JM Financial Limited

Q4 FY19 Earnings Conference Call

May 03, 2019

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MR. MANISH SHETH – CFO, JM FINANCIAL LIMITED
MR. SHASHWAT BELAPURKAR – CEO, JM FINANCIAL CREDIT SOLUTIONS LIMITED
MR. ANIL BHATIA – CEO, JM FINANCIAL ASSET RECONSTRUCTION COMPANY LIMITED
MR. SUBODH SHINKAR – CEO, INVESTMENT ADVISORY BUSINESS
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Moderator: Ladies and gentlemen, good day and welcome to the earnings call to discuss the JM financial Limited's financial performance for the quarter and full year ended March 31st 2019. As a reminder, all participant lines will be in the listen-only mode. 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 '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now glad to hand the conference over to Mr. Vishal Kampani, Managing Director of 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 annual conference call of JM Financial Limited to discuss the financial results both for the fourth quarter and full year ended 2018-2019. I hope you all have had a chance to go through our presentation, press release and results. These have been uploaded on our website and also on the stock exchanges.

I have with me here Mr. Manish Sheth – our Group CFO; Shashwat Belapurkar – CEO of JM Financial Credit Solutions of real-estate lending business; Anil Bhatia – CEO of our Asset Reconstruction Business; Subodh Shinkar – CEO of Investment Advisory Business; Gitanjali Mirchandani – Head of Origination for JM Financial Credit Solutions; Sonia Dasgupta who runs our borrowings and Swapna Dey who runs our Structured Finance group.

As you would know, we have adopted IndAS reporting from this financial year. As per IndAS, our segments have been reclassified into the following; investment banking, wealth management and securities business which amongst other things will also include the loan book to these clients. We look at these segments on an integrated basis.

Mortgage lending, the segment includes wholesale real-estate segment which includes our construction finance vertical and retail mortgages which includes our home loans, SME and education institution lending.

Distressed credit, the segment is the asset reconstruction business.

Asset management, this is the mutual fund business.

I shall now provide an update on the performance of our businesses, post which Manish will take you through our financial numbers and then we can have a question and answer session.

Our consolidated revenue for full year ended FY19 is at Rs. 3,579 crores which is up 15.6% on a year-on-year basis. Our profit after tax for FY19 was at Rs. 572 crores which has decreased by around 5% year-on-year. Consolidated loan book stands at Rs. 14,107 crores which is again approximately down 5% year-on-year. The breakup of the loan book is as follows:

- 72% comprises of wholesale mortgages which is approximately Rs.10,131 crores. The wholesale mortgage book registered a year-on-year growth of approximately 9.4%.
- 7.6% comprises of capital market lending which is approximately Rs.1,078 crores. The capital market book has registered a year-on-year degrowth of 53.8%. One must keep in mind that this is the book which is largely funded by commercial paper borrowings.
- 16.4% comprises of corporate lending which is Rs. 2,317 crores. The corporate lending book has registered a year-on-year degrowth of 15.6%. Again, one must keep in mind that this book includes a promoter financing book which is largely assets of less than one year maturity, again funded by commercial paper.
- 4.1% comprises of retail mortgages which is Rs. 581 crores, the book has registered a year-on-year growth of 34.5%. This book comprises of retail housing loans, education loans as well as SME LAP funding.

The gross NPA ratio of the lending businesses currently stands at 0.7%. Our consolidated debt equity stands at 1.94x and our net debt to equity currently stands at 1.69x which is as of March 2019. During this quarter, we acquired an additional stake of 2.18% in JM Financial Asset Reconstruction Company Limited. Our borrowing mix stands at 73% long-term borrowing and 27% short-term borrowing as of March 2019. Our commercial paper borrowings have reduced from approximately 6,500 crores in September 2018 to approximately Rs. 3,100 crores in March 2019. Our commercial borrowings have reduced to 23% of total borrowing in March 2019 from 37% of total borrowing in September 2018. In financial year 2019, we raised approximately 1,014 crores through a public issue of bonds.

Before we share the financials for FY19, I will take you through a brief update on the performance of each of the group's verticals. We start with the IWS segment. For FY19, this segment had revenues of Rs. 1,635 crores with a profit before tax of Rs. 378 crores. The business contributed 29.4% to our group's PBT for FY19. PAT from this segment reduced to Rs.240 crores for FY19 as compared to 398 crores for FY18. The assets under advice of our wealth management business stand at Rs. 41,886 crores excluding custody assets. The equity assets under advice have increased by 4% year-on-year and they are at Rs. 12,341 crores. The average daily turnover increased to approximately Rs. 5,820 crores in the quarter ended March FY19. The loan book for the segment stands at Rs. 5,627 crores which has seen de-growth of 24%. The gross debt equity for the IWS segment is at 2.2x as of March 31st 2019 and the net debt to equity is at 1.8x for the same period.

Moving onto the second group vertical which is the mortgage lending business. For FY19, the segment had revenues of Rs. 1,291 crores with a profit before tax of Rs. 620 crores. The business contributed to 48.3% of our group's PBT for FY19. Profit after tax from this segment grew to Rs. 190 crores for FY19. Our loan book stands at Rs. 8,324 crores which is an increase of 13.2% Y-o-Y. The gross debt to equity for mortgage lending business segment stands at 1.9x and the net debt to equity is at 1.74x for the same period.

Coming to our ARC business, our AUM for March 2019 has grown by 8.3% year-on-year to Rs. 14,044 crores. JM Financial ARC's contribution to the outstanding SR stood at Rs. 2,939 crores which is an increase of 48% year-on-year. For FY19, the segment had revenues of Rs. 560 crores with a profit before tax of Rs. 201 crores. The business has contributed approximately 16% to our group's PBT for FY19. The profit after tax from this segment grew to Rs. 95 crores for FY19. The debt equity for distressed credit segment stands at 1.99x for March 31st 2019.

Moving onto the asset management business which comprises of our mutual fund. For FY19, the segment had revenues of Rs. 94 crores with a profit before tax of Rs. 57 crores. The business contributed 4.4% to our group's PBT for FY19. PAT from this segment reduced to Rs. 25 crores for FY19 as compared to Rs. 36 crores for FY18. The average quarterly AUM of the mutual funds is Rs. 8,712 crores comprising Rs. 5,659 crores in equity schemes and Rs. 3,053 crores in debt schemes. We have seen a significant reduction in our liquid schemes AUM as well as certain debt schemes AUM as well as our arbitrage scheme AUM.

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 expectation; however, the actual results may vary significantly and therefore the accuracy or completeness of these expectations cannot be guaranteed. As you may be aware, the maiden public issue of NCDs of JM Financial Products Limited is currently open for subscription and so we will not be able to respond to any specific queries pertaining to the said company until the closure of the issue.

Now, let me take you through the group's results which were announced yesterday and are available on our website. In Q4 FY19, our revenue grew by 7.1% Y-on-Y to Rs. 953 crores from Rs. 890 crores. The Q4 FY19 PBT is at Rs. 245 crores which is an increase of 3.2% Y-on-Y. Our Q4 FY19 PAT reduced by 22.4% Y-on-Y from Rs.166 crores to Rs. 129 crores. With regard to the full year for FY19, gross revenue is Rs.3,579 crores and a net consolidated profit is Rs.572 crores. These represent an EPS of Rs.6.82 versus Rs. 7.48 for the same period last year. As of 31st March 2019, the net worth is Rs.5,079 crores which is a book value of Rs. 60.47 per share. The group's finance cost has increased to Rs. 1,446 crores as against Rs.1,139 crores during the previous year primarily on account of increasing borrowings and borrowing rates. Our cost of funds stood at 9.2% compared to 8.7% year-on-year basis.

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

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Shubhanshu Mishra from BOB Capital. Please go ahead.

Shubhanshu Mishra: I have a couple of questions. You have around 74% of the book against residential project, so just wanted to understand out of these residential projects, how many are operational and how many are under construction at the moment? That is the first. Second is, what is the split between construction finance and LRD in this particular business and how do you ringfence your cash flows in either cases, whether it is a construction finance or LRD?

Vishal Kampani: So on the first question, I think large part of our projects would be operational on the construction finance side. The number will be close to 70 to 75%. In CF versus LRD, we don't do any LRD loans because LRD is very low yielding product. For your last question, Gitanjali would take on the last question.

Gitanjali Mirchandani: With regards to how do we ring-fence the cash flows of a particular project, one RERA has made that easier for us now because all the collections which come from a project has to be deposited in the RERA account, post which we have our escrow mechanism which we put in place for each of those projects where 100% of the collections which come into the escrow and depending on the standing instructions which we agree upon with the borrower, the split is made between what is appropriated towards the loan and what is allowed for construction. At no point in time, if any amount allowed for takeout, the amount is either used for repayment or it is used for construction of the project for which it is lend.

Shubhanshu Mishra: And this morning, we read about the downgrade of Lodha Developers, any exposure to this particular name or any other name in MMR where the ticket sizes are upwards of Rs. 10,000 a square feet?

Vishal Kampani: This is a question we will have to go into lot of details. We will have few projects which have Rs. 10,000 a square feet plus ticket size. Lodha Developers, our exposure of 80 crores odd and all of the exposures against ready completed inventory as current cover stands at over 2.25 times, we are not very worried about Lodha. Around Rs. 10,000 a square feet, we will have to come back to you separately on what percentage would be above that number.

Shubhanshu Mishra: My second question is with regards to the wealth management business, just wanted to understand what is the cost to income ratio and what are the gross yields and the bottom line yields over here?

Vishal Kampani: Subodh will take that question.

Subodh Shinkar: So, today all along we have been essentially profitable on the wealth management side and cost to income ratio, around 65% roughly is the cost to our overall net revenue and not the gross revenue. I hope I have answered your question.

Shubhanshu Mishra: And what would be the yield sir on the assets under advice?

Subodh Shinkar: So our net yield works out to be roughly around 13 basis points on the overall assets, the gross yields being roughly around 15 basis points.

Shubhanshu Mishra: And you have around 54 wealth managers, what is the average vintage of this relationship manager?

Subodh Shinkar: So I would say that roughly around more than 40 people in this group would have experience of more than 10 years in the capital market side and are pretty seasoned in terms of wealth management side. Many of them have spent most of those 8 or 10 years with JM.

Shubhanshu Mishra: And sir, my last question is with regards to your AMC business, we have seen large redemption here from the third quarter to the fourth quarter, how do we look at the outlook of the AMC business going forward and what are the kind of negotiations that you are having with the distributors for the TER split?

Vishal Kampani: Negotiations obviously very specific. We can't comment on are they negotiating with the distributor, but the AUM has dropped in certain schemes and arbitrage scheme because the yields have been relatively lower because of the market and second we have lost some AUM in our liquid schemes, so the profitability has not been dented so much and we hope to pick it up over the next two quarters.

Shubhanshu Mishra: No sir, did you classify your liquid schemes in your equity schemes because your debt scheme looks comparable on a Q-o-Q basis, your equity has come down?

Vishal Kampani: That will be at Y-o-Y, let me look at Q-o-Q, sorry. The arbitrage has dropped on the Q-o-Q basis which is classified under equity but arbitrage as you know does not make the same returns as equity. It makes a lot lower it on compared to equity scheme.

Shubhanshu Mishra: So this entire thing is redemption in the arbitrage scheme?

Vishal Kampani: Yes, large part of it. The arbitrage scheme has gone down from almost Rs.3,600 crores to Rs.793 crores on a year on year basis on a quarter on quarter basis, the arbitrage and other equity schemes has gone down from almost Rs. 8,357crores to Rs. 5,659 crores.

Shubhanshu Mishra: And what has been the net new money in your wealth management and what is the outlook for that in the fiscal 20?

Vishal Kampani: The net new money addition has been there in equity despite correction in some schemes, especially in the mid cap and small cap side. The long-term outlook I would say is very robust and strong, but the short-term outlook obviously we have been very watchful. I mean you pretty much know what is happening in the mutual fund space. There is lots of redemption going on in profitable credit funds and there is obviously lot of redemption going on in smaller funds and so it is very hard to take a call over the next quarter to quarter.

Shubhanshu Mishra: No sir, I am not asking for the long term, I understand the long term, I am asking ballpark numbers for fiscal 20?

Vishal Kampani: You can assume 15 to 20% growth for our lending book.

Shubhanshu Mishra: And what has been the net new money in fiscal 19, sir?

Vishal Kampani: Roughly around 15% I would say and there has been a fall in the values because as we know that during the year, there has been equity values have dropped and hence there will be adjustment. Secondly, even the liquid funds part, we towards the year end has little bit reduced, so overall our 15% growth has been there as far as the net new money is concerned.

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

Mahrukh Adajania: I just wanted the geographic breakdown on the loan portfolio, not of disbursals of the loan portfolio and in terms of your ARC, there has been a lot of drag on resolutions through the NCLT route, so your views and the impact of that on your own future profitability of the ARC?

Vishal Kampani: The split by geography for real estate is the following. We have 37.3% Mumbai, 29.4% Bangalore, 9.6% Chennai, 8.1% Pune, 7.6% NCR, 4.7% Kolkata, 2.8% Hyderabad and 0.6% rest of India, so that is the split of the entire real estate book. On the ARC, yes there has been delay in a lot of resolutions. Some of it is in the process and some of it is because of NCLT related issues, so yes, if you would have assumed certain timeline in the past, there is probably a delay more than 70 to 80% of the resolutions which are underway.

Mahrukh Adajania: Do you still see the profitability of the ARC growing healthily on the current base?

Vishal Kampani: Yes, what happens is when you have a delay in resolution there are actually two reasons, right. So one reason could be because there is more competitive bidding, so if there is more competitive bidding then the IR impact is lower because there is someone who is willing to offer a higher price and because he wants to give a higher price he is delaying the process. The second could be really dealing with the older promoter who is challenging the process of how NCLT has managed the sale of its asset and if he is challenging and then there is obviously a risk because your current buyer may walk away or your current buyer may not want to pay it if there is a delay in the process, so that is more of a frustration strategy which is sometimes implemented by either the older promoter or may be a competitive bidder, so those cases we have to obviously watch more carefully, so these are the two principal reasons why we see a delay in the resolution and one is the positive sign and one is the negative sign. Long-term impact, I don’t see too much of long-term impact on the profitability of the ARC, I think that should be intact because we had seen this in the past and frankly IBC is still a lot better as compared to a non-IBC scenario where we used to spend much more time on fixing these bad assets there.

Mahrukh Adajania: And just one last question on the NCR, since you don't have a very large exposure there, there is too much of news flow on many accounts in the NCR, some of them have been direct to the NCLT, some of them look very stressed. Do you think a lot of them could go under, say in the next 6 to 9 months because there is a lot of investment there?

Vishal Kampani: That is correct and that is the prime reason why we chose to stay away from NCR at the last 5, 6, 7 years. We have seen trouble and we have seen very low LTV lending, we have seen a lot of land lending and so basically NCR probably has the highest share of risky lending in real estate in India and that is what you are seeing coming out in terms of bad assets today.

Mahrukh Adajania: And risky as in terms of LTVs, land?

Vishal Kampani: Yes, in terms of both because the land flow in NCR can be uncontrollable unlike, say Mumbai, so it is very hard to figure out what the right LTV or a land parcel should be in NCR and generally because there has been a lot of interest built in loans from other NBFCs and other lenders in the market, say if your account for all the interest payments that have been done over the last many quarters, then in my view, there is very low LTV left on many of those norms, so it is a very high risk.

Moderator: Thank you. The next question is from the line of Siddharth Singh from SeaLink Capital Partners. Please go ahead.

Siddharth Singh: My first question is with respect to the line item called net loss on fair value changes which is on fixed on the consolidated P&L, could you please provide more colour on this?

Manish Sheth: So net loss on fair value changes on a consolidated basis for the quarter was Rs.183 crores, so this includes, we have exercised the choice which is given under IndAS at the beginning of the year that all the investments what we have, we will do everything fair value and we will take that P&L gain or loss through the P&L and not from the other comprehensive income, hence the P&L is showing the loss on fair value changes if any. So for the quarter, there is a loss on the fair value, we have fair value some of the equity investments and some of the SR investments which we hold through our subsidiary JM Financial ARC and that debit has been taken through the quarter 4 in terms of our net value on the fair value changes.

Siddharth Singh: Sir, that is the accounting part, but can you provide more colour, is this more driven by a treasury investments or are these just collateral that you have, I know in the last conference call, there was something about net flow?

Manish Sheth: No, these are actually part of the SR investments that we hold in our ARC and these are valued, so you may have higher value in FY18, you may have a lower value in FY19 and a higher value again in FY20. These are all subject to fair values, which are done by third party rating agencies and then we subject what we think the conservative fair value should be. In addition to that, we also have equity portfolio and large part of the equity portfolio, almost 95% of it is holding in national stock exchange and we have also provided a fair value estimate based on the previous quarter crisis when national stock exchange stock has been traded and that goes into the fair value change.

Siddharth Singh: And the underlying business assumption here being is that we will hold these through maturity or through resolution and therefore this is only fair value adjustment?

Vishal Kampani: That is absolutely correct. We will hold them through maturity and therefore they may fluctuate on a quarterly quarter basis and we are taking it through a P&L, we are not making net worth adjustments to it.

Siddharth Singh: The second one just this Rs.-14 crores impairment of financial instruments which is actually a profit, where is this coming from?

Vishal Kampani: This is the ECL, expected credit loss that is on IndAS, instead of NPA provisioning under IndAS, you have to provide for based on ECL and this is nothing but ECL credit because the loan book has come down and hence your earlier provision has got reversed to that extent in the current quarter.

Siddharth Singh: Just one more question on this stage, so the delta between adjusted profit of Rs.147 crores and net profit of Rs.129 crores, what accounts for that diminution in fair value because there is Rs.183 crores which has happened at the top, so what is driving this delta?

Manish Sheth: So that has been explained in the note. What we have adjusted is what Vishal said that some of the equity investments which is told till kind of long term. If you remove that market, the adjusted net profit would have been Rs.147 crores. We have not changed or adjusted the SR valuation because this is we believe part of the normal business upside and down.

Vishal Kampani: This is largely due to national stock exchange investment and some other investments.

Siddharth Singh: One more question on the overall SMA 2, Vishal last time, you made a remark that you would be worried if the SMA-2 remains at 1.5% or higher than that for a consistent period of time and it has been 3 quarters when the SMA-2 has been high, so how are you viewing that now?

Vishal Kampani: As I said, we have seen de-growth in our real-estate book, we have been very careful in adding new accounts in a real-estate book. There is clearly higher risk in the system, there is no doubt and we are monitoring and watching it very closely. Having said that I think our asset quality still continues to perform very well. We are not overly concerned about any city except for Chennai which was the case even last quarter and I think we should be able to manage that these kind of SMA doubles. I think my concern was not on 1.5, I said SMA-2 breaking out to 5% would be very concerning. If it remains at 1.5, I think it is quite healthier. In the last 7 to 8 years of our lending, I think we would have seen 1.5% SMA very often in real estate, extremely often. That is the nature of the business because it is very project and sales based and the sales are not like a manufacturing company or a consumer company where sales flow in every month, right. There are quarters when you have sales and there are quarters when there are weak sales, so we will all live with higher SMA number and 5% is what would worry me, 1.5 is not something that worries me.

Siddharth Singh: And just from a mechanic's perspective, if somebody was in SMA-2 account in the last quarter and the payments are coming on with the delay of let us say a month or 2 that client become a NPA because the delay has been now there for more than 90 days or when the client comes and say that they are SMA-2?

Vishal Kampani: No, it sits as SMA-2, but if it continues beyond 3 months, then it becomes an NPA.

Siddharth Singh: So the 1.6% that we had in the previous quarter, they have either become regular and the new customers has become SMA-2 in the 1.6%?

Vishal Kampani: That is correct.

Siddharth Singh: And just last, Vishal if you could just provide some more colour on growth over the next, let us say 4 quarters still when do you think this liquidity issues will subside and is there an impact coming through on the demand side?

Vishal Kampani: That is a good question. There is some impact definitely coming through on the demand side. It is very visible. If you look at the auto sector being very important, the raw material whether it is commercial vehicles, passenger vehicles or two and three wheeler vehicles, even if you look at the consumer sector, there have been some soft warnings from FMCG companies and if you look at some of the results, the underlying zone clearly tells you that there is some small bit of demand shock which is visible. The liquidity scenario is actually very volatile, so you have month of very good short-term liquidity and then you can have a week where there is no mutual fund standing up to give you even one crore for one month, so it is very volatile. It is still very challenging, so we will still be holding significant amounts of cash. We are currently holding almost Rs. 2,350 crores of cash and cash equivalents and I think we will continue doing that for maybe at least 2 quarters more, but having said that I think we are in a very good position from a debt equity perspective, from an asset quality perspective and I think the response that we are getting from banks, our own NCD issue which have seen a lot of good retail demand as well as mutual funds when they stand up to lend, I think is one of the best in class in the AA category and I think we have already begun taking advantage of that some bit in the month of April, the first month of this year and we hope to continue with that. So we have always guided 15 to 20% growth over the long term and I am hopeful that we should be able to achieve this kind of number this year, obviously assuming that post-election, things look better and there is some demand recovery at least in the second half of the year.

Moderator: Thank you. The next question is from the line of Anusha Raheja from LKP Securities. Please go ahead.

Anusha Raheja: First thing on the profitability of the ARC, on the sequential basis the PAT has come down, so what is the reason for that?

Vishal Kampani: The PAT has come down on a Y-o-Y or Q-on-Q basis?

Anusha Raheja: On sequential basis, Q-on-Q basis.

Vishal Kampani: That will be heavy provisioning that we have done, so in all the accounts where we feel delay in terms of resolution, all we have seen that the price expectation that we had from asset sales is going to be a lot lower compared to where we had estimated. We have provided for all those accounts in Q4 of FY19 and therefore Q-on-Q, you have seen an impact on profitability and if you would have not provided for these loans, then obviously the profit numbers would have been much higher, so I think it is more prudent to be more conservative and provide on SRs where we don't see the same level of interest or value in terms of redemption.

Anusha Raheja: And your view on the latest development with respect to Brookfield acquiring hotel Leela, I think there is some road block due to ITC, so what is the take on that?

Vishal Kampani: So the matter is in court, so I am not at liberty of discussing that openly, but let us see how the situation evolves.

Anusha Raheja: And what have been your incremental rates at which you are borrowing currently?

Vishal Kampani: So our short-term borrowings are roughly at 9% and our longer-term borrowings are around 100 basis points higher. Our public issue of bonds for JM Financial Products which is opened is 10.51% for 5-year paper and it is 10.20% for 3-year paper. On the private side, if you were to borrow, the rates will be approximately plus minus 25 basis points from those levels.

Anusha Raheja: So largely the rates have remained stable as compared to the last quarter?

Vishal Kampani: As I told you, in the short-term side rates fluctuate a lot, you can literally have a 30 to 40 basis points fluctuation on a month-on-month basis and maybe 20 to 25 basis points fluctuation on a week-to-week basis. On the long-term side, we are clearly seeing an escalation in borrowing cost across banks. Almost every single bank that is lend to use were exposure to versus increased rates in the last 4 months, so which is a clear sign that over this year, our borrowing cost will go up. Now, we have a good short-term mix and we need to keep a good short-term mix because we have a lot of short-term assets on our balance sheet, so the short-term can fluctuate as I said 40 to 50 basis points, but on the longer-term side, you should clearly assume that the escalation could be another 50 basis points over the next 6 months here, so overall I would not be surprised if our overall borrowing costs are up anywhere between 40 to 60 basis points over the year.

Anusha Raheja: I mean another 40 to 50 basis points to the current levels?

Vishal Kampani: Correct. When we are building our assets, this is exactly what we are factoring in because we have to obviously maintain certain spreads and with those spreads, we have to maintain asset quality and that is the real challenge, so as an NBFC, when your borrowing cost are up, you have a large portion of your clients which are very high-quality customers, so it becomes very difficult to pass on higher rates to them, so you have to manage your book in a very dynamic way such as you are at least able to protect your spreads without adding disproportionately higher risk.

Anusha Raheja: That is good that you have been conservative, but you don't foresee any improvement in the liquidity scenario next fiscal or you are building the more worse scenario?

Vishal Kampani: I think lot of the events that were concerning all of us in the capital markets and generally in the banking space also, if you look back last 6 months, I think each of those events has played out or is playing out. I am not aware of any large exposure or any other large event that can play out and really hurt the sentiment or the confidence of people who want to lend and specifically lend below the AAA category, so I think the scenario should improve. On my last call which was 6 months ago, I had mentioned that we will take a view in another 6 to 8 weeks because we were just 4 weeks into the liquidity crisis when I had the call. When those 4 to 8 weeks got completed, we decided that we want to go down a model to de-grow our assets because we are seeing the environment being more challenging and as you can see from our numbers as we significantly de-grown our assets and brought down our debt equity as well as brought down our commercial paper exposure and that I think was a wise decision then. If you were to ask me the same question today, I think we will increase our lending, we stand differentiated, we are getting access to money, albeit slightly expensive, but I think we will be in a mode right now to grow our book and that has already happened in the beginning of this financial year and we want to see how that continues but I think we will grow our book Q-on-Q going forward and liquidity scenarios over the next 4 to 6 months should ease up further.

Moderator: Thank you. The next question is from the line of Bhavik Dave from Reliance Mutual Fund. Please go ahead.

Bhavik Dave: Sir, just on your growth that you mentioned of 15 to 20% and the long-term especially in the near term in the next 3 to 4 quarters, remember we used to mention that growth will come from existing clients and increasing deepening our relationship with them, does that stand whole to you even today or whatever growth we have seen in the mortgage business?

Vishal Kampani: Correct. I think 15% growth is easily maintainable from my existing clients and may be adding a few new ones, 15% growth will not be a challenge. I think our existing client base is good enough to take care of.

Bhavik Dave: And on the consolidated basis like we have seen a sharp decline quarter-on-quarter, so the capital market business, will that continue to remain in this trajectory of being flattish or de-growing from year on as well?

Vishal Kampani: That is a very good question. You have seen the maximum decline in our capital market book and that call we will closely take after the elections, so we have a lot of clients, we have lot of retail franchises, retail branches and a lot of people are waiting to decide whether they go long and take positions really after the election results, specifically in mid cap and small cap stocks, not really the frontline top 30 or top 50 stocks, so the capital market view I think will be a lot more clearer in May and June. Having said that for the capital market book to be able to grow effectively and profitably, we need low short-term borrowing rates, though currently the CP rates, if you look at our CP rates and you go back one year, we were on average borrowing close to 8% and right now, we are borrowing on the CP side, say a 3-month CP at around 9% or 9.2%. That is a significant increase in borrowing cost from a capital market perspective because the capital market book, the effective yield on that book is not more than 10.5%, so that is almost a 40% compression in your spread because of your short-term borrowing rates and these loans are all 2, 3, 4, 5-month loans. They are not longer-dated loans, maximum is 6 month loans, so we can’t even fund this too much with long-term borrowing because our long-term borrowing cost are 10 to 10.2%, so you have no spread left in that business, so it is the function of two things, one is investors and our retail client base taking a call that yes, they want to go and buy a lot of mid cap, small cap names, they want to invest in certain amount of mutual fund schemes and the second is really what the short-term rates are for that book to be able to be profitable, so these are two variables we have to track very closely before we decide to grow that book.

Bhavik Dave: And lastly on the wealth management piece, so we have seen quarter-on-quarter, our AUMs have been deepening, not materially but I just wanted to understand what is leading to and these are average monthly numbers or these month-end numbers or quarter-end numbers, 42,700 coming down to 41,800, what is leading to this?

Vishal Kampani: These are quarterly closing numbers and the dip has really come in credit assets of mutual funds where lot of the FMPs, many of the credit funds people have exited and they have not reinvested. The equity assets have actually gone up. Despite the market being volatile, the equity assets have actually gone up and the outflows really been from credit assets into liquid funds here, so that also impacts profitability right, because liquid funds basically earn you the least amount of profits and you have seen that, right, you have seen your own Reliance liquid fund which has really got lot of assets, are credit funds getting those assets.

Moderator: Thank you. The next question is from the line of Vivek Kumar from Blue Fin Capital. Please go ahead.

Vivek Kumar: I have three questions, one is on the ARC, if you can explain me the dynamics of ARC in terms of how JM Financial makes money, like let us say the Brookfield gone through, how would you have made money, what part like management sees or what do you get? Second question, when you give this guidance of 15 to 20% growth because if you remember in 2016-17, we were aiming at 75% growth and now you have given a guidance of 15%-20%, so I am just asking which areas are you positive or which areas you think are going to contribute?

Vishal Kampani: And the third question?

Vivek Kumar: Third question is, if you can give this capital market business like what kind of loans do you actually give and division between the money from the lending and the investment banking, that is more of a book-keeping?

Vishal Kampani: So I will answer question 2 and 3 and I will pass it to Mr. Bhatia to answer the ARC question. So question 2 was on growth, so 15 to 20% is book growth. When I talk about 15 to 20%, we are talking about our lending book which stands at Rs. 14,000 crores, can we actually grow that by 15 to 20%, the breakup of that will largely come in our retail mortgage loans, some bit of recovery on the wholesale mortgage loans and a large part of it will come in corporate structure finance and promoter loans. We are seeing a lot of good opportunities currently on the promoter lending side, specifically because mutual funds are completely absent in that space and finally, I feel that we are seeing right risk adjusted pricing in that space. Your third question was on the capital market. In the capital market lending business, we do employee stock auction loans, we do IPO funding, then we do margin credit funding for trading clients, for arbitrage clients, we do bond funding, for example, there is a bond issue opened and people want to participate in the bond issue with leverage on a short-term basis from a trading perspective, we would do that, so it is all kind of lending to capital market listed securities. That is what we do which are tradable and sell it on the exchange. That is the definition of capital market lending. It operates through all our branches which is almost 40 branches, which are our own branches and almost 200 to 250 franchises. So all these loans are system driven, all of the risks is managed centrally in Mumbai and all of the origination happens to all of these branches.

Vivek Kumar: So the 15% to 20% is not on this profitability, you are talking about the lending book growth, right

Vishal Kampani: Absolutely, 15 to 20% is the growth of the lending book.

Vivek Kumar: On the profitability, you are not giving any guidance ….

Vishal Kampani: It is very hard because if you see the drop in our IWS profit, FY18 was a fantastic year for investment banking wealth and securities. There has significant drop in profit, so a large part of our profit is still capital market related. So if capital market has come back, election results are fine, things are good, we have a pipeline of almost 15 IPOs, if we can punch all of that out obviously the profitable growth, the growth in profitability can be higher than 15 to 20%, but if that doesn't happen we would at least maintain 15 to 20% book growth in lending is what I am saying because our capital market book is already down to where it can be. It is not going lower from these level, so same with wholesale mortgage. It is not going to go lower from this level, so at least these two books have kind of bottom down, so we see some growth there and we see a lot more opportunity in corporate and structured finance and our overall leverage, our net leverage which is 1.7x, 1.8x, so we have enough of capacity to easily grow the book by 15 to 20% over the year. I will just pass on the mike to Mr. Bhatia to answer your first question. He is the CEO of ARC business.

Anil Bhatia: Your question on the profitability on the Leela transaction with regards to the Brookfield transaction.

Vivek Kumar: Sorry, I was trying to understand how do you make money in that business?

Anil Bhatia: Sorry, how do you?

Vivek Kumar: How do you normally make, my doubt is more of what is upside to downside ratio in each of the bets that you take that kind of doubt if you can, what if it goes and what if does not goes, how do you make money?

Anil Bhatia: First of all if you look at our revenue in the ARC, it is not dependent on the upside or downside purely, it is a mix of three different revenue streams which is management fees, the interest from restructuring of the loans and on the additional loans which you provide and upside. It is a fair mix of three revenue streams and if you look at.

Vivek Kumar: If you can assume that Brookfield has let us say it has gone through let say how much you would get that you can say an example?

Anil Bhatia: I think the only issue the Brookfield deal has not gone through, it will take some time. It is the question of the cash flow getting delayed by few months. As far as our profitability is concerned, the management fees and all, there is no negative impact on that front and as far as the profitability on the upside is concerned on this transaction, we have already sold our SRs in the month of March and that profit has already recognised in our current March 2019 results, so there would not be any negative impact on the revenues because of these delays, only some amount of cash flow delays would be there.

Moderator: Thank you. The next question is from the line of H R Gala from Finvest Advisors. Please go ahead.

H R Gala: My question was also relating to this which you just now clarified that on Brookfield, this hotel Leela, the profitability will not be impacted. Now, whatever SRs, we still may be having outstanding, have we provided for the diminution in the value?

Vishal Kampani: That is what we have done last quarter. We have provided where we don't see any further value add or where we see a higher SR value compared to the true current value. This is exactly what we have done on a conservative basis, we have provided on those SRs.

H R Gala: So subject to that I think do you see the current result? So how much was the impact of that?

Vishal Kampani: Almost 100 crores

H R Gala: Overall, how do you see the scenario, because you have described at length, there is a problem of short-term liquidity and nobody is willing to give money for some of the asset classes? Now going ahead how do you see, probably they are saying that Rs. 1.3 trillion worth of loan assets will come up for resolution, so are we going to go very aggressive on this front?

Vishal Kampani: Yes, what we are doing is we have applied to SEBI for an AIF licence to actually launch a distressed asset fund and I think we are hoping for approval in June-July and we will raise capital through creative means to be able to partake in the opportunity, so what we will have to do is restrict our own balance sheet exposure in terms of what we can do, even though we had just levered two times, but I don't think we will cross three times leverage in the ARC and we will use third party capital very effectively to be able to participate in the growth of these assets. Having said that lot of the assets that are coming up for sale are actually in the power sector and the infrastructure sector and that is not a sector of keen interest for us, so we will see how it turns out.

H R Gala: So, we will be mainly I think interested in some of the industrial assets if they come up?

Vishal Kampani: Yes, we like industrials, we like hotels, we like real estates, there could be a lot of assets that come in real estate where we have a lot of core expertise, so those are the sectors we like.

H R Gala: As far as our AUM is concerned, you have explained that the capital market needs to get stable probably may be after election results, but overall what is the scenario you look at in terms of the money which comes from the mutual fund industry, comes from the foreign portfolio investors, etc, but what is your general outlook about the capital market?

Vishal Kampani: I think my general outlook is still to be cautious, as I said if there is a slow demand shock building in. I won't say shock, it is a wrong word. If there is a scenario where demand is slowing, I don't think that leads to a demand shock, the demand is slowing, I think one has to be careful. Sectors like auto and consumer has really enjoyed the benefit of high growth over the last 5 to 7 years and the last 2 quarters have not been easy. These companies are also guiding for slower growth, so obviously this has an impact overall on the economy. Housing sector also is facing its own issues of liquidity because the NBFCs were the largest funding partners for the industry in the last 1 to 1.5 to 2 years and many of these NBFCs today are liquidity starved. Frankly, some of them, even if they have liquidity, they are scared to lend, so that again is going to cause some issues in the housing sector and real estate sector, so one has to be cautious and if there are lending players who are over levered that is really budding the financiers like mutual funds and banks to give them more capital, so that again is a chain reaction, right, so they are now going to get more money and they may actually have big spike in NPAs which can lead to a further scare in the market, so I think the markets are very unsettled and you just have to be very careful where you put your money to work, whether it is a bond or an equity share.

H R Gala: Absolutely and still we have got an index hovering at 39,000 which is something very surprising?

Vishal Kampani: That is 30 stocks.

Moderator: Thank you. The next question is from the Saurabh Dhole from Trivantage Capital. Please go ahead.

Saurabh Dhole: Just two questions. One is on yields, if I look at slide #9, yields have jumped up by about 60 bps? Is it largely because of base?

Vishal Kampani: No, this is a NIM we are talking about, right, here what happens is if you see the book as I explained that the capital market has come down, so if you just look at the next the gross loan book, which is the box next to the NIM analysis box and if you see our quarter 4 FY18 or quarter 3 FY19 or quarter 3 FY18, the capital market book has basically come down to its lowest level of 1,078 crores and this is the lowest yielding book because these are all short-term loans as I explained to you, so this yield is roughly 10.5% on this book, so when this book shrinks, you see an expansion in yield because the real estate wholesale mortgage book is the highest yielding book which is selling at 14.5% to 15%, so as the proportion of the wholesale mortgage will go up, obviously our yields will go up and therefore our NIMs will go up here and NIMs obviously will go up because if leverage is shrinking, you are funding most of your book from equity and that results in a higher NIM in any case.

Saurabh Dhole: And the second question is that when we speak to another further NBFCs or especially the wholesale focus NBFCs, many of them are thinking of losing their credit book on the wholesale side, more like a fund structure, so any views there? Are you also thinking about the same?

Vishal Kampani: No, we think wholesale credit is best played from an NBFC. We will continue to grow our NBFC, this is a very big long-term opportunity. There are a lot of things we can do whether it is real estate or corporate or structured finance or promoter loans or which can grow extremely well longer-term 15 to 20% NBFC platforms and no, we will not be shifting our NBFC focus into a fund based focus. Having said that if there is an opportunity to build a fund base business which can do credit well, then we will yes, build the fund base credit business, but it has got nothing to do with our NBFC, our NBFC business will thrive and continue doing well in the long term and you can’t be building a fund base business because you don’t want to do lending in NBFC business because fundamentally if you think you should not be lending from NBFC business because the credit is not going to be good, you should not be inviting third party investors and shoving all that credit in that fund so it is a bit complicated, so my simple answer is if the business is good, you should be doing it both in an NBFC as well as in the credit format and we think the business is good and we will continue doing it on our NBFC.

Saurabh Dhole: And just one last question. In one of your earlier comments, you talked about how there is risks that the long-term funding might increase by 50-60 basis points, given that kind as an outlook, do you think you would need to make adjustments on your asset side as a response to this elevated funding cost?

Vishal Kampani: Yes, this is a very good question and the answer is absolutely correct. We will have to definitely make changes in the asset side, so we will have to have some mix changes to be able to maintain profitability, but at the same time we have to keep risk in check and we are highly risk-driven company and we focus on risk a lot, so as long as the opportunity is right and we can deploy the capital at a higher risk adjusted return, we will do so, but if you cannot, then we won't. For example, the whole promoter loan business, so for the last almost 5, 6, 7 years, we were not growing the promoter loan business because the mutual funds were in the promoter loan business and they were doing lot of aggressive lending and some part of it was at very low LTVs because they had comfort with the promoters, they had comfort with the equity and I think without realizing many of the groups borrowed a lot of money at the promoter end from various mutual funds and suddenly in the last quarter or 2 quarters, you have seen that risks blow out here and we have always maintained on many calls that we have always thought the risk adjusted pricing for the entire promoter book has been incorrect and now we are seeing that correcting slowly and steadily and we are seeing that business moving back to NBFCs.

Moderator: Thank you. The next question is from the line of Nikhil Upadhyay from Securities Investment Management. Please go ahead.

Nikhil Upadhyay: This is more of the question in what comments we made during the call, so we said that we would be looking at growing our book by 15 to 17% and in addition, we have also said that many of the NBFCs in the wholesale lending are not ready to lend at all or are scared of lending, so in this respect, considering our capital adequacy ratio and our positioning in the market, are we finding good assets which can be lent and where we can see a better growth profile or probably we can see a much better credit of assets as well as better growth?

Vishal Kampani: The answer is yes. We are seeing it already and we are making best efforts to take advantage of it. At the same time, the overall scenario is not very hunky-dory, so you still have to be careful and choose your best there.

Nikhil Upadhyay: Secondly sir, we have mentioned a lot that we basically focus a lot on the quality of asset and reduce the risk of the asset in the wholesale lending with the significant amount of cover which we are looking at, now with the banks also, in a place that they are looking for growth in the business and all, are you finding that some of the good assets which we already were having are moving away from us to probably to the banks or other largely banks as a new financial institution with lower rate and lower cover?

Vishal Kampani: Not at all. I can answer this question for a day, but just to give you a small perspective, I think banks basically have to run diversified books. If a bank starts running a concentrated book and they take public deposits is not really in the right interest of managing the franchise, so you will never see a bank having too much exposure in one sector or too much exposure in sort of one asset class. So we don't really see over the next one year, 3 years, or 5 years, banks getting very aggressive on the wholesale segment, specifically in the segments where we operate. So our philosophy actually has been that we don't want to directly compete with banks. We are actually extended partners of banks where we will take money from them, we will manage risks well on our balance sheet and we will lend to segments where they don't have the expertise, they don't want to take a lot of exposure, so we don't really see banks being our primary competitor. Our primary competitor will remain NBFCs, mutual funds and capital market entities.

Moderator: Thank you. The next question is from the line of Vivek Kumar from Blue Fin Capital. Please go ahead.

Vivek Kumar: Manish, you have just made out how you do not want bring direct competition of banks when it comes to wholesale, so with the current NBFC crisis, do you think our competitive position is getting better and will stay or will remain both in terms of corporate and mortgage?

Vishal Kampani: Yes, I think on all three, on wholesale, on capital market and corporate. We have four segments, wholesale, retail, capital market and corporate. On wholesale as well as corporate and capital market, our position is definitely better, but as I told you that we are still benchmarked as AA and all our borrowing costs are up and therefore being able to choose assets properly and to avoid any systemic risks which may happen, not really a fall out from us, but a fallout for may be some other NBFC. We have to be careful in terms of how we calibrate growth, so our position is better, but having said that I would still not ride a horse and try and grow 30-35%, I think if we can increase the book 15 to 20% that will be a great number.

Vivek Kumar: So what I was trying to understand is we come out of the crisis in the next 6 to 9 months, do you think the competitive intensity will stay better because we have managed ourselves well better or we will get return back to the pre-crisis?

Vishal Kampani: It will be stronger and better for sure, 100%.

Vivek Kumar: Can you explain me like why do you think it will be stronger and better?

Vishal Kampani: Because you will already see big ratings divergent from some of the weaker players versus the stronger players, number one. Second, problems in asset quality come over time, they never come in the first month or second month when the crisis starts, so one should not be under the impression that things has settled and therefore asset quality is going to look better. Asset quality may actually look worse 6 months or 1 year down the line, so all those parameters will be closely looked into and all the non-AAA category of NBFCs and I think over the next 4 to 6 quarters, there will be a much clearer comparison.

Moderator: Thank you. That was the last question. I now hand the conference over to Mr. Vishal Kampani for closing comments.

Vishal Kampani: I thank all the participants for taking time to attend this call. If there are any specific queries or questions, please feel free to reach out to all of us. Thank you again very much.

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