JM Financial Limited Q4 & Full Year FY21 Earnings Conference Call

May 06, 2021

Moderator: Ladies and gentlemen good day and welcome to the Earnings Conference Call to discuss JM Financial Limited Financial Performance for the full year ended March 31, 2021. 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 – Group 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 to the conference call of JM Financial Limited to discuss our Financial Results both for the fourth quarter and the full year ended FY21. I hope all of you have had a chance to go through our presentation, press release and results. These have been updated on our website and stock exchanges. I'm joined by my entire senior management team here today. I would like to give you an update on the performance of our various businesses after which Manish will briefly take you through the financial numbers and then we can open up for Q&A.

Our consolidated revenue for financial year '21 stood at Rs. 3,227 crores, a decrease of 6.6% year-on-year, for the same period our PAT stood at Rs. 590 crores, an increase of 8.3% year-on-year. Given the uncertainties around COVID-19 we have taken provisions across the group to the tune of Rs. 208 crores for FY21. Our adjusted PAT (pre-COVID impact) after non-controlling interest is at Rs. 689 crores for FY21.

Moving on to the loan book details:

Our consolidated loan book is Rs. 10,854 crores, down approximately 6% year-on-year. The wholesale mortgage book constitutes 65.9% of the loan book, approximately at Rs.7,158 crores. The wholesale mortgage book registered a year-on-year de-growth of approximately 11%. The capital markets book constituted 6.8% of the loan book which is approximately Rs. 735 crores. The capital market has registered, a book has registered a year-on-year growth of close to 58%. Corporate lending book which also includes the promoter financing book that is approximately 19.4% of our loan book is at Rs. 2,101 crores. This book has registered a year-on-year de-growth of 7.4%. The retail mortgages loan book constitutes approximately 6.8% of the loan book which is at Rs. 744 crores. I'm happy to report that this book has registered a year-on-year growth of 29.6%. This loan book comprises of housing finance, small ticket loan against property and education institutions lending. The wealth LAP book which is the cross-sell of a loan against property to our IWS clients, it's small and constitutes around 1.1% of the total loan book.

Moving on to asset quality:

The gross NPA ratio of the lending business is at 3.5%, net NPA at 2% and SMA2 is at 2.9% for March 31st, 2021. On leverage and liabilities, on a consolidated basis our gross debt to equity is at 1.3 times as of March 31st, 2021 and on a net basis at 0.7 times. During FY21 we raised Rs. 3,123 crores through long-term borrowing. We also concluded a QIP issuance which you all are aware of in June 2020. Our borrowing mix comprises of approximately 78% from long-term sources and 22% from short term as compared to 91% long-term and 9% short term as of March 31st, 2020.

Now I will just touch upon the full-year performance for our various business verticals:

Let me start with the IWS segment:

The segment has revenues of Rs. 1,567 crores with a profit before tax of Rs. 446 crores. The IWS segment has contributed approximately 42% to our group's profit before tax and profit after tax has increased by 6.4% year-on-year to Rs. 331 crores. Again, happy to report that the assets under advice of our wealth management business are over Rs. 59,000 crores excluding custody assets. The equity component has increased by 105.7% year-on-year to Rs. 20,892 crores. Also, happy to report the assets under management of our newly commenced Elite Wealth business stands at Rs. 549 crores. The loan book for the IWS segment which is largely capital markets and corporate lending is at Rs. 3,204 crores, down approximately 17.4% YoY. The gross debt equity for IWS group is at 1.4 times and the net debt to equity is at 0.6 times for the same period. During the full year, we disbursed over Rs. 85,000 crores towards IPO funding.

Moving on to the second vertical which is the mortgage lending business:

The segment has revenues of Rs.1,218 crores with a profit before tax of Rs. 478 crores. The business contributed approximately 45% to our group's profit before tax. PAT from this segment on a consolidated basis is at Rs. 165 crores. Our loan book remained flat at Rs. 7,650 crores. The gross debt equity for mortgage lending is at 1.5 times and the net debt equity is at 0.9 times for the same period.

Coming to the distressed credit business:

Our AUM reduced by 3.7% year-on-year to approximately Rs. 11,060 crores. JM Financial ARC's contribution to the ARC is at Rs. 3,193 crores which is an increase of 6% year-on-year. The segment had revenues of Rs. 385 crores with a profit before tax of Rs. 91 crores. The business contributes 8.5% of the group PBT. PAT from this segment grew to Rs. 44 crores. The gross debt equity is at 1.35 times and net debt equity is at 1.26.

Moving on to the asset management business which comprises of our mutual fund;

The revenues here are Rs. 31 crores with a loss before tax of Rs. 3.5 crores. The average quarterly AUM of the mutual fund is at Rs. 2,400 crores, comprising close to Rs. 600 crores in equity schemes and Rs. 1,800 crores in debt schemes.

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

Manish Sheth: Thank you Vishal. Good evening everybody. 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, actual results may vary significantly and therefore the accuracy or completeness of this expectation cannot be guaranteed.

Now let me take you through the group's results which were announced yesterday and are available on our website. In Q4 FY21 our revenue remained flat at Rs. 841 crores. The Q4 FY21 PBT is at Rs. 312 crores which is a 45% increase year-on-year. Our Q4 FY21 PAT increased by 35% from Rs. 131 crores to Rs. 177 crores. With regard to the full-year numbers, the gross revenue is Rs. 3,227 crores and a net consolidated profit is Rs. 590 crores. This represents EPS of 6.34 versus Rs. 6.48 for the same period last year. As on March 31, 2021 the net worth is Rs. 6,947 crores which is a book value of Rs. 72.9 per share. With this I would like to conclude, and we are happy to take any questions. Over to moderator.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Kunal Shah from ICICI Securities.

Kunal Shah: So, firstly in terms of the overall stress pool that's come off when we look at it in terms of GNPA plus SMA 2, so in terms of restructuring how much would have gone into the restructured portfolio and SMA2 what we highlighted in terms of number of accounts those are reduced to hardly three accounts now. So, what I am referring with the balance, is it like are the recovered one may be there were flowing to the SMA1 or SMA0, if you can highlight that?

Vishal Kampani: Times have been challenging, JM Financial had its own cases in terms of COVID. But we are managing to the best we can. It's a very difficult environment in terms of operating and clearly, we have to make sure that our people are safe and the safety of our people comes first.

Moving on to your question on NPA, as I mentioned in my statement for the December quarter results that there was a feeling that we had peaked in terms of our NPA and SMA2 and I think that flows through with the efforts that the collections team has been working on and we have reduced numbers on the SMA2 front, even the adjustment into NPAs is really the Supreme Court order adjustment of 1.79%. We feel pretty comfortable where we are in terms of pre-COVID to very comfortable where were in terms of our asset quality. Of course, there is going to be some impact because of COVID too and we are really seeing the impact in the last 10 days. To give you an example, sales have become slow, site visits have become slow. It's not just Maharashtra COVID, it's almost a national COVID now you know the numbers which have been impacted in Karnataka and Delhi and many of these markets where we lend. We are watching the situation very closely. Having said that I would be pleased to say that I don't think that we should cross our NPA and SMA 2 levels on the book over the next year of what we have seen in the December quarter. I would still like to maintain that sort of are the peak numbers. I would like to stress one thing that the recovery aspect from the courts, SARFAESI action and NCLT, we are seeing a lot of slowdown in the recovery action. The recovery action is not going to be as seamless from a timeline perspective as we thought it would be last quarter, particularly because of the COVID wave 2. Across geographies it's getting difficult in terms of timelines to be able to recover the money in time. Yes, we have seen dramatic improvement in SMA2. As I mentioned if you remember even in the September call that a lot of the problems that we saw with the developers were really logistics and sales, all that was behind us. As the sales numbers have improved and the cashflow numbers have improved, obviously the stress on the portfolio will reduce. So, to give you an example from all the way from October till March 31st our average Escrow collections have been in excess of Rs. 120 crores per month. And very happy to report that even in the month of April on the real estate book our escrow collection was close to Rs. 118 crores. So, as late as 30th April, we still haven't seen a lot of impact. One of the reasons is because our construction finance has been rolling on, our site has been operational, and sales have been strong. Now the slowdown in sales that we are going to see we've already seen an April, in May will have some level of impact on cash collection over the next few quarters. Still largely we feel confident because the runway which we got from October to March has been stupendous which I think will keep cashflow running very strongly, so again fingers crossed. I hope we can deliver a decent outcome despite the challenges that we're seeing nationwide on our book.

Kunal Shah: That was quite a comprehensive overview. Just 2-3 few, in terms of growth we had seen wholesale mortgages there was some uptake. So, is it like again last time you highlighted that we would be evaluating the opportunity and it is towards that or it is to the existing so that's the first one? Then second in terms of interest-on-interest reversals given that our loan would be more than Rs. 2 crores, how much was the impact overall in the financials? And the lastly in terms of borrowing, there has been too much of a liquidity which we have almost like (+Rs. 5,000) crores cash and cash equivalent and borrowing has also gone up quite substantial in Q4, so what's the reason for that? Is it more in terms of the growth or it is more in terms of we are being slightly cautious because of second wave?

Vishal Kampani: I'll address the questions one by one. Let me address the last question. As you are aware, we decided to start growing back in wholesale mortgages. That is why we stepped up the borrowing program from January of this year. But what happens in wholesale mortgages and corporate lending particularly is that there is a one month to three-month time period for diligence and for the transaction to go through. We frankly had a lot of banks who told us to draw on money on 31st, March and because we have long-term relationships with those banks we've drawn down the money and hopefully I'm expecting that we will be utilizing all of that money this quarter. Despite the challenges I think we will be able to grow our book. Last quarter a substantial part of the rise in the loan book is new loans and I think that will continue this quarter. Having said that I must also say that lot of our credits where the sales have been very strong, you are aware that we are lending at around 14%-14.5% when we could lose some of those assets in terms of prepayments, not all few of those assets, where some of the other higher rated lenders may take some of our assets. So, we have new assets booked. We will show growth in book. But we may even lose some of the high-performing assets and frankly that's a very good outcome because it speaks volumes of the asset quality that you have. That's number one. I did not answer the last question you asked me on OTR. So, our OTR numbers are very low. Nishit, you can give him the numbers. I think they are, the OTR actual number is I would imagine less than 1% of book but we have DCCO and DCCO is around 18.5% of our book. So, DCCO is nothing but like a restructuring only which is basically given for the principle and if you go back into your notes, all of our DCCO cases are post-COVID. So, we really started applying DCCO only in April and on that 18.5% book also I think almost on most of the book, almost 75% of that book we have seen healthy sales and we've seen very good recovery and the cashflow position should improve dramatically from the sales that have happened in the last 3 to 6 months. So, I wouldn't be very concerned today about that book. But we have to watch right. I mean there is a wave 2. There could be a wave 3, so we have to plan very cautiously. Now on growth, what we feel is that there is this time COVID is a bit different. One is we're not expecting any national lockdown. Second, I think businesses if you go back to April-May-June last year, they had some a reset factor. They had to learn how to cope and deal with a new viral disease called COVID. Now even though the disease is the more virulent and maybe a little more dangerous this time as compared to last time because it spread so fast that's putting pressure on the healthcare system. Generally, when we talk to most businesses they seem more confident about dealing with it and still progressing on the business front. That makes us more confident despite with what is going on that we should still be able to grow this year. If I go back to the first quarter of this calendar year, the last quarter of last financial year Jan-Feb-March our targets for the wholesale mortgage book would have been somewhere (+Rs. 10,000 crores) to end in FY22, March '22. We could probably reduce that target by around 10% to 12% and we will still try and see if we can hit at least Rs. 9,000 crores wholesale mortgage book by March '22.

Kunal Shah: Interest-on-interest reversal?

Vishal Kampani: We have not really booked it in our financials. Basically, we want to give the number on what the impact is?

Manish Sheth: We have not booked. It was Rs. 18 crores in total but Rs. 16 crores, we have never booked and Rs. 2 crores we have reversed in the month of March.

Moderator: The next question is from the line of Anuj Sharma from M3 Investment.

Anuj Sharma: One is on the wholesale lending; we have spoken about consolidation in the segment and in the same light we are also seeing that, what's our strategy in wholesale lending especially the client selection strategy? How has it evolved?

Vishal Kampani: Our strategy is quite simple. It's a very bottom-up driven strategy where we try and underwrite good loans and build a good portfolio and we have never been very adventurous on debt equity and have always curtailed our debt equity on the wholesale side. We are again looking to grow it. The largest part of our portfolio in the wholesale side is mortgages and residential largely in nature so we will look to grow it. Now on the consolidation yes, there is a consolidation under way with the unlevered or lower leverage players in real estate gaining more market share but there is also a larger consolidation that has happened among the financials who finance these people, so I think we are in good shape. It is only about being able to assess the risk well and at the appropriate time start growing your book which is already started.

Anuj Sharma: Just on this same question, over the past year or so we saw a significant stress in the real estate portfolio across the country, across developers. Any change you envisage, anything in the way or our client selection strategy especially given the past year or so?

Vishal Kampani: See as a strategy we have always had a book which is highly cashflow backed book, right. So, even in wholesale mortgages at any point of time in the last 5-7 years also 60%-65%, two-thirds of our book has always been cash flow backed. In fact, if you see the composition of our book last year during COVID, we almost had 25% of our book which was against ready property with Occupation Certificate because construction was completed in those projects and the loan numbers had come down quite dramatically and we are sitting on enough collateral or ready property. The approach will be very similar. Only difference would be that we would be even more skewed towards cashflow backed projects. The number of 60%-65% could easily be as high as 85% -90% going forward. So, we will do lesser of land, we will do lesser of structured finance in real estate, and we will do more of the construction finance and the cashflow backed projects.

Anuj Sharma: My second question is on the retail book. What has been the experience till date, the retail mortgage lending book and how do we see the segment shaping up, especially given the cost of funding is, we are amongst not the largest NBFCs. What is our strategy in this segment?

Vishal Kampani: Let me first begin with a macro statement that, we don't try to be large in any of the segments that we operate. We really want to be one of the best at what we do. We are in a risk business so large doesn't really mean successful. On the retail business I must say the experience has been fantastic. We are extremely pleased with the way the book has behaved. In the month of April our collection efficiency was upwards of 96%, in March it was 99% and the book has done very well. Last year we grew the book at almost 30% and we will grow the book this year again at 30% and it's going to be a big focus area for us. If any long-term investor looks out 3 to 4 years, he will see a significant retail affordable housing book build by JM So, Yes, we remain very committed, and we started the business just 3 years ago and by next year we will cross an important milestone of Rs. 1,000 crores of retail assets. And also, interesting thing you should note is that our all our housing finance assets are all below the size of Rs. 20 lakhs, so they are really granular, very retail, very small ticket and it's just a fab business to build.

Anuj Sharma: My last question is on the AMC business. Now we have been trying for some time to restructure the AMC business and it's true and difficult. So, any thoughts, any new strategies you are planning for the AMC to get it back on profit path?

Vishal Kampani: You are right, and we have hired a new CEO. We hired a new CIO last year and Satish who is a great guy and unfortunately because of COVID we couldn't do much, and you have seen generally except for the last 6 weeks we have literally seen the industry lose AUM. So, obviously a smaller player like us in the industry would get impacted even more but we have hired the new CEO. The announcement of the name will be made end of the month or first week of June. We are hoping that we will have more energy with the new management team on board to turn around the business specifically on the mutual fund side. On the AIF side, we are quite excited. We have almost completed investing our full Private Equity Fund II. We are on course to raise a (+Rs. 1,000) crores Private Equity Fund III this year. Despite COVID, we have closed our Credit Fund 1, we could not market it internationally because of COVID because travel was restricted otherwise that fund would have closed definitely above Rs. 500 crores. But this year we will do a real estate fund largely for land finance and we will also do as I said our Private Equity Fund II. And we have hoped to complete investing our distress credit fund this year and once travel opens up, we will go and market distressed credit fund globally which will be II, the second fund I mean. We remain very committed. Our AIF business has done well, it is growing. We are feeding the business and therefore you are not seeing profitability from it. The same thing will happen in the mutual fund business once the new CEO is on board. And we hope that with the next 3 to 4 years we can turn around this business and make it successful.

Moderator: The next question is from the line Manan Tijoriwala from ICICI Prudential Asset Management.

Manan Tijoriwala: I read that the housing finance company's stake is being bought in by the Credit Solutions Company. What specifically is the genesis for that?

Vishal Kampani: Let me give you a brief history so we have so far invested Rs,150 crores of capital in the housing finance company, and we are sitting with a hell of a lot of surplus cash in the mortgage lending business, the wholesale business which is all done through JM Financial Credit Solutions where we own 46.68% and our partners own 53.32%. We believe that the growth rates of the wholesale mortgage business that we have planned does not require the excess capital that we are sitting on today because we have had a fantastic last 7-8 months, right. We have got tremendous amount of cash flow. Just in the last 7-8 months we have got over Rs. 900 to Rs. 1,000 crores of cash collected. The idea was that how do we bring the two mortgages' businesses closer and how do we utilize this capital more efficiently? And therefore, we have given an option to Credit Solutions before September 30th to invest Rs. 490 crores in our housing finance company and take the capital from Rs. 150 crores right up to Rs. 640 crores odd, so it becomes a highly level capitalized retail HFC. As a group we are very strong or when the standalone balance sheet for example goes to a bank or goes to an insurance company, we face restrictions like Oh! we would love to give you more money, but we can't give you more than 30% of your net worth. People get capped on the loan side. Rs. 150 crores means lot of the banks won't lend more than Rs. 40-50 crores to us. Once we increase the net worth to almost Rs. 650 crores, that opens up a much larger liability base for us which will enable us to continue on our (+30%-35%) growth rate comfortably over the next 4 to 5 years in the retail housing finance business.

Manan Tijoriwala: Second question I saw that there is a largest exposure that is on Piramal so what would be the tenure, yield or any sort of color that you could provide on what project is this for?

Vishal Kampani: No, we cannot provide the tenure and yield and the details of that but it's a highly secured exposure by real estate collateral. They do have some prepayment options obviously as you would understand that our rates would be higher than where Piramal will normally borrow. There could be a part of that loan getting repaid from the original tenure of the loan that we have given them.

Manan Tijoriwala: Any realistic assumptions on what sort of gearing would you be able to achieve in the near to medium-term?

Vishal Kampani: I will give you a little bit of perspective and you can backwards work out where our gearing would be. I think we have target of Rs. 9000 crores gross loan book for Credit Solutions by March ‘22 and we have a target close to between Rs. 4000-4500 crores for JM Financial Products. Based on the current net worth you can simply calculate the profitability and you can see where the debt equity will pan out. But simply put again because of our profitability which is coming from the IWS segment is so strong that on a consolidated level it barely impacts us. Even if we go to a Rs. 10,000 or Rs. 11,000 crores loan book in Credit Solutions or even a Rs. 5000 or Rs. 6000 crores loan book in JM Financial Products; debt equity is not a concern for us at all. Right now, we are sitting on so much cash that we have more than like literally a year’s liabilities which we can pay down today. So, there is no concern on debt equity or liquidity. It’s really choosing the right credits and being able to punch through growth and we were all very excited but now we have to obviously be a little cautious because of COVID 2 and perhaps a COVID 3 but the endeavor is in the challenge to our management team is that how do we successfully grow even through this environment and that's the challenge we have taken as a management team this year.

Moderator: The next question is from the line of Dhruvesh Sanghvi from Prospero Tree.

Dhruvesh Sanghvi: I have a couple of questions related to the IWS division. On the investment banking side if you can throw some light that what were we in terms of our standing in let's say 2015 or ‘16 a couple of years back and how has it been shaped today? I mean is it increasing market share, increasing more deals or some perspective on that area because these numbers become very difficult to understand from an outsider's perspective? Second is on the retail broking. Considering the discount brokerage is taking a huge steam and we were fairly behind otherwise also in the retail broking expansion and you had said that you are looking to expand through the franchisee route. So, some updates and how do you see that business and what is happening in there? The third is, would you like to answer here, or should I just complete the broad questions first?

Vishal Kampani: No, go on.

Dhruvesh Sanghvi: Third is on the wealth division. How do we differentiate because there are already 4-5 decent sized wealth business providers like IIFL, Kotak and many others are joining, and we have done very well? But is it just that the market opportunity is expanding so much that everybody has been able to capture a lot out of it? Or for example I saw that you have opened in Bangalore, a special team. What different things are we doing there and how well can that things last for you because everybody will copy and it's a very easy thing to copy is what we understand. The other part is on lending. I will come back but let us complete this IWS.

Vishal Kampani: Sure, so all good questions. Investment banking, we are in a I would say a pole position. The business has done exceedingly well and from 2015 to now we are only in a stronger position. We clearly would be in the top 2 to 4 banks which most capital issuers will think of on the equity side and now we are getting there slowly also on the fixed income side, we have already entered the top 10 club. On M&A we remain as the top 2 or in terms of recall, in private equity again we remain in top 5 in terms of recall, so the franchise is very strong. I also want to add again that our pipeline is very strong. It was very strong in September, it was very strong last March and all I can tell you is that our pipeline right now is even stronger in terms of the number of mandates we have, whether it goes across M&A, it goes across restructuring private equity or even IPOs in capital raises. With the current liquidity in the market and where the capital markets are booming globally, I would not be surprised if 2021- '22 is even a bigger year compared to 2019- '20 and 2021. On discount broking, we are not a discount broker, right. We have always been more of an HNI broker and we are definitely in the game in terms of retail broking, and we are expanding it through franchisee network. The discount broking market already has four-five players who are quite well established. It is our decision whether we want to burn and try and compete with them or the other decision is let them go and expand the market. We will use more of digital marketing, we will use more advice-based products, more research and we will capture some of their cream customers over time. It is a very niche in broking, you have to choose your spot and choose your model. We are very good in research-based broking, we are very good in lending margin trade funding base broking, we are very good at block trading. These are some of the sort of businesses in broking that we have a very good market share, and our brand equity is very strong. Discount broking today to try and become #1 or #2, we will be living in fool's paradise to think that we can actually get there.

Dhruvesh Sanghvi: I was not hinting that. I was just asking from a positioning perspective. What are your thoughts on where we will be and where the industry is going to be?

Vishal Kampani: Yes, we are very happy that the top three-four players there are expanding the market because ultimately, they are bringing in more and more customers in the stock market right and that market will help us to gain market share over time with the products that we offer. We may not have a great discount broking strategy, but we are building on our digital marketing strategy. As I said almost 6 months ago the work has already begun and clearly it takes at least a year to get established. We are expanding on the franchisees but what is happening is because of COVID and travel related restrictions it's not easy to travel. The cities, sit with the franchisee, convince him or why you should choose JM and how you should work with us. Obviously just the way we have not lost many franchisees, we have not been able to gain too many franchisees because of times of COVID, the accounts are sticking to where they are right now but that will change. Also, I mentioned this in one of my earlier calls also that in the non-discount broking business market share is going to consolidate a lot over the next decade or so. So, that is also a very big opportunity for around 10 players. Today it's almost a 100-player market and in 10 years from now, we are going to be a 10-player market. Even though the discount share in the broking is going up, the market share of some of the large brokers over the next 10 years is going to go up even more in the non-discount side. Who knows, couple of years later there could be mergers between players like us and some of the discount brokers like no one knows right. Morgan Stanley actually bought E-TRADE last year, I am sure you read that, who knows but we are not ignoring the space. We are very careful; we are watching it, but our strategy is to play on our strength and not go in burn money and go crazy and do something where we are just trying to compete for the heck of competition without having an eye on cash flows.

Dhruvesh Sanghvi: On the wealth.

Vishal Kampani: Wealth, is an extremely strong and powerful proposition for us. You have already seen that in the numbers over the last 2-3 years we have expanded teams, we have expanded our integration very strongly with our investment bank and wealth and we are going to do that even more over the next 2 years specifically when it to the ultra-high net worth customers. Our Bangalore launch that typically has been to capture the technology companies and lot of these elite wealth which are sort of Rs. 100 crores and less disposable, I mean investments where they can actually put Rs. 100 crores in securities market in terms of investment. That is a very good effort. It is still small but it's going to grow very fast. We have just hired a lot of people in elite wealth. You would have seen in the numbers, we are almost (60) now. That in terms of our distribution, in terms of number of people will grow a lot faster compared to the private wealth. Private wealth will focus on larger wealth family somewhere between Rs. 100 crores, all the way to Rs. 1,000 crores. Of course, our main stay business is the ultra HNI customer which we are very well poised to service because our entire investment bank is the backbone of servicing the ultra-high net worth customer who has a surplus of almost Rs. 1,000 crores which we can invest in the securities market. We have clearly defined the three segments that we want to go behind. The private wealth and elite wealth segments will be highly integrated both into our broking business as well as our investment banking business and the ultra-high net worth business would be highly integrated into our investment bank as well as our institutional equities business as well as our lending book. Our strategy is very clear. We are just executing and hopefully, fingers crossed quarter-on-quarter, you will see the numbers going up and as our AUMs go up with a lag, profitability will come very strongly.

Dhruvesh Sanghvi: Can I ask about the lending piece or should I join back the queue?

Vishal Kampani: Please go ahead.

Dhruvesh Sanghvi: Under lending side, the kind of clarity that emerges always when we speak or hear about IWS, you have a lending out of the struggles of the industry and extreme abundant caution that JM has that sometimes we internally think that we are far-far more conservative than we should be as investors of JM. I am applauding as well saying that sometimes that attitude may be hurting us as investors and the strategy also doesn't come out so clearly because on and off there could be some interviews where you talked about a potential banking license application where you say that you are open to the corporate lending area, but our expertise is only towards mortgages. Can you broadly clear out some thoughts that if suppose if we are thinking from JM's perspective over 5-6 years with whatever information is available today at hand, how should we be doing about JM's journey in the lending business apart from what it is doing today?

Vishal Kampani: First let me address one of the points that you raised. We have a lot of expertise in corporate lending. It's not just the wholesale mortgages. We understand the corporate lending and the promoter lending piece extremely well. But what happens is again as you rightly said that we are conservative, and we will not basically lend to the riskier side of corporates. Therefore, when your cost of borrowing is elevated and that's exactly what happened post ILFS and COVID we basically put a lid on corporate borrowing. See real estate lending happens around 14.5% to 15% correct, but corporate lending happens at around 12% right. The capital market lending happens at 10%. So, there is a very clear 200-250 basis points difference in each of these asset categories. So, therefore, from a risk adjusted perspective and when I mean risk adjusted assuming that the rating levels on risk are more or less the same, it is obviously better from a book perspective. So, as I was saying that the risk adjusted return is obviously going to be higher and wholesale mortgages but there is always a challenge in terms of being able to execute on your plans particularly with COVID because of physical diligence and those kinds of issues. Plus, we wanted to make sure last year same time that construction finance continues, and we are actually able to generate cash flow from the book.

Dhruvesh Sanghvi: I mean I will get back but let me just flipping the question because there was a passage of time which got lots or maybe you may want to add there. So, are you talking about that you know that when we hear things from the lending area that you may also like to get into the banking area if the RBI permits and the time comes and this one at this point in time, we are into one or two segments of corporate lending? So, how does this merge over a 4 or 5 year period, especially when mortgage lending is not offering such lucrative opportunities. In combination of growth investors interests how does this take care over five to seven years and of course it's a volatile market but whatever is your best?

Vishal Kampani: No first of all I don't think mortgage lending doesn't offer attractive opportunities. It is how fast and how you want to grow. I think it offers more than enough attractive opportunities. I think from a banking license perspective always maintained transparently that of course we like to be a bank at some point and if we have to grow the lending business and make it larger over time and make it more diverse over time it is very important to have a fantastic liability franchise and a fantastic cross selling franchise which is best built in a bank. But currently we don't know how RBI is thinking about it and what their new guidelines will be for private sector groups as well as corporate groups to apply for a bank license and third what their philosophy is going to be on promoter's role versus promoter's involvement versus promoters holding. So, once we have clarity on all those aspects that is when we decide whether we become a bank we don't become a bank.

As a NBFC again I've always maintained that you can't be everything to everyone. Every NBFC specializes in a few things in their initial avatar, and they slowly grow to become more diversified. So, that's what happened, we started off as a capital market lender. We picked the real estate space. We picked the corporate space. Now we've picked the retail mortgages space and there is 3 to 5 years understanding period and then you see a good 7-to-10-year growth rate in that asset class. When you're a bank, things are very different. The customer acquisition is very different than the kind of products you can design and sell to a banking system is very different from a plain vanilla NBFC. So, let's see I mean we don't know, I mean our intention is yes lending business becoming a bank makes sense, but the guidelines have to be attractive and appealing enough from a long-term perspective for us to convert it.

Moderator: The next question is from the line of Akhil Bipin Thakker from Axis Mutual Fund.

Akhil Bipin Thakker: I wanted some color on your DCCO book, so everything here I wanted to understand what is the kind of status of this book in terms of other accounts and the moratorium or their matured assets where this DCCO was often. How has the performance of the book been post getting them this DCCO were there any additional funding that was offered to them as a part of this DCCO and will this entire book be under the real estate or is it also considered educational institution financing book? And lastly, I wanted to understand whether is this of the peak of your restructuring slash DCCO or we could see more with second wave of COVID.

Vishal Kampani: So, all good questions. Let me just give a backdrop and then Gitanjali can answer the details in the rest of it. If we are referring to the emergency credit guarantee scheme funding, then yes, we have utilized some part of it for education institution loan book. Manish will have the answer on what the amount is but it's not very significant and most of DCCO is for actually projects which were under construction and actually selling. It is only an adjustment because of COVID where the principle had to be pushed out by 6 months to 12 months to 18 months in certain cases and I would imagine as I said earlier that almost 70% to 80% of the book has performed pretty decently. Manish you want to give the number on the emergency funding that we've done for the education institution loan and followed by that Gitanjali you can answer the question on DCCO more granularly please.

Manish Seth: On emergency ECLGS, we have used that for our schools financing business, education institutional lending business. Our portfolio is around a hundred schools and the portfolio is Rs. 200 crores. We have got sanctioned the loan worth Rs. 20 crores and which has been utilized for them. And as on 31st of

March, it is a 100% kind of collection efficiency. We don't have any NPA, not even say SMA1, SMA2 accounts.

Gitanjali Mirchandani: So, just to take that question you asked on DCCO, so one with regards to the DCCO is entirely on the real estate book as such this provision it only allowed for commercial real estate that is defined by RBI. So, it is entirely on the real estate books with regards to where these have been applied, so these have been applied to our under-construction projects across geographies. Now in most of our under-construction projects have been in the middle to advanced stages of some bit of that would be in last mile some bit that would be in middle to medium range in terms of completion but not too many of them are in that meeting stages if that's what the question was. Also, a good point to refer here is that the collection which Vishal spoke about earlier with an average of upwards of Rs. 120 crores every month. Now if I have to consider that these collections in our escrow accounts are about 40% of the overall collection, so we are talking about these projects part of which are obviously the DCCO project would be approximately to the range of Rs.300 to Rs.350 crores on a monthly basis collection. So, last six months all our under-construction projects and part of our portfolio have actually seen tremendous collection, and this is not one month or two months, this is consistently being performed for the last six months since October of 2020. So, fair bit of the portfolio which was given the DCCO benefit because of the collections that have come in and the massive sales that have happened thanks to the benefit of the stamp duty in some of the geographies and I think the general change in the sentiment of the buyer that the bottom signed off as far as the pricing is concerned has been reached. We have seen a lot of end user demand come back. So, if that broadly answers the question and also gives you some perspective of how much collection have happened on this kind of portfolios.

Akhil Bipin Thakker: Only last two questions maybe follow up question, one is there any of your DCCO which has actually fallen into SMA2 or maybe GNPA and the second one is this the peak of your restructuring or do we expect more to come in with the new guidelines for any kind of restructuring to be done on your book going forward?

Gitanjali Mirchandani: The answer to the first question is no, most of the cases where we have done a DCCO that particular loan is in the standard books. Now with regards to the portfolio analysis which we have done on the portfolio, we did seem that any further DCCO might be unlikely on the portfolio, however like Vishal caveated, we are still watching the situation of the second wave very closely. And if there is a certain amount of extension in terms of how quickly this gets resolved or doesn't get resolved, we might have to revalue the situation. But as of what we saw before the second way we think it was highly unlikely any further portfolio would need a DCCO.

Moderator: The next question is from the line of Shubhranshu Mishra from Systematix.

Shubhranshu Mishra: When I look at the Slide # 28 which is on the organization structure, fairly complex. So, any thoughts on that actually signifying this because saw a lot of subsidiaries there and second on the point is that we are pretty much spread out in almost everything from wealth management to private wealth management to credit to ARC. Have we made a serious representation to RBI in order to form a band or is there a board level discussion at least for roadmap to be a bank? That's the first question. My second question is on the private wealth you have given out the assets under advice, what I wanted to understand is the yields that we have in the '07 fiscal year versus the last fiscal year and the number of private wealth advisors, what is the average vintage of these 47 private wealth advisors? Those are my three questions.

Vishal Kampani: Yes sure. I think Ajay Mishra you can answer the questions on the wealth advisory front. I think at the board level of course there is no specific discussion whether we need to be a bank, or we don't need to be a bank. It all depends on what RBI comes up with. As I said that RBI is going to welcome private sector to start banks and allow promoters to in some way at least run them, be involved and have high shareholding and of course we will be very interested. But the discussion is only going to be at a point when we know, and we are clear on what it means for us to become a bank. Yes, we are on the structure of JM Financial, yes, we are trying to rationalize a few subsidiaries at the right time. But having said that we have to keep these businesses the way they are because if you see ARC requires a certain license, mutual fund business requires a separate license, broking requires a separate license. Then we have traditionally HFC has to be separate from the wholesale mortgages because if we combine the two then, we cannot have 50% of our portfolio being retailed because our wholesale mortgage portfolio is larger. So, I think it is really because of regulatory reasons that some part of our organization structure is complex, but yes you make a good point, and we are discussing internally and with the board on how we can rationalize and reduce the number of subsidiaries.

Shubhranshu Mishra: Have you made a representation to RBI for a banking license yet?

Vishal Kampani: No, we haven't because it is too early. See RBI has of course asked for comments and thoughts and all of that. But they need to come out with clear guidelines which they have said they will. So, we have to await some of the directions, I think right now if you can understand that most of the country's regulators will be very concerned about COVID and the macro impacts, right? So, I don't think any of these thoughts are really a priority for any reserve bank or anywhere in the world. I would think that this is at least six months to a year away, so many serious considerations for many serious regulators. Ajay you want to answer to question on wealth management?

Ajay Mishra: We are currently about 50 advisors and the average vintage we usually look at our advisors who are seniors with experience and the average vintage is about 12 years. So, we have a fairly stable team, and our overall assets are about close to Rs. 59,000 crores, where we've seen a 31% growth over the last one year. Our average yield was another question that you had asked would be about 11 to 12 basis points, however this may not necessarily represent the entire revenue as we leverage on the overall groups spends and there is a lot of cross selling that we do to our investment banking or fixed income or institutional equities group.

Shubhranshu Mishra: So, what will be blended, between 11-12 bps on a private wealth sounds very low, if my understanding is correct?

Ajay Mishra: Yes. There are a lot of businesses that we do internally so are in this is purely on the wealth book and then there would be a lot of other cross selling within the IWS group.

Shubhranshu Mishra: So, how much would that be adjustment to 11-12 but is there a ballpark number that we can come up with or slightly a difficult calculating?

Ajay Mishra: No that's something that you know we have to work and come back to you on.

Moderator: The next question is from the line of Manan Tijoriwala from ICICI Prudential Asset Management.

Manan Tijoriwala: I have couple of questions, first just a clarification on the Rs. 200 crores education institution book, so having done ECLGS on Rs. 20 crores or of Rs. 20 crores?

Manish Sheth: Of Rs. 20 crores.

Manan Tijoriwala: So, Rs. 20 crores have been disbursed under the ECLGS scheme?

Manish Seth: Yes, on the retail mortgage side.

Manan Tijoriwala: How much cash from the QIP will be held at the Holdco as on date and any indication of how usually that be allocated?

Vishal Kampani: Yes, it is all in liquid mutual funds and all of the Rs. 770 crores are the cash still lying in the holding company.

Manan Tijoriwala: Any color on the portfolio performance on the corporate finance segment which we consist of LAP, structure finance or corporate finance?

Vishal Kampani: That portfolio has done pretty decently and there are more than adequate provisions on the same. Of course, because of the disruptions of COVID last year specifically, the first two quarters many of those companies one specifically in Auto Comp, one more is in the Agri and Food supply chain and they faced some level of disruption but very happy to note that both those businesses have come back quite nicely quite strongly. In fact, the Food and Agri company is able to increases EBITDA substantially and the other Auto Comp company business also has come back all most to normalcy. So, I think the portfolio is quite healthy and strong right now.

Manan Tijoriwala: Of our surplus cash of Rs. 5,000 crores have you been able to deploy any of its April, are you looking at there was enough timeline to reduce on that?

Vishal Kampani: We have certain deals which are under diligence and certain deals we are negotiating on the capital markets corporate side. So, we are hoping that we can deploy it. April if you see historically has always been a month of under-performance for us, couple of reasons why is because there is fatigue of March

31st which happens and there is a lot of management time that is going into business planning and repairing at least in the first 15 to 20 days of April. But so, I wouldn't say that we've deployed any of this cash towards transactions. But I'm hoping that in May and June we should be able to deploy some part of it.

Moderator: The next question is from the line of Dhruvesh Sanghvi from Prospero Tree.

Dhruvesh Sanghvi: One question on the ARC side it's a slightly difficult entity to understand and because there is a little less question today can I ask you to slightly expand the conversation on the ARC opportunities and the learning's of the last five years? Because mainly things have got delayed in terms of time and therefore IRR's have been affected as in this is one message that I hit something. Can you expand a couple of minutes on that please?

Vishal Kampani: I will have my CEO Anil Bhatia do the same, Anil can you go ahead and expand?

Anil Bhatia: Basically, you are asking about experience for last 5 years, what has happened is that obviously NCLT has convened, why it has been good for the industry for the entire banking industry and ARC industry, there have been some delays also. If you ask me the experience the threat of NCLT has yielded better results for all the lenders then the actual NCLT process and there has been delay. Having said that one thing is very clear that the borrowers know for sure today, earlier in the good old days they knew that they would keep fighting legally or they will keep fighting to revoke the system. Now they very clearly know that if they lose their company and they lose everything. So, to that extent there is a discipline, there is a seriousness from the borrower's perspective to grow. In terms of business what we have realized is good quality business and that has been our focus from very initial days. Good quality business, good asset base business having weak and bad balance-sheet that is something we can always yield results. This is what we have seen in our portfolio in the last 7-8 years. All the assets which have good quality eventually they pay off. There is a question of delays in some cases but eventually they pay off. And that is what is very important. Second, one expected that the cost of acquisition, cost of acquisition is something or a structure of acquisition something which has to be very rightly put, if the cost is slightly on a higher side because of the underlying asset value structure has to be very right from an ARC prospective to make great return on those assets. Anything else you wanted to question because it was a fairly wide question

Dhruvesh Sanghvi: It was an open-ended question, so a little bit more specific area here is that as you said that the threat of NCLT have yielded better results than really people going into NCLT and converting an outcome, but does it not decrease our opportunity size or how update are we today about this business and the opportunities of course I mean I'm talking post pandemic post COVID area let's say one - one and a half years ahead. Will it reduce the set of opportunities because not many people are interested in getting into ARC and the headlines have almost dulled out completely in that area making me feel that okay the returns doesn't seem to be lucrative for most people out there?

Anil Bhatia: I think opportunities will remain. If you remember or if you have noticed, we also acquired one large asset from NCLT itself and turned it around with a strategic investor. So, opportunities for ARCs have been there, today also there and will remain always. If the question, who wants to enter this business and it's a patient business with long-term patient capital. Other thing is that what has happened in the last 2 years just to clarify further is that thanks to the NBFC related problems and credit mutual fund related problems, the liabilities side started becoming a challenge for most of the borrowers including ARCs. The way to grow this business is through strategic investors, co investors and though alternative funds. It cannot be grown systematically on a balance sheet purely. However, this is a great long-term business provided your acquisitions are well structured and the costing of the acquisition is under control.

Dhruvesh Sanghvi: One a slightly short-term question here again as we are very conservative, we always try to be very conservative on the balance-sheet front. Are there any big, large upside surprises possible from our existing portfolio in the ARC? If you can name it can be great, if you cannot at least a hint on that can be helpful.

Anil Bhatia: I will not be able to name, and I will not be able to quantify the same but all I can say is we have quite a few cases, we have converted unsustainable debt into equity and that equity valuation is not captured in any of our fair valuation or any of our P&L. So, in future the underlying businesses have a good equity valuation, and all the equity valuation is at almost at zero cost because it's unsustainable debt conversion. In future these valuations can bring in upside. But I am sorry I will neither be able to name the accounts, nor will I be able to give the quantification. Other thing I would like to say there are certain accounts where we have acquired it a very-very low cost. But we have a substantial share. I have no problem in naming this we are the second largest lender in account called Kingfisher. We're already recovered more than the entire investment and today we are literally holding it at zero cost or very negligible cost and sooner or later we anticipate there would be a huge amount of recovery in that account. Well, these are not captured because they cannot be captured today.

Moderator: Thank you. As there are no further questions, I would now like to hand the conference over to Vishal Kampani for closing comments.

Vishal Kampani: Thank you everyone for attending our call. I hope all of you keep safe and take utmost care in the current COVID scenario. Thank you again and look forward to seeing you all again in our September quarter results.

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