JM Financial Limited

Q2 and H1 FY ‘23 Earnings Conference Call

November 15, 2022

Moderator: Ladies and gentlemen, good day, and welcome to the JM Financial Limited Conference Call to discuss the company's financial performance for the second quarter and half year ended September 30, 2022. As a reminder, all participant lines will be in the listen only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

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

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

Vishal Kampani: Thank you. On behalf of JM Financial, we extend a very warm welcome to all of you to the conference call to discuss our results, both for the second quarter and half year ended September 30, 2022. We have uploaded our results, results presentation and press release on the website and stock exchanges. I hope all of you have had a chance to go through the same.

Our consolidated revenue for the half year ended FY '23 is INR 1,683 crores, which represents a decrease of 14% Y-o-Y. For the same period, profit after tax is INR 350 crores, a decrease of 7.3% Y-o-Y. This represents earnings per share of INR 3.67 vis-a-vis INR 3.96 for the last year. Our Q2 FY '23 revenue is approximately INR 877 crores. PBT for the same period is INR 318 crores, which is almost flat on a Y-o-Y basis. PAT for this quarter increased by approximately 3% Y-o-Y from INR 174 crores to INR 180 crores.

As on September 30, 2022, net worth excluding minority interest is INR 7,916 crores translating into a book value per share of INR 82.91. Our consolidated loan book is now at INR 14,670 crores, which is up 32.5% year-on-year. I will now take you through the breakup of the loan book of INR 14,670 crores.

Wholesale mortgage constitute the largest part of the book at 49.9%, which is approximately INR 7,321 crores. The wholesale mortgage book registered a Y-o-Y increase of 11.3%. The capital market loan book is 7.8% at INR 1,141 crores. The capital market book has registered a Y-o-Y growth of 42.5%.

Our bespoke financing loan book, which includes both our corporate loans, as well as the promoter financing book, constitutes almost 26% of the loan book at INR 3,821 crores. This loan book has registered a Y-o-Y growth of 39.6%. The retail mortgage loan book, which constitutes our affordable housing loans and loan against property business, is approximately 9.5% of the loan book, which is at INR 1,392 crores and this loan book has registered a Y-o-Y growth of 62.9%. Our financial institutions loan book, which primarily funds smaller NBFCs, MFIs and a few Fintechs, constitute 6.8% of our loan book at INR 995 crores.

Coming to asset quality, the gross NPA of the lending business is at 3.9%, our net NPA is at 2.4%, and our SMA-2 stood at 1.3% on a consolidated basis as of September 30, 2022.

On leverage and liabilities, our group debt equity is at 1.21x on a consolidated basis. During the half year ended FY '23, we raised approximately INR 1,900 crores through long-term borrowings. We raised more than INR 600 crores through NCDs of which almost INR 300 crores are in the 10-year bucket. We raised almost INR 1,300 crores term loans through banks and others. Our borrowing comprises over 80% from long-term sources and 20% from short term. Almost half of our short-term borrowing is for working capital requirements for our brokerage business.

Moving on to the segments. Our first segment is Investment Bank segment. For the half year ended September 30, 2022, the Investment Bank segment had revenues of INR 607 crores, profit before tax of INR 256 crores and a profit after tax of INR 203 crores, which is an increase of 29.7% year-on-year. The annualized return on assets in this business is at 6.1% and return on equity from this business is 16.4%.

The second segment in our group is Mortgage Lending, which includes both our wholesale and retail mortgage businesses. For the half year ended September 30, '22, the Mortgage Lending segment reported net revenues of INR 353 crores with a pre-provision profit of INR 293 crores, profit before tax of INR 198 crores. The annualized ROA for this business is 2.9% and ROE is at 7%. In Q2 FY '23, our net revenue and pre-provision profit stood at INR 178 crores and INR 148 crores, respectively, and the PBT of the business is at INR 119 crores.

On the retail mortgage business, we have a very granular retail mortgage book of INR 1,035 crores across 8,583 customers with an average ticket size of INR 12 lakhs, carrying an average yield of 13.3% and an LTV of 55%. Our book is well spread across nine states and 75 branches. On the wholesale mortgages, the loan book under this segment has increased from INR 5,409 crores as of June '22, to INR 6,668 crores as of September '22.

Our third business segment is our Distressed Credit business, including our ARC and the alternative credit business. Our AUM on September 30, '22 is INR 11,349 crores, an increase of 6.2% Y-o-Y. For the half year ended September 30, '22, the segment had net revenues of INR 54 crores with a PBT of INR 32 crores. In Q2 FY '23, the net revenue stood at INR 44 crores, with a PBT of INR 28 crores.

Our fourth segment is Platform AWS. The business is completely focused on providing an integrated investment advisory and transaction services platform for all the individual clients of the company. This comprises of Asset Management, our Equity Broking & Securities business as well as our Wealth Management business. So we call this Platform AWS. For the half year ended September 30, '22, the platform AWS business segment had revenues of INR 293 crores with a profit before tax of INR 16 crores. The profit after tax for this segment is INR 14 crores. In Q 2 FY '23, our revenue stood at INR 163 crores, profit before tax at INR 9 crores and PAT at INR 8 crores. We operate both through our own branches and franchisees. We have been growing our franchisee network, which now stands at 682 locations in 197 cities.

On Wealth Management, our private wealth caters to high-net-worth individuals with an AUM of INR 57,679 crores. As you know, we have started our Elite Wealth business in 2019. We've added 91 advisors across eight locations and have an AUM of close to INR 1,156 crores, demonstrating a 46% growth Y-o-Y.

On our Retail Wealth business, which predominantly deals with retail customers through our IFA network, we have 7,400+ active independent financial advisers/distributors and this business has recorded a steady growth of 18% Y-o-Y and its current AUM is close to INR 22,250 crores. Over the last year, we have built out a full PMS team, we have made very senior hires and our total team size in PMS now is 25 people.

In the AMC business, again, we've added a lot of people and our engagement efforts are picking pace, and we've been rebuilding all our relationships with several key distributors. Our total AAUM stands at INR 3,030 crores, almost INR 600 crores in equity and the balance in debt. In a bid to grow our AUM and folio base, we have added people across all functions, investment teams, products, sales, risk, operations and technology.

With this, I would like to conclude my initial remarks, and we'll be happy to take any questions. Over to the moderator.

Moderator: We move on to the question from the line of Himanshu Upadhyay from O3 Capital.

Himanshu Upadhyay: I had a question on wholesale book. Sir, Ahmedabad had suddenly become 6.5% of assets of JM credit solutions and which was 3% in last quarter. Sir, is it a new focus market for us or it is 1 or 2 relationship, which has grown up, can you elaborate on the opportunity

Vishal Kampani: It is 1 or 2 relationships which have become larger. I don't think Ahmedabad will grow beyond these levels. It will get capped out at between 6% to 7%.

Himanshu Upadhyay: And another question on wholesale is, the growth in wholesale, what we have seen pretty significant in last one quarter of around 22%. Is it because of existing relationship or we have signed a significant number of relationships and hence, there is a strong growth we are seeing? So can you give some color on what is driving the growth

Vishal Kampani: Yes, that's a good question. I think we're seeing growth in both. I would think the growth is almost 50% weighted for existing relationships and 50% in terms of new relationships. We've added 4 new accounts in real estate and around 3 new accounts on the corporate side.

Himanshu Upadhyay: And one last thing. We have seen pretty good growth in financial institution funding. Can you give an idea of what type of lending are these NBFCs and how granular are these loans? What mechanism we have to check the misallocation of capital does not happen at the NBFC and yield on NBFC loans we disbursed and the business model of NBFCs to whom we are lending. Is it sustainable business model? So some idea more on this?

Vishal Kampani: Yes. I'll give you a quick background on it. So we've been preparing for this business for almost 2, 2.5 years. We have a fully built out risk team. They are almost 7 to 8 people who are in risk management. We have another 4, 5 people in origination. And we also have a big origination of our investment banking, which knows many of these NBFCs.

All of the NBFCs, each and every NBFC that we lend to have an extremely granular focus on a retail book. We do not onward lend to any wholesale NBFC. We only lend to retail NBFC. Almost 80% plus of the lending that we have done are NBFCs rated between A to AA-. So A, A+ or AA-, and 20% will be A- to sort of BBB.

The sectors are across the board. I mean, there's MFI, there is vehicle financing, some are into MSME loans and some are into all kinds of retail assets. The idea is to basically increase this book quite substantially over the next five years and make it as large as a bespoke, which does corporate and promoter lending as well as our real estate book. After ILFS and COVID both, there's been a big shakeout, and we've realized that many of the smaller NBFCs don't get access to capital markets easily. So what we do is we start with the lending. We build a relationship with them, and then we will offer our debt capital market products or equity capital market products as well as many of our MLD and NCD products, which can be sold out to our institutional distribution as well as our wealth distribution. So this business is both being built from a balance sheet perspective. It is also being built from a syndication perspective, and also two or three years down the line when we have enough of data and we have a data platform build, which will be able to run a lot of analysis.

I think we'll also get into the securitization business of the end product, which we will be able to source from many of these NBFCs. So that is the broad plan. We have almost a 15-16 member team, and I think by March 31 '23, it will be close to a 20-25 member team. I think that team itself, over the next 18 months to two years will further double to around anywhere between 50 to 60 people.

Himanshu Upadhyay: One last thing, what is the yield on these loans to NBFC?

Vishal Kampani: Yes. So it's average yielding around 11.5% to 12%.

Moderator: We have a next question from the line of Pranav Shenoy from O3 Capital.

Pranav Shenoy: My question is, we have seen high growth in retail mortgages. Can you give in percentage terms, the NPA and stress in loans, which we were given two years back?

Vishal Kampani: Yes. I have Manish here on the line. He'll answer the question.

Manish Sheth: So the growth in retail mortgage business is basically out of the new branches, and we have a low base last year. So last year, after COVID, we actually expanded to now 75 branches, and that is where the growth has come through on the retail mortgage side. The NPA number is 0.7%. So that is on the NPA side. Collection efficiency is around 98.3%.

Pranav Shenoy: Okay. My next question is in our broking business, the ADTO has increased, but the value of cash trades has reduced in absolute terms. And what impact is it having on the profitability of the broking business?

Vishal Kampani: Yes. So I think F&O has gone up a lot. I think cash is not down as much, but as you can see from even NSE's results, option trading sort of is the most attractive segment for most investors and traders in the market. So yes, the derivative volumes have gone up a lot. But overall, I think there is an impact on yield because derivative yield is obviously way lower than cash. But on a gross basis, it's increasing revenues.

So I think we are okay as of now. But I think cash is not down more than 5%, even though derivatives is up sharply. For us, cash is very strong because we do a lot direct equity advice and we want lot of direct customers on our platform trading with us, and they're going to continue to push and grow that business. And we are getting a lot of customers from our Private Wealth, Elite Wealth and our Retail Wealth channels also, which we are converting into direct equity customers. Therefore, we have not seen a significant decline in our cash, our cash has been almost stable to flat.

Pranav Shenoy: Okay. Another question I had was in Private Wealth, the AUM, the size of business has reduced significantly in the quarter. And it is more in recurring revenue. Can this be explained?

Vishal Kampani: Yes. So I think a couple of things. As I said, we are pushing more for a lot of direct customers on our broking platform. So we've channelized a lot of the focus on growing that base. Secondly, on both recurring as well as the transactional side, we had a lot of debt AUM. And because of the interest rates, having adverse movements specifically over the last three, four months, we ourselves advise many of our clients to exit some of those funds. So I think that is short-term in nature. I think you will see some of that reverse over the next six months.

Pranav Shenoy: Okay. I just have one last question. Many of the competitors are reducing their wholesale book and are not lending currently. Can you give some sense of competitive intensity? And can NIMs improve from here or -- in the wholesale book?

Vishal Kampani: Yes. So that's a great question. So there are a couple of reasons. Many of the competitors who are exiting the business I think have seen rating downgrades. You see a lot of rating downgrades and automatically some of the wholesale businesses become sort of uncompetitive, right? So having said that, at least on the wholesale mortgage side, we are seeing a big market share shift away from smaller developers to the larger developers.

So I think, for example, the top 50 developers in Mumbai would have almost 70% to 80% of market share in terms of new sales. And the same thing is happening in our book. We are seeing more concentration with the larger developers, and we used to have higher concentration with the small to middle developers earlier. So that has put some pressure on yield, but it's not competitive pressure. It's pressure from our yields, which used to be north of 15% and our incremental yield for new loans, which is growing at around 13.5% to 14%. So therefore, there is almost 100 to 125 basis points reduction in yield.

But with that, even the risk is coming down because we are funding higher quality and much better developers compared to what we were doing, I would say, pre-COVID or pre-ILFS. So yes, that is the yield pressure. But on the competitive side, I think the environment is pretty benign. It's pretty soft. Lots of players have exited the market.

At the same time, we are seeing a new category of AIF who want to come and lend and do business in real estate. But that is coming more at the land stage. If you look at our portfolio, 11.3% is land. So it's not very large. Therefore, we are not really seeing that much of the AIF competition with us. Secondly, most of the AIFs are wanting 15%, 16% kind of IRR minimum. And we are at anywhere 13.5% to 14%. So it's a very, very different market, almost 150 to 200 basis points spread.

And as I said, our book is only 11.3% in land. So far, we still haven't faced that competition. And 11.3% also is high for us because we like to keep land at less than 10%. Also the new regulations from RBI are making it very complicated to do land acquisition finance because now land financing can only be done post approvals. So I think automatically, land will drift down to sub 5% in our book and construction finance book will further increase and the lending and takeout lending for projects in advanced stage will further increase.

Moderator: We have a next question from the line of Kunal Shah from ICICI Securities.

Kunal Shah: So firstly, in terms of the pipeline, so definitely this quarter, we have seen the scale up in the wholesale mortgages. But if you can just highlight in terms of the pipeline as well. And is this more sustainable or this is a short-term and it would run down over a period. So if you can just explain them? And how are we moving towards our INR 15,000 crores of target in the wholesale mortgage?

Vishal Kampani: Yes. So, Kunal, the pipeline is very healthy. It's very, very strong. And I think that the pipeline will become even stronger over the next year, year and a half years, specifically because of some competitive actions in the market, and some mergers that are going through. So I don't see an issue on pipeline. I don't see an issue on loan book growth. The only thing is our diligence takes time.

So as you very well know that we are pretty slow at disbursing our loans, we do our diligence properly. So you may not see that same jump in loan book every quarter. And you may see it every two quarters because it takes almost three to four months to do complete diligence, documentation, everything and close the loan. We are also looking to expand our team size. We would be expanding our wholesale mortgages team by more than 30% in the next 18 months to two years because right now, our team is completely choked.

We have absolutely no bandwidth to take any more pipeline, at least for the next six months with the amount of work that we are seeing ahead of us. So we're looking to add people, and as I said, we'll be growing our team by more than 30% over the next 12 to 18 months.

Kunal Shah: Sure. So what you are suggesting is maybe whatever was there in terms of the evaluation in the due diligence that is largely done until Q2, and then maybe a wait also and finally, in six months, we'll see the further buildup of the overall book?

Vishal Kampani: That's absolutely correct. So see, a lot of the loan book growth that you saw that came in sort of in August, September. The work has started for that in March, April, May, right? So it just takes time to close. So that is the nature of the wholesale business. Yes, unlike retail where you can disburse even in like 10 days. In wholesale, you're giving INR 50 crores, INR 100 crores, INR 150 crores to someone; it requires a lot of detailing work here. So that takes time.

So the whole focus was to get this growth out for the six months and the whole team's focus now is not December, we actually have a March focus. We really have a six-month focus that we want to get. We have certain targets which we want to meet in March. There's enough pipeline, frankly. Pipeline is not an issue. It's just our team size and our execution capability right now, which is a little bit of a bottleneck. But as I said, we'll address it very quickly.

Kunal Shah: Sure. And in terms of asset quality, so how -- maybe once we transition to the RBI norms from 1st of October, do we see any change or maybe whatever is the conversion from, say, SMA2 to GNPA, that is largely taking into effect the revised loan?

Vishal Kampani: Yes, an important question. I'll just give a broad perspective on all of it. I'm not seeing sort of any major effect. In fact, no effects on the RBI changes which are required. But as you know, we had a big restructured book because of COVID and the DCCO book, right, which was almost 19% of our book. I'm happy to report that, that 19% book is now at 13%. So 6% has been repaid or refinanced.

Now in that 13%, we believe almost 80% is sort of running on time to repay and to get refinanced. So it's literally a small percentage of 2% to 3% where we are closely monitoring and maybe there could be some slippages, not all of it, some slippages from that could flow into SMA2, which is still not into SMA2. We are very well covered on the book. I mean I've personally seen each and every account. Our credit committee and our Board has seen it too. And the cover even though they've serviced almost 18 months of additional interest on average, our covers are still healthy and they're above 1.3 to 1.4 times today.

One reason being is that in most of the cases, we've seen appreciation in the selling price. The selling prices are up anywhere between 10% to 15%, even 20% in certain cases, and plus the sales has been strong. It is only about making sure that these get refinanced or some other asset sale happens, then they're able to repay on time. So that 3% number is what we are watching very, very carefully.

Now what percentage of that 3% slips into SMA2 over the next six months to 1 year is hard for me to say. Will nothing slip? No, I can't even say that. Just saying we are monitoring it very, very closely. Does it give me sleepless nights? Not at all because we are very well covered on the asset side and the expected LGD from that should be very, very low.

Kunal Shah: And can it get offset from the resolution of the current NPA and SMA2 book because we used to highlight earlier in terms of resolution

Vishal Kampani: There is a distinct possibility that may happen because incrementally, we don't need provisions on our book now. I told you that two quarters back also, but I think we are almost done with the provisioning cycle. I mean we don't even need to report what is COVID, non-COVID. I mean business is back to normal completely now.

Kunal Shah: Yes. And lastly, in terms of the guidance which we had given. So obviously, with respect to mortgage lending, it seems to be on track, net NPA plus SMA2 is also less than 5% and Investment Bank is also getting into mid-teens to high teens. How confident are we about Platform AWS and scaling up the mutual fund to INR 25,000-odd crores?

Vishal Kampani: Yes. So we've added a lot of people. We are working very hard. We don't talk about the investments we are making in digital, but believe me, a lot of investments are happening right now. Few of our products will be ready to hit the market in calendar year '23 on the broking side and on the distribution side. On the asset management side, many of our products are already rolling.

The interest from distributors I mean, you can imagine that we're going back and doing a NFO after 14 years, last NFO was almost 14 years ago. So we are getting good traction from the distributors. My view is the space is wide open. I mean, the growth that we are going to see on investment products literally, whether it's coming directly through equity, through asset management like mutual funds, PMS or AIF or even through our wealth management advisory business, I think we're just at the tip of the iceberg in terms of what is going to happen to India next 20 years.

So I'm right now more focused on making investments than really seeing any short-term returns. My horizon is extremely long-term in this business and with a very clear sort of goal that we really want to be in the top five players in this space on a consolidated basis by 2030. So we're going to keep investing. So at least for the next two to three years, every dollar of profit that we make, we're going to keep investing in infrastructure, whether it is physical or even digital, we're going to keep investing back.

Moderator: We have our next question from the line of Dhruvesh Sanghvi from Prospero Tree.

Dhruvesh Sanghvi: So a couple of questions. Firstly, congratulations on the loan book, on the mortgage side increasing substantially now. Yes. So first is on the retail mortgage side. So when we see the disbursements, they are generally far more than the net increase in the loan -- the net loans outstanding. So is it because of competition taking away the customers and getting it refinanced or some thoughts on that line?

Manish Sheth: Yes. That's right, Dhruvesh, Manish here. That's exactly right. We are getting by BT out rate what we thought at the beginning of the year was 1% a month, that is around 2% a month. That means we are actually underwriting a good credit and which is being taken over by the banks. While their CIBIL have been under correction and credit score is being created, all these banks take it out at like 8%-9% rate, which we lend at 12%-12.5%.

Vishal Kampani: I mean that what has happened is our NPA levels have been extremely low in this business, right? Anybody who's a good customer and not a fragile customers through COVID. Even in our financial institution lending business, we have seen this that a lot of the banks have literally blindly just taken those customers away who've been basically good through COVID.

They are offering at very, very low rates because that is just such a phenomenal data point that in the last two years, you were not being able to default and you manage your cash flow completely on time with the business volatility as well as the volatility generally in market, I think they are very, very good credit. So I don't know, but I don't think we will see the same level of BT going forward, which we've seen just coming out of COVID in this year. But that's my guess. I could be wrong. I think we'll have better data points on this next year same time.

Dhruvesh Sanghvi: And second thing, when we look at the history, a lot of companies did small ticket retail lending. And initially, it went very well in over five, seven years, some or the other big mistakes happened and we have cases where underwriting was poor or recovery was poor. All these learnings are being embedded, and would you like to talk a little bit on that area to highlight that how are we entering and what are the strategies here?

Vishal Kampani: Yes. So I will request Manish to give a five, seven minutes sort of download on what he is doing and how he is thinking about building the business.

Manish Sheth: Yes. So basically, the example what you gave are all those kind of HFCs which aggressively built a portfolio of around INR 4,000 crores in less than five years' timeframe. And although they were doing only retail, but it was basically a builder tie-up kind of wholesale financing in a retail format.

Secondly, like if you understand the credit side of that business was not verticalized, meaning it was a branch banking concept where the branch manager himself was originating, underwriting and disbursing.

So these are some of the mistakes of others. What we have done is a typical branch where we'll have a separate sales vertical, separate credit vertical, there is an operation, there is a collection guy already sitting there and on top of it, legal and technical. So what we do is once we get a file, there are five customer touch points basically before we disburse the loan.

Sales pickup of file credit independently goes and underwrites, although we have not delegated a single power down to the branch. Every decision has been centralized at HO level for all these close to 9,000 customers, what we are talking about. Apart from credit, we have third-party legal and technical vendors who independently go and do their own inquiries and give a report directly to HO.

And lastly, a customer with a family actually comes to our branch to pick up disbursement cheque. So in our business, the most important thing is to avoid a fraud and which is what in the last five years, we invested heavily in terms of people, in terms of processes and in technology. So although to my mind, we were slow because we were spending a lot of time on building this entire infrastructure out, but now we are changing the gear. We are at 75 branches as we speak. By year-end, we would be at around 90-odd branches. And next year onwards, we will see a growth. So to answer your question, yes, there were some mistakes. We have understood from the other's mistakes. We have put all the barricades in place. And after five years of our license, now we will kind of change the gear.

Dhruvesh Sanghvi: And in -- one more question on that side is, let's say, by next two years, FY '25, this INR 1,000 crore could be some number, if you can help us understand, I mean, if you have some thoughts on that either?

Manish Sheth: We already said by end of FY '24, we will be at around INR 3,000-odd crores.

Dhruvesh Sanghvi: So that is all from my side on the retail side. On the AWS part, when we see the profitability -- and I hear you that there is a lot of investments going on. Is it because of those investments that the profits of AWS divisions are down for the last two, three quarters. Is that a correct reading?

Vishal Kampani: No. There are two reasons. So one is, we started the investments way back almost 18 months ago. So it was literally in April of last year when we had started investing heavily. There is also some amount of IPO funding income in Platform AWS. And that income is not there this year because, as you know, that both because of SEBI and RBI that product is almost discontinued.

So that is the reason why there is both sort of a decrease in revenue and more investments. But having said that, even if you ignore IPO funding, I think our brokerage and distribution business has performed exceedingly well. They've grown in the last six months. And that is a function, again, a function of deeper penetration as well as more hands on sales and distribution.

To give you the exact number, I think this comparable half last year PAT, Profit after Tax on a consolidated basis from IPO financing activity was INR 57 crores. And for FY '22, the full year was INR 123 crores. So literally, that INR 123 crores for the full year and INR 57 crores for half year is almost zero this year.

Dhruvesh Sanghvi: Right. No. So where I was coming from is that now that is zero and that has gone. And I mean, we probably cannot count it, maybe it can come in some other format some point in time. However, if I see AWS today, in the half year, the net profit after taxes are INR 15 crores. Is that -- I mean, is my reading correct? Or where am I missing? I mean if everything is so good why the numbers are so less?

Vishal Kampani: Yes, because that's exactly because the IPO funding income is completely missing. And that was almost a 70% margin product, which is not there. So assuming, for example, if the IPO funding product was there, as I said, we started our incremental investments almost 18 months ago. This number would still be lower than last year's PBT and PAT, but won't be as low. So I can't really give you a number, but assuming we'd have put through at least two months of the last six months at decent IPO activity, but three, four months did not have as much IPO activity. So we would not have had that much profit from IPO funding in any case.

So the number would anyway have been lower. Also, there is a big loss in our asset management company, specifically because the investment in people, technology, processes, systems have been even higher there. So that the mutual fund asset management business is running a loss of almost INR 14 crores. So that itself is a big number.

Dhruvesh Sanghvi: So coming back to the base investment bank side, which is running at a run rate of almost INR 100 crores now, of course, markets and mandates and everything are good. But what is your sense on investment banking from INR 350 crores, INR 400 crores range? Can we potentially go to INR 700 crores, INR 800 crores over the next five, seven years? Is that the kind of possibility and some thoughts on that area, please. That is my last question.

Vishal Kampani: Again, a good question. I must tell you that last quarter, we only did one IPO, and there was only one M&A assignment. So it was one of the worst quarters from an investment banking perspective because we had FI outflows right through May, June, July, August and we also had a lot of interest rates going up. So ECM activity, part of DCM activity, M&A activity, and private equity as we think kind of was on hold. And despite that, we've been able to report pretty good numbers because we did do some syndication stuff on the debt side, where we made money. Our bespoke book grew nicely, which basically made up money. Our FI book grew nicely, which basically made up money.

So despite a dramatic slowdown in the core sort of investment banking division business, we've kind of still maintained our PBT at INR 122 crores, which was at INR 134 crores for quarter 1. So I think this last six weeks, we have closed five deals. We've signed two M&A transactions, which should get closed hopefully by 31st December. So if you have the financing business and you have the non-interest income fee business growing then we can easily hit those INR 700 crores to INR 800 crore number in the next couple of years. And the idea is to give more stability to the investment bank business, we want to grow out the portfolio of lending. And we want to make sure that at any point in time between 45% to 55% of revenue as well as sort of profitability comes from a very steady lending base.

And as I updated all of you in my March earnings call that we are even demerging our private wealth management business are absolutely high-end private wealth management business and bringing it in the investment bank. There are phenomenal synergies between what we're going to do in that business and the broader investment bank, which also will add to a deeper penetration of promoters and the businesses that they run both from advisory AUM and a lending sort of angle. So I'm actually very excited about this business. It's a very profitable business, makes 6% sort of good ROA. Good 15% to 17% ROE at barely any leverage. I mean, we are not even like that 2x leverage in this business.

The NBFC, JM Financial Products has an extremely well-diversified book. It's going to get even more diversified even when Manish mentioned about his HFC book, the HFC book actually is not INR 1,000 crores, it's almost INR 1,400 crores, because we have INR 350 crores, INR 400 crores of loans that we have bought and securitized at finer rates to keep AUM with us. So the whole idea is to build a lot of traction with institutional customers, wealth customers, corporate customers and we are sort of the leading player, and this is really our edge.

We know this business extremely well. So yes, in short, we will be targeting the number INR 700 crores to INR 800 crores in the next couple of years in terms of profitability in this segment.

So lot of investments in Investment Banking and the Mortgage Lending business are already made. I mean these were anywhere to largely build out businesses for us. And we'll keep adding people there. That's most important to get good talent. It's sometimes a challenge, considering market circumstances. But I think with our brand, we're able to attract good quality talent. And here, we're completely in a growth phase.

In our Platform AWS business, we are completely in investment phase, both physical, digital infrastructure, and we're going to aggressively keep building out. And in the alternative credit space, which is basically ARC, we are basically in recovery phase. Growth has already restarted. We've added over INR 600 crores of assets in the last six months. I must say that the asset pools available to be purchased are lower, which also reflects that generally asset quality currently in India is in top shape, at least on the wholesale side. But we are seeing some retail portfolios, we bid for a few, we won a few, we lost a few. But having said that, ARC is still in recovery phase.

Our goal is that over the next 18 months, we want to collect INR 1,000 crores, such that our net-debt to equity is almost down to a 0.5x level. And by then, again, the asset addition would have started and post-2023, 2024, we'll be again in a growth phase for the distressed and alternative credit. So that's the broad plan. Investment Bank and Mortgage Lending already in growth phase, Platform AWS in full form investment phase building our infrastructure, physical as well as digital and alternative and distressed credit in recovery phase and growth will restart in FY'23, '24.

Dhruvesh Sanghvi: Can I squeeze in a couple of queries more, or should I come back?

Vishal Kampani: Yes.

Dhruvesh Sanghvi: Yes. So basically, when you say ARC because I remember there was something connected to that banks cannot buy in equities in the sold projects by the banks kind of a thing and which was the bottleneck for ARCs like us, is that solved? And I mean because I hear you that you are looking to grow again there

Vishal Kampani: What we're doing is so banks, so we basically have no bank lending because, as per Reserve Bank, I mean, banks have to be very careful when they are lending to ARC from, the ARC especially who bought assets from them. And ARC of our size, where we have INR 11,000 crores of assets, we have a relationship and we have bought something from every single bank in the country. So that's okay. What we are doing is we are partnering. So we are partnering with lots of international funds, and we are partnering with lot of Indian corporates. We're showing this to our wealth customers. So we'll use the partnership model. Our contribution, again, will be restricted to between 15% and 20%.

And we'll use syndication efforts through our investment bank again, syndicate the balance and make fees on the same. So yes, our model will drift over the next three years, four years to a heavier fee-based model compared to an investment-led model, which we've had over the last 10 years, 12 years. But from a risk-adjusted basis, having seen, what I've seen in the last five years, I think we'll be in a much better shape having almost a 50% fee-led model and a 50% investment-led model as compared to 100% investment-led model.

Dhruvesh Sanghvi: Sure. And again on ARC, suppose if we have to understand because there was a lull period of two years. So just theoretically, it's all the past assets gets cleared over the next two years to three years, from a cash flow perspective, will it all lead to only INR 1,000 crores

Vishal Kampani: No, the INR 1,000 crores is just the target for the next 18 months. We have INR 11,000 crores book in which we've already invested INR 3,000 crores. So it is roughly, it is INR 1,000 crores will be less than one-fourth to one-fifth of what we finally have to collect over the next three years to four years.

Our total debt on the ARC currently is around INR 2,100 crores, our net worth is roughly INR 1,730 crores. So we want INR 1,000 crores to come from collection so that we bring debt equity under one. We don't want to increase the ARC debt equity more than 1-x to 1.2-x. And we want to correct this debt equity by bringing cash flows. We also want to demonstrate to all our lenders that cash flow has come in and cash flow has paid you down, and that's not that we are constantly refinancing our assets, our loans.

Dhruvesh Sanghvi: So the kind of cash flow that we are going to have, I don't think we'll require any capital even if our mortgage loan book or any type of loan book goes 2-x to 3-x from here, is that understanding correct?

Vishal Kampani: No, we are not interested in any form of dilution at least for the next four years to five years.

Dhruvesh Sanghvi: Is there any possibility of a buyback or something like that?

Vishal Kampani: We don't want to dilute. We have enough capital. We are well capitalized. Our gross debt equity is only 1.2-x. Our limits are allowed until more than 3-x and plus, we are accreting net worth of almost INR 750 crores to INR 800 crores last year. Same number, hopefully, we do this year, maybe even more. And definitely a larger number next year because of the loan book growth. So simply, if you look at our total net worth is close to INR 10,800 crores, and we add even INR 2,000 crores of profit over the next, say, two years to 2.5 years. We are talking about approximately INR 13,000 crores of net worth. INR 13,000 crores, 3-x debt, which we can take is INR 39,000 crores. So I don't think we're going to be INR 60,000 crores book in the next four years. So there is absolutely no need for equity.

Dhruvesh Sanghvi: Why don't we look for some sort of a buyback?

Vishal Kampani: Yes, we can. But I think we will give more dividends. We've already announced a much higher interim dividend. The reason we are not doing a buyback is because, see many of our businesses may not require external capital. But we have a good decent amount of cushion of cash sitting in our holding company. This allows us to basically borrow at very-very fine rates in our NBFC because all the lenders are very comfortable looking at our cash balance in the holding company. The rating agencies are very comfortable.

My goal is that over the next three years to four years, my rating has to go to AA+. So I don't want to reduce capital. I want to use the capital to grow and also improve my rating. So that is my clear focus, and therefore, we'll pay higher dividends from profits. And I don't want to commit that we'll do a buyback. As a promoter family, we have creeped. I mean we've taken our holding in the last 18 months from almost 54.8% to 56%. So whenever we get a chance, we are creeping. So that's another way of us increasing our holding. We don't want to resort to things like buyback to do it. I mean buyback should be done only if it's in the interest of all shareholders and not one shareholder.

Moderator: We have our next question from the line of Rajat Setiya from iThought PMS.

Rajat Setiya: Sir, with regards to asset quality, on this DCCO book, under what categorization do, are we holding these assets at the moment? Are these standardized or restructured?

Vishal Kampani: No, these are all restructured as DCCO, but DCCO is not a typical COVID restructuring because it is already permitted under RBI rules that if there is a project which has faced delay outside of a normal delay in terms of approvals or any material adverse event, then you can provide a principal restructuring on the same. So to give you a clear perspective that before March 31st, 2020, JM Financial across its entire portfolio had zero DCCO, literally zero DCCO. So our entire 19% DCCO of last year, which is 13% today is because of COVID. And as I said that of that 13%, I think almost 10% is on track and we are very carefully watching around 3%, and we'll keep watching it very carefully.

Rajat Setiya: Sure. So this will remain in restructured category, or there can be some regulatory overhang

Vishal Kampani: No. If this 3% were to slip, it slips into NPA. If it slips, it slips into NPA because it's, the principle is due and the account has to service the principle. So if he's not being able to service the principle, there is no choice but to qualify them as NPA. So either they get the active refinance because there's enough of collateral and maybe you need a six month to one year further maturity, but we will not be able to provide it. So yes, to either raise the money from the market or he has to sell the asset to a competitor or somebody else, or he has to do pre-sales, for example, if we have, say, 80 or 90 units, you should get an investor and just sell 30, 40 units off and pay us down. So there are multiple options available to developers in various accounts. And it depends on what is more suitable to them, they will choose that action.

Rajat Setiya: And sir, what has been our LGD since the time we started lending?

Vishal Kampani: So I think overall LGDs have been low, but there have been two or three fraud accounts, where I think LGDs have been high. High, would be anywhere between 30% to 40%. And there's been one account that the LGD was almost more than 50% where there was a big issue in the approval. This was earlier on almost two years ago, we already made provisions for it. These assets are also written-off from our books now. And that one incident actually made us strengthen our entire assessment of approval. We thought we were very good at doing this. After this incident, we've to strengthen what we do in terms of approval assessment and how we make it stronger in terms of our risk systems. And we've already gone through that process, and I think we're in even better shape than we used to be on that account.

Rajat Setiya: So if we have to look at the LGDs over a period of time, what has been, you have mentioned how it has been in some of the cases, how high it has been.

Vishal Kampani: On the good cases, LGDs are zero, literally zero. Because it's just about getting time to find a buyer. And once you find the buyer, then I think most of the loan is fully recovered.

Rajat Setiya: And when it comes to provision coverage, our provisions have been coming down from probably 6.5% a year earlier to 4%?

Vishal Kampani: Our DCCO book has come down from 19% to 13%, 6% has been refinanced, so we obviously had created some more provisions on those books. So those provisions obviously have come off. And incrementally, when we see the new loans that we've added in the last year, 1.5 years, I think they're performing very well. Sales have been strong. There is no real need to create further provisions. I think we're at a healthy 4%, and I think that's good.

Rajat Setiya: Just, sorry, just one more thing. What is our aspiration to grow our overall loan book in the next two years, three years?

Vishal Kampani: Yes. So I think we've given that target out for our retail home loans, FY '24 being INR 3,000 crores, wholesale being around INR 12,000 crores, and on the investment bank side, I think we are giving more and earnings growth target and our ROE target. But I think you can safely assume that the book there will not slip below INR 4,000 crores in terms of bespoke lending where it is today. And I think on the FIF side, we are currently at close to INR 1,000 crores. I think we should be growing that at least 3-x to 4-x in the next three years.

Rajat Setiya: INR 4,000 crores and then INR 3,000 crores here and then another INR 4,000 crores bespoke and, wholesale

Vishal Kampani: INR 15,000 crores, plus INR 6,000 crores, plus another INR 4,000 crores. So INR 25,000 crores will be our target by FY '25.

Moderator: We have our next question from the line of Anuj Sharma from M3 Investment.

Anuj Sharma: Yes. Just a question on, based on our portfolio, what is the pricing assumptions we are making on the wholesale portfolio in terms of final realization movement over the next two years, three years?

Vishal Kampani: Sorry, pricing in terms of the yield we will generate?

Anuj Sharma: No, the end user realization change

Vishal Kampani: We don't assume any increase in pricing when we model our portfolios. We assume real estate prices to be flat over a three year period.

Anuj Sharma: All right. And, but what is the expectation? So I understand we are not building into the model, but what is the expectation?

Vishal Kampani: Right now, frankly expectation also is flat because I don't think people have realized what the impact on EMI is going to be with the increase in home loan rates today. So I think it's difficult to imagine a scenario where next year real estate prices will be higher than this year. But next year, the interest rate scenario may be very-very different. So I think we'll have more clarity over the next six months to a year.

Anuj Sharma: All right. My second question is based on the pipeline. Could you just give some color on the top two or three cities based on the outlook in real estate?

Vishal Kampani: Yes. I think Bangalore will be number one. Hyderabad will see a significant pickup over the next one year, 1.5 years. Chennai will be flattish. Mumbai will be flattish, and we'll see some more pickup in NCR.

Moderator: We have our next question from the line of Vivek Kumar from Bestpals. Mr. Vivek Kumar? We've lost his connection. We'll take the next question from the line of Varun Bang from Bryanston Investments.

Varun Bang: Yes. Just two questions on JM Credit Solutions. So what we see is there is unsecured loan book of 4.1%, can you explain the nature of these loans as it wasn't there in Q1 FY '23?

Vishal Kampani: Yes. So this is an extremely high-quality borrower and it's not strictly unsecured I cannot share the name, unfortunately. Many of our borrowers have requested us now to stop sharing names and giving data on how much money we've given to whom.

Varun Bang: All right. And despite strong growth in JM Credit Solutions, the GNPA has moved up. So how concentrated are these nonperforming assets? And what is the outlook or resolution plan here?

Vishal Kampani: This is all the slippages from SMA2 to gross NPA. In fact, I had highlighted the same in my March call that we'll be expecting some amount of movement as our DCCO book matures. And we are very well aware of all the gaps. So we already have a resolution team fully focused on making sure that we can address many of these increases coming from our SMA book. So the earlier stress, as I said, out of the 19% DCCO book, 6% of that stress is already out of our books.

The team has done a great job in making sure that they were refinanced, but sales were strong and that we get repaid. So as I explained, that the balance, 13%, 10% is under control and 3% is sort of on the watch list.

Moderator: We have our next question from the line of Manoj Dua from Geometric Securities & Advisory.

Manoj Dua: As you said, the borrower in wholesale has become better quality and that the yield is down. Now as a process because the borrower is strong, can we go more higher debt equity in this on a longer period, not in particular 1 or 2? Can you give some color on that?

Vishal Kampani: Yes, you're absolutely right, and that is the intention. I think the debt equity levels that you're seeing that you have seen in the last two years, which have been around 1x. I think its history. I think now almost every quarter, you will be seeing an upward movement in debt equity ratio because they're growing the book, we don't need equity capital, we are very well sort of capitalized. So I think almost every quarter, every 6 months, you will see an increase in debt equity.

Manoj Dua: And what is the opportunity size for us? It looks huge. Are you excited same as bespoke on investment banking in this wholesale mortgage?

Vishal Kampani: No, no, absolutely. In fact, I'm actually excited about each and every business that we have. I think we've built absolutely franchise businesses. We have a great team, great people, and particularly in the mortgage lending, both wholesale and retail, Platform AWS as well as investment bank, I think the opportunity over the next year, 1.5 years, 2 years is just superb, but even the longer-term opportunity is fantastic.

But having said that, lending is always a tricky business. One has to consider risk first. There will be a quarter or 2 in the next 8, 10 quarters where we don't grow, we don't like risk and we want to basically go slow and that's the nature and sort of philosophy at JM. But on a longer-term horizon, we are very, very excited.

Even on our ARC business, we want to make sure that we recover another INR 1,000 crores over the next 18 months. And once we do that, hopefully, we'll be able to even bring that business back on the growth path.

Manoj Dua: My last question. So who knows the equity market better than you? I'm a shareholder for the last 6-7 years so with INR 800 crore profit could you see in investment banking, debt equity is low in wholesale, which can grow up your AWS excited, why market is asking something? I know market can be inefficient for some period, but that much disparity and that for a much longer time, what do you see in it? And anyway, we have ruled the buyback because – rightly so because of rating. What the market is selling, which we are not able to understand? Do you mind me able to give some color into that?

Vishal Kampani: I think the common feedback we do get is that our structure is a bit complicated because we have two businesses where we have large minority shareholders. So I do get questions from institutional investors that what is your plan? How are you going to deal with these minorities? Are you going to list these companies? Is there going to be a further holding company discount.

Second, when we talk to a couple of analysts, we have two or three very smart analysts who understand the business, and I thank them for taking the pain to have gone through the complexity of our businesses and to understand them. But because of the nature of four diverse business segments under one group, it's also becoming a little bit of a pain to get analysts to write and appreciate and understand the business.

So we have thought about it. It's been discussed informally at management and at a Board level that should we do a demerger at some point in time between some of our lending businesses and our fee-based businesses, should we segregate out the mortgage lending into a separate unit. And we are very conscious and aware of this. It's just that the timing to do it today is not right. Right now, the whole organization is focused on growth.

Let's get to that INR 20,000 crore, INR 25,000 crore loan book number, let's get to a INR 1,500 crore profit before tax. And once we see larger sizes in each of these units, I think we definitely can think about whether we do a demerger or not to simplify the business. And I think that will be very highly rewarding for shareholders.

Manoj Dua: So I would be very naive to suggest something because you know everything better. I think if we can have some able to create predictability of the growth of some way, these analysts would like to understand the complex thing also, they do so much complexing, which you don't believe you also know that.

So can you create some element of predictability of growth? Is our capital market based in India growing capital market because business, it can show that it might not be there as volatile as you think as the mortgage was the reason, somewhere, can we have a predictability creation so that market -- I'm sorry if I have done the wrong thing?

Vishal Kampani: No, no, not at all. I think if you see, for example, Page 18 on our presentation deck, right, it will tell you that most people always told me a couple of years back that investment banking can never have a predictable business. And if you see, we literally are, if our profit before tax last 4 quarters is between INR 120 crores and INR 130 crores, right? This is our ROA and ROE, right? I mean, of course, quarter 2 FY '22 was exceptional, but generally, we've maintained 5% to 6% ROA, 16% to 17% ROE, right?

And this is, the way we mix the business, the way we put it together is not because of earnings. We've actually put this business together to be able to serve the institutional high net worth and corporate customer in the best way possible. But we are seeing the reward also in the numbers, right? Again, if you look at our mortgage lending business right from almost 2007, '08 to when we started it, all the way till ILFS for almost 11 years, we've seen secular growth.

It's just the event of ILFS and rapidly followed by COVID where like for India, ILFS go once in a 30-year time line. The last time the NBFCs blew up was '96, '97, right? So literally, it happened after 20 years. And COVID is once in a 100-year history. So I think if you look at our Mortgage Lending business, it's going to be back on track. You're going to see secular growth of almost 15%-20% for a significant period of time in that business.

Platform AWS, we are investing, right? It's not that I mean if we don't invest, we'll still grow at 10%, 15%. The reason we are investing is that we want to grow at 30%, 35%. We see the opportunity being so big and we want to make sure that JM Financial's brand name and franchise gets its due in the next 6 to 8 years in that business. So it's really a longer-term horizon from where we are investing.

And our ARC business, I mean, this is a business of distressed credit. If you put it through ILFS and COVID is bound to get hurt, right? I mean, the value of a distressed asset in stress times goes down even further. And therefore, rightly so as management, we decided we want to focus on recovery for these years. We want to make sure that they're not just adding assets and forgetting about where we have to collect, so let's focus on collection and a time will come back to regrow.

So barring that, the other three are already in for growth. I mean, revenue growth in Platform AWS will be very, very visible in the next three to four years, even if you don't see profitability growing because we're elastic.

Manoj Dua: Maybe one year or took a couple of year at the things are still not there. We should ask questions, how we can do things differently, maybe in some way or another in terms of creating a buyback or something to have some respectable multiple.

Moderator: Ladies and gentlemen, due to time constraints, that was the last question for today. I would now like to hand the conference over to Mr. Vishal Kampani for closing comments. Over to you, sir.

Vishal Kampani: Thank you very much, all of you, for taking the time and attending our quarterly and half yearly results call for FY '23. If you have any further questions, please reach out to our IR and finance team. We will be very happy to answer those questions. Thank you again.

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