CRISIL RESEARCH

CRISIL IER Independent Equity Research

JM Financial Ltd

Detailed Report

Enhancing investment decisions

Explanation of CRISIL Fundamental and Valuation (CFV) matrix

The CFV Matrix (CRISIL Fundamental and Valuation Matrix) addresses the two important analysis of an investment making process – Analysis of Fundamentals (addressed through Fundamental Grade) and Analysis of Returns (Valuation Grade) The fundamental grade is assigned on a five-point scale from grade 5 (indicating Excellent fundamentals) to grade 1 (Poor fundamentals) The valuation grade is assigned on a five-point scale from grade 5 (indicating strong upside from the current market price (CMP)) to grade 1 (strong downside from the CMP).

CRISIL Fundamental Grade	Assessment	CRISIL Valuation Grade	Assessment
5/5	Excellent fundamentals	5/5	Strong upside (>25% from CMP)
4/5	Superior fundamentals	4/5	Upside (10-25% from CMP)
3/5	Good fundamentals	3/5	Align (+-10% from CMP)
2/5	Moderate fundamentals	2/5	Downside (negative 10-25% from CMP)
1/5	Poor fundamentals	1/5	Strong downside (<-25% from CMP)

About CRISIL Limited

CRISIL is a global analytical company providing ratings, research, and risk and policy advisory services. We are India's leading ratings agency. We are also the foremost provider of high-end research to the world's largest banks and leading corporations.

About CRISIL Research

CRISIL Research is India's largest independent integrated research house. We provide insights, opinion and analysis on the Indian economy, industry, capital markets and companies. We also conduct training programs to financial sector professionals on a wide array of technical issues. We are India's most credible provider of economy and industry research. Our industry research covers 86 sectors and is known for its rich insights and perspectives. Our analysis is supported by inputs from our network of more than 5,000 primary sources, including industry experts, industry associations and trade channels. We play a key role in India's fixed income markets. We are the largest provider of valuation of fixed income securities to the mutual fund, insurance and banking industries in the country. We are also the sole provider of debt and hybrid indices to India's mutual fund and life insurance industries. We pioneered independent equity research in India, and are today the country's largest independent equity research house. Our defining trait is the ability to convert information and data into expert judgements and forecasts with complete objectivity. We leverage our deep understanding of the macro-economy and our extensive sector coverage to provide unique insights on micro-macro and cross-sectoral linkages. Our talent pool comprises economists, sector experts, company analysts and information management specialists.

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Last updated: August, 2014

Analyst Disclosure

Each member of the team involved in the preparation of the grading report, hereby affirms that there exists no conflict of interest that can bias the grading recommendation of the company.

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JM Financial Ltd

Well-capitalised for growth

Fundamental Grade	**4/5 (Superior fundamentals)**
Valuation Grade	**5/5 (CMP has strong upside)**
Industry	**Capital Markets**

CRISIL RESEARCH

June 25, 2015

Fair Value	**₹70**
CMP	**₹44**

JM Financial Ltd has been one of the key beneficiaries of the recovery in the capital markets given the strong correlation of its businesses – investment banking (IB) and securities, lending and asset management – with the capital markets. In IB, the company has a strong competitive position; it was ranked among the top 10 M&A advisory firms with a market share of ~6% in CY2014. The lending business, with the recent capital infusion of ₹9.0 bn including the ₹5.4 bn from Mr. Vikram Pandit's fund, is sufficiently capitalised for growth. While the company has a strong competitive position in the asset reconstruction business, we expect management focus to be largely on asset recovery in the Hotel Leelaventure deal rather on new asset purchase. Regulatory risks and competition from banks and NBFCs limit the fundamental grading to **4/5**.

Sustained activity in the capital markets should drive growth in IB and brokerage

The IB and securities business' revenues grew 28% y-o-y in FY15 benefiting from strong recovery in the capital markets. The company has been involved in a few large transactions including Coal India's stake sale that highlights company's strong competitive position in the IB space. The company has indicated that it has a robust pipeline of M&A advisory deals, which is expected to drive growth in the IB segment. We expect revenue growth of 25% in the IB and brokerage business in FY16.

Lending business well-capitalised to pursue growth

Over the past 12 months, the lending business' AUM increased 81% y-o-y to ₹54 bn in FY15 driven by ~105% y-o-y and ~120% y-o-y growth in real estate and margin funding lending, respectively. The real estate business is being carried out by the new NBFC subsidiary, wherein Mr. Vikram Pandit's fund has infused ₹5.4 bn and the parent company has infused ₹3.6 bn. With a healthy CAR of 36% and leverage of 1.9x, the lending business is sufficiently capitalised to sustain growth over the medium term. The overall real estate lending book (both the NBFCs), currently at ₹28 bn, is expected to grow 20% y-o-y to ₹34 bn in FY16.

Strong upside expected in ARC business but timing is uncertain

JM Asset Reconstruction Company (JMARC) has acquired ₹42 bn of Hotel Leelaventure's bank loans and invested ₹8.6 bn cash up-front. The company is working on the potential sale of hotel properties of Hotel Leelaventure and is expected to close the sale by H1FY16. It has ₹6.5 bn of Class-A security receipts that gives it first charge over the recovery amount. However, the timing of the asset sale is a monitorable. The ARC business had recognised PAT of ₹362 mn in FY15. We have not considered a significant upside in PAT in FY15 considering limited visibility on asset sale and accrued income.

Maintain fair value of ₹70 per share

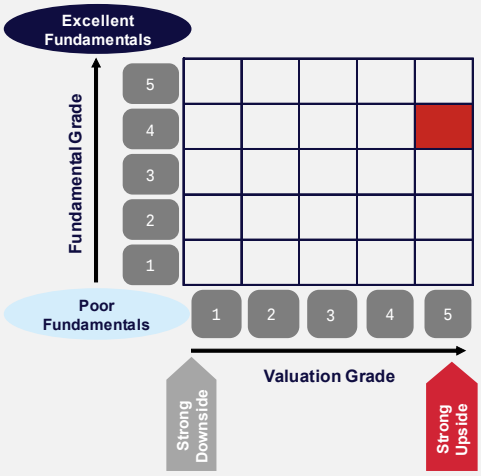
We have used the sum-of-the-parts (SoTP) method to value JM Financial and maintain the fair value of ₹70 per share. The fair value implies P/E multiple of 13x FY16E EPS. At the current market price of ₹44, the valuation grade is **5/5**.

KEY FORECAST

(₹ mn)	FY12	FY13	FY14	FY15#	FY16E
Operating income	8,628	10,416	10,020	14,030	17,552
EBITDA	4,802	6,426	6,050	9,552	12,028
Adj net income	1,213	1,849	2,116	3,305	4,120
Adj EPS (₹)	1.6	2.5	2.8	4.2	5.3
EPS growth (%)	-34.4	52.1	13.9	50.5	24.7
Dividend yield (%)	1.3	2.0	1.3	1.9	2.6
RoCE (%)	8.8	10.7	10.0	14.1	13.9
RoE (%)	6.1	9.1	9.8	13.9	15.3
PE (x)	28.5	18.9	16.6	10.9	8.7
P/BV (x)	1.6	1.6	1.5	1.1	1.0
EV/EBITDA (x)	11.3	10.0	9.3	8.4	7.5

Source: Company, CRISIL Research estimates

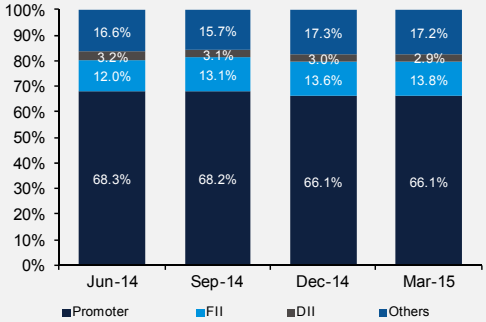
CFV MATRIX



KEY STOCK STATISTICS

NIFTY/SENSEX	8398/27896
NSE/BSE ticker	JMFINANCIL/ JMFINAN
Face value (₹ per share)	1
Shares outstanding (mn)	783.7
Market cap (₹ mn)/(US$ mn)	34723/551
52-week range (₹)/(H/L)	59/34
Beta	2.1
Free float (%)	33.9%
Avg daily volumes (30-days)	594,103
Avg daily value (30-days) (₹ mn)	27.3

SHAREHOLDING PATTERN



PERFORMANCE VIS-À-VIS MARKET

	Returns			
	1-m	3-m	6-m	12-m
JM Financial	6%	-6%	3%	15%
CNX 500	-2%	-4%	2%	12%

ANALYTICAL CONTACT

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For detailed initiating coverage report please visit: www.ier.co.in
CRISIL Independent Equity Research reports are also available on Bloomberg (CRI <go>) and Thomson Reuters.

Table 1: JM Financial - Business environment

Parameters	Investment banking and securities business	Securities funding and fund-based activities	Alternative asset management	Asset management	Others
Segment offerings	IB, brokerage and wealth management	Margin funding, IPO financing, promoter funding, commercial real estate lending, loan against shares	Private equity and real estate investment	Asset management	
Market position	JM Financial is one of the leading domestic investment bankers. In 2014, it had 6% share of M&A advisory deals in India A small player in the equity brokerage industry with a market share of ~1%. India Infoline Finance Ltd (IIFL) is one of the leading players with 2.8% share	A fragmented industry with diversified lending exposure, but JM Financial is relatively more focused on commercial real estate lending and capital market lending	Relatively a smaller player with assets under management (AUM) of ₹9.7 bn	JM Financial is a small player with a market share of ~1% in terms of mutual fund AUM of ₹122 bn in FY15	
Revenue contribution*					
FY15	34%	52%	2%	3%	9%
FY16E	34%	53%	2%	4%	7%
Revenue growth (FY16E)	25%	27%	10%	45%	0%
Key competitors	Financial services firms such as Edelweiss Capital and Motilal Oswal; banks such as Kotak Mahindra Bank and SBI Capital Equity brokerage firms such as IIFL, Motilal Oswal and Edelweiss Capital; large foreign brokerage houses such as CLSA and Credit Suisse	Indiabulls Financials, Religare Enterprises, Edelweiss Capital, IIFL, etc.	Faces competition from a large number of domestic and foreign investment funds	JM Financial is relatively a smaller player compared to other large AMCs including HDFC (13.6% market share** by MF AUM), ICICI Prudential AMC (12.3%), Reliance (11.4%), Birla Sunlife (9.7%), UTI AMC (7.9%), SBI MF (6.5%), Franklin Templeton AMC (5.8%)	

** Total revenues including inter-segment sales is used for calculating revenue contribution of segments*

*** As of March 2015*

Source: Company, CRISIL Research

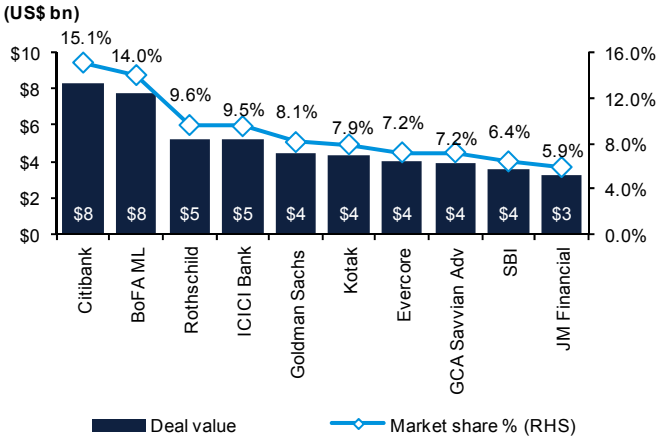
Grading Rationale

Well-placed to benefit from capital market recovery led by strong position in IB

JM Financial is strongly positioned in the M&A advisory market and equity fundraising but its growth was impacted in FY14 because of a sluggish macro-economic environment. The election of a stable central government in May 2014 heralded the recovery of the capital markets in India as indicated by a significant jump in M&A/ private equity deal activity (up 26% y-o-y to US$48 bn in 2014, according to Grand Thornton) and growth in brokerage volume. Exchange's (BSE's and NSE's) average daily overall trading turnover in FY15 increased 60% y-o-y to ₹211 bn. JM Financial has been a key beneficiary of the recovery owing to its strength in the M&A advisory market and focus on the high-yielding cash segment for HNIs and financial institutions. Its IB and brokerage revenues grew 28% y-o-y in FY15.

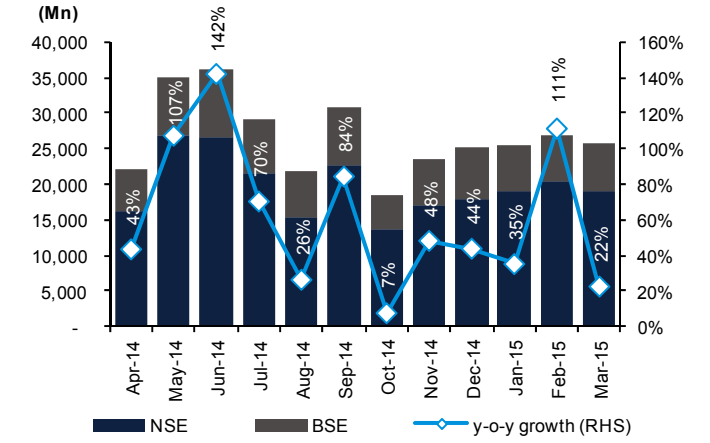
As per the data on M&A advisory league tables provided by Dealogic, JM Financial was among the top 10 investment banks with a market share of ~6% by deal size in CY2014. The company has recently been involved in large transactions such as Coal India's stake sale, indicating strong competitive position of the company in the domestic IB market.

Figure 1: Strong position in the M&A advisory market



Source: Dealogic, CRISIL Research

Figure 2: Surge in turnover after elections



Source: Company, CRISIL Research

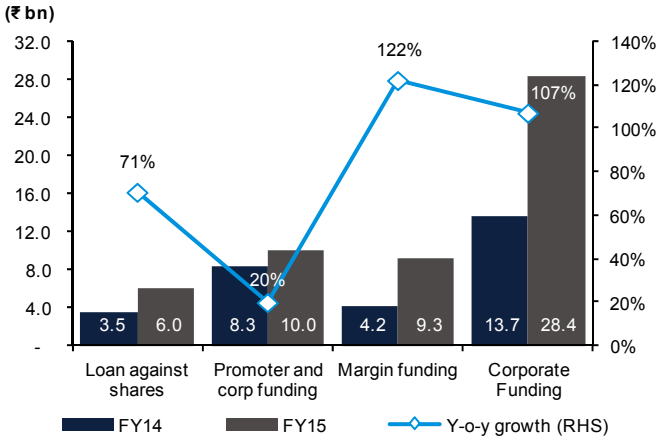
The company is also a relatively strong player in the equity fundraising market; it had an estimated share of ~3% in the overall equity funds raised in 2013. It has been involved in large equity fundraising such as HDFC's recent ₹20 bn QIP, IDFC's ₹10 bn QIP in 2014 and Yes Bank's ₹29 bn QIP. However, the company has not witnessed significant traction because of the lacklustre equity fundraising environment. With the improvement in the Indian economy, we expect fundraising to improve in FY16 which would benefit JM Financial, but it is a key monitorable. Overall, we expect the IB and brokerage segment's revenues to grow ~25% in FY16 to ₹6,582 mn on the back of strong traction in M&A and brokerage businesses.

Lending business sufficiently capitalised for growth

The lending business' AUM increased 81% y-o-y to ₹54 bn in FY15 driven by general improvement in the macro-economic environment and capital markets. The capital markets-related lending businesses - loan against shares and margin funding - grew ~70% and ~120% y-o-y, respectively. With sustained capital market activities, we expect the capital markets lending book to grow 30% y-o-y from ₹25 bn to ₹33 bn in FY16.

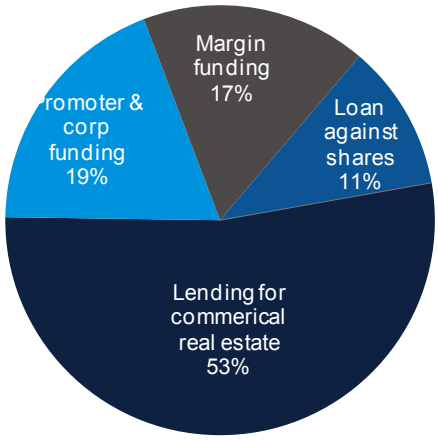
The real estate lending business constitutes ~53% of the overall lending book. The company largely lends for residential projects to reputed real estate builders such as Kalpataru and Wadhwa Group. Geographically, the company primarily lends in Mumbai, Bengaluru, Chennai, Pune and the National Capital Region (NCR). Its real estate projects include loan refinancing for completed projects and the segment's AUM has increased ~105% y-o-y in FY15. However, in FY16 we have factored in moderate growth of 20% y-o-y as we do not believe high growth can be sustained in the sluggish real estate demand environment. As per CRISIL Research, absorption of residential units in most of the metros except Bengaluru was sluggish and declined annually in CY2014. To substantiate, the absorption rate in key metro markets such as Mumbai Metropolitan Region (MMR) and NCR declined 7% and 5% y-o-y, respectively, in CY2014.

Figure 3: Healthy growth in the lending business



Source: Company, CRISIL Research

Figure 4: Real estate lending = biggest segment



Source: Company, CRISIL Research

With low leverage & capital injection, business capitalised for growth

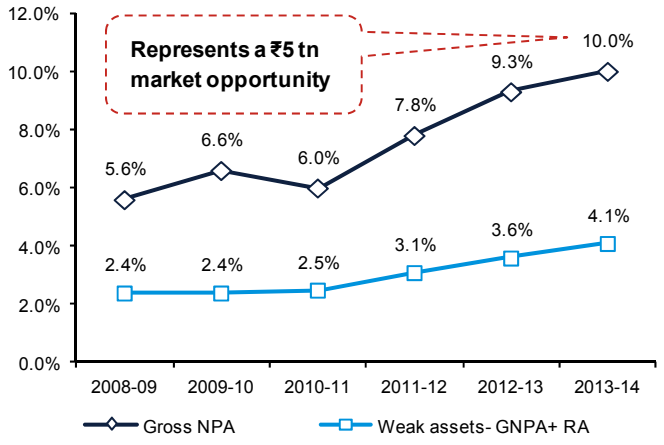
With a healthy capital adequacy ratio (CAR) of 36% and gross leverage of 1.9x in FY15, the business appears to be sufficiently capitalised to support growth in the medium term. The real estate business is now being carried from the new NBFC, Fics Consultancy Services Ltd, wherein Mr. Vikram Pandit's fund has infused ₹5.4 bn and the parent company, JM Financial Ltd, has infused ₹3.6bn. Combining both the NBFCs, the overall real estate lending book is ₹28 bn; of which, ~₹21 bn is in the new real estate NBFC. We expect the real estate book, on a consolidated basis, to grow 20% y-o-y to ₹34 bn in FY16.

Regulations to slow industry growth but enhance competitive position of large ARCs

Over the past two years, the ARC industry has grown from ₹88 bn to ₹550 bn, given significant growth opportunity from high non-performing and restructured assets in the Indian banking system. NPAs in the banking system increased from 9.3% in FY13 to 10% in FY14. However, industry growth is expected to moderate considering the RBI's regulations, requiring a higher upfront cash investment of 15% by ARCs as against 5% earlier. Further, it has imposed a limit of 50% on promoter shareholding. We believe the regulations have made it incrementally tougher for ARCs to align their pricing with the expectations of the asset-selling banks, leading to lower asset sale. To corroborate, the asset purchase of ₹6.5-7 bn in Q3FY15 out of ₹150-200 bn worth of bad assets put up by banks for sale, represents a sharp decline in comparison to ₹15 bn and ₹125 bn of assets purchase in Q2FY15 and Q1FY15 respectively.

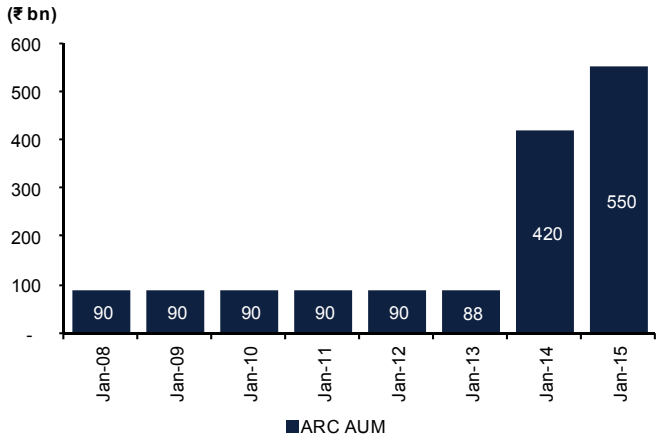
At the same time, we expect the regulations to improve the competitive position of larger ARCs such as Edelweiss ARC and JM ARC that have strong financial muscle at the group level and established IB presence. Our opinion is based on the premise that large ARCs with a strong promoter backing and IB presence are better positioned to raise capital required for upfront cash investment and to achieve higher recovery rate from asset sales given a strong IB franchise. JM ARC is one of the two largest private players with a share of ~15% by AUM and we expect it to benefit from the recent regulatory change.

Figure 5: Significant growth opportunity in ARC from high NPAs in the Indian banking system…



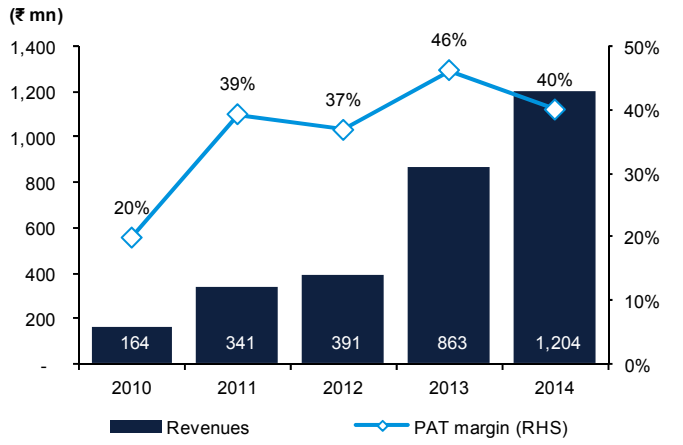
Source: Company, CRISIL Research

Figure 6: … led to strong growth in asset sale over the past two years



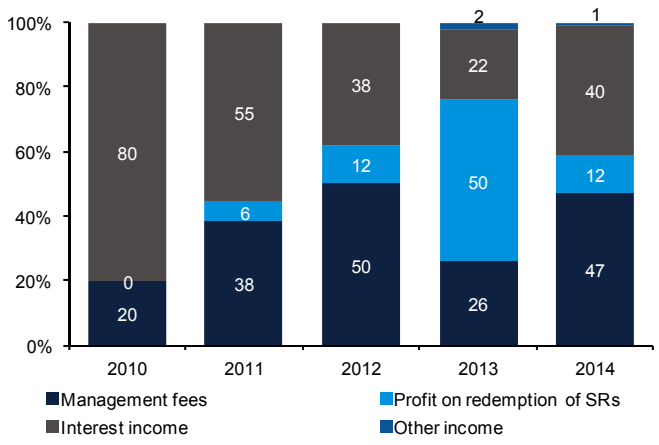
Source: Company, CRISIL Research

Figure 7: JM ARC has been witnessing steady growth



Source: Company, CRISIL Research

Figure 8: Revenue mix of JM ARC



Source: Company, CRISIL Research

JM ARC: Near-term focus on recovery in Hotel Leelaventure's ARC deal

Earlier this year, JM ARC took ₹42 bn of bank's bad debt to Hotel Leelaventure by making an upfront cash investment of ₹8.7 bn amounting to 20% of the total deal consideration. Consequently, JM ARC's AUM increased to ~₹83 bn in H1FY15 and its leverage increased to 4x. The acquisition amount represents ~97% of the book value of debt, which is significantly high relative to the average 40-75% discount offered in ARC deals. The company plans to focus on asset recovery in the Hotel Leelaventure deal rather than on entering new asset-purchase deals for growth. It is working on the potential sale of few hotel properties of Hotel Leelaventure and expects to close the sale in FY16. As per the deal, the company has first charge over the recovery amount through ₹6.5 bn of Class-A security receipts. It will also earn management fee of 1-2% and interest income. While the deal presents a significant earnings upside for the company, timing of the sale of assets is a key monitorable. In FY15, the ARC business recognised PAT of ₹362 mn and we haven't assumed an upside in PAT because of limited visibility into the asset sale and accrued income.

AMC business benefits from strong market recovery

JM Financial's asset management business witnessed strong growth following strong recovery in capital markets. In FY15, the AMC AUM grew from ~₹60 bn in FY14 to ~₹122 bn; the debt portion is ~₹70 bn and the equity portion is ~₹52 bn including the arbitrage fund. While JM Financial continues to be a smaller player in the AMC business with an estimated market share ~1%, the increase in scale has led to significant improvement in profitability – from PBT of ₹38 mn in FY14 to ₹178 mn in FY15. With sustained activity in the capital markets, we expect AUM to grow ~15% y-o-y to ~₹140 bn in FY16.

Table 2: Operational assets of Hotel Leelaventure

Hotel	Location	Rooms
Owned		
Leela	Mumbai	390
Leela	Goa	206
Leela Palace	Bengaluru	357
Leela Palace	Udaipur	80
Leela Palace	New Delhi	260
Leela Palace	Chennai	326
Managed		
Leela Ambience	Gurgaon	411
Leela Raviz	Kovalam	183
Total (owned & managed)		**2,213**

Source: Company, CRISIL Research

Key Risks

Linkage with equity market = inherent volatility in business

JM Financial's business prospects are correlated to the level of trading in the equity market. The capital markets are inherently volatile, driven by economic and political factors as well as public sentiment. Any potential instability in the capital markets would significantly impact the company's earnings potential.

Uncertainty of regulatory intervention is a risk

As in the case of banks, the RBI's regulations have made a significant impact on the business models of NBFCs and ARCs too. Any adverse regulation or tightening of norms would adversely affect the profitability and the viability of the company's NBFC and ARC businesses.

Real estate lending business is volatile in nature

The commercial real estate lending business constitutes ~53% of the company's overall lending portfolio. The real estate lending business is primarily linked to the economic condition of the real estate market in tier-I cities such as Mumbai, Bengaluru, Chennai and the NCR. Any downturn in the tier-I cities could significantly impact growth and asset quality of the NBFC.

Q4FY15 result update

Revenues were in line but earnings exceeded expectations

Q4FY15 revenues grew 54% y-o-y and 7.2% q-o-q to ₹3.9 bn and were in line with expectations but earnings were better than expectations. EBITDA increased 95% y-o-y and 7% q-o-q to ₹2,753 mn and PAT grew 56% y-o-y and 7% q-o-q to ₹930 mn. The lending book grew 81% y-o-y and 11% q-o-q to ₹54 bn. The business segment constituted 62% of overall revenues. With an encouraging M&A pipeline and strong capitalisation of the NBFC, we believe the company is well-positioned to pursue growth opportunities.

Lending business continues to witness growth momentum

The real estate lending book grew 12% q-o-q and ~105% y-o-y to ₹28.4 bn, and the capital markets related book grew 9% q-o-q and ~59% y-o-y to ₹25.4 bn. NIM improved from 6.9% in Q4FY14 to 9%; GNPA declined from 2.1% in Q3FY15 to 0.9%. With capital adequacy ratio of 36%, the company is sufficiently capitalised for growth. However, asset quality is a monitorable as the company ramps up its exposure in real estate lending.

Revenue traction in IB and brokerage remains healthy

IB and brokerage revenues increased 21% y-o-y to ₹1,309 mn but remained flat on a sequential basis. For the full year, the segment's revenues grew 28% y-o-y to ₹5.2 bn. The company has a healthy pipeline of M&A and capital markets-related deals. Wealth management AUM increased from ₹135 bn in Q4FY14 to ₹174 bn in Q4FY15. JM Financial's equity market share on the NSE increased slightly from 0.9% last quarter to 1.0%.

Table 3: Q4FY15 Results Summary (Consolidated)

(₹ mn)	Q4FY15	Q3FY15	Q4FY14	q-o-q (%)	y-o-y (%)	FY15	FY14	y-o-y (%)
Income from operations	**3,929**	**3,665**	**2,552**	**7.2**	**54.0**	**14,030**	**10,067**	**39.4**
Employee cost	513	584	550	(12.0)	(6.6)	2,352	2,032	15.8
Sub-brokerage, fees and commission	254	226	225	12.3	12.7	972	803	20.9
Operating and other expenses	408	281	363	45.1	12.4	1,155	1,200	(3.7)
EBITDA	**2,753**	**2,574**	**1,414**	**6.9**	**94.8**	**9,552**	**6,032**	**58.3**
EBITDA margin	**70.1%**	**70.2%**	**55.4%**	**(15) bps**	**1,468 bps**	**68.1%**	**59.9%**	**815 bps**
Depreciation	43	50	41	(13.7)	5.4	180	152	18.4
EBIT	**2,710**	**2,524**	**1,373**	**7.4**	**97.4**	**9,371**	**5,880**	**59.4**
Interest and finance charges	1,126	1,151	661	(2.2)	70.3	4,202	3,078	36.5
PBT	**1,585**	**1,373**	**712**	**15.4**	**122.7**	**5,169**	**2,802**	**84.5**
Tax	514	390	192	31.7	167.8	1,564	800	95.5
PAT	**1,071**	**983**	**520**	**8.9**	**106.0**	**3,605**	**2,002**	**80.1**
Minority interest	211	156	49	35.3	327.2	488	152	221.8
Profit of associates	70	43	124	61.7	(43.7)	188	245	(23.4)
Adj PAT	**930**	**870**	**594**	**6.8**	**56.4**	**3,305**	**2,096**	**57.7**
Adj PAT margin	**23.7%**	**23.7%**	**23.3%**	**(8) bps**	**37 bps**	**23.6%**	**20.8%**	**274 bps**
No. of equity shares (mn)	783.7	783.7	755.1	-	3.7	783.7	755.1	3.7
Adj EPS (₹)	**1.19**	**1.12**	**0.77**	**6.8**	**50.8**	**4.25**	**2.72**	**56.2**

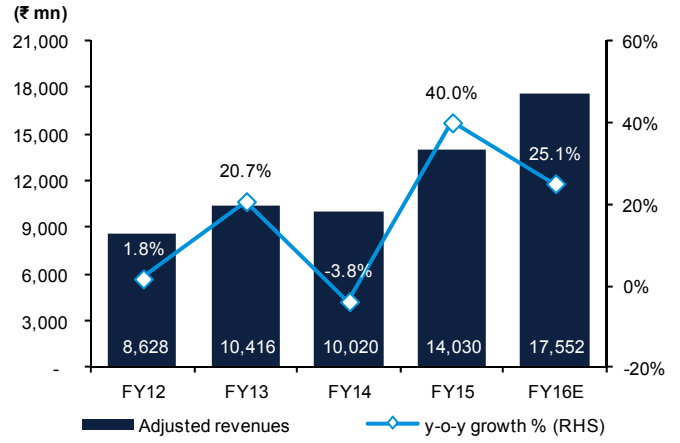
Source: Company data, CRISIL

Financial Outlook

Strong capital market activity + capitalisation = healthy growth

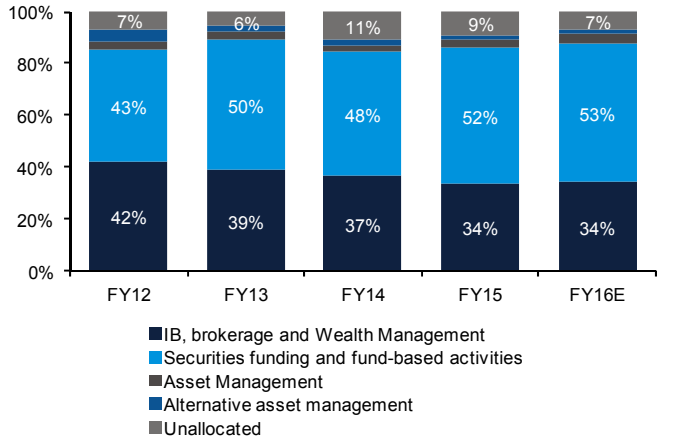
We expect revenues to increase 25% in FY16 driven by strong capital market activity and growth in the NBFC business aided by healthy capitalisation. We expect the IB and brokerage business to grow at ~25% CAGR driven by strong competitive positioning of the company in the IB business. In FY15, the lending business' revenues increased 52% y-o-y driven by healthy growth in the real estate lending business. With the recent capital infusion, the lending business appears to be sufficiently capitalised to pursue incremental growth opportunities. We have baked in revenue growth expectation of 27% y-o-y in FY16.

Figure 9: Revenues to grow at ~25% in FY16



Source: Company, CRISIL Research

Figure 10: Fund-based activities dominate revenues

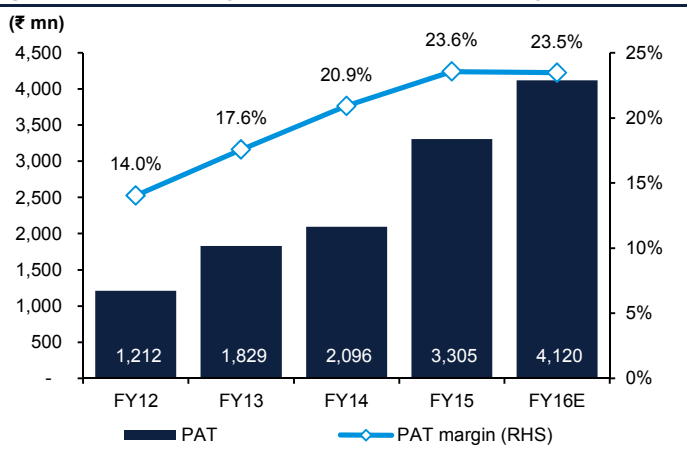


Source: Company, CRISIL Research

Expect moderate increase in RoE, but room for improvement

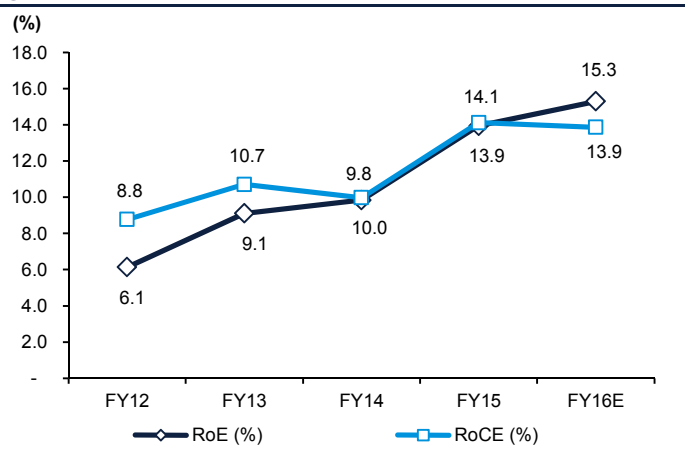
Though RoE is expected to improve from 13.9% in FY15 to 15.3% in FY16, we believe that there is room for further improvement considering relatively low leverage and high cash & cash equivalents. Compared with peers such as India Infoline and Edelweiss Financial, JM Financial's leverage is low at 1.5x primarily due to its low leverage in the lending business. With the potential increase in leverage and upside in earnings from the ARC business, we expect RoE to improve further.

Figure 11: Profitability expected to remain steady



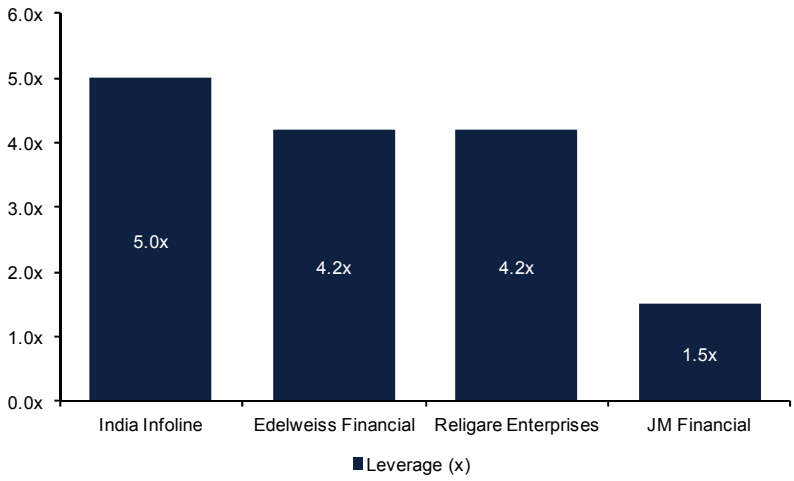
Source: Company, CRISIL Research

Figure 12: RoE expected to improve in FY16



Source: Company, CRISIL Research

Figure 13: JM Financial's leverage is significantly lower than peers'



Source: Company, CRISIL Research

Management Overview

CRISIL's fundamental grading methodology includes a broad assessment of management quality, apart from other key factors such as industry and business prospects, and financial performance.

Highly qualified and experienced management team

Led by Mr. Nimesh Kampani, Group Chairman, JM Financial operates through subsidiaries, joint ventures and associate companies. Mr. Kampani has over four decades of experience in the Indian capital markets and has played a pivotal role in not only making JM Financial an integrated player but also fostered the development of the financial market. Each business is headed by experienced professionals with in-depth understanding of the financial markets and their relevant business segments.

- Ms. Dipti Neelakantan is the Group Chief Operating Officer with about four decades of experience in IB.
- Mr. V. P. Shetty is the Executive Chairman of JM Financial Products (which houses the securities lending business). He has almost four decades of experience in the banking industry.
- The institutional business is headed by Mr. Kampani's son, Mr. Vishal Kampani, who is the Managing Director of JM Financial Products and head of the institutional securities business.
- Mr. Manish Sheth is the Group Chief Financial Officer with over a decade of experience in financial consultancy, management consultancy, taxation, accounting and company laws.

Decision-making is decentralised

JM Financial has an experienced second line of management to support the different businesses. Several members of the senior management, who lead various business segments and manage day-to-day operations, have been associated with the company for almost a decade. Our previous interaction with the business heads (of ARC and lending NBFC) indicates that the business units enjoy sufficient autonomy in decision-making, which enhances operational flexibility.

Shown the intent to grow the business

The top management's intent for diversified growth is apparent from their aggressive pricing strategy to close the Hotel Leelaventure ARC deal and raising ₹5.4 bn in capital by forming a joint venture with Mr. Vikram Pandit's fund. Further, JM Financial has the resourcefulness given its strong client relationships. However, the execution of the business and growth strategy is a monitorable.

Corporate Governance

CRISIL's fundamental grading methodology includes a broad assessment of corporate governance and management quality, apart from other key factors such as industry and business prospects, and financial performance. In this context, CRISIL Research analyses the shareholding structure, board composition, typical board processes, disclosure standards and related-party transactions. Any qualifications by regulators or auditors also serve as useful inputs while assessing a company's corporate governance.

Corporate governance at JM Financial is good. It is supported by a strong board and efficient board practices. It adheres to all regulatory requirements.

A well-structured board with diverse knowledge

JM Financial's board comprises six members, of whom five are independent directors, which meets the Clause 49 of SEBI's listing guidelines. The board is chaired by Mr. Nimesh Kampani, Chairman and Managing Director. The independent directors are well qualified and bring significant diverse domain knowledge in consulting, corporate restructuring, project finance and strategic advisory. Mr. E.A. Kshirsagar is the non-executive independent director and the chairman of the audit committee. He has three decades of experience in consulting and also serves on the board of other public listed companies in India. Based on our interaction, the independent directors have good understanding of the business. The company has all the necessary committees – audit, remuneration and investor grievance – in place. Board meetings are held at regular intervals and agenda papers are also circulated in advance. JM Financial's board processes and systems seem satisfactory.

Consistent dividend payment policy but disclosure levels need to be improved

- **Consistent payment of dividends –** Despite significant cyclicality in the business, the company has consistently paid dividends in the range of 28% to 45% over FY10-14.
- **Scope for improving disclosures –** While the public disclosure levels have improved significantly, there is scope for more improvement particularly for other important businesses like ARC.
- **No change in auditors –** M/s. Khimji Kunverji & Co. has been the auditor for over a decade. We believe the company has to change its auditors to comply with the new Company's Act 2013. Deloitte Haskins & Sells LLP is the auditor for operational subsidiaries.

Valuation Grade: 5/5

We continue to value JM Financial by the SoTP method and maintain our fair value estimate of ₹70 per share, which implies a P/E multiple of 13x FY16E earnings. At the current market price of ₹44, our valuation grade is **5/5**.

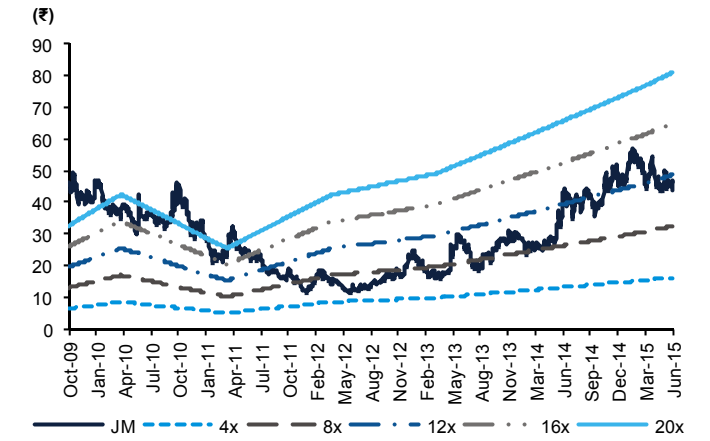
We have used the P/E multiple method to collectively value JM Financial's IB and broking businesses. We have assigned the business segment a forward P/E multiple of 12x based on FY16E earnings. We have valued the securities funding business at a P/BV of 1.5x. We have adjusted the consolidated cash and investments for the holding company's investment in other businesses, and for cash and investments in the securities lending business.

Table 4: Valuation methodology

Business	Parameter	Revised multiple	Valuation (₹ mn)
IB and securities	Price/earnings (P/E)	12x	~16,110
Lending & fund-based activities	Price/book value (P/BV)	1.5x	~25,675
Asset management	% of AUM	4.0%	~3,030
Alternative asset management	Price/book value	1.3x	~2,030
Asset reconstruction	Price/book value	1.5x	~4,090
Other investments and cash*	Book value		~4,255
Overall equity valuation (₹ mn)			**~55,190**
Number of shares			784
Fair value estimate			**₹70**

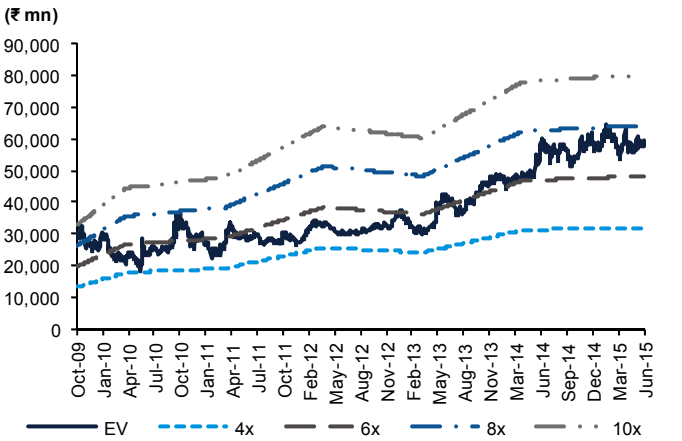
Source: CRISIL Research

One-year forward P/E band



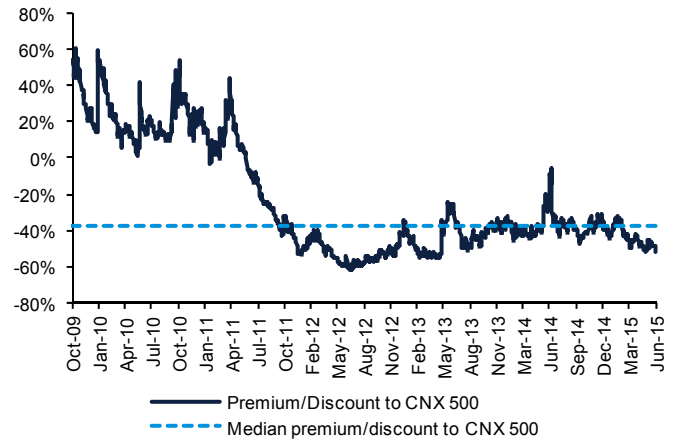
Source: NSE, CRISIL Research

One-year forward EV/EBITDA band



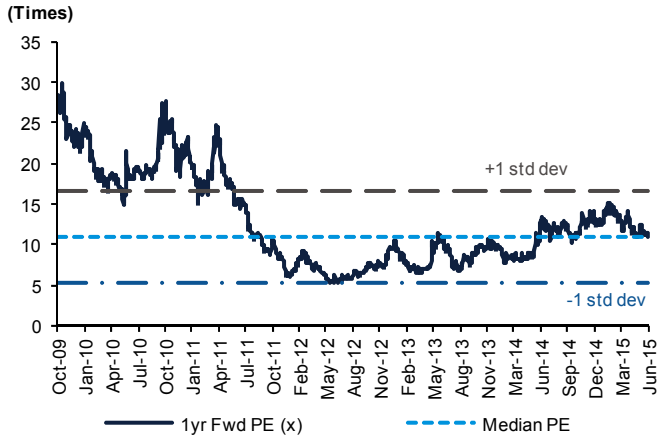
Source: NSE, CRISIL Research

P/E – premium / discount to CNX 500



Source: NSE, CRISIL Research

P/E movement



Source: NSE, CRISIL Research

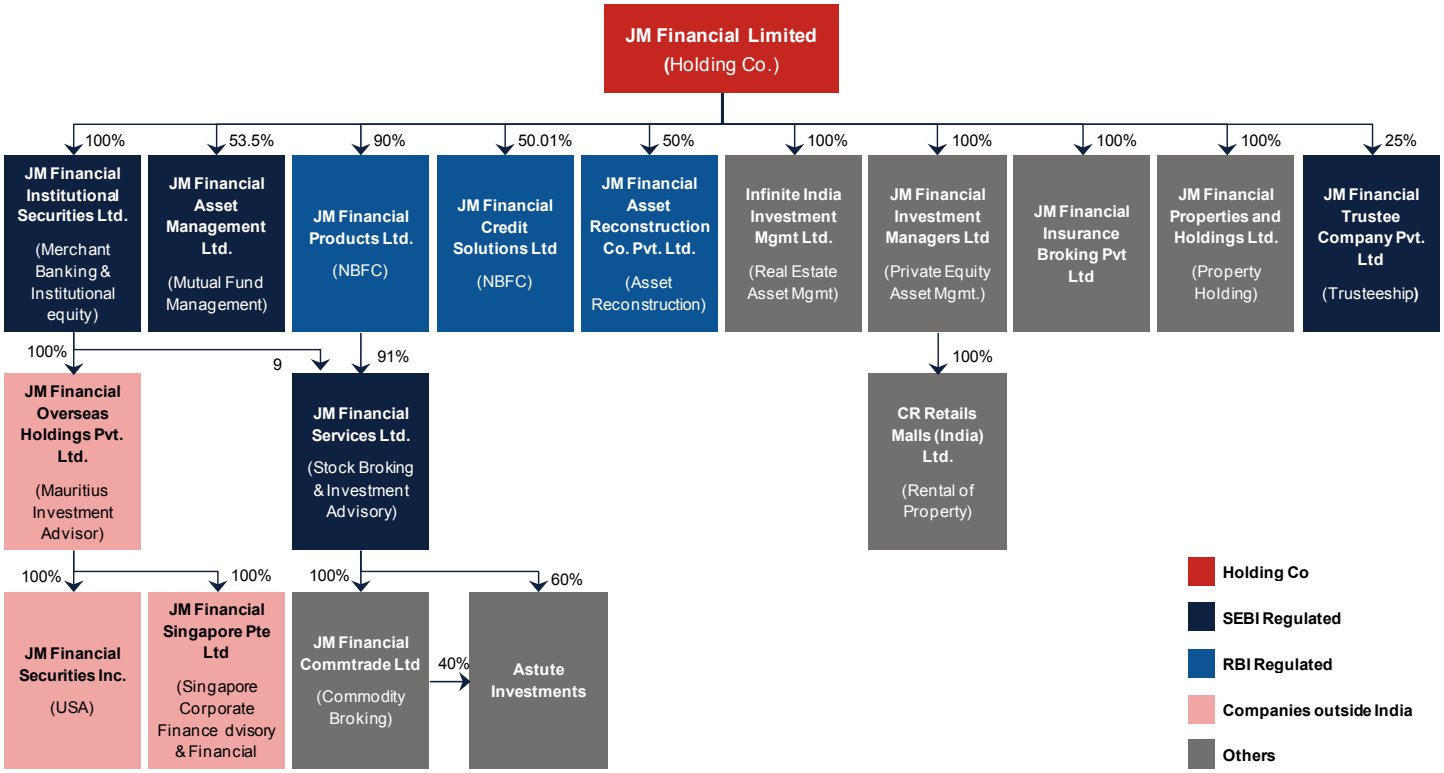
CRISIL IER reports released on JM Financial Ltd

Date	Nature of report	Fundamental grade	Fair value	Valuation grade	CMP (on the date of report)
28-Dec-09	Initiating coverage	4/5	₹57	5/5	₹41
02-Feb-10	Q3FY10 result update	4/5	₹57	5/5	₹41
01-Jun-10	Q4FY10 result update	4/5	₹50	5/5	₹38
19-Aug-10	Q1FY11 result update	4/5	₹45	5/5	₹34
03-Nov-10	Q2FY11 result update	4/5	₹45	4/5	₹40
27-Jan-11	Detailed Report	4/5	₹45	5/5	₹22
21-Feb-11	Q3FY11 result update	4/5	₹45	5/5	₹25
14-Jun-11	Q4FY11 result update	4/5	₹42	5/5	₹24
04-Aug-11	Q1FY12 result update	4/5	₹42	5/5	₹22
08-Nov-11	Q2FY12 result update	4/5	₹33	5/5	₹19
24-Nov-11	Detailed Report	4/5	₹36	5/5	₹15
20-Feb-12	Q3FY12 result update	4/5	₹36	5/5	₹18
27-June-12	Q4FY12 result update	4/5	₹36	5/5	₹12
29-Aug-12	Q1FY13 result update	4/5	₹36	5/5	₹14
28-Nov-12	Q2FY13 result update	4/5	₹36	5/5	₹17
06-Dec-12	Detailed Report	4/5	₹36	5/5	₹18
05-Mar-13	Q3FY13 result update	4/5	₹36	5/5	₹16
07-June-13	Q4FY13 result update	4/5	₹36	4/5	₹29
10-Sep-13	Q1FY14 result update	4/5	₹36	5/5	₹24
08-Nov-13	Q2FY14 result update	4/5	₹36	5/5	₹28
21-Feb-14	Q3FY14 result update	4/5	₹36	5/5	₹26
23-May-14	Q4FY14 result update	4/5	₹42	4/5	₹37
12-Aug-14	Q1FY15 result update	4/5	₹49	4/5	₹40
11-Nov-14	Q2FY15 result update	4/5	₹49	3/5	₹47
23-Feb-15	Q3FY15 result update	4/5	₹70	5/5	₹53
25-Jun-15	Detailed report	4/5	₹70	5/5	₹44

Company Overview

Established in 1973, JM Financial is an integrated financial services player offering a range of capital market products and services to corporates, HNIs and retail investors through its subsidiaries / joint ventures / associate companies.

Organisation structure



Source: Company, CRISIL Research

It has a diversified product portfolio comprising IB, broking (institutional and retail), commodity broking, portfolio management, asset management, NBFC, PE and ARC businesses. These businesses are managed as strategic business units and organised as separate companies headed by a team of professionals.

Milestones

1973	■ Establishment of JM Financial & Investment Consultancy Services Pvt. Ltd
1986	■ Ventured into stock broking and the securities broking business
1997	■ Joint venture with Morgan Stanley to offer IB and securities broking services
2006	■ Launch of PE fund, JM Financial India Fund, with US-based Old Lane Partners, LP
2007	■ Termination of joint venture with Morgan Stanley ■ Acquired 60% stake in ASK Securities – specialised in institutional broking business ■ Launch of real estate fund
2008-12	■ Acquired the remaining 40% stake in ASK Securities and rechristened JM Financial Institutional Securities Pvt. Ltd ■ Strategic co-operation with Rand Merchant Bank of South Africa to offer M&A advisory services to Indian and African corporate ■ Expanded to international markets ■ Commenced asset reconstruction business
2012-till date	■ Announced partnership in real estate NBFC with an investment made by Mr. Vikram Pandit

Source: Company

Annexure: Financials

Income statement

(₹ mn)	FY12	FY13	FY14	FY15#	FY16E
Operating income	**8,628**	**10,416**	**10,020**	**14,030**	**17,552**
EBITDA	**4,802**	**6,426**	**6,050**	**9,552**	**12,028**
EBITDA margin	**55.7%**	**61.7%**	**60.4%**	**68.1%**	**68.5%**
Depreciation	115	122	152	180	181
EBIT	**4,687**	**6,304**	**5,897**	**9,371**	**11,847**
Interest	2,961	3,763	3,078	4,202	4,343
Operating PBT	**1,727**	**2,542**	**2,819**	**5,169**	**7,504**
Other income	100	(2)	(13)	-	-
Exceptional inc/(exp)	(1)	(20)	(20)	-	-
PBT	**1,826**	**2,519**	**2,785**	**5,169**	**7,504**
Tax provision	595	729	784	1,564	2,401
Minority interest/Share of profit from associates	20	(39)	(94)	300	983
PAT (Reported)	**1,212**	**1,829**	**2,096**	**3,305**	**4,120**
Less: Exceptionals	(1)	(20)	(20)	-	-
Adjusted PAT	**1,213**	**1,849**	**2,116**	**3,305**	**4,120**

Ratios

	FY12	FY13	FY14	FY15#	FY16E
Growth					
Operating income (%)	1.8	20.7	(3.8)	40.0	25.1
EBITDA (%)	7.4	33.8	(5.9)	57.9	25.9
Adj PAT (%)	-34.4	52.5	14.4	56.2	24.7
Adj EPS (%)	-34.4	52.1	13.9	50.5	24.7
Profitability					
EBITDA margin (%)	55.7	61.7	60.4	68.1	68.5
Adj PAT Margin (%)	14.0	17.6	20.9	23.6	23.5
RoE (%)	6.1	9.1	9.8	13.9	15.3
RoCE (%)	8.8	10.7	10.0	14.1	13.9
RoIC (%)	12.5	14.1	12.1	15.1	13.3
Valuations					
Price-earnings (x)	28.5	18.9	16.6	10.9	8.7
Price-book (x)	1.6	1.6	1.5	1.1	1.0
EV/EBITDA (x)	11.3	10.0	9.3	8.4	7.5
EV/Sales (x)	6.7	6.8	6.1	5.7	5.2
Dividend payout ratio (%)	37.1	36.7	21.3	21.2	23.1
Dividend yield (%)	1.3	2.0	1.3	1.9	2.6
B/S ratios					
Current ratio (x)	17.0	15.6	11.0	15.2	14.7
Debt-equity (x)	1.5	1.9	1.3	1.5	1.5
Net debt/equity (x)	0.9	1.3	0.8	1.2	1.3
Interest coverage	1.6	1.7	1.9	2.2	2.7

Per share

	FY12	FY13	FY14	FY15#	FY16E
Adj EPS (₹)	1.6	2.5	2.8	4.2	5.3
CEPS	1.8	2.6	3.0	4.4	5.5
Book value	27.9	29.3	31.3	40.8	45.9
Dividend (₹)	0.6	0.9	0.6	0.9	1.2
Actual o/s shares (mn)	750	752	755	784	784

Abridged financials

Source: CRISIL Research

Balance Sheet

(₹ mn)	FY12	FY13	FY14	FY15#	FY16E
Liabilities					
Equity share capital	750	752	755	784	784
Reserves	18,794	19,855	21,216	24,646	27,635
Minorities	1,403	1,403	1,650	6,546	7,529
Share warrants	-	-	-	-	-
Net worth	**20,947**	**22,010**	**23,621**	**31,975**	**35,948**
Convertible debt	-	-	-	-	-
Other debt	32,052	42,691	29,927	47,214	55,714
Total debt	**32,052**	**42,691**	**29,927**	**47,214**	**55,714**
Deferred tax liability (net)	971	954	906	873	873
Total liabilities	**53,971**	**65,655**	**54,453**	**80,062**	**92,535**
Assets					
Net fixed assets	239	213	1,178	3,418	2,700
Capital WIP	7	12	1,723	-	-
Total fixed assets	**246**	**225**	**2,901**	**3,418**	**2,700**
Investments	**5,571**	**5,590**	**4,801**	**4,820**	**4,820**
Current assets					
Inventory (securities held as stock in trade)	7,597	5,978	5,342	3,590	3,847
Sundry debtors	1,579	2,253	2,292	2,267	2,836
Loans and advances	27,296	40,576	32,695	59,996	74,595
Cash & bank balance	13,362	14,185	9,791	9,906	8,833
Marketable securities	465	99	99	-	-
Total current assets	**50,299**	**63,090**	**50,219**	**75,758**	**90,112**
Total current liabilities	**2,951**	**4,051**	**4,568**	**4,986**	**6,149**
Net current assets	**47,349**	**59,039**	**45,651**	**70,772**	**83,963**
Intangibles/Misc. expenditure	**806**	**801**	**1,100**	**1,053**	**1,053**
Total assets	**53,971**	**65,655**	**54,453**	**80,062**	**92,535**

Cash flow

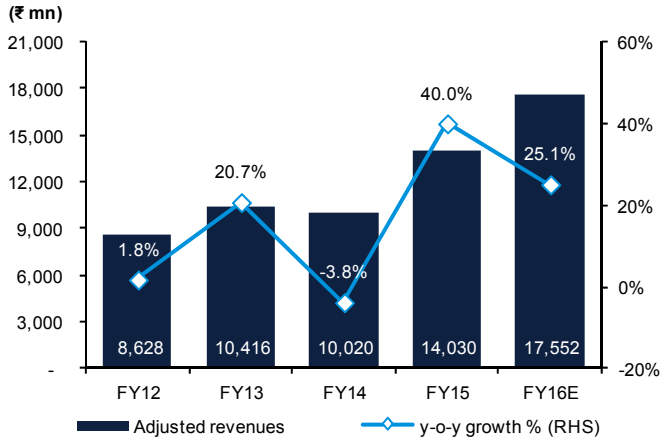
(₹ mn)	FY12	FY13	FY14	FY15#	FY16E
Pre-tax profit	1,827	2,539	2,806	5,169	7,504
Total tax paid	(563)	(747)	(832)	(1,597)	(2,401)
Depreciation	115	122	152	180	181
Working capital changes	(347)	(11,235)	8,994	(25,105)	(14,262)
Net cash from operations	**1,032**	**(9,321)**	**11,120**	**(21,352)**	**(8,979)**
Cash from investments					
Capital expenditure	841	(96)	(3,128)	(650)	537
Investments and others	2,800	348	789	80	-
Net cash from investments	**3,641**	**252**	**(2,339)**	**(570)**	**537**
Cash from financing					
Equity raised/(repaid)	(440)	55	88	28	-
Debt raised/(repaid)	(583)	10,639	(12,765)	17,287	8,500
Dividend (incl. tax)	(524)	(837)	(586)	(819)	(1,131)
Others (incl extraordinaries)	(517)	15	67	5,540	-
Net cash from financing	**(2,063)**	**9,871**	**(13,196)**	**22,036**	**7,370**
Change in cash position	2,611	823	(4,394)	115	(1,072)
Closing cash	13,362	14,185	9,791	9,906	8,833

Quarterly financials

(₹ mn)	Q4FY14	Q1FY15	Q2FY15	Q3FY15	Q4FY15
Total operating income	**2,551**	**2,664**	**3,772**	**3,665**	**3,929**
Change (q-o-q)	14.9%	4.4%	41.6%	-2.8%	7.2%
EBITDA	**1,413**	**1,702**	**2,521**	**2,574**	**2,753**
Change (q-o-q)	6.4%	20.5%	48.1%	2.1%	7.0%
EBITDA margin	**55.4%**	**63.9%**	**66.8%**	**70.2%**	**70.1%**
Reported PAT	519	574	977	983	1,071
Adj PAT	**594**	**583**	**922**	**870**	**930**
Change (q-o-q)	34.5%	-1.9%	58.1%	-5.6%	6.9%
Adj PAT margin	**23.3%**	**21.9%**	**24.4%**	**23.7%**	**23.7%**
Adj EPS	**0.8**	**0.8**	**1.2**	**1.1**	**1.2**

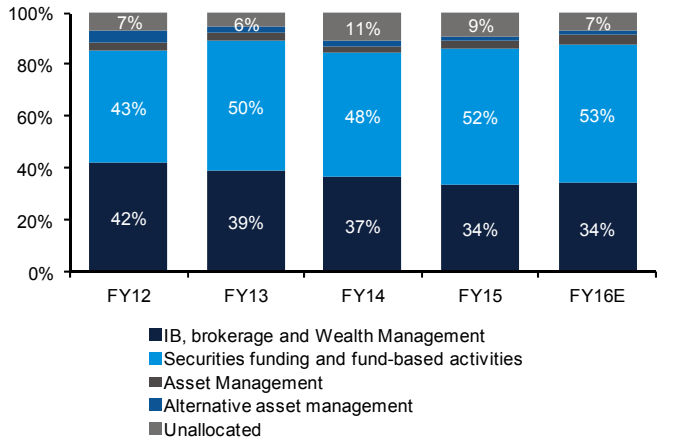
Focus Charts

Revenues to grow at ~25% in FY16



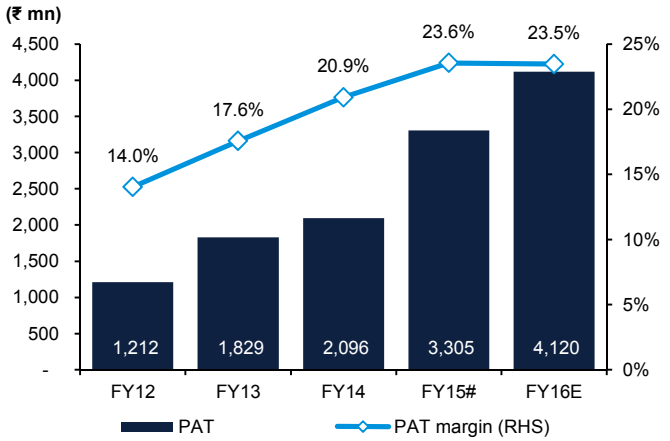
Source: Company, CRISIL Research

Fund-based activities dominate revenues



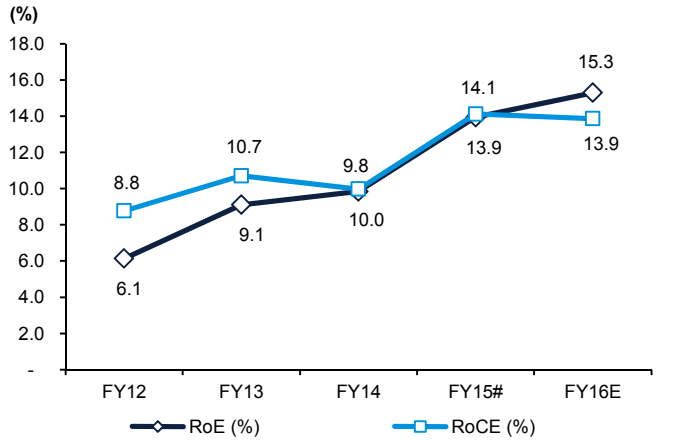
Source: Company, CRISIL Research

Profitability expected to remain steady



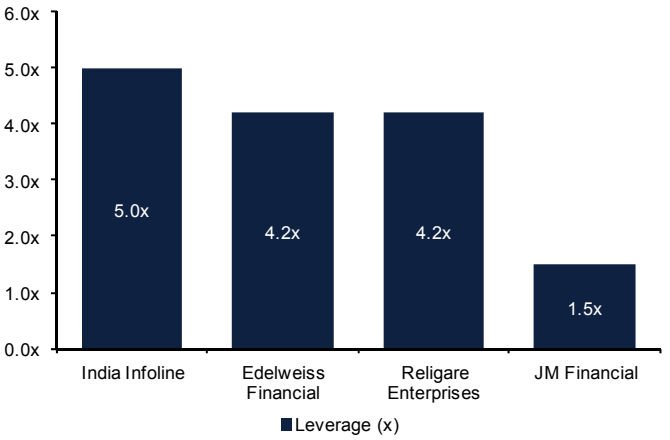
Source: Company, CRISIL Research

RoE expected to improve



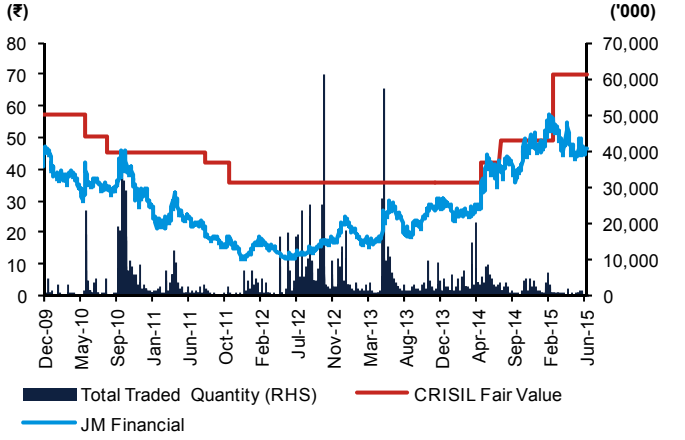
Source: Company, CRISIL Research

JM Financial's leverage is significantly lower than peers'



Source: Company, CRISIL Research

Fair price movement



Source: Company, CRISIL Research

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- Largest team of economy and industry research analysts in India
- Acknowledged premium, high quality research provider with track record spanning two decades
- 95% of India's commercial banking industry by asset base uses our industry research for credit decisions
- Coverage on 86 industries: We provide analysis and forecast on key industry parameters including demand, supply, prices, investments and profitability, along with insightful opinions on emerging trends and impact of key events
- Research on sectors and clusters dominated by small and medium enterprises covering analysis of relative attractiveness, growth prospects and financial performance
- High-end customised research for many leading Indian and global corporates in areas such as market sizing, demand forecasting, project feasibility and entry strategy

Funds and Fixed Income Research

- Largest and most comprehensive database on India's debt market, covering more than 18,000 securities
- Largest provider of fixed income valuations in India
- Provide valuation for more than ₹81 trillion (US$ 1,275 billion) of Indian debt securities
- Sole provider of fixed income and hybrid indices to mutual funds and insurance companies; we maintain 37 standard indices and over 100 customised indices
- Ranking of Indian mutual fund schemes covering 75% of assets under management and ₹9 trillion (US$ 144 billion) by value
- Business review consultants to The Employees' Provident Fund Organisation (EPFO) and The National Pension System (NPS) Trust in monitoring performance of their fund managers

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- Assigned the first IPO grade in India; graded more than 100 IPOs till date
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- Due Diligence, IPO Grading and Independent Equity Research for SME companies planning to list or already listed in NSE Emerge platform
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- Training programs being conducted in India, Sri Lanka and Bangladesh through an extensive network of well-qualified financial professionals

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