JM Financial
H1 FY 2018 Conference Call
October 16, 2017

Moderator: Ladies and gentlemen, good day and welcome to the JM Financial H1 FY 2018 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 phone. I now hand the conference over to Mr. Vishal Kampani – Managing Director from JM Financial. Thank you, and over to you sir.

Vishal Kampani: Thank you. On behalf of JM Financial, we extend a very warm welcome to all of you to our conference call to discuss our financial results both for the second quarter of financial 2017-18 and the first half of financial year 2017-18. I hope you have had a chance to go through our presentation, press release and results. These have been updated on our website and stock exchanges. I also have with me today Manish Sheth – our Group CFO, Shashwat Belapurkar – MD & CEO of Fixed Income & Lending Business both for real estate and corporate, Anil Bhatia – MD & CEO of our ARC and Subodh Shinkar – MD & CEO of JM Financial Services.

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

Our consolidated revenue for first half FY18 is at Rs. 1,465 crores, up 40.77% compared to Rs. 1,040 crores for first half FY17. Our PAT for first half FY18 was at Rs. 274 crores, up 36.5% compared to Rs. 200.75 crores for first half FY17. Before we share our first half FY18 group financial details, I will take you through a brief update on the performance of each of the group's verticals.

We will start with Investment Banking, Wealth Management and Securities Business:

For first half FY18, we had revenues of Rs. 374.11 crores with a profit before tax of Rs. 86.49 crores. The business has contributed 15.55% to our group's profit before tax for the first half of financial year 2018. The profit after tax from this segment has registered a 93.59% growth for the first half of FY18.

Our Investment Banking business continues to perform tremendously and grow with a very robust deal pipeline with several mandated transactions currently under execution. The AUM of our Wealth Management business stands at Rs. 27,289 crores, excluding custody assets. I am pleased to report that the equity AUM in this quarter in this mix has increased by 11.72% to Rs. 11,146 crores. The average daily turnover has increased to Rs. 4,748 crores during this quarter up 9% QoQ.

Moving onto the second group vertical, which is our fund-based business:

The business contributed 78% to the group's profit before tax for the first half which is approximately Rs. 436 crores on a revenue base of Rs. 1,033 crores. We have two categories in our funding businesses. One is the Financing Business and second is our Distressed Asset Business.

I will first talk about the financing business – our overall loan book stands at Rs. 12,365 crores as of September 30, 2017. This does not include our IPO funding book because IPO funding book is very short term in nature and we had some IPO funding over 30th September. So this Rs. 12,365 crore number does not include the IPO funding book of Rs. 1,536 crores. 62% of this loan book comprises of real estate sector lending which is approximately Rs. 7,656 crores. Their real estate book has registered a year-on-year growth of 23.7%. We have entered the Kolkata market in the first half of FY18 and currently we are evaluating our entry into the national capital region and hopefully we would have had a few loans completed before the year end. 19% of our book comprises of capital market lending which stands at Rs. 2,379 crores and this book has registered a year on year growth of 65%. Another 19% of the book comprises of corporate lending and the corporate lending book has registered a year on year growth of 175.4%. The gross NPA ratio of the financing business is at 0.65% and our cost to income stands at 21.5%. We continue our efforts of diversifying our sources and maturities of our borrowing profile. I am pleased to report that our long term borrowing as a proportion of our total borrowing now stands at 57%.

Coming to the ARC business, during the quarter banks and NBFCs continue to announce various NPA portfolio auctions. We have participated in several of these processes. Our AUM for September 2017 has grown by 20.46% year on year to Rs. 12,469 crores.

Now we move onto our third vertical – our asset management business:

This business contributed 5.4% of the group's PBT for the first half of FY18 which is approximately Rs. 30.05 crores on a revenue of Rs. 46.64 crores. On the Mutual Fund side, the average quarterly AUM of the mutual fund stood at Rs. 13,952 crores, the breakup of which comprises Rs. 6,987 crores in equity and Rs. 6,965 crores in debt schemes. We are pleased to report that we have completed a buyback of 9.95% of the outstanding equity capital of our asset management company. In our alternative asset management business our combined AUM for private equity and real estate funds currently stands at approximately Rs. 597 crores.

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

Manish Sheth: Thank you Vishal. Good evening everyone. Before I present the financials, I would like to bring to your notice that any forward-looking statements made on this call are based on management's current expectations. However, the actual results 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 today and are available on our website. In Q2FY18, our revenue grew by 33.99% year on year to Rs. 755 crores from Rs. 564 crores. The Q2FY18, PBT is at Rs. 286 crores, which is an increase of 25% year on year. Our Q2FY18 PAT grew by 27.2% year on year from Rs. 114.65 crores to Rs. 145.84 crores. With regard to the half-yearly numbers – for H1 FY18 the gross revenue is at Rs. 1,465 crores and a consolidated profit is Rs. 274 crores. This represents EPS of 3.44 versus 2.54 for the same period last year. In H1 FY18 net worth is now Rs. 3404 crores which is a book value of Rs. 42.70 per share with a gross leverage of 2.71 times and a net leverage of 2.54 times. Our group rating is AA stable.

Some more details on the financials – half yearly FY18 revenue increased 40.77% year on year to Rs. 1,465 crores. We have seen revenue growth across our segments. The revenue from fund-based business has grown to Rs. 1,033 crores in FY18 first half which is a growth of 42.99% year on year. Our loan book grew from Rs. 8,479 crores for first half FY17 to Rs. 12,365 crores for first half FY18, which is an increase of 45.85% year on year. The revenue from fee based businesses has increased by 37.84% year on year to Rs. 430.75 crores for first half FY18. Our expenses excluding finance cost has increased by 34.57% year on year to Rs. 365 crores. Group's finance cost has increased to Rs. 543 crores as against Rs. 369 crores during the previous year primarily on account of increase in the leverage for the businesses. We have got healthy borrowing mix with long term borrowing now constituting 57% of our entire borrowing versus 40% as of 30th September, 2016. Our cost of funds have come down from 9.29% to 8.70% year on year. Profit before tax increased to Rs. 556 crores which is a growth of 38.98% year on year. Consolidated profit for the first half FY18 grew by 36.5% year on year to Rs. 274 crores versus Rs. 200.75 crores for the same period last year. With this I would like to conclude and we are happy to take any questions. Over to the moderator please.

Moderator: Thank you very much sir. We will now begin with the question and answer session. We will take the first question from the line of Digant Haria from Antique Stock Broking, please go ahead.

Digant Haria: Congratulation Vishal, Manish and the entire team. We had a phenomenal quarter especially as far as our fee businesses are concerned. So my first question is on this fee-based businesses – so I wanted to check that we have been running this wealth and asset management businesses more as complementary businesses for our corporate and HNI relationships that we have. So what is the overall long-term vision and plan in this given that we have seen massive participation coming especially from the retail side and HNI side when it comes to wealth and AMC businesses?

Vishal Kampani: I think you are right in saying that yes, our wealth and asset management businesses today are more focused on the corporate and HNI segment and in fact our asset management business almost 70-75% of our AUMs will be from the corporate and HNI side. But having said that I think we are working on a plan to increase the retail participation in the same. We are very cognizant of the fact that retail AUMs are more sticky. At the same time, they are more expensive to raise. So we are working on a plan and in the next six month to a year I think you will see a better mix of retail AUM proportion at least on the asset management side. On the Wealth Management side we have been very strong traditionally with some of the older wealth families and the action plan now going forward is to even cultivate more of the younger and newer generation wealth targeted clients. So that is really the plan. I do not think that businesses really go down to retail.

Digant Haria: Alright. My second question is on the other part, which is the NBFC part where we have at least taken a cautious approach on the real estate trending after the demonetization. So can you highlight as to what are you seeing in terms of builder cash flows and see we obviously all of us know that housing sales have been pretty weak especially in this quarter. So what is this builder community trying to do in terms of coping up with RERA, GST because we hear several things that GST all the builders initially raised prices and the houses are never selling and then they gave discounts. So it looks like builders are in no mood to reduce the rates and clear off inventory. So how is JM Financial approaching this entire scenario which has been created over the last 9 months?

Vishal Kampani: I think you have a good view on JM since you have a report on JM and you have rightly pointed out that we were quite early and spot on in identifying the increased risk in real estate at the time of demonetization and we took a conscious call that we do not want to aggressively increase our book in this space. And I think so far that call has been a good call because the risk has increased tremendously in the real estate space. Sales are slow and when we look at property cover it is not easy to look at property cover when cash flows are significantly delayed and barring a few developers with very-very good brands, I think almost 60-70% of this sector across geographies is facing severe stress. And I think one has to be extremely careful in lending money in this space currently. I do not think one should get over-excited and try and grow very quickly in this space. There is still room over the next 6 to 12 months for real estate sales cycle to get further slow and for cash flows to further deteriorate for all the developers. And therefore there is going to be more pressure on lenders in terms of recovery of their repayments here. So I think one has to be very careful. We are very cautious on that space. Having said that, we have already seen thee quarters of no growth and degrowth in the last quarter in our real estate lending AUM. But having said that I think that trend for us will stop this quarter and I think hopefully we should be able to build back our book over the next three quarters in real estate. But it will be at the same space which we have always communicated that we do not expect more than 15-20% growth in the real estate lending book over the next 3 years. And we again maintain that starting this year our 3-year CAGR in real estate will be lower than our previous 3-year CAGR in terms of growth.

Digant Haria: More on this, do financers have any say in forcing the developers to sort of clearing the inventory because we also hear reports that a lot of people wanted to buy houses but may be 10-15-20% lower rates you will see some demand coming back. But we have not seen that real discounts being offered. So do lenders like you have any sort of pressure? Can you put any such sort of pressure on your builder so that the cash flow situation eases out?

Vishal Kampani: No, that is true. We can of course put pressure, no doubt and lender pressure does work. We basically lend to very good quality developers and good quality developers do not want to be defaulters, right. So obviously the lender pressure works tremendously. But you know the point is when I look at my real estate book, I do not want to exercise lender pressure on 20% of my book here. So when a sector is going through a problem, it is now easy to try and grow out of problem by growing your book. I think the way you brought up your problem is limit. Problems in your book which makes you exercise these kinds of pressures. Today one has to be very careful. So for example, we have also faced a lot of prepayments in the last six months because not only is there slow sales but there are also 2 or 3 very aggressive lenders in the market who are willing at much aggressive terms than where we see the risk adjusted pricing to be correct. So we have let go off business.

Digant Haria: So Vishal my next question was this only that you know there is one competitor of yours who is about to raise some Rs. 5000 crores. Is it that these are the players who are increasing aggression at times where the overalls sector dynamics are not too favorable.

Vishal Kampani: Yeah, but then it is a high-beta bet, right. So it is actually the inverse. What someone like us would do, or somebody who is very cautious would do but one has their own views. One's risk is obviously based on where one feels the economy or if one feels that they have enough of risk management capability to be able to take care of problems that may emerge from a sector which is going through a big slowdown. Or the other competitor's view could be that no, things will turn around more sharply than where most people think and I would be obviously better off today taking market share here. But in any case, if you remember we spoke a year ago and I was telling you that we anyways feel that real estate is too large as a proportion of our business and we would not want it to be as large. So for us it is not just real estate sector call but it is also a JM Financial call that we cannot have such a significant proportion of our earnings to come from real estate over the next 3 to 5 years. So it is a combination of both things. So I think that is where we are.

Digant Haria: Alright Vishal, thanks. I will come back in the queue.

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

Nischint Chawathe: Out of these Rs. 1950 odd crores of your real estate lending book, how many builders would you have or what would be the average ticket size out here?

Vishal Kampani: Yeah, so the overall average ticket will be roughly Rs. 100 crores. We will have 160 or 170 odd loans and the builders will be roughly 70 in number.

Nischint Chawathe: Okay, and the average yield would be?

Vishal Kampani: The average yield will be around 14.

Nischint Chawathe: Just looking at the pace at which you are utilizing capital, we were just wondering whether there is any capital raising plan in the pipeline?

Vishal Kampani: No, we are not utilizing any capital. In fact, our leverage is pretty much in check. Our net leverage is 2.54 times and we are trying to move away from more whole sale loans to more granular loans. So if you ask me from a capital market standpoint, should I raise capital, of course I should raise capital, I mean the stock is doing well, the markets are very liquid and it is probably a very opportune time for us to go and raise capital but from a business perspective, from a fundamental perspective, do we need to raise capital, no, we do not.

Nischint Chawathe: And just finally, trying to understand how should we see the asset management business because I guess the business is almost flat on a year on year basis.

Vishal Kampani: Yeah, as we said, we have almost 70-75% of our AUM that comes from corporate and HNI and we stuck to our core fundamental belief that we want to be very profitable in that business and if we have to grow retail we have to grow retail profitably. So if you look at our margins in the business they are absolutely phenomenal. But at the same time, we are working on a retail plan and over the next one year you will see our mix changing towards more retail investors and more sticky money from retail. But that would mean obviously a more upfront investment, so that would be slightly at the cost of profitability but obviously our increasing AUM with a more granular mix here.

Moderator: We will take the next question from the line of Anita Ranjan from HSBC, please go ahead.

Anita Ranjan: I just wanted to understand what is the reason for the spike in NPA? Typically, you always report like very subdued NPA, almost close to zero and this quarter we are seeing like 0.6%, so can you give some clarity on that?

Vishal Kampani: Yeah, the spike is from the real estate book.

Anita Ranjan: Is it driven by one account or how is that?

Vishal Kampani: Yes, it is one account and we are very well covered on the account. So I do not expect any significant LGD on the account. I think in the next six months we should be able to recover most of our capital.

Anita Ranjan: And can you give some sense on the geographic mix of your real estate book?

Shashwat Belapurkar: We have 45.7% in Mumbai, 32% in Bangalore, roughly 10% in Pune, 8.5% in Chennai, 2% each in Kolkata and Hyderabad.

Anita Ranjan: So when you say like around 60-70% of the whole industry, it is like fairly a difficult time. Which geographies would you want to point out here?

Vishal Kampani: I think all geographies are under stress. Bangalore would be least stressed amongst all of these but I think if you ask me which geography is not in stress, none.

Anita Ranjan: And yours exposure would be to more like premium developers or more like mid tier developers? How would that be?

Vishal Kampani: Ours would be more to premium developers. As you see our yields are on the lower side. Most of our competition is lending above 16 while incrementally most of our loans are happening at 13-13.5.

Anita Ranjan: And just in terms of the industry dynamics, like people are reporting growth. Is the growth driven largely by prepayment and refinancing of the interest and principal put together?

Vishal Kampani: Yeah, there is a lot of refinancing in the growth. For example, in the Mumbai market in the last 2 years, we have not seen any significant new project underwriting. And as a lender we have seen zero and being such a large lender in Bombay if you have seen zero new projects it is not a good sign.

Moderator: We take the next question from the line of Viraj Banga from Pico Capital, please go ahead.

Viraj Banga: Just on the capital adequacy side, subsidiary of JM Financial products has a capital adequacy ratio of 15.3%. So going forward in order to lend more I think we need to infuse capital. Is there a QIP planned there?

Vishal Kampani: Yeah, this includes almost Rs. 1536 crores of IPO funding which is over 30th September, as I had made a point in my opening remarks. So if you remove the Rs. 1536 crores of IPO funding then the net worth is roughly Rs. 1392 crores. That gives us enough room for at least the next 18 months or no more capital raising. Because that funding is only 7-day funding and JM

Financial had a few IPOs on 30th September which is the team needed to fund. So that is why you have seen that spike in leverage.

Moderator: We will take the next question from the line of Jignesh Siyal from Quant Capital, please go ahead.

Jignesh Sayal: Can you give me some idea about your corporate lending book? I mean what sort of lending is it, short term, long term, any specific sectors and all?

Vishal Kampani: I will just start and I will pass it onto Shashwat. Our corporate lending book fundamentally works very closely with our investment bank and that is how we originate business. Most of our loans are long term in nature. You have also seen a spike in our long term borrowings which has come from obviously more long term nature in lending to corporates as well as real estate. So we basically want to do structured finance and offer structured finance solutions to our corporates and that includes acquisition finance, it includes promoter loans. But incrementally in the mid-market space we are seeing a lot of corporates talking to us for even term loans and working capital financing. So we are cautiously started with a few. This entire growth coming towards the NBFC space is coming because of the lack of lending opportunity at the PSU end. I will give it to Shashwat. He can more granularly talk about what we do on the corporate site.

Shashwat Belapurkar: So of the roughly Rs. 2,330 odd crores of the corporate lending book, Rs. 1,005 crores is flat promoter financing/that kind of financing. Another Rs. 960 crores is structured finance which Vishal talked about, lending term loans to corporates for their operating companies basically. And another Rs. 280 odd crores is LAP, where the primary security is property either finished property or all kinds of other properties, and balance Rs. 85 crores stands others. That is the composition at this point of time.

Jignesh Sayal: So what would be the average yield on this particular book?

Vishal Kampani: This is lower. This is more like 12-12.5%.

Jignesh Sayal: So the reason why we are seeing a little bit sequential dip in your margins is it because the portfolio is getting switched from real estate towards this corporate lending or relative secured sort of products? Is it a fair assumption or fair analysis?

Vishal Kampani: That is the right assumption because real estate yields us 14, corporate yields us close to 12 and capital market lending yields us close to 10.5-11.

Jignesh Sayal: And since we are discussing about margins, so what is the comfort level of margins, or ideally you are seeing that this is the level at which we should continue with it. Are you expecting further dip or do you think there will be some respite?

Vishal Kampani: No, I think we have already seen most of the dip. I do not anticipate a further dip going forward. I think corporate capital market is very well priced. I do not see too much of pricing tension in those segments. I think in real estate we have already seen a large part of the dip. So for example, if 100 basis points were supposed to be the dip, I think we have already seen 65 dips of that and there is probably more 30-35 more dip to go. It also depends on where you want to take your book. So our current endeavor is that over the next six months we want a higher quality asset book. So if you want to higher quality asset book, you want higher quality developers, you want better collateral covers in a competitive market like this our dip could be higher than the markets dip.

Jignesh Sayal: So you are saying that that is already been done or you are saying the further dip is possible because as you are moving more towards secure products.

Vishal Kampani: Yeah, so if I remember six months ago I had said that we expect a 100 basis points dip this year in terms of spread. So as I am saying I have already seen 60-65 bps of it over the year. So probably may be 30-35 bps more but you could probably add another 15-20 bps only because of our strategy to move into better credits.

Jignesh Sayal: On your real estate lending book as you have already highlighted three quarters of almost flat sort of numbers and even this quarter we have seen a dip. Can you give a little bit flavors on whether the residential sort of a lending that you have done or more into commercial projects or little more granularity about this book? So as I understood there are more couple of builders and all, but which segment do you want to grow now? If you want to grow at a stable pace sequentially which are the areas that you are seeing the growth coming up for real estate business?

Vishal Kampani: So a large part, a significant part of our book in our real estate has always been residential funding and even though there are significant changes both in GST as well as RERA on how lenders need to view residential funding, despite that I would imagine a significant part of our growth going forward in real estate will still come from residential funding. At the same I think it is too early to see the full impact of GST and RERA on the developers. I think there would be more clarity in the next 3 to 4 quarters. So we will continue being very-very cautious in terms of how we expand our book. So to give you a small example, right, if there is GST on under-construction flat and there is going to be criminal liabilities under RERA or non-compliance in terms of under construction flats sold. And there is going to be a 70% escrow which can only be used for repayment of loans as well as for construction finance and not take out finance, all the quality developers who we are talking to do not want to sell under construction. They only want to sell after they complete the property and get OC. So if that is the case then how is residential financing different from commercial finance? Because then there is no absolutely zero visibility of early cash flows and therefore you cannot rely on a takeout finance from some other institution because the cash flows are strong where you cannot even rely on repayments of land finance loans which you made early in the game from these sales. So if sales are not there, it is a challenge and therefore either the equity from the promoter or from the developer has to increase in the game upfront or there has to be some other form of structured finance, may be there are funds that come and do it. It just cannot be plain vanilla lending because from our personal perspective we would be extremely uncomfortable in almost half the names, half the developers. Even in the city of Mumbai to provide this kind of financing if all the sales are going to be back ended.

Jignesh Sayal: But in that scenario do not you think so the probability of rise in NPAs are more or it is more likely that there will be more NPAs coming up in this book?

Vishal Kampani: Absolutely correct.

Jignesh Sayal: We already had seen a spike, so do you expect further spike to happen on the NPA front?

Vishal Kampani: So at least over the next 1 year we know where we stand in terms of our SMA 2 and SMA 1 and nothing significantly concerns us. And also our book is very well covered currently in terms of collateral. Most of our loans are about 2x property cover, most of our loans are of 2x cash flow covers. So our covers are very-very strong. But incrementally we have seen some competition even a decline in all those metrics. So I think there is a crazy rush for people to grow their loan books and I think people are now looking at 1.5 times collateral cover and almost 1.5 times equivalent cash flow covers. So if that is what the market has to offer then we will not lend.

Jignesh Sayal: Coming to your AMC business as we have seen in YoY it has almost remained flat. So how do you see it down the line, what kind of growth you are expecting and as you have already highlighted that you are planning to have more of retail participation. So if you can give a little more brief on it, I mean what kind of growth you are expecting in this particular business. I am talking about purely AMC business right now.

Vishal Kampani: If you see the AMC industry, significant portion of the growth in the AMC industry is coming from the large funds, right. The top 6-7 funds and a lot of the funds which are basically backed by bank distributions basically owned by banks are seeing a significant portion of incremental equity addition. And of course, there are 2 or 3 very specialist equity funds who are doing very-very well. So we are basically posed with a very interesting challenge, so we are almost kind of in a market where valuations are very high. I am not implying the markets can correct very soon because the flow in funds is very strong, the liquidity is very strong. So the markets may continue the way they are over the next course of the year. But having said that it is very expensive build out today in terms of retail and what is the guarantee that yes we will attract the flow. So it requires certain organizational changes at our end if we were to go through this retail build out and that organizational change will take six months or a year for it to happen. So I would not as an investor today anticipate that yes, there is going to be some quick change and yeah JM is going to start adding retail assets very quickly over the next six months to a year. I think it will take six months to a year for us to build out that strategy and post that we will see the benefits of that strategy.

Jignesh Sayal: Just the data giving part, can I get the shareholding breakup of this particular AMC business?

Vishal Kampani: It is owned roughly 60% by the listed company and 40% by the promoter family. But it has always been like that since inception.

Jignesh Sayal: Can I get the employee holding data for the listed entity I am saying, the total employee holding that they are having.

Vishal Kampani: In which entity?

Jignesh Sayal: Listed entity.

Vishal Kampani: Roughly 3.5-4%.

Jignesh Sayal: This includes your ESOPs and everything, right?

Vishal Kampani: It is all ESOP.

Moderator: We will take the next question from the line of Jasdeep Walia from Infina Finance, please go ahead.

Jasdeep Walia: In the last few conference calls you have been stressing that Wealth Management is going to be an areas of focus for your company. So could you elaborate what steps you have taken in that direction in the first half of this year and what would be the increase in the number of advisors etc?

Vishal Kampani: Wealth management business, steps to grow that in terms of the numbers of advisors and how the business is growing.

Subodh Shinkar: So on the Wealth Management side, I think one of the key things that we have been focusing on is also to grow the AUMs by way of adding more wealth advisors and that too at different key locations in India not just in Mumbai but Delhi, Bangalore and key locations. We are present at 8 locations at the moment focusing on the wealth. Secondly as Vishal earlier pointed out that we are looking at the new wealth also which means the various new promoters having sold their business or developing business and raise capital, some of those wealth requires a different approach, different servicing and that is what we are trying to address. So effectively from Rs. 27,500 crores roughly, our objective would be to kind of grow this substantially more towards equity and the assets which will give us better yields and improve the yields overall on the assets and by adding more wealth advisors across these locations. That is broad idea.

Vishal Kampani: But having said that it is not been very easy to add these wealth advisors I think if you look at the net cost of adding some of these advisors we are seeing a pay back which is getting stretched beyond 4 to 5 years and fundamentally we are not comfortable with that because I cannot predict if this continues bull market cycle in India to continue for 4 to 5 years. So there is a bit of an issue in terms of adding new advisors but having said that I think we increased our productivity substantially. As you can see that with almost similar number of advisors our AUMs have gone up, our yields have gone up and the yields have primarily gone up because of the much better mix of equity and higher yielding alternative assets as compared to fixed income assets.

Jasdeep Walia: So what has been the increase in the number of advisors in this year?

Vishal Kampani: It has been flat, six months has been flat. We have got new people but we have also lost people to competition.

Jasdeep Walia: And what has been the increase in assets other than debt in this business?

Vishal Kampani: Primarily a large part of our growth has come from the equity assets. I will give you the detailed mix of the assets. Last quarter it was Rs. 24,203 crores in AUM, which in total AUM has moved to Rs. 27,289 crores. Last quarter equity was at Rs. 9,977 crores which has moved to Rs. 11,146 crores.

Jasdeep Walia: This is YoY comparison?

Vishal Kampani: No, this is QoQ.

Jasdeep Walia: Okay, so 1Q to 2Q?

Vishal Kampani: Yeah, Q1 to Q2.

Jasdeep Walia: And what sort of YoY comparisons are in equity assets?

Vishal Kampani: YoY is Rs. 7163 crores has grown to Rs. 11146. So it is almost 50%.

Jasdeep Walia: And what has been the growth in other alternate assets apart from debt?

Vishal Kampani: No, the equity includes equity plus alternate. We have separate debt which has grown from Rs. 5,083 to Rs. 7,677 YoY and liquid has come down from Rs. 9,649 to Rs. 8,465. And YoY increases from Rs. 21,895 to Rs. 27,289.

Jasdeep Walia: So since you are finding it difficult to get new wealth advisors given the subdued economics of hiring a new advisor, so should we assume that the growth in this business will be lower than what you had anticipated let us say at the beginning of the year?

Vishal Kampani: No, I think we will still manage to close on a couple of advisors. But yes, I think the growth does not depend only on purely adding new advisors. It also depends on how productively you can use your people. So it is a function of both. So as you have seen that we have barely added advisors over the last one year but we have had phenomenal growth on our assets here. So it is a very judicious mix of how much you add using new advisors and how much you add milking your own current strengths right now. So we will add advisors but at our price, at our structure, not going crazy.

Jasdeep Walia: So your earlier target was to increase the number of advisors by 50% in the next 2 years. What is it now?

Vishal Kampani: So we have roughly about 60 advisors to go to 90 overall in wealth. So I think may be we will be short by 5 or 7 names but I do not think more than that. So just to correct you that it is not that we could not have hired, we have chosen not to hire.

Moderator: We will take the next question from the line of Anant Jain, an individual investor, please go ahead.

Anant Jain: I just wanted to understand about our housing finance. As I can see that we have gotten an approval for a housing finance company HFC. So what are the strategies here and what kind of book are we looking to build here?

Vishal Kampani: So you have rightly said we have applied for a license. Large part of our efforts in the housing finance space would be to do affordable loans and these will be largely due to self employed people. Our strategy is to build a 2500-3000 crore book over the next 3 years. This will work pretty closely with our developer finance book and it is too early days but I think we are quite excited about the business and the prospects of this business.

Anant Jain: Just to add on to that question, when you say affordable housing, what exactly do you mean because I have come across a lot of definitions around affordable housing? And the second question that I have is that we had an investment in a company called India Home Loans for the 25% stake that we are looking into that company which again is an affordable housing. Now my question here is that is not there a conflict of interest, or why would be have another investment in another company?

Vishal Kampani: I will answer your second question first. India Homes is not owned by JM Financial Limited. It is owned by a private equity fund. We were only housing it for a private equity fund and I think we made that quite clear on our last call and a previous call before that. And the first question again was affordable housing ticket size. I think we consider anything below Rs. 40 lakhs as affordable housing.

Anant Jain: So just to understand again, India Home is not in the books of JM?

Vishal Kampani: No, they are a private equity investor.

Moderator: We will take the next question from the line of Ami Parekh from Fiduciary Euromax Capital, please go ahead.

Ami Parekh: I had one question on the fund building activity side, which is on slide #23, so over there if I look at it the operating expenses have slide significantly. So what do you think is the reason for that?

Vishal Kampani: One is if you see our ARC business was not consolidated last year because we got approval from RBI to hike our stake above 50% only in the first week of October last year. So it is purely accounting partly because in terms of consolidation our operating expenses have gone up. And second reason for it to go up is we are obviously building our SME finance business as well as our HFC business and those costs are obviously slightly front loaded and the revenue streams obviously you will see after a year. So those costs are also a part of the reason why our operating costs have gone up. And third of course we have an NPA, and in that NPA also there is an increase in the provision because of which the operating costs have gone up. So there are three reasons contributing to the increase in opex.

Ami Parekh: So should we look at this as like or we should look at it like it will reduce going ahead?

Vishal Kampani: No, it would not reduce because we are obviously going to invest more in our HFC and invest more in our SME finance business but yes, we do not anticipate more provisionings in terms of our NPA provisionings and of course from the next quarter ARC will become a like to like comparable. So that is how you should look at it.

I think there are no more questions. I thank all the participants for taking the time to attend this call. In case there are any specific queries or any other concerns please feel free to reach out to our CFO and our IR team. So thank you once again and we wish everyone a very Happy Diwali and a Prosperous New Year.

Moderator: Thank you very much sir. On behalf of JM Financial that concludes this conference call. Thank you for joining us and you many now disconnect your lines.