“JM Financial Limited

Q2 and H1 FY ‘24 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day, and welcome to Earnings Conference Call of JM Financial Limited to discuss the performance for quarter and half year ended September 2023. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touch-tone phone. Please note that this conference is being recorded.

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

Vishal Kampani: Thank you. On behalf of JM Financial, we extend a very warm welcome to all of you to the conference call to discuss our financial results both for the second quarter and half year ended FY '24. We have uploaded our results and as well as our press release and presentation on the website and stock exchanges, and I hope you all have had a chance to go through the same.

I will take you through the brief highlights and then Nishit, our Group CFO, will take you through the numbers in detail. I'm happy to report that we had our highest ever quarterly revenue number in the history of the firm for quarter ended September 2023. The revenues were at INR1,214 crores. This performance was backed by the fees as well as the commission and brokerage business, from the advisory business, investment banking business, wealth business, our Platform AWS businesses as well as the distribution business that we've been able to do on the ECM and DCM side. A big congratulations to that business for its outstanding performance.

We have also seen an increase in interest income from some of our new initiatives and new businesses that we have built in the last 5 years, namely the retail mortgage business, which covers all of the home loans and the loan against property to MSME customers as well as the financial institutions financing business where we fund NBFCs who are rated lower than us.

On the wholesale mortgage lending side, as per the earlier guidance given, we have taken additional INR126 crores of provisioning. And I think we are almost done with the provisioning cycle for the wholesale mortgage business. After this, I think we will start seeing normalized profits and I must say that the performance of the wholesale mortgage book, the new book continues to be exemplary and is doing very, very well.

With this, I would hand over to Nishit to take you through some of our numbers for the quarter as well as the half year.

Nishit Shah: Thank you, Vishal. Our consolidated revenue for the half year ended FY '24 stood at INR2,295 crores, a rise of 36% year-on-year. For the same period, profit after tax stood at INR361 crores, which is an increase of 3% year-on-year. This represents an earnings per share of INR3.8 versus INR3.7 for half year FY '23. In Q2 FY '24, our revenue stood at INR1,214 crores. The increase is across fees, commission, brokerage and interest income. Pre-provisioning profit for Q2 FY’24 stood at INR405 crores, an increase of 17% year-on-year.

We have taken provisions of INR126 crores in our wholesale mortgage lending business. Profit before tax for Q2 FY '24 is at INR278 crores, which is a decline of 13% year-on-year, and the profit after tax after noncontrolling interest for Q2 FY '24 increased by 8% year-on-year from

INR180 crores to INR195 crores. As on September 30, 2023, the networth, excluding minority interest, is at INR8,364 crores, which translates into a book value of INR87.6 per share.

Our consolidated loan book stood at INR15,808 crores, up by 8% year-on-year. We have diversified our loan book over the last three, four years across several products. The breakup of the loan book as of September 30, 2023 is as follows. Wholesale mortgage constitutes 50% of our loan book, which is approximately INR7,904 crores, registering a Y-o-Y increase of 8%. Bespoke financing loan book stood at about INR2,726 crores, which is approximately 17% of the loan book. Bespoke financing book has declined by 29% year-on-year.

Direct lending, which is lending to retail and HNI customers. The capital markets loan book constitutes 6% of the total loan book at approximately INR963 crores. This loan book has registered a decline of 16% Y-o-Y. The retail mortgage loan book constitutes 15% and stood at INR2,288 crores. This loan book registered a Y-o-Y growth of 64%. Coming to indirect retail loan book, the financial institutions loan book comprised 12% of our total loan book at approximately INR1,927 crores. Under this loan book, we are taking indirect exposure to retail customers.

So overall, wholesale loan book stood at 67%, direct retail loan book stood at 21% and indirect retail constitutes 12% of the total loan book. This loan book does not include the SEBI margin trade financing book of approximately INR1,211 crores, which is under the Platform AWS business.

Coming to asset quality, the gross NPA ratio of the lending businesses is at 4.8%, net NPA at 2.3% and SMA 2 at 0.5% as of September 30, 2023. The pre-COVID loan book stood at INR713 crores, which is 4% of the total loan book as of September 30, 2023. This book used to be INR1,571 crores as of March 31, 2023. Out of the pre-COVID loan book of INR713 crores, 61% is in the NPA bucket and 2% in the SMA-2 bucket. The DCCO book stood at about INR605 crores as of September 30, 2023.

On leverage and liabilities - On a consolidated basis, our debt-to-equity stood at 1.5x as of September 30, 2023. During the half year, we raised approximately INR1,388 crores through long-term borrowings. Our liability profile is diversified to also include insurance companies, pension employee and provident funds. Our borrowing comprises of 77% from long-term sources and 23% from short-term sources.

Coming to our segments, the first segment is our integrated investment bank. The investment bank does a lot more than just pure play investment banking. The integrated investment bank focuses on all our institutional, corporate, government and ultra-high net worth clients. It includes investment banking, institutional equities, private wealth, PMS, fixed income, private equity funds, balance sheet financing as well as our international operations.

Within investment banking, it includes the equity capital markets, private equity, debt capital markets as well as the advisory businesses. For the H1 FY’24, the segment had a revenue of INR886 crores, profit before tax of INR319 crores and a profit after tax of approximately INR248 crores, which is an increase of 27% year-on-year. The ROE and ROA from these segments were at 18% and 6.4%, respectively. For Q2 FY '24, the segment had a revenue of INR495 crores, PBT of INR184 crores and a PAT of INR142 crores, which is an increase of 51% year-on-year.

During H1 FY '24, private wealth and PMS businesses have been demerged into JM Financial Limited and have become a part of the investment bank segment. Our private wealth, which caters to ultra-high net worth individuals has an AUM of approximately INR60,287 crores, an increase of 5% year-on-year.

The second segment is mortgage lending, which includes our wholesale and retail mortgage businesses. Wholesale includes construction finance, project loans, loan against securities as well as structured finance. Retail mortgage includes our affordable home loans, smaller ticket loan against property, MSME as well as education institutions loans.

For the half year ended September 30, 2023, the mortgage lending segment reported net revenues of INR391 crores, with a pre-provisioning operating profit of INR308 crores. Provisions for H1 FY ‘24 stood at INR260 crores compared to INR95 crores in H1 FY '23. Profit before tax for this segment stood at INR48 crores, and profit after tax post noncontrolling interest stood at INR15 crores.

In Q2 FY '24, our net revenue and pre-provisioning profit stood at INR197 crores and INR155 crores, respectively. Provisions for Q2 FY '24 stood at INR127 crores compared to INR133 crores in Q1 FY '24. Profit before tax stood at INR28 crores and PAT post non-controlling interest stood at INR6 crores. On the retail mortgage business, we have built a very granular retail mortgage loan book of approximately INR1,504 crores across ~13,000 customers with an average ticket size of INR11 lakhs, carrying an average yield of 13.1% and a loan-to-value of 57%. Our book is spread across 9 states and 105 branches.

On the wholesale side, the loan book has increased from INR9,293 crores as on June 30, 2023 to INR9,711 crores as on September 30, 2023. Our third segment is a combination of our distressed credit business as well as the alternative credit business. This includes largely our asset reconstruction business. On the distressed credit business, our AUM increased by 33% year-on-year to INR15,114 crores. This AUM is well diversified into multiple sectors.

For the half year ended September 2023, the segment had net revenues of INR102 crores with a PBT of INR48 crores. Profit after tax post noncontrolling interest from this segment stood at INR25 crores. Gross debt to equity stood at 1.7x for this segment. In Q2 FY '24, our net revenue stood at INR37 crores, profit before tax at INR18 crores and profit after tax post noncontrolling interest at INR10 crores.

The fourth segment is Platform AWS. The business is completely focused on providing an integrated investment platform for individual clients of the company. It comprises of asset management, wealth management and securities, which we call as AWS. This platform will be digitally focused. We are in an investment phase as of now for both the asset management as well as the digital businesses and the financials reflect the investments made in these areas.

For the half year ended September 30, 2023, the Platform AWS business segment reported revenues of INR413 crores with a profit before tax of INR23 crores. Profit after tax post noncontrolling interest for this segment stood at INR18 crores. In Q2 FY '24, our revenue stood at INR238 crores, profit before tax at INR11 crores and PAT post noncontrolling interest at INR9 crores. We operate through our own branches and franchisees. We have been growing the franchise network and as of 30th September 2023, it stood at 814 locations across 222 cities.

Our Elite Wealth business caters to affluent clients, and we have increased the AUM there to about INR1,466 crores, demonstrating a growth of 27% year-on-year and this business is likely to grow much faster. Our retail wealth business, which predominantly deals with retail customers through a network of over 7,000 independent financial distributors recorded a steady growth of 19% year-on-year, and the AUM stood at INR26,414 crores.

The closing AUM for our mutual fund business stood at about INR4,057 crores as on September 30, 2023. During the quarter, we crossed the milestone of INR4,000 crores AUM. Out of the AUM of INR4,057 crores, equity schemes contribute approximately INR1,783 crores. We are actively expanding our engagement with partners through innovative approaches, resulting in increased participation from the distributor community.

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

Moderator: The first question is from the line of Rushabh Shah from O3 Securities.

Rushabh Shah: Yes. I have a couple of questions. If you look at our wholesale book on Slide 18, pre-COVID book is nearly INR713 crores and out of it, 60% is NPA, which is INR420 crores. So our GNPA is nearly 7.2% of the loan book of INR9,711 crores. So roughly INR300 crores is GNPA from loans disbursed after COVID. So, assuming that we have disbursed INR9,000 crores post COVID is not the NPA high -- around 3% on post-COVID book. Would it be the right understanding, sir?

Vishal Kampani: Yes, that’s correct.

Rushabh Shah: Okay. And sir, my second question is, our current loan book is majorly disbursed post COVID. How much of these loans would be with players who were our customers pre-COVID and how many are new customers?

Secondly till 2 quarters back, Ahmedabad was an important portion of our book which has more than 5%. And then in this quarter, it is not there. why so, sir?

Vishal Kampani: Yes. The Ahmedabad question is easy. We had exposure to Adani properties, which has become 0, they have prepaid the entire loan. And therefore the Ahmedabad number is 0.

And on the question of how many accounts are new accounts versus old accounts, I think I don't have an exact answer, but we'll get you an exact answer. But my guesstimate, it should be very close to almost 50% of the accounts we lend to will be accounts who've been with us and almost

50% will be new accounts, roughly 50%-50%. But we will get you that answer and communicate it.

Rushabh Shah: Okay. We stated that the intensity of competition is high in wholesale business, what are the segments where we are seeing higher competition? And it seems that the competitive intensity has suddenly increased as we did not hear from the last many quarters from you?

Vishal Kampani: Yes. So, what we've been saying is the last 6 months specifically when our team has been trying to engage and grow the book, we've been seeing some competitive intensity on rates. So, people have sort of been aggressive at what yields we are able to close real estate loans. This is specifically for the wholesale mortgage segment. We have seen a couple of AAA NBFC players who are very focused on the segment and are growing, and there are a couple of banks also who are growing.

So even though the competitive intensity has increased with our stated objective that we grow the wholesale lending book at 20%, I think we should be able to meet that stated objective. Our cleanup also has completed all of our provisions are in place. So hopefully, we should be able to grow the wholesale real estate book at anywhere between 18% to 20% over the next few years on an annual basis. The challenge we are facing, as I mentioned even earlier in one of my calls is that the sales cycle in real estate continues to be extremely strong.

So our sanction to disbursement ratio actually has dropped in the last couple of quarters. What happens is if sales is very strong and we being a large real estate book, which is focused in residential, the residential uptick in terms of construction finance slows down because money from sales is basically flowing in faster and stronger and taking care of the construction requirements. So that continues to be a challenge. And over and above that last 6 months, we have seen competitive intensity increase in terms of rates offered.

Another reason why we could be seeing competitive intensity increases because we are also graduating. When I talked about roughly 50% of customers being new customers for us on the real estate mortgage side, we are trying to go to a better quality set of customers. So when we're going to a better quality set of customers, there are more competitive players who are lending to those customers.

Rushabh Shah: Okay. Two small questions. Can you give the average ticket size per loan and number of relationships we have in the current loan book on the wholesale side of the business?

Vishal Kampani: Yes. So yes, we have roughly 60-65 relationships and the average size should be approximately INR130 crores to INR135 crores.

Rushabh Shah: Okay.

Vishal Kampani: But just to tell you, at peak we have had 100+ relationships.

Rushabh Shah: Yes. That's right, sir. One last question. 27% of our ARC book is real estate. What percentage of it is composed from our own JM Credit Solutions loans, which turned NPA?

Vishal Kampani: It should be roughly 20%.

Moderator: Next question is from the line of Pallav Garg from Star Health. Please go ahead

Pallav Garg: My question is for the mortgage book, the gross NPA has been kind of in an uptrend. And whereas we have seen from the first quarter, there is a steep fall in the SMA 2 percentages. So if you can elaborate on those.

Vishal Kampani: Yes. So part of the SMA 2 has been resolved, and it is normalized and some of it has also been taken off our books. And some part of the SMA 2 has slipped into NPA and therefore, the NPA numbers have gone up. But as I mentioned on my last call that we expect that this year, the NPA number has peaked for the real estate finance book. We have only one SMA 2 account, which we are focused on. And hopefully, that will also get resolved by March. And then I think by next year, you will see these numbers only going lower.

And all of this has happened because 6 months was the maturity period of our restructured book, the DCCO book, which was given after the delta wave. So, a large part of these accounts, which are not being able to adhere and pay principle and therefore they got into an NPA cycle. That doesn't mean our recovery efforts are not on.

Our recovery efforts are quite strong. And we should, fingers crossed, hopefully be able to recover significant amount of this money over the next 6 to 8 quarters. One fundamental change is that across the board, whether it's our ARC or whether it is our real estate lending business, whatever estimated recovery timelines we've had in the past when we started the business, now we model that the recovery timelines are a lot longer.

So if you had assumed in the past there a recovery from a sick unit or a distressed real estate project could have been 12 to 18 months. Now we factor in almost 24 to 36 months of recovery period.

When we factor the recovery period, 2 things happen, we have to expand the liability side of our balance sheet, and that's what we have done. If you see in Credit Solutions specifically, we have a lot of long-term borrowing now. And second, we have to factor in the rating and the quality of the buyer we are lending to and the spread at which we will be doing the loan, considering that if we have to recover, we're going to take a longer timeline to recover. So all those changes have already been affected in our model for the last 2 years.

Pallav Garg: Sure. And if you can talk to a little bit about your existing DCCO portfolio. I believe there is still INR605 crores in the DCCO portfolio?

Vishal Kampani: In our DCCO book, full efforts of recovery are on. Some are negotiated deals. Some places we have basically started SARFAESI action. Some places, we are starting NCLT action. Though from our experience of the ARC, we are not preferring to go down NCLT, we're preferring to going down SARFAESI. But almost on each and every account barring 1 account where there is a negotiated transaction, which is hoping to get closed post Diwali, I think everything is under process for the recovery.

The book is highly concentrated between Chennai and Mumbai. All other geographies are okay. Bangalore is okay, NCR is okay, well it's Mumbai, Chennai and one asset in Pune. So it is largely these 3 centers.

Moderator: Next question is from the line of Chirag Sureka from UTI Mutual Fund.

Chirag Sureka: Yes. Sir, just on the follow-up on the asset quality question. So on the asset quality front, the reduction in SMA2, which you mentioned. So are these accounts or have these accounts shifted to normal? Or have they gone out of the book? Or are they -- or large part is still sitting in stage 2 for some reason?

Vishal Kampani: No. So some of them have normalized, and some of them have shifted to NPA. And 1 or 2 of the accounts have been refinanced.

Chirag Sureka: Okay. So not a large part or a good part will not be sitting in stage 2 or any delinquency bucket.

Vishal Kampani: No, no, they are not.

Chirag Sureka: Okay. And the sale -- these accounts which have been sold or refinanced, where we have even in stage 2 SMA account, we were able to get refinance for the developers.

Vishal Kampani: Yes, because what happens if it is taken over by a stronger developer or a stronger developer is doing a partnership in terms of a DM model, then people refinance.

Moderator: Next question is from the line of Rajat Setiya from ithought PMS.

Rajat Setiya: Okay. On this INR600 crores of DCCO book, did we say that we are comfortable now and what gives us the comfort?

Vishal Kampani: No, sorry. We are comfortable because all our recovery efforts are on. And we have taken provisions based on our ECL model. We've also increased our provision slightly because of RBI wanting some comfort on higher provisions compared to where we are comfortable. So I think at this stage, it is really about focusing on recovery and making sure that we get the INR600 crores back into the system as cash.

Rajat Setiya: And by what time -- do we have any timelines? I mean, by...

Vishal Kampani: As I said my earlier timeline when we used to do the business, I'm talking about when we started we used to always feel that a 12 to 18 months timeline is good enough for recovery, but I would be very cautious to give you such an aggressive timeline. I would imagine that these timelines now could be stretched to 2 years, maybe even 2.5 years.

But in general recovery processes are taking a lot of time. We are facing that in our ARC also. I've mentioned that in my press release and even in my last call that most of our assets through NCLT or any form of litigation, the recovery timelines have got very, very stretched, which is impacting our earnings. So therefore, a similar thing will be followed for the DCCO book. I would not imagine that all of this will get recovered over the next 12 months. And I would imagine a 2- to 3-year scenario for recovery.

So, for ease of your assumption, I think you should just assume that in the case of INR600 crores, if you have to model it assume INR200 crores in year 2, INR200 crores in year 3 and INR200 crores in year 4. That would be a very simple and easy way to model it.

Rajat Setiya: Sure. And for the DCCO INR600 crores book, how much provisioning do we have on those assets, INR600 crores?

Vishal Kampani: Most of our provisioning is on the DCCO of assets only.

Rajat Setiya: I mean on those INR600 crores specifically. On those assets that we -- that are still standard, I think.

Vishal Kampani: So, beyond the INR600 crores, if we see our book, our provisioning is roughly INR190 crores, which is roughly 30%.

Rajat Setiya: Even on those INR600 crores, which are -- which -- I mean, we have INR190 crores of provisioning.

Vishal Kampani: Yes, INR190 crores. It's almost 30% of the book.

Rajat Setiya: And you don't expect them to slip to NPA that is the understanding, correct?

Vishal Kampani: No, no. Some of them are already NPA.

Rajat Setiya: Some of them are already NPA.

Vishal Kampani: Yes, yes.

Rajat Setiya: How much of them are NPA?

Vishal Kampani: Almost half.

Rajat Setiya: Okay. So the INR300 crores, what are the chances of them slipping into NPA?...

Vishal Kampani: What is NPA, INR300 crores, a significant portion of the provisioning is on that number.

Rajat Setiya: Okay. And the non-NPA numbers will have very low provisioning right now?

Vishal Kampani: Absolutely. I'll give you a simple example. So, in INR600 crores, roughly INR343 crores is NPA and the remaining is non-NPA. So you should assume that on the NPA, we'll have at least 40% provisioning and the rest would be provisioning on the non-NPA.

Rajat Setiya: Sure. Sure. And one SMA 2 account, you mentioned that we are working on, that is worth INR20 crores going by the number that we have for SMA 2. Is that correct?

Vishal Kampani: Yes, that is correct.

Moderator: Next question is from the line of Vivek Kumar from Bestpals Research.

Vivek Kumar: Sir, my first question is on mortgage. Given that now we have upgraded our -- the way we are selecting our clients and also -- because other NBFCs and banks are addressing the same segment of better clients and sales cycle financing the -- or customers financing the construction and other parts of the real estate whatever opportunity we have. How should we start thinking about our ability to grow the loan book?

And can you explain more because now some like all customers and even competition and we ourselves are upgrading our collection of customers. So how should we now think of any change in assumptions that you had post COVID and the way you are going to -- are we trying to increase our ratings and what we are doing for it? So if you can throw more light on how we should think about this mortgage business, wholesale mortgage?

Vishal Kampani: Yes. So, I'll tell you, if you see our efforts over the last 2, 3 years, we've actually diversified away from wholesale mortgage a lot. We do not want to grow wholesale mortgage more than 20% a year. We have enough firepower in terms of capital, in terms of people, in terms of understanding of markets to be able to grow wholesale mortgage at 20%. Our other segments like retail mortgages, our MSME book, our financial institution financing book have grown significantly. They will grow faster.

I imagine retail mortgage will grow by 30%. The financial institution financing business will grow between 20% and 25% and MSME LAP will grow at 35%. So I think these books will grow faster over time, which will help us achieve a much better retail and wholesale mix in the mortgage space as well as overall loan book space.

Our capital market book also has performed very well in the last 6 months, but that is a cyclical book. If markets were to turn negative and not do well, then there is a huge possibility of that book being flat or coming down. Our bespoke book will never grow beyond a certain point because we use that book largely for distribution.

We take on our books, and we basically sell down to other NBFCs and AIFs, and that book actually works very closely with our investment bank. So I think this is a broad book. You can expect good growth across all segments, but there will be more growth on the retail asset side.

Vivek Kumar: So, mortgage you're saying you have enough firepower and even with the assumptions of very great sales price because in bad times, we will not have a great credit and in good times, financing is coming from the customer. So you are still confident of 20% growth given all these conditions.

Vishal Kampani: Yes. That's why I said that around 18%, 20% growth should be achievable from our base over the next 2 to 3 years. Also, we are also trying to move in wholesale mortgage over the last 2, 3 years to a better customer -- better sort of counterparty who we want to lend to. So incrementally, we don't want to do business in the high-teens. We want to focus on business in the low-teens.

And the competitive intensity in the low-teens is always going to be higher compared to high-teens. But we just think that from what we have seen in the last 5 years, it is not worth doing the high-teens business because the risk element is extremely high, and the recovery pace is very, very slow. And therefore, it is just better off banking on a better client and lending at 13%, 14% versus trying to lend that 17%, 18%.

Vivek Kumar: So, when it comes to investment banking, where -- what part of the -- I know nobody knows what is going to happen in terms of market, but what kind of growth rate can we -- because you -- in one of the interviews, you told what cycle to cycle...

Vishal Kampani: I've always maintained that Indian capital markets are going to grow phenomenally. And at least the last 10 years, we've been proven right. So, the way we look at investment bank is that every 4 years, the investment bank should double its profit. That's the way we focus and that means that they should have 18% to 20% growth. And I'm very pleased to report that on the investment bank, we have actually reported a 20% ROE last quarter. We've reported 18% ROE for the first half. And our numbers are extremely strong.

Our pipeline is unbelievably strong across all our products, whether it's equity, whether it's debt, whether it's private equity, whether it's advisory, M&A. And I think the traction that we are seeing is perhaps one of the best in the lifetime of the firm. So, very happy. And the cross-sell of all of those customer relationships coming into private wealth management, into PMS, into bespoke is very, very strong.

So, when I look at the integrated investment bank, I don't think there is anybody in India who is trying to build it. I think we are building it in an extremely strategic manner and I think we will be for the next coming years, one of the most successful firms, building a true blue-blooded investment bank in India, which is an Indian investment bank.

Vivek Kumar: So, any plans once you reach the INR1,000 crores kind of profit to merge non-lending and lending figures? Non-lending and lending separately like that? Or you're not picking off those things now?

Vishal Kampani: I'll tell you it is very difficult to break up lending and non-lending in the investment bank. If you look at our Tab A, where we have given some details, if you focus on Page 14, there is something called franchise enhancing financing.

Vivek Kumar: Got it. I think the better question would be investment bank and other things and lending, the other part of lending.

Vishal Kampani: Correct. See, investment bank, we don't increase our loan book. Our loan book has been around INR4,000 crores to INR5,000 crores for the last 5, 6 quarters because we only originate to sell down to customers, right? We are not hungry for yield. We are hungry for fees. We are hungry for the fee-based business. And if you see our trading and investment portfolio, it is significant and it's very liquid. We've got cash of almost INR700 crores.

We've got G-Secs and AAA bonds investments of almost INR900 crores. We've got a significant amount of investments in REITs because we feel that counter cyclically, it earns a good yield of 8%, 8.5% and can give you further capital appreciation of 5% to 7% over the next 2 to 3 years. So, we look at this business very strategically from a lending, trading, investment, fees, commission and brokerage business.

Moderator: Next follow-up question is from the line of Pallav Garg from Star Health.

Pallav Garg: Just a follow-up question from my side. How should we think about the impairment, the provisioning levels going forward? It has been high for a couple of quarters now. So, it's being something which is what the comfort of RBI.

Vishal Kampani: So, let me break this question up across our lending entities. I think we are very comfortable now in the provisions for JM Financial Credit Solutions. I think we have increased our provisions partly because RBI felt that we should be more conservative and we completely respect the views of the regulator. And even though internally, we were comfortable at a provision of 40%, we increased the provisions to 53% on the Credit Solutions side. On JM Financial Products, we are very well provided. On JM Financial Home Loans, we are very well provided.

On the ARC side, specifically, I think we will have challenges over the next 3 years. Most of the resolutions that we are seeing, we are seeing lower realizations than modelled. In addition to that, we have a lot of assets which are completing 8 years, 7- and 8-year cycles. And after the RBI regulations, we compulsorily have to make provisions if we've not been able to resolve many of those cases. And the resolution time line has been expanded quite significantly, especially for all the assets which are in NCLT or are in litigation.

So, the way to explain is, over the next 3 years, investors should look at how much of a book value hit will we have going forward because of provisions. We think the book value per share hit at JM Financial Limited from the NBFC business will be extremely limited and it should not be more than 50 paisa per share.

And from the ARC, I think the hit can be anywhere between INR4 to INR5 per share over the next 3 years. The time lines of this are difficult to ascertain. And therefore, I would cautiously ask all the investors to model an adjusted book value for JM Financial when they are valuing JM Financial and just reduce our book value by INR5 to INR5.5 for the provisions that will come up.

As I said, 50 paisa to maybe INR1 maximum, maximum from the NBFCs over the next 3 years and between INR4 to INR5 for the ARC again, over the next 3 years. We have had some conversations with many of our lenders and investors that why don't we just upfront these provisions and get done with it. We are also evaluating the same, but it's tricky because we also have a lot of upsides in our ARC. We also have upside in the provisions of many of the assets we've made in our NBFCs, which will come over the next 3 years. And it is difficult to ascertain which quarter or which year will we be getting those upsides versus when we make the provisions.

So, we are very closely looking at the same. And one thing I can assure you is that our NBFC current provisioning cycle is complete and we will finish the remaining provision, which is a very, very small number in the NBFC, which should not be totaling to more than INR25 crores over the next 6 months.

And for the ARC, it is over the next 3 years and the impact of that would be anywhere between INR4 to INR5 on this value. And this is not including any upside we can get from any case, which is under litigation, where we have not booked any income.

Pallav Garg: So, just a clarification, this is for -- this is cumulative. So, we can model it on a --

Vishal Kampani: Exactly. So, I think it's very simple because people keep getting confused. I was just thinking a great question you asked, how do I just address it. I just adjust the book value straight up by INR5.5 between these two. Look at that book value over the next 3 years and see if we do INR10 of EPS say, in 2 years, I think it's quite clear where the PE ratio should be, where the ROE should be.

And if you're looking at book growth of around 18% to 20% in wholesale mortgages, we're looking at investment banking doubling profit in 4 years, and we are looking at a book growth of 30% in our retail business, 25% in our FIFG business, I think you can very easily model where the EPS will be and what sort of growth will be delivered by the firm over the next 3 years. And just INR5.5 upfront into the book value, so you can easily model and value JM over the next 3 years.

Pallav Garg: And anything you can -- if you can elaborate on your lending to the other financial institution? How has been the experience and maybe trends that --

Vishal Kampani: Experience has been very, very good. But we are becoming a bit cautious. We have reduced in the last 6 months, we have reduced the lending to fintechs. Microfinance is strong. Vehicle finance is strong, gold loans is strong. The underlying recoveries from these portfolios and the modeling that we are doing and the risk analysis we are doing continues to be very robust.

It remains very robust. So, no sort of challenges as of now. Our objective is to granularize that loan book even more. We started off by doing larger loans to higher-rated companies. And increasingly now, we are doing smaller and smaller loans to lower rated companies. We do not lend to any NBFC, which is rated below BBB and we lend all the way to AA.

In fact, the AA NBFCs we cross-sell our investment bank because we do public issue of bonds, we do private placement of debt for the same. We also do equity issuances, whether it's a QIP or whether it's a private equity trade. So, it's a full service given to all the financial institutions. We are hoping that our INR2,000 crores book in the next 18 months will be closer to INR3,000 crores, INR3,500 crores book. Fingers crossed, we should be able to achieve this kind of growth.

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

Dhruvesh Sanghvi: A great session, after 6 months we get this opportunity. So sir, one thing, why can't we move to a quarterly con call? I mean, just as a regular suggestion, that is number one. Second is about, let's say, when we see the mortgage business currently, what is happening is over the last 5 years, we have -- we are moving…

Vishal Kampani: Hello.

Moderator: The line for the participant dropped. Next question is…

Vishal Kampani: Bring him back, bring the participant back whenever possible. We can move on, but bring him back.

Moderator: Yes, sure. Next question is from the line of Manoj Dua from Geometric Securities.

Manoj Dua: So in the past, when we were used to talk about wholesale mortgage in the bad time, there was a thing that you see when the good time will come, we can just increase our book in just 2 years. Now we have changed the strategy for the right reasons. So, how can we look after when the things are a little bit mature when the book has increased at 18%, 20% with the right client, what kind of ROAs and ROEs you can look in this business now?

Vishal Kampani: So first of all, let me tell you completely, honestly and transparently, I can actually double the book in 2 years. There is no problem. I only have to reduce the interest rate. So, demand for money is not a problem. The only challenge is that on the -- we want to maintain 2 things. We want to maintain a higher book in construction finance and a lower book in structured and land, which is what we've always done, even pre-ILFS. Now, if you look at the pre-ILFS period from almost 2013 to 2018, sales were very slow and therefore, the disbursements were very high. Our quarterly disbursement rate was very high.

On the construction finance side, we're just facing a challenge because sales are very strong. So, we are absolutely in the exact opposite market of what was there pre-ILFS, right? So, the market just needs to normalize a bit, but frankly, it is not.

The market is still very strong. I guess if the stock markets in India are doing well, making a lot of money, there is a lot of wealth effect and we are seeing that in the geographies that we are operating, particularly Mumbai, Bangalore, Pune and Delhi.

And I personally feel that in some of the places, the price rises are quite ridiculous. And today, to be able to do a loan where something was selling at INR80,000 a square foot and suddenly prices have moved to INR1,20,000 or even INR1,40,000 a square feet, right, Bandra, for example, it is very, very difficult to underwrite a new project because we're underwriting that project assuming that price for the next 3 to 4 years, the price may not hold. Even if the price holds the velocity of sales may not hold.

So, we're just being extremely cautious with our capital. I mean if we just take a view that no, we want to grow the loan book, it is actually very, very doable. Now, let me give you an example, if the rate was INR1,00,000 or INR90,000 or INR80,000 and developers wanted money, we could have disbursed INR1,000 crores in Western suburbs in Mumbai alone literally, which we've chosen not to do.

Now, coming back to your numbers question, I think we will get to anywhere between 3% to 4% ROA on the wholesale mortgage piece in JM Financial Credit Solutions. Because we are adding a bit of diversified corporate LAS as well as FIFG, that ROA could be closer to 3% and not closer to 4%, so assume, 3% to 3.5%.

And our endeavor would be in the business to take leverage back to 2.5, 3x over the next 3 years. So if we do that, it will be a 14% to 15% ROE business versus an 18% to 19% ROE business, which it used to be pre-ILFS. I think 14% to 15% is still a very strong number. And we are very well capitalized, very well positioned to deliver that.

But all our learnings from COVID, all our learnings from ILFS have been priced into our models and we will be very careful in terms of who we give larger exposures to, we'll be very careful in terms of figuring out if something were to go wrong, how long would it actually take for us to get our money back. These things are very important, and that is priced into the risk models and could be another reason why the growth rates will be at 17% to 18% or 19% and not 20%, 21%, 22%. And therefore, the guidance of 18% to 20%.

Manoj Dua: I understand that's the prerogative of management, how to do the strategy, and I respect that. So, my second question is like you were saying some area prices are very high. Is it only on some micro market or across because I'm coming -- if you believe that the prices will correct, can our current book can also be a little bit affected even if it is conservative because the price fall can be high?

Vishal Kampani: Very, very good question. So that is why if you see I built in a 50 basis points for our real estate book of further provisioning that may happen over the next 3 years, it is all from the wholesale mortgage side in our book value. But having said that, I feel that risk is very low today because the sales cycle of our projects is already very strong. And therefore, the committed receivables are very strong. So, we have to be very careful underwriting today what we underwrote. See, if you see our pre-COVID book, our pre-COVID book has completely changed hands. So pre-COVID performing book is very low.

So, the entire current book that we have, which is performing very well is a new book, which has been built in the last 3 years. And that book is performing extremely well. And that's because the sales cycle is strong and projects are being delivered. But that is already sort of mid-cycle because I've been lending on that book for 3 years. So in FY '24, FY '25 mid-cycle and it comes to end cycle in '26-'27. What I underwrite now, right, has to go through '24, '25, '26, '27 at high prices and that we have to be very careful.

Another thought in our mind is on the wholesale side, we have to be very careful of a major event like elections. Do we want to take any major exposures when we have one of the most important events for macroeconomics in the country, which is going to be the national election. So, we will be very careful till May in terms of how much money do we put out on the wholesale side. And if the election result is good, then I think we have a clear 5-year window to grow the book even more aggressively. So, all of these things are in our mind.

And so to your question, current book, I barely see any risk, but I'm talking about a 50 basis points sort of book value adjustment if things were to go awry, but I really doubt it. And do not forget that we will also have recoveries against that. So, when I gave my guidance about INR5 adjustment to book value, I am not considering any INR1 of recovery in that guidance. So, if we are good, we do a good job at recovery, then that INR5, INR5.5 adjustment, a large part of it may not even happen. But I don't want to promise it to everyone. As I said, I want everyone to make the adjustment and then look at our numbers.

Manoj Dua: So, that INR5 adjustment is majorly because of the ARC business. Am I right in this?

Vishal Kampani: As I said, 50 basis points to maximum INR1 on the JM Financial Credit Solutions side over the next 3 years and INR4 to INR5 on the ARC side.

Manoj Dua: And we hold 50% stake, around 50% stake in that ARC business. Can you quantify in terms of value, what will be adjusted with that because it seems to be very high value even with 50% stake in our ARC business?

Vishal Kampani: Our ownership is 58%, so yes, if we have all of those delays, that will be a high number in the ARC business.

Manoj Dua: Now, how do you see ARC business in the future with the kind of not so good experience in the last few years? And how are you putting more capital deployment in there or not?

Vishal Kampani: Yes. So, what we are doing is doing 2 things. As I mentioned last time on my call, we are reducing the amount of wholesale we are doing in the ARC and increasing the retail. If you see the new portfolios that we've added, 85% of the new portfolios that we've added in the ARC are all retail portfolios. And I must report that those portfolios are doing exceedingly well.

And there is a significant and a good chance that they will earn extremely good IRRs and will also get repaid before time. So, our idea is that we were a 100% wholesale business in our ARC pre-ILFS and we want to move that to 50-50, 50% wholesale, 50% retail. Second, we do not want to do 100% purchases and aggregation of assets. We want to limit our participation in assets to 25% and 75% of SR issuances.

So, we've taken very effective steps over the last 2 years also on the ARC. But unfortunately, we have 2 or 3 assets which have been sticky and the assets have been hurt very badly in COVID. Many of the plants had to be shut down. We saw a crazy amount of inflation in input prices, which will hurt some of the assets. In 2 of the assets, we have PLI schemes and buyers are wanting to pay 25% to 30% to 35% lower than what we think is fair value or residual value. And therefore, it's become difficult to close a transaction. So, we may actually have to bite the bullet and maybe sell some of those assets at lower prices.

And so a lot of that brunt is something that we are dealing with. But we are quite confident that the new book is doing well. The large part of the attraction to us to grow the ARC is still in retail assets. We see a big move in retail MSME. There has been tremendous amount of lending that has happened that could result in some NPAs, maybe 2 years, 3 years down the line. So, we will focus on making sure that we have the right partnerships, which can help us recover on retail and MSME assets and the current experience of the same has been pretty strong.

Manoj Dua: And last one question, I think it's very important. How can we demerge this wholesale mortgage from this business? Let me tell you why I'm coming from that. Because wholesale mortgage business is creating every time a big event because real estate is a big purchase. From 2016, we are seeing 1 event, we are talking about -- we are watching this event.

You know, GST, RERA, IBC, then COVID Wave 1, Wave 2, Wave 3, Russia-Ukraine war, now the election has come up. So, I understand whether it is a conservative lending thing, and we have to watch for the event because that we are not getting at all of some valuation in investment banking. This I believe in going forward as the Indian economy go up, it has to be structural at some point of time. So, what's your view on that?

Vishal Kampani: I think it's a very, very good question. That question has crossed my mind many times. And since you have raised it on a call, I will definitely take it to my Board and discuss the same.

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

Dhruvesh Sanghvi: Sorry, I got disconnected. So, my...

Vishal Kampani: No problem. We made sure we got you back.

Dhruvesh Sanghvi: Thank you. So, my question related to the overall lending side is, let's say, currently, we are doing, lending to other financial institutions. In the past, it was IPO. Previously to that, it was pure large ticket mortgage. But are we learning to become more consistent in the business strategy? Where I'm coming from is there are many NBFCs, which have got created in the last 5 to 10 years and some of them have reasonably scaled it well.

But the good part about some of those is that the line of activity that they chose is a little bit continual whereas what will happen is, for us, let's say, if we grow from INR2,000 crores to INR4,000 crores in the financial institution space, the problem is that something will go wrong at some other point and then we will have to scale it back. So, on that higher base, that will again hurt us 3 years later and then we'll have to give reasons on why are we de-growing that business.

Vishal Kampani: That is a great question. Sorry, finish.

Dhruvesh Sanghvi: So, I was just trying to understand that after a decade of here and there, touching multiple aspects of financing -- financial -- I mean, lending side, are we getting clearer in our mind that, okay, this is the way forward on how to build the lending business because we are clearly not into the B2C except for the retail, I mean the home lending side...

Vishal Kampani: I got the question. Let me address it. So, if you go back to even 5 years or 6 years back in most of my interactions on the analyst call, we've always maintained that wholesale mortgage should actually grow at 20%. We've never discussed a growth in wholesale mortgage over and above that. And today, we continue to believe that wholesale mortgage, if it has grown at a reasonable rate, it's a very, very good business to be in with very good cash flows and we will continue doing the same.

Now why are we adding some of the other businesses, right? Bespoke is a business we always had. It was a structured finance and corporate LAS business, which we've renamed bespoke, and we've integrated that much more into our investment bank. So that is not new. Our LAS business, we've always had LAS businesses booming today because the capital markets are booming. So that business also is very strong.

IPO funding we were very strong. But unfortunately, the regulators have closed it down. It has nothing to do with us. For example, if IPO funding has not been closed down, we would have reported INR200 crores of more net revenues in the last 6 months. But it's a regulatory action. I mean we've seen a boom in IPOs last 6 months where our funding book has not been able to participate because of the regulators' action. So that is completely regulatory.

And who knows, the regulators may change their mind. A lot of HNIs and a lot of retail investors are not investing in IPO because of these allocation rules and because they don't want to take funding without guaranteed allocation. And if that sort of data is appreciated by the regulators, they may actually change their mind and IPO funding may come back as a product and it is an extremely profitable line of business for us. Now coming to FIFG, why did we start FIFG? We realized that we have a lot of cross-selling in our investment bank to do to many of the smaller NBFCs.

Smaller NBFCs, if you work with them when they're smaller, there are lots of private equity rounds that the investment banking team can raise for them. They need money. They are happy to pay 12%, 13%, kind of IRR to us. Most of their loans are 1 to 2 years in nature, and therefore, we can afford to borrow short term because the assets are also short term in nature. Many of these are sort of equated monthly installments through which they pay us.

So, the duration profile of these assets is very, very short, and therefore, they are very, very profitable. And we realize we have a brand where many of these NBFCs will want to associate with us and create long-term partnerships just the way we've done with Bajaj Finance, right?

Bajaj Finance became our client 22 years ago, almost in 2000 to 2001. And since then, we've done every single financing for them. We've had research first on that company. We've backed them completely and we've seen the growth they have done. So, why not have the same business model with 30 or 40 or 50 smaller NBFCs. So, it's a very well thought through plan and there is a very good case where this book can scale to anywhere between INR4,000 crores to INR6,000 crores. Also, it diversifies our book.

See, we have very low leverage. We have a good balance sheet, good capitalization. We know that wholesale mortgage will not be able to grow more than 18% to 20%. So, the idea is how do we use our capital more effectively and generate a much higher ROA on that capital. That's very important, right? Because if we have cross-sell capabilities to every loan we make, then that loan is more profitable and the ROE is going to be much higher with higher ROAs and that means lower leverage. So that is the strategy across the group.

So, if you look 2, 3 years forward, it's not that we are exiting any business, we are going to be in wholesale mortgages, we are going to be in FIFG financing, we are going to be in corporate lending. We're going to be in LAS. The thrust that is coming to really grow fast and become big is on the retail assets. We started the HFC exactly 6 years ago and I'm happy to report that for the month of October, just the month of October, they have disbursed INR160 crores, right, which is a phenomenal number, right?

And that number, I expect with a little bit of more branch expansion going to 120, 125 branches in 6 months to 7 months' time will be INR200 crores a month. So, we are talking about having almost a INR5,000 crores to INR6,000 crores retail asset book in a 2- to 2.5-year time frame, which is almost in a decade, we've built almost $1 billion business from scratch internally without buying anything.

So, I think a lot of efforts on strategy, a lot of efforts on execution playing out, we can even discuss our investments in digital asset management, right? We started investing in asset management 2 years ago, a lot of people thought that we are foolish. Why are we trying to rebuild our mutual fund. But I'm happy to report that currently, we are as we speak, we have almost INR2,000 crores in equity assets in our mutual fund. Some of our scheme performances have been top class, right? And we've hired good experienced people who in a very mature way are going and building the business from a long-term perspective.

So, we are taking steps in the right direction. We feel the capital markets are still young. They're still very small. There is tremendous growth ahead of them. And the same thing applies to even many niche areas on the lending side and we will exploit them and we will create a lot of growth opportunities over the next 10 years.

Dhruvesh Sanghvi: And just one question related to the mortgage lending again. So, on the NPA side, suppose, again, I'm not from the financial background and therefore, pardon my question. So, when we generally hear any of these deals, they are typically 2x on the cover or something of that kind. So, do we end up getting and collecting in the recoveries all the interest that is lost? And if the covers are for 2x, why do we still end up making the net loss?

Vishal Kampani: That's a very, very good question. So let me tell you, this is exactly how we used to think about it 5 years ago that if we have 2x cover, what is the issue. The problem is 2x cover, you normally get an account which is paying you high teens, right? So, you always feel safe from a collateral perspective but the borrower rating is not always that high. And because the borrower rating is not high, what does it mean? It means that when stressed times come, the borrower's ability to extract cash flow from that stipulated 2x cover becomes difficult.

And therefore, the realizable cover never actually is 2x, it's a lot lower. And therefore, we are finding it safer to do loans with much better-quality developers who have much stronger balance sheet, who've been sort of have enough of capacity and capital to withstand pressure at 1.6 or 1.7 or 1.8 cover and lend money to them at 13% or 14% than actually look for the 2x cover transactions where we are trying to lend at 18% to 19%.

And what our experience has told us in the last 4, 5 years is that cover is extremely theoretical if the question comes up on the ability of the developer to execute through stress times. And therefore, that is a misnomer. And that is really the crux and sort of Holy Grail of the business is how you choose your credit. And many of the places where you get 2x to even 2.5x cover, our developers don't have the ability or capability to withstand sort of a multiyear crisis, which we have seen in retail -- in wholesale mortgages right through ILFS through COVID 1 and COVID 2.

Dhruvesh Sanghvi: Thank you. Thanks a lot, and happy Diwali to all.

Vishal Kampani: Happy Diwali to all of you. Thank you.

Moderator: Thank you very much. I now hand the conference over to Mr. Vishal Kampani for closing comments.

Vishal Kampani: Yes. Thank you very much, all of you for attending our call. It's actually in the week of Diwali. And with this, I would like to conclude and I would wish everyone a happy Diwali and a very happy New Year. And if you have any further questions or any data that is specifically required on our results, on our strategy or any of the sort of guidances we have given through our call, please reach out to our finance team. Nishit and team will be very happy to take you all through the details. Thank you.

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