JM Financial Limited Q2 and H1 FY19 Earnings Conference Call

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MR. ANIL BHATIA – MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER, ASSET RECONSTRUCTION BUSINESS
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Moderator: Ladies and Gentlemen, Good Day, and Welcome to -JM Financial Limited's Q2 and H1 FY19 Earnings Conference Call. 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 "*"then "0" on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Vishal Kampani – Managing Director, JM Financial Limited. 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 at the conference call of JM Financial Limited, to discuss our Financial Results, both for the second quarter and first half for financial year 2018-2019. I hope you have had the chance to go through our presentation, press release and results. We have updated the same on our website and also on the stock exchanges.

I have with me today, Manish Sheth – Group CFO, Shashwat Belapurkar – Head of our Fixed Income and Lending for both commercial real-estate and corporate. Anil Bhatia – CEO of our ARC business; Subodh Shinkar – CEO of our Investment Advisory and Wealth Management Business; Sonia Dasgupta – Head of our Borrowing; and Gitanjali Mirchandani – Country Head of Origination for JM Financial Credit Solutions Ltd.

As you would know, we adopted IndAS reporting from this financial year. As per IndAS, considering that the views of the management have precedence over the erstwhile risks and rewards model, our segments have been based on management's evaluation of financial information for allocation resources and assessing performance. Accordingly, our segments have been reclassified into the following:

The first segment is the IWS segment, which stands for Investment Banking, Wealth Management and Securities business. This includes, both, the fee based and fund based activities for clients in this segment. We look at this segment as an integrated business serving the capital markets needs of all our customers.

The second segment is our Mortgage Lending segment. This segment includes, both, our Wholesale Real-Estate segment, which includes our Construction Finance vertical, and also our Retail Mortgage, which includes home loans, SME loans and education institution based SME loans.

The third segment is our Distressed Credit business, which includes the Asset Reconstruction Business.

And the fourth is the Mutual Fund business covered under Asset Management.

I shall now provide an update on the performance of our businesses, post which Manish will take you through the quarterly financial numbers. And then we can open the floor for question and answers.

Our consolidated revenue for the first half of FY19 stands at Rs. 1,828 crores, up approximately 22% year-on-year. Our PAT for the first half FY19 is at Rs. 306 crores, up approximately 10% year-on-year. Our consolidated loan book stands at Rs. 17,108 crores, up approximately 38% year-on-year. 65% of our loan book comprises of wholesale mortgages, which is approximately Rs. 11,211 crores. The book has registered a year-on-year growth of 46% and a QonQ growth has been flat. The capital market lending book is Rs. 2,472 crores, comprises of 15% of our total book. It has also registered flat QonQ and 16% growth YoY. The corporate lending book stands at approximately Rs.2,977 crores. It is 17% of our total book and has registered a year-on-year growth of 25% and a QonQ growth of 18%. The retail mortgage book is around Rs. 450 crores, which is 3% of our book, and has registered a QonQ growth of 13%.

The gross NPA ratio of the lending business is at 0.54%. Our consolidated debt equity stands at 2.61 as of September 30, 2018. And in the first four weeks of October we have repaid approximately Rs. 1,800 crores of borrowing. And, therefore, our current debt equity stands at 2.3 times as of October 25th.

Our borrowing mix as of October 25, 2018, stands at 35% short-term borrowing and 65% long-term borrowing. Our short-term borrowing is primarily against short-term assets such as high quality liquid assets in the capital market segments, and short-term maturities on our loan book.

Before we share the quarterly financials and the first half financials, I will take you through a very brief update on the performance of each of the verticals.

We will start with the Investment Banking, Wealth Management and Securities Business:

For the first half we had revenues of Rs. 926 crores and profit before tax of Rs. 227 crores. The business contributed 33% to our Group's PBT for the first half. PAT from this segment reduced to Rs. 145 crores as compared to Rs. 155 crores for the first half in FY18. The AUM of our Wealth Management business stands at approximately Rs. 43,941 crores, excluding custody assets. The equity AUM has increased by 2% year-on-year and stands at Rs. 11,400 crores. Our average daily turnover has increased to Rs. 6,046 crores during the quarter, which is up 27% year-on-year. In our alternative Asset Management Business, our AUM stands at approximately Rs. 802 crores. The loan book for this segment is at Rs. 8,176 crores. We registered a growth of 23% year-on-year. The gross debt equity for IWS segment stands at 3.25x as on September 30th. The net debt equity is at 2.82x for the same period.

Moving on to the second group vertical, which is the Mortgage Lending Business:

For the first half of FY19 the segment had revenues of Rs. 613 crores with a profit before tax of Rs. 259 crores. The business contributed 37% to our Group's PBT for the first half. PAT from this segment grew to Rs. 82 crores for the first half of FY19. The loan book stands at Rs. 8,792 crores, which is an increase of 54% year-on-year. The gross debt equity for mortgage lending stood at 2.46x as of September 30th, and net debt to equity is 2.2x for the same period.

Moving on to the Distressed Credit business:

Our AUM for September 2018 has grown by 14.34% year-on-year to Rs. 14,257 crores. JM Financial ARC's contribution to the securities receipts stood at ~Rs. 3,212 crores, which is an increase of 84% year-on-year. For the first half of FY19 the segment had revenues of Rs. 283 crores with a profit before tax of Rs. 160 crores. The business contributed approximately 23% to our Group's PBT for the first half of FY19. Profit after tax from this segment grew to Rs. 52 crores for the first half of FY19. The consolidated debt/ equity for Distressed Credit segment stood at 1.68x as of September 30, 2018.

Moving on to the last, Asset Management Business comprising of our mutual fund:

For the first half of FY19 the segment has revenues of Rs. 51 crores with a profit before tax of Rs. 32 crores. The business contributed approximately 5% to our Group's PBT for the first half and PAT from this segment grew Rs. 14 crores for the first half of FY19. The average quarterly AUM of the mutual fund stood at Rs. 12,672 crores, comprising Rs. 8,439 crores in equity schemes and approximately Rs. 4,233 crores in debt schemes.

With this brief update, I will now request Manish Sheth, our Group CFO, to present the Group's financials.

Manish Sheth: Thank you, Vishal. Good evening, everyone. Before I present the financials, I would like to bring to your notice that any forward-looking statements made on this call are based on management's current expectations. However, the actual results may vary significantly, and therefore the accuracy or completeness of these expectations cannot be guaranteed.

Now, let me take you through the Group's results which were announced yesterday, and are available on our website.

In Q2 FY19 our revenue grew by 27% year-on-year to Rs. 976 crores from Rs. 769 crores. The Q2 FY19 PBT is at Rs. 380 crores, which is an increase of 20% year-on-year. Our Q2 FY19 PAT grew by 8% year-on-year from Rs. 151 crores to Rs. 163 crores.

During the quarter there was an impact on MTM which is negative of Rs. 23 crores. If one were to ignore this MTM for the quarter, PAT would have been Rs. 178 crores, which is a growth of 18% quarter-on-quarter. We conservatively take whole mark-to-market through profit and loss account and not reserves. MTM of Rs. 20 crores in the equity shares of Nitco is being provided which is held by one of our Group company JM Financial Assets Reconstruction Company Limited.

With regards to first half year number for FY19, the gross revenue is Rs. 1,828 crores and our net consolidated profit is Rs. 306 crores. This represents EPS of 3.65 versus 3.49 for the same period last year. As on 30 September, 2018, the net worth is at Rs. 4,923 crores, which is a book value of 58.63 per share.

In the first half of FY19 the revenue increased 22% year-on-year to Rs. 1,828 crores. The Group's finance cost has increased to Rs. 716 crores versus Rs. 539 crores during the same period, primarily on account of increase in borrowings which was Rs. 12,402 crores has now increased to Rs. 17,794 crores. Our cost of funds stood at 9% as compared to 8.7% year-on-year.

With this, I would like to conclude. And we are happy to take any questions. Over to moderator, please.

Moderator: Thank you very much. Ladies & gentlemen, we will now begin the question-and-answer session. We have the first question from the line of Dhruvesh Sanghvi from Prospero Tree. Please go ahead.

Dhruvesh Sanghvi: Sir, I have some questions related to the overall classification of loans. So, I am getting confused about Rs. 17,000 crores of loans categorized as wholesale, retail, capital market and corporates. And on the other side when we see, JM Credit has a loan book of around Rs. 8,700 crores, JM Products has Rs. 7,800 crores. So, can we have some kind of a match-the-following concept here because it becomes very difficult that which loan is given from which part? I am assuming that JM Credit is giving only the wholesale part and JM Products is giving the other aspects. But if you can just help us understand how should we look at it?

Vishal Kampani: Sure. So, let me explain to you how this works, right. So, ignore IndAS for a second. Last year we basically had two NBFCs in the group, we have JM Financial Products, which is largely our capital markets, corporate lending and retail lending NBFC. And we have JM Financial Credit Solutions, which basically does wholesale finance and largely to real-estate developers. And there are, obviously, loans, for example a single borrower limit of JM Financial Credit Solutions was approximately Rs. 150 crores. And there will be loans which are larger in size and therefore we were underwriting those loans in JM Financial Products. So, for example, if you have a loan of Rs. 250 crores to a certain client, then you book Rs. 150 crores in JM Financial Credit Solutions and the additional Rs. 100 crores is being booked in JM Financial Products. And therefore we give you the classification by wholesale mortgage, by capital markets, by corporate lending in a separate breakup, so you can tell what is in products and what is in credit solutions if we do the detailed breakups.

Now, in IndAS what has happened is that we have two segment on how we look at the business. So the real-estate and mortgage origination business is in JM Financial Credit

Solutions. JM Financial Products is only assisting them in terms of single borrower limits and taking a pro-rata share or share of the loan after JM Financial Credit Solutions have exhausted their single borrower limit. Now, last quarter we have done a significant fund raising in JM Financial Credit Solutions of almost Rs. 875 crores, and also over the last two, three years JM Financial Credit Solutions has reported very healthy profit growth. And therefore the single borrow limit every quarter has increased. And with this fund raising it has significantly gone up. So, going forward from this quarter we do not anticipate any more real-estate loans to be booked in JM Financial Products, they will be concentrated and booked only in JM Financial Credit Solutions.

Dhruvesh Sanghvi: Then can we say that entire wholesale can be matched to the JM Credit Solutions?

Vishal Kampani: That is right, because wholesale mortgages, I would say, should be mapped to JM Financial Credit Solutions, they also do a bit of corporate lending and promoter lending. But they are primarily wholesale mortgage driven, and that is right, that would be mapped to JM Financial Credit Solutions. In JM Financial Products you will have different classes of loans, you will have some old loans in the real-estate segment which were booked in partnership with JM Financial Credit Solutions and that book will reduce over time. But you will have largely capital market loans, you will have margin trade finance loans, you will have loan against shares, corporate lending. JM Financial Home Loans is a subsidiary of JM Financial Products, so they are providing the capital for the retail mortgage loans, for the SME loans. So that will be the clear subject going forward.

Dhruvesh Sanghvi: So, that is done through this subsidiary that you are saying?

Vishal Kampani: That is right.

Dhruvesh Sanghvi: So the gap figure basically, let's say, the total loan book is Rs. 17,000 crores and if I just add the JM Credit Solutions and JM Financial Products, it is turning out to be around Rs. 15,500 crores. So, around Rs. 1,600 crores is given out of that subsidiary of Home Finance is what you are saying?

Vishal Kampani: Yes, there are two subsidiaries, JM Financial Capital and JM Financial Home Loans, both are 100% subsidiaries. And they do the same business as JM Financial Products, it is only because of capital efficiency they have been capitalized and promoted separately.

Dhruvesh Sanghvi: But none of the capital market funding will be done via that home subsidiary, right?

Vishal Kampani: No, zero.

Dhruvesh Sanghvi: So, what is the current number for capital market funding then? I mean, about that entity particularly.

Vishal Kampani: Yes. So, capital market funding in total will be around Rs. 2,500 crores in both JM Financial Products and JM Financial Capital put together. And there will be roughly another Rs. 800 crores to Rs. 900 crores exposure in the broking entity, which is JM Financial Services. So the total capital market will be around Rs. 2,600 crores plus approximately Rs. 800 crores, so roughly say Rs. 3,400 crores to Rs. 3,500 crores.

Dhruvesh Sanghvi: But then in the presentation the capital market number is being shown as Rs. 2,472 crores, so there is this other Rs. 1,000 crores?

Vishal Kampani: Yes, because the balance number is in our broking company, it is not in our NBFC, it is not technically a loan book, it is basically financing for the broking clients on a very short-term basis. So that is where we borrow very short-term commercial paper, clients could be doing cash, futures trading, etc.

Dhruvesh Sanghvi: So, that is not even considered as a part of this Rs. 17,000 crores?

Vishal Kampani: No, that is actually, so that is what you should understand because when people say we have commercial paper borrowing, a commercial paper borrowing is actually being used for a working capital activity. And most of this commercial paper actually investments in fixed deposits also which gives us lines from the exchange to do business. So that is why we do not confuse that Rs. 800 crores - Rs. 900 crores number in our loan book.

Dhruvesh Sanghvi: One additional over that, I mean, just to conclude. So, when we come to the slide known as IWS Key Financial Information, actually my slide number is missing because I am seeing the pdf, which has basically the details about wealth management, AUM growing and some numbers below that. Why are we showing the loan book data out here? I mean, what is the logic to show loan book data under IWS?

Vishal Kampani: Yes, because IWS has both businesses, it is called fee based business and fund based business, because I will explain to you. So, a lot of the clients who are giving us fee based business, they also do loans business with us, not all but many of them. So, let me give you an example, so there could be a client who is borrowing from us on margin loans and giving us broking business. So, it is a very close relationship between the broking business as well as the lending business.

Dhruvesh Sanghvi: So what kind of lending would this qualify in that wholesale, retail, capital market and corporate categories that we are defining?

Vishal Kampani: So, this is actually all retail margin loans, I mean, this is not really wholesale loans and they are very short dated loans, some loans are as short as 30 days and some could be as long as 90 days.

Dhruvesh Sanghvi: But this number is Rs. 8,000 crores.

Vishal Kampani: No, this is the total book, because in this book, as I said, we also have corporate lending, we have promoter lending, so we do promoter loan against shares. And then we also have the book which we have built along with JM Financial Credit Solutions because that is staying in JM Financial Products.

Dhruvesh Sanghvi: Actually, I mean, I was indicating but what that looks like that when we show loan book out here at Rs. 8,200 crores or Rs. 8,176 crores, it gives us questions where is the interest income of this Rs. 8,100 crores being booked into IWS which is not the case. The entire Rs. 8,100 crores interest income is not coming under IWS.

Vishal Kampani: But that book, the real-estate book which is a component of that is the only component which is reducing quarter-on-quarter. So that is why we spoke to our auditors earlier this year and they said you decide where you want to classify it as per INDAS. Now, it is very difficult to take it out of JM Financial Products entity and put it somewhere else. So, we said, anyway it is reducing because JM Financial Credit Solutions is doing more wholesale business, that is why we left the loan book here. And that is why there is a separate page where we actually give you the data of what is the wholesale mortgage book, what is the capital market book and what is the corporate book.

Dhruvesh Sanghvi: I have one question on the same thing. When we say this wealth management AUM has increased from Q4 to Q1 by Rs. 11,000 crores, suddenly did we get some extra clients? And is this the wealth management where we keep earning some distribution margin, or is this something else?

Vishal Kampani: No, we have not increased AUM by Rs. 11,000 crores quarter-on-quarter. Rs. 11,000 crores is our equity AUM.

Dhruvesh Sanghvi: No, I am saying wealth management AUM has increased from Q4 to Q1 from Rs. 31,000 crores to Rs. 42,000 crores.

Vishal Kampani: Yes, so this is the AUM under advise where we earn fees.

Dhruvesh Sanghvi: I mean, it looks as if we have acquired some large clients out here, otherwise how would this number go. So I just wanted to understand have we activated a larger team, I mean, what went through that we get Rs. 10,000 crores of extra AUM in a quarter, any thoughts there? I was not participating in the last con-call, if you have discussed, but if some thoughts.

Subodh Shinkar: So, basically I think what we have done is that overall we have added the families and we have added some of the corporate clients as well. So, overall, our AUMs have grown to that level of Rs. 43,000 crores compared to the last this thing. So, these are purely the wealth assets where we are advising actually. As Vishal clarified earlier, these are not custody assets, which means these are not just the assets which are lying in the DP, but these are the assets where we are advising. So, yes, we have increased our AUMs by acquiring clients, by acquiring assets from the existing clients.

Dhruvesh Sanghvi: In that connection then why our IWS profits for this quarter are down? I can see that there is this Rs. 10 crores provision that we have made. We have lost out on interest cost as well it seems, if you can expand a little bit there as well.

Vishal Kampani: So, interest costs have gone up because a large part of the IWS borrowing is short-term in nature and the interest has gone up. So all the capital market loans are all funded through CPs. So, the interest costs have gone up by almost 100 basis points before September 21st. So that is why there is a significant increase in the interest cost. And the provision number has gone up because of NPA.

Dhruvesh Sanghvi: The capital market NPAs?

Vishal Kampani: Yes, these are capital market NPA. And in addition to that, also, there has been lack of capital market broking as well as activity in this year first half compared to last year's first half. Last year's first half was a very strong, very strong momentum in the capital markets. And you should also understand that in the broking space a lot of the broking revenue actually is earned in mid-cap stocks also. And the mid-cap stocks have been quite lackluster in terms of performance in the last six months. So the broking revenue has also sort of been on the lower side. In addition to that, even our investment banking business, if you see our last five year historical performance, it has usually performed much better in the second half compared to the first half. And that revenue also is not very stable in terms of QonQ, one quarter can be 50% of revenue in one year. And therefore all of these events put together they create some variability in the IWS results. So, therefore, IWS result is best seen on an annual basis which gives you a much better and clearer picture.

Moderator: Thank you. Our next question is from the line of Parag Jariwala from White Oak Capital. Please go ahead.

Parag Jariwala: See, I have one question. First of all, thank you for putting out the interim presentation on CPs and on the liquidity management of the company. My question is, look, ALM is one aspect where we have done a good job. The second aspect, let's say, overall liquidity goes a bit tight or the cost of fund increase across the board, obviously, we are not the primary lender having a very great, in terms of longevity a very big history. So, our cost of funds definitely goes up slightly higher than the top rated NBFCs. My question is, in terms of growth, you also mentioned in the earlier question that a lot of our loans are short-term. Today let's say I am charging 12% but tomorrow if I am charging 14%, 15%, I am just taking a number, is our ability to price that loan remains as it is, will the good customers move to a better rated company just because of the cost of advantage, or that business never happens at all, I mean, promoters or somebody decides not to borrow against shares of securities?

Vishal Kampani: So, first of all, our short-term loans are only larger in the IWS segment. If you look at the mortgage lending and distressed credit segment, bulk of our facilities are all long-term, more than three years in maturity. So, the short-term loan is a necessity for the IWS business. And your question is a good one. So, the first thing is that we will always try and retain our good clients. So, even if our cost of borrowing is going to go up, we will be the last ones to pass on the incremental cost of borrowing to our good clients. Now, it all depends on the velocity of how much the cost of borrowing is going to go up. So, if you are telling me the cost of borrowing is going to go up by say 200 or 300 basis points then, well, I think at those levels people will reconsider investing in the equity market, because the cost of borrowing is high

Parag Jariwala: No, I am just taking examples.

Vishal Kampani: Yes. If cost of borrowings were to go up then this book, the capital market book that we have will naturally shrink. Because people will basically withdraw positions and not want to do arbitrage trading or not want to have loan against share positions. So, it is a very kind of counter intuitive where you feel that yes markets are falling, things are cheaper, but if cost of borrowing is going up you may not see that much interest in the stocks from, especially, retail clients when funding costs are high. And this retail client base is a very large base, these capital market loans are spread across all our branches and they are probably 2,000 in number in terms of loans. So there are lots of loans. So, we basically do a check every week on where we want to increase rates and where we do not want to increase rates. And yes, so we will take a margin hit if rates go up dramatically for our good clients we will take a margin hit, but on many of the clients we will have to pass on costs.

Parag Jariwala: That is very sensible. And secondly, if you can highlight, since the IL&FS episode, when the market started going down, how much we have borrowed from banks as well as from the open market?

Vishal Kampani: So, I think we have borrowed totally around Rs. 750 crores from the markets and we have repaid roughly Rs. 1,850 crores since that episode. So, the net repayment number is around Rs. 1,100 crores.

Parag Jariwala: And this borrowing came in at what price?

Vishal Kampani: The borrowings would have come in roughly at 50 to 100 basis point above where we are borrowing before September 21st.

Parag Jariwala: Which is like 9%?

Vishal Kampani: Yes, that is right, 9% for short-term and for longer-term closer to 9.75% to 10%.

Parag Jariwala: And lastly, have we done any reassessment so far as the growth forecast is concerned, both for Credit Solutions as well as the other business?

Vishal Kampani: I think it is too early to do a reassessment of where growth will be over the medium-term to long-term. As you would imagine that this entire liquidity event is only four weeks old and while we think it is quite temporary and hopefully over the next four to six weeks things should get much more clearer, I think the right time to make an assessment would be four to six weeks down the line. My personal feeling is that things should be getting better over the next couple of weeks. There is obviously a lot more nervousness and people get more bearish when they see any WhatsApps and they hear any rumors. And I think many of the rumors are unfounded and people should really do their work, read balance sheets, read how companies are doing, look at their debt equity, look at the quality of management, and then decide how they should be looking at the market. So, I think next four to six weeks we will still watch and then we will decide if we want to recalibrate or not. But if I were to answer the question, see as a group we have always maintained that a 15% to 20% growth is a very healthy growth and if markets are conducive we will pull the growth number up to 25%, maybe even 30%. And that has been our stated stand for a very-very long time. So, I would not at this point deviate from the stand that we will grow 15% to 20%, I think we should be very easily be able to grow 15% to 20%. Now, will we pull that number up to 25%, 30%? I think we will have to wait and watch before I answer that question.

Parag Jariwala: And very last, is it possible to get some granular detail on the real-estate book in terms of names, etc., because a couple of companies in the competition have started putting it out?

Vishal Kampani: Yes, so I am happy to have Gitanjali give you some of those names. But I would like to say that we have one of the best asset quality books on the real-estate side. I would imagine our diligence standards and the way we underwrite just like private equity business, and we are extremely confident of the performance of our real-estate book. I will pass it on to Gitanjali who heads our nationwide origination, she will take you through the top ten names that we have in terms of exposure.

Gitanjali Mirchandani: So, with regards the top-ten exposures which we have in the sector, that constitutes approximately 30% of our entire wholesale portfolio. In terms of the names, I am obviously saying in the order starting from the highest. The first four exposures are Bangalore based clients which are RMZ, Adarsh, Embassy and Divyasree. Followed by a Mumbai based developer, one of the largest, Kalpataru, which is ~Rs. 470 crores. Post this, we have a Chennai client, Casa Grande, which is one of the largest developers and the fastest selling developers in that city. The next is a Pune based developer called GoelGanga, it is the Goel Ganga Group. Again followed by a Chennai developer, SPR. And the following two clients are Spenta and Neelkanth, again, two Mumbai based clients. So, this constitutes approximately 30%, I was talking about, of the entire wholesale lending book.

Moderator: Thank you. Our next question is from the line of Sunil Tirumalai from Credit Suisse. Please go ahead.

Sunil Tirumalai: Sir, I have a few questions. Just going back actually to the loan book split, even when this happened last time as well we couldn't clearly understand. So, if you look at slide 11, Rs. 17,108 crores, and if we go down to Slide #20 in mortgage lending you have Rs. 8,792 crores, and then Slide #19 says Rs. 8,167 crores. So that comes to about Rs. 16,950 crores or close to

Rs. 17,000 crores. I am guessing these are two adding up to the first Rs. 17,000 crores that I pointed out to?

Vishal Kampani: Roughly, you are right.

Sunil Tirumalai: So, where is each bucket going, I mean, what I going into IWS Rs. 8,176 crores and what is going into because the mortgage number of Rs. 8,792 crores is actually less than what you disclosed as wholesale mortgage. So, is it that all of the mortgage loans from financial products is in IWS?

Vishal Kampani: No, I am actually lost with your question. Can you repeat that?

Sunil Tirumalai: So, I just want to know how this Rs. 17,108 crores has come?

Vishal Kampani: Rs. 17,108 crores is total loans. Now, Rs. 11,211 crores are wholesale mortgage loans. In the wholesale mortgage loans you take the entire JM Financial Credit Solutions number. So when you subtract that JM Financial Credit Solutions number you will get to a net number which is the wholesale mortgages sitting in JM Financial Products. So, that is the number you have to deduct from the JM Financial Products book to arrive at the non-real-estate number for JM Financial Products. It is as simple as that.

Sunil Tirumalai: So, this difference of about Rs. 2,500 crores is sitting in Slide #19 IWS?

Vishal Kampani: That is correct.

Sunil Tirumalai: What else is there?

Vishal Kampani: In the Rs. 8,176 crore number you see in Slide #19, that includes that mortgage book sitting over there.

Sunil Tirumalai: Yes. What else is there in this Rs. 8,167 crores?

Vishal Kampani: So, now you go back to the same slide where you have loan breakup. You have the Rs. 2,472 crores and the Rs. 2,977 crores and the Rs. 499 crores, there is a large part of those loans sitting in JM Financial Products and the same loans we have in JM Financial Capital, which is a 100% subsidiary of our broking business which only has capital market loans. So that number is split between the net number of products and the total number of JM Financial Capital. So, Sunil, the reason to do this is to use capital efficiently, because our broking business had almost Rs. 200 crores – Rs. 225 crores of surplus capital. So we had two choices, we could have used that capital and given a dividend, but by giving a dividend to the holding company and putting that capital back into JM Financial Products we would have lost dividend distribution tax. So, we went to the Reserve Bank of India, took their approval that why cannot we start a NBFC and invest this Rs. 225 crores into a new NBFC only for capital market lending so we don't pay dividend distribution tax by just transferring the holding and instead of creating a cross-holding. So, this is all very efficiently managing your capital.

Sunil Tirumalai: And I missed something on Slide #19, just wanted to clarify. So the net revenue of Rs. 473 crores, does that include the interest income that comes from the Rs. 8,176 crores loan book?

Vishal Kampani: Yes, absolutely. This is net revenue on loan book.

Sunil Tirumalai: So can you just split the fee income and the interest income in this?

Vishal Kampani: Yes, we will give the number to you. Just move to your next question, my team will give you the number in two minutes.

Sunil Tirumalai: Sure. Secondly, there is this below the loan book chart you mentioned the credit solutions was very close to the debt equity limit. So, I am guessing now that is resolved?

Vishal Kampani: That is resolved because we raised equity in the middle of September. We raised around Rs. 875 crores and we have increased the balance sheet size of Credit Solutions by almost 50% on the net worth side. So, our current debt equity stands at around two times, so there is enough room for credit solutions now to grow.

Sunil Tirumalai: Was there constraint on single borrower exposure sizes or it is just that you just couldn't lend more?

Vishal Kampani: No, we couldn't lend more because we have a self-imposed debt equity cap of 3.75x in JM Financial Credit Solutions. So we hit that cap in July. So, around July 15th we hit the cap, we had almost predicted that. So we had started our fund raising efforts in May which concludes in middle of September. But now with the net worth going up we are not going to be booking any more real-estate loans in JM Financial Products, all the real-estate loans will only be in JM Financial Credit Solutions. If you remember, we had discussed this in person, and I told you once we expand the net worth of JM Financial Credit Solutions we will be able to book all the real-estate loans only in one entity.

Sunil Tirumalai: And Slide #13, this is very helpful giving us a segment wise breakdown of where the CPs are sitting. My question was on the corporate lending, so the Rs. 1,400 crores over here is almost half of the loan book of what you disclosed as corporate lending in the earlier chart. Are these really such short-term loans?

Vishal Kampani: Yes, because I have explained to you that almost half of this corporate book is actually promoter loans and LAS, we classify it as corporate lending because this works very closely with our investment banking team. So, almost all of these are less than six months to one year loans, they are really promoter loans from a six month to one year perspective. And they are all top-notch quality loans. So I would imagine 80% of this book is BSE200 companies, almost 50% of this book will be BSE100 companies. So, these are actually not even very high yielding, they are around 11, 11.5. And very honestly, if I were to call these corporates and tell them just get these loans refinanced, I can guarantee you half of this will get refinanced in the next seven days. So, your question on the split of Rs. 473 crores, the interest income is roughly Rs. 270 crores, fees and commission is roughly Rs. 203 crores, and the breakup of fees and commission is roughly Rs. 50 crores in brokerage and others is Rs. 150 crores.

Sunil Tirumalai: And I had a query on the Distressed Asset business as well, so over there how are you kind of seeing, your AUM has been kind of flattish, I think there were some acquisitions in this quarter. But any color in terms of how you are seeing the pipeline?

Vishal Kampani: Yes, so I think the AUM, Sunil, has been flattish. But our underlying investments have almost grown at 50%. And the reason is because that business is moving very quickly to a cash investment model. So the 15:85 structure is no longer very popular with the banks when they want to close acquisitions, and it is moving very quickly to cash only. So, most of our transactions which we are seeing, whether small, medium or large, they are all moving to a full cash situation. We kind of prefer that also because the acquisition prices are lot better when we are doing full cash compared to doing the 15:85 structure. So, our investment has obviously gone up phenomenally. You would have seen the strong profit growth in the ARC, so the ARC continues to do very well because a lot of our mature AUM is now coming to pay off. And I expect that trend to continue over the next few quarters. So it is a great time for the ARC, it is a great time to do asset acquisitions and also a great time to be able to realize profitability and cash flow from investments made over the last three years. I would also like to address, we have Rs. 719 crores of CP borrowing in the distressed credit side and we are highly confident of recovery over the next six months, I mean, we have a lot of assets, not just one but almost four or five assets which are in the final stage of resolution. So, even if 50% of those resolutions were to go through, we are going to be sitting with a lot of surplus cash on our ARC.

Sunil Tirumalai: And my final question, the SBI Chairman made a statement that they will be stepping up purchases of assets from NBFCs and some other banks have said that as well. Is that something relevant to you? Are you actively engaging with some banks?

Vishal Kampani: So far we have not engaged with anybody on asset sell down, so we have not discussed loan sell downs with anybody. I think, as you can see our net debt to equity as of October 25th is very close to two times, so we barely have any leverage. Second, because a lot of our equity is invested in these loans, our bankable assets are very large. So the most important thing for us is just to get bank loans from banks. Yes, the banking sector seems to be very attracted by buying NBFC assets because they rather buy NBFC assets at 14% yield then lend to NBFCs at 10%. But that we will have to see. So, I think there are a lot of other NBFCs, friends of mine who are offering those assets. But I think we will prefer to stick with borrowing as of now.

Moderator: Thank you. Our next question is from the line of Ritika Dua from Elara Capital. Please go ahead.

Ritika Dua: One clarification, I missed your comment, you mentioned something about Nitco in your opening remarks. If you could just share.

Vishal Kampani: Yes. So, our net profit for this year, if you see, has grown around 8%. So let me explain to you, in our ARC we have a stated strategy that we will be taking equity positions in the turnaround that we like from a long-term perspective. But what we have done in IndAS, we have chosen to be more conservative. So we have two choices in front of us in April, one was that any deviations in the value of your investments can be adjusted into your net worth, or you mark-to-market them on a quarterly basis. And we have chosen to mark-to-market the same on a quarterly basis. So, Nitco is an output of a restructuring exercise we have gone through with a bad asset. And we have a 29% equity stake that we have acquired in that company, it is a listed company. And in the last six months the stock has come down by almost 65% - 70%. And we are a very long-term shareholder, we are happy to hold that stock for three to four years and work through the turnaround of the company. But because the stock price has come down we have taken a mark-to-market investment hit for the quarter in our books. Now, this is not an operational hit, so our operational profit, if you were to ignore this mark-to-market loss in the ARC is Rs. 178 crores, and therefore our PAT YoY has actually grown by 18% and not 8%. This is what we were trying to clarify.

Ritika Dua: Sir, you mentioned that in your IWS segment this time you have taken some provisioning hit because of NPAs. Could you clarify on that?

Vishal Kampani: Sorry, it is not NPA, actually ECL provisioning, it is ECL, it is expected credit loss based on your probability of default. It is not an NPA, I apologize for mixing that up.

Ritika Dua: And if you could just, maybe, explain a little bit more like how has this come by? And similar to this, what I notice, while the disclosure on the number of top builder is very helpful, but then the SMA-2 accounts for us has doubled on a quarter-on-quarter basis. What is your view on that? And also, resolution on one of the accounts which, probably the only one which slipped last year?

Vishal Kampani: So, let me first start with the SMA accounts, that is the most important question. So, if you see the same page on page #11 where we have given you the SMA accounts. If you see Q1 FY18 the SMA-2 was a 0.3% position last year. And last year the same SMA-2 position in Q2 moved to 1.9%. And you see Q1 FY19 the same SMA-2 position has moved down to 0.7%, which has again moved back to 1.4%. So, what happens is in our construction finance portfolio we get interest payments from the escrows which we receive based on sales. So, many a times there are delays in terms of sales, so delays in terms of receivables from home buyers that accrue into the escrow of the person we have lent to. And therefore he is not being able to pay interest for a month or two months. As soon as the situation corrects and he gets the receivables in time the payment comes through. And therefore we always see a fluctuation in our SMA-2. And we have been very transparent when we give the SMA-2 numbers to you. What we track is, internally, our gross NPA should not cross 1.5% and our SMA-2 number should not cross 4%. If these two numbers reach those levels then we get worried. So, I think at these levels there is really no cause for a concern because we are actively working on making sure that the developer from a monitoring perspective is collecting the money and the escrows coming back to normal. And we are also very careful when we disburse construction finance, so we are measuring how sales are happening, how much construction finance he needs, how has the building progressed, every month there is a visit from risk with the origination side, pictures are taken of the site. So, it is very much linked to a monitoring plan. So, I would not stress about it at all, unless you see the SMA 2 spike to 4%. Also, a concern would be if there is continuous high SMA-2 for one, two, three, four, five quarters, so that is a bad sign because that means you are actually releasing construction finance money but you are not seeing sales. And it is really a construction money which is taking care of your SMA-2 payment and not making your account an NPA. So that is important that at JM Financial we do not follow any of these practices, we really follow on making sure we push the developer to sell.

Ritika Dua: So, just on that ECL mechanism, the reason why this quarter we had a higher provisioning in credit solution is because the spike in SMA-2 maybe?

Vishal Kampani: Yes, of course.

Ritika Dua: So, does this get reversed incrementally as and when this number comes up?

Vishal Kampani: Absolutely, so the SMA-2 comes down, say for example, back to 0.7% as it was in Q1 FY19, the ECL will go down.

Ritika Dua: And sir the explanation on IWS ECL, please.

Manish Sheth: So we have a model where we take PD and LGD, PD is been taken from one of the rating agency's published data. And we have a LGD where we have asset cover, it is linked to the asset cover. So, if it is less than 1.4 times asset cover we actually kind of take 65% for real-estate loans and 65% for corporate loans. Between 1.4x to 1.6x asset cover we take 50% for real-estate loan and 60% for corporate loans. And if asset cover is more than 1.6x we actually take 25% LGD for real-estate loans and 30% for corporate loans. And this is being followed consistently quarter-on-quarter. So, Ritika, the question which you asked if ECL gets reversed, answer is yes, because we do not change model, only thing the input based on SMA-1 and SMA-2 undergo a change.

Ritika Dua: And sir getting back again to the ECL on the IWS segment, so which portfolio has resulted in this spike in provisioning, because IWS has JM Financial Products which has two, three segments, like the corporate segment, the capital segment.

Vishal Kampani: Yes, so there is a corporate segment, there is a net Rs. 14 crores loan we had against Videocon shares, so that has created this spike which has been now declared as NPA.

Ritika Dua: Sir, your view on margins please?

Vishal Kampani: That is a good question. You have seen a 50 to 100 basis point expansion in our interest costs in the last four weeks. And I think we so far have not moved very aggressively to pass on the interest cost to people who borrow from us. And the reason is, I think, we have a very high quality book, extremely high quality asset side. And I think if we aggressively push the rates on to our borrowers we may have asset repayments. So, let's see how this continues, I think if rates continue to go higher from these levels then I think we will have to selectively work on the asset side and increase rates. Our various teams are already working on the same, we are quite ready to move on the same if we have to. But I think so far for the next four to six weeks we will have a wait and see approach, because we do not want to have a knee jerk reaction with our clients, and we think this is a temporary phase of liquidity and not really a phase where people are going to be insolvent. And therefore we should have a wait and watch approach. I think these questions will be a lot better answered four to six weeks down the line.

Moderator: Thank you. Our next question is from the line of Manish Bhandari from Vallum Capital. Please go ahead.

Manish Bhandari: My question relates to the previous question on the margin side. So, looking at the changing scenario in the construction and financing side, when do you see yourself, the capital what you have raised and leveraging that capital? And do you see an opportunity for you to deployment of that capital should be far easier than the conservative profile what you have maintained in last two, three, four years or so?

Vishal Kampani: Yes, so I think first thing is that we will continue to maintain a conservative profile. We have always said that a 20% growth number is a very good number for us and if risk is conducive we will take it up to 25%, 30%. And if risk is not conducive we will take it down to even 10% or 15%. And that is our stated philosophy over the last many years, and you know that. And I think we are going to continue with the same philosophy. Having said that, I think we are sitting in a very enviable and a good position right now, because our debt equity is the lowest among all NBFCs in India. We have raised almost Rs. 1,400 crores of equity capital in the last nine months. And our real-estate NBFC, the net debt to equity is almost two times. And I think let the situation settle down over the next four to six weeks, and I think we will be in a good position to be able to grow. I think even if you focus on our liquidity statement which we have given out in the October 5th, if you just look at the gross cash accumulation which our business will generate by just keeping the assets where they are, because in our presentation we have not talked about what new disbursements we are going to do. So, as an equity analyst if you just simply focus on page #5 of that presentation and see what is the kind of cash we could be sitting on without new disbursements by the end of March 2019, the number is a staggering Rs. 3,000 crores odd number. So, obviously, let us see how the markets play out, but we could have a very advantageous Jan, Feb, March quarter. But I do not want to say anything in a rush, things are obviously tight from a liquidity perspective for the NBFC sector today. I am hoping things get better in the next four to six weeks. And once they do I think it will be a better time to talk about.

Manish Bhandari: Is it fair to assume so that you would go to a peak of 3.85 times which is your internal limit with this kind of capital raising?

Vishal Kampani: I think we are quite far away because our overall net debt to equity is just 2.3 times, we will be generating a lot of profit over the next couple of quarters. So, I think we are quite done with fund raising for our financing business for the next, at least, foreseeable two years. We will need more capital in our asset reconstruction business, there are a lot of growth opportunities there. And we are working on plans to how we raise equity at the ARC level. And I think we will go public with those plans in the next few weeks.

Manish Bhandari: Sir, my last question is regarding the asset reconstruction business. So, you said the situation has changed a lot, and better for you, from the position of the cash situation. So, whether this business will be lot more less cyclical? And how we should see this business if we are to look at for next three years, four years or so?

Vishal Kampani: See, in a growing economy I do not think this business can really be less cyclical, actually the right word for this business is counter cyclical. So, in any growth economy when there is a lot of growth there are bound to be bad assets and NPAs created. So, today there is a large opportunity because of bunching up of assets coming together. And why did the bunching up of assets happen? The bunching up of assets happened because many of the banks were allowed to restructure loans and postpone their problems. If the banks six, seven years ago were not allowed to restructure loans and they were asked to make those loans NPA, then the growth rate of ARC would have been much more measured over last seven, eight year, compared to a very high growth rate that you are seeing today. So, yes, the growth rate of ARC will taper, but maybe after two to three years. I think for the next foreseeable future there is going to be a quite high rate of growth for the ARC business.

Moderator: Thank you. Our next question is from the line of Anand Pawnani from Unifi Capital. Please go ahead.

Anand Pawnani: I have three questions, I will ask sequentially. Sir, you mentioned about net repayment of Rs. 700 crores, so just wanted to understand how much of this was prepayment, if you can give the breakup?

Vishal Kampani: So, you mean asset side repayment?

Anand Pawnani: You mentioned about liabilities.

Vishal Kampani: It was CP side. So, we basically bought back roughly Rs. 865 crores of our CPs in the last two weeks. I think we bought back all our maturities up to November 14th or November 28th in certain companies, because we do not want to sit on negative carry. So if we are sitting on cash we would much rather purchase the CPs. But the challenge is that not everybody is selling our CPs, which is also a good sign, but it is also a bad sign because sitting with all this cash we are going to be earning negative carry. So, wherever possible we are trying to buy CPs and we will continue with the same plan next week as well as week after next.

Anand Pawnani: Sir, generally these times are very opportunistic times for deploying cash at very high yields. So, having bought back CPs it seems that we are going ultra conservative, am I thinking right, we already have enough money to lend and then we have reduced our overall capability to lend further by buying back our own paper.

Vishal Kampani: That is a great question, but you know we are a very conservative company.

Anand Pawnani: Second question is about the TER cut for distribution of mutual funds. Wealth management is a big business for us, so if you can give me a ballpark sense of how much our PBT will reduce on a consolidated basis due to this TER cut?

Vishal Kampani: Between Rs. 10 crores to Rs. 15 crores.

Anand Pawnani: And third, I understand it would be difficult for you to assess, but given the stress in the system and given the fact that we are not aggressively lending at this moment, do you anticipate that H2 for us would be weaker than H1 ballpark?

Vishal Kampani: So, I can tell you that Q3 will be weaker, difficult to comment on Q4 because if things normalize in next two to four weeks, most mutual funds we talk to are waiting to cross November 14, so I do not know what the magic number on November 14th is, but I believe that a very significant part of the CP repayment is due in the first 10 to 15 days of November. And if those CP repayments happen on time and there is no default then I think the system may come back to normalcy quite quickly after that. So, that is why I said that let's wait out four to six weeks, there is no rush, we are building this business for decades and not for the next quarter. So, let us wait and watch and decide after to four to six weeks. If things come back to normal then I think it is pretty obvious that with our current debt equity, our current levels of cash, our current power in being able to originate high quality assets both on the real-estate corporate as well as on the capital market, and now on the retail side, we will be in a very good position here. Only one weakness is that we are going into an election, so our investment banking as well as our capital markets business may slow down a bit because it gets difficult to close transactions during election period, there is uncertainty, M&A slows down, IPO slow down. And that is almost Rs. 200 crores - Rs. 250 crores of revenue for us on an annualized basis. So, that obviously we will have to look at on how that pans out. But that is obviously an event we will have to see in May, because it is not next week or something, we will only know in May.

Anand Pawnani: And sir just last one question, I see broadly the Group is very conservative, but this data point that you shared over the call, we lost Rs. 14 crores turn NPA for loan against shares in Videocon.

Vishal Kampani: Not Rs. 40 crores, it is net Rs. 14 crores.

Anand Pawnani: Yes, Rs. 14 crores. Still it is a number, it raises questions in mind that such a conservative group can lose money lending to a company whose debt is apparent since last four or five years. So if you can help me through the thought process, what exactly went wrong?

Vishal Kampani: So, I will tell you, this loan is backed by property, it is not just backed by Videocon loan shares. So, we were not stupid enough to do a loan only against the shares of Videocon. And we will have to go through a property SARFAESI action on the property and recover the money. So we are very hopeful that we will recover all the money once the property is sold. So, we are very careful. You are conservative does not mean you do not take risk. You take risk, but you take measured risk. So here the loan combination was loan against property and it is a very good property in the city of Bombay. In addition to that, we had shares, the share value obviously is very low but we will liquidate the property in the next six months, to two years and get the money back.

Moderator: Thank you. Our next question is from the line of Ritesh Chedda from Lucky Investments. Please go ahead.

Ritesh Chedda: Just one question, considering the way the situation is, do you foresee a case where there is a probability of an asset price or collateral price downward revision because we are in a 13, 14 year cycle. And if yes, then what will between the stress test on the credit, liquidity and the solvency of our portfolio?

Vishal Kampani: So, let me start by saying that our portfolio is again of a very high quality and we have utmost confidence in our portfolio. And largely most of our loans are with tier-I and tier-II developers. We categorize all the real-estate community into four zones, tier-I developers who are absolutely high quality, who have been in business for over 20 years and have a very long track record of having delivered millions of square feet in that micro market. And I would imagine almost half our book, or more than half our book will be with these developers. Tier-II are similar developers but slightly smaller in size, and that is where we are able to get maybe 100 to 200 basis points better return for similar risk. And that will be the balance of our book, we have no exposure in tier-III, tier-IV where the developer’s track record is less than 10 years, he has not delivered enough of square feet area, as well as his band is not very strong. So, I think there is going to be a big interplay between the tier-I, tier-II, and tier-III, tier-IV where if this cycle gets rough, and when I say rough I assume a 30% to 35% fall in the selling price of homes, which again is a low probability scenario. But assume for a second that scenario does play out then I think the entire tier-III, tier-IV developers will be sold to tier-I, tier-II developers. And the financing needs for people like us will go up, because each of these developers will want more acquisition finance to buy out the tier-III, tier-IV developers. So, I would not like that scenario to happen, but if it does, it puts us in a very good situation.

Ritesh Chedda: But is there a probability of a collateral price revision and asset price revision, what you gave out is the outcome, but is there a probability?

Vishal Kampani: Let me give you an example. Let us think about this, you are going to buy a home, say you want to buy a home somewhere in Bandra or somewhere in Chembur, and you have following choices in front of you. You go with a broker and you see four developers, four buildings coming up in that micro market. There are two developers you have not heard of, and there are two developers who are very strong in that micro market, or very strong in Bombay and extremely well branded. This is a house you are going to buy for you, your wife and your kids and you want to stay in that house for the next decade at least. If a developer, who you do not know, whose financing is suspect, the financial closure is not done is offering you a 20% - 25% discount on the price, where you know the product may not even finish. Would you still buy that house or would you pay 20% more and buy the house of a developer who is stable and will complete the building and will hand over a unit to you in top quality? My guess it that 80% of people who are seriously looking to buy a home, and this is already a home buyer market, there are no investors left; investors in real-estate ran away four years ago. A home buyer who is serious will pay 20% more and buy a quality home. So, when you talk about collateral values dropping, where is the collateral value going to drop is something you have to see. So, if Oberoi or Godrej have properties and if some low quality developer next to them is going to drop property prices, it does not mean that Oberoi and Godrej are tomorrow going to drop property prices to be able to sell. So the stronger developers will prevail and they will have better sales and they will get customers and they will get housing finance at very good rates. So it is not just about collateral damage happening across the sector, I think the markets and investors both on the credit and equity side are just overly nervous and they are creating more panic in the system than is required. These things do not play out really in a home buyer's mind the way investors are making it out to be.

Ritesh Chedda: Thanks. Do you see incremental financing happening to the space over the next three to six months?

Vishal Kampani: I think the next two months need to be watched out for, but I think things should resume back to normal starting January, February is my guess. That is why we want to wait four to six weeks. We are in a position to disburse if we want to, we are just being conservative and holding on. Just the way demonetization happened, as a company it is the first time, forget company, I think most Indians for the first time were facing the effects of demonetization, and we did not grow our book for six months because we were being very careful. So we will review that. As JM Financial we will review that four to six weeks from now. As a market, I do not know. I think the market also, other NBFCs and other players are also having a wait and watch situation. There will be a few who will take a plunge faster and there will be a few who will wait. Having said that, I can tell you one thing that across NBFCs and across HFCs, definitely people are going to be more focused on credit quality and asset quality. And also, people are going to be more focused on what rates they lend at. So, I think pricing power actually will come back to people who are giving money very-very quickly.

Ritesh Chedda: So, I will just ask here. If that is the case where incremental financing may not be, or let's say if it plays out, that incremental financing does not come after the two, three month window which you are highlighting, is it a sufficient enough reason for the asset price revision in few pockets to start?

Vishal Kampani: Yes. If incremental financing does not come through by January, for example, you will see asset prices going down.

Ritesh Chedda: So, collateral price revision, asset price revision can set in?

Vishal Kampani: Yes, I will give you an example, it will set in more with the weaker credits. And what may happen, if you have more weaker credits in your portfolio, even by reducing your price you are not guaranteeing sales.

Ritesh Chedda: That is always the case, these are price inelastic products.

Vishal Kampani: Exactly. And that is why I am telling you, there will be more M&A between tier-I, tier-II developers and tier-III, tier-IV developers. Because the weaker developer who is being able to assess that even if I drop price by 20. So how is the weaker developer going to sell, he is not going to randomly wake up one morning and say, okay I am not getting money so now I am going to cut my price by 30%, it does not work like that, it is a business, he is running a business. So, what he will do is he will basically assess, he will call brokers, he will figure out at what price he can sell, he will get frank feedback from the people who have been selling his product for a while. And if he realizes that at his brand if he has to sell 20%, 30% lower, he rather do a partnership with Godrej or Oberoi and let that guy sell at his price and he gets a share of the revenue. That is why there could be more M&A. And if you talk to all the large players, the large players who are cash rich, who are well funded, are actually sitting pretty to take over these assets and do these transactions. Now, if the credit is very weak and if there are obviously issues in terms of title, issues in terms of what he is trying to sell, then of course it is going to be a tough time. But I think that is already priced in, it is not that people are looking to sell those projects anyway.

Ritesh Chedda: I think the second phase always is asking for more collateral, as soon as the property price revision sets in. The third phase is consolidation. Anyways, that was very-very helpful. Thank you.

Moderator: Thank you. Our next question is from the line of Ankit Gupta from Bamboo Capital. Please go ahead.

Ankit Gupta: Sir, recently there was a comment from one of the largest developers in Mumbai market that, a lot of the NBFC funding to the real-estate guys was for the land acquisition. So, if you can talk about this practices, do we also have some exposure to funding for land to this developers?

Vishal Kampani: Yes. So we have 10% of our book funding against land. And it is with the top quality developers. So, all our land funding rates are also sub-15% and they are with all the top quality developers. We do not do any land funding with even tier-II developers. I think a comment of this nature is highly exaggerated, and I think real-estate as a sector doesn't necessarily behave like the power sector. It is a lot more granular in nature, there are a lot more players, and you do not find one asset which has Rs. 6,000 crores - Rs. 7,000 crores of investment which can go bad because they do not have a coal mine or they do not have SEB who is going to buy power supply from them. So, I do not think it is right to compare the real-estate sector from that perspective. So, obviously, it would suit large developers, I do not know who the developer is but it would suite any developer to talk like this because he will get assets at cheaper prices. But I do not think it will play out as bad as most people think. I think even in the competition most of the NBFCs have been quite sensible, I mean, it is not that they do not have collateral cover, they have a lot of collateral cover against where they have lent money. So, end of the day I think if you are extremely bearish on India, if you are extremely bearish on job creation in India and the economy and you feel that the economy can grow at 3%, 4% and really drop in terms of growth rate, yes, then there will be challenges in real-estate. But I do not think the real-estate sector will cause the economy to grow at 2%, 3% or a loss of jobs or whatever you may think. So, I do not think it is as bad as most people are trying to make it out to be.

Ankit Gupta: And sir my second question was on how currently is the situation in the money market? So, we have been hearing rumors about complete freeze of issuance of CPs by even mid-tier and even high quality NBFCs. So, any views on that, how will that situation… you are saying that it might improve in the next four to six weeks, so currently how is the situation?

Vishal Kampani: So, let me tell you, the situation was quite bad in the last week of September. And it actually got a bit worse around 5th of October. See, what happens, as you know that a lot of money leaves the month of September because of advance tax payments. This time because of the IL&FS issue a lot of the money left in the last two weeks, in the last three weeks of September and was restricted not to the last week of September. So there was a huge outflow which already happened which put pressure on funds to sell assets which triggered the DHFL bond sale on that Friday, getting the market to crash. Now, what happened is there was also an expectation that a lot of the money would come back to mutual funds in the first week of October. And come 5th or 6th October, which was Friday and Saturday, which is the end of the first week, that money did not return back into the mutual funds. And that caused further tightness, because end of the day people expected a situation coming back to normal, which happens every year, that has been happening for the last two decades, which did not happen this year. So, that created more panic in the second week of October. But I think in the last 10 days things have gotten better, we have been able to raise money, many of our competitors we know have been able to raise money. And I am hoping that post the first 15 days of November things will look at lot better.

Ankit Gupta: And how is the situation for longer term bond, let's say, three to five year bond, are we seeing any issuances there?

Vishal Kampani: No. So, we are not seeing any term issuances, most of the money that is available is available from a two month, three month, six month or a one year paper. Because one year paper people are not taking calls, and frankly, RBI has given a hawkish call, they did not increase rate but they gave a hawkish call. That means they could raise rates, maybe in November, December, January if they feel inflation is going to creep up. So, when a fund manager has to take a call based on a RBI hawkish view, it will be very difficult for him to go long on maturities in its portfolio. So, that is another action which is complicating life for longer term borrowing. Having said that, we already have a shelf prospectus filed in JM Financial Credit Solutions for doing a public issue of bonds.

Ankit Gupta: And from the bank side how is the situation?

Vishal Kampani: So, bank side also there was kind of a freeze in the first two weeks of October, but naturally. Because if you see the exposure of IL&FS is quite wide, I would imagine every bank, mutual fund, and many corporates in the country have direct exposure to IL&FS. I must clarify that at JM Financial Limited we have zero exposure to IL&FS of any kind. So that has made all banks review their NBFC positions. And that review mechanism takes time, so there is a board review, there is a committee review. And rightly so, because I think all bank boards and all bank CEOs will be worried, most banks have almost between 5% and 10% exposure to NBFCs. And that review obviously would take place, and that is when they will figure out that who are the better positioned NBFCs, who have low leverage, high quality of assets, better governance. And those will be the NBFCs how will get money faster from the banks. So I think the banks have finished, the most banks have finished that process and they will finish the process of their quarterly earnings. And I think from the bank's side, again, by the first week of November things should be back to normal. And in addition to that, RBI has been quite helpful in terms of having State Bank of India and some of the other banks purchase assets of some of the NBFCs, and especially the highly levered NBFCs, so they can at least get liquidity to be able to meet their short-term commitments.

Moderator: Thank you. Our next question is from the line of Vaibhav Kacholia from VK Capital. Please go ahead.

Vaibhav Kacholia: Vishal, I wanted to know, do we have a policy regarding buying back our own share? Any thought on that?

Vishal Kampani: Yes. So, at this stock price I would love to buy back our shares, but I think it will be more prudent to keep liquidity right now. And as you know, we have a pretty high dividend paying policy, we have been very consistent in terms of the dividends we have paid over the years. So, buyback is another way of returning capital back to our shareholders, and we will duly evaluate the same. But I think for the next four to six weeks I think we will like to stay as liquid as we can.

Vaibhav Kacholia: Right. Is there some trade-off between dividend and buyback? At some price, at half book or something you might need to consider that, right?

Vishal Kampani: That is right.

Moderator: Thank you. Ladies & gentlemen, that was the last question. I would now like to hand the conference over to Mr. Vishal Kampani for closing comments. Thank you and over to you.

Vishal Kampani: I thank all the participants for taking time to attend this call. If anybody has any specific questions or any other concern, please feel free to reach out to our investor relations team. Thank you, again, very much for participating on this call.

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