Reco	:	BUY
CMP	:	INR125
Target Price	:	INR171
Potential Return	:	38%

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Market data

Sensex	:	31,292
Sector	:	NBFC
Market Cap (INRbn)	:	99.2
Market Cap (USDbn)	:	1.548
O/S Shares (m)	:	797.1
52-wk HI/LO (INR)	:	132/53
Avg Daily Vol ('000)	:	683
Bloomberg	:	JM IN E

Source: Bloomberg

Valuation

	FY18e	FY19e	FY20e
EPS	7.1	8.7	10.2
BVPS	46.3	53.3	61.6
P/E (x)	17.5	14.4	12.2
P/B (x)	2.7	2.3	2.0
RoA (%)	4.4	4.8	4.9

Source: Bloomberg

Returns (%)

	1m	3m	6m	12m
Absolute	(3)	5	47	85
Relative	(0)	3	36	66

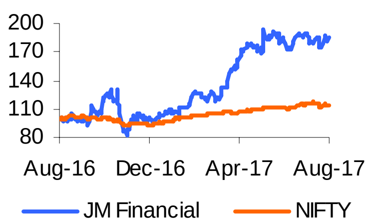
Source: Bloomberg

Shareholding pattern

Promoters	:	65%
Public	:	35%
Others	:	0%

Source: Bloomberg

Price performance *vs* Nifty



Source: Bloomberg Indexed to 100

INITIATING COVERAGE

JM Financial Limited

Spreading its wings

From being a pure play capital market player in 2008, JM Financial (JMF) has metamorphosed into a diversified financial services provider with strong presence across lending and fee based businesses. This decade long journey has been characterized by identifying attractive pocket of opportunities, forging the right partnerships and attracting the right talent to chart out success in areas outside of capital markets. The fact that JMF's earnings have compounded at 18% over FY11-17 and contribution of capital market related businesses have declined from 52% to 15% over this period is a corroboration of this metamorphosis.

Now that a strong foundation is in place, we believe that JMF is poised for strong growth & profitability over the next 3 years. Well entrenched position in the developer financing space coupled in increased opportunity pie (post demonetization & RERA) will ensure 20% CAGR in its fund based businesses. At the same time, the shift form physical to financial savings will ensure healthy traction in all its capital market businesses. On an overall basis, we expect earnings (ex-minority) to grow at CAGR of 19% over FY17-20e and drive RoEs at 18%. Initiate with BUY rating.

Institutional business - On a strong growth path

Apart from the formidable capital market franchise, JMF has achieved a sizable scale in developer lending, corporate lending and asset reconstruction businesses. The buoyancy in capital markets due to the shift towards financial savings, increased opportunity in developer funding and the increased governmental focus on distressed asset resolution augurs well for JMF's institutional business. We expect 20% CAGR in fund based businesses and 15% growth in capital market businesses over FY17-20e.

Retail business - Creating the foundation for future growth

JMF's retail presence has largely been through its broking and financial product distribution, wealth management and asset management services. While these are not big contributors to JMF's overall earnings pool, they have the potential to grow at much faster rate than 20%. Also, JMF has recently announced its intention to enter the affordable housing & SME space. These verticals could meaningfully contribute to the overall growth from FY19.

Earnings momentum to remain strong; Initiate with BUY

Even as the earnings prospect of most of JMF's business remains strong, we note that JMF is sitting on low levels of leverage (~3x), especially in its lending business. As it continues to grow over FY17-20, we estimate the leverage levels to improve from ~3x to ~4x and drive RoE expansion form 15% in FY17 to 18% in FY20e. We use the SOTP methodology to value JMF and arrive at eighteen month price target of INR171 per share.

Key Financials (consolidated)

First page	FY16	FY17	FY18e	FY19e	FY20e
Revenue	20,219	24,919	29,746	35,419	41,441
Profits (ex-minority)	4,005	4,702	5,676	6,875	8,135
% growth		17.4	20.7	21.1	18.3
EPS	5.1	5.9	7.1	8.7	10.2
BVPS	35.5	40.6	46.3	53.3	61.6
RoA (%)	4.8	4.6	4.4	4.8	4.9
RoE (%)	15.3	15.6	16.4	17.4	17.8
P/E (x)	24.6	21.1	17.5	14.4	12.2
P/B (x)	3.5	3.1	2.7	2.3	2.0

Source: Company, Antique

The metamorphosis into diversified financial services provider

From being a pure play capital market player in 2008, JM Financial (JMF) has metamorphosed into a diversified financial services provider with strong presence across lending and fee based businesses. This decade long journey has been characterized by identifying attractive pocket of opportunities, forging the right partnerships and attracting the right talent to chart out success in areas outside of capital markets.

A healthy mix of fee based & fund based businesses

Fee based Businesses	Balance sheet based businesses
Investment Banking	Developer funding
Broking	Corporate funding
Wealth Management	Capital market funding
Asset Management	Asset reconstruction business

Source: Company, Antique

The chronology of metamorphosis (2007 to 2017)

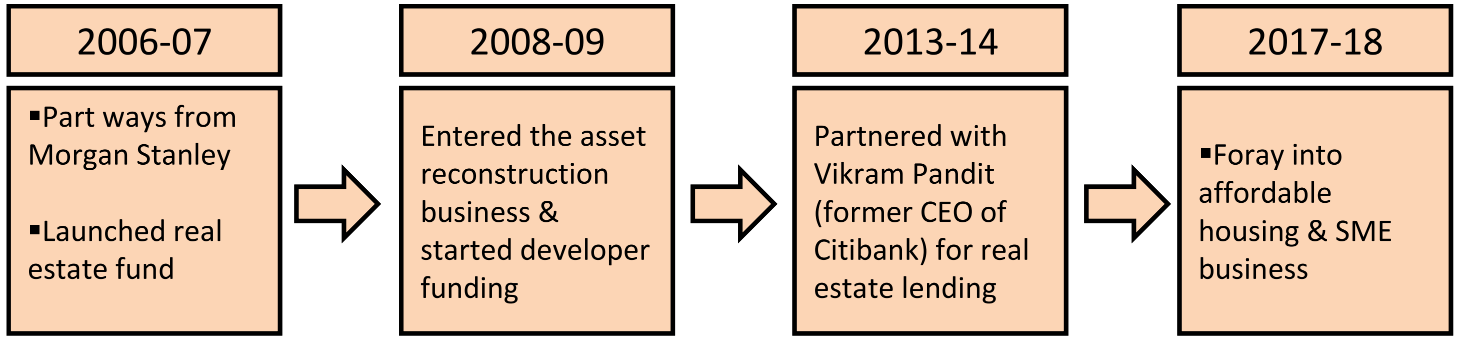
Strong capital market business: Even in early days of 2003-08, JM Financial (JMF) had many firsts to its credit, especially in the securities and investment banking business. However, 2007-08 marked a defining year for the group where they separated from Morgan Stanley, their long time partner and decided to chart their own journey.

Entry into fund based businesses: As a part of the first few steps of this new journey, JMF entered into fund based businesses (developer, corporate and asset reconstruction business). Entry into developer funding was based on the assessment that banking system's inability to fund developers across the project life cycle had created vacuum in the market. Asset Reconstruction Business (ARC) was envisaged as having some synergies with the investment banking and capital market business, where JMF's strong relationships could be leveraged to charter a turnaround.

Forging the right partnerships: JMF entered into partnership with Vikram Pandit (ex Citi CEO) in 2013 to accelerate its presence in developer funding space. Vikram infused INR5.4bn to acquire 49.9% stake.

Entry into retail lending business: More recently, it has applied for an HFC license to foray into affordable housing. It is also contemplating an entry in the small and medium enterprises (SMEs) lending.These businesses are expected to contribute meaningfully from FY19.

The decade of metamorphosis (2007 to 2017)

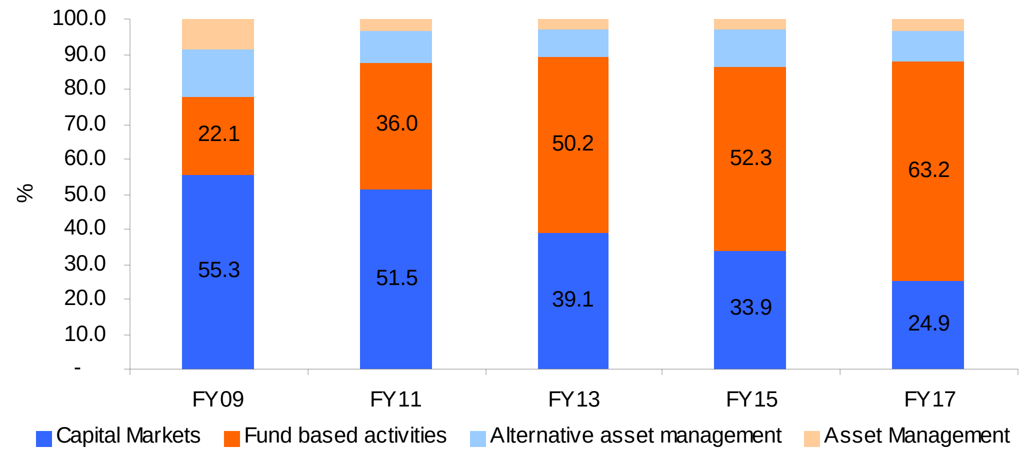


Source: Company, Antique

The changing anatomy of earnings (2010 to 2017)

Along with its business, the income profile too witnessed a metamorphosis. Contribution from capital market related businesses declined from 52% in FY11 to 25% in FY17 even as the overall earnings compounded at 18%. At the same time, income from lending businesses witnessed strong growth and now contributes to 63% of JMF's overall income.

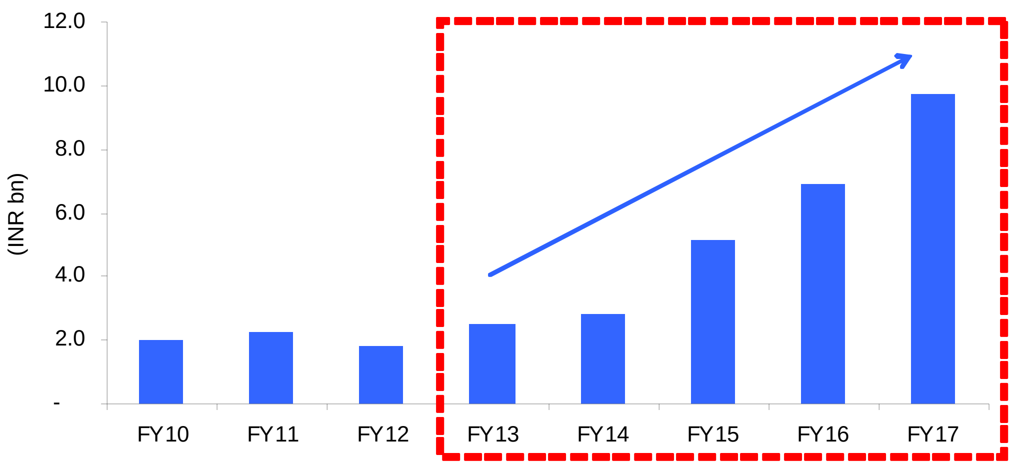
Transformation in revenue profile



Source: Company, Antique

This transformation has not only reduced the income volatility but also ensured strong growth over the past five years. The lending businesses have achieved scale and are capable to absorb the volatility generated by the capital market businesses (FY13 to FY17 has been a period of low volatility and strong growth despite the uncertain macroeconomic environment).

Earnings profile - lower volatility, steady growth

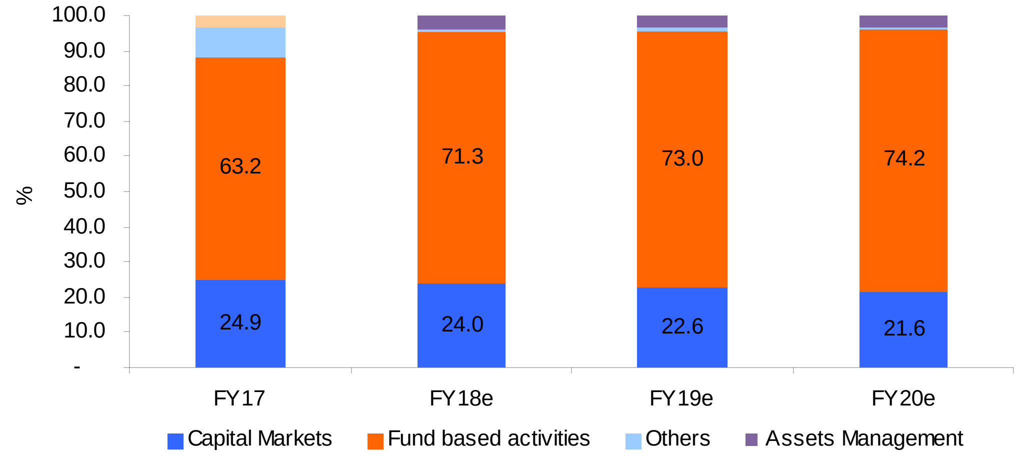


Source: Company, Antique

Earnings momentum to continue over FY17-20

Now that the lending businesses have acquired scale, they are expected to register strong growth over FY17-20. While opportunities in the developer & corporate lending space will ensure 20% CAGR in the lending businesses, the buoyancy in capital markets will ensure steady increase in revenue from fee based businesses too. On an overall basis, we expect the share of fund based businesses to increase to 74% by FY20.

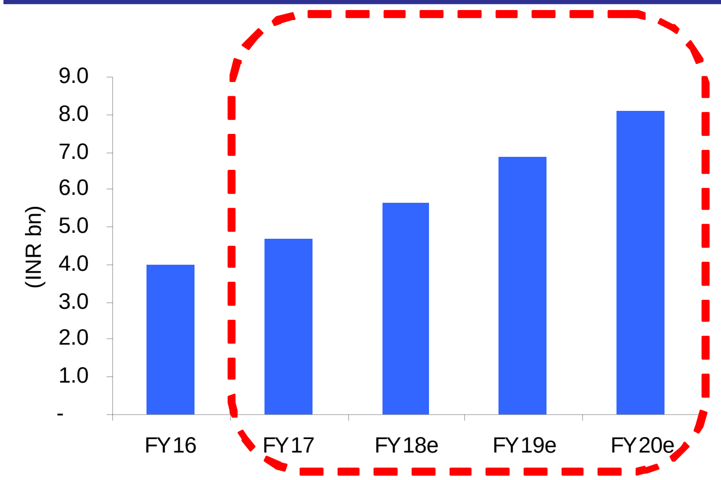
Share of fund based businesses to improve further



Source: Company, Antique

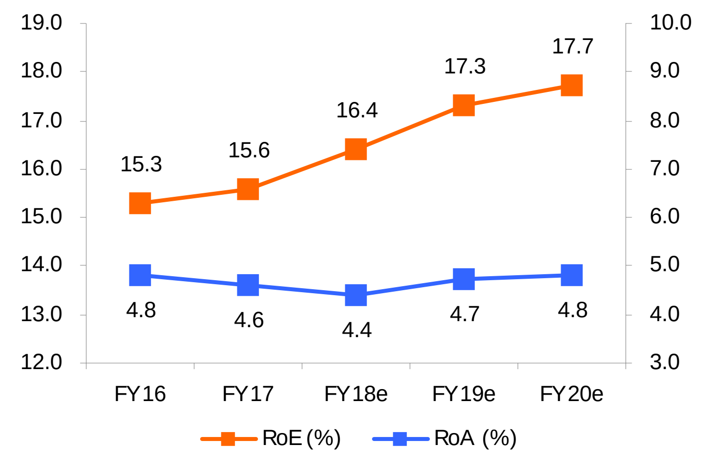
Even as the earnings prospect of most of JMF's business remains strong, we note that JMF is sitting on low levels of leverage (~3x), especially in its lending business. As it continues to grow over FY17-20, we estimate the leverage levels to improve from ~3x to ~4x and drive RoE expansion form 15% in FY17 to 18% in FY20e.

Sustained earnings momentum



Source: Company, Antique

300bps improvement in ROE



Source: Company, Antique

Valuation & View

From being a pure play capital markets player, JM Financial has come a long way to being a diversified financial services company. Strong growth potential, under leveraged balance sheet and conservative lending practices will ensure 19% earnings CAGR over FY17-20e and RoEs at 18%. Given that JMF is a combination of fee based and fund based businesses, we use the SOTP method to arrive at JMF's target price.

Lending business: Although JM's lending book is largely wholesale in nature, the risks involved in residential real estate financing are far lower than that involved in other wholesale financing areas like power or infrastructure. In addition to this, JM's strict criterion surrounding builder selection and security creation will ensure stable asset quality. Strong growth coupled with stable asset quality will ensure strong RoE on lending business. As such, we value the lending businesses at 3.0x on FY20e book.

Asset reconstruction business: Earnings trajectory from ARC business will definitely remain non-linear and depend on JM's ability to resolve the acquired assets. No exposure to power sector, declining interest rates, improving economy and strong corporate relationship developed by JMF over the years will help accelerate the resolution process. We value this business at 0.15x of AUMs.

Fee based businesses: Almost all of JMF's fee based businesses are linked to capital markets. We believe that the shift from physical to financial savings will continue for many years. As such, equity markets are expected to remain buoyant and throw up opportunities in investment banking, broking, wealth management and asset management businesses. We value the IB/Securities & Wealth business at 15x earnings and the AMC business at 22x earnings.

New initiatives: JM has announced its foray into housing finance business with a focus on the affordable housing segment. It is also exploring SME sector with a focus on education infrastructure loans. While these initiatives mark the beginning of JM's retail financing journey, we treat these as option value and do not assign any valuation to it.

Based on the above SOTP methodology, we arrive at an eighteen month price target of INR171 per share, which translates to 17x consolidated earnings. Deterioration in lending portfolio remains the key risk to our thesis.

SOTP valuation

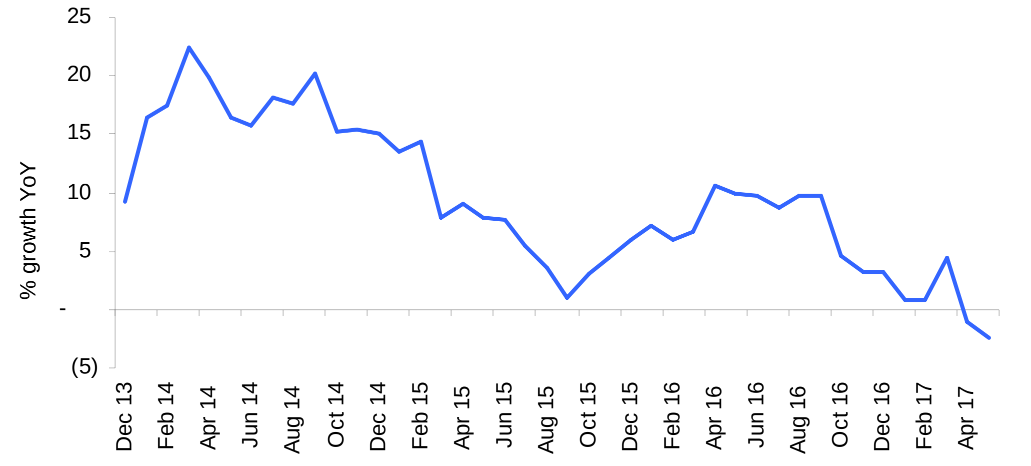
	Parameter	Multiple	Valuation	Stake	Value to JM	Per share
JM Credit Solutions	Networth	3.0x	75,204	50.0%	37,609	47
JM Financial Products	Networth	3.0x	58,548	99.3%	58,138	73
Asset Reconstruction	AUM	15%	20,618	50.0%	10,311	13
IB/Securities & Wealth	Profits	15x	21,157	100.0%	21,157	27
AMC	Profits	22x	13,377	60.0%	8,026	11
Total					**135,241**	**171**

Source: Antique

Developer funding business - large opportunity

Apart from being highly fragmented & unorganized, real estate sector in India is also infamous for the huge project delays. As such, formal financing isn't available to a large section of developers. Banks had become aggressive in lending to this sector during the boom time of 2008-2012 but have withdrawn since then - partly on account of stricter RBI norms and partly on account of increased risk perception of the sector. While land financing continues to be prohibited for banks, risk weights on exposure to real estate continue to remain at 150%.

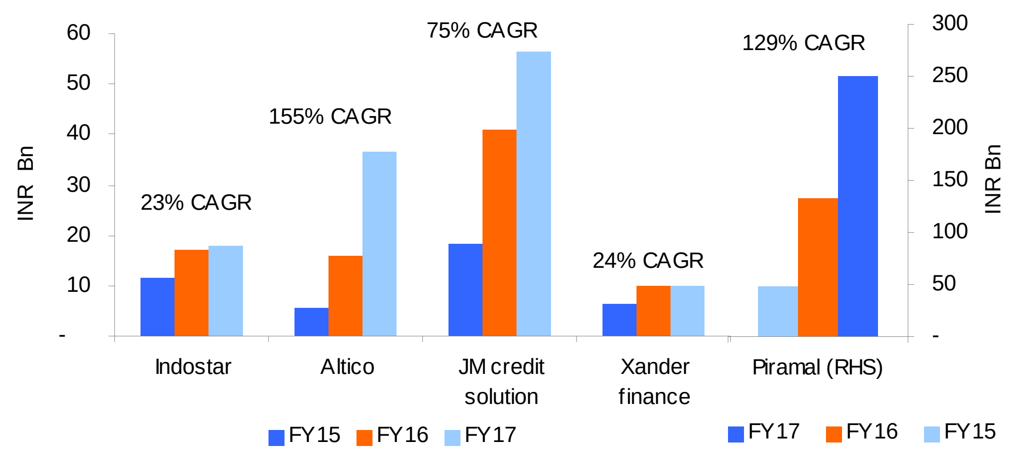
Declining bank funding to real estate sector



Source: RBI

As such, bank funding to the sector has been on a downtrend since FY14 and touched its lows in Q1FY18. This has opened up huge opportunity for the whole sale lending NBFCs like Piramal, JM Financial, Indo Star, Altico, Xander, etc. While regulations allow NBFCs to lend for land acquisition, their nimble footedness allows them offer tailor made solutions to developers. This coupled with their life-cycle approach (explained in the next section) has resulted in strong acceptance by the developer community. Most of these NBFCs have reported strong balance sheet growth over FY15-17.

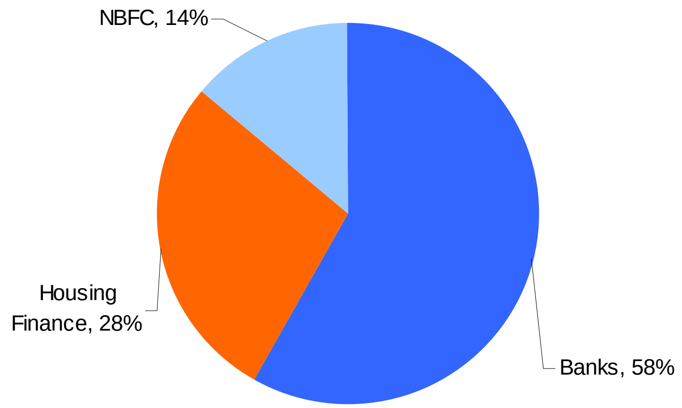
Strong loan book growth for NBFCs



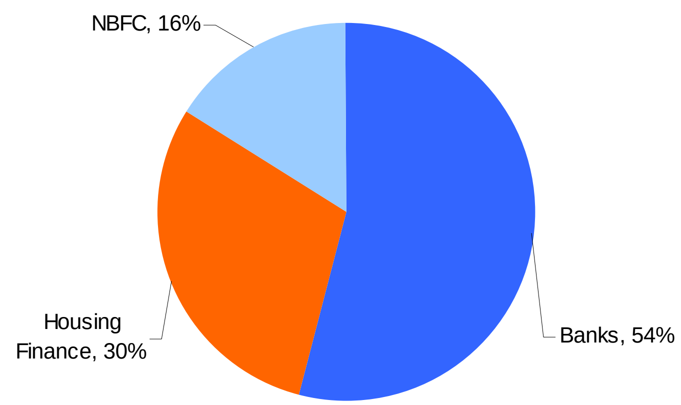
Source: Company, Antique

Due to such strong growth, the market share of NBFCs in overall real estate funding has improved from 12% in FY13 to 16% in FY16. Housing Finance Companies (HFCs) like HDFC Ltd, IndiaBulls Housing and Dewan have broadly maintained their market shares while banks have lost some market share. Given the specialized focus and the life-cycle approach followed by NBFCs (rather than the piece meal approach followed by bank), we expect the market share gains for NBFCs to continue over FY17-20e.

Developer funding landscape (FY15)



Developer funding landscape (FY16)



Source: India Ratings

Developer funding business - life cycle approach (NBFCs) vs. piece meal approach (Banks)

The real estate financing lifecycle comprises of 3 unique stages - land acquisition, approvals & construction and mezzanine financing. While it is obvious that a financier who can work across the life cycle will be preferred over the one who adopts a piecemeal approach, commercial banks have stuck to their piecemeal approach of financing a particular project for a particular stage. They operate either in construction financing or mezzanine financing stage.

Various stages of developer funding

Stage	Interest rate	Key players
Land Finance	14% to 22%	NBFCs
Construction Finance	12% to 16%	NBFCs, Banks, HFCs
Mezzanine Finance	13% to 19%	NBFCs, Banks, HFCs

Source: Company, Antique

HFCs are a little more flexible when it comes to structuring of construction financing but even they are prohibited from lending for land purchases. On the other hand NBFCs have no such restriction and have developed capabilities that allow them to operate across the real estate life cycle. This not only allows them to capture significant gains as project goes from conceptualization stage to completion, but it also enables them to get repeat business from the developer. Below is the list of key players operating in each of the stages of developer lifecycle:

Key players in developer financing

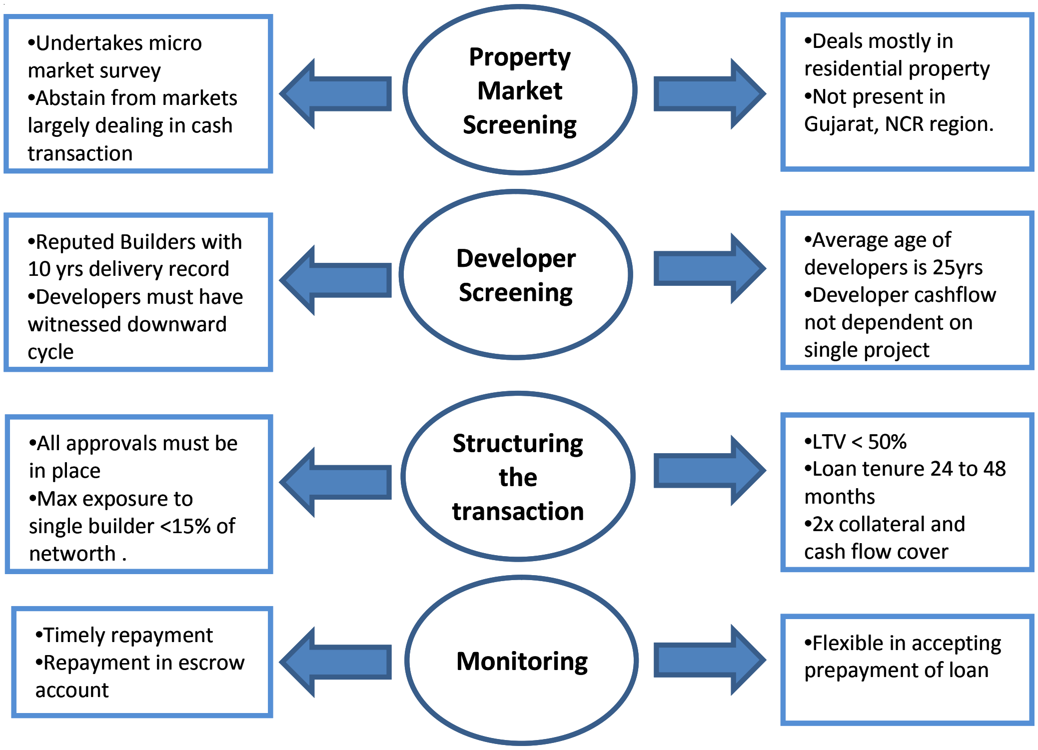
Stage	Players
Land finance	Edelweiss, Piramal, Altico, Indostar, Xander finance
Construction finance	SBI, HDFC, DHFL, Indiabulls, PNB Housing, IIFL, Edelweiss, JM financial and Piramal
Mezzanine finance	SBI, HDFC, Piramal Finance, PNB Housing, JM Financial

Source: Company, Antique

Developer funding business - JM's fast growing cash cow

Developer financing isn't a homogeneous business and every case needs to be treated separately. Creating a good business here involves multiple stages like selecting the appropriate micro market, understating the local dynamics of the micro market, identifying the set of genuine developers within that micro market, meticulous structuring of the transaction and periodic monitoring of the projects. JM Financial has invested heavily over the past eight years towards developing capabilities around each of these aspects and ensured strong growth and healthy asset quality over the years.

JM's developer funding ecosystem



Source: Company, Antique

1) Careful selection of micro-markets

Given the heterogeneous nature of the real estate market, a dedicated team of professionals with strong local expertise gives JM Financial an in-depth understanding about a micro market. JM started its operations in Mumbai, the largest real estate market and slowly entered markets like Pune, Bangalore and Chennai. Below are some of the criterions used by JM for selecting its micro-markets:

- JM has preferred to enter residential real estate financing in cities like Mumbai, Pune, Banglore and Chennai, which has a large population of salaried class.
- A natural advantage of such locations is low proportion of cash involved in real estate deals, thus giving better visibility of developer's cashflow.
- In Mumbai, JM has preferred to lend to projects that are sell mid-to-premium range apartments (Rs 75 lakhs to Rs 5 crores).
- Commercial projects & Land Financing constitute only 12% of JM's developer portfolio.

JM's major micro-markets

Location	% of developer portfolio	Comments
Mumbai	~50%	Mostly residential
Banglore	~28%	Residential & Commercial
Pune	~8%	Mostly residential
Chennai	~9%	Mostly residential
Hyderabad		Mostly residential
Kolkatta		Mostly residential

Source: Company, Antique

2) Careful screening of developers & projects

The Company provides funding to very selective developers based on their track record, market reputation, status of current projects, etc. Almost 98% of the portfolio comprises of tier 1 and tier 2 developers who have more than 10 years of delivery track record.

A large proportion of projects where JM decides to take an exposure, have all approvals in place and are majorly residential constructions where end-user is salaried class. One of the criterions is also that the developer should not have significant cash flows coming from a single project.

JM's developer selection criterion

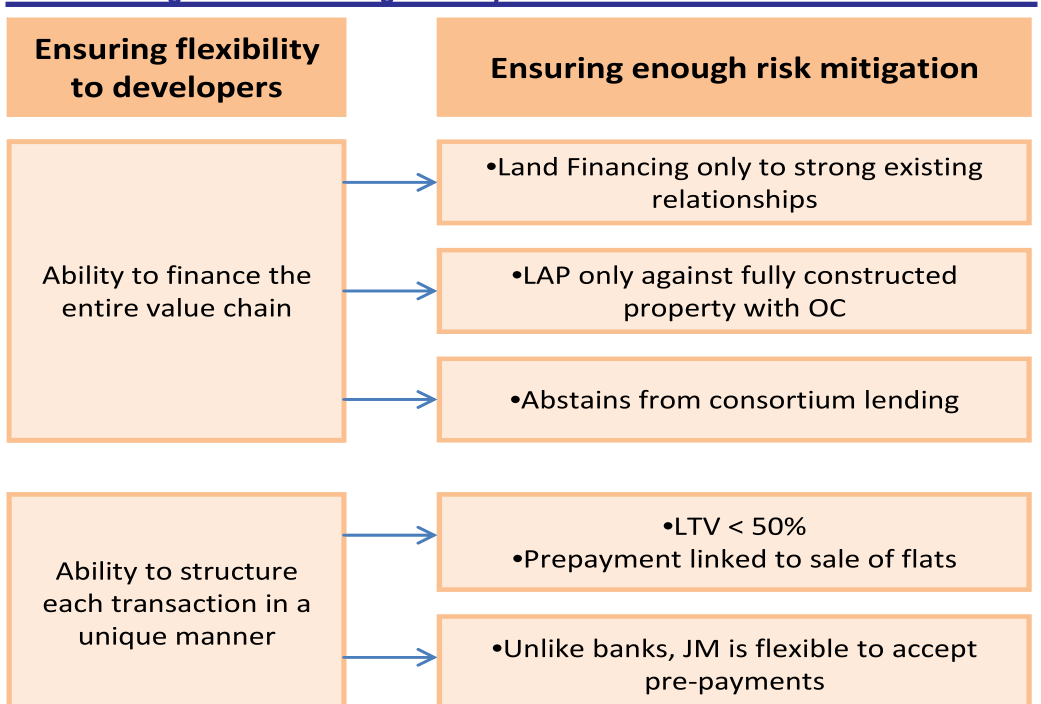
Category of developers	Tier 1 & Tier 2
No. of developers	62
Characteristics	10 year track record, good balance sheet, locally well known

Source: Company, Antique

3) Careful structuring of transactions

While it is obvious that this is the most critical part of any real estate funding business, JM has worked hard towards achieving a fine balance between providing flexibility to the developer and mitigating risks associated with the segment. Banks tend to give uniform loans irrespective of the projects and are also averse to getting prepayments. On the other hand, JM structures each transaction uniquely to provide flexibility to the developer and address any specific risks.

JM's structuring matrix - balancing flexibility and risk



Source: Company, Antique

Another important aspect about the way JM conducts its real estate lending business is that they don't lend in consortiums. A big risk in consortium lending is that even if one party indulges in mischief, it creates an issue for everyone involved in the transaction. Instead, JM tries to be the sole lender at a project / unit level, so that it can exercise better control and move faster when the situation demands.

4) Continuous monitoring of projects

Armed with the belief that real estate is a locally focused business that requires constant 'eyes and ears' on the ground, JM has a dedicated team of 13 experienced employees engaged in monitoring of assets. Significant time is spent for post-disbursement monitoring to detect and react to early warning signals.

Monthly site visits are conducted to ascertain the physical progress of project, the quality of the project and also to estimate cost overruns and delays if any. Monthly performance is monitored with regard to sales units, sales value, sales price, collections, physical progress, construction cost and other cost.

Developer funding business - Past perfect, future bright

Over the past 10 years, JM has built a strong eco-system around developer funding business. On one hand, its transaction specific approach and flexible structuring has enabled it to gain trust of more than 65 mid-sized developers. On the other hand, its "ears on the ground" strategy has ensured careful selection of micro-markets, screening of developers and relentless monitoring. This combination has enabled strong loan book growth and nil credit losses in the past.

We expect demonetization and RERA to accelerate the shift from unorganized developers to organized developers. Also, the informal developer financing market, which was dominated by HNIs is seeing a slow demise. As such, growth opportunities for a well established player will continue to remain healthy. We expect JM's lending book to grow at 20% CAGR over FY17-20e. This combined with improving liability profile and stable asset quality will drive RoEs at 18%.

Structured lending business - JM's opportunistic business!

Although a majority of JM's lending book (through its two NBFCs) is towards developer lending, ~25% of the lending book is towards structured finance. Structured Finance Group (SFG) provides customized financing solutions under the following broad categories:

- Structured Lending
- Promoter Funding
- Acquisition Financing
- Bridge Financing to Capital Market Exit
- Loan against securities

Owing to its strong investment banking presence in IPO, M&A and cross border transactions, JM has the ability to be a relationship oriented financing partner to the corporate involved. The strong relationships cultivated over decades help mitigate specific risks while water-tight structural provisions and high intensity of portfolio monitoring minimizes the losses in case of deterioration. At the same time, JMs strong credit profile helps it to offer competitive pricing to its corporate clients.

While the growth in this portfolio is never linear, buoyant capital markets generally bring in huge financing opportunities. In case the capital markets remain buoyant over FY17-20, this part of JM's lending business can grow faster than the real estate lending business.

JM uses two balance sheets to run its lending business across real estate and structured finance. JM Credit solutions (which is JV with Vikram Pandit) largely deals in developer lending while JM Financial Products deals in structured finance as well as developer funding. RBI regulations restrict the maximum exposure to a single borrower <15% of networth and to particular borrower group <25%. In case the developer profile warrants a larger exposure, JM can use the balance sheet of JM Financial Products once it has exhausted the limits of JM Credit Solutions.

Developer lending business - JM Credit Solutions

JM Credit Solutions	FY16	FY17	FY18e	FY19e	FY20e
Ownership	50.0%	50.0%	50.0%	50.0%	50.0%
Networth	11,360	14,133	17,186	20,739	24,902
Loan book	40,745	56,580	67,896	81,475	97,770
% growth		38.9	20.0	20.0	20.0
Yield on loans	15.8%	14.5%	13.9%	13.7%	13.5%
Credit costs	0.3%	0.2%	0.5%	0.5%	0.5%
RoA	6.7	5.7	4.9	4.8	4.6
RoE	19.0	21.8	19.5	18.7	18.2

Source: Company, Antique

The total networth of both these NBFCs is approximately INR27.5bn and gives JM enough fire power to participate in mid-sized deals across developer ecosystem and the corporate lending arena. We expect each of these NBFCs to grow at ~20% CAGR over FY17-20 and deliver RoAs in excess of 3.5%.

Developer & structured financing business - JM Financial Products

JM Financial Products	FY16	FY17	FY18e	FY19e	FY20e
Ownership	98.5%	99.3%	99.3%	99.3%	99.3%
Networth	12,055	13,430	15,102	17,057	19,387
Loan book	31,430	54,990	65,988	79,186	95,023
% growth		75.0	20.0	20.0	20.0
Yield on loans	14.4%	14.0%	13.4%	13.2%	13.2%
Credit costs	0.0%	0.0%	0.6%	0.6%	0.6%
RoA	3.8	4.6	3.6	3.5	3.5
RoE	14.5	15.5	15.3	15.9	16.7

Source: Company, Antique

IB, Securities & Wealth Management - Old business, new vigor

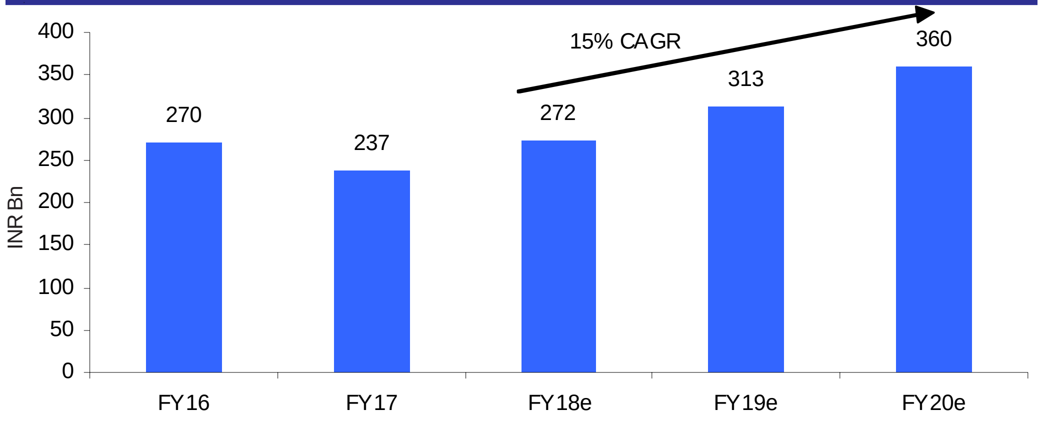
JM is one of the oldest brokers on the street and has many firsts to its credit, especially in the securities and investment banking business in which it has created leadership position over a span of four decades. From innovative structuring to execution of complex transaction, JM's DNA has helped it build a strong name and develop strong relationships with corporate India.

Investment Banking: The IB division of JM financial is involved in four key areas a) Merger and Acquisitions, b) Equity Capital markets (IPOs and FPOs), c) Private equity syndication and d) International operation. The company has strong focus on the primary capital market and M&A segment. With many international brokers shutting shops in India this bodes well for JM financial IB division.

Securities Business: JM's Institutional Equities business offers broking services in both cash and derivatives to Indian as well as global institutional clientele. JM also has an Equity Brokerage Group (EBG) which provides advisory & trading services to HNIs, corporate and retail clients. Through its network 188 advisors spread across 116 cities in India, EBG offers its services to over 43,500 active clients. This division also has an Independent Financial Distribution Group (IFDG), which has a network of 8,200 active distributors who distribute financial products like mutual funds, NCDs, FDs, IPOs, etc to retail and HNI investors across the country.

Wealth Management: This group caters to ultra HNIs, corporates and banks through a team of 67 wealth advisers and offers a complete range of financial and custody solutions to clients including family office, advisory and execution services. As on Mar17, the AUMs under this business stood at INR236bn. Given the stagnant real estate prices, a lot of migration is happening from physical investments to financial investments and the wealth management group could be a beneficiary of this.

Strong growth expected in wealth management AUMs



Source: Company, Antique

Given its well entrenched position in the capital markets, JM will benefit from the recent buoyancy in the capital markets. As such, we build in 10% revenue CAGR over FY17-20 and operating leverage benefit will ensure a higher growth rate in earnings. Overall, we expect RoEs from this business to improve from 15.9% in Mar'17 to 18.5% by Mar'18.

IB/Securities & Wealth business

INR million	FY16	FY17	FY18e	FY19e	FY20e
Ownership	100.0%	100.0%	100.0%	100.0%	100.0%
Revenues	4,950	6,388	7,141	7,988	8,938
EBIT	1,330	1,988	2,214	2,476	2,771
PAT	540	950	1,071	1,230	1,410
Capital Employed	5,580	6,390	6,834	7,345	7,930
RoE (%)	9.3	15.9	16.2	17.4	18.5

Source: Company, Antique

Asset management business - Profitability over size

The AUM of the mutual fund industry touched an all-time high of INR 18.3 trillion in the quarter ended March 31, 2017. The robust performance of the industry comes on the back of growing investor awareness and increased inflows in both the equity as well as debt-oriented funds. We believe that this is just the start and most AMCs would benefit from this trend over FY17-20.

Unlike most large AMCs who have equal focus on retail& corporate investors, JM's AMC business is largely focused on HNI and corporate segment. Although it is small in size with an average AUM of INR137bn, it continues to be one of the most profitable AMC, with earnings to average AUM ratio of 0.34% for FY17. We expect JM's focus on HNI segment to continue and aid AUM CARG of 15% over FY17-20e.

Asset Management - focus on profitability to continue

INR million	FY16	FY17	FY18e	FY19e	FY20e
Ownership	53.5%	53.5%	60.0%	60.0%	60.0%
Average AUM	161,610	136,680	157,182	180,759	207,873
yield (bps)	-	65	70	70	70
Revenues	860	890	1,100	1,265	1,455
PAT	440	440	460	529	608
PAT (after MI)	250	250	276	317	365
Capital employed	1,830	2,290	2,750	3,278	3,887
RoE (%)	29	22	18	18	17

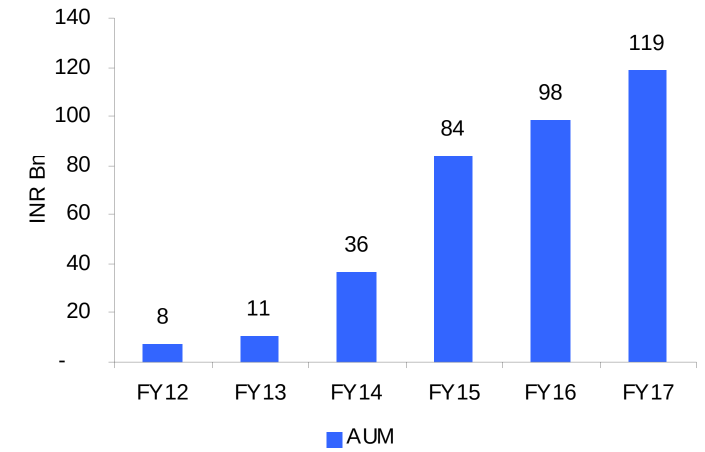
Source: Company, Antique

Asset reconstruction business - Resolution remains the core motive.

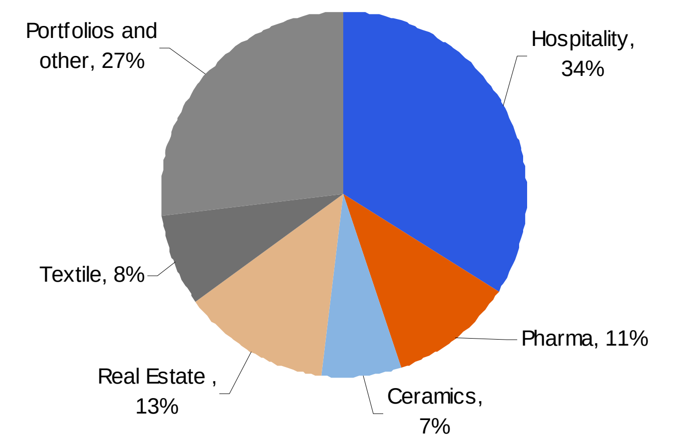
Opportunity: The domestic banking sector continues to face substantial levels of stress in their loan portfolio. The Union Government and the Regulator have increased their efforts to push banks to recognize and resolve the asset quality problem. This has helped the ARC business of players like Edelweiss and JM to thrive.

JM ARC's DNA: Unlike some of its peers, JM has been very selective in acquiring assets and bids for assets only where they have the capability to influence resolutions. A strong underlying business having restructuring potential, adequate underlying security value and price which provides margin of safety have been the cornerstones of JM ARC's asset acquisition strategy. As such, it has acquired a diversified mix of assets in the hospitality, real estate and pharma sector and at the same time, stayed away from the messy power & infrastructure space.

Asset acquisition - focus shifts towards resolution



Well diversified asset portfolio



Source: Company, Antique

Case 1 - Acquisition and resolution of a real estate account

During FY17, JM ARC acquired a large NPA account of a real estate developer. The developer was executing 13 projects at five different locations across four states with a good product mix. The projects are capable of generating a surplus equivalent to ~1.9x of the acquired dues upon completion. JM is currently working with this developer for restructuring of acquired dues and finalization of business plan.

Case 2 - Acquisition and resolution of a pharma account

As part of its resolution strategy, JM ARC aggregated the dues of a pharmaceutical company from other 34 other lenders. This is in itself a unique case in the ARC industry. JM ARC is working with the pharma company for restructuring its dues. For its revival, it is considering the sale of some of its plants, which will reduce debt levels and infuse working capital.

The ARC business revenues are very lumpy in nature. Bulk of the profits is accrued in the year when the asset gets resolved. On an average, it takes 3 years for a resolution to reach its logical conclusion. We expect that the pace of resolution will pick up pace over FY17-20 due to - 1) JM ARC's focus shifting from acquisition of assets to resolution of assets, 2) host of measures initiated by RBI and Government of India and, 3) Some improvement in Indian economy. As such, we build in strong profit growth in FY19 and FY20.

JM ARC - Resolution efforts to accelerate earnings

INR million	FY16	FY17	FY18e	FY19e	FY20e
Ownership	50.0%	50.0%	50.0%	50.0%	50.0%
AUM	98,200	118,740	124,677	130,911	137,456
Capital Employed	12,900	17,430	20,780	21,818	22,909
Revenues	3,190	2,240	3,087	4,420	5,191
PAT	1,080	550	879	1,643	2,124
PAT (after MI)	540	275	440	822	1,062
RoA	7.0	3.5	4.6	7.7	9.5
RoE	23.0	9.9	14.1	21.9	22.6

Source: Company, Antique

About the company:

JM financial group has interests in investment banking, institutional equity sales, trading, research and broking, private and corporate wealth management, equity broking, portfolio management, asset management, Non-Banking Finance Company activities, private equity and asset reconstruction. The group's clients include corporate, domestic and foreign financial institutions, high net worth individuals (HNIs), and retail investors. While each of these businesses is independent in itself, the companies in the group have integrated operations. JM Financial Limited (JMFL) is the holding company for the operating companies in the JM Financial group.

Management Team

Name	Work Profile
Nimesh Kampani, Group Chairman	Mr. Kampani is the founder and chairman of JM Financial Group. In his career spanning over four decades, he has made pioneering contribution to the development of the Indian capital markets and has advised several corporates on their strategic and financial needs especially capital raising and M&A activities. Mr. Kampani is a commerce graduate from Sydenham College, Mumbai and a fellow member of the ICAI.
Vishal Kampani, Managing Director	Mr. Kampani is the MD of JM Financial Ltd. He has played a stellar role in transforming the JM Financial group into a financial services powerhouse. He launched the ARC business in 2008 and the Real Estate Finance business in 2009.He joined the JM Financial group in 1997 as an analyst in the Merchant Banking Division and has since moved up the rank and worked across businesses within the group.
Manish Sheth, Group CFO	Mr. Sheth joined the Finance department as an Analyst in 2001 and is currently the Group CFO. He holds a Bachelor's degree in Commerce and is a member of the ICAI and ICSI. He has been with the JM Financial Group for over 14 years. He has specializes in the finance and strategic planning functions, shouldering almost the vital responsibility in managing the Company's finances.
Dipti Neelakantan, Group COO	Ms Neelakantan joined the Investment Banking Division as an Executive Assistant in 1981 and is currently the Group COO at JM Financial. She holds a Bachelor's degree in Commerce and is a fellow member of ICSI. She has been with the JM Financial Group for over 35 years, & has worked in various capacities, locations and disciplines within the Group.
V P Shetty, Executive Chairman, Asset reconstruction	Mr. Shetty is presently the Chairman of JM Financial Asset Reconstruction Company Limited, JM Financial Asset Management Limited and JM Financial Products Limited. Mr. Shetty is an authority in commercial banking, M&A in Banking, Corporate Governance and Turnaround Management especially in Public Sector. Mr. Shetty has had an illustrious Banking career spanning almost four decades.

Source: Company, Antique

Financials

Consolidated Financials

Year ended 31 Mar	2016	2017	2018e	2019e	2020e
Revenue	**20,219**	**24,919**	**29,746**	**35,419**	**41,441**
JM Credit Solutions	5,194	7,883	9,618	11,393	13,492
JM Financial Products	4,962	6,358	8,499	10,054	12,065
JM ARC	3,190	2,240	3,087	4,420	5,191
IB / Securities & Wealth	4,950	6,388	7,141	7,988	8,938
AMC	860	890	1,100	1,265	1,455
Other income	1,063	1,160	300	300	300
Adjustments		-1,646	-	-	-
Profits	**4,704**	**6,369**	**7,841**	**9,702**	**11,542**
JM Credit Solutions		2,773	3,053	3,553	4,163
JM Financial Products		1,972	2,183	2,552	3,041
JM ARC		550	879	1,643	2,124
IB / Securities & Wealth		950	1,071	1,230	1,410
AMC		440	460	529	608
Other income		-316	195	195	195
Profits (after minority)	**4,005**	**4,702**	**5,676**	**6,875**	**8,135**
JM Credit Solutions		1,387	1,527	1,777	2,082
JM Financial Products		1,959	2,168	2,534	3,020
JM ARC		275	440	822	1,062
IB / Securities & Wealth		950	1,071	1,230	1,410
AMC		250	276	317	365
Other income		-118	195	195	195
Return ratios					
RoA	4.8	4.6	4.4	4.8	4.9
RoE	15.3	15.6	16.4	17.4	17.8
Leverage	3.2	3.4	3.7	3.6	3.6
Per share data					
No. of shares	789	795	795	795	795
EPS	5.1	5.9	7.1	8.7	10.2
BVPS	35.5	40.6	46.3	53.3	61.6

JM Credit Solutions

Year ended 31 Mar	2016	2017	2018e	2019e	2020e
Ownership	50.0%	50.0%	50.0%	50.0%	50.0%
Loan book	40,745	56,580	67,896	81,475	97,770
Networth	11,360	14,133	17,186	20,739	24,902
NII	2,937	3,955	4,598	5,328	6,220
PPP	3,094	4,324	5,009	5,840	6,852
PAT	1,976	2,773	3,053	3,553	4,163
PAT (after MI)	988	1,387	1,527	1,777	2,082
RoA	6.7	5.7	4.9	4.8	4.6
RoE	19.0	21.8	19.5	18.7	18.2

Source: Company, Antique

Products

Year ended 31 Mar	2016	2017	2018e	2019e	2020e
Ownership	98.5%	99.3%	99.3%	99.3%	99.3%
Loan book	31,430	54,990	65,988	79,186	95,023
Networth	12,055	13,430	15,102	17,057	19,387
NII	1,889	2,589	3,686	4,289	5,053
PPP	2,469	3,033	3,721	4,362	5,202
PAT	1,674	1,972	2,183	2,552	3,041
PAT (after MI)	1,649	1,959	2,168	2,534	3,020
RoA	3.8	4.6	3.6	3.5	3.5
RoE	14.5	15.5	15.3	15.9	16.7

Asset Reconstruction

Year ended 31 Mar	2016	2017	2018e	2019e	2020e
Ownership	50.0%	50.0%	50.0%	50.0%	50.0%
AUM	98,200	118,740	124,677	130,911	137,456
Capital Employed	12,900	17,430	20,780	21,818	22,909
Debt	7,650	11,630	14,100	13,497	12,463
Equity	5,250	5,800	6,679	8,322	10,446
Revenues	3,190	2,240	3,087	4,420	5,191
PAT	1,080	550	879	1,643	2,124
PAT (after MI)	540	275	440	822	1,062
RoA	7.0	3.5	4.6	7.7	9.5
RoE	23.0	9.9	14.1	21.9	22.6

IB/Securities & Wealth

Year ended 31 Mar	2016	2017	2018e	2019e	2020e
Ownership	100.0%	100.0%	100.0%	100.0%	100.0%
Revenues	4,950	6,388	7,141	7,988	8,938
EBIT	1,330	1,988	2,214	2,476	2,771
PAT	540	950	1,071	1,230	1,410
Capital Employed	5,580	6,390	6,834	7,345	7,930
RoE	9.3	15.9	16.2	17.4	18.5

AMC

Year ended 31 Mar	2016	2017	2018e	2019e	2020e
Ownership	53.5%	53.5%	60.0%	60.0%	60.0%
Average AUM	161,610	136,680	157,182	180,759	207,873
yield (bps)	-	65	70	70	70
Revenues	860	890	1,100	1,265	1,455
PAT	440	440	460	529	608
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Capital employed	1,830	2,290	2,750	3,278	3,887
RoE	29	22	18	18	17

Source: Company Antique

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