JM Financial Limited
Q4 and Full Year FY 2017 conference call
May 03, 2017

Moderator: Ladies and gentlemen, good day and welcome to the JM Financial Q4 and Full Year FY 2017 conference call. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your Touchtone phone. I now hand the conference over to Mr. Vishal Kampani – Managing Director from JM Financial. Thank you and over to you, sir.

Vishal Kampani: Thank you. On behalf of JM Financial we extend a very warm welcome to all of you to the conference call of JM Financial to discuss our financial results both for the fourth quarter and Full Year 2016-2017. I hope you have had a chance to go through our presentation, press release and results, they have been updated on our website and also on the stock exchanges. I also have here with me today Manish Sheth our Group CFO; Shashwat Belapurkar – MD, CEO of our fixed income and lending for both commercial, real estate and corporate; Gitanjali Mirchandani – Head of origination for our real estate business; Vivek Grover – COO of our JM Financial ARC.

I shall now provide an update on the performance of these businesses post which Manish will take you through the financial numbers and then we can open the floor for Q&A.

Our consolidated revenue for 2017 is at Rs. 2,359 crores up 40% compared to Rs. 1,685 crores for FY16. Our PAT was at Rs. 470 crores up 17% compared to Rs. 400 crores for FY16. Before we share the FY17 group financials, I will take you through a brief update on the performance of each of these verticals.

We will start with the investment banking wealth management and securities business. This segment had a very good year. For FY17 we had revenues of Rs. 639 crores with a PBT of Rs. 144 crores. The business contributed 15% to our group's PBT. PAT from this segment grew at 77% for the full year. Our investment banking business continues to grow with a very robust deal pipeline and several mandated transactions under execution.

The AUM of our wealth management business stands at Rs. 23,600 crores excluding custody assets. The equity AUM in this quarter has increased by 20% to Rs. 8,723 crores. Average daily turnover increased to Rs. 3,464 crores during the quarter up 17.5% QoQ. With this I move on to the second group verticals which is our fund based businesses.

The business contributed 80% to the group's PBT for FY17 which is approximately Rs. 779 crores on a revenue base of Rs. 1,625 crores. We have two categories in our funding business, one is the financing business and second is the distressed asset business. I will talk first about the financing business. We have crossed a very important milestone of achieving Rs. 10,000 crores of loan book in this quarter and the overall loan books stands at Rs. 11,343 crores as of March 31. I am proud to state that we have achieved this milestone with almost nil net NPAs.

Of the said lending book 71% comprises of real estate lending which is approximately Rs. 8,100 crores; 15% comprises of capital market lending which is Rs. 1,676 crores and 14% comprises of corporate lending which is Rs. 1,561 crores. We continue our efforts of diversifying our sources and maturities of our borrowing profile. I am pleased to report that our long term borrowing as a proportion of our total borrowing now stands at 50%.

The gross NPA ratio of the financing business continue to be at 0.12% and our cost to income ratio is at 15%. This again continues to highlight the asset quality of our book. Coming to the ARC business, during the quarter, banks and NBFCs continue to announce various NPA portfolio auction and we were actively participating in several of these auction processes. Our AUM has grown by 21% from Rs. 9,820 crores in FY16 to Rs. 11,870 crores in FY17.

Now moving on to our third vertical, our asset management business. This business contributed 6% of the group's PBT for FY17 which was approximately Rs. 57 crores on a revenue base of Rs. 89 crores. On the mutual fund side, the average quarterly AUM of the mutual funds stood at Rs. 13,668 crores comprising Rs. 6,644 crores in equity schemes and Rs. 7,000 crores in debt scheme.

We have also approved the buyback of up to 10% of the outstanding equity capital of our asset management company subject to necessary approvals that may be required. In our alternative asset management business our combined AUM for a private equity and real estate funds stand at Rs. 655 crores.

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

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

Now let me take you through the group's results which were announced yesterday and are available on our website. In Q4FY17 our revenue grew by 53% YoY to Rs. 725 crores from Rs. 475 crores. The Q4FY17 PBT is at Rs. 326 crores which is an increase of 62% YoY. Our overall PAT grew by 33% from Rs. 114 crores to Rs. 151 crores for the quarter.

Coming to the full year numbers. For FY17 the gross revenue is Rs. 2,359 crores and a net consolidated profit is Rs. 470 crores. This represents EPS of 5.93 versus 5.08 for the same period last year. In FY17 gross net worth is now Rs. 3,227 crores which is a book value of Rs. 40.62 per share with a gross leverage of 2.5 times and a net leverage of 2.3 times.

Our group rating by all the three rating agencies namely CRISIL, ICRA and FITCH is AA stable. Some more details on the financials. FY17 revenue increased 40% YoY to Rs. 2,359 crores primarily due to the growth in the fund based businesses. The revenue from fund based business has grown to Rs. 1,625 crores from Rs. 1,079 crores during the previous year.

Our loan book AUMs grew from Rs. 7,215 crores to Rs. 11,343 crores which is an increase of 57% YoY. The revenue from fee-based business has also increased by 24% to Rs. 391 crores. Our expenses excluding finance cost has increased and it is now Rs. 606 crores for this Rs. 480 crores.

Group’s finance cost has increased to Rs. 782 crores as against Rs. 512 crores during the previous year primarily on account of increase in the leverage for the business. We will maintain a healthy borrowing mix with long term borrowing now constituting 50% of our entire borrowing versus 40% last year.

Our cost of fund has come down from 9.7% to Rs. 9.5%. Profit before tax increased by 40% to Rs. 972 crores as against Rs. 693 crores. And consolidated profit for the year is increased by 17% to Rs. 470 crores versus Rs. 400 crores last year.

With this I would like to conclude and we will be happy to take any questions. Over to, moderator.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin with the question-and-answer session.

We will take the first question from the line of Rajesh Kothari from AlfAccurate Advisors. Please go ahead.

Rajesh Kothari: Just wanted to know on your wealth management business if you can highlight in terms of the strategy, how do you see going forward for next two to three years and in terms of the current employee strength, how do you plan to ramp up over next two to three years?

Vishal Kampani: So our Wealth management business is housed in our IWS segment which is our Investment banking, Wealth and security segment, and we are very, very focused on that business. It is identified as a key growth area for us over the next three years. We are also ramping up our advisor strength and we are targeting to increase our number of advisors almost 50% over the next two years. And we are also very focused not on the overall AUM but on the quality of the

AUM that we manage, and if you see that over the last few quarters the AUM mix within our Wealth AUM has dramatically changed towards more equity and less of debt and liquid products.

We have also used the capital if you see this year is we have a new NBFC which has been created under our Wealth Management business, and that has been capitalized by Rs. 200 crores so we are also making more efficient use of our capital, which is sitting in our wealth management business and our brokerage business, and that is specifically geared towards servicing the financing needs of our wealth customer here. So we are going to engage further into lending to our wealth clients. So there will be a combination of more advisory products, more number of advisors, marketing the wealth business over the next two years and a pretty significant and strong balance sheet available to offer lending products to our wealth customers.

Rajesh Kothari: So what are your current yield in on gross basis and your net basis on your wealth management business?

Vishal Kampani: We will come back to you separately on the numbers.

Moderator: Thank you. We take the next question from the line of Ashwin Balasubramanian from HSBC Asset Management. Please go ahead.

Ashwin Balasubramanian: My question is related to your lending book. So in terms of real estate lending so just wanted to understand there has been fairly reasonable amount of growth in this business. So I wanted to understand where exactly this growth is coming from in the sense that is it coming from like let us say new projects which you are financing, or is it more like a refinance of an existing loan which is being done? That is the first question. And also on a related note I also wanted to know like typically how are these loans structured in the sense like, what will be the typical sort of tenure and what kind of like principal sort of like let us say the repayment schedule will be there in terms of like lesser moratorium for certain period and so on?

Vishal Kampani: Sure, so I will have Gitanjali and Shashwat both answer this question. Gitanjali, you want to start?

Gitanjali Mirchandani: Hi, just to answer your first question. With regards to where the growth is coming from, I guess it is a factor of two things. One, we have been focusing significantly on increasing our client base so one increase in that when we started the business we were focusing on typically only a few set of clients but as we understand the business better we are focusing on increasing our client base, that is one. We have been also adding new geographies, so that significantly helps us in expanding our loan book as well. With last year, we focused on markets like Chennai and Hyderabad, this year we intend to look at other markets as well. So that will help us in expanding the books.

Having said that I guess we have been also adding new products looking at loan against property kind of when the concerned developers, so it has been a mix of both. It has been a mix of new markets, new clients as well as new products. Coming to the second question, in terms of the kind of deals we are looking at so these deals are mainly structured as between three to four-year tenure. So we have been looking at a mix of these. Most of these deals, I think about 70% of our book is categorized as project funding where you have an ongoing residential or commercial project which is ongoing receivables which we look at funding. So it is a self-liquidating kind of a product. Our average maturities would be I think approximately two to two and a half years. That is the kind of deals we look at structuring. I am happy to answer anything else you would like to know.

Vishal Kampani: We have also added new products like inventory financing this year. We have done a very large transaction where we have taken some on our books and sold on some to other like minded investors. So we are constantly evaluating on what we can do with the developers who we lend to and what new kind of structures we can create for them. But the important thing to stress is that 100% of our book is completely secure and our focus of our lending is basically secured lending, secured assets financing and secured project funding to these real estate developers. Shashwat, you wanted to add anything?

Shashwat Belapurkar: Nothing more, just to add to your specific question about the tenure and everything else, our typical sweet spot is total over three years amortizing between 18 to 36 months. You can push little bit on the asset side to four years and the amortizing to 24 months but that is really our sweet spot, 36 months' door to door, amortizing from 18 months' subject to it fitting into our model that we build in at the upfront before we funded…..

Ashwin Balasubramanian: Right so when you said within two to two and half years is when you know typically the repayment happens. So would that be due to like let us say a part of it being like refinanced subsequently or is it more like the entire sales would have happened by then and therefore?

Vishal Kampani: So frankly the expectation when we modeled these is that we will get paid because of healthy sales. But that has not been the reality. If you see the last three years, three and a half years I mean there has been a clear weakness in sales and real estate and therefore a very large percentage of our borrowing actually is getting refinanced, and having said that we also see a lot of refinancing deals that come to us. So I think yes, there is a very healthy mix of many of these assets being refinanced.

Ashwin Balasubramanian: Okay. And you said you are adding more clients, so what would be like a ball park like this sort of number of clients you would be having?

Shashwat Belapurkar: Yeah, so we will have over 60 clients and we would have over 150 transactions and we are kind of adding six to seven new clients every year, we want to try and ramp that up to ten. We started the business with Bombay, we moved to Pune, Thane, Bangalore, we moved to

Chennai, Hyderabad last year we were moving to Kolkata and NCR again this year. So hopefully the ten clients per year ramp up should be easy to meet.

Ashwin Balasubramanian: Okay and like let us say it is 150 transactions which you have done. So like how much would have sort of got repaid over a period of time?

Vishal Kampani: Lot of it, so compared to some of the other lenders, I think we have a pretty seasoned book. We spent seven and a half years in this business. I also want to add that almost 50% of our new origination every year is from repeat transactions and repeat clients. So our data mining into our own credits and how they have performed is pretty strong.

Ashwin Balasubramanian: Okay so when you say repeat transactions, this would be like the same developer maybe doing another project?

Shashwat Belapurkar: Absolutely correct.

Moderator: Thank you. We take the next question from the line of Digant Haria from Antique Stock Broking. Please go ahead.

Digant Haria: My question is again on the real estate book. So you know we see that lot of thing is happening in the affordable housing space. I obviously know that the construction has not started full-fledged in a lot of places but at least things are moving much faster versus they ever were in the past. So are we planning to have some kind of a business development on this particular side because these developers would typically I do not know if we do work with some of these kinds of developers already?

Vishal Kampani: Okay so as of now in our book the percentage of affordable housing finance projects is not very large. There could be a few in Chennai or in Thane but it is very, very small and there are a couple of reasons why, right. So when we are evaluating a project we are essentially not only looking at sales or how it will sell and clearly right now with all the government push and the Pradhan Mantri Awas Yojana's push, there is a big move towards affordable. But you understand from a developer lending perspective, we have to look at the margin of profit that the developer is going to make on that project, right. So, if you look at the margin in some of these projects the margin is not as healthy or rather it is not as comfortable as we would like it to be, because you see the selling price here is very low.

Construction cost do not vary as much. These locations in many cases are not the best of locations. So yes, we are looking at evaluating very, very carefully but I do not see a very quick significant ramp up in our wholesale developer book in affordable housing. I think we will be more focused on the mid income housing that is a priority area for us where you know a large part of our book is deployed. And I think from a HFC perspective, as you know that the last three months we have been aggressively building on our HFC and we should be in a position to launch business by July/August of this year. Our HFC from a retail launch perspective will be very focused on the affordable housing side.

Digant Haria: Alright and so without this affordable housing being a large part of our developer portfolio we think there is current momentum still can be maintained over the coming years?

Vishal Kampani: Yes, absolutely. At the same time, I think we have already reached a very significant size I mean Rs. 8,000 crores to us is a very significant loan book. So I do not anticipate that over the next three years, the growth rate of our real estate wholesale book will be the same as the last three years. It will be a healthy growth rate but I anticipate it may lower than what it was in the last three years, but we will cover that up by a significant push on the retail loan side in the HFC segment as well as on the corporate lending side.

Moderator: Thank you. We take the next question from the line of Umang Shah from Emkay Global. Please go ahead.

Umang Shah: I just had a couple of questions. One was on JM Financial product solutions business. So clearly we have seen a sharp drop in the margins in that business. just wanted to understand is there some shift in the mix or is it because of yield pressures or what is leading to that?

Vishal Kampani: Which margins specifically?

Umang Shah: Net interest margins for ’17 are at 8.8 versus 10.4 in the previous fiscal?

Vishal Kampani: So one is the function obviously of leverage going up. Second also is a function of what kind of assets we have been underwriting because as Gitanjali mentioned earlier a pretty significant part of our book now is project funding and construction finance, and the yields on some of those loans obviously lowered than early stage financing or land financing. And land financing now is less than 10% of our portfolio which used to be almost 14% or 15%. So it is a combination of two things, one is the mix of products, second is the increase in leverage, and third there is also aggressive competition out there.

So you know in the good credits where we want to be present, there is a clear compression of NIM of almost a spread of almost 75 basis points to 100 basis points and we also expect that this compression will stay this year and may actually reduce our spread further by at least 50 basis points.

Umang Shah: Got that. So is there any number that you have in mind beyond which you would be not too comfortable in terms of growing?

Vishal Kampani: So we do not have a number specifically in mind but so for example if our real estate book was Rs. 4,000 crores three years ago and it is Rs. 8,000 crores today and if you ask me can this book in three years go from Rs. 8,000 crores to Rs. 16,000 crores, I doubt it. I think we will be comfortable at a number lower than Rs. 16,000 crores three years from now is the point I am going to make. So we will be adding more assets compared to what we have added in the last three years, but the rate of growth will be lower.

Umang Shah: Okay fair enough, understand that. Second thing was, clearly you talked about housing finance piece getting added to our business. Just wanted to understand slightly from a longer-term perspective over the next three years how do we see or what size do we see our loan book at from current Rs. 11,000 odd crores and how the mix is likely to shift indicatively?

Vishal Kampani: So think about a lower growth rate for our commercial lending business in real estate, we can think about a higher growth rate for our corporate lending business and a higher growth rate for a capital market lending business. So assuming at those growth rates our wholesale book three years from now could be anywhere between say Rs. 15,000 crores to Rs. 20,000 crores and I think our target would be in the HFC to reach at least Rs. 2,500 crores to Rs. 3,000 crores in three to four years from now. We are also very focused on the SME business the second business that we are building. We are building it slower as compared to the HFC business, but that should be able to add a similar sort of number of asset in the next three years.

So I think the mix if we were to hit in three years' time Rs. 20,000 crores - Rs. 25,000 crores loan book then almost 20% - 25% mix will be pure retail SME assets, 20% kind of mix will be capital market lending which is basically margin finance and loan against shares which also is more retail than really wholesale, and the rest of course will be our commercial real estate lending book and our corporate lending book.

Umang Shah: Got that, fair point. And just a last related question. So the SME business that you are talking about this would be more leaning towards a loan against property kind of a segment or what would be the kind of customer segment that you are looking at in this business?

Vishal Kampani: Yeah, so it will start with LAP but increasingly it will try and do working capital financing also for some of those SMEs. But it will start and it will remain focused on LAP for the first year of its operations. Today LAP as a mix in our overall portfolio is extremely low, we are actually more concentrated on project funding and developer funding and corporate lending. So we want to increase the proportion of LAP and as you know LAP has seen a very difficult time in the last 18 months and that is why we want to enter the segment now because we feel that over the next 18 months competition will behave more rationally hopefully.

Umang Shah: Understand, and yeah sorry for this, I just wanted to slip in one last question on the mutual fund business. We have not really seen any significant growth in our AUMs any perspective that you would like to give for the AMC business in specific?

Vishal Kampani: Yeah, so that is a good question. We completely recognize the point you are making. it is a failure at our end, the market is doing very well and though we are extremely profitable, but we need to keep pace with growth in the AUM. So we will work on a strategy for the mutual fund business over the next 12 months and hopefully you will see some more productive changes 12 months from now.

Moderator: Thank you. We take the next question from the line of Arpit Kapoor from IDFC Mutual Fund. Please go ahead.

Arpit Kapoor: Just continuing on the LAP part. With your average ticket size that you are looking at and how do we see the business going from there?

Vishal Kampani: So as I said LAP is a very small proportion of our overall book today and the kind of LAP that we have done is really developer LAP with developers we know very well and it is kind of funding them alongside project funding. So the LAP which we want to look at from a SME perspective will have very low tickets. So that is going to be somewhere between Rs. 1 crore to say Rs. 10 crores, so it is a very different market segment. That is going to be a completely new business that gets built with a separate origination team as well as a completely separate risk management and operations team.

Arpit Kapoor: Okay and how big we look at this book three to four years hence?

Vishal Kampani: This could be anywhere close to $400 million to $500 million dollars, or Rs. 2,500 to Rs. 3000 crores.

Arpit Kapoor: Okay and just on this quarter if I look at the real estate book the book has been on the quarter-on-quarter growth rate has been pretty high 20% or Rs. 6,600 crores or Rs. 6,700 crores has moved to Rs. 8,000 odd crores so anything any other business segments that we entered in, or what explains the high growth rate?

Vishal Kampani: No, I think what happened is we had demonetization in November and we obviously were very concerned and so we basically held back lending in November, December and Jan. We also saw horrible face numbers in the last seven and a half, eight years of my experience I have never seen zero sales for two and a half, three months in a row. So obviously, we were concerned and so we were just taking a call on when do we restart lending and as things stabilized and we saw better numbers towards the end of Jan and February we quickly ramped up our book in last two months of February and March. So in real estate frankly as you can see the appetite is infinite. I mean if I want we can take the book to Rs. 15,000 crores in one year. But that is not the idea. The idea is really to grow slowly and steadily and basically eat what you can chew in.

Arpit Kapoor: And would RERA have any impact on the growth rates in the near term or?

Vishal Kampani: Yes, RERA can slow down the business in the next two or three quarters. Having said that we do not have the ambitious growth targets for some of the other players in the business, so I think we should be okay.

Arpit Kapoor: Okay and similarly even the corporate book sometimes are almost doubled from Rs. 700 odd crores to Rs. 1,476-odd crores did you enter any new segment or what explains the sudden jump in the book?

Vishal Kampani: Yeah, so we were not in that segment and we started building that business two years ago. We hired a team over the last two years and so you are seeing the rewards of that investment that we have made and there is a huge opportunity and I had mentioned that also in few of my earlier interactions in the corporate lending side. It is a very integrated business with our investment bank and we can see a significant ramp up in good quality assets on the corporate side and also we feel that a lot of the bank based competition is very dormant as of now in corporate lending and gives us an opportunity over the next three to four years to ramp up this book.

Arpit Kapoor: This would be securitized? What is the nature of this book?

Vishal Kampani: It is all secure, it is all 100% secured lending.

Arpit Kapoor: And what would be the yields for us?

Vishal Kampani: Yeah, the yield is lower the yield is not as high as developer finance, the average yield is somewhere in the range of 12% to 13%.

Moderator: Thank you. We take the next question from the line of Nischint Chawathe from Kotak Securities. Please go ahead.

Nischint Chawathe: Could you give some sense on the profitability of the wealth business, when the AUMs have kind of broadly been stable so I guess your profitability would have gone up?

Vishal Kampani: Yeah, we will separately address the numbers with you.

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

Ritika Dua: Can you just explain what we mean by the corporate lending that we do so what are exactly the ticket sizes here and then what is the nature of lending here?

Shashwat Belapurkar: Some of the transactions which we have done are essentially places where the states left over by PSU banks that is selling some part of our transactions that would be roughly in the Rs. 80

crores to Rs. 125 crores range. Some of them are plain high quality promoter financing transactions.

Ritika Dua: Sir, I am sorry to interrupt but I am unable to hear you. I am sorry about that.

Shashwat Belapurkar: So as I was saying that some of our transactions are in the space which is left over by the nationalized banks because they are either slow to react or say the consortium were unable to kind of make up their mind as to be done. So these transactions are typically senior secured again with the entire assets pledged towards, etc., typically in the Rs. 80 crores to Rs. 125 crores range. That is one part of our book. The second part of our book is very high quality loan against shares transactions where thanks to the investment banking franchise that we have, we work with promoters and we are able to take out a bunch of other small investors and come up with solutions around that.

And the last part though a very small part is working capital financing we are still getting our hands on that because there is a clearly being not a bank, we cannot give non-fund based limits but wherever possible we are able to structure some solutions around that for our loan book client as well. So these broadly are the kind of transactions that we do.

Ritika Dua: Sure sir. Sir, just if I could just maybe ask you to maybe elaborate a little more on the first segments which you were mentioning maybe if you can just maybe help me with some more means elaborate on that first segment, I did not really exactly understand where is the first segment in the corporate lending?

Shashwat Belapurkar: Sure. So suppose you have I mean it is exactly what happens in the real estate side. You have a bunch of consortium or a single lender where the projects got some delay but we think that the projects got some merit because there is enough equity of the promoter in the business and the business itself has got some merits. So at that point of time, we end up coming and terming the structure in a way that cash flows payout for payout alone. So that is typically and in this space PSU banks and banks in general cannot do it because of regulatory issues.

Moderator: Thank you. We take the question from the line of Jasdeep Walia from Infina Finance. Please go ahead.

Jasdeep Walia: Sir, my question is what are the plans going forward for the alternative asset management business, how do you see growth in this business going forward?

Vishal Kampani: Yeah, so we have had a new CEO, he joined us nine months ago and we are in the process of putting all our efforts to raise the private equity fund too. As you know our private equity fund one has come to an end of life period and therefore the revenues from that fund no longer occur to us and as we are investing in fund two that segment is basically seeing losses purely because of our investment in people as well as fund raising for fund two. So hopefully by the end of the year we should have had raised at least the first close of our private equity fund two and then that business will get momentum on its own once that is done.

Moderator: Thank you. We take the next question from the line of Ankit Dhedia from CRISIL. Please go ahead.

Ankit Dhedia: Just looking at there has been a consistent improvement in the ROE from around 10% in FY ’14 to around 15.3% in FY ’17. So what are the levers for further improvement in ROE given the inherent volatility in the IWs and the ARC business and as you have said increasing competition in the lending business?

Vishal Kampani: So good question, the first thing is that our 15% plus ROE is at 2.3 times net leverage, so and the capacity for us to be able to increase leverage is pretty significant. So that is number 1. Second I think yes, some part of our growth in the last two years has come because of the capital markets and investment banking segment, but having said that even this year almost 80% of our PBT comes from the fund based businesses. So I think that the mix, the healthy growth in the fund based businesses will continue even if there is some pressure in terms of ROA I think we will be able to make that up in terms of increase in leverage and at least maintain the same ROE if not increase the ROE. We are also as you would have seen in the increase in OPEX in our business, we are also investing in SME and investing in HFC.

So I think that may depress the increased ROE a little bit over the next one year, but I still think we will be able to maintain what we have of 15% plus ROE. But those businesses from year 2 and year 3 will also start kicking in in terms of profits. And therefore, I think you will see a further improvement in FY19 and FY20 on the ROE front. So the moot point is that we have very low leverage, so we are the least levered in NBFC among all. So it is just 2.3 times net leverage so I mean increasing ROE is not an issue but we are doing it in a balanced way in terms of adding high quality assets and if that means that if ROA has to go down, it has to go down.

Ankit Kedia: Fair point sir. And so second on the ARC side, so one thing is the AUM has grew by more than 20% even in FY17 so what kind of AUM growth are we looking in that business and also if you could give me maybe some color on what kind of management fee or interest incomes do we generate from this business?

Vishal Kampani: So I will take the first question and Vivek can answer the second question. So in the ARC side, I think first of all we are not focused on AUM growth, I think our focus has really been profitably and to grow this business profitably and the idea is that we want to add assets where we can see a significant IRR being created from the resolution or the restructuring of the asset. So said that, we do not really have a target in mind that yes AUM has to grow by a certain number. Having said that, if you want to use a number for your projection, I think we will try and at least maintain last year’s AUM growth this year. Vivek, you want to give them the breakup of management fees and how that works in our overall revenue mix?

Vivek Grover: For us like we look at ARC business as largely investment business like where we do funding and our model is typically not based on the fee base, so we try to have like our endeavor is to have like one third mix of the management fee in and the upside of the gain from the investment that we have overall gain. So that is how we like to maintain and with some variations we are largely able to on an average able to maintain that and that is what we aim to maintain in due course also.

Vishal Kampani: You can assume one third in management fee, one third in terms of restructured accounts and one third would be really capital gains on resolutions, that is how we want to try and maintain our mix but of course this mix is very difficult to predict QoQ right because ARC even though it clearly falls in part of our lending business but the accounting nature of the business is very private equity like. So we could have 80% of our entire year's profit in one quarter because in that quarter we have done significant amount of resolution because the capital gains based on resolution and restructuring or asset sale is very concentrated in few quarters and it is not evened out during the year.

Ankit Dhedia: Sure sir so just wanted to have that sense of whether we are able to maintain that one third kind of a mix?

Vishal Kampani: So we will maintain it, if we look for example the average of our last two year number or last three year number or last four year number that will be one third, one third, one third or thirty, thirty, forty in some cases, it is very close that one third, one third, one third numbers but if we just look at last quarter or the quarter before that, you will never find that maintenance, so you have to look at it in terms of rolling three year averages.

Moderator: Thank you. We take the next question from the line of Ashish Sharma from Enam Asset Management. Please go ahead.

Ashish Sharma: Sir, this was just on the growth part, just wanted to recheck you mentioned first of all that real estate book being little I mean as a base sort of a mature it will be growing little slowly. But also you mentioned about the numbers of around Rs. 16,000 crores and Rs. 20,000 crores sort of a loan book. So real estate will slow down, but other piecess will sort of continue to maintain the same traction in terms of growth, will there be?

Vishal Kampani: Yeah exactly. So what I said is our strategy is that we will in terms of asset addition on gross asset addition we like to add the same level of assets that we have added in the last three years in real estate. The percentage growth will slow down but we want to focus on adding more in the HFC, more in the corporate lending and more in the capital market segment. So overall three years from now, our asset mix is a lot more diversified.

Ashish Sharma: Okay and the Rs. 20,000 crores number is a sort of a two-year number you have indicated?

Vishal Kampani: Three-year number.

Ashish Sharma: Three-year number, Rs. 20,000 crores, okay perfect. And sir just on the acquisition strategy we had I mean what Indian home loan company and then I think there was some stakes we bought in Spandana in terms of micro finance?

Vishal Kampani: Yeah, so all these investments are actually we are funding them for our private equity fund two in anticipation of raising our private equity fund two. So these are not to be held on our balance sheet if the fund is raised. But in case if we do not manage to raise the fund right, then of course we will be holding these in the balance sheet and we will look to sell them out at a profit.

Ashish Sharma: Okay so this is more from the private equity side, not from a strategic?

Vishal Kampani: No, as of now we have no strategic intent of being in microfinance so Spandana is very clearly held for our private equity funds and India Home loans is a completely independent separate analysis done by a private equity team who decide to make an investment. We are building our own HFC business which is a 100% subsidiary of JM Financial Products which is a 99.5% subsidiary of JM Financial Limited.

Ashish Sharma: Okay so even the housing loan business would be done separately through over subsidy not through this entity?

Vishal Kampani: Absolutely and there is absolutely no common link between any of these divisions so the division which manages India Home loan investment is completely separate, segregated from the people who are going to be running our HFC.

Ashish Sharma: Sure perfect. And just lastly some data points, could we have the net worth number for both the NBFCs, I think we have the capital employed number but could we have the net worth?

Vishal Kampani: So JM Financial Credit Solutions will be roughly Rs. 1,400 crores, JM Financial Products will be roughly Rs. 1,300 crores, JM Financial Capital will be roughly Rs. 200 crores.

Moderator: Thank you. We take the next question from the line of Ankit Shah from Vallum Capital. Please go ahead.

Ankit Shah: My question is on the asset infrastructure business. For the past couple of months there has been a few interesting amendments and change in regulations by RBI in terms of provision norms getting security fee So just wanted your view on the same how would it impact the industry or JM Financial, is it a positive way or a negative way?

Vishal Kampani: Yeah, see most of the changes are in good intent by the RBI arising the longer-term impact of many of these changes is positive. I think in the shorter-term impact of things which are going on at PSU banks may actually slow down the amount of assets that we may look to add. But I think longer term the story is still intact and this is a good decent growth business for us to be in. But for example, the budget announced listing of security receipts I mean that is a very good intent but frankly our corporate bond market does not have liquidity and so we will still have to wait and see how much liquidity we can create in the SR market. So you know creation of liquidity in these markets is very important for them to flourish and that can take some time, it can take a decade sometimes.

Ankit Shah: So what does the mark-to-market in the in the balance sheet in terms of if the value is derived?

Vishal Kampani: In the bank's balance sheet or in our ARC balance sheet?

Ankit Shah: Both I would say.

Vishal Kampani: Yeah, so the banks obviously have an assessment of their risk on a quarterly basis and then they have a prescribed formula by RBI on how NPAs need to be marked down and from an ARC perspective we have a very clear valuation criteria which is laid down by RBI where all our security receipts which are held by us in our trusts they go through a rigorous valuation process by third party agencies, and if there is a mark down on those assets, so these mark downs are provided every quarter into our P&L.

Ankit Shah: Alright and so going forward it would be more of a cash based transactions for the NPAs?

Vishal Kampani: I think it will be a mix of both. Yes, the banks would definitely prefer cash but I do not think that all the combined ARCs in the country today would be able to do all the deals in cash. So I think there will be a healthy mix. What I feel is that the average percentage of cash involved in transactions will go up but not all transactions are going to be all cash transactions.

Ankit Shah: And this is majorly due to the change in provision norms if I am not?

Vishal Kampani: At the bank's end, correct.

Ankit Shah: Exactly.

Moderator: Thank you. We take the next question from the line of Aman Jain from Parasnath Securities. Please go ahead.

Aman Jain: So how do you decide what business goes to JM Financial Credit and what business goes to JM Financial Products?

Vishal Kampani: Yeah, it is quite straightforward. JM Financial Credit Solutions is focused only on developer finance, and what happens is few of the large developers say for example Embassy Group in Bangalore or RMZ Group in Bangalore or Lodha Group in Mumbai right, we have lent more money than a single borrower limits in JM Financial Credit Solutions or for example a single borrower limit in JM Financial Credit Solutions is Rs. 200 crores and if Embassy wants a Rs. 300 crores facility then we have the option of taking the Rs. 100 crores in JM Financial Products. We use a term called overflow for the sale and that is why you see a close to Rs. 2,500 crores portfolio of real estate in JM Financial Products which is largely the overflow of transactions from JM Financial Credit Solutions. But all real estate developer loans are to be presented by the team or JM Financial Credit Solutions to the credit committee of JM Financial Credit Solutions where the approval is taken.

All the corporate loans, all the capital market loans, all the promoter finance loans and the structured loans that we do they are all part of JM Financial Products and they are presented to the Credit Committee of JM Financial Products. At the same way, there is an overflow mechanism, if we have a larger transaction in JM Financial Products, then we can show that transaction to JM Financial Credit Solutions to participate if the single borrower limit of JM Financial Products has been bridged. As of now, on the corporate side our sweet spot is around Rs. 75 crores to Rs. 100 crores and those are largely the mid-market corporates and therefore we have not faced a need where we have required JM Financial Credit Solutions to participate on the corporate lending or the capital market lending side. As we expand the business, you will see a healthy mix between both the NBFCs.

Aman Jain: Got it. And we continue to keep it separate or we would probably merge it at some point of time?

Vishal Kampani: No, we continue to keep it separate, there is no plan to merge these entities.

Aman Jain: For foreseeable future, they would be separate.

Vishal Kampani: Yes.

Aman Jain: I am saying on the IWS side there has been a considerable jump on the profitability for quarter as well as the basically for the quarter. So should we assume that this business will continue to be lumpy for times to come whenever the markets are good businesses do well and in the normal course of time it has been in profit?

Vishal Kampani: That is correct. You should assume that, so for example almost 50% of our investment banking revenue was booked in the last quarter of last year so it is very hard to predict when those revenues get booked, so it is always lumpy. Also having said that if you look at our track record in the last five years I think every year our last quarter barring one has always been the best quarter. So a lot of investment banking deals actually tend to happen in the Jan, Feb, March quarter because in this Quarter 3 there are lots of holidays, there is a Christmas break, there is a Diwali break, before that there is a Ganpati break so all of those weeks are gone away and you do not do business and May and June obviously in India is a holiday season. So if you seasonally look at the IWS business you will always find Q2 and Q4 being very, very strong.

Aman Jain: Right and so because the business is lumpy you cannot share our outlook for the business, is that right?

Vishal Kampani: Very hard, but having said that some of the trends that we are seeing they seem to be structural, strong structural trends for the IWS segment. I think there is a very strong trend in people wanting to have equity as a very core long term part of their savings. So if that were to continue I mean mature markets like the US, have seen bull runs for over ten years continuously in this segment with a year-on-year growth. So if that were to happen to India, there is political stability and this trend continues, where India is a lot of entrepreneurs who want to raise capital, who want to grow and the business is growing, so if that happens then the valuations for the segment will completely change. I mean you will see these companies trading at 30, 35, 40 times earnings and you have seen many of the US companies when there was a long-term bull run trading at these kinds of multiples.

Aman Jain: But for us this would always remain housed within the JM Financial, you would not plan to take that out?

Vishal Kampani: No, absolutely not. The IWS segment will be 100% owned by JM Financials for a very long time to come.

Aman Jain: Got it, because one of your competitors may move it in some time?

Vishal Kampani: Yeah, but we have no plans for the same, we are happy, we are well funded and we do not want to dilute. The only dilution which we may consider will be to employees.

Aman Jain: Got it. Next is you announced that you have a buyback in one of those businesses, which one is that?

Vishal Kampani: Yeah, so we had announced a buyback we have a lot of capital sitting in our mutual fund business so we have decided to do a buyback in that business.

Aman Jain: A buyback of mutual funds**,** is that right?

Vishal Kampani: Yeah, the AMC which manages the mutual funds we are going to do a 10% buyback of the capital there.

Aman Jain: So where is the ownership held, who else owns the ownership and who else owns the shares?

Vishal Kampani: So 53% is owned by the parent company close to 40% is held by the promoters and 7%-8% is held by third party investors. So if they choose to participate then they will get an exit in that buyback. JM Financial Limited and the promoter family will not participate in the buyback. There are also a few employees who have been holding shares for a very long time, so they also have an option to tender their shares in the buyback.

Aman Jain: Alright nice. Okay and then next is general on the lending businesses, you mentioned that the current book size is on the real estate size is Rs. 8,000 crores and you do not see growing to Rs. 16,000 crores but on back of our in thing in the HFC segment you see it as growing to Rs. 20,000 to Rs. 25,000 crores in the next three years. So my question is since real estate is a high end business we can see from the numbers even for the year closing our industry expand 8% NIM. And other segment is not entering like if you talk about HFCs no company does like at a stretch more than 3.5% on the assets. So would it be safe to assume that going forward our NIM should be shrinking considerably?

Vishal Kampani: Yes, that is right but you also have to keep in mind that the leverage ratio in the wholesale lending business is constrained, while the leverage ratios in SME and HFC will not be constrained. So your NIM may go down as a result of the NIM going down your ROA may go down, the result of leverage going up your ROE will remain stable.

Aman Jain: Okay got it. And last is on the housing finance business. How do you see it are you looking at as a LAP business or a traditional housing finance business that you are entering in next two-three months only?

Vishal Kampani: We are going to enter traditional housing finance, that is going to be the core area of our focus.

Moderator: Thank you. Ladies and gentlemen, due to paucity of time we will take the last question. We take the question from the line of Rajesh Kothari from AlfAccurate Advisors. Please go ahead.

Rajesh Kothari: Sir, can you highlight in terms of your wealth management business what kind of investment you are looking forward over next two to three years?

Vishal Kampani: There is no new investment I think we will be able to fund the entire investment from our retail earnings and earnings every year. So what you will really see is an increase in OPEX, there is no real increase in investment.

Rajesh Kothari: Yeah, that is what I meant. In terms of the OPEX?

Vishal Kampani: Yeah, so it is hard to pinpoint, because you know frankly it depends on how many advisors we can really hire, how many advises we can close. In terms of physical space and office space we already have that ready so infrastructure requirements are very low. So it is really employee ramp up which is going to be our cost, so I am assuming if we want to double our wealth advisors over a two to three year timeframe, then the employee cost per head assuming the market we are in and the revenue growth we are foreseeing would actually more than double on the wealth management side.

Rajesh Kothari: Just I am trying to understand in terms of the profitability, do you think the yields can improve significantly from where it is currently over next two to three years?

Vishal Kampani: So a significant amount of profit and yield improvement in this business is coming from a rallying equity market and therefore we are actually very careful in terms of what we are committing in terms of hiring new people in this segment. So if we feel that a new wealth manager who we are hiring cannot basically breakeven for us in a span of two, two and a half years, then we will not be able to make that investment. Having said that, even being able to assess is not very easy, it is very tricky because many times the books that they have our clients do not move; many times, the profitability is linked to financing which the institution they are working in is providing and we may not be able to undertake that risk in terms of financing. So there are lot of variables that go into choosing teams as well as choosing people.

Rajesh Kothari: So after your current AUM in wealth management how much is equity how much is alternate investment as a product?

Vishal Kampani: Yeah, so we are roughly Rs. 23,500 crores of AUM totally of which equity will be Rs. 8,000 crores to Rs. 8,500 crores, another Rs. 1,500 crores or Rs. 2,000 crores will be alternative that funds will be a similar number and the balance would be liquid. And the same number for equity was much lesser it was almost half one year ago. So we are trying to improve the mix of the AUM rather than focusing on just simple AUM increase.

Rajesh Kothari: Okay. just to come at Rs. 8,500 crores you said equity, Rs. 1,500 crores is alternate, then you said Rs. 1,500 crores is debt, so when you say debt means it is like structured debt product kind of?

Vishal Kampani: Exactly.

Rajesh Kothari: And the balance is the liquid so as a mix you are saying you have improved mix significantly from?

Vishal Kampani: For liquid, we are actually moving away from liquid.

Rajesh Kothari: Okay so right now the equity is 35% which was about 15%, 17% about two, three years back, that is what you mean?

Vishal Kampani: That is right.

Rajesh Kothari: Okay. And in your ARC business in terms of the business model I understand that from 1st April the rules have changed in terms of getting fees on the entire book which the lender might be having so do you think it can impact the profitability, some color on that?

Vishal Kampani: Sorry I am confused with your question.

Rajesh Kothari: See, in ARC there is a kind of a manage total book am I right which entirely probably not your capital but even the lender's capital might also be involved, correct I mean in terms of the total exposure like Rs. 11,874 crores is the total assets under management so on which you will be getting some fees. Now going forward from 1st April earlier I think the required stake was only x% which is now increased to significantly am I right 20% or 30% something like that so what kind of a total exposure you would like to have on?

Vishal Kampani: First of all no stake has been increased. I think purchases are still happening at Rs. 15/85. If we have decided to put more cash in a transaction it goes to 25% to 30% and we are earning fees on the entire portfolio, nothing has changed on that front. What has changed is that if you are not able to do a resolution within a specified time period which is six months, you have to revert some of the income that you may have booked.

So what we do is transactions where we have an all cash situation we do not even book the fee, we only book the fee when we do the resolution in transactions where we have a SR involved in it, where we obviously taking fees from 85% of other capital providers indirectly to security receipts, if they are not being able to achieve resolution then we reverse the fee. And this has not changed, this April this has changed many quarters ago so we have been following this already for the last six quarters right roughly, six to eight quarters.

Rajesh Kothari: Okay so there are any change in regulations from 1st April because I was talking to one of the large ARC they were saying that there is a change in the rule or maybe likely change in rule whereby that 15% will become 30%?

Vishal Kampani: That is from the banking side, not from the ARC side.

Rajesh Kothari: Okay fine. Sir, do you see any in terms of or how do you see the ARC outlook because there is a lot of NPA, lot of talk is going on so if you can give some color on that?

Vishal Kampani: Cautiously positive.

Rajesh Kothari: Okay. Any capital raising at any of your subsidiary level over next 12 to 18 months?

Vishal Kampani: No. No capital raising at subsidiary level and no capital raising at the holding company level planned at this stage.

Rajesh Kothari: And your target debt equity in JM Finance Product is from current 3.36?

Vishal Kampani: Yes, that will go up substantially as soon as the SME and HFC assets start contributing over three years or four years it can go up as high as six times.

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

Vishal Kampani: I like to thank all the participants on this call and if there are any specific questions or any other concerns that you all have, please feel free to reach out to our CFO Manish. Thank you again very much for participating on this call.

Moderator: Thank you. Ladies and gentlemen, on behalf of JM Financial, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.