happy to clarify. Thank you.

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