May 16, 2023

BSE Limited
Department of Corporate Services
1st Floor, New Trading Ring
Rotunda Building, P J Towers
Dalal Street, Fort,
Mumbai 400001

Security Code: **523405**

National Stock Exchange of India Limited
Exchange Plaza
Plot No.C-1, G Block
Bandra-Kurla Complex
Bandra (East)
Mumbai – 400 051

Symbol: **JMFINANCIL**

Dear Sirs,

Sub: **Transcript of the Earnings Conference Call held on May 10, 2023**

Pursuant to Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, read with Para A of Part A of Schedule III thereto, we are enclosing the transcript of the earnings conference call of the Company held on May 10, 2023.

The said transcript has also been uploaded on the Company's website and the same is available at https://jmfl.com/investor-relation/financial-results.html.

We request you to kindly take the above on your record and disseminate the same on your website, as you may deem appropriate.

Thank you.

Yours truly,
For **JM Financial Limited**

Dimple Mayank Mehta
Digitally signed by Dimple Mayank Mehta
Date: 2023.05.16 15:24:02 +05'30'

Dimple Mehta
Company Secretary & Compliance Officer

Encl.: as above

JM Financial Limited

Financial Year '23 and Quarter Ended March '23 Conference Call

May 10, 2023

Moderator: Ladies and gentlemen, good day, and welcome to the JM Financial Limited Conference Call to discuss the company's financial performance for the quarter and full year ended March 31, 2023. 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. 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. Should you need assistance during the conference, please signal an operator by pressing star then zero on your touchtone telephone. 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 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 financial year '23 as well as the quarter ended March '23. We have uploaded our results update presentation, press release and results on our website and stock exchanges. And I hope you guys have got a chance to go through the same.

I want to highlight three important things, which will allow a complete comparison of our results for FY '22 versus FY '23. The first highlight is that in FY '22, we had INR 123 crores of net profit coming from IPO funding activities. This same number for FY '23 is very negligible.

The second point I want to highlight is the provision we have taken in our ARC. We have taken a provision of INR 246 crores on certain corporate assets, namely Bombay Rayon Fashions, Seven Hills, Unitech and Nitco. We have faced a delay and some uncertainties in the outcome of valuations as well as pricing for some of the assets that we are selling and those delays and the valuations have caused us to take this cautionary additional provision. This is largely resulting from delays from NCLT and some other courts.

Third highlight is that we have invested over INR 90 crores in our Platform AWS business, building very strong digital capabilities as well as boosting our asset management businesses such as our mutual fund business, our alternative credit business as well as our PMS businesses. And we will continue to make these investments for the next 2 years. And we are very hopeful that this will add significant scale and value to what we are building on a consolidated basis in Platform AWS. These three were very important factors and when we adjust for these three elements, our business has actually performed extremely well in a difficult market environment for FY '23 compared to FY '22. The management teams have put on a great show across all of our businesses. We are hoping for significant amount of growth from this base over the next 3 to 4 years.

With that, I will now pass the call on to Nishit Shah to discuss our detailed numbers. Nishit, over to you.

Nishit Shah: Thank you, Vishal. Our consolidated revenue for the full year ended FY '23 stood at INR3,343 crores, a decline of 11% year-on-year. For the same period, adjusted PAT stood at INR705 crores, a decline of 9% year-on-year. Our reported PAT stood at INR597 crores, which is a decrease of approximately 23% year-on-year. This represents earnings per share of INR6.3 versus INR8.1 for last year.

In Q4 FY '23, our revenue stood at INR871 crores. The adjusted Q4 FY '23 profit before tax is at INR300 crores, which is a decline of 6.6% year-on-year and reported Q4 FY '23 PBT is at INR54 crores which is a decrease of approximately 83% year-on-year. Adjusted Q4 FY '23 PAT (post non-controlling interest) declined by 8% year-on-year from INR179 crores to INR165 crores. Reported Q4 FY '23 PAT (post non-controlling interest) decreased by 68% year-on-year from INR179 crores to INR57 crores.

As on 31st March 2023, the net worth (excluding minority interest) is at INR8,084 crores, which translates to a book value of INR84.7 per share. Our consolidated loan book stood at INR15,653 crores, up by 20.3% year-on-year. It may be noted that we are very close to reaching our peak loan book, which we had done in September 2018. We are happy to report that this time around, the book is much more granular and more diversified across several products. The breakup of the loan book as on 31st March 2023 is as follows:

Wholesale lending business: Wholesale lending businesses comprise of wholesale mortgage and Bespoke Finance business. Wholesale mortgage constitutes 54% of our loan book, which is approximately INR8,445 crores. Wholesale mortgage book registered a year on year increase of 34%. Bespoke financing loan book, which includes corporate and promoter financing book constitutes almost 17% of the total loan book and stood at INR2,636 crores, which is a decline of 39% year-on-year.

The second category is

Direct lending to retail and high net worth individuals: This constitutes the capital markets loan book and the retail mortgages loan book. The capital market loan book constitutes 7% of total book, which stood at approximately INR1,062 crores and grew by 27% Y-o-Y. Retail mortgages loan book constitutes 12% of the loan book and stood at INR1,918 crores, registering a growth of 64% year-on-year.

The third category is

Indirect retail: This largely constitutes the financial institutions loan book under which we lend to NBFCs who in turn lend to retail customers. Through the financial institutions financing loan book, we are taking indirect retail exposure. This vertical constitutes 10% of our loan book and stood at approximately INR1,592 crores.

On an overall basis, wholesale loan book stood at 71%, direct retail / HNI book stood at around 19% and indirect retail constitutes 10% of the total loan book. This loan book, however, does not include the SEBI margin trade financing book, which is approximately INR636 crores and is part of our Platform AWS business.

We are happy to report that we have piloted certain digital lending initiatives, primarily using partnerships, and we will be able to report that in detail once the business is scaled up.

Coming to asset quality

The gross NPA ratio of the lending businesses stood at 3.4%, net NPA at 2.1% and SMA2 at 0.1%. The loan book under resolution framework for COVID-19 as announced by RBI stood at 0.33% as of 31st March '23 compared to 0.35% as of December 31, 2022. The DCCO book stood at INR1,304 crores as of March 31, 2023.

Leverage and liability.

On a consolidated basis, our gross debt to equity stood at 1.45x and on a net basis, it was 1.25x. During the full year ended FY '23, we raised approximately INR5,387 crores in long-term borrowing. Our liability profile is diversified to include insurance companies, pension funds as well as provident funds. Our borrowing comprises 82% from long-term sources and 18% from short-term sources.

Coming to our segments, the first segment is our integrated investment bank segment. We would like to highlight that the investment bank does a lot more than pure play investment banking. The integrated investment bank focuses on all of our institutional, corporate, government, promoters and ultra-high net worth clients. It includes our investment banking, institutional equities, fixed income, private equity fund, balance sheet as well as international operations.

Within Investment Banking, it includes equity capital markets, private equity advisory, debt capital markets as well as M&A business.

For the full year ended March 2023, the segment had revenue of INR1,232 crores, profit before tax of approximately INR503 crores and profit after tax of INR387 crores. That is an increase of approximately 10% on a year-on-year basis. Full year ROA and ROE from this segment stood at 5.6% and 15.2%, respectively. As you are aware, we had filed a scheme of arrangement and once that goes through, PMS and Private Wealth Management business, which are currently part of Platform AWS segment, shall be reported as part of the Investment Bank segment.

The second segment is Mortgage Lending, which includes wholesale mortgages as well as retail mortgages. Wholesale includes construction finance, project loans, loan against securities as well as structured financing for real estate clients. Retail mortgages includes affordable home loans, small ticket loan against property as well as education institution loans.

For the full year ended March 31, 2023, the mortgage lending segment reported net revenues of INR762 crores with a pre-provision profit of INR615 crores. Profit before tax for this segment stood at INR468 crores with a PAT (post non-controlling interest) of INR161 crores. Full year ROA and ROE for the business stood at 3.3% and 8.3%, respectively. In Q4 FY '23, our net revenue and pre-provision profit stood at INR214 crores and INR160 crores, respectively. The profit before tax stood at INR150 crores and profit after tax and post non-controlling interest stood at INR57 crores, respectively.

On the Retail Mortgage business, we have a very granular retail mortgage book of INR1,387 crores across approximately 12,000 customers with an average ticket size of INR12 lakhs, carrying average yield of 13.1% and a loan-to-value of 57%. Our book is well spread across 9 states and 93 branches. We are exploring strategic options, including a potential combination and listing of the retail mortgage portfolio of JM Financial Home Loans Limited, and the home finance business of IndoStar Home Finance Private Limited, including other mortgage-backed businesses of IndoStar.

On the wholesale side, the loan book has increased from INR9,299 crores as on December 31, 2022 to INR9,501 crores as on March 31, 2023.

Our third segment is a combination of distressed credit and alternative credit business. As discussed earlier, we have taken additional provision on security receipts of INR246 crores on corporate assets on account of expectation of outcomes or uncertainties at various resolution proceedings in NCLT and other courts having jurisdiction in India.

On the distressed credit business, our AUM increased 24% year-on-year to INR13,558 crores. This AUM is well diversified across multiple sectors. For the full year ending March 2023, the segment had adjusted net revenue of INR137 crores, adjusted profit before tax of INR74 crores and adjusted profit after tax and post non-controlling interest of INR34 crores.

The reported loss before and after tax stood at INR 172 crores and INR 73 crores respectively. Gross debt-to-equity stood at 1.9x. In Q4, our adjusted net revenue stood at INR54 crores, adjusted PBT at INR27 crores and adjusted PAT post non-controlling interest at INR16 crores. Similarly on a reported basis, losses before and after tax (post non-controlling interest) stood at INR 220 crores and INR 91 crores respectively.

The fourth segment is Platform AWS. The business is completely focused on providing an integrated investment platform for all individual clients. It comprises of asset management, wealth management and securities, which is what we call as Platform AWS. This platform will be Internet-enabled and digitally focused. And our endeavour will be to be one of the leading players in each of these sub-segments over the next decade. We are in an investment phase for both asset management as well as the digital businesses and is reflected in our financials.

For the full year ended March 2023, the Platform AWS business segment had revenues of INR628 crores with profit before tax of INR6 crores. Profit after tax and post non-controlling interest for this segment stood at INR9 crores. In Q4 FY '23, our revenue was INR169 crores. The loss before tax was INR 22 crores and loss after tax at INR 15 crores. We operate through our own branches and franchises and we have grown our franchisee network to 744 locations across 206 cities. We are also building a FinTech platform which cuts across WealthTech, LendingTech as well as InvestmentTech domains.

On Wealth Management business, our private wealth segment caters to high net-worth individuals with an AUM of INR56,515 crores. That is a decrease of 7.7% year-on-year. This AUM includes 65% equity assets. Our Elite Wealth business caters to affluent clients and we have an AUM of INR1,228 crores, which is a 19% growth year-on-year and this business is likely to grow rapidly. Our retail wealth business, which predominantly deals with retail customers through a network of over 9,000+ active independent financial distributors recorded a steady growth of 18% year-on-year in its AUM. The AUM stood at INR23,828 crores as on March 31, 2023.

In our Asset Management business, our quarterly AUM of the mutual funds stood at approximately INR2,969 crores, comprising INR761 crores in equity and balance in debt. Over the last financial year, we have hired 58 people across several positions. We continue to invest in building teams, expanding reach through our branch network, improving digital capability and increasing engagement with distributors.

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

Moderator: We take our first question from the line of Himanshu Upadhyay from O3 PMS. Please go ahead.

Himanshu Upadhyay: Sir, my first question is with interest rates rising for last few quarters, are we seeing it improving in JM Financial Credit Solutions business? And how different is this situation currently versus 2015 to 2018?

Vishal Kampani: No. So, your question is on our spreads.

Himanshu Upadhyay: My question is on the interest rate rise in the last few quarters. My question on the yield in COVID and in the JM Credit Solutions business. And how it is different from the 3 years, which we've seen from 2015 to 2018?

Vishal Kampani: Yes, sure. So, I think we've seen our cost of borrowing go up quite dramatically in the last 18 months and not as far as the entire credit spread for the AA basket has gone up as well as the rates have gone up. But we've been able to pass on almost 60%, 70% of that to our customers, because all our customers are linked to some form of MCLR ratio of nationalized or private banks.

So almost 60%, 70% of that is passed on, around 30%, 35% is our fixed loans. So, there we cannot pass on. But that's fine. Most of our fixed rate loans actually are not of that longer tenor, and they get refinanced. I mean, they get repaid and when they get repaid, we are able to lock in higher returns on the balanced portfolio. So, your question was on 2015 to '18 interest rates or general demand in the sector?

Himanshu Upadhyay: I just wanted to understand how is the current situation different from versus 2015 to 2018?

Vishal Kampani: Well, I think first thing is that from 2015 to 2018, the sales momentum was very slow. So, a lot of the financing that was going on in these 3 years was because the builders were not selling inventory at a pace that they should have and they were choosing to refinance many of their projects. And theoretically, the covers on many of those loan look very good. But anybody who lent very aggressively in that period realized shortly after that because of the IL&FS crisis and COVID, a lot of those covers disappeared very quickly because the cost of interest and the cost of financing basically ate into the returns of the developers.

This time around in the last year to 18 months, developers are a lot smarter. They have actually been selling very aggressively. They have not been hungry on price. You barely see any price appreciation in the last 6 months. We saw some appreciation last year and a year before that to the tune of anywhere between 7% to 15% across geographies. The last 6 months has not seen so much of appreciation. But having said that, even though home loan rates have hardened home sales have been very, very robust. They've been very strong. So, I think that is 1 key differentiator that the sales momentum continues to be strong, and that is a big positive. So, there is a complete change in scenario from '15 to '18 versus what we see from 2021 to almost '24.

Himanshu Upadhyay: Okay. And so, my second question is, if we look at our home finance and credit solution deals are similar around 13.5% and cost to income will be higher in home finance. So, can ROEs in home finance be as good as Credit Solutions? And what leverage will we try to have on the home finance books?

Nishit Shah: Yes. So, any retail-oriented business will always have a higher cost to income compared to a wholesale-oriented business. At the same time, any retail-oriented business will always hold a higher leverage ratio compared to our wholesale business. So, in JM Financial Credit Solutions, which is our wholesale mortgage business, we kind of cap out at 4x debt to equity. In fact, we think about raising equity when we cross 3.5x debt to equity. While in the retail business, we will go to 5x to 5.5x, maybe even 6x to equity. It's a much more granular business. And in home loans, particularly, they can easily hold leverage of 6x.

So, I think the ROA in retail businesses will be lower, but the ROEs will be similar because NPA numbers in a stretch cycle will be lower for home loans, NPA numbers will be higher in wholesale businesses. So, when you account for return on assets over a longer cycle, assuming asset quality for both those businesses, the wholesale business is not significantly higher compared to retail, but retail will have more sustainable sort of ROA and with higher leverage, will deliver mid-teens ROE. And the wholesale business will deliver a very similar ROE but with a slightly higher ROA.

Himanshu Upadhyay: Okay. And sir, last one from my side. In home finance book, there is 25% of loans from new to credit and below 600 CIBIL score, is there a wide divergence between these two buckets.?

Vishal Kampani: Yes, I’ll let Manish to answer that question..

Himanshu Upadhyay: Secondly, why the EMI bounce ratio is increasing continuously in home loan business? That’s it from my side.

Manish Sheth: Correct. In affordable housing finance business, we lend to people who are new to credit because they are in Tier 2, Tier 3 cities, and they are first time technically coming for a borrowing, so they don't have a CIBIL record. So, once we create CIBIL track record, in 2 to 3 years' time, they do a Balance transfer out. So, you will always see a 25% to 30% kind of a new origination will have a zero CIBIL because they have never borrowed from a formal sector. First time they are borrowing from a formal sector.

So that is on the new to credit, coming to the bounce. So, this is the business where you lend to people in Tier 2, Tier 3 cities. Most of them will have a banking with a local Sahakari Bank. They are not in the mainstream banks where in your NACH mandate, the ECS mandate generally doesn't get registered so fast. And that's why you will always see a higher bounce rate. But at the end, we end up collecting ~99% of the EMI.

Moderator: We take the next question from the line of Dhruvesh from Prospero Tree. Please go ahead.

Dhruvesh: My first question is related to the reclassification of the wealth, securities and the asset management business, which now will be club to IB? Will it also again change in terms of the classification of income groups that we are showing because previously, it used to be IWS and now it is AWS. And what is the need for this, if you can explain a little bit in detail?

Vishal Kampani: Yes, we'll do that. So, our endeavour in the AWS business is to have retail customers and to have customers between INR10 lakh to INR10 crores of AUM. And on the retail wealth side, broking side, HNI broking side and on the Elite Wealth side, it does not cross more than INR30 crores of AUM. And we have a significant amount of customer base in the Private Wealth side.

So, if you look at our AUM of almost 60,000 crores, our customer base, our active customer base is not more than 1200 clients in that 60,000. And if you look at INR30,000 crores in that, it will not be more than even 300 clients. So it is really concentrated with very high net worth kind of business. And we are seeing a lot of cross-sell opportunities between this kind of a client base and our investment bank as well as our private equity funds and some of our PMS products.

So, the idea is that we want to give an integrated investment banking feel to corporate India and to all the promoters and to all the institutions and bring it under 1 umbrella and have a full integrated IB strategy where we can cross-sell many of these products. That is the fundamental reason why we made this shift.

So, in short, you can treat this more like a B2B business, even though they are wealth clients. They're sophisticated, they have family offices, they're dealing with us in real estate, in credit, in equity, in general advisory, they give mandates from their corporate entities to our investment banks. So, it's really a B2B business. While in platform AWS a real concentration is to become large at scale. We are at almost as Nishit mentioned earlier, more than 740 franchisees across 200 cities.

And of course, the entire build in digital, the entire build in retail portfolio management services, retail, asset management services. Both these organizations are being built very differently, and this platform AWS is really B2C. Incrementally going forward from this year, for example, we're going to be splitting HR. We're going to be splitting compliance, we're going to be splitting a lot of our common operations also, which used to be part of IWS between the integrated investment bank and AWS. So, it's really a B2B versus the B2C classification.

Dhruvesh: No. So basically, from next year, we will see some part of AWS income moving to in the reported terms moving to the IB

Vishal Kampani: I'll explain to you. Our customer segmentation is in 3 parts in Wealth Management, it's Private Wealth Management, Elite Wealth Management and Retail Wealth Management. All the products that are around Private Wealth Management and the revenues associated with Private Wealth Management, distribution revenues, all will now reside in the Investment Bank segment, their entire client base of 1,200 people will move to the Investment Bank. All of the products and services and the distribution income, which is there as part of Elite Wealth Management as well as Retail Wealth Management, which includes the retail brokerage clients, which includes the mutual fund and mutual fund distribution clients, all of that will remain as part of platform AWS.

The reason we started building Elite Wealth Management 2.5, 3 years ago was to have a specific focus using technology and digital to go out to the customer, that customer segment of between INR1 crores to INR30 crores. So that is the way the businesses will be split starting first April this year.

Vishal Kampani: And these were 100% owned businesses. So, from a consolidated perspective, nothing changes really the way management wants to run the business and how management used the integration of these businesses.

Dhruvesh: Right, right. So, there is an IB profit of INR472 crores, I believe, in FY '23 or approximately INR500 crore. I mean I have to just see the presentation, I mean, I'm sorry. Yes. So that INR500 crores, now currently is not counting the Private Wealth Management piece, which is there. I'm looking at the stand-alone IB. And maybe if you add whatever the number is, can we see considering overall GDP growth and considering the overall macro environment for India being what it is today without any major change. Can we see that, okay, now we have stabilized and we can really see probably a doubler in a 5-year angle on this side of business?

Vishal Kampani: Absolutely correct. In fact, on 1 of my calls in the last, I think, 2 years I mentioned that we see from a peak-to-peak bull market, we see profit doubling in this business. So, if you just go back to our results, if you look at the IWS profit, and if I were to split the IWS profit between B2B and B2C 5 years ago, the B2B number will not be more than INR250 crores. So, it's actually doubled. And we expect that this number with all the efforts that we are putting in the teams that we are building in the next 5 years will actually double. In fact, I'm hoping it will more than double.

Dhruvesh: Got it. And 1 last piece around the same on the team aspect. So, when we check list, set of employees or set of players in the ecosystem. We keep hearing disturbances in terms of team moving out. How much should we read into this? And how much are we dependent on the top category of the people? And what is the churn rate in that area of the B2B segment of the business?

Vishal Kampani: That's actually a great question. And let me tell you that one of the pillars of why we want the integrated Investment Bank is actually to build a business that is reliant less on individual relationships but reliant more on what the firm as an Integrated Bank can deliver to that client. And actually, it's a great question because that is 1 of the reasons why we thought about creating this structure as IWS 6 years ago, 7 years ago when I became CEO and further refined it to break it up into IB versus AWS is actually to make sure that the client is being serviced not by this 1 group in the firm, the ownership of that client is not just by 1 relationship manager, but the ownership is from the firm across products and across relationship managers. And this is exactly what the integrated investment bank delivers to our client.

Dhruvesh: Right. But so at least in terms of the churn, we are like large part is behind us, then coming in the future, at least some comment on that?

Vishal Kampani: No, we see very little churn. And the way we are building the business, first of all, let me give you an example. If you just take our M&A business or take our equity capital markets business, right? And if you just go back 20 years in history, I think our top 5 clients at any given point in time, would have been close to 40% of revenue, right?

If you just take, I can give names like Reliance or Tata or Birla you take some of that top 5 clients, L&T, ICICI Bank or HDFC. I mean, any given year, 3 of the top 5 or top 6, 7 clients would be anywhere between 1/3 to sometimes even 40%, 50% of our revenues. So that was a very constant rated advisory business.

Today, the top 5 in any given year will not even account for more than 15% of revenue, okay? This is a very important point. So even though when we say B2B, the expansion of our business has become so wide, right? I mean it's the number of clients we've been able to add because of a very strong focus on mid-cap because of cross-selling and adding products like debt capital markets, adding products of investment-grade finance, adding products like Bespoke Finance, right, adding products of block trading where we were not a strong player 4, 5 years back. So, the point is the breadth of product as well as the breadth in terms of delivery capability in each of those products has completely widened our client base.

So, we literally are 6x to 7x the client base in the Investment Bank that we were a decade ago, and we are at least 2x to 3x in terms of product capability and superior delivery that we were 10 years ago. And we are continuously expanding in the same way. And therefore, we are very confident that we will even gain more market share in the next 5 years. We have a very unique proposition. Our knowledge capability is extremely strong. We are going to make further investments in research as well as knowledge capability.

In this year, we've already identified a few partners, and we are working on actually building a firm or taking a stake in a startup firm, which will add to the knowledge delivery process we have for the Investment Bank this year. And I think if you look at us today, we are in a pole position. We are the only 1, only investment bank, which is non-commercial bank-owned and having a pole position across all of these products. So, we are very proud of what we achieved. I think INR500 crores profitability is a big number, and we really want to get to the INR1,000 crores number in 4 to 5 years.

Dhruvesh: Second part is on market lending. I think over the last 1 year across 2, 3 platforms and including the conference calls, you were quite upbeat about the builder lending, I mean the B2B lending side of the mortgage side. There, I think you had I'm not holding you. I'm just trying to understand the assumptions and what went wrong, if any. I think the assumption was that in 18 months, we will probably see a doubler in the loan book. Has something changed or pre-payments are coming much faster than anticipated? And what is the feedback?

Vishal Kampani: I'll tell you, the guidance we gave is that we'll take our book from INR6,000 crores to up to around INR12,000 crores. We've taken the book from INR 6,000 crore to around INR 8,500 crore, and we are facing 2 issues. I highlighted a part of that in my September call. See the sales cycle is very strong. See, what happened, again, to the earlier person's question. What happened in 2015 to '18 is the sales cycle was very weak.

So, builders were either refinancing their loans or they were constructing using loans, they are not constructing using sales proceeds because the last 18 months to 2 year sales cycle has been so strong, the drawdown in our construction finance facilities has been a lot lower. Frankly, our sanction to disbursement ratio is a lot smaller today compared to a sanction to disbursement ratio between 2015 to 2018.

You understand right, because in residential finance, if your sales cycle is very strong, your inflows are very strong. And therefore, if I have sanctioned a loan of INR100 crores on a project, if I expect a drawdown of INR100 crores, actually, the drawdown is only INR50 crores or INR60 crores because he's getting receivables and you've seen the growth in home loan books over the last 3, 4 years, it also has been incredibly strong. So that is the reason why even though our sanctioning has been to our satisfaction, the disbursements have been slow.

Second problem is that in our mature loan portfolio, and we've given some data on what our pre-COVID portfolio is. Our pre-COVID portfolio is lower than INR1,600 crores now out of INR8,400 crores. So almost INR7,000 crores is a new portfolio that we have built in the last 3 years. But the problem is that the pre-COVID portfolio, which was INR6,000 crores, INR7,000 crores then, INR4,500 crores is actually run down very quickly again because the sales cycle has been very strong.

So, for a player like us, what happens is that when a sales cycle is very weak, it is actually risky to lend. And when a sale cycle is very strong, you are lending, but you're also getting pre-paid faster and your construction finance not getting drawn down at the same speed. So that is the hurdle which we are facing.

While we are still attempting, our pipeline is strong. My team of relationship managers and my head of operations at JM Financial Credit Solutions told me that there is a lot of demand. We are still trying to hit the INR12,000 crores number by March '24. But I think you're correct in your assessment we may actually miss it, because of this strong sales cycle. We did not anticipate 18 months ago that the sales cycle will continue.

We knew interest rates are going to go up, we thought sales would slow down when interest rates would go up, but even that's not happened. If you look at our March numbers, they are very, very strong in terms of sales. So, this is the practical issue in the business that we are dealing with.

Moderator: The next question from the line of Ravi from O3 Securities. Please go ahead.

Ravi: Sir, first question is, we started commodity trading in JMF PHL and asset investment in last few years, it has been growing based on the annual report. Can you elaborate on the nature of business it does and the risk involved in the business?

Vishal Kampani: No, there's probably some opportunistic commodity trade for our clients, nothing else. We don't do any proprietary trading at all in any form or any sort of commodity. We only do proprietary trading for debt in DCM and equity and IPOs. That's all. And that too is highly restricted and requires senior management approval to take any positions. That number has never crossed more than 10% of our networth at any point in time, and commodities is a strict no.

Ravi: Okay. And my second question, despite such a strong recovery in real estate and real estate and book also growing in JM Credit Solutions, the gross NPA and net NPA in absolute terms are growing.

Vishal Kampani: Yes, that is impact of the DCCO portfolio as well as the impact of some of the COVID residual portfolio that we had. But having said that, we are not worried about it. I mean the asset quality, which we have underlying those portfolios is quite strong. Resolution efforts have taken longer. But this year, I expect, will be the last year of DCCO, which all of our assets and DCCO come to maturity. And I think we will be done with more than 70%, 80% of DCCO portfolio repaying us in full this year. So, I think the worst was behind us a year ago, and I continue to maintain the same.

Ravi: And my last question, sir. We hear that online business valuation are falling what are the opportunity to acquire in the digital space? And how does it compare to build on our own?

Vishal Kampani: Today, for example, building on our own is something we are focused on. Even though the valuations are falling, the quality franchises in online will still maintain premium. There is still a lot of venture capital money, there will be less private equity money, but there's enough of venture capital money, which is backing successful stories and successful companies in this space. But I think considering a brand, considering our knowledge of the underlying sectors and the businesses I think in digital, we will still look to build. We've got a big team in place. And a lot of effort has already been made.

I think in the next 30 days or so, we will be ready to launch our broking product and in, say, 60 to 90 days, we'll be ready to launch our lending products. So, I think we are far ahead in the game now to be able to look at any acquisition. We'll be building over the next 2 to 2.5 years. You will see a lot of marketing and advertising that will happen on the same over the next 18 months to 24 months, and we're very excited to basically have millennials and Gen Z and Gen Y and all of these customers to be part of JM Financial.

But having said that, on the traditional broking side, we will be open to acquisitions. We feel that with the kind of capital requirements the regulators bringing to the business, there is a big opportunity to be bigger on the traditional broking side, and we will be open to acquisitions in traditional broking side. We've seen long term by 2030, the mix of the business will be almost 70% digital customers and 30% sort of traditional physical customers and our endeavour is to have high market share in both these categories.

Having said that, there could be certain niche areas, which add to our middleware, add to sort of how we can differentiate our delivery to our customers, and this could be pure tech platforms, if these are available and they make sense, we could make investments in them. But I don't think we will look to take control in any of these sort of companies. We make investments to strengthen them. That strengthens our franchise and also our delivery capability to our clients.

Moderator: We take our next question from the line of Shreepal Doshi from Equirus. Please go ahead.

Shreepal Doshi: Sir, my question was pertaining to ARC business. So, the specific question is that can you give some detail on the transaction on no-name basis? And what was the original loan value that came into the ARC? And what was the purchase consideration? How much did we take on our book? When did we buy the asset and after the write-down, is there any further loss expected and when does the asset gets resolved finally? So, if you could explain this, it will be really helpful.

Vishal Kampani: Yes, sure. So, we had roughly in our ARC book ~INR11,000 crores of AUM. We added close to around INR3,500 crores of AUM this year. So, we ignore the AUM that is added this year. In that INR11,000 crores AUM their corporate assets approximately of INR2,700 crores to INR2,800 crores worth of AUM on which we have taken roughly a 10% write-down. We feel we are good for the balance in terms of recovery over the next at least foreseeable 8 quarters to 12 quarters, we do not see any other significant impact.

But after 3 years, there is going to be an 8-year period, which comes to an end of many of the other assets that we acquired. There could be provisions that come up on those assets, but it is very difficult today to say with certainty if there will be provisions or not. I can only comment on that maybe in 2 to 3 years from now.

But having said that, I'm happy to note that growth has picked up extremely well in the last year in the ARC business. And this year, we are expecting over INR1,200 crores to INR1,300 crores of gross recovery because many of the provisions that we've taken in the March quarter. Some of the assets are already in ancillary and some of them are in advanced resolution situations, where we know that the outcome of the resolution is probably going to be 10% to 15% shorter of what we had originally estimated. And therefore, we've decided to take the entire provision upfront in March 31, 2023, rather than take it Q-on-Q every quarter as soon as we realize all of this money over the next 4 to 6 quarters.

Moderator: We take next question from the line of Kunal Shah from Citigroup. Please go ahead.

Kunal Shah: So firstly, in terms of what actually triggered this entire provisioning? Ideally, shouldn't it have been taken all through the fiscal and rather than taking it in just 1 single quarter because I think those developments with respect to some of the ones which you highlighted, they maybe all through the fiscal, it suggested that there could be some kind of cut out there.

And maybe a similar kind of a trend when you look at it with respect to DCCO, maybe that INR1,300-odd crores is still outstanding out there. Maybe is there any risk of provisioning even on the DCCO portfolio, and that can also come at one point in time rather than maybe some kind of, I would say, the spreaded provisioning through the fiscal year.

Vishal Kampani: Yes. So good questions, Kunal. I think DCCO, you will not see any kind of onetime provisioning at all. In that INR1,300 crores DCCO portfolio, almost INR800 crores to INR900 crores is servicing interest and principal regularly. There is no issue at all and it will get repaid or it will be refinanced by March '24. So that is taken care of.

On the remaining, they are looking at resolution strategies, we could do an ARC sale or we could get some of those assets sold to strategic bidders. The good part is that for the remaining INR400 crores, INR500 crores odd, I think we have a bidder almost for every asset under the DCCO. So, I'm not concerned at all of any provisioning coming, ad hoc provisioning coming on the portfolio of DCCO.

On the ARC side, I think we were very clear because we so many of these assets, okay, let me give you an example of Seven Hills Hospital, where we've taken a provision. Or Bombay Rayon, for example, where we've taken a provision, right? We could not even admit some of these assets into NCLT, because of COVID, etc.

And we have made assumptions. We had taken one time charge on these assets on March 31, 2020 itself, assuming that valuations will go down because of COVID. But we never estimated that a recovery through the court process or the NCLT process will take very long. We thought, okay, 18 months, 2 years, recovery process will be over and we will be able to recover our capital.

So the point is now we know that where we are reaching, for example, Seven Hills Hospital, we have 23 bidders now, we have a fair idea of what the BMC wants. We finally have to close the loop with them and go ahead with the process. Bombay Rayon is in NCLT process in advanced stages. We've got the initial sense. Of course, I cannot share the bid with you, but we know where the figures are. So, the point was it becomes sort of ad hoc provisioning that we have to keep doing every quarter. So, the idea was let's just clean it up 1 shot. So, we don't have to deal with this quarter-on-quarter.

It gives ARC management clarity. We are growing the book, we are growing profitability now over the next 4 to 8 to 12 quarters. And therefore, we use this to clean it up in 31st March 2023. Nothing else. It was just simple button to be pressed to make sure that the balance sheet is cleaned up because we are very clear that the realizations that we are going to get from these assets are going to be lower because of time value of money and delay in NCLT resolution.

Kunal Shah: Sure. And second, in terms of this entire new assets acquired under the ARC of INR2,700 odd crores. So, if you can just highlight how concentrated is this exposure or any particular industry segment?

Vishal Kampani: 85% of these assets are retail assets. So, they are diversified across home loans and diversified across personal loans, diversified across vehicle loans completely well diversified. If you remember 2 years back, I had highlighted on our call that we are focusing in our ARC to add more retail assets. We felt our corporate institutional mix was too large. And this is exactly the strategy we followed and over the last 12 months, almost 85%, 90% of the addition has been retail assets, and the balance addition of assets actually in aggregation of certain portfolios that we had where we just increased our share in the COC to be able to reach a faster resolution.

Kunal Shah: Okay. And in terms of the structure, maybe so with respect to the impact on the revenues for this entire pool of asset, would it be very different compared to what we are running on say INR11,000-odd crores?

Vishal Kampani: No, it will be very, very similar. I don't think there is a revenue impact that is no impact at all. Because the revenues are quite similar in terms of all of our asset pool.

Kunal Shah: Okay. So, fee from this entire pool would also be almost similar, right?

Vishal Kampani: Yes. I don't think there is any fee impact now because I think fees are taken in priority. So, see, what happens, let me explain to you, if I can explain to this more granularly, I think it helps. What happens is when there is a delay, we make fees, we booked the fees, right? A lot of the fees have been booked in the last 4 years. And wherever assets have been sold, we've realized the fees. The problem is because when there is a delay on the overall resolution, the fee is at top of the capital structure. It's top of the waterfall, for example, right?

So, we are getting the fee, but the value of the SR is going down because there is only a x amount which is totally realizable from the assets. What happens is not that what we're going to realize from the assets has dramatically fallen. What has happened is some part of it is booked in fees in advance.

And now when the realization also is 5%, 10% short, we have to take a provision on the SR, we can choose to take it over 8 quarters. We can choose to take when it is coming closer to the 8 year period. But as JM, we want to have a true and fair representation of what our balance sheet stands for. And if I know that the outcome is going to be that I have to take a hit on the SR at one point in time, why do I delay it? We've just taken a hit and moved on.

Kunal Shah: Yes. So okay. Okay. Got it. And lastly, in terms of IRR

Vishal Kampani: If you include the fee, our IRRs on the asset have not been seed as hard. So, if we have anticipated that in IRR a certain asset is going to be 16%, 17%, 18%. The IRR maybe 8% or 9%. But the SR requires provisioning.

Kunal Shah: And this mark down would be how much? So, the overall pool which we have acquired?

Vishal Kampani: The new pool that we acquired is almost INR3,500 crores. And assets against that is actually close to INR10,000 crores.

Kunal Shah: So, INR10,000 crores.

Vishal Kampani: Yes. So, we acquired roughly 0.35x, 0.37x, some are 0.40x. A large part is retail pool is home loans. Home loans don't come at steep discounts Kunal. The recovery is much stronger.

Kunal Shah: Sure. And lastly, in terms of Platform AWS, so this entire cost to implement, if you look at the breakup in the expense than it's more pertaining to the employee cost rather than the other expenditure, for particularly for this quarter. So, is there a onetime payment which would have been there or some provisioning out there? And then maybe the next year onwards it should normalize or how should we look at this?

Vishal Kampani: There are two things. Actually, many of the capabilities that we've been investing in has actually reduced our cost of operations on the traditional brokerage side. Since I were to break up the opex win in traditional brokerage versus digital, the traditional side actually has become more efficient from an operations perspective.

So, you have to look at opex from a split perspective. Second, the employee cost is actually due to the fact that we've added a lot of people in traditional business also. For example, our franchisee count has gone up. So, people to service the franchisees has gone up. Our traditional branches have gone up in terms of number.

Our retail wealth number of partners have gone up so servicing capabilities over there have required more people to be added. Elite has added people. So, we've added people on the traditional side as well as on the digital side. Most of the people that are getting added to the digital side are actually looking at employee stock options. I mean they don't really care about what count they're getting end of the year.

It's really going to be return on the stock eventually once the entire franchise is built. The costs are not significantly high in terms of getting those people. I think we've got good quality people who are very committed, very, very intelligent, and I'm pretty sure that they will build a great franchise over the next few years.

Moderator: We'll take our next question from the line of Vivek Kumar from Bestpals Research and Advisory. Please go ahead.

Vivek Kumar: So, we continue with the question, the sale cycle is so strong, what should we expect? What will be the growth rate in mortgage loan book kind of? Also, can you throw on competitive intensity now that sale cycle is so strong, what are you seeing with mortgage lending like what kind of growth rates can be expected?

Vishal Kampani: We are not seeing any incremental competitive intensity. Competitive intensity has only gone down because there are fewer and fewer players which are lending today in that space. Second, a lot of AIFs entered that space where AIFs cater to a very different category. AIF largely caters to loans above 15%. We are largely loans below 15% on the wholesale mortgage side. Frankly, the sales cycle remains strong. It is very good generally for the business. We'll still be able to grow our book at 15% to 20%, though our endeavour this year is to grow at anywhere between 25% to 30%.

Having said that, when I look at the current book on the construction finance side as well as some of the other sort of loans that we've made, there are high levels of prepayment that we expect in the next 10 months. But having said that, our pipeline also is very, very strong. So hopefully, we should be able to deploy the repayments that we get in the next 8, 10 months as well as be able to grow the book. I don't think we'll be able to achieve the INR12,000 crores number. I don't want to give a number right now on the call because I don't want to be held on to some numbers for March '24, but I think 15% to 20% growth from an INR8,500 crores will be definitely achievable. But I think INR12,000 crores will be difficult for March '24, which we had guided 18 months ago.

Vivek Kumar: On the ARC piece, you hinted a year or so now that you would want to go to the fund route. So can you just throw more light on this?

Vishal Kampani: We are already looking at partnerships with various funds. Many of the incremental assets that we are adding are in partnerships with funds, and we already raised fund 1. Sometime this year, we'll be raising our credit fund 2. So, we'll not only have our own funds, we'll also have third-party funds which will participate with us because RBI has come up with a structure and all cash transaction, we have to contribute only 2.5% and 97.5% can be contributed by partners. And this will allow boosting fee income in ARC in a very big way.

Vivek Kumar: Okay. I hinted that because of HDFC leaving the market, you are seeing a huge tailwind for mortgage given so the since sale cycle so strong that even with that tailwind, we will not be able to grow 25%, right?

Vishal Kampani: The HDFC merger is still not gone through. So, we are waiting for it to complete.

Moderator: Your next question from the line of Hrishikesh Oza from Robo Capital. Please go ahead.

Hrishikesh Oza: Just one question from my side. Regarding the lending business, can you indicate for the credit cost for next year FY '24?

Vishal Kampani: Well, it should be very similar to the range we are in right now. I don't think we should be very, very different. So, credit costs in terms of cost should not be more than 1.3% to 1.4% of book.

Moderator: We'll take our next question from the line of Manoj from Geometric. Please go ahead.

Manoj: Can you give me what are you learning in last 3, 4 years in the ARC business?

Vishal Kampani: Yes. The key learnings are that we need to have lesser corporate accounts. And we should have a good mix between corporate and retail I think we were almost 100% corporate pre IL&FS. I think we need to be close to 50% corporate and 50% retail accounts. Second, we need to have more partnerships and less concentrated risk on our balance sheet. Third, we are very clear about not counter party risk we're essentially taking. It's very important to have a private sector counter party risk than any sort of public sector counter party risk.

Wherever the cash flows are expected from public sector or any kind of government or state government, those cash flows have been delayed. And any sort of litigation where any public body is involved, those have got delayed. So, we are very, very clear that going forward, if we see that kind of counter party risk, we will not engage in that sort of asset acquisition. So, these, I would think are the two biggest learnings that we have from the ARC business in the last 5 years.

Manoj: Okay. As you deployed money raised the form of ARC this year, what are the general expectation of IRR when you do this come from ARC?

Vishal Kampani: Around 16% to 18%. Retail assets, you don't get more than 16% to 18% IRR.

Manoj: Okay. And my third question is now our companies are at a very interesting junction, can management have quarterly con calls for this company?

Vishal Kampani: Yes. We don't have too much to update every quarter, but your point is noted. We will discuss it internally and definitely come back.

Manoj: Final and one more question is there. There are 3, 4 business in the company. And most of the time, some business is an investment phase, and some in long-term real estate cycle, some other is quarter like investment is sometimes quarterly cyclical and ARC is a very lumpy business. Has the company thought about and creating a simpler structure for our company?

Vishal Kampani: Yes, that's a good question. It was asked to me in my last call also and I think today, we are in a big investment mode. So, it's important for us to keep the company under one management under one group, use the benefits of capital allocation. But yes, in the next 2 to 3 years, we will look to a de-merger. I committed that in my last call also that we were open to evaluate a demerger of these businesses once we achieve certain scale.

Manoj: Okay. One final question I squeeze in because I have to wait for 6 months for next call. So, I said the KKR also exited this real estate lending business. And real estate cycle is normally like that, either it is bad or is it recovering very fast. Is real estate not a scalable business?

Vishal Kampani: It's a good question. I'll tell you, actually, if you go back to 31st March 2020, our restructured DCCO book was zero. So, it depends on how you underwrite. I think this is a great business to grow at 15% to 20% over the long term. It's a 5% ROA business. The reason our ROAs are lower is because we are suffering 1.3% to 1.4% credit cost every year. And a significant portion of the hit that we took, as JM Financial in our real estate business was linked to COVID. We barely got scratched in IL&FS. I mean, our book was completely pristine in the last quarter of 2020. So, we attribute almost 90% of the hit that our real estate book has taken to COVID. So, if COVID would not have happened, we definitely would have been a

INR12,000 crores to INR14,000 crores book today with a 5% ROA and almost a 15% to 17% ROE with a very, very different valuation.

Manoj: Okay. I think we will replay again because even if it is good, the number of launches are also increasing.

Moderator: We take the next question from the line of Anand Jain, an Investor. Please go ahead.

Anand: Yes. My first question is that except for the investment banking business, where we have around 15% of return on equity. Most of our businesses are under leveraged. A, under leveraged and b, like the return ratios are way below what they should be at, at least mid-teens is what I would expect. Now do you see different businesses reaching those levels because you keep on saying the investment phase, I just want to have a timeline for different businesses, like AWS or?

Vishal Kampani: I'll tell you 2 things have happened. As I highlighted in the beginning part of my call that we've made almost a INR90 crores investment in asset management and digital. We had INR123 crores wipe-out of profit because of regulatory changes in our IPO funding business, right? So that itself cumulatively is a hit of almost INR215 crores to INR220 crores of pre-tax profits which if you look, is almost a 3% in terms of ROE to us.

And so, my point is that our leverage is low. I have no doubt, we are today operating at 1.5x leverage. But the point is our capital structure is very strong, which is allowing us to get a very strong rating. We expect that we should be able to scale to get to 3x to 3.5x overall leverage in the next 2 to 2.5 years.

And the credit cost will only go down. And therefore, many of our businesses, which are showing a reduced ROA because of credit costs will normalize. So, 3%, 3.5% ROA will normalize back to 4%, 4.5%. And if you take debt to equity at even 2.5x to 3x. I think in 2 to 3 years, we will hit back at almost 15% to 16% ROE in our various lending businesses with the exception of our ARC because in our ARC, we will lever only 2x, and that should yield a 10% to 12% ROE business on pure lending business. And therefore, now we are building out a fee-based business so we can at least add 1% of ROA in terms of fees on that business to be able to boost the ROE a bit. So again, to answer your question, I think Investment Bank will remain in the mid-teens ROE at close to 2x, 2.5x leverage.

The mortgage lending business will get to an overall leverage of 4x with the combined ROA of both businesses of close to 3.5 to 4% and therefore, that will hit a 16% to 18% ROE in 2 to 3 years. Platform AWS without much lending just once we launch our digital and we reach early success we will be able to tell you the sort of ROEs we can hit there, but we are targeting nothing less than between 20% and 25%. And on ARC, we get to just below the teens around anywhere between 11% to 13%, but with very low debt equity level.

Anand: That's good to hear. The second question I have is around the structure of our business and the structure of our subsidiaries just like when I look at the subsidiaries, the names are absolutely so confusing that to come back to what the structure is in terms of ARC or lending or AWS, it just doesn't make sense. Is there a way that you can have a subsidiary structure in ways that reflects our business structure?

Vishal Kampani: No, I think it's quite simple. I can clarify to you right now, it'll take 2 minutes. So, if you open a corporate structure presentation, which we have in our IR presentation. So, when we talk about AWS, we basically are referring to mainly only 2 entities. It's JM Financial Services which is the business which does stock broking. It has a license of stockbroking and financial product distribution. The second is our mutual fund, which is our asset management business, where the mutual funds sit, that's all. If you look at our mortgage lending business, again, it is only 2 entities, it's JM Financial Credit Solution, which does wholesale mortgages and JM Financial Home Loans, which does retail mortgages, right?

ARC is very straightforward. JM financial ARC, and we have Infinite India, which does some amount of funds on the alternative distress fund side. Again, these 2 entities. So outside of investment bank, each of the other 3 segments only have mainly 2 entities which belong to those segments. And rest of all of the companies belong to the Investment Bank, which is essentially our holding company as well as our institutional equities business and some of the companies where we basically own our offices and own our assets in. That's it. Actually, our structure is quite simple. But because of regulatory purposes, mergers may not be possible. We have to have these number of subsidiaries.

Anand: My final question is that we have a book on lending to FIs have been increasing. I mean that business is kind of similar to what MAS Financial Services does. I just want to understand as to how do we go about the understanding the underwriting of these FIs?

Vishal Kampani: Yes. I think in one of my last call, I gave a pretty detailed answer on the same. I will have my IR team send you the same notes, and I think you'll get a detailed answer of how we go about evaluating risk. What is our strategy? We are only lending to retail NBFCs, which have a deep reach and are very, very diversified. I think all of that is mentioned on that call.

Moderator: Thank you. Ladies and gentlemen, due to time constraint, that was the last question. I'd now like to hand the conference over to Mr. Vishal Kampani for closing comments. Over to you.

Vishal Kampani: Yes. Thank you very much for being on this call. I think we've had a very productive session. I've tried my best to explain what is going on in each of our businesses. We at JM Financial are extremely excited about our next 3- to 5-year journey across our businesses. And again, we'll see you every 6 months and keep you all posted on all the major developments. Thank you very much.

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