JM FINANCIAL

JM Financial Limited Q2 & Half year FY22 Earnings Conference Call

October 29, 2021

Moderator: Ladies and gentlemen, good day and welcome to the Earnings Conference Call of JM Financial Limited. 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. Please note that this conference is being recorded. I now hand the conference over to Mr. Vishal Kampani. Thank you and over to you sir.

Vishal Kampani: Thank you. On behalf of JM Financial, we extend a very warm welcome to all of you to the conference call of JM Financial Limited to discuss our financial results both for the second quarter and half year ended FY22. We have uploaded our results update presentation, our press release and results on the website and stock exchanges. And, I hope you all have had a chance to go through the same.

Today we have with us our entire senior management team. And before they provide the details of the various businesses and performance, I will briefly speak on the new segments that we have created and take you through how we are looking at the business structure going forward. These segments were realigned to ensure a sharper focus on our clients as well as channelize the bandwidth to achieve desired client focus and be able to deliver value to our stakeholders. We've classified our business into four different segments. And we are looking at it completely from a client perspective.

The first segment is our investment bank segment. The investment bank focuses on all of our institutional, corporate, government and ultra-high net worth clients. It includes our investment banking, institutional equities, fixed income, balance sheet as well as international operations. Within investment banking it includes the equity capital markets, private equity, debt capital markets, as well as advisory business.

The second segment is mortgage lending, which includes our wholesale and retail mortgage businesses. Wholesale includes construction finance, project loans, loan against lands, as well as structured financing real estate. And retail mortgages includes affordable home loans, small ticket loans against property, as well as education institution loans.

Our third segment is our combination of our distressed credit business as well as the alternative credit business. This includes our asset reconstruction business.

The fourth segment is platform AWS. The business is completely focused on providing an integrated investment platform for all the individual clients of the company. It comprises of asset management, wealth management and securities, which we call AWS. This platform will be internet enabled and digitally focused. And our endeavor would be to be one of the leading players in each of these sub segments over the next decade.

With this brief overview, I will now hand it over to Shashwat. Shashwat will provide us an update on the performance of our businesses, followed by all our CEOs presenting the performance of their individual businesses. Shashwat over to you.

Shashwat Belapurkar: Thank you Vishal. Good afternoon all. Before we start, I would like to bring to your notice that any forward-looking statements made on this call are based on the management's current expectations. However, the actual results may vary significantly. And therefore, the accuracy and completeness of this expectation cannot be guaranteed. Our consolidated revenue for the half year ended FY22 stood at Rs.1,962 crore an increase of 31.3% Y-o-Y. For the same period PAT stood at Rs. 378 crores, an increase of 52.3% Y-o-Y. This represents an EPS of Rs. 3.96 versus Rs. 2.56 for the same period last year. Given the uncertainties around COVID-19 we have taken additional provisions across the group to the tune of Rs. 208 crores for the half year ended FY22. Our adjusted PAT including the pre COVID impact after non-controlling interest was at Rs.460 crores for the half year ended FY22. In Q2FY22 our revenue increased by 20.7% to Rs.969 crores. The Q2FY22 PBT is at Rs.317 crores which is an increase of 32.5% Y-o-Y. Quarter two FY22 PAT increased by 25.4% Y-o-Y from Rs. 139 crores to Rs.174 crores. As on September 30th, 2021 the net worth is at Rs. 7,281 crores which translates into a book value of Rs.76.35 per share.

Our consolidated loan book stood at Rs.11,072 crores down by 2.8% Y-o-Y, the breakup of the loan book is as follows.

Wholesale mortgage constitutes 59.4% of our loan book which is approximately Rs.6,577 crores. The wholesale mortgage book registered Y-o-Y decline of 21.8%. The capital market loan book constitutes 7.2% of loan book which is approximately Rs.800 crores. The capital markets book has registered Y-o-Y growth of 18.1%, Bespoke financing loan book which includes corporate and promoter financing book constitutes almost 24.7% of the loan book which is at Rs.2,737 crores. The corporate and promoter financing book has registered a Y-o-Y growth of 70.7%. The retail mortgages loan book constitutes 4.6% of a loan book which is at Rs.507 crores. This loan book has registered a Y-o-Y growth of 59.3%. The financial institutions loan book which is the last pie of the loan book constitutes a 4.1% of our loan book which is Rs. 451 crores. This book has registered a Y-o-Y growth of 19.8%. This loan book comprises of funding to non-institutional client and portfolio purchases. Overall retail loan book stood at around 16% of the total loan book.

Coming to the asset quality, the gross NPA ratio of the lending businesses is that 2.3%, Net NPA at 1.4% and SMA-2, stood at 4.5% as of end of September 30, 2021. The loan book under the resolution framework for COVID-19 as announced the RBI stood at 0.87% as of 30th September. This was 0.62% as of June 30th**.**

On leverage and liabilities:

On a consolidated basis our gross debt equity should at 1.1 times as of September 30th. And on the net basis, it was at 0.7x. During the half year ended FY22, we raised Rs.1,369 crore through long term borrowings. We've also recently successfully concluded the public issue of secured NCDs by JM Financial Products amounting to Rs.500 crores in October 2021. We have been able to diversify our initial base to include insurance companies, pension and provident funds. Our borrowing comprises of 77% from long term sources and 23% from short term as compared to 83% and 17% as of September 30th, 2020.

Now, I request Atul Mehra and Anish Damania to take us through the performance and strategy update for the investment bank segment.

Atul Mehra: Thank you, Shashwat. A very good afternoon to all of you. Anish and I will provide a quick update on the investment bank business. The investment bank is one of the key segments within the JM Financial franchise and has a vintage of four decades. Let me first share the financial highlights of this segment. For the half year ended September 2021, the segment had a revenue of Rs. 628 crores, PBT of Rs. 208 crores and a PAT of Rs. 156 crore which is an increase of 21.1% Y-o-Y. Annualized ROE and ROA from these segments were at 13.3% and 5.3% respectively.

Now, let me share some insights on the business:

On the investment banking business, as the market continues to be in a pink of health, we have executed several primary and secondary trades, the depth and the breadth of the market is increasing, which is led by tech and e-commerce companies and several niche companies planning to hit the market. We have a very robust pipeline, which is approximately 100 mandates across products in the investment banking business. This is one of the strongest that I have seen in my limited career of 30 years. The pipeline is true and broad based across the three products, which is capital markets, private equity and M&A advisory. Long live the markets we hope to execute and monetize this pipeline of transactions in the shortest possible window.

Coming to our institutional fixed income business which is the youngest business within investment bank. This has progressed well, we have onboarded several new parties and have significantly expanded our reach in the origination and distribution capability. Within a short period of time, we are quickly now amongst the top three in the public issue of bonds, and we enjoy a high market share in debt ETFs. We use our balance sheet effectively and selectively for our investment banking business, our balance sheet business adds and generate significant value to the franchise. Our balance sheet business is built on three pillars, 1) superior and comprehensive structuring, 2) diligent risk management and 3) strong institutional partnership which helps us in syndicating transactions. Our bespoke loan book, which is to our investment bank clients stood at almost Rs. 2,087 crore as on September 30th, 2021.

On the private equity business, again, I'm happy to report that our private equity fund III, raise is currently underway and we are targeting to raise Rs. 1000 crore, the fund two which was for ~Rs. 500 crore is almost fully deployed.

Just to summarize overall, we feel we are starring at a multi decade opportunity in front of us. We continue to operate from a position of strength with a clear focus on expanding the depth and breadth of clients, capturing market share and very high-quality execution. We are expanding our teams across the segment wherever it is needed as is reflected in the financials also, We see investment bank will be consistently generating a lot of free cash flow for the group. Thank you, over to you Anish.

Anish Damania: Thanks, Atul. I am Anish Damania and a very good afternoon to all of you. So, within the institutional equities business segment, institutional research is our pillar of excellence. We have positioned ourselves as a thought leader and have been expanding our coverage on stocks and sectors. At present, we cover about 214 odd stocks and we plan to take it up to 300 stocks over the next 12 to 18 months. Looking to account the fact that institutional clients are increasing the number of companies which they own, we are also beefing up our research coverage, specifically on the digital side over the last 9 to 12 months, we have added three people onto this segment and we feel that this will be one segment where we will continue to deploy more resources. We have to capture other streams of broking revenue. We have also strengthened our derivatives deck as we envisage substantial growth opportunities in that space.

I would now like to hand it over to Manish Sheth and Shashwat Belapurkar to provide an update on the mortgage lending business.

Manish Sheth: Thank you Anish. I am Manish Sheth. Good afternoon all. For the half year ended September 2021, the mortgage lending segment reported net revenues of Rs. 367 crore with a pre-provision profit of Rs. 315 crores. PBT for this segment stood at Rs. 167 crore and PAT post non-controlling interests stood at Rs. 55 crore . Annualized ROE and ROA for the segment was 6.5% and 2.7% respectively. In Q2FY22 our net revenue and pre-provision profits stood at Rs. 191 crore and Rs. 162 crore respectively. The PBT stood at Rs. 96 crore and PAT post non-controlling interests stood at Rs. 30 crore respectively. The overall loan book stood at Rs. 7,102 crores which is down by 5.6% year-on-year.

Coming to the retail mortgage businesses:

JM Financial Home Loans is the youngest business of the JM Financial Group built over the last three and a half years. As any retail business would need over the period, we have invested heavily in building the right talent, policies and processes. Since the inception phase of our venture, we have emerged strongly on both asset side as well as liability side crises in the form of events like ILFS to COVID-19 pandemic. Our 3Cs philosophy has helped us a lot which is our centralized credit underwriting model, stringent collateral policies, and sharp collection focus. Our go to market strategy is very micro, meaning we have a micro market level credit profiling and collateral policy. We follow a hub and spoke strategy to penetrate Tier II and Tier III cities. We have a very granular retail mortgage book of Rs. 507 crores across 4,700 customers with an average ticket size of Rs.11 lakhs, carrying average yield of 13.3% and an LTV of 55%. Our book is well spread across eight states and three products namely home loan which is 74%, smaller ticket loan against property of 18% and educational institution loans of 8%.

Post-COVID wave 2, our gross NPA is less than 1% and we have a collection efficiency of around 99%. We have put all the building blocks in place and after investing more than 1,000 days in retail lending business we are all well positioned for our next growth phase in our journey. We have used the opportunity provided by the pandemic to hire right talent, expand branches, and implement technology led origination and underwriting capabilities. We are now present at 51 branches with 500+ people. Our targeted quarterly disbursement is around Rs. 150 crores for next two quarters and our endeavor is to deliver more than Rs. 200 crore quarterly disbursement from next year. All in all,, we are looking to double our book at the end of next financial year by keeping our asset quality in check and reduce cost of funds.

I would now hand over to Shashwat Belapurkar for the Wholesale Mortgage Business update.

Shashwat Belapurkar: Thank you Manish. On the wholesale mortgages the loan book has reduced from Rs.7,166 crores as on June 2021 to Rs.6,595 crores as on September 2021. The GNPA and NPA have reduced to 2.5 and 1.7% respectively, as against 4.0% and 2.3% respectively as on June 2021. Our approach continues to focus on hand holding our COVID impacted borrowers to help them through this difficult time, focusing on then completing the projects and selling down the completed inventory. We are also watchful for a potential wave 3. Despite giving some of our borrowers COVID relief, the Escrow collections continue to be healthy and nearly at pre-pandemic levels. We are sitting on a reasonable amount of cash, which allows us to grow quickly and capitalize on opportunities as they present themselves. Our existing lenders are looking to increase exposures, while new lenders are looking to start relationships, we are actively trying to negotiate existing rates down. We have strong tailwinds in the sector on account of high affordability and various incentives by multiple state governments. We will continue to focus on strong cash flow-based project transaction from our stable of loan borrowers and selectively add new clients.

Moving on to the next segment, which is the alternative and distressed segment. On the alternative credit segment, we are in the midst of launching new AIF focusing on performing credit, high yield / distressed credit and real estate. I would now like to hand over to Anil Bhatia to update on the distressed credit business.

Anil Bhatia: Thank you Shashwat. Good afternoon all, I am Anil Bhatia and I'll be talking about distressed credit business for JM Financial ARC. On the distressed credit business our AUM reduced by 6.5% year-on-year to Rs. 10,687 crores. This AUM is well diversified into multiple sectors, for the half year ended September 2021, the segment had net revenues of Rs. 232 crores with a PBT of Rs. 196 crore. PAT post non-controlling interests from this segment grew to Rs.89 crores.

The gross debt to equity stood at 1.1 times with annualized return on equity and return on assets at 17.0% and 7.6% respectively. In quarter two, our net revenue stood at Rs. 68 crores, the PBT stood at Rs.53 crore and PAT post non-controlling interests stood at Rs.24 crore respectively. JM Financial ARC is positioned as a key player in the industry with over 10 years of experience and currently in terms of AUM, we are at number 3.

For the past two and a half to three years, the focus remains on recovery and resolutions which will continue till the end of this financial year. The business has a strong track record of resolution, total recoveries have been Rs. 11,125 crore till date and the recoveries in past three and a half years have been Rs. 7,615 crore. In spite of challenges of COVID, including the ferocity of the second wave, and the COVID were shut for a long time, we have seen very healthy recoveries. Recoveries from April 2020 till September 2021 were Rs. 2,578 crores and recovery in the last 12 months from October 2020 to September 2021 have been at Rs. 2,377 crore.

The key focus over the years for us has been acquisition of assets at the right price under the right structure. One of the key differentiators for us is at almost all our deals are uniquely structured to protect our investments and maximize returns. The business is expected to grow from Q1 of FY22-23 and we will be pursuing the co-investment model with strategic investors, financial investors including the AIF fund from the JM Financial Group.

We are seeing significant interest from these strategic and financial investors. This co-investment model with third party investors will ensure more efficient use of ARC balance sheet by reducing the ARC exposure and focusing on annuity revenue streams.

From our existing portfolio, there are some key accounts where the resolution process is in advanced stages and completion of the same continues to be one of the key priorities. We have couple of accounts where we are facing some headwinds and the challenges namely, Unitech Limited and Seven Hills. In the Unitech account, the challenge is primarily on the legal front as a matter is in honorable Supreme Court and the new Board and management appointed by Government of India has submitted a resolution plan in the Supreme Court which is detrimental to the interests of the lenders. However, we have made adequate representations and the honorable Supreme Court has directed the new Board to arrive at an amicable solution with lenders and we are hopeful that an acceptable solution will arrive.

In the case of Seven Hills, the challenge is primarily due to outbreak of COVID-19 and the hospital is being used by MCGM as a key facility to treat COVID patients. This is the largest facility in Asia for COVID treatment. The resolution process under NCLT, thanks to COVID is currently at a standstill. We would be activating the NCLT process once the COVID situation is normalized and the hospital is no longer required to be treated as a dedicated COVID facility. Thank you all. I would like to hand over now to my colleague Subodh Shinkar and Amitabh Mohanty to take you through the Platform AWS business.

Subodh Shinkar: Thanks Anil. I am Subodh Shinkar. A very good afternoon to all of you. For the half year ended September 2021, the platform AWS business segment ad revenues of Rs.323 crores with a profit before tax of Rs.47 crores. PAT post non-controlling interests stood at for this segment stood at Rs. 43 crores. The annualized ROE and ROA for this segment were 11.3% and 2.9% respectively. In Q2 FY22 our revenue stood at Rs.180 crores. The PBT stood at Rs. 44 crores and PAT post non-controlling interests stood at Rs. 34 crores respectively. On the securities business of platform AWS, which is a research-based equity advisory to high net worth and retail customers. We operate through our own branches and franchisees we have been growing the franchisee network to almost 601 franchisees to 181 cities. The first six months has been particularly good for this business, where our average daily brokerage has grown by almost 50% compared to the last year average daily brokerage. The market in the last 12 months witnessed a significant growth in digital account opening and online trading and this is going to be the focus area for us.

Our online trading app Blink Trade is gaining steady traction and we are continuously upgrading it to improve customer experience. We have been able to increase our online transaction percentage to 55% compared to 39% last year. The majority of our online clients are trading through mobile trading app and 80% of our accounts open through digital mode. We have demonstrated Rs.15,000 crores plus peak volume through online platform, demonstrating scalability of the platform. So, we will now focus much more on acquiring clients digitally and give them a seamless DIY journey through our online trading platform.

On wealth management business, our private wealth segment caters to high net worth individuals with an AUM of Rs.63,760 crores which is an increase of 18% Year-on-Year, this includes 44% equity assets. As all of you know that we had started our Elite Wealth business in 2019 catering to affluent clients, we have quickly ramped up to 56 advisors across eight locations with an AUM of Rs.793 crores this is demonstrating over 200% growth. Y-o-Y and this business is likely to grow much rapidly. Our retail wealth business, which predominantly deals with retail customers through a network of 7,000+ active independent financial distributors. It recorded a steady growth of over 25% Y-o-Y and its AUM stands at Rs.18,841 crores. We are focusing here much more on online and digital capabilities. We have seen a surge in online transactions over here. Almost 90% of our new SIP registered are through online platform.

We also received corporate agency license for insurance distribution. On PMS, we have grown our AUMs to Rs.811 crore which is 46% Y-o-Y growth and we are also strengthening our team, Mr. Vinay Jaising having a fund management experience and equity research background has joined us to go ahead with Mr. Rakesh Parikh and we are also strengthening our research team and marketing team to grow this business further. So just to summarize, we have been growing in all the business segments and going forward focus is going to be much more on the digital ready businesses. We will gear up for digital marketing online transactions and also enhance the customer experience. I would like to hand it over to Amitabh to provide an update on asset management.

Amitabh Mohanty: Thanks, a lot, Subodh. Good afternoon everyone. A quick run through of the initiatives we're taking in the AMC business. From the numbers perspective, our average quarterly AUM of the mutual funds stood at Rs.2,089 crores comprising Rs.551 crores in equity and Rs.1538 crores in debt. The AUM of our PMS business as Subodh mentioned a bit earlier stood at Rs.811 crores. In the AMC we are now embarking on a new journey of growth. In the initial phase of the next couple of years, the following initiatives are being taken:

For strengthening our investment team, senior professionals like Mr. Prashant Pimple have joined us at CIO debt. Now we have accomplished senior professionals at CIOs of both fixed income and equity. We will also be adding to our in-house research capabilities on both equity and fixed income. Our branch network, sales teams are all being spruced up they are also looking to hire senior industry professionals in the phase verticals, that's at an advance stage. Product marketing and communication teams are also being strengthened with senior hires already in place. While we are strengthening our branches. we do believe that an important vehicle of future growth will be the digital ecosystem. We are committed to building this up, you can expect our digital offerings in the form of our website investor and distributor portals, social media presence, et cetera to give an enhanced user experience going forward.

We intend to have products across strategies and asset classes. Hence going forward we'll be offering products both in the passive as well as in the active space across the fixed income and equity asset class. We intend to set up a dedicated passive team in the future to drive the passive strategy. We want to position our AMC as a solution-oriented AMC, so over a period of time, they will move from a product focus to a solution focused. So, we intend to bring a lot of innovation to our offerings through fund of-fund, et cetera, which intend to address the needs of our investors in the form of solutions. We are going to be focused on our brand visibility and presence not only in the digital space but also in enhance engagement with our investors and partners. We will be creating existing brand image which while building on the group brand will also highlight the mutual fund entity. While we build out over the next few years and lay a strong foundation we would request patience as the growth in the next couple of years will continue to be muted. The initial phase of rebuilding should be followed by an extended period of growth. That's it from us, thanks everyone. With this I would like to conclude, and we are happy to take any questions. Over to the moderator. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Shalini Vasanta from DSP Mutual Fund. Please go ahead.

Vivek Ramakrishnan: Hi, this is Vivek Ramakrishnan here. Sir, I just wanted to concentrate on the wholesale mortgage book in terms of you have given a couple of pages where you have talked about resolutions and how long will it take, given the positive momentum in real estate, how hopeful are you that you'll be able to bring down the NPA as well as the stage two assets by March 22, since the deadline is again for many of the resolutions?

Vishal Kampani: Yes, I will take that question. On the resolutions, our confidence on meeting the timelines and resolution was pretty high in sort of the last quarter of last financial year. But there has very clearly been a COVID wave 2 impact on some of the accounts and some of the assets where clearly the resolution will be delayed. Some of our additional provisioning, that you have seen has been actually on accounts, which have been further severely impacted because of the COVID wave 2, and therefore there is a delay on some of the resolutions on those accounts. The delay, it's hard to give you a number, but if I were to put a number, you can add around six months more to a previously assumed timeline of 12 months to 18 months. So that's my answer on the timelines for resolutions.

Vivek Ramakrishnan: Okay, sir in any of these projects which are in a bit of difficulty, momentum and sales is construction happening, or a lot of them is going to be resolved outside by a new developer coming in or setting of other collateral, et cetera?

Vishal Kampani: So, it's a mixed approach, I wouldn't say, we are not looking at outside developers taking some of these projects over. But by and large, I would imagine almost 70% to 80% of the resolutions is through further construction activity through some DCCO restructuring which we had done during the phase one of COVID and then phase two, we've given them slightly more extensions of around two to three months in few cases, purely because sales that slowed down for three, four months during March all the way till July. But generally, on the sales side, we are seeing a very, very strong momentum. One of the reasons why the book is actually run down, despite us working hard on growing the book is because the sales cycle in real estate is very strong, and therefore our repayments and as mentioned earlier that our Escrows are running higher now than pre-COVID levels and also projects which are coming sort of towards the end stage of sales are getting refinanced by some of the other lenders. But on the resolution, we have a mixed bag approach, there is no single approach, but as I said that 70%, 80% would be pushing construction and pushing sales.

Moderator: Thank you. The next question is from the line of Kunal Shah from ICICI Securities. Please go ahead.

Kunal Shah: So, a couple of questions, firstly in terms of the wholesale mortgage book and sector, that is also a rundown. Last time we highlighted that we will be cautiously evaluating the opportunities, and there are strong tailwinds in the sector as well. So, what would be the outlook there in terms of the growth and were there any maybe concrete repayments during the quarter which led to the decline in the wholesale book?

Vishal Kampani: Yes. So, we did have some chunky repayments. We had one or two large loans which have got repaid, the focus on searching for growth Kunal continues, there is no question we want to grow. But as I said that, our Escrows are running very, very strong, there's almost Rs. 300 to Rs. 400 crores of collection every quarter. And, if you look at developers today, they are very focused on sales, even if you see new project activity or new land acquisitions, they've just about begun. So, we are looking at transactions, but as you know we will be very strict on the risk return criteria and the pricing criteria. And hopefully over the next three to six months barring no wave 3, the book will see very, very strong growth, we're sitting with huge amount of cash surplus, it's only a matter of time, when internally we are very confident of clearing, underwriting and allowing the teams to undertake more transactions.

Kunal Shah: And any pipeline in terms of the proposals which are there currently?

Vishal Kampani: See pipeline is huge, if we were to sort of matter of speaking losing the tap, real estate is not a problem to be able to grow. One more thing Kunal, is important to understand is, a lot of the origination team is also very focused on resolving some of the assets which are under pain. We are assisting our recovery team along with the originators who have the relationships with the developers to be able to make sure that our asset quality remains pristine, and the collections from our assets which are suffering are very, very strong. And therefore, there is some time involvement of our entire origination team, which is also going on the collection side, we would be pleased to note that despite our assets going down overall, Q-on-Q we have still reduced our NPA, as well as SMA2 numbers. This is a very good reflection of how we are actually managing the business and we are fully out there looking for transactions. But yes, if the ratio in approval in terms of going to committee and getting approvals was say one out of four transactions the ratio today probably is one out of six or one out of seven. As soon as that ratio improves over the next six to nine months, the book will grow pretty fast. But I must say that, at least for the next three to six months, I am still going to be cautious. I'm still concerned about a third wave. A lot of the world is taking COVID for granted, assuming vaccination is taking care of all our problems. One has to be watchful, at least for the next three to six months and then take a final call on how one grows the book.

Kunal Shah: Sure. And secondly on investment bank, so overall revenues have been flattish quarter-on-quarter but when we look at in terms of the profitability, in fact that's down quite significantly. So, what has actually led to this, is it like more of a cost to income?

Vishal Kampani: No, it's got nothing to do with the investment bank profitability. We have a real estate book, which is sitting in our investment bank from the past before the transfer of the book to JM Financial Credit Solutions, which is a mortgage business. We've taken some provisions in that mortgage book which is a onetime event and that is the reason why the investment bank profitability was slightly subdued for last quarter.

Kunal Shah: Okay, so would that be quite high in the range of Rs.35, Rs.40 odd crores of the overall provisioning of?

Vishal Kampani: Yes, it's around Rs. 30 crores of total provision.

Kunal Shah: Okay. And the size of the book out there, because when we look at the overall book that is Rs. 7,100 on wholesale, it is already Rs. 6,600 so it doesn't think that is more than Rs. 4,000, Rs. 5,000 crores or what would be the kind of book which is there on which we have created this?

Vishal Kampani: 750 crores odd, it includes real estate and hotel assets.

Kunal Shah: Yes, so that's 17% of this Rs.3,800 crores?

Vishal Kampani: Yes, that's right.

Moderator: Thank you. The next question is from the line of Manoj Dua from Geometric Securities. Please go ahead.

Manoj Dua: I have one question on the wholesale market and it has been partially answered. So, we are more watchful of the third COVID wave for the lending purpose in wholesale mortgage, any other global or domestic macro trend which we are worried about which are keeping watchful for apart from third COVID wave and what I'm assuming from the documentary that third COVID wave doesn't come, we will be able to scale this book very fast. Thank you.

Vishal Kampani: Yes, that is absolutely right. So, see in general commentary, I'm sure you would have read about concerns about interest rates being higher next year. Supply side shocks further increasing inflation, you've seen oil prices almost USD 85. People are talking about oil crossing USD 100 very soon. So, there are no reasonable number of shocks, which can actually hit various economies over the next one year, it's hard to predict which will hit when. But that's typically for real estate, COVID is very important because the lockdown, the shutdowns, the stopping of construction activity, the blocking of sales, this creates a lot of issues over multiple weeks, and therefore one has to be careful. But having said that, I don't think we're not growing, we're looking to grow, we're constantly looking for assets, is just about being careful when you're underwriting. We have this COVID overlay in terms of our risk metrics, where we are trying to understand that if you're underwriting a certain collateral coverage there is a COVID third wave which is bad, what happens to those covers. How do we manage after that, so when you put those overlays suddenly the risk pricing completely changes, the collateral requirements that you want for approval of that loan, completely change. That's just a process, it's not about not wanting to grow. So, you're right in saying that yes, if things are completely normal this quarter, next quarter the growth will be very strong. There is no reason why the growth, the book can't double in 18 months, we have the capacity internally, both from a capital as well as a people perspective to actually double the book in 18 months.

Otherwise, generally my personal feeling is that next year, same time we will be looking at a very different world, a very different market. There are excesses all over the world which have been created and there's no two ways about it, certain sectors, valuations are absolutely crazy and absurd. But there is liquidity driving a lot of that. Look at the IPO rush, whenever a bunch of smart promoters want IPO, the seller is always smarter than the buyer. And you're seeing that phenomenon today, while the investment bank is completely enjoying the ride, and they are hoping, as I said earlier hoping to complete the extremely strong pipeline of 100 transactions, we are also working to make sure that our fixed income, our bespoke financing, financial institution financing, all of the fixed income products are strong and ready, so when the equity cycle sort of becomes a little slow, we will be able to still grow and maintain our earnings and margins growing through fixed income next year, and next to next year. So, our entire diversified model that we've built, right from investment bank to platform AWS with distress credit, as well as mortgage lending, we'll keep our earnings strong, keep our earnings defensive, and at the right time when all engines fire we will show tremendous growth.

Manoj Dua: Okay, so let me come into that, where you said there are global macro factors with like, interest rate, shortage of thing. And this COVID thing is a little unusual, as shock because when you do a lockdown and you're not allowing someone to sell, so that's a different kind of headwind, which we never earlier heard of, but every year there is a different problem globally or domestically, newspapers are for 20 years, but ever seen the last 20 years investing. So how to create a lending is a concavities, you cannot have a much return if the bad things good things happen. So, lending has to be prudent, but how to think in terms of every year there are different problems, leaving this COVID thing. So, what I'm assuming is in the COVID, doesn't come how we are able to, how will we show the brewing even with the problem challenges thrown by all the factors?

Vishal Kampani: No, so those are macro cyclical factors, which we've also seen in the last 20, 30 years of our operations have been able to grow. That is one challenge, the matter I was talking about is specific to how we are evaluating real estate projects looking at a COVID lens. So, we've seen in wave one and wave two, the real estate assets get significantly impaired. That is a very different question, as I said for example, we feel that fixed income will have a very strong play over the next two, three years. And, we are completely geared up for that and therefore we will be able to grow like for example on platform AWS investing massively in technology and digital and that's going to be the way we're going to acquire customers. And we have a decade long plan to build a very big business over there. In mortgages, we are building retail home loans, right and we've done a phenomenal business built over the last three and a half years very granular business Rs.10, Rs.11, Rs.12 lakh loans, 4000, 5000 customers, 50 branches in the next two, three years we will be at probably 100, 150 branches deep distribution, direct origination. So, we are building on each of those verticals for growth in India. So, where we face cyclicality largely is going to be in the investment bank segment and that we will manage. And we've done that in the last decade or so where when equity slows down, we have enough of advisory, enough for financing and fixed income that will take over the growth here. Also, if you see our peak-to-peak profitability, if you look at our P&L from a 10 year or 12 year or 15-year perspective, in the investment bank segment, also every four years, we have more than doubled our profit. So, what happens is, we do go through a down cycle, but you should be well prepared for it to come out stronger every time.

Manoj Dua: So, can we double our loan book in two years at the COVID is third base it will be a passing shower, it won't be a permanent?

Vishal Kampani: That is very easy to do today, because the loan book today is quite small. It's de-grown loan book in real estate ~Rs. 11,200 crores is down to ~Rs. 6,600 crore. So, today it is very easy, see the point is, our firm should be able to deliver a very handsome earnings growth this year versus last year without really taking any additional risk. And I've always maintained that real estate is a sector will always need debt capital, whether it is land finance, construction, finance, or write down to mortgages or loan against properties. If you look at world over the biggest leverage market in the world is real estate. Any country in the world, you pick any country in the world, the biggest market for debt borrowing has always been real estate. And that will continue to be so, the point is today when we are seeing uncertainties, when we are bouncing back from COVID but we are still seeing supply side disruptions. We've seen cost of construction go up by 16% to 17%, steel is up, cement is up, ceramics is up. We have to model things properly when we are underwriting while giving all these developers loans from four to five years perspective. So, it's about our detail processes, we are evaluating transactions it's just that we are asking for more collateral and probably asking for higher rates. Nothing else, I don't think the challenge is in really doubling the book, I don't see any challenges, because our debt equity, for example, our net debt to equity is 0.7 and look at our ROA profile, ROA profile is just fantastic, we generate 4% ROA continuously. So, for us to be able to just do, we had 1.5 times to 2 times of debt. Over the next 2-3 years, it will be 18% ROE business.

Manoj Dua: Thank you. And best of luck as shareholder we are waiting for the growth in the loans and mortgage for a longer time and hopefully we get a longer period of growth from this after six months. Thank you.

Vishal Kampani: Not to worry, you will get it.

Moderator: Thank you. The next question is from the line of Anurag Mantri from East Bridge Advisors. Please go ahead.

Anurag Mantri: Just had a couple of questions on the real estate part just had a couple of questions, firstly just wanted to understand if there is any overlap in the DCCO book we have with the NPA or SMA we disclosed that's one. The other alluded to that in your previous answer. Just want to understand sort of the eventual hair cut that you are looking given some of the security covers that you in the resources that you mentioned. Assuming that there is no third wave. In that scenario, do you see that these covers are, the provisions that you created as much higher than required or they will still be required to that extent. And the last one is basically on the longest-term profitability, you mentioned that you are looking to get sort of higher, even more cover. But, going forward the market is also consolidating a lot more and the quality of developers is also a lot better, that we would probably be able to lend to, so what impact that has on the EVs and the overall profitability?

Vishal Kampani: Let me just start with your third and second question, it was not clear on your first question. So, your third question. Yes, there is a big market shift, which is happening to the larger developers, I would say medium size in larger developers, and also developers who traditionally have enjoyed the benefit of stronger balance sheet and lower leverage and have been able to complete their projects. And having said that, if I look at just, if I look around me simply in the city of

Mumbai, specifically in the last two to three months, a lot of the smaller developer projects have restarted. So, once you see sales visibility, a lot of the projects that are stuck, a lot of the projects that are underwritten by smaller developers, they have also restarted and that will add to the sales momentum, it may not add the sales momentum in a very large way. But that will add to the sales momentum. Now we do not bank or we do not work with the smaller developers, we actually work with the mid-size and the large size developers and therefore, our pipeline will remain pretty robust. But having said that we are working on a strategy to see if there are low levered high-quality projects with even the smaller developers, which we are able to underwrite and create a team to underwrite the same we are able to get higher returns, and as well as higher collaterals from some of these names. So, we are working on a strategy to see if we can work with a smaller developers. And we will be clear on the same in the next six months to nine months. But yes, the demand from our set of clients and midsize and the large developers continues to be very strong.

Your first question was around DCCO, I couldn't get that properly. Your second was around security covers, security covers have eroded in the wave 2 to further to where they were in wave one. But in some of the projects, which are which are under DCCO also in the SMA two category, the sales have been very good and very strong. Also, because we completed construction of many of our projects and kept the spending on for construction, hopefully we are going to see a stronger sales cycle in the next six months to nine months and therefore the cash flow recovery will be very strong. For example, as I mentioned earlier even the September quarter the cash flow has been very strong from sales. So, I feel that if there is no wave three, we are more than adequately covered. We may have to make certain small provisions in some of the accounts on a delayed DCCO basis, which have been impacted by wave two. But, I don't see that being a meaningful number. And we'll evaluate that in the December and March quarter. But barring any COVID wave three, we are more than adequately provided. And we are any very prudent. So, we always take a little bit of more provision compared to what I would imagine would be considered a normal provision. On DCCO, I couldn't get your question if you could just repeat the question?

Anurag Mantri: Yes, I was just referring to, is there any overlap between the DCCO accounts and the SMA that you disclosed or the NPA?

Vishal Kampani: No, there is no overlap because DCCO there is a principal extension. And the reason a principal extension was given is purely because of COVID. And so there could be maybe one or two accounts at max, but as far as I remember in the June quarter they were purely zero, there was nothing which is overlapping.

Anurag Mantri: Okay. And that number was about 1300 crores in the past right?

Vishal Kampani: Its roughly 24% of our book.

Moderator: Thank you. The next question is from the line of Shubhranshu Mishra from Systematix. Please go ahead.

Shubhranshu Mishra: I wanted to understand in the wholesale business that, why would the cost of funds not coming off, it's still at 9.8% and versus the previous quarters, which was at ballpark 10% and how do we go about reducing this cost of funds, what is the structure of the liabilities here in this business?

Vishal Kampani: Sure. Shashwat will take the question on why the cost of funds is where it is coming down going up, how do we say it and touch upon liability.

Shashwat Belapurkar: So, the cost of funds has been slightly higher because, as we coming off the high credit cost for especially for non-AAA clients. One of our important tasks this quarter is to ensure that the existing credit spreads, especially on the banking side, are reduced. So, if you see previously, we used to borrow at slightly elevated credit spread over MCLR, which are now reducing number one, our capital markets cost of funds is definitely lower, for sure. On the term side as well as significantly lower on the short end side. So, that's one thing. Second thing is, specifically you are asking specifically on the wholesale mortgage side business, a large portion of the wholesale mortgages book is funded by long term liabilities. So, we've actually paid that term spread and you'll see that when it goes up it will work in our favor.

Shubhranshu Mishra: Okay. So, a fair assumption that the cost of funds ballpark would remain at around 10%, is that a fair assumption?

Vishal Kampani: 10% or probably lower, we are actively towards reducing it but that would to be fair.

Shubhranshu Mishra: Sure. And if I can squeeze in one more question, we have such a great understanding of how wholesale mortgages work and how we go about selecting the developers, it is comparable to a lot of marquee housing finance companies, talking about it you can also enter the reach market by any chance, are we evaluating that?

Vishal Kampani: No.

Moderator: Thank you. Ladies and gentlemen, this was the last question for today. I would now like to hand over the conference over to Mr. Shashwat Belapurkar for closing comments.

Shashwat Belapurkar: I thank all the participants for taking time to attend this call. And in case there are any clarifications needed. Please feel free to reach out to our investor relations team. Stay safe and wish you all a very Happy Diwali and Prosperous New Year. Thank you.

Moderator: Thank you. On behalf of JM Financial Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.