"JM Financial Limited Q4-FY18 Earnings Conference Call"

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Moderator: Ladies and Gentlemen, Good Day, and Welcome to the JM Financial Limited Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone telephone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Vishal Kampani – MD, JM Financial Limited. Thank you and over to you, sir.

Vishal Kampani: Thank you. On behalf of JM Financial we extend a very warm welcome to all of you to our Conference Call to discuss our Financial Results, both for the Fourth Quarter of Financial Year 2017-2018 and the full Financial Year 2017-18. I hope you have had the chance to go through our presentation, our press release and our results, these have been updated on our website and also on our stock exchanges.

I also have with me today Manish Sheth – Group CFO, Shashwat Belapurkar – MD & CEO of our wholesale lending business, Anil Bhatia – MD & CEO of our Asset Reconstruction business.

Moving on, I am very happy to report that we have achieved our highest ever operational profit after tax in financial year 2018 and we also concluded our maiden QIP of Rs. 650 crores in the previous quarter and that was a fund raising that we have done after a gap of almost 12 years. I shall now provide an update on the performance of these businesses and post which Manish will take you through our financial numbers and then we can open the floor for question-and-answers.

Our consolidated revenue for the full year FY18 is at Rs. 3,235 crores, up 37%, compared to Rs. 2,359 crores for full year FY17. Our PAT for FY18 was at Rs. 631 crores, up 34%, compared to Rs. 470 crores for full year FY17. Before we share our group financials I will take you through a brief update on the performance on each of the Group's businesses.

Let me start with investment Banking, Wealth Management and Securities business:

For the full year FY18 we had revenues of Rs. 828 crores with a profit before tax of Rs. 204 crores. This business has contributed 15.6% to our group's profit before tax for financial year 2018. Profit after tax from this segment grew to Rs. 143 crores at 49.49% for FY18. 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. 31,808 crores, excluding custody assets. The equity AUM increased by 36.3% year-on-year to Rs. 11,893 crores. The average daily turnover increased to Rs. 5,972 crores and during the quarter was up 72% YoY.

Moving to the Financing business:

This business contributed 76% to the Group's profit before tax for full year FY18 which is approximately Rs. 1,000 crores on a revenue base of Rs. 2,257 crores. We have, as you all know, two segments in our Financing business, the first is our Commercial Real-Estate, our Wholesale Finance to Corporates and our Capital Markets business and the SME business. And the second segment is our Distress Asset business which we run through our ARC.

I will start with the Financing business:

Our overall loan book in the Financing business stands at Rs. 14,772 crores as of March 31, 2018, we saw an increase of 30% in the loan book year-on-year. The breakup of the loan book is the following:

63% comprises of real-estate loans which is approximately Rs. 9,268 crores. The real-estate book has registered a year-on-year growth of 14%. I am also happy to report that we have successfully entered the Kolkata and NCR markets. 16% of the loan book consists of capital market loans which stands at Rs. 2,334 crores, the capital markets book registered a growth on a year-on-year basis of 54%. 18% of the book comprises of corporate lending which is at Rs. 2,705 crores. The corporate lending book has registered a year-on-year growth of 73% and 3% of our book comprises of SME lending which is a business we started in the year which stands at Rs. 464 crores. The gross NPA of the Financing business is at 0.63% and our cost to income stands at 14.3%. We continue our efforts on diversifying our sources and maturities of our borrowing profile, and I am very pleased to report that our long-term borrowing as a proportion of our total borrowing now stands at 66%.

Coming to our newly formed business our HFC business:

We received the HFC license in the month of November last year. We have already set up five clusters across Maharashtra and Gujarat and we have received in the last four months 1,000 plus application with a value of over Rs. 100 crores and we are very committed to building this business over the next two to three years.

Coming to our SME business:

In our SME business we have three verticals, the first is our loan against property, the SME loans against property which are all ticket sizes below Rs. 10 crores. The second is education institutional lending where we lend to K12 schools. And third is financing smaller NBFCs. We are happy to report that our SME lending business is now operational in the center of Mumbai, Ahmedabad, Chennai and Pune and the education loans business is now operational in Maharashtra, Telangana and Andhra Pradesh.

Moving on to the ARC business:

During the quarter banks and NBFCs continue to announce various NPAs and we have been very actively participating in several of these auction processes. Our AUM for March 2018 has grown by 9.2% year-on-year to Rs. 12,965 crores. We have also completed a rights issue of Rs. ~279 crores in our ARC, our stake in the ARC now stands at 57.1%.

Now moving on to our third segment, our Asset Management business:

This business has contributed 6% of the Group's PBT for FY18 which was approximately Rs. 79.42 crores on a revenue base of Rs. 112 crores. On the mutual fund side, the average quarterly AUM of the mutual fund stood at Rs. 16,365 crores comprising of Rs. 11,313 crores in equity schemes and approximately Rs. 5,052 crores debt schemes.

Our alternative Asset Management business combined AUM now stands at Rs. 495 crores and we are happy to report that we have achieved first closure of our second private equity fund in the month of April.

With this brief update, I now request Manish Sheth – our Group CFO to present the Group's financials. Following which we will open the floor for question-and-answers.

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 Q4 FY18 our revenue by 29% year-on-year to Rs. 933 crores from Rs. 725 crores. The Q4 FY18 PBT is at Rs. 402 crores which is an increase of 23% year-on-year. Our Q4 PAT grew by 25% year-on-year from Rs. 151 crores to Rs. 189 crores. With regards to the full year numbers, for FY18 the gross revenue is at Rs. 3,235 crores and a net consolidated profit is Rs. 631 crores. This represents an EPS of 7.86 versus 5.93 for the same period last year. In FY18 net worth is now Rs. 4,349 crores which is a book value of 51.90 per share with a gross leverage of 2.6 times and a net leverage of 2.3 times. Our Group rating is stable at AA.

Some more details on the financials. FY18 revenue increased 37% YoY to Rs. 3,235 crores. In terms of our segments the revenue from fund-based businesses has grown to Rs. 2,257 crores for the full year FY18 which is a growth of 39% YoY. Our loan book grew from Rs. 11,343 crores as of March 31, 2017, to Rs. 14,772 crores as of March 31, 2018, which is an increase of 30% year-over-year. Group's finance cost has increased to Rs. 1,145 crores as against Rs. 782 crores during the previous year, primarily on account of increase in the leverage for the businesses. Our costs of funds have come down from 9.45% to 8.72% year-on-year basis. The revenue from fee-based businesses has also increased by 32% year-on-year to ~Rs. 966 crores for the full year FY18. Our expenses excluding finance cost have increased by 29% year-on-year to Rs. 782 crores. Profit before tax has increased from Rs. 1,309 crores which is a growth of 35% year-on-year. Consolidated profit for the full year FY18 grew by 34% year-on-year to Rs. 631 crores versus Rs. 470 crores for the same period last year.

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

Moderator: Ladies and Gentlemen, we will now begin the question-and-answer session. Our first question is from the line of Digant Haria from Antique Stock Broking. Please go ahead.

Digant Haria: My question is for Vishal. Vishal, we have seen that last three, four months there are two things which have happened, one is macros have deteriorated a bit, borrowing costs are up and buoyancy in capital markets is slightly lower than what it used to be. At the same time we are probably at the strongest position, we have raised capital, leverage is lower so how do you read this interplay of these two, three things and you have these two large banks who have joined the leagues of PSU banks in not lending very aggressively. So how do we juxtapose all these three things and what does it mean for us going ahead?

Vishal Kampani: That is a great question. So, let me tell you the comment you made is right, I think we are in a very envious financial position, I think we have a very low debt to equity, we are very well capitalized. And I also think as a group we are extremely well positioned to capitalize on the opportunity of the missing piece, the missing banks in action on the corporate lending side and I think that is one very big opportunity we are going to drive at this year. And yes, macro trends have worsened in the last two, three months specifically. But I think the micro on the other hand seems to be doing a lot better. Case in point, I think our real-estate sales for example in all the projects that we have funded surprisingly have done reasonably well in the last three, to four to five months, right, and that is giving us more confidence even in that sector. And so wherever there is a value proposition I think there is a lot of consumption on the micro side which are seeing, and that trend continues. So I think yes there is a good interplay between a strong micro and a weakening macro, but I think we are in a good position to capitalize on the same.

Digant Haria: So in terms of this real-estate or in terms of this structured credit market, are the yield adjustments more or less over or should we think that may be one or two quarters before these yields going down that trend stops?

Vishal Kampani: I think it is coming towards an end, it is hard for me to say whether it is going to completely stop this quarter or next quarter, but I think we have seen the worst competitive part of it last year and I do not see it getting worse over this year. In fact, towards the end of the year I see it getting better. But having said that, I must caution you from our end, so at our end we have always maintained that as we grow our book, as we expand our debt portfolio, our lending portfolios and we take on more leverage, we will flock to better and better asset quality. And when you are flocking to better asset quality on the lending side obviously you will see a natural compression and at every turn of incremental leverage we will flock to better quality. So therefore, we will not see a pressure, but we will see a measured move at our end to basically have better asset quality on the book. But having said that, the pointed answer to your question is that yes I think the compression on the wholesale side on yield has already slowed down and I think it will slow down further and I think we will see a better outcome by the end of the year this year.

Digant Haria: And my last question is, even this entire argument because PSU banks and two large private banks would not be very aggressive now because of whatever turn of events have happened, so we have been at 20% - 25% growth rates for some time in our NBFC business, so should we expect this to accelerate more, because if they are not lending then there are just like seven, eight, ten guys like JM Financial and others who have this opportunity. So what should we expect in the next 12 months or may be…

Vishal Kampani: So I think, see at our end we are happy to grow more, we are happy to grow more than 25%, we are happy to grow at even 30% and 35%, but as long as we feel the risk is right, so as long as there is an opportunity on a risk adjusted basis to make returns, yes we will grow more aggressively than we have in the past.

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

Sunil Tirumalai: I am Sunil Tirumalai from Credit Suisse. I have a few questions. In the lending book there seems to be some slowdown in overall loan growth and the margins were weak. What is happening over there, is the yield pressure as was asked by the first participant or any mix change, what is driving that?

Vishal Kampani: Sure. So if you have our presentation which we uploaded on the exchange yesterday, and if you take a look at slide nine I think it is a page which will explain to you what is happening, but I will just quickly take you through it. So what we have seen is if you look at the last five quarters and movement over the last five quarters in the breakup of our lending book, there has been a significant expansion in the capital market lending book and the corporate lending book as well as SME lending book. So if you look at Q4FY17 our real-estate book was Rs. 8,106 crores which has grown by roughly Rs. 1,100 crores to Rs. 9,268 crores while the capital market book has grown from Rs. 1,516 crores to Rs. 2,334 crores and the corporate has grown from Rs. 1,561 crores to Rs. 2,705 crores and the SME has grown from Rs. 160 crores to Rs. 464 crores. So this is a conscious diversification strategy that we followed. And if you see the capital market, corporate and SME businesses they sit at lower yields compared to the real-estate lending business and that is why you are seeing the compression on the next box, on the NIM analysis you have seen the yield compression go down from 14.4% to 12.7%. So if you were to see a like-to-like picture of just the real-estate book and you were to compare the yield compression on the real-estate book that will not be as significant, 14.4% would have moved perhaps to 13.9% or 14%. So the compression is a well measured strategy over the long-term to have a more diversified book. And added to that we also had got a little bit more cautious on real-estate because of demonetization, GST and more importantly the advent of RERA, and therefore we were cautiously growing our real-estate book in the first two quarters and the last quarter of the last financial and first two quarters this financial year. And we are in a lot more comfortable position today, especially after seeing the sales numbers and the revival on the micro side and real-estate in the last four, five years, especially in the low-income category and the mid-income category. So that is the reason for the yield slightly coming off. The cost of funds have basically stayed in line. Quarter four there is a slight bump up in the cost of funds from 8.5% to 8.9% and that is largely because we have a ratings support charge fee that the holding company charges to the NBFC subsidiaries every year and that is why there is a bump up from 8.5% to 8.9%. So if you removed the impact of the annual rating service charge, the actual cost of borrowing for last quarter is actually 8.6%, so it is pretty much in line with quarter two and quarter three of last year.

Sunil Tirumalai: Yes, so two follow-ups on that. So, the chart also shows that after the pause post RERA and GST you are now growing your real-estate book again, so does it mean that some of this yield mix gets reversed and or strategically you intend to change the mix? And if yes, then what are you gaining in return other than just diversification, are the other non-real-estate businesses structurally lower on credit costs or OPEX?

Vishal Kampani: Yes, so we feel that the capital markets book carries the lowest, credit cost in terms of risk profile the real-estate book is the highest risk, corporate and SME sit somewhere in the middle of capital markets and real-estate. So the idea is to make sure that in the longer term we are not too concentrated on one sector and we have other segments that we are growing. Yes, real-estate will grow lot more this year compared to last year and that would mean there could be a positive impact on yield. Having said that we are seeing tremendous amount of traction also in our corporate lending book, so we will have to see how that mix plays out.

Sunil Tirumalai: Okay. Staying on the same slide, Slide #9, 0.6% GNPA I admit it is not a big worrying number, but it almost seems like you have no provisions at all, what is the thinking behind that?

Vishal Kampani: Yes, I think so on the NPA we are very, very well covered and in my last call I had said that by 30th June we will have a solution for the same, and I think the work-in-progress has been very decent. Our collateral covers here are in excess of almost 2.5 times, so we are hoping we should be able to resolve that soon.

Sunil Tirumalai: An looking at your overall fund based P&L, your OPEX seems to be quite low for the quarter, is there anything one-off in that?

Vishal Kampani: Not really, I think you would have had the provision in the previous quarter which would have increased OPEX, so there is nothing new. In the last two, three quarters yes we have spent, the first two, three quarters there was a higher spending on building out the SME vertical which is a new vertical which has lowered proportionately in the last quarter, so that will make a bit of an impact, but nothing materially. And generally, the cost to income would be lower for NBFC like us because our book is almost 81% wholesale, so the cost to income on the wholesale finance business is very, very low.

Sunil Tirumalai: Yes, I mean I was just referring to your nine months run rate versus what eventually came in the fourth quarter.

Vishal Kampani: Yes, that is because of more spending on the SME side, and of course provision which is in the OPEX which happened for the NPL, 0.6% in the second quarter.

Sunil Tirumalai: And I am not sure, you normally have an ARC specific slide deck, I am not sure if that has been released

Vishal Kampani: It has been released, it is already uploaded on the exchange yesterday.

Sunil Tirumalai: Okay, I will take a look. But it seems like the acquisitions have been almost completely bought, whatever you acquired during the quarter is almost completely in cash, is that understanding right?

Vishal Kampani: Yes, that is right. The business incrementally is moving towards more and more cash acquisitions.

Sunil Tirumalai: And finally, so what is the residual from the QIP proceeds and what is your long-term leverage target? Thank you

Vishal Kampani: Yes. So we raised Rs. 650 crores from our QIP, we have already invested Rs. 200 crores into our ARC and we have invested Rs. 100 crores in to JM Financial products. And as we presented in the plan we will be further investing almost Rs. 200 crores in to our ARC and at the appropriate time investing another Rs. 150 crores in to our NBFC business. We expect this capital to get drawn down before the end of the year.

Sunil Tirumalai: And your long-term leverage targets, sir?

Vishal Kampani: I think we will be comfortable at 4 to 4.5 times, currently we are at 2.3 times net leverage, so a long way to go.

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

Ritika Dua: Sir, if you don’t mind, can you please again explain the annual rating service charge? If I got it correctly you said that that is probably a major reason for the cost of funds moving 40 basis points quarter-on-quarter?

Vishal Kampani: Yes, that is right. So what we have is our Financing businesses where we do not own 100% of equity, so any leverage that they take above 1x of their capital there is a ratings charge of 25 basis points that we apply for that leverage, and all of that rating charge was booked in the last quarter of the financial year and that rating charge is an expense for that specific NBFC which is booked in to their cost of borrowing which is actually income in the holding company. So effectively you have to net out that cost of borrowing from 8.9% to 8.6%.

Ritika Dua: Sir, please correct me if I am looking it in the right way, I was just looking at the overall NBFC cost of funds where in obviously we have 8.9% reported for this quarter, I never see such kind of bump up in any previous quarter, so…

Vishal Kampani: Yes, because we started this practice only last year, that is why.

Ritika Dua: You mean FY18?

Vishal Kampani: Yes, that is right. You will see it going forward every quarter, this was instituted in the first of Jan this year.

Ritika Dua: So sir, we are saying here that if not for this charge then probably the number is probably 8.6%. So sir just looking at the way, it is good that we are having now a mix wherein the CP component has come down or the short-term has come down to may be 30%, if I am correct, and we are moving more towards long-term. Is not the change in liability mix impacting so far or would it be more visible in FY19, because I thought most of the cost impact would have come because we used to have a CP of 47% may be three quarters back, it is now down to 30%.

Vishal Kampani: Yes, there is a part impact of the same, but actually there is also a significant impact because of the rating charge, the rating charge impact is roughly Rs. 8 crores and the balance of course impact of 0.1% is because of the move to a larger longer-term borrowing profile.

Ritika Dua: So sir just carrying on with this one, can I may be understand like looking into, while I know because the capital market would be a little, not volatile but then yes would be a little proxy to how the markets do. And other than that I think most of your book probably would be at least asset maturity, would be more than one year largely. So sir then how should we see this, are we already there in terms of the short-term and long-term we are looking at or would the margins be a little more volatile because of that?

Vishal Kampani: Sure. So we are already in excess of our comfort zone on the long-term short-term mix, I think our comfort zone would be 60:40 and we are already at 66:34. On the RE side the lending profile is basically asset tenure of anywhere between 3.5 years to 4 years, on the corporate side the mix is around 2 to 2.5 years, and the capital market book is basically between six months to one year.

Ritika Dua: Sure sir. Sir, just to continue again here, if we can get some view on margins, if not for aberration may be if I, what would the number would be for FY18, if not for aberration if not for the charge what would the NIM be and how do you see this particular number in FY19?

Vishal Kampani: Sorry, which number are you talking about?

Ritika Dua: Sir, the net interest margin or the NBFC piece.

Vishal Kampani: Yes, so that would be quite highly dependent on the mix. So as the earlier question asked by the Credit Suisse analyst was how much would our real-estate book grow versus how much would our corporate lending book grow, that is a significant growth in the corporate lending book which can be as high as 50% - 60%, then I think the NIM would look very different from what it would be if the real-estate book was to grow a lot more here. So, what I can guide you is we do not see a continuous fall in NIM because I think the real-estate book will come back this year, we are quite positive on the prospects of financing in real-estate. And therefore I would probably guide you close to the number where we are already at in quarter four FY18, I do not see a fall below these levels.

Ritika Dua: So that is are we saying at the 5.6 which is including the charge or may be adjusted for that?

Vishal Kampani: Adjusted for that, so you assume anywhere between 5.5% to 6%. And also here see what happened, if you see our last quarter book the capital market book has suddenly shrunk, the capital market book actually sits at the lowest yield, that sits at 10% - 10.5% because that actually drives your broking revenue and drives your Wealth Management business also. So there is some complimentary in terms of why you lend in the capital markets book versus what actually yield you are making across other business divisions in the group. So if the capital market for example, which is the presumption we making is going to be volatile over the next one year, but if it is not volatile and the capital market does very well also, then even that book will be able to grow. And see, I think the overall construct which you have to understand is that our net debt to equity is only 2.3 times, so we have a flexibility where we can actually aggressively grow all three books as well as our SME books, nothing stops from growing these books. So if things are looking good, micro is getting better and may be macro settles down towards the monsoon or end of monsoon, there is a chance that each of these segments may grow at 30% - 35% and we have the room to be able to do that. So it is very hard to give you an accurate number on where NIM will be, because all these four asset classes trade at very different yields.

Ritika Dua: So can we say may be at least there is a particular NIM that we do not want to grow below any other parameter which you think is a much more way to put this thought forward, not may be a margin but may be any other thought that you do not want to…

Vishal Kampani: So let me, I will make it easy for you, right. So think about the product breakup where you can model percentage growth and figure out, so think about real-estate we will not like to go below 13%, corporate we would not like to go below 11.5%, on the capital market we would not like to go below 10.5% and SME is the same, we would not like to go below 10.5%. So you model these numbers as your yield, cost of funds I am sure you are better than me in terms of predicting what it will be and then you can figure out where the NIMs will be.

Ritika Dua: Sure. Sir, second question is on the growth front, in your opening remarks you mentioned the HFC has seen good traction, what is our sense on that in terms of where do we see the book may be in another year or may be I think two years would be a better view may be?

Vishal Kampani: Yes. So, our stated ambition is to be at 2,000 crores three years from now and I think we will stick with that.

Moderator: Thank you. Our next question is from the line of Vishal Modi from Maybank. Please go ahead.

Vishal Modi: I am just looking at the slide on fund-based P&L, and the provisioning line, does that include only standard asset and NPL provisioning, the Rs. 41 crores number for the fourth quarter? Just wanted to check that.

Vishal Kampani: What page number are you on, sorry?

Vishal Modi: Slide #24.

Vishal Kampani: Yes, this also includes our ARC provisioning.

Vishal Modi: So the increase on this number is due to any large price slippage or it is just the normal provisioning?

Vishal Kampani: No, this is the RBI norms in the ARC, and so if you do not have a recovery beyond a certain time frame we have to provide, so it is just the way the ARC accounting works, there is no fresh slippage on the credit slippage and balance sheet. We have had one small NPL in our LAS business and we are fully covered there and we are hoping to resolve that.

Vishal Modi: Yes, because the NPL numbers have not moved but the provisioning figure had moved.

Vishal Kampani: Yes, that is largely from our ARC which is the accounting which they have to follow from an RBI perspective.

Vishal Modi: Second question is on the ARC business itself, so the profitability for the quarter or for the year itself has been like it has almost doubled. I know it is very difficult to predict on say a quarterly basis but do we think given the pool of asset that we have and different stages of recovery that they would be in that this kind of number would be sustainable rate going ahead from here?

Vishal Kampani: Yes, that is correct to assume.

Vishal Modi: And also on the fresh acquisition, we had bid for one large asset, so what is the status there or what is the plan to increase the AUM in this part of the business?

Vishal Kampani: We have bid for many large assets, which one are you talking about?

Vishal Modi: The Alok one.

Vishal Kampani: So, Alok we have not got the asset, we were below the expectations of what the banks were at. So we will see now what happens in liquidation.

Vishal Modi: And finally, on the real-estate book, you have talked about growth targets, etc, so on a net basis this year the net disbursements were almost half of last year or a year before that as well, so can we assume the disbursement rates to be similar to what usual rate was say in FY17 or FY16?

Manish Sheth: Yes, you can assume that.

Moderator: Thank you. Our next question is from the line of Dhaval Gada from Sundaram Mutual Fund. Please go ahead.

Dhaval Gada: Sir, three questions. First is, could you talk a bit about our competition in the developer Financing business and the sort of rationale on getting into Calcutta market? The second question is on the resolution in the ARC business, some of the key assets, where are we on the resolution front and also the new transaction pipeline, how is it looking. And third question is on SME business, when do you expect this business to breakeven?

Vishal Kampani: So, I will ask Shashwat take the questions on the RE side an Anil will follow-up on the ARC and I will come back on the SME side.

Shashwat Belapurkar: So, the competitive pressure has definitely kind of abated is what we think in the last quarter, for example. It was very high until the December quarter, but the last quarter has traditionally always been our strongest quarter as well and industry strongest quarter as well, we have seen that abate, number one. Number two, what has also helped us is the fact that as Vishal was talking in the previous answer to some other question, the yields have stopped going down on the asset which is a big positive for us, so we are not seeing that much of a push back on the asset side as you were seeing in the first six to nine months when competitive forces at the peak in my opinion. So that is really to address the competition. That is not say that the new entrants would not come in and all of that, but again key to the competitive forces is the fact that we are able to access debt at very reasonable levels. One more key point in our favor is that in the near future we are also going to diversify our debt profile by accessing the public issue market, so all this adds to in favor, that is on your competitive forces.

Kolkata market, the idea is to go there in a very calibrated manner, this is really our approach to all the business of JMFinancial stable and not to really lend ourselves out in any large measure. Kolkata, despite a lot of newspaper reports has seen a fair amount of sales in the SME and middle income group, so our idea is to go there and look at transactions in the same category. It also adds, it is a very large market on the eastern part of India which we cannot really ignore as we expand our footprint to a pan-India level. Actually, West Bengal has grown very well, it has grown almost 8% in the last…

Vishal Kampani: It is actually one of the best growing states in the last six quarters, if you would have just broken the state's GDP growth and seen the numbers, which also is having a good effect in Kolkata housing sales, especially in the low-income category and mid income category. Anil, the ARC question.

Anil Bhatia: Yes. So your question was on restructuring and recovery, if I am not mistaken. So basically, we have restructured three large accounts this year and successfully restructured them, we aggregated it to a maximum much closer to 100% debt acquisition and then we have implemented the restructuring. In terms of closures we closed three accounts successfully with an IRR ranging from 22% to 30%. And if you look at our revenues, 63% of them is from restructured accounts. So as far as our restructuring and recoveries are concerned they are on track for almost all the accounts.

Dhaval Gada: So, amongst the major cases anything that you expect in the next may be 6 to 12 months that we can see in big names that we have in our portfolio?

Vishal Kampani: Yes, as I said two of the big names we have already restructured, the third big name we would be restructuring this year and there would be revenue flowing in from these accounts. So I think we are actually in a very positive cycle in the ARC, right, having invested a lot of capital in the last four years you will really see the reaping of benefits of their investment over the next four years. And we also have this unbelievable opportunity of adding a lot of assets in the next 18 months. So it is a lot of focus on the ARC for us over the next two years.

On the SME side we are a new entrant, it is a very good business long-term but I must tell you it is hyper competitive, it is one space where we had taller targets and we have not achieved those targets, but having said that, we are still long-term focused on the same. LAP pricing is absolutely ridiculous on our risk adjusted basis, it is very, very hard at least for a double AA lender to be able to effectively make yield if you are actually underwriting a quality LAP portfolio. So having said that we are still screeching and searching hard to build that business and we will not lose our longer-term vision. But if you ask me, we will be very aggressively grow that book over the next two to three to four quarters, no we will not because we see a more risk in that segment as compared to real-estate or corporate or capital market lending.

Dhaval Gada: Just one follow-up on the SME question, so we have had a good investment this quarter and is reflected in the OPEX, so till what point should we see rise in OPEX related to this business and normalization in OPEX thereafter just related to this business, I mean some color on around how OPEX growth can pan out for FY19?

Vishal Kampani: Yes, so as I said it is still small even though we have invested, and we have invested in most of the critical parts of the business. So where the ramp-up needs to happen now is more on the origination side, so we have the risk team in place, we have the centralized operations team in place, we have already started building on the collections piece of it where we are lending. But the important point is how fast we expand into different branches and how fast we expand into different territories and that would be the incremental OPEX and we will take a very measured view on the same saying that risk adjusted returns we can make in those segments. And as I said earlier, currently it is not favoring the lender, it is actually favoring the borrower.

Dhaval Gada: Sure. Just one lat question on the ARC business, you mentioned there will be another round of capital infusion probably in FY19, would that also be a rights issue?

Vishal Kampani: That is right; it is will be a rights issue.

Moderator: Thank you. Our next question is from the line of Shubhranshu Mishra from Motilal Oswal. Please go ahead.

Shubhranshu Mishra: I wanted the breakup of Investment Banking, Wealth Management and Security business for fourth quarter as well as the full year?

Vishal Kampani: Yes, so we are not giving out that breakup. We report it as one business.

Shubhranshu Mishra: Okay, in that case my question would have been, what kind of yields are you seeing on your asset under advise and Wealth Management.

Vishal Kampani: It is roughly 85 bps on a gross basis and 42 bps on a net basis.

Shubhranshu Mishra: Right. And your split in your Securities business between offshore and domestic, if that can be understood?

Vishal Kampani: We do not have an offshore business. All our business is onshore.

Shubhranshu Mishra: It is 100% onshore?

Vishal Kampani: 100% onshore.

Shubhranshu Mishra: And your outlook on the Investment Banking, basically the capital markets, Investment Banking, Wealth Management as well as the Securities business for the next one year?

Vishal Kampani: Yes, I think we have a positive outlook on the IWS business, our pipeline is extremely strong but as we all know that there is expected volatility this year, we have large impending election, we have macros which are kind of against the tide with crude growing up the pressure on India is a lot more compared to some of the other emerging markets. We have seen some amount of reversal of flows from the FII category of investors. Having said that, domestic flows remain pretty healthy and strong and that is helping the deal pipeline getting executed. On the private equity side some of the global private equity funds have raised the largest amount of capital they have ever raised in their history and they are really keen, I mean I have talked to almost the top 10 funds and they are all very keen to put a lot of capital into India and they are very bullish on India from a longer term perspective. So I think most of these investors in the segment on the capital market side look very positive, but we of course have a few macro headwinds that we have to be careful of. But having said that, as I said, our pipeline remains very strong. On the Wealth Management piece our challenges remain the same, I think the yield as I mentioned today largely comes out of broking and largely comes out of lending. The yield which comes out of stable advisory fee in India in Wealth Management is very, very low, and therefore you have to be very careful when you are adding talent, when you are adding people on the Wealth Management side because the payoff at times is very delayed. And if there is a volatile market or a turn in the equity markets that can really hurt your profitability. So yes, there is a big long-term opportunity, but you have to grow into it very carefully.

Shubhranshu Mishra: And just one question taking a cue from your responses, given you have mentioned that most of our Securities business is domestic based and the flows are increasing, so isn't it likely that your yields would be under pressure in your Securities business?

Vishal Kampani: No, the yields are under pressure on everybody's Securities business, I mean on the pure broking side yields have come under pressure, I think I have not seen any other business, any other yield in the last 10 years come under more pressure than the secondary market broking business. But having said that, at least so far, the volumes have been compensating for the same. . Domestic liquidity is strong because of demonetization lot of the flows are coming into official channels like mutual funds, so that is of course helping the business. And for a house like us being very, very strong on the equity capital markets side, we are able to use that distribution to two effects, not just secondary market business but also primary market business which obviously gives us a much higher yield on a combined basis when you look at Investment Banking and Securities.

Moderator: Thank you. Our next question is from the line of Mahrukh Adajania from IDFC Securities. Please go ahead.

Mahrukh Adajania: I just had a few questions, firstly if you could elaborate your strategy on the Asset Management side, that is my first question.

Vishal Kampani: So, let me start by saying that we are extremely profitable Asset Management business and the reason we are very profitable is because we focused on innovative product strategy and a low cost distribution strategy where we have managed to make sure that we do as much of direct distribution as possible. And as I mentioned on the calls earlier, what that means is that a large part of our AUMs that we generate is actually from corporate and high net-worth and very low from retail, so our retail AUM is less than 20% of our AUM while our corporate and our HNI is almost at 80%. But having said that, that is actually helping us being very profitable and keeping ourselves very profitable. So we have to at some point in the next two or three years decide on a strategy whether we actually go down retail, we are number 16 or number 17 in terms of AUM but that really does not matter because the top six, seven funds are almost 60% - 70% of the market in terms of AUM. So to try and reach there it would mean a lot of capital burn and as you know quite well, Mahrukh, we are not in the business of burning capital and trying to find profit one day five or seven years down the line. So I think our strategy will be focused more on the alternative side and also focused more on more innovative products coming out of our assets management table. And that will be a more profitable strategy which we like to focus on rather than just gun for a large amount of AUM. We have also been interestingly looking at a few acquisitions recently which has been talked about in the market and it is just very, very difficult to justify the kind of premiums that players are asking for these businesses, because it is very hard to predict on a pure mutual fund business when the tide will turn and how you will lose assets and really do you have long-term high-quality customers. So I think outside of the top six, seven players, I think the strategy for any asset manager should be to focus on profitability and not on size.

Mahrukh Adajania: And the other question is, this whole PSU opportunity which you obviously addressed in the first half of the call also, the entire PSU opportunity has been there for a while for NBFCs and even for banks and it has probably strengthened now after scams and other events. Large banks or even very large NBFCs do not seem to be jumping into it in any big way, so even in banks growing their corporate pie. There is always a pie, but do you see growth being accelerated in a big way immediately say in FY19 or is it a longer term story?

Vishal Kampani: Two things, I think one is clearly it is a longer term story and I think if you basically look at India right now there are a bunch of banks which are getting 70% to 80% of India's deposits and then there is another bunch of banks which are getting 20% to 30% of India's deposits but the bank is getting 20% to 30% of India's deposits have to perform the lending function for 70% to 80% of India's credit growth. And that is not going to continue, because if that happens then there is going to be some systemic problem later three to four years from now for those large banks who are going to try and perform this credit growth. So if we look at that there is obviously a need for new institutions and a new sort of alternative lending channel to be created in the country over the next three to five years, and that is already in shape, it is people like us and a lot more NBFCs who you cover, a lot more smaller private banks who you cover who will actually fill that space. But having said that there has also been a lot of events in the last 12 to 13 months, 14 months including demonetization, GST, RERA and many of these things and IBC which has kind of slowed down the growth in credit. So I think if growth in credit picks up it is going to be a bigger positive for the private banks and NBFCs like ourselves. Coming to a specific question on JM, I think I am very bullish on the corporate side as well as the real-estate side, and I think there is a tremendous opportunity for us to be able to grow. Third, our balance sheet sizes are much larger, if you add up the net worth of JM plus its subsidiaries we will have larger net worth than many of the banks today. So our ability to be able to underwrite, structure do transactions is very differentiated from what it was five to seven years ago, our liability side is completely matured, 66% of our borrowings are long-term, in affect if you have Rs. 15,000 crores of borrowings you have Rs. 10,000 crores of long-term borrowing, so we have almost every bank, every mutual fund in the country funding us. So lot of things have changed, so the base that you are looking at today versus what you saw five years down the line and what you will see five years ahead from now would be very different.

Mahrukh Adajania: Sir one more question in terms of IFRS, so what is the status and what would be the impact when it is implemented?

Vishal Kampani: So this your IndAS question, right?

Mahrukh Adajania: Yes.

Vishal Kampani: So we will have two impacts, one is our JM Financial Credit Solutions is a joint venture with Vikram Pandit & Associates, so we will have to figure out how the accounting for that will work because today we are consolidating the same and tomorrow we may be just consolidating the net profit and not the revenues. And the second impact will be on our ARC business, so our ARC business we have a lot of trust and we have investments of our SRs through all these trusts and we are working on getting clarity on the consolidation of the same, do we only consolidate the ARC's result or do we have to consolidate the ARC and the Trusts results. So we will keep the group posted, we will keep our investors posted as we evolve over time.

Mahrukh Adajania: Okay, but there is no clarity on when it is going to be implemented, because RBI said MCA has to decide.

Vishal Kampani: Yes, so we are also waiting just like you.

Mahrukh Adajania: And just one last question in terms of any listing of subsidiaries?

Vishal Kampani: No, nothing planned for the next three years.

Moderator: Thank you. Our next question is from the line of Nishchint C from Kotak Securities. Please go ahead.

Nishchint C: Just one small question, on the wealth side are you still in the investing phase or are you making money in that?

Vishal Kampani: So, I would say we are in a strategizing phase today and I would imagine that next quarter onwards we will be in heavy investing phase.

Nishchint C: And you intend to kind of breakeven in next few years or how should one think about it?

Vishal Kampani: No, we are already very profitable, it is about how we can use these profits to bolster our growth. So each and every of our Securities business whether it is Wealth Management, whether it is equity broking, whether it is ECM, whether it is M&A, and pure Investment Banking fees, all of them are profitable.

Nishchint C: And this is the ultra HNI net worth or which segment are you really focusing on?

Vishal Kampani: So we are largely focused on ultra high net worth segment today.

Nishchint C: And just one more question, this was on you said five clusters across Maharashtra and Gujarat in the HFC business, so just trying to really understand this and does it kind of lead to any kind of concentration risk? Thank you.

Vishal Kampani: No, because our book is very small, our expected loan from these five geographies are currently Rs. 100 crores in this quarter. So as the book expands we will not focus on just these five geographies, we will rapidly expand across more and more geographies, in fact our plan will be to be at 15 geographies by 31st March 2019.

Nishchint C: And this is HFC origination or…?

Vishal Kampani: It is a combination.

Moderator: Thank you. Our next question is from the line of Jasdeep Walia from Infina Finance. Please go ahead.

Jasdeep Walia: Sir, wanted to ask about housing finance business, is there any synergy between the Real-Estate Developer Financing business and the Housing Financing business? So can your developer Financing business help drive better and faster growth in the housing finance business or may be underwrite better quality credit or let's say lower the distribution cost or something like that?

Vishal Kampani: Okay. So if you would have asked me this question two years ago my answer would have been flat no, and if you ask me this question two years from now I would imagine there will be anywhere between 15% to 20% of book strategies which will be complimentary. The reason is we have not underwritten on the wholesale side a lot of affordable housing, truly affordable housing finance projects because the wholesale side has a view that het margin on those projects are very, very low and the constraints are very high, you have to have large land parcels, you have to have enough of urban infrastructure, you have to have enough of rail and road transport connecting some of these places. And the retail side is doing an average ticket size loan of around Rs. 10 lakhs, which means even if we include PMAY benefits, etc, etc, the ticket size of the home is not more than Rs. 25 lakhs. So in the last two years and as of now these synergies are very, very low. Having said that, on the wholesale side we are working on models to work and figure out that how we can bag some of our client base today who wants to grow on the affordable housing finance side. And if we are going to bank our clients of today who are we comfortable with to grow on the affordable housing finance side then there will be tremendous synergies between those projects as well as our retail housing finance business. So let us see how that pans out, I think this question will have a better answer two years from now.

Jasdeep Walia: And in your presentation where you mentioned numbers for your AMC business, annual numbers, I believe net worth has gone down YoY from Rs. 221 crores to Rs. 185 crores.

Vishal Kampani: Yes, so we have done a buyback and paid dividend so that is the reason why.

Moderator: Thank you. Sir, this was the last question in the queue. If you would like to add your closing comments before we close.

Vishal Kampani: Yes, so I thank all the participants for taking time to attend this call. And in case there are any specific questions or any other concerns that any of you have, please feel free to reach out to us in our investor relations page. Thank you again very much for participating on this call.

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